



Economic Outlook and Monetary Policy

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Introductory Remarks



Since the pandemic, Mexico has faced a complex inflationary outlook.

Inflation peaked at 8.70% in the summer of 2022.

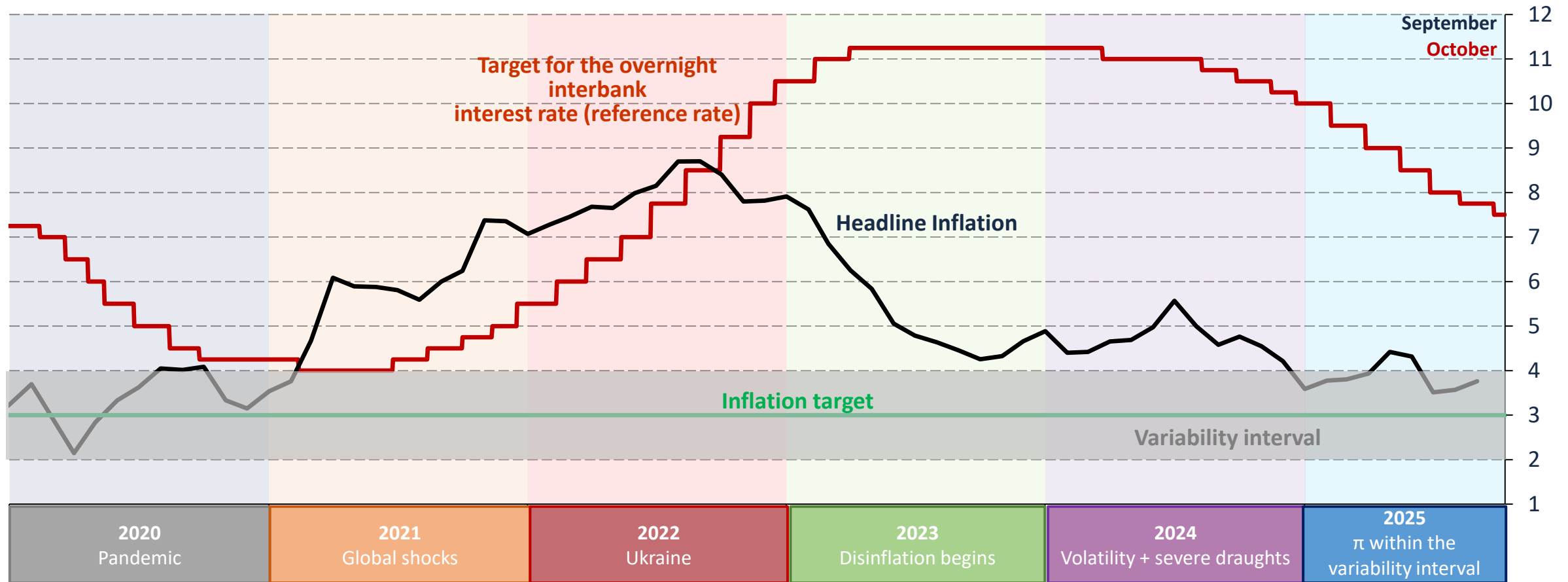
Banco de Mexico responded timely and consistently with its mandate, adjusting the rate to an all-time high of 11.25%.

Monetary policy has adapted to the prevailing macroeconomic conditions.

Recently, uncertainty has increased due to new trade policies.

Inflation & Policy Rate

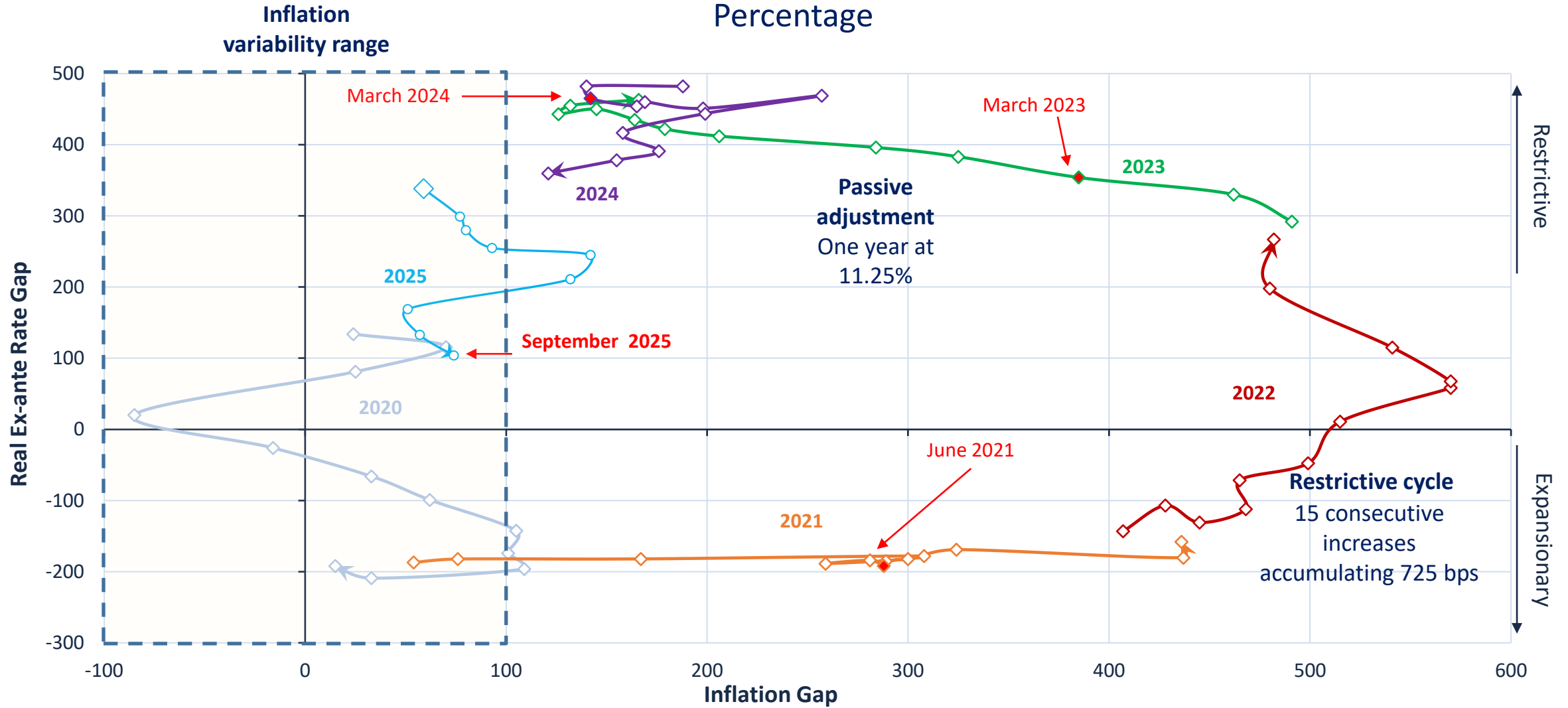
Target for the overnight interbank interest rate and headline inflation
Annual %



Source: Banco de México with information from INEGI.

Monetary Policy

Inflation and Real Ex-ante Real Gap Percentage



Source: Banco de México with information from INEGI.

Risks to the Inflation Outlook over the Forecast Horizon

The balance of risks for the inflation outlook over the forecast horizon remains tilted to the upside. Economic policy changes in the United States have added uncertainty to the forecasts, and their effects could create inflationary pressures on both sides of the balance.

To the upside

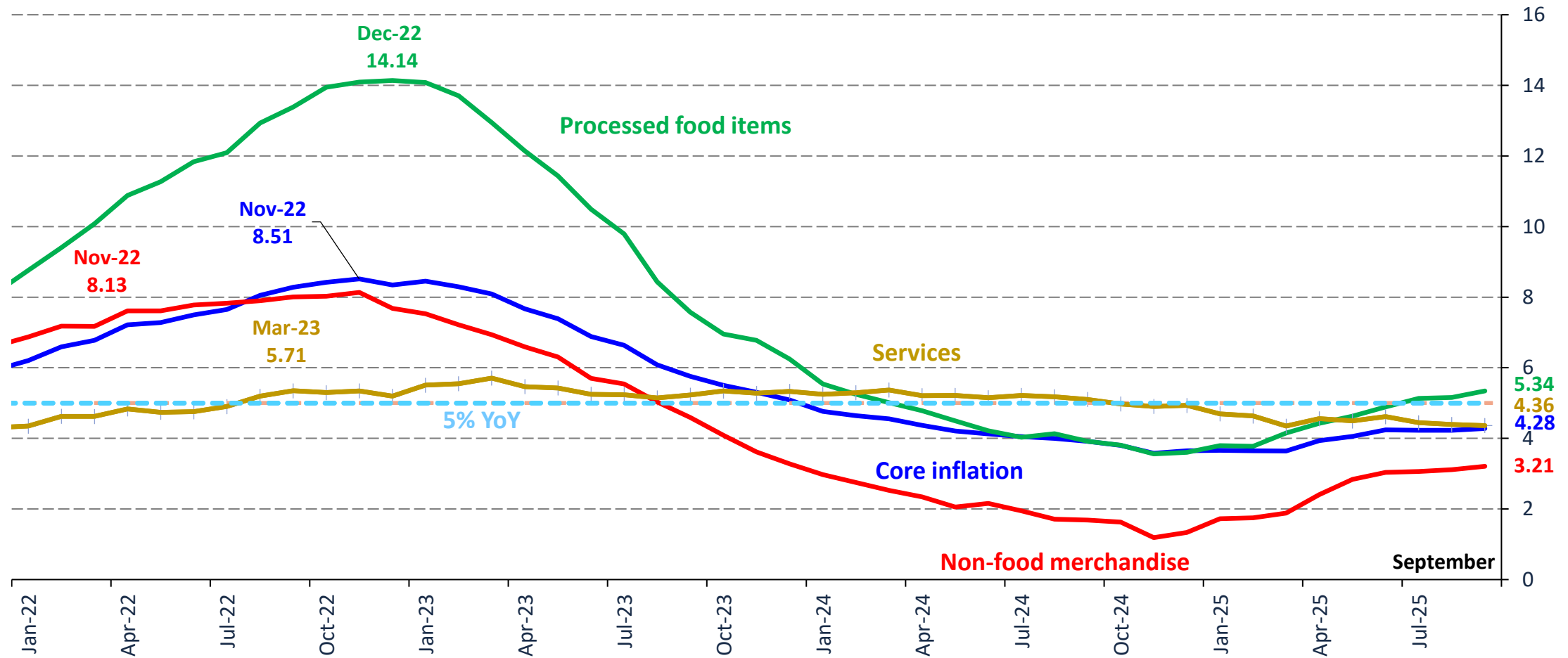
- ↑ A depreciation of the domestic currency.
- ↑ Disruptions from geopolitical conflicts or trade policies.
- ↑ Persistence of core inflation.
- ↑ Greater cost pressures.
- ↑ Climate-related shocks.

To the downside

- ↓ Weaker-than-expected economic activity in the United States or Mexico.
- ↓ A lower pass-through from costs.
- ↓ Lower pressures from the recent currency appreciation.

Core Inflation

Core Inflation Annual % Change

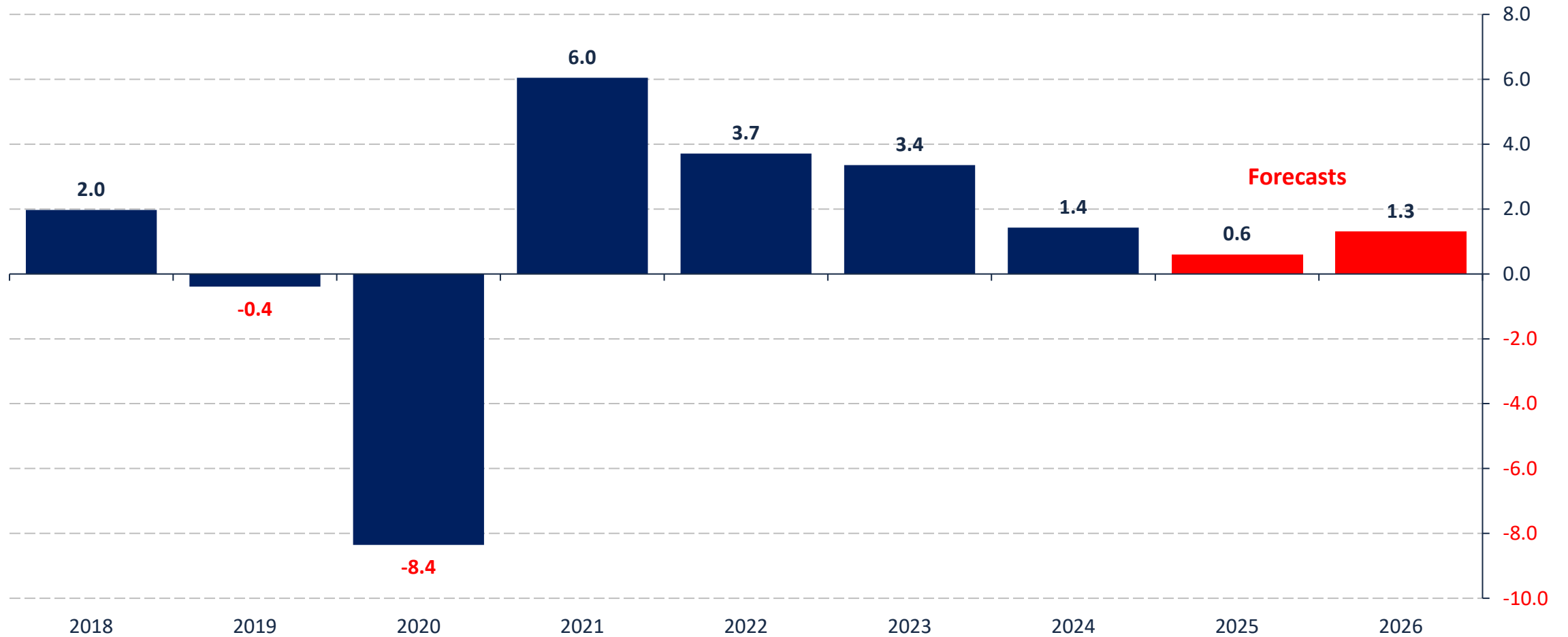


Source: Banco de México with information from INEGI.

Determinant of Inflation: Economic Activity

Gross Domestic Product (GDP)

Annual % change; n.s.a.

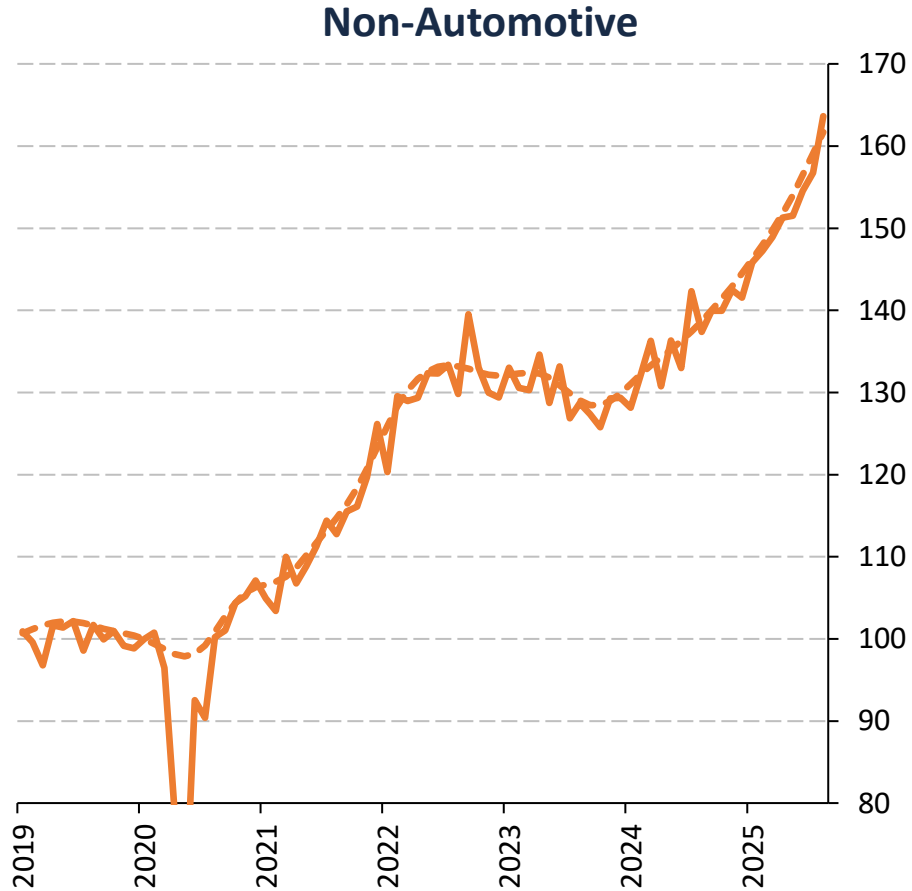


n.s.a./ Not seasonally adjusted series.

Source: Banco de México with information from INEGI.

USMCA

Manufacturing Exports Index Jan-2020=100, s.a.



s.a./ Seasonally adjusted.

Source: Banco de México with information from INEGI.

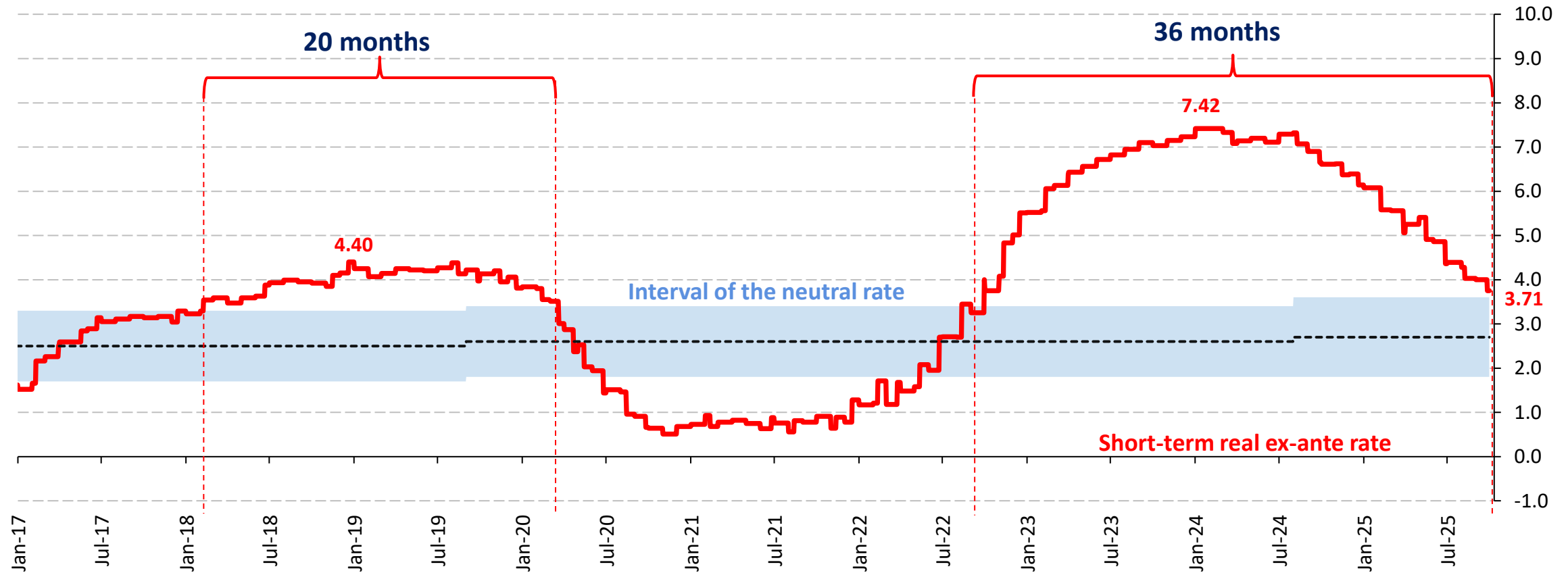
Proportion of USMCA use in US imports from Mexico: selected categories ^{1/} % and percentage points

Industry/Sector	USMCA 2024	USMCA jul-2025	Change in p.p.
Computers & Communication	12.2	88.0	75.8
Furniture, Mattresses, Blinds	13.5	86.3	72.8
Basic Metal Industries	21.8	90.5	68.7
Mining	28.0	94.8	66.8
Other Manufacturing	16.8	68.7	51.9
Machinery and Equipment	24.7	73.9	49.2
Chemical Industry	49.0	94.3	45.3
Electrical Equipment	54.1	90.0	35.9
Oil and Gas Extraction	33.5	67.5	34.0
Others	46.0	77.8	31.8
Metal Products	56.7	82.9	26.2
Agricultural Products	85.5	99.2	13.7
Transportation Equipment	75.6	86.5	10.9
Total	48.8	84.8	36.0

Source: Banco de México with information from The US Census Bureau.

Ex-ante real interest rate

Short-term ex-ante real interest rate and estimated interval for the real neutral rate ^{1/}
% Annual



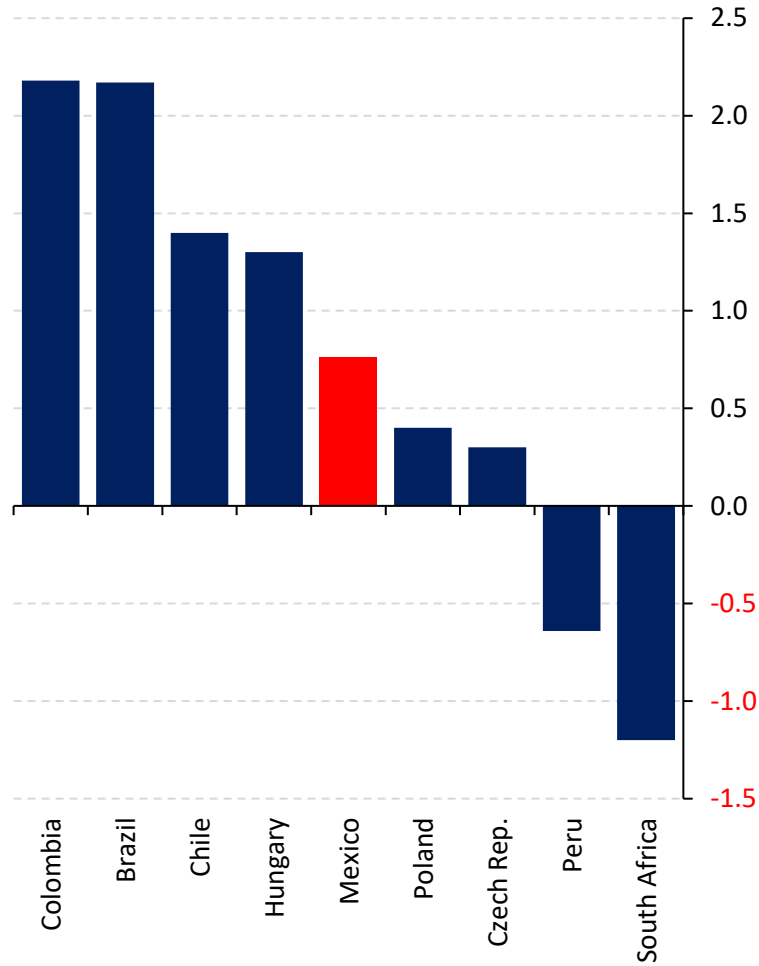
Note: The horizontal dotted line corresponds to the midpoint of the estimated range for the level of the long-run neutral rate in real terms. Vertical lines indicate the dates of updates to the actual rate estimate. On August 28, 2019, it was updated from a range of [1.7%, 3.3%] with a midpoint of 2.5% 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 real ex ante rate is calculated as the difference between the target of the overnight interbank interest rate and the average of the 12-month inflation expectations extracted from the Survey of Expectations of Private Sector Economics Specialists. For the period prior to 2008, the real ex ante rate is calculated with the 1-day interbank interest rate.

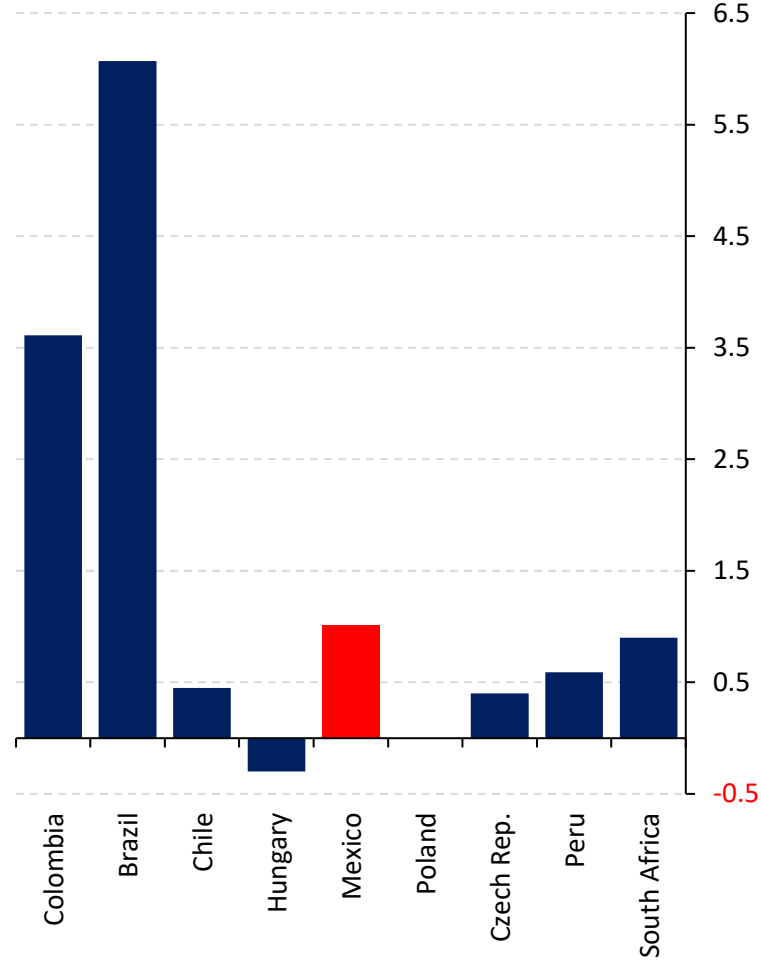
Source: Banco de México.

Relative Monetary Policy Stance

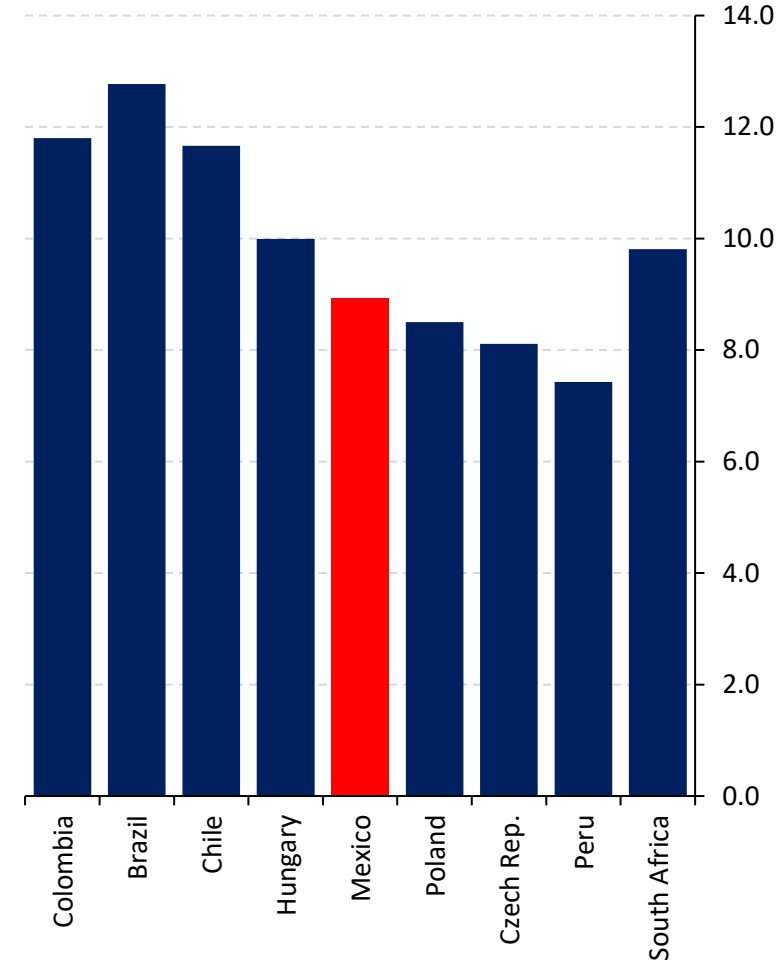
Inflation Gap
%



Real Ex-ante Interest Rate Gap
%



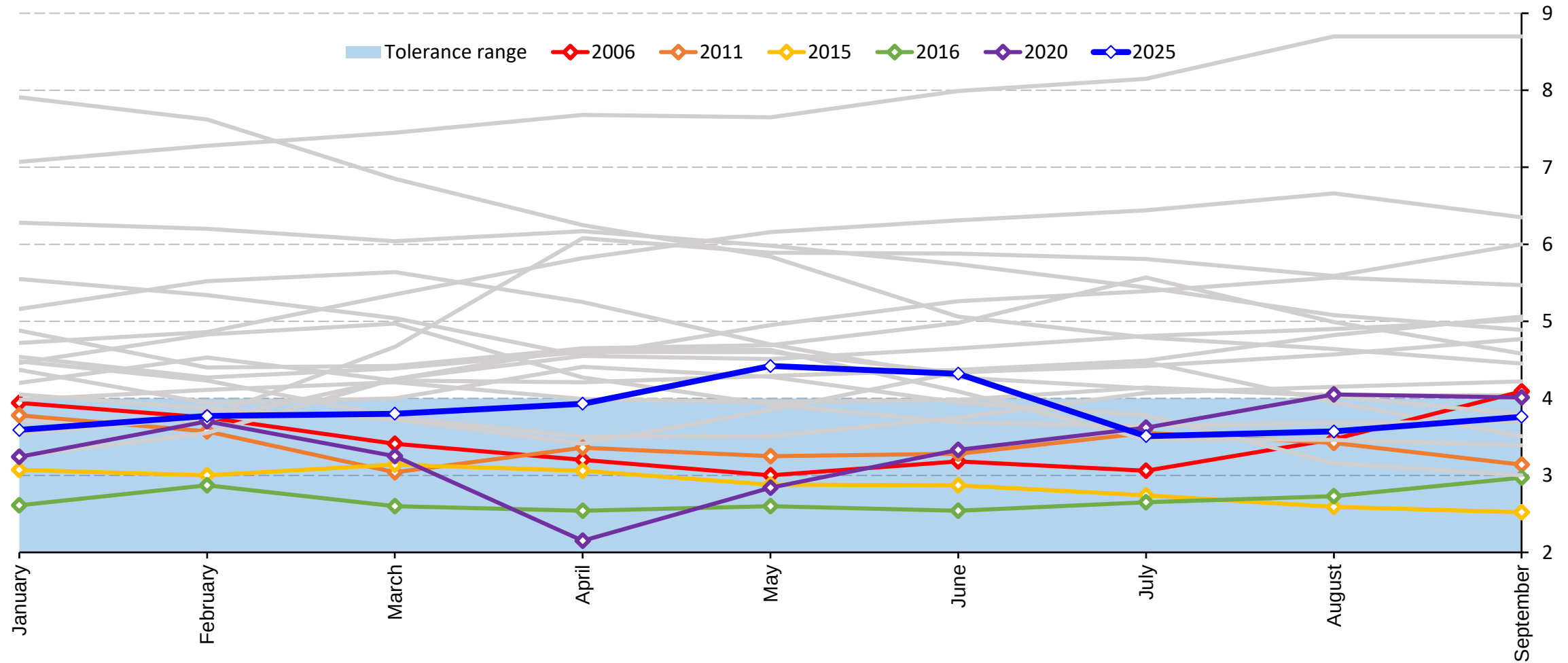
One month FX Implied volatility
%



Source: Banco de México.

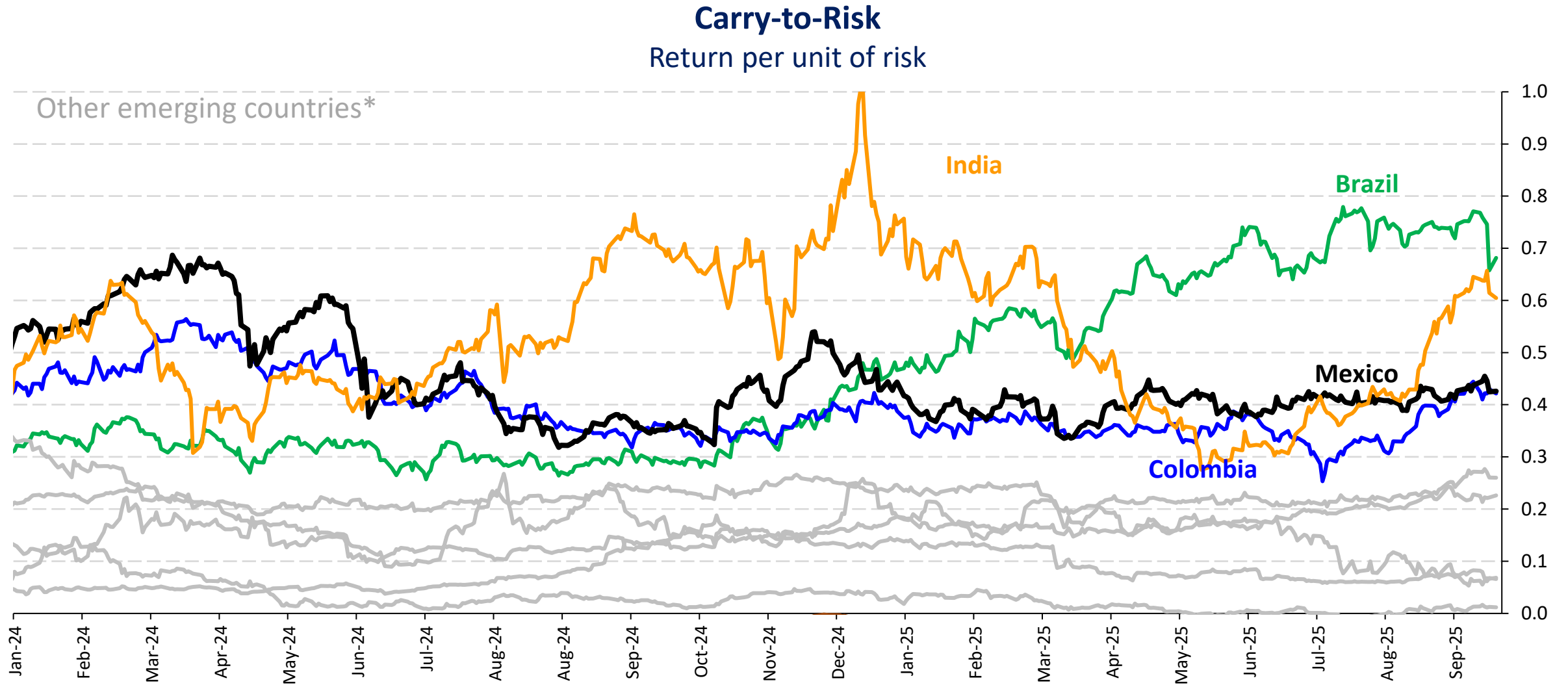
Inflation

Headline Inflation Annual % Change



Source: Banco de México with information from INEGI.

Relative Monetary Policy



* Includes South Africa, Indonesia, Hungary, Poland and Chile.

Source: Banco de México with data from Bloomberg.

Final Remarks

Mexico's solid macroeconomic fundamentals have allowed us to face a complex economic outlook.

- An independent central bank
- A flexible exchange rate and a sufficient amount of International Reserves
- A sustainable debt ratio to GDP, near 50%
- A healthy financial system and a well capitalized banking sector
- Balanced external accounts

In order to continue addressing future challenges, it is important to consistently uphold these fundamentals.





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