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GLOBAL ECONOMICS

LATAM FLASH

November 6, 2025

Mexico—Banxico Signals Possible Pause in Easing Cycle

- **Banco de México's Governing Board cut the benchmark interest rate by 25 basis points to 7.25%, in line with consensus, following a split vote.**
- **Headline inflation forecasts were revised slightly downward, while core inflation projections were once again adjusted upward in the short term, with convergence to the 3.0% target expected by Q3 2026.**
- **Monetary conditions are now approaching the upper bound of the neutral policy rate, despite ongoing inflationary pressures, mainly from the core component.**
- **The tone of the statement slightly changed in comparison to previous meetings, opening the door to a potential pause as early as the next decision.**
- **We maintain our year-end policy rate forecast at 7.00%, contingent on the inflation trajectory and the U.S.-Mexico interest rate differential.**

Banco de México's Governing Board decided to cut the benchmark interest rate by 25 basis points to 7.25%, in line with market consensus. This marks the fourth consecutive meeting with a split vote, with Deputy Governor Jonathan Heath dissenting in favour of a rate hold. With this decision, the Board has now implemented eleven consecutive rate cuts: four of 25 basis points last year, four of 50 basis points in 1H25, and three 25 bps cuts in the second half of this year.

Notably, the Board revised its inflation forecasts for both headline and core inflation. Headline inflation was adjusted marginally for 1Q and 2Q26, while core inflation was revised upward from 4Q25 through 2Q26. The expectation that inflation will converge to the 3.0% target by 3Q26 remains unchanged (table 1).

The statement reiterated that global economic activity showed signs of deceleration in 3Q25 compared to the previous quarter, amid trade tensions and geopolitical conflicts. Both global and U.S. economic growth are expected to moderate through the remainder of 2025 and into 2026. In advanced economies, headline inflation rebounded, while core inflation remained persistently high. In this context, the Federal Reserve cut its policy rate by 25 basis points. Financial markets reacted modestly: the U.S. dollar strengthened and government bond yields saw moderate changes. Key global risks include escalating trade tensions and geopolitical conflicts, which could impact inflation, economic activity, and increase financial volatility.

On the domestic outlook, the Board noted that Mexico's economic activity contracted in 3Q25, amid uncertainty and trade tensions that pose significant downside risks. It also highlighted that short- and medium-term government bond yields declined, while long-term yields saw limited increases. The USDMXN depreciated slightly.

Between the first half of September and the first half of October, headline inflation in Mexico declined slightly from 3.74% to 3.63% year-over-year, while core inflation remained stable at 4.24%. Market expectations for end-2025 inflation were also revised downward, although long-term expectations remain above the official target. The Board continues to expect inflation to converge to the 3.0% target by 3Q26, though upside risks persist, including peso depreciation, cost pressures, geopolitical conflicts, and climate-related disruptions. Conversely, weaker economic activity or peso appreciation could help ease inflationary pressures. Overall, the balance of risks remains tilted to the upside, albeit less pronounced than in previous years. Additionally, changes in U.S. economic policy add further uncertainty to the inflation outlook.

We believe this monetary policy decision reflects a less restrictive stance in comparison to previous meetings. However, monetary conditions are now approaching the upper bound

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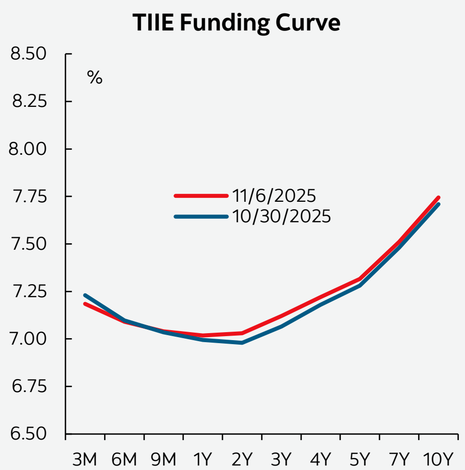
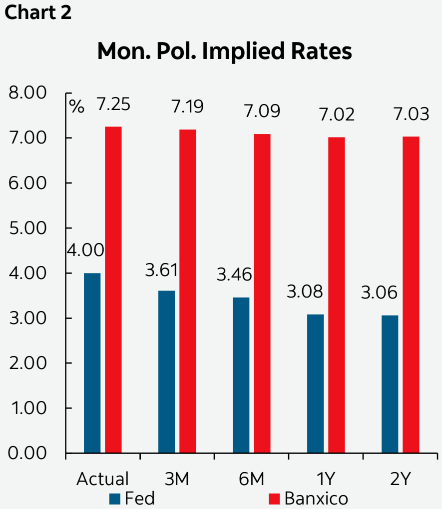
Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

of the neutral rate, even as inflationary pressures—particularly in core components—persist. The statement highlights Deputy Governor Heath's dissent for the fourth consecutive meeting, as he voted to keep the rate at 7.50%.

A notable shift in language opens the door to pausing the easing cycle. The statement now says "looking ahead, the Board will evaluate reducing the reference rate," compared to the previous statement's "looking ahead, the Board will assess further adjustments to the reference rate."

In this context, it will be crucial to monitor not only inflationary risks and the impact of domestic economic weakness on price dynamics, but also labour market developments and inflation and employment trends in the U.S. These factors could significantly influence the Federal Reserve's next rate decision, potentially narrowing the window for further rate cuts by Banxico. We believe the likelihood of another cut in December has decreased, although a 25 basis point reduction remains our base case. We maintain our year-end forecast for the policy rate at 7.00%, assuming the rate spread between Mexico and the U.S. will not fall below 325 basis points. Finally, to better understand each Board member's stance, the minutes of this decision—scheduled for release on November 20th, 2025—will be particularly relevant.

Market Reaction

Following the decision, the exchange rate appreciated by approximately 5 MXN cents, settling at 18.56 USDMXN. The TIIE funding curve showed mixed movements (chart 1): the short end (up to one year) declined by 0.2 to 1.7 basis points, the mid-section (up to 10 years) rose by 1.5 to 5.5 basis points, and the long end saw marginal changes (-2.5 to +1.5 basis points). The three-month implied curve stood at 7.19%, while the one-year curve was at 7.02% (chart 2). Analysts surveyed in expectations polls anticipate the policy rate to end 2025 at 7.0%, with responses ranging from 7.00% to 7.25%.

Table 1: Banxico´s Headline and Core Inflation Forecasts (%)

Headline Inflation	**25-Q1**	**25-Q2**	**25-Q3**	**25-Q4**	**26-Q1**	**26-Q2**	**26-Q3**	**26-Q4**	**27-Q1**	**27-Q2**	**27-Q3**
Current (Nov. 25) e.o.p.	3.7	4.2	3.6	3.5	3.5	3.2	3.0	3.0	3.0	3.0	3.0
Previous (Sep. 25) e.o.p.	3.7	4.2	3.6	3.6	3.4	3.1	3.0	3.0	3.0	3.0	3.0
Var. Current - Previous	0.0	0.0	0.0	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	
Core Inflation	**25-Q1**	**25-Q2**	**25-Q3**	**25-Q4**	**26-Q1**	**26-Q2**	**26-Q3**	**26-Q4**	**27-Q1**	**27-Q2**	**27-Q3**
Current (Nov. 25) e.o.p.	3.6	4.1	4.2	4.1	3.8	3.3	3.0	3.0	3.0	3.0	3.0
Previous (Sep. 25) e.o.p.	3.6	4.1	4.2	4.0	3.6	3.2	3.0	3.0	3.0	3.0	3.0
Var. Current - Previous	0.0	0.0	0.0	0.1	0.2	0.1	0.0	0.0	0.0	0.0	

Sources: Scotiabank Economics, Banxico.

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