



BANCO DE MÉXICO®

Executive Summary

Quarterly Report January - March

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Summary*

The global economy has been facing new shocks that continue to test its resilience. As a result of the conflict in the Middle East, since late February significant price increases in several energy goods were observed, international financial markets registered higher volatility and higher risk aversion, and global financial conditions tightened. Financial markets have been sensitive to developments in the region in conflict. Regarding the performance of domestic markets, in March the Mexican peso depreciated slightly and interest rates on medium- and long-term government bond yields increased. In April and so far in May, the peso appreciated, largely reversing the trend in March, while interest rates on the referred maturities exhibited volatility. The conflict has led to greater uncertainty, increasing risks of both higher inflation and lower economic growth globally. Despite the above, in the first quarter of 2026, global economic activity expanded at a faster pace than in the previous quarter. At the domestic level, economic activity contracted, thus widening the economic slack that have prevailed for several quarters. Headline inflation rose between the fourth quarter of 2025 and the first quarter of 2026. This reflected the fiscal adjustments that took effect in early 2026 for certain food items and the supply shocks affecting the non-core component. At its February meeting, Banco de México's Governing Board paused its rate-cutting cycle in order to assess the impact of the aforementioned fiscal adjustments and the behavior of the determinants of inflation. Subsequently,

consistent with its assessment of the inflation outlook and the shocks that have affected inflation, at its March and May meetings the Governing Board resumed the rate-cutting cycle by lowering the target rate by 25 basis points at each meeting. It announced that the rate cut in May, which brought the reference rate to 6.50%, concluded the cycle that began in 2024. Thus, looking ahead, the Governing Board determined that it will be appropriate to maintain the reference rate at its current level.

Regarding the external environment, global economic activity expanded at a faster pace in the first quarter of 2026 than in the previous quarter. This performance reflected a rebound in the growth rate of advanced economies, since economic activity in the group of emerging economies, excluding China, moderated overall. The US economy continued showing resilience in the first quarter of 2026, partly due to the fading of distortions associated with the government shutdown during the previous quarter, as well as positive contributions from non-residential investment and private consumption to economic activity. In contrast, economic activity in the euro area remained sluggish. Meanwhile, the Chinese economy grew at a faster pace than in the previous quarter.

During the period covered by this Report, uncertainty in the international environment increased amid the escalation of geopolitical tensions in various regions. The conflict in the Middle East stands out for its impact on energy prices and other commodity prices, which has

* Note: In the electronic version of this document, the information that allows to generate all the charts and tables included in this Report can be obtained by clicking on them, except for those that are not produced or prepared by Banco de México.

introduced various macroeconomic risks to global economic growth. The impact of the conflict on the global economy remains uncertain and continues to depend on its duration and intensity. Across countries, the effects will largely depend on each country's exposure to the repercussions stemming from the conflict. In this context, the balance of risks to global economic growth has become more skewed to the downside.

During the first months of the year, headline inflation continued trending downwards in various of the major advanced and emerging economies. However, as of March, headline inflation rebounded in a large number of them due to the rise in energy prices stemming from the conflict in the Middle East. Thus, in several countries, the most recent inflation readings were in general above the levels registered at the end of 2025 and above their respective central banks' inflation targets. Core inflation showed a differentiated behavior across countries, exhibiting persistence in several of them. Inflation faces a more uncertain outlook as a result of the escalation of the conflict in the Middle East, which has led to increases in the prices of commodities and other inputs. The evolution of these prices is expected to be determined, to a large extent, by the duration and severity of the conflict, and the effects on inflation are expected to vary by region, based on their level of exposure to these impacts.

During the period covered by this Report, central banks made heterogeneous decisions. In most major advanced economies and in a large number of emerging markets, central banks kept their monetary policy rates unchanged. Others,

particularly in emerging economies, lowered them, and a small number of them raised their reference rates. In more detail, in April, the US Federal Reserve kept the target range for the federal funds rate unchanged for the third consecutive meeting, after having lowered it in the last three decisions of 2025. The Federal Open Market Committee (FOMC) reported in its statement that recent indicators suggest economic activity has expanded at a solid pace and that job gains have remained low, on average, although with little change in the unemployment rate. The committee also pointed out that inflation is elevated, partly reflecting the recent increase in global energy prices. Regarding the Committee members' macroeconomic projections, between December 2025 and March 2026, the median projection for the federal funds rate remained unchanged at 3.4% for the end of 2026 and 3.1% for the end of 2027 and 2028. This would imply a 25-basis-point cut in the federal funds rate in 2026 and an additional cut in 2027. Meanwhile, the projection for the end of 2026 for the federal funds rate implied by the swap curves (Overnight Index Swap, OIS) rose from the 3.2% anticipated at the end of 2025 to 3.9% in its most recent projection.

Thus far this year, markets have been sensitive to the evolution of geopolitical conflicts, to adjustments in expectations regarding the US Federal Reserve's monetary policy stance, and to perceptions about the fiscal sustainability of some advanced economies. While January and February registered an easing of financial conditions and moderate volatility in stock markets, the outbreak of war in the Middle East in late February marked an inflection point, with

a significant increase in energy prices, tighter financial conditions, and lower risk appetite. Since then, markets have been sensitive to announcements regarding the conflict's evolution. Negotiations in April between the parties in dispute helped reduce volatility in financial markets and partially reversed the tightening of financial conditions. Nevertheless, significant uncertainty prevails regarding the duration and intensity of the conflict, as well as the impact it might continue to have on financial markets. In this environment, the Mexican peso continued its trend towards appreciation throughout January and February, while interest rates on Mexican government bonds declined across all maturities. In light of the military conflict in the Middle East, and in line with global trends, domestic financial markets registered increased volatility. The Mexican peso depreciated moderately and medium- and long-term interest rates rose. Subsequently, in April and so far in May, the Mexican peso reversed its trend towards depreciation, while interest rates for those maturities remained volatile. In May, a rating agency revised the outlook on the sovereign debt rating from stable to negative, while another agency lowered its rating by one level. Despite these adjustments, the sovereign rating maintains its investment-grade status across the major agencies, and, in this context, domestic financial markets were not affected by the announcements.

At the domestic level, GDP declined significantly in the first quarter of 2026, after having improved in the fourth quarter of 2025. This behavior was mainly due to a reversal of the moderate recovery in industrial activity observed at the end of 2025, as well as to a contraction in services. In

turn, primary activities offset part of the growth observed in the second half of 2025. During the January–March 2026 period, both job creation and labor force participation remained weak. Despite the unfavorable performance of economic activity at the beginning of the year, going forward it is expected to return to a path of moderate growth, although significant downside risks are still present given the complex global economic environment that prevails. The ongoing USMCA review process and its eventual outcome represents a key element of uncertainty for the Mexican economy.

The box *Geopolitical risk shocks and their effects on the Mexican economy* estimates a structural vector autoregressive model that allows to analyze the spillover effects on the economy based on historical episodes of this type of shocks. The results show that, in the short term, these shocks exert upward pressure on inflation due to higher energy prices. However, subsequently, price dynamics tend to reverse due to the negative effects on economic activity associated with lower external demand and greater uncertainty. Consequently, the response of the interest rate is ambiguous in the short term and eventually tends to decline.

Annual headline inflation rose from 3.69% in the fourth quarter of 2025 to 4.13% in the first quarter of 2026. This behavior reflected an increase in non-core inflation and, to a lesser extent, in core inflation. In particular, after remaining at low levels of 1.51% in the last two quarters of 2025, annual non-core inflation rose to 2.96% in the first quarter of 2026. This upward trend was driven by a higher inflation in agricultural and livestock products and, in

particular, by the notable increase in the prices of certain vegetables with a high weight in the CPI. Annual core inflation rose from 4.35% to 4.49% during the aforementioned quarter, mainly due to changes to the Special Tax on Production and Services (IEPS, for its acronym in Spanish) that were implemented at the beginning of the year, which contributed to higher merchandise inflation. Effects of this fiscal adjustment are estimated to have been confined to the prices of the goods directly affected, short-lived, and up to now have not generated second-round effects. Headline inflation has been declining since April, standing at 4.11% in the first fortnight of May. This behavior has reflected the moderation in non-core inflation, which stood at 3.73% in said fortnight due to the decline in agricultural and livestock products' inflation. The decline in headline inflation has also been influenced by the evolution of core inflation. Although this indicator has been declining since February, the decrease was more pronounced at the beginning of the second quarter. Its reading for the first fortnight of May registered 4.22%.

The box *Impact of changes in the IEPS on sugary drinks and cigarettes on consumer prices* presents evidence indicating that the effect of these tax changes was one-off and was almost entirely reflected during the first two months of 2026. Price adjustments were concentrated in the goods affected by these measures and their magnitude was consistent with the mechanical increase implied by the fiscal changes, so no second-round effects were generated.

Regarding Mexico's monetary policy decisions, at its February 2026 meeting, the Governing Board deemed it appropriate to pause the rate-cutting cycle on that occasion, consistent with the assessment of the inflation outlook. In particular, it took into account the revision to the inflation forecasts and the need to continue evaluating the impact of the fiscal adjustments implemented at the beginning of the year. It also considered the behavior of the exchange rate, the weakness of economic activity, and the level of monetary restriction implemented. The Board thus decided to maintain the target for the overnight interbank interest rate at 7.00%. Subsequently, in line with its assessment of the inflation outlook and the shocks that have affected inflation, it resumed the rate-cutting cycle at its March and May meetings, lowering the target rate by 25 basis points at each meeting. It took into account the observed levels of the exchange rate, the weakness of economic activity, which implies an absence of demand-related pressures in the economy, and the level of monetary restriction implemented. It announced that with the rate cut of May, which brought the reference rate to 6.50%, the cycle that began in March 2024 has concluded.

The box *Evidence on the pass-through of the reference rate to the yield on fixed income funds and its impact on financial savings in Mexico* shows that the return from the shares of these funds tends to adjust in response to changes in the monetary policy stance. It shows that the pass-through of the reference rate to the yields on this financial instrument is considerable, although it exhibits some lag. It also presents evidence suggesting that, in recent years, the yield from fixed income funds, above their historical average, has provided incentives to expand the private sector's term savings in Mexico.

Looking ahead, the Governing Board considers that it will be appropriate to maintain the reference rate at its current level. It judges that the monetary policy stance is well-suited to face the challenges posed by the macroeconomic environment, including those associated with an extension and an escalation of the Middle Eastern conflict and its repercussions. 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.

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

Growth of the national economy: In 2026, GDP growth of 1.1% is anticipated, which is lower than the point estimate of 1.6% published in the previous Report. The interval for expected GDP growth for that year is between 0.5% and 1.7%.

For 2027, GDP growth is projected to be 2.1%, a rate slightly higher than the 2.0% presented in the previous Report. The projected GDP growth interval for 2027 is between 1.3% and 2.9% (Table 1 and Chart 1a).

The revision to the growth forecast for 2026 primarily results from economic activity in the first quarter of 2026 being considerably weaker than previously expected. This is partially offset by expectations of higher quarterly growth rates in the second quarter and, to a lesser extent, in the third quarter, compared to previous estimates. The latter is explained by higher-than-expected external demand between the end of the first quarter and the beginning of the second one. Over the rest of the forecast horizon, the economy is expected to continue expanding at a moderate pace. With regard to aggregate spending, despite the weakness in private consumption in early 2026, it is anticipated to follow a positive trend for the remainder of the forecast period. Investment is expected to remain weak at least until the second semester of 2026, reflecting the prevailing uncertainty regarding trade relations with the United States and the upcoming review of the USMCA. Meanwhile, exports are expected to continue growing at a moderate pace, in line with the anticipated performance of industrial production in the United States and driven by purchases of goods related to the technology sector. The increase for 2027 results from the arithmetic effect of a higher base of growth in the second half of 2026.

The Quarterly Global Supply and Demand Statistics from Mexico's System of National Accounts provides detailed information on GDP from a demand-side perspective. However, the publication of these data after the end of each quarter involves a considerable lag. Although more timely indicators are available for domestic demand, this is not the case for external demand. To provide a more comprehensive outlook on demand conditions in the economy prior to the release of the Aggregate Supply and Demand Statistics, the box *Estimation of a timely indicator of goods exports in constant pesos* presents the construction of an indicator for this component of aggregate demand, using statistical inputs available in advance, such as the value of merchandise foreign trade in current US dollars, that is consistent with the official statistics.

The outbreak of the conflict in the Middle East introduced additional elements of uncertainty to global economic activity and international financial markets. Indicators drawn from financial markets incorporate expectations that the conflict will be short-lived, with supply conditions gradually returning to normal over the course of the year. Although no direct impact on economic activity in Mexico is expected, risks to

the global economy and to energy and other commodity prices contribute to the balance of risks for the country's economic growth remaining biased to the downside. The potential impacts continue to be difficult to predict and will depend on the duration and intensity of the conflict.

As to the cyclical position of the economy, given the contraction in economic activity observed in the first quarter of 2026, the point estimate of the output gap is anticipated to have widened compared with the previous projection and 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	1.1	Between 0.5 and 1.7
2027	2.1	Between 1.3 and 2.9

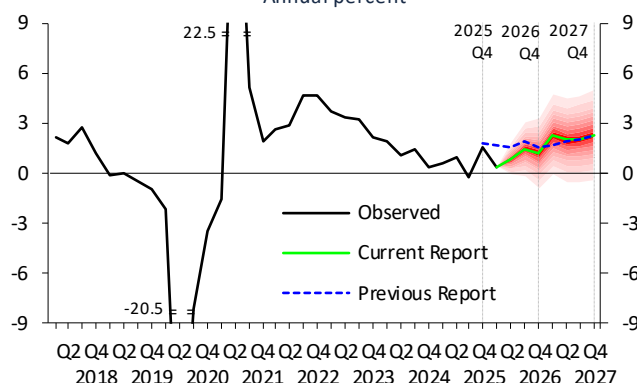
Note: Not seasonally adjusted forecasts. The central estimates for 2026 and 2027 compare with the previous Report's forecasts of 1.6 and 2.0% for each year. Intervals compare to those published in the previous Report of 1.0 and 2.2% for 2026 and 1.2 and 2.8% for 2027. Mexico's GDP increased 0.5% in 2025, with figures that are not seasonally adjusted.

Source: Banco de México.

Chart 1

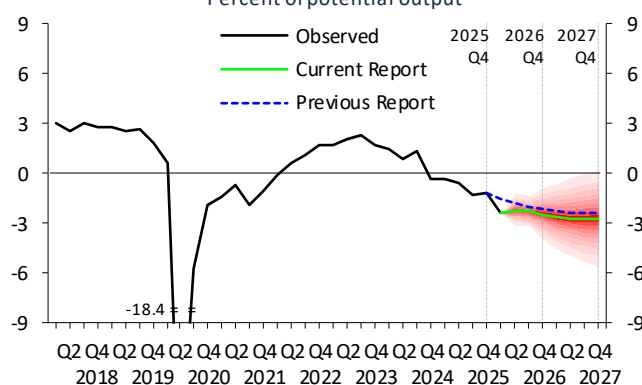
a) Fan chart: GDP growth, s.a.

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 Q2 2026. In the previous Report, it started in Q1 2026.

1/ The vertical scale on the chart was truncated to improve readability.

Source: a) INEGI and Banco de México. b) Banco de México.

Employment: Table 2 presents the forecasts for the number of IMSS-insured jobs.¹

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 260 and 460
2027	Between 400 and 600

Note: Compared to the previous report, the forecast intervals for this indicator remained unchanged. 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
Trade balance		
% of GDP	-0.6 to -0.2	-1.1 to -0.6
Billions of dollars	-13.0 to -5.0	-21.8 to -12.4
Current account		
% of GDP	-1.3 to -0.6	-1.8 to -0.9
Billions of dollars	-26.2 to -13.5	-35.8 to -19.3

Note: Figures for 2026 compare with those of the previous Report of a trade balance of between -13.9 and -5.9 billion dollars (-0.7 and -0.3% of GDP) and a current account balance of between -30.1 and -17.4 billion dollars (-1.5 and -0.8% of GDP). Figures for 2027 compare with the previous Report's figures of a trade balance of between -19.4 and -10.0 billion dollars (-1.0 and -0.5% of GDP) and a current account balance of between -35.4 and -18.9 billion dollars (-1.8 and -0.9% of GDP). In 2025, the trade balance was 0.8 billion dollars (0.0% of GDP) and the current account balance was -8.8 billion dollars (-0.5% of GDP).

Source: Banco de México.

¹ Forecasts for the variation in IMSS-insured jobs in 2026 and 2027 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 thousand positions reported in December 2025, will be limited.

Risks to growth: The balance of risks for growth of economic activity over the forecast horizon is considered to remain biased to the downside. Among the downside risks throughout the forecast horizon, 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, the review of USMCA or idiosyncratic factors, may intensify and negatively affect external demand as well as consumption and investment spending in Mexico.
- ii. That an 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 is lower than expected due to the cyclical factors or policies implemented in that country, negatively affecting Mexico's external demand.
- v. That the reconfiguration of domestic supply chains in response to higher tariffs on certain imports from countries with which Mexico does not have trade agreements affects the economic activity of some sectors.
- vi. That climate-related events, such as extreme temperatures, cyclones, or droughts adversely impact the Mexican economy.

Among the risks to the upside in the forecast horizon, the following stand out:

- i. That a successful USMCA review and reduced uncertainty surrounding US trade policy would encourage investment in Mexico and foster greater regional trade.

- 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.
- iv. That the FIFA World Cup provides a stronger-than-expected boost to economic activity.

Inflation: Although the inflation outlook remains complex, headline inflation is expected to resume a downward trend over the next quarters. The forecasts for headline and core inflation published in the Monetary Policy Statement of May 7 remain unchanged in this Quarterly Report. Compared with the previous Report, the forecast for headline inflation is adjusted upwards for the second and third quarters of 2026 (Table 4 and Charts 2 and 3). This adjustment is primarily due to the expectation that non-core inflation will be higher than previously anticipated for that period. This largely responds to a greater-than-expected trajectory in energy prices and, in the short term, in agricultural and livestock product prices as well. The revision to the forecast for headline inflation in the specified quarters also incorporates a slight upward adjustment to the forecast for core inflation. From the fourth quarter of 2026 onwards, the projected headline inflation over the forecast horizon is the same as that published in the previous Report. Thus, the forecast that it will reach 3% in the second quarter of 2027 remains unchanged.

Looking more closely at the forecast for core inflation, compared with the previous Report, the current forecast places it at levels slightly above those previously projected in the second and third quarters of 2026. This adjustment reflects a slower-than-expected decline in services price variations, which is expected to be offset, to a large extent, by a smaller-than-expected increase in merchandise price variations, following the orderly adjustment of relative prices resulting from changes to the IEPS. The remainder of the trajectory for core inflation remains at the same levels as those projected in the previous Report. Thus, this indicator is still expected to stand at 3% in the second quarter of 2027. This projected trajectory would be supported by the restrictive monetary policy implemented over the past three years, the observed and projected slack in the economy, and the cumulative appreciation of the peso during 2025 and so far in 2026.

Table 4 and Chart 4 show the annual variation rates and the seasonally adjusted annualized quarterly variation rates for headline and core inflation. Since annual rates are affected over twelve months by the arithmetic effects of upward inflationary shocks that affected inflation, their decline is slower than that of seasonally adjusted quarterly variations, which incorporate only the price changes expected to occur in a particular quarter. Thus, following the increase in the seasonally adjusted quarterly rates of headline and core inflation in the first quarter in response to changes in the IEPS, the

forecast that both indices will decline in the coming quarters is maintained. In particular, quarterly variations are expected to be around 3% starting in the second quarter of 2026 for core inflation and in the third quarter for headline inflation.

The balance of risks for the anticipated inflation trajectory over the projected horizon is considered to remain biased to the upside. Changes in economic policy by the US administration and the escalation of geopolitical conflicts continue adding uncertainty to the outlook. Their effects could imply inflationary pressures on both sides of the balance.

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

On the upside:

- i. Disruptions associated with trade policies or an inflationary impact of geopolitical conflicts.
- ii. Persistence of core inflation.
- iii. Cost-related pressures.
- iv. A tendency towards depreciation of the Mexican peso.
- v. Climate-related impacts.

On the downside:

- i. A lower-than-anticipated economic activity in Mexico and/or in the United States.
- ii. A lower pass-through of cost-related pressures.
- iii. Reduced pressures due to the appreciation of the Mexican peso since 2025.

Table 4
Forecasts for headline and core inflation
 Annual percentage change of quarterly average indices

	2025		2026				2027				2028
	IV	I	II	III	IV	I	II	III	IV	I	
CPI											
Current Report = Monetary Policy Statement of May 2026 ^{1/}	3.7	4.1	4.1	3.8	3.5	3.2	3.0	3.0	3.0	3.0	
Previous Report = Monetary Policy Statement of February 2026 ^{2/}	3.7	4.0	3.8	3.6	3.5	3.2	3.0	3.0	3.0		
Core											
Current Report = Monetary Policy Statement of May 2026 ^{1/}	4.3	4.5	4.1	3.7	3.4	3.1	3.0	3.0	3.0	3.0	
Previous Report = Monetary Policy Statement of February 2026 ^{2/}	4.3	4.4	4.0	3.6	3.4	3.1	3.0	3.0	3.0		
Memo											
Annualized seasonally adjusted quarterly variation in percent^{3/}											
Current Report = Monetary Policy Statement of May 2026 ^{1/}											
CPI	3.6	4.7	4.6	2.5	2.9	3.0	3.6	2.4	2.9	2.9	
Core	4.0	4.6	3.4	2.9	3.0	3.0	3.2	2.7	3.0	3.0	

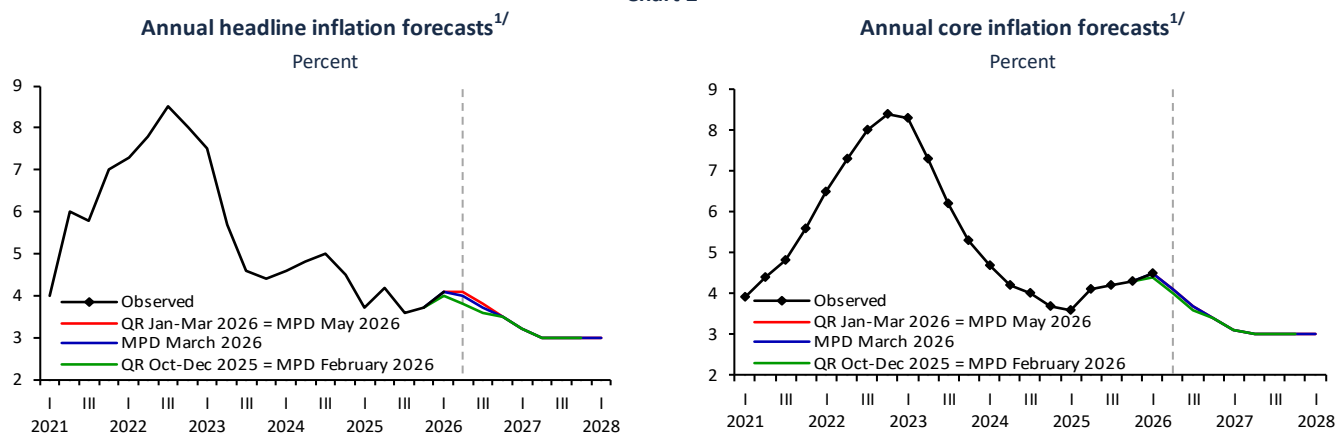
1/ Forecast starting May 2026. It corresponds to the forecast published in the Monetary Policy Statement of May 7th 2026.

2/ Forecast starting January 2026. It corresponds to the forecast published in the Monetary Policy Statement of February 5th 2026.

3/ See [Methodological Note](#) on seasonal adjustment process.

Source: INEGI for observed annual variation figures and Banco de México for seasonally adjusted figures and forecasts.

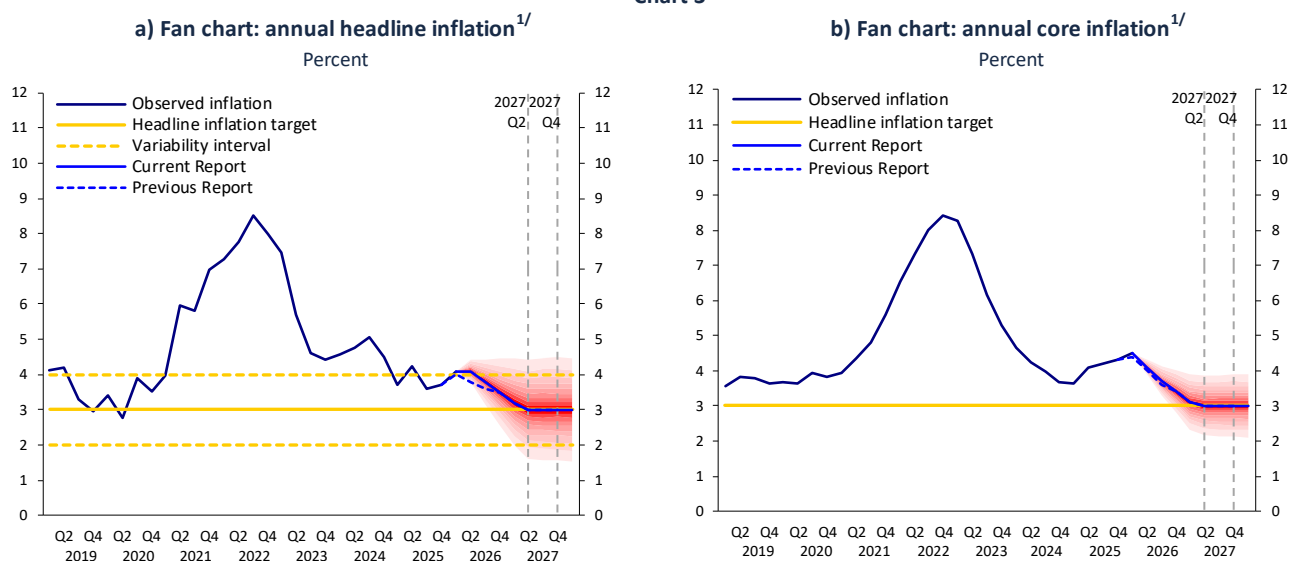
Chart 2



1/ Annual percentage change of quarterly average indices. QR refers to Quarterly Report and MPD refers to Monetary Policy Decision. Vertical line corresponds to second quarter of 2026.

Source: Banco de México and INEGI.

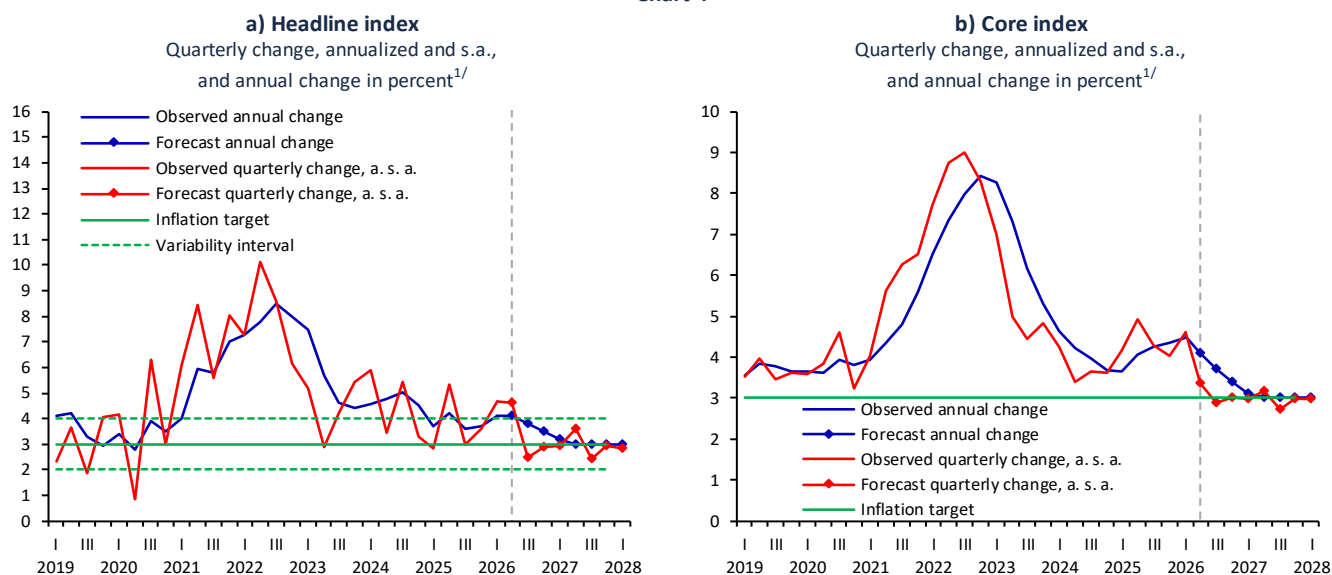
Chart 3



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

Source: Banco de México and INEGI.

Chart 4



s.a./ seasonally adjusted figures.

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

1/ Calculated using the quarterly average indices.

Vertical line corresponds to second quarter of 2026.

Source: Banco de México and INEGI.

Globally, the escalation of geopolitical tensions has exacerbated uncertainty, increased inflationary risks, and lowered economic growth prospects. The solid macroeconomic framework that Mexico has built over the years has been essential for navigating through complex environments such as the current one. Supporting and strengthening the pillars of this framework remains a top priority in order to counteract the external shocks faced by the Mexican economy. In this regard, it is essential to maintain fiscal discipline, a robust and well-capitalized financial system, sustainable external accounts, and a flexible exchange rate. This is complemented by a monetary policy firmly committed to its primary mandate of preserving the purchasing power of the national currency. Consequently, the Governing Board of Banco de México will continue assessing the evolution of the economic and financial environment with the aim of promoting an orderly adjustment of relative prices, steering inflation towards the 3% target, and maintaining inflation expectations anchored.

As pointed out in previous Reports, it is also necessary to continue promoting more dynamic and sustained economic growth. Therefore, steps must be taken to increase aggregate productivity and encourage investment, both in physical assets and in human capital. This implies strengthening the rule of law, creating conditions conducive to value creation, encouraging the adoption of new technologies, and promoting a more efficient resource allocation. This would strengthen the domestic market and help capitalize on phenomena such as the reconfiguration of global value chains. While the USMCA review scheduled for this year adds a significant element of uncertainty for the Mexican economy, it also represents an opportunity to promote greater regional economic integration. These factors will allow to consolidate more robust economic growth and help the economy to adapt to a constantly evolving international environment, which will ultimately contribute to the greater well-being of the Mexican population.



BANCO DE MÉXICO®
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