Scotiabank.

GLOBAL ECONOMICS

LATAM DAILY

September 29, 2025

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Latam Daily: BanRep Rate Hold Preview; Mixed Mexican Labour Data

- **Colombia: Monetary Policy Preview—September's limited room for easing**
- **Mexico: Mixed employment figures**

COLOMBIA: MONETARY POLICY PREVIEW—SEPTEMBER'S LIMITED ROOM FOR EASING

On Tuesday, BanRep will hold its sixth monetary policy meeting of 2025. The economist consensus, and us, expect the interest rate to remain unchanged at 9.25%. This expectation is based on recent upside inflation surprises, minimum wage hike expectations, and a challenging fiscal perspective that had been one of the factors frequently cited by the Board in their caution.

In July, the Board kept the intervention rate unchanged at 9.25%, contrary to the 25 bps cut expected by analysts. The premise had been that June and July would be the only months in which BanRep would have room to resume interest rate cuts ahead of a reacceleration in inflation in the months to follow. The rate cut did not materialize due to the credit sovereign rating downgrade by Moody's and S&P in June, rising inflation expectations, and a challenging environment marked by anticipated significant increases to the minimum wage and greater financing needs for the government.

Ahead of tomorrow's meeting we favour rate stability given the following context. Inflation in July and August showed a rebound, rising from 4.82% y/y in June to 4.90% y/y and 5.10% y/y, respectively. Inflation expectations have increased both in the short and long-term. A recent positive market reaction may be partially driven by specific Ministry of Finance operations. And, the risks of a significant increase in the minimum wage are growing. Additionally, the fiscal situation remains under vigilance. Developments in the 2026 General Budget (presented on July 29th) highlight Congress' refusal to approve a financing law (tax reform), and the lack of concrete announcements to reduce spending implies greater financing needs in the future, which would heighten the Board's concerns.

Our current monetary policy forecast includes no changes to the interest rate for the remainder of the year. We expect the rate to end 2025 at 9.25%, with cuts potentially resuming in Q1-2026, targeting a rate of 7.50% by year-end 2026.

Key considerations ahead of BanRep's decision:

- **Inflation has increased more than expected in the last two readings (July and August).** Annual inflation rose to 5.10% y/y in August; however, inflation excluding food dropped to 4.89% y/y. The Board has highlighted the nature of recent inflation movements, which are believed to be driven by base effects from 2024. These do not create the conditions to resume cuts in the intervention rate. In addition, the BanRep survey shows expectations of further rebounds in inflation, which is projected to end 2025 around 5% again, and remain above 4% in 2026. This would mean more than five consecutive years with inflation readings above BanRep's target range.
- **Economic activity continues to show positive signs of recovery.** In July, economic activity posted a 4.3% y/y increase and a 4.2% rise in its seasonally adjusted series—significantly above analysts' expectations. Household consumption has shown favourable signs amid historically low unemployment indicators (8.8% in July vs. a 12.1% average for Julys since 2001) and a record inflow of remittances into the country (+14% y/y between January and July). This reduces the dilemmas in monetary policy and creates a favourable environment for the Board to focus on guiding inflation toward the target range without major short-term economic sacrifices.

- **The uncertainty associated with the minimum wage increase for 2026 poses a risk to inflation converging to the 3% target.** Although the discussion is still several months away, the Board highlighted in its previous meeting the risk associated with salary increases significantly above year-end inflation, as has been evident in previous years. In fact, during September, President Petro talked about a significant increase in the minimum wage (close to +11% in nominal terms) as his legacy in the last year of his government.

- **The progress in the discussion of the 2026 General Budget reveals a challenging outlook.** The new fiscal estimates in the proposed budget suggest an increase in primary spending (COP +10 tn), driven by efforts to reduce debt interest payments by that amount in 2026. As a result, primary spending would rise by 18.2% in COP terms (from 1.4% to 2% of GDP). To finance this expenditure, the proposed increase in fiscal revenues through a tax reform (COP 26.3 tn, 1.4% of GDP) has been questioned by Congress. This has led to the possibility of either cutting the proposed spending or finding alternative sources of revenue, potentially through increased borrowing. Such measures would raise the estimated fiscal deficit and imply a heavier debt burden in the future—an issue that has been strongly emphasized by the board.

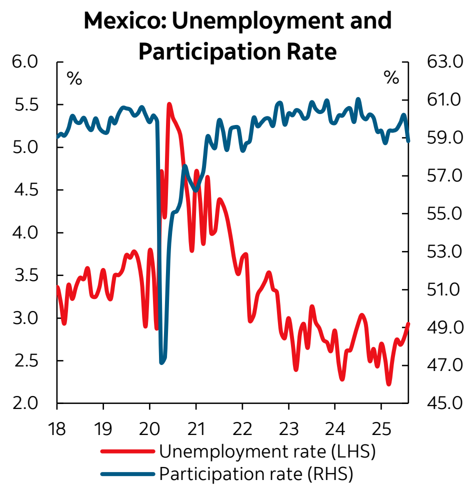
—Jackeline Piraján & Valentina Guio

MEXICO: MIXED EMPLOYMENT FIGURES

In August 2025, Mexico's labour market showed mixed signals. The economic participation rate fell from 60.2% last month to 58.8%, with an economically active population of 61.3 million, while the employed population totaled 59.5 million—down by 201,000 from the previous year. Although the unemployment rate slightly declined to 2.9%, from 2.8% last month and underemployment dropped to 7.1% from 7.3% in July 2025, informality remained high, affecting 54.8% of workers. Female employment rose by 41,000 y/y, while male employment fell by 242,000 y/y. The non-economically active population increased by 2.2 million y/y to 42.9 million, with 5.5 million available to work but not actively seeking jobs. By sector, services accounted for the largest share of employment (43.7%), followed by commerce and manufacturing, while agriculture, professional services, and construction saw the greatest job losses.

—Rodolfo Mitchell & Miguel Saldaña

Chart 1



Sources: Scotiabank Economics, INEGI.

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