

# Macro scenario - Mexico



April 2, 2026

## One more to go

- ▶ We maintained our GDP growth projections at 1.5% YoY in 2026 and 2.0% in 2027. At this stage, we do not expect a material drag from the Middle East conflict on domestic demand in Mexico.
- ▶ We have adjusted our year-end 2026 headline inflation forecast to 4.1% (from 3.8%) and now see 2027 at 3.8% (from 3.6%), reflecting recent prints and the impact of the Middle East conflict, primarily due to pressures from food inflation.
- ▶ In the March 26 meeting, Banxico cut the policy rate by 25 bps to 6.75%, reflecting a prioritization of domestic economic conditions and no meaningful second-round effects from excise taxes on inflation, over inflationary risks stemming from the geopolitical conflict. The tone of the statement suggests that the Board envisions only one additional rate cut ahead. We continue to expect a terminal rate at 6.5% in 2026, with rates likely to remain at that level through 2027.

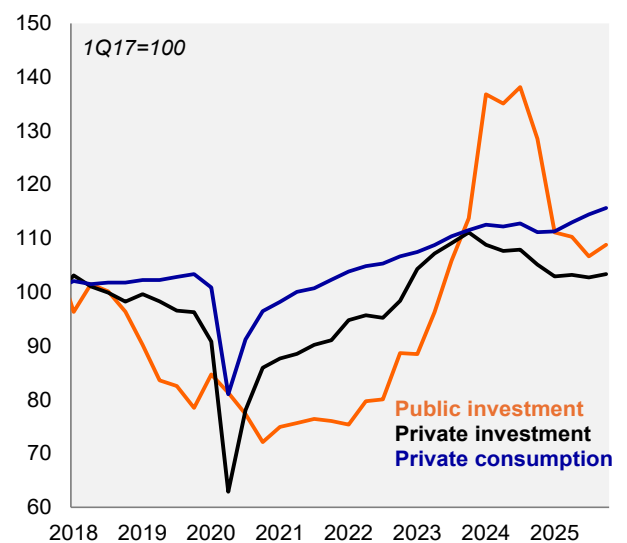
## Weak economic growth at the start of 2026

**We maintained our GDP growth projections at 1.5% YoY in 2026 and 2.0% in 2027.** The economy experienced a downturn at the beginning of the year, following the 4Q25 sequential expansion of 0.9%. Toward the second half of the year, we anticipate improved economic performance, assuming trade policy uncertainty subsides and the government increases public investment.

At this stage, we do not expect a material drag from the Middle East conflict on domestic demand, though risks remain contingent on its duration, potential escalation, and the extent of global supply chain disruptions.

The reallocation of limited fiscal space toward capital investment could provide incremental support to growth, assuming full execution. Recently, as part of the 2026-2030 Infrastructure Investment Plan announced last month, the government unveiled a strategic highway program comprising 18 public-private partnership projects focused on upgrading existing highways and developing new ones, primarily in the northern and central regions of the country. The public sector contribution -estimated at USD 8.5 billion (approximately 0.4% of GDP) – is already embedded in the current budget, while projects are designed to be self-financing, limiting fiscal slippage. Among the flagship initiatives is a cross-border bridge with the US intended to enhance trade flows.

## Public investment to support growth



Source: INEGI, Itaú.

## Energy pressures add to inflation risks

**We revised our year-end 2026 headline inflation forecast up to 4.1% (from 3.8%) and now see 2027 at 3.8% (from 3.6%), reflecting recent prints and the impact of the Middle East conflict.**

Should global energy prices rise while domestic fuels remain contained via subsidies, near-term inflation effects may be partially mitigated. We identify two channels of impact. First, the gasoline channel where subsidies dampen short-term

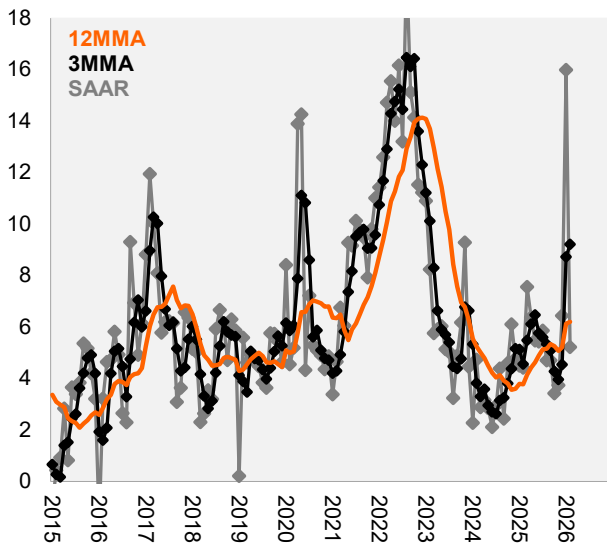
inflation. We estimate that a 10% increase in oil prices would raise headline inflation by roughly 0.1 percentage points over the first six months. Second, the exchange-rate channel, where the correlation between international oil prices and the real exchange rate is low, and exchange-rate pass-through to inflation is minimal — especially in the presence of a negative output gap.

In addition, rising fertilizer prices present upside risks to inflation. We expect initial pressures to emerge in protein prices around mid-2026 due to higher feed costs, with broader food inflation materializing over the summer.

### The end to the rate-cutting cycle is near

**We continue to expect a terminal rate at 6.5% in 2026, with rates likely to remain at that level through 2027.** In the March 26 meeting, Banxico cut the policy rate by 25 bps to 6.75%, reflecting a prioritization of domestic economic conditions and no meaningful second-round effects from excise taxes on inflation, over inflationary risks stemming from the geopolitical conflict. The tone of the statement suggests that the Board envisions only one additional rate cut ahead.

### Food merchandise remains above its historical average

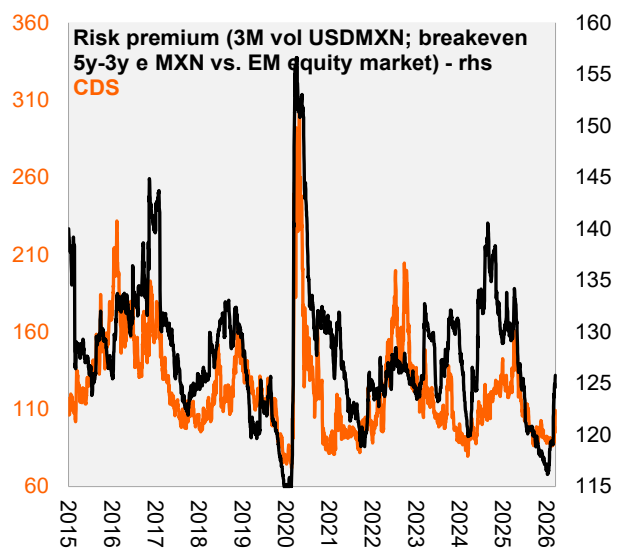


Source: INEGI, Itaú.

### FX dynamics as the key policy driver

**We maintain our view of MXN depreciation to 18.8 per dollar by year-end and 19.3 by end-2027.** However, the main driver has shifted toward heightened volatility linked to the Middle East conflict. Since early March, the peso has depreciated by around 4%, roughly in line with regional peers. We continue to see exchange rate dynamics as a key determinant of Banxico's policy going forward, especially as interest rate differentials with the Fed are low.

### Risk still contained compared to other shocks



Source: Bloomberg, Itaú.

**Andrés Pérez M.  
Julia Passabom  
Mariana Ramirez**

Mexico | Forecast

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
<b>Economic Activity</b>								
Real GDP growth - %	3.7	3.4	1.4	0.6	<b>1.5</b>	1.5	<b>2.0</b>	2.0
Nominal GDP - USD bn	1,467	1,798	1,857	1,919	<b>2,063</b>	2,063	<b>2,177</b>	2,177
Population (millions)	130.1	131.2	132.3	133.4	<b>134.4</b>	134.4	<b>135.4</b>	135.4
Per Capita GDP - USD	11,241	13,688	14,033	14,387	<b>15,346</b>	15,346	<b>16,078</b>	16,078
Unemployment Rate - year avg	3.3	2.8	2.7	2.6	<b>2.7</b>	2.7	<b>2.6</b>	2.6
<b>Inflation</b>								
CPI - %	7.8	4.7	4.2	3.7	<b>4.1</b>	3.7	<b>3.8</b>	3.6
<b>Interest Rate</b>								
Monetary Policy Rate - eop - %	10.50	11.25	10.00	7.00	<b>6.50</b>	6.50	<b>6.50</b>	6.50
<b>Balance of Payments</b>								
MXN / USD - eop	19.5	17.0	20.8	17.9	<b>18.8</b>	18.8	<b>19.3</b>	19.3
Trade Balance - USD bn	-28.1	-12.3	-18.5	0.8	<b>-5.0</b>	-5.0	<b>-5.0</b>	-5.0
Current Account - % GDP	-1.2	-0.3	-0.3	-0.4	<b>-0.6</b>	-0.6	<b>-0.6</b>	-0.6
Foreign Direct Investment - % GDP	2.5	2.0	2.0	2.1	<b>1.9</b>	1.9	<b>2.0</b>	2.0
International Reserves - USD bn	199.1	212.8	229.0	252.1	<b>263.0</b>	263.0	<b>270.9</b>	270.9
<b>Public Finance</b>								
Nominal Balance - % GDP	-3.2	-3.3	-5.7	-4.3	<b>-4.2</b>	-4.2	<b>-3.5</b>	-3.5
Primary Balance - % GDP	-0.4	-0.1	-1.5	-0.2	<b>0.4</b>	0.4	<b>0.7</b>	0.7
Net Public Debt - % GDP	47.6	46.8	52.4	52.6	<b>53.6</b>	53.6	<b>53.6</b>	53.6

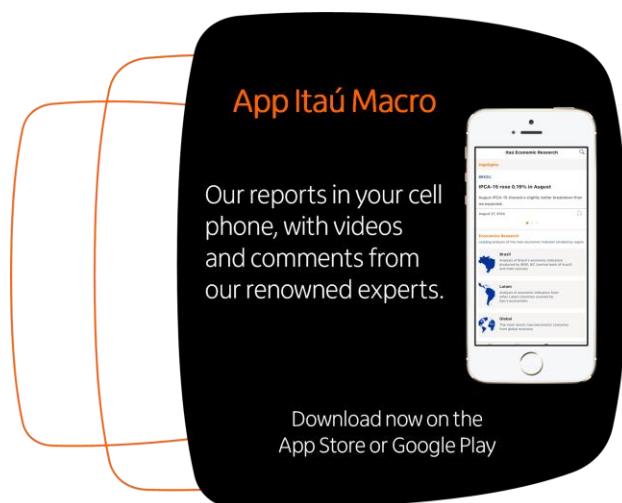
Source: IMF, Bloomberg, INEGI, Banxico, Haver and Itaú

Macro Research – Itaú

Mario Mesquita – Chief Economist

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