Galia Borja Gómez: Economic outlooks across emerging market economies

Opening remarks by Ms Galia Borja Gómez, Deputy Governor of the Bank of Mexico, at the 2025 Central Banking Seminar, for the panel "Economic outlooks across emerging market economies", organised by the Federal Reserve Bank of New York, New York City, 10 October 2025.

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Good morning. It is an honor to participate in this 2025 Central Banking Seminar at the Federal Reserve Bank of New York, thank you very much for inviting me. Before I begin, let me note that the views I will be sharing are my own and not necessarily represent the official position of Banco de México or its Board of Governors.

Recent Context and Monetary Policy Challenges

In recent years, we have taken decisions during unprecedented times, requiring an extensive analysis of the factors driving price dynamics, the nature of the shocks we have faced, and a strong commitment to our constitutional mandate to preserve the purchasing power of our currency. Since the pandemic, Mexico has navigated through a complex economic landscape. Inflation peaked at 8.70% in August 2022. In response, at the Central Bank we acted in a timely and decisive manner by raising the policy interest rate to achieve a restrictive stance. As various economic shocks have faded, our monetary policy has evolved in line with the inflationary outlook and prevailing macroeconomic conditions. However, new challenges have emerged. Uncertainty has recently increased, particularly regarding shifts in global trade policies.

Monetary policy is shaped by the prevailing conditions. Likewise, the shocks that each economy experiences, their magnitude and duration, are key in determining the course of action of a central bank. That is why I find it useful to take a step back and review Mexico's recent economic context. Back in 2021, supply and demand imbalances caused by the pandemic intensified a global inflationary process unseen in decades. At Banco de México, we began a monetary tightening cycle to address these pressures and anchor inflation expectations. By 2022, new shocks emerged with the onset of the conflict in Ukraine, which led to substantial inflationary pressures in both international commodity prices and fertilizers. At the Central Bank we continued with the tightening cycle to consolidate a robust stance. Financial markets faced high volatility in 2023, driven by stress in U.S. regional banks and later by the conflict in Gaza. On the monetary policy front, we acted cautiously by raising the interest rate to a historic 11.25% early in the year and maintaining it for a full year to help the disinflationary process take hold.

The 2024 elections in Mexico and in the U.S. brought some market volatility as well. Despite this, inflation continued to drop. This allowed us to begin a gradual easing cycle with moderate rate cuts. Since the beginning of the year 2025, the board assessed that the inflationary outlook was in a new phase, where the previous global shocks had faded, and that a calibration of the monetary stance became appropriate. That did not mean that the job was done, but rather that inflationary pressures were similar to others seen in the past, that were not generalized and mainly came from supply shocks. Hence, these challenges could be addressed with a different interest rate level.

Key Determinants of Inflation and Global Trade

A determinant of inflation is economic activity. After the severe contraction in 2020, the following years registered robust growth rates. However, a significant deceleration process took place in 2024, in which the economy grew by only 1.4%. That was mainly due to the decline in investment as the major infrastructure projects were completed and the slowdown that typically accompanies the transition to a new administration. While 2025 is expected to see weaker aggregate demand due to the fiscal consolidation announced by the Ministry of Finance, a moderate expansion is projected for 2026. In both years economic growth is expected to remain below its potential. Under these slack conditions an additional decline in inflation is anticipated.

Another important determinant of inflation that I would like to address is the exchange rate. Despite the uncertainty we have faced at recent events the Mexican peso has been resilient. Banco de México has had a flexible exchange rate for three decades. This means we do not aim for a specific level for the exchange rate, but instead focus on keeping market conditions stable and functioning properly. We cannot rule out that volatility could increase again anytime. Since the exchange rate represents a transmission channel of monetary policy and a determinant of inflation, it is always important to closely monitor it. Under an inflation forecast targeting regime like the one we have, inflation expectations play an important role in the conduct of monetary policy. Short term expectations have improved and remain now within the variability range. Our monetary stance has helped keep long term expectations anchored, and going forward we must ensure they continue to do so at all times.

Regarding this year´s shifts in global trade policies, new tariffs on Mexican exports are critically important, given that the U.S. market accounts for approximately 80% of our country's total exports. A clear sign of our industries' resilience is the significant and widespread increase in the adoption of USMCA benefits between 2024 and July 2025. This broader use strengthens regional supply chains, enhances the competitiveness of our industries, and provides certainty for trade and investment flows.

Strength of Macroeconomic Fundamentals

To sum up, I would like to share some final remarks. Over time, Mexico has consolidated solid macroeconomic fundamentals, characterized by a series of factors that have contributed not only to its stability, but also to its ability to face complex and volatile economic scenarios. These fundamentals have been the result of prudent economic policies and continuous adaptation to an increasingly complex global environment. Mexico has an independent central bank that is focused on its constitutional mandate. A prudent and responsible monetary policy has been adopted in accordance with the circumstances we have faced. The authorities have a strong commitment with a flexible exchange rate regime. Also, Mexico maintains a sufficient amount of international reserves under different metrics and a Flexible Credit Line with the IMF (USD 35 billion), which together with our flexible exchange rate regime, serves as a buffer against possible external shocks.

Mexico maintains a small and stable current account deficit as a proportion of GDP. We have a solid financial system that remains well-capitalized and has proven to be resilient in the face of global crises, thanks to a framework of prudent regulation and supervision. The government is committed with the fiscal consolidation and to maintain a debt to GDP ratio around 50%. At Banco de México, we remain fully committed to our constitutional mandate of ensuring low and stable inflation, in order to safeguard the well-being of society and contribute to the sustainable development of the country.

Thank you.