

# Banxico wraps up 50bp cuts, more gradual easing ahead

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**A slower, data-dependent path lies ahead, but the easing cycle remains anchored in soft demand prospects and a still restrictive monetary policy stance**

**Banxico cut the policy rate by 50bp to 8.00%; the decision was not unanimous, Jonathan Heath had publicly disclosed in advance his intention to dissent.** He voted to hold the rate at 8.50%, after having supported 50bp cuts at the two previous meetings. The decision was accompanied by a less dovish tone. While most Board members likely continue to believe that the inflation outlook remains positive, the statement noted the recent increase in headline and core inflation and acknowledged that core services inflation has eased more slowly than expected, while core goods inflation has increased more than anticipated. The statement mentioned that “the Mexican economy expanded moderately in April,” as indicated by the most recent IGAE data, but also that “economic slack prevails due to the weakness that the economy has been exhibiting,” and that “the environment of uncertainty and trade tensions poses significant downward risks.” We continue to believe that a single data point hasn’t shifted the Board’s view of underlying economic weakness; we agree. Overall, all this suggests that Banxico remains focused on downside risks to growth, which are likely to support further disinflation in a backdrop of a still restrictive stance. From a strategic perspective, however, Board members concluded that the most prudent way forward for the easing cycle is through a more cautious pace, as we were expecting ([see](#)).

**Banxico revised its short-term inflation forecasts upward, particularly for 2Q25 and 3Q25, but still expects core inflation to hit the midpoint 3% target by 3Q26.** The statement noted that “services inflation has declined more gradually and merchandise inflation has increased more than expected.” Headline inflation is now projected to average 4.3% this quarter and core inflation 4.1%. Both are expected to resume a downward trend from 3Q25, reaching 3.7% (too high in our view) and 3.6% (probably too low), respectively, in 4Q25 (vs. 3.3% and 3.4% previously). While these revisions reflect the recent shocks affecting the non-core component and the quicker than expected rise in core goods inflation, the magnitude of the headline adjustment—especially for 3Q25 to 4.1%—appears overstated in our view and overlooks upcoming favorable base effects and the weakness in aggregate demand ([Figure 1](#)). In contrast, the limited adjustment to core inflation, which is expected to decline to 3.8% in the same quarter, seems inconsistent with the revision made to the headline figure ([Figure 2](#)). Although the updated paths are difficult to reconcile in our view, headline inflation is likely to come below Banxico’s new expected path in the coming months, giving room for additional rate

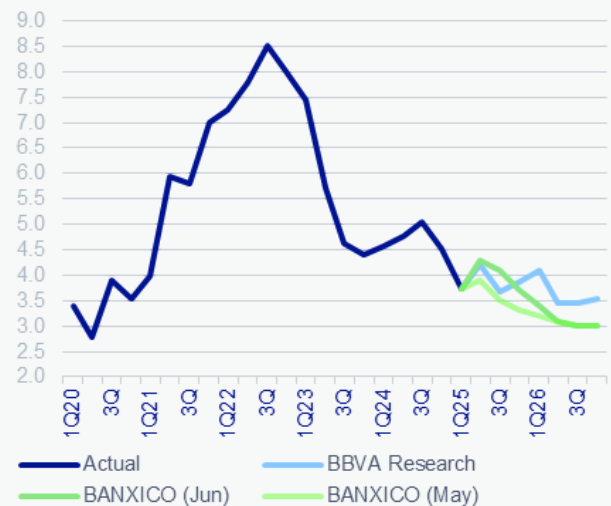
cuts. Medium-term projections remain broadly unchanged, reinforcing the view that the recent rebound is not seen as a shift in the underlying trend and does not materially risk the continuation of the easing cycle.

**The statement's forward guidance turned significantly more cautious, opening the door not only to a slower pace but also to a potential pause.** While current conditions led Board members to conclude that it was “deemed appropriate to continue calibrating the monetary policy stance,” the previous reference to further adjustments “in similar magnitudes” was removed, as we expected. The tweaks pointing to a less dovish tone reflect that the catching up phase, after delaying rate cuts for longer than warranted, has ended. The Board avoided explicitly signaling an upcoming, albeit slower, easing pace, and instead stated that it will “assess further adjustments to the reference rate.” Besides, references to the key considerations for evaluating the next moves (i.e., “the country's weak economic activity” and “the restrictive monetary policy stance that has been maintained”) were removed. It also dropped the reference indicating a preference to keep a restrictive policy stance. In our view, the shift in tone and the changes in the forward guidance seem to keep all options on the table—not only the possibility of transitioning to smaller 25bp cuts, but also to either pausing or bringing down the rate to a neutral range—i.e., removing the restrictive stance—if warranted. While the statement offers no explicit preference, it is clear that the sequence of consecutive large cuts to make the monetary stance more closely aligned with the economic and inflation outlook is now behind. In light of the recent increases in both headline and core inflation, the central bank has shifted to a more cautious and data-dependent approach. This strategic ambiguity will allow Banxico to retain flexibility as new data becomes available, and although this will likely make future movements harder to predict, a widening output gap will likely continue to allow Banxico to further ease policy.

**Despite the shift to a less dovish tone, we continue to expect Banxico to deliver four additional consecutive 25bp rate cuts this year.** Our baseline remains that the policy rate will reach 7.00% by year-end, near the upper end of Banxico's estimated neutral range—essentially just shy of being restrictive. While the Board's revised forward guidance reflects greater caution, it does not represent a break in the easing cycle in our opinion, considering the outlook for the pace of economic activity and the peso's resilience, which has “continued appreciating.” The upcoming minutes will be key to gauge to what extent most members remain focused on the weak growth outlook and how confident they are that the current degree of monetary restriction remains inconsistent with the prevailing macroeconomic conditions and risks. In particular, labor market weakness continues to be a critical factor for further disinflation, especially in services, despite encouraging, but probably temporary in our view, recent activity data. Formal job creation remains subdued, and wage growth has softened, suggesting that household consumption will remain under pressure. This, in turn, should contribute to a more sustained decline in core services inflation, reinforcing the case for continued easing, though at a more measured pace.

Headline inflation will likely undershoot Banxico's projections, but...

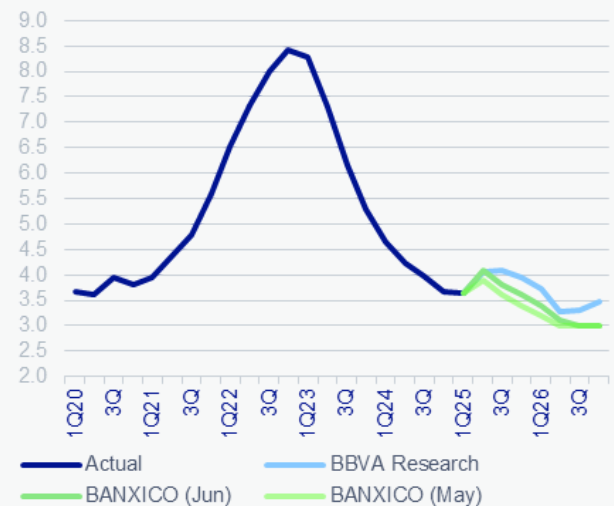
**FIGURE 1. HEADLINE INFLATION OUTLOOK (%)**



Source: BBVA Research / Banxico

... core inflation is unlikely to slow as much as Banxico expects in 2H25

**FIGURE 2. CORE INFLATION OUTLOOK (%)**



Source: BBVA Research / Banxico

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