

August 11, 2022

## Press Release

**Monetary Policy Statement**

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**Banco de México's Governing Board decided to raise the target for the overnight interbank interest rate by 75 basis points to 8.50%, effective August 12, 2022.**

World economic activity weakened during the second quarter and recent indicators suggest that said weakness would persist during the third quarter. Inflation continued increasing, in some cases reaching once again levels unseen in decades, in an environment where unbalances between demand and supply in diverse markets and high levels of food and energy prices persist. This continues generating expectations of a fast withdrawal of monetary stimulus worldwide. Financial conditions remained tight while the dollar continued gaining strength. In its latest monetary policy decision, the Federal Reserve raised the target range for the federal funds rate by 75 basis points for a second consecutive time and anticipated future adjustments. Job creation in that country accelerated at the beginning of the third quarter and, although the latest figure on US inflation displayed a moderation, it still remains at high levels. In turn, a large number of other central banks have continued raising their reference rates, some of them at a higher-than-foreseen magnitude. Among key global risks are those associated with the pandemic, the persistence of inflationary pressures, the intensification of geopolitical turmoil, and greater adjustments in economic, monetary and financial conditions.

In domestic financial markets, the peso remained stable, while short-term interest rates increased and long-term ones decreased. Recent information indicates that during the second quarter of 2022, economic activity grew at a similar rate to that observed during the first quarter, thus continuing its gradual recovery, while slack conditions decreased. Nevertheless, an environment of uncertainty prevails, while the balance of risks remains biased to the downside.

The accumulated inflationary pressures associated with both the pandemic and the military conflict continue affecting headline and core inflation, which in July registered annual variations of 8.15% and 7.65%, respectively, thus remaining at elevated levels unseen in two decades. Their expectations for 2022 rose again while those for 2023 and for the medium term increased to a lesser extent. Long-term expectations for headline inflation remained stable, although at levels above target, while those for core inflation increased at the margin.

In view of greater-than-anticipated inflationary pressures, forecasts for headline and core inflation were revised upwards up to the third quarter of 2023, although convergence to the 3% target is still projected to be attained in the first quarter of 2024 (see Table). These projections are subject to risks. On the upside: i) persistence of core inflation at high levels; ii) external inflationary pressures associated with the pandemic; iii) greater pressures on agricultural and livestock product prices and on energy prices due to the ongoing geopolitical conflict; iv) exchange rate depreciation; and v) cost-related pressures. On the downside: i) a greater-than-anticipated slowdown in world economic activity; ii) a decline in the intensity of the geopolitical conflict; iii) a better functioning of supply chains; iv) a greater-than-expected effect from

the negative output gap; and v) a larger-than-anticipated effect from the Policy Program to Fight Inflation and High Prices (PACIC, for its Spanish acronym). The balance of risks for the trajectory of inflation within the forecast horizon remains biased significantly to the upside.

The Governing Board evaluated the magnitude and diversity of the shocks that have affected inflation and its determinants, along with the evolution of medium- and long-term inflation expectations and the price formation process. It also considered the increasing challenges for monetary policy stemming from the ongoing tightening of global financial conditions, the environment of significant uncertainty, and inflationary pressures accumulated as a result of the pandemic and the geopolitical conflict, as well as the possibility of greater effects on inflation. Based on these considerations, and with the presence of all its members, the Board decided unanimously to raise the target for the overnight interbank interest rate by 75 basis points to 8.50%. With this action, the monetary policy stance adjusts to the trajectory required for inflation to converge to its 3% target within the forecast horizon.

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

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

	2021				2022				2023			2024	
	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
<b>Headline (CPI)</b>													
Current (08/11/2022) <sup>1/</sup>	6.0	5.8	7.0	7.3	7.8	8.5	8.1	7.1	5.0	3.7	3.2	3.1	3.1
Previous (06/23/2022) <sup>2/</sup>	6.0	5.8	7.0	7.3	7.8	8.1	7.5	6.5	4.4	3.5	3.2	3.1	3.1
<b>Core</b>													
Current (08/11/2022) <sup>1/</sup>	4.4	4.8	5.6	6.5	7.3	7.9	7.6	6.5	5.1	3.8	3.2	3.1	3.0
Previous (06/23/2022) <sup>2/</sup>	4.4	4.8	5.6	6.5	7.3	7.4	6.8	5.7	4.3	3.5	3.2	3.1	3.1
<b>Memo</b>													
<b>Annualized seasonally adjusted quarterly variation in percent<sup>3/</sup></b>													
Current - Headline <sup>1/</sup>	8.7	5.8	7.2	7.5	10.7	8.5	5.8	3.6	2.3	3.2	3.8	3.2	2.3
Current - Core <sup>1/</sup>	5.3	5.9	6.8	8.2	8.5	8.2	5.6	3.9	2.9	2.9	3.1	3.2	2.8

1/ Forecast starting August 2022.

2/ Forecast starting June 2022. See monetary policy statement of June 23, 2022.

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.