



Mexico: Monetary Policy Outlook in an Uncertain Environment

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* 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.

Mexico maintains solid macroeconomic fundamentals that serve as a pillar for economic and social development, and have allowed it to face a complex economic outlook in an **uncertain** environment.



An **independent central bank** committed to its Constitutional mandate of price stability.

A **flexible exchange rate regime** since 1994 and an adequate amount of International Reserves.

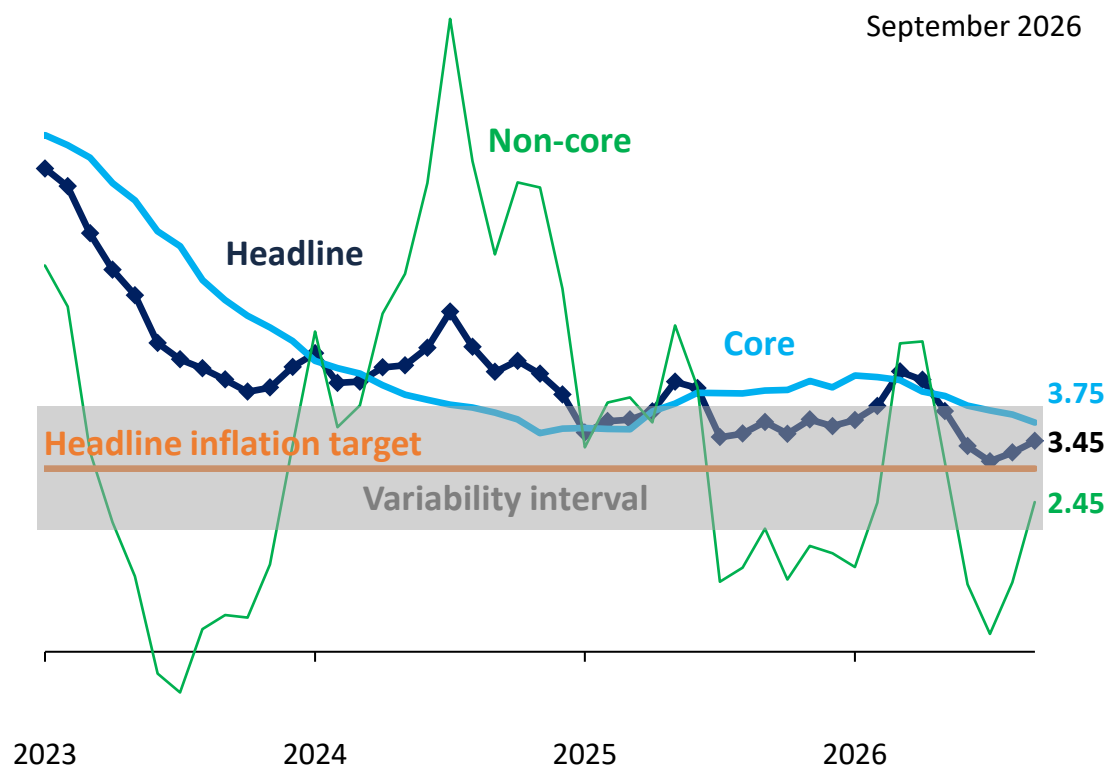
A **sound banking sector** that doubles international liquidity and capital requirements, bolstered by Mexico's **investment-grade rating** for over 25 years.

Balanced external accounts, with a fully fundable current account deficit.

Headline inflation has continued to decline and now lies within the variability range, reflecting declines in both core and non-core inflation.

National Consumer Price Index

Annual % change

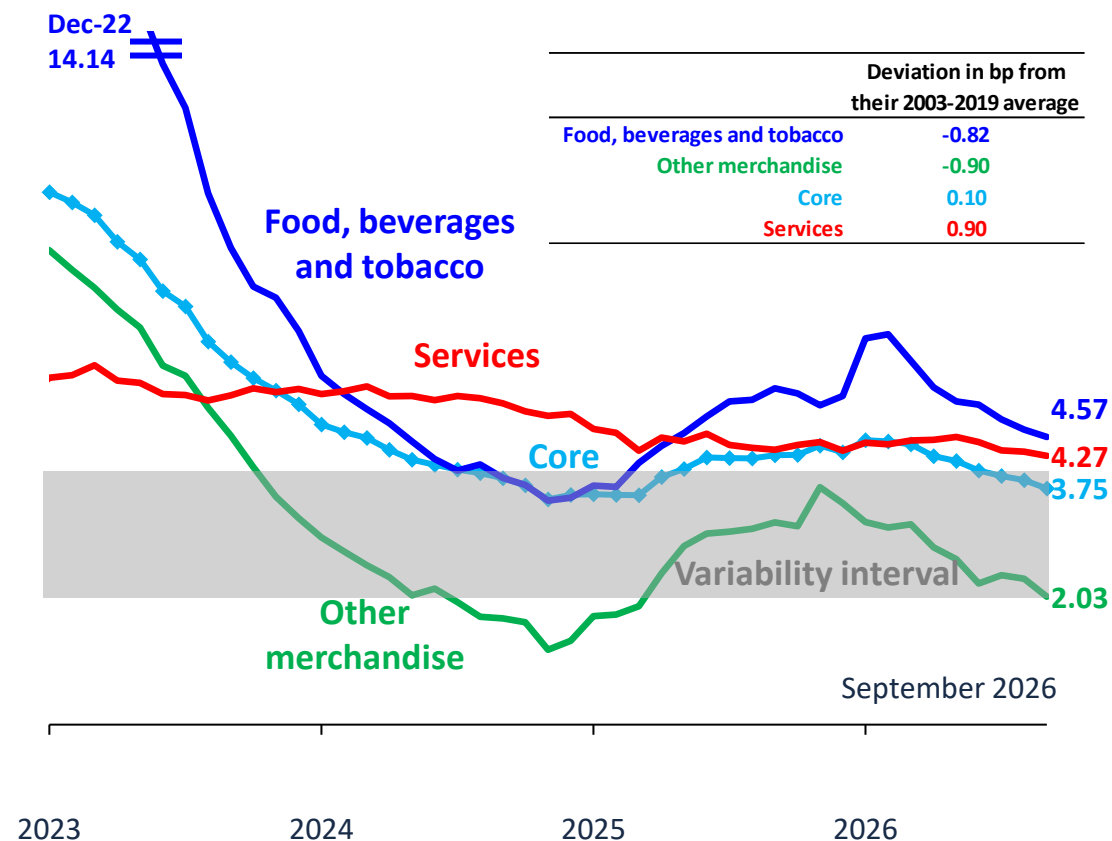


Source: Own elaboration with data from INEGI.

Within core inflation, services remain above their historical average, while merchandise inflation lies slightly below it.

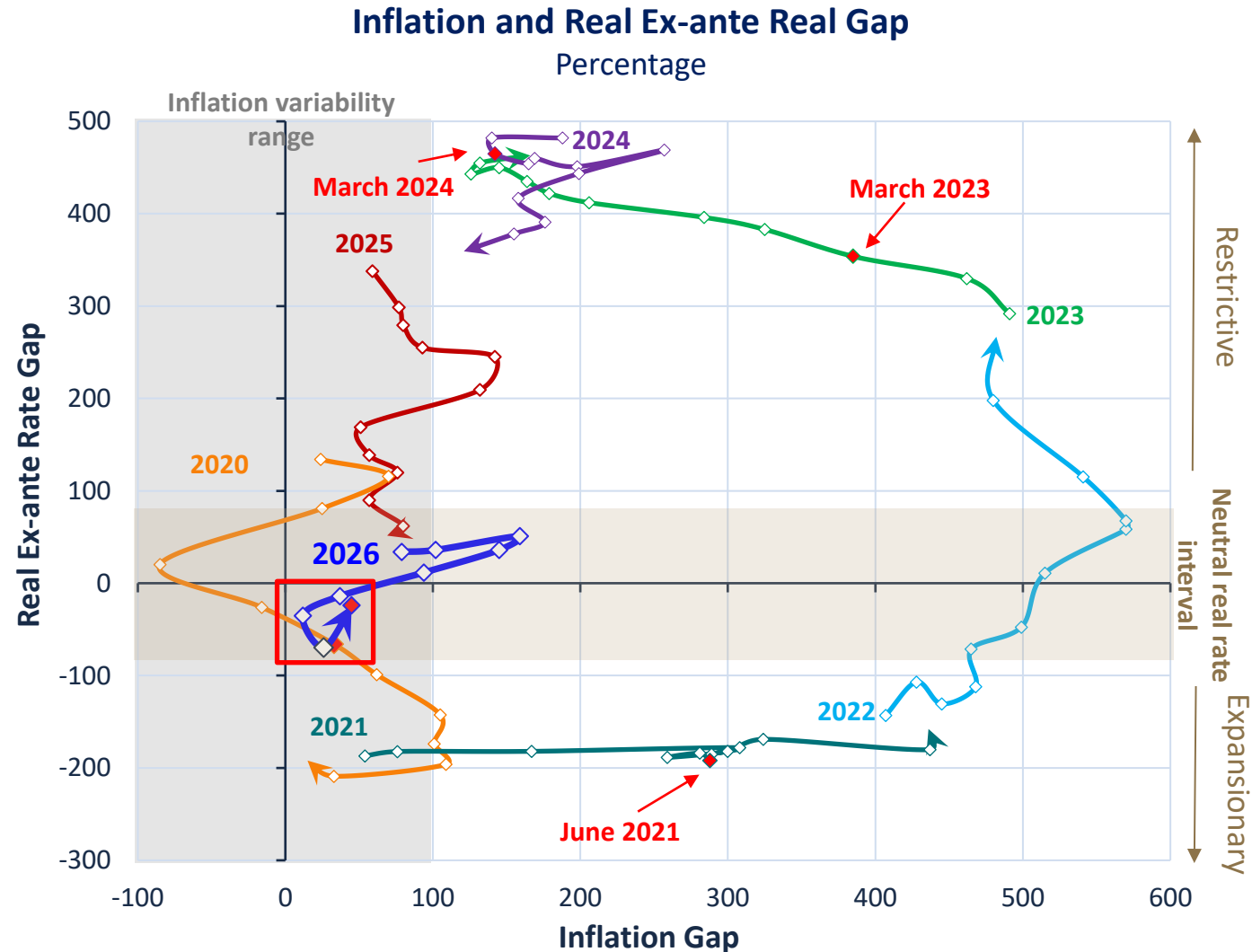
Core Price Subindex

Annual % change



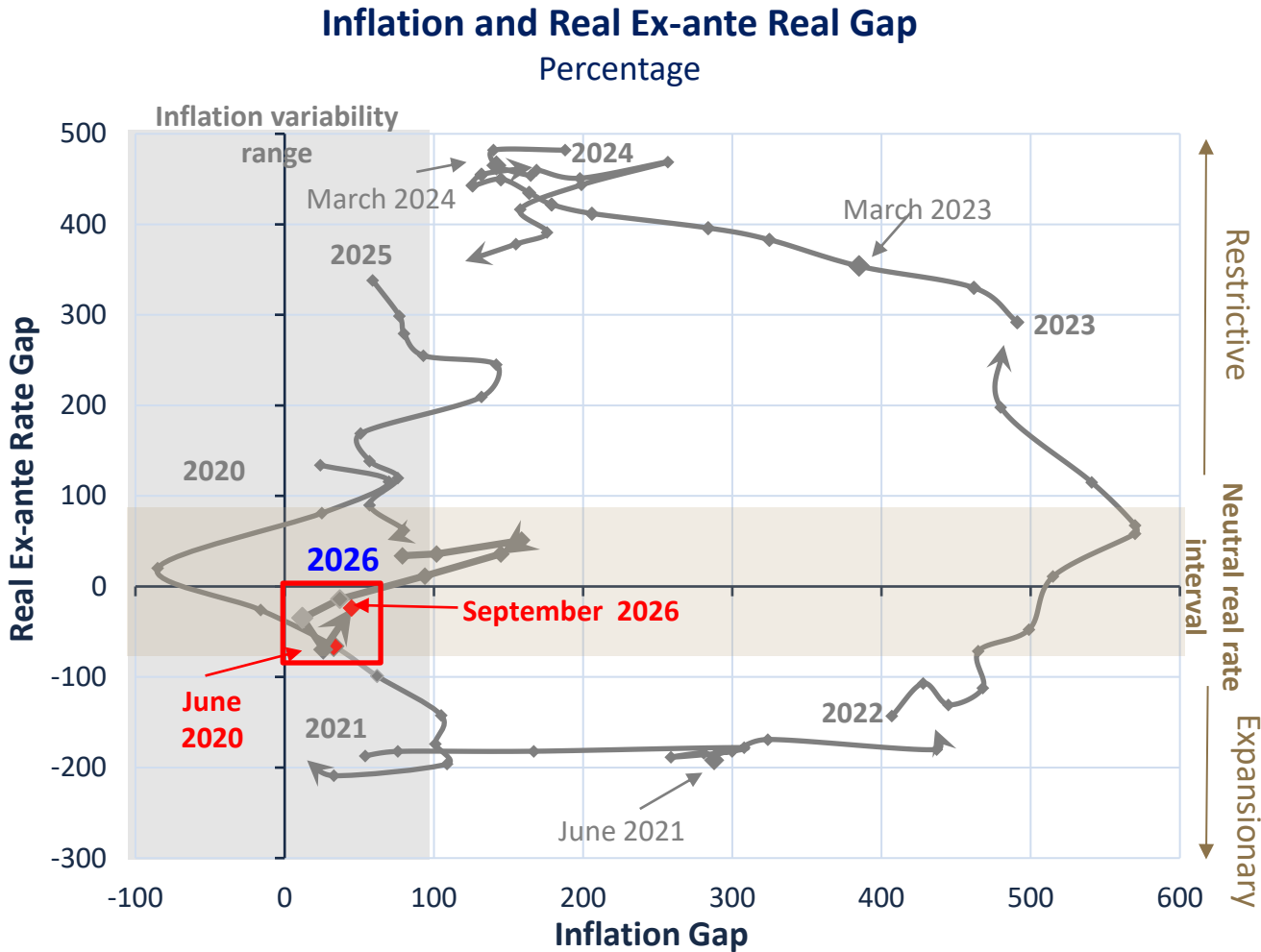
Source: Own elaboration with data from INEGI.

Monetary Policy actions in the last restrictive cycle began in June 2021, following an adjustment of 15 consecutive hikes, accumulating 725bp ending in March 2023. After one year at 11.25%, Banco de México started the easing cycle that concluded in May 2026.



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

- Current macroeconomic environment stands in stark contrast to that of June 2020.
- Although inflation is hovering around similar levels, financial conditions have shifted dramatically.
 - For instance, US and Mexico’s 10-year sovereign yields have surged by more than 350 basis points, underscoring a fundamentally different global context where elevated **uncertainty** persists across multiple fronts.



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

Economic and Financial Indicators

Indicator	June 2020	September 2026
Monetary Policy rate	5.00%	6.50%
Headline Inflation	3.33%	3.45%
Core Inflation	3.71%	3.75%
Annual GDP	-8.4%	1.5% ^{1/}
USD/MXN ^{2/}	22.29	17.27
Upper Target Fed Funds Rate	0.25%	4.00%
US 10Y yield ^{2/}	0.73%	4.98%
Mexico 10Y yield ^{2/}	6.04%	9.43%

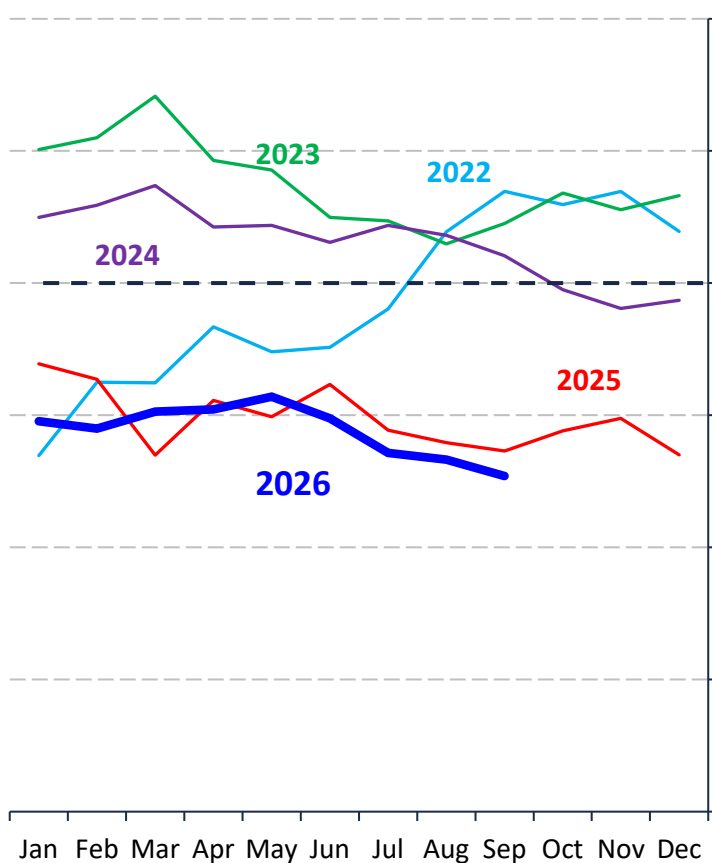
1/ Apr-Jun 2026 Quarterly Report forecast.
2/ Monthly average.
Source: Own elaboration with data from Banco de México and INEGI.

Inflation risks: persistence of core inflation

Services inflation remains relatively stable but above its historical average. It has moderated in recent readings and subindexes.

Services Price Subindex by Year

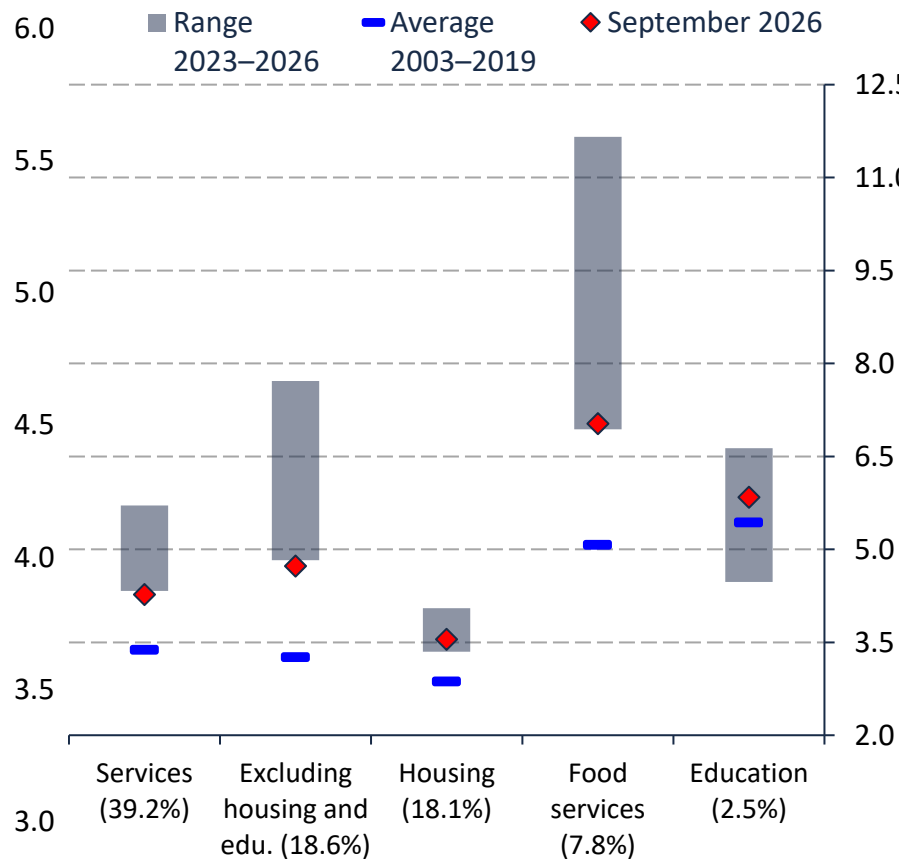
Annual % change



Source: Own elaboration with data from INEGI.

Services Price Subindex

Annual % change

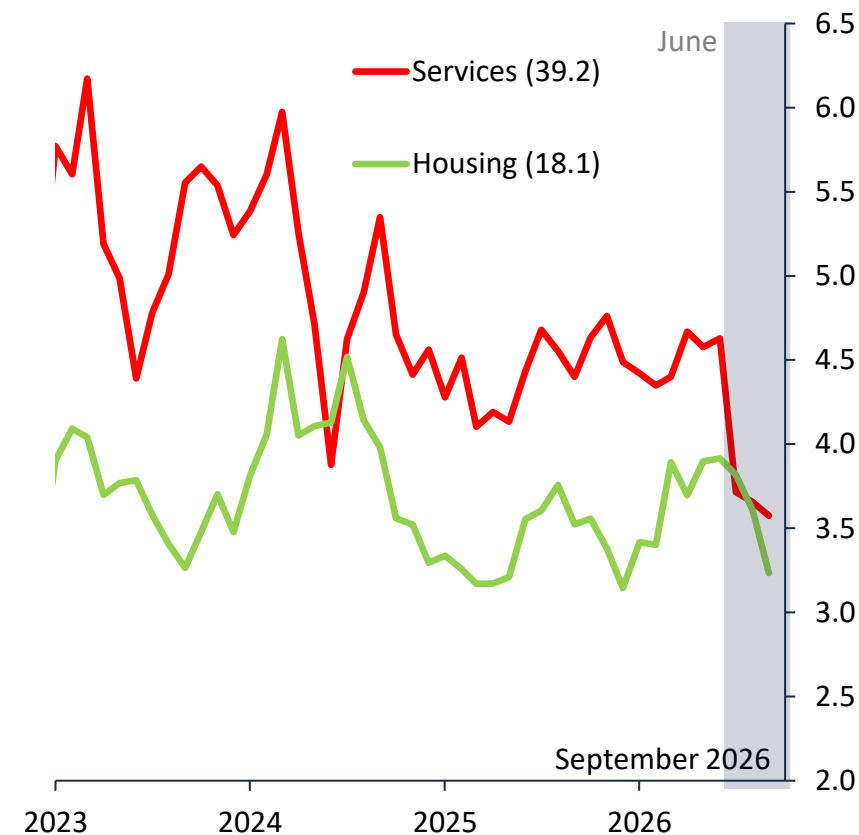


Note: Average from 2003 to 2019. Numbers in parenthesis represent their share in the Consumer Price Index.

Source: Own elaboration with data from INEGI.

Services Price Subindex monthly change

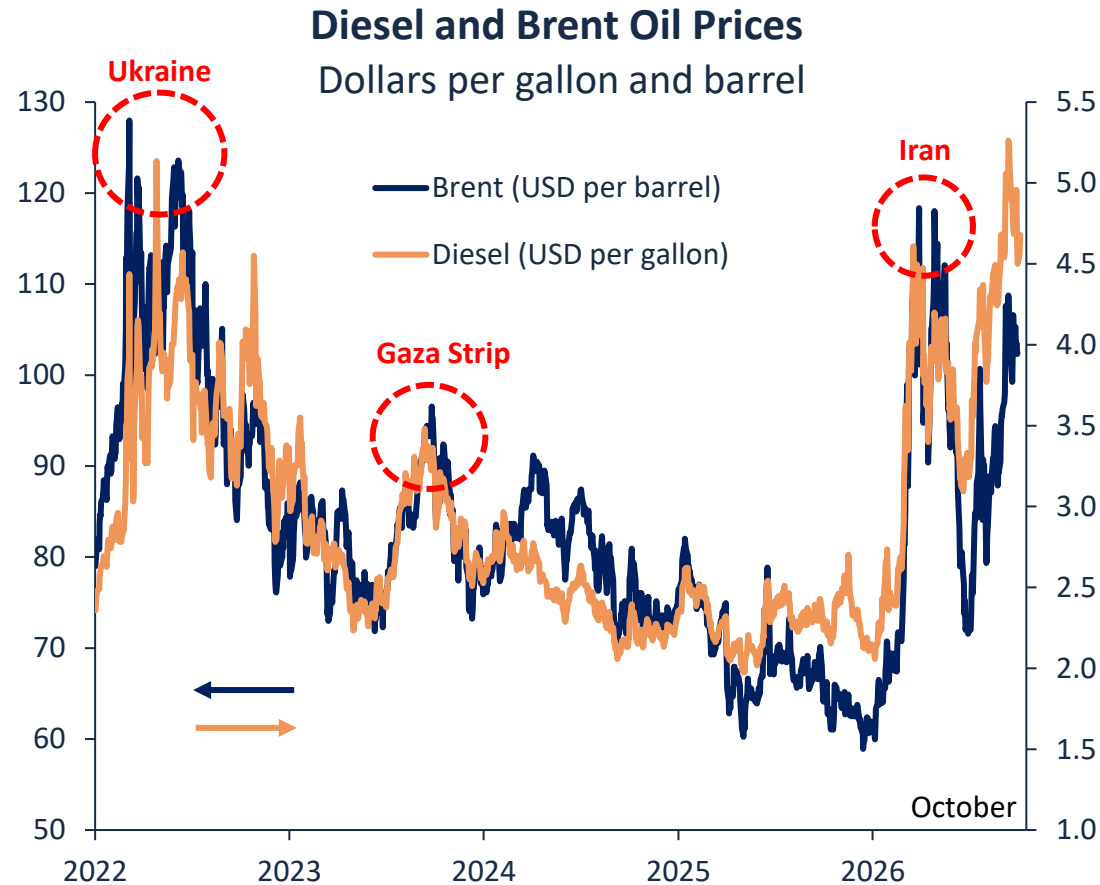
Seasonally adjusted and annualized
3-month moving average (%)



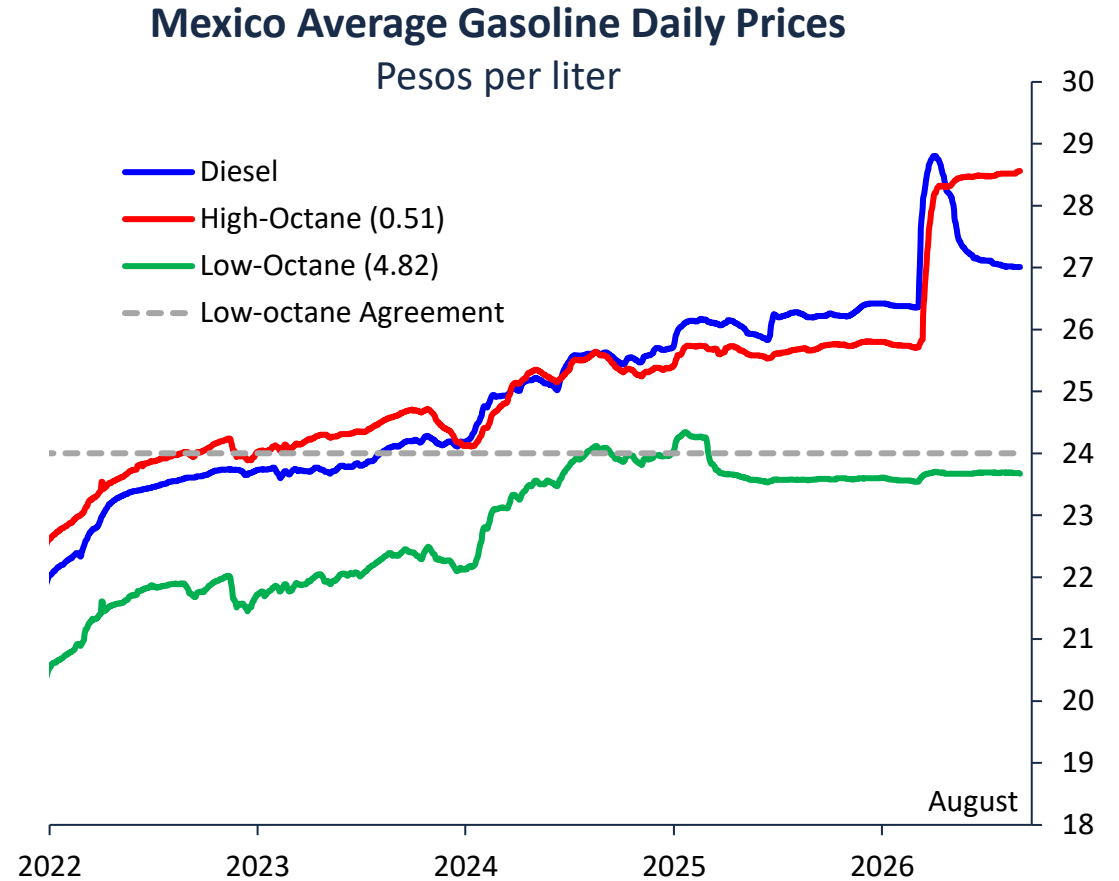
Source: Own elaboration with data from INEGI.

Inflation risks: geopolitical conflicts

Ongoing geopolitical conflicts continue to affect commodity prices, such as oil. As the escalation persists, it remains **uncertain** when market conditions will normalize. Despite this backdrop, inflationary impact in Mexico has been mitigated by fiscal measures implemented by the federal government.



Source: Own elaboration with data from Bloomberg.



Note: Numbers in parenthesis represent their share in total CPI.

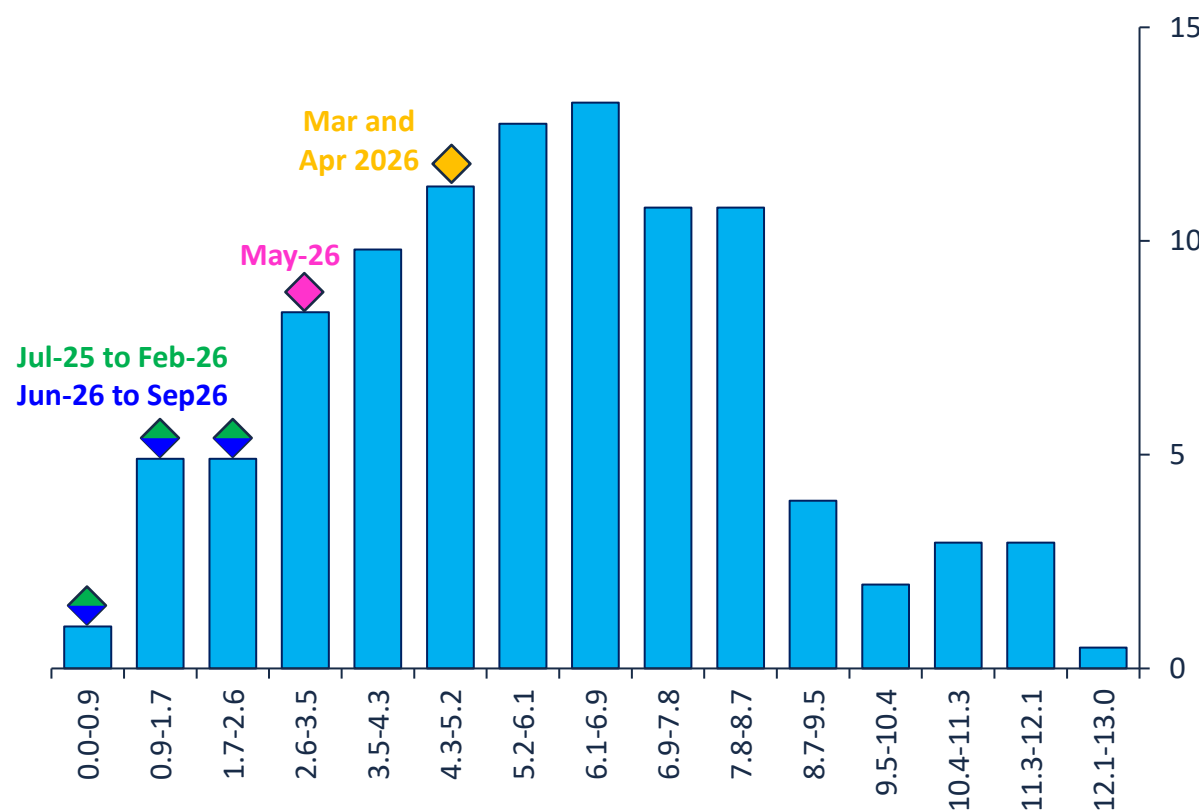
Source: Own elaboration with data from the CNE.

Inflation risks: non-core inflation

In the second half of 2025, non-core inflation registered atypically low levels. In March and April 2026, its readings stood closer to its historical average, reflecting supply shocks affecting some fruits and vegetables. Recently, it has returned to atypically low levels.

Non-core Distribution from 2003-2019

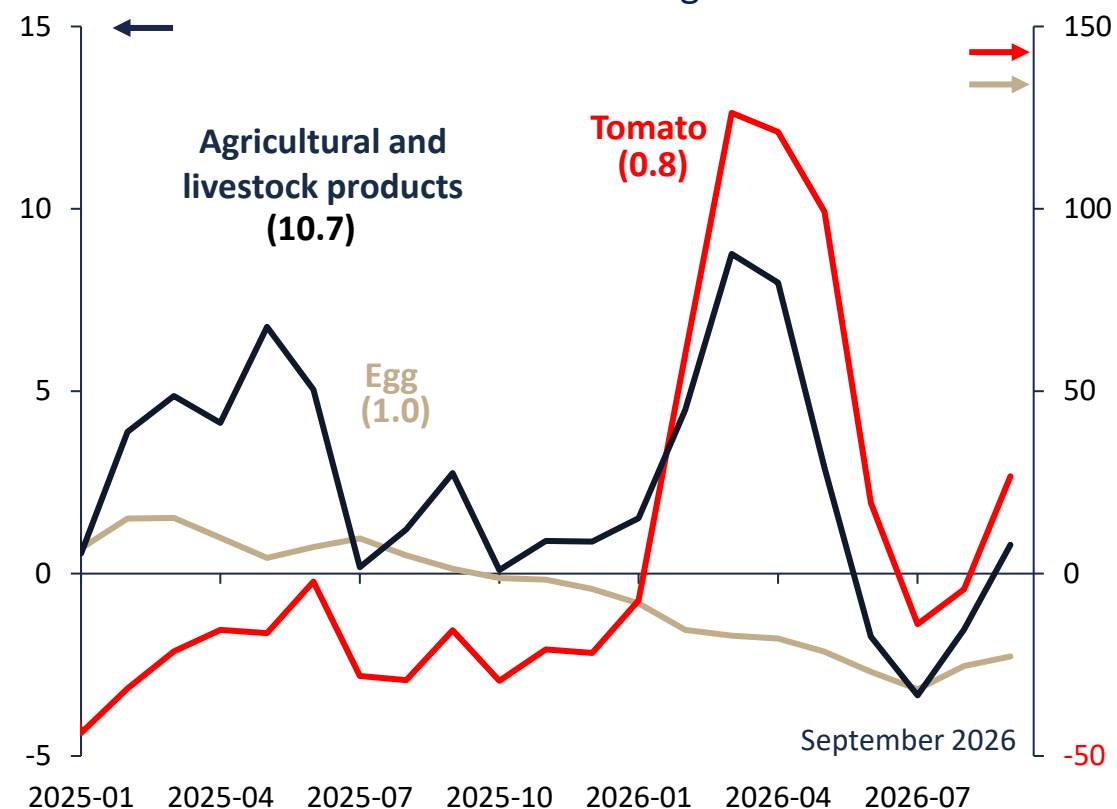
Annual % change



Source: Own elaboration with data from INEGI.

Agricultural and Livestock Products Price Subindex

Annual % change



Note: numbers in parenthesis represent their share in total CPI.

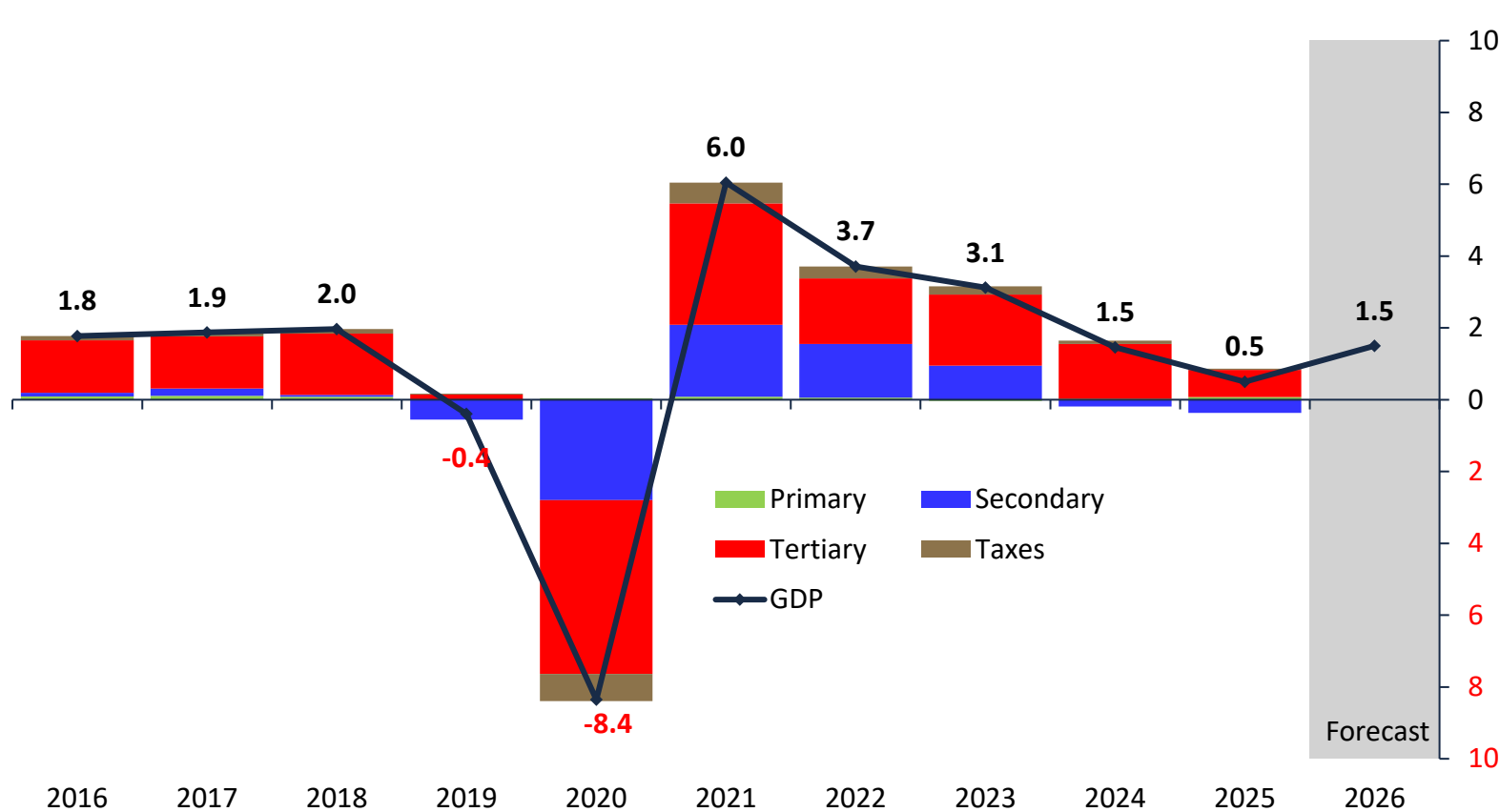
Source: Own elaboration with data from INEGI.

Determinants of Inflation: economic activity

Mexico's economic activity is experiencing a growth slowdown, driven by sluggishness in the industrial sector, particularly manufacturing, and a loss of momentum in services. In 2026, it is expected to rebound, supported by resilient domestic consumption and a gradual recovery in investment.

Gross Domestic Product

Contributions to the annual percentage change; (n.s.a., % and p.p.)

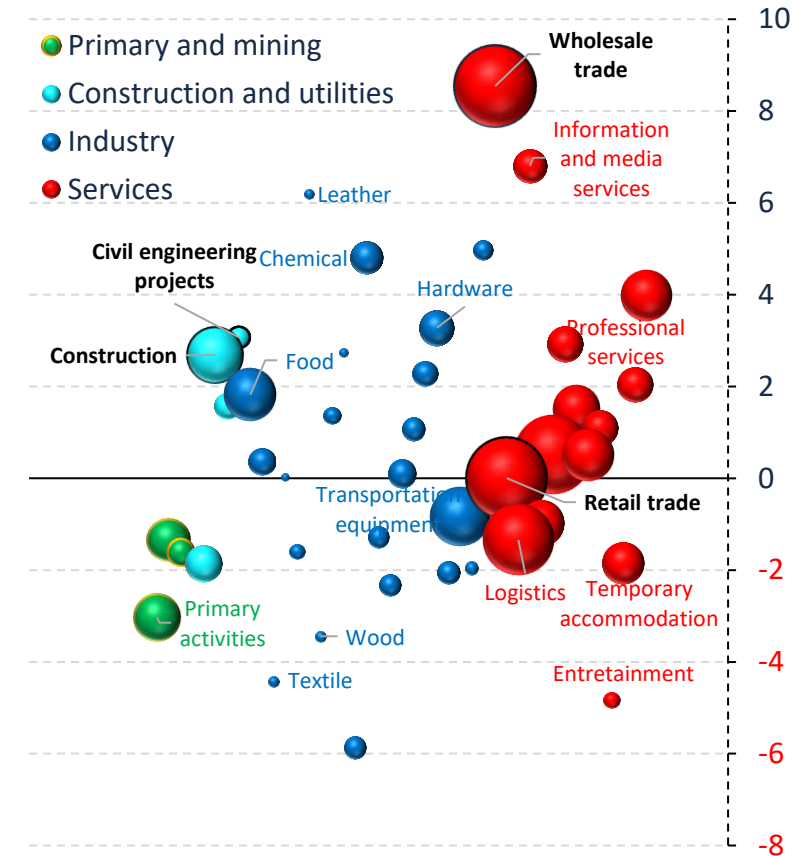


n.s.a./ Not seasonally adjusted.

Source: Own elaboration with data from INEGI.

IGAE Activity by Sector

January-July cumulative (%)



Note: the size of the sphere represents their share in total economic activity.

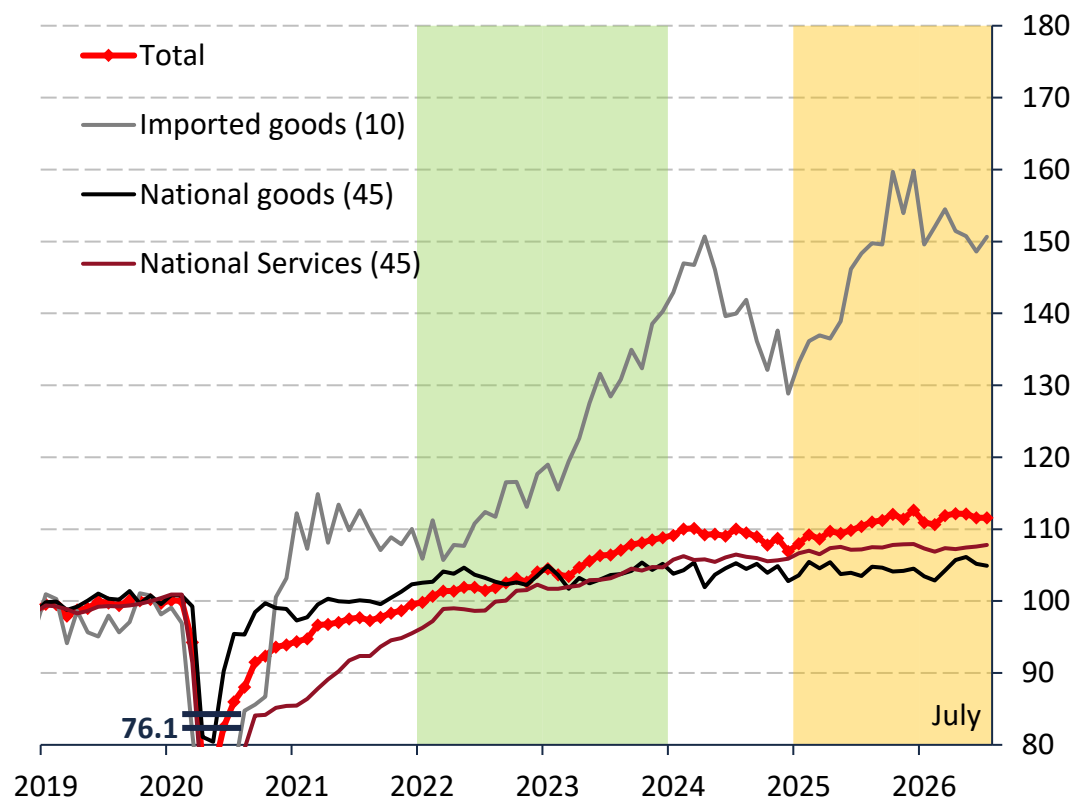
Source: Own elaboration with data from INEGI.

Determinants of Inflation: economic activity

From an aggregate demand perspective, consumption and investment have followed divergent paths this year. While consumption has softened and remains largely flat, investment has regained momentum and sustains a clear upward trend.

Private Consumption

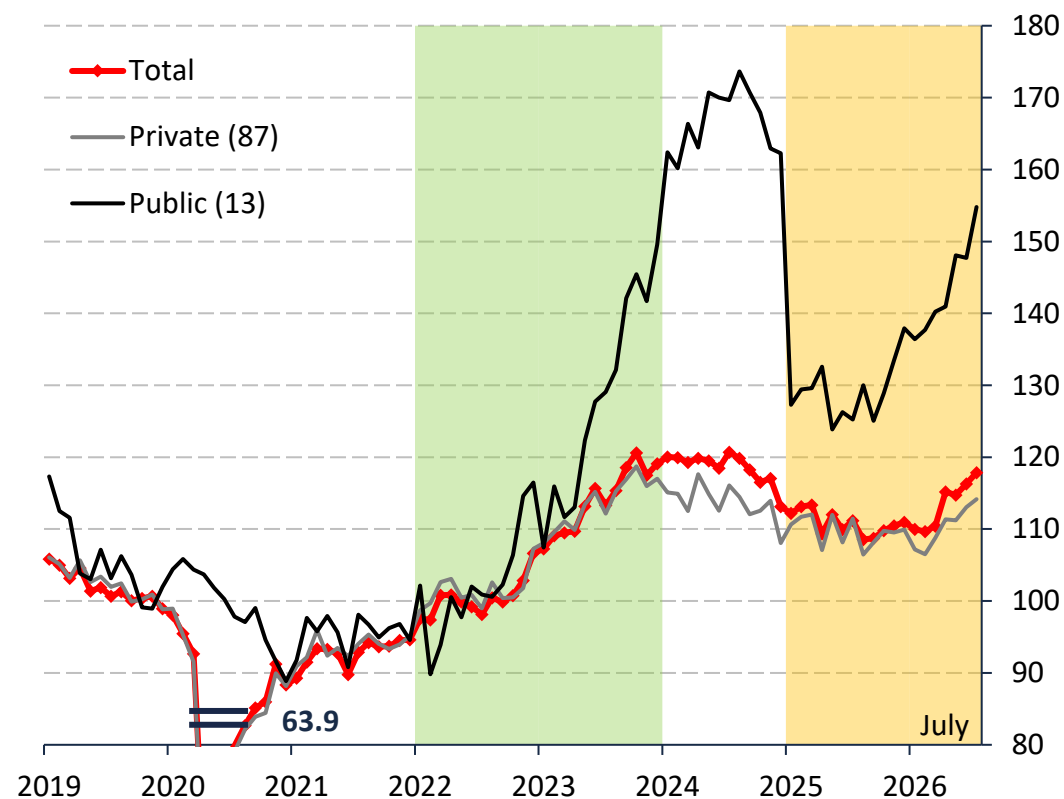
Index 4Q-2019=100; s.a.



s.a./ Seasonally adjusted. Numbers in parenthesis represent its share in the total.
Source: Own elaboration with data from INEGI.

Gross Fixed Investment

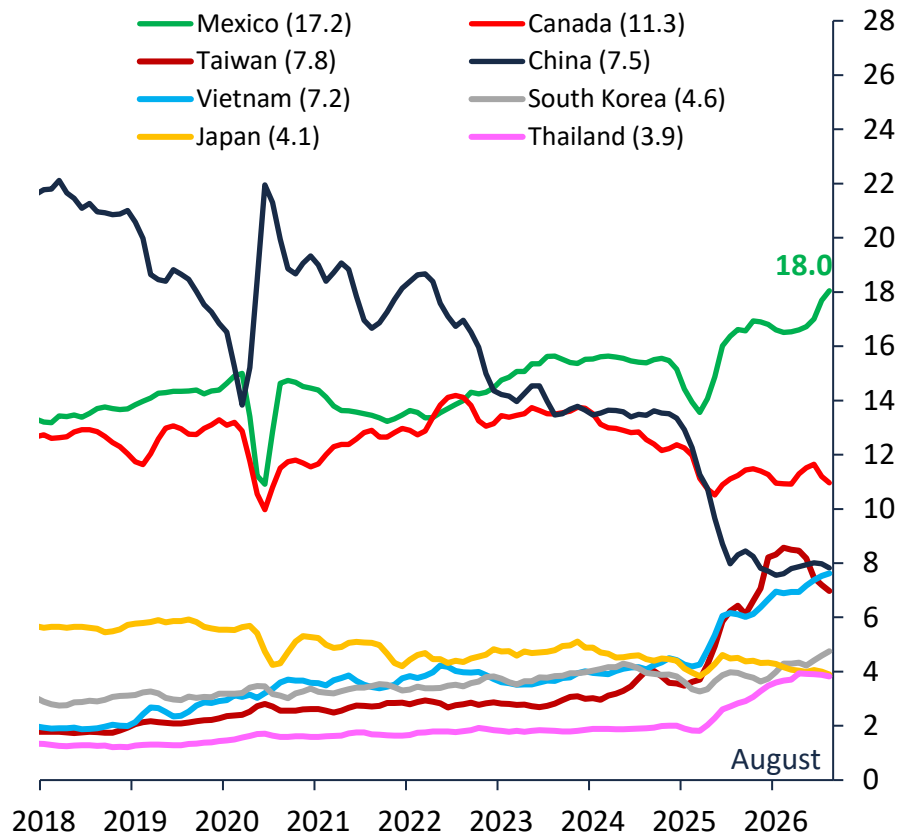
Index 4Q-2019=100; s.a.



s.a./ Seasonally adjusted. Numbers in parenthesis represent its share in the total.
Source: Own elaboration with data from INEGI.

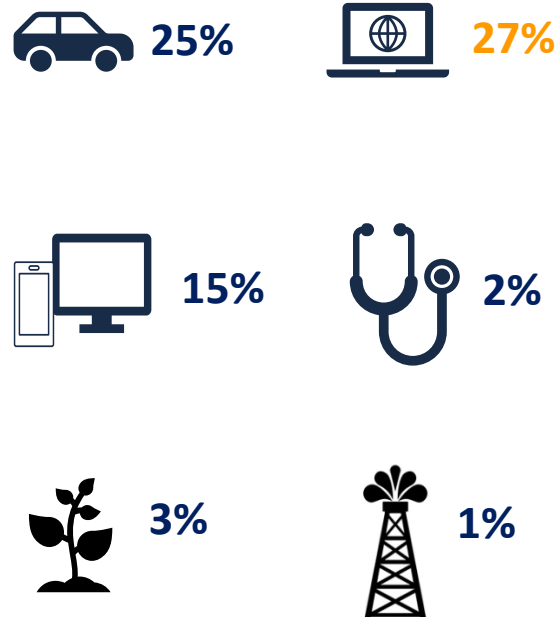
Despite an **uncertain** global environment, Mexico has successfully positioned as the leading supplier to the US since 2023. Notably, non-automotive exports have doubled since 2020, while exports of computer equipment and components have grown eightfold. This remarkable performance underscores Mexico's increasing integration into the global technology sector and AI-related supply chains.

US Imports: Share of Selected Economies in Total Imports (%)



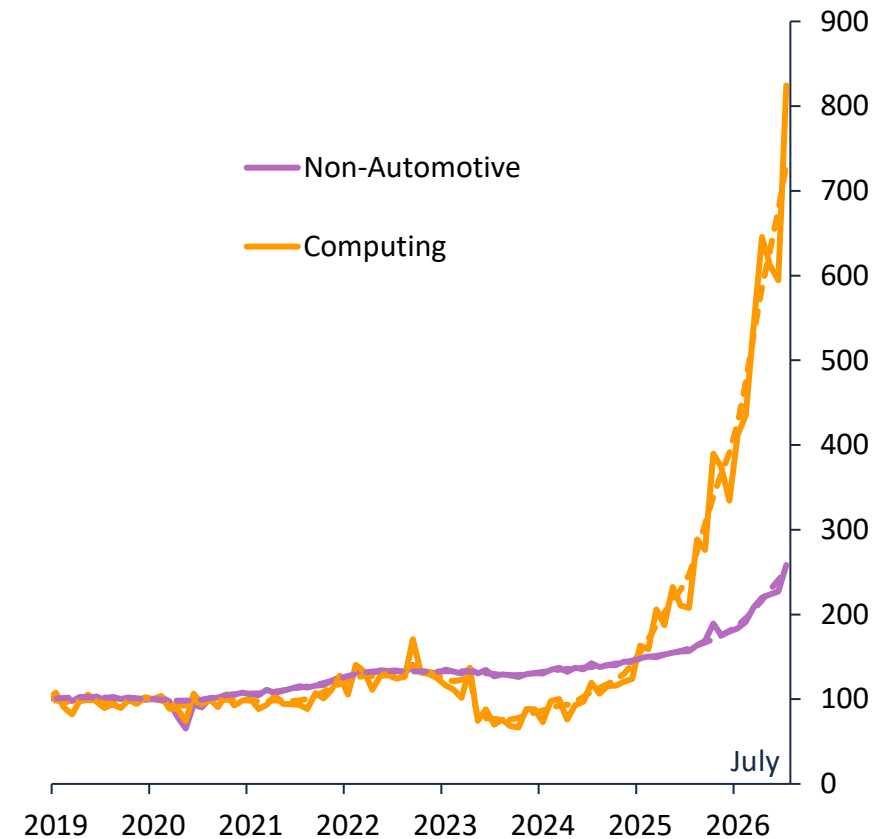
Numbers in parenthesis represent their average 2026 share in total US imports.
Source: Own elaboration with data from the Census Bureau.

Mexican Exports to the US Cumulative January-August %



Source: Own elaboration with data from the Census Bureau.

Mexican Manufacturing Exports Index Jan-2020=100; s.a.



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

Determinants of Inflation: exchange rate

Mexico is a small and open economy with a flexible exchange rate regime and has one of the most liquid and deepest FX markets across emerging economies. Thus, the MXN has high sensibility to global factors including **uncertainty**.

FX Markets Daily Turnover

% Market Share

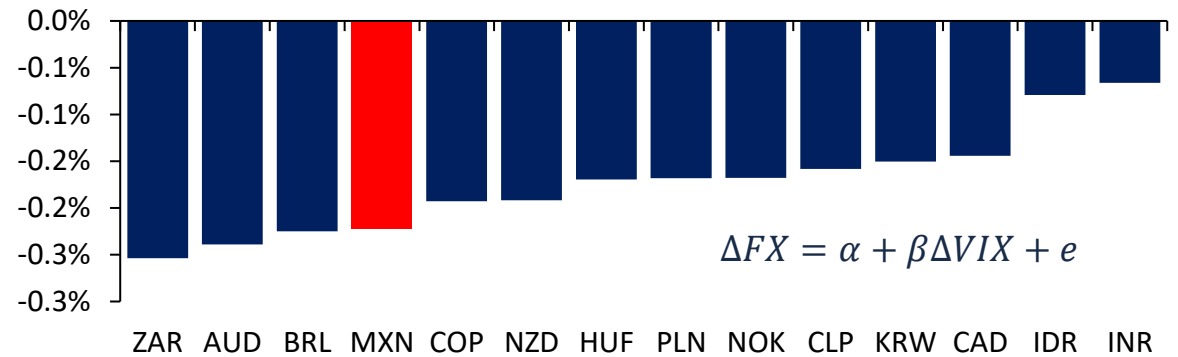
Currency	2022	2025
U.S. dollar (USD)	88.4%	89.2%
Euro (EUR)	30.6%	28.9%
Japanese yen (JPY)	16.7%	16.8%
Sterling Pound (GBP)	12.9%	10.2%
Chinese Renminbi (CNY)	7.0%	8.5%
Swiss franc (CHF)	5.2%	6.4%
Australian dollar (AUD)	6.4%	6.1%
Canadian dollar (CAD)	6.2%	5.8%
Hong Kong dollar (HKD)	2.6%	3.8%
Singapore dollar (SGD)	2.4%	2.4%
Indian Rupee (INR)	1.6%	1.9%
Korean won (KRW)	1.8%	1.8%
Swedish krona (SEK)	2.2%	1.6%
Mexican peso (MXN)	1.5%	1.6%
New Zealand dollar (NZD)	1.7%	1.5%
Norway Krone (NOK)	1.7%	1.3%

Note: As two currencies participate in a transaction, the sum of the total participation percentage is 200% instead of 100%. Source: BIS.

Mexican Peso Sensibility to Global Factors

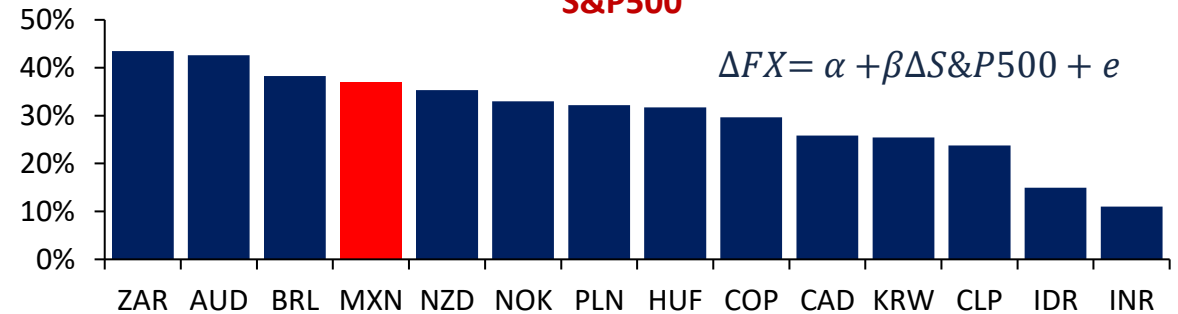
Beta

VIX



$$\Delta FX = \alpha + \beta \Delta VIX + e$$

S&P500



$$\Delta FX = \alpha + \beta \Delta S\&P500 + e$$

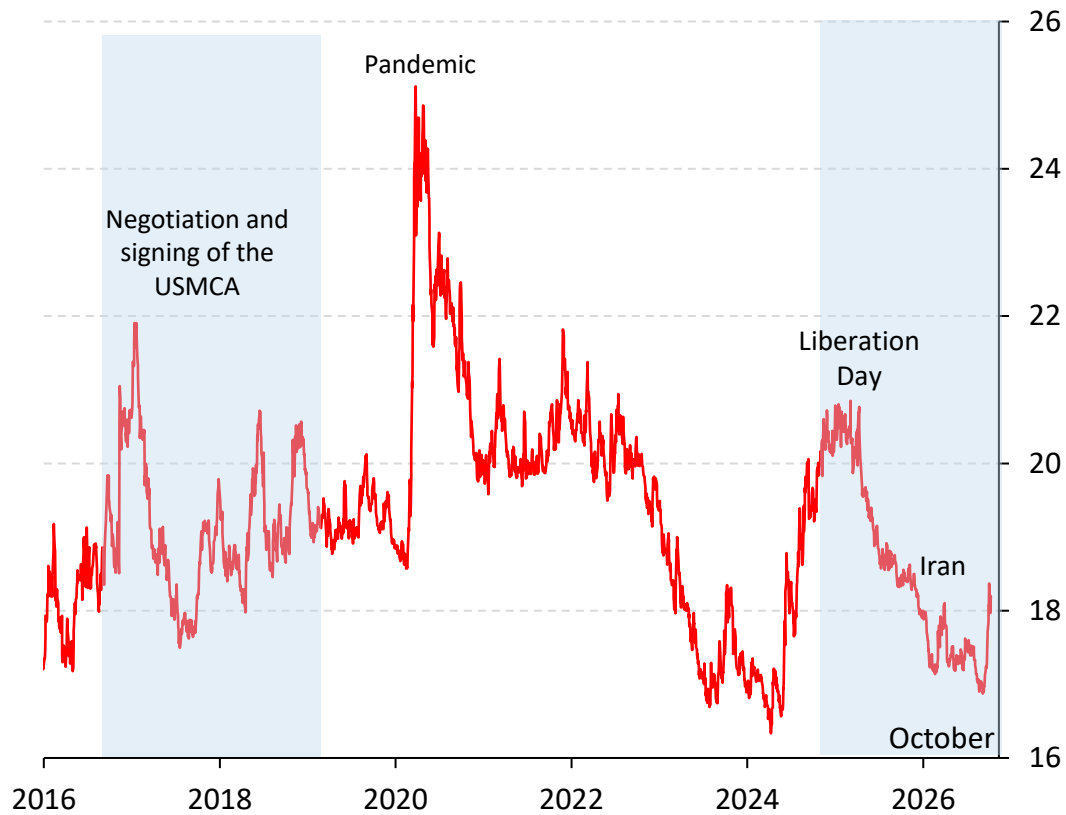
Source: Own elaboration with weekly data from Bloomberg from Sep 2005-Sep 2026.

Determinants of Inflation: exchange rate

The Mexican peso has remained resilient despite geopolitical **uncertainty** most of the year, however in recent weeks the volatility has increased, reducing the attractiveness of the peso's carry trade.

Mexican Peso Exchange Rate

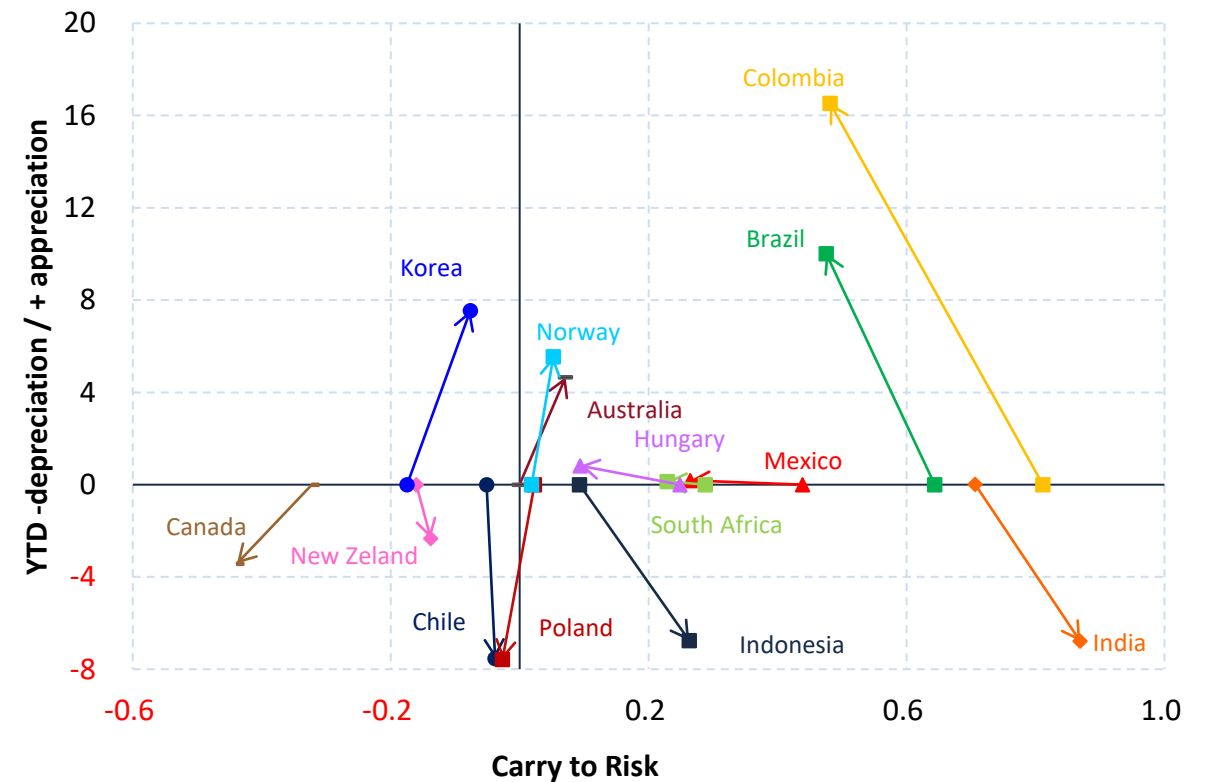
Pesos per Dollar



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.

Carry-to-Risk: Selected Economies

Return per unit of risk / FX change from Jan to Oct



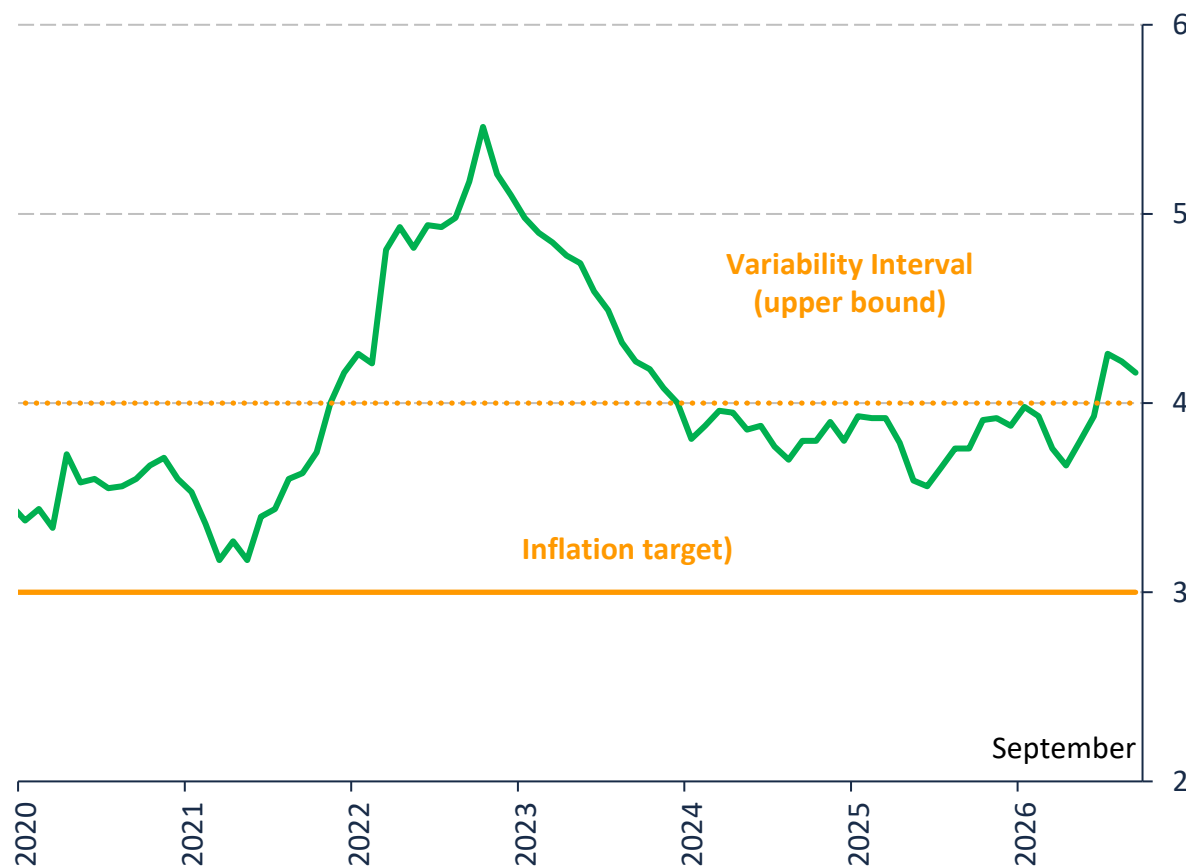
Source: Own elaboration with data from Bloomberg.

Determinants of Inflation: inflation expectations

The central bank actions, guided by the commitment to act at all times in pursuit of its constitutional mandate of price stability, have contributed to maintaining longer-term inflation expectations anchored.

Median Headline Inflation Expectations for the next 12 months

Percentage

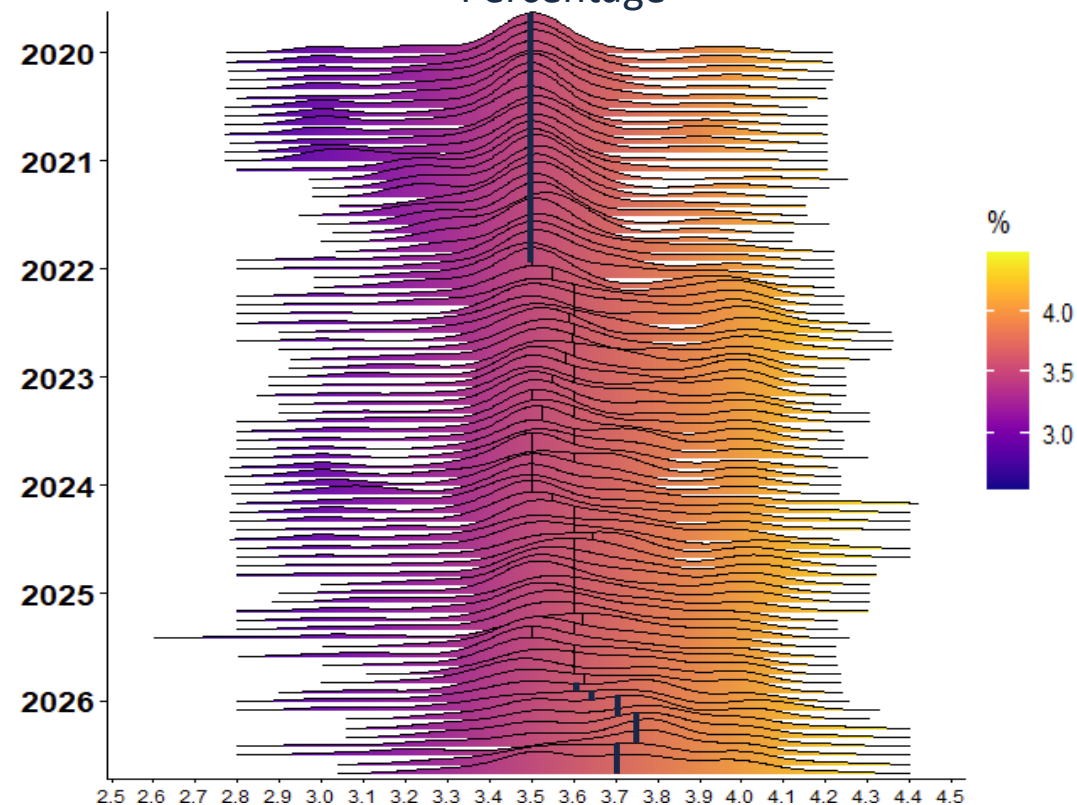


Source: Own elaboration with data from Banco de México's Survey of Private Sector Forecasters.

Headline Inflation Expectations

5-8 years ahead

Percentage



Note: The vertical line in each distribution represents its median.

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

The available information is constantly evolving. In my opinion, the current **monetary policy stance is adequate to navigate the challenges ahead** in an environment of heightened uncertainty.

- 1.** | **Mexico maintains solid macroeconomic fundamentals** that serve as a pillar for economic and social development. Independent Central Bank, free floating exchange rate, and an adequate amount of international reserves.
- 2.** | Mexico **implements mitigation measures**, that have helped contain the inflationary impact stemming from the surge of international oil prices, that together with the monetary policy stance, has supported the disinflationary process.
- 3.** | The Board of Governors of the Central Bank **closely monitors inflationary pressures**, as well as the factors influencing their trajectory. Furthermore, it reaffirms **its constitutional mandate** of maintaining the purchasing power of the national currency.