

February 10, 2022

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 50 basis points to 6%, effective February 11, 2022.

World economic activity continued recovering during the fourth quarter of 2021, although at a slower rate and heterogeneously across countries due to the evolution of the pandemic and the actions implemented by their health, monetary and fiscal authorities. World inflation continued increasing due to pressures originated by bottlenecks in production, the reallocation of spending towards merchandise, the high levels of food and energy prices, and the recovery of certain services. This generated expectations of a faster withdrawal of monetary stimulus worldwide. Financial conditions tightened, with an increase in interest rates and a slightly stronger US dollar. In its latest monetary policy decision, the Federal Reserve announced that it will continue reducing the pace of its net asset purchases and that it will soon raise the target range for the federal funds rate. Simultaneously, many emerging market economies continued increasing their reference rates. Among key global risks are those associated with the pandemic, inflationary pressures, geopolitical tensions, and adjustments in monetary and financial conditions.

In domestic financial markets, the peso appreciated, while interest rates rose, especially short-term ones. Preliminary information shows that economic activity contracted slightly during the fourth quarter of 2021. Ample slack conditions prevailed, with significant differences across sectors.

Inflationary pressures have been greater and have lasted longer than anticipated. In January, annual headline and core inflation were 7.07% and 6.21%, respectively. Their expectations for 2022 and 2023 increased again, while medium-term expectations decreased slightly and those for longer terms have remained stable at levels above the target.

Forecasts for headline and core inflation were revised upwards, especially for 2022 and the first quarter of 2023 (see table). Their annual variations are expected to 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) persistence of core inflation at high levels; iv) exchange rate depreciation; and v) increases in both agricultural and livestock product and energy prices. On the downside: i) a greater-than-expected effect from 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 remains biased to the upside.

The Governing Board evaluated the magnitude and diversity of the shocks that have affected inflation and its determinants, along with the risk of medium- and long-term inflation expectations and price formation becoming contaminated, as well as the additional challenges posed by the ongoing tightening of global monetary and financial conditions. Based on these considerations, on this occasion, the Board decided to increase the target for the overnight interbank interest rate by 50 basis points to 6%. With this

action, the monetary policy stance adjusts to the trajectory required for inflation to converge to its 3% target within the forecast horizon.

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

Voting in favor of the decision were Victoria Rodríguez, Galia Borja, Irene Espinosa, and Jonathan Heath. Voting in favor of increasing the target for the overnight interbank interest rate by 25 basis points to 5.75% was Gerardo Esquivel.

Forecasts for Headline and Core Inflation
Annual percentage change of quarterly average indices

	2021				2022				2023			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
CPI												
Current (02/10/2022) ^{1/}	4.0	6.0	5.8	7.0	6.9	5.4	4.6	4.0	3.4	3.2	3.1	3.1
Previous (12/16/2021) ^{2/}	4.0	6.0	5.8	7.1	6.7	5.1	4.3	3.5	3.3	3.2	3.1	3.0
Core												
Current (02/10/2022) ^{1/}	3.9	4.4	4.8	5.6	6.4	6.1	5.1	4.3	3.3	2.9	2.7	2.7
Previous (12/16/2021) ^{2/}	3.9	4.4	4.8	5.6	6.2	5.8	4.9	4.1	3.3	2.9	2.8	2.7
Memo												
Annualized seasonally adjusted quarterly variation in percent ^{3/}												
Current CPI ^{1/}	5.5	9.3	6.4	6.8	4.9	3.4	3.4	4.3	2.6	2.4	3.2	4.0
Current Core ^{1/}	3.7	5.6	6.6	6.5	6.8	4.2	3.1	3.2	2.7	2.6	2.5	2.8

1/ Forecast starting February 2021.

2/ Forecast starting December 2021. See press release of December 16, 2021.

3/ See [methodological note](#) on the seasonal adjustment process.

Source: INEGI for observed annual variation figures and Banco de México for seasonally adjusted figures and forecasts.

Note: Shaded areas correspond to observed figures.