Economic and Financial Markets Research
Economic Research, Mexico

February 20, 2025

Banxico minutes – The easing cycle will continue, supported by disinflation and economic weakness

- **Banxico released the minutes of the decision held on February 6th. At the time, they opted to cut the reference rate by 50bps to 9.50%, in line with our expectation, with a 4-1 vote**
- **In our view, the document reaffirmed the more dovish tone of the statement, suggesting that there will be a rate cut of the same magnitude in the next meeting**
- **Among the strongest arguments to support this scenario are: (1) The recognition of progress in the disinflationary process, resulting in a new phase in the fight against inflation; and (2) expectations of a further slowdown in economic activity**
- **In addition, most members cautioned that it would not be prudent to act hastily given risks arising from possible changes in US trade policy**
- **Yesterday, the institution released its 4Q24 *Quarterly Report* (QR), highlighting a downward revision in its GDP forecast 2025, with other indicators also signaling further weakness in activity. In addition, members' comments in the Q&A were consistent with those in today's minutes**
- **In this backdrop, we reiterate our call for a 50bps cut in March, with the reference rate at 8.50% by year-end 2025**

Cuts will continue, expecting -50bps at the next meeting. In our view, the document validated the less restrictive tone of the statement, also endorsing the change in the forward guidance which points to a move of the same magnitude at the next meeting. Also relevant, the document did not include Jonathan Heath's dissent, in addition to also incorporating the first views of Deputy Governor Gabriel Cuadra. Most members recognized progress in the disinflationary process, with current levels sufficient to classify the latest action as a new phase in the easing cycle, in which the degree of monetary restriction can be reduced and still bring inflation to its target. Another incentive for cuts is the economic slowdown, which would increase the degree of slack, thereby reducing demand-side price pressures. On risks, the majority said that they should not act prematurely despite acknowledging the uncertainty arising from possible changes in US trade policy. After considering the contents of the document, we reaffirm our estimate of a 50bps cut on March 27th, taking the rate to 9.00%. Following this, we believe easing will continue, maintaining our view of a year-end level of 8.50%.

Two key arguments to justify coming cuts. Progress in the disinflationary process and economic weakness were sufficient for the majority to continue with cuts of the same magnitude, at least for the next decision. Regarding inflation and based on Governor Victoria Rodríguez's outlook of a new phase in which monetary policy is conducted, we believe she stated that "…*Given the significant progress in resolving the inflationary episode, he/she estimated that a stage has been reached in which the challenge is to bring inflation from its current levels, which are similar to its historical average, down to the 3% target*…". In this sense, Galia Borja, Omar Mejía, and Gabriel Cuadra support this approach, validating several of the comments about the magnitude of the next adjustment. Contrasting somewhat with this, Jonathan Heath expressed that "*…despite the disinflationary progress, […] there are severe doubts that it can continue…*", which explains his dissent. Regarding economic activity, signs of a slowdown at the end of the year and –more relevant– the downward revision of GDP growth for 2025, announced yesterday in the *Quarterly Report* (see section below), set the stage for the dovish wing to raise the need to calibrate the reference rate. In this context, Galia Borja noted in the QR that the projections for activity will contribute to the convergence of inflation towards its target.


Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com


Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com


Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com


Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com


Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

Banxico's decisions in 2025

Date	Decision
February 6th	-50bps
March 27th	--
May 15th	--
June 26th	--
August 7th	--
September 25th	--
November 6th	--
December 18th	--

Source: Banxico

www.banorte.com/analisiseconomico
@analisis_fundam

However, Heath took a more contrarian view, stressing that "...*genuine concerns over the economic slowdown should be a secondary consideration given the primary mandate*...".

Banorte's assessment on Board member's comments in the February 6th minutes

Bias	Member	Order in the minutes	Relevant comments
Hawkish	Jonathan Heath	4	*"...caution and patience must be applied in the conduct of monetary policy, and therefore the pace of adjustment should not be accelerated until greater certainty is achieved…"* *"...that monetary policy easing should be very gradual in the coming months, in order for the ex-ante real interest rate to remain between 5 and 6%, without falling below the lower level of this range…"* *"...it is still required to ensure that progress in the core component is maintained, since achieving the target by merely fostering non-core inflation would be a short-lived success…"*
	Gabriel Cuadra	3	*"...a rate cut of the same size could be considered at the next monetary policy meeting.* [...] *these reference rate cuts does not imply that adjustments of 50 basis points would be adopted subsequently…"* *"...the monetary policy stance would remain restrictive even after this year's cuts…"* *"...in Mexico the monetary policy stance is clearly restrictive, while in the United States it is closer to its neutral level…"*
	Galia Borja	2	*"...monetary policy implementation must enter a new stage, in which monetary restriction can be calibrated more rapidly in some decisions, including the present one…"* *"...the calibration process will continue in order to adjust it to the new phase of the monetary cycle…"* *"...projections suggest that economic activity will be more moderate than anticipated,* [...] *contributing to the convergence…"*
	Victoria Rodríguez	1	*"...similar reference rate cut could be considered at the next monetary policy meeting* [-50 bps]*…"* *"...at this stage the level of monetary restriction required to confront the global shocks is no longer necessary…"* *"...it is important not to overlook the progress made in the convergence to the inflation target.*[...] *it is important to avoid rushing ahead of events and making decisions without necessary information…"*
Dovish	Omar Mejía	5	*"...it is necessary to continue calibrating the monetary policy stance that should seek to adopt a level of restriction consistent with the notable progress in disinflation…"* *"...uncertainty generated by the possible implementation of the trade policy announced by the new US administration should not cloud judgement or lead to rushed decisions, and a clear focus should rather be maintained, continuing to adopt measures that are consistent with the convergence of inflation to the target..."* *"...possible changes in trade policy* [...] *can be addressed with a lesser level of restriction…"*

Source: Banorte with information from Banxico

While risks remain, most of them cautioned against acting prematurely. Four of the five members addressed some of the challenges for monetary policy at this time, with the most palpable being the possible change in US trade policy. However, at least two –in our assessment, Governor Victoria Rodríguez and Omar Mejia– pointed out that decisions based on this should not be rushed. Specifically, we believe that the Governor pointed out that "*...it is important to avoid rushing ahead of events and making decisions without necessary information*...". In her participation in the QR, she emphasized that there are not enough elements to measure the possible effects from this, supporting this quote. On the contrary, Heath was more cautious, pointing out that "*...the pace of adjustment should not be accelerated until greater certainty is achieved...*".

Downward revision in 2025 GDP in the 4Q24 *Quarterly Report*. Apart from the comments that we have detailed above, the focus yesterday was on the updates to the macroeconomic framework. GDP for 2025 was cut by 60bps to 0.6% (range: -0.2% to 1.4%). This is due in large part to a smaller inertial push given the deceleration in activity at the end of 2024. At the margin, they kept expecting a moderation in domestic demand, especially investment. In terms of the path, they anticipated more weakness in the first half of the year. They also signaled that the prevision does not incorporate possible effects from the imposition of US tariffs to Mexico. Also relevant, the output gap is in negative territory (*i.e.* a cooldown in the economy), extending its downward trajectory through the remainder of the forecast horizon. In this sense, employment estimates were also adjusted lower (see tables below), with narrower deficits in external accounts. Meanwhile, figures for 2026 did not show relevant changes, although they are consistent with the trajectories set for the current year.

Banxico's Forecasts
Current Report (4Q24)

	2025	2026
GDP (% y/y)		
Central scenario	0.6	1.8
Range	-0.2 to 1.4	1.0 to 2.6
Employment (thousands)	220 to 420	360 to 560
Trade Balance (US$ bn)	-17.4 to -9.4 (-1.0% to -0.6% of GDP)	-22.1 to -12.7 (-1.2% to -0.7% of GDP)
Current account (US$ bn)	-12.0 to 0.7 (-0.7% to 0.0% of GDP)	-18.5 to -2.0 (-1.0% to -0.1% of GDP)

Source: Banxico

Banxico's Forecasts
Previous Report (3Q24)

	2024	2025	2026
GDP (% y/y)			
Central scenario	1.8	1.2	1.8
Range	1.6 to 2.0	0.4 to 2.0	1.0 to 2.6
Employment (thousands)	250 to 350	340 to 540	400 to 600
Trade Balance (US$ bn)	-15.9 to -10.4 (-0.9% to -0.6% of GDP)	-22.1 to -14.1 (-1.2% to -0.8% of GDP)	-24.3 to -14.9 (-1.3% to -0.8% of GDP)
Current account (US$ bn)	-18.6 to -8.6 (-1.0% to -0.5% of GDP)	-19.3 to -6.6 (-1.1% to -0.4% of GDP)	-22.9 y -6.4 (-1.2% to -0.3% of GDP)

Source: Banxico

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Ana Laura Zaragoza Félix, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

Directory
Research and Strategy

Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com
(55) 1103 - 4043

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251

Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611

María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957

Katia Celina Goya Ostos
Director of Economic Research, Global
katia.goya@banorte.com
(55) 1670 - 1821

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1105 - 1438

Luis Leopoldo López Salinas
Economist, Global
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707

Market Strategy

Santiago Leal Singer
Director of Market Strategy
santiago.leal@banorte.com
(55) 1670 - 1751

Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719

Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800

Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com
(55) 1670 – 2250

Hugo Armando Gómez Solís
Senior Strategist, Equity
hugoa.gomez@banorte.com
(55) 1670 - 2247

Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698

Marcos Saúl García Hernandez
Analyst, Fixed Income, FX and Commodities
marcos.garcia.hernandez@banorte.com
(55) 1670 - 2296

Gerardo Daniel Valle Trujillo
Senior Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248

Ana Laura Zaragoza Félix
Strategist, Corporate Debt
ana.zaragoza.felix@banorte.com
(55) 1103 - 4000

Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746

Ana Gabriela Martínez Mosqueda
Strategist, Equity
ana.martinez.mosqueda@banorte.com
(55) 5261 - 4882

Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000 x 2060

Quantitative Analysis

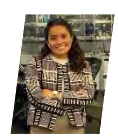
Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972

José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608

José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000

Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124

Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1670 - 2904



Andrea Muñoz Sánchez
Strategist, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1105 - 1430