

MARCH 2026

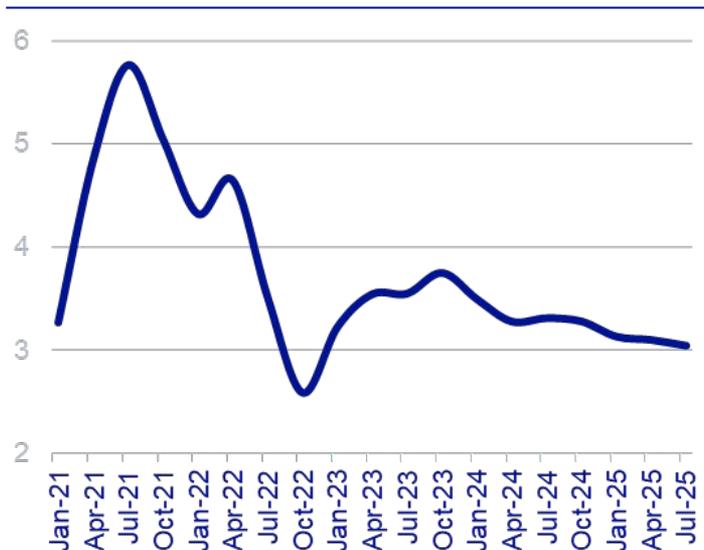
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# Mexico Economic Outlook

# Global Economic Outlook

# Despite negative shocks, the world economy has showed resilience, backed by policy tailwinds and the AI boom

**GLOBAL GDP GROWTH: QUARTERLY**  
(Y/Y %, SEASONALLY ADJUSTED, CONSTANT PRICES)



Source: BBVA Research based on data from the IMF

**Global growth soft-landed** in 2025 despite deceleration fears, underpinned by several factors:

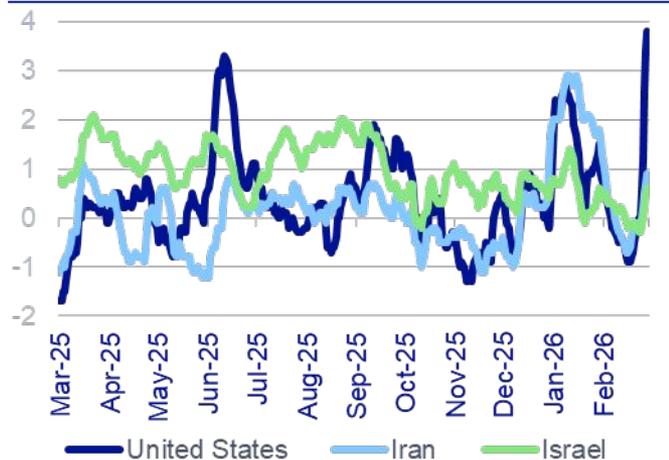
- limited impact of geopolitical tensions, protectionism and policy uncertainty, so far.
- fall in inflation and interest rates.
- weak USD.
- fiscal stimuli.
- AI spending.
- low energy prices.

**Early-2026 macro data is broadly positive**, but the **war in Iran** has increased uncertainty ahead.

# The outbreak of conflict in Iran has lifted energy prices from their lows, reinforcing global uncertainty and risks

## GEOPOLITICAL RISK INDEX

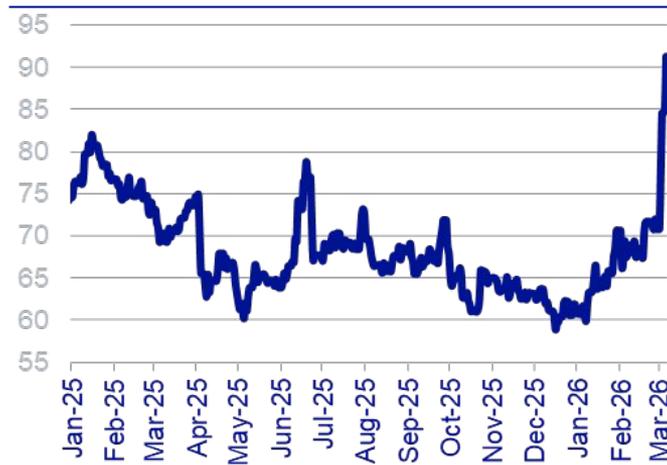
(HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

## BRENT PRICES

(USD PER BRENT BARREL)

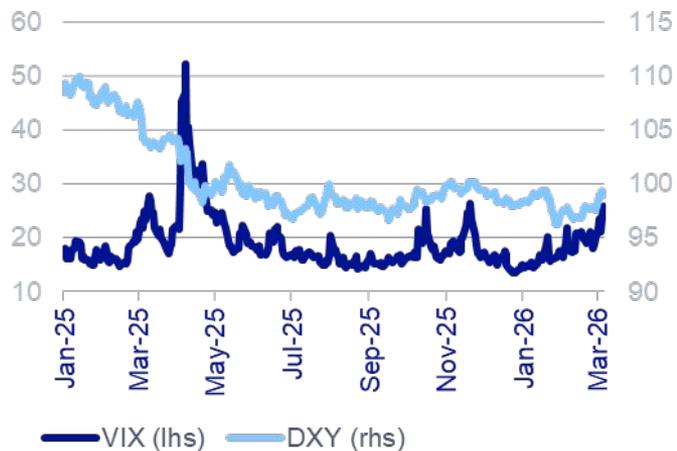


Source: BBVA Research based on data from Haver

**US-Israel attacks on Iran, and the ensuing escalation of the conflict reignited geopolitical tensions in the Middle East; energy prices have jumped amid production and transportation disruptions across the region**

# Market impact from Middle East tensions has been strong but contained, consistent with a short-lived war view

**VOLATILITY (VIX); US DOLLAR (DXY)**  
(INDEXES)



Source: BBVA Research based on data from Haver

**US SOVEREIGN YIELDS**  
(%)

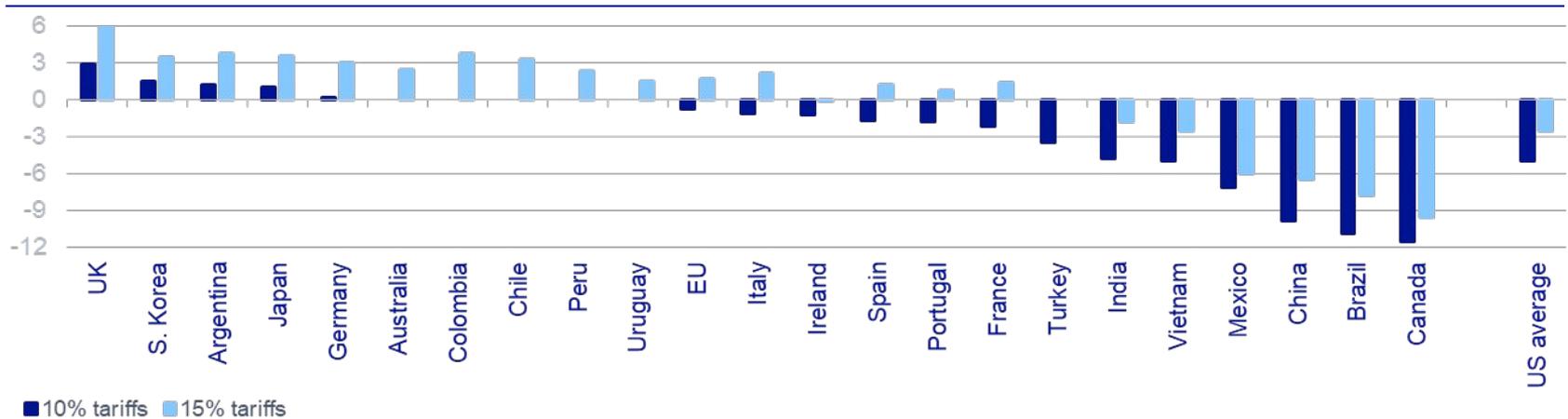


Source: BBVA Research based on data from Haver

**Following initial attacks on Iran, volatility has increased, the USD has appreciated (while remaining relatively weak), and US yields rose as inflation fears outweigh safe haven demand; markets are now pricing in fewer US rate cuts this year and higher odds of an ECB rate hike**

# US tariffs continue at historically high levels despite the decline following the IEEPA-tariffs overruling

US STATUTORY TARIFFS: CHANGE DUE TO THE SHIFT FROM IEEPA TO SECTION 122 (\*) (PP)



(\*) These estimations are based on 2024 trade flows. They assume that previously announced trade deals do not remain in place.  
Source: BBVA Research

**Statutory US tariffs fell somewhat, from an overall level around 15%, following the announcement of new import duties, based on Section 122 of the Trade Act of 1974, to replace overruled reciprocal and fentanyl tariffs; these temporary duties could be eventually replaced by more permanent ones**

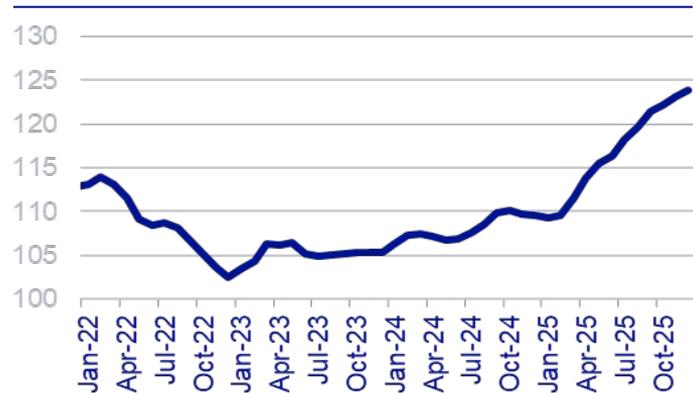
# Tariff-related uncertainty persists but appears to be a diminishing source of concern; global trade remains solid

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



Source: BBVA Research

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



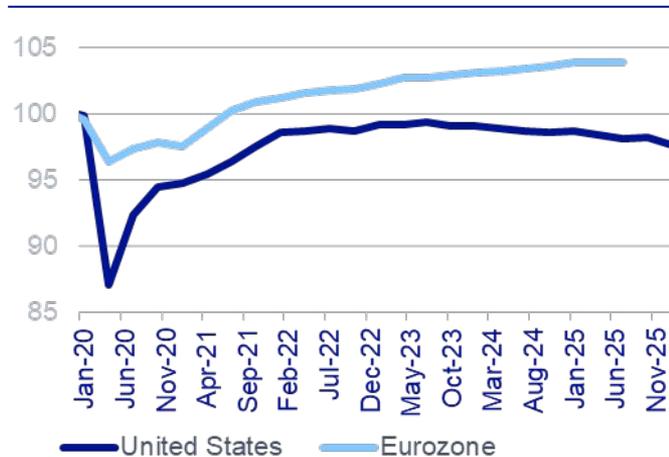
Source: BBVA Research based on data from Haver

**Global trade remains resilient, particularly in China, but also in the US; the incipient impact of higher tariffs is being offset by factors such as import frontloading effects, effective tariffs below statutory levels, and the boom in AI-related imports**

# Lower immigration could be contributing to lower employment in the US; wages, however, continue to ease

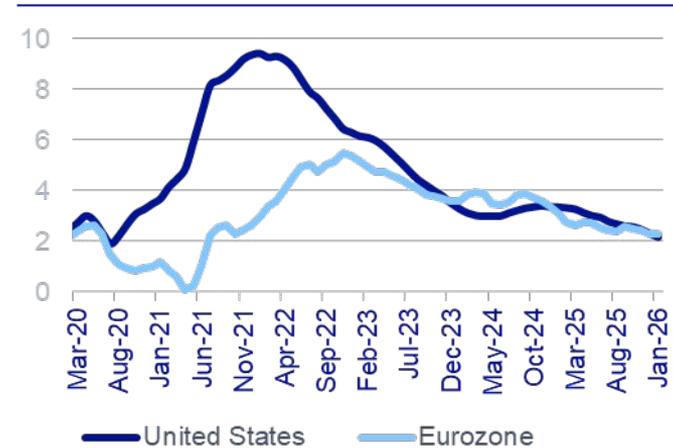
## EMPLOYMENT-POPULATION RATIO (\*)

(INDEX: 2019 AVERAGE = 100)



## NOMINAL WAGES

(Y/Y %, 3-MONTH MOVING AVERAGE)



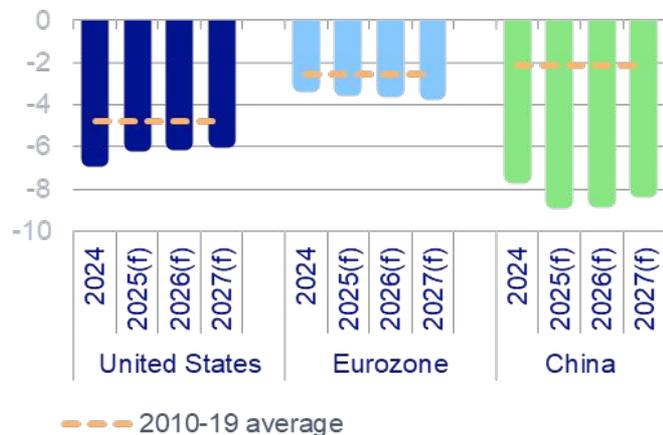
(\*) US: 16 years and over; EZ: from 15 to 74 years.  
Source: BBVA Research based on data from Fred and Eurostat

Source: BBVA Research based on data from Indeed

**The US unemployment rate has fallen more recently (4.4% in Feb-26) easing labor deceleration concerns; in the Eurozone, it continues at low levels (6.2% in Dec-25) and real wages are growing at a positive rate**

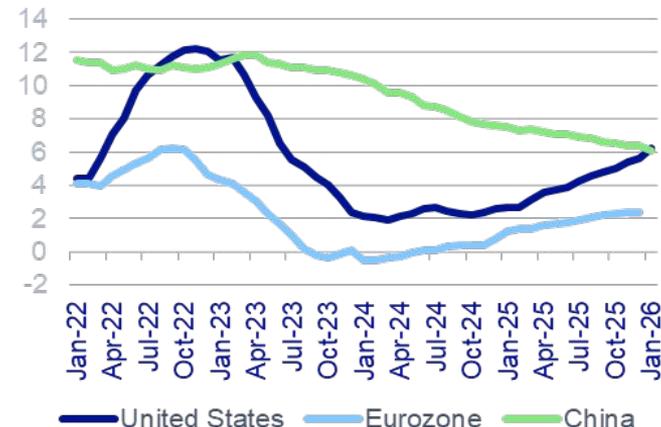
# Economic policies are providing a significant cyclical support to economic activity

**FISCAL BALANCE (\*)**  
(% OF GDP)



(f): forecast  
 (\*) Forecasts by BBVA Research for the Eurozone, by the CBO for the US and by the IMF for China.  
 Source: BBVA Research based on data from the IMF

**BANKING CREDIT: STOCK**  
(Y/Y %)

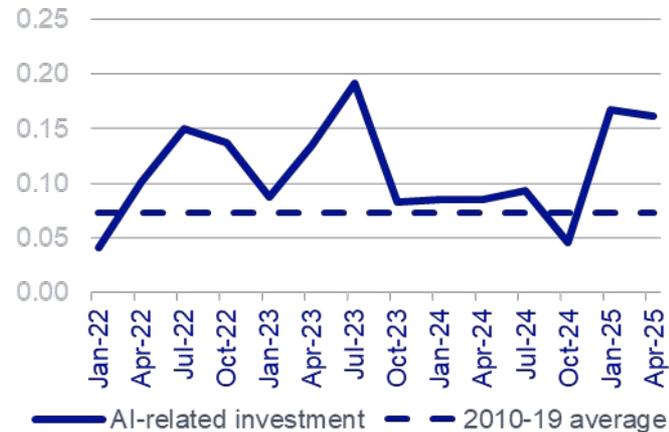


Source: BBVA Research based on data from FRED and Eurostat

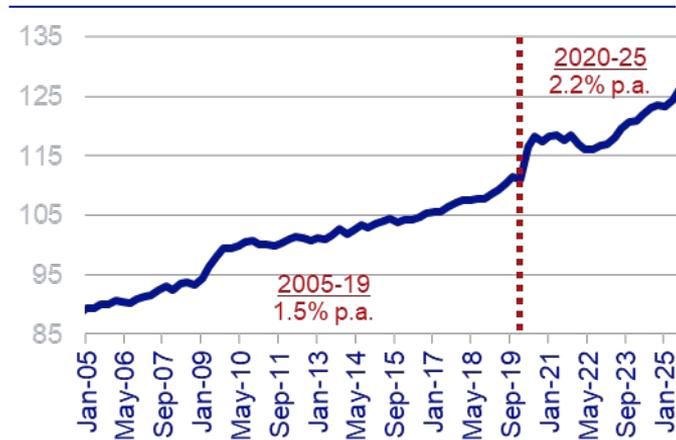
**Supportive fiscal policies remain in place, led by defense spending in the Eurozone and tax cuts (partially offset by tariff revenues) in the US; policy rates have fallen by 175 bps in the US and 200bps in the Eurozone since mid-2024, contributing to growth resilience**

# AI spending has been one of the main drivers of US growth

**US: AI-RELATED INVESTMENT (\*)**  
(CONTRIBUTION TO GDP GROWTH; 12-MONTHS  
MOVING AVERAGE: PP)



**US: LABOR PRODUCTIVITY PER HOUR**  
(INDEX: 2005-2019 AVERAGE = 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

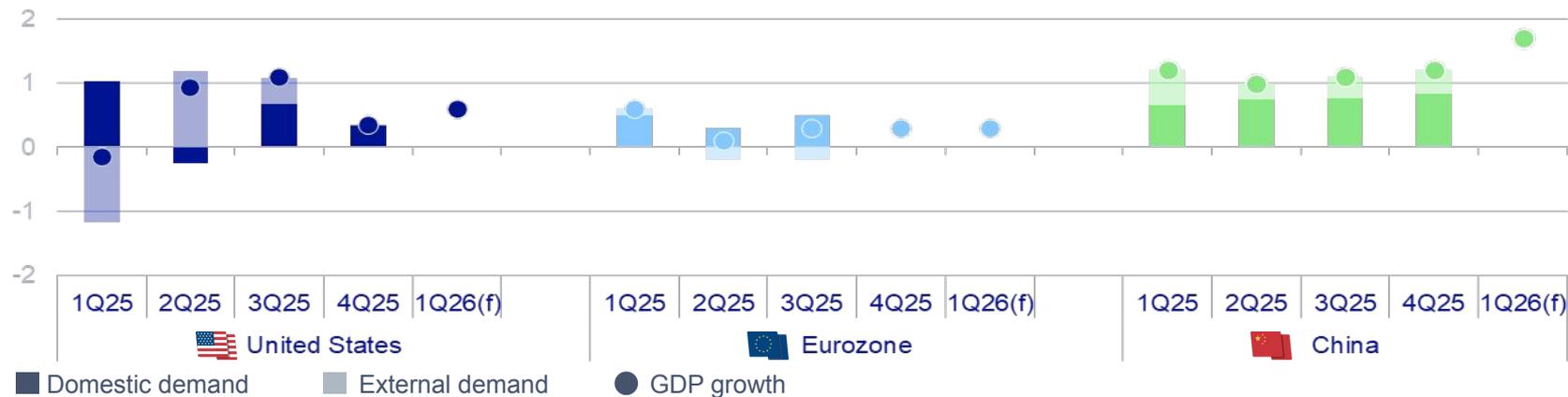
Source: BBVA Research based on data from FRED

**AI-adoption has been contributing to investment and private consumption (due to wealth effects from AI-equity gains); AI-related imports are also increasing**

# 2025 growth was higher than expected; preliminary data suggest that dynamism persisted at the start of 2026

## GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMAND TO GDP GROWTH (\*)

(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)

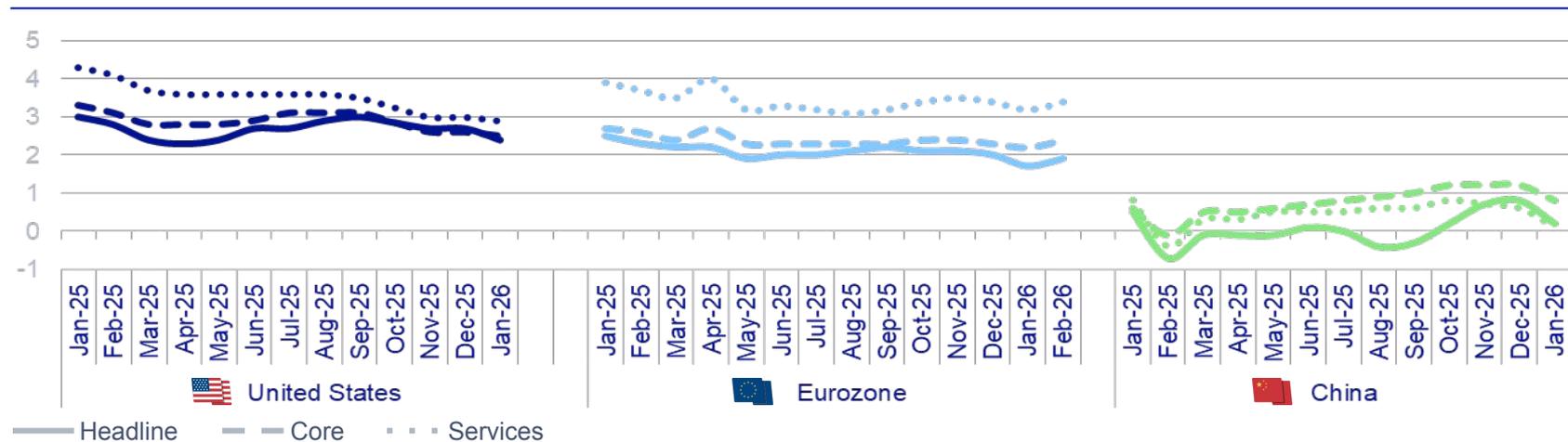


(\*) 1Q26: BBVA Research forecasts  
Source: BBVA Research based on data from Haver and China's NBS

**Growth has been backed mostly by domestic demand and the services sector in the US and the Eurozone; external demand has been key to keep growth relatively stable in China**

# Inflation has in general moderated more than expected ahead of the recent surge in energy prices

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

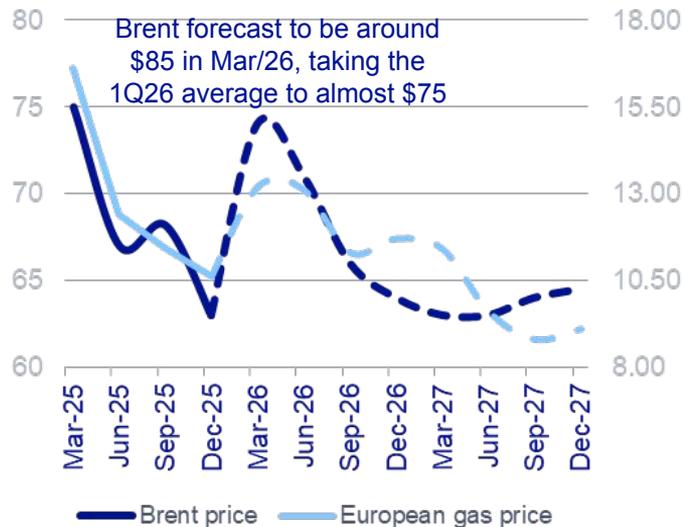


Source: BBVA Research based on data from Haver

**Inflation moderation was driven by low energy prices ahead of the conflict in Iran, lower pressure from services (mainly shelter) prices in the US, and controlled goods inflation in the Eurozone**

# Middle-East tensions: a temporary conflict, with limited macro impact, is likely, despite large uncertainty

## ENERGY PRICES: BBVA RESEARCH FORECASTS (BRENT: USD/BARREL, GAS: USD/MMBtu; QUARTERLY AVERAGES)



Source: BBVA Research based on data from Haver

The war in Iran can affect the global economy through different channels: i) higher energy prices, ii) supply disruptions, iii) financial risk-off, and iv) weaker confidence.

**Measures to reduce the transmission of global energy prices** to domestic markets and support economic activity are likely.

**A short war would allow energy prices, financial conditions and confidence to normalize** soon, limiting negative effects on inflation and growth.

**A more prolonged conflict would imply a sharp negative shock** to the global economy, mainly for net energy importers (Europe, China) and riskier assets (particularly in emerging markets).

# Beyond the evolution of the conflict in Iran, many other factors will shape the global economy moving ahead

## Main drivers of macroeconomic dynamics

### United States



- continued **fiscal stimulus**.
- potentially lower **Fed** rates.
- **AI** support to demand and eventually to productivity.
- structurally weaker **dollar**.
- robust **consumption**, led by top earners (wealth effects).
- **tariffs** to remain in place.
- large **uncertainty** on domestic policy making.

### Eurozone



- **fiscal impulse**, mainly through **defense spending**.
- stable **interest rates**.
- large exposure to higher **energy prices**.
- stronger **euro**.
- gradual **AI** adoption.
- challenging adaptation to **new global order**.

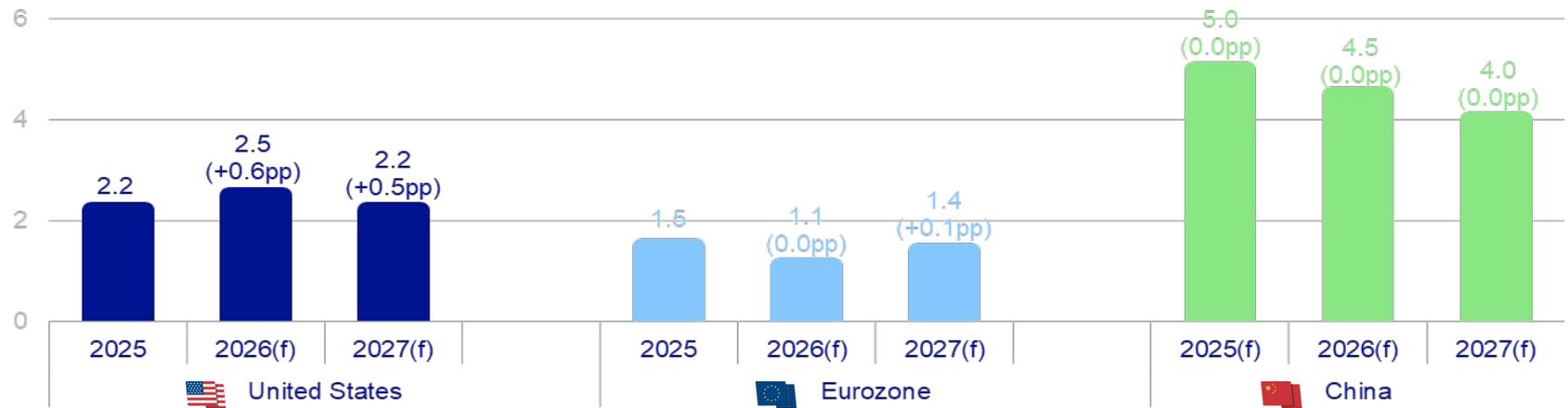
### China



- **supply-demand imbalance**.
- strong **exports**, but likely to decelerate.
- still weak **yuan**.
- production **overcapacity**.
- “**anti-involution**” campaign.
- measured **policy stimulus**.
- subdued **confidence**.
- **housing market** correction.

# Global growth is likely to remain dynamic, driven by policy tailwinds and AI, at least if the Iran war proves short-lived

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

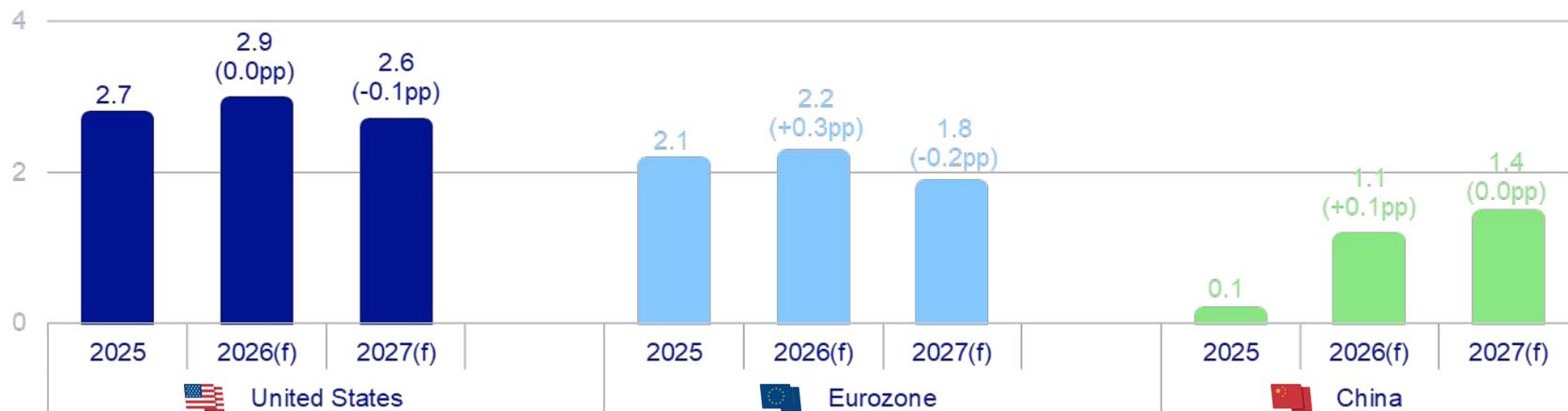


(\*) Global GDP is forecast to grow 3.2% in 2025, 3.2% in 2026 and 3.3% in 2027, respectively 0.0pp, 0.1pp and 0.1 higher than the previous forecasts.  
(f): forecast.  
Source: BBVA Research

**Incoming data and expectations of a larger AI-driven contribution support growth prospects, especially in the US, and offset the negative effects of a temporary rise in energy prices, which weighs more on the Eurozone than on the US or China**

# Inflation will remain relatively high in the US, and is likely to be slightly 2% in the Eurozone and to edge up in China

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



(f): forecast.  
Source: BBVA Research

**Energy prices, resilient demand, US tariff pass-through, sticky euro-area services inflation, and China's "anti-involution" campaign, among other factors, are likely to keep global inflation under pressure**

# Higher energy prices could reduce the room for monetary easing, especially if they prove persistent

**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

**A more prolonged war in Iran would lift inflation and weaken demand, posing a dilemma for central banks, which would nonetheless be more likely to turn hawkish, especially the Fed, given greater inflation concerns in the US**

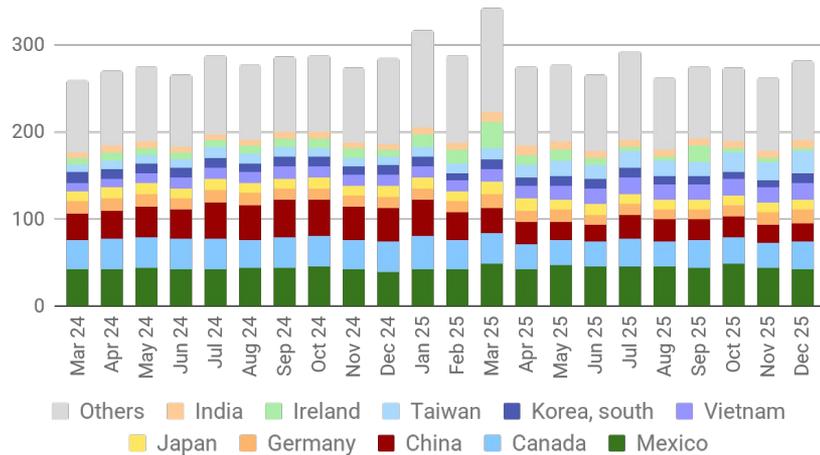
# Risks are mostly tilted to the downside

Main risks	Main potential impacts
<b>Geopolitical tensions</b>	<ul style="list-style-type: none"><li>— Iran: prolonged high energy prices, supply disruptions, financial tensions, emigration flows.</li><li>— Ukraine war, US-China rivalry, China-Japan, Venezuela.</li></ul>
<b>AI</b>	<ul style="list-style-type: none"><li>— higher demand, GDP growth and inflation due to AI spending (short-term).</li><li>— higher productivity and potential GDP (medium-term).</li><li>— wealth effects on private consumption driven by AI equities.</li></ul>
<b>US policies and institutions</b>	<ul style="list-style-type: none"><li>— monetary policy miscalibration: inflation persistence vs. recession risks.</li><li>— erosion of Fed independence: lower policy rates, higher inflation, weaker USD, financial volatility.</li><li>— impairment of checks and balances.</li></ul>
<b>Debt and credit markets</b>	<ul style="list-style-type: none"><li>— large public debt: sovereign crises, fiscal dominance leading to higher inflation.</li><li>— credit markets: commercial real estate, shadow banking, leveraged credit, Middle-East exposure.</li></ul>
<b>Protectionism</b>	<ul style="list-style-type: none"><li>— higher costs and lower trade volumes: weaker global growth.</li><li>— fragmentation, supply-chain re-routing: relative price shocks, productivity drag.</li></ul>
<b>Labor supply</b>	<ul style="list-style-type: none"><li>— tighter labor supply on migration curbs and ageing: wage/inflation persistence.</li></ul>
<b>China's slowdown</b>	<ul style="list-style-type: none"><li>— structural growth deceleration, housing market crisis, deflation.</li></ul>
<b>Climate change</b>	<ul style="list-style-type: none"><li>— extreme events: price spikes, output disruptions.</li><li>— transition investment, adjustment costs.</li></ul>

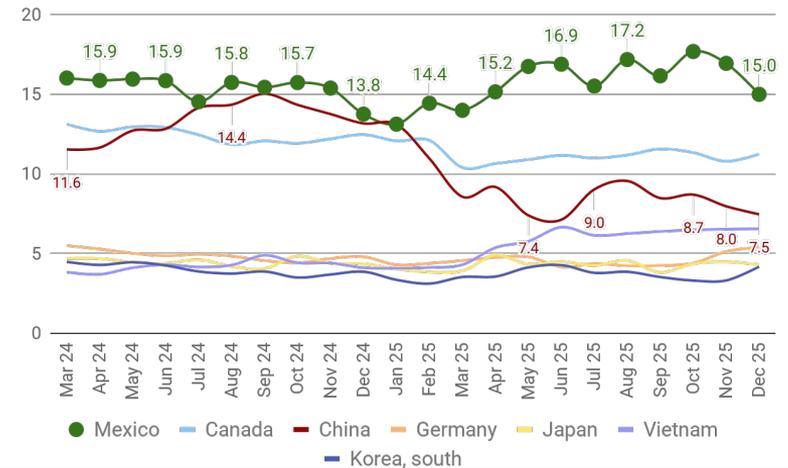
**Mexico, in a good  
position to export  
to the US**

# Despite uncertainty, Mexico consolidates its position as the main US supplier

**US GOODS IMPORTS**  
(BILLION USD)



**US GOODS IMPORTS**  
(SHARE %)



Source: BBVA Research with data from the US Census Bureau

**U.S. imports increased in 2025 (4.6% year over year), while imports from Mexico rose 5.8%. This consolidates Mexico's position as the leading trading partner, supplying 15.0% of total U.S. imports, while imports from China remain at historic lows.**

# Mexico retains a structural advantage following the IEEPA ruling and the introduction of universal tariffs



On February 20, the U.S. Supreme Court concluded, by a vote of 6 to 3, that the **IEEPA does not give the President the authority to impose generalized tariffs** unilaterally.

In doing so, he lifted most of the "reciprocal" and emergency tariffs, raising questions about billions of dollars collected in the last year.



Following the Supreme Court ruling, President Trump **imposed a temporary 10% global import surcharge for up to 150 days (until July 24th)**.

Crucially, goods that qualify for duty-free treatment under the USMCA remain exempt, preserving preferential access for most Mexican exports.



This latter decision allows **Mexico to maintain a favorable relative position compared to most countries**, and only Mexico and Canada currently retain the possibility of exporting without tariffs.

The **incentive to increase domestic content in exports remains in place**, since non-compliant goods will for now face a 10% tariff.



This sends a **constructive signal ahead of the USMCA review**, underscoring that the agreement continues to receive preferential treatment relative to all other trade arrangements.

Mexico continues to benefit from strong structural fundamentals, particularly its geographic proximity, deep integration into North American value chains, and competitive labor costs.

# Mexico may face a lower level of relative protectionism

Even when considering recent trade deals e.g., Japan and EU tariff reduction agreements

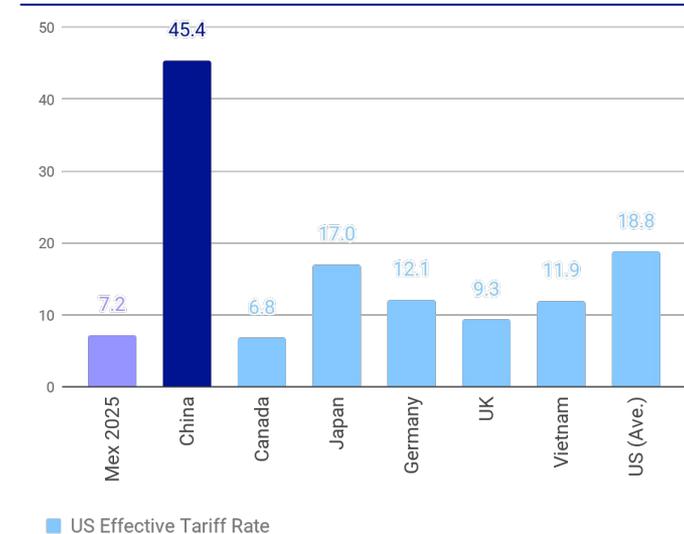
**81.3% of exports entered the U.S. tariff-free in 2025**

## MEXICO: ESTIMATED AVERAGE WEIGHTED TARIFF (%)

Scenario	Assumptions	Weighted effective tariff
<b>Base Scenario</b> Average effective tariff in 2025	<b>534.9 billion dollars imported by the U.S. from Mexico</b>	<b>7.2%</b>
<b>Base Scenario + Non-IEEPA</b> (based on 2025 data)	Scenario based on a permanent elimination of IEEPA and on 2025 trade composition/volume	<b>6.8%</b>
<b>Section 122</b> <b>10% global tariff</b> (up to July 24, 26)	In the case of Mexico, USMCA compliant goods are exempt: 7.0% is the upper bound as several goods are exempt.	<b>&lt; 7.0%</b>

Source: BBVA Research with data from the US Census Bureau

## ESTIMATED AVERAGE WEIGHTED TARIFF (%)



Source: Mexico's Tariff Rate: Estimates from BBVA Research, with data from the US Census Bureau, Federal Register of the United States. Rates for the rest of the world: [IMF World Economic Outlook October 2025](#)

# USMCA review and possible scenarios



\* The USMCA includes mechanisms for early review outside the formal calendar, whether through consultations under Chapter 31 or requests for amendment pursuant to Article 34.3; in addition, governments may initiate bilateral consultations or preparatory discussions prior to July 2026, which, while not substituting the formal review, may influence its content.

Source: BBVA Research

**Renewal of the USMCA for 16 years.**  
**Probability: 20%**

Countries agree to extend the USMCA validity for 16 years (until 2042). This implies greater certainty for investment, trade, and regional value chains. It favors key sectors such as automotive, agribusiness, and high technology by eliminating the risk of frequent reviews.

**Conditional renewal/Non-renewal and annual reviews**  
**Probability: 70%**

16-year renewal with specific recommendations or commitments stemming from public consultations and trade barriers identified by the USTR with out-of-calendar review mechanisms\* to assess progress on commitments.

*De facto* similar to not reaching consensus and entering into annual review processes until 2036.

**Important:** At any point in that cycle, the three parties can agree to renew the treaty for an additional 16 years. This maintains regulatory and political uncertainty. It increases the risk for long-term decisions in investment, employment and relocation of production chains.

**Exit from the USMCA/Bilateral Agreements**  
**Probability: 10%**

Member(s) decide to deny the extension of annual reviews and bilateral agreements are sought.

**Nov 8, 26**  
 Midterm elections in the U.S.



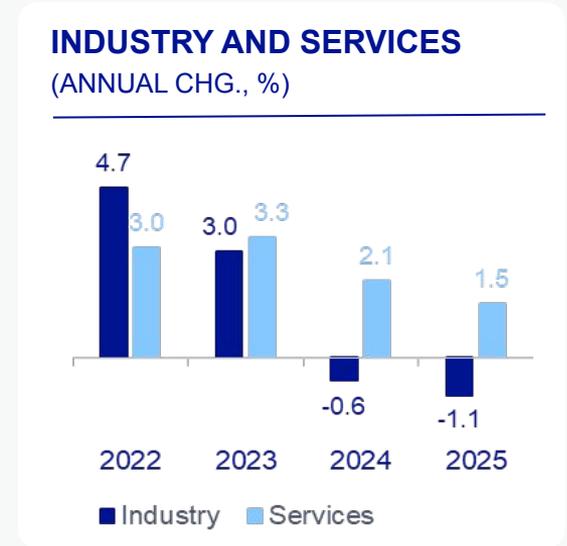
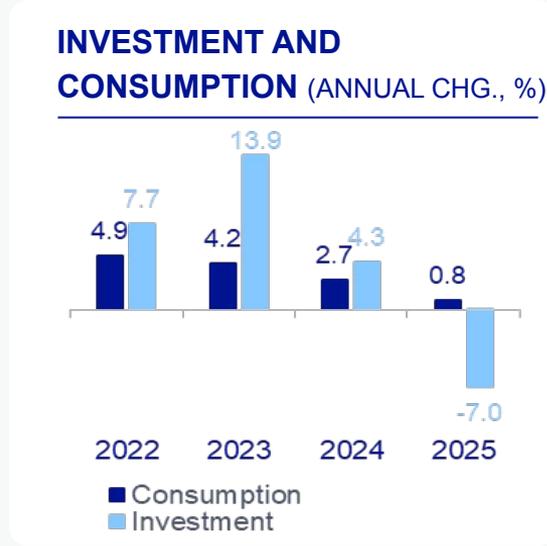
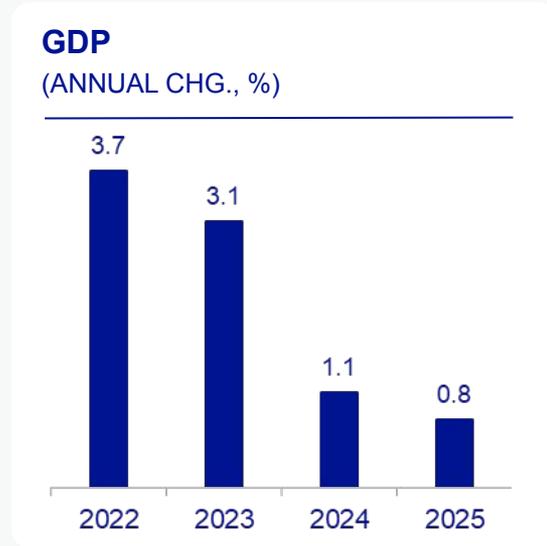
**Process is repeated every 6 years**  
 If consensus is reached in 2026, the next revision will be in 2032, to extend the Treaty until 2048.

**In an intermediate scenario, it is likely that the U.S. will seek to preserve the USMCA, but condition its continuity on adjustments in sensitive areas such as rules of origin, labor enforcement, and the inclusion of non-trade issues such as migration, security, energy, and the containment of investment from China.**

# More favorable outlook for activity in 2026

# GDP: 4Q25 momentum points to gradual improvement

GDP grew 0.9% QoQ in 4Q25 and 0.8% in 2025



Source: BBVA Research, Haver Analytics, Macrobond

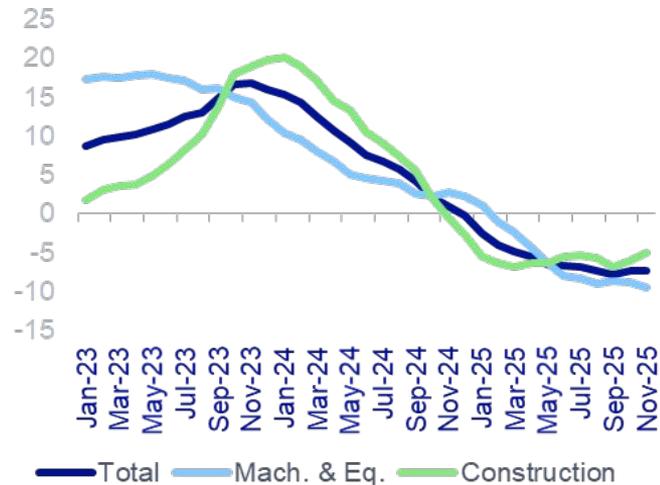
**Sustained resilience of the tertiary sector and a gradual recovery in manufacturing will lead growth in 2026**

# Investment: The negative base effects fade. Recovery still has a long way to go

Machinery and equipment component continues to show weakness

## INVESTMENT

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



## INVESTMENT\*

(ANNUAL CHG., %)

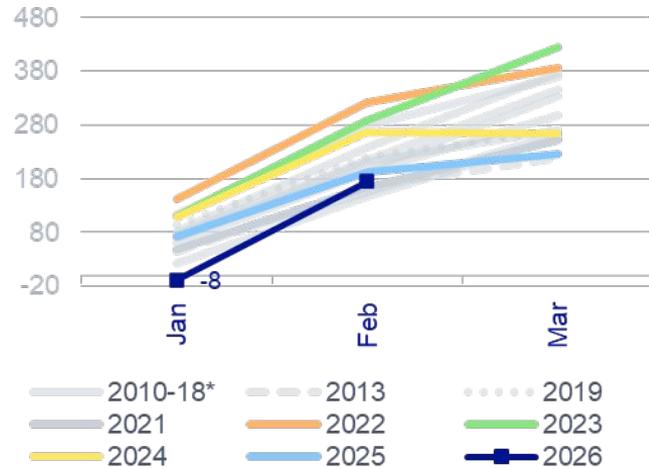


Source: BBVA Research, Haver Analytics, Macrobond  
 \*Preliminary figures, based on monthly data per buyer, from INEGI

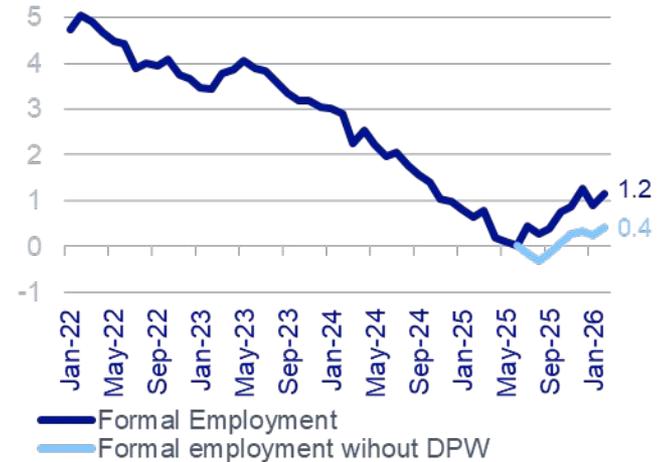
# Rebound in formal employment; Resilient real wages

Formal employment rose by 0.25% m/m (SA) in February, after a weak start to the year, improving the outlook for employment

**JOBS AFFILIATED WITH THE IMSS**  
(ACCUM. M/M CHG. JAN-MAR, THOUSANDS)



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



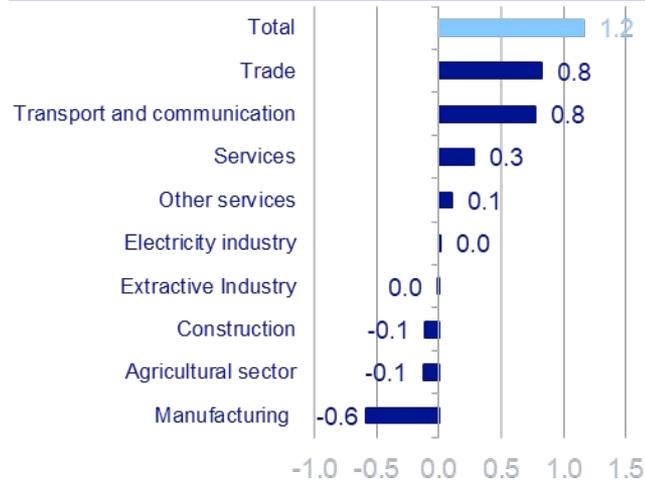
DPW: Digital Platform Workers  
Source: BBVA Research, IMSS

**In annual terms, formal employment is growing at 1.2%; however, excluding digital platform workers, growth stands at 0.4%**

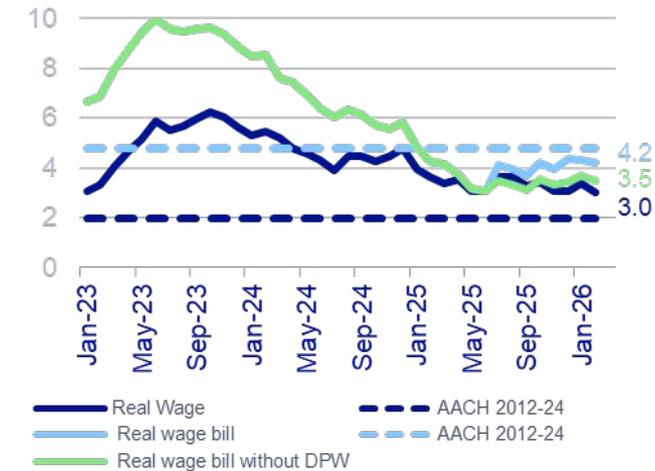
# The total wage bill is supported by real wages

Dynamism in trade and services has underpinned employment growth

## SECTORAL CONTRIBUTION TO EMPLOYMENT GROWTH IMSS (Y/Y%, PP)



## REAL WAGE AND TOTAL WAGE BILL, IMSS (ANNUAL CHG., %)



DPW: Digital Platform Workers  
Source: BBVA Research, IMSS

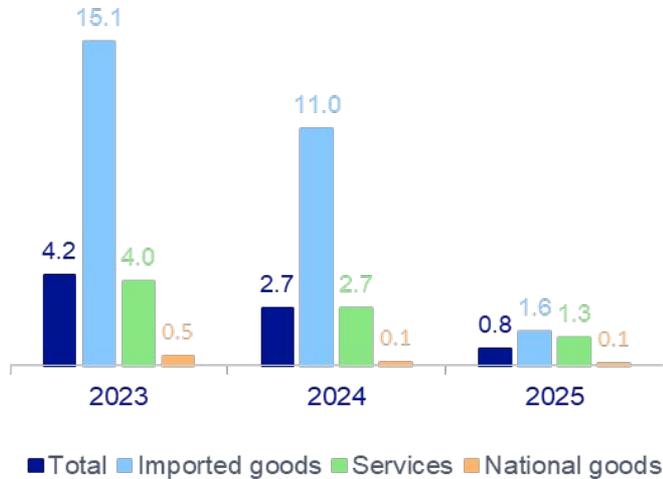
**Greater dynamism in productive investment will be key to a stronger recovery in formal employment**

# Consumption: The strongest component of domestic demand

Imported services and goods lead; the increase in the real wage bill would support household demand

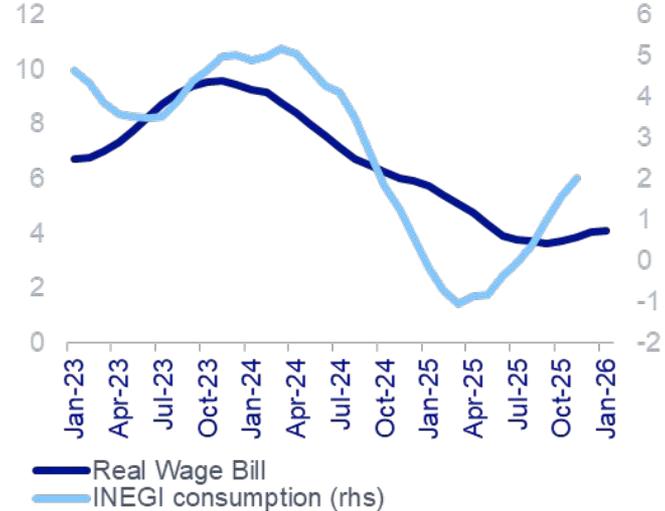
## PRIVATE CONSUMPTION

(ANNUAL CHG., %)



## CONSUMPTION AND REAL WAGE BILL

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

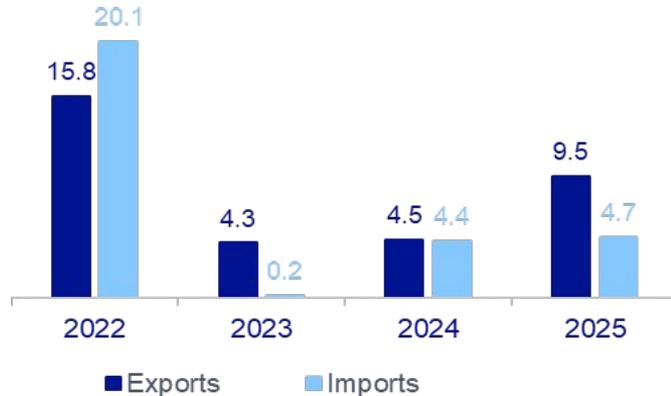


# Export dynamics helped contain the slowdown in 2025

AI-linked exports drove growth in 2H25

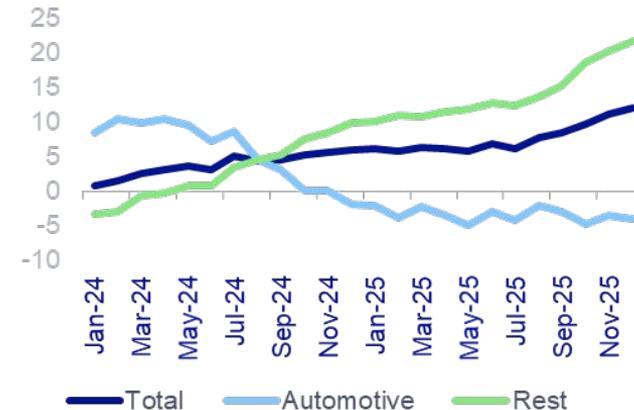
## NON-OIL EXP. & IMP.

(ANNUAL % CHG., NOMINAL IN USD)



## NON-OIL EXP. & IMP.

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



Source: BBVA Research, Haver Analytics, Macrobond, Banxico

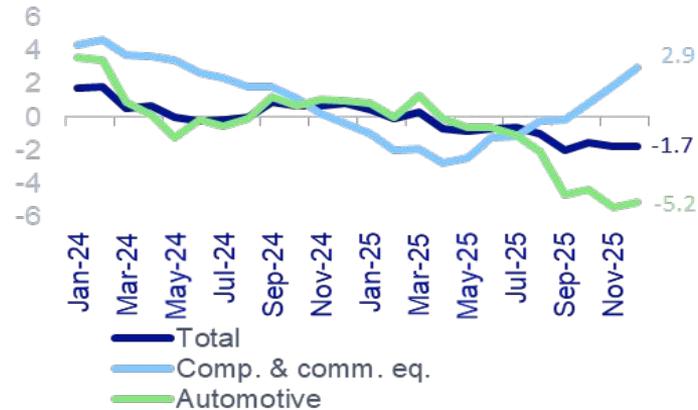
**Advance orders amid trade uncertainty  
boosted the sector in 1H25**

# Manufacturing of computer and communications equipment reaches record figures in capacity utilization

The increase in AI expense in the U.S. would further boost investment in the sector

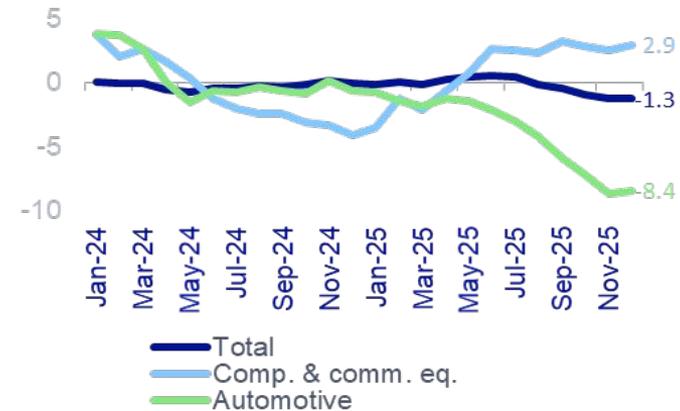
## CAPACITY UTILIZATION

(Y/Y%, 6-MONTH MOVING AVERAGE)



## MANUFACTURING OUTPUT

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



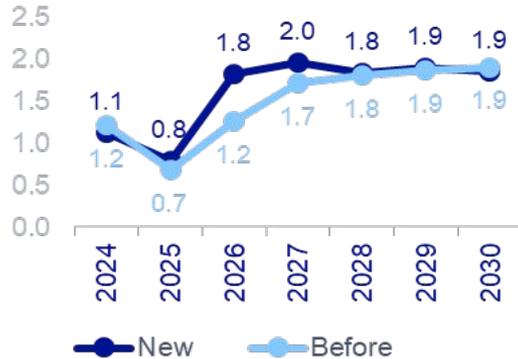
Source: BBVA Research, Haver Analytics, Macrobond, Banxico

**The automotive sector has lost prominence in total production due to the slowdown in demand for vehicles and auto parts in the U.S.**

# Upward revision of our forecast for 2026

The boost from 4Q25, together with a gradual strengthening of investment and improvements in consumption (in the face of the recovery of the real wage bill) improve the outlook

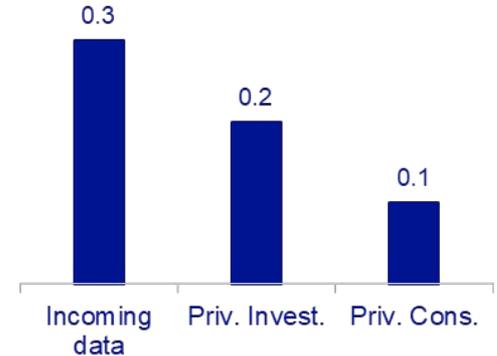
**GDP**  
(ANNUAL CHG., %)



**COMPONENTS GDP 2026**  
(ANNUAL CHG., %)



**DRIVERS: FORECAST 2026**  
(PP)



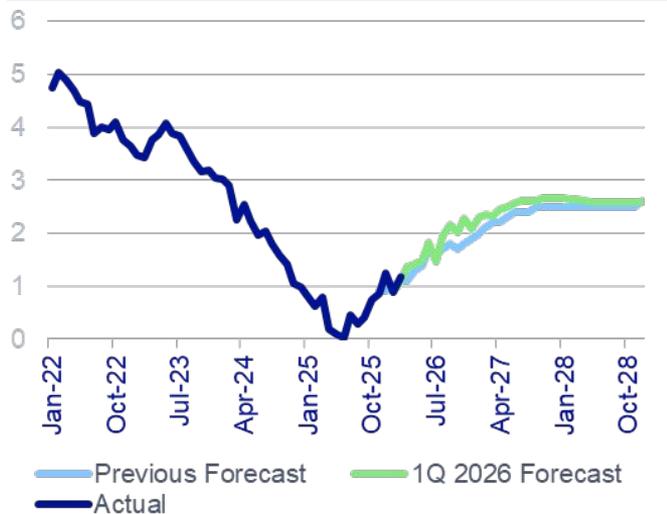
Source: BBVA Research, Haver Analytics, Macrobond

**The absence of further fiscal consolidation, (much) less restrictive monetary policy, and reduced uncertainty would gradually support investment**

# Formal employment outlook

Formal employment is expected to improve gradually, driven by greater economic dynamism, the recovery of the industrial sector and investment, in an external environment that will continue to be favorable

## JOB'S AFFILIATED WITH THE IMSS (ANNUAL CHG., %)



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

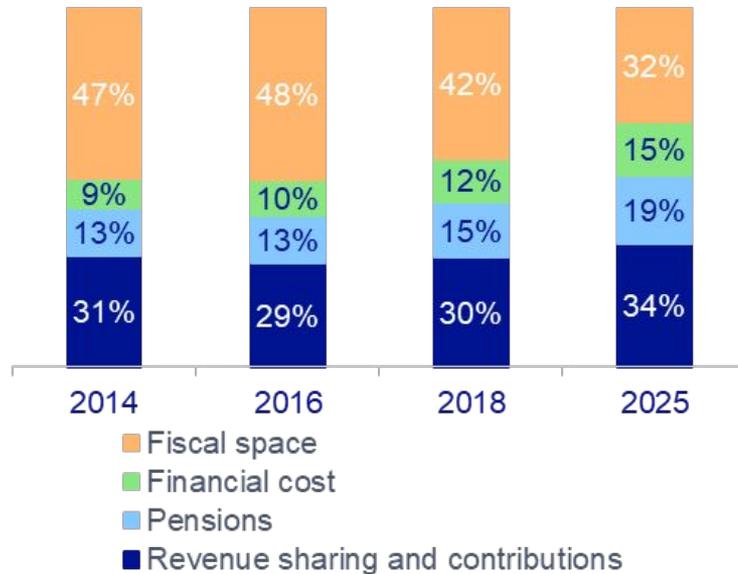
## FORMAL EMPLOYMENT OUTLOOK (ANNUAL CHG., %)

Forecast	2026	2027	2028	2029
Thousands, EoP				
<b>Q1 2026 Forecast</b>	<b>611</b>	<b>608</b>	<b>623</b>	<b>623</b>
Previous forecast	436	579	598	609
Annual Change, % EoP				
<b>Q1 2026 Forecast</b>	<b>2.7</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>
Previous forecast	1.9	2.5	2.5	2.5

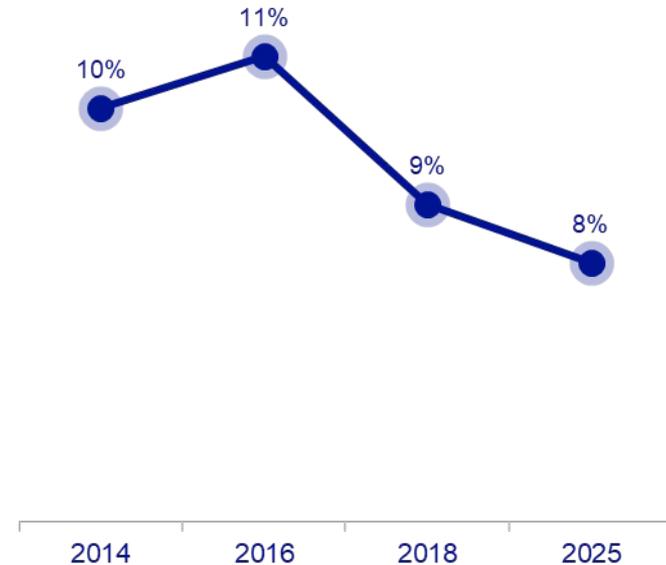
# Slow progress in fiscal consolidation

# Fiscal space has shrunk over the past 11 years

## FISCAL SPACE AND UNAVOIDABLE EXPENSES (% OF BUDGET REVENUE)



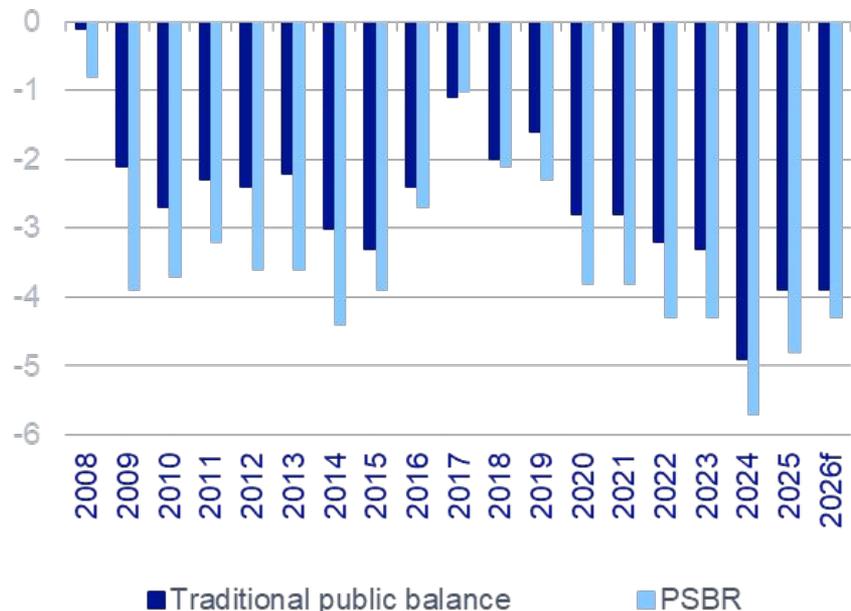
## FISCAL SPACE (% OF GDP)



# Fiscal consolidation underway

but it will be more difficult to continue it from this year onwards

**TRADITIONAL PUBLIC BALANCE AND PSBR**  
(% OF GDP)



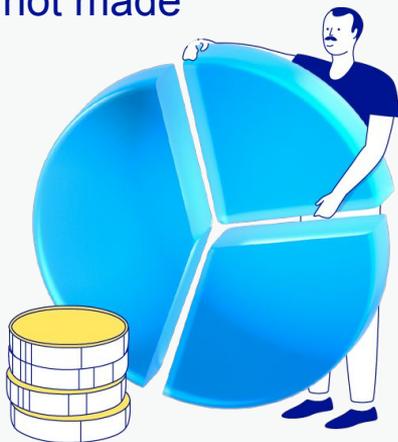
We expect the public deficit to be 3.9% of GDP in 2026; the government forecasts 3.6% of GDP.

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

Government support for the payment of Pemex suppliers led to an increase in the PSBR from -4.3% to -4.8% in 2025.

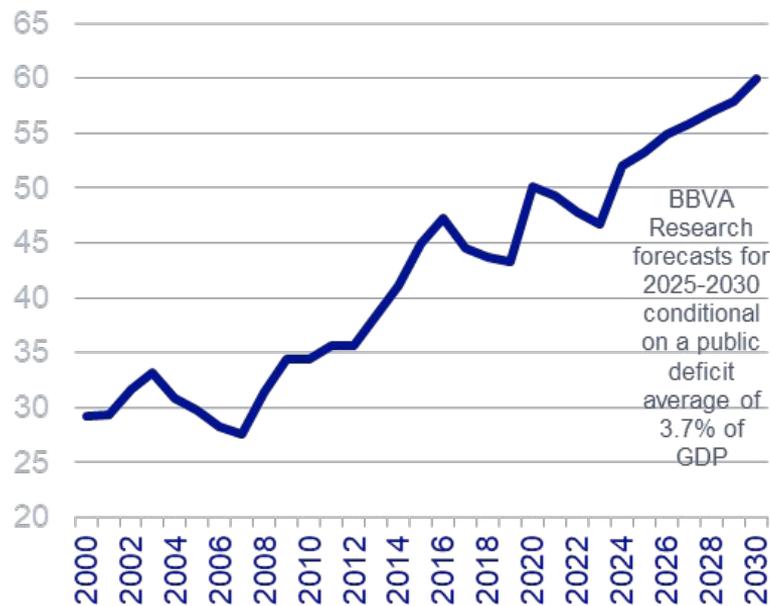
# Public debt

Public debt would reach 60% of GDP by 2030 and the country could lose the investment grade if significant fiscal adjustments are not made



## HISTORICAL BALANCE OF THE PUBLIC SECTOR BORROWING REQUIREMENTS

(% OF GDP)



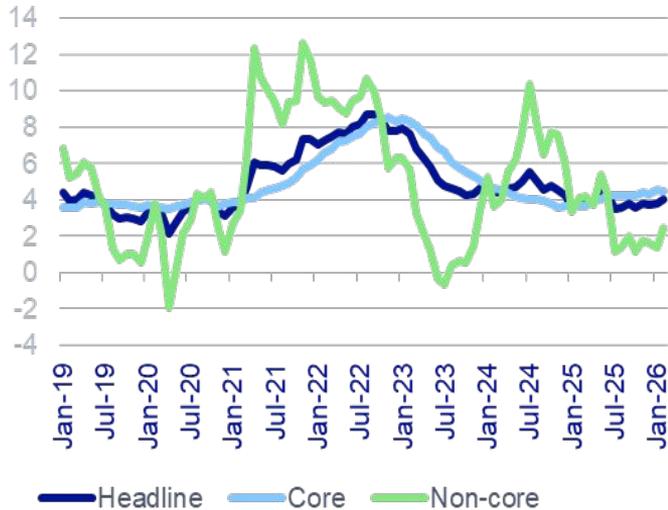
**Banxico has not yet  
completed its  
easing cycle**

# The rise in the IEPS on certain products pushed up core goods inflation...

Non-core inflation has prevented a further rise in headline inflation

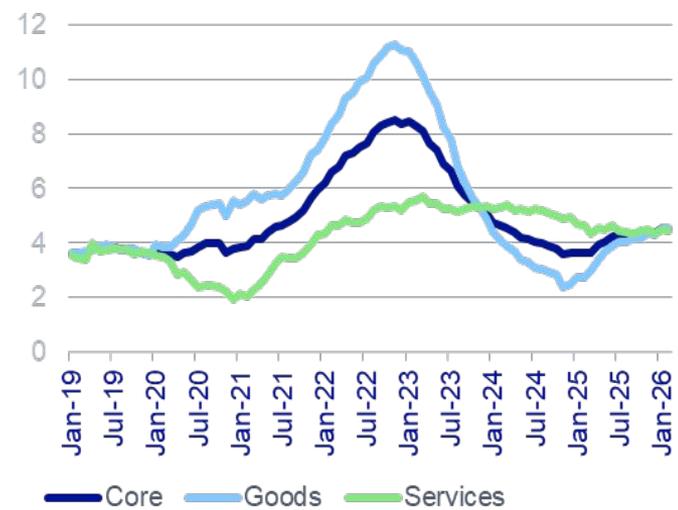
## HEADLINE INFLATION

(ANNUAL % CHG.)



## CORE INFLATION

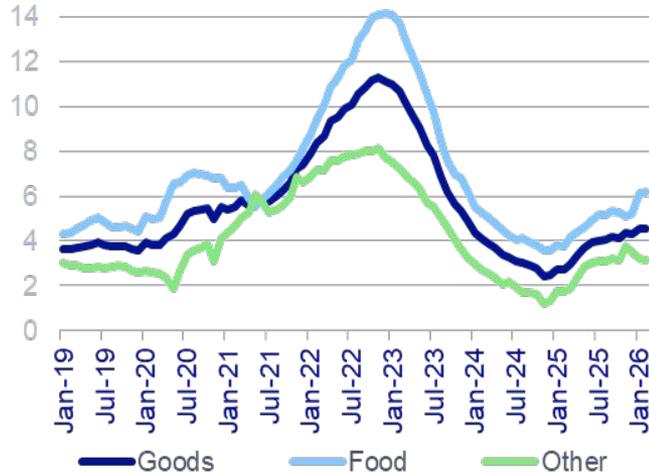
(ANNUAL % CHG.)



# ...despite a partial offset from other goods inflation

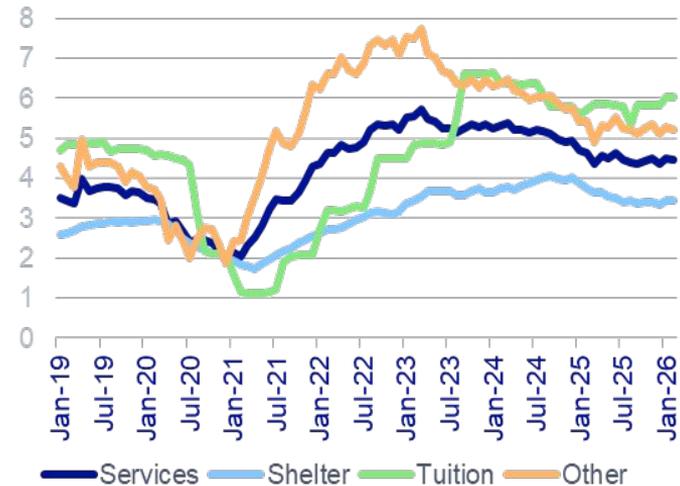
Core services inflation remains sticky, but weak demand should ease it

## CORE GOODS INFLATION (ANNUAL % CHG.)



Source: BBVA Research, INEGI

## CORE SERVICES INFLATION (ANNUAL % CHG.)

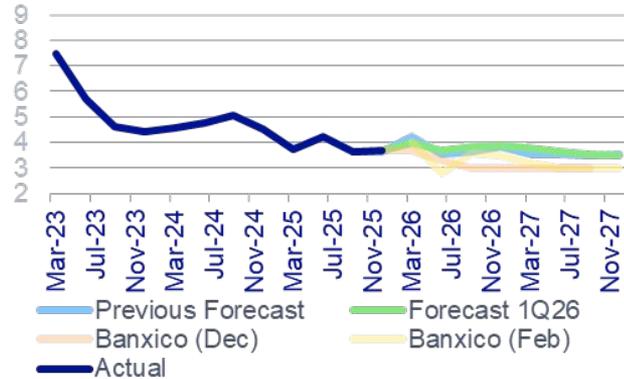


Source: BBVA Research, INEGI

# Core inflation to resume downward trend in Q2

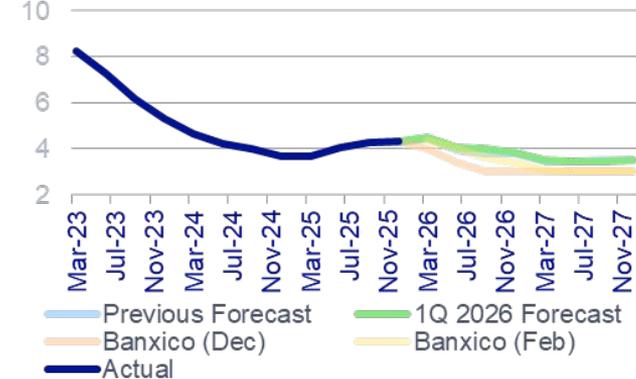
Weak demand should help moderate services inflation; we project 3.8% by end-2026 and 3.5% from 2027 onward

## HEADLINE INFLATION FORECASTS (ANNUAL % CHANGE, QUARTERLY AVERAGE)



Quarterly average	Q4 26	Q4 27
<b>BBVA Research e</b>	<b>3.9</b>	<b>3.5</b>
Banxico Feb	3.5	3.0
Banxico Dec	3.0	3.0

## CORE INFLATION FORECASTS (ANNUAL % CHANGE, QUARTERLY AVERAGE)

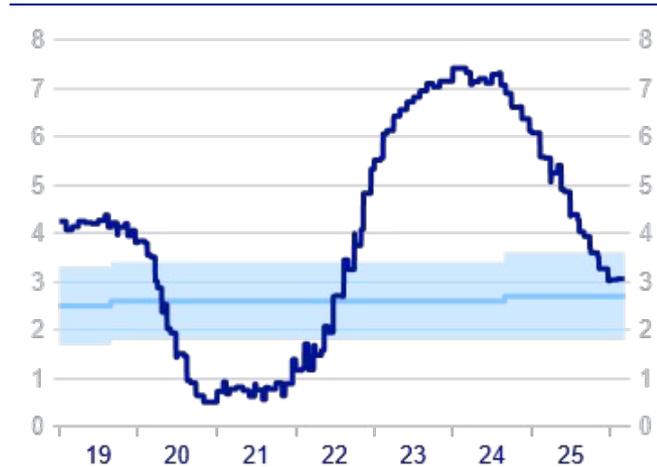


Quarterly average	Q4 26	Q4 27
<b>BBVA Research e</b>	<b>3.8</b>	<b>3.5</b>
Banxico Feb	3.4	3.0
Banxico Dec	3.0	3.0

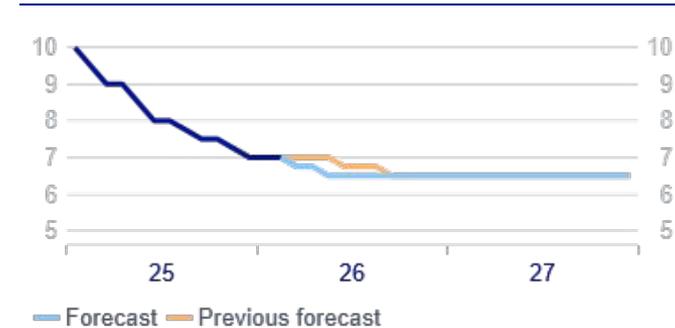
# We now expect rate cuts to resume this month

The tone of the minutes suggested a broad willingness to continue the easing cycle, absent second-round effects due to IEPS and tariffs, not evident in the inflation data so far this year

**REAL EX-ANTE POLICY RATE**  
(%)



**BANXICO POLICY RATE**  
(%)



	26	27	28
Forecast	6.50	6.50	6.50
Previous forecast	6.50	6.50	6.50

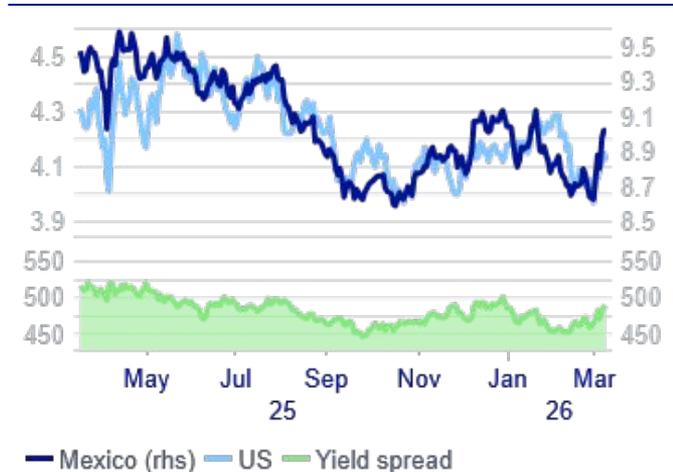
The shaded area indicates Banxico's estimated interval for the short-term neutral rate in the long term; the solid light blue line indicates the midpoint estimation  
Source: BBVA Research, Banxico, INEGI

Source: BBVA Research, Banxico

# Long term yields rise amid the U.S.-Iran conflict

The rebound of the 10-year M Bond yield and the fall of the peso and the stock market are mainly due to higher global and exchange rate premia, with relatively stable country risk

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



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

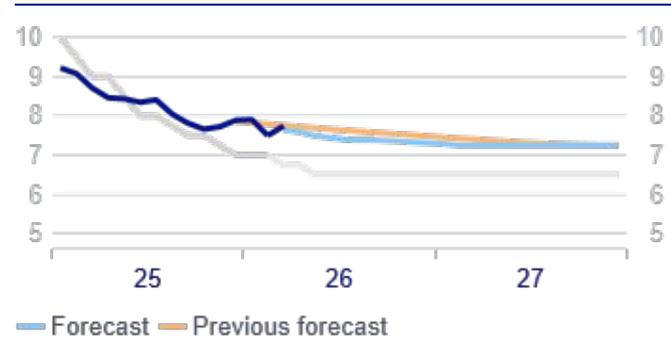


# Slight adjustments to yield curve forecasts

Assuming a short-lived conflict, we anticipate a correction in the short term and continue to believe that yields still have some room to fall

## 3-YEAR GOVERNMENT YIELD

(%)

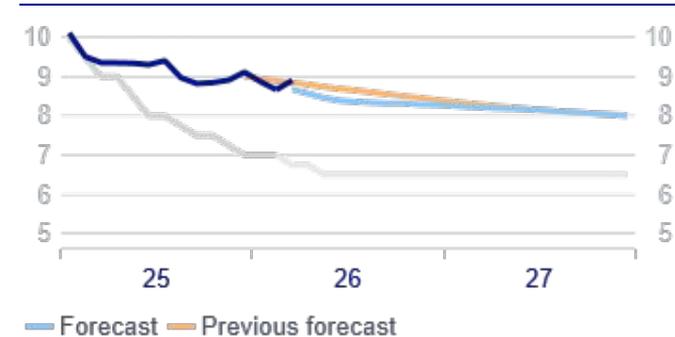


	26	27	28
Forecast	7.3	7.3	7.3
Previous forecast	7.5	7.3	7.3

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

## 10-YEAR GOVERNMENT YIELD

(%)



	26	27	28
Forecast	8.3	8.0	8.0
Previous forecast	8.4	8.0	8.0

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

# Fundamentals remain in favor of a relatively strong peso

Despite the fact that, as is often the case in periods of high global volatility, the peso has been one of the currencies most affected by the recent episode of risk aversion

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



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



**USDMXN RELATIVE PERFORMANCE** (01-JAN-26=100)



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

# We anticipate a gradual/moderate depreciation starting in 2Q26, with a downward bias in our forecasts

## OUTLOOK FOR THE EXCHANGE RATE (PPD)



Widespread weakness of the dollar amid the shift in U.S. economic policy

Sustained optimism around the **USMCA** revision



What is behind the peso strength?

Fiscal consolidation that has bolstered confidence in **fiscal discipline**

A still relatively attractive risk-adjusted **carry profile**

# Key points and forecast summary

# Main messages on the global economy

**Global growth soft-landed in 2025,** despite slowdown fears linked to geopolitical tensions, policy uncertainty, and US tariffs. The global economy proved resilient, supported by falling inflation and interest rates, fiscal stimulus, AI adoption, and low energy prices.



**The outbreak of war in Iran adds a new headwind for the global economy.** A short-lived conflict with limited macro impact remains the baseline, but uncertainty has risen. A more prolonged war that keeps energy prices and financial tensions elevated would lift inflation while also weakening growth.



**Global growth could remain relatively dynamic, around 3.2% in 2026-27,** driven by economic policies and AI-related spending, provided the war in Iran is brief. While inflation has lately eased, several factors could keep it more persistent than expected, particularly in the US.



**Despite larger uncertainty, the Fed is still likely to cut rates after pausing in 1H26,** favoring a weaker US dollar. The ECB is not expected to deliver further cuts. Still, if the Middle-East turmoil persists, central banks would again face the reinforced trade-off between higher inflation and weaker demand.



# Main messages on 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



**Economic activity showed dynamism at the end of 2025,** with resilience in the tertiary sector; on the demand side, consumption remains the strongest component of domestic demand. By 2026, we anticipate resilience in consumption and gradual recovery in investment, along with higher growth in the manufacturing sector linked to investment in artificial intelligence in the US. UU. In this context, **we revised upwards our growth forecast for 2026 to 1.8%** (1.2% previously), with growth of 2.0% in 2027.

**A gradual improvement in formal employment is expected.** Recent growth has been driven mainly by the trade and services sectors. Looking ahead, greater dynamism in productive investment will be key to consolidating a more robust recovery in employment, particularly in sectors such as construction and manufacturing, which posted negative performance last year. In this context, we have revised our 2026 formal employment growth forecast upward, from 1.9% to 2.1%.

# Main messages on Mexico

## Inflation and Monetary Policy

After fluctuating in a narrow range during Q3 and Q4 25, **headline inflation shows a rebound in Q1 26, driven by a further rise in goods inflation following IEPS increases on some products.** Services inflation remains elevated, though weak demand should lead to a more noticeable easing in the coming months.

- We expect headline inflation to average below 4.0% during all quarters of the year, while core inflation will resume a downward trajectory starting in the second quarter. **We expect headline inflation to end 2026 at 3.9% and core at 3.8%, with both converging to 3.5% by end-2027.**

We now anticipate that **Banxico will resume the rate-cutting cycle this month**, followed by an additional adjustment in May, bringing the policy rate to a 6.50% terminal level.

- The latest minutes suggest that most members have a strong conviction that recent inflationary pressures come from temporary shocks, with **little risk of second-round effects.**
- We expect a correction of the recent rise of long-term interest rates and the depreciation of the peso. **The yield curve still has some room to move down.**



## Exchange rate and public finances

We forecast the **exchange rate to close 2026 and 2027 at 18.0 and 18.2 pesos per dollar, respectively.**

**Public debt will be around 54.9% of GDP in 2026 vs. 53.2% in 2025.**



# Forecast summary

		2023	2024	2025	2026	2027	2028
GDP Annual chg. %)	new	3.3	1.2	0.8	<b>1.8</b>	<b>2.0</b>	<b>1.8</b>
	previous				1.2	1.7	1.8
Employment (%, eop)	new	3.0	1.0	1.3	<b>2.1</b>	<b>2.7</b>	<b>2.6</b>
	previous				1.9	2.5	2.5
Inflation (%, eop)	new	4.7	4.2	3.7	<b>3.9</b>	<b>3.5</b>	<b>3.5</b>
	previous				3.8	3.6	3.5
Monetary policy rate (%, eop)	new	11.25	10.00	7.00	<b>6.50</b>	<b>6.50</b>	<b>6.50</b>
	previous				6.50	6.50	6.50
Exchange rate (ppd, eop)	new	17.2	20.3	18.1	<b>18.0</b>	<b>18.2</b>	<b>18.3</b>
	previous				19.2	19.4	19.6
M10 (%, eop)	new	9.0	10.4	8.7	<b>8.3</b>	<b>8.0</b>	<b>8.0</b>
	previous				8.4	8.0	8.0
Fiscal balance (% of GDP)	new	-3.3	-4.9	-3.9	<b>-3.9</b>	<b>-3.6</b>	<b>-3.3</b>
	previous				-3.3	-2.8	-2.5

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