



BANCO DE MÉXICO®

Minutes number 119

**Meeting of Banco de México's Governing Board on the occasion of
the monetary policy decision announced on September 25, 2025**

This document is provided for the reader's convenience only. The translation from the official Spanish version was made by Banco de México's staff. Discrepancies may possibly arise between the original document in Spanish and its English translation. For this reason, the original Minutes in Spanish are the only official document.

FOREWARNING

This document is provided for the reader's convenience only. The translation from the official Spanish version was made by Banco de México's staff. Discrepancies may arise between the original document in Spanish and its English translation. For this reason, the original Spanish version is the only official document.

1. PLACE, DATE AND PARTICIPANTS

1.1. Place: Meeting held by virtual means.

1.2. Date of Governing Board meeting: September 24, 2025.

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 conducted and presented to the Governing Board (see Annex).

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

International environment

Most members highlighted that world economic activity is estimated to have expanded during the third quarter of 2025 at a lower rate than in the previous quarter, in both advanced and emerging economies. **One** member stated that, in both groups of countries, Purchasing Managers' Indices indicate that the manufacturing sector would continue showing sluggishness, while the services sector would expand. **Some** members emphasized that uncertainty regarding trade policy changes has moderated since the last meeting. **One** member noted the importance of the agreements reached and the willingness demonstrated to continue with this

process. However, he/she underlined that the effects of tariff measures on world economic activity are still difficult to quantify. **Another** member mentioned that incoming data for the third quarter of 2025 suggests that US economic activity is estimated to have expanded at a similar rate as in the previous quarter. He/she stated that investment and imports of capital goods have been supported by the high-tech sector. However, he/she added that household spending has moderated.

Some members indicated that labor markets in advanced economies have been showing signs of greater moderation. **Most members highlighted that the US labor market has shown signs of further cooling.** **Some** members underlined an increase in the unemployment rate in that country, along with a significant decline in job creation. **One** member emphasized that, although the latest unemployment rate figure is low, it is the highest since 2021. **Another** member mentioned that the growing fragility of the labor market, combined with a moderation in the growth of households' disposable income, could weigh on the evolution of private consumption in the coming quarters.

Some members noted that growth forecasts for 2025 and 2026 continue pointing to a deceleration in the global economy, although more moderate than anticipated in previous months. **One** member highlighted the forecast that the pace of expansion of the United States will remain more dynamic than in most advanced economies. **Another** member pointed out that, although growth forecasts for the United States are higher than in previous months, these remain lower than in April and continue suggesting a slowdown compared to 2024.

Some members mentioned that in most economies headline inflation stood slightly above the targets of their respective central banks. **One** member noted that it has registered limited variations and has remained below the levels observed at the beginning of the year. He/she stated that inflation has already reached its target in only a few cases. He/she indicated that, in most economies, inflation is expected to converge to its target towards 2026. **Another** member pointed out that challenges persist for the convergence of inflation to its point target. **Some** members noted the pressures resulting from food prices. **Most members highlighted the persistence of core inflation at a global level.** **Some** members attributed this to the increase in goods inflation and the gradual decline in services inflation. **One** member emphasized that the core component has exhibited a heterogeneous behavior

across countries. In this context, **some** members pointed out that several central banks have lowered their reference rates recently. **One** member stated that this reflects a process of normalization in the conduct of monetary policy at the global level, despite recent upturns in core inflation. **Another** member highlighted that the rate-cutting cycle is expected to continue in various emerging economies.

All members emphasized that the Federal Reserve lowered its reference rate by 25 basis points in its latest monetary policy decision. Most members mentioned that this rate cut comes after the reference rate was left unchanged since December 2024. They noted that the Fed's statement highlighted that downside risks to the labor market have increased. **One** member indicated that the Federal Reserve chairman emphasized that this decision takes into account a risk-management perspective in light of a complex economic outlook and a rise in inflation. **Another** member added that the Fed's chairman stated that this upturn is mainly due to higher goods' prices, while disinflation appears to be continuing for services. He/she pointed out that, during the press conference, it was mentioned that the rate cut follows a shift in the balance of risks and seeks to move towards a more neutral monetary stance. **All members mentioned that moving forward the Fed is expected to continue its cycle of monetary easing. Most members highlighted that the Federal Reserve's projections include two 25-basis-point cuts for the remainder of 2025, one more than what was previously foreseen.** **One** member added that one additional cut is expected for 2026 and another one for 2027. However, **another** member pointed out that the dispersion of such projections reflects the uncertainty surrounding the expected adjustments. **One** member highlighted that there are certain factors which could restrain subsequent reductions of the interest rate, such as the resilience of the US economy and a higher-than-expected inflation.

Most members mentioned that international financial markets continued to improve their performance amid greater risk appetite since Banco de México's latest decision. They associated this improvement with expectations of a less restrictive stance from the US Federal Reserve. **One** member stated that less uncertainty surrounding changes in foreign trade policies also contributed to this positive outcome. In this regard, **another** member expressed that the effect of tariffs on inflation is expected to be short-lived. **Some**

members pointed out that stock market indices trended upwards, particularly in the United States, where they reached historical highs during this period. **One** member noted that the favorable performance of these indices was driven by global growth prospects, for which tail risks to global economic activity have been partially removed. **All members indicated that the US dollar depreciated moderately.** **One** member highlighted that this depreciation, together with a more accommodative monetary policy stance by the Federal Reserve, has contributed to a global easing of monetary and financial conditions. **Another** member added that, considering the concerns about that country's fiscal accounts, the weakness of the US dollar can be expected to continue. **One** member noted that analysts foresee a further depreciation of the US dollar, in line with the search for hedges and a greater bias towards depreciation that can be inferred from options markets. He/she added that this is occurring in a context where gold prices continue trending upwards, due to its demand as a safe haven asset. **Most members mentioned that US government interest rates declined significantly.** **One** member highlighted that this contrasts with what occurred in other developed countries, except for Canada. He/she pointed out that credit spreads in bond markets remained at historical lows. **Another** member stated that the yield curves of government bonds in emerging economies fell significantly as well.

Economic activity in Mexico

Some members indicated that GDP grew at a quarterly rate of 0.64% during the second quarter of 2025. **Some** members mentioned that this figure was higher than that reported for the first quarter of the year. **One** member asserted that, considering the environment of uncertainty, this was a better outcome than what could have been anticipated a few months ago. He/she added that this has led to an upward revision of growth forecasts for the entire year. However, he/she warned that the economic environment remains sluggish. In this regard, **another** member noted that, in annual terms, GDP registered a variation of 0% in the second quarter. **One** member pointed out that significant downside risks remain, mainly due to the environment of uncertainty and global trade tensions. He/she highlighted the need to consider the possibility of a sharper-than-expected slowdown in the United States. He/she added that the balance of risks to growth remains biased to the downside.

Most members agreed on the weakness of economic activity at the beginning of the third quarter of 2025. They indicated that the IGAE for July registered a negative monthly variation. One member underlined that it also contracted in its annual variation. Another member stated that the contraction was widespread across sectors and more pronounced than analysts had anticipated. Most members pointed out that industrial activity exhibited marked weakness once again in July. Some members indicated that this weakness reversed much of the progress made earlier this year. One member expressed that it contrasted with the moderate improvement registered in the second quarter of 2025. Most members agreed that the manufacturing sector performed weakly in July. One member highlighted that this sector has accumulated virtually zero growth so far this year. He/she added that the construction, mining, and utilities sectors have registered a contraction so far this year. Another member noted that, nevertheless, the construction sector remained above the levels observed in late 2024 and early 2025. Some members mentioned that the tertiary sector maintained a certain dynamism during the second quarter of 2025, although its components performed heterogeneously. One member highlighted the positive performance of the leisure, professional services, and mass media information sectors. However, another member stated that tertiary activities registered their steepest drop of the year in July. Regarding primary activities, some members indicated that they declined further.

Regarding aggregate demand, **some members noted that consumption and investment remained weak. Most members mentioned that private consumption recovered slightly in the second quarter of 2025. One member pointed out that, although it increased somewhat since the beginning of the year, it contracted by 0.5% compared to the first half of 2024. Another member emphasized that the recovery was largely due to the significant upturn in imported goods' consumption. He/she stated that this may be associated with the appreciation of the Mexican peso so far this year. He/she compared this performance with the sluggishness in the consumption of domestic goods and services. One member added that private consumption remained as the main pillar of economic activity, exhibiting notable resilience supported by strong determinants, such as the growth of the real wage bill. Regarding investment, most members noted that it continued trending downwards. One member indicated that such trend was mainly the result of the performance of the machinery and equipment sector.**

Another member considered that investment has been affected by the environment of uncertainty and lower business confidence. He/she anticipates that, although at the margin investment registered a lateral movement, it will fall sharply over the year. Nevertheless, one member highlighted that there could be a reactivation of investment as a result of the development of infrastructure projects towards the end of the year.

Most members noted that manufacturing exports continued trending upwards, driven by the dynamism of non-automotive exports to the US market. One member considered that the above has more than offset the negative performance of automotive exports. Most members mentioned the transition towards a greater use of the USMCA by exporting companies. One member pointed out that Mexico's share in US imports has increased, while imports from Canada and China have decreased. He/she added that this could be partly explained by the lower effective tariff rate on Mexican exports compared to other countries. Some members noted that foreign sales during the first half of the year may have been boosted by the front-loading of imports from the United States, mainly during the first quarter, in anticipation of the risk of new tariff measures in the future. One member indicated that difficulty in finding substitutes for certain Mexican products in the short term in some cases may be positively affecting export performance. Some members added that the performance of the external sector contributed to the rebound in activity.

Most members considered that economic slack prevails. They mentioned that the point estimate of the output gap is negative. One member noted that it is expected to continue widening into negative territory, even taking into account that fiscal consolidation will be lower than previously announced. Another member argued that the expected widening would bring the output gap to its widest levels since 1993, excluding 1995, 2009, and 2020. However, one member stated that the negative output gap could be overestimated given the possibility of a lower-than-expected potential GDP. Another member explained that, although there is uncertainty regarding the precision of estimates for unobservable variables such as the output gap, it is clear from his/her point of view that the Mexican economy would expand below its potential rate this year. He/she argued that hard data suggests sluggishness. He/she stated that the growth forecast of only 0.6% for the entire year would

be lower than that of previous years and below the average of the 2000-2022 period.

Some members stated that signs of labor market cooling persist. **One** member indicated that, nevertheless, some signs have continued to be mixed. **Some** members pointed out that, on the one hand, the unemployment rate remains low. **On the other hand, most members highlighted the weakness of formal jobs.** **Some** members added that both the employment-to-working-age-population ratio and the labor force participation rate remained below the 2024 average. **One** member pointed out that the latter's behavior can be associated with the downward trend in male participation. **Some** members mentioned that, nonetheless, both the referred ratio and the participation rate have recovered slightly in the more recent data. **Some** members noted that wage growth has moderated. Lastly, **one** member argued that this moderation in the Mexican labor market could limit the recovery of private consumption.

Inflation in Mexico

Most members underlined that headline inflation stood at 3.74% in the first fortnight of September. **One** member emphasized the decrease in headline inflation from an average of 4.22% registered in the second quarter of 2025 to its current level. **Most members attributed the favorable evolution of headline inflation compared to the levels observed in the second quarter mainly to the decline in non-core inflation.** However, **one** member noted a slight increase in headline inflation since last July, when it registered 3.51%. He/she attributed the above to an increase in non-core inflation in recent fortnights, albeit from low levels. **Most members highlighted that, in recent readings, inflation has remained below its historical average and has shown a stable behavior.** **Some** members pointed out that the inflationary pressures reflect adjustments in relative prices rather than widespread increases. **One** member asserted that the price formation process in Mexico is firmly anchored.

Most members emphasized that core inflation has remained stable in recent months. They pointed out that it stood at 4.26% in the first fortnight of September. **One** member stated that these levels reflect the materialization of the risk of inflation persistence and, to a certain extent, of the cost pass-through risk. **Another** member emphasized that current core inflation levels are the result of limited increases in some items rather than a generalized rise in prices. He/she stated that the

correlation between adjustments in the prices of merchandise and services remains close to zero, indicative of sector-specific shocks rather than aggregate shocks. **Some** members agreed that core inflation has been affected by the shock to livestock products prices. **One** member stated that this shock, which exerted pressure on various categories of merchandise and services, has begun to show signs of moderation. In turn, **some** members pointed out that the rise in merchandise inflation has more than offset the decrease in services inflation which has been gradual given its persistence. **One** member added that this occurred despite economic stagnation and signs of certain slack. He/she added that supercore inflation, which is more sensitive to cyclical conditions, has remained above 4% since April. He/she mentioned that the persistence of core inflation cannot be attributed to a few isolated price increases, but is rather a widespread phenomenon. He/she specified that the trimmed mean indicator has been trending upwards since the lows observed last November and that in August it was above its pre-pandemic average. He/she argued that an upward trend is being observed across an increasingly larger fraction of items in the basket. He/she emphasized that core inflation remains outside the variability interval and shows no sign of trending downwards.

Most members noted that merchandise inflation has increased during the year, registering 4.19% in the first fortnight of September. **One** member stated that it has been affected by shocks that have exerted pressure on the relative prices of several CPI item groups. Among the factors that have affected merchandise prices, **some** members highlighted the lagged effect of the exchange rate depreciation registered in the second half of last year as well as increases in international reference prices of livestock products and in the prices of related inputs. **One** member indicated that, after having notably rebounded between March and April, the annualized seasonally adjusted monthly variations of this component have tended to decline. He/she emphasized that these variations are not affected by the arithmetic effects of prior shocks, which suggests that their impact may be dissipating. **Another** member pointed out that, over the past two months, the monthly variations in both food and non-food merchandise have remained below their respective 10-year averages.

On examining the components of merchandise inflation in more detail, **one** member noted that food inflation remains above 5% and has sustained its upward trend since November 2024. He/she added that the share of the basket experiencing margin

variations above 5% has increased since the previous monetary policy meeting. **Another** member argued that variations are already declining at the margin, although they remain elevated. **One** member stated that the annual variation of cold cuts prices decreased by nearly one percentage point. In the case of non-food merchandise, **some** members pointed to the increase in inflation of hygiene and personal care items. **One** member highlighted the rise in medicine prices. He/she considered that these categories could have been influenced by higher international prices resulting from the front-loading of US imports. **Some** members underlined that, in contrast, other items are performing better, such as clothing, footwear, and accessories. **One** member explained that this occurred despite Mexican authorities imposing tariffs on textiles and apparel in December 2024. He/she added that other categories, including furniture and household appliances, have experienced negative price variations. **Another** member argued that in August the proportion of non-food merchandise discount sales was high compared to recent years, possibly reflecting a weak demand.

Most members agreed that services inflation has continued to decline gradually, displaying heterogeneity across its components. **Some** members specified that it declined from 4.44% in July to 4.32% in the first fortnight of September. As an additional reference, **one** member recalled that in September 2024 it stood at 5.10%. **Another** member observed that the decline in services inflation has been slower than anticipated. In turn, **one** member highlighted that nearly 29% of the items in the services basket are rising at annualized monthly rates above 5%. **Most members mentioned that some items continued trending downwards, especially housing.** In contrast, **one** member stated that inflation in educational services increased. He/she explained that industry executives have cited wage-related pressures, higher input costs, and lower enrollment due to declining birth rates as factors influencing their pricing decisions. **Most members highlighted that food services inflation continues to register high readings.** **One** member warned that it remains close to 8%, thus sustaining an upward trend since June 2024. He/she stated that these pressures stemming from both food services and food merchandise prices are observed across different regions, making them a relevant factor in the persistence of core inflation at the global level. **Most members expressed that this segment has been affected by shocks to livestock products prices.** In this regard, **one** member emphasized that pressures are expected to begin easing. Finally, **another** member argued that sluggish economic

activity will imply less pressure on services prices, noting, however, that empirical evidence suggests these effects occur with a lag.

Most members highlighted that non-core inflation has persisted at low levels. **One** member detailed that between July and the first fortnight of September it rose from 1.14 to 2.01%. **Most members observed that the annual variations of fruit and vegetable prices have been negative throughout the year.** **Some** members mentioned that this occurred after the effects of the 2024 supply shocks had reversed. However, **one** member underlined that they increased between July and the first fortnight of September. **Most members pointed out that energy inflation has been trending downwards.** **One** member stated that between July and the referenced fortnight it decreased by more than half a percentage point. **With regard to livestock product prices, most members emphasized that, although their annual variation remains elevated, it has been moderating at the margin.** **One** member specified that, after averaging 10.27% in the second quarter of 2025, it registered 8.40% in the first fortnight of September. **Another** member summed up that so far this year the high annual variation of livestock product prices has been offset by the favorable trends in the inflation of fruits and vegetables, and energy and government-authorized prices.

Most members noted that breakeven inflation and inflation risk has decreased for all terms. **One** member indicated that this was mainly due to a fall in the inflation risk premium. **Another** member pointed out that, over a 10-year horizon, breakeven inflation is below its average of the past two decades. In surveys among analysts, **one** member stated that in recent months headline inflation expectations for the end of 2025 were revised upwards, however they have declined slightly at the margin. He/she added that expectations for the end of 2026 have remained stable and those for the next 12 months have been revised downwards with respect to the beginning of the year. **Another** member pointed out that headline inflation expectations for the next 12 months have increased over the past two months. **Some** members expressed that medium- and long-term expectations have remained virtually anchored. **One** member added that both long-term headline and core inflation stood at 3.50%. He/she mentioned that, in the case of headline inflation, this level has been unseen since early 2024. He/she specified that there were improvements in the distribution of core inflation expectations.

Some members mentioned that the outlook for a decline in inflation is maintained. **One** member noted that headline inflation is still expected to converge to the target by the third quarter of 2026. **Some** members mentioned that the forecast for core inflation was revised slightly upwards between the third quarter of 2025 and the second quarter of 2026. **One** member argued that this reflects a slower-than-expected decline in services inflation. He/she explained that this adjustment is offset by smaller-than-expected changes in agricultural and livestock products prices, resulting in a downward revision to the short-term forecast for headline inflation. **Most members considered that pressures on merchandise prices are expected to ease due to the appreciation of the Mexican peso and the moderation in livestock products prices. They indicated that cyclical conditions of the economy are expected to continue contributing to the decline in inflation.** **Some** members emphasized that the weakness of economic activity would primarily affect services inflation. **One** member pointed out that evidence suggests that the impact of cyclical conditions occurs with a considerable lag, and thus the slowdown that began in late 2023 will continue to exert downward pressure on this component.

Some members mentioned that the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside. **Most members considered that said bias is less pronounced than that faced between 2021 and 2024.** **One** member sustained that the widening of economic slack and the recent appreciation of the Mexican peso contributed to this improvement. **Another** member agreed that the economic slack represents a downward risk. **One** member stated that core inflation is unlikely to decelerate as expected, and therefore neither upward revisions in subsequent decisions nor a postponement of the convergence expected for the third quarter of 2026 can be ruled out.

Among the risks to the upside, **one** member mentioned the likelihood of increases in merchandise inflation continuing to offset the decline in services inflation. **Another** member considered the risk of exchange rate depreciation associated with trade tensions, although he/she considered this risk to have diminished. **One** member emphasized that, in this context, the risk of a rebound in US inflation persists. He/she mentioned the imposition of tariffs by Mexico on some of its imports, as outlined in the Economic Package, as a potential risk, while noting that their effects are difficult to quantify and should

be assessed over time. He/she also argued that the increase in the Special Tax on Production and Services (IEPS) on certain products could reduce the slowdown in merchandise inflation outlined in the 2026 forecast. However, **some** members anticipated that tax adjustments could have a limited, one-time impact on price levels. **One** member explained that the impact of the increase in the IEPS tax would be limited, as the potentially affected products represent only about 2% of the CPI. **Another** member indicated that such change should not affect the evaluation of the outlook for inflation in a fundamental way. **One** member highlighted the risk of cost-related pressures associated with annual minimum wage increases. He/she indicated that these increases could exceed double digits in the coming years, given the goals set to boost the purchasing power. He/she added that, given the incipient impact of these increases on average wages, these could be passed on more significantly to services prices. He/she highlighted the risk that non-core inflation could rebound to its historical average, given its high volatility and the fact that it has not remained at low levels consistently in the past. He/she stated that it has averaged around 6% since 2003, with broad and continuous variability. He/she explained that there are no indications in the outlook suggesting a structural change in its behavior.

Macrofinancial environment

Most members pointed out that trading conditions in domestic financial markets continued improving. **One** member explained that greater risk appetite at the global level has contributed to such improvement. **The majority noted that since the previous monetary policy decision, the interest rates of Mexico's government bonds decreased, especially those for longer terms.** **One** member underlined that the declines in rates for 10-, 20- and 30-year securities were of more than 60 basis points. **Another** member noted that real interest rates on government bonds also decreased in most maturities. **One** member stated that the decline of interest rates led to a reduction of the differential between Mexico and the United States, especially for the long-term nodes. **Some** members pointed out that a decrease in sovereign risk indicators was also observed. **One** member mentioned that since the last monetary policy decision, flows to the local fixed-income market have been characterized by high volatility. He/she added that the non-resident positioning in *M-bonos* shows differentiated movements, with inflows in the medium and long term and outflows in the short term. He/she stated that significant outflows have

been observed in real rate instruments, consistent with a lower demand for inflation-hedged instruments.

Most members highlighted that since the last monetary policy decision, the Mexican peso has appreciated. One member indicated that it has appreciated by more than 10% so far this year. Most members pointed out that this is to a large extent due to the generalized depreciation of the US dollar. Some members noted that the preferential access that Mexican exports have to the United States under the USMCA has also contributed to the above. One member added the attractive level of Mexico's volatility-adjusted rate differential as a factor. Another member mentioned that the Mexican peso has appreciated in a context in which interest rate differentials with respect to the United States have narrowed to levels below their historical average and are expected to remain relatively constant. He/she noted that prospects of the Mexican peso depreciating have moderated. One member stated that the implied volatility in Mexican peso options has declined, falling even below the one observed in other emerging economies. He/she pointed out that, in the case of Mexico, the risk-adjusted differential has remained high within the emerging economies group, as a result of which Mexican peso carry trades have remained attractive to investors. Another member added that the country's solid macroeconomic fundamentals are also relevant. One member warned that there are risk factors that could affect the Mexican peso's performance, such as a reversal of the US dollar's depreciation or a sudden increase in the Mexican currency's volatility, which is currently at low percentiles.

Monetary policy

The Governing Board deemed appropriate to continue the rate-cutting cycle. This decision was consistent with the assessment of the current inflationary outlook. In particular, it took into account the behavior of the exchange rate, the weakness of economic activity, and the possible impact of changes in trade policies worldwide. It also considered the level of monetary restriction that has been implemented. Thus, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 25 basis points to 7.50%.

Looking ahead, the Board will assess further adjustments to the reference rate. It will take into account the effects of all determinants of

inflation. Actions will be implemented in such a way that the reference rate remains consistent at all times with the trajectory needed to enable an orderly and sustained convergence of headline inflation to the 3% target during the forecast period. 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 recalled that following the stage of monetary stance calibration, during which it was necessary to act promptly, a gradual approach was adopted at the previous meeting. He/she expressed that this signaled the continuity of the easing cycle. He/she stated that, when evaluating the performance of inflation, it is essential to consider that it is influenced by adjustments in relative prices and not by generalized pressures. He/she pointed out that monetary policy has focused on maintaining inflation expectations well anchored given its limits to prevent adjustments in relative prices. He/she mentioned that the proposed adjustment does not reflect tolerance to the current levels of core inflation, but rather the appropriate response under an inflation-targeting regime with a forward-looking approach. He/she added that changes in the balance of risks for inflation continue being monitored in order to ensure that a change in relative prices does not have second-round effects. Meanwhile, he/she noted that the easing of global monetary and financial conditions provides greater room for maneuver in conducting monetary policy in Mexico. He/she warned that an unnecessary tightening of the relative policy stance could take place as the US Federal Reserve continues moving forward with its downward cycle, resulting in other central banks also lowering their rates. He/she underlined that macroeconomic strength also contributes to the exchange rate behavior by providing certainty to investors. He/she argued that the monetary stance has been transmitted along the entire yield curve. He/she expressed that the orderly narrowing of rate differentials with respect to the United States and the decrease in breakeven inflation suggest that monetary policy actions have been credible. He/she stated that an approach of gradualism allows for weighing the risks to inflation on both sides of the balance and therefore is a robust response. He/she acknowledged that the monetary stance would be close to reaching the upper bound of the estimated neutral range. He/she commented that, however, given the broad degree of prevailing and anticipated slack, the evolution of the balance of risks for inflation, and the current and expected external monetary conditions, the rate-cutting cycle could

continue. He/she noted that such actions would not be determined mechanically but rather guided by a careful assessment of all the determinants of the outlook for inflation. Finally, he/she deemed it appropriate to maintain the forward guidance of the two previous decisions, thus continuing the rate-cutting cycle under an approach of gradualism and considering all relevant information on the inflation outlook and its prospects.

Another member stated that there are still upward risks to inflation, that several of them have become balanced and have a lower bias than that observed between 2021 and 2024. He/she commented that as long as inflationary pressures reflect more adjustments in relative prices rather than generalized increases, temporary deviations in inflation are consistent with price stability. He/she indicated that, as a result, monetary policy can adjust to continue supporting the convergence efficiently. He/she noted that the ex-ante real rate would be at 3.75%, close to the upper bound of the neutral range, level on which he/she evaluated on. First, he/she specified that medium-term determinants of inflation such as the negative output gap, the appreciation of the Mexican peso and the anchoring of its expectations are consistent with the fading of shocks that affect price dynamics. Second, he/she noted that the implemented monetary restriction has been historically extended. He/she pointed out that while in the previous monetary policy cycle the target rate remained slightly above the neutral range for 20 months, this time the deviation was significant and has lasted for 36 months. He/she added that this has occurred while inflation has shown readings consistent with its historical distribution, and that so far this year it has been within the variability range for six months, a situation that has only been observed in five different years since 2003. Third, he/she noted that several central banks are half a percentage point from their central estimate of neutrality and have an inflation gap similar to or greater than that of Mexico. He/she added that in the case of Mexico, the real rate gap would be of merely over 100 basis points, which reflects the prudence with which monetary policy has been conducted. Fourth, he/she recalled that monetary policy operates with lags and that, based on economic literature, indirect transmission channels take longer to activate. He/she considered that the implemented monetary restriction is expected to continue operating despite the neutral nature that the stance could acquire. Finally, he/she argued that both the bilateral and multilateral stances remain solid. However, he/she warned that it is sensitive to bouts of idiosyncratic volatility and thus requires monitoring. He/she expressed that

communication should emphasize that the monetary policy stance is consistent with the observed and expected determinants of inflation, which suggest that convergence to the target will be attained within the forecast horizon. He/she asserted that, looking ahead, the adjustment of the target rate could continue gradually and with the necessary caution to ensure the fulfillment of the constitutional mandate.

One member pointed out that annual core inflation has stabilized in its latest readings. He/she added that its determinants are conducive for it to resume a downward trend. He/she underlined the appreciation of the Mexican peso over the year and the weakness of economic activity. He/she noted that the annualized seasonally adjusted monthly variations of core inflation have decreased, albeit with fluctuations. He/she emphasized that the US Federal Reserve's recent decision provides some room for Mexico to lower its reference rate without narrowing the rate differential. He/she stated that the greater gradualism in the rate-cutting cycle has responded, among other factors, to considerations regarding the relative monetary policy stance. He/she therefore considered it appropriate to delve into such stance. He/she explained that, as a result of the tightening cycle due to the inflationary episode, the rate differential was at around 600 basis points. He/she mentioned that, subsequently, since the shocks were dissipating and inflation levels were no longer at the levels reached during the most critical moments, such a wide differential was no longer required. He/she commented that, in the current rate-cutting cycle, the rate differential has been significantly reduced. He/she highlighted that differences in macroeconomic conditions between Mexico and the United States led to a reduction in such differential. He/she specified that economic activity, which is a determinant of inflation, has been weaker in Mexico. He/she underlined that, despite the complex external environment for the Mexican economy, the 225-basis-point reduction in the rate differential during 2025 has not led to disorderly exchange rate adjustments. He/she pointed out that prior to the recent rate cut by the US Federal Reserve, the differential was between 325 and 350 basis points. He/she stated that the historical lows of between 275 and 300 basis points do not necessarily constitute a lower bound for this differential. He/she expressed that several factors have widened the margin for reducing the aforementioned differential. He/she pointed out, first, the generalized weakening of the US dollar, which is expected to persist. Second, he/she mentioned Mexico's relative strength compared to other emerging economies. He/she noted that Mexico faces a lower effective tariff rate

and that the risk-adjusted differential has remained high within emerging economies. He/she highlighted that, looking ahead, the Governing Board must remain attentive to subsequent decisions by the US Federal Reserve, as well as to the development of all other determinants, both external and domestic, of Mexico's macroeconomic outlook. He/she stated that the possibility of adjusting the target rate once again should be assessed meeting by meeting.

Another member considered that inflationary dynamics continue exhibiting two main problems. First, he/she explained that, although forecasts keep pointing to a reduction, this prevision has not materialized. He/she insisted that the gap between observed and expected inflation persists, as well as the gap between the bank's forecast and that of analysts. Second, he/she mentioned that core inflation remains outside the variability range and continues without showing a downward trend, while the reduction in headline inflation is only due to the favorable performance of the non-core component. He/she warned that the dynamics of the latter could soon reverse, and therefore the convergence of inflation to the target cannot be supported by its behavior. He/she pointed out that pressures on core inflation are broad-based and that its forecast has again been revised upwards. In addition, he/she indicated that the effect of economic slack on price formation, particularly on prices that are most susceptible to it, such as those of services, has not yet materialized. He/she stated that the balance of risks for inflation remains deteriorated, biased to the upside, and with new risks difficult to quantify. He/she argued that, in this context, it is imperative to maintain a restrictive stance until core inflation resumes its downward trend. He/she asserted that the conditions are not adequate for the ex-ante real rate to enter into neutral zone when core inflation, which is affected by monetary policy, is outside the variability range. He/she stated that monetary policy transmission could be less effective than expected. He/she specified that credit has continued expanding and that high liquidity in the economy is a sign of the limited effect of monetary tightening. Regarding the relative monetary policy stance, he/she argued that the widespread depreciation of the US dollar has reduced the relevance of the interest rate differential between Mexico and the United States. He/she expressed that, although the recent reduction in the US Federal Reserve's target rate gives some room for maneuver, caution should be taken against the possibility that said central bank may reduce its reference rate less than expected. He/she commented that, given the inflationary environment in Mexico, it is necessary to reinforce the anchoring

of medium- and long-term inflation expectations around the target. He/she added that it would be appropriate to release a cautious forward guidance indicating that adjustments to monetary policy will depend on the evolution of data, without anticipating an automatic continuation of the easing cycle.

One member stated that the observed and expected behavior of inflationary determinants is conducive to the continuous decline in inflation. He/she pointed out that, so far in the third quarter of 2025, headline inflation has fluctuated below its historical average and core inflation has stabilized. He/she argued that the livestock products shock has begun to show signs of moderation and that cyclical conditions will have a downward incidence on services inflation. However, he/she added that evidence suggests that this occurs with significant lags, so its effect is not yet fully reflected. He/she asserted that at this stage of the disinflationary process it is relevant to put the current levels of the reference rate into context. He/she noted that in periods where inflation was between 3.5 and 4.5%, the target rate averaged 6.27%. He/she added that while during those periods the outlook was for a reduction in slack conditions, a significant widening of such conditions is currently anticipated. He/she pointed out that, given the current situation, it is appropriate to reflect on the degree of restriction. He/she recalled that in recent years it was necessary to adopt a clearly restrictive monetary policy stance given the unusual nature of the inflationary shocks and their magnitude. He/she stated that currently several factors suggest that monetary policy will remain restrictive even with additional rate cuts: i) the phase of economic weakness due to uncertainty, which, despite having diminished, still prevails; ii) the weakness of the US dollar, which mitigates the risk of Mexican peso depreciation; iii) the slowdown in credit expansion and the prevision that the monetary stance will have a greater impact on its dynamics in light of the economic sluggishness; and iv) the increase in the supply of loanable funds due to the significant increase in retirement savings resources and the forecast that they will continue increasing. He/she also commented that the reduction in the US Federal Reserve's target rate and the outlook of further adjustments have provided some room to the relative monetary policy stance. He/she expressed that the restrictive stance that has been maintained for three years will continue affecting inflation. He/she considered that it is important to communicate that there is space to continue with the rate-cutting cycle under an approach of gradualism. He/she considered that this approach will allow addressing both sides of the balance for inflation. He/she added that this is

consistent with an efficient conduct of monetary policy that allows inflation to continue its trajectory towards the target in a stable manner.

3. MONETARY POLICY DECISION

The Governing Board deemed appropriate to continue the rate-cutting cycle. This decision was consistent with the assessment of the current inflationary outlook. In particular, it took into account the behavior of the exchange rate, the weakness of economic activity, and the possible impact of changes in trade policies worldwide. It also considered the level of monetary restriction that has been implemented. Thus, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 25 basis points to 7.50%.

Looking ahead, the Board will assess further adjustments to the reference rate. It will take into account the effects of all determinants of inflation. Actions will be implemented in such a way that the reference rate remains consistent at all times with the trajectory needed to enable an orderly and sustained convergence of headline inflation to the 3% target during the forecast period. 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

Voting in favor of the decision were Victoria Rodríguez, Galia Borja, Gabriel Cuadra, and Omar Mejía. Jonathan Heath voted in favor of maintaining the overnight interbank interest rate at 7.75%.

5. DISSENTING OPINIONS / VOTES

Vote. Jonathan Heath

Along with the persistence of the non-core component, the balance of risks for inflation faces an additional challenge. Our forecasts anticipate atypically low levels of non-core inflation below 3% that prevail throughout eight quarters of the forecast horizon, and which do not contemplate the typical variance that usually accompanies this index. This component has never remained under this level for an extended period, and thus, in the absence of a structural change that would justify said dynamic, the fact that this prevision has not materialized is an evident upward risk that has not been considered. Moreover, there are two other elements in the balance of risks that are excluded from the list. First, the increase in taxes on soft drinks and cigarettes announced for 2026. Second, the imposition of tariffs on imports from countries without a trade treaty with Mexico, particularly imports from China, which are used as significant inputs for diverse products. Both upward risks have been highlighted by analysts of a number of financial institutions, along with estimates of their likely impact, which are far from negligible. I call once again to proceed with caution.

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

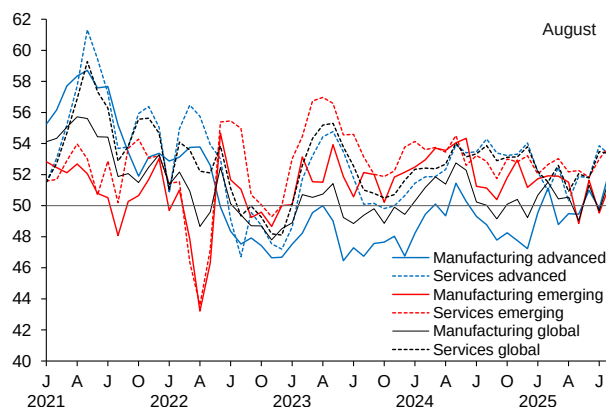
A.1.1. World economic activity

During the third quarter of 2025, world economic activity is estimated to have expanded at a lower rate than in the previous quarter, reflecting a slowdown in both groups of emerging and advanced economies. The latest Purchasing Managers' Indices suggest that the manufacturing sector will remain sluggish at a global level and the service sector will continue expanding (Chart 1).

Since Mexico's last monetary policy decision, uncertainty regarding changes in global trade policies has moderated in light of the foreign trade agreements reached between the United States and some of its main trading partners, as well as the willingness to reach further agreements. However, the effects that tariff measures could have on world economic activity are still uncertain, given that the current tariffs are high. In this context, global growth forecasts prepared by international organizations continue anticipating a slowdown in the world economy for this and the next year compared to 2024. Among global risks, the following stand out: the escalation of trade tensions and the intensification of geopolitical turmoil, with their possible impacts on inflation, economic activity, and volatility in financial markets.

Chart 1
Purchasing Manager's 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: IHS Markit.

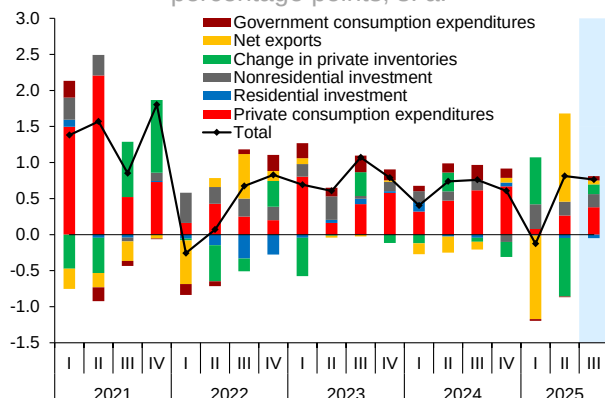
In the United States, available indicators point to a similar growth in economic activity during the third quarter of the year compared to the previous quarter, in which economic activity grew at a seasonally adjusted quarterly rate of 0.8% (Chart 2).¹ This would partly reflect a positive contribution from non-residential investment, which is estimated to have maintained the dynamism observed during the first half of 2025. Although consumption is expected to have contributed more than in the previous quarter, household spending has decreased slightly so far this year. Thus, growth in private domestic sales is likely to have remained less dynamic than in 2024.²

* 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 produced or compiled by Banco de México.

¹ Expressed as an annualized seasonally adjusted quarterly rate, US GDP grew 3.3% in the second quarter of 2025.

² Private domestic sales correspond to the sum of private consumption and fixed investment.

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



s. a. / Seasonally adjusted figures.

Note: The shaded area refers to the Atlanta Federal Reserve's GDPNow forecasts as of September 17.

Source: Bureau of Economic Analysis (BEA).

In August, US industrial production grew at a seasonally adjusted monthly rate of 0.1%, after contracting 0.4% in July. This performance reflected an increase of 0.2% in manufacturing and 0.9% in mining, which was offset by a contraction of 2.0% in electricity and gas generation. Purchasing Managers' Indices for September suggest that manufacturing output would have increased during that month.

The US labor market has moderated further. Nonfarm payrolls continued decelerating significantly compared to early 2025, as evidenced by the 22,000 new jobs that were created in August. Meanwhile, in a context of a moderation in labor force growth, the unemployment rate remained relatively low, although it rose from 4.2% in July to 4.3% in August. The number of job vacancies decreased from 7.4 million in June to 7.2 million in July. Initial claims for unemployment insurance stood at 231,000 in the week ending September 13, a level similar to that registered at the time of Mexico's previous monetary policy decision. Continued claims declined, after having trended upwards since April. Lastly, in August, the average hourly wage growth remained the same as in the previous month (3.9%).³

³Average hourly earnings of production and nonsupervisory employees.

⁴Expressed as an annualized and seasonally adjusted quarterly rate, the change in euro area GDP was 0.5% in the second quarter of 2025.

⁵Expressed as an annual rate, the variation of China's GDP was 5.2% in the second quarter of 2025.

Regarding the euro area, its economy is expected to remain virtually stagnant during the third quarter of 2025, after having grown at a seasonally adjusted quarterly rate of 0.1% in the previous quarter.⁴ In July, retail sales were at levels similar to those registered in the second quarter. The Purchasing Managers' Indices for September suggest that the manufacturing sector is expected to remain sluggish, while the services sector is estimated to expand slightly. As for the labor market, although the demand for skilled labor has moderated, it remained strong. The unemployment rate decreased from 6.3% in June to 6.2% in July, thus remaining at historically low levels.

As for the group of the other main advanced economies, their economic activity grew at a slower rate in the third quarter than in the previous quarter. Labor markets in some of these economies moderated further, although overall conditions remained near equilibrium.

The aggregate of the main emerging economies is expected to have grown at a slower rate during the third quarter of the year compared to the previous quarter. This would be the case of China, whose economy is expected to continue slowing down during said period, after having grown at a seasonally adjusted quarterly rate of 1.1% in the second quarter.⁵ So far in the third quarter, China's export growth remained relatively strong. The decline in shipments to the United States was largely offset by an increase in exports to other regions. Imports also increased compared to the previous quarter. In the first two months of the third quarter, industrial production and retail sales moderated compared to the previous quarter. This came after consumption was boosted in previous months by the consumer durables exchange program that ended in July.⁶ The slowdown in cumulative investment in fixed assets observed throughout the second quarter intensified in August. In this context, the Chinese economy continues facing significant challenges due to its weak real estate sector and domestic demand, as well as the uncertainty regarding its trade relationship with the United States.

Since Mexico's last monetary policy decision, international commodity prices have increased

⁶Implemented since 2024, China's goods exchange program was a government initiative designed to reactivate the economy and boost domestic consumption. By providing subsidies to local governments, the program enabled citizens to receive discounts on the replacement of worn-out goods, such as appliances, vehicles, and equipment, with new models.

slightly overall. Oil prices rose above the levels registered in early August, although they fluctuated. Among the factors driving prices up were the lack of concrete progress in diplomatic meetings to end the conflict between Russia and Ukraine, the possibility of the US government imposing further sanctions on Russian crude oil, and expectations of an increased global demand for crude oil. These pressures were partially offset by other factors, such as the Organization of Petroleum Exporting Countries and allied countries' (OPEC+) decision to increase production in October and the meetings promoted by the United States to achieve a ceasefire in Eastern Europe.

Gas prices closed below the levels registered in early August, although they fluctuated during the period since Mexico's previous monetary policy statement. Prices faced downward pressures due to high inventory levels. European and Asian prices, however, registered greater volatility throughout the period, as a result of the evolution of the geopolitical conflict in Eastern Europe.

Grain prices closed above the levels registered in early August. This increase was largely due to expectations of higher demand in light of progress in the trade negotiations between China and the United States. Additionally, during the reporting period, prices fluctuated due to changes in expected production and inventory levels.

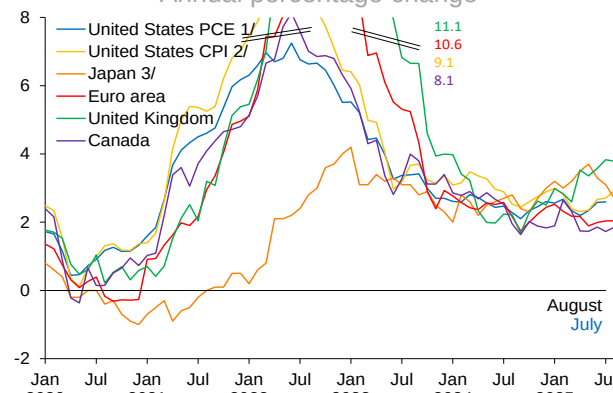
Industrial metals, mainly copper, registered price increases amid expectations of a higher demand. Precious metal prices rose, driven by a stronger demand for safe haven assets in view of uncertainty over changes in the US trade policy and concerns about possible adjustments to the structure of the Federal Reserve, as well as expectations of rate cuts by the Fed. In this context, gold reached a new all-time high during the fourth week of September.

A.1.2 Monetary policy and international financial markets

In advanced economies, headline inflation evolved heterogeneously (Chart 3). Nevertheless, inflation remained, in general, at levels similar to or below those registered in early 2025. Core inflation exhibited, in general, a slight resistance to decline from its early-year levels, although its dynamics have varied across countries. The above has been the result of a reduction in services inflation and an increase in goods inflation, albeit these trends have moderated in some economies in recent months.

In the United States, annual headline inflation as measured by the Consumer Price Index (CPI) rose from 2.7% in July to 2.9% in August, reaching levels similar to those registered in early 2025. The recent increase was driven by higher inflation in the non-core component of both food and energy prices. Core inflation remained relatively stable at 3.1% in August. This was the result of higher goods inflation and a slight decrease in services inflation. As for the annual headline inflation of the Personal Consumption Expenditures Price Index (PCE), it stood at 2.6% in July, remaining around the level observed in early 2025. Annual core inflation rose slightly from 2.8% in June to 2.9% in July.

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/ Excludes fresh food.

Note: The series includes data up to August 2025, except for the United States (PCE), whose latest available data corresponds to July 2025. The chart's range was adjusted to facilitate its reading. Figures in the chart denote the respective maximum levels of each series.

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, in August annual headline inflation remained at 2.0% for the third consecutive month, in line with its central bank's inflation target. This was the result of a lower deflation in energy prices, which was offset by a decline in food inflation. Core inflation remained practically unchanged in August, standing at 2.3% for the fourth consecutive month. This was due to a slight decrease in services inflation, which was offset by a moderate increase in goods inflation.

The most recent inflation forecasts prepared by analysts for the end of 2025 for the main advanced economies continue showing heterogeneity. In the case of the United States, said forecasts continue anticipating a rise in inflation in the remainder of 2025, although more moderate than that foreseen at the end of the second quarter of the year, and that

would later reverse in 2026. In contrast, inflation in other advanced economies is expected to be close to target at the end of this year. Indicators of long-term breakeven inflation and inflation risk derived from financial instruments for the main advanced economies registered limited changes compared to the levels observed at the time of Mexico's most recent monetary policy decision.

In many emerging economies, annual headline inflation has continued decreasing compared to the levels registered in early 2025. Core inflation has exhibited a mixed behavior so far this year, with a slight resistance to decline in recent readings. In China, headline and core inflation remained low. Headline inflation registered deflationary levels of -0.4% once again in August, as a result of a fall in food prices. Core inflation has rebounded in recent months, reaching 0.9% in August.

In this environment, since Mexico's latest monetary policy decision, some central banks in advanced and emerging economies have continued lowering their reference rates, some of them after pausing in previous months or not adjusting them so far this year, as had been the case of the US Federal Reserve. In addition, central banks in the main advanced economies continued gradually reducing their securities holdings. In particular, the Bank of Japan announced a program to sell its assets in exchange-traded funds and Japanese real estate investment trusts.⁷ Regarding future actions, central banks generally mentioned that rate adjustments will remain dependent on incoming economic data and their implications for the inflation outlook. Several central banks have pointed out that they are going through a period of uncertainty regarding the economic environment and inflationary dynamics resulting from the developments of trade and geopolitical tensions, and that they will continue monitoring the evolution of risks.

The US Federal Reserve lowered the target range for the federal funds rate by 25 basis points, after leaving it unchanged in its previous five decisions. In the latest decision, the range was thus adjusted to between 4.00 and 4.25%. The Federal Open Market Committee (FOMC) pointed out in its September policy statement that it remains attentive to risks to both aspects of its dual mandate and that it considers that downside risks to employment have increased. It added that the decision to lower the target range was made in support of its policy objectives and in

light of the shift in the balance of risks. It stated that it would carefully assess the incoming data, the evolution of the outlook, and the balance of risks when considering further adjustments to the target range for the federal funds rate. In addition, the Federal Reserve reasserted that it will continue reducing its balance sheet.

During the press conference, the chairman of the US Federal Reserve pointed out that, in the near term, risks to inflation are biased to the upside, while employment risks, to the downside, a combination described as challenging. He added that the balance of risks has shifted due to the increased downside risks to employment, prompting the Committee to take another step towards a more neutral policy stance. He mentioned that, with the most recent decision, monetary policy remains well positioned to respond in a timely way to potential economic developments. He detailed that the rate cut in this decision could be considered as a measure to manage the risks affecting their dual mandate. Regarding the rise in inflation over the course of this year, he indicated that it has largely been driven by increases in the goods prices, which have begun to reflect the impact of the tariffs announced and implemented by the US government. He explained that these effects are not yet quite significant but are expected to continue increasing during the rest of this and the next year.

Regarding adjustments to the Committee's forecasts, between June and September, the median of the Committee members' forecasts for headline inflation measured by the personal consumption expenditure deflator remained at 3.0% for the end of 2025, was adjusted upwards from 2.4 to 2.6% for 2026, and remained at 2.1% for 2027. The median forecast for core inflation remained at 3.1% for 2025, rose from 2.4 to 2.6% for 2026, and remained at 2.1% for 2027. Meanwhile, median GDP growth forecasts were revised upwards for the end of 2025, 2026, and 2027, from 1.4 to 1.6%, from 1.6 to 1.8%, and from 1.8 to 1.9%, respectively. The median unemployment rate remained at 4.5% for the end of 2025, decreased from 4.5 to 4.4% for the end of 2026, and from 4.4 to 4.3% for the end of 2027. The median of expectations for the federal funds rate was adjusted downwards from 3.9 to 3.6% for the end of 2025, from 3.6 to 3.4% for 2026, and from 3.4 to 3.1% for the end of 2027. These forecasts imply two rate cuts of 25 basis points for the remainder of

⁷ It indicated that assets in exchange-traded funds (ETFs) valued at JPY 330 billion and Japanese real estate investment trusts

(J-REITs) worth JPY 5 billion will be sold annually, all at market prices.

2025. Likewise, the median long-term rate expectation remained unchanged at 3.0%.

During the reporting period, the US Federal Reserve also published a review of its monetary policy framework. Among other changes, it highlighted a return to a flexible inflation targeting framework, omitting to mention that the FOMC seeks to achieve an average inflation rate of 2% and to mitigate deficits with respect to the maximum employment level. In addition, it states that the Committee considers that full employment refers to the highest level that can be achieved on a sustained basis without generating inflationary pressures.

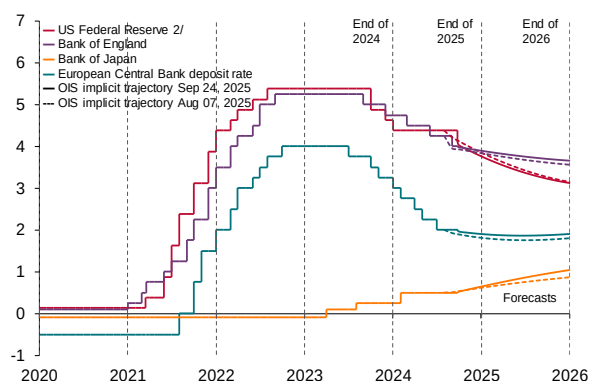
The European Central Bank (ECB) kept its reference rates unchanged for the second consecutive meeting in September, after eight consecutive reductions since June 2024. Thus, its key deposit, refinancing, and lending rates remained at 2.00, 2.15, and 2.40%, respectively. The Governing Council stated that current inflation is around its 2% target and that its assessment of the inflation outlook remained unchanged. It reiterated its commitment to an economic and financial data-dependent approach in determining the appropriate monetary policy stance. The Council reaffirmed that it is not committed to a specific monetary policy path. It also reiterated that the size of its asset purchase program (APP) and pandemic emergency purchase program (PEPP) portfolios is decreasing at a measured and predictable pace.

At the press conference following the September decision, the president of that central bank commented that monetary policy remains well positioned, although she clarified that this does not imply that the path of monetary policy is predetermined and reiterated that the decisions will continue to be assessed on a meeting-to-meeting basis. She indicated that risks to economic growth have become more balanced, supported by a decline in uncertainty surrounding trade tensions. She also emphasized that minimal and temporary deviations of inflation from its target will not necessarily warrant a monetary policy adjustment.

Regarding other advanced economies, the central banks of Australia, New Zealand, Norway, Sweden, and Canada lowered their reference rates during the reporting period. The Bank of England kept its interest rate unchanged at its latest decision, after lowering it in its previous meeting, while Japan and Korea made no adjustments to their reference rates for the fifth and second consecutive time, respectively.

As for expectations for the main advanced economies' reference rates, those implied by market instruments for the end of 2025 registered limited changes since Mexico's last monetary policy decision (Chart 4). In the United States, the most recent forecast for the federal funds rate at the end of 2025 is around 3.7%, a level similar to that anticipated on the date of Mexico's previous monetary policy statement. The expected rate for Japan remained at 0.6%, while forecasts for the euro area and the United Kingdom rose slightly from 1.8 to 1.9% and from 3.8 to 3.9%, respectively. Meanwhile, the expected reference rate for Canada declined from 2.5% to 2.3%.

Chart 4
Reference rates and trajectories implied
in OIS curves^{1/}
Percent



1/ OIS: Fixed 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 United States, the average interest rate of the target range of the federal funds rate is used.

Source: Bloomberg.

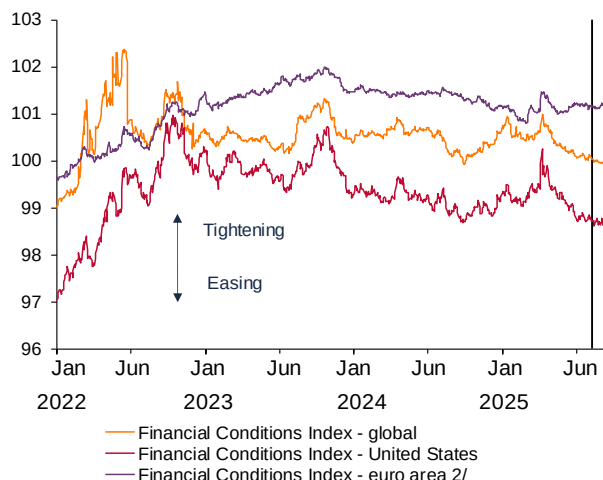
In the main emerging economies, several central banks announced cuts in their reference rates. Others decided not to make adjustments in their most recent monetary policy decisions, some of them after having lowered their reference rates in previous months. In the case of China's central bank, it has not made any adjustments to its monetary policy rate since May, and as a result, the one- and five-year loan prime rates (LPR) have remained unchanged. Likewise, said central bank used various tools to provide liquidity to the banking system and described its current monetary policy as accommodative. Brazil's central bank left its reference rate unchanged for the second consecutive time in September, after having raised it by a total of 450 basis points in its previous seven meetings. Said central bank indicated that it will assess whether maintaining the current monetary policy stance for an extended period is enough to ensure inflation convergence to the target, and

emphasized that it will not hesitate to resume the cycle of increases if it deems it appropriate.

In this environment, since Mexico's last monetary policy decision, there has been greater risk appetite, supported by the easing of trade tensions and growing expectations of lower rates in the United States. These factors favored the performance of higher-risk assets and continued exerting downward pressure on the US dollar, which contributed to a loosening of financial conditions (Chart 5). In the fixed income market, long-term (10-year) and medium-term (2-year) rates in the United States declined (Chart 6). The slope of the US yield curve (defined as the spread between 10-year and 2-year government bond rates) rose slightly and remained at positive levels. Rates for both maturities increased overall in the rest of the major advanced economies. Meanwhile, stock markets trended upwards in advanced economies. Regarding foreign exchange markets, the US dollar is trading at levels close to those registered at the beginning of the reporting period against the currencies of most major advanced economies, although with a slight risk of depreciation.

In emerging economies, long- and medium-term rates differed in behavior across regions (Chart 7). Reference rates fell in most Latin American countries, while in emerging Europe they overall trended upwards. In emerging Asia, the performance was mixed. Stock markets in this group of economies also showed a differing performance across regions. In particular, Latin American and Asian stock markets posted gains overall, while in Emerging Europe they registered mixed results. As for the foreign exchange market, Asian and Emerging European currencies exhibited a mixed performance against the US dollar, while most Latin American currencies appreciated. Lastly, since Mexico's last monetary policy decision, net capital inflows to emerging economies were observed in both fixed-income and equity assets.

Chart 5
Financial Conditions Index^{1/}
Units

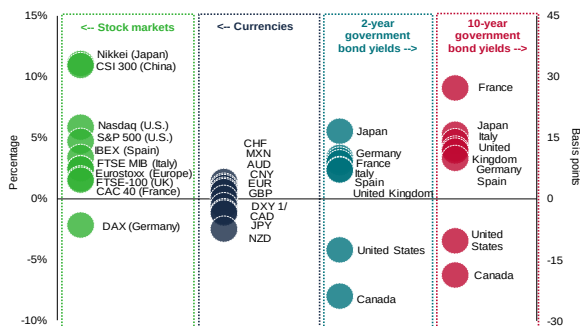


1/ The financial conditions index is constructed considering the effect of five variables on economic activity: the reference interest rate, the 10-year government bond, the spread of investment grade bonds over the government debt bond with equivalent maturity, the ratio of a stock index with 10-year 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 August 7 to September 24, 2025



1/ DXY: a weighted average estimated by the Intercontinental Exchange (ICE) of the nominal exchange rate of the main six 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 starting from August 7 to
September 24, 2025
 Percent, basis points

Region	Country	Currencies	Equity markets	2-year interest rates	10-year interest rates	CDS
Latin America	Mexico	0.98%	8.31%	-48	-48	-15
	Brazil	2.42%	8.89%	-16	-32	-13
	Chile	2.34%	10.52%	-2	2	-5
	Colombia	4.03%	5.98%	7	-46	-23
	Peru	1.48%	3.87%	1	-21	-5
Emerging Europe	Russia	-4.60%	-1.48%	-50	59	N.A.
	Poland	0.83%	-1.61%	-2	4	0
	Turkey	-1.97%	4.27%	-18	14	-20
	Czechia	1.70%	1.90%	-19	13	1
	Hungary	2.39%	-2.70%	1	-28	-5
Asia	China	0.70%	6.04%	2	18	-9
	Malaysia	0.41%	3.77%	-2	4	-2
	India	-1.10%	1.45%	-3	7	-3
	Philippines	0.07%	-4.11%	-24	-13	-1
	Thailand	1.24%	1.10%	-11	-11	-4
	Indonesia	-1.91%	8.30%	-74	-9	7
Africa	South Africa	2.40%	6.53%	-23	-60	-19

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.

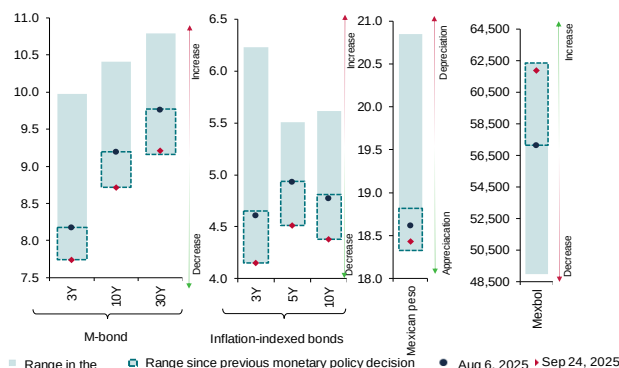
Source: Bloomberg.

A.2. Current situation of the Mexican economy

A.2.1. Mexican markets

Since Mexico's last monetary policy decision, domestic financial markets exhibited a positive performance. The Mexican peso appreciated against the US dollar, and interest rates declined across all terms (Chart 8). During this period, the Mexican Stock Exchange Price and Quotation Index (IPC) reached a historical high.

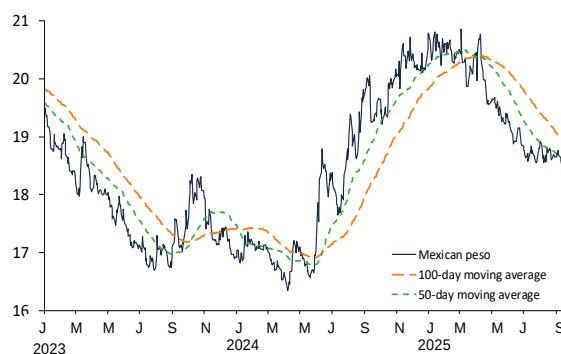
Chart 8
Mexican markets' performance
 Percent, MXN/USD and index



Source: Proveedor Integral de Precios (PIP) and Bloomberg.

The Mexican peso traded in a range of 67 cents—between 18.20 and 18.87 pesos per US dollar—since the last monetary policy decision in Mexico. (Chart 9). The appreciation of 0.98% at the end of the period was due to the weakness of the US dollar and the build-up of carry trade positions, given the context of lower volatility. Trading conditions of the Mexican peso improved and remained orderly.

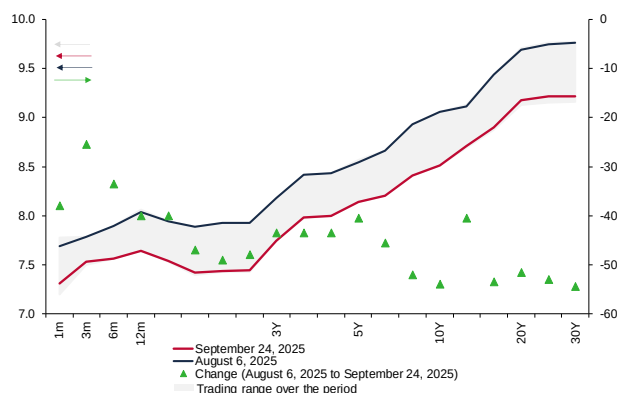
Chart 9
Mexican peso exchange rate
 MXN/USD



Source: Banco de México.

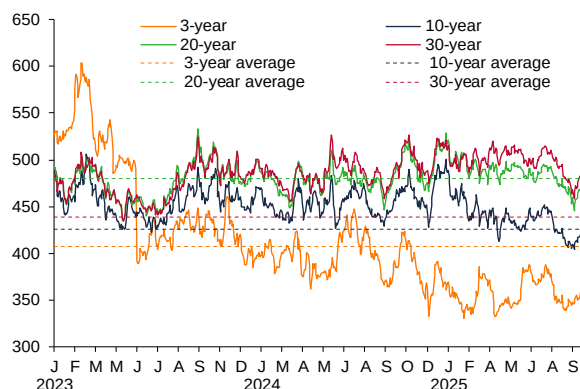
Government bond yields decreased between 26 and 55 basis points along the entire curve (Chart 10). Yields on real rate instruments also declined across all terms. In this context, breakeven inflation implicit in spreads between nominal and real rates of market instruments exhibited widespread declines (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

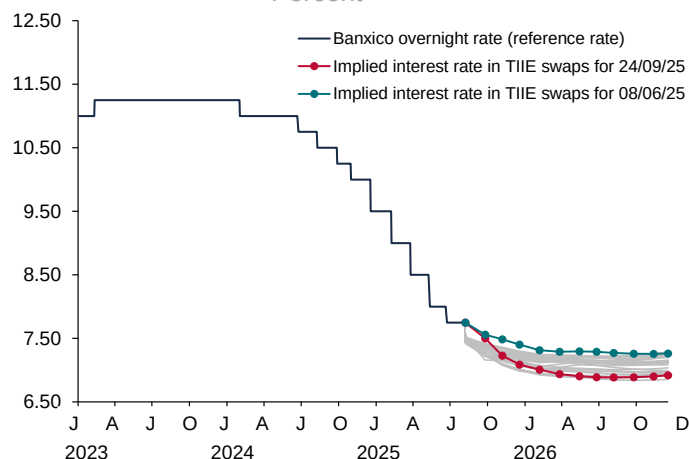


Note: Horizontal lines refer to the respective averages observed from September 2008 to date.

Source: Proveedor Integral de Precios (PIP).

Regarding expectations for the trajectory of the reference rate, the information implicit in the interest rate swap curve incorporates a 25-bp cut to the reference rate in the September decision and reflects an expectation of 7.09% for the target rate at the end of 2025 (Chart 12). In line with the above, most analysts in the Citi Mexico survey anticipate a 25-bp cut for the September meeting and respective levels of 7.00 and 6.50% for the end of 2025 and 2026.

Chart 12
Interbank funding rate implied by F-TIE swaps
 Percent



Note: Grey lines represent the range since the last monetary policy decision.

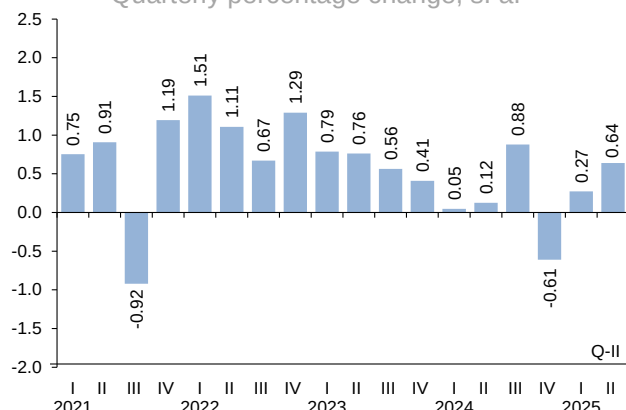
Source: Proveedor Integral de Precios (PIP).

A.2.2. Economic activity in Mexico

After growing at a seasonally adjusted quarterly rate of 0.64% during the second quarter of 2025 (Chart 13), economic activity exhibited sluggishness at the beginning of the third quarter. Thus, the estimated output gap remained negative (Chart 14).

Regarding the evolution of domestic demand, private consumption recovered slightly during the April-June quarter compared to the weakness observed in late 2024 and early 2025 (Chart 15). As for its components, consumption of imported goods rebounded after having remained sluggish in previous months, while consumption of domestic goods and services remained stagnant. Meanwhile, gross fixed investment continued trending downward. Delving further, investment in machinery and equipment continued the downward trend observed since the last quarter of 2024. At the same time, construction spending remained above the average level registered in the first quarter of 2025.

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

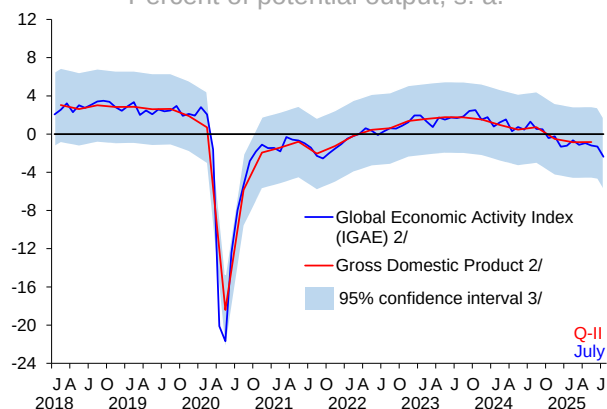


s. a. / Seasonally adjusted figures.

Source: Prepared by Banco de México with INEGI data.

Chart 14
Output gap estimates^{1/}

Percent of potential output, s. a.



s. a. / Calculations based on seasonally adjusted figures.

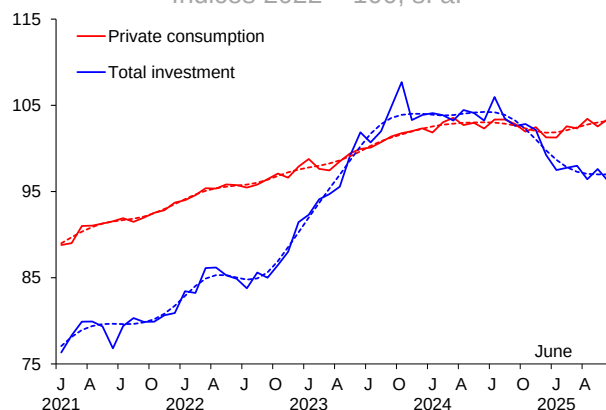
1/ Output gap estimated with a tail-corrected Hodrick-Prescott filter; see Banco de México (2009), "Inflation Report, April-June 2009", p.69.

2/ GDP data as of Q2-2025 and IGAE data as of July 2025.

3/ Output gap confidence interval calculated with a method of unobserved components.

Source: Prepared by Banco de México with INEGI data.

Chart 15
Total investment and private consumption
Indices 2022 = 100, s. a.



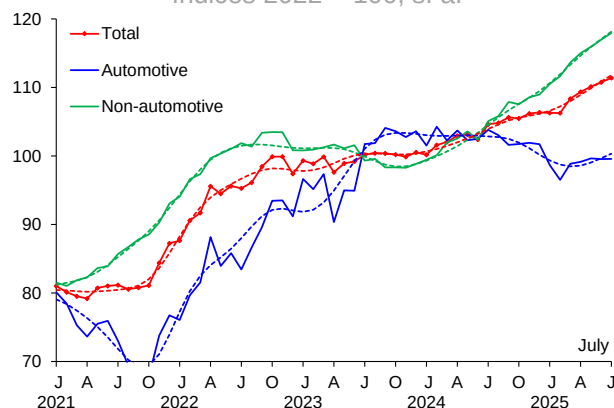
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter, by a dotted line.

Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

As for external demand, the average value of manufacturing exports in US dollars continued increasing during the second quarter and at the beginning of the third one. In particular, non-automotive manufacturing exports continued trending upward, while automotive exports remained sluggish (Chart 16).

From a sectoral perspective, the economic contraction in July was associated with the broad-based declines in the three large sectors (Chart 17). Industrial activity once again registered a notable weakness. Within this sector, manufacturing production became even weaker (Chart 18), particularly that related to transport equipment. Construction slowed down for the second consecutive month, although it remained above the levels observed at the end of 2024 and in early 2025. Meanwhile, tertiary activities have been decelerating compared to their performance in the first half of 2025. Lastly, primary activities were below the levels observed in the first half of the year.

Chart 16
Manufacturing exports
Indices 2022 = 100, s. a.

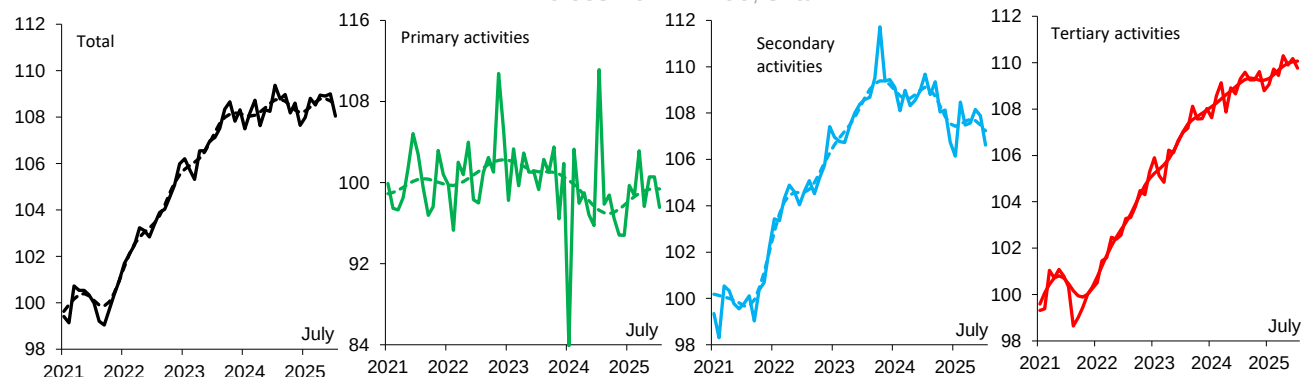


s. a. / Seasonally adjusted series and trend series based on data in nominal US dollars. The former is represented by a solid line and the latter, by a dotted line. Three-month moving average.

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.

Regarding labor market indicators, both national and urban unemployment rates decreased in July compared to the previous month (Chart 19). In August 2025, seasonally adjusted data showed a decline in the number of jobs registered with IMSS and thus continued exhibiting a marked weakness. Finally, unit labor costs continued trending upwards in July, thus remaining at high levels.

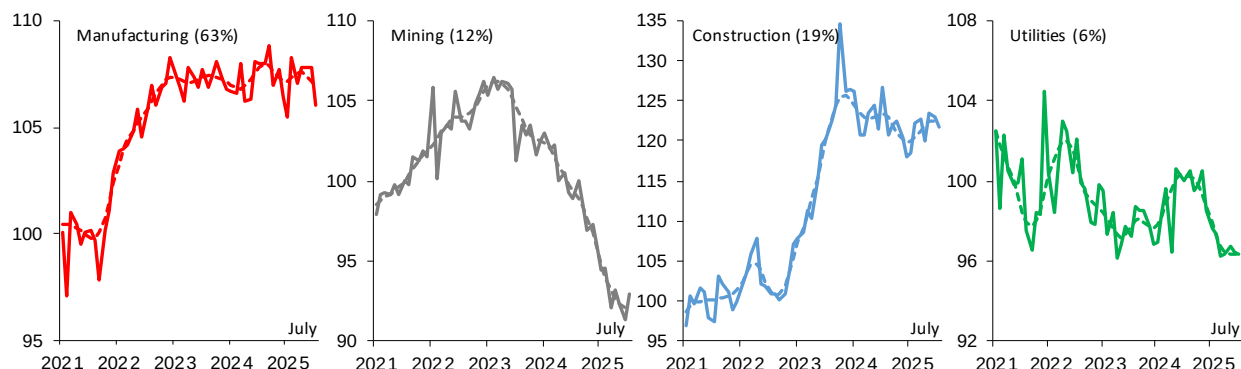
Chart 17
Global Indicator of Economic Activity
Indices 2021 = 100, s. a.



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 (SCNM, for its Spanish acronym).

Chart 18
Industrial activity^{1/}
Indices 2021 = 100, s. a.

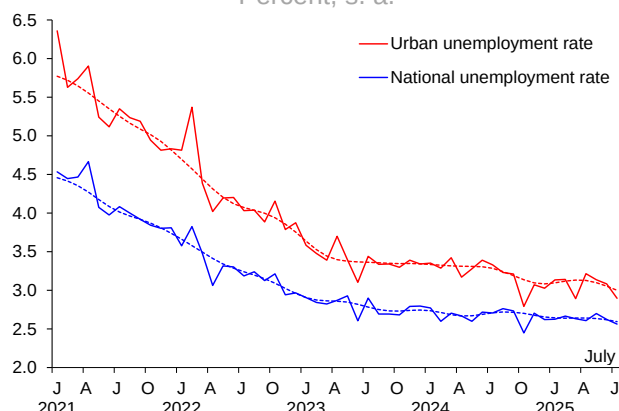


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter, by a dotted line.

1/ Figures in parenthesis correspond to their share in the total in 2018.

Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

Chart 19
National and urban unemployment rates
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.

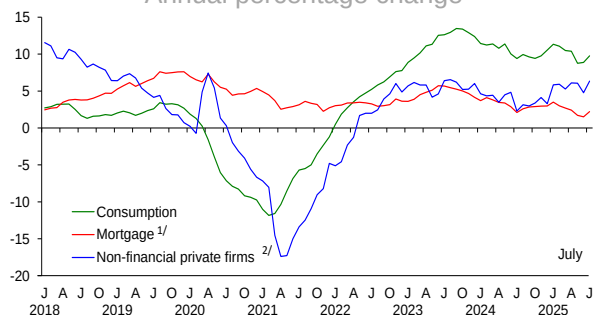
In July 2025, domestic financing to the private sector rebounded slightly with respect to the previous month. Regarding commercial bank credit, the corporate portfolio continued growing at a faster pace than that observed throughout 2024 (Chart 20). Credit to households increased in its real annual variation, although it remained at a level below that observed during the first months of 2025. Regarding its components, consumer portfolio continued showing greater dynamism than housing portfolio.

As for the cost of financing, interest rates on new bank credits to firms continued declining. Their evolution continued to reflect the pass-through of the

reference rate to bank interest rates in this segment. Meanwhile, commercial bank mortgage lending rates did not exhibit significant changes during that month and remained at a level similar to that registered before the pandemic. Lastly, based on data up to February 2025, interest rates on bank consumer loans remained at high levels, although in some segments they decreased slightly compared to the previous period.

As for portfolio quality, delinquency rates for corporates and households increased slightly in July 2025. Nonetheless, said indicators remained at low levels compared to their historical behavior.

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.

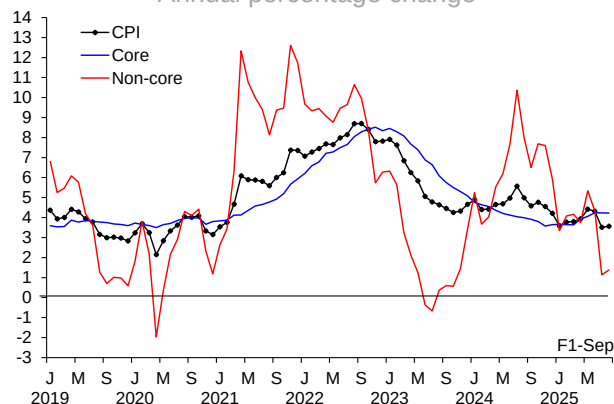
2/ Adjusted for valuation effects due to movements in the exchange rate.

Source: Banco de México.

A.2.3. Development of inflation and inflation outlook

Between July and the first fortnight of September 2025, annual headline inflation increased slightly from 3.51 to 3.74%. This adjustment mainly derived from the increase in non-core inflation. Meanwhile core inflation remained relatively stable (Chart 21 and Table 1).

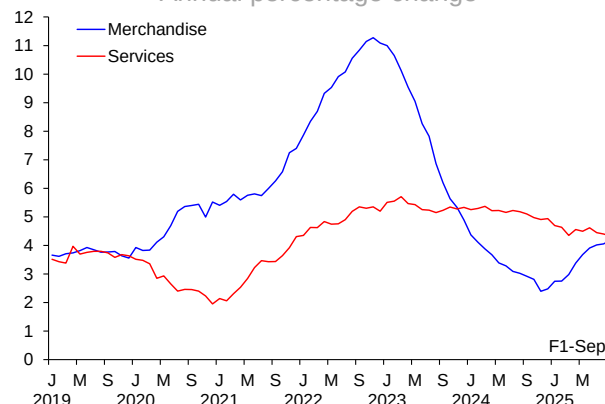
Chart 21
Consumer Price Index
Annual percentage change



Source: INEGI.

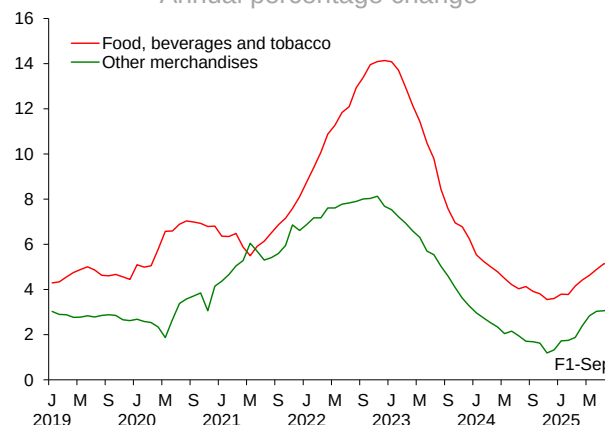
Annual core inflation was 4.23% in July 2025 and 4.26% in the first fortnight of September. Regarding its components, merchandise inflation continued increasing and services inflation declined (Chart 22). During said period, merchandise inflation increased from 4.02 to 4.19%. Specifically, food merchandise inflation increased from 5.13 to 5.30%, while non-food merchandise prices went up from 3.06 to 3.25% (Chart 23). In the referred months, services inflation decreased from 4.44 to 4.32%. Regarding its main components, housing inflation and that of services other than housing and education decreased in the same period from 3.42 to 3.37% and from 5.25 to 5.03%, respectively. Education inflation rose from 5.78 to 5.85%.

Chart 22
Merchandise and services core price subindex
Annual percentage change



Source: INEGI.

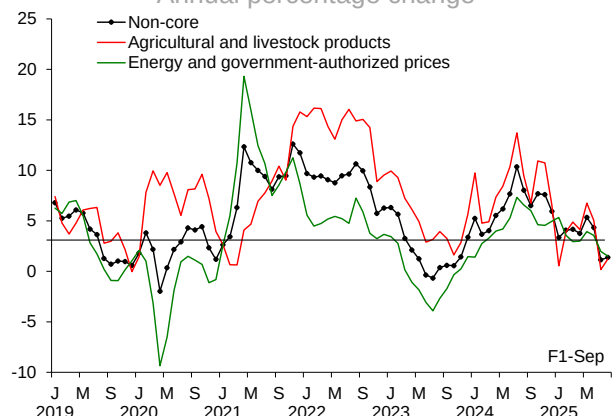
Chart 23
Merchandise core price subindex
Annual percentage change



Source: INEGI.

Annual non-core inflation rose from 1.14 to 2.01% between July and the first fortnight of September 2025 (Chart 24 and Table 1). This evolution reflected the increase from 0.17 to 2.96% in agricultural and livestock products inflation. Regarding its components, inflation of fruits and vegetables increased from -12.10 to -4.32%, while livestock products inflation declined from 10.29 to 8.40%. During the same period, energy inflation declined from 0.78 to 0.02%, which was associated with the decrease from -1.01 to -1.42% in the annual variation of gasoline prices, from 6.77 to 5.45% in the annual variation of electricity prices and from 2.03 to 0.61% in the annual variation of L.P. gas 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 July and August 2025, the median of headline inflation for the end of 2025 decreased from 4.04 to 3.97%. The median for core inflation remained practically unchanged, as it shifted from 4.12 to 4.11%. Headline inflation expectations for the end of 2026 registered limited adjustments. The median of headline inflation shifted from 3.75 to 3.70%, while the median of core inflation remained at 3.72%. Inflation expectations for the next four years declined slightly. The median of headline inflation went from 3.73 to 3.70%, while that of core inflation shifted from 3.63 to 3.60%. The

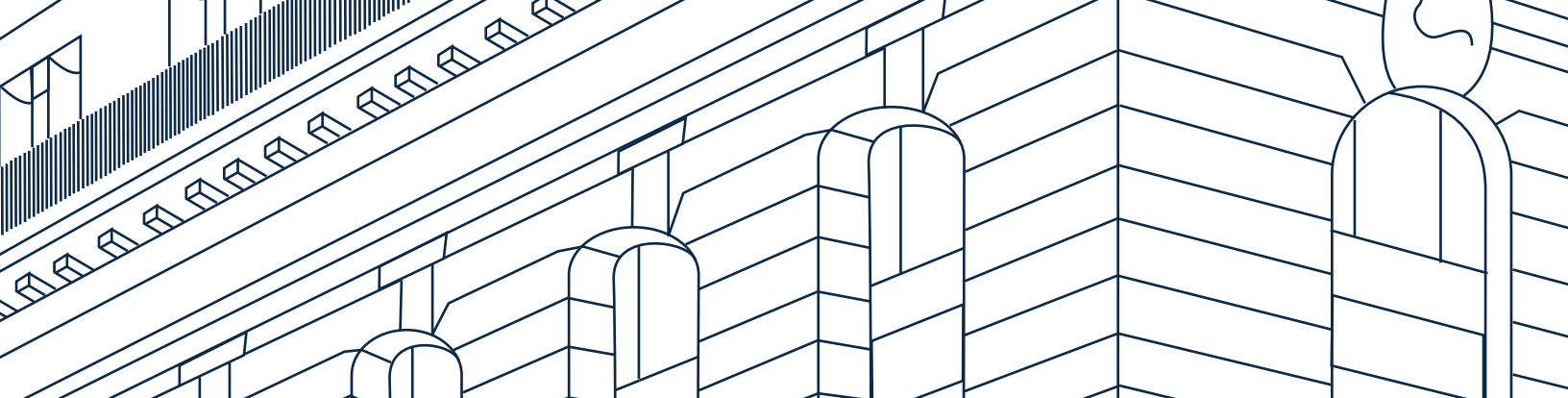
median of headline inflation expectations in the long term (5 to 8 years) decreased from 3.60 to 3.50%. The median of core inflation remained at 3.50%. Finally, between July and September, inflation expectations implied by market instruments declined. The monthly average of the inflation risk premium decreased and registered levels below its historical average.

Headline inflation forecasts were adjusted slightly. Core inflation forecasts were revised marginally upwards. Headline inflation is still expected to converge to the target in the third quarter of 2026. Forecasts are subject to the following risks. On the upside: i) depreciation of the Mexican peso; ii) disruptions due to geopolitical conflicts or foreign trade policies; iii) persistence of core inflation; iv) cost-related pressures; and v) climate-related impacts. On the downside: i) lower-than-anticipated economic activity; ii) a lower pass-through from increased costs; and iii) lower pressures stemming from the appreciation of the national currency. Although the balance of risks for the trajectory of inflation within the forecast horizon is considered to remain biased to the upside, said bias is less pronounced than that faced between 2021 and 2024. The changes in economic policy by the new US administration have added uncertainty to the forecasts. Their effects could imply inflationary pressures on both sides of the balance.

Table 1
Consumer Price Index and components
Annual percentage change

Item	July 2025	August 2025	1st fortnight Sep. 2025
CPI	3.51	3.57	3.74
Core	4.23	4.23	4.26
Merchandise	4.02	4.05	4.19
Food, beverages and tobacco	5.13	5.16	5.30
Non-food merchandise	3.06	3.11	3.25
Services	4.44	4.40	4.32
Housing	3.42	3.44	3.37
Education (tuitions)	5.78	5.34	5.85
Other services	5.25	5.20	5.03
Non-core	1.14	1.38	2.01
Agricultural and livestock products	0.17	1.21	2.96
Fruits and vegetables	-12.10	-8.04	-4.32
Livestock products	10.29	8.35	8.40
Energy and government-authorized prices	1.97	1.51	1.23
Energy products	0.78	0.29	0.02
Government-authorized prices	4.07	3.68	3.37

Source: INEGI.



BANCO DE MÉXICO®

Document published on October 9, 2025

