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GLOBAL ECONOMICS

LATAM FLASH

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Mexico—Banxico Delivers Expected 50bps Cut Without Changes to Inflation Expectations

- **Banxico's Governing Board cut the benchmark interest rate by 50 basis points to 9.00%, in line with consensus, in a unanimous decision.**
- **Headline and core inflation forecasts were left unchanged for the coming quarters, with convergence to the target expected by Q3-26.**
- **The statement kept an upside bias in the balance of inflation risks, highlighting increased uncertainty due to U.S. economic policy.**
- **Forward guidance was dovish, pointing to another 50bps cut at the May meeting.**
- **Our end-2025 rate forecast stands at 8.25%, considering inflation risks from U.S. tariff policies.**

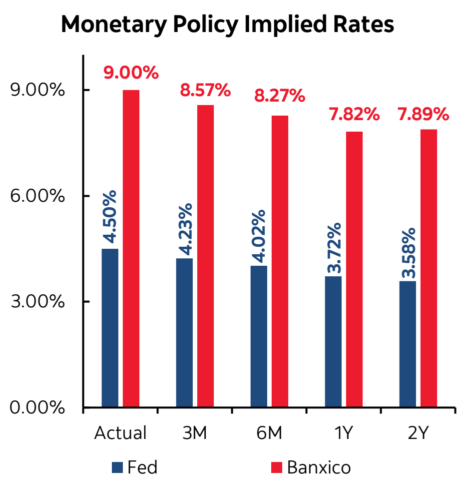
For the sixth consecutive meeting, the Governing Board of Banco de México decided to cut the benchmark interest rate, this time by 50bps to 9.00% in a unanimous vote. This marks two 50bps cuts in the target rate, following four previous decisions of 25 bps cuts. Consensus expected this cut alongside a dovish tone in the communiqué. Notably, the Board maintained unchanged inflation expectations for both headline and core inflation for 2025 and 2026, anticipating convergence to the 3.0% target by Q3-26 (table 1).

The statement highlighted that global growth expectations have been revised downward amid uncertainty due to tariffs. It also noted increased global risks from escalating geopolitical tensions, which could impact inflation and increase financial market volatility. Regarding the U.S. economy, the statement highlighted the depreciation of the dollar amid greater economic uncertainty and the Federal Reserve's latest decision to keep its benchmark rate unchanged.

For the domestic outlook, the Board indicated expectations of economic weakness during the first quarter of 2025, with risks skewed to the downside. It also noted that the USDMXN operated within a wide range, slightly appreciating during the period.

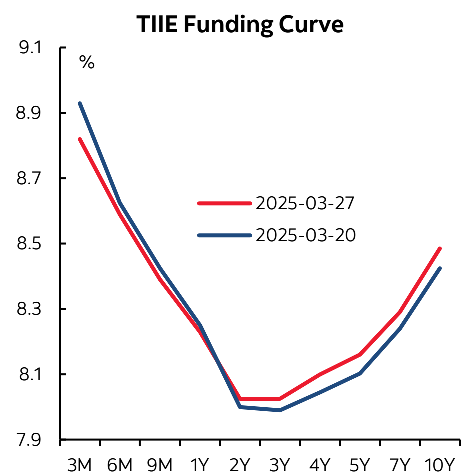
Regarding inflation, the Board maintained unchanged forecasts for both headline and core indices, expecting convergence to the target by Q3-26. However, it acknowledged that long-term expectations remained above the target. The statement noted that in the first half of March, inflation stood at 3.67% and core inflation at 3.56%, below the historical average. Again, the members consider that the balance of risks to inflation

Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

remain upwardly biased, although it has improved from previous meetings. Additionally, the statement mentioned that "*economic policy changes by the U.S. administration have added uncertainty to the forecasts*". The upward inflation risks mentioned include exchange rate depreciation, disruptions from geopolitical conflicts or trade policies, persistence of core inflation, cost pressures, and climatic factors, while the downwside risks are lower-than-anticipated economic activity, lower pass-through of some cost pressures, and lower-than-anticipated pass-through of exchange rate depreciation to inflation.

With this, the monetary policy decision continues to point to a less restrictive stance. On the one hand, all members voted in favour of reducing the benchmark interest rate by 50bps, though the statement mentioned that while the balance of inflation risks remains upwardly biased, despite recent improvements. The Board could continue calibrating the monetary stance by cutting the benchmark rate by the same magnitude in the next decision in May. In this sense, it will be crucial to monitor the higher upside inflation risks (global trade contraction and increased geopolitical tensions) and the effects of local economic sluggishness on price dynamics. Despite this, we consider that the remainder of 2025 will be very challenging for the central bank, as global and local risks could impact price formation upwardly, not to mention the role of the expected economic slowdown this year and its implications for inflation, which will define the path for monetary policy. Looking ahead, we can practically discount that Banxico will cut the benchmark interest rate by 50 basis points during the next monetary policy meeting on May 15th. In this sense, we maintain an end-of-year rate expectation of 8.25%. It will be important to review the minutes of this decision, which are set to be published on April 10th.

Regarding the market reaction, the USDMXN depreciated during the day, ranging between $20.10–$20.36, partly affected by tariff announcements in the automotive sector, although it did not show significant changes following the monetary policy decision. Meanwhile, the TIIE funding curve fell by an average of 5 basis points from yesterday, with the 3-month implied curve at 8.57% and the 1-year at 7.82% (charts 1 and 2). In recent surveys, analysts expect a benchmark interest rate around 8.00%–8.25% by the end of 2025.

Table 1: Mexico - Banxico's Headline & Core Inflation Forecasts

Headline Inflation	24-Q2	24-Q3	24-Q4	25-Q1	25-Q2	25-Q3	25-Q4	26-Q1	26-Q2	26-Q3	26-Q4	27-Q1
Current (Mar. 25) a.o.p.	4.8%	5.0%	4.5%	3.7%	3.5%	3.4%	3.3%	3.2%	3.1%	3.0%	3.0%	3.0%
Previous (Feb. 25) a.o.p.	4.8%	5.0%	4.5%	3.7%	3.5%	3.4%	3.3%	3.2%	3.1%	3.0%	3.0%	-
Var. Current - Previous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Core Inflation	**24-Q2**	**24-Q3**	**24-Q4**	**25-Q1**	**25-Q2**	**25-Q3**	**25-Q4**	**26-Q1**	**26-Q2**	**26-Q3**	**26-Q4**	**27-Q1**
Current (Mar. 25) a.o.p.	4.2%	4.0%	3.7%	3.6%	3.5%	3.4%	3.3%	3.2%	3.0%	3.0%	3.0%	3.0%
Previous (Feb. 25) a.o.p.	4.2%	4.0%	3.7%	3.6%	3.5%	3.4%	3.3%	3.2%	3.0%	3.0%	3.0%	-
Var. Current - Previous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-

Sources: Scotiabank Economics, Banxico.