

#### Contributors

##### Rodolfo Mitchell

Director of Economic and Sectoral Analysis  
+52.55.3977.4556 (Mexico)  
[mitchell.cervera@scotiabank.com.mx](mailto:mitchell.cervera@scotiabank.com.mx)

##### Miguel Saldaña

Economist  
+52.55.5123.1718 (Mexico)  
[msaldanab@scotiabank.com.mx](mailto:msaldanab@scotiabank.com.mx)

##### Martha Cordova

Economic Research Specialist  
+52.55.5435.4824 (Mexico)  
[martha.cordovamendez@scotiabank.com.mx](mailto:martha.cordovamendez@scotiabank.com.mx)

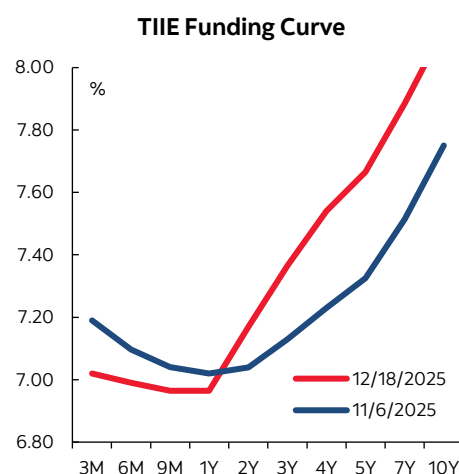
## Mexico—Banxico Continues its Rate-Cutting Cycle Despite Inflationary Pressures

- Banco de México's Governing Board cut the benchmark interest rate by 25 basis points to 7.00%, in line with consensus, following a split 4–1 vote. Headline and core inflation expectations were revised upward for year-end 2025 and the first quarters of 2026.
- The statement highlighted signs of moderation in global economic activity during Q4 2025 amid trade tensions and geopolitical conflicts, as well as a weakening in domestic economic activity for the same period, in a context of uncertainty and trade frictions.
- Monetary conditions are already in neutral territory, even though inflation and market/analyst expectations remain above target.
- The Governing Board's statement suggested that the door is open to pause the rate-cutting cycle. For now, we maintain our outlook for two additional cuts next year, anticipating a terminal rate of 6.50% in 2026.

Banco de México's Governing Board decided to cut the benchmark interest rate by 25 basis points to 7.00%, in line with consensus, marking the fifth consecutive meeting with a split vote: once again, Deputy Governor Jonathan Heath dissented. This brings the total to twelve consecutive meetings with rate cuts: four 25 bp cuts last year, four 50 bp cuts during 2025, and four 25 bp cuts this year. On the other hand, the Board revised upward both headline and core inflation expectations. The forecast that inflation will converge to the 3.0% target by Q3 2026 remained unchanged, despite upward revisions for prior quarters.

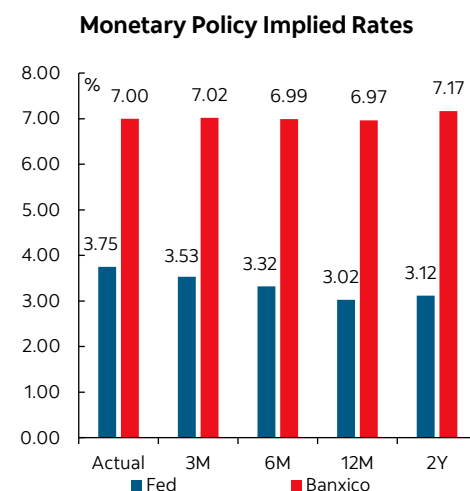
The statement indicated that during Q4 2025, global economic activity showed signs of moderation compared to the previous quarter, in a context marked by trade tensions and geopolitical conflicts. Both global and U.S. economies are expected to post lower growth rates for the remainder of the year and into 2026. In advanced economies, headline inflation has shown mixed behaviour in the second half of the year, while core inflation remains persistently high. In this environment, the Federal Reserve cut its benchmark rate by 25 basis points. Financial markets reacted with limited moves: the dollar depreciated and U.S. government bond yields fell across most maturities. Key global risks include worsening trade tensions and geopolitical conflicts, which could affect inflation, economic activity, and increase financial volatility.

Chart 1



Source: Scotiabank Economics.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

December 18, 2025

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

Headline Inflation	25Q3	25Q4	26Q1	26Q2	26Q3	26Q4	27Q1	27Q2	27Q3	27Q4
Current (Dec. 25) e.o.p.	3.6	3.7	3.7	3.3	3.0	3.0	3.0	3.0	3.0	3.0
Previous (Nov. 25) e.o.p.	3.6	3.5	3.5	3.2	3.0	3.0	3.0	3.0	3.0	
Var. Current - Previous	0.0	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	
Core Inflation	25Q3	25Q4	26Q1	26Q2	26Q3	26Q4	27Q1	27Q2	27Q3	27Q4
Current (Dec. 25) e.o.p.	4.2	4.3	4.0	3.4	3.0	3.0	3.0	3.0	3.0	3.0
Previous (Nov. 25) e.o.p.	4.2	4.1	3.8	3.3	3.0	3.0	3.0	3.0	3.0	
Var. Current - Previous	0.0	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	

Source: Banxico

Domestically, the Board noted that during Q4 2025, economic activity is expected to weaken amid uncertainty and ongoing trade tensions, which continue to pose significant downside risks. It also highlighted that Mexican government bond yields rose across most maturities, while the USDMXN appreciated.

The Board mentioned that between the first half of October and the first half of November, headline inflation in Mexico increased from 3.63% to 3.80% year-on-year, while core inflation rose from 4.24% to 4.43%, mainly driven by higher prices for non-food goods. Market expectations for year-end 2025 and the first two quarters of 2026 were adjusted upward. However, the forecast remains that inflation will converge to Banxico's 3.0% target by Q3 2026 (table 1). Upside risks persist, such as peso depreciation, cost pressures, core inflation persistence, geopolitical conflicts, and climate-related shocks. Conversely, factors like weaker economic activity or USDMXN appreciation could help ease inflationary pressures.

Overall, the risk balance remains tilted to the upside, though less pronounced than in previous years, and changes in U.S. economic policy add further uncertainty to the inflation outlook.

We believe the monetary policy decision reflects a less restrictive stance compared to previous meetings, as a result of the new rate cut. However, it is noteworthy that monetary conditions are now within the neutral range despite ongoing inflationary pressures, mainly from the core component. The statement highlights the dissent, for the fifth consecutive meeting, of Deputy Governor Jonathan Heath, who voted to keep the rate at 7.25%.

A key change in language now states: "Looking ahead, the Board will evaluate the timing for additional reference rate adjustments", contrasting with the previous statement: "Looking ahead, the Board will evaluate reducing the reference rate." This suggests a higher likelihood of a pause, depending on upside inflation risks and the impact of domestic economic weakness on price dynamics, as well as exchange rate movements, labour market conditions, and U.S. inflation. These factors could significantly influence the Fed's next rate decision, which, along with other variables, could close the window for Banxico to continue its easing cycle. In this context, we believe the probability of Banxico ending the rate-cutting cycle at the February 5<sup>th</sup> meeting has increased, although a 25 bp cut remains our base case. We maintain our expectation of a 6.50% policy rate by year-end 2026, provided the Mexico-U.S. rate spread does not fall below 325 basis points. Finally, to better understand each Board member's stance, it will be particularly relevant to review the minutes of this decision, to be published on January 8<sup>th</sup>, 2026.

Regarding the market reaction, the exchange rate showed marginal changes after the decision, settling at \$18.00 USDMXN. Meanwhile, the TIE funding curve posted average declines of 3 bps, with the 4-year node showing the largest drop of 10 bps (chart 1). The 3-month implied curve stood at 7.02%, while the 1-year curve was at 6.97% (chart 2). Analysts surveyed expect the policy rate to end 2026 at 6.50%, with responses ranging from 6.00% to 7.00%.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.