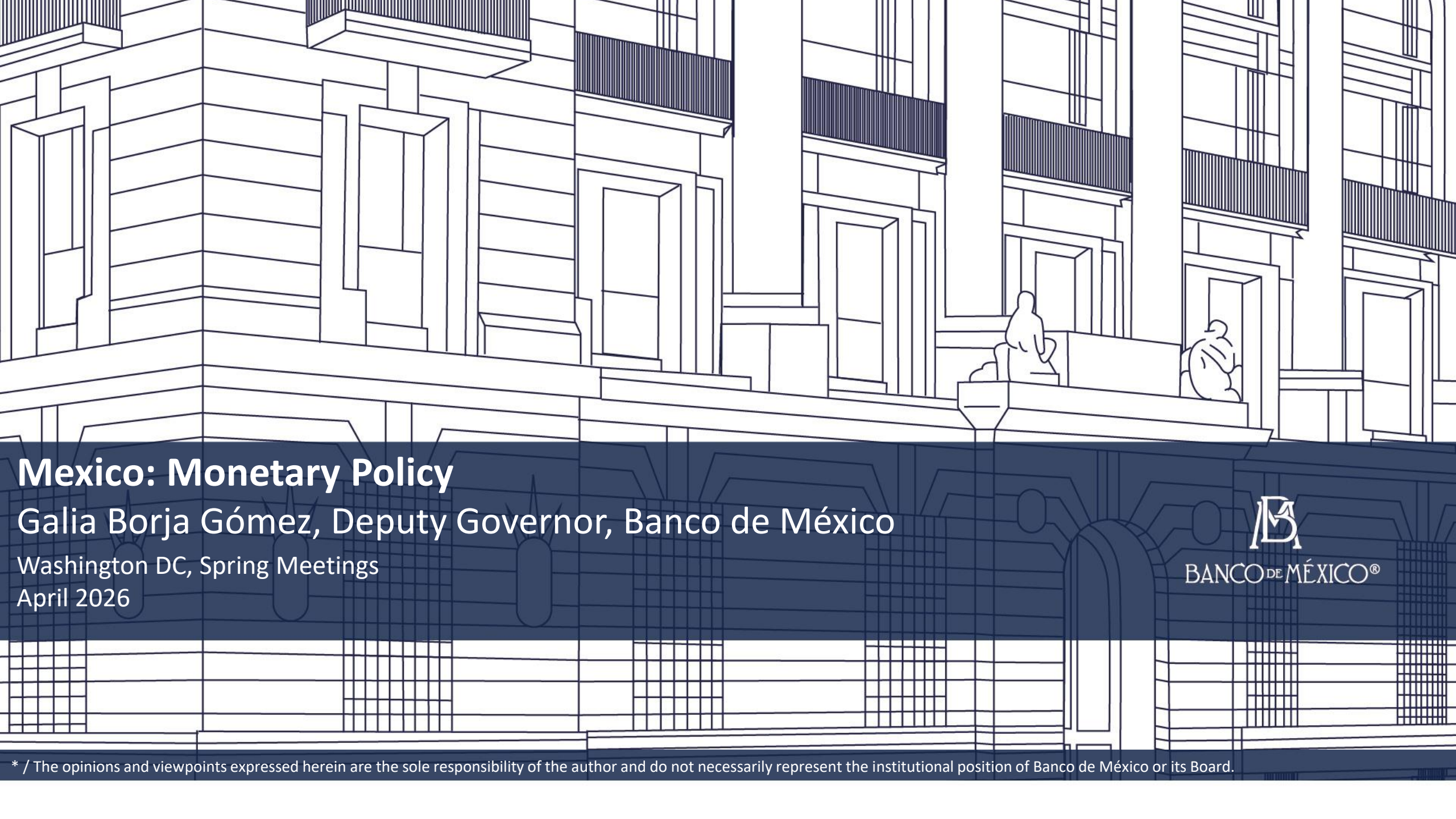




Mexico: Monetary Policy

Galia Borja Gómez, Deputy Governor, Banco de México

Washington DC, Spring Meetings

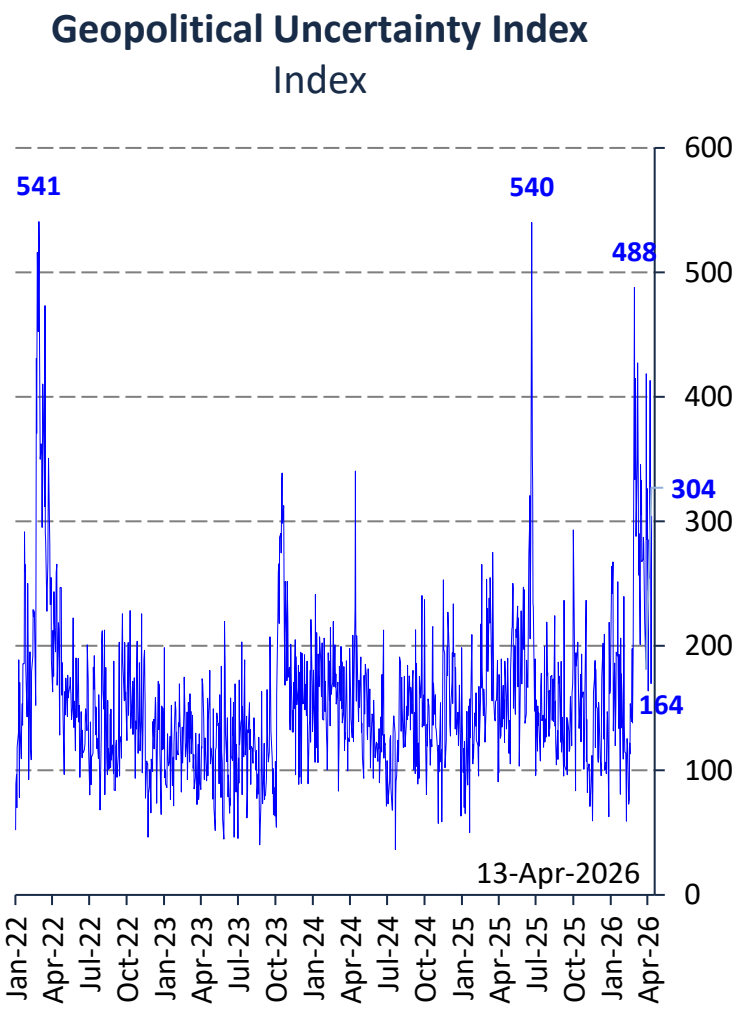
April 2026



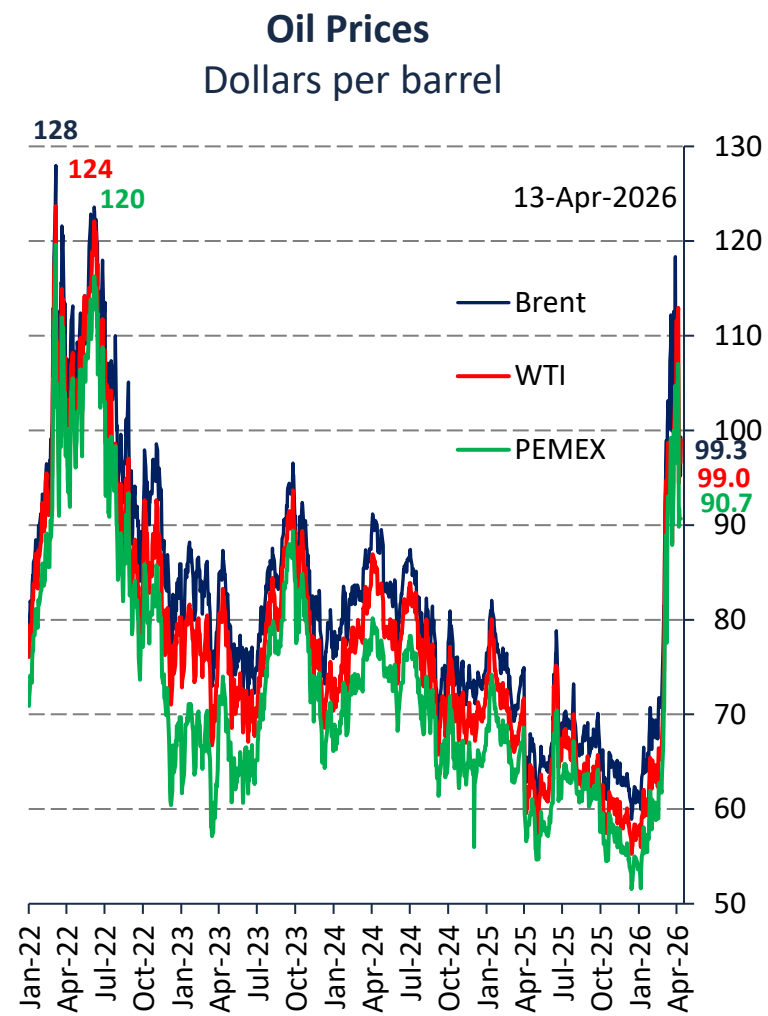
BANCO DE MÉXICO®

* / The opinions and viewpoints expressed herein are the sole responsibility of the author and do not necessarily represent the institutional position of Banco de México or its Board.

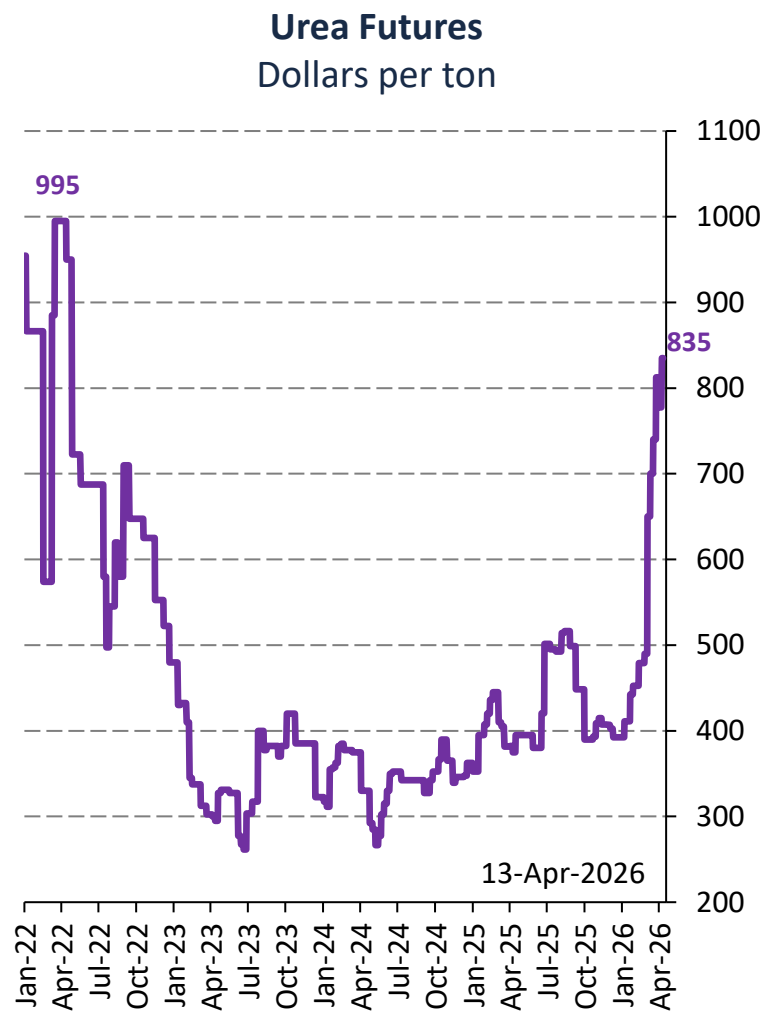
Ongoing Middle East tensions have fueled geopolitical uncertainty and triggered volatility across various commodities. This is especially evident in oil, natural gas, and fertilizers, reflecting the region's strategic importance to global supply chains.



Source: Prepared by Banco de México with information from Bloomberg.



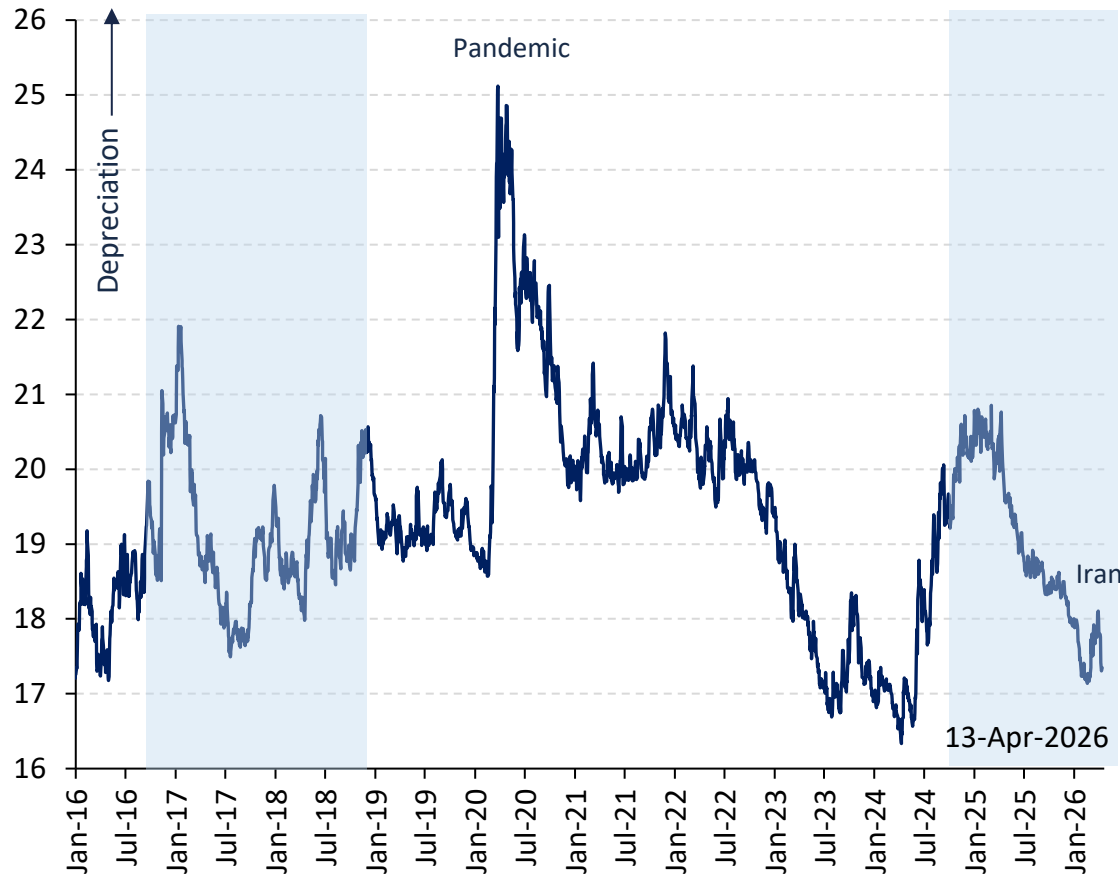
Source: Prepared by Banco de México with information from Bloomberg.



Source: Prepared by Banco de México with information from Bloomberg.

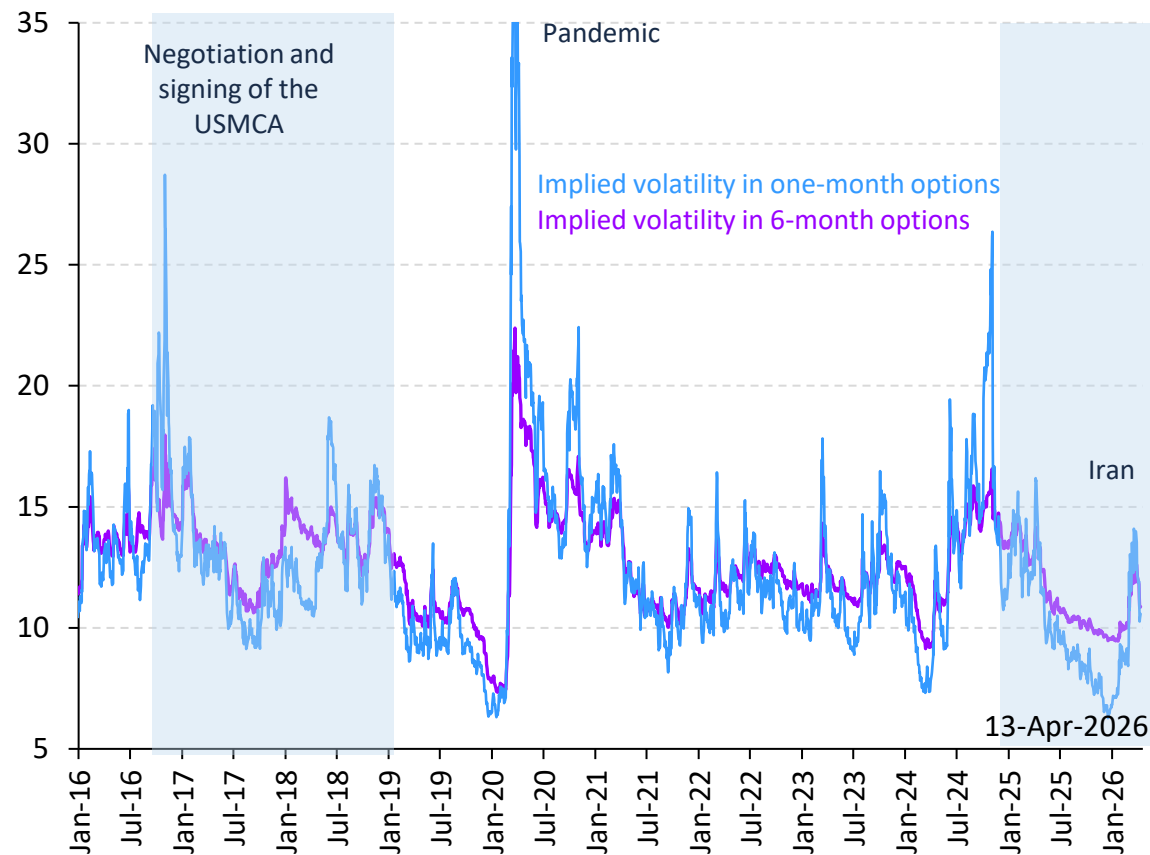
Increased risk aversion had triggered a depreciation of the peso and a sharp uptick in implied volatility, which had previously stabilized at historical lows. Nonetheless, these trends have recently reversed following the peace negotiations.

Mexican Peso Exchange Rate
Pesos per Dollar



Note: The shaded areas correspond to the periods from which a USMCA renegotiation has been mentioned.
Source: Prepared by the authors with data from Banco de México.

Implied Volatility in Mexican peso Options
Percentage



Note: The shaded areas correspond to the periods from which a USMCA renegotiation has been mentioned.
Source: Prepared by the authors with data from Bloomberg.

Possible Scenarios Regarding the Conflict in the Middle East as of March 2026



1

A geopolitical shock (such as the Gaza Strip conflict). It operates through opposing channels. The activity channel weakens investment, consumption, and trade, putting downward pressure on prices. The risk channel raises the premium to insure future availability of energy supply—by increasing inventories or hedging—which puts upward pressure on prices.

2

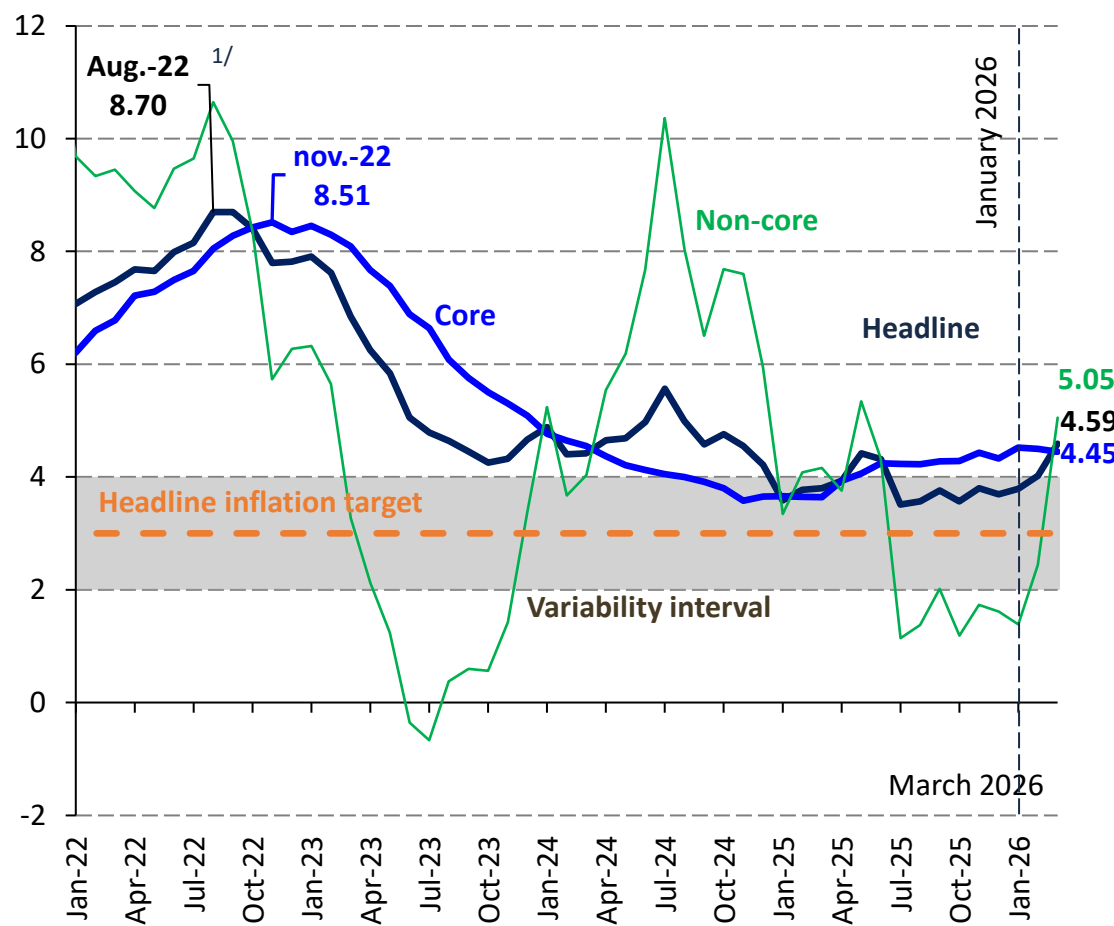
An oil shock (such as those of the 1970s or 2000s). Its magnitude depends on each economy's energy mix, the flexibility of labor markets, and especially the credibility of central banks. A more cautious monetary policy response may be appropriate to anchor inflation expectations.

3

A commodity and supply chain shock (similar to Ukraine 2022). The impact on inflation may be more widespread and persistent, particularly because uncertainty can lead to precautionary price adjustments. These pressures cannot be ignored by monetary policy.

Recent inflation readings in Mexico reflect a shift in relative prices alongside pronounced volatility in fruit and vegetable components, creating upward pressure.

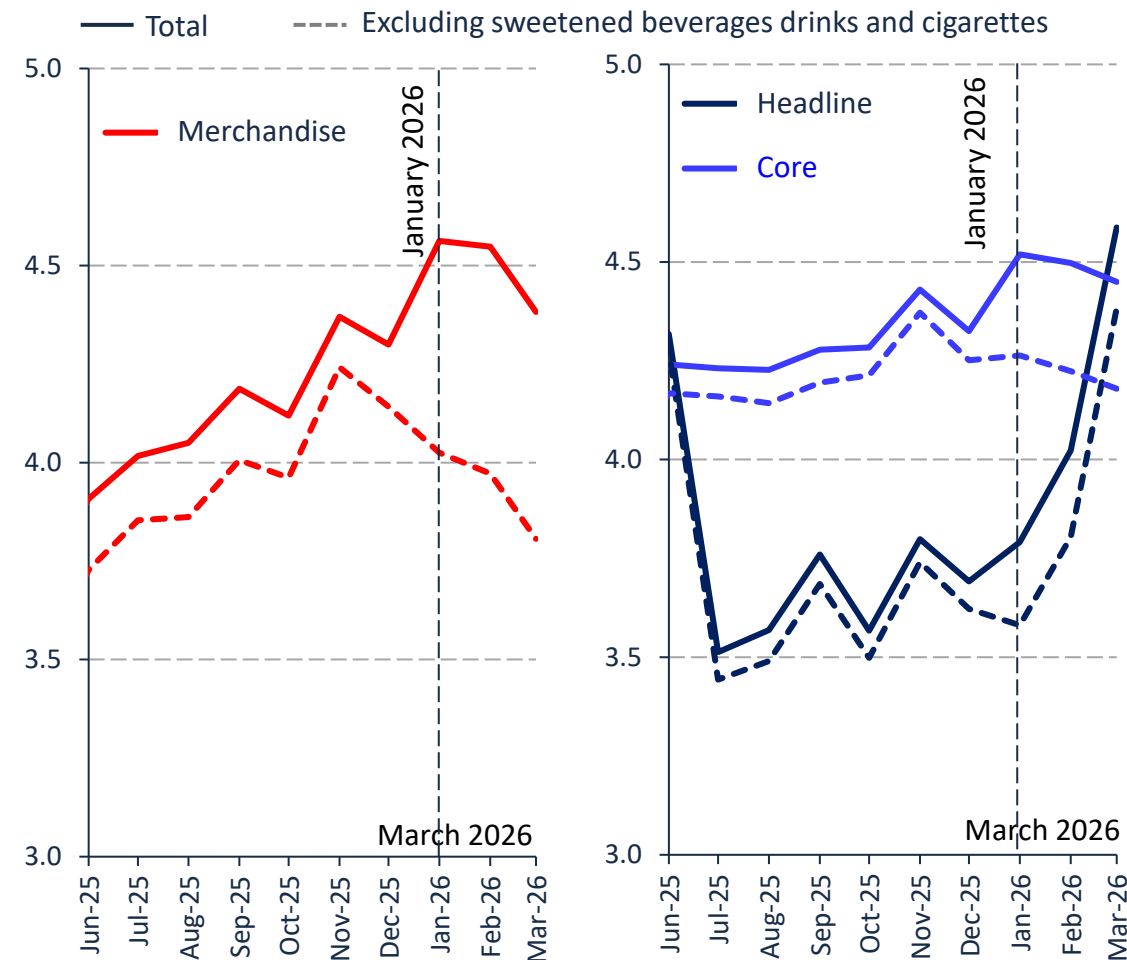
National Consumer Price Index
Annual % change



1/ Headline inflation was 8.70% in August and September 2022.

Source: Prepared by Banco de México with information from Banco de México and INEGI.

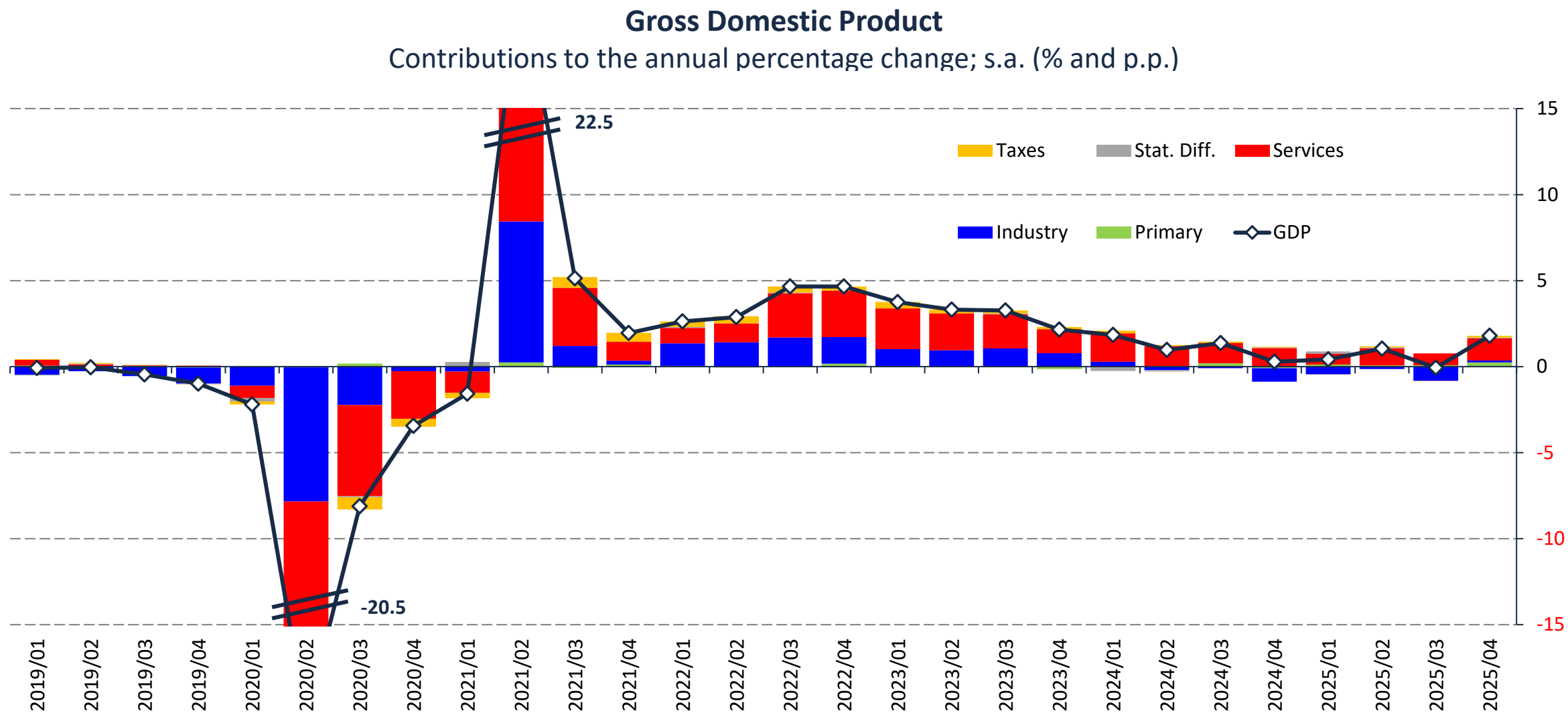
Adjustments in the IEPS Tax^{1/}
Annual % change



1/ The items affected by IEPS are: energy drinks (0.02), soft drink concentrates (0.02), packaged juices or nectars (0.17), packaged sodas (1.23), and cigarettes (0.62).

Source: Prepared by Banco de México with information from INEGI.

Mexico's economy has been primarily sustained by a resilient services sector, which continues to be the main engine of growth. In contrast, the industrial sector remains subdued, largely weighed down by sluggishness in manufacturing activities.

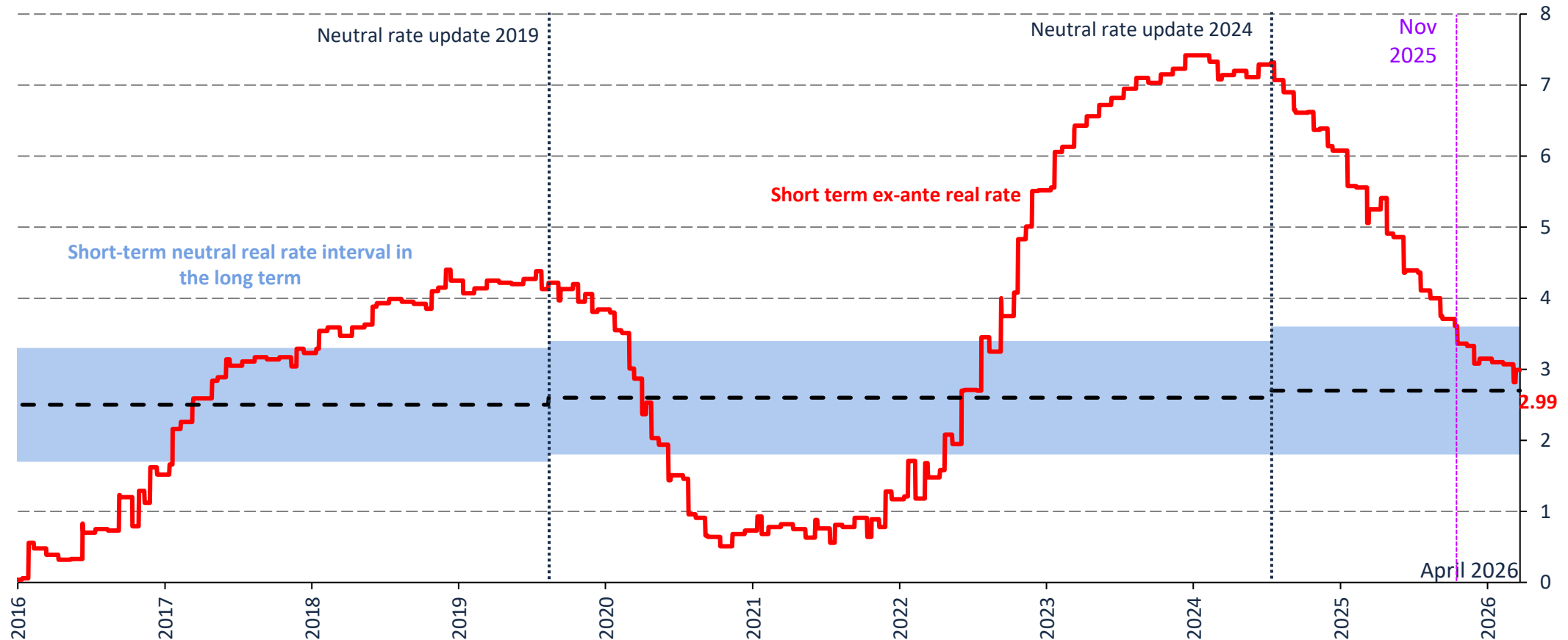


s.a./ Seasonally adjusted figures.
Source: Prepared by Banco de México with information from INEGI.

Banco de México has executed a substantial easing cycle. The ex-ante real interest rate peaked at 7.42% in early 2024, remaining in restrictive territory for three years before finally entering the neutral range in November 2025.

Short-term ex-ante real rate and estimated interval for the neutral real rate in the long term^{1/}

Annual %



Note: The horizontal dotted line corresponds to the midpoint of the estimated range for the neutral rate level in the long term in real terms. The vertical lines indicate the dates of updates to the real rate estimate. On August 28, 2019, it was updated from a range of [1.7% - 3.3%] with a midpoint of 2.5% to a range of [1.8% - 3.4%] with a midpoint of 2.6%. In turn, on August 28, 2024, it was updated to a range of [1.8% - 3.6%] with a midpoint of 2.7%.

1/ The short-term ex ante real rate is constructed using the target for the overnight Interbank interest rate and the mean of 12-month inflation expectations drawn from Banco de México's Survey of Private Sector Forecasters. For the period prior to 2008, the ex ante real rate is calculated using the overnight interbank interest rate.

Source: Own elaboration with data from Banco de México.

Final Remarks

The **available information remains limited and constantly evolving**, making it difficult to determine with certainty which scenario may ultimately materialize. Nevertheless, the Mexican economy has several cyclical and structural characteristics that are important to consider in any scenario:



- **Mexico maintains solid macroeconomic fundamentals** that serve as a pillar for economic and social development.
- Mexico **implements mitigation measures**, such as fuel subsidies similar to those observed in 2022, which can help contain the inflationary impact.
- Unlike in 2022, **the economy is currently operating with greater slack** and showing lower dynamism.
- **The country is also in a phase of exiting an unusually large restrictive monetary cycle**, whose effects are still being reflected in some transmission channel.