

BANCO DE MÉXICO®

Minutes number 128

Meeting of Banco de México's Governing Board on the occasion of the monetary policy decision announced on November 5, 2026

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1. PLACE, DATE, AND PARTICIPANTS

1.1. Place: Meeting held by virtual means.

1.2. Date of Governing Board meeting: November 4, 2026.

1.3. Participants:

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

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

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

International environment

Most members highlighted that since the previous monetary policy decision, the global economy continued showing resilience, despite the uncertainty associated with the Middle East conflict. One member commented that world economic activity is expected to have grown during the third quarter of 2026 at a slightly lower rate to that of the previous quarter. **Most members added that the economies performed heterogeneously. One** member pointed out the moderation in the growth of advanced economies, while emerging economies are expected to have grown at a similar pace to that of the previous quarter. **In the case of the United States, most members highlighted the dynamism of economic activity. They attributed this performance to non-residential investment in high-tech sectors, such as artificial intelligence (AI). One** member noted that the rate of expansion in that economy accelerated compared to the previous quarter, supported by the solid growth of domestic demand. **Some** members pointed out the resilience of personal consumption expenditures. In this regard, **one** member highlighted that the personal saving rate in said economy continued declining. He/she underlined that net exports negatively affected US domestic demand. However, he/she commented that this was partly due to higher imports of capital goods. **Another** member added that US industrial production showed resilience. Regarding the performance of other economies, **one** member mentioned that, compared to the previous quarter, economic activity moderated in the euro area, while it accelerated in China.

Regarding global growth forecasts, **some** members pointed out that a moderation in growth is expected for 2026, compared to 2025. **One** member added that growth forecasts for 2027 remained unchanged. **Another** member expressed that according to projections by international organizations, global growth is expected to reach 3.1% in 2026, after registering 3.5% in 2025. He/she commented that world growth is projected at 3.4% for 2027, assuming the Strait of Hormuz is reopened at the beginning of that year. **Some** members noted that in 2027 economic growth is expected to be stronger in the United States than in other advanced economies. **One** member mentioned that projections for that economy remained unchanged for 2026 and were adjusted slightly upwards for 2027. He/she indicated that those for the euro area were revised upwards, although growth is still expected to be lower than in 2025. **Another** member expressed that the technological boom derived from unprecedented investment in artificial intelligence has contributed to mitigating the impact from the adverse shocks in economies exposed to production chains associated with this sector, which has contributed to the greater stability in advanced economies. He/she added that emerging economies are expected to decelerate this year. He/she warned that the buffers supporting the resilience are limited and that a new escalation of geopolitical conflicts, increased trade tensions, fiscal vulnerabilities or a shift in expectations regarding AI could affect economic growth. **One** member stated that the rapid expansion of high-tech investment has driven global demand in specific sectors, although it has contributed to widening the growth gaps among economies. He/she pointed out that, while such

investment could eventually lead to an increase in aggregate productivity, it is yet to be reflected in the data. He/she noted that channeling financial resources to companies related to said boom has increased both the leverage of those companies and the exposure of that sector to the financial system. He/she stated that this has also led to tighter credit conditions in other segments. He/she warned that the climate of uncertainty that has prevailed over the last year has also affected investment plans in other sectors and regions. He/she pointed out that, considering the above factors, in addition to the need for fiscal efforts in some advanced economies, the balance of risks to global growth remains biased to the downside.

Some members commented that, since the previous monetary policy meeting, commodity prices continued being affected by an uncertain environment related to the conflicts in the Middle East and Eastern Europe. **One** member expressed that these events have contributed to the volatility of international energy benchmarks. **Another** member detailed that the prices of oil and its derivatives remained high. He/she indicated that, although the reconfiguration of trade routes led to a notable recovery of oil flows from the Middle East, the supply of oil-refined products remained limited. He/she pointed out that as geopolitical conflicts have persisted, buffers have diminished and, consequently, the likelihood of indirect effects has increased. However, **one** member argued that prospects of a de-escalation recently led to significant declines in energy prices. **Some** members added that the impact of this environment on different economies has varied depending on their level of exposure to the various shocks.

Most members highlighted that in several major advanced economies, headline inflation kept increasing. They attributed this mainly to the rise in energy prices. Most members noted that core inflation continued exhibiting persistence. One member specified that some economies registered increases in the computer and textile categories. **Another** member added that, despite the rise in global energy prices, core inflation remained relatively stable in several cases. **Some** members noted that headline inflation rose again in the United States. **One** member detailed that this was the result of increases in energy prices and in the core component, partially offset by lower food inflation. **Another** member pointed out that, nevertheless, headline inflation remained below the levels registered in May. **One** member attributed the higher-than-expected rise in core inflation to higher services inflation, since merchandise inflation remained relatively stable. Regarding the euro area, **some** members highlighted the increase in annual headline inflation. **One** member detailed that said region remained among the most affected economies by the rise in energy prices, registering in September its highest inflation rate in three years. **Another** member specified that in this region both core and non-core components rose between August and October, although the latter had a greater impact on headline inflation. He/she added that, within core inflation, services inflation increased, while merchandise inflation varied slightly. **Some** members noted that the inflation outlook in emerging economies was mixed. In this regard, **one** member expressed that, although headline inflation rose in several cases, it exhibited a differentiated behavior across countries compared to the levels at the end of the second quarter. He/she also noted that core inflation continued showing some persistence in various emerging economies. **Another** member emphasized that inflation readings in both advanced and emerging economies remained above their respective central banks' goals and that convergence to the target continues to be delayed. **Some** members pointed out that inflation forecasts were revised upwards in several cases. **One** member indicated, however, that the rise in inflation is still expected to reverse in 2027. **Another** member added that inflation in the major advanced economies is still projected to be close to the central banks' respective targets by the end of 2027.

The majority noted that most major central banks in advanced economies left their reference rates unchanged. Some members underlined that some central banks raised their reference rates. **One** member pointed out that these rate increases were implemented in light of the risk that rising energy prices could pass on to other prices. He/she noted that the shock derived from the geopolitical conflict, which has been characterized by its persistence, has been a relevant factor in central banks' decisions. **Another** member added that expectations of a more restrictive monetary policy stance by these central banks have increased and that during the period between policy decisions, eight central banks raised their reference rates, Canada, Australia, and Norway among them.

Most members noted that the Federal Reserve left its target range for the federal funds rate at between 3.75 and 4.00% in its October meeting. One member commented that another rate hike by

that central bank is expected in December. **Another** member added that two votes were in favor of raising the target range by 25 basis points. **Most members detailed that the chairman of said central bank indicated that US financial conditions have tightened since September. They pointed out that the chairman emphasized the relevance of future information in determining the appropriate monetary policy stance in that country. Some** members mentioned that he stated that inflation expectations reflect confidence about said central bank delivering price stability. They highlighted that said central bank's statement reinforced the assessment of the rate of economic expansion and that inflation remains high. **One** member noted that the chairman of the Federal Reserve acknowledged that expectations in the very near term have risen due to the increase in energy prices. Regarding the European Central Bank, he/she detailed that it kept its reference rates unchanged and that its statement indicated that risks associated with energy prices are mixed: to the upside for inflation and to the downside for economic growth, while also pointing out that financing conditions had tightened since the previous meeting. He/she emphasized that the president of that central bank acknowledged that a target rate increase was debated, although the Governing Council determined that they remained well positioned to keep their reference rates unchanged. Regarding the various measures implemented by other central banks, he/she reflected on the fact that they are consistent with the current supply-related shock and with its pass-through to each economy's inflation, as well as with the cyclical position in each of them. He/she concluded that it is appropriate for monetary policy responses to continue being calibrated based on the developments in each economy. In this regard, he/she indicated that rate hikes by various central banks have been implemented with caution.

Most members noted that international financial markets continued registering volatility. They stated that a generalized increase in long-term interest rates has been observed in some advanced economies. Some members pointed out that these rates at some point reached their highest levels in decades. **One** member detailed that this was due to the outlook of technology-related sectors and their competition for funding, the pressures associated with high energy prices that are still being observed in several developed economies, the resilience of global economic activity, and the fiscal uncertainty in France, which raised sovereign risk premia in the euro area. Nevertheless, he/she indicated that in recent days this trend has somewhat reversed. **Another** member pointed out that, nevertheless, high interest rates could persist, since the factors that have driven them are unlikely to disappear in the short term. **Some** members noted that the US dollar appreciated against most currencies. **One** member attributed markets' volatility to the escalation of geopolitical tensions, concerns about the valuations of assets related to AI, the debt levels of some economies, and the actions central banks could implement in response to inflationary pressures associated with energy prices. He/she noted that risk premia of emerging economies have also increased. In this regard, **another** member mentioned that the financial assets of those economies performed negatively, in some cases due to idiosyncratic factors. **One** member expressed that while increased volatility has been observed in international financial markets, its potential impact on inflation depends on the persistence of said volatility, the response of inflation expectations, and the pass-through to domestic prices, which so far has remained limited.

Economic activity in Mexico

Most members highlighted that GDP grew at a seasonally adjusted quarterly rate of 0.9% in the third quarter, according to the flash estimate. They indicated that this figure was higher than expected. Some members noted that this represented a slowdown from the 1.4% registered in the previous quarter. **One** member emphasized that with the above, there have now been two consecutive quarters of expansion after the 0.34% contraction observed at the beginning of the year. **Another** member argued that the recent recovery has not been widespread and has been supported by specific sectors and components.

Most members indicated that during the third quarter economic growth was driven by the industrial and services sectors. Regarding industrial production, **some** members noted that it continued recovering. **Within this sector, most members highlighted the dynamism in construction. One** member underlined that it continues trending upwards, as a reflection of the performance of building construction and the recovery in civil engineering projects. **Most members highlighted the rebound in manufacturing. Some** members mentioned that it

continued recovering. **One** member recalled its weak performance during 2025. He/she added that the automotive sector showed signs of improvement and that this has coincided with the strong performance of other manufacturing sectors, particularly the production of computers, communications equipment, and electronic accessories. **Another** member indicated that growth in manufacturing concentrated in a few sectors, among them computer equipment, oil-derived products, and transportation equipment. He/she noted that about one third of manufacturing line-items contracted or remained stagnant in their annual variations. As for other components of industrial activity, **one** member pointed out that mining halted the improvement observed since mid-2025. He/she stated that during the third quarter the utilities sector partially reversed the contraction of the first quarter. He/she indicated that primary activities remained sluggish. **Regarding the services sector, most members highlighted that it continued growing during the third quarter. Some** members noted the favorable performance of the trade sector. **One** member mentioned other services sectors, although he/she considered their performance to be heterogeneous. In this context, **another** member noted that the level of economic activity in around 80% of sectors is above its 2025 year-end level.

Regarding the performance of aggregate demand components, most members considered that it has been heterogeneous. In particular, they noted the weakening in consumption. One member mentioned that this was observed in July, following the recovery in the second quarter. **Another** member stated that in July consumption exhibited levels similar to those of the fourth quarter of 2025, after having declined 0.4% during that period. He/she added that this reflected sideways trends in the domestic component of consumption and some sluggishness in the imported goods component. **Most members pointed out the growth in investment. One** member detailed that it has expanded 6.8% since the last quarter of 2025 and added that, despite this, the levels of its main components remain below those observed at the end of 2023. **Most members highlighted the strong performance of the machinery and equipment sector. Some** members also underlined the dynamism in the construction sector. In this regard, one member indicated that it has been driven by the recovery in public investment, particularly in projects related to railway works. He/she added that private investment, which accounts for a larger share of total investment, has shown signs of improvement.

Most members highlighted the dynamism of exports. One member noted that they accumulated double-digit annual growth rates for 14 consecutive months. **Another** member pointed out that manufacturing exports continued increasing due to the favorable performance of non-automotive shipments, despite their slight reversal in September. He/she added that such dynamism more than offset the weakness in automotive exports. **Some** members suggested that the performance of exports is related to the technological boom in the United States, along with Mexico's better relative trade position. **One** member mentioned, in particular, the high demand for the construction of data centers in the United States linked to AI. **In this regard, most members warned that the effects of increased technology investment in the United States on Mexico's exports have been concentrated in only certain sectors. One** member noted that this export growth phenomenon has occurred without spreading to the rest of manufacturing. However, **another** member stated that exports reasserted their position as the main driver of economic growth.

Most members mentioned the upward revision to growth expectations for 2026. Some members expressed that during the third quarter economic growth exceeded expectations. **One** member stated that the above has led to revisions in growth forecasts. **Another** member pointed out that several brokerage firms revised their growth forecasts to close to 2%. However, **some** members pointed out that the balance of risks to economic activity remains biased to the downside. They noted that risks associated with the persistence of adverse external factors prevail. In this regard, **one** member highlighted the uncertainty surrounding international trade.

Most members commented that, despite the upward revision to growth expectations, slack conditions are still expected throughout the forecast horizon. One member indicated that this outlook responds to the moderate growth registered for several quarters. **Another** member pointed out that slack conditions are evidenced by the output gap and certain complementary measures that show a widening at the margin. **One** member noted that, although their measurement is subject to uncertainty, various methodologies and statistical filters consistently suggest the presence of economic slack, which partly reflects that the cumulative expansion over the past three years would be lower than the one

that would have been observed considering the historical pace of growth. As a point of reference, he/she recalled that between 2000 and 2019 the economy grew at an average annual rate of nearly 2%, while average growth between 2024 and 2026 is estimated to be lower. He/she added that, although a gradual economic recovery has been observed, the assessment still indicates sluggishness. **Another** member considered that assessing the economy's cyclical position at a given moment is insufficient, and that the lagged effects since 2024 must also be taken into account. He/she added that, despite the improvement during the third quarter of 2026, the economy is still operating below potential and is expected to continue doing so throughout the forecast horizon.

As for the labor market, **some** members considered that it continues to show signs of sluggishness. **Most members mentioned the downward trend in the labor force participation rate. One** member pointed out that it has declined by nearly 2 percentage points compared with 2023. He/she added that jobs registered with IMSS grew at a still modest rate and decreased in micro and small firms. Meanwhile, **another** member noted that job creation has rebounded in recent months, which is consistent with the recovery of the economy as a whole. However, he/she indicated that, annually, job creation still remains below pre-pandemic levels. **Some** members expressed that informal employment has expanded during 2026. **One** member added that this suggests that formal employment is still cooling. **Some** members referred to the low unemployment rate. **One** member noted that, from both a current and a longer-term perspective, the unemployment rate remains low, given that the decline in labor force participation has practically offset the decline in the pace of job creation.

Inflation in Mexico

All members mentioned that between the first fortnight of September and the first fortnight of October 2026, headline inflation rose from 3.42 to 3.62%. Some members stated that this was the result of an increase in non-core inflation. **One** member indicated that in the first fortnight of October, the 10% trimmed mean of headline inflation stood at 3.37%, below the annual variation of the raw index, suggesting that a few specific items affected the performance of the latter. **Another** member highlighted the decline in headline inflation from 4.59% in March to 3.62% in the first fortnight of October. **Most members pointed out that headline inflation has remained within the variability range for several months. Some** members specified that this has occurred for most of 2026. **One** member stated that, although inflation has remained above target, it has been within the variability interval for 17 months since January 2025, as well as in the first fortnight of October.

All members noted that between the first fortnight of September and the first fortnight of October 2026, core inflation declined from 3.79 to 3.78%. Some members indicated that core inflation remained stable because the increase in non-food merchandise inflation was offset by the decline in food merchandise and in services inflation. **One** member warned that in the second half of 2026 core inflation has not shown the same improvement as during the first half of the year. He/she detailed that from the second fortnight of July to the first fortnight of October, it only registered a cumulative decrease of 17 basis points. **Most members highlighted that, nevertheless, core inflation continues trending downwards. One** member recalled that it was at 4.24% a year ago. Another member indicated that it stood at 4.52% in January and has been declining steadily throughout the year. **One** member specified that core inflation has been below 4% since July and has continued decreasing, albeit at a slow pace. **Some** members stated that this decline has been driven mainly by favorable trends in merchandise inflation. **One** member mentioned that, although the annual rate of core inflation rose in the last fortnight compared with the previous one, the average of its annualized monthly variations over the past six months stands at 3.36%, suggesting that recently it has moderated notably.

Most members commented that services inflation declined again, reaching 4.26% in the first fortnight of October. They noted that it has declined gradually. One member pointed out that it remains at levels similar to those at the end of 2025. **Another** member underlined that, as non-tradable goods, they are mainly affected by domestic factors, such as slack conditions, although with certain lag. He/she expressed that the gradual nature of the decline suggests that other factors have limited their response to the economic weakness. He/she noted that the heterogeneous cost structure is reflected in differences regarding sensitivity to economic activity. As an example, he/she added that food services businesses allocate nearly half of their costs to intermediate inputs, especially food merchandise, whose prices depend largely on international benchmarks. He/she stated that empirical evidence

suggests that non-food services inflation responds significantly to negative demand-side shocks, while food services inflation does not. He/she indicated that the heterogeneity in the frequency at which firms adjust their prices is relevant. He/she expressed that there are services whose prices change only once or twice a year for commercial or contractual reasons, delaying the impact of the economic slack. He/she pointed out that, altogether, services with price stickiness that respond to the economic slack with a lag account for about 40% of the subindex, while the rest of services are more sensitive to the current economic conditions and their inflation rate stands at practically 3%.

Regarding the services components, **one** member noted that housing inflation has declined in recent readings, reaching 3.54%. **Some** members mentioned that the decline in services inflation was also driven by the subindex of services other than education and housing, which declined from 4.84% in the first fortnight of September to 4.73% in the first fortnight of October. **One** member highlighted that the price variation of those services registered their lowest reading since 2021. **Another** member considered that this reduction could be associated with the current phase of the economic cycle and therefore inflation of this category could continue declining. **One** member indicated that there is heterogeneity within the latter categories. He/she underlined that the persistence of food services inflation remains high, accounting for most of the deviation of this indicator from its historical average. He/she stated that, nevertheless, it has declined in recent readings and is at its lowest levels since mid-2024. **Another** member indicated that the price variation of internet and pay-tv packages, as well as of food services, contributed in greater magnitude to the decline in services inflation. However, he/she noted that the annual variation in the prices of air transport rose from 9.87 to 24.62%, mainly due to the increase in the price of jet fuel.

Some members noted that, in its latest reading, merchandise inflation rebounded slightly from 3.22% at the time of the previous monetary policy decision to 3.28% in the first fortnight of October. **One** member specified that this increase was driven by a rise in non-food merchandise inflation. **Some** members commented that the above was attributable to a rise in the clothing, footwear, and accessories category. In this regard, **one** member attributed said increase to the end of sale offers during the period, hence suggesting that said increase may be transitory. **Most members emphasized that merchandise inflation has declined over the course of the year and remains at low levels. One** member specified that merchandise inflation is below its historical average of 3.95%. He/she added that inflation of merchandise items that are more sensitive to imports has also continued trending downwards, thus suggesting that disruptions associated with the Middle East conflict have not affected domestic inflation. **Some** members attributed said decline to the appreciation of the Mexican peso observed since 2025. **One** member stated that the three-month moving average of the annualized seasonally adjusted monthly variation of this component stood at 2.61% in the first fortnight of October, below the annual variation. **Another** member mentioned that, regarding non-food merchandise components, although their yearly price variations are low, since February the upward trajectory in the annual variation of prices of furniture and household appliances, such as computers and washing machines, stands out, which could be related to a higher demand for electronic components. He/she also highlighted the upward trajectory in the annualized seasonally adjusted monthly variations of prices of clothing, footwear, and accessories, which he/she attributed to higher pressures derived from rising sales/distribution and input costs. **One** member pointed out that non-food merchandise inflation declined from 3.22% at the beginning of the year to 2.17% in the latest reading, mainly reflecting the fading of base effects associated with the rise in international prices during the first half of 2025. He/she added that said decline occurred despite the imposition of tariffs on countries without a trade agreement with Mexico and the front-loading of imports from the US in anticipation of changes in the US trade policy. He/she noted that, given the tradable nature of these goods, said measures could have exerted upward pressures on their prices. Nevertheless, he/she stated that their monthly variations have remained below their historical averages. He/she considered that this could be due to exporters in countries without a trade agreement with Mexico having reduced their profit margins to maintain their market share. Regarding the case of food, beverages, and tobacco, he/she highlighted that their inflation declined during 2026 from 6.13% in January to 4.57% in the first fortnight of October, following the increase in the Special Tax on Production and Services (IEPS). He/she added that this effect was limited and one-off. He/she noted, however, that these taxes likely generated a base effect of about 100 basis points on annual food merchandise inflation that will persist until early 2027, according to counterfactual estimates based on an

inflation path that controls for the effects of such taxes. He/she concluded that, despite the shock associated with the fiscal measures, annual inflation of this component remains below the levels observed in the second half of 2025.

Most members mentioned that non-core inflation increased from 2.17 to 3.08% between the first fortnight of September and the first fortnight of October 2026. One member noted that the increase amounted to nearly two percentage points compared to the August figure, thus indicating that said component continued increasing significantly. He/she indicated that its annualized monthly variation has been accelerating since July, which rules out the possibility that the increase in the annual rate is fully attributable to base effects. **Another** member considered, however, that non-core inflation remains low and in the left tail of its historical distribution, in a context of pressures related to energy prices. **Some** members attributed the rise in non-core inflation since the previous monetary policy decision to the increase in fruit and vegetables inflation from 7.91 to 11.05%, partly reflecting unfavorable base effects. **One** member highlighted tomato inflation, which registered low levels last year. He/she added that there is no evidence of a significant supply shock concentrated in any particular product. **Another** member stated that onions and green tomatoes were among the CPI items that contributed the most to rising non-core inflation, possibly due to supply factors. **Some** members pointed out that, since the previous monetary policy decision, inflation of livestock products has increased, although it remains in negative territory. **One** member indicated that these negative rates have offset part of the increase in fruit and vegetables inflation. He/she added that, as a result, the annual variation of agricultural and livestock product prices went up from 0.35 to 1.90% between the first fortnight of September and the first fortnight of October. **Some** members noted that the increase in the annual variation of energy prices as well as government-authorized tariff rates during that period also contributed to the rise in non-core inflation. **Some** members argued that energy price inflation has remained contained, largely owing to the measures implemented by the federal government. **One** member stated that this rate is at lower levels compared to its historical average. He/she specified that gasoline inflation remained stable, given the limited impact of international reference prices over national prices. With regard to other energy products, **some** members underlined the increase in the price of LP gas for domestic use. **One** member detailed that said increase could be associated with higher international reference prices. **Another** member noted that energy price inflation also responded to the seasonal removal of electricity rate subsidies during the summer.

Most members noted that headline inflation expectations for the end of 2026 decreased. One member pointed out that, after rising at the beginning of the year, they returned to the variability interval. **Another** member pointed out that, since the previous monetary policy decision, core inflation expectations for the end of 2026 decreased by 17 basis points to 3.82%, while those for headline inflation over the next 12 months decreased by 23 basis points to 3.92%. **Some** members added that inflation expectations for the remaining horizons exhibited moderate adjustments. Regarding long-term inflation expectations, **one** member underlined that they also declined. However, **some** members pointed out that they remain elevated. They specified that these remain closer to 4% than to the 3% target. **One** member noted that they are above the levels observed a year earlier. **Another** member added that, although inflation expectations have improved marginally, they do not indicate that inflation will reach the target within the horizon established by this central bank. Regarding market indicators, **one** member noted that breakeven inflation exhibited mixed adjustments, remaining above 415 basis points for maturities of three years or longer and at high percentiles.

Some members mentioned that headline inflation forecasts were revised upwards for the fourth quarter of 2026. **One** member emphasized that this revision reflected higher-than-expected non-core inflation, an effect that is expected to dissipate. **Some** members estimated that the downward trend of core inflation will strengthen in early 2027, as the base effects associated with the introduction of excise taxes, which have affected its annual comparison throughout the year, dissipate. **One** member noted that, overall, these developments are consistent with a gradual moderation of inflationary pressures. He/she added that housing inflation is also expected to continue moderating, as the delayed pass-through of pandemic-related cost adjustments is likely complete. **With respect to the determinants of inflation, looking ahead, most members stated that, given the projected economic slack over the forecast horizon, aggregate demand is not expected to generate inflationary pressures. They also noted that the recent depreciation of the Mexican peso is not expected to affect**

inflation levels considerably, given the current phase of the economic cycle. One member added that the exchange rate pass-through is close to zero in the short term and limited in the long term. **Another** member attributed this to anchored inflation expectations. **One** member added that the lagged effects on inflation from the cumulative appreciation of the Mexican peso up to September could partially offset the pressures stemming from the currency's recent depreciation. **Another** member specified that the exchange rate depreciated significantly between mid-2014 and January 2017, shifting from 13 to nearly 22 pesos per dollar, while both headline and core inflation remained close to 3%. **One** member highlighted that the depreciation during the current episode is lower than in previous episodes of stress, such as the onset of the 2008-2009 global financial crisis, the 2016 and 2024 presidential elections in the United States, and the onset of the pandemic. **Another** member warned that the reversal in the exchange rate trend could lead to a rebound in merchandise inflation starting next year.

Most members considered that the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside. They highlighted the uncertainty associated with the international environment. One member specified that the changes in economic policy by the US administration and geopolitical conflicts continue adding uncertainty to the inflation outlook on both sides of the balance. **Most members highlighted the upside risks associated with geopolitical conflict. Some** members pointed out their impact on the energy market. **One** member mentioned the seasonal increases at the end of the year and noted that the recurring shocks on non-core inflation could lead to repeated upward revisions to the inflation forecast. On the other hand, **another** member specified that, in light of recent developments, the reversal in global energy prices and progress towards a lasting peace agreement could occur sooner than previously anticipated, with favorable implications for domestic prices.

Regarding other upside risks, **some** members highlighted the persistence of core inflation. They mentioned a possible increase in merchandise prices. In this regard, **one** member noted that, considering the rapid depreciation of the Mexican peso in recent weeks, the favorable effect of its prior appreciation on cost pressures could begin to reverse. **Another** member highlighted the persistence of services inflation. He/she added that this remains one of the main challenges in bringing inflation down to its target by the end of next year. He/she noted that wage increases make it difficult to break this inertia, as real wage growth above its historical average, driven by increases in the minimum wage, generates structural cost-related pressures that lie beyond the scope of monetary policy. He/she mentioned that risks of climate-related disruptions, including the likely intensification of the *Super Niño* phenomenon during the second half of the year, persist. As for downside risks, **some** members noted that the cyclical phase the Mexican economy is still undergoing could lead to lower-than-expected inflationary pressures.

Macrofinancial environment

Some members pointed out that domestic financial markets were affected by the high volatility in global financial markets amid uncertainty and external financial conditions. **All members emphasized that the Mexican peso depreciated since the last monetary policy meeting. Some** members noted that the referred depreciation occurred in an orderly manner. **Most members pointed out that, despite this adjustment, the peso exchange rate remains at more appreciated levels than those observed at the end of 2024 and the 2025 average. One** member described this as a correction of the national currency's previous overvaluation, noting that it is now trading at levels more consistent with its medium-term value. **Another** member attributed the recent adjustments in the Mexican peso exchange rate to a context of changes in the relative monetary conditions between Mexico and the United States. In addition, **one** member noted that trading volumes as well as market depth and liquidity remained at favorable levels. However, **another** member pointed out that the depreciation was accompanied by a decline in long positions in the Mexican peso and a demand for currency hedges among investors and corporations. He/she considered that trading conditions deteriorated slightly amid a decline in the attractiveness of the national currency due to increased exchange rate volatility and a narrower interest rate spread relative to other currencies. Regarding exchange rate expectations, he/she added that both analysts' expectations and those implied by financial derivatives continue exhibiting a bias towards depreciation.

With respect to fixed-income market, **one** member mentioned that interest rates on government securities declined, particularly in the medium- and long-term segments of the yield curve. **Some** members added that real short-term interest rates

also declined. In turn, **one** member pointed out that the fixed-income market has exhibited volatility, reflecting its high sensitivity to international markets and a marginal deterioration in trading conditions. In addition to these factors, he/she added the rise in the inflation risk premium, which for 10-year maturities has remained at high levels since the onset of the Middle East conflict, and, overall, these factors have affected the financing conditions faced by economic agents. Regarding developments in the Mexican credit market, **another** member noted signs of sluggishness, as the slowdown in commercial bank lending persists, particularly in the consumer and housing segments.

One member elaborated on how the Federal Reserve's monetary policy decisions influence those of Banco de México. He/she mentioned that the Federal Reserve's actions could affect inflation dynamics in Mexico through various channels. He/she commented that, to the extent that these effects materialize, they would be taken into account in monetary policy decisions. He/she recalled that in the 2025 Monetary Program, the monetary rules did not include the federal funds rate, consistent with a monetary policy framework that responds to the domestic inflation outlook. He/she pointed out that the correlation between the reference rates of the two countries is due to the transmission of macroeconomic shocks from the United States to Mexico, owing to the high degree of integration between both economies, as well as the occurrence of global shocks that have affected both countries simultaneously. However, he/she noted that the macroeconomic conditions in the two economies and the differences in inflation trends have led to episodes of monetary policy decoupling. He/she illustrated this point by referring to the post-pandemic inflation period, during which Banco de México began its tightening cycle in June 2021, whereas the Federal Reserve did not begin its own until March 2022. He/she also underlined that, while the Federal Reserve raised its reference rate by 525 basis points, Banco de México did it by 725 basis points. He/she commented that the withdrawal of monetary restrictions in 2025 also revealed differences, as Banco de México began lowering its reference rate six months prior to the Federal Reserve. He/she also indicated that Banco de México lowered its reference rate by 300 basis points, compared with a 75-basis-point reduction by the Federal Reserve.

Some members delved on the recent evolution of the interest rate differential between Mexico and the United States. **One** member emphasized that the interest rate differential between both countries reached in September 262.5 basis points, a new all-time low since Banco de México adopted the reference rate as its monetary policy instrument in 2008. **One** member noted that it has averaged 289 basis points so far this year. He/she highlighted that, given the stronger expectations of increases in the US federal funds rate, the current conditions would be more consistent with an interest rate differential of 425 basis points, in line with its historical median. He/she warned that additional episodes of volatility could further deteriorate the risk-adjusted interest rate spread. **One** member indicated that relative monetary conditions have diverged again, exceeding the previous minimum level recorded between 2014 and 2016. However, he/she pointed out that during that period capital flows were highly sensitive to the withdrawal of the prolonged monetary stimulus in that country.

Monetary policy

The Governing Board judged that the disinflation process continues. It assessed that, under the prevailing slack conditions, the pass-through of exchange rate fluctuations to consumer prices would be limited. It estimated that no demand-side pressures are currently perceived in the Mexican economy and that the level of monetary restriction implemented continues operating. With the presence of all its members, the Board thus decided by majority to make a one-time adjustment and lower the target for the overnight interbank interest rate by 25 basis points to 6.25%.

Looking ahead, the Governing Board considers that maintaining the reference rate at the attained level for an extended period will support the convergence of inflation to its target and will be adequate to face the challenges posed by the external macroeconomic environment. It will make its decisions considering the observed and expected behavior of inflation and its determinants, including the exchange rate pass-through to consumer prices, the slack conditions, and inflation expectations. 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 in September the target rate was left unchanged at 6.50% in line with the assessment of the inflation outlook, indicating that

there was room to discuss a one-time adjustment to the reference rate. He/she underlined that headline inflation has remained within the variability interval around the target and that its recent rise is entirely attributable to relative price adjustments and base effects in the non-core component. He/she considered that the strength of the monetary policy stance, supported by the significant lags with which it operates (estimated at four to six quarters) should continue contributing to the consolidation of price stability. He/she noted that between monetary policy meetings the Mexican peso depreciated about 5.5%, a magnitude that is not comparable to those seen in other stress episodes. He/she stated that the exchange rate has remained below its 2025 average. He/she indicated that, under the free-floating exchange rate regime, the adjustment observed contributes to absorbing the shocks faced by the economy. He/she added that this occurs without a significant impact on inflation, given the low exchange rate pass-through. He/she argued that this is primarily due to the anchoring of inflation expectations, which is reinforced by the central bank's commitment to price stability. He/she pointed out that, consequently, the factors driving inflation in Mexico remain consistent with its convergence to the target. Regarding the relative monetary policy stance, he/she noted that, although the differential relative to the Federal Reserve's reference rate is below its historical average, the volatility-adjusted spread is one of the highest among emerging economies. He/she mentioned that, given its strength, the relative monetary policy stance provides room for monetary policy to be conducted based on the developments in the domestic inflation outlook. He/she noted that non-residential investment is booming in the United States. He/she added that, while the global energy shock calls for a less accommodative monetary policy in the United States, its direct impact on the Mexican economy has been minimal. In this context, he/she deemed it appropriate on this occasion to lower the reference rate by 25 basis points. He/she considered it appropriate to state that maintaining the reference rate at its current level for an extended period will support the convergence of inflation to its target and will be conducive to addressing the prevailing macroeconomic challenges.

Another member mentioned that recent figures reflect progress in the disinflationary process. He/she recalled that during the most recent inflationary episode, the pass-through of production costs to sales prices was slower in services than in merchandise. He/she added that since 2020 the cumulative increase in the services price index has remained below the estimated rise in services costs, although this gap has recently closed, which could contribute to a decline in services inflation in upcoming readings. He/she emphasized that significant inflationary risks persist, keeping the balance biased to the upside. He/she noted that the persistence of core inflation and uncertainty on the international environment have complicated the final stage of the disinflationary process. He/she underlined that, so far, the increase in international energy prices and transportation costs has had a limited impact on inflation due to the fiscal measures implemented in Mexico. He/she commented, however, that the conflict in the Middle East is now entering its eighth month and that, as it continues, the risk of higher cost-related pressures spreading to a broader range of CPI items increases, which warrants close monitoring. He/she argued that despite registering a low pass-through to prices due to exchange rate fluctuations, the merchandise component exhibits non-linearities contingent on the magnitude and duration of said adjustments. He/she estimated that the recent depreciation of the Mexican peso could reverse the mitigating effect that the national currency's prior appreciation had on cost-related pressures. Regarding economic activity, he/she underlined that it has exhibited greater resilience. He/she pointed out that the ex-ante real interest rate has been within the estimated neutral range for a year, while several monetary policy transmission channels have continued operating in a restrictive manner. He/she sustained that the asset price channel currently operates in this direction, given the tighter global and domestic financial conditions. He/she stated that global monetary conditions are less accommodative, given the monetary policy decisions of a large number of central banks, which has eased Mexico's relative monetary policy stance. He/she considered that, in this context and from a risk management perspective, the current monetary stance is appropriate. Hence, he/she opted to leave the reference rate unchanged. He/she stated that caution is required given how rapidly the environment can change, amid the potential intensification of various risks. He/she asserted that this would help keep inflation expectations firmly anchored, thereby facilitating the convergence of inflation to the target over the forecast horizon.

One member indicated that annual headline inflation has remained within the variability interval for most of the year, while core inflation has followed a downward trajectory over the same period. He/she

estimated that this trend would continue into early 2027 as the base effects of excise taxes on food merchandise products fade. He/she explained that, although the latest economic activity readings have been higher than expected, economic slack prevails. He/she indicated that, although the Mexican peso has depreciated significantly since the previous monetary policy meeting, it has remained appreciated relative to the levels at the end of 2024 and the beginning of 2025. Given the possibility of a further monetary tightening by the Federal Reserve, he/she considered it important to assess the effects of an additional depreciation. He/she stated that, in theory, a depreciation raises the relative price of tradable goods and that, if it becomes permanent, its effects on annual inflation would subside after one year. However, he/she noted that evidence in Mexico indicates that the exchange rate pass-through is close to zero in the short term and is limited in the long term, and that it has been practically zero under conditions of economic slack. He/she stated that, although Banco de México's decisions should not mechanically respond to adjustments in the federal funds rate, this does not mean that the Federal Reserve's actions should be disregarded. He/she added that decisions are based on the inflation outlook and that the Federal Reserve's actions are therefore taken into account to the extent that they affect the evolution of its outlook. He/she mentioned that in September the interest rate differential between Mexico and the United States fell to its lowest level since 2008, below the previous low recorded between mid-2014 and early 2016. He/she commented, however, that macroeconomic and financial conditions have changed significantly since then. He/she specified that the US dollar has shown signs of structural weakness, while domestic financial markets, including the government debt market, have become less dependent on foreign savings. He/she added that US economic expansion has not been transmitted to the Mexican economy with its usual intensity. He/she argued that, given the different phases of the economic cycle and the differing nature of shocks, divergence in monetary policy stances does not jeopardize the disinflationary process. Looking ahead, he/she deemed it appropriate to implement an extended pause to assess the risks surrounding the inflation outlook.

Another member highlighted that since the previous monetary policy decision headline inflation has increased, core inflation has remained stable and economic growth has been revised upwards, which has led to a less negative output gap. He/she pointed out that cost-related pressures are foreseen to extend as wage increases continue. He/she underlined that expectations do not anticipate the convergence of inflation to the target. He/she mentioned the significant depreciation of the Mexican peso and expectations of the Federal Reserve raising its reference rate in December. He/she argued that, given the aforementioned, the upward bias for the balance of risks to inflation has increased, while a weak relative monetary policy stance poses risks for the Mexican peso. He/she considered that it is not the appropriate time to discuss a downward adjustment to the reference rate given that monetary policy sufficiency is not guaranteed, and hence the debate should center on either pausing or increasing the reference rate. He/she indicated that the restrictive monetary policy stance of some months ago is still exerting its effect with some lag and that it might be insufficient. He/she detailed that over the last eight quarters the average ex-ante real interest rate has been at a level of 3.96%, which is close to the upper bound of the neutral range. He/she stated that, given the improvement in economic growth expectations, the effect of the economic slack on prices will remain limited. He/she added that the persistence of cost-related shocks, which affect services prices, and the depreciation of the national currency, which affects tradable goods, require an assessment of the sufficiency of the current policy stance. He/she mentioned that the narrowing of the interest rate differential between Mexico and the United States, and the expected tightening of the latter, exposes a relative monetary policy stance with narrow margins for maneuver. He/she estimated that a sharp depreciation of the Mexican currency could jeopardize the containment of inflation, as opposed to what the currency appreciation had previously provided for. He/she underlined that, given the narrow rate differential, it is hardly relevant that Mexico and the United States are at different stages of the economic cycle or the nature of the shock in the United States. He/she stated that, at the moment, there is no room for adjusting the reference rate downwards and that the absolute and relative monetary policies should be reviewed jointly to guarantee monetary policy sufficiency. In this regard, he/she emphasized that even when Banco de México's decisions might sometimes align temporarily with those of the Federal Reserve, all of them are assessed carefully, along with all determinants of inflation, including its repercussions and risks, and should not be interpreted as mechanical decisions.

One member pointed out that, consistent with the statement of the previous monetary policy meeting, available information allows to consider a one-time reference rate cut, followed by an extended pause that would maintain a restrictive stance based on macroeconomic conditions. He/she added that this entails fine-tuning the level of monetary restriction, without implying the beginning of a rate-cutting sequence. He/she also highlighted its consistency with the stability of inflation expectations observed this year. He/she asserted that the rate cut considered acknowledges the favorable evolution of inflation and its determinants. He/she detailed that core inflation maintains a downward trend and that such trend is expected to be more evident as the shocks that affected core inflation this year fade. He/she added that, despite economic growth being above expectations, slack conditions prevail, while the balance of risks for growth remains biased to the downside due to the persistence of external factors, and therefore no demand-side pressures are observed. He/she stated that although the evolution of the exchange rate and its possible incidence on inflation and its expectations should be monitored, the exchange rate's recent upward trend by itself is not an argument to maintain a higher level of restriction than required. He/she highlighted that Mexico and the United States are undergoing different stages of the economic cycle. He/she added that up to now the energy-related shock has had a more evident effect on US inflation, while in Mexico no signs of a generalized pass-through have been observed. He/she underlined that the fact that both central banks are moving in different directions is consistent with the same principle: calibrating the policy stance to the conditions of each economy. He/she pointed out that, for this reason, monetary policy should not respond mechanically to the Federal Reserve's decisions, given that these are relevant insofar as they affect the domestic inflationary outlook. He/she emphasized that this set of factors creates the appropriate conditions for the disinflationary process to continue. He/she added that external uncertainty suggests that recalibrating the restrictive monetary policy stance should be limited and pointed out that this does not modify the assessment that leaving the reference rate unchanged would imply a higher-than required level of monetary restriction. He/she considered it appropriate to leave the reference rate unchanged for an extended period following the rate cut. He/she pointed out that this would allow to assess the effects of recalibrating the policy stance, monetary policy's lagged effects, and the evolution of inflation and its determinants. He/she underlined that such action would maintain a restrictive stance consistent with an efficient trajectory of inflation to the 3% target, while enabling an orderly adjustment of markets.

3. MONETARY POLICY DECISION

The Governing Board judged that the disinflation process continues. It assessed that, under the prevailing slack conditions, the pass-through of exchange rate fluctuations to consumer prices would be limited. It estimated that no demand-side pressures are currently perceived in the Mexican economy and that the level of monetary restriction implemented continues operating. With the presence of all its members, the Board thus decided by majority to make a one-time adjustment and lower the target for the overnight interbank interest rate by 25 basis points to 6.25%.

Looking ahead, the Governing Board considers that maintaining the reference rate at the attained level for an extended period will support the convergence of inflation to its target and will be adequate to face the challenges posed by the external macroeconomic environment. It will make its decisions considering the observed and expected behavior of inflation and its determinants, including the exchange rate pass-through to consumer prices, the slack conditions, and inflation expectations. 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, Gabriel Cuadra, and Omar Mejía. Galia Borja and Jonathan Heath voted in favor of maintaining the target for the overnight interbank interest rate at 6.50%.

5. DISSENTING OPINIONS/ VOTES

Vote. Galia Borja

In a complex and highly uncertain environment such as the current one, an active decoupling from a large number of economies loosens Mexico's relative monetary policy stance, which could lead to greater volatility in domestic financial markets and thus affect economic agents' decision-making regarding price formation and investment. Mexico is an open economy sensitive to global shocks. With this rate adjustment, the Mexican peso may be used to a greater extent to hedge other assets, given its high

correlation with global factors, similar to what was observed in other periods, such as in 2015, when the interest rate differential with a large number of economies was very narrow. The latter, along with global supply-side shocks that have been overlapping, could delay the convergence of inflation to the target. A risk management approach would allow to assess the evolution of the determinants of inflation from a better position, taking into account that the balance of risks remains biased to the upside and that our policy stance has been in neutral territory since a year ago.

Vote. Jonathan Heath

An additional cut to the reference rate not only weakens our monetary policy stance but also leads to results contrary to the goals that motivate such reduction. In terms of the absolute policy stance, lower growth expectations, the overvaluation of the Mexican currency, and the atypically low levels of non-core inflation, which had been supporting the process of convergence, have completely reverted. In view of the latter, the ex-ante real interest rate should move away from rather than come close to neutral territory in order to prevent inflation and its expectations from deteriorating further, which would consequently lead to an increase in the nominal interest rate. As for the relative policy stance, the spread compression between our target rate and the federal funds rate to levels beyond its historic lows is inconsistent given the higher external rates and the volatile depreciation of the Mexican currency. If such risks are not compensated, the unwinding of carry-trade positions and the greater adjustment of the exchange rate market will steepen the yield curve even further, thus leading to an environment of higher rates in different investment terms.

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

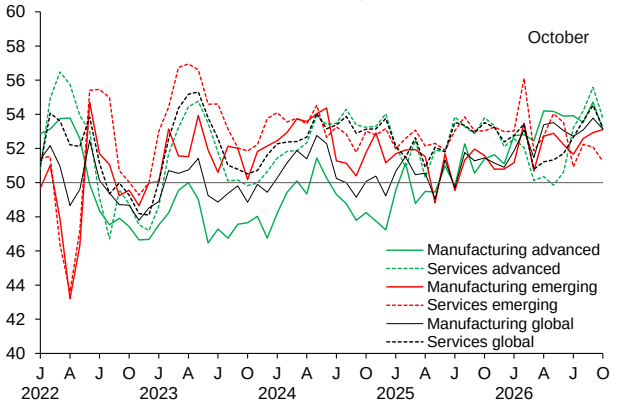
World economic activity is expected to have grown during the third quarter of 2026 at a similar rate to that of the previous quarter. Advanced economies are expected to have grown at a moderate rate, while emerging economies to have grown faster than in the previous quarter. Performance is expected to have varied across countries, with the US economy standing out for its greatest dynamism. The most recent Purchasing Managers' Indices suggest that the manufacturing and services sectors have continued expanding globally (Chart 1).

During the period between Banco de México's monetary policy decisions of September and November, uncertainty associated with the Middle East conflict and its repercussions persisted. In particular, tensions between the United States and Iran have persisted, which has continued affecting commercial traffic through the Strait of Hormuz. Additionally, attacks have been registered in the Red Sea and the Black Sea, as well as damages to energy infrastructure in Eastern Europe due to the escalation of the conflict between Russia and Ukraine. In this context, risks associated with disruptions in the supply of energy and other commodities have remained high.

Available indicators as of August suggest that global merchandise trade grew at a moderate pace, lower than that registered in the second quarter. In this context, trade negotiations between Canada and the United States resumed, while the latter country and China agreed bilaterally to reduce tariffs on various goods and extend their trade truce until early 2027. In contrast, the European Union tightened its stance towards China by proposing tariffs on imports of hybrid vehicles, while also evaluating new policies to contain trade diversion into its market.

In October, the International Monetary Fund's (IMF) global economic growth projections for 2026 were revised slightly upwards compared with those published in July. However, they continue projecting a slowdown for this year compared to 2025. Negative effects associated with the conflict in the Middle East are anticipated, which could be offset by the dynamism of certain sectors related to artificial intelligence, although in different ways across countries. Nevertheless, the favorable performance of these sectors is subject to risks given their high valuations.

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



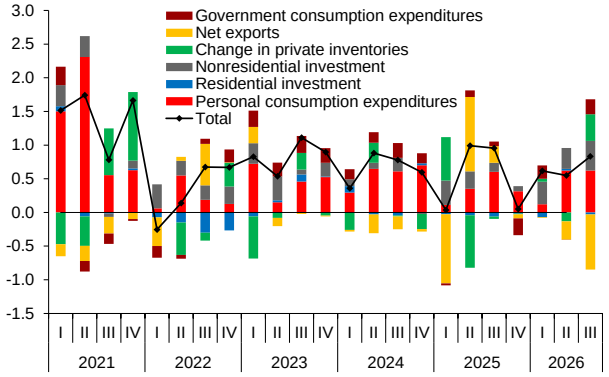
s. a. / Seasonally adjusted figures.
1/ The index varies between 0 and 100 points. A reading above 50 points indicates an expansion and below 50 suggests a contraction. A reading equal to 50 points indicates no change.
Source: S&P Global.

US economic activity accelerated during the third quarter. Gross Domestic Product (GDP) grew at a seasonally adjusted quarterly rate of 0.8%, after having expanded at a rate of 0.6% in the second quarter (Chart 2).[1] Domestic demand remained strong. Non-residential investment continued contributing positively to growth, driven by the dynamism of certain technology-related sectors. Real household spending continued performing well. Net exports contributed negatively, partly due to higher imports of capital goods.

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

[1] Expressed as an annualized seasonally adjusted quarterly rate, US GDP grew 2.2% during the second quarter of 2026 and 3.4% during the third quarter.

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



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

US industrial production expanded at a seasonally adjusted quarterly rate of 0.7% during the third quarter of 2026, after growing 1.2% in the previous quarter. By sector, manufacturing activity moderated from 1.4 to 0.2% on a quarterly basis, mainly due to the low dynamism of the automotive sector. Mining went from 1.4 to 1.2%, while electricity and gas generation increased 3.5%, after contracting 0.2% in the previous quarter. US Purchasing Managers' Indices suggest that manufacturing production is estimated to have continued expanding in October.

Available indicators suggest that the US labor market has remained balanced overall. In September, non-farm payrolls grew by 29,000 new jobs, after increasing by 133,000 in August. Meanwhile, the unemployment rate has trended downwards since late 2025 in a context of lower labor force participation, although it rose slightly from 4.1% in August to 4.2% in September. Initial claims for unemployment insurance have trended downwards since late 2025. During the week ending October 24, these stood at 194,000 new claims. During the third quarter, the annual variation in the Employment Cost Index (ECI) remained unchanged from the previous quarter at 3.4%. The number of job vacancies increased from 7.3 million in July to 7.5 million in September.

In the euro area, economic activity moderated during the third quarter to a seasonally adjusted quarterly rate of 0.4%, after expanding 0.6% in the previous quarter.[2] As for the labor market, the unemployment rate remained at historically low levels, although job creation has been moderate. This region continues facing risks related to geopolitical turmoil and high energy prices stemming from its high exposure to the Middle Eastern energy market.

Among the rest of the major advanced economies, economic activity is estimated to have grown at a lower rate during the third quarter. Labor market conditions in some of these economies remained relatively stable, with moderate levels of both job openings and unemployment rates.

Altogether, economic activity in the main emerging economies is expected to have performed similarly to the previous quarter. In the case of the Chinese economy, GDP rose at a seasonally adjusted quarterly rate of 1.2% during the third quarter, after having grown 0.9% in the previous quarter.[3] Industrial production and exports in that country remained relatively sound, while retail sales improved annually compared to the previous quarter. So far this year, investment in fixed assets has contracted overall compared with the same period of 2025. This takes place in a context in which various trading partners have expressed concerns about China's excess production capacity.

International commodity prices trended downwards, although they exhibited volatility. Oil prices declined compared to the end of September. Among the factors exerting downward pressure on these prices were the faster-than-expected restoration of energy infrastructure in Saudi Arabia and the announcement by the Group of 7 (G7) to accelerate the release of emergency crude oil and diesel reserves, as agreed in March. Likewise, in early November, following the US midterm elections, prices declined on expectations that geopolitical tensions between the United States and Iran might end sooner than previously anticipated. However, throughout the period, prices remained high due to pressures stemming from attacks in the Red Sea and on oil tankers in the Strait of Hormuz. Thus, prices remained significantly above the levels observed before the onset of the conflict in the Middle East.

Natural gas prices varied by region. In Europe and Asia, prices rose significantly, reflecting sensitivity to developments in the Middle East conflict. In Europe, prices reached levels unseen since 2022 due to upward pressures from colder weather conditions and low gas storage levels. In the United States,

[2] Expressed as an annualized seasonally adjusted quarterly rate, GDP growth in the euro area was 2.6% in the second quarter of 2026 and 1.7% in the third quarter.

[3] Expressed as an annualized seasonally adjusted quarterly rate, China's GDP grew 3.6% during the second quarter of 2026 and 4.9% during the third quarter.

natural gas prices decreased as a result of higher-than-expected inventory levels. However, in October, said prices faced upward pressures due to temporary disruptions in production caused by weather phenomena.

Around the time of the November monetary policy decision, international grain prices were lower than those observed at the end of September. This was mainly due to higher-than-expected production levels in the United States and an easing of tensions in the Black Sea, which exerted downward pressures particularly on corn and wheat prices. Soybean prices declined towards the end of the period. This was partly due to high inventory levels in China and expectations of increased exports from Brazil.

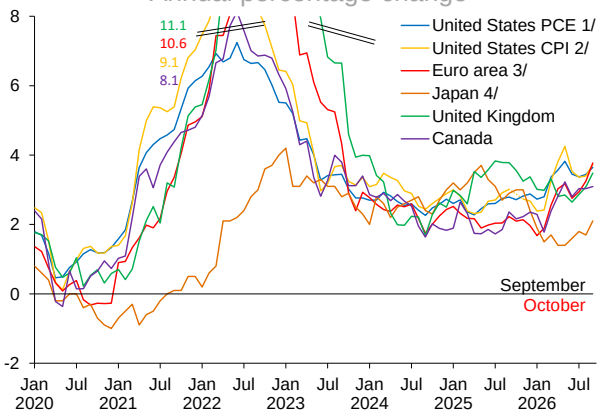
Industrial metal prices stood at levels below those registered at the end of September. This was partly due to expectations of lower demand in light of the US dollar's appreciation and high energy costs. In the case of copper prices, they were also influenced by lower concerns over the imposition of a global tariff by the United States, as well as corrections in financial markets related to investments in artificial intelligence. Precious metal prices also declined, mainly due to expectations of tighter monetary policies by the major advanced economies.

A.1.2. Monetary policy and international financial markets

In several major advanced economies, headline inflation kept increasing mainly due to the rise in energy prices. In many of these economies, inflation remained above the targets of their respective central banks (Chart 3). Meanwhile, core inflation continued exhibiting persistence overall.

In the United States, annual headline inflation as measured by the Consumer Price Index (CPI) rose from 3.4% in August to 3.7% in September. This reflected increases in energy prices and the core component, which were partially offset by a decline in food inflation. Core inflation rose from 2.4 to 2.6% during the same comparison period, mainly as a result of higher services inflation, while goods inflation remained relatively unchanged. Meanwhile, headline inflation as measured by the Personal Consumption Expenditures (PCE) price index also rose, from 3.4% in August to 3.6% in September, as a result of a rise in energy prices that was partially offset by a decline in food prices. Core inflation rose from 3.0 to 3.1% during the same period, reflecting higher inflation in services, while goods inflation remained practically unchanged.

Chart 3
Selected advanced economies: headline inflation
Annual percentage change



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

In the euro area, annual headline inflation increased from 3.2% in August to 4.0% in October. Said acceleration reflected a rise in both the non-core component and, to a lesser extent, the core component. Core inflation rose from 2.4 to 2.5%, driven by an increase in services inflation, while goods inflation remained relatively stable.

The most recent inflation forecasts prepared by analysts and international organizations for the major advanced economies for 2026 and 2027 were revised upwards in some cases. Nevertheless, they continue anticipating that the rise in inflation will reverse in 2027 and that, by the end of that year, in several economies it will settle at levels close to the targets of their respective central banks. Indicators of breakeven inflation and inflation risk for the short and long terms drawn from financial instruments declined slightly. Particularly, short-term indicators remained, in general, above the levels registered prior to the onset of the conflict in the Middle East.

In the major emerging economies, headline inflation rebounded in several countries recently. Despite this, it varied across countries compared with levels at the end of the second quarter. Meanwhile, core inflation continued showing some persistence in a large number of economies. In China, inflation

remained below the central bank's 2% target. Annual headline inflation rose from 0.8% in August to 0.9% in September, partly reflecting higher transportation costs. Core inflation remained at 1.0% during the same period.

In this context, monetary policy decisions by the central banks of major advanced and emerging economies responded to the evolution of inflation and the economic conditions of each country. A large number of central banks, including the US Federal Reserve, the European Central Bank, and the Bank of Japan, kept their reference rates unchanged during the period, after some of them having raised them in their previous decision. In contrast, other central banks raised their reference rates during the period. Some of the central banks in the major advanced economies continued to gradually reduce their securities' holdings. Most central banks reiterated that adjustments to their reference rates will remain dependent on economic data and its implications for the inflation outlook. Also, they continued pointing out that uncertainty associated with geopolitical tensions and their impact on the economic environment and inflationary dynamics persists.

At its October meeting, the US Federal Reserve decided to keep the target range for the federal funds rate between 3.75% and 4.00%, after having increased it for the first time in more than three years at its September meeting. The Federal Open Market Committee (FOMC) reiterated in its statement that it continues with its policy of maintaining ample reserves in the banking system. It also stated that economic activity is expanding at a strong pace and restated that, while uncertainty remains elevated owing, in part, to geopolitical developments, domestic spending has been resilient. This is taking place in an environment where productivity growth is strong and capital investment is robust. It also mentioned that job gains have kept pace with the workforce and that the unemployment rate has changed little. It noted once again that inflation remains elevated and added that the accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation to the 2% goal. The Committee reaffirmed its commitment to deliver price stability.

At the press conference following the October decision, the Federal Reserve chairman emphasized that inflation has remained above target for an extended period. He mentioned that, although financial conditions had tightened, they could not be described as restrictive. Finally, he announced that, starting in 2027, one of the eight meetings held each year will focus exclusively on deliberating monetary policy strategy, with neither a vote on the federal funds rate nor a policy statement anticipated. For 2028, he expects that they will have two meetings dedicated to discussion of strategy and six to set monetary policy.

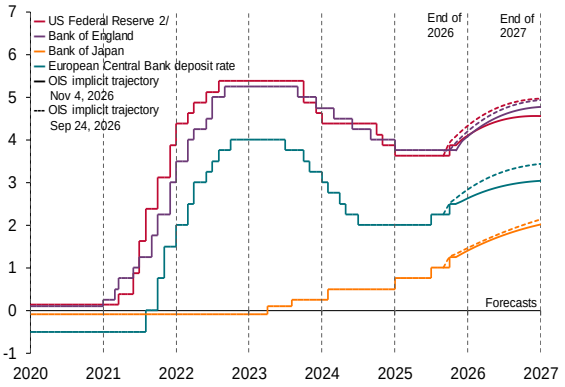
In its October decision, the European Central Bank left its reference rates unchanged, after having raised them 25 basis points at its previous meeting. Thus, the deposit, refinancing, and lending rates remained at 2.50, 2.65, and 2.90%, respectively. The Governing Council stated that energy prices have continued to rise, posing upside risks to the inflation outlook and downside risks to the growth outlook. It noted that, while the full effects of the energy shock are still unfolding, core inflation has remained broadly stable so far, and wages do not show a material response at this stage. However, it indicated that the increased magnitude and duration of the energy shock, as well as the implications for indirect and second-round effects, are likely to drive up inflation and lower growth. It asserted that the central bank remains well positioned to navigate the current elevated uncertainty. It reiterated that it will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. It reiterated that it is not pre-committing to a particular rate path and that its decisions will be based on its assessment of the inflation outlook, in light of the incoming economic and financial data. It also pointed out that the size of the portfolios under its Asset Purchase Program (APP) and Pandemic Emergency Purchase Program (PEPP) is declining at a measured and predictable pace.

At the press conference following the October meeting, the president of said central bank commented that as inflation rises and as the risk to inflation has increased, the central bank is paying special attention to the indirect and secondary effects of the energy shock, which, if they were to materialize, would require a particular policy decision. However, she noted that, currently, there are no signs of second-round effects in addition to what is already included in the latest projections. She also explained that the Governing Council debated whether an interest rate hike was appropriate but concluded that, given the increased uncertainty and relatively stable core inflation, they were well positioned to keep rates unchanged. She also indicated that a measured approach, at this point in time, remained appropriate.

With respect to other advanced economies, the central banks of Japan, Switzerland, New Zealand, and South Korea left their interest rates unchanged during the reporting period. In turn, the central banks of Canada, Sweden, Norway, and Australia raised their policy rates.

In the context described, monetary policy rate expectations for the end of 2026 implied by financial instruments in the major advanced economies generally declined during the period between Mexico's monetary policy decisions of September and November (Chart 4). The forecast for the US federal funds rate for the end of 2026 was revised downwards from 4.3 to 4.1%. Similarly, the expected reference rate declined from 2.8 to 2.6% in the euro area, from 4.1 to 4.0% in the United Kingdom, and from 1.5 to 1.4% in Japan. In Canada, it remained around 2.6%.

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



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

In the main emerging economies, most central banks left their interest rates unchanged in their most recent monetary policy decisions. China's central bank has kept its one- and five-year loan prime rates (LPR) unchanged since May 2025. Some other central banks announced hikes to their policy rates during the period.

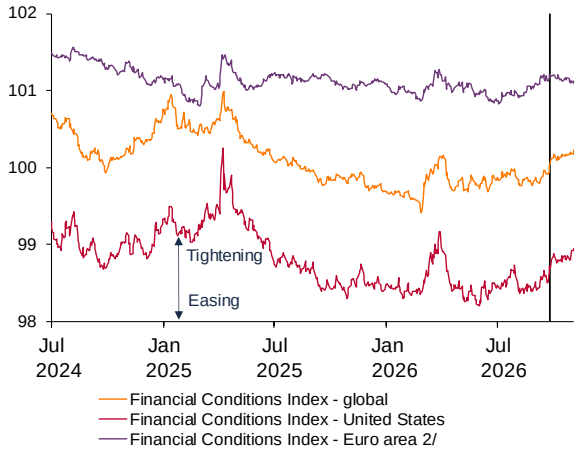
Between Banco de México's monetary policy meetings of September and November, international financial markets continued exhibiting volatility and global financial conditions tightened moderately (Chart 5). Similarly, the US dollar registered limited fluctuations, risk appetite decreased significantly, and government bond yields declined in a generalized manner, despite remaining at high levels. Uncertainty persisted in international financial markets associated with unfolding geopolitical conflicts and their repercussions.

In the fixed-income market, interest rates on both long-term (10-year) and medium-term (2-year) government bonds declined in various advanced economies, although they still remained at high levels (Chart 6). This decline derived from a number of factors, including falling oil prices, a more moderate pace of monetary tightening by the Federal Reserve than that previously anticipated, and increased risk aversion amid shifting expectations regarding the future profitability of technology companies. US government interest rates decreased for most terms, although during the reference period longer-term ones reached maximum levels unseen in several decades. In contrast, in France, government bond yields remained at levels similar to those at the beginning of the period, reflecting concerns regarding their fiscal position. Meanwhile, the slope of the US yield curve (defined as the spread between 10-year and 2-year government bond yields) rose slightly. In several emerging economies, long- and medium-term interest rates declined (Chart 7).

Stock markets in the major advanced economies showed a mixed performance. In Europe and Canada, they rose, while in the United States they declined moderately and in Asia they reported significant losses. The declines were driven by concerns over the returns on investment in artificial intelligence and high interest rates. Similarly, in emerging economies, various stock market indices registered losses.

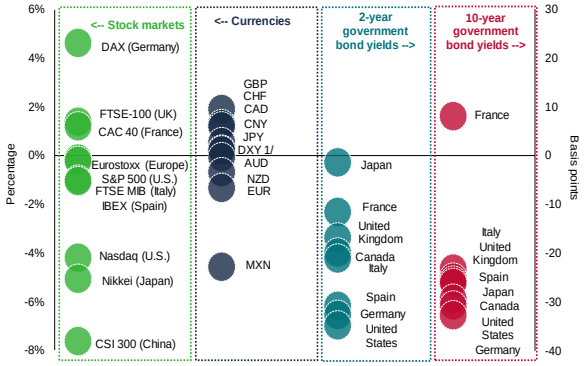
As for foreign exchange markets, the US dollar showed limited fluctuations against the currencies of the major advanced economies, acting as a safe-haven asset during the period. It also responded to the euro's weakness in light of the risks associated with the conflict between Russia and Ukraine and other idiosyncratic factors. Meanwhile, several emerging economies' currencies registered a widespread depreciation. Finally, capital flows into emerging economies, in both fixed-income and equity assets, recorded net inflows.

Chart 5
Financial conditions index[1/]
Index



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

Chart 6
Change in selected financial indicators from September 24 to November 4, 2026
Percent, basis points



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

Chart 7
Selected emerging economies: financial assets performance from September 24 to November 4, 2026
Percent, basis points

Region	Country	Currencies	Equity markets	2-year interest rates	10-year interest rates	CDS
Latin America	Mexico	-5.58%	10.20%	-58	-44	4
	Brazil	-5.13%	-8.92%	89	123	23
	Chile	-0.24%	-5.95%	9	22	2
	Colombia	3.87%	-3.95%	-18	20	-9
	Peru	-0.88%	-6.32%	0	-3	0
Emerging Europe	Poland	-1.38%	0.37%	-8	-18	2
	Turkey	-2.32%	-10.94%	-35	36	0
	Czechia	-0.80%	-1.32%	4	-15	9
	Hungary	-0.33%	-2.57%	-17	-39	1
Asia	China	0.56%	-5.20%	-3	-7	2
	Malaysia	0.57%	-3.33%	-6	-7	1
	India	1.37%	5.06%	46	8	11
	Philippines	-1.26%	-0.61%	68	39	8
	Thailand	-0.48%	-6.27%	-13	-23	-1
	Indonesia	-1.47%	-21.89%	30	61	13
Africa	South Africa	0.18%	-2.05%	1	-27	-7

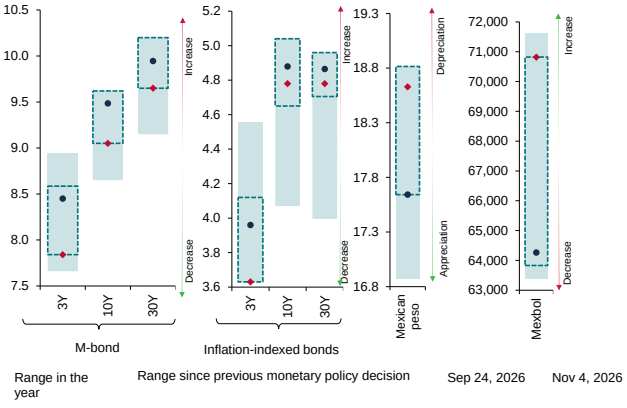
Note: An upward adjustment indicates currency appreciation. Interest rates correspond to swap rates at the specified terms, except for Hungary, where government securities with 3-year maturities were used as a reference.
Source: Bloomberg.

A.2. Current situation of the Mexican economy

A.2.1. Mexican markets

Between Banco de México's monetary policy decisions of September and November, domestic financial markets exhibited differentiated movements by asset class. The Mexican peso depreciated, while Mexico's government interest rates decreased in the medium and long terms and increased in the shorter ones. The stock market ended the period with gains (Chart 8).

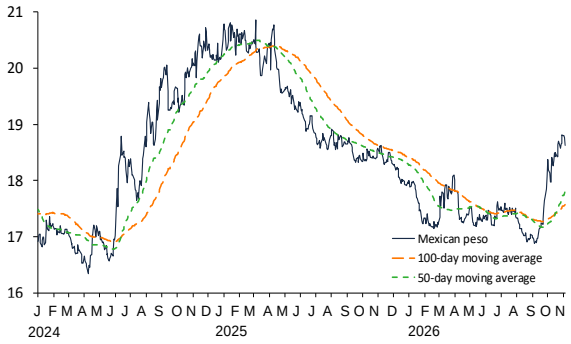
Chart 8
Mexican markets' performance
Percent, MXN/USD and index



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

The Mexican peso traded in a range of 1 peso and 44 cents, between 17.49 and 18.93 pesos per US dollar (Chart 9). The 5.58% depreciation observed during the period was attributable to several factors, including increased risk aversion amid the escalating conflict in the Middle East and a spike in volatility, which, combined with a narrowing interest rate differential with the United States, reduced the attractiveness of carry-trade strategies. In this context, trading conditions in the domestic market, while remaining orderly, have slightly deteriorated.

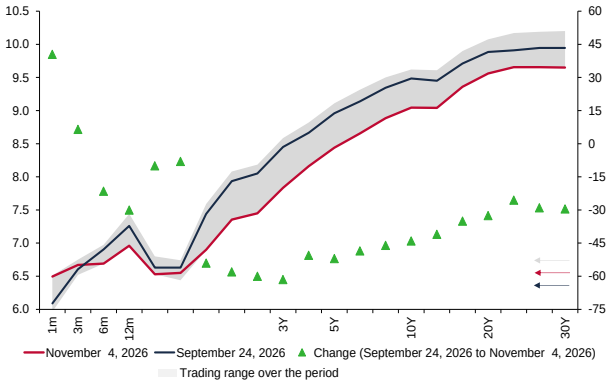
Chart 9
Mexican peso exchange rate
MXN/USD



Source: Banco de México (FIX).

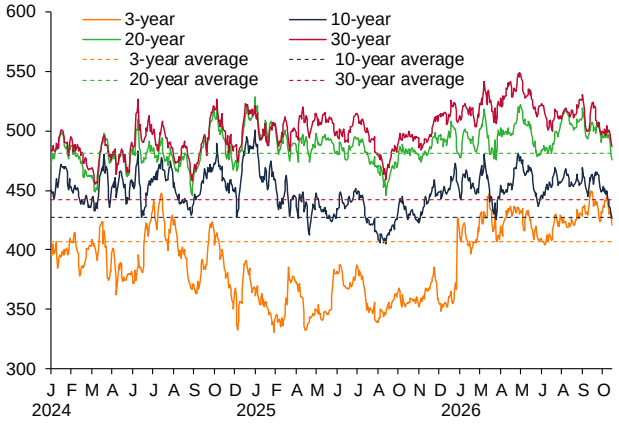
Government interest rates with maturities of over one year registered widespread declines ranging from 8 to 61 basis points. The sharpest declines concentrated in the mid-segment of the curve, while in the long segment these were more moderate (Chart 10). This led to a steepening of the yield curve. Meanwhile, although the real interest rate curve followed a similar trend to that of nominal interest rates, breakeven inflation and inflation risk implicit in spreads between the two curves declined across all maturities (Chart 11).

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



Note: CETES are used for maturities ranging from one month to 12 months, while Bonos M are used for other maturities.
Source: *Proveedor Integral de Precios* (PIP).

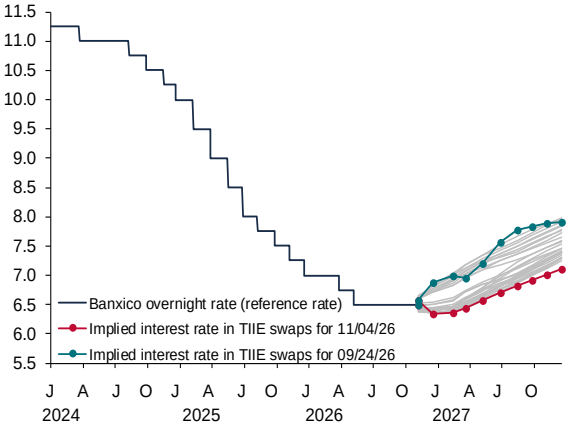
Chart 11
Breakeven inflation and inflation risk implied in government securities' yields
Basis points



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

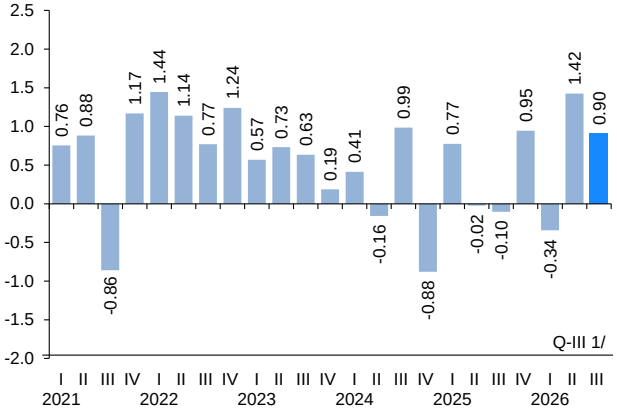
Regarding expectations for the path of the monetary policy reference rate, information implied in the interest rate swap curve partially included the possibility of a rate cut in the November decision and set the closing level for 2026 at 6.34% (Chart 12). Meanwhile, the consensus of analysts of the Citi Mexico survey anticipated the reference rate to remain unchanged at the November meeting. Their forecast for the end of 2026 remained at 6.50%, the same level as that expected for the end of 2027.

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



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

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



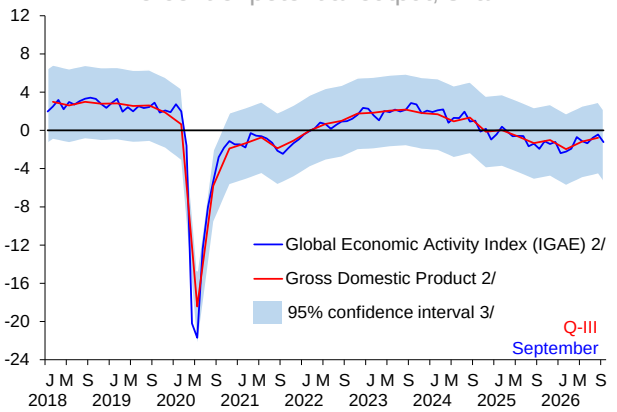
s. a. / Seasonally adjusted figures.
1/ Figure of Q3-2026 refers to the GDP flash estimate published by INEGI.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

A.2.2. Economic activity in Mexico

Based on the GDP flash estimate, economic activity continued to expand during the third quarter of 2026 at a seasonally adjusted quarterly growth rate of 0.90% (Chart 13). The national economy continued showing signs of improvement compared with the weak performance observed between 2024 and early 2026. Despite said expansion, the estimate of the output gap for the third quarter is expected to remain in negative territory (Chart 14).

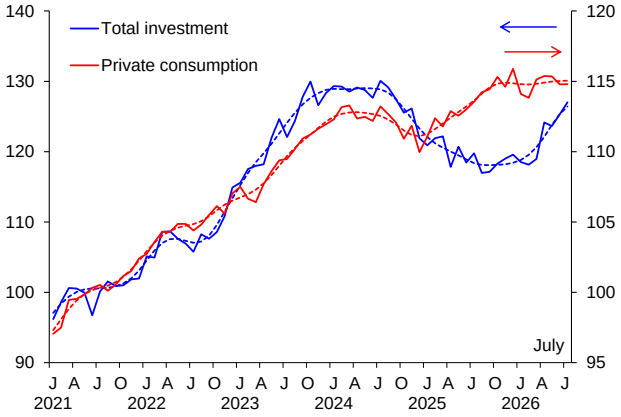
Regarding domestic demand, following the recovery in the second quarter, private consumption stagnated in July (Chart 15). As for its components, consumption of imported goods interrupted the downward trend observed in previous months, while consumption of domestically produced goods and services declined for the second consecutive month. Gross fixed investment continued increasing. Investment in machinery and equipment rebounded and reached its highest level since January 2025. Investment in construction reversed part of the previous month's gains and stood at a level similar to the second-quarter average. During July and August, the value of manufacturing exports continued rising, driven by strong growth in non-automotive shipments, which more than offset the sluggishness in automotive exports (Chart 16).

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



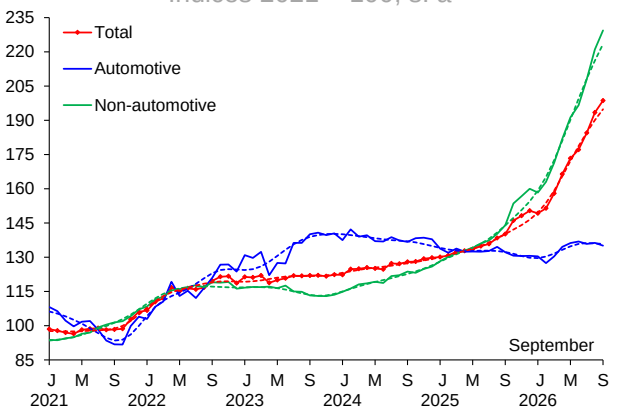
s. a. / Estimate based on seasonally adjusted figures.
1/ Estimated with a tail-corrected Hodrick-Prescott filter; see Banco de México (2009), "Inflation Report, April-June 2009", p.69.
2/ GDP flash estimate up to Q3-2026 and implied IGAE up to September 2026, consistent with said timely figure.
3/ Output gap confidence interval calculated with a method of unobserved components.
Source: Prepared by Banco de México with INEGI data.

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



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

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



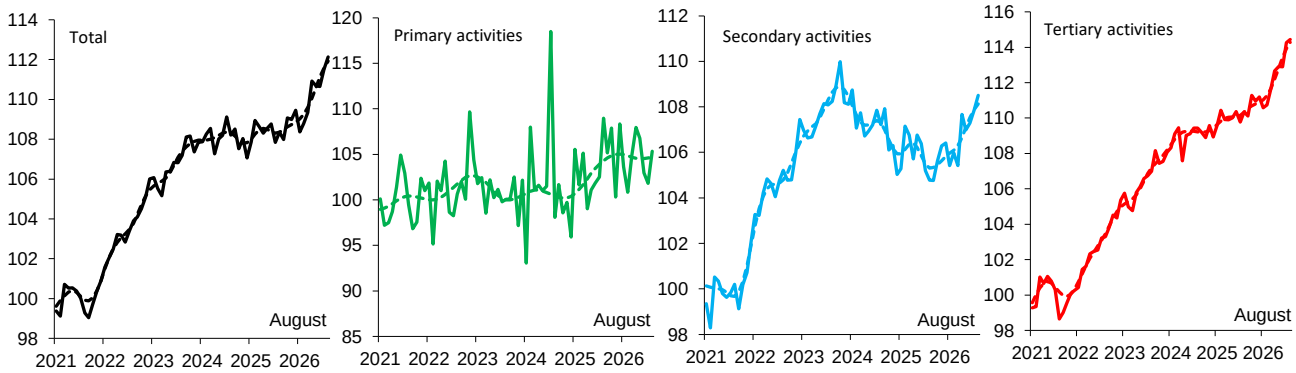
s. a. / Seasonally adjusted series and trend series based on data in nominal US dollars. The former is represented by a solid line and the latter by a dotted line. Three-month moving average.
Source: Prepared by Banco de México with data from the Tax Administration Service (SAT, for its Spanish acronym),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

From a sectoral perspective, industrial activity continued recovering during the July-August period (Chart 17). As for its components, the construction sector maintained its dynamism and manufacturing activity continued recovering (Chart 18). The utilities sector partially reversed the fall observed in the first half of the year, while the mining sector saw its recovery, which had been underway since mid-2025, come to a halt. Meanwhile, the services sector continued trending upwards, while the primary sector continued displaying a lack of momentum, albeit with significant volatility in its monthly performance.

As for labor market indicators, in September the national unemployment rate declined in monthly terms, while the urban unemployment rate rose at the margin (Chart 19). During the same period, formal IMSS-insured job creation recovered moderately. Lastly, in August unit labor costs in the manufacturing sector maintained the low dynamism observed since mid-2025.

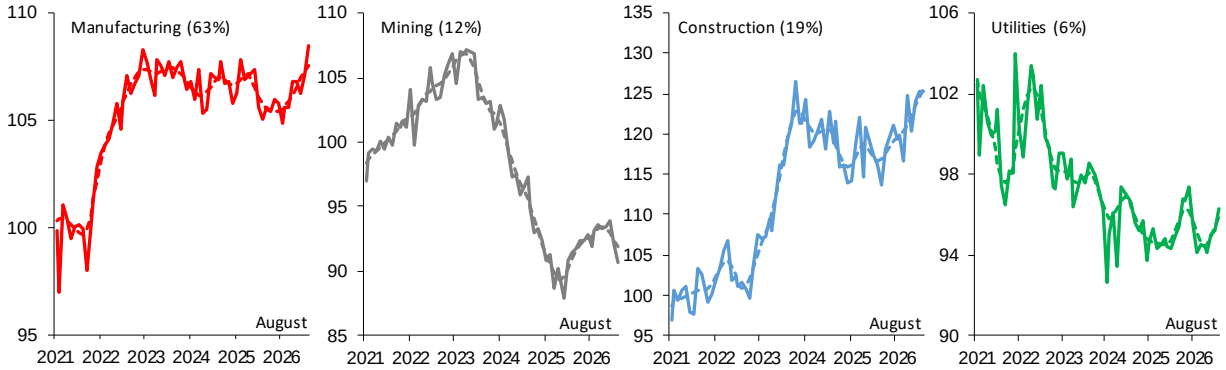
In September 2026, the annual real growth rate of domestic financing to the private sector increased slightly compared to the previous month. Nevertheless, its growth rate remained below the level registered at the end of 2025. Regarding its components, commercial bank credit to businesses registered an increase in its annual growth rate in real terms compared to the previous period (Chart 20). With regard to bank lending to households, the real annual growth rate of mortgage lending and consumer loans declined slightly in September. However, the growth rate of consumer loans remained at a relatively high level compared with historical trends.

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



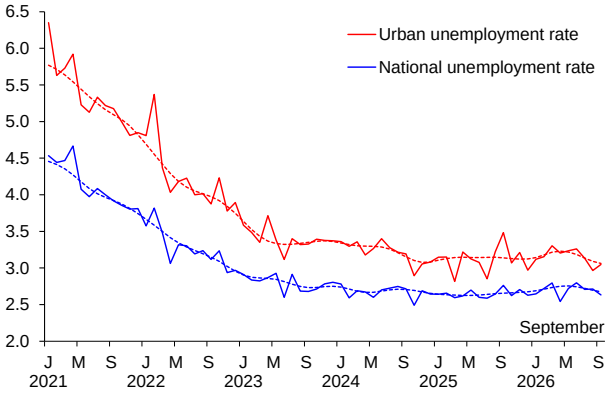
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

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



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

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

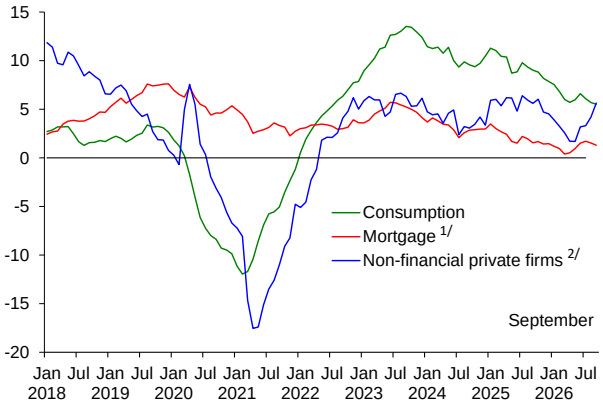


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Prepared by Banco de México with ENOE data, INEGI.

With regard to financing costs, interest rates on new bank loans to businesses remained at a level similar to that registered in August. Over the course of the year, their evolution has reflected the pass-through of the reference rate to bank interest rates in said segment. Meanwhile, interest rates on commercial bank mortgage loans continued declining during the month. Similarly, based on data as of April, bank interest rates on the consumer loan portfolio continued declining across its different segments.

With regard to the quality of commercial banks' loan portfolios, delinquency rates remained at relatively low levels compared with historical trends. On the one hand, delinquency rates on business loans declined slightly in September. Meanwhile, delinquency rates on mortgage loans did not change significantly during the month, while the same indicator for the consumer loan portfolio increased slightly compared with the previous month.

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

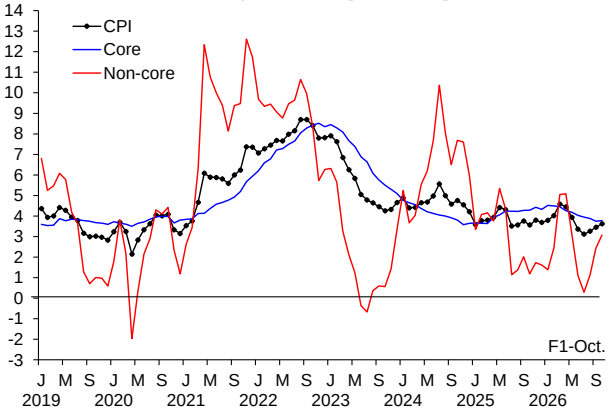


1/ Adjusted to account for the withdrawal from and the incorporation of non-bank financial intermediaries to the credit statistics.
2/ Adjusted for valuation effects due to fluctuations in the exchange rate.
Source: Banco de México.

A.2.3. Development of inflation and inflation outlook

Annual headline inflation increased from 3.45 to 3.62% between September and the first fortnight of October 2026. This result was due primarily to the increase in non-core inflation, although the core component rose marginally (Chart 21 and Table 1).

Chart 21
Consumer Price Index
Annual percentage change

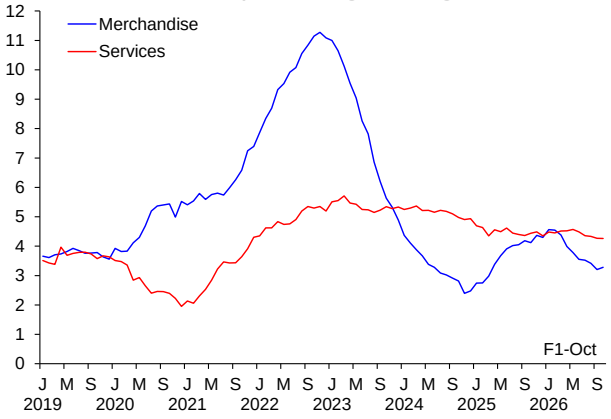


Source: INEGI.

Between September and the first fortnight of October, annual core inflation rose from 3.75 to 3.78%. Regarding its components, the annual variation of merchandise prices increased from 3.21 to 3.28% (Chart 22). This reflected a rise in non-food merchandise prices from 2.03 to 2.17% (Chart 23).

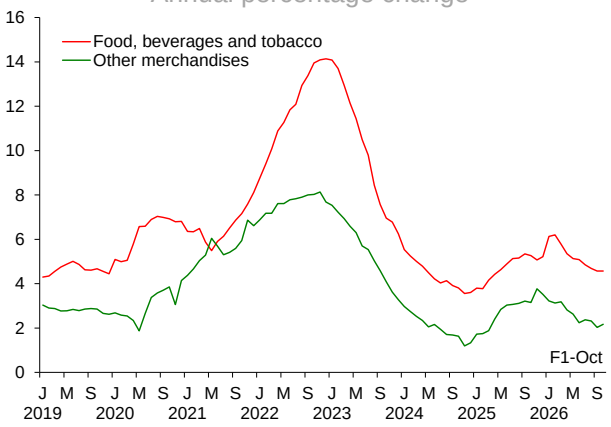
Meanwhile, food merchandise prices registered 4.57% in both the month of September and the first fortnight of October. In turn, annual service prices remained stable, at 4.27% and 4.26%, respectively. Their main components also exhibited stability. The annual variation of housing prices was 3.55% and 3.54%, the annual variation of education prices stood at 5.84% in both the month of September and the first fortnight of October, and the annual variation of prices of services other than housing and education remained at 4.73% during the same comparison.

Chart 22
Merchandise and services core price subindex
Annual percentage change



Source: INEGI.

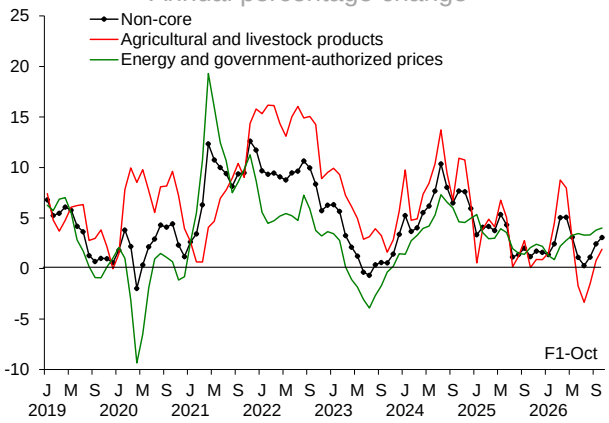
Chart 23
Merchandise core price subindex
Annual percentage change



Source: INEGI.

Annual non-core inflation increased from 2.45 to 3.08% between September and the first fortnight of October (Chart 24 and Table 1). During the same period, the annual variation of agricultural and livestock product prices rose from 0.79 to 1.90%. This performance was driven primarily by the larger annual variation in fruit and vegetable prices, which went up from 8.78 to 11.05%, while the annual variation in livestock product prices increased from -4.46 to -4.01%. In turn, the annual variation of energy prices and government-authorized rates shifted from 3.81 to 4.02% during the same comparison. In particular, that of energy prices rose from 1.48 to 2.09%, driven largely by the increase in the annual variation of LP gas and electricity prices.

Chart 24
Non-core price subindex
Annual percentage change



Source: INEGI.

Regarding inflation expectations drawn from the survey conducted by Banco de México among private sector specialists, between August and October 2026, the medians for the end of 2026 declined. Thus, the median of headline inflation went from 3.90 to 3.88%, and that of core inflation from 3.99 to 3.82%. The medians of headline and core inflation expectations for the end of 2027 shifted from 3.84 to 3.85% and from 3.80 to 3.82%, respectively. For the next four years, the median of headline inflation expectations remained at 3.80%, while that of core inflation, at 3.75%. Meanwhile, the median of long-term headline inflation expectations (5 to 8 years) remained at 3.70%, and the median for core inflation rose from 3.65 to 3.70%. Lastly, during the same period, inflation expectations implied by market instruments rose slightly.

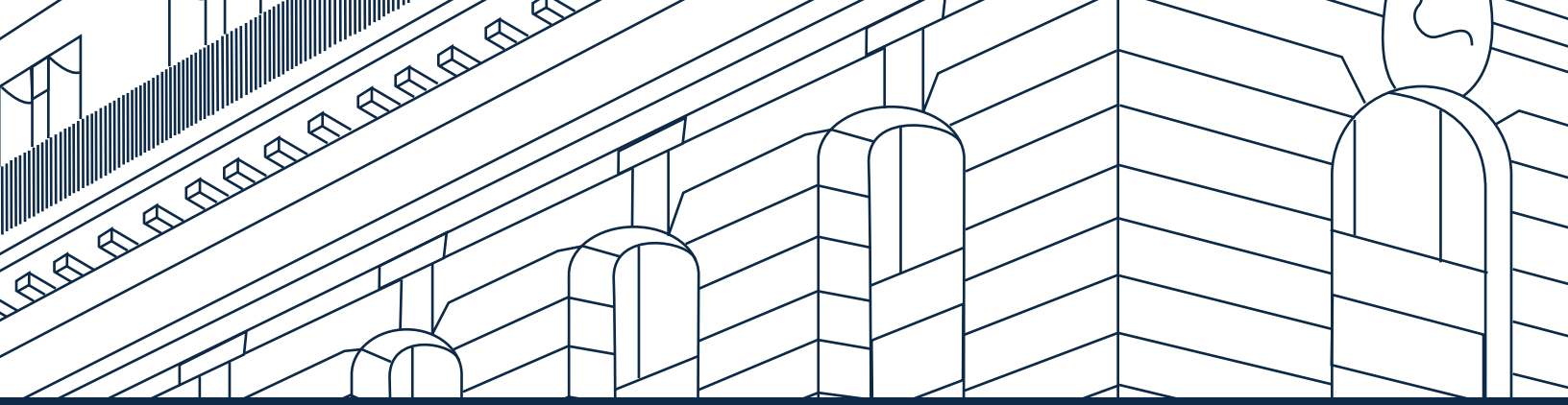
Headline inflation forecasts were revised upwards for the fourth quarter of 2026 mainly due to higher levels of non-core inflation anticipated for that period. Core inflation forecasts were adjusted slightly upwards for the same period. Headline inflation is still expected to converge to the target in the fourth quarter of 2027. The forecasts are subject to various risks. On the upside: i) persistence of core inflation; ii) a greater depreciation of the Mexican peso; iii) disruptions due to foreign trade policies or to an inflationary impact from geopolitical conflicts; iv)

climate-related impacts, and v) cost-related pressures. On the downside: i) lower-than-anticipated economic activity in Mexico and/or the United States; ii) lower pass-through from increased costs, and iii) lower pressures associated with episodes of national currency appreciation. The balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside. The changes in economic policy by the US administration and a possible extension of geopolitical conflicts continue adding uncertainty to the forecasts. Their effects could imply pressures on inflation on both sides of the balance.

Table 1
Consumer Price Index and components
Annual percentage change

Item	August 2026	September 2026	1st fortnight Oct. 2026
CPI	**3.26**	**3.45**	**3.62**
Core	**3.88**	**3.75**	**3.78**
Merchandise	**3.41**	**3.21**	**3.28**
Food, beverages and tobacco	4.68	4.57	4.57
Non-food merchandise	2.32	2.03	2.17
Services	**4.33**	**4.27**	**4.26**
Housing	3.57	3.55	3.54
Education (tuitions)	6.04	5.84	5.84
Other services	4.82	4.73	4.73
Non-core	**1.13**	**2.45**	**3.08**
Agricultural and livestock products	**-1.53**	**0.79**	**1.90**
Fruits and vegetables	4.10	8.78	11.05
Livestock products	-5.22	-4.46	-4.01
Energy and government-authorized rates	**3.33**	**3.81**	**4.02**
Energy products	0.81	1.48	2.09
Government-authorized rates	7.62	7.79	7.38

Source: INEGI.



BANCO DE MÉXICO®

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