BBVA Research

DECEMBER 2025

Mexico Economic Outlook

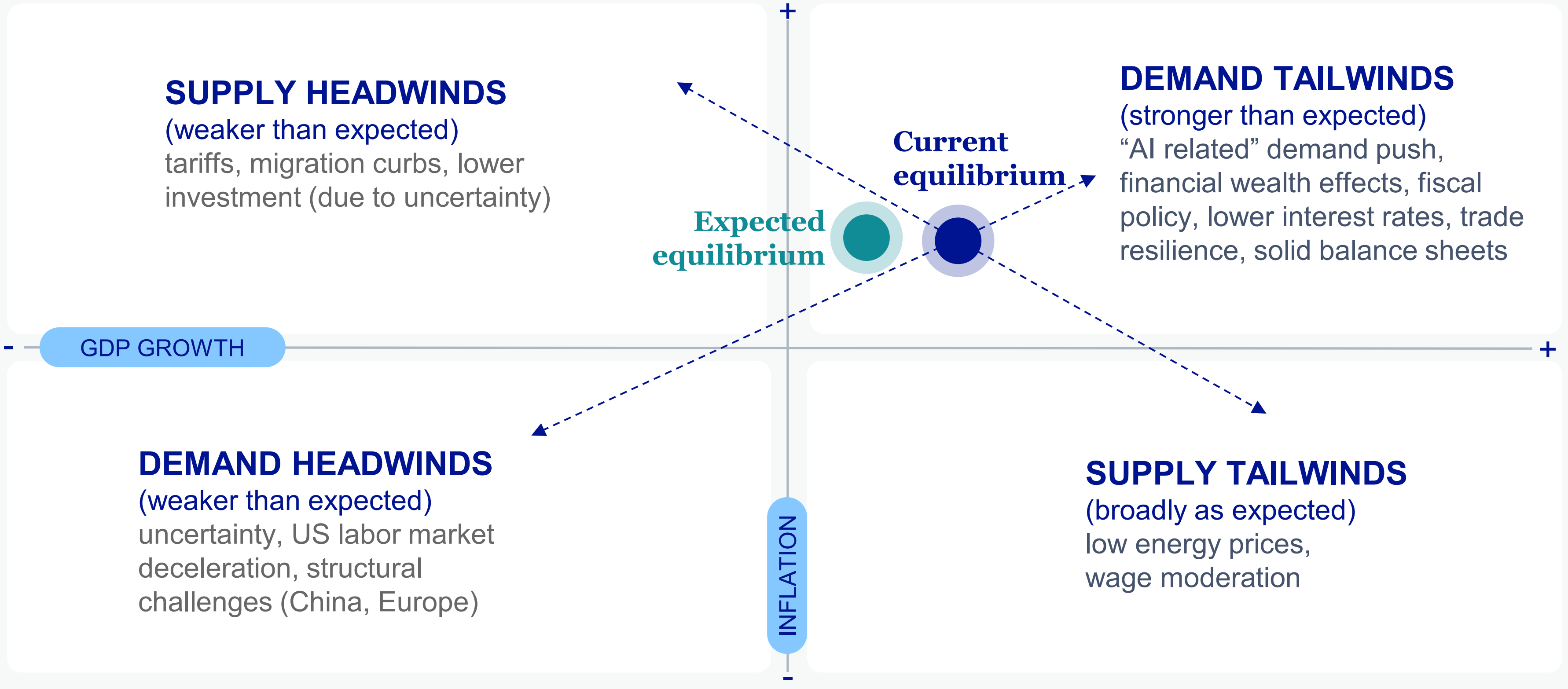
BBVA Research

Q4'25

Global outlook

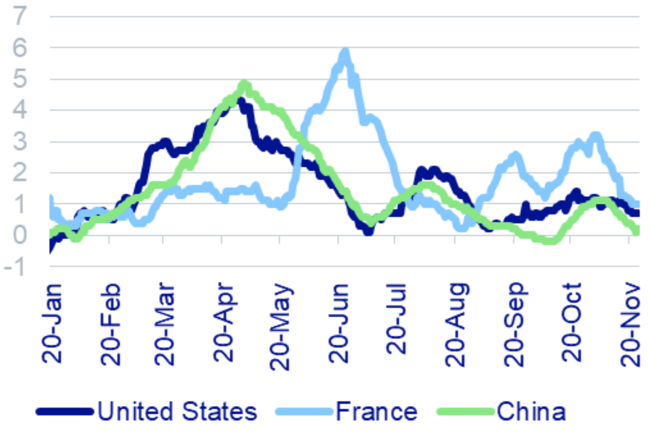
The global economy remains unstable, but is faring better than expected

GLOBAL ECONOMY: KEY DRIVERS OF THE CURRENT EQUILIBRIUM



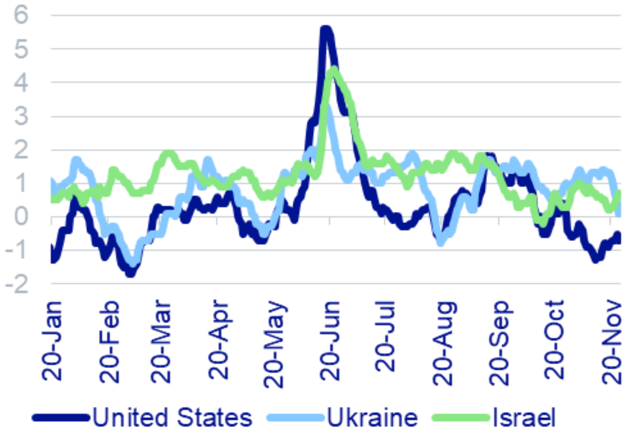
Supply and demand headwinds: uncertainty remains in place, despite recent signs of easing

ECONOMIC POLICY UNCERTAINTY INDEX: 2025 (HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

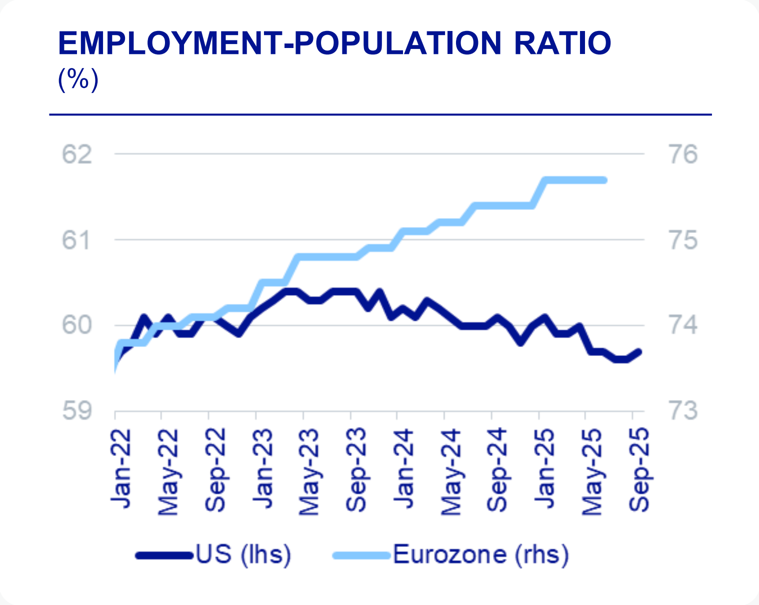
GEOPOLITICAL RISK INDEX: 2025 (HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



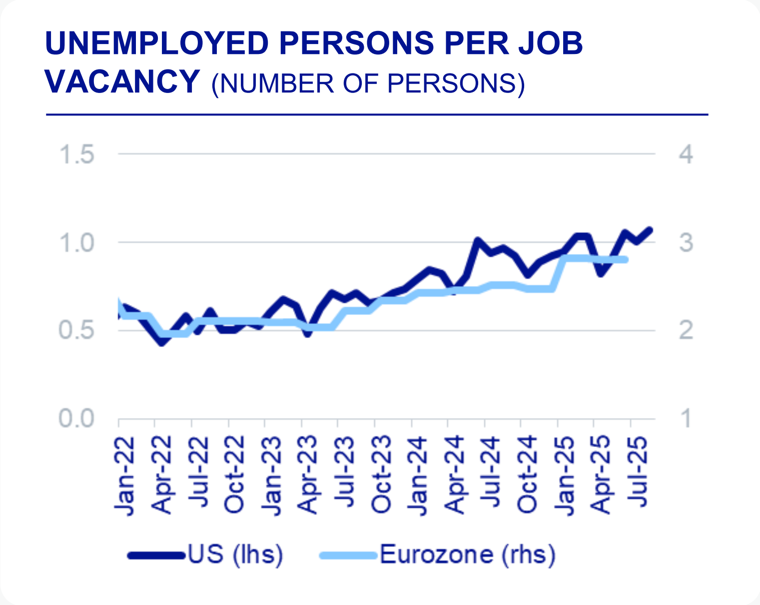
Source: BBVA Research

The US-China trade deal, US tariff cuts (mostly on some agricultural goods), the Gaza ceasefire, talks about a peace deal in Ukraine, among other factors, have contributed to reduce concerns on economic policies and geopolitics in the last few months

Demand headwinds: labor markets are losing steam, mainly in the US



Source: BBVA Research based on data from Fred and Eurostat

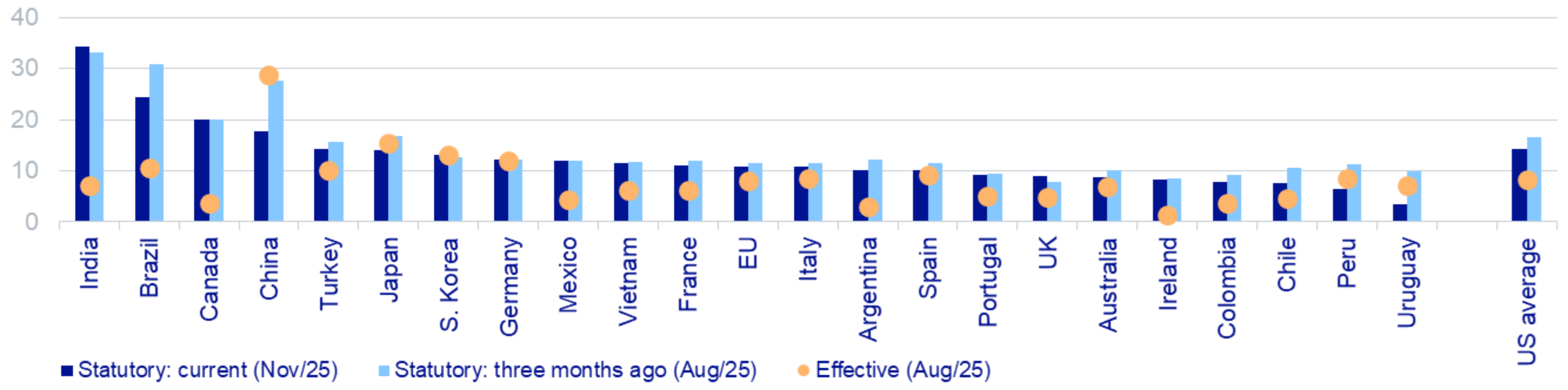


Source: BBVA Research based on data from Fred and Eurostat

The unemployment rate has reached 4.4% in Sep/25 in the US, 1pp higher than the post-pandemic low, but still relatively low; in the Eurozone, it remains close to historical lows (6.3% in Sep/25)

Supply headwinds: US tariffs have recently declined, with effective rates in general below statutory levels

US STATUTORY AND EFFECTIVE TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 (*) (PP)



(*) Statutory tariffs: BBVA Research calculation following recent trade deals and US announcements. Based on general tariffs set for each country (reciprocal and/or fentanyl), specific tariffs on some sectors (steel, aluminum, automobiles, autoparts, pharma...) and exempted goods (selected electronics, oil...). Considering measures announced untill November 26. Sectoral weights are calculated according to 2024 trade flows. Effective tariffs: BBVA Research calculations (total US tariff revenues divided by total US imports, by country) based on data from the USITC.
Source: BBVA Research

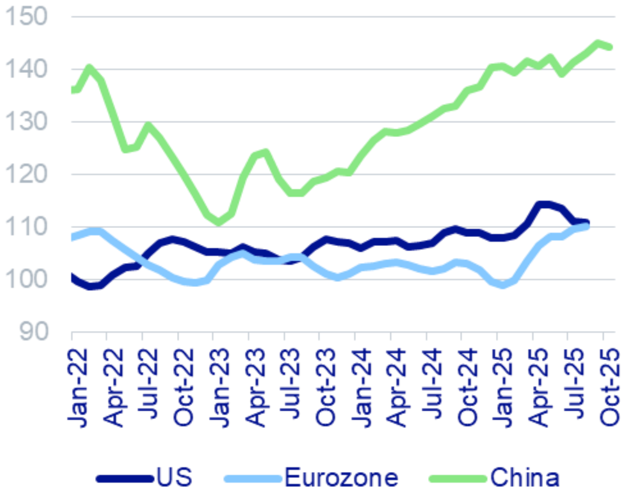
US trade deals—including with China—and exemptions for some goods (mainly agricultural) imply lower tariff levels; yet uncertainty persists, mainly due to possible legal overruling of reciprocal and fentanyl tariffs

Demand tailwinds: global trade has surged ahead of tariffs; and it remains resilient despite moderation signs

EXPORTS OF GOODS (VOLUME): WORLD
(4Q19=100; THREE-MONTH MOVING AVERAGE)

Source: BBVA Research based on data from Haver

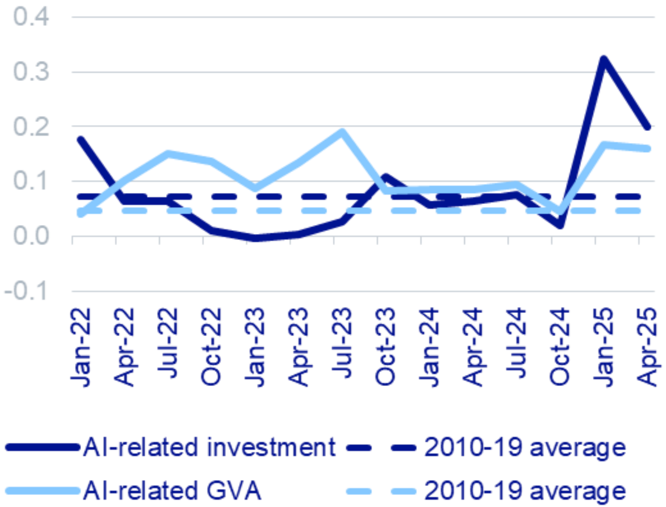
EXPORTS OF GOODS (VOLUME): US, CHINA AND EUROZONE
(4Q19=100; THREE-MONTH MOVING AVERAGE)



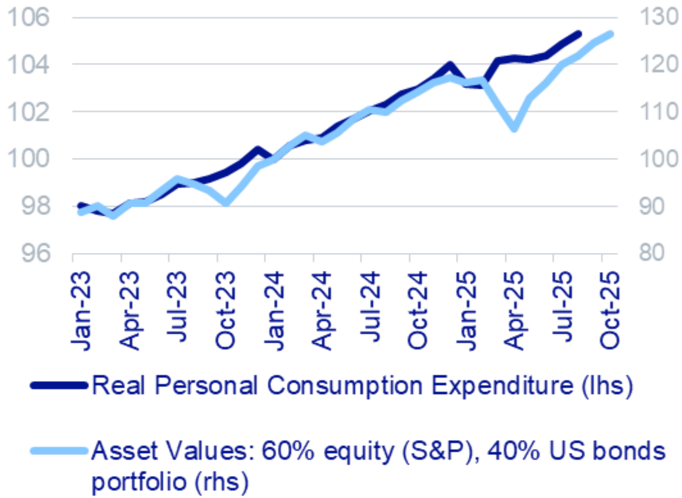
Source: BBVA Research based on data from Haver

Demand tailwinds: the AI boom is supporting US demand

US: AI-RELATED INVESTMENT AND GROSS VALUE ADDED (GVA) (*)
(CONTRIBUTION TO QUARTERLY GDP GROWTH: PP)



US: PERSONAL CONSUMPTION AND ASSET VALUES: IN REAL TERMS (*)
(INDEX: JAN/24=100)

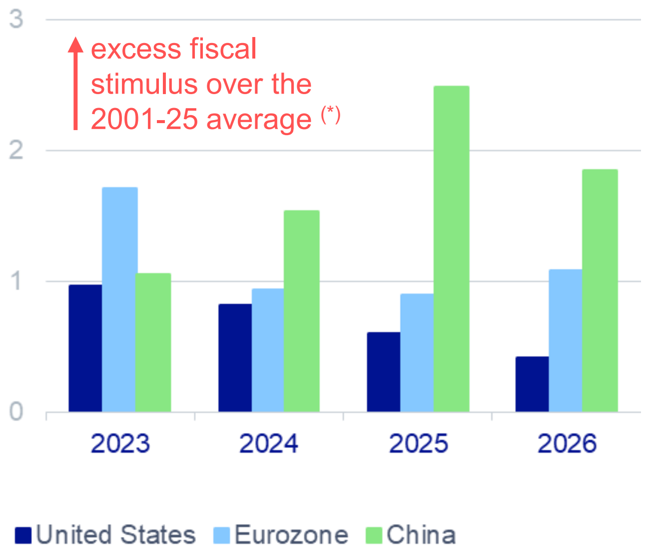


(*) AI-related investment defined as investment in information processing and investment in softwares.
Source: BBVA Research based on data from FRED and US Census Bureau

Source: BBVA Research based on data from FRED and Haver

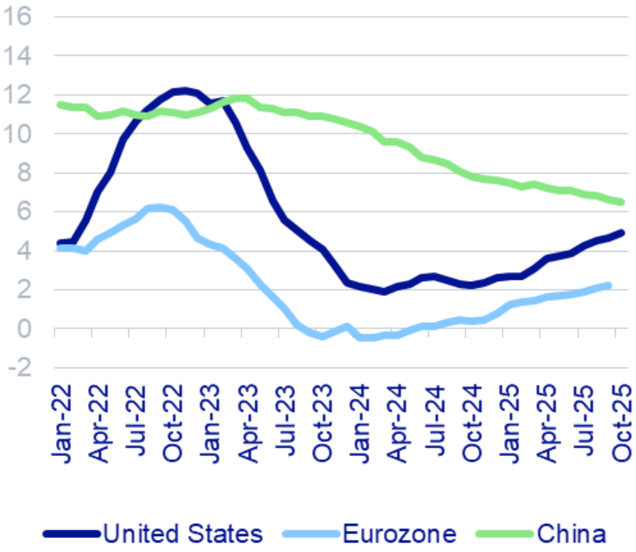
Demand tailwinds: fiscal policy remains supportive, and lower interest rates are now feeding through the economy

CYCLICALLY-ADJUSTED PRIMARY FISCAL BALANCE GAP (*) (% OF GDP)



(*) Deviation of the cyclically-adjusted primary balance (CAPB) from its estimated equilibrium (average relationship between the CAPB and GDP growth over 2001–2025). 2025 and 2026 estimates are based on GDP and fiscal forecasts by the IMF.
Source: BBVA Research based on data from the IMF

BANKING CREDIT: STOCK (Y/Y %)



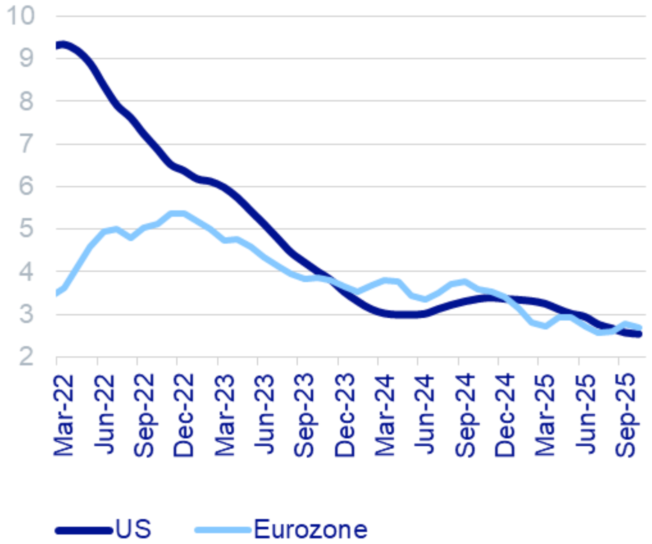
Source: BBVA Research based on data from FRED and Eurostat

Supply tailwinds: energy prices remain at low levels, while wages continue to slow

BRENT PRICES
(USD PER BRENT BARREL)

Source: BBVA Research based on data from Haver

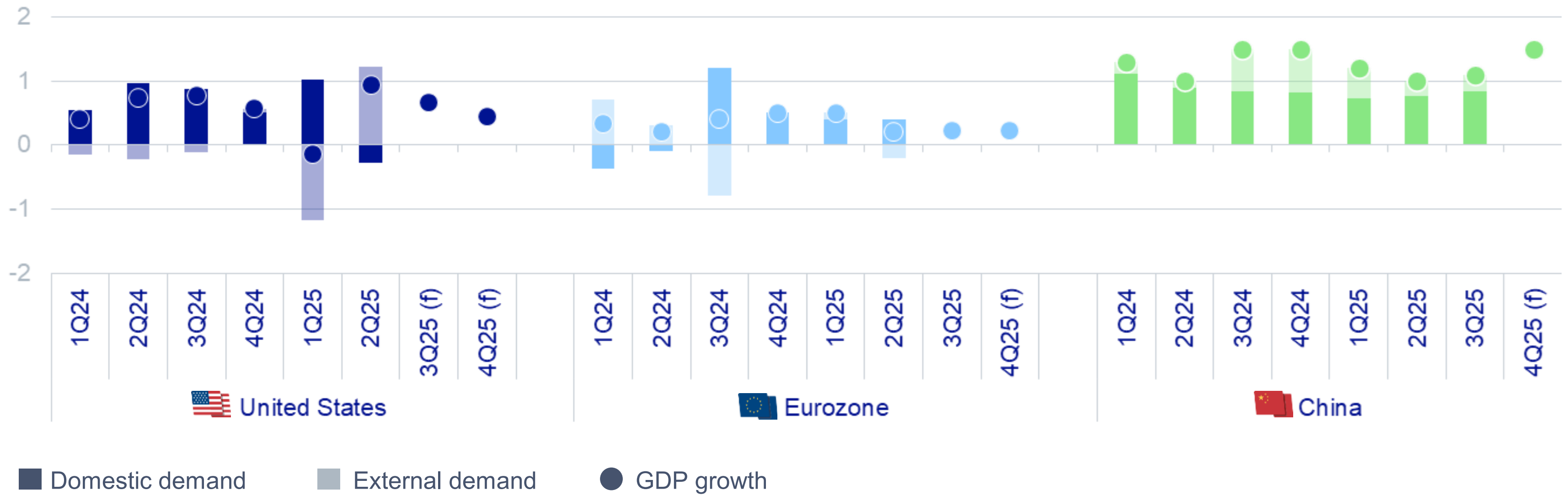
NOMINAL WAGES: INDEED WAGE TRACKER
(Y/Y %, 3-MONTH MOVING AVERAGE)



Source: BBVA Research based on data from Indeed

Activity: GDP growth has remained broadly resilient, in general beating expectations

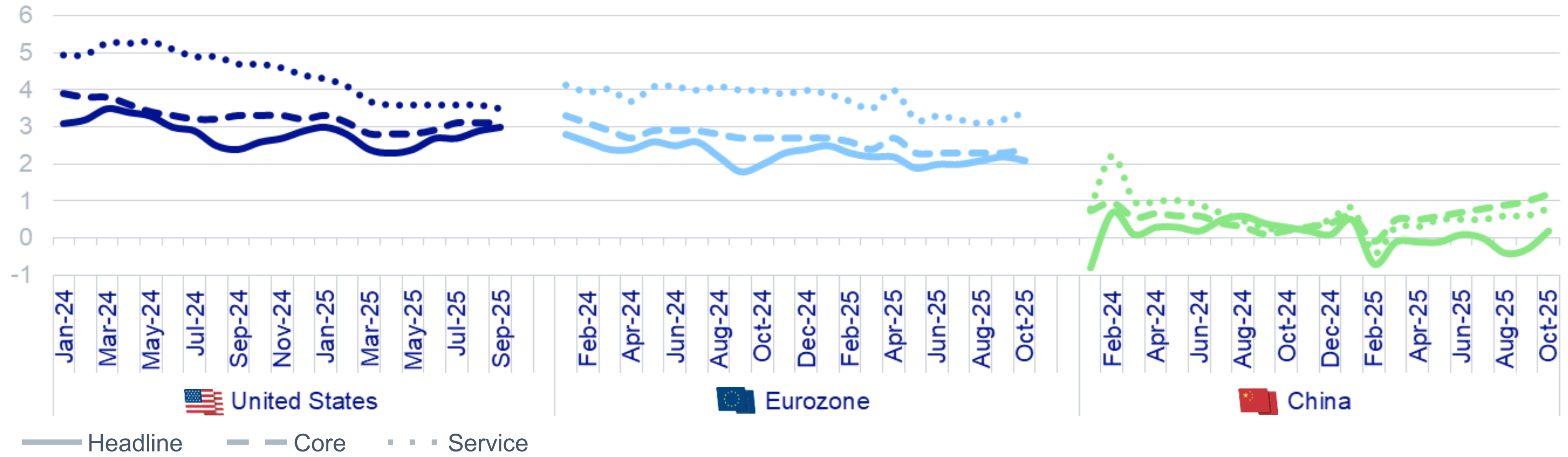
GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH (*)
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



(*) BBVA Research forecast for 3Q25 in the US, and for the 4Q25 in the US, Eurozone and China
Source: BBVA Research based on data from Haver and China’s NBS

Inflation: increasing due to tariff effects in the US, stable around 2% in the Eurozone, and still very low in China

CPI INFLATION: HEADLINE, CORE AND SERVICE (Y/Y %)

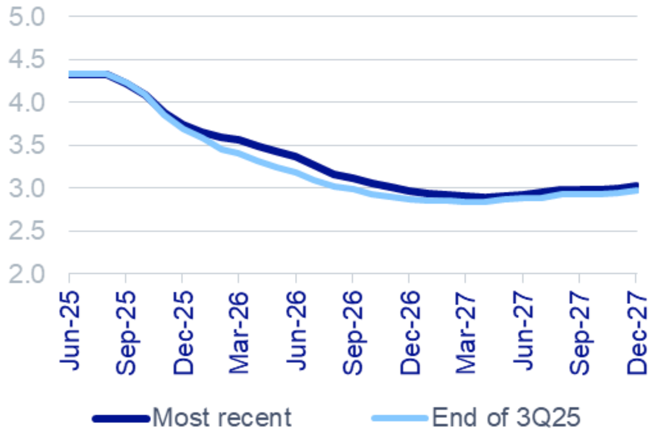


Source: BBVA Research based on data from Haver

In the US, goods inflation is rising amid high tariffs, offsetting the deceleration in services, led by a moderation in shelter prices; in contrast, industrial prices are under control and service prices are increasing at a faster pace in the Eurozone, and to some extent also in China

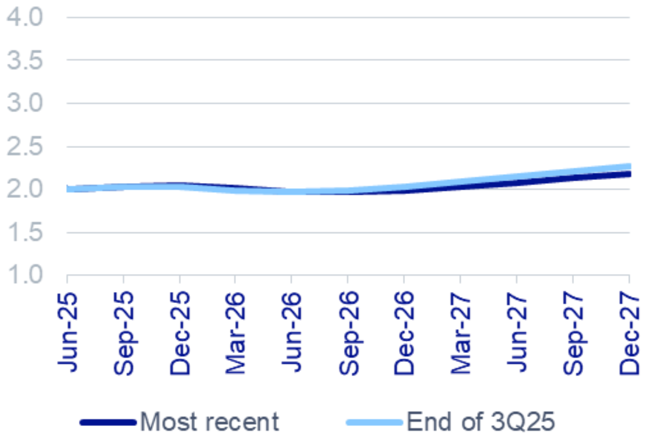
Rate expectations: a more gradual easing and a higher terminal rate for the Fed and stability for the ECB

US: IMPLICIT RATE IN FED FUND FUTURES
(%)



Source: BBVA Research based on data from Haver

EZ: IMPLICIT RATE IN EURIBOR FUTURES
(%)

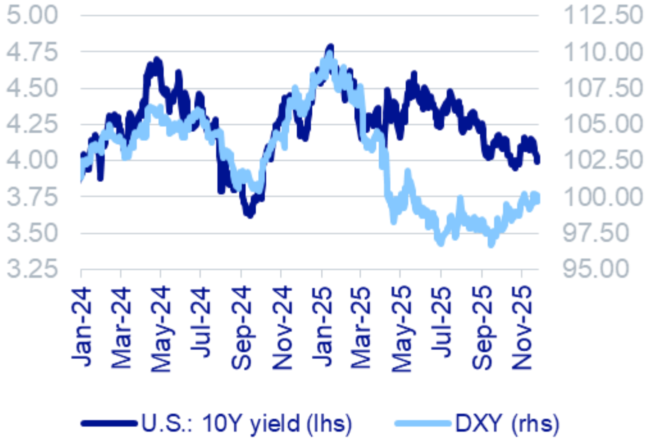


Source: BBVA Research based on data from Haver

The Fed has cut rates by 25 bps in each of its last two meetings to reduce risks of labor market deceleration, but has recently sounded more hawkish de to rising inflation; the ECB has kept rates unchanged at 2% lately and suggested risks are now more balanced

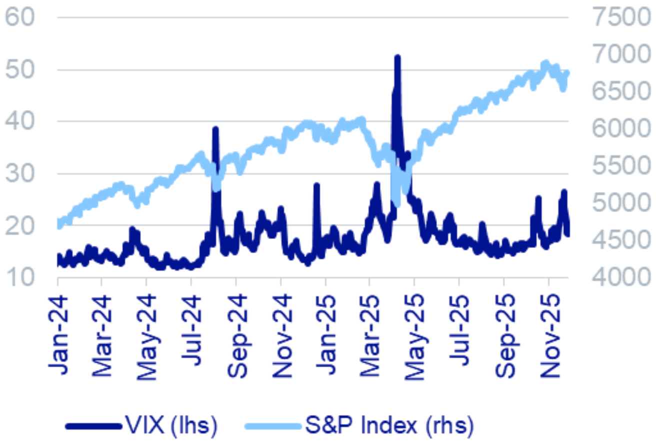
Markets: prospects of higher US rates have driven yields up, backed the USD, and helped triggering an equity correction

US SOVEREIGN YIELDS; US DOLLAR (DXY)
(%)



Source: BBVA Research based on data from Haver

VOLATILITY (VIX); US EQUITY (S&P)
(INDEXES)

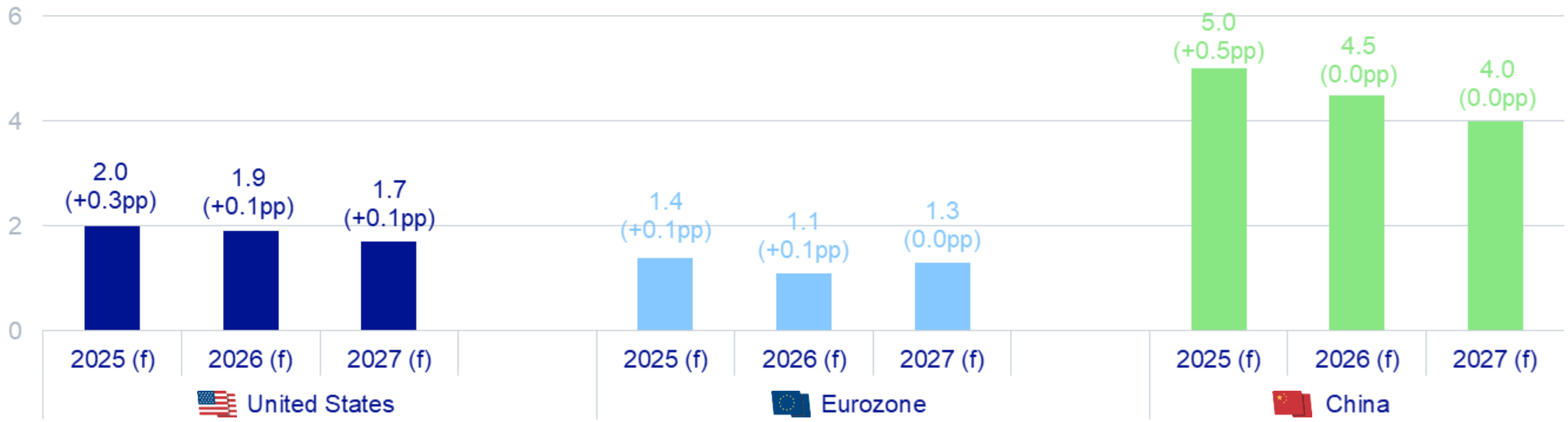


Source: BBVA Research based on data from Haver

Following a rally in US equity markets, driven by AI-related stocks, concerns have recently emerged over excessive valuations, with subsequent market corrections and increased volatility

Growth forecasts have been revised slightly to the upside, mostly on incoming data

GDP GROWTH (*) (%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

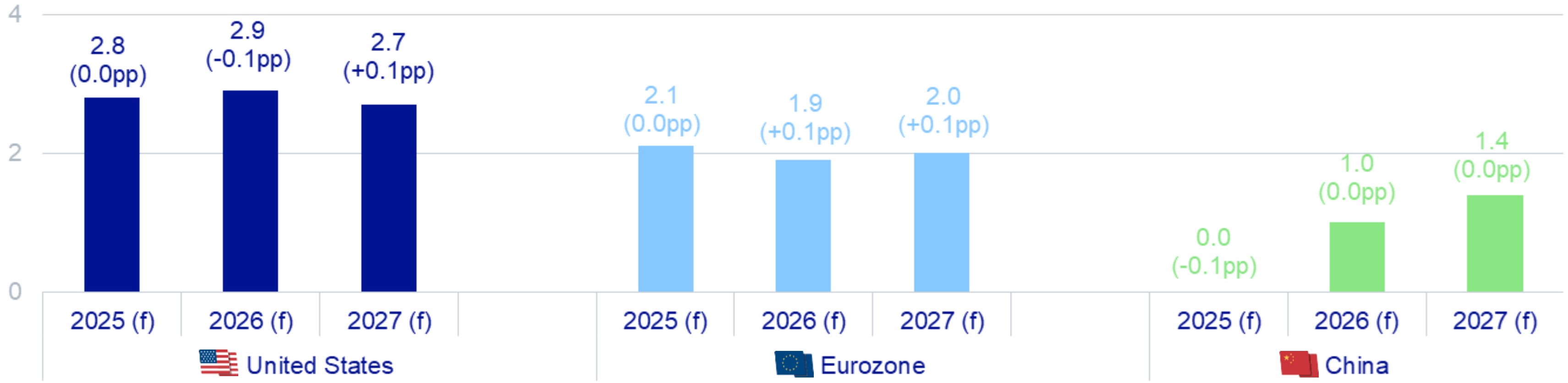


(*) Global GDP is forecast to grow 3.2% in 2025, 3.1% in 2026 and 3.2% in 2027, respectively 0.2pp, 0.0pp and 0.0 higher than the previous forecasts.
(f): forecast.
Source: BBVA Research

The negative impact of tariffs and other supply shocks is expected to be broadly offset by AI demand (mainly in the US) and fiscal spending (mainly in the Eurozone); higher AI-driven productivity is an upward risk in the medium term; a structural slowdown is still expected in China

Inflation prospects remain broadly unchanged, with smaller downside risks in Europe and upward risks in the US

HEADLINE CPI INFLATION (Y/Y %, PERIOD AVERAGE, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

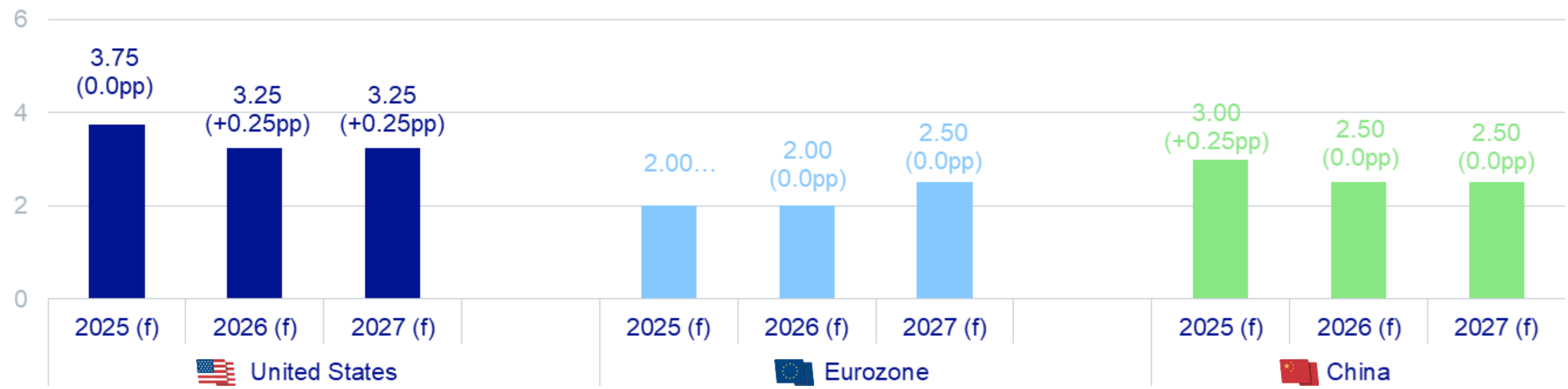


(f): forecast.
Source: BBVA Research

Inflation is still expected to hover around 3% in the US, driven by tariffs, and near 2% in the Eurozone; in China, while further government measures are anticipated to address deflation concerns, risks remain tilted to the downside

Growth resilience and inflation pressures will limit the Fed easing; no additional cuts by the ECB are expected

POLICY INTEREST RATES (*) (%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

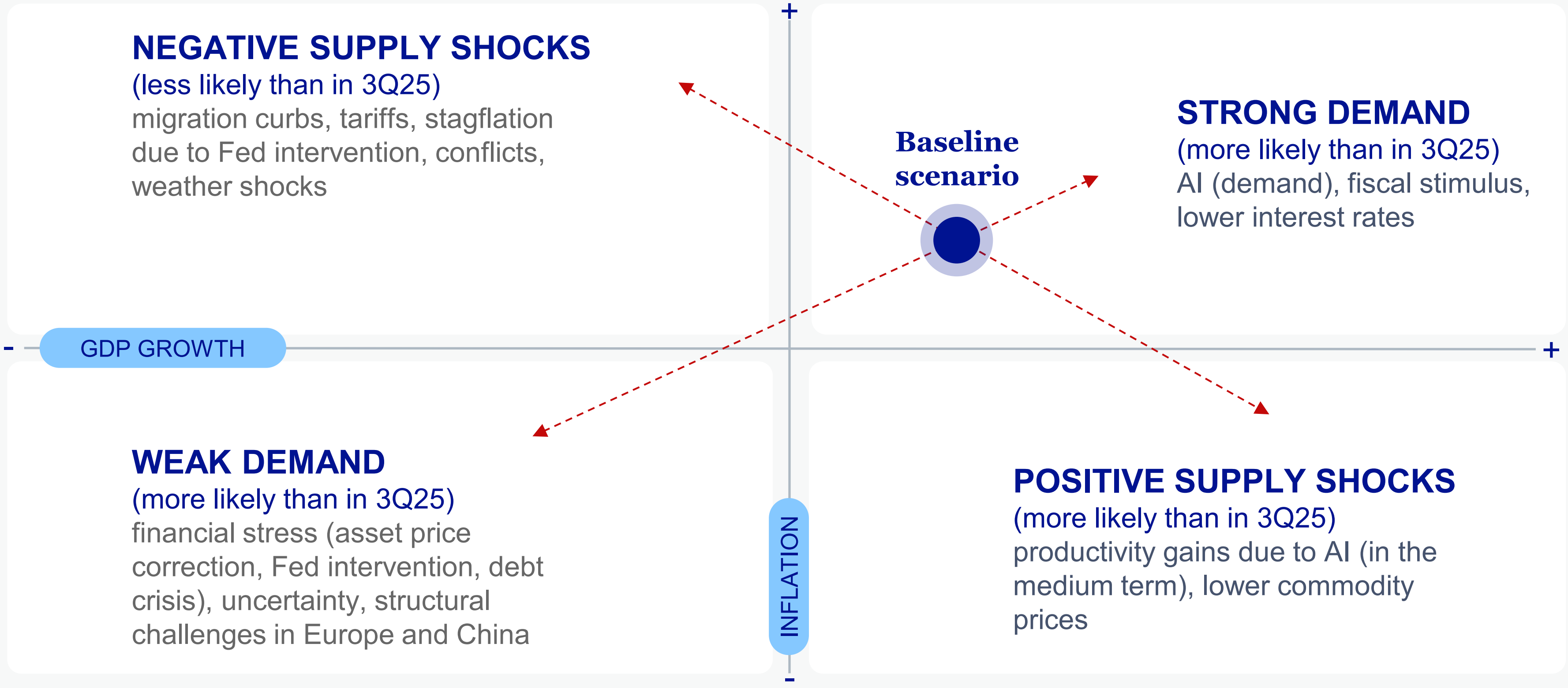


(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research.

US rates are now closer to neutral levels and the convergence to the (higher-than-expected) terminal rate could be more gradual, but there is uncertainty related to the upcoming changes in the Fed board; in the Eurozone, there is room for rates to get closer to the estimated neutral rate in the medium run

More balanced risks: rising odds of medium-term AI productivity gains amid persistent supply concerns

GLOBAL ECONOMY: MAIN RISKS AROUND BBVA RESEARCH BASELINE SCENARIO



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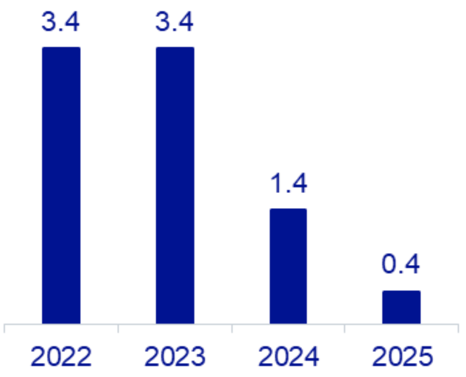
Q4'25

Weakness in domestic demand in 2025

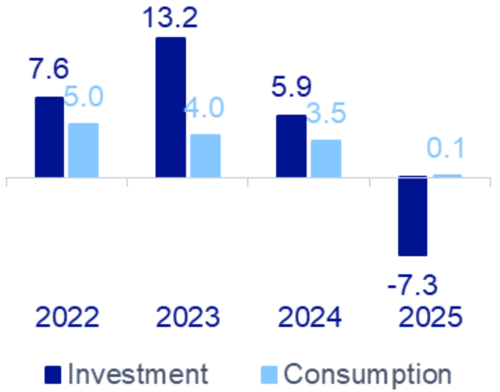
GDP fell (-)0.3% q/q in Q3'25

Consumption stagnates in September (0.1% y/y, cum.); Investment falls (-)7.3% (cum.)

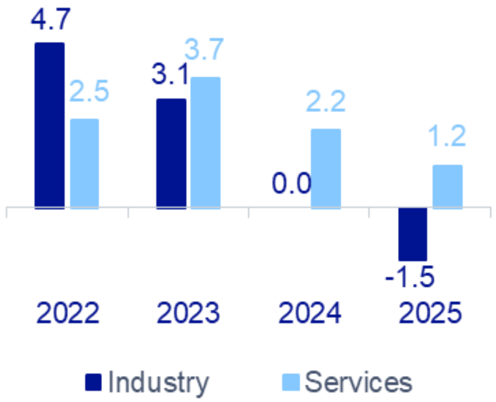
GDP
(ANNUAL CHG., %, Q1-Q3 CUM.)



INVESTMENT AND CONSUMPTION
(Y/Y%, JAN-SEP, CUM.)



INDUSTRY AND SERVICES
(Y/Y%, Q1-Q3, CUM.)



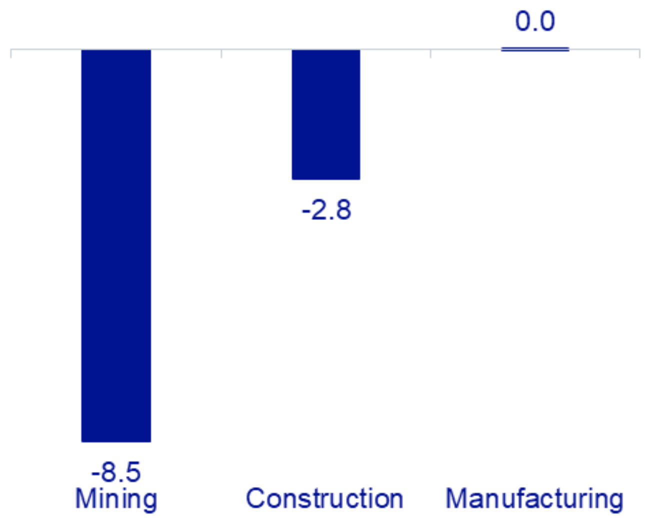
Source: BBVA Research, Haver Analytics, Macrobond

On the supply side, the tertiary sector is sustaining the economy with cumulative annual growth of 1.2% through September. Meanwhile, industry is contracting by 1.5%

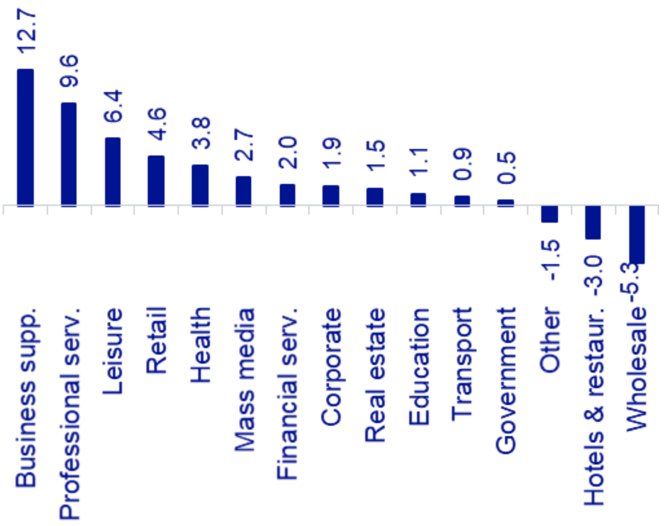
The slowdown in the industry is widespread

The services segment is driving growth in the tertiary sector

INDUSTRY
(Y/Y%, Q1-Q3, CUM.)



TERTIARY SECTOR*
(Y/Y%, Q1-Q3, CUM.)

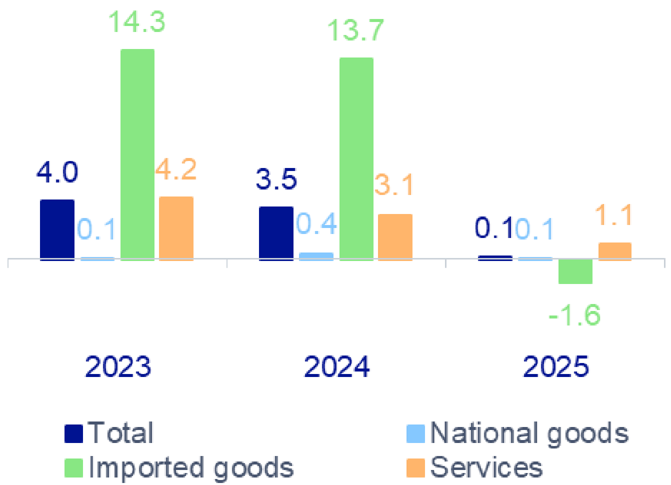


Source: BBVA Research/Haver Analytics/Macrobond.
*The "Business Support Services" segment includes administrative, employment, cleaning, and travel agencies. The "Professional Services" segment includes legal, accounting, architecture, design, consulting, research, advertising, photography, translation, and veterinary services.

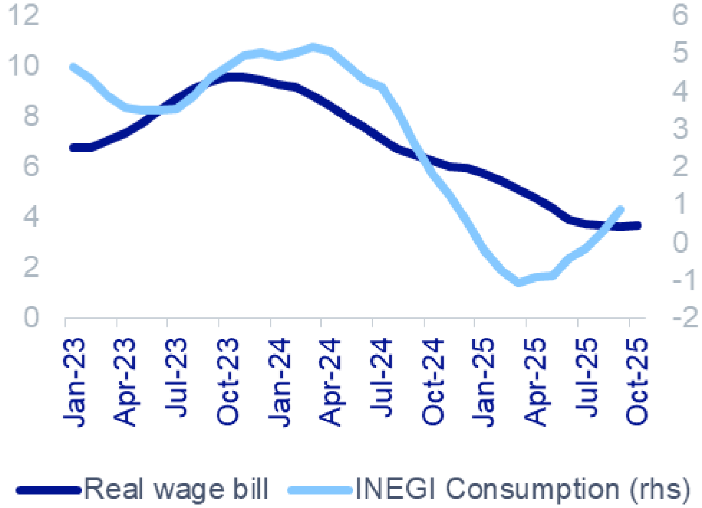
Falling investment and slowing consumption are hindering growth

Weak spending in the face of lower real wage bill growth and declining consumer confidence

PRIVATE CONSUMPTION
(Y/Y%, JAN-SEP CUM.)



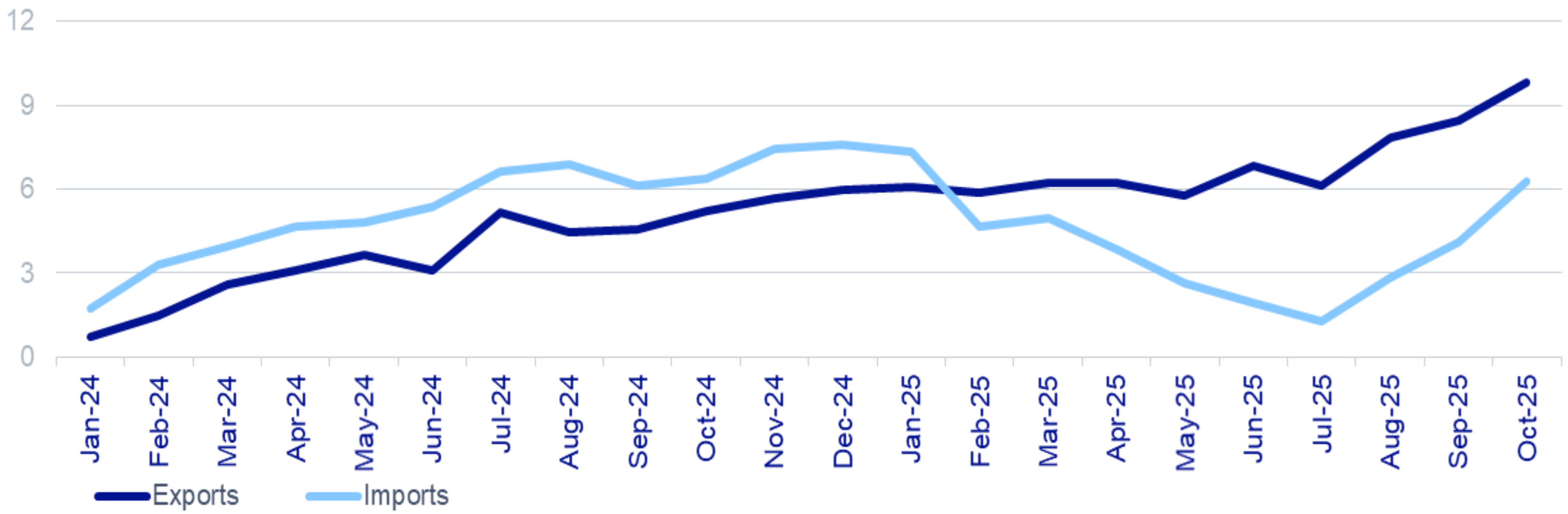
CONSUMPTION AND REAL WAGE BILL
(Y/Y%, REAL, SA, 6-MONTH MOVING AVERAGE)



Source: BBVA Research, Haver Analytics, Macrobond

The external sector avoided a recession in 1H25

NON-OIL EXPORTS AND IMPORTS
(Y/Y%, REAL, SA, 6M MOVING AVERAGE)



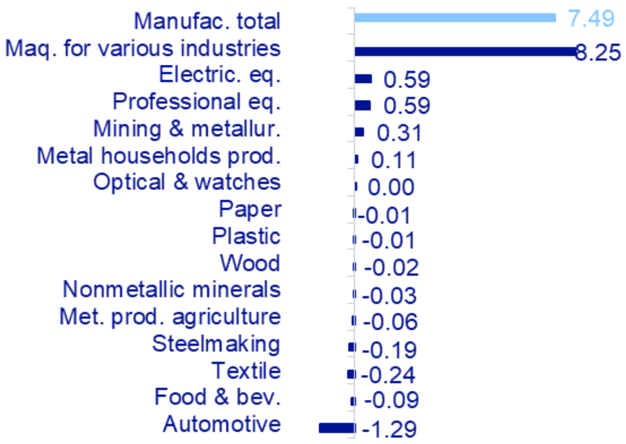
Source: BBVA Research, Haver Analytics, Macrobond, Banxico

The external sector contained the decline in 1H25

The impetus came from the production of machinery and equipment for various industries

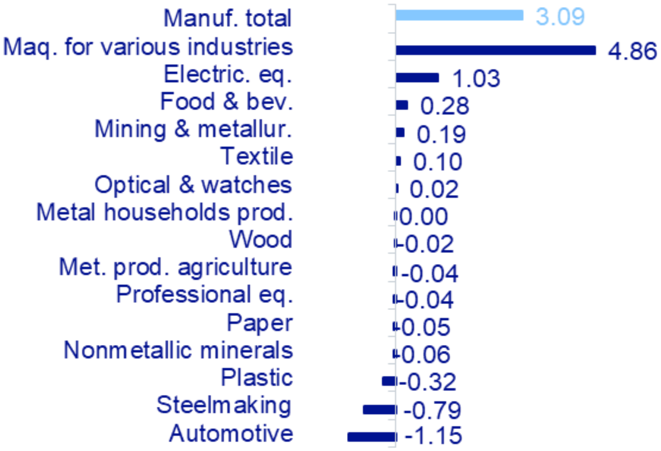
MANUFACTURING EXPORTS

(CONTRIB. TO GROWTH OF EXP., PP, JAN-SEP, Y/Y % OF USD, NOMINAL)



MANUFACTURING IMPORTS.

(CONTRIB. TO GROWTH OF IMP., PP, JAN-SEP, Y/Y% OF USD, NOMINAL)



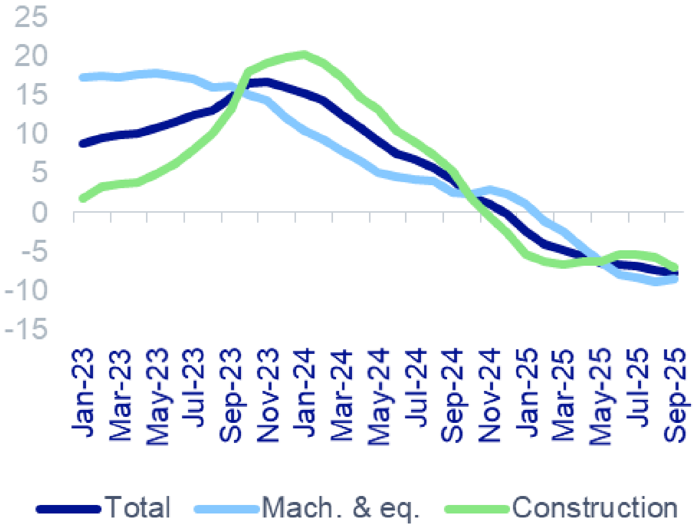
Source: BBVA Research, Haver Analytics, Macrobond, Banxico

The automotive segment fell and subtracted 1.3 pp from the advance of exports (cum. Jan–Sep.)

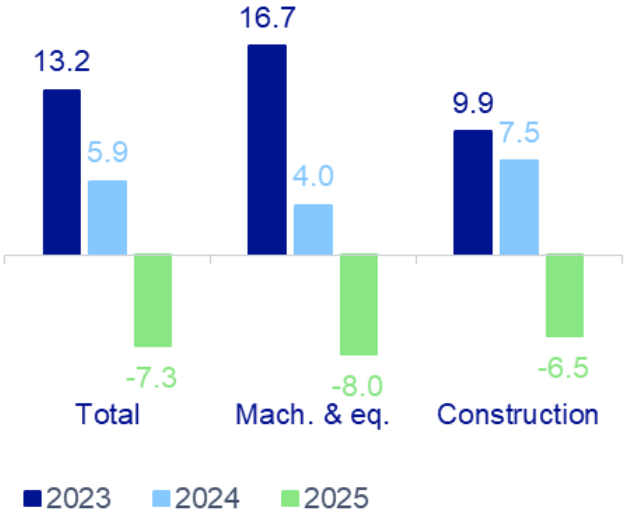
Investment registered a significant contraction

The climate of uncertainty and the reduction in public expenditure weigh on investment

INVESTMENT
(Y/Y%, REAL, SA, 6-MONTH MOVING AVERAGE)



INVESTMENT
(Y/Y%, JAN-SEP CUM.)

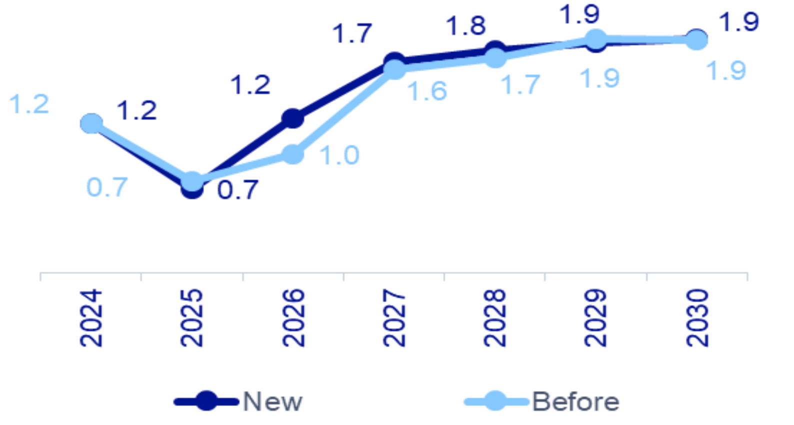


Source: BBVA Research, Haver Analytics, Macrobond

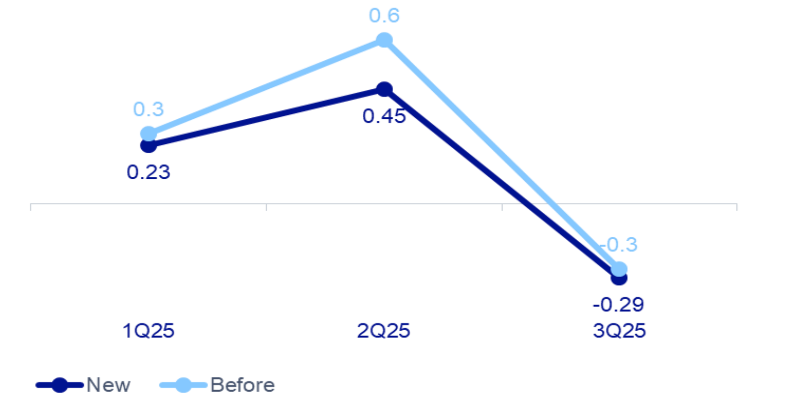
Although we have not changed our forecast for 2025,

the recent downward revision of growth for Q1 to Q3, particularly for Q2, has introduced a downward bias to our forecast

GDP
(ANNUAL CHANGE, %)



GDP: INEGI REVIEWS
(Q/Q%, REAL, SA)

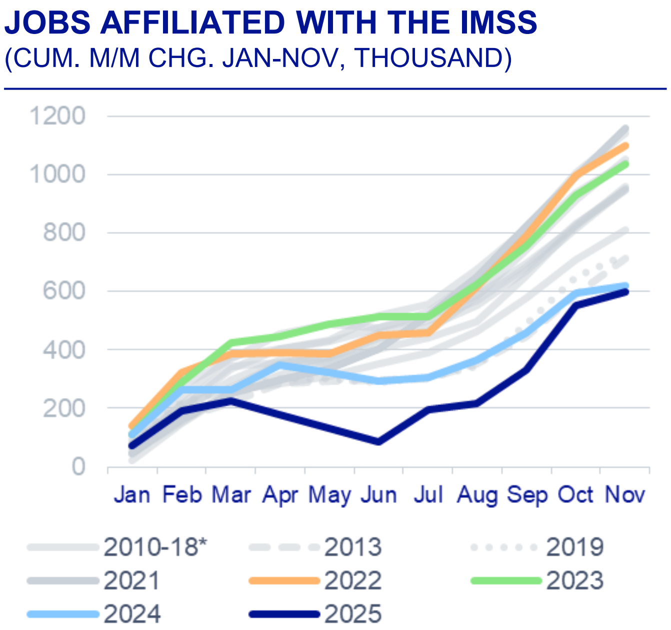


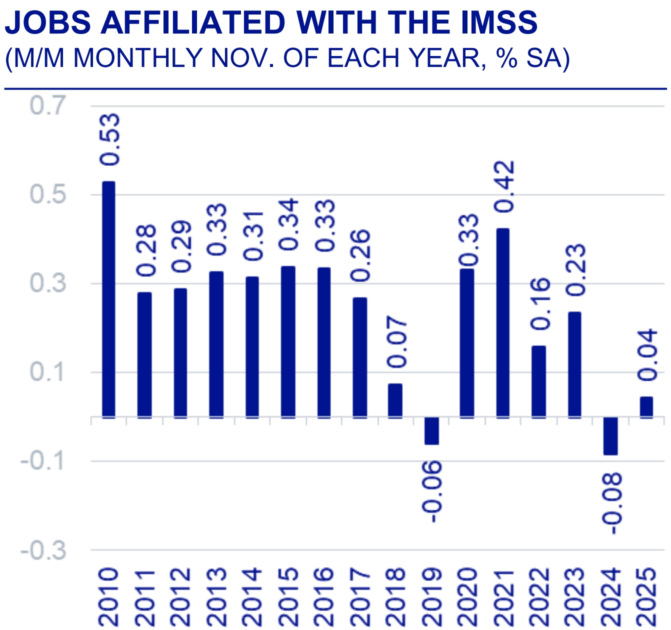
Source: BBVA Research, Haver Analytics, Macrobond

We anticipate a moderate rebound in 2026, supported by improvements in consumption and employment. Slower fiscal consolidation and reduced uncertainty is expected to gradually bolster investment

Historical low in formal job creation

Formal employment from January to November has reached its lowest level since 2010, excluding 2020, the pandemic year



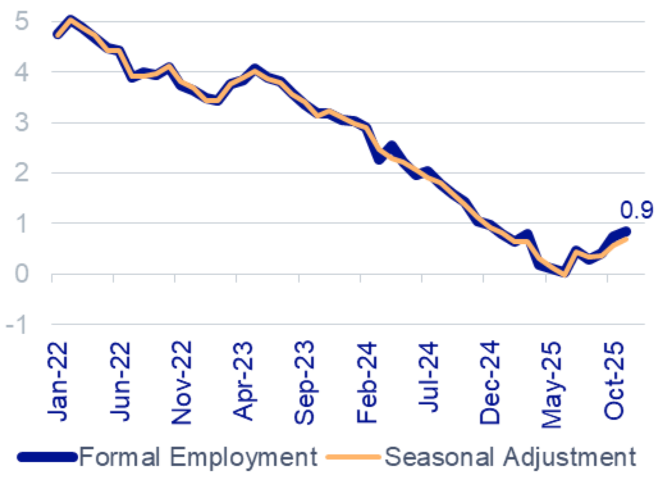


Note: Includes digital platform workers
Source: BBVA Research, IMSS

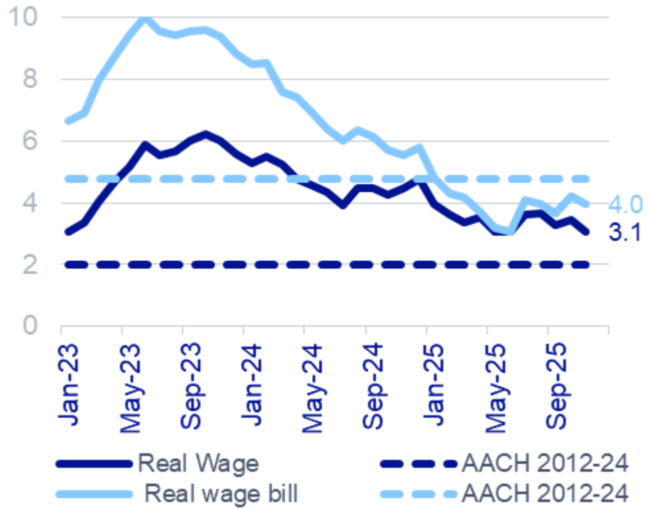
Labor market stagnation and weakness persist

Lower dynamism in job creation and real wages is limiting the growth of the real wage bill

JOBS AFFILIATED WITH THE IMSS
(ANNUAL CHG., %)



REAL WAGE AND TOTAL WAGE BILL OF IMSS WORKERS ANNUAL CHG., %)

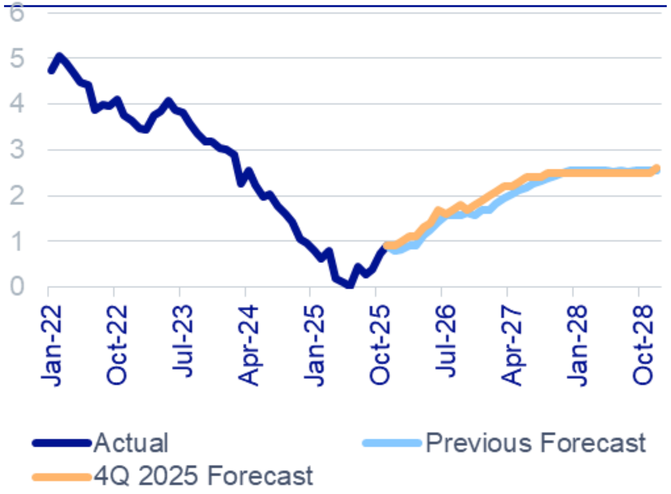


Note: Includes digital platform workers
Source: BBVA Research, IMSS

We expect a gradual recovery in employment

Employment data suggest that the cyclical slowdown may have bottomed out. However, we expect the recovery in job creation to be gradual

JOBS AFFILIATED WITH THE IMSS
(ANNUAL CHG., %)



FORMAL EMPLOYMENT OUTLOOK
(ANNUAL CHG., %)

Forecast	2025	2026	2027	2028
Thousands, EoP				
Q4 2025 Forecast	**200**	**436**	**579**	**598**
Previous forecast	177	380	578	594
Annual Change, % EoP				
Q4 2025 Forecast	**0.9**	**1.9**	**2.5**	**2.5**
Previous forecast	0.8	1.7	2.5	2.5

Note: Includes digital platform workers
Source: BBVA Research/IMSS.

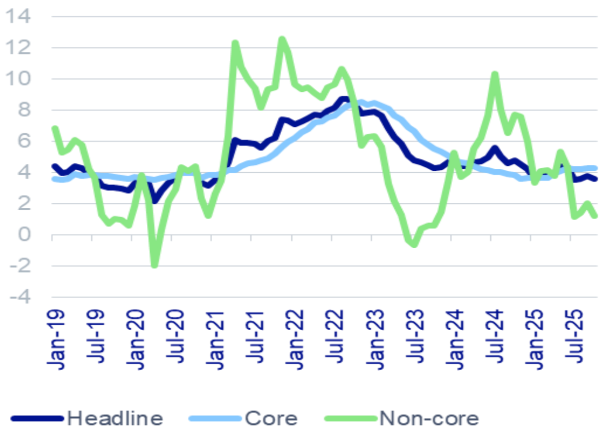
Q4'25

Banxico to pause the rate cut cycle in 1Q26

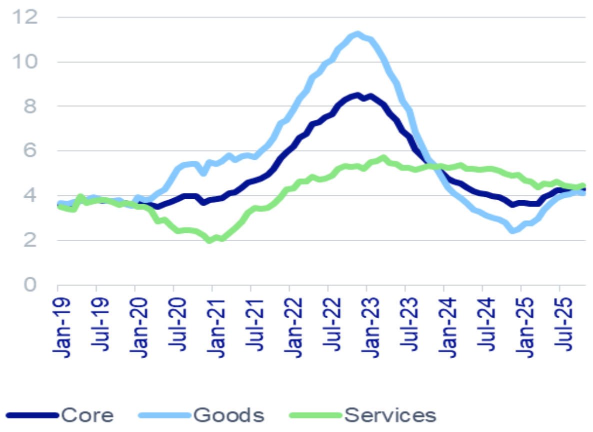
Headline inflation within Banxico's range of variability

due to lower non-core inflation. The upward trend in core inflation has stopped

HEADLINE INFLATION
(ANNUAL CHG., %)



CORE INFLATION
(ANNUAL CHG., %)

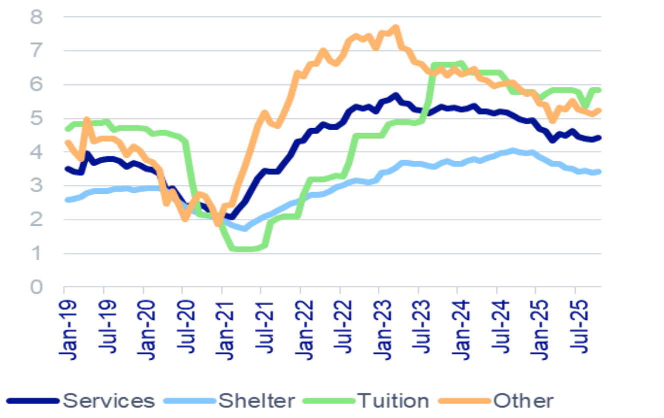


Source: BBVA Research, INEGI

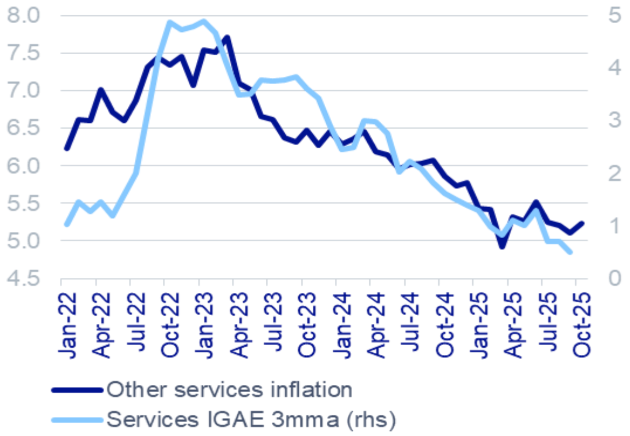
Services inflation has moderated slowly,

while that of goods has ceased to show an upward trend. Weakness in aggregate demand should exert downward pressure on services inflation

SERVICES INFLATION
(Y/Y CHG., %)



INFLATION OTHER SERVICES AND IGAE SERVICES (Y/Y CHG. % AND Y/Y CHG. %, 3MMA)



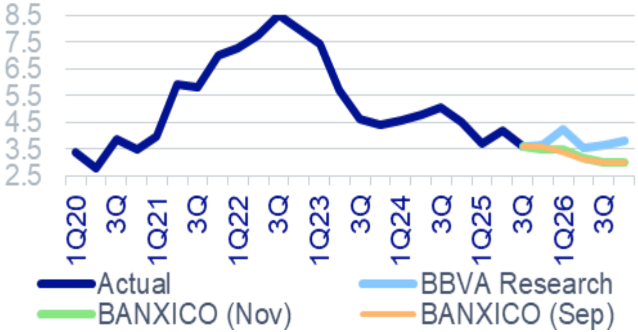
Source: BBVA Research, INEGI

Slight upward adjustment in our inflation forecasts

However, we continue to anticipate that it will be within the variability range in 2026 and converge to its equilibrium level of 3.5% from 2027

HEADLINE INFLATION FORECASTS

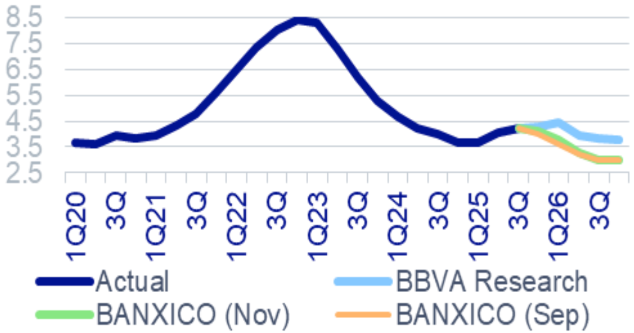
(ANNUAL CHG. %, QUARTERLY AVERAGE)



Forecast	Q42025	Q42026	Q42027	Q42028
Forecast Q4'25	**3.8**	**3.9**	**3.5**	**3.5**
Previous forecast	3.7	3.6	3.5	3.5
Banxico (Nov-25)	3.5	3.0		

CORE INFLATION FORECASTS

(ANNUAL CHG. %, QUARTERLY AVERAGE)



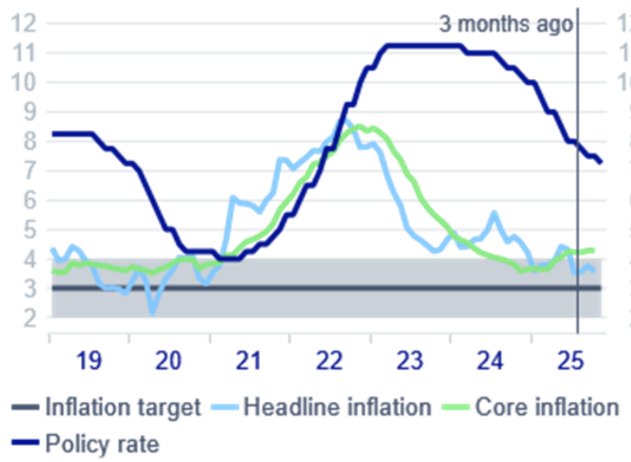
Forecast	Q42025	Q42026	Q42027	Q42028
Forecast 4Q25	**4.3**	**3.8**	**3.5**	**3.5**
Previous forecast	4.2	3.5	3.5	3.5
Banxico (Nov-25)	4.1	3.0		

Source: BBVA Research, INEGI

Banxico brought its monetary stance into neutral range

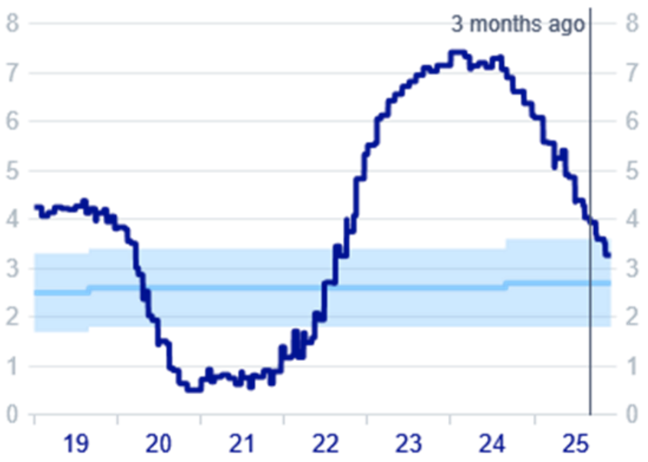
A significant milestone after three years of a restrictive stance that brought the nominal rate to a peak of 11.25% in March 2023; it now stands at 7.25%

INFLATION AND BANXICO POLICY RATE
(%)



The shaded area indicates the inflation target variability range
Source: BBVA Research, INEGI, Banxico

REAL EX-ANTE POLICY RATE
(%)

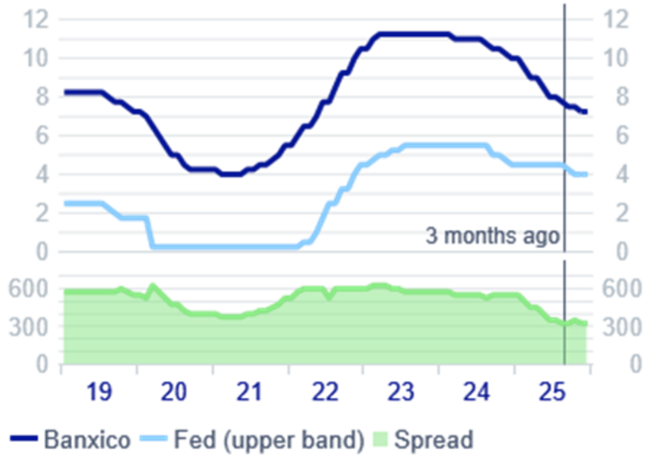


The shaded area indicates Banxico's estimated interval for the short-term neutral rate in the long term; the solid light blue line indicates the midpoint estimation
Source: BBVA Research, Banxico, INEGI

There was wide room for cuts despite a challenging 2025

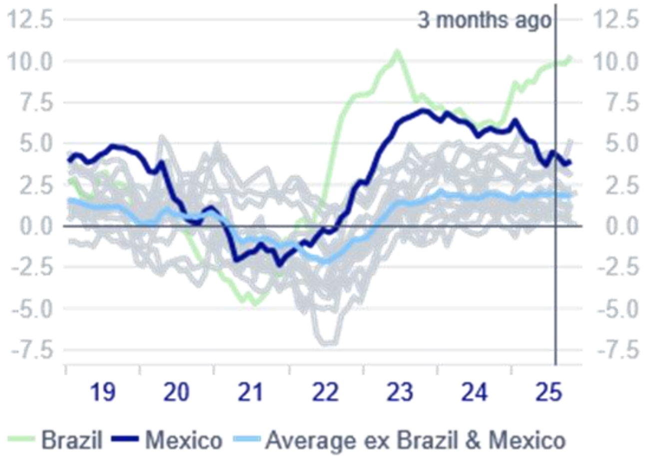
The ample policy space allowed Mexico to continue offering attractive risk-adjusted yields despite the narrowing of the spread with the U.S.

POLICY RATES AND RATE SPREAD
(% AND BPS)



Source: BBVA Research, Banxico, Fed

EX-POST REAL POLICY RATE IN SELECTED EMERGING MARKETS (%)



The gray lines indicate real ex-post policy rates for Chile, China, Colombia, Hong Kong, India, Indonesia, Israel, South Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand and Vietnam
Source: BBVA Research, National sources

We continue to anticipate a 25 bp cut this month

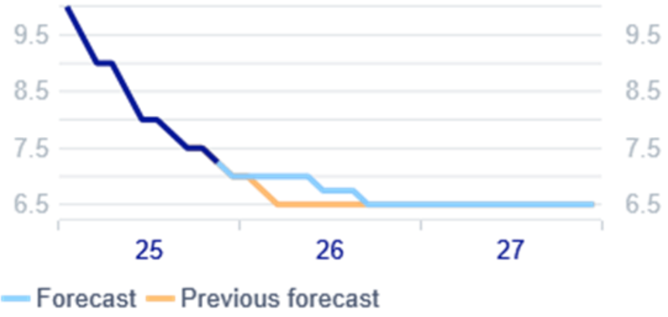
But we now think that Banxico could pause in 1Q26 before implementing two additional cuts that would bring the policy rate to 6.50%

The **Nov. statement** was less dovish and highlighted the risk of persistent core inflation. The forward-looking orientation indicated that "cutting the reference rate will be considered," removing the plural of "additional cuts"

The **minutes** reflected a less consensual view on the path of monetary policy, with only one member explicitly endorsing the idea that "the real rate must move" into the neutrality range

The **quarterly report** highlighted that the anticipated slowdown in economic activity will probably enable the gradual reduction in interest rates to continue in 2026, despite the impact of changes to the IEPS on inflation.

BANXICO POLICY RATE
(%)



	25	26	27
Forecast (eop)	7.00	6.50	6.50
Previous forecast (eop)	7.00	6.50	6.50

Source: BBVA Research, Banxico

Long-term yields halted their decline

However, they still show a notable decline for the year, supported by the moderation in the country risk premium—a factor that was likely behind the peso and stock market performance

10-YEAR GOVERNMENT YIELDS AND YIELD SPREAD (% AND BPS)

S&P BMV IPC INDEX AND USDMXN (THOUSAND INDEX POINTS AND PPD)

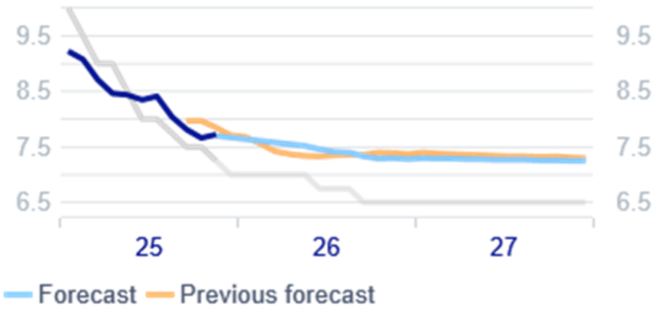
Source: BBVA Research, Macrobond, Treasury Dept.

Source: BBVA Research, BMV, Macrobond

Rates will continue to approach their equilibrium levels

Banxico's less room for further easing naturally limits the scope for additional rate declines across all maturities of the yield curve

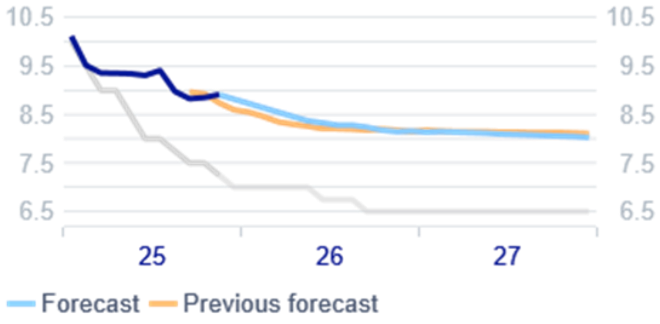
3-YEAR GOVERNMENT YIELD
(%)



	25	26	27
Forecast (eop)	7.7	7.3	7.3
Previous forecast (eop)	7.7	7.4	7.3

The gray line indicates Banxico's policy rate
Source: BBVA Research, Banxico, Macrobond

10-YEAR GOVERNMENT YIELD
(%)



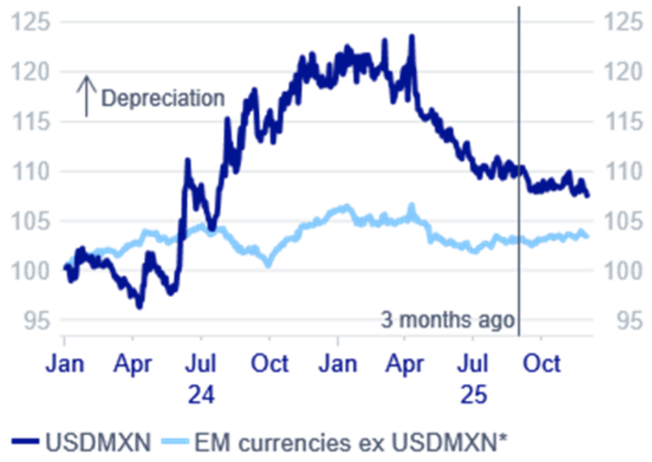
	25	26	27
Forecast (eop)	8.8	8.2	8.0
Previous forecast (eop)	8.6	8.2	8.1

The gray line indicates Banxico's policy rate
Source: BBVA Research, Banxico, Macrobond

The peso continues to stand out for its solid performance

The market appears to be reacting positively to progress on fiscal consolidation and to the fact that Mexico can continue exporting a wide range of goods to the U.S. without tariffs

USDMXN RELATIVE PERFORMANCE (01-JAN-24=100)



* Reweighted version of the Fed's Emerging Market Economies (EME) Dollar Index
Source: BBVA Research, Fed, Macrobond

USDMXN RELATIVE PERFORMANCE (01-JAN-25=100)

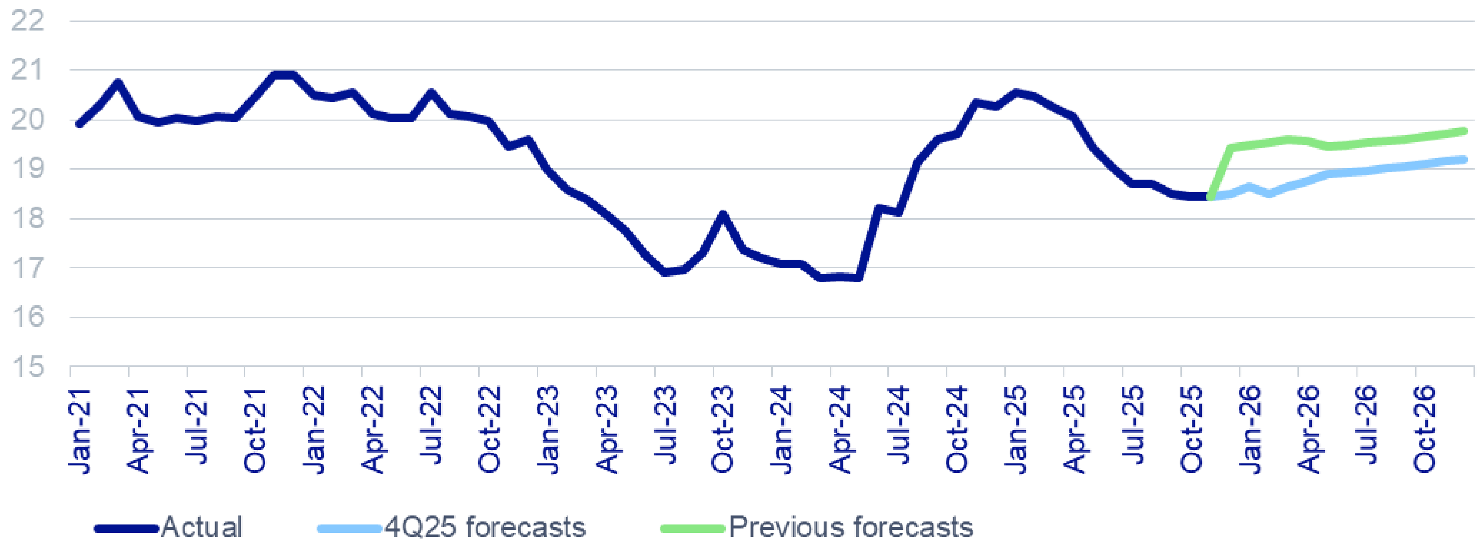
* Reweighted version of the Fed's Emerging Market Economies (EME) Dollar Index
Source: BBVA Research, Fed, Macrobond

We anticipate gradual and moderate depreciation

We maintain a bias towards sideways movements in the short term

OUTLOOK FOR THE EXCHANGE RATE

(PPD)



Source: BBVA Research, Banxico.

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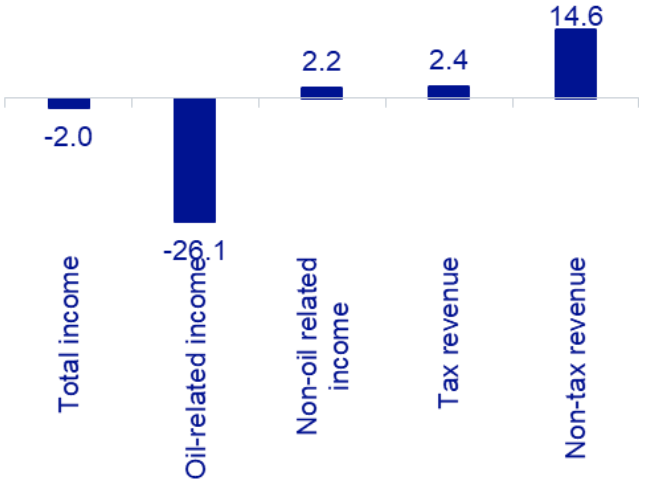
Q4'25

Slow progress in fiscal consolidation

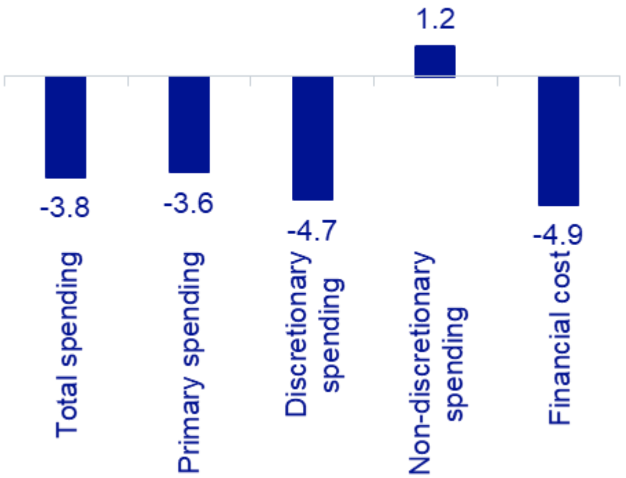
Fiscal consolidation underway

but it will be more difficult to continue it from next year

PUBLIC REVENUE AND MAIN COMPONENTS IN JANUARY-SEPTEMBER
(% PROGRAM DEVIATION)



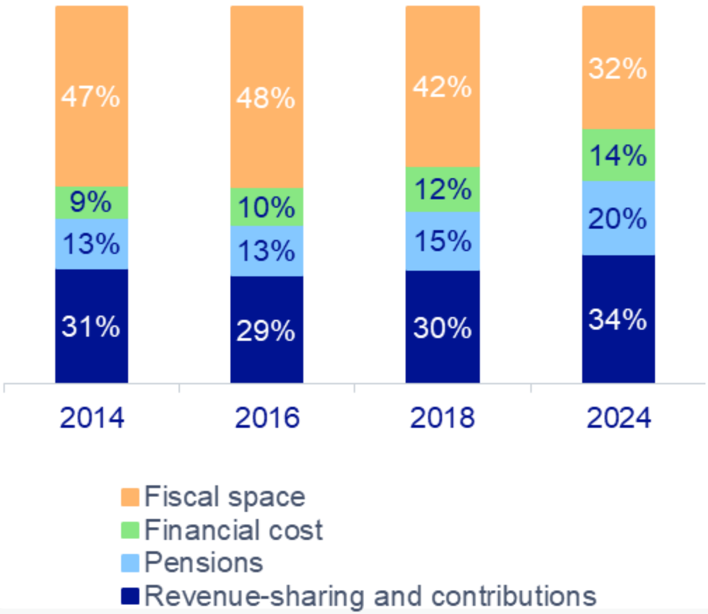
PUBLIC EXPENDITURE AND MAIN COMPONENTS IN JANUARY-SEPTEMBER
(% PROGRAM DEVIATION)



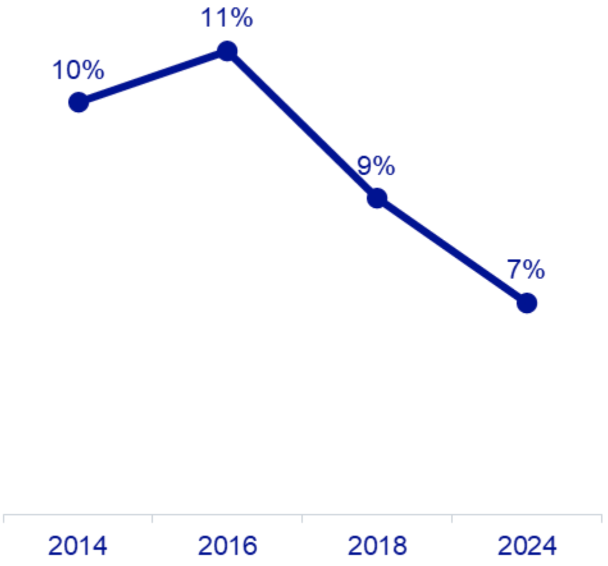
Source: BBVA Research, SHCP

Fiscal space has shrunk over the past 10 years

FISCAL SPACE AND UNAVOIDABLE EXPENSE (% OF BUDGET REVENUE)



FISCAL SPACE (% OF GDP)



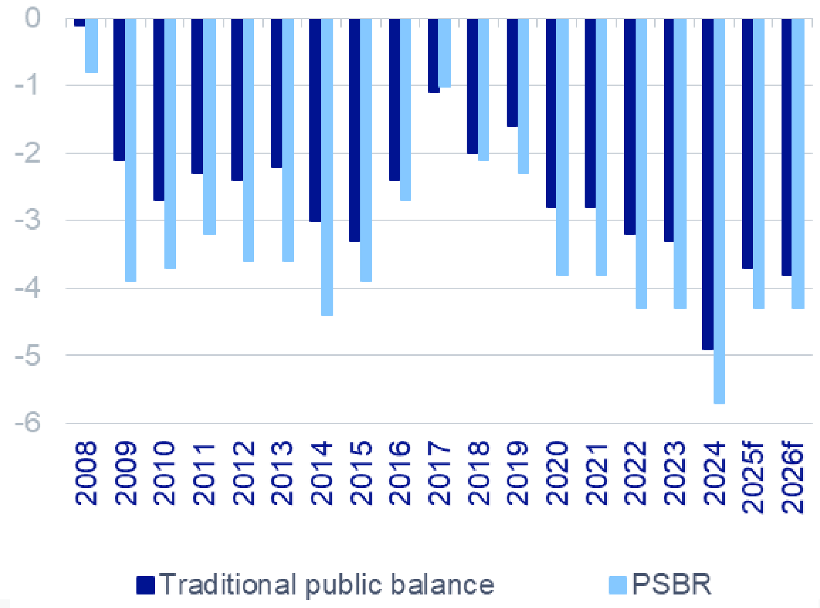
Source: BBVA Research, SHCP

Public Deficit and Public Sector Financial Requirements (PSBR)

We expect the public deficit to be 3.8% of GDP in 2026; the government forecasts 3.6% of GDP.

We anticipate that the Public Sector Financial Requirements (PSBR) will be -4.3% in 2026; The government's new forecast is -4.1%.

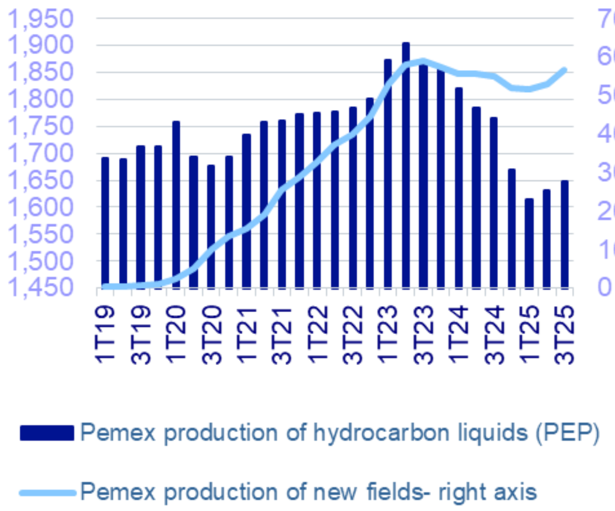
TRADITIONAL PUBLIC BALANCE AND PSBR
(% OF GDP)



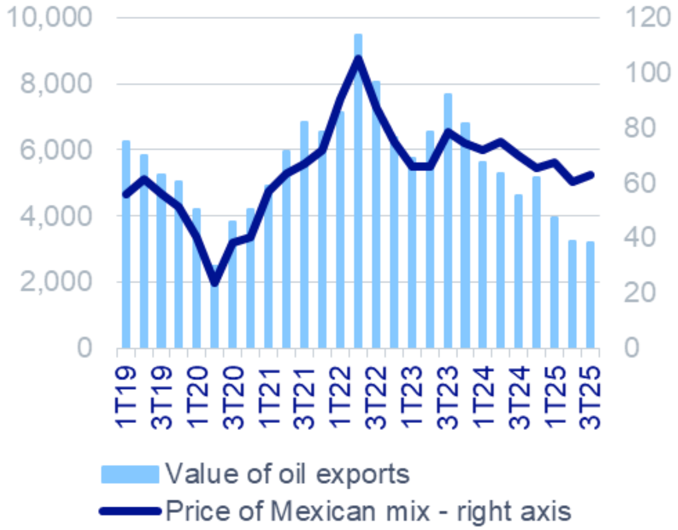
Source: BBVA Research, SHCP

Pemex's production of hydrocarbon liquids has increased slightly, while its oil exports have declined

PEMEX LIQUID HYDROCARBON PRODUCTION
(THOUSANDS OF BARRELS PER DAY)



VALUE OF PEMEX OIL EXPORTS AND PRICE OF MEXICAN MIX (MILLIONS OF PESOS AND THOUSANDS OF BARRELS PER DAY)

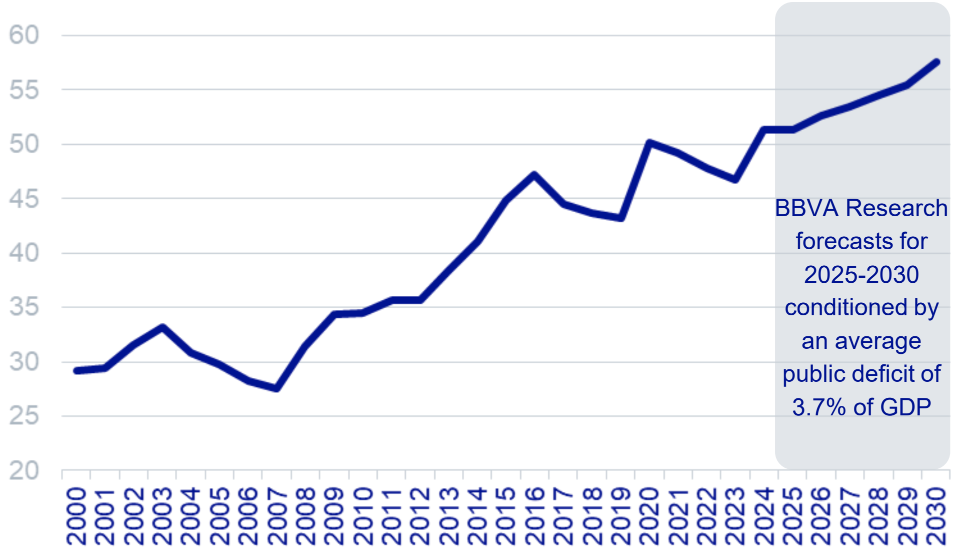


Source: BBVA Research,Pemex

Public debt

Public debt is expected to reach 58% of GDP by 2030, and the country could lose its investment grade rating if significant fiscal adjustments are not made

HISTORICAL BALANCE OF PUBLIC SECTOR BORROWING REQUIREMENTS
(% OF GDP)



Source: BBVA Research, SHCP

Key points and forecast summary

Key points

The global economy continues to face uncertainty, but it is evolving better than expected. The rise of AI is driving demand and adding to other supporting factors, including fiscal stimulus, lower interest rates, financial wealth effects, and cheaper energy. This offsets the moderate impact of protectionism, migration barriers and uncertainty for now.

Global growth will be about 3.2% between 2025 and 2027, higher than expected, although somewhat below the average of the last two decades. Growth is expected to be close to 2% in the U.S., slightly above 1% in the Eurozone, and a slowdown in China from 5% in 2025 to 4% in 2027. The forecasts have been adjusted slightly upwards, mainly due to recent favorable data.

The inflation outlook remains broadly unchanged. In the U.S., tariffs and other factors will keep inflation near 3%, which will limit the Fed's room to continue lowering rates. In the Eurozone, inflation will remain around 2%, with no further rate cuts. In China, the threat of deflation could lead to further (limited) reductions in interest rates.

The balance of risks is now more even. Tariffs, migration, uncertainty in the U.S., and geopolitical tensions remain sources of concern. But the upside risks associated with AI are growing because, in addition to boosting demand, it could increase productivity. Even so, a stock market correction is still possible.

Main economic messages of Mexico

Recent behavior

Domestic demand continues to slow down; private consumption fell by 0.1% in June (cumulative), and investment by 6.4%.

Growth Estimate

GDP fell 0.3% q/q in Q3'25, reflecting the **persistent weakening of domestic demand**, with less dynamism in private consumption, a slowdown in the real wage bill and sharp falls in gross fixed investment – affected by political uncertainty, external volatility and the consolidation of public spending.

Downward bias for 2025 growth (0.7%), although a moderate rebound is anticipated in 2026 (1.2% vs 1.0% previously) due to improvement in consumption, employment and less uncertainty for investment.

Formal employment continues to show weakness. Cumulative job creation through November is at its lowest level since 2010 (excluding 2020), and the boost from the formalization of digital platform workers proved temporary. Both employment and the real wage bill remain only moderately dynamic. We expect a gradual recovery in employment, with annual growth of 0.9% in 2025 and 1.9% in 2026, which is likely to continue to constrain consumption growth.

Main economic messages of Mexico

Inflation and Monetary Policy

The rebound in inflation in Q2 reversed in Q3; The upward trend in core inflation has stopped. Services inflation has moderated slowly. Weak demand should put downward pressure on services inflation going forward.

- **We forecast inflation to stand at 3.8%** and core inflation to stand at 4.2%, **at the end of 2025**. We anticipate that **both will be within the variability range at the end of 2026, at 3.8%**

Banxico brought its monetary stance into neutral range after a restrictive phase that lasted more than two and a half years since it reached 11.25% in March 2023.

- **We continue to anticipate a 25 bp cut this month to 7.00%, and two more in 2026 to 6.50%**, but we now believe that Banxico could pause in 1Q26.
- **Long-term rates will continue to approach their equilibrium levels**, although Banxico's lower margin reduces the scope for further declines.

Exchange rate and public finances

We forecast that the **exchange rate will close 2025 and 2026 at 18.5 and 19.2 ppd,** respectively.

Public debt will be around 51.4% of GDP in 2025 vs. 51.3% in 2024.

Forecast summary

		2022	2023	2024	2025	2026	2027
GDP Annual chg. %)	new	3.7	3.1	1.1	**0.7**	**1.2**	**1.6**
	previous				0.7	1.0	1.7
Employment (%, at close)	new	3.7	3.0	1.0	**0.9**	**1.9**	**2.5**
	previous				0.8	1.7	2.5
Inflation (%, at close)	new	7.8	4.7	4.2	**3.8**	**3.8**	**3.6**
	previous				3.9	3.5	3.5
Monetary policy rate (%, at close)	new	10.50	11.25	10.00	**7.00**	**6.50**	**6.50**
	previous				7.00	6.50	6.50
Exchange rate (ppd, at close)	new	19.6	17.2	20.3	**18.5**	**19.2**	**19.4**
	previous				19.4	19.8	20.0
M10 (%, at close)	new	9.0	9.0	10.4	**8.8**	**8.2**	**8.0**
	previous				8.6	8.2	8.1
Fiscal balance (% of GDP)	new	-3.2	-3.3	-4.9	**-3.7**	**-3.8**	**-3.6**
	previous				-3.8	-3.3	-3.8

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