# Banxico keeps cutting steadily; signals more to come

Javier Amador, Iván Fernández, Carlos Serrano

## A majority of board members continues to signal confidence that the disinflation process remains on track

**Banxico delivered a widely anticipated 25bp rate cut to 7.50%, while signaling further room to ease.** The wording of the policy statement kept its dovish but cautious tone of the last two meetings, signaling a steady pace in its current gradual phase of easing. Although the phrase “economic slack prevails due to the weakness that the economy has been exhibiting” was removed, the Board noted that “economic activity exhibited sluggishness at the beginning of the third quarter of 2025,” in line with the July’s IGAE print released yesterday, which showed a broad-based 0.9% m/m contraction across all major sectors. The statement continued to lean on the dovish side, reiterating that “the environment of uncertainty and trade tensions poses significant downward risks” to growth. This suggests the Board continues to interpret incoming activity data as consistent with subdued domestic demand and still sees scope for further policy normalization, in line with our view. With the economy facing headwinds from weak investment, sluggish employment, and tight fiscal and monetary stances, continuing the easing cycle remains appropriate with the monetary policy stance still moderately restrictive after today’s cut —a view also consistent with Banxico’s own estimates of the neutral real ex-ante range. The statement also noted that Banxico expects the Fed “to implement further reductions in the remainder of the year,” and in a context where “the Mexican peso appreciated,” we believe the policy environment remains conducive to further easing, as reduced concern over the narrowing policy rate spread with the U.S. increases Banxico’s room to maneuver without jeopardizing financial stability or increasing the risk of observing an increase in exchange rate pass-through. Deputy Governor Heath dissented again in favor of a pause.

**Banxico’s modest inflation forecasts revisions signal a positive outlook, likely underpinned by a widening negative output gap.** The central bank fine-tuned its headline inflation forecasts for this quarter and next, to 3.6% on average for both, slightly down from 3.7% and 3.8%, respectively, while leaving its projected path for 2026 unchanged. Banxico revised upward its core inflation forecasts for this quarter and the next three, with a more pronounced adjustment in the next quarter (to 4.0%, up from 3.7%), arguably overdue, bringing its path closer to ours (see Figure 2). This revision reflects the slower-than-expected rebalancing between goods and services inflation, with services continuing to ease only gradually—keeping core inflation sticky. We expect core inflation to hover somewhat above 4.0% in 4Q25 (4.2% on average), and therefore anticipate that Banxico will further revise upward its projected core inflation path at the next meeting. The fact that Banxico made only a moderate upward revision to its core inflation forecast for the fourth quarter of this year —emphasizing that its “core inflation forecasts were revised marginally upward”—even as it now expects it to reach the upper bound of the target range, sends a dovish signal regarding its intention to continue the easing cycle despite the expected stickiness of core inflation in the near term. Moreover, it continues to expect both headline and core inflation to converge to 3.0% by the third quarter of 2026. Taken together these factors suggest that the Board continues to view current inflation dynamics as consistent with its medium-term disinflation outlook, expecting the delayed rebalancing between goods and services inflation to eventually play out as weak demand drives down services inflation.

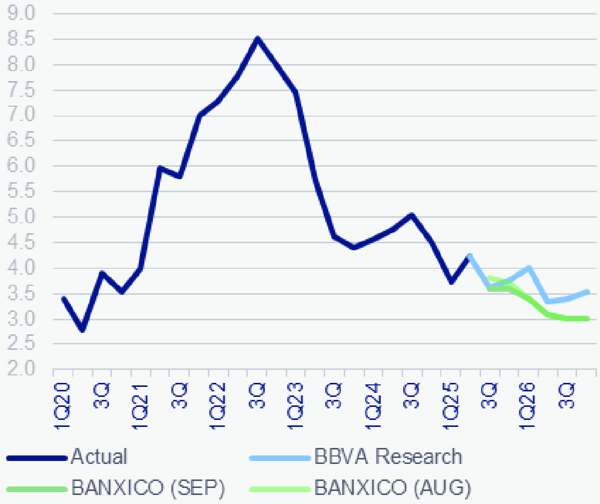
**By keeping its forward guidance unchanged, Banxico signals its intent to keep easing, with rates still moderately restrictive after today’s cut.** The Board reiterated that it will “assess further adjustments to the reference rate,” preserving flexibility as the real ex-ante rate approaches a neutral stance. The statement also reiterated that the decision to cut the policy rate took into account “the weakness of economic activity” and reaffirmed that the Board considered “the level of monetary restriction that has been implemented.” Importantly, there was no mention of being near the neutral range—suggesting that the Board still sees room to bring the stance closer to (at least?) the midpoint of its estimated neutral interval, which remains roughly 100 bps away. We agree with this likely view. We think further easing toward at least the midpoint remains warranted in light of the continued weakness of domestic demand and a positive inflation outlook.

**We maintain our view that the Board will deliver two more 25bp rate cuts this year, in November and December, bringing the policy rate to 7.0% by year-end.** With the Fed having resumed its easing cycle, the risk of further narrowing in the policy rate spread has diminished, giving Banxico greater flexibility to continue lowering rates without risking pressures on the peso or broader financial conditions. Most importantly, domestic demand remains weak and is likely to support a deceleration in core inflation—particularly in services, where recent data show signs of gradual improvement. In this context, we believe Banxico can continue steering rates toward at least a neutral stance without risking its inflation target or financial stability. We continue to expect Banxico to lower the policy rate further to 6.50% in 1Q26, with risks tilted toward further easing.

BBVA Research

Banxico left its headline inflation projected path mostly unchanged…

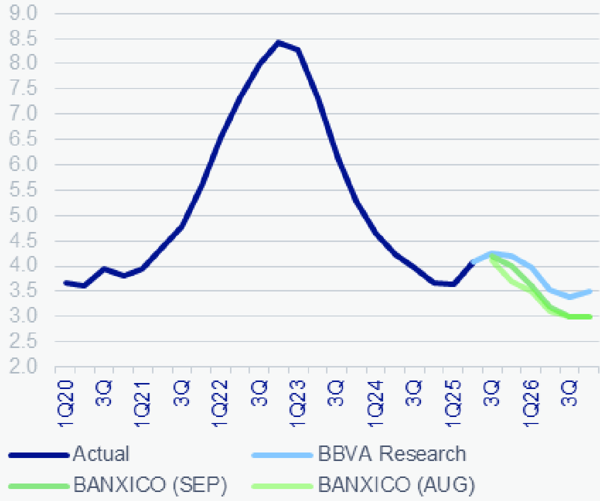
### FIGURE 1. HEADLINE INFLATION OUTLOOK (YOY % CHANGE)




Source: BBVA Research / Banxico / INEGI

… and revised upward its core inflation forecasts, bringing its path closer to ours

### FIGURE 2. CORE INFLATION OUTLOOK (YOY % CHANGE)




Source: BBVA Research / Banxico / INEGI

## DISCLAIMER