



Macroeconomic Research

Mexico: Top themes for 2026

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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.

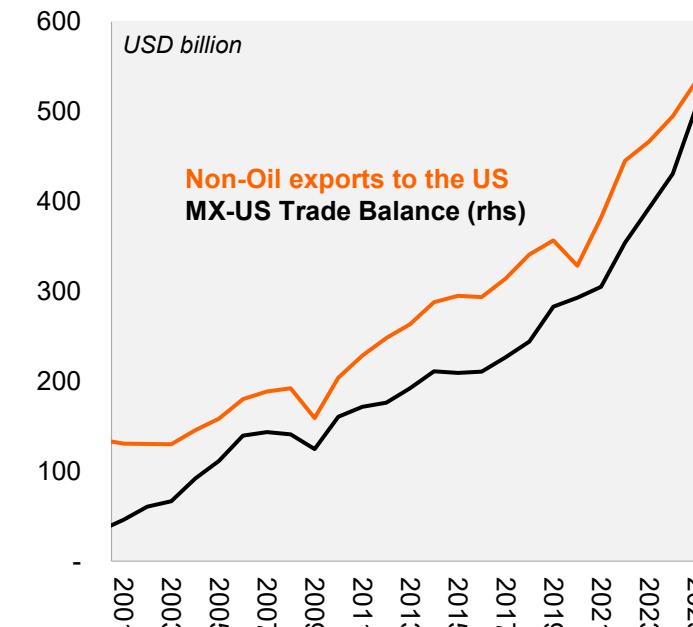
1. What's the USMCA endgame?

- 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.

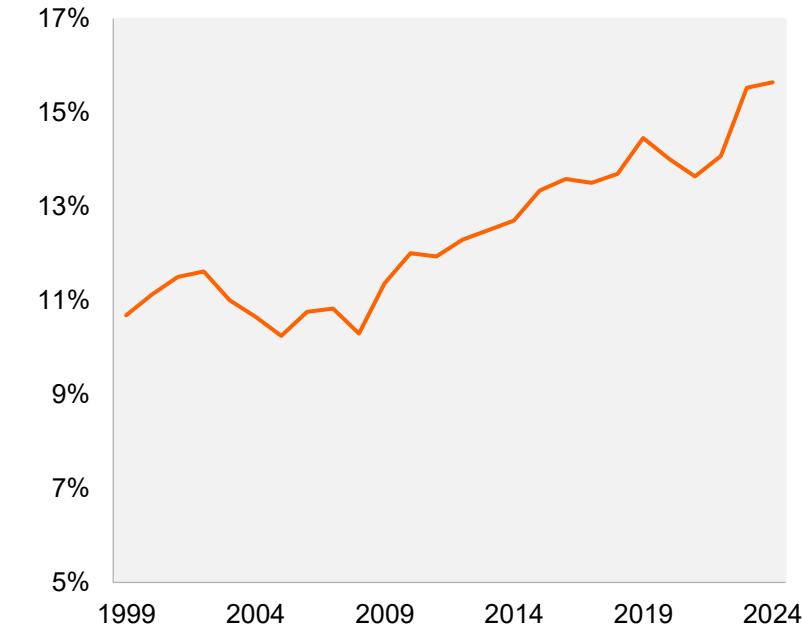
Trade Volume



MX-US as key trade partners



Share of MX goods imports in the US



1. What's the USMCA endgame?

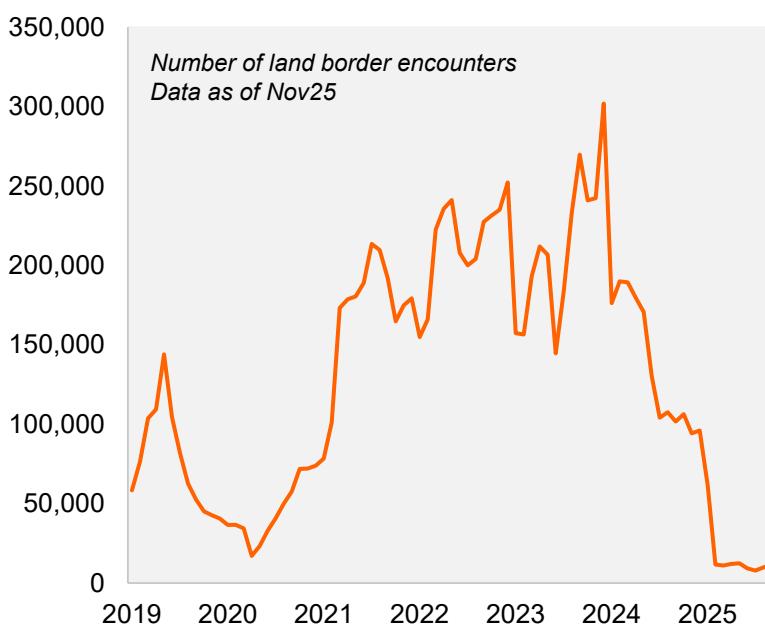
- Our baseline scenario assumes that negotiations will continue indefinitely throughout Trump's entire presidency.
- However, the Mexican government is likely to pursue some kind of limited agreement this year.
- Mexico may implement measures to strengthen its bargaining position, as it did with tariffs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

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

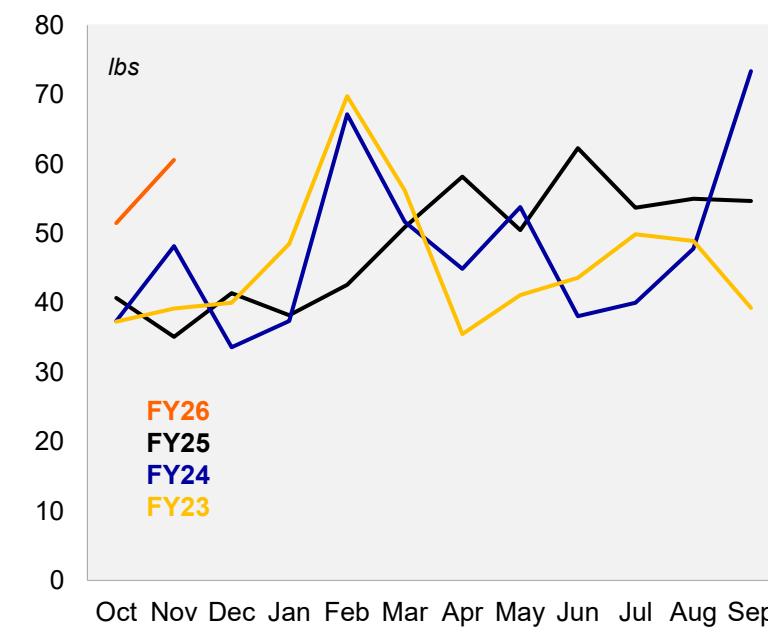
2. Security Pressures from the U.S. and their impact on Sheinbaum's approval and agenda

- 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.

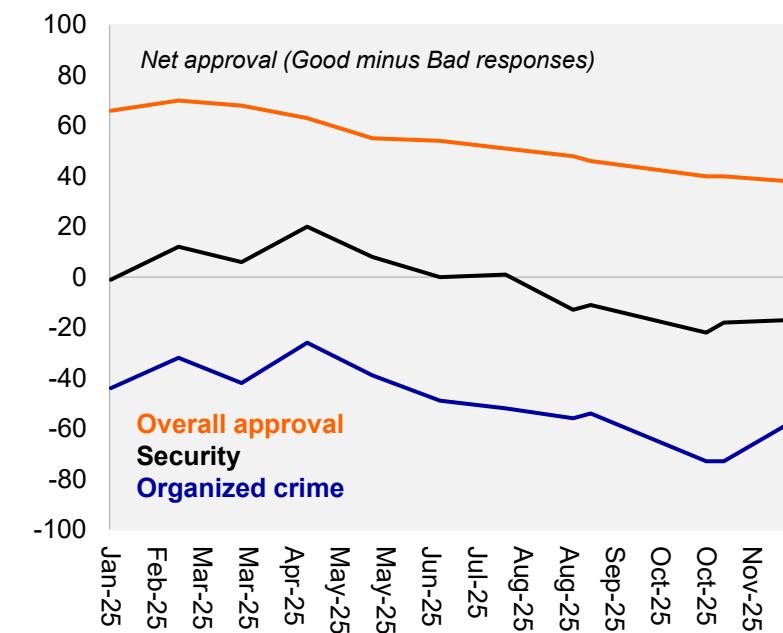
US Southwest Border Encounters



Drug seizure by weight



Sheinbaum's approval

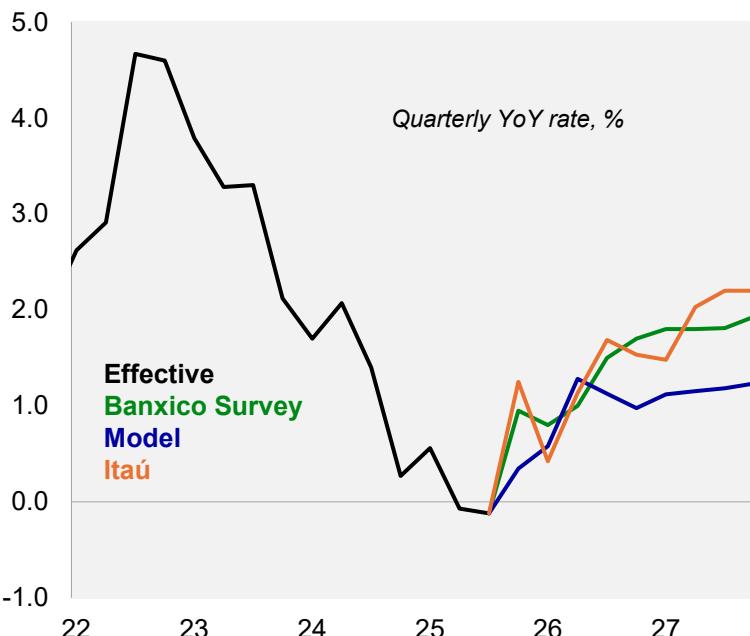


Source: US Homeland Department, El Financiero, Itaú

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.

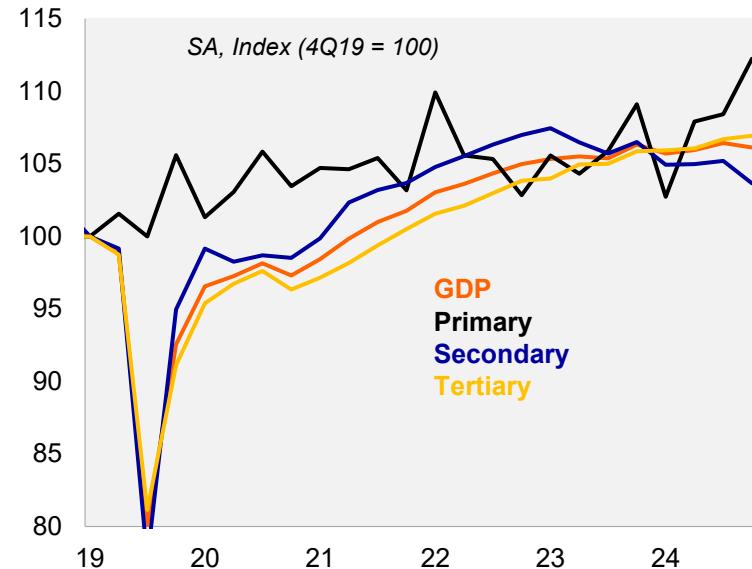
GDP growth forecasts



* 3Q Report.
** Median; as of January 6th.

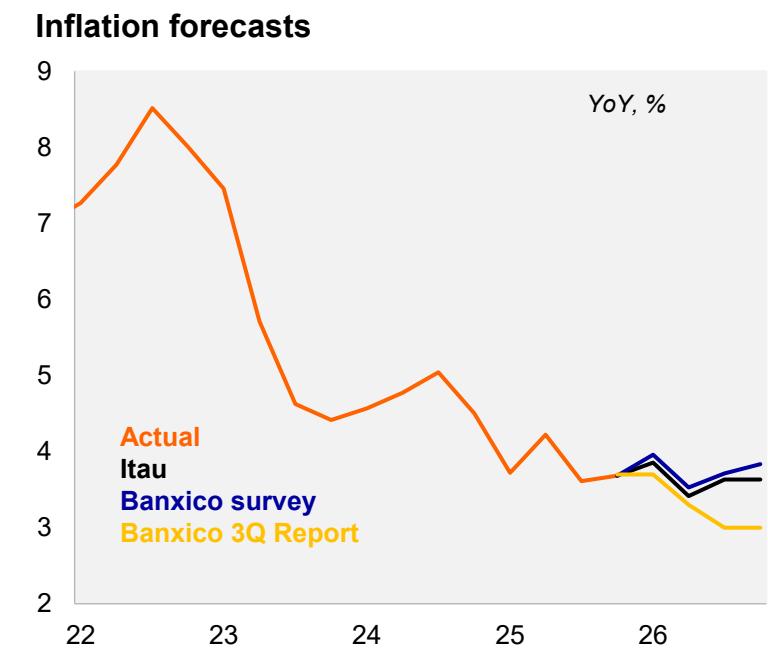
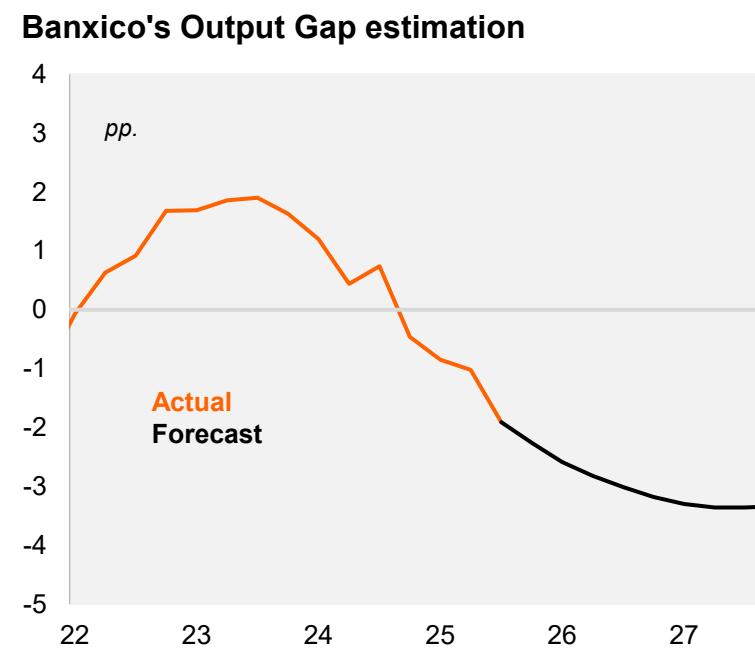
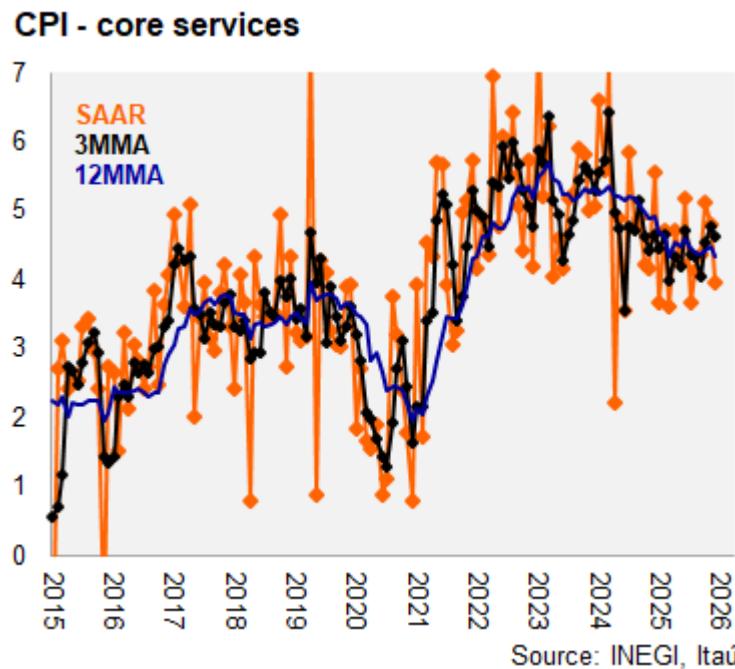
	2025	2026	2027
Itaú forecast	0,3	1,2	2,0
Model	0,0	1,0	1,2
Banxico*	0,3	1,1	2,0
Banxico Survey	0,2	1,3	1,8
Citi Survey**	0,4	1,3	1,8

Sectoral disparity behind GDP growth



4. Will inflation converge to the 3% target?

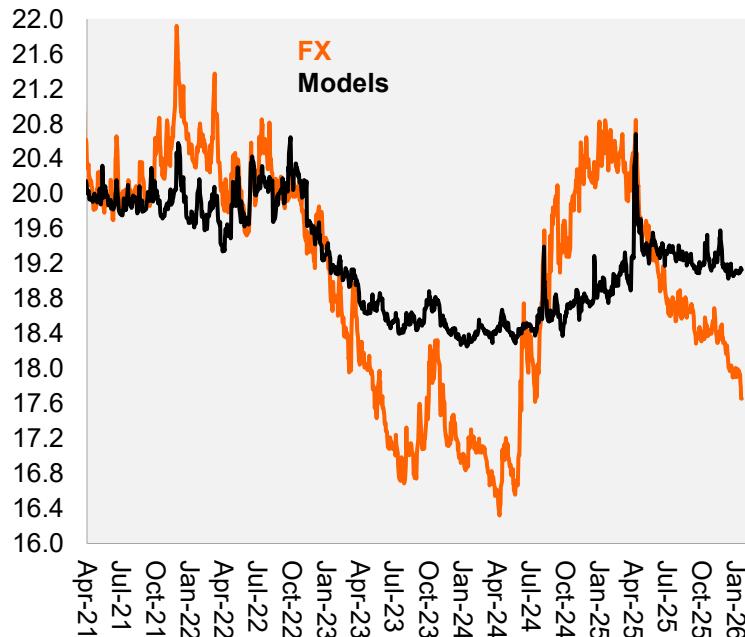
- Services are running above 4% in seasonally adjusted terms and with the current labor dynamics market – namely nominal wages running well above inflation and low unemployment rate - faster disinflation is hard to achieve. Likewise, non-core items could return to their historically higher average, adding 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.



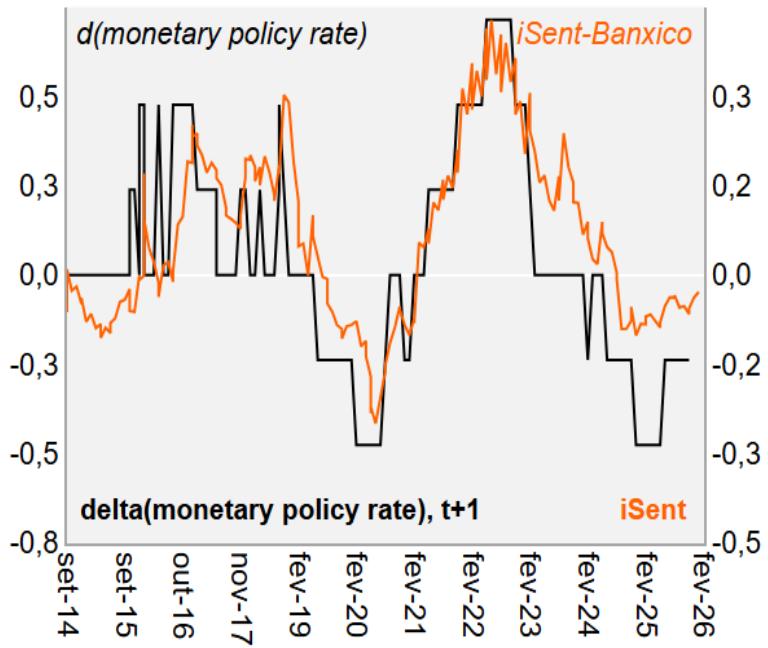
5. Can Banxico deliver more cuts?

- 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.

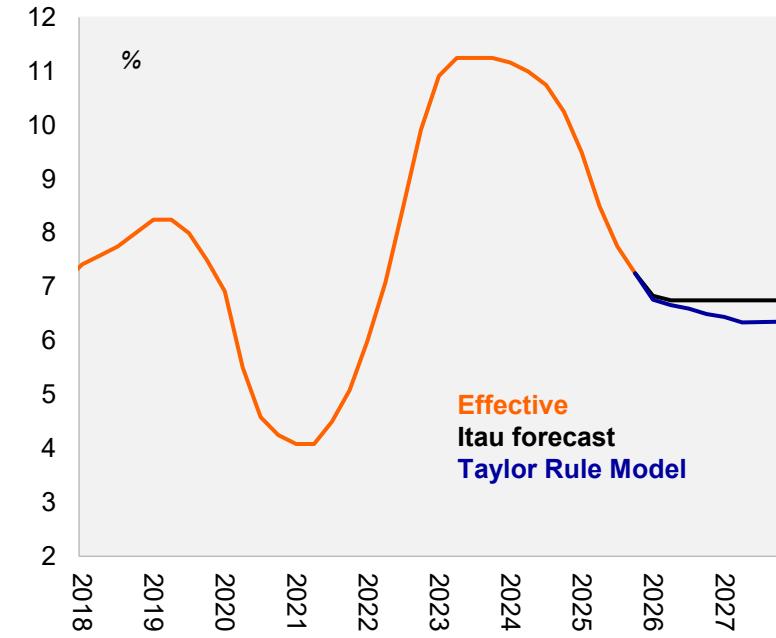
Short-term models - Mexico



Itau Isent



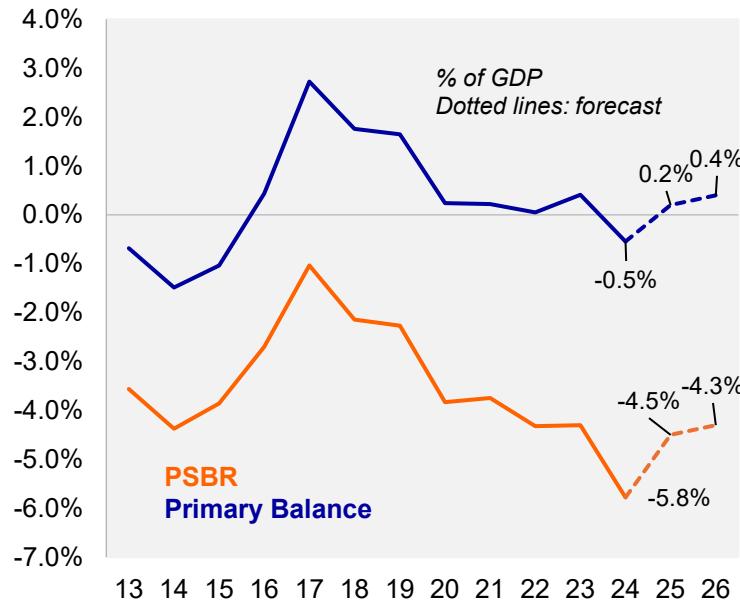
Policy rate forecast



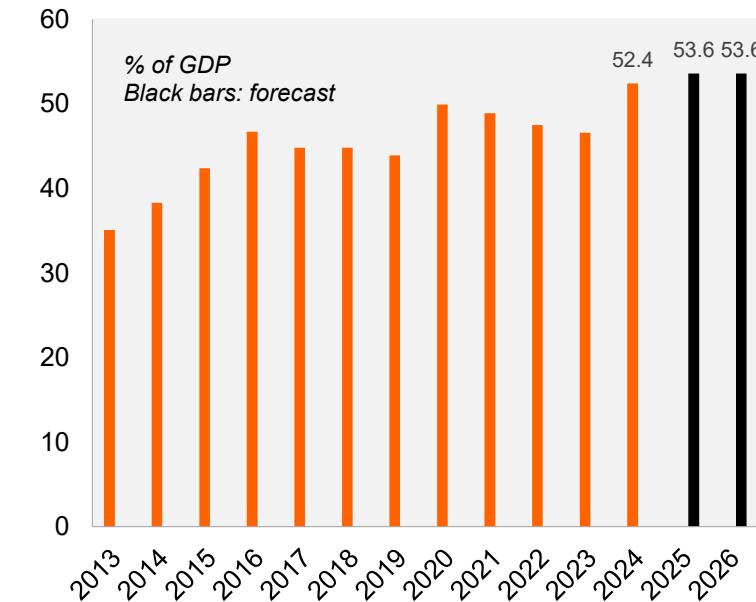
6. Should we worry about fiscal policy?

- 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	Current	Previous	
Economic Activity									
Real GDP growth - %	3.7	3.4	1.4	0.3	0.3	1.5	1.5	2.0	2.0
Nominal GDP - USD bn	1,467	1,798	1,857	1,913	1,913	2,063	2,041	2,177	2,155
Population (millions)	130.1	131.2	132.3	133.4	133.4	134.4	134.4	135.4	135.4
Per Capita GDP - USD	11,241	13,688	14,033	14,344	14,344	14,344	15,185	15,346	15,914
Unemployment Rate - year avg	3.3	2.8	2.7	2.7	2.7	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	-	6.75	6.75	6.75	6.75
Balance of Payments									
MXN / USD - eop	19.5	17.0	20.8	18.0	-	18.8	19.0	19.3	19.5
Trade Balance - USD bn	-28.1	-12.3	-18.5	-0.5	-0.5	-5.0	-5.0	-5.0	-5.0
Current Account - % GDP	-1.2	-0.3	-0.3	-0.3	-0.3	-0.6	-0.6	-0.6	-0.6
Foreign Direct Investment - % GDP	2.5	2.0	2.0	1.8	1.8	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 Finances									
Nominal Balance - % GDP	-3.2	-3.3	-5.7	-4.5	-4.5	-4.2	-4.2	-3.5	-3.5
Primary Balance - % GDP	-0.4	-0.1	-1.5	0.2	0.2	0.4	0.4	0.7	0.7
Net Public Debt - % GDP	47.6	46.8	51.4	53.6	53.6	53.6	53.6	53.6	53.6

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