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JUNE 2025

Mexico Economic Outlook

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Q2 2025

Global outlook

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The global economy, under pressure from U.S. policies

High and variable tariffs; although lower than those initially announced for China, they exceed what was expected in other countries and generate more uncertainty

Resilient growth; Confidence has deteriorated, but the effect of tariffs on inflation and activity for now remains limited

Higher risk in the U.S. in the face of growing fiscal concerns and uncertainty about its economic policy

Weaker dollar, higher long-term yields and a cautious Fed; further rate cuts in China and Europe

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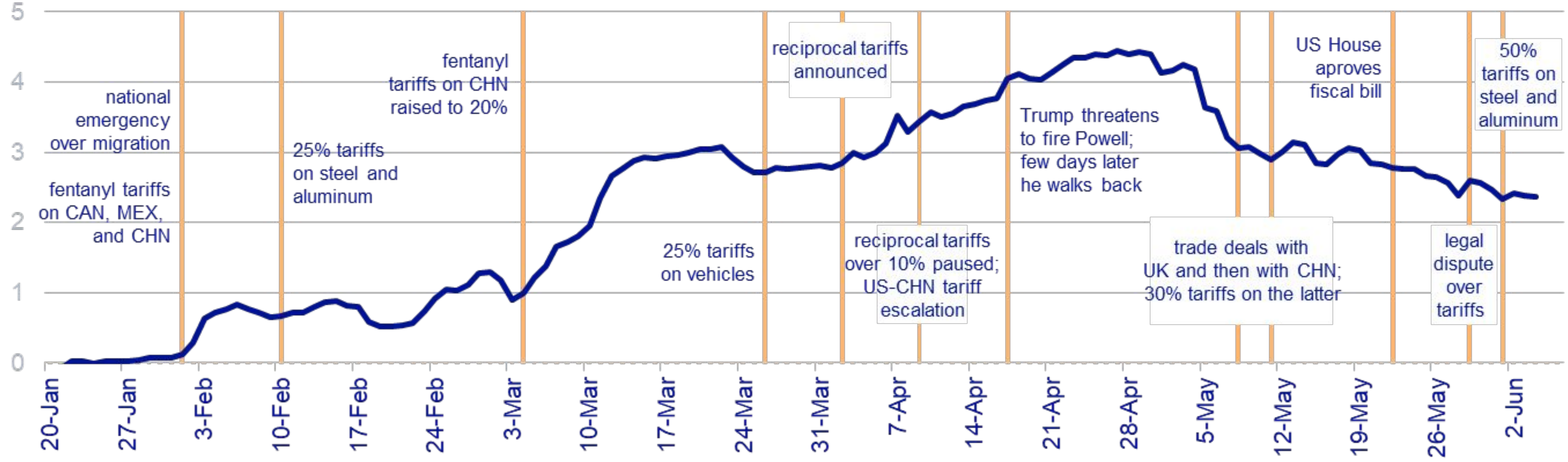
Uncertainty remains in place

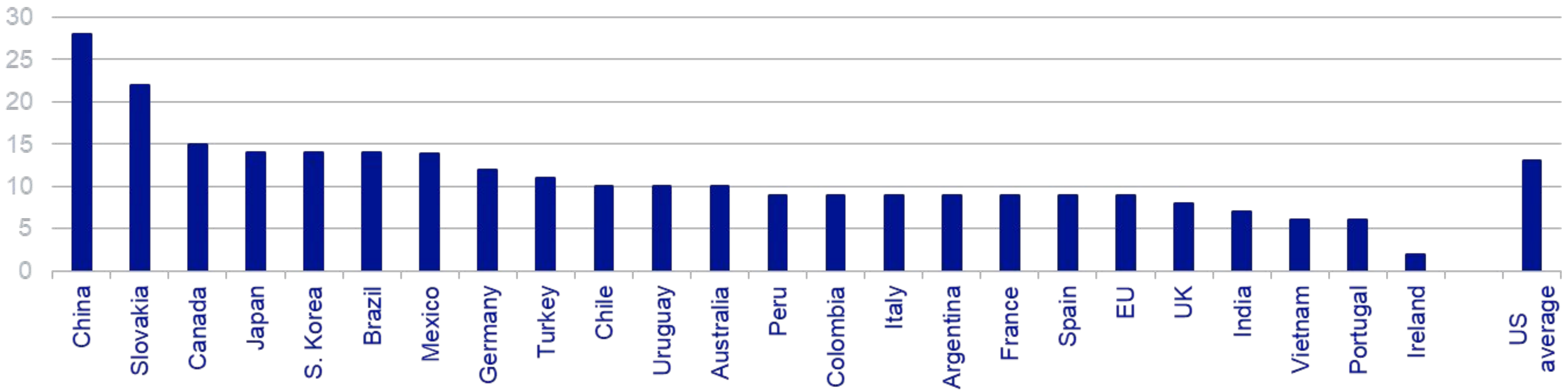
BBVA RESEARCH ECONOMIC POLICY UNCERTAINTY INDEX: UNITED STATES (*)
(28-DAY MOVING AVERAGE, AVERAGE SINCE 2017 EQUALS TO ZERO)



(*) Last available data: June 4, 2025
Source: BBVA Research.

US tariffs have risen sharply and erratically

US TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 UNTIL JUNE 9, 2025 (*)
(PP)

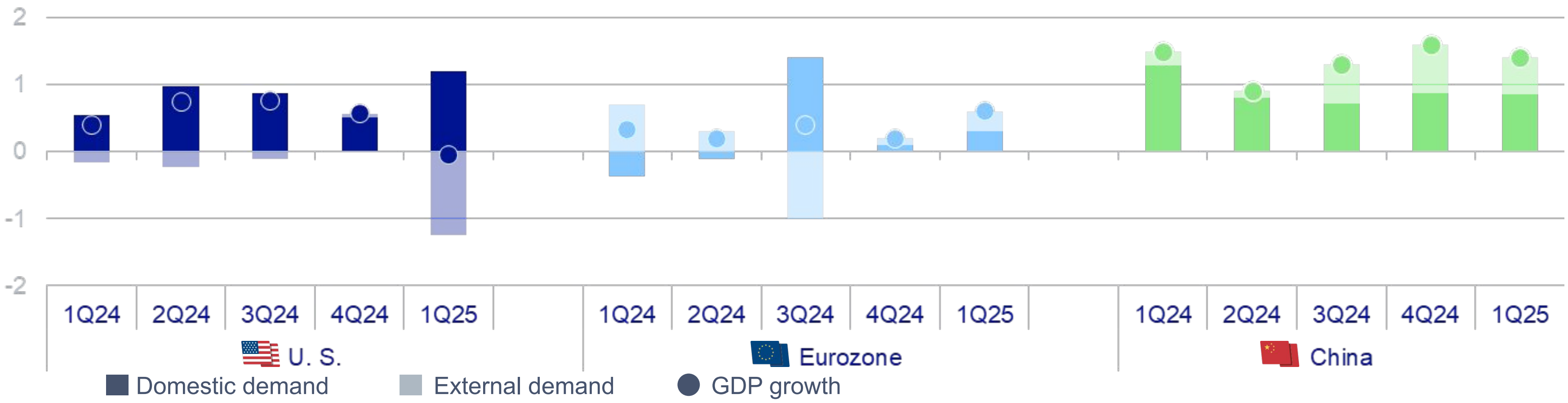


(*) Based on i) 25% tariffs on vehicles and vehicles parts and 50% tariffs o aluminum and steel (lower rates for the UK, Mexico and Canada), ii) 0% tariffs on pharmaceutical goods, oil, copper and selected electronic goods, iii) fentanyl tariffs on China, Mexico and Canada, and iv) 10% reciprocal tariffs.
Source: BBVA Research.

After some de-escalation, US tariffs rose again in late May/25, with levies on steel and aluminum reaching 50%; trade negotiations continue, and disputes over the legal validity of the tariffs remain unresolved

GDP stagnated in the US and grew by more than expected in the EZ and China in 1Q25 amid preemptive trade flows

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

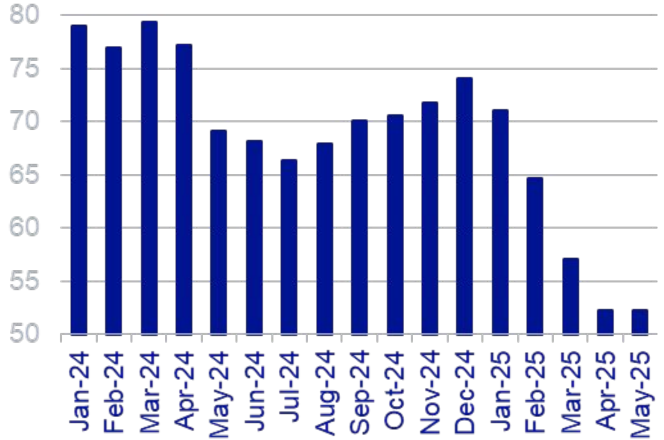


Source: BBVA Research based on data from Haver and China's NBS.

Ahead of tariffs, imports and inventories increased sharply and private consumption weakened somewhat in the US; exports performance helped to sustain growth in China and the Eurozone

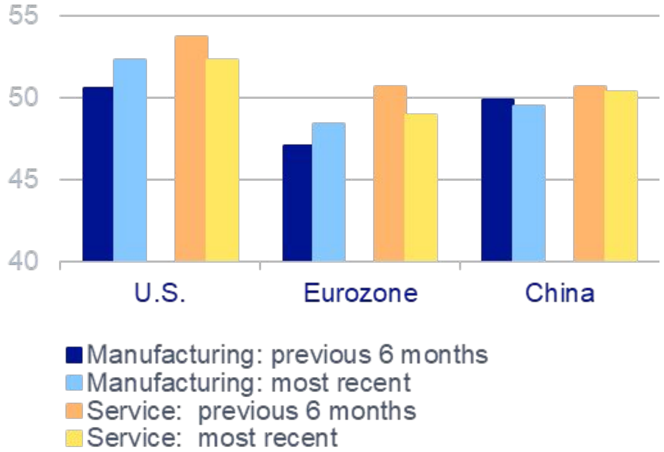
Growth remains relatively resilient, but there are incipient signs of tariff effects on activity

US CONSUMER SENTIMENT
(INDEX)



Source: BBVA Research based on data from Survey of Consumers, University of Michigan

PMI INDICATORS: 2H24 AVERAGE AND MOST RECENT DATA (*) (MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)

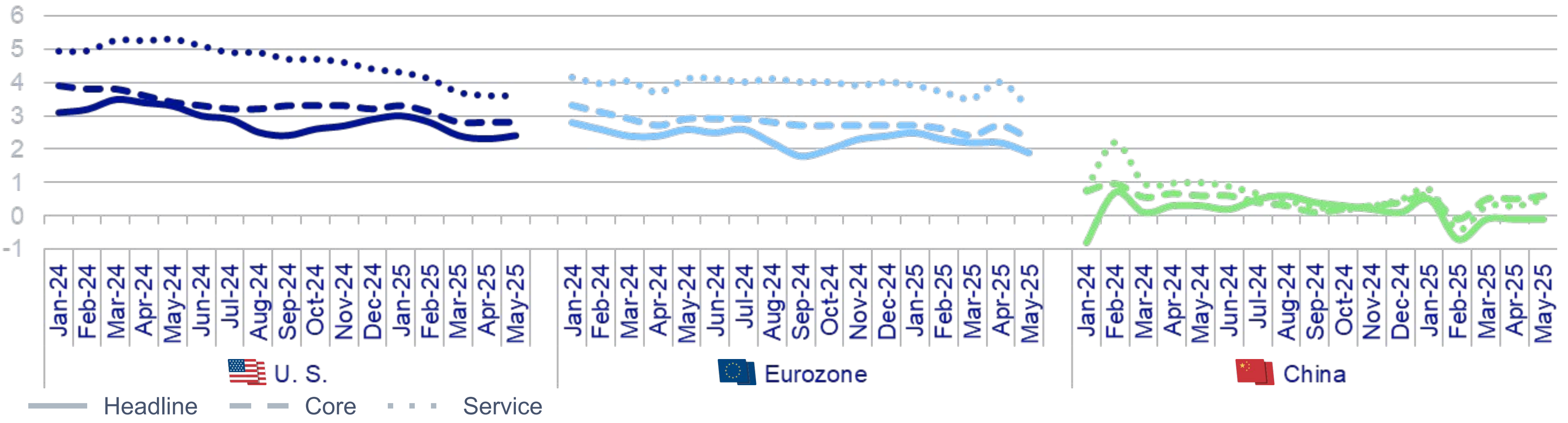


(*) Most recent data: May 2025.
Source: BBVA Research based on data from Haver.

Confidence has deteriorated and services have weakened, while manufacturing has benefited from lower interest rates and pre-tariffs trade surge; labor markets are losing some of their steam, but remain strong

Inflation has eased more than expected lately; limited effects of tariffs so far

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

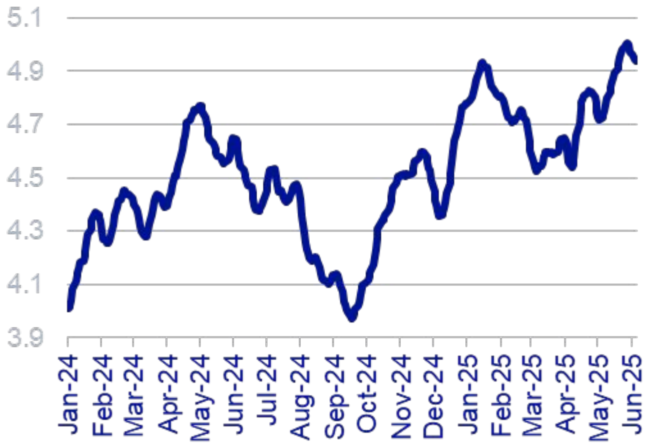


Source: BBVA Research based on data from Haver.

Contained demand pressures and lower energy prices have contributed to a moderation in inflation, which remains over 2% in the US (but not in the Eurozone anymore), to some extent due to still pressured service prices

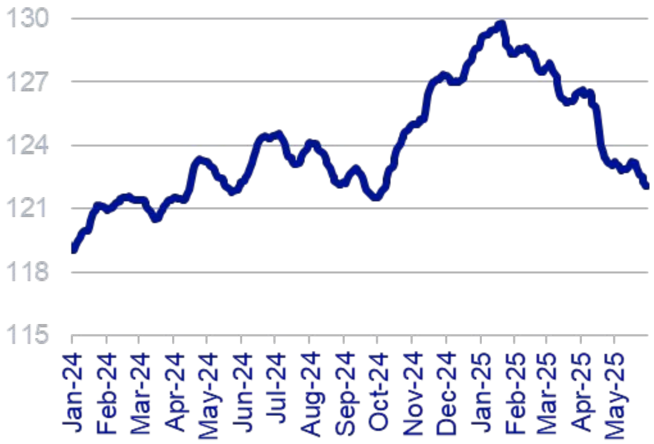
The US risk premium has edged higher, weighing on long-term yields and the dollar

YIELDS ON US 30-YEAR SOVEREIGN BONDS (*) (%, 7-DAY MOVING AVERAGE)



(*) Last available data: June 5, 2025
Source: BBVA Research based on data from the Fed

NOMINAL BROAD US DOLLAR INDEX (*)
(INDEX: JAN/06=100; 7-DAY MOVING AVERAGE)

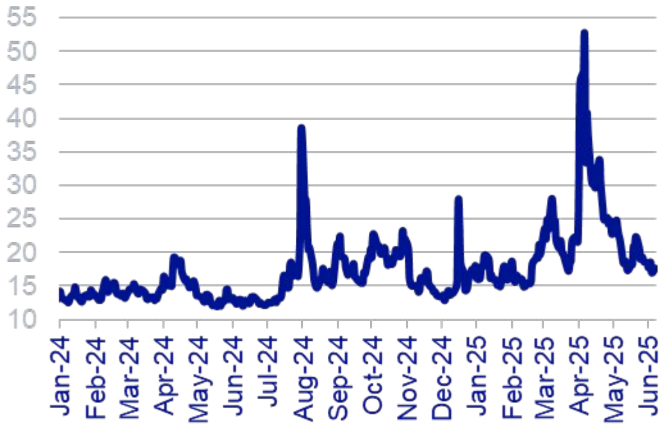


(*) A weighted average of the foreign exchange value of the U.S. dollar against currencies of a broad group of major U.S. trading partners. Last available data: May 30, 2025
Source: BBVA Research based on data from the Fed

Policy uncertainty, prospects of larger fiscal deficits, threats to the Fed independence, talks about a dollar devaluation, a potential tax on foreign investors, among other factors, have pushed US risk up

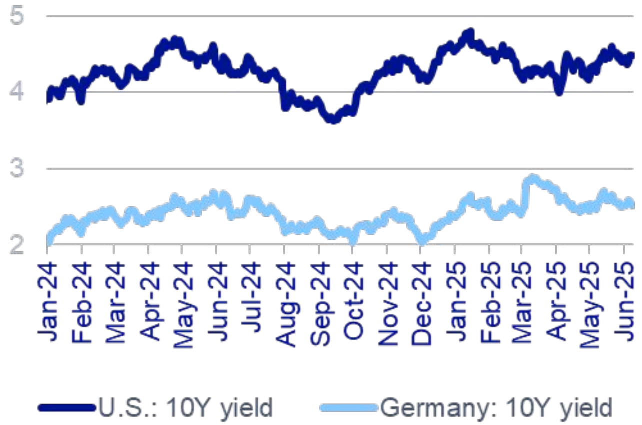
Financial volatility has eased more recently, after having surged in April, but remains elevated

EQUITY VOLATILITY: VIX (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

SOVEREIGN YIELDS (*)
(%)

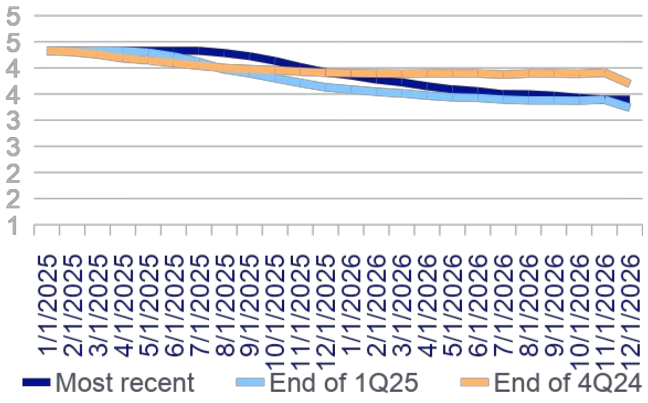


(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

Upward pressure on 10-year sovereign yields due to rising risk premium in the US and fiscal spending prospects in the EZ, to some extent offset by growth concerns, mainly in the Eurozone

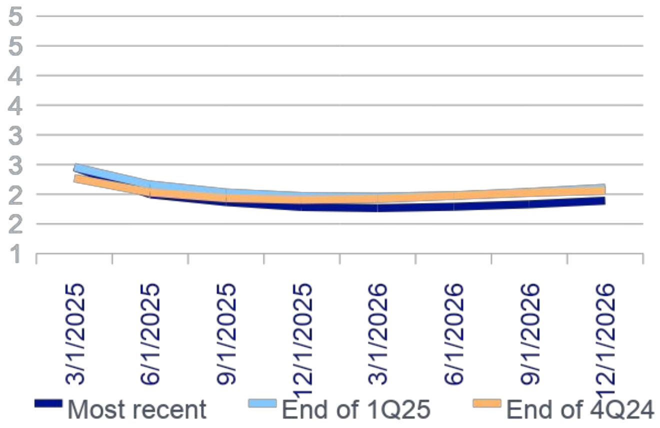
Despite lower inflation, the Fed remains cautious and markets see limited room for extra easing in the short run

US: IMPLICIT RATE IN FED FUND FUTURES (*) (%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

EZ: IMPLICIT RATE IN EURIBOR FUTURES (*) (%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

The likely impact of tariffs on inflation has backed the Fed's decision to keep rates unchanged lately; The ECB cut rates to 2% in Jun/25 and suggested that, despite large uncertainty, the easing cycle is nearly over

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Protectionism and uncertainty will affect the global economy

Growth will moderate more than expected in the U.S., though rates may be lower than anticipated. Stimulus will support China and Europe

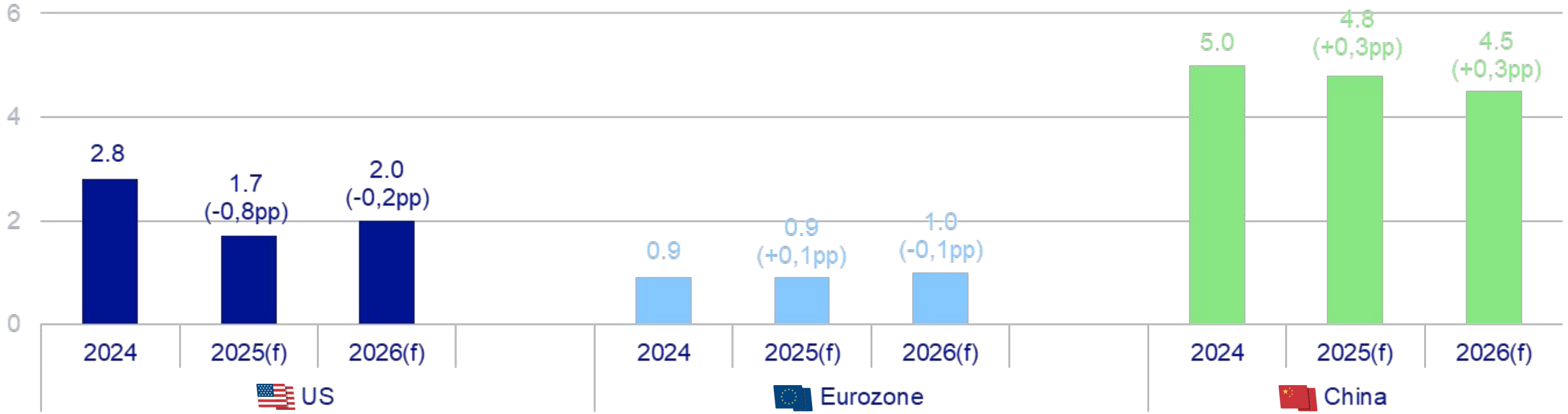
Inflation will pick up in the U.S. in the short term because of tariffs; it will be around 2% in the Eurozone and will remain low in China

The **Fed will keep** rates unchanged until November. The ECB's easing cycle appears to be over, but additional cuts depend on tariffs

Volatility is likely to **persist** in the face of prolonged uncertainty and increased risk in the U.S., which could affect the dollar

Growth prospects have deteriorated in the US, but not in China or the Eurozone

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

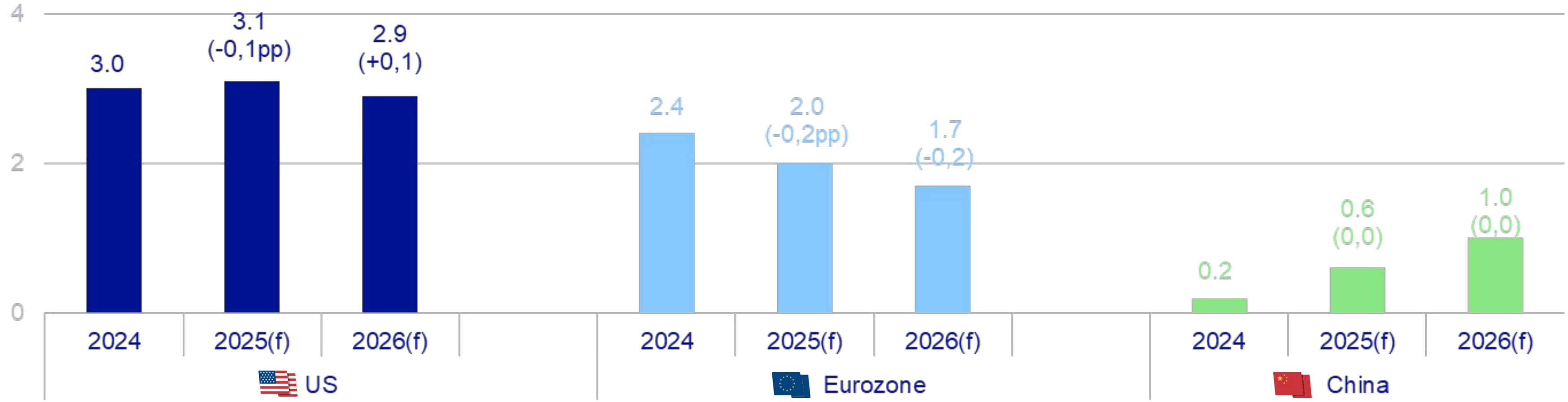


(*) Global GDP grew by 3.4% in 2024 and is forecast to expand by 3.0% in 2025 and 3.1% in 2026, respectively three and two decimal points below the expected in 1Q25.
(f): forecast.
Source: BBVA Research

Weaker US growth on higher uncertainty, weaker 1Q25 data (to be partially offset by a 2Q25 rebound); growth will be backed by lower US tariffs and economic stimuli in China, and by defense and infrastructure spending as well as by lower inflation and interest rates in the Eurozone

Inflation is still likely to rebound in the US following tariff hikes, and to remain contained in the Eurozone and China

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

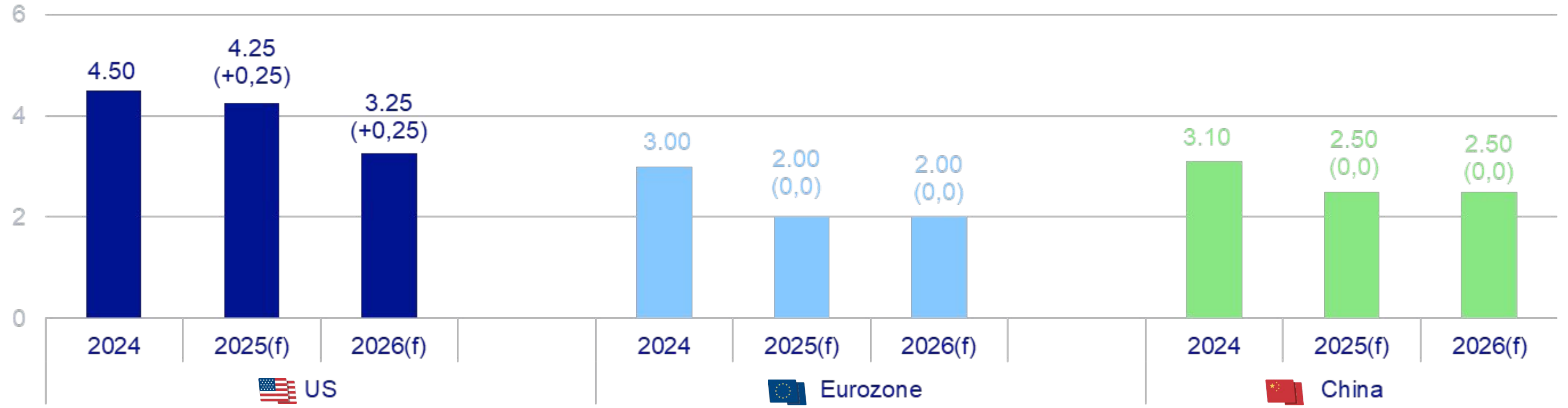


(f): forecast.
Source: BBVA Research

Lower energy prices and weak demand pressures support controlled inflation, except in the US, where tariffs are likely to raise production costs—at least in the short term; a stronger euro is also likely to keep price pressures limited in Europe

The Fed will keep rates unchanged for longer given tariff uncertainty; ECB monetary tightening is (likely) over

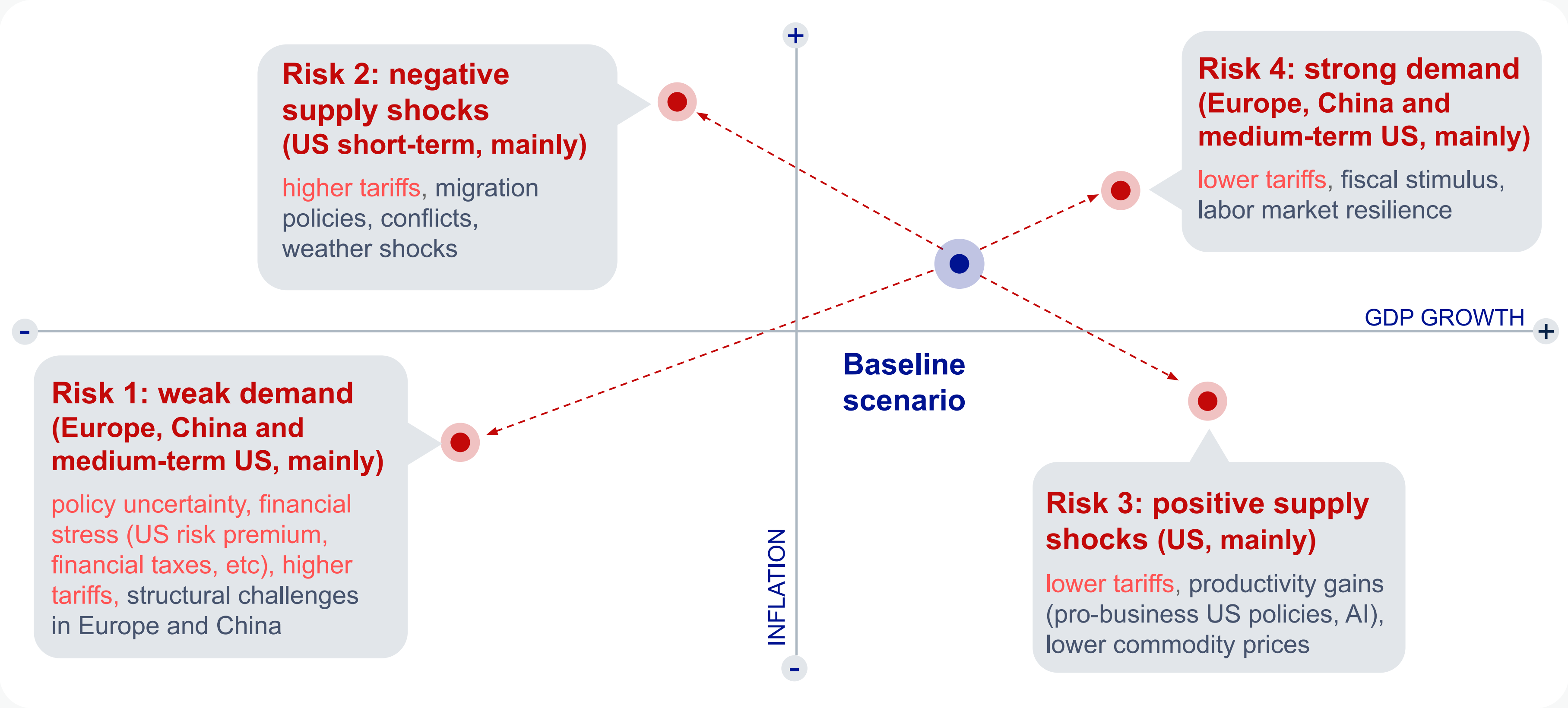
POLICY INTEREST RATES (*)
(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



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

The Fed is forecast to cut rates once this year (in 4Q25), but the easing cycle would continue in 2026, at least if inflation rebound on tariffs proves to be temporary; in the Eurozone, rates are forecast to remain at 2%, but growth concerns and controlled inflation could pave the way for extra cuts

Risks: mainly on greater uncertainty and rising US risk premium; tariff risks are also higher, but more balanced



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We estimate that the Mexican economy will contract in 2025

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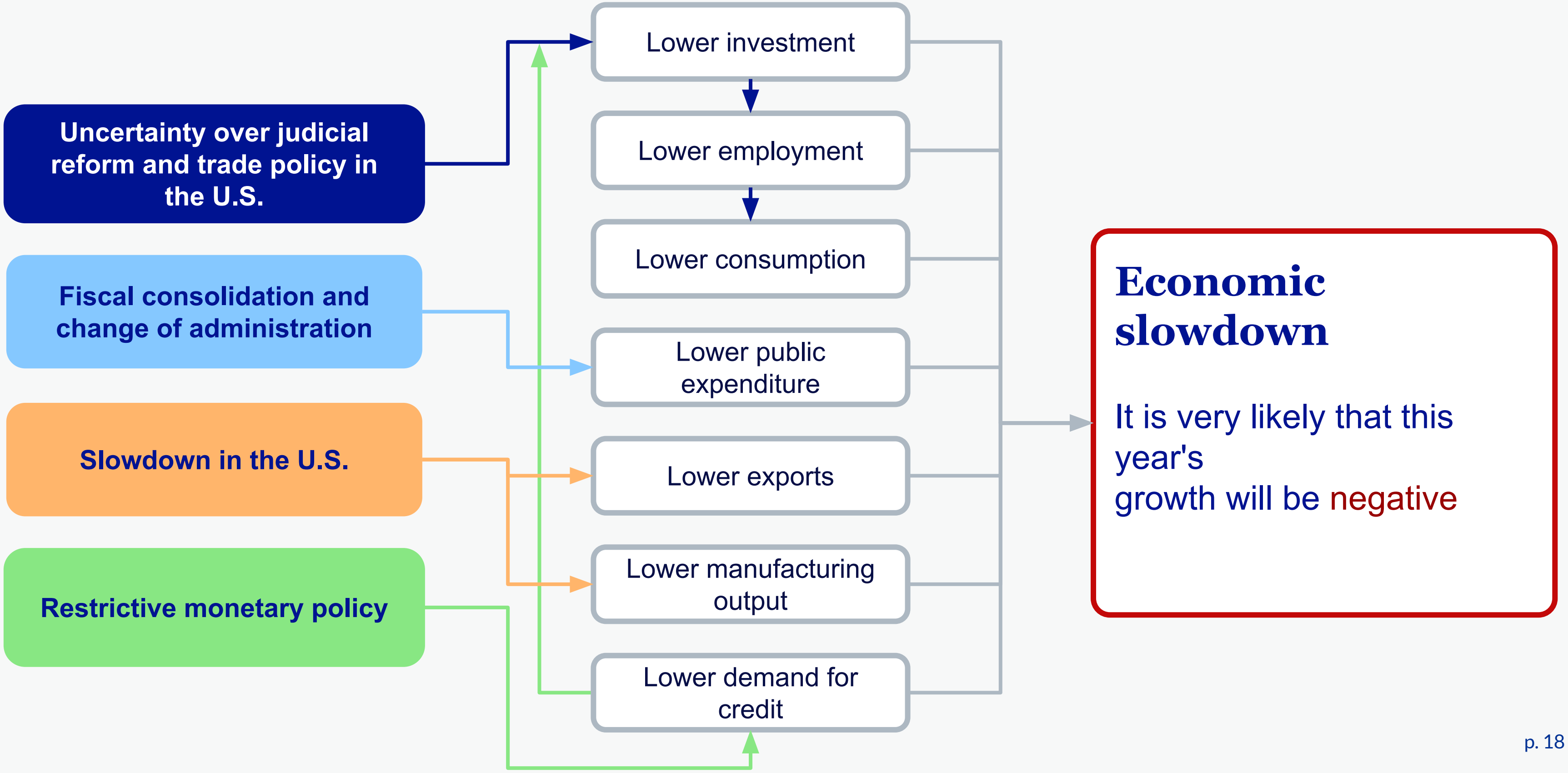
Mexico's economy faces persistent headwinds



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In 2024, the U. S. imported $505.9 billion from Mexico, 48.9% via USMCA

U.S. IMPORTS IN 2024 BY TARIFF PROVISION (BILLIONS OF DOLLARS AND % SHARE)

	Section 232 Proclamation & Steel, Aluminum, and derivatives	Section 232 Beer and Aluminum Containers	Section 232 Cars	Section 232 Auto Parts	IEEPA Drugs and immigration (Rest of goods)[d]	Total
Imported via USMCA	0.8 (0.2%) **50%** Executive Order	0.1 (0.0%) **50%** Executive Order	70.0 (13.8%) **25%** Executive Order **Exempt USA Content**[a]	46.5 (9.2%) **25%** Executive Order[c]	129.6 (25.6%) **0%** under USMCA[d]	247.1 (48.9%)
Imported outside the USMCA	3.9 (0.8%) **50%** Executive Order[e] ~~+ 25% outside USMCA = 50%~~[b]	6.3 (1.2%) **50%** Executive Order[e] ~~+ 25% outside USMCA = 50%~~[b]	8.7 (1.7%) **25%** Executive Order ~~+ 25% outside USMCA = 50%~~[b]	77.9 (15.4%) **25%** Executive Order ~~+ 25% outside USMCA = 50%~~[b]	162.0 (32.0%) **25%** outside USMCA[d]	258.7 (51.1%)
Total	4.7 (0.9%)	6.4 (1.3%)	78.7 (15.6%)	124.5 (24.6%)	291.6 (57.7%)	**505.9** (100 %)

Source: BBVA Research with data from the Census Bureau and the US Federal Register. Note: For each executive order, only the taxed fractions are considered. [a] The US content of vehicles and their components is excluded from the calculation of the tariff. For Mexico, this content represents on average 18.3% of the value of an exported car. [b] ~~Additional 25% tariffs on goods that do not satisfy USMCA rules of origin. The rates are in addition to any other duties, fees, exactions, or charges applicable~~ On April 29, an executive order and proclamation were signed that eliminated tariff accumulation and allowed for discounts in the automotive industry See details here. [c] CBP reported on Thursday, May 1, an additional 0% ad valorem tariff rate on HTSUS provisions listed in subdivision g until the U. S. Department of Commerce issues its FRN with guidelines. We therefore maintain 25% in the scenario until the criteria are clarified. See details here [d] On May 28, the U.S. CIT suspended the IEEPA tariffs without modifying the rest, a day later the appeals court reinstated these tariffs. See details here. [e] On June 3, the Executive Order was issued increasing tariffs on steel, aluminum and derivatives from 25% to 50%. See details here

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Mexico may have a lower relative level of protectionism

Increasing local content in exports will be a priority

ESTIMATED AVERAGE WEIGHTED TARIFF (%)

Scenario	Assumptions	(A) Scenario prior to April 29: accumulation of tariffs	(B) Scenario after April 29: Reduction for non-accumulation of tariffs	(C) + May 28 Suspension of IEEPA tariffs by the U.S. CIT, reinstated by the Court of Appeals on May 29[c/]	(D) + De facto 0% tariff on auto parts via USMCA (de jure the tariff is 25%, but it has been continuously postponed)[d/]
Initial situation	Only imports without specific tariffs via USMCA are exempt, the rest pay the full tariff	23.4%	19.1%	11.1%	8.8%
Short-term Eq.	Cars deduct U.S. content (Average 18.3%[a/]) prior to applying tariffs	18.1%	**13.9%**	**5.9%**	4.0%
Lower impact	Cars deduct U.S. content + Imports through the USMCA increase from 48.9% to 64.2%[b/]	13.1%	10.3%	4.7%	1.9%

Source: BBVA Research, with data from the Census Bureau, U.S. Federal Register Notes: We assume that there is no substitution effect of U.S. demand by estimating only the additional cost to the U.S. of importing the same basket of Mexican products. [a/]The Executive Order on the automotive industry allows importers under the USMCA to exempt U.S. content. Based on data from the OECD's ICIO tables, the average U.S. content of Mexican automotive exports is 18.3%. [b/]According to U.S. Census Bureau data, in 2003 the U.S. imported $138 billion from Mexico, 64% through NAFTA. [c/]On May 28, the U.S. CIT suspended the IEEPA tariffs without making any other modifications. The next day, the Court of Appeals reinstated the tariffs. [d/]This exception will remain in place until the U. S. Department of Commerce issues guidelines.

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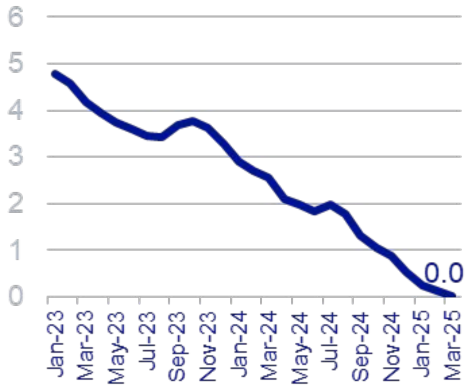
Uncertainty over tariffs adds pressure to an already weakened economy

due to the fall in investment and fiscal consolidation

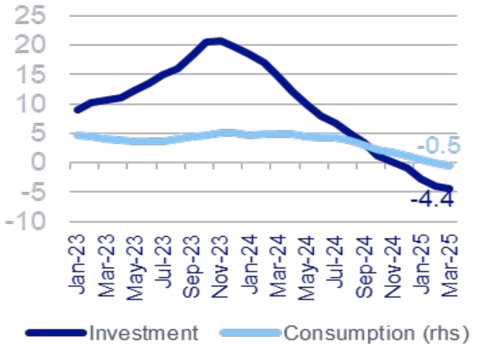
IGAE (MONTHLY GDP PROXY)

(Y/Y%, REAL, SA, 6M MOVING AVG.)



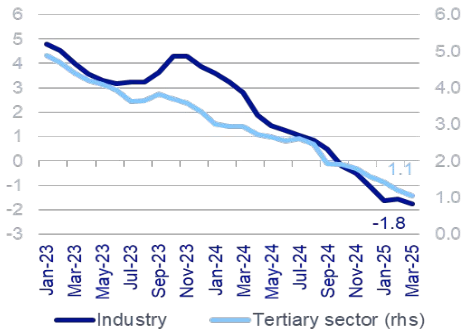
INVESTMENT AND CONSUMPTION

(Y/Y%, REAL, SA, 6M MOVING AVG.)



INDUSTRY AND TERTIARY SECTOR

(Y/Y%, REAL, SA, 6M MOVING AVG.)



Source: BBVA Research / Haver Analytics / Macrobond.

The outlook for 2Q25 is clouded by the temporary suspension of operations of some companies and intermittent pauses in shipments to the U. S. since April

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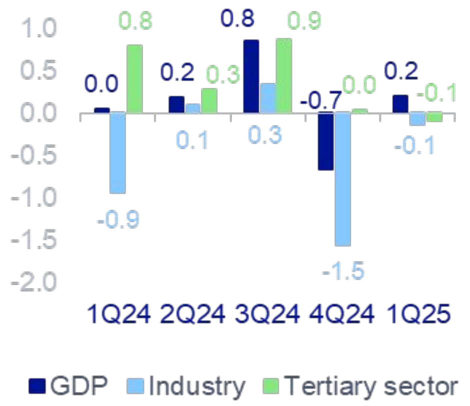
Economy avoids technical recession in 1Q25

thanks to the primary sector (0.2% Q/Q); deterioration of expectations going forward

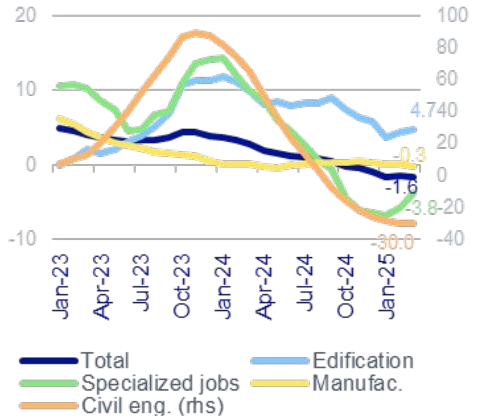
GDP

(Q/Q%, REAL, SA)



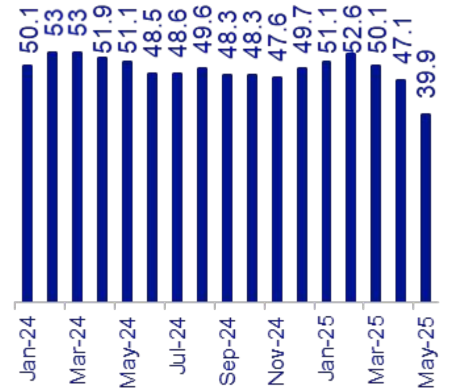
INDUSTRIAL OUTPUT

(Y/Y%, REAL, SA, 6M MOVING AVG)



US ISM: IMPORTS

(LEVEL)



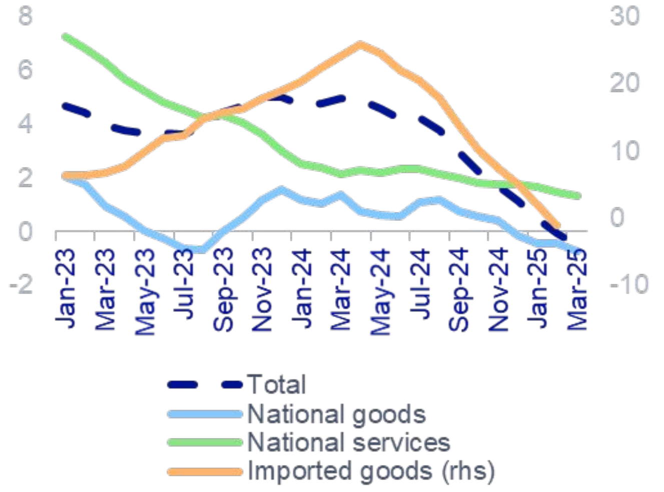
Source: BBVA Research / Haver Analytics / Macrobond.

Industry and the tertiary sector fell (-)0.1% Q/Q, respectively in 1Q25. The import component of the US manufacturing ISM stands at its lowest level since May 09.

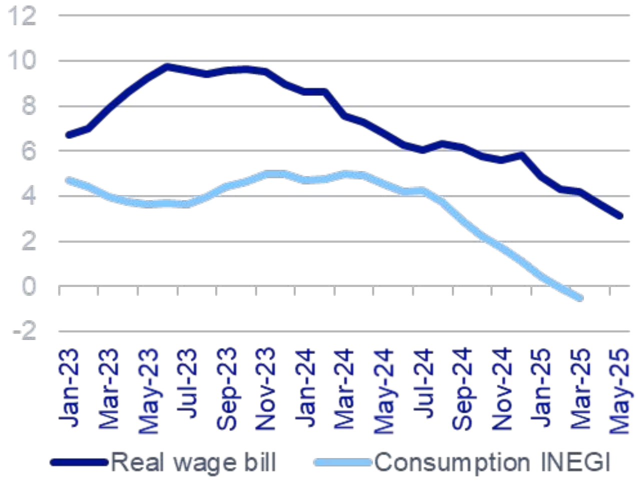
Private consumption is losing ground as the real wage bill weakens;

Consumer confidence deteriorates

PRIVATE CONSUMPTION
(Y/Y%, REAL, SA, 6M MOVING AVG.)



PRIVATE CONSUMPTION AND TOTAL WAGE BILL (Y/Y%, REAL, SA, 6M MOVING AVG.)



Source: BBVA Research / Haver Analytics / Macrobond.

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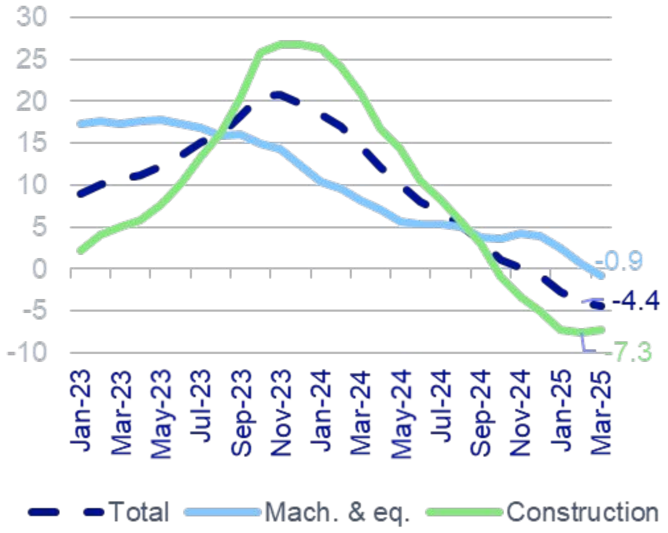
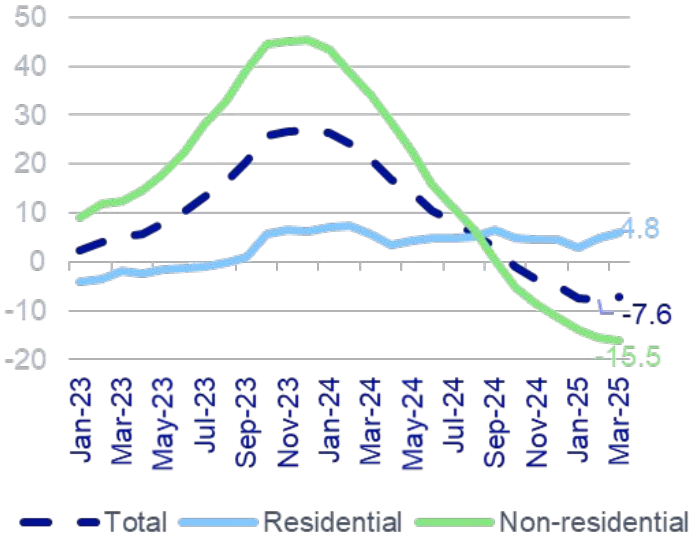
Investment continues in slowdown,

As companies postpone economic decisions in the face of uncertainty

INVESTMENT AND COMPONENTS
(Y/Y%, REAL, SA, 6M MOVING AVG.)



CONSTRUCTION AND COMPONENTS
(Y/Y%, REAL, SA, 6M MOVING AVG.)



Source: BBVA Research / Haver Analytics / Macrobond.

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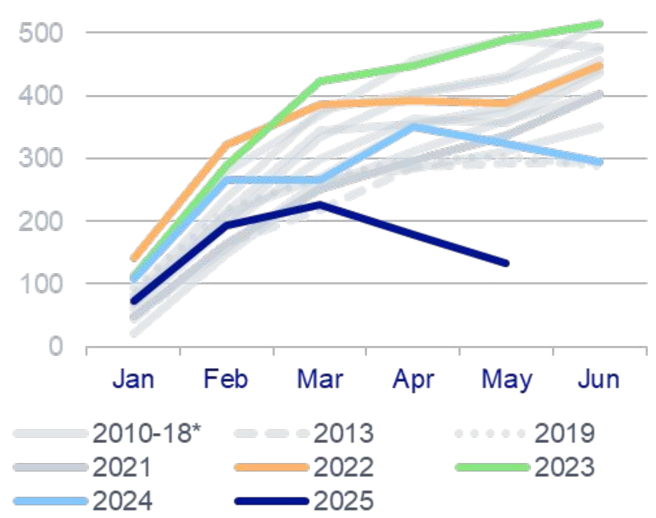
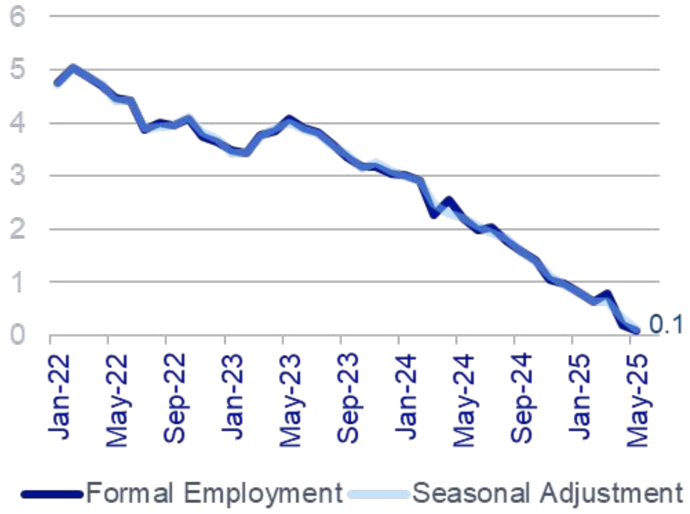
Formal job creation

Formal job creation has slowed down drastically due to weak investment and falling business confidence

JOBS AFFILIATED WITH THE IMSS (ACCUM. MONTHLY CHG. JAN-MAY, THOUSANDS)



JOBS AFFILIATED WITH THE IMSS (ANNUAL CHANGE, %)

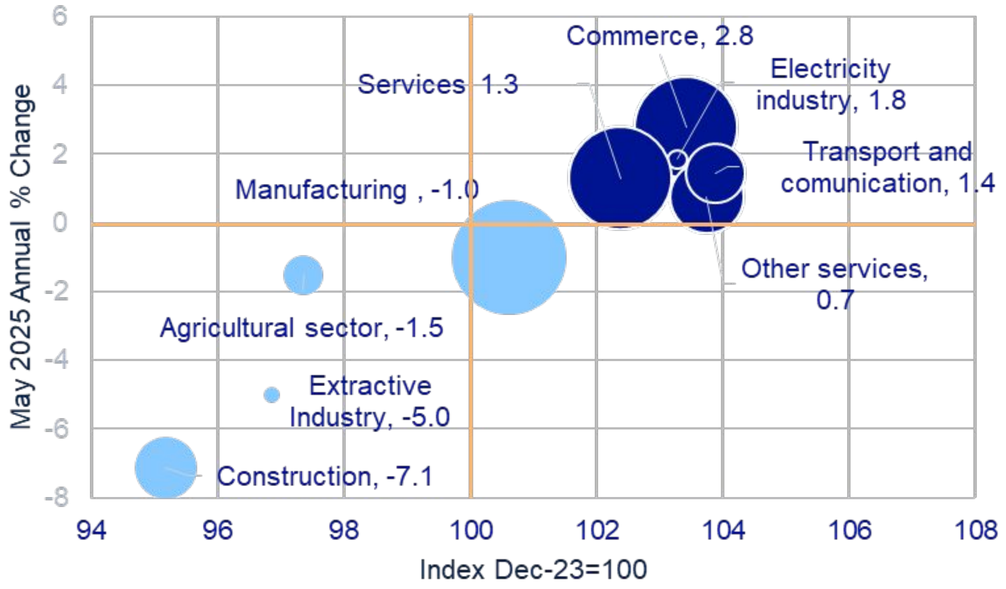


Source: BBVA Research / IMSS.

Employment slows down

The divergence persists, but sectors that have shown resilience are beginning to weaken

JOBS AFFILIATED TO THE IMSS BY SECTOR OF ACTIVITY (INDEX DEC.-23 = 100, ANNUAL CHANGE MAY AND SHARE IN TOTAL EMPLOYMENT, %)



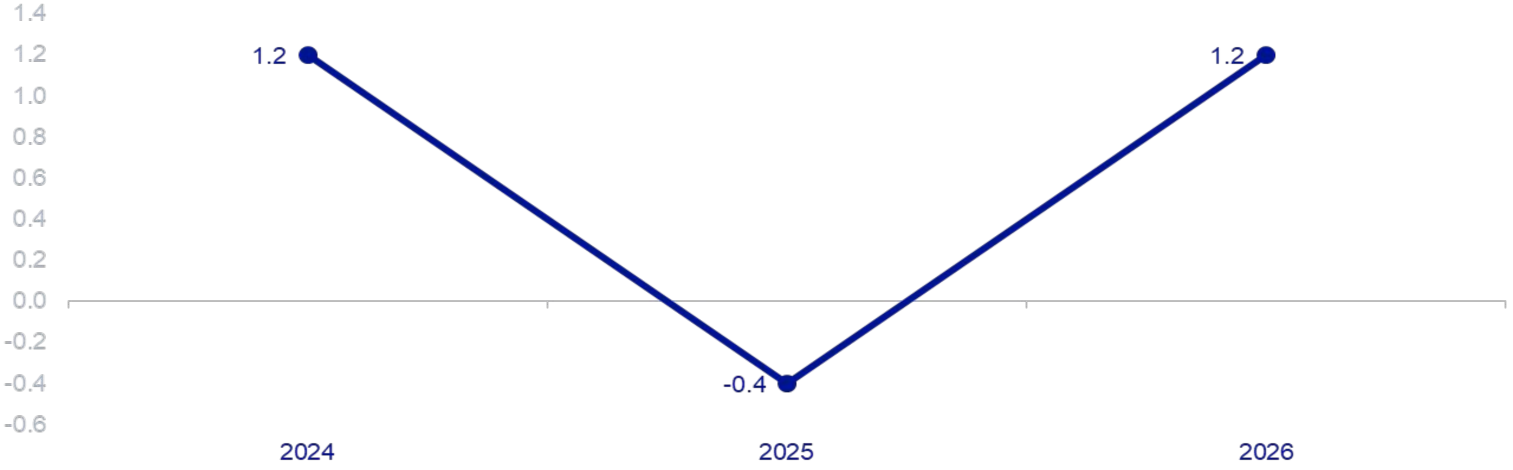
- The size of the bubble represents the proportion of total employment
Source: BBVA Research / IMSS

Impact of higher uncertainty on growth in 2025;

GDP would fall (-)0.4% with recovery by 2026 (1.2%)

GDP

(ANNUAL % CHANGE, REAL, SA)

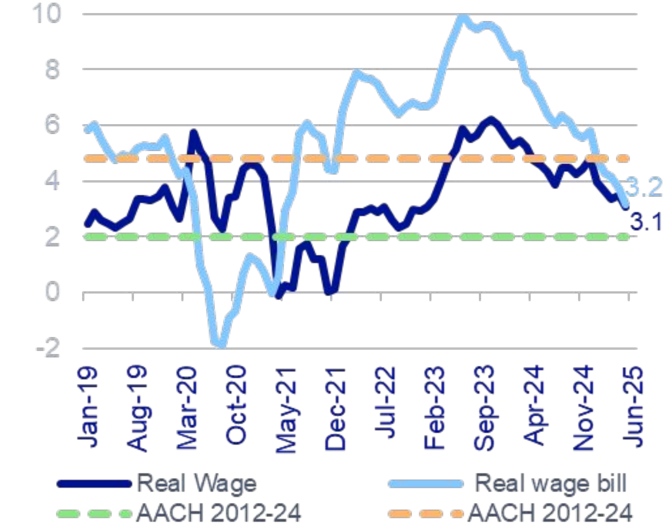


Source: BBVA Research / INEGI.

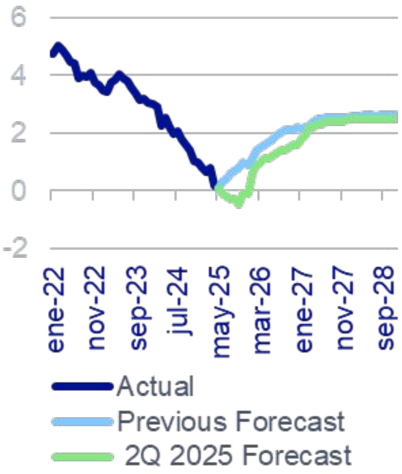
The expected weakness of GDP is deteriorating the dynamics of employment and the total wage bill,

and limits consumer spending

REAL WAGE AND TOTAL WAGE BILL OF IMSS WORKERS (ANNUAL CHANGE AND AVERAGE ANNUAL CHANGE, %)



FORMAL EMPLOYMENT OUTLOOK (ANNUAL CHANGE, %)



	25	26	27	28
Thousands, EoP				
Q2 2025 Forecast	(-)25	356	556	589
Previous forecast	196	485	584	584
Annual Change, % EoP				
Forecast Q2 2025	(-)0.1	1.6	2.5	2.5
Previous forecast	0.9	2.2	2.5	2.5

Source: BBVA Research / IMSS.

With high rates, controlled inflation, and economic weakness, Banxico will continue to cut rates

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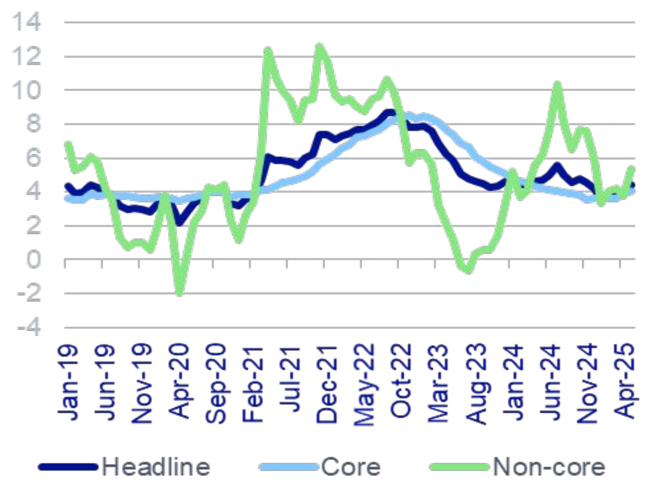
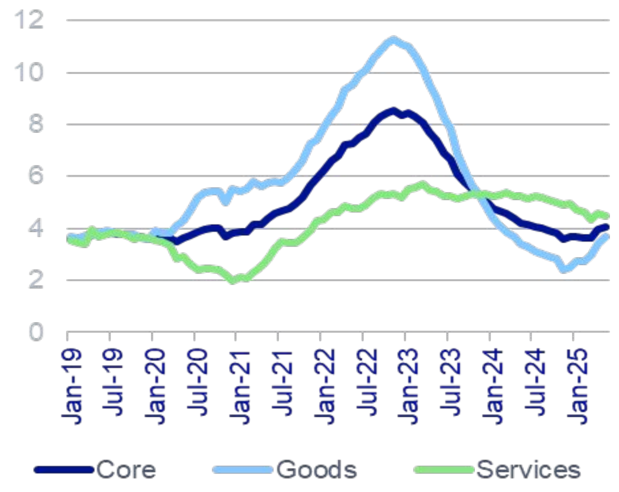
Temporary increase in inflation in Q2,
driven in part by an increase in core goods inflation

HEADLINE INFLATION AND COMPONENTS
(ANNUAL % CHANGE)



CORE INFLATION AND COMPONENTS
(ANNUAL % CHANGE)

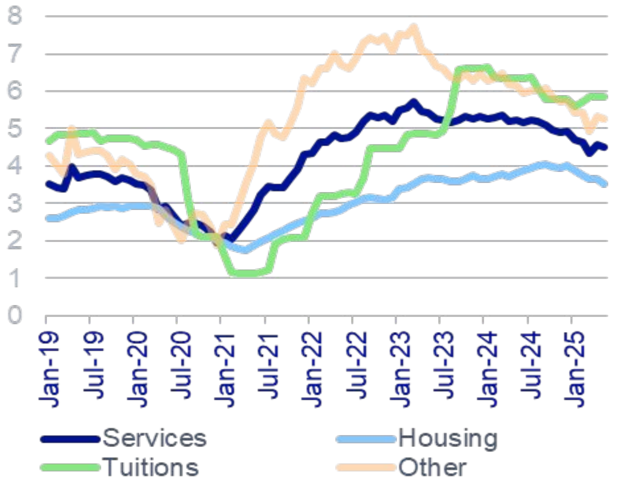


Source: BBVA Research / INEGI.

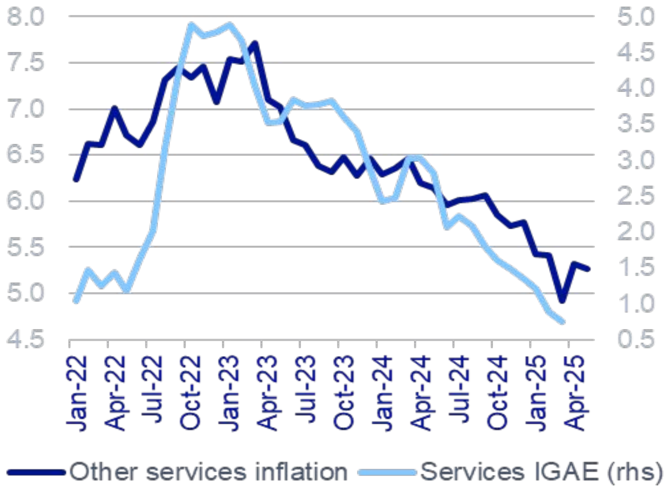
We expect services inflation to come down with the economic slowdown,

partially offsetting the rise in prices of goods

DECOMPOSITION OF SERVICES INFLATION (ANNUAL % CHANGE)



OTHER SERVICES INFLATION AND IGAE SERVICES (ANNUAL % CHANGE AND ANNUAL % CHANGE, PM3M)



Source: BBVA Research / INEGI.

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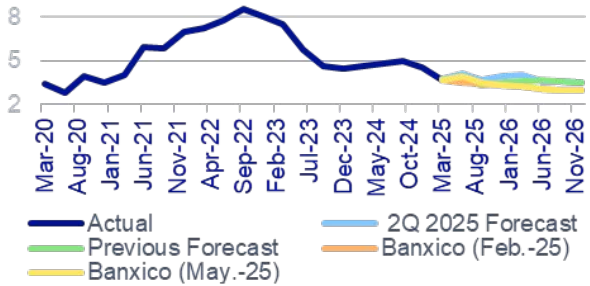
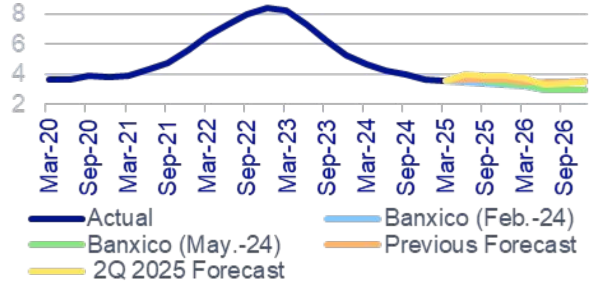
Although we now expect somewhat higher inflation by the end of the year, …

HEADLINE INFLATION FORECASTS
(ANNUAL % CHANGE, QUARTERLY AVERAGE)



	Q4 2025	Q426	Q427	Q428
Q2 2025 Forecast	3.9	3.5	3.5	3.5
Previous forecast	3.5	3.5	3.5	3.5
Banxico (May-25)	3.3	3.0		
Banxico (Feb-25)	3.3	3.0		

CORE INFLATION FORECASTS
(ANNUAL % CHANGE, QUARTERLY AVERAGE)



	Q4 2025	Q426	Q427	Q428
Q2 2025 Forecast	3.9	3.5	3.5	3.5
Previous forecast	3.6	3.5	3.5	3.5
Banxico (May-25)	3.4	3.0		
Banxico (Feb-25)	3.3	3.0		

Source: BBVA Research / INEGI.

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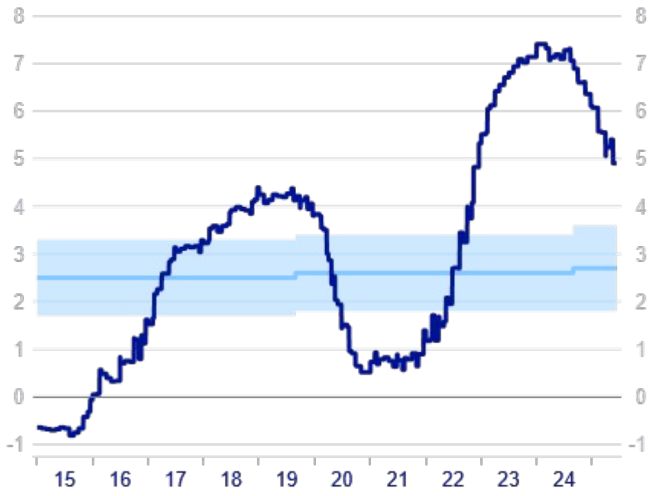
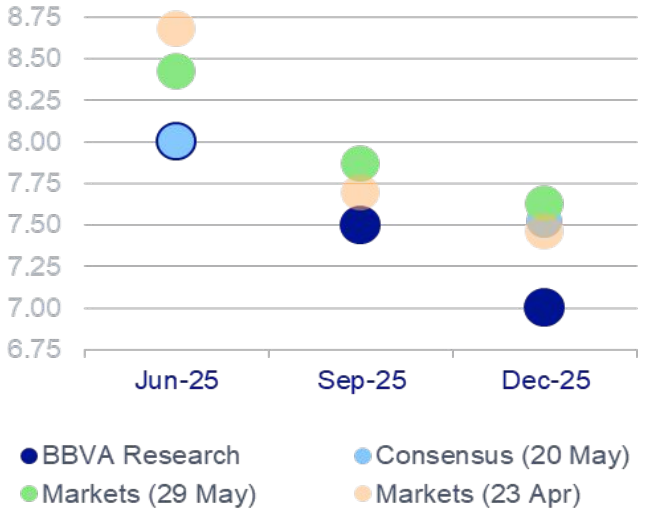
… with still high rates and an economic slowdown,
we expect Banxico to continue to cut rates rapidly…

REAL EX-ANTE POLICY RATE
(%)



MONETARY POLICY RATE OUTLOOK
(%, BBVA RESEARCH VS MARKET AND CONSENSUS)



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

Source: BBVA Research / Citi Surveys / Bloomberg

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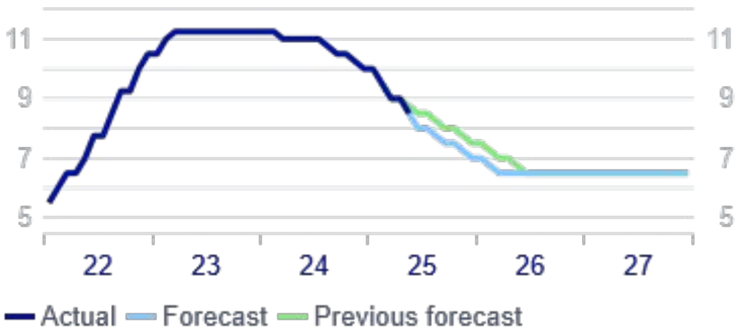
… reducing the monetary policy rate to 7.0% by the end of the year

Banxico is focused on weak growth

- The monetary policy rate was reduced by 50 bps to 8.50%, marking the third consecutive cut of this size.
- It maintained a dovish tone, a key sign that its main concern has shifted from inflation to growth.
- It acknowledged for the first time that “the inflationary episode has been left behind."
- Although it revised up its short-term inflation forecasts, it remains confident in a further slowdown in inflation.
- In contrast, the Board appears to be strongly influenced by the deteriorating economic outlook to continue the cuts.

Our baseline scenario: 50bp cut in June and consecutive 25 bp cuts during 2H25.

BANXICO POLICY RATE
(%)



	25	26	27
Q2 2025 Forecast	7.00	6.50	6.50
Previous forecast	7.50	6.50	6.50

Source: BBVA Research / Banxico

Lower volatility in the market

The recent lower volatility in the market likely reflects a brief window for global risk-taking, ...

IIMA EM EX-CHINA FX VOLATILITY INDEX
(>1: ABOVE AVG. VOLATILITY)

* IIMA: Institute for International Monetary Affairs
Source: BBVA Research / Macrobond

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

Source: BBVA Research / BMV / Macrobond

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… which has led to a modest recovery of the peso

compared to the weakness it showed last year among emerging economies

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

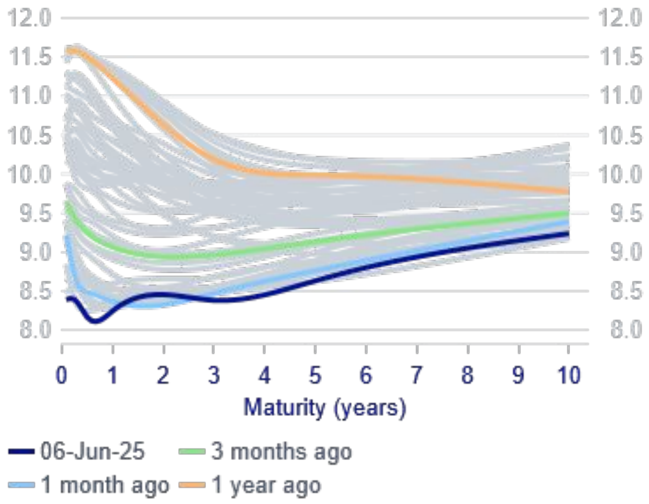
Pressure on Treasuries and last year's rise in country risk premia have slowed the decline in long rates,

despite Banxico's cuts

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

Source: BBVA Research / Macrobond / Treasury Dept.

GOVERNMENT YIELD CURVE (%)



The gray lines indicate weekly curves over the past year; intermediate rates calculated with natural cubic spline interpolation. Source: BBVA Research / Banxico / Macrobond

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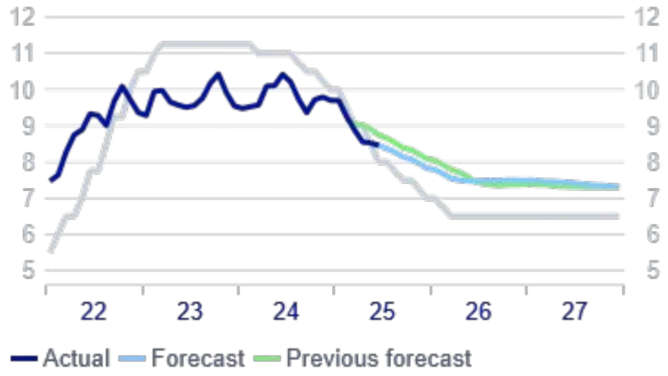
Even so, we continue to anticipate lower rates across the curve

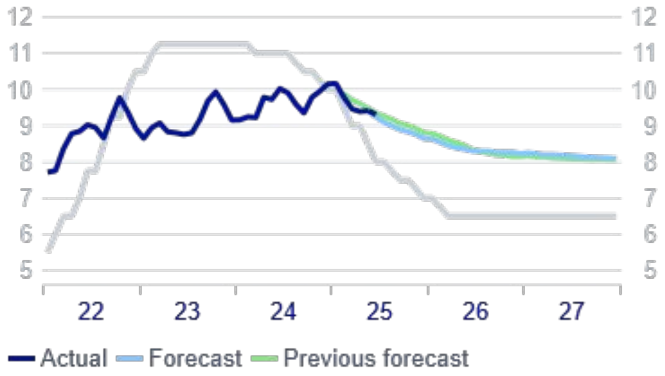
3-YEAR GOVERNMENT YIELD
(%)



	25	26	27
Q2 2025 Forecast	7.8	7.5	7.3
Previous forecast	8.1	7.4	7.3

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

10-YEAR GOVERNMENT YIELD
(%)



	25	26	27
Q2 2025 Forecast	8.7	8.2	8.1
Previous forecast	8.8	8.2	8.1

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

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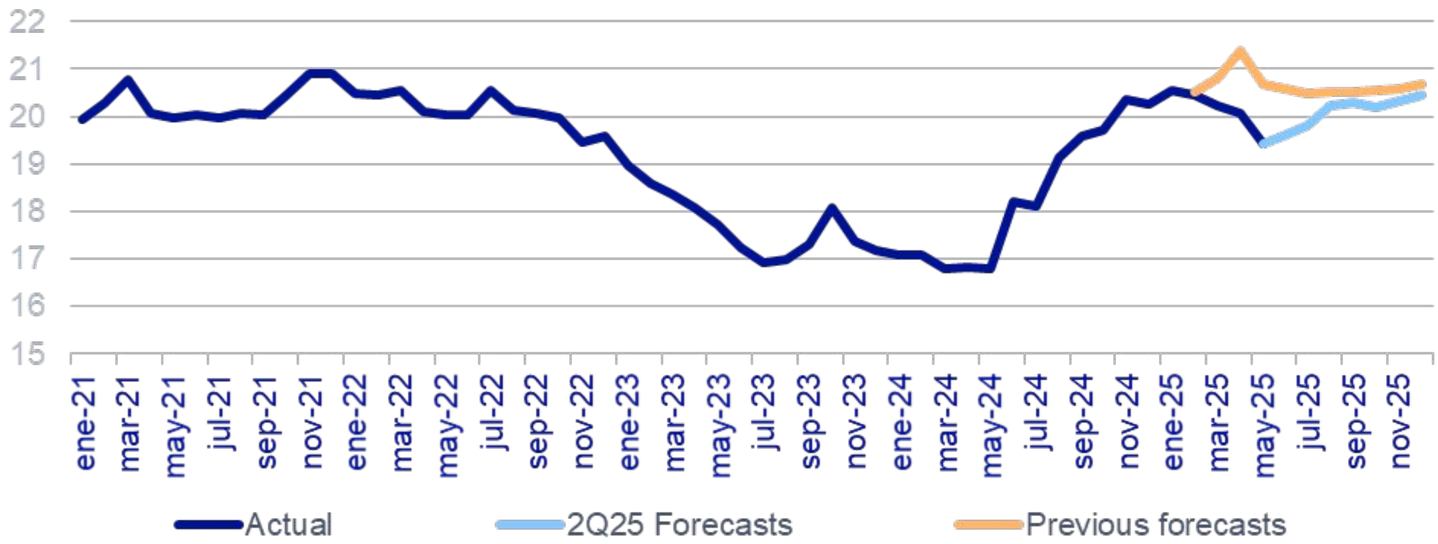
More balanced risks for the exchange rate
from less protectionism towards Mexico implicit in the White House's announcement of April 29

OUTLOOK FOR THE EXCHANGE RATE
(PPD)



Source: BBVA Research / SHCP.

The fiscal consolidation promised by the federal government for 2025 is almost two percentage points

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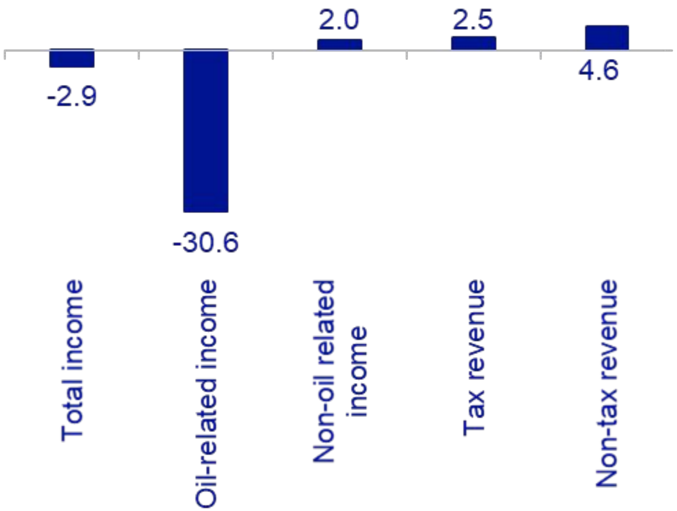
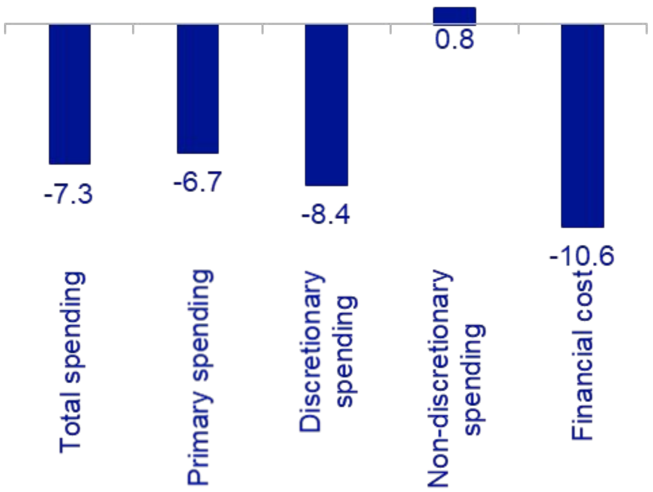
Fiscal consolidation is underway

as budget expenditure slippages are greater than revenue deviations

GOVERNMENT REVENUE AND MAIN COMPONENTS IN Q1 2025
(% DEVIATION FROM BUDGET)



PUBLIC EXPENDITURE AND MAIN COMPONENTS IN Q1 2025
(% DEVIATION FROM BUDGET)



Source: BBVA Research / SHCP.

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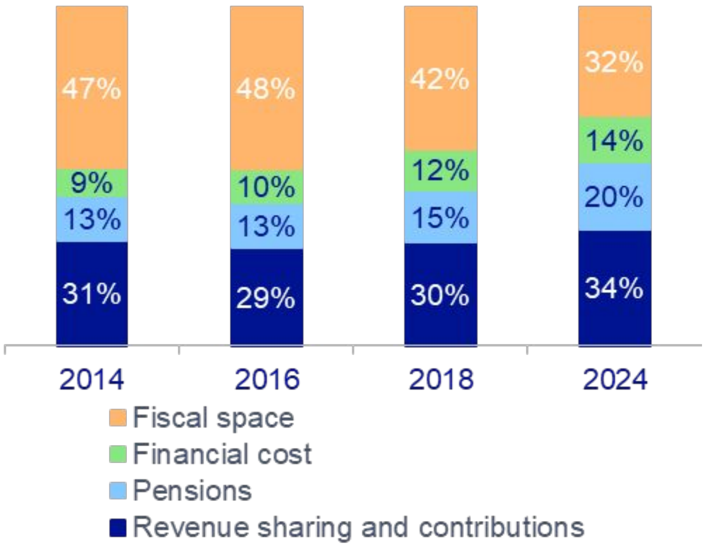
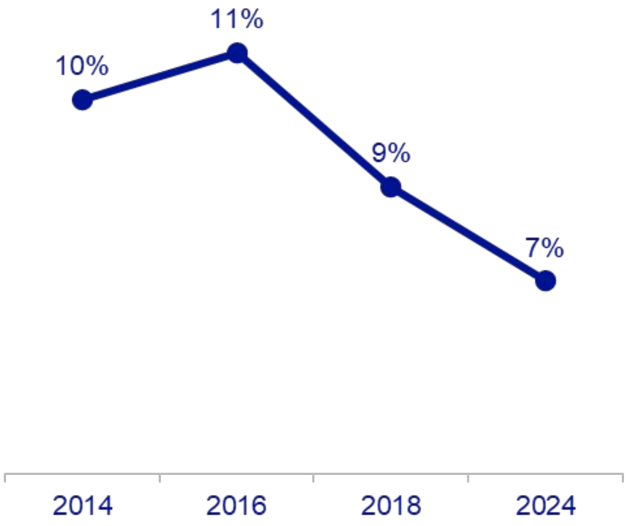
Fiscal space has been compressed over the past 10 years

UNAVOIDABLE EXPENSES AND FISCAL SPACE (% OF BUDGET REVENUE)



FISCAL SPACE (% OF GDP)



Source: BBVA Research / SHCP.

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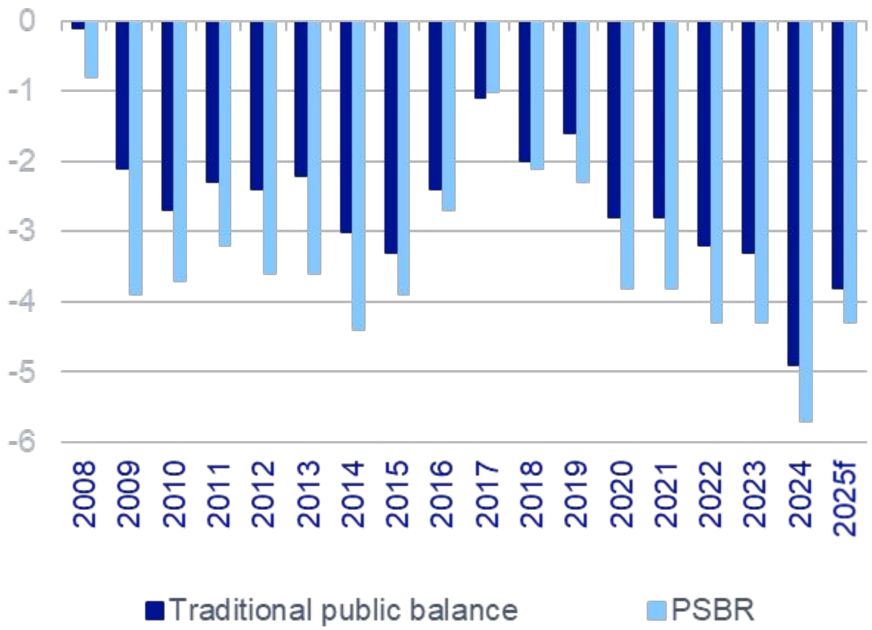
Public Deficit and Public Sector Borrowing Requirements (PSBR)

We expect the public deficit to be 3.8% of GDP in 2025; the government promised to reduce it to 3.3% from 4.9% of GDP in 2024

We anticipate that Public Sector Borrowing Requirements (PSBR) will be -4.3% in 2025 vs. -4.0% of GDP promised by the government

TRADITIONAL PUBLIC BALANCE AND PSBR
(% OF GDP)



Source: BBVA Research / SHCP.

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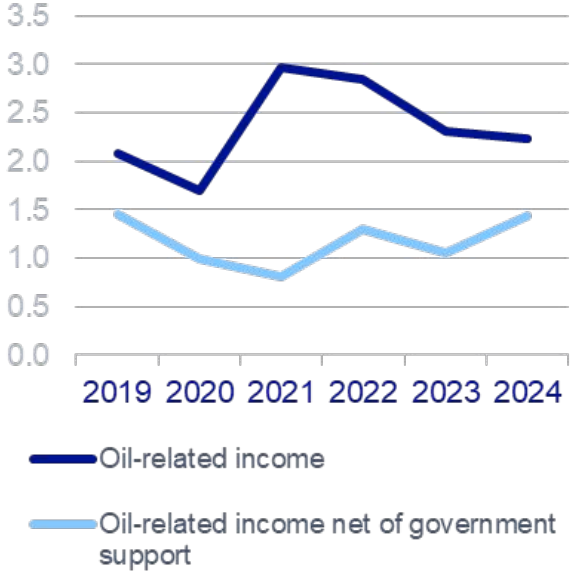
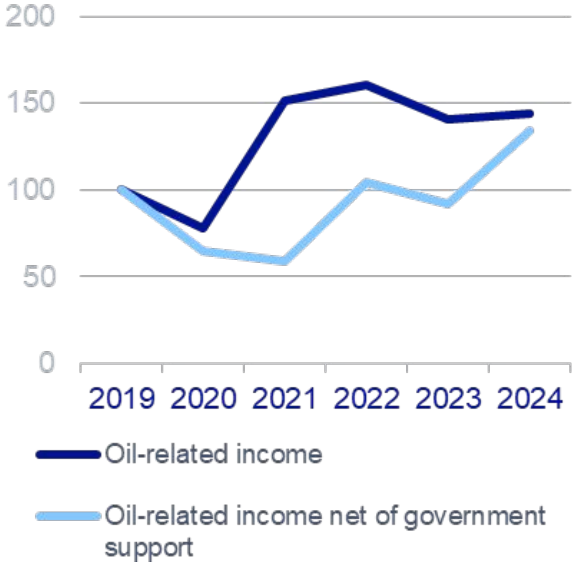
Pemex will continue to be a burden on public finances

PEMEX'S OIL REVENUES
(% OF GDP)



PEMEX'S OIL REVENUES
(2019 = 100)



Source: BBVA Research / SHCP.

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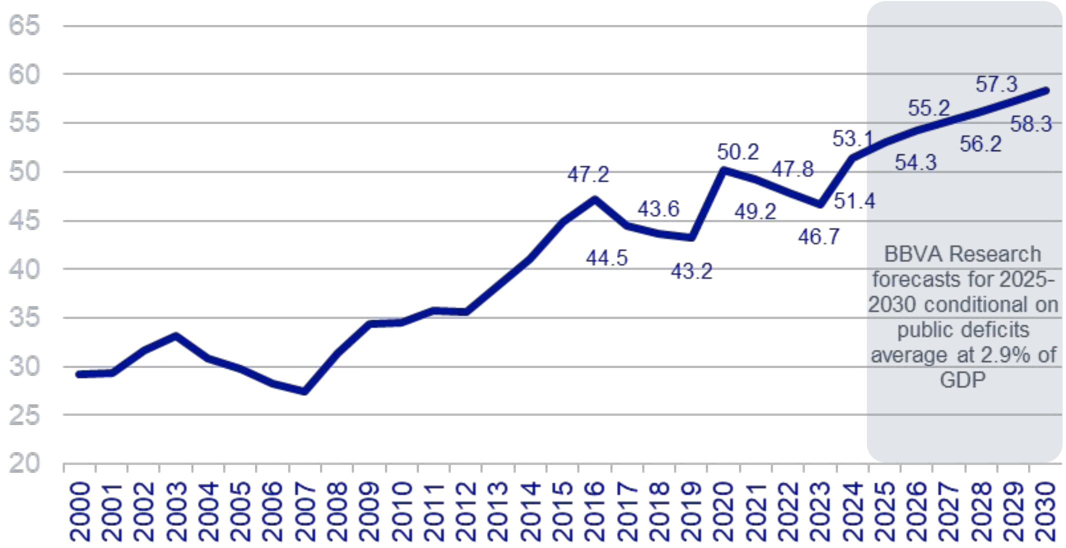
Public debt

Public debt would reach 58% of GDP by 2030 and the country could lose the investment grade without significant fiscal adjustments

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



Source: BBVA Research / SHCP.

Key points and forecast summary

Main messages on the global economy

Economic uncertainty

U.S. tariffs have risen sharply. Although tariffs on China are around 30 per cent – below the expected 60 percent and the peak of 145 percent recorded after "Liberation Day" – they still remain historically high and constitute a persistent source of risk. The U.S. risk premium has risen in anticipation of large fiscal deficits. Growth remains firm, and inflation has eased, despite initial signs of deterioration.

Outlook: growth

Protectionism and uncertainty will negatively affect economic activity. Growth in the U. S. is expected to slow more than anticipated, though this may not necessarily be the case in China and the Eurozone. In the first case, lower-than-expected U. S. tariffs support an upward revision of growth. In the second, the impact of tariffs will be mitigated by fiscal spending, especially in defense.

Outlook: inflation and rates

Tariffs will increase inflation in the U.S. , leading the Fed to keep rates unchanged for longer. Monetary easing could resume by the end of 2025 if price pressures are transitory. The cycle of cuts is nearing its end in the Eurozone, but it continues in China.

Risks

Prolonged uncertainty and higher risk premiums in the U.S. are a cause for concern. The risk related to tariffs continues to increase, but now it seems more balanced.

Main messages for Mexico

Recent behavior

Thanks to the primary sector's growth of 0.2% quarter-on-quarter, the economy avoided a technical recession in Q1 2025. However, outlooks deteriorated due to the prolonged decline in investment and the slowdown in consumption.

Growth Estimate

The uncertainty regarding tariffs in the U. S. adds **pressure on an economy already weakened by judicial reform and fiscal consolidation.** GDP contraction in 2025 (-0.4%), with recovery in 2026 (1.2%). **Consumption will continue to lose ground,** given the slowdown in the real total wage bill and the prolonged deterioration in consumer confidence. **Investment has not recovered from the reduction in public expenditure.** The machinery and equipment segment is losing dynamism in the face of high uncertainty.

Formal job creation in Mexico shows a clear slowdown due to weak investment. To date, the generation of formal jobs is lower than the average of the last three years, affecting even previously resilient sectors. This employment dynamic has moderated the growth of the real wage bill, restricting household consumption. **Our year-end outlook anticipates a contraction in formal employment.**

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Main messages for Mexico

Inflation and Monetary Policy

Temporary increase in inflation in Q2, but **we expect services inflation to fall with the economic slowdown, mostly offsetting the rise in core goods inflation**

- **We expect inflation to stand at 3.9%,** with core inflation at 3.8%, **by the end of 2025**

We believe that there is ample room to normalize the monetary policy stance in the face of the favorable trend in core inflation and the weakening of domestic demand

- We now **expect the monetary policy rate to close 2025 at a level of 7.00%, and 2026 at 6.50%,** below consensus expectations
- Despite the higher risk premia on long-term rates, **we still expect rates to fall across the curve**

Exchange rate and public finances

We forecast the **exchange rate to close 2025 and 2026 at 20.5 and 20.7 pesos per dollar,** respectively.

Public **debt will be around 53.1% of GDP in 2025 vs. 51.4% in 2024.**

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Forecast summary

		2022	2023	2024	2025	2026	2027
GDP (Annual chg. %)	new	3.7	3.3	1.2	**-0.4**	**1.2**	**1.7**
	previous				1.0	1.6	1.7
Employment (%, at close)	new	3.7	3.0	**1.0**	**-0.1**	**1.6**	**2.5**
	previous				0.9	2.2	2.5
Inflation (%, at close)	new	7.8	4.7	4.2	**3.9**	**3.5**	**3.5**
	previous				3.6	3.5	3.5
Monetary policy rate (%, at close)	new	10.50	11.25	10.00	**7.00**	**6.50**	**6.50**
	previous				7.50	6.50	6.50
Exchange rate (ppd, at close)	new	19.6	17.2	20.3	**20.5**	**20.7**	**20.9**
	previous				20.7	20.9	21.1
M10 (%, at close)	new	9.0	9.0	10.4	**8.7**	**8.2**	**8.1**
	previous				8.8	8.2	8.1
Fiscal balance (% of GDP)	new	-3.2	-3.3	-4.9	**-3.8**	**-3.3**	**-2.8**
	previous				-3.5	-3.5	-2.8
Current account (% of GDP)	new	-1.3	-0.5	-0.3	**0.0**	**-0.6**	**-0.9**
	previous				-0.7	-0.8	-0.9

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