



Macroeconomic Research

**Mexico: Top themes for 2026**

# Mexico: Top themes for 2026

## 1. What's the USMCA endgame?

- Our baseline scenario is that the trilateral agreement will persist without significant changes. However, Trump may announce a withdrawal (6m formal warning period, negotiations start in July) to gain leverage.

## 2. Security Pressures from the U.S. and their impact on Sheinbaum's approval and agenda

- Maduro's capture enhanced U.S. anti-drug pressure on Mexico further.

## 3. Can GDP growth rise above 2% in the near term?

- We expect growth to increase this year to 1.5% yet remain below potential.

## 4. Will inflation converge to the 3% target?

- Inflation is expected to remain sticky due to strong services and labor dynamics, but MXN strength and a negative output gap should keep 2026 year-end near 3.7%.

## 5. Can Banxico deliver more cuts?

- With the lion's share of the easing cycle behind, we pencil in one more 25-bp cut to a terminal of 6.75%. The bar seems high for a reversal to a discussion on hikes.

## 6. Should we worry about fiscal policy?

- Elevated levels of public debt raise flags, yet the revenue recovery allows for a gradual fiscal consolidation.

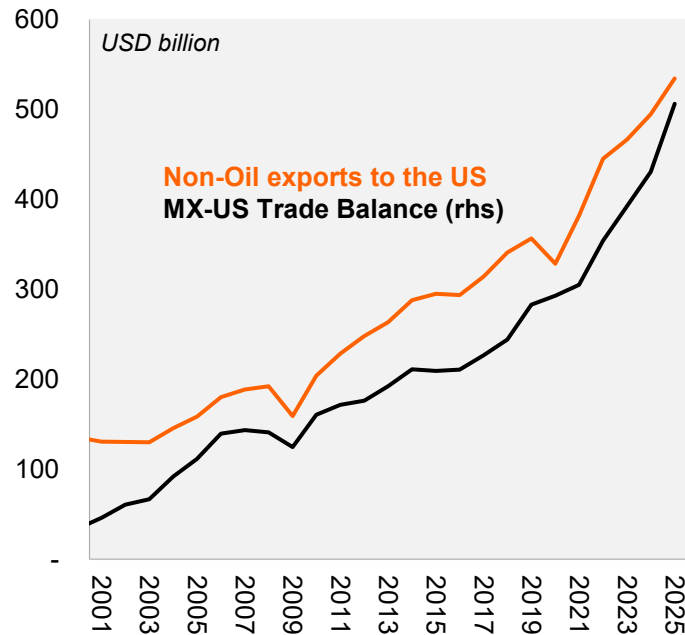
# 1. What's the USMCA endgame?

- US is the main trader partner of Mexico, although China has gained relevance recently.
- At the same time, Mexico has gained significant importance in US trade, especially in non-oil goods.

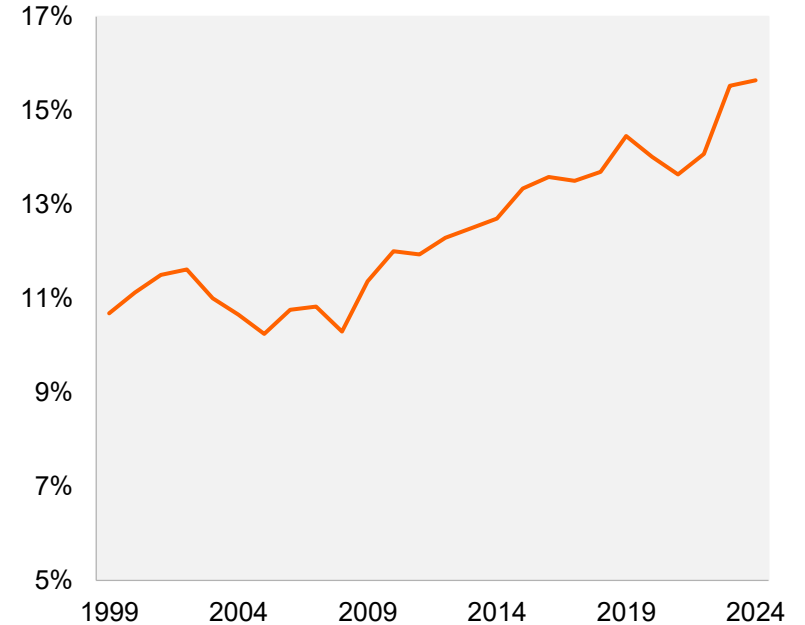
Trade Volume



MX-US as key trade partners



Share of MX goods imports in the US



# 1. What's the USMCA endgame?

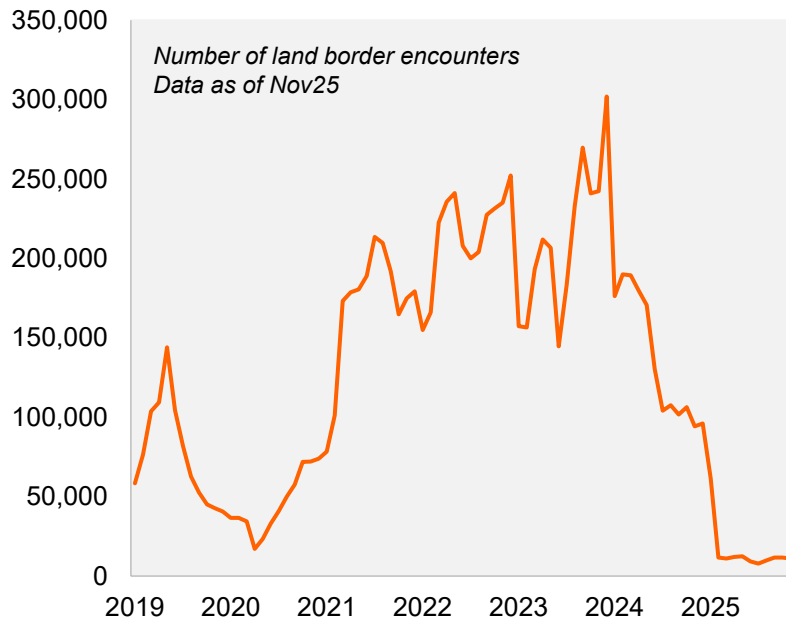
- Our baseline scenario assumes that negotiations will continue indefinitely throughout Trump's entire presidency.
- However, the Mexican government is likely to pursue some kind of limited agreement this year.
- Mexico may implement measures to strengthen its bargaining position, as it did with tariffs on many Chinese imports in January.

Scenario	Description	Odds
<b>Basecase:</b> No renewal, USMCA survives only as a mechanism for exeptions.	Tariffs remain in place, where negotiations for exemptions and deals will continue only in terms of bilatereal agreements.	65%
<b>Positive scenario:</b> Some agreement between the three countries.	An agreement is reached in 2026, accepting some degree of tariffs and imposing sectoral restrictions.	30%
<b>Negative scenario:</b> Total rejection of USMCA or any kind of trilateral trade.	US rejects all posibilidad of a trilateral agreement, further increasing tariffs on Mexico and Canada.	5%

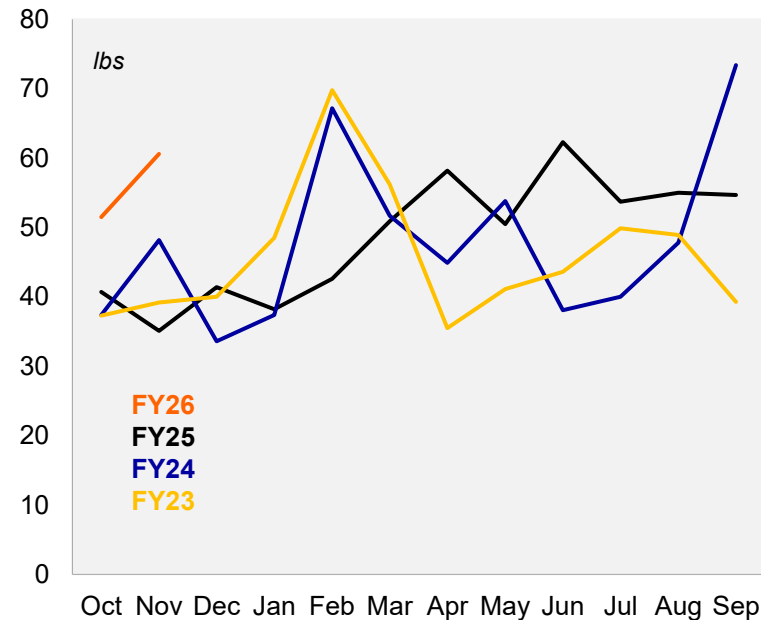
## 2. Security Pressures from the U.S. and their impact on Sheinbaum's approval and agenda

- The U.S. capture of Nicolás Maduro has increased Washington's focus on drug-trafficking networks and border-related security, placing Mexico under sharper scrutiny.
- Although significant efforts have been made regarding migration and drug-trafficking control, US land-based military action in Mexico has been mentioned.
- Although we see such an event as unlikely, the mere discussion represents a risk to Sheinbaum's administration. Heightened tensions could generate political challenges for her approval and domestic agenda, since polls show organized crime and security represent her weakest areas.

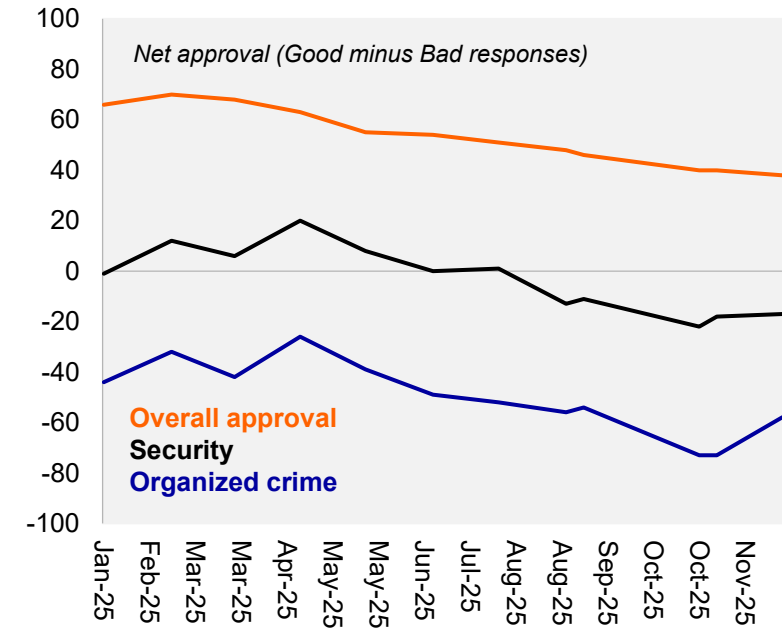
**US Southwest Border Encounters**



**Drug seizure by weight**



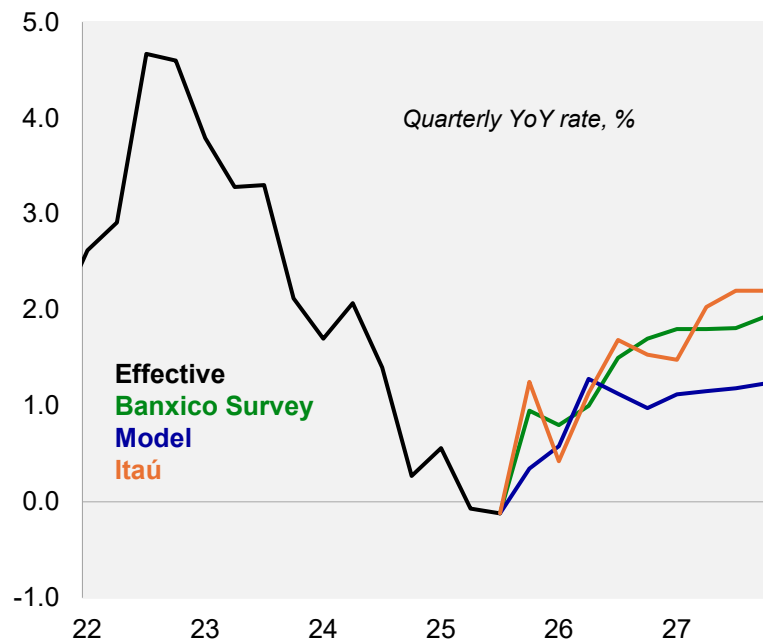
**Sheinbaum's approval**



### 3. Can GDP growth rise above 2% in the near term?

- We expect GDP to gain traction this year and the next, although growth should remain below potential.
- We believe that further clarity regarding the USMCA deal, along with our higher growth projection for the US will add upside risks to our forecasts, specially for 2026-2027.
- At the same time, the diverging performance across sectors is relevant.

#### GDP growth forecasts

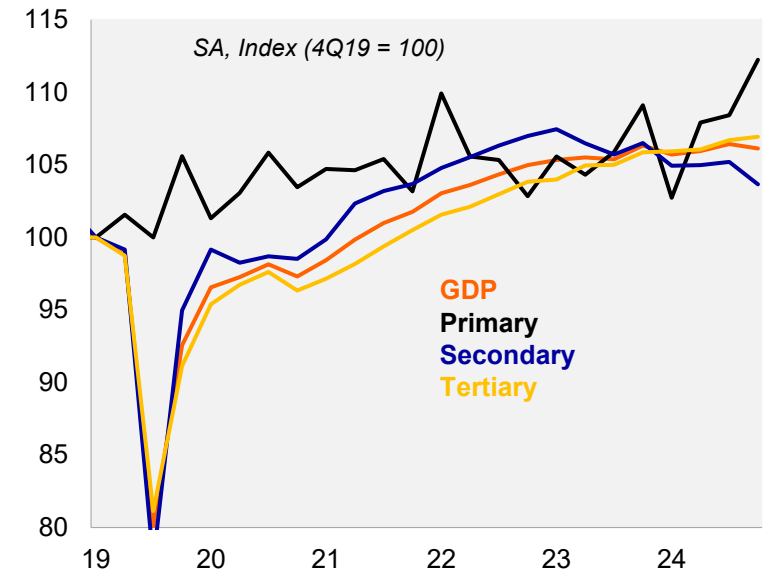


	2025	2026	2027
Itaú forecast	0,3	1,2	2,0
Model	0,0	1,0	1,2
Banxico*	0,3	1,1	2,0
Banxico Survey	0,2	1,3	1,8
Citi Survey**	0,4	1,3	1,8

\* 3Q Report.

\*\* Median; as of January 6th.

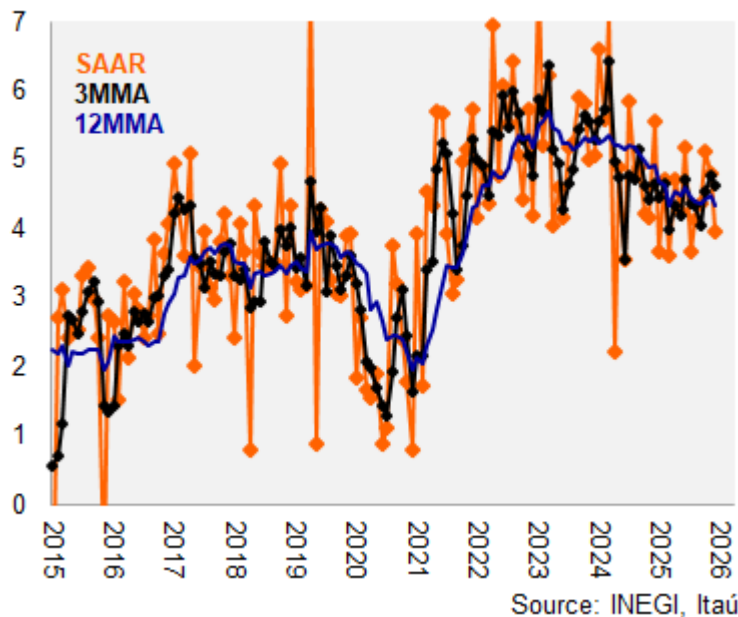
#### Sectoral disparity behind GDP growth



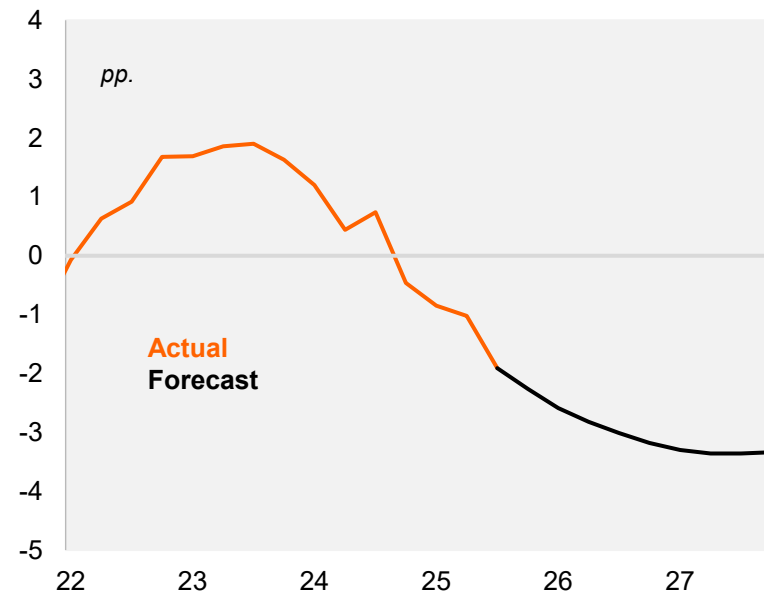
## 4. Will inflation converge to the 3% target?

- Services are running above 4% in seasonally adjusted terms and with the current labor dynamics market – namely nominal wages running well above inflation and low unemployment rate - faster disinflation is hard to achieve. Likewise, non-core items could return to their historically higher average, adding further caution to the inflation landscape in 2026.
- However, a negative output gap, as well as MXN strength, should somewhat compensate and reduce inflation pressures.
- We forecast inflation to end 2026 at 3.7%, relatively stable versus 2025 year-end.

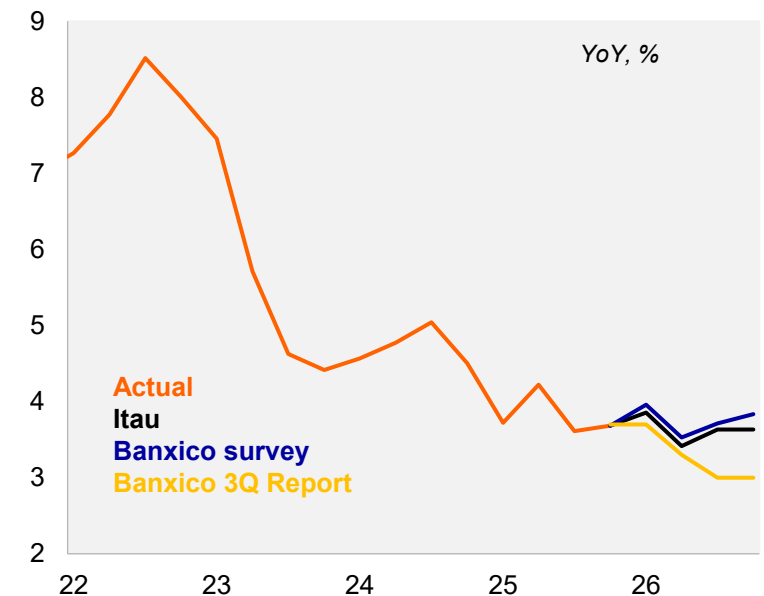
CPI - core services



Banxico's Output Gap estimation



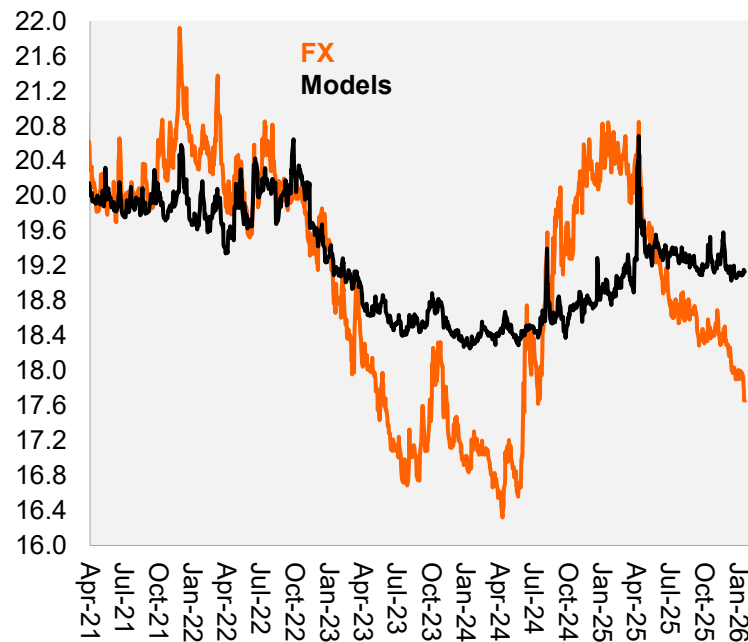
Inflation forecasts



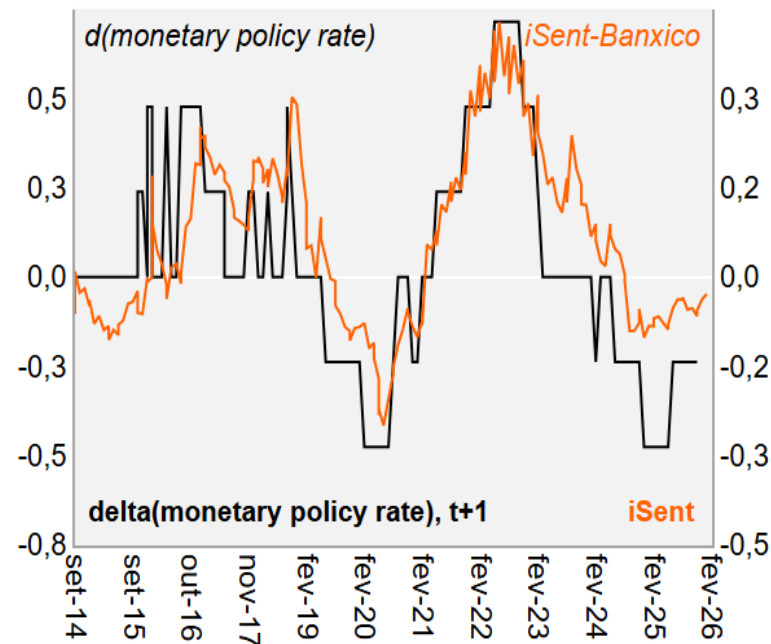
## 5. Can Banxico deliver more cuts?

- Banxico is likely to deliver one final cut in May this year to 6.75%, given contained inflation, peso appreciation, below-potential GDP growth, and our Fed call of a 50bp cuts (consistent also with our Taylor rule model).
- However, the possibility of smaller MX peso appreciation (as suggested by our models), combined with the shift to a data-dependent stance and sticky core services inflation, increases the probability of a prolonged pause.

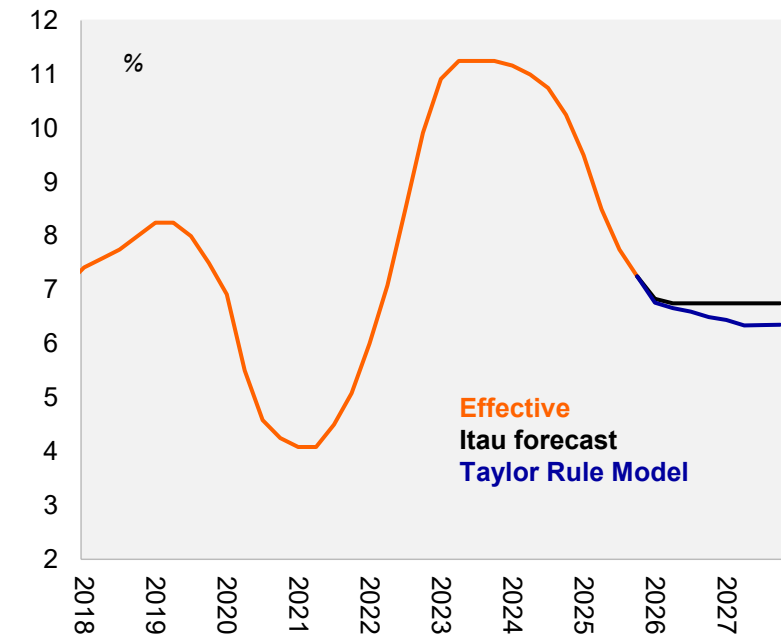
Short-term models - Mexico



Itaú Isent



Policy rate forecast

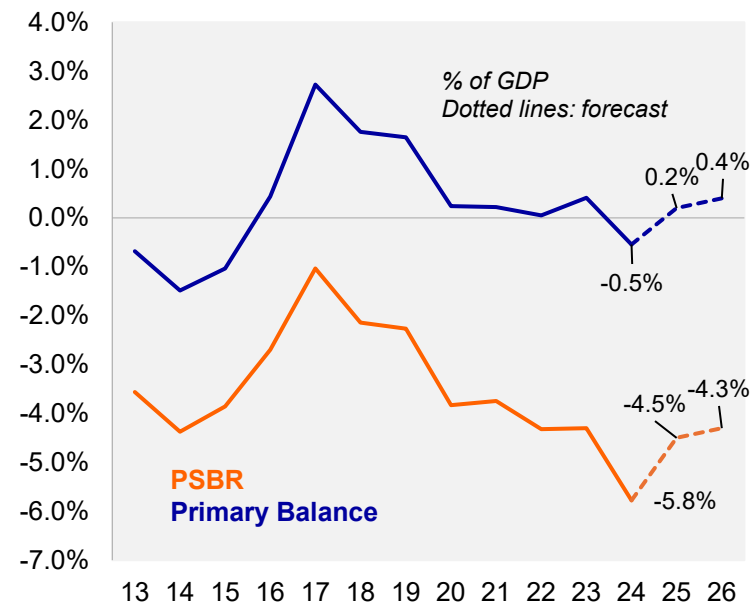




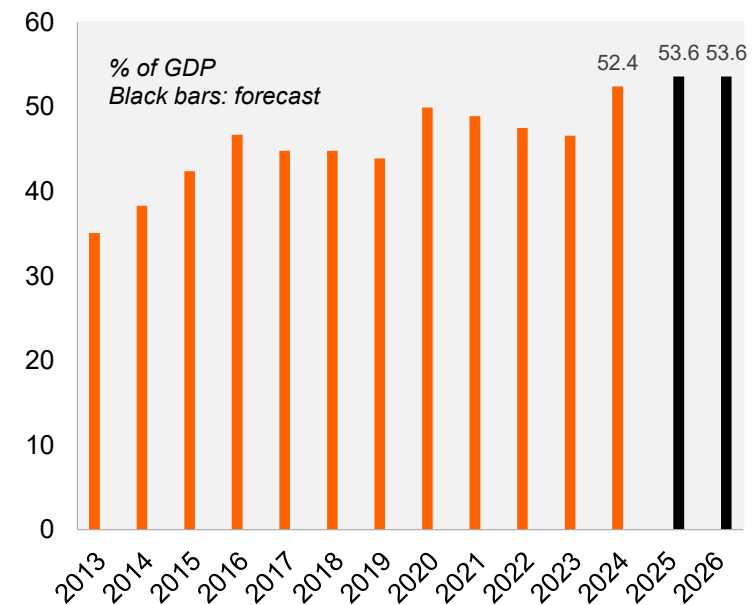
## 6. Should we worry about fiscal policy?

- Not yet. Slower than expected, but some fiscal consolidation is taking place in Mexico (mostly through revenues).
- However, Government Debt sits at uncomfortably high levels.
- No fiscal reform on sight, but still space for efficiency gains.

**Fiscal deficit**



**Net Government Debt**



# Mexico | Forecasts

	2022	2023	2024	2025F		2026F		2027F	
				Current	Previous	Current	Previous	Current	Previous
<b>Economic Activity</b>									
Real GDP growth - %	3.7	3.4	1.4	<b>0.3</b>	0.3	<b>1.5</b>	1.5	<b>2.0</b>	2.0
Nominal GDP - USD bn	1,467	1,798	1,857	<b>1,913</b>	1,913	<b>2,063</b>	2,041	<b>2,177</b>	2,155
Population (millions)	130.1	131.2	132.3	<b>133.4</b>	133.4	<b>134.4</b>	134.4	<b>135.4</b>	135.4
Per Capita GDP - USD	11,241	13,688	14,033	<b>14,344</b>	14,344	<b>14,344</b>	15,185	<b>15,346</b>	15,914
Unemployment Rate - year avg	3.3	2.8	2.7	<b>2.7</b>	2.7	<b>2.7</b>	2.7	<b>2.6</b>	2.6
<b>Inflation</b>									
CPI - %	7.8	4.7	4.2	<b>3.7</b>	-	<b>3.7</b>	3.7	<b>3.6</b>	3.6
<b>Interest Rate</b>									
Monetary Policy Rate - eop - %	10.50	11.25	10.00	<b>7.00</b>	-	<b>6.75</b>	6.75	<b>6.75</b>	6.75
<b>Balance of Payments</b>									
MXN / USD - eop	19.5	17.0	20.8	<b>18.0</b>	-	<b>18.8</b>	19.0	<b>19.3</b>	19.5
Trade Balance - USD bn	-28.1	-12.3	-18.5	<b>-0.5</b>	-0.5	<b>-5.0</b>	-5.0	<b>-5.0</b>	-5.0
Current Account - % GDP	-1.2	-0.3	-0.3	<b>-0.3</b>	-0.3	<b>-0.6</b>	-0.6	<b>-0.6</b>	-0.6
Foreign Direct Investment - % GDP	2.5	2.0	2.0	<b>1.8</b>	1.8	<b>1.9</b>	1.9	<b>2.0</b>	2.0
International Reserves - USD bn	199.1	212.8	229.0	<b>252.1</b>	-	<b>263.0</b>	263.0	<b>270.9</b>	270.9
<b>Public Finances</b>									
Nominal Balance - % GDP	-3.2	-3.3	-5.7	<b>-4.5</b>	-4.5	<b>-4.2</b>	-4.2	<b>-3.5</b>	-3.5
Primary Balance - % GDP	-0.4	-0.1	-1.5	<b>0.2</b>	0.2	<b>0.4</b>	0.4	<b>0.7</b>	0.7
Net Public Debt - % GDP	47.6	46.8	51.4	<b>53.6</b>	53.6	<b>53.6</b>	53.6	<b>53.6</b>	53.6

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