Victoria Rodríguez Ceja: Future challenges for monetary policy in the Americas

Remarks by Ms Victoria Rodríguez Ceja, Governor of Bank of Mexico, at the BIS Chapultepec Conference, Mexico City, 5 February 2025.

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Good afternoon. First of all, I would like to thank the BIS and its Representative Office for the Americas for the invitation to participate in this panel.

Let me start by saying that Banco de México's monetary policy conduct has focused at all times on the accomplishment of our priority mandate of price stability. When global shocks derived from the pandemic and the war in Ukraine, led to a clear and pronounced upward inflationary trend, a clearly restrictive monetary policy stance was attained as required by the severity of the episode.

The hiking cycle was concluded when the disinflation process started and made progress due to the fading of the effects of global shocks and the actions of monetary policy implemented. Later, as disinflation advanced, the inflationary outlook called to start reducing the monetary tightening, and we decided to initiate this process gradually.

Throughout last year, although headline inflation was affected by the non-core component volatility, it located at 4.21% in December. This reading was the lowest for a year end since 2020. Later, it declined to 3.69% in the first fortnight of January 2025. On the other hand, core inflation kept declining during 2024. Its evolution confirmed the noticeable improvement to resolve the inflationary episode originated by global shocks.

Core inflation has located around its pre pandemic historical average for the 2003-2019 period according to the most recent data. The permanent inflation target was defined at the start of that period. In the first fortnight of January 2025 core inflation stood at 3.72%. Regarding its components, merchandise inflation has reached particularly low levels, clearly below those previous to the pandemic. Moreover, services inflation, although it remains at relatively high levels, it has already shown gradual reductions. This suggests that disinflation would be, to a greater extent, generalizing further.

Going forward, headline inflation is expected to converge to the 3% target in the third quarter of 2026, and core inflation to reach that level in the second quarter of that year. These forecasts are subject to risks. The persistence of core inflation stands out, although this risk has moderated due to the lower levels of inflation observed. Moreover, we are monitoring the risk of the exchange rate depreciation to prices, but this effect could be lower than anticipated due to the economic activity weakness.

We are currently at a phase in which the challenge is to bring inflation down from its current level, similar to its historical average, as I previously mentioned, to the 3% target. We consider that this is consistent with a lower level of the reference rate relative to that demanded due to global shocks, although the monetary stance still should remain restrictive.

The Board estimates that looking forward it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes. It anticipates that the inflationary environment will allow to continue the rate cutting cycle, albeit maintaining a restrictive stance.

Without losing sight of the fading of global shocks, the progress in disinflation and the levels already reached by headline and core inflation, we will remain vigilant to current challenges in upcoming meetings. In that regard, we are facing the uncertainty related to the potential effects of policies that the new American administration may adopt.

Given our high economic integration with the U.S., if policies affecting trade and financial flows between the two countries materialize, it would have consequences for the macroeconomic conditions of our country. The effect on Mexico's economic activity would be negative while those on inflation would have counteracting outcomes. Although greater economic weakness would tend to moderate price pressures, a greater exchange rate depreciation could generate upward pressures on inflation. In this sense, inflationary pressures could be observed both to the downside and to the upside.

The challenges that the Mexican economy will face in 2025 highlight the importance of having solid macroeconomic fundamentals, as they allow facing such events from a position of resilience. Mexico stands out among emerging economies for the strength of its macroeconomic framework./ In this regard, several macroeconomic pillars of the country stand out: i) external accounts are sustainable; ii) an adequate level of international reserves that may be complemented with resources from the Flexible Credit Line contracted with the IMF; iii) the banking system maintains a solid position in terms of liquidity and capitalization; iv) a significant fiscal consolidation was approved for 2025 with the aim of maintaining the soundness of public finances; v) the country has a flexible exchange rate regime which operates as a shock absorber. The latter has allowed us to focus fully and with a long-term perspective on achieving and preserving an environment of low and stable inflation.