

Macro scenario - Mexico



June 1, 2026

Holding up, but under strain

- ▶ Our baseline scenario remains unchanged, with stabilization but no strong activity rebound in sight. Key catalysts remain pending, with the USMCA review adding structural uncertainty, while the 2026 World Cup is expected to provide only a temporary growth boost.
- ▶ We maintained our GDP growth forecasts at 1.1% for 2026 and 1.8% for 2027. 1Q26 GDP confirmed soft momentum, although April data suggest shocks are fading and demand is normalizing at the margin. The 2026 statistical carry-over has turned slightly positive, following revisions of the historical series, supporting a somewhat better starting point for growth.
- ▶ We continue to forecast year-end inflation at 4.1% in 2026 and 3.8% in 2027. Inflation dynamics is evolving broadly as expected, with core disinflation progressing gradually, led by tradables, while services remain sticky.
- ▶ We expect the policy rate to remain at 6.50% through 2027, with monetary policy shifting to a data-dependent stance.
- ▶ Fiscal pressures are rising, as weaker revenues and rigid spending pose headwinds to fiscal consolidation, with a Moody's downgrade highlighting underlying structural constraints.

No changes to the outlook; awaiting USMCA clarity and external catalysts

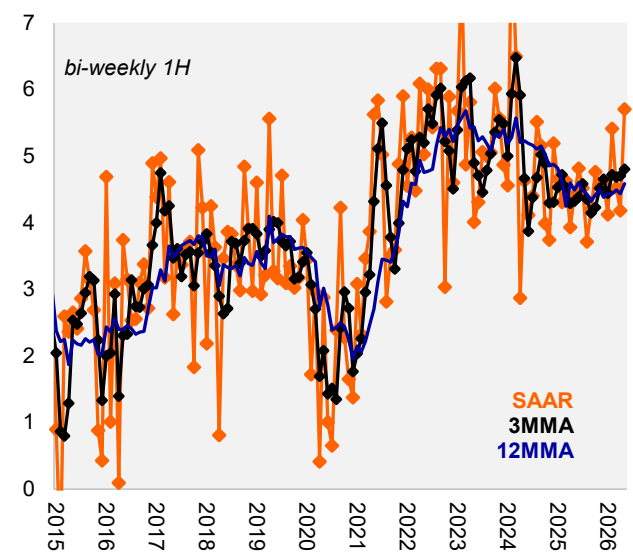
Our baseline scenario remains unchanged, with the macro-outlook in a holding pattern as activity stabilizes but lacks a strong rebound, while medium-term risks remain tied to policy and external developments. The USMCA review adds structural uncertainty to the trade framework, while the 2026 FIFA World Cup is expected to provide only a temporary boost, leaving the overall narrative of weak but stabilizing growth, gradual disinflation, and a cautious policy backdrop intact until clearer catalysts emerge.

Activity loses momentum at the start of the year

INEGI released final 1Q26 GDP, which expanded by 0.2% YoY, and declined 0.6% QoQ, following a strong 4Q25. Historical revisions were also incorporated, as we anticipated. GDP growth for 2024 was revised up to 1.5% (from 1.4%), while 2025 was revised down marginally to 0.5% (from 0.6%).

Revisions raised the level of economic activity for 2026, with statistical carry-over now at -0.03% (from -0.2%).

Sticky core services inflation



Source: INEGI, Itaú.

Economic activity shows signs of stabilization at the margin following a soft 1Q26, but overall momentum remains subdued. April data suggests that the negative shocks affecting demand are fading, with consumption supported by still-resilient wage dynamics, although investment continues to lag. The labor market is gradually softening, even if real income growth still provides a buffer for households, while the external sector remains a key support.

Core disinflation advances, but services remain sticky

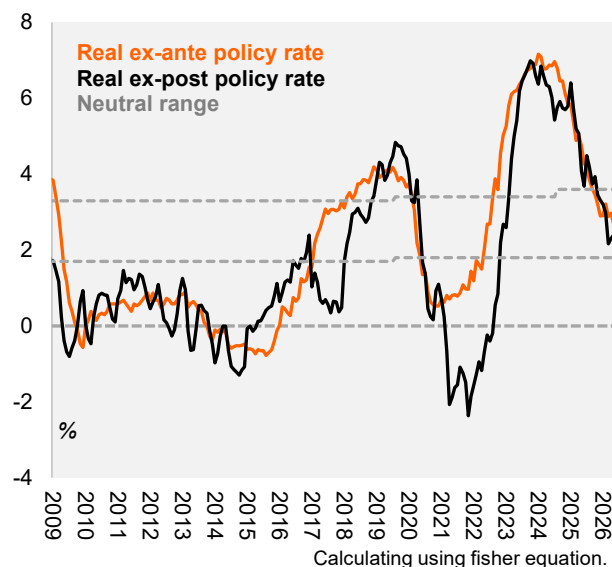
Inflation dynamics are evolving broadly as expected. Core inflation is improving at the margin, largely driven by tradables, while services remain sticky, reflecting persistent underlying pressures. This reinforces the view that disinflation is underway but uneven across components, limiting the scope for a more rapid convergence to target.

El Niño introduces upside risks to inflation in Mexico, primarily through higher food prices driven by droughts and weather-related supply shocks, with adverse scenarios potentially adding up to ~90bps to headline inflation. At the same time, increased drought intensity could weigh on economic activity, particularly agriculture and linked sectors, posing downside risks to growth of ~0.3bps on annual GDP change.

Banxico: final cut delivered, policy turns data-dependent

Banxico reached the end of its easing cycle at 6.50%, shifting to a data-dependent stance. While more benign inflation, stable FX, and activity backdrop could eventually allow for additional easing under a new easing cycle, this would likely require further progress on disinflation, that would enhance the board's confidence about the outlook.

Ex-ante real rate near neutral midpoint



Source: Banxico, INEGI, Itaú.

Peso remains well-behaved

From a macro-financial perspective, **the peso continues to be supported by solid carry and external buffers,** although medium-term risks remain tilted to the downside, given uncertainty around trade relations and domestic policy credibility.

Rating agencies turn more cautious, but investment grade holds-for now

Rating	S&P	Moody's	Fitch
Investment Grade	AAA	Aaa	AA+
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2 ↓	BBB
	BBB-	Baa3	BBB-
Speculative Grade	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-

Stable outlook for Fitch and Moody's; S&P negative.

Date: May, 2026

Source: Credit agencies, Itaú.

Fiscal consolidation under strain amid weaker revenues and rating pressure

Fiscal consolidation is facing increasing challenges, as weaker revenues place greater pressure on expenditure restraint to meet deficit targets. In this context, Moody's cut Mexico's sovereign rating to Baa3 with a stable outlook. Persistently wide deficits, rigid spending (pensions, subsidies), and a narrow revenue base are limiting the government's ability to stabilize debt, particularly in a low-growth environment. At the core of the downgrade is the continued fiscal burden from PEMEX, which is absorbing significant resources and crowding out consolidation efforts, while repeated deviations from fiscal rules have weakened policy credibility. Although Mexico retains solid macro anchors—stable inflation, strong external accounts, and close integration with the U.S.—the sovereign is now effectively clustered at the bottom of investment grade alongside Fitch (BBB-), with S&P (BBB, negative) as the next potential mover.

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Mexico | Forecast

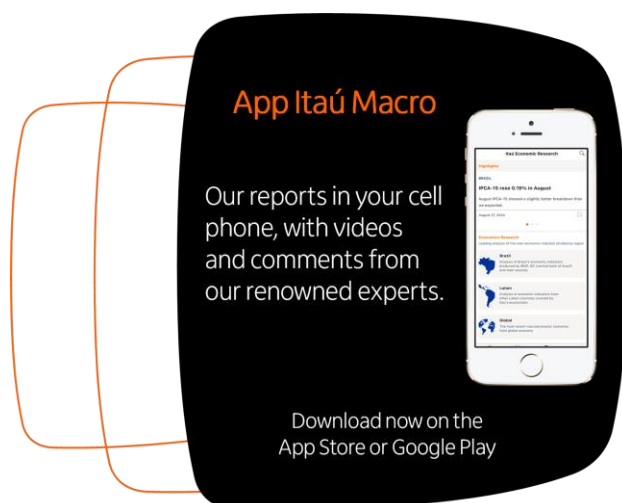
	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
Economic Activity								
Real GDP growth - %	3.7	3.1	1.5	0.5	1.1	1.1	1.8	1.8
Nominal GDP - USD bn	1,467	1,794	1,835	1,821	1,908	1,905	2,010	2,007
Population (millions)	130.0	131.1	132.3	133.4	134.4	134.4	135.4	135.4
Per Capita GDP - USD	11,289	13,683	13,872	13,657	14,194	14,175	14,846	14,827
Unemployment Rate - year avg	3.3	2.8	2.6	2.6	2.7	2.7	2.6	2.6
Inflation								
CPI - %	7.8	4.7	4.2	3.7	4.1	4.1	3.8	3.8
Interest Rate								
Monetary Policy Rate - eop - %	10.50	11.25	10.00	7.00	6.50	6.50	6.50	6.50
Balance of Payments								
MXN / USD - eop	19.4	16.9	20.3	18.0	18.4	18.4	18.9	18.9
Trade Balance - USD bn	-28.1	-12.3	-18.5	0.8	-5.0	-5.0	-5.0	-5.0
Current Account - % GDP	-1.3	-0.7	-0.9	-0.5	-0.6	-0.6	-0.6	-0.6
Foreign Direct Investment - % GDP	1.5	1.7	1.8	1.7	1.9	1.9	2.0	2.0
International Reserves - USD bn	199.1	212.8	228.8	252.1	263.0	263.0	270.9	270.9
Public Finance								
Nominal Balance - % GDP	-4.3	-4.3	-5.8	-4.9	-4.3	-4.3	-3.6	-3.6
Primary Balance - % GDP	0.0	0.4	-0.5	0.3	0.5	0.5	0.7	0.7
Net Public Debt - % GDP	45.3	44.6	48.2	50.7	55.2	55.2	56.0	56.0

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

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