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Uneventful meeting reaffirms Banxico's prolonged pause

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Banxico remains focused on confirming that core services inflation stickiness is finally breaking

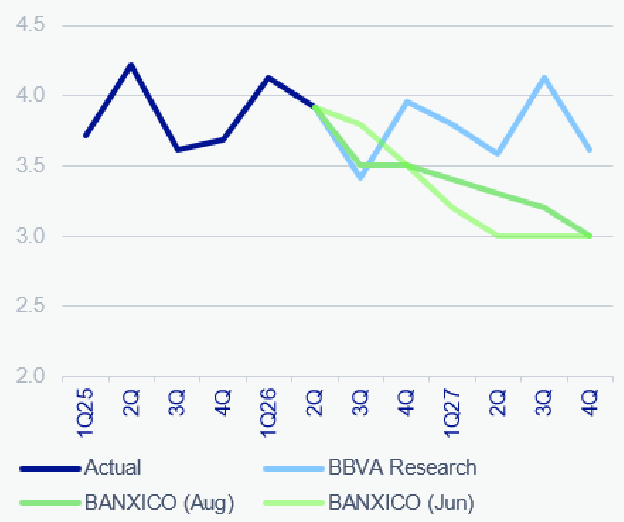
In a unanimous decision, Banxico kept the policy rate unchanged at 6.50%, as widely expected, reiterating that holding rates at this level remains appropriate. The statement was largely unchanged from June, reinforcing the view that the Board remains comfortable with the current policy stance. While Banxico acknowledged that "the Mexican economy registered a reactivation during the second quarter of 2026," it continued to stress that "economic slack is expected to continue throughout the forecast horizon" and that "significant downward risks to economic activity persist," suggesting that the stronger GDP data have not materially altered its assessment of the growth outlook. This is broadly consistent with our view that the second-quarter rebound was largely supported by temporary World Cup-related effects, while underlying domestic demand—particularly private investment—remains constrained by persistent trade and geopolitical uncertainty. Market reaction was negligible, with both the peso and government bond yields little changed, suggesting that investors had fully priced in both the decision and the virtually unchanged policy message.

With recent supply shocks largely fading, Banxico's is now focused on whether the recent moderation in core services inflation will prove durable. The Board acknowledged the continued decline in both headline and core inflation following the favorable first-half July CPI release and noted that year-end headline inflation expectations have declined. Reflecting this improvement, headline inflation forecasts for 3Q26 were revised down to 3.5% from 3.8%, while core inflation forecasts remained unchanged through the end of 2026. At the same time, Banxico pushed back the expected convergence of headline inflation to the 3.0% target from 2Q27 to 4Q27, arguing that inflation would decline "more gradually than previously anticipated" (both headline and core inflation forecasts for the first three quarters of 2027 were revised up by 0.2–0.3 pp), despite no evidence that the underlying inflation outlook has deteriorated. The Board reordered the balance of risks by placing the persistence of core inflation ahead of geopolitical developments and trade disruptions, underscoring that the final stage of disinflation is now viewed primarily as a domestic challenge. Overall, the updated inflation assessment continues to support the decision to remain on hold. While the Board notes that "the absence of demand-related pressures in the economy" favors further disinflation, it likely continues to view additional evidence of sustained moderation in core services inflation as a prerequisite before reconsidering its policy stance.

Today's largely uneventful meeting reinforces our view that Banxico will keep the policy rate unchanged at its current 6.50% level through year-end. Consistent forward guidance continues to leave little doubt that the Board's pause stance is here to stay for now. By reiterating that "it will be appropriate to maintain the reference rate at its current level" and that the current stance is "well-suited" to the macroeconomic environment, the Board signaled that it is comfortable with the policy rate at its current level—which sits slightly below the midpoint of the neutral range as measured by the ex ante real rate—and sees little need to signal an adjustment in either direction. The statement again does not reveal how firmly Board members are committed to an extended pause, leaving the upcoming minutes as the key source for assessing the strength of that consensus, which appeared broad in June and likely remained so at this meeting. With markets continuing to price the possibility of a Fed rate hike this year, the main risk to our outlook is that one or more Board members begin to introduce a tightening bias into the policy debate, even if not yet into the policy decision itself.

Banxico pushed back its target inflation convergence timeline to 4Q27 from 2Q27… …

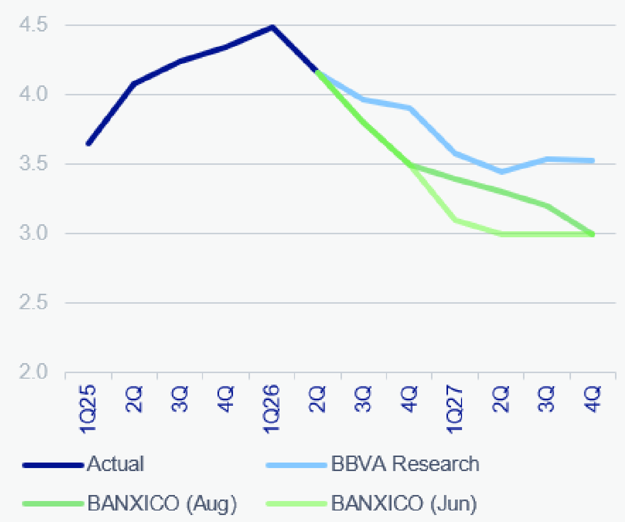
FIGURE 1. HEADLINE INFLATION OUTLOOK (YOY % CHANGE)



Source: BBVA Research, Banxico, INEGI

… as headline and core inflation forecasts for 1Q-3Q27 were revised up by 0.2-0.3 pp

FIGURE 2. CORE INFLATION OUTLOOK (YOY % CHANGE)



Source: BBVA Research, Banxico, INEGI

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