

# Macro scenario - Mexico



April 30, 2026

## Fine-tuning the cycle's end: cut in May and go away

- ▶ We lowered our 2026 GDP growth forecast to 1.1% YoY, from 1.5%, reflecting a weaker-than-expected start to the year, despite a favorable base effect. Our forecast pencils in a gradual recovery in the second semester, otherwise growth might be even lower.
- ▶ Banxico is expected to deliver one final 25bp cut to 6.5%. Stable FX, easing core inflation, and weak activity keep a May cut in play— framed and presented as the terminal move.
- ▶ We revised our year-end USD/MXN forecasts to 18.4 for 2026 and 18.9 for 2027, with risks now more balanced and episodes of volatility likely to be sharp but temporary.
- ▶ Net public debt is projected to rise to 55.2% of GDP in 2026 and 56.0% in 2027. Execution risks to consolidation remain key.

### 2026 GDP growth revised down

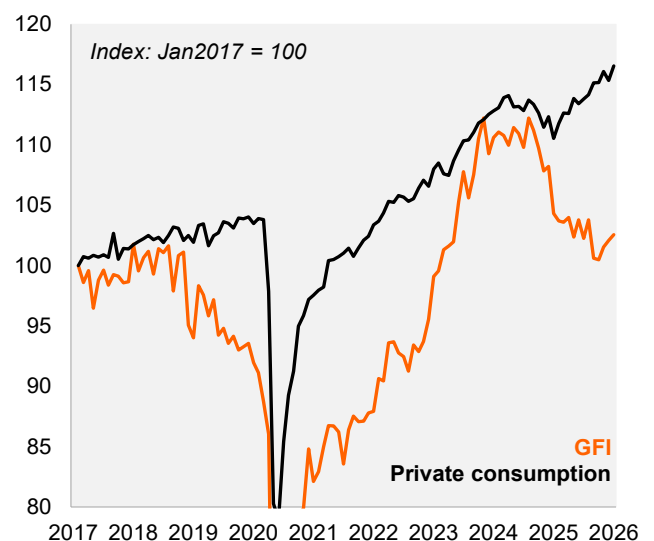
**We lowered our 2026 GDP growth forecast to 1.1% YoY (from 1.5%), reflecting a weaker-than-expected start to the year**, despite a favorable base effect. With activity down 0.3% YoY in January–February and a -0.4% carry-over for 2026, we now expect a 0.7% QoQ SA contraction in 1Q26. While near-term momentum remains soft, our forecast pencils in a gradual recovery of economic activity in 2H26, supported by improving domestic demand and a modest boost from the 2026 FIFA World Cup.

Against this backdrop, the administration presented a bill to promote strategic infrastructure investment, amending the Fiscal Responsibility Law. The bill increases flexibility through greater state involvement, risk-sharing, and the use of off-budget financial vehicles, which could support state-sponsored investment over time. However, recent changes that exclude social and infrastructure spending -roughly one-third of primary expenditure- from structural expenditure metrics raise medium-term uncertainty around debt sustainability, likely to be reflected in sovereign spreads, credit ratings, and investor confidence.

### Core dynamics remain favorable

Headline inflation in the first half of April printed slightly above its historical average, largely driven by non-core

### Domestic demand projected to improve



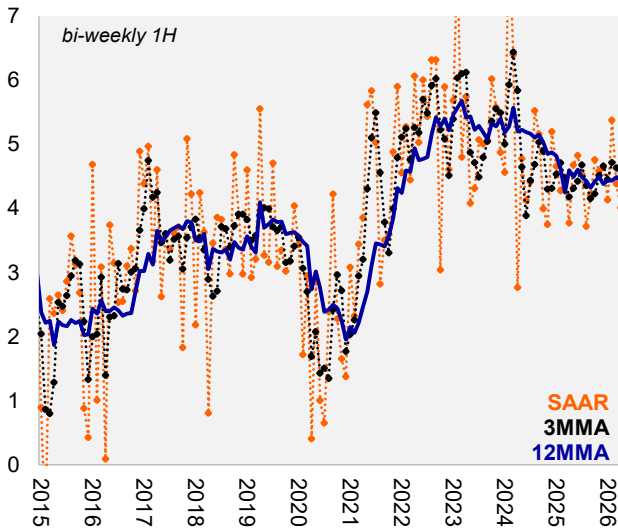
Source: INEGI, Itaú.

components. Core inflation continued to improve at the margin, reinforcing the view that underlying price pressures are easing and that recent shocks do not yet exhibit major effects. Within the core basket, services inflation is decelerating gradually, while goods prices remain contained. This reinforces the narrative of continued disinflation in underlying prices—a key condition for further policy easing.

### A May cut in play

We continue to expect a terminal rate of 6.5% in 2026, consistent with Banxico’s guidance, parking the policy rate at the center of the neutral range through 2027. Stable FX conditions, easing core inflation, and weak activity keep a May cut in play, particularly if framed clearly as the terminal move in the easing cycle.

**Core services inflation improves at the margin**



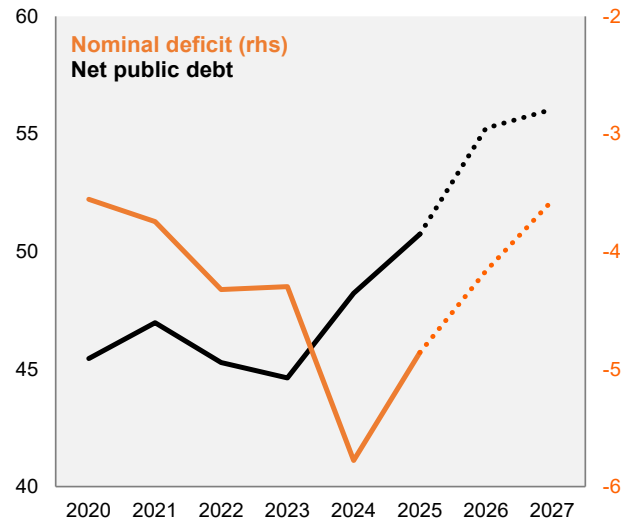
Source: INEGI, Itaú.

**FX volatility reflects noise not fundamentals**

We revised our year-end USD/MXN forecasts to 18.4 for 2026 and 18.9 for 2027, with risks now more balanced and episodes of volatility likely to be sharp but temporary.

The peso has shown greater resilience than expected, helped by a weaker global dollar and contained risk premiums. However, FX momentum has faded, and valuation support is more limited than earlier in the cycle.

**Rising public debt after years of declines**



Source: MoF, Itaú

**Debt rising, risks remain**

On the fiscal front, monthly balances have improved relative to 2025, but challenges remain. Real revenues declined in February, reflecting peso strength and VAT base effects. Under the preliminary 2027 budget framework, the fiscal deficit narrows in 2026, although public debt stabilization becomes more gradual.

We now expect net public debt to reach 55.2% of GDP in 2026 and 56.0% in 2027. The slower stabilization of debt dynamics reflects higher interest costs and slower growth. Execution risks around consolidation remain a key theme going forward, and the new fiscal framework does not assuage concerns.

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Mexico | Forecast

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
<b>Economic Activity</b>								
Real GDP growth - %	3.7	3.1	1.4	0.6	1.1	1.5	1.8	2.0
Nominal GDP - USD bn	1,467	1,794	1,831	1,819	1,905	2,063	2,007	2,177
Population (millions)	130.0	131.1	132.3	133.4	134.4	134.4	135.4	135.4
Per Capita GDP - USD	11,289	13,681	13,840	13,639	14,175	15,346	14,827	16,078
Unemployment Rate - year avg	3.3	2.8	2.6	2.6	2.7	2.7	2.6	2.6
<b>Inflation</b>								
CPI - %	7.8	4.7	4.2	3.7	4.1	4.1	3.8	3.8
<b>Interest Rate</b>								
Monetary Policy Rate - eop - %	10.50	11.25	10.00	7.00	6.50	6.50	6.50	6.50
<b>Balance of Payments</b>								
MXN / USD - eop	19.4	16.9	20.3	18.0	18.4	18.8	18.9	19.3
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	213	229	252	263	263	271	271
<b>Public Finance</b>								
Nominal Balance - % GDP	-4.3	-4.3	-5.8	-4.9	-4.3	-4.2	-3.6	-3.5
Primary Balance - % GDP	0.0	0.4	-0.5	0.3	0.5	0.4	0.7	0.7
Net Public Debt - % GDP	45.3	44.6	48.2	50.7	55.2	53.6	56.0	53.6

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

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