Macroeconomic Scenarios

Quarterly Update

Economy
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HR Ratings presents its updated macroeconomic scenarios for the third quarter of 2026

Key elements of the scenarios:

- **HR Ratings revises upward its growth estimate for 2026 economic activity to 1.3%, based on seasonally adjusted figures.** The second quarter posted an improvement in the level of economic activity (+1.4% q/q). In addition, the 1Q26 contraction was revised downward to 0.3% vs. the 0.6% previously estimated. The cumulative advance together with expectations of an improvement in domestic demand toward year-end justify the upward revision to GDP. For 2027, our estimate remains at 1.50%.
- **Inflation expectation unchanged for year-end 2026 at 4.0%.** Recent data place inflation at 3.26% in August, driven by pressures in core services and increases in agricultural prices. The data suggest that toward year-end the non-core component could post a significant rebound, as usually occurs, exerting upward pressure, while the stickiness of food merchandise and services will remain above 4.0%, keeping the bias to the upside.
- **Long-term inflation close to the upper limit of Banxico's target range.** We estimate that inflation will fall within the ± 1 percentage point variability range, though closer to the upper limit, with a point estimate of 3.70%.
- **We maintain our expectation that the reference interest rate will stand at 6.5% by year-end 2026**. We believe Banxico will pause its monetary policy rate cuts, keeping the rate at 6.50% for the rest of the year as pressures in the core component ease. Under this scenario, we estimate that the real *ex-post* rate would stand at 2.40%, a level that remains within the neutral rate range estimated by Banxico of 1.8% to 3.6%. For 2027, the interest rate would maintain the same level, preserving the 237 basis point spread with the Fed. After 2027, we anticipate a single 25bp cut, bringing the rate to 6.25%, similar to the previous revision.
- **We revise our exchange rate (FX) estimate for year-end 2026 from P$18.05 to P$17.60.** This incorporates the more favorable performance of the peso accumulated through the first half of September, despite elevated international uncertainty. For the remainder of the horizon, we update the projection to an average real annual depreciation of 0.90%[1] vs. the 1.10% previously estimated.

[1] We define the real movement by comparing the nominal change vs. the inflation differential between Mexico and the United States.

- **For the United States (U.S.), we maintain our growth estimate at 2.5% real for 2026.** We believe that investment conditions in data-center and artificial-intelligence-related infrastructure, together with the stability of private consumption, will support economic growth of 2.50% for 2026. For 2027, we estimate growth will stand at 2.0% as a result of lower trade uncertainty. For the remainder of the horizon, we maintain our projection that growth will converge toward 1.80% real annual.
- **We maintain our U.S. inflation (CPI) expectation for 2026 at 3.8%.** The year-end 2026 estimate incorporates uncertainty in energy prices, which has pushed headline inflation to 3.35% as of the end of August, with international crude oil prices above US$100 per barrel, while core inflation remains stable at 2.4% y/y. For 2027, we believe inflation will moderate to 3.0%, once the main energy-price-related shocks have dissipated. For 2028, we believe inflation will stand at 2.70% y/y before subsequently converging to 2.50% for the remainder of the projection horizon.
- **In line with the adjustment to our U.S. inflation expectations, we anticipate a 25bp increase in the Federal Reserve's (Fed) reference interest rate.** For year-end 2026, we estimate the reference rate will stand in a range of 4.0% to 4.25% (midpoint of 4.13%). Going forward, we revise upward the expected path of the reference rate relative to previous scenarios, placing it at 4.13% in 2027, 3.63% in 2028, and 3.13% for the remaining projection period.

Figure 1. HR Ratings Base Scenario Economic Projections

Year	Scenario	2026	2027	2028	2029	2030	2031	2032	2033	2034
Gross Domestic Product (GDP), Real*	New Scenario	25,860	26,247	26,641	27,041	27,446	27,858	28,275	28,700	29,130
	Previous Scenario	25,811	26,200	26,592	26,990	27,395	27,806	28,223	28,646	29,076
Gross Domestic Product (GDP), Nominal	New Scenario	37,127	39,331	41,643	44,072	46,615	49,316	52,188	55,184	58,352
	Previous Scenario	37,199	39,316	41,603	44,031	46,578	49,280	52,151	55,164	58,348
Real GDP Growth	New Scenario	1.30%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
	Previous Scenario	1.10%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Mexico Year-End Inflation	New Scenario	4.00%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
	Previous Scenario	4.00%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
Year-End Nominal Reference Rate	New Scenario	6.50%	6.50%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
	Previous Scenario	6.50%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Year-End Real Reference Rate (ex-post)	New Scenario	2.40%	2.70%	2.46%	2.45%	2.46%	2.46%	2.46%	2.46%	2.46%
	Previous Scenario	2.40%	2.46%	2.46%	2.46%	2.46%	2.46%	2.45%	2.46%	2.46%
Overnight Interbank Rate (TIIE)	New Scenario	6.56%	6.56%	6.31%	6.31%	6.31%	6.31%	6.31%	6.31%	6.31%
	Previous Scenario	6.55%	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%
28-Day Equilibrium Interbank Rate (TIIE)	New Scenario	6.76%	6.77%	6.52%	6.52%	6.52%	6.52%	6.52%	6.52%	6.52%
	Previous Scenario	6.79%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%
Year-End Nominal Exchange Rate	New Scenario	17.60	18.00	18.34	18.72	19.11	19.51	19.92	20.34	20.76
	Previous Scenario	18.05	18.43	18.85	19.28	19.72	20.18	20.64	21.12	21.60
Real Peso Revaluation Index at Year-End (Base=1999)	New Scenario	90.22	88.83	88.03	87.23	86.45	85.67	84.90	84.14	83.38
	Previous Scenario	87.97	87.01	86.05	85.10	84.17	83.24	82.33	81.42	80.52
Real Movement vs. USD	New Scenario	2.30%	-1.55%	-0.90%	-0.90%	-0.90%	-0.90%	-0.90%	-0.90%	-0.90%
	Previous Scenario	-0.25%	-1.10%	-1.10%	-1.10%	-1.10%	-1.10%	-1.10%	-1.10%	-1.10%
Pesos per UDI at Year-End	New Scenario	9.01	9.35	9.69	10.05	10.42	10.81	11.21	11.62	12.05
	Previous Scenario	9.04	9.37	9.72	10.08	10.45	10.84	11.24	11.65	12.08
U.S. Real GDP Growth	New Scenario	2.50%	2.00%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
	Previous Scenario	2.50%	2.00%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
U.S. Inflation (CPI)	New Scenario	3.80%	3.00%	2.70%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
	Previous Scenario	3.80%	2.70%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Fed Reference Rate**	New Scenario	4.13%	4.13%	3.63%	3.13%	3.13%	3.13%	3.13%	3.13%	3.13%
	Previous Scenario	3.88%	3.63%	3.13%	3.13%	3.13%	3.13%	3.13%	3.13%	3.13%
Year-End Real Reference Rate (ex-post)	New Scenario	0.32%	1.10%	0.90%	0.62%	0.61%	0.62%	0.61%	0.61%	0.61%
	Previous Scenario	0.08%	0.90%	0.62%	0.61%	0.62%	0.62%	0.62%	0.62%	0.62%
Reference Rate Range	New Scenario	4.0-4.25%	4.0-4.25%	3.5-3.75%	3.0-3.25%	3.0-3.25%	3.0-3.25%	3.0-3.25%	3.0-3.25%	3.0-3.25%
	Previous Scenario	3.75-4.0%	3.50-3.75%	3.0-3.25%	3.0-3.25%	3.0-3.25%	3.0-3.25%	3.0-3.25%	3.0-3.25%	3.0-3.25%
Banxico-Fed Nominal Rate Spread (bp)	Scenario	237	237	262	312	312	312	312	312	312
SOFR (3MMA)	New Scenario	3.95%	4.10%	3.58%	3.08%	3.08%	3.08%	3.08%	3.08%	3.08%
	Previous Scenario	3.83%	3.58%	3.08%	3.08%	3.08%	3.08%	3.08%	3.08%	3.08%
SONIA (3MMA)	New Scenario	4.06%	4.23%	3.73%	3.23%	3.23%	3.23%	3.23%	3.23%	3.23%
	Previous Scenario	4.26%	4.01%	3.17%	3.17%	3.17%	3.17%	3.17%	3.17%	3.17%
€STR (3MMA)	New Scenario	2.28%	2.00%	1.75%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
	Previous Scenario	2.00%	1.75%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Euribor (3MMA)	New Scenario	2.42%	2.42%	2.17%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%
	Previous Scenario	2.17%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%
USD per Euro	New Scenario	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15
	Previous Scenario	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17
Pesos per Euro	New Scenario	20.30	20.78	21.17	21.61	22.06	22.53	23.00	23.48	23.97
	Previous Scenario	21.07	21.52	22.01	22.52	23.04	23.57	24.11	24.66	25.23
Mexican Export Crude Oil Mix Price (dpb)[1]		80.00	72.80	70.98	69.56	68.17	66.81	65.47	64.16	62.88
Total Crude Oil Production Volume[2] (mbd)	Scenario	1,412	1,437	1,482	1,513	1,520	1,528	1,535	1,543	1,550
Henry Hub Gas Price[1]		3.4	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1

Source: HR Ratings. Projections based on information from Banxico, SHCP and INEGI. Except for GDP data, figures are year-end values.

*Real GDP in billions of constant 2018 pesos. Original figures.

**Refers to the estimated midpoint of the reference interest rate range.

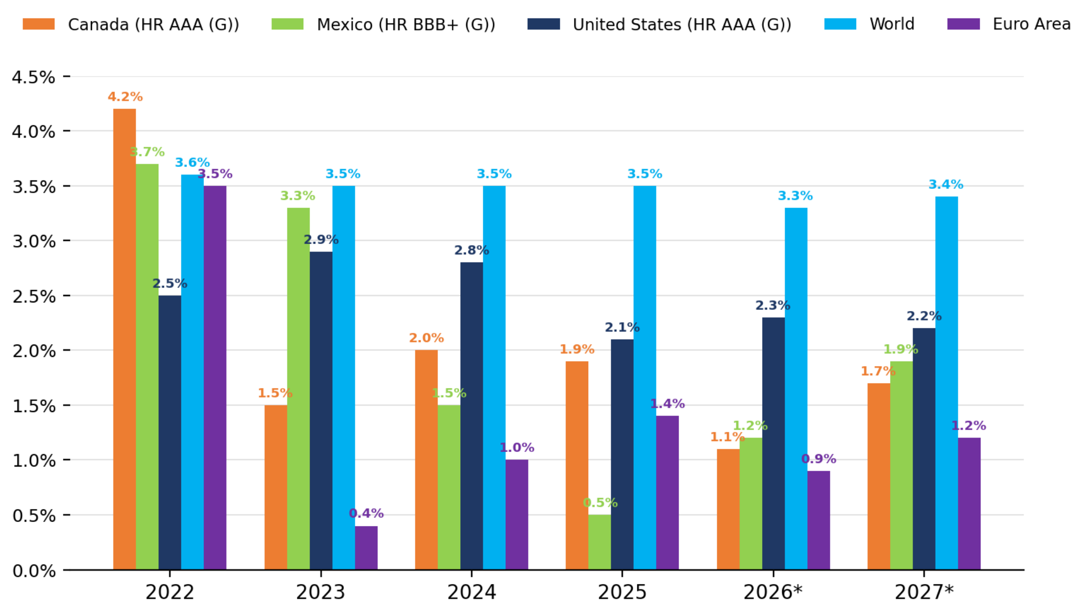
[1]Average annual price. The volatility of this commodity may cause variations in its year-end price; for Henry Hub, the price is quoted in dollars per Million BTU.

[2]Total crude oil production volume of Pemex and its partners, average annual, thousand barrels per day (mbd), excludes condensates.

International Economic Outlook

In the third quarter (3Q26) the global economy showed resilient growth at a moderate pace, with growth estimated by the International Monetary Fund (IMF) at 3.0% vs. 3.1% expected in June. To a large extent, global GDP growth continues to be supported by investment in Artificial Intelligence (AI), with the greatest benefits directed toward the U.S. economy. Inflation is projected to be more persistent than anticipated a few months ago, as a result of the energy shock stemming from the conflict in the Middle East and the disruptions in the Strait of Hormuz, which has pushed crude oil and gas prices above levels observed at the start of the year. Both the IMF and the World Bank foresee a base scenario of sustained, though moderate, growth relative to what was anticipated at the beginning of the year.

Figure 2. Economic Growth (real annual change)



Source: HR Ratings with information from the IMF.
*Projected by the IMF.

The U.S. has shown resilience in the first half of the year, with annualized growth of 2.1% and 1.5% in each quarter. To a large extent, this performance has been supported by goods consumption dynamics, which accelerated during the second quarter of the year. This is in addition to the momentum generated by business investment in infrastructure associated with the development of data centers and AI. The third quarter reports a sustained level of consumption as a result of labor market stability. HR Ratings projects that the U.S. will post economic growth of 2.5% in 2026.

With respect to inflation risks, the U.S. is facing significant pressures stemming from energy-sector shocks and the persistence of core inflation components, pushing CPI above the upper end of the target range (2.0% +/- 1.0%) and headline PCE to 3.7% annually. This has generated a divided stance among members of the Federal Reserve's Board of Governors, shifting its posture to restrictive with a 25 basis point rate hike in the September 16 decision, placing it in a range of 3.75% - 4.00%. According to HR Ratings, this is subject to an additional increase in the December decision, placing the reference rate at a midpoint of 4.13% by year-end 2026. The Fed's updated economic projections reveal a higher interest rate path for 2026 and coming years relative to what was anticipated in June 2026.

HR Ratings' base scenario contemplates U.S. headline inflation at year-end of 3.8%, the highest year-end level since 2022 (6.40%). For 2027 we estimate inflation will moderate to 3.0% before subsequently reaching the midpoint of the target range, remaining at 2.5% over the long term. In line with persistent inflation, we believe the Federal Reserve will implement an additional 25bp increase, placing the rate in a range of 4.0% to 4.25% (4.13% midpoint) by year-end.

Economic Outlook for Mexico

Evolution of Economic Activity

In the second quarter (2Q26), economic activity posted a 1.5% quarterly rebound. While 2Q26 performance is the best since 4Q20 (+4.3%), we view the rebound as transitory in nature. Comparing the first half advance vs. the first half of 2025, it stood at 1.0%, and relative to the same quarter of the prior year it was 1.5%.

2Q26 data show a recovery in the industrial sector, particularly in manufacturing activities linked to the positive dynamics of the Mexican export sector, despite the trade and tariff tensions imposed by the United States, while construction investment posted an advance.

Noteworthy is the positive dynamic of the tertiary sector, which had shown a slowdown since the start of the year and benefited from the boost of activities related to the run-up to the soccer World Cup. Consumption and services demand activities related to retail trade, transportation services, and recreation, lodging and cultural activities showed the greatest benefits during the quarter.

According to our analysis, in June economic activity, as measured by the Global Indicator of Economic Activity (IGAE), fell 0.1% month-on-month, as a result of a 0.1% monthly contraction in tertiary-sector activities, which was not fully offset by the advance in the industrial sector (+0.2% m/m). Considering the IGAE, and contrary to expectations, HR Ratings estimates that the greatest momentum in the second quarter came from April, ahead of the start of the World Cup, as a result of infrastructure works in host cities, particularly in remodeling and hospitality, leading economic activity to grow 1.4% month-on-month in April vs. the 0.1% decline in June.

In this regard, according to reported data on economic spillover of approximately US$2.5 billion between June and July, HR Ratings estimates that the World Cup boost reached 0.12% of GDP, below the 0.3% estimated by consensus.

As shown in Figure 3, GDP rose 1.5% in 2Q26, with growth across its three main sectors. Notably, the secondary sector posted a 1.6% quarterly advance, which we view as a rebound relative to 1Q26 performance, driven by the significant level of manufacturing exports related to electronics, components and machinery, offsetting the slowdown within the automotive sector. Meanwhile, although construction posted a 6.8% boost in April, this was not enough to offset the poor performance of subsequent months.

The tertiary sector, the most significant given that it represents 64.2% of GDP, posted growth of 1.5%, reflecting the recovery in wholesale trade dynamics and greater demand for services.

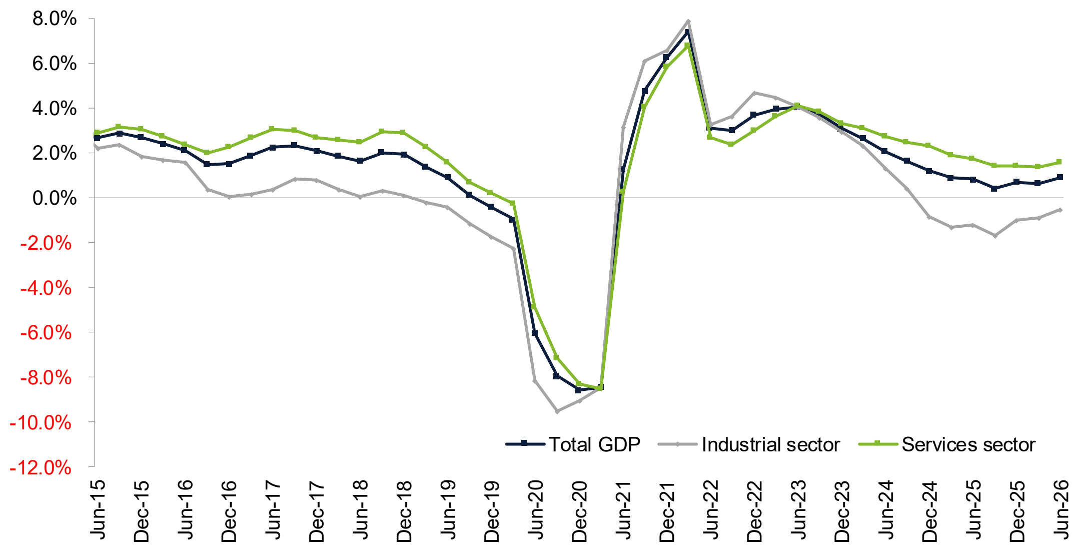
Figure 3. Quarterly and Trailing-Twelve-Month GDP Evolution

Economic Division	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Primary	**-6.72%**	**5.51%**	**-2.76%**	**3.08%**	**1.22%**	**-1.99%**	**2.44%**
Secondary	**-2.17%**	**0.54%**	**-0.15%**	**-0.70%**	**0.59%**	**-0.57%**	**1.64%**
Manufacturing	-0.92%	0.57%	-0.10%	-1.12%	-0.01%	-0.48%	1.07%
Construction	-4.28%	2.31%	-0.14%	-2.23%	3.80%	-1.30%	4.01%
Mining	-3.30%	-2.93%	-1.38%	2.51%	1.48%	0.15%	0.78%
Electricity	-1.34%	0.11%	-0.54%	0.26%	2.40%	-2.18%	-0.48%
Tertiary (Services)	**-0.14%**	**0.56%**	**0.24%**	**0.34%**	**0.76%**	**-0.21%**	**1.36%**
Wholesale Trade	-0.85%	-2.66%	-2.09%	1.50%	2.24%	0.73%	6.27%
Retail Trade	0.71%	1.93%	1.21%	0.29%	0.79%	-1.18%	0.95%
Real Estate and Rental	0.17%	0.57%	0.51%	0.16%	0.29%	0.02%	0.09%
Rest of Tertiary	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Gross Domestic Product	**-0.88%**	**0.77%**	**-0.02%**	**-0.10%**	**0.95%**	**-0.34%**	**1.42%**
TTM GDP	**1.21%**	**0.89%**	**0.84%**	**0.42%**	**0.73%**	**0.67%**	**0.94%**

Source: HR Ratings with information from INEGI. Base 2018. Seasonally adjusted data.
Changes relative to the immediately preceding quarter.

Figure 4 shows the evolution of GDP and its two main sectors on a trailing-twelve-month (TTM) basis, which stood at 0.82% at the close of 2Q26, up from 0.68% in 1Q26. Within this, the tertiary sector reflects a significant improvement, with growth of 2.1%, up from 1.1% in the prior quarter. However, the advance since the end of 2025 is modest. Similarly, the secondary sector reflects a TTM rebound of 0.3% vs. the 1.1% contraction in the immediately preceding quarter.

Figure 4. Real TTM Growth of GDP and the Secondary and Tertiary Sectors



Source: HR Ratings with seasonally adjusted data from the INEGI (Base: 2018)

According to Figure 4, the tertiary sector shows stagnation over the past year, related to lower real income levels, declines in remittances both in volume and due to peso appreciation, as well as labor market weakness, with the employed Economically Active Population (EAP) showing a decline of 293 thousand.

Banco de México's Governing Board adjusted its 2026 growth forecast to 1.5% from 1.1% in its previous report, owing to the better performance of the economy in the second quarter. Despite the revision, the institute believes this increase will be partially offset by a deeper-than-expected slowdown in the immediately following quarter. Businesses remain cautious about investment due to the trade uncertainty that continues to be observed with the United States and the ongoing conclusion of the USMCA review, under which it has been agreed not to renew the treaty but instead to conduct annual reviews until its expiration in 2036.

Inflation and the Monetary Policy Rate

In August, the National Consumer Price Index (INPC) posted an annual change (y/y) of 3.26%, representing a rebound from the decline observed in July (3.12% y/y). Inflationary pressures were present in the non-core component, with increases in fruit and vegetable prices as well as livestock prices, reaching an annual change of 1.13%, up from 0.29% y/y in July. On the other hand, core inflation fell from 3.95% y/y to 3.88%, the lowest level since March 2025 (3.64% y/y), as a result of lower inflationary pressures in its two subcomponents of merchandise and services.

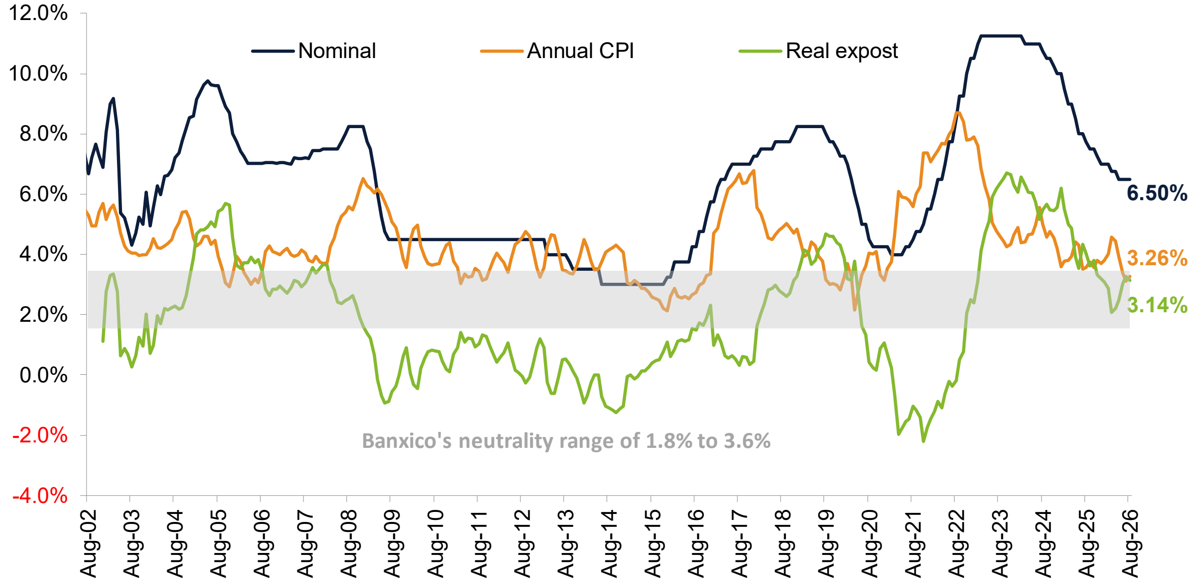
With respect to non-core inflation, it came under upward pressure, mainly due to the change in trend in agricultural prices (-1.5% y/y in August vs. -3.3% y/y in July). On one hand, fruits and vegetables posted an annual change of 4.1%, rebounding from the seven-month low observed in July (2.1% y/y), as a result of higher prices for onion, serrano chili and lime. Going forward, we expect fruit and vegetable inflation to remain under pressure given the rebound typically observed in these products toward year-end, in addition to possible disruptions caused by the "El Niño" weather phenomenon.

On the other hand, energy inflation (0.81% y/y) remains moderate, as the tax levied by the Ministry of Finance has been reduced to limit growth in fuel prices such as gasoline and diesel. However, the rebound in international crude oil prices, driven by the persistent conflict in the Middle East, could lead to additional increases in coming months.

In the context of monetary policy, the Board opted to pause the monetary easing cycle observed in the first half of the year. At the August 6 meeting, it decided to hold the monetary policy rate unchanged at 6.50% (see Figure 5). Although headline inflation remained within the target, it was noted that the services component remains persistently elevated, above 4.30% y/y. Members noted that this price stickiness requires the Central Bank to remain cautious and avoid premature cuts. Additionally, the Federal Reserve's more restrictive stance (*hawkish)* is considered by Banxico, as it could generate pressure on the exchange rate as a result of the narrowing rate differential.

Banxico's balance of risks considers that the global disinflationary process is proving more gradual than expected, particularly due to shocks in international prices of major *commodities* energy commodities, which has led international crude oil prices, on a West Texas Intermediate basis, to exceed US$100 per barrel. Notably, Banco de México pushed back its estimate for inflation to converge to the 3.0% target (+/- 1.0%) to the last quarter of 2027, from the second quarter it had previously anticipated. It also assessed slack conditions in the Mexican economy and the slowdown in private consumption, concluding that there are no excessive pressures stemming from aggregate domestic demand, and that maintaining a rate level of 6.50% is therefore appropriate to preserve price stability without affecting levels of productive activity. On the upside, it considers that uncertainty stemming from global geopolitical tensions, elevated energy prices, and North American trade uncertainty could affect stability going forward, so it will opt to closely monitor price determinants and keep the rate at 6.50% for an extended period.

Figure 5. Annual Headline, Core and Non-Core Inflation



Source: HR Ratings with data from Banxico and INEGI.

Base Scenario

HR Ratings updates its 2026 growth estimate to 1.3% from the previous 1.1%, based on seasonally adjusted figures. This reflects the improved performance of economic activity in 2Q26 relative to what was considered in the previous revision, as a result of positive dynamics in two of the three sectors of economic activity, particularly the rebound observed in the services sector of 1.36% q/q and the 1.64% advance in the secondary sector, supported by construction activity. In addition, the downward revision of the 1Q26 contraction to 0.3% from the 0.6% previously forecasted had a positive effect on the estimated annual growth. While our estimates consider a complex outlook in terms of manufacturing-sector investment, the boost from domestic demand toward year-end would have a positive effect on growth in the last quarter of the year.

The labor market shows moderation, adding 281 thousand jobs cumulatively from January through August 2026. Although we expect public spending to expand in the second half of the year, the level will still be below that observed in 2024, reaching 2.6% of GDP, so the boost will come from an improvement in consumption levels.

While there was an improvement in investment levels in 2Q26, much of it was observed at the start of the second quarter as a result of investments recorded ahead of the soccer World Cup, while retail trade levels were moderate, even posting a monthly contraction in June. Uncertainty over the trade relationship with the United States continues to be one of the key factors affecting the level of new investment in the economy. Although trade negotiations have not concluded, on July 1 it was announced that the USMCA trade agreement will not be renewed and that annual reviews will instead be conducted for the next ten years, with expiration in 2036.

With respect to headline inflation, it has shown some moderation in the core component. However, core inflation stands at an annual level near 4.0%, reflecting the persistence of services and food merchandise prices. This had already been anticipated in the previous macroeconomic scenarios update, so we continue to expect headline inflation to close 2026 at 4.0%, given that we anticipate renewed supply shocks in non-core inflation toward year-end, as well as an improvement in domestic demand levels, reigniting inflationary pressures.

Based on the foregoing, we anticipate that the central bank will hold the monetary policy rate at 6.50% for the rest of the year, in line with our latest revision, despite the Federal Reserve's 25bp rate hike on September 16, which narrowed the rate spread to 252 basis points, the lowest level since September 2007. There are upside risks that could lead Banco de México to change its stance in the event of greater supply-chain disruption due to further deterioration in the final terms of the USMCA, with an increase in the effective tariff paid by Mexico. Greater pressures from a new escalation in geopolitical conflicts would lead to a shift toward a restrictive stance in the short term. For 2027, we believe Banxico's monetary policy rate will remain at 6.50%, 25bp above what was anticipated in the previous revision, while for 2028 we expect a rate cut to 6.25%, which would then hold over the long term as inflation continues to converge toward the target.

With respect to the U.S. economy, we maintain our expectation of 2.5% growth for 2026, supported by the sustainable level of domestic demand, which is being bolstered by the strength in job creation at the start of the third quarter, as well as by investment in sectors related to data-center equipment and infrastructure, which has advanced at double-digit levels. This would benefit the dynamics of Mexican goods exports, which has managed to offset the slowdown in transportation exports. As we have noted, although total Mexican exports are at a record level in dollar flow terms, the impact on GDP growth has been limited, since a significant proportion of manufacturing exports incorporates a high content of imported inputs, meaning their contribution to national value added is reduced, generating impacts on long-term productivity and economic growth.

Regarding our GDP estimate for 2027 onward, we maintain our outlook of 1.5% real annual growth, as we believe there are structural constraints that have limited the growth of the country's productive capacity, with prolonged periods of low investment and job creation in high value-added sectors.

Finally, HR Ratings revises its year-end 2026 exchange rate projection to P$17.60/USD, from the previously estimated P$18.05/USD, as a result of the exchange rate appreciation observed through the first half of September. We believe that despite the narrowing rate differential between Banxico and the Fed, which incentivized *carry trade*, the Mexican peso maintains structural resilience, since the country receives a significant flow of dollar currency as a result of high levels of exports and remittances. Additionally, despite the reductions in Banxico's monetary policy rate, the rate level remains highly attractive relative to sovereigns with similar ratings. We project that, toward year-end, the dollar will show broad-based appreciation against a basket of currencies due to the expected 25bp Fed rate increase, which would lead the Mexican currency to close the year at P$17.60/USD, accumulating an appreciation of 2.30% during the year. For 2027, we believe the Mexican currency could experience a depreciation of 1.55%, reaching P$18.00/USD, while from 2028 onward the depreciation would average 0.90% real annually, vs. the 1.10% estimated in the previous revision, as the inflation differential between Mexico and the United States narrows.

Alternative Economic Scenarios

HR Ratings believes the macroeconomic projections presented in the previous sections provide a prudent basis for the economic outlook, based on leading indicators through the first half of the year. Nonetheless, the forecasts could be affected by the volatility of factors depending on context. The Mexican economy is exposed to a volatile international environment, which to some extent reflects the impacts on the trajectory of global growth, foreign trade demand, the evolution of international reference prices, and the interest rates of various central banks. In order to quantitatively present the volatility surrounding the base scenario, two alternative scenarios are considered: a stagflation scenario and a low-economic-growth-and-low-inflation scenario, which are described below.

Stagflation Scenario

This scenario is characterized by low growth and high inflation, accompanied by a higher reference interest rate. It considers that, despite high interest rates, restrictive monetary policy would fail to contain price increases, while at the same time monetary policy would negatively affect growth.

- **The stagflation scenario reflects greater inflationary pressures toward year-end.** Accordingly, annual inflation in 2026 would hold at 4.50%, 50bp above the base scenario. From 2027 onward, inflation would average 4.20%, above Banco de México's point target over the projected horizon.
- **The interest rate would implement two 25bp hikes, placing it at 7.00% by year-end 2026**. This would result from greater inflationary pressures in the core component due to excess demand, combined with greater volatility in major *commodities* energy commodities. This would lead the Central Bank to adopt a restrictive stance. For 2027, the rate would hold at 7.00%, before subsequently being reduced to 6.75% in 2028.

- **Limited growth in economic activity.** Under this scenario, growth would reach 0.80%, reflecting a lower level of household consumption and low levels of both private and public infrastructure investment. From 2027 onward, average real growth would stand at 0.90%.
- **The peso-dollar exchange rate would show a real depreciation of 3.6% in 2026, closing the year at P$18.60/USD.** In 2027, a depreciation of 1.30% would be observed, implying a level of P$19.0/USD, continuing with an average real depreciation of 1.30% for the remainder of the projection horizon.

Low-Growth and Low-Inflation Scenario

The Low-Growth and Low-Inflation Scenario contemplates an adverse outlook with respect to economic growth, with lower inflation levels leading to a lower monetary policy rate. The key assumption is that greater slack conditions in the economy would lead to lower inflationary pressures, prompting Banco de México to adopt a looser monetary policy stance, although lower rates would fail to stimulate economic activity within the projection horizon. The exchange rate would show nominal appreciation relative to the base scenario and would continue to benefit from a lower deficit in current account, as well as remittance inflows.

- **By year-end 2026, inflation would stand at 3.70%, while the monetary policy rate would reach 6.25%.** For 2027, we assume inflation would continue converging toward the Central Bank's target and reach 3.30%. Low inflation levels would be observed throughout the projection horizon due to a weakened economy, averaging 3.30% between 2027 and 2033.
- **In 2026, economic growth would remain at its lowest level, averaging 0.30%, implying a sharp deterioration relative to the base scenario.** In 2027, a modest rebound in economic activity would be observed, with growth of 0.40%, which would hold throughout the projected period.
- **The peso-dollar exchange rate would stand at P$16.60/USD in 2026, implying a real appreciation of 8.85%.** In contrast, for 2027 the real depreciation would be 1.10% annually, placing the exchange rate at P$17.0/USD. From 2028 onward, the annual real depreciation would hold at 1.10%.

Figure 6. HR Ratings Economic Projections Under Different Scenarios

Year	Scenario	2026	2027	2028	2029	2030	2031	2032	2033	2034
Gross Domestic Product (GDP), Real*	Base Scenario	25,860	26,247	26,641	27,041	27,446	27,858	28,275	28,700	29,130
	Stagflation Sc.	25,733	25,963	26,197	26,433	26,671	26,911	27,153	27,397	27,644
	Low Gr. & Low Infl. Sc	25,605	25,707	25,809	25,913	26,016	26,120	26,224	26,329	26,435
Gross Domestic Product (GDP), Nominal**	Base Scenario	37,127	39,331	41,643	44,072	46,615	49,316	52,188	55,184	58,352
	Stagflation Sc.	36,971	39,088	41,334	43,702	46,173	48,792	51,574	54,501	57,558
	Low Gr. & Low Infl. Sc	36,733	38,340	39,965	41,632	43,346	45,143	47,027	48,927	50,935
Real GDP Growth	Base Scenario	1.30%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
	Stagflation Sc.	0.80%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%
	Low Gr. & Low Infl. Sc	0.30%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%
GDP Deflactor Inflation	Base Scenario	3.82%	4.38%	4.31%	4.27%	4.21%	4.23%	4.26%	4.18%	4.18%
	Stagflation Sc.	3.90%	4.79%	4.80%	4.78%	4.71%	4.73%	4.76%	4.73%	4.67%
	Low Gr. & Low Infl. Sc	3.75%	3.96%	3.82%	3.75%	3.70%	3.73%	3.76%	3.62%	3.69%
Mexico Year-End Inflation	Base Scenario	4.00%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
	Stagflation Sc.	4.50%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
	Low Gr. & Low Infl. Sc	3.70%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%
Year-End Nominal Reference Rate	Base Scenario	6.50%	6.50%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
	Stagflation Sc.	7.00%	7.00%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
	Low Gr. & Low Infl. Sc	6.25%	6.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Year-End Real Reference Rate	Base Scenario	2.40%	2.70%	2.46%	2.45%	2.46%	2.46%	2.46%	2.46%	2.46%
	Stagflation Sc.	2.39%	2.69%	2.44%	2.44%	2.44%	2.44%	2.45%	2.45%	2.45%
	Low Gr. & Low Infl. Sc	2.46%	2.61%	2.37%	2.37%	2.38%	2.37%	2.37%	2.37%	2.37%
Overnight Interbank Rate (TIIE)	Base Scenario	6.56%	6.56%	6.31%	6.31%	6.31%	6.31%	6.31%	6.31%	6.31%
	Stagflation Sc.	7.06%	7.06%	6.81%	6.81%	6.81%	6.81%	6.81%	6.81%	6.81%
	Low Gr. & Low Infl. Sc	6.31%	6.06%	5.81%	5.81%	5.81%	5.81%	5.81%	5.81%	5.81%
Compound Overnight TIIE (monthly), 28-Day	Base Scenario	6.61%	6.61%	6.36%	6.36%	6.36%	6.36%	6.36%	6.36%	6.36%
	Stagflation Sc.	7.11%	7.11%	6.86%	6.86%	6.86%	6.86%	6.86%	6.86%	6.86%
	Low Gr. & Low Infl. Sc	6.36%	6.11%	5.86%	5.86%	5.86%	5.86%	5.86%	5.86%	5.86%
28-Day Equilibrium Interbank Rate (TIIE)	Base Scenario	6.76%	6.77%	6.52%	6.52%	6.52%	6.52%	6.52%	6.52%	6.52%
	Stagflation Sc.	7.26%	7.26%	7.01%	7.01%	7.01%	7.01%	7.01%	7.01%	7.01%
	Low Gr. & Low Infl. Sc	6.51%	6.26%	6.01%	6.01%	6.01%	6.01%	6.01%	6.01%	6.01%
Year-End Nominal Exchange Rate	Base Scenario	17.60	18.00	18.34	18.72	19.11	19.51	19.92	20.34	20.76
	Stagflation Sc.	18.60	19.01	19.47	19.93	20.41	20.90	21.41	21.92	22.44
	Low Gr. & Low Infl. Sc	16.60	17.00	17.44	17.90	18.36	18.84	19.33	19.83	20.35
Real Peso Revaluation Index at Year-End (Base=1999)	Base Scenario	90.22	88.83	88.03	87.23	86.45	85.67	84.90	84.14	83.38
	Stagflation Sc.	85.02	83.92	82.82	81.75	80.68	79.64	78.60	77.58	76.57
	Low Gr. & Low Infl. Sc	96.00	94.94	93.90	92.87	91.85	90.84	89.84	88.85	87.87
Real Movement vs. USD (Base=1999)	Base Scenario	2.30%	-1.55%	-0.90%	-0.90%	-0.90%	-0.90%	-0.90%	-0.90%	-0.90%
	Stagflation Sc.	-3.60%	-1.30%	-1.30%	-1.30%	-1.30%	-1.30%	-1.30%	-1.30%	-1.30%
	Low Gr. & Low Infl. Sc	8.85%	-1.10%	-1.10%	-1.10%	-1.10%	-1.10%	-1.10%	-1.10%	-1.10%
Pesos per UDI at Year-End	Base Scenario	9.01	9.35	9.69	10.05	10.42	10.81	11.21	11.62	12.05
	Stagflation Sc.	9.05	9.43	9.83	10.24	10.68	11.12	11.59	12.08	12.58
	Low Gr. & Low Infl. Sc	8.99	9.28	9.59	9.91	10.23	10.57	10.92	11.28	11.65
Pesos per Euro	Base Scenario	20.30	20.78	21.17	21.61	22.06	22.53	23.00	23.48	23.97
	Stagflation Sc.	21.30	21.82	22.35	22.88	23.43	23.99	24.57	25.16	25.76
	Low Gr. & Low Infl. Sc	19.30	19.85	20.61	21.15	21.70	22.26	22.84	23.44	24.05
Mexican Export Crude Oil Mix Price (dpb)	Base Scenario	80.00	72.80	70.98	69.56	68.17	66.81	65.47	64.16	62.88
Total Crude Oil Production Volume (mbd)		1,412	1,437	1,482	1,513	1,520	1,528	1,535	1,543	1,550
International Variables										
U.S. Real GDP Growth	Base Scenario	2.50%	2.00%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
	Stagflation Sc.	1.90%	1.40%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
	Low Gr. & Low Infl. Sc	1.50%	1.00%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%
U.S. Inflation (CPI)	Base Scenario	3.80%	3.00%	2.70%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
	Stagflation Sc.	4.70%	3.30%	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%
	Low Gr. & Low Infl. Sc	3.10%	2.00%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
Fed Reference Rate***	Base Scenario	4.13%	4.13%	3.63%	3.13%	3.13%	3.13%	3.13%	3.13%	3.13%
	Stagflation Sc.	4.63%	5.13%	4.63%	4.13%	4.13%	4.13%	4.13%	4.13%	4.13%
	Low Gr. & Low Infl. Sc	3.63%	3.63%	3.13%	2.63%	2.63%	2.63%	2.63%	2.63%	2.63%
SOFR (3MMA)	Base Scenario	3.95%	4.10%	3.58%	3.08%	3.08%	3.08%	3.08%	3.08%	3.08%
	Stagflation Sc.	4.49%	5.35%	4.58%	4.08%	4.08%	4.08%	4.08%	4.08%	4.08%
	Low Gr. & Low Infl. Sc	3.28%	3.82%	3.34%	2.84%	2.84%	2.84%	2.84%	2.84%	2.84%
SONIA (3MMA)	Base Scenario	4.06%	4.23%	3.73%	3.23%	3.23%	3.23%	3.23%	3.23%	3.23%
	Stagflation Sc.	4.56%	5.23%	4.73%	4.23%	4.23%	4.23%	4.23%	4.23%	4.23%
	Low Gr. & Low Infl. Sc	3.56%	3.73%	3.23%	2.73%	2.73%	2.73%	2.73%	2.73%	2.73%
€STR (3MMA)	Base Scenario	2.28%	2.00%	1.75%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
	Stagflation Sc.	2.66%	3.02%	2.75%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
	Low Gr. & Low Infl. Sc	1.78%	1.57%	1.51%	1.01%	1.01%	1.01%	1.01%	1.01%	1.01%
Euribor (3MMA)	Base Scenario	2.42%	2.42%	2.17%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%
	Stagflation Sc.	2.67%	2.67%	2.42%	2.17%	2.17%	2.17%	2.17%	2.17%	2.17%
	Low Gr. & Low Infl. Sc	2.17%	2.17%	1.92%	1.67%	1.67%	1.67%	1.67%	1.67%	1.67%
USD per Euro	Base Scenario	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15

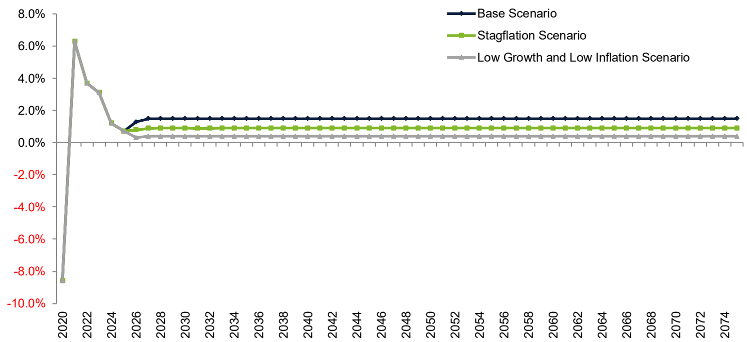
Source: HR Ratings. Projections based on information from Banxico, SHCP and INEGI. Except for GDP data, figures are year-end values.

*Real GDP in billions of constant 2018 pesos.

**Nominal GDP in billions of pesos.

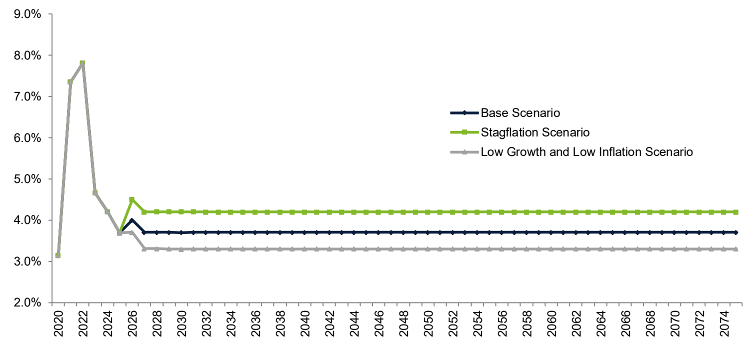
***Refers to the estimated midpoint of the reference interest rate range.

Figure A2.1 Real GDP Growth



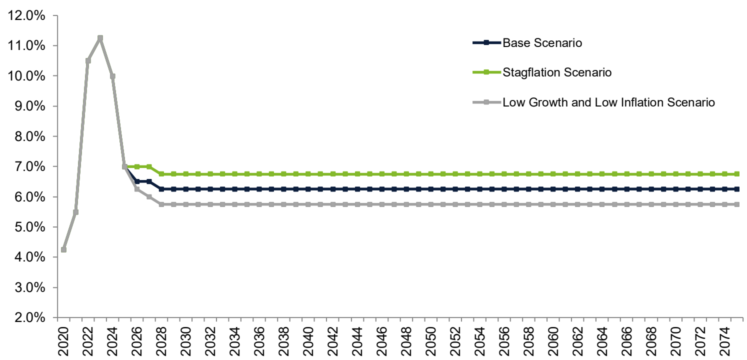
Source: HR Ratings projections based on information from Banxico, SHCP and INEGI.

Figure A2.2 Mexico Year-End Inflation



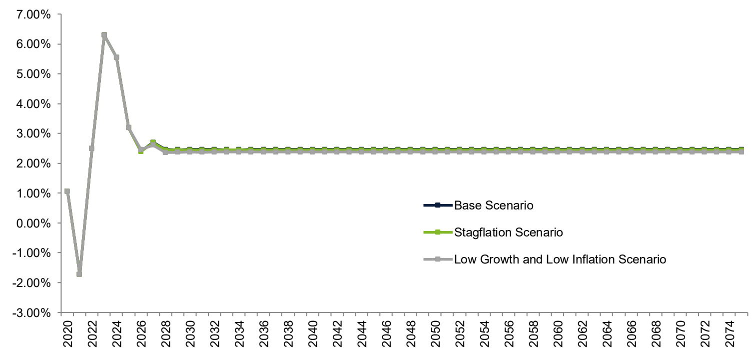
Source: HR Ratings projections based on information from Banxico, SHCP and INEGI.

Figure A2.3 Nominal Reference Rate



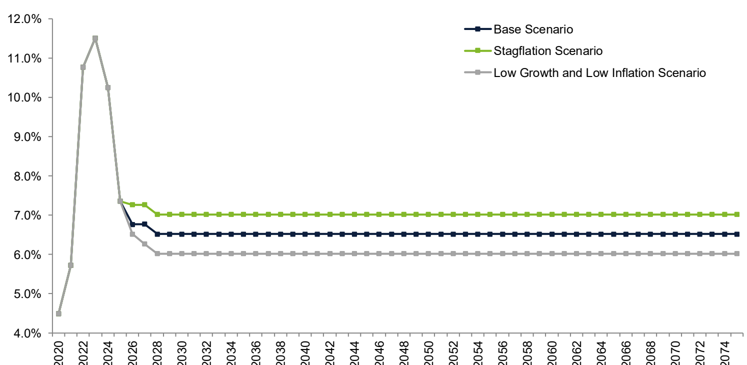
Source: HR Ratings projections based on information from Banxico, SHCP and INEGI.

Figure A2.4 Real Reference Rate



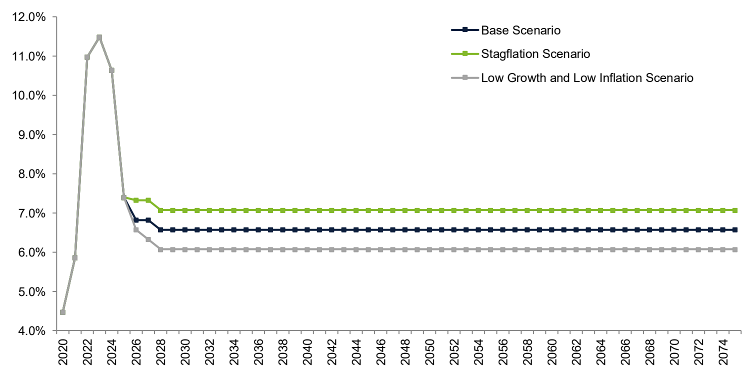
Source: HR Ratings projections based on information from Banxico, SHCP and INEGI.

Figure A2.5 28-Day Equilibrium Interbank Rate (TIIE)



Source: HR Ratings projections based on information from Banxico, SHCP and INEGI.

Figura A2.6 91-Day Equilibrium Interbank Rate (TIIE)



Source: HR Ratings projections based on information from Banxico, SHCP and INEGI.

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