Banxico: with the gap closed, the rate would remain at 6.25%

MX Economics

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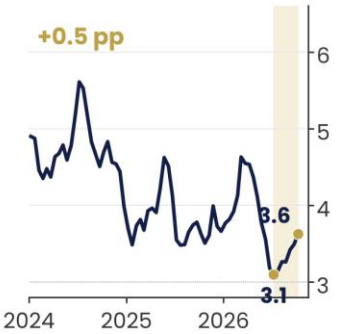
The Bank of Mexico cut its target rate by 25 basis points, to 6.25%, contrary to our expectation of a pause. However, it signaled that this adjustment concludes the easing cycle.

- Banxico cut its rate to 6.25% in a 3-2 vote, while 20 of 36 analysts in the Citi survey expected a pause.
- The recovery in activity, which led us to raise our GDP forecast, made us think that the room to cut had closed; however, Banxico still saw slack under its output gap methodology.
- With the update to the third quarter, the gap under Banxico's methodology has practically closed, which aligns with our view that the rate should remain at this level for a prolonged period.

1.- The recovery in activity made us think that the room to cut had closed

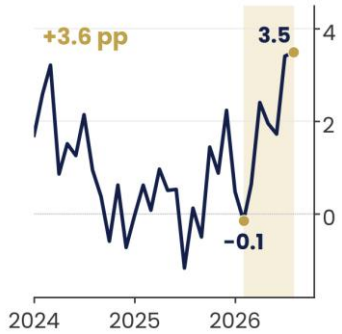
In late October we raised our 2026 GDP growth forecast from 1.7% to 1.9%, as activity accelerated in the third quarter, with monthly GDP growing 3.5% year over year in August, as shown in the middle chart. With the economy growing above expectations, we thought the room to cut the rate had closed, especially with inflation rebounding from 3.1% to 3.6% between July and October and the exchange rate depreciating 10.9% since September 4.

MX: Headline inflation
(% change y/y; biweekly);
1H Oct – 26



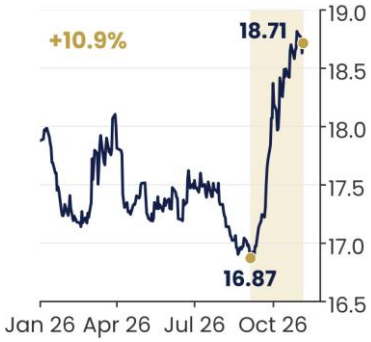
Source: Actinver with information from INEGI.

MX: Monthly GDP (IGAE)
(% change y/y; seas. adj.);
Aug – 26



Source: Actinver with information from INEGI.

MX: Exchange rate
(Pesos per dollar, FIX; daily);
Nov – 5

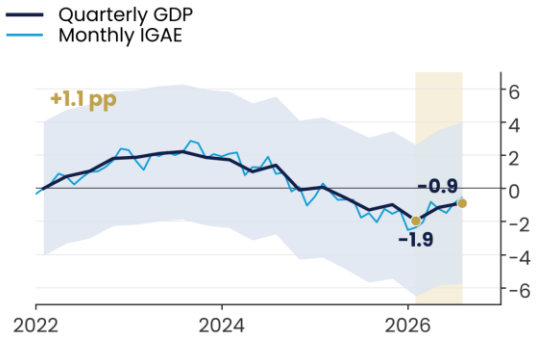


Source: Actinver with information from Bank of Mexico.

2.- Under its methodology, Banxico still saw room to cut

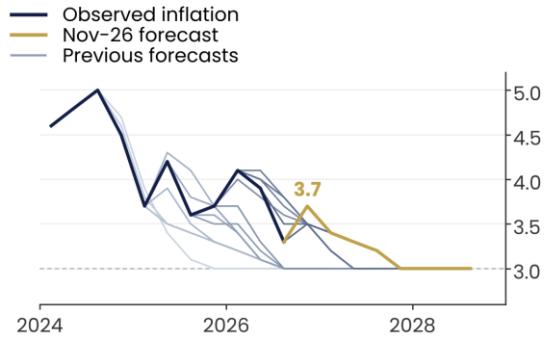
However, Banxico justified the cut with its measure of the output gap, considering that slack in the economy limits demand pressures and the pass-through of the peso's depreciation to prices. In its April-June Quarterly Report, Banxico estimated a gap of -1.3% of potential output, which in its reading still left room to cut. Likewise, Banxico raised its inflation forecast for the end of 2026 from 3.5% to 3.7%, although it kept convergence to 3% at the end of 2027, as shown in the chart on the right.

Banxico: Output gap
(% of potential output, s.a.);
3Q – 26



Source: Actinver with information from INEGI. Replication of Banxico's method.

Banxico: Inflation forecasts
(Headline, % y/y of quarterly avg.);
Nov – 24 to Nov – 26



Source: Actinver with information from Bank of Mexico.

3.- With the gap closed, the rate would remain at this level for a prolonged period

However, when the measure is updated with third-quarter GDP, our replication of Banxico's method shows that the gap has practically closed, moving from -1.9% of potential output in the first quarter to -0.9% in the third, within a confidence interval that includes zero, as shown in the chart on the left. As a result, Banxico's measure aligns with our view that the rate should remain at this level for a prolonged period, as its statement also indicates. Therefore, we think this adjustment concludes the easing cycle that began in March 2024.

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October 15, 2026 | Update

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