

**Press release****March 20, 2020****Measures to provide MXN and USD liquidity and to improve the functioning of domestic markets**

Global and domestic financial markets have been subject to high volatility over the last weeks due to the uncertainty regarding the impact of COVID-19 on world economic activity, and to the recent fall in international oil prices. In this context, foreign exchange and fixed income markets in Mexico have undergone significant adjustments, lower liquidity, and a deterioration of trading conditions. In this environment, over the last weeks the financial authorities have taken measures to foster a better functioning of both foreign exchange and fixed income markets.

Today, Banco de México's Governing Board decided to move forward its March monetary policy decision and to lower by 50 basis points the overnight interbank interest rate target to 6.5%. It also approved additional measures aimed at supplying MXN and USD liquidity to the banking system, improving the functioning of domestic financial markets and fostering their sound development. Some of these measures were taken jointly with the Ministry of Finance.

**1. Reduction of the Monetary Regulation Deposit (DRM) by 50 billion pesos.**

Banco de México decided to reduce by 50 billion pesos the amount of the DRM held by commercial and development banks and that is mandatorily deposited on a permanent basis at the Central Bank. Currently, the total DRM amounts to approximately 320 billion pesos. Banco de México will sterilize the monetary impact of this measure.

With this action, resources amounting to 50 billion pesos will be channeled to support active transactions of commercial and development banks, thus improving their liquidity and their capacity to grant credits and to maintain or expand their credit lines.

The final details of the DRM adjustment will be published in the forthcoming amendments to Circular 9/2014 and will enter into force on April 1, 2020.

## **2. Adjustments to the Ordinary Additional Liquidity Facility interest rate.**

The Ordinary Additional Liquidity Facility, available since 2008, offers liquidity to commercial banks via secured credits or repos and its cost is 2-2.2 times Banco de México's target for the overnight interbank interest rate.

In order to strengthen the financing alternatives of commercial banks, so that they have the necessary liquidity to adequately perform their operations, the cost of the referred credits and repos has been lowered to 1.1 times Banco de México's target for the overnight interbank interest rate.

The final details of the facility adjustments will be published in the forthcoming amendments to Circular 10/2015. The reduced interest rate on the Ordinary Additional Liquidity Facility will enter into force on April 1, 2020.

## **3. US dollar auctions.**

For the purpose of increasing the availability of US dollar financing for private sector participants, Banco de México, as instructed by the Exchange Commission, will conduct US dollar auctions among credit institutions.

Said facility would be financed by the temporary US dollar liquidity arrangement (known as "swap line") with the US Federal Reserve for an amount of USD 60.0 billion announced yesterday.

The auctions' final terms and conditions will be released in the forthcoming amendments to Circular 8/2009. Based on such communication, the specific features of the above auctions will be announced in the respective auction calls.

## **4. Collaboration with the Ministry of Finance to strengthen the Government Debt Market Makers Program.**

The goal of the Market Makers Program is to ensure that participating financial institutions contribute to the development of the government securities market by engaging in debt placements, providing liquidity to the market, and facilitating the market price discovery process.

In this regard, Banco de México, as financial agent for the Federal Government, and jointly with the Ministry of Finance, release the following amendments to the

Market Makers Program to foster a greater participation of the institutions in such Program in the public debt market, thus contributing to its sound development:

- Implementation of swaps of government securities held by market makers, as to enable them to better manage their securities holdings.
- Amendment to the purchase option of government securities for market makers, for the exercise of such option taking place on the second banking day following the primary auction. The exercise period is currently of one banking day.

The final details of the Market Makers Program will be released in the forthcoming corresponding amendments to Circular 5/2011 and Circular 9/2017 and will enter into force on April 1, 2020.

Banco de México will continue to follow closely the evolution of Mexican financial markets and will constantly assess their trading conditions. It will take all appropriate actions within its responsibility, in coordination with other financial authorities.