



BANCO DE MÉXICO®

Executive Summary

Quarterly Report April - June 2026

Public Use

Publicly accessible information

Summary*

Following the volatility observed at the end of the first quarter of 2026 related to the start of the conflict in the Middle East, the external environment generally improved throughout the second one. This was largely due to progress in the ceasefire negotiations in said region in April and May and to the provisional agreement signed in June. However, the escalation of the conflict at the start of the third quarter once again raised global uncertainty and increased upside risks to inflation and downside risks to growth. Although international financial markets and various commodity prices have remained sensitive to the evolution of geopolitical tensions, their reaction has been more contained than that observed in March. In this context, during the second quarter, global economic activity grew at a pace similar to that of the previous quarter, while headline inflation rose in most economies, primarily as a result of increases in energy prices. Between March and August 2026, global financial conditions eased, supported by gains in the stock markets and a lower volatility, although medium- and long-term government bond yields remained high. Mexico's government interest rates declined across all maturities, and the exchange rate appreciated on average, compared with the levels registered in late March. Domestic economic activity expanded during the second quarter, after having contracted in the previous one, although slack conditions are still anticipated throughout the forecast horizon. The inflation outlook in Mexico has been improving, although challenges remain ahead. Annual headline inflation in Mexico declined and returned to within the variability Interval, driven by the favorable performance of the non-core component, supported by the fading of supply shocks and by a decline in core inflation. At the May monetary policy meeting, in line with its assessment of the inflation outlook, the Governing Board lowered the target rate by 25 basis points to 6.50% and stated that it thereby concluded the rate-cutting cycle that began in 2024. Subsequently, at its June and August meetings, the Board left the reference rate unchanged and reiterated that, going forward, it would be appropriate to maintain it at its current level.

Delving deeper into the external environment, during the second quarter of 2026, global economic activity expanded at a pace similar to that of the previous quarter. This performance was the result of growth in emerging economies similar to that of the previous quarter and a slightly faster expansion in advanced economies. Growth in the US economy moderated, although its domestic demand continued exhibiting strength. Meanwhile, the Chinese economy grew at a slower pace than in the previous quarter, while economic activity in the euro area expanded after having stagnated in the previous quarter.

In May 2026, the process of modernizing the Free Trade Agreement between Mexico and the European Union, in force since 2000, concluded with the signing of the Modernized Global Agreement and the interim Trade Agreement. The box *Trade relations between Mexico and the European Union* examines recent trade developments between the two regions and summarizes the main changes introduced by these agreements.

Uncertainty around the conflict in the Middle East and its repercussions persisted. World goods trade appears to have grown at a lower rate than in the first quarter. The disruption of commercial traffic through the Strait of Hormuz since late February appears to have been one of the main factors behind this performance. Nevertheless, the partial reopening of the strait in mid-June alleviated the risks associated with disruptions in energy and other commodities' markets. However, the escalation of the conflict in the Middle East in July reignited uncertainty regarding the transit along said trade route.

During the second quarter of 2026, headline inflation increased in a large number of major advanced and emerging economies amid rising energy and other commodity prices caused by the conflict in the Middle East. In various economies, the latest inflation readings were above the levels observed at the end of the first quarter of the year and above central banks' inflation targets. Core inflation varied from country to country and exhibited persistence in several cases.

* 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.

Between March and August, central banks made differentiated decisions among countries. In a large number of major advanced and emerging economies, central banks kept their reference rates unchanged. Several others raised them, while some, particularly those in emerging economies, lowered them. Specifically, in July the US Federal Reserve left the target range for the federal funds rate between 3.50 and 3.75% for the fifth consecutive time. The Federal Open Market Committee (FOMC) reiterated in its statement that economic activity is expanding at a solid pace despite uncertainty that owes, in part, to the conflict in the Middle East. It also restated that job gains have kept pace with the workforce and that the unemployment rate has changed little. It noted that inflation remains elevated, partly reflecting the supply shocks that have driven price increases in certain sectors, including energy. As to the Committee members' macroeconomic projections, between March and June 2026, the median projection for the federal funds rate rose from 3.4 to 3.8% for the end of 2026, from 3.1 to 3.6% for the end of 2027, and from 3.1 to 3.4% for the end of 2028. The projection for the end of 2026 for the federal funds rate implied by swap curves (Overnight Index Swap, OIS) rose from the 3.7% anticipated at the end of the first quarter of 2026 to 3.9% in its most recent projection.

International financial markets continued showing sensitivity to developments in geopolitical tensions and to the shift in expectations regarding central banks' monetary policy stances in various advanced economies. On the one hand, volatility declined and stock markets registered gains. Early during the period, those gains were driven by the technology sector, and later by the release of favorable economic data. On the other hand, in most advanced economies, government bond yields rose and the US dollar depreciated. The resumption of hostilities in July reignited the risks to global economic activity and inflation and led to greater uncertainty in international financial markets. Domestic financial markets showed signs of improvement, with lower

government interest rates and higher valuations in equity markets. The Mexican peso appreciated against the US dollar compared to its closing rate in March and has remained at levels similar to those registered prior to the conflict in the Middle East.

The box *Trends in Afores' demand for financial assets* shows that the growth in assets managed by retirement savings funds has become a significant source of financing for various sectors of the Mexican economy. It shows that Siefores invest in a broad portfolio of financial instruments and have become significant participants in certain debt markets as well as of other asset classes. In addition, the box presents a forward-looking analysis suggesting that assets managed by Afores will continue to grow significantly in the coming years. This dynamism is mostly associated with the gradual increase in employer contributions to workers' individual accounts from the 2020 pension system reform.

At the domestic level, GDP rebounded during the second quarter of 2026, after having contracted in the previous quarter. However, slack conditions prevailed, reflecting the weakness that productive activity has exhibited over a prolonged period. From a sectoral perspective, the relatively stronger performance of the Mexican economy was the result of positive contributions from the three main sectors of the economy. The labor market remained weak during the period, although job creation improved somewhat. Looking ahead, economic activity is expected to grow at a moderate pace, in an environment in which various downward risks persist. Although expected, the decision of the United States to activate the annual review mechanism of the United States-Mexico-Canada Agreement (USMCA) prolonged the uncertainty about the future of regional trade relations. However, negotiations between the countries continue, and Mexico's exports to the United States maintain their preferential treatment under the USMCA.

The box *Competition among supermarket chains and its association with food merchandise prices and inflation* uses an econometric analysis to compare the behavior of prices and inflation for a homogeneous basket of goods across cities that differ in the number of supermarket chains operating in their markets at a given point in time. The results show that cities with a higher number of supermarket retail chains tend to exhibit lower prices and inflation, and that the entry of new chains may be associated with lower prices and inflation, although the magnitude of these effects may vary over time. These results suggest that greater effective competition could contribute favorably to the price formation process and its dynamics.

Throughout the second quarter of 2026, annual headline inflation followed a downward trajectory, supported by the continued downward trend in core inflation, as well as by the decline in non-core inflation registered during that period. Specifically, annual headline inflation shifted from 4.13 to 3.92% between the first and second quarters of 2026 and stood at 3.26% in the first fortnight of August. Between said quarters, annual core inflation declined from 4.49 to 4.16% driven by a smaller annual variation in merchandise prices, which was partially offset by a slight increase in that of services' prices. In the first fortnight of August, core inflation registered 3.93%. Meanwhile, between the referred quarters, annual non-core inflation went from 2.96 to 3.10%. However, this indicator has moderated since April, when it reached its highest level so far this year. Regarding its components, the annual variation of agricultural and livestock products' prices declined during the second quarter, while that of energy prices rose, albeit from low levels. In the first fortnight of August, annual non-core inflation stood at 0.96%.

With respect to Mexico's monetary policy decisions, in line with the assessment of the inflationary outlook, at its May 2026 monetary policy meeting the Governing Board deemed it appropriate to make an additional cut to the overnight interbank interest

rate, bringing it to 6.50%. 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. In that decision, the Board announced the end of the rate-cutting cycle that began in March 2024 and stated that the reference rate level reached was appropriate to address the challenges posed by the macroeconomic environment. In line with that announcement and based on a similar assessment of the inflation outlook and its determinants, it decided in its June and August decisions to maintain the target for the reference rate at 6.50%.

Looking ahead, the Governing Board estimates 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 the international context. 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: For 2026, GDP growth of 1.5% is anticipated, a higher rate than the point estimate of 1.1% published in the previous Report. The interval for the expected variation of GDP for that year is between 1.0 and 2.0%. For 2027, GDP growth is projected to be 2.0%, a rate slightly lower than the 2.1% foreseen in the previous Report. The projected GDP growth interval for 2027 is between 1.2 and 2.8% (Table 1 and Chart 1a).

The revision to the 2026 GDP forecast is attributed to a stronger-than-expected economic growth during the second quarter. This effect is partially offset by a greater-than-expected slowdown during the third quarter. For the remainder of the forecast period, a moderate and gradual acceleration in the quarterly growth rates is still expected.

The box *Gender gap in labor income* presents a decomposition of this gap based on differences between men and women in employment, hours worked, and hourly wages. In 2025, the gap was estimated to amount to 53% of men's labor income, with the employment component accounting for approximately half of the difference in labor income by gender. The gap narrowed by a cumulative 13 percentage points between 2005 and 2025, which can be attributed in similar proportions to changes in employment components and to hourly earnings, while the dynamics in gender differences in hours worked played a minor role.

Regarding aggregate spending, despite the weakness in private consumption in early 2026, it is anticipated that it will resume a positive trend. Investment is expected to remain weak, due to the uncertainty that persists surrounding trade relations between Mexico and the United States and the USMCA ratification in light of a new phase of annual reviews. Meanwhile, exports are expected to expand moderately, in line with the anticipated performance of US industrial production and supported by purchases of goods related with the technology sector in that country.

The activation of the USMCA's annual review mechanism by the United States extended the uncertainty surrounding regional trade relations. Although the treaty's current conditions are still in force, guaranteeing preferential treatment for Mexican exports, the lack of a definitive resolution regarding its future remains an adverse factor for investment decisions. The resurgence of tensions between the United States and Iran in July reignited uncertainty for the global economy. Although the timing and magnitude of the effects of these events on Mexico's economic activity are hard to anticipate, as they depend on the progress of trade negotiations and the intensity of geopolitical events, both factors contribute to maintaining the balance of risks for Mexico's economic growth biased to the downside.

As to the cyclical position of the economy, the point estimate of the output gap is 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	1.5	Between 1.0 and 2.0
2027	2.0	Between 1.2 and 2.8

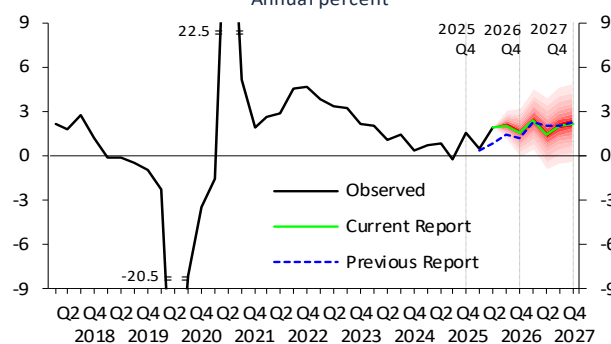
Note: Not seasonally adjusted forecasts. The central estimates for 2026 and 2027 compare with the previous Report's forecasts of 1.1 and 2.1% for each year. Intervals compare to those published in the previous Report of 0.5 and 1.7% for 2026 and 1.3 and 2.9% for 2027. Mexico's GDP increased 0.5% in 2025, with figures that are not seasonally adjusted.

Source: Banco de México.

Chart 1

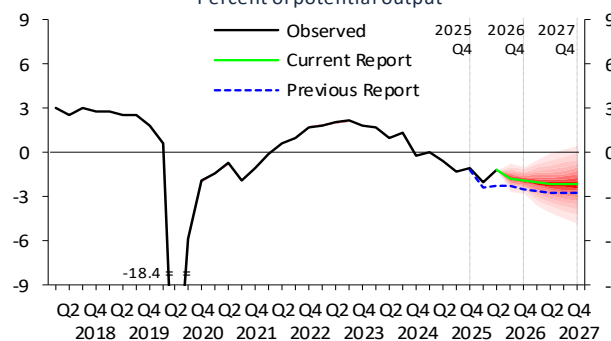
a) Fan chart: GDP growth, s.a.

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 Q3 2026. In the previous Report, it started in Q2 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.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 220 and 400
2027	Between 400 and 600

Note: Compared to the previous Report, the forecast intervals for this indicator were 260 to 460 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
Trade balance		
% of GDP	-0.2 to 0.2	-0.9 to -0.4
Billions of dollars	-3.9 to 4.1	-17.9 to -8.5
Current account		
% of GDP	-0.8 to -0.1	-1.4 to -0.5
Billions of dollars	-15.9 to -3.1	-28.2 to -11.4

Note: Figures for 2026 compare with those of the previous Report of a trade balance of between -13.0 and -5.0 billion dollars (-0.6 and -0.2% of GDP) and a current account balance of between -26.2 and -13.5 billion dollars (-1.3 and -0.6% of GDP). Figures for 2027 compare with the previous Report's figures of a trade balance of between -21.8 and -12.4 billion dollars (-1.1 and -0.6% of GDP) and a current account balance of between -35.8 and -19.3 billion dollars (-1.8 and -0.9% of GDP). In 2025, the trade balance was 0.2 billion dollars (0.0% of GDP) and the current account balance was -9.4 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. The trade policy of our main trading partner poses significant risks both on the downside and the upside.

Among downside risks throughout the forecast horizon, the following stand out:

- That the climate 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, may intensify and negatively affect external demand as well as consumption and investment spending in Mexico.
- 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.
- That episodes of volatility materialize in domestic or international financial markets.
- That US economic growth turns out to be lower than expected, negatively affecting Mexico's external demand.
- That climate-related events, such as extreme temperatures, cyclones, or droughts adversely impact the Mexican economy.

Among upside risks throughout the forecast horizon, the following stand out:

- 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 to boost trade in the region.
- That growth of the US economy is greater than expected, and that it favors Mexico's external demand.
- That progress in infrastructure projects financed through mixed public-private investment leads to greater-than-expected economic growth.

Inflation: In this Quarterly Report, the forecasts for headline and core inflation published in the Monetary Policy Statement of August 6, 2026, are maintained. Headline and core inflation are both

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.

expected to continue declining, albeit at a more gradual pace than previously anticipated. Inflation is thus expected to converge to the target in 2027 (Table 4 and Chart 2 and 3). The change in the trajectory reflects moderately higher-than-expected levels of core inflation for most of the forecast horizon, as well as of non-core inflation for the first three quarters of 2027.

Compared with the previous Report, the current forecast for headline inflation considers a downward revision in the third quarter of 2026. This is due to lower-than-previously-anticipated levels of non-core inflation during that period, in response to lower-than-expected variations in agricultural and livestock product prices. The forecast for headline inflation for the fourth quarter of 2026 is the same as in the previous Report. Between the first and third quarters of 2027, a more gradual decline in headline inflation is expected than in the previous Report. This change reflects a higher trajectory for core inflation throughout most of the forecast horizon. This performance would be the result of slightly higher variations in merchandise prices, as well as a more gradual decline in those of services prices. The latter as a result of the persistence exhibited by this component. The upward revision to headline inflation between the first and third quarters of 2027 also considers greater fluctuations in the prices of the non-core component during those quarters, mainly due to a higher trajectory in energy prices than previously expected. The latter have continued benefitting from domestic policies that help to mitigate the shocks to international reference prices.

The annual rate of change and the annualized seasonally adjusted quarterly rate of change of headline and core inflation are shown in Table 4 and Chart 4. In the case of the headline index, the annualized seasonally adjusted quarterly rates are expected to be around 3% starting in the second quarter of 2027 and, in the case of the core index, starting in the fourth quarter of 2026. Since annual

rates are affected over twelve months by the arithmetic effects of shocks that drove inflation upwards, their decline is slower than that of seasonally adjusted quarterly variations, which only incorporate the price changes that are expected to occur in a specific quarter. Therefore, the annual variations are higher than the seasonally adjusted quarterly rates during the period in which the effects of shocks are incorporated into inflation.

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. Disruptions associated with trade policies or an inflationary impact of geopolitical conflicts.
- iii. Climate-related impacts that could affect the prices of various agricultural and livestock products.
- iv. Higher cost-related pressures that could be passed on to consumer prices.
- v. A tendency towards depreciation of the Mexican peso.

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 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

	2026				2027				2028	
	I	II	III	IV	I	II	III	IV	I	II
CPI										
Current Report = Monetary Policy Statement of August 2026 ^{1/}	4.1	3.9	3.5	3.5	3.4	3.3	3.2	3.0	3.0	3.0
Previous Report = Monetary Policy Statement of May 2026 ^{2/}	4.1	4.1	3.8	3.5	3.2	3.0	3.0	3.0	3.0	
Core										
Current Report = Monetary Policy Statement of August 2026 ^{1/}	4.5	4.2	3.8	3.5	3.4	3.3	3.2	3.0	3.0	3.0
Previous Report = Monetary Policy Statement of May 2026 ^{2/}	4.5	4.1	3.7	3.4	3.1	3.0	3.0	3.0	3.0	
Memo										
Annualized seasonally adjusted quarterly variation in percent^{3/}										
Current Report = Monetary Policy Statement of August 2026 ^{1/}										
CPI	4.5	4.1	2.5	3.5	3.3	3.1	2.6	3.3	3.1	3.0
Core	4.6	3.7	3.3	3.1	3.1	3.2	2.9	3.0	3.0	3.1

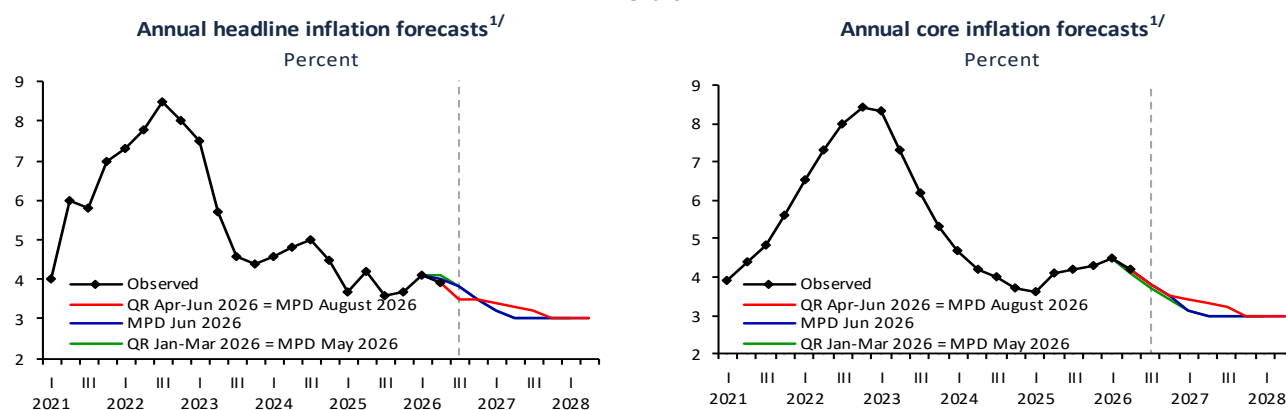
1/ Forecast starting August 2026. It corresponds to the forecast published in the Monetary Policy Statement of August 6, 2026.

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

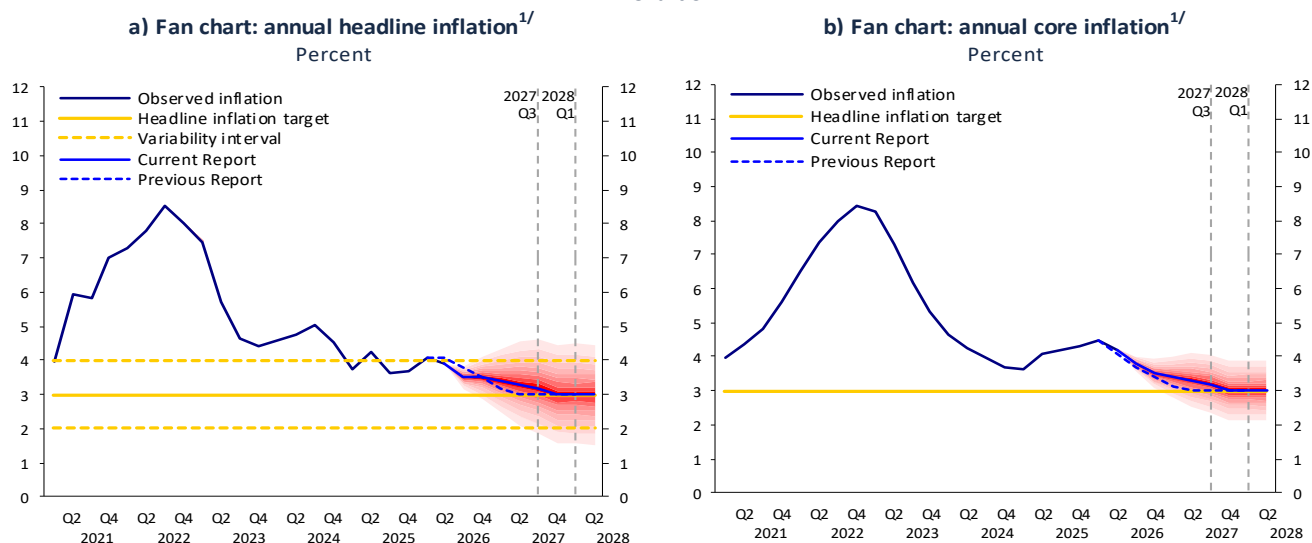
Chart 2



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

Source: Banco de México and INEGI.

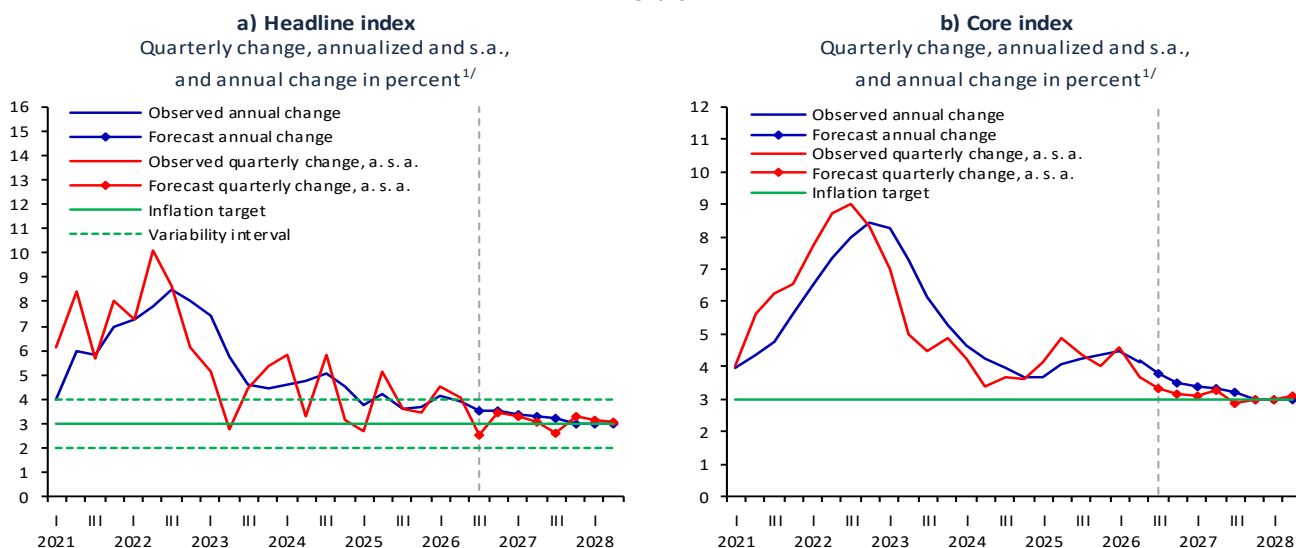
Chart 3



1/ Annual percentage change of quarterly average indices. The next four and six quarters are indicated with vertical lines, using as a reference the third quarter of 2026, that is, the third quarter of 2027 and the first quarter of 2028, 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 third quarter of 2026.

Source: Banco de México and INEGI.

Despite the expansion of economic activity during the second quarter, the Mexican economy remains weak and faces a complex external environment subject to significant geopolitical risks. In addition, there is uncertainty surrounding trade relations in North America stemming from the activation of the annual review process of the USMCA. Although negotiations for greater regional integration are underway and opportunities to further integrate the Mexican economy into global value chains continue, it is paramount to adopt measures to strengthen the domestic market. As mentioned in previous Reports, in order to promote more dynamic, sustained, and comprehensive growth, it is necessary to continue making progress on measures that increase productivity, foster investment in physical assets and human capital, strengthen the rule of law, and promote the adoption of new technologies.

Additionally, it is crucial to continue strengthening macroeconomic fundamentals, as this increases the economy's capacity to withstand potential external shocks. This involves maintaining fiscal discipline, ensuring a robust and well-capitalized financial system, preserving sustainable external accounts, and maintaining a flexible exchange rate regime, as well as 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 economic and financial outlook, in order to promote an orderly adjustment of relative prices, 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.



BANCO DE MÉXICO®
August 26th, 2026

www.banxico.org.mx