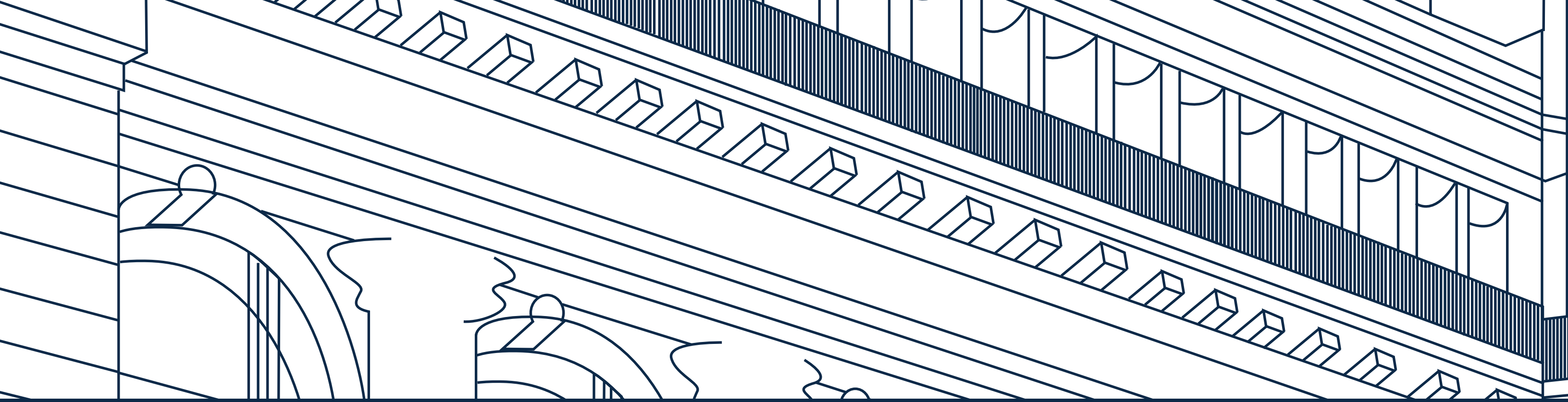

BANCO DE MÉXICO®

Minutes number 123

Meeting of Banco de México's Governing Board on the occasion of the monetary policy decision announced on March 26, 2026

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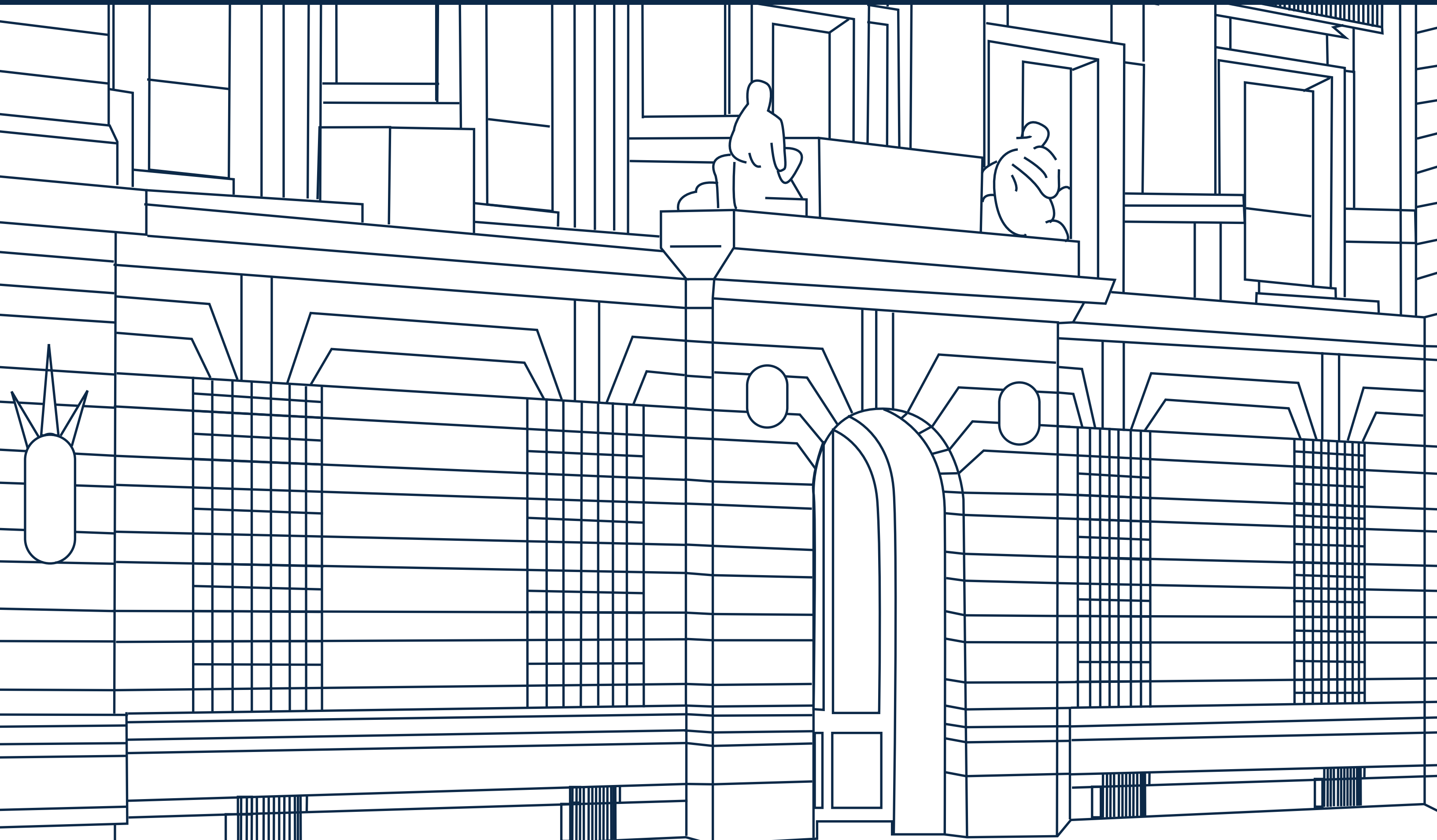

FOREWARNING
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1. PLACE, DATE AND PARTICIPANTS

1.1. Place: Meeting held by virtual means

1.2. Date of Governing Board meeting: March 25, 2026.

1.3. Participants:

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

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

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

International environment

Some members indicated that world economic activity is expected to grow in the first quarter of 2026 at a higher rate than in the previous quarter. They highlighted the case of the United States. They commented that economic activity in that country would be supported by non-residential investment amid the dynamism of certain technology sectors, as well as by household spending. However, they noted that the latter is expected to have moderated as a result of a weaker demand for labor and a rise in the unemployment rate. **One** member noted that labor markets in some of the major advanced economies showed signs of cooling. He/she pointed out that labor demand in the United States moderated again in February. He/she added that during that month the unemployment rate stood at 4.4%, after registering 4.3% in January. He/she expressed that it remains at its highest levels since 2021, and therefore he/she considered that the labor market in that economy continues showing signs of moderation, without generating inflationary pressures. Regarding the outlook for world economic activity in 2026 prior to the onset of the conflict in the Middle East, he/she noted that since the previous meeting such outlook was revised upwards for some economies. **Another** member pointed out that Purchasing Managers' Indices suggest that both manufacturing and services sectors would show greater dynamism at the global level. He/she stated that US industrial production would register higher growth in 2026. As for the euro area, he/she noted that its growth would be lower than that observed in 2025. Similarly, he/she added that forecasts for the Chinese economy point to a slowdown.

Most members commented that global uncertainty has increased, mainly due to escalating geopolitical tensions. They highlighted that the conflict in the Middle East could have a negative impact on global economic activity. One member emphasized the potential weakening of aggregate demand. **Some** members pointed out that the effects of this conflict on global economic activity will depend largely on its duration. **One** member added that they will also depend on each economy's exposure to energy supply from that region. He/she underlined that, so far, the impact has been geographically limited to the vicinity of the conflict, although it is still too early to rule out its spreading to other regions. **Another** member noted that risks associated with changes in trade policies have persisted for slightly over a year, which has contributed to a highly uncertain environment.

Most members mentioned that international benchmark oil prices rose due to the conflict in the Middle East. They specified that the trade route of nearly 20% of the global volume of oil supply freight has been affected. Some members highlighted that this disruption has created a volatile environment. **One** member pointed out that the Brent crude oil price has exceeded 100 US dollars per barrel, a level unseen since 2022. He/she added that futures markets point to a potential relative shortage of crude oil in the short term. He/she indicated that natural gas prices exhibited a differentiated behavior since the beginning of the conflict, with increases of 85 and 9% in their European and US benchmarks, respectively. He/she expressed that jet fuel, gasoline, and diesel prices have risen by over 50% during the same period. He/she added that prices of phosphate and nitrogen fertilizers have also been affected, as nearly 30% of the global supply is traded through that region. He/she detailed that urea futures and the prices of other fertilizers have increased by more than 30%. **Some** members pointed out that certain economies have considered or implemented fiscal measures to mitigate the effects of higher international benchmarks on domestic prices. They underlined that the International Energy Agency agreed to release strategic oil reserves. **One** member noted that this would be the greatest intervention of its kind since it was created. He/she observed that, in contrast, prices of precious and industrial metals, which trended significantly upwards in 2025, reverted partly due to the early unwinding of leveraged positions in response to the increased global uncertainty.

Some members commented that, in most advanced and emerging economies, inflation continued approaching their respective central banks' targets. However, **one** member mentioned that the persistent services inflation has continued posing challenges. He/she highlighted that in most emerging economies headline inflation remains within the variability interval. **Another** member pointed out that several economies registered rebounds in inflation due to increases in the non-core component. He/she stated that the effects of changes in trade policies have begun to materialize, although the impact of tariffs on inflation has remained more contained than expected. He/she considered that signs of an economic slowdown have gained more relevance for inflation. Regarding the United States, **one** member observed that headline inflation, as measured by the Consumer Price Index, decreased from 2.7% in December 2025 to 2.4% in February 2026, driven by a decline in energy prices and core inflation. He/she noted that in the latter case, it shifted from 2.6 to 2.5% over the same period, as a result of a lower inflation of goods and services. He/she added that food inflation remained relatively stable. Regarding the outlook for inflation, **another** member mentioned that in several advanced economies it is expected to be close to their respective central banks' targets by the end of 2026, although he/she warned that these forecasts have begun to be revised upwards. **One** member indicated that in the United States the effect of tariff measures on prices is still expected to reverse in the second half of 2026. **Another** member observed that indicators of breakeven inflation and inflation risk implied by financial instruments for that economy increased as of March, particularly short-term ones. He/she noted that the median inflation forecasts for the end of 2026 released by the Federal Reserve rose from 2.4 to 2.7%. He/she pointed out that US inflation is still expected to converge to the target in 2028.

Most members highlighted that global inflation faces a highly uncertain outlook. They warned that the Middle East conflict has introduced additional risks to inflation. One member emphasized that these risks are difficult to quantify at this time. **Some** members pointed out that the impact of the conflict on inflation will depend on its duration and intensity. **One** member added that it will also depend on the pace at which production normalizes in the affected energy markets. **Another** member expressed that the effects on inflation are expected to be short-lived. He/she commented that economies more exposed to this type of shocks, such as the euro area and the United Kingdom, are expected to be affected in greater magnitude. **Some** members indicated that the prices of key inputs across various industries could face upward pressures. **One** member stated that semiconductor prices could be affected by the shortage of helium from the Middle East. **Another** member pointed out that some international organizations have indicated that, looking ahead, the conflict could affect the price of certain grains, such as corn, due to the impact on their main inputs. **One** member underscored the importance of maintaining focus on the possible downside effects on economic activity and the weakening of demand.

Some members commented that in their recent monetary policy decisions most central banks have adopted a cautious tone that allows them to assess the effects of geopolitical events. **Some** members pointed out that several central banks left their reference rates unchanged in their most recent decisions. **One** member highlighted the cases of Canada, Japan, Sweden, Europe, the United Kingdom, and the United States. He/she added that the Reserve Bank of Australia decided to raise its reference rate by 25 basis points for the second time in a row. **Another** member observed that in late 2025 and early 2026 various central banks continued their monetary policy normalization processes. He/she specified that these processes are currently undergoing a more consolidated phase and that some central banks have indicated that their monetary policy stances are at appropriate levels to address risks on both sides of the balance. **One** member highlighted that the Central Bank of Brazil cut its reference rate for the first time since May 2024. **Some** members mentioned that markets anticipate rate hikes by some central banks, especially in the United Kingdom, Europe, and Canada. **One** member noted that, prior to the rise in geopolitical tensions, these central banks were expected to lower or keep their reference rates unchanged. **Another** member indicated that the rate-cutting cycle by central banks in emerging economies is still foreseen to continue, albeit at a more gradual pace. **One** member expressed that the Central Bank of Brazil stated that the pace of future rate cuts will depend on the inflationary impact of the war in the Middle East.

Most members noted that the Federal Reserve kept the federal funds rate unchanged in its March meeting. Some members mentioned that this central bank highlighted the environment of high uncertainty and that the implications of events in the Middle East remain unclear. **One** member noted that in its communication it sent a message of greater caution due to upward revisions in inflation. **Some** members pointed out that tensions in its dual mandate have resurfaced. **One** member stated that its statement reiterated the moderation in job creation, while inflation remains relatively high. He/she indicated that the Federal Reserve chairman pointed out that currently the labor market is not a significant source of inflationary pressures. He/she commented that, during that conference, he mentioned that disinflation is expected to gradually make progress, particularly through a continued moderation of housing inflation, as well as a decline in that of goods and other services. He/she added that its chairman acknowledged that short-term inflation expectations have evolved as expected. **Another** member specified that the chairman of said central bank stated that they are still in the process of monetary policy normalization in light of downside risks to unemployment, in a context where the effect of tariffs on inflation is fading. **One** member expressed that the chairman emphasized that in order to resume the rate-cutting cycle a sustained progress in reducing inflation will need to be observed. **Some** members underlined that the Federal Reserve's projections continue anticipating a reference rate cut in 2026. **One** member added that another cut is also expected in 2027, which contrasts with markets' expectations, which have postponed such date.

In the face of the Middle East conflict, all members indicated that international financial markets registered volatility. One member pointed out that this was not limited to commodities. He/she noted that the increase in volatility led to tighter global financial conditions. He/she expressed that stock markets fell due to the rise in oil prices. **Some** members mentioned that lower risk appetite prevails. **Most members highlighted the widespread appreciation of the US dollar. One** member commented that precious metals and some currencies experienced a correction, as the US dollar and the Swiss franc strengthened due to their demand as safe-haven assets. **Some** members observed that government bond yields in several economies increased. **One** member noted the rise in short-term breakeven inflation and inflation risk. He/she added that, despite this, no significant deterioration of trading conditions in fixed-income markets was observed.

Economic activity in Mexico

Most members underlined that economic activity has been showing a lower dynamism. Some members pointed out that GDP figures confirmed a slowdown in 2025 compared to the previous year by registering an annual growth rate of 0.56%. **One** member indicated that in the fourth quarter of 2025 economic activity showed some signs of recovery. He/she explained that this rebound was due to a favorable performance of tertiary activities and several industrial sectors. **Another** member specified that growth in that quarter was 0.86%. However, **some** members noted that in January the IGAE registered a seasonally adjusted monthly contraction of 0.92%. They detailed that, as a result, part of the progress observed in 2025 reversed in January 2026, due to declines in secondary activities, mainly in manufacturing, and some tertiary activities. **One** member underlined that the contraction in the IGAE suggests that economic activity is expected to have returned to the levels observed in the third quarter of 2025. **Another** member expressed that both mining and utilities sectors halted their recovery of previous months. He/she added that, although construction also contracted at the margin, it remained at moderately high levels. **Some** members noted that in January the different service subsectors exhibited heterogeneity. **One** member commented that primary activities also declined, although they remain at relatively high levels. **Another** member commented on the weakening of economic activity in recent years. He/she indicated that in 2023 and 2024 GDP grew 3.1 and 1.4%, respectively. He/she observed that the average growth rate between 2000 and 2019, excluding the atypical years of the global financial crisis, was 2.1%. Based on this, he/she stated that the economy showed resilience in 2023, while in 2024 it slowed down significantly and in 2025 it registered moderate growth. He/she emphasized that this lack of dynamism in the aggregate production of goods and services in 2025 was associated with a weakening of domestic demand.

Regarding domestic demand, most members mentioned that private consumption continued increasing in 2025, albeit at a slower rate than in 2024. Some members commented that the growth in consumption observed in 2025 was driven by services, which rose 1.4%, and by imported goods, which grew 3.3%. **Some** members noted that consumption of domestically produced goods merely grew 0.1%. **One** member considered that consumption has shown resilience due to solid incomes supported by high real wage increases, which stand in contrast with the sluggishness of economic activity. **Most members expressed that investment registered a widespread contraction in an environment of global uncertainty. One** member underlined that said contraction was of 6.4% in 2025. **Some** members highlighted that the most notable decline was in the domestic machinery and equipment sector. **One** member pointed out that by the end of 2025 gross fixed investment showed some improvement, driven by public and private construction. Regarding external demand, **another** member stated that it has shown resilience. He/she explained that non-automotive manufacturing exports have benefited from the reconfiguration of global trade, the increased use of the USMCA, and the dynamism in high-tech investment in the United States. **One** member warned that manufacturing exports slowed down in early 2026 compared to the high dynamism exhibited during most of 2025.

Some members highlighted that the Mexican economy is expected to grow at a faster rate in 2026 than in 2025, although it would continue showing weakness. **One** member recalled that Banco de México's growth forecast for 2026 is 1.6%. He/she noted that this forecast would be driven by private consumption, which is expected to recover gradually throughout 2026. He/she added that investment is expected to remain weak, mainly during the first half of the year, reflecting the uncertainty associated with the upcoming review of the USMCA. He/she mentioned that, if this forecast is accurate, it would result in three consecutive years of economic growth below its historical average.

Most members observed that, looking ahead, slack conditions are expected to prevail in the Mexican economy. One member recalled that the point estimate for the output gap has remained negative. He/she specified that, despite expectations of higher growth in 2026 compared with the previous year, slack conditions are expected to continue widening over the forecast horizon.

Most members commented that the balance of risks to economic activity has become more biased to the downside in light of the conflict in the Middle East. One member pointed out that a balance of risks remaining biased to the downside means that the probability of GDP falling below 1.6% is greater than the probability of it growing above that rate. He/she added the risk that the conflict's impact on global economic activity and international trade flows may affect the Mexican economy. **Another** member noted that economic activity is also subject to upside risks. In this regard, he/she highlighted a potentially successful revision of the USMCA, lesser trade uncertainty, and a greater-than-expected boost from the Soccer World Cup.

Some members indicated that the labor market continued exhibiting signs of cooling. **Some** members underlined that IMSS figures registered limited annual growth in the number of jobs. **One** member mentioned that said growth has clearly trended downwards in recent years, in line with the observed slowdown in economic activity. He/she pointed out that in 2023 the annual variation in formal employment was 3%, in 2024 it was 1%, and in 2025 it was 0.3%. **Another** member highlighted that in 2025 this rate was the lowest in the past 20 years, except for 2008 and 2020. He/she added that, according to the National Occupation and Employment Survey (ENOE, for its acronym in Spanish), the percentage of individuals who lost their jobs remains above that observed in early 2024, while the percentage of those who resigned remains below, which is another sign of a cooling. **Some** members noted that certain indicators of formal job creation exhibited signs of moderate improvement in recent months, although this trend is not generalized for the market as a whole. **One** member pointed out that this is due to a rebound in formal employment within the services sector in Mexico's central region, while in the rest of the regions it remains sluggish. He/she warned that manufacturing continues contracting and construction remains stagnant. **Some** members indicated that the unemployment rate remained at low levels. **Most members underscored that the labor participation rate continued declining. One** member stated that this has contributed to a favorable evolution of the unemployment rate. **Another** member noted that the decline in the labor participation rate has been accompanied by an increase in the labor informality rate. Meanwhile, **one** member expressed that the growth rates of various wage indicators have continued moderating in real terms. **Another** member stated that the 13% increase in the minimum wage, which benefits over 40% of the workforce earning up to one minimum wage, could continue affecting services costs and demand, thereby limiting the disinflationary effect generated by slack conditions.

One member reflected on the current conditions of Mexico's labor market. He/she argued that, in general, unemployment rate figures are influenced by certain characteristics of the labor market, such as the lack of a comprehensive unemployment insurance at the national level and a high degree of informality. He/she stated that these factors explain why the unemployment rate in Mexico is lower than in the United States, even though economic growth has been higher in the latter country. He/she noted that the number of employers registered with IMSS has also trended downwards. He/she pointed out that while this could be due to progress in consolidating or unifying IMSS employer records, it cannot be ruled out that it also partly reflects the closure of businesses or their shift towards informality. He/she highlighted that the recent upward trend in the number of unemployed individuals who are available for work also suggests that the unemployment rate is not adequately reflecting the current conditions of the labor market. He/she therefore considered that an indicator that provides a better reading for said market is the evolution of employment in the formal sector of the economy.

Inflation in Mexico

All members noted that between the first fortnight of January and the first fortnight of March 2026, headline inflation rose from 3.77 to 4.63%. Most members pointed out that this was due to an increase in non-core inflation, while core inflation remained practically unchanged. **Some** members highlighted that the 86-basis-point increase during the aforementioned period was largely due to a significant rise in the prices of only three items in the non-core component, specifically within the fruit and vegetables segment. **One** member recalled that the non-core component is characterized by its volatility. **Another** member highlighted that headline inflation has trended upwards almost uninterruptedly since last July. He/she expressed that this trend has been driven by the upward tendency of the core component and by an unexpected and significant rebound in the non-core component.

Regarding the adjustments to the Special Tax on Production and Services (IEPS, for its acronym in Spanish) that came into effect at the beginning of the year, most members stated that their impact has been limited, one-off, and confined to the prices of goods directly affected by said tax. They also noted that, as expected, there is no evidence of second-round effects on inflation. **One** member added that the effects have materialized in line with what the economic theory suggests and with what has been observed in previous episodes. **Some** members emphasized that the effects of the tax adjustments, as they are one-off, will have a temporary impact on annual inflation and will fade after a year. **Regarding the potential effects of the tariff measures introduced in early 2026, most members considered that there have been no signs of potential effects on inflation, particularly on its non-food merchandise component.**

Most members highlighted that between the first fortnight of January and the first fortnight of March, core inflation remained practically unchanged, by shifting from 4.47 to 4.46%. **One** member noted that it remained stable after having risen in January due to the aforementioned fiscal adjustments. Regarding the impact of said adjustments, **another** member recalled that annual core inflation will be affected upwards for the rest of the year due to a base effect. **One** member pointed out that core inflation has trended upwards almost uninterruptedly for a year. **Some** members highlighted that, nevertheless, the annualized seasonally adjusted monthly variations already reflect a moderation in the most recent figures, from 6.35% in January to 3.82% in the first fortnight of March. **One** member added that an alternative measure of annual core inflation that excludes the items affected by the adjustments to the IEPS has remained stable. Regarding developments within the core component, he/she mentioned that since the previous decision goods inflation declined slightly, while services inflation exhibited limited changes.

Some members noted that merchandise inflation declined between the first fortnight of January and the first fortnight of March. **One** member pointed out that its annual variation fell from 4.51 to 4.43% during that same period. **Another** member highlighted that the annual inflation of both food and non-food merchandise declined. However, **one** member commented that the monthly variations in merchandise prices have deteriorated and that one-third of the basket grows at annualized monthly rates above 5%. **Some** members observed that food merchandise inflation declined in the first fortnight of March, following the increases associated with the

IEPS registered in the first fortnights of the year. **One** member pointed out that in February the monthly variation of food merchandise inflation was below its historical average for that same month. He/she added that, after the significant increase in the first fortnight of January, the trend observed in February was practically identical to what would have prevailed in the absence of excise taxes on sweetened beverages and cigarettes, based on a counterfactual estimate. He/she expressed that this suggests a normalization in the behavior of food merchandise prices. **Another** member noted that the annualized seasonally adjusted monthly inflation of food, beverages, and tobacco stood at 3.81% in the first fortnight of March, while in January it rose above 15%. In this regard, **one** member considered the increase in this category to be temporary. **Some** members concluded that evidence confirms that the increase observed in January in the goods affected by the tax measures was a one-time event. However, **one** member warned that pressures on food merchandise prices, which have intensified as a result of the tax adjustments, have not been offset by reductions in non-food merchandise prices. **Another** member pointed out that, despite the aforementioned tariff changes, non-food merchandise inflation stood at 3.16% in the first fortnight of March, slightly below the 3.22% registered in the first fortnight of January. **One** member highlighted that its monthly variations in January, February, and the first fortnight of March were slightly lower than those typically observed during that period. He/she added that this is consistent with the projection that the effects of the aforementioned tariff changes, if they materialize, would be limited and gradual. In this regard, he/she stated that prices do not necessarily move in identical proportion to tariffs, as exporting firms may reduce their profit margins, just as they did during the trade tensions of 2018 and 2019. He/she pointed out that this is particularly evident in sectors where close substitutes are available. **Another** member underlined the low percentage of imports of goods subject to the new tariffs with respect to total imports.

Most members expressed that services inflation registered limited changes during the period. One member considered that services disinflation has been gradually making progress. **Another** member pointed out that, although its annual variations show limited movements, its annualized monthly variation decreased to 3.31% in its most recent reading. **One** member noted that services inflation rose slightly during the period due to increases in housing and education prices, while the prices of other services remained practically unchanged. **Another** member underlined that the services subcomponent remains stagnant at a level close to 4.5%. Similarly, he/she stated that, despite the improved evolution of prices of some services, pressures persist in sectors such as education, transportation and food services. He/she warned that, at the margin, 60% of services items register annualized monthly rates greater than 5%.

Most members noted that between the first fortnight of January and the first fortnight of March, non-core inflation rose from 1.43 to 5.18%. They pointed out that this was due to a sharp increase in fruit and vegetables' prices. One member mentioned that, thereby, atypically low levels of non-core inflation have been left behind, which allowed to attain levels of headline inflation below 4%. **Another** member specified that the annual inflation of the subcomponent of fruit and vegetables rose from -2.90 to 23.91% during said period. **One** member commented that this occurred after several fortnights during which its annual variation had been negative. **All members agreed that said increase was mainly explained by a significant rise in the prices of a small number of agricultural products, particularly tomatoes. Most of them also mentioned the rise in the price of green tomatoes, potatoes, and other root and tuber vegetables. One** member stated that the annual inflation of said CPI items spiked from -6.4 to 102.3%. **Another** member pointed out that these items only weigh 1.26% in the CPI. **Another** member indicated that these pressures come in addition to those already affecting other products, such as beef. **The majority emphasized that the rise in prices of these agricultural products is associated with a transitory supply shock. Some** members asserted that this type of shocks tends to dissipate as production conditions of the affected products normalize. **One** member recalled that in mid-2025 the US authorities imposed tariffs on Mexican tomato exports. He/she stated that, in response, Mexican farmers allocated less land to tomato farming, which significantly affected its current supply and, consequently, its price. **Another** member pointed out that this situation resembles the episode in 2024, when tomato prices rose sharply but later reversed, eventually registering negative annual rates. **Some** members underlined that, in contrast to the increase in fruit and vegetable prices, the annual inflation of livestock product prices evolved favorably during the period, while energy inflation continued exhibiting negative annual variations.

Most members underlined that short-term inflation expectations were revised upwards. One member specified that this applied to both headline and core inflation. **Another** member pointed out that short-term expectations remain consistent with the temporary effect from the changes in relative prices anticipated for 2026. He/she detailed that expectations for 2027 were lower than those of 2026. **Most members underlined that longer-term inflation expectations remained relatively stable. One** member pointed out that they continued at 3.64%. **Another** member warned that expectations for headline and core inflation remain above the trajectories projected by Banco de México. Regarding breakeven inflation and inflation risk, **one** member indicated that it increased in a generalized manner, reaching levels above the 80th percentile in several cases, as a reflection of a higher inflation risk premium.

Some members stated that headline and core inflation forecasts were revised upwards between the first and third quarter of 2026. **One** member explained that this adjustment responds mainly to a higher trajectory for non-core inflation and a more-gradual-than-anticipated decline in services inflation. He/she added that, as a result, inflation is anticipated to remain outside the variability interval until the third quarter of the year. **Another** member underlined that even if this upward adjustment is considered, economic analysts' inflation expectations are still above the central bank's forecasts. **Most members anticipate that, looking ahead, the weakness in economic activity and slack conditions over the forecast horizon will exert downward pressure on inflation. One** member highlighted that since the fourth quarter of 2024, when the output gap turned negative, services inflation excluding food services has decreased by about 100 basis points. **Some** members added that the monetary policy stance, which remained clearly restrictive in recent years, is still in effect and will continue to exert downward pressure on prices. **One** member stated that this, combined with the anchoring of long-term expectations, will help mitigate the impact of the prevailing shocks on prices. Nevertheless, **another** member considered that the factors that were expected to contribute to disinflation have failed to curb inflationary pressures and anticipated that, going forward, they would not do so either. He/she noted that, since a year ago, the determinants of inflation have not signaled that the upward trend of inflation can reverse. He/she pointed out that the weak behavior of economic activity has been most evident in investment, while consumption has shown resilience due to wage increases. He/she commented that, therefore, the weakness of GDP coincides with the rebound in core inflation and with supercore inflation not showing signs of declining. He/she noted that the appreciation of the Mexican peso does not appear to have a downward effect on prices, as empirical evidence suggests that the exchange rate pass-through is non-linear and close to zero. He/she specified that during the period of greatest currency appreciation, merchandise inflation rose significantly, while core inflation sensitive to exchange rate fluctuations has continued trending upwards. He/she mentioned that a number of structural factors have consolidated an inflation floor at around 4%. In this regard, he/she highlighted both external shocks and domestic pressures, such as the minimum wage, insecurity, supply chain disruptions, supply shortages for certain products, and low competition.

Most members considered that the balance of risks for the foreseen trajectory of inflation within the forecast horizon remains biased to the upside. Some members pointed out that uncertainty regarding said balance has increased. **One** member deemed that its upward bias has risen considerably. **Some** members argued that shocks stemming from the conflict in the Middle East could lead to inflationary pressures on both sides of the balance. **One** member stated that while risks have accentuated on both sides of the balance, those to the upside remain contained for the moment.

The majority listed both the direct and indirect effects of the conflict in the Middle East as upside risks to inflation in Mexico. They indicated that said effects will depend on the duration and intensity of the conflict. They cited the rise in international energy prices as a direct effect. They anticipated that its impact on inflation would be limited. All members indicated that this would be due, in part, to the price cap policy implemented by the federal government, which reduces the pass-through of shocks in international fuel prices onto domestic prices. One member recalled that in 2022 international oil prices exceeded 100 US dollars per barrel due to the war in Ukraine. He/she added that, on that occasion, Mexican authorities lowered the IEPS tax on gasoline, which helped keep domestic prices relatively stable, in contrast to what happened in other economies. **Another** member underscored that the agreement to refrain from raising the price of regular gasoline above 24 pesos per liter was recently extended for six months. He/she added that fiscal incentives have been set for low- and high-octane gasoline, and the incentive for diesel has been increased. However, **one** member warned that, although adjustments to the IEPS would mitigate the immediate pass-through onto some energy prices, their role in reducing second-round pressures would be limited. He/she mentioned that energy inputs that are not subject to this scheme could lead to cost-related pressures. **Another** member expressed that the impact in Mexico from the increase in international energy prices will not be either direct or immediate. **One** member considered the possibility that rising international energy prices could lead to a slowdown in global economic activity, particularly in the United States, and eventually pose a downside risk to inflation in Mexico. **Some** members observed that segmentation of the global natural gas market leads to price differences across regions, implying that the impact of the Middle East conflict on inflation in Mexico would be less severe than that experienced by other economies. **One** member argued that this segmentation is due to technological factors that make price arbitrage difficult. **Another** member emphasized that the price of natural gas in North America, the region that is relevant to Mexico, has remained stable.

With regard to the indirect effects of the Middle East conflict, most members cited the risk of rising international commodity prices and their consequent impact on production costs. One member noted that the increase in international commodity prices would affect manufacturing prices worldwide, including those in Mexico. **Another** member mentioned that these effects would spread through price increases in petroleum-based products or their substitutes. He/she added, however, that these effects would not be passed on to consumer prices proportionally and would rather be reflected gradually. **Most members pointed out the risk of rising food prices. One** member specified that their international references could be affected by higher fertilizer prices. **Another** member stated that the higher costs of nitrogen fertilizers could affect domestic production and the prices of various agricultural and livestock products for several months. **Some** members estimated that rising global freight costs would eventually affect inflation in Mexico. **One** member highlighted the issue of international freight, noting that disruptions to strategic shipping routes and increasing marine fuel costs would raise freight costs and, consequently, the prices of Mexico's imports. **Most members estimated that the current ample slack conditions of the Mexican economy would help mitigate the impact of the direct and indirect shocks stemming from the Middle East conflict on inflation in Mexico. Some** members noted that, in contrast with the global context in 2022, the economic slack is now greater and the Mexican economy is less dynamic.

Regarding the nature of the shocks stemming from the Middle East conflict, **one** member identified three potential scenarios, each with different implications for inflationary dynamics. First, he/she stated that, in the event of a predominantly geopolitical shock, the pass-through mechanism would operate through two channels with opposite effects: the activity channel, which would tend to weaken economic prospects and exert downward pressure on aggregate demand and prices; and the risk channel, which elevates the premium for insuring future availability, raising the value for having inventories or hedges, thus pushing energy prices upwards and raising costs. Second, he/she noted that, should an oil-related shock materialize, a more prolonged disruption in energy supplies would be expected, with more significant and persistent disruptions. Third, he/she mentioned that if the shock were to affect a broader set of commodities, the impact on inflationary dynamics could be more generalized and persistent. He/she explained that, in an uncertain environment, precautionary price adjustments are common, which can lead to more long-lasting inflationary pressures. However, he/she indicated that it is not yet possible to clearly identify which scenario might unfold. Regarding other upside risks, **another** member indicated the persistence of core inflation and the possibility that greater cost-related pressures could be passed on to consumer prices. **One** member stated that it is still too early to say that the effects of the adjustments to the IEPS and tariffs have been contained. He/she specified that the Middle East conflict represents a shock of greater magnitude than that caused by the IEPS modifications and by tariffs, the effects of which could extend for several quarters.

Macrofinancial environment

Some members mentioned that, since the previous monetary policy decision, the Mexican peso has depreciated. **One** member stated that it traded in a wide range. He/she noted that the implied volatility in short-term options rose significantly and that the implied bias towards depreciation increased. He/she pointed out that in both instances the increases were greater than those exhibited by comparable currencies. **Some** members underscored that Mexico's stock markets registered declines. **One** member indicated that Mexico's main stock market index (IPC, for its acronym in Spanish) fell due to the reappraisal of companies exposed to energy costs. He/she also emphasized that Mexican financial markets exhibited an increase in volatility. **Another** member noted that those markets performed in line with the developments in other emerging economies. **Some** members pointed out that, while market conditions have deteriorated, said decline has been less severe than during previous periods of risk aversion.

As for the fixed-income market, most members noted that interest rates on government securities rose across most maturities. One member stated that, nevertheless, risk premia showed limited changes and remained at levels similar to those registered in the first half of 2024. **Another** member mentioned that in recent weeks foreign investors had been unwinding their positions in M-bonds amid an environment of risk aversion. He/she added that this partially reversed the inflows accumulated so far this year. He/she observed that market-implied expectations for the reference rate point to a pause in upcoming decisions.

Monetary policy

The Governing Board deemed appropriate on this occasion to continue the rate-cutting cycle, consistent with the assessment of the current inflationary outlook. It took into account the observed levels of the exchange rate, the weakness of economic activity, and the level of monetary restriction implemented. It also deemed that the monetary policy stance attained is adequate to face the challenges posed by an extension and escalation of the Middle Eastern conflict and its outcome. Thus, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 25 basis points to 6.75%.

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

One member pointed out that the monetary stance has allowed to address the adjustments in relative prices resulting from the fiscal measures implemented in early 2026. He/she emphasized that, consistent with what was anticipated, it has become increasingly clear that this was a one-off event with a limited and targeted impact. He/she also noted that there have been no signs of price increases resulting from the tariff hikes on certain imports. He/she commented that, since the outbreak of the conflict in the Middle East, global energy prices have rebounded significantly, and there is considerable uncertainty as to how this crisis will unfold. However, he/she explained that if the measures established by the federal government continue to be implemented, both direct and indirect impacts of the external shock on domestic prices would be limited. He/she recalled that, in addition, various inflation determinants will continue to help ease inflationary pressures. He/she highlighted the ample slack conditions, the disinflationary effects of the clearly restrictive monetary policy stance that was maintained, and the anchoring of longer-term inflation expectations. He/she stated that Banco de México will continue monitoring the evolution of the conflict. He/she indicated that, in light of negative supply shocks, monetary policy must prevent second-round effects from affecting the price formation process, including the impact on longer-term inflation expectations. He/she argued that this principle acknowledges monetary policy's scope of action, as it involves a shock that, in principle, should reverse by itself. He/she estimated that the proposed rate cut helps to normalize the monetary policy stance so it can address the risks on both sides of the balance. He/she considered that, going forward, the appropriateness and timing for an additional reference rate cut will be evaluated depending on the evolution of macroeconomic and financial conditions, and that all inflation determinants will be taken into account in this regard. He/she expressed that, given the prevailing uncertainty, the Governing Board will monitor the evolution of external conditions and will at all times maintain a monetary policy stance consistent with the goal of ensuring the stability of the peso's purchasing power.

Another member mentioned that since the previous monetary policy decision headline inflation has exceeded the upper bound of the variability interval. He/she mentioned that, while inflation expectations remain anchored, short-term expectations have deteriorated and long-term expectations are at levels that require close monitoring. He/she deemed that, although the determinants of inflation continue pointing towards convergence, the inflation outlook has become more complex. He/she stated that more time is needed to assess the development and scope of the Middle East conflict. He/she considered it necessary to ponder how monetary policy might respond. He/she identified three distinct shocks in the current context: the geopolitical shock, the oil-related shock, and a more generalized shock on commodity prices. He/she stated that, with respect to the geopolitical shock, there tends to be an activity channel that exerts downward pressure on prices and a risk channel that increases them. He/she mentioned that empirical evidence on these shocks suggests that, initially, the risk channel dominates and, subsequently, the activity channel, and therefore, given the lags with which monetary policy operates, it might be appropriate to look-through these pressures. Regarding the oil-related shock, he/she argued that the literature suggests that the magnitude of its effects depends to a large extent on each economy's energy grid, on the flexibility of their labor markets, and, more importantly, on the credibility of their central banks. He/she explained that this is particularly relevant in economies where the formation of expectations is characterized by greater inertia. He/she added that, in such a case, a more cautious response to inflation readings could help maintain expectations anchored and reinforce price stability in the medium term. He/she noted that a widespread shock on commodity prices could lead to more persistent inflationary pressures that also generate signal-extraction problems in markets, leading to preemptive price adjustments, as was the case in 2022, thus building more long-lasting pressures that must be addressed by monetary policy. He/she expressed that the Mexican economy exhibits cyclical and structural characteristics that are relevant for assessing the potential materialization of any scenario, such as the implementation of fuel subsidies, the current slack conditions, the fact that the country is in an exit phase from an exceptionally restrictive monetary cycle, the effects of which are still being perceived via certain transmission channels, and the solid macroeconomic fundamentals. He/she estimated that maintaining the current monetary policy stance would allow to gather additional evidence to more accurately assess the nature of the shock, its potential impact on the Mexican economy, and the country's price dynamics, with the aim of fulfilling the constitutional mandate.

One member reiterated that the 2026 monetary policy program stated that, provided the adjustment in relative prices proceeded without any second-round effects and if macroeconomic conditions warranted it, the cutting cycle in the reference rate would continue. He/she emphasized that there were no second-round effects resulting from the excise tax increases implemented at the beginning of the year. He/she added that tariffs have not affected inflation, consistent with the forecast of a moderate and gradual impact. He/she noted that the recent rise in annual headline inflation was due to the shocks in relative prices of fruit and vegetables, which are supply-related shocks that are short-lived and have no impact on the conduct of monetary policy. Regarding macroeconomic conditions, he/she highlighted the sluggishness of economic activity. He/she indicated that the Mexican economy would remain weak in 2026 and would mark three consecutive years of growth below its historical average. He/she emphasized that slack conditions would persist, which implies downward pressures on inflation. He/she commented that, since the last monetary policy meeting, the international landscape has changed due to the geopolitical conflict in the Middle East and the adjustments in international energy prices. He/she estimated that in Mexico the pass-through of higher international gasoline prices to domestic gasoline prices and to headline inflation would be limited, given that domestic gasoline pricing policies have acted as a buffer against international price volatility. He/she added that Mexico's access to the US natural gas market via pipelines places the country in a relatively more favorable position compared to other economies. However, he/she acknowledged that, among the risks to inflation, the risk associated with disruptions caused by geopolitical conflicts had intensified. Considering all of the above, he/she decided to cut the reference rate by 25 basis points on this occasion. He/she specified that, despite the adjustment, the rate would remain above its historical average. He/she believed that the monetary policy stance attained would be adequate to address the challenges posed by an extension and escalation of the Middle East conflict and its repercussions. Finally, he/she stated that, going forward, the appropriateness and timing for an additional rate cut would be assessed, depending on the developments in macroeconomic and financial conditions.

Another member noted that both headline and core inflation maintain an upward trend. He/she pointed out that in the case of core inflation it is relevant, given that this component is key for the medium-term trajectory of inflation. He/she stated that the recent rebound in the non-core component, which does not yet take into account the potential effects of the Middle East conflict, pushes inflation away from the target. He/she stated that monetary policy has not exerted sufficient downward pressure on prices. He/she added that this stance has not had the expected impact on financial conditions, as credit continues growing at high rates in segments such as consumption and business loans. He/she noted that this suggests that monetary policy transmission has been weak and will not be sufficient to reverse the current inflation trajectory. He/she emphasized that the previous high level of monetary restriction will gradually be left behind and, in turn, the effects of a more accommodative stance will unfold. He/she pointed out that since a year ago the inflation determinants have not generated a significant downward impact and, looking ahead, they will likely not revert the upward inflation trend. He/she considered that the lack of disinflation is largely attributed to structural factors. He/she noted that, given the increased volatility in markets, the relative stance no longer appears as loose. He/she noted that market volatility has increased, that the US dollar has strengthened, and that expectations for monetary accommodation in the United States have changed due to the more cautious signaling from the Federal Reserve, and therefore the margin for reducing the interest rate differential has decreased. He/she noted that the conflict in the Middle East not only tilts the balance of risks to inflation upwards but also increases uncertainty regarding the inflation outlook. He/she estimated that it is therefore imperative to adopt a cautious and patient approach until there are compelling signs that convergence to the inflation target will be attained. He/she argued that a pause in the current policy stance is needed at least during the first half of 2026, in order to assess whether the existing inflationary shocks have been absorbed. He/she stated that communication with the public should emphasize that patience is required during the monetary policy normalization process until there is clear and sustained evidence of convergence to the target.

One member argued that monetary policy should avoid reacting hastily to episodes of volatility, particularly in an environment where inflation has been largely driven by adjustments in relative prices. He/she stated that the prevision that the impact of the IEPS increase on the prices of some food merchandise would have a one-time effect has been confirmed. He/she added that no second-round effects have been observed either. He/she also noted that, so far, there are no signs of the effects of tariffs on prices. He/she indicated that the recent rise in headline inflation is almost entirely attributed to developments in the prices of three fruit and vegetables items, categories on which monetary policy has no influence. He/she deemed that for this reason it is important to refrain from overestimating such readings. He/she asserted that the impact of the Middle East conflict will depend on how disruptions in energy markets unfold. He/she argued that the current event contrasts with the one observed in 2022. He/she specified that currently the disinflation process has made considerable progress and that supply chains have not experienced significant disruptions, despite the climate of trade and geopolitical uncertainty. He/she indicated that, in addition, slack conditions in the Mexican economy are expected to continue widening and that the labor market will remain sluggish. He/she stated that, for this reason, the impact of the Middle East conflict could be more limited than that in 2022. He/she pointed out that Mexico's policy of mitigating gasoline price increases, in a context of fiscal consolidation in the country, constitute a factor to reduce inflationary pressures on two fronts. He/she added that, despite the recent volatility, the Mexican peso maintains more appreciated levels than those observed at the beginning of the year. He/she observed that the referred conflict is taking place at a time when the restrictive policy stance implemented over the past three years will continue to favor the price formation process. He/she expressed that monetary policy's effects can be amplified depending on the phase of the economic cycle, and therefore failing to adjust the policy stance would contribute to further widen slack conditions in the economy, and that it will occur once the shock has dissipated. He/she noted that the target rate is above its historical references for similar levels of inflation. He/she commented that the proposed adjustment allows the monetary stance to be in a better position to address the risks on the horizon and closer to completing the monetary policy normalization process. He/she believed that, going forward, there is room for a further adjustment in line with the country's macroeconomic environment.

3. MONETARY POLICY DECISION

The Governing Board deemed appropriate on this occasion to continue the rate-cutting cycle, consistent with the assessment of the current inflationary outlook. It took into account the observed levels of the exchange rate, the weakness of economic activity, and the level of monetary restriction implemented. It also deemed that the monetary policy stance attained is adequate to face the challenges posed by an extension and escalation of the Middle Eastern conflict and its outcome. Thus, with the presence of all its members, the Board decided by majority to lower the target for the overnight interbank interest rate by 25 basis points to 6.75%.

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

4. VOTING

Voting in favor of the decision were Victoria Rodríguez, Gabriel Cuadra, and Omar Mejía. Galia Borja and Jonathan Heath voted in favor of maintaining the target for the overnight interbank interest rate at 7.00%.

5. DISSENTING OPINIONS/ VOTES

Vote. Galia Borja

In Mexico, inflation is undergoing an adjustment in relative prices that has exerted pressure on its recent readings. In addition, the escalation of the Middle East conflict has raised oil prices and volatility in financial markets, introducing new risks for inflation and economic activity. In my opinion, there is still limited information to accurately assess the implications of this shock as well as its magnitude and duration. The monetary policy stance has already been adjusted significantly in line with the inflationary outlook prior to this event. Since November 2025, the ex-ante real interest rate has been within the range deemed as neutral and is very close to the central estimate. Although some transmission channels continue displaying restrictive conditions, they partly reflect the lags associated with the previous extended cycle of monetary tightening, as well as the specific shocks attributed to the high uncertainty worldwide. For this reason, I consider that the current level of the reference rate is adequate to more accurately evaluate the evolution of the inflation outlook and the current shock and, thereby, contribute to maintain inflation expectations firmly anchored.

Dissenting opinion on the monetary policy statement. Jonathan Heath

The conventional determinants of inflation that last year supported the expectation of a downward trend were insufficient to prevent the persistence of core inflation. Currently, these factors are weak. The negative output gap will narrow further in an economy that is recovering, while at the same time the lagged effect of a restrictive monetary policy dissipates. The balance of risks for inflation has tilted far more to the upside. First, due to an increased uncertainty regarding inflation as a result of the new military conflict. Second, due to an unanticipated shock on agricultural prices that should dissipate over the next months. Since we are facing greater risks, we have nothing to lose by making a pause until these shocks truly dissipate. In contrast, we lose substantially by lowering the target rate at a moment when core inflation persists and non-core inflation increases. With these actions we are giving the wrong impression of being less committed to the primary mandate. We revised our inflation forecasts upward once more, but they are still far below market expectations. These expectations do not suggest that the target will be attained in 2027, and such target is further compromised by lowering the reference rate.

ANNEX*

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

A.1. External conditions

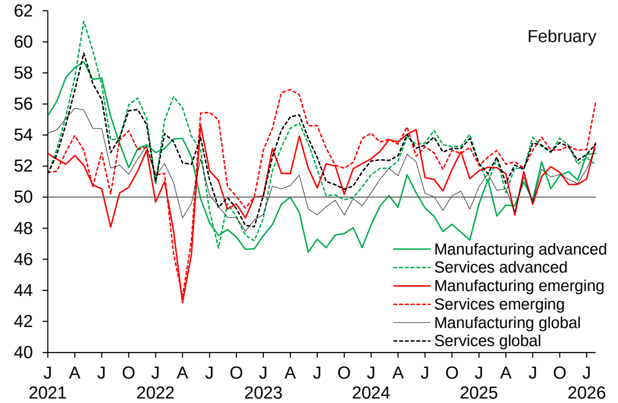
A.1.1. World economic activity

Global economic activity is expected to have grown in the first quarter of 2026 at a higher rate than in the previous one. This performance is estimated to have reflected a rebound in the pace of growth of advanced economies, while the group of emerging economies is estimated to have moderated. The latest Purchasing Managers' Indices suggest that both the manufacturing and services sectors are expected to show higher growth globally (Chart 1).

Since Mexico's last monetary policy decision, uncertainty in the international environment has increased. Towards the end of February and the beginning of March, geopolitical tensions in the Middle East escalated, leading to a significant /repricing in energy markets. This has implied macroeconomic risks to global growth and inflation. The impact of the Middle East conflict on the world economy is uncertain and will depend on its duration and intensity. The impact on individual countries will depend largely on each country's exposure to energy supply from that region. In this context, the balance of risks to the global economy has become more pronounced to the downside.

The US economy is estimated to have expanded in the first quarter of 2026 at a faster pace than in the previous quarter, when it grew at a seasonally adjusted quarterly rate of 0.2% (Chart 2).[1] This performance is expected to have continued being supported by non-residential investment, given the dynamism of some technology sectors as well as by household spending, which was partly driven by the fiscal exemptions approved in 2025. In addition, the negative effects associated with the government shutdown in the fourth quarter of 2025 are estimated to have dissipated.

Chart 1
Purchasing Managers' Index: production component for advanced, emerging and global economies
Diffusion index, s. a.[1/]



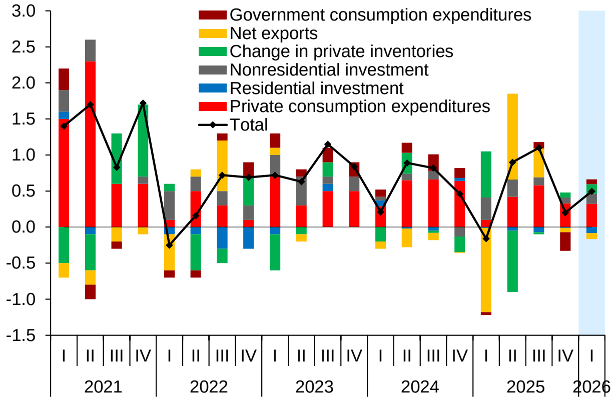
s. a. / Seasonally adjusted figures.
1/ The index varies between 0 and 100 points. A reading above 50 points indicates an expansion and below 50 suggests a contraction. A reading equal to 50 points indicates no change.
Source: S&P Global.

US industrial production grew at a seasonally adjusted monthly rate of 0.2% in February, after having increased 0.7% in January. This performance reflected a growth of 0.2% in the manufacturing sector and of 0.8% in the mining sector, which was partially offset by a contraction of 0.6% in the electricity and gas generation sector. Purchasing Managers' Indices suggest that manufacturing output is estimated to have continued expanding in March.

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

[1] Expressed as an annualized seasonally adjusted quarterly rate, US GDP grew 0.7% during the fourth quarter of 2025.

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



s. a. / Seasonally adjusted figures.
Note: The shaded area refers to the Atlanta Fed GDPNow forecasts for the first quarter of 2026, as of March 23, 2026.
Source: Bureau of Economic Analysis (BEA) and the Federal Reserve Bank of Atlanta.

The US labor market continued registering low job creation, although the unemployment rate has remained relatively stable. In February, the non-farm payroll decreased by 92,000 jobs after having increased by 126,000 in January. According to the Federal Reserve, the slowdown in job creation has been associated with a fall in labor demand, as well as with a slower growth of the labor force due to lower immigration and a lower labor force participation rate. In this context, the unemployment rate increased slightly from 4.3% in January to 4.4% in February. The number of job vacancies went up from 6.6 million in December 2025 to 6.9 million in January 2026. Initial claims for unemployment insurance have fluctuated around the levels observed in 2025. During the week ending March 14, there were 205,000 new claims. In February, the annual growth rate of average wages remained unchanged at 3.7% compared to the previous month.[2]

Economic activity in the euro area is anticipated to grow during the first quarter of 2026 at a slightly faster pace than in the previous quarter, when it increased at a seasonally adjusted quarterly rate of 0.2%.[3] Available indicators suggest that the manufacturing and services sectors have continued to expand. As for the labor market, the unemployment rate remained at historically low levels, declining from 6.2% in December 2025 to 6.1% in January 2026. Job creation, however, has moderated.

Economic activity in the rest of the major advanced economies as a whole is estimated to have grown in the first quarter of 2026 at a slightly faster pace than in the previous quarter. Labor markets of some of these economies have shown signs of easing.

Altogether, the main emerging economies are estimated to have grown during the first quarter of 2026 at a pace similar to the previous quarter. Meanwhile, the Chinese economy is expected to have grown similarly to the previous quarter, when it did so at a seasonally adjusted quarterly rate of 1.2%.[4] During the first two months of the year, China's industrial production and net exports exhibited relatively strong growth. Retail sales grew at faster annual rates, driven in part by the stimulus measures implemented by the country's authorities to boost domestic demand, as well as by the Chinese New Year festivities. Meanwhile, cumulative investment in fixed assets showed signs of recovery, particularly in the infrastructure and manufacturing sectors. However, the Chinese economy continues facing significant challenges stemming from the weakness of its real estate sector and its domestic demand, as well as from uncertainty regarding the potential impact of supply chain disruptions caused by the Middle East conflict on China's economy.

Since Mexico's last monetary policy decision, different international commodity prices have increased. Oil prices rose significantly in March compared to early February due to concerns about the crude oil supply following the escalation of the conflict in the Middle East. This was despite the announcements, on the one hand, by the Organization of the Petroleum Exporting Countries and its allies (OPEC+) regarding an increase in its production starting in April and, on the other hand, by the member states of the International Energy Agency to make strategic oil reserves available to the market. Oil prices exhibited a limited reaction to these measures because the Strait of Hormuz, a major shipping route for energy products and various commodities, remained largely closed due to the conflict in said region.

Gas prices varied across different regions. In Europe

[2] Average hourly wages for production and non-supervisory employees.
[3] Expressed as an annualized seasonally adjusted quarterly rate, GDP growth in the euro area was 0.8% in the fourth quarter of 2025.
[4] Expressed as an annual rate, China's GDP growth was 4.5% in the fourth quarter of 2025.

and Asia, prices rose sharply starting in late February due to disruptions in gas shipments from the Middle East, as well as to production cuts and attacks on infrastructure in that region. Meanwhile, in the United States, gas prices fell compared to early February due to improved weather conditions in said country. This came after prices reached historic highs towards the end of January amid concerns about potential supply disruptions in that country due to a winter storm.

Grain prices rose compared to early February. This performance partly reflected increased uncertainty regarding supply, as rising energy and fertilizer costs resulting from the conflict in the Middle East could limit agricultural production. Similarly, on the demand side, grain prices fluctuated associated with expectations of increased demand for biofuels and to delays in trade negotiations between China and the United States, which could lead to a reduction in China's purchases of US grains.

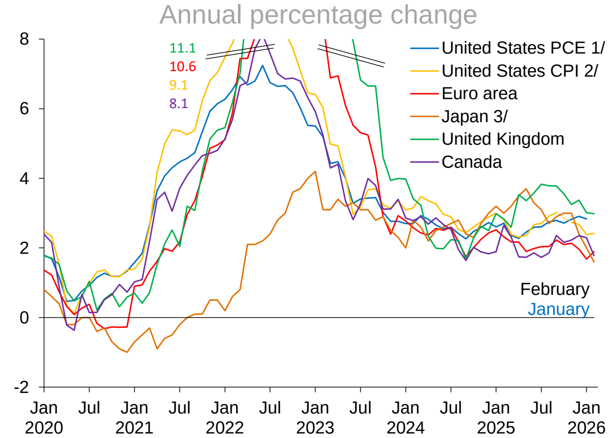
Industrial metal prices closed at levels similar to those observed in early February, despite the high volatility during the period. In February, prices increased amid expectations of higher demand and supply pressures. Subsequently, in March, this trend reversed due to a shift in demand expectations stemming from increased risks to global economic activity following the escalation of the Middle East conflict. In the specific case of aluminum, its price rose due to supply disruptions from that region, which is one of the leading producers of said metal. Meanwhile, precious metal prices generally were below the levels observed in early February, although they did fluctuate. After trending upwards in February and early March, said trend in prices reversed amid expectations that interest rates remain high for longer than anticipated, as the escalation of the Middle East conflict has led to new inflationary risks.

A.1.2. Monetary policy and international financial markets

In the main advanced economies, headline and core inflation have decreased compared to the levels observed at the end of 2025. While in some cases it remains above the 2% inflation targets, in others it has been close to or even below that level (Chart 3). The decline in inflation reflected lower inflation in energy, food, and, in some cases, the core component. The evolution of the latter was due to a decline in goods inflation in some economies, while that of services registered mixed and, in general, limited fluctuations across countries. Inflation, however, faces a more uncertain outlook given the recent escalation of the conflict in the Middle East, which could lead to higher prices for commodities and inputs due to disruptions in supply chains. The impact on inflation is expected to vary by region, depending on each region's level of exposure to these factors.

In the United States, annual headline inflation measured by the Consumer Price Index (CPI) decreased from 2.7% in December 2025 to 2.4% in February 2026. This was due to lower energy and core inflation, while food inflation remained relatively stable. Specifically, core inflation declined slightly from 2.6% in December to 2.5% in February. The decline was the result of lower inflation of both goods and services. As for the Personal Consumption Expenditures (PCE) price index, headline inflation declined from 2.9% in December to 2.8% in January. This reflected a reduction in both food and energy inflation, which was partially offset by a rise in core inflation. Inflation of this component shifted from 3.0 to 3.1% during the same period. This was due to a rise in service inflation, while goods inflation declined slightly after having increased over the previous months.

Chart 3
Selected advanced economies: headline inflation
Annual percentage change



1/ The personal consumption expenditure deflator (PCE) is used.
2/ The consumer price index (CPI) is used.
3/ Excludes fresh food.
Note: The series includes data up to February 2026, except in the United States (PCE), whose latest available data correspond to January 2026. The chart's range was adjusted to facilitate its reading. Figures in the chart denote the respective maximum levels of each series. The CPI data for October 2025 was not released due to the US federal government shutdown.
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Eurostat, Bank of Japan, the UK Office for National Statistics, and Statistics Canada.

In the euro area, annual headline inflation continued fluctuating at levels close to its central bank's inflation target in recent months, decreasing from

2.0% in December 2025 to 1.9% in February 2026. This decline reflected increased energy deflation, which was partially offset by a rise in core inflation, while food inflation remained relatively stable during the same period. Specifically, core inflation increased from 2.3% in December 2025 to 2.4% in February 2026.

The latest inflation forecasts for several major advanced economies prepared by analysts have been revised upwards and project an increase in inflation in the upcoming months amid the recent escalation of the conflict in the Middle East. Despite the above, said analysts anticipate that, by the end of 2026, in several of these economies inflation will be close to their central banks' targets, although in the case of the United States they continue expecting inflation to remain above the Federal Reserve's target. Indicators of breakeven inflation and inflation risk drawn from financial instruments have increased since March, particularly in the short term, although the magnitude of the increase has varied by country.

In emerging economies, while both headline and core inflation have performed heterogeneously across regions, a gradual progress of convergence towards inflation targets has been observed in several economies. In Latin America, inflation trends have varied across countries, while in emerging Europe, inflation has generally declined, and in emerging Asia, it has risen in several countries. In China, although both headline and core inflation rose recently, they remained below the central bank's 2% target. In particular, headline inflation shifted from 0.2% in January to 1.3% in February, driven by lower fuel deflation and higher food inflation, as well as by higher core inflation. The latter rose from 0.8 to 1.8% during the same comparison period, partly reflecting increased consumer spending during the Lunar New Year festivities, which lasted longer than usual.

In this context, since Mexico's last monetary policy decision, several central banks in advanced and emerging economies have kept their reference rates unchanged, some after having cut them in their previous decisions. Others continued their easing cycles. In addition, some central banks in the major advanced economies continued to gradually reduce their balance sheets. As for future actions, the central banks reiterated that reference rate adjustments will remain dependent on incoming economic data and their implications for the inflation outlook. Several central banks continued to underscore that uncertainty persists regarding the economic environment and inflationary dynamics stemming from the evolution of trade and geopolitical tensions. They also noted that they will remain vigilant to the evolution of risks and are prepared to adjust their monetary policy stances if necessary.

The US Federal Reserve left the target range for the federal funds rate unchanged for the second consecutive decision at its March meeting. Thus, the target range remained between 3.50 and 3.75%. The Federal Open Market Committee (FOMC) reported in its statement that available indicators suggest that economic activity has been expanding at a solid pace, that job creation has remained low, and that the unemployment rate has changed little in recent months, while inflation remains somewhat elevated. It reiterated that uncertainty regarding the country's economic outlook remains high and added that the implications of events in the Middle East are uncertain for the US economy. It reiterated that it will remain vigilant to risks to both aspects of its dual mandate. It also mentioned that it will carefully assess incoming data, the evolving economic outlook, and the balance of risks when considering the magnitude and timing of further adjustments to the target range for the federal funds rate.

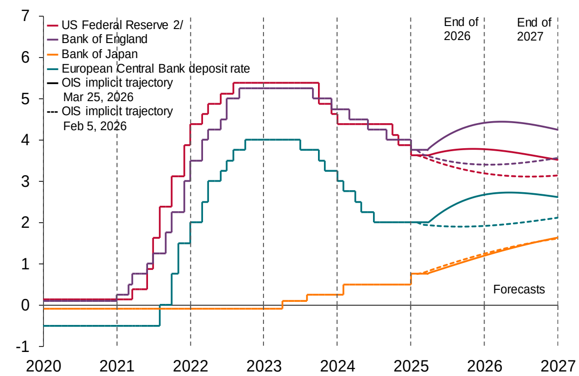
At a press conference following the March decision, the Federal Reserve chairman reiterated that Committee members consider the current monetary policy stance to be appropriate for promoting progress towards both maximum employment and the 2% inflation target. He noted that, for now, it is important to maintain a slightly restrictive monetary policy, as they must balance their two mandates in a situation where risks to the labor market are to the downside, which would call for a lower rate, and risks to inflation are to the upside, which would call for a higher rate or, rather, no rate cut. He noted that the policy rate is currently at the threshold between being restrictive and non-restrictive, and that they consider this level to be adequate. He stated that the vast majority of Committee members do not anticipate an interest rate hike as their baseline scenario, although no option is ruled out. Regarding the Committee's macroeconomic projections, between December 2025 and March 2026, the median for headline inflation, measured by the personal consumption expenditure deflator rose from 2.4 to 2.7% for the end of 2026 and from 2.1 to 2.2% for the end of 2027, while it remained at 2.0% for the end of 2028. The median for core inflation was also revised upwards from 2.5 to 2.7% for 2026 and from 2.1 to 2.2% for 2027, while it remained at 2.0% for 2028. Meanwhile, the median GDP growth projections were revised upwards for all years from 2026 to 2028. The median for the unemployment rate remained at 4.4% for the end of 2026, rose from 4.2 to 4.3% for the end of 2027, and remained at 4.2% for the end of 2028. The median for the federal funds rate remained unchanged at 3.4% for the end of 2026. No member anticipated an interest rate hike for 2026. The median projection for the federal funds rate for the end of both 2027 and 2028 continued at 3.1%. This implies that the projection for a 25-bps cut to the federal funds rate during 2026 and another cut in 2027 remains unchanged. The median long-term projection for the federal funds rate increased from 3.0 to 3.1%.

The European Central Bank (ECB) kept its key interest rates unchanged in its March decision. Its key deposit, refinancing, and lending rates remained at 2.00, 2.15, and 2.40%, respectively. The Governing Council commented that the conflict in the Middle East has made the outlook significantly more uncertain, creating upside risks to inflation and downside risks to economic growth. They added that it will have a material impact on near-term inflation through higher energy prices, but that its medium-term implications will depend both on the intensity and duration of the conflict and on how energy prices affect consumer prices and the economy. However, they stated that they are well positioned to navigate this uncertainty. In this regard, said institution's staff revised their inflation forecasts upwards from December's projections, especially for 2026. Additionally, they published forecasts for alternative scenarios, depending on the evolution of the conflict in the Middle East. The Council reiterated that it would maintain a data-dependent approach to determine the appropriate monetary policy stance. It reaffirmed that it is not pre-committed to a particular rate path. It also reiterated that the size of its asset purchase program (APP) and pandemic emergency purchase program (PEPP) is decreasing at a moderate and predictable pace. At the press conference following the March decision, the president of that central bank stated that they are well positioned to face a large-scale shock such as the one currently unfolding.

Regarding other advanced economies, during the reporting period, the central banks of Japan, the United Kingdom, Canada, New Zealand, South Korea, Sweden, and Switzerland kept their interest rates unchanged. The Reserve Bank of Australia was the exception, as it implemented a second 25-basis-point increase in its March decision.

Since Mexico's past monetary policy decision, monetary policy rate expectations for the end of 2026 implied by financial instruments recorded increases in most major advanced economies. Thus, several of these economies are anticipated to register increases in their reference rates (Chart 4). All of the above, in the context of the escalating conflict in the Middle East and its effects on commodity prices. In the case of the United States, the forecast for the federal funds rate for the end of 2026 rose from 3.0 to 3.7% in its most recent reading, a level slightly higher than the midpoint of the current range, which is between 3.50 and 3.75%. Similarly, the expected rate for the euro area rose from 1.9 to 2.6%, from 2.3 to 2.9% for Canada, and from 3.3 to 4.3% for the United Kingdom. Meanwhile, the forecast for Japan's reference rate declined slightly from 1.3 to 1.2%.

Chart 4
Reference rates and trajectories implied in OIS curves[1/]
Percent



1/ OIS: Fixed-for-floating interest rate swap where the floating interest rate is associated with the effective overnight reference rate.
2/ For the observed reference rate of the United States, the average interest rate of the target range for the federal funds rate is used.
Source: Bloomberg.

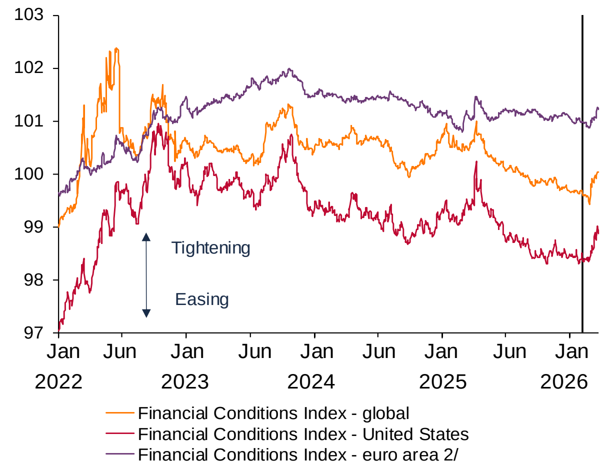
In the main emerging economies, a large number of central banks refrained from adjusting their reference rates in their most recent monetary policy decisions. Others continued with their rate-cutting cycles. Brazil's central bank cut its reference rate by 25 basis points in its March decision, after keeping it unchanged since June 2025. In the case of China's central bank, it has not made any adjustments since May 2025 and, as a result, the one- and five-year loan prime rates (LPR) have remained unchanged. However, it has used various tools to provide liquidity to the financial market. The central bank's governor has also reiterated that a moderately loose monetary policy will continue to be implemented throughout 2026.

International financial markets displayed a different behavior between periods before and after the escalation of the conflict in the Middle East in early March. In February, financial conditions eased and stock markets showed moderate volatility, although some volatility indices began to rise even before the war began, especially those related to the crude oil market. As of March, global financial conditions tightened and volatility in international financial markets increased. This increase was particularly noticeable in energy and bond futures markets (Chart 5). The uncertainty surrounding the duration and magnitude of the war has been a major factor in financial markets' response.

The fixed-income market also behaved differently before and after the escalation of the conflict in the Middle East. Following a widespread decline in February, at the end of the period, long-term (10-year) and medium-term (2-year) rates in advanced economies remained above the levels observed at Mexico's last monetary policy decision (Chart 6). In emerging economies, long- and medium-term interest rates rose during the period (Chart 7). The slope of the US yield curve (defined as the spread between 10-year and 2-year government bond yields) declined, although it remained positive. Stock markets in major advanced economies have fluctuated markedly due to the uncertainty related to the conflict in the Middle East, falling overall during the period. Risk appetite also declined since Mexico's last monetary policy decision.

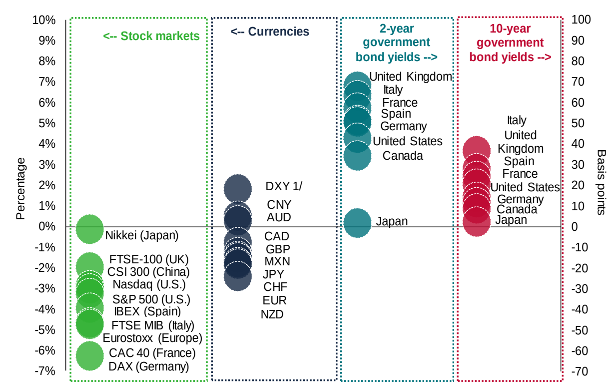
Regarding foreign exchange markets, the US dollar appreciated against the currencies of major advanced economies. Lastly, capital flows to emerging economies have increased since Mexico’s last monetary policy decision. Capital flows into fixed-income and equity assets registered net inflows during the period.

Chart 5
Financial conditions index[1/]
Units



1/ The financial conditions index is constructed considering the effect of five variables on economic activity: the reference interest rate, the 10-year government bond, the spread of investment grade bonds over the government debt bond with equivalent maturity, the ratio of a stock index with 10-year average earnings per share, and the trade weighted exchange rate.
2/ In the case of the euro area, the spread between the sovereign bonds of France, Italy, Spain, the Netherlands, Belgium, Austria, Portugal and Finland over the German 10-year bond is also considered. The vertical black line indicates the last calendarized monetary policy meeting of Banco de México.
Source: Bloomberg and Goldman Sachs.

Chart 6
Change in selected financial indicators from February 5 to March 25, 2026



1/ DXY: a weighted average estimated by the Intercontinental Exchange (ICE) of the nominal exchange rate of the main six currencies operated globally with the following weights: EUR: 57.6%, JPY: 13.6%, GBP: 11.9%, CAD: 9.1%, SEK: 4.2%, and CHF: 3.6%.
Source: Bloomberg.

Chart 7
Selected emerging economies: financial assets performance from February 4 to March 25, 2026
Percent, basis points

Region	Country	Currencies	Equity markets	2-year interest rates	10-year interest rates	CDS
Latin America	Mexico	-2.51%	-0.79%	39	13	10
	Brazil	0.35%	2.05%	107	48	6
	Chile	-6.54%	-8.89%	19	42	14
	Colombia	-0.83%	-4.51%	131	36	17
	Peru	-2.78%	-4.88%	14	99	15
Emerging Europe	Russia	-5.96%	2.30%	129	-55	N.A.
	Poland	-3.49%	-5.01%	92	62	6
	Turkey	-1.95%	-6.68%	630	352	65
	Czechia	-2.58%	-9.52%	76	37	6
	Hungary	-4.09%	-6.81%	121	91	13
Asia	China	0.59%	-4.15%	-7	1	5
	Malaysia	-0.80%	-1.50%	13	3	9
	India	-3.91%	-10.19%	47	18	24
	Philippines	-1.93%	-5.16%	81	115	28
	Thailand	-3.19%	8.27%	23	27	19
	Indonesia	-0.80%	-10.37%	121	61	18
Africa	South Africa	-5.61%	-5.38%	60	107	46

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

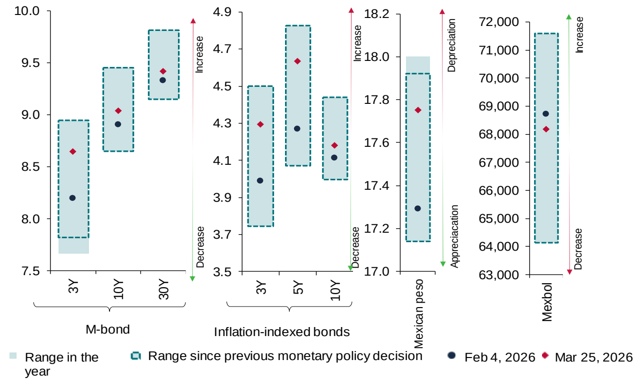
A.2. Current situation of the Mexican economy

A.2.1. Mexican markets

Since Mexico's latest monetary policy decision, the Mexican peso depreciated moderately against the US dollar, while interest rates rose across medium- and long-term maturities (Chart 8). The stock market closed with losses; the sector of materials was particularly affected due to the behavior of commodity prices.

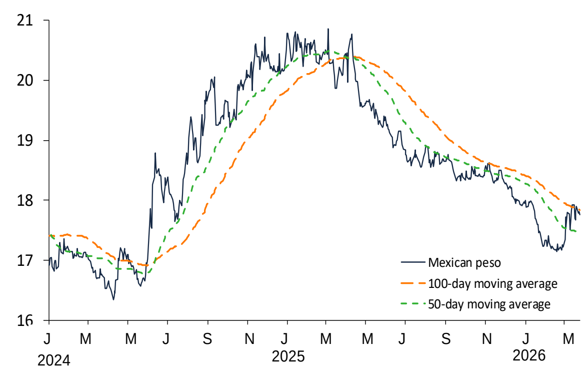
The Mexican peso traded in a range of 99 cents—between 17.09 and 18.08 pesos per dollar—since the last monetary policy decision (Chart 9). The 2.51% depreciation during the period was driven by a significant aversion to risk in global markets, which led to a period of US dollar strength. Although the period was characterized by increased volatility, trading conditions for the Mexican peso remained orderly.

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



Source: *Proveedor Integral de Precios* (PIP), Banco de México (FIX), and Bloomberg.

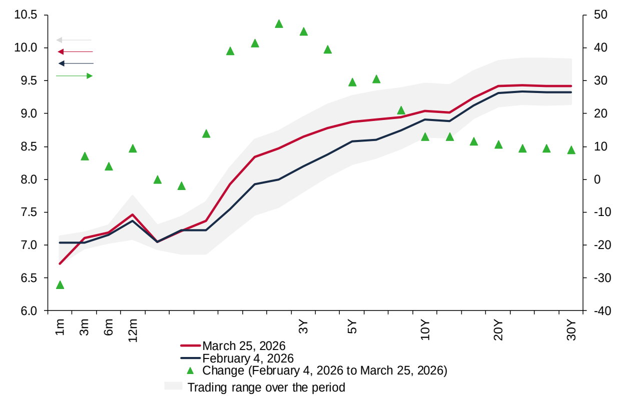
Chart 9
Mexican peso exchange rate
MXN/USD



Source: Banco de México (FIX).

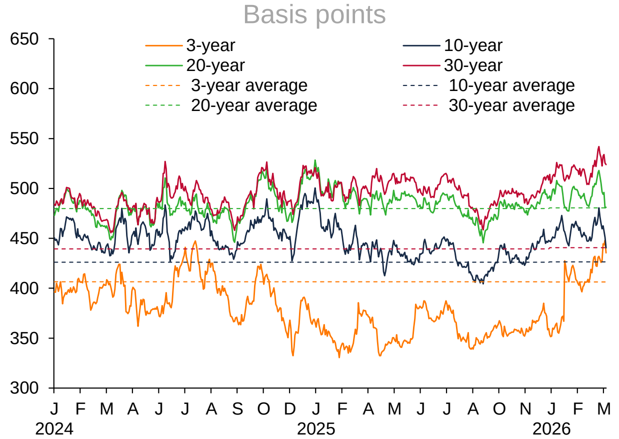
Government bond yields rose by between 10 and 50 basis points in the medium- and long-term segments (Chart 10). The yield curve for real-rate instruments also increased, but to a lesser extent. In this context, breakeven inflation and inflation risk implicit in spreads between nominal and real market rates of market instruments rose across all maturities (Chart 11).

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



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

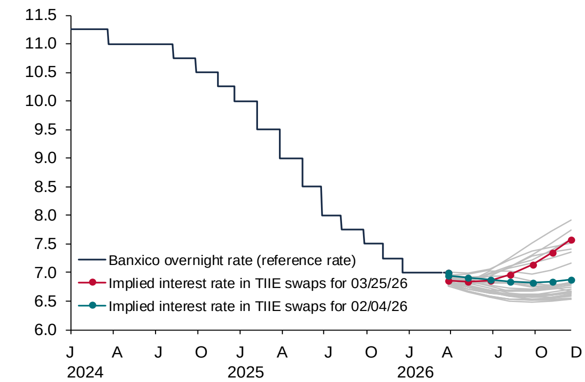
Chart 11
Breakeven inflation and inflation risk implied in government securities' yields
Basis points



Note: Horizontal lines refer to the respective averages observed from September 2008 to date.
Source: *Proveedor Integral de Precios* (PIP).

Regarding expectations for the path of the reference rate, information implicit in the interest rate swap curve has been volatile. The latest figure incorporates a pause in the rate-cutting cycle for the March decision (Chart 12). Meanwhile, the survey conducted by Citi reveals a high degree of dispersion, as 14 of the 36 participants expect the next 25-basis-point cut to be announced in March, while 16 analysts expect it in May. Regarding the reference rate at the end of 2026, the consensus of analysts continues estimating that it will be at a level of 6.50%.

Chart 12
Interbank funding rate implied in F-TIIE swaps
Percent



Note: Shaded areas represent the range since the last monetary policy decision.
Source: *Proveedor Integral de Precios* (PIP).

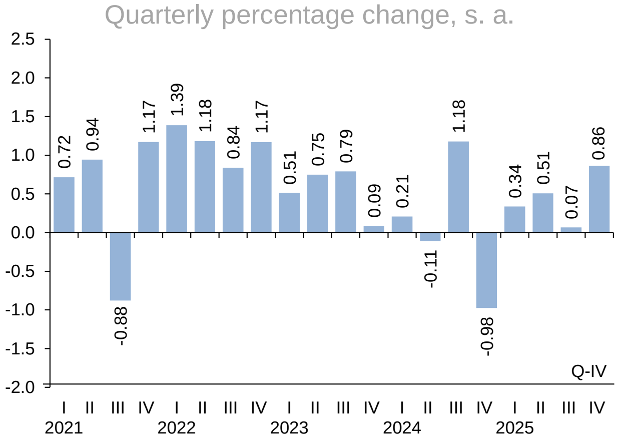
A.2.2. Economic activity in Mexico

During the fourth quarter of 2025, the Mexican economy improved from the weakness of previous quarters, by expanding at a seasonally adjusted quarterly rate of 0.86% (Chart 13). However, in early 2026, economic activity once again showed signs of significantly weakening. In this context, the estimated output gap remained negative in early 2026 (Chart 14).

In terms of domestic demand, private consumption continued trending upwards during the fourth quarter of 2025 (Chart 15). Regarding its components, in December 2025, consumption of imported goods more than offset the decline observed in November, while consumption of domestically produced goods and services continued trending upwards moderately. In the last quarter of 2025, gross fixed investment registered some improvement from the weak performance of previous quarters. This was due to increased spending on construction, since investment in machinery and equipment continued trending downwards.

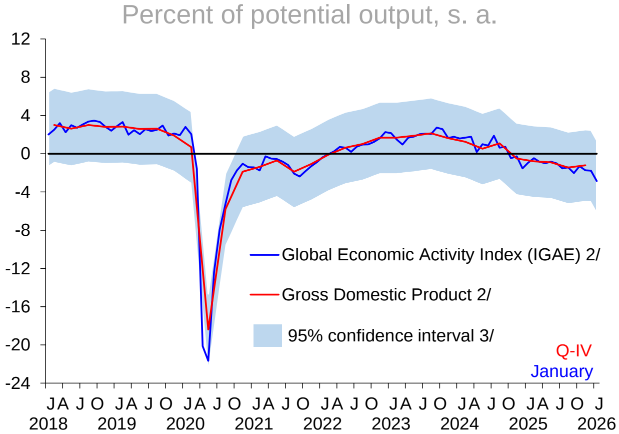
With regard to external demand, manufacturing exports slowed down at the beginning of 2026, after having shown high dynamism during most of 2025. Non-automotive manufacturing exports continued trending upwards, while automotive exports remained sluggish (Chart 16).

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



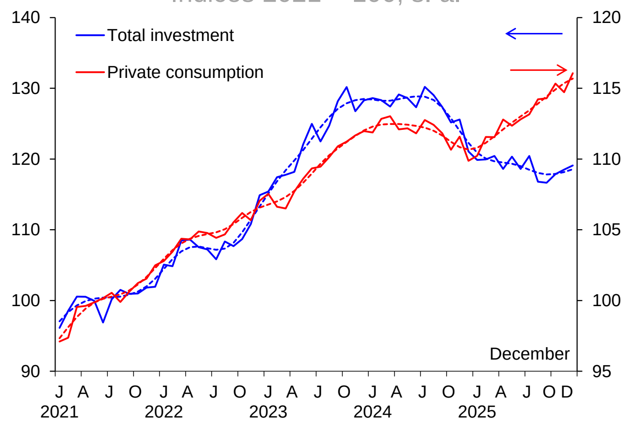
s. a. / Seasonally adjusted figures.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

Chart 14
Output gap estimates[1/]
Percent of potential output, s. a.



s. a. / Calculations based on seasonally adjusted figures.
1/ Output gap estimated with a tail-corrected Hodrick-Prescott filter; see Banco de México (2009), "Inflation Report, April-June 2009", p.69.
2/ GDP figures for the fourth quarter of 2025 and IGAE figures as of January 2026.
3/ Output gap confidence interval calculated with a method of unobserved components.
Source: Prepared by Banco de México with INEGI data.

Chart 15
Total investment and private consumption
Indices 2021 = 100, s. a.

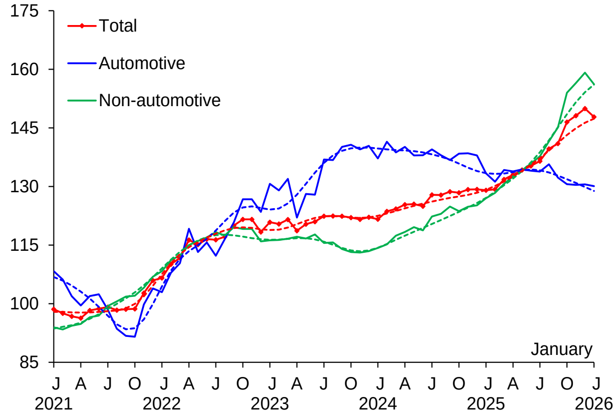


s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

From a sectoral perspective, in January 2026 industrial activity reversed most of the progress observed during the last quarter of 2025 and remained at relatively low levels (Chart 17). Regarding its components, the weakness of manufacturing intensified (Chart 18). Meanwhile, both mining and utilities sectors slowed down the recovery observed in previous months. Although construction also contracted at the margin, it remained at relatively high levels. Tertiary activities interrupted their upward trend.

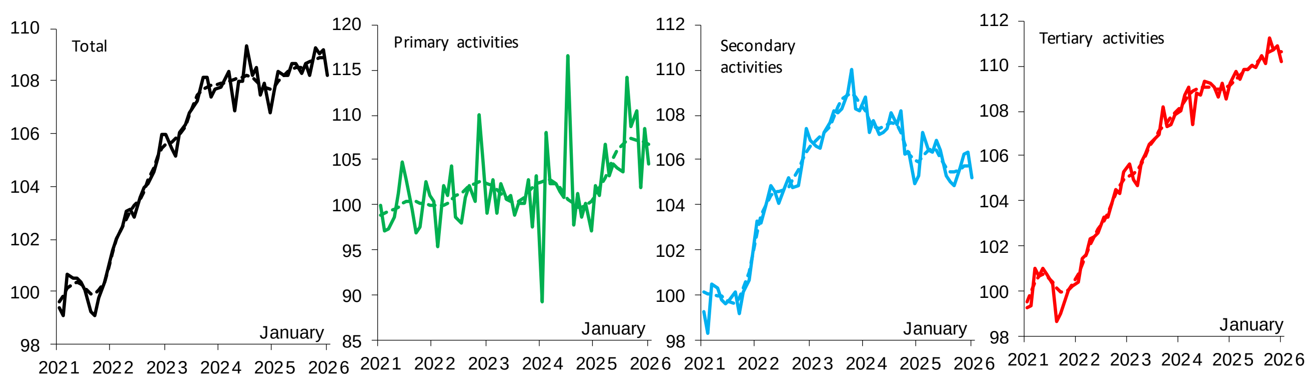
As for labor market indicators, the national unemployment rate in January 2026 was similar to that of December 2025, while the urban unemployment rate rose slightly in the same comparison (Chart 19). Meanwhile, after having been stagnant in January, the number of newly created formal IMSS-insured jobs showed again signs of improvement in February 2026. Lastly, unit labor costs continued trending upwards in January.

Chart 16
Total manufacturing exports
Indices 2021 = 100, s. a.



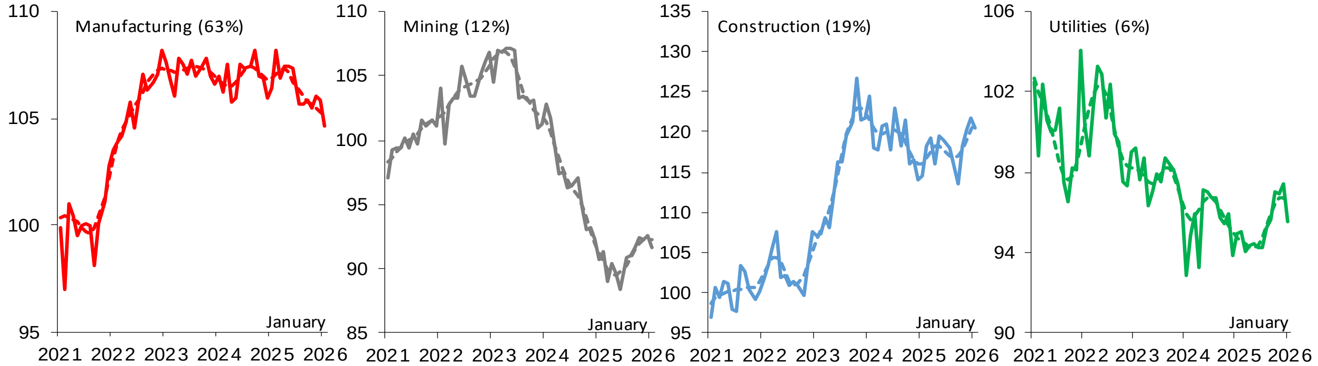
s. a. / Seasonally adjusted series and trend series based on data in nominal US dollars. The former is represented by a solid line and the latter by a dotted line. Three-month moving average.
Source: Prepared by Banco de México with data from the Tax Administration Service (SAT, for its Spanish acronym), the Ministry of Economy (SE, for its Spanish acronym), Banco de México, the National Institute of Statistics and Geography (INEGI, for its Spanish acronym). Mexico's Merchandise Trade Balance. The National System of Statistical and Geographical Information (SNIEG, for its Spanish acronym). Information of national interest.

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



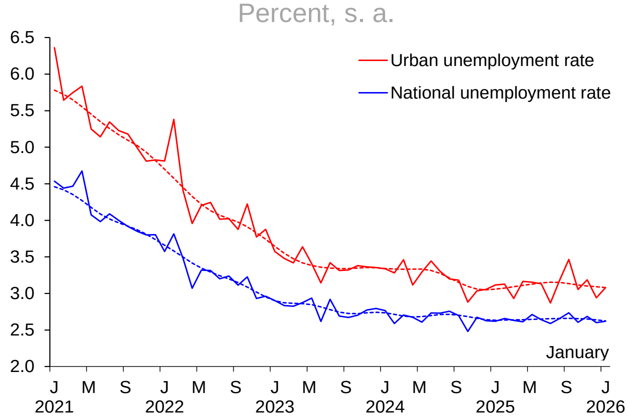
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

Chart 18
Industrial activity[1/]
Indices 2021 = 100, s. a.



s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
1/ Figures in parenthesis correspond to their share in the total in 2018.
Source: Mexico's System of National Accounts (SCNM, for its Spanish acronym), INEGI.

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



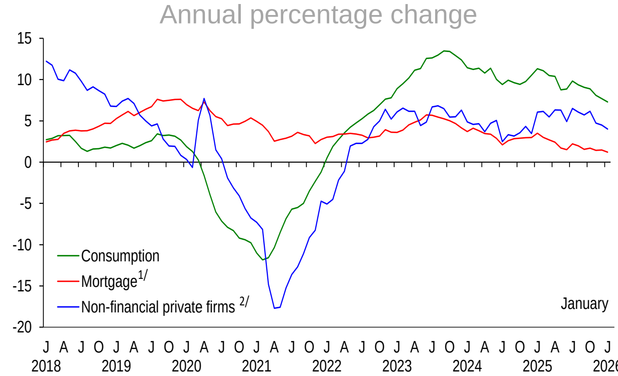
s. a. / Seasonally adjusted series and trend series. The former is represented by a solid line and the latter by a dotted line.
Source: Prepared by Banco de México with ENOE data, INEGI.

In January 2026, domestic financing to the private sector continued expanding, albeit at a slower pace than in the previous month. Thus, the growth rate of this credit aggregate continued moderating. Within it, commercial bank credit to firms registered an annual variation slightly lower than that of the previous month (Chart 20). Meanwhile, bank lending to households remained on a moderate trend. Regarding its components, consumer loan portfolio kept growing at a faster rate than the housing segment.

As for financing costs, interest rates on new bank loans to businesses continued trending downwards in January. This trend continued reflecting the pass-through of the reference rate to bank interest rates in the segment. Meanwhile, interest rates on commercial bank mortgage loans showed no significant changes during the month. Lastly, based on information available as of August 2025, bank interest rates on consumer loan portfolios declined across most of the segments comprising this category.

Regarding portfolio quality, delinquency rates increased slightly in January, both in the corporate and household portfolios. Despite this, these indicators remained at low levels compared to their historical records.

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



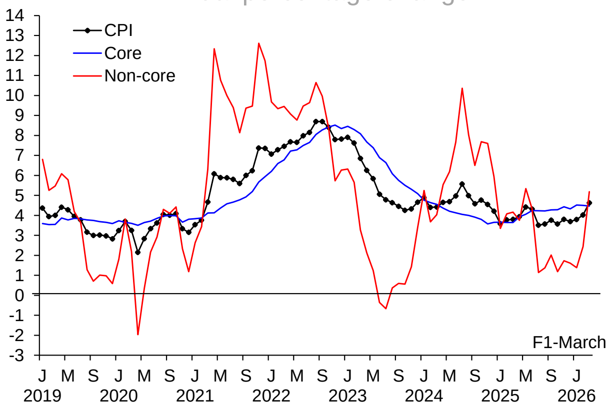
1/ Adjusted to account for the withdrawal from and the incorporation of non-bank financial intermediaries to the credit statistics.
2/ Adjusted for valuation effects due to movements in the exchange rate.
Source: Banco de México.

A.2.3. Development of inflation and inflation outlook

Annual headline inflation rose from 3.79 to 4.63% between January and the first fortnight of March

2026. This increase was driven by higher non-core inflation, while core inflation declined (Chart 21 and Table 1).

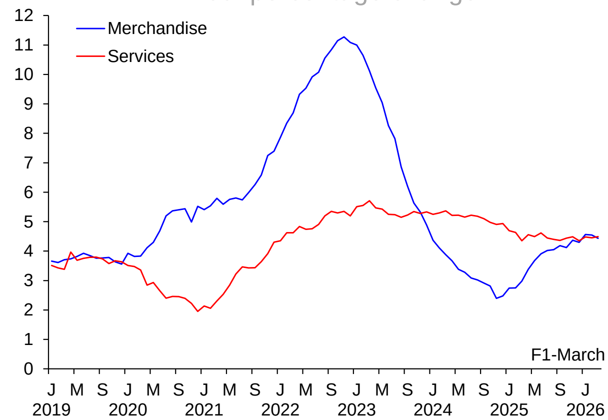
Chart 21
Consumer Price Index
Annual percentage change



Source: Banco de México and INEGI.

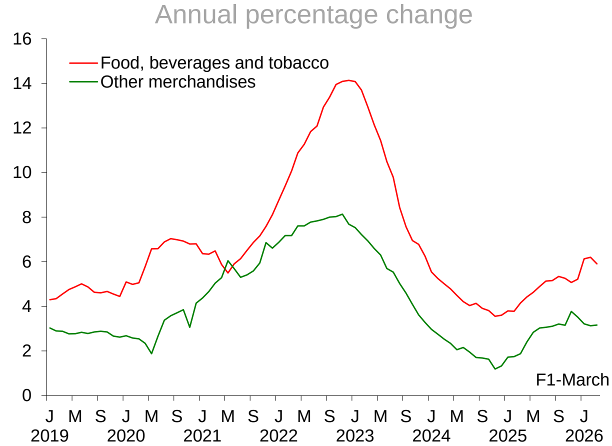
Annual core inflation stood at 4.52 and 4.46% in January and the first fortnight of March 2026, respectively. Within its components, merchandise inflation decreased during that period from 4.56 to 4.43% (Chart 22). This reflected a decline in food merchandise inflation from 6.13 to 5.91% and in non-food merchandise inflation from 3.22 to 3.16% (Chart 23). Meanwhile, in the same comparison, services inflation remained relatively stable registering 4.48 and 4.49%. This performance was driven by an increase in housing inflation from 3.44 to 3.52%, which was practically offset by a decrease in education inflation from 6.02 to 5.96%, and in inflation for services other than housing and education from 5.27 to 5.22%. In this last category, the lower annual variation in the prices of food, entertainment, transportation, and telecommunications services stood out.

Chart 22
Merchandise and services core price subindex
Annual percentage change



Source: Banco de México and INEGI.

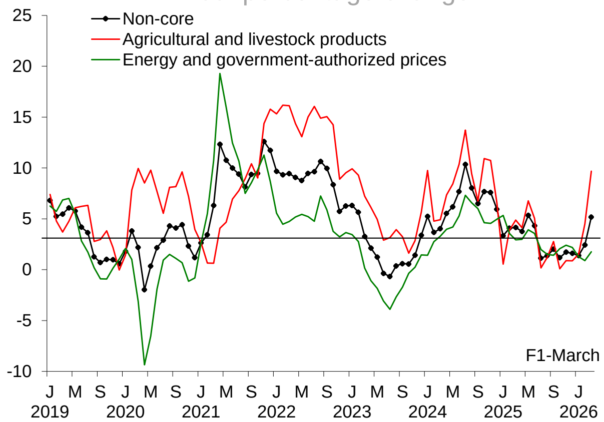
Chart 23
Merchandise core price subindex
Annual percentage change



Source: Banco de México and INEGI.

Between January and the first fortnight of March 2026, annual non-core inflation rose from 1.39 to 5.18% (Chart 24 and Table 1). This result was due to a rise in inflation of agricultural and livestock products from 1.52 to 9.69%, driven in turn by a higher inflation of fruits and vegetables, which rose from 1.84 to 23.91% during that period. In this regard, the highest annual price variations were for tomatoes and green tomatoes stood out, which alone contributed with 71 basis points to the increase in headline inflation during the first fortnight of March. In contrast, inflation of livestock products decreased from 3.91 to 0.57% during the same period. Meanwhile, energy inflation went from 1.16 to 0.60%, driven by the larger annual variation in electricity and gasoline prices.

Chart 24
Non-core price subindex
Annual percentage change



Source: Banco de México and INEGI.

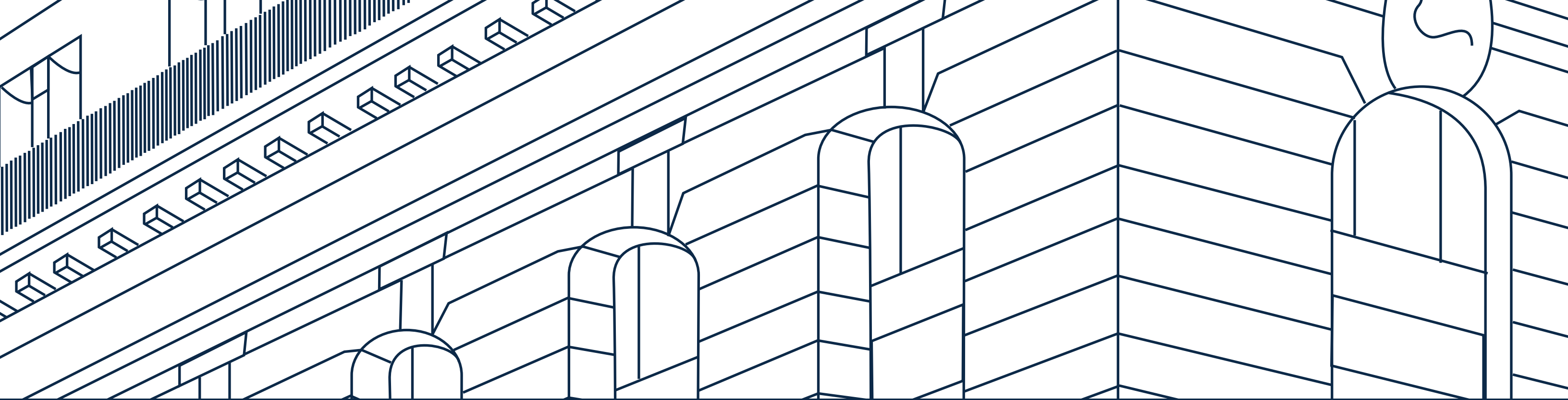
Regarding inflation expectations drawn from the survey conducted by Banco de México among private sector specialists between January and February 2026, the median of headline inflation for the end of 2026 increased from 3.95 to 4.00%, while for core inflation it rose from 4.11 to 4.17%. Headline inflation expectations for the end of 2027 remained stable. The median of headline inflation rose from 3.73 to 3.75%, and for core inflation, from 3.75 to 3.74%. The median of headline inflation expectations for the next four years remained unchanged at 3.75%, while that of core inflation was adjusted from 3.75 to 3.72%. Median expectations for long-term headline inflation (5 to 8 years) rose at the margin from 3.60 to 3.64%. In contrast, those for core inflation remained stable at 3.60%. Lastly, between January and March, inflation expectations implied by market instruments remained relatively stable. In contrast, the monthly average of the inflation risk premium increased, standing above its historical average.

Headline inflation is still expected to converge to the target in the second quarter of 2027. Forecasts are subject to various risks. On the upside: i) disruptions due to foreign trade policies or to an inflationary impact from geopolitical conflicts; ii) cost-related pressures; iii) persistence of core inflation; iv) a trend towards depreciation by the Mexican peso, and v) climate-related impacts. On the downside: i) lower-than-anticipated economic activity in Mexico and/or the United States; ii) a lower pass-through from increased costs, and iii) lower pressures stemming from the appreciation the national currency has been registering since last year. The risks for the trajectory of inflation within the forecast horizon remain biased to the upside. The changes in economic policy by the US administration and the escalation of geopolitical conflicts add uncertainty to the forecasts. Their effects could imply pressures on inflation on both sides of the balance.

Table 1
Consumer Price Index and components
Annual percentage change

Item	January 2026	February 2026	1st fortnight March 2026
CPI	**3.79**	**4.02**	**4.63**
Core	**4.52**	**4.50**	**4.46**
Merchandise	**4.56**	**4.55**	**4.43**
Food, beverages and tobacco	6.13	6.20	5.91
Non-food merchandise	3.22	3.13	3.16
Services	**4.48**	**4.45**	**4.49**
Housing	3.44	3.44	3.52
Education (tuitions)	6.02	6.04	5.96
Other services	5.27	5.20	5.22
Non-core	**1.39**	**2.44**	**5.18**
Agricultural and livestock products	**1.52**	**4.50**	**9.69**
Fruits and vegetables	-1.84	9.88	23.91
Livestock products	3.91	0.98	0.57
Energy and government-authorized prices	**1.28**	**0.89**	**1.76**
Energy products	-1.16	-1.77	-0.60
Government-authorized prices	**5.85**	**5.82**	**6.10**

Source: INEGI.



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