



Macroeconomic Research
MEXICO: Top themes for 2025

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1. USDMXN: is there room for appreciation?

- Although we are in a scenario of a strong Dollar, the Peso benefits from solid US growth.
- Short-term models indicate space for a Peso appreciation, but domestic risk-premium (and tariff-related uncertainties) should prevent any significant deviation from current values.

2. Activity: is the economy at the start of a recession?

- Historically, activity at the start of a new administration tends to slow (already some signs of deceleration).
- But, still some solid domestic and external fundamentals support growth.

3. Fiscal: what are the effects of the expected fiscal consolidation?

- Fiscal multiplier is low in Mexico and the cuts in expenditure will come mainly in administrative items.

4. Inflation: what are the main drivers and uncertainties?

- Peso depreciation and a tight labor market prevent a more significant disinflation in 2025.
- Tariffs will pressure durable and semidurable goods, which currently are supporting the CPI deceleration.

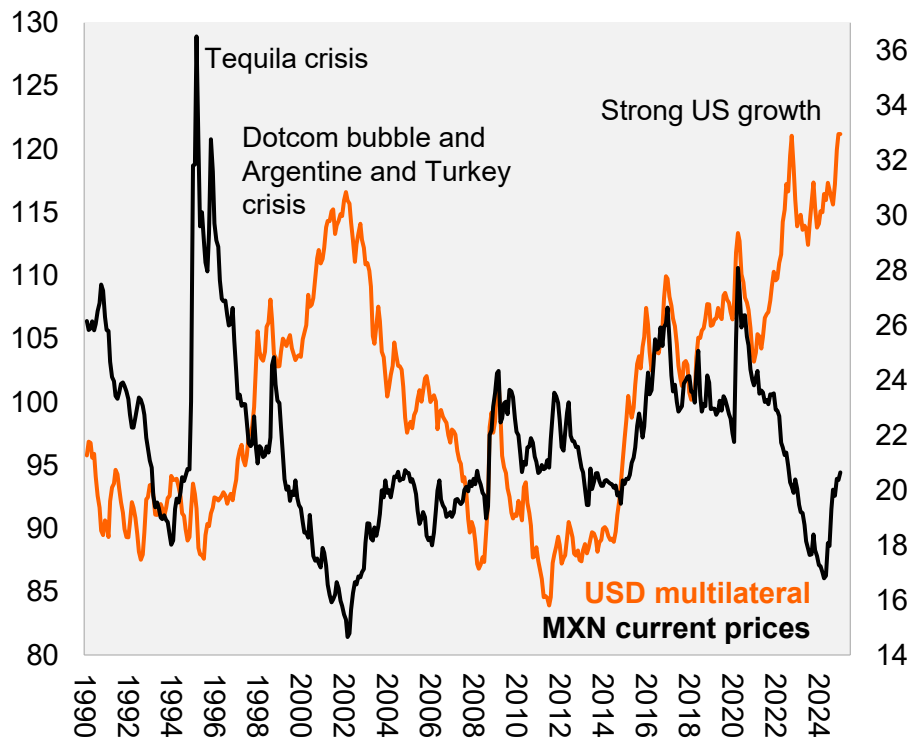
5. Monetary Policy: will Banxico be able to continue to cut rates during 1H25?

- We expect Banxico to cut 25 bps in February.
- YE 2025 policy rate at 8.5% (pace 25bps until Sep25), but tilted to a higher end-point due to tariff-related uncertainties and the Fed factor.

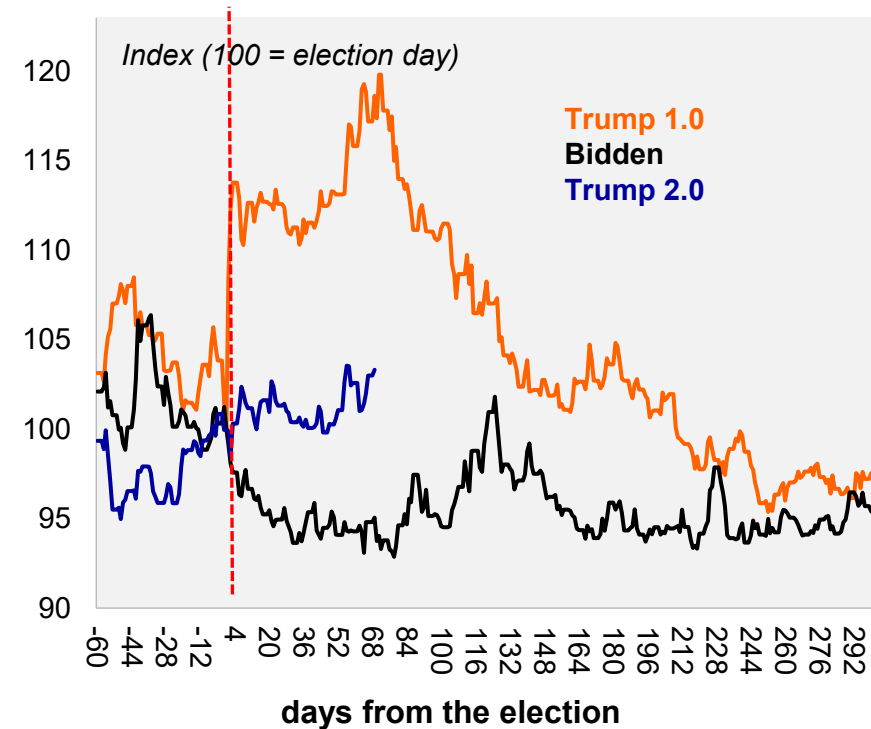
1. USDMXN: is there room for appreciation?

Although we are in a scenario of a strong Dollar, the Peso tends to benefit from solid US growth

USD REER vs. USDMXN current prices



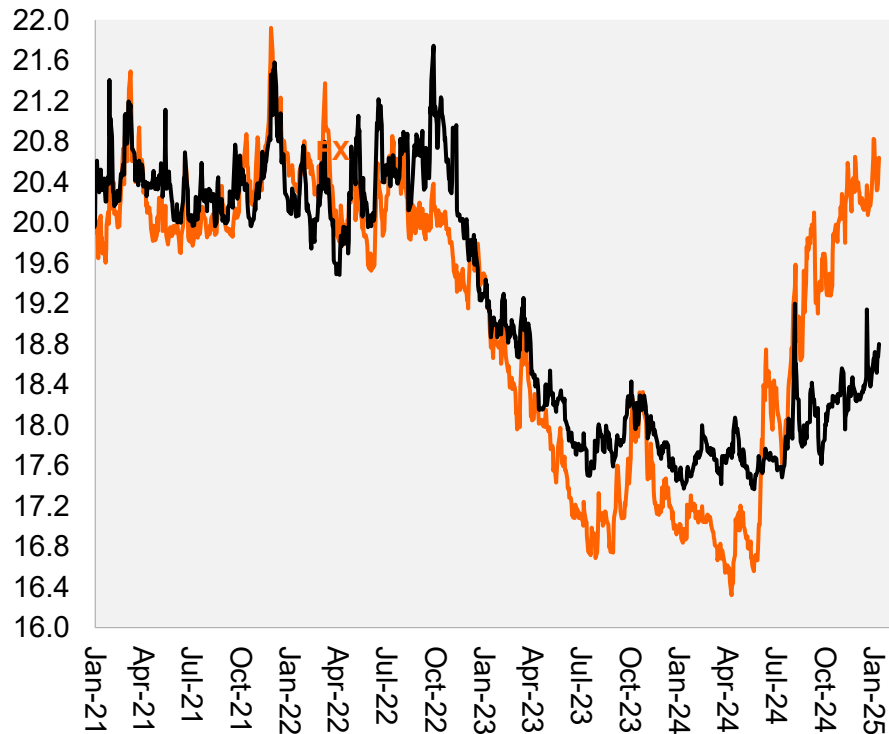
MXN after US elections



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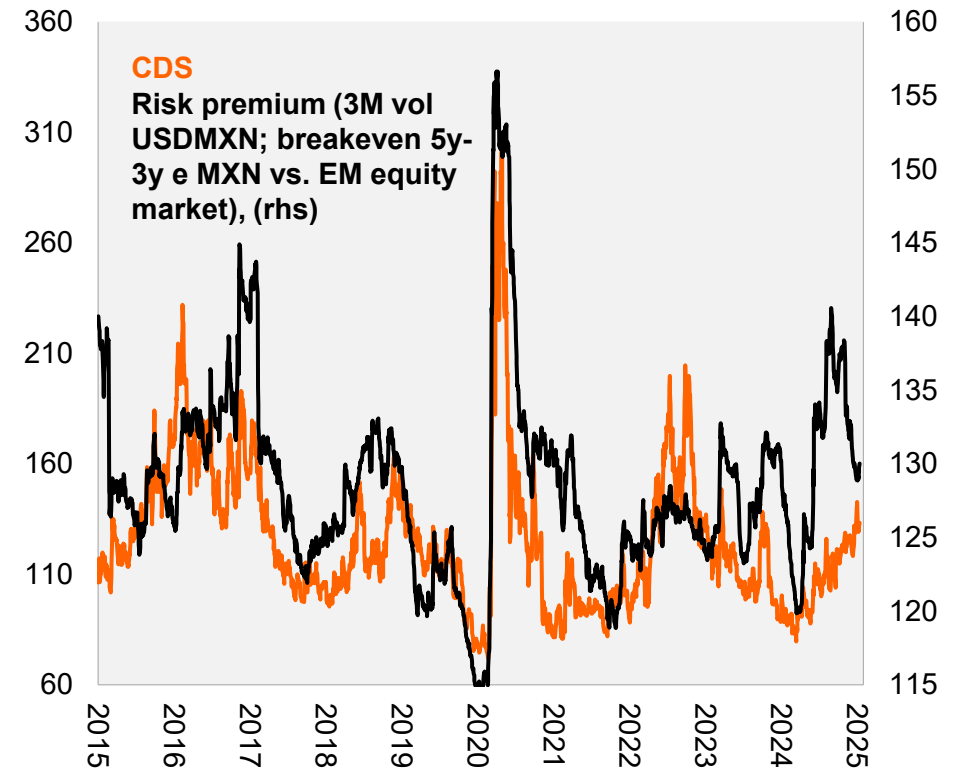
Short-term models indicate space for a Peso appreciation, but domestic risk-premium (plus tariff-related uncertainties) should prevent any significant deviation from current values

Short-term models - Mexico



Short-term fair-values are an average of two models: i) fundamentals (Fx function of interest rates differential, ToT, CDS, Vix, and other variables); ii) principal component (regression of 27 currencies in their three principal components)

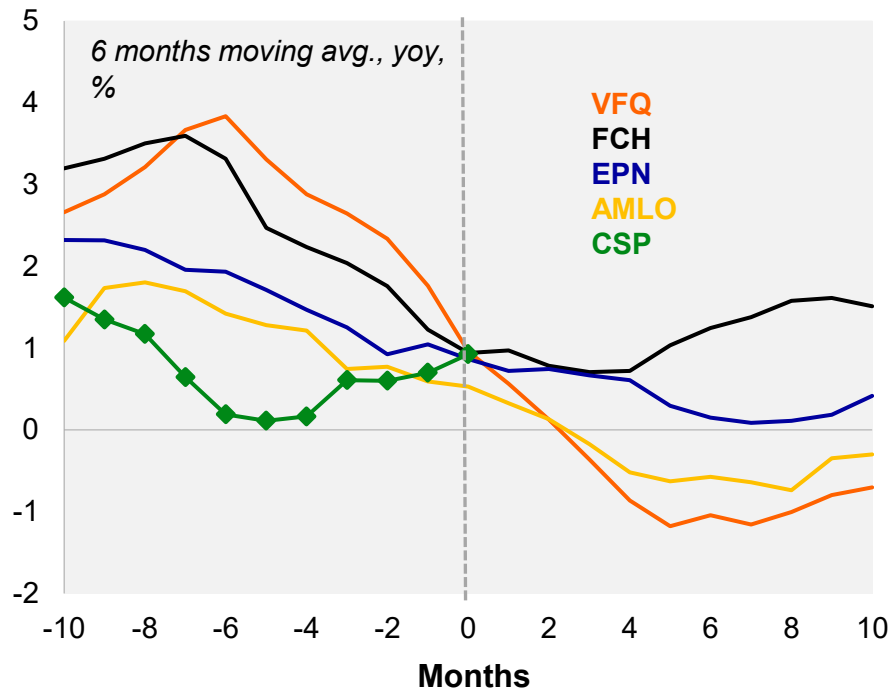
Domestic risk-premium



2. Activity: is the economy at the start of a recession?

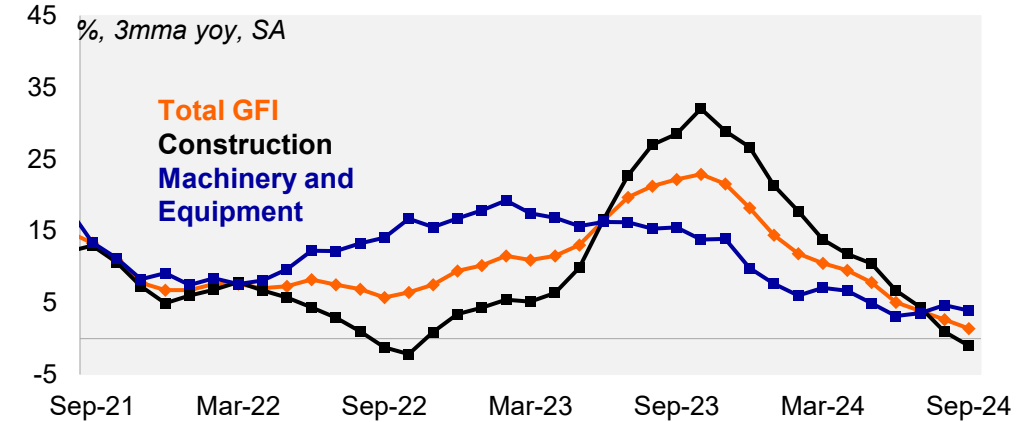
Historically, activity at the start of a new administration tends to slow (already some signs of deceleration)

Monthly GDP in MX electoral and post-electoral years*

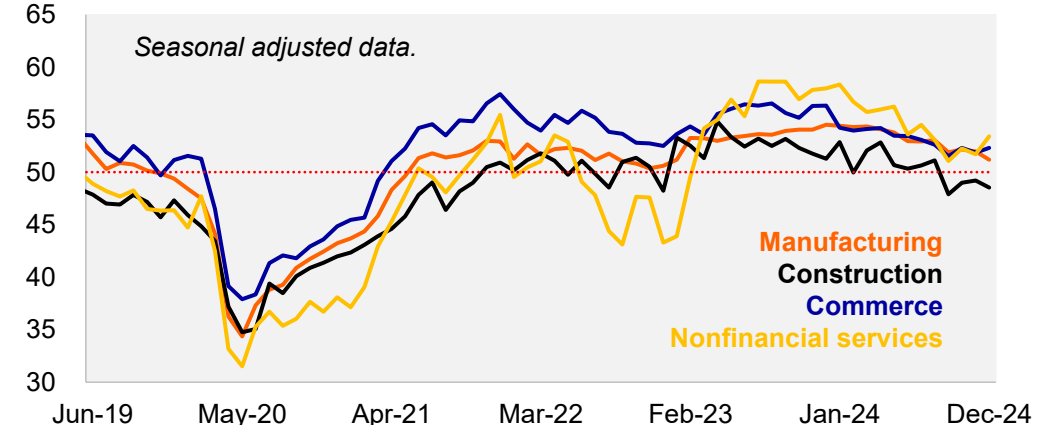


*Administrations: VFQ: Vicente Fox Quesada (2000), FCH: Felipe Calderón Hinojosa (2006), EPN: Enrique Peña Nieto (2012), AMLO: Andrés Manuel López Obrador (2018), CSP: Claudia Sheinbaum Pardo (2024).

Gross fixed investment breakdown



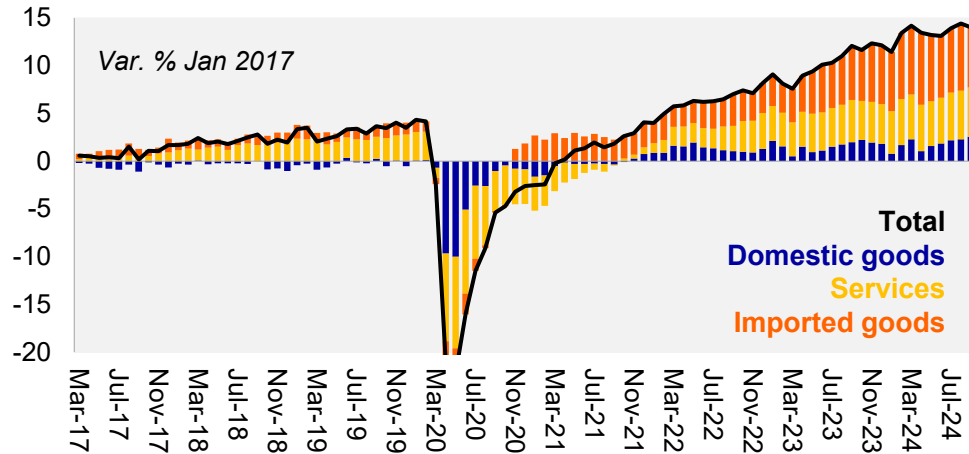
Business confidence by sectors



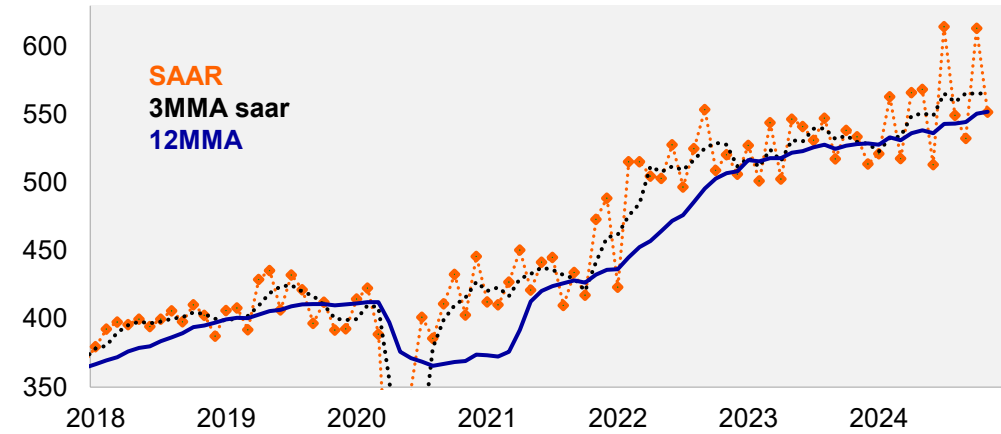
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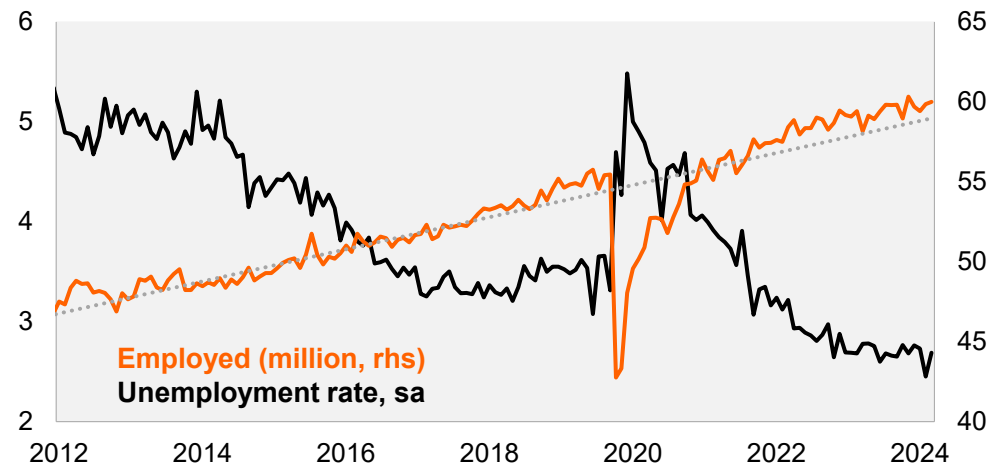
Private consumption breakdown



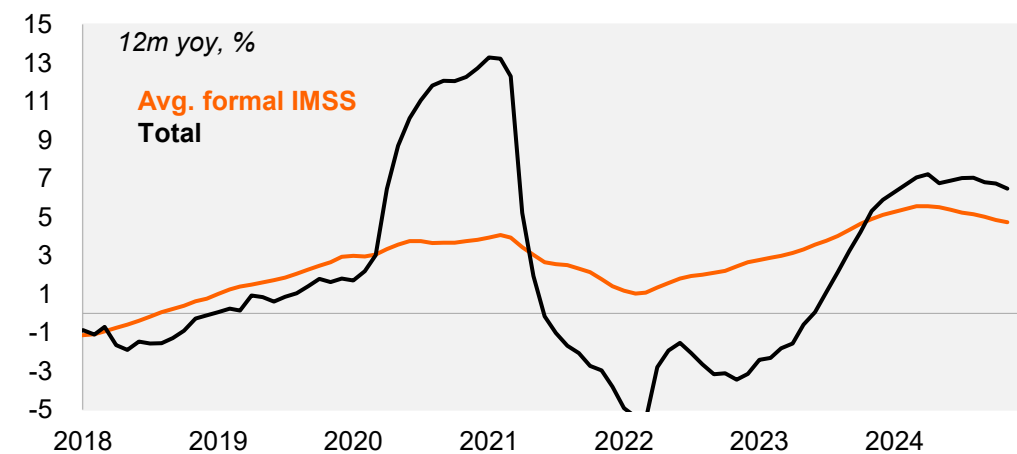
Manufacturing exports - USD bn



Unemployment rate and employed people



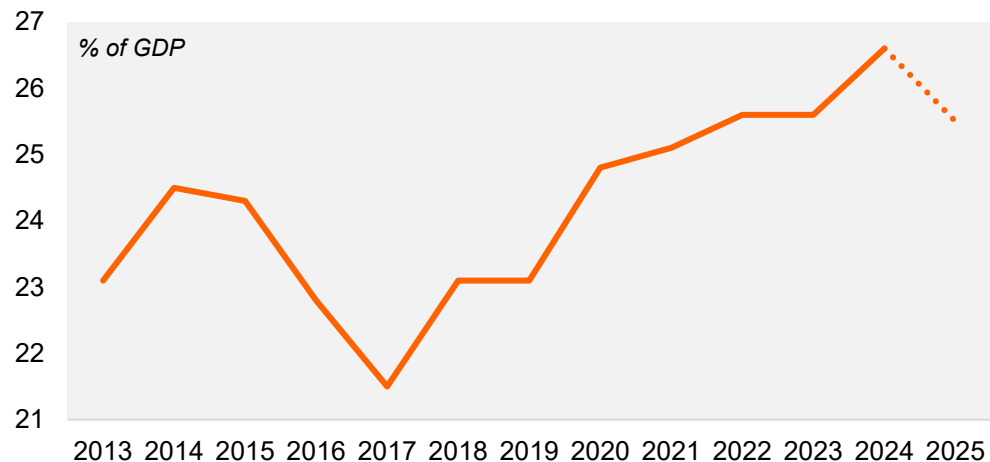
Real wages



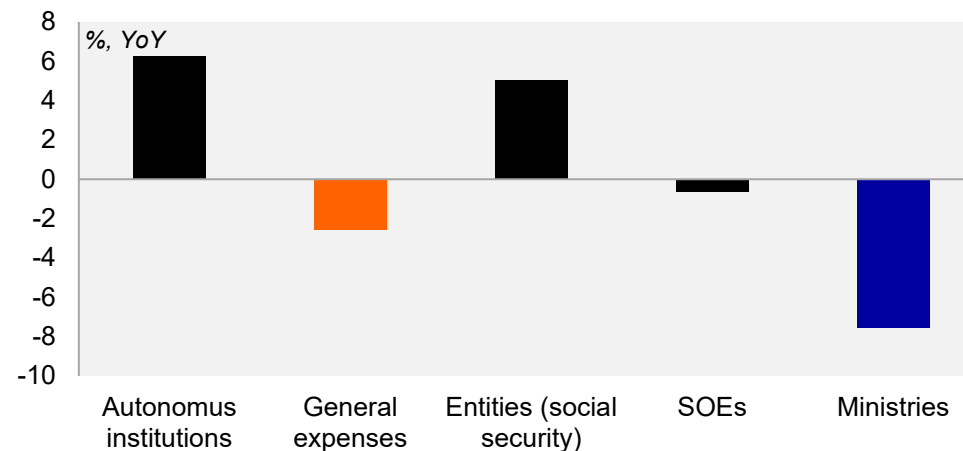
3. Fiscal: what are the effects of the expected fiscal consolidation?

Mexico's fiscal spending multiplier is low (0.7 vs. 1.2 in Chile*) and the cuts in expenditure will come mainly in administrative items

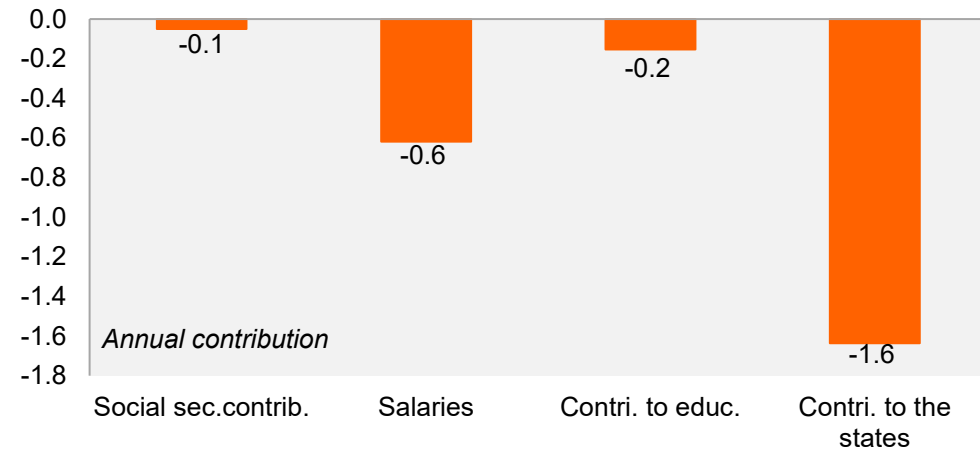
Public expenses



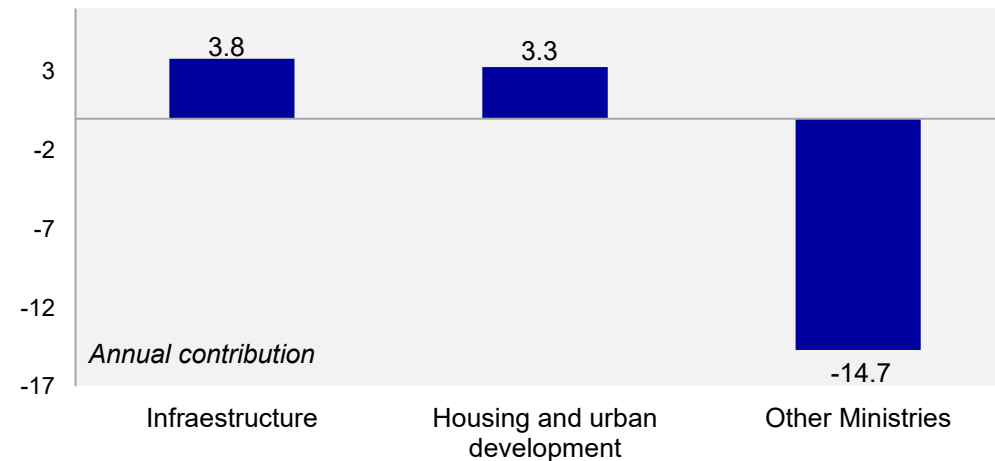
Public expenses - 2025 vs 2024



General expenses - 2025 vs 2024



Expenses to each ministry - 2025 vs 2024

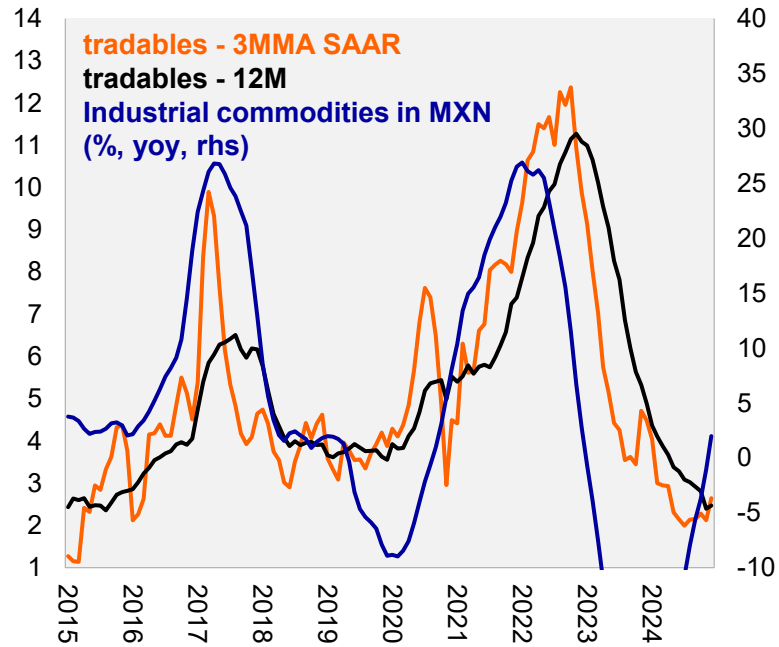


*How big are fiscal multipliers in LATAM?, IMF Working Paper, 2020.

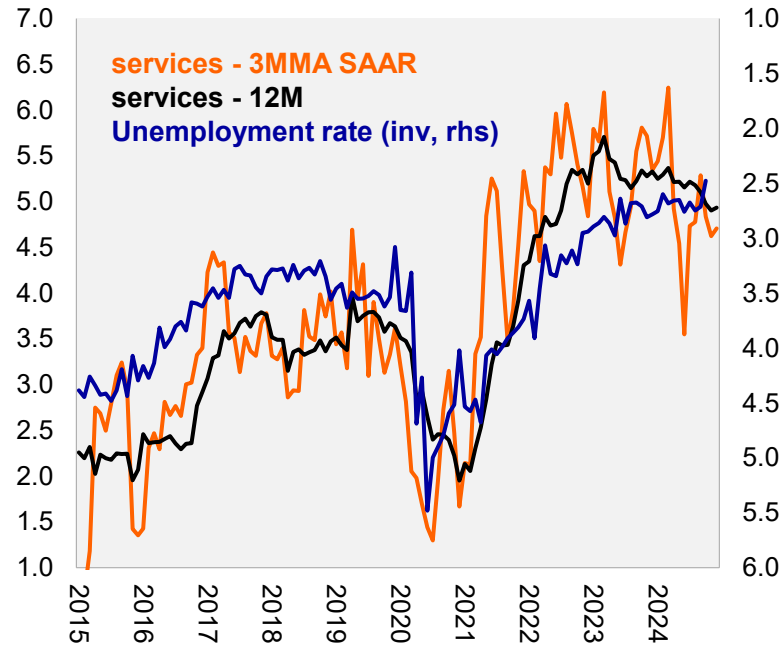
4. Inflation: what are the main drivers and uncertainties?

Peso depreciation and a tight labor market prevent a more significant disinflation in 2025.

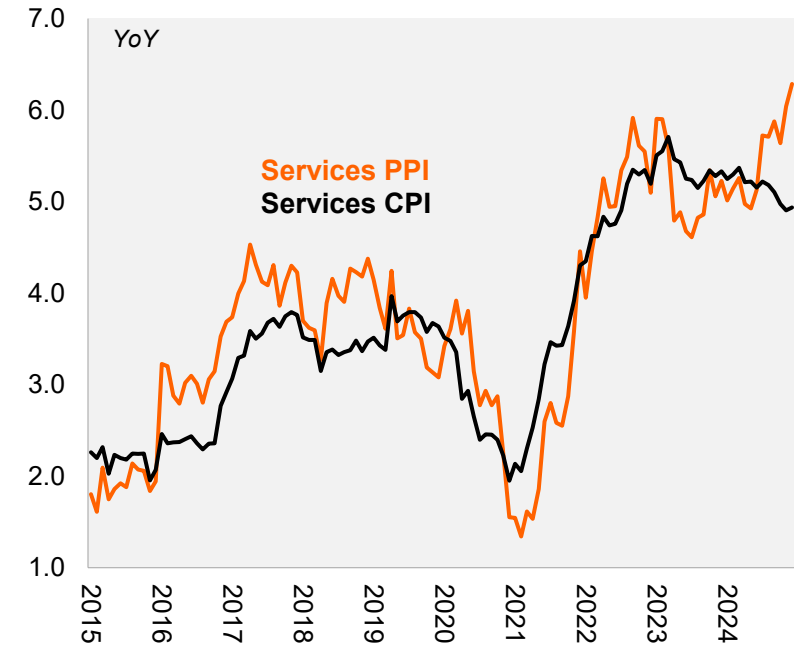
CPI - core tradables and industrial commodities



CPI - core services and unemployment



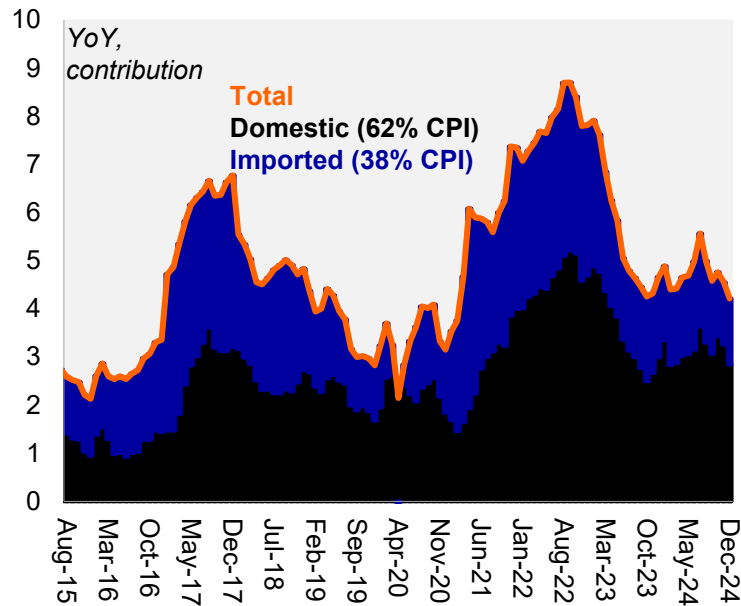
Services Inflation



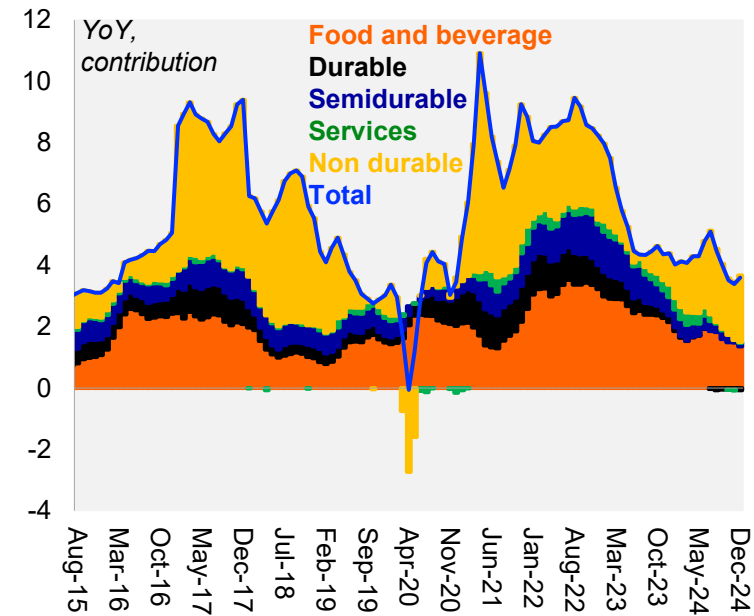
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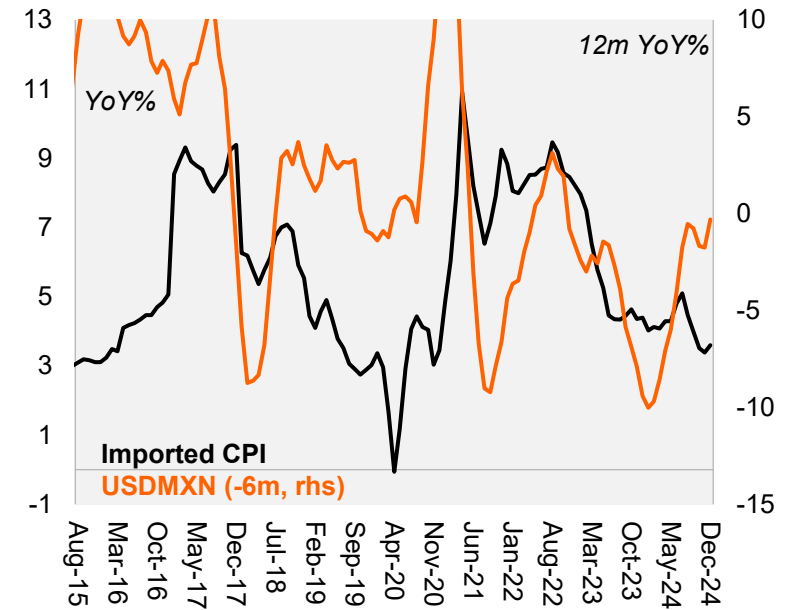
CPI by component



Imported CPI basket



Imported CPI and exchange rate



Sources: INEGI, BBG and Itaú.

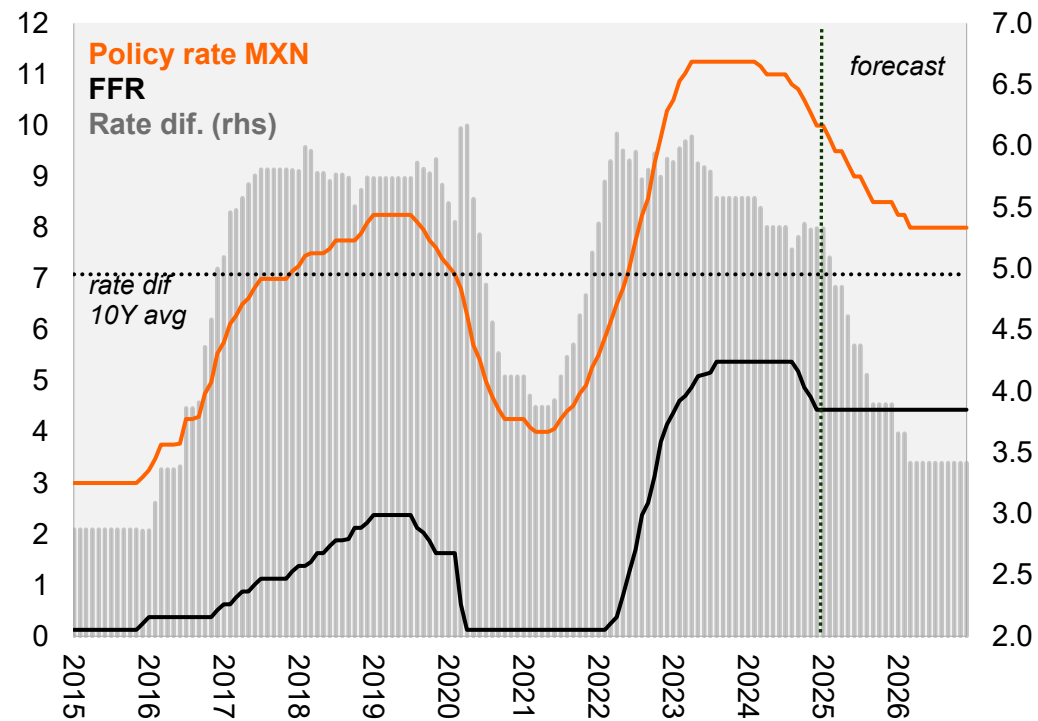
Note: Itaú's own estimation using CPI by economic activity. Imported products are defined as NAICS industries with over 20% of imported inputs in their 2018 input-output matrices.

5. Monetary Policy : will Banxico be able to continue to cut rates during 1H25?

We expect Banxico to cut 25 bps in February

- Our year end 2025 policy rate call stands at 8.5% (pace 25bps until Sep25) but tilted to a higher end-point due to tariff-related uncertainties and the Fed factor.

Policy rate



Mexico | Forecasts

	2019	2020	2021	2022	2023	2024F		2025F		2026F	
						Current	Previous	Current	Previous	Current	Previous
Economic Activity											
Real GDP growth - %	-0.4	-8.4	6.0	3.7	3.2	1.7	1.7	1.5	1.5	1.7	1.7
Nominal GDP - USD bn	1,298	1,129	1,318	1,463	1,796	1,909	1,909	2,016	2,016	2,121	2,121
Population (millions)	125.6	127.7	129.0	130.1	131.2	132.3	132.3	133.4	133.4	134.4	134.4
Per Capita GDP - USD	10,335	8,844	10,218	11,241	13,688	14,429	14,429	15,117	15,117	15,784	15,784
Unemployment Rate - year avg	3.5	4.4	4.1	3.3	2.8	2.7	2.7	2.8	2.8	2.9	2.9
Inflation											
CPI - %	2.8	3.2	7.4	7.8	4.7	4.2	-	3.9	3.9	3.6	3.6
Interest Rate											
Monetary Policy Rate - eop - %	7.25	4.25	5.50	10.50	11.25	10.00	-	8.50	8.50	8.00	8.00
Balance of Payments											
MXN / USD - eop	18.9	19.9	20.5	19.5	17.0	20.8	-	21.0	21.0	21.3	21.3
Trade Balance - USD bn	5.4	34.2	-10.8	-26.9	-5.5	-10.0	-10.0	-15.0	-15.0	-15.0	-15.0
Current Account - % GDP	-0.3	2.4	-0.3	-1.2	-0.3	-0.4	-0.4	-0.6	-0.6	-0.6	-0.6
Foreign Direct Investment - % GDP	2.3	2.8	2.7	2.7	1.7	3.0	3.0	3.5	3.5	3.5	3.5
International Reserves - USD bn	180.9	195.7	202.4	199.1	212.8	228.8	-	229.9	230.1	230.4	230.6
Public Finances											
Nominal Balance - % GDP	-1.6	-2.8	-2.8	-3.2	-3.3	-5.5	-5.9	-3.9	-3.9	-3.4	-3.4
Primary Balance - % GDP	1.1	0.1	-0.3	-0.4	-0.1	-1.4	-1.4	0.6	0.6	0.5	0.5
Net Public Debt - % GDP	43.9	49.9	48.9	47.6	46.8	51.4	51.4	51.8	51.8	51.4	51.4

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

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