

MEXICO – Banxico 101: the big picture and why credibility matters

- ▶ Banxico is legally autonomous (since 1994) and one of the most well-regarded institutions in Mexico. The central bank operates under a single price stability mandate. Following international benchmarks, Banxico operates under an inflation target regime with a 3% target, and a tolerance interval of 1 p.p. Monetary policy is set by its five-member Governing Board, which is composed of the Governor and four Deputy Governors.
- ▶ Banxico's governance rules, such as Senate confirmation, after presidential nomination, and strict technical requirements for candidates, continue to provide structural buffers against immediate political capture. Operational practices, including regular minutes, surveys, model-based forecasts, and a well-established silent period, reinforce credibility and predictability.
- ▶ Survey-based inflation expectations have remained anchored within the target's tolerance interval since 2001. We estimated a model to capture the impact of current inflation on inflation expectations. We define expectations as anchored if the impact is significantly less than one, meaning that even during an inflation shock, market participants still believe Banxico will react to control inflation. Our estimations show only a small pass-through from current inflation to inflation expectations, indicating that Banxico enjoys strong credibility among market participants.
- ▶ It is worth mentioning that inflation expectations were never anchored at the center of the target, but rather at the upper bound. In a country with a history of high inflation, such as Mexico, higher inflation (4% vs. 3%) could be particularly harmful, especially because the inflation tax has a greater impact on people in the lowest income brackets. In the context of the current easing cycle, it could be a less costly opportunity for Banxico to finally converge medium- and long-term inflation expectations to the 3% target.
- ▶ A sustained and credible dual-mandate debate, especially if accompanied by proposals to alter appointment rules or shorten terms, would increase uncertainty, and raise short- and medium-term inflationary risk premia. This could make inflation expectations less firmly anchored.

This study analyzes the institutional framework of the Bank of Mexico (Banxico), emphasizing its impact on inflation expectations over time. It also discusses recent political debates about adopting a dual mandate, which could expand the bank's objectives to include economic development, thereby weakening its commitment to price stability.

Banxico 101

Banxico has been legally autonomous since April 1, 1994¹. The institution recently celebrated its 100th anniversary and remains one of the most well-regarded institutions in Mexico. The central bank's (CB) autonomy is evidenced on the formation of a five-member collegiate body for decision-making, known as the Governing Board.

Following the international benchmark, Banxico implements monetary policy under an inflation-targeting framework, coupled with a flexible exchange rate. The effectiveness of this regime's transmission to the economy largely depends on clear and credible communication, the disclosure of models and procedures for achieving the target, and strict accountability for the results. Since the late 1990s, Banxico gradually incorporated various elements

¹ Article 28 of the Political Constitution of Mexico, regarding the Bank of Mexico: <https://www.banxico.org.mx/marco-normativo/marco-juridico/constitucion-politica-articulo-28/%7B681C7F2D-B043-94A5-4A53-4F33451C23A3%7D.pdf>

of this regime until its formal adoption in 2001. In 1999, the board of governors proposed a medium-term inflation target aiming for convergence of inflation to that of the country's main trading partners by the end of 2003. For the year 2000, the goal was to achieve an annual inflation rate of the CPI of no more than 10%, followed by 6.5% in 2001, 4.5% in 2002, and 3.0% for 2003². Currently Banxico's target is 3% for headline CPI with a tolerance interval of 1 p.p. (see table below). Historically, both observed inflation and inflation expectations at the policy horizon have been above the center of the target, although mostly below the 4% upper bound.

Inflation targeting in LatAm		
Country	Target	Who sets?
Mexico	3.0% ± 1.0 p.p	CB
Brazil	3.0% ± 1.5 p.p	Government + CB
Chile	3.0% ± 1.0 p.p	CB
Colombia	3.0% ± 1.0 p.p	CB
Peru	2.0% ± 1.0 p.p	CB

Brazil: target is set by a 3-member committee.

The BCB has one in three votes

Source: Central banks, Itaú.

Mandate: price stability

Unlike the U.S. Fed, which has a dual mandate (employment and inflation), Banxico has a single mandate: **price stability to ensure the purchasing power of its currency**. The design is similar to the European Central Bank (ECB)³ and other full-fledged inflation targeters.

Board composition: five-member Governing Board

Banxico sets monetary policy through its five-member Governing Board, which consists of the Governor and four Deputy Governors. They are nominated by the President and need to be confirmed by the Senate, adding a layer of political oversight while traditionally preserving independence. Board members serve staggered eight-year terms (six years for the Governor), ensuring policy continuity across administrations. The Governor's term begins on January 1 of the fourth year of the President's six-year term. Deputy Governors' terms are staggered, with one starting every January of the 1st, 3rd, and 5th years of the President's term. Board members may be appointed for more than one term and can only be removed for significant reasons⁴. Board members are full-time internal staff at Banxico, in contrast, for instance, to the external members of the Bank of England's MPC.

Candidates for the Governing Board must meet strict technical and professional requirements in economics, finance, or monetary policy for at least five years, holding high-level positions in the Mexican financial system or in agencies, bodies, or institutions that exercise authority in financial matters. Two of the five members do not need to meet the seniority requirement, provided they are distinguished professionals in economic, financial, or legal matters. In practice, the diversity of views contributes to more robust monetary policy decisions. However, neither of these two members may hold the position of Governor without first having served three years in their role. Additionally, they must be Mexican citizens by birth and not older than 65 years by the date their term starts⁵.

² More details at [Informe sobre la inflación Abril - Junio 2002](#).

³ <https://www.ecb.europa.eu/ecb-and-you/explainers/price-stability/html/index.en.html>

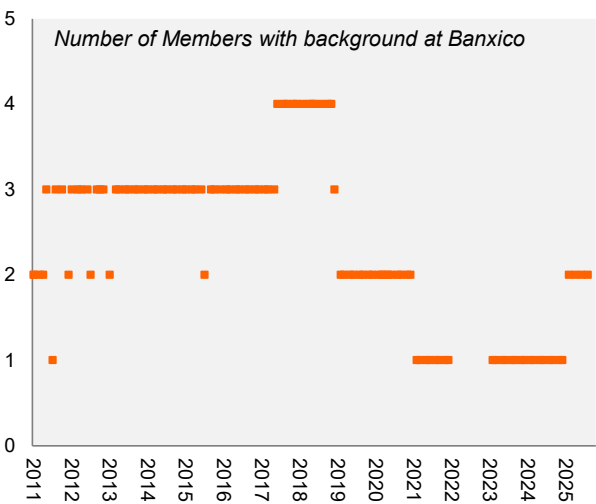
⁴ Such as mental or physical incapacity that prevents the proper exercise of functions for a period longer than six months; holding another job, position, or commission, except for those undertaken on behalf of the Bank or any unpaid work in teaching, scientific, cultural, or charitable associations; serious breaches of integrity; and failing to meet any of the requirements to be a member of the Board.

⁵ Conociendo Banxico, Junta de Gobierno, Banxico. Available in [{487C7959-0A26-13AF-F4D0-936E90475F9D}.pdf](#)

Analyzing the board members' bios over time (2011-2025), the number of members with a background at Banxico has decreased since 2019, from an average of three to one (see graphs below). Meanwhile more members have gained work experience at the Ministry of Finance (MoF), increasing from an average of three to four (sometimes a member has both backgrounds). In our view, the implementation of monetary policy in recent years has not been fiscally biased by the experience of board members.

The number of board members with a PhD has decreased from an average of three to two in recent years. Over time, the board has been enriched by members with diverse profiles.

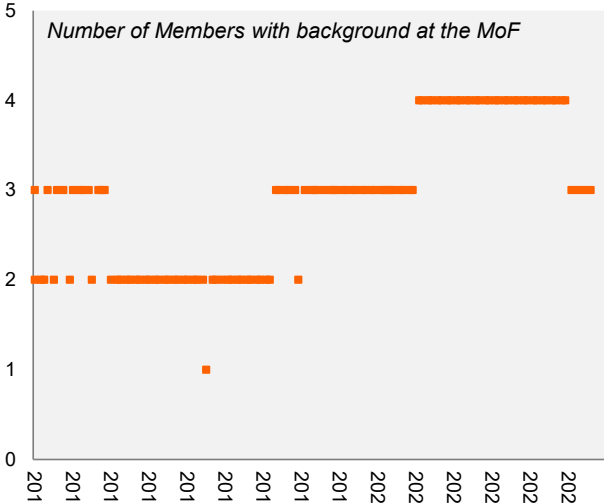
A declining background at Banxico...



Some members have background in the MoF and Banxico.

Source: Banxico, Itaú

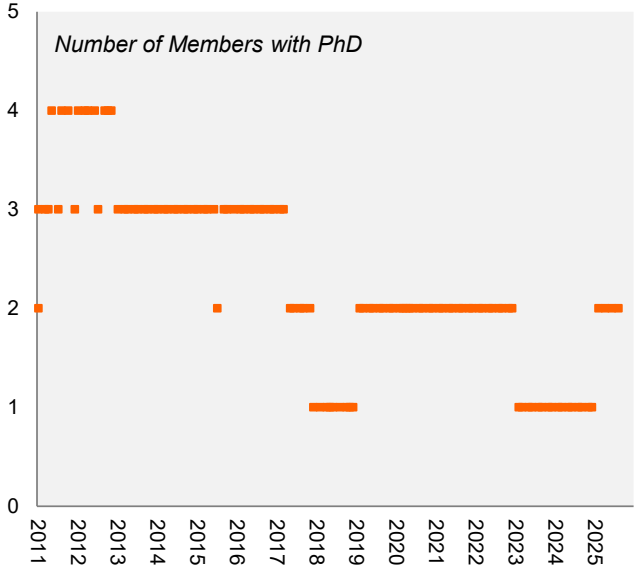
...while MoF experience has increased.



Some members have background in the MoF and Banxico.

Source: Banxico, Itaú

Different academic background over time



Source: Banxico, Itaú

Victoria Rodriguez is the current governor of Banxico. Among the other four members, the most recent appointment is Gabriel Cuadra. He began his eight-year term early this year, replacing Irene Espinosa. The next member to be replaced will be Jonathan Heath, at the end of 2026.

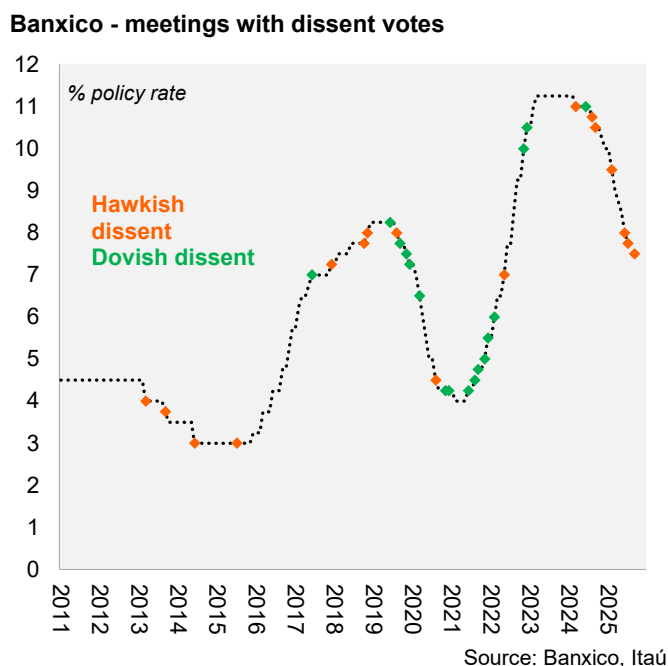
Current Banxico board members			
Member	Appointed	Current term ends	Background
Victoria Rodriguez, Governor	2022	Dec-27	Bachelor's degree in Economics (ITESM). Master's degree in Economics (Colmex). General Director for Expenditures at the Government of Mexico City. Deputy Minister for Expenditures at the SHCP.
Galia Borja, Deputy Governor	2021	Dec-28	Bachelor's degree in Applied Mathematics (UNAM). Master's degree in Economics and Public Policy (ITESM). Master's degree in Applied Mathematics (SUNY). Head of Treasury at the SHCP.
Jonathan Heath, Deputy Governor	2019	Dec-26	Bachelor's degree in Economics (Universidad Anahuac). Master's degree and PhD in Economics (University of Pennsylvania). Research Associate at INEGI. Head of Mexico Economics and Latam Economics at HSBC Global Research.
Omar Mejía, Deputy Governor	2023	Dec-30	Bachelor's degree in Economics (UNAM). Board of Governors Advisor at Banxico. Deputy Minister of Treasury at the SHCP.
Gabriel Cuadra, Deputy Governor	2025	Dec-32	Bachelor's degree in Industrial Engineering (UAEM) and in Economics (ITAM). Master's degree and PhD in Economics (University of Rochester). Career at Banxico as an analyst, researcher, and senior officer.

Decision-making process: a majority vote system

The Board decides on monetary policy eight times a year, with dates aligned with the Fed to set the reference interest rate using a majority vote system. Decisions are based on economic data, inflation forecasts, and global financial conditions, with an emphasis on maintaining price stability. Each meeting requires a minimum of three members, and in the case of a tie, the governor has the decisive vote. If the governor is not present, the most senior board member in terms of years chairs the meeting. Voting patterns are nominally accounted for in the respective monetary policy statement, and the minutes include a section in which a dissident member justifies his vote.

The Ministry of Finance (MoF) attends monetary policy meetings to discuss the global and domestic outlook and the fiscal accounts. However, they do not have voting rights. Still, presence of MoF officials in monetary policy meetings is unusual, and not desirable from a policy credibility viewpoint.

Historically, Banxico has had an average of 30% of meetings with dissenting votes⁶ (see graph below). We define a divided decision as one in which at least one board member publicly votes against the prevailing monetary policy rate decision, as reported by the respective statement or minutes. Banxico has shown no clear bias in its dissenting votes, meaning it sometimes leaned towards a more dovish decision (larger cut or smaller hike) and sometimes towards a hawkish twist (larger hike or smaller cut).



Monetary policy transmission mechanisms

In Mexico, the monetary policy transmission mechanism operates mainly through three key channels: the exchange rate, inflation expectations, and the interest rate (yield curve). As an economy with high trade openness, changes in the policy rate influence the exchange rate: for example, a higher interest rate differential with the U.S. may lead to an appreciation of the Mexican peso, lowering production costs in tradable sectors and easing inflation pressures. Simultaneously, the anchoring of inflation expectations - strengthened under Banxico's inflation-targeting framework - reinforces the effectiveness of the policy stance, as stable long-term expectations reduce pass-through from shocks to inflation outcomes.

The interest rate or "yield curve" channel also plays a meaningful role: research shows that adjustments in the policy rate transmit into government bond yields (from 1 month up to 10 years) and bank lending and deposit rates. While the credit channel is weak in Mexico - due to relatively low credit penetration and financial inclusion - it remains operative. Firms and households with bank relationships experience significant adjustments in lending and deposit rates following policy changes which, in turn, influence their consumption decisions.

Although the exchange rate channel is the main transmission channel, the inflation passthrough depends on the output gap⁷ and it's relatively low compared to peers, consistent with a credible monetary framework and moderate exchange-rate volatility. For other LatAm markets, currency dynamics may carry a more direct inflation-transmission risk.

⁶ See more details at https://macroattachment.cloud.itaui.com.br/attachments/dda98e75-e5a7-4bc0-8761-0f05db8b83f5/20250725_MACRO_VISION_Central_Banks_LatAm.pdf.

⁷ See more details at banxico.org.mx/publicaciones-y-prensa/informes-trimestrales/%7B206D12BE-1280-AC4A-2F7A-D94BC95E0F24%7D.pdf.

Communication framework: transparency and credibility are key

Over the past two decades, Banxico has transitioned from issuing only short post-meeting statements to providing more detailed press releases, minutes, and quarterly inflation reports⁸. This shift has enhanced transparency and accountability, in line with international best practice. Banxico's communication framework is considered relatively advanced within Latin America, balancing timely transparency with market discipline. Its quiet period is neither unusually restrictive nor lax compared to global central banks, and the regular publication of minutes and inflation reports offers investors robust insight into its reaction function. Given Banxico's high credibility premium, markets tend to react to even subtle shifts in tone once communication resumes.

Prior to each monetary policy decision, Banxico imposes a seven-day silent period on governing board members. During this time, board members refrain from making public comments on monetary policy or the economic outlook.

The central bank publishes detailed minutes two weeks after each policy meeting, providing insights into the debate, individual perspectives, and the balance of risks considered by the governing board. In addition, Banxico releases quarterly inflation reports, which outline its macroeconomic forecasts and medium-term policy stance, and publishes an annual report to Congress in January (Programa Monetario).

Calendar for 2026				
	Quiet period*	Monetary policy statements	Minutes	Quarterly report
January	29		8	
February		5	19	26
March	19	26		
April	30		9	
May		7	21	27
June	18	25		
July	30		9	
August		6	20	27
September	17	24		
October	29		8	
November		5	19	26
December	10	17		

*Start of the period. 7 days before the monetary decision. Source: Banxico, Itaú

Banxico's silent period is broadly in line with international standards. For example, the Fed observes a 10-day blackout period before FOMC meetings, while the ECB applies a one-week quiet period. In LatAm, Brazil's central bank enforces a two-week silent period around the meeting and publishes minutes just one week after decisions (ending the quiet period). Chile's central bank follows a one-week blackout and publishes minutes 11 working days after each decision. Colombia's central bank has a shorter embargo, with minutes published a week later, though the depth of disclosure is less detailed than Banxico's.

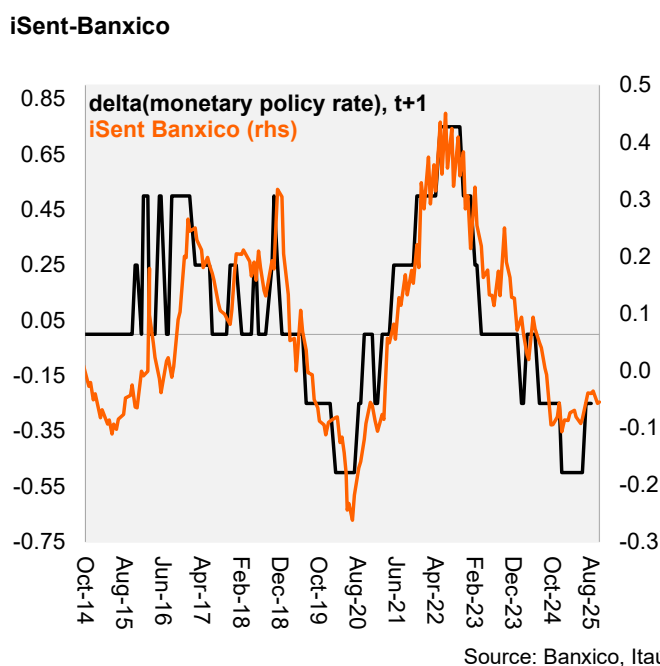
⁸ Avances recientes en la estrategia de comunicación del Banco de México, Informe sobre la inflación Enero - Marzo 2023. See more details at: <https://www.banxico.org.mx/publicaciones-y-prensa/informes-trimestrales/recuadros/%7B2881AE92-AE1D-CDF5-36DF-F5228639265A%7D.pdf>

Communication tone: Itaú's Central Bank sentiment classifier for Mexico

Central bank communications are crucial for guiding expectations, especially within inflation-targeting frameworks, managing the economy, and implementing monetary policy. A vast body of literature has explored the use of natural language processing (NLP) to analyze these communications. Effective NLP models have the potential to address several challenges faced by central bank watchers. They can mitigate human biases, automate the classification of documents written in various languages and time zones, and create a fast and historically comparable assessment of complex messages.

To better assess the tone of Banxico's communication, we built a sentiment classifier using GPT-4 to categorize sentences from the bank's statements and minutes since 2000 as dovish, hawkish or neutral. iSent-Banxico aggregates all sentences and assigns a sentiment class, which can be dovish (indicating more monetary policy easing or less tightening), hawkish (indicating the opposite), neutral, or out-of-context. The index is constructed based on the relative presence of each class⁹.

iSent-Banxico shows strong alignment with current and future interest rate shifts in Mexico (see graph below), with a contemporaneous correlation of approximately 0.8. The index accurately identifies the main recent cycles, including the rate hikes following the pandemic and the subsequent easing once the shock was under control.



Inflation expectations are historically anchored close to 4%

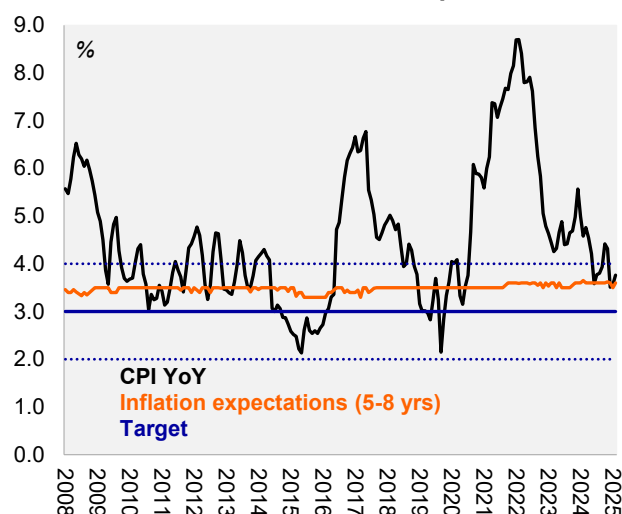
Banxico implements monetary policy with an inflation forecast targeting regime. The bank's objective has evolved from controlling high and volatile inflation in the 1990s to adopting an explicit 3% inflation target ($\pm 1\%$) in the early 2000s. This target remains the anchor for expectations, guiding both market behavior and the credibility of monetary policy.

Although both observed inflation and inflation expectations have historically exceeded the center of the target, they have generally remained within the 4% tolerance interval. The average year-over-year CPI since 2008 is 4.5%, while the average long-term inflation expectations, as captured by the Banxico Survey among market participants for the 5-to-8-year horizon, are 3.5%.

⁹ See more details about the methodology at https://macroattachment.cloud.itaú.com.br/attachments/6c75c33c-c97b-4b9e-bd8c-f0dbd702796b/20250915_MACRO_VISION_Banxico_iSent.pdf

Both observed inflation and inflation expectations run closer to the 4% upper band

Current inflation and inflation expectations



Source: INEGI, Banxico, Itaú

Expectations and credibility regarding Mexico's inflation target

Inflation expectations are considered anchored when changes in current inflation have a limited impact on medium-term expectations, indicating strong credibility of the CB. To assess credibility and the potential impact on inflation expectations from deviations above Banxico's forecast, the following equations were estimated based on Powell et. al. (2014).

$$E_t \pi_{t+i} = \alpha + \beta \pi_t + \gamma E_{t-1} \pi_{t+i} + \epsilon_t \quad (1)$$

$$E_t \pi_{t+i} = \alpha + \beta \pi_t + \gamma E_{t-1} \pi_{t+i} + \delta \text{Max} [\pi_{t-1} - T_{t-1}, 1] + \epsilon_t \quad (2)$$

Where:

$E_t \pi_{t+i}$ is the expected inflation in period t over the end-of-year inflation of $t+i$, where $i=1$

π_t is the inflation during the period t

T_t is Banxico's inflation forecast

ϵ_t is the error term

Our analysis covers the period from November 2001 to June 2025, which includes two major shocks, the Global Financial Crisis (GFC) and the pandemic. Inflation data were obtained from INEGI, inflation expectations from Banxico's survey, and inflation forecasts from the Central Bank's quarterly reports.

The rationale behind the equations is to analyze which variables affect inflation expectations once previous-month expectations are controlled for. One way to determine if expectations are anchored is by examining the role of current inflation. If the β coefficient is statistically significant and quantitatively greater than one, it indicates that expectations are not well-anchored and respond more than proportionally to increases in inflation.

The table below presents the results when considering next year's end-of-year inflation expectations for the full sample (November 2001 – June 2025) and the restricted sample (February 2018¹⁰ – June 2025). In the first case, current inflation has a statistically significant effect on next year's expectations (column 1). However, the coefficient of 0.096 is less than one, indicating a small but statistically significant impact.

Model estimation: current inflation does not proportionally affect inflation expectations deviations

Variables	Nov 2001 - June 2025			Feb 2018 - Jun 2025		
	1	2	3	1	2	3
Current inflation	0.096*** <i>0.0071</i>	0.104*** <i>0.0077</i>	0.106*** <i>0.0077</i>	0.127*** <i>0.0138</i>	0.142*** <i>0.0159</i>	0.147*** <i>0.0163</i>
Lagged inflation expectations	0.873*** <i>0.0380</i>	0.865*** <i>0.0378</i>	0.871*** <i>0.0375</i>	1.324*** <i>0.2022</i>	1.193*** <i>0.2114</i>	1.15*** <i>0.2138</i>
Deviation vs. Banxico forecast		-0.06** <i>0.0237</i>	-0.054*** <i>0.0170</i>		-0.072 <i>0.0386</i>	-0.067** <i>0.0311</i>
Constant	0.104	0.167	0.113	-1.675**	-1.187	-1.076
Observations	284	284	284	89	89	89
Adjusted R ²	0.79	0.80	0.80	0.77	0.78	0.78

Standard error in italics: *p<0.10, **p<0.05, ***p<0.01.

Column 2 refers to a 1% deviation from Banxico's forecast, and column 3 to a 0.5% deviation.

The deviation of actual inflation from Banxico's forecast (column 2) has a statistically significant effect. In other words, when inflation exceeds the Central Bank's forecast by one percentage point, it further impacts the anchoring of expectations.

Column 3, which considers a 0.5% deviation from Banxico's forecast, shows no significant changes in coefficients compared to the previous column. This suggests that the variable could explain short-term inflation expectations.

When the analysis period is restricted to February 2018 - June 2025, the coefficients for current inflation and lagged expectations are higher than in the full-sample results, although still less than one. Moreover, the coefficient for Banxico's point forecasts is not statistically significant for a 1.0% deviation from Banxico's forecast.

In summary, the results indicate that, although current inflation has a positive and statistically significant impact on inflation expectations, the effect is small and well below the 1 p.p. threshold. Furthermore, the findings show a cost to short-term expectations when inflation deviates from Banxico's forecast, albeit of low magnitude. This leads to the conclusion that short-term inflation expectations have remained anchored within the tolerance interval of the target since 2001, indicating that Banxico enjoys strong credibility among market participants.

It is worth mentioning again that inflation expectations were never anchored at the center of the target, but rather at the upper bound. Using the international benchmark, developed countries quickly converged to a 2% inflation target (2.5% in Australia). In LatAm, convergence toward the 3% target (2% in Peru) occurred more than 10 years ago. The exception is Brazil, where convergence to the 3% target took much more time¹¹. In a country with a history of high inflation, such as Mexico, higher inflation (4% vs. 3%) could be particularly harmful, especially because the inflation tax has a greater impact on people in the lowest income brackets. In the context of the current easing cycle, it could be a less costly opportunity for Banxico to try to anchor medium- and long-term inflation expectations to the 3% target.

¹⁰ In 2018, Banxico began releasing its eight-quarter CPI forecast in the quarterly report.

¹¹ For more details, see our Macro Vision:

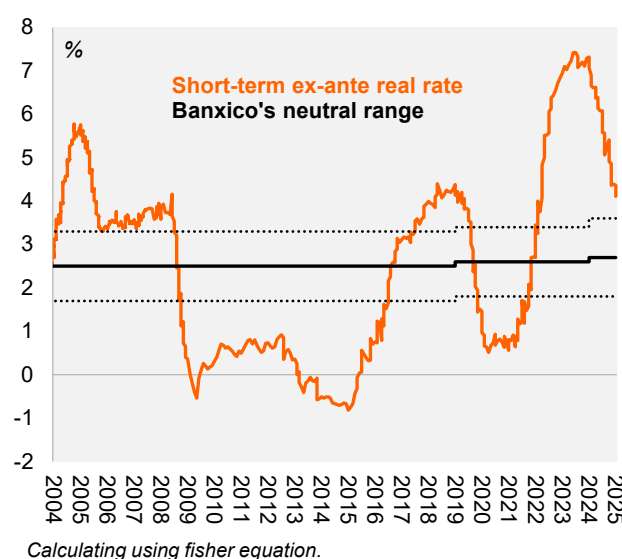
https://www.itaú.com.br/media/dam/m/4d5bee790e1765cc/original/20230615_MACRO_VISION_ContinuousTargeting.pdf

Discussing the unobservable: the real neutral rate

The equilibrium real interest rate, or neutral interest rate, is the level that balances the supply and demand for savings and investments. In other words, it is the level consistent with GDP at its potential and inflation at the target. Estimating this rate involves a high degree of uncertainty due to it being a latent (unobservable) variable and is quite sensitive to the chosen method. Nevertheless, the neutral interest rate is extremely relevant to the decisions made by economic agents. The relationship between the real effective interest rate and the neutral interest rate allows us to infer the calibration of monetary policy.

Banxico publishes its estimate for the neutral interest rate in its quarterly report, and it has been slowly increasing its value. The current estimate stands at a range of 1.8% to 3.6%, with a midpoint of 2.7%. The last time Banxico updated the estimate was on August 28, 2024, from a range of 1.8% to 3.4%, with a midpoint of 2.6%. Prior to that, the midpoint estimate was 2.5%. See graph below.

Short-term ex-ante real rate and Banxico's estimation for the neutral rate in the long term



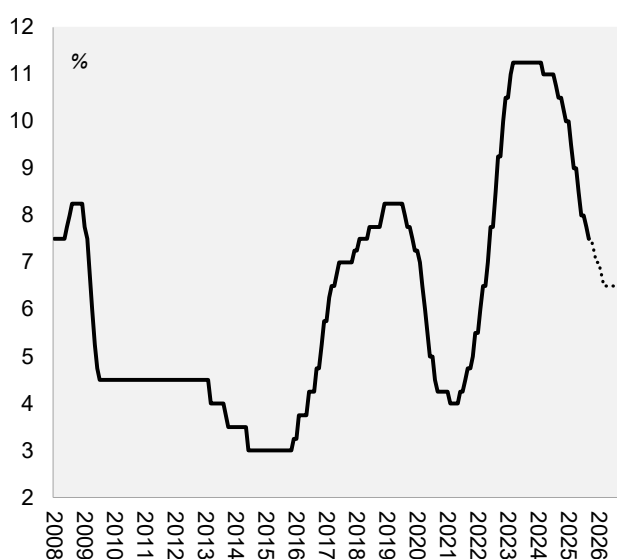
Source: INEGI, Banxico, Itaú

Current easing cycle

Since 2008, Banxico has implemented monetary policy by targeting the overnight interest rate (**Tasa de Fondeo**). Following the pandemic-induced price shock, Banxico raised its monetary policy rate to 11.25%, the highest level in its history. Since then, inflation has decreased, with both non-core and core inflation returning to pre-2020 levels. In this context, Banxico began reducing the monetary policy rate in March 2024.

More recently, Banxico cut the policy rate by 25-bp to 7.50% at the September meeting, as expected. The decision was divided once again, with one dissenting vote in favor of keeping the policy rate stable. Additionally, the forward guidance remained unchanged, stating that "the board will assess further adjustments to the reference rate".

Banxico - policy rate



Source: Banxico, Itaú

Barring any shocks, the current dynamics - strong USDMXN and an overall declining CPI trajectory - remain in place. In the context of a widening negative output gap, Banxico is likely to maintain its forward guidance (plural) in November as well, pointing towards an extension of the cycle into 2026.

Due to the lack of surprises, we maintain our year-end forecast for the monetary policy rate at 7.0% in 2025 and 6.5% in 2026, and we continue to expect consecutive cuts.

Dual mandate discussion: higher costs and likely higher inflation after all

Recently, President Sheinbaum stated that there should be a discussion on whether Banxico should focus solely on inflation control or broaden its vision to include economic development, without losing autonomy. For now, she has ruled out constitutional changes for the immediate implementation of a dual mandate for Banxico. In this regard, the entire board agreed that Banxico's mandate is appropriate and should not be changed to a dual objective.

A sustained and credible dual-mandate debate, especially if accompanied by proposals to alter appointment rules or shorten terms, would likely lead to an increase in short- and medium-term inflationary risk premia and heightened uncertainty. This could make inflation expectations less firmly anchored.

Final remarks

Banxico remains one of Latin America's strongest and most credible central banks. Its institutional framework, strong technical staff, single price-stability mandate, and clear, credible communication have anchored inflation expectations even through episodes of extreme global volatility. Empirical results confirm that deviations in inflation have only a small impact on expectations, underscoring agent's trust in Banxico's policy reaction function. Therefore, close monitoring of board composition, tone shifts in meeting minutes, and executive rhetoric will continue to be essential for anticipating any changes in policy credibility.

Banxico's governance rules, such as staggered terms, Senate ratification, and strict technical requirements for candidates, continue to provide structural buffers against political capture. The operational practices, including regular minutes, forecasts, and a well-established silent period, reinforce predictability and credibility.

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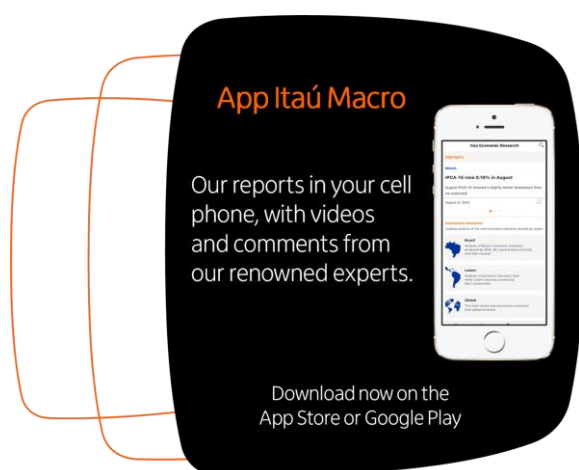
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