

JUNE 2026

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# Mexico Economic Outlook

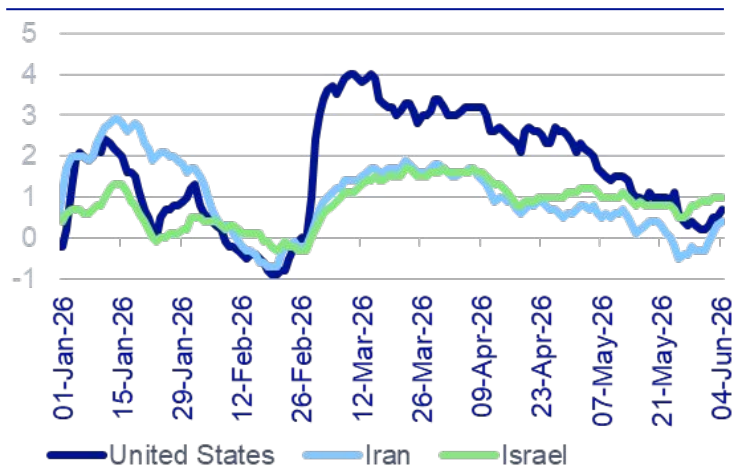
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# Global Economic Outlook

# The US-Iran conflict keeps energy prices high and volatile, despite post-ceasefire easing and hopes for a deal

## GEOPOLITICAL RISK INDEX

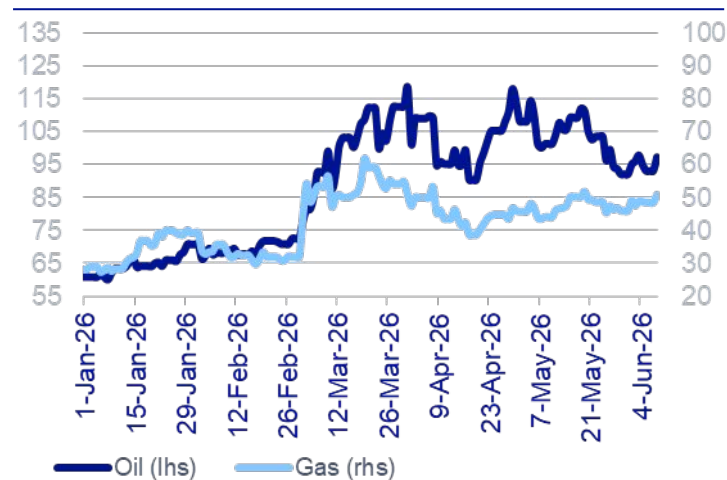
(AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

## BRENT AND EUROPEAN GAS PRICES

(USD PER BRENT BARREL; EUROS PER MWh)

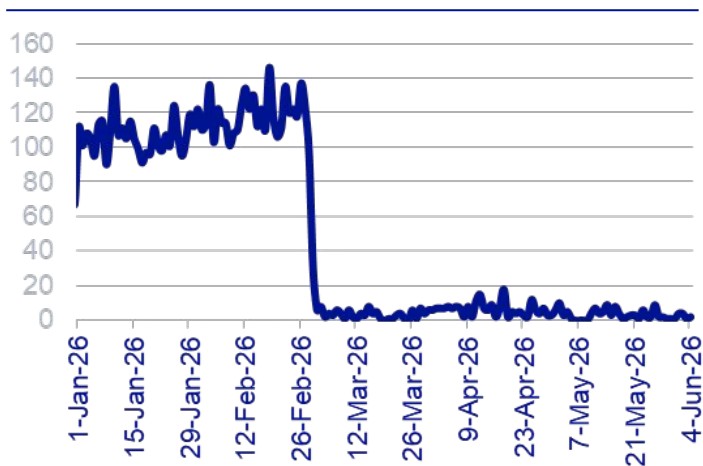


Source: BBVA Research based on data from Haver

**While a deal to end the US–Iran conflict may be within reach, the situation remains highly complex and uncertain, with non-negligible risks of more persistent tensions**

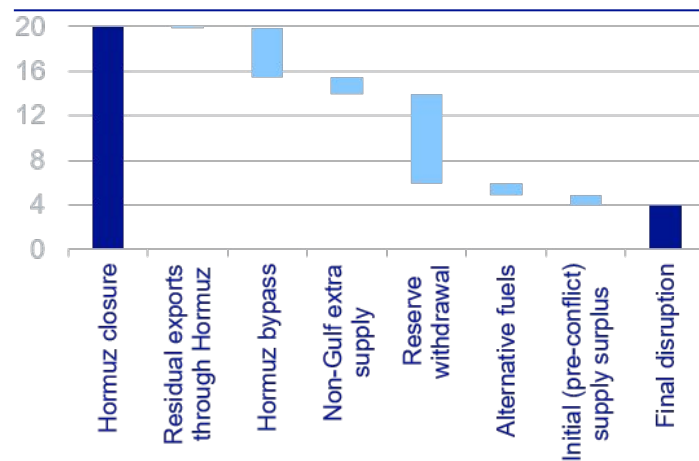
# Factors offsetting oil disruptions are insufficient and temporary; a prolonged war poses large, non-linear risks

**TRANSIT THROUGH STRAIT OF HORMUZ**  
(NUMBER OF VESSELS)



Source: BBVA Research based on data from Haver

**SHORT-TERM OIL MARKET BALANCE**  
**UNDER A STRAIT OF HORMUZ CLOSURE**  
(MILLION BARRELS A DAY)



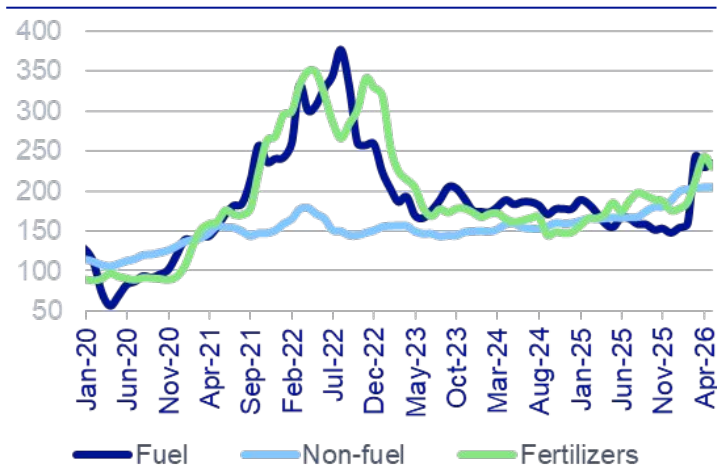
Source: BBVA Research

**With the Strait of Hormuz practically closed, countries have been relying on reserve withdrawals to avoid sharper demand adjustments, but concerns are that inventories may be depleted over the next few months**

# Beyond oil and gas prices, the Iran conflict is affecting some non-energy inputs and stressing supply chains

## COMMODITY PRICES

(SPOT PRICES, INDEXES: 2016=100)



Source: BBVA Research based on data from IMF

## GLOBAL SUPPLY CHAIN PRESSURE INDEX

(STANDARD DEVIATIONS FROM AVERAGE VALUE)



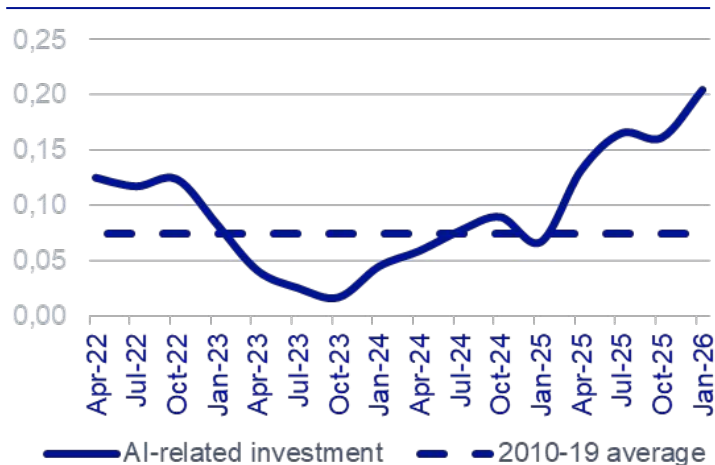
Source: BBVA Research based on data from the NY Fed

**Fuel and fertilizer prices have risen more than after Russia's invasion of Ukraine in 2022, adding pressure on other input prices and disrupting supply chains; however, commodity prices and bottleneck pressures remain generally below levels seen four years ago; lower oil-use intensity helps mitigate the shock impact**

# Despite the Iran conflict, growth and market sentiment are being sustained by the AI boom and other tailwinds

## US: AI-RELATED INVESTMENT (\*)

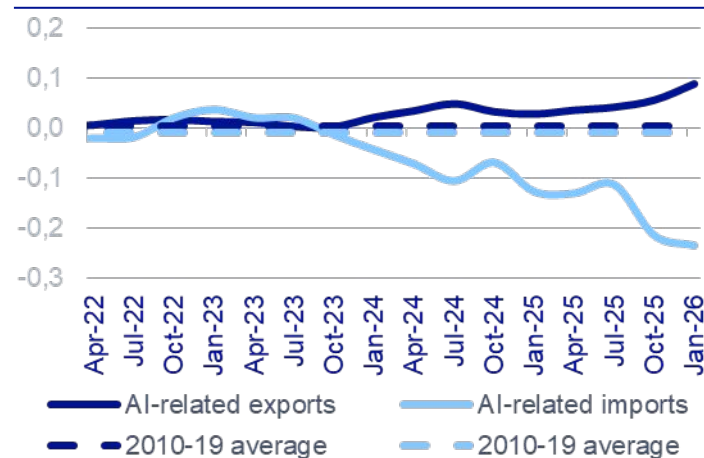
(CONTRIBUTION TO QUARTERLY GDP GROWTH;  
FOUR-QUARTERS MOVING AVERAGE: PP)



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

## US: AI-RELATED EXPORTS AND IMPORTS (\*)

(CONTRIBUTION TO QUARTERLY GDP GROWTH;  
FOUR-QUARTERS MOVING AVERAGE: PP)

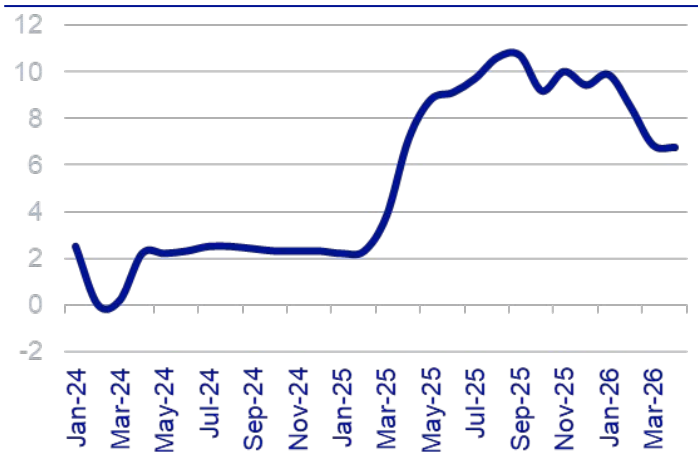


(\*) AI-related exports (imports) defined as exports (imports) of computer, peripherals and parts and of telecommunications, computer, and information services.  
Source: BBVA Research based on data from US Census Bureau

**AI is boosting economic activity through investment, trade and consumption (due to wealth effects), mainly in the US; other tailwinds include fiscal stimuli (reinforced by recent mitigatory measures), defense spending, robust labor markets, sound private balance sheets, and demand for green products**

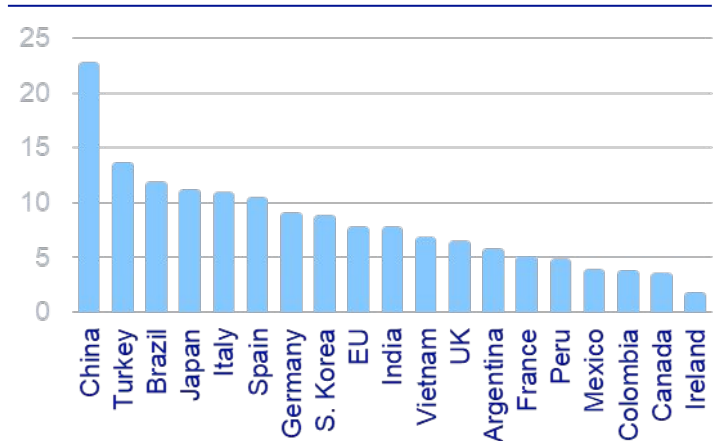
# US tariffs have been declining, but recent developments indicate new protectionist measures are likely ahead

US EFFECTIVE TARIFF (PP)



Source: BBVA Research based on data from the USITC

US EFFECTIVE TARIFF: APRIL, 2026 (PP)



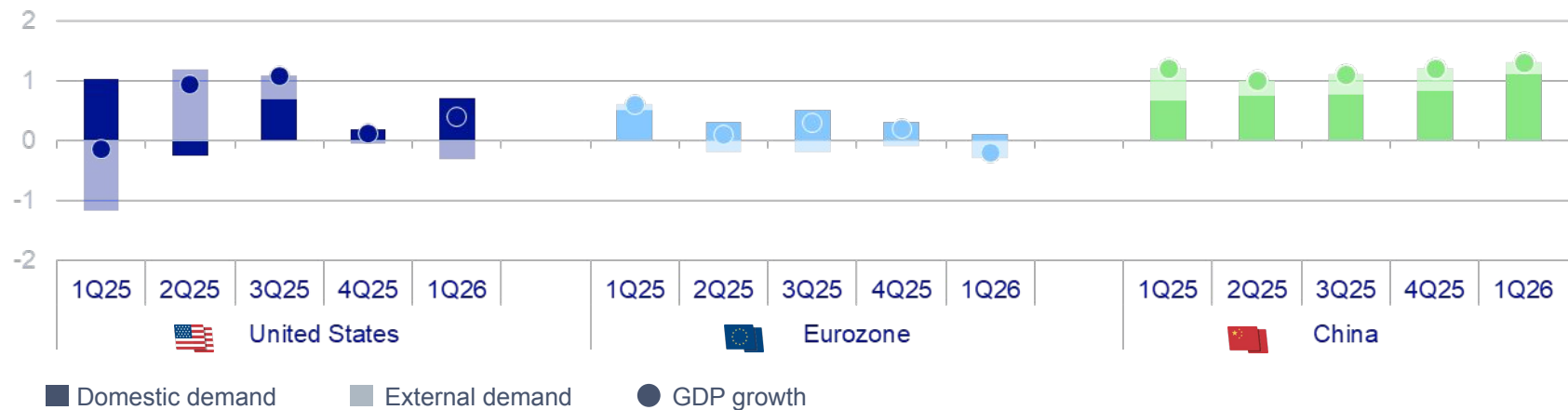
Source: BBVA Research based on data from the USITC

The US government has signaled it may raise tariffs on EU automobiles by 10pp to 25% and has indicated that new tariffs of at least 10%, under Section 301 of the Trade Act of 1974, could replace the temporary 10% universal levies announced after the legal suspension of reciprocal and fentanyl tariffs

# Growth was weaker than expected in 1Q26, with stagnation in the Eurozone and more resilience in the US and China

## GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMAND TO GDP GROWTH

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

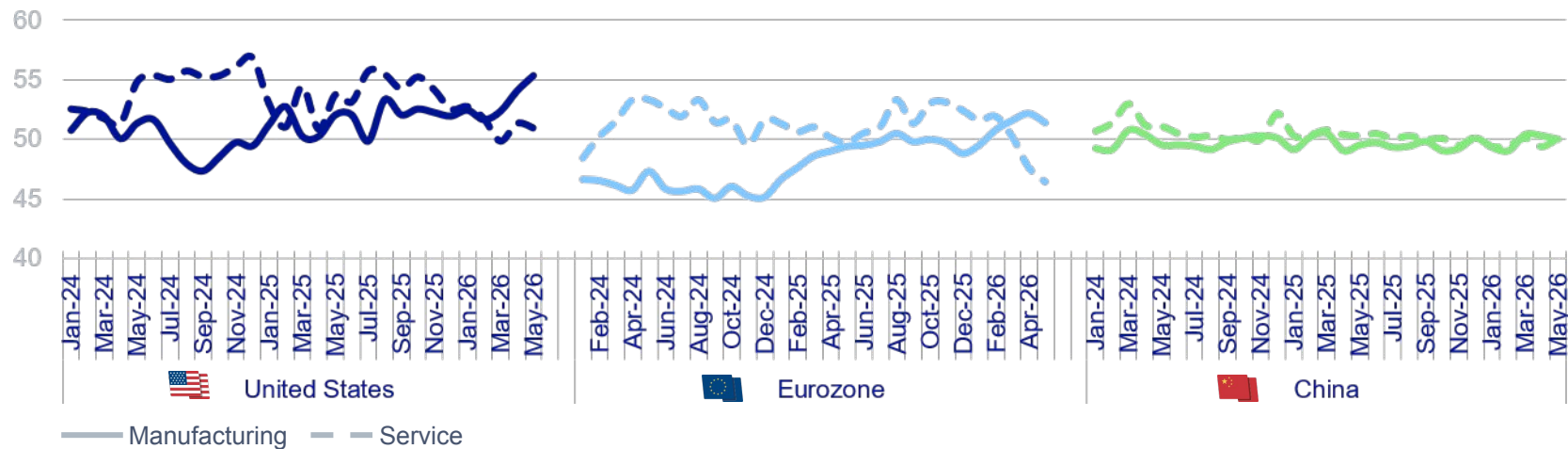


Source: BBVA Research based on data from Haver

**Consumption moderation and weak net exports weighed on US and Eurozone growth in 1Q26, with AI-driven investment providing support in the former; in China, domestic demand remains constrained by the housing market adjustment, although exports continue to provide support**

# High-frequency data point to an impact of Iran tensions on activity, particularly in services and in Europe

**PMI INDICATORS** (HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)

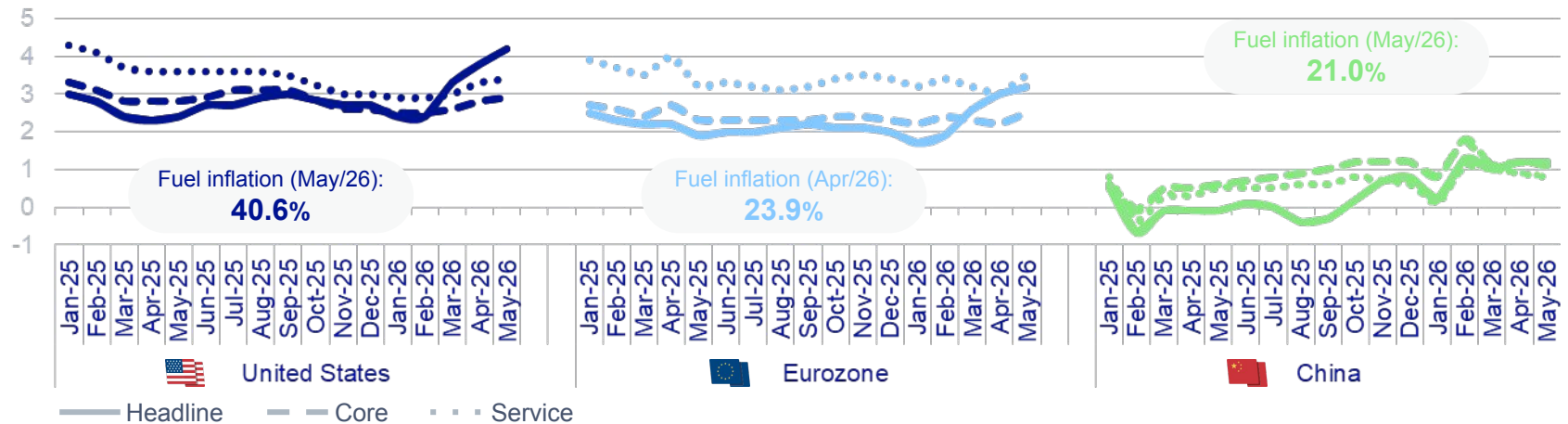


Source: BBVA Research based on data from Haver

**Manufacturing continues to improve, possibly reflecting the AI adoption boom; labor market data point to resilience, and even some improvement in the US, while soft indicators are increasingly concerning in Europe**

# Inflation has accelerated after the recent surge in energy prices, with no clear second-round effects, so far

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

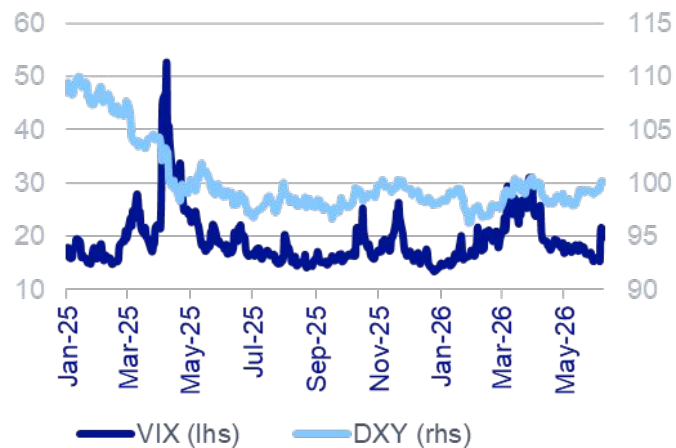


Source: BBVA Research based on data from Haver

**Core inflation has increased slightly since tensions in Iran began; wages continue to grow significantly less than in previous years, despite some persistence; short-term inflation expectations have risen lately, but long-term expectations remain broadly anchored**

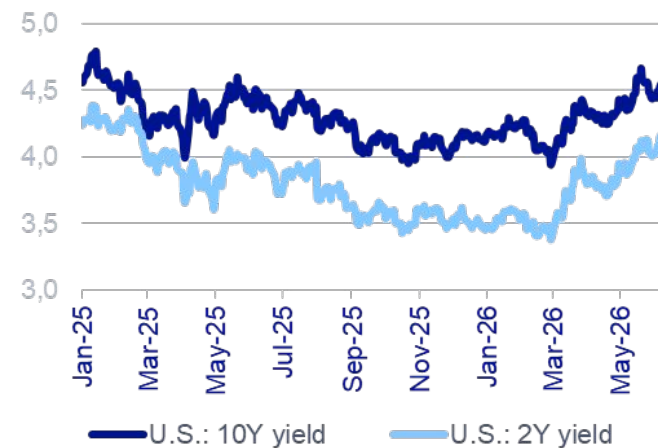
# Market sentiment remains benign, but sovereign yields continue to trend up on inflation and fiscal concerns

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



Source: BBVA Research based on data from Haver

**US SOVEREIGN YIELDS**  
(%)

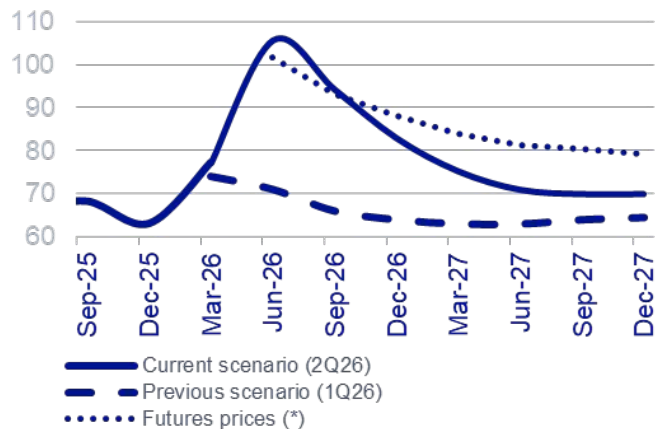


Source: BBVA Research based on data from Haver

**Markets are now pricing in a 25bp rate hike by the Fed and two additional rate hikes by the ECB this year**

# The baseline assumes a more adverse and persistent shock from the war in Iran, although not a disruptive one

**BRENT PRICES: BBVA RESEARCH FORECASTS, FUTURES PRICES (USD/BARREL)**



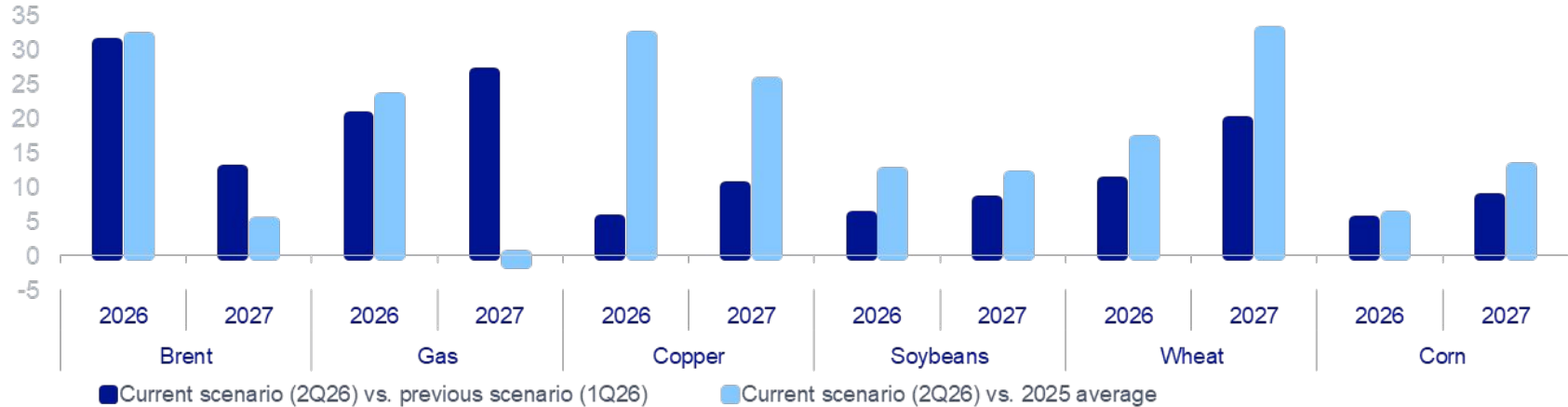
	2026 average	2027 average
2Q26 Baseline scenario	90	72
1Q26 Baseline scenario	69	64

- **More prolonged tensions than anticipated**, consistent with Hormuz reopening around mid-year.
- **Slow normalization of energy prices:**
  - geopolitical risk premium to remain in place.
  - affected production infrastructure.
  - slow logistical normalization.
  - strategic reserves rebuilding.
- **Some factors could favor low energy prices:**
  - UAE exit from OPEC risks spurring price war.
  - potential lifting of sanctions on Iran.
- **Higher prices of non-energy inputs and supply bottlenecks** add to the energy shock.

(\*) As of the beginning of June 2026.  
Source: BBVA Research based on data from Haver

# Commodity prices are expected to remain higher than previously anticipated and above 2025 levels over 2026-27

COMMODITY PRICE FORECASTS, COMPARED TO PREVIOUS FORECASTS AND 2025 LEVELS  
(%, ANNUAL AVERAGES)



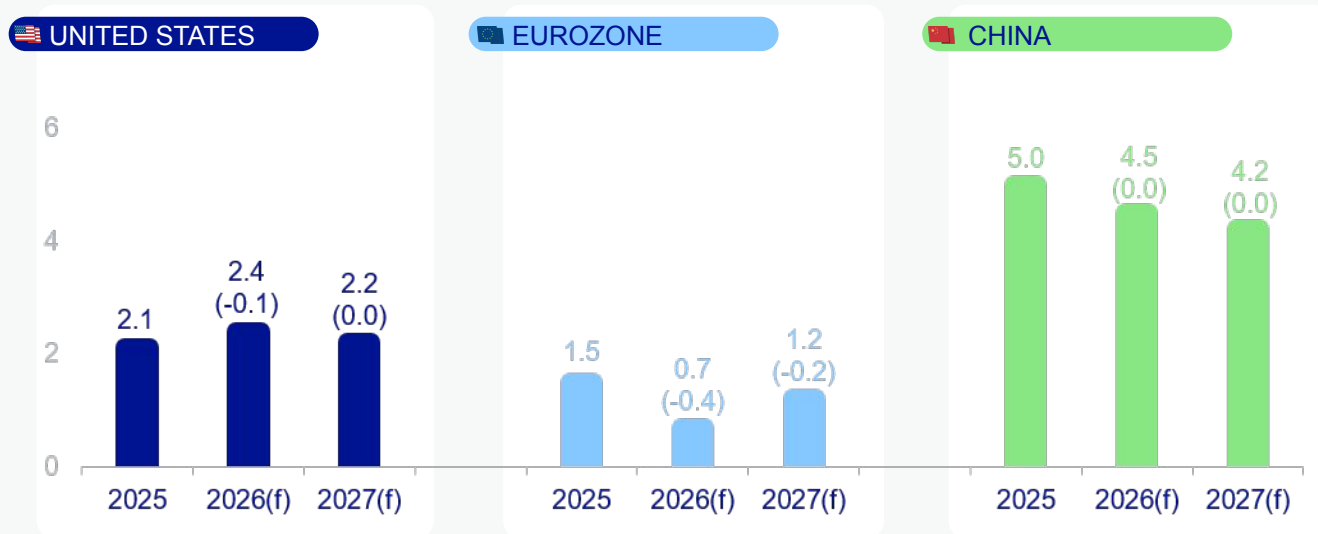
Source: BBVA Research

**Higher energy prices tend to raise other commodity prices through higher production costs and demand for biofuels; in addition, the Hormuz closure also directly disrupts the global supply of fertilizers, sulfur, helium, and other critical inputs, further increasing food and metal prices**

# Growth will stay firm in the US and China but weaker in the EZ; a sharp slowdown will be avoided if the war does not drag on

## GDP GROWTH (\*)

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



**Weaker-than-expected 1Q26 data and a prolonged conflict lead to a slight downgrade of US growth and a larger cut to the Eurozone forecast; China's slowdown outlook remains unchanged despite strong exports and resilient activity**

(\*) After expanding by 3.5% in 2025, global GDP is forecast to grow by 3.1% in 2026 (0.1pp lower than the previous forecast) and by 3.3% in 2027 (unchanged from the previous forecast).

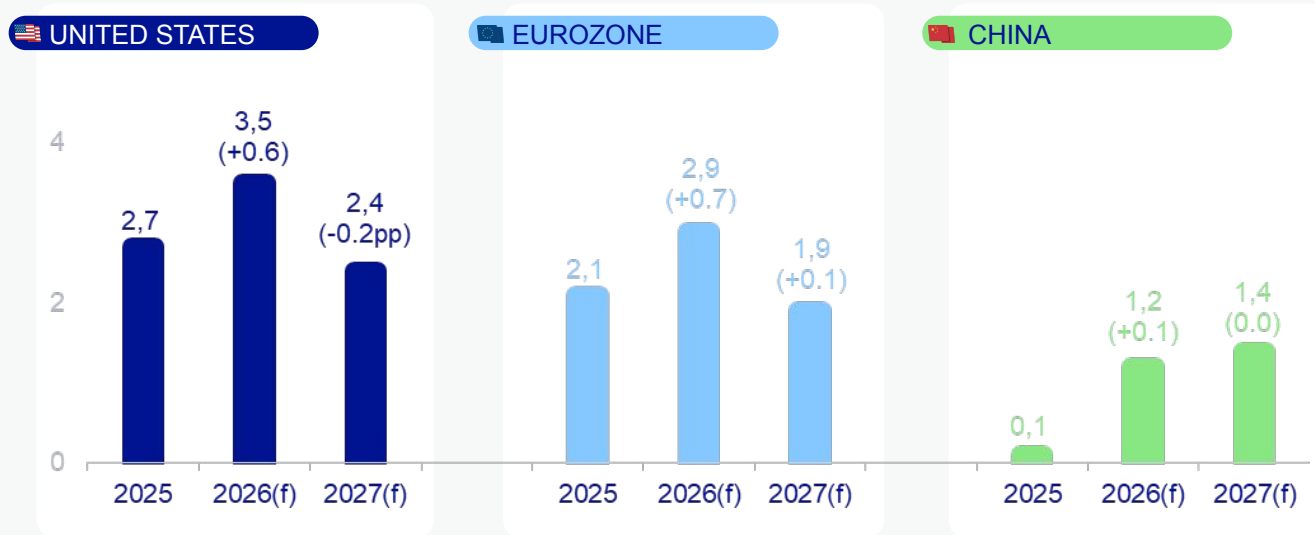
(f): forecast.

Source: BBVA Research

# The 2026 inflation outlook has worsened sharply, but inflation should ease in 2027 absent widespread second-round effects

## HEADLINE CPI INFLATION

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



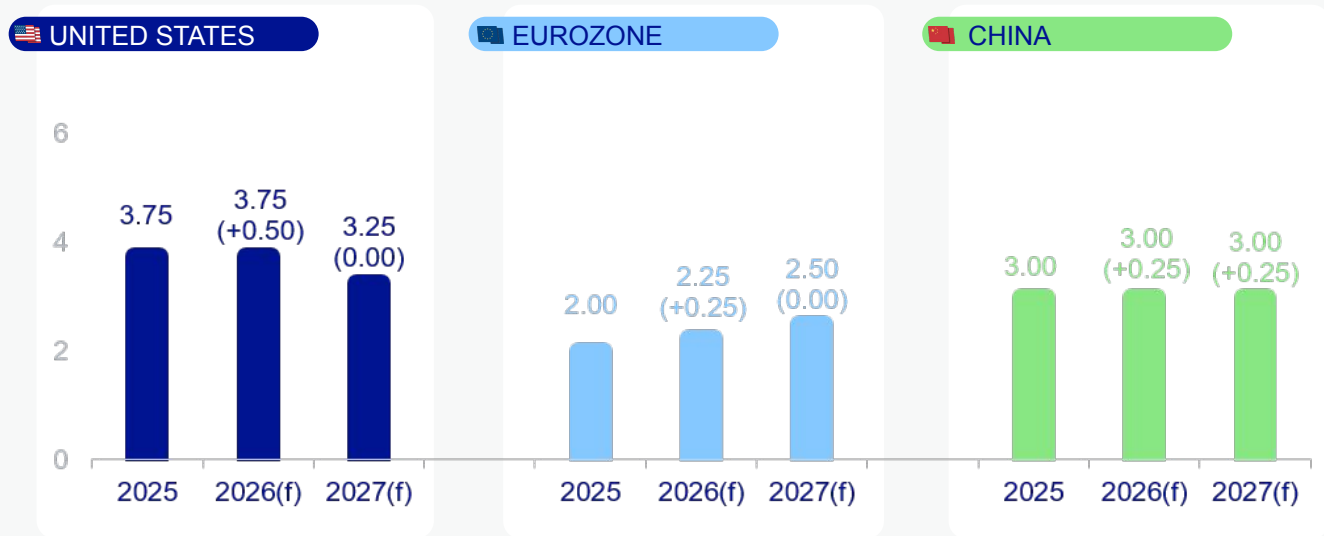
Inflation forecasts have been revised upwards in response to adverse incoming data and expectations of higher energy and food prices; with limited second-round effects, core inflation will be within 2% and 3% in the US and the EZ; upside risks if the Strait of Hormuz remains closed for an extended period

(f): forecast.  
Source: BBVA Research

# Inflation pressures make central banks more cautious, leading to higher-than-expected rates, mostly in 2026

## POLICY INTEREST RATES (\*)

(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



Policy rates are now expected to remain unchanged until mid-2027 in the US and longer in China; the ECB, facing a sharper growth-inflation trade-off, is expected to bring forward a rate hike

(f): forecast.

(\*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research

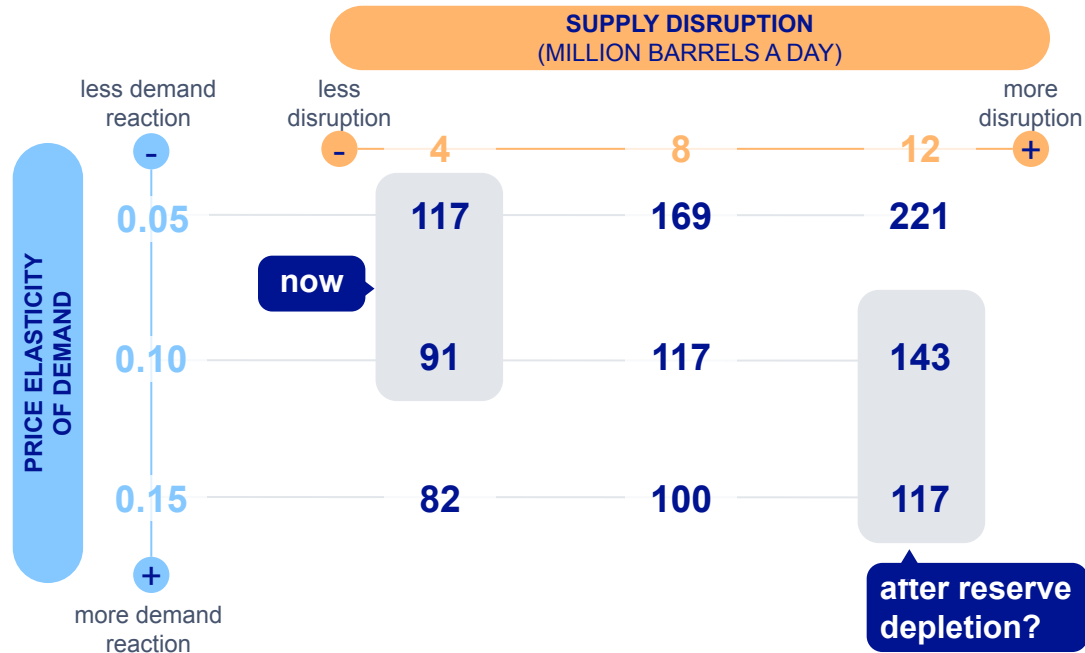
# Risks

If the conflict persists, inventory depletion could push oil prices sharply higher and trigger non-linear effects

## Risks go beyond geopolitics:

1. AI: two-sided,
2. US policies and institutions: Fed, tariffs, mid-term elections,
3. Financial stability: sovereign debt markets, private credit, equity correction, shadow banking;
4. China: structural slowdown, housing market, deflation;
5. Others: climate change, demographics

## OIL PRICES WITH DIFFERENT COMBINATIONS OF SUPPLY DISRUPTIONS AND DEMAND PRICE ELASTICITY (\*) (US DOLLARS PER BARREL)



(\*) Based on an equilibrium oil price of \$65.  
Source: BBVA Research

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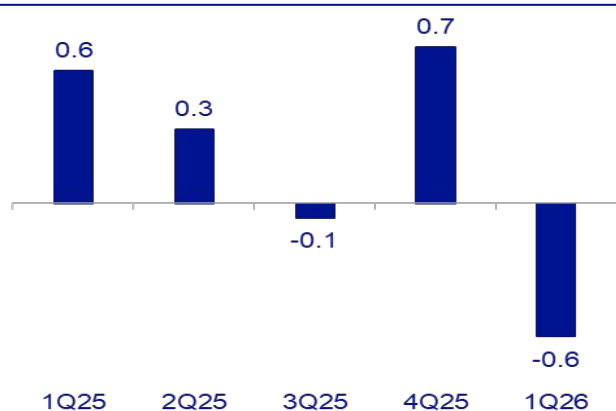
# **Mexico: Weak domestic demand delays the recovery**

# Weak start for economic activity in 2026

The economy contracted (-)0.6% QoQ in 1Q26, with growth of 0.7% in 2025, reflecting generalized weakness in domestic demand, driven by the decline in investment

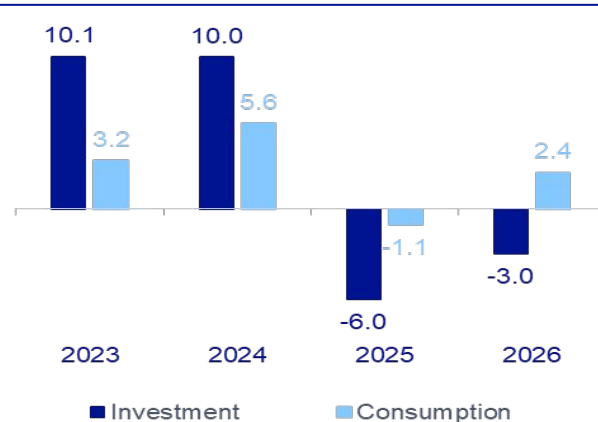
## GDP

(Q/Q%, REAL, SA)



## INVESTMENT AND CONSUMPTION

(Y/Y%, CUM. JAN-MAR, REAL, SA)



Source: BBVA Research, Haver Analytics, Macrobond

**The World Cup should provide a transitory boost during 2Q26, offering some support to activity after the slowdown at the beginning of the year**

# Broad-based moderation of domestic demand

Companies continue to postpone capital expenditure decisions, in an environment of uncertainty and a weak labor market that affects demand

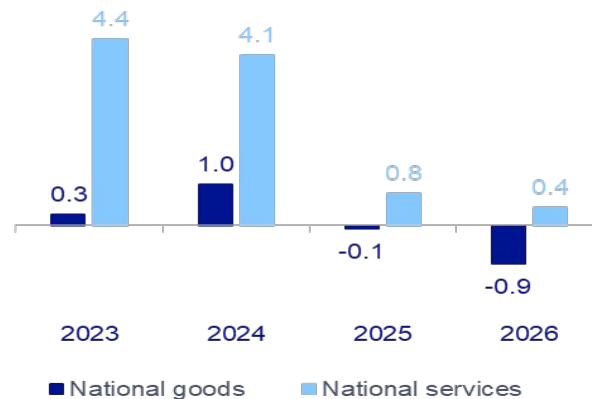
## INVESTMENT COMPONENTS

(Y/Y%, CUM. JAN-MAR, REAL, SA)



## CONSUMPTION COMPONENTS

(Y/Y%, CUM. JAN-MAR, REAL, SA)



Source: BBVA Research, Haver Analytics, Macrobond

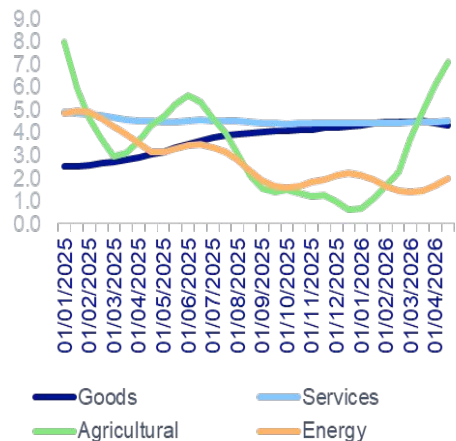
**Consumption will recover temporarily in 2Q26 (World Cup); underlying weakness will persist in the labor market ahead**

# Price levels and slow job creation pressure consumer demand

Agricultural inflation erodes household purchasing power

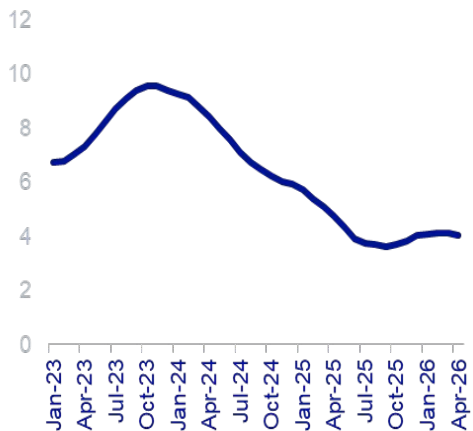
## INFLATION

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



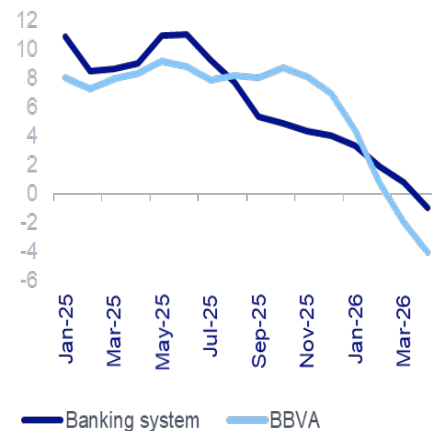
## REAL WAGE BILL

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



## REAL POS SPENDING

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



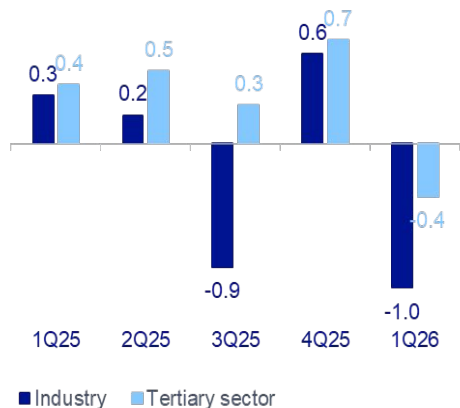
Source: BBVA Research, Haver Analytics, Macrobond

**The labor market is gradually decelerating, with lower formal job creation and more moderate wage growth**

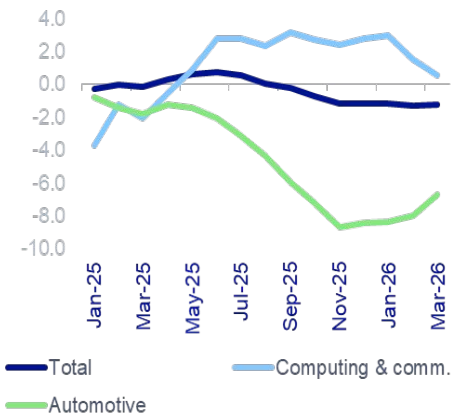
# The export sector continues to exhibit strength

Opportunities persist to increase national content

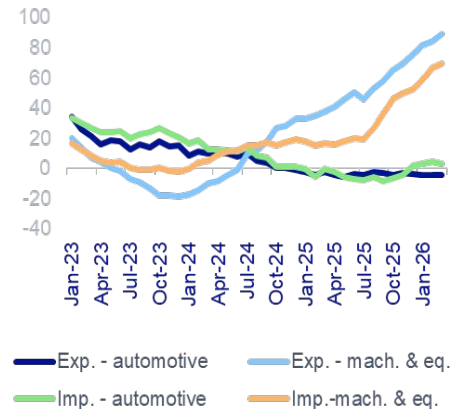
## INDUSTRY (Q/Q%, REAL, SA)



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



## EXPORTS & IMPORTS (Y/Y%, USD, 6-MONTH MOVING AVERAGE)



Source: BBVA Research, Haver Analytics, Macrobond

**Manufacturing production accumulates a contraction of 1.4% as of April**

# Downward revision of our growth forecast for 2026

Lower-than-anticipated domestic demand will limit the positive impact of the World Cup

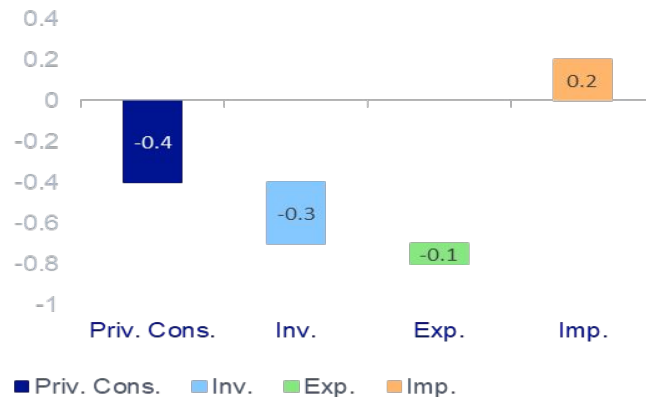
## GDP

(ANNUAL % VAR.)



## 2026 DECOMPOSITION OF THE REVISION

(PP)



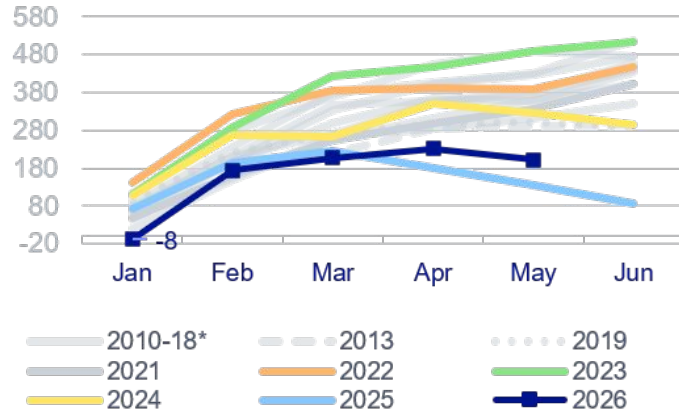
Source: BBVA Research, Haver Analytics, Macrobond

**In 2027 we expect a gradual recovery, supported by higher external demand, lower trade uncertainty and the progress of mixed contracts**

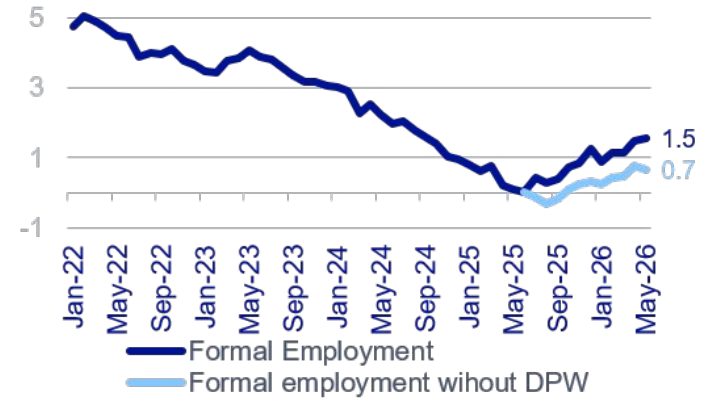
# Formal employment continues to grow at a moderate pace

Formal employment growth picked up slightly to 1.5% YoY in May; however, excluding digital platform workers, it moderated to 0.7%

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



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



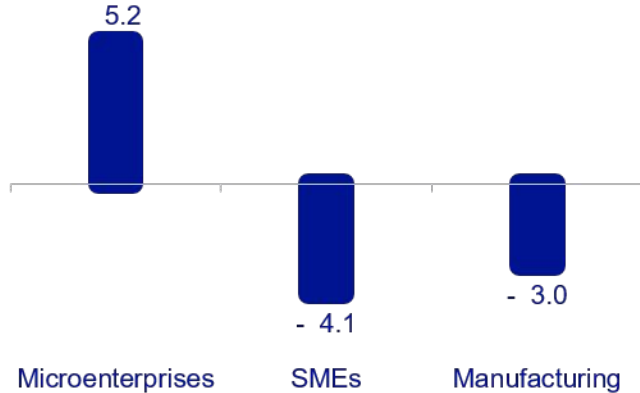
DPW: Trabajadores de Plataformas Digitales  
Source: BBVA Research, IMSS

**Formal employment growth will remain weak until investment rebounds**

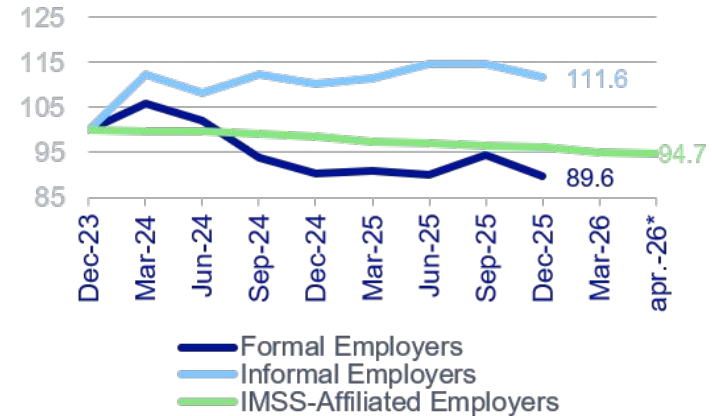
# Signs of weakening in the business sector

The net loss of SMEs and the decline in the number of formal employers are limiting the recovery of formal employment

**BUSINESS DEMOGRAPHY 2019–2023**  
(NET CHANGE OVER 49 MONTHS)



**JOB'S AFFILIATED WITH THE IMSS AND EMPLOYERS** (INDEX: DEC-23=100)



Source: BBVA Research, IMSS, INEGI

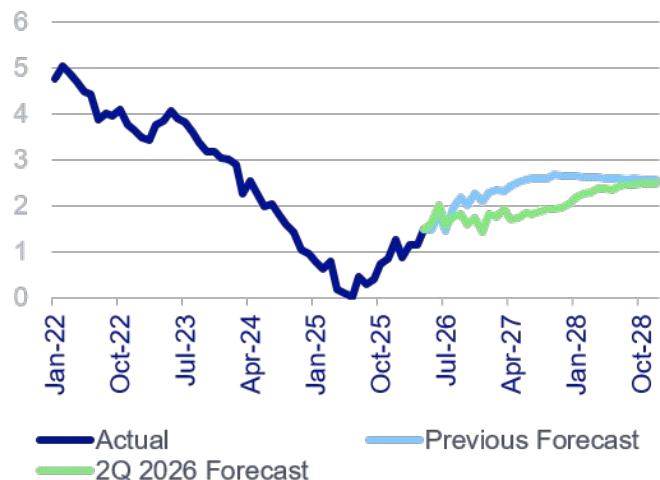
**A business recovery requires an environment that supports investment, productivity, and institutional certainty**

# Formal Employment Outlook

The outlook for formal employment has weakened due to lower growth expectations. While activity related to the FIFA World Cup could provide a temporary boost to formal job creation, this effect is expected to be short-lived. In addition, employment dynamics will be influenced by the base effect resulting from the incorporation of digital platform workers.

## JOBS AFFILIATED WITH THE IMSS

(ANNUAL CHG., %)



## FORMAL EMPLOYMENT OUTLOOK

(ANNUAL CHG., %)

	24*	25*	26	27	28	29
Thousands, EoP						
Q1 2026 Forecast	214	279	324	468	582	611
Previous forecast			470	611	608	623
Annual Change, % EoP						
Q1 2026 Forecast	1.0	1.3	1.4	2.0	2.5	2.6
Previous forecast			2.1	2.7	2.6	2.6

\* Observed data  
Source: BBVA Research / IMSS

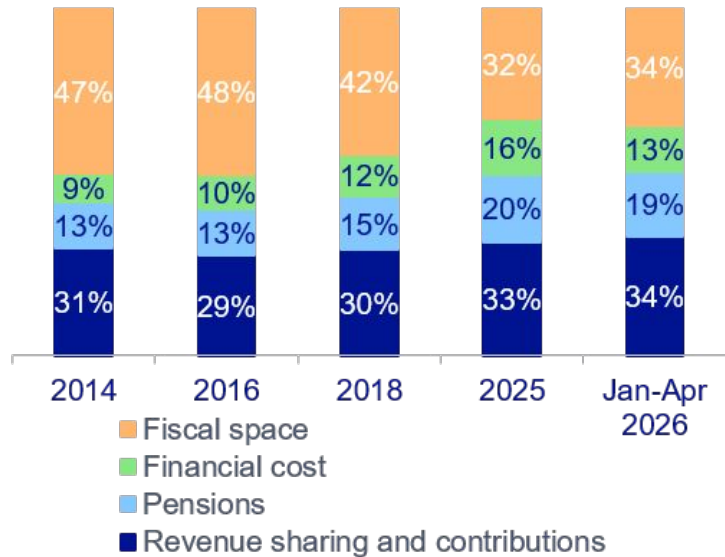
3.

# **Slowdown risk in the progress of fiscal consolidation**

# Fiscal space has shrunk in the last 11 years

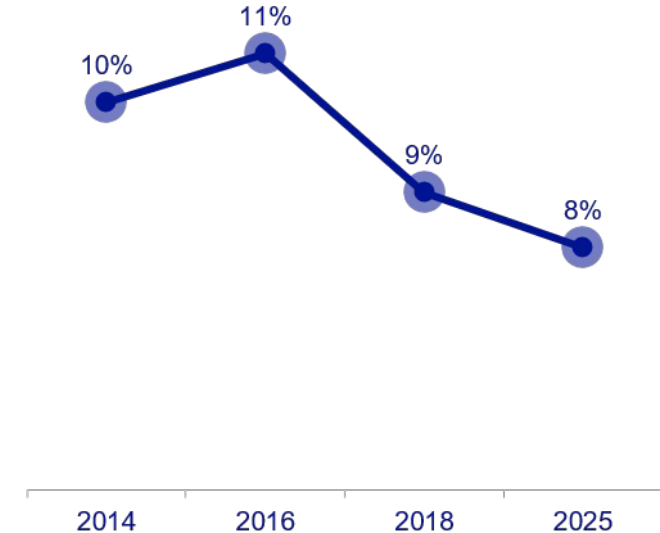
## FISCAL SPACE AND UNAVOIDABLE SPENDING

(% OF BUDGETARY INCOME)



## FISCAL SPACE

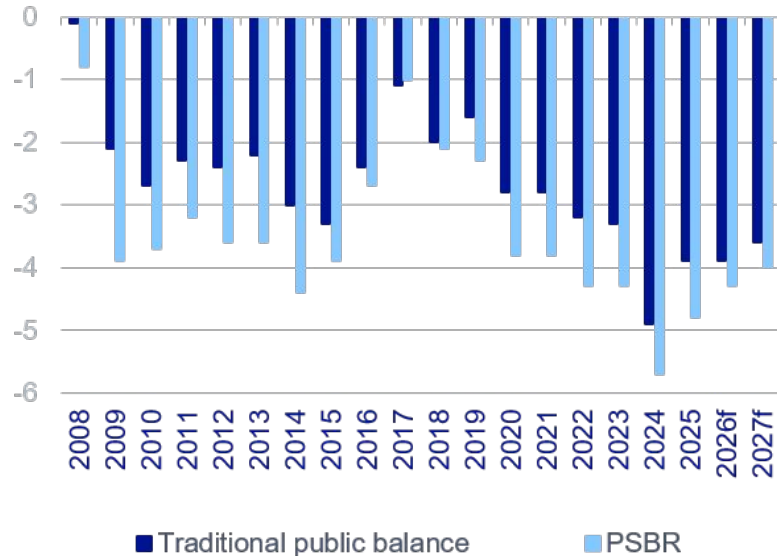
(% OF GDP)



# The 2027 General Preliminary Guidelines indicate discipline but rely on more optimism than the market

- We anticipate a public deficit around 3.9% and 3.6% of GDP in 2026 and 2027; the government forecasts 3.6% and 3.0% of GDP, respectively.
- We foresee that Public Sector Borrowing Requirements (PSBR) will be -4.3% and -4.0% of GDP in 2026 and 2027; the government forecasts -4.1% and -3.5%, respectively.
- SHCP anticipates 2.4% for the GDP growth in 2027 vs. a consensus estimate of 1.8%.

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

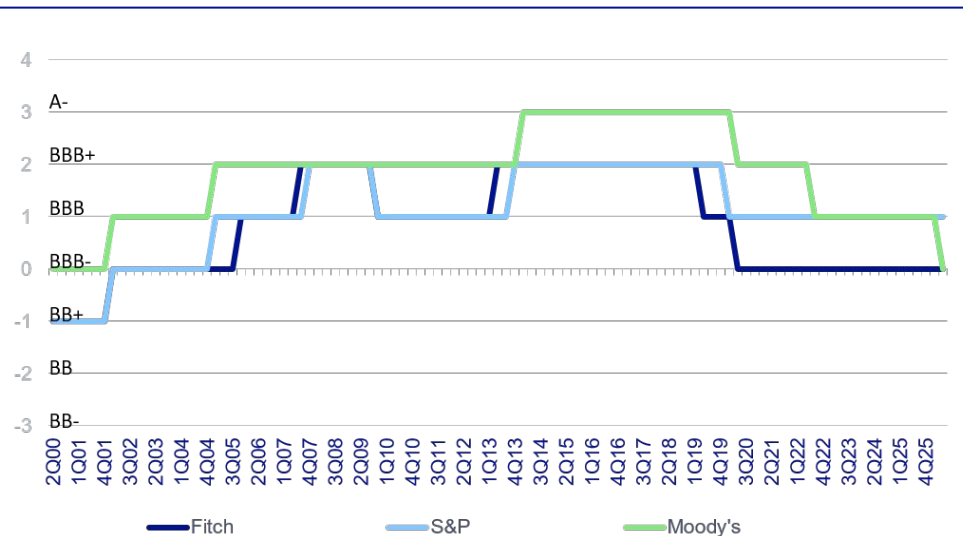


Source: BBVA Research, SHCP

# Moody's downgraded Mexico's credit rating to Baa3 (BBB-) arguing difficulties to stabilize public debt

- S&P also changed the outlook to negative from stable given expected slow progress in fiscal consolidation in a context of low economic growth.
- This would result in higher levels of government debt and debt service.
- México will have to run primary surpluses around 1.2% of GDP to avoid losing the investment grade.
- It is feasible to avoid losing the investment grade.

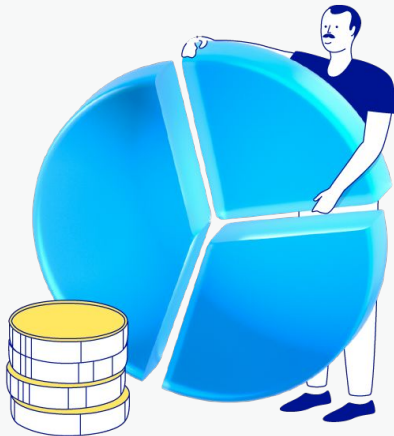
**MEXICO'S CREDIT RATING EVOLUTION**  
(LEVEL)



Source: BBVA Research, SHCP

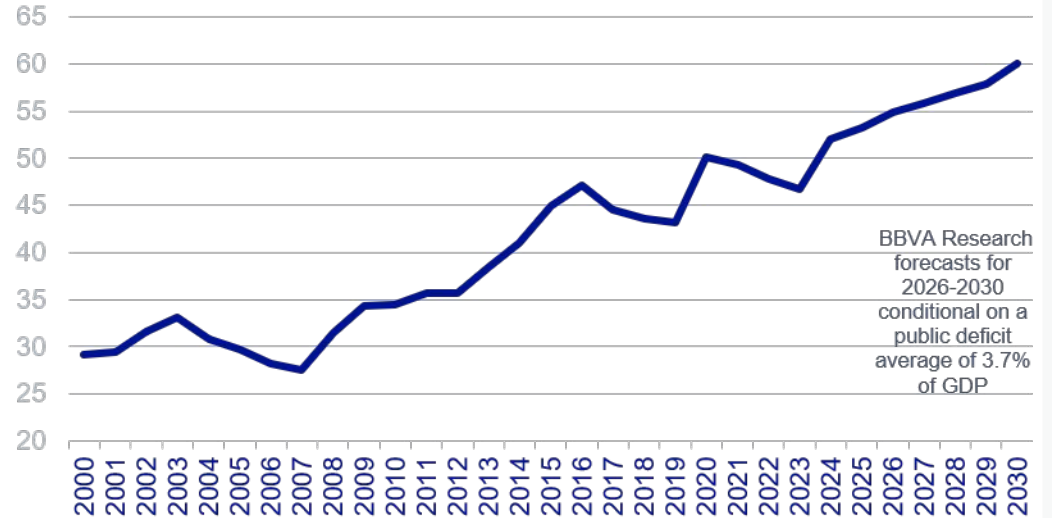
# Public debt

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 PUBLIC SECTOR BORROWING REQUIREMENTS

(% OF GDP)



Source: BBVA Research, SHCP

4.

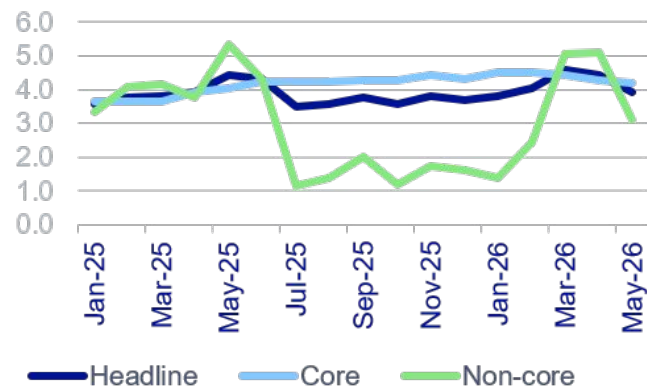
# Banxico ended its easing cycle

# After picking up in Q1, inflation is cooling down in Q2

Headline inflation is set to moderate further in May, after a fresh food supply shock limited a sharper slowdown in April

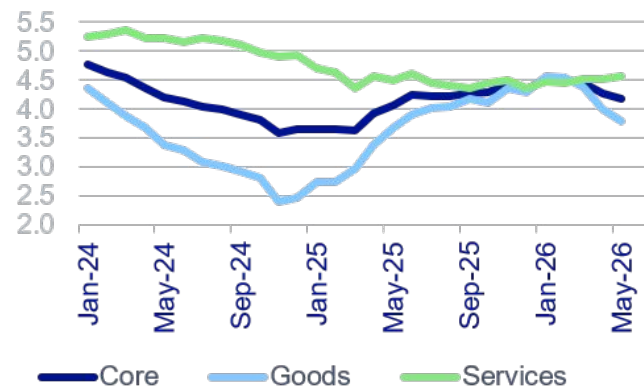
## HEADLINE INFLATION

(Y/Y%)



## CORE INFLATION

(Y/Y%)

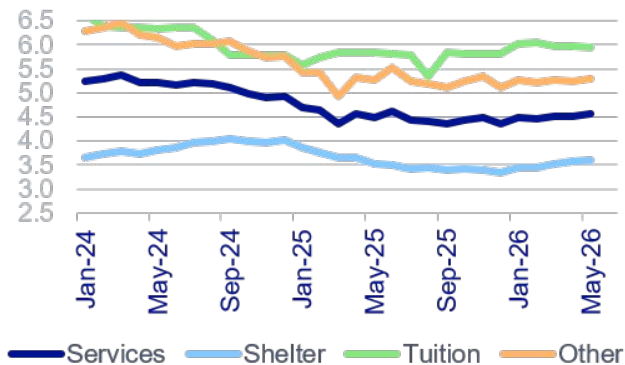


# The pickup in core goods inflation continues to fade

Core services inflation remains sticky, but weak demand should gradually cool it down

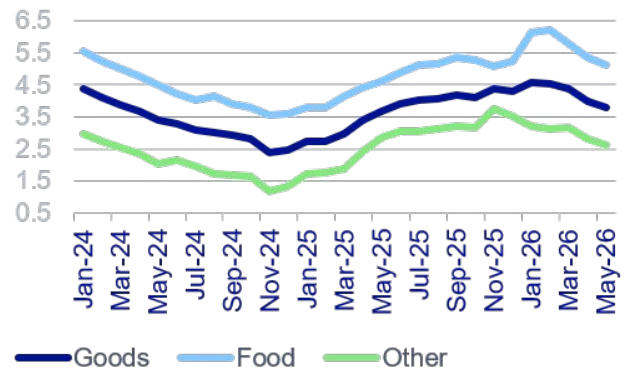
## CORE SERVICES INFLATION

(Y/Y%)



## CORE GOODS INFLATION

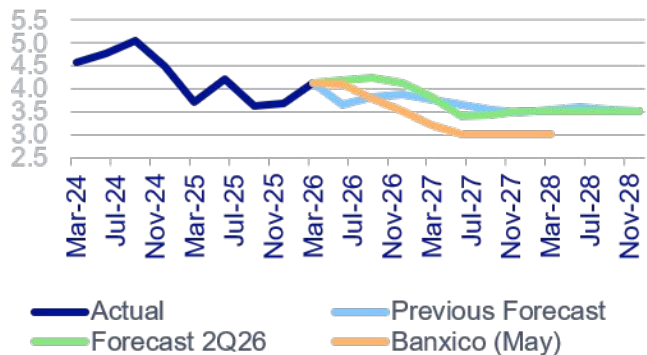
(Y/Y%)



# Inflation peaked in March and will ease gradually

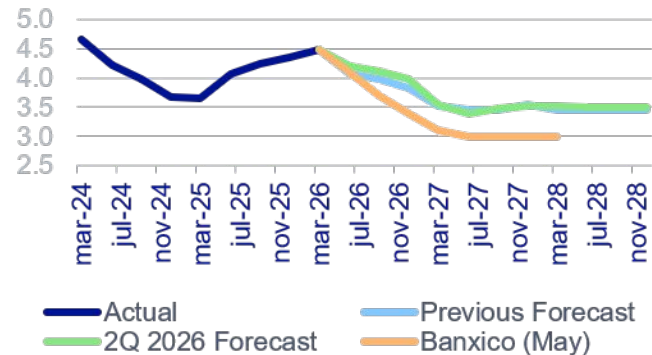
Upside risks persist: the World Cup could extend the stickiness of services inflation

## HEADLINE INFLATION OUTLOOK (YOY % CHANGE, QUARTERLY AVERAGE)



Quarterly average	4Q26	4Q27
<b>Forecast</b>	<b>4.1</b>	<b>3.5</b>
Banxico (May)	3.5	3.0

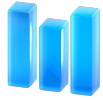
## CORE INFLATION OUTLOOK (YOY % CHANGE, QUARTERLY AVERAGE)



Quarterly average	4Q26	4Q27
<b>Forecast</b>	<b>4.0</b>	<b>3.5</b>
Banxico (May)	3.4	3.0

# Banxico brought its rate-cutting cycle to an end

Its forward guidance suggests that it will keep the policy rate unchanged at least through year-end



In May, it lowered the policy rate to 6.50% and confirmed the end of its easing cycle, although the decision once again highlighted a divided Governing Board (3-2)

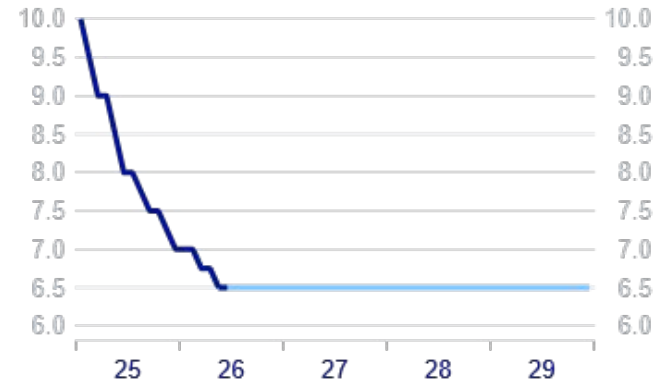
It raised its headline inflation forecasts for Q2 and 3Q26 by 0.1 pp. Core inflation projections remained unchanged and **continue to point to convergence toward the 3.0% target by 2Q27**



The statement explicitly indicated the Governing Board's decision to **"conclude the cycle"** and that **"it will be appropriate to maintain the reference rate at its current level."**

## BANXICO POLICY RATE

(%)

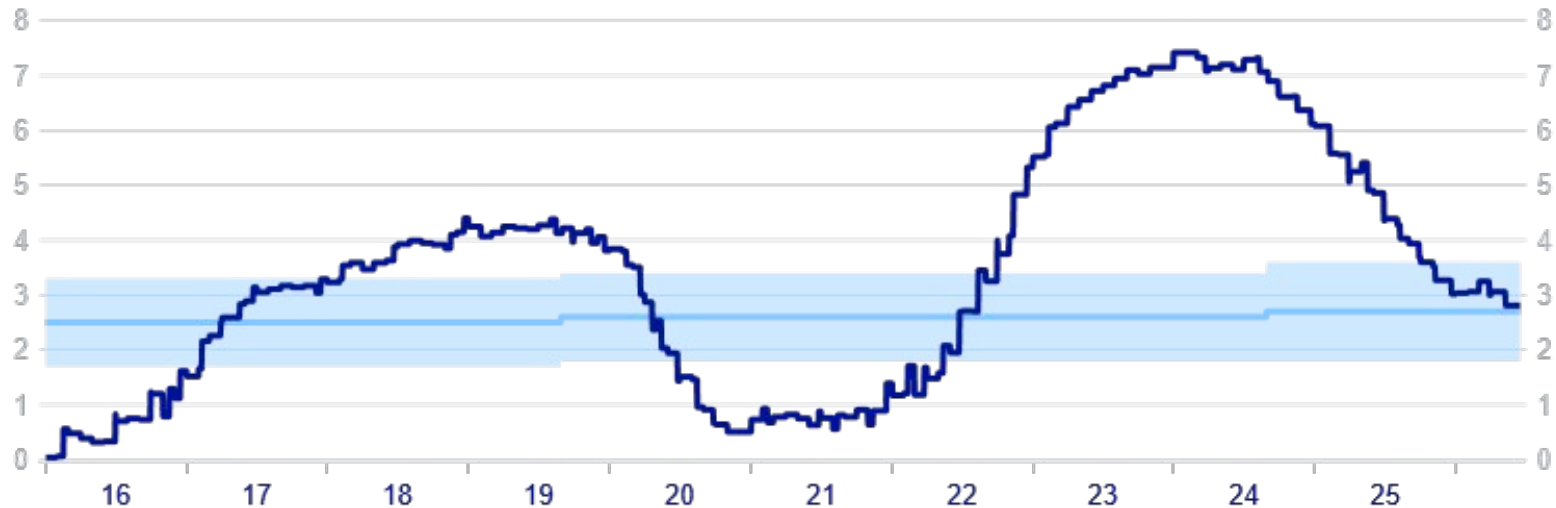


	26	27	28	29
2Q26 forecast (eop)	6.50	6.50	6.50	6.50

# Policy stance, at the midpoint of the neutral range

Weak domestic demand outweighed concerns over global risks and inflationary pressures stemming from temporary supply shocks

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

# Relative monetary policy stance at levels last seen in 2014-15

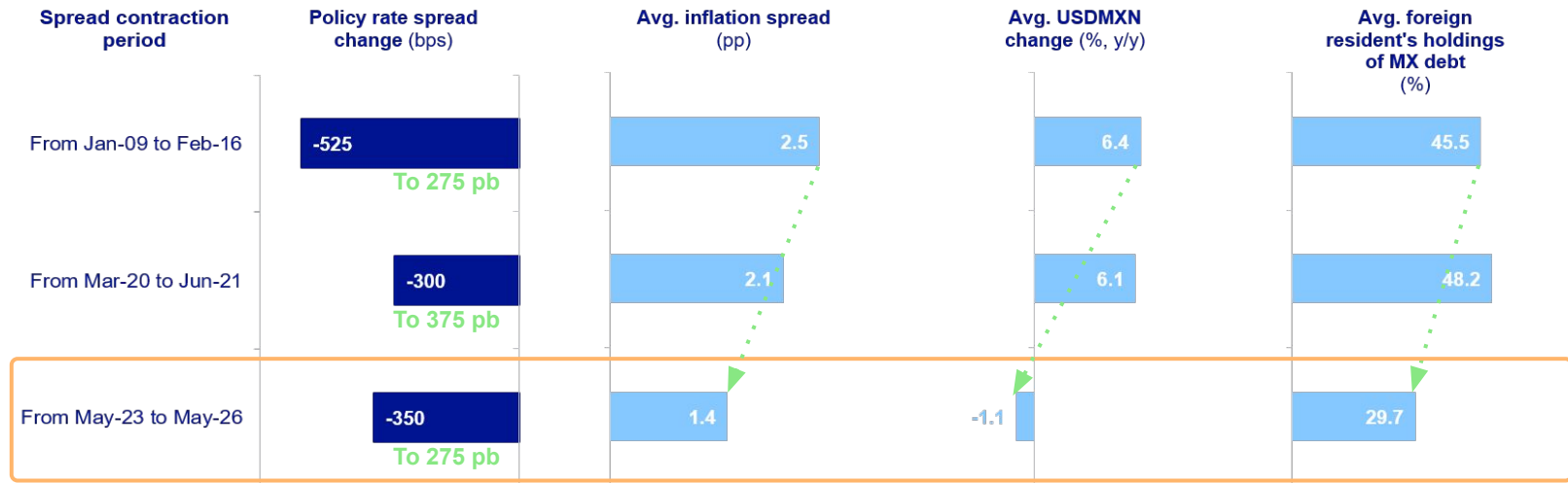
We see little scope for the interest rate differential to narrow further; any additional rate cuts in 2027 would likely require a lower Fed policy rate

MEXICO-US POLICY RATES & SPREAD (% AND BPS)



# But is it really that low?

A favorable evolution in macroeconomic fundamentals would suggest that Mexico could sustain a narrower interest rate differential without putting significant pressure on the peso



# Volatility in long-term interest rates persists

Elevated U.S. 10-year Treasury yields are the main reason why Mexican government bond yields remain close to 9.0%

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



Source: BBVA Research, Macrobond, Treasury Dept.

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



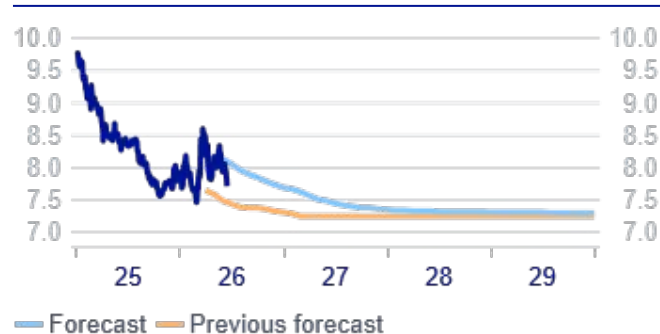
Source: BBVA Research, BMV, Macrobond

# Updated government bond yield forecasts

Persistently elevated global bond yields amid a prolonged conflict suggest that local long-term interest rates will take longer to decline toward their equilibrium levels

## 3-YEAR GOVERNMENT YIELD

(%)

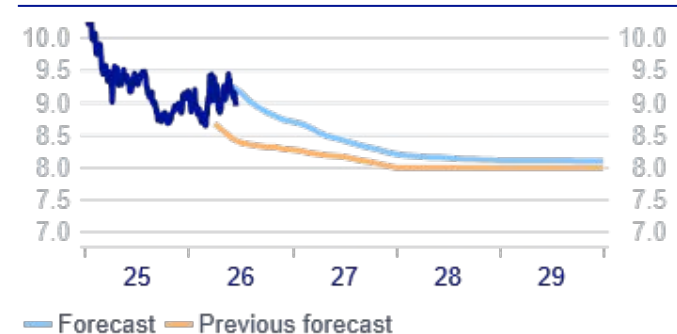


	26	27	28	29
2Q26 forecast (eop)	7.7	7.4	7.3	7.3
Previous forecast	7.3	7.3	7.3	7.3

Source: BBVA Research, Macrobond

## 10-YEAR GOVERNMENT YIELD

(%)



	26	27	28	29
2Q26 forecast (eop)	8.7	8.2	8.1	8.1
Previous forecast	8.3	8.0	8.0	8.0

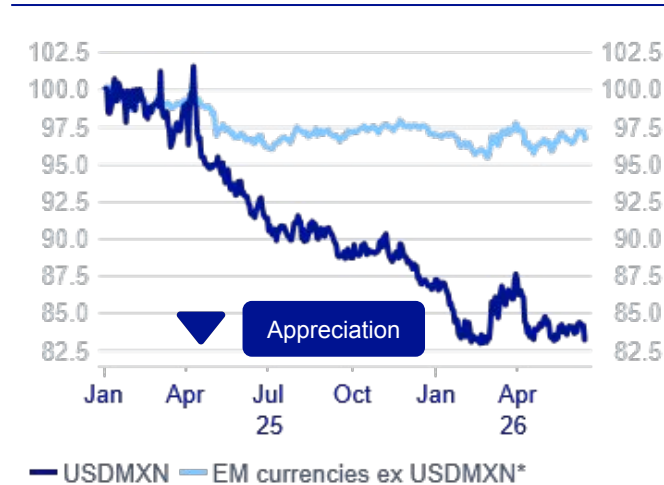
Source: BBVA Research, Macrobond

# The peso now behaves like other emerging market currencies

As is typical during episodes of heightened global volatility, the peso was among the hardest-hit assets when global risk aversion surged in early March

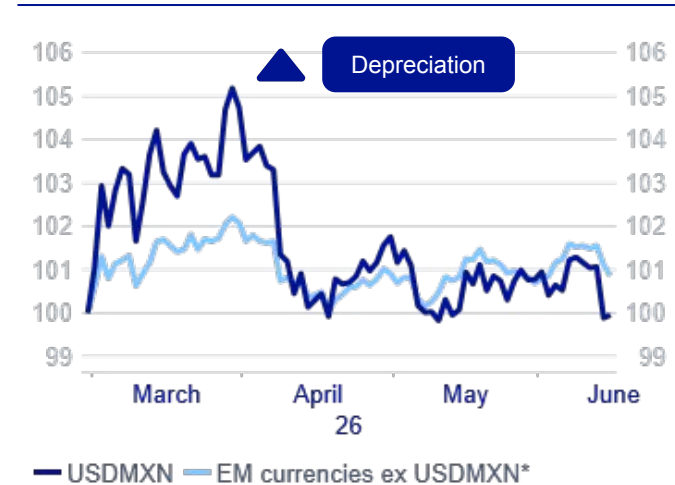
## USDMXN RELATIVE PERFORMANCE

(01-JAN-25=100)



## USDMXN RELATIVE PERFORMANCE

(28-FEB-26=100)

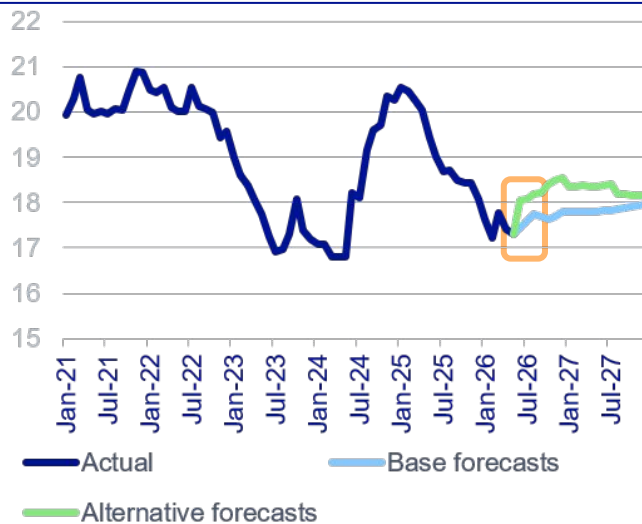


\* Reweighted version of the Fed's Emerging Market Economies (EME) Dollar Index  
Source: BBVA Research, Fed, Macrobond

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

# We anticipate a gradual and moderate depreciation from 3Q26 onwards

## OUTLOOK FOR THE EXCHANGE RATE (PPD)



**Generalized dollar weakness** due to the change in economic policy in the US

Sustained optimism around the USMCA revision



**What is underlying the MXN strength?**

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

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

5.

# Key points and forecast summary

# Main Messages for the Global Economy

## Global economic activity remains resilient

despite higher inflation and some (limited) financial tightening stemming from the conflict in Iran, which has been lasting more than initially anticipated. The ongoing AI boom and other tailwinds continue to sustain global growth.



## Growth will be weaker than previously forecast, particularly in Europe.

However, a sharp slowdown will likely be avoided, assuming energy prices moderate from 2H26 and severe energy supply disruptions do not trigger non-linear effects.



## Inflation will be higher than expected, above 3% in both the US and Europe in 2H26.

Still, absent second-round effects, it should moderate in 2027. The Fed is likely to keep rates unchanged until at least mid-2027, while the ECB is expected to adjust rates slightly upward going forward



## Risks are large and tilted to the downside.

Oil reserve withdrawals have so far cushioned demand, but this buffer is temporary and vulnerabilities will increase if the conflict persists. Beyond geopolitics, potential risks also stem from AI, US policies, and sovereign debt markets, among others.



# Main Messages for the Mexican Economy

## Recent Developments

**Weak domestic demand** continues to delay the economic recovery



## Growth Outlook

**The economy is undergoing a marked slowdown, driven by weak domestic demand, softer labor market conditions, and private investment constrained by trade and regulatory uncertainty.** After expanding by 0.7% in 2025, economic activity contracted in Q1 2026, reflecting declines in both consumption and investment, while the manufacturing sector continues to be weighed down by the moderation of the U.S. industrial cycle. Although the FIFA World Cup will provide a temporary boost to the services sector, this will not be sufficient to offset the economy's underlying weakness. Against this backdrop, we have revised our 2026 growth forecast downward to 1.2%, with a gradual recovery expected in 2027 (1.8%).

**Formal job creation has shown a moderate recovery in recent months.** However, part of this improvement reflects the incorporation of digital platform workers, meaning that underlying employment dynamics remain subdued. In addition, the net loss of SMEs and the decline in the number of formal employers point to a weaker capacity to generate formal employment going forward. While activity associated with the 2026 FIFA World Cup could provide a temporary boost to employment, this effect is likely to be limited and short-lived. Against this backdrop, and amid a weaker economic growth outlook, we have revised down our 2026 formal employment growth forecast from 2.1% to 1.4%.



# Main Messages for the Mexican Economy

## Inflation and Monetary Policy

Following a 1Q26 rebound driven by supply shocks—specifically the IEPS hike on some products and surging fruit and vegetable prices—inflation is cooling in 2Q26. The spike in core goods inflation continues to fade, while core services inflation remains sticky. However, weakening demand should help it moderate gradually.

- We now expect both headline and core inflation to average 4.0% in the second half of the year. **We project headline inflation will end 2026 at 4.1%, with core at 3.9%. By year-end 2027, we anticipate both will converge to 3.5%.**

**Banxico has wrapped up its easing cycle.** Its forward guidance indicates that it will maintain the policy rate at 6.50% through at least year-end.

- The monetary policy stance sits right at the midpoint of the neutral range.
- Elevated US 10-year Treasury yields remain the primary driver keeping Mexican yields close to 9%. Consequently, **local long-term rates will take more time to converge to their equilibrium levels.**



## Exchange rate and public finances

We project the exchange rate will end 2026 and 2027 at 17.8 and 18.0 USD/MXN, respectively.

**Public debt is projected to reach around 54.9% of GDP in 2026**, up from 53.2% in 2025.



# Forecast summary

		2023	2024	2025	2026	2027	2028
GDP (Annual % change)	new	3.1	1.2	0.7	<b>1.2</b>	<b>1.8</b>	<b>1.8</b>
	previous				1.8	2.0	1.8
Employment (%, eop)	new	3.0	1.0	1.3	<b>1.4</b>	<b>2.0</b>	<b>2.5</b>
	previous				2.1	2.7	2.6
Inflation (%, eop)	new	4.7	4.2	3.7	<b>4.1</b>	<b>3.5</b>	<b>3.5</b>
	previous				3.9	3.5	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>17.8</b>	<b>18.0</b>	<b>18.1</b>
	previous				18.0	18.2	18.4
M10 (%, eop)	new	9.0	10.4	8.7	<b>8.7</b>	<b>8.2</b>	<b>8.1</b>
	previous				8.3	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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