



BANCO DE MÉXICO®

Minutes number 121

**Meeting of Banco de México's Governing Board on the occasion of
the monetary policy decision announced on December 18, 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: December 17, 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 mentioned that the rate of expansion of world economic activity is estimated to have continued moderating in the fourth quarter of 2025 with respect to the previous quarter. **One** member added that Purchasing Managers' Indices for the manufacturing sector remained sluggish, while those for the services sector continued expanding. **Some** members pointed out that an environment of elevated uncertainty has prevailed since the last meeting due to the US trade policy. **One** member stated that this policy has been defined by a strategy

of continually renegotiating existing agreements or imposing new tariffs. He/she added that heterogeneous progress across countries has prolonged the uncertainty about global economic activity. In this regard, **another** member stated that the global economy has demonstrated its ability to adapt to a complex environment. He/she noted that most economies were able to absorb the shocks without significant disruptions, thereby mitigating the adverse effects initially expected on economic activity and macroeconomic stability. He/she highlighted that, despite this, the adjustment process has led to a gradual slowdown in global growth. **One** member stated that US economic activity is expected to have grown during the third quarter of 2025 at a slower pace than in the second quarter, mainly supported by the expansion of private consumption expenditure. **Some** members noted that the partial government shutdown in the United States is expected to have negative temporary effects on economic activity during the fourth quarter. **One** member emphasized that, despite this, economic growth is expected to be positive. **Another** member noted that economic activity in the euro area is anticipated to grow at a pace similar to that of the previous quarter, while the Chinese economy is expected to grow at a slower rate during the fourth quarter of 2025.

One member indicated that some of the main advanced economies have continued exhibiting signs of labor market slack. He/she highlighted that available data on the US labor market suggests that it has continued cooling and that downside risks have increased, indicating that currently the labor market is not a source of inflationary pressures. He/she underlined that in November job creation was consistent with a moderation in the labor market and that the unemployment rate rose to 4.6%, its highest level since September 2021.

Regarding growth forecasts, **one** member stated that the global economic slowdown is expected to persist through early 2026. **Another** member pointed out that the outlook for 2025 and 2026 continues suggesting a deceleration from 2024 levels, although it is now projected to be more moderate. He/she mentioned that US economic growth is now expected to be close to 2.0% in 2026. He/she added that US non-residential investment is expected to remain dynamic, especially in its high-tech sector, which has continued boosting imports in this segment.

Some members mentioned that headline inflation has exhibited a differentiated behavior across

countries. **One** member noted that in both advanced and emerging economies inflation rebounded throughout 2025. **Some** members attributed part of these rebounds to the dynamics in energy and food inflation. However, **one** member mentioned that, in some cases, these increases exhibited signs of moderation, suggesting that they have been limited and short-lived. Regarding core inflation, **some** members highlighted that it remains persistent at the global level, especially in the services subcomponent. **One** member pointed out that persistence of inflation in services such as housing and education has been observed in various countries. He/she considered that these subcomponents should be assessed in light of a potential global structural change. **Some** members underlined that core goods inflation has increased globally in both advanced and emerging economies. **One** member noted that commodity markets exhibited differentiated movements, with most energy prices decreasing since the last meeting, while grains' prices remained at similar levels and precious metals' prices increased. He/she added that the FAO Food Price Index, which rose during 2025, began to decline in the third quarter, including its subindices of sugar, meat, and dairy products. **Another** member pointed out that international benchmarks of food commodities, such as certain livestock products, rose during the year. Regarding headline inflation in the United States, **one** member noted that, according to the personal consumption expenditure deflator, it increased to 2.8% in September. He/she mentioned that core inflation decreased to 2.8% amid a fall in services inflation that more than offset the increase in goods inflation. He/she stated that both figures were in line with inflation expectations. On the subject of tariff measures, he/she added that their impact is still expected to be limited and temporary, and to be reversed in 2026, especially during the second half of that year. **Most members highlighted that inflation has remained, in general terms, at levels close to or slightly above the targets set by each central bank.** **One** member underlined that persistently above-target inflation in most economies underscores the challenge that central banks face in achieving convergence towards their inflation targets. He/she stated that most of these economies are expected to achieve convergence by 2026.

Most members noted that the Federal Reserve lowered its reference rate by 25 basis points for the third consecutive meeting. **One** member added that said central bank also announced the purchase of a small amount of shorter-term Treasury

securities to preserve its reserve scheme. **Another** member highlighted that, in its policy statement, the Federal Reserve reiterated that risks to the labor market have increased in recent months, while inflation has been rising since the beginning of 2025. In this regard, he/she emphasized that the Fed's chairman mentioned that, with this rate cut, their monetary policy stance is close to an ample range of neutral rate estimates, leaving them well positioned to assess the evolution of the economy and determine the extent and timing of subsequent adjustments. **One** member noted that the chair of the Federal Reserve described the impact of tariffs on prices as a temporary shock, although he mentioned that its evolution should be monitored. **Most members pointed out that said institution has left its expected interest rate trajectory unchanged.** **One** member stated that revisions to FOMC members' projections were marginal and consistent with an outlook that has not changed significantly. **Another** member noted that recent communications from Committee members have taken a more accommodative tone. In this regard, he/she indicated that markets and analysts expect two additional rate cuts in 2026, while the Federal Reserve's dot plot only projects one in 2026 and another one in 2027. **Some** members pointed out that, at the end of 2025, most central banks in other economies left their reference rates unchanged, although some continued easing their monetary policy stances. **One** member argued that this reflects the fact that several central banks have already reached, or are close to reaching, the terminal rate of their easing cycles, and thus, monetary policy expectations have changed only marginally. **Another** member acknowledged that the rate-cutting cycle is expected to continue in various emerging economies. **One** member suggested that through these actions the global monetary policy normalization was further consolidated. He/she specified that historically restrictive policy stances have given way to more balanced approaches. He/she added that signs of economic deceleration have gained relevance in the assessment of risks. **Another** member noted that the Bank of Japan remains an exception to this trend. Said central bank is anticipated to raise its rate by 25 basis points in December and continue its cycle of increases during 2026.

Most members noted that, since the previous meeting, financial markets registered minor variations. **One** member highlighted that episodes of volatility were observed amid concerns about the sustainability of valuations in the US stock market, particularly in the high-tech sector. He/she added

that this occurred in a context in which the flow of public data in the United States has not yet normalized, a factor that has exacerbated volatility. **Some** members pointed out that interest rates along the yield curves of government securities rose in most economies. **Most members pointed out that the US dollar depreciated.** **Some** members noted that the depreciation observed over the last twelve months has been among the most significant in decades for a similar period. **One** member mentioned that volatility in different markets declined, reaching its lowest levels of the year.

Economic activity in Mexico

Some members indicated that, although available data is limited, economic activity in Mexico is expected to remain weak during the fourth quarter of 2025. **One** member recalled that the final GDP figure for the third quarter of 2025 reflected a 0.29% decline compared to the previous quarter. **Another** member stated that, compared with the same period in 2024, IGAE growth over the first nine months of 2025 was virtually zero. **One** member noted that productive activity has slowed down in recent years. He/she noted that economic growth decelerated from 3.1% in 2023 to 1.4% in annual terms in 2024. He/she added that the Mexican economy is expected to grow by only 0.3% in annual terms in 2025. He/she argued that, as a result, the performance of economic activity would be significantly below the average annual growth of 1.8% between 2000 and 2019. **Some** members mentioned that the negative output gap estimate continued widening. They noted that economic slack is expected to intensify over the forecast horizon. **One** member pointed out that this negative output gap has been observed since the third quarter of 2024. He/she considered that the dynamics of inflation suggest that the degree of economic slack could be overstated.

Regarding aggregate supply, most members highlighted that industrial production's downward trend intensified. They noted the weakness in manufacturing. **Some** members pointed out that this weakening was partly due to the unfavorable performance of the transportation equipment segment. **One** member stated that light vehicle production stagnated and heavy vehicle production remained at low levels, in addition to the sluggishness registered in the remaining segments of the industry. **Another** member added that manufacturing has remained on a lateral trajectory for several periods. **Some** members noted that construction rebounded, interrupting its downward trajectory. **One** member pointed out that,

nevertheless, this subsector remains at low levels due to lower activity in public sector civil engineering works. **Most members indicated that tertiary activities continued slowing down.** **Some** members added that their components exhibited heterogeneity. **One** member stated that their cumulative growth in the first nine months of 2025 amounted to merely 0.8% compared to the same period of 2024. **Another** member noted that primary activities gained momentum during the third quarter of 2025.

Regarding aggregate demand, most members pointed out that investment continued trending downwards with weakness across all components. **One** member stated that this was the result of a reduction in both private and public investment. **Another** member noted that this weakness happened mainly in construction, while machinery and equipment investment appears to have stabilized. Regarding private consumption, **some** members pointed out that it continued expanding, driven mainly by that of imported goods. **One** member stated that this trend has been evident since mid-2025. He/she added that consumption of domestic goods also increased, albeit to a lesser extent. **Some** members indicated that the increase in consumption of imported goods could be associated with the appreciation of the Mexican peso. **One** member mentioned that consumption of services continued decelerating. **Another** member noted that private consumption spending stagnated at the margin during September, for both domestic and imported goods, although the latter remains at high levels. **One** member concluded that consumption and investment do not currently represent aggregate demand pressures.

Most members noted that in October manufacturing exports continued being driven by computer equipment and its components. **One** member pointed out that this occurred despite the imposition of tariffs by the United States. **Some** members indicated that the favorable momentum in computer equipment and its components is associated to the performance of the US technology sector. **One** member stated that this sector has made extensive use of the USMCA. **Another** member cautioned that the computer equipment component is characterized by low value added given its limited integration into production chains, which could limit its impact on industrial activity overall. **One** member added that the dynamism in this segment has more than offset the downward trend in automotive exports. **Another** member noted that the more

pronounced fall in said automotive exports is in line with the decline in US imports of such goods. Regarding non-automotive exports, he/she stated that they continued growing, driven by lower effective tariffs compared to those of other US trading partners and by a greater use of the USMCA. **One** member pointed out that Mexico's imports of consumer and intermediate goods also increased significantly, in contrast to capital imports.

One member considered that the balance of risks to growth remains biased to the downside. In this regard, he/she emphasized that considerable risks from the external sector persist. He/she added that, although the easing of trade tensions has lowered expectations of a more severe slowdown in the United States, this risk remains latent, especially given the possibility of an abrupt correction in US stock markets.

Most members highlighted that Mexico's labor market continues exhibiting signs of cooling. **Some** members pointed out that annual employment growth measured by the National Occupation and Employment Survey (ENOE, for its acronym in Spanish) has remained close to 0%. **One** member added that the total labor participation rate has remained below 60% for 13 consecutive months. **Another** member concluded that, although the unemployment rate has remained low, this has partly reflected a fall in the labor force participation rate. He/she added that, under a counterfactual scenario in which the labor force participation rate remained constant from 2024 onwards, the unemployment rate would be higher. Regarding demand, **some** members noted that job creation has been trending downwards since mid-2023. However, **one** member pointed out that the creation of new formal jobs registered with the IMSS has rebounded slightly over the last few months. He/she added that the informal workforce has continued growing, registering a higher incidence among men and the construction and service sectors.

Most members noted that the trends of various real wage indicators have continued moderating. **One** member stated that real wage growth decreased from above 6% at the beginning of 2024 to around 2% in the most recent data. He/she indicated that the real-wage bill fell over the last two quarters, albeit from high levels, reflecting stagnant growth in the paid workforce and a decline in real average income. **Some** members noted that the 13% increase to the minimum wage approved for 2026 could imply additional increases in labor costs, which could affect the rest of the labor compensation

structure. **One** member expressed the view that this level could begin to impact the median wage of the economy as a whole. **Another** member pointed out that this is relevant, as 40% of the workforce currently earns one minimum wage or less, compared to less than the 12% reported in 2008. He/she highlighted that, for now, the growth in real wages of permanent workers registered with the IMSS is still around its pre-pandemic average.

Inflation in Mexico

Most members indicated that, between the first fortnight of October and November, headline inflation increased from 3.63 to 3.80%. Some members emphasized that this was due to increases in both core and non-core components. **One** member attributed it mainly to an increase in the former. **Another** member stated that increases in headline and core inflation during said period were moderate. **One** member highlighted that, despite the rise in the annual variation of the headline index during November, the monthly variation was 0.66%, below the 2010-2019 historical average of 0.83%. **Some** members underlined that annual headline inflation has remained within the range of variability during most months of 2025. **One** member tied this to the decline in non-core inflation during 2025. **Another** member added that, since 2003, 2025 has been one of the years in which inflation has remained within the range for the highest number of months. **Some** members noted that headline inflation has averaged 3.82% in 2025, which is lower than the average of 4.17% registered from 2003 to 2019. **One** member recalled that this average had not been within the range of variability since 2021, when pandemic-related inflationary pressures first materialized. He/she stated that, despite adjustments in relative prices that have taken place during this year, the inflationary episode triggered by global shocks has been left behind and the price formation process remains firmly anchored.

Most members indicated that core inflation increased from 4.24% in the first fortnight of October to 4.43% in November. They noted that said increase in its annual variation is largely attributed to a base effect, given the atypically low monthly inflation registered in the same month of 2024. **One** member specified that the monthly variation of the core index was below the historical average for November. He/she added that, recently, annualized seasonally adjusted monthly variations have remained below the levels attained in the first half of the year. **Some** members mentioned that the increase in the annual variation of core

inflation follows a period of stability observed in previous months. **Some** members highlighted the elevated level of 4.54% observed in the second fortnight of November. **One** member warned that this is the highest level this year, unseen since March 2024. He/she added that it is above the 4.2-4.3% range that core inflation has exhibited over the past eleven fortnights. He/she also pointed out that this represents a 97-basis-point increase compared to the same fortnight of the previous year. However, **another** member explained that the increase in this indicator from 4.32% in the previous fortnight is partly due to a shift in the seasonality of the “*El Buen Fin*” discount sales campaign, which took place in the first fortnight of the month this year, rather than the second, as in 2024. **One** member mentioned that current core inflation levels derive from limited price increases in some of its components, rather than a generalized rise in prices. Among these factors, he/she highlighted the higher inflation of livestock products and its impact on core inflation. Regarding the components of core inflation, **some** members noted that both merchandise and services inflation increased in the latest reading. **One** member pointed out that merchandise inflation increased the most. **Another** member noted that services inflation increased at the margin.

From a medium-term perspective, **one** member recalled that after annual core inflation had been at its historical average of 3.65% in the last months of 2024 and early months of 2025, it increased, mainly during the second quarter of the year reaching between 4.20 and 4.30% in recent months, before rising further in November. He/she stated that the analysis of its components indicates that the dynamics of annual core inflation this year reflects a gradual decline in the services component, combined with an upward adjustment in the merchandise component. **Another** member pointed out that the decline in services inflation throughout the year has not offset the increase in merchandise inflation. **One** member stated that there has been an adjustment in the relative prices of merchandise compared to those of services. He/she argued that the near-zero correlation between the monthly variations of both indices suggests that inflationary pressures are predominantly sector-specific rather than having an aggregate character.

Most members underlined that part of the rebound in annual merchandise inflation is associated with fewer discounts during the “*El Buen Fin*” discount sales campaign compared with the previous year. Some members noted that

it rose to 4.37% in its most recent reading. Regarding its components, **one** member indicated that both non-food merchandise and food, beverages, and tobacco contributed to said rebound. **Another** member noted that, in the second fortnight of November, inflation in this category reached 4.11%, which was 294 basis points higher than during the same period of 2024. **One** member specified that the monthly variation of non-food items was -0.11% in November 2025, compared with -0.70% in the same month of 2024. He/she pointed out that this year’s figure is practically aligned with its historical average. **Another** member observed that there were fewer sale discounts on non-food merchandise, particularly apparel, footwear, and accessories, leading the positive base effects to dominate and causing the annual price variation of these items to increase. He/she highlighted hygiene and personal care items, as well as household cleaning products and accessories, whose annual variations increased by over 110 basis points during the period and currently exceed 4.5%. He/she added that the increase in medicine prices also exceeded said figure. Regarding the increase in non-food merchandise inflation during 2025, **one** member commented that it could have been due to a normalization in its variations, following atypically low levels in the final months of 2024. However, he/she clarified that this statistical argument does not fully explain the observed increase. He/she pointed out that the annualized seasonally adjusted monthly variations of non-food merchandise prices increased significantly in the first half of 2025, while in the second half of the year these variations decreased, albeit with fluctuations. He/she added that the share of this component’s CPI items with annualized seasonally adjusted monthly variations at or below 3%, which had declined markedly in the first half of 2025, trended upwards during the second half of the year, rising above 50% in November. He/she emphasized that the above suggests the shocks that had affected non-food merchandise prices in the first half of 2025 have dissipated in the second half of the year, although the arithmetic effect on their annual variation persists. He/she stated that among the shocks that affected non-food merchandise prices was the lagged effect of the exchange rate depreciation observed in the second half of 2024, which, depending on supply and demand factors, may have affected these merchandise prices to varying degrees. He/she also mentioned that the increase in non-food merchandise inflation, which corresponds to the measure of goods within core inflation in other economies, could be a global

phenomenon associated with higher international reference prices.

Regarding food merchandise inflation, **some** members pointed out that it was 5.07% in November 2025. **One** member specified that during the second fortnight of November inflation was 173 basis points higher than in the same fortnight of 2024. **Some** members agreed that it continues showing signs of moderation. **One** member commented that, although the current figure contrasts with the 3.56% recorded in the same month of 2024, its annualized seasonally adjusted monthly variations declined during the second half of the year. He/she observed that they have followed a downward trajectory for several months after having increased in the first half of 2025. **Another** member stated that this component has fluctuated near its pre-pandemic levels. He/she argued that both its annual rate and its annualized seasonally adjusted monthly variation declined relative to their previous readings. He/she noted that its monthly variation with original, unadjusted figures, is the second lowest registered in a month of November since 2003. **Some** members mentioned that this component remains affected by the increase in livestock product prices. In this regard, **one** member commented that food merchandise prices are correlated, with some lag, with international price references of primary food commodities compiled by international organizations such as the World Bank. He/she argued that increases in international food commodity prices, as well as in livestock product prices, may have exerted pressure on this component during the year. **Another** member highlighted the significant share of price discounts on alcoholic beverages, which helped reduce the annual variation of food merchandise prices.

Some members noted that annual services inflation reached 4.49% in November 2025. **One** member expressed that it remains above its pre-pandemic level, although there is considerable heterogeneity across its components. He/she added that the services component appears to be influenced by relative price adjustments linked to the post-pandemic recovery and a shift in consumer preferences towards services. He/she argued that this has contributed to an adjustment in its relative prices. **Another** member argued that the persistence observed in several services is also seen in other economies, suggesting that their dynamics may be responding to global factors. He/she stated that, going forward, it would be feasible to analyze these subcomponents in the context of a potential structural change at the global level. **One** member

observed that, although services inflation has declined during 2025, said process has been slow. He/she added that this is due to the lag with which weak economic activity affects this component. **Another** member highlighted that inflation of education and housing services remained stable, maintaining the persistence observed earlier. **One** member considered that housing inflation has improved and is within its variability range, despite the way data is collected for this component, as the measurement process, which involves staggered visits to certain households every six months, introduces a certain lag and persistence in its evolution. He/she specified that this subindex depends on economic activity and lagged inflation. **Most members attributed the increase in services inflation to the rise in the annual price variation of categories other than housing and education.** **Some** members stated that said index has remained above 5%, showing resistance to decline. **One** member warned that it has stayed above that level since the second fortnight of October 2021, exhibiting a trend of medium-term persistence. **Regarding its components, most members underlined the rise in food services inflation.** **Some** members pointed out that the increase in food services inflation during 2025 has been partly driven by rising food and livestock product prices. However, **one** member also associated food services inflation with an increased consumer preference for services during the post-pandemic period. He/she indicated that the relative price of food services compared to that of food merchandise is at its highest level since 2006, while activity in the services sector has yet to attain its pre-pandemic levels. **Another** member underlined the heterogeneous performance of the components of inflation of services other than education and housing. On the one hand, in an environment of higher prices of food merchandises, he/she reiterated that food services inflation has increased. On the other hand, in a context of weak economic activity, he/she pointed out that inflation of services other than education and housing, but also excluding food services, has declined notably. He/she added that, although it remained above 5% for most of 2024, it has been clearly within the variability interval throughout 2025 and, in recent months, it has fallen below 3.5%.

Most members pointed out that annual non-core inflation increased from 1.58% in the first fortnight of October to 1.73% in November. **Some** members agreed that, recently, this has been driven by less negative contributions of fruit and vegetables inflation and by an increase in

government-authorized rates. They noted that these increases were partially compensated by smaller annual variations of livestock product prices. **One** member also highlighted the smaller annual variations in energy prices. **Another** member specified that livestock products inflation stood at 7.69% in November, after peaking at 11.72% in June 2025. He/she noted that government-authorized rates rose from 3.59% in the first fortnight of October to 5.86% in November, primarily reflecting the rise in public transportation fares in the Mexico City Metropolitan Area. He/she considered that this increase is expected to have a one-time, short-lived effect on non-core inflation. **Some** members noted that non-core inflation has remained at low levels, as in recent months. **One** member stated that both the low annual variations of agricultural and livestock product prices, as well as those of energy prices have contributed to the above, despite the still high annual variation of livestock product prices, which has continued to dissipate.

Most members underlined that long-term inflation expectations drawn from surveys continued relatively stable. **One** member added that the same trend was observed for medium-term inflation expectations. He/she noted that, during the reference period, headline inflation expectations for 2025 were revised mostly downwards. **Another** member argued that the price effects caused by changes to the Special Tax on Production and Services (IEPS, for its acronym in Spanish) and tariffs are expected to mechanically influence short-term inflation expectations. **One** member highlighted that expectations for 2027 and 2028 are lower than those for the next 12 months. He/she considered that this suggests that the effects of future shocks are perceived as temporary. However, he/she mentioned that, although long-term expectations have remained anchored, they are above 3.60% and continue showing resistance to decline below that level. **Another** member noted that measures of compensation for expected inflation drawn from market instruments have declined marginally. **One** member highlighted that breakeven inflation increased for all terms, exceeding 4.00%, except for the 3-year node. He/she argued that these increases are estimated to be primarily driven by rises in the inflation risk premium.

Regarding the impact of changes in the IEPS and the increase in tariffs in 2026 on the inflation outlook, most members considered that these are expected to have a one-time, temporary effect on inflation. **Some** members added that they

anticipate the effects on prices to not necessarily be proportional to the tax increase. **One** member noted that the approved tariff measures were of lesser magnitude than those originally proposed. **Another** member pointed out that CPI items potentially affected by the fiscal adjustments make up around 2.2% of the CPI basket, which, in principle, limits the direct impact on headline inflation. He/she explained that the one-time adjustment drives monthly inflation upwards during the implementation period, after which it normalizes. **Some** members added that the effect of these measures on annual inflation persists arithmetically for one year before dissipating. **One** member recalled past episodes were evidence showed that the effects of tax increases on inflation were moderate, transitory, and did not generate second-round effects. He/she mentioned the implementation of a specific tax of one peso per liter on sugary drinks in 2014, which has been widely studied in the literature on tax pass-through to prices. He/she indicated that this tax turned out to be a one-off adjustment in relative prices. He/she argued that monthly inflation increased during the tax implementation but subsided afterwards, adding that the impact on annual inflation dissipated after one year. He/she explained that studies indicate that producers fully passed the tax on to the final prices through a one-time adjustment, and that prices of substitute beverages did not show increases, suggesting the effect was targeted, with no spillover, even across closely related markets. **Most members emphasized that the pass-through of tariff measures to prices will depend on the availability of substitute products, the extent to which firms can adjust their profit margins and absorb some of the costs, as well as on the prevailing demand conditions.** **Some** members pointed out that the prevailing degree of economic slack will help moderate the effect on prices. **One** member stated that, in a weak economic environment, the demand for imported goods tends to moderate, reducing the economy's effective exposure to tariff increases. **Another** member mentioned that, similarly, a strong national currency could mitigate external price-related pressures and limit the pass-through to the final consumer. On the other hand, he/she argued that, since the measures mainly apply to goods with close substitutes, competition could help limit the pass-through of prices. He/she indicated that deflationary pressures in the economies where these goods are produced, particularly China, due to its substantial idle capacity, would help mitigate price increases. He/she commented that, for some common inputs, used across a number of industries, cost absorption could occur more gradually, although

the aggregate effect would remain moderate overall. **Some** members mentioned that a comprehensive assessment of the impact of fiscal adjustments will require incorporating additional information as it becomes available, to accurately capture the effects of these measures.

One member noted that the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside, although it is considerably less pronounced than that faced between 2021 and 2024. Regarding upside risks, he/she noted that, although the risk associated with exchange rate depreciation has diminished, it still persists. As for downside risks, he/she mentioned a greater slack in economic activity. **Another** member indicated that the shocks foreseen for 2026 could affect price dynamics within the planning horizon, delaying the timely convergence to the 3% target. **One** member pointed out that, although a year ago the central bank's forecasts projected headline and core inflation to be around 3.0% by the end of 2025, current projections anticipate levels of approximately 3.7 and 4.3%, respectively. He/she questioned the projected trajectory for 2026. He/she explained that the scenario includes a sharp decline in headline and core inflation in the first half of 2026, followed by both of them remaining at 3.0% for the rest of the year. He/she stated that it does not appear that such levels can be sustained. He/she emphasized that even the lowest projected values from surveys place core inflation above the central bank's forecast. He/she added that non-core inflation, currently at unusually low levels, is likely to reverse to its historical values and will continue to be characterized by high volatility, due to ongoing supply shocks. He/she underlined that it is unlikely that throughout the next 24 months there will be no shocks and that non-core inflation will be at low levels.

Some members assessed the possibility that structural factors such as public insecurity and lack of competition are affecting inflation. **One** member noted that the significant change in insecurity over the last ten years could increase the cost of transporting goods and aggravate inefficiencies in supply chains. **Another** member considered that, in principle, public insecurity can generate higher costs for firms, but also negatively impact the demand for certain goods and services. He/she stated that, therefore, the relationship between insecurity and prices is a priori ambiguous. He/she pointed out that this reflects the results of the special module on public security included in the Monthly Regional Economic Activity Survey, which show

heterogeneity. He/she specified that: i) a significant share of firms report that their prices are not affected by insecurity; ii) among affected firms, both upward and downward pressures are reported; and iii) a considerable share of firms affected by higher costs due to insecurity do not pass them on to prices due to the risk of losing sales. Regarding the lack of competition in certain markets, **one** member argued that the high concentration in various industries allows firms with market power to pass on costs and maintain margins without facing competitive pressure. **Another** member indicated that there does not seem to exist a strong correlation between the items with the highest price increases and the degree of competition in the industries that produce them. He/she highlighted that some items have exhibited competition problems and have registered moderate price increases, such as those derived from corn. He/she also asserted that other sectors that do not appear to have competition problems have registered significant price increases, as is the case of food services. He/she noted that there are some sectors in which competition problems have been identified and which, in turn, have experienced significant price increases, such as medicines and dairy products. **Some** members agreed that the relationship between the level of competition and inflation, as well as that between insecurity and inflation, should be analyzed more in depth.

Macroeconomic environment

Some members pointed out that domestic financial markets exhibited a stable performance since the previous decision. **One** member stated that this was due to both domestic and global factors. **Most members noted that the Mexican peso traded under conditions of historically low volatility.** **One** member highlighted the decline in implied exchange rate volatility, which remains at the lowest levels in its historical distribution for the shortest terms. **Most members mentioned that the Mexican peso appreciated since the previous monetary policy decision. They pointed out that this was mainly due to the depreciation of the US dollar.** **One** member underlined that during the reference period, the Mexican peso registered its most appreciated value of 2025. **Some** members highlighted that Mexico's favorable status in trade negotiations with the United States compared to other economies has influenced the exchange rate dynamics. **One** member added that other factors explaining the appreciation of the domestic currency are sound macroeconomic fundamentals and the risk-adjusted rate differential compared to other

emerging economies. **Another** member stated that low exchange rate volatility has favored carry trade positions between the Mexican peso and the currencies of the major advanced economies. **One** member noted that the Mexican peso has appreciated continuously since April of 2025. **Another** member warned that, looking ahead, risks associated with the USMCA renegotiation process or a potential correction in the depreciation of the US dollar, which could adversely affect the observed exchange rate dynamics, cannot be ruled out.

Most members highlighted that, since the previous monetary policy decision, Mexico's government interest rates increased for most terms. One member noted that this increase in domestic interest rates was in line with an increase in rates across most economies. **Another** member detailed that yields for all maturities on the curve have declined compared to the levels observed mid-year. Additionally, he/she highlighted that risk premia remained stable during the period, at levels similar to those registered during the second quarter of 2024.

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 7.00%.

Looking ahead, the Board will evaluate the timing for additional reference rate adjustments. 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 at the previous meeting, the cycle of rate cuts continued under an approach of gradualism, and that a reduction would be

considered at the December meeting. He/she mentioned that, in line with this and given the inflationary outlook, it is appropriate to implement an additional rate cut. He/she considered that, now that the inflationary episode has concluded, lower rates have been required at this stage. He/she pointed out the favorable performance of headline inflation in 2025 compared to the 2003-2019 period, considering its average level and the months of the year in which it has remained within the variability range. He/she mentioned that the balance of risks is closer to equilibrium than during the recent episode, and that in addition some of the downside risks have materialized, such as the level of economic slack and the Mexican peso appreciation. He/she noted that monetary policy implementation has helped to adjust the policy stance to the post-pandemic inflationary challenges without compromising the anchoring of the price formation process. He/she underlined that inflationary dynamics during the year have been determined partly by relative price-related shocks that are not the result of monetary phenomena. He/she emphasized that monetary policy must act firmly within its scope of action and prevent second-round effects, including impacts on longer-term inflation expectations. He/she highlighted that, after ruling out the possibility that inflationary pressures could cause a generalized increase in prices, monetary policy has been conducted responsibly. He/she warned that the process of relative price adjustments derived from fiscal and tariff measures must be monitored, although forecasts point to a temporary rebound in inflation. He/she considered it feasible to move towards more conventional reference rate levels in line with the current phase of the disinflationary process. He/she stated that this is possible given the wide level of economic slack, the appreciation of the Mexican peso, the easing of external monetary and financial conditions, especially in the United States, as well as the level of monetary tightening that was adopted. He/she expressed that, looking ahead, the rate-cutting cycle should proceed with greater gradualism and caution. He/she indicated that its resumption will take place as macroeconomic conditions allow it, to the extent that the period of relative price adjustments occurs without second-round effects.

Another member commented that with the change of year, inflation will face shocks associated with the implementation of taxes and possible financial volatility due to trade negotiations, among other factors. He/she noted that these will promote new adjustments in relative prices, as these tend to be one-time increases and, in principle, do not reflect

widespread pressures or a deterioration of inflation determinants. He/she detailed that monetary policy must differentiate between temporary shocks and persistent inflationary pressures. He/she mentioned that, in an inflation forecast targeting regime, if a supply shock leads to price increases that are independent of each other and do not affect the price formation process, the optimal response is to allow these shocks to take effect, while avoiding excessive adjustments to real variables. He/she pointed out that in such cases monetary policy is less effective in mitigating relative price adjustments through aggregate demand. He/she added that its reaction should depend on the presence of second-round effects, given that it is through expectations that such pressures could become more persistent. In this regard, he/she stated that medium- and long-term inflation expectations remain anchored, although at levels that require close monitoring. He/she highlighted that the favorable outlook in inflation expectations for 2027 and 2028 suggests that pressures will be temporary. He/she noted that Mexico's macroeconomic environment remains defined by a marked weakness in economic activity and a continued appreciation of the Mexican peso. In this context, he/she considered that a 25-basis point reduction in the reference rate would be consistent with an orderly move towards a stance consistent with the determinants of medium-term inflation. He/she argued that, nevertheless, the shocks anticipated for 2026 could impact price dynamics over the planning horizon and delay inflation convergence. Therefore, he/she stated that monetary policy will require greater caution and gradualism. He/she indicated that communication with the public should emphasize that the continuity of the process of reference rate adjustments looking ahead will depend on: i) second-round effects not materializing; ii) the balance of risks for inflation not deteriorating and forecasts being consistent with the new shocks; and iii) data not reflecting widespread pressures on prices. He/she added that the forward guidance should indicate that the inflation outlook will be assessed before the reference rate is adjusted again, in order to ensure that monetary policy is consistent at all times with the fulfillment of the constitutional mandate.

One member noted that annual headline inflation has remained within the variability range for most of the year. He/she added that annual core inflation, which is its most relevant component, rose in its latest reading after stabilizing in previous months. He/she pointed out that this was due to base effects and that its annualized seasonally adjusted monthly

variations remain at low levels. Regarding the determinants of core inflation, he/she highlighted the appreciation of the Mexican peso during the year and the sluggishness of economic activity, particularly of domestic demand components. He/she noted that, on the international front, the Federal Reserve reduced the range for the federal funds rate at its latest meeting, allowing Mexico to lower its reference rate without compressing the rate differential between the two central banks. He/she stated that, considering these factors, on this occasion it is appropriate to lower the reference rate by 25 basis points. He/she indicated that this rate cut has already been discounted by markets. He/she mentioned that, looking ahead, several factors will need to be considered when assessing the monetary policy stance. He/she pointed out, first, the implementation of special taxes and tariffs, which will exert pressure on the prices of various goods. He/she expressed that, in principle, these are one-off effects on the prices of the goods affected, whose impact on inflation measurement would be temporary. He/she commented that empirical evidence suggests that, in the past, the imposition of special taxes on certain products did not contaminate the price formation process. He/she highlighted that, however, on this occasion, it will take time to ensure that no second-round effects materialize either. Second, he/she mentioned that the fiscal and tariff measures are in addition to the shocks that exerted pressure on merchandise prices in the first half of 2025, which continue to affect their annual variations. Third, he/she stated that although the nominal reference rate and the real ex-ante rate are above their historical values, they are no longer at the unusually high levels that prevailed at the beginning of 2025. He/she stated that, considering all of the above, a wait-and-see approach will need to be adopted.

Another member considered that the downward effects of the determinants of core inflation have not yet materialized, despite these being present for a long time. He/she expressed that the exchange rate is no longer a key factor of inflationary dynamics, since the appreciation of the Mexican peso has not led to a decline in inflation. He/she added that even core inflation, which is more susceptible to this variable, has increased since the end of 2024. He/she added that the negative output gap has not had the anticipated impact, which suggests a possible problem in its measurement and consequently in that of slack conditions. He/she emphasized that monetary policy remained restrictive for 36 consecutive months. He/she reiterated that it would be appropriate to consider

other more structural factors to explain the persistence of inflationary pressures, such as insecurity or the level of competition. He/she specified that, although the impact of these factors on inflation is unclear, they should be analyzed more in depth. He/she pointed out that the continuous increase in the minimum wage could represent additional increases in labor costs. He/she recalled that during this year inflation forecasts were continuously revised upwards in light of the sustained increase in merchandise inflation and the stagnation in services inflation. He/she noted that, despite the magnitude and persistence of the forecast error, the reference rate was lowered mechanically. He/she argued that if, on this occasion, the decision is to reduce the reference rate by 25 basis points, the monetary policy stance would be even closer to the midpoint of the estimated range for the neutral rate. He/she expressed that the conditions to consolidate a neutral monetary policy stance are not present. He/she detailed that an ex-ante real rate within the neutral range is not consistent with rising inflation and with expectations that deviate from the forecast, and thus represents a misleading signal. He/she recommended prudence regarding downward adjustments based on unrealistic projections. He/she stated that a cautious approach must be maintained, and therefore the reference rate should remain at its current level until there is clear evidence that the 3% target will be achieved. He/she indicated that the forward guidance should specify that adjustments to the monetary policy stance will depend on the data and on a clear consolidation of the inflation path towards the target.

One member mentioned that the levels of headline inflation, its relative stability, the evolution of inflation determinants, and the fact that the current risks are different in nature from those observed during the inflationary episode are factors that have allowed monetary policy to continue its normalization. He/she asserted that a forward-looking approach has been maintained, which has helped the reference rate to be adjusted orderly, even in an environment of high uncertainty. He/she considered that this strategy should therefore be preserved. He/she warned that in early 2026 there will be some adjustments in relative prices. He/she highlighted the expected adjustments in relative prices associated with changes to the IEPS and the increase in tariffs applicable to products from countries that have no trade agreement with Mexico. He/she recalled that empirical evidence suggests that these adjustments are not necessarily proportional to the tax increase and tend to be one-

off, and thus their effect on inflation is usually short-lived. He/she pointed out that, considering recent observations in other countries, a more precise analysis is needed to determine their impact on inflation. Regarding the change in the relative price of food services derived from specific shocks to the non-core component and from a possible change in consumption preferences, he/she stated that it will be important to assess the magnitude and duration of said adjustment. He/she deemed it appropriate to reflect on the appropriate monetary policy response to adjustments in relative prices, whose impact tends to fade as base effects dissipate and do not affect the formation of longer-term expectations. He/she argued that the evolution of inflationary determinants continues suggesting an environment consistent with monetary policy normalization. He/she highlighted that the policy stance has been restrictive for more than three years and its effects have not yet fully materialized. He/she expressed that it is important to note that the rate-cutting cycle has not concluded and that, looking ahead, it will be appropriate to consider a more gradual pace of reference rate adjustments during the first half of 2026, given the need to analyze the effect of the adjustments on relative prices more accurately. He/she asserted that a more gradual approach would strengthen the reassessment of the inflation outlook and provide flexibility to confirm that changes in relative prices do not affect the price formation process.

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 7.00%.

Looking ahead, the Board will evaluate the timing for additional reference rate adjustments. 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 target for the overnight interbank interest rate at 7.25%.

5. DISSENTING OPINIONS / VOTES

Vote. Jonathan Heath

We need to thoroughly evaluate the time required not only to revert the increasing upward trend exhibited by core inflation in 2025, but also to calibrate the

magnitude of a possible reversion of non-core inflation. This implies adjusting our forecast to a more plausible trajectory. In line with the inflation forecast targeting regime, such adjustment would represent, at the moment, that our policy tool, the target rate, remains unchanged in an equilibrium level, for a period yet to be determined. During this pause, we would need to assess if the current policy stance is sufficient, in terms of both time of permanence and level, to attain our inflation target. Furthermore, if during this period we determine that convergence will not be attained, we must evaluate the possibility of increasing the target rate once again at a later stage. An adjustment of this nature would send the message that we are fully aware of the magnitude of the problem and that we are acting consistently to ensure that our monetary policy stance fulfills our primary mandate.

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

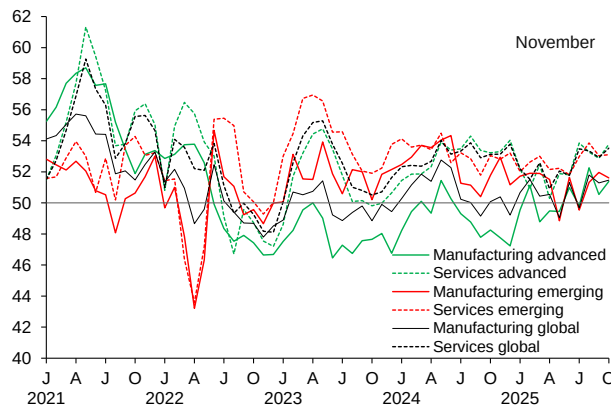
A.1.1. World economic activity

Global economic activity is expected to have continued moderating during the fourth quarter of 2025 compared to the previous quarter, reflecting slower growth in both groups of emerging and advanced economies. This slowdown would have been less pronounced than previously anticipated when tariff rates were higher and uncertainty over various economic policies was greater. The latest Purchasing Managers' Indices suggest that, at the global level, the manufacturing sector would remain sluggish and the services sector would continue expanding (Chart 1).

Global growth prospects prepared by international organizations continue anticipating a slowdown of the world economy and of the United States in this year and in 2026 compared to 2024. However, it is now expected to be more moderate than anticipated in previous months. Among global risks, the escalation of trade tensions and the worsening of geopolitical conflicts stand out, with potential impacts on inflation, economic activity, and financial market volatility.

Chart 1
Purchasing Managers' Index: production component for advanced, emerging and global economies

Diffusion index, s. a.^{1/}



s. a. / Seasonally adjusted figures.

1/ The index varies between 0 and 100 points. A reading above 50 points indicates an expansion and below 50 points suggests a contraction. A reading equal to 50 points indicates no change.

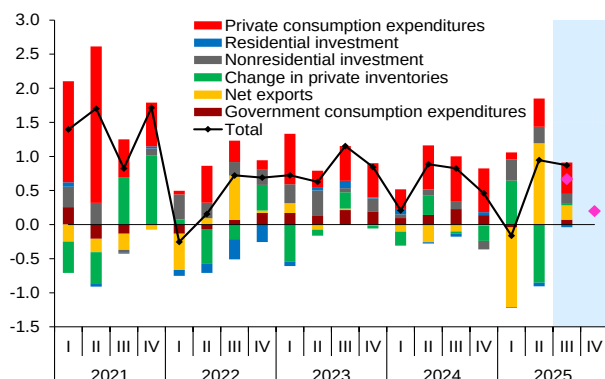
Source: S&P Global.

In the United States, based on available information, economic activity is expected to have continued expanding in the second half of 2025, albeit at a slower pace compared to the second quarter of the year (Chart 2). From October 1 to November 12, the US federal government shut down non-essential operations due to the lack of an agreement on budget allocation. As a result, temporary negative effects on economic activity are expected in that country during the fourth quarter. This suspension caused delays in the release of some economic data, which has complicated the readings of that economy at the margin. Available indicators for the third quarter suggest that non-residential investment is estimated to have continued contributing positively to GDP growth. Meanwhile, household spending has moderated so far this year.

* 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.

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 Fed's GDPNow forecasts for the third quarter of 2025 as of December 16. The pink diamonds correspond to the November Blue Chip survey forecasts for the corresponding quarters. Source: Bureau of Economic Analysis (BEA), Federal Reserve Bank of Atlanta, and Blue Chip.

US industrial production grew at a seasonally adjusted monthly rate of 0.1% in September, after contracting 0.3% in August. This performance reflected stagnation in both the manufacturing and mining sectors, which was partially offset by a 1.1% increase in electricity and gas generation. Purchasing Managers' Indices suggest that manufacturing output is expected to have grown during the fourth quarter of 2025.

The US labor market has moderated since the beginning of the year. Non-farm payrolls added 64,000 new jobs in November, after contracting by 105,000 in October. The unemployment rate rose from 4.4% in September to 4.6% in November. The number of job vacancies increased from 7.2 million in August to 7.7 million in October. Initial claims for unemployment insurance have fluctuated around the levels observed at the beginning of the year, reaching 236,000 new claims in the week ending December 6, while current claims are above the levels registered in January. The annual variation in the employment cost index remained unchanged from the previous quarter at 3.6%.

In the euro area, economic activity is estimated to have grown during the fourth quarter of the year at a similar pace to that observed in the previous quarter,

when it grew at a seasonally adjusted quarterly rate of 0.3%.¹ The latest available indicators suggest that the manufacturing sector would have remained sluggish, while the services sector would continue growing. As for the labor market, although job creation has moderated, the unemployment rate has remained at historically low levels. Indeed, said rate remained at 6.4% in October for the sixth consecutive month.

In the rest of the major advanced economies as a whole, economic activity is expected to have grown during the fourth quarter of 2025 at a faster pace than in the previous quarter. In particular, Japan's economy is expected to have rebounded after contracting in the previous quarter. Labor markets in some of these economies showed signs of easing.

The group of main emerging economies is expected to continue slowing down in the fourth quarter of the year compared to the previous quarter. In the case of the Chinese economy, it is expected to grow at a slower pace than in the third quarter, when its GDP grew at a seasonally adjusted quarterly rate of 1.1%.² In November, the annual growth rate of retail sales in that economy continued decelerating, while the annual variation in industrial production moderated, after showing higher growth rates during the previous quarter. In addition, the slowdown in the annual growth rate of cumulative investment in fixed assets worsened in November by contracting more sharply, which could partly be linked to the anti-involution policies currently being implemented.³ So far in the fourth quarter, there has also been a slowdown in the annual rate of exports, after registering solid readings in previous months. In this context, the Chinese economy continues facing significant challenges stemming from the weakness of its real estate sector and domestic demand, as well as uncertainty surrounding the effects of tariffs imposed by the United States. In the Politburo meeting held in early December, Chinese authorities reaffirmed the strengthening of domestic demand as their main economic priority for 2026.

Since Mexico's last monetary policy decision, international commodity prices exhibited a differentiated behavior. Oil prices decreased from the levels registered in early November. Factors such as expectations of a crude oil market surplus

¹ Expressed as an annualized seasonally adjusted quarterly rate, GDP growth in the euro area was 1.1% in the third quarter of 2025.

² Expressed as an annual rate, China's GDP growth was 4.8% in the third quarter of 2025.

³ Chinese authorities have announced policies known as anti-involution, which are designed to restrict production levels and improve profitability in some sectors, in a context of overcapacity and high price competition in that country.

and diplomatic efforts by the United States to reach an agreement between Russia and Ukraine exerted downward pressure on crude oil prices. These pressures were offset by restrictions on Russian and Venezuelan crude oil exports announced by the US government, as well as by the possibility of additional sanctions. In addition, in early December, the Organization of Petroleum Exporting Countries and allied countries (OPEC+) reaffirmed its decision to pause production increases during the first quarter of 2026.

Gas prices performed differently across regions. Prices in Europe declined amid diplomatic efforts to reach an agreement on the conflict in Eastern Europe. This same factor exerted downward pressures on Asian gas prices, which remained at levels similar to those observed in early November. Meanwhile, the US price rose during most of the period amid expectations of higher demand. However, it fluctuated in response to changes in inventory levels in that country, and by mid-December the upward trend reversed as expectations shifted towards lower demand derived from more favorable weather conditions.

Grain prices, in general, were below the levels observed in early November, although they fluctuated in response to uncertainty about Chinese demand. Additionally, towards the end of that month, wheat prices were subject to certain downward pressures due to high inventory levels in various regions.

Industrial metal prices increased overall compared to early November, although they exhibited volatility due to changes in demand prospects. Precious metal prices rose compared to the levels observed in Mexico's last monetary policy decision, although they fluctuated due to uncertainty generated by the US government shutdown and the evolution of expectations regarding the trajectory of the Federal Reserve's reference rate. In particular, silver prices were subject to additional upward pressures due to persistent supply shortages, reaching a new historical high in the third week of December.

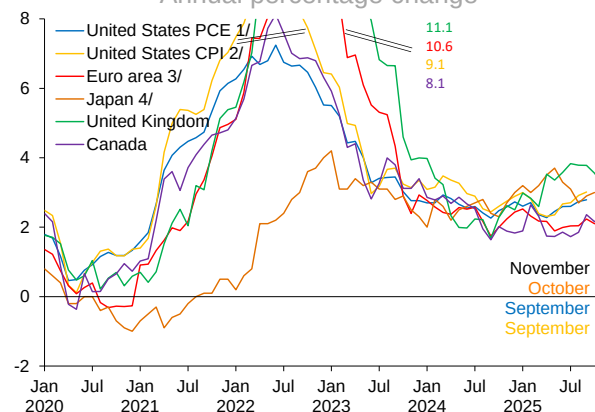
A.1.2. Monetary policy and international financial markets

During the second half of 2025, annual headline inflation has continued showing a mixed behavior

across the major advanced economies. In some cases, it has remained above the inflation targets of their respective central banks, while in others it has fluctuated within a limited range around the target. (Chart 3). Core inflation has continued showing resistance to decline in several cases. Goods inflation has continued rising in the United States, while it has decreased in other economies, reversing some of the increases registered at the beginning of the year. Services inflation has continued showing, in general, some resistance to decline.

In the United States, annual headline inflation, as measured by the Personal Consumption Expenditure (PCE) price index, rose from 2.7% in August to 2.8% in September. This increase was driven by a rise in energy and food inflation, which was partially offset by a decrease in core inflation. The latter fell from 2.9 to 2.8% in the same comparison period as a result of lower services inflation, which was partially offset by a rise in goods inflation. As for annual headline inflation as measured by the Consumer Price Index (CPI), it rose from 2.9% in August to 3.0% in September, while core inflation declined from 3.1% in August to 3.0% in September.⁴

Chart 3
Selected advanced economies:
headline inflation
Annual percentage change



1/ The personal consumption expenditures price index (PCE) is used.

2/ The consumer price index (CPI) is used.

3/ Preliminary figures as of November.

4/ Excludes fresh food.

Note: The series include data up to November 2025, except for the United States (CPI) and (PCE), and Japan, whose latest available data corresponds to September and October 2025, respectively. The chart's range was adjusted to facilitate 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.

⁴ Due to the shutdown of non-essential federal government operations in the United States, the release of the Consumer Price Index scheduled for October was cancelled.

In the euro area, annual headline inflation remained close to its central bank's target. It declined slightly from 2.2% in September to 2.1% in November. This reflected reductions in non-core inflation, while core inflation remained at 2.4% in November for the third consecutive month.

Most recent inflation forecasts prepared by analysts anticipate a decline in inflation at the end of 2026 from current levels for most major advanced economies. Although in the case of the United States, inflation is anticipated to remain above its inflation target at the end of 2026, the expected level has been revised downwards. As for some other economies, they are foreseen to converge to levels close to their inflation targets. Indicators of long-term breakeven inflation and inflation risk implied by financial instruments for the main advanced economies registered moderate changes compared to the levels observed at the time of Mexico's most recent monetary policy decision.

In emerging economies, annual headline inflation has continued declining in several cases. As for core inflation, although it has declined moderately in some economies, it continues showing some persistence. In China, headline and core inflation remained at low levels. In particular, annual headline inflation rose from -0.3% in September to 0.7% in November. Likewise, core inflation rose from 1.0 to 1.2% during the same comparison period. Both headline and core inflation remained below the 2% inflation target.

In this context, since Mexico's last monetary policy decision, most central banks in advanced and emerging economies that made decisions kept their reference rates unchanged. Others continued their rate-cutting cycles. Additionally, some central banks in major advanced economies continued gradually reducing their securities holdings. However, the US Federal Reserve concluded this process in early December and later announced that it would begin purchasing shorter-term Treasury securities. Regarding future actions, central banks reiterated, in general, 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 remain vigilant as to the evolution of risks.

In December, the Federal Reserve, in a non-unanimous decision, lowered the target range for the federal funds rate by 25 basis points for the third consecutive time. The range was thus adjusted to between 3.50 and 3.75%. The Federal Open Market Committee (FOMC) once again pointed out in its decision statement that it is attentive to risks to both sides of its dual mandate and judges that downside risks to employment have risen in recent months. The Committee specified that it will carefully assess the incoming data, the evolution of the outlook, and the balance of risks when considering the magnitude and the timing of further adjustments to the target range of the federal funds rate. The statement also mentioned that the Federal Reserve will begin purchasing shorter-term Treasury securities, as needed, to maintain a continuous ample supply of reserves.

During the press conference, the chairman of the Federal Reserve once again pointed out that, in the short term, risks to inflation are tilted to the upside and risks to employment, to the downside, which he described as a complex situation. He mentioned that the adjustments made since September have placed the monetary stance within a range of plausible neutral estimates, leaving the members well positioned to determine the extent and timing of additional adjustments to the policy rate as well as to wait and monitor future economic developments. Regarding the announcement of Treasury securities purchases, he specified that the increase in these holdings ensures that the federal funds rate stays within its target range and that the purchases may remain elevated for some months to ease the anticipated short-term pressures in money markets.⁵

Regarding the Committee's economic projections, between September and December, the median projection for headline inflation, measured by the personal consumption expenditure deflator, decreased from 3.0 to 2.9% for the end of 2025 and from 2.6 to 2.4% for the end of 2026, while it remained at 2.1 and 2.0% for 2027 and 2028, respectively. The median projection for core inflation was revised to the downside from 3.1 to 3.0% for 2025 and from 2.6 to 2.5% for 2026, while it continued at 2.1% for 2027 and at 2.0% for 2028. Meanwhile, the median projection for GDP growth

⁵ The chairman of the Federal Reserve explained that reserve management purchases will total 40 billion US dollars during the first month and are expected to remain elevated for several

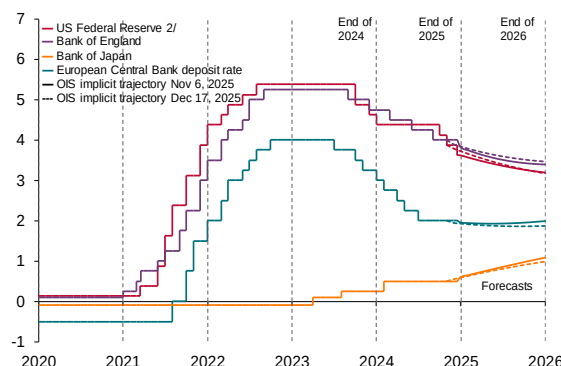
months. He added that they anticipate the volume of purchases to decrease subsequently, although its pace will depend on market conditions.

was revised upwards for each year from 2025 to 2028. The median projection for the unemployment rate remained at 4.5% for the end of 2025, at 4.4% for the end of 2026, decreased from 4.3 to 4.2% for the end of 2027, and continued at 4.2% for that of 2028. As to projections for the federal funds rate, despite them showing a certain variation, the median for the end of 2026, and for the end of 2027 and of 2028 remained unchanged at 3.4% and 3.1%, respectively. These projections would imply a 25 basis points (bp) decrease in the federal funds rate during 2026 and another one in 2027. The median projection for the federal funds rate over the long run remained unchanged at 3.0%.

In November 2025, the European Central Bank (ECB) released the Minutes of its monetary policy decision of October, in which it left its deposit, refinancing, and lending rates at 2.00, 2.15, and 2.40%, respectively, for the third consecutive meeting. The referred Minutes revealed that during the discussion it was expressed that it was important to remain open to the possibility of a further rate cut, which would be justified if there were an increase in the probability or intensity of downside risk factors or if the forecast of inflation remaining below the target was upheld. It was also mentioned that the rate-cutting cycle may have concluded, as the current favorable outlook is expected to persist, unless the existing risks materialize.

As for expectations for monetary policy rates in the major advanced economies, since Mexico's last monetary policy decision, those implied by market instruments for the end of 2026 exhibited limited changes in most cases (Chart 4). In the United States, the most recent forecast for the federal funds rate for the end of 2026 remained at around 3.0%. The expected level for the United Kingdom reference rate declined slightly from 3.5 to 3.4%. In turn, the forecast for the euro area reference rate increased from 1.9 to 2.0%, while the expected level for the Canadian reference rate was adjusted upwards from 2.2 to 2.5%, and that for Japan from 1.0 to 1.1%.

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



1/ OIS: Fixed-for-floating interest rate swap where the floating interest rate is associated with the effective overnight reference rate.

2/ For the observed reference rate of the United States, the average interest rate of the target range for the federal funds rate is used.

Source: Bloomberg.

In the main emerging economies, several central banks decided not to adjust their reference rates in their most recent monetary policy decisions. Others continued with their rate-cutting cycles. In the case of China's central bank, it has not made any adjustments since May, and, as a result, the one- and five-year loan prime rates (LPR) have remained the same. Chinese authorities also reiterated that in 2026 they will continue conducting a monetary policy described as moderately accommodative.

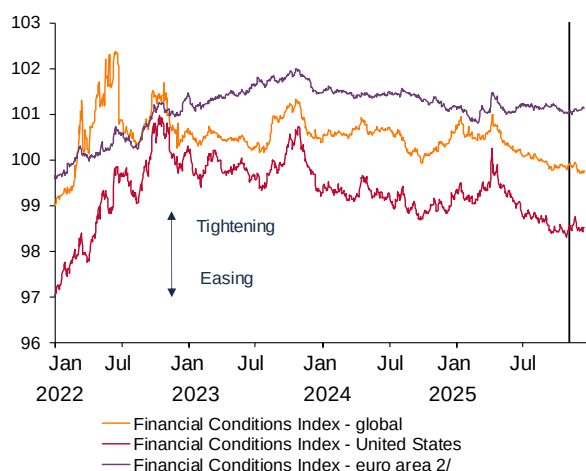
In this environment, since Mexico's last monetary policy decision, episodes of volatility have been observed. Risk appetite has increased compared to the levels of early November, although it fluctuated during the period. These episodes of volatility were partly associated with adjustments in expectations regarding future cuts to the Federal Reserve reference rate, as well as the US government shutdown, and concerns over the high valuations of some technology sector companies. In this context, global financial conditions slightly loosened (Chart 5), which largely reflected the expectations of further cuts to the federal funds rate by the Federal Reserve.

In the fixed income market, US government bond yields decreased in most terms (Chart 6). The slope of the US yield curve (defined as the spread between 10-year and 2-year government bond rates) remained positive. In general, long-term (10 years) and medium-term (2 years) rates increased in other major advanced economies. In Japan, rates

increased considerably due to expectations of a more restrictive monetary policy stance and concerns about its fiscal policy. Meanwhile, most stock markets in the group of advanced economies registered gains. Nevertheless, by the end of November, US and Japanese stock markets registered moderate losses, partly due to concerns over the valuation level of tech sector stocks. Regarding foreign exchange markets, the US dollar depreciated against the currencies of most major advanced economies, except for the Japanese yen.

In most emerging Latin American economies, long- and medium-term rates fluctuated within a narrow range (Chart 7). In emerging Asia and Europe, medium-term rates decreased overall, while long-term rates increased. Stock markets in most emerging economies exhibited gains. As for foreign exchange markets, most currencies in this group of countries 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

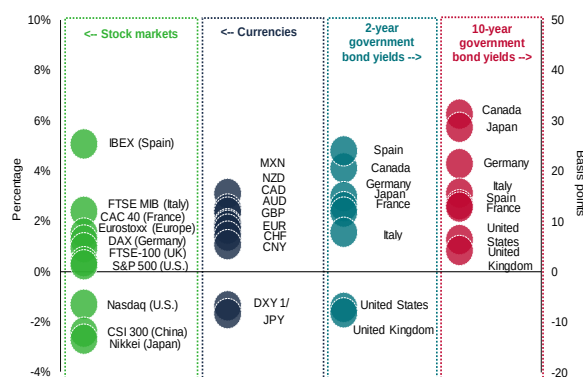


1/ The financial conditions index is constructed considering the effect of five variables on economic activity: the reference interest rate, the 10-year government bond, the spread of investment grade bonds over the government debt bond with equivalent maturity, the ratio of a stock index with 10-year 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 November 6 to December 17, 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 November 6 to December 17, 2025
Percent, basis points

Region	Country	Currencies	Equity markets	2-year interest rates	10-year interest rates	CDS
Latin America	Mexico	3.17%	-1.34%	19	20	-2
	Brazil	-2.94%	2.63%	-13	-8	0
	Chile	2.79%	7.45%	-32	-19	-11
	Colombia	-0.79%	0.86%	143	69	22
	Peru	0.07%	10.14%	-21	-33	-3
Emerging Europe	Russia	1.29%	8.37%	254	75	N.A.
	Poland	3.02%	2.53%	-18	-2	-3
	Turkey	-1.46%	2.88%	-166	-118	-31
	Czechia	2.06%	9.53%	18	19	0
	Hungary	1.57%	1.21%	-1	2	5
Asia	China	1.16%	-2.49%	-4	4	2
	Malaysia	2.46%	1.23%	-11	6	-3
	India	-1.94%	1.32%	3	7	-3
	Philippines	0.19%	4.49%	-10	9	-2
	Thailand	3.18%	-2.97%	-12	-1	-3
	Indonesia	0.10%	4.31%	25	-4	-6
Africa	South Africa	3.70%	4.82%	-8	-41	-16

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. For the Philippines, the 2-year swap rate was used, and for Russia swap rates for both terms were used. The latest CDS data for Russia is as of June 1, 2022.

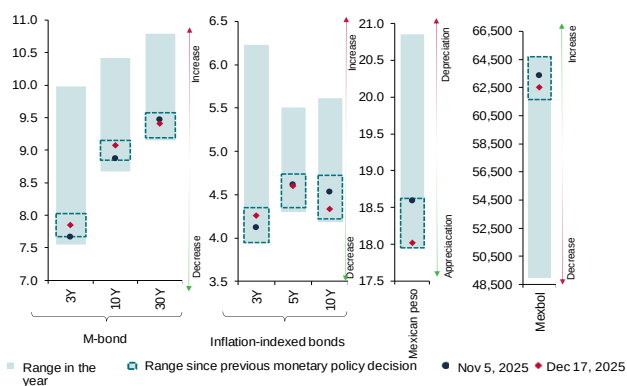
Source: Bloomberg.

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 mixed performance. The Mexican peso appreciated against the US dollar, interest rates increased along the curve, except for longer-term nodes, and the stock market ended the period with losses, despite the fact that the Mexican Stock Exchange Price and Quotation Index (IPC) reached a historic high during this period (Chart 8).

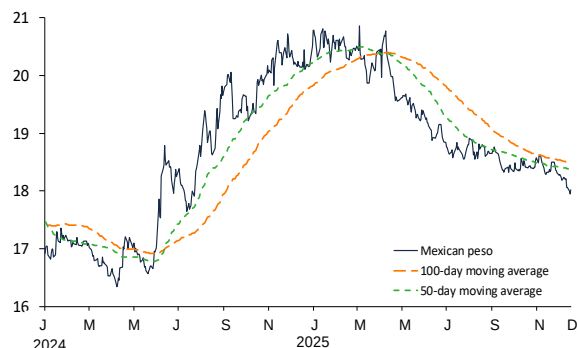
Chart 8
Mexican markets' performance
Percent, MXN/USD and index



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

The Mexican peso traded within a range of 84 cents—between 17.93 and 18.77 pesos per US dollar—since the last monetary policy decision (Chart 9). The 3.17% appreciation derived from the recent weakness of the US dollar, as well as from investors' preferences for carry trade strategies, in an environment in which volatility remained at historically low levels. Trading conditions for the Mexican peso remained orderly.

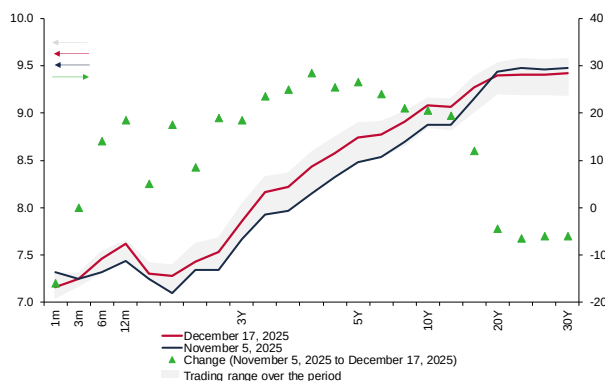
Chart 9
Mexican peso exchange rate
MXN/USD



Source: Banco de México.

Government bond yields increased by up to 29 bp in the short and medium part of the curve, while in the long part they decreased moderately by up to 6 bp (Chart 10). Yields on real rate instruments exhibited a similar dynamics, with increases of up to 14 bp at the short end and decreases of 20 bp in the long part of the yield curve. In this context, breakeven inflation implicit in spreads between nominal and real rates of market instruments increased for all terms (Chart 11).

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



Source: Proveedor Integral de Precios (PIP).

Basis points

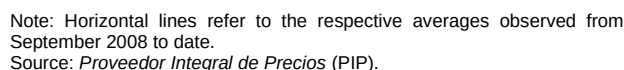
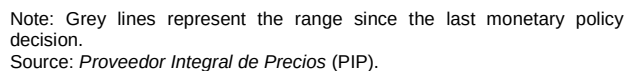


Chart 12

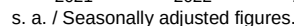
Percent



During the third quarter of 2025, GDP contracted by 0.29% compared to the previous quarter (Chart 13). Although data regarding the fourth quarter of 2025 is limited, economic activity is anticipated to have remained weak, and the estimated output gap is expected to remain negative (Chart 14).

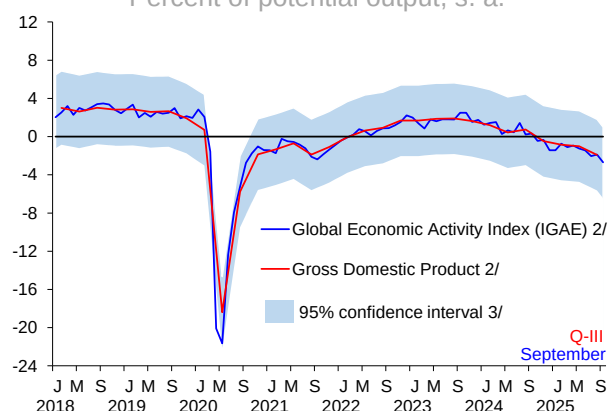
Regarding external demand, despite the imposition of several tariffs by the United States, manufacturing exports grew at a faster pace during the third quarter and, especially, at the beginning of the fourth quarter. This reflected the continued upward trend in non-automotive manufacturing exports, while automotive exports remained sluggish (Chart 16).

Quarterly percentage change, s. a.



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

Chart 14
Output gap estimates ^{1/}
Percent of potential output, s. a.



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

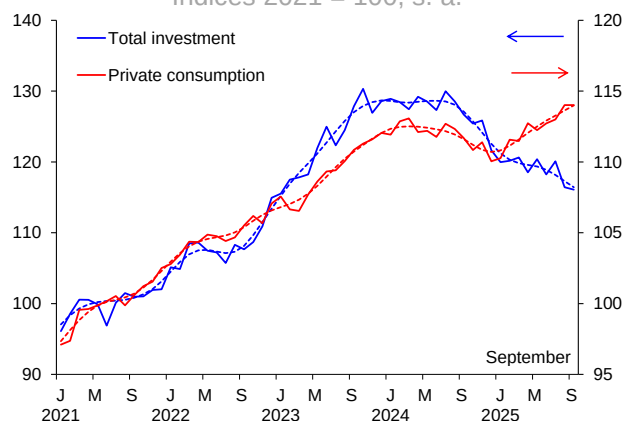
^{1/} Output gap estimated with a tail-corrected Hodrick-Prescott filter; see Banco de México (2009), "Inflation Report, April-June 2009", p.69.

^{2/} GDP data as of Q3-2025 and IGAE data as of September 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 2021 = 100, s. a.



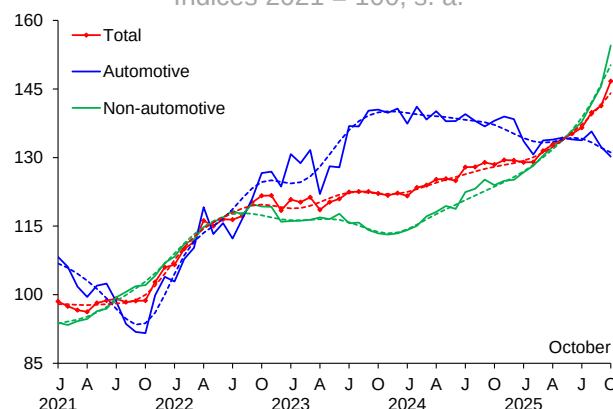
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter, by a dotted line.

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

From a sectoral perspective, tertiary activities decelerated during the third quarter compared to the second quarter, while primary activities rebounded (Chart 17). Meanwhile, early in the fourth quarter, although industrial activity halted its downward trajectory of the previous months, it remained at relatively low levels. Regarding its components, manufacturing remained weak (Chart 18). Construction rebounded at the margin and reversed part of the decline accumulated over the previous four months.

Regarding labor market indicators, both national and urban unemployment rates declined in October (Chart 19). Formal job creation registered with IMSS improved somewhat in November, after having stagnated in the first three quarters of 2025. Lastly, unit labor costs continued trending upwards early in the fourth quarter.

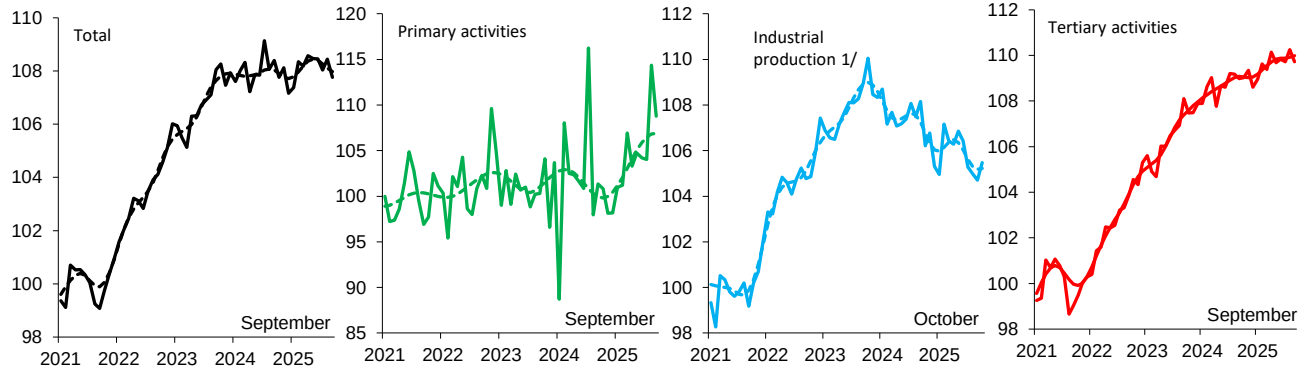
Chart 16
Manufacturing exports
Indices 2021 = 100, s. a.



a. e. / 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.

Fuente: 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.

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

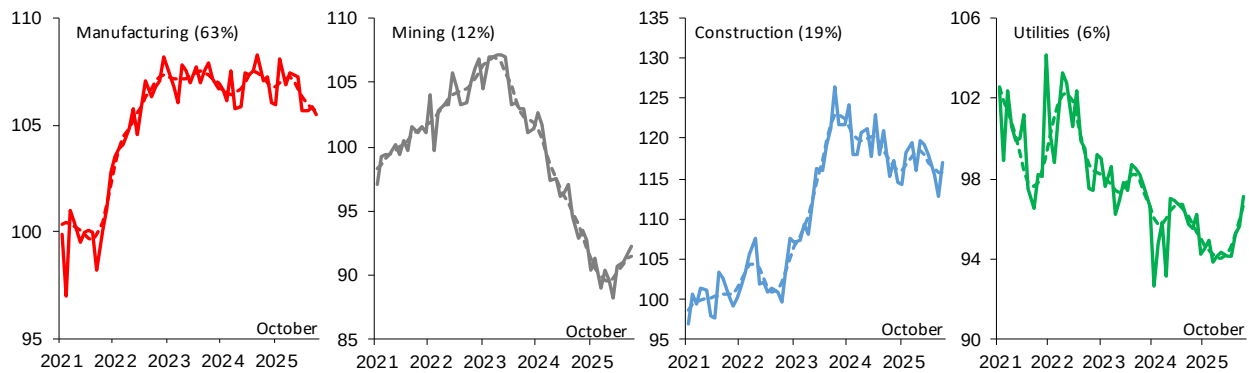


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter, by a dotted line.

1/ Figures up to October 2025 of the Indicator of Monthly Industrial Activity.

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

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

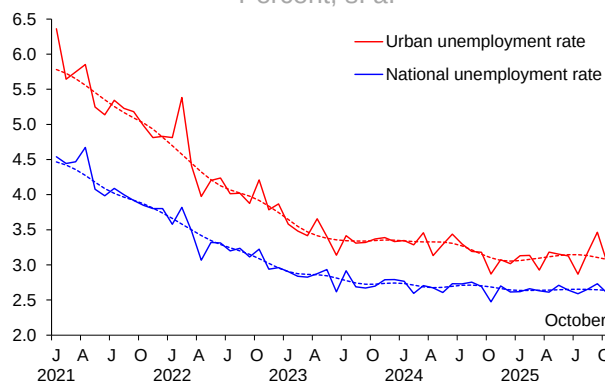


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.

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

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

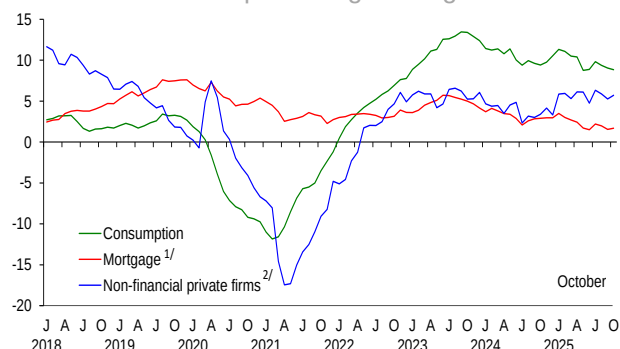
Domestic financing to the private sector continued expanding in October 2025, albeit at a slower pace than at the end of 2024 and with heterogeneity across sectors. On the one hand, commercial bank credit to firms increased at a rate similar to that of the previous quarter (Chart 20). As a result, its rate of expansion remained above that observed in 2024.

On the other hand, growth of credit to households continued moderating. Regarding its components, consumer portfolio registered a higher annual variation than the housing segment.

As for the cost of financing, interest rates on new bank credits to firms continued trending downwards in October. Its evolution continued reflecting the pass-through of the reference rate to bank interest rates in the segment. Meanwhile, commercial bank mortgage interest rates decreased slightly. Lastly, based on data up to June 2025, interest rates on bank consumer loans remained relatively high, although they declined in most segments compared to the previous period.

As for portfolio quality, delinquency rates for corporates and housing loans remained unchanged in October, while those for consumer loans rose further. Delinquency rates for the three portfolios remained at low levels compared to their historical records.

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



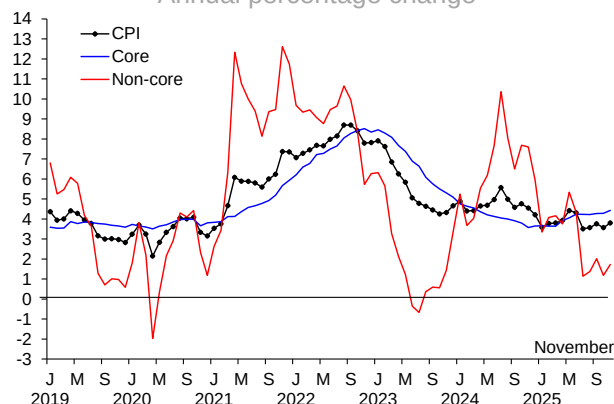
1/ Adjusted to account for the withdrawal from and the incorporation of non-bank financial intermediaries to the credit statistics.

2/ Adjusted for valuation effects due to exchange rate fluctuations.
Source: Banco de México.

A.2.3. Development of inflation and inflation outlook

Annual headline inflation increased from 3.57 to 3.80% between October and November 2025. This result was due to a rise in non-core inflation and, to a lesser extent, to an increase in core inflation (Chart 21 and Table 1).

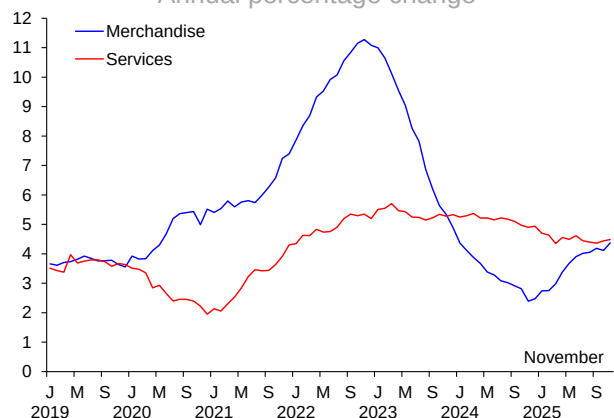
Chart 21
Consumer Price Index
Annual percentage change



Source: INEGI.

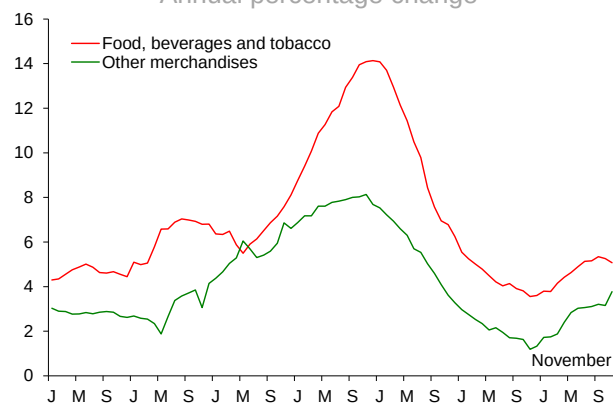
Annual core inflation increased from 4.28 to 4.43% between October and November 2025. This performance was mainly driven by an increase from 4.12 to 4.37% in merchandise inflation (Chart 22). In this regard, non-food inflation stood out, rising from 3.15 to 3.77% during said period, influenced by a low base effect. In contrast, food inflation decreased from 5.26 to 5.07% (Chart 23). Meanwhile, services inflation increased slightly between the aforementioned months, standing at 4.44 and 4.49%, respectively. As for its components, inflation of services other than housing and education rose from 5.24 to 5.35%, largely due to a higher annual variation in the prices of food and entertainment services. In contrast, housing inflation remained relatively stable at 3.42 and 3.40% during the same period, along with education inflation, which stood at 5.82% in both months.

Chart 22
Merchandise and services core price subindex
Annual percentage change



Source: INEGI.

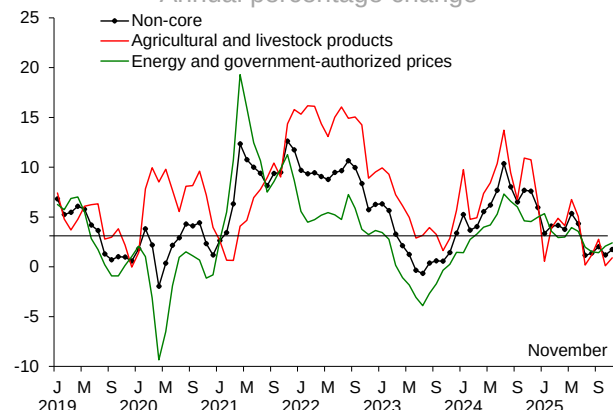
Chart 23
Merchandise core price subindex
Annual percentage change



Source: INEGI.

Annual non-core inflation rose from 1.18 to 1.73% between October and November 2025 (Chart 24 and Table 1). This behavior was primarily driven by an increase in inflation of government-authorized prices, which rose from 3.86 to 5.86% between the aforementioned dates, driven by adjustments in public transportation fares in some cities. The performance of non-core inflation was also influenced by an increase from 0.10 to 0.90% in agricultural and livestock product prices. As for its components, the annual variation in fruit and vegetable prices remained negative, although it rose from -10.27 to -7.79% during said months. Inflation of livestock products decreased from 8.19 to 7.69%, and energy inflation declined from 1.07 to 0.54%, during the same period.

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 October and December 2025, the median for headline inflation for the end of 2025 decreased from 3.78 to 3.75%, while it increased from 4.22 to 4.24% for core inflation. Meanwhile, headline inflation expectations for the end of 2026 increased. The median of the headline index rose from 3.81 to 3.88%, and that of the core component from 3.80 to 3.90%. Inflation expectations for the next four years registered limited adjustments. The median for headline inflation went from 3.77 to 3.75%, while that for core inflation, from 3.70 to 3.75%. Median expectations for long-term headline inflation (5 to 8 years) rose at the margin from 3.60 to 3.63%. In contrast, those for core inflation remained stable at 3.60%. Lastly, between October and December, inflation expectations implied by market instruments declined slightly. In contrast, the monthly average of the inflation risk premium increased, standing above its historical average.

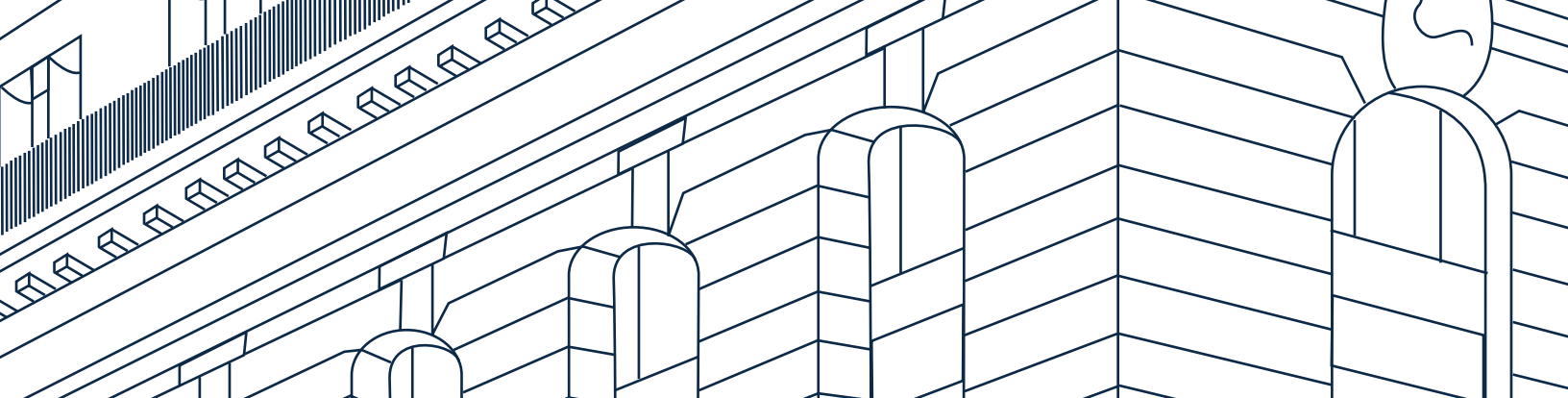
Headline and core inflation forecasts were adjusted upwards for the fourth quarter of 2025 and the subsequent two quarters. This adjustment responds mainly to a more gradual-than-expected reduction in services inflation, as the increase registered in merchandise inflation has a lesser impact on the

forecast revision. 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) persistence of core inflation; iii) cost-related pressures; iv) disruptions due to geopolitical conflicts or foreign trade policies, 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. The fiscal adjustments are estimated to have a temporary, and not necessarily proportional, effect on prices. Nevertheless, a comprehensive assessment of their impact will require incorporating additional information as it becomes available. Although the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside, said bias is less pronounced than that faced between 2021 and 2024. The changes in economic policy by the US administration continue adding 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	September 2025	October 2025	November 2025
CPI	3.76	3.57	3.80
Core	4.28	4.28	4.43
Merchandise	4.19	4.12	4.37
Food, beverages and tobacco	5.34	5.26	5.07
Non-food merchandise	3.21	3.15	3.77
Services	4.36	4.44	4.49
Housing	3.39	3.42	3.40
Education (tuitions)	5.84	5.82	5.82
Other services	5.11	5.24	5.35
Non-core	2.02	1.18	1.73
Agricultural and livestock products	2.76	0.10	0.90
Fruits and vegetables	-4.86	-10.27	-7.79
Livestock products	8.45	8.19	7.69
Energy and government-authorized prices	1.42	2.07	2.40
Energy products	0.36	1.07	0.54
Government-authorized prices	3.27	3.86	5.86

Source: INEGI.



BANCO DE MÉXICO®

Document published on January 8, 2026

