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Latin America Advisor

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FEATURED Q&A

What Factors Explain Chile's Cooling Inflation?



Chile saw a drop of 0.4 percent last month in consumer prices, the largest decline since late 2023. // File Photo: Rmcarvalhobsb via Adobe Stock.

Q Chile's consumer prices decreased 0.4 percent in June, the first monthly drop this year and the steepest decline since late 2023, statistics agency INE announced on July 8. Annual inflation in June was 4.1 percent, reaching closer to the upper limit of the central bank's target inflation range ahead of the next rate-steering committee meeting on July 28 and 29. What factors explain Chile's cooling inflation? How likely is the central bank to cut its benchmark interest rate? How would monetary easing affect Chile's economy?

A **Elijah Oliveros-Rosen, Latin America chief economist at S&P Global Ratings:** "The process of disinflation in Chile continues, with headline inflation starting the year at 4.9 percent, and now slowing to 4.1 percent according to the latest consumer price index (CPI) print in June. Two main factors have been driving slower inflation over the last few months, both of which were evident in the June CPI report. The first one is related to food prices, which by nature are highly volatile, but have generally trended lower this year. The second driver of disinflation has been lower prices of imported goods, which have benefited from a modest appreciation of the Chilean peso, and we expect this to broadly remain the case the rest of the year due to global U.S. dollar weakness. We project inflation to continue heading lower, especially into 2026, when we see headline CPI approach 3 percent. Inflation expectations have also been declining and are now close to the central bank's 3 percent target. Consistent with these dynamics, we expect the central bank to restart its monetary policy normalization cycle

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TODAY'S NEWS

POLITICAL

Ecuadorian Gang Leader 'Fito' Pleads Not Guilty

Ecuadorian gang leader José Adolfo Macías Villamar, known as "Fito," on Monday pleaded not guilty to drug and weapons charges in U.S. federal court.

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ECONOMIC

Brazilian Justice Approves Insider Trading Probe

A Brazilian Supreme Court Justice approved an insider-trading investigation stemming from U.S. President Donald Trump's announcement of 50 percent tariffs on imports from Brazil.

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BUSINESS

Julius Baer Reports Profit Decline After Sale of Brazil Unit

Switzerland-based Julius Baer, led by CEO Stefan Bollinger, today reported a 35 percent decline in profit for the first half of the year, driven by fees related to the sale of its unit in Brazil.

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Bollinger // File Photo: Julius Baer.

POLITICAL NEWS

Ecuadorean Gang Leader ‘Fito’ Pleads Not Guilty in U.S.

Ecuadorean gang leader José Adolfo Macías Villamar, also known as “Fito,” pleaded not guilty on Monday to drug trafficking and weapons smuggling charges in U.S. federal court in New York, The New York Times reported. Macías, whose escape in January 2024 from a prison in Ecuador set off a wave of violence in the South American country, was recaptured in Ecuador last month and was extradited to

Macías escaped from a prison in Ecuador in January 2024 and was recaptured last month.

the United States on Sunday. Macías’ gang, Los Choneros, has played a main role in the unrest Ecuador has seen since 2020, The New York Times reported. The gang has perpetrated killings and kidnappings, as well as the takeover of prisons, aided by corruption, according to federal prosecutors in the United States, the newspaper reported. Following his arraignment Monday in Brooklyn, Macías is next due to appear in court on Sept. 19 and faces life in prison if he is convicted. Los Choneros has worked with drug cartels in Mexico to ship cocaine from suppliers in Colombia through Ecuador and Central America and eventually to the United States, according to prosecutors, the Associated Press reported. The gang has also trafficked firearms from the United States to South America, prosecutors add. Macías’ “reach was far and wide,” Assistant U.S. Attorney Chand Edwards-Balfour told the court on Monday, The New York Times reported. Macías’ lawyer, Alexei Schacht, entered the not guilty pleas on his client’s behalf and said he was eager to see prosecutors’ evidence of Macías’ involvement in drug and weapons trafficking, the AP reported. “As far as I’m aware, he did

neither,” Schacht told the wire service in an email. At his court appearance on Monday, Macías told Magistrate Judge Vera Scanlon that he understood his legal rights. The judge also ordered treatment for Macías during his detention for health problems, including high blood pressure, gastritis and bullet fragments from a shooting several years ago, the wire service reported. [Editor’s note: See related [Q&A](#) in the March 7 issue of the Advisor.]

ECONOMIC NEWS

Brazilian High Court Justice OKs Insider Trading Probe

Brazilian Supreme Court Justice Alexandre de Moraes on Monday approved an investigation into allegations of insider trading that related to the possible use of privileged information ahead of U.S. President Donald Trump’s announcement earlier this month of 50 percent tariffs on imports from Brazil, Reuters reported. The Brazilian solicitor general’s office, known as AGU, had requested the high court’s authorization last Saturday to investigate trades following a news report suggesting that large amounts of Brazilian reais were sold ahead of Trump’s announcement, the wire service reported. The news report centered on a chart that Spencer T. Hakiman, who founded New York-based hedge fund Tolou Capital Management, had posted. The chart showed the move in the Brazilian real on July 9, the day Trump announced the tariffs. “I am very happy to see Brazil looking into something suspicious. I wish the U.S. would be responsible enough to do the same,” Hakiman said after learning about De Moraes’ authorization of the investigation, Reuters reported. Trump sent Brazilian President Luiz Inácio Lula da Silva a letter on July 9 saying that he was imposing the new tariffs, effective Aug. 1, citing Brazilian authorities’ prosecution of Trump’s ideological ally, former Brazilian President Jair Bolsonaro. Trump called the case against Bolsonaro a “witch hunt.” Bolsonaro is on trial for alleged

NEWS BRIEFS

Venezuela Vows Probe of El Salvador’s Bukele Over Detainees’ Treatment

Venezuelan Attorney General Tarek Saab on Monday said he is launching an investigation of Salvadoran President Nayib Bukele and two other officials over the alleged abuse of Venezuelan detainees during their imprisonment in El Salvador, Reuters reported. More than 250 Venezuelans whom the United States had deported in March were held at El Salvador’s CECOT prison before being returned to Venezuela in a prisoner swap last Friday that also included Venezuela’s release of 10 jailed U.S. citizens and residents.

Three Colombian Soldiers Killed in Rebel Attack in Catatumbo Region

Three soldiers were killed and eight others were injured in a drone attack last weekend in the rebel-plagued Catatumbo region of northern Colombia, the country’s armed forces announced Monday, the Associated Press reported. Colombia’s military said members of the ELN paramilitary group were behind the attack. Explosive-laden drones have become an increasingly frequent tactic employed by Colombia’s rebel groups; last year, they used drones in violent assaults on at least 115 occasions, the AP reported, citing Colombia’s Defense Ministry.

Argentina Relaxes Entry Requirement for Chinese Citizens

Argentina will no longer require visas for Chinese citizens who already have valid entry permits for the United States, the South American country’s government announced Monday, Reuters reported. The move is designed to spur tourism, Argentina’s government said in a statement, the wire service reported.

involvement in a coup plot to remain in power following his election loss to Lula in 2022.

BUSINESS NEWS

Julius Baer Reports Profit Decline After Sale of Brazil Unit

Swiss financial services firm Julius Baer recorded mid-year profit of \$370 million, a decline of 35 percent compared to the first six months of 2024 that was driven by fees related to the sale of its unit in Brazil, the firm said in a statement today. Julius Baer in March finalized the sale of its wealth management unit in Brazil to São Paulo-based Banco BTG Pactual, which then triggered a mandatory federal financial services tax that amounted to approximately \$120 million, The Wall Street Journal report-

“I remain confident that we have all ingredients in place to unleash our full potential and reach our mid-term goals.”

— Stefan Bollinger

ed. Julius Baer Brazil had \$8 billion in assets under management at the time of the sale; BTG Pactual likely paid approximately \$180 million for Julius Baer Brazil, a source familiar with the matter told Bloomberg News in January. “I remain confident that we have all ingredients in place to unleash our full potential and reach our mid-term goals,” Julius Baer CEO Stefan Bollinger said in the Zurich-based bank’s statement today. The firm has faced headwinds outside of the Americas, most notably related to the ongoing bankruptcy proceedings of Austrian property developer, Reuters reported. In May, Julius Baer announced a \$163 million write-down, the wire service reported. [Editor’s note: See related [Q&A](#) in the June 25 issue of the Advisor.]

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in the coming months. We project two 25-basis-point interest rate cuts in the remainder of 2025, bringing the policy rate from its current 5 percent level to 4.5 percent by the end of the year. This is in line with what is priced by markets, according to the interest rate curve. As a result, an interest rate cut in the next monetary policy meeting at the end of this month would not come as a surprise. We expect Chile’s economy to expand 2.2 percent in 2025, roughly around its potential growth rate. However, GDP has been driven primarily by strong exports, mainly of metals and agricultural products. We expect global trade dynamics to be less favorable in the coming months, as the impact of U.S. tariffs becomes more noticeable. Therefore, lower interest rates in Chile will contribute to an improvement in domestic demand, offsetting some of the impact of weaker external dynamics.”

A Carlos Cruz Infante, director of Lunae Advisory in Chile: “Inflation in Chile seems to be finally moving closer to the central bank’s target range of 2 to 4 percent. June surprised to the downside—the market was expecting a small 0.2 percent drop in prices, but the monthly figure came in at -0.4 percent. A big part of that drop is seasonal. Black Friday clothing sales happen in June here, and the heavy discounts tend to pull prices down for the month. What wasn’t expected was a drop in vegetable prices, too. Since food prices are usually volatile, the central bank is unlikely to consider them too much, but they do contribute to the overall cooling trend. With inflation softening, the central bank seems inclined to resume rate cuts. Markets are preparing for a possible move this month. Still, it is challenging to predict how far or how fast that easing will extend, especially with global uncertainty mounting. President Donald Trump’s announcement of new tariffs on copper—a key export for Chile—adds risk, and local decision-makers are in a wait-and-

see mode. Domestically, Chile’s presidential and congressional elections in November also introduce a question mark. Political uncertainty tends to make investors and lenders more cautious. One area to watch is housing. Access to mortgage credit remains tight, and if lower rates take hold, the real estate market could finally see some relief. That would be welcome news—not just for economic reasons, but also because housing is becoming a hotter political issue by the day.”

A Dorotea López Giral, director of the Institute of International Studies at the Universidad de Chile in Santiago: “Chile’s recent slowdown in inflation reflects the convergence of multiple domestic and external factors. The decline in prices for food and non-alcoholic beverages, the category with the greatest weight in the consumer price index. This has been complemented by a fall in the price of fuel, which Chile imports, offering a degree of external price relief. The appreciation of the Chilean peso has helped reduce the cost of imports, and prudent macroeconomic policy, since 2023, has contributed to overall stability. The inflation slowdown observed in June points to the consolidation of a moderate disinflation trend and suggests that the policy strategy implemented is proving effective. Despite being highly exposed to global shocks, Chile has managed the situation effectively. However, the international outlook remains very uncertain, with high volatility in copper prices and potential disruptions stemming from the economic slowdown in China or changes in U.S. trade policy along with the conflicts in the world. For this reason, Chile should be cautious about these results and maintain the current policy rate. Looking forward, moderate monetary easing could yield benefits. Lower borrowing costs would likely encourage household consumption and business investment, especially in interest-sensitive sectors such as construction,

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which continue to lag. Nonetheless, if easing becomes too aggressive, it could reignite inflationary pressures or depreciate the peso, undermining recent gains. Policymakers must therefore strike a delicate balance, supporting economic activity without compromising inflation control, as they face a complex global and domestic landscape, in an electoral year.”

A **Gonzalo Durán, researcher at Fundación SOL:** “The inflationary deceleration responds to both specific and structural factors, but the latter are the most relevant to understand the phenomenon in depth. In Chile and globally, we are witnessing a persistent crisis of capital profitability, marked by low levels of productive investment, stagnation of quality employment and a weak expansion of productivity. In this context, capital seeks to recompose its profit rate through various adjustment strategies, including wage restraint. In Chile, this process is evident; half of the workers earn less than \$630 a month, while the cost of living remains high. This structural contradiction imposes a limit on the ability of companies to continue to pass on costs to final prices, as domestic demand remains restricted by low incomes. Thus, beyond the end of the external shocks associated with the pandemic, inflation is beginning to moderate because there are no structural conditions to sustain generalized price increases. What is holding back inflation is not the success of contractionary policies or balanced growth, but rather the weakness of popular income

and the stagnation of mass consumption. Given the central bank’s approach, which emphasizes anchoring inflation expectations, it is reasonable to anticipate a reduction in the benchmark interest rate. Recent surveys show that inflation is expected to converge progressively toward the 2-4 percent target range over the policy horizon. In this context,

“**A more expansive monetary policy could have positive effects on the Chilean economy...**”

– Gonzalo Durán

the central bank’s board could choose to cut the rate to stimulate consumption, investment and economic growth. The probability of a rate cut is therefore high, although its magnitude and pace will depend on how expectations and external and domestic conditions evolve. A more expansive monetary policy could have positive effects on the Chilean economy, especially in the current context. Recently, the Presidential Advisory Commission for Poverty Measurement proposed methodological changes that, if implemented, would change the official poverty rate from 6.5 to 22.3 percent. This adjustment reveals a structural situation of low household income. In this scenario, an expansive monetary policy, through interest rate reductions and a greater stimulus to credit, could boost economic activity, foster job creation and contribute to wage growth.”

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Upcoming Event

ONLINE EVENT: China’s Global Security Initiative in Latin America

July 29, 2025 | 9:00 a.m. ET

