Macro scenario - Mexico

October 10, 2025

Stillness in motion

- Mexico is planning to increase tariffs on over 1,400 products against countries without free trade agreements. The goal is to increase tax revenues, protect domestic industry, and tackle US concerns about rerouted shipments from Asia ahead of the USMCA renewal in July 2026.
- We keep our year-end forecast for the monetary policy rate at 7.0% in December 2025 and 6.5% at the end of 2026. Banxico cut the policy rate by 25-bp to 7.50% in the last meeting, with the forward guidance indicating additional adjustments ahead. Barring any shocks, if the current dynamics (strong USDMXN and overall declining CPI trajectory) remain, and 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.
- Our year-end forecast for headline inflation remains at 4.1% in 2025, edging down to 3.7% next year. Despite some negative base effects expected for next year, the balance of risks to our inflation forecast is skewed to the downside due to weak economic activity and a strong peso.
- We have left our GDP forecast at 0.6% for this year because economic activity has behaved as expected, with a weak start of 3Q25. However, we revised upwards our GDP forecast for 2026 to 1.5% from 1.2% previously, explained by higher US GDP growth, driven by more consumption of goods.
- We still forecast the MXN at 19.0/USD for this year and 19.5/USD for next year. We remain cautious as the upcoming USMCA renegotiations could prompt stronger demand for hedging.

Mexico will increase tariffs against countries without free trade agreements

At the beginning of September, the Mexican government sent to the Congress an initiative to increase import tariffs on 1,463 product lines (see table), targeting sectors such as auto parts, vehicles, textiles, and aluminum. Tariff rates are below the World Trade Organization's maximum and only apply to imports from countries without free trade agreements with Mexico, mainly China.

Higher tariffs: from 16.1% to 33.8%, on average

Sectors	Product lines: Number	Product lines: %	Current tariff	Proposed tariff
Total	**1,463**	**100**	**16.1 on avg.**	**33.8 on avg.**
Auto parts	141	9.6	0-35	10 to 50
Auto	13	0.9	15-20	50
Apparel	308	21.1	10 to 35	35-50
Plastic	79	5.4	0-35	10 to 35
Steel	248	17	0-50	20-50
Appliances	18	1.2	0-35	35
Toys	37	2.5	0-15	35
Textile	398	27.2	0-35	10 to 50
Furniture	28	1.9	0-35	35
Footwear	49	3.3	0-35	35
Leather goods	18	1.2	0-20	35
Paper	47	3.2	0-35	15 to 50
Motocycles	8	0.5	0-15	35
Aluminuim	21	1.4	0-5	35
Trailers	1	0.1	0	35
Glass	25	1.7	0-35	35-50
Cosmetics	24	1.6	10 & 15	35-50

Source: Ministry of Economy, Itaú.

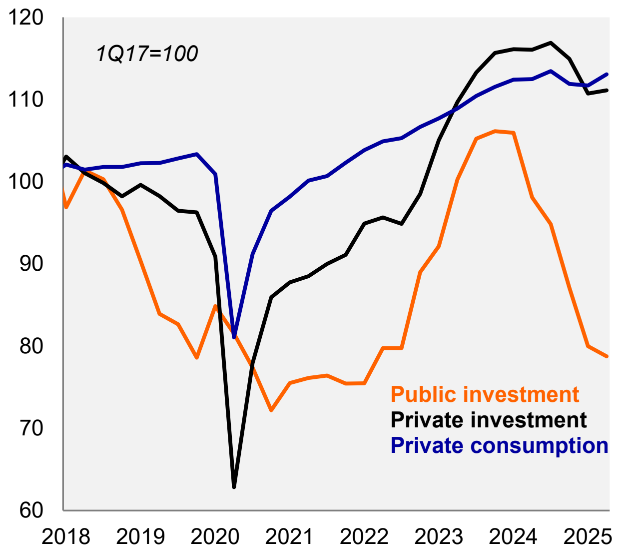
This measure aims to increase tax revenues in the context of slow intake growth and the absence of fiscal reforms. As a result of tariff hikes earlier in the year, import tax revenues rose by roughly 25% as of August, suggesting the increase from an average tariff of 16.1% to 33.8% should render even greater revenues (along with other macro effects). Additionally, this policy is part of Plan Mexico, which seeks to protect domestic industry and reduce dependence on Asian imports. Lastly, it addresses US concerns of rerouted shipments from Asia ahead of the USMCA renewal due in July 2026.

2026 GDP revised up on US spillovers

We are maintaining our GDP forecasts at 0.6% in 2025 but revised 2026 up to 1.5%, from 1.2%.

Economic activity experienced a broad-based 0.9% MoM SA contraction across sectors in July, following a modest rise in June (0.1%). Sequentially, activity fell by 0.4% QoQ/SAAR, with a flat carry-over for 2025. However, leading indicators for August and September suggest a more positive outlook for the remainder of 3Q25.

The marginal improvement in private investment could continue in 2026



Source: INEGI, Itaú

Looking ahead, we expect Mexico's growth to continue receiving some support from external factors, but these will become less relevant, compared to the first quarter of 2025. The outlook for domestically driven sectors will remain mixed, with a slowdown in local services and a contraction in investment. However, investment could continue to show signs of improvement, based on the start of public projects, such as railways construction and road maintenance.

For next year, we also expect stronger fiscal spending of 5.0% YoY, after a projected contraction of 3.6% this year.

The upward revision to our 2026 growth forecast in the US, from 1.5% to 2.0% driven by more consumption of goods, should be a tailwind for the Mexican economy, especially if the USMCA remains in place. Together, these factors, combined with lower interest rates, suggest a more optimistic outlook for the upcoming year.

All in all, external demand has been the main growth driver this year, even in the context of elevated tariff uncertainty. The trade balance is posting better results, with some signs of persistent front-loading in exports. In this context, **we revised our trade balance forecast to -USD 500 million this year (from -USD 10 billion) and a -USD 5 billion in 2026 (also from -USD 10 billion), with unusually high uncertainty especially in 1H26, given the USMCA renegotiation.**

Copy & paste for the pace and forward guidance

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

Barring any shocks, the current dynamics (strong USDMXN and overall declining CPI trajectory) remain in place, and 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.

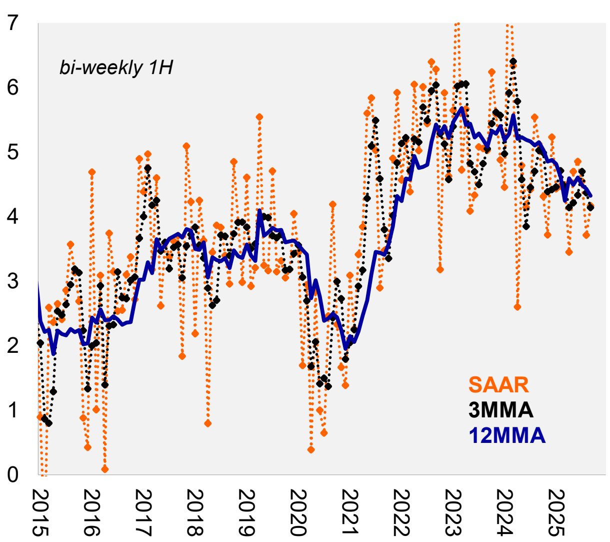
Core CPI is considerably better at the margin

Core inflation has shown some progress in recent fortnights, hovering between 4.5% and, most recently, 4.0% on an annual and seasonally adjusted basis. This improvement has been mainly supported by other services, which currently have an annual rate close to 5.0%, lower than the average of 6.1% in 2024.

However, the inflation landscape is not straightforward. Core inflation is pressurized by a resilient labor market, while non-core inflation is unusually low due to deflation in agricultural prices. Given the inherent volatility in non-core components, a reversion to historical average is likely, which could exert upward pressure on headline inflation in the future.

Our year-end projection for headline inflation remains at 4.1% in 2025, edging down to 3.7% next year. Despite some negative base effects, the balance of risks to our inflation forecast is skewed to the downside due to weak economic activity and a strong peso.

Core services are improving



Source: INEGI, Itaú

USDMXN Continues to Strengthen

Our FX outlook remains at MXN 19.0 per USD for this year and 19.5 per USD for 2026. We continue to anticipate the US dollar to keep weakening through the rest of the year, though at a more gradual pace than in recent months. This backdrop supports a firm Mexican peso; however, we remain cautious as the upcoming USMCA renegotiations could prompt stronger demand for hedging in the end of this year.

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Mexico | Forecast

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-8.4	6.0	3.7	3.4	1.4	**0.6**	0.6	**1.5**	1.2
Nominal GDP - USD bn	1,121	1,316	1,467	1,798	1,857	**1,943**	1,943	**2,041**	2,035
Population (millions)	127.7	129.0	130.1	131.2	132.3	**133.4**	133.4	**134.4**	134.4
Per Capita GDP - USD	8,844	10,218	11,241	13,688	14,033	**14,572**	14,572	**15,185**	15,140
Unemployment Rate - year avg	4.4	4.1	3.3	2.8	2.7	**2.7**	2.7	**2.7**	2.7
Inflation									
CPI - %	3.2	7.4	7.8	4.7	4.2	**4.1**	4.1	**3.7**	3.7
Interest Rate									
Monetary Policy Rate - eop - %	4.25	5.50	10.50	11.25	10.00	**7.00**	7.00	**6.50**	6.50
Balance of Payments									
MXN / USD - eop	19.9	20.5	19.5	17.0	20.8	**19.0**	19.0	**19.5**	19.5
Trade Balance - USD bn	34.2	-10.8	-28.1	-12.3	-18.5	**-0.5**	-10.0	**-5.0**	-10.0
Current Account - % GDP	2.4	-0.3	-1.2	-0.3	-0.3	**0.1**	-0.6	**-0.4**	-0.6
Foreign Direct Investment - % GDP	2.5	2.5	2.5	2.0	2.0	**2.0**	2.0	**1.9**	2.0
International Reserves - USD bn	195.7	202.4	199.1	212.8	229.0	**255.0**	230.1	**263.0**	230.6
Public Finances									
Nominal Balance - % GDP	-2.8	-2.8	-3.2	-3.3	-5.7	**-4.3**	-4.0	**-4.1**	-4.1
Primary Balance - % GDP	0.1	-0.3	-0.4	-0.1	-1.5	**0.3**	0.3	**0.5**	0.5
Net Public Debt - % GDP	49.9	48.9	47.6	46.8	51.4	**52.3**	52.3	**52.3**	52.3

Source: IMF, Bloomberg, INEGI, Banxico, Haver and Itaú

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