# Macro scenario - Mexico

September 19, 2025

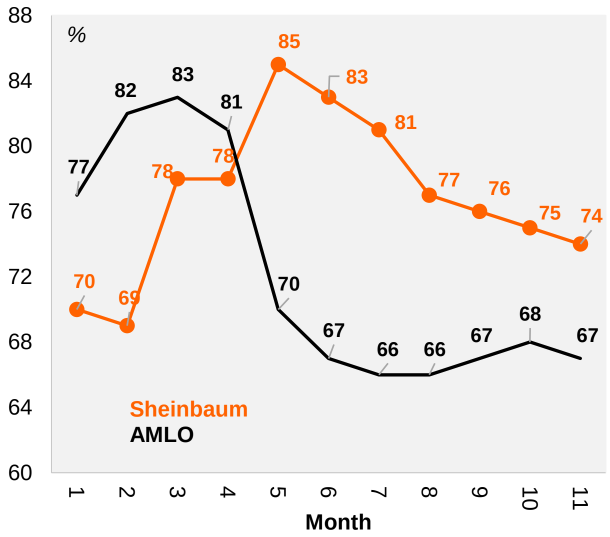
## The easing ride rolls on

- Sheinbaum's approval remains high, and the USMCA renegotiation has officially started. The first trilateral review meeting of the USMCA will be held no later than July 1, 2026.
- We believe Banxico will have more room to cut rates next year, given our new outlook for the FOMC easing cycle. Therefore, we are updating our 2026 year-end forecast for the monetary policy rate to 6.5%, down from the previous 7.0%. We are also incorporating consecutive cuts, contrary to our previous expectations.
- The inflation scenario remains far from comfortable, particularly for core inflation, which is currently in the 4.0-4.5% range in both annual and seasonally adjusted terms, while non-core inflation is unusually low. We forecast headline inflation to end the year at 4.1% and at 3.7% next year.
- Activity data continues to show resilience. Following strong performance in 2Q25, we have left our GDP forecast at 0.6% for this year and 1.2% for next year.
- We still forecast the MXN at 19.0/USD for this year and 19.5/USD for next year. We expect the USD to remain weaker at the margin, which will continue to support the peso throughout the year, amid Banxico's easing cycles and trade negotiations. Given all the uncertainties, even with a weaker global dollar, it still seems too early to predict a more appreciated peso next year compared to this year, although the international scenario may suggest this trend.

### Sheinbaum's approval remains high, and USMCA renegotiation has officially started

**President Sheinbaum's approval remains high, reaching 74% in August[1], amid the new judicial and legislative period.** In September, following the elections on June 1st, the judiciary began operating with figures aligned with the incumbent party, Morena. At the same time, Congress began a new legislative period in which Morena, and its allies will retain their two-thirds majorities in both houses, allowing them to advance constitutional changes.

**Sheinbaum's approval remains above AMLO's for the same period**




Source: El Financiero, Itaú

[1] According to the El Financiero most recent poll (published on September 1).

**USMCA renegotiation has officially started.** The Office of the United States Trade Representative issued a request for comments directed to companies, unions, and other key stakeholders soon. The opening of these consultations marks the formal start of a process that could extend over several months. After gathering comments, at least one public hearing is expected to take place on November 17, along with the submission of a report to Congress in January 2026.

**The first trilateral review meeting of the USMCA will be held no later than July 1, 2026.** Mexico and Canada also started public consultations.

Currently, negotiations are ongoing following the 90-day extension of the 30% tariff increase announced in July by Donald Trump. Meanwhile, the existing tariffs remain in place, including a 25% tariff on fentanyl (excluding USMCA goods), a 25% tariff on cars (also excluding USMCA), and a 50% tariff on steel, aluminum, and copper.

## When they go low, we go low

**We believe Banxico will have more room to cut rates next year, given our revised expectations for the FOMC easing cycle.** We now anticipate a 25bps cut by the FOMC at the September meeting, followed by three consecutive cuts thereafter, compared to our previous scenario of only three cuts in total (starting only in December).

**We are updating our year-end 2026 forecast for the monetary policy rate to 6.5%, down from the previous 7.0%.** We are also incorporating consecutive cuts, contrary to our previous expectations. Base effects will accelerate core CPI during the second half of 2025 and headline inflation next year. This poses risks to Banxico and may prompt a pause to wait until inflation cools off. However, given the more dovish FOMC, the stable USDMXN, and the benign marginal inflation dynamics in the context of a widening negative output gap, we now believe it is more plausible for them to proceed with a continuous cycle, with the risk/alternative scenario being a pause rather than the other way around.

**Given the scenario of consecutive cuts, we now project the policy rate to end 2025 at 7.0%, down from our previous estimate of 7.5%.**

## Tweaking our 2026 fiscal deficit higher on spending

**We have updated our nominal fiscal deficit forecast to 4.1% of GDP (from -3.5% GDP) for 2026.** This revision follows the publication of the 2026 budget, in **which the Ministry of Finance incorporated additional expenditure for next year to strengthen social programs and support Pemex.**

**We now expect a lower primary balance for 2025, down from 0.6% to 0.3%, due to the current pace of revenue improvement, which continues to slow.**

**Public debt is stable in the medium term.** The broadest measure of debt, the historical balance of public sector borrowing requirements, is expected to remain at 52.3% of GDP in 2026 and stabilize thereafter. Primary fiscal surpluses are anticipated for the remainder of the administration.

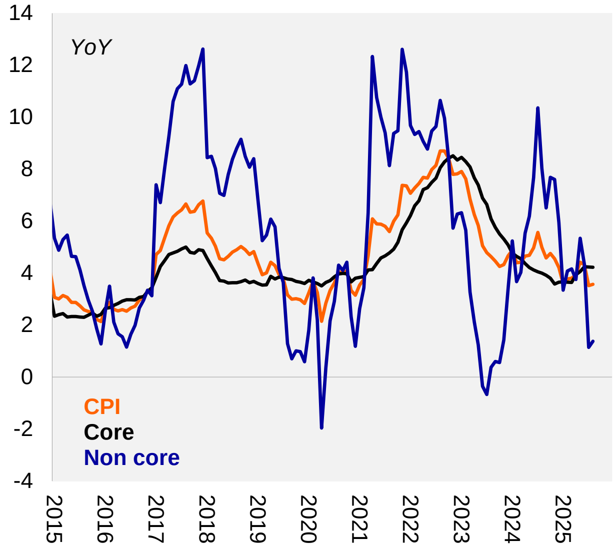
## Core inflation is doing better, but still not enough

**The inflation scenario remains far from comfortable, particularly for core inflation, which is currently in the 4.0-4.5% range in both annual and seasonally adjusted terms.**

Inflation dynamics are complex, with core inflation remaining stubbornly above 4%, while non-core inflation is unusually low. Given the volatile nature of the non-core group, it is likely to return to its historical average, posing risks to headline inflation.

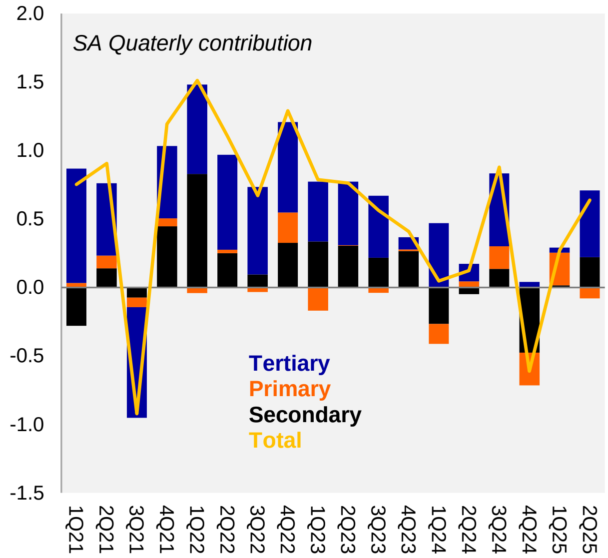
**We forecast headline inflation to end the year at 4.1% and at 3.7% next year. It is worth recalling that Banxico has historically been comfortable with inflation around 4,0%, although the actual target is 3,0%.**

**Non-core inflation remains unusually low**




Source: INEGI, Itaú

**2Q25 GDP supported by services and industrial production**




Source: INEGI, Itaú

## Modest (and still below potential) growth

**Activity data continues to show resilience.** Using seasonally adjusted figures, 2Q25 GDP rose by 0.6% QoQ, resulting in a positive carry-over for growth this year, slightly below 1%. Looking ahead, we anticipate some support for Mexico's growth from international sources, primarily in manufacturing exports, which still benefit from some frontloading effects, and growth in the tourism sector.

The outlook for domestically related sectors is mixed, with moderation in local services and a contraction in investment. The government is focused on strengthening the domestic market amid changes in the global outlook, which will modestly drive growth going forward.

**We maintain our GDP forecast at 0.6% for this year and 1.2% for next year.** For 2026, based on the new spending budget numbers, the fiscal impulse could serve as an incremental growth driver, although to a much smaller extent compared to the AMLO administration. Private partnerships with the government may also provide additional support, although this potential is limited due to the current institutional framework. These factors, along with lower interest rates, suggest a positive bias to our current GDP forecast for next year.

## USDMXN keeps cruising

**We still FX forecast the MXN at 19.0/USD for this year and 19.5/USD for next year.** We expect the USD to remain weaker at the margin, which will continue to support the peso throughout the year, amid Banxico's easing cycles and trade negotiations. Despite the uncertainties, even with a weaker global dollar, it still seems too early to predict a more appreciated peso next year compared to this year, although the international scenario may suggest this trend.

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## Mexico | Forecast

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025F | | 2026F | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Current | Previous | Current | Previous |
| **Economic Activity** | | | | | | | | | |
| Real GDP growth - % | -8.4 | 6.0 | 3.7 | 3.4 | 1.4 | **0.6** | 0.6 | **1.2** | 1.2 |
| Nominal GDP - USD bn | 1,121 | 1,316 | 1,467 | 1,798 | 1,857 | **1,943** | 1,943 | **2,035** | 2,035 |
| Population (millions) | 127.7 | 129.0 | 130.1 | 131.2 | 132.3 | **133.4** | 133.4 | **134.4** | 134.4 |
| Per Capita GDP - USD | 8,844 | 10,218 | 11,241 | 13,688 | 14,033 | **14,572** | 14,572 | **15,140** | 15,140 |
| Unemployment Rate - year avg | 4.4 | 4.1 | 3.3 | 2.8 | 2.7 | **2.7** | 2.7 | **2.7** | 2.7 |
| **Inflation** | | | | | | | | | |
| CPI - % | 3.2 | 7.4 | 7.8 | 4.7 | 4.2 | **4.1** | 4.1 | **3.7** | 3.7 |
| **Interest Rate** | | | | | | | | | |
| Monetary Policy Rate - eop - % | 4.25 | 5.50 | 10.50 | 11.25 | 10.00 | **7.00** | 7.50 | **6.50** | 7.00 |
| **Balance of Payments** | | | | | | | | | |
| MXN / USD - eop | 19.9 | 20.5 | 19.5 | 17.0 | 20.8 | **19.0** | 19.0 | **19.5** | 19.5 |
| Trade Balance - USD bn | 34.2 | -10.8 | -28.1 | -12.3 | -18.5 | **-10.0** | -10.0 | **-10.0** | -10.0 |
| Current Account - % GDP | 2.4 | -0.3 | -1.2 | -0.3 | -0.3 | **-0.6** | -0.6 | **-0.6** | -0.6 |
| Foreign Direct Investment - % GDP | 2.5 | 2.5 | 2.5 | 2.0 | 2.0 | **2.0** | 2.0 | **2.0** | 2.0 |
| International Reserves - USD bn | 195.7 | 202.4 | 199.1 | 212.8 | 229.0 | **230.1** | 230.1 | **230.6** | 230.6 |
| **Public Finances** | | | | | | | | | |
| Nominal Balance - % GDP | -2.8 | -2.8 | -3.2 | -3.3 | -5.7 | **-4.0** | -4.0 | **-4.1** | -3.5 |
| Primary Balance - % GDP | 0.1 | -0.3 | -0.4 | -0.1 | -1.5 | **0.3** | 0.6 | **0.5** | 0.5 |
| Net Public Debt - % GDP | 49.9 | 48.9 | 47.6 | 46.8 | 51.4 | **52.3** | 52.3 | **52.3** | 52.3 |

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

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