Macro scenario - Mexico

December 17, 2025

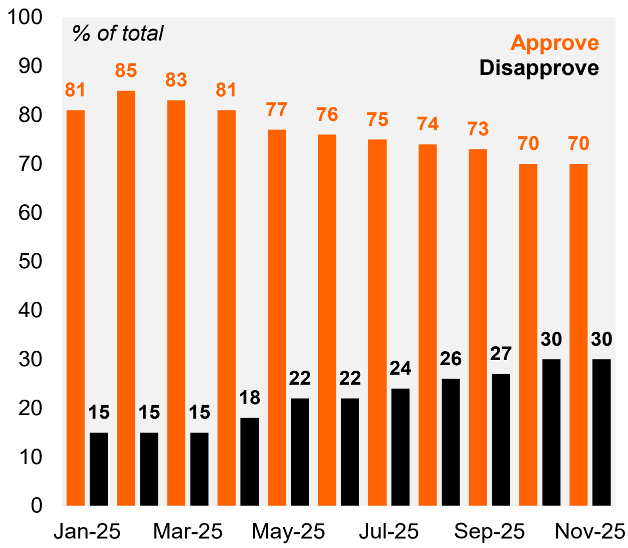
GDP growth in gridlock

- We lowered our 2025 GDP forecast to 0.3%, down from 0.6%, due to a weaker 3Q25, supply shocks, and a downward historical revision of the data. We expect GDP growth to gain traction in 2026, although it should remain below potential. Improving business sentiment and a robust external sector led us to forecast 2026 GDP growth at 1.5%.
- We revised our FX outlook for the end of this year to MXN 18.7 per USD, down from MXN 19.0 per USD, and for 2026 to MXN 19.0 per USD, down from MXN 19.5 per USD. We are incorporating a marginally better performance of the peso, while maintaining the expected depreciation for next year due to our new forecast of a weaker global dollar. We remain cautious, as the upcoming USMCA renegotiations could lead to increased hedging demand as the talks progress.
- We expect Banxico to deliver an additional 25-bp cut at the December meeting, leaving the monetary policy rate at 7.0% by the end of the year. The next policy step will depend on the chosen forward guidance. We believe Banxico is inclined to adopt a more data-dependent approach, providing the board with greater flexibility. We still believe a final 25-bp cut in February is likely, bringing the terminal rate to 6.75%. A pause in early 2026 is also possible, especially after the upward surprise at the 2H November CPI.
- We forecast inflation to end 2025 at 3.8%, with only a modest decrease to 3.7% in 2026. We remain cautious on the inflation landscape as non-core items could return to their historically higher average.
- 2027 will be an important year for Mexico. The USMCA renegotiation is expected to be completed, and in gubernatorial midterm elections are scheduled for June. We believe an amended version of the free trade deal will prevail, providing more clarity and institutional support for private investment, restoring the nearshoring narrative.

Security and governance challenges persist

President Sheinbaum's approval is decreasing but remains historically high, at 70% in November , amid security and organized crime concerns. Despite security measures taken by the current administration, persistent violence related to organized crime could affect the president's approval, hinder better diplomatic ties with the US and complicate the USMCA review process.

President Sheinbaum's approval



Source: El financiero newspaper, Itaú.

According to the El Financiero most recent poll (published on December 1).

We expect Banxico to deliver an additional 25-bp cut at the December meeting, taking the monetary policy rate to 7.0%. The next policy step will depend on the chosen forward guidance. We believe Banxico is inclined to adopt a more data-dependent approach, specifically a core-CPI-dependent approach, providing the board with greater flexibility. However, we still think a final 25-bp cut in February is likely, bringing the terminal rate to 6.75%.

A pause in early 2026 is possible, reflecting the level of the ex-ante real rate, short-term inflation risks in both core and non-core components, and greater uncertainty surrounding the Fed's rate trajectory. The upward surprise in the 2H November CPI combined with a worse composition of the data - especially with higher services at the margin (core services rising to 4.8% at the 3MMA SAAR from 4.6% - also suggests a more cautious approach for Banxico next year.

Although our scenario now considers the FOMC delivering two 25-bp cuts next year, transitioning from an on-hold stance, these cuts are not mechanically translated into Banxico's next steps. In fact, uncertainty is compounded by CPI dynamics in Mexico, and potential changes at the FOMC board, including a likely new chair in the second half of 2026. Therefore, it might be prudent for Banxico to remain on hold until uncertainty on these fronts fades.

USDMXN so far so good, but expect volatility ahead of the upcoming USMCA renegotiation

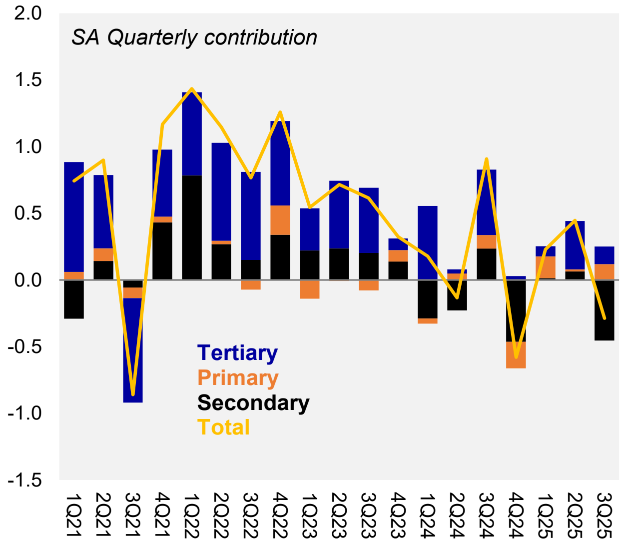
We updated our FX outlook for the end of this year to MXN 18.7 per USD, down from MXN 19.0 per USD, and for 2026 to MXN 19.0 per USD, down from MXN 19.5 per USD. We are essentially incorporating a marginally better performance of the peso, while maintaining the expected depreciation for next year, albeit a softer one, due to our new forecast for the global dollar. We remain cautious, as the upcoming USMCA renegotiations could lead to increased hedging demand as the talks progress.

Close to flat GDP growth in 2025 and some (below potential) acceleration in 2026

We lowered our GDP forecast to 0.3% for 2025, down from 0.6%, due to a weaker 3Q25, supply shocks, and a downward historical revision of the data. The final 3Q25 GDP fell by 0.1% YoY. Primary activities increased by 3.7% YoY, industry decreased by 2.7% YoY, and services grew by 1.1% YoY.

We expect GDP to gain traction next year, although growth should remain below potential, which we estimate to be around 2%. Assuming some improvement in business sentiment and a robust external sector, we're expecting 1.5% growth next year. We also anticipate a positive, albeit small, impact from the 2026 World Cup on both consumption and investment.

Industry as the main drag for economic activity



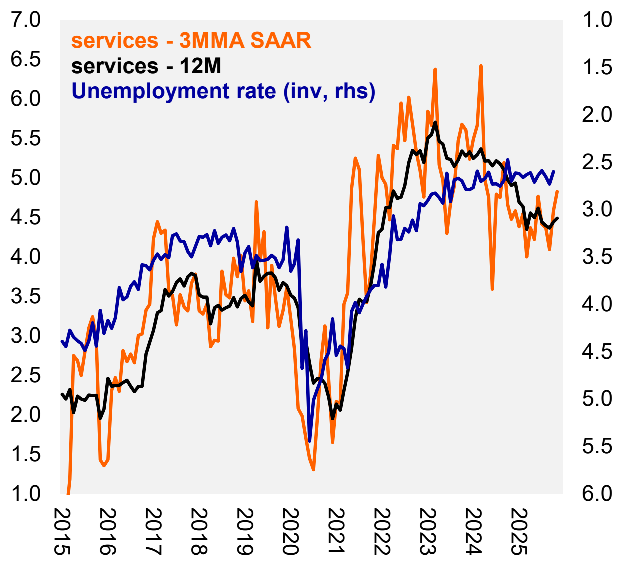
Source: INEGI, Itaú.

Non-core risks for 2026 CPI

We continue to expect inflation to end 2025 at 3.8%, with only a modest decrease to 3.7% in 2026. This year's CPI is benefiting from a relief in core inflation, especially in tradables, as well as muted pressure on non-core items as the year ends. Core inflation has been relatively stable, slightly above the 4.0% annual ceiling. However, in seasonally adjusted annualized terms, it has been showing significant reliefsince last October. This change was mainly due to tradables and some services, in the context of peso appreciation, a weak economy, and a decelerating labor market.

Overall services inflation remains on a downward trend, although at a very slow pace. Our assessment is that the current wage dynamics, with annual nominal wage growth close to 7% and an expected minimum wage adjustment of 13% for 2026, should maintain pressure on services inflation.

Core services close to fundamentals



Source: INEGI, Itaú.

We remain cautious about the inflation landscape in 2026, as non-core items could return to their historically higher average. Core inflation will be pressured by some base effects, while non-core componentss, that are unusually low currently, might well revert to the historical average. This could exert upward pressure on headline inflation in 2026.

2027: back to (some) normality

2027 will be an important year for Mexico: the USMCA renegotiation is expected to be completed, and in June, the country will hold its midterm elections for 17 gubernatorial seats. We believe that an amended version of the free trade deal will prevail, providing more clarity and institutional support for private investment, restoring the nearshoring narrative. Accordingly, we anticipate that GDP will approach its potential, reaching an approximate growth rate of 2% in 2027. Inflation is expected to be close to its historical average, reaching 3.6%, still above the center of Banxico's target. The Central Bank is also projected to remain on hold at 6.75%, a value close to their own estimate of the upper bound of the neutral range. Any significant change in the composition and reaction function of the FOMC will have a direct impact on Banxico's decisions going forward. We do not expect any significant fiscal reform to take place, leaving the fiscal situation to be addressed in the future

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Mexico | Forecast

	2021	2022	2023	2024	2025F		2026F		2027F
					Current	Previous	Current	Previous	Current
Economic Activity									
Real GDP growth - %	6.0	3.7	3.4	1.4	**0.3**	0.6	**1.5**	1.5	**2.0**
Nominal GDP - USD bn	1,316	1,467	1,798	1,857	**1,913**	1,943	**2,041**	2,041	**2,155**
Population (millions)	129.0	130.1	131.2	132.3	**133.4**	133.4	**134.4**	134.4	**135.4**
Per Capita GDP - USD	10,218	11,241	13,688	14,033	**14,344**	14,572	**15,185**	15,185	**15,914**
Unemployment Rate - year avg	4.1	3.3	2.8	2.7	**2.7**	2.7	**2.7**	2.7	**2.6**
Inflation									
CPI - %	7.4	7.8	4.7	4.2	**3.8**	3.8	**3.7**	3.7	**3.6**
Interest Rate									
Monetary Policy Rate - eop - %	5.50	10.50	11.25	10.00	**7.00**	7.00	**6.75**	6.75	**6.75**
Balance of Payments									
MXN / USD - eop	20.5	19.5	17.0	20.8	**18.7**	19.0	**19.0**	19.5	**19.5**
Trade Balance - USD bn	-10.8	-28.1	-12.3	-18.5	**-0.5**	-0.5	**-5.0**	-5.0	**-5.0**
Current Account - % GDP	-0.3	-1.2	-0.3	-0.3	**-0.3**	0.1	**-0.6**	-0.4	**-0.6**
Foreign Direct Investment - % GDP	2.5	2.5	2.0	2.0	**1.8**	2.0	**1.9**	1.9	**2.0**
International Reserves - USD bn	202.4	199.1	212.8	229.0	**255.0**	255.0	**263.0**	263.0	**270.9**
Public Finances									
Nominal Balance - % GDP	-2.8	-3.2	-3.3	-5.7	**-4.5**	-4.3	**-4.2**	-4.1	**-3.5**
Primary Balance - % GDP	-0.3	-0.4	-0.1	-1.5	**0.2**	0.3	**0.4**	0.5	**0.7**
Net Public Debt - % GDP	48.9	47.6	46.8	51.4	**53.6**	52.3	**53.6**	52.3	**53.6**

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

Macro Research – Itaú

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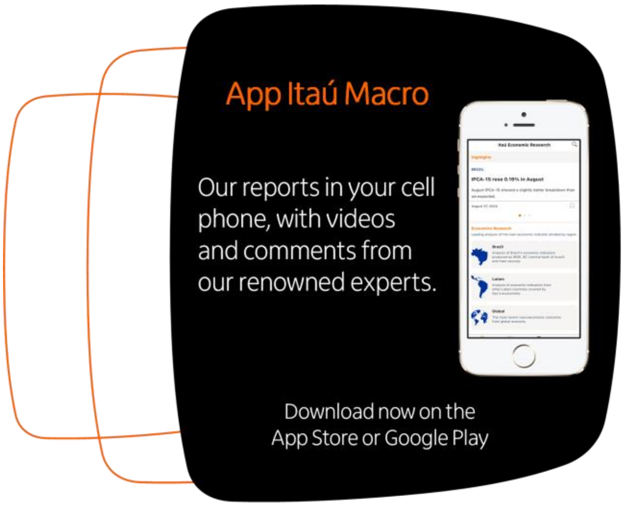

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