ECONOMICS REPORT

Regional analysis

June 2025

LATAM ConsultUs

The value of being **independent**

Contents

The report includes:

Regional Monitor

Markets in focus: Stocks, FX & Sovereigns

	Stock Markets Return (%)	FX Return (%)	Sovereign YTW 10 year (%)
Argentina	3,62	-13,99	9,85
Brazil	24,46	14,46	6,54
Chile	25,14	7,73	5,05
Colombia	33,41	10,34	7,92
Mexico	28,06	10,40	6,13
Peru	23,17	7,20	5,46
Uruguay		10,74	5,00

Source: Trend Economy, Annual International Trade Statistics, data as of 06/26/2024.

Outlook

Global

Risks remain present: the expansion of tariffs, the impact on supply chains, and geopolitical volatility have reinforced a potential trend toward stagflation, according to several analysts.

While Latin America shows signs of recovery, the global outlook—especially in the United States and Europe—has taken on a more moderate and cautious tone during the first half of the year.

The U.S. Federal Reserve notably revised down its growth projections for 2025. According to the June FOMC economic projections, real GDP is expected to grow by 1.4% (previously projected at 1.7%).

At the same time, the Fed kept its policy rate range at 4.25%–4.50%, but anticipates two 25 bps cuts in 2025, reflecting a cautious shift in a context of weak and inflationary growth.

Europe, while showing a calmer outlook—with inflation near target, moderate unemployment, and controlled growth, partly due to a stronger euro and lower energy prices—remains more sluggish than the U.S., with GDP expected to reach 1.0% in 2025 according to the ECB and IMF.

Taken together, both blocs reflect a moderately stagnant global economy, with fragmentation across regions and conditions requiring flexibility and close attention from central banks.

Despite the projected weakness for major developed economies, equity markets continued their upward trend in the first half of the year. This apparent disconnect between the real economic cycle and the behavior of financial assets reflects a combination of structural factors and expectations for future monetary policy. In this environment, investors appear to be looking beyond immediate growth data, focusing on expectations of monetary easing, corporate resilience, and new structural opportunities, which has allowed markets to hold firm and even move higher.

Regional

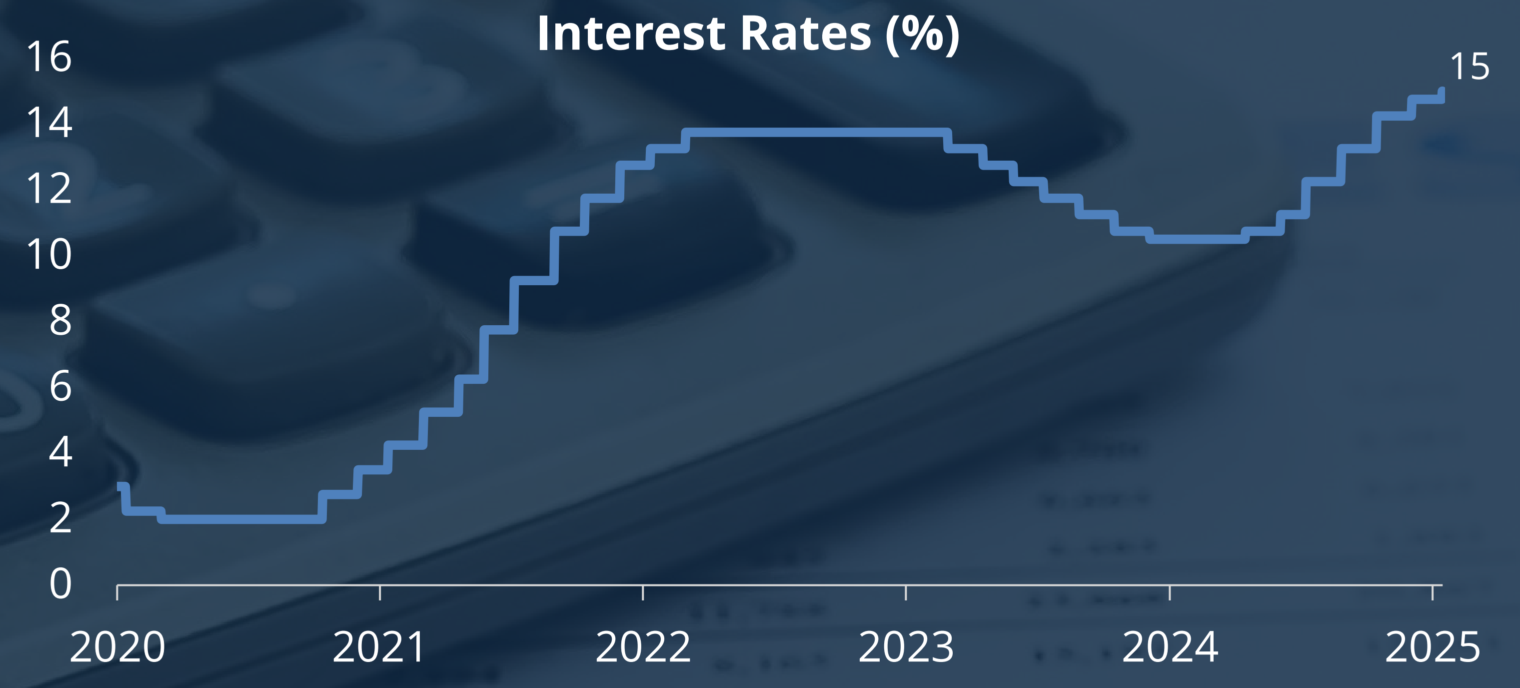
During the first six months of 2025, **Latin American economies have demonstrated remarkable resilience in the face of a global environment marked by uncertainty,** particularly linked to tariff threats stemming from U.S. trade policy. Although 10% tariffs were imposed in April on products from several countries in the region, the direct impact on growth was milder than expected. From our perspective, the direct effect on GDP would be limited, and the real issue lies in the indirect impacts through a slowdown in global growth.

However, greater impacts could stem from market reactions, as several Latin American assets—both equities and local currency bonds—tend to benefit from a weakening dollar and capital flows toward emerging markets.

In terms of exchange rates, several **Latin American currencies have experienced moderate appreciation against the dollar**, driven by capital inflows. Although the Brazilian real saw episodes of depreciation, central banks responded by raising interest rates—for example, Brazil increased its benchmark rate to contain the currency depreciation.

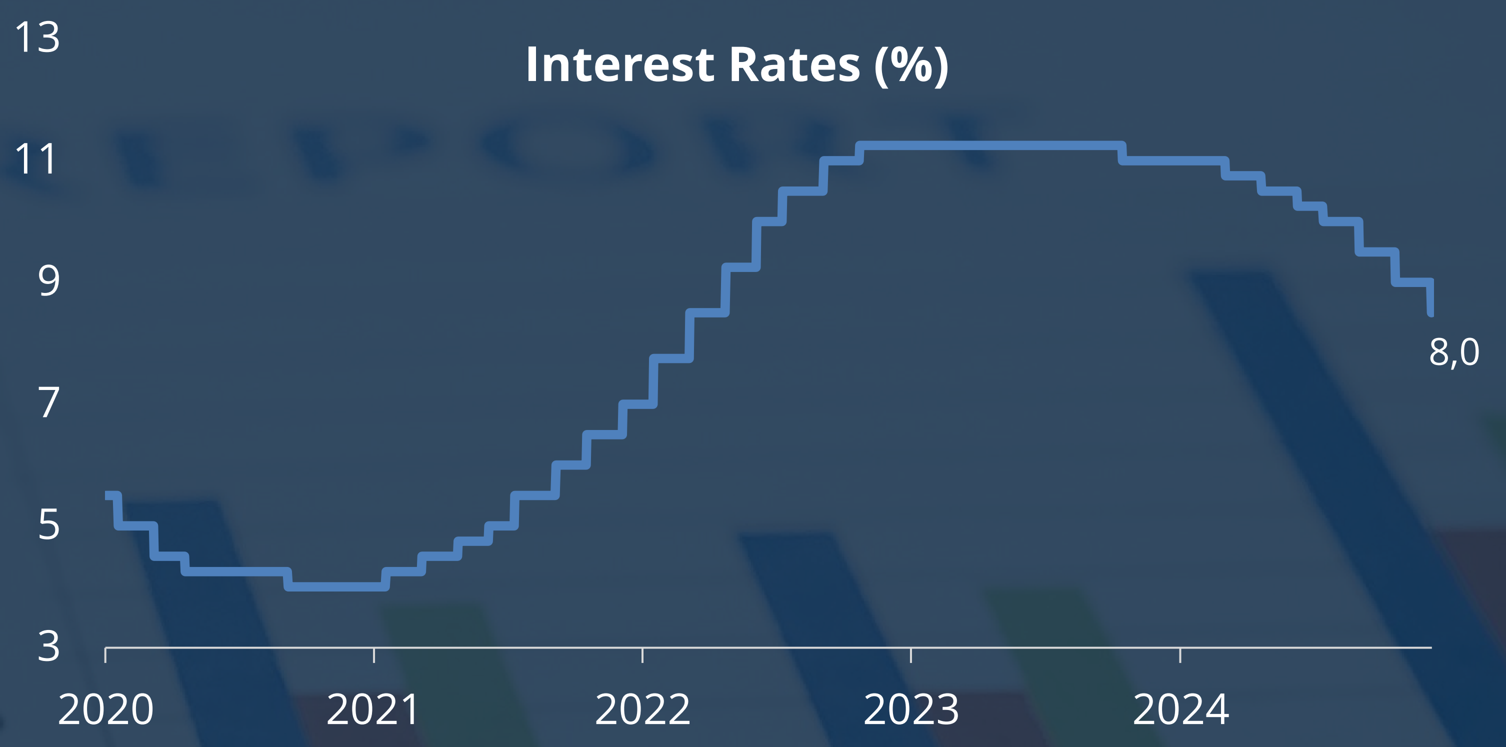
One noteworthy aspect is the **growing independence of central banks in the region.** This shift is not merely anecdotal: since the 1990s, most Latin American central banks have adopted inflation-targeting regimes and reinforced their mandates for autonomy. Today, these institutions do not respond mechanically to moves by the U.S. Federal Reserve but have instead **adopted countercyclical strategies—adjusting rates to address currency imbalances and managing reserves to maintain local financial stability.** This has made them more capable of absorbing external shocks (such as the pandemic, the war in Ukraine, or trade risks) more effectively.

Brazil



- The Central Bank of Brazil raised its policy interest rate by 25 basis points, bringing it to 15%. Although this move aligned with the market's implied probability (around 65%), it still caught many analysts by surprise. Beyond the technical detail, the decision reflects the authorities' determination to ensure that inflation remains under control in a volatile economic environment.
- In the accompanying statement, the central bank emphasized that the rate-hiking cycle will “pause” at the next meeting. Conceptually, this pause does not signal a change in direction; rather, it is an opportunity to assess the impact of the measures already taken before considering further adjustments.

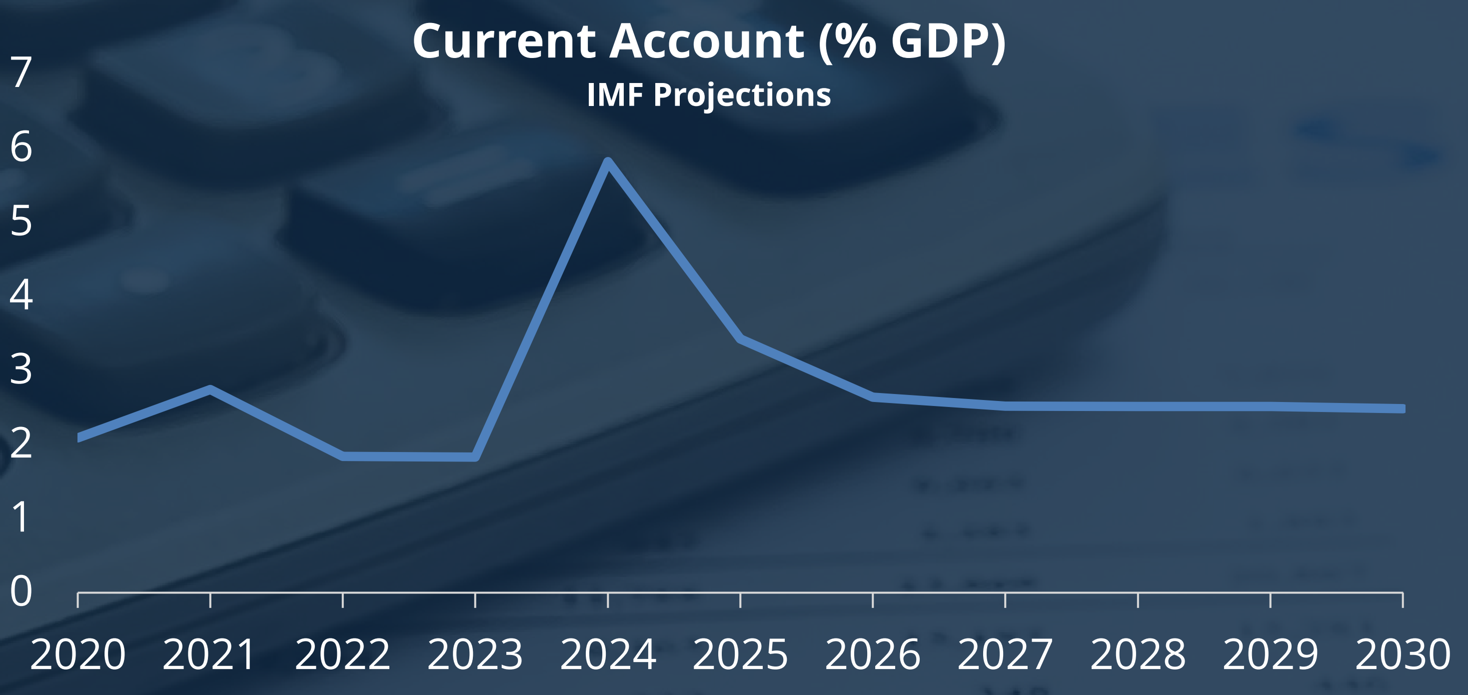
Mexico



- The Bank of Mexico adjusted its monetary policy rate to 8%, lowering it by fifty basis points. This action aims to ease the brake that monetary policy exerts on growth, following signals that the central bank itself had anticipated in previous communications.
- Although inflation still remains slightly above the midpoint of the official target, its trajectory has returned to more usual levels. From a price stability perspective, this creates room to ease rate pressure without compromising inflation control.
- On the other hand, the performance of the Mexican economy shows signs of weakening—even of a possible recession—which reinforces the idea that the current policy had been too strict. In this context, the reduction intends to provide a timely boost to economic dynamism.

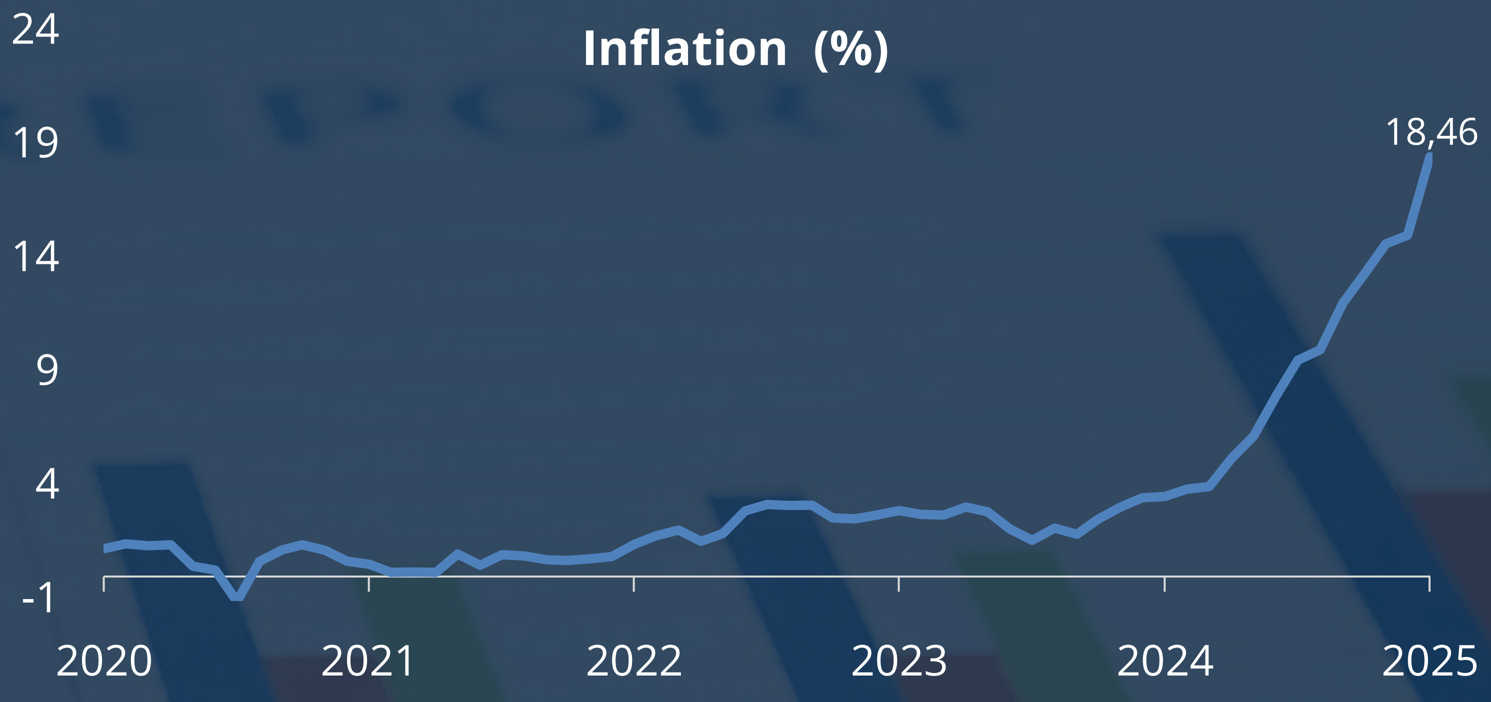
Source: Central Bank of Brazil (BCB), National Institute of Statistics and Geography (INEGI), JPM. Data as of 06/27/2025

Ecuador



- Ecuador's trade balance recorded a record surplus of 2.8 billion dollars in the first four months, driven by a non-oil surplus of 2 billion, more than double compared to a year ago.
- Although the oil surplus fell by nearly 40% due to lower volumes and prices, the current account balance is projected to close 2025 at around 5.7 billion, supported by a weak dollar and a reduction in imports that would offset the decline in oil revenues.

Bolivia



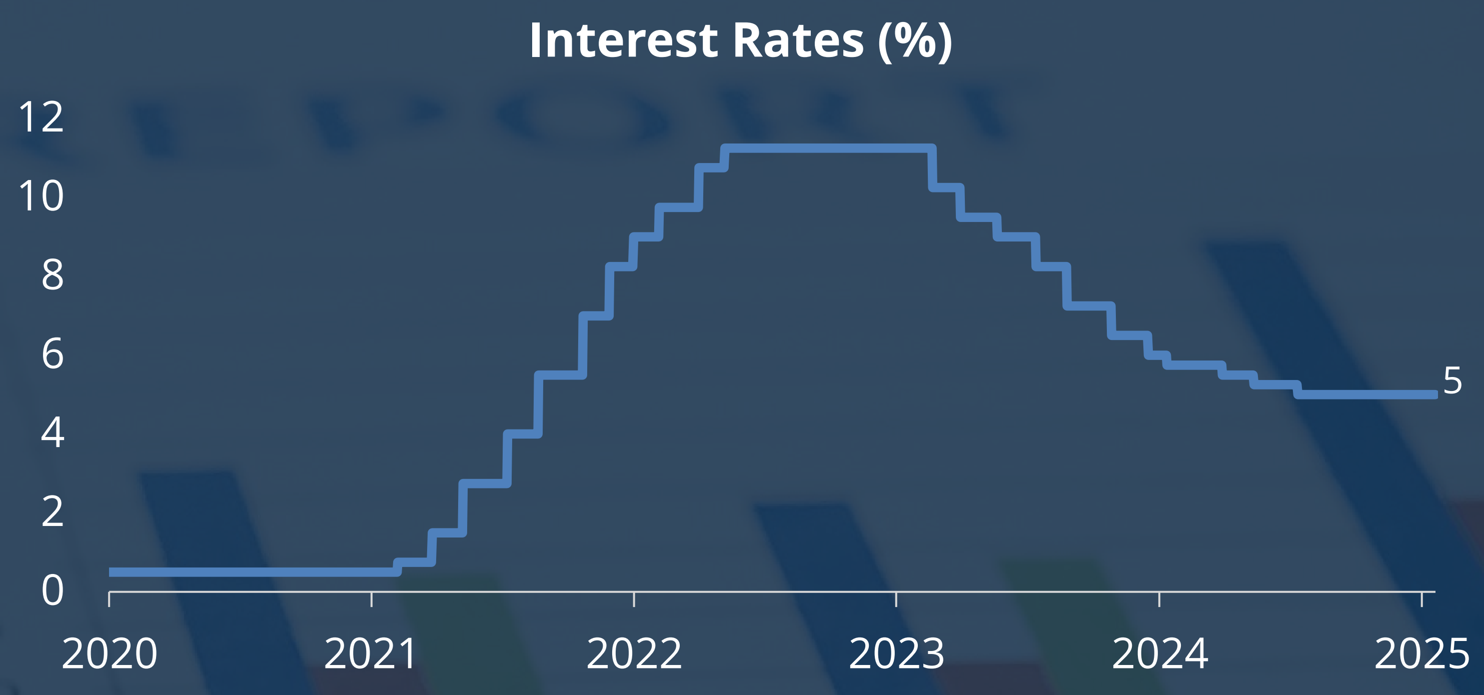
- Bolivia is experiencing a historic wave of inflation: in May 2025, the year-on-year rate exceeded 18%, its highest level since 1991, and the accumulated inflation from January to May reached 9.81%, well above the annual target of 7.5%. Diesel and gasoline shortages have increased transportation costs, while speculation and the parallel exchange rate gap are driving up the price of basic goods.
- Consumption habits are being redefined: food and beverages—especially meat, chicken, and rice—have seen notable price increases, and quinoa cultivation is suffering due to high logistical costs and expensive inputs. With the economy in recession since 2023 and without currency reforms or guarantees of fuel supply, experts warn that unless structural measures are implemented, inflation could continue rising, deepening social vulnerability.

Source: National Electoral Council of Ecuador / Central Bank of Bolivia, data as of 06/27/2025

Peru

- The Peruvian economy showed clear signs of recovery in April, driven mainly by a robust manufacturing sector that reversed the previous contraction. Although the growth momentum moderated compared to previous quarters, the overall dynamics suggest that activity remains close to its potential, breaking the recent streak of acceleration.
- The external environment continues to provide significant support, thanks to strong export prices, which benefit sectors linked to international trade. At the same time, the rebound in business confidence indicates that companies perceive better short-term prospects, which could translate into new investments and an additional boost to the economy.

Chile



- The Central Bank of Chile chose to keep its monetary policy rate unchanged, but what was truly significant was the clear message that it is preparing the conditions for a future easing of its instruments. This signal responds to inflation behaving in line with projections and the risks of upward pressures having diminished.
- According to the baseline scenario in its most recent report, the monetary authority is expected to gradually release the brake on the cost of money until reaching levels compatible with stable economic momentum, over a horizon of several quarters.

Source: Bloomberg. Data as of 06/27/2025

Colombia

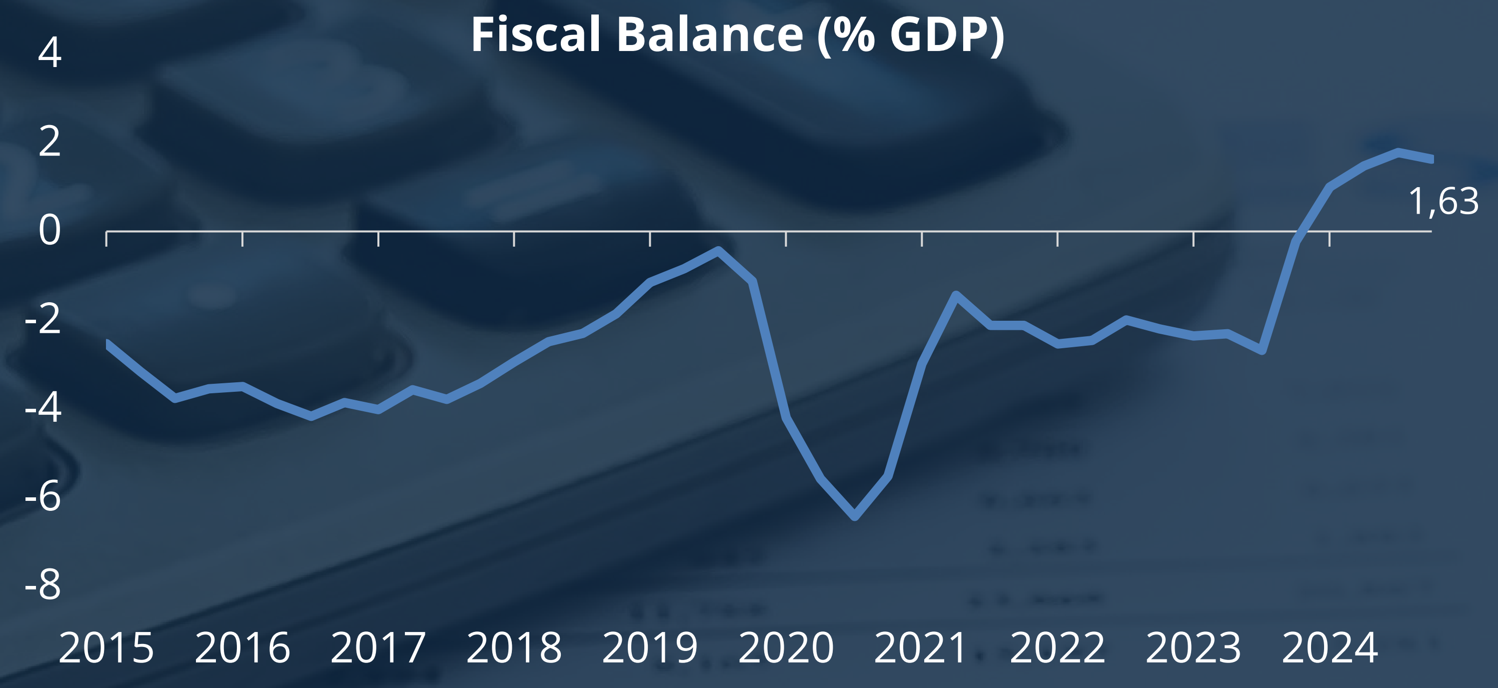
- The activation of the fiscal rule escape clause in Colombia has fundamentally altered expectations regarding the health of public finances and their interaction with the real economy. By allowing greater fiscal spending flexibility, projected deficits have been revised upward, directly influencing inflation forecasts and the trajectory of the monetary policy rate.
- On the other hand, economic performance has exceeded initial forecasts, partly reflecting the impact of expansive fiscal policy. This dynamic has led to a slight upward revision of growth estimates for the coming years. However, clouds remain on the horizon: on one hand, the uncertain evolution of external factors, and on the other, the risk of internal financial tensions arising from rising debt levels.

Paraguay

- Paraguay is consolidating a cycle of expansion for the third consecutive year, surpassing the target set for 2025, as highlighted by President Santiago Peña. The economic activity indicator shows steady progress, driven by the combined strength of the services, construction, and manufacturing sectors, which have partially offset the slower pace in agriculture.
- In this context, the Central Bank revised its growth forecast upward and decided to keep the monetary policy rate unchanged—a clear signal that it aims to support economic momentum while remaining vigilant on price control. These measures are intended to ensure an orderly convergence of inflation toward the target level while sustaining the overall dynamism of the economy.

Source: Bloomberg. Data as of 06/27/2025

Argentina



- Fiscal discipline in Argentina remains the cornerstone of the stabilization plan, with results showing a moderate primary surplus and a globally positive balance, albeit slightly tighter than last year. This effort reflects the priority of keeping public accounts under control, despite the reduced room to deepen spending cuts.
- Looking ahead, the viability of this approach will increasingly depend on the ability to generate higher revenues, since the social security indexation formula limits the option of reducing expenditures. The expected increase in social benefits will be accompanied by cuts in subsidies, ensuring that the anticipated primary surplus continues to support macroeconomic balance and sustains a slight surplus in the overall fiscal balance.

Uruguay

- Uruguay's economy showed remarkable strength in the first quarter, with a pace of expansion exceeding the level at the end of 2024, confirming the momentum of domestic demand. Private consumption, as the main driver, contributed most of the dynamism, while investment maintained solid momentum. The external sector had a neutral influence, with exports and imports balancing each other out.
- Despite this encouraging start, recent signals point to a gradual cooling: preliminary indicators for the second quarter suggest a more pronounced moderation in consumption than previously expected.

Source: Bloomberg. Data as of 04/25/2025 / Central Bank of Uruguay, data as of 06/27/2025.

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