

November 11, 2021

## Press Release

**Monetary Policy Statement**

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**Banco de México's Governing Board decided to increase the target for the overnight interbank interest rate by 25 basis points to 5%, effective November 12, 2021.**

World economic activity continued to recover during the third quarter, although at a slower pace and heterogeneously across countries, associated with the evolution of the pandemic and with spending programs. Global inflation continued increasing due to pressures originated by bottlenecks in production, stimulus spending and its reallocation towards merchandise, the rise in food and energy prices, and the reopening of certain services. In the United States, the Federal Reserve announced the reduction in its asset-purchase program, and the central banks of other advanced economies are expected to begin withdrawing the monetary stimulus, while a large number of emerging market economies continue reducing it. Among key global risks are those associated with the pandemic, inflationary pressures, and adjustments in monetary and financial conditions.

In domestic financial markets, the peso exchange rate exhibited volatility and depreciated slightly, short-term interest rates increased, and long-term ones were influenced by external conditions. Preliminary information indicates that the Mexican economy contracted during the third quarter, although it is expected to resume its recovery starting in the fourth quarter. An environment of uncertainty persists and slack conditions are anticipated, with significant differences across sectors.

Global and domestic inflationary pressures continue affecting annual headline and core inflation, which in October registered 6.24% and 5.19%, respectively. Headline and core inflation expectations for 2021, for the next 12 months, and for 2022, increased again, while those for longer terms have remained stable at levels above the target.

Headline and core inflation forecasts were revised upwards, especially shorter-term ones (see table). Their annual variations are expected to decrease, particularly for one year and beyond, and converge to the 3% target by the end of the forecast horizon. These projections are subject to risks. On the upside: i) external inflationary pressures; ii) cost-related pressures; iii) core inflation persistence; iv) exchange rate depreciation; and v) increases in agricultural and livestock product prices and in energy prices. On the downside: i) a widening of the negative output gap; ii) social distancing measures; and iii) exchange rate appreciation. The balance of risks for the trajectory of inflation within the forecast horizon deteriorated and remains biased to the upside.

The shocks that have increased inflation are largely considered to be transitory. Nevertheless, the horizon in which they could affect it is unknown, and they have involved a wide range of products, while being of considerable magnitude. This poses greater risks to the price formation process and to inflation expectations. For this reason, it was deemed necessary to continue reinforcing the monetary policy stance, adjusting it to the trajectory required for inflation to converge to its 3% target within the forecast

horizon. The Governing Board decided to increase the target for the overnight interbank interest rate by 25 basis points to 5%.

For the next monetary policy decisions, the Governing Board will assess thoroughly the behavior of inflationary pressures as well as of all factors that have an incidence on the foreseen trajectory for inflation and its expectations. The latter, in order to adopt a policy rate that is consistent at all times with the trajectory needed to facilitate the orderly and sustained convergence of headline inflation to the 3% target within the time frame in which monetary policy operates as well as an adequate adjustment of the economy and financial markets.

Voting in favor of the decision were Alejandro Díaz de León, Galia Borja, Irene Espinosa, and Jonathan Heath. Voting in favor of leaving the target for the overnight interbank interest rate unchanged at 4.75% was Gerardo Esquivel.

### Forecasts for Headline and Core Inflation

Annual percentage change

	2021				2022				2023			
	I	II	III	IV	I	II	III	IV	I	II	III	
<b>CPI</b>												
<b>Current (11/11/2021)<sup>1/</sup></b>	4.0	6.0	5.8	6.8	6.3	4.8	3.9	3.3	3.2	3.2	3.1	
<b>Previous (09/30/2021)<sup>2/</sup></b>	4.0	6.0	5.8	6.2	5.6	4.3	3.5	3.4	3.3	3.2	3.1	
<b>Core</b>												
<b>Current (11/11/2021)<sup>1/</sup></b>	3.9	4.4	4.8	5.5	5.8	5.3	4.3	3.5	3.0	2.7	2.6	
<b>Previous (09/30/2021)<sup>2/</sup></b>	3.9	4.4	4.8	5.3	5.4	4.8	4.0	3.4	3.1	2.9	2.8	

1/ /Forecasts as of November 2021.

2/ Forecast as of September 2021. See press release of September 30,2021.

Source: INEGI for observed figures and Banco de México for forecasts.

Note: Shaded areas correspond to observed figures.