

Banxico minutes – Rate cuts will continue and could accelerate if conditions are right

- Banxico released the minutes of the decision held on December 19th. At the time, they opted to cut the reference rate by 25bps to 10.00% with a unanimous vote
- In our opinion, the document reaffirmed the more dovish tone of the [statement](#). The discussion centered on the possible magnitude of upcoming cuts, as well as on some risks to the inflation outlook
- We continue identifying Governor Victoria Rodríguez, as well as Galia Borja and Omar Mejía, among the members in the dovish wing. All three were clear –with different degrees of conviction– that the pace of reductions could be greater in upcoming meetings
- On the contrary, Irene Espinosa and Jonathan Heath maintained a more hawkish tilt, warning about the risks of larger reductions and more focused on uncertainty regarding the inflation outlook. On the latter, they noted possible changes stemming from the new administration in the US
- In this backdrop, we reiterate our call for a 25bps cut in February, with the reference rate at 8.00% by year-end 2025. Our path does incorporate some 50bps moves in certain meetings and pauses in others

Rate cuts will continue, possibly accelerating if conditions are adequate. In our opinion, the document validated the less restrictive tone of the [statement](#). The main point of attention was the change in the institution’s forward guidance, opening wider the possibility of a faster pace of rate cuts. In this sense, divergence persisted across members on this possibility, with the more dovish group –conformed by Governor Victoria Rodríguez, Galia Borja, and Omar Mejía– supporting said option with differences in conviction; those with a more hawkish tilt –Irene Espinosa (in what was her last meeting) and Jonathan Heath– talked about the risks of following through with said adjustments. On the price outlook, the former focused on noting progress on the disinflationary process; the second group focused on several factors that could imply new shocks to the price formation process, highlighting uncertainty related to the arrival of a new US administration. In this context, we believe that cuts will continue, although with a small move at the start of the year considering: (1) A more adverse external backdrop; (2) our view of a less accommodative Fed; and (3) some risks on the inflation outlook. As a result, we anticipate -25bps on February 6th, taking the rate to 9.75%. After this, we forecast both -25bps and -50bps moves throughout the year, including some pauses along the way, taking the reference rate to 8.00% by year-end.

Pondering larger adjustments, although with an undefined moment about when these could materialize. As mentioned previously, the subject of the pace in coming moves was addressed by all members. For each participant, this topic is addressed as the first quote at the table in the following page. We clearly see a divergence, with three out of five arguing that larger moves could be carried out. Nevertheless, it is important to note that the degree of conviction is different. In our view, Rodríguez and Borja talked about the “possibility” or whether it is “feasible” to increase the magnitude. On the other hand, Mejia was more emphatic as he used the word “necessary”, mentioning that it could happen in some of the upcoming meetings. However, neither said specifically what needs to happen to trigger a change. On the contrary, Espinosa and Heath were more cautious. They even argued that larger cuts could have adverse effects.

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Banxico’s decisions in 2025

Date	Decision
February 6 th	--
March 27 th	--
May 15 th	--
June 26 th	--
August 7 th	--
September 25 th	--
November 6 th	--
December 18 th	--

Source: Banxico



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On the other hand, we think Heath’s comments contrast slightly with what he said in an interview with *Reuters* after the decision, when he mentioned that “...as long as there is no unforeseen shocks, the discussion before the February decision could be between cutting the reference rate by 25 or 50 basis points...”. Considering also that Espinosa is no longer part of the Board, the possibility of such adjustments materializing throughout the year is high.

Banorte’s assessment on Board member’s comments in the December 19th minutes

Bias	Member	Order in the minutes	Relevant comments
 Hawkish	Irene Espinosa	2	"...looking ahead, monetary policy normalization should not be rushed..." "...the monetary policy stance should remain sufficiently restrictive for an extended period..." "...relevant information regarding different topics should be incorporated, especially in view of the changes that may result from the new US administration taking office..."
	Jonathan Heath	4	"...accelerating the pace of monetary easing as well as admitting in advance that it can be done in future decisions should be avoided for the moment..." "...forward guidance should reflect an approach of prudence and gradualism..." "...increasing risks are foreseen in 2025 due to the threat of tariffs and other adverse policies from abroad..." "...in 2025 the process of calibrating the monetary policy stance could imply downward adjustments of larger magnitude in some monetary policy decisions..."
	Galia Borja	3	"...communication should emphasize confidence in the improvement of the inflation outlook and the commitment to foster an orderly adjustment of relative prices..." "...allows to continue calibrating the level of monetary restriction necessary to support inflation convergence more efficiently..."
	Victoria Rodríguez	1	"...communicating that adjustments of larger magnitude could be implemented at the next policy meetings..." "...the inflationary outlook is such that the rate-cutting cycle should continue in upcoming meetings..." "...economic activity has shown weakness throughout the year and is expected to expand at an even more moderate rate in 2025, which would help mitigate pressures on prices..."
	Omar Mejía	5	"...it is necessary to increase the magnitude of rate cuts in some of the upcoming monetary policy decisions..." "...is fundamental to communicate that larger adjustments would be consistent with an efficient implementation of monetary policy..." "...there is uncertainty about the course of economic policy in the United States and, therefore, about its implications for the inflationary outlook in Mexico."
Dovish			

Source: Banorte with information from Banxico

Despite the latter, inflation risks remain. As part of the decision, the Board revised its inflation forecasts to the upside, pushing the convergence to the target by three quarters to 3Q26. Despite this, most members noted that “...the revision in forecasts does not suggest an interruption in the disinflation process, but rather a more gradual reduction in headline and core inflation...”. We believe this can be attributed specially to the dovish wing. In this regard, Heath and Espinosa insisted on caution, highlighting on this occasion external risks. Specifically, the new administration in the US. The most significant issue was the possibility of tariffs to Mexican exports. On the contrary, Mejía also spoke about the latter, although concentrating more on the effects on economic activity, which in his opinion “...could be addressed with a lower level of monetary restriction...”.

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