Quarterly Report
July – September 2020

November 25, 2020

BANCO DE MÉXICO

Economic and Financial Environment

➢ The **COVID-19 pandemic** implied shocks that had a **widespread impact on all countries**, with **repercussions** on **economic activity, inflation** and **global financial conditions.**

➢ After a severe contraction during Q2, the economy **started to recover** during Q3, mainly due to the **reopening of various productive activities**. However, there is still **high uncertainty** about the pace of recovery in the next quarters.

➢ This context poses **significant challenges** for the **recovery of the Mexican economy, the labor market,** and for the **financial system.**

➢ Banco de México has **implemented monetary policy** to enable **an orderly adjustment of domestic markets and of the economy overall,** and, thus, **to preserve the domestic currency's purchasing power.**

Outline

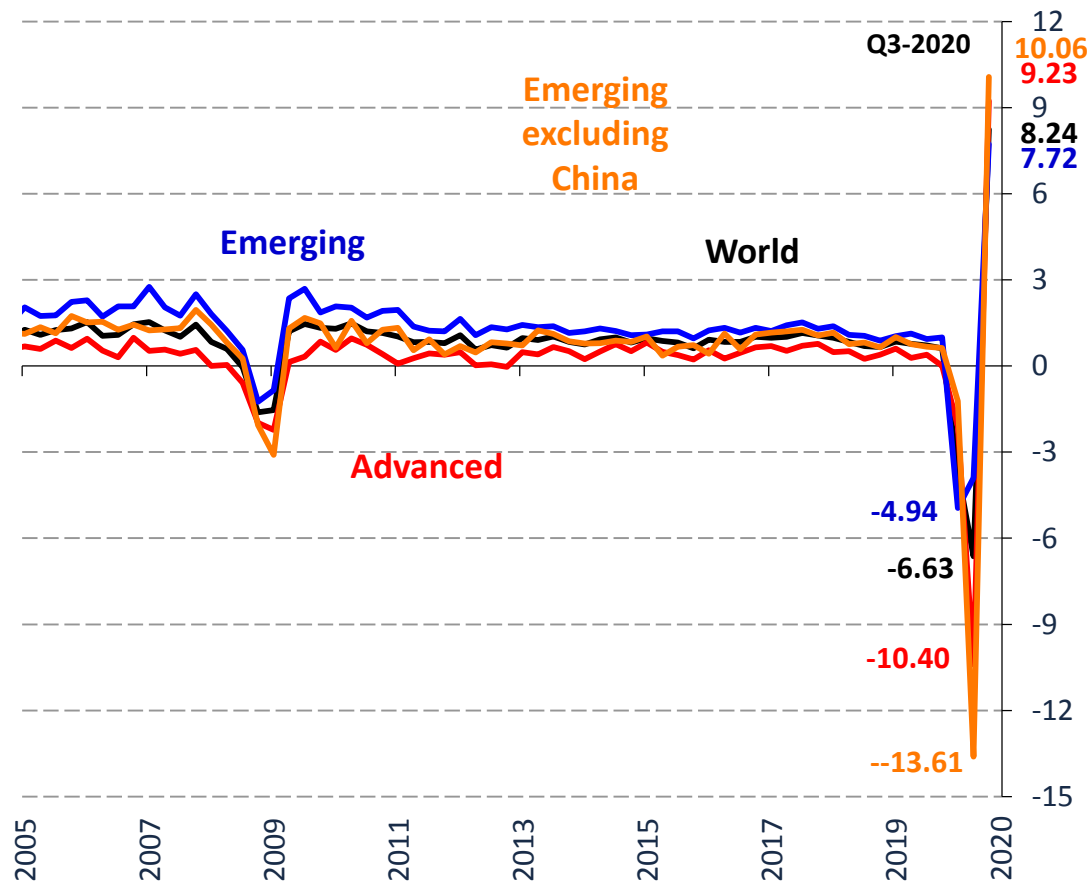|	
1	**External conditions**
2	Current situation of the Mexican economy
3	Inflation
4	Monetary policy
5	Forecasts and final remarks

Global economic activity has recovered in different countries in an heterogeneous manner and its pace has moderated since July. However, pre-pandemic levels have not been reached yet and risks persist.
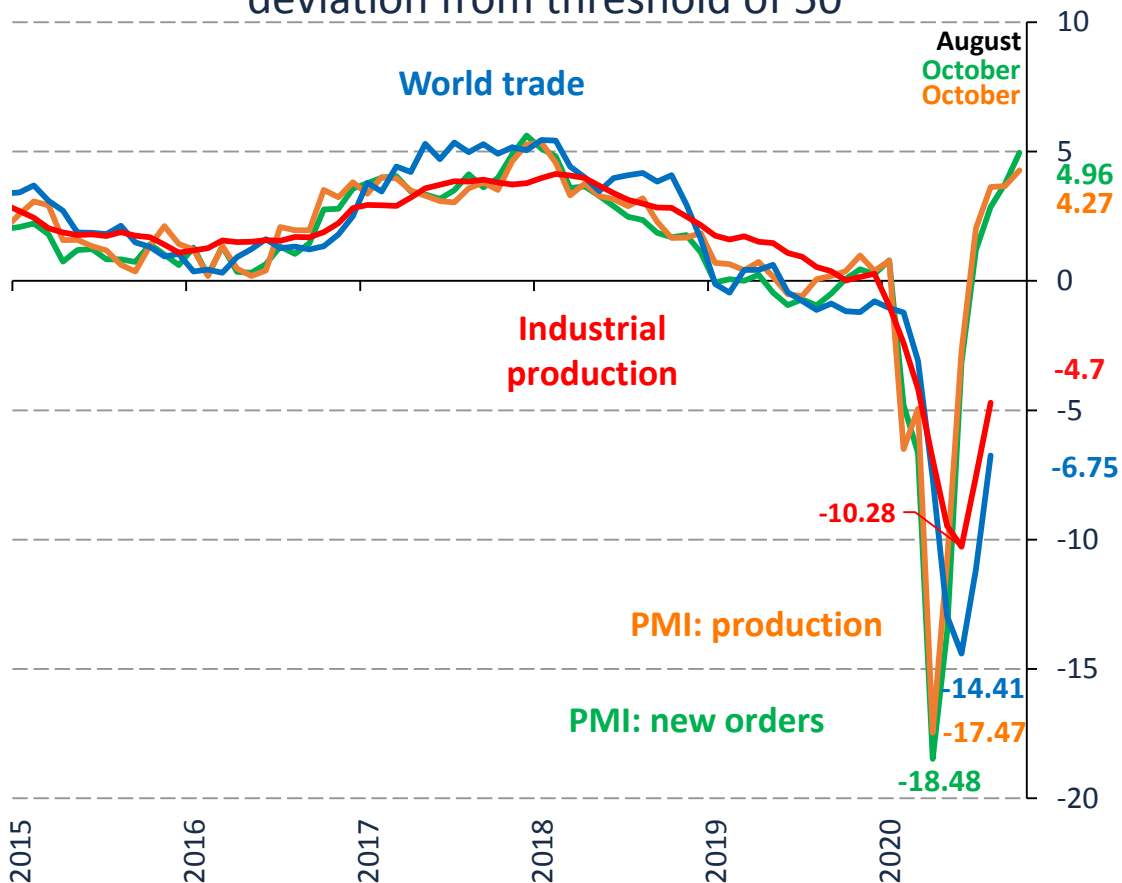
World Economy

GDP Growth
Quarterly % change, s. a.

Activity Indicators
Annual % change of 3-month moving average and deviation from threshold of 50

s. a. / Seasonally adjusted figures.
Note: The sample of countries used for the calculations represents 85.6% of world GDP measured by purchasing power parity. Forecasts for some sample countries are used in the third quarter.
Source: Prepared by Banco de México with data from Haver Analytics, J.P. Morgan and International Monetary Fund (IMF).
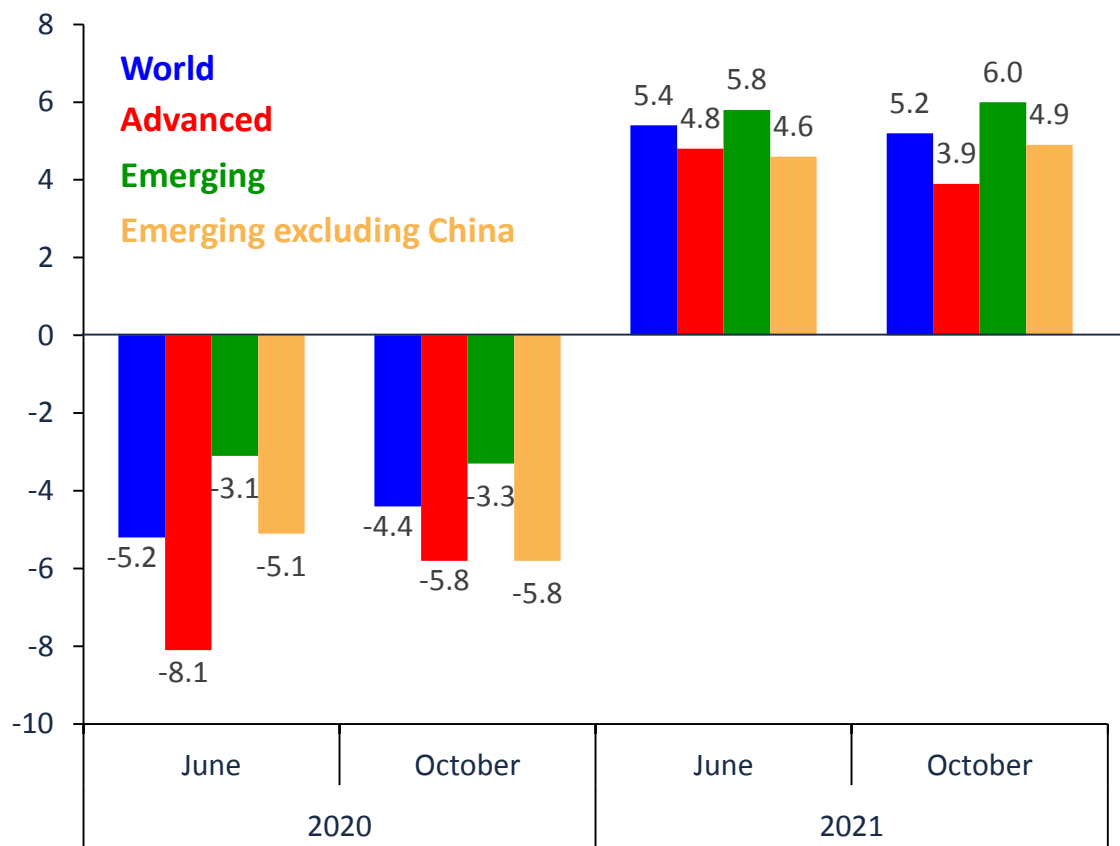
Source: CPB Netherlands and Markit.

Despite the recovery, a sharp contraction in GDP for 2020 and a gradual recovery in 2021 are still anticipated. These forecasts are subject to a large degree of uncertainty.

World Economy

GDP Growth Forecast
%

World
Advanced
Emerging
Emerging excluding China

2020: June — World 5.4, Advanced 4.8, Emerging 5.8, Emerging excluding China 4.6; October — World 5.2, Advanced 3.9, Emerging 6.0, Emerging excluding China 4.9

2020 contractions: June — -5.2, -8.1, -3.1, -5.1; October — -4.4, -5.8, -3.3, -5.8
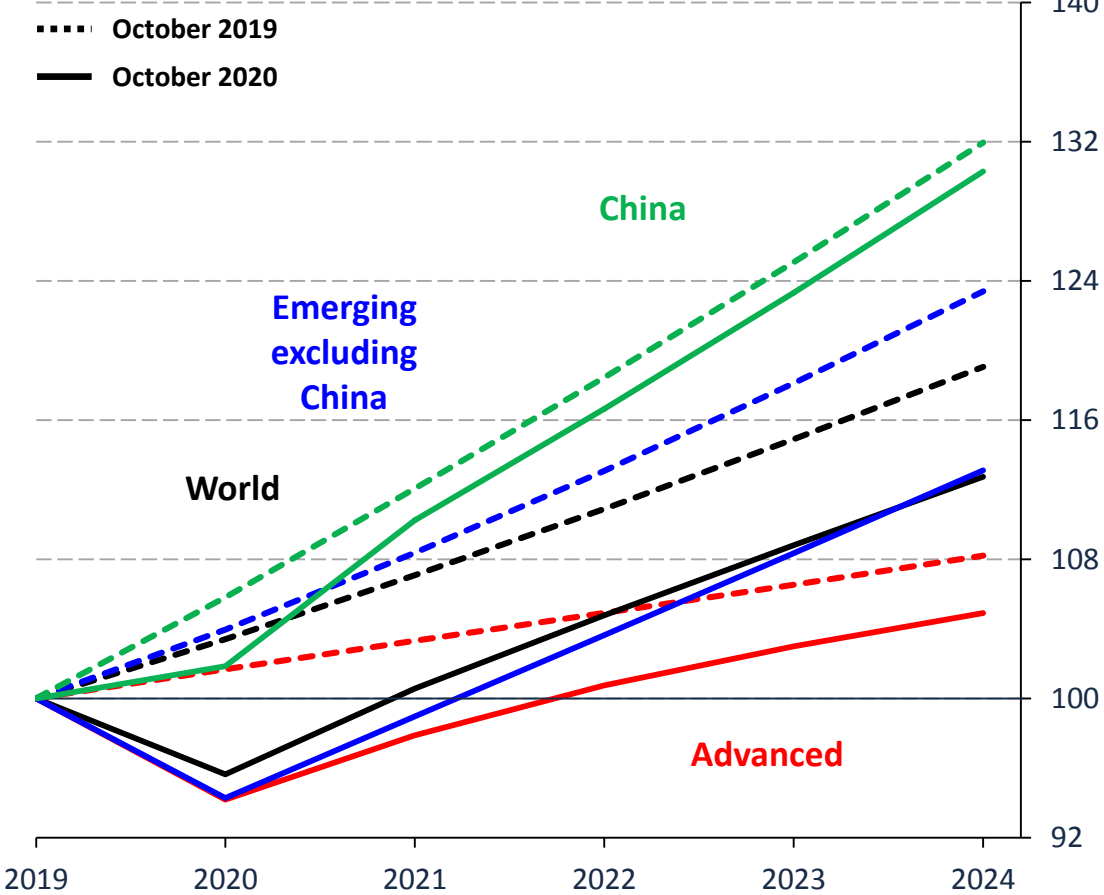
Source: International Monetary Fund (IMF), World Economic Outlook October 2020.

Gross Domestic Product
Index 2019=100

········ October 2019
———— October 2020

China
Emerging excluding China
World
Advanced

Source: International Monetary Fund (IMF), World Economic Outlook October 2019 and 2020.

In advanced economies, headline and core inflation remained low and below their respective central banks' targets, although there were certain increases in energy prices and certain commodity prices.
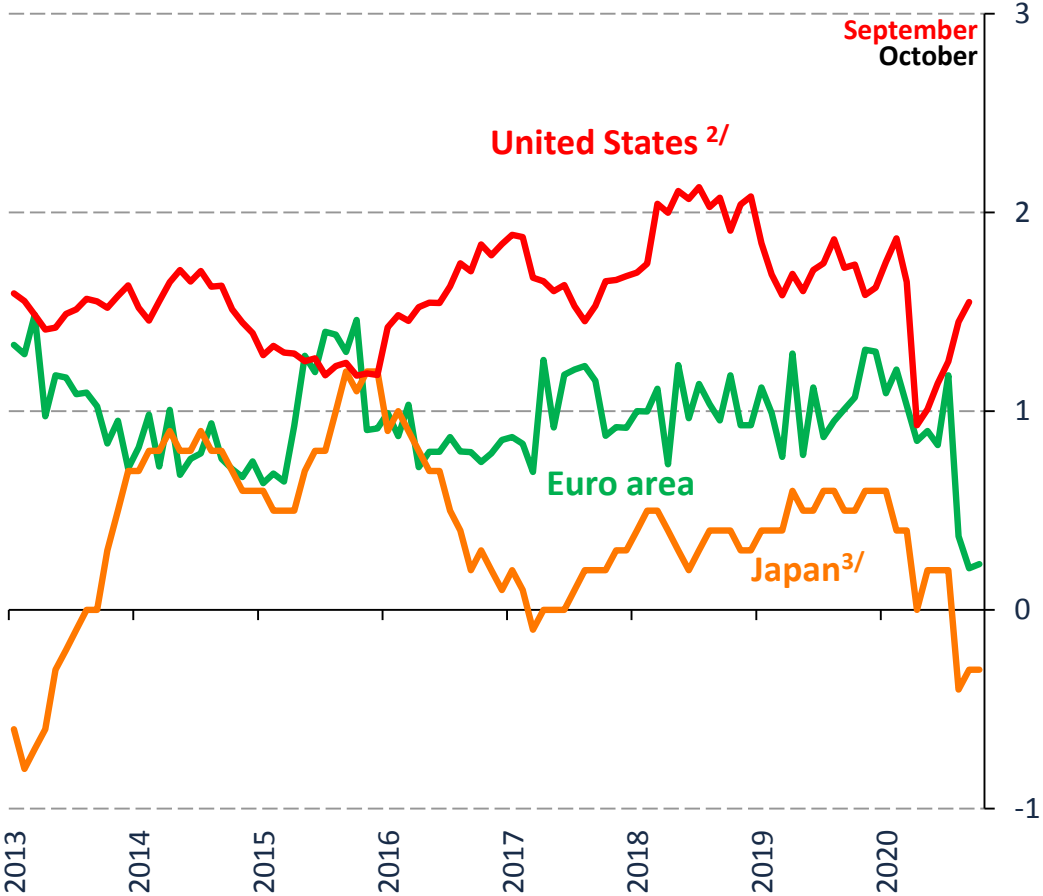
Advanced Economies
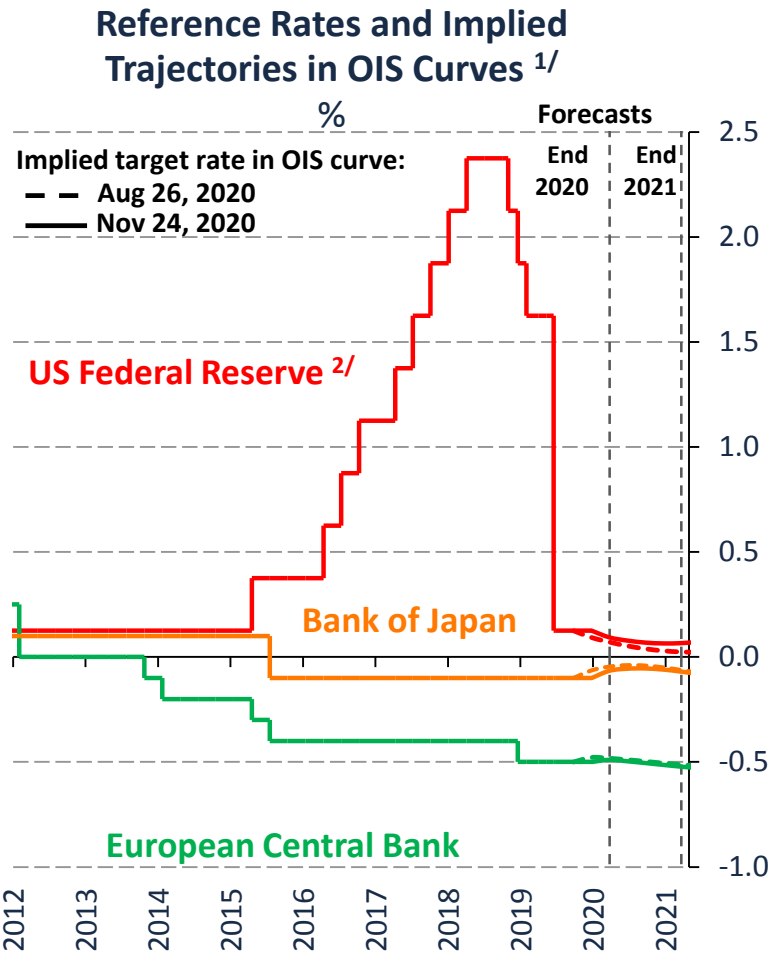
Headline Inflation
Annual % change

Core Inflation
Annual % change
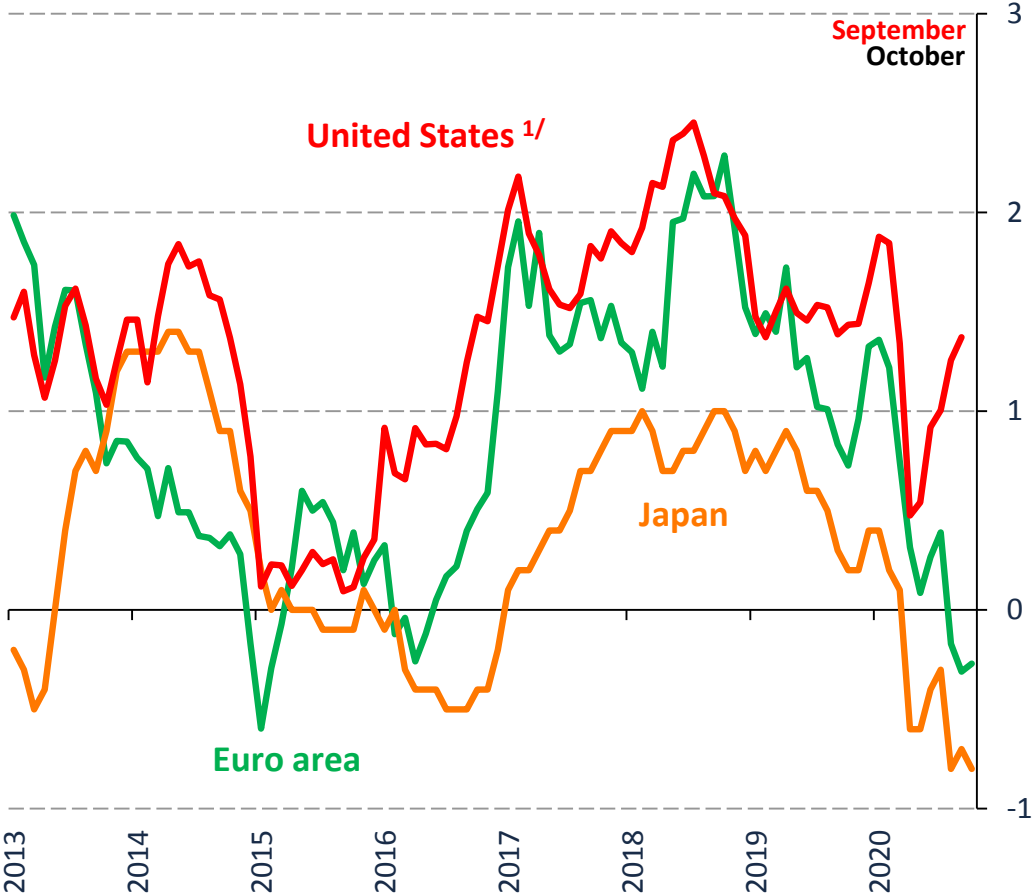
1/ Refers to the Personal Consumption Expenditure Price Index (PCE).
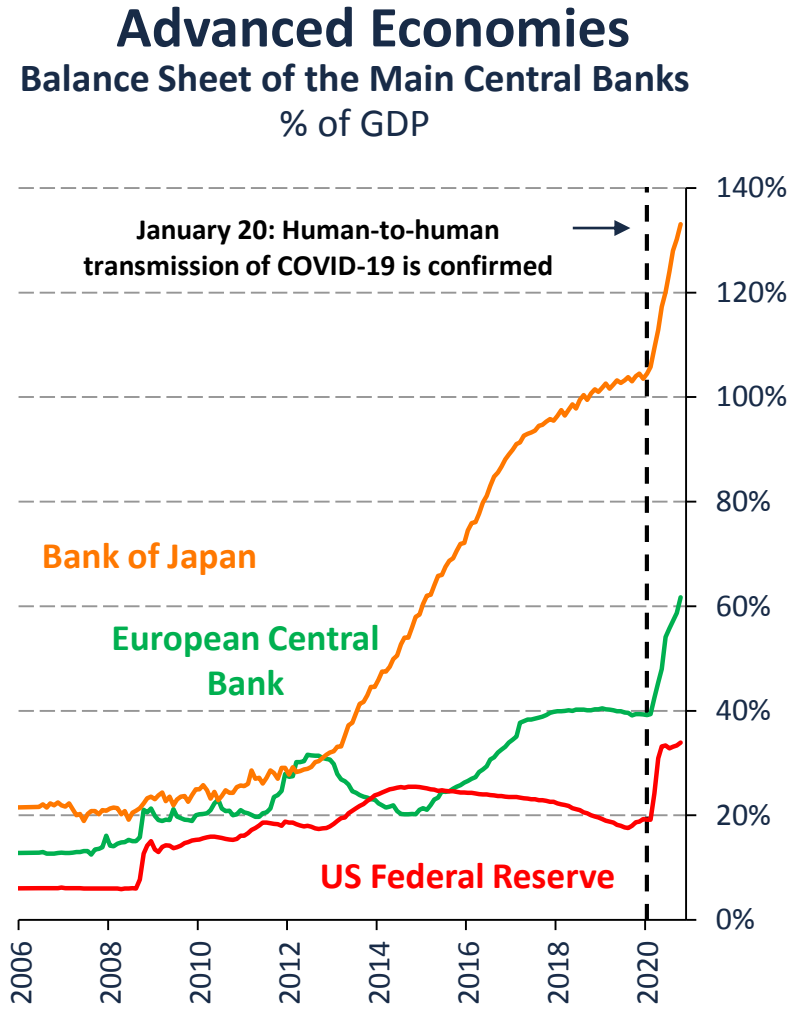Source: BEA, Eurostat and Bank of Japan.

2/ Refers to the Personal Consumption Expenditure Price Index (PCE).
3/ Excludes the direct effect of the consumption tax increase.
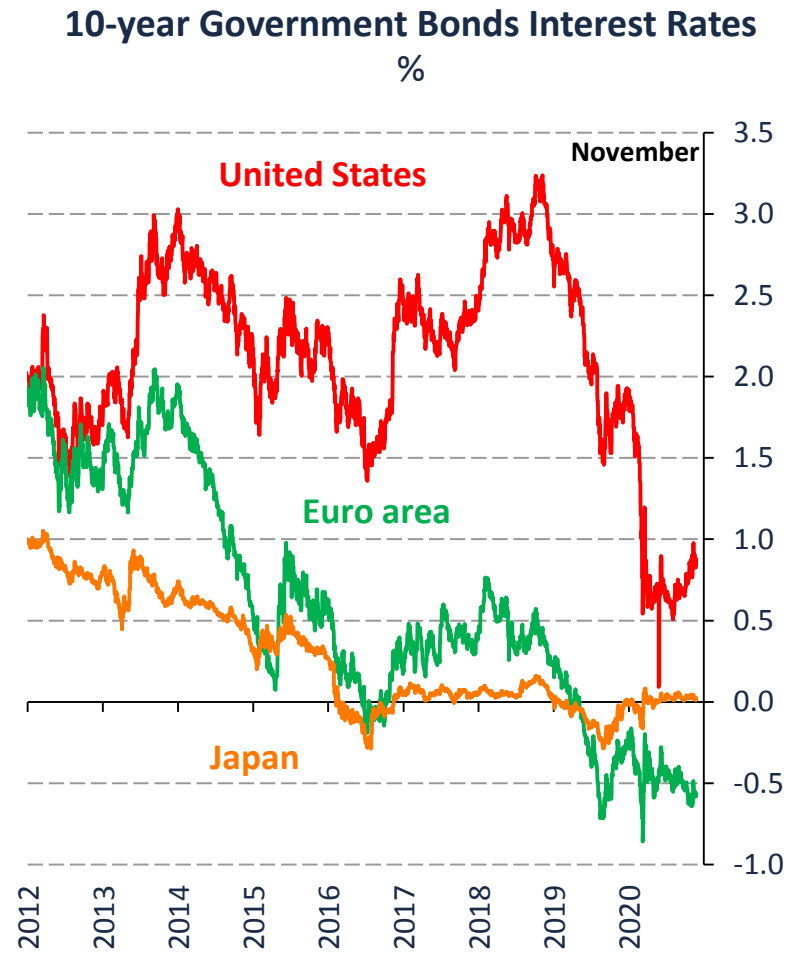Source: BEA, Eurostat and Bank of Japan.

The main central banks of advanced economies have announced that they will maintain interest rates at historically low levels and that they will use their balance sheets to promote a sustained increase in demand and inflation.

Advanced Economies

Reference Rates and Implied Trajectories in OIS Curves [1]

Implied target rate in OIS curve:
- - - Aug 26, 2020
— Nov 24, 2020

US Federal Reserve [2]

Bank of Japan

European Central Bank

1/OIS: Fixed-for-floating swap where the fixed interest rate is the overnight effective reference rate. 2/ Data for the observed federal funds rate corresponds to the average between the lower and upper bounds of the target range (0.0% - 0.25%).
Source: Prepared by Banco de México with Bloomberg data.

Balance Sheet of the Main Central Banks
% of GDP

January 20: Human-to-human transmission of COVID-19 is confirmed

Bank of Japan

European Central Bank

US Federal Reserve

Source: Bloomberg.

10-year Government Bonds Interest Rates
%

November

United States

Euro area

Japan

Source: Bloomberg.

After the minimum levels observed in March and April, international commodity prices increased.

Selected Metal Prices
Index Jan-01-2018=100

Iron
Nickel
Gold
Aluminum
Copper
Industrial metals [1]
November
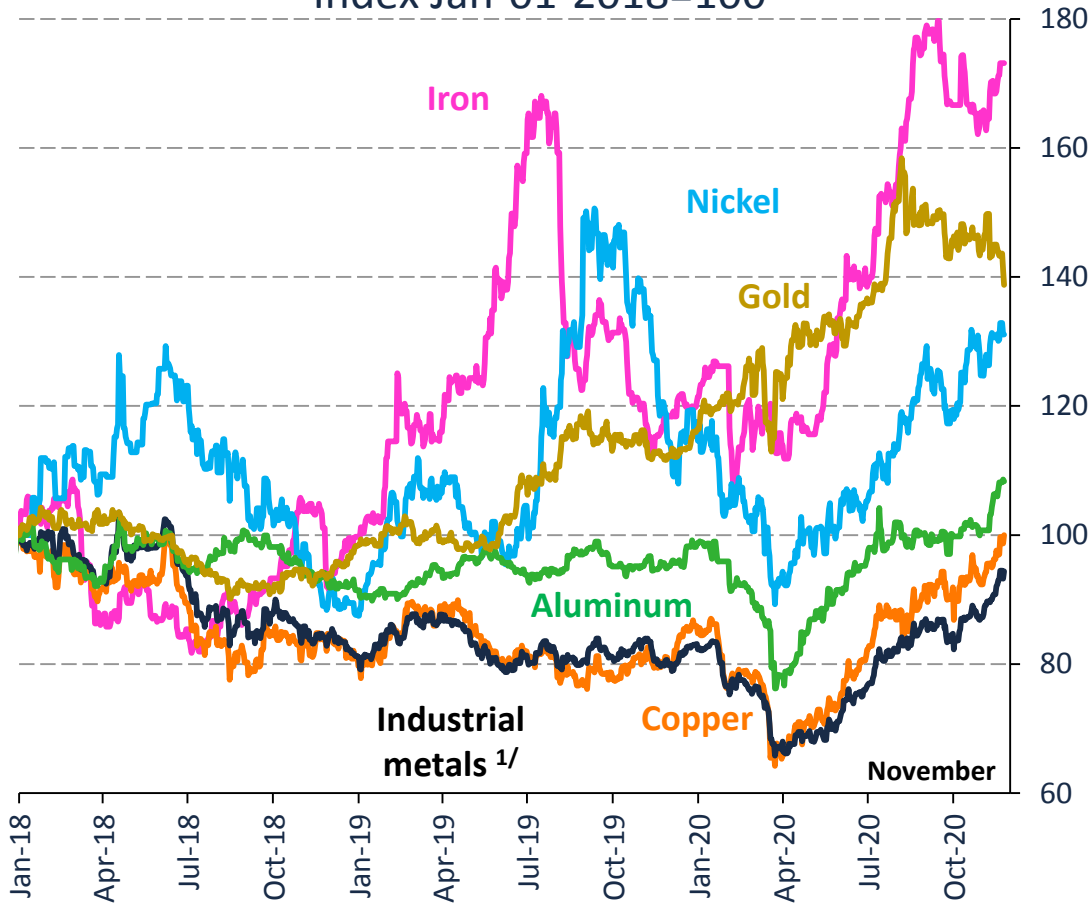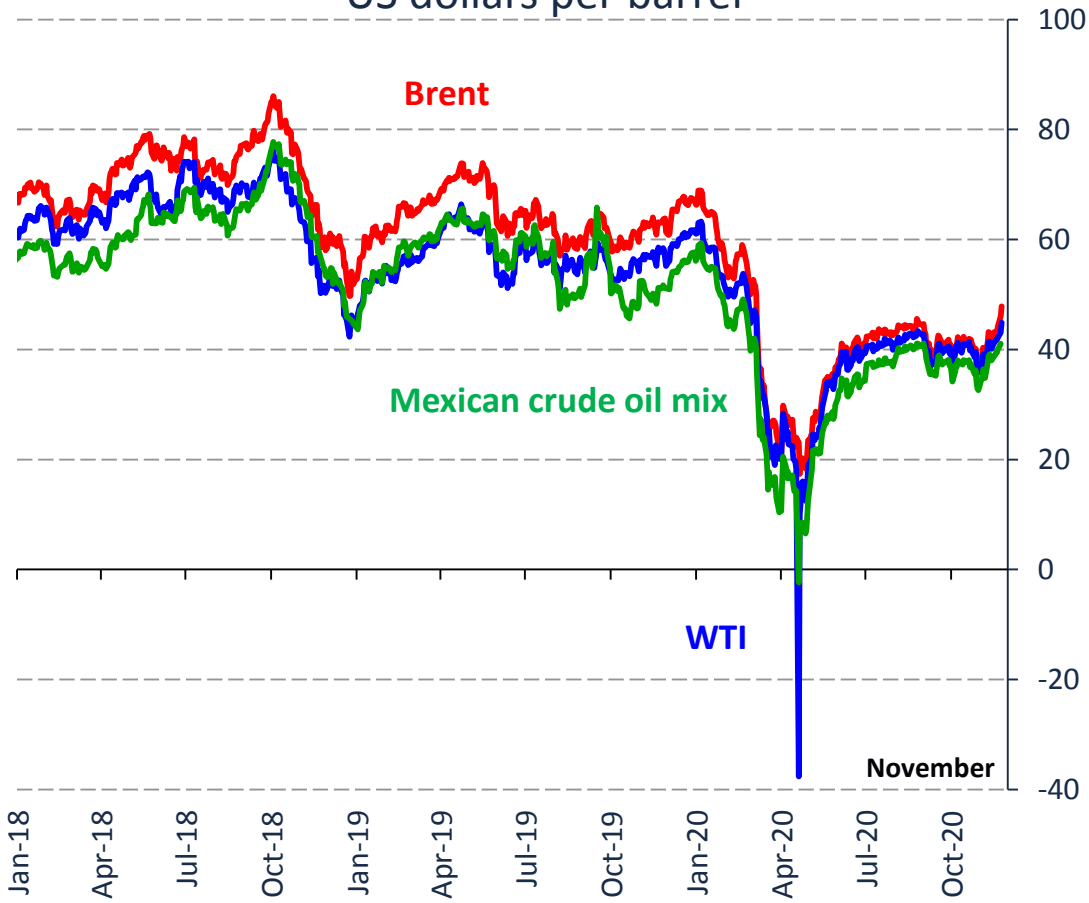
1/ This index follows the prices of aluminum, copper, nickel, zinc and lead.
Source: Bloomberg.

International Crude Oil Prices
### US dollars per barrel

Brent
Mexican crude oil mix
WTI
November

Source: Bloomberg.

In recent months, international financial markets performed positively, driven by the gradual recovery in global economic activity and the monetary, fiscal and financial stimuli implemented in systemically important economies.

Global Risk Appetite Index
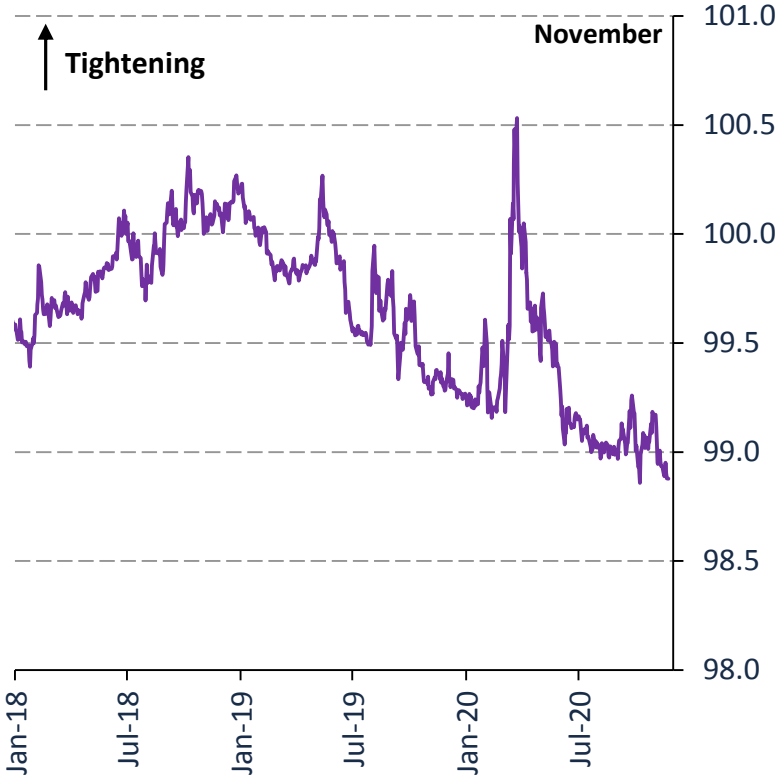### Index

Higher risk appetite

November
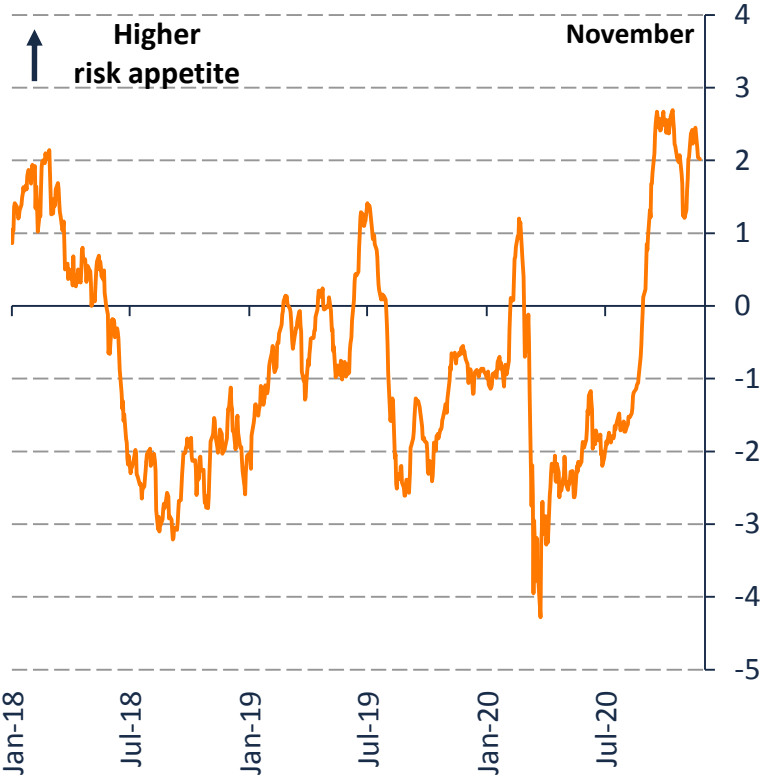
Note: The risk appetite index compares several financial assets, taking into account that in periods of high appetite for riskier assets these tend to register high returns, while safe assets, such as government bonds of the United States, the euro area and Japan, tend to present negative returns. On the other hand, during periods of low risk appetite, the opposite occurs. In this context, the index value refers to the coefficient of a regression of the daily yield of 64 assets based on their volatility. Source: Credit Suisse.

Stock Markets of Advanced and Emerging Economies
Index 01-Jan-2018=100

Advanced [1]

November
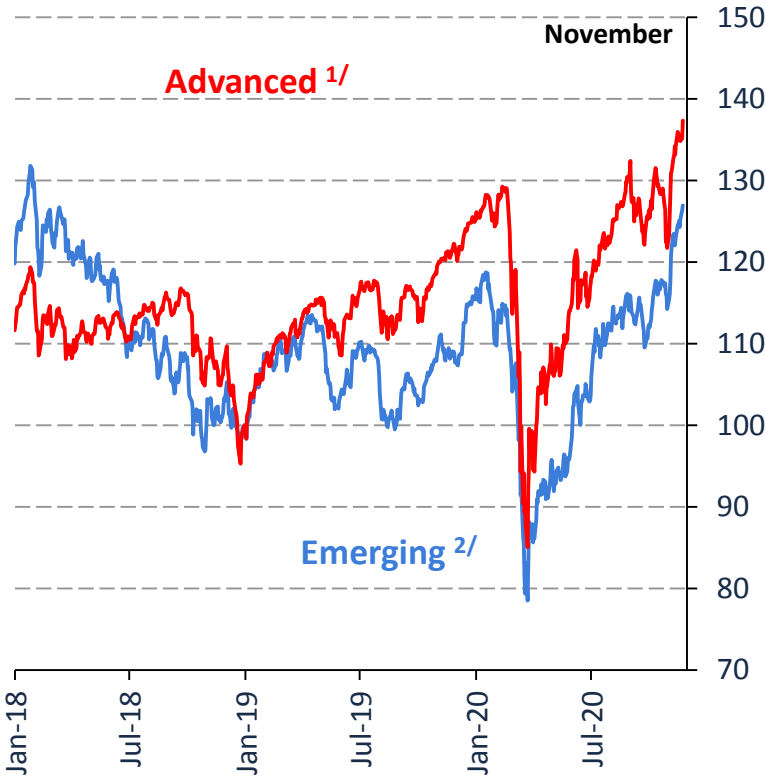
Emerging [2]

Note: The MSCI indices of both advanced (MSCI World Index) and emerging (MSCI Emerging Market Index) economies are presented.
1/ It includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Holland, New Zealand, Norway, Portugal, Singapore, Sweden, Switzerland, the United Kingdom and the United States. 2/ It includes Mexico, Brazil, Chile, China, Colombia, Peru, the Czech Republic, Egypt, Greece, Hungary, India, Indonesia, South Korea, Malaysia, the Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates. Source: Bloomberg.

Global Financial Conditions Index
Index

Tightening

November

Note: The index is defined as a weighted average of risk-free interest rates, exchange rates, stock valuations, and credit spreads. With the weights corresponding to the direct impact of each variable on GDP. Prepared with information from 19 advanced economies and 18 emerging economies.
Source: Goldman Sachs.

Over the last months, emerging economies registered net capital inflows, mainly to fixed-income assets. The adjustment in foreign exchange markets of different emerging economies has been heterogeneous and with episodes of volatility.

Emerging Economies

Accumulated Capital Flows [1]
Billion dollars
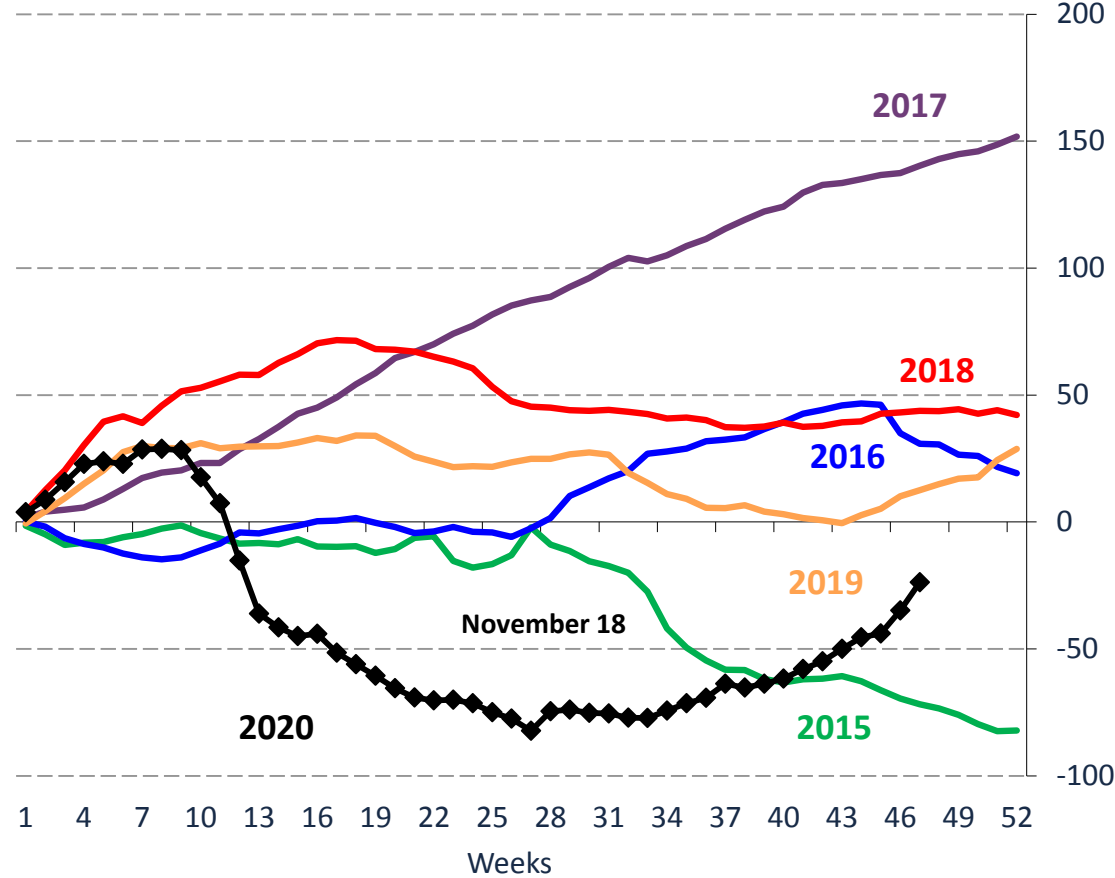
Nominal Exchange Rate against USD
Index Jan-01-2020=100
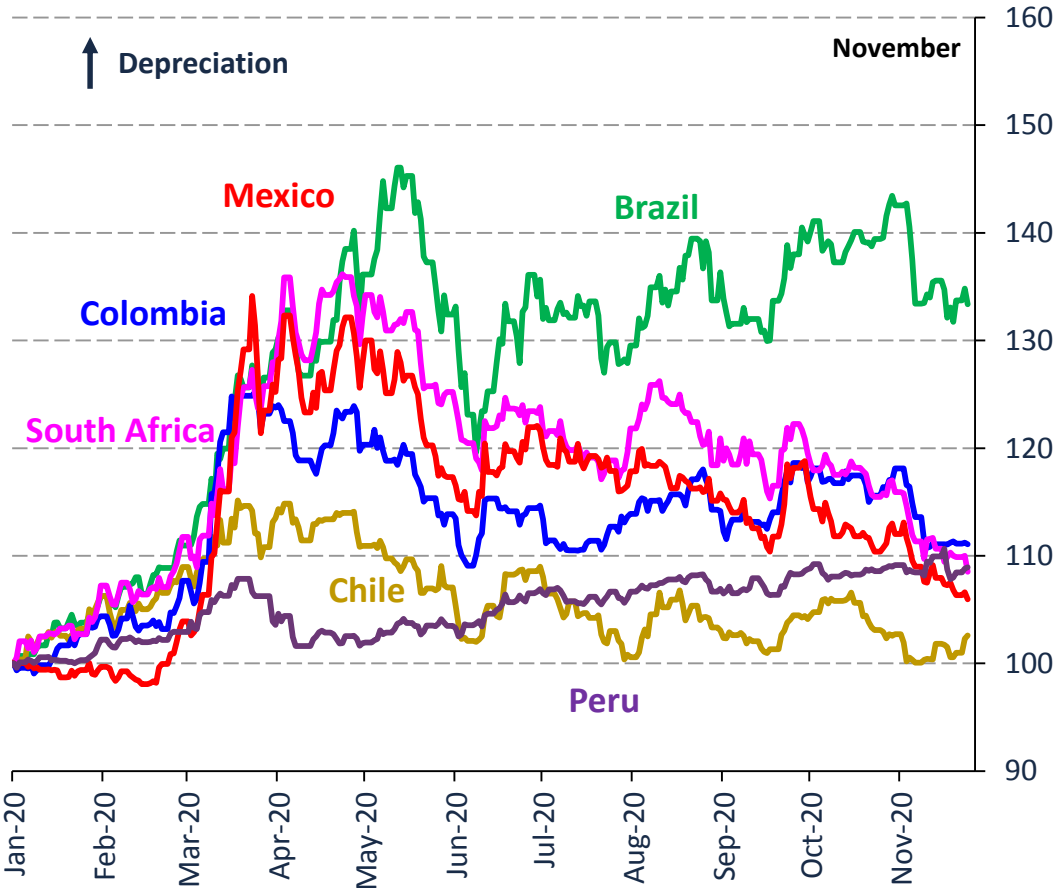
1/ The sample covers funds used for the buying-selling of stocks and bonds from emerging countries, recorded in advanced countries. Flows exclude portfolio performance and exchange rate fluctuations.
Source: Emerging Portfolio Fund Research.

Source: Bloomberg.

Outline

1	External conditions
2	**Current situation of the Mexican economy**
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After a sharp contraction of GDP in Q2-2020, the Mexican economy displayed a recovery in Q3-2020 driven by the reopening of activities and by the rebound in external demand, although it remains below pre-pandemic levels.

Gross Domestic Product
Quarterly % change and index Q4-2019=100, s. a.

Levels

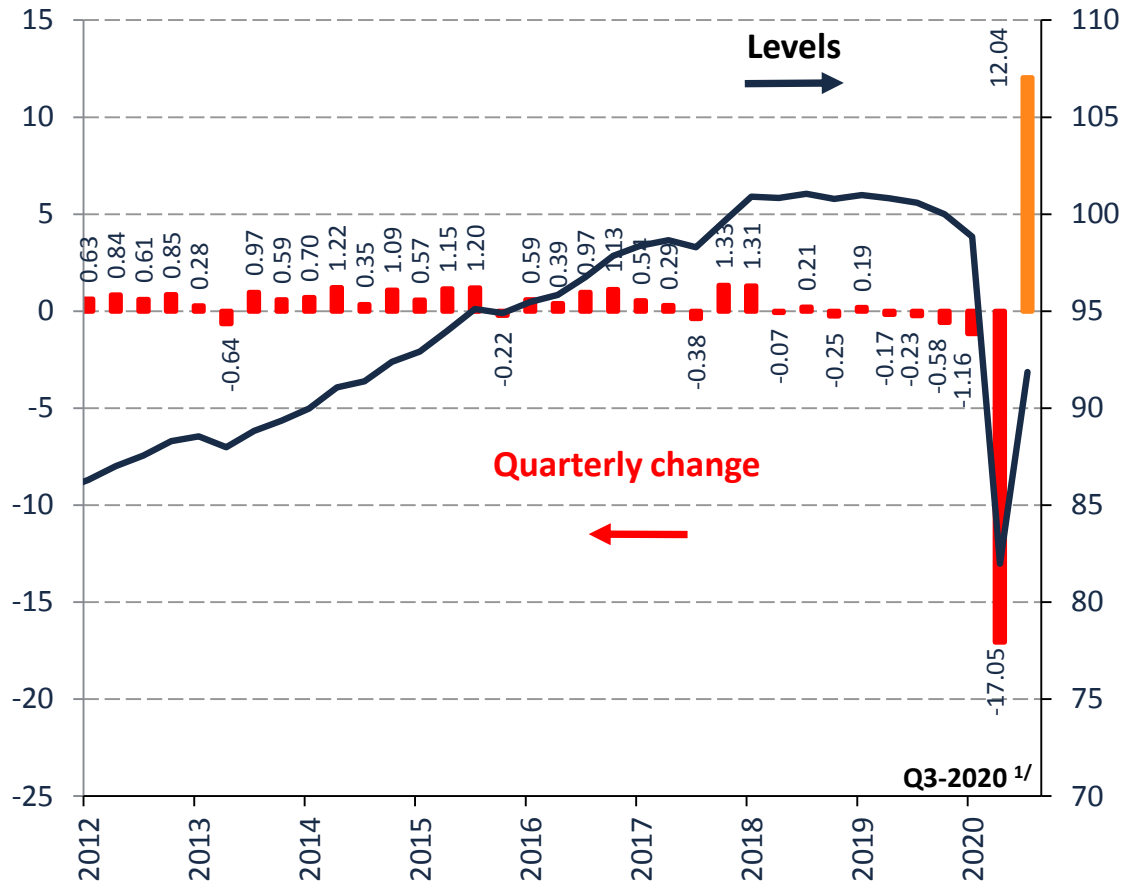Quarterly change

12.04

-17.05

Q3-2020 1/

0.63 0.84 0.61 0.85 0.28 0.97 0.59 0.70 1.22 0.35 1.09 0.57 1.15 1.20 0.59 0.39 0.97 1.13 0.54 0.29 1.33 1.31 0.21 0.19
-0.64 -0.22 -0.38 -0.07 -0.25 -0.17 -0.23 -0.58 -1.16

s. a./ Seasonally adjusted figures.
1/ The figure for the third quarter 2020 refers to the timely estimate of quarterly GDP.
Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

Economic Activity Indicators
Index Jan-2020=100, s. a.

Agricultural and livestock products IGAE (3.2%)

IGAE Total

Industrial production (34.2%)

IGAE Services (62.7%)

August
September

s. a./ Seasonally adjusted figures.
Note: The sum of the components may not add up due to rounding.
Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.
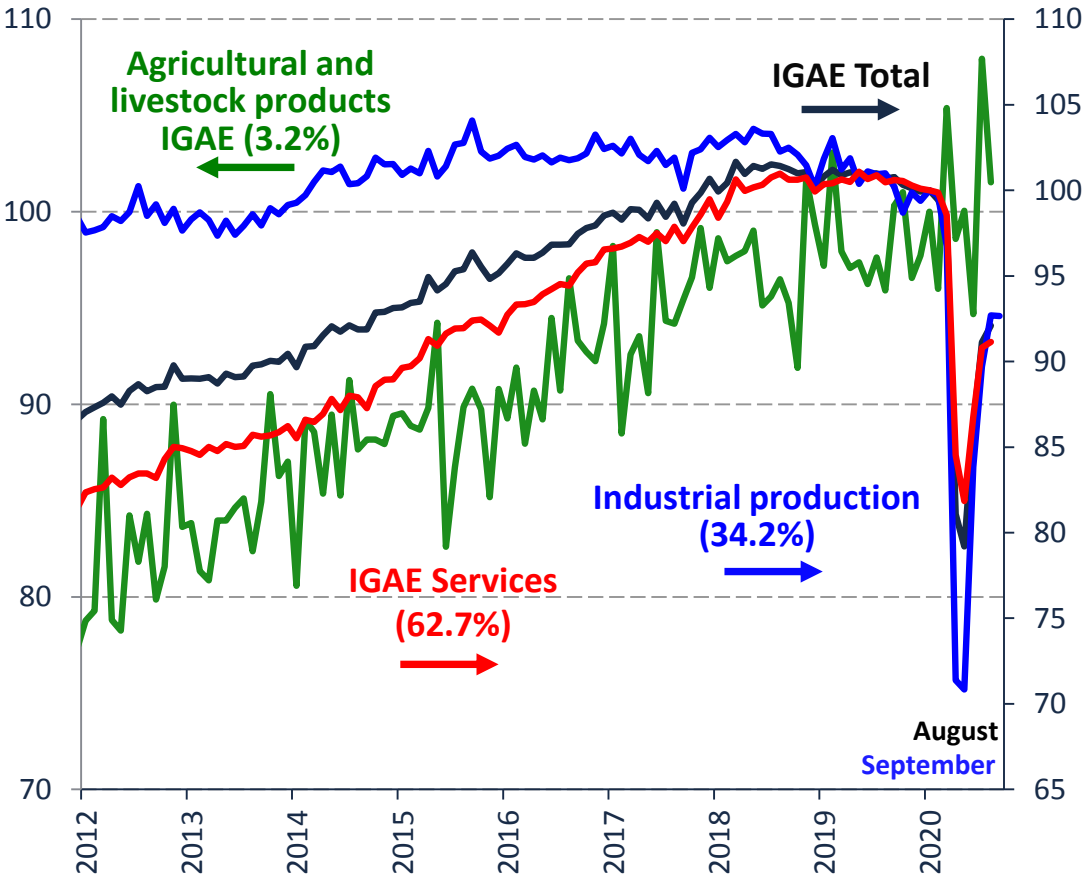
The economic contraction in April and May took place in a sudden, deep and synchronized way among the different sectors. The reopening of activities and the momentum of domestic demand have contributed to a partial and heterogeneous recovery since June.

Global Index of Economic Activity and its Components
Monthly % change, s. a.
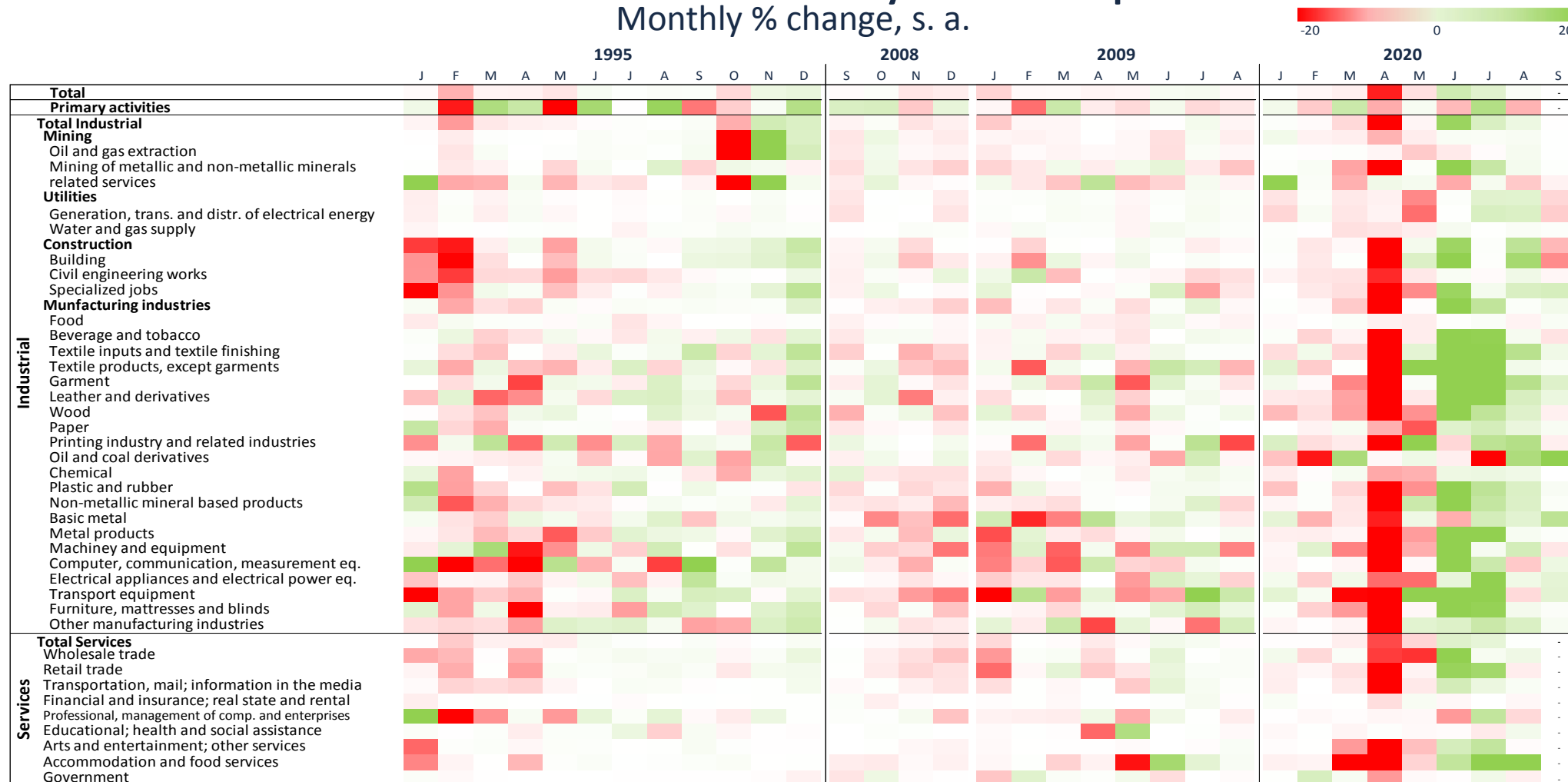
s. a./ Seasonally adjusted figures.
Figures as of September for industrial activity correspond to the publication of the IMAI. Source: Prepared by Banco de México with data from INEGI.

Industrial activity improved slightly in Q3-2020. In July and August services grew at a moderate and heterogeneous rate across the subsectors. In both cases, the levels of activity remain below those registered prior to the pandemic.

Industrial Activity
Index Jan-2020=100, s. a.

Mining (22.3%)

Utilities (4.7%)

Total

Manufacturing (49.7%)

Construction (23.3%)

September

IGAE Services
Index Jan-2020=100, s. a.

Educational and health care (9.9%)

Finance and real estate (23.8%)

IGAE Services

Transportation and Information (14.0%)

Trade [1] (28.8%)

August

Public administration (7.1%)

IGAE services

Professional, management of companies and enterprises(8.9%)

Arts, entertainment, and recreation (3.8%)

Accommodation and food services (3.6%)

August

s. a. / Seasonally adjusted figures.
Note: Figures in parentheses represent their share in 2013.
Source: Monthly Indicator of Industrial Activity, Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

s. a. / Seasonally adjusted figures. Note: Figures in parentheses represent their share in 2013. 1/ Includes both wholesale and retail trade.
Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

Private consumption has shown an improvement since June, which has moderated in recent months.
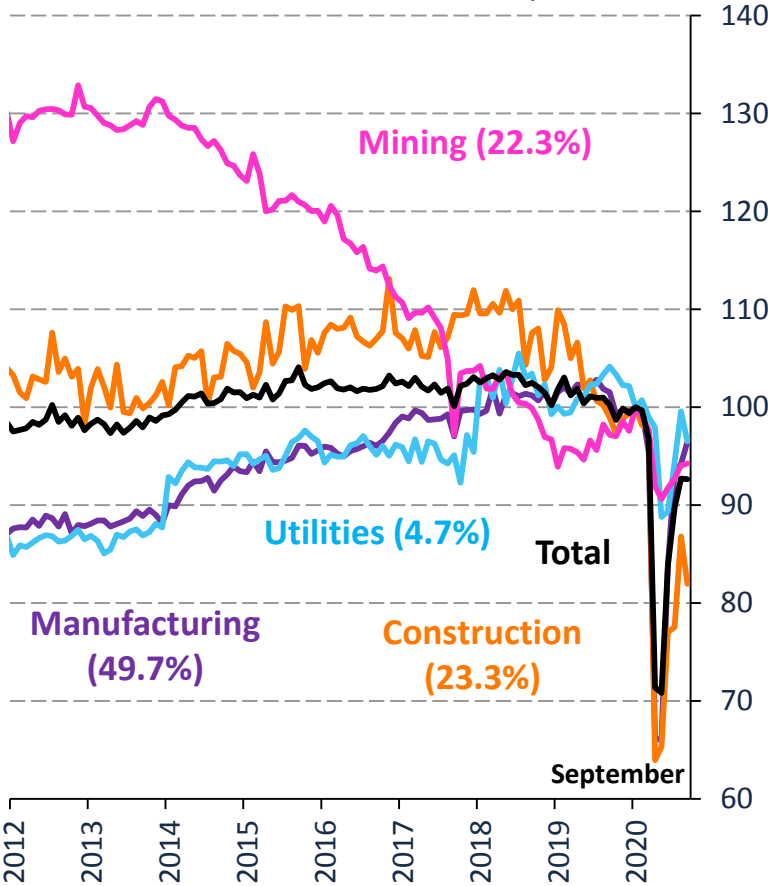
Total Private Consumption and Components
Index Jan-2020=100, s. a.

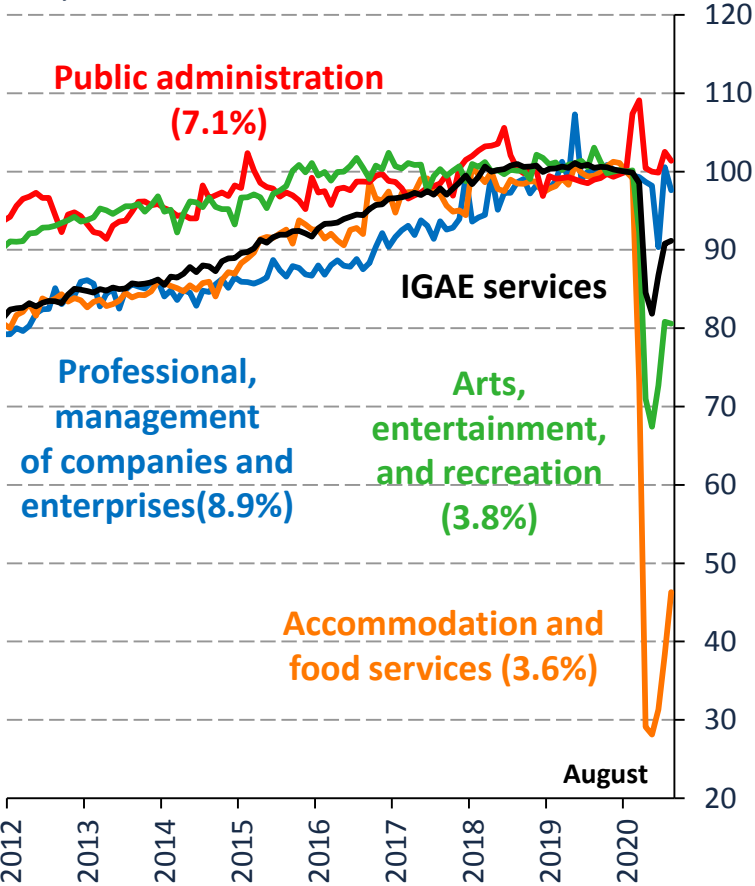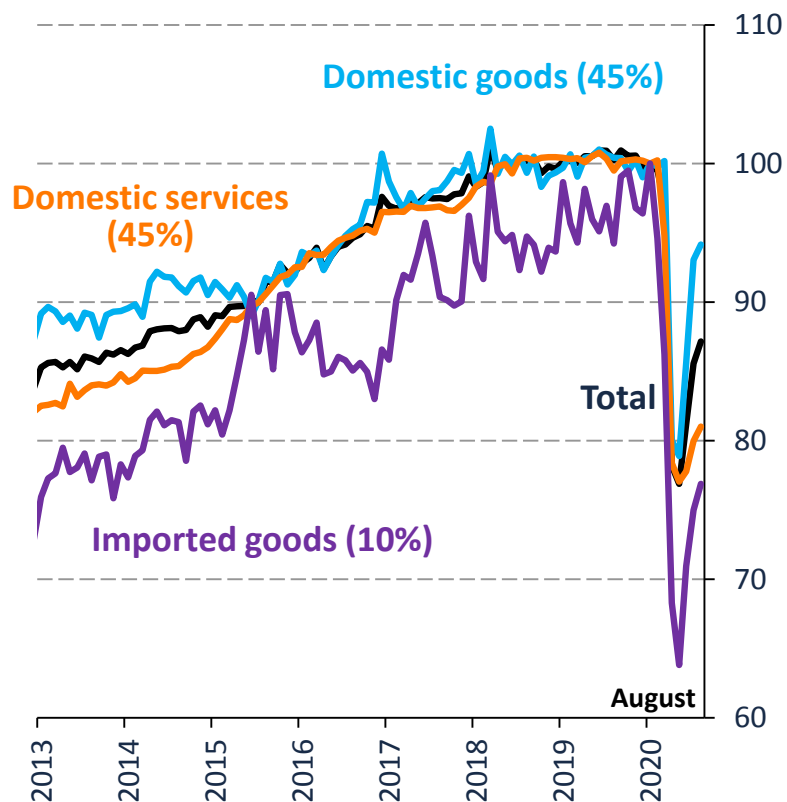Domestic goods (45%)

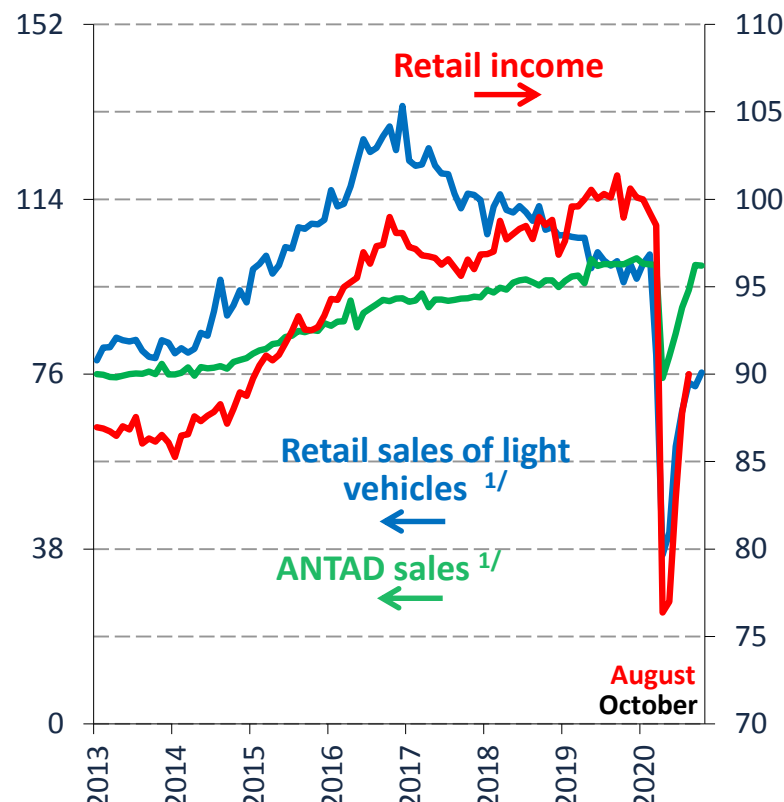Domestic services (45%)

Total

Imported goods (10%)

August

s. a. / Seasonally adjusted figures.
Note: Figures in parentheses represent their share in 2013.
Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

Domestic Consumption Indicators
Index Jan-2020=100, s. a.

Retail income

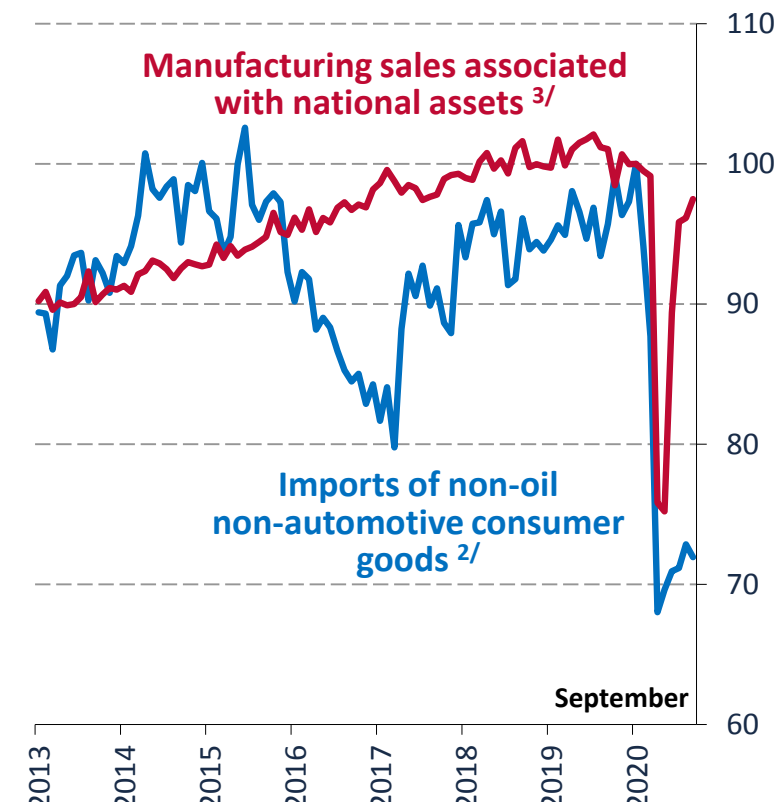Retail sales of light vehicles [1]

ANTAD sales [1]

August
October

s. a./ Seasonally adjusted figures.
1/ Seasonally adjusted by Banco de México.
Source: Prepared by Banco de México with data from the National Association of Self-Service and Department Stores (ANTAD for its acronym in Spanish), the Monthly Survey on Commercial Companies (EMEC, for its acronym in Spanish), INEGI, and the Administrative Registry of the Automotive Industry of Light Vehicles, INEGI.

Consumer Goods Imports and Manufacturing Sales
Index Jan-2020=100, s. a.

Manufacturing sales associated with national assets [3]

Imports of non-oil non-automotive consumer goods [2]

September

s. a./ Seasonally adjusted figures.
2/ Current dollar figures.
3/ Refers to sales from the Monthly Survey on the Manufacturing Industry (EMIM for its acronym in Spanish) related to the private consumption of goods.
Source: Prepared by Banco de México with data from PMI Comercio Internacional, S.A. de C.V., SAT, SE, Banco de México and INEGI. Commercial Balance of Goods of Mexico. SNIEG. Information of National Interest and Banco de México with information from the Monthly Survey of the Manufacturing Industry (EMIM).

Gross fixed investment showed some recovery from June to August. Both machinery and equipment components and construction continued to recover, although they remain significantly below their pre-pandemic levels and face short-and medium-term challenges.

Investment and its Components
Index Jan-2020=100, s. a.
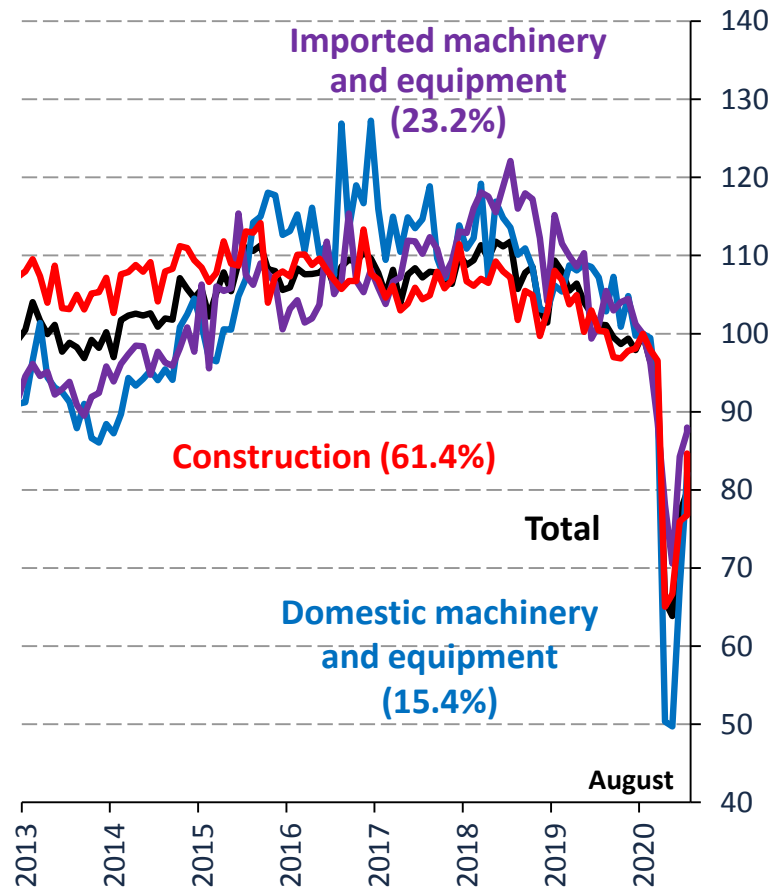
Imported machinery and equipment (23.2%)

Construction (61.4%)

Total

Domestic machinery and equipment (15.4%)

August

s. a. / Seasonally adjusted figures.
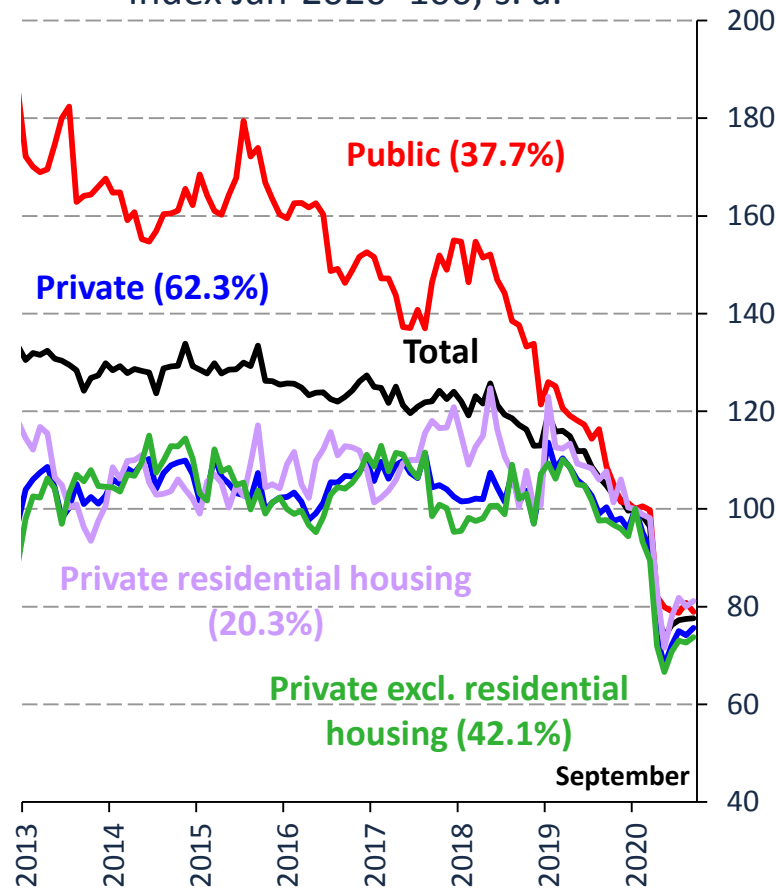Note: Figures in parentheses represent their share in total in 2013.
Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

Real Value of Construction Output by Sector
Index Jan-2020=100, s. a.[1]

Public (37.7%)

Private (62.3%)

Total

Private residential housing (20.3%)

Private excl. residential housing (42.1%)

September

s. a. / Seasonally adjusted figures.
Note: Figures in parentheses represent their share in 2019.
1/ Seasonally adjusted by Banco de México, except for the total series.
Source: Prepared by Banco de México with data from ENEC, INEGI.

Imports of Capital Goods [2]
Index Jan-2020=100, s. a.

September
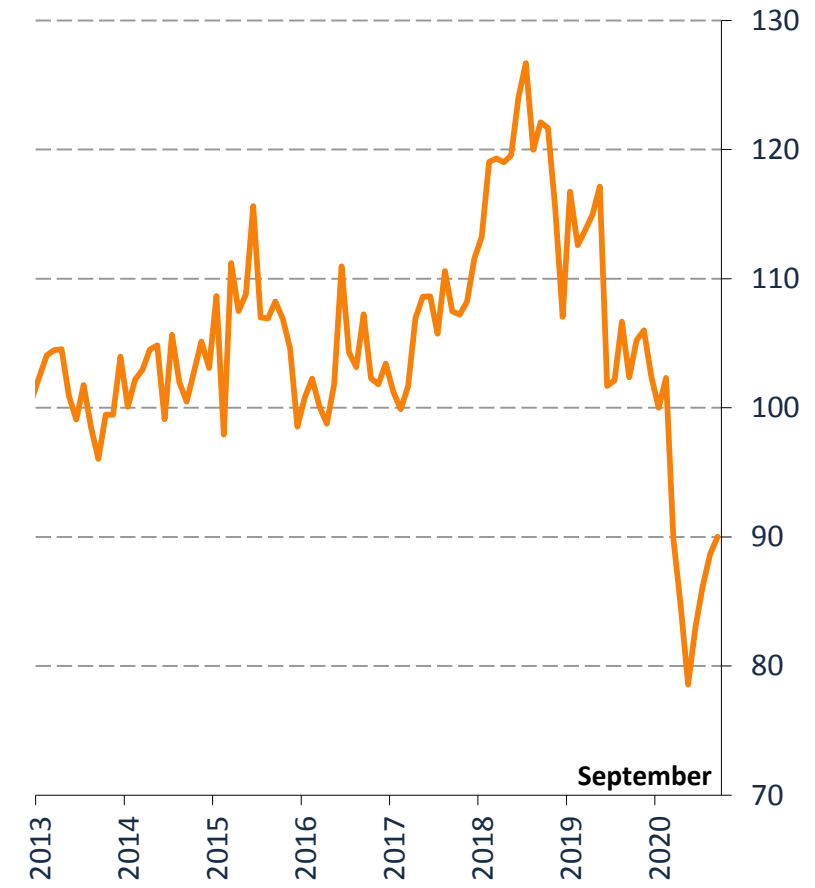
s. a. / Seasonally adjusted figures.
2/ Current dollar figures.
Source: Prepared by Banco de México with data from PMI Comercio Internacional, S.A. de C.V., SAT, SE, Banco de México and INEGI. Commercial Balance of Goods of Mexico. SNIEG Information of National interest.

During the initial stage of the effects of the pandemic, foreign trade of goods contracted significantly. However, starting from June the reopening and reactivation of external demand enabled the recovery of exports, especially of the automotive sector.

Total Manufacturing Exports

Automotive and Non-automotive
Index Jan-2020=100, s. a.

Non-automotive (62.7%)
99.9
96.5
90.9
Automotive (37.3%)
Total
September

By Destination
Index Jan-2020=100, s. a.

United States (82.6%)
97.7
96.5
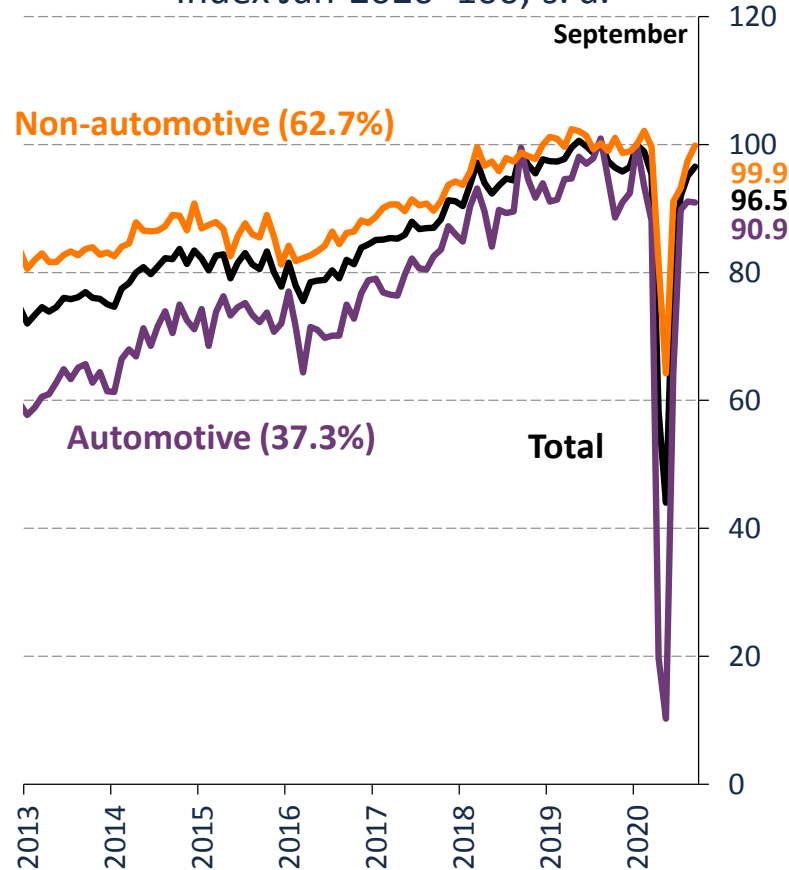90.9
Total
Rest of the world (17.4%)
September
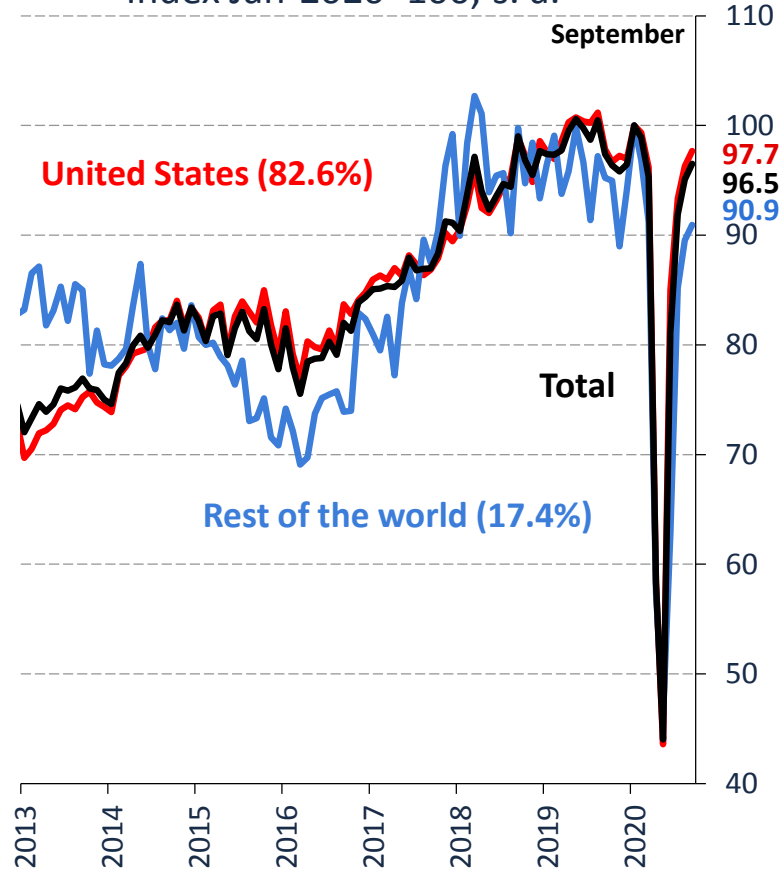
Non-Oil Imports [1]
Index Jan-2020=100, s. a.

September

s. a. / Seasonally adjusted figures.
Note: Figures in parentheses represent their share in total in Jan-2020.
Source: Prepared by Banco de México with data from PMI Comercio Internacional, S.A. de C.V., SAT, SE, Banco de México, INEGI. Commercial Balance of Goods of Mexico. SNIEG. Information of National Interest.
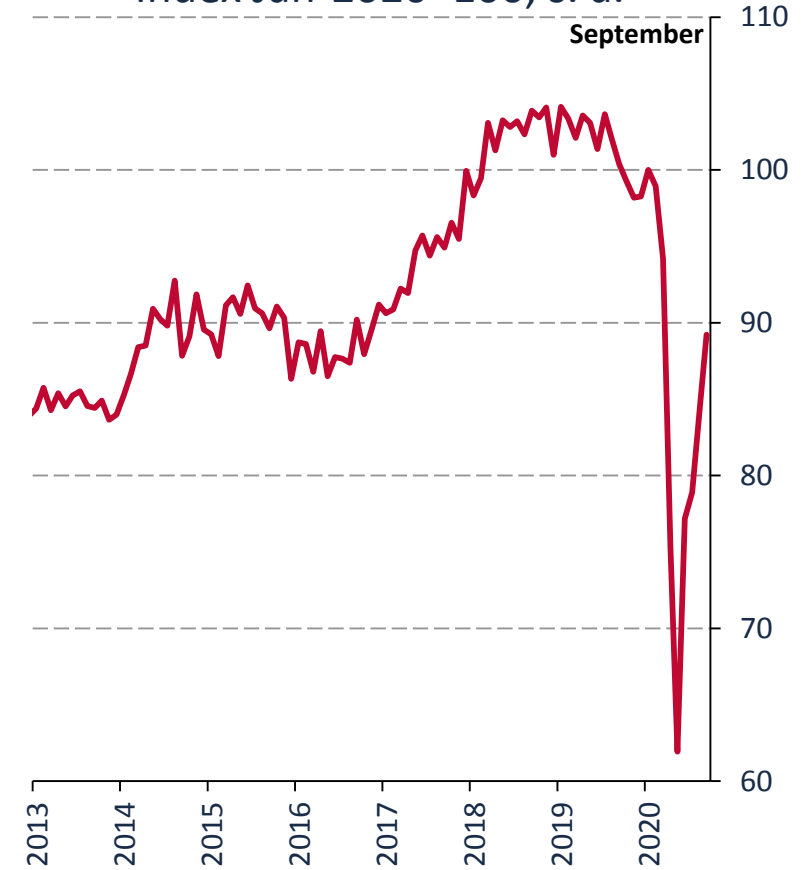
s. a. / Seasonally adjusted figures.
1/ Figures in current US dollars.
Source: Prepared by Banco de México with data from PMI Comercio Internacional, S.A. de C.V., SAT, SE, Banco de México, INEGI. Commercial Balance of Goods of Mexico. SNIEG. Information of National Interest.

The greater recovery of exports compared to imports in Q3-2020 led to record highs in the merchandise trade surplus, leading to an overall considerable current account surplus in Q3-2020 (17.5 bn USD).

Trade Balance
USD billion

Current Account
% of GDP
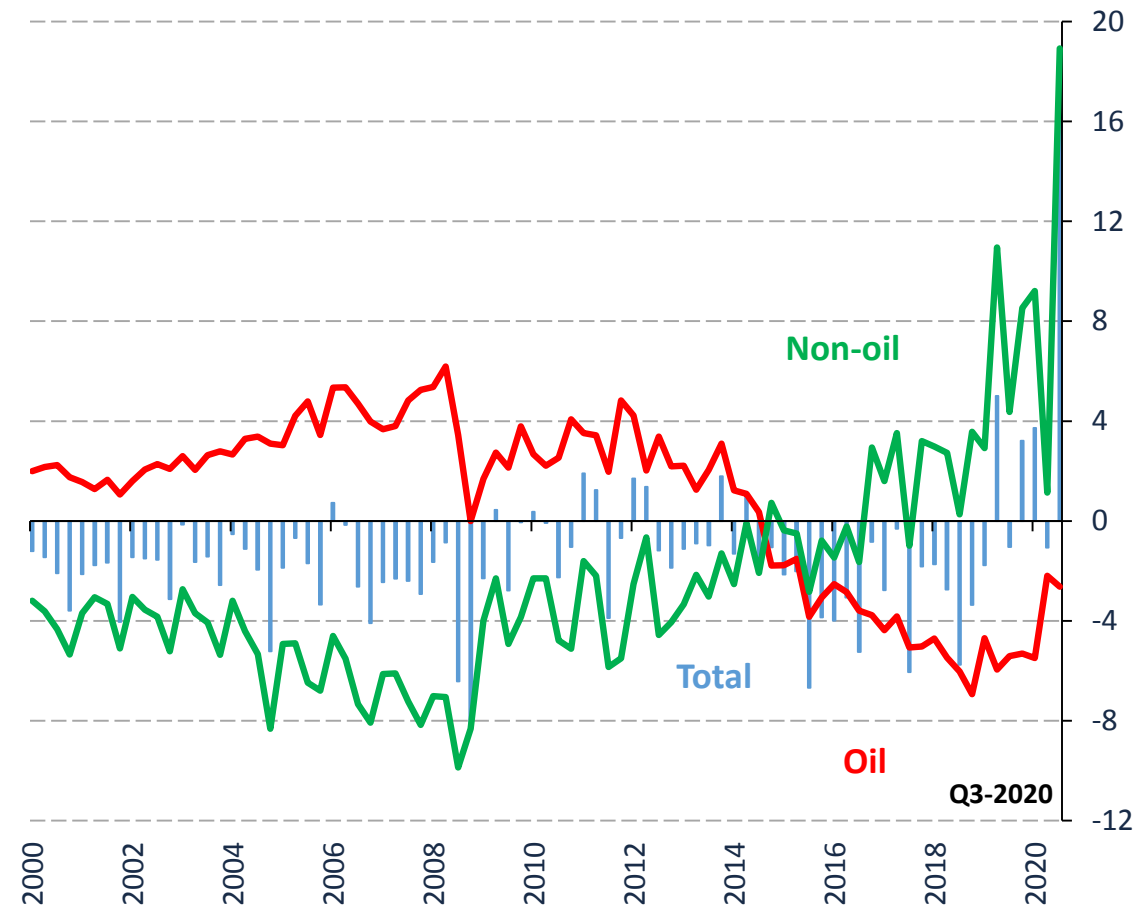
Source: SAT, SE, Banco de México, INEGI. Mexico's Merchandise Trade Balance. SNIEG. Information of national interest.
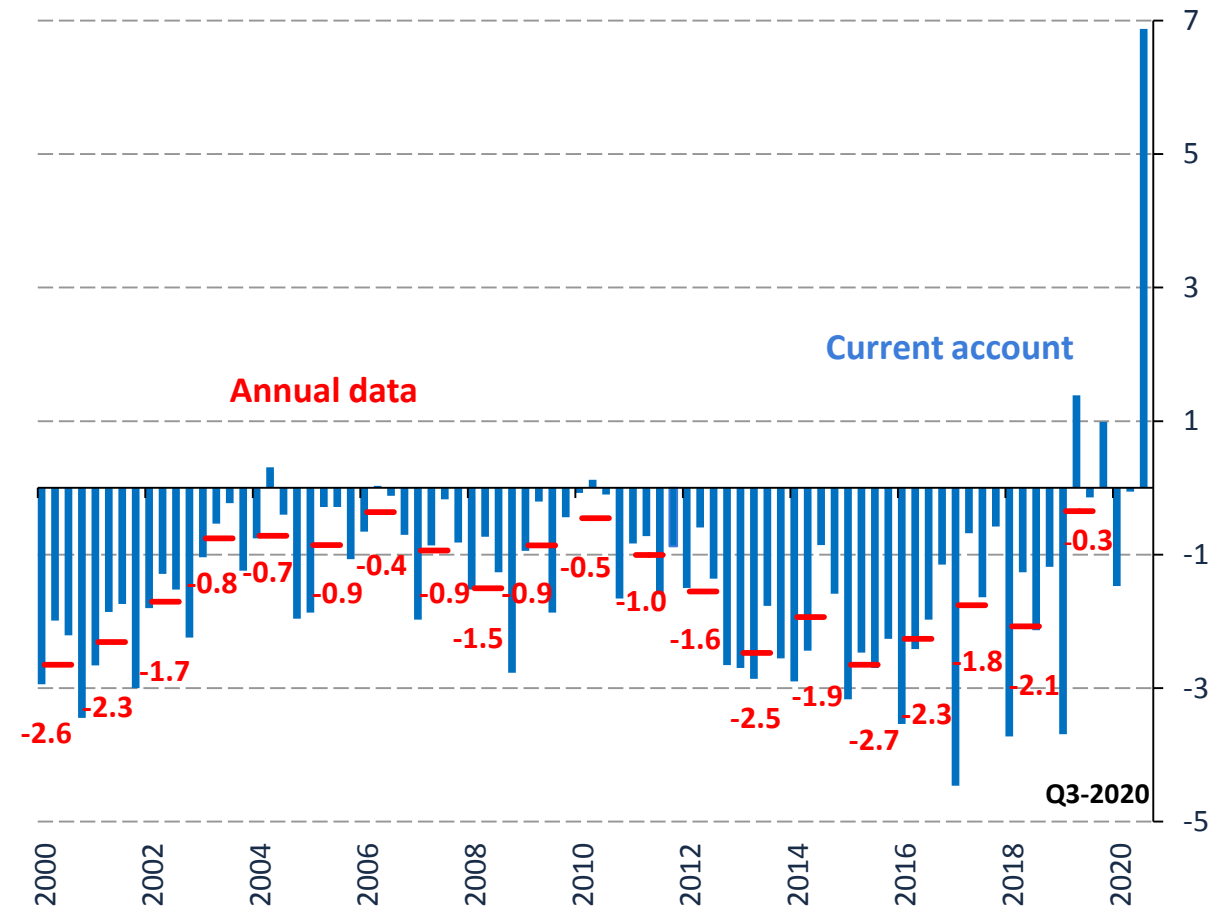
Source: Banco de México and INEGI.

Between July and October, various labor market indicators improved, after having significantly deteriorated as a result of the COVID-19 pandemic.

National Unemployment Rate [1]
%, o. s.
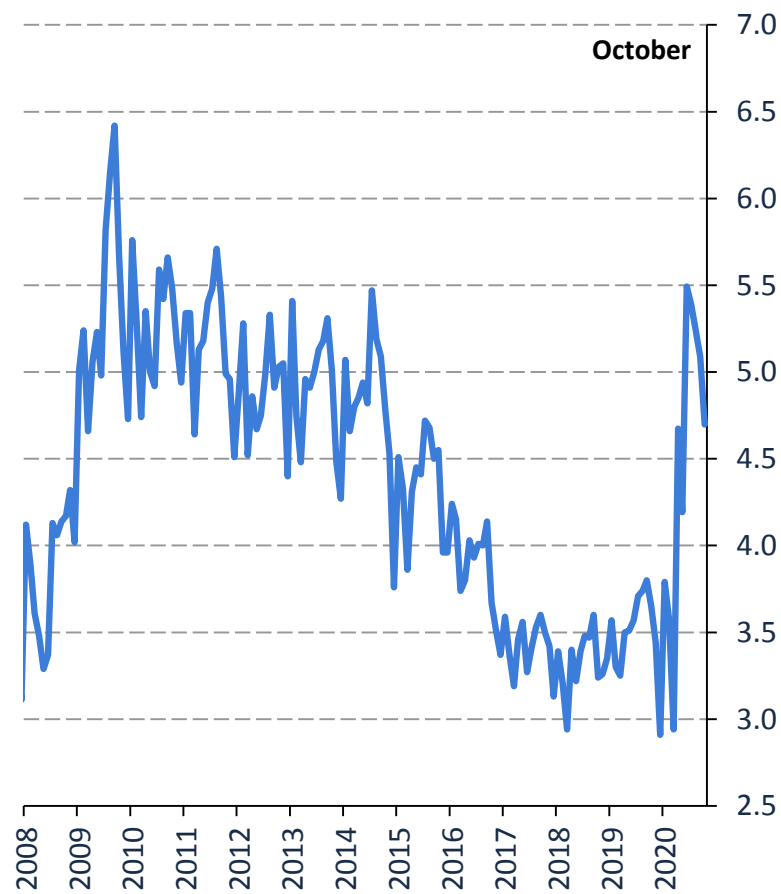
October

Employed Population by Condition of Occupation [2]
Million people
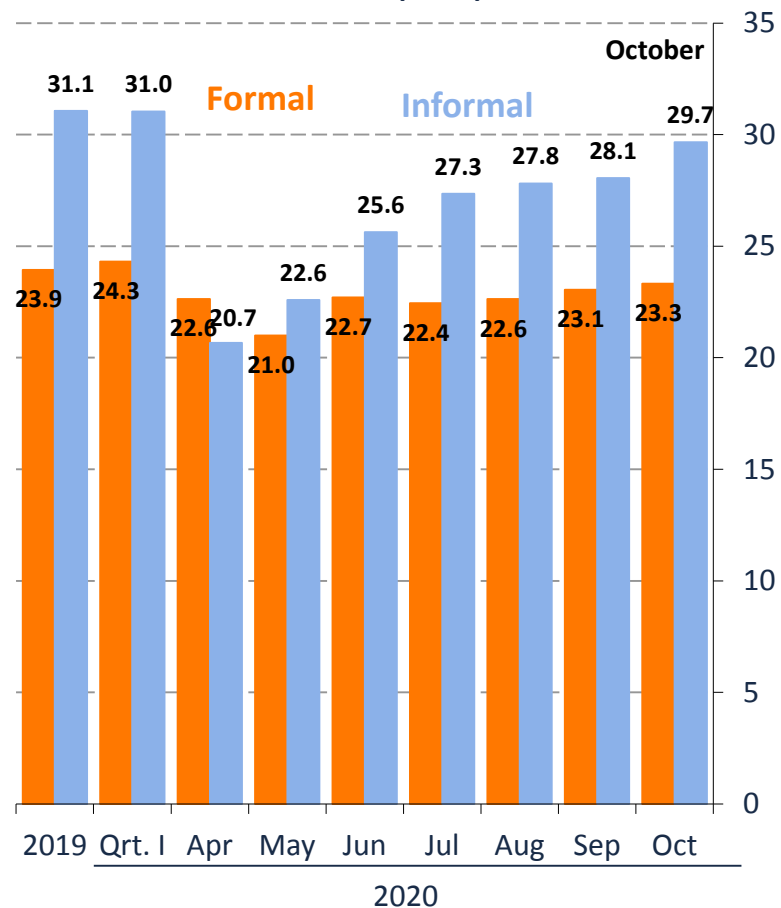
Formal   Informal

October

IMSS-insured Jobs, Total IGAE and Employed Population
Index 2020=100, s. a.
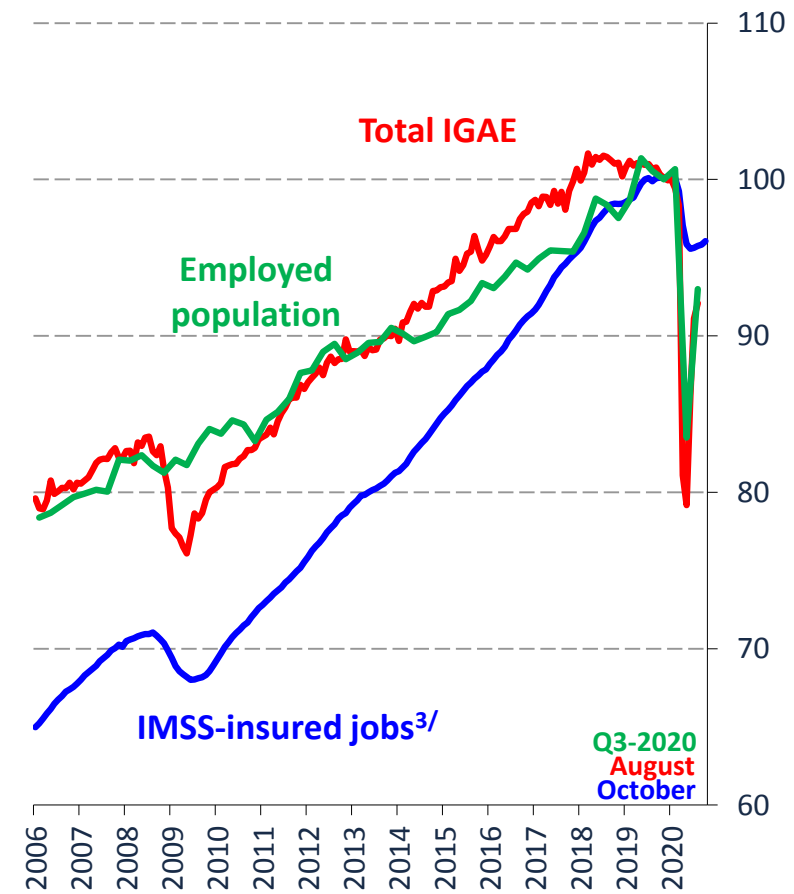
Total IGAE

Employed population

IMSS-insured jobs[3]

Q3-2020
August
October

After having widened significantly in Q2-2020, slack conditions partially reversed this trend in Q3-2020, although they still remain at historically wide levels.

Output Gap Estimate [1]
% of potential output, s. a.

IGAE[2]

GDP[2]

95% confidence interval [3]

Q3-2020 September

Monthly Slack Indicators: Main Component by Indicators Frequency [4]
%

Labor market

Demand conditions in the lending market

Monthly indicator

Consumption

August

-1.26
-2.97
-3.25
-3.56
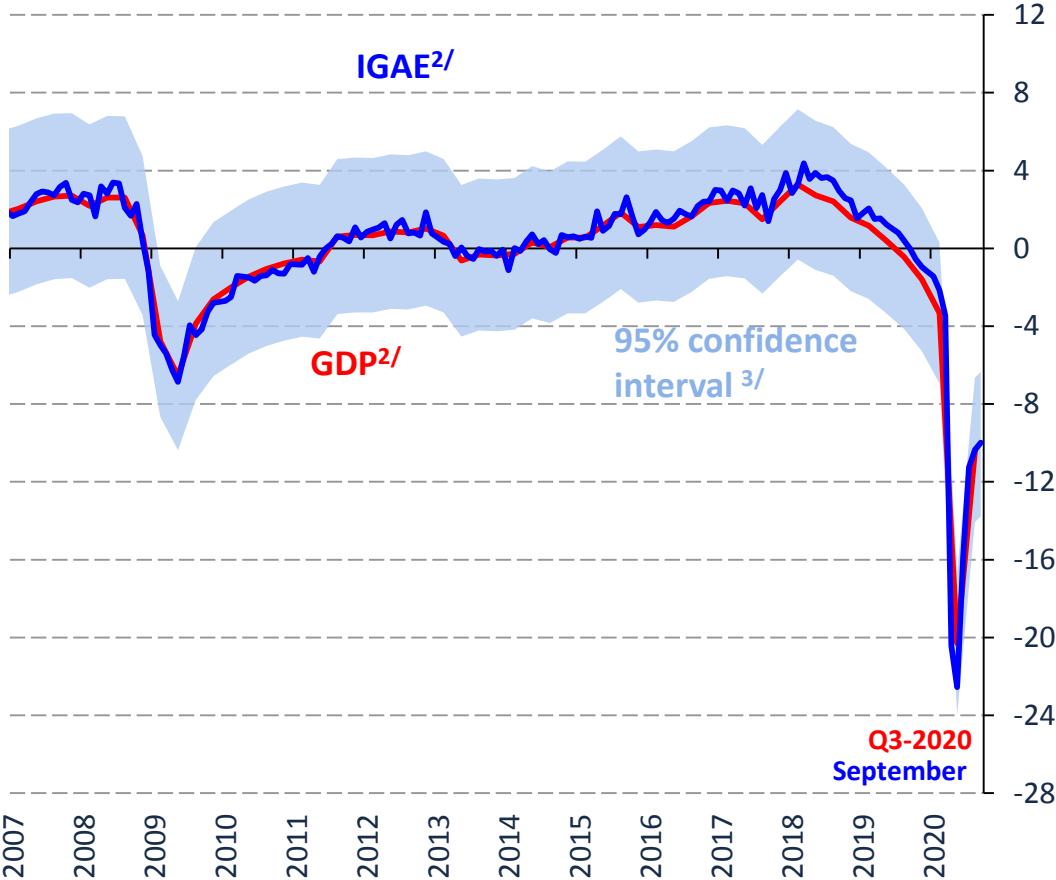
s. a. / Seasonally adjusted data.
1/ Output gap estimated with a tail-corrected Hodrick-Prescott filter; see "Inflation Report April – June 2009", Banco de México, p. 74. 2/ Estimates with the timely GDP of the third quarter of 2020, and with the implicit IGAE of September 2020 consistent with said timely figure. 3/ Output gap confidence interval calculated with a method of unobserved components.
Source: Prepared by Banco de México with data from INEGI and Banco de México.

4/ Main Indicators constructed using CCM methodology; see Banco de México (2018), "Quarterly Report, October December 2017", p.47. Monthly slack indicators are constructed with the main component of a set of series which includes 11 indicators. Slack indicators of consumption, economic activity, aggregate demand, labor market and demand conditions in the lending market are based on the first main component of sets of series which includes 6, 3 and 6 indicators, respectively.
Source: Prepared by Banco de México with data from INEGI and Banco de México.

Outline

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Inflation continues to be influenced by the effects of COVID-19 pandemic. After registering 2.15% in April, it rose to 4.09% in October and, in F1-November, it decreased to 3.43%, reflecting lower energy prices, decreased pressures in the prices of fruits and vegetables, and the impact of sales during the "Buen Fin" shopping event.

Consumer Price Index

Annual % change [1]

Annual Incidences [2]
Percentage points
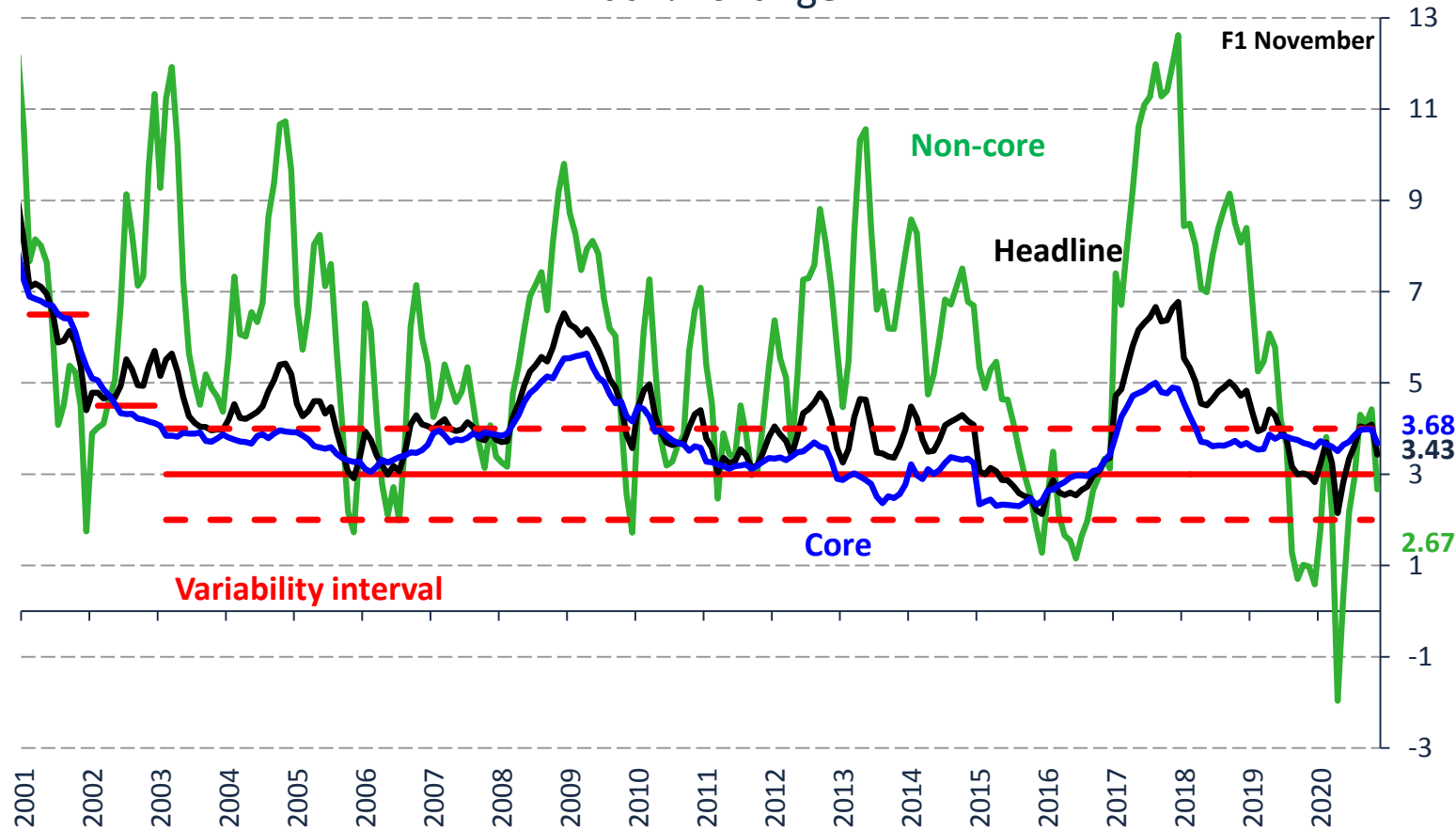
1/ Since 2003, a permanent inflation target of 3%, with a variability interval of +/-1%, was established for headline inflation.
Source: Banco de México and INEGI.
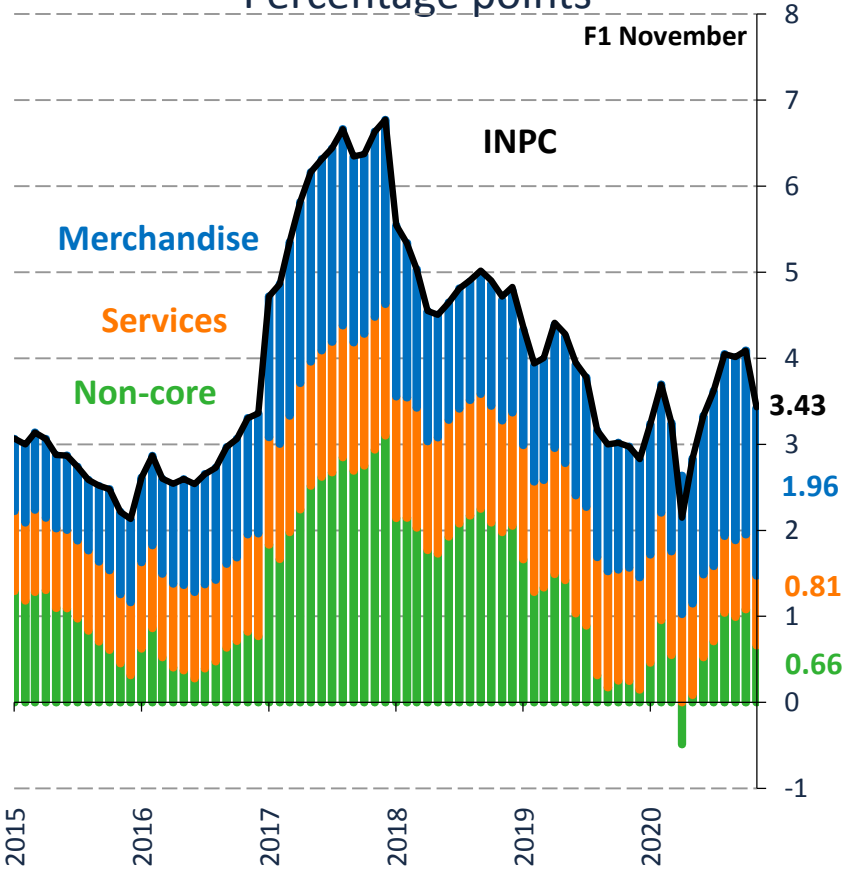
2/ The sum of inflation's components may not add up due to rounding.
Source: Prepared by Banco de México with data from INEGI.

Core inflation increased from 3.5% to 3.94% between April and October, with a recomposition as a result of upward pressures in merchandise prices, which outweighed the downward pressures on services prices. In F1 November, the annual rate of change of non-food merchandise decreased significantly.

Core Price Subindex
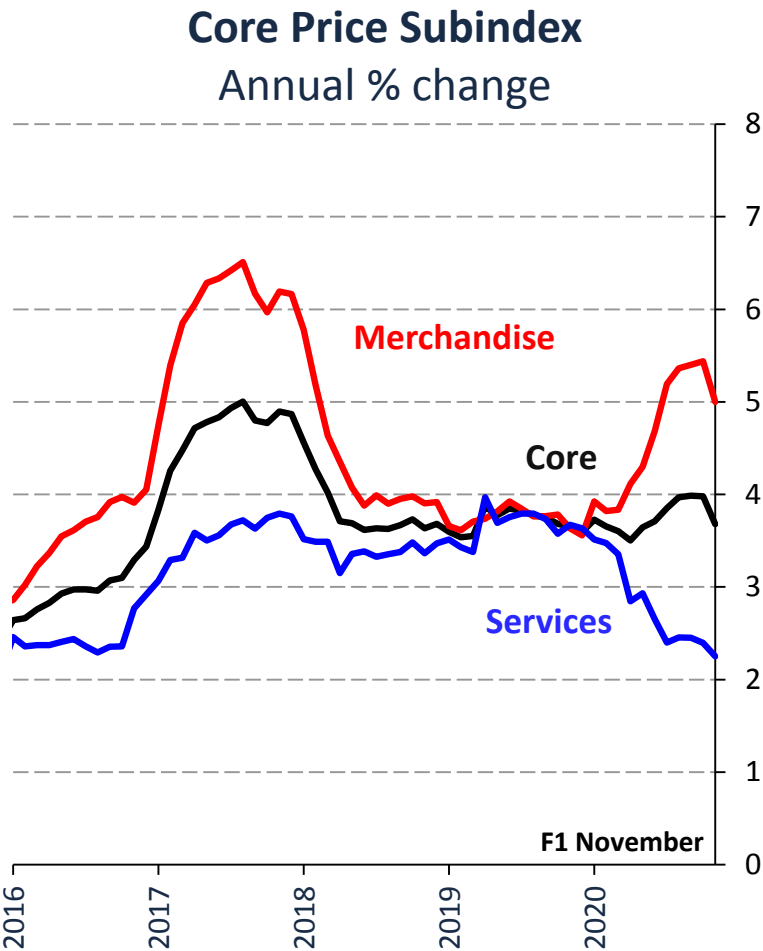
Core Price Subindex
Annual % change

Merchandise

Core

Services

F1 November

Source: Banco de México and INEGI.

Merchandise
Annual % change

Foods, beverages and tobacco

Total

Other merchandise

F1 November

Source: Banco de México and INEGI.

Services
Annual % change

Education

Total

Housing

Other services
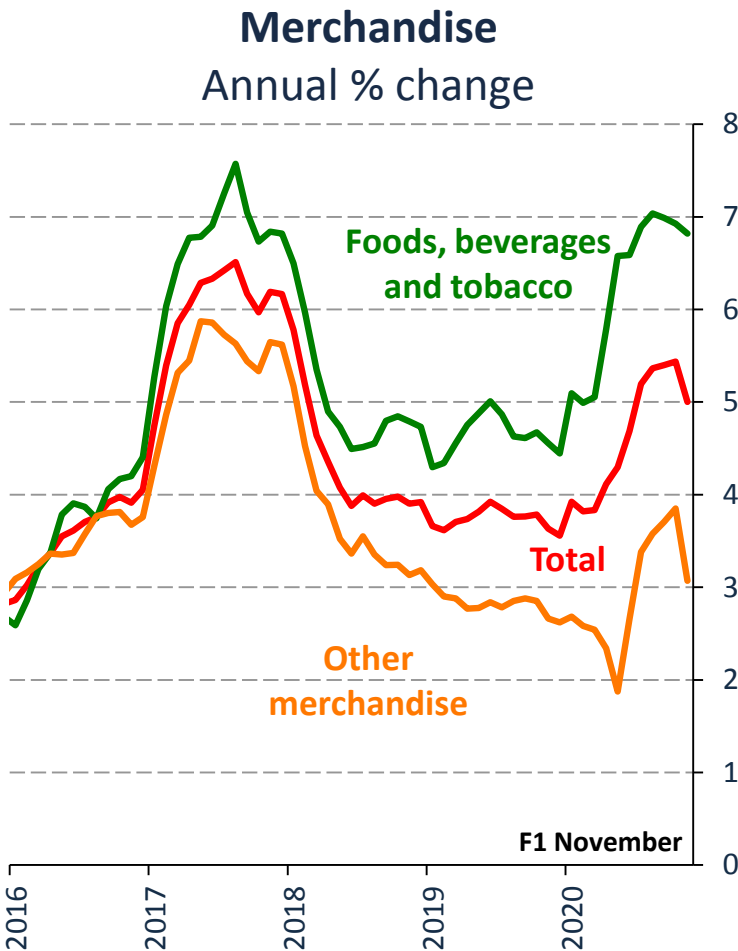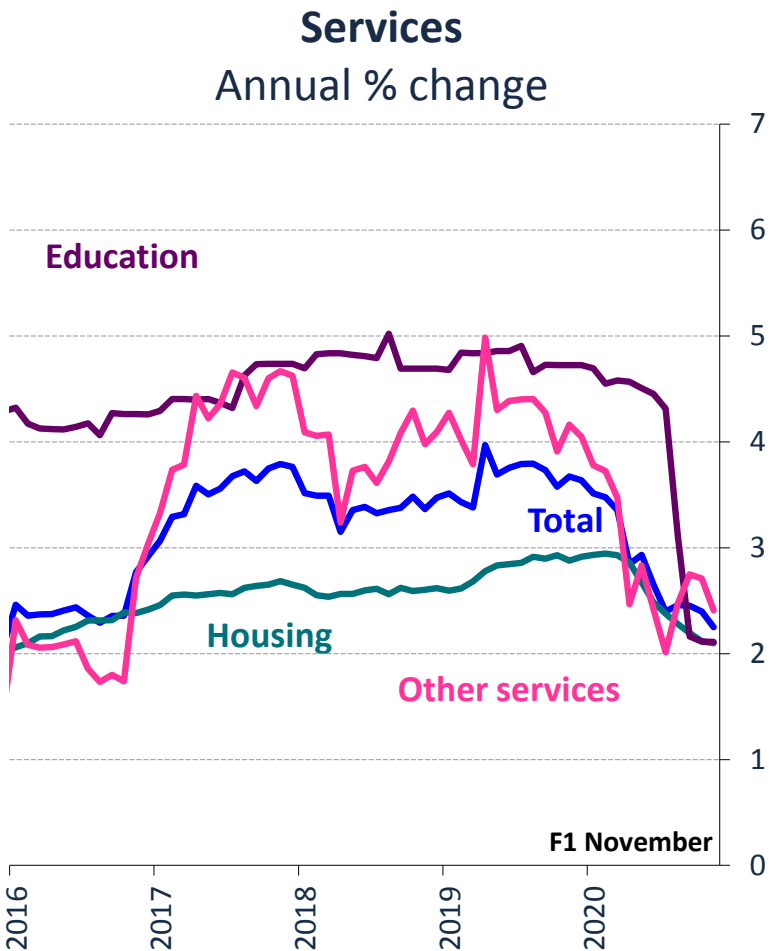
F1 November

Source: Banco de México and INEGI.

Core inflation components were affected by the shocks caused by the COVID-19 pandemic. In F1-November, core inflation decreased, as a reflection of a greater amplitude and intensity of the "Buen Fin" sales; its persistence will be more clearly observed over the coming months.

Core Inflation and Components
Monthly % change s. a.

- ● Average 2010-2019
- ▦ Monthly data

Categories (rows): Core, Merchandise, Food merchandise, Sugar products, Corn products, Sausages, Alcoholic beverages, Wheat products, Soy products, Dairy products, Rest of food merchandise, Non-food merchandise, Transport and cars, Household app. and furniture, Clothing and footwear, Hygiene and care, Medicines, Household cleaning products, Entertainment material, Rest of non-food merchandise, Services, Housing, Education, Rest of services, Tourism services, Other services

Panels: April 2020, May 2020, June 2020, July 2020, August 2020, September 2020, October 2020, F1 November 2020

s. a. / Seasonally adjusted figures.
Source: Seasonal adjustment prepared by Banco de México with INEGI data.

Energy prices significantly affected non-core inflation, which went from -1.96% in April to 4.42% in October, and decreased again to -2.67% in F1-November.

Non-core Price Subindex

Annual Incidences [1]
Percentage points

- Agricultural and livestock products
- Non-core
- F1 November
- Electricity
- Government authorized prices
- Gasoline
- Domestic gas [2]

0.93
0.23
0.60
2.67
3.16
-2.26

Agricultural and Livestock Products
Annual % change

- F1 November
- Total
- Livestock products
- Fruits and vegetables

Selected Energy Price Indexes
Annual % change

- Energy products
- F1November
- LP gas
- Natural gas
- Gasoline

1/In certain cases, the sum of inflation's components may not add up due to rounding. 2/ Includes LP gas and natural gas. Source: Calculated by Banco de México with data from INEGI.
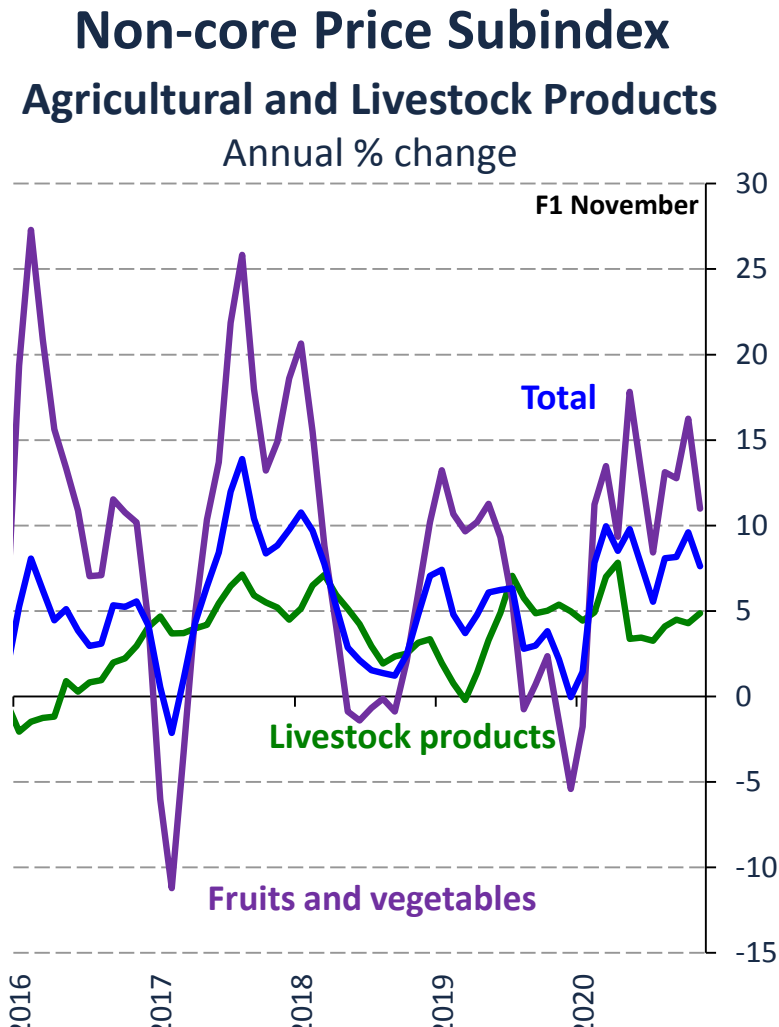
Source: Banco de México and INEGI.
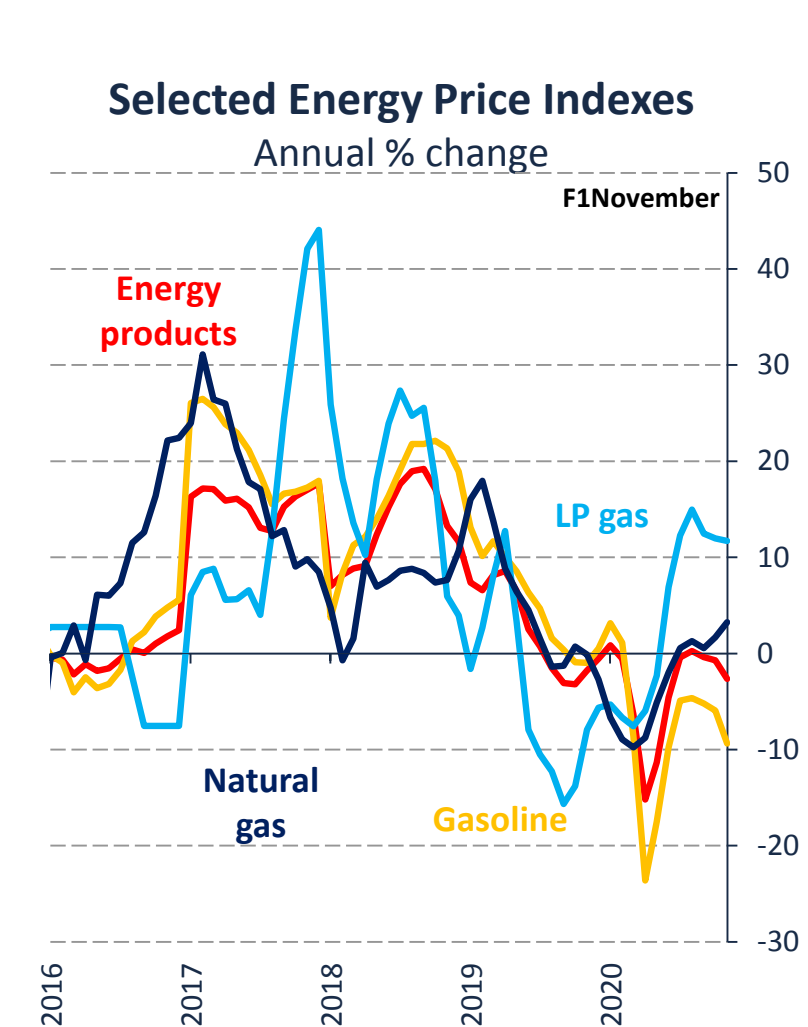
Source: Banco de México and INEGI.

Outline

1	External conditions
2	Current situation of the Mexican economy
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4	**Monetary policy**
5	Forecasts and final remarks

During the period covered by this Report, Banco de México's Governing Board lowered the reference rate by 75 basis points. On November 12, this rate was left at 4.25%. This pause provides the necessary space to confirm the convergence of the trajectory of inflation to its target.

Target for the Overnight Interbank Interest Rate and Headline Inflation [1]
%, annual % change

Target for the overnight interbank interest rate (policy rate)

November
F1 November

Headline inflation

Inflation target
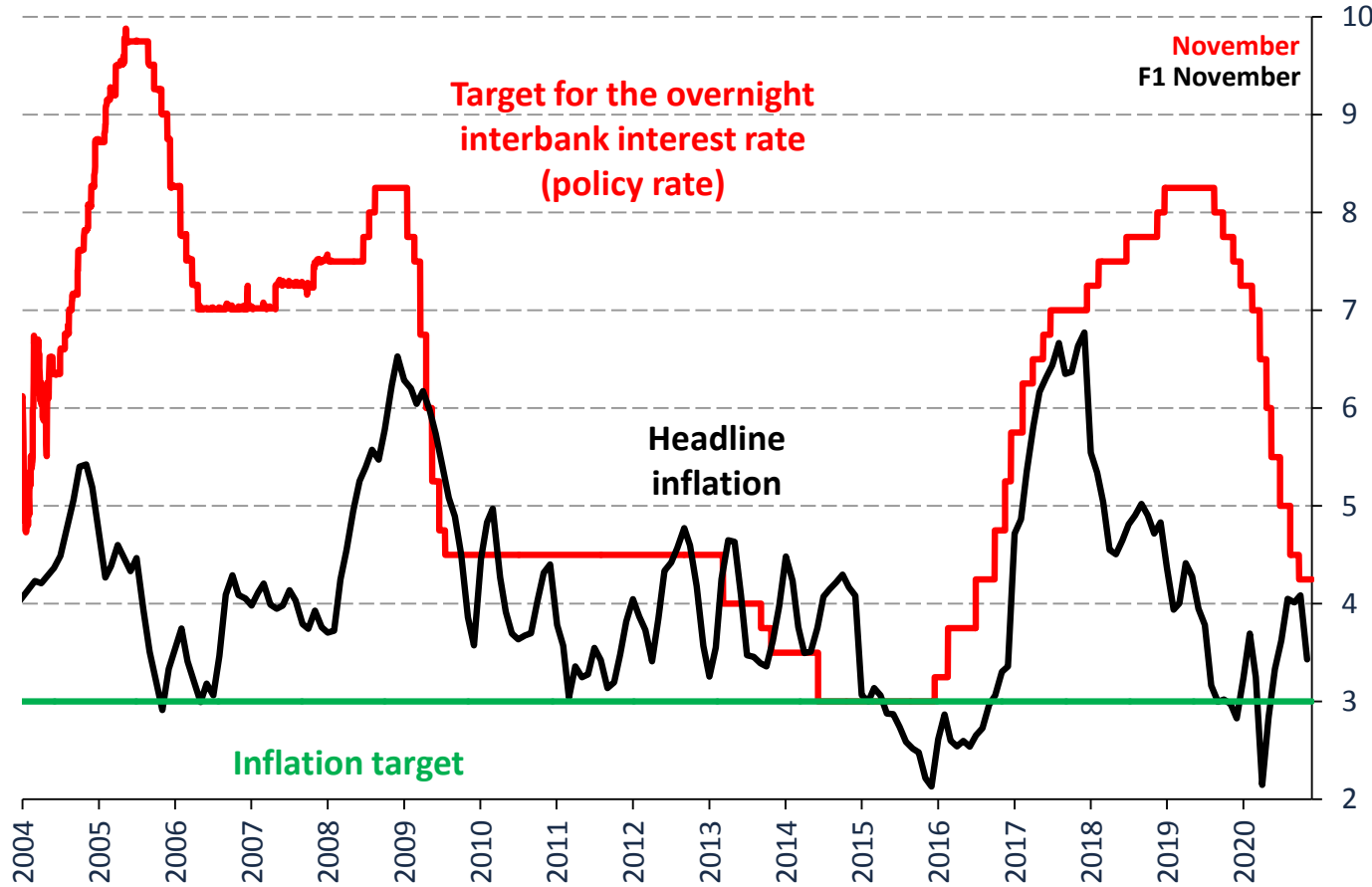
1/The data shown up to January 20, 2008 corresponds to the overnight interbank interest rate (policy rate).
Source: Prepared by Banco de México with INEGI data.

Short-term Ex-Ante Real Rate and Estimated Range for the Short-term Neutral Real Rate in the Long Term [2]
%

November

Short-term neutral real rate range in the long term

Short-term ex-ante real rate
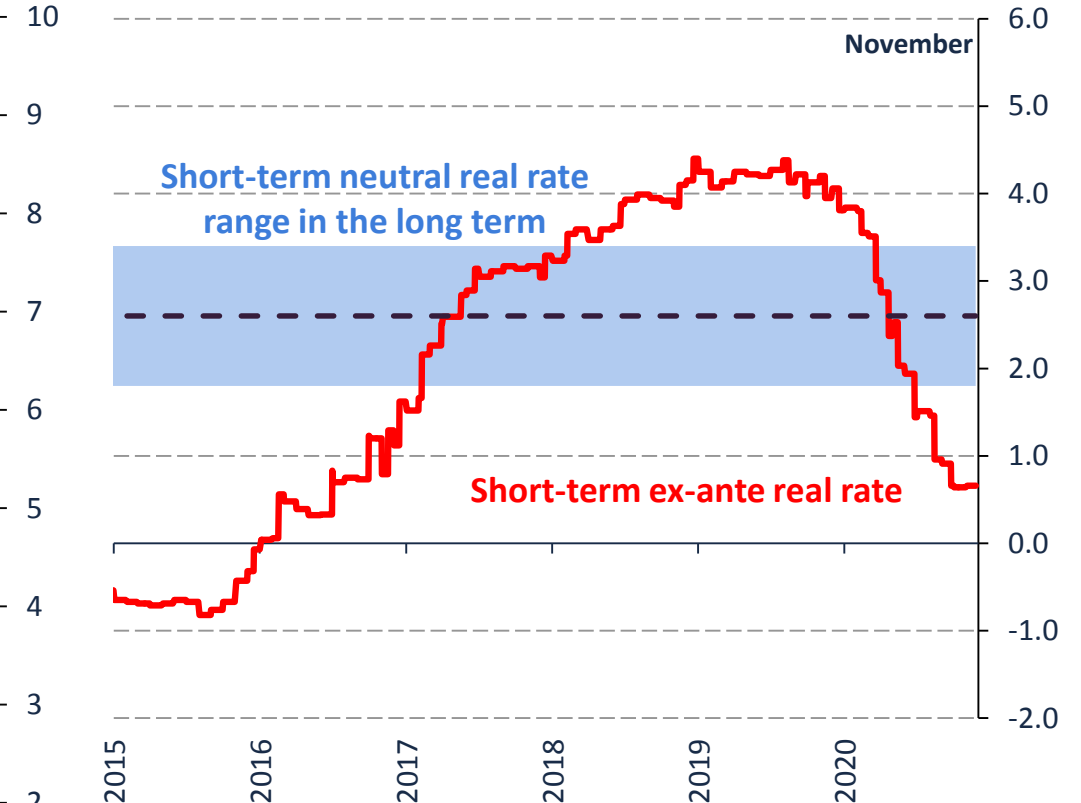
2/ The short-term ex-ante real rate is constructed using the Target for the Overnight Interbank Interest Rate and 12-month inflation expectations from Banco de México's Survey. The dotted line corresponds to the midpoint of the range for the short-term neutral real rate in the long term, which is now between 1.8 and 3.4%. Source: Banco de México.

Between June and October, short-term inflation expectations rose, while those for medium- and long-term expectations remained stable.

Inflation Expectations
Median, %
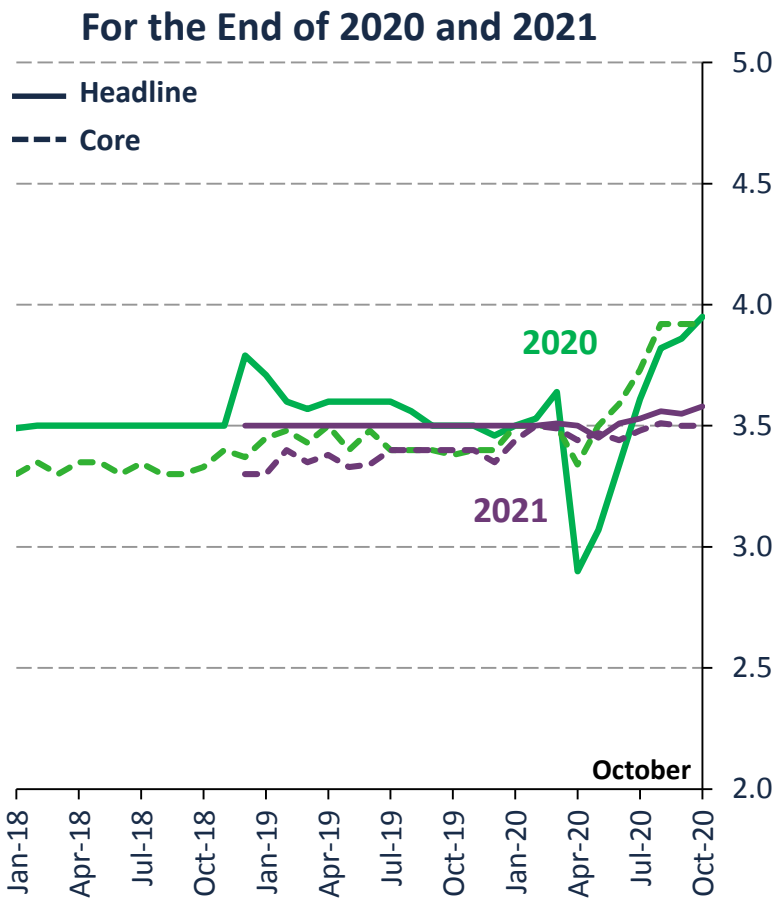
For the End of 2020 and 2021

- Headline
- Core

2020

2021

October

Jan-18, Apr-18, Jul-18, Oct-18, Jan-19, Apr-19, Jul-19, Oct-19, Jan-20, Apr-20, Jul-20, Oct-20

Source: Banco de México's Survey of Private Sector Forecasters.

Medium- and Long-term

- Headline
- Core

Variability interval (upper limit)

Next 4 years

Inflation target

Next 5-8 years

October

2014, 2015, 2016, 2017, 2018, 2019, 2020
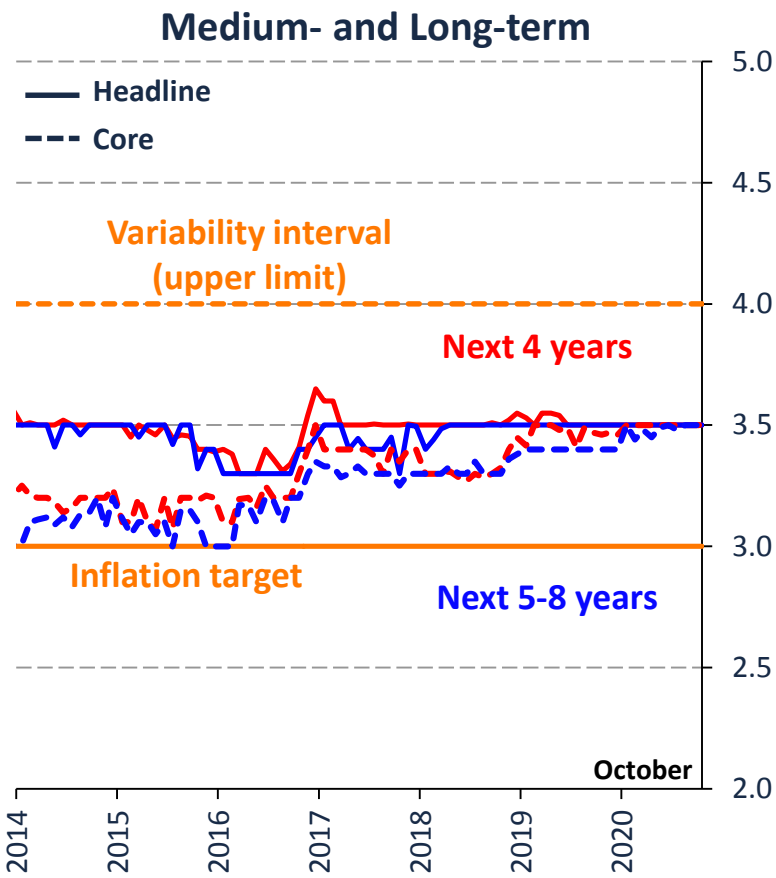
Source: Banco de México's Survey of Private Sector Forecasters.

Breakeven Inflation and Inflation Risk Implied in Bonds
%

Breakeven inflation implied in 10-year bonds

20-day moving average

November

2014, 2015, 2016, 2017, 2018, 2019, 2020
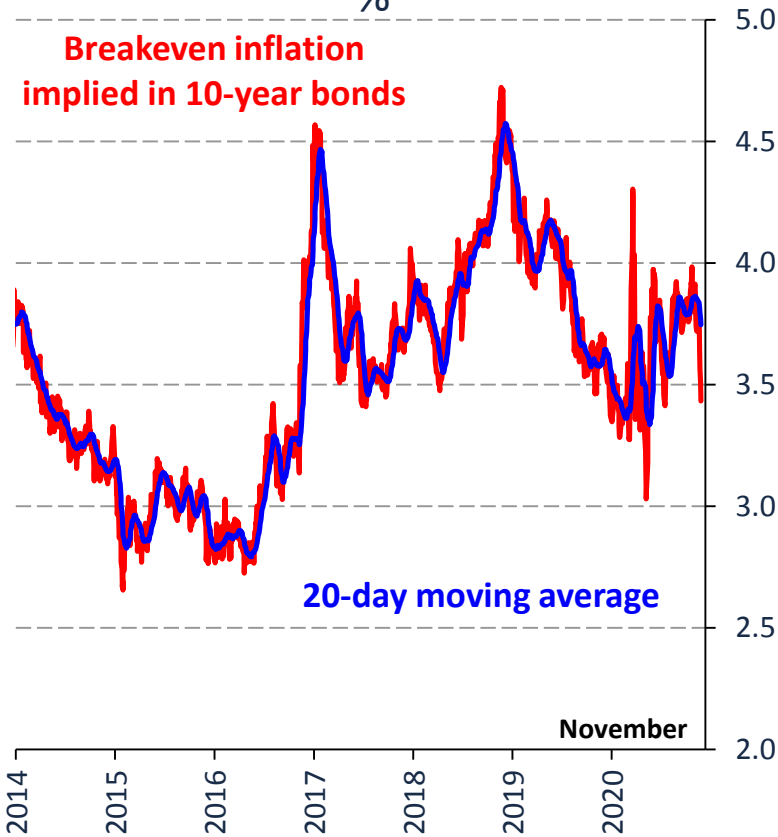
Note: Breakeven Inflation and Inflation risk is calculated as the difference between nominal and real long-term interest rates.
Source: Estimated by Banco de México with Valmer and PiP data.

During most of Q3-2020, and in November, Mexican financial markets had a positive performance overall, which was associated to the improvement in international financial conditions, with some episodes of limited volatility.

Market Indicators that Measure Domestic Sovereign Credit Risk[/1]
Basis points

South Africa (BB)
Brazil (BB-)
Mexico (BBB)
Colombia (BBB-)
Peru (BBB+)
Chile (A+)
Thailand (BBB+)

November

227
169
90
89
62
51
39

Nominal Exchange Rate [2/]
Pesos per US dollar

Analysts' exp. 2020 Banxico survey	21.69
Analysts' exp. 2020 Citibanamex survey	21.00
Analysts' exp. 2021 Banxico survey	22.00
Analysts' exp. 2021 Citibanamex survey	21.50

November

Observed exchange rate

20.06
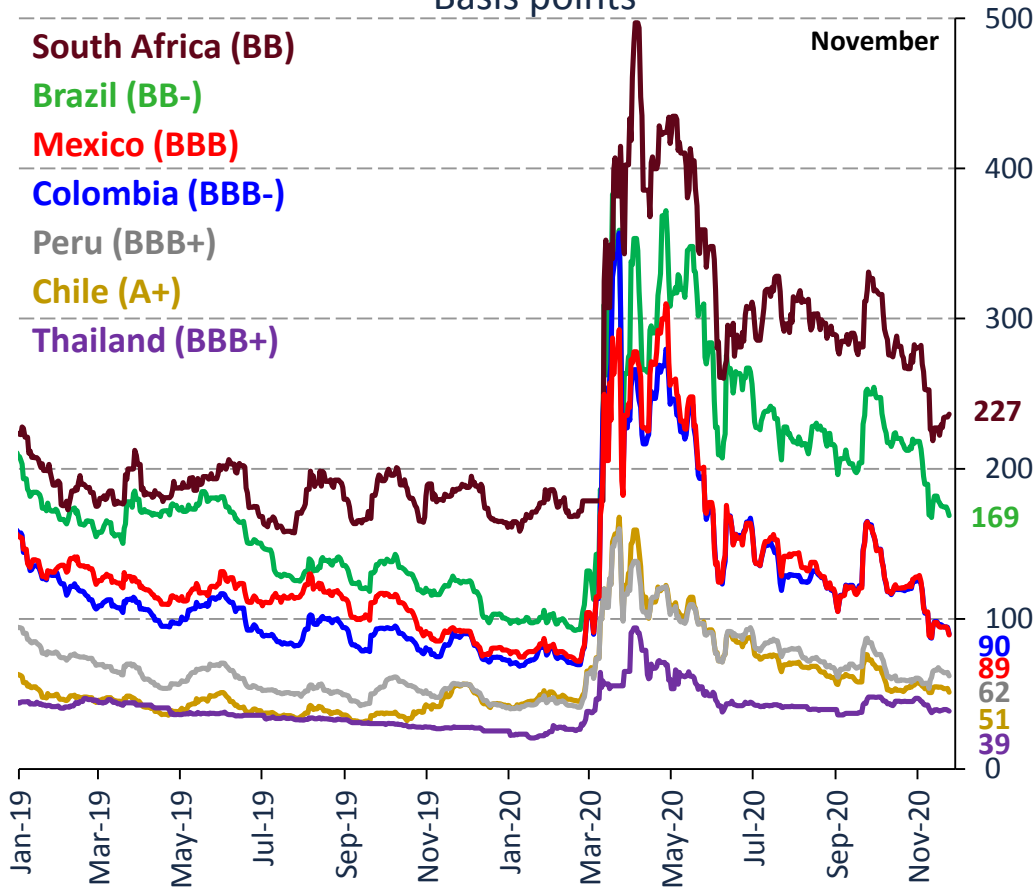
1/ Refers to 5-year Credit Default Swaps (CDS).
Note: The mean of the sovereign rate for each country is shown in parenthesis and corresponds to the mean of the rates by Fitch Ratings, Moody's and Standard & Poor's, normalized to the scale of the latter.
Source: Bloomberg.

2/ Observed exchange rate refers to the daily FIX exchange rate. Figures aside analysts' expectations correspond to the medians of Banco de México's survey for October and the Citibanamex survey for November 20, 2020.
Source: Banco de México and Citibanamex.

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Short- and medium-term interest rates decreased, partly reflecting Banco de México's monetary policy decisions, while long-term rates are below pre-pandemic levels.

Government Bond Interest Rates In Mexico
%
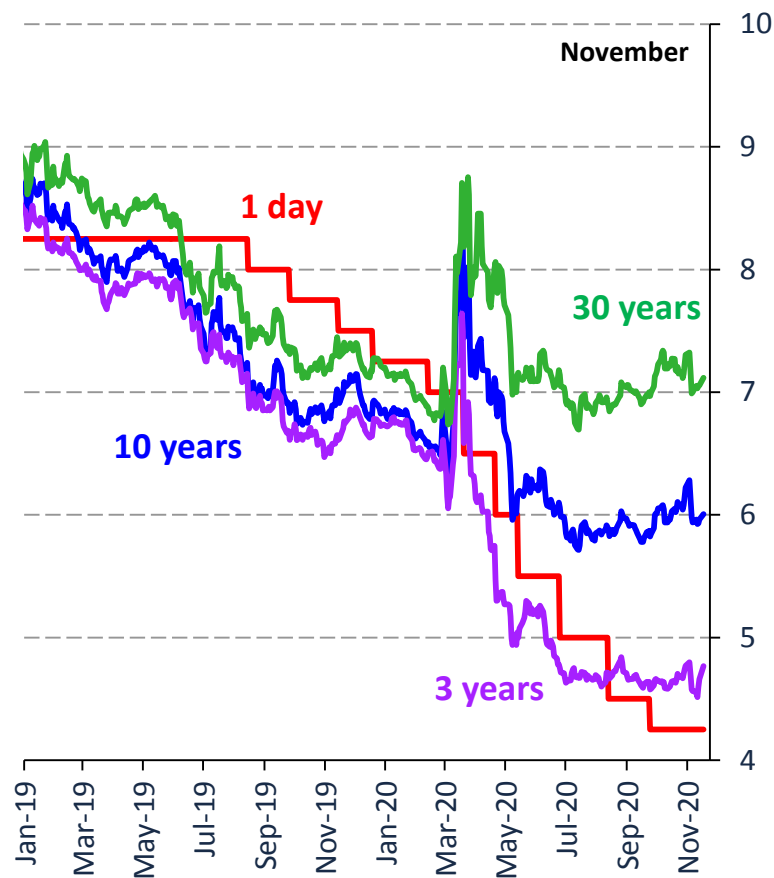
Source: Proveedor Integral de Precios (PiP).

Yield Curve of Mexico
%
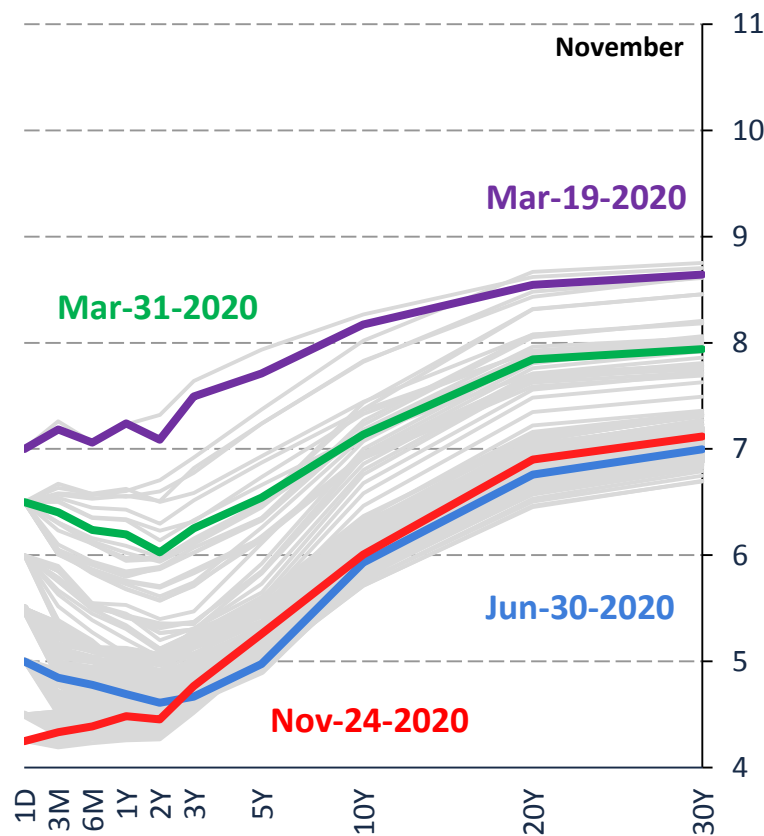
Note: The gray lines refer to the daily yield curves since March 18, 2020.
Source: Proveedor Integral de Precios (PiP).

10-year Government Bonds Nominal Interest Rates
%
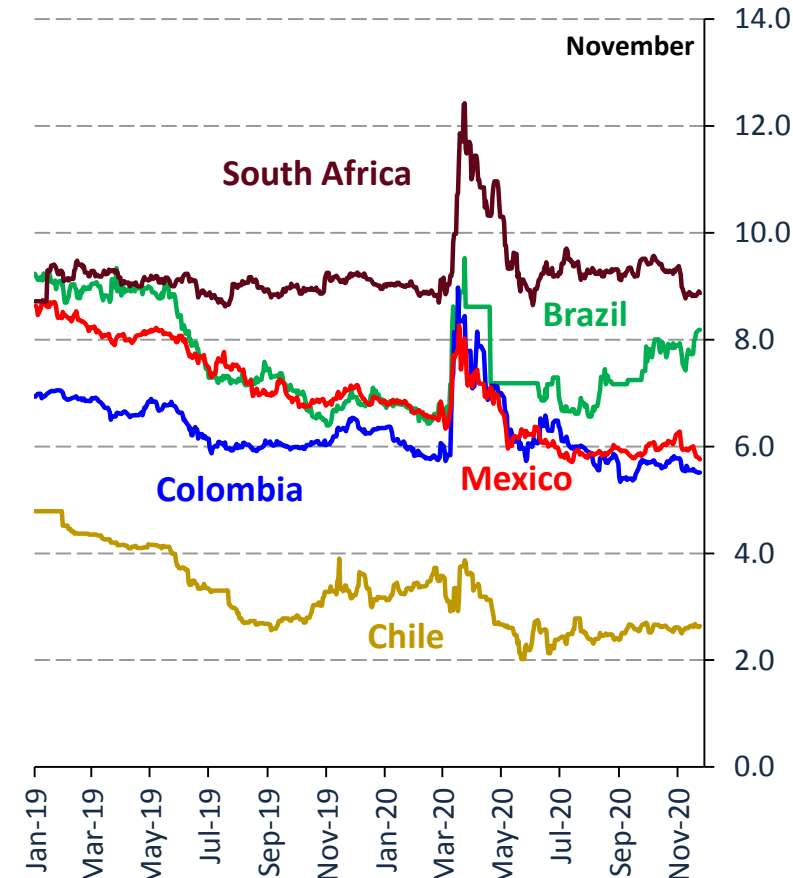
Source: Prepared by Banco de México with Bloomberg and Proveedor Integral de Precios (PiP) data.

In face of the shocks resulting from the pandemic, monetary policy has looked to foster an orderly adjustment in domestic markets and, in particular, a downward adjustment throughout the yield curve in Mexico.

Emerging Economies
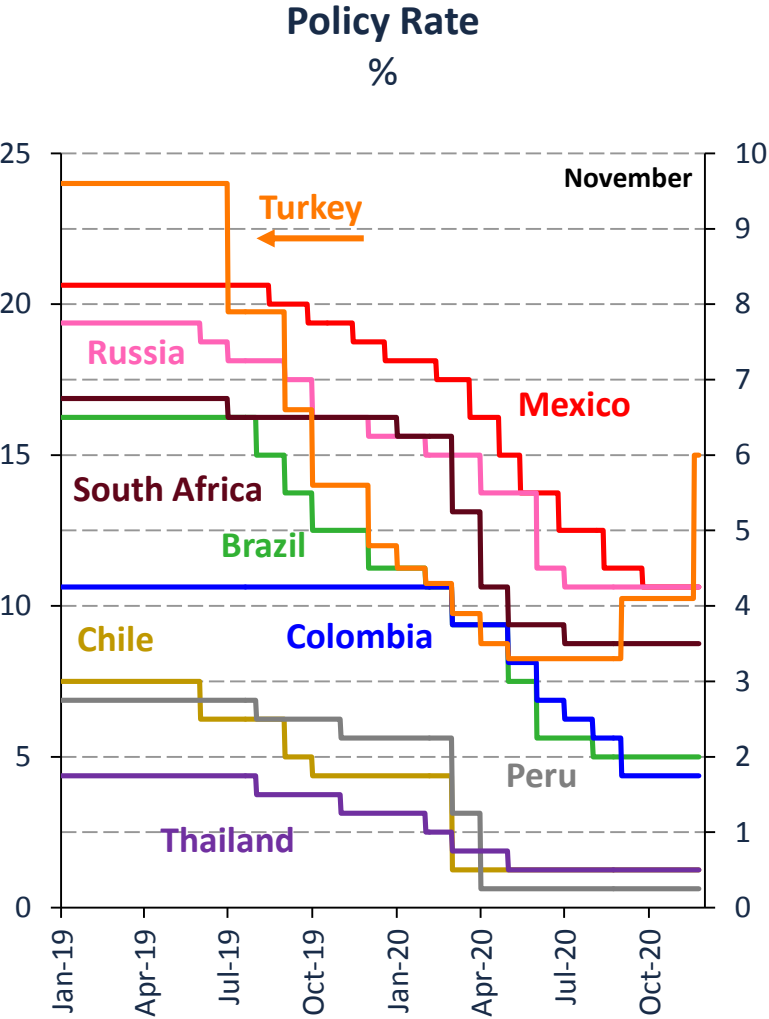
Policy Rate
%

Source: Haver Analytics.
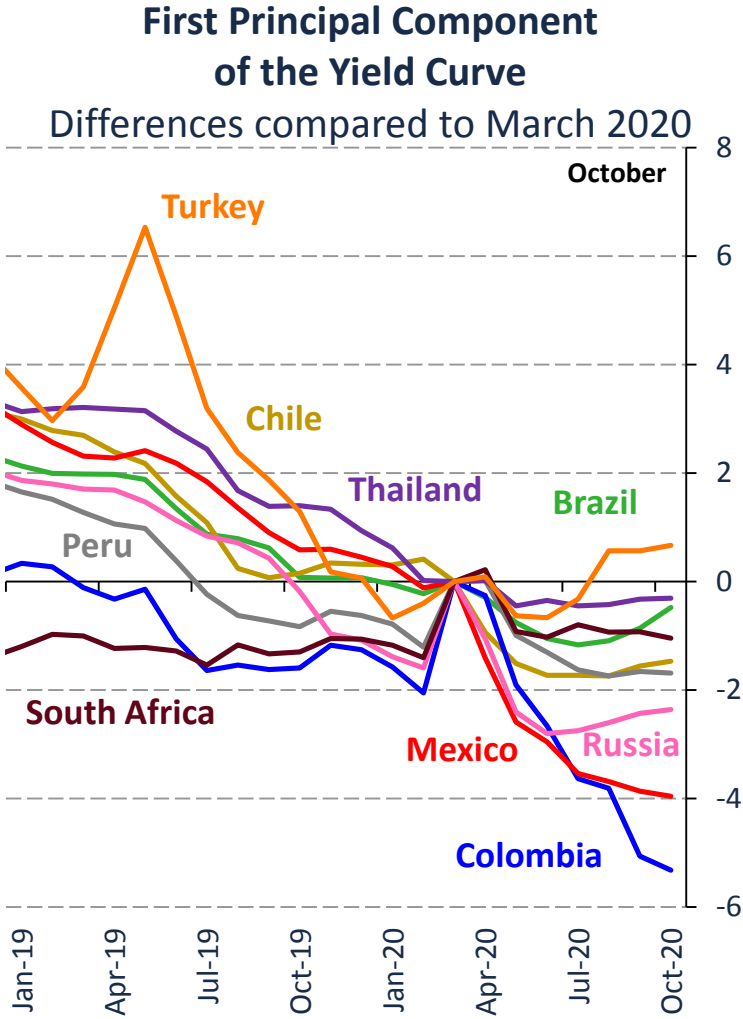
First Principal Component of the Yield Curve

Differences compared to March 2020

Source: Estimated by Banco de México with data from Bloomberg.

Second Principal Component of the Nominal Yield Curve

Differences compared to March 2020
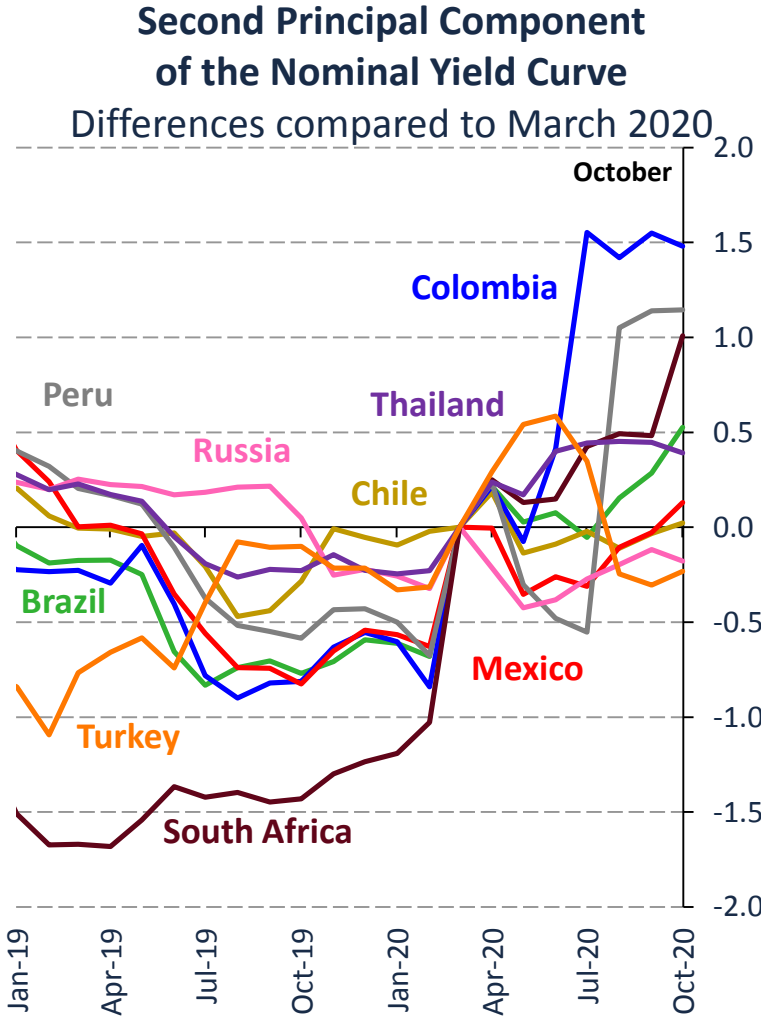
Source: Estimated by Banco de México with data from Bloomberg.

Outline

1	**External conditions**
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Economic Activity Outlook

Regarding economic activity:

➢ Given the **increased information available** on the **initial adverse impact** and the **recovery phase**, this Report **presents a central baseline scenario**.

➢ **A high degree of uncertainty** about the future evolution of national and global economic activity persists, which is reflected in the width of the likelihood bands around the central **growth scenario.**

➢ **The central scenario assumes** a **gradual recovery**, at a **moderate pace**, along the forecast horizon, converging to an **inertial growth towards 2022.**

Regarding inflation:

➢ The **pandemic and its effects** on economic activity **continue to generate uncertainty** about the inflation trajectory.

➢ Based on the central baseline scenario for economic activity, this Report also presents **a central scenario for inflation.**

➢ **The inflation forecast in its seasonally adjusted quarterly variation** is also presented.

Economic Activity Outlook

Scenarios for the Trajectory of GDP[1/]
Percentage growth rates

Report		2020	2021	2022
Current	Central Scenario	-8.9	3.3	2.6
	Lower Limit Trajectory	-9.3	0.6	3.8
	Upper Limit Trajectory	-8.7	5.3	2.7
Previous	V-shaped	-8.8	5.6	--
	Deep V-shaped	-11.3	2.8	--
	Deep U-shaped	-12.8	1.3	--

1/ Attention might be drawn to the fact that the GDP annual percentage growth rate included in the baseline scenario for 2022 is lower than the rates obtained from the trajectories of the interval's limits. However, this is due to the arithmetic effects resulting from the different comparison levels that stem from the trajectories of GDP for 2021, given that, as it can be seen in the chart, the level of economic activity in the lower limit lies below that of the baseline scenario at all times, which, in turn, lies below that of the upper limit.

Increase in Number of IMSS-insured Jobs
Thousands

Report	2020	2021	2022
Current	-850 to -700	150 to 500	300 to 500
Previous	-1,100 to -750	100 to 450	--

Trajectory of Mexico's GDP
Q4-2019 = 100, s. a.
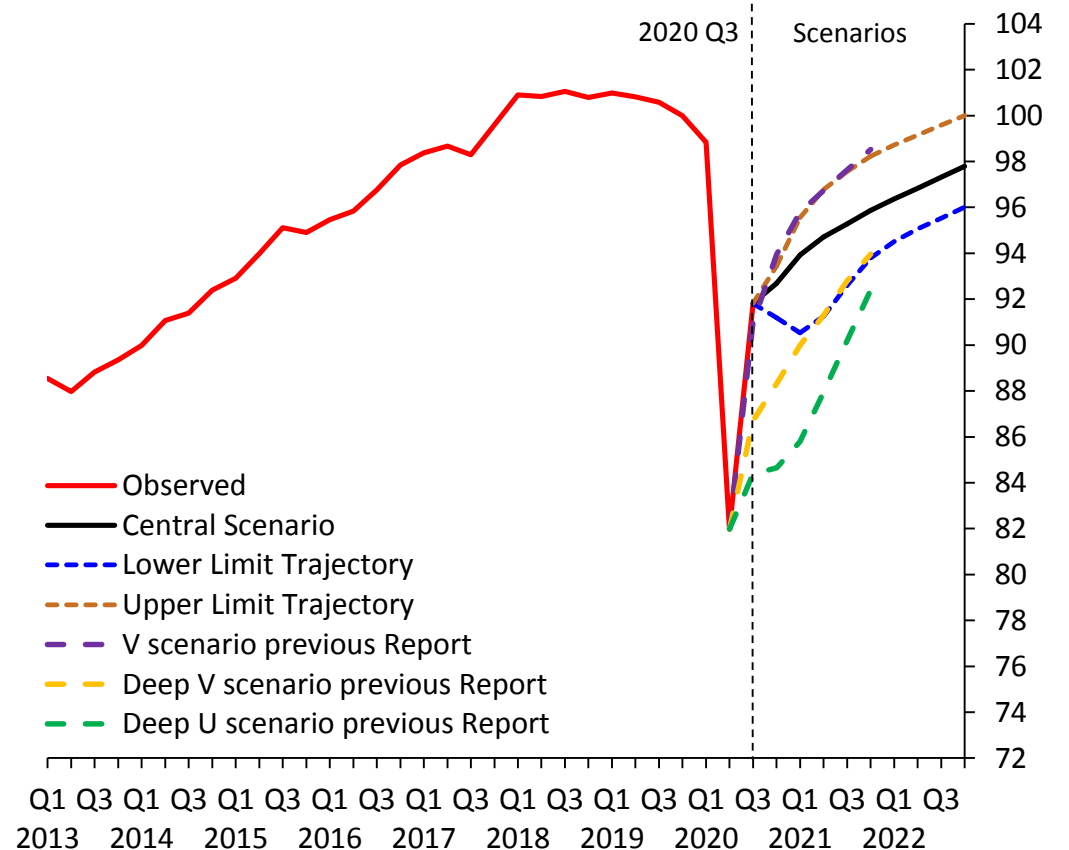
s. a. / Seasonally adjusted series.
Note: The GDP growth in Q3-2020 is prepared with data of the timely estimate of quarterly GDP from INEGI, as such the forecasts for the scenarios of the present Report begin in Q4-2020, whereas the scenarios of the previous Report started in Q3-2020.
Source: INEGI and Banco de México.

Risks to Growth

The risks to the central baseline scenario are considered to be biased to the downside.

To the downside

⬇ **That social distancing measures are extended or become more severe.**

⬇ **Additional episodes of financial volatility in international financial markets.**

⬇ **That the adopted relief measures at the national or international level are not effective.**

⬇ **That the pandemic's repercussions on the economy are more permanent.**

⬇ **That sovereign and Pemex's credit ratings are downgraded.**

⬇ **That the environment of domestic uncertainty, which has affected investment, persists.**

To the upside

⬆ **That the pandemic dissipates in the short term, as a result of new treatments or the introduction of an effective vaccine.**

⬆ **That the stimuli provided are effective in offsetting the effects of the pandemic and in supporting global economic recovery.**

⬆ **That the entry into force of USMCA fosters greater-than-expected investment.**

The forecast for headline inflation is adjusted downwards in the short run from the previous scenario, due to its observed performance; and, subsequently, presents slightly upward trajectories for both core and non-core inflation. Headline inflation is still expected to be around 3% in the 12-24 month forecast horizon.

Fan Charts [1]

Annual Headline Inflation

%

Legend:
- Observed inflation
- Headline inflation target
- Variability interval
- Intermediate scenario previous report
- Central scenario current report

Q4 2021 | Q2 2022

Report	2020				2021				2022		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Current [2]	3.4	2.8	3.9	3.6	3.6	4.3	3.1	3.3	3.2	3.1	3.1
Previous [3]	3.4	2.8	3.9	3.7	3.6	4.2	3.1	2.9	2.8	2.8	

Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2
2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022

Annual Core Inflation

%

Legend:
- Observed inflation
- Intermediate scenario previous report
- Central scenario current report
- Headline inflation target

Q4 2021 | Q2 2022

Report	2020				2021				2022		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Current [2]	3.7	3.6	3.9	3.8	3.9	3.6	3.0	3.1	2.9	2.9	2.9
Previous [3]	3.7	3.6	3.9	3.8	3.8	3.5	3.0	2.8	2.7	2.7	

Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2 Q4 | Q2
2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022

Note: for the previous Report, the trajectories for inflation were estimated based on the evolution of the macroeconomic variables in the three reported scenarios. For each of the quarters in the forecast horizon, the minimum and maximum inflation among the scenarios was calculated. The trajectory of inflation is reported in these tables if it is located at a point equidistant from said highs and lows in the forecast horizon. 1 / Quarterly average of annual inflation. The next four and six quarters are indicated with dotted vertical lines from the fourth quarter of 2020, that is, the fourth quarter of 2021 and the second quarter of 2022 respectively; periods in which the monetary policy transmission channels fully operate. 2/ Forecast since November 2020. 3/ Forecast since August 2020. Source: Banco de México and INEGI.

Risks to Inflation Outlook within the Forecast Horizon
The balance of risks for the inflation forecast remains uncertain.

To the downside

⬇ **A greater-than-expected impact of a negative output gap, lower demand for goods and services due to additional social distancing measures, or that, in view of weak demand, price reduction during the "Buen Fin" event are more persistent.**

⬇ **Lower inflationary pressures worldwide.**

⬇ **That the exchange rate appreciates.**

⬇ **That energy prices are lower than anticipated.**

⬇ **That, as a result of the slack in the economy, wage revisions do not exert pressure on prices.**

To the upside

⬆ **Persistence of core inflation at high levels.**

⬆ **Episodes of exchange rate depreciation.**

⬆ **Increase in the relative demand for certain goods in the context of the health emergency.**

⬆ **That energy prices reach higher-than-anticipated levels.**

⬆ **Cost pressures that, despite the slack, may be passed onto consumer prices.**

Final Remarks

- **The Governing Board will take the necessary actions, on the basis of incoming information, so that the reference rate is consistent with the orderly and sustained convergence of headline inflation to Banco de México's target, during the time frame in which monetary policy operates.**

- **Monetary policy implementation will depend on the evolution of the factors that affect headline and core inflation, their foreseen trajectories within the forecast horizon and their expectations.**

- **Perseverance in strengthening the macroeconomic fundamentals and adopting the necessary actions, regarding both monetary and fiscal policies, will contribute to a better adjustment of domestic financial markets and of the economy as a whole.**

- **It is necessary to contribute to orderly adjustment of the economy, thus promoting the reactivation of productive activity and employment, enabling flexibility in resource allocation, ensuring proper microeconomic functioning, and addressing institutional and structural problems.**

Annex – Boxes

1 The US Federal Reserve New Monetary Policy Strategy

2 Use of Balance Sheets and Liquidity Provision Programs in the Central Banks of Emerging Economies

3 Fiscal Response to the COVID-19 Pandemic

4 Recent Dynamics in IMSS-insured Jobs

5 Effects of the COVID-19 Pandemic on Core Inflation's Components

6 Impact of the COVID-19 Pandemic on Consumer Price Dynamics in the U.S. and Mexico

7 Evolution of the Yield Curve in Emerging Economies

8 Evolution of Sovereign Risk in Emerging Economies

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