

BANCO DE MÉXICO®

Executive Summary

Quarterly Report July - September 2026

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Summary*

During the period covered by this report, geopolitical uncertainty mainly associated with the conflict in the Middle East prevailed at the global level. International financial markets exhibited volatility and commodity prices increased broadly. In the major advanced economies, government bond yields rose and, in some cases, yields on longer-term bonds reached highs unseen in several decades. The US dollar appreciated in response to shifts in expectations regarding the US Federal Reserve's monetary policy. World economic activity expanded during the third quarter of 2026 at a similar rate to that of the previous quarter. Meanwhile, in several major advanced economies, headline inflation rebounded mainly due to the rise in energy prices. In Mexico, government bond yields fluctuated within a narrow range during most of the third quarter and the Mexican peso appreciated further. However, since mid-September, those yields have risen across all maturities and the Mexican peso depreciated from the low levels reached in August and early September, mostly due to tighter external financial conditions. During the third quarter, domestic economic activity continued expanding, although slack conditions prevail. Headline inflation has risen moderately since August as a result of an increase in the non-core component. In contrast, the core component stood at levels lower than those at the end of the second quarter. At its August meeting, the Governing Board decided to maintain the reference rate at 6.50% and reiterated that, looking ahead, it would be appropriate to keep it at that level. Subsequently, in September, it left the reference rate unchanged once again and stated that, going forward, its decisions would consider the ongoing disinflationary process and the expected behavior of its determinants. In November, it decided to make a one-time adjustment by lowering the reference rate by 25 basis points to 6.25%, and stated that it considers that maintaining the rate at the attained level for an extended period will support the convergence of inflation to its target and will be adequate to face the challenges posed by the external macroeconomic environment. It highlighted that it will make its decisions considering the observed and expected behavior of inflation and its determinants, including the exchange rate pass-through to consumer prices, the slack conditions, and inflation expectations.

A deeper analysis of the external environment shows that during the third quarter of 2026 world economic activity expanded at a similar rate to that of the previous quarter. The group of advanced economies grew at more moderate rates, while emerging economies as a whole grew at higher rates, as performance remained heterogeneous across countries. US economic activity accelerated, mainly driven by strong domestic demand. The Chinese economy rebounded, while economic activity in the euro area moderated.

Between July and November, uncertainty associated with geopolitical conflicts and their repercussions persisted, specifically regarding the energy sector. In particular, geopolitical tensions between the United States and Iran have persisted, and commercial traffic through the Strait of Hormuz remains limited. In addition, attacks have been registered in the Red Sea and the Black Sea, as well as damage to energy infrastructure in Eastern Europe due to the escalation of the conflict between Russia and Ukraine.

The box *Analysis of the reconfiguration of oil trade flows* uses trade network indicators to examine changes among exporters and importers of this energy commodity in light of supply disruptions in the Middle East. The results show a restructuring of trade flows to alternative suppliers, as well as adjustments in import volumes by some destination markets. These adjustments suggest a certain degree of flexibility in global supply patterns, which has contributed to mitigating the adverse impact of disruptions in this market.

Headline inflation rebounded in recent months in various advanced and emerging economies, mainly driven by energy prices. The latter contributed to keeping headline inflation above the central banks' targets in several economies. Core inflation remained persistent in several economies.

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

Between July and November, most central banks in advanced economies, including the Federal Reserve, raised their reference rates. In their latest decisions, some of them left them unchanged. Meanwhile, monetary policy decisions of central banks in emerging economies were more heterogeneous. After having raised the target range for the federal funds rate by 25 basis points in September for the first time in more than three years, the Federal Reserve decided to leave it unchanged in October. The Federal Open Market Committee (FOMC) stated that economic activity is expanding at a strong pace and noted once again that, while uncertainty remains elevated, owing partly to geopolitical developments, domestic spending has been resilient. It reiterated that inflation remains high. As for the Committee members' macroeconomic projections, between June and September, the median projection for the federal funds rate rose from 3.8 to 4.1% for the end of 2026, from 3.6 to 4.1% for the end of 2027, and from 3.4 to 3.9% for the end of 2028. The projection for the federal funds rate implied by swap curves (OIS) for the end of 2026 rose from 4.0%, as anticipated at the end of the second quarter, to 4.2% in its most recent projection, and from 4.0 to 4.7% for the end of 2027.

International financial markets continued showing high sensitivity to developments in geopolitical conflicts and to changes in expectations regarding both the monetary policies of central banks in advanced economies and the future profitability of technology companies. In this context, financial conditions tightened in response to a widespread increase in government bond yields as well as losses recorded in equity markets. Financial markets continued registering volatility and the US dollar appreciated. As for domestic financial markets, during most of the third quarter, the Mexican peso trended upwards against the US dollar, and government bond yields registered limited variations. However, since mid-September, volatility in the foreign exchange and fixed-income markets has increased, the Mexican peso has depreciated from the lows reached in August, and interest rates have increased across all maturities.

At the national level, GDP continued growing during the third quarter after having rebounded in the previous quarter. From a sectoral perspective, this expansion was mainly driven by the dynamism in services and the ongoing recovery of industrial activity. Despite the improvement in economic activity in recent quarters, slack conditions prevail, as a reflection of the moderate growth registered over an extended period. In this context, the labor market continued showing weakness overall. Looking ahead, economic activity is expected to remain on a trajectory of moderate growth, while various downside risks are expected to persist given a complex global economic environment characterized by uncertainty associated with the review of the USMCA.

The box *Manufacturing performance amid the reconfiguration of Mexican exports* shows that the manufacturing segments with the strongest recent export growth tend to generate relatively little domestic added value and have weaker production linkages with the rest of the domestic economy compared to segments whose performance has been weak, such as the automotive industry. Thus, the dynamism of Mexican exports, driven primarily by goods associated with artificial intelligence (AI), has not translated into equivalent growth in manufacturing production overall.

Between the second and the third quarter of 2026, annual headline inflation decreased from 3.92 to 3.28% as a result of declines in both core and non-core inflation during that period. Throughout the third quarter, core inflation continued trending downwards. This indicator declined from 4.16 to 3.86% between the aforementioned quarters as a result of the continued decline in the annual variation in merchandise prices, as well as the lower annual variation in services prices. In the first fortnight of November, core inflation continued decreasing and stood at 3.68%. Meanwhile, annual non-core inflation decreased from 3.10% during the second quarter to 1.29% in the third one, due to the decline in the annual variation of agricultural and livestock product prices. However, after registering a minimum level of 0.29% in July, non-core inflation rose, mainly due to a higher annual variation in agricultural and livestock product prices since August. In the first fortnight of November non-core inflation stood at 4.90%. The increase in non-core inflation has driven headline inflation upwards to 3.96% during the first fortnight of November.

Regarding Mexico's monetary policy decisions, in line with its assessment of the inflation outlook, at its August and September meetings the Governing Board deemed it appropriate to keep the overnight interbank interest rate unchanged at 6.50%. In its August decision it assessed the observed levels of the exchange rate, the absence of demand-side pressures in the economy, and the level of monetary restriction implemented. In its September decision, in addition to the above factors, it stated that since macroeconomic conditions in Mexico are different from those in the United States, monetary policy would not have to react mechanically to the anticipated adjustments to the federal funds rate. In its November decision it decided to make a one-time adjustment, lowering the target for the overnight interbank interest rate by 25 basis points to 6.25%. It considered that the disinflation process continues and assessed that, under the prevailing slack conditions, the pass-through of exchange rate fluctuations to consumer prices would be limited. It estimated that no demand-side pressures are currently perceived in the Mexican economy and that the level of monetary restriction implemented continues operating.

The box *Pass-through of the monetary policy rate to bank term-deposit rates during tightening and easing cycles* presents an econometric analysis whose results suggest that a change in Mexico's reference rate leads to a similar adjustment in the yields on bank term-deposit instruments held by households over the following months. This adjustment is significant in magnitude and provides evidence of a monetary policy transmission mechanism that operates with a certain lag through Mexico's loanable funds market. The analysis suggests that this monetary policy pass-through is asymmetric and is slightly stronger during easing cycles than during tightening cycles.

Looking ahead, the Governing Board considers that maintaining the reference rate at the attained level for an extended period will support the convergence of inflation to its target and will be adequate to face the challenges posed by the external macroeconomic environment. It will make decisions considering the observed and expected behavior of inflation and its determinants, including the exchange rate pass-through to consumer prices, the slack conditions, and inflation expectations. The central bank reaffirms its commitment to its primary mandate and the need to continue its efforts to consolidate an environment of low and stable inflation.

The box *Inflation expectations anchoring regime in Mexico* presents a general equilibrium model with endogenous expectations anchoring, estimated for Mexico, in which agents update their long-term expectations based on their forecast errors. The results indicate that expectations have remained anchored since 2002, shortly after the formal adoption of the inflation-targeting framework, and remained stable during the inflationary shocks associated with the pandemic and the conflict in the Middle East. The model suggests that the low sensitivity of long-term expectations to inflation surprises has allowed expectations to remain anchored despite large shocks.

As for Banco de México's macroeconomic outlook, the following stands out:

Growth of the national economy: For 2026, GDP growth of 1.9% is anticipated, a higher rate than the point estimate of 1.5% published in the previous Report. The interval for the expected variation of GDP for that year is between 1.7 and 2.1%. For 2027, GDP growth is projected to be 2.0%, the same rate as that foreseen in the previous Report. The projected GDP growth interval for 2027 is between 1.3 and 2.7%. For 2028, considering the effect of the leap year, GDP growth is projected to be 2.5%, with an interval of between 1.7 and 3.3% (Table 1 and Chart 1a). [1]

The revision to the 2026 forecast reflects, primarily, a stronger-than-expected performance of economic activity during the third quarter. In the fourth quarter, a moderation in productive activity is anticipated, followed by a gradual acceleration over the remainder of the forecast horizon.

[1] Based on seasonally adjusted figures, the GDP growth forecast for 2026 is 1.9%, 2.0% for 2027, and 2.3% for 2028. For 2028, the difference between seasonally adjusted and original unadjusted figures is due to the leap year.

Regarding aggregate spending, despite the lack of dynamism in private consumption throughout 2026, it is expected to resume its positive trend. Despite its recent improvement, investment is expected to remain relatively weak, due to the uncertainty that persists surrounding the trade relationship between Mexico and the United States and the USMCA ratification in light of a new phase of annual reviews. Meanwhile, exports are expected to continue expanding, in line with the anticipated performance of US industrial production and supported by purchases of goods related with the technology sector in that country.

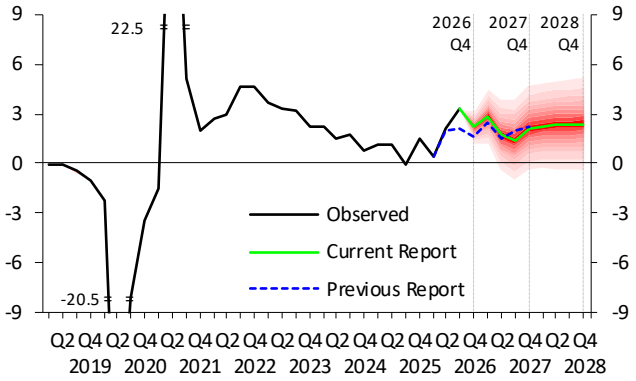
As to the cyclical position of the economy, the point estimate of the output gap is still anticipated to remain in negative territory throughout the forecast horizon (Chart 1b). It should be noted that the estimate of this unobservable indicator is subject to a high degree of uncertainty.

Table 1
Forecasts for GDP growth
Annual percent

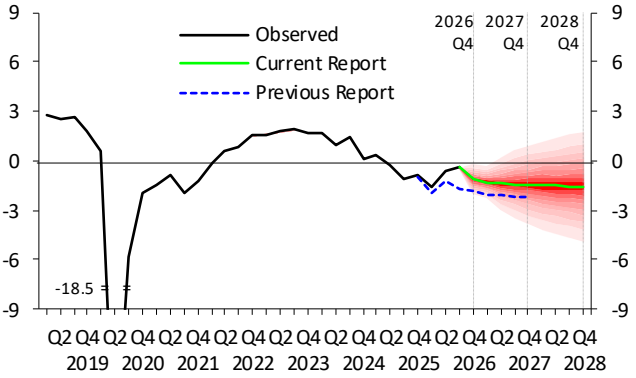
Year	Central	Interval
2026	1.9	Between 1.7 and 2.1
2027	2.0	Between 1.3 and 2.7
2028	2.5	Between 1.7 and 3.3

Note: Not seasonally adjusted forecasts. The central estimates for 2026 and 2027 compare with the previous Report's forecasts of 1.5 and 2.0% for each year. Intervals compare to those published in the previous Report of 1.0 and 2.0% for 2026 and 1.2 and 2.8% for 2027. Mexico's GDP increased 0.7% in 2025, with figures that are not seasonally adjusted.
Source: Banco de México.

Chart 1
a) Fan chart: GDP growth, s.a.
Annual percent



b) Fan chart: output gap estimate, s.a.
Percent of potential output



s.a. Seasonally adjusted figures.
Note: In the present Report the forecast begins in Q4 2026. In the previous Report, it started in Q3 2026.
1/ The range of the chart was reduced to facilitate its reading.
Source: a) INEGI and Banco de México. b) Banco de México.

Employment: Table 2 presents the forecasts for the number of IMSS-insured jobs.[2]

Current account: Table 3 shows the forecasts for the trade balance and the current account based on the latest information.

Table 2

Forecasts for the number of IMSS-insured jobs [1/]

Annual change in thousands of jobs

Year	Interval
2026	Between 180 and 280
2027	Between 400 and 600
2028	Between 500 and 700

Note: Compared to the previous Report, the forecast intervals for this indicator were 220 to 400 thousand jobs in 2026, and 400 to 600 thousand jobs in 2027. In 2025, IMSS-insured jobs increased by 312 thousand positions with digital platform jobs, and by 105 thousand positions excluding digital platform jobs.

1/ It refers to permanent and temporary urban IMSS-insured jobs.

Source: Banco de México.

Table 3

Forecasts for the trade balance and current account

Year	2026	2027	2028
Trade balance			
% of GDP	0.2 to 0.5	-0.7 to -0.3	-0.8 to -0.3
Billions of dollars	4.2 to 9.7	-15.4 to -7.4	-16.7 to -7.3
Current account			
% of GDP	-1.0 to -0.5	-1.5 to -0.8	-1.4 to -0.5
Billions of dollars	-20.2 to -10.2	-30.7 to -17.9	-29.2 to -11.9

Note: Figures for 2026 compare with those of the previous Report of a trade balance of between -3.9 and 4.1 billion dollars (-0.2 and 0.2% of GDP) and a current account balance of between -15.9 and -3.1 billion dollars (-0.8 and -0.1% of GDP). Figures for 2027 compare with the previous Report's figures of a trade balance of between -17.9 and -8.5 billion dollars (-0.9 and -0.4% of GDP) and a current account balance of between -28.2 and -11.4 billion dollars (-1.4 and -0.5% of GDP). In 2025, the trade balance was 0.2 billion dollars (0.0% of GDP) and the current account balance was -9.9 billion dollars (-0.5% of GDP).

Source: Banco de México.

Risks to growth: The balance of risks for the growth of economic activity along the forecast horizon is considered to remain biased to the downside. Among downside risks, the following stand out:

i. That the environment of uncertainty, associated with the policies that could be implemented in the United States, particularly regarding trade and in light of a new phase of annual reviews of the USMCA, or with idiosyncratic factors, intensifies and negatively affects external demand as well as consumption and investment in Mexico.

ii. That the escalation of different geopolitical conflicts in various regions of the world negatively affects the global economy overall or international trade flows in particular.

iii. That episodes of volatility materialize in domestic or international financial markets.

iv. That US economic growth turns out to be lower than expected, particularly due to a lower investment in AI projects, to the detriment of external demand in Mexico.

v. That climate-related events, such as extreme temperatures, cyclones, or droughts adversely impact the Mexican economy.

Among upside risks, the following stand out:

i. That greater-than-expected progress in the annual review and the ratification of the USMCA, as well as lesser uncertainty surrounding US trade policy, contribute to a more favorable environment for investment in Mexico and boost trade in the region.

ii. That growth of the US economy is greater than expected, and that it favors Mexico's external demand.

iii. That progress in infrastructure projects financed through mixed public-private investment leads to greater-than-expected economic growth.

[2] Forecasts for the variation in IMSS-insured jobs from 2026 to 2028 include those associated with the affiliation program for digital platform workers. Projections presented in this Report assume that this program will continue to be implemented throughout the forecast horizon under the current affiliation rules and that the change in the number of positions registered under the program, compared to the 207,000 positions reported in December 2025, will be limited.

Inflation: The forecasts for headline and core inflation published in the Monetary Policy Statement of November 5, 2026 remain unchanged in this Quarterly Report. Compared with the forecast published in the previous Report, the projection for headline inflation in the fourth quarter of 2026 has been revised upwards (Table 4 and Charts 2 and 3). This reflects adjustments in non-core inflation and, to a lesser extent, in core inflation. The revision to the non-core component derives from a higher-than-previously-projected trajectory of energy prices during the referred quarter, in line with the developments in international benchmarks. Nevertheless, headline inflation is expected to have a limited impact, as a result of the Federal Government's price stabilization measures for certain energy products. The upward revision to non-core inflation in the fourth quarter of 2026 also reflects higher-than-previously anticipated variations in agricultural and livestock products' prices. In the case of core inflation, the revision reflects expectations of slightly higher variations in merchandise prices, as well as a more gradual decline in the variation of services prices than anticipated in the previous Report. Starting from the first quarter of 2027, the forecasts for both headline and core inflation remain unchanged, with both indicators still expected to reach 3% in 2027.

Table 4 and Chart 4 show the annual rates of change and the annualized seasonally adjusted quarterly rates of change of headline and core indexes. For the headline index, annualized seasonally adjusted quarterly rates of change are expected to be around 3% beginning in the first quarter of 2027, while for the core index they are expected to reach this level as of the third quarter of that year. Since annual rates continue to be affected by the arithmetic effect of shocks that drove inflation upwards over a twelve-month period, their decline is more gradual than that of seasonally adjusted quarterly rates of change. The latter are not affected by the arithmetic effect of past shocks and only incorporate the price changes that are expected to occur in a given quarter. Consequently, annual variations remain above seasonally adjusted quarterly rates of change during the period in which the effects of inflationary shocks are being absorbed. This pattern is expected to persist over most of the forecast horizon for both headline and core inflation.

The box *Housing inflation dynamics in Mexico* documents a significant deviation of the housing price index relative to the rest of the CPI from its long-term trend during the 2021-2022 inflationary episode. An error-correction model finds that both indices are cointegrated and that housing inflation corrects deviations from the trend. This helps explain why housing inflation has remained above its pre-pandemic average. Although the correction process is slow, with the half-life of a deviation at approximately 3.2 years, it appears to be nearing completion. Consequently, no further pressures on housing inflation are expected through this channel.

The projected downward trajectories of both headline and core inflation beginning in the first quarter of 2027 assume that the restrictive monetary policy stance maintained over the past three years continues operating. This outlook is also supported by the cumulative appreciation of the national currency since 2025, even despite its most recent depreciation. Similarly, the observed and projected economic slack is expected to contribute to easing inflationary pressures.

The balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside. The changes in economic policy by the US administration and a possible extension of geopolitical conflicts continue adding uncertainty to the forecasts. Their effects could imply pressures on inflation on both sides of the balance.

Among the main risks for inflation, the following stand out:

On the upside:

i. Persistence of core inflation.

ii. That the national currency depreciates further.

iii. Disruptions associated with trade policies or an inflationary impact from geopolitical conflicts.

iv. Climate-related impacts that could affect the prices of various agricultural and livestock products.

v. Higher cost-related pressures that could pass on to consumer prices.

On the downside:

i. A lower-than-anticipated economic activity in the United States or in Mexico, which could lead to lower pressures on inflation in Mexico.

ii. A limited pass-through of cost-related pressures to prices.

iii. Reduced pressures on inflation due to potential episodes of national currency appreciation.

Table 4

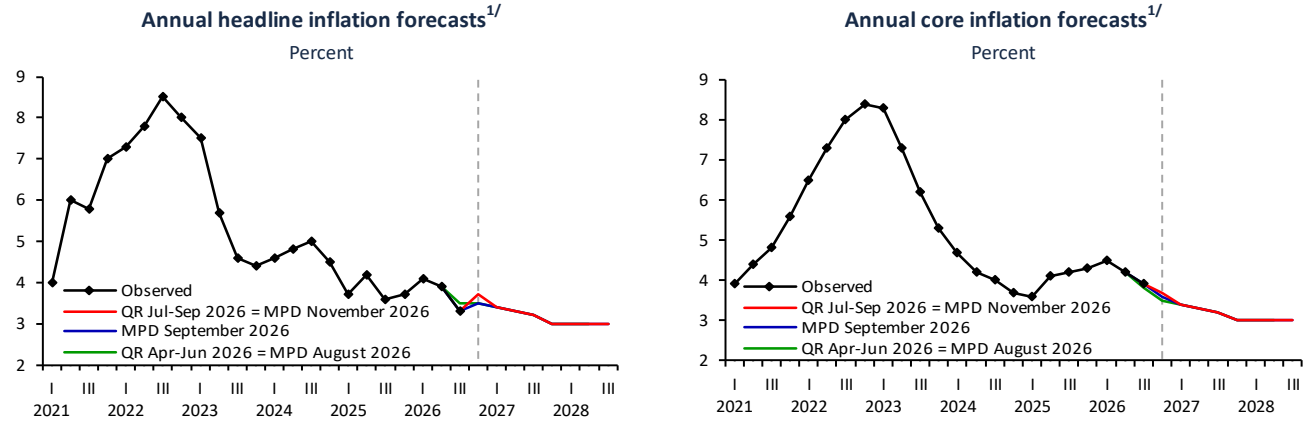
Forecasts for headline and core inflation

Annual percentage change of quarterly average indices

	2026			2027				2028		
	II	III	IV	I	II	III	IV	I	II	III
CPI										
Current Report = Monetary Policy Statement of November 2026[1/]	3.9	3.3	3.7	3.4	3.3	3.2	3.0	3.0	3.0	3.0
Previous Report = Monetary Policy Statement of August 2026[2/]	3.9	3.5	3.5	3.4	3.3	3.2	3.0	3.0	3.0	
Core										
Current Report = Monetary Policy Statement of November 2026[1/]	4.2	3.9	3.7	3.4	3.3	3.2	3.0	3.0	3.0	3.0
Previous Report = Monetary Policy Statement of August 2026[2/]	4.2	3.8	3.5	3.4	3.3	3.2	3.0	3.0	3.0	
Memo										
Annualized seasonally adjusted quarterly variation in percent[3/]										
Current Report = Monetary Policy Statement of November 2026[1/]										
CPI	4.2	1.5	4.4	3.1	3.1	2.4	3.6	3.0	3.1	2.7
Core	3.7	3.2	3.4	3.2	3.3	2.8	2.9	3.2	3.1	2.9

1/ Forecast starting November 2026. It corresponds to the forecast published in the Monetary Policy Statement of November 5, 2026.
2/ Forecast starting August 2026. It corresponds to the forecast published in the Monetary Policy Statement of August 6, 2026.
3/ See methodological note on the seasonal adjustment process.
Source: INEGI for observed annual variation figures and Banco de México for seasonally adjusted figures and forecasts.

Chart 2

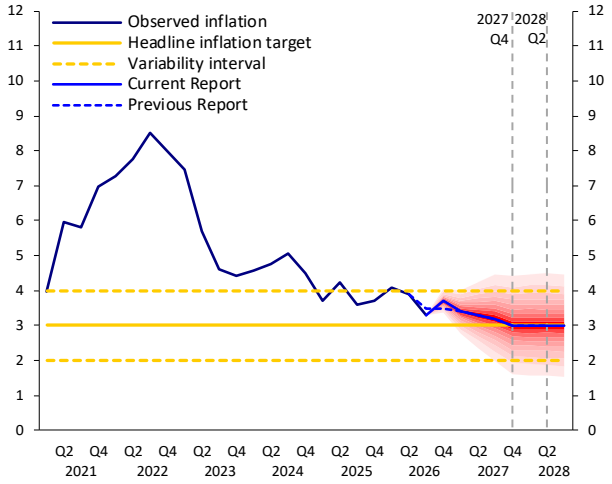


1/ Annual percentage change of quarterly average indices. QR refers to Quarterly Report and MPD refers to Monetary Policy Decision. Vertical line corresponds to fourth quarter of 2026.
Source: prepared by Banco de México with data from INEGI and Banco de México.

Chart 3

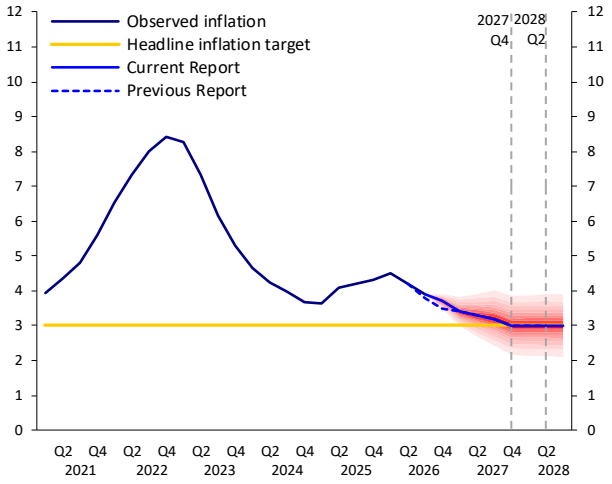
a) Fan chart: annual headline inflation[1/]

Percent



b) Fan chart: annual core inflation[1/]

Percent



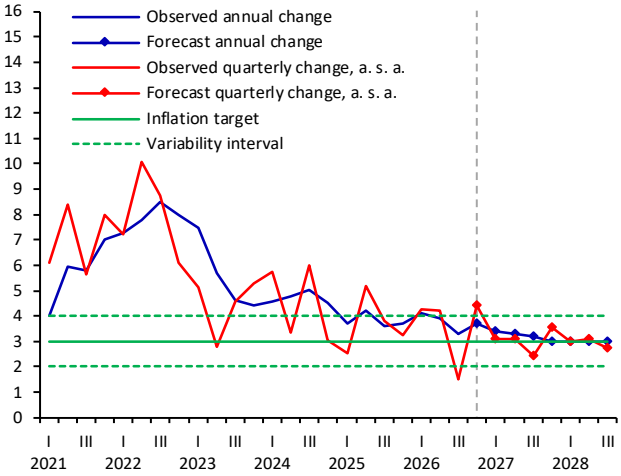
1/ Annual percentage change of quarterly average indices. The next four and six quarters are indicated with vertical lines, using as a reference the fourth quarter of 2026, that is, the fourth quarter of 2027 and the second quarter of 2028, respectively, to indicate the time frames in which the transmission channels of monetary policy fully operate.

Source: prepared by Banco de México with data from INEGI and Banco de México.

Chart 4

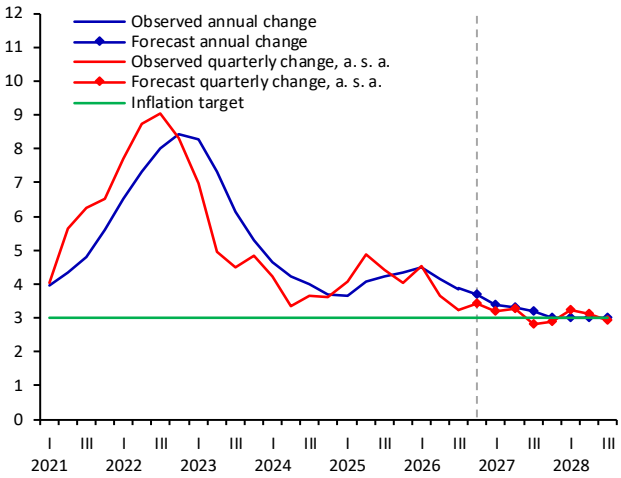
a) Headline index

Quarterly change, annualized and s.a., and annual change in percent[1/]



b) Core index

Quarterly change, annualized and s.a., and annual change in percent[1/]



s.a./ seasonally adjusted figures.

a.s.a./ annualized seasonally adjusted figures.

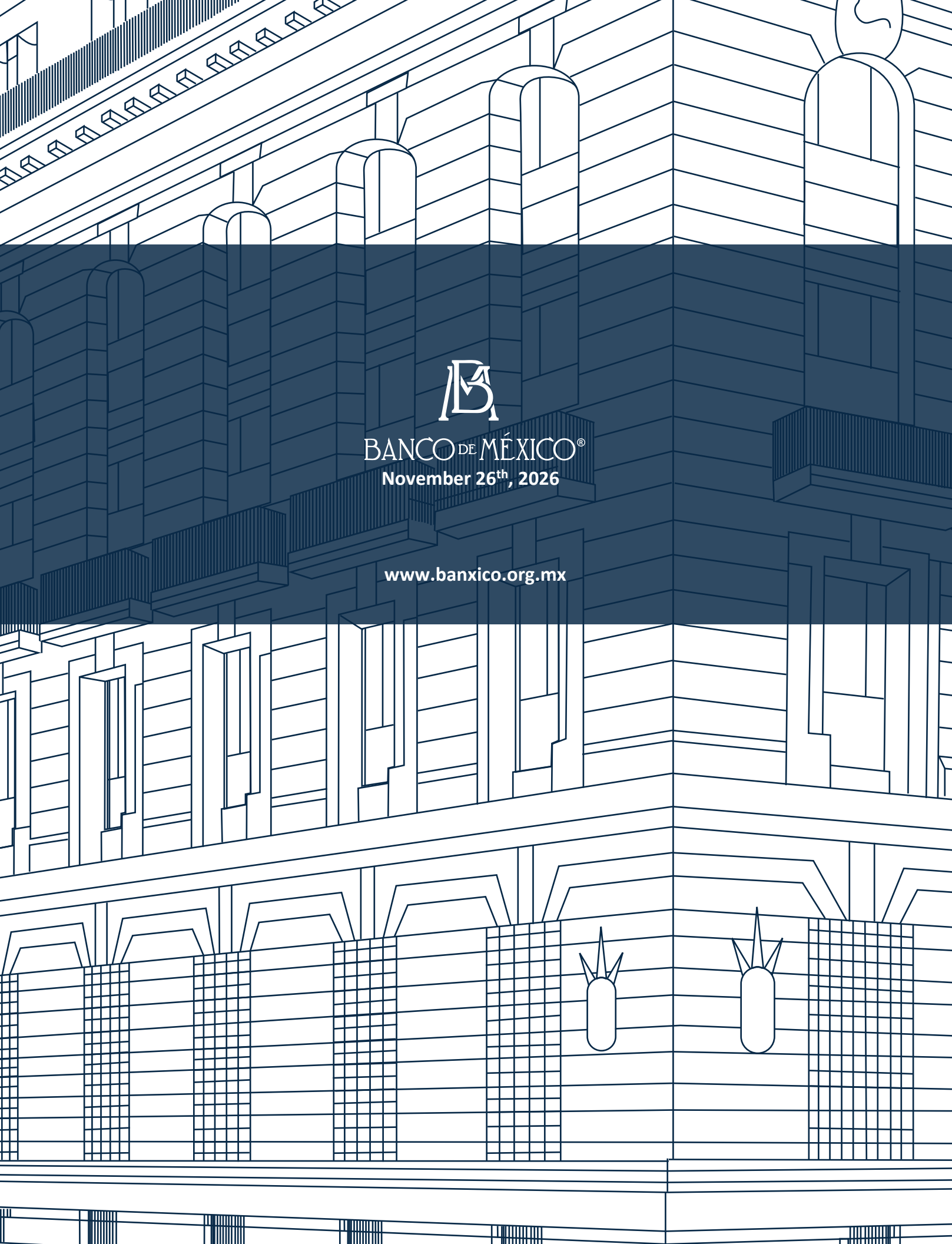
1/ Calculated using the quarterly average indices.

Vertical line corresponds to fourth quarter of 2026.

Source: prepared by Banco de México with data from INEGI and Banco de México.

Following a prolonged period of weakness and despite the continued challenging external environment, economic activity in Mexico showed signs of recovery during the second and third quarters of 2026. Domestic economic activity faces the challenge of consolidating this incipient trend and moving towards a more dynamic and sustained growth trajectory, in an environment characterized by uncertainty surrounding the future of Mexico's relationship with its main trading partner, persistent geopolitical tensions, and rapid technological advances with the potential to transform the economy significantly. In this regard, and as noted in previous reports, fostering a more robust and integrated growth requires continued efforts to implement measures that boost productivity, encourage investment in physical and human capital, strengthen the rule of law, and promote the adoption of new technologies. Furthermore, in view of the profound ongoing transformations in global value chains and the high degree of economic integration in North America, it is important to seize the emerging opportunities to strengthen the country's export orientation and expand its participation in high-value-added activities across both regional and global value chains.

It is also essential to maintain the strength of the country's sound macroeconomic fundamentals, to enhance the Mexican economy's resilience to external shocks, and facilitate an orderly economic adjustment to mitigate them. This entails maintaining fiscal discipline, ensuring a robust and well-capitalized financial system, preserving sustainable external accounts, and maintaining a free-floating exchange rate regime. These factors are complemented by a monetary policy firmly committed to its primary mandate of preserving the purchasing power of the national currency. In this context, Banco de México's Governing Board will continue assessing the evolution of the inflationary outlook and its determinants, in order to lead inflation towards the 3% target and maintain inflation expectations anchored. Consolidating these elements would set the foundations for a more vigorous economic development and would enable the economy to adapt to a constantly changing international environment, ultimately contributing to the well-being of Mexico's population.



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