



BANCO DE MÉXICO®

Minutes number 117

**Meeting of Banco de México's Governing Board on the occasion of
the monetary policy decision announced on June 26, 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: June 25, 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 stated that, since the last meeting, the international environment has been characterized by less uncertainty regarding trade policy worldwide. **One** member mentioned that such decline is due to expectations that countries will reach agreements on tariff reductions. He/she added that the negative shock to global aggregate demand resulting from increased uncertainty appears to be stabilizing. However, **another** member noted that trade uncertainty remains high. **Most members indicated that, given the foreign trade tensions, the world economy is expected to decelerate this year and in 2026 with respect to 2024.** Some members pointed out that a more moderate slowdown is now expected compared to what was

anticipated in April. **One** member mentioned that a deceleration is still expected, despite the moderation in foreign trade uncertainty, reflecting the negative bias prevailing in the balance of risks to global growth. **Another** member stated that although the US economy exhibited considerable resilience at the beginning of the year, the outlook has since changed, leading to downward revisions to the forecasts for 2025. He/she added that a moderate expansion of US economic activity is expected.

Most members mentioned that, during the second quarter of 2025, global economic activity is estimated to have expanded at a similar pace to that observed in the previous quarter. **One** member indicated that this pace would still be below the level observed in the last quarter of 2024. **Some** members highlighted that, at the margin, advanced economies are expected to register a higher rate of expansion during the second quarter of 2025 compared to the first quarter, while emerging economies are anticipated to exhibit a moderation in the rate of expansion during the same period. **They** stated that the increased growth foreseen in advanced economies would be mainly driven by the anticipated rebound of the US economy during the second quarter of 2025. Nevertheless, **some** members pointed out that this rebound would mainly reflect the expected decline in imports relative to the first quarter. Regarding private consumption in the United States, they noted that recent information suggests that it continued to slow down. However, **one** member mentioned that the increase in households' disposable income due to higher government transfers, which are expected to be temporary, could provide some support to private consumption in the short term. As for labor markets of the major advanced economies, **another** member pointed out that they have continued showing strength. **Nevertheless, most members stated that there are signs of a slowdown in this market, particularly in the United States.** Regarding emerging economies, **one** member underlined that their slowdown would mainly respond to expectations of China continuing to grow at a lower rate during the second quarter, reflecting the weaker dynamism in its external sector. **Another** member mentioned that sectoral activity in emerging economies shows mixed signals, with a weakness in manufacturing and some stability in services.

Most members indicated that headline inflation in the major advanced economies decreased in its latest readings, following the increases observed at the beginning of the year. **Some** members stated that it is currently at levels close to, or even

below, the targets of their respective central banks. They pointed out that this decrease was mainly driven by the fall in energy prices. **One** member added that, despite the geopolitical tensions, indicators measuring supply chain pressures have remained at levels consistent with their historical averages. **Most members mentioned that core inflation in advanced economies is still subject to pressures.** **One** member highlighted that, within its components, food product inflation has increased, while services inflation has continued to decrease gradually. **Another** member noted that, regarding core inflation components, merchandise inflation has increased at the global level. **One** member mentioned that in advanced economies there is still a road ahead for core inflation to reach levels consistent with the central bank targets, although it remains at low levels. Regarding inflation in the United States, **another** member stated that headline inflation measured by the consumer price index increased between April and May, driven by higher food prices. Nonetheless, **one** member added that CPI headline inflation and inflation measured by the personal consumption expenditure price deflator were lower than the levels anticipated by markets in their latest readings. **Some** members indicated that the core component remained stable. They noted that the effects of the recent foreign trade measures have not yet been reflected in consumer prices in the United States. However, they stated that analysts expect these effects to appear in the coming quarters. In this regard, **one** member mentioned that analysts also anticipate the effects on inflation to dissipate over the course of 2026. He/she pointed out that in most economies, both advanced and emerging, inflation is expected to converge to the central bank targets by the end of 2025 or during 2026. He/she expressed that the above-mentioned information already considers that this process could be delayed due to the effects of protectionist measures at the global level. Regarding emerging economies, **some** members underlined that headline inflation has declined with respect to the end of 2024. However, **one** member noted that it has rebounded in recent readings. As for core inflation in these economies, **some** members mentioned that its behavior has been heterogeneous.

Most members pointed out that, in its latest monetary policy decision, the US Federal Reserve left its reference rate unchanged. They added that the Fed's chairman stated that the current stance of monetary policy leaves them well positioned to wait and see how the inflation determinants evolve, given the current context of trade uncertainty. **One** member indicated that the

chairman further noted that the effect and duration of tariffs on prices remain uncertain. He/she mentioned that the Fed's statement continued reiterating that they remain attentive to risks on both sides of their dual mandate. He/she added that the Fed emphasized that uncertainty has diminished, although it remains at high levels. **Another** member mentioned that the federal funds target rate remained unchanged for the fourth consecutive decision and that the Federal Reserve has reiterated its call for patience before making further adjustments to its target rate. **Some** members agreed that the central bank's updated projections reflect a complex environment characterized by higher inflation and lower economic activity. **Most members indicated that the US Federal Reserve is still expected to make two 25-basis-point cuts to the target range for the federal funds rate during the remainder of 2025.** **One** member added that this represents a clearer guidance on its monetary policy implementation during the second half of the year. **Another** member highlighted that only one further rate cut is anticipated in 2026. However, **one** member pointed out that the central bank's chairman stated that there is not a great deal of conviction about the future path of the reference rate.

Regarding central bank decisions in other advanced economies, **some** members noted that the European Central Bank lowered its reference rates by 25 basis points. **One** member indicated that this institution has accumulated eight rate cuts since June 2024. He/she mentioned that the president of said central bank stated that, with the latest adjustment, they have reached an appropriate level to address the uncertain conditions they are facing. **Another** member added that the central banks of Australia, New Zealand, Sweden, and Switzerland also implemented rate cuts of the same magnitude. **Some** members noted that other central banks of major advanced economies decided to leave their target rates unchanged. **Some** members indicated that monetary easing is expected to continue, although more gradually. **Most members mentioned that several of these central banks have already brought their monetary policy stances to levels close to neutral territory.** **Some** members indicated that communication of these institutions continues reflecting caution in view of the prevailing uncertainty. **One** member argued that this reflects the deteriorated outlook for economic activity both globally and in their respective economies. He/she noted that implications for inflation remain uncertain, although in most cases they are expected to be short-lived. Regarding emerging economies, **another** member stated that monetary policy has

evolved more heterogeneously, depending on country-specific dynamics.

Most members highlighted that international financial markets continued exhibiting volatility in light of the prevailing trade uncertainty and the unfolding of geopolitical tensions. One member added that the debate surrounding the fiscal package in the United States contributed to this behavior as well. However, **some** members indicated that, in contrast, the resumption of trade negotiations between the United States and China helped to significantly decrease volatility. **Most members agreed that US stock market indices slightly rebounded.** Regarding fixed-income markets, **they pointed out that government interest rates of the major advanced economies exhibited moderate changes.** One member noted that the upward variations were more significant for longer-term rates. **All members mentioned that the US dollar depreciated across the board against other currencies in the context of foreign trade uncertainty.** One member added that this depreciation has been, on average, more notable against advanced economies' currencies than against those of emerging economies. He/she stated that speculative positioning reflects a lower appetite for dollars and that, going forward, it is perceived that the US dollar could continue depreciating. He/she noted that the price of gold is trending upwards due to its demand as a safe-haven asset. In this regard, **another** member indicated that changes in the financial markets' response to episodes of risk aversion have been observed. He/she underlined that now interest rates in the United States have increased and the US dollar has depreciated during such episodes.

Economic activity in Mexico

Some members pointed out that economic activity expanded in April. **One** member mentioned that the figure for that month was above the flash estimate and above analysts' expectations. He/she added that the IGAE registered its highest seasonally adjusted annual growth rate in the last eight months, reaching levels above the average of the first quarter of 2025. However, he/she noted that the annual rate for the year to date is lower than that for the same period of the previous year, which reflects the ongoing deceleration process. In this context, **some** members indicated that the economy is in a stage of sluggishness. **One** member highlighted that such weakness mirrors the effects of foreign trade uncertainty. **Another** member stated that the international environment continues to pose

challenges that add to the complexity of the domestic economic outlook. **Some** members pointed out that economic slack prevails due to the weakness the economy has been exhibiting and that the output gap further widened into negative territory.

Most members mentioned that industrial activity remained weak at the beginning of the second quarter. They underlined that manufacturing remained sluggish in April. One member pointed out the lower dynamism in the transportation equipment component. **Another** member added that the construction sector has been trending downwards since the end of 2023. **One** member indicated that the mining sector continued showing a downward trend. **Most members pointed out that services rebounded slightly in the same month.** **Some** members considered, however, that this sector continues on a deceleration trend. **Most members emphasized the heterogeneity across its components.** In addition, **one** member stated that primary activities declined in April.

Regarding aggregate demand, most members warned that it contracted for two consecutive quarters. All members agreed that this performance was driven by decreases in consumption and investment. **Some** members pointed out that the contraction was significantly more notable in investment than in consumption. **One** member added that the environment of high uncertainty could be a factor contributing to the moderation of domestic spending. **Most members mentioned that, regarding consumption, the goods component decelerated.** **One** member specified that this decline was explained by lower spending on non-durable goods. He/she argued that some of these goods have low price elasticity of demand and their consumption tends to smooth out over time. **Some** members noted the slowdown in services consumption. **One** member recalled that during 2023 said consumption was particularly dynamic. **All members underlined that the downward trend in gross fixed investment persisted.** **One** member emphasized that the contraction of this segment during the first quarter of 2025 is the largest on record in the post-pandemic period. **Another** member pointed out that this reflected the downward trends in both public and private investment. He/she stated that the notable and persistent sluggishness in the construction sector is explained by the fall in non-residential investment. He/she added that investment in machinery and equipment registered its fourth consecutive monthly decline. **Regarding external demand, most members indicated that**

manufacturing exports have continued expanding so far this year. Some members underlined the ongoing dynamism of non-automotive exports. **One** member considered that this performance could be associated with a precautionary increase in demand for Mexican products in the United States, in anticipation of further trade restrictions. **Another** member mentioned that, in contrast, automotive exports have contracted.

Some members anticipate that economic activity will remain weak over the forecast horizon. **One** member expressed that stagnation or even a slight contraction is foreseen for 2025. He/she stated that domestic spending is expected to remain sluggish for the rest of the year. **Some** members mentioned that the output gap is expected to continue widening into clearly negative territory. **Most member noted that the balance of risks to economic activity remains biased to the downside.** **One** member considered that growth forecasts for the Mexican economy remain subject to significant risks to the downside. **Some** members agreed that one of the main risks is the intensification of global uncertainty, due to the persistence of foreign trade tensions and the escalation of geopolitical conflicts. **One** member noted that the current environment calls for caution when formulating economic projections.

Some members highlighted signs of a cooling labor market. **Most members mentioned that the employed population continued to moderate.** **One** member argued that it fell below mid-2024 levels and continued to trend downwards. **Another** member stated that formal employment growth has slowed. He/she noted lower employment levels in both the secondary and services sectors. **One** member pointed out that the number of IMSS-registered jobs created in May was the lowest since January 2010. **Some** members warned that the labor force participation rate continued trending downwards. They noted that, therefore, although employment declined, the unemployment rate remained at low levels. **One** member indicated that the rate of labor informality has increased at the margin. **Most members emphasized that wage growth has moderated.** **One** member added that the annual nominal variation in May was 7.6%, which, albeit being lower than that observed in recent years, is still above its historical average. **Some** members stated that the wage bill continues decelerating due to more limited wage revisions and a lower dynamism in job creation.

Inflation in Mexico

Most members pointed out that headline inflation rose from 3.93 to 4.51% between April and the first fortnight of June. They expressed that the recent increase in headline inflation reflected the rise in both the core and non-core components, with a greater contribution from the latter. **One** member mentioned that after registering its lowest level in four years in January 2025, headline inflation has trended upwards. He/she noted that it has accumulated three consecutive fortnights above the variability range. **Another** member highlighted that both headline and core inflation are at levels lower than those registered during the pandemic's inflationary episode, reflecting progress in the disinflation process. **One** member added that between the second fortnight of May and the first fortnight of June, headline inflation decreased, which could suggest that some pressures have begun to fade.

Regarding core inflation, all members noted that it increased since the last monetary policy decision, reaching 4.20% in the first fortnight of June. **Some** members highlighted that it has recently been above the upper limit of the variability range. **One** member indicated that its latest readings were higher than anticipated by analysts and the central bank. **Another** member considered that core inflation has been consolidating an upward trend. He/she stated that with its most recent reading, it has accumulated six consecutive fortnights of increases. He/she also highlighted that the three-month moving average of the seasonally adjusted annualized monthly variation has accumulated six months of increases from its minimum levels reached in November 2024 and is again above its pre-pandemic average. He/she noted that the increase in core inflation is broad-based and is not limited to just a few products. He/she also asserted that the trimmed mean indicator of this component has continued increasing since last November. He/she noted that supercore inflation, which is more susceptible to cyclical conditions, is well above its pre-pandemic average. **One** member attributed the rebound in core inflation to factors such as increases in international references, the exchange rate pass-through, and the normalization of merchandise price variations. Regarding this reversion to the mean, he/she added that, if the goal is for core inflation to be below its historical average, its components or some of them must be below their respective historical averages.

Most members stated that the increase in merchandise inflation has more than offset the

reduction in services inflation. Some members commented that in the first fortnight of June, merchandise inflation was 3.84%, while that of services was 4.61%. **One** member mentioned that since the second fortnight of November 2024, when merchandise inflation reached its minimum of 2.3%, it has increased by 152 basis points, while that of services has decreased by only 34 basis points. He/she expressed that considering the weights of these subcomponents in core inflation, services inflation should have decreased by at least 111 additional basis points in order to compensate for the increase in merchandise inflation.

Most members highlighted that non-food merchandise inflation has been increasing after reaching historically low levels at the end of 2024. **One** member asserted that a process of normalization and reversion to the mean could be taking place. **Another** member noted that the annual variations of this subindex remain below 3%. **Some** members added that the different items of the non-food merchandise subindex exhibit a heterogeneous behavior rather than a generalized increase. **One** member highlighted that while the prices of hygiene and personal care products and household cleaning items have increased, those of other items have remained relatively stable. He/she listed, among these, clothing, footwear and accessories, as well as furniture and household appliances, which account for nearly 30% of the subindex. **Another** member pointed out that over 40% of non-food merchandise CPI items show an annualized and seasonally adjusted monthly increase of more than 5%. **One** member stated that the exchange rate depreciation observed since mid-2024 may be affecting the prices of various merchandise. He/she asserted that this may occur to varying degrees depending on the supply and demand factors prevailing in each market. Among supply factors, he/she highlighted the proportion of imported inputs in production costs, and among demand factors, the income elasticity of their demand. He/she expressed that core goods inflation has also increased at a global level, as seen in countries such as Japan, Canada, and the United States.

Most members mentioned the recent increase in food merchandise inflation. **One** member pointed out that the inflation of this subindex registered 4.82% in the first fortnight of June. **Most members attributed such increase partly to indirect effects resulting from the shock of livestock product prices on various processed foods.** **Some** members pointed out that the items most closely related to livestock products are cold cuts, processed

meats, and dairy products, which account for around 20% of the subindex. **One** member stated that the rebound in food merchandise inflation is mainly due to the effect of higher costs associated with increases in international references. He/she indicated that the cold cuts sector has been affected by the high prices of pork meat worldwide. **Another** member warned that more than two thirds of CPI items of the food merchandise subindex register an annualized seasonally adjusted monthly increase of over 5%. **One** member added that an increase in food inflation, which includes processed foods, is observed in several economies, suggesting that this is a global phenomenon.

Regarding services inflation, most members agreed that its decline has decelerated. **One** member stated that more than 60% of the CPI items that comprise the services subindex are growing at annualized monthly rates above 5%. **Another** member emphasized that, despite recent rebounds, services inflation remains at lower levels than in 2024 and has accumulated nine months below 5%. **One** member pointed out that services inflation depends mainly on domestic factors such as economic activity and labor market conditions. He/she recalled that in the context of a dynamic economy in 2023, services inflation remained persistently above 5%. He/she stated that the subsequent cooling of the economy contributed to the decline in this subindex starting in the second half of 2024. He/she concluded that the stagnation of the economy in 2025 implies lower pressures on services prices.

Most members highlighted that the slowdown in the decline of services inflation is partly explained by pressures on food services prices. **One** member pointed out that food service inflation remains at high levels and above its historical average, although it is below the double-digit peak reached in 2022. **Some** members attributed part of these pressures to the effect of the increase in livestock product prices. **One** member noted that, considering the proportion of these services affected by livestock products, the weight of food merchandise that are indirectly affected, as well as the one that livestock products have directly in the headline CPI index, altogether they have a weight of around 15% in the overall basket. He/she expressed that the recent rebound in the inflation of services other than housing and education is also explained by temporary factors, such as calendar effects affecting tourism services and the withdrawal of some special discount offers affecting entertainment services. **Another** member asserted that other items within services inflation have shown notable

progress. **Some** members agreed that housing inflation is showing clear signs of moderation. **One** member noted that it went from 4.01% in December 2024 to 3.49% in its latest reading, which is a favorable outcome given the significant weight it has in core inflation. He/she recalled that the main determinants of this component are economic activity, labor market conditions, and lagged inflation. He/she mentioned that housing inflation is expected to continue decreasing due to the weakening of economic activity and the labor market, and given that the high levels of headline inflation seen in previous years are no longer present.

Most members noted that non-core inflation has increased from its level at the beginning of the year. **One** member recalled that this component is volatile. **Some** members highlighted that it remains at high levels, despite a recent decline, standing at 5.25% in the first fortnight of June. **Most members attributed its most recent increase to the significant rise in livestock products inflation.** **One** member pointed out that this item reached 11.86% in its latest reading. **Another** member mentioned that a double-digit inflation in livestock products had not been seen since the pandemic episode. **One** member highlighted, in particular, the increases in chicken and beef prices. **Most members stated that the aforementioned supply shock has its origin in adverse climatic and sanitary conditions and is reflected in increases in several international references.** **One** member added to these factors the increase in the price of feed grains. **Another** member emphasized the drought conditions, both domestic and external, which have affected cattle. As for other components of non-core inflation, **one** member pointed out that the prices of fruits and vegetables continue showing negative annual variations, registering -1.72% in the first fortnight of June. He/she expressed that energy inflation is currently lower than that observed during most of 2024.

Some members highlighted that medium- and long-term inflation expectations remained stable. They stated that these have remained anchored. However, **one** member pointed out that they have shown resistance to decline from the 3.60% level. **Some** members indicated that short-term inflation expectations exhibited a mixed behavior. They noted that expectations for the end of 2025 increased, while those for 2026 were revised slightly upwards. They pointed out that those corresponding to the next 12 months were adjusted downwards. In this regard, **one** member considered that the behavior of inflation expectations is consistent with the forecast that the

recent increase in inflation is temporary. **Some** members emphasized that the 10-year inflation risk premium increased, although it still remains below its historical average. **One** member pointed out that this increase led to a rise in breakeven inflation.

Some members mentioned that headline inflation forecasts were adjusted upwards due to revisions in core and non-core inflation. **One** member considered that a new upward revision in the forecast for the coming quarters for the third consecutive time reflects the challenges in its elaboration. **Another** member commented that the annualized seasonally adjusted quarterly trajectories of core inflation were revised for the second and third quarters of the year, and that core inflation is not expected to accelerate in the fourth quarter compared to what was previously anticipated. He/she added that this adjustment in the forecast is largely due to the effects of the shock on livestock product prices, and that this will have some base effects on annual readings looking ahead. **One** member pointed out that headline inflation is still expected to converge to the target in the third quarter of 2026, while core inflation is expected to reach 3% in the same quarter. **Most members commented on the favorable behavior of medium-term inflation determinants, which suggests that the pressures currently faced will not be long lasting. In this regard, they mentioned the economic slack, the appreciation of the Mexican peso, and the anchoring of inflation expectations.** **One** member added the prevailing restrictive monetary policy stance. He/she also indicated that the change in relative prices of livestock products and its direct effects would not be long-lasting. **Another** member noted the moderation in the labor market and lower wage growth rates.

Some members considered that the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside. **One** member pointed out that this bias is less pronounced than that faced between 2021 and 2024. He/she added that risks persist on both sides of the balance. **Another** member stated that the balance has deteriorated, reason why its upward bias has increased.

Regarding risks to the upside for inflation, most members mentioned the possibility of supply shocks exerting additional pressures on prices. In this regard, they specified that some of these shocks could be associated with adverse weather conditions, such as those that have recently affected livestock product prices. **One** member pointed out that, although these shocks usually affect price dynamics temporarily, their

impact can be amplified when there is a high cross elasticity of demand between the affected products. **Another** member warned that the forecast for non-core inflation anticipates low levels that are difficult to attain. Additionally, he/she highlighted as an upward risk the persistence of core inflation due to the acceleration of merchandise inflation and the resistance of services inflation to decline. He/she underlined that the 3.8% forecast for core inflation in the third quarter requires services inflation to have a seasonally adjusted annualized monthly variation of 2%, less than half of the average of the last three months. **One** member noted that while the upward risk of an exchange rate depreciation derived from foreign trade tensions has not materialized, under a floating exchange rate regime, the exchange rate can fluctuate in one direction or another at any time. He/she considered that the generalized depreciation of the US dollar due to the adverse effect of changes in the foreign trade policy on the outlook for the US economy has prevented such risk from emerging. **As for downside risks, most members highlighted the possibility of a lower-than-anticipated economic activity.** In this regard, **one** member added as a downward risk that the moderation of both labor market and wage growth limits the recovery of consumption, thus affecting price formation.

Macrofinancial environment

Most members noted that since the last monetary policy decision, the Mexican peso has continued appreciating. They specified that the exchange rate is at levels similar to those observed in mid-2024. They pointed out that this behavior of the Mexican peso can be attributed to the broad weakening of the US dollar. Some members added that the appreciation was also driven by carry trades that use financial derivatives, such as currency forwards. **One** member stated that the use of these short-term strategies explains why the Mexican peso has appreciated even though there have been no inflows from non-residents into Mexican peso-denominated securities. **Some** members emphasized that the strength of the Mexican peso also reflects the relatively more favorable trade treatment Mexico receives from the United States. **Some** members noted that the Mexican peso appreciated despite volatility in global financial markets. **One** member mentioned that, despite this volatility, trading conditions improved slightly, reaching levels similar to those observed in May 2024. **Some** members associated the appreciation of the Mexican peso in this context to the different dynamics that dollar-denominated assets have

shown in response to changes in risk aversion. **One** member indicated that capital flows into peso-denominated financial assets have been characterized by outflows of short-term M-Bonos from the non-resident sector, which have been absorbed by Siefores (specialized retirement funds) and local investment funds. **Some** members commented that the appreciation of the Mexican peso can also be attributed to the country's sound macroeconomic fundamentals compared to other emerging market economies. **One** member emphasized the sustainability of Mexico's external accounts. He/she pointed out that the current account deficit as a percentage of GDP is moderate.

Regarding the fixed-income market, most members noted that Mexico's government interest rates decreased for all maturities. Some members observed that movements were moderate in the middle and longer segment of the curve, but were larger in its short end. **One** member noted that the yield curve of real rate instruments exhibited mixed movements, with declines in the short end of the curve and increases in its longer end. In this context, **another** member mentioned that the behavior of Mexican assets could suggest a decline in sovereign risk premia, which are at levels comparable to those observed in August 2024.

Monetary policy

The Governing Board deemed appropriate to continue calibrating the monetary policy stance. This decision was made considering the behavior of the exchange rate, the weakness of economic activity, and the possible impact of changes in trade policies worldwide. Taking into account the current inflationary outlook and the prevailing level of monetary restriction, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 50 basis points to 8.00%.

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 presented the following arguments to support his/her vote and justify that this would be the final 50-basis-point adjustment. First, he/she indicated that, following the reductions made during the calibration process, including the one proposed in this monetary policy decision, Banco de México is better positioned to address both sides of the balance of risks to inflation. He/she stated that the level of monetary restriction has been reduced, considering that a greater amount of slack will contribute to ease inflationary pressures. He/she added that this has facilitated the economy's adjustment to an environment of lower growth and lower demand-related pressures. He/she added that, nevertheless, a restrictive policy stance is maintained to continue addressing the prevailing inflationary challenges. He/she commented that the ex-ante real rate would still be well above the neutral range. Second, he/she noted that efforts must continue to ensure that the convergence of inflation to the target is efficient. He/she stressed that monetary policy should focus on maintaining the anchoring of inflation expectations, particularly longer-term ones. He/she mentioned that Banco de México has remained vigilant, especially in view of the shock on livestock products' prices. He/she underlined that there is no predetermined policy stance nor tolerance or indifference regarding the current levels or the recent increase in inflation; rather, that monetary policy decisions represent an appropriate response to the current situation under an inflation-targeting regime. Third, he/she mentioned that the appreciation trend of the Mexican peso, partly driven by the generalized depreciation of the US dollar, provides room for the proposed reduction. He/she considered that both cyclical and structural factors may be contributing to a reallocation of global investors' portfolios towards assets in other economies. Fourth, regarding the monetary policy stance relative to that of the United States, he/she commented that, in a scenario where the US dollar is expected to continue depreciating, the rate differential could narrow beyond its historical average, allowing for a greater easing of the monetary policy stance. He/she added that, in this context, the relative stance should be interpreted with caution, particularly when comparing the rate differential over time. Finally, he/she deemed that, given the monetary policy stance attained, which is appropriate to address risks to inflation on both sides of the balance, it should be communicated that, going forward, a more gradual approach will be adopted during the rate-cutting cycle, taking into account all relevant information.

Another member noted that the uncertainty stemming from the imposition of tariffs has affected

the Mexican economy, while inflation has been impacted by a number of supply shocks. However, he/she considered that the medium-term determinants of inflation, such as the output gap, the exchange rate, and inflation expectations, do not indicate that pressures are likely to persist. He/she added that, although inflation forecasts were revised upwards, the convergence horizon remained unchanged. He/she noted that, under the proposed adjustment to the reference rate, the distribution of the ex-ante real rate would remain in the restrictive zone. He/she estimated that said rate would reach the same level as the peak observed during the monetary cycle that ended in December 2018, when headline inflation was at 4.83%, a level higher than the current one. He/she stated that, at this level, it was appropriate to reflect on what was achieved during the calibration process announced in the 2025 Monetary Policy Program. Considering the three metrics outlined in said document, he/she noted that, first, when the calibration of the reference rate began, the ex-ante real rate gap was practically three times the inflationary gap, while now this proportion has been reduced by half. Second, he/she added that the real rate shifted from nearly three standard deviations above its historical average to less than two, while inflation has remained below half a standard deviation from its respective historical average. Third, he/she stated that in the current weak economic environment, the reference rate remains above the levels suggested by various monetary rules. He/she pointed out that, as a result, there is still some room for further adjustments to the reference rate. He/she asserted that, although the rate differential with the United States has narrowed, the increase in risk premia in this economy makes it relevant to evaluate the volatility-adjusted interest rate spread on a multilateral basis. He/she stated that when considering a group of 23 advanced and emerging economy currencies that have comparable derivatives markets, the Mexican peso's carry trade position remains in the highest percentiles, suggesting that the relative stance is still solid. He/she considered that, given the progress achieved during the calibration process, looking ahead the monetary cycle could proceed with greater gradualism. He/she commented that the monetary policy statement should highlight that future decisions will be guided by the observed and expected determinants of inflation, and that the necessary flexibility will be maintained to ensure that the reference rate is consistent with the fulfillment of the constitutional mandate.

One member considered it possible in this meeting to continue with the calibration process, which was

announced in the Monetary Policy Program, given the significant progress in disinflation with respect to the most critical moments of the inflationary episode. Additionally, he/she noted that the current level of the reference rate is higher than the peak reached before the pandemic, and that the economic weakening implies lower pressures on prices, mainly those of services. He/she considered that, however, following a 200-basis-point reduction in the first half of 2025, the forward guidance should be modified, stating that this would be the final 50-basis-point rate cut. In this regard, in addition to the recent evolution of inflation, he/she elaborated on the relative monetary stance. He/she noted that, during 2025, the rate differential with respect to the Federal Reserve has decreased without negative reactions from financial markets. He/she commented that, given the weakening of the US dollar, it could be argued that there would be room for said differential to narrow further. He/she considered that, even in such case, since the rate differential is already at levels below its historical average, in subsequent meetings the Board would have to proceed with greater gradualism. Acknowledging that each period is different, he/she underlined that in the years following the taper tantrum, the differential reached its lowest levels. He/she added that in that environment, given the rate differential level, special attention was given to the relative monetary stance, stressing the risk of disorderly exchange rate adjustments. He/she underlined that, although all estimates point to a low exchange rate pass-through, inflation cannot be expected to remain unaffected in light of a significant and sustained depreciation. He/she added that in the case of merchandise, which are tradable goods whose prices depend to a greater extent on international references and the exchange rate, the pass-through is greater. Finally, he/she stated that, looking ahead, any additional adjustment to the reference rate would be assessed, taking into account the effects of all inflation determinants. He/she emphasized that the Governing Board must remain vigilant regarding the moderation of inflation in upcoming readings.

Another member considered that, in view of the evolution of the inflation outlook and the deterioration of the balance of risks, it is necessary to act prudently and pause reductions in the reference rate. He/she estimated that, although the monetary policy stance remains restrictive, the room for further calibration has been exhausted. He/she cautioned that, although there is still some room in the external context, this does not outweigh the constraints posed by the domestic inflationary pressures. He/she mentioned that the rate differential with the United

States is still ample and that the Mexican peso remains stable amid a broad depreciation of the US dollar. He/she pointed out that possible tariff changes in the United States, despite being a major source of uncertainty, will not be decisive until there is clarity regarding the timing of the implemented actions and their effects. He/she stated that, despite the economic stagnation, forecasts do not point to a recession that would weaken aggregate demand sufficiently. He/she commented that, therefore, the expectation of low inflation derived from greater slack conditions, besides not having materialized, is not realistic. He/she noted that the most recent forecasts for economic activity anticipate stagnation rather than a recession, which would sufficiently weaken aggregate demand. He/she indicated that the central bank's forecast includes two significant gaps with respect to observed and expected inflation, respectively, which undermine its credibility. First, he/she pointed out the gap between observed inflation and the previously forecasted inflation. He/she added that the forecast is revised periodically to the upside, and that if this gap persists, there is a risk that convergence could be delayed. As a second gap, he/she identified the difference between the central bank's forecast and analysts' expectations. He/she considered that the referred upward revisions to the forecast indicate that the levels anticipated by analysts have been more accurate. He/she emphasized that the latter anticipate that convergence will not be achieved in the forecast horizon. He/she estimated that achieving convergence to the target will remain a complex task, even at the current level of monetary restriction. He/she argued that the reference rate should be sufficiently far from the neutral range so that, in the event of higher inflation, both ex-ante and ex-post real rates do not passively shift to the neutral range. He/she added that a rate far from the neutral range will allow addressing inflationary shocks. He/she commented that, at this stage, adjustments to the monetary stance should depend entirely on the evolution of data. He/she mentioned that it would be appropriate for forward guidance to state that it is necessary to observe that inflation resumes its downward trend before lowering the reference rate. He/she stated that this would send a strong message that this central bank remains committed to its primary mandate.

One member stated that the proposed reference rate cut would be consistent with the levels at which inflation has fluctuated, with the observed and expected evolution of its determinants, and with the convergence of inflation. He/she deemed it important to consider the nature of the recent shocks to inflation

and their implications for its future trajectory. He/she specified that these effects are partly associated with increases in livestock products' prices, driven by short-lived supply shocks over which monetary policy has no influence. He/she expressed that even taking into account these rebounds, the dynamics of core inflation do not suggest an acceleration towards the end of 2025 and the beginning of 2026. He/she stated that, given the higher level of slack anticipated, and the moderation of both the labor market and wage growth, lower inflationary pressures are still expected. He/she added that the appreciation of the Mexican peso will also contribute to the above. In this regard, he/she considered that the relative stance must be assessed in light of the new dynamics of the US dollar, beyond previously observed rate differentials. On the other hand, he/she argued that clear and prudent communication not only has been key in describing the inflationary outlook and explaining the actions implemented, but has also contributed to their effective transmission to the economy. He/she specified that communication was essential in managing tail risks during the inflationary episode. He/she emphasized that, given the progress in disinflation, communication enabled the adoption of a gradual approach during 2024 and a calibration process since the beginning of 2025, amid increasing global uncertainty. He/she pointed to the orderly behavior of markets during this phase of larger rate cuts as evidence of the above. He/she commented that central banks can contribute to an environment of greater certainty by clearly communicating their strategy. He/she stated that it is not advisable to forgo the prudent and appropriate use of this tool. He/she mentioned that it is appropriate to communicate that the cycle of rate cuts can continue following a gradual approach, in view of the end of the calibration process. He/she added that, considering the current inflationary scenario and its outlook, as well as the adjustments made, adjustments of lesser magnitude to the reference rate could be considered to address both sides of the balance of risks. He/she pointed out that a gradual approach will allow to reassess the trend of inflation determinants insofar as more information becomes available. He/she estimated that this outlook is consistent with fostering an orderly and efficient convergence of inflation to the target.

3. MONETARY POLICY DECISION

The Governing Board deemed appropriate to continue calibrating the monetary policy stance. This decision was made considering the behavior of the exchange rate, the weakness of economic activity,

and the possible impact of changes in trade policies worldwide. Taking into account the current inflationary outlook and the prevailing level of monetary restriction, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 50 basis points to 8.00%.

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 8.50%.

5. DISSENTING OPINIONS/ VOTES

Vote. Jonathan Heath

The upward trend in inflation, its levels of volatility out of range, and a deteriorating balance of risks, have exhausted the room for a predetermined recalibration of the monetary policy stance. The adjustment made in this decision jeopardizes maintaining a sufficiently restrictive policy stance because it brings it near the upper range of the neutral rate. Over the last year it has been highlighted that there was room to lower the reference rate, while still keeping it within the restrictive zone, a necessary requirement to attain the intended convergence. However, this room has been exhausted, and there is a risk of now having an ex-ante real rate that is no longer compatible with the disinflation process still underway. With this decision, a message of complacency is being sent at the expense of our commitment to the inflation target, undermining our credibility, especially now that the forecast trajectory is not being met. In this new stage of inflationary pressures, where it is not clear if these will be temporary, it is imperative to send a consistent message of decisiveness, through both the forward guidance and our actions, that every effort will be made to contain such pressures.

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 expanded at a rate similar to that observed in the previous quarter. Advanced economies grew at a higher rate compared to the first quarter, supported by a rebound in the United States. In contrast, emerging economies are expected to have experienced a weaker performance than in the previous quarter. Purchasing Managers' Indices in May suggest that the manufacturing sector in advanced economies would have remained sluggish while in emerging economies it would have contracted (Chart 1). These indices continue pointing to a moderate expansion of services in advanced economies.

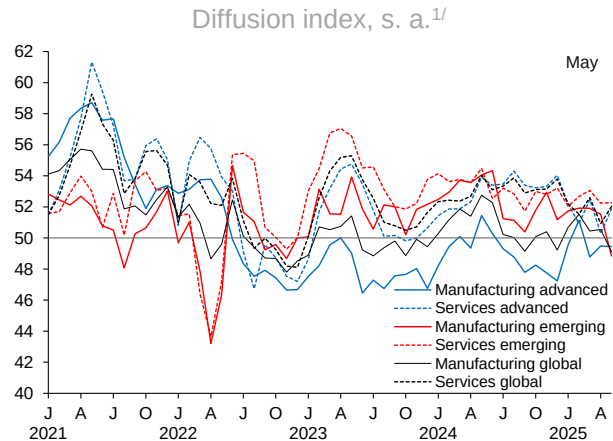
In April, available indicators of world merchandise trade declined compared to the previous month, after having improved significantly in the first quarter of 2025. The global trade outlook continued being affected by a high level of uncertainty due to the environment of international trade tensions. So far this year, the US administration has announced a series of tariff measures with most of its trading partners. Some of these were paused or temporarily mitigated while negotiations are being held between the United States and its main trading partners. This contributed to some easing of trade tensions after they had peaked in April. However, since Mexico's last monetary policy decision, the US administration doubled its tariffs on global aluminum and steel imports by raising them from 25 to 50%.¹ Among the most relevant global risks are the escalation of trade tensions along with the intensification of geopolitical turmoil and their possible impact on inflation,

* 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.

The information reported in this document covers the period between markets closing on the Wednesday prior to the previous monetary policy statement and markets closing on the Wednesday prior to releasing the latest monetary policy statement.

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, available indicators suggest that economic activity would have rebounded in the second quarter of 2025, after having contracted at a seasonally adjusted quarterly rate of 0.1% during the first quarter (Chart 2).² This increase would have reflected, to a large extent, a positive contribution from net exports, due to a fall in imports, following the advanced purchases prior to the imposition of tariffs in previous months. Meanwhile, private domestic sales would have registered a slightly lower growth than that observed in the previous quarter.³

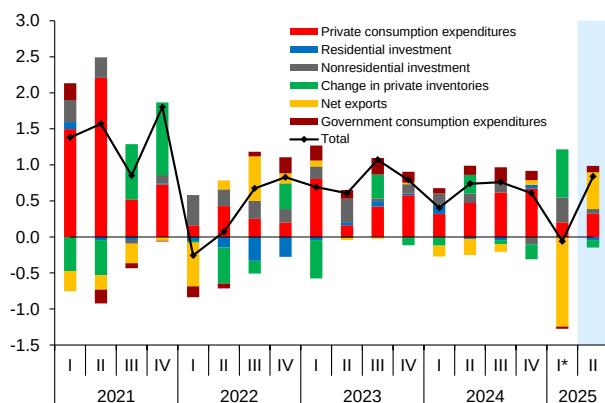
¹ The United Kingdom was the exception to this measure. Tariffs on steel and aluminum imports from that country will remain at 25%, although they could be modified or quotas could be established starting on July 9, 2025, depending on the agreements reached between the two countries.

² Expressed as an annualized seasonally adjusted quarterly rate, the variation of US GDP was -0.2% in the first quarter of 2025.

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

Chart 2
US: real GDP and components

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



s. a. / Seasonally adjusted figures.

*/ Corresponds to the second GDP estimate.

Note: The shaded area refers to the Atlanta Fed's GDPNow forecasts as of June 18.

Source: Bureau of Economic Analysis (BEA) and the Federal Reserve Bank of Atlanta.

US industrial production contracted at a seasonally adjusted monthly rate of 0.2% in May, after having increased 0.1% in April. This contraction was mainly explained by a 2.9% fall in electricity and gas generation, while both manufacturing and mining rose 0.1%. Purchasing Managers' Indices in June suggest that manufacturing production would have remained sluggish.

The US labor market remained solid and generally in conditions close to equilibrium. In May, nonfarm payrolls registered 139 thousand new job openings, a level close to its 2019 average. The unemployment rate remained low, standing at 4.2% for the third consecutive month. The number of vacancies rose from 7.2 million in March to 7.4 million in April. Since Mexico's last monetary policy decision, initial claims for unemployment insurance have increased. Continued claims have increased as well, reaching a peak since the beginning of November 2021. Finally, average hourly earnings decreased marginally from 4.1% in April to 4.0% in May.⁴

The euro area economy is expected to have grown at a slower pace during the second quarter of 2025 than in the previous quarter, when it expanded at a seasonally adjusted quarterly rate of 0.6%.⁵ The latest available indicators point to a slowdown in the services sector and to the continued sluggish

manufacturing activity. Uncertainty surrounding trade tensions with the United States is expected to moderate investment and exports from that region. The labor market remained robust. The unemployment rate declined from 6.3% in March to 6.2% in April, remaining at historically low levels. Employment grew at a seasonally adjusted quarterly rate of 0.2% during the first quarter of 2025.

As for the other major advanced economies, as a whole, they are expected to have grown at a slower pace during the second quarter than in the previous quarter. Labor markets in some of these economies continued showing strength, although signs of easing have been observed.

The main emerging economies would have registered a lower dynamism during the second quarter of 2025 compared to the previous one. This would be the case of China, whose economy would have continued decelerating during said period, after having grown at a seasonally adjusted quarterly rate of 1.2% in the first quarter.⁶ So far in the second quarter of 2025, the annual variation of fixed investment and industrial production was lower than that observed during the previous quarter, although similar to that registered in 2024. Meanwhile, the annual variation of retail sales continued trending upwards, in a context in which the Chinese authorities have implemented various stimuli to boost the country's economic activity. Exports remained relatively stable, despite a significant decline of those destined to the United States. In this environment, the Chinese economy continues facing significant challenges stemming from the weakness of its real estate sector and its domestic demand, as well as trade tensions with the United States.

Since Mexico's last monetary policy decision, international commodity prices have increased overall. Oil prices were above the levels observed in mid-May. This performance was mainly due to a certain improvement in the outlook for demand in light of the trade negotiations between the United States and China, as well as the escalating conflict between Israel and Iran, although the announcement of the ceasefire towards the end of the period largely reversed this increase. Prices were also driven upwards by an increase in US sanctions on Russian crude oil and by geopolitical tensions in Eastern Europe. The latter, after prices had been subject to some downward pressures in May and early June,

2025.

⁴ Includes average hourly earnings of production and nonsupervisory employees.

⁵ Expressed as an annualized and seasonally adjusted quarterly rate, the change in euro area GDP was 2.5% in the first quarter of

⁶ Expressed as an annual rate, the variation of China's GDP was 5.4% in the first quarter of 2025.

partly due to the announcement by the Organization of the Petroleum Exporting Countries and allied countries (OPEC+) to increase their production.

Natural gas reference prices rose during the period. European and Asian prices increased partly due to increased tensions in the Middle East and Eastern Europe, as well as a lower supply due to plant maintenance in Norway and higher demand in Asia. This increase partially reversed at the end of June due to the ceasefire agreement between Israel and Iran. Meanwhile, US natural gas prices rose driven by expectations of higher demand during the summer.

Grain prices are below the levels registered since Mexico's last monetary policy decision, although they exhibited volatility associated with weather conditions and the evolution of geopolitical and foreign trade tensions. Soybean and corn prices declined partly due to larger harvests in South America. In contrast, wheat prices were subject to upward pressures during most of the period due to supply concerns about adverse weather conditions in several producing regions. However, this trend reversed towards the end of June due to an improvement in the weather outlook.

Industrial metals prices were above the levels registered at the beginning of the referred period. In particular, the price of copper increased driven by a greater demand from China, as well as expectations of an additional increase in view of the trade negotiations between that country and the United States. The price of aluminum was also subject to upward pressures and was above the level registered at the beginning of the period as a result of lower inventories worldwide. In contrast, other metals such as zinc decreased due to expectations of a surplus market. Precious metals prices rose largely due to uncertainty surrounding trade policies, as well as the escalating geopolitical tensions in the Middle East and Eastern Europe. Thus, gold reached a new historical high in the second week of June.

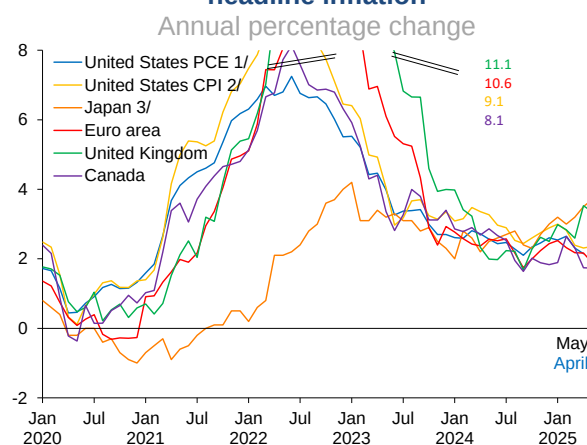
A.1.2. Monetary policy and international financial markets

Headline and core inflation have recently declined in most major advanced economies, after having increased in late 2024 and early 2025. In some cases, headline inflation is currently at levels close to or even below the inflation targets of their respective central banks (Chart 3). The recent decline has reflected, in general, lower energy inflation. In some economies, lower services inflation

has contributed to the decline in core inflation, while in others, upward pressures have prevailed in the goods component, although inflation in the latter remains low.

In the United States, annual headline inflation measured by the consumer price index increased from 2.3% in April to 2.4% in May. This increase was the result of lower deflation of energy and higher inflation of food. Core inflation remained relatively stable in May, standing at 2.8% for the third consecutive month. This recent behavior reflected a slight decrease in services inflation, which was offset by an increase in goods inflation, although the latter remains at low levels. Annual headline inflation as measured by the personal consumption expenditure price index (PCE) declined from 2.3% in March to 2.1% in April, reflecting higher energy deflation and lower core inflation. The latter declined from 2.7 to 2.5% during the same period and was at its lowest level in over four years. The effects of changes in US trade policy and the responses of some of its trading partners have not yet shown a clear impact on consumer prices.

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/ Excludes fresh food.

Note: The series includes data up to May 2025, except in the United States (PCE), whose latest available data corresponds to April 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 declined from 2.2% in April to 1.9% in May. This was the result of lower core inflation, which was partially offset by an increase in food inflation. In particular, after having rebounded to 2.7% in April, core inflation decreased to 2.3% in May. This was due to lower

services inflation, while goods inflation remained relatively stable at low levels.

Analysts' inflation forecasts for the end of 2025 for the main advanced economies have behaved heterogeneously among countries so far this year, widening the gap in expected inflation among some of these economies. The latter, in a context of high uncertainty due to the announcement and implementation of various tariffs at the global level and the worsening of geopolitical tensions. In particular, forecasts for the United States continue anticipating a significant rise in inflation over the next quarters of 2025, which would reverse throughout 2026. In some of the main advanced economies, inflation is still expected to remain above their central banks' inflation targets at the end of 2025. Indicators for long-term breakeven inflation stemming from financial instruments for the main advanced economies registered limited changes.

In emerging economies, annual headline inflation has declined from the levels registered at the end of 2024 in a large number of cases. Regarding core inflation, it has behaved heterogeneously across countries. In China, headline inflation continued at negative levels in May for the fourth consecutive month. As for core inflation in that country, although it increased slightly from 0.5% in April to 0.6% in May, it remains at low levels.

In this context, since Mexico's last monetary policy decision, several central banks in advanced and emerging economies continued lowering their reference rates, in some cases, after having paused their rate-cutting cycles. Others left their interest rates unchanged. In the main advanced economies, several central banks 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. Some of them have pointed out that they are currently in 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 both the economic and inflationary outlook.

The US Federal Reserve left the target range for the federal funds rate unchanged in the four decisions taken so far this year, after lowering it by 100 basis points (bps) in 2024. The range is currently set between 4.25 and 4.50%. In its June statement, the Federal Open Market Committee (FOMC) noted that uncertainty regarding the economic outlook has diminished, although it remains elevated, and

commented that it is attentive to risks to both sides of its dual mandate. It again stated that when considering the extent and timing of additional adjustments to the target range for the federal funds rate, it will carefully assess incoming data, the evolving outlook, and the balance of risks. 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 once again stated that changes in trade, immigration, tax, and regulatory policies continue evolving, and that their effects on the economy remain uncertain. He noted that expectations regarding the severity of the economic impact associated with tariffs have decreased since April. He indicated that, despite this, the tariff increases are likely to exert upward pressures on prices and affect economic activity. He pointed out that the duration of the impact will depend on the magnitude of the tariffs' effects, the temporality of their pass-through to prices, and whether long-term inflation expectations remain anchored. He mentioned that the Committee could find itself in a challenging scenario in which their dual-mandate goals could come into conflict. He noted that the Committee considers that the current monetary policy stance leaves them well positioned to wait for greater clarity on the inflation outlook before considering any adjustments and to respond to potential economic events in a timely manner.

Between March and June, the median of Committee members' forecasts for headline inflation measured by the personal consumption expenditure deflator was adjusted upwards from 2.7 to 3.0% for the end of 2025, from 2.2 to 2.4% for the end of 2026, and from 2.0 to 2.1% for 2027. The median forecast for core inflation increased from 2.8 to 3.1% in 2025, from 2.2 to 2.4% in 2026, and from 2.0 to 2.1% in 2027. The median of GDP growth forecasts was revised downwards for the end of 2025 and 2026, from 1.7 to 1.4% and from 1.8 to 1.6%, respectively, while it remained at 1.8% for 2027. The median for the unemployment rate was revised upwards from 4.4 to 4.5% for the end of 2025, from 4.3 to 4.5% for the end of 2026, and from 4.3 to 4.4% for the end of 2027. The median for expectations of the federal funds rate remained unchanged at 3.9% for the end of 2025, increased from 3.4 to 3.6% for 2026, and from 3.1 to 3.4% for the end of 2027. These forecasts would entail two 25-basis-point cuts for the remainder of 2025. The median for long-term rate expectations remained unchanged at 3.0%.

The European Central Bank (ECB) continued lowering its reference rates in June, implementing an additional 25-bp cut. Thus, its key deposit, refinancing, and lending rates currently stand at 2.00, 2.15, and 2.40%, respectively. The Governing Council commented that a further escalation of trade tensions in the coming months would result in lower-than-expected growth and inflation, whereas if these tensions were resolved with a favorable outcome, growth and, to a lesser extent, inflation would be higher than expected. It indicated that, particularly in the current conditions of exceptional uncertainty, it will continue following an approach based on economic and financial data in order to determine the appropriate monetary policy stance. It reaffirmed that it is not committed to a particular monetary policy path. It also noted that the size of its asset purchase program (APP) and pandemic emergency program (PEPP) portfolios are decreasing at a measured and predictable pace.

At the press conference for the June decision, the president of the ECB stated that, with the announced cut and the current level of interest rates, the Council is well-positioned to face the upcoming conditions of uncertainty. She mentioned that, given the uncertainty they are facing, they must be prepared and will assess the available economic data at each meeting. She indicated that with the announced rate cut, the current monetary policy cycle, which responded to multiple shocks, including COVID-19, the war in Ukraine, and the energy crisis, is coming to an end. She added that the Council is currently at a different stage, and therefore it will continue assessing the economic outlook, ensuring that the inflation target is met.

Regarding other advanced economies, since Mexico's last monetary policy decision, the central banks of Switzerland, New Zealand, Sweden, Australia, and Korea continued cutting their reference rates, the latter three after having left them unchanged in their previous decisions. In particular, the central bank of Switzerland lowered its reference rate in June to 0.0%. In Norway, the central bank cut its reference rate in June for the first time in five years.

In contrast, the central banks of England and Canada left their reference rates unchanged in their most recent policy decisions. Likewise, the central bank of Japan kept its interest rate unchanged in March, May, and June, after having increased it in January. In its latest decision, it announced a plan to reduce the amount of its government bond purchases over the period April-June 2026.⁷

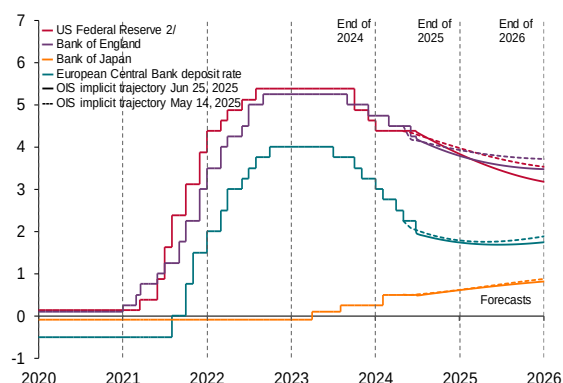
In the main emerging economies, some central banks continued lowering their reference rates, some of them after having left them unchanged in their previous decisions. Others decided not to adjust them, in some cases for several consecutive meetings. In the case of China's central bank, after implementing cuts in its reserve requirement ratio and in a number of interest rates during May, including the one- and five-year loan prime rate (*LPR*), it left the latter unchanged in its June decision. Said central bank employed various tools to inject liquidity into the banking system. Russia's central bank announced a 100-bp interest rate cut in June, its first reduction since 2022, after having kept its rate unchanged in 2025. Brazil's central bank continued increasing its reference rate in June, although to a lesser extent than in previous decisions, announcing an additional increase of 25 bps. Thus, its reference rate currently stands at 15%. Said central bank indicated that if the economic scenario anticipated by the Committee were to occur, it foresees an interruption in its cycle of interest rate increases to assess the accumulated impact of its previous decisions.

As for market expectations for reference rates in the main advanced economies, those implied by market instruments for the end of 2025 registered limited changes since Mexico's last monetary policy decision (Chart 4). In the case of the United States, the expected level for the federal funds rate at the end of 2025 decreased from 3.9 to 3.8% in the most recent forecast. It remained at 1.7% for the euro area and 0.6% for Japan. Lastly, the anticipated level for Canada's reference rate for the end of 2025 increased from 2.4 to 2.5%, and that for the United Kingdom decreased from 3.9 to 3.8%.

⁷ In its June decision statement, the central bank of Japan announced a plan to reduce the amount of its monthly outright purchases of government bonds (JGBs) to approximately 2 trillion yens for the January-March 2027 period. The amount will be reduced by about 400 billion yens each calendar quarter until the January-March 2026 period, and by approximately 200 billion yens each calendar quarter starting in the April-June 2026 period onwards. It indicated that at its June 2026 monetary policy

meeting, the central bank will conduct a mid-term assessment of the reduction plan, which could be modified if deemed necessary, and will discuss a new plan for its purchases starting in April 2027. It made clear that, in the event of a rapid increase in long-term interest rates, it will take prompt action and could modify its plan to reduce the size of its JGB purchases in its monetary policy decisions if deemed necessary.

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



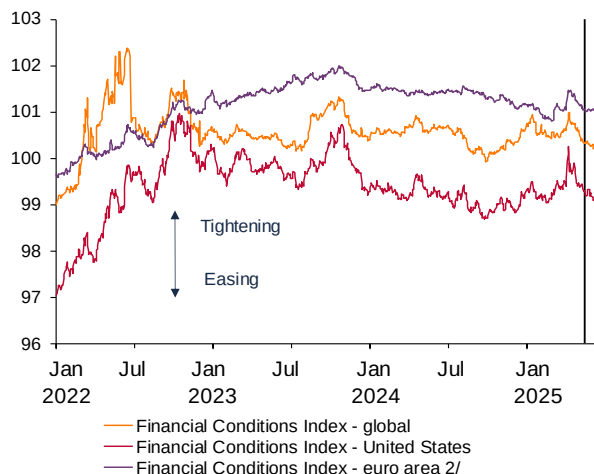
1/ OIS: Fixed floating interest rate swap where the fixed interest rate is associated with the effective overnight reference rate.

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

Source: Bloomberg.

Since Mexico's last monetary policy decision, global financial markets have undergone fluctuations in risk appetite due to a range of factors such as changes in economic policy expectations, mainly in the United States, and the evolution of geopolitical conflicts. In this context, global financial conditions eased overall (Chart 5). In the fixed-income market, long-term (10-year) and medium-term (2-year) rates for most of the main advanced economies declined moderately (Chart 6). 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. Stock markets in advanced economies generally exhibited gains. In foreign exchange markets, the US dollar depreciated against most of the main advanced and emerging economies' currencies. In the emerging economies, medium-term rates generally declined, while long-term rates exhibited a differentiated behavior (Chart 7). In Latin America and Asia, rates declined overall, while in emerging Europe rates increased. Emerging economies' stock markets adjusted downwards. Lastly, since Mexico's last monetary policy decision, net capital inflows to emerging economies were registered. Both fixed-income and equity assets increased.

Chart 5
Financial Conditions Index^{1/}
Units

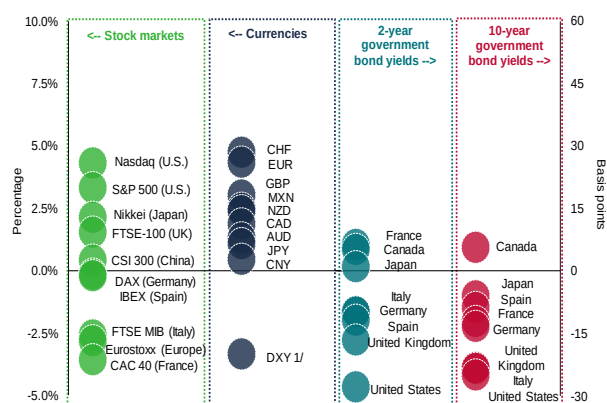


1/ The financial conditions index is constructed considering the effect of five variables on economic activity: the reference interest rate, the 10-year government bond, the spread of investment grade bonds over the government debt bond with equivalent maturity, the ratio of a stock index with 10-year 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 May 14 to June 25, 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 May 14, 2025

Percent basis points

Region	Country	Currencies	Equity markets	2-year interest rates	10-year interest rates	CDS
Latin America	Mexico	2.34%	-1.23%	-33	-37	-11
	Brazil	1.31%	-1.92%	4	-21	-12
	Chile	0.57%	-3.88%	-24	-9	-2
	Colombia	2.86%	-0.31%	20	-3	-3
	Peru	2.80%	4.15%	-3	9	-6
Emerging Europe	Russia	2.72%	-4.56%	-238	42	N.A.
	Poland	3.75%	-2.50%	-8	2	-2
	Turkey	-2.55%	-2.92%	-282	-157	3
	Czechia	4.89%	-1.71%	39	14	2
	Hungary	4.80%	2.48%	2	12	-1
Asia	China	0.48%	1.53%	-7	-2	0
	Malaysia	1.20%	-4.02%	-2	-4	-6
	India	-0.95%	1.75%	-13	0	-9
	Philippines	-1.52%	-3.45%	-8	9	0
	Thailand	1.66%	-8.96%	-18	-25	-8
	Indonesia	1.57%	-2.12%	-21	-22	-4
Africa	South Africa	2.83%	3.07%	-31	-62	-17

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.

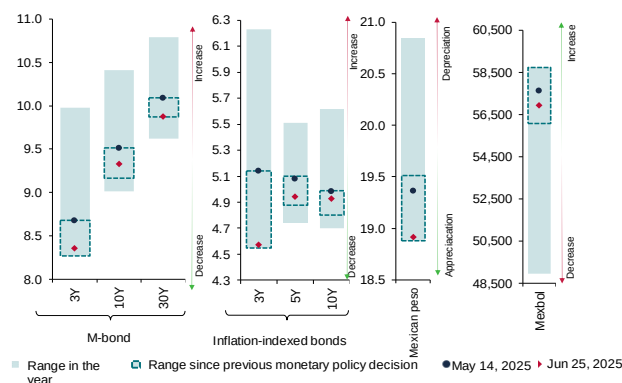
Source: Bloomberg.

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 mixed performance by asset class (Chart 8). The main catalysts were the trade negotiations between China and the United States and, in more recent days, the conflict in the Middle East. On the one hand, the Mexican peso appreciated against the US dollar, in a context of a generalized depreciation of the latter currency, and interest rates decreased for all terms. On the other hand, although the stock market reached a maximum during the period, it suffered losses towards the end of it.

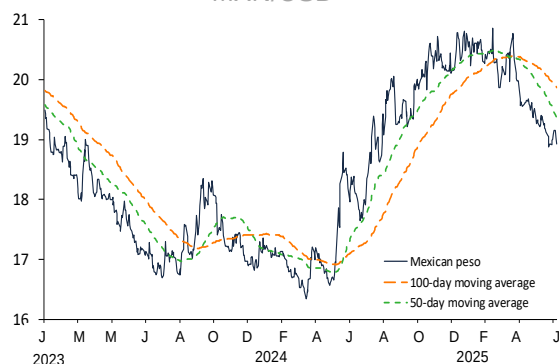
Chart 8
Mexican markets' performance
 Percent, MXN/USD and index



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

The Mexican peso traded in a range of 74 cents, between 18.82 and 19.56 pesos per US dollar since Mexico's last monetary policy decision (Chart 9). The Mexican peso closed the period with an appreciation of 2.34%, as a result of the dollar's weakness and the accumulation of carry trade positions. The peso's trading conditions improved slightly.

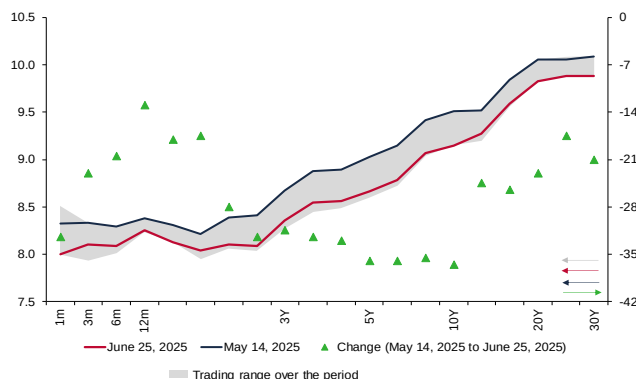
Chart 9
Mexican peso exchange rate
MXN/USD



Source: Banco de México.

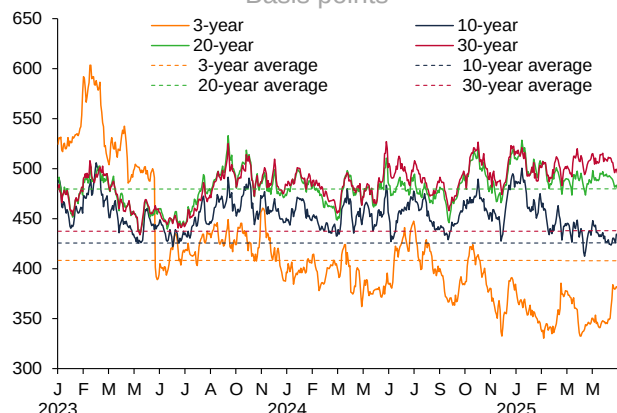
Government bond yields declined across the yield curve by between 13 and 37 basis points (Chart 10). Similarly, yields on real rate instruments displayed decreases ranging from 6 to 57 bps. In this context, breakeven inflation and inflation risk implicit in spreads between nominal and real rates of market instruments rose for the 3-year term and decreased for the other 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

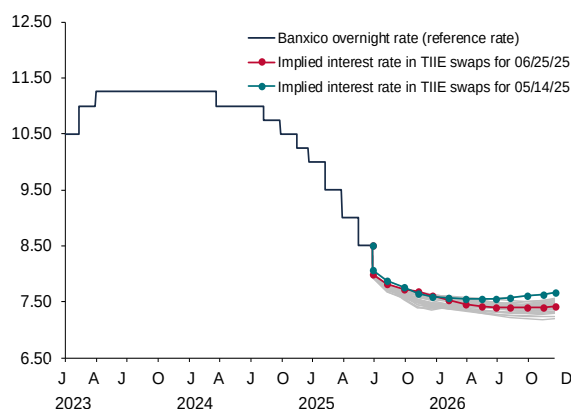


Note: Horizontal lines refer to the respective averages observed from September to date.

Source: Proveedor Integral de Precios (PIP).

Regarding expectations for the trajectory of the monetary policy reference rate, the information implicit in the interest rate swap curve incorporates a 50-bp cut in the June decision and an expectation of a 7.61% rate for the end of 2025 (Chart 12). In line with the above, most analysts in the Citi Mexico survey anticipate a 50-bp cut for the June 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

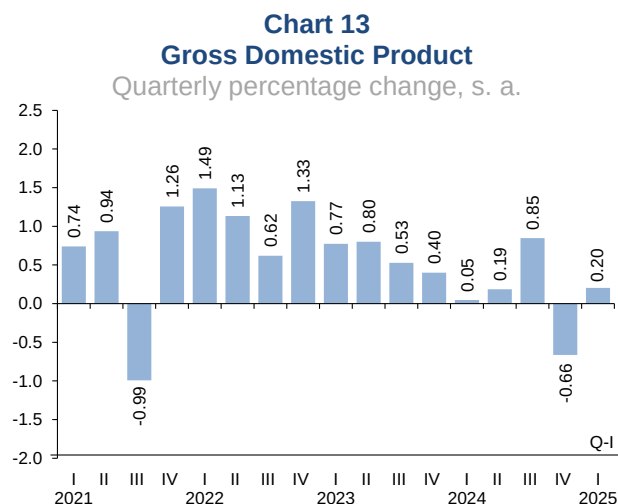


Note: Shaded areas represent the range since the last monetary policy decision.

Source: Proveedor Integral de Precios (PIP).

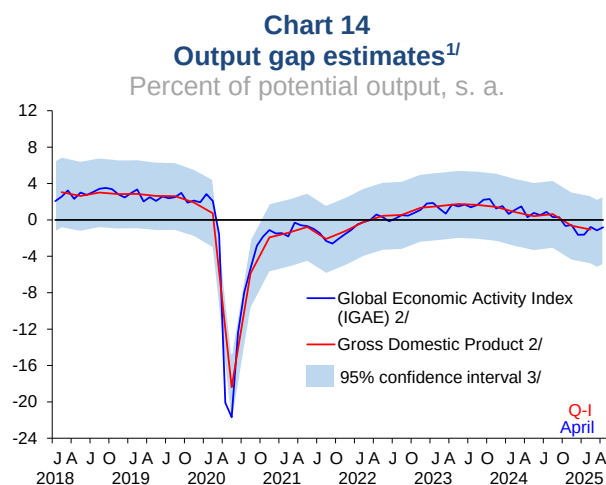
A.2.2. Economic activity in Mexico

In the first quarter of 2025, GDP exhibited a low seasonally adjusted quarterly growth rate (Chart 13). Economic activity expanded in April. However, it continues to reflect slack conditions given the weakness it has been showing (Chart 14).



s. a. / Seasonally adjusted figures.

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



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 up to Q1-2025 and IGAE up to March 2025.

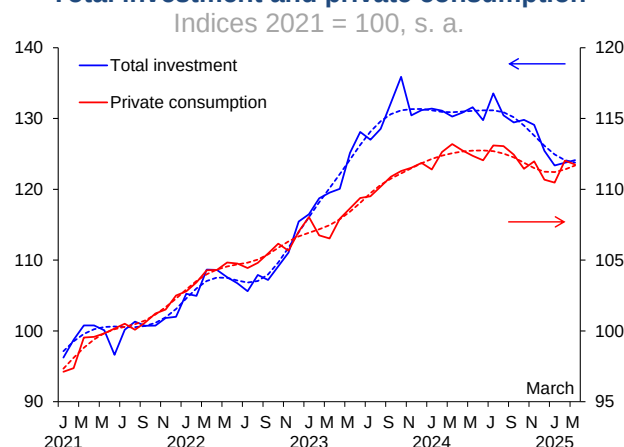
3/ Output gap confidence interval calculated with a method of unobserved components.

Source: Prepared by Banco de México with INEGI data.

Regarding the evolution of domestic demand, private consumption remained weak in the January-March 2025 period (Chart 15). This was the net result of a decline in the consumption of imported goods, stagnation in the consumption of domestic goods, and growth in the consumption of services. In the first quarter of the year, gross fixed investment continued

trending downwards. The segments of construction and of machinery and equipment contracted during the same period.

Chart 15
Total investment and private consumption



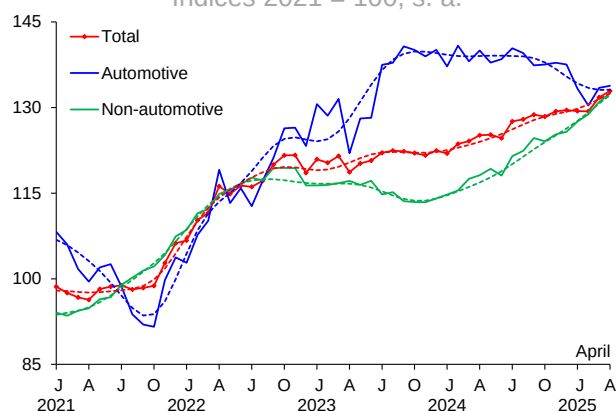
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.

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

As for external demand, during the first four months of 2025, the value of manufacturing exports increased, driven by the upward trajectory of non-automotive exports. In contrast, automotive exports declined over the period (Chart 16).

From a sectoral perspective, the expansion observed in April 2025 reflected a certain reactivation of services (Chart 17). Meanwhile, industrial activity remained weak. Regarding its components, manufacturing remained stagnant, construction partially reversed the growth observed in the first quarter of the year, and mining continued trending downwards (Chart 18). Primary sector activities reversed part of the rebound observed during the first quarter of 2025.

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

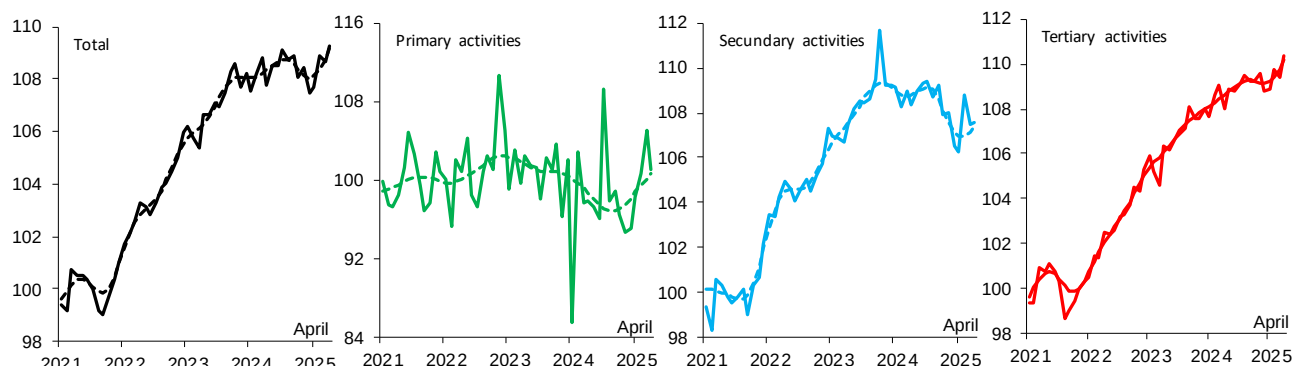


s. a. / Seasonally adjusted series and trend series based on data in nominal US dollars. The former is represented by a solid line and the latter by a dotted line. Three-month moving average.

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 a context in which the decline in employment has been accompanied by lower labor participation, both national and urban unemployment rates remained at low levels at the beginning of the second quarter (Chart 19). At the same time, in May 2025 the sluggishness in IMSS-registered job creation that had persisted for several months continued. Finally, unit labor costs in the manufacturing sector remained elevated in April.

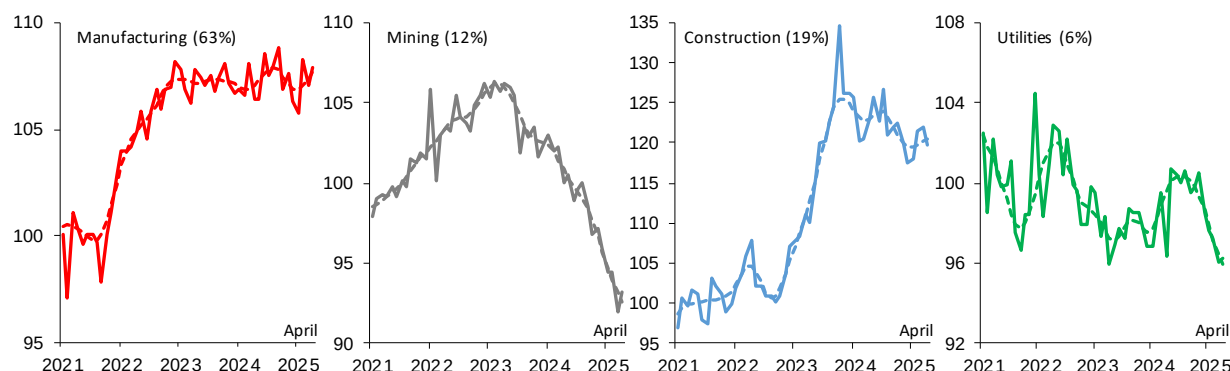
Chart 17
Global Indicator of Economic Activity
Indices 2021 = 100, s. a.



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

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

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

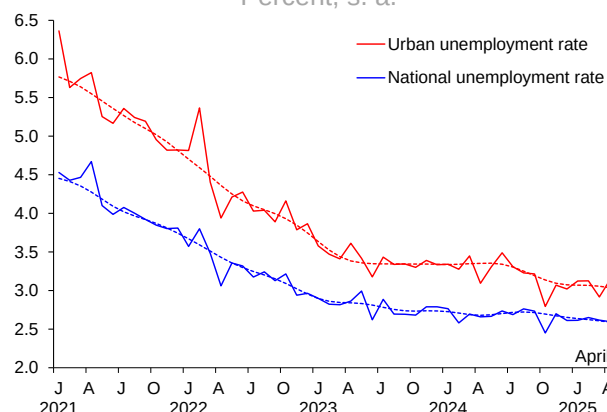


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.

1/ Figures in 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.

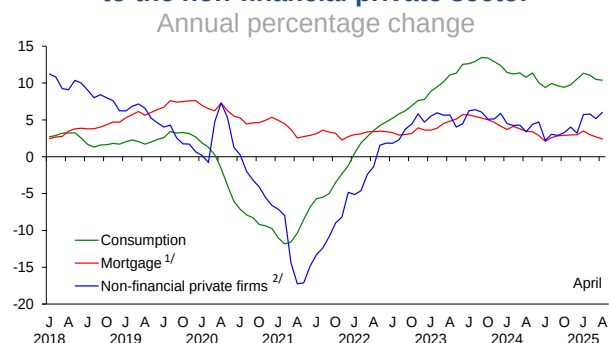
Source: Prepared by Banco de México with ENOE data, INEGI.

As for the cost of financing, interest rates on bank credit to firms continued declining in April 2025, despite remaining at high levels. Thus, this evolution kept reflecting the pass-through of the reference rate to bank interest rates. On the other hand, commercial bank mortgage lending rates remained mostly unchanged in April, as they stayed at levels similar to those registered before the pandemic. Finally, based on data up to December 2024, interest rates on bank consumer loan portfolio remained at relatively high levels, although they decreased slightly compared to the previous period.

As for portfolio quality, delinquency rates for corporate and mortgage lending rose slightly in April 2025, while a modest decline was observed in the consumer loan portfolio. As a result, these indicators remained low relative to their historic levels.

In April 2025, domestic financing to the private sector continued growing at a relatively high annual rate, similar to that observed in the previous month. As for its components, commercial bank credit to businesses registered an increase in its real annual variation with respect to the previous month (Chart 20), which was partly attributable to a greater use of credit among businesses issuing stock market debt. Household credit continued showing some moderation in its growth rate. Despite the above, the expansion rate of the consumer credit portfolio remained at a high level.

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.

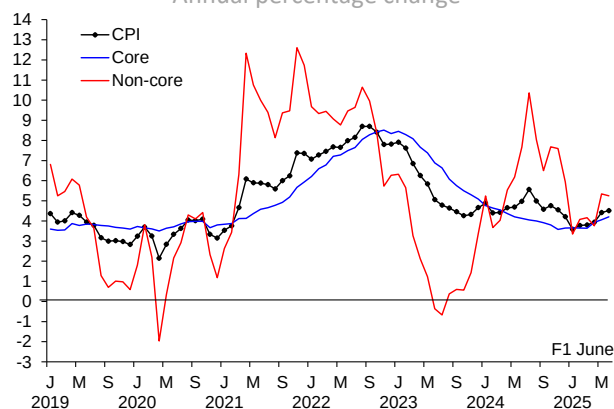
2/ Adjusted for valuation effects due to movements in the exchange rate.

Source: Banco de México.

A.2.3. Development of inflation and inflation outlook

Annual headline inflation increased from 3.93% to 4.51% between April and the first fortnight of June 2025. This performance mirrored the increase in both the core and non-core components, with a greater contribution from the latter (Chart 21 and Table 1).

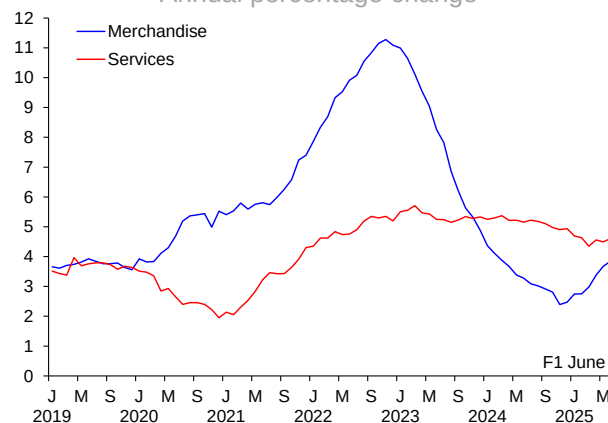
Chart 21
Consumer Price Index
Annual percentage change



Source: INEGI.

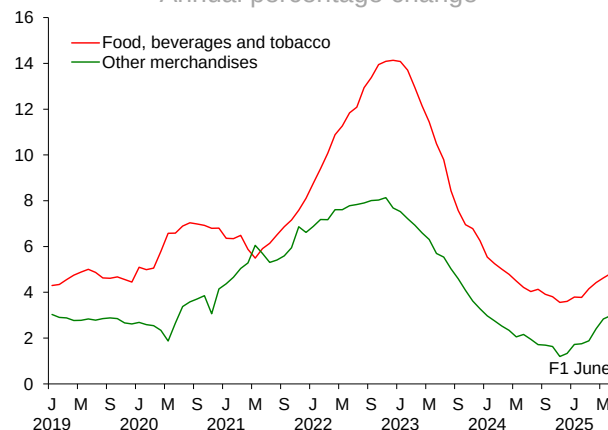
Annual core inflation increased from 3.93 to 4.20% between April and the first fortnight of June 2025. This performance was mainly driven by the increase in merchandise inflation, which rose from 3.38 to 3.84% (Chart 22). Regarding its components, food merchandise inflation increased from 4.42 to 4.82%, while non-food merchandise inflation did so from 2.40 to 2.98% (Chart 23). Meanwhile, annual services inflation registered 4.56 and 4.61% on the referred dates. Regarding its components during this period, housing inflation decreased from 3.64 to 3.49%, education inflation remained stable at 5.84% in the first fortnight of June, and inflation of services other than housing and education increased from 5.31 to 5.51% between the two dates previously mentioned.

Chart 22
Merchandise and services core price subindex
Annual percentage change



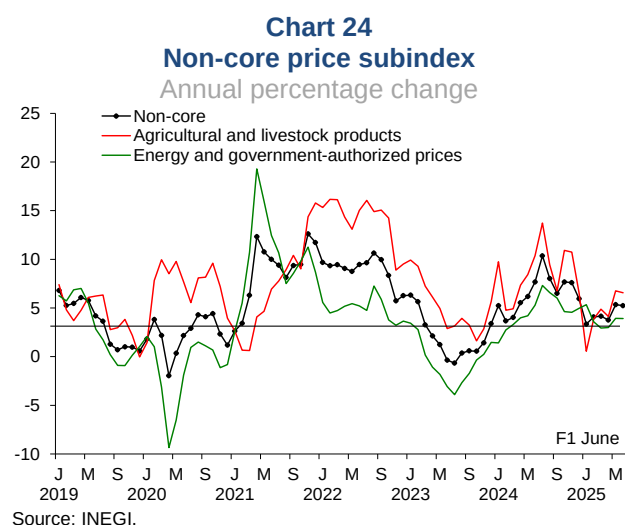
Source: INEGI.

Chart 23
Merchandise core price subindex
Annual percentage change



Source: INEGI.

Between April and the first fortnight of June 2025, annual non-core inflation rose from 3.76 to 5.25% (Chart 24 and Table 1). This result was largely driven by the increase from 4.13 to 6.57% in inflation of agricultural and livestock products, specifically in livestock products inflation, which went up from 8.25 to 11.86%. The rise in fruit and vegetable inflation from -2.45 to -1.72% between the referenced dates also contributed to the increase in non-core inflation during the period. Similarly, energy inflation rose from 2.47 to 3.51%, mainly influenced by the increase in the annual variation of electricity tariffs, which went up from 5.88 to 8.56%.



Regarding inflation expectations drawn from the survey conducted by Banco de México among private sector specialists, between April and May 2025, the medians for headline and core inflation for the end of 2025 increased from 3.80 to 3.90% and

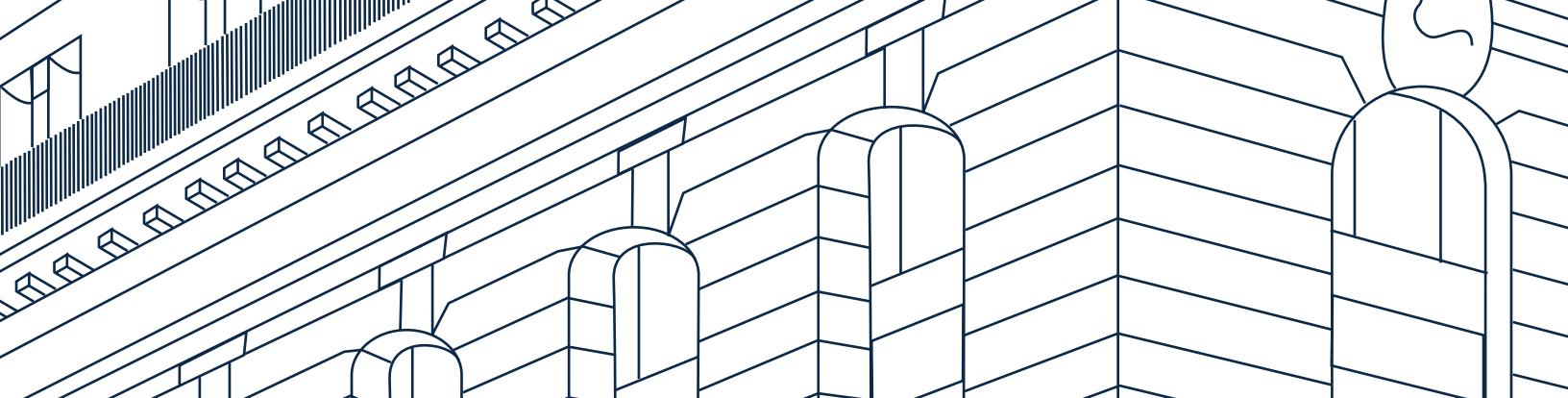
from 3.90 to 3.98%, respectively. Inflation expectations for the end of 2026 increased marginally. The median of headline inflation expectations adjusted from 3.74 to 3.77%, while that of core inflation expectations shifted from 3.64 to 3.70%. Inflation expectations for the next four years remained practically unchanged. The median of headline inflation expectations remained at 3.70%, while that of core inflation expectations adjusted from 3.66 to 3.65%. Expectations for headline inflation for the long term (5 to 8 years) remained at 3.60%, while core inflation expectations decreased from 3.54 to 3.50%.

Inflation forecasts were adjusted upwards. Services inflation has declined more gradually and merchandise inflation has increased more than expected. 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 rate 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. The balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside, although 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	April 2025	May 2025	1st fortnight June 2025
CPI	3.93	4.42	4.51
Core	3.93	4.06	4.20
Merchandise	3.38	3.67	3.84
Food, beverages and tobacco	4.42	4.63	4.82
Non-food merchandise	2.40	2.84	2.98
Services	4.56	4.49	4.61
Housing	3.64	3.53	3.49
Education (tuitions)	5.85	5.84	5.84
Other services	5.31	5.26	5.51
Non-core	3.76	5.34	5.25
Agricultural and livestock products	4.13	6.76	6.57
Fruits and vegetables	-2.45	0.04	-1.72
Livestock products	8.25	10.85	11.86
Energy and government-authorized prices	2.99	3.93	3.92
Energy products	2.47	3.50	3.51
Government-authorized prices	4.36	4.42	4.30

Source: INEGI.



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