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## Latam Daily: BCRP Holds, Banxico Meeting Minutes Recap

- **Peru:** BCRP keeps policy rate unchanged
- **Mexico:** Banxico's meeting minutes point to a 25 bps cut in August

### PERU: BCRP KEEPS POLICY RATE UNCHANGED

The Board of the Central Reserve Bank of Peru (BCRP) decided to keep its reference rate unchanged at 4.50% in July, marking the third consecutive month at this level—one cut followed by two pauses. The decision was in line with our expectations at Scotiabank and with the market consensus (as reflected in the Bloomberg median). The spread between the BCRP's reference rate and the Fed's remains at zero.

The July statement was identical to those issued in June and May, continuing to emphasize the following key points:

- **Headline inflation** is expected to remain at the lower end of the target range (1%–3%) in the coming months, before gradually moving toward around the midpoint (2%).
- **Economic activity expectations** showed a slight deterioration compared to the previous month. However, most current situation and expectations indicators remained in the optimistic range.
- **Inflation expectations** in several major economies—especially the U.S.—have increased. As a result, the convergence of inflation toward target levels may take longer than previously anticipated.

The **global economic outlook** has worsened and **financial market volatility** persists.

As a result of the decision, the real interest rate declined slightly from 2.23% to 2.22% (chart 1), due to a slight increase in 12-month inflation expectations from 2.27% in May to 2.28% in June. The real rate remains above the 2.00% level considered neutral, suggesting that the BCRP still has room for one additional 25 bps cut. However, this will depend on the evolution of international trade tensions and whether local economic expectations continue to deteriorate (chart 2). We maintain our year-end forecast of 4.50%.

On the other hand, regarding July inflation, we expect it to be close to +0.15% m/m, below the historical average of the last 20 years for a month of July (+0.39%). With this, annual headline inflation is estimated to be between 1.6% and 1.7% y/y. We maintain our year-end forecast of 2.3% y/y.

Chart 1

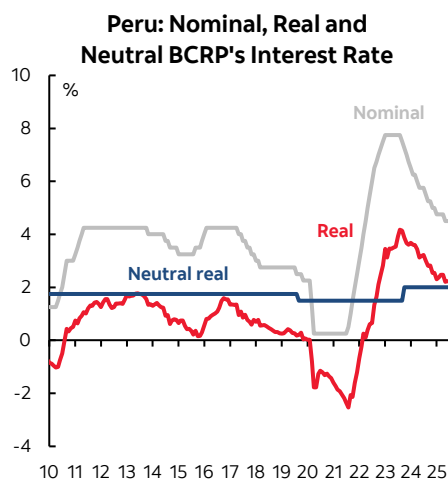
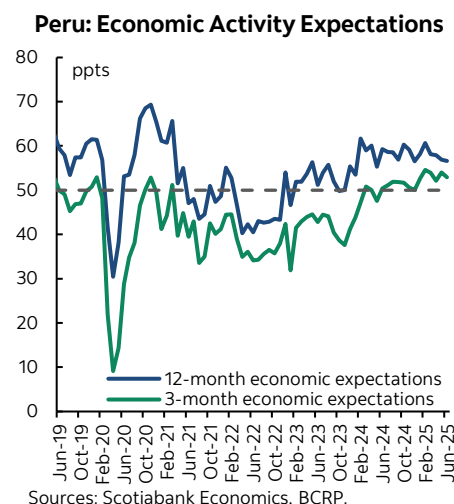


Chart 2



—Ricardo Avila

## MEXICO: BANXICO'S MINUTES POINT TO A 25 BPS CUT IN AUGUST

According to the June policy meeting minutes released on Thursday, Banxico's Governing Board anticipate continued economic weakness, with a risk of stagnation or slight contraction in 2025. In the international environment, the Board expects a global economic slowdown, along with gradual adjustments in U.S. monetary policy.

Despite recent inflationary pressures, the disinflationary process continues, albeit with some resistance, suggesting that the rate-cutting cycle will proceed with smaller and less frequent adjustments. The Board highlights that both headline and core inflation remain below pandemic-era levels and are close to their historical averages (2003–2019).

We expect the August monetary policy decision to be divided once again, with the majority voting for a 25 bps cut to 7.75%, with another 25 bps cut later in the year to an end-2025 forecast of 7.50%.

The minutes to its June 26<sup>th</sup> meeting provided details on the discussion surrounding inflation and monetary policy within the Governing Board. The decision to cut the benchmark interest rate by 50 bps to 8.00% was reached by majority vote. Overall, the arguments from Board members continued to focus on inflation levels and the nature of the recent uptick, emphasizing increases in volatile components. In this regard, more weight appeared to be placed on non-core inflation than to the rebound in merchandise inflation or the persistence in services inflation. Despite this, most members signaled an intention to continue with adjustments, albeit at a more gradual pace in upcoming meetings.

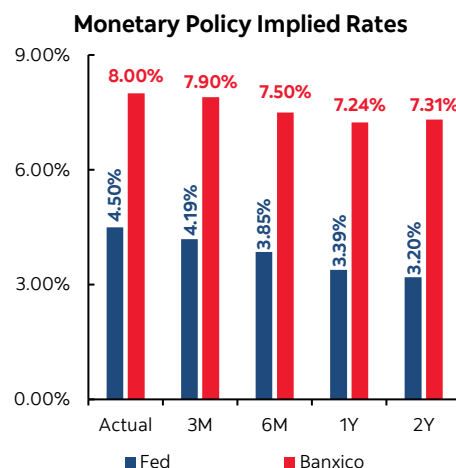
In the monetary policy discussion, most members agreed that this should be the last 50 bps cut of the cycle, though there were differing views on forward guidance and future decisions. Notably, Deputy Governor Heath dissented, arguing that the deterioration in the risk balance and inflation trajectory had exhausted the room for further monetary easing. He also warned that this latest cut risks undermining a sufficiently restrictive stance and questioned whether current inflationary pressures are truly temporary. In contrast, several members indicated they would support smaller cuts—25 basis points—in upcoming meetings. Despite upward revisions to inflation expectations and persistent inflation, most members maintain the view that inflation will converge to the target by Q3 2026. Some also emphasized that the recent appreciation of the USDMXN, along with dollar weakness, could allow for a narrower interest rate spread between Mexico and the U.S. Most agreed that the rate-cutting cycle should proceed more gradually.

Looking ahead, based on members' comments, a 25 bps cut is anticipated at the August meeting, bringing the rate to 7.75%, though with a split vote. This expectation is supported by dollar weakness and Mexico's relatively favourable position among emerging markets. However, the terminal rate forecast for 2025 remains at 7.50%, due to the deteriorating inflation risk balance, ongoing uncertainty, and the Federal Reserve's restrictive stance.

## Macro Assessment

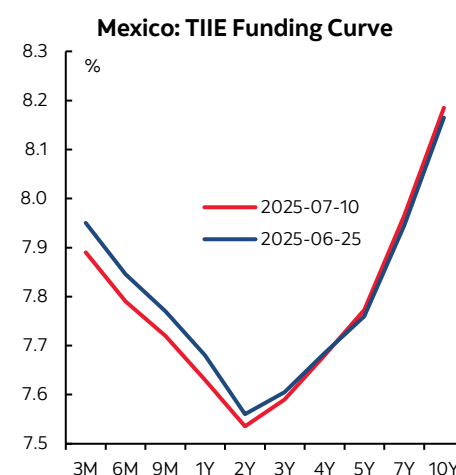
On CPI, headline inflation rose to 4.51% in the first half of June, driven by increases in both core and non-core components, with the latter having a greater impact. Since its low in January 2025, inflation has been trending upward, exceeding the variability range for three consecutive fortnights. Core inflation stood at 4.20%, with six consecutive fortnights of increases, well above its historical average. This behaviour reflects rising international prices, exchange rate pass-through, and normalization of goods prices. Goods inflation has increased by 152 basis points since November 2024, while the decline in services inflation has slowed. Key contributors to inflationary pressures include higher prices for livestock products and non-housing, non-education services. Medium- and long-term inflation expectations remain anchored but resistant to falling below 3.60%. However, headline and core inflation are still expected to converge to the 3% target by Q3 2026. Upside risks include supply shocks (weather, health), persistent core inflation, and potential exchange rate fluctuations. Downside risks include weaker economic activity and a cooling labour market and wages.

Chart 3



Sources: Scotiabank Economics, Bloomberg.

Chart 4



Sources: Scotiabank Economics, Bloomberg.

July 11, 2025

Regarding Mexico's economy, in April, economic activity showed signs of expansion, with annual IGAE growth exceeding the average of the first quarter and the past eight months. However, the cumulative annual rate remains below that of the same period in 2024. By sectors, industrial performance was weak at the start of Q2, with ongoing softness in manufacturing, particularly in transport equipment production. Construction has been on a downtrend since late 2023, and mining continues to decline. In contrast, services rebounded in April, though with a decelerating trend and mixed performance. On the demand side, consumption and investment continue to fall, while manufacturing exports—especially non-automotive—remain in expansion. In this context, economic weakness is expected to persist, with forecasts pointing to stagnation or slight contraction in 2025. The balance of risks for activity remains tilted to the downside, with threats such as increased global uncertainty and geopolitical tensions. In the labour market, signs of cooling are evident: IMSS-affiliated job creation in May was the lowest since January 2010.

—Rodolfo Mitchell & Miguel Saldaña

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