



# Latin America and the Caribbean

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## Regional Macroeconomic Balance 2025:

*From a Turbulent Start to a Year-End Showing Signs of Strength*

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### Economic Research Mailbox

[EstudiosEconomicos@bladex.com](mailto:EstudiosEconomicos@bladex.com)

Avenida La Rotonda, Urb. Costa del Este  
Torre V, Business Park – 5<sup>th</sup> floor  
Panamá Rep. de Panamá



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# From a Turbulent Start to a Year-End Showing Signs of Strength

- The election of Donald Trump brought a turbulent start for Latin America, with migration policies that pointed to a sharp collapse in remittances, along with the possibility of slowing international trade and US intervention in economies considered to be promoters or producers of drug trafficking. As a result, growth projections and market access expectations began on a pessimistic, even recessionary, note in some countries such as Mexico.
- However, as the outlook became clearer, the region faced shocks that turned out, in fact, positive. Remittances grew by more than 30%, international trade recovered to its pre-pandemic level, and growth rates exceeded expectations— even in Mexico—while exchange rates and interest rates showed that the region is not only resilient but is also being viewed more favorably by markets.
- During 2025 we saw 12 upgrades across five countries by rating agencies, compared to only six downgrades in just two countries. Exchange rates (where they exist) appreciated an average of 10% against the U.S. dollar over the year; surpassing even the dollar's global weakness, while interest rates and risk appetite for Latin America not only improved but also helped ease governments' financial burdens.
- Looking ahead to 2026, although we expect remittances to stabilize (like what occurred under Trump 1.0) we also anticipate that market conditions and a more favorable investment outlook will support the region's continued resilience. A key factor will be how the new administrations in Bolivia, Ecuador, Honduras, and even Argentina advance structural reforms and initiate (or consolidate) their adjustment processes.
- Nonetheless, the region's structural challenges will persist. Low productivity, fiscal pressures, and high financial burdens (elevated debt-to-GDP ratios) will remain top concerns. Therefore, the electoral calendar, which will continue to be very active, will be critical for shaping long-term policies regarding the size of the state and foreign direct investment.

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# A more **challenging** start to the year than expected, but with a favorable outcome.



2025 began under a particularly complex external environment for Latin America and the Caribbean. The arrival of a new administration in the United States introduced rapid changes in tariff, migration, and security policies, generating fears of potential disruptions in supply chains, trade flows, and even a global economic slowdown due to tighter restrictions and limited clarity for sectors highly dependent on exports to the U.S. Added to this, were global fiscal concerns, especially regarding the high indebtedness of the U.S. Treasury, with debt exceeding 120% of GDP, which created uncertainty about its financing and the possibility of liquidity strains in markets—factors that contributed to a higher perception of risk.

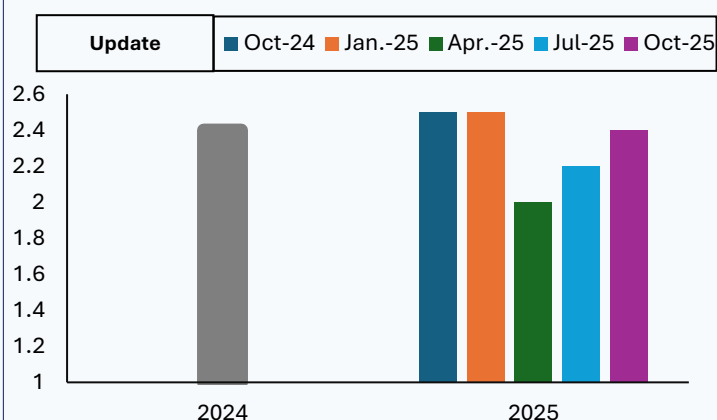
At the same time, a continued tightening of external monetary conditions at the beginning of the year, along with episodes of risk aversion in emerging markets, pushed the EMBI Latam up by +70 bps in April to 398 after “Liberation Day,” marking its highest level of the year. This fueled doubts about the region’s ability to absorb external shocks. In addition, ongoing trade tensions among major economies and shifts in demand patterns reinforced the sense of an international environment that was fragile and difficult to anticipate, generating a scenario of heightened caution.

Even so, the countries of Latin America and the Caribbean showed greater resilience than expected. The region not only has kept access to international markets, but risk perception eased significantly. Latin America’s EMBI fell 70 bps compared to 2024 (and 140 bps from its annual peak), standing at 253 bps—levels not seen since 2018. This improvement was driven by a combination of factors within the region: stronger macroeconomic conditions, gradual disinflation, greater trade diversification, and tariff announcements that were relatively favorable compared to other competitors, allowing the region to navigate the initial shock. This also showed up in the region’s risk profile. During the year, there were 12 rating upgrades across the region, compared to only 6 downgrades.

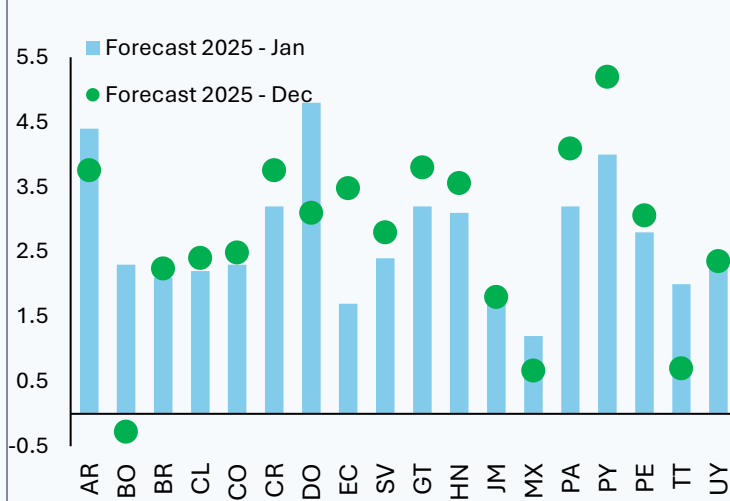
This highlights that market and macroeconomic conditions in the region ultimately proved positive in 2025.

However, structural challenges persist that the region will need to address to sustain the resilience it showed this year. Strengthening fiscal frameworks—especially as debt levels continue to rise in most countries—boosting investment, particularly in South America where it has been declining since the pandemic, and improving productivity, which has accumulated a drop of more than 14% since 2010, will all be crucial. Likewise, the upcoming electoral processes are considered a factor to monitor, given the bouts of volatility that may arise in some countries as new political positions emerge.

**Chart 1: Evolution of growth expectations for Latin America and the Caribbean**



**Chart 2: Growth expectation by country for 2025**



Source: FMI, The EIU, Bladex Economic Research

# Relevant events that shaped Latin America's dynamics this year

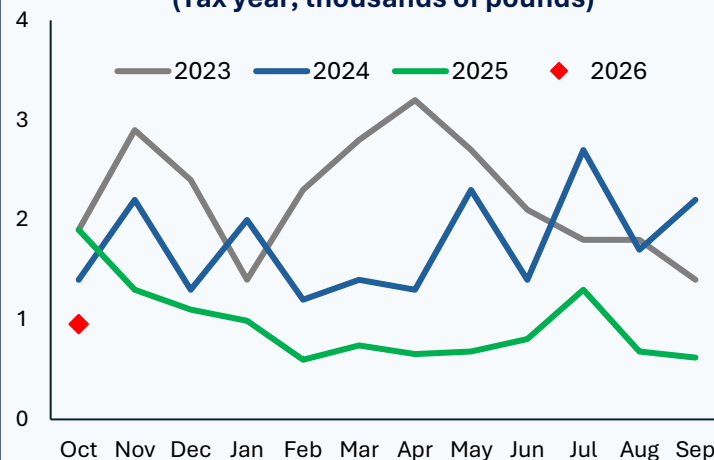


Two of the issues that captured the most attention in the region and in financial markets were linked to U.S. drug-control and trade policies, whose effects were felt almost immediately.

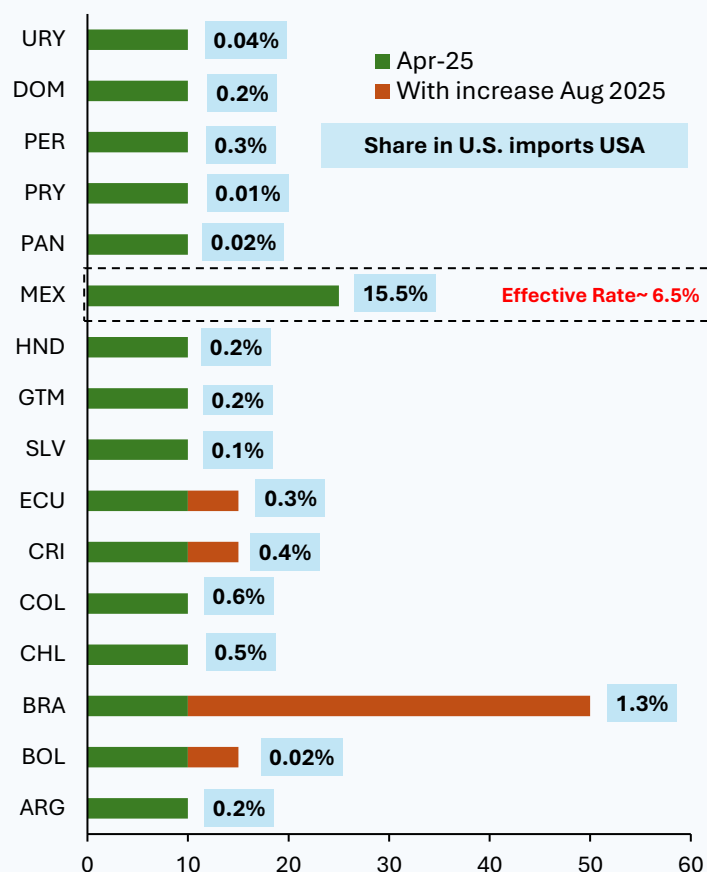
**Drug-control policy: a swift reaction from Mexico.** The announcement of a more aggressive U.S. anti-drug strategy initially created noise around the possible imposition of trade sanctions and logistical restrictions. However, Mexico reacted quickly by strengthening controls through police cooperation and increased border surveillance. In fact, fentanyl seizures along the Mexico–U.S. border have fallen by 50% this year through September, preventing further escalation and easing much of the bilateral tension. As a result, the impact on key industrial supply chains (automotive, electronics) was limited, and nearshoring continued uninterrupted. Indeed, Mexico's exports to the U.S. have grown 5.8% y/y through September 2025, one percentage point higher than the average growth rate since 2023.

**Tariffs, a relatively favorable balance.** During the first four months of the year, there was significant volatility surrounding the tariffs that the Trump administration planned to impose on the rest of the world. After the first quarter, the move toward much lower tariffs in Latin America—along with the exclusion of many of the products the region exports to the U.S.—meant that the impact of higher global tariffs ultimately resulted in strengthened trade with the region. In Mexico's case, although reciprocal tariffs are high, the effective rate is around 7%, a mitigating factor derived from USMCA. Additionally, exports of goods from Latin America to the U.S. have been growing at annual rates above 5% y/y (better than the 4% average of the prior three years). For its part, the Trump administration has made four official visits to the region so far this year and has shown strong interest in maintaining relations, explicitly supporting Argentina (a USD 20 bn swap line), El Salvador through the signing of a reciprocal agreement to strengthen trade and investment in November 2025, and signaling willingness to back strategic investments in Panama's ports. All of this leads us to conclude that, in terms of investment and trade relations, after all the volatility, the idea that Latin America is a strategic market for the United States has become increasingly consolidated.

**Chart 3: Fentanyl seizures at the U.S. southwest border USA**  
(Tax year, thousands of pounds)



**Chart 4: Reciprocal tariffs by the US to Latin American countries (%)**



Source: Trade Map, U.S CBP, Bladex Economic Research



# Historically low spreads and stronger appetite for Latin American assets

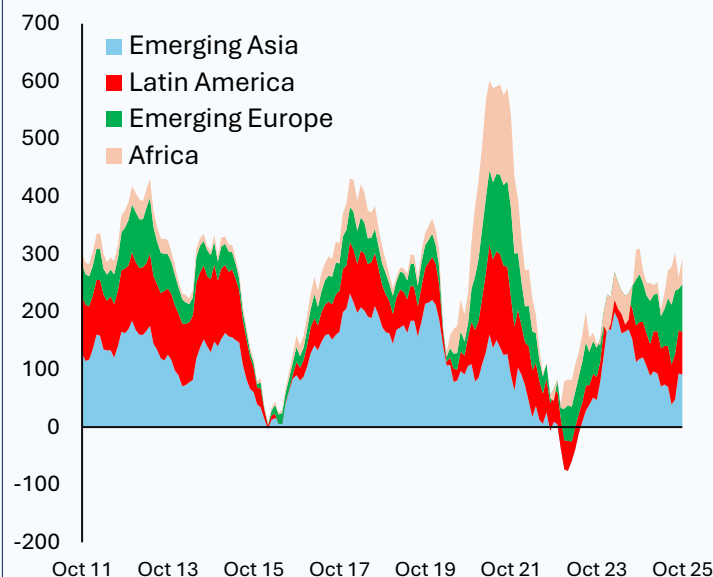


Despite the initial noise at the beginning of the year, 2025 ended with a more favorable external financial environment for Latin America. The region continued receiving portfolio investment flows even in a globally uncertain context, to the point that Latam came to represent more than 30% of flows to emerging economies—above what was recorded in 2023 and 2024 (~24%). This strong demand for regional assets pushed the spreads between investment-grade and non-investment-grade sovereigns toward levels close to their lowest in nearly two decades, around 250 bps compared to a historical average near 400 bps, reflecting a significant improvement in risk perception and more favorable external financing conditions for the region's issuers.

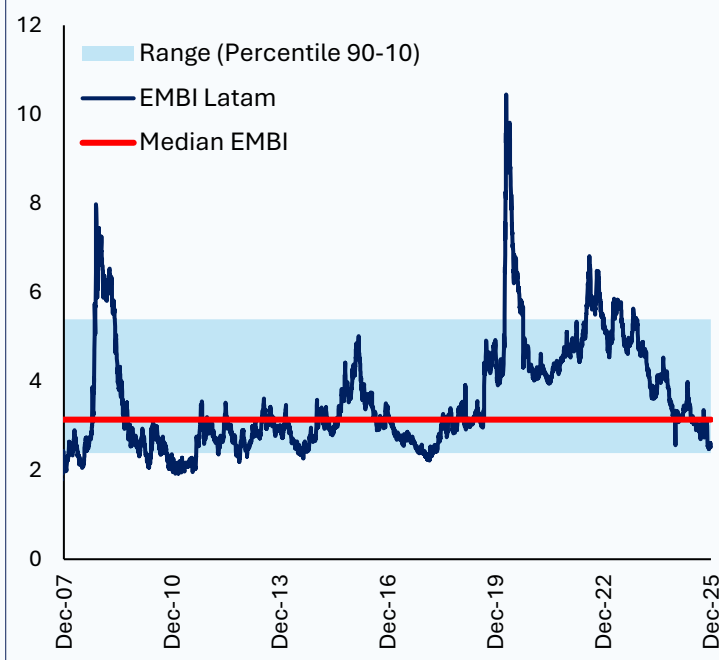
The compression of spreads was also reflected in indicators such as the EMBI. The index calculated for Latin America by Economic Research is near levels not seen in more than seven years. Moreover, during the second half of 2025, the regional EMBI has remained below its 20-year median, at around 250 bps (nearly 80 bps below the historical median), which has supported both corporate and sovereign debt issuance. This suggests that the room for further compression appears limited, especially in a context where global uncertainty persists and institutional and fiscal challenges in advanced economies intensify.

The overall balance of the financial environment this year was therefore more benign than expected: ample liquidity, declining interest rates, and spreads at historically compressed levels, supported in part by investors' preference for higher-risk assets. However, this could be a temporary window. Although the Federal Reserve's Quantitative Tightening (QT) has already been concluded, dollar liquidity may not expand at a pace sufficient to sustain spreads at their current lows—especially in a context where the U.S. Treasury is expected to face greater refinancing needs in 2026 due to a heavy maturity profile, which could drain capital from emerging markets and create upward pressure on debt spreads.

**Chart 5: Portfolio Investment Flows to Emerging Economies (USD Billions)**



**Chart 6: EMBI Latinoamérica (bps)**



Source: IIF, Bloomberg, , Bladex Economic Research

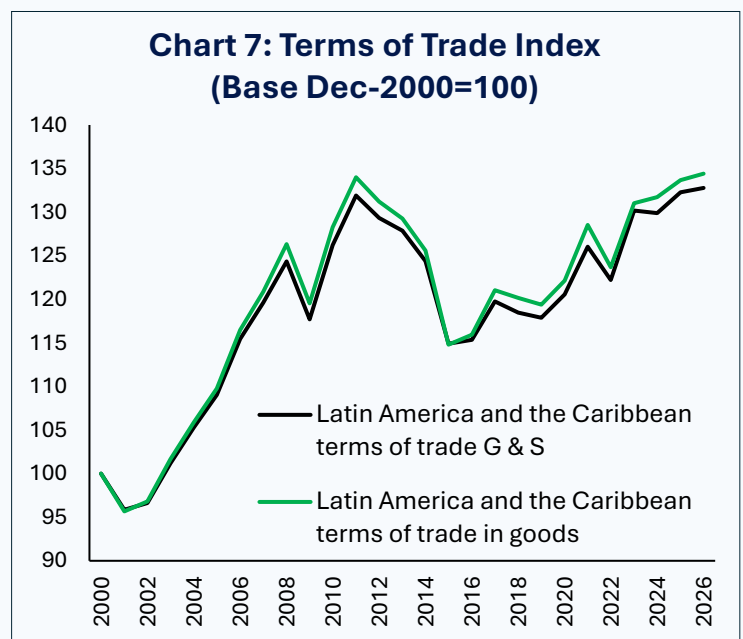
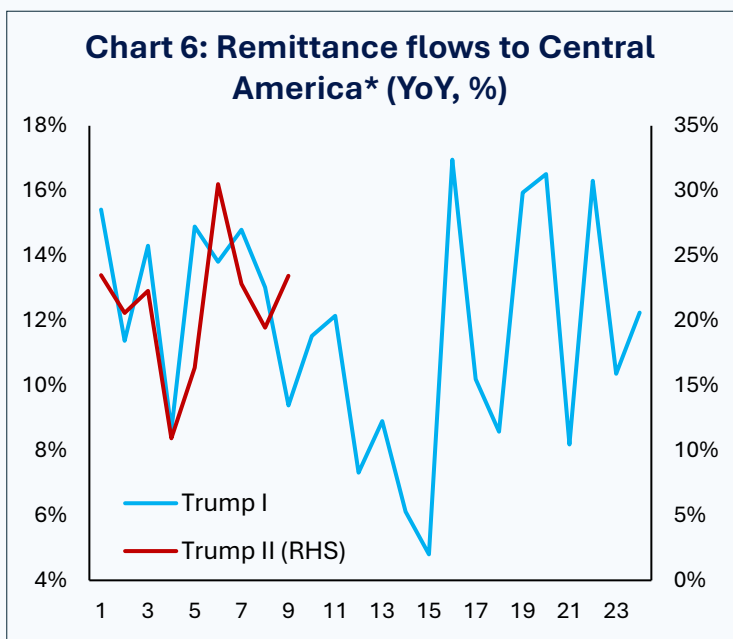
# Country Risk: Two risks in the region that turned into opportunities



One of the risks that generated the greatest expectations in the region, due to its potential impact, was related to migratory flows and the tightening of controls by the US, given the possible effect on remittances—a key source of economic growth and, in several countries, the main generator of foreign currency.

However, the results were contrary to what had been anticipated: in most Latin American countries, except for Mexico, remittances reached historic highs. It is likely that the risk of deportation temporarily boosted the sending of funds. In the first nine months of the year, remittances to Central America (Honduras, Guatemala, and El Salvador) grew on average by 21% year-on-year, taking the indicator to record levels in economies where remittances account for between 20% and 30% of GDP. It is also notable that the growth observed in 2025—the first year of the Trump II administration—resembles what occurred in 2017, at the beginning of Trump I. Adjusting for scale and comparing with Trump I, remittance growth moderated in the second year of the term, although it did not contract, which could foreshadow the trend for 2026. In this context, the remittance base would remain stable, with gradual increases similar to those of previous years, while the effect of additional precautionary remittances would dissipate as migration policies normalize. Therefore, a sharp decline in these flows in Latin America would not be expected.

In the trade sphere, the region was not affected by the tariff escalation. Furthermore, Latin America benefited from an additional tailwind: the improvement in terms of trade, which are near the peak reached during the commodity super-cycle. This recovery, along with the region's resilience to the global tariff shock, allowed Latin America to regain its share in international trade—reaching nearly 6% of the total (like the region's weight in global GDP)—after the decline recorded during the commodities crisis. Likewise, the recent rebound in terms of trade reflects greater diversification in the export basket, strengthening Latin America's capacity to respond to external shocks.



Source: Central Banks, FMI, The EIU, Bladex Economic Research

\*Central American countries: Guatemala, El Salvador, Honduras

# Country Risk: A regional risk perception that surprised on the upside



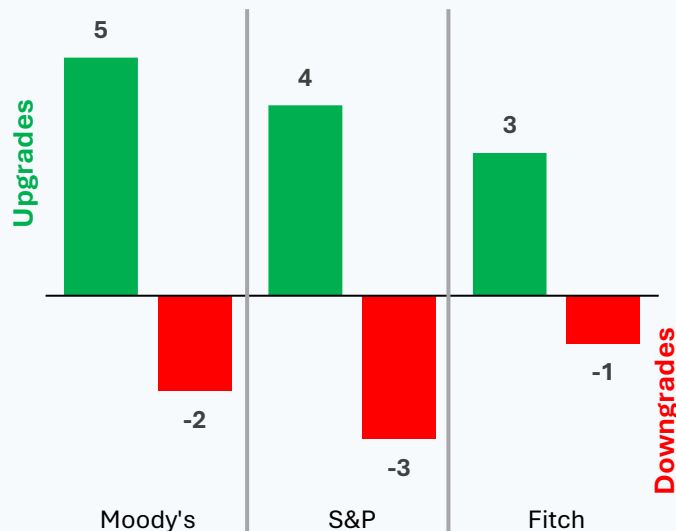
At the beginning of the year, as mentioned earlier, the region faced numerous headwinds, which intensified with the change of administration in the United States and the adjustments in migration, trade, and geopolitical policies that came with it. The perception of risk in the region increased significantly due to its close ties with both the United States and China—two economies experiencing trade escalations.

There were also specific events that affected individual countries in the region, such as issues related to the Panama Canal, the USMCA negotiations among Mexico, the United States, and Canada, and the imposition of targeted tariffs under the IEEPA. The latter affected the tariff structure of specific countries, such as Brazil in the region.

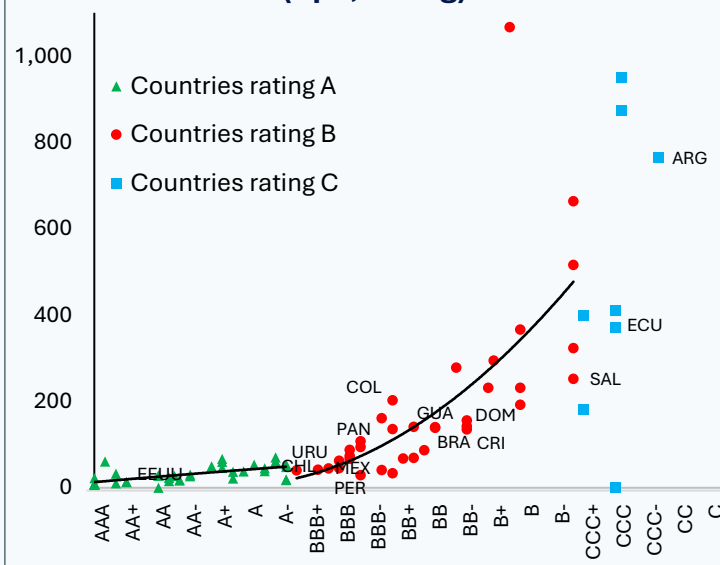
However, throughout the year, the combination of solid economic fundamentals and a more favorable geopolitical backdrop helped moderate risk perception in Latin America. This shift was reflected in the actions of rating agencies: in 2025, upgrades in sovereign ratings prevailed, with a total of 12 upgrades across five countries, indicating a broad-based recovery under the monitoring of Economic Research. This figure doubled the number of downgrades recorded in the same period, which were concentrated in only two countries: Bolivia and Colombia.

The region's improved performance also showed up in market sentiment, measured through indicators such as the EMBI and the five-year CDS. Currently, most Latin American countries exhibit market valuations above their credit ratings, except for Panama and Colombia, where fiscal challenges continue to dominate the risk outlook. In contrast, there are cases where the market is already anticipating up to three rating upgrades, creating a positive bias in sovereign risk assessments heading into 2026. This is reflected in market expectations for Costa Rica, the Dominican Republic, and El Salvador. Also notable is the optimistic bias in the case of Ecuador, where the market now assigns a rating within the "B" range—after several years at "CCC."

**Chart 8: Latam 2025 Rating Changes**



**Chart 9: CDS vs. Credit rating (bps, rating)**



Source: Central Banks, FMI, Bloomberg, Bladex Economic Research

# The region today: **resilience** amid external shocks

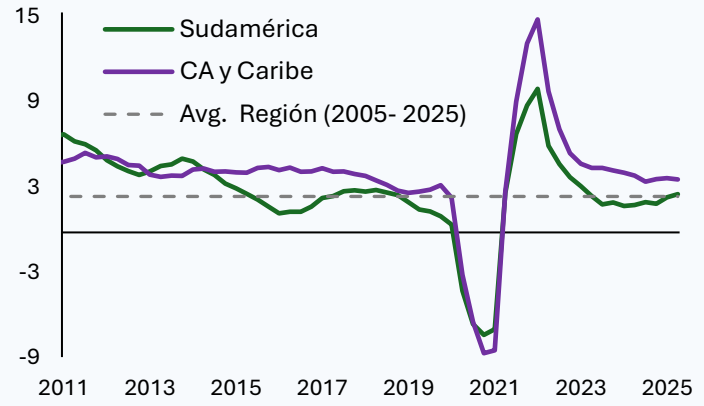


**Economic Growth:** After withstanding the initial wave of uncertainty in 2025 stemming from the new U.S. migration, tariff, and trade policies, the countries of Latin America and the Caribbean showed a more resilient performance than expected. The economies of Central America and the Caribbean maintained strong momentum—some even showing signs of acceleration (El Salvador, Honduras, Guatemala, and Panama), while others adjusted toward growth rates more aligned with their long-term trends (the Dominican Republic). As a group, the regional aggregate stands above the Latin American average (2.5%). Meanwhile, South America and Mexico continued on an expansionary path, converging toward the region’s 20-year historical average.

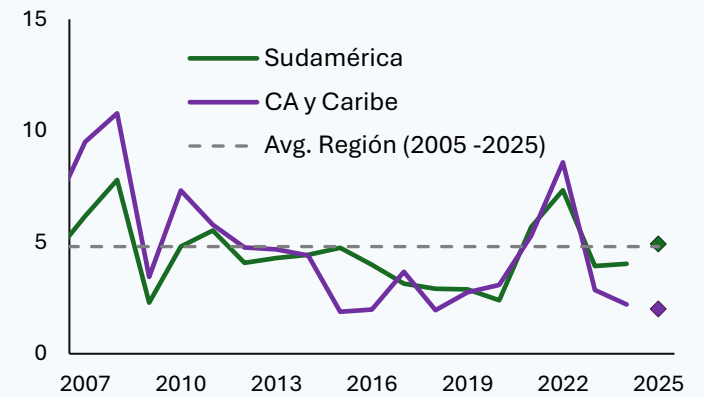
**Inflation:** On inflation, the 2025 balance shows gradual convergence, although with differences across subregions. In South America, average inflation stands near 5%, with economies such as Brazil and Colombia still above their targets and above the regional average. In contrast, Central America and the Caribbean show lower levels, around 2%. In any case, the region managed to move past the post-pandemic inflation peaks and enter a phase of greater price stability. This environment opened space for central banks to begin cutting interest rates, converging toward more neutral levels. However, the speed and magnitude of the adjustment vary depending on external conditions and domestic factors (mainly fiscal challenges).

**Markets:** Market performance reflected the region’s resilience. Several Latin American currencies strengthened, driven by the weakness of the U.S. dollar, even outperforming the global average after an 8% depreciation of the DXY. Foreign currency inflows from exports, remittances, and portfolio investment supported this appreciation; however, reactivating investment remains a structural challenge. On average, regional currencies appreciated around 10%, signaling additional strength relative to the dollar’s global depreciation—particularly in Colombia, Brazil, and Mexico.

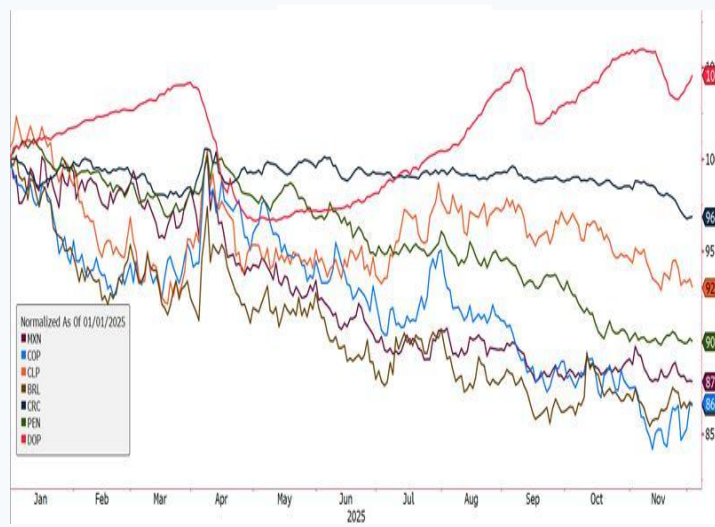
**Chart 10: Economic growth (YoY)**



**Chart 11: Annual inflation (YoY)**



**Chart 12: Evolution of Latam currencies (Index 100= Jan/2025)**



Source: Bloomberg, EIU, Bladex Economic Research

South America: Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay

Central America and the Caribbean: Costa Rica, Dominican Republic, Guatemala, El Salvador, Honduras, Panama



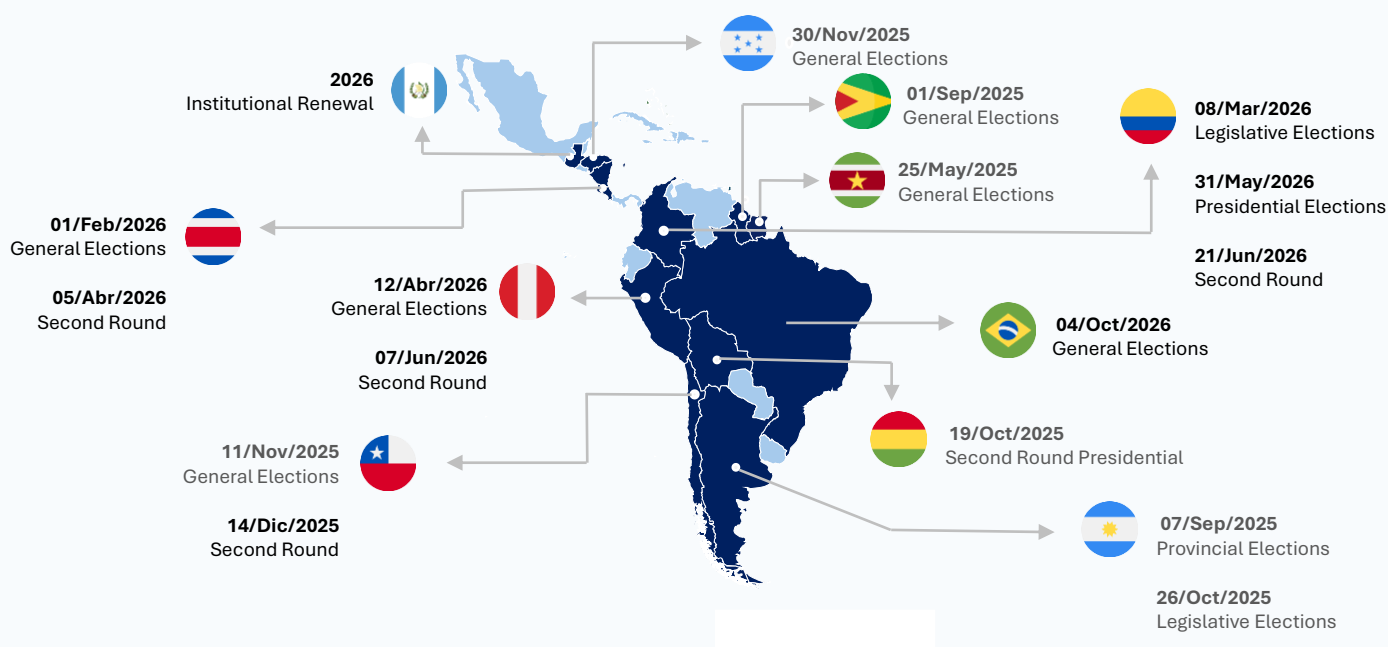
# Outlook for 2026: Moderate recovery with a touch of political sensitivity



In 2026, Latin America and the Caribbean will face a more favorable international environment than the one observed at the beginning of 2025. Trade uncertainty will continue to ease following the conclusion of several bilateral agreements between the United States and countries in the region, while the global financial landscape is expected to become less restrictive. Added to this is the slowdown in inflation, converging toward central bank targets, which would make easier to continue the monetary-easing cycles, a gradual rebound in trade, and early signs of an investment recovery. Taken together, these factors suggest a stronger economic performance at the regional level.

Even so, a particularly intense electoral cycle supports expectations of volatility episodes. New governments are expected to be defined in Chile, Peru, Colombia, Costa Rica, and Brazil, in a context where insecurity and social discontent dominate citizens' concerns. Indeed, security and corruption remain the top concerns for voters in most countries and have played a key role in electoral processes. This environment could favor opposition candidates in each country, especially considering that many incumbent governments approach elections weakened and with low approval ratings, increasing the probability of political alternation. For markets, although a break in macroeconomic stability is not anticipated, shifts in political priorities—particularly in fiscal, regulatory, and security matters—could generate periods of stress or adjustments in expectations.

Despite the political noise, the baseline scenario for 2026 forecasts the continuation of an agenda aimed at preserving macroeconomic stability. Central banks will remain focused on guiding inflation toward their targets, while governments will seek to boost growth through sector-specific policies and public investment. Nonetheless, structural challenges persist fiscal consolidation, productivity improvements, attracting private investment, and mitigating climate vulnerabilities. Added to this is the need to diversify the productive structure, reduce dependence on commodities, and strengthen intraregional trade by promoting sectors such as tourism and logistics services. In this context, maintaining constructive relations with the United States and China will be key to sustaining stability, given that they are the region's main trading partners.

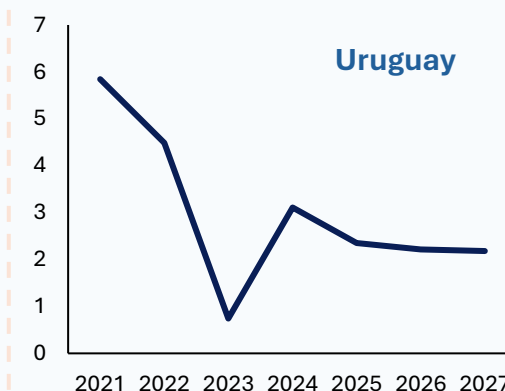
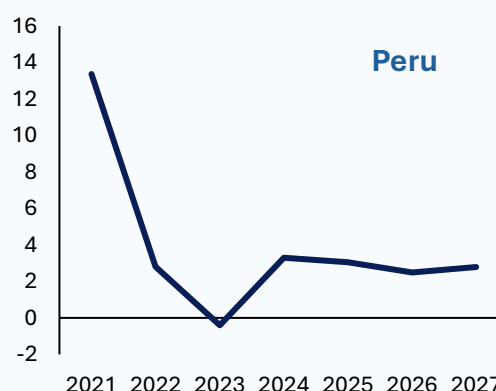
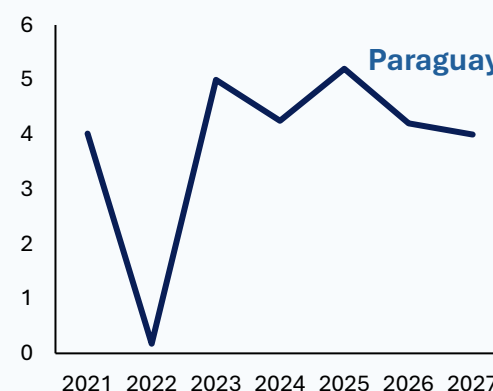
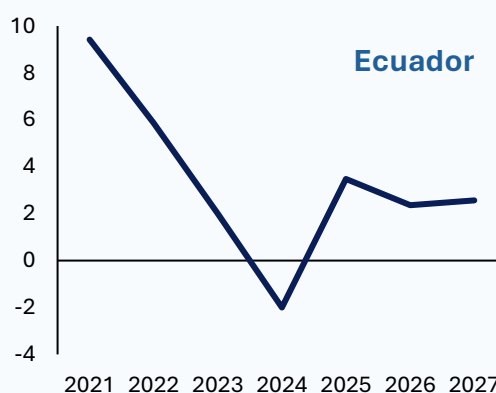
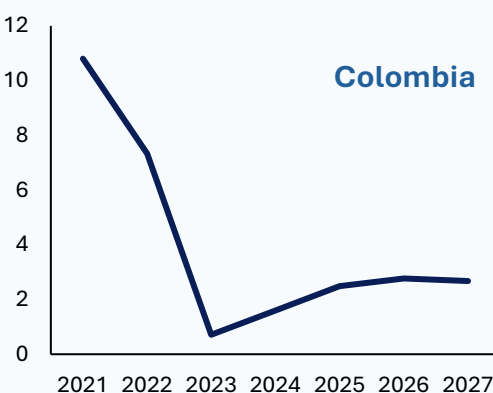
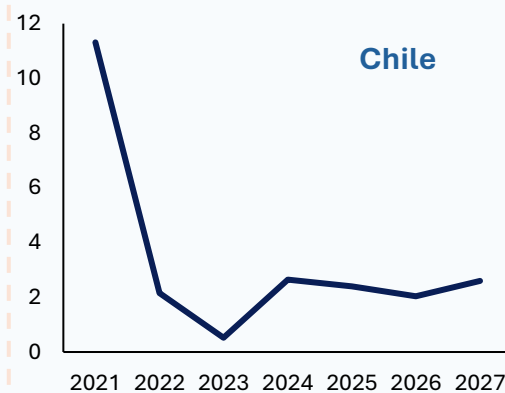
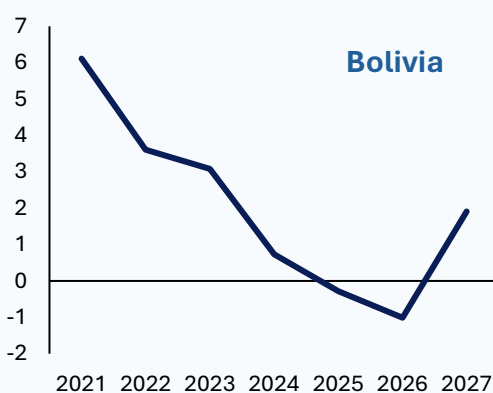
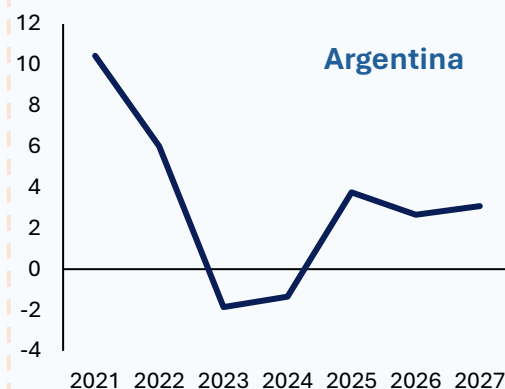


Source: Bladex Economic Research

# Outlook: South America and Mexico

In South America and Mexico, the main economies would maintain modest growth, as in the cases of Brazil and Mexico: the former converging toward its potential growth rate, while Mexico would continue to show weak performance. In contrast, other economies would display stronger dynamism, especially the sustained recovery of Argentina, which is consolidating itself as a relevant engine for regional growth.

Taken together, the region would register moderate expansion next year, supported by the stabilization of international trade, the recovery of domestic consumption, and stable commodity prices.

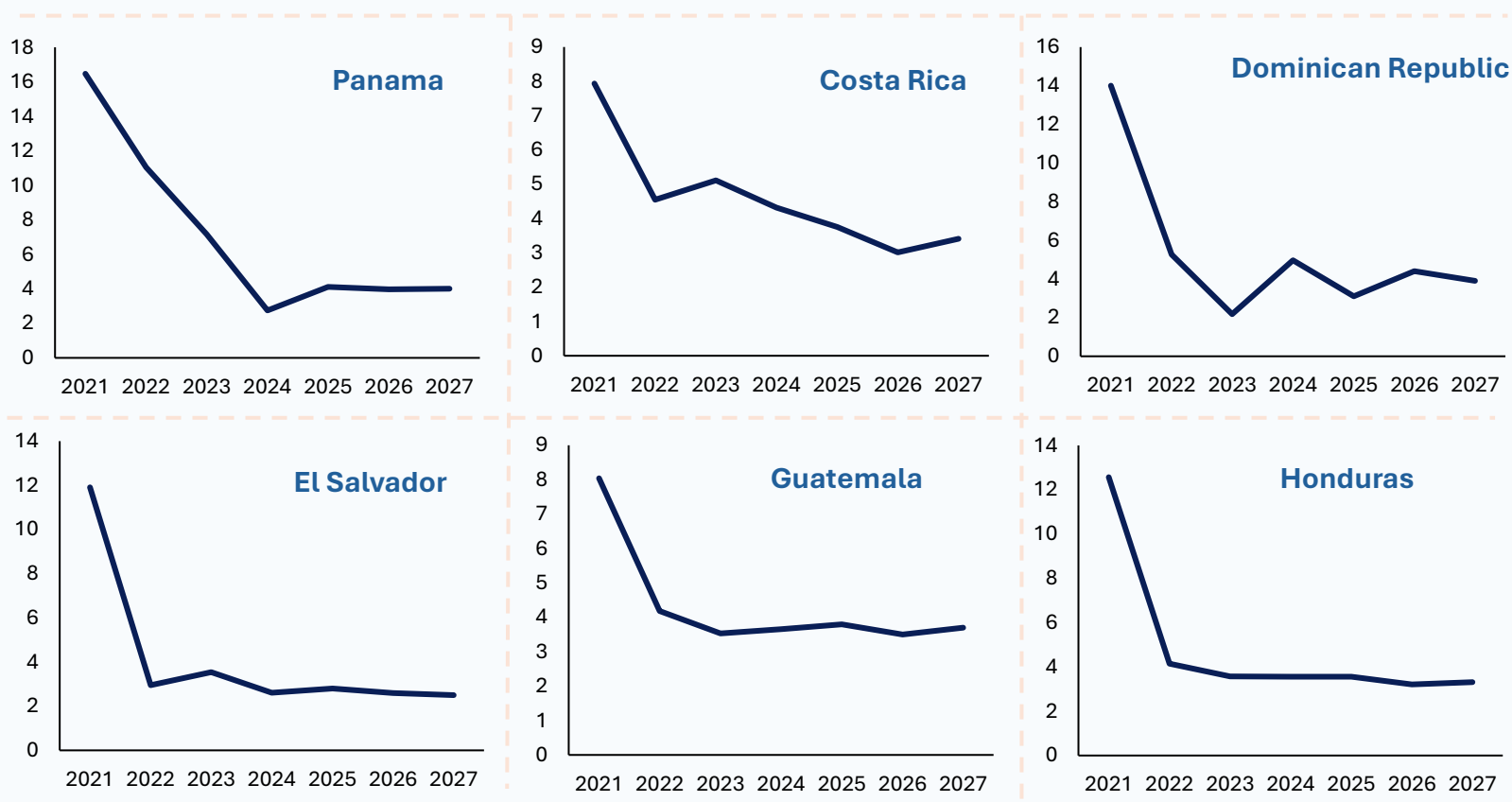


Source: The EIU, Bladex Economic Research

# Outlook: Central America and the Caribbean

In Central America and the Caribbean, the outlook points to favorable growth, on average aligned with — and in some countries even above— the rates recorded prior to the pandemic. Tourism will remain one of the main drivers, complemented by other service sectors such as logistics, financial services, telecommunications, and the digital economy, which have gained a larger share in regional activity and support stable growth. In addition, the steady inflow of remittances will continue to play a key role, especially in countries such as Guatemala, El Salvador, Honduras, Jamaica, and the Dominican Republic, where these flows have shown resilience amid global uncertainty, just as they did during the global financial crisis and the pandemic.

Although fiscal, institutional, and productivity challenges persist, macroeconomic fundamentals position Central America and the Caribbean among the subregions with the strongest projected performance.



Source: The EIU, Bladex Economic Research

# Economic Research Team

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## Economic Research Mailbox

[EstudiosEconomicos@bladex.com](mailto:EstudiosEconomicos@bladex.com)

Avenida La Rotonda, Urb. Costa del Este  
Torre V, Business Park – 5<sup>th</sup> floor  
Panamá Rep. de Panamá

### Sergio Olarte

*Chief Economist*  
[solarte@bladex.com](mailto:solarte@bladex.com)

### Gustavo Acero

*Senior Economist*  
[gacero@bladex.com](mailto:gacero@bladex.com)

### Daniela Silva

*Economist*  
[dsilva@bladex.com](mailto:dsilva@bladex.com)

