June 24, 2021

Press Release

Monetary Policy Statement

This document is provided for the reader's convenience only. The translation from the official Spanish version was made by Banco de México's staff. Discrepancies may possibly arise between the original document in Spanish and its English translation. For this reason, the original Monetary Policy Statement in Spanish remains the only official document.

Banco de México's Governing Board decided to increase the target for the overnight interbank interest rate by 25 basis points to 4.25%, effective June 25, 2021.

The recovery of global economic activity continued during the second quarter, with heterogeneity across countries as a result of vaccine availability and stimulus spending. Global inflation continued increasing due to pressures on various commodity prices, base effects, and other cost-related pressures associated with bottlenecks in production. The fact that in the United States annual CPI inflation reached 5% in May, the highest figure since September 2008, is noteworthy. The central banks of advanced economies left their monetary stimuli unchanged, although it is foreseen that these could be maintained for a shorter period. After a period of stability, financial markets registered some volatility. At a global level, risks associated with the pandemic and with higher levels of inflation hastening the withdrawal of monetary stimuli, persist.

Since the last monetary policy decision, the Mexican peso depreciated, shorter-term interest rates increased, while longer-term rates decreased. The Mexican economy recovered notably in March and moderately in April. It is expected to resume its recovery during the rest of the year, with an equilibrated balance of risks and slack conditions for the economy as a whole, with significant differences across sectors.

The supply chains and productive processes of several goods and services continue to be affected by the pandemic. This has caused shocks beyond those foreseen on headline and core inflation, which reached 6.02% and 4.58%, respectively, during the first fortnight of June. Headline and core inflation expectations for 2021 increased once again and those for the medium and long terms remained relatively stable at levels above the 3% target.

After incorporating the recent behavior of inflation, the revised forecasts for headline and core inflation for the next quarters are above those published in the last Quarterly Report. Thus, headline inflation is now expected to converge to the 3% target during the third quarter of 2022. These forecasts are subject to risks. On the upside: i) external inflationary pressures; ii) cost-related pressures or reallocation of spending; iii) core inflation persistence; iv) exchange rate depreciation; and v) that the drought exerts pressure on agricultural and livestock product prices. On the downside: i) effects stemming from the negative output gap; ii) greater social distancing measures; and iii) exchange rate appreciation. The balance of risks that might affect updating the anticipated path for inflation within the forecast horizon is biased to the upside.

Although the shocks that have affected inflation are expected to be of a transitory nature, given their variety, magnitude, and the extended time frame in which they have been affecting inflation, they may pose a risk to the price formation process. In this context, it was deemed necessary to strengthen the monetary policy stance in order to avoid adverse effects on inflation expectations, attain an orderly adjustment of relative prices, and enable the convergence of inflation to the 3% target. With the presence of all its members, the Governing Board decided by majority to increase the target for the overnight interbank interest rate by 25 basis points to 4.25%. Two members voted for leaving the target unchanged at 4.00%. Looking ahead, monetary policy implementation will depend on the evolution of the factors that have an incidence on inflation, on its foreseen trajectories within the forecast horizon, and on its expectations.

The Governing Board will take the necessary actions based on incoming information in order for the policy rate to be consistent with the orderly and sustained convergence of headline inflation to the 3% target within the time frame in which monetary policy operates. It is necessary to safeguard the institutional framework, strengthen the macroeconomic fundamentals and adopt the necessary actions on both monetary and fiscal policy fronts, to enable a better adjustment of domestic financial markets and of the economy as a whole.