



BANCO DE MÉXICO®

Minutes number 118

**Meeting of Banco de México's Governing Board on the occasion of
the monetary policy decision announced on August 7, 2025**

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FOREWARNING

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1. PLACE, DATE AND PARTICIPANTS

1.1. Place: Meeting held by virtual means.

1.2. Date of Governing Board meeting: August 6, 2025.

1.3. Participants:

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

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

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

International environment

Some members highlighted that world economic activity is estimated to have expanded during the second quarter of 2025 at a slightly higher rate than in the previous quarter. **One** member pointed out that the slowdown in activity during the first quarter of the year would have continued into the second quarter, both for emerging economies and for advanced economies excluding the United States. **Another** member added that emerging economies are expected to perform similarly to the first quarter. **One** member stated that Purchasing Managers' Indices for both advanced and emerging economies suggest that the manufacturing sector remained sluggish, while the services sector weakened. He/she mentioned that international merchandise trade indicators also slowed down during the second

quarter of 2025 due to imports brought forward to the first quarter to avoid tariff measures. **Regarding US economic activity, most members highlighted that it rebounded during the second quarter of this year, driven by growth in net exports.** **One** member added that economic activity during the second quarter performed better than expected, even surprising on the upside by registering an annualized quarterly growth of 3%. **Another** member indicated that economic growth during the first half of 2025 was lower than in the second half of 2024, which signals its deceleration. **One** member pointed out that consumption components continued slowing down. He/she noted that consumption of services had maintained stable growth from the recovery period until the end of 2024; however, during the first two quarters of this year, it showed low dynamism, unseen since mid-2019, except for the pandemic period. He/she considered that the slowdown in US private consumption is in line with the gradual easing of its labor market, along with a less solid financial position of households. **Most members stated that the most recent data on the US labor market showed less dynamism.** **One** member stated that job creation from May to July was lower than expected, thus suggesting that the labor market could be cooling down further.

Most members mentioned that the global economy is expected to slow down in 2025 and 2026, albeit to a lesser extent than anticipated in April. **One** member pointed out that the trade agreements reached allow to begin delimiting the possible scope of changes in trade policies and that, despite the recent adjustments to forecasts, their effects have been mainly perceived in economic activity and are expected to continue affecting it. In this regard, **another** member emphasized that concerns about more adverse scenarios have diminished, given that tariff rates turned out lower than initially announced and certain agreements have been reached. He/she stated that the forecast for China was revised upwards for 2025, although a slowdown is anticipated in 2026.

Most members pointed out that inflation at the global level exhibited mixed behavior. **One** member noted that the main advanced economies have registered increases in recent readings. Meanwhile, **some** members indicated that in a large number of emerging economies headline inflation registered lower levels than those reached at the beginning of 2025. **One** member mentioned that, nevertheless, variations in inflation have been limited in most economies. He/she noted that core inflation has shown some resistance to decline. **Most**

members highlighted a gradual decline in services inflation. They agreed that goods inflation has increased in several advanced and emerging economies. **One** member underlined the cases of Canada, Japan, the United Kingdom, and the United States, where goods inflation has notably increased after reaching minimum levels following the pandemic. He/she noted that, in the case of the United States, the recent rebound in goods inflation could be associated with the implementation of tariffs. **Another** member stated that these increases have been observed since the second half of 2024 in most countries. **Some** members expressed that food inflation also increased in certain advanced economies. **Some** members stated that in most economies inflation is expected to converge to its target towards the end of 2025 or during 2026. **One** member added that, in certain cases, headline inflation is already in line with its target. Regarding changes in trade policies, **another** member noted that, in most economies, upside risks to inflation associated with such policies have not materialized so far and that uncertainty about their effect on prices prevails. He/she indicated that international commodity prices have not increased despite the volatility caused by geopolitical tensions.

Some members mentioned that headline inflation in the United States, as measured by the personal consumption expenditures price index, increased from 2.4 to 2.6% between May and June. **One** member pointed out that it reached its highest level since February 2025. However, **another** member added that core inflation remained constant during the same period. **Most members indicated that inflation in the United States is expected to rebound by the end of 2025.** **One** member stated that this would be the result of the imposition of tariffs. **Another** member underlined that, however, such rebound would be short-lived. **Some** members added that it would reverse during the course of 2026.

All members mentioned that, in its latest decision, the Federal Reserve left its reference rate unchanged. Most members indicated that the decision was divided, with two members voting for a 25-basis-point cut. **One** member noted that a disagreement of this nature had not occurred since 1993. **Another** member added that, in its statement, the Federal Reserve highlighted that growth of economic activity moderated during the first half of the year and emphasized that uncertainty remains elevated. He/she pointed out that the Fed's chair attributed the slowdown to demand-related factors, noted that the labor market remains

balanced, although downside risks persist, and considered it plausible that the rebound in inflation associated with tariffs would be short-lived. **Some** members stated that the Federal Reserve is expected to resume the rate-cutting cycle in 2025. **One** member noted that, after its previous decision, volatility in expectations regarding the number of rate cuts for the remainder of the year increased. **Some** members added that the recent weaker-than-expected employment data raised concerns about the US labor market and contributed to expectations of further rate cuts by the Federal Reserve. **One** member pointed out that, until very recently, the probability of cuts being delayed until later in the year had increased as a result of stronger-than-expected data on economic activity and inflation.

Most members mentioned that several central banks in other advanced economies left their rates unchanged. **Some** members noted the cases of the European Central Bank and the Bank of Canada. **One** member indicated that the European Central Bank's pause came after cutting its rate eight times over the course of a year. He/she underlined that the Bank of Canada stated that if the weakening of economic activity exerts further downward pressures on inflation, and if upward pressures from foreign trade disruptions remain contained, the reference rate could be lowered. **Another** member argued that the pause in rate cuts comes at a time when several central banks of advanced economies already have rates close to their neutral levels, limiting the room for further adjustments. **One** member pointed out that, nevertheless, several central banks have continued their easing cycle. Regarding emerging economies, **some** members noted that their rate-cutting cycles are expected to continue gradually. **One** member indicated that the Central Bank of Chile made its first adjustment of the year. He/she added that the Central Bank of Uruguay lowered its rate after having raised it since late 2024. **Another** member argued that the central banks of emerging economies also remained cautious given the global conditions. **One** member stated that, despite the environment, the establishment of certain trade agreements creates some room for certainty, which has allowed central banks' monetary policy strategies to focus on macroeconomic conditions of each country.

Most members mentioned that international financial markets performed better in an environment of increased risk appetite. **Some** members attributed this improvement to progress in US trade agreements with various economies. **One** member added that lower tariff rates than those

announced in April and better economic performance contributed to the positive evolution of asset prices. He/she noted that several stock market indices reached historical highs in the United States. **Some** members indicated that the US dollar appreciated. **One** member pointed out that the US dollar bias towards depreciation had decreased, as observed in options markets, given the perception of a lower risk premium in that economy, which represented a different dynamic from that observed after the tariff announcements in April. **However, most members mentioned that market gains and US dollar appreciation partially reversed after the release of US employment data.** **One** member stated that the US dollar continues trading at levels lower than those registered in early 2025. **Another** member emphasized that the dollar's weakness could be attributed to the fiscal situation in the United States, the trade policy implemented by its administration, and, in general, to a lower level of confidence in the performance of the US economy. In this regard, **one** member noted that the negative performance of the US dollar throughout the year has contributed to maintain global monetary and financial conditions loose. He/she highlighted that, given expectations of rate cuts by the Federal Reserve, US Treasury bond yields decreased for all maturities, falling significantly more in the short end of the curve.

Economic activity in Mexico

All members pointed out that, according to the GDP flash estimate, the economy grew during the second quarter of 2025 at a rate higher than in the previous one. Most members stated that economic activity expanded at a seasonally adjusted quarterly rate of 0.7%, and turned out to be higher than anticipated. One member highlighted that this result was attained despite the uncertain environment. However, **some** members considered that, despite the rebound, the economy continues showing low dynamism. **One** member noted that this rebound occurred after several quarters of sluggish performance. **Another** member argued that economic activity has been going through a deceleration phase since the end of 2023. **Most members stated that economic slack prevails and anticipated that it could intensify. They added that the output gap is negative. One** member mentioned that it is not expected to close within the forecast horizon.

All members indicated that industrial activity improved slightly during the second quarter of 2025. Some members noted that this occurred after it had fallen in previous quarters. **Some** members

underlined that the improvement in the industrial sector was due to both an increase in manufacturing and a moderate growth in construction. However, **some** members added that the latter remains below the levels registered in 2024. **Most members mentioned that tertiary activities also reactivated.** However, **one** member considered that said sector continues slowing down and pointed out that it contracted slightly in annual terms. **Some** members argued that heterogeneity persists across its subsectors. **Most members expressed that primary activities declined, partially reversing the rebound of the previous quarter.**

Regarding aggregate demand, most members highlighted that it exhibited a differentiated behavior. They indicated that private consumption rebounded slightly. One member noted that its resilience can be explained by the growth in the wage bill. He/she added that the latest results from the National Survey of Household Income and Expenditure (ENIGH, for its acronym in Spanish) suggest that the reduction in income inequality and a higher marginal propensity to consume among the lowest income deciles has strengthened domestic demand. **Another** member mentioned that, nevertheless, consumption has moderated. He/she pointed out that this component registered an annual decrease of 1.1% in the January-May period. He/she considered that the labor market outlook could limit the recovery of consumption because employment and wages are the main determinants of household spending. **Most members indicated that investment continued trending downwards. One** member emphasized that it contracted in May at an annual rate of 7.1% with non-seasonally adjusted series. He/she argued that a generalized sluggishness persists among its components. **Another** member stated that this trend can be mainly explained by the performance of machinery and equipment. **One** member mentioned that investment is expected to reactivate during the second half of the year in light of the announcements regarding public and private infrastructure projects. **Another** member underlined that, while domestic demand shows weakness, external demand has expanded somewhat. **One** member stated that total exports have become a significant driver of growth since the third quarter of 2024. **Most members noted that exports have continued increasing due to the dynamism of non-automotive exports. Some** members mentioned that this behavior could be influenced by exports to the United States that were brought forward in anticipation of announced tariff measures. **Some** members expressed that it could also reflect a still incipient application of tariffs

at rates that are already in force. **Some** members stated that automotive exports continued to weaken.

Some members pointed out that higher-than-expected growth during the second quarter of 2025 would imply an upward revision to the GDP growth forecast for 2025 as a whole. **Some** members noted that, nevertheless, growth is expected to remain low in 2025 and 2026. **One** member indicated that the pace of expansion would remain below the economy's potential growth rate throughout the forecast horizon. However, he/she warned that, as with other latent variables, there is uncertainty regarding the estimation of the trend and the cyclical components of economic activity.

Regarding the balance of risks to growth, **some** members noted that it remains biased to the downside. **One** member stated that, despite the recovery, there are still considerable downside risks given the possibility of a more significant slowdown in the United States. **Another** member highlighted as a risk a greater adverse effect caused by the uncertainty regarding trade policy in both Mexico and the United States.

Most members underlined that the labor market has been showing signs of cooling. **Some** members stated that this is the case despite the improvement at the margin. **Most members noted that formal employment has decelerated.** **One** member added that this indicator registered its lowest growth since mid-2021. **Another** member pointed out that the working population increased after having decreased for two quarters. **Some** members underlined that, although the labor force participation rate and the employment-to-working-age population ratio increased, both remained at low levels given the downward trend they have shown. **One** member pointed out that underemployment increased for three consecutive months, while the informality rate and employment in the informal sector continued trending slightly upwards. **Most members noted that wage growth has moderated.** **One** member added that this is due to weak economic activity and to a deceleration in job creation. He/she concluded that wages are expected to continue moderating.

Inflation in Mexico

All members indicated that since the last monetary policy decision, headline inflation decreased and that it registered 3.51% in July. They commented that this was a consequence of a decline in the non-core component, while core inflation remained stable. **Most members pointed**

out that, thus, headline inflation was once again within the variability interval.

The majority stated that the increase in core inflation in recent months reflects a rise in merchandise inflation, which has more than offset the gradual decline in that of services. **One** member noted that the relative price of merchandises and services has continued to adjust. He/she sustained that the current levels of core inflation are due to limited increases in some of its components, rather than to a generalized increase across the subcomponents of that basket, or to the presence of second-round effects in the price formation process. He/she stated that a strong and positive correlation between adjustments in the prices of merchandise and services suggests the presence of aggregate shocks, while a zero or negative correlation is mostly indicative of sector-specific shocks. He/she noted that the value of such statistic is currently close to zero. He/she added that this indicates that variations in merchandise and services' price levels are primarily responding to sector-specific rather than to aggregate shocks. He/she stated that, despite said pressures, the price formation process remains well-anchored. However, **another** member stated that core inflation has remained outside the variability range in recent months and has not trended downwards. He/she added that the items in this basket keep registering high monthly inflation rates, making it a widespread phenomenon. He/she mentioned that the trimmed mean indicator of this component has been trending upwards from its lowest levels registered last November. He/she asserted that supercore inflation, which is more sensitive to cyclical conditions, stands above 4% and remains well above its pre-pandemic average of 3.1%. He/she underlined that for core inflation to have continued its downward trend, which was interrupted last November, services inflation would have needed to decline by an additional 100 basis points approximately.

Most members noted that merchandise inflation continued rising since the last monetary policy meeting, reaching 4.02% in July. **One** member recalled that after reaching particularly low levels in the second half of 2024, merchandise inflation increased during the first half of 2025, mainly between April and June. **Another** member mentioned that approximately half of merchandise CPI items keep registering annualized and seasonally adjusted monthly inflation rates above 5%. **Among the factors that have affected merchandise inflation throughout the year, most members highlighted the lagged effects of the**

exchange rate depreciation that took place during the second half of 2024. **One** member considered that this depreciation prompted a shift in relative prices between tradable and non-tradable goods, which affected the measurement of headline inflation. He/she argued that this effect, observed in merchandise prices, is expected to be transitory. Meanwhile, **another** member noted the rise in inflation in some non-food merchandise and pointed out that those more exposed to imports have increased the most. **One** member expressed that exchange rate pressures on merchandise inflation are currently not significant. He/she explained that the annual price variation of merchandise produced in more import-intensive sectors, which would typically be more sensitive to exchange rates, is lower than that observed in other merchandise. He/she pointed out that goods classified through econometric methods, such as those whose inflation tends to be more sensitive to exchange rate shocks, currently show lower inflation levels compared to other goods. He/she mentioned that, in contrast, inflation of merchandise produced in sectors generating larger operating profit margins, as well as in those that use more intensively inputs from the chemical industry, commerce, and agricultural and livestock products, show greater price variations. He/she considered that this suggests that merchandise inflation is more closely related to global trade disruptions caused by purchases that were brought forward and by pressures from the livestock product sector. **Another** member stated that pressures on livestock product prices directly affect the non-core component and indirectly influence certain items of the core component. **One** member added that higher international references could also be contributing to the above. He/she added that the tariff Mexico has applied since January 2025 on products from countries such as China and Vietnam sold via e-commerce platforms may also have prompted a one-time increase in certain goods' prices.

Regarding the behavior of merchandise inflation components, **one** member commented that since November 2024, food merchandise inflation increased from 3.56 to 5.13%, while non-food merchandise inflation rose from 1.19 to 3.06%. He/she noted that between 2003 and 2019, food merchandise inflation averaged 5.39%, and non-food merchandise inflation averaged 2.93%. He/she emphasized that the recent increase in non-food merchandise inflation has been more pronounced and its level is now slightly above its historical average. **Most members pointed out that the increase in food merchandise inflation in recent**

months is partly explained by the indirect effects of increasing livestock product prices. Some members pointed out that this shock has had an impact on items such as processed meats, cold cuts, and milk. Regarding non-food merchandise, **one** member underlined the changes in relative prices caused by increased spending on imports brought forward ahead of the implementation of new tariffs. He/she noted that this could have affected items such as medicines and chemical products. He/she added that the prices of hygiene and personal care items rose, possibly driven by pressures on the prices of their chemical components. He/she pointed out that the clothing, footwear, and accessories category was affected by a calendar effect associated with the discount sales period, which last year took place during a different fortnight.

The majority indicated that, since the last monetary policy decision, services inflation declined, reaching 4.44% in July. Some members underlined that this component has trended gradually downwards. **One** member noted that prices of about a third of the services items are increasing at annualized monthly rates above 5%. As for its determinants, **another** member stated that services inflation is mainly affected by domestic factors such as economic activity. He/she asserted that, during the 2003-2019 period, a positive correlation between the cyclical components of economic activity and services inflation can be found. He/she specified that the co-movement is not contemporaneous, as services inflation tends to ease several quarters after economic activity moderates. He/she also pointed out that the lag in the response of these prices to economic activity and the intensity of said adjustment vary across the different subcomponents of services inflation. He/she specified that inflation of other services, compared to that of housing and education services, tends to react more slowly and has historically shown a weaker correlation with economic activity. He/she argued that, considering these empirical regularities, it could be concluded that the effect of economic weakness on services inflation has not yet fully materialized.

Regarding the components of services inflation, most members highlighted the sustained downward trend in housing inflation. **One** member mentioned that this item carries significant weight in the CPI. **Another** member underlined that it has trended downwards slowly. Meanwhile, **some** members pointed out that inflation of educational services has remained relatively stable since the last monetary policy decision. **Some** members added that inflation of services other than housing and

education has been affected in recent months by pressures on food services' prices. **One** member specified that around 70% of the deviation of this category from its historical average has been attributed to the trajectory of food services. **Another** member pointed out that food services inflation is the highest among the various components of services other than housing and education. **Most members highlighted that food services continue to be affected by rising prices of livestock products used as inputs.** **One** member mentioned the effect of price increases in processed foods, such as cold cuts and milk, on food services prices. He/she noted that the upward trend in food services inflation began in mid-2024, likely reflecting the shocks on fruits and vegetables' prices that took place during that period. He/she considered that food services inflation has been affected by a series of supply shocks that can be expected to dissipate. **Another** member mentioned that, regarding inflation of services other than housing and education, certain pressures have also affected the prices of telecommunications services.

All members noted that non-core inflation declined, registering 1.14% in July. **One** member highlighted that this level is among the lowest percentiles in its historical distribution. **Another** member pointed out that the reduction in this component is highly susceptible to rebounding upwards in the coming months. **Most members attributed its recent decline mainly to the lower annual variations in fruits and vegetables' prices.** **Some** members added that the reduction in energy prices and government-authorized prices also contributed to said decline. **The majority indicated that supply shocks to livestock products have continued affecting the non-core component.** **Some** members noted that high inflation of these products is already starting to reverse.

Most members highlighted that inflation expectations for the end of 2025 have increased. **Some** members pointed out that those for the end of 2026 remained stable. **One** member mentioned that this behavior is consistent with expectations of short-term pressures on prices. **Another** member noted that 12-month expected inflation exhibited small adjustments. **One** member commented that analysts' inflation expectations over the forecast horizon remain deteriorated and above those published by Banco de México. **Most members underlined that longer-term inflation expectations remained relatively stable.** **One** member emphasized that these expectations have continued above target, without anchoring adequately at around 3.70% for

the medium term and 3.60% for the long term. He/she warned that, consequently, analysts anticipate inflation will remain above the 3% target even in the long term. **Another** member commented that breakeven inflation levels showed marginal movements, although those corresponding to the medium and long terms remained high. He/she added that the inflation risk premium has increased to levels near its historical average, after having been below such average throughout the year.

Most members emphasized that headline inflation is still expected to converge to its target in the third quarter of 2026. **Some** members pointed out that the forecast for headline inflation was revised downwards for the third quarter of 2025. **Some** members stated that forecasts for core inflation were adjusted slightly upwards in the short term. However, **one** member indicated that this component is expected to resume its downward trend in the third quarter of 2025 and reach 3% during the same quarter as headline inflation. **Another** member pointed out that the forecast revision reflects upward surprises in recent data, rather than greater pressures, since the annualized seasonally adjusted quarterly variation for the fourth quarter of 2025 and the first quarter of next year has been adjusted slightly downwards for that component. **One** member commented that core inflation forecasts were revised upwards for the third consecutive time. He/she added that observed core inflation is above the levels implied by its forecast trajectory. He/she warned that it is not very likely that a slowdown will occur over the next two quarters, such as the one indicated in the forecast. He/she noted that gaps between the inflation forecast and both observed and expected inflation persist. **Another** member indicated that the main challenge will be to ensure that increases in merchandise inflation are offset by declines in services inflation, considering the expected base effects for merchandise and the gradual decline in services prices. **Most members argued that the expected decline in inflation is consistent with the anticipated widening of slack conditions, the weakness in the labor market, and the recent exchange rate appreciation relative to the levels attained in the second half of 2024.** **Some** members added that the fact that medium- and long-term inflation expectations remain anchored contributes to this outlook. **One** member considered that the negative output gap and the moderation in wage revisions will help to reduce core inflation. However, **another** member argued that the effect of economic slack on price formation has not materialized. Meanwhile, **one** member estimated that insofar as supply shocks on services, particularly

food services, dissipate, this component will resume its downward trend. He/she noted that pressures on merchandise prices are expected to ease due to the appreciation of the Mexican peso during the year and the eventual fading of supply shocks on livestock products, and that producer prices of final goods for domestic consumption, which have a lead correlation with merchandise, have declined.

Most members commented that changes in economic policy by the new US administration continue adding uncertainty to the inflation forecasts. **One** member indicated that said changes could imply inflationary pressures on both sides of the balance. **Some** members considered that the balance of risks for the foreseen trajectory of inflation within the forecast horizon remains biased to the upside. **One** member pointed out that, nevertheless, said bias is less pronounced than that faced between 2021 and 2024. **Another** member added that the balance of risks continues deteriorating, especially given the persistence of core inflation.

Regarding upward risks to inflation, **some** members mentioned the possibility of the Mexican peso depreciating due to the imposition of tariffs. **One** member noted that, if a depreciation were to occur, it could affect the expected trend in merchandise inflation. **Another** member added that this risk has decreased, given the behavior of the peso exchange rate. He/she considered that inflationary risks associated with the external environment remain limited. **Some** members argued that although non-core inflation being at historically low levels has helped to reduce headline inflation, it also represents a risk insofar as these readings may normalize. Regarding downside risks, **one** member highlighted that slack in domestic economic activity could lead to lower-than-expected inflationary pressures.

Macrofinancial environment

Most members noted that since the last monetary policy decision, domestic financial markets have performed better and showed stable trading conditions. **One** member pointed out that these are at levels similar to those observed prior to the pandemic, despite the uncertainty associated with the intervention of three financial institutions. **Some** members attributed the improvement in foreign exchange market trading conditions to the decline in volatility, which has allowed the build-up of carry trade positions. **One** member highlighted that volatility is currently at levels similar to those of the first quarter of 2024. **Another** member warned that, although exchange rate volatility has declined recently, it could change due to shifts in investors'

sentiment. **One** member mentioned that some risks prevail that could affect the dynamics of the Mexican peso and its volatility, such as a correction in the weakness of the US dollar or greater trade-related uncertainty, among others. In this regard, **another** member added that adverse depreciation scenarios have not yet materialized as a result of the imposition of tariffs. **Most members noted that the Mexican peso has appreciated during 2025.** **Some** members expressed that it remained at levels similar to those of the previous meeting. **One** member associated the resilience of the Mexican peso with the generalized weakness of the US dollar. Meanwhile, **another** member argued that the peso has been supported by Mexico's risk-adjusted differential, which remains high among emerging economies. In this regard, he/she stated that the currency carry trade using Mexican peso derivatives remains attractive. **One** member considered that the Mexican peso has been favored by a better relative position in terms of tariffs compared to other countries. He/she added that demand for foreign exchange hedging continued decreasing. Regarding forecasts on the performance of the national currency, **another** member underlined that they have adjusted marginally downwards. However, **one** member commented that, although these have improved, they still show a slight bias towards depreciation.

Most members highlighted that, within the fixed-income market, government bond yields declined along the yield curve. **One** member expressed that risk premia changed slightly and remained at levels similar to those observed in August 2024. **Another** member mentioned that greater liquidity was provided to the money market to promote its proper functioning. He/she stated that the stock market performed well, favored by positive results in corporate earnings reports. He/she added that Mexico's credit default swaps increased moderately, while those of Pemex decreased significantly, favored by the innovative issuance of Pre-Capitalized Notes. Regarding financing in the economy, **one** member expressed that the pace of growth in domestic financing to the private sector continued to moderate, while lending conditions tightened. He/she added that, in particular, credit to households slowed down. He/she mentioned that it is relevant to consider that the effects of monetary policy on credit are more likely to be noticeable during periods of economic weakness.

Monetary policy

The Governing Board deemed appropriate to continue the rate-cutting cycle. This decision was consistent with the assessment of the current inflationary outlook. In particular, it took into account the behavior of the exchange rate, the weakness of economic activity, and the possible impact of changes in trade policies worldwide. It also considered the level of monetary restriction that has been implemented. Thus, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 25 basis points to 7.75%.

Looking ahead, the Board will assess further adjustments to the reference rate. It will take into account the effects of all determinants of inflation. Actions will be implemented in such a way that the reference rate remains consistent at all times with the trajectory needed to enable an orderly and sustained convergence of headline inflation to the 3% target during the forecast period. The central bank reaffirms its commitment to its primary mandate and the need to continue its efforts to consolidate an environment of low and stable inflation.

One member recalled that a calibration has been carried out since the beginning of the year to adjust the monetary stance to an environment of lower inflationary pressures and a lower observed and expected dynamism in economic activity. He/she pointed out that, had it not been implemented, the monetary stance would be more restrictive than necessary. He/she added that in the previous decision it was announced that further adjustments to the reference rate would be assessed and that the inflationary outlook is consistent with the adjustment proposed in this decision. He/she considered that a greater graduality would allow to signal a continuation of the cycle of reference rate cuts. He/she expressed that, although with this decision the rate differential between Mexico and the United States narrows, it is a result of the corresponding monetary cycles being decoupled. He/she added that global monetary and financial conditions have remained loose given the weakness of the dollar. He/she highlighted that this has bolstered the resilience of the Mexican peso. He/she commented that available information suggests that inflation risk in the United States has moderated. He/she noted that the Federal Reserve is expected to restart the reductions of its policy rate. He/she added that it is essential to consider the adjustments in relative

prices and proceed firmly within monetary policy's room for maneuver. He/she argued that the low correlation between merchandise and services inflation is indicative of sector-specific shocks rather than aggregate effects. He/she highlighted that monetary policy has focused on ensuring that adjustments in relative prices are orderly and that second-round effects are avoided, and it will continue to do so. He/she pointed out that core inflation is expected to return to a downward trend given the slack conditions in the economy. He/she stated that the proposed reduction in the target rate does not reflect tolerance or indifference to the current levels of core inflation, but rather the appropriate response under an inflation-targeting framework with a forward-looking approach. He/she emphasized that the Governing Board remains attentive to risks that could lead to changes in the inflation outlook. He/she deemed it appropriate to communicate that, looking ahead, additional rate reductions will be evaluated and that a gradual approach will contribute to give continuity to the rate-cutting cycle. He/she indicated that all relevant information on the inflation outlook and its prospects will be taken into consideration.

Another member recalled that since the cycle of rate cuts began, the ex-ante real interest rate has adjusted by slightly over 300 basis points. He/she noted that during the same period headline and core inflation declined, long-term inflation expectations remained anchored, and the output gap widened into negative territory. He/she argued that, in this way, the decisions taken have been efficient by allowing the policy stance to be adjusted to the prevailing inflationary outlook, without affecting its determinants. He/she pointed out that the recent supply shocks have started to fade, and that the forecast period of convergence has not changed. He/she noted that, except for a couple of months, annual inflation has fluctuated within the variability range since January, indicating that the inflationary outlook is in a different stage. He/she considered that, although the relative stance has narrowed with respect to the United States, the volatility-adjusted rate spread remains competitive from a multilateral perspective, partly due to volatility being at low levels. He/she pointed out that the complete distribution of the ex-ante real rate was restrictive from February 2023 to June 2025, representing the longest period in which the policy stance has been restrictive. He/she indicated that inflation levels and its risks are similar to those of other episodes, which were addressed by setting a lower reference rate. He/she added that monetary conditions, as observed in the linear combination of the real rate and the real exchange rate, have tightened due to an appreciation

of the Mexican peso. In this regard, he/she estimated that both the relative and absolute monetary stances provide some room for additional adjustments to the reference rate. However, he/she warned that the relative stance is sensitive to a possible reversal of volatility and that the absolute stance is close to the neutral range, and that, for this reason, the adjustments should be more gradual compared to those made during the calibration process in the first half of the year. He/she stated that communication should emphasize that, looking ahead, decisions will be based on the observed and expected behavior of inflation determinants and of inflation continuing to show a trend converging towards the target.

One member underlined that in July annual headline inflation was at its lowest level after the inflationary episode of the pandemic. He/she highlighted that it returned to a level within the variability range. He/she stated that core inflation already shows signs of stabilization. He/she added that the prevailing behavior of the determinants of core inflation is consistent with such component resuming a downward trajectory. In this regard, he/she underlined the slowdown in productive activity compared to 2024 and the estimate of a negative output gap. He/she stated that the Mexican peso has appreciated so far this year. He/she considered that, given these factors, the adjustment proposed for this decision is appropriate. He/she commented that, looking ahead, the Governing Board must remain attentive to ensuring that merchandise inflation finishes its stabilization in order to subsequently moderate and that services inflation decreases to a greater extent, so that core inflation indeed declines again. He/she noted that the rate differential between Banco de México and the Federal Reserve is already close to its historic lows registered after 2008, when the reference rate was established as a monetary policy instrument in Mexico. He/she agreed that such levels do not necessarily represent a lower bound given the widespread weakness of the US dollar. However, he/she pointed out that, going forward, the margin for narrowing the differential would need to be assessed. He/she argued that the risk-adjusted rate differential is relevant for the Mexican peso. He/she expressed that although forward-looking indicators of the Mexican peso obtained from market instruments have improved, this takes place in a context where markets anticipate that the differential will widen over the forecast horizon. He/she highlighted that it should be communicated that the next monetary policy decision is not predetermined and will depend on macroeconomic conditions.

Another member mentioned that the reduction of headline inflation in July should be assessed with caution as it is the result of the decline in non-core inflation. He/she asserted that core inflation shows no signs of decreasing. He/she added that the forecast for this component, which signals the medium-term trend of headline inflation and is sensitive to monetary policy, was revised upwards again till the first quarter of 2026. He/she pointed out that the balance of risks to inflation remains biased to the upside and inflation expectations have deteriorated, which increases the possibility that the convergence expected in the third quarter of 2026 is postponed further or that it is not met as suggested by these expectations. For this reason, he/she considered that, for the moment, there is no room for lowering the reference rate. He/she noted that, since the circumstances are different, it is not appropriate to use the peaks reached by the ex-ante real rate in previous restrictive cycles as a reference for deciding on the target rate. He/she stated that a restrictive stance is required to deal with a persistent core inflation and ensure that it resumes its downward trend. He/she pointed out that the reference rate must be far enough from the neutral range in order to prevent ex-ante and ex-post real rates from migrating passively to said range in the event of higher inflation. Regarding the relative monetary policy stance, he/she argued that the room for maneuver is also limited. He/she stated that the fact that the Mexican peso has remained stable leads to believe that the interest rate differential with the United States is not too narrow. He/she noted that, nevertheless, tariff uncertainty continues. He/she added that the resilience of the US economy and higher anticipated inflation due to the imposition of tariffs have strengthened expectations of a more moderate easing by the Federal Reserve, limiting the room to adopt an even looser relative monetary stance. He/she argued that core inflation needs to resume its downward trend before further cuts to the target rate are considered. He/she expressed that it is appropriate to communicate a cautious forward guidance indicating that adjustments to monetary policy will depend entirely on the evolution of data to confront the challenges in the fulfillment of the primary mandate.

One member recalled that, in light of progress in the disinflation process, the process of calibration of the monetary stance has contributed to adjust it to the evolution of macroeconomic conditions. He/she considered that, given the inflationary outlook, it is appropriate to continue with the rate-cutting cycle. He/she asserted that the fight against inflation is at a new stage, with shocks of a clearly different nature

than those faced during the pandemic and the recovery period. He/she noted that part of the increase in inflation is associated with supply shocks in livestock products' prices, and thus their effects are expected to dissipate as production normalizes. He/she stated that the behavior of inflation determinants and their prospects indicate that inflation will continue decreasing. He/she pointed out that slack conditions are expected to intensify, despite the recent upturn in economic activity, and that the labor market is foreseen to show further signs of cooling. He/she highlighted that adverse scenarios of depreciation have not materialized. He/she noted that the interest rate differential with the United States is close to the levels in which it has historically fluctuated. He/she mentioned that, nevertheless, it should be considered that the US and Mexican economies are going through different phases of the economic cycle and that the real interest rate differential is still slightly above its historical average. He/she argued that the conditions of generalized weakness of the US dollar will also be relevant to assess the relative monetary stance beyond the differentials observed in the past. He/she indicated that, in this environment, an efficient conduct of monetary policy is consistent with additional rate cuts, and that a reduction in the magnitude of such rate cuts will allow considering the continuity of the cycle, which represents a strategy that can be communicated with greater clarity. He/she asserted that the adequate use of communication and forward guidance has helped to prevent volatility from increasing in an environment of high uncertainty. He/she argued that gradualism in the magnitude of adjustments will also allow to address risks on both sides of the balance and prospectively incorporate more information to reassess the inflation trend and its determinants, so that a stance consistent with the convergence of inflation to the target continues to be adopted.

3. MONETARY POLICY DECISION

The Governing Board deemed appropriate to continue the rate-cutting cycle. This decision was consistent with the assessment of the current inflationary outlook. In particular, it took into account the behavior of the exchange rate, the weakness of economic activity, and the possible impact of changes in trade policies worldwide. It also considered the level of monetary restriction that has been implemented. Thus, with the presence of all its members, the Board by majority to lower the target for the overnight interbank interest rate by 25 basis points to 7.75%.

Looking ahead, the Board will assess further adjustments to the reference rate. It will take into account the effects of all determinants of inflation. Actions will be implemented in such a way that the reference rate remains consistent at all times with the trajectory needed to enable an orderly and sustained convergence of headline inflation to the 3% target during the forecast period. The central bank reaffirms its commitment to its primary mandate and the need to continue its efforts to consolidate an environment of low and stable inflation.

4. VOTING

Voting in favor of the decision were Victoria Rodríguez, Galia Borja, Gabriel Cuadra, and Omar Mejía. Jonathan Heath voted in favor of maintaining the overnight interbank interest rate at 8.00%.

5. DISSENTING OPINIONS / VOTES

Vote. Jonathan Heath

Progress towards meeting the inflation target, particularly as indicated by the core component, remains stalled. The narrowing of the gap between observed inflation and the 3% target is entirely attributable to adjustments in its noncore component that could easily revert. The gap between observed and previous forecast inflation persists in the core component. This calls for yet another upward revision of core inflation forecasts, thus suggesting that its persistence has been underestimated. The gap between expected inflation drawn from surveys and that forecasted shows no signs of improving. Private sector analysts maintain expectations that the target will not be attained within the forecast horizon. In sum, there are still challenges to consolidating a clear downward trajectory for inflation. For now, this calls for maintaining the current level of monetary restriction and adopting a more cautious stance until greater progress towards the target is achieved.

ANNEX*

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

A.1. External conditions

A.1.1. World economic activity

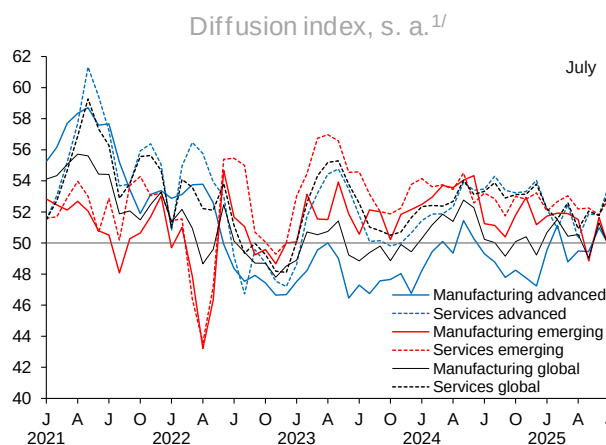
During the second quarter of 2025, world economic activity is estimated to have expanded at a slightly higher rate than that observed in the previous quarter. The group of advanced economies without the United States grew at a lower rate than in the first quarter. However, given the rebound in US economic activity, the group of advanced economies as a whole would have registered an increase in its rate of expansion. The group of emerging economies is expected to grow at a pace similar to that observed in the previous quarter. Purchasing Managers' Indices in July suggest that the manufacturing sector would remain sluggish while the services sector would have expanded globally (Chart 1).

After having improved considerably in the first quarter of the year in the context of advanced purchases ahead of the imposition of tariffs by the United States, indicators of world merchandise trade available as of June point to a moderate growth in the second quarter. The global trade outlook continued being affected by a high level of uncertainty due to the environment of trade tensions. Since Mexico's last monetary policy decision, the US administration has announced new tariff measures and modified other previously enacted, both upwards and downwards. In particular, on August 1, the United States imposed a 50% tariff on its imports of copper products and announced that so-called reciprocal tariffs would come into effect on August 7. It also announced trade agreements with some countries that resulted in tariff rates which, although high, are lower than those announced in April for some economies.¹ Uncertainty regarding the possible effects of these tariff measures on global

economic activity and prices remains high.

Given the current environment of trade tensions, economic slowdown is anticipated both globally and in the United States for this and next year compared to 2024. Among global risks the following stand out: the escalation of trade tensions and the intensification of geopolitical turmoil, with their possible impacts on inflation, economic activity, and volatility in financial markets.

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



s. a. / Seasonally adjusted figures.

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

Source: IHS Markit.

In the United States, economic activity rebounded during the second quarter of 2025. Gross Domestic Product (GDP) grew at a seasonally adjusted quarterly rate of 0.7%, after contracting 0.1% in the first quarter (Chart 2).² This increase largely reflected a positive contribution from net exports resulting from a fall in imports, following the advanced purchases in previous months made to try to avoid tariffs. This dynamic was also reflected in a greater contribution from the change in inventories during the first quarter, which reversed in the second quarter. Meanwhile, private domestic sales during the second quarter grew at a rate lower than in the

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

¹ As of the release date of this Annex, the United States has announced agreements with seven trading partners. The so-called reciprocal tariffs for these are the following: 10% for the

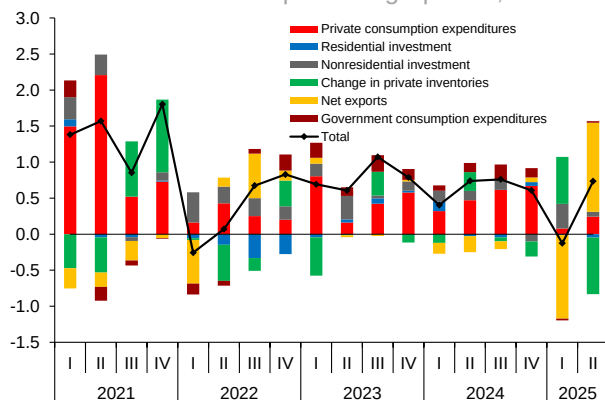
United Kingdom; 15% for the European Union, Japan, and South Korea; 19% for Indonesia and the Philippines; and 20% for Vietnam.

² Expressed as an annualized seasonally adjusted quarterly rate, US GDP grew -0.5% in the first quarter of 2025 and 3.0% in the second one.

previous quarter.³ Although consumption registered a greater contribution than in the previous quarter, household spending has moderated so far this year.

Chart 2
US: real GDP and components

Quarterly percentage rate
and contribution in percentage points, s. a.



s. a. / Seasonally adjusted figures.

Source: Bureau of Economic Analysis (BEA).

In June, US industrial production grew at a seasonally adjusted monthly rate of 0.3%, after having stagnated in May. This expansion mainly reflected a 2.8% increase in electricity and gas generation and a 0.1% growth in manufacturing. In contrast, mining contracted by 0.3%. Purchasing Managers' Indices for July suggest that manufacturing output would increase moderately during that month.

The US labor market remained broadly balanced, although it exhibited more noticeable signs of easing. The unemployment rate rose slightly from 4.1% in June to 4.2% in July, although it remained at relatively low levels. Nonfarm payrolls registered 73 thousand new job openings in July, placing them below the 2019 average. The figures for the previous two months were revised significantly downwards by about 260 thousand job openings in the two-month period. The number of vacancies decreased from 7.7 million in May to 7.4 million in June. Continued claims for unemployment insurance declined, although they remained at levels close to those observed in mid-June when they reached a peak since the end of 2021. Meanwhile, initial claims declined to 218 thousand during the week ending on July 26. Lastly, during the second quarter of the year,

³ Private domestic sales correspond to the sum of private consumption and fixed investment.

⁴ Expressed as an annualized and seasonally adjusted quarterly rate, euro area GDP grew 2.3% in the first quarter of 2025 and 0.4% in the second one.

the annual variation in the employment cost index remained unchanged at 3.6% with respect to the previous quarter.

The euro area economy was virtually stagnant during the second quarter of 2025. The region's GDP expanded at a seasonally adjusted quarterly rate of 0.1%, after having increased by 0.6% in the previous quarter.⁴ The latest available indicators point to a slowdown in the services sector and to a continued sluggish manufacturing activity. The labor market remained robust. In June, the unemployment rate stayed unchanged at 6.2% for the third consecutive month, remaining at historically low levels.

As for the group of other major advanced economies, it is expected to have expanded during the second quarter at a slower pace than in the previous one. Labor markets in some of these economies remained strong, although they have shown signs of easing.

During the second quarter, the group of main emerging economies is estimated to have performed similarly to the previous quarter. This was the case of China, although it grew at a higher-than-expected rate. Its GDP grew at a seasonally adjusted quarterly rate of 1.1%, after having increased 1.2% in the first quarter.⁵ The contribution from net exports to GDP growth remained solid, albeit lower than in the previous quarter. The considerable decline in exports to the United States was largely offset by an increase in exports to other regions, while imports fell. Consumption continued supporting growth in China, in a context in which its authorities have implemented various stimulus measures and programs to boost spending and economic activity. Despite the above, the Chinese economy continues facing significant challenges stemming from the weakness of its real estate sector and its domestic demand, as well as uncertainty surrounding trade tensions with the United States.

Since Mexico's last monetary policy decision, international commodity prices have declined overall, although they have been sensitive to developments in trade and geopolitical tensions. Crude oil prices were subject to downward pressures amid the announcement of production increases by the Organization of Petroleum Exporting Countries and allied countries (OPEC+). However, at the end

⁵ Expressed as an annual rate, China's GDP grew 5.4% in the first quarter of 2025 and 5.2% in the second one.

of July, prices rose temporarily following the announcement of new sanctions on Russian crude oil by both the United States and the European Union. In early August, these prices were below the levels observed at the end of June.

At the beginning of August, natural gas reference prices were below the levels observed at the end of June, although they fluctuated throughout the period. Downward pressures on global gas prices were associated with high inventory levels across various regions. This came after prices were subject to upward pressures during several weeks in July, both in Europe, due to possible sanctions on Russian gas, and in the United States, due to expectations of a higher demand in that country.

Grain prices closed below the levels registered at the end of June. Overall, prices declined in view of expectations of higher inventory levels and better weather conditions. However, upward pressures were also observed during some weeks as a result of adverse weather conditions.

In general, industrial metal prices were below the levels registered at the end of June, although they exhibited a differentiated behavior throughout the period and across metal types. In particular, copper prices rose during most of July driven by advanced purchases due to renewed concerns that eventually US imports of said metal could be taxed. They reached a new all-time high during the fourth week of July following the announcement that the United States would impose a 50% tariff on its imports of said metal. However, by the end of July, copper prices plummeted to a level below that observed at the end of June, after the US administration decided that tariffs would apply exclusively to imports of copper products, rather than to the refined metal. Meanwhile, precious metal prices rose, driven by an increased demand for safe-haven assets caused by uncertainty surrounding the changes in various US policies.

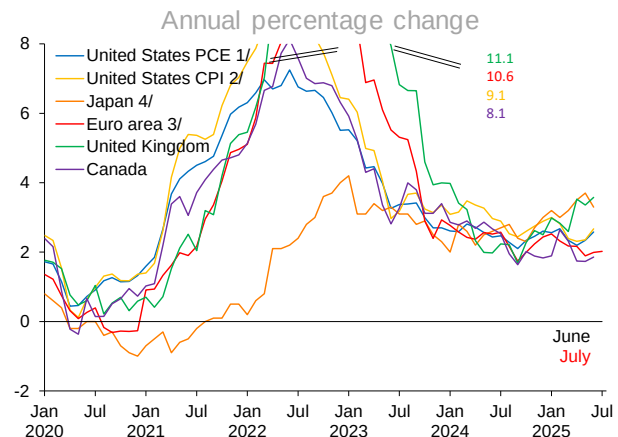
A.1.2. Monetary policy and international financial markets

Headline and core inflation exhibited a heterogeneous behavior across countries. In the main advanced economies, annual headline inflation fluctuated throughout the second quarter of 2025, largely reflecting adjustments in energy prices. Following more widespread declines observed during the first months of the second quarter, recently some economies registered increases (Chart 3). Core inflation has also exhibited a

heterogeneous behavior across countries. In some economies, despite remaining at low levels, the rise in goods inflation has outweighed the gradual decline in services inflation.

In the United States, annual headline inflation measured by the personal consumption expenditures price index increased from 2.4% in May to 2.6% in June, remaining close to the level observed at the beginning of the year. This increase was largely the result of a lower deflation of energy, although food inflation also increased slightly. Meanwhile, core inflation remained practically unchanged at 2.8% in June. This reflected an increase in goods inflation, which nevertheless remained at low levels, and was offset by a slight decline in services inflation. The monthly variations of both headline and core inflation are lower than in the first few months of the year. Annual headline inflation of the consumer price index rose from 2.4% in May to 2.7% in June, although it remains below the levels observed at the beginning of the year. The increase is attributed to a lower energy deflation and a higher inflation in both food inflation and the core component.

Chart 3
Selected advanced economies:
headline inflation



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

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

3/ Preliminary figures as of July.

4/ Excludes fresh food.

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

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Eurostat, Bank of Japan, the UK Office for National Statistics, and Statistics Canada.

In the euro area, annual headline inflation increased from 1.9% in May to 2.0% in July, hitting its central bank's inflation target for the second consecutive month. This was the result of a lower deflation in energy prices and an increase in food inflation. Core

inflation remained practically unchanged at 2.3% in July. This derived from a lower services inflation, which was offset by an increase in goods inflation.

Most recent analysts' inflation forecasts for the end of 2025 for the main advanced economies presented mixed readings. In the case of the United States, inflation is still expected to rise at the end of 2025 as a result of the imposition of tariffs, although more moderately than in previous months, and then reverse throughout 2026. In contrast, in other advanced economies inflation is expected to converge to their central bank targets by the end of 2025. Indicators of long-term breakeven inflation and inflation risk for the main advanced economies implied by financial instruments showed sensitivity to information on trade and geopolitical tensions.

In emerging economies, most recent readings of annual headline inflation in many of these economies were below those reported in early 2025. Core inflation has exhibited a heterogeneous behavior across countries. In China, headline inflation remained close to zero. After registering negative levels for four consecutive months, inflation increased slightly to 0.1% in June. Meanwhile, although annual core inflation in that country rose slightly from 0.6% in May to 0.7% in June, it remained at low levels.

In this environment, since Mexico's last monetary policy decision, several central banks in advanced and emerging economies have left their reference rates unchanged, some of them after having implemented rate cuts in previous months. In addition, central banks in major advanced economies continued to gradually reduce their securities' holdings. Regarding future actions, central banks stated, in general, that rate adjustments will continue depending on economic data and its implications for the inflation outlook. Several of them have pointed out that they are currently experiencing a moment of high uncertainty associated with the evolution of trade and geopolitical tensions, and that they will remain attentive to the evolution of risks to the economic and inflationary environment.

The US Federal Reserve left the target range for the federal funds rate unchanged in the five decisions made so far this year, after lowering it by 100 basis points during 2024. Thus, in the latest decision, the range remained between 4.25 and 4.50%. In its July statement, the Federal Open Market Committee (FOMC) noted that uncertainty around the economic outlook remains elevated and commented that it is

attentive to risks to both sides of its dual mandate. It reiterated that it will carefully assess incoming data, the evolving outlook, and the balance of risks when considering the extent and timing of additional adjustments to the target range for the federal funds rate. The Federal Reserve also reaffirmed that it would continue reducing the size of its balance sheet.

During the press conference, the chairman of the Federal Reserve noted that, currently, its monetary policy is well positioned to wait for greater clarity on the potential direction of the economy and the balance of risks before making any adjustments. He added that this is an appropriate stance to address inflationary risks and that they also remain vigilant to risks to the employment-related aspects of their mandate. He mentioned that most members of the Committee consider that a slightly restrictive stance seems appropriate at this time, since inflation is just above target and the unemployment rate is low. He mentioned that the policies announced and implemented by the US government continue evolving and their effects on economy remain uncertain. He pointed out that higher tariffs have started to be clearly reflected in the prices of some goods, but their general effects on economic activity and inflation are yet to be determined. He acknowledged that the tariff-to-inflation pass-through process is likely to be slower than initially anticipated.

The European Central Bank (ECB) interrupted its rating-cut cycle in its July decision, leaving its reference rates unchanged after eight consecutive reductions since June 2024. Thus, its key deposit, refinancing, and lending rates remain at 2.00, 2.15, and 2.40%, respectively. The Governing Council noted that domestic inflationary pressures have continued declining and that the environment remains exceptionally uncertain, particularly due to foreign trade disputes. It reiterated that it will continue following an approach based on economic and financial data in order to determine the appropriate monetary policy stance. It reaffirmed that the Council is not committed to a particular monetary policy path. It also reiterated that the size of its asset purchase program (APP) and pandemic emergency purchase program (PEPP) portfolios is decreasing at a measured and predictable pace.

At the press conference for the July decision, the president of the ECB stated that its monetary policy is well positioned to address the risks that could develop in the coming months, partially associated with foreign trade tensions and geopolitical conflicts. She noted that it is currently appropriate to pause

and consider how these risks unfold, and that they will assess their monetary policy decisions at each meeting without a predetermined path.

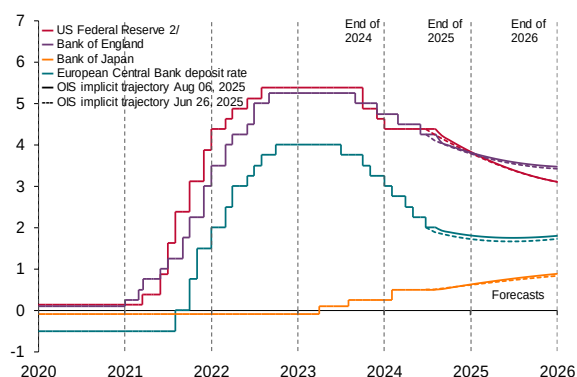
Regarding other advanced economies, the Bank of Japan left its interest rate unchanged for the fourth consecutive decision in July, after raising it in January.⁶ Likewise, the central banks of Canada, Australia, New Zealand, and Korea decided to leave their reference rates unchanged in their most recent decisions.

As for expectations for the main advanced economies' reference rates, those implied by market instruments for the end of 2025 registered limited changes since Mexico's last monetary policy decision (Chart 4). For the United States, the expected trajectory for the federal funds rate fluctuated during the period, and was revised downwards after the release of data suggesting a weaker-than-expected labor market. The most recent forecast for the federal funds rate at the end of 2025 stood at around 3.7%, a level similar to that anticipated in Mexico's latest monetary policy decision. Similarly, the expected level for the United Kingdom rate remained at 3.7% and in Japan at 0.6%. Meanwhile, for the euro area, it increased from 1.7 to 1.8%, and for Canada from 2.4 to 2.5%.

In the main emerging economies, some central banks announced cuts in their reference rates. Others decided not to make any adjustments in their most recent monetary policy decisions, some of them after having cut their reference rates in previous months. In the case of China's central bank, it left its one- and five-year loan prime rates (LPR) unchanged for the second consecutive time in its July decision. Recently, China's central bank announced that it will implement an appropriate accommodative monetary policy during the second half of the year. It also mentioned that it will flexibly adjust the intensity and pace of this policy's implementation, taking into account both domestic and foreign economic and financial conditions. During the same month, Russia's central bank continued lowering its reference rate, although to a greater extent than in its previous decision. In contrast, Brazil's central bank decided to leave its

reference rate unchanged in July, after having raised it for seven consecutive meetings by a total of 450 basis points. The central bank of Brazil indicated that, if the economic scenario anticipated by the Committee were to occur, it foresees that the interruption in its cycle of reference rate increases will continue in order to assess the accumulated impact of its previous decisions.

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



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

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

Source: Bloomberg.

In this environment, since the last monetary policy decision, global financial conditions exhibited an increase in risk appetite driven by some foreign trade agreements reached between the United States and other countries, and by expectations regarding the continuity of trade negotiations. However, risks and uncertainty about the future of international trade and global economic activity prevail. In this context, global financial conditions have generally eased to some extent (Chart 5). In the fixed-income market, long-term (10-year) and medium-term (2-year) rates in the main advanced economies increased moderately, while in the United States they stood at levels similar to those observed at the end of June (Chart 6).⁷ Thus, the slope of the US yield curve (defined as the spread between 10-year and 2-year government bond rates) remained at positive levels, similar to those observed at the end of June.

⁶ After announcing a plan to reduce the amount of its monthly outright purchases of government bonds (JGBs) in its June monetary policy statement, the Bank of Japan mentioned in its latest economic and price outlook report that if the expected scenario were to occur, it will continue raising the reference rate and adjusting the level of monetary accommodation. It noted that given the persistence of high uncertainty regarding foreign trade and its impact, it will carefully assess risks to economic activity,

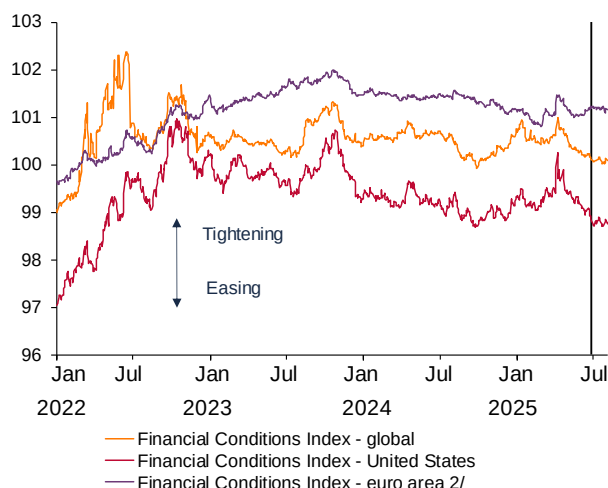
prices, and financial markets both domestically and internationally.

⁷ Medium- and long-term rates in the United States increased in July. However, in early August, the release of data indicating a weaker US labor market than previously expected caused these interest rates to decrease to levels close to those observed at the end of June.

Meanwhile, stock markets in advanced economies trended upwards. With regard to foreign exchange markets, since Mexico's last monetary policy decision, the US dollar appreciated moderately.

In emerging economies, long- and medium-term rates registered a differentiated behavior (Chart 7). Most rates in Asia and Latin America declined, while rates in emerging Europe showed a mixed behavior across countries. Stock markets in this group of economies also exhibited a differentiated behavior across regions. In particular, stock markets in Asia and emerging Europe overall registered gains, while those in Latin America showed mixed results. As for the foreign exchange market, most currencies in this group of economies depreciated against the US dollar. Lastly, since Mexico's last monetary policy decision, net capital inflows to emerging economies have generally been registered in both fixed-income and equity assets.

Chart 5
Financial Conditions Index^{1/}
Units

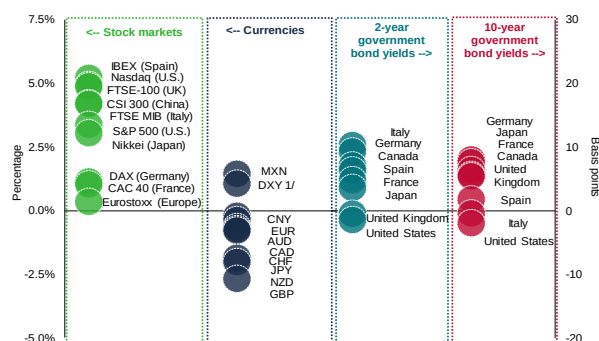


1/ The financial conditions index is constructed considering the effect of five variables on economic activity: the reference interest rate, the 10-year government bond, the spread of investment grade bonds over the government debt bond with equivalent maturity, the ratio of a stock index with 10-year average earnings per share, and the trade weighted exchange rate.

2/ In the case of the euro area, the spread between the sovereign bonds of France, Italy, Spain, the Netherlands, Belgium, Austria, Portugal, and Finland over the German 10-year bond is also considered. The vertical black line indicates the last calendarized monetary policy meeting of Banco de México.

Source: Bloomberg and Goldman Sachs.

Chart 6
Change in selected financial indicators from June 26 to August 6, 2025



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

Source: Bloomberg.

Chart 7
Selected emerging economies: financial assets performance starting from June 26, 2025
Percent basis points

Region	Country	Currencies	Equity markets	2-year interest rates	10-year interest rates	CDS
Latin America	Mexico	1.71%	0.39%	-16	-14	0
	Brazil	1.80%	-0.91%	-50	1	-4
	Chile	-4.07%	1.31%	-16	-12	0
	Colombia	0.38%	6.08%	-46	-61	-16
	Peru	0.52%	4.86%	-5	-17	-5
Emerging Europe	Russia	-2.11%	-0.94%	-170	48	N.A.
	Poland	-0.55%	6.95%	-16	-3	-6
	Turkey	-2.21%	15.74%	-209	-107	-25
	Czechia	0.70%	5.98%	-14	-1	-2
	Hungary	0.63%	3.34%	-8	-2	-9
Asia	China	-0.12%	5.15%	4	5	-7
	Malaysia	0.17%	1.43%	-9	-16	-4
	India	-1.91%	-2.67%	-1	13	-3
	Philippines	-1.42%	0.71%	-5	-26	-3
	Thailand	0.79%	14.15%	-18	-20	-2
Africa	Indonesia	-0.45%	9.83%	-34	-21	-5
	South Africa	-0.11%	5.08%	-8	-25	-2

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

Source: Bloomberg.

A.2. Current situation of the Mexican economy

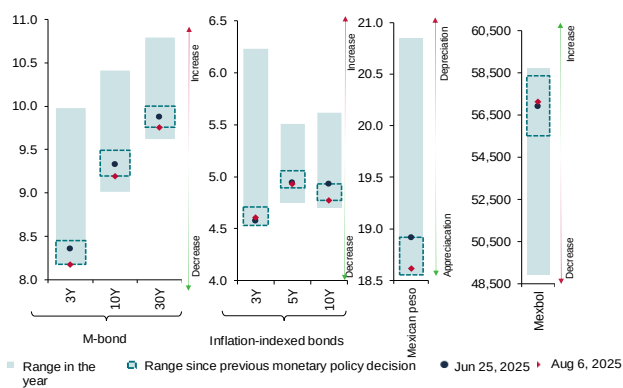
A.2.1. Mexican markets

Since Mexico's last monetary policy decision, domestic financial markets exhibited a positive performance. This occurs in an environment of lower risk aversion, despite the prevailing uncertainty regarding changes in the US economic policy. The Mexican peso appreciated against the US dollar, in

a context in which the dollar has weakened throughout the year. Interest rates decreased across all terms, and the stock market closed with moderate gains (Chart 8).

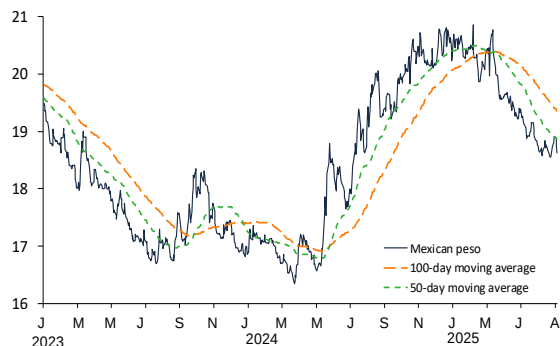
The Mexican peso traded in a range of 52 cents, between 18.51 and 19.03 pesos per US dollar since the last monetary policy decision (Chart 9). It closed the period with an appreciation of 1.71%, explained by the weakness of the US dollar and the build up of carry trade positions, in a context of lower volatility. Mexican peso trading conditions remained orderly.

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



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

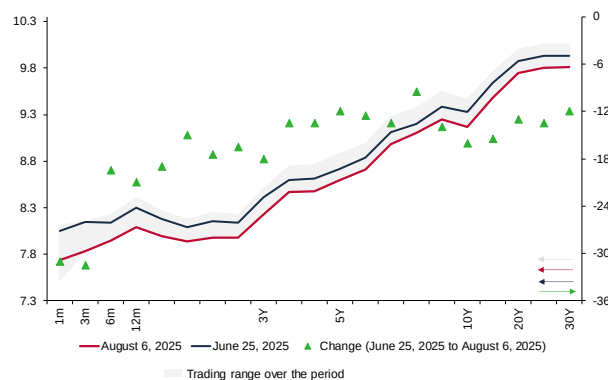
Chart 9
Mexican peso exchange rate
MXN/USD



Source: Banco de México.

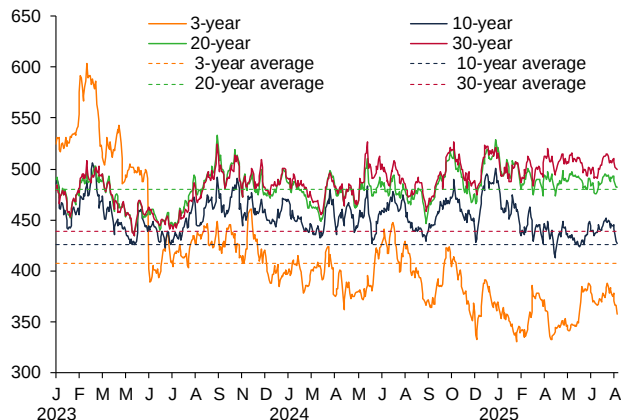
Government bond yields decreased between 10 and 32 basis points along the entire curve (Chart 10). Yields on real rate instruments displayed variations between -16 and 7 basis points. In this context, breakeven inflation and inflation risk implicit in spreads between nominal and real rates of market instruments decreased in most terms (Chart 11).

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



Source: Proveedor Integral de Precios (PIP).

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

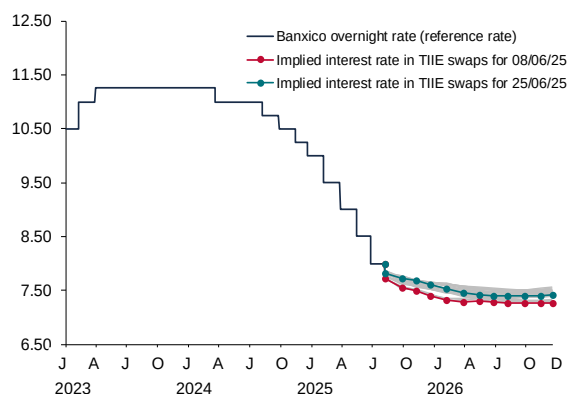


Note: Horizontal lines refer to the respective averages observed from September 2008 to date.

Fuente: Proveedor Integral de Precios (PIP).

Regarding expectations for the trajectory of the reference rate, information implicit in the interest rate swap curve incorporates a 25-bp cut to the interest rate in the August decision and reflects an expectation of a 7.40% reference rate for the end of 2025 (Chart 12). In line with the above, most analysts in the Citi Mexico survey anticipate a 25-bp cut for the August meeting and levels of 7.50 and 6.75% for the end of 2025 and 2026, respectively.

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



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

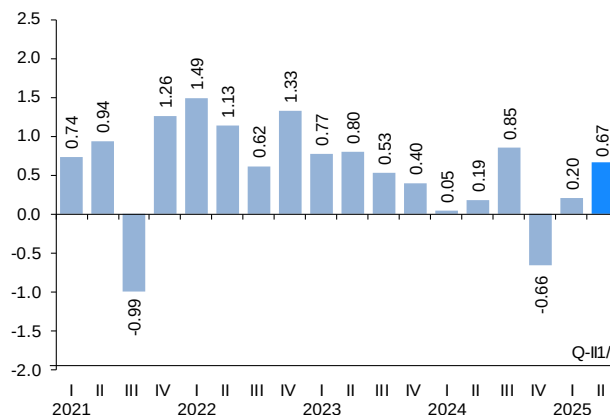
Source: Proveedor Integral de Precios (PIP).

A.2.2. Economic activity in Mexico

According to the flash estimate published by INEGI, GDP registered a seasonally adjusted quarterly percentage change of 0.67% during the second quarter of 2025 (Chart 13). Thus, economic activity grew at a faster pace than in the first quarter of this year. The output gap remained negative (Chart 14).

Regarding the evolution of domestic demand, during the April-May period, private consumption recovered slightly after having remained weak in previous months (Chart 15). As for its components, consumption of domestic goods and services reactivated slightly, while consumption of imported goods remained sluggish despite having improved at the margin. Meanwhile, gross fixed investment remained significantly weak during the same period. This reflected the persistent negative trend of investment in machinery and equipment. In contrast, construction spending performed better, registering higher levels of activity.

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

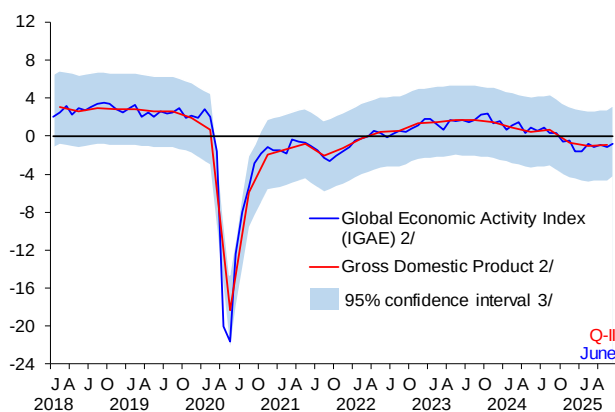


s. a. / Seasonally adjusted figures.

1/ The figure for the second quarter of 2025 refers to the quarterly GDP flash estimate published by INEGI.

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

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



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

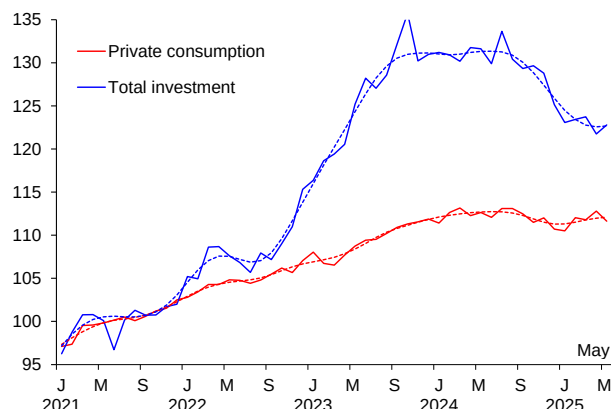
1/ Output gap estimated with a tail-corrected Hodrick-Prescott filter; see Banco de México (2009), "Inflation Report, April-June 2009", p.69.

2/ GDP flash estimate for Q2-2025 and implicit IGAE for June 2025, consistent with said flash estimate.

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.

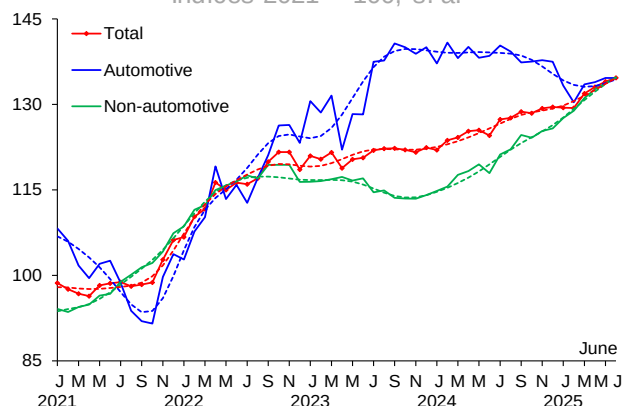


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

As for external demand, during the April-June 2025 period, the average value of manufacturing exports increased compared to the first quarter. This was the result of a differentiated behavior among its components. Non-automotive manufacturing exports continued showing dynamism, while automotive exports remained weak (Chart 16).

From a sectoral perspective, the economic expansion observed during the second quarter of 2025 was associated with the reactivation of the services sector, which had exhibited sluggishness in previous quarters (Chart 17). After having fallen for two consecutive quarters, industrial activity expanded. Regarding its components, manufacturing increased during the April-May period, after having declined in the last quarter of 2024 and after showing a lack of dynamism in the first quarter of 2025. Construction expanded moderately (Chart 18). Lastly, primary activities fell after having rebounded significantly during the first quarter of the year.

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

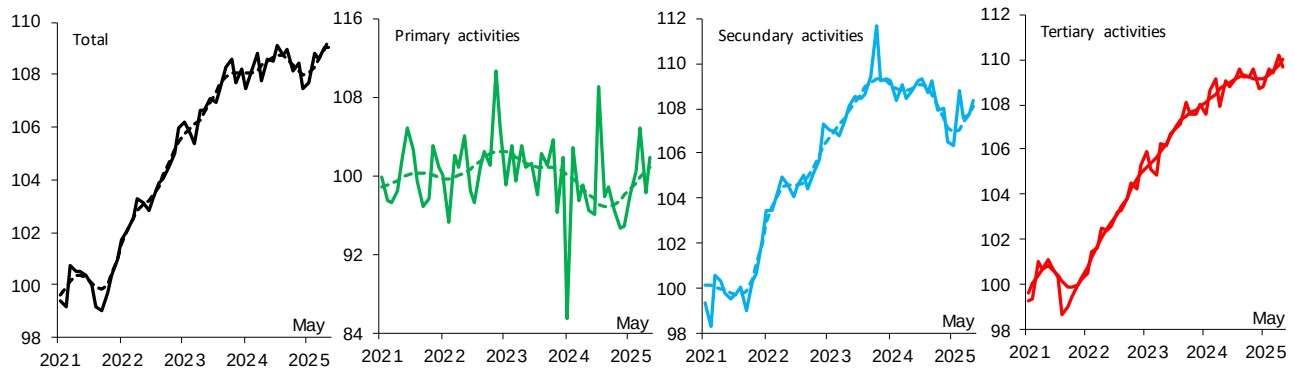


s. a. / Seasonally adjusted series and trend series based on data in nominal US dollars. The former is represented by a solid line and the latter by a dotted line. Three-month moving average.

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.

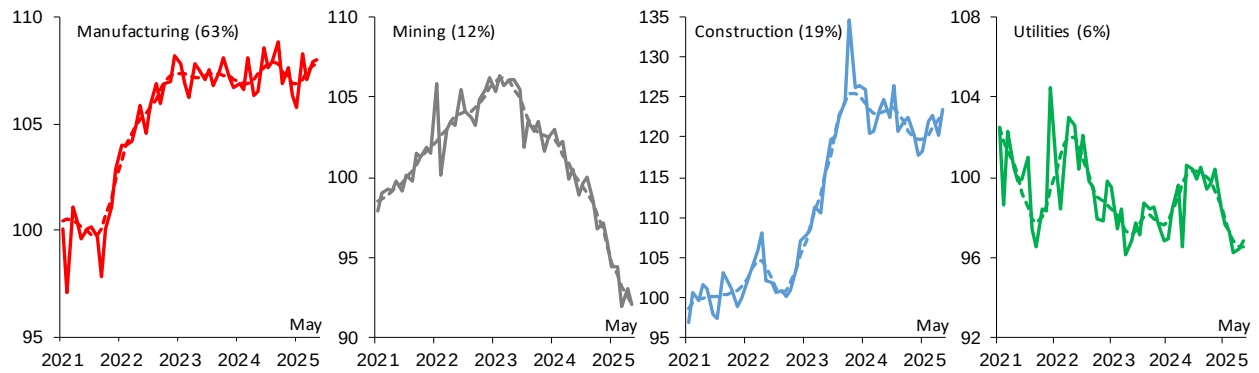
Regarding labor market indicators, in June the national unemployment rate was lower than in the previous month, while the urban rate remained stable (Chart 19). In July 2025, the number of jobs registered with IMSS exhibited an extraordinary increase, due to the pilot program to incorporate digital platform workers into the social security system. Excluding the jobs registered with IMSS through this program, the creation of formal positions continued showing a considerable lack of dynamism. Finally, in May, unit labor costs in the manufacturing sector reversed the increases reported in the previous two months, although they remained at high levels.

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



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

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

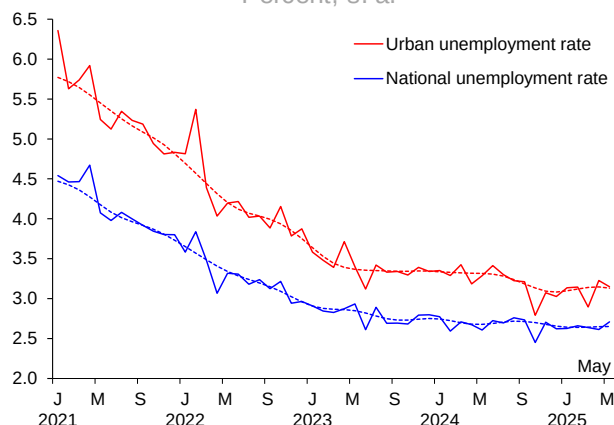


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.

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

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

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



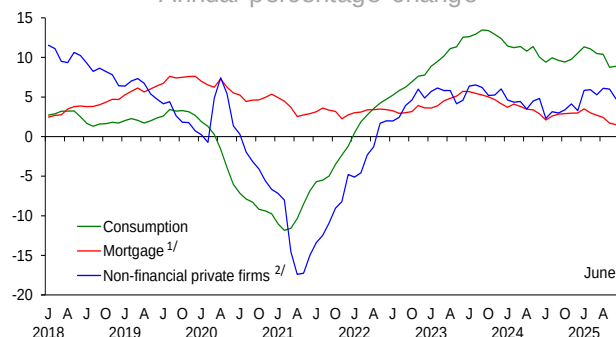
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Prepared by Banco de México with ENOE data, INEGI.

In June 2025, domestic financing to the private sector moderated its pace of expansion. Regarding its components, the growth rate of commercial bank credit to businesses declined slightly with respect to the previous month (Chart 20). Despite this, said rate remained above the levels observed during the previous year. Regarding credit to households, it continued showing a trend of reduction in its growth rate. Nevertheless, the annual variation in consumer credit remained high.

As for the cost of financing, interest rates on bank credit to firms declined again in June 2025, although they remained at relatively high levels. Thus, their evolution kept reflecting the pass-through of the reference rate to bank interest rates. Meanwhile, commercial bank mortgage lending rates remained mostly unchanged during said month, thus remaining at a level similar to that registered before the pandemic. Finally, based on data up to December 2024, interest rates on bank consumer loans remained at high levels, although they decreased slightly compared to the previous period.

As for portfolio quality, delinquency rates for corporates and households rose slightly in June 2025. Nevertheless, these indicators remained at low levels compared to their historical behavior.

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



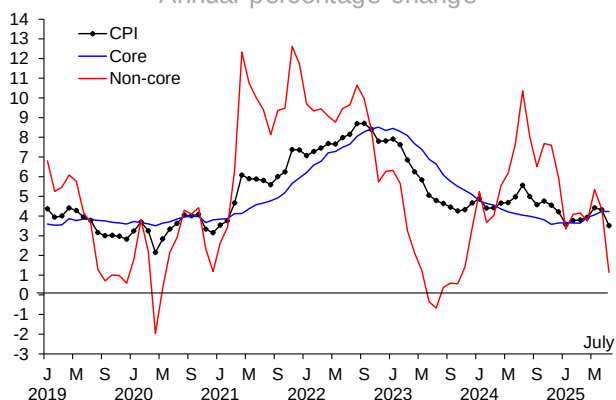
1/ Adjusted to account for the withdrawal from and the incorporation of non-bank financial intermediaries to the credit statistics.

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

A.2.3. Development of inflation and inflation outlook

Annual headline inflation fell from 4.32 to 3.51% between June and July 2025. This decline was due to a decrease in non-core inflation, while core inflation remained relatively stable (Chart 21 and Table 1).

Chart 21
Consumer Price Index
Annual percentage change

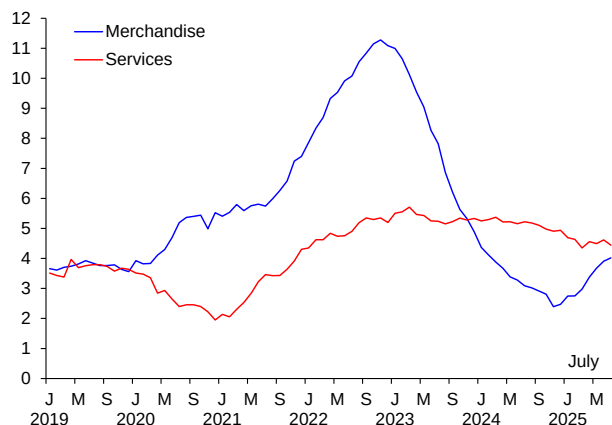


Source: INEGI.

Annual core inflation stood at 4.24 and 4.23% in June and July 2025, respectively. Merchandise inflation rose from 3.91 to 4.02% during that period (Chart 22). Its performance was influenced by the increase from 4.89 to 5.13% in food merchandise prices, while non-food merchandise prices remained relatively stable at 3.03 and 3.06%, respectively, during the referred periods (Chart 23). In contrast, services inflation fell from 4.62 to 4.44% during the same period. Regarding its components, housing inflation fell from 3.50 to 3.42% and that of services other than

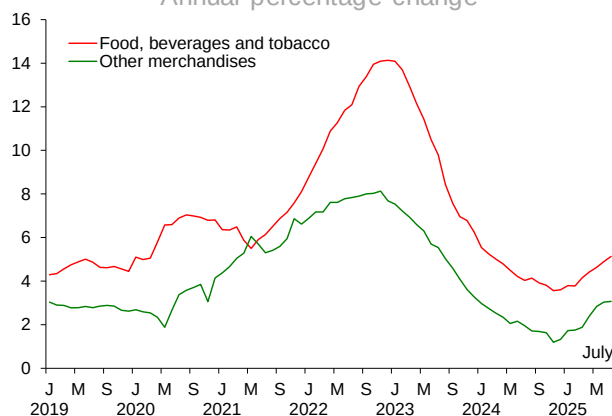
housing and education from 5.53 to 5.25%, while education inflation fell from 5.82 to 5.78% in the referred months.

Chart 22
Merchandise and services
core price subindex
Annual percentage change



Source: INEGI.

Chart 23
Merchandise core price subindex
Annual percentage change

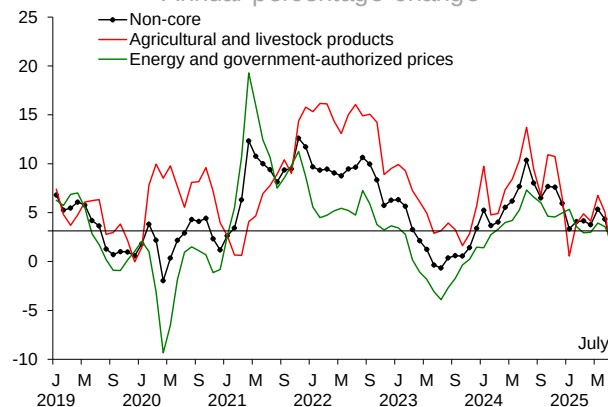


Source: INEGI.

Annual non-core inflation fell from 4.33 to 1.14% between June and July 2025 (Chart 24 and Table 1). Its decline was mainly due to the decrease in agricultural and livestock products inflation, although energy inflation also decreased. In the first case, it declined from 5.04 to 0.17% between the referred months, influenced by the fall from -4.47 to -12.10% in annual inflation of fruits and vegetables, while livestock products inflation remained high at 11.72 and 10.29% during the same period. Meanwhile, energy inflation declined from 2.97 to 0.78% during said period, due to a fall from 8.59 to 2.03% in the

annual variation of L.P. gas prices and from 0.04 to -1.01% in gasoline prices.

Chart 24
Non-core price subindex
Annual percentage change



Source: INEGI.

Regarding inflation expectations drawn from the survey conducted by Banco de México among private sector specialists, between May and July 2025, the medians of headline and core inflation for the end of 2025 increased from 3.90 to 4.04% and from 3.98 to 4.12%, respectively. Meanwhile, inflation expectations for the end of 2026 showed limited adjustments. The median of headline inflation went from 3.77 to 3.75%, while that of core inflation from 3.70 to 3.72%. Inflation expectations for the next four years remained relatively stable. The median of headline inflation shifted from 3.70 to 3.73%, while that of core inflation fell from 3.65 to 3.63%. Meanwhile, inflation expectations for headline and core inflation in the long term (5 to 8 years) remained stable. The median of headline inflation remained at 3.60%, while that of core inflation at 3.50%. Lastly, between May and July, inflation expectations implied by market instruments declined. The inflation risk premium increased in its monthly average, although it remained below its historical average.

Headline inflation forecasts remained practically unchanged. Core inflation forecasts were revised slightly upwards for the short term. Headline inflation is still expected to converge to the target in the third quarter of 2026. Forecasts are subject to the following risks. On the upside: i) foreign exchange depreciation; ii) disruptions due to geopolitical conflicts or foreign trade policies; iii) persistence of core inflation; iv) cost-related pressures; and v) climate-related impacts. On the downside: i) lower-than-anticipated economic activity; ii) a lower pass-through from increased costs, and iii) lower pressures stemming from the recent appreciation of

the Mexican peso. Although the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside, said bias is less pronounced than that faced between 2021 and 2024.

The changes in economic policy by the new US administration have added uncertainty to the forecasts. Their effects could imply inflationary pressures on both sides of the balance.

Table 1
Consumer Price Index and components
Annual percentage change

Item	May 2025	June 2025	July 2025
CPI	4.42	4.32	3.51
Core	4.06	4.24	4.23
Merchandise	3.67	3.91	4.02
Food, beverages and tobacco	4.63	4.89	5.13
Non-food merchandise	2.84	3.03	3.06
Services	4.49	4.62	4.44
Housing	3.53	3.50	3.42
Education (tuitions)	5.84	5.82	5.78
Other services	5.26	5.53	5.25
Non-core	5.34	4.33	1.14
Agricultural and livestock products	6.76	5.04	0.17
Fruits and vegetables	0.04	-4.47	-12.10
Livestock products	10.85	11.72	10.29
Energy and government-authorized prices	3.93	3.56	1.97
Energy products	3.50	2.97	0.78
Government-authorized prices	4.42	4.32	4.07

Source: INEGI.

ANNEX*

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

A.1. External conditions

A.1.1. World economic activity

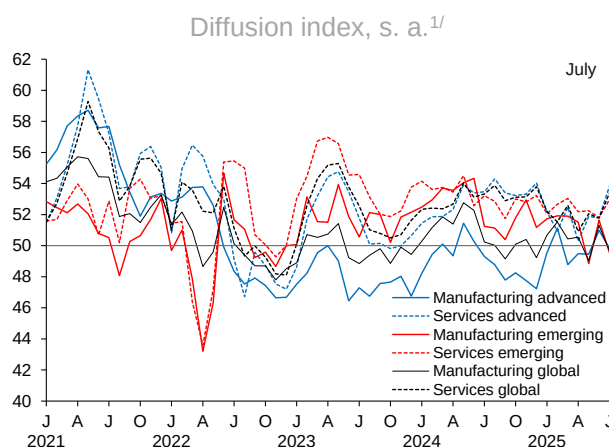
During the second quarter of 2025, world economic activity is estimated to have expanded at a slightly higher rate than that observed in the previous quarter. The group of advanced economies without the United States grew at a lower rate than in the first quarter. However, given the rebound in US economic activity, the group of advanced economies as a whole would have registered an increase in its rate of expansion. The group of emerging economies is expected to grow at a pace similar to that observed in the previous quarter. Purchasing Managers' Indices in July suggest that the manufacturing sector would remain sluggish while the services sector would have expanded globally (Chart 1).

After having improved considerably in the first quarter of the year in the context of advanced purchases ahead of the imposition of tariffs by the United States, indicators of world merchandise trade available as of June point to a moderate growth in the second quarter. The global trade outlook continued being affected by a high level of uncertainty due to the environment of trade tensions. Since Mexico's last monetary policy decision, the US administration has announced new tariff measures and modified other previously enacted, both upwards and downwards. In particular, on August 1, the United States imposed a 50% tariff on its imports of copper products and announced that so-called reciprocal tariffs would come into effect on August 7. It also announced trade agreements with some countries that resulted in tariff rates which, although high, are lower than those announced in April for some economies.¹ Uncertainty regarding the

possible effects of these tariff measures on global economic activity and prices remains high.

Given the current environment of trade tensions, economic slowdown is anticipated both globally and in the United States for this and next year compared to 2024. Among global risks the following stand out: the escalation of trade tensions and the intensification of geopolitical turmoil, with their possible impacts on inflation, economic activity, and volatility in financial markets.

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



s. a. / Seasonally adjusted figures.

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

Source: IHS Markit.

In the United States, economic activity rebounded during the second quarter of 2025. Gross Domestic Product (GDP) grew at a seasonally adjusted quarterly rate of 0.7%, after contracting 0.1% in the first quarter (Chart 2).² This increase largely reflected a positive contribution from net exports resulting from a fall in imports, following the advanced purchases in previous months made to try to avoid tariffs. This dynamic was also reflected in a greater contribution from the change in inventories during the first quarter, which reversed in the second quarter. Meanwhile, private domestic sales during the second quarter grew at a rate lower than in the

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

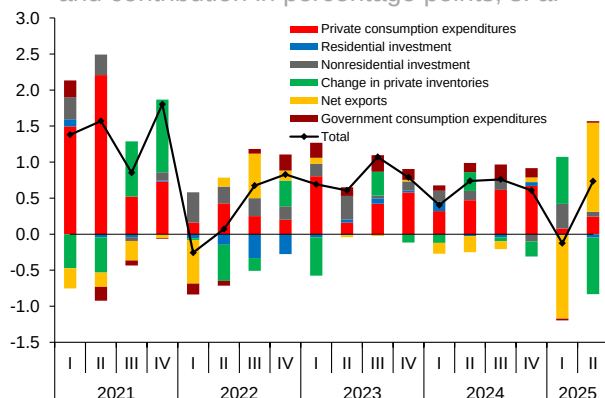
¹ As of the release date of this Annex, the United States has announced agreements with seven trading partners. The so-called reciprocal tariffs for these are the following: 10% for the United Kingdom; 15% for the European Union, Japan, and South

Korea; 19% for Indonesia and the Philippines; and 20% for Vietnam.

² Expressed as an annualized seasonally adjusted quarterly rate, US GDP grew -0.5% in the first quarter of 2025 and 3.0% in the second one.

previous quarter.³ Although consumption registered a greater contribution than in the previous quarter, household spending has moderated so far this year.

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



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

In June, US industrial production grew at a seasonally adjusted monthly rate of 0.3%, after having stagnated in May. This expansion mainly reflected a 2.8% increase in electricity and gas generation and a 0.1% growth in manufacturing. In contrast, mining contracted by 0.3%. Purchasing Managers' Indices for July suggest that manufacturing output would increase moderately during that month.

The US labor market remained broadly balanced, although it exhibited more noticeable signs of easing. The unemployment rate rose slightly from 4.1% in June to 4.2% in July, although it remained at relatively low levels. Nonfarm payrolls registered 73 thousand new job openings in July, placing them below the 2019 average. The figures for the previous two months were revised significantly downwards by about 260 thousand job openings in the two-month period. The number of vacancies decreased from 7.7 million in May to 7.4 million in June. Continued claims for unemployment insurance declined, although they remained at levels close to those observed in mid-June when they reached a peak since the end of 2021. Meanwhile, initial claims declined to 218 thousand during the week ending on July 26. Lastly, during the second quarter of the year,

the annual variation in the employment cost index remained unchanged at 3.6% with respect to the previous quarter.

The euro area economy was virtually stagnant during the second quarter of 2025. The region's GDP expanded at a seasonally adjusted quarterly rate of 0.1%, after having increased by 0.6% in the previous quarter.⁴ The latest available indicators point to a slowdown in the services sector and to a continued sluggish manufacturing activity. The labor market remained robust. In June, the unemployment rate stayed unchanged at 6.2% for the third consecutive month, remaining at historically low levels.

As for the group of other major advanced economies, it is expected to have expanded during the second quarter at a slower pace than in the previous one. Labor markets in some of these economies remained strong, although they have shown signs of easing.

During the second quarter, the group of main emerging economies is estimated to have performed similarly to the previous quarter. This was the case of China, although it grew at a higher-than-expected rate. Its GDP grew at a seasonally adjusted quarterly rate of 1.1%, after having increased 1.2% in the first quarter.⁵ The contribution from net exports to GDP growth remained solid, albeit lower than in the previous quarter. The considerable decline in exports to the United States was largely offset by an increase in exports to other regions, while imports fell. Consumption continued supporting growth in China, in a context in which its authorities have implemented various stimulus measures and programs to boost spending and economic activity. Despite the above, the Chinese economy continues facing significant challenges stemming from the weakness of its real estate sector and its domestic demand, as well as uncertainty surrounding trade tensions with the United States.

Since Mexico's last monetary policy decision, international commodity prices have declined overall, although they have been sensitive to developments in trade and geopolitical tensions. Crude oil prices were subject to downward pressures amid the announcement of production increases by the Organization of Petroleum Exporting Countries and allied countries (OPEC+). However, at the end

³ Private domestic sales correspond to the sum of private consumption and fixed investment.

⁴ Expressed as an annualized and seasonally adjusted quarterly rate, euro area GDP grew 2.3% in the first quarter of 2025 and 0.4% in the second one.

⁵ Expressed as an annual rate, China's GDP grew 5.4% in the first quarter of 2025 and 5.2% in the second one.

of July, prices rose temporarily following the announcement of new sanctions on Russian crude oil by both the United States and the European Union. In early August, these prices were below the levels observed at the end of June.

At the beginning of August, natural gas reference prices were below the levels observed at the end of June, although they fluctuated throughout the period. Downward pressures on global gas prices were associated with high inventory levels across various regions. This came after prices were subject to upward pressures during several weeks in July, both in Europe, due to possible sanctions on Russian gas, and in the United States, due to expectations of a higher demand in that country.

Grain prices closed below the levels registered at the end of June. Overall, prices declined in view of expectations of higher inventory levels and better weather conditions. However, upward pressures were also observed during some weeks as a result of adverse weather conditions.

In general, industrial metal prices were below the levels registered at the end of June, although they exhibited a differentiated behavior throughout the period and across metal types. In particular, copper prices rose during most of July driven by advanced purchases due to renewed concerns that eventually US imports of said metal could be taxed. They reached a new all-time high during the fourth week of July following the announcement that the United States would impose a 50% tariff on its imports of said metal. However, by the end of July, copper prices plummeted to a level below that observed at the end of June, after the US administration decided that tariffs would apply exclusively to imports of copper products, rather than to the refined metal. Meanwhile, precious metal prices rose, driven by an increased demand for safe-haven assets caused by uncertainty surrounding the changes in various US policies.

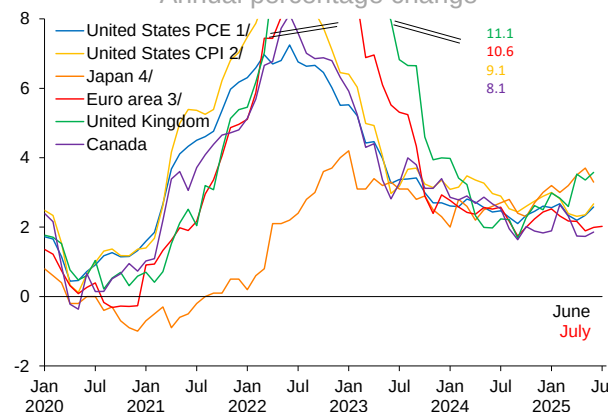
A.1.2. Monetary policy and international financial markets

Headline and core inflation exhibited a heterogeneous behavior across countries. In the main advanced economies, annual headline inflation fluctuated throughout the second quarter of 2025, largely reflecting adjustments in energy prices. Following more widespread declines observed during the first months of the second quarter, recently some economies registered increases (Chart 3). Core inflation has also exhibited a

heterogeneous behavior across countries. In some economies, despite remaining at low levels, the rise in goods inflation has outweighed the gradual decline in services inflation.

In the United States, annual headline inflation measured by the personal consumption expenditures price index increased from 2.4% in May to 2.6% in June, remaining close to the level observed at the beginning of the year. This increase was largely the result of a lower deflation of energy, although food inflation also increased slightly. Meanwhile, core inflation remained practically unchanged at 2.8% in June. This reflected an increase in goods inflation, which nevertheless remained at low levels, and was offset by a slight decline in services inflation. The monthly variations of both headline and core inflation are lower than in the first few months of the year. Annual headline inflation of the consumer price index rose from 2.4% in May to 2.7% in June, although it remains below the levels observed at the beginning of the year. The increase is attributed to a lower energy deflation and a higher inflation in both food inflation and the core component.

Chart 3
Selected advanced economies:
headline inflation
Annual percentage change



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

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

3/ Preliminary figures as of July.

4/ Excludes fresh food.

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

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Eurostat, Bank of Japan, the UK Office for National Statistics, and Statistics Canada.

In the euro area, annual headline inflation increased from 1.9% in May to 2.0% in July, hitting its central bank's inflation target for the second consecutive month. This was the result of a lower deflation in energy prices and an increase in food inflation. Core

inflation remained practically unchanged at 2.3% in July. This derived from a lower services inflation, which was offset by an increase in goods inflation.

Most recent analysts' inflation forecasts for the end of 2025 for the main advanced economies presented mixed readings. In the case of the United States, inflation is still expected to rise at the end of 2025 as a result of the imposition of tariffs, although more moderately than in previous months, and then reverse throughout 2026. In contrast, in other advanced economies inflation is expected to converge to their central bank targets by the end of 2025. Indicators of long-term breakeven inflation and inflation risk for the main advanced economies implied by financial instruments showed sensitivity to information on trade and geopolitical tensions.

In emerging economies, most recent readings of annual headline inflation in many of these economies were below those reported in early 2025. Core inflation has exhibited a heterogeneous behavior across countries. In China, headline inflation remained close to zero. After registering negative levels for four consecutive months, inflation increased slightly to 0.1% in June. Meanwhile, although annual core inflation in that country rose slightly from 0.6% in May to 0.7% in June, it remained at low levels.

In this environment, since Mexico's last monetary policy decision, several central banks in advanced and emerging economies have left their reference rates unchanged, some of them after having implemented rate cuts in previous months. In addition, central banks in major advanced economies continued to gradually reduce their securities' holdings. Regarding future actions, central banks stated, in general, that rate adjustments will continue depending on economic data and its implications for the inflation outlook. Several of them have pointed out that they are currently experiencing a moment of high uncertainty associated with the evolution of trade and geopolitical tensions, and that they will remain attentive to the evolution of risks to the economic and inflationary environment.

The US Federal Reserve left the target range for the federal funds rate unchanged in the five decisions made so far this year, after lowering it by 100 basis points during 2024. Thus, in the latest decision, the range remained between 4.25 and 4.50%. In its July statement, the Federal Open Market Committee (FOMC) noted that uncertainty around the economic outlook remains elevated and commented that it is

attentive to risks to both sides of its dual mandate. It reiterated that it will carefully assess incoming data, the evolving outlook, and the balance of risks when considering the extent and timing of additional adjustments to the target range for the federal funds rate. The Federal Reserve also reaffirmed that it would continue reducing the size of its balance sheet.

During the press conference, the chairman of the Federal Reserve noted that, currently, its monetary policy is well positioned to wait for greater clarity on the potential direction of the economy and the balance of risks before making any adjustments. He added that this is an appropriate stance to address inflationary risks and that they also remain vigilant to risks to the employment-related aspects of their mandate. He mentioned that most members of the Committee consider that a slightly restrictive stance seems appropriate at this time, since inflation is just above target and the unemployment rate is low. He mentioned that the policies announced and implemented by the US government continue evolving and their effects on economy remain uncertain. He pointed out that higher tariffs have started to be clearly reflected in the prices of some goods, but their general effects on economic activity and inflation are yet to be determined. He acknowledged that the tariff-to-inflation pass-through process is likely to be slower than initially anticipated.

The European Central Bank (ECB) interrupted its rating-cut cycle in its July decision, leaving its reference rates unchanged after eight consecutive reductions since June 2024. Thus, its key deposit, refinancing, and lending rates remain at 2.00, 2.15, and 2.40%, respectively. The Governing Council noted that domestic inflationary pressures have continued declining and that the environment remains exceptionally uncertain, particularly due to foreign trade disputes. It reiterated that it will continue following an approach based on economic and financial data in order to determine the appropriate monetary policy stance. It reaffirmed that the Council is not committed to a particular monetary policy path. It also reiterated that the size of its asset purchase program (APP) and pandemic emergency purchase program (PEPP) portfolios is decreasing at a measured and predictable pace.

At the press conference for the July decision, the president of the ECB stated that its monetary policy is well positioned to address the risks that could develop in the coming months, partially associated with foreign trade tensions and geopolitical conflicts. She noted that it is currently appropriate to pause

and consider how these risks unfold, and that they will assess their monetary policy decisions at each meeting without a predetermined path.

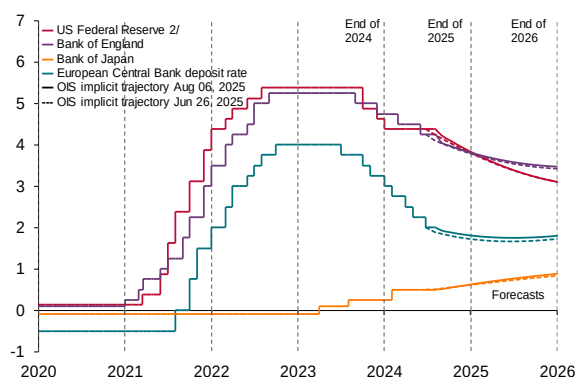
Regarding other advanced economies, the Bank of Japan left its interest rate unchanged for the fourth consecutive decision in July, after raising it in January.⁶ Likewise, the central banks of Canada, Australia, New Zealand, and Korea decided to leave their reference rates unchanged in their most recent decisions.

As for expectations for the main advanced economies' reference rates, those implied by market instruments for the end of 2025 registered limited changes since Mexico's last monetary policy decision (Chart 4). For the United States, the expected trajectory for the federal funds rate fluctuated during the period, and was revised downwards after the release of data suggesting a weaker-than-expected labor market. The most recent forecast for the federal funds rate at the end of 2025 stood at around 3.7%, a level similar to that anticipated in Mexico's latest monetary policy decision. Similarly, the expected level for the United Kingdom rate remained at 3.7% and in Japan at 0.6%. Meanwhile, for the euro area, it increased from 1.7 to 1.8%, and for Canada from 2.4 to 2.5%.

In the main emerging economies, some central banks announced cuts in their reference rates. Others decided not to make any adjustments in their most recent monetary policy decisions, some of them after having cut their reference rates in previous months. In the case of China's central bank, it left its one- and five-year loan prime rates (LPR) unchanged for the second consecutive time in its July decision. Recently, China's central bank announced that it will implement an appropriate accommodative monetary policy during the second half of the year. It also mentioned that it will flexibly adjust the intensity and pace of this policy's implementation, taking into account both domestic and foreign economic and financial conditions. During the same month, Russia's central bank continued lowering its reference rate, although to a greater extent than in its previous decision. In contrast, Brazil's central bank decided to leave its

reference rate unchanged in July, after having raised it for seven consecutive meetings by a total of 450 basis points. The central bank of Brazil indicated that, if the economic scenario anticipated by the Committee were to occur, it foresees that the interruption in its cycle of reference rate increases will continue in order to assess the accumulated impact of its previous decisions.

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



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

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

Source: Bloomberg.

In this environment, since the last monetary policy decision, global financial conditions exhibited an increase in risk appetite driven by some foreign trade agreements reached between the United States and other countries, and by expectations regarding the continuity of trade negotiations. However, risks and uncertainty about the future of international trade and global economic activity prevail. In this context, global financial conditions have generally eased to some extent (Chart 5). In the fixed-income market, long-term (10-year) and medium-term (2-year) rates in the main advanced economies increased moderately, while in the United States they stood at levels similar to those observed at the end of June (Chart 6).⁷ Thus, the slope of the US yield curve (defined as the spread between 10-year and 2-year government bond rates) remained at positive levels, similar to those observed at the end of June.

⁶ After announcing a plan to reduce the amount of its monthly outright purchases of government bonds (JGBs) in its June monetary policy statement, the Bank of Japan mentioned in its latest economic and price outlook report that if the expected scenario were to occur, it will continue raising the reference rate and adjusting the level of monetary accommodation. It noted that given the persistence of high uncertainty regarding foreign trade and its impact, it will carefully assess risks to economic activity,

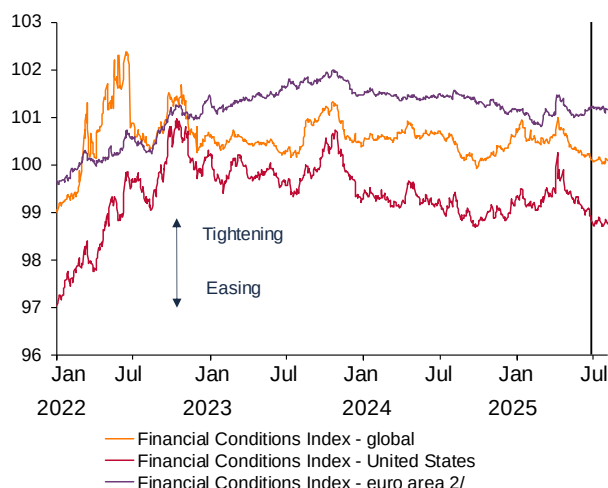
prices, and financial markets both domestically and internationally.

⁷ Medium- and long-term rates in the United States increased in July. However, in early August, the release of data indicating a weaker US labor market than previously expected caused these interest rates to decrease to levels close to those observed at the end of June.

Meanwhile, stock markets in advanced economies trended upwards. With regard to foreign exchange markets, since Mexico's last monetary policy decision, the US dollar appreciated moderately.

In emerging economies, long- and medium-term rates registered a differentiated behavior (Chart 7). Most rates in Asia and Latin America declined, while rates in emerging Europe showed a mixed behavior across countries. Stock markets in this group of economies also exhibited a differentiated behavior across regions. In particular, stock markets in Asia and emerging Europe overall registered gains, while those in Latin America showed mixed results. As for the foreign exchange market, most currencies in this group of economies depreciated against the US dollar. Lastly, since Mexico's last monetary policy decision, net capital inflows to emerging economies have generally been registered in both fixed-income and equity assets.

Chart 5
Financial Conditions Index^{1/}
Units

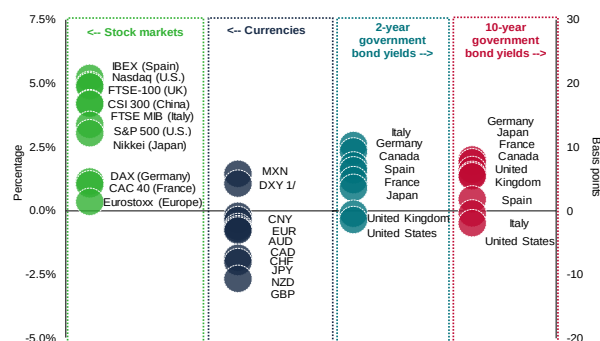


1/ The financial conditions index is constructed considering the effect of five variables on economic activity: the reference interest rate, the 10-year government bond, the spread of investment grade bonds over the government debt bond with equivalent maturity, the ratio of a stock index with 10-year average earnings per share, and the trade weighted exchange rate.

2/ In the case of the euro area, the spread between the sovereign bonds of France, Italy, Spain, the Netherlands, Belgium, Austria, Portugal, and Finland over the German 10-year bond is also considered. The vertical black line indicates the last calendarized monetary policy meeting of Banco de México.

Source: Bloomberg and Goldman Sachs.

Chart 6
Change in selected financial indicators from June 26 to August 6, 2025



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

Chart 7
Selected emerging economies: financial assets performance starting from June 26, 2025
Percent basis points

Region	Country	Currencies	Equity markets	2-year interest rates	10-year interest rates	CDS
Latin America	Mexico	1.71%	0.39%	-16	-14	0
	Brazil	1.80%	-0.91%	-50	1	-4
	Chile	-4.07%	1.31%	-16	-12	0
	Colombia	0.38%	6.08%	-46	-61	-16
	Peru	0.52%	4.86%	-5	-17	-5
Emerging Europe	Russia	-2.11%	-0.94%	-170	48	N.A.
	Poland	-0.55%	6.95%	-16	-3	-6
	Turkey	-2.21%	15.74%	-209	-107	-25
	Czechia	0.70%	5.98%	-14	-1	-2
	Hungary	0.63%	3.34%	-8	-2	-9
Asia	China	-0.12%	5.15%	4	5	-7
	Malaysia	0.17%	1.43%	-9	-16	-4
	India	-1.91%	-2.67%	-1	13	-3
	Philippines	-1.42%	0.71%	-5	-26	-3
	Thailand	0.79%	14.15%	-18	-20	-2
Africa	Indonesia	-0.45%	9.83%	-34	-21	-5
	South Africa	-0.11%	5.08%	-8	-25	-2

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

Source: Bloomberg.

A.2. Current situation of the Mexican economy

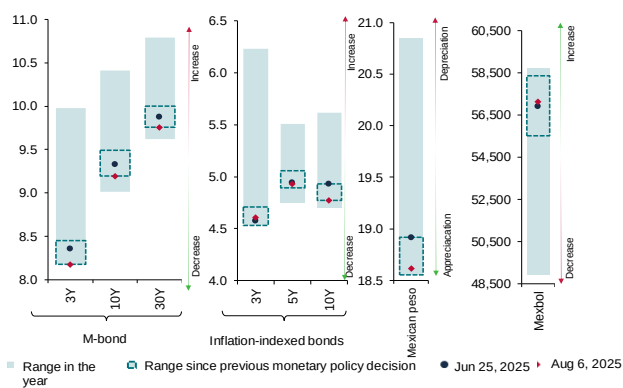
A.2.1. Mexican markets

Since Mexico's last monetary policy decision, domestic financial markets exhibited a positive performance. This occurs in an environment of lower risk aversion, despite the prevailing uncertainty regarding changes in the US economic policy. The Mexican peso appreciated against the US dollar, in

a context in which the dollar has weakened throughout the year. Interest rates decreased across all terms, and the stock market closed with moderate gains (Chart 8).

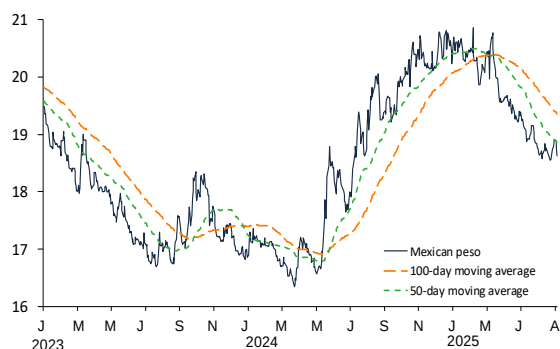
The Mexican peso traded in a range of 52 cents, between 18.51 and 19.03 pesos per US dollar since the last monetary policy decision (Chart 9). It closed the period with an appreciation of 1.71%, explained by the weakness of the US dollar and the build up of carry trade positions, in a context of lower volatility. Mexican peso trading conditions remained orderly.

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



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

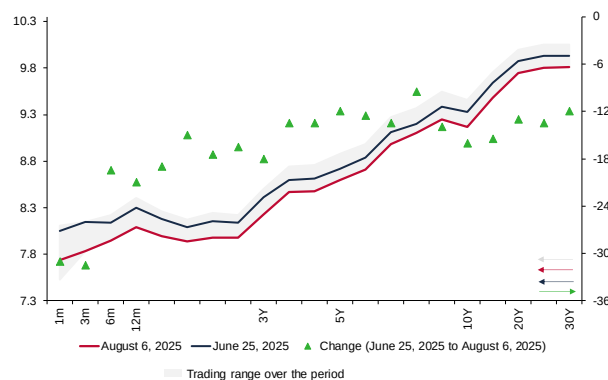
Chart 9
Mexican peso exchange rate
MXN/USD



Source: Banco de México.

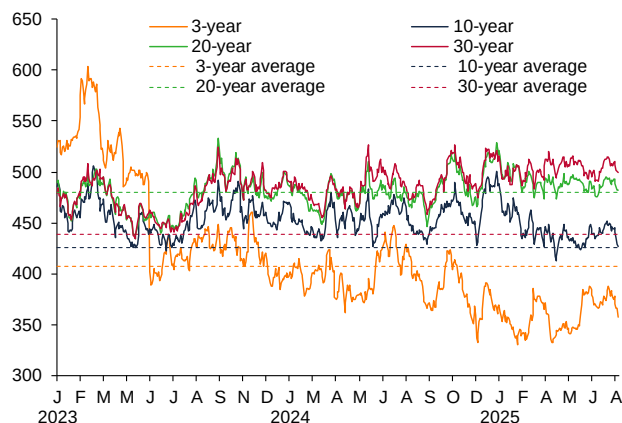
Government bond yields decreased between 10 and 32 basis points along the entire curve (Chart 10). Yields on real rate instruments displayed variations between -16 and 7 basis points. In this context, breakeven inflation and inflation risk implicit in spreads between nominal and real rates of market instruments decreased in most terms (Chart 11).

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



Source: Proveedor Integral de Precios (PIP).

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

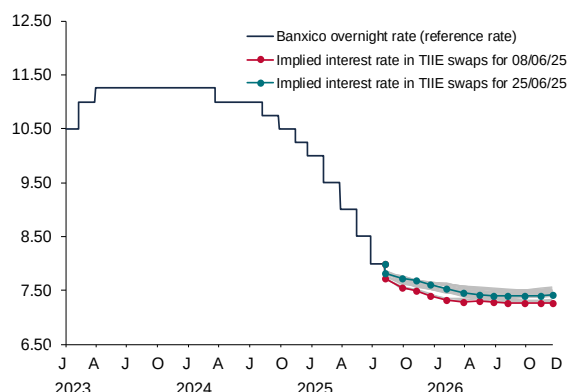


Note: Horizontal lines refer to the respective averages observed from September 2008 to date.

Fuente: Proveedor Integral de Precios (PIP).

Regarding expectations for the trajectory of the reference rate, information implicit in the interest rate swap curve incorporates a 25-bp cut to the interest rate in the August decision and reflects an expectation of a 7.40% reference rate for the end of 2025 (Chart 12). In line with the above, most analysts in the Citi Mexico survey anticipate a 25-bp cut for the August meeting and levels of 7.50 and 6.75% for the end of 2025 and 2026, respectively.

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



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

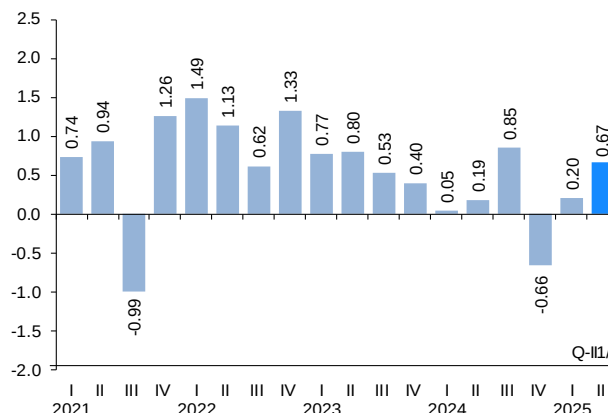
Source: Proveedor Integral de Precios (PIP).

A.2.2. Economic activity in Mexico

According to the flash estimate published by INEGI, GDP registered a seasonally adjusted quarterly percentage change of 0.67% during the second quarter of 2025 (Chart 13). Thus, economic activity grew at a faster pace than in the first quarter of this year. The output gap remained negative (Chart 14).

Regarding the evolution of domestic demand, during the April-May period, private consumption recovered slightly after having remained weak in previous months (Chart 15). As for its components, consumption of domestic goods and services reactivated slightly, while consumption of imported goods remained sluggish despite having improved at the margin. Meanwhile, gross fixed investment remained significantly weak during the same period. This reflected the persistent negative trend of investment in machinery and equipment. In contrast, construction spending performed better, registering higher levels of activity.

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

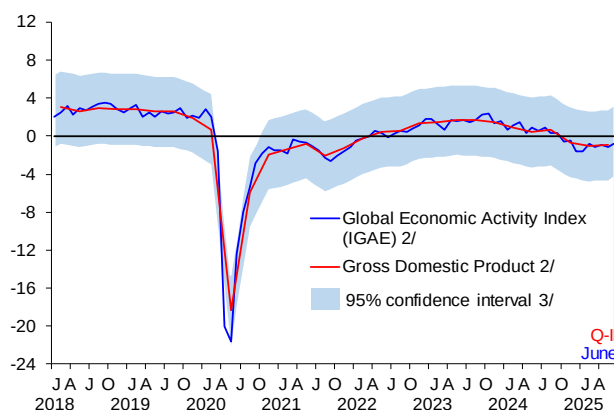


s. a. / Seasonally adjusted figures.

1/ The figure for the second quarter of 2025 refers to the quarterly GDP flash estimate published by INEGI.

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

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



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

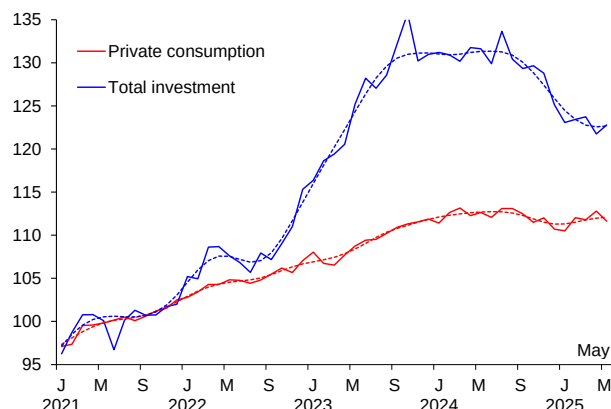
1/ Output gap estimated with a tail-corrected Hodrick-Prescott filter; see Banco de México (2009), "Inflation Report, April-June 2009", p.69.

2/ GDP flash estimate for Q2-2025 and implicit IGAE for June 2025, consistent with said flash estimate.

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.

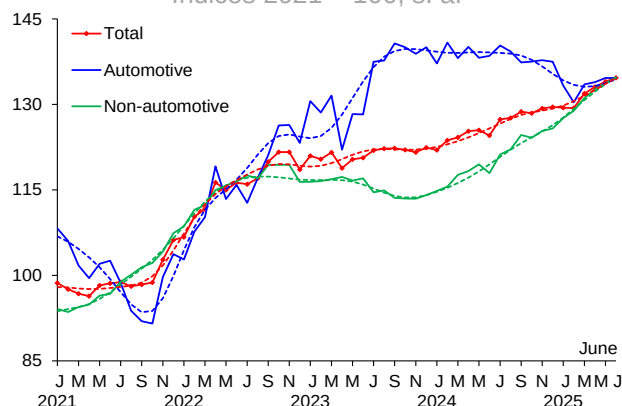


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

As for external demand, during the April-June 2025 period, the average value of manufacturing exports increased compared to the first quarter. This was the result of a differentiated behavior among its components. Non-automotive manufacturing exports continued showing dynamism, while automotive exports remained weak (Chart 16).

From a sectoral perspective, the economic expansion observed during the second quarter of 2025 was associated with the reactivation of the services sector, which had exhibited sluggishness in previous quarters (Chart 17). After having fallen for two consecutive quarters, industrial activity expanded. Regarding its components, manufacturing increased during the April-May period, after having declined in the last quarter of 2024 and after showing a lack of dynamism in the first quarter of 2025. Construction expanded moderately (Chart 18). Lastly, primary activities fell after having rebounded significantly during the first quarter of the year.

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

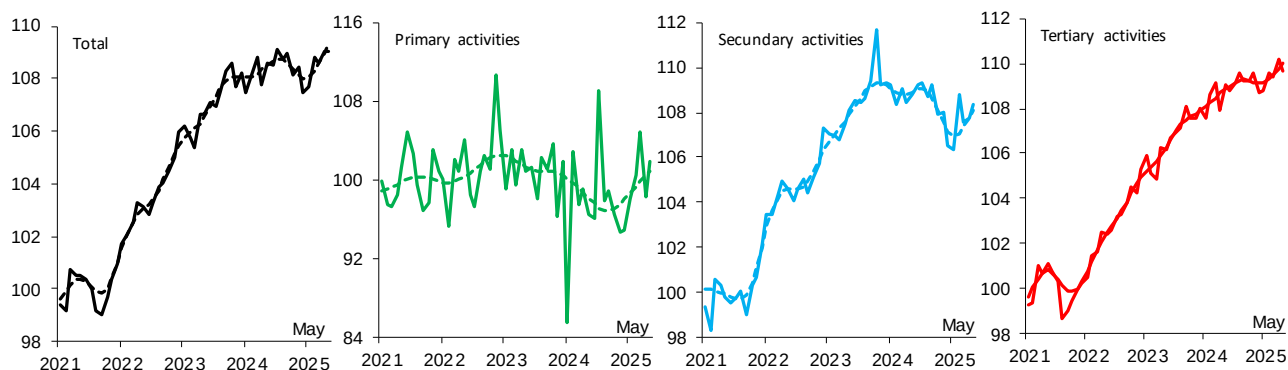


s. a. / Seasonally adjusted series and trend series based on data in nominal US dollars. The former is represented by a solid line and the latter by a dotted line. Three-month moving average.

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.

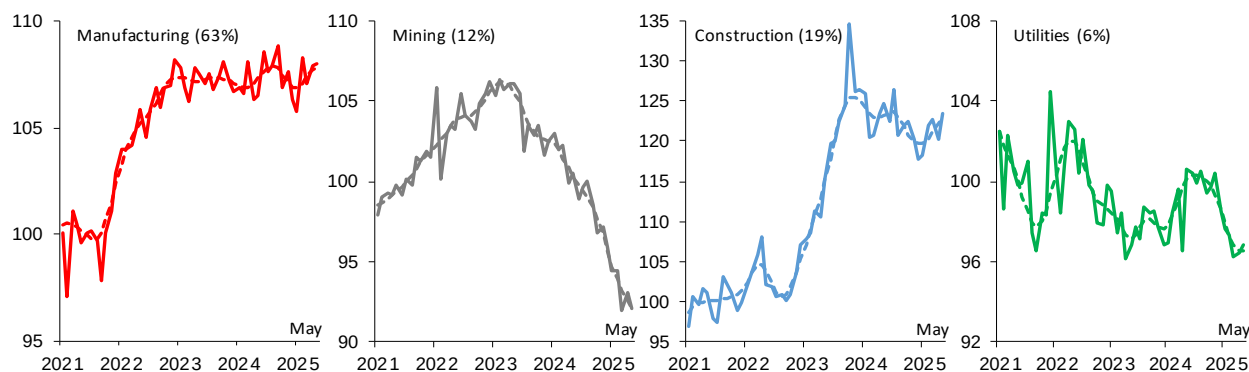
Regarding labor market indicators, in June the national unemployment rate was lower than in the previous month, while the urban rate remained stable (Chart 19). In July 2025, the number of jobs registered with IMSS exhibited an extraordinary increase, due to the pilot program to incorporate digital platform workers into the social security system. Excluding the jobs registered with IMSS through this program, the creation of formal positions continued showing a considerable lack of dynamism. Finally, in May, unit labor costs in the manufacturing sector reversed the increases reported in the previous two months, although they remained at high levels.

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



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

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

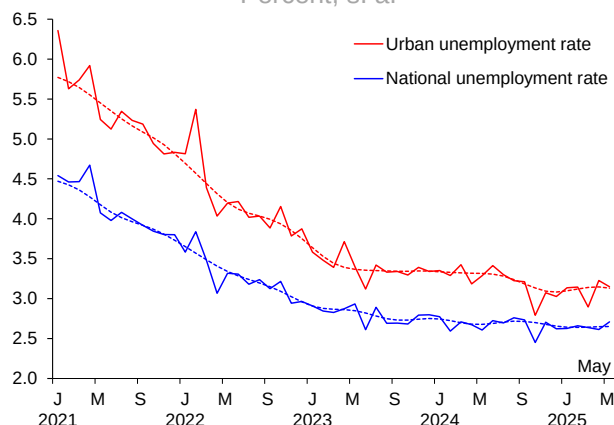


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.

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

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

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



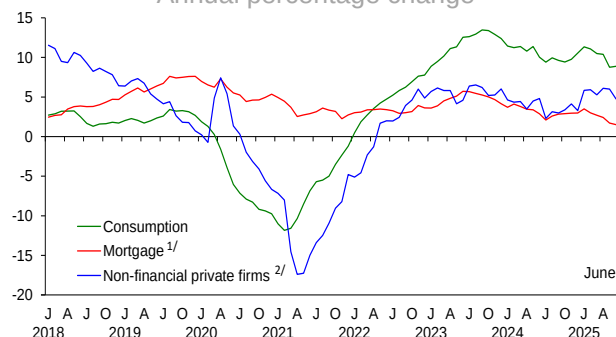
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Prepared by Banco de México with ENOE data, INEGI.

In June 2025, domestic financing to the private sector moderated its pace of expansion. Regarding its components, the growth rate of commercial bank credit to businesses declined slightly with respect to the previous month (Chart 20). Despite this, said rate remained above the levels observed during the previous year. Regarding credit to households, it continued showing a trend of reduction in its growth rate. Nevertheless, the annual variation in consumer credit remained high.

As for the cost of financing, interest rates on bank credit to firms declined again in June 2025, although they remained at relatively high levels. Thus, their evolution kept reflecting the pass-through of the reference rate to bank interest rates. Meanwhile, commercial bank mortgage lending rates remained mostly unchanged during said month, thus remaining at a level similar to that registered before the pandemic. Finally, based on data up to December 2024, interest rates on bank consumer loans remained at high levels, although they decreased slightly compared to the previous period.

As for portfolio quality, delinquency rates for corporates and households rose slightly in June 2025. Nevertheless, these indicators remained at low levels compared to their historical behavior.

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



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

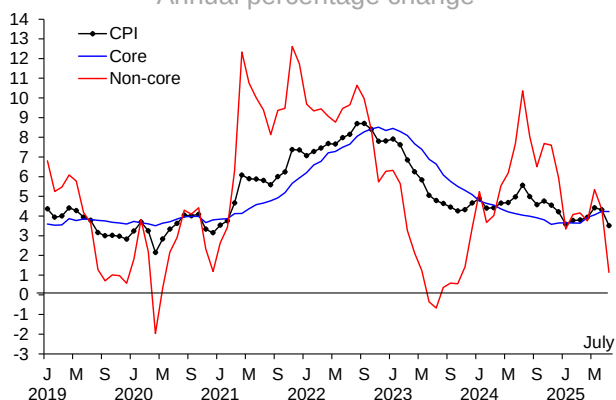
2/ Adjusted for valuation effects due to movements in the exchange rate.

Source: Banco de México

A.2.3. Development of inflation and inflation outlook

Annual headline inflation fell from 4.32 to 3.51% between June and July 2025. This decline was due to a decrease in non-core inflation, while core inflation remained relatively stable (Chart 21 and Table 1).

Chart 21
Consumer Price Index
Annual percentage change



Source: INEGI.

Annual core inflation stood at 4.24 and 4.23% in June and July 2025, respectively. Merchandise inflation rose from 3.91 to 4.02% during that period (Chart 22). Its performance was influenced by the increase from 4.89 to 5.13% in food merchandise prices, while non-food merchandise prices remained relatively stable at 3.03 and 3.06%, respectively, during the referred periods (Chart 23). In contrast, services inflation fell from 4.62 to 4.44% during the same period. Regarding its components, housing inflation fell from 3.50 to 3.42% and that of services other than

housing and education from 5.53 to 5.25%, while education inflation fell from 5.82 to 5.78% in the referred months.

Chart 22
Merchandise and services
core price subindex
Annual percentage change

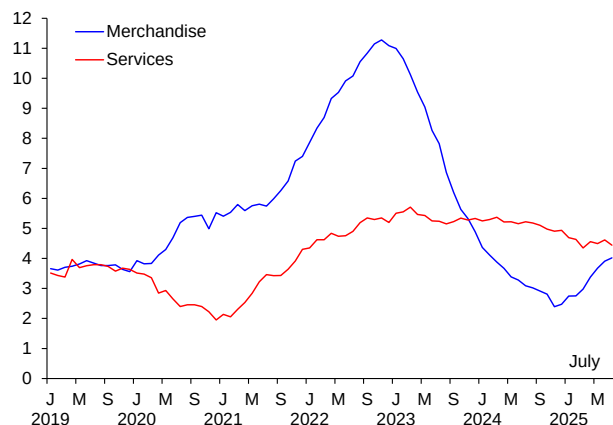
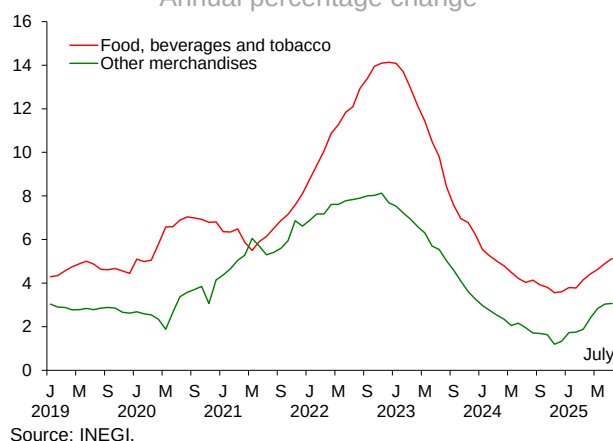


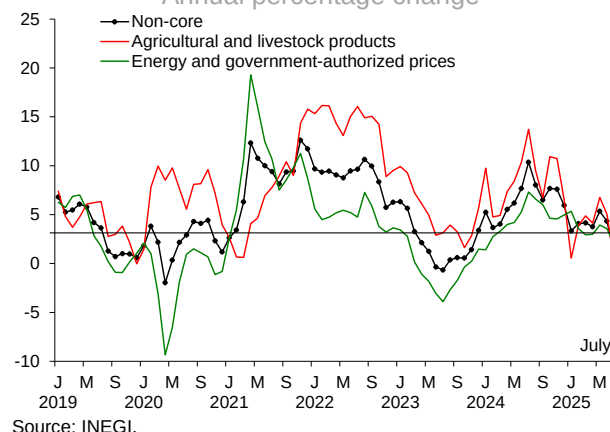
Chart 23
Merchandise core price subindex
Annual percentage change



Annual non-core inflation fell from 4.33 to 1.14% between June and July 2025 (Chart 24 and Table 1). Its decline was mainly due to the decrease in agricultural and livestock products inflation, although energy inflation also decreased. In the first case, it declined from 5.04 to 0.17% between the referred months, influenced by the fall from -4.47 to -12.10% in annual inflation of fruits and vegetables, while livestock products inflation remained high at 11.72 and 10.29% during the same period. Meanwhile, energy inflation declined from 2.97 to 0.78% during said period, due to a fall from 8.59 to 2.03% in the

annual variation of L.P. gas prices and from 0.04 to -1.01% in gasoline prices.

Chart 24
Non-core price subindex
Annual percentage change



Regarding inflation expectations drawn from the survey conducted by Banco de México among private sector specialists, between May and July 2025, the medians of headline and core inflation for the end of 2025 increased from 3.90 to 4.04% and from 3.98 to 4.12%, respectively. Meanwhile, inflation expectations for the end of 2026 showed limited adjustments. The median of headline inflation went from 3.77 to 3.75%, while that of core inflation from 3.70 to 3.72%. Inflation expectations for the next four years remained relatively stable. The median of headline inflation shifted from 3.70 to 3.73%, while that of core inflation fell from 3.65 to 3.63%. Meanwhile, inflation expectations for headline and core inflation in the long term (5 to 8 years) remained stable. The median of headline inflation remained at 3.60%, while that of core inflation at 3.50%. Lastly, between May and July, inflation expectations implied by market instruments declined. The inflation risk premium increased in its monthly average, although it remained below its historical average.

Headline inflation forecasts remained practically unchanged. Core inflation forecasts were revised slightly upwards for the short term. Headline inflation is still expected to converge to the target in the third quarter of 2026. Forecasts are subject to the following risks. On the upside: i) foreign exchange depreciation; ii) disruptions due to geopolitical conflicts or foreign trade policies; iii) persistence of core inflation; iv) cost-related pressures; and v) climate-related impacts. On the downside: i) lower-than-anticipated economic activity; ii) a lower pass-through from increased costs, and iii) lower pressures stemming from the recent appreciation of

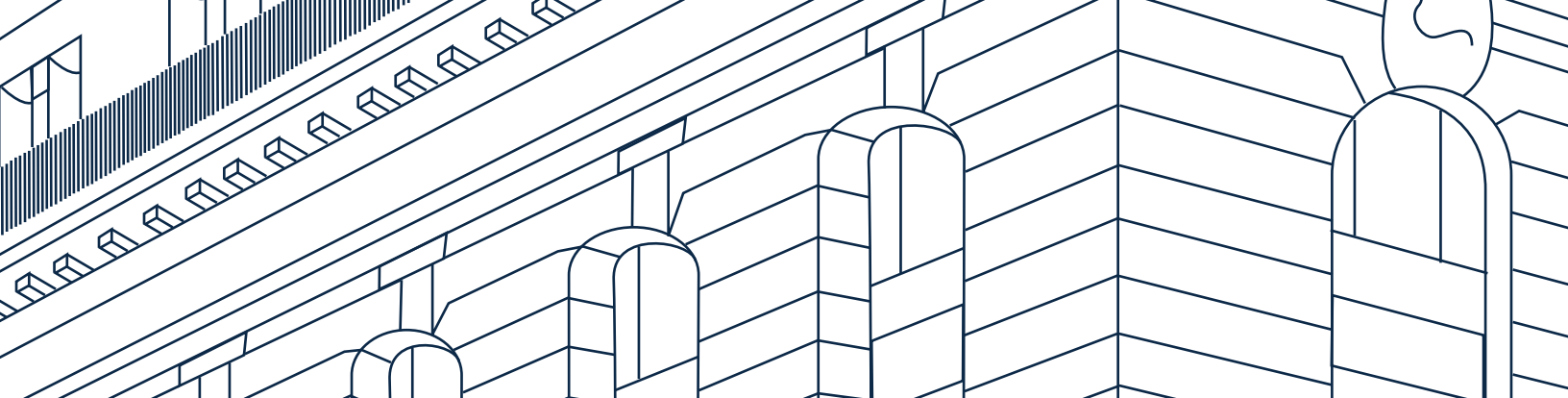
the Mexican peso. Although the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside, said bias is less pronounced than that faced between 2021 and 2024.

The changes in economic policy by the new US administration have added uncertainty to the forecasts. Their effects could imply inflationary pressures on both sides of the balance.

Table 1
Consumer Price Index and components
Annual percentage change

Item	May 2025	June 2025	July 2025
CPI	4.42	4.32	3.51
Core	4.06	4.24	4.23
Merchandise	3.67	3.91	4.02
Food, beverages and tobacco	4.63	4.89	5.13
Non-food merchandise	2.84	3.03	3.06
Services	4.49	4.62	4.44
Housing	3.53	3.50	3.42
Education (tuitions)	5.84	5.82	5.78
Other services	5.26	5.53	5.25
Non-core	5.34	4.33	1.14
Agricultural and livestock products	6.76	5.04	0.17
Fruits and vegetables	0.04	-4.47	-12.10
Livestock products	10.85	11.72	10.29
Energy and government-authorized prices	3.93	3.56	1.97
Energy products	3.50	2.97	0.78
Government-authorized prices	4.42	4.32	4.07

Source: INEGI.



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