

BanRep keeps the policy rate unchanged at 9.25% in October

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For the fourth consecutive meeting, BanRep kept the policy rate unchanged at 9.25%, in a split decision.

The October decision maintained the balance observed in previous meetings, consolidating the majority group, with four members in favor of stability, two in favor of a 50bp reduction, and one in favor of a 25bp reduction. The tone of caution remains, highlighting rising inflation, strong economic activity, and somewhat greater slack on the external front.

- **The statement highlights that inflation in September rose for the third consecutive month, reaching 5.2%.** It is noted that inflation is currently at the same level as that observed at the end of 2024. As for the core inflation that BanRep follows more closely, excluding food and regulated items, it is noted that this remains stable at around 4.8%. In both cases, this is well above the inflation targets set by the Bank. At the same time, they emphasize that inflation expectations, both those derived from public debt market securities and those from surveys, have increased and are all above the target for the next two years, the horizon for monetary policy. At the press conference, they asked about inflation projections, to which the Manager responded that inflation would not reach the target until 2027 but that they expect it to converge toward that target starting in 2026.
- **In terms of activity, they comment that the available indicators continue to show that the economic recovery process is ongoing.** In particular, they highlight that this is driven by private and public consumption, as well as strong investment in machinery and equipment and civil works. At the press conference, the Deputy Minister stressed that although the economy is recovering, the most recent data, according to his assessment, shows some moderation in the momentum, which justifies a policy stance that supports growth. Regarding projections, the Manager highlighted that the technical team forecasts growth of 2.6% in 2025 and 2.9% in 2026, both figures above the Latin American average. The Manager added that the technical team estimates a slightly negative output gap, but that this would have closed more rapidly in recent months.
- **Externally, they appreciate that financial conditions have become somewhat more relaxed as a result of the US Federal Reserve's rate cuts.** On this issue, the Manager highlights that although the policy rate in the United States has been lowered twice, in September and October, comments from its directors this week have suggested that, contrary to what analysts and markets had expected, there is uncertainty about the possibility of

further rate cuts in December, so this cannot be taken for granted. This led to a rebound in expectations and in the trading of securities affected by this rate. It should be noted that in the last monetary policy report, the Bank's technical team assumed a 50bp reduction in the Fed rate in 2025. On the other hand, they highlight that the trade balance has become more deficient, partly due to the strong growth in imports, which is greater than that of exports, associated with strong domestic demand and lower export volumes of mining and energy products.

- **On this occasion, one of the topics that received the most attention during the press conference revolved around expectations for increases in the minimum wage.** On this issue, various questions were asked about the expected increase in the minimum wage, its effect on inflation, and the stance this could imply in the Bank's decisions. Although there were no definitive statements in any of the questions, it should be noted that this is one of the issues that remains under review by the Bank's Board in view of the risks it may pose to inflation in 2026. Additionally, the Manager emphasized that no specific increase in the minimum wage is being considered, which suggests that it will remain in line with historical trends, i.e., close to inflation, within the Issuer's estimates, which explains its lower inflation rate and higher activity than the average of analysts. For the Deputy Minister, the increase in the minimum wage has not had inflationary effects and has been circumstantial in achieving increases in consumption and economic recovery. He added that these increases in recent years are due to a recognition of a debt to the working population, a concept that allows us to affirm that this year's decision will again present an increase in the minimum wage that is considerably higher than inflation.
- **He asked several times about the Board's discussions on the policy rate.** In particular, the Manager highlighted that the Board had considered several scenarios, including possible rate increases, although the vote favored reductions and stability. This response is particularly interesting given that at the previous month's meeting, the Manager emphatically stated that a scenario of rate increases had not been discussed. He then added that although these scenarios are not the main focus, they do have some probability of occurring and therefore it is essential to monitor them, referring in particular to scenarios of sharp increases in the minimum wage, regulated prices, or demand dynamics.
- **As in September, little reference was made to fiscal issues in the statement, but they did dominate some of the questions at the press conference.** The Deputy Minister emphasized that the decision to activate the escape clause in the fiscal rule was made in order to propose a feasible policy for adjusting public accounts, and that not doing so could have led to unfavorable surprises on the fiscal front. Regarding the requested adjustments, the Deputy Minister commented that spending is highly inflexible (93%) and that payroll expenses are particularly difficult to adjust, given that 73% of payroll corresponds to the defense and judicial sectors, arguing that they are not susceptible to adjustment. He therefore emphasized that revenue reform is required. Regarding budget financing, the deputy minister highlighted the importance of the financing law, which, given the reduction in the budget amount, would be 16 billion pesos. He is confident that the financing law will be discussed and approved, emphasizing that the commitments to return to the parametric fiscal rule in a few years require these efforts in revenue. Finally, it was noted that the reform is proceeding according to the usual timetable and that there are no delays in its processing.

In our opinion, the majority group's position continues to strengthen, particularly in light of the most recent results on inflation and expectations, both of which are on the rise, maintaining the risk of less favorable scenarios for inflation in 2026. Additionally, and unlike what was observed in September, when asked about discussions on the direction of monetary policy in the coming months, the Manager hinted that all possible directions were being considered, including possible increases. However, he emphasized that the vote was divided between stability and reductions.

Perhaps the only factor that showed a slight movement in favor of possible future rate reductions was the analysis of external conditions, which in turn are reflected in the exchange rate. On this front, the Manager emphasized that although rates have fallen in the United States, the message from the authorities in that country highlights uncertainty and, therefore, the possibility that the rate reduction expected by markets and analysts for the last meeting of the year may not materialize. This statement highlights the Bank's cautious stance, emphasizing future risk factors. All in all, at BBVA Research we maintain our stance of rate stability for the remainder of the year and much of 2026.

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