

Macro scenario - Mexico



February 27, 2026

How low can you go?

- ▶ We forecast 2026 GDP growth at 1.5%, supported by expansion in its main trading partners and resilient private consumption, among other factors. In the context of a weak investment outlook, the administration's recently announced infrastructure investment plan could provide extra push to demand.
- ▶ We remain cautious about the inflation outlook, leading us to maintain our year-end annual forecast at 3.7%. Upside risks stem from persistent service inflation dynamics and uncertainty from second-round effects from increased excise taxes and tariffs.
- ▶ Even though Banxico revised its short-term inflation forecast significantly higher, shifts in guidance, which reveal the proclivities of the majority of the board, and expected economic slack led us to pencil in a lower terminal rate of 6.5% (previously at 6.75%). Our scenario considers a well-behaved currency, as interest rate differentials with the US decline.

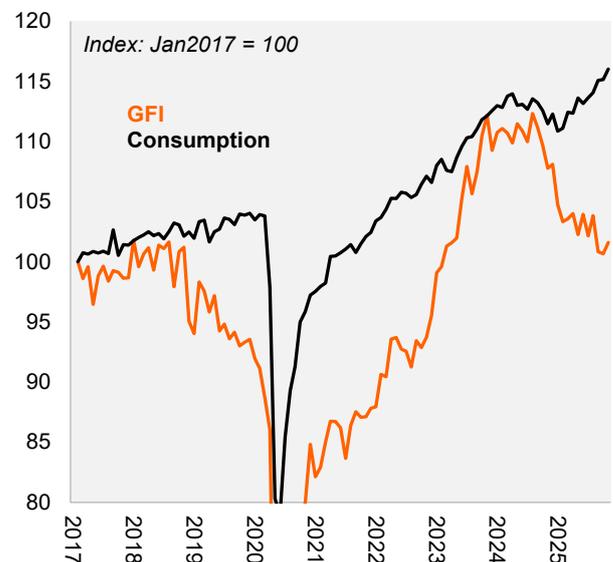
Activity exceeded low expectations at the margin.

Mexico's GDP rose 0.9% QoQ SA in 4Q25, above consensus, leading to 2025 GDP growth of 0.6%, above our 0.3% forecast. Even with this favorable surprise, growth is still well short of our potential estimate of ~2%. Industrial production also surprised positively at the margin at the end of 2025, primarily driven by construction, albeit in the context of a second consecutive year of contraction. On the demand side, gross fixed investment is still in the doldrums, contracting 3.3% QoQ/SAAR in November, while, in contrast, private consumption expanded by 4.6% QoQ/SAAR in November and 6.5% in October, in the context of resilient labor market dynamics. All in all, the carry-over for 2026 sits at 0.7%.

We maintain our view of a gradual GDP upswing this year to 1.5%, supported by still strong growth in the US and a marginal boost from the 2026 World Cup (no pun intended...). We foresee greater momentum in 2027, with growth increasing towards potential. The government recently unveiled preliminary details of its Infrastructure Investment Plan for 2026–2030 which this year alone would, in principle, allocate an additional 2% of GDP to sectors such as energy, railways, highways, ports, health, water, education, and airports. In the past, similar announcements were only partially executed. We are waiting for additional details on the plan to gauge its impact on our forecasts – given natural lags in capex

implementation, reaching the full 2% in 2026 seems a tall order. An intensification or persistence of recent bouts of violence could weigh on economic activity.

Domestic demand dynamics diverge



Source: INEGI, Itaú.

Separating the inflation signal from the noise

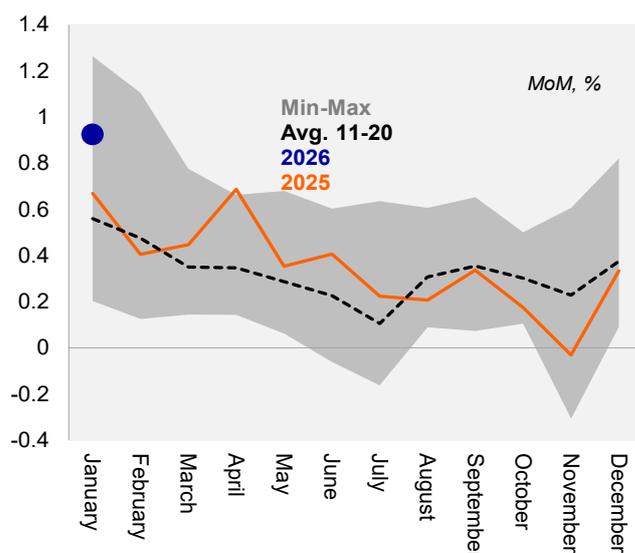
On an annual basis, inflation edged up to 3.8% in January, essentially in line with market forecasts, fluctuating in the upper half of Banxico's tolerance range since July. The prints details were, however,

noisy, reflecting one-offs from an increase in excise taxes and tariffs, as well as sharp transitory increases in certain non-core goods. At the margin, 1H February CPI rose 0.25% 2w/2w, above the Bloomberg median (0.22%), leading to the third consecutive uptick in annual headline inflation to 3.92%, up by 0.3pp since 2H December. Core CPI increased 0.22%, however, slightly below expectations (0.27%), leading to a slight annual decline to 4.52% from 4.56%, with tradables stable at 4.60% and services down to 4.44%. Upcoming prints will be key in gauging second-round effects, which, in Banxico's views, are projected to fade swiftly; however, one-year ahead survey-based inflation expectations have gradually edged up towards 3.98%.

In this context, we have maintained our 2026 inflation forecast at 3.7%, with upside risks. Services inflation is likely to remain elevated, primarily reflecting wage dynamics, including a 13% nominal minimum wage hike in January. Second-round effects from excise taxes and tariffs may end up being more persistent. The low exchange rate pass-through to inflation in Mexico suggests that currency appreciation should provide limited relief on the goods side. Growing slack in the economy could, eventually, provide additional disinflationary support for inflation convergence to the 3% inflation target over the two-year horizon. Our forecast considers inflation ending 2027 at 3.6%.

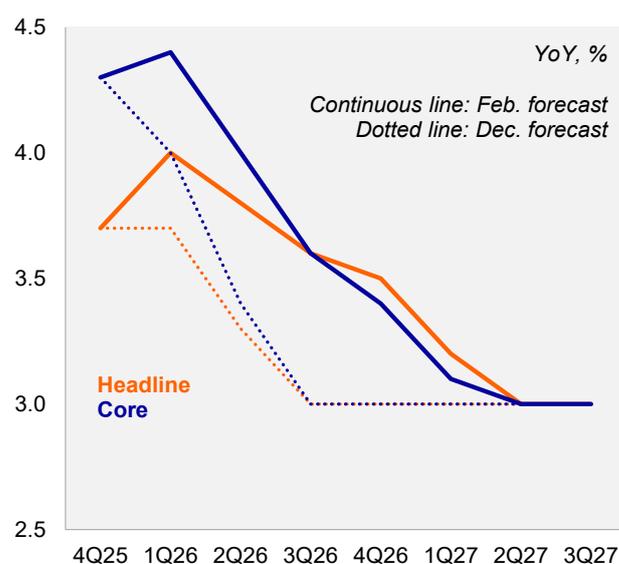
Regarding the currency, we maintain our call for the MXN to depreciate by year-end to 18.8 per dollar and to weaken gradually to 19.3 by the end of 2027. Even though the currency has appreciated swiftly since mid-November (roughly 8%), in line with regional peers, we remain cautious due to uncertainty in the USMCA negotiations, in the context of already narrow interest rate differentials with the US.

One-offs rose core goods in January



Source: INEGI, Itaú.

Banxico's CPI forecasts edged higher



Source: Banxico, Itaú.

Banxico: ready to pull the trigger again, sooner than later

An expected but dovish hold. In its February meeting, Banxico's Board kept the policy rate unchanged at 7.0%, as expected. The forward guidance signaled that the pause applies "for this occasion," while retaining the plural form of "adjustments" regarding future policy actions. This wording suggests that the Board continues to envision additional rate cuts ahead, once conditions allow. Banxico also revised its inflation forecast up,

again, with convergence to the 3% target projected for 2Q27, compared to 3Q26 in December. The balance of risks to the inflation forecasts were now deemed as “more balanced, but still biased up”, from simply “biased up” in previous decisions.

Twinking towards a lower terminal rate. Although the upward revision of inflation forecasts reflects Banxico’s heightened concerns regarding the disinflation process, shifts in the statement and guidance suggest that the Board would like to continue reducing the policy rate,

once second round effects from higher tariffs and taxes have faded, a somewhat risky, but not implausible, strategy. In this context, we reduced our terminal rate to 6.5% from 6.75%, staying at this level through 2027.

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Mexico | Forecast

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
Economic Activity								
Real GDP growth - %	3.7	3.4	1.4	0.6	1.5	1.5	2.0	2.0
Nominal GDP - USD bn	1,467	1,798	1,857	1,919	2,063	2,063	2,177	2,177
Population (millions)	130.1	131.2	132.3	133.4	134.4	134.4	135.4	135.4
Per Capita GDP - USD	11,241	13,688	14,033	14,387	15,346	15,346	16,078	16,078
Unemployment Rate - year avg	3.3	2.8	2.7	2.6	2.7	2.7	2.6	2.6
Inflation								
CPI - %	7.8	4.7	4.2	3.7	3.7	3.7	3.6	3.6
Interest Rate								
Monetary Policy Rate - eop - %	10.50	11.25	10.00	7.00	6.50	6.75	6.50	6.75
Balance of Payments								
MXN / USD - eop	19.5	17.0	20.8	17.9	18.8	18.8	19.3	19.3
Trade Balance - USD bn	-28.1	-12.3	-18.5	0.8	-5.0	-5.0	-5.0	-5.0
Current Account - % GDP	-1.2	-0.3	-0.3	-0.4	-0.6	-0.6	-0.6	-0.6
Foreign Direct Investment - % GDP	2.5	2.0	2.0	2.1	1.9	1.9	2.0	2.0
International Reserves - USD bn	199.1	212.8	229.0	252.1	263.0	263.0	270.9	270.9
Public Finance								
Nominal Balance - % GDP	-3.2	-3.3	-5.7	-4.3	-4.2	-4.2	-3.5	-3.5
Primary Balance - % GDP	-0.4	-0.1	-1.5	-0.2	0.4	0.4	0.7	0.7
Net Public Debt - % GDP	47.6	46.8	51.4	52.6	53.6	53.6	53.6	53.6

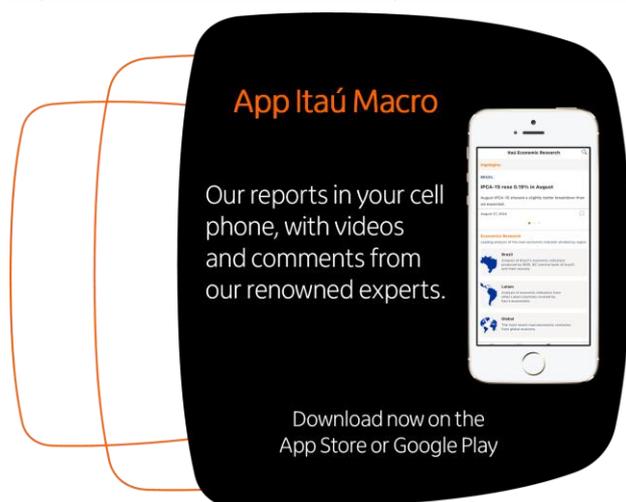
Source: IMF, Bloomberg, INEGI, Banxico, Haver and Itaú

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