

# Managing Capital Flows: 2026 Economic Outlook in Latin America and the Caribbean

Banco de España  
LatAm Economic Forum

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Inter-American Development Bank

# → Uncertain Times: Trade + Tech + Geopolitics

**1**

Resilience has held, but constraints remain tight

**2**

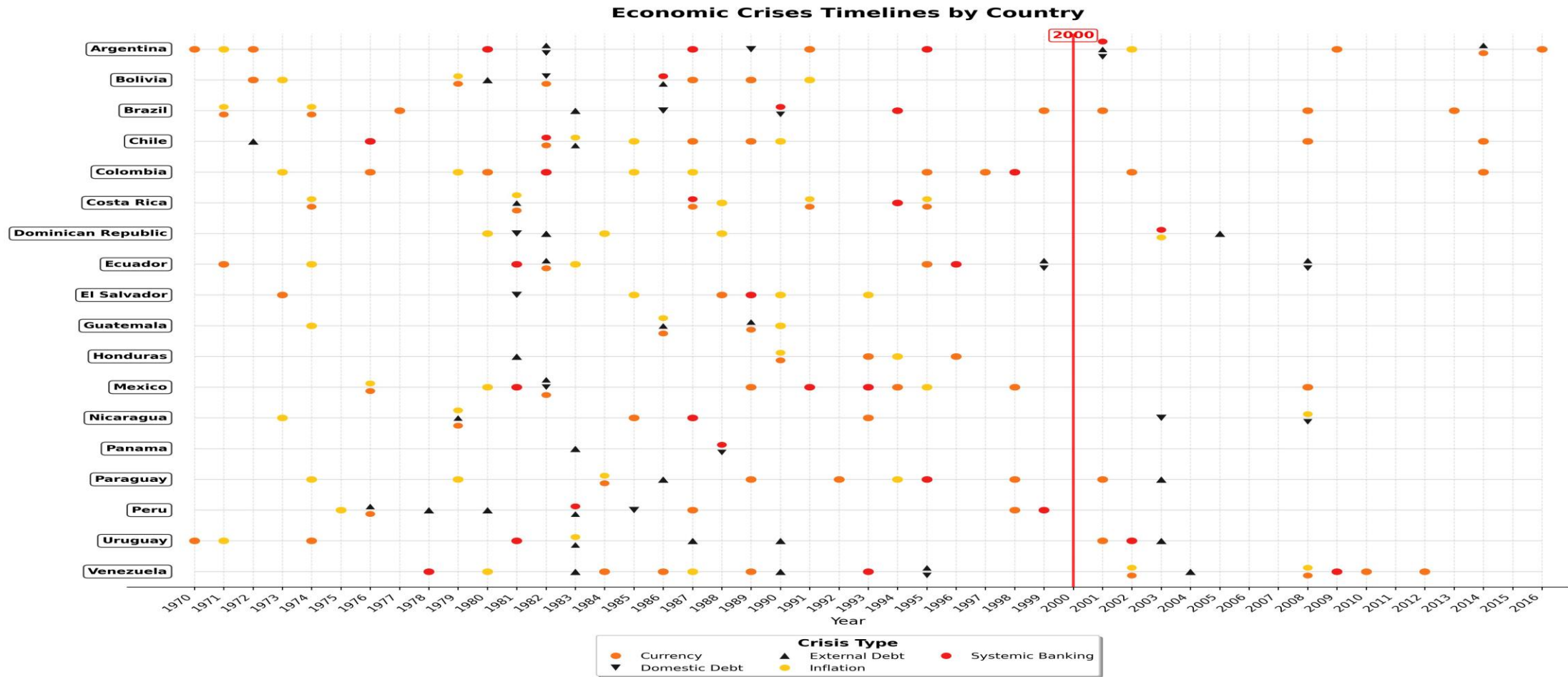
AI and digitalization are reshaping the region —

**3**

Critical minerals offer a window of opportunity — but institutions will determine outcomes

→ RESILIENCE

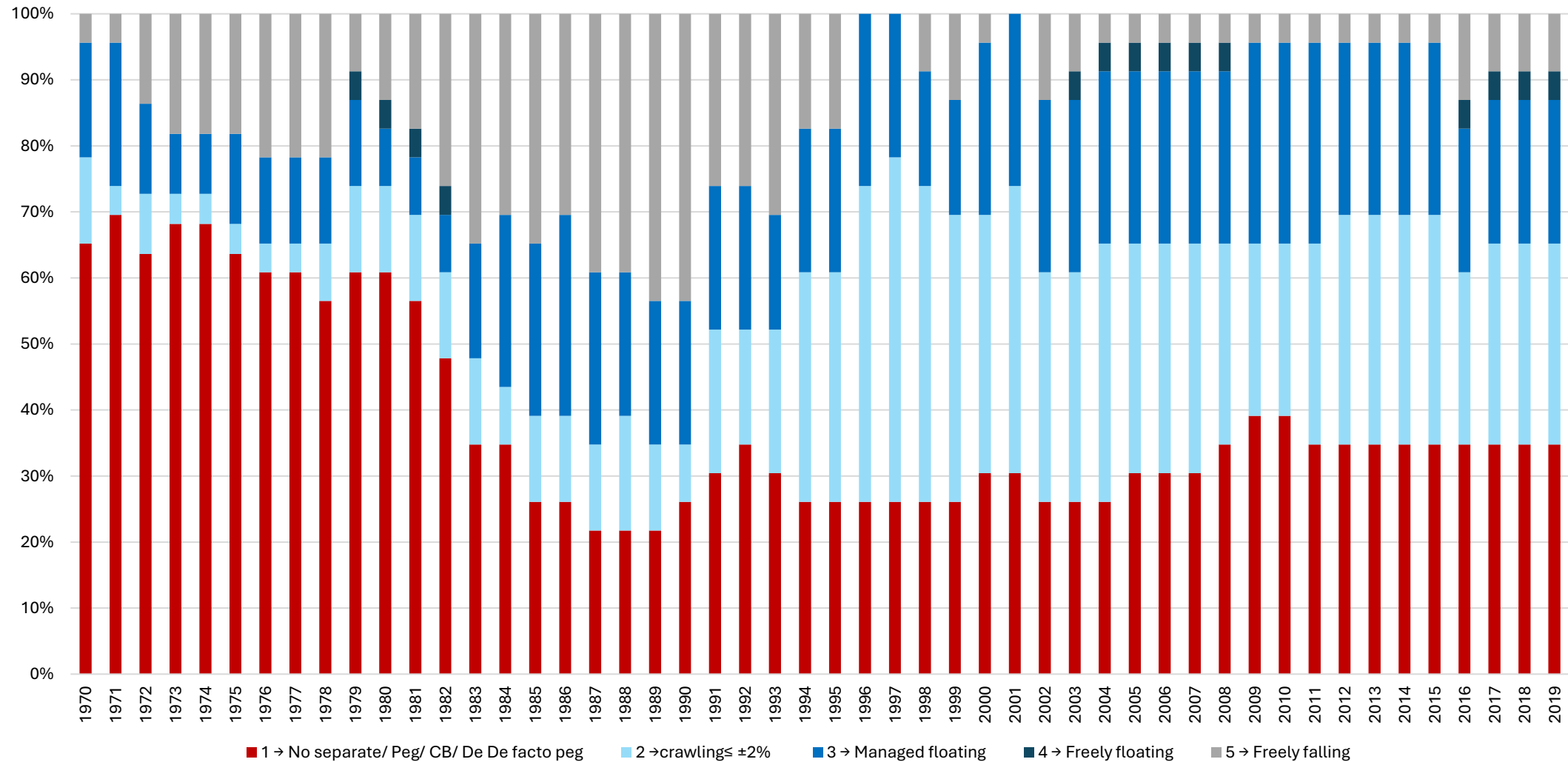
# NO LONGER THE 80s-90s LATIN AMERICA: Post-2000, Crises Have Been Rare in LAC



... Overcoming Old Vulnerabilities, Seizing New Opportunities

# NO LONGER THE 80s-90s: MORE FLEXIBLE EXR REGIMES

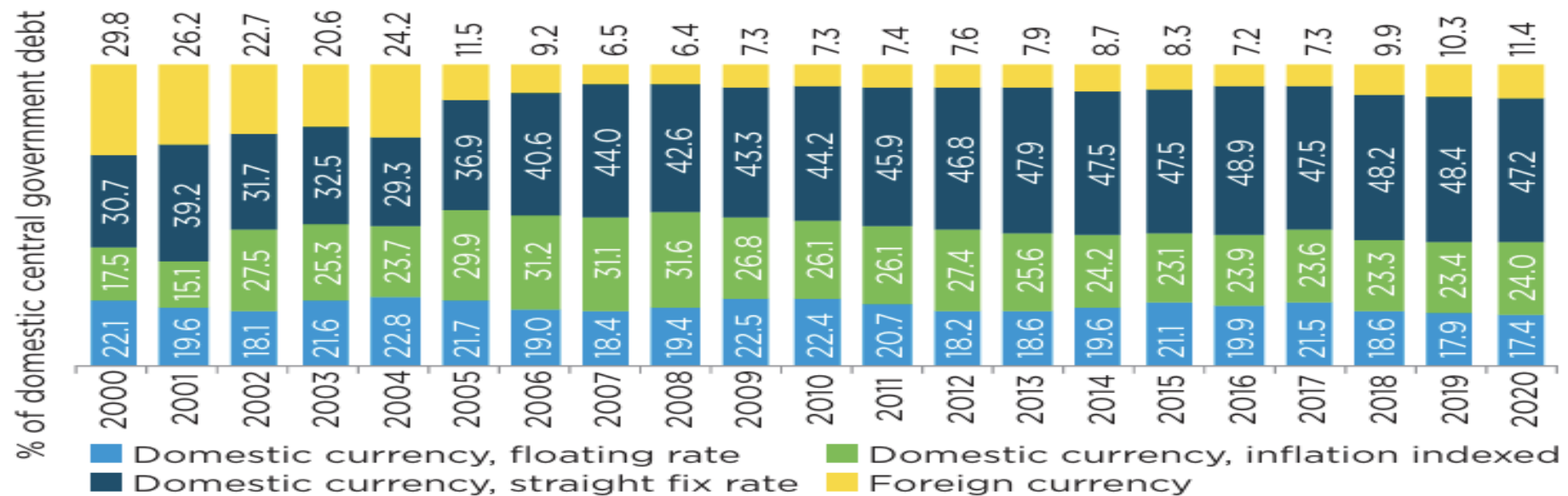
LAC: Exchange Rate Regimes (1970-2019)  
Ilzetzk et al. (2019)



# NO LONGER THE 80s-90s: CONQUERING ORIGINAL SIN

## Borrowing in Local Currency

**Figure 3.4** Breakdown of Government Bonds by Type of Instrument (average country)



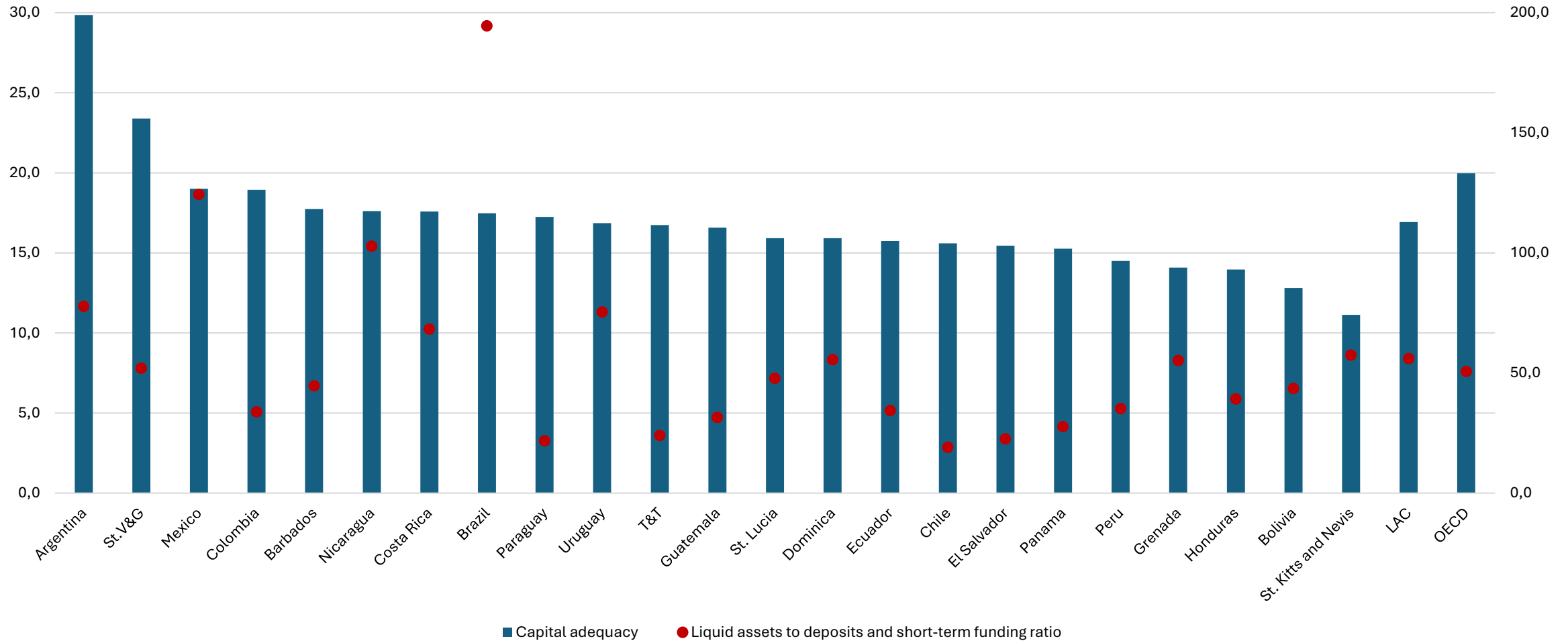
Source: BIS Debt Securities Statistics.

Note: Average country is the simple average of Argentina, Brazil, Colombia, Mexico, and Peru.

Government bonds denominated in foreign currency have **substantially** decline

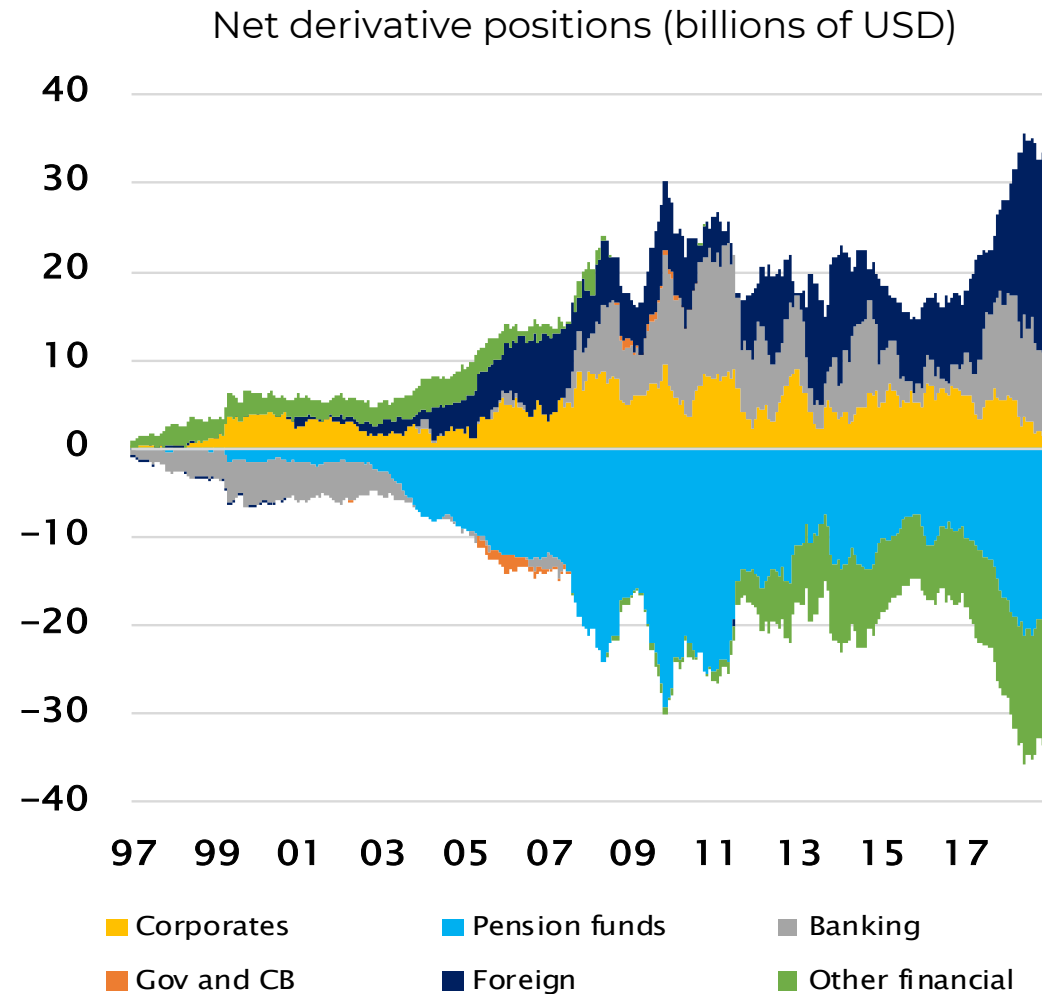
# NO LONGER THE 80s-90s: FINANCIAL SECTOR

Banking System Soundness (2022)  
IMF (2022), taken OECD



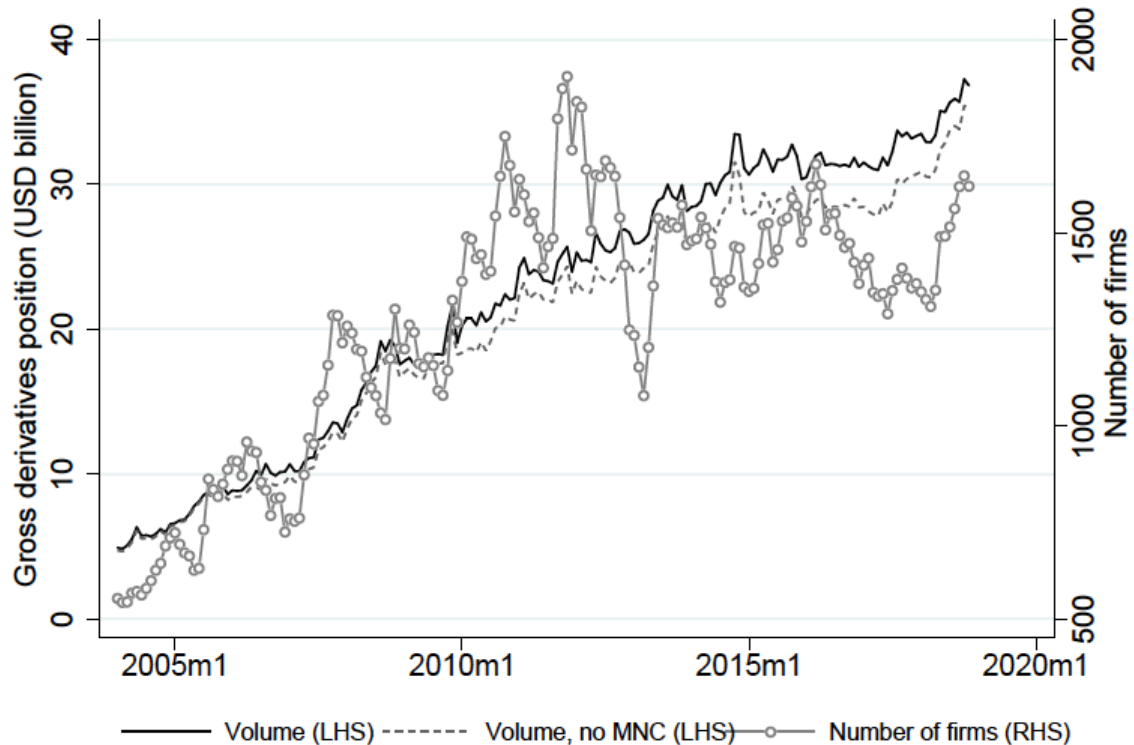
# NO LONGER THE 80s-90s: FINANCIAL DEEPENDING

New Actors, New Instruments: E.g., Pension Funds. & Financial Hedging



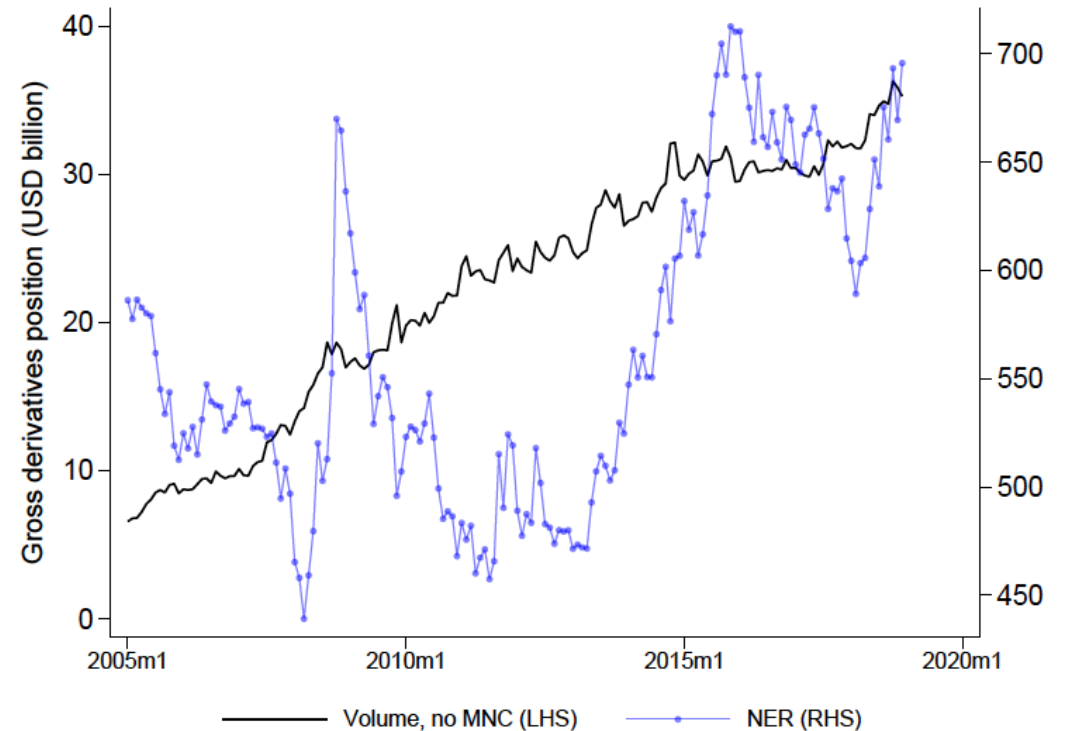
# NO LONGER THE 80s-90s : FINANCIAL HEDGING BY CORPORATES

Fig: Number of firms and gross FX Derivatives positions



Gross FX-Derivatives position is the sum of long and short positions.  
Volume and number of firms consider only those in the non-financial corporate sector

Fig: FX Derivative Position and Exchange rate (peso to US dollars)



# NO LONGER THE 80s-90s : DIGITAL PAYMENTS

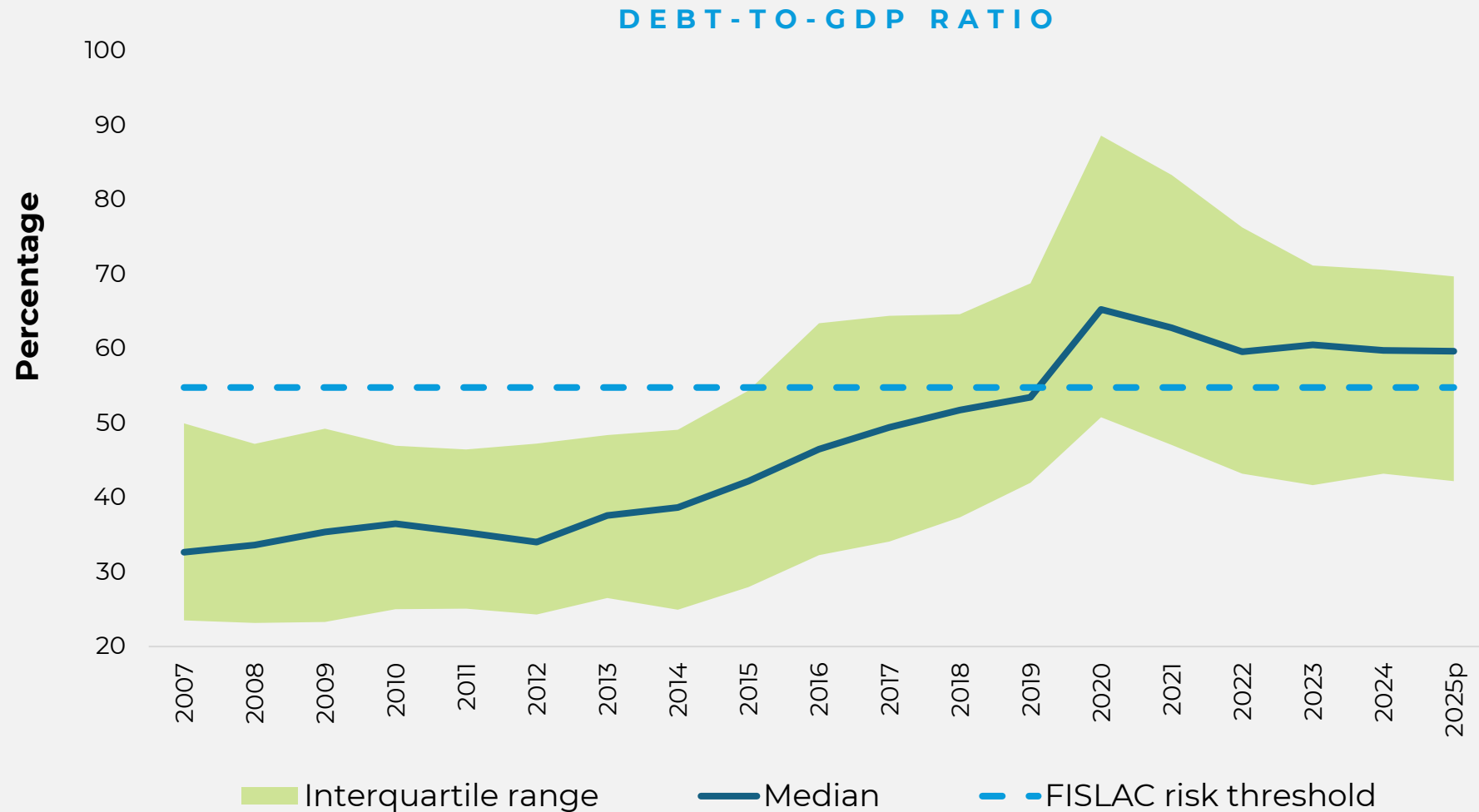
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Digital Payments Increased at a Faster Pace than Bank Account Ownership

Source: Beyond Cash: The Digital Payments Revolution in Latin America and the Caribbean, edited by Diego Vera (2025).

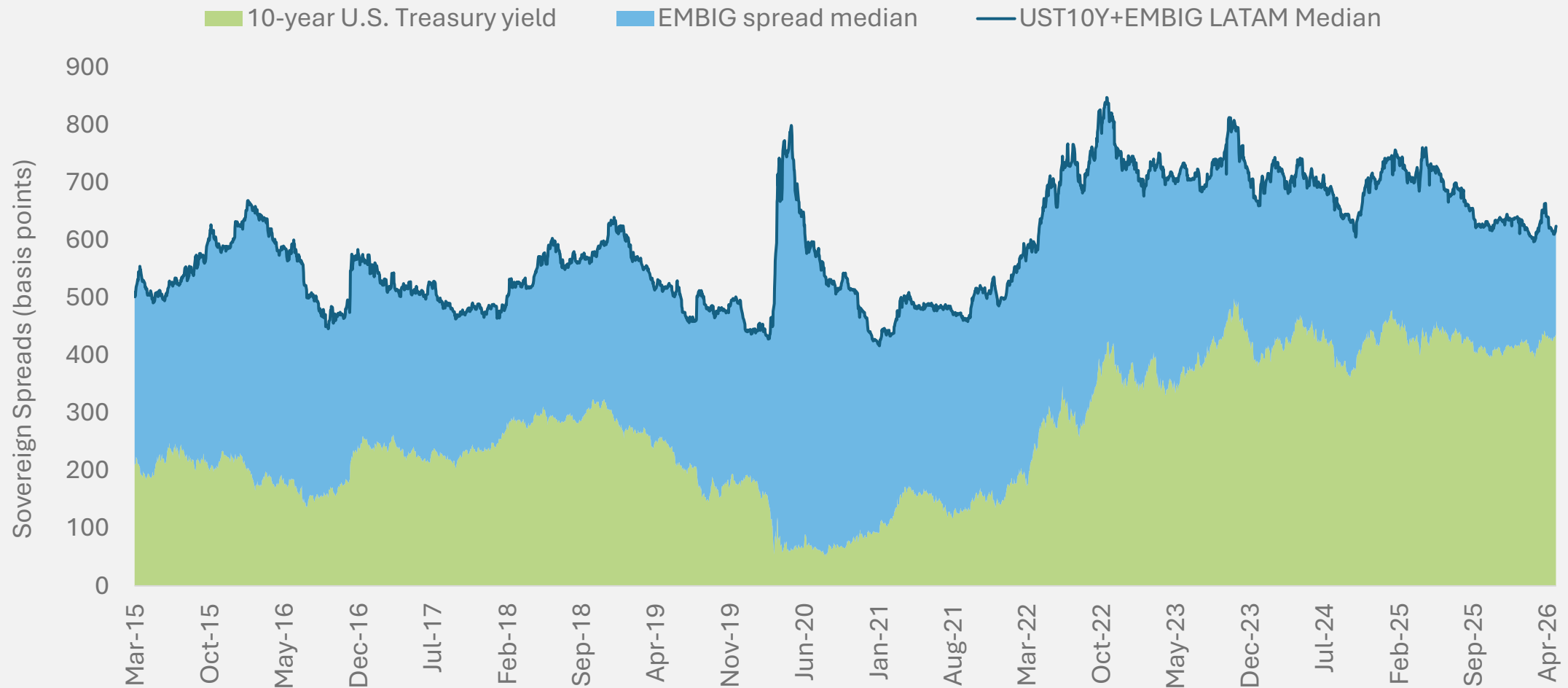
# The Region's Debt Above Risk Threshold



Source: IDB staff calculations, with data from IMF (2025).

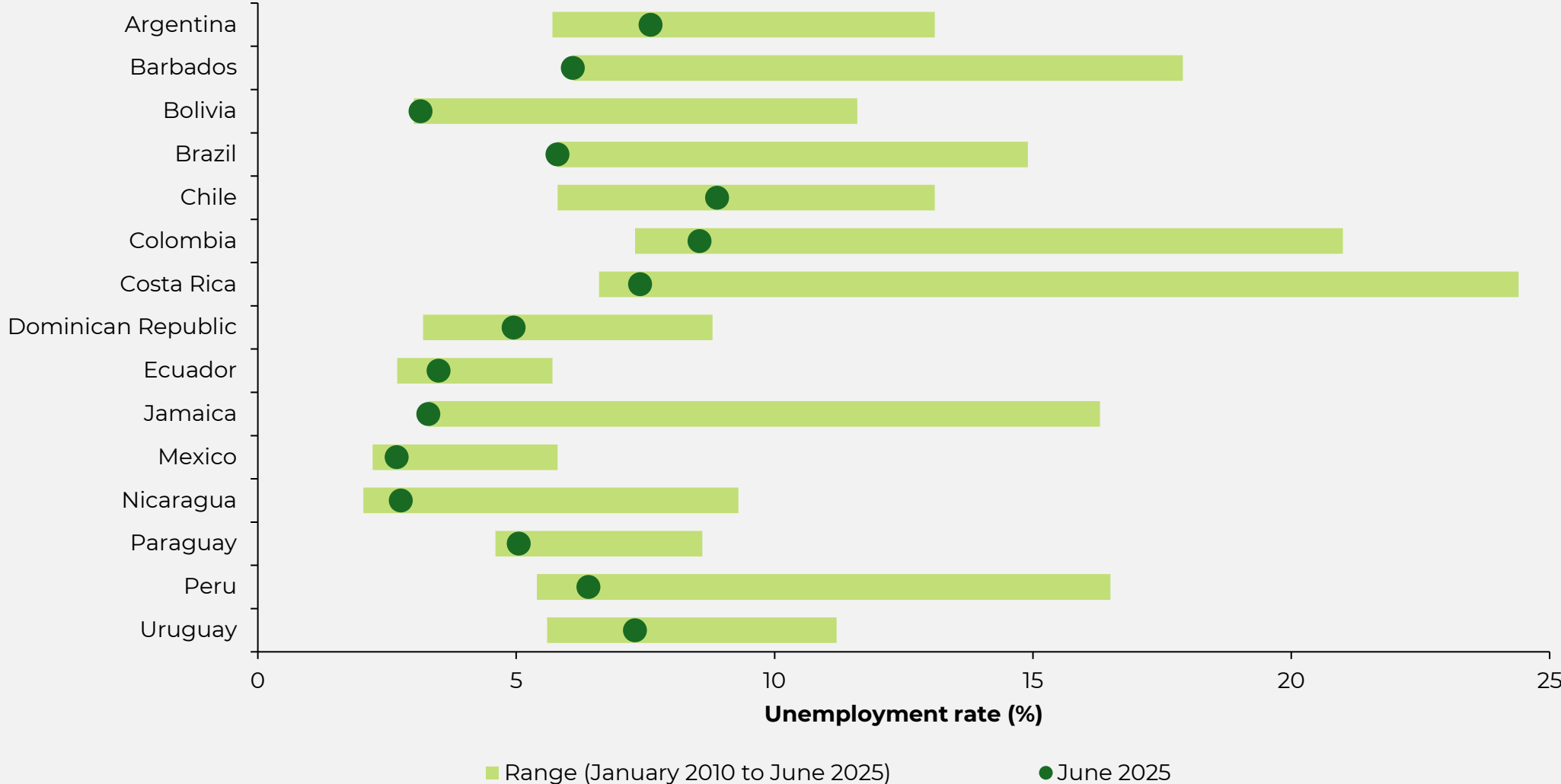
# Credits Spreads Remain Low

## But Financing Conditions Remain Tight



Source: Bloomberg

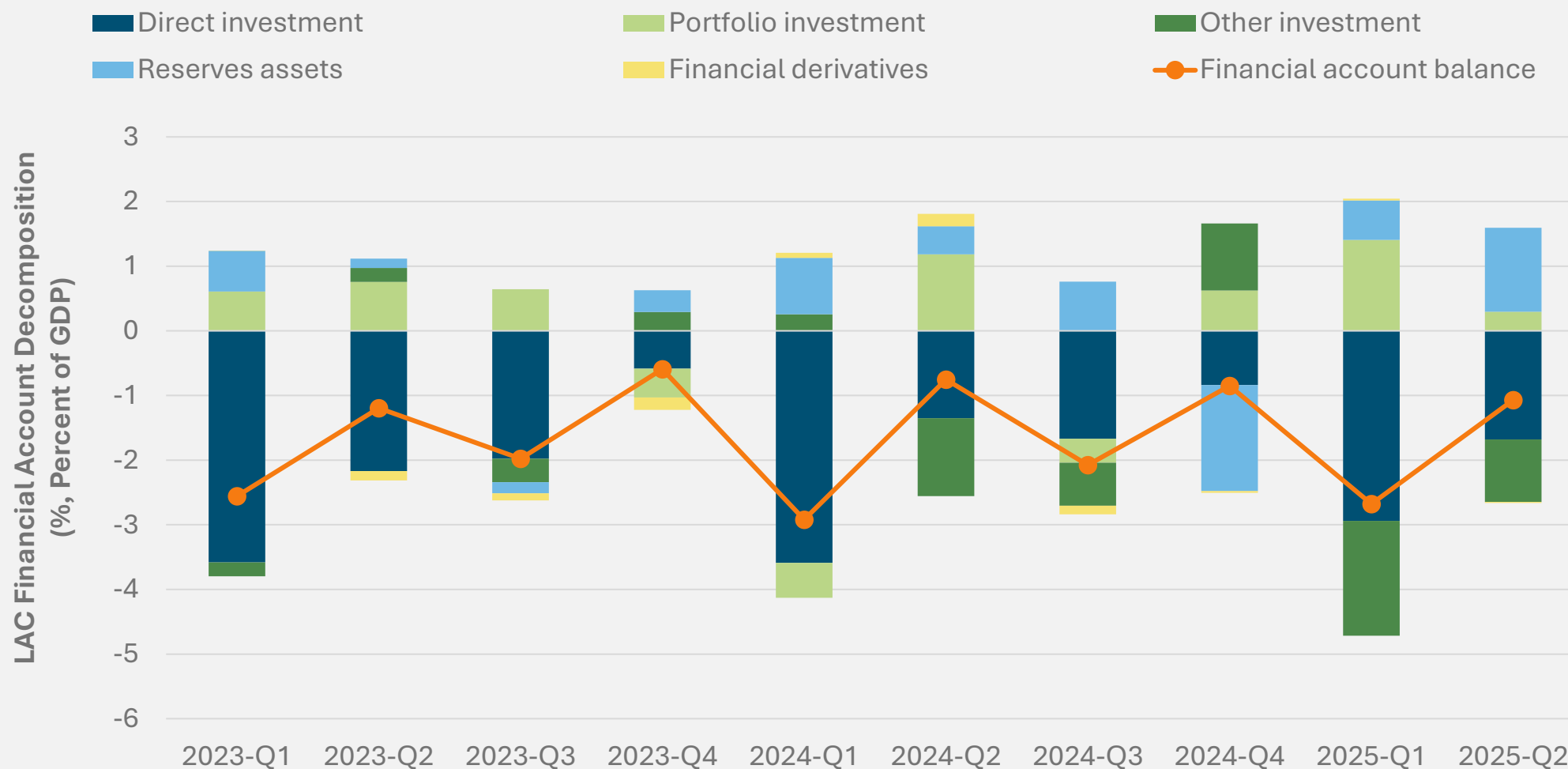
# Low Unemployment Rates



Source: IDB Labor Market Observatory, based on data from national statistics offices.



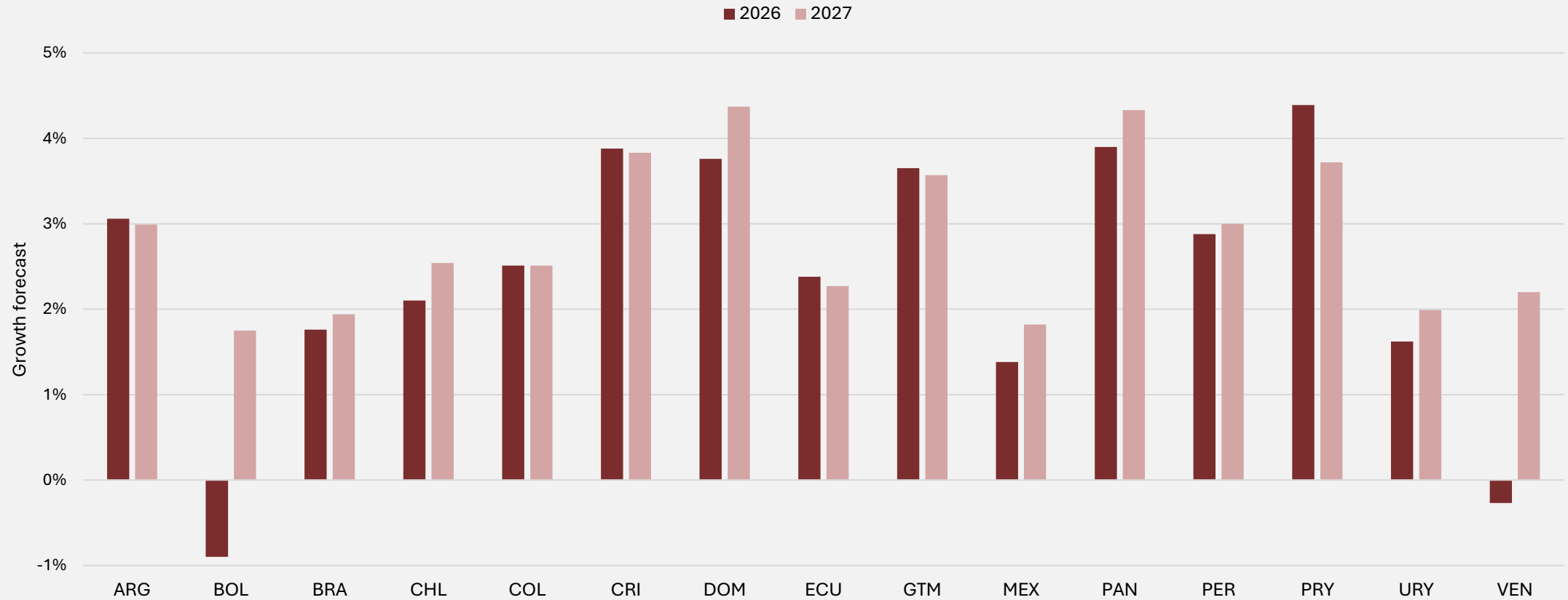
# FDI remains central to external financing



Source: IDB staff calculations, based on IMF International Financial Statistics.

# Global Turbulence Has Risen, Region Remains Resilient

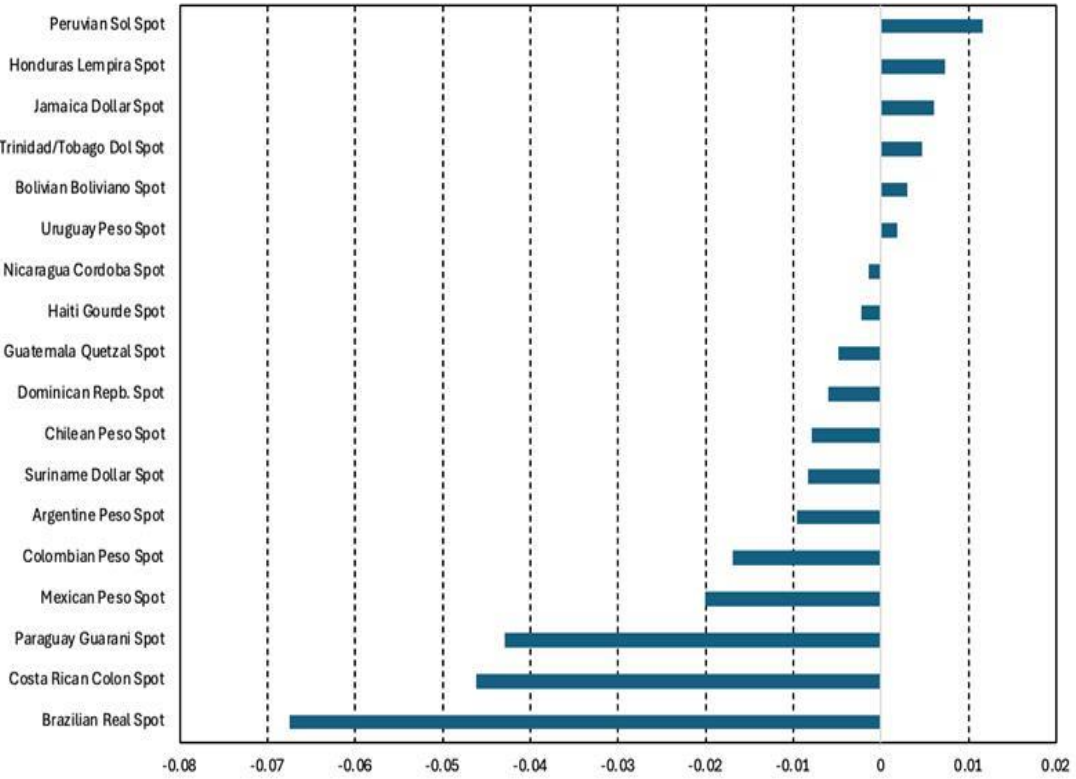
## Low Growth



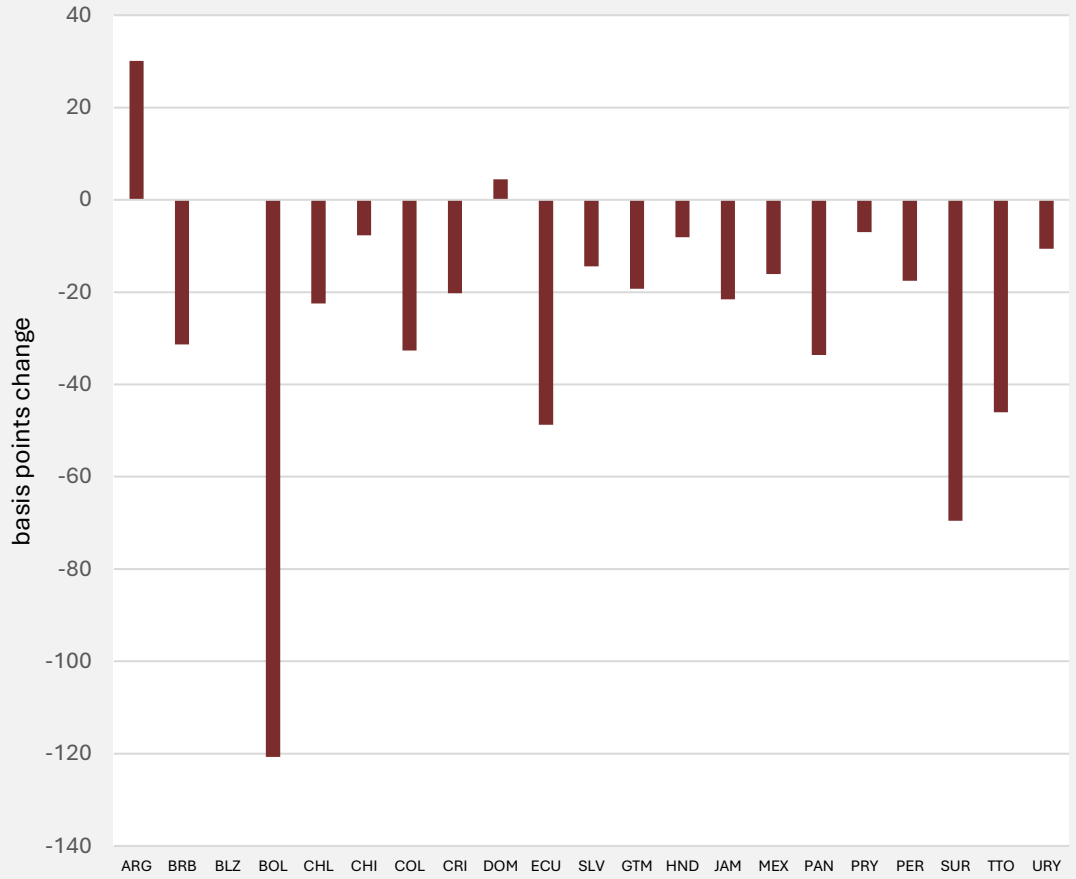
Source: IMF World Economic Outlook Update, January 2026; IMF World Economic Outlook, April 2026.

# Reaction to Recent Shock

Exchange Rate Change (%), May vs March



Credit Default Swaps (5-Year): to beginning of May



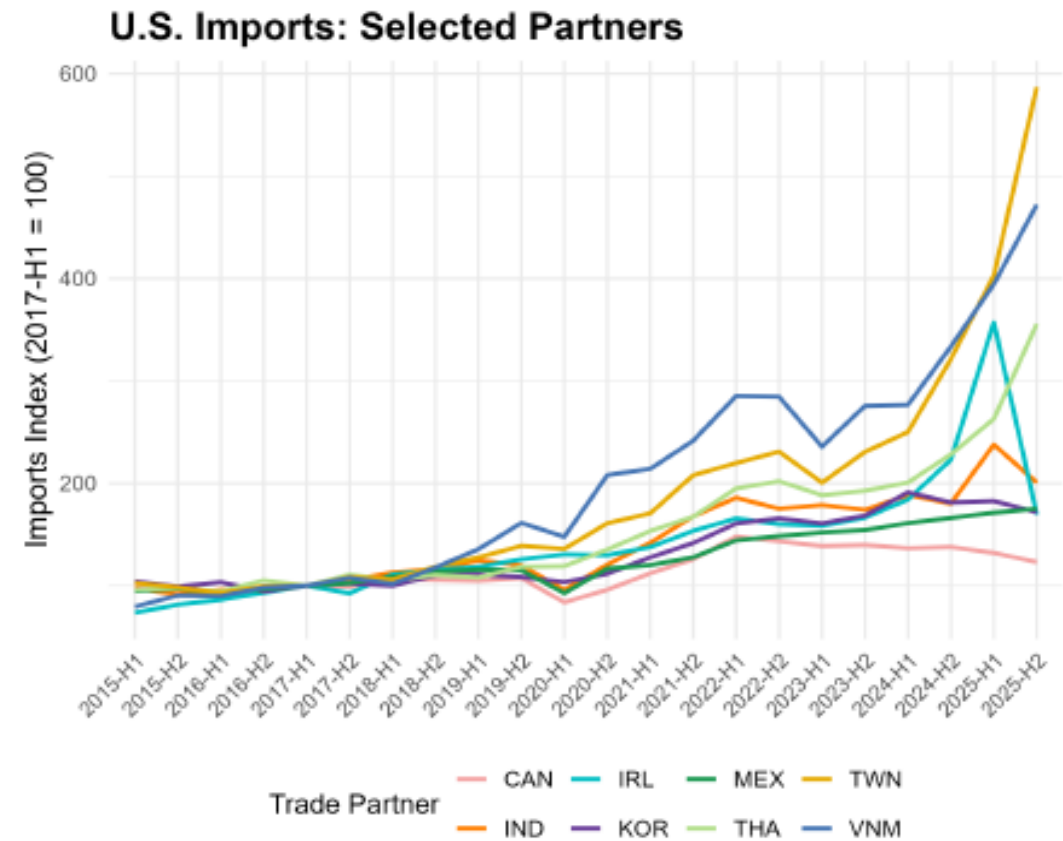
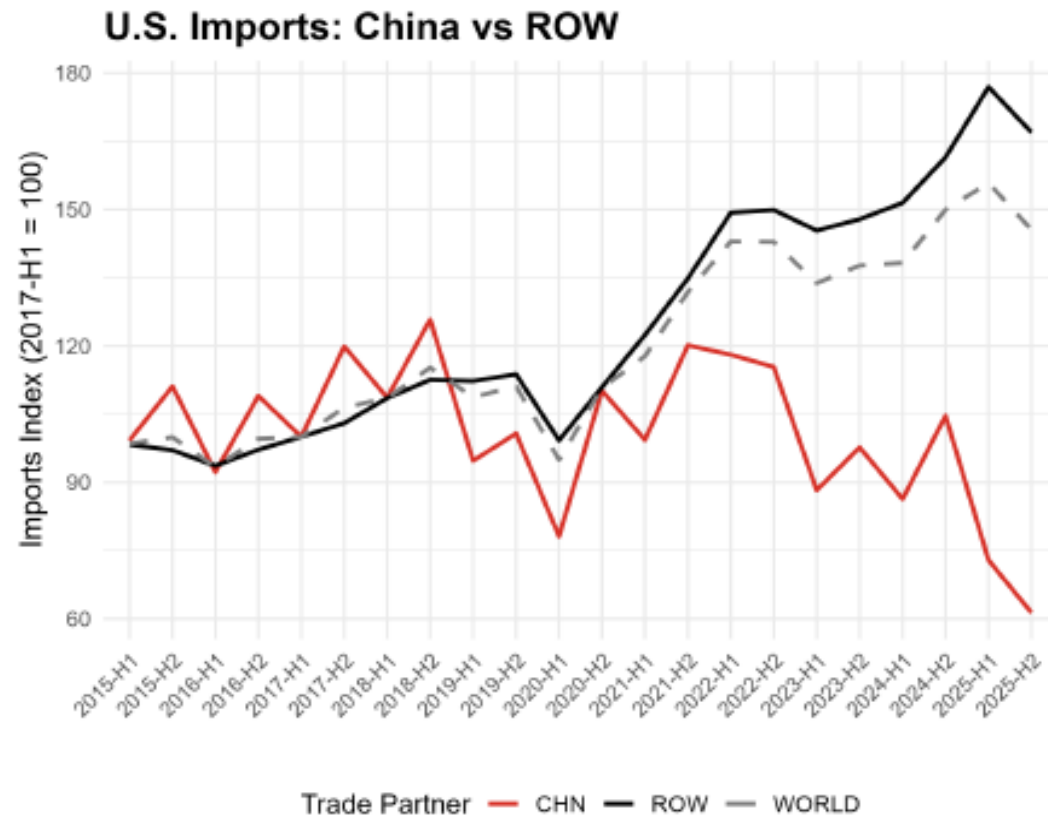
Source: IDB Labor Market Observatory, based on data from national statistics offices.



# → OPPORTUNITIES

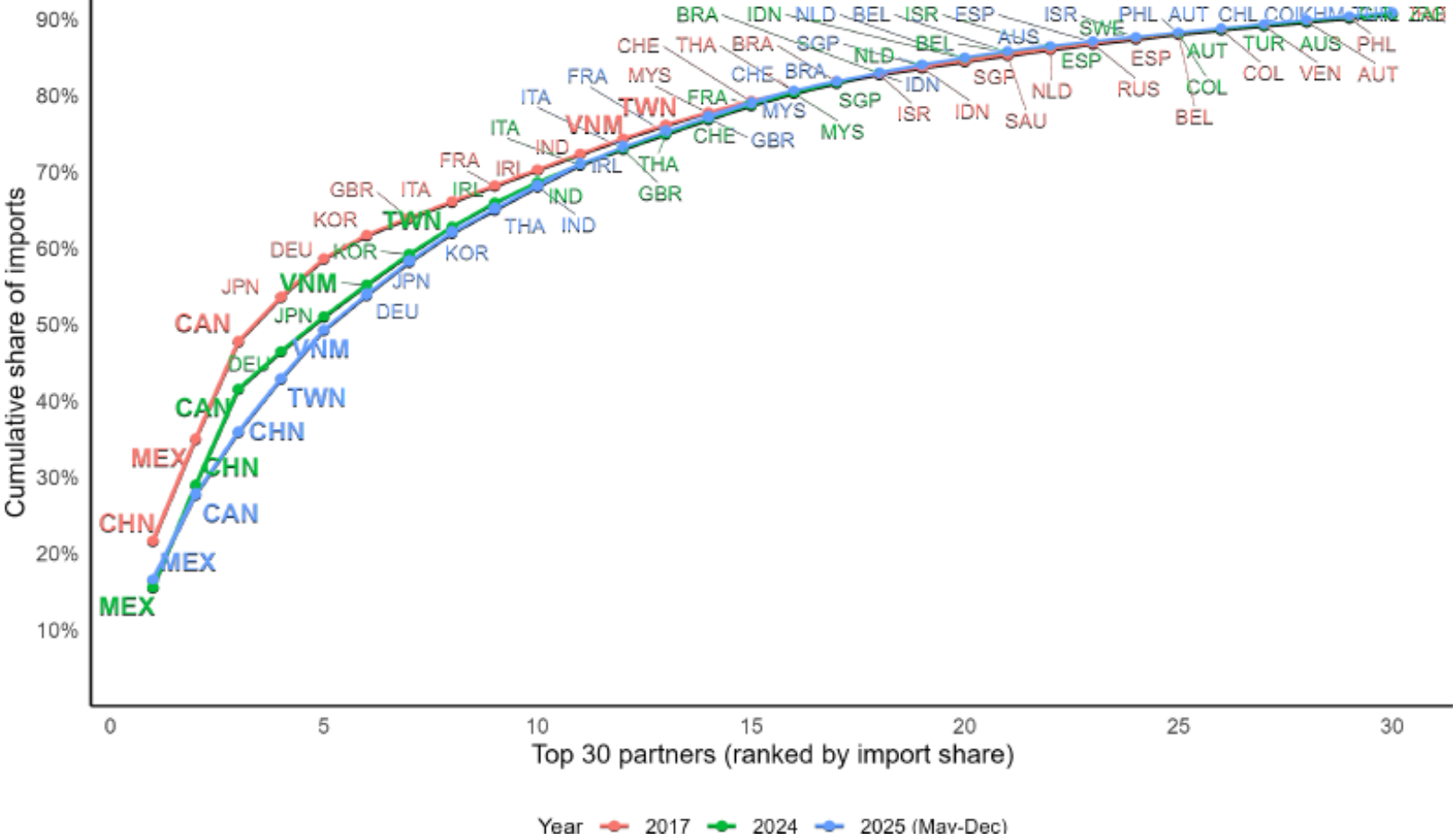
# Not Deglobalizing...Yet: Reallocation

Alfaro and Chor (2023; 2026)



# THE GREAT REALLOCATION

*Changes in US Import Shares across Trade Partners since 2017*



# Reallocation: Geography & Diversification

⚡ BUSINESS

**Companies are paying up to \$4 million to cross the Panama Canal as the Strait of Hormuz remains effectively closed, and global trade is being redrawn in real time**



By Kevin Montien ✓

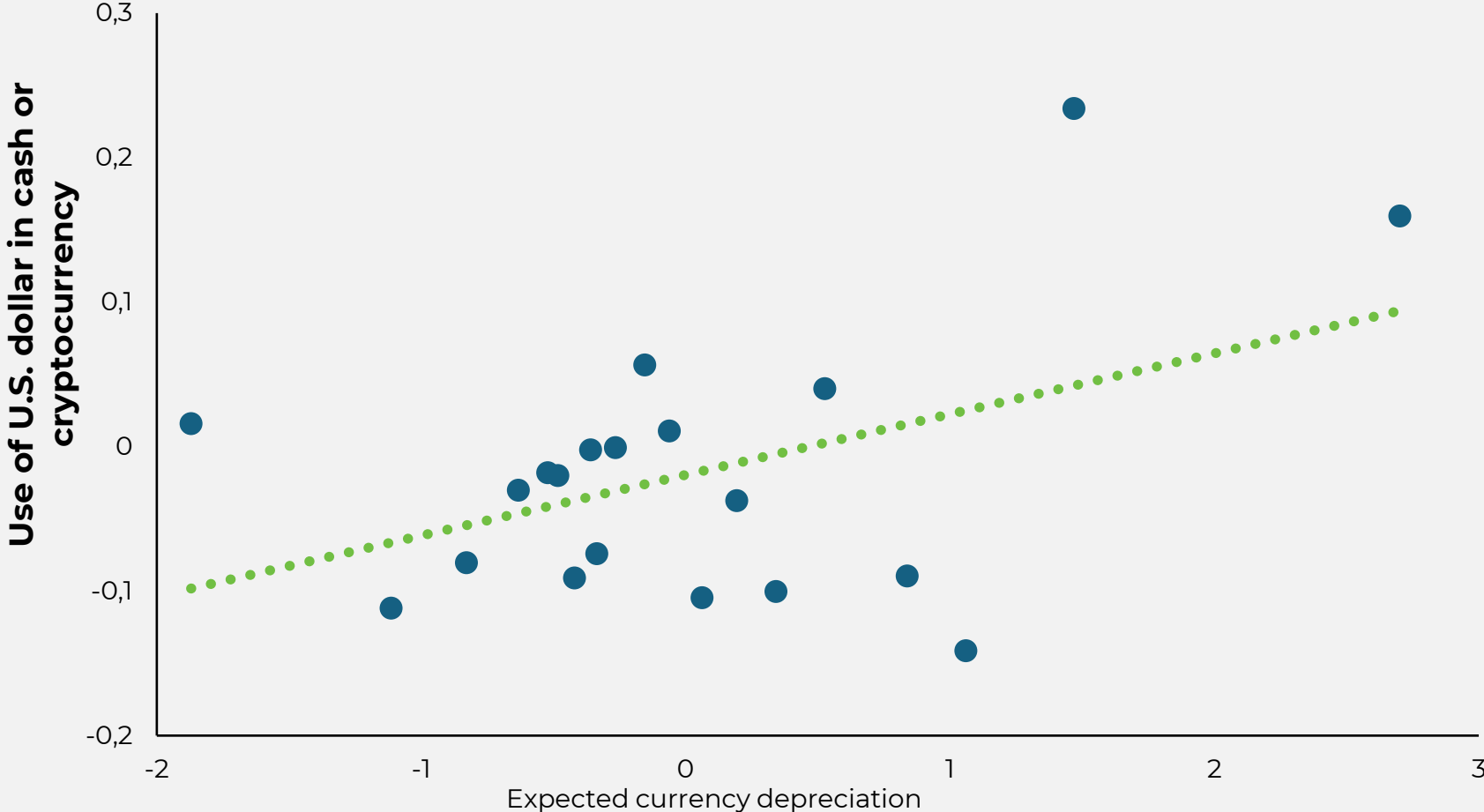
Published On: May 3, 2026 at 6:45 PM

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# Digital Assets and Currency Choice in LAC

USE OF FOREIGN CURRENCIES AND EXPECTED DEPRECIATION

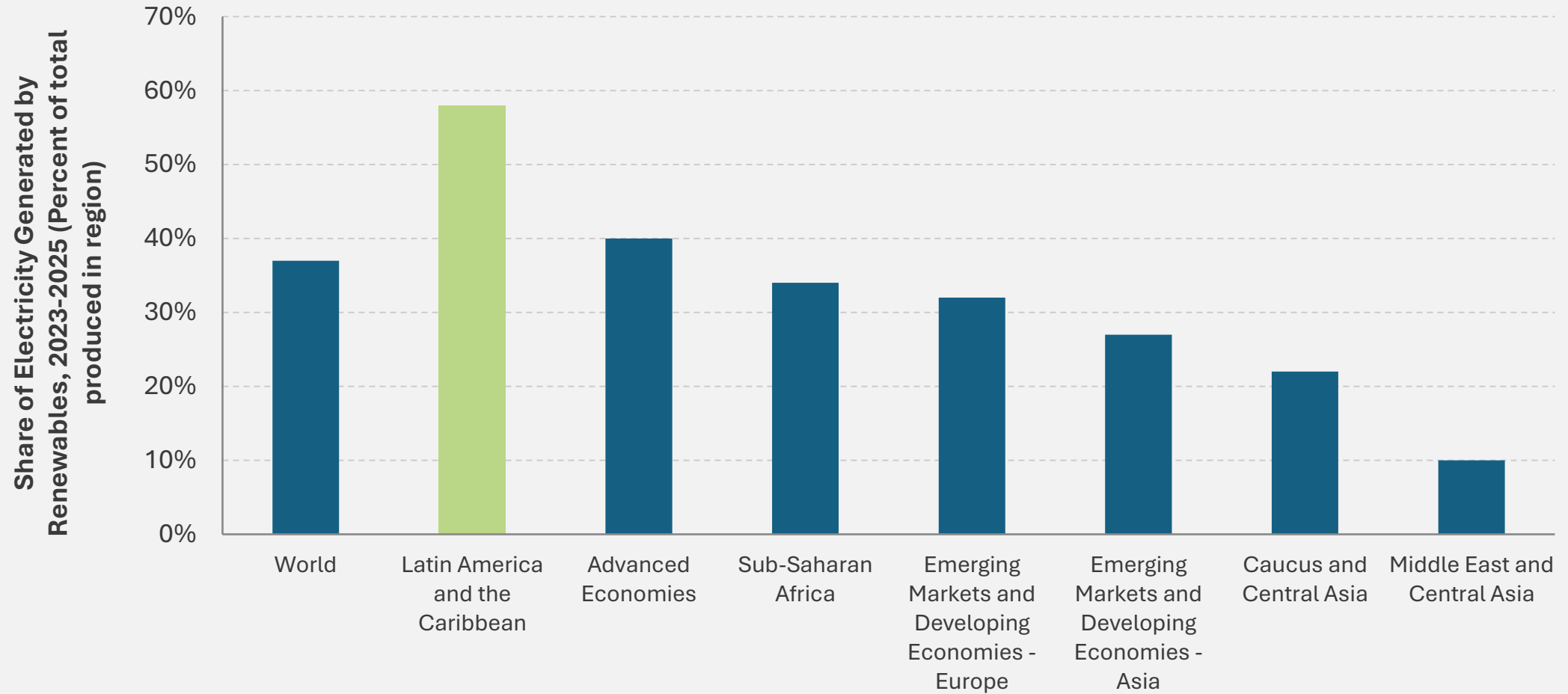


Source: Survey of Consumers Expectations, IDB.

# Digitalization and Revenue Mobilization

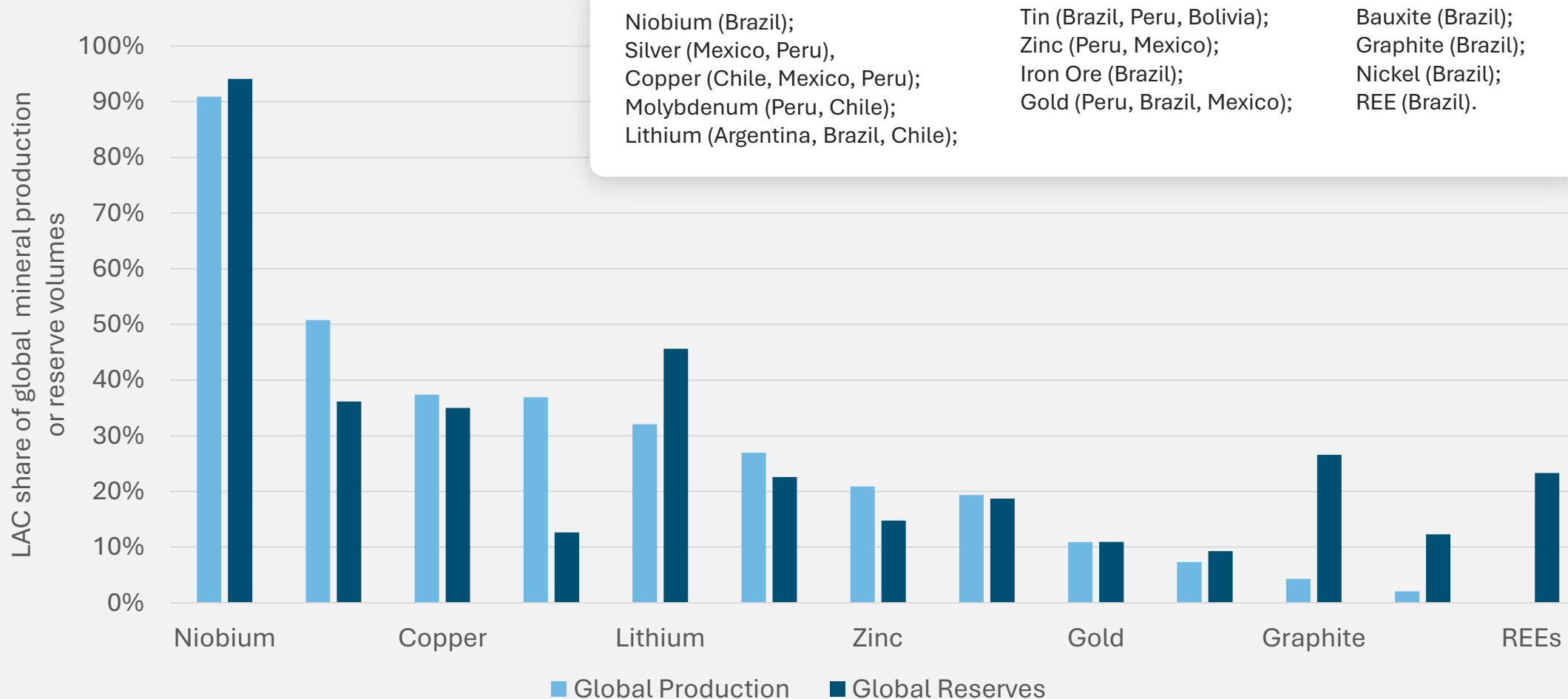


# LAC's Strategic Assets: Renewables



Source: IMF Western Hemisphere REO, April 2026

# LAC holds sizable reserves of critical minerals

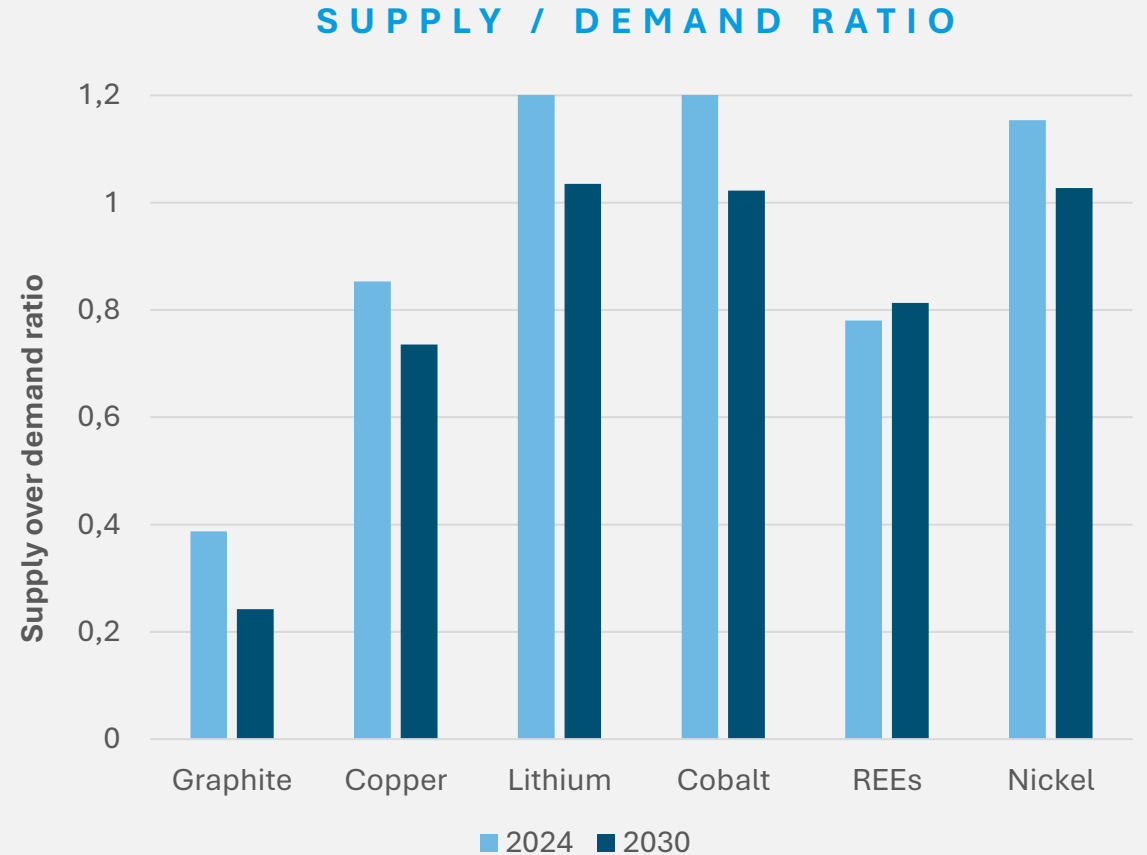
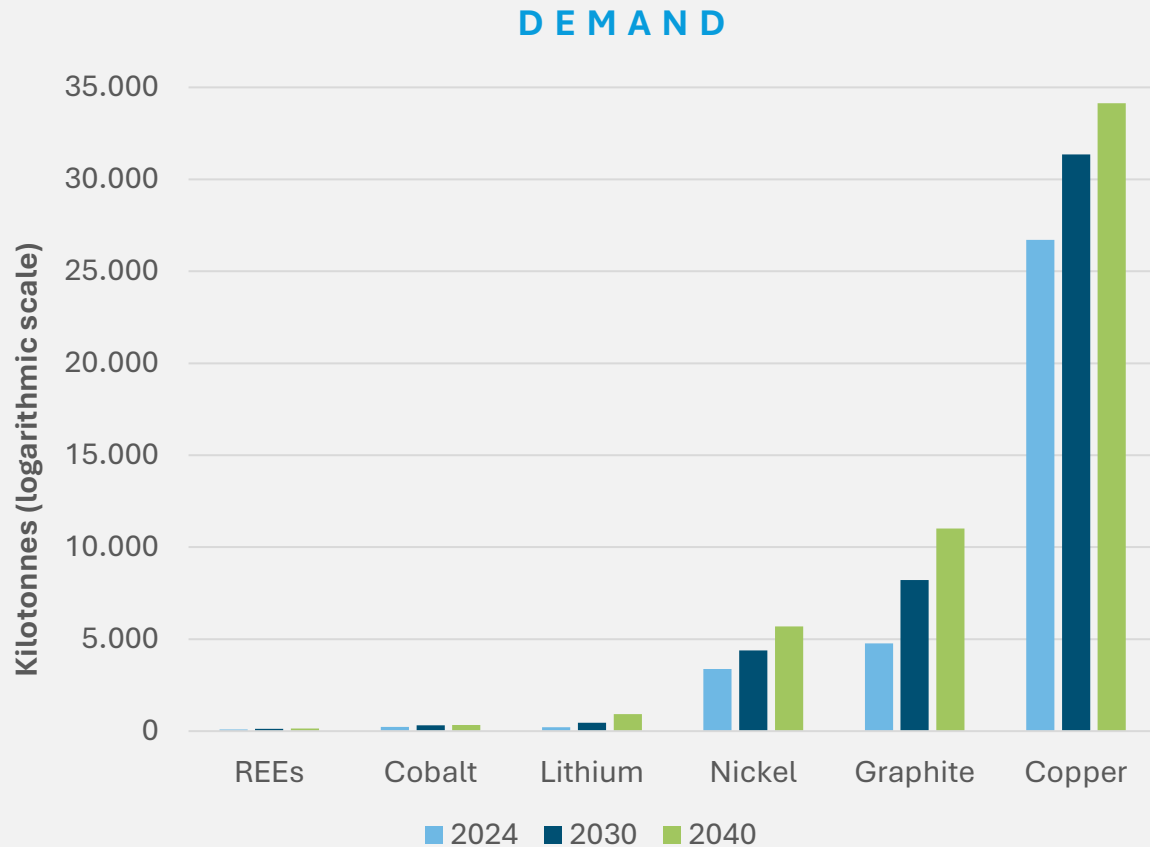


Niobium (Brazil);  
 Silver (Mexico, Peru),  
 Copper (Chile, Mexico, Peru);  
 Molybdenum (Peru, Chile);  
 Lithium (Argentina, Brazil, Chile);  
 Tin (Brazil, Peru, Bolivia);  
 Zinc (Peru, Mexico);  
 Iron Ore (Brazil);  
 Gold (Peru, Brazil, Mexico);  
 Bauxite (Brazil);  
 Graphite (Brazil);  
 Nickel (Brazil);  
 REE (Brazil).

Source: United States Geological Survey

# Why Critical?

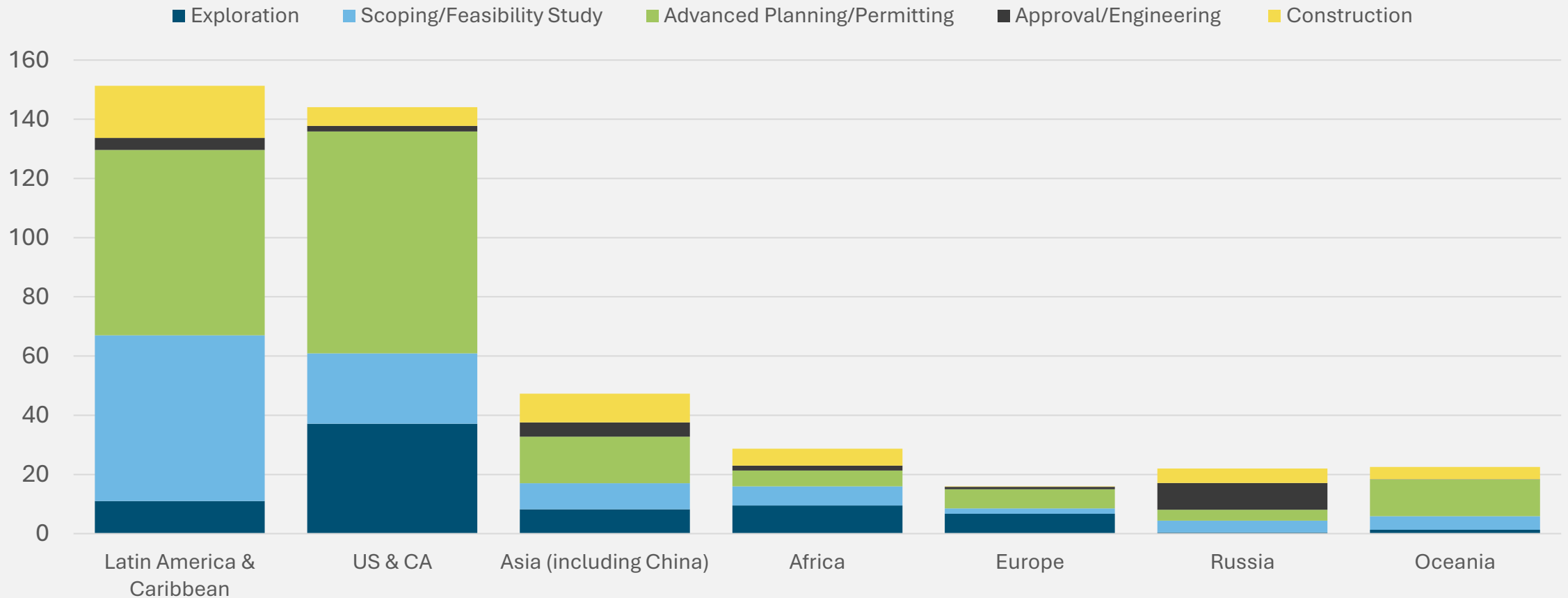
Demand is growing, supply is not catching up



Source: International Energy Agency, IDB Calculations

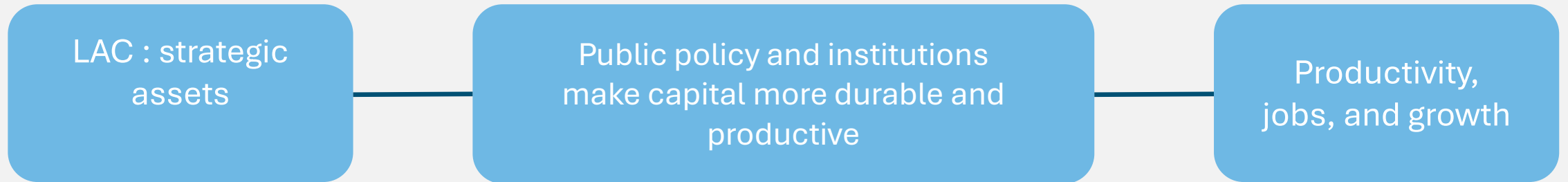
# Mining: Strong Project Pipeline

## MINING PROJECTS PIPELINE IN 2025



Source: Energy & Mining Journal, 2025

# Assets alone are not enough: Better Management



## What investors need

- Macro stability
- Predictable rules over time
- Infrastructure and efficient permitting
- Credible environmental and social standards
- Local skills and domestic suppliers

## How policy can help

- Better project pipelines
- Public-private partnerships
- Guarantees
- Local capital markets
- Regional integration

The goal is not only to attract more capital. It is to make capital more durable and productive, while helping strategic sectors move beyond extraction and capture more value at home.

# → From Resilience to Sustained Opportunities

**1**

Resilience provides the foundation

**2**

Technology and energy transitions create opportunity

**3**

Policy and institutions determine outcomes



ACCESS TO  
PUBLICATION

