CENTRAL BANKING

Banxico took it easy for too long, says economist

Academic believes inflation will remain a challenge for central bank and government

By Riley Steward

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Mexico's central bank missed the mark with its easing cycle, which led to this month's higher-than-expected levels of inflation, an economist tells *Central Banking*.

The Bank of Mexico (Banxico) said in late January that it expected to slow its easing cycle in 2026, as it waited to see the full effects of tax reforms and new trade policies. It then held rates on February 5. In the minutes from that meeting, Banxico said it might be able to resume easing if recent tax and tariff increases were shown to have had a limited inflationary impact.

However, the latest official figures show that year-on-year inflation in the first half of February reached 3.92%. This was higher than the 3.7% that Banxico had been forecasting for Q1 2026 back in December, and above the bank's 3% target.

Lucinda Vargas, professor of economics at New Mexico State University, says the latest inflation figures should give policy-makers pause. "This latest figure places the core price index in the 12 months through mid-February at 4.52%, above the percentage point tolerance for the inflation target," she notes.

Jose Balmori-de-la-Miyar, professor in the Anahuac Business School at Anahuac University in Mexico City, says the inflationary surge was largely fuelled by the dual impact of new tariff structures and the adjustments to excise tax. The latter was levied on certain goods harmful to either health, such as soft drinks and cigarettes, or the environment.

"Given that a significant volume of imports originates in China, we can expect price hikes to manifest in several phases as previous inventories begin to be replenished," he says. "A similar upward pressure is evident in the taxes applied to sodas and cigarettes. Furthermore, the persistent 'stickiness' of service-sector inflation continues to be the primary headache for the central bank."

Balmori-de-la-Miyar says Banxico should have halted its rate-cutting cycle approximately six months ago, when there was only one dissident vote on the monetary policy committee.

“The central bank should have anticipated the impact of tariffs and [excise tax], as these were widely debated topics throughout 2025,” he says. “By also failing to recognise that the core component of inflation was far from under control, they missed the mark on both fronts. Consequently, Mexico is now grappling with entrenched, sticky prices.”

He believes the bank is finally acknowledging the reality of the situation, though he expects inflation to remain a significant challenge for both Banxico and the government.

Vargas accepts that the latest inflation figure reflects the impact of import tariffs and new taxes. However, she warns that inflation may be on the verge of “an upward trend in light of programmed government spending that is sure to fuel consumption”.

She points to spending on welfare programmes that is slated to increase by 18% this year.

“The implication for fiscal policy of a threatened price stability scenario is to pursue restraint, but the opposite is programmed,” Vargas says. For monetary policy, she says Banxico will not contemplate any rate cuts at its next policy meeting and that it may even consider tightening policy.