December 15, 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 50 percentage points to 10.50%, effective December 16, 2022.

World economic activity recovered slightly during the third quarter, although the outlook for 2023 continued deteriorating. Global inflation remains high, while in some economies headline inflation decreased in response to lower pressures on food and energy prices. A large number of central banks continued raising their reference rates. Some of them mentioned that they would start moderating their pace of adjustment. These reference rates, however, are foreseen to remain at high levels for an extended period. In its latest monetary policy decision, the Federal Reserve raised the target range for the federal funds rate by 50 basis points, after having increased it by 75 basis points four consecutive times. It also anticipated additional increases. Among key global risks are those associated with the pandemic, the persistence of inflationary pressures, the intensification of geopolitical turmoil, and tighter monetary and financial conditions.

The Mexican peso continued showing resilience, although with some volatility. Short-term interest rates increased while medium- and long-term ones decreased significantly. The Mexican economy is anticipated to have continued recovering during the fourth quarter, although at a slower pace. Slack conditions are thus expected to continue diminishing.

In November, headline inflation continued decreasing to a level of 7.80%, due to a reduction in its non-core component. Core inflation, on the contrary, continued trending upwards, reaching 8.51%. Both headline and core inflation were at levels below those of analysts' expectations. Expectations for headline inflation for 2022 and 2023 were revised downwards, while those for core inflation were again adjusted slightly upwards. Those for the medium and long terms remained stable, although above target.

Forecasts for headline inflation were revised downwards for the first two quarters, and then marginally upwards until the fourth quarter of 2023, due to a slight increase in the trajectory for core inflation. Inflation is still projected to converge to the 3% target in the third 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) pressures on agricultural and livestock product prices and on energy prices due to the ongoing geopolitical conflict; iv) exchange rate depreciation; and v) greater cost-related pressures. On the downside: i) a greater-than-anticipated slowdown of the world economy; ii) a decline in the intensity of the geopolitical conflict; iii) a better functioning of supply chains; iv) a lower pass-through effect from some cost-related pressures; and v) a larger-than-anticipated effect from the Federal Government's measures to fight elevated prices. Although some shocks show signs of subsiding, 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 evolution of medium- and long-term inflation expectations and the price formation process. It considered the challenges for monetary policy stemming from the ongoing tightening of global financial conditions, the environment of uncertainty, the inflationary pressures accumulated as a result of the pandemic and the geopolitical conflict, the possibility of greater effects on inflation, and the monetary policy stance already attained in this hiking cycle. Based on these considerations, the Board decided by majority to raise the target for the overnight interbank interest rate by 50 percentage points to 10.50%. 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 considers it will still be necessary to raise the reference rate in its next monetary policy meeting. Subsequently, it will assess if the reference rate needs to be further adjusted as well as the pace of adjustments based on the prevailing conditions.

Voting in favor of the decision were Victoria Rodríguez, Galia Borja, Irene Espinosa, and Jonathan Heath. Gerardo Esquivel voted in favor of raising the target for the overnight interbank interest rate by 25 basis points to 10.25%.

Forecasts for Headline and Core Inflation

Annual percentage change of quarterly average indices

	2021	2022				2023				2024			
	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Headline (CPI)													
Current (12/15/2022)1/	**7.0**	**7.3**	**7.8**	**8.5**	**8.1**	**7.5**	**5.9**	**4.8**	**4.2**	**3.8**	**3.4**	**3.1**	**3.0**
Previous (11/10/2022)2/	7.0	7.3	7.8	8.5	8.3	7.6	5.8	4.7	4.1	3.8	3.4	3.1	
Core													
Current (12/15/2022)1/	**5.6**	**6.5**	**7.3**	**8.0**	**8.5**	**7.8**	**6.7**	**5.5**	**4.3**	**3.7**	**3.2**	**3.0**	**3.0**
Previous (11/10/2022)2/	5.6	6.5	7.3	8.0	8.3	7.5	6.4	5.2	4.1	3.6	3.2	3.0	
Memo													
Annualized seasonally adjusted quartely variation in percent3/													
Current - Headline1/	8.1	7.0	10.3	8.6	6.4	4.9	3.8	4.0	4.0	3.3	2.4	2.8	3.3
Current - Core1/	6.5	8.2	8.7	8.6	8.2	5.5	4.5	3.9	3.1	3.1	2.9	2.8	3.0

1/ Forecast starting December 2022.
2/ Forecast starting November 2022. See monetary policy statement of November 10, 2022. Forecast published in the Quarterly Report July-September 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.