BANCO DE MÉXICO®

Minutes number 126

Meeting of Banco de México's Governing Board on the occasion of the monetary policy decision announced on August 6, 2026

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FOREWARNING
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1. PLACE, DATE, AND PARTICIPANTS

1.1. Place: Meeting held by virtual means

1.2. Date of Governing Board meeting: August 5, 2026

1.3. Participants:

- Victoria Rodríguez, Governor
- Galia Borja, Deputy governor
- Gabriel Cuadra, Deputy governor
- Jonathan Heath, Deputy governor
- Omar Mejía, Deputy governor
- Edgar Amador, Secretary of Finance and Public Credit
- María del Carmen Bonilla, Undersecretary of Finance and Public Credit
- María Elena Méndez, Secretary of the Governing Board

Prior to this meeting, preliminary work by Banco de México's staff analyzing the economic and financial environment as well as the developments in inflation and the determinants and outlook for inflation was prepared and presented to the Governing Board (see Annex).

2. ANALYSIS AND RATIONALE BEHIND THE GOVERNING BOARD'S VOTING

International environment

Most members highlighted the persistence of global uncertainty. One member indicated that, just over five months after it began, the conflict in the Middle East has caused recurrent disruptions to the global economy. He/she specified that during this period there has been a sequence of escalations and partial truces. **Some** members mentioned the memorandum of understanding reached in June that allowed for a partial reopening of the Strait of Hormuz. **However, most members underlined the resumption of the military escalation in early July. One** member noted that this led to new blockades in the Strait of Hormuz and threats in the Red Sea. **Most members commented that the escalation of the Middle East conflict could negatively affect global economic activity. One** member considered that, looking ahead, the persistence of the supply-related shock, rather than a single large-scale variation, could affect the dynamics of economic activity and of prices in the short term. He/she added that there is uncertainty regarding the effects of this conflict on spending and investment decisions, which could materialize with a lag, and thus, assessing its impact will require additional information as the conflict evolves.

Most members mentioned the resilience of world economic activity during the second quarter of 2026. They highlighted that economic activity is expected to have grown at a similar rate to the previous quarter. One member specified that the global economy is expected to have expanded as a result of slightly higher growth in advanced economies and a slowdown in emerging ones. He/she detailed that Purchasing Managers' Indices suggest that the manufacturing sector has likely continued to expand, especially in advanced economies, while the services sector is estimated to have remained stagnant in those economies. Regarding the United States, **some** members pointed out that economic activity grew less than in the previous quarter and below what was anticipated. However, they noted that the components of domestic demand remained strong. **One** member detailed that domestic demand was driven by household spending and private non-residential investment, given the dynamism of expenditure on technological equipment. He/she asserted that growth is still expected to be higher in 2026 than in 2025. He/she added that available indicators suggest that downside risks in the US labor market have diminished. **Some** members noted that since the previous monetary policy meeting global growth forecasts by international organizations have been revised slightly downwards. **One** member stated that the global economy is still expected to continue expanding despite the shocks it has faced. **Another** member expressed that economic performance is expected to be heterogeneous across countries. He/she highlighted the resilience of the United States and China, which are benefiting from the dynamism of the technology sector, while the largest downward revisions concentrated in the countries that are more exposed to the Middle East conflict or those with a negative energy trade balance.

Regarding the impact of the Middle East conflict on prices, **some** members mentioned that the agreements reached in June brought oil prices down

to levels similar to those observed prior to the beginning of the conflict. They pointed out that the recent escalation of the conflict contributed to reversing much of said decline. **One** member noted that the variation in oil prices has responded mainly to adjustments in the geopolitical risk premium, as the partial reopening of the Strait of Hormuz in June was insufficient to normalize global supply conditions. **Another** member stated that the recent possibility of new negotiations has contained the rise in oil prices once again. **Some** members highlighted that, although international energy prices remain below their maximum levels, they have not yet stabilized. **One** member noted that rising prices of certain commodities, higher sea freight costs, and trade disruptions have elevated inflation in several economies since the onset of the conflict. **Some** members pointed out that the prices of oil-derived products also rose due to, among other reasons, a lower supply of diesel from Russia. **One** member stated that this was also due to a higher seasonal demand from the United States and to warmer temperatures. **Another** member emphasized that the simultaneous developments of the Middle East conflict and the war between Russia and Ukraine have continued exerting pressure on the global supply of crude oil and its refined products. He/she noted that following the reopening of the Strait of Hormuz, international benchmarks of oil-refined products registered a smaller correction than that of crude oil prices. **One** member pointed out that the escalation of attacks in Eastern Europe has affected grain prices, which adds to the damage caused to crops by the heat wave on the continent as a whole. **Another** member considered that, although it is difficult to identify the impact of the various shocks on the global economy accurately, their effect has been as expected and their scope has been confined to temporary adjustments in relative prices.

Most members noted that the persistence of the conflict in the Middle East continues posing upside risks to inflation. Some members warned that the lengthening of the conflict puts the buffers that have mitigated the rise in oil prices to the test, such as the use of strategic reserves and inventories. **One** member added increased oil production in other regions and a decline in demand. **Some** members mentioned that, given the lack of a definitive ceasefire agreement and the failure to reopen the Strait of Hormuz, the rising cost of refined fuels is expected to increase costs of production and transportation globally. **One** member added that these factors could be affecting certain products' supply chains, such as plastics, posing an additional risk to inflation. He/she noted that the Federal Reserve's global supply chain pressure index exceeds its historical average by about two standard deviations. **Another** member pointed out that inflationary risks persist on both sides of the balance across different economies.

One member indicated that in several major advanced economies headline inflation declined in June, largely due to the fall in energy prices. He/she mentioned that, nevertheless, in general, inflation remained above the central banks' targets. He/she highlighted the decline of core inflation in some of these economies due to lower services inflation and, in some cases, in merchandise inflation. He/she noted that in the United States, headline inflation, as measured by the Consumer Price Index (CPI), reversed part of its increase, decreasing to 3.5% in June from 4.2% in May. He/she added that core inflation in that country declined from 2.9 to 2.6% during that period in light of decreases in its two components, suggesting the absence of indirect and second-round effects stemming from the rise in energy prices. He/she expressed that, in contrast, headline inflation rose in several emerging economies, driven in some cases by increases in the core component that took place in addition to those of the non-core component. Looking ahead, **some** members pointed out that a temporary rise in inflation is still expected in various advanced and emerging economies. **One** member commented that, based on the latest inflation forecasts prepared by analysts for the end of 2026 in the major economies, inflation is expected to remain above their respective central banks' targets. **Another** member noted that, in the case of the US economy, inflation is still far from consolidating at levels around its target.

Some members pointed out that since the previous monetary policy meeting a large number of central banks have kept their reference rates unchanged. Specifically, they mentioned the European Central Bank, the Bank of Canada, the Bank of Japan, and the Bank of England. They noted that such central banks stated that they remain vigilant of the risks to inflation. **One** member also highlighted that they made reference to potential second-round effects. In this regard, he/she stated that these central banks indicated they are well-positioned to adjust their monetary policy stances as necessary. **Another** member mentioned that the European Central Bank considered it necessary to proceed cautiously and in line with the data due to high uncertainty and the risk of indirect and second-round effects on inflation, given that the balance of risks remains biased to the upside. He/she specified that the decision to keep

reference rates unchanged was preceded by a 25-basis-point rate increase, due to the need to strengthen its stance in light of possible scenarios arising from the conflict in the Middle East. **One** member considered that most central banks have avoided reacting disproportionately to a rebound in inflation mainly associated with a supply-related shock, under the assumption that its effects will fade as the conflict evolves.

As for the Federal Reserve, most members mentioned that it kept its target range for the federal funds rate unchanged in its July meeting. They commented that this decision was not unanimous. Some members highlighted that three committee members voted for a rate increase. **One** member noted that the July decision was made in a context of a stable unemployment rate and high levels of inflation, and amid an economy that remains exposed to developments in the Middle East conflict. **Most members underlined that, in its communications, the Federal Reserve emphasized its commitment to price stability. One** member noted that the July statement did not contain any significant changes from the previous one, and that at the press conference, the chairman did not provide any forward guidance and argued that the recent rise in market rates has already contributed to tightening financial conditions. **Another** member pointed out that the chairman attributed the higher nominal and real interest rates in that economy to the impact of incoming information, without any influence from forward guidance. **One** member added that the statement mentioned that economic activity continues expanding at a solid pace, while inflation remains high, partly due to supply-related shocks. **Most members noted that markets are pricing in an increase in the federal funds rate. One** member pointed out that this would take place in the fourth quarter of 2026. **Another** member delved into the fact that, although in March the range for the federal funds rate was anticipated to decline over the course of the year, a hike began to be priced in following the onset of the conflict.

Some members expressed that international financial markets showed heightened sensitivity to the Middle East conflict. **One** member argued that markets were also sensitive to concerns about the valuations of assets linked to artificial intelligence, as well as to the shift in monetary policy expectations in advanced economies. **Some** members noted that global financial conditions remained restrictive. In this regard, **one** member pointed out that these conditions tightened somewhat, particularly in the United States. **Some** members underlined that the US dollar depreciated against other currencies. **One** member stated that short-term implied volatility for currencies of both emerging and advanced economies declined to levels close to those observed at the beginning of the year. **Some** members indicated that most yields rose during the period. In this regard, **one** member noted that these increases were widespread across government bonds of various economies and were particularly pronounced in longer-term maturities. He/she attributed the above to potential inflationary implications of the energy rebound and to a decompression of term premia.

Economic activity in Mexico

Most members commented that, according to the GDP flash estimate, the Mexican economy expanded during the second quarter, after contracting in the previous one. One member underlined that the expansion during the second quarter more than offset said contraction. **Some** members mentioned that this increase was the result of positive contributions from the three main sectors of the economy. **One** member pointed out that there were mixed dynamics within said sectors. **Another** member added that the divergence observed since the fourth quarter of 2023 between manufacturing, which has contracted, and services, which have expanded, stopped widening, as both sectors rebounded during the second quarter of 2026.

Some members pointed out that industrial activity increased. **One** member noted that this occurred following a prolonged weakness since the last quarter of 2024. **Another** member considered that, nevertheless, its increase was limited. **One** member stated that, despite the recent rebound, secondary activities are expected to remain weak. **Regarding the components of the latter sector, most members highlighted the performance of manufacturing and construction. Some** members attributed the performance of manufacturing to the recovery in the transportation equipment segment. **One** member expressed that the rest of the sector exhibited sluggishness. Regarding construction, he/she indicated that April's high growth reversed in May due to a decline in building activity, although the sector as a whole remained above the levels registered at the beginning of the year. **Another** member expressed that, in contrast, the downward trend in utilities persisted, while mining continued slowing down. **Most members underlined the expansion of services during the second quarter of 2026. Some** members associated this expansion

with trade services and highlighted the heterogeneity among the other sectors that comprise this aggregate. **Some** members emphasized the positive performance of primary activities. **One** member noted that they more than offset the decline observed during the first quarter. **Another** member specified that they reached new maximum levels.

On the aggregate demand side, **one** member commented that a slight recovery was observed, given the weakness of various components. **Most members mentioned the growth in private consumption**, and **some** members pointed out that it reversed the fall observed during the first quarter. **One** member specified that it resumed an incipient upward trend and remains slightly below the levels observed in December 2025. **Another** member highlighted the differentiated dynamics across its segments. **Some** members noted that it was driven by the expansion of domestic goods. **One** member pointed out that spending on imported goods and on services was lower than in the first quarter. **Another** member added that consumption dynamics are consistent with the evolution of the determinants of consumption. In this regard, he/she detailed that remittances measured in constant pesos are trending downwards, while consumer confidence remains below the expansion threshold, although it exhibited an incipient rebound, while the wage bill maintains its positive trend despite having slowed down recently. **Some** members highlighted the growth in investment. **One** member indicated that gross fixed investment reached its highest level since the first quarter of 2025. **Another** member detailed that investment has grown significantly since March, mainly in the public sector. He/she pointed out that, among its components, investment in imported machinery and equipment increased, while non-residential construction showed a moderate recovery. He/she noted, in contrast, that investment in domestic machinery and equipment, as well as residential construction, remained weak. **One** member stated that gross fixed investment declined in May, after having rebounded in April. He/she pointed out that this decline was mainly due to the fall in the residential construction sector. He/she added that investment remains below 2023-2024 levels and accumulates a decrease of more than 5% since its peak in July 2024. **Another** member considered that productive activity has been influenced by the uncertain environment, which has affected domestic spending, particularly investment, although it has also affected consumption. **Some** members highlighted the strong dynamism of manufacturing exports and, within them, the high growth rates of non-automotive shipments. **Some** members pointed out that the global momentum of the technology industry contributed to the dynamism of external demand. In this regard, **one** member indicated that the growth in non-automotive shipments is associated with Mexico's integration into manufacturing related to the rapid expansion of artificial intelligence. He/she expressed that the share of technology goods rose from less than 5% of total exports in 2024 to nearly 25% currently. He/she noted that the above, combined with a slightly slower growth rate in imports, resulted in a historic trade surplus in the first half of 2026. However, he/she mentioned that the challenge of increasing the domestic value-added content in said production chains persists. He/she stated that, despite the annual review phase of the USMCA, no impact is anticipated for exports to the United States under the treaty's framework, as these exports would maintain their preferential treatment. Meanwhile, **another** member noted the moderate recovery in automotive exports.

One member considered that the economic growth rate in 2026 could exceed Banco de México's current forecast of 1.1%, although it would remain below its historical average. He/she added that between 2000 and 2019, just before the pandemic, the average yearly growth was around 2%. He/she added that, although growth in 2026 is expected to be greater than in 2025, the economic outlook remains weak, and that the Mexican economy is expected to grow in 2026 below its historical average for the third consecutive year. **Another** member noted that the latest figures show that the weakness in the economic cycle has not intensified and that the growth outlook for this year is more favorable, albeit with a still marginally negative output gap. **One** member considered that the recent economic rebound, including the latest annual GDP figure, does not modify the assessment of a moderation in economic activity. He/she pointed out that since early 2025 the economy has shown high volatility across quarters, with temporary recoveries followed by new episodes of weakness.

One member expressed that the balance of risks for economic activity remains biased to the downside. **Some** members mentioned that risks associated with the Middle East conflict persist. **One** member indicated that a prolonged duration of said conflict could have a greater impact on investment decisions. He/she added that trade uncertainty also poses a risk to economic activity. **Another** member noted that the escalation of conflicts in various regions of the world could affect global economic activity negatively, which in turn could impact

domestic economic activity. **One** member pointed out that the economy is also subject to upside risks. Among these, he/she highlighted a potential successful review of the USMCA and reduced trade uncertainty.

Most members pointed out that, despite the expansion of GDP in the latest quarter, the output gap remains in negative territory. One member added that it narrowed at the margin. He/she explained that the gap remains in negative territory due to the economic weakness that prevailed for several quarters. **Some** members noted that slack conditions are still expected throughout the forecast horizon. They commented that the labor market performed relatively better during the second quarter of 2026. **One** member stated that some of its indicators still suggest a partial and heterogeneous recovery, with no signs of widespread demand pressures. However, **another** member pointed out that the unemployment rate has shown a certain upward trend since late 2025. **Most members noted the decline in the labor force participation rate. One** member argued that the decline in this rate partly explains why unemployment remains at low levels. **Another** member added that the employment-to-working-age-population ratio also declined. He/she underlined that the employment figures reflect the divergence observed across economic sectors, with job creation in services and job losses in manufacturing. **One** member mentioned that, although the number of jobs registered with IMSS expanded somewhat, their growth rates are still low. He/she added that employment in the informal sector increased. **Another** member highlighted that nominal wages register variations above their historical averages, hence their eventual moderation, given their high correlation, will be key to supporting the disinflationary process in the services sector. **One** member stated that, based on IMSS-insured workers' average base salary, annual wage growth, which was still above 10% in 2023, is now around 6%. **Some** members pointed out that wages continued growing in real terms. **One** member added that they are growing above their historical average, even considering the pre-pandemic period. He/she explained that this is due to the wage policy, which has had an impact on an increasing fraction of the working population.

Inflation in Mexico

Most members stated that between the first fortnight of June and the first fortnight of July 2026, headline inflation decreased from 3.55 to 3.10%. Some members commented that headline inflation reached levels unseen since 2020. **One** member noted that during the first fortnight of July headline inflation was again below market expectations, settling around the 3% target. **Most members underlined that this was due to a decline in both its core and non-core components. They indicated that the latter contributed the most to said decline. One** member emphasized that out of the 45 basis points of decline in headline inflation the core component contributed with 13 while the non-core component, with 32. **Some** members considered that the decline in inflation is partly due to the fading of some of the supply-related shocks observed in early 2026. They argued that recent inflation figures also confirmed the limited impact of the World Cup on prices. **One** member highlighted the absence of adverse effects stemming from the conflict in the Middle East.

Most members mentioned that between the first fortnight of June and the first fortnight of July 2026, core inflation declined from 4.12 to 3.95%. They noted that it returned to the variability interval around the inflation target. Some members highlighted that readings had not been under 4% since the first fortnight of May 2025. **One** member warned that, nevertheless, core inflation remains elevated. **All members pointed out that the decline in core inflation was driven by the fall in merchandise inflation. Most members also highlighted the positive contribution of services inflation. Some** members commented that core inflation has been trending downwards since January 2026. **One** member considered that it has declined gradually, in line with the expected behavior associated with a relative price shock. **Another** member pointed out that, within core inflation, there are some items whose prices have moderated at a slower-than-anticipated pace, particularly those in the services component.

Some members recalled the impact of the tax modifications implemented earlier this year on inflation. **One** member asserted that these shocks generated changes in relative prices that have a temporary effect on inflation and do not imply widespread price increases. He/she pointed out that the excise taxes on certain food products created a base effect on the annual price variation that would last 12 months and that, consequently, would fade by the beginning of 2027. He/she stated that, based on a counterfactual analysis using a synthetic control methodology, in the absence of those taxes, headline inflation would currently be below the 3% target, while core inflation would be within the

variability interval since the first fortnight of May and would currently lie around its historical average of 3.65%.

Most members mentioned that annual merchandise inflation decreased from 3.65 to 3.52% between the first fortnight of June and the first fortnight of July 2026 due to declines in both of its subindices. Some members associated said decline with the fading of shocks that exerted pressure on various international benchmarks during the second half of 2025, as well as with the appreciation of the Mexican peso. **Some** members highlighted the decline of about 100 basis points in merchandise inflation since the beginning of 2026. **Most members pointed out that food merchandise inflation continued decreasing and reached 4.89% in the first fortnight of July. Some** members commented that this decline occurred despite the fact that this segment continues to be affected by the impact of the increase in the Special Tax on Production and Services (IEPS, for its acronym in Spanish) at the beginning of 2026. **One** member added that said figure is slightly below its average for the 2011-2019 period and that the average annualized monthly variation of the last three months was 4.03%. **Another** member underlined that its annual variation stood below 5% for the first time in a year. **Most members commented that non-food merchandise inflation declined to 2.33% during the same period. One** member highlighted that the average of its seasonally adjusted annualized monthly variations over the last three months was 2.08%.

Most members noted that services inflation decreased from 4.57 to 4.36% between the first fortnight of June and the first fortnight of July 2026. One member argued that, despite recent reductions at the margin, no consistent improvement has been observed, and it has fluctuated, remaining at the same levels as a year ago. **Another** member pointed out that it has remained above 4% since November 2021, hence its dynamics are one of the main challenges to achieving sustained convergence to the 3% target. However, **one** member highlighted the decline from the levels between 5.20 and 5.30% registered in the first half of 2024, although he/she noted that said decline has been slow. **Some** members considered that, while economic sluggishness has exerted downward pressures on inflation of this index, there are other cost-related factors driving it upwards. **One** member noted that qualitative evidence gathered by Banco de México from price-setters in that sector suggests that decisions regarding price adjustments are largely influenced by supply-related factors, particularly production costs and living expenses, and thus their dynamics are driven by past inflation, which can lead to greater inertia. He/she also pointed out that the heterogeneity in cost structures means that monetary policy transmission can vary across sectors.

Regarding inflation of education and housing services, **one** member noted that both of them increased. **Another** member argued that the level of inflation of education services is partly attributable to the fact that these prices had lagged behind, since during the pandemic they could not adjust due to families' reduced capacity to pay. He/she added that, based on the input-output matrix, wages account for 70% of educational institutions' total costs. He/she considered that, although wage increases have moderated, they could be contributing to higher tuition fees. **Most members highlighted the decline in inflation of services other than education and housing, which stood at 4.83% in the first fortnight of July. One** member underlined that its annual variation reached the lowest level since September 2021, although it currently remains elevated. **Another** member emphasized that services inflation, excluding food services, is within the variability interval. With respect to these food services, **some** members noted that their inflation had declined as a result of lower cost-related pressures. In this regard, **one** member underlined the downward trend in food merchandise inflation. **Another** member commented that, although inflation of this subindex has declined recently, it remains at elevated levels, after having been affected by the higher prices of these food merchandise registered last year and early this year. **One** member argued that the persistence in inflation of some services, such as food services, could partly reflect shifts in consumption patterns, as well as the gradual pass-through of previous shocks. He/she sustained that supply capacity in some sectors adjusts slowly and that prices in those sectors tend to be revised in a staggered manner. **Most members stated that tourism services inflation declined, reflecting the temporary nature of the World Cup.**

Most members noted that between the first fortnight of June and the first fortnight of July, non-core inflation declined from 1.61 to 0.21%. They pointed out that during said period inflation decreased across all its subcomponents, except for government-authorized prices. One member noted that during the first fortnight of July the annual variation of non-core inflation registered some of the lowest levels on record since 1989, as it lies in the

first percentile of the historical distribution, which creates the risk of a possible reversal. He/she commented that the products' prices that contributed the most to the decline in non-core inflation were those of tomatoes, eggs, and LP gas for household use, in line with the fading of the supply shocks that had affected this component. **Most members mentioned that non-core inflation declined following the rebound observed in March and April 2026, which was caused by a shock affecting fruit and vegetables' prices. One** member argued that fruit and vegetables inflation is highly volatile and underlined the increase in tomato prices in recent months, which was mainly associated with climate-related factors. He/she recalled that of the 76-basis-point increase in headline inflation between December 2025 and April 2026, 74 basis points were attributable to this item. **Some** members pointed out that, as anticipated, the shocks affecting fruit and vegetables prices have been temporary and their effects have dissipated relatively fast. **One** member mentioned, as an example, that tomato prices began to normalize in June. **Some** members highlighted that inflation of livestock products continued declining. **One** member specified that it trended downwards for twelve consecutive months and stood at -6.86% in its most recent reading. **Another** member noted that it had reached new lows since the first fortnight of May. **Some** members referred to the slight decline in energy inflation from 1.43 to 1.16% between the first fortnight of June and the first fortnight of July. They stated that the global energy shock had a limited impact on inflation in Mexico, owing to the policies adopted by the federal government. **One** member added that the monetary policy stance implemented has helped to prevent second-round effects. **Another** member stated that annual energy inflation stood at the 18th percentile of its historical distribution, representing a relatively low level despite the increase in international reference prices. He/she added that annual gasoline inflation was 1.54% in the first fortnight of July, which corresponds to the 12th percentile of its historical distribution. He/she noted that the annual variation of domestic gas prices was -1.9% in its most recent reading. He/she pointed out that the levels of domestic gas inflation in Mexico reflect the stronger link to the North American market and the lower exposure to the Middle Eastern energy market.

Some members indicated that medium- and long-term inflation expectations remained stable. Nevertheless, **one** member noted that these levels warrant close monitoring. **Another** member stated that they remain anchored. **One** member observed that expectations for 2027 and 2028 year-end inflation registered marginal improvements in the core component. He/she noted that the trajectory projected by analysts is above that of the central bank's forecast and does not show clear signs of converging to the 3% target. With regard to short-term expectations, **some** members mentioned that expectations for the end of 2026 were revised downwards to 4% for both headline and core inflation. **One** member noted that headline inflation expectations for the next 12 months rose by 40 basis points to 4.15% and core inflation expectations, by 2 basis points to 3.89%. He/she added that this suggests that analysts expect non-core inflation to reverse. **Another** member stated that short-term expectations are consistent with a decline in inflation from the levels observed this year. Regarding breakeven inflation implicit in market instruments across different maturities, **one** member noted that it remains at relatively high percentiles.

Most members pointed out that headline and core inflation are still expected to decline throughout the forecast horizon, albeit more gradually than previously anticipated. Some members mentioned that headline inflation is expected to converge to the target in the fourth quarter of 2027. **One** member pointed out that this does not alter the expected downward trend of inflation. **Most members specified that the adjustment of the projected trajectory is partly due to the continued persistence of services inflation. Some** members added that the forecast revision also reflects base effects of non-core inflation. **Some** members cited relative price adjustments derived from supply shocks in energy markets as additional factors behind said revision. **One** member attributed the persistence of services inflation to cost-related pressures associated with food services, which will result in a more gradual decline in services inflation and, consequently, in core inflation. **Another** member noted that the expected decline in services inflation will depend on the evolution of nominal wages. With regard to food services, **one** member indicated that wages account for only 10% of total costs in restaurants and snack bars. **Some** members sustained that the prospect of supply shocks dissipating contributed to the recent improvement in the inflationary outlook. **One** member stated that, despite the adjustment to the forecast, it remains inconsistent with analysts' medium-term expectations. **Another** member noted that the downward trend in the annual variation of the Producer Price Index, which was below 2%, does not reflect inflationary pressures. He/she added that, based on empirical studies, fluctuations in that index

can predict future trends in Mexico's Consumer Price Index.

The majority noted that, looking ahead, the determinants of inflation will remain consistent with the outlook of lower inflationary pressures. They underlined that, given the prevailing economic slack conditions, no price-related pressures derived from aggregate demand are expected. One member stated, however, that the recent evolution of economic activity points to a marginally negative output gap. He/she argued that the observed economic slowdown will not necessarily ease inflationary pressures, since it is confined to sectors that are minimally linked to household consumption, which remains a factor driving prices upwards, particularly services' prices. **Most members commented that the favorable evolution of the Mexican peso contributes to lower inflationary pressures.** Among the factors contributing to the disinflation process, **some** members highlighted the anchoring of inflation expectations and the effects of the monetary policy stance. **One** member considered that some transmission channels continue exerting a restrictive influence.

Most members considered that the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside. Some members highlighted the uncertainty caused by the changes in the economic and trade policy as well as the escalation of geopolitical conflicts. **Some** members pointed out that the latter implies potential pressures on both sides of the balance of risks. **In this regard, most members underscored the upside risks associated with geopolitical conflicts. Some** members noted the risk that such conflicts will continue to exert pressure on the global supply of oil and other commodities. **One** member argued that the reversal in energy prices and its implications for domestic prices could be more gradual than expected. **Another** member added the risk of disruptions in global supply chains. Regarding other upside risks, **some** members highlighted the persistence of core inflation, particularly of its services component. **One** member attributed its slow decline to an inherent persistence, given the price formation dynamics of some of its items. He/she specified that these adjustments are based on past inflation, which can generate a greater inertia in price dynamics. **Another** member pointed out the fact that inflation expectations are above target as one of said factors. He/she also emphasized that merchandise inflation, particularly food inflation, could revert, given that historically, following prolonged periods of stability, it eventually returned to higher levels. He/she also mentioned pressures related to labor costs. **Some** members mentioned the pressures associated with climate-related impacts. **One** member specified that the intensification of the *El Niño* phenomenon in the second half of the year could affect agricultural supply negatively, exerting direct inflationary pressures and likely generating second-round effects. **Some** members noted that the above adds to the possibility of a reversal in non-core inflation, which is currently at historically low levels. **One** member stated that the inflation outlook could be less favorable in the coming months due to the anticipated base effects. As to downside risks, **another** member pointed out that the cyclical phase the Mexican economy is currently undergoing could result in lower-than-anticipated inflationary pressures.

Reflecting on the factors that have contributed to inflation remaining above target, **one** member identified the frequent occurrence of supply shocks that affect the measurement of inflation. He/she sustained that greater market competition and higher productivity would enhance the economy's ability to absorb such shocks. He/she argued that the extent to which the effects of supply shocks are passed on to consumer prices depends, among other factors, on the level of competition in markets, while strong productivity growth allows firms to absorb higher costs without raising prices.

Macrofinancial environment

Most members noted that since the last monetary policy decision domestic financial markets have remained stable. They indicated that the Mexican peso traded within a narrow range during the period. One member mentioned that its value was similar to that observed at the previous monetary policy decision. He/she added that foreign exchange market trading conditions remained favorable in terms of volatility, depth, and spreads. **Some** members noted that the implied volatility in Mexican peso options with various maturities declined. **One** member underlined that observed volatility also declined, despite the uncertainty associated with the Middle East conflict. **Some** members recalled that the Mexican peso remains appreciated compared to last year's levels. **One** member specified that the Mexican peso appreciated by approximately 13% in 2025 and has accumulated an appreciation of around 3.5% so far in 2026. He/she noted that these dynamics were largely due to the weakness of the US dollar, although domestic factors such as the country's

macroeconomic fundamentals also contributed to the above. However, **another** member commented that, going forward, greater volatility cannot be ruled out, in view of the USMCA negotiations and changes in tariff policies.

As for the fixed-income market, most members highlighted that government interest rates registered increases in the longer-term nodes. One member noted the steepening of the yield curve, with declines in the short segment and increases in the medium and long segments. **Some** members sustained that its movements were in line with developments in international markets. **One** member noted that increases in the long segment were observed in both nominal and real interest rates. **Another** member pointed out, however, that risk premia remained stable and at low levels, comparable to those observed in early 2024. In this regard, **one** member considered that sound macroeconomic fundamentals have enabled a differentiation of Mexican assets from those of other emerging economies, which has contributed to compress risk premia. Regarding financing, **another** member mentioned that various categories of credit granted by commercial banks continued decelerating, while delinquency rates increased moderately.

Monetary policy

The Governing Board evaluated the inflationary outlook. It assessed the observed levels of the exchange rate, the absence of demand-related pressures in the economy, and the level of monetary restriction implemented. With the presence of all its members, the Board decided unanimously to maintain the target for the overnight interbank interest rate at 6.50%.

Looking ahead, the Governing Board estimates that it will be appropriate to maintain the reference rate at its current level. It judges that the monetary policy stance is well-suited to face the challenges posed by the macroeconomic environment, including those associated with the international context. The central bank reaffirms its commitment to its primary mandate and the need to continue its efforts to consolidate an environment of low and stable inflation.

One member considered it important to place the global energy shock and the ongoing trade tensions in the context of a series of supply-related shocks. He/she highlighted two factors that have helped mitigate their effects: (i) the solid macroeconomic fundamentals and (ii) a monetary policy focused on maintaining price stability. He/she argued that the Mexican economy has the capacity to absorb such shocks, partly due to an anchored nominal system in which price dynamics adjust only temporarily in response to shocks. Regarding the current economic conditions, he/she commented that, unlike during the 2021-2023 episode, the economy is operating with slack and there are no pressures associated with exchange rate adjustments, while the monetary policy is not in expansionary territory. For this reason, he/she noted that these shocks are being faced from a more favorable position. Regarding the monetary policy transmission, he/she recalled that it operates with significant and variable lags and its effects depend on the cyclical phase of the economy. In that regard, he/she mentioned that economic slack helps moderate price-related pressures, as reflected in the dynamics of services inflation, although the latter has also been influenced by cost-related pressures. He/she stated that the current monetary policy stance helps strengthen the anchoring of inflation expectations, particularly long-term ones. He/she noted that, although the inflationary episode during the pandemic may have raised concerns that high inflation would materialize which, in turn, would affect inflation expectations, such concerns are unfounded in the case of the Mexican economy, given Banco de México's commitment to price stability. He/she explained that monetary policy seeks to preserve the anchoring of long-term inflation expectations, ensuring that they do not show high dispersion and that their adjustments are considerably smaller than those of short-term expectations in response to shifts in inflation. He/she added that the performance of the Mexican peso amid the recent changes in risk appetite indicate that the relative monetary policy stance remains solid and appropriate to address the challenges posed by the macroeconomic environment. He/she argued that, looking ahead, maintaining this stance for some time will continue supporting the sustained and efficient convergence of inflation to the 3% target.

Another member noted that the latest inflation readings have continued declining. He/she emphasized that this occurred in an environment in which global financial conditions remain tight, certain monetary policy transmission channels continue exerting a restrictive influence, and the main determinants of inflation, such as economic activity and the real exchange rate, are contributing to a decline in inflation. However, he/she stated that the expected path in the planning horizon has been revised upwards for the first quarters of 2027 and that the balance of risks remains biased to the

upside. He/she stated that, therefore, it is necessary to maintain a robust monetary policy stance to address the prevailing risks. Among these, he/she emphasized the persistence of core inflation, with the services subcomponent declining slowly, which can be partly explained by an intrinsic persistence, given that the prices of certain generic items are set based on the observed inflation rates. He/she mentioned that this underscores the importance of maintaining low and stable inflation and ensuring that inflation expectations remain firmly anchored. Secondly, he/she also highlighted the uncertainty arising from changes in trade policies that affect financial and economic variables, such as consumption and investment, as well as geopolitical conflicts that drive oil prices and other commodities upwards and increase the likelihood of disruptions to global supply chains. He/she recalled that adverse base effects are anticipated, along with a possible reversal of non-core inflation given the low level it has attained and a higher probability of climate-related shocks. He/she considered that the prevailing level of the reference rate is appropriate to face a broad range of inflation risk scenarios and to facilitate its convergence to the target over the forecast horizon. He/she considered it important to maintain a cautious approach looking ahead and to continue monitoring the evolution of inflation and its determinants, in order to prevent any second-round effects in an environment marked by several sources of uncertainty.

One member stated that monetary policy decisions are made based on the inflationary outlook overall. He/she emphasized that it includes the evolution of inflation, the nature of the shocks that have affected it, the evolution of its determinants, and the risks to its projected trajectory. Regarding the way in which the Federal Reserve's actions are taken into account, he/she noted that Banco de México does not mechanically follow any central bank in its decisions. He/she added that Mexico is a small open economy with a high degree of commercial and financial integration with the US economy, and thus it is normal for developments in the United States to influence the performance of the Mexican economy. He/she recalled the findings presented in the box from the July–September 2022 Quarterly Report, which analyzed the transmission of macroeconomic, including monetary, shocks from the US economy to Mexico. In this regard, he/she commented that, on the one hand, an upward shock on the federal funds rate tends to exert pressure on the national currency. On the other hand, he/she highlighted that said shock tends to moderate economic activity in the United States, which in turn affects productive activity in Mexico. He/she explained that, in that context, Mexico's monetary policy response does not necessarily involve adjusting the reference rate. Regarding Banco de México's monetary policy stance, he/she argued that, although the ex-ante real interest rate falls within the estimated neutral range, the economy is exhibiting signs of sluggishness and the Mexican peso is showing resilience. He/she emphasized that productive activity has been affected by the environment of uncertainty, which has impacted domestic spending, primarily on investment, but also on consumption. He/she added that the Mexican peso has been influenced by the weakness of the US dollar. He/she concluded that these determinants are conducive to reducing inflation. He/she argued that this implies that they are observationally equivalent to adopting a restrictive policy stance. He/she added that the reference rate and the ex-ante real rate are above their historical averages and above the interest rates prevailing in most emerging economies. He/she deemed that, in this context, the central bank is in a strong position to address the challenges of the macroeconomic environment, and therefore, on this occasion, it is appropriate to maintain the reference rate at its current level. From a longer-term perspective, he/she noted that frequent supply shocks have contributed to inflation remaining above target. He/she argued that greater market competition and higher productivity would increase the economy's capacity to absorb such shocks.

Another member pointed out that, while the decline in inflation in recent months is positive, two fundamental problems prevail: services inflation persists at high levels and inflation expectations are still not consistent with convergence. He/she specified that the recent improvement in the inflation outlook mainly derives from the reversal of shocks, rather than from a substantial correction in structural inflationary pressures. Consequently, he/she considered that it is necessary to continue evaluating whether the neutral stance that has been achieved is sufficient. He/she asserted that slack conditions are not a critical factor in determining the monetary policy stance. He/she noted that, in case potential GDP were to be lower than is estimated, the slack would not be as large as it is believed. He/she pointed out that, in a context of potential supply shocks, the monetary policy transmission mechanisms via aggregate demand have limited effects. He/she added that the second fundamental problem mentioned is reflected in inflation expectations being anchored clearly above the target. He/she emphasized that only through strong and sustained evidence of inflation convergence will

it be possible to anchor inflation around the target. He/she warned that the ex-ante real rate within the neutral range prevents further easing. Regarding the interest rate spread with the Federal Reserve, he/she stated that it has been sufficient for the time being, even though it is at historically low levels. However, he/she estimated that a lower spread could jeopardize the sustainability of the relative policy stance. He/she mentioned that the possibility of higher global interest rates limits the capacity to further ease monetary policy. He/she stated that the forward guidance should communicate clearly that the current reference rate levels will remain in place until the progress already observed in inflation is consolidated. He/she considered that this would be in line with the expectations of analysts, which do not anticipate rate cuts this year or in 2027. He/she emphasized that strict adherence to the price stability mandate is a necessary condition to achieve a trajectory of convergence.

One member highlighted that, after being affected by fiscal adjustments and supply shocks early this year, inflation declined significantly, reaching the lowest levels since 2020. He/she explained that the decline was largely due to the non-core component, while core inflation also decreased, thus continuing its downward trend. He/she specified that growth in some services has slowed more gradually than anticipated. He/she added, however, that interpreting the latter as evidence of excess aggregate demand would be inaccurate. He/she specified that some adjustments in relative prices may take a long time, but that this does not imply that there is widespread inflationary process. He/she commented that, despite the recent rebound in economic activity, slack conditions will prevail, thus limiting the likelihood that sectoral adjustments will spread to other prices. He/she underscored that other determinants of inflation also remain consistent with lower pressures. Among these, he/she mentioned the exchange rate appreciation, the moderation of credit, and the anchoring of inflation expectations. He/she noted that the evolution of the latter is in line with the transitory nature of most increases in inflation and with a decline in inflation going forward. He/she emphasized that, overall, the above factors show that the monetary transmission mechanism continues contributing to the disinflationary process. With regard to the relative monetary policy stance, he/she considered that the evolution of the exchange rate suggests that it maintains an adequate margin against potential changes in global financial conditions arising from a possible monetary tightening in advanced economies or an escalation of the military conflict. He/she stated that, although the inflation outlook remains subject to risks, the observed data, the evolution of inflation determinants and the limited revisions to the forecast confirm the assessment of lower pressures throughout the forecast horizon. He/she sustained that maintaining the reference rate unchanged on this occasion allows to address the persistence of certain components and the risks derived from the external environment, while helping to consolidate the trajectory of convergence. He/she noted that, similarly, this decision goes hand in hand with the updated forecast and maintains monetary policy consistency with said trajectory. He/she added that this approach preserves the flexibility needed to continue assessing the prevalence of lower pressures on inflation and its determinants.

3. MONETARY POLICY DECISION

The Governing Board evaluated the inflationary outlook. It assessed the observed levels of the exchange rate, the absence of demand-related pressures in the economy, and the level of monetary restriction implemented. With the presence of all its members, the Board decided unanimously to maintain the target for the overnight interbank interest rate at 6.50%.

Looking ahead, the Governing Board estimates that it will be appropriate to maintain the reference rate at its current level. It judges that the monetary policy stance is well-suited to face the challenges posed by the macroeconomic environment, including those associated with the international context. The central bank reaffirms its commitment to its primary mandate and the need to continue its efforts to consolidate an environment of low and stable inflation.

4. VOTING

Victoria Rodríguez, Galia Borja, Gabriel Cuadra, Jonathan Heath, and Omar Mejía voted in favor of maintaining the target for the overnight interbank interest rate at 6.50%.

ANNEX*

The information in this Annex was prepared for this meeting by the staff of Banco de México's Directorate General of Economic Research and Directorate General of Central Bank Operations. It does not necessarily reflect the considerations of the members of the Governing Board as to the monetary policy decision.

A.1. External conditions

A.1.1. World economic activity

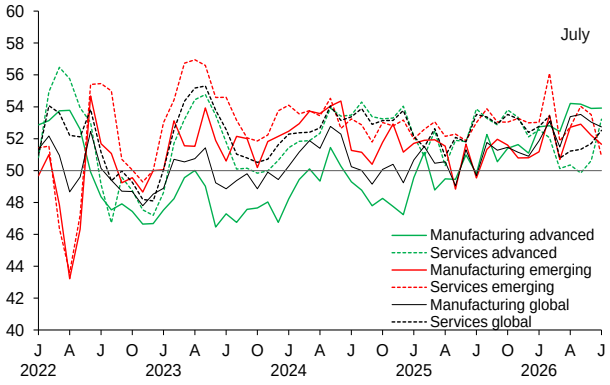
During the second quarter of 2026, global economic activity is expected to have expanded at a pace similar to that of the previous quarter, despite the disruptions associated with the conflict in the Middle East. This performance appears to have resulted from a combination of a slightly higher growth in advanced economies and a moderation in the rate of expansion in emerging economies as a whole. The latest Purchasing Managers' Indices suggest that both the manufacturing and services sectors would have continued expanding, particularly in advanced economies (Chart 1).

During the period between Banco de México's monetary policy decisions of June and August, uncertainty associated with the Middle East conflict and its repercussions persisted. The provisional agreement signed between the United States and Iran during the second half of June allowed for a partial reopening of the trade route through the Strait of Hormuz, which partially alleviated disruptions in energy and other commodities' markets. However, the escalation of tensions in July intensified the risks of further disruptions in these markets.

In this context, available indicators suggest that world merchandise trade growth slowed down during the second quarter compared with the previous one. In addition, risks and uncertainty associated with trade negotiations persisted. In particular, in late July, the United States imposed tariffs on countries that, in its view, were not implementing sufficient actions to combat forced labor in their export supply chains. Moreover, in early July it announced that it would not ratify the United States-Mexico-Canada Agreement (USMCA) for another 16 years, opting instead for annual reviews. In addition, trade tensions between the United States and both Brazil and Canada intensified. In contrast, progress was made in trade integration, notably with the provisional entry into force of the agreement between Mercosur and the European Union and the final approval of the agreement between the European Union and Mexico.

In July, the International Monetary Fund's global economic growth projections for 2026 were revised slightly downwards compared with those published in April. These forecasts continue projecting a slower growth this year compared to 2025, largely reflecting the negative effects of the Middle East conflict. The dynamism of sectors related to the development and adoption of artificial intelligence is expected to offset these effects to a certain extent, although the impact would vary across countries.

Chart 1
Purchasing Managers' Index: production component for advanced, emerging and global economies
Diffusion index, s. a.[1/]



s. a. / Seasonally adjusted figures.
1/ The index varies between 0 and 100 points. A reading above 50 points indicates an expansion and below 50 suggests a contraction. A reading equal to 50 points indicates no change.
Source: S&P Global.

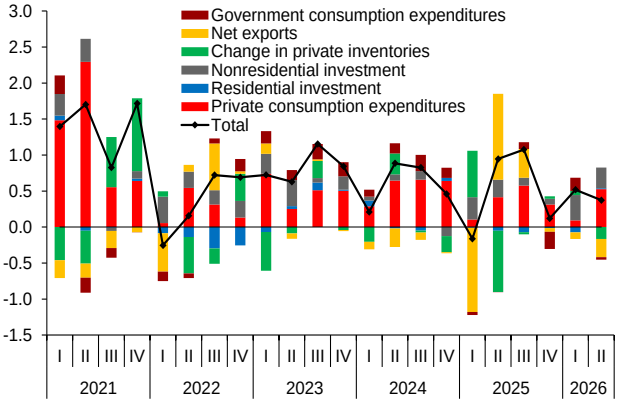
The US economy expanded at a lower pace during the second quarter of 2026 than in the previous one. The Gross Domestic Product (GDP) grew at a seasonally adjusted quarterly rate of 0.4%, after having expanded at a rate of 0.5% in the first quarter (Chart 2).[1] This moderation largely reflected a negative contribution from net exports. In contrast, domestic demand continued exhibiting strength. In particular, non-residential investment continued contributing positively to growth, in light of the dynamism of spending on equipment in some

* Note: In the electronic version of this document, the data used to generate all charts and tables can be accessed by clicking on them, except for those not prepared or compiled by Banco de México.

[1] Expressed as an annualized seasonally adjusted quarterly rate, US GDP grew 2.1% during the first quarter of 2026 and 1.5% during the second quarter of 2026.

technology sectors. Real household spending grew at a faster pace, despite the rise in gasoline prices during April and May.

Chart 2
US: real GDP and components
Quarterly percentage rate
and contribution in percentage points, s. a.



s. a. / Seasonally adjusted figures.
Source: Bureau of Economic Analysis (BEA).

US industrial production grew at a seasonally adjusted quarterly rate of 1.0% during the second quarter of 2026, thus extending the reactivation observed since last year. The manufacturing sector has continued exhibiting signs of recovery throughout the year, with a 1.2% increase in the second quarter, mainly driven by technology-linked sectors. Meanwhile, the mining sector expanded at a quarterly rate of 1.8%, while the electricity and gas generation sector contracted 0.7%. US Purchasing Managers' Indices suggest that manufacturing production is estimated to have continued expanding in July.

Available indicators suggest that the US labor market has shown an improvement compared to last year and the beginning of this year. In June, non-farm payroll grew by 57,000 jobs, after increasing by 129,000 in May and 148,000 in April. These figures represent a solid average increase of 111,000 jobs per month, compared with the previous quarter's average of 73,000 per month. Additionally, the unemployment rate decreased slightly from 4.3% in May to 4.2% in June. Initial claims for unemployment insurance have fluctuated around the average observed in 2025. During the week ending July 25, these stood at 197,000 new claims. The annual growth rate of average wages slowed down, from 3.6% in May to 3.4% in June.[2] The number of job vacancies decreased from 7.5 million in May to 7.4 million in June.

In the euro area, during the second quarter of 2026 economic activity expanded at a seasonally adjusted quarterly rate of 0.4%, after having stagnated in the first quarter.[3] Available indicators suggest that the manufacturing sector is expected to have experienced moderate growth, driven in part by an increase in inventory accumulation. In contrast, the services sector is estimated to have contracted compared to the first quarter, despite having improved in July. As for the labor market, the unemployment rate remained at historically low levels, although job creation has been moderate. Geopolitical tensions and high energy prices derived from the region's strong exposure to the energy market in the Middle East continue posing significant risks to the region.

During the second quarter of 2026, economic activity in the rest of the major advanced economies as a whole is estimated to have grown at a slower pace than in the previous quarter. Labor market conditions in some of these economies remained relatively stable, with moderate levels of both job openings and unemployment rates.

Economic activity in the main emerging economies as a whole is estimated to have moderated during the second quarter of 2026 compared to the previous one. This was the case of China, whose economy decelerated from a seasonally adjusted quarterly rate of 1.3% in the first quarter to 0.9% in the second one.[4] Although industrial production and exports continued exhibiting a relatively solid performance, the annual growth rate of retail sales slowed down. In addition, so far this year, investment in fixed assets has contracted compared with the same period of last year. In this context, China continues facing challenges related to its weak domestic demand and its real estate sector.

Between Banco de México's monetary policy decisions of June and August, international commodity prices generally increased, albeit with some fluctuations. During the second half of June, oil prices reversed to levels similar to those recorded

[2] Average hourly earnings of private sector production and nonsupervisory employees.
[3] Expressed as an annualized seasonally adjusted quarterly rate, GDP growth in the euro area was 0.0% in the first quarter of 2026 and 1.8% in the second quarter of 2026. The decline in GDP in that region during the first quarter was mainly due to a contraction in Ireland's economy. This reflected, to a good extent, a reversal of trade dynamics observed in the previous year, during which extraordinary exports, particularly related with the pharmaceutical sector, were registered in a context of greater tariff uncertainty.
[4] Expressed as an annual rate, China's GDP growth was 5.0% in the first quarter of 2026 and 4.3% in the second quarter of 2026.

prior to the conflict in the Middle East as a result of the signing of the provisional agreement between the United States and Iran. However, these prices rebounded during most of July as tensions between those countries flared up again, although to a lesser extent than in March. The recent readings continued exhibiting high volatility. Since late July, prices registered downward pressures amid expectations that a new agreement to reopen the Strait of Hormuz might be reached, although they remained above the levels registered in late June. This was despite the fact that, in early July, the Organization of the Petroleum Exporting Countries and allied countries (OPEC+) announced an increase in production starting in August.

Natural gas prices exhibited a differentiated behavior across regions depending on their level of exposure to the conflict in the Middle East. In Europe and Asia, their prices rose compared to the end of June. This was the result of escalating geopolitical tensions in the Middle East, although from late July onwards, said prices were subject to some downward pressures in light of the evolution of the negotiations regarding commercial transit through the Strait of Hormuz. Meanwhile, US natural gas prices decreased in light of higher-than-expected inventory levels.

International grain benchmark prices registered in its most recent readings levels higher than those observed in late June. Among the factors driving prices higher the following stand out: escalating geopolitical tensions in various regions; expectations of lower production due to adverse weather conditions in some countries; and the prospect of a higher demand for grains.

Overall, industrial metal prices stood above the levels registered in late June, although they fluctuated. At the start of the period, an improved outlook for global supply exerted downward pressures on prices. However, that trend reversed in July in light of renewed geopolitical tensions between the United States and Iran, as well as lower-than-expected inventories. The recent readings of precious metal prices were above the levels recorded in mid-2026. Said prices were highly sensitive to the conflict in the Middle East and its potential effects on inflation, as well as to changes in expectations regarding monetary conditions in some advanced economies.

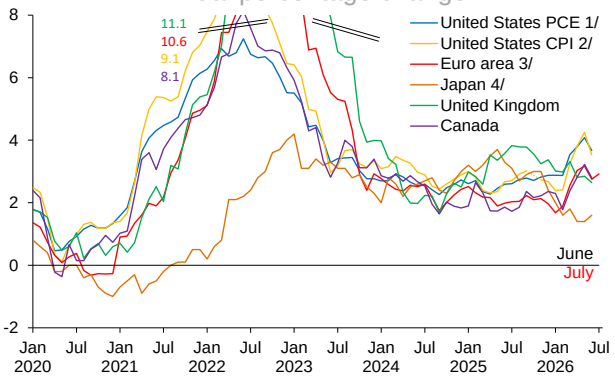
A.1.2. Monetary policy and international financial markets

In several major advanced economies, headline inflation declined in June, after having rebounded in the months after the onset of the conflict in the Middle East (Chart 3). The recent decline was largely due to the fall in energy prices. However, inflation generally remained above the targets set by the respective central banks. Meanwhile, core inflation declined in some of the major economies, generally due to lower services inflation and, in some cases, goods inflation.

In the United States, following the price spikes observed since March, partly associated with higher energy prices, annual headline inflation as measured by the Consumer Price Index (CPI) reversed its upward trend and decreased from 4.2% in May to 3.5% in June. Similarly, core inflation fell from 2.9 to 2.6% during the same period as a result of lower inflation of both services and goods. Headline inflation as measured by the Personal Consumption Expenditures (PCE) price index followed a similar trend to that measured by the CPI. The PCE declined from 4.1% in May to 3.7% in June, as a result of a significant fall in energy inflation and lower core inflation. The latter shifted from 3.4 to 3.3% over the same period. This occurred in view of a lower goods inflation, while services inflation remained practically unchanged. Goods inflation has moderated despite price increases in the information processing sector, which includes computers and electronics, given the higher demand from significant investments in the technology sector, which has exerted upward pressures on the prices of these goods and their inputs.

Chart 3
Selected advanced economies: headline inflation

Annual percentage change



1/ The personal consumption expenditures price index (PCE) is used.
2/ The consumer price index (CPI) is used.
3/ Preliminary figures of July.
4/ Excludes fresh food.
Note: The series include data up until June 2026, except for the euro area, for which the latest available data are from July. The chart's range was adjusted to facilitate its reading. Figures in the chart denote the respective maximum levels of each series. The CPI data for October 2025 was not released due to the US federal government shutdown.
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Eurostat, Bank of Japan, the UK Office for National Statistics, and Statistics Canada.

In the euro area, annual headline inflation decreased from 3.2% in May to 2.9% in July. The slowdown reflected declines in both non-core and core inflation. In particular, the latter fell from 2.6 to 2.5% during the same comparison period as a result of lower services inflation, while goods inflation remained relatively unchanged.

The latest inflation forecasts prepared by analysts for the major advanced economies continue suggesting that the rise in inflation will be temporary, although they anticipate that, in most of these economies, inflation will be above the respective central banks' targets by the end of 2026. Indicators of breakeven inflation and inflation risk for this group of economies drawn from financial instruments, particularly short-term ones, showed sensitivity to developments in the Middle East and, in several cases, remained above the levels observed prior to the escalation of the conflict in February.

In several emerging economies, headline inflation increased compared to the levels observed at the end of the first quarter. Meanwhile, core inflation showed some persistence and even increased in a large number of cases. In China, both headline and core inflation remained below the central bank's 2% target, with both registering 1.0% in June.

In this context, monetary policy decisions by the central banks of major advanced and emerging economies varied and were determined by the evolution of inflation and country-specific economic conditions. A large number of central banks kept their reference rates unchanged. Some of the central banks in the major advanced economies continued to gradually reduce their securities' holdings. Regarding future policy actions, most central banks reiterated that adjustments to their reference rates will remain dependent on economic data and its implications for the inflation outlook. Several central banks continued to point out that uncertainty persists regarding the economic environment and inflation dynamics in view of geopolitical tensions.

More specifically, in the case of the United States, at its July meeting, the US Federal Reserve left the target range for the federal funds rate unchanged for the fifth consecutive time. Thus, the target range remained between 3.50 and 3.75%. In its statement, the Federal Open Market Committee (FOMC) noted that it continues maintaining ample reserves in the banking system. The Committee mentioned again that economic activity is expanding at a solid pace despite elevated uncertainty partly related to the conflict in the Middle East, in a context of strong productivity growth and capital investment. It reiterated that job gains have kept pace with the growth of the workforce and that the unemployment rate has hardly changed. It restated that inflation remains at high levels relative to the 2% target, partly reflecting supply shocks that have driven price increases in specific sectors, including the energy sector. The Committee reaffirmed its commitment to maintaining price stability.

At the press conference following the July decision, the Federal Reserve chairman noted that the decision not to include any forward guidance in their most recent monetary policy meetings allowed observing the financial markets direct response to economic data. He also emphasized that the Committee remains firmly committed to ensuring price stability and will not be complacent regarding the 2% inflation target.

Meanwhile, in its July decision, the European Central Bank (ECB) left its reference rates unchanged, after having raised them by 25 basis points (bp) at its June meeting. Thus, the key deposit, refinancing, and key lending rates remained at 2.25, 2.40, and 2.65%, respectively. The Governing Council commented that uncertainty remains elevated and that the inflationary impact of the energy-related shock has not yet fully materialized. As a result, the Council is monitoring the intensity and duration of this shock, as well as its potential indirect and second-round

effects. It also reiterated that it is well-positioned to navigate the uncertainty caused by the conflict. The Council reiterated that it will maintain an economic and financial data-dependent approach on a meeting-by-meeting basis to determine the appropriate monetary policy stance. It reaffirmed that it is not committed to any particular monetary policy path. It also reiterated that the size of the portfolios under its Asset Purchase Program (APP) and Pandemic Emergency Purchase Program (PEPP) is declining at a measured and predictable pace.

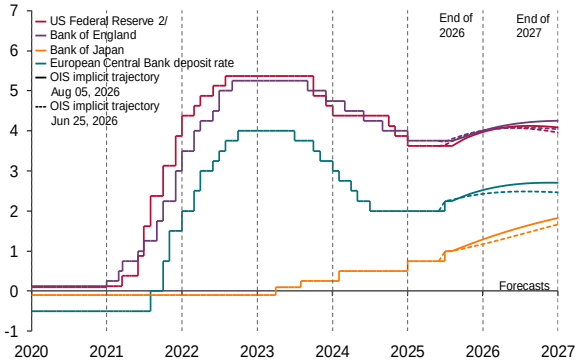
At the press conference following the July meeting, the president of said central bank pointed out that some members of the Committee suggested considering to raise the reference rates at that meeting. However, she emphasized that they decided to wait and closely monitor incoming data over the following weeks.

In other advanced economies, during the reported period, the central banks of the United Kingdom, Canada, and Japan kept their interest rates unchanged. In turn, the central banks of South Korea and New Zealand raised their policy rates in their July decision, the first increases in both countries this year, following the rate cuts in 2024 and 2025.

In the context described above, monetary policy rate expectations for the end of 2026 implied by financial instruments registered minor changes during the period in the major advanced economies. Thus, they continued anticipating increases for the end of 2026 relative to current levels (Chart 4). The forecast for the US federal funds rate for the end of 2026 remained at 4.0%. Similarly, the expected reference rate remained at 4.0% in the United Kingdom and 2.5% in Canada. Meanwhile, it increased from 2.4 to 2.5% in the euro area and from 1.2 to 1.3% in Japan.

Chart 4
Reference rates and trajectories implied in OIS curves[1/]

Percent



1/ OIS: Fixed-for-floating interest rate swap where the floating interest rate is associated with the effective overnight reference rate.
2/ For the observed reference rate of the U.S., the average interest rate of the target range of the federal funds rate is used.
Source: Bloomberg.

In the main emerging economies, several central banks determined not to adjust their interest rates in their latest monetary policy decisions. In the case of China's central bank, it has not adjusted the one- and five-year loan prime rates (LPR) since May 2025. The central banks of Ukraine and Colombia announced increases in their reference rates during the period, although the latter kept its rate unchanged in its most recent decision. The central banks of Russia, Israel, Hungary, and Brazil continued their cycle of rate cuts.

Throughout the reporting period, international financial markets were sensitive to developments in the Middle East and to changes in expectations regarding the central banks' monetary policy stances in various advanced economies. The announcement of a provisional ceasefire agreement between Iran and the United States in mid-June caused a positive reaction in financial markets, which was partially reversed with the resumption of the conflict in early July. During the period, risk appetite increased and global financial conditions remained at similar levels, albeit with significant fluctuations (Chart 5). The evolution of the armed conflict and the dispute over control of the Strait of Hormuz pose global risks to economic activity and inflation, which has been reflected in persistent uncertainty in international financial markets.

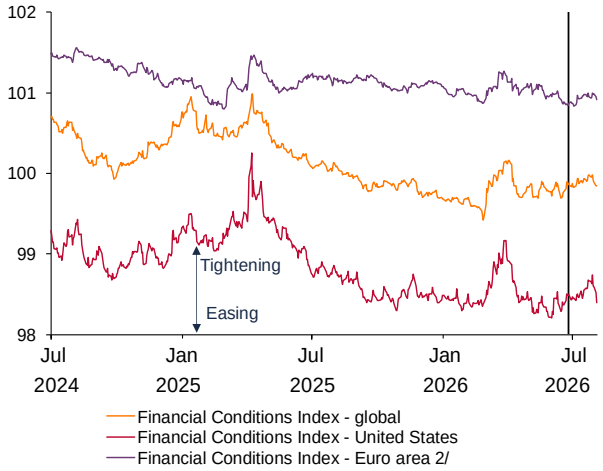
In the fixed-income market, interest rates on both long-term (10-year) and medium-term (2-year) government bonds rose in advanced economies (Chart 6). In particular, US yields rose, especially those for the long term. This was mainly due to

expectations of higher inflation going forward. Meanwhile, the slope of the US yield curve (defined as the spread between 10-year and 2-year government bond yields) increased, after declining in previous weeks. In most emerging economies, long- and medium-term interest rates rose, although medium-term rates declined slightly in Latin America in response to idiosyncratic factors (Chart 7).

Stock markets in the major advanced economies performed differently during the period. Some of them initially posted gains related to expectations regarding the release of tech companies' earnings reports and the ceasefire in the Middle East in mid-June. These gains subsequently moderated after the conflict resumed. Meanwhile, most stock markets in Latin America, Asia, and Emerging Europe registered gains.

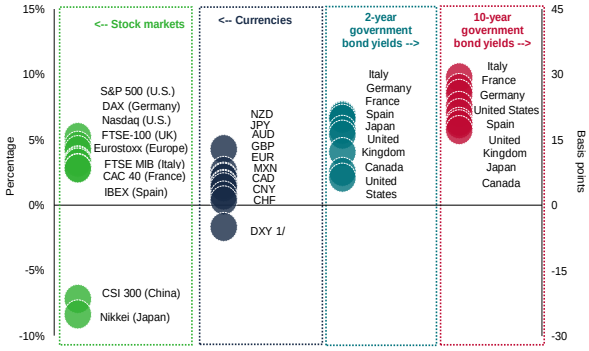
As for foreign exchange markets, the US dollar depreciated against some of the currencies of major advanced economies. In particular, after the Japanese yen had depreciated against the US dollar for most of the period, due to concerns about the country's fiscal outlook and the high oil prices, the announcement of joint intervention by Japan and the United States in the yen foreign exchange market for the first time in 15 years caused the US dollar to depreciate against the yen. Meanwhile, several currencies in Latin America, Emerging Europe, and Asia appreciated. Lastly, capital flows towards emerging economies channeled to equity assets registered inflows, while those to fixed-income instruments remained at levels similar to those registered at the time of Mexico's last monetary policy decision.

Chart 5
Financial conditions index[1/]
Index



1/ The financial conditions index is constructed considering the effect of five variables on economic activity: the reference interest rate, the 10-year government bond, the spread of investment grade bonds over the government debt bond with equivalent maturity, the ratio of a stock index with 10-year average earnings per share, and the trade weighted exchange rate.
2/ In the case of the euro area, the spread between the sovereign bonds of France, Italy, Spain, the Netherlands, Belgium, Austria, Portugal, and Finland over the German 10-year bond is also considered. The vertical black line indicates the last calendarized monetary policy meeting of Banco de México.
Source: Bloomberg and Goldman Sachs.

Chart 6
Change in selected financial indicators from June 25 to August 5, 2026
Percent, basis points



1/ DXY: a weighted average estimated by the Intercontinental Exchange (ICE) of the nominal exchange rate of the six main currencies operated globally with the following weights: EUR: 57.6%, JPY: 13.6%, GBP: 11.9%, CAD: 9.1%, SEK: 4.2%, and CHF: 3.6%.
Source: Bloomberg.

Chart 7
Selected emerging economies: financial assets performance from June 24 to August 5, 2026

Percent, basis points

Region	Country	Currencies	Equity markets	2-year interest rates	10-year interest rates	CDS
Latin America	Mexico	2.11%	0.37%	-17	19	-4
	Brazil	1.40%	4.23%	-40	16	-5
	Chile	0.70%	4.52%	29	23	4
	Colombia	7.42%	3.25%	-44	7	-6
	Peru	1.02%	8.07%	-25	11	0
Emerging Europe	Russia	-8.19%	2.59%	-105	40	N.A.
	Poland	1.26%	12.18%	0	26	0
	Turkey	-2.32%	-4.38%	6	118	5
	Czechia	1.87%	8.15%	-3	19	2
	Hungary	-0.03%	6.65%	22	28	-3
Asia	China	0.90%	-5.65%	0	-3	-1
	Malaysia	1.03%	3.93%	5	10	-3
	India	-0.50%	2.06%	18	-3	6
	Philippines	1.28%	4.92%	22	17	-2
	Thailand	0.66%	3.98%	-6	-2	-2
	Indonesia	0.07%	7.94%	-7	8	-1
Africa	South Africa	1.48%	5.09%	-13	1	-3

Note: An upward adjustment indicates currency appreciation. Interest rates correspond to swap rates at the specified terms, except for Hungary, where government securities with 3-year maturities were used as a reference. For the Philippines, the 2-year swap rate was used, and for Russia the swap rates for both terms were used. The latest CDS data for Russia is as of June 1, 2022.
Source: Bloomberg.

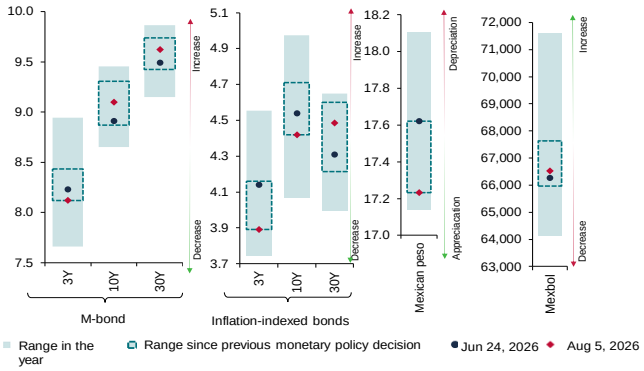
A.2. Current situation of the Mexican economy

A.2.1. Mexican markets

In the context described above, domestic financial markets registered positive trends overall. The Mexican peso appreciated against the US dollar, interest rates showed differentiated movements across maturities, and the stock market ended the period with slight gains (Chart 8).

Chart 8
Mexican markets' performance

Percent, MXN/USD and index

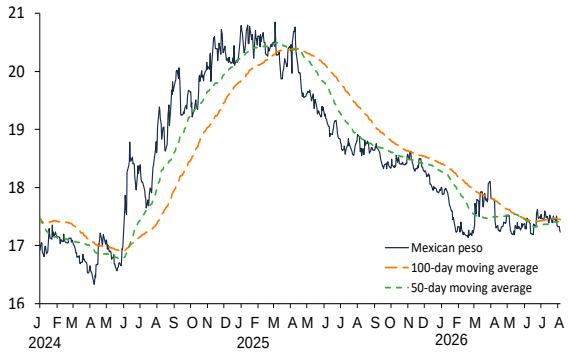


Source: *Proveedor Integral de Precios* (PIP), Banco de México (FIX), and Bloomberg.

The Mexican peso traded in a range of 39 cents, between 17.23 and 17.62 pesos per US dollar, during the reporting period (Chart 9). The 2.11% appreciation observed during the period between the two monetary policy decisions is explained by an increase in risk appetite in global markets, which led to a period of weakness of the US dollar. The period was characterized by a decline in volatility and orderly trading conditions of the Mexican peso.

Chart 9
Mexican peso exchange rate

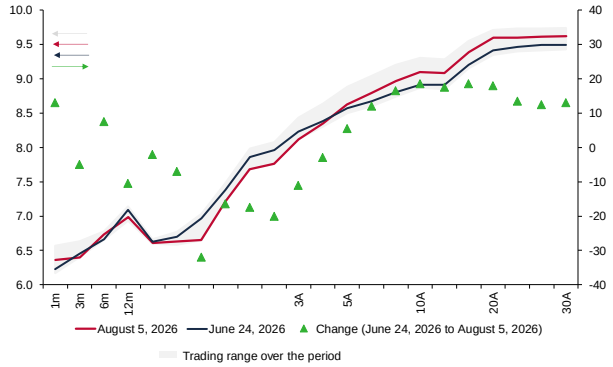
MXN/USD



Source: Banco de México (FIX).

Government interest rates fluctuated between -32 and +19 basis points along the yield curve. The sharpest increases concentrated in the middle and long segments of the curve, while the short segment registered declines overall, resulting in a steepening of the curve (Chart 10). Meanwhile, the yield curve for real-rate instruments showed increases in longer-term maturities and decreases along the rest of the curve. In this context, breakeven inflation and inflation risk implicit in spreads between nominal and real rates of market instruments adjusted slightly upwards for most maturities (Chart 11).

Chart 10
Nominal yield curve of government securities
Percent, basis points



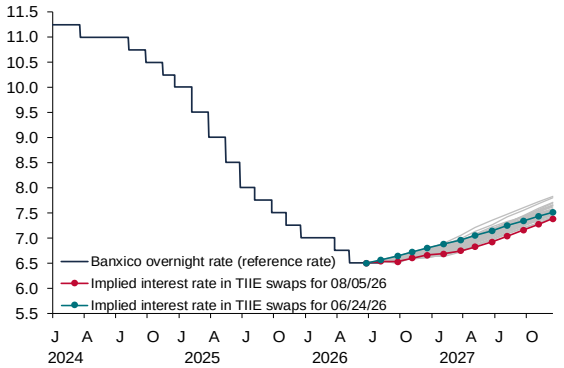
Source: *Proveedor Integral de Precios* (PIP).

Chart 11
Breakeven inflation and inflation risk implied in government securities' yields
Basis points

Note: Horizontal lines refer to the respective averages observed from September 2008 to date.
Source: *Proveedor Integral de Precios* (PIP).

Regarding expectations for the path of the reference rate, information implicit in the interest rate swap curve included a pause in the August decision and for the remainder of 2026. According to this indicator, the next adjustment is expected to be a 25-basis-point rate hike in May 2027 (Chart 12). Consistent with the above, most analysts of the Citi Mexico survey anticipate the reference rate to remain unchanged at the August meeting. The forecast for the end of 2026 remains at 6.50%.

Chart 12
Interbank funding rate implied in F-TIIE swaps
Percent

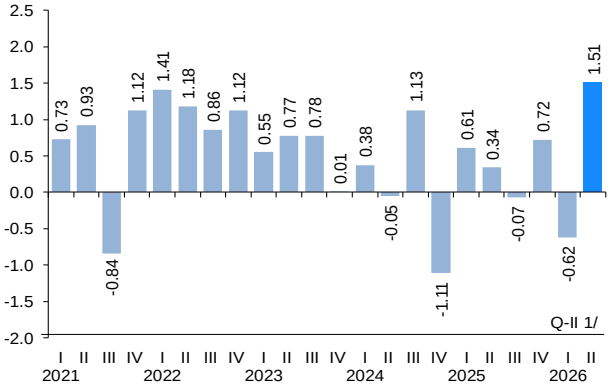


Note: Shaded areas represent the range since the last monetary policy decision.
Source: Proveedor Integral de Precios (PIP).

A.2.2. Economic activity in Mexico

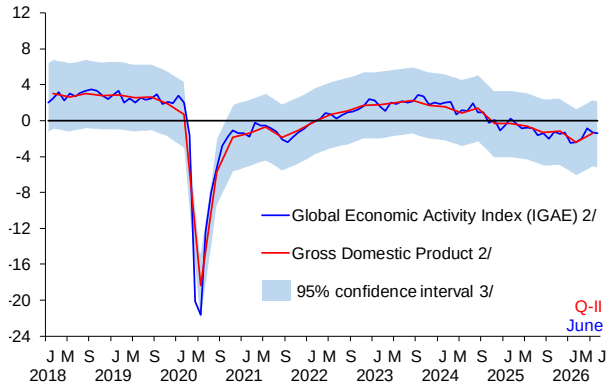
Mexico's GDP flash estimate for the second quarter of 2026 suggests that the Mexican economy expanded at a seasonally adjusted quarterly rate of 1.5% after contracting in the first quarter of the year (Chart 13). Despite this increase, the estimate of the output gap remained in negative territory (Chart 14).

Chart 13
Gross Domestic Product
Quarterly percentage change, s. a.



s. a. / Seasonally adjusted figures.
1/ Figure of Q2-2026 refers to the GDP flash estimate published by INEGI.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

Chart 14
Output gap estimates[1/]
Percent of potential output, s. a.

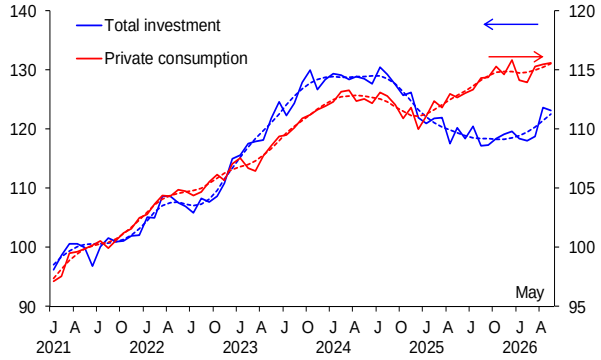


s. a. / Estimate based on seasonally adjusted figures.
1/ Estimated with a tail-corrected Hodrick-Prescott filter; see Banco de México (2009), "Inflation Report, April-June 2009", p.69.
2/ GDP flash estimate up to Q2-2026 and implied IGAE up to April 2026, consistent with said timely figure.
3/ Output gap confidence interval calculated with a method of unobserved components.
Source: Prepared by Banco de México with INEGI data.

In terms of domestic demand, at the beginning of the second quarter of 2026, private consumption continued recovering moderately from the fall registered in the first quarter (Chart 15). Regarding its components, consumption of domestically produced goods and services continued exhibiting signs of recovery, while consumption of imported goods moderated, showing a shift towards a downward trend, although it remained at relatively high levels. Gross fixed investment rose significantly in the two-month period from April to May 2026 and reached levels higher than those observed in 2025 and early 2026. At the margin, investment in construction reversed in May some of the exceptional growth observed in April, while investment in machinery and equipment continued recovering.

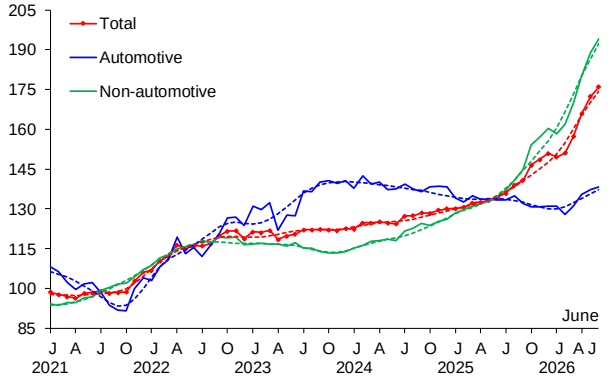
Regarding external demand, manufacturing exports maintained a high level of dynamism in April-May 2026. Within this category, non-automotive shipments continued growing at high rates, while automotive shipments showed signs of an incipient recovery (Chart 16).

Chart 15
Total investment and private consumption
Indices 2021 = 100, s. a.



s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

Chart 16
Total manufacturing exports
Indices 2021 = 100, s. a.

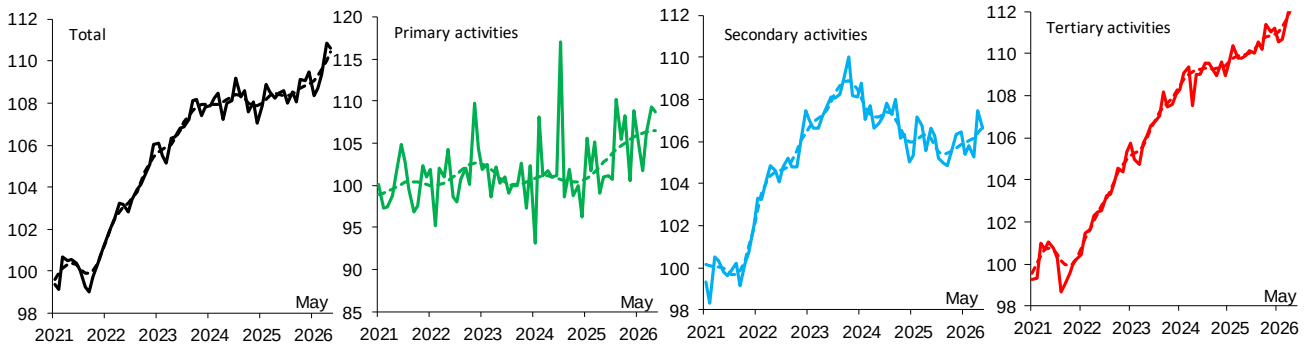


s. a. / Seasonally adjusted series and trend series based on data in nominal US dollars. The former is represented by a solid line and the latter by a dotted line. Three-month moving average.
Source: Prepared by Banco de México with data from the Tax Administration Service (SAT, for its Spanish acronym), the Ministry of the Economy (SE, for its Spanish acronym), Banco de México, the National Institute of Statistics and Geography (INEGI, for its Spanish acronym). Mexico's Merchandise Trade Balance. The National System of Statistical and Geographical Information (SNIEG, for its Spanish acronym). Information of national interest.

From a sectoral perspective, industrial activity rebounded during the April-May two-month period, after having performed weakly between the fourth quarter of 2024 and the first quarter of 2025 (Chart 17). This was due to an increase in manufacturing activity and an improvement in the construction sector (Chart 18). In contrast, utilities continued trending downwards, while the mining sector kept slowing down. The services sector returned to a growth path, while primary activities also expanded, remaining at high levels.

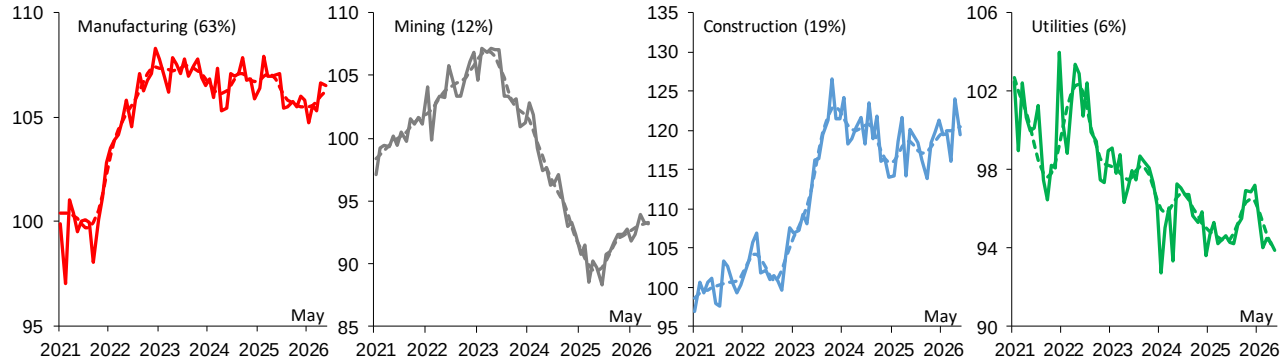
As for labor market indicators, the national unemployment rate rose in June 2026 compared to the previous month, while the urban unemployment rate remained at a level similar to that of May (Chart 19). During the same month, formal IMSS-insured employment exhibited signs of improvement, following the stagnation observed the previous month. Lastly, in May, unit labor costs in the manufacturing sector declined for the fourth consecutive month, reaching their lowest level since June 2025.

Chart 17
Global Indicator of Economic Activity
Indices 2021 = 100, s. a.



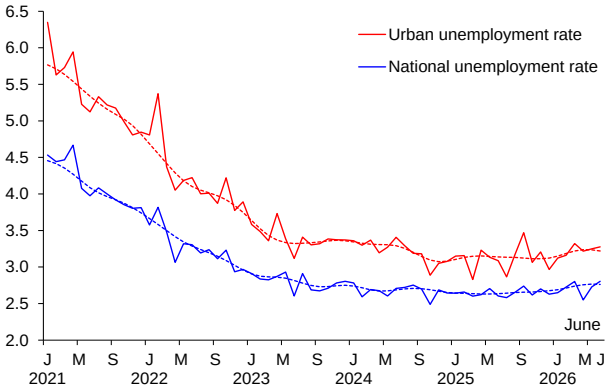
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Mexico's System of National Accounts, INEGI.

Chart 18
Industrial activity[1/]
Indices 2021 = 100, s. a.



s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
1/ Figures in brackets correspond to their share in the total in 2018.
Source: Mexico's System of National Accounts, INEGI.

Chart 19
National unemployment rate and urban unemployment rate
Percent, s. a.



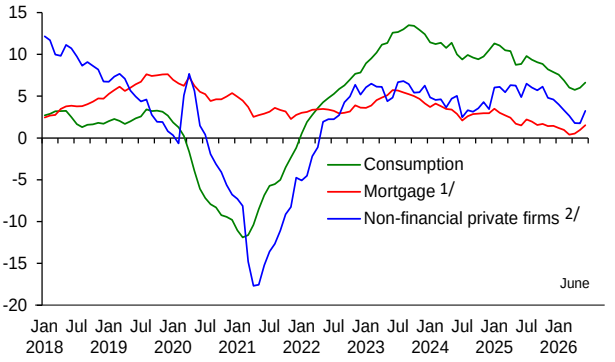
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Prepared by Banco de México with ENOE data, INEGI.

In June 2026, domestic financing to the private sector recovered somewhat. Despite this, its annual real growth rate remained below the level observed at the end of 2025. Regarding its components, commercial bank credit to firms and households increased in June 2026 (Chart 20). As for its segments, the annual real variation in mortgage lending remained at low levels compared with its historical trends. In contrast, consumer loans continued growing at a higher rate than the rest of credit portfolios.

With regard to financing costs, interest rates on new bank loans to businesses decreased slightly in June. Their evolution has been reflecting the pass-through of the reference rate to bank interest rates in said segment. Meanwhile, interest rates on commercial bank mortgage loans did not change significantly from the previous month. Lastly, based on data as of February 2026, bank interest rates on the consumer loan portfolio declined across all of its segments.

Regarding the quality of commercial banks' loan portfolios, delinquency rates on corporate loans declined somewhat in June compared with the previous month. Meanwhile, in the household loan portfolio, delinquency rates on mortgage loans remained at low levels, while those on consumer loans rose slightly compared with the previous month.

Chart 20
Performing credit from commercial banks to the non-financial private sector
Annual percentage change

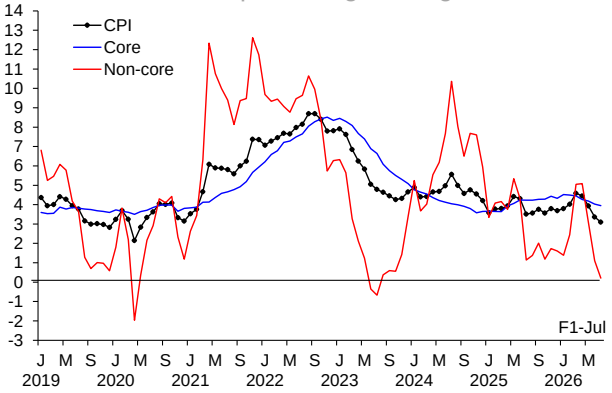


1/ Adjusted to account for the withdrawal from and the incorporation of non bank financial intermediaries to the credit statistics.
2/ Adjusted for valuation effects due to fluctuations in the exchange rate.
Source: Banco de México.

A.2.3. Development of inflation and inflation outlook

Annual headline inflation decreased from 3.37 to 3.10% between June and the first fortnight of July 2026. This behavior was mainly due to the decline in non-core inflation and, to a lesser extent, to that of core inflation (Chart 21 and Table 1).

Chart 21
Consumer Price Index
Annual percentage change

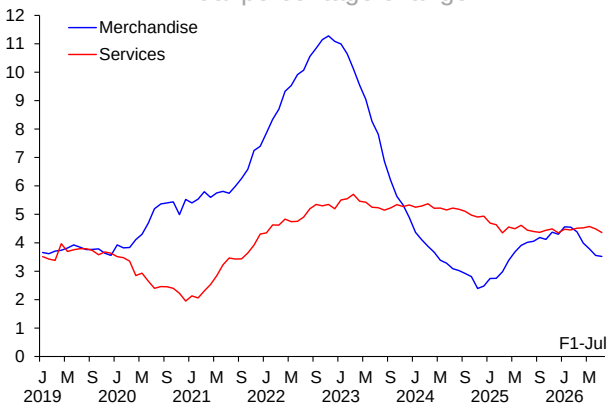


Source: INEGI.

Annual core inflation decreased from 4.03 to 3.95% between June and the first fortnight of July 2026. Regarding its components, both the annual variation in merchandise prices and that in services prices declined during said period (Chart 22). Merchandise inflation went from 3.55 to 3.52%, influenced by a decline in food merchandise inflation from 5.08 to 4.89%, while non-food merchandise inflation rose from 2.24 to 2.33% (Chart 23). Annual services inflation declined from 4.49 to 4.36% during the

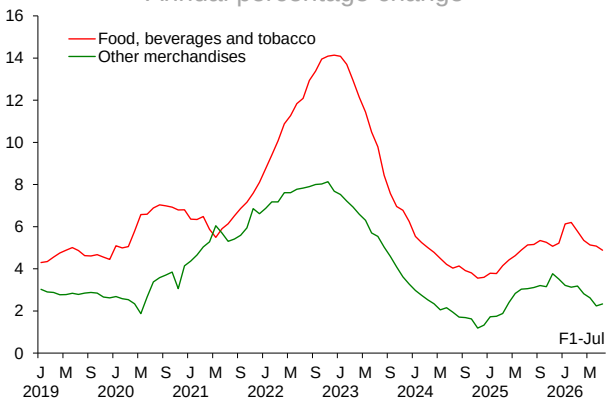
same period, supported by a decrease in inflation of services other than housing and education from 5.12 to 4.83%. Within the latter, various services registered lower annual rates of change in their prices, particularly those related to food, entertainment, tourism, health and personal care, transportation, and telecommunications.

Chart 22
Merchandise and services core price subindex
Annual percentage change



Source: INEGI.

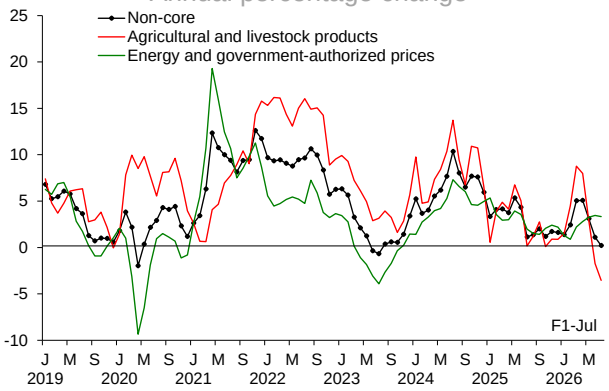
Chart 23
Merchandise core price subindex
Annual percentage change



Source: INEGI.

Annual non-core inflation decreased from 1.11 to 0.21% between June and the first fortnight of July 2026 (Chart 24 and Table 1). This performance was partly due to a decline in the annual variation of agricultural and livestock product prices, which, during that period, went from -1.72 to -3.53%, influenced by a decrease from 5.56 to 1.55% in the annual variation of fruit and vegetables and from -6.48 to -6.86% in livestock products. The behavior of non-core inflation was also driven by the lower annual variation in energy prices, which went from 1.39 to 1.16% between the aforementioned dates, mainly due to a decline in LP gas and electricity prices.

Chart 24
Non-core price subindex
Annual percentage change



Source: INEGI.

Regarding inflation expectations drawn from the survey conducted by Banco de México among private sector specialists, between May and July 2026, the medians for the end of 2026 declined. Thus, the median of headline inflation expectations decreased from 4.35 to 4.00%, and of core inflation, from 4.22 to 4.00%. The medians of headline and core inflation expectations at the end of 2027 remained at 3.84% and 3.86%, respectively. For the next four years, the median of headline inflation remained at 3.80%, while that of core inflation decreased from 3.80 to 3.75%. Meanwhile, the medians of long-term inflation expectations (5 to 8 years) changed slightly. In particular, the median of headline inflation remained at 3.75%, while that of core inflation adjusted from 3.73 to 3.75%. Lastly, between June and July, both inflation expectations implied by market instruments and the inflation risk premium remained relatively stable in their monthly averages.

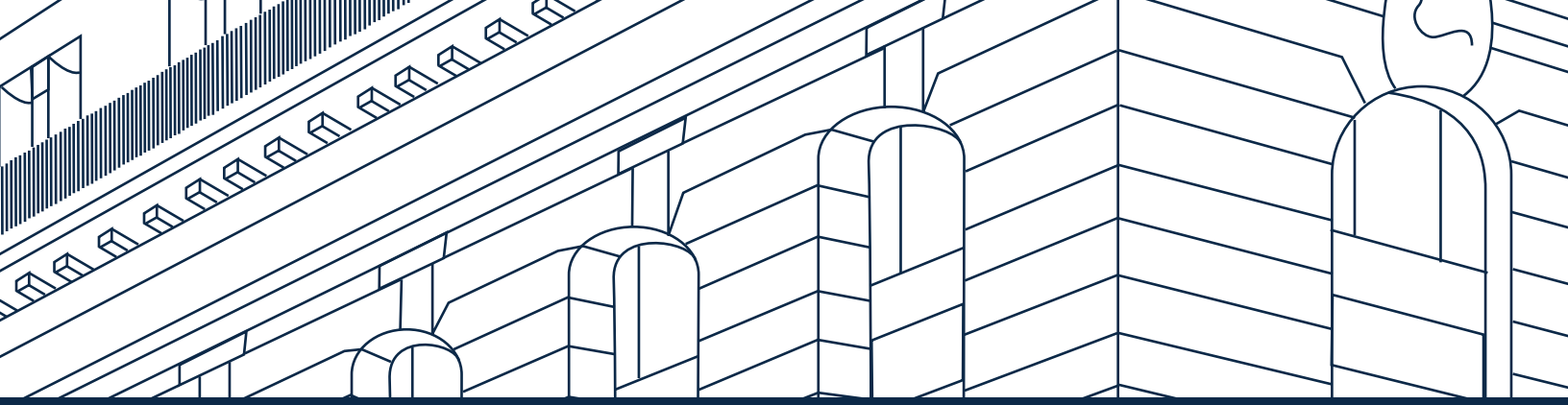
Both headline and core inflation are still expected to decline throughout the forecast horizon, albeit more gradually than previously anticipated. Headline inflation is expected to converge to the target in the fourth quarter of 2027. The forecasts are subject to various risks. On the upside: i) persistence of core inflation; ii) disruptions due to foreign trade policies or to an inflationary impact from geopolitical conflicts; iii) climate-related impacts; iv) cost-related pressures, and v) a trend towards depreciation of the Mexican peso. On the downside: i) lower-than-anticipated economic activity in Mexico and/or the United States; ii) lower pass-through from increased costs, and iii) lower pressures stemming from the appreciation that the national currency has

been registering since last year. The balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside. The changes in economic policy by the US administration and a possible extension of geopolitical conflicts continue adding uncertainty to the forecasts. Their effects could imply pressures on inflation on both sides of the balance.

Table 1
Consumer Price Index and components
Annual percentage change

Item	May 2026	June 2026	1st fortnight Jul. 2026
CPI	**3.94**	**3.37**	**3.10**
Core	**4.19**	**4.03**	**3.95**
Merchandise	**3.78**	**3.55**	**3.52**
Food, beverages and tobacco	5.13	5.08	4.89
Non-food merchandise	2.63	2.24	2.33
Services	**4.57**	**4.49**	**4.36**
Housing	3.61	3.62	3.64
Education (tuitions)	5.95	5.94	5.95
Other services	5.30	5.12	4.83
Non-core	**3.10**	**1.11**	**0.21**
Agricultural and livestock products	**2.90**	**-1.72**	**-3.53**
Fruits and vegetables	14.38	5.56	1.55
Livestock products	-4.74	-6.48	-6.86
Energy and government-authorized prices	**3.27**	**3.46**	**3.33**
Energy products	1.15	1.39	1.16
Government-authorized prices	**6.92**	**7.00**	**7.04**

Source: INEGI.



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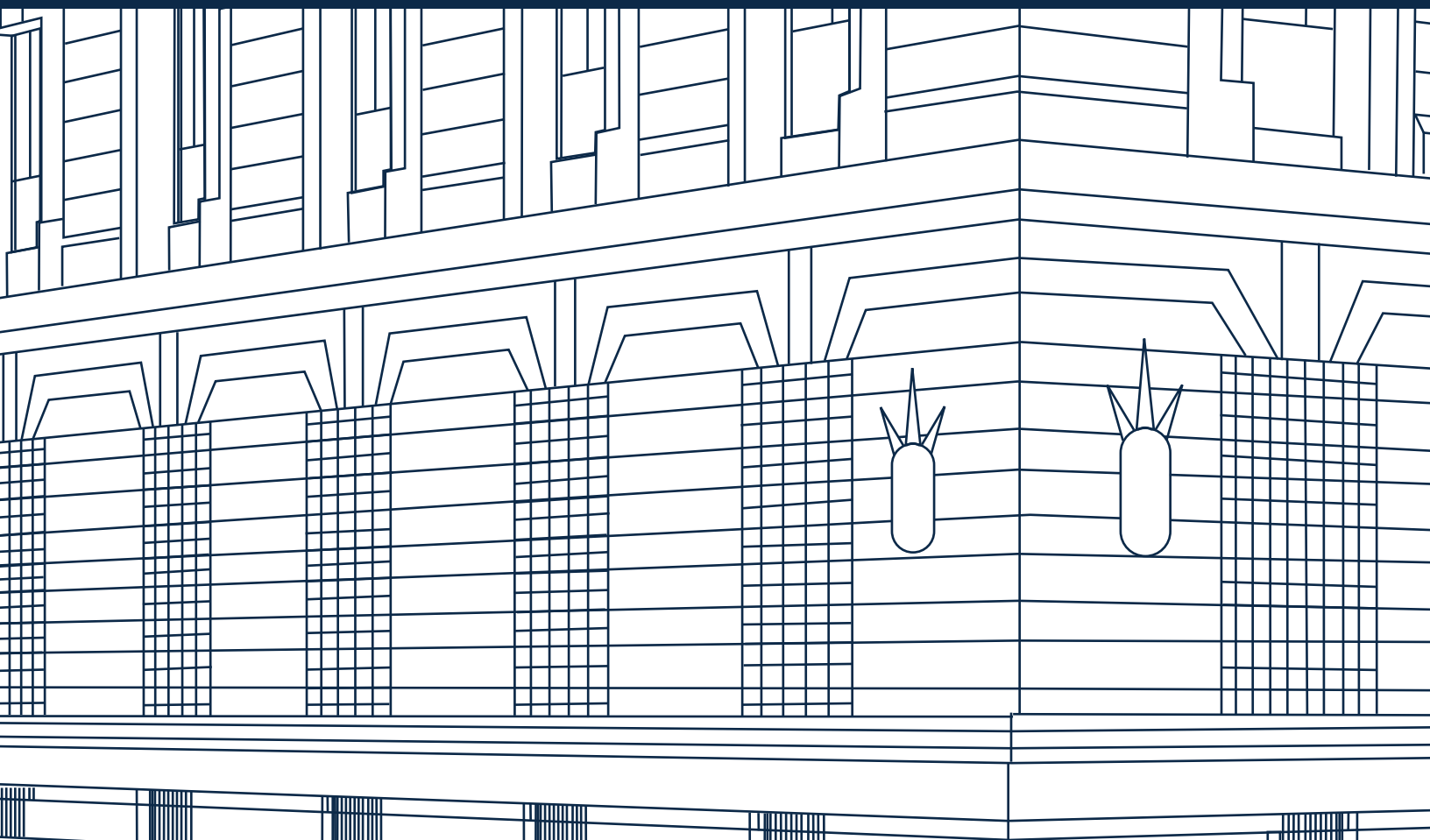
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