MONETARY POLICY DECISIONS

Mexico's central bank cuts rates by 50bp

Economist says last month's uptick in inflation means Banxico should have held

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The Bank of Mexico (Banxico) lowered its target overnight interbank interest rate by 50 basis points to 9% on March 27.

The bank said the decision partly reflected a continued increase in "global risks", including "various announcements on the imposition of tariffs".

Banxico pointed to how trade tensions and geopolitical turmoil could weaken economies, have a negative impact on inflation, and create volatility in markets. It said it expected the Mexican economy to exhibit weakness in the first quarter of this year, and that uncertainty and trade tensions posed significant risks to domestic growth.

Lucina Vargas, professor of economics at New Mexico State University, believes the decision may be a mistake. She tells *Central Banking* that inflation in Mexico edged up in February, and that this warranted a more restrictive stance.

The rates cut, she says, could "do more harm in derailing progress toward achieving the central bank's mandated 3% inflation target than help in any significant way in addressing the country's current recessionary conditions". Vargas said the bank would have been better off waiting to see if inflation resumed a consistent downward trajectory and then announcing a rate cut in May.

Banxico said headline inflation remained at levels unseen since early 2021, having reached 3.67% in early March. It added that the governing board anticipated the inflationary environment would allow the bank to make further cuts while maintaining a restrictive stance. It still expected inflation to converge with its target in the third quarter of 2026.

The Federal Reserve Bank of Dallas published research on March 4 arguing that Mexico's economic outlook was weakening. The authors – Jesus Cañas and Diego Morales-Burnett – argued that lower investment, slowing consumption and the contraction of the energy sector were all factors that would contribute to this. They said only the services sector had grown robustly in 2024, that the peso was continuing to weaken and that job growth was below average.