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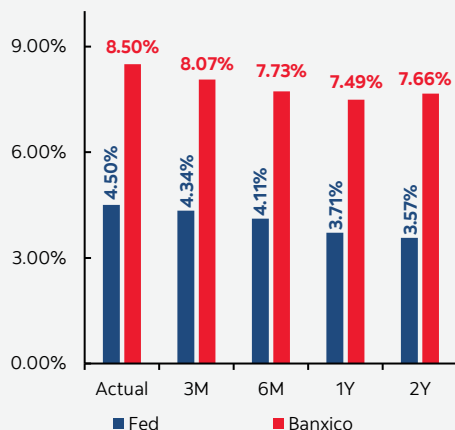
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Chart 1

Monetary Policy Implied Rates



Sources: Scotiabank Economics, Bloomberg.

Mexico—Another 50bps With Door Open to More

- The Governing Board of Banco de México decided to cut the benchmark interest rate by 50 basis points to 8.50%, in line with consensus expectations.
- We believe the monetary policy decision maintains a less restrictive stance and opens the door to an additional 50bps cut at the June meeting.
- Headline and core inflation forecasts were revised upward in the short term due to higher-than-expected recent readings, although convergence to the target is still anticipated by the third quarter of 2026.
- The communiqué highlighted the recent increase in goods prices, while maintaining an inflation risk balance tilted to the upside, reiterating heightened uncertainty due to U.S. economic policy. The environment of uncertainty and trade tensions poses significant downside risks to growth.
- Our year-end 2025 rate forecast stands at 8.00%, considering inflation risks stemming from U.S. tariff policies, although we do not rule out a lower terminal rate for 2025.

For the seventh consecutive meeting, the Governing Board of Banco de México decided to cut the benchmark interest rate, this time by 50 basis points to 8.50%, in a unanimous vote. This marks three consecutive 50bps cuts, following four previous 25bps reductions. The decision was in line with market expectations, which also anticipated a dovish tone in the communiqué. Notably, the Board revised upward its short-term inflation forecasts for both headline and core inflation, while maintaining its projection that inflation will converge to the 3.0% target by Q3-2026.

The statement highlighted that global economic growth remained subdued in Q1-2025, amid heightened uncertainty due to the imposition of tariffs. It also emphasized increased global risks stemming from geopolitical tensions and trade disputes, which could affect inflation and contribute to financial market volatility. The U.S. dollar has shown a depreciating trend, while the Federal Reserve opted to keep its benchmark rate unchanged.

In domestic conditions, the Board noted that economic activity continued to show signs of weakness in Q1-2025, with q/q growth of just 0.2% and risks skewed to the downside. The USDMXN operated within a wide range, appreciating over the period.

On inflation, the Board revised its short-term forecasts higher due to a larger-than-expected rise in April (table 1), particularly in the merchandise component, possibly affected for pass-through pressures. Headline inflation reached 3.93% y/y in the month, while merchandise items accelerated from 2.98% to 3.38%. The Board now expects inflation to average 3.9% in Q2-2025 for both headline and core indices (up from 3.5% in its March forecasts, for both measures).

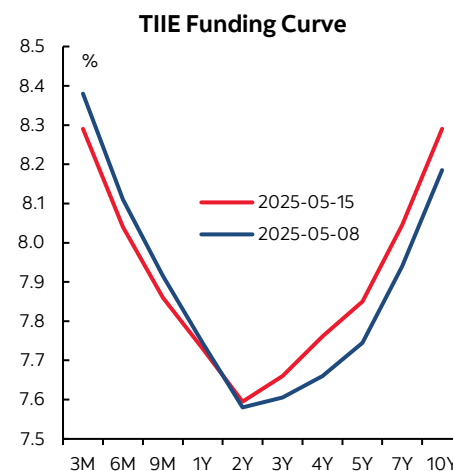
Despite this higher near-term inflation projection, Banxico continues to anticipate its convergence to the 3.0% target by Q3-2026. The statement mentioned that the balance of inflation risks remains tilted to the upside, though it has improved as global shocks have eased. It also noted increased uncertainty due to changes in U.S. economic policy, which could exert both upward and downward pressure on inflation.

Upside risks to inflation include: exchange rate depreciation, disruptions from geopolitical conflicts or trade policies, persistence of core inflation, cost pressures, and climate-related effects. Downside risks include: weaker-than-expected economic activity, lower pass-through of cost pressures, and a smaller-than-anticipated impact of exchange rate depreciation on inflation.

The monetary policy stance continues to reflect a less restrictive or dovish approach. All members voted in favour of the 50bps cut, and the statement suggests that further adjustments of a similar magnitude could follow. This is despite the upward revision to inflation forecasts, underscoring the importance of monitoring upside inflation risks and the impact of domestic economic weakness on price dynamics. Looking ahead, we expect another 50bps cut at the next policy meeting on June 26th, although the decision may be split given the rapid easing of away from restrictive conditions. We maintain our year-end rate forecast at 8.00%, though the probability of a lower terminal rate has increased, provided inflation risks do not materialize. The minutes of this decision, to be published on May 29th, will be key to understanding the Board's forward guidance.

Market reaction: The USDMXN depreciated during the day, trading in a range of \$19.32–\$19.51, influenced by expectations of continued monetary easing. Meanwhile, the TIE funding curve rose by an average of 2.5bps, with the 3-month implied rate at 8.07% and the 1-year at 7.49% (chart 1 and 2). Recent surveys show analysts expect the benchmark rate to end 2025 between 6.25% and 8.25%.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

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 (May. 25) a.o.p.	4.8%	5.0%	4.5%	3.7%	3.9%	3.5%	3.3%	3.2%	3.1%	3.0%	3.0%	3.0%
Previous (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%
Var. Current - Previous	0.0%	0.0%	0.0%	0.0%	0.4%	0.1%	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 (May. 25) a.o.p.	4.2%	4.0%	3.7%	3.6%	3.9%	3.6%	3.4%	3.3%	3.0%	3.0%	3.0%	3.0%
Previous (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%
Var. Current - Previous	0.0%	0.0%	0.0%	0.0%	0.4%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%

Sources: Scotiabank Economics, Banxico.

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