

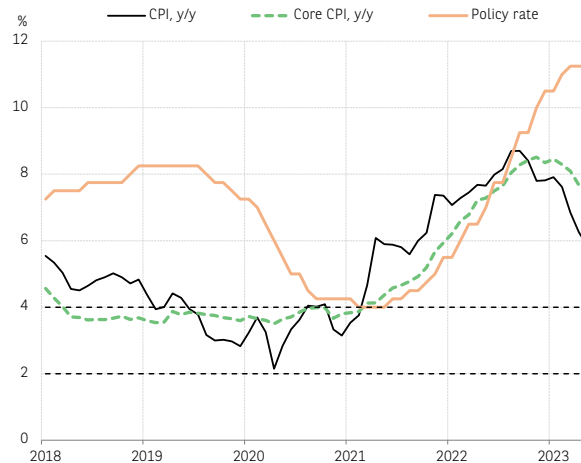
# CHART OF THE WEEK



28 June 2023

## MEXICO: THE CENTRAL BANK TAKES A BREAK

Hélène Drouot



Source: Central Bank, BNP Paribas

On 22 June, the Mexican Central Bank maintained its main policy rate at 11.25% for the second time in a row. The Governing Board's decision was unanimous and largely anticipated. In its press release, the Board stated that the pause should continue over the coming months: the downward trend in inflation seems to be confirmed, but the outlook remains «complex and uncertain».

Admittedly, inflation has slowed since autumn 2022: according to the national statistics institute, INEGI, headline and core inflation in the first half of June were 5.2% and 6.9% respectively (compared to 8.7% and 8.3% in September 2022), thanks to lower energy prices, the gradual reduction in pandemic-related bottlenecks in the manufacturing sector, as well as favourable base effects.

However, expectations have only fallen marginally since the beginning of the year and the inflation target (3%) will not be reached until the last quarter of 2024. Indeed, risks remain on the upside: core inflation remains at a historically high level and household consumption and investment were vigorous in the first few months of the year (+4.2% and +9.1% respectively year-on-year in Q1 2023). Monthly data for April and May indicate that the expected slowdown could be more gradual due to the good performance of the labour market (increase in real wages and formal employment).

All in all, the press release indicates that if current trends continue, the key rate could be maintained at 11.25% until the first quarter of 2024.

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