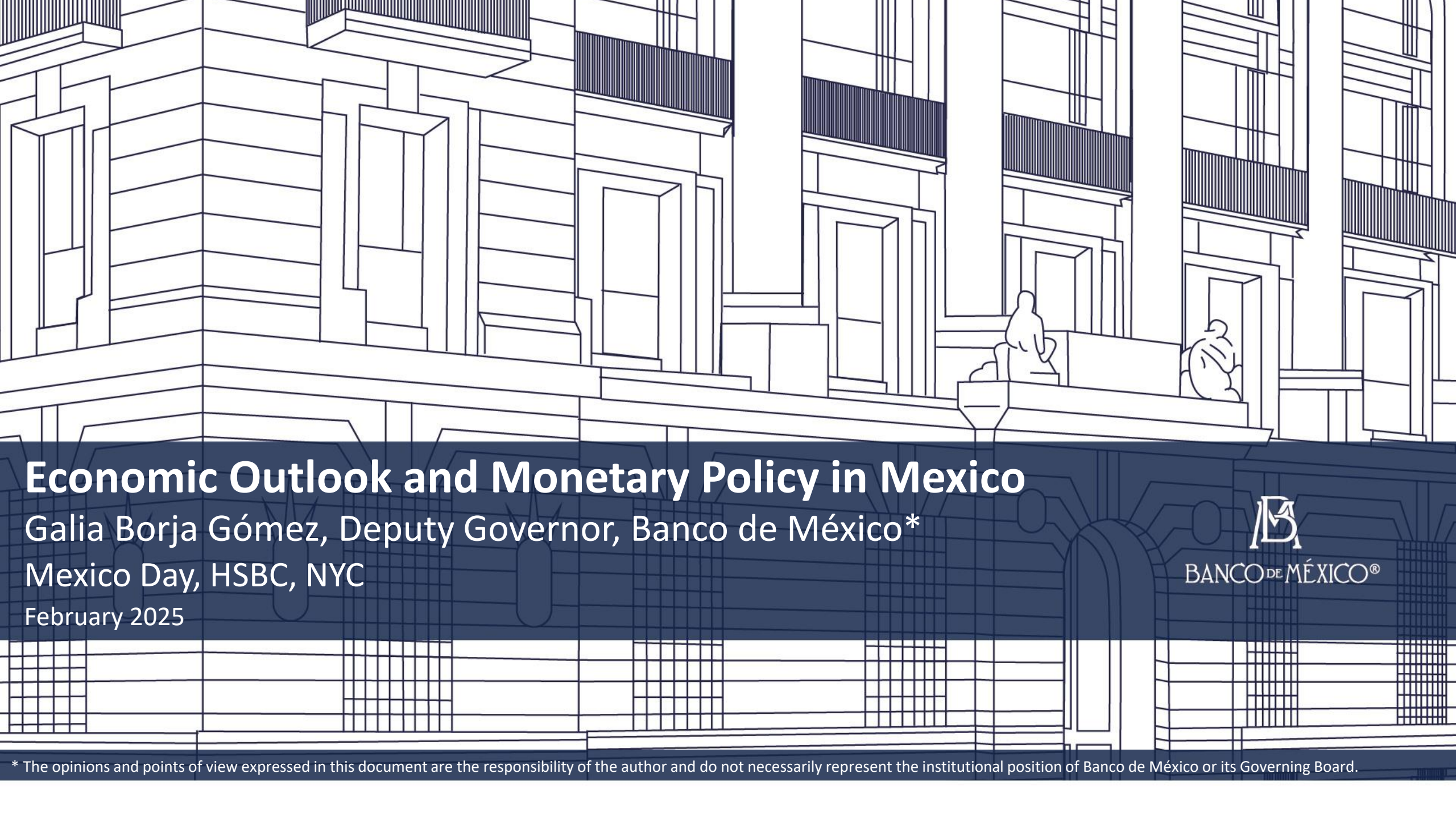




# Economic Outlook and Monetary Policy in Mexico

Galia Borja Gómez, Deputy Governor, Banco de México\*

Mexico Day, HSBC, NYC

February 2025



BANCO DE MÉXICO®

\* The opinions and points of view expressed in this document are the responsibility of the author and do not necessarily represent the institutional position of Banco de México or its Governing Board.

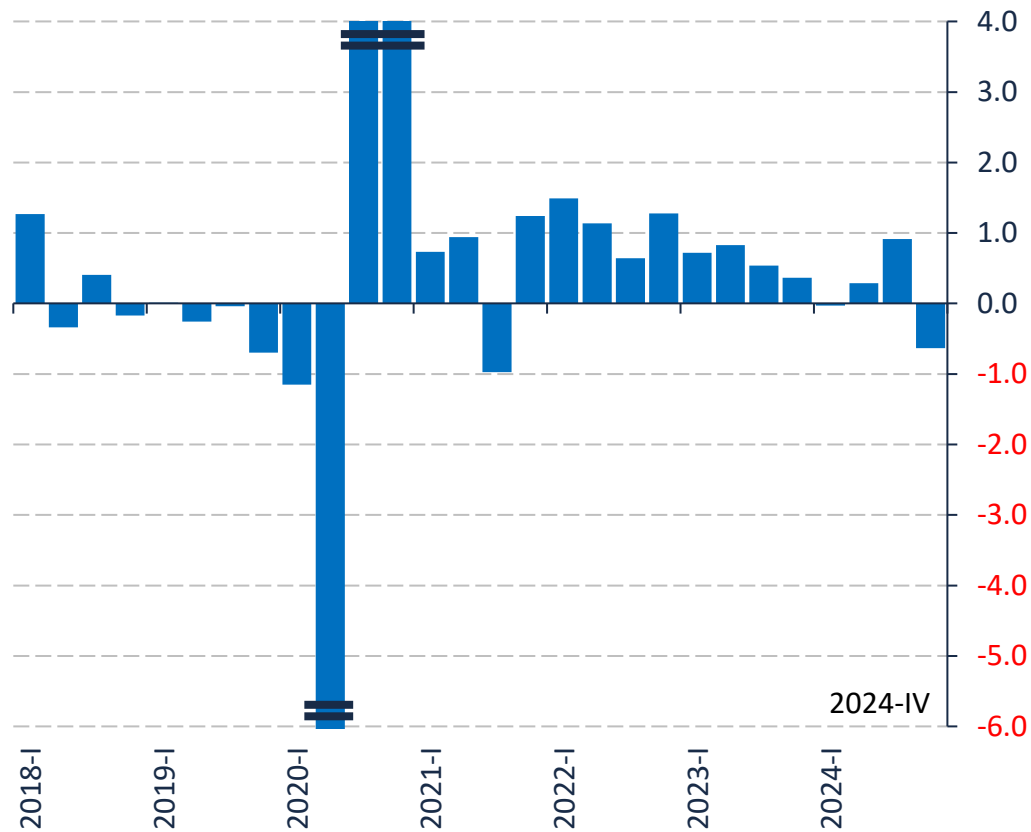
# Outline

|            |                          |
|------------|--------------------------|
| <b>I</b>   | <b>Economic Activity</b> |
| <b>II</b>  | <b>Inflation</b>         |
| <b>III</b> | <b>Monetary Policy</b>   |

During 2024 economic activity registered a loss of dynamism.

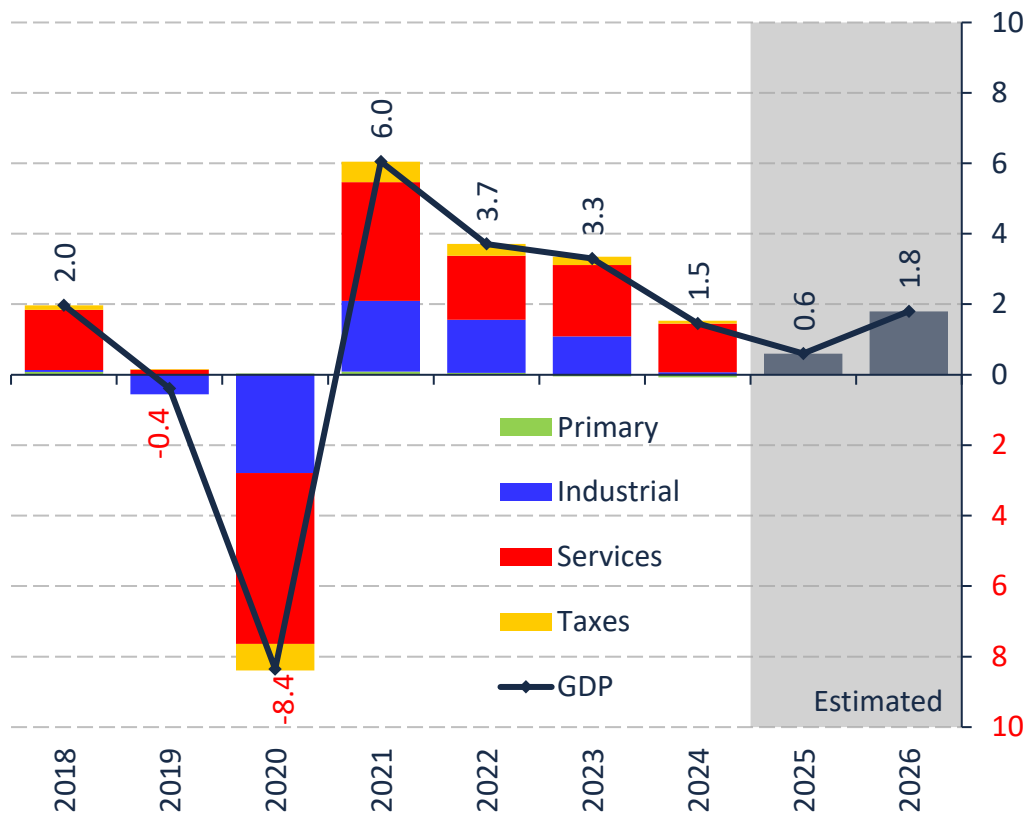
### Gross Domestic Product

Quarterly % Variation; s.a.



s.a./ Seasonally adjusted figures.  
Source: own elaboration with data from INEGI.

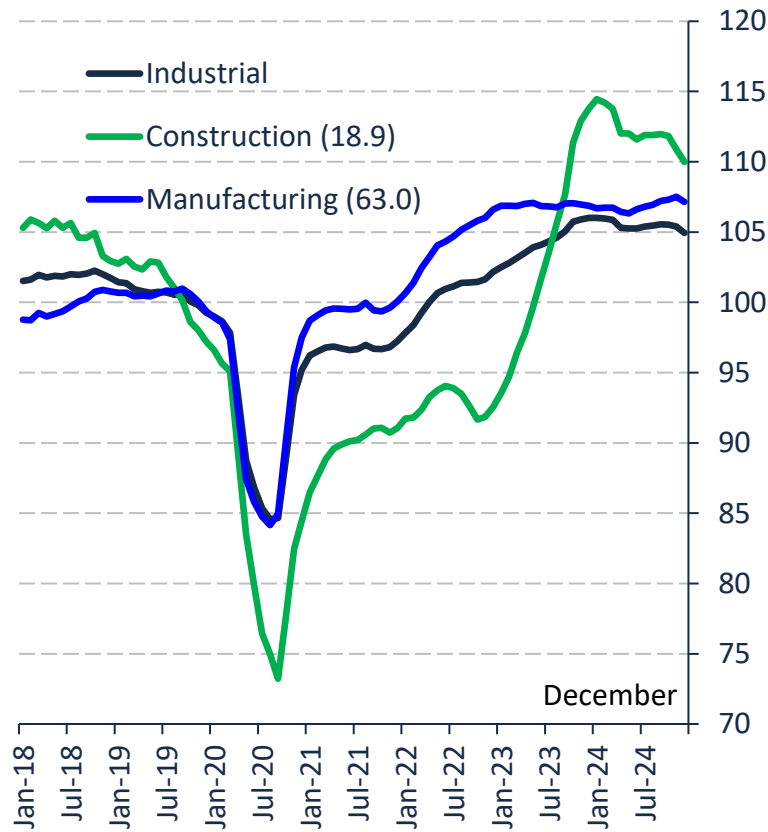
Contributions to the Annual % Variation; n.s.a.



Note: the gray shaded area corresponds to the GDP forecasts for 2025 and 2026 published in the Quarterly Report.  
n.s.a./ not seasonally adjusted series.  
Source: own elaboration with data from INEGI.

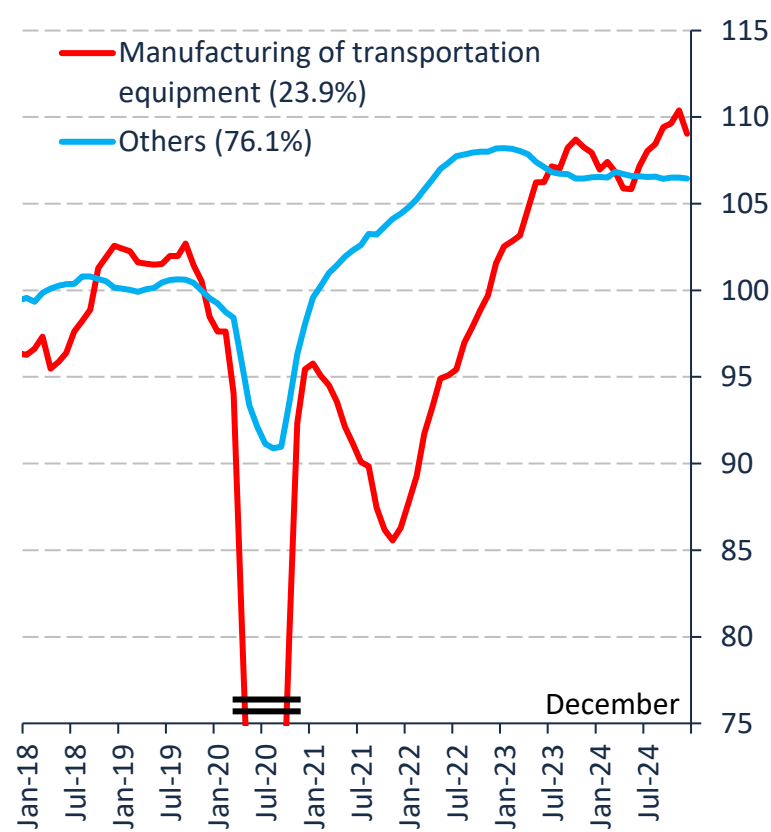
Throughout 2024, manufacturing production showed sluggishness, while the construction sector maintained a downward trend.

**Industrial Activity**  
2019=100 6MMA; s.a.



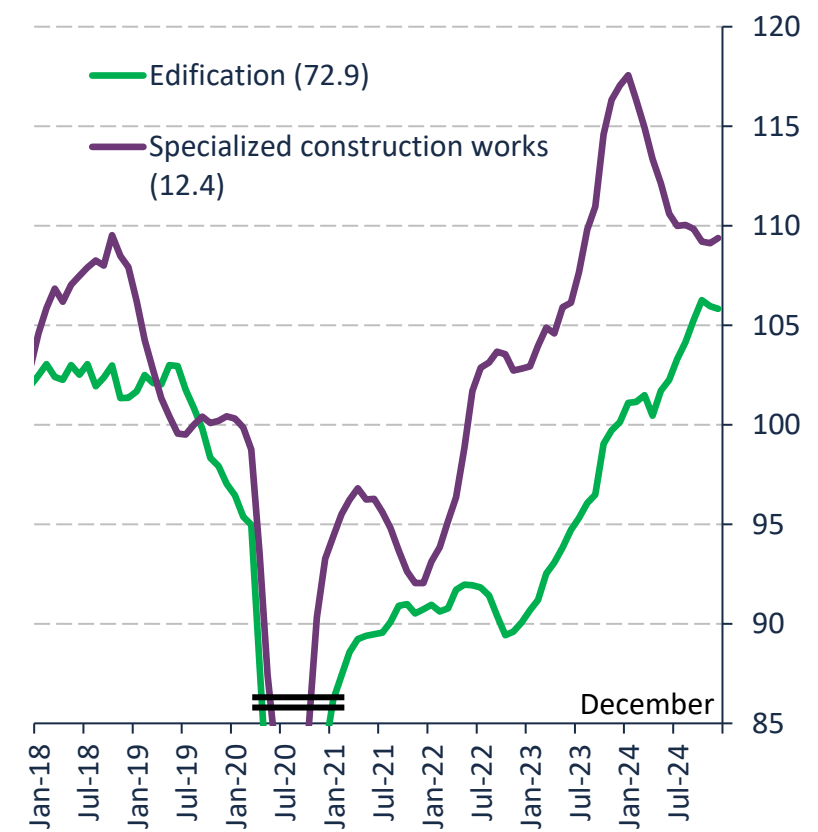
s.a./ Seasonally adjusted figures.  
Figures in parentheses correspond to their share in the total in 2018.  
Source: Own elaboration with data from INEGI.

**Manufacturing**  
2019=100 6MMA; s.a.



s.a./ Seasonally adjusted figures.  
Figures in parentheses correspond to their share in the total in 2018.  
Source: Own elaboration with data from INEGI.

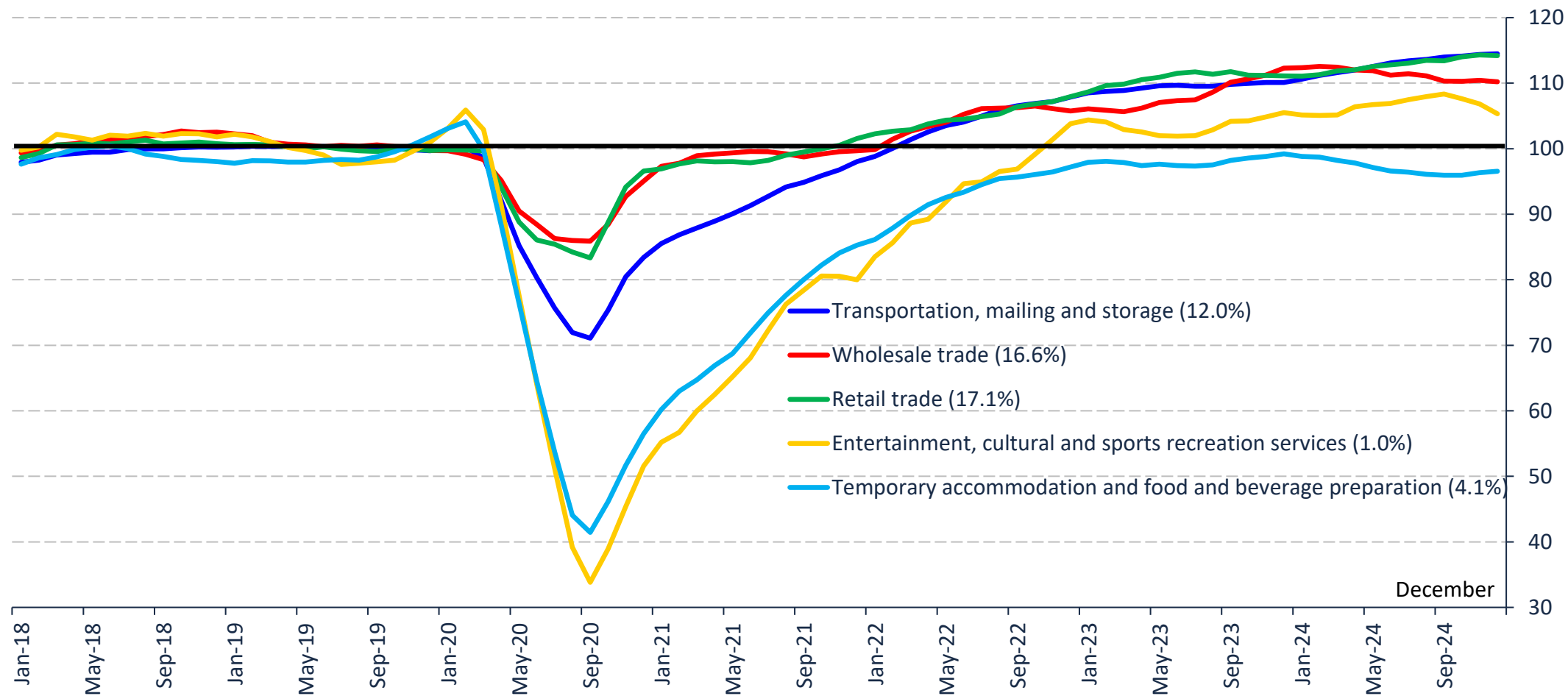
**Construction**  
2019=100 6MMA; s.a.



s.a./ Seasonally adjusted figures.  
Figures in parentheses correspond to their share in the total in 2018.  
Source: Own elaboration with data from INEGI.

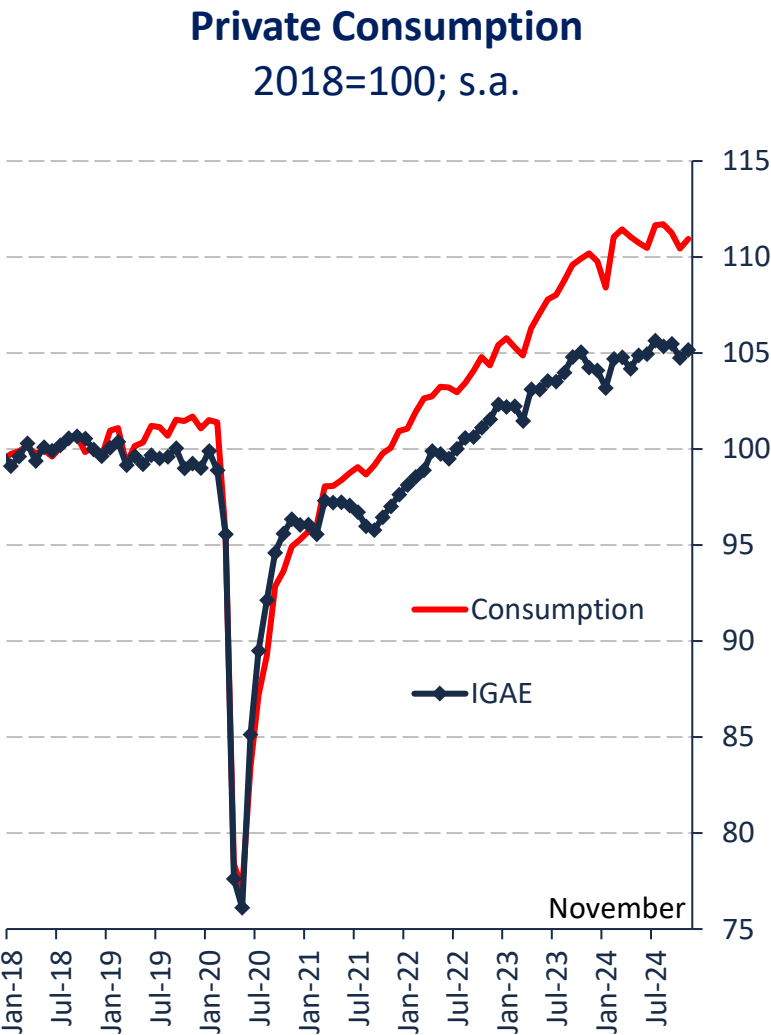
At the end of 2024, tertiary activities showed a loss of dynamism. Among its sectors, the behavior was heterogeneous.

Selected Services  
2019=100 6MMA; s.a.

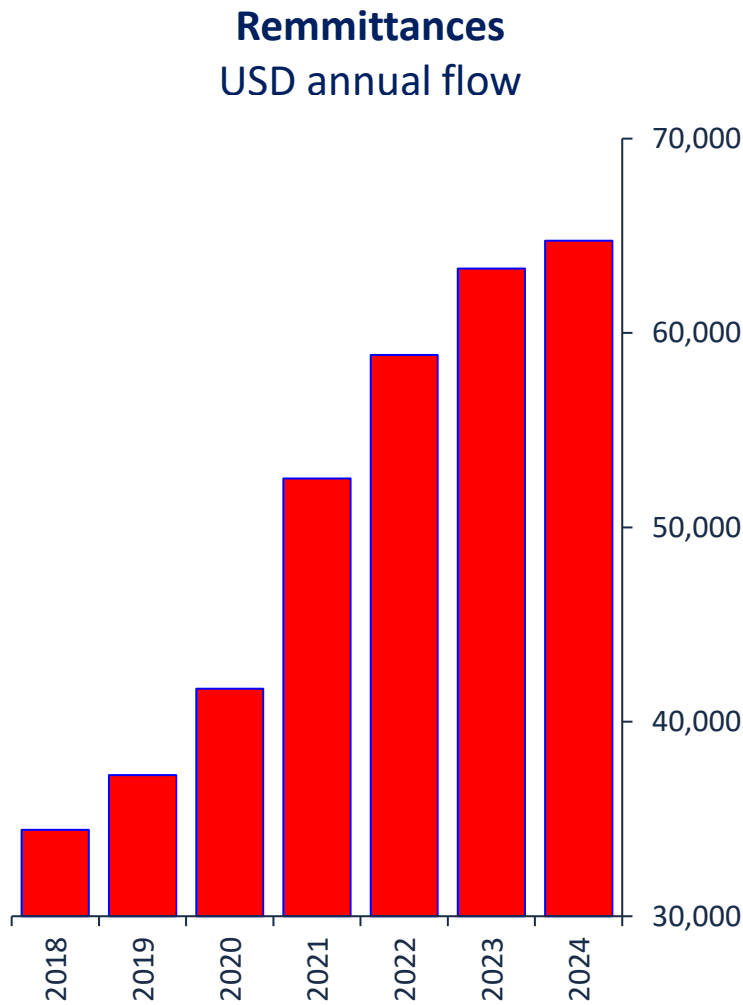


s.a./ Seasonally adjusted figures.  
Source: Own elaboration with data from INEGI.

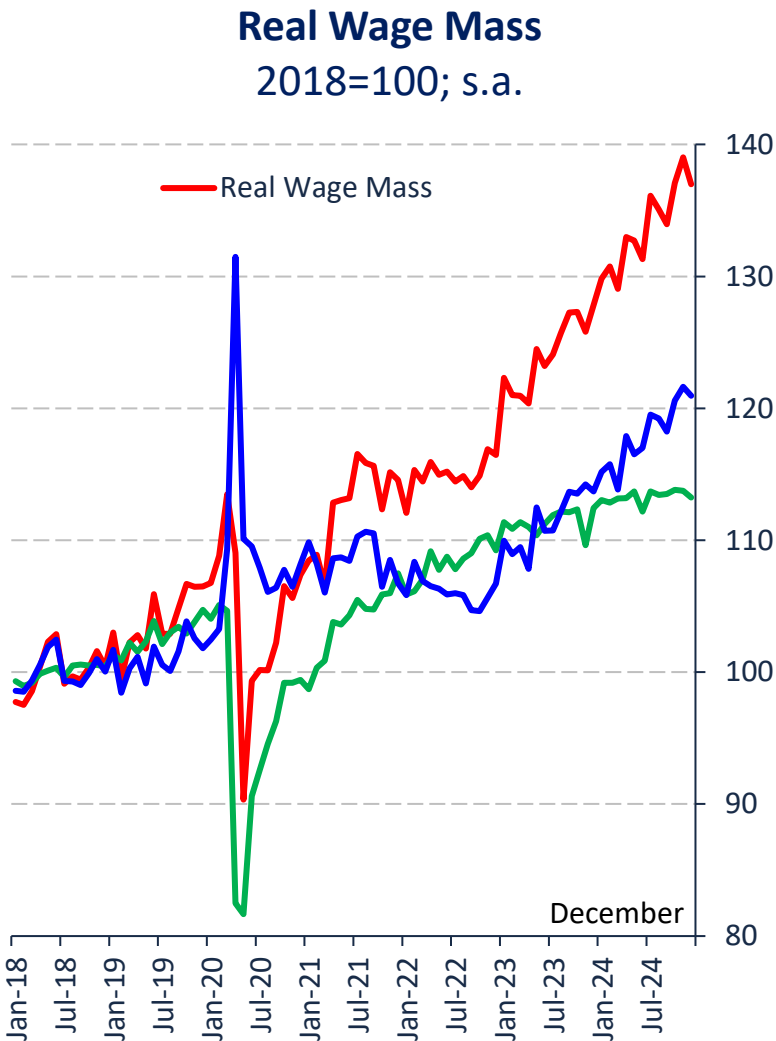
Private consumption has been supported by favorable dynamics of its determinants.



s.a./ Seasonally adjusted figures.  
Source: Own elaboration with data from INEGI.



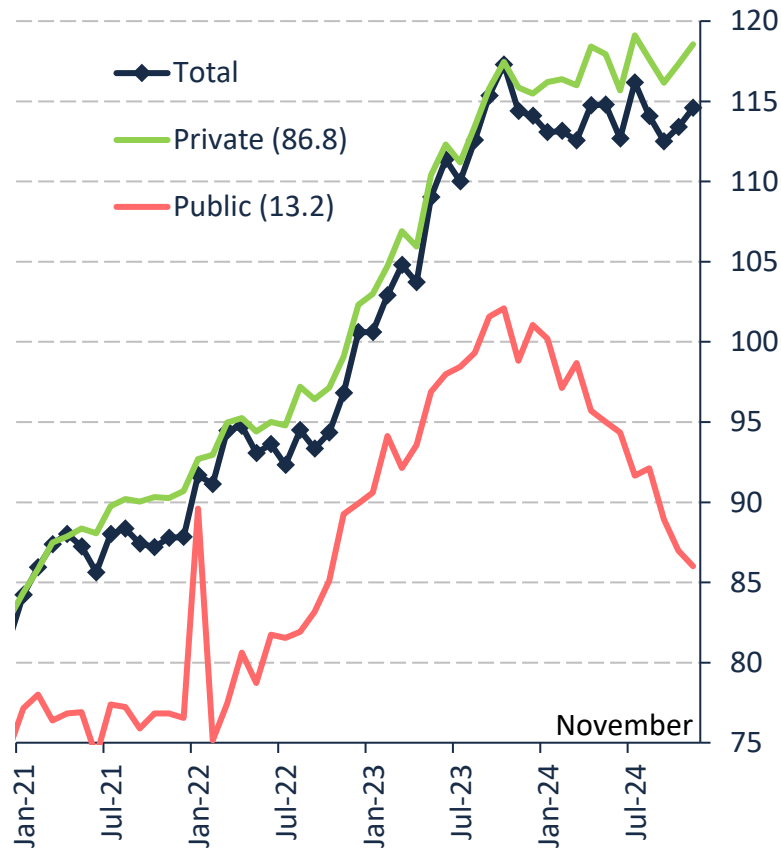
Source: Own elaboration with data from Banco de México.



s.a./ Seasonally adjusted figures.  
Source: Own elaboration with data from INEGI.

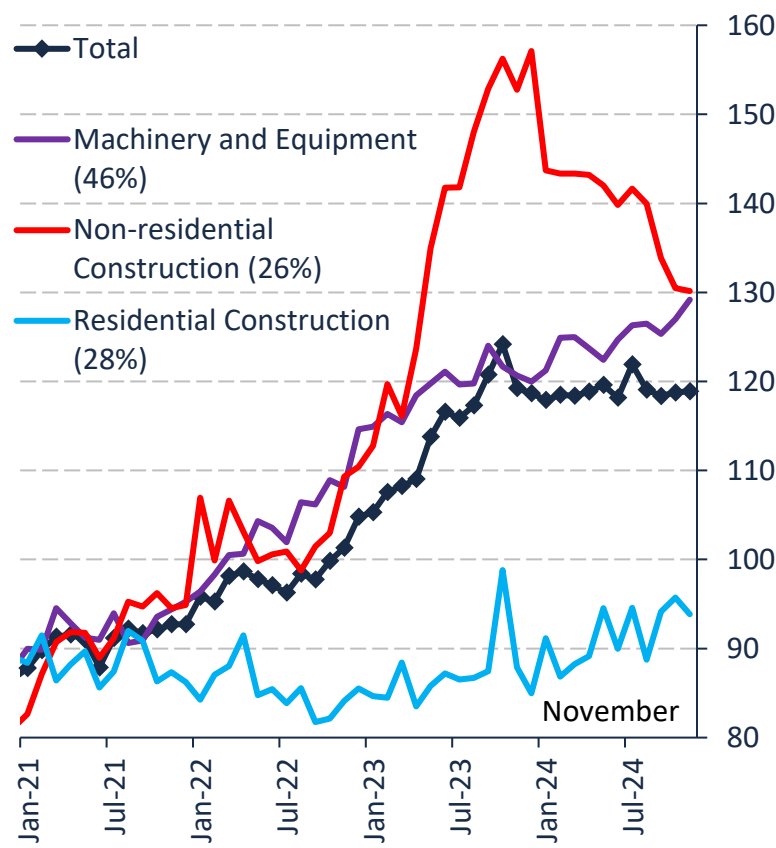
# Gross fixed investment continued to show sluggishness. Expenditure on machinery and equipment has offset lower levels of investment in construction.

**Total, Private and Public**  
2019=100; s.a.



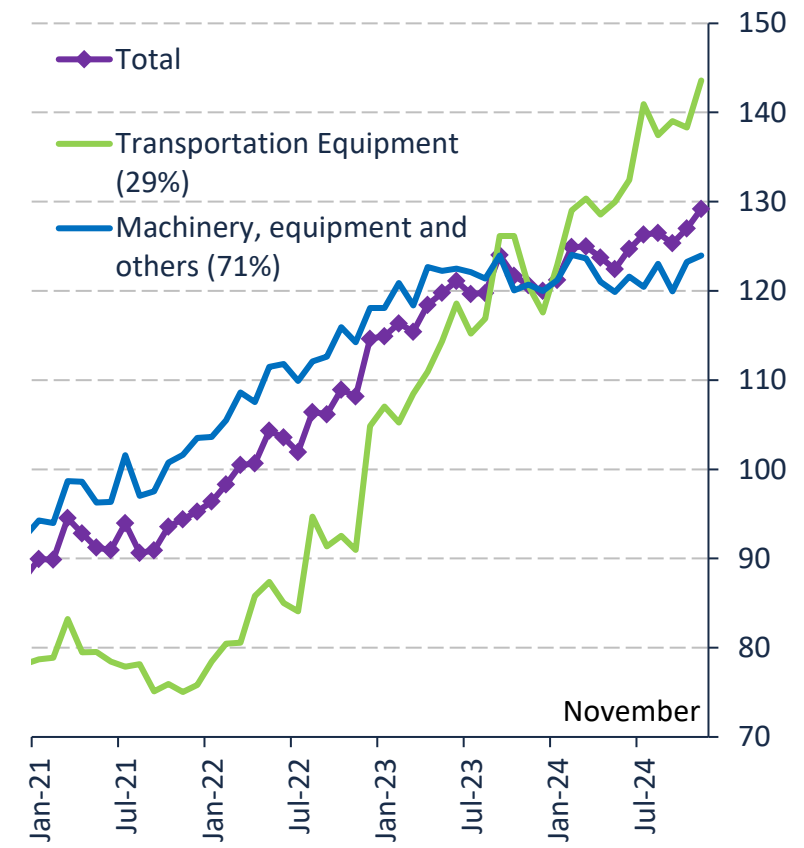
s.a./ Seasonally adjusted figures. Own seasonal adjustment.  
 Figures in parentheses correspond to their share in the total in 2018.  
 Source: Own elaboration with data from INEGI.

**Gross Fixed Investment By Sector**  
2019=100; s.a.



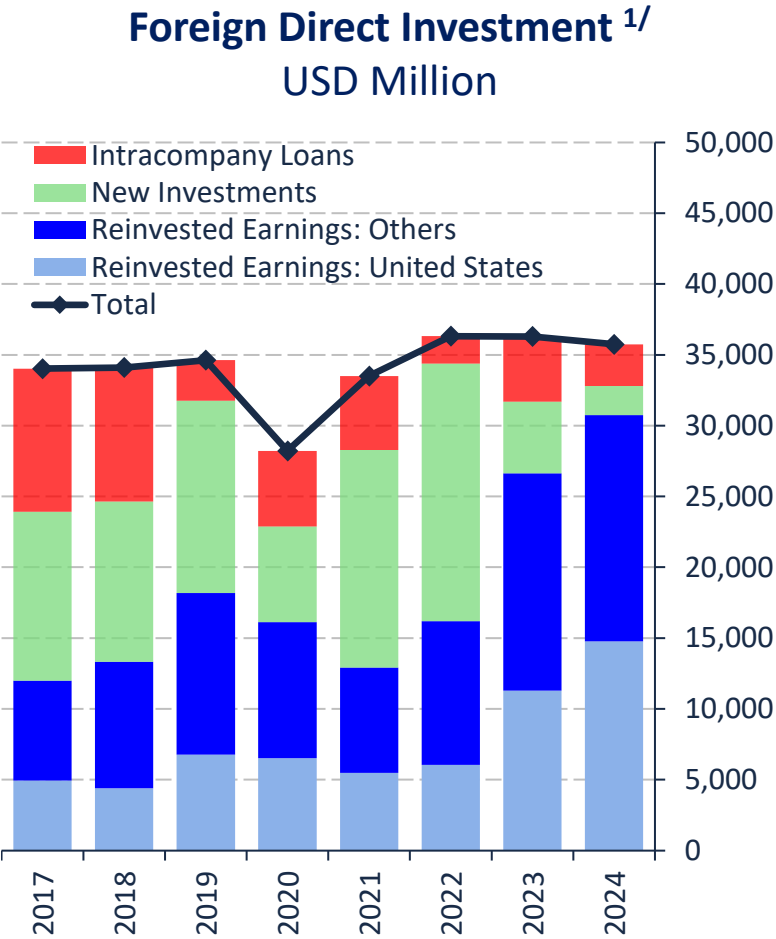
s.a./ Seasonally adjusted figures.  
 Figures in parentheses correspond to their share in the total in 2018.  
 Source: Own elaboration with data from INEGI.

**Investment in Machinery and Equipment<sup>1/</sup>**  
2019=100; s.a.



<sup>1/</sup> Includes both national and imported components.  
 s.a./ Seasonally adjusted figures. Figures in parentheses correspond to their share in the total in 2018. Source: Own elaboration with data from INEGI.

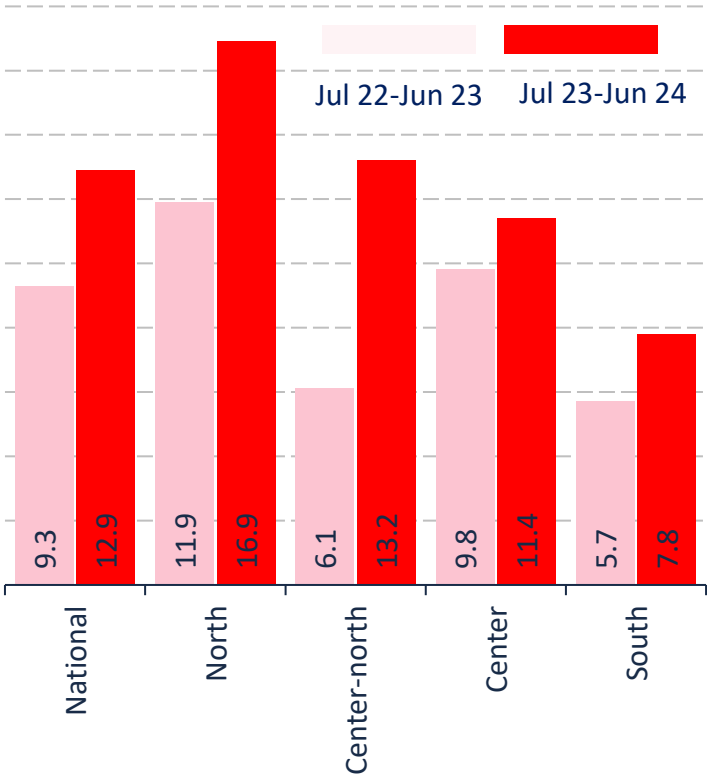
# Private companies show interest in expanding their productive capacity in Mexico.



1/ 2024 figures are up to the third quarter.  
Source: Own elaboration with data from INEGI.

### Companies that reported increases in production, sales or investment as a result of the relocation in different periods

% of companies with more than 100 workers

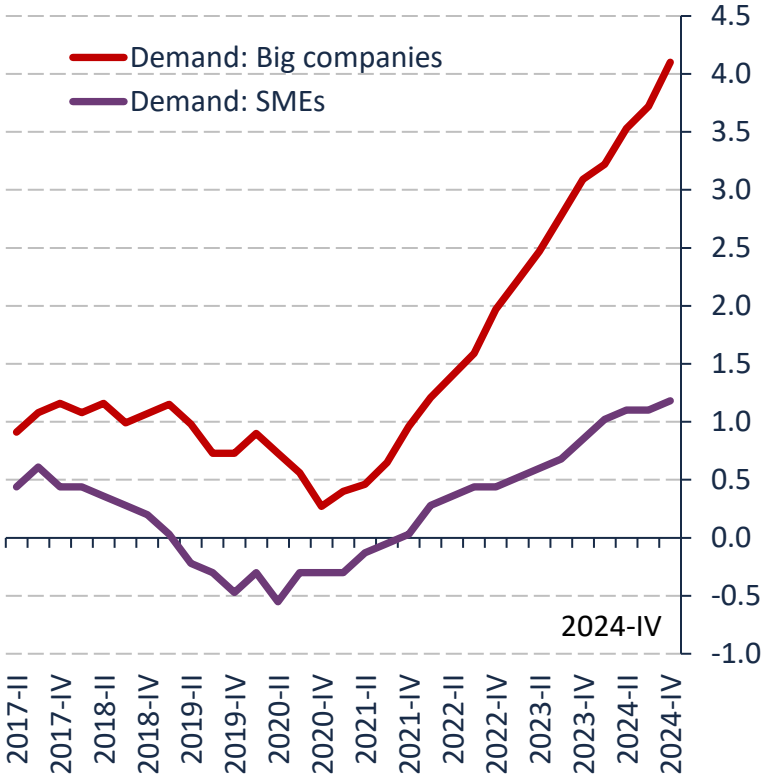


Source: own elaboration with data from the EMAER survey implemented by Banco de México.

### Credit Demand

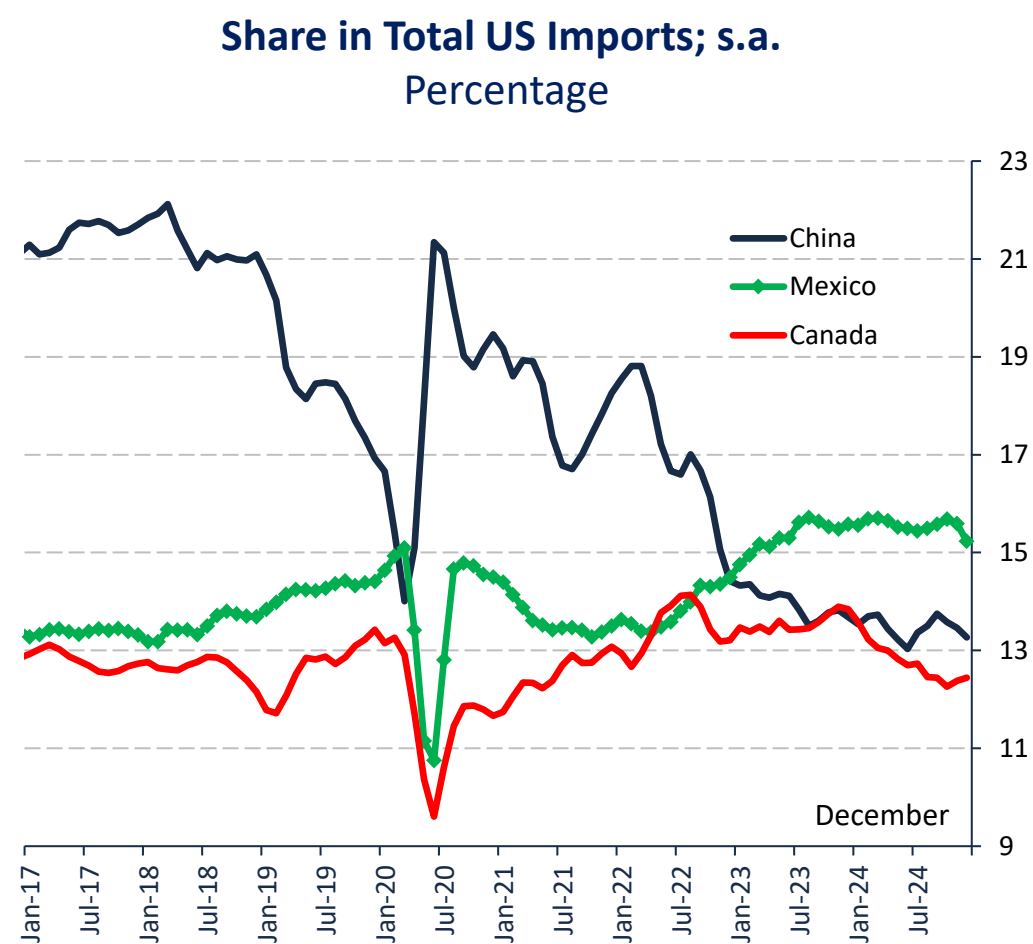
Banking Survey: Large Companies and Non-Financial SMEs

Diffusion Indices Accumulated since 2014

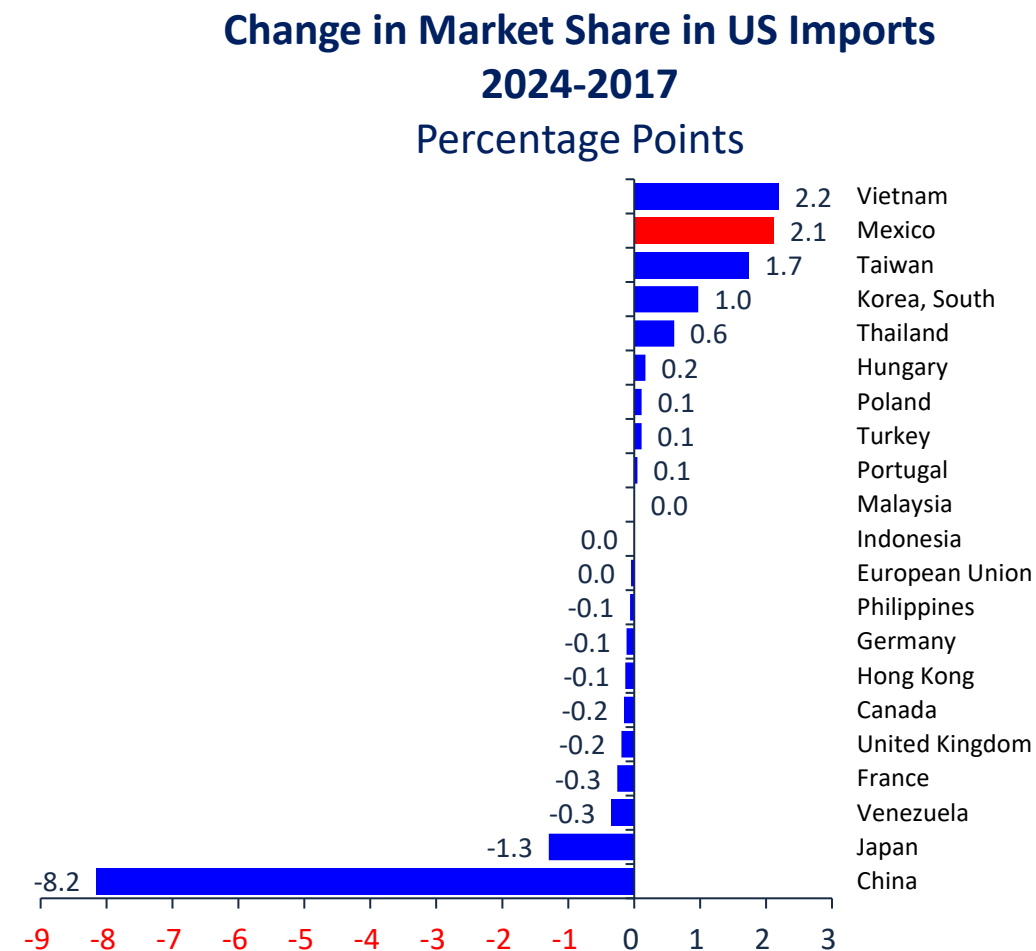


Source: own elaboration with data from the ENBAN survey carried out by Banco de México.

Significant changes have occurred in the US imports landscape, the process of trade integration between Mexico and the US remains strong.



s.a./ Seasonally adjusted figures.  
Source: Own elaboration with data from the US Census Bureau



Source: Own elaboration with data from the US Census Bureau.

# Outline

**I**

**Economic Activity**

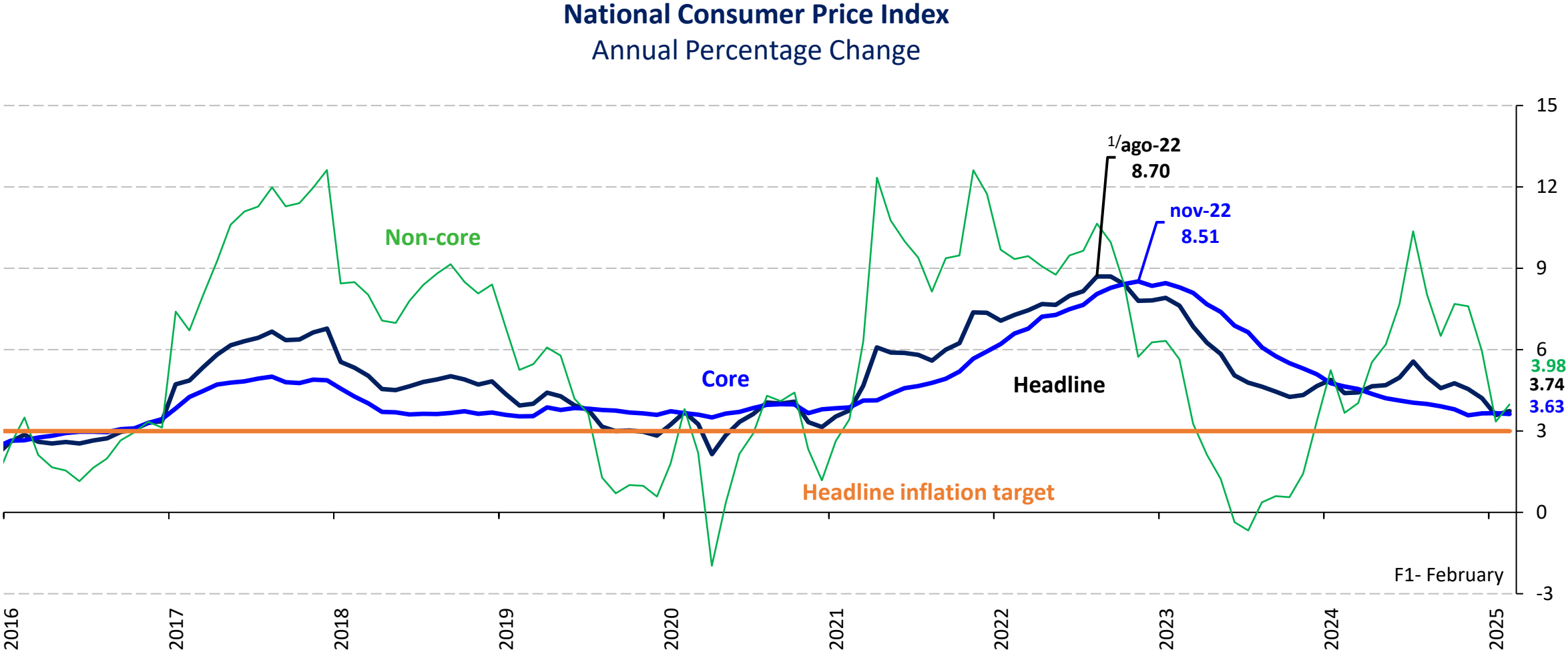
**II**

**Inflation**

**III**

**Monetary Policy**

Annual headline inflation in Mexico has eased. This was the result of the reduction in core inflation, as well as the decrease exhibited by the non core inflation after the fading of the supply shocks that affected it.



1/ Headline inflation was 8.70% in August and September 2022.  
Source: own elaboration with data from Banco de México and INEGI.

## Balance of Risks for Inflation

It is considered that the balance of risks regarding the expected trajectory of inflation in the forecast horizon remains biased upwards.

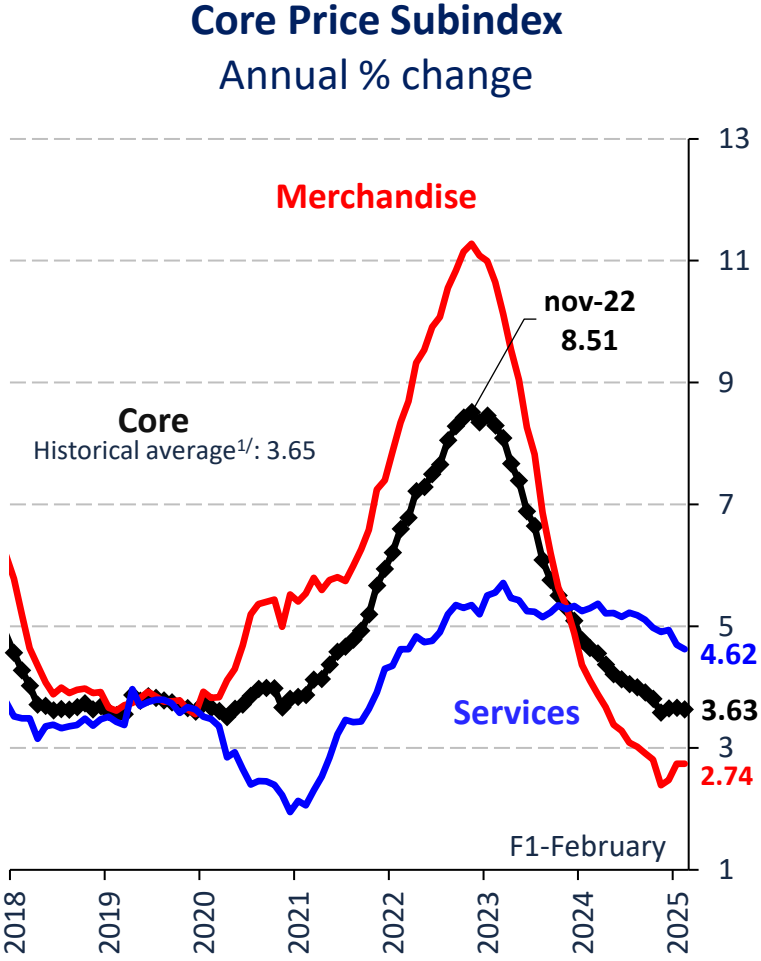
### To the upside

- I. Persistence of core inflation.**
- II. Greater Mexican peso depreciation.
- III. Disruptions due to geopolitical conflicts or foreign trade policies.
- IV. Higher cost-related pressures.
- V. Climate-related impacts.

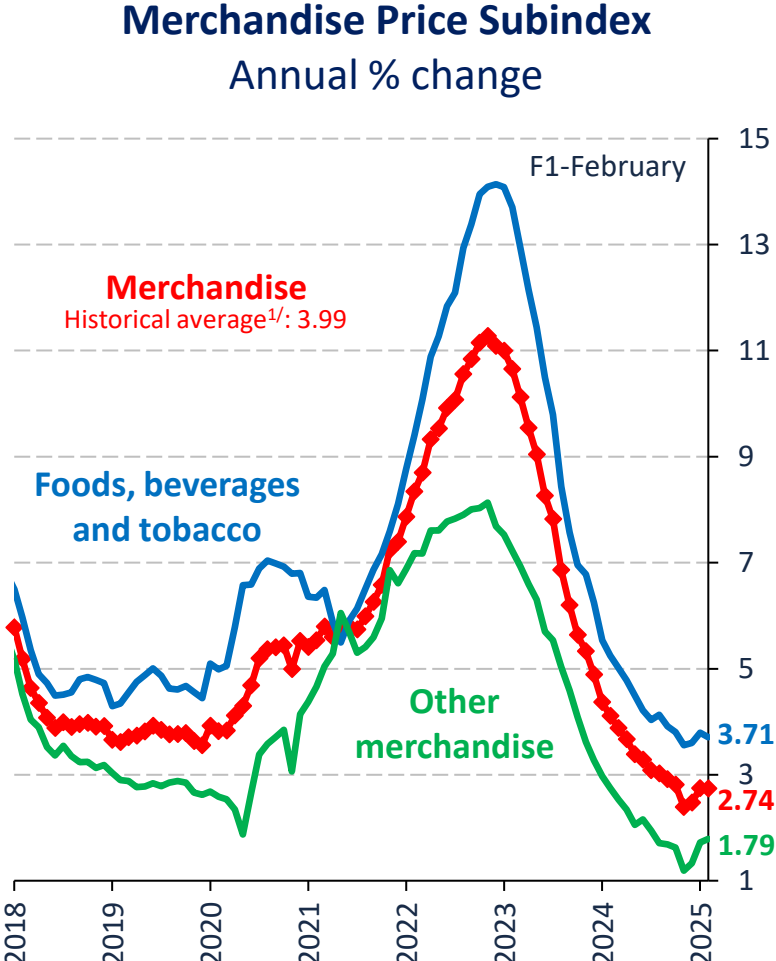
### To the downside

- I. A lower-than-anticipated economic activity.**
- II. A lower-than-anticipated effect of the Mexican peso depreciation on inflation.
- III. A lower-than-anticipated pass-through of cost-related pressures to prices.

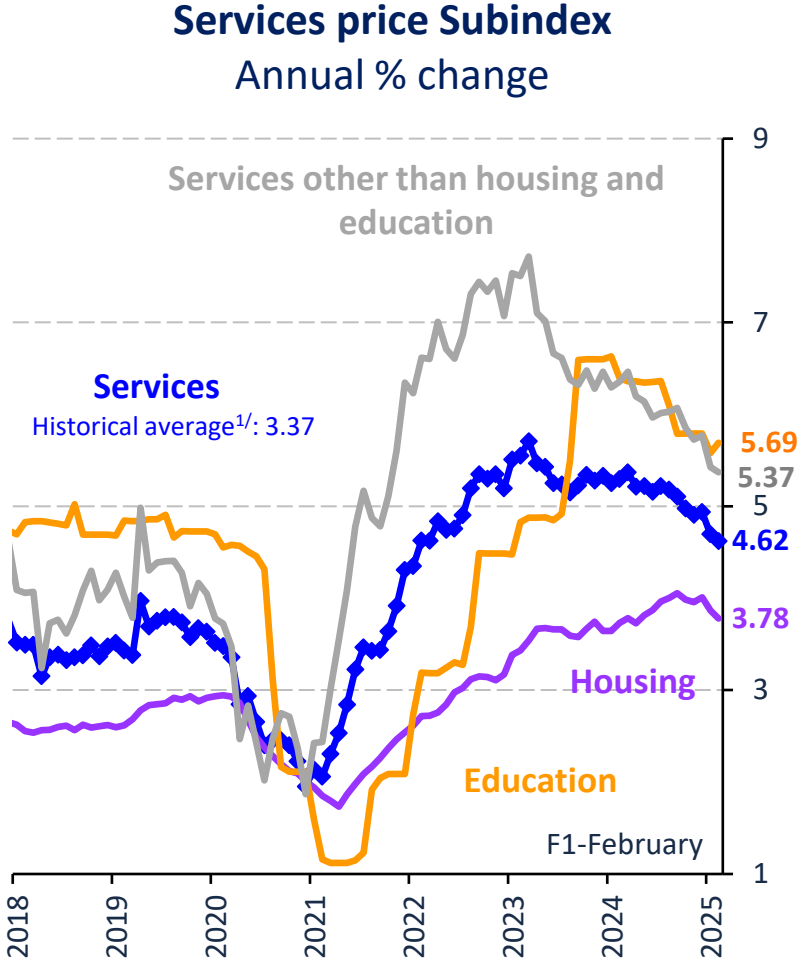
Core inflation is close to its historical average. The annual variations in merchandise prices are at lower levels than those observed at the beginning of the pandemic. The annual variation in service prices has decreased more clearly in recent months.



1/ Average from 2003 to 2019.  
Source: Own elaboration with data from INEGI.



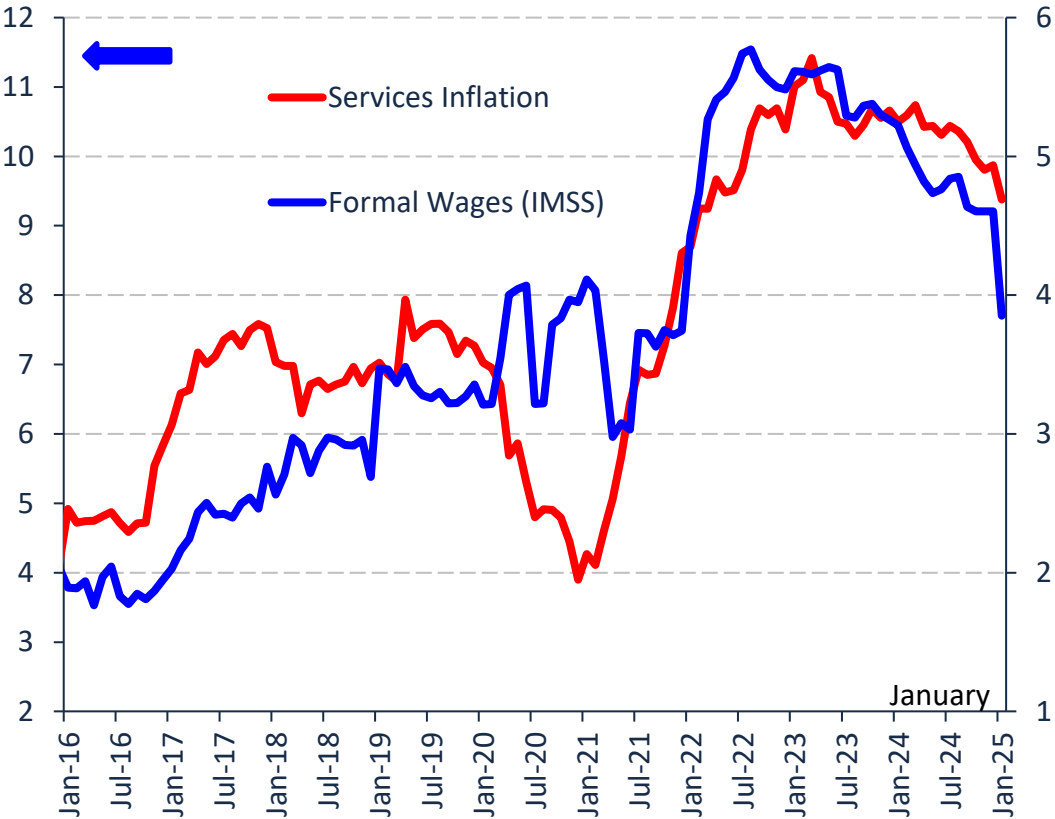
1/ Average from 2003 to 2019.  
Source: Own elaboration with data from INEGI.



1/ Average from 2003 to 2019.  
Source: Own elaboration with data from INEGI.

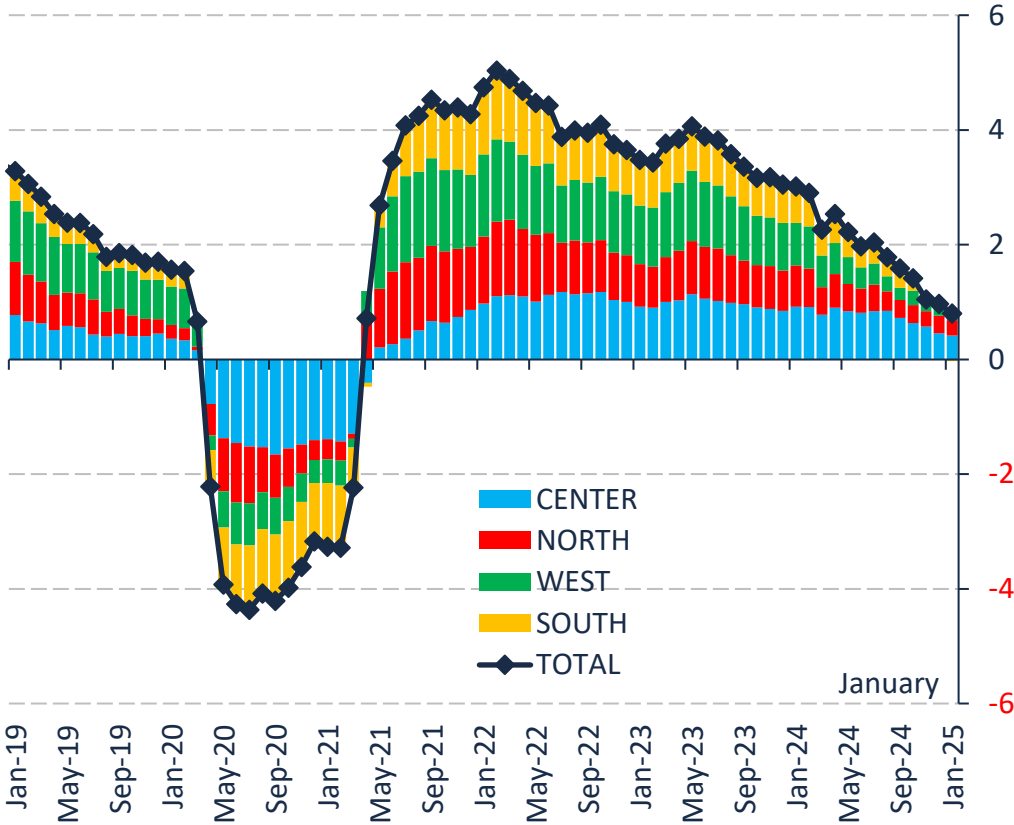
Going forward, signs of moderation in the labor market could contribute to less inflationary pressures.

Wages and Services Inflation  
Annual growth Percentage



Source: Own elaboration with data from INEGI and IMSS.

Annual Contributions to Formal Job Creation at  
IMSS  
Percentage



Source: Own elaboration with data from IMSS.

# Outline

**I**

**Economic Activity**

**II**

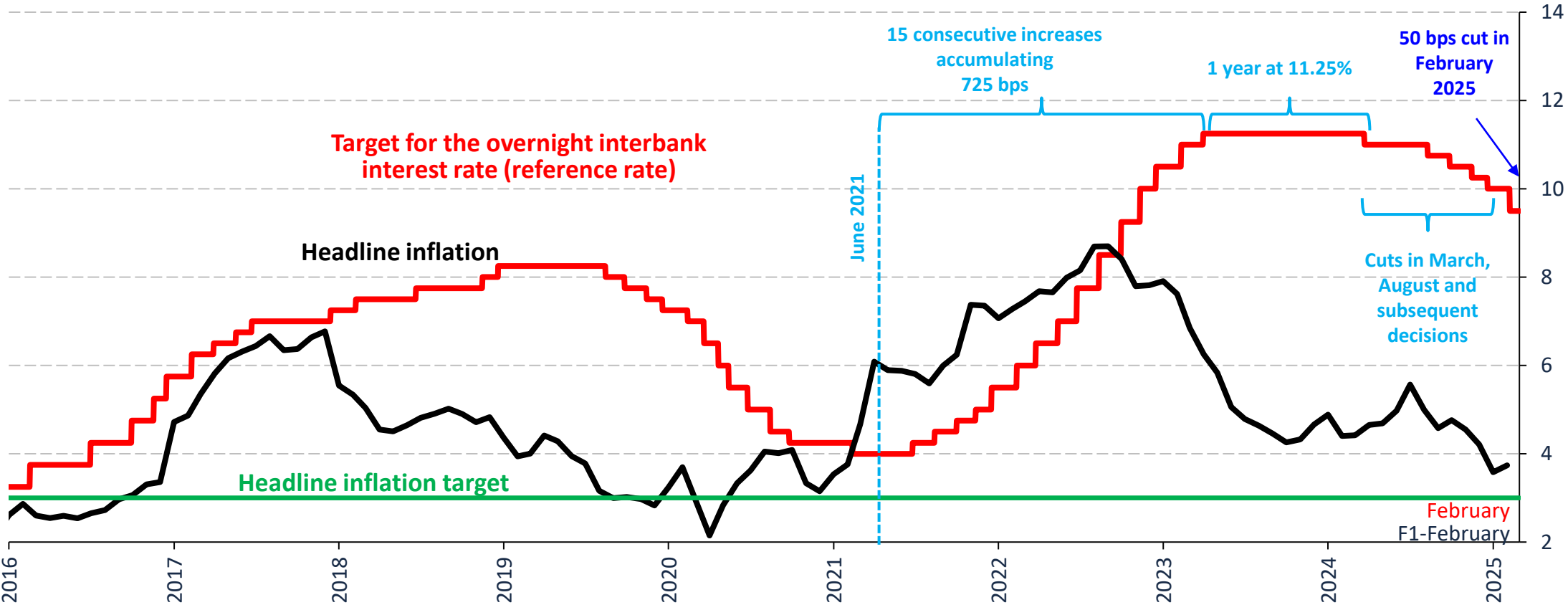
**Inflation**

**III**

**Monetary Policy**

In February, the Governing Board cut the reference rate by 50 basis points to 9.50%. The significant improvement in the inflationary outlook means that lower levels of the reference rate are now required than those that were necessary to face global shocks.

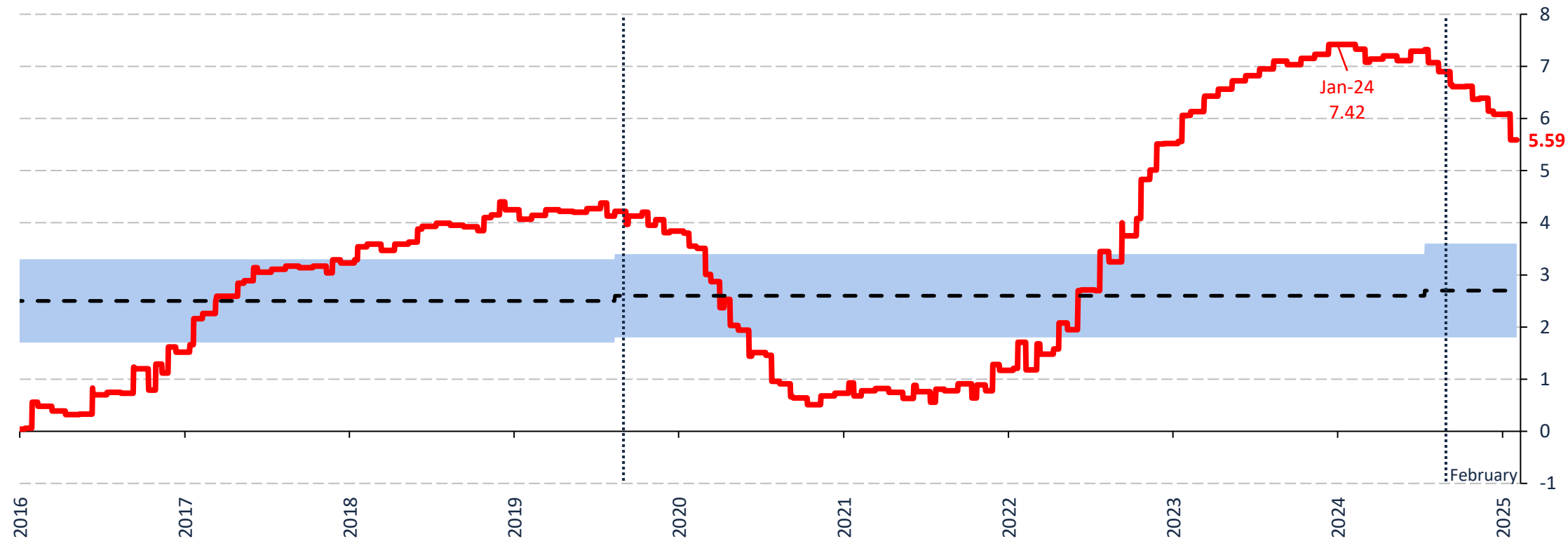
Target for the Overnight Interbank Interest Rate and Headline Inflation  
Annual %



Source: Own elaboration with data from Banco de México and INEGI.

To address the complexity of the recent inflationary episode, the ex-ante real interest rate was brought to a clearly restrictive territory. As this episode has been resolving, the level of monetary restriction has been moderated.

Short-term ex-ante real rate and estimated interval for the short-term neutral real rate in the long term<sup>1/</sup>  
Percentage

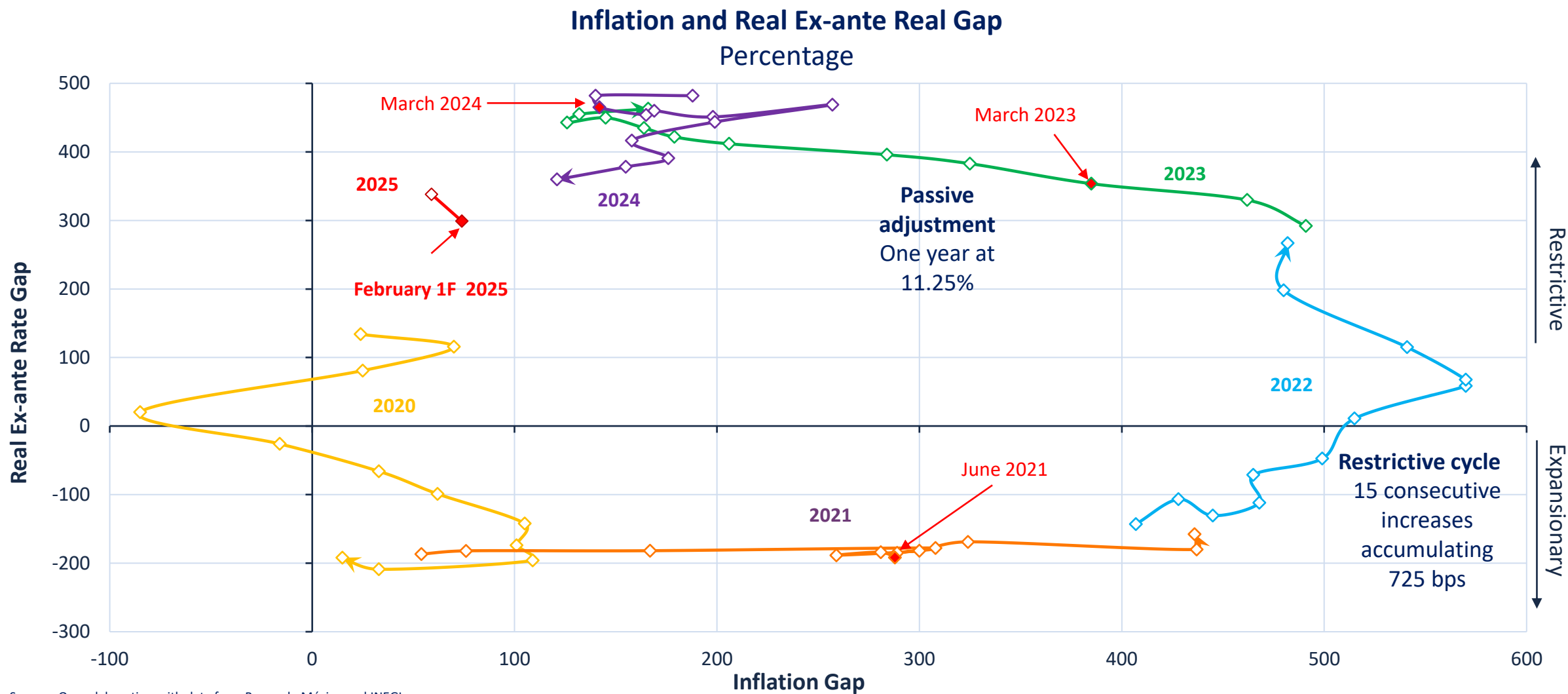


Note: The horizontal dotted line corresponds to the midpoint of the estimated range for the neutral rate level in the long term in real terms. The vertical lines indicate the dates of updates to the real rate estimate. On August 28, 2019, it was updated from a range of [1.7% - 3.3%] with a midpoint of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

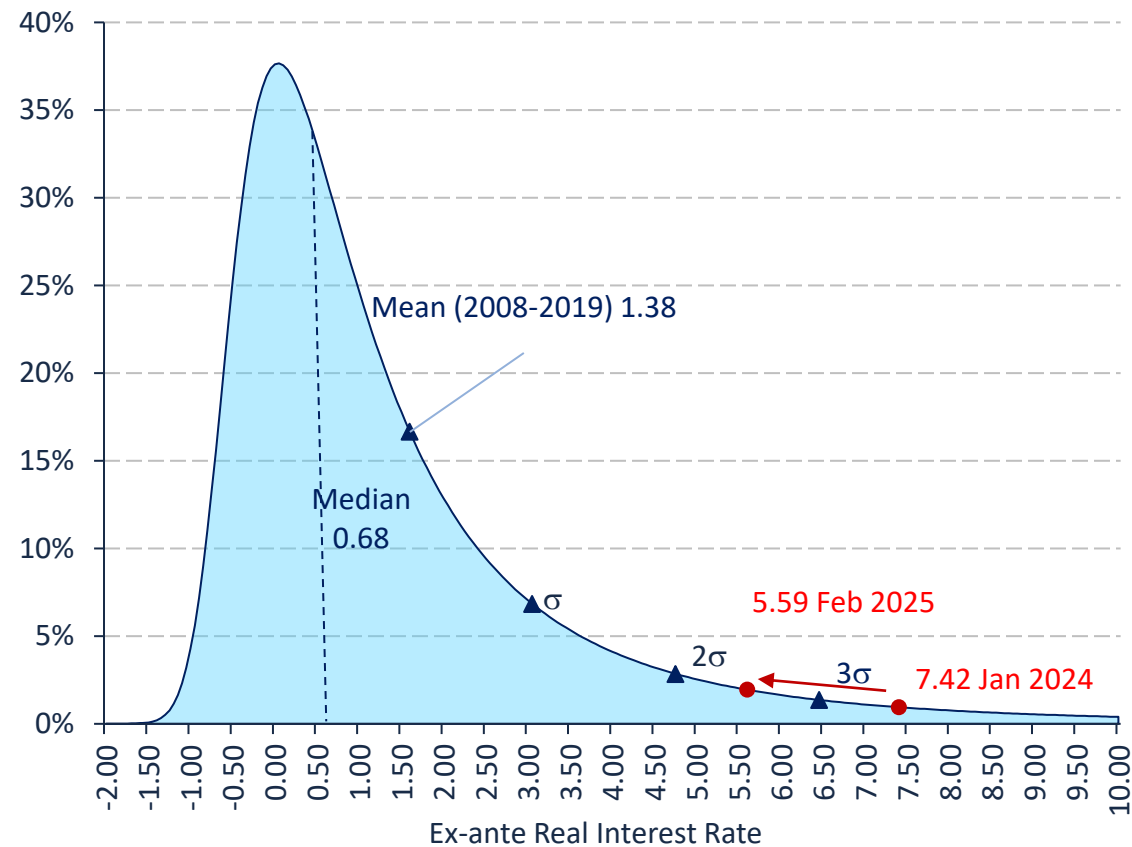
Source: Own elaboration with data from Banco de México.

After the unprecedented shocks from the pandemic, both the inflation gap and the real ex-ante rate gap have narrowed.



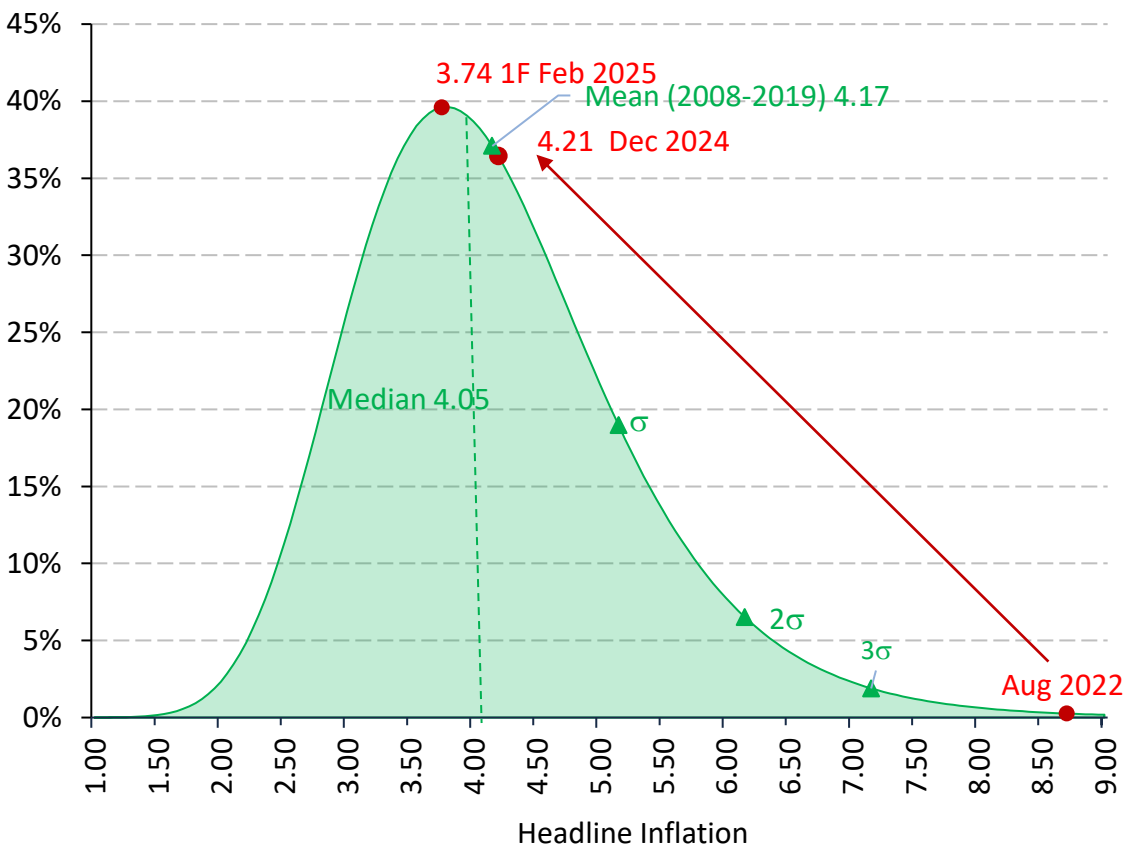
The ex-ante real rate remains at levels above to 2 standard deviations from its mean, while that of inflation has returned to levels closer to its historical average.

Ex-ante Real Interest Rate Distribution  
Percentage



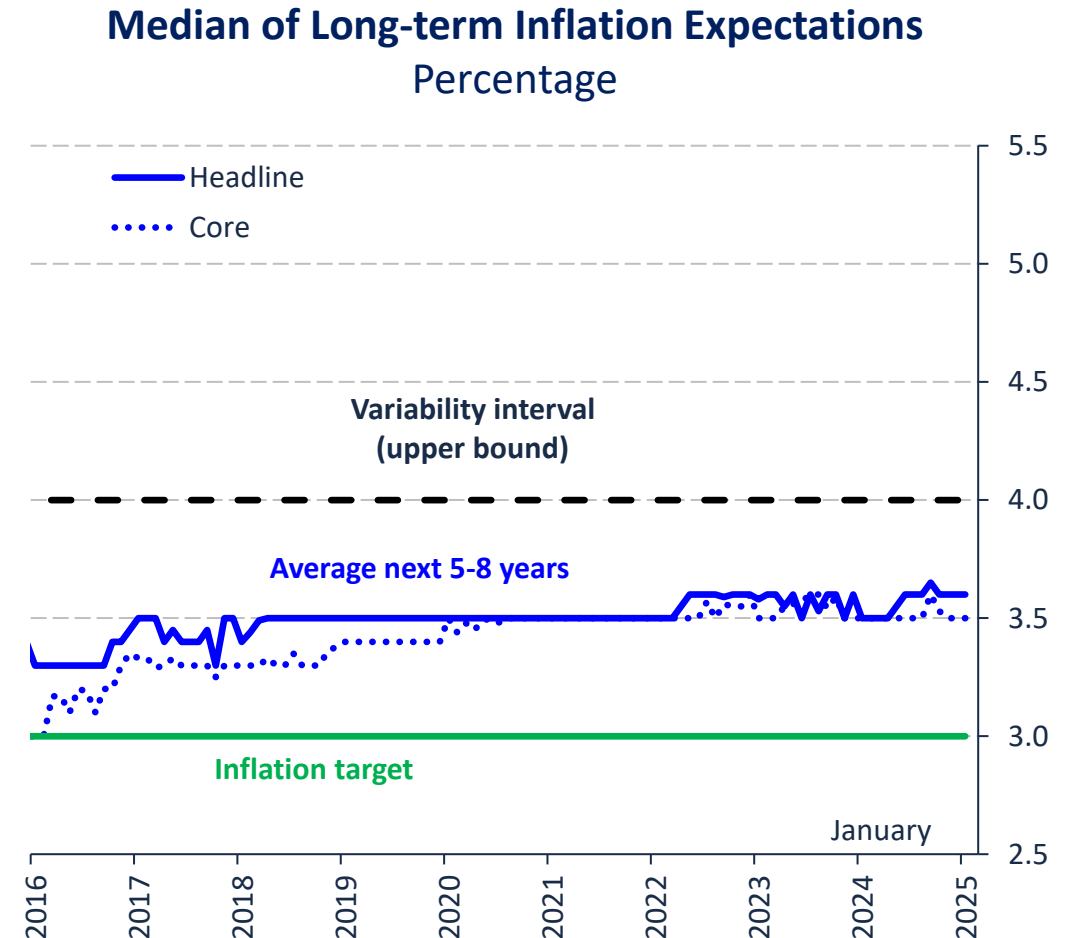
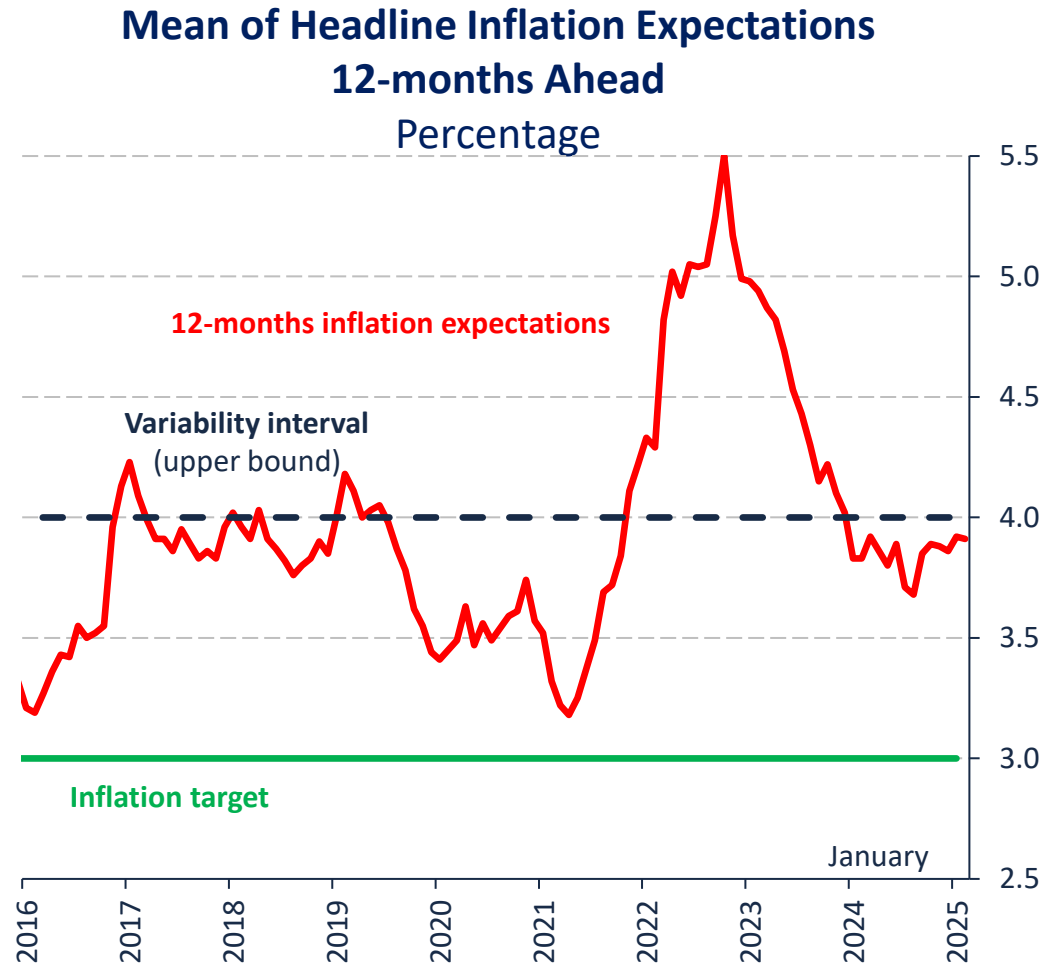
Note: the distribution was estimative with information from 2008 to 2019.  
Source: Own elaboration with data from Banco de México.

Headline Inflation Distribution  
Percentage



Note: the distribution was estimative with information from 2008 to 2019.  
Source: Own elaboration with data from Banco de México.

During the most recent inflationary episode, the actions of the central bank contributed to preserving the anchoring of the longer-term inflation expectations.



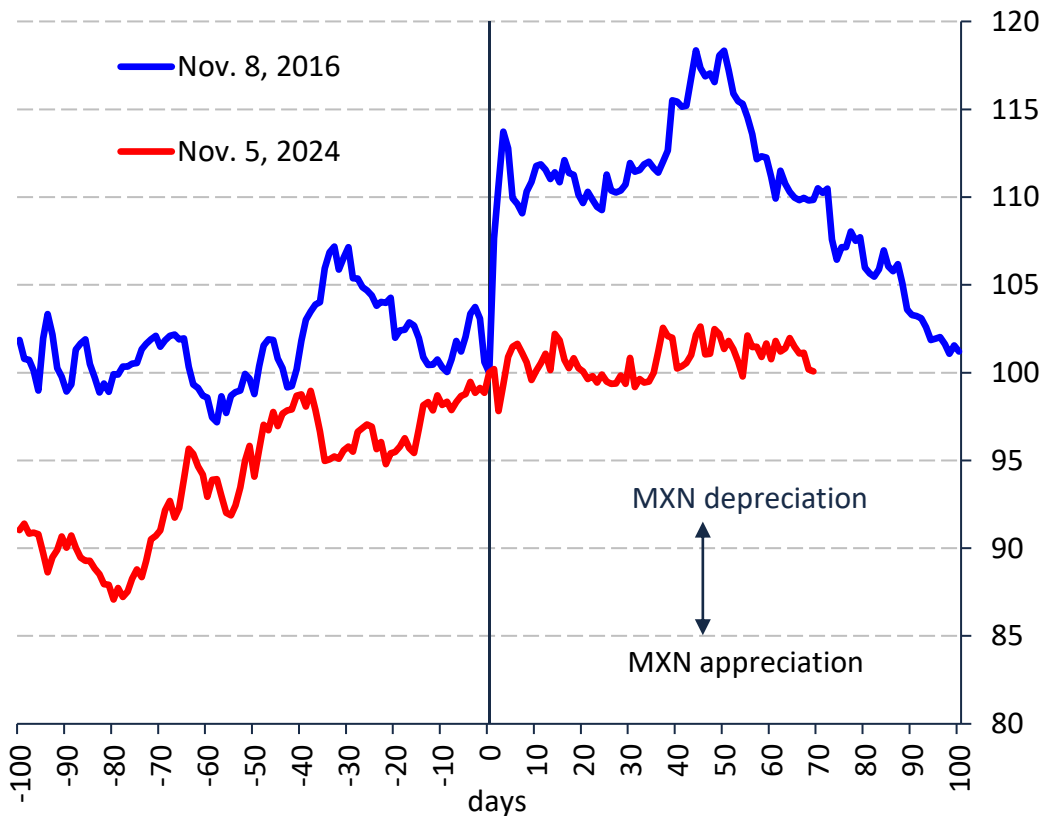
Note: Expected inflation for the next 12 months is shown for the month in which the survey is collected. Thus, the figure for January 2025 is obtained from the survey published on February 2025. The figure for February 2025 is obtained from the same survey and corresponds to the expected inflation for February 2026.

Source: Own elaboration with data from Banco de México's Survey of Private Sector Forecasters.

Source: Own elaboration with data from Banco de México's Survey of Private Sector Forecasters.

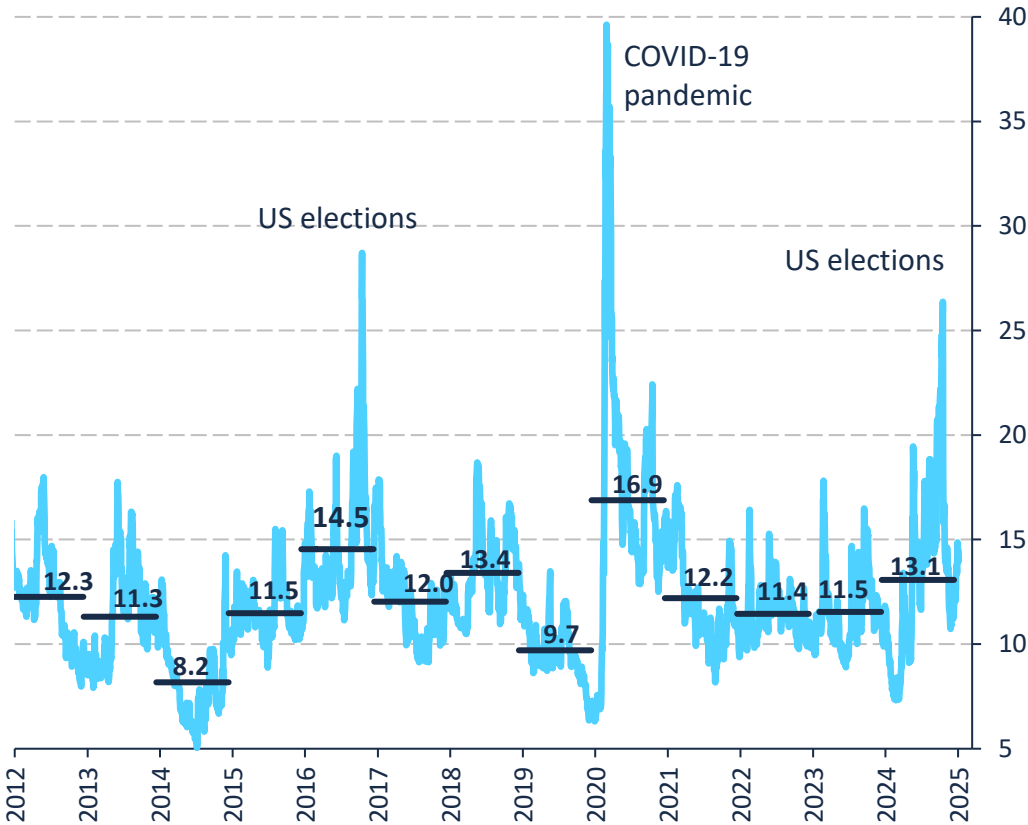
Despite the uncertainty of recent months and the increase in volatility, the Mexican peso has not deteriorated significantly and its trading conditions remain stable.

Mexican Peso Foreign Exchange Rate  
Election day = 100



Note: the vertical line represents the election day.  
Source: Own elaboration with data from Banco de México.

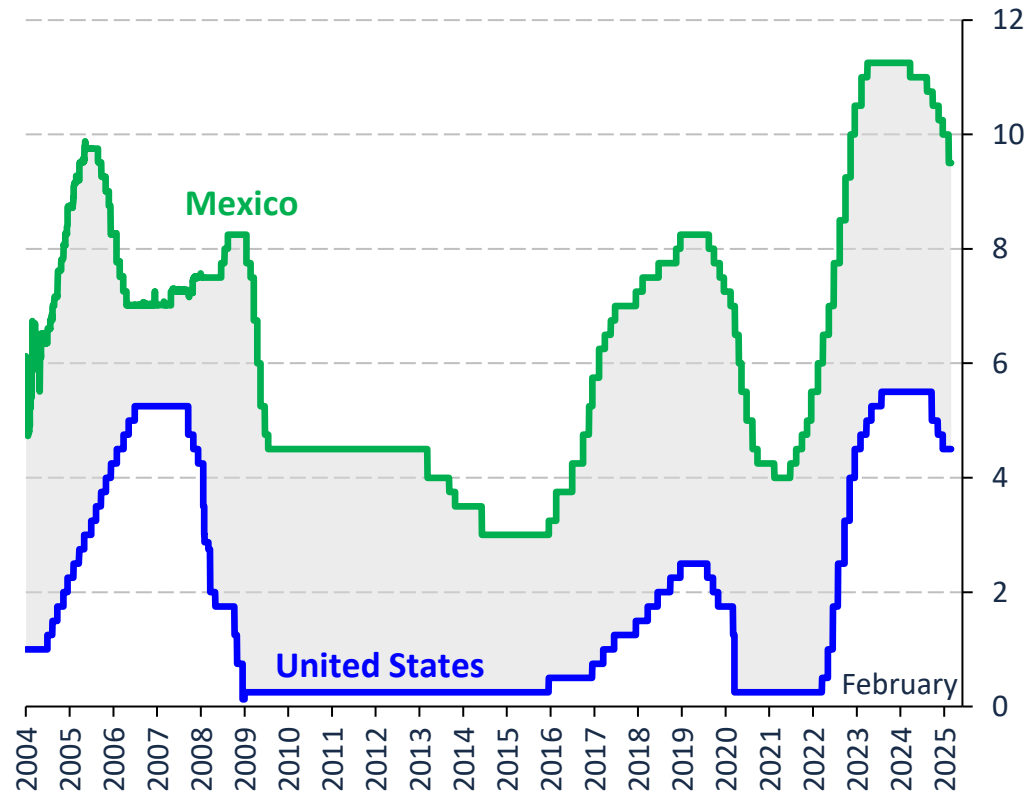
Implied Volatility in 1-month Mexican Peso Options  
Percentage



Note: the horizontal lines represent the averages in each year.  
Source: Own elaboration with data from Banco de México.

The spread between Mexico and United States remains above its historical average.

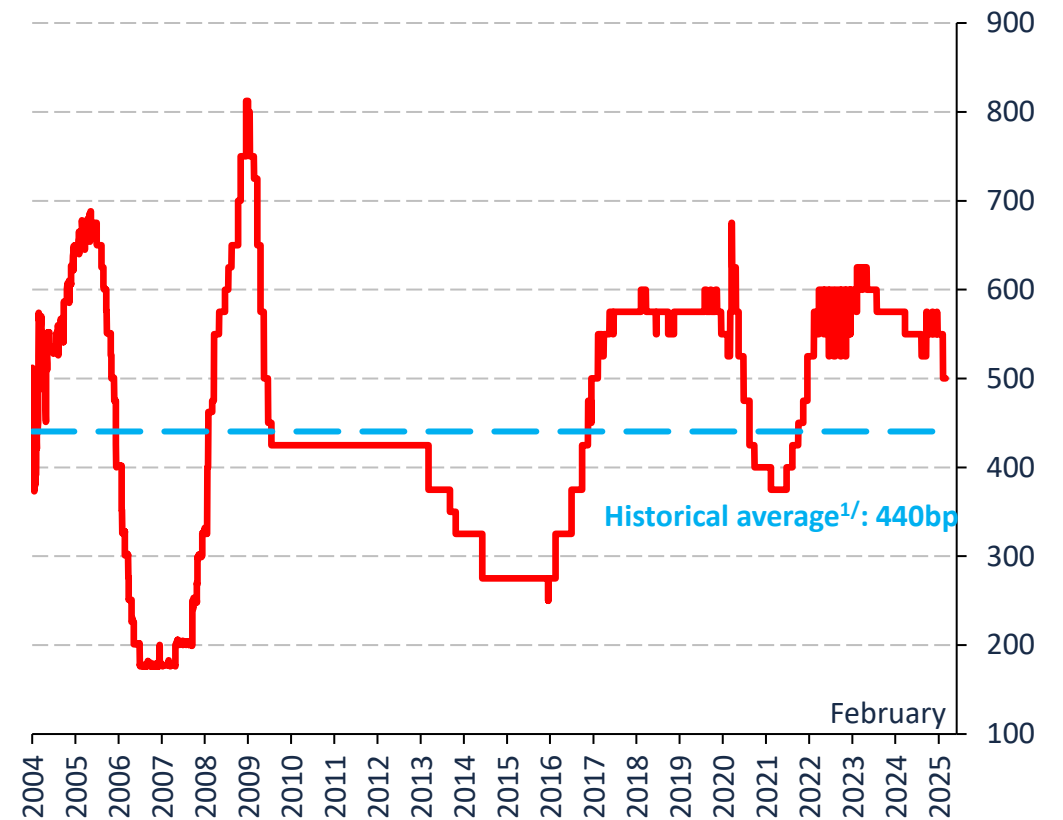
Reference Rate in Mexico and United States  
Percentage



Note: For Mexico, the volume-weighted median of bank funding rate is used until January 2008 and the target for the overnight interbank interest rate afterwards. For the U.S., the target federal funds rate is used until December 2008 and the upper limit of the target range afterwards.

Source: Own elaboration with data from Banco de México and Federal Reserve Economic Data.

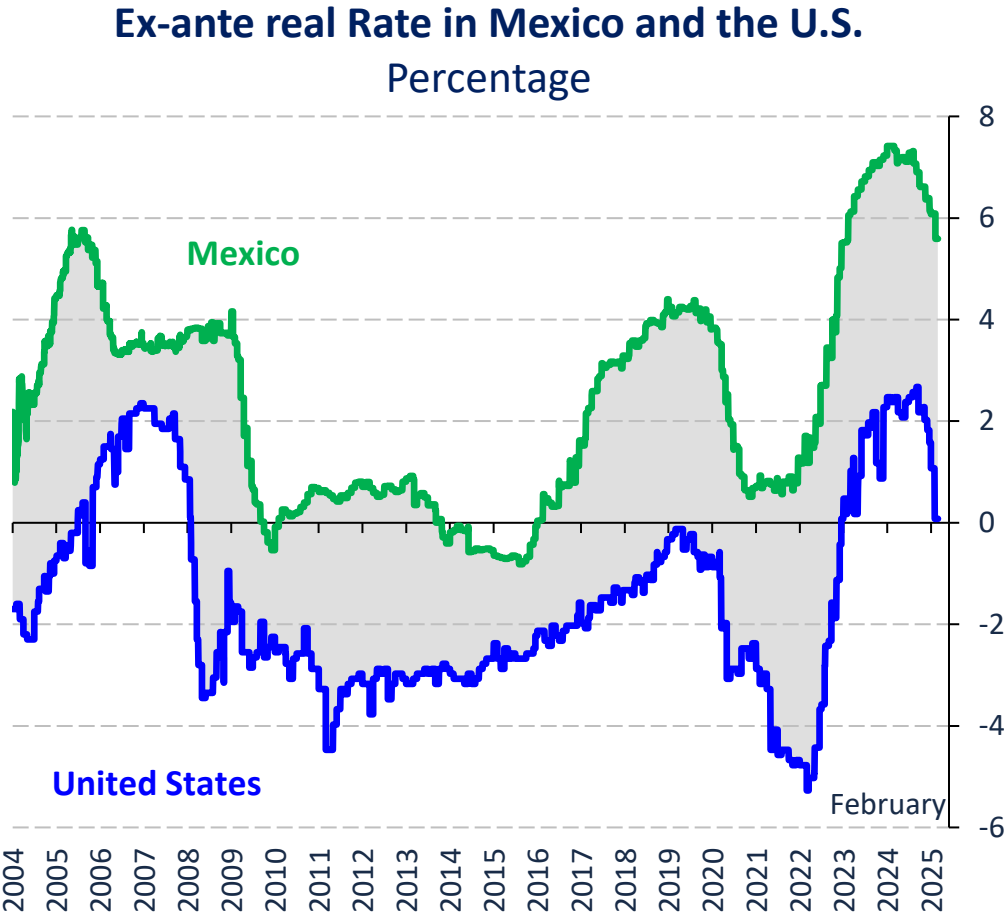
Reference Rate Spread Between Mexico and United  
States



1/ Average from 2004 to 2019.

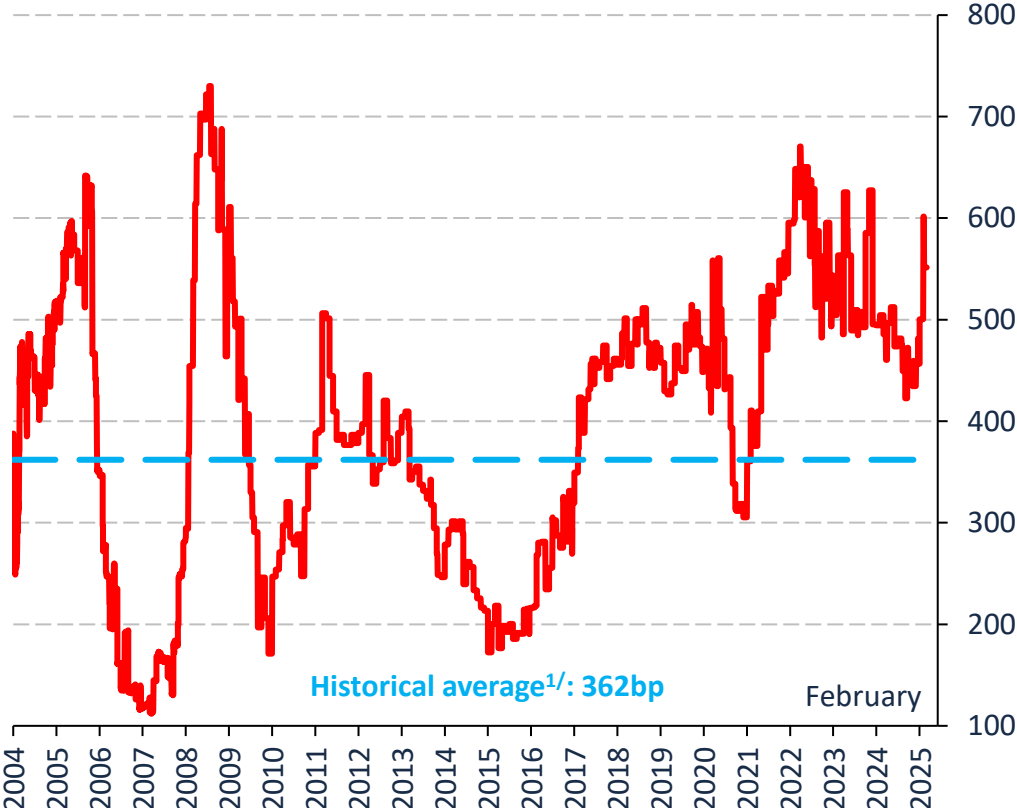
Source: Own elaboration with data from Banco de México and Federal Reserve Economic Data.

The spread between Mexico and the United States is larger in real terms and remains above its historical average.



Note: For Mexico, the volume-weighted median of the bank funding rate is used until January 2008 and the target for the overnight interbank interest rate afterwards. For the U.S., the target federal funds rate is used until December 2008 and the midpoint of the target range afterwards. The short-term ex-ante real rate is constructed as the difference between the reference rate and 12-months inflation expectations. Source: Own elaboration with data from Banco de México, Federal Reserve Economic Data and The University of Michigan Surveys of Consumers.

Ex-ante real Rate Spread Between Mexico and the U.S.  
Basis points



1/ Average from 2004 to 2019.  
Source: Own elaboration with data from Banco de México, Federal Reserve Economic Data and The University of Michigan Surveys of Consumers.

Headline inflation is expected to converge to the 3% target in the third quarter of 2026. In addition, annualized seasonally adjusted variations will remain within the variability range over the entire horizon.

| Forecasts for Headline and Core Inflation                            |      |     |     |     |      |     |     |     |      |     |     |     |
|----------------------------------------------------------------------|------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|
| Annual percentage change of quarterly average indices                |      |     |     |     |      |     |     |     |      |     |     |     |
|                                                                      | 2024 |     |     |     | 2025 |     |     |     | 2026 |     |     |     |
|                                                                      | I    | II  | III | IV  | I    | II  | III | IV  | I    | II  | III | IV  |
| <b>Headline (CPI)</b>                                                |      |     |     |     |      |     |     |     |      |     |     |     |
| Current (02/06/2025) <sup>1/</sup>                                   | 4.6  | 4.8 | 5.0 | 4.5 | 3.7  | 3.5 | 3.4 | 3.3 | 3.2  | 3.1 | 3.0 | 3.0 |
| Previous (12/19/2024) <sup>2/</sup>                                  | 4.6  | 4.8 | 5.0 | 4.6 | 3.8  | 3.5 | 3.4 | 3.3 | 3.2  | 3.1 | 3.0 | 3.0 |
| <b>Core</b>                                                          |      |     |     |     |      |     |     |     |      |     |     |     |
| Current (02/06/2025) <sup>1/</sup>                                   | 4.7  | 4.2 | 4.0 | 3.7 | 3.6  | 3.5 | 3.4 | 3.3 | 3.2  | 3.0 | 3.0 | 3.0 |
| Previous (12/19/2024) <sup>2/</sup>                                  | 4.7  | 4.2 | 4.0 | 3.6 | 3.5  | 3.5 | 3.4 | 3.3 | 3.2  | 3.0 | 3.0 | 3.0 |
| <b>Memo</b>                                                          |      |     |     |     |      |     |     |     |      |     |     |     |
| <b>Annualized seasonally adjusted quarterly variation in percent</b> |      |     |     |     |      |     |     |     |      |     |     |     |
| Current - Headline <sup>1/</sup>                                     | 5.5  | 4.1 | 5.2 | 3.2 | 2.8  | 3.6 | 4.0 | 3.0 | 2.4  | 3.1 | 3.5 | 2.9 |
| Current - Core <sup>1/</sup>                                         | 4.3  | 3.6 | 3.6 | 3.4 | 3.8  | 3.2 | 3.2 | 3.0 | 3.1  | 2.8 | 3.0 | 3.0 |

1/ Forecast starting January 2025.

2/ Forecast starting December 2024. See monetary policy statement of December 19, 2024.

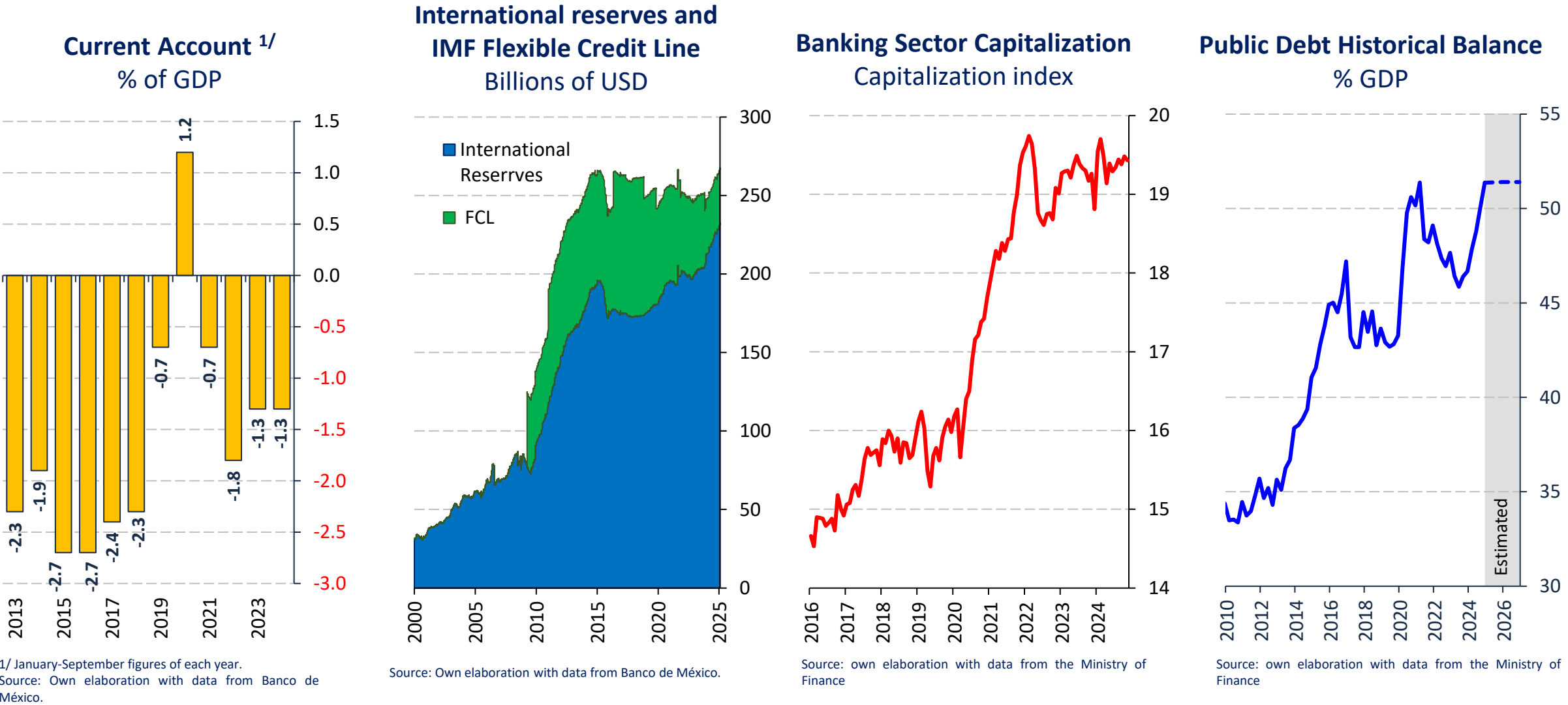
Source: INEGI for observed annual variation figures and Banco de México for seasonally adjusted figures and forecasts.

Note: Shaded areas correspond to observed figures

# Final Remarks

- The country's solid macroeconomic fundamentals have allowed us to face the complex economic outlook.
  - An independent central bank
  - A flexible exchange rate
  - Balanced external accounts
  - An adequate level of International Reserves and a flexible credit line with the IMF
  - A healthy financial system and a well capitalized banking sector
- In order to continue addressing future challenges, it is important to consistently uphold these fundamentals.

Mexico has a stable and moderate current account deficit, a sufficient amount of international reserves and a solid and well-capitalized financial system.





BANCO DE MÉXICO

[www.banxico.org.mx](http://www.banxico.org.mx)