



BANCO DE MÉXICO®

Minutes number 120

**Meeting of Banco de México's Governing Board on the occasion of
the monetary policy decision announced on November 6, 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: November 5, 2025.

1.3. Participants:

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

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

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

International environment

Most members highlighted that world economic activity is expected to have expanded during the third quarter at a lower rate than in the previous one, in both advanced and emerging economies. One member considered that the world economy continues adapting to changes in trade policies. He/she explained that the risk of the imposition of high tariffs has diminished as the implementation of some of the announced tariffs has been postponed or agreements to avoid them have been reached. Some members pointed out that Purchasing Managers' Indices imply that the manufacturing sector is expected to keep showing sluggishness, while the services sector is anticipated to continue

expanding. Regarding US economic activity, **one** member mentioned that available information indicates that during the third quarter of the year it is estimated to have shown greater dynamism than that of the rest of advanced economies. **Another** member stated that it is anticipated to have expanded at a rate similar to that registered in the second quarter of the year, driven by the dynamism of non-residential investment. **In this regard, most members highlighted that non-residential investment, particularly in high technology, has boosted US economic growth.** As for consumption in said economy, **some** members commented that household spending has moderated compared with 2024. **One** member underlined that consumption's contribution to economic growth would be similar to that of the previous quarter.

Some members noted that labor markets in the major advanced economies have continued showing signs of moderation. **One** member indicated that, in general, in the main economies, labor markets remain close to equilibrium overall. **Another** member considered that the US labor market has been cooling and its downside risks have intensified. **One** member stated that lower job creation, the gradual increase in the unemployment rate, and the moderation of real disposable household income growth suggest a sustained slowdown of the labor market in that country. He/she pointed out that the weakening of labor-intensive manufacturing could deepen the recent trend in the labor market. He/she added that this could affect consumption dynamics, particularly for households that are more sensitive to the employment cycle.

Some members indicated that global growth prospects for both 2025 and 2026 have been adjusted slightly upwards. However, they highlighted that economic growth for both years is still expected to be lower than in 2024. **Some** members stated that lower growth is also anticipated in the United States in 2025 and 2026 compared to 2024. **One** member pointed out that, although growth forecasts for said economy have continued adjusting upwards, they remain below those anticipated in April.

Some members mentioned that in most advanced and some emerging economies, headline inflation rose slightly. They stated that this was partly due to the increase of energy prices. **One** member indicated that, in some cases, recent increases have begun to reverse. Regarding core inflation, **some** members highlighted that it remains persistent in both advanced and emerging economies. **One** member noted that, in several economies, core inflation has

stabilized at levels above those prior to the pandemic, and, in this regard, he/she emphasized the case of the services subcomponent. **Another** member commented that the persistence of the core component has resulted from an increase in merchandise inflation and from a gradual decrease in services inflation. **One** member added that in several economies food prices are subject to pressures as a result of increases in their international benchmarks. In this regard, he/she referred to dairy products, meats, and vegetable oils. As for headline inflation in the United States, **another** member noted that, according to its measurement using the consumer price index, it rose from 2.9 to 3% between August and September, while core inflation fell from 3.1 to 3%. He/she expressed that the latter was due to a decrease in services inflation, while goods inflation remained stable. He/she underlined that both figures were below expectations. He/she added that analysts maintain their forecast that the tariff-related increase in that economy will be temporary and will reverse during 2026. **Some** members highlighted that inflation has been recording levels close to the targets set by their respective central banks. **One** member specified that most economies are expected to achieve convergence of their inflation targets towards 2026. He/she indicated that only in a small number of countries has inflation attained its target.

Some members pointed out that monetary policy normalization has continued at the global level. **One** member mentioned that this process has been characterized by differences in the pace and magnitude of adjustments among different central banks. He/she specified that some of them have started to reduce their interest rates in response to signs of lower economic dynamism, while others maintain stances close to their respective estimated neutral rates. He/she argued that in several economies, monetary policy faces the challenge of transitioning from highly restrictive conditions to levels compatible with progress in disinflation, while core inflation continues showing persistence. **Another** member pointed out that monetary authorities at the international level have maintained a cautious tone in light of the challenges to achieve point-wise convergence.

All members noted that the Federal Reserve lowered its reference rate by 25 basis points for the second consecutive time. **One** member recalled that said central bank had previously left its reference rate unchanged for five consecutive meetings. **Some** members pointed out that, in its statement, it mentioned that the outlook remains

challenging. **One** member commented that it also reiterated that risks to the labor market have increased in recent months, while inflation has risen since the beginning of the year. He/she specified that, in his remarks, the chairman of that central bank pointed out that the outlook had not changed significantly from the previous meeting, and that his tone remained consistent with the diversity of opinions within the committee. **Most members mentioned that the Federal Reserve is expected to continue its rate-cutting cycle.** **Some** members pointed out that said central bank also announced that it would conclude the reduction of its balance sheet starting in December. However, **some** members highlighted that said institution expressed reservations about the future path of interest rates. **One** member detailed that at the press conference the chairman emphasized that the Committee will maintain a data and risk-management dependent approach. **Another** member noted that the Bank of Canada cut its reference rate by 25 basis points, highlighting a context of marked economic weakness, albeit with higher-than-expected inflation readings. **One** member added that the cycle of rate cuts is expected to continue in several emerging economies.

Most members indicated that since the last meeting, international financial markets registered minor variations and more relaxed financial conditions. **One** member mentioned that this occurred despite the events that generated uncertainty, highlighting trade tensions between the United States and China. He/she associated this easing of financial conditions with the recent announcement of a truce between both countries. **Some** members also attributed it to expectations that the Federal Reserve will continue its rate-cutting cycle. **Most members pointed out that stock market indices rose.** **One** member specified that they have maintained a positive trend since the beginning of the year. **Another** member commented that the highest gains have concentrated in the technology sector. He/she added that concerns have recently risen about the high valuations in this sector and the impact that the prolonged US government shutdown, which is the longest in history, could have on the economy. **Most members noted that the US dollar appreciated slightly since Mexico's last monetary policy meeting.** However, **some** members highlighted that, considering its behavior over the year, it still shows a generalized weakening. **Meanwhile, most members emphasized that government bond yields of advanced and some emerging economies declined.**

Economic activity in Mexico

Most members mentioned that during the third quarter of 2025, economic activity contracted with respect to the previous quarter. One member noted that this contrasts with the 0.27 and 0.64% growth rates registered in the first and second quarters of the year, respectively. He/she warned that around 75% of economic sectors are stagnant or exhibit low dynamism. **Most members pointed out that the contraction in economic activity was the result of a decline in industrial production. Some** members commented that it shows weakness across all its components. **One** member added that it has contracted for three consecutive months. **Another** member warned that there had not been two consecutive contractions across all its components since August 2020. He/she highlighted the sluggishness of transportation equipment within the manufacturing sector. **Some** members added the weakness of construction. **One** member underlined that activity in this sector is at its lowest level since May 2023. **Most members noted the moderation in the growth rate of the services sector. Some** members considered that there is still a high heterogeneity within this sector's components. **Some** members pointed out the relatively high growth of the primary sector.

Regarding aggregate demand, **some** members stated that private consumption is trending upwards somewhat. **One** member indicated that it slightly outperformed economic activity. However, **another** member expressed that, year-to-date, private consumption is 0.3% below the level registered in the same period of 2024. **One** member added that it declined in July after expanding at a relatively high rate in the second quarter of the year. **Most members highlighted the decline in consumption of domestic goods and services and emphasized the dynamism of consumption of imported goods. One** member commented that the dynamism in consumption of imported goods is associated with the appreciation of the Mexican peso. **Another** member considered that, based on the type of expenditure, basic consumption was solid, while discretionary spending remained sluggish. **One** member noted that indicators such as sales by the National Association of Supermarkets and Department Stores (ANTAD, for its acronym in Spanish) have declined in their most recent readings.

Most members noted that gross fixed investment remained weak. Some members expressed that this occurred despite the fact that in July the machinery and equipment segment more than offset the

continued sluggishness in construction. **One** member pointed out that in August 2025, it registered a monthly contraction of 2.7% with seasonally adjusted figures and an annual decline of 10.4% with non-seasonally adjusted figures. **Another** member added that investment in residential construction continued growing, although it barely reached levels similar to those observed in 2019. **One** member indicated that business confidence indicators continue showing pessimism. He/she mentioned that the overall business confidence indicator has been falling since July 2023 and has remained below 50 points for seven months. **Some** members noted that, considering the behavior of investment and consumption, domestic demand has weakened significantly.

Most members pointed out that, in September, manufacturing exports continued trending upwards as a result of growth in non-automotive exports. Some members added that Mexico's share in US imports has increased throughout the year. **One** member indicated that this has occurred partly due to the lower effective tariff faced by Mexican exports, as well as a possible greater use of the USMCA. **Another** member considered that the robust performance of non-automotive exports and the dynamism of some specific segments within them highlights the importance of the USMCA review in 2026. **One** member noted that, based on figures reported in the national accounts, which are denominated in constant Mexican pesos, between the second quarter of 2024 and the second quarter of 2025, exports of goods and services have clearly slowed down. He/she stated that the improved tariff conditions faced by Mexico, rather than having contributed to an upward trend in exports, are preventing their contraction. **Another** member pointed out that non-automotive manufacturing exports to destinations other than the United States have contributed to the favorable performance of this type of exports. Meanwhile, **some** members highlighted the weak performance of automotive exports. **Most members explained that growth in non-automotive exports is partly due to the dynamism of the computer equipment segment linked to the performance of the technology sector in the United States. One** member commented that, in addition to the increase in exports being concentrated in this segment, it has a moderate value-added-to-production ratio.

In this context, most members pointed out that the estimated negative output gap has widened. One member commented that economic activity is expected to grow only 0.6% in 2025, after growing

3.4 and 1.4% in 2023 and 2024, respectively. He/she stated that the quarterly variation of economic activity in the third quarter could mean that the annual variation of GDP in 2025 turns out to be lower than the 0.6% forecast released in the previous Quarterly Report. He/she added that this would be significantly lower than the average growth registered by the Mexican economy in the current century. He/she pointed out that between 2000 and 2019, the Mexican economy expanded by 1.8% per year on average. He/she added that economic growth in 2026 could be lower than the 1.1% forecast, partly due to the uncertainty that could arise due to the renegotiation of the USMCA. **Some** members noted that the economy is expected to continue exhibiting ample slack conditions over the forecast horizon.

One member considered that the balance of risks for economic activity remains biased to the downside given that some significant external risks prevail. He/she highlighted that the easing of trade tensions has mitigated the possibility of a more pronounced slowdown in the US economy. He/she mentioned that, nevertheless, this risk prevails, especially in the event of an abrupt correction in US stock markets.

Some members considered that the labor market continues showing signs of cooling. **One** member expressed that, if the pilot program for e-commerce platform workers is excluded, jobs registered with IMSS have exhibited a negative annual variation for three consecutive months. **Another** member commented that labor informality has trended upwards since its minimum level in June 2024. **Some** members pointed out that the number of enrolled employers registered with IMSS has fallen consistently since 2024. **One** member stated that the accumulated variation of such employers between January and September registered its greatest historical contraction for a comparison period since 2001. **Most members noted that the wage growth rate remains lower than in previous years.** **One** member underlined that the growth of IMSS-associated formal wages reached its lowest level since June 2021, confirming its downward trend. **Another** member pointed out that the evolution of wage growth reflects the context of weak conditions that have been observed in the labor market. **One** member highlighted that, although wage growth has moderated, it remains above pre-pandemic levels. He/she added that the considerable revisions foreseen for the minimum wage could intensify its upward effect on the average wage, given the growing percentage of the workforce whose wages are close to the minimum wage. **Some** members indicated that the unemployment rate remains at low

levels. **One** member considered that the latter is attributed to the fact that the decline in the pace of expansion of labor demand has been offset by a decrease in labor supply. **Another** member argued that, although the average national unemployment is the lowest on record, other key labor market indicators suggest the opposite. **Some** members stated that the labor force participation rate has continued showing signs of decline. **One** member pointed out that said rate has decreased since its historical highs reached at the end of 2023. He/she emphasized that, although the fall in the labor force participation rate is more notable among men, this trend reflects a lower overall participation across all age groups for both genders.

Inflation in Mexico

Most members noted that headline inflation decreased from 3.74 to 3.63% between the first fortnight of September and the first fortnight of October. They highlighted that this was driven by both a reduction in non-core inflation and the stabilization of core inflation. They also underlined that headline inflation has remained within the variability range in recent months. **One** member pointed out that this has occurred for seven consecutive fortnights. **Another** member stated that headline inflation has remained within the range in seven out of nine months so far this year, a feature that has only been observed in five different years since 2003. He/she considered that this reflects the new phase of the current inflation dynamics. He/she added that the significant monthly upward variations in a share of CPI items represent mainly changes in relative prices. **One** member argued that the price formation process in Mexico is firmly anchored, despite the adjustments in relative prices within the core component and the shocks to livestock product prices. **Another** member stated that headline inflation has been able to remain close to its pre-pandemic historical average due to the low levels of non-core inflation. **One** member noted that, in recent months, the contribution of this component to headline inflation has been lower than at the beginning of the year.

Most members indicated that core inflation has displayed a stabilization in its latest readings. They pointed out that it stood at 4.24% in the first fortnight of October. **One** member stated that this stabilization follows an upturn during the second quarter of 2025. **Another** member argued that the current levels are attributed to limited increases in certain items and do not reflect a generalized increase in prices. **Some** members highlighted that

core inflation has remained around 4.2% for five consecutive months, which reflects persistence. **One** member specified that such persistence has been greater than anticipated, due to the increase in merchandise inflation so far this year, which has more than offset the gradual and discontinuous decline in services inflation. **Another** member emphasized that the core component sets the trend for headline inflation in the medium term. He/she warned that the trimmed mean of core inflation has not reversed the upward trend observed since the lows of November 2024. He/she mentioned that supercore inflation, which is more sensitive to cyclical conditions, has remained above 4% for 13 consecutive fortnights. **However, most members highlighted the favorable behavior of the annualized seasonally adjusted monthly variations of core inflation. They noted that, unlike the annual variation, these figures reflect inflationary pressures at the margin and are not affected by the arithmetic effects of prior shocks.** **One** member pointed out that the three-month moving average of this component's variations at the margin stand at 3.74%, in contrast to the annual variation, which is higher. **Another** member underlined that these variations have been trending downwards for several months, albeit with fluctuations. **One** member added that the correlation of adjustments at the margin in the prices of merchandise and services remains close to zero, which is indicative mostly of sector-specific price pressures rather than aggregate price pressures.

Some members indicated that, during the first fortnight of October, merchandise inflation stood at 4.06%. **One** member mentioned that it decreased from the 4.19% registered in the second fortnight of September. **Most members highlighted the downward trend in its seasonally adjusted monthly changes in recent months.** **One** member underlined that this trend comes after an upward trajectory observed during the first half of the year, when it reached levels above 6% at an annualized rate. **Some** members noted that the three-month moving average of these annualized monthly variations stood at 2.89% in the first fortnight of October. **One** member stated that the dynamics of food and non-food merchandise were similar. He/she pointed out that the improvement at the margin has not been fully reflected in the annual readings due to the base effects of the increases during the first half of the year. **Another** member mentioned that, although annual merchandise inflation declined slightly in the latest fortnight, food merchandise pressures remain. He/she warned that, during the first fortnight of October, the prices of nearly 45% of

the items in the basket of the latter subindex increased at rates above 5%. He/she added that food merchandise inflation has been above 5% for the past eight fortnights. He/she considered that reductions in non-food merchandise inflation are not yet significant enough to lead to a decline in the entire core component. However, **one** member mentioned that, although the merchandise component has faced pressures from the impact of the livestock supply shock on food merchandise prices, the appreciation of the Mexican peso has contributed to the decline in annual merchandise inflation.

Most members highlighted the persistence of services inflation. **One** member noted that the degree of persistence within services inflation is heterogeneous. He/she pointed out that housing inflation has trended downwards. He/she added that inflation of education services is slightly above its level observed earlier this year. He/she stated that inflation of other services decreased slightly compared to earlier in 2025, as inflation of health and personal care services, as well as that of transportation and automotive services, continue trending downwards. **Another** member indicated that services inflation stood at 4.42% during the first fortnight of October. He/she emphasized that, nevertheless, the three-month moving average of the annualized seasonally adjusted monthly variation registers a gradual albeit sustained downward trend. **One** member noted that empirical evidence points to a positive correlation between the cyclical components of economic activity and inflation, mainly in services. However, he/she added that this co-movement is not contemporaneous; therefore, the effects of economic weakness on services inflation may take time to materialize. **Another** member stated that the persistence of this subindex has increased since the pandemic, mirroring the situation in other countries. **One** member mentioned that such persistence has shown no signs of decreasing. He/she added that annual services inflation has increased marginally since the latest monetary policy decision. He/she argued that this has occurred despite the persistent economic stagnation since the end of 2024 and the prevailing economic slack. **Some** members highlighted the performance of food services considering their weight in the services basket. **One** member noted that this component has stabilized as livestock product pressures have eased. However, **another** member pointed out that it has registered significant levels of inflation of around 8% since June.

Most members mentioned that non-core inflation declined from 2.01 to 1.58% between the first fortnight of September and the first fortnight of October. One member noted that this decline reflected a fall in agricultural and livestock products' inflation, which more than offset the increase in energy inflation. He/she pointed out that energy inflation increased from 0.02 to 1.1% during such period, remaining at low levels. **Regarding the developments in non-core inflation throughout the year, most members highlighted its favorable evolution. They stated that negative readings in fruit and vegetables inflation have contributed to this outcome, more than offsetting the high annual variation in livestock products prices. One** member argued that the negative readings in fruit and vegetables inflation reflect the reversal of supply shocks in 2024. Regarding inflation of livestock products prices, **another** member noted that it remains affected by supply shocks. **Some** members added that it seems to show signs of moderation after having trended upwards since the first half of 2024. **One** member pointed out that inflation of eggs and of pork and poultry meats have improved, whose weights within the livestock products index account for around 68%. He/she noted, however, that pressures on beef prices persist. Lastly, **another** member mentioned the downward trend in inflation of energy products and government-authorized prices as a positive factor for non-core inflation levels during the year.

Some members highlighted that headline inflation expectations for the end of 2025 were revised downwards. **Some** members mentioned that core inflation expectations increased for the same period. **One** member noted that headline inflation expectations for the end of 2026 remained relatively stable. **Some** members stated that these expectations increased for both headline and core inflation. **One** member argued that this has widened the gap between Banco de Mexico's inflation forecast and analysts' expectations. Regarding longer-term expectations, **another** member mentioned that those for headline inflation have remained anchored, albeit showing resistance to decline below 3.6%. **Some** members underlined that those for core inflation remained stable, although above 3.0%. **One** member noted that, despite this, core inflation expectations remain below the levels of its most recent readings, suggesting that such levels are perceived as transitory. **Another** member added that long-term inflation expectations implied by market instruments decreased. **One** member highlighted that that breakeven inflation increased, reflecting a higher inflation risk premium across all maturities. He/she

added that this is consistent with the greater caution reflected in reference rate expectations implied by market instruments compared to those from surveys.

Most members anticipated that economic weakness will continue contributing to lower inflation. Some members pointed out that headline inflation is still expected to converge to the target in the third quarter of 2026. Regarding core inflation, **one** member considered that it is expected to decline again to below 4% in the first quarter of 2026 and continue decreasing thereafter. As for the components within core inflation, he/she mentioned that the Mexican peso's appreciation of around 12% in 2025 will favor the dynamics of merchandise inflation going forward. **Another** member considered that merchandise inflation would decrease once the base effects from the first half of the year dissipate. **One** member added that the prevailing economic sluggishness suggests that services inflation, which has been gradually declining so far, will continue doing so. He/she emphasized that, whenever economic activity weakens, services inflation tends to moderate several quarters later. Regarding non-core inflation, **another** member indicated that the shock to livestock product prices is expected to continue fading. In contrast, **one** member warned that the gap between observed and expected core inflation persists, forcing upward revisions in its forecasted trajectory. He/she indicated that resuming a downward trend in the merchandise component in the short term appears challenging due to external pressures on meat and vegetable oil prices, as reflected in the Food and Agricultural Organization (FAO) index throughout 2025. He/she considered that the reduction in services price inflation will be smaller than expected as labor costs are moving in the opposite direction. He/she added that achieving convergence of headline inflation to the target in the third quarter of 2026 appears challenging, given that projections for non-core inflation place this component at around half of its historical average and close to one-third of its historical standard deviation.

Some members agreed that the increase in the Special Tax on Production and Services (IEPS, for its acronym in Spanish) is expected to have a one-time impact; therefore, its effect will be limited and temporary. They mentioned that the inflation forecast is adjusted slightly upwards as a result of this increase. **One** member stated that although the latter could have a one-time effect on the forecast horizon, its indirect effects will need to be assessed, along with monitoring that no second-round effects are generated that could make core inflation become

entrenched at levels higher than those required to attain convergence to the target. **Another** member argued that, fundamentally, this tax would not affect the assessment of the inflationary outlook. He/she added that the prevailing degree of economic slack will help moderate its effects on prices.

All members considered that the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside. However, most members mentioned that said bias is less pronounced than that faced between 2021 and 2024. Among risks to the upside, **some** members pointed out the depreciation of the Mexican peso. However, **one** member stated that this risk has diminished. **Some** members indicated that the risk of a more persistent core inflation continues materializing. **One** member stated that a downward risk is the arithmetic between the forecast and inflation inertia. He/she added that, historically, the annualized quarterly variations of around 3% forecasted for core inflation have not been achieved on a sustained basis, thus suggesting that its slowdown is unlikely to materialize as is forecasted. **Another** member associated this risk with the lack of synchronization between the increase in merchandise inflation and the decrease in services inflation. In this regard, **one** member highlighted the possibility of an increase in merchandise inflation given the upturn in inflation in the United States, due to changes in that country's trade policy. **Some** members noted the risk of increased cost-related pressures. In particular, **one** member emphasized the pressures associated with the anticipated increases in the minimum wage. **Another** member added the possibility of further disruptions due to geopolitical conflicts or foreign trade policies. **One** member stated that new tariffs could come into effect. He/she commented that these tariffs and tax adjustments could impede the largest slowdown in inflation foreseen for early 2026. **Another** member noted the risk of a reversal in non-core inflation, given that its annual variations have been unusually low, in addition to the increase in the government-authorized prices subcomponent. He/she stated that the materialization of risks to the upside could delay the convergence of inflation to the target beyond the third quarter of 2026. **Regarding risks to the downside, most members highlighted a lower-than-expected economic activity.** **One** member argued that this risk remains relevant due to the lagged effects of cyclical conditions on services inflation. **Another** member added the possibility of a lower pass-through of cost increases or that the appreciation of the Mexican peso contributes more significantly to reducing inflationary pressures.

Macrofinancial environment

Most members mentioned that, since the previous monetary policy decision, domestic financial markets have exhibited stable trading conditions, as evidenced by the moderate adjustments in the exchange rate. However, **one** member noted that in recent days the Mexican peso depreciated slightly, which was in line with the behavior of other emerging market currencies. **Some** members agreed that Mexico's favorable trade status with the United States, due to its preferential access to the US market under the USMCA, has contributed to the good performance of the national currency. **One** member indicated that the appreciation of the Mexican peso throughout the year has also been driven by the generalized weakening of the US dollar. He/she noted that the bid-ask spreads for the US dollar have stood below their historical average. **Some** members pointed out that implied volatility in foreign exchange options remains at low levels. **One** member observed that said volatility has declined over the course of this year, reaching levels comparable to those registered in the early months of 2024. **Another** member highlighted that this volatility remains within the lowest percentiles of its historical distribution across all maturities. He/she argued that the risk-adjusted rate differential distinguishes the Mexican peso among other emerging market economies' currencies.

Regarding the yield curve, the majority stated that since the previous monetary policy decision Mexico's short- and medium-term government interest rates decreased, while those for longer terms increased. **One** member pointed out that, although the short and long ends of the curve displayed a mixed behavior, the curve declined for all terms relative to mid-year levels. He/she noted that during this period, long-term interest rates in Mexico have declined, while those in the United States have remained relatively stable, which would indicate a compression of risk premia. **Another** member stated that the real yield curve declined across most maturities and that stock markets reached a new all-time high, partly favored by the solid performance of the basic materials sector. He/she warned that, going forward, the renegotiation of the USMCA could represent a risk factor that might exert pressure on domestic financial markets. Regarding the credit market, **one** member considered that a robust credit expansion and a significant increase in the monetary base can be observed.

Monetary policy

The Governing Board deemed appropriate to continue the rate-cutting cycle. This decision was consistent with the assessment of the current inflationary outlook. In particular, it took into account the behavior of the exchange rate, the weakness of economic activity, and the possible impact of changes in trade policies worldwide. It also considered the level of monetary restriction that has been implemented. Thus, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 25 basis points to 7.25%.

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

One member recalled that, at the previous monetary policy meeting, the rate-cutting cycle continued under an approach of gradualism, while the forward guidance was left unchanged. He/she deemed that the inflationary outlook allows to continue said cycle in the current monetary policy decision. Regarding inflation readings, he/she highlighted the behavior at the margin of core inflation, of the goods and services' subindices, and of their various trend measures, as well as the low short-term correlation at the margin between goods and services price adjustments. He/she pointed out the limitations of monetary policy to prevent changes in relative prices, particularly those associated with the non-core component. He/she remarked that, therefore, Banco de Mexico's efforts should remain focused on preventing the unanchoring of inflation expectations, and thus contribute to convergence to the target. He/she considered that the Governing Board has remained vigilant, preventing second-round effects associated with adjustments in relative prices. He/she argued that the monetary policy easing implemented and anticipated by the Federal Reserve provides greater room for maneuver in conducting monetary policy aimed at maintaining price stability. He/she considered it important to avoid an unnecessary tightening of Mexico's relative

monetary stance in view of the continuation of the Federal Reserve's cutting cycle. He/she added that the appreciation of the Mexican peso observed during 2025 will support inflation dynamics. He/she noted that, with the proposed action, the ex-ante real interest rate would be at 3.36%, at the upper part of the estimated neutral range, the midpoint of which is 2.7%. He/she pointed out that this is consistent with the prevailing and expected higher amount of slack, the evolution of the balance of risks for inflation, and both current and anticipated external monetary conditions. He/she stated that, considering the level of monetary restriction that has been maintained and that will continue to operate, looking ahead, the real interest rate should move further inside that range. He/she expressed that the approach of gradualism should continue, as it offers a robust response to inflation risks on both sides of the balance. He/she indicated that this approach would not be determined mechanically but rather would be guided by a careful assessment of the determinants of the outlook for inflation. He/she considered that continuing the rate-cutting cycle will facilitate a transition towards more conventional reference rate levels, after the exceptionally high levels to which it was raised, consistent with the current phase of the disinflationary process. Finally, he/she stated that it is appropriate to communicate that reducing the reference rate continues to be under consideration, which, looking ahead, will allow to assess the pace of the rate adjustment cycle under an approach of gradualism.

Another member mentioned that, since the previous monetary policy meeting, headline inflation has exhibited minor variations and core inflation readings have remained stable, albeit above 4.2%. He/she stated that CPI items' price increases with significant monthly variations mainly reflect changes in relative prices. He/she emphasized that medium-term determinants of inflation remain consistent with the fading of these shocks. He/she recalled that in a high-inflation regime, price increases tend to reflect common factors stemming from shocks that have cross-sectional effects on price formation. He/she pointed out that this could accelerate inflation and negatively affect expectations. He/she stated that this was the case of inflation observed between 2021 and 2022. He/she expressed that under such circumstances monetary policy must act to restore price stability. He/she mentioned that, in contrast, in a low inflation environment, idiosyncratic factors tend to dominate price dynamics. He/she pointed out that, when price increases occur independently of each other, price changes tend to be less sensitive to adjustments in aggregate demand, since a low-

inflation environment is typically associated with a flatter Phillips curve. He/she added that, in such a context, relative price pressures tend to reverse as long as the rest of the determinants of inflation favor a low inflation environment. Regarding the monetary policy stance, he/she noted that it has aligned with the guidelines set out in the 2025 Monetary Program. He/she estimated that, with the current decision, both the nominal and ex-ante real rates will have declined by 400 basis points, consistent with the estimates made following different monetary rules. He/she indicated that both the mean and more than half of the distribution of the real interest rate would lie within the neutral range, while the ratio between the inflation gap and the interest rate gap would be at a level similar to that observed at the onset of the pandemic. He/she warned, however, that the balance of risks for inflation remains biased to the upside and that core inflation continues exhibiting high persistence. He/she also underlined that diverse idiosyncratic risks could materialize and affect inflation in 2026. He/she added that this outlook calls for greater caution going forward. He/she argued that the forward guidance should be adjusted to provide the flexibility needed in the current conditions, maintain inflation expectations anchored, and strengthen credibility, in line with the fulfillment of the primary mandate.

One member reflected upon the inflation outlook in Mexico. He/she highlighted that, based on data of the first fortnight of October, annual headline inflation has remained within the variability interval for seven consecutive fortnights. With respect to annual core inflation, he/she pointed out that it is the relevant component and that, after having rebounded mainly during the second quarter of 2025, it has stabilized in its most recent readings. He/she added that the annualized seasonally adjusted monthly variations, particularly those of merchandise, have followed a downward trend for several months, albeit with some fluctuations. He/she highlighted the importance of these variations, as they capture the behavior of inflation at the margin and are not affected by the arithmetic effects of past shocks. He/she argued that the evolution of the annualized seasonally adjusted monthly variations of the core component, along with the behavior of its main determinants, suggests that its annual variation will resume a downward trend. However, he/she acknowledged that the balance of risks is biased to the upside. Regarding the determinants of core inflation, he/she emphasized the stability of its long-term expectations, the appreciation of the Mexican peso throughout the year, and the weakness of Mexico's economic activity, particularly of its domestic demand. In this

regard, he/she highlighted the sluggishness in the consumption of domestic goods and services, as well as the contraction in gross fixed investment. He/she underlined that a number of factors, including the environment of uncertainty and lower business confidence, have contributed to the cooling of economic activity. As for the external sector, he/she mentioned the recent reduction in the federal funds rate by the Federal Reserve. He/she stated that this provides room to adjust Mexico's reference rate downwards without further compressing the interest rate differential between the two central banks. He/she added that several factors, including the broad weakening of the US dollar, have contributed to the appreciation of the Mexican peso. He/she stated that the factors influencing the determinants of inflation, mainly the economic weakening, have offered room to lower the reference rate. He/she estimated that, considering all of the above, on this occasion it is appropriate to reduce the reference rate by 25 basis points. He/she mentioned that a downward adjustment of that magnitude is already fully discounted by markets.

Another member observed that the persistence of core inflation has not yet been resolved and that it continues to be necessary to rely on the non-core component to maintain headline inflation close to its pre-pandemic average. He/she mentioned that the effects of economic slack on inflation are still not clearly evident. He/she noted that the balance of risks remains biased to the upside and therefore observed inflation will probably remain above forecast, while the gap between the inflation forecast and both observed and expected data persists. He/she commented that the core inflation forecast continues to be revised to the upside, while analysts' expectations suggest that convergence might not be achieved over the next eight quarters. He/she stated that the room for reductions provided by the relative monetary stance is beginning to narrow and that such stance will begin to gain relevance. He/she considered that the current rate differential is low, and therefore it is uncertain whether it should be reduced further given the prevailing risks. He/she argued that it cannot be assumed that the Federal Reserve will continue reducing its target rate. On the other hand, he/she pointed out that, for the moment, what is relevant is to maintain an absolute restrictive monetary policy stance to ensure convergence. He/she expressed that, following the previous monetary policy decision, the ex-ante real interest rate is practically at the upper bound of the neutral range. He/she added that, if the average inflation expectation is maintained at the end of 2026, the ex-ante real interest rate would be within the neutral

range, should the rate-cutting cycle continue. He/she stated that a neutral monetary policy stance is not consistent with core inflation at persistently high levels and with expectations above the target. He/she added that the lag in monetary policy transmission has been longer than anticipated. He/she stated that caution should prevail until there is clear evidence that the 3% target will be attained. He/she indicated that the International Monetary Fund has recommended making further monetary policy easing conditional on such evidence. He/she noted that, it must be mentioned that, looking ahead, any adjustments will fully depend on the evolution of data, without assuming that the easing cycle will continue automatically. He/she pointed out that this would signal that it is insufficient to merely keep inflation at its pre-pandemic average level or below the upper bound of the variability interval; rather, there must be an unwavering commitment to the 3% target.

One member emphasized the importance of evaluating the appropriate level of monetary restriction based on the current macroeconomic context and its outlook, rather than relying exclusively on mechanical criteria. He/she noted that, with the proposed adjustment, the ex-ante real interest rate would be crossing the upper bound of the estimated neutral rate range. He/she cautioned that this does not necessarily indicate that the monetary policy stance has reached a neutral level, given the inherent uncertainty in measuring that range. He/she mentioned that monetary policy effects tend to intensify during periods of economic weakness, requiring a more precise assessment that considers the behavior of inflation determinants. Among these determinants, he/she underlined the widening of economic slack and stability of the Mexican peso exchange rate. Regarding the relative monetary policy stance, he/she noted that the recent reduction in the Federal Reserve's target rate, along with the prospect of additional cuts, provides room for the easing cycle in Mexico. He/she stated that, when evaluating interest rate differentials between the two countries, the weakness of the US dollar and the difference in cyclical positions between both economies should be taken into consideration. He/she added that, although short-term spreads are below their historical average, those corresponding to 10-year or longer nodes are in line with that average. He/she emphasized that Mexico's volatility-adjusted interest rate spread remains higher than that of other comparable emerging market economies. He/she stated that these developments confirm the congruence of continuing to orderly adjust the monetary policy stance. With regard to the

proposed tax changes, he/she sustained that price adjustments are typically one-off events, and as such their impact does not imply a shift in the inflation trend. He/she indicated that the transmission channels reflect the effects of monetary policy with differing intensities and lags. He/she asserted that various economic agents hold loans contracted in recent years at historically high interest rates, which has made the effects of monetary policy on economic dynamics and prices evident and will continue to influence them going forward. He/she expressed that this indicates that the monetary restriction that has been implemented will continue to have an impact even amid cuts to the reference rate. He/she pointed out that, after taking into account inflation levels, the observed and expected behavior of its determinants, and the lags in monetary policy transmission, it is necessary to communicate that gradually adjusting the reference rate is still being considered.

3. MONETARY POLICY DECISION

The Governing Board deemed appropriate to continue the rate-cutting cycle. This decision was consistent with the assessment of the current inflationary outlook. In particular, it took into account the behavior of the exchange rate, the weakness of economic activity, and the possible impact of changes in trade 2 policies worldwide. It also considered the level of monetary restriction that has been implemented. Thus, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 25 basis points to 7.25%.

Looking ahead, the Board will evaluate reducing 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 target for the overnight interbank interest rate at 7.50%.

5. DISSENTING OPINIONS / VOTES

Vote. Jonathan Heath

Since the underlying issue of core inflation has not yet been resolved, in this statement we must explicitly acknowledge the signs of its deterioration. For example, core inflation remains above 4.20%, with increases at the margin; core inflation expectations have been adjusted upwards for both the end of 2025 and for 2026; and the inflation forecast for this component has been revised upwards once again, as in previous decisions. In the absence of clear signals that convergence will be

attained within the forecast horizon, our forward guidance should no longer indicate an additional reduction in the reference rate. A premature monetary easing would bring reference rates to neutral levels in an environment of still elevated inflation, with the consequent regressive effects on the general population. Sending a message of complacency in light of persistent inflationary pressures could have a more detrimental effect on inflation expectations than the low level of the ex-ante real rate itself. Lastly, it must be explicitly acknowledged that our goal is not merely to keep inflation within the variability range, but rather to sustainably achieve the 3% target.

ANNEX*

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

A.1. External conditions

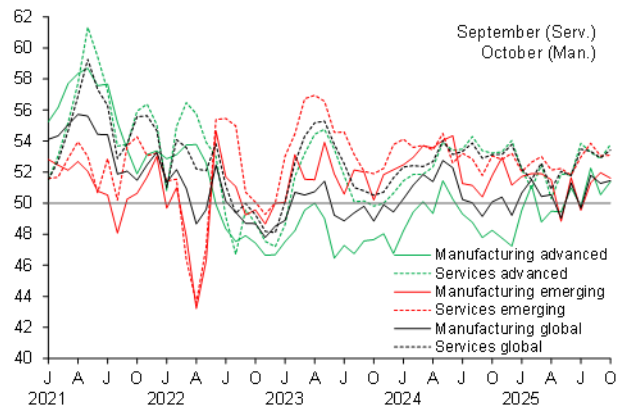
A.1.1. World economic activity

During the third quarter of 2025, global economic activity is estimated to have expanded at a slower rate than in the previous quarter, reflecting a moderation in both emerging and advanced economies. However, economic activity in the United States is anticipated to have grown at a pace similar to that of the previous quarter. Purchasing Managers' Indices of October suggest that, globally, the manufacturing sector is likely to remain sluggish, while the services sector is expected to continue expanding (Chart 1).

Uncertainty surrounding changes in trade policy has diminished compared to April, although risks to global trade persist. The US administration has continued to negotiate with some of its main trading partners and has reached new agreements. In early October, tensions between the United States and China flared up again. However, tensions eased after the announcement of a one-year trade agreement at the end of that same month. The effects that the tariff measures imposed by the United States could have on global economic activity remain uncertain, given that the current tariffs are high. In this context, growth forecasts for 2025 and 2026 prepared by international organizations were revised upwards across the board compared to those from April, although they still point to a slowdown in the global economy in 2025 and in 2026 compared to 2024. Among global risks, the escalation of trade tensions and the worsening of geopolitical conflicts are noteworthy, with potential impacts on inflation, economic activity, and financial market volatility.

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

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



s. a. / Seasonally adjusted figures.

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

Source: S&P Global.

In the United States, available indicators point to economic activity growing during the third quarter of this year at a similar pace to that of the previous quarter, when it expanded at a seasonally adjusted quarterly rate of 0.9% (Chart 2).¹ This performance would partly reflect a positive contribution from non-residential investment and net exports. Although consumption's contribution would be similar to that of the previous quarter, household spending has shown signs of moderating so far this year. Thus, domestic demand growth is anticipated to remain less dynamic than throughout 2024.

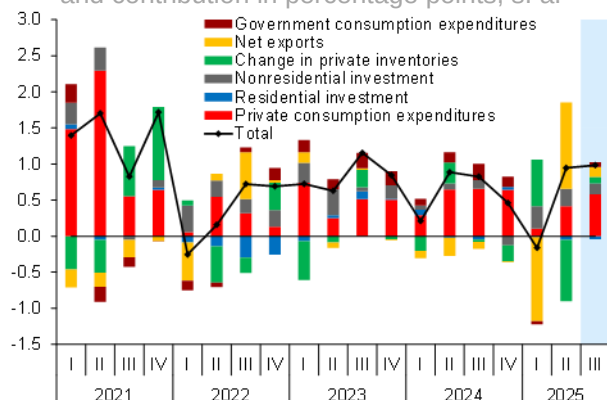
On October 1, the US federal government shut down, except for essential functions, after Congress failed to reach an agreement on the allocation of public spending. This situation is anticipated to have temporary negative effects on the country's economic activity in the fourth quarter of 2025. Additionally, the suspension of government activities has delayed the release of official economic reports, complicating the recent assessment of the economy.²

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

¹ Expressed as an annualized seasonally adjusted quarterly rate, US GDP grew 3.8% in the second quarter of 2025.

² Due to the government shutdown, there are no updates on industrial production indicators, employment reports, job openings and labor turnover surveys (JOLTS), initial unemployment claims, trade balance, capital orders, GDP, personal income, consumer spending, and PCE.

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



s. a. / Seasonally adjusted figures.

Note: The shaded area refers to the Atlanta Fed's GDPNow forecast as of October 27. Due to the government shutdown, the GDPNow model does not include updates on the indicators referenced in Note 2 of this document.
 Source: Bureau of Economic Analysis (BEA).

The latest available data indicates that US industrial production grew at a seasonally adjusted monthly rate of 0.1% in August, after contracting 0.4% in July. The Purchasing Managers' Indices for September and October suggest that manufacturing output has increased in those months.

The US labor market has shown signs of further moderation. Private-sector employment as presented in the ADP National Employment Report contracted by 29,000 jobs in September and rose by 42,000 in October, which is consistent with a low dynamism of job creation. In August, the number of job vacancies remained unchanged at 7.2 million compared to the previous month. Meanwhile, the unemployment rate has continued relatively stable during 2025, and initial claims for unemployment insurance stayed at levels similar to those observed at the beginning of the year during the week ending on September 20, 2025.

During the third quarter of 2025, the economy of the euro area expanded at a slightly faster rate than in the previous one. The region's GDP grew at a seasonally adjusted quarterly rate of 0.2%, after increasing by 0.1% in the second quarter.³ In the third quarter, retail sales were at levels similar to those observed between April and June. The

Purchasing Managers' Indices of October suggest that the manufacturing sector would be sluggish, while the services sector would continue growing. As for the labor market of the euro area, although demand for labor has moderated, it continued exhibiting strength. The unemployment rate remained at historically low levels, standing at 6.3% between July and September.

During the third quarter, economic activity in the rest of the main advanced economies as a whole is estimated to have grown at a slower rate than in the previous quarter. Labor markets in some of these economies showed signs of greater moderation, although overall they continued to display conditions near equilibrium. This reflects a lower growth in job creation, while unemployment rates have overall increased slightly.

The group of the main emerging economies is estimated to have grown during the third quarter at a slower rate than in the second one. The Chinese economy, however, grew more than previously anticipated and expanded at a slightly faster rate than in the previous quarter. China's GDP grew at a seasonally adjusted quarterly rate of 1.1%, after having expanded 1.0% in the second quarter.⁴ Annual growth of industrial production and exports remained relatively strong. The decline in exports to the United States was largely offset by an increase in shipments to other regions. In turn, its imports grew compared to the previous quarter. During the third quarter, the annual growth rate of retail sales moderated compared to the previous one. This came after a period in which consumption was supported by the consumer durables exchange program, which concluded in July.⁵ Meanwhile, the slowdown in the annual growth rate of cumulative investment in fixed assets observed throughout the second quarter intensified in September, as it contracted. In this context, the Chinese economy continues facing significant challenges stemming from the weakness of its real estate sector and domestic demand, as well as the uncertainty regarding its trade relationship with the United States. In October, the Communist Party of China convened its fourth plenary session to set economic goals for the next five years. According to the official statement, some of the topics discussed included technological self-reliance and boosting domestic demand.

³ Expressed as an annualized seasonally adjusted quarterly rate, the change in euro area GDP was 0.5% in the second quarter of 2025 and 0.9% in the third one.

⁴ Expressed as an annual rate, the variation of China's GDP was 5.2% in the second quarter of 2025 and 4.8% in the third one.

⁵ Implemented since 2024, China's goods exchange program was a government initiative aimed at reactivating the economy and boosting domestic consumption. By providing subsidies to local governments, the program enabled citizens to receive discounts on the replacement of worn-out goods, such as appliances, vehicles, and equipment, with new models.

Since Mexico's last monetary policy decision, international commodity prices have overall exhibited a mixed behavior. Oil prices remained below the levels registered at the end of September, although they fluctuated partly in response to the evolution of trade tensions. Among the factors that exerted downward pressures on crude oil prices the following stood out: increased production by the Organization of Petroleum Exporting Countries and allied countries (OPEC+); the perception of lower geopolitical risk in the Middle East; and expectations of a surplus in the crude oil market. These pressures were partially offset by sanctions on Russian oil producers announced by the US government and the European Union, as well as the possibility of additional restrictions on Russian oil exports. This was accompanied by OPEC+'s announcement in early November that it would pause production increases during the first quarter of 2026.

Gas prices showed a heterogeneous behavior across regions during the reporting period. Prices in Europe and Asia fell below the levels recorded during the last week of September due to high inventory levels, although they remained sensitive to developments in Eastern Europe's geopolitical conflict. Meanwhile, US prices increased in anticipation of higher demand, although they fluctuated in response to changes in inventory levels in that country.

Grain prices remained above the levels observed at the end of September, although they fluctuated throughout the period in line with the evolution of trade tensions. Said prices increased in light of expectations of higher demand from China, particularly for soybeans. This followed a period in which wheat and corn prices experienced downward pressures during the first weeks of the period, amid expectations of high inventories globally.

Industrial metals were generally above the levels registered at the end of September. Their price increases were largely driven by expectations of a higher demand and production disruptions across several regions. Precious metal prices rose, driven by a strong demand for safe-haven assets amid an uncertain environment, including changes in various US policies, geopolitical tensions in different regions, political and economic uncertainty in some countries, and expectations of further cuts to the Federal Reserve's policy rate. Similarly, several central banks increased their gold reserves. In this context, gold and silver prices reached an all-time high during

the third week of October. However, towards the end of that month, precious metal prices registered a sharp downward correction in their prices although they remained above the levels registered at the end of September.

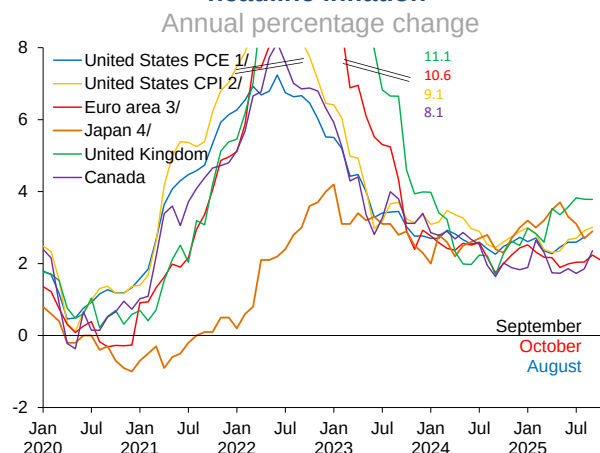
A.1.2. Monetary policy and international financial markets

In most advanced economies, annual headline inflation increased relative to the levels observed at the end of the second quarter (Chart 3). Core inflation has shown some resistance to decline, exhibiting mixed and moderate changes across countries. This has resulted from moderate declines in services inflation overall, as well as from heterogeneous trends in goods inflation across economies.

In the United States, annual headline inflation, as measured by the Consumer Price Index (CPI), rose from 2.9% in August to 3.0% in September, remaining close to the level observed at the beginning of the year. This growth was largely attributed to an increase in energy inflation. Core inflation decreased from 3.1 to 3.0% between August and September. This reflected a fall in services inflation, since goods inflation remained practically unchanged. In monthly terms, both headline and core inflation declined compared to the levels observed in August. Annual headline inflation of the Personal Consumption Expenditures price index (PCE), rose from 2.6% in July to 2.7% in August, laying at approximately the level registered at the beginning of the year. Core inflation remained at around 2.9% in August.⁶

⁶ The latest available data corresponds to August.

Chart 3
Selected advanced economies:
headline inflation



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

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

3/ Preliminary figures as of October.

4/ Excludes fresh food.

Note: The series includes data as of September 2025, except for the United States (PCE) and the euro area, whose latest available data correspond to August and October 2025, respectively. The chart's range was adjusted to facilitate reading. Figures in the chart denote the respective maximum levels of each series.

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

In the euro area, annual headline inflation fell from 2.2% in September to 2.1% in October, close to its central bank's inflation target. This decline is attributed to lower food inflation and higher energy deflation. Core inflation remained relatively unchanged at 2.4% for the second consecutive month. This reflected an increase in services inflation offset by a decrease in goods inflation.

Most recent inflation forecasts prepared by analysts for the end of 2025 for the main advanced economies continue showing a differentiated behavior across countries. In the case of the United States, inflation is expected to reach the end of 2025 at a level close to that observed in the third quarter, although said figure would be lower than the anticipated in the previous quarter. US inflation is expected to decline in 2026. For other advanced economies, inflation is expected to converge to levels close to their central bank targets at the end of 2025 and in 2026. Indicators of long-term breakeven inflation and inflation risk implied by financial instruments for the main advanced economies registered moderate changes compared to the levels observed at the time of Mexico's most recent monetary policy decision.

In several of the main emerging economies, in its most recent reading, annual headline inflation was below the level registered at the end of the second

quarter, despite the price increases registered in certain months in some of these economies. Core inflation has exhibited a differentiated behavior across countries and has shown some persistence in certain cases. In China, headline and core inflation remained low. Headline inflation remained at deflationary levels, standing at -0.3% in September as a result of a fall in food prices. Core inflation has rebounded in recent months, reaching 1.0% in September. Both headline and core inflation remained below the 2% target.

In this environment, since Mexico's latest monetary policy decision, some central banks in advanced and emerging economies have continued lowering their reference rates. Others have kept them unchanged, in some cases after having lowered them in previous decisions. Additionally, the central banks in the main advanced economies continued gradually reducing their securities holdings, although the US Federal Reserve announced that it will conclude this process in early December. Regarding future actions, central banks continue to mention, in general, that rate adjustments will remain dependent on incoming data and their implications for the inflation outlook. Several central banks have pointed out that they are going through a period of uncertainty regarding the economic environment and inflationary dynamics resulting from the developments of trade and geopolitical tensions, and that they will remain vigilant regarding the evolution of risks.

In October, the US Federal Reserve, in a non-unanimous decision, lowered the target range for the federal funds rate by 25 basis points for the second consecutive time. In this latest decision, the range was thus adjusted to between 3.75 and 4.00%. The Federal Open Market Committee (FOMC) again pointed out in its decision statement that it is attentive to the risks to both sides of its dual mandate and that judges that downside risks to employment rose in recent months. It added that the decision to lower the target range was made in support of its policy objectives and in light of the shift in the balance of risks. It stated that it would carefully assess the incoming data, the evolution of the outlook, and the balance of risks when considering further adjustments to the target range for the federal funds rate. The Federal Reserve also announced that it will conclude the reduction of its aggregate securities holdings on December 1, 2025. It will also begin reinvesting principal payments from its agency securities holdings in short-term Treasury securities.

During the press conference, the chairman of the Federal Reserve pointed out that, although some

important federal government data have been delayed due to the shutdown, the public- and private-sector data that have remained available suggest that the outlook for employment and inflation has not changed much since their meeting in September. He stated once again that, in the short term, risks to inflation are tilted to the upside and risks to employment to the downside, which he described as a challenging situation. He reiterated that, given the shift in the balance of risks, the Committee judged it appropriate to lower the reference rate and to move toward a more neutral policy stance. He noted that, with this decision, monetary policy remains well positioned to respond in a timely way to potential economic developments. He explained that in the Committee's discussions there were differing views about how to proceed with its December decision. He indicated that a further reduction in the policy rate in December is not a foregone conclusion and that monetary policy is not on a preset course.

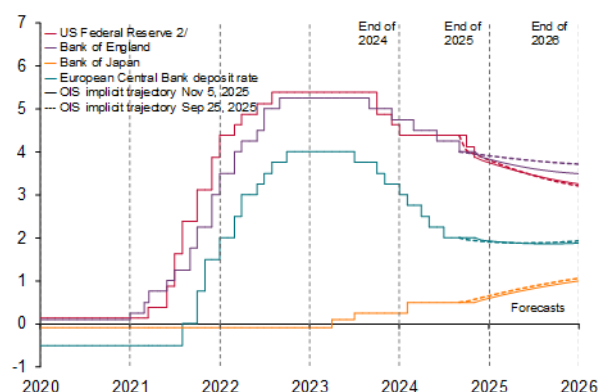
The European Central Bank (ECB) left its reference rates unchanged for the third consecutive meeting in October, after lowering them eight consecutive times since June 2024. Thus, its key deposit, refinancing, and lending rates remained at 2.00, 2.15, and 2.40%, respectively. The Governing Council commented that inflation remains close to its 2% medium-term target and that its assessment of the inflation outlook is broadly unchanged, although it noted that the outlook is still uncertain due to trade and geopolitical tensions. It indicated again that it would maintain an economic and financial data-dependent approach in determining the appropriate monetary policy stance. The Council reaffirmed that it is not committed to a specific monetary policy path. It also reiterated that the size of its asset purchase programs (APP) and pandemic emergency purchase programs (PEPP) portfolios is decreasing at a measured and predictable pace. At the press conference following the October decision, the president of that central bank commented that monetary policy remains well positioned. She mentioned that the Committee will take the necessary measures at each meeting based on the data to make sure it stays in a good position. She noted that some of the downside risks to economic growth have diminished, while the outlook for inflation is more balanced, so they are watching closely for any risks that could affect inflation. She added that this is still a period of great uncertainty.

Regarding other advanced economies, the central banks of Switzerland, Australia, and Sweden kept their interest rates unchanged after having lowered them in previous meetings. The central banks of

Japan and Korea have not made any adjustments in several consecutive decisions. The central banks of New Zealand and Canada lowered their reference rates during the reporting period.

As for expectations for the main advanced economies' reference rates, those implied by market instruments for the end of 2025 registered moderate changes since Mexico's last monetary policy decision (Chart 4). In the case of the United States, the most recent forecast for the federal funds rate for the end of 2025 remained at 3.7%. Similarly, the forecast for the euro area reference rate remained at 1.9%. Meanwhile, the expected level for the Canadian reference rate decreased from 2.3 to 2.2%, for the United Kingdom from 3.9 to 3.8%, and for Japan from 0.7 to 0.6%.

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



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

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

Source: Bloomberg.

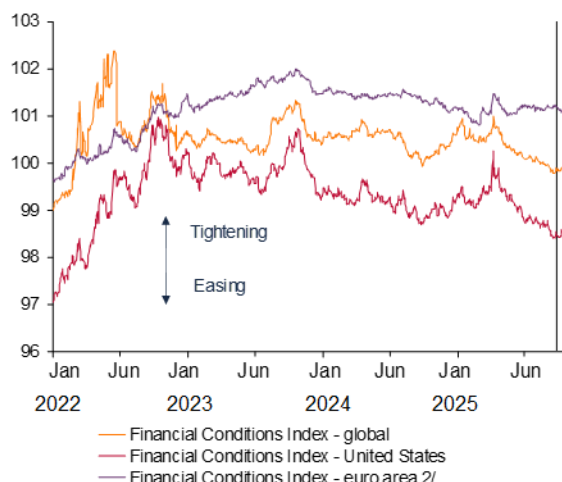
In the main emerging economies, several central banks decided not to adjust their reference rates in their most recent monetary policy decisions, some of them after having announced rate cuts in previous months. Others continued with their rate-cutting cycles. In the case of China's central bank, it has not made any adjustments since May, and, as a result, the one- and five-year loan prime rates (LPR) have remained the same. Brazil's central bank kept its reference rate unchanged for the third consecutive time in November, after raising it at its previous seven meetings by a total of 450 basis points.

In this environment, since Mexico's last monetary policy decision, risk appetite has fluctuated, partly due to the trade tensions between the US and

Chinese governments. In early November, risk appetite was below the levels observed at the end of September. During the period, financial conditions slightly loosened (Chart 5). This largely reflects expectations of further cuts in the federal funds rate by the Federal Reserve. In the fixed income market, long-term (10-year) and medium-term (2-year) rates in the United States slightly declined (Chart 6). The slope of the US yield curve (defined as the spread between 10-year and 2-year government bond rates) remained positive and close to the levels observed at the end of September. Rates for both maturities declined overall in the rest of the major advanced economies. Meanwhile, the stock markets of this group of countries trended upwards. Regarding foreign exchange markets, the US dollar appreciated against the currencies of most major advanced economies.

In most emerging economies, long-term rates declined (Chart 7). Medium-term rates decreased in most Latin American countries, while those in emerging Asia increased slightly overall. In emerging Europe, performance was mixed. Stock markets in this group of economies trended upwards in general. As for the foreign exchange market, currencies in Latin America, Asia, and emerging Europe mostly appreciated. Lastly, since Mexico's last monetary policy decision, net capital inflows to emerging economies were observed in both fixed-income and equity assets.

Chart 5
Financial Conditions Index^{1/}
Units

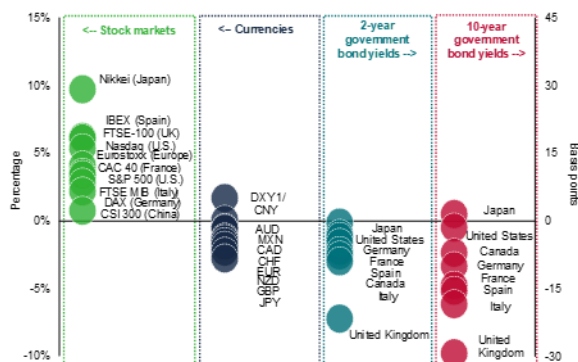


1/ The financial conditions index is constructed considering the effect of five variables on economic activity: the reference interest rate, the 10-year government bond, the spread of investment grade bonds over the government debt bond with equivalent maturity, the ratio of a stock index with 10-year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

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

Source: Bloomberg and Goldman Sachs.

Chart 6
Change in selected financial indicators from September 25 to November 5, 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 September 25 to
November 5, 2025
 Percent, basis points

Region	Country	Currencies	Equity markets	2-year interest rates	10-year interest rates	CDS
Latin America	Mexico	-0.96%	2.38%	-10	16	3
	Brazil	-0.48%	4.64%	-16	24	6
	Chile	0.88%	3.48%	-11	-6	5
	Colombia	1.26%	8.25%	42	45	7
	Peru	3.75%	-1.21%	5	-9	-5
Emerging Europe	Russia	2.66%	-6.50%	-280	-93	N.A.
	Poland	-1.87%	4.73%	-12	-18	-3
	Turkey	-1.59%	-3.49%	21	61	-18
	Czechia	-2.30%	4.31%	11	7	-1
	Hungary	-0.97%	9.25%	7	6	-5
Asia	China	0.07%	3.00%	0	-9	6
	Malaysia	0.49%	1.37%	6	7	0
	India	0.04%	2.13%	3	4	11
	Philippines	-2.38%	-4.76%	-18	-6	0
	Thailand	-1.67%	1.32%	21	36	2
	Indonesia	-0.17%	2.36%	-19	-21	-5
Africa	South Africa	-0.41%	1.97%	-4	-29	-16

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

Source: Bloomberg.

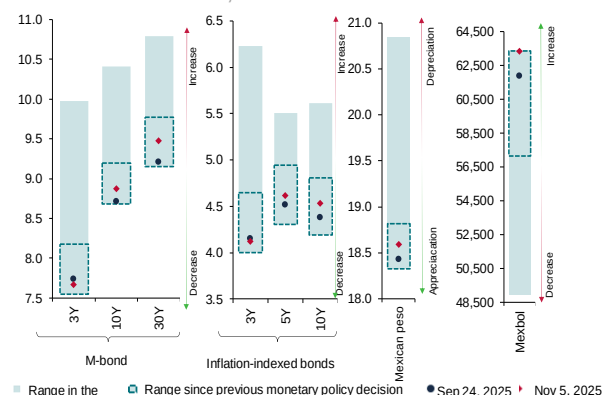
A.2. Current situation of the Mexican economy

A.2.1. Mexican markets

Since Mexico's last monetary policy decision, domestic financial markets exhibited a mixed performance. The Mexican peso depreciated slightly against the US dollar (Chart 8). Interest rates declined in the short and medium terms and increased in the longer terms. The Mexican Stock Exchange Price and Quotation Index (IPC) reached an historical high.

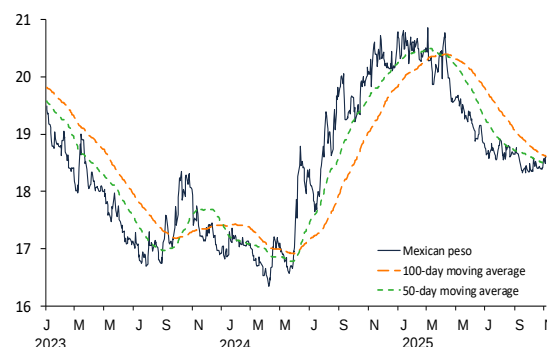
The Mexican peso traded within a narrow range of 53 cents—between 18.24 and 18.77 pesos per US dollar—since the last monetary policy decision (Chart 9). The 0.96% depreciation occurred in the context of a recently strong US dollar and historically low levels of volatility. Trading conditions for the Mexican peso remained orderly.

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



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

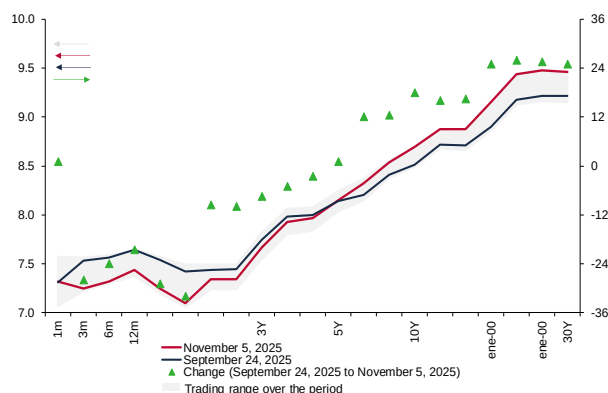
Chart 9
Mexican peso exchange rate
 MXN/USD



Source: Banco de México.

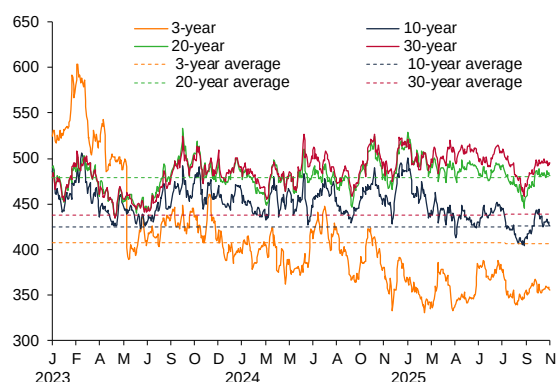
Government bond yields decreased by up to 32 basis points in the short term and increased by up to 26 basis points in the long term (Chart 10). Yields on real rate instruments decreased in the short term and increased in the rest of the terms. In this context, breakeven inflation implicit in spreads between nominal and real rates of market instruments increased moderately across most terms (Chart 11).

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



Source: *Proveedor Integral de Precios (PIP)*.

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

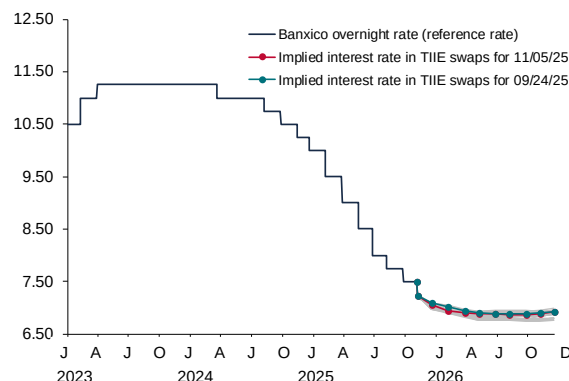


Note: Horizontal lines refer to the respective averages observed from September 2008 to date.

Source: *Proveedor Integral de Precios (PIP)*.

Regarding expectations for the trajectory of the reference rate, information implicit in the interest rate swap curve incorporates a 25-bp cut to the reference rate in the November decision and reflects an expectation of 7.06% for the end of 2025 (Chart 12). In line with the above, most analysts in the Citi Mexico survey anticipate a 25-bp cut for the November meeting and levels of 7.00% and 6.50% for the end of 2025 and 2026, respectively.

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



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

Source: *Proveedor Integral de Precios (PIP)*.

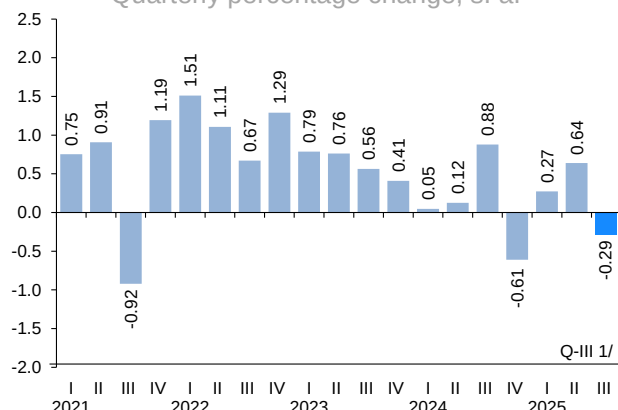
A.2.2. Economic activity in Mexico

According to the flash estimate prepared by INEGI, GDP contracted by 0.29% in the third quarter of 2025, compared to the previous one (Chart 13). The output gap estimate thus remained negative (Chart 14).

Regarding domestic demand, during the July-August period, private consumption continued trending upwards (Chart 15). As for its components, consumption of domestic goods and services remained sluggish, while that of imported goods continued exhibiting dynamism. Meanwhile, gross fixed investment remained weak. This reflected lower construction spending, since investment in machinery and equipment increased.

As for external demand, the average value of manufacturing exports continued expanding during the third quarter. This resulted from the continued upward trend in non-automotive manufacturing exports (Chart 16), while automotive exports remained sluggish.

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



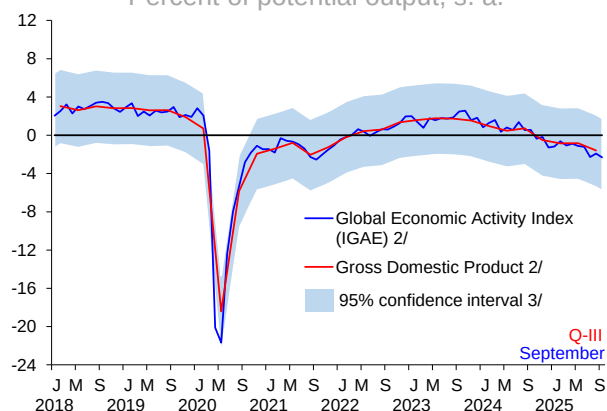
s. a. / Seasonally adjusted figures.

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

Source: Prepared by Banco de México with INEGI data.

Chart 14
Output gap estimates^{1/}

Percent of potential output, s. a.



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

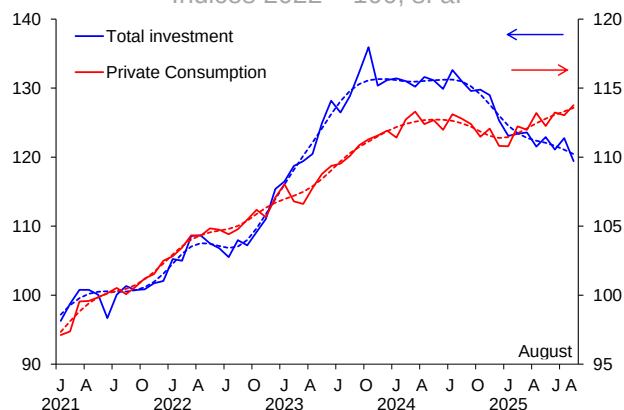
1/ Output gap estimated with a tail-corrected Hodrick-Prescott filter; see Banco de México (2009), "Inflation Report, April-June 2009", p. 74.

2/ GDP flash estimate for Q3-2025 and implicit IGAE for September 2025, consistent with said flash estimate.

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

Source: Prepared by Banco de México with INEGI data.

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

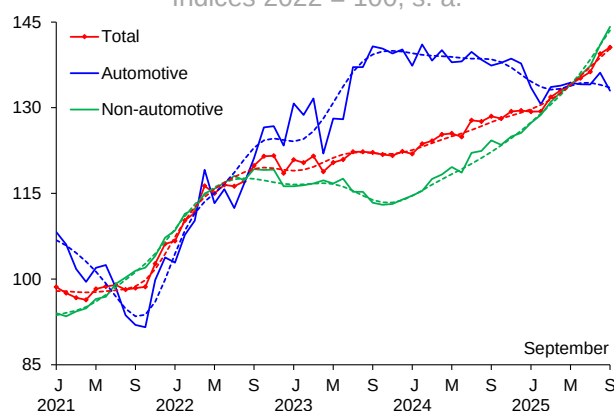


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.

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

From a sectoral perspective, and based on the flash estimate, the contraction in economic activity during the third quarter was associated with a decline in industrial activity, since primary and tertiary activities increased. More specifically, during the July-August period, secondary activities further weakened (Chart 17), mirroring the unfavorable performance in the manufacturing and construction segments (Chart 18). Meanwhile, tertiary activities lost momentum during the same period compared to the second quarter. Lastly, in August, primary activities rebounded significantly, reaching high levels.

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

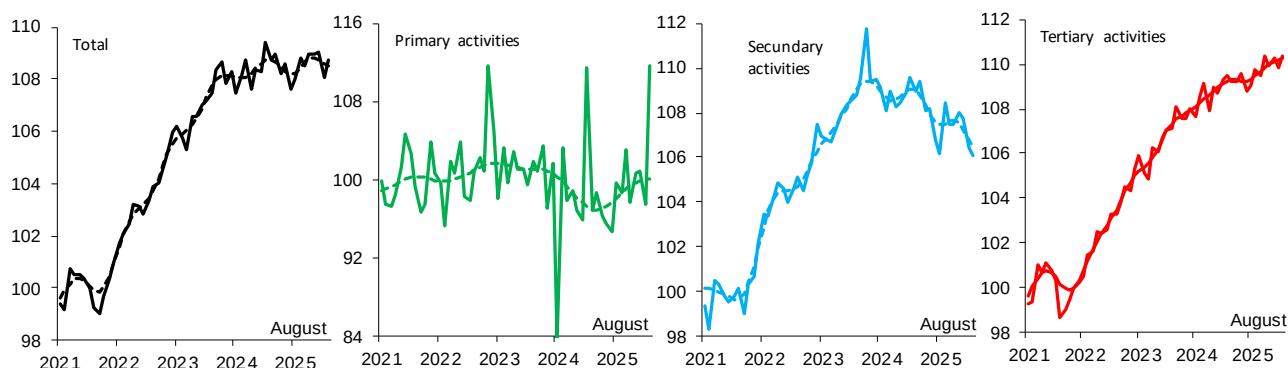


s. a. / Seasonally adjusted series and trend series based on data in nominal US dollars. The former is represented by a solid line and the latter, by a dotted line. Three-month moving average.

Source: Prepared by Banco de México with data from the Tax Administration Service (SAT, for its Spanish acronym), the Ministry of the Economy (SE, for its Spanish acronym), Banco de México, the National Institute of Statistics and Geography (INEGI, for its Spanish acronym). Mexico's Merchandise Trade Balance. The National System of Statistical and Geographical Information (SNIEG, for its Spanish acronym). Information of national interest.

Regarding labor market indicators, both the national and urban unemployment rates rose in September compared to the previous month (Chart 19). Meanwhile, in September, the creation of formal employment registered at IMSS remained weak. Lastly, in August, the unit labor cost remained at high levels.

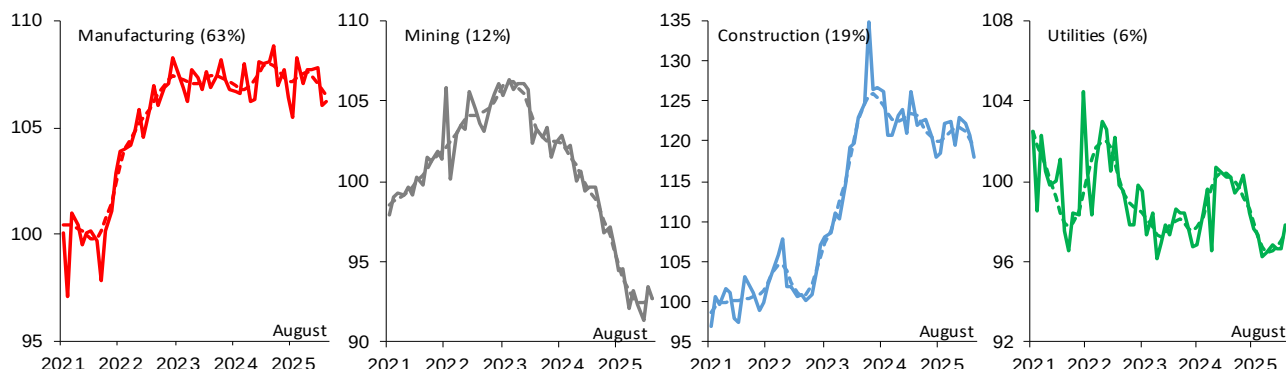
Chart 17
Global Indicator of Economic Activity
Indices 2021 = 100, s. a.



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

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

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

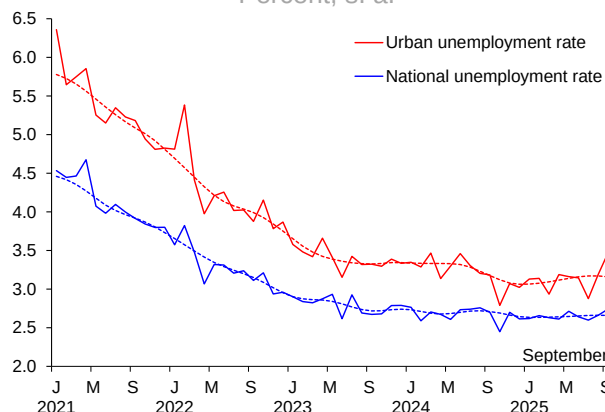


a. e. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter, by a dotted line.

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

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

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



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

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

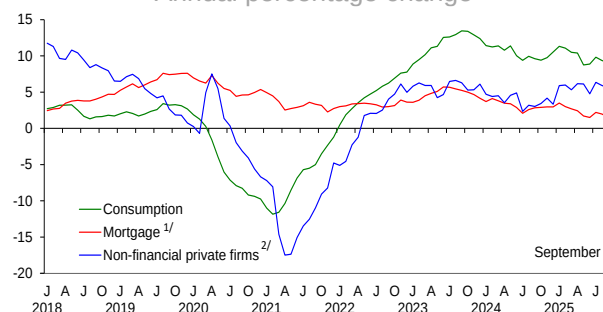
In September 2025, domestic financing to the private sector continued expanding, albeit to a lesser extent than at the end of 2024 and heterogeneously across sectors. Commercial bank credit to businesses increased at a slightly lower rate than in the previous month (Chart 20). Despite the latter, its rate of expansion remained above that observed in 2024. Meanwhile, household credit continued moderating its growth rate. Regarding its components, consumer portfolio maintained a higher annual variation compared to the housing segment.

As for the cost of financing, interest rates on new bank credits to firms continued trending downwards in September. Their evolution continued reflecting

the pass-through of the reference rate to bank interest rates in the segment. Meanwhile, commercial bank mortgage lending rates declined slightly. Lastly, based on data up to February 2025, interest rates on bank consumer loans remained at high levels, although in some segments they decreased slightly compared to the previous period.

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

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



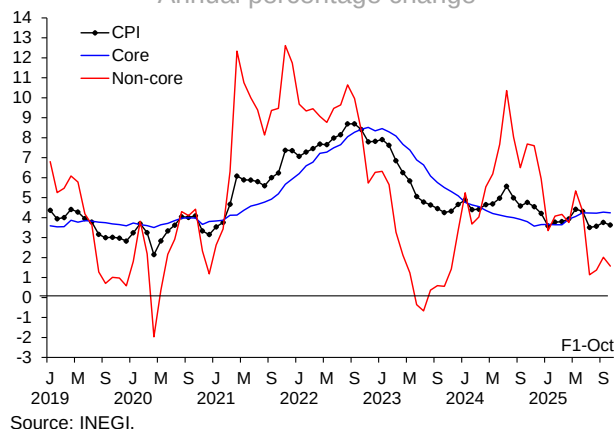
1/ Adjusted to account for the withdrawal from and the incorporation of non-bank financial intermediaries to the credit statistics.

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

A.2.3. Development of inflation and inflation outlook

Annual headline inflation decreased from 3.76% in September 2025 to 3.63% in the first fortnight of October. This performance mainly reflected the decline in non-core inflation and, to a lesser extent, in core inflation (Chart 21 and Table 1).

Chart 21
Consumer Price Index
Annual percentage change



Between September and the first fortnight of October 2025, annual core inflation decreased from 4.28 to 4.24%. This result was influenced by the decrease in merchandise inflation, which more than offset the increase in services inflation (Chart 22). In particular, merchandise inflation fell from 4.19 to 4.06% during said period, given a decrease from 5.34 to 5.24% in food inflation and from 3.21 to 3.06% in non-food inflation (Chart 23). Following the same comparison, services inflation rose from 4.36 to 4.42%, driven mainly by increased inflation in services other than housing and education, which rose from 5.11 to 5.22%. During the referred period, inflation of housing and education remained relatively stable. The first one registered readings of 3.39 and 3.40%, and the second one of 5.84 and 5.82%.

Chart 22
Merchandise and services core price subindex
Annual percentage change

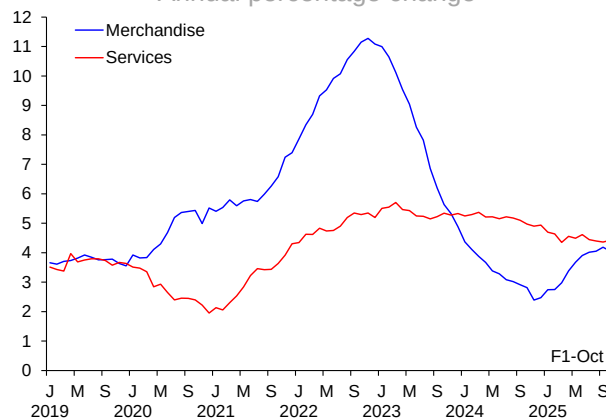
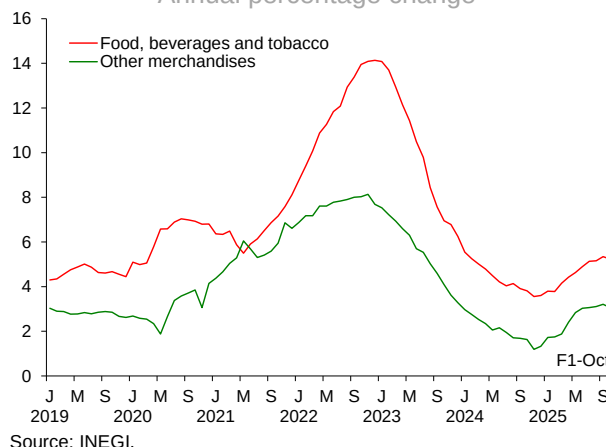
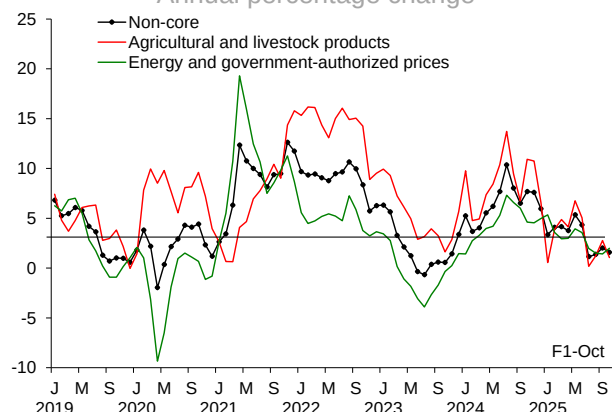


Chart 23
Merchandise core price subindex
Annual percentage change



Annual non-core inflation decreased from 2.02 to 1.58% between September and the first fortnight of October 2025 (Chart 24 and Table 1). This result was due to the reduction in agricultural and livestock products inflation from 2.76 to 1.06%, mainly influenced by the decline in fruits and vegetables inflation from -4.86% to -8.38%. Livestock products prices also decreased from 8.45 to 8.27%. During such period, energy inflation rose from 0.36 to 1.10%, largely reflecting the higher annual variation in the price of L.P. gas.

Chart 24
Non-core price subindex
 Annual percentage change



Source: INEGI.

Regarding inflation expectations drawn from the survey conducted by Banco de México among private sector specialists, between August and October 2025, the median for headline inflation for the end of 2025 decreased from 3.97 to 3.78%, while it increased from 4.11 to 4.22% for core inflation. Headline inflation expectations for the end of 2026 increased. The median of headline inflation rose from 3.70 to 3.81%, and that of core inflation from 3.72 to 3.80%. Inflation expectations for the next four years increased. The median for headline inflation rose from 3.70 to 3.77%, and that of core inflation

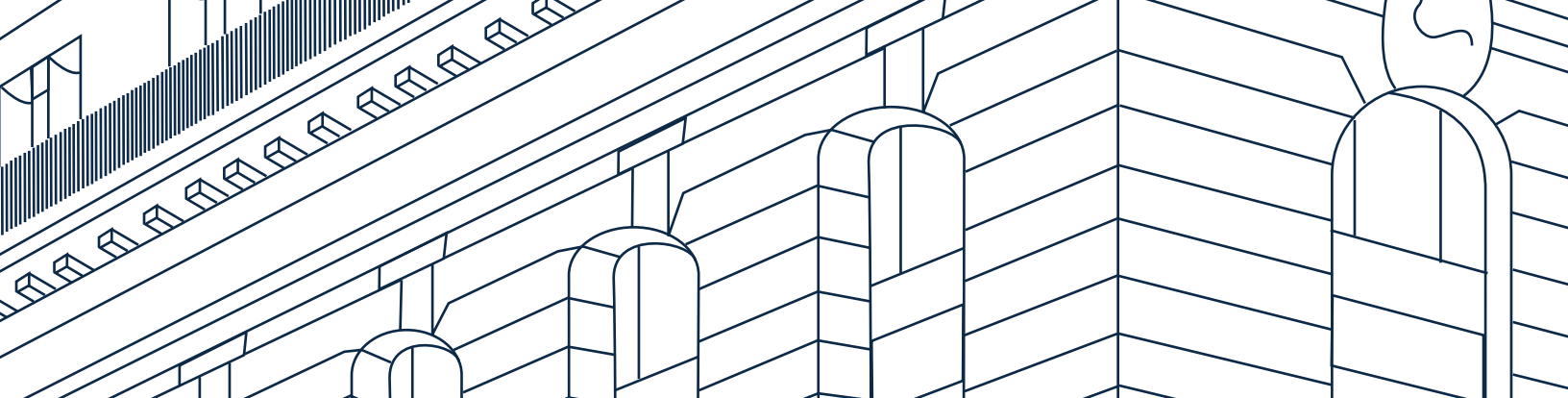
from 3.60 to 3.70%. Median expectations for long-term inflation (5 to 8 years) were adjusted upwards. Both the median of headline inflation and that of core inflation were revised from 3.50 to 3.60%. Lastly, between August and October, inflation expectations implied by market instruments declined. In contrast, the monthly average of the inflation risk premium increased, standing around its historical average.

Headline and core inflation forecasts were adjusted slightly in the short term. Headline inflation is still expected to converge to the target in the third quarter of 2026. Forecasts are subject to the following risks. On the upside: i) depreciation of the Mexican peso; ii) persistence of core inflation; iii) disruptions due to geopolitical conflicts or foreign trade policies; iv) cost-related pressures; and v) climate-related impacts. On the downside: i) lower-than-anticipated economic activity; ii) a lower pass-through from increased costs; and iii) lower pressures stemming from the appreciation of the national currency. 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 US administration continue adding uncertainty to forecasts. Their effects could imply inflationary pressures on both sides of the balance.

Table 1
Consumer Price Index and components
Annual percentage change

Item	August 2025	September 2025	1st fortnight Oct. 2025
CPI	3.57	3.76	3.63
Core	4.23	4.28	4.24
Merchandise	4.05	4.19	4.06
Food, beverages and tobacco	5.16	5.34	5.24
Non-food merchandise	3.11	3.21	3.06
Services	4.40	4.36	4.42
Housing	3.44	3.39	3.40
Education (tuitions)	5.34	5.84	5.82
Other services	5.20	5.11	5.22
Non-core	1.38	2.02	1.58
Agricultural and livestock products	1.21	2.76	1.06
Fruits and vegetables	-8.04	-4.86	-8.38
Livestock products	8.35	8.45	8.27
Energy and government-authorized prices	1.51	1.42	1.99
Energy products	0.29	0.36	1.10
Government-authorized prices	3.68	3.27	3.59

Source: INEGI.



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