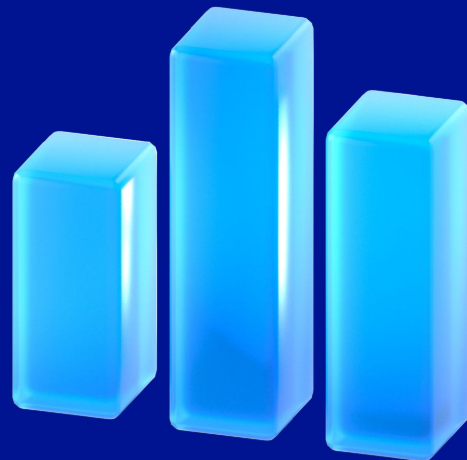


Monetary Policy in Latam



Juan Ruiz - Chief Economist for Latam
Foro Latam, Banco de España - December 2025

Monetary Policy in Latam: navigating shocks

Convergence to inflation targets, but still not quite there yet. Central Banks still keep restrictive stance, while r^* is increasing



Inflation expectations still anchored in the long-run, but risks in the short run especially in COL and BRA



Fiscal Policy is increasingly in the minds of Central Banks in Latam. Fiscal Policy is working against monetary policy, especially in BRA and COL



Economic Policy Uncertainty is making Central Banks' life more complicated in Latam, with significant and persistent impact on GDP, FX, flows, EMBI.

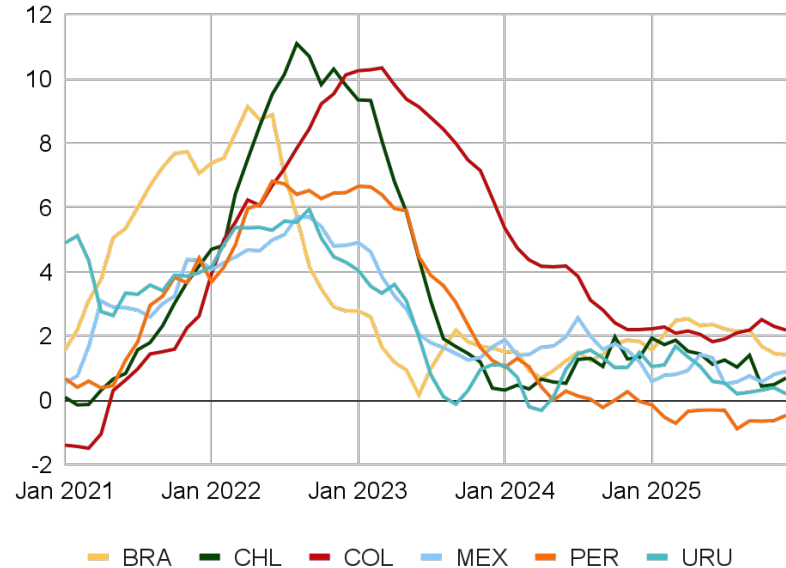


Convergence of inflation to Central Bank targets has slowed in some countries, especially BRA, COL

LATAM 6* AVERAGE INFLATION (DEVIATION FROM CB TARGET) (PERCENTAGE POINTS)**



INFLATION (DEVIATION FROM CB TARGET) (PERCENTAGE POINTS)



Source: BBVA Research

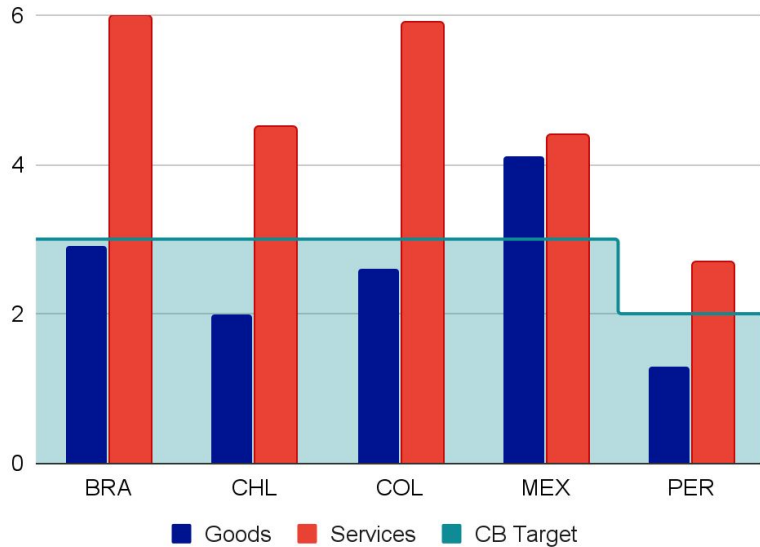
* Latam 6 includes the 6 main Latam countries with inflation targeting: BRA, CHL, COL, MEX, PER, URU

** Simple average across Latam 6

Services inflation is still under pressure from resilient output growth and wages

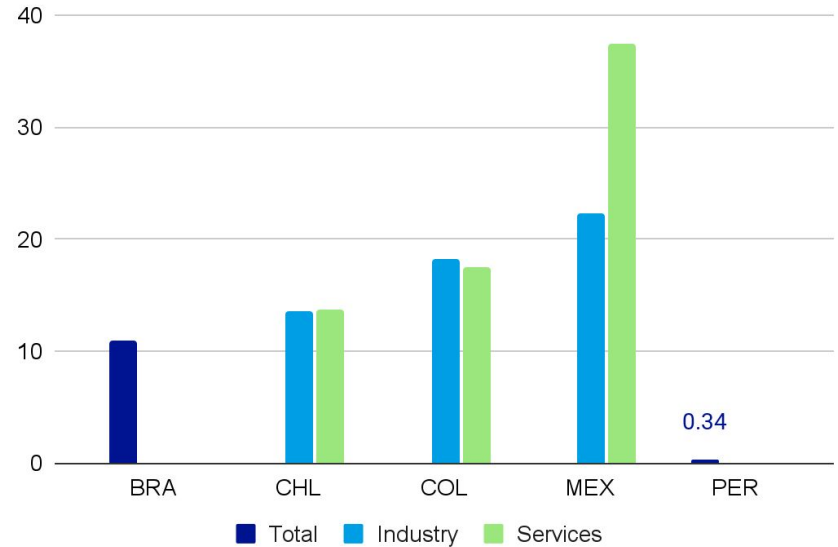
CORE INFLATION: GOODS VS SERVICES

(% YOY, NOVEMBER 2025)



INCREASE IN REAL WAGES JAN 2018 - NOV 2025

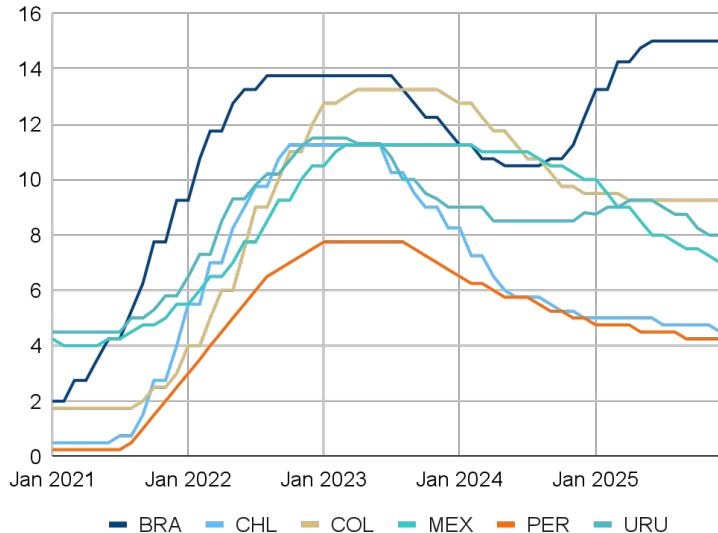
(% CUMULATIVE)



Monetary easing is underway, but monetary policy stance is still mostly restrictive in Latin America

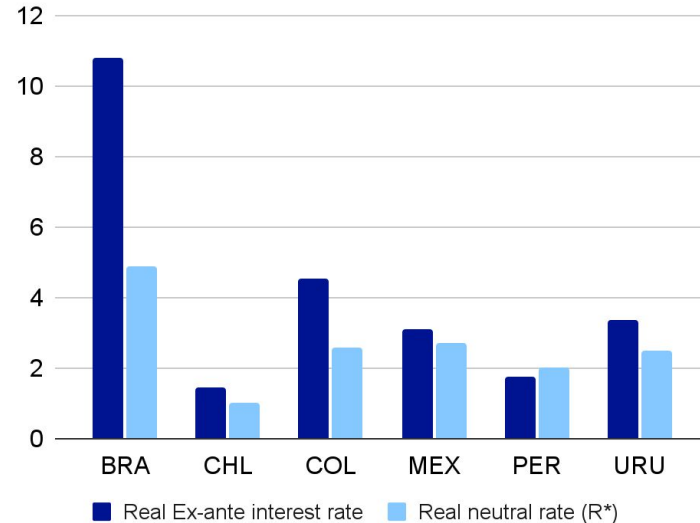
OFFICIAL INTEREST RATES

(%)



REAL EX-ANTE INTEREST RATES AND R*

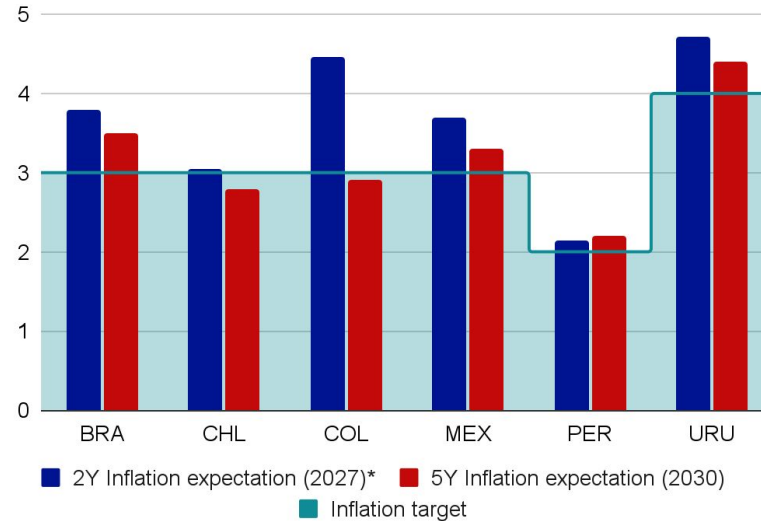
(%, DEC 2025)



Source: BBVA Research, Consensus and National Central Banks
 r* as estimated by the respective central banks.

Inflation expectations: still anchored in the long-run, but risks in the short run for BRA, COL

INFLATION EXPECTATIONS AND CB INFLATION TARGETS (%)

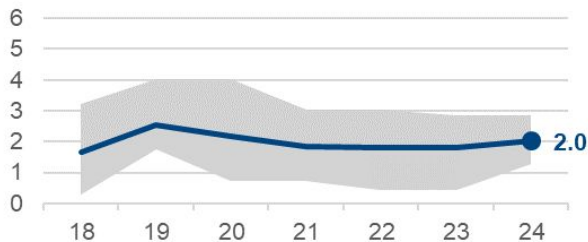


(*) BBVA Research
* For COL and PER: Expectations one year ahead.

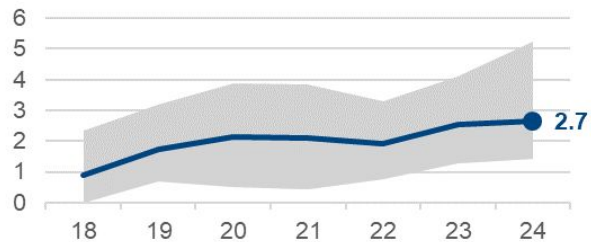
A challenge: r^* in Latam is inching upwards, making it more difficult to calibrate monetary policy

AVERAGE ESTIMATED R^* FROM TVP-VAR AND ECM PANEL MODELS* (%)

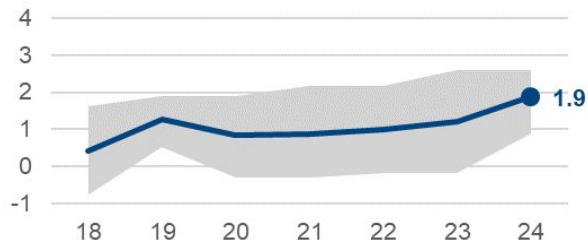
COLOMBIA



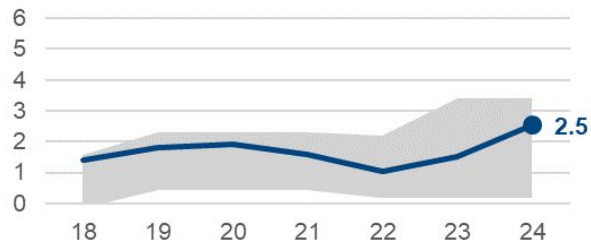
MEXICO



PERU



URUGUAY



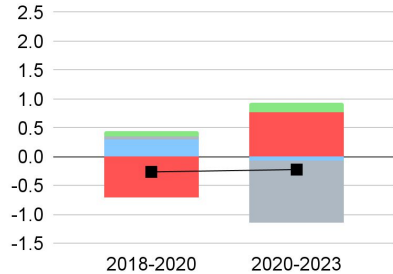
- R^* for this set of countries in the last couple of years has seen a slightly upward trend.
- This trend is more clear in the latter part of the sample, particularly in Peru and Uruguay.
- In the case of Colombia, we observe a slightly flatter R^* but, in alternative exercises with a prolonged set of information, the upward trend becomes more clear.
- In the case of Mexico, the upward trend materializes earlier, and remains relatively stable by the end of the sample; despite this, the range of estimations does point upward and widens.

The increase in r^* in Latam has been driven especially by an increase in the US natural rate

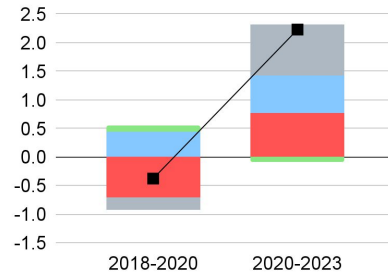
CONTRIBUTION TO CHANGES IN R^*

(%)

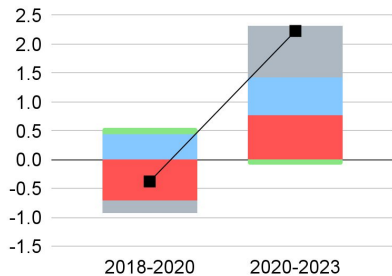
COLOMBIA



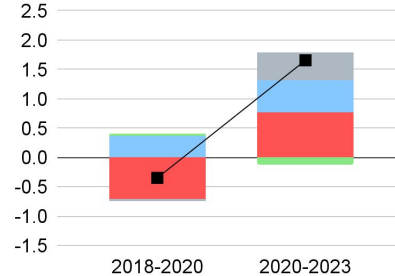
MEXICO



PERU



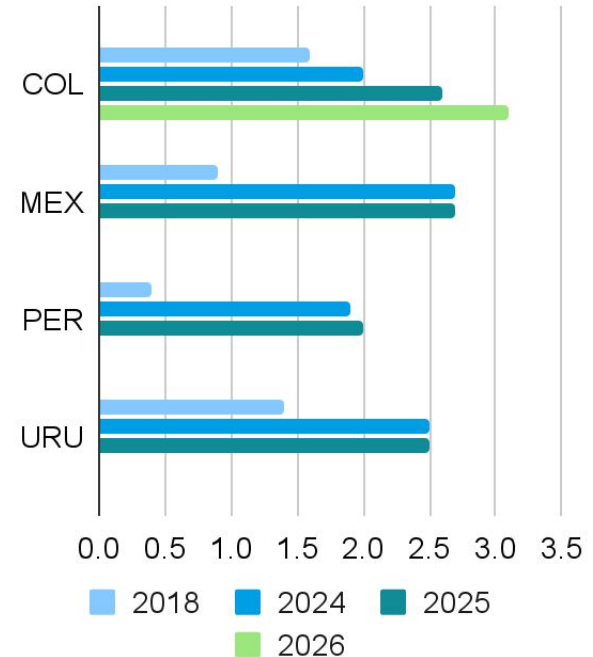
URUGUAY



■ Explained change in r^*
■ Country Risk
■ Productivity
 ■ Demographics
 ■ US r^*

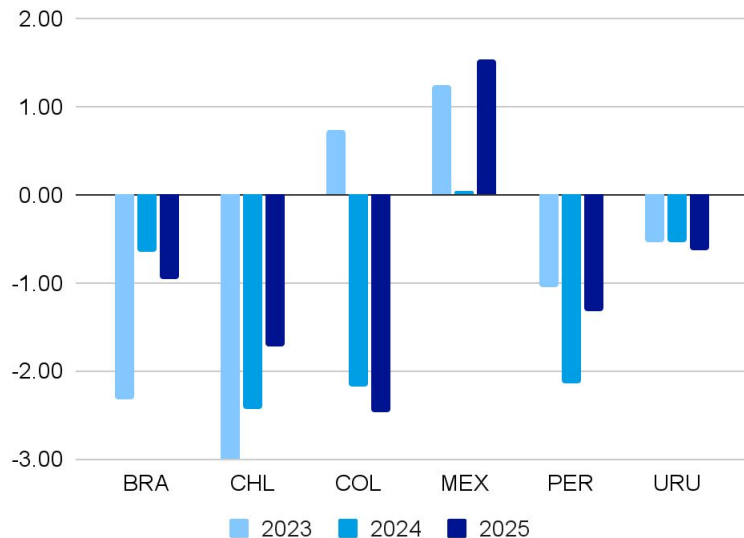
R^* IN LATAM

(%, CB ESTIMATES FOR 2025 AND 2026)

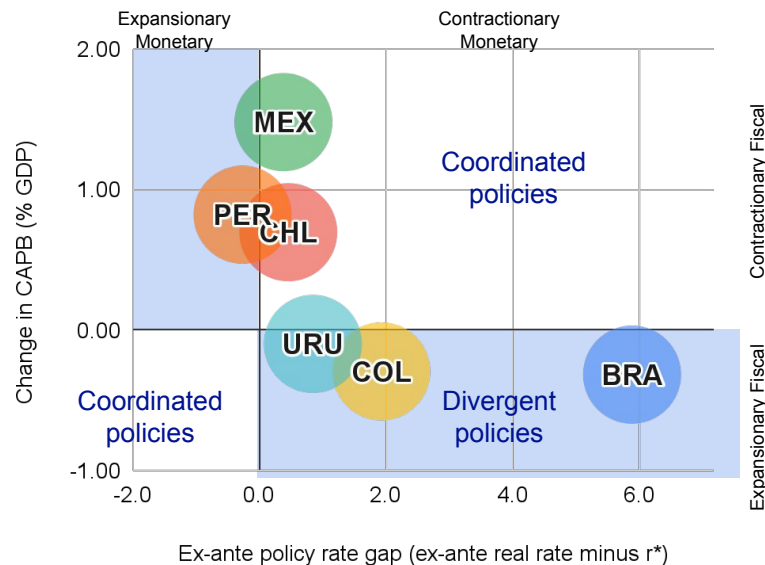


Risks for Central Banks: Fiscal Policy working against Monetary Policy, in countries with inflation above targets

CYCLICALLY ADJUSTED PRIMARY BALANCE (CAPB) (% OF POTENTIAL GDP)



MONETARY AND FISCAL STANCE, 2025 (CAPB VS. EX-ANTE REAL POLICY RATE GAP*)

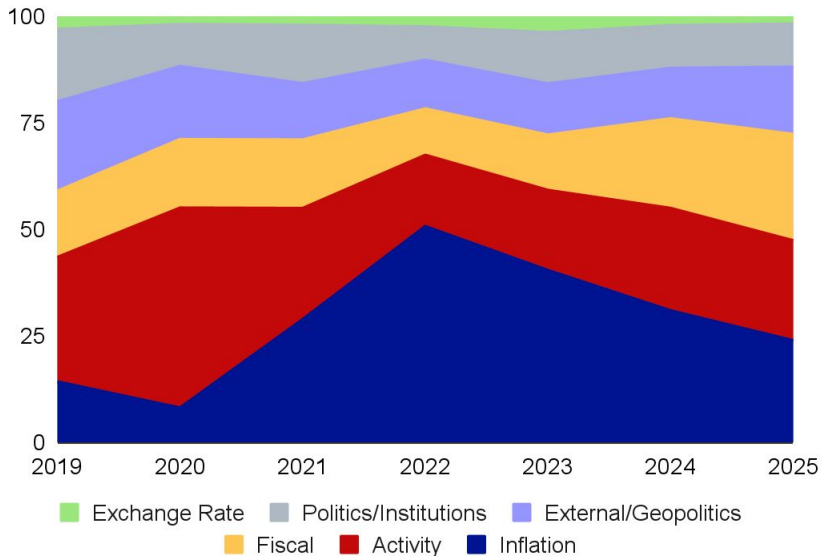


Source: BBVA Research, IMF and National Central Banks

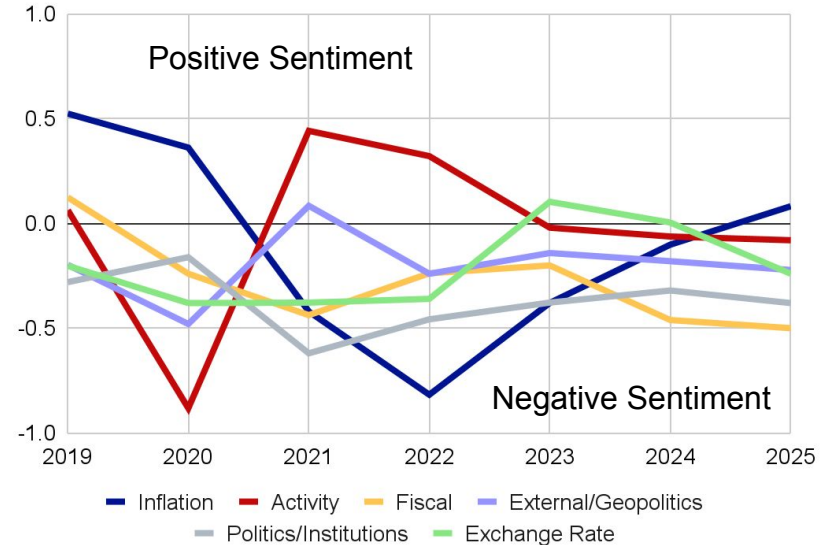
* Ex-ante real policy rate gap measured as the difference between the ex-ante real policy rate (using 12-month-ahead expected inflation) and the neutral real rate (r^*) as estimated by the corresponding Central Banks

What are Central Banks talking about: Worried about Fiscal Policy and Politics / Institutions

FREQUENCY* OF TOPICS IN CENTRAL BANK COMMUNICATION - LATAM 5 (% OF TOTAL)



SENTIMENT IN CENTRAL BANK COMMUNICATION - LATAM 5 (OPTIMIST - PESSIMIST / TOTAL)**



Source: BBVA Research based on an analysis of Central Bank's Minutes, Communiqués and Speeches.

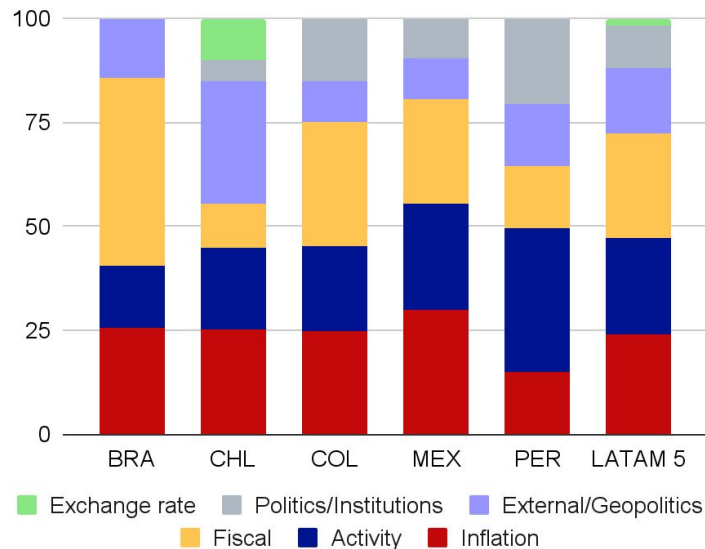
Latam-5 countries include the 5 main countries with inflation targeting: BRA, CHL, COL, MEX, PER

* Frequency of topics counts the number of times a topic is mentioned in Central Bank Communication for a particular year.

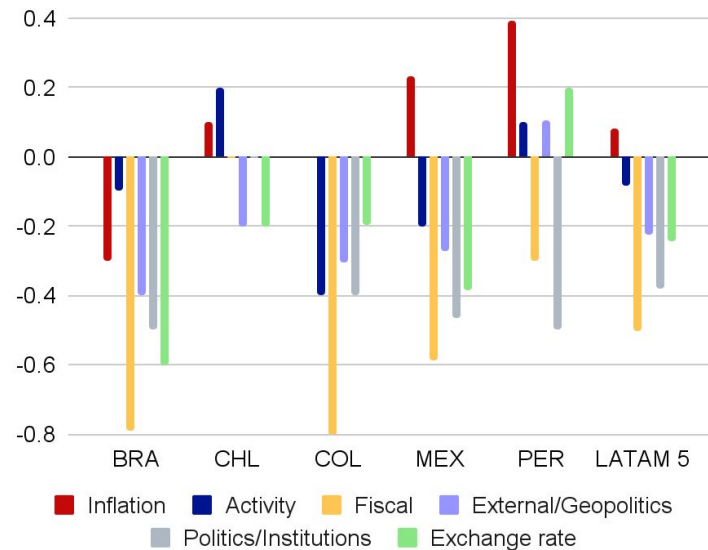
** Sentiment takes the difference between the number of times a topic is referred to in a positive way, minus the number of times it is referred to in a negative way, divided by the total number of times the topic is mentioned.

With significant heterogeneity in focus across countries: Larger fiscal concerns in BRA, COL; Politics in PER

FREQUENCY OF TOPICS IN CENTRAL BANK COMMUNICATION in 2025 (% OF TOTAL)



SENTIMENT ON THOSE TOPICS IN CENTRAL BANK COMMUNICATION IN 2025 (-1: PESSIMIST; 1: OPTIMIST)



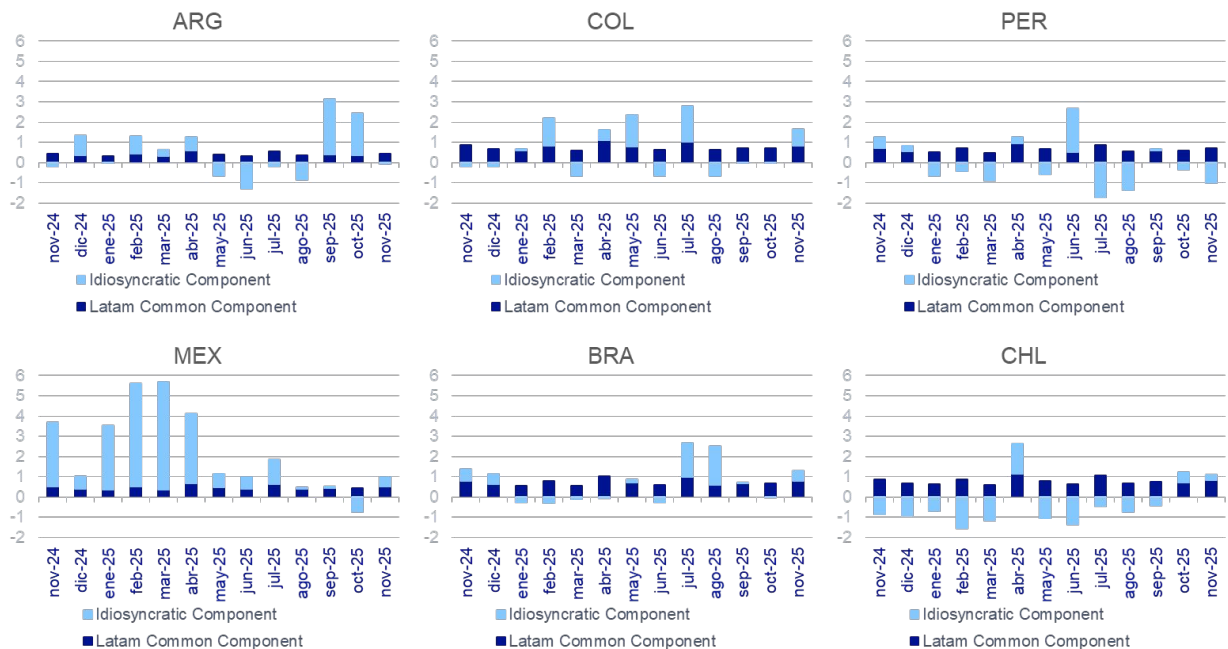
Source: BBVA Research based on National Central Bank Minutes, Communiqués and Speeches
Latam-5 countries include the 5 main countries with inflation targeting: BRA, CHL, COL, MEX, PER

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An additional risk and challenge for Central Banks: Economic Policy Uncertainty

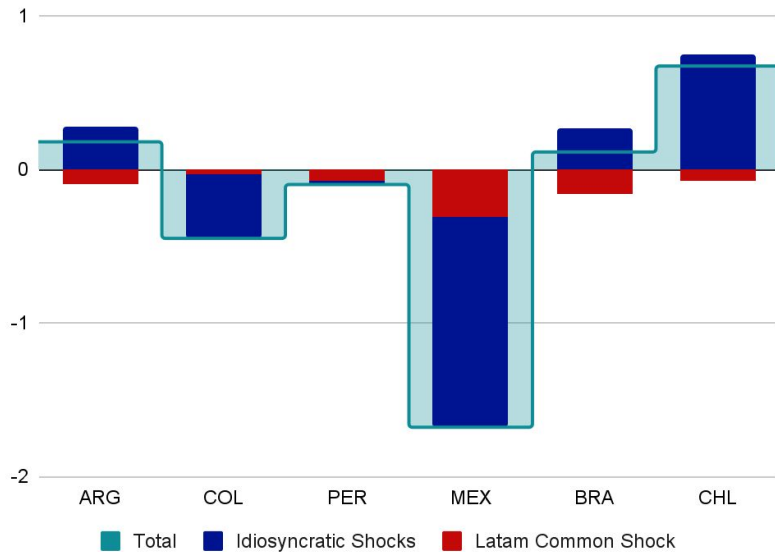
DECOMPOSITION OF ECONOMIC POLICY UNCERTAINTY INDICES FOR LATAM (IDIOSYNCRATIC AND LATAM (COMMON) COMPONENT, STANDARD DEVIATIONS)



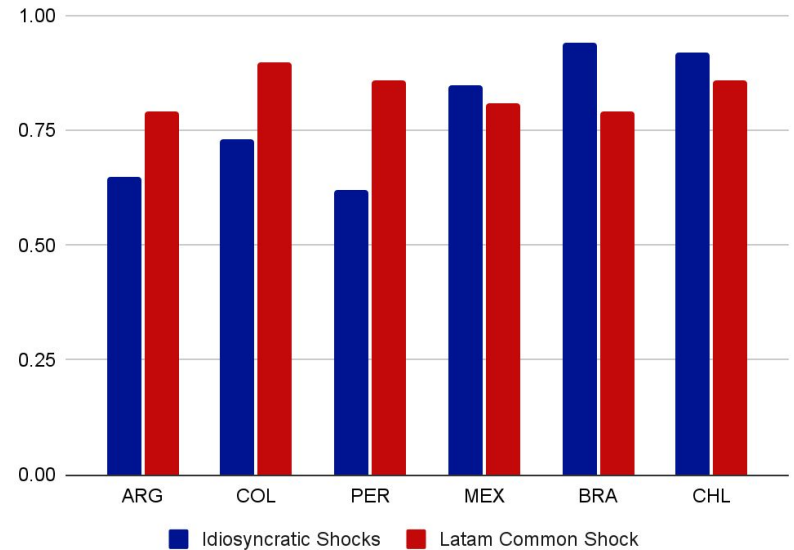
- Uncertainty about economic policies has increased in most Latam countries, especially Mexico, linked to US trade policy.
- The common regional component of EPU has increased consistently. the idiosyncratic component has been more volatile
- EPU shocks also have a significant impact on other key variables for Monetary Policy: capital flows [BdE, 2025]
- Impact of uncertainty can be contained with lower macro vulnerabilities [IMF, 2025]

Policy Uncertainty shocks in Latam have a significant and persistent impact on GDP

IMPACT OF 2025 ECONOMIC POLICY UNCERTAINTY SHOCKS IN 2025 ON THE LEVEL OF GDP IN 4Q25 (PP)



PROBABILITY OF A PERSISTENT IMPACT ON THE LEVEL OF GDP (% , 8 QUARTERS AFTER EPU SHOCK)



In short ...

Converge to inflation targets, but still not quite there yet. Central Banks still keep restrictive stance, while r^* is increasing



Inflation expectations are still anchored in the long-run, but there are risks in the short run, especially in COL and BRA



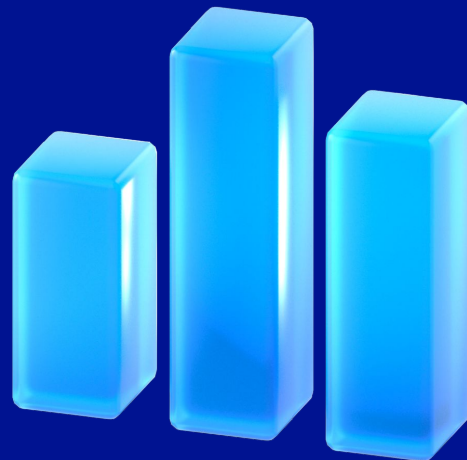
Fiscal Policy is working against monetary policy, especially in BRA and COL. This is increasingly in the minds of Central Banks in Latam.



Economic Policy Uncertainty is making Central Banks' life more complicated in Latam, with significant and persistent impact on GDP, FX, K flows, EMBI.



Monetary Policy in Latam

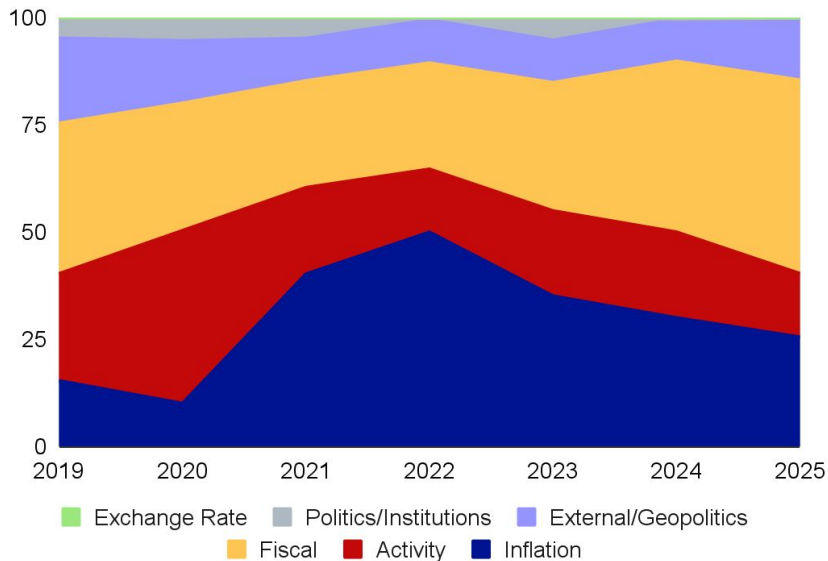


Juan Ruiz - Chief Economist for Latam
Foro Latam - December 2025

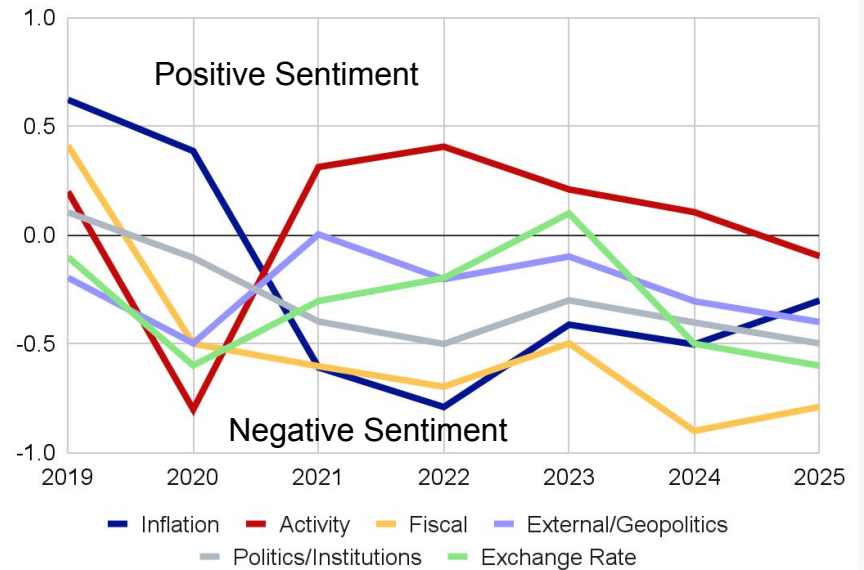
Annex 1: Analysis of Latam Central Bank Communication

Brazil Central Bank Communication: Increased weight and pessimism on fiscal policy

FREQUENCY* OF TOPICS IN CENTRAL BANK COMMUNICATION - BRAZIL (% OF TOTAL)



SENTIMENT IN CENTRAL BANK COMMUNICATION - BRAZIL (OPTIMIST - PESSIMIST / TOTAL)**



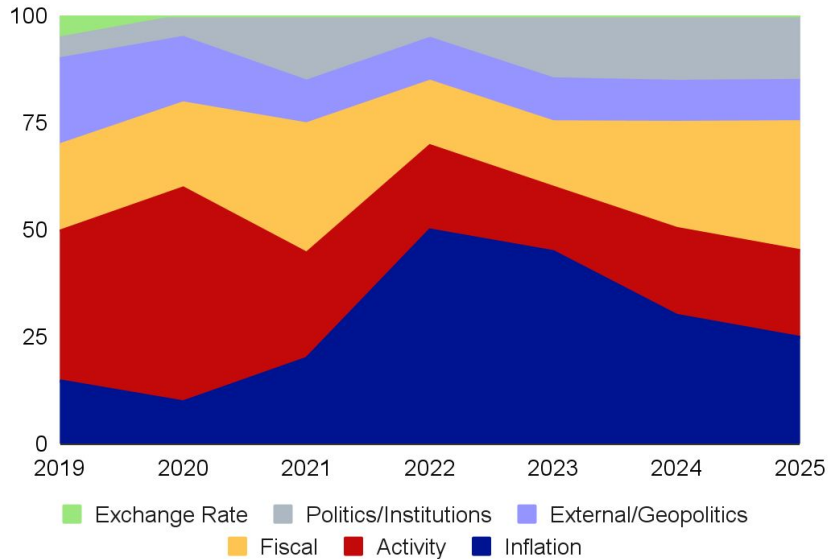
Source: BBVA Research based on an analysis of Central Bank's Minutes, Communiqués and Speeches.

* Frequency of topics counts the number of times a topic is mentioned in Central Bank Communication for a particular year.

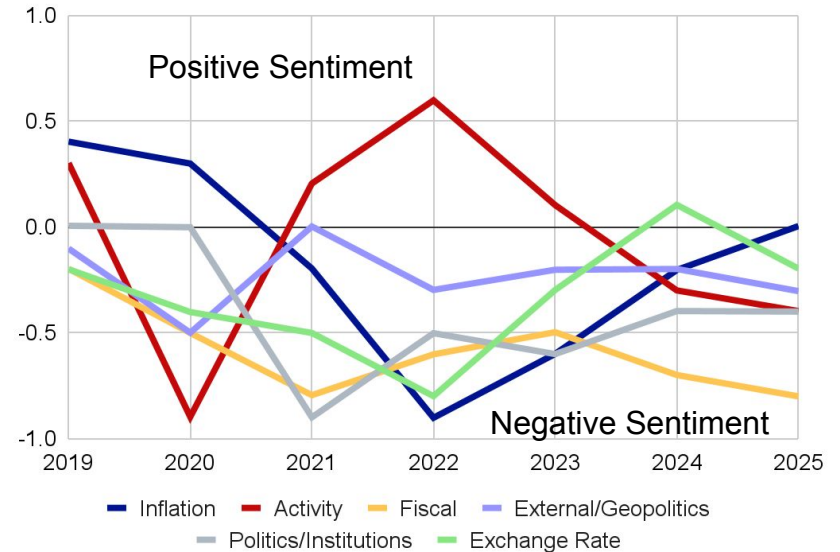
** Sentiment takes the difference between the number of times a topics is referred to in a positive way, minus the number of times it is referred to in a negative way, divided by the total number of times the topic is mentioned.

Colombia Central Bank Communication: Increased weight and pessimism on fiscal policy

FREQUENCY* OF TOPICS IN CENTRAL BANK COMMUNICATION - COLOMBIA (% OF TOTAL)



SENTIMENT IN CENTRAL BANK COMMUNICATION - COLOMBIA (OPTIMIST - PESSIMIST / TOTAL)**



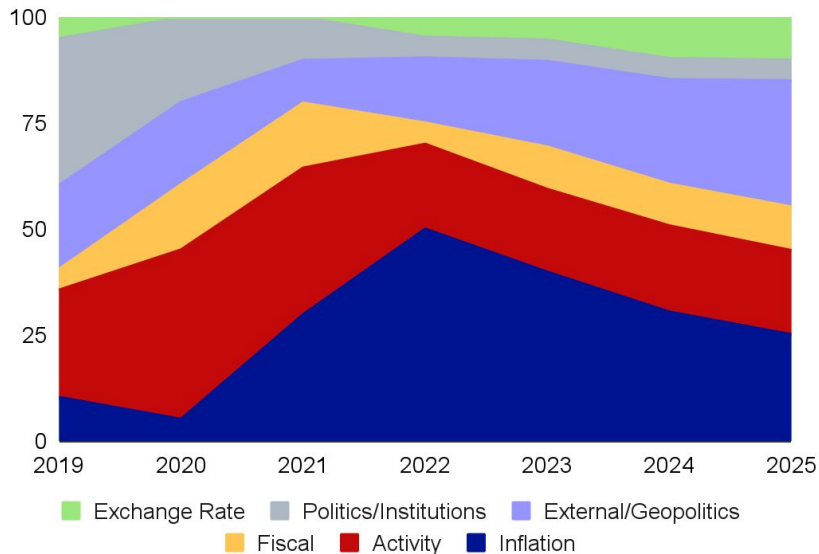
Source: BBVA Research based on an analysis of Central Bank's Minutes, Communiqués and Speeches.

* Frequency of topics counts the number of times a topic is mentioned in Central Bank Communication for a particular year.

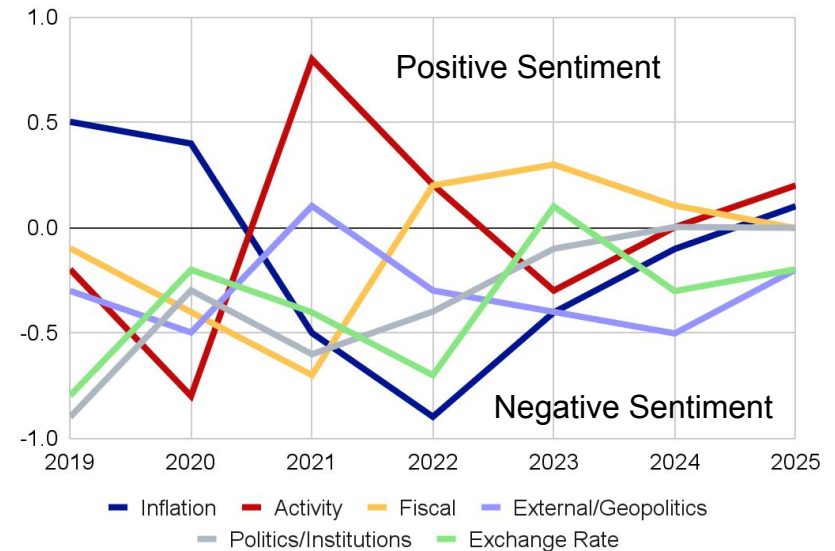
** Sentiment takes the difference between the number of times a topics is referred to in a positive way, minus the number of times it is referred to in a negative way, divided by the total number of times the topic is mentioned.

Chile Central Bank Communication: Increased weight of external developments, but improved sentiment

FREQUENCY* OF TOPICS IN CENTRAL BANK COMMUNICATION - CHILE (% OF TOTAL)



SENTIMENT IN CENTRAL BANK COMMUNICATION - CHILE (OPTIMIST - PESSIMIST / TOTAL)**



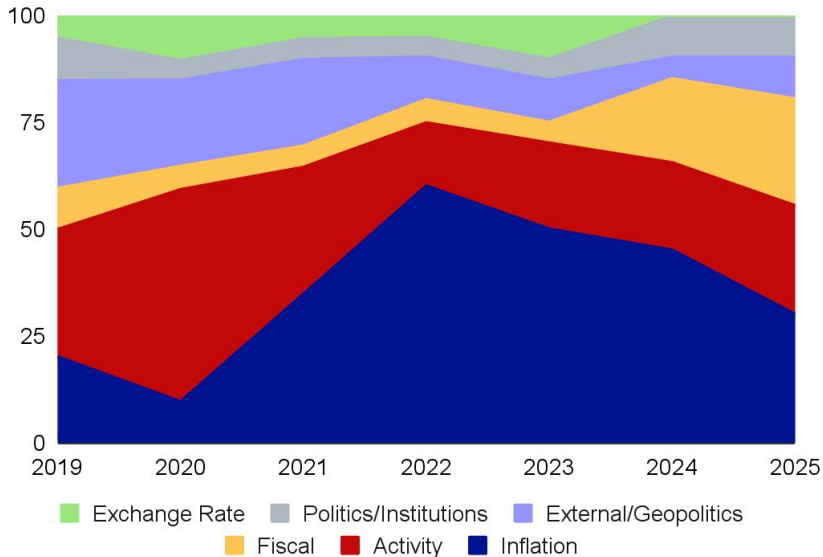
Source: BBVA Research based on an analysis of Central Bank's Minutes, Communiqués and Speeches.

* Frequency of topics counts the number of times a topic is mentioned in Central Bank Communication for a particular year.

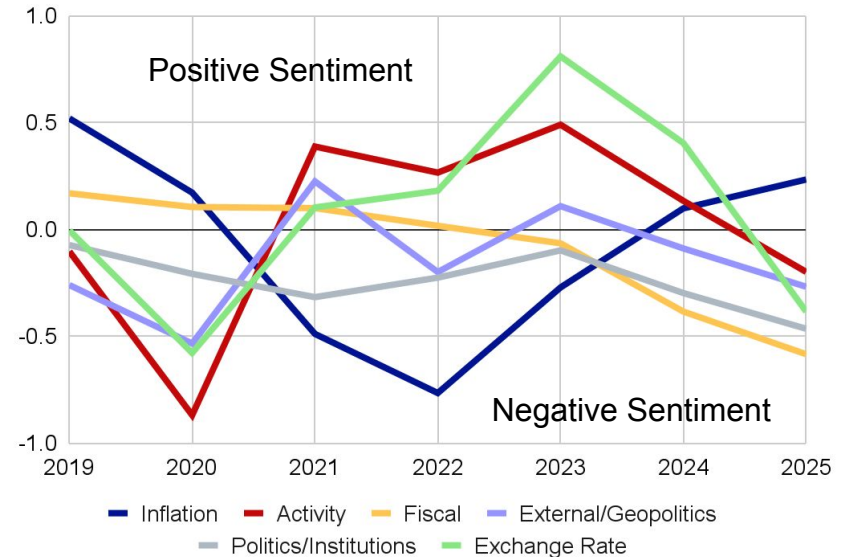
** Sentiment takes the difference between the number of times a topic is referred to in a positive way, minus the number of times it is referred to in a negative way, divided by the total number of times the topic is mentioned.

Mexico Central Bank Communication: Increased weight and pessimism on fiscal policy and institutions

FREQUENCY* OF TOPICS IN CENTRAL BANK COMMUNICATION - MEXICO (% OF TOTAL)



SENTIMENT IN CENTRAL BANK COMMUNICATION - MEXICO (OPTIMIST - PESSIMIST / TOTAL)**



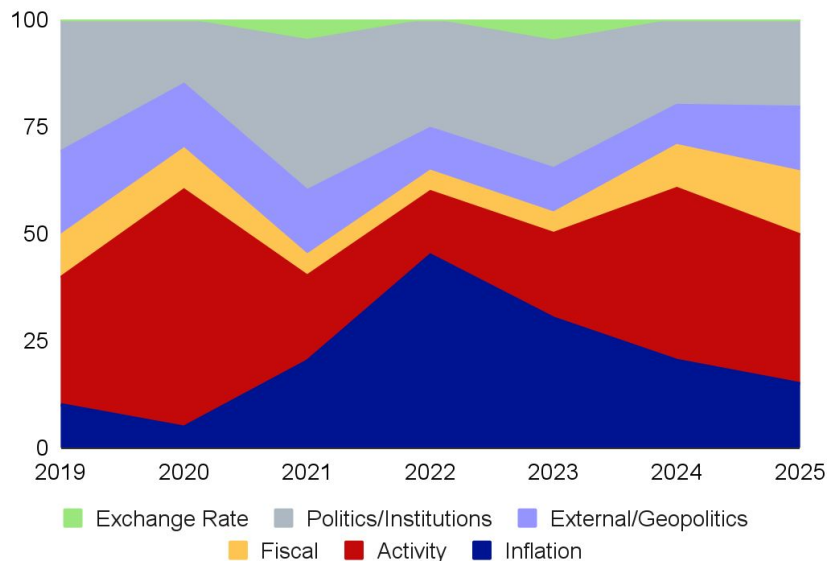
Source: BBVA Research based on an analysis of Central Bank's Minutes, Communiqués and Speeches.

* Frequency of topics counts the number of times a topic is mentioned in Central Bank Communication for a particular year.

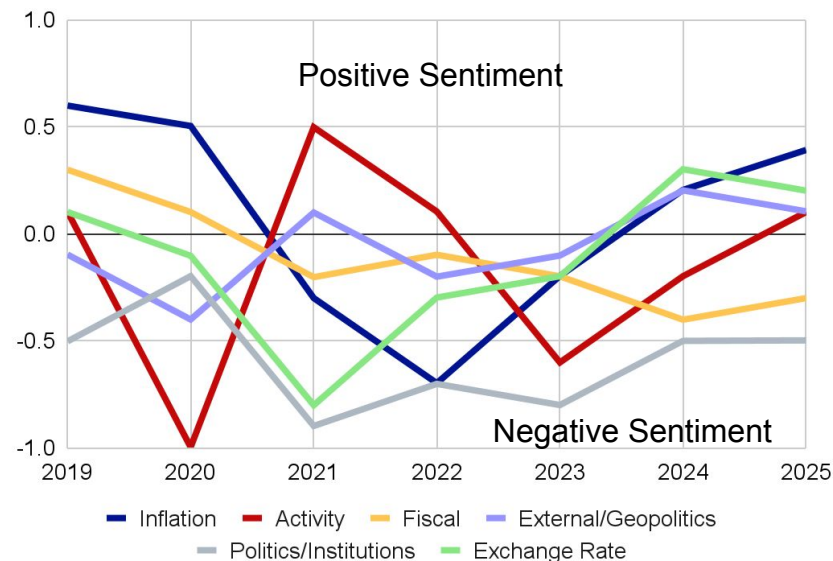
** Sentiment takes the difference between the number of times a topics is referred to in a positive way, minus the number of times it is referred to in a negative way, divided by the total number of times the topic is mentioned.

Peru Central Bank Communication: sustained pessimism on fiscal policy and institutions

FREQUENCY* OF TOPICS IN CENTRAL BANK COMMUNICATION - PERU (% OF TOTAL)



SENTIMENT IN CENTRAL BANK COMMUNICATION - PERU (OPTIMIST - PESSIMIST / TOTAL)**



Source: BBVA Research based on an analysis of Central Bank's Minutes, Communiqués and Speeches.

* Frequency of topics counts the number of times a topic is mentioned in Central Bank Communication for a particular year.

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