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Press Release

Monetary Policy Statement

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Banco de México's Governing Board has decided to lower the target for the overnight interbank interest rate by 25 basis points to 7.50%.

During the third quarter of the year, the world economy continued to decelerate and its growth outlook was revised downwards again. This has taken place in an environment where headline and core inflation in the main advanced economies remain below their central banks' targets. In this context, some of these institutions eased monetary policy in the last months. In its October meeting, the US Federal Reserve cut the target range for the federal funds rate by 25 basis points and mentioned in its communications that such range is appropriate considering the risks faced. International financial markets exhibited lower volatility due mainly to a reduction in trade tensions between the United States and China, and to a lower probability of a disorderly exit of the United Kingdom from the European Union. Additionally, the accommodative policy stances of the main central banks have contributed to the better performance of international financial markets over the last weeks. Nevertheless, risks to the global economy associated with trade tensions and geopolitical factors as well as political and social uncertainty in several countries persist. Thus, the balance of risks for world economic activity remains biased to the downside.

The easing of global financial conditions has contributed to the more favorable performance of financial markets in emerging economies. In Mexico, albeit having experienced episodes of volatility, since the last monetary policy decision the peso exchange rate appreciated slightly, while interest rates on government securities have reflected the effects of the lower external interest rates. Regarding the risks that may affect the performance of domestic financial assets, uncertainty persists with respect to the bilateral relation between Mexico and the United States and to the credit rating outlook for Pemex and Mexico's sovereign debt.

The current environment continues to pose significant risks that could affect the country's macroeconomic conditions, its ability to grow, and the economy's price formation process. In this regard, it is particularly important that, in addition to a prudent and firm monetary policy, measures to foster an environment of confidence and certainty for investment and higher productivity are adopted, and that public finances are consolidated in a sustainable way. In this context, strengthening the credit rating outlook for the sovereign and Pemex's debt, as well as achieving the fiscal targets for 2019 and the goals set in the 2020 Economic Package are necessary. Strengthening the rule of law, tackling corruption, and fighting insecurity are equally imperative.

Latest information on the third quarter of 2019 shows that the stagnation that economic activity has been exhibiting for several quarters continues, thus implying that slack conditions have widened more than anticipated. Based on incoming information, the foreseen trajectory of GDP growth for 2019 and for the next year would likely be below that published in Banco de México's Quarterly Report for April-June 2019. In an environment of significant uncertainty, the balance of risks for growth remains biased to the downside.

In October, headline inflation was 3.02%. The non-core subindex has remained at low levels, standing at 1.01% in October, while core inflation has persisted at high levels, albeit exhibiting a slight reduction to 3.68% during the same month. As for inflation expectations from surveys, short-term expectations have followed the latest data, while longer term ones have remained relatively stable, although at levels above 3%.

The recent behavior of the factors that affect the foreseen headline inflation trajectory suggests that it may lie slightly below the trajectory set forth in Banco de México's past Quarterly Report. This is the result of the materialization of certain downward risks to non-core inflation during the last months. As for core inflation, it has continued to show persistence.

Regarding inflation risks, those to the upside are: i) that core inflation remains persistent; ii) wage revisions that exceed productivity gains and generate cost-related pressures; iii) that the peso exchange rate comes under pressure from external or domestic factors; iv) the threat of tariffs by the United States and that compensatory measures are adopted, although this risk has diminished; v) that public finances deteriorate; and, vi) increases in agricultural, livestock or energy prices greater than expected. As for downside risks: i) an appreciation of the peso exchange rate, possibly associated with a context of greater appetite for risk in international financial markets or in case the trade agreement with the United States and Canada is ratified; ii) a widening of slack conditions or its impact on core inflation greater than foreseen; and, iii) that the prices of certain goods included in the non-core subindex register lower rates of change. In this context, uncertainty still persists regarding the risks that could make inflation deviate from its foreseen trajectory.

To guide its monetary policy actions, Banco de México's Governing Board follows closely the development of inflation vis-à-vis its forecasts, taking into account the monetary policy stance and the time frame in which monetary policy operates. In this process, it uses available information on all inflation determinants as well as on medium- and long-term inflation expectations, including the balance of risks for such factors. Monetary policy must also act prudently if for any reason the uncertainty faced by the economy increases significantly. In this context, considering that the lower levels registered by headline inflation, the ample slack in the economy, as well as the recent behavior of external and domestic yield curves allow for decreasing the policy rate, Banco de México's Governing Board decided by majority to lower the target for the overnight interbank interest rate by 25 basis points to 7.50%. Two members voted for lowering the target to 7.25%. In order to consolidate a low and stable inflation, in an environment in which price formation and slack conditions in the economy are subject to risks, the Governing Board will continue to follow closely all factors and elements of uncertainty that have an impact on inflation and its outlook, and will take the required actions based on incoming information so that the policy rate is consistent with the orderly and sustained convergence of headline inflation to Banco de México's target within the time frame in which monetary policy operates.

Banco de México's Governing Board will maintain a prudent monetary policy stance and, under the current environment of uncertainty, will follow closely the potential pass-through of exchange rate fluctuations to prices, Mexico's relative monetary policy stance in an external environment that it is still subject to risks, and the behavior of slack conditions and cost-related pressures in the economy. In the presence and possible persistence of factors that, by their nature, involve risks to both inflation and its expectations, monetary policy will be adjusted in a timely and firm manner to achieve the convergence of inflation to its 3% target and to strengthen the anchoring of medium- and long-term inflation expectations so that they attain such target.