REPORT ON THE LATIN AMERICAN ECONOMY

Latin America: resilience and vulnerabilities in an uncertain environment

Second half of 2025

Monetary Policy and International Economy Department

BANCO DE ESPAÑA
Eurosistema

https://doi.org/10.53479/40632

Editorial

Latin America has proven notably resilient in recent months, in no small part because the more adverse scenarios envisaged in the previous report – specifically as regards tariffs and global financial conditions – have not materialised. However, the international setting continues to be marked by a high level of uncertainty, amid persistent risks that could impact the region. Alongside these are a number of challenges that have yet to be resolved: inflation is still running high across several countries, fiscal headroom is limited and there continues to be significant exposure to external and financial shocks.

Most of the region's central banks, except Brazil's, are in a monetary easing cycle. The scale and pace of interest rate moves have been uneven, reflecting differences in each country's internal situation, exposure to external shocks and available fiscal headroom. Although inflation is easing, it is proving sticky in some components and, in certain economies, is not expected to be within central banks' target range by the end of the year.

The international environment continues to be shaped by US trade, immigration and monetary decisions. The newly implemented tariffs and stricter immigration policies have so far had mixed effects: the region's exports to the United States have not to date been significantly affected, but remittances have fallen in some countries, directly impacting consumption and financial inclusion. The report suggests that the new US tax on cash remittances could have a limited impact in the short term, and highlights the importance of promoting formal channels and boosting bank access and usage to mitigate vulnerabilities.

Financial conditions have given conflicting signals: the financial markets have shown buoyancy and currencies have appreciated against the dollar, but the region remains vulnerable to external shocks, especially as regards the future course of the dollar and interest rate developments in the advanced economies. Capital flows and foreign direct investment have resisted, but reversal risks persist, against a backdrop of greater risk aversion worldwide.

The banking sector and credit continue to show signs of resilience, although the tightening of financing conditions for certain segments could pose some difficulties and calls for ongoing monitoring of asset quality and banks' soundness. Against this background, the analysis set out in the report shows that the decline in remittances entails an additional risk, as these flows not only support consumption, but also help improve credit quality and reduce default rates, especially among women and lower credit quality segments.

As regards fiscal policy, headroom remains limited and, based on the simulations presented in the report, the public debt outlook for some countries is unfavourable, which will require maintaining fiscal framework credibility and responsiveness to fresh shocks.

Lastly, recent experience bears out the importance of having a robust and diversified financial safety net. The report shows that, although the national and regional arrangements have been strengthened, there are still coverage and coordination gaps that could limit the response to episodes of international volatility.

Overall, Latin America faces a challenging scenario, in which proven resilience must be complemented by strengthening fiscal credibility, reinforcing safeguards against external shocks and advancing financial inclusion.

Report

Contents

1 In 2025 H1 most Latin American economies performed as expected, with growth rates close to their potential

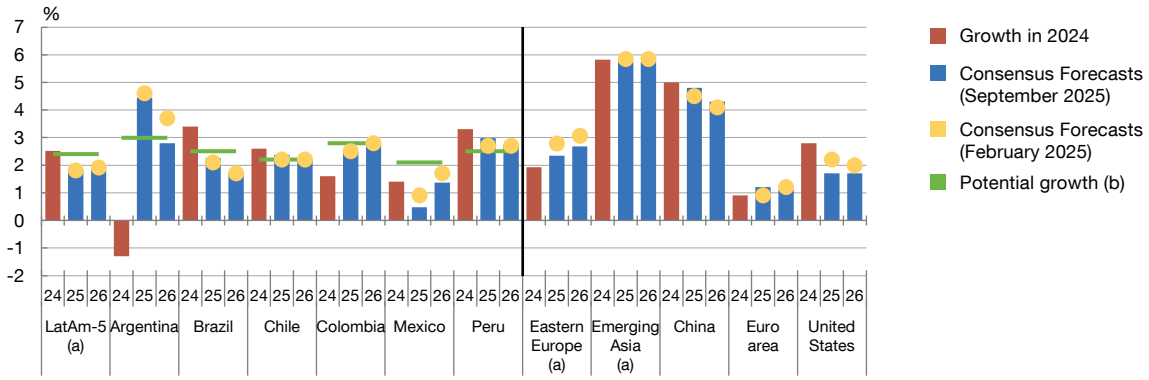
— 2025 H1 saw most Latin American economies growing at similar rates to those forecast at the outset of the year, near their potential (around 2.5% for the region as a whole according to the IMF). Economic activity was buttressed by labour market resilience, with historically low rates of unemployment (particularly in Brazil), and monetary policy that, while remaining restrictive, has eased slightly in multiple countries.

— Nevertheless, growth is uneven across the region (Chart 1.a). In Q1 it slowed significantly in Mexico and Argentina's recovery was less dynamic. Nevertheless, Brazil continued to enjoy strong growth.

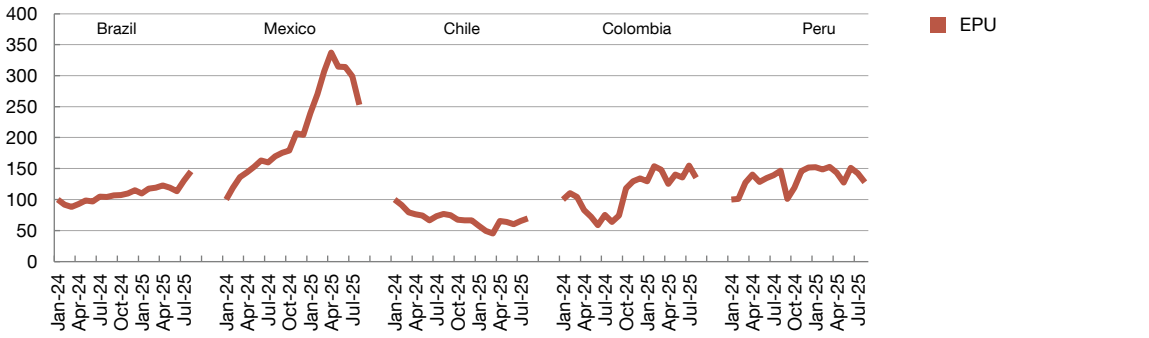
— Projections for 2026 envisage growth rates of around 2% for the region, subject to various external conditioning factors. Such factors include the uncertainty surrounding US economic policy – especially relating to monetary issues, trade (pp. 10-14) and migration – the weakness of China's economy and volatile commodity prices. Internally, the limited room for manoeuvre for fiscal policy in certain countries (pp. 24-25) and uncertainty over the course of economic policy, particularly in Mexico (Chart 1.b), could constrain growth.

Chart 1

1.a GDP growth forecasts



1.b EPU indices (c)



SOURCES: Banco de España, LSEG Datastream, Consensus Forecasts and national statistics.

a LatAm-5: Brazil, Chile, Colombia, Mexico and Peru. Eastern Europe: Bulgaria, the Czech Republic, Hungary, Poland and Romania. Emerging Asia: India, Indonesia, Malaysia, Philippines and Thailand. All aggregates weighted by GDP in PPP.
b The IMF's long-term growth forecasts in the April 2025 WEO.
c The EPU Indices are available on the Banco de España's website.

DOWNLOAD

2 Inflation remains persistent and, in some countries, will likely fall outside the central bank target ranges at end-2025

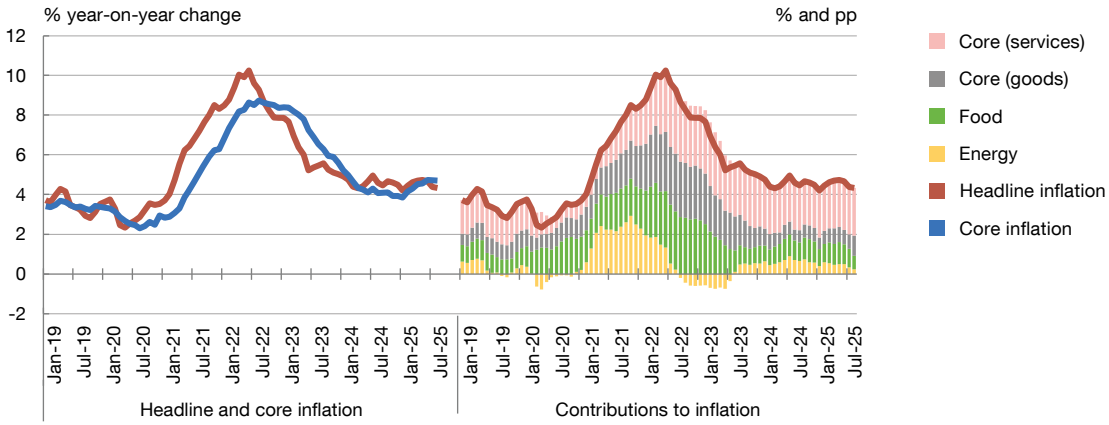
— In the five Latin American countries where the central bank sets an explicit target, inflation remained stable in 2025 H1, standing at around 4.3% year-on-year (Chart 2.a). The positive contribution of the food and energy components fell. However, core inflation rose from 3.9% in December 2024 to 4.7% in August 2025, driven by both goods and services.

— Inflation varied across countries: all saw it fall, except Brazil, where it picked up. According to central bank surveys (Chart 2.b), inflation is expected to moderate in Brazil, Chile and Colombia, while in Mexico and Peru (the only countries where it already lies within the target range), it may rise. In Brazil and Colombia, the target range is only likely to be met in 2026.

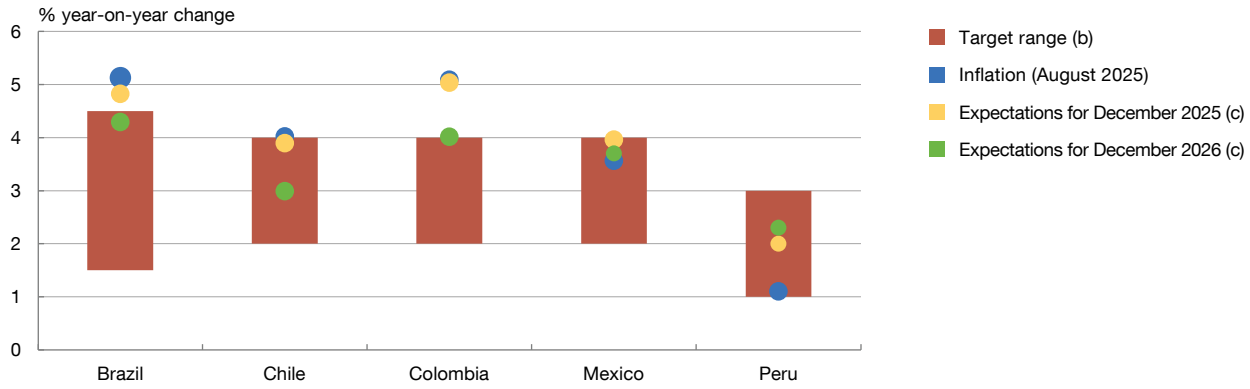
— Most central banks deem inflationary risks to remain tilted to the upside (except in Peru, where they are neutral). Among these risks are the deanchoring of expectations, persistent core inflation, wage pressures, expansionary fiscal policies, climate events and, in particular, the impact of US trade and monetary policies, which could lead to depreciation of the exchange rate in spite of the appreciation recorded in 2025.

Chart 2

2.a Inflation in Latin America and contributions (a)



2.b Inflation, inflation targets and inflation expectations



SOURCES: LSEG Datastream and national statistics.

a Aggregate of Brazil, Chile, Colombia, Mexico and Peru.
b The central bank inflation target is 3% in the case of Brazil, Chile, Colombia and Mexico and 2% in the case of Peru.
c Inflation expectations for 2025 and 2026 are taken from the central bank surveys.

DOWNLOAD

3 There is significant divergence in monetary policy stances, with tightening in Brazil, moderate cuts in Chile, Colombia and Peru, and significant easing in Mexico

— The main Latin American central banks that set an inflation target have taken differing monetary policy stances in 2025 (Table 1). Brazil continued its tightening cycle, raising official interest rates by 225 bp in 2025 H1 in response to the uptick in inflation, a positive output gap and concerns about fiscal sustainability. This latter factor is tied to a certain deanchoring of medium-term inflation expectations. Official statements point to the rate hiking cycle having concluded, although rates are set to remain high for several quarters.

— By contrast, official interest rates were reduced in Mexico by 250 bp, mostly in 50-bp steps, reflecting moderating inflation and less dynamic economic activity, although more recent cuts have been smaller. In Chile, Colombia and Peru, rates were held steady at most meetings, with only occasional 25-bp drops, suggesting caution surrounding developments in inflation and activity.

— Elsewhere in the world, the Federal Reserve System in the United States resumed its monetary easing cycle in September 2025, while the ECB made no further cuts following its most recent reduction in June. Rates continued to drop in emerging market economies, such as India, Indonesia and Poland. These global decisions dimension the scope for action for Latin American central banks and drive developments in their financial markets.

Table 1
Monthly changes in policy interest rate (bp) (a)

	2024												2025								Policy interest rates (%)
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	
Brazil	-50		-50		-25				+25		+50	+100	+100		+100		+50	+25				15.00
Chile		-100		-75	-50	-25			-25	-25		-25							-25			4.75
Colombia		-25	-50	-50		-50	-50		-50	-50		-25				-25						9.25
Mexico			-25					-25	-25		-25	-25		-50	-50		-50	-50		-25	-25	7.50
Peru	-25	-25		-25	-25			-25	-25		-25		-25				-25				-25	4.25
Hungary	-75	-100	-75	-50	-50	-25	-25		-25													6.50
Poland																	-50		-25		-25	4.75
India														-25		-25		-50				5.50
Indonesia				+25					-25				-25				-25		-25	-25	-25	4.75
Euro area						-25			-25	-25		-25	-25		-25	-25		-25				2.00
United States									-50		-25	-25									-25	4.00-4.25

SOURCE: LSEG Datastream.

a Red (blue) denotes monetary policy tightening (easing), while the intensity of the colour indicates the scale of the change.

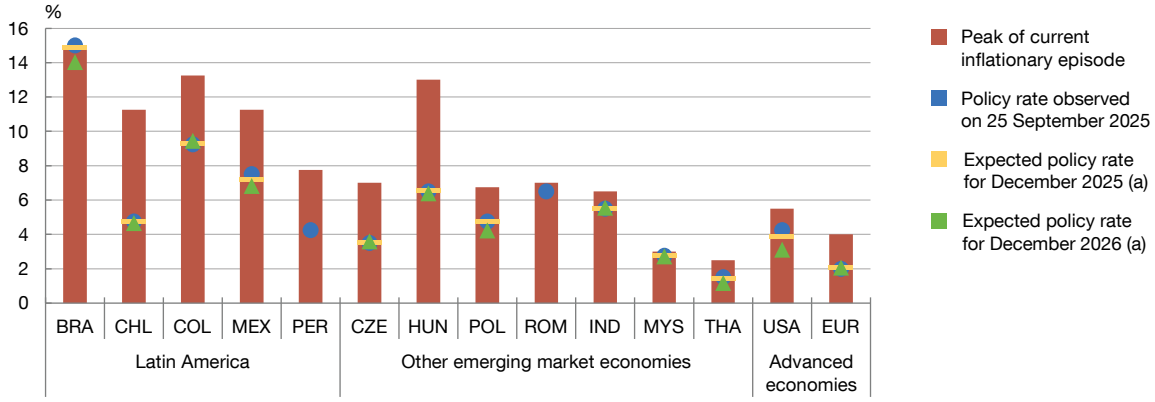
4 Financial markets are pricing in little change in policy rates in the coming months, although they are highly dependent on developments in the United States

— Futures markets are factoring in limited movements in policy interest rates in Latin America up to end-2026, with additional small drops in Mexico and the beginning of an easing cycle in Brazil (Chart 4.a). These expectations are heavily influenced by developments in the Federal Reserve System's monetary policy, which markets anticipate will continue to ease in the coming quarters.

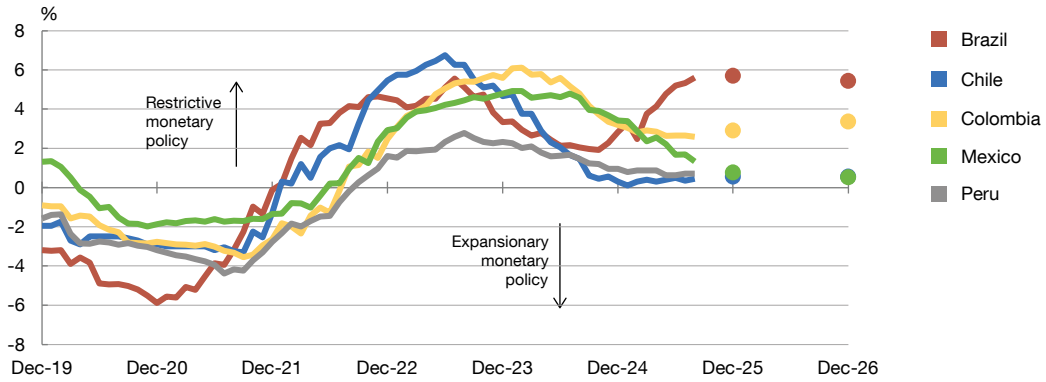
— Against this backdrop, monetary policy in Brazil remains particularly tight, with a gap of more than 5 pp between the real interest rate and the neutral rate[1] estimated by the central bank. Colombia[2] and Mexico also have restrictive stances, although in the latter this has softened markedly over the course of 2025. In contrast, Chile and Peru maintain a neutral approach (Chart 4.b). This reflects central banks' caution in the light of persistent inflationary risks and the significant sensitivity of regional markets to developments in the United States.

Chart 4

4.a Policy interest rates



4.b Real policy interest rates less equilibrium interest rates (b)



SOURCES: LSEG Datastream, J.P. Morgan, Latin Focus and national statistics.

a Priced in by financial markets (calculated as the average for the last five days to 25 September 2025). Figures for Peru and Romania are not included owing to the lack of available data.
b Real policy interest rates calculated as the difference between policy interest rates and one-year-ahead inflation expectations, drawn from central bank surveys (except for December 2025 and December 2026, which are the policy rates according to futures or interest rate swaps less the inflation expected for end-2026 and end-2027, respectively, according to the Latin Focus September 2025 forecast). The equilibrium interest rates are calculated drawing on estimates by the region's various central banks.

DOWNLOAD

1 The neutral or natural interest rate is that which prevails when economic activity holds at its potential level and inflation holds stable at the monetary authority's target level. Estimates of it are subject to a high level of uncertainty.

2 In its latest Monetary Policy Report, the Banco de la República (Colombia's central bank) noted the possibility that the Colombian economy's neutral rate may have risen, in part owing to higher fiscal risk.

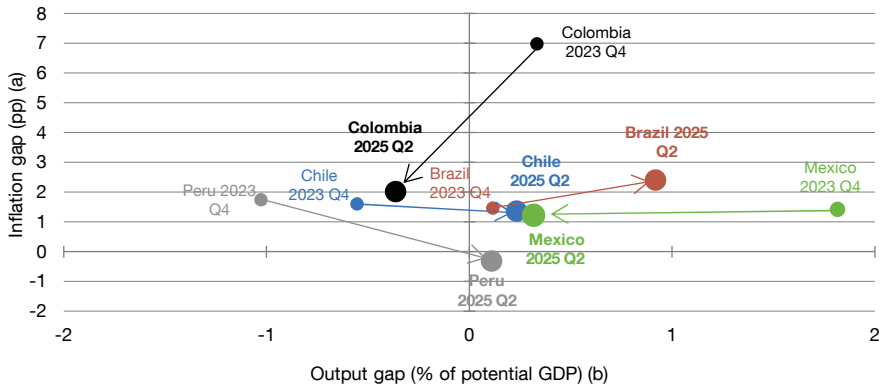
5 Generally speaking, the policy rate changes appear consistent with actual and expected developments in inflation

— In most of the region's countries, policy rate developments are broadly consistent with the business cycle (output gap) and the actual course of inflation relative to the target (inflation gap). In nearly all countries, GDP is not far from its potential level (Chart 5.a) and the inflation gap remains positive (and high in the case of Brazil and Colombia), except in Peru, where it is negative.

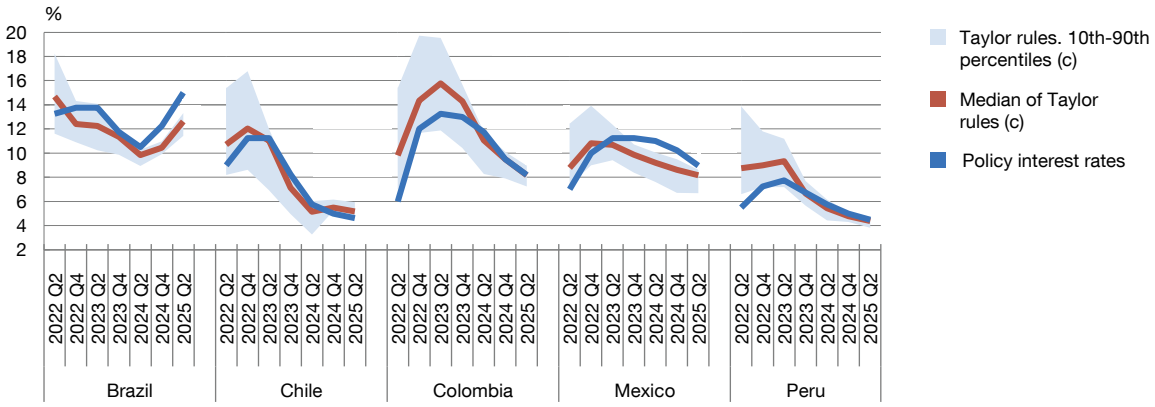
— In terms of the output gap, Brazil is the only exception, where it remains positive. Despite this and the country's significant inflation gap, various Taylor rules (which also consider the expected developments in GDP and inflation) suggest that monetary policy is excessively restrictive, since the official interest rate is well above the estimated range for these monetary policy rules (Chart 5.b). This could be related to the central bank's desire to strengthen confidence in the monetary policy framework, given the trends and outlook for its public accounts.

Chart 5

5.a Output and inflation gaps in Latin America



5.b Policy interest rates and Taylor rules



SOURCES: LSEG Datastream and central banks.

a Difference between inflation in the relevant quarter and the inflation target.
b The GDP trends in the economies are calculated using a two-sided Hodrick-Prescott filter with a smoothing parameter of 1,600 and using GDP forecasts up to 2026 Q4.
c The combination of possible values for coefficients and inflation (headline, core and expectations 12 months ahead) makes it possible to calculate a set of Taylor rules, whose average and range between the 10th and 90th percentiles of the distribution are shown in the chart.

DOWNLOAD

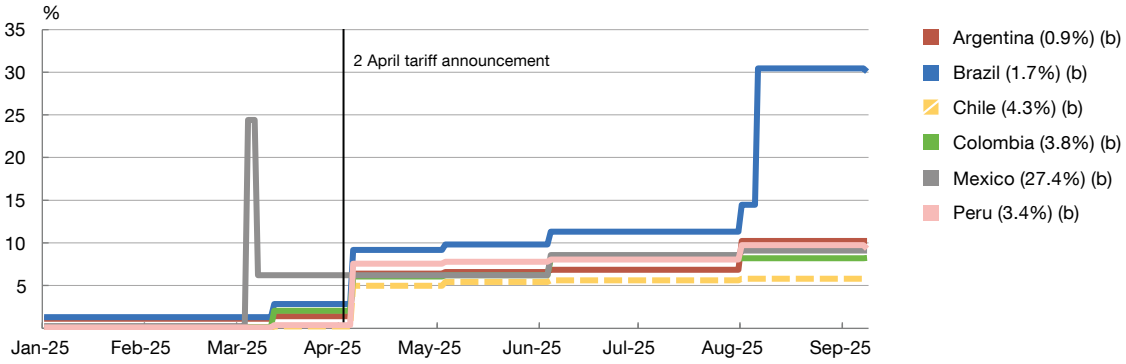
6 The United States applied tariffs unevenly across Latin America

— In April, the US Government implemented a general tariff of 10% on exports from most Latin American countries, excluding Mexico. Subsequently, new measures and exceptions were introduced, which are still under negotiation (Table 2). In August, Brazil faced a 50% tariff on its exports to the United States,[3] albeit with numerous exceptions, while Mexico maintained a differentiated tariff structure, having previously faced a 25% tariff that was partially reduced following bilateral talks.

— As a result, Brazil currently has the highest average effective tariff at 30%. The rest of the countries in the region have an effective tariff range of between 5% and 10% (Chart 6.a). Mexico, the country in the region most exposed to the US economy, has an effective tariff very similar to the rest of Latin America, at around 9%.[4] At the cut-off date for this report, none of the six countries analysed had implemented retaliatory tariff measures on imports from the United States, reflecting a strategy of restraint in the new trade environment.[5]

Chart 6

6.a Average effective tariff (a)



SOURCES: Banco de España, The Budget Lab (Yale), U.S. Census Bureau and WTO Tariff & Trade Data.

a Weighted average of the tariffs applied by the United States on imports in 2024, by country and product. Tariffs on products subject to specific tariff schedules are applied in accordance with their respective schedules (Table 2). In the case of derivative products made of steel, aluminium or copper, the tariff is augmented depending on their metal content; the general tariff is applied for the rest of the content. There is a 25 pp hike in the case of vehicles and auto parts, with discounts for manufacturers that assemble products in the United States (estimated to be 1/3). For countries with trade agreements in force, tariffs are applied as established in those agreements. For Mexico, there is an additional general tarif

b The figure in brackets is the share of exports to the United States in each country's GDP. The percentage of each country's total exports that go to the United States is: 8.4% in Argentina, 11.0% in Brazil, 15.2% in Chile, 28.1% in Colombia, 82.7% in Mexico and 12.5% in Peru. Data for both observations are from 2023.

DOWNLOAD

3 This tariff was implemented on account of the trial of former Brazilian President Jair Bolsonaro and diplomatic tensions between the two countries.

4 This is because goods traded under the USMCA are exempt from tariffs.

5 The Mexican government has announced that it will impose tariffs of up to 50% on countries with which it does not have a trade agreement, including China.

Table 2

Tariffs applied by the United States on imports from Latin America

	Entry into force									
	4-Mar	7-Mar	12-Mar	3-Apr	5-Apr	3-May	4-Jun	1-Aug	6-Aug	8-Sep
Argentina			+25% on imports of steel and aluminium and derivative products (c).	+25% on vehicle imports (d).	+10% on all imports (e) Exemptions: • All the products in Annex II to the Executive Order. • Products with a specific tariff schedule. • If ≥ 20% of the value is from the United States, the tariff only applies to the non-US part.	+25% on auto parts (d).	+50% on imports of steel and aluminium and derivative products (f).	+50% on derivative products made of copper (g).	+40% on all products (h).	Amendment of Annex II to Executive Order 14257 (i): • 39 new items subject to tariffs. • 8 items no longer subject.
Brazil										
Chile										
Colombia										
Peru										
Mexico	+25% on all imports, including products falling under the USMCA (a).	0% USMCA (a) +10% potash (a) +10% energy (b).		+25% on vehicle imports (only on the share not originating in the United States) (d).	See note (e).	+25% on auto parts (only on the share not originating in the United States) (d).				

SOURCES: WTO Tariff & Trade Data, The White House, Federal Register and U.S. Customs and Border Protection.

a Executive Order 14194 of 1 February 2025 (Amendment to Duties to Address the Situation at Our Southern Border) and Executive Order 14198 of 3 February 2025 (Progress on the Situation at Our Southern Border).
b Executive Order of 6 March 2025 (Amendment to Duties to Address the Situation at Our Southern Border).
c Proclamation 10896 of 10 February 2025 (Adjusting Imports of Steel Into the United States).
d Proclamation 10908 of 26 March 2025 (Adjusting Imports of Automobiles and Automobile Parts Into the United States).
e Executive Order 14257 of 2 April 2025 (Regulating Imports With a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits). A reciprocal tariff of 12% would be established in the case of Mexico for products not covered by the USMCA if Executive Orders 14194 and 14198 were revoked.
f Proclamation 10947 of 3 June 2025 (Adjusting Imports of Aluminum and Steel Into the United States).
g Proclamation 10962 of 30 July 2025 (Adjusting Imports of Copper Into the United States).
h Executive Order 14323 of 30 July 2025 (Addressing Threats to the United States by the Government of Brazil).
i Executive Order 14346 of 5 September 2025 (Modifying the Scope of Reciprocal Tariffs and Establishing Procedures for Implementing Trade and Security Agreements).

7 So far the new situation does not appear to have significantly affected imports from the United States

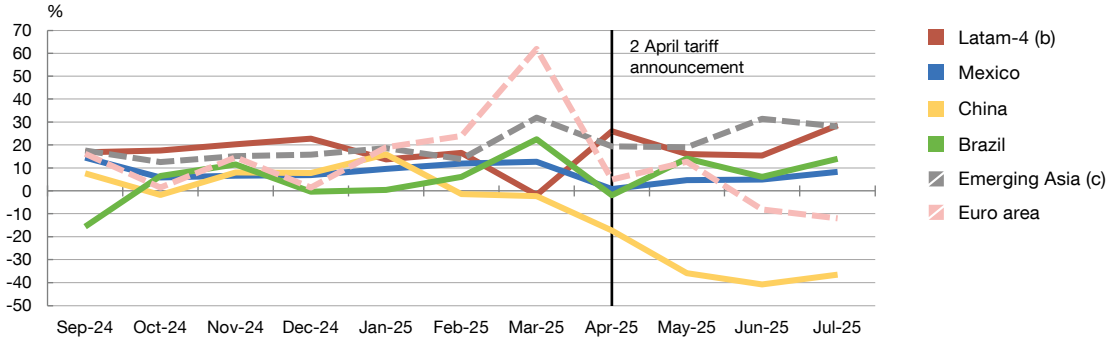
— For now the recent rise in tariffs does not seem to have had a direct negative impact on Latin American imports from the United States. Initial data point to a readjustment in US trade flows, with a sharp drop in imports from China – which are subject to an effective tariff of 40% – and an increase in purchases from other regions, like emerging Asia (excluding China) and Latin America (Chart 7.a).

— Within the region exports have responded heterogeneously: those from Argentina, Chile, Colombia and Peru have grown at a faster rate (possibly because of the frontloading of orders due to the threat of further tariffs), while Brazilian and Mexican exports have recorded more moderate year-on-year growth.

— Although no direct adverse consequences have been observed to date, the United States' increasingly restrictive trade policies could have indirect effects, especially through their impact on China, which has become a strategic partner for Latin America in terms of both commodities purchases and integration into global value chains.

Chart 7

7.a Year-on-year growth in total imports to the United States, by country of origin (a)



SOURCE: Trade Data Monitor.

a The series have been seasonally adjusted using standard methods to eliminate regular fluctuations, ensuring consistent comparisons over time.
b Aggregate of Argentina, Chile, Colombia and Peru, weighted by GDP in PPP.
c Aggregate of South Korea, the Philippines, Indonesia, Malaysia, Thailand and Vietnam.

DOWNLOAD

8 Simulations suggest that the adverse impact of the tariffs will be more pronounced for Mexico than for the rest of the region

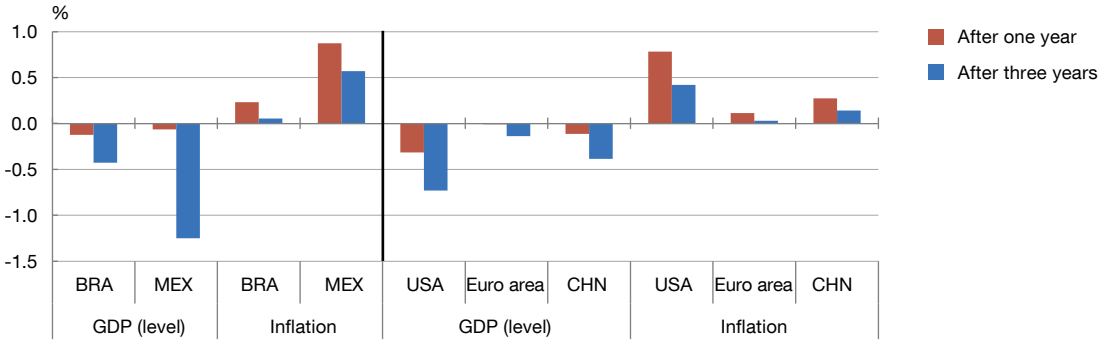
— Since high-frequency data have yet to clearly reflect the impact of the new US tariffs on the region, a simulation was conducted to estimate their potential effects. The scenario assumes the permanent adoption of the effective average tariff rates approved to date and compares the result with a baseline scenario in which the 2024 tariffs remain in place.

— According to this simulation (Chart 8.a) and despite facing a similar effective tariff as the other Latin American countries, Mexico will be the most affected country in the region, with the steepest cumulative decline in economic activity over a three-year horizon and the sharpest rise in inflation. This is due to its high exposure to the US market.[6] Inflationary pressures would be further exacerbated by exchange rate depreciation, although this effect would gradually correct thanks to a tighter monetary policy. By contrast, Brazil, although subject to a high effective tariff (30%), would feel a smaller cumulative impact due to its lower trade openness and reduced dependence on the US economy.

— It should be noted that these simulations are subject to considerable uncertainty, both because the tariffs could undergo further changes as a result of potential future negotiations and because certain economic transmission channels[7] and tariffs on indirect imports have not been considered.[8]

Chart 8

8.a Impact on GDP and inflation of a more restrictive trade policy scenario worldwide (a)



SOURCES: Banco de España, The Budget Lab (Yale), US Census Bureau and WTO.

a An increase in effective tariffs is simulated based on the tariff agreements announced up to September 2025 (Table 2). The simulation uses the NiGEM model, which assumes that economic agents have rational expectations and that each country's monetary and fiscal policies respond endogenously.

DOWNLOAD

6 Mexican exports to its northern neighbour account for around 27% of its GDP.

7 The tariffs could reshape global supply chains and affect financial markets and investment.

8 To prevent the entry of Chinese products indirectly via third countries, the United States also imposed tariffs on imports based on the origin of the added value. This model also excludes the potential impact of Mexico's recent announcement that it will raise tariffs on imports from countries with which it has no trade agreements, such as China.

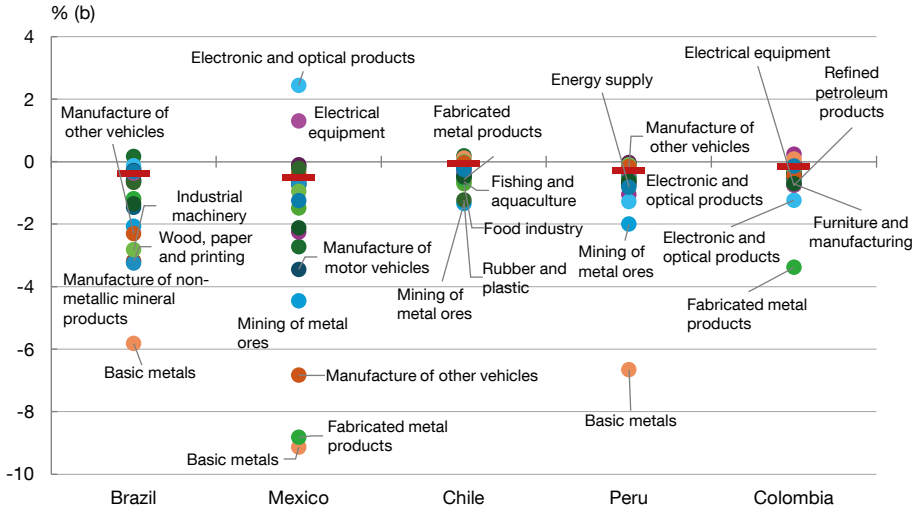
9 According to the available simulations, certain sectors would be particularly affected by the tariffs

— The trade measures adopted by the United States have had an uneven impact on sensitive sectors in Latin America, with important implications for various countries. A simulation[9] was conducted to estimate the potential impact on the production of the most exposed sectors across the region.[10]

— In Mexico, the 25% tariff on vehicles and auto parts would directly affect manufacturing of transport equipment, a key sector in its exports to the United States. Conversely, the IT and electrical products sectors would perform well, despite their high exposure to the US market.[11] This could be due to the application of a reduced tariff, which provides a competitive advantage over competitors from other countries. In Brazil, the tariff increase would particularly impact the sectors most exposed to the United States, such as manufacture of transport equipment, basic metals and wood. In Chile, the 50% tariff on copper affects a strategic resource, although the exclusion of refined copper[12] would offer some mitigation. In Peru, the basic metals sector would see a sharp drop in production despite its relatively lower exposure (Chart 9.a).

Chart 9

9.a Impact on sectoral production of a more restrictive trade policy scenario worldwide (a)



SOURCES: Banco de España, The Budget Lab (Yale), US Census Bureau and WTO.

a An increase in effective tariffs is simulated based on the tariff agreements announced up to September 2025. All the measures announced are included, even those not yet in force and those that have not been confirmed by both parties to the agreement. The impact on sectoral production is estimated for groups of economic activities based on the NACE Rev.2 classification, one year after the increase, using the ONKIO model.
b Deviations from the baseline scenario, which considers the sectoral tariffs in force during 2024.

DOWNLOAD

9 A neokeynesian multi-country model with sectoral heterogeneity and both national and international production networks (ONKIO) was used to capture supply-side-shocks. For more details, see Pablo Aguilar, Rubén Domínguez-Díaz, José Elías Gallegos and Javier Quintana. (2025). "The Transmission of Foreign Shocks in a Networked Economy", Documentos de Trabajo, Banco de España, forthcoming.

10 The scenario assumes the permanent adoption of the effective average tariff rates approved to date and compares the result with a baseline scenario in which the 2024 tariffs remain in place.

11 Around 50% of Mexican exports in these sectors are to the United States.

12 Refined copper accounts for 40% of Chile's exports to the United States.

10 The United States' stricter immigration policies could negatively affect remittance transfers to the region

— The United States has introduced stricter immigration policies, such as stronger border controls, increased workplace surveillance and a ramp-up in deportations. Given the lack of recent official data on migration flows, leading indicators have been used in this analysis. During the first half of 2025 the number of migrants intercepted at the southwest border decreased significantly,[13] while deportations increased. As a result, the number of foreign workers in the United States is estimated to have declined by around one million in 2025 H1.[14] These negative migration dynamics particularly affected Mexican and Central American nationals, who – along with other Latin Americans – make up nearly half of the immigrant population in the country.[15]

— The primary short-term channel for the transmission of these changes to the Latin American economies is remittances, which have seen mixed developments of late. In Central America and the Dominican Republic[16] remittance inflows grew by almost 18.5% year-on-year to August, driven by frontloading due to the risk of deportation. Mexico experienced a 5.8% year-on-year decline in remittances over the same period, linked to fewer Mexican immigrants entering the US labour market and the depreciation of the dollar.[17, 18]

— Additionally, another change in US legislation could affect outbound remittances: from 1 January 2026 cash remittances will be subject to a 1% tax (Box 1).[19] However, the Secretariat of the Central American Monetary Council (SECMCA by its Spanish initials) considers that this tax would reduce remittances to Central America and the Dominican Republic by just 0.37% in the short term and a cumulative 1.21% in the long-term, for senders subject to the tax.[20] Another empirical exercise conducted by CEMLA[21] also points to a limited aggregate impact, as there are mechanisms to circumvent the tax – such as the use of bank accounts and debit cards – accessible even to undocumented immigrants.

— Remittances are important for Mexico both from a macroeconomic standpoint and in terms of financial inclusion, which is still limited in the country (Box 2). Remittances currently account for 3.5% of GDP and are an essential channel for accessing credit. Evidence shows that a 10% reduction in remittance inflows is associated with a decline of 1.8% in the stock of consumer credit, with this effect concentrated in higher credit quality segments. Moreover, remittances help lower delinquency rates, particularly in lower quality loans and among women. Therefore, a sustained reduction in these flows could heighten risks to financial stability and limit access to credit for the most exposed households.

---

13 From over 100,000 people intercepted in July 2024 to 7,800 in July 2025 (US Customs and Border Protection).

14 Census bureau data and Kramer and Passel (2025).

15 Kramer and Passel (2025).

16 In countries like Honduras and Nicaragua, remittances account for up to one-fourth of GDP.

17 According to BBVA (2025), illegal Mexican migrants, most of whom have resided in the United States for many years, typically send fewer remittances than newly arrived immigrants – who are more afraid of deportation and tend to send money earlier. They also represent a shrinking share of new Latin American migration inflows.

18 Another factor that may be contributing to the more adverse performance of remittances in Mexico is the close cooperation and timely exchange of information between the US and Mexican Governments to implement financial systems with robust controls against money laundering in connection with illicit opioid trafficking. Against this backdrop, in June the US Department of the Treasury imposed a ban on fund transfers involving three financial institutions based in Mexico.

19 This provision of the law known as the "One Big Beautiful Bill Act" will enter into force in January 2026. It imposes a tax of 1% on remittance transfers funded with cash, money orders or cashier's cheques sent from the United States to other countries. In other words, this tax does not affect transfers sent from US bank accounts or using credit or debit cards issued there. This measure will primarily affect immigrants without access to the US banking system, including those with permanent legal residence or temporary visas, as they tend to use methods involving cash.

20 Badilla Barrantes and Izaguirre Silva (2025).

21 Cervantes González and Ortega (2025).

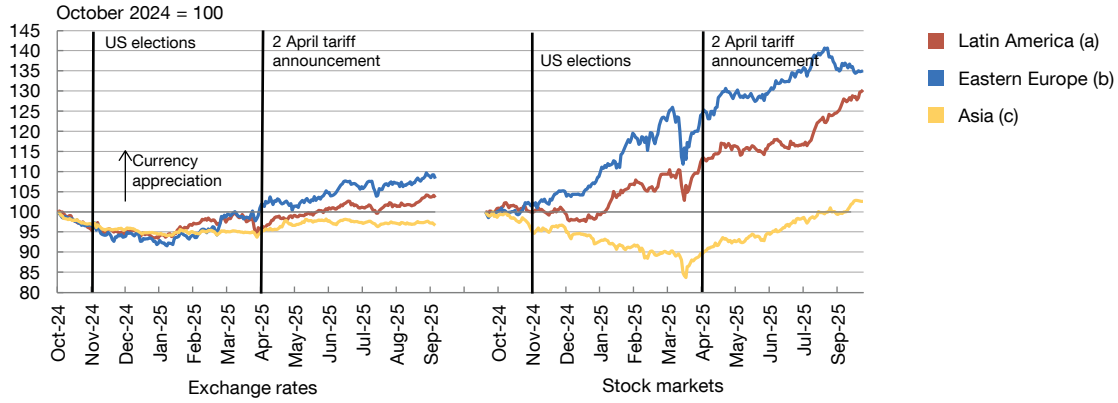
11 Despite the climate of uncertainty, financial markets are improving across the region

— Latin American financial markets performed very favourably following the tariff announcements on 2 April. Similar trends were seen in other emerging regions: currency appreciation (which was less pronounced in Asia due to India's performance), stock market index gains (more modest in Brazil), declines in long-term local currency yields and narrowing sovereign spreads (Charts 11.a and 11.b).

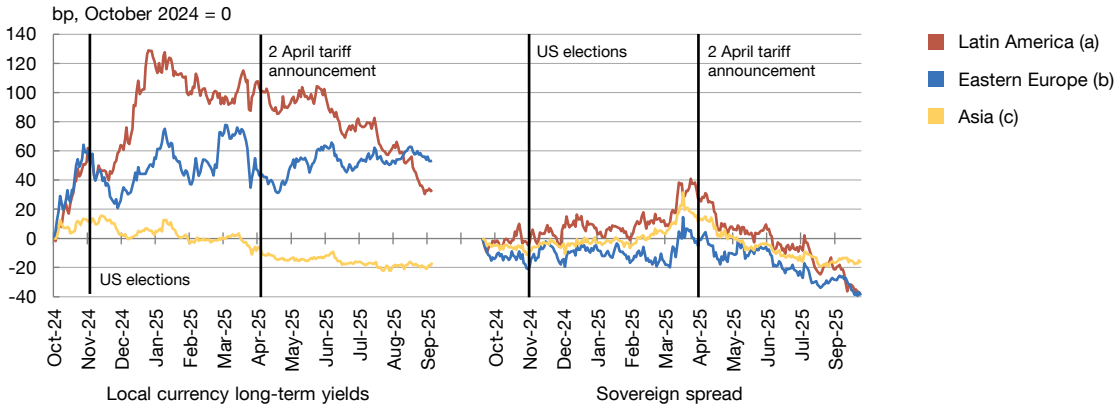
— This favourable performance is taking place in a context in which traditional correlations between dollar fluctuations and developments in other major financial variables in emerging market economies have weakened. Thus, 2025 has seen a simultaneous increase in term premia in the United States, an appreciation of emerging market currencies and a narrowing of their sovereign spreads. Together, these dynamics have so far given rise to a favourable global risk shock for emerging market economies. Moreover, financial markets in these economies do not seem to be pricing in a scenario of trade fragmentation.

Chart 11

11.a Exchange rates and stock market indices



11.b Local currency long-term government bond yields and sovereign spreads



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest figure: 25 September 2025.

a Simple average of Brazil, Chile, Colombia, Mexico and Peru.
b Simple average of Czech Republic, Poland and Hungary.
c Simple average of China, South Korea, Philippines, Indonesia, Malaysia and Thailand.

DOWNLOAD

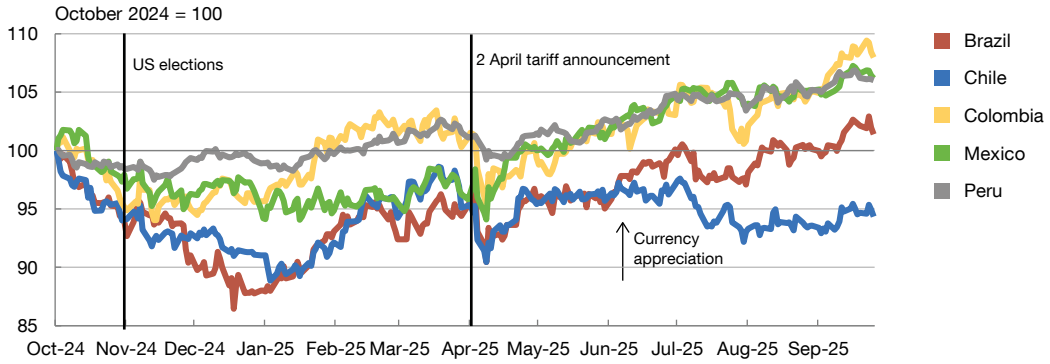
12 Global risk and shifting perceptions of conditions in the United States helped strengthen the region's currencies from April

— Between January and early April 2025 Latin American currencies appreciated significantly against the US dollar, particularly in the case of the Brazilian real, with gains of over 8%. This trend continued in the following months, albeit with less intensity. The exception was the Chilean peso, affected by its central bank's announcement of a programme to accumulate international reserves (Chart 12.a).

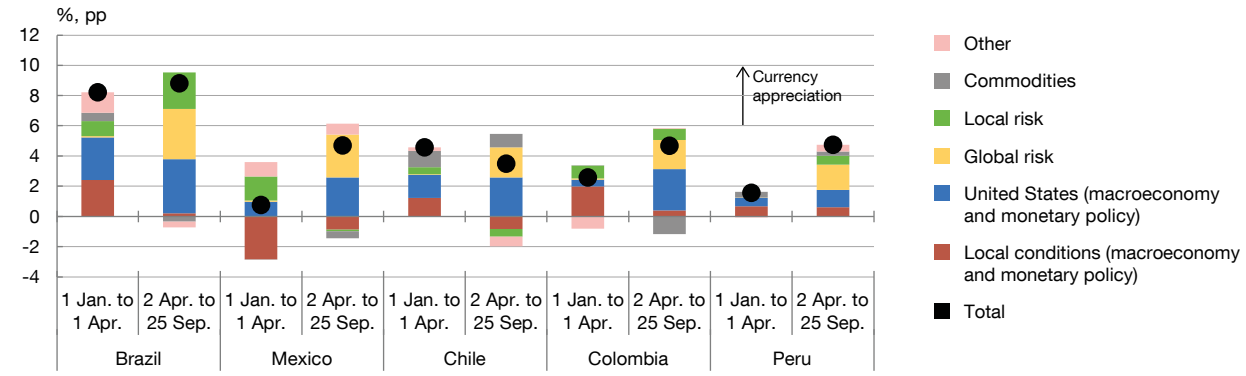
— The currency appreciation was driven by conditions in the United States (Chart 12.b), where markets initially anticipated positive macroeconomic and monetary policy shocks. However, that optimism faded after the US tariff announcement of 2 April, with financial markets pricing in a somewhat more accommodative monetary policy. The reduction in local risk across most countries in the region helped strengthen their currencies. From April, the onset of a global risk shock created a favourable environment for emerging market economies, supporting the appreciation of Latin American currencies, although increased local risk in Chile and Mexico tended to depreciate their currencies.

Chart 12

12.a Exchange rates against the US dollar



12.b Decomposition of the exchange rate variation against the US dollar in 2025 (a)



SOURCES: Banco de España and LSEG Datastream.

a Decomposition of exchange rate movements against the dollar estimated drawing on a Bayesian VAR model using short and long-term interest rates, the local and US stock markets, the long-term interest rate spread vis-à-vis the United States, the exchange rate and commodity prices (exogenous variable). Identification is by the sign restriction approach. A distinction is drawn between global and local risk, with the latter affecting the local stock market but not the US market.

DOWNLOAD

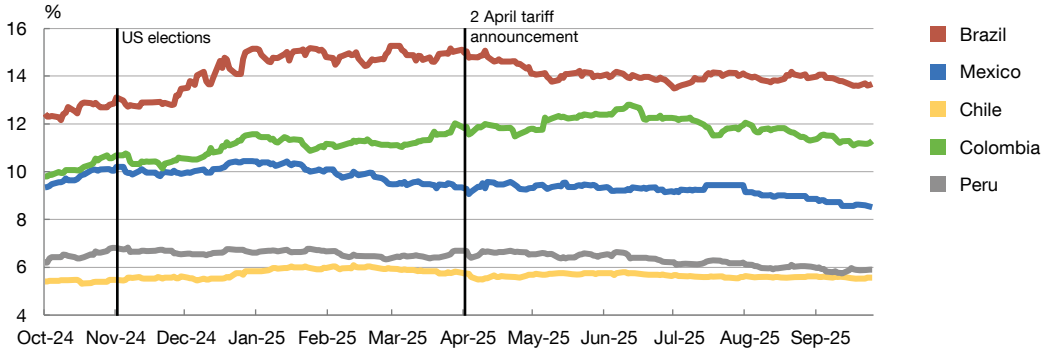
13 Lower local risk brought down long-term bond yields in local currency

— During the reference period, local currency long-term bond yields declined across most Latin American countries, particularly from 2 April onwards (Chart 13.a).

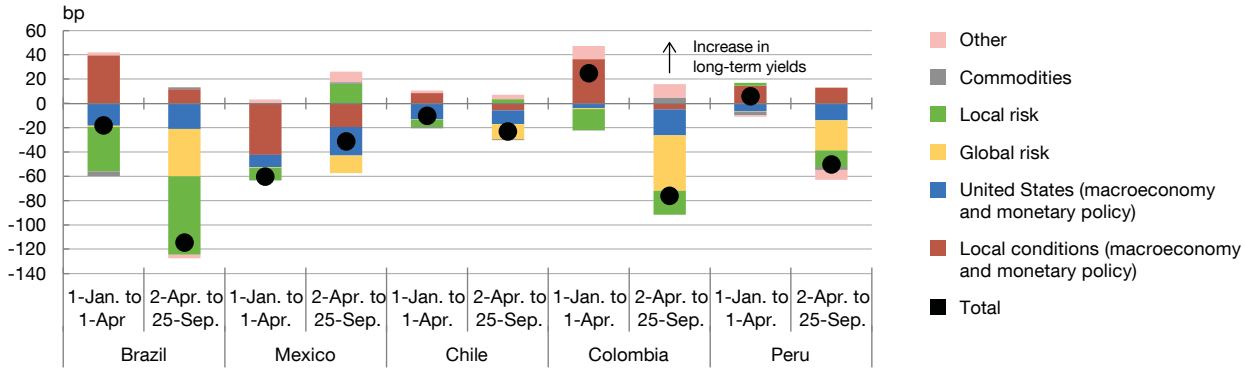
— This was driven both by improved conditions in the United States and globally, and by the containment of local risk. Mexico stood out as the exception from April 2025, with no significant drop in yields, reflecting a higher perceived level of local risk (Chart 13.b). This underlines the sensitivity of the region's financial markets to shifts in local and global risk, as well as the importance of political and economic stability in interest rate dynamics.

Chart 13

13.a Local currency long-term government bond yields



13.b Decomposition of the change in local currency long-term government bond yields in 2025 (a)



SOURCES: Banco de España, LSEG Datastream and national statistics.

a Decomposition of changes in long-term yields in local currency drawing on a Bayesian VAR model using short and long-term interest rates, the local and US stock markets, the long-term yield spread, the exchange rate and commodity prices as an exogenous variable. Identification is by the sign restriction approach. A distinction is drawn between global and local risk, with the latter affecting the local stock market but not the US market.

DOWNLOAD

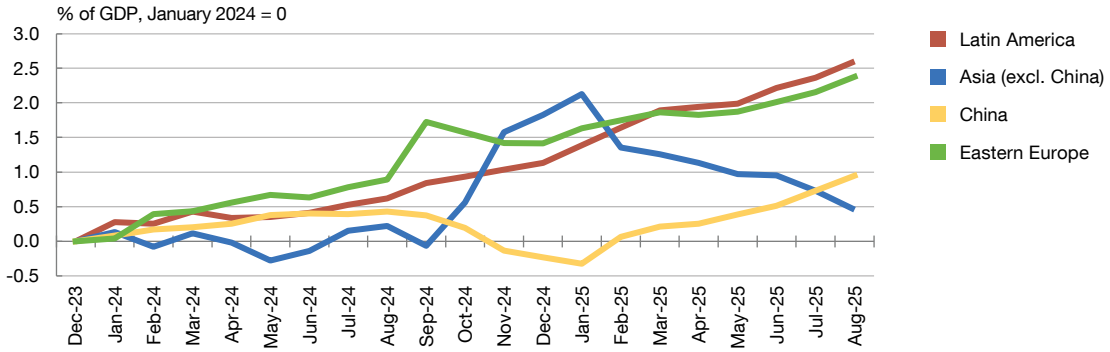
14 Portfolio capital continued to flow into the region

— In contrast to Asia, portfolio capital continued to enter the region, with cumulative inflows of nearly 2.5 pp of GDP in 2024 and the first eight months of 2025 (Chart 14.a).

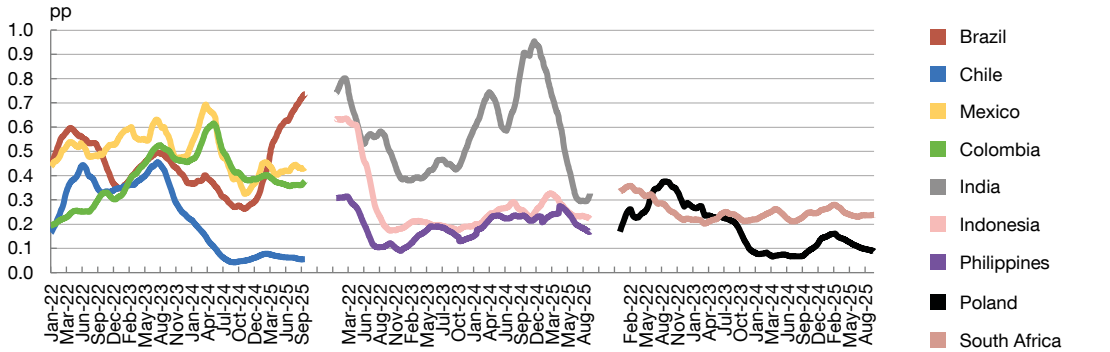
— This could largely be attributed to carry trade returns,[22] which remain among the most attractive in the emerging markets segment, with Brazil standing out in particular (Chart 14.b).

Chart 14

14.a Portfolio capital flows



14.b Carry trade return indicator (a)



SOURCES: Banco de España, IIF and LSEG Datastream. Latest data: 25 September 2025 (carry trades) and August 2025 (capital flows).

a Calculated as the ratio between the interest rate spread between 1-month deposits in the national currency and in US dollars, and the exchange rate volatility of each currency against the dollar.

DOWNLOAD

22 In a carry trade strategy investors capitalise on interest rate spreads between economies with broad and deep markets, borrowing in a low-interest rate currency to buy assets in a country with higher interest rates.

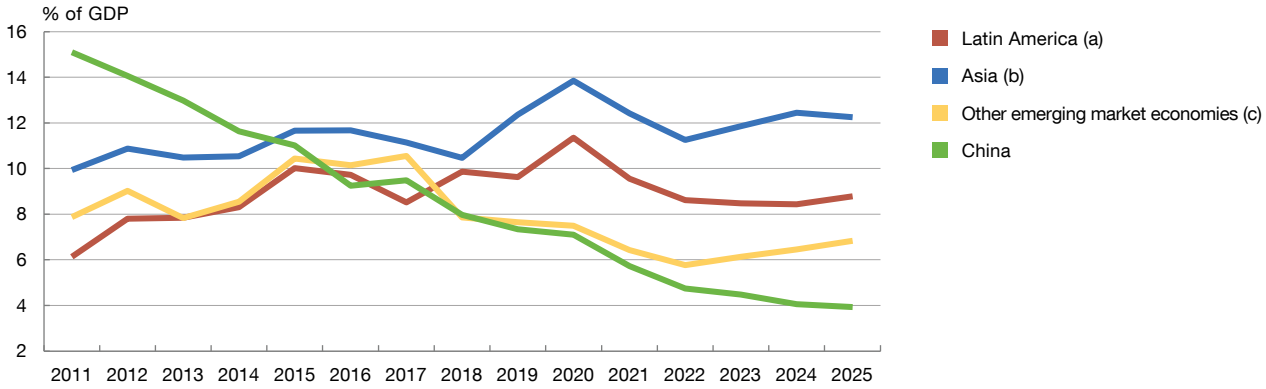
15 Latin America is shown to be highly vulnerable to fluctuations in the dollar and US interest rates

— The region remains highly exposed to the US dollar, increasing its sensitivity to changes in international financial conditions. For instance, a depreciation of the dollar (as we are currently witnessing) would lower the value of the region's assets in dollars, while an abrupt appreciation or an unexpected increase in US interest rates could trigger liquidity tensions, raising debt servicing costs and hindering access to external financing. Box 3 examines Latin America's financial safety net in times of global uncertainty.

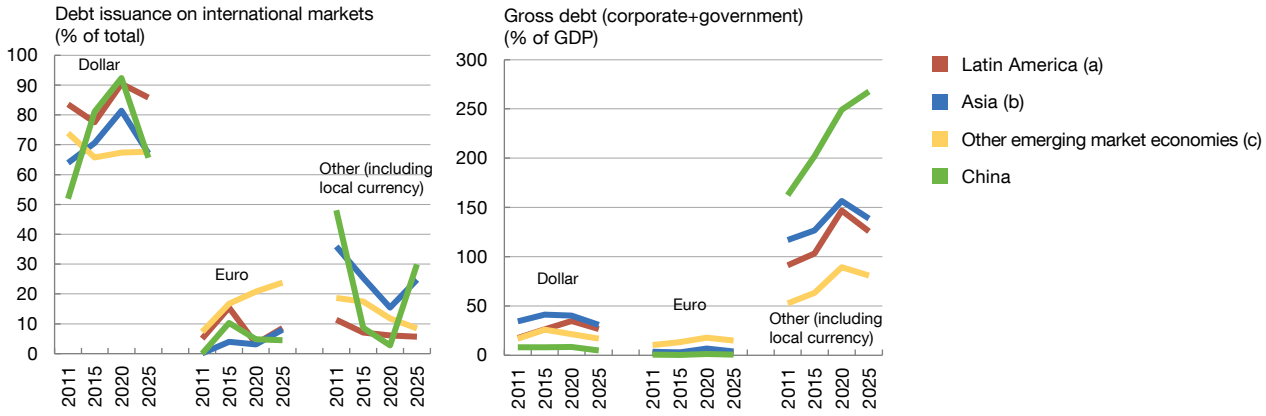
— Holdings of US public debt edged up in 2024 and 2025, to stand at around 9 pp of GDP (Chart 15.a). The region continues to issue dollar-denominated debt on international markets (90% of the total) (Chart 15.b, left-hand panel). Despite the predominance of local currency-denominated debt among private agents and governments, Latin America has one of the highest proportions of dollar debt (Chart 15.b, right-hand panel), leaving it more vulnerable to external shocks and underscoring the need for stronger risk management mechanisms to preserve financial stability.

Chart 15

15.a Holdings of US Treasury bonds



15.b Debt by currency denomination



SOURCES: The US Department of the Treasury, Dealogic and IIF. Latest data: June 2025 (Treasury International Capital), September 2025 (issuances) and 2025 Q1 (debt).

a Argentina, Brazil, Chile, Colombia, Mexico, Peru.
b Hong Kong, India, Indonesia, South Korea, Malaysia, Singapore, Thailand.
c Czech Republic, Hungary, Israel, Poland, Russia, Saudi Arabia, Türkiye, Ukraine.

DOWNLOAD

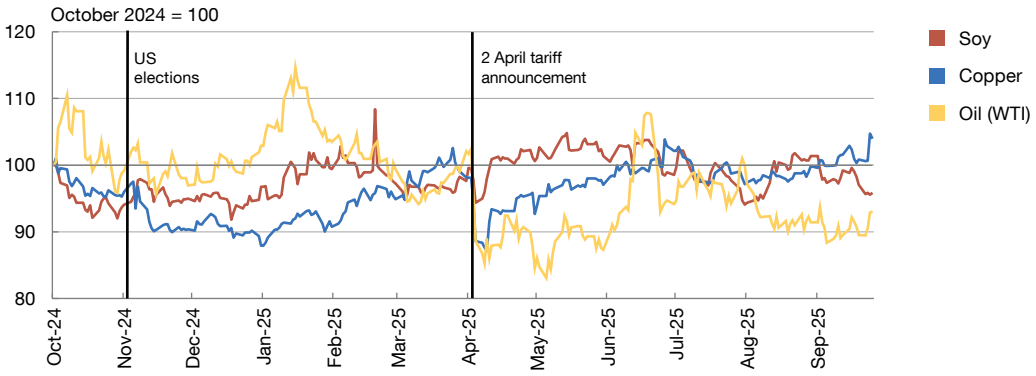
16 The region's main export commodities saw diverging price trends

— Geopolitical tensions in the Middle East and higher tariff barriers have significantly affected commodity prices, especially oil, by dampening the global growth outlook and thus weakening demand. Moreover, the new US budget law, which has proven less adverse to renewable energy than previously thought (for instance, it includes no new taxes on renewables and envisages a more gradual phase-out of renewable energy subsidies than expected), has also influenced recent oil price dynamics.

— Against this background, the region's main export commodities showed contrasting price movements. On the one hand, soy prices increased markedly (by 4.8% between January and August), as did metal ore prices (by 11.6% to 2 April, before subsequently stabilising), partly explaining the currency appreciation in Brazil, Chile and Peru. On the other, oil prices have been highly volatile, with a cumulative decline of 10% since 2 April (Chart 16.a).

Chart 16

16.a Prices of the region's main export commodities



DOWNLOAD

SOURCE: LSEG Datastream. Latest data: 25 September 2025.

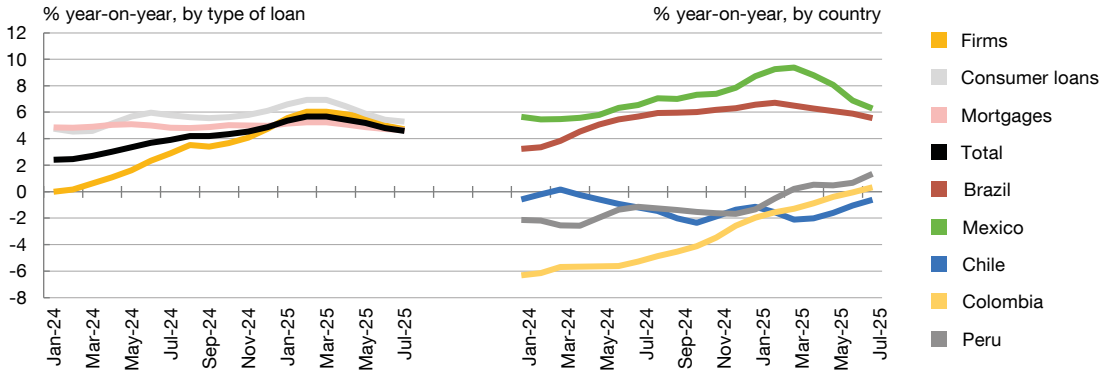
17 Lending slowed due to lower demand and tighter credit conditions in the consumer and mortgage lending segments

— Real credit growth in Latin America decelerated during the period under review, with all segments converging towards year-on-year rates of close to 5% for the region as a whole (Chart 17.a). This moderation was most pronounced in countries where the monetary easing cycle slowed or reversed into tightening (such as Brazil). In Mexico, uncertainty over economic activity, linked to US tariffs, contributed to weaker credit growth.

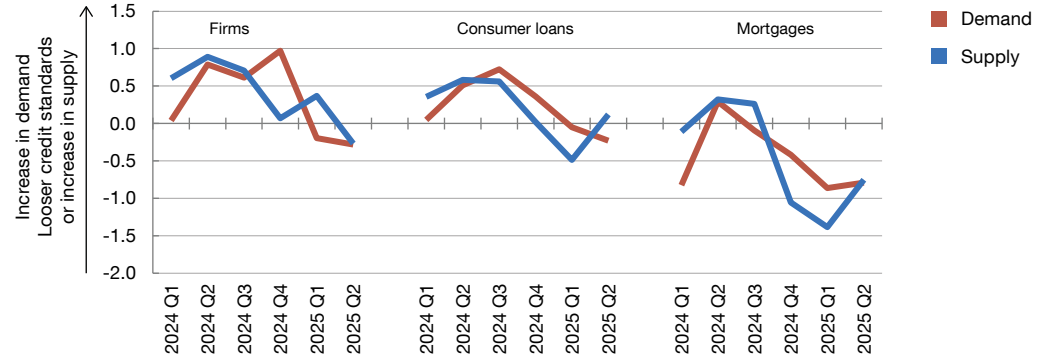
— The slowdown is expected to persist in the near term, as credit conditions have tightened substantially in the corporate segment, while perceived credit demand continues to decline (Chart 17.b). This is a reflection of financial agents' caution and the sensitivity of credit to changes in macroeconomic and business conditions.

Chart 17

17.a Changes in real credit to the non-financial private sector in Latin America (a)



17.b Credit conditions indices: Latin America (b)



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest data: June 2025 (credit) and 2025 Q2 (surveys).

a Aggregate of Brazil, Chile, Colombia, Mexico and Peru, with GDP in purchasing power parity terms.
b Aggregates calculated using GDP weightings in purchasing power parity terms.

DOWNLOAD

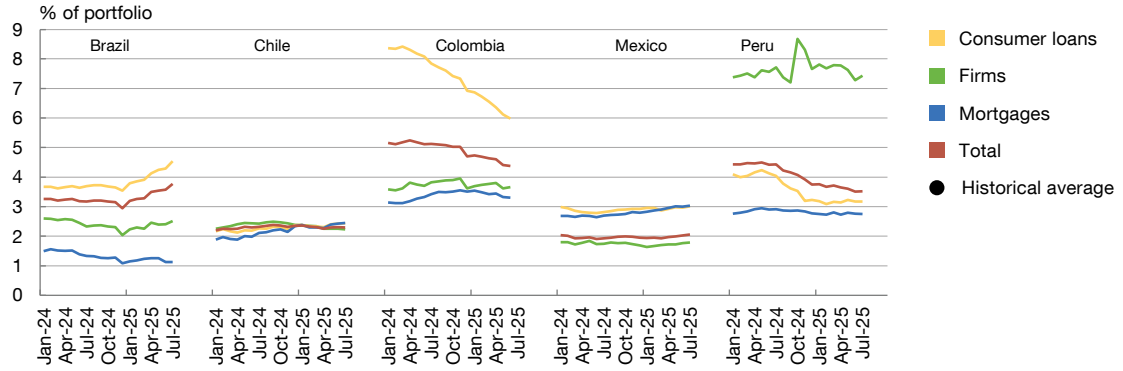
18 Banking strains are subdued, but specific risks persist in the region

— Stress indicators in the Latin American banking sector remained subdued during the period analysed. Non-performing loans began to decline in most countries, reflecting an improvement in credit quality, except in Brazil, where the credit cycle is in a more advanced phase (Chart 18.a). Also, the likelihood of a banking crisis in the coming quarters has decreased and remains far from the reference thresholds (Chart 18.b).

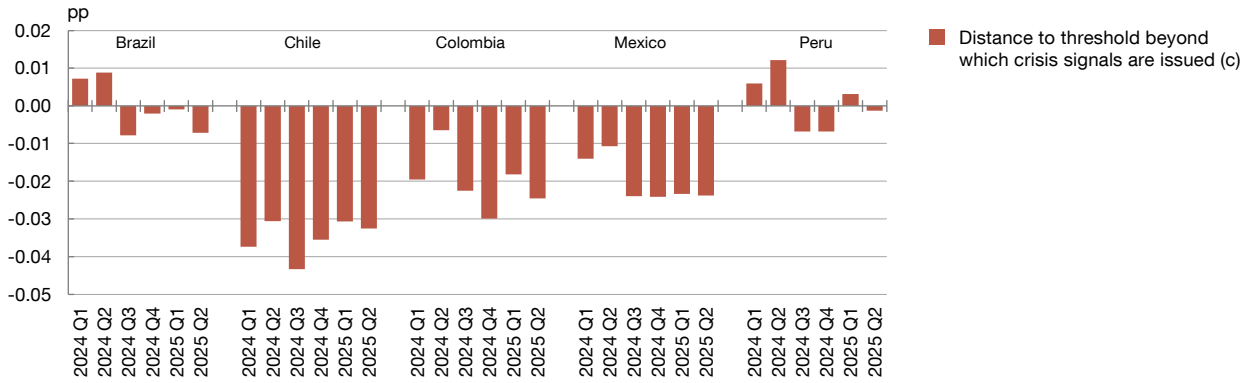
— Nonetheless, the central banks in the region identify several risks to the stability of their financial systems. These include external uncertainty and its potential effect on financing conditions, as well as idiosyncratic risks, such as high debt service costs for households in Brazil, possible fund withdrawals from pension fund administrators in Peru and greater climate risk materialisation in Brazil and Mexico (Figure 1).

Chart 18

18.a Non-performing loans (a)



18.b Vulnerability to a banking crisis (b)



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest data: July (non-performing loans) and 2025 Q2 (leading indicator of crises).

a Porcentage of gross loans. The dots denote the historical average (2015-2024) for each type of loan and each country.
b Likelihood of being in a vulnerable state, estimated using a logit probability model for banking crises with pre-selected variables based on the issuance of correct signals six quarters before a crisis (ROC curve threshold).
c The threshold is defined as the percentile beyond which the synthetic index has anticipated banking crises in the past. See Irma Alonso-Álvarez and Luis Molina. (2023). "How to foresee crises? A new synthetic index of vulnerabilities for emerging economies". *Economic Modelling*, Vol. 125(106304).

DOWNLOAD

19 Fiscal recovery is uneven across the different countries, with a surplus in Mexico and deterioration in Brazil and Colombia

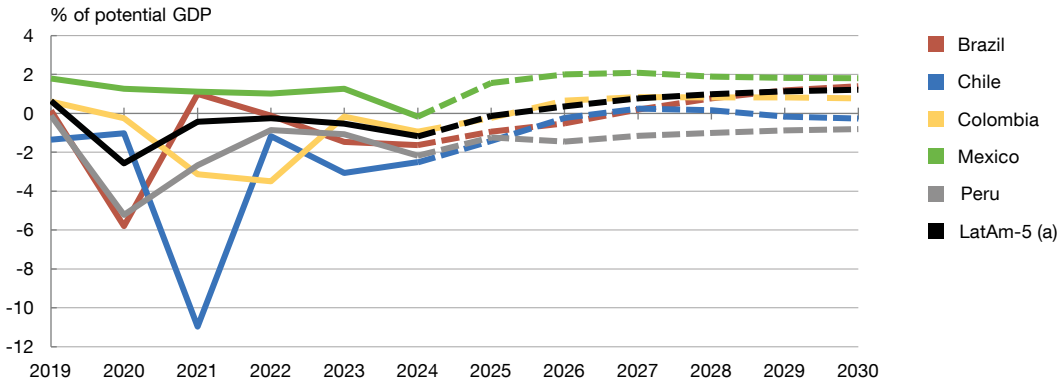
— After two consecutive years of deterioration in the primary structural balance of the main Latin American economies, an improvement is expected in 2025, driven by the large surplus in Mexico and the reduction of the deficit in the other countries (Chart 19.a). This positive trend could continue in the coming years, except in Peru, where the deficit will remain close to 1%. However, the projected path is less favourable than that estimated by the IMF in 2024.

— In Brazil, the budget deficit is expected to increase, possibly to 7.9% of GDP (Chart 19.b), mainly due to higher debt servicing payments. In Colombia, the IMF forecasts are more optimistic than those of the consensus, since they do not include the recent suspension of the fiscal rule between 2025 and 2027, which significantly increases the projected deficit. This decision has impacted the country's perceived credit quality. Thus, in June 2025 Moody's downgraded its credit rating to Baa3 (the lowest investment grade rating) and Standard & Poor's lowered it to BB (below investment grade).

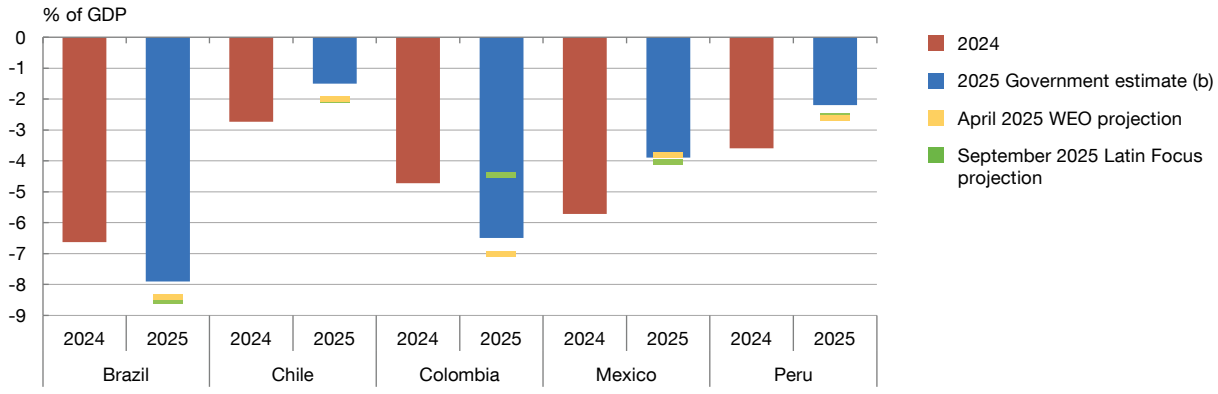
Chart 19

General government structural primary balance and budget balance projections

19.a Structural primary balance. April 2025 WEO



19.b Budget balance



SOURCES: IMF, Consensus Forecasts and Government targets.

a Aggregate of Brazil, Chile, Colombia, Mexico and Peru, weighted by GDP in PPP.
b Brazil's target is a primary balance of 0% with a +/- 0.25 pp tolerance band. For this chart, the target is obtained as the April 2025 WEO interest payment projection which is added to the primary balance target. For Chile, the 2025 Q2 "Public Finances Report" figure is used. For Colombia, the target is the 2025 Medium-Term Fiscal Framework projection for the non-financial public sector. For Mexico, the target is the public sector financial requirements in the "2026 Preliminary General Economic Policy Guidelines". The target for Peru was obtained from the "*Informe de Programación Multianual Presupuestaria 2025-2027*".

DOWNLOAD

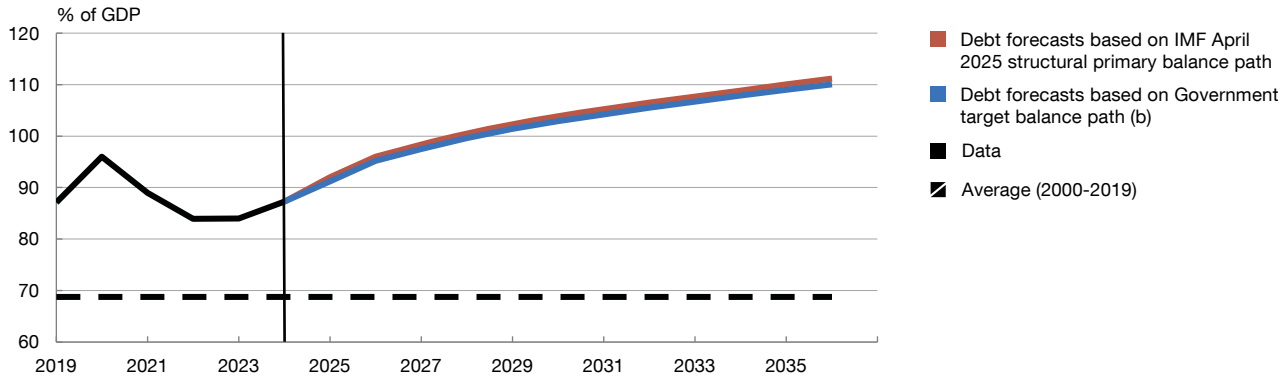
20 Brazil's high level of debt stands out

— Brazil's public debt reached 87.3% of GDP in December 2024, well above the levels recorded in the other main Latin American economies: Colombia (61.3%), Mexico (58.4%), Chile (42%) and Peru (32.8%).[23] However, the share of public debt in foreign currency as a percentage of total public debt is significantly lower in Brazil (6%), compared with Peru (46%), Chile (36%), Colombia (34%) and Mexico (16%), which reduces its exposure to exchange rate risk.

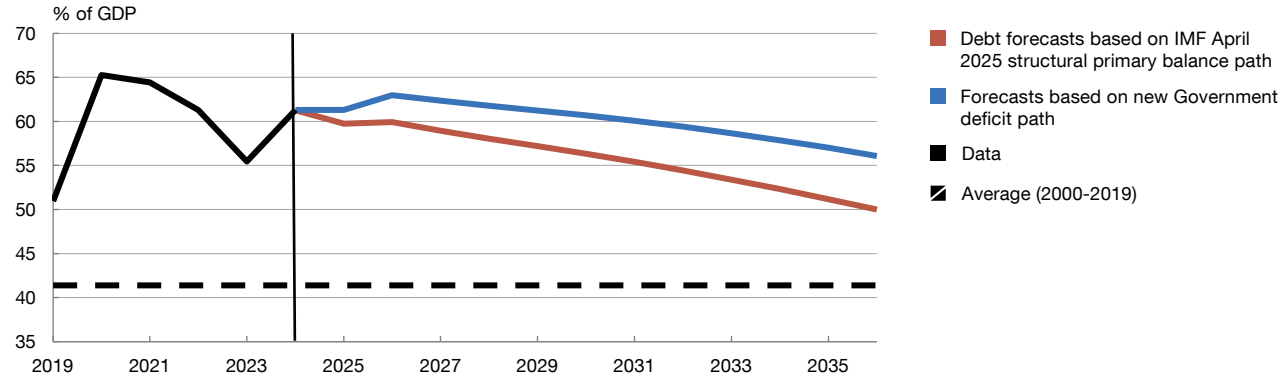
— Simulations of public debt for Brazil and Colombia reflect a more negative picture in 2036, mainly owing to a higher primary structural deficit than expected for 2026. In the case of Brazil, debt would continue on an upward trajectory, standing at around 110% of GDP in 2036. In Colombia, it would decline more slowly (to 55% of GDP in 2036) considering the higher debt accumulation envisaged by the Government in the 2025 Medium-Term Fiscal Framework, which is consistent with a higher public deficit (Charts 20.a and 20.b).

Chart 20
Projections of public debt over the next decade (a)

20.a Brazil



20.b Colombia



SOURCES: Banco de España, LSEG Datastream, IMF and World Bank.

a Taking the IMF's April 2025 WEO debt projection as a baseline and applying in differentials the Government's projected increase in debt consistent with the new public deficit path in the 2025 Medium-Term Fiscal Framework.
b The Government target is a primary balance of 0% for 2025 and 0.25% of GDP for 2026. The difference compared with the IMF forecast is applied as a reduction in debt in 2025 and 2026.

DOWNLOAD

23 Source: IMF April 2025 World Economic Outlook.

21 The Argentine economy grew at a very moderate pace in 2025 H1, while inflation continues to drop and the fiscal surplus holds

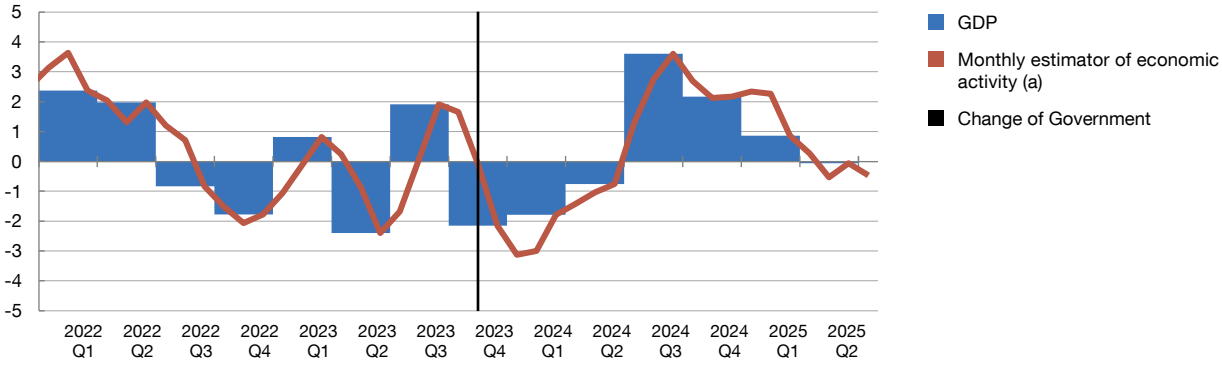
— Argentina's economic activity slowed in 2025 H1, following the strong pick-up recorded in 2024 H2 (Chart 21.a). This slower pace of growth was largely due to stalling real wages and higher real interest rates, which led to a contraction in private consumption and investment. Also, exports, which were the main driver of growth in 2024, fell in this period, further weakening the external sector's contribution to economic activity. On the supply side, the Government continued to apply structural reforms aimed at improving the economy's competitiveness (Table 3).

— Inflation continued on a downward trend, standing at 1.9% in August 2025 (Chart 21.b). However, upside risks persist in relation to exchange rates and the prices of regulated and subsidised goods and services.

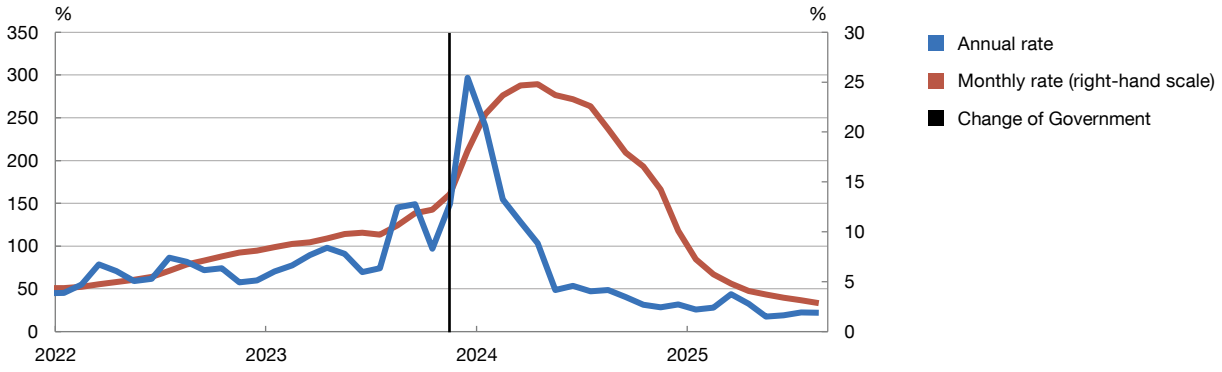
— The Government accumulated a primary surplus of 1% in 2025 H1, a path similar to that of 2024 (1.2%), thanks to lower public expenditure (given the cuts in government investment and transfers to provinces), downsizing of the public sector and progressively reducing energy, transport and water subsidies.

Chart 21
Economic activity and inflation in Argentina

21.a Economic activity



21.b Inflation



SOURCES: LSEG Datastream and national statistics.

a The monthly estimator of economic activity (EMAE, by its Spanish initials) is an economic activity index published by Argentina's National Institute of Statistics and Censuses (INDEC), and is considered a sound leading indicator of Argentina's GDP.

DOWNLOAD

Table 3
Main structural reforms intended to boost market access and competition (December 2023 to October 2025) (a)

Date	
	Public sector reforms and streamlining of bureaucracy
Jul-2024 Law 27.742	Grants the Executive powers to close or restructure public sector entities, albeit with multiple exceptions relating to science, technology, culture, national parks and food safety. Allows the total or partial privatisation of state-owned enterprises (except the national airline, postal services and the national public broadcaster) and broadens the range of civil works for which concessions can be granted to private firms.
	Quick, simple, effective and efficient administrative interactions; the right to submit and produce proof, to be heard and receive notification of a decision in a reasonable time frame. Introduces the principle that a lack of administrative response from a Government body amounts to acceptance.
Jul-2025 General Resolution 1073/2025	Streamlines procedures for firms wishing to seek financing on the capital market.
Aug-2024 Decree 747/2024	Repeals four earlier decrees (from 2012 and 2021) that required the State to purchase fuel, insurance, travel, banking services, etc. exclusively from certain state-owned enterprises (YPF, Aerolíneas Argentinas, Banco Nación, etc.). Those privileges are removed, allowing the State to enter into contracts for such goods and services by means of public tenders with private suppliers.
Aug-2025 Resolution 1199/2025	Provinces, municipalities and the city of Buenos Aires can continue projects by taking over the financing of civil works when the State does not cover the expected outlay.
	Labour reform
Jul-2024 Law 27.742	Introduces a simplified system to register workers, eliminates fines for unregistered employment and allows alternative severance schemes. Decentralises collective bargaining, fostering agreements at firm or productive unit level instead of large sector-level bargaining, which included all firms indiscriminately.
	Investment and sectoral reforms
Jul-2024 Law 27.742	New investment regime (Incentive Regime for Large Investments, RIGI): intended to promote large-scale energy, mining, oil and gas, steel, infrastructure, forestry, tourism and technology projects.
	Energy: grants energy firms greater latitude, expanding options for energy exports, lifting price controls and easing limits on liquefied natural gas exports.
Jul-2024 Decree 599/2024	Liberalises the aviation market: removes the requirement for public hearings for new airlines to enter the market, allows foreign aircraft to operate domestic flights and deregulates airfares.
Oct-2024 Decree 883/2024	Total deregulation of medium and long-distance passenger transportation. Scraps exclusive concessions, quotas and frequency requirements, allowing unfettered competition on inter-jurisdictional routes.
Jan-2025 Decree 46/2025	Deregulates petrol stations. Allows the setting of different prices for self-service fuel pumps.
Jul-2025 Law 27.742	Creates the National Regulatory Entity for Gas and Electricity (Ente Nacional Regulador del Gas y la Electricidad), which combines the functions of ENARGAS and ENRE in a single body.
Jul-2025 Decree 461/2025	Dissolves three transport bodies. The newly created Agency for the Control of Public Transport Concessions and Services will be responsible for overseeing all the country's urban, suburban and railway land transport services.
Aug-2025 Decree 538/2025	Food sector: streamlines processes, reduces administrative structures and accelerates the update of the Argentine Food Code.
	Trade liberalisation
Dec-2023 Resolution 1/2023	Simplifies imports: eliminates the automatic and non-automatic licence regime, removing the need to process SIRA permits.
Aug-2024 Decree 697/2024	Eliminates taxes on exports of certain agricultural products.
Oct-2024 Decree 908/2024	Reduces import tariffs. Moreover, General Resolution 5587/2024 repeals General Resolution 4710/2020, which established precautionary reference values for exports.
Dec-2024 The validity of Law 27.541 is not renewed	Expiration without extension of the 7.5% PAIS tax on imports.
May-2024 Resolution 302/2024	Eliminates quotas on wheat and maize exports.
Jan-2025 Decree 33/2025	Reforms the anti-dumping system: limits the maximum duration of measures to five years.
Sept-2025 Resolution 357/2025	Domestic trade: eliminates 27 rules complementing the Supply Law, which together allowed for price controls, required firms to produce at maximum capacity and requested information with no specific purpose.
Oct-2025 Resolution 546/2025	Simplifies transport imports. Accepts environmental certifications of high-standard international bodies and already approved certificates from accredited local laboratories on a model-by-model basis.

SOURCES: Ministerio de Desregulación y Transformación del Estado Argentino and OECD (2025). OECD Economic Surveys: Argentina 2025, OECD Publishing. https://doi.org/10.1787/27dd6e27-en.

a 418 deregulation measures have been approved in total to August 2025; https://www.argentina.gob.ar/desregulacion.

22 In Argentina, the exchange rate became more flexible, although high risks to stability persist

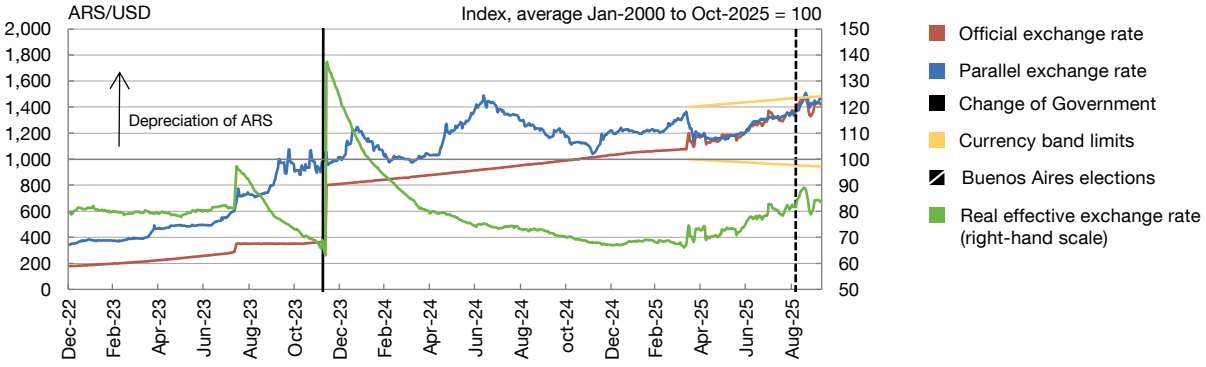
— On 11 April 2025 the Argentine Government replaced the crawling peg against the dollar with a currency band for the official exchange rate.[24] Since then, the gap with the parallel exchange rate has practically disappeared, but strong depreciation pressures have arisen (Chart 22.a).[25]

— Indeed, the rising political uncertainty prior to the legislative elections of 26 October intensified these pressures and the peso reached the upper limit of the currency band, despite the Government having approved a temporary elimination of the tax on certain agricultural exports and the central bank having sold dollars. At the cut-off date for this report, the United States Treasury also intervened to defend the peso and finalised a $20 billion currency swap agreement with Argentina's central bank, to which the markets reacted positively, allowing the peso to move back within the currency band set. Moreover, the US Secretary of the Treasury noted that he was prepared to take whatever exceptional measures were warranted to provide stability to markets.

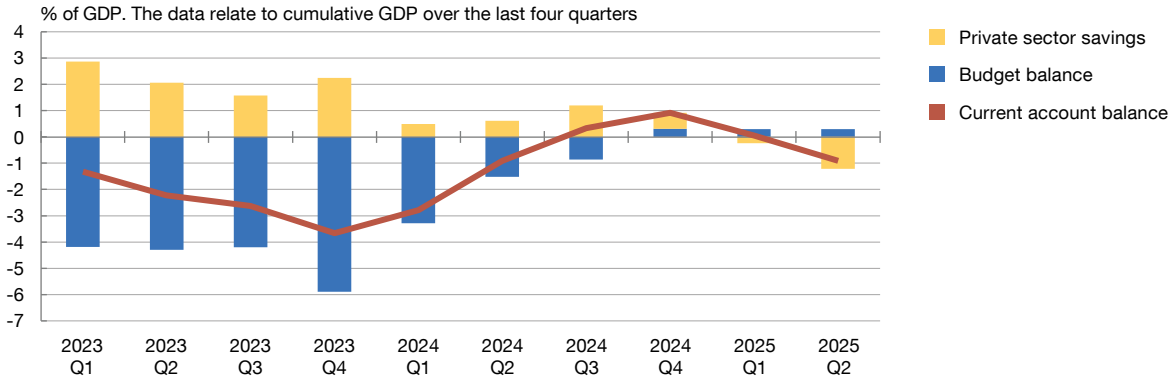
— The failure to build-up reserves is especially worrisome, considering the worsening current account balance. In the past the public deficit was only partially offset by private saving and, as a result, the current account recorded a deficit. However, on this occasion the public sector balance is not negative, which could mitigate external sustainability risks (Chart 22.b).

Chart 22
Financial markets in Argentina

22.a Exchange rates



22.b Current account balance, budget balance and savings



DOWNLOAD

SOURCES: Banco Central de la República Argentina and LSEG Datastream.

24 The currency band was set at 1,000 to 1,400 Argentine pesos per US dollar, with monthly adjustments of 1% to both the floor and the ceiling. This allowed the peso to fluctuate within a range.

25 The Government also announced that it would not intervene in the exchange market unless the ceiling of the band were reached, prioritising price stability. In addition, the Government relaxed some capital controls.

Table 4

Latin America: main economic indicators

	2007-2023 average	2024	IMF forecasts (April 2025 WEO)			2023		2024				2025	
			2025	2026	2027	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP (change on previous period) (a)													
Latin America and the Caribbean (b)	2.0	2.4	2.2	2.4	2.7	0.5	0.1	0.3	0.6	1.2	0.3	0.8	0.4
Argentina	1.5	-1.7	5.5	4.5	4.0	1.9	-2.2	-1.8	-0.8	3.6	2.2	0.9	-0.1
Brazil	2.0	3.4	2.3	2.1	2.2	0.1	0.3	0.9	1.5	0.8	0.1	1.3	0.4
Mexico (c)	1.5	1.4	0.2	1.4	2.1	0.6	0.4	0.0	0.1	0.9	-0.6	0.3	0.6
Chile	2.9	2.6	2.0	2.2	2.3	1.2	-0.3	1.4	-0.6	1.7	0.6	0.8	0.4
Colombia (c)	3.5	1.7	2.4	2.6	2.8	-0.2	0.7	0.5	0.3	0.4	1.3	0.3	0.5
Peru	4.0	3.3	2.8	2.6	2.5	0.0	0.8	1.0	1.3	0.8	1.3	0.3	0.5
CPI (year-on-year rate) (a)													
Latin America and the Caribbean (b)	6.8	16.6	7.2	4.8	3.9	5.5	5.1	4.7	4.5	4.7	4.6	4.4	4.7
Argentina	27.9	219.9	35.9	14.5	9.4	125.9	172.8	273.5	278.7	234.2	154.4	68.0	43.3
Brazil	5.8	4.4	5.3	4.3	3.4	4.6	4.7	4.3	4.0	4.4	4.8	5.0	5.4
Mexico	4.5	4.7	3.5	3.2	3.0	4.6	4.4	4.6	4.8	5.0	4.5	3.7	4.2
Chile	4.2	3.9	4.4	3.2	3.0	5.6	4.6	4.0	4.1	4.5	4.5	4.8	4.4
Colombia	4.8	6.6	4.7	3.1	3.0	11.4	10.0	7.8	7.2	6.3	5.3	5.2	5.0
Peru	3.4	2.4	1.7	1.9	2.0	5.5	3.7	3.1	2.2	2.0	2.1	1.5	1.7
Budget balance (% of GDP) (a) (d)													
Latin America and the Caribbean (b)	-4.0	-4.7	-4.7	-4.0	-3.4	-5.3	-6.0	-6.2	-6.6	-6.4	-5.9	-5.4	-5.1
Argentina	-3.9	-6.0	0.4	1.4	1.8	-4.2	-5.9	-3.3	-1.5	-0.9	0.3	0.3	0.3
Brazil (e)	-5.3	-8.9	—	—	-6.3	-7.5	-8.8	-9.0	-9.8	-9.2	-8.5	-7.9	-7.3
Mexico (e)	-3.1	-3.8	—	—	-2.9	-4.4	-3.8	-5.0	-5.1	-5.3	-5.5	-4.2	-4.2
Chile	-1.2	-2.4	-2.0	-1.1	-0.7	-2.3	-2.4	-3.4	-3.6	-3.7	-2.8	-2.7	-2.7
Colombia	-3.0	-3.3	-4.4	-3.3	-3.0	-3.4	-4.2	-4.3	-6.7	-6.9	-6.7	-7.8	-7.2
Peru	-1.0	-3.5	-2.5	-2.3	-1.8	-3.5	-3.5	-4.0	-4.0	-4.4	-3.9	-3.7	-3.7
Public debt (% of GDP) (a)													
Latin America and the Caribbean (b)	57.8	70.0	71.1	71.9	72.2	63.1	65.9	64.9	67.2	66.4	67.4	68.4	—
Argentina	67.3	-	73.1	68.2	65.1	69.0	85.6	70.0	72.1	69.4	67.9	70.2	—
Brazil	73.6	87.3	92.0	96.0	98.1	81.1	84.0	84.5	87.6	84.9	87.3	88.1	89.8
Mexico (e)	48.0	58.4	—	—	61.1	48.6	47.2	49.2	50.9	53.0	53.3	54.5	53.7
Chile	19.8	42.0	43.0	43.4	43.2	38.9	39.4	40.1	40.8	41.3	41.6	41.7	41.3
Colombia	46.3	61.3	59.7	59.9	59.9	55.1	54.7	55.5	58.3	58.4	59.9	60.3	61.4
Peru	27.1	32.8	33.7	34.7	35.5	31.9	32.4	31.7	32.1	32.0	32.1	31.1	31.8
Current account balance (% of GDP) (a) (d)													
Latin America and the Caribbean (b)	-1.9	-0.9	-1.1	-1.4	-1.4	-1.8	-1.4	-1.3	-1.2	-1.3	-1.5	-1.6	-1.8
Argentina	-1.0	-3.3	-0.4	-0.3	0.2	-2.4	-3.2	-2.4	-0.8	0.3	0.9	0.0	-1.0
Brazil	-2.5	-1.4	-2.3	-2.2	-2.1	-1.6	-1.2	-1.2	-1.5	-2.2	-3.0	-3.5	-3.6
Mexico	-1.1	-0.3	-0.5	-1.1	-1.2	-1.1	-0.7	-0.9	-1.0	-1.1	-0.9	-0.2	-0.1
Chile	-3.2	-3.5	-2.1	-2.4	-2.7	-3.8	-3.1	-3.1	-2.8	-1.8	-1.5	-1.8	-2.2
Colombia	-3.8	-2.7	-2.3	-2.4	-2.8	-3.2	-2.2	-1.9	-1.6	-1.6	-1.7	-1.8	-2.1
Peru	-2.0	0.6	1.7	1.3	0.4	-0.7	0.3	1.0	1.4	2.1	2.2	2.2	1.9
External debt (% of GDP) (a)													
Latin America and the Caribbean (b)	27.9	32.3	—	—	—	32.9	32.8	32.9	32.4	33.5	32.5	33.6	34.1
Argentina	41.6	43.5	—	—	—	42.5	43.5	45.8	46.2	45.9	43.8	41.5	43.5
Brazil	29.6	33.0	—	—	—	33.8	33.3	33.2	32.7	34.3	32.9	34.8	35.8
Mexico	12.4	11.9	—	—	—	11.4	11.3	11.7	11.1	12.3	12.5	14.1	13.1
Chile	57.6	74.2	—	—	—	71.0	72.6	73.5	75.2	78.3	74.2	75.5	76.3
Colombia	35.4	48.1	—	—	—	54.7	53.3	50.4	48.2	47.8	48.1	48.1	49.0
Peru	25.9	36.8	—	—	—	38.3	38.6	37.9	37.3	38.2	36.8	36.6	36.8
MEMORANDUM ITEMS: Aggregate of emerging market economies excluding Latin America and China (IMF, April 2025 WEO)													
GDP (year-on-year rate)	4.1	4.3	4.1	4.2	4.4								
CPI (year-on-year rate)	7.6	10.1	8.2	6.7	5.6								
Budget balance (% of GDP)	-2.9	-4.6	-5.0	-4.8	-4.5								
Government debt (% of GDP)	43.4	58.4	61.0	62.8	63.6								
Current account balance (% of GDP)	0.9	0.5	-0.4	-0.6	-0.5								
External debt (% of GDP)	27.1	26.5	27.0	26.8	—								
Share of global GDP, in PPP (%)	31.2	33.4	33.8	34.2	34.6								

SOURCES: IMF, LSEG Datastream, Latin Focus and national statistics.

a Latin America and the Caribbean account for 7.3% of global GDP measured in PPP. The six economies shown account for 84% all Latin America and the Caribbean (IMF).
b Quarterly data, aggregate of the six main economies (Argentina, Brazil, Chile, Colombia, Mexico and Peru), and for inflation, aggregate excluding Argentina.
c Seasonally adjusted series.
d 4-quarter moving average.
e Annual IMF forecasts are not shown since they are not comparable with quarterly data from national sources.

Figure 1

Recent developments in Latin American banking systems and risks to financial stability according to the region's central banks (a)

BRAZIL

Political/ geographical risk

Climate-related risks materialised more in 2024 than in 2023, but their impact on the sector was very minor.

Credit risk

Despite a new tightening cycle getting under way, lending to the riskier segments and lower-income borrowers has continued to grow.
Households' and firms' ability to pay remains under pressure: even amid improving incomes, high employment and economic resilience to external and monetary policy shocks, households' debt service-to-income ratio has risen to all-time highs. For their part, firms are highly leveraged, with their ability to pay squeezed by tighter financial conditions. In any event, the current monetary policy tightening cycle is expected to have a lesser impact than the previous one (2015-2016).

International risk

The new US Administration's policies, including uncertainty over its trade policy and the effects thereof.

Resilience of the financial and fiscal system

Banks are facing growing fiscal and debt sustainability risks. The regulatory changes introduced in January 2025 (which essentially increased the sector's provisions and changed risk-weighted assets calculations) should not lead to additional capital allocations.
The stress testing exercise indicated that nearly 40% of the sector would face restrictions on distributing profits under an adverse scenario.

Foreign exchange risk

The end of banks' exchange rate "overhedge" (intended to protect the value of their shares from exchange rate fluctuations) significantly reduced exchange rate volatility in both 2021 and 2022.

CHILE

Political/ geographical risk

Renewed geopolitical and trade tensions.

Credit risk

Household financial indicators have improved, especially for low-income households, while mortgage default indicators are trending towards the historical average. Corporate debt has declined.
Low direct exposure to the export sectors hardest hit by US tariffs.

International risk

A shift in global risk could exert pressure on financing conditions in emerging market economies, leading to capital outflows.
The reduced depth of capital markets relative to previous episodes could weaken the capacity to buffer financial variables against such abrupt changes.

Resilience of the financial and fiscal system

Persistent structural deficits over several years have eroded fiscal slack and increased public debt.
In the medium term, the pension system reform could support household saving and enhance the liquidity and depth of the capital markets.

COLOMBIA

Political/geographical risk

The possible introduction of sanctions by the United States could significantly limit access to international financing and payments in US dollars. Such measures could include the freezing of assets held by individuals, firms or government entities in US territory, restrictions on bank transactions with US counterparties and barriers to external financing in foreign currency, especially in dollars.

Credit risk

Although defaults have decreased, credit risk among firms, especially small ones, continues to rise, linked in particular to the potential adverse effects of protectionist trade policies.

International risk

Uncertainty over global economic dynamics has increased significantly, against a backdrop of protectionist trade policies and geopolitical conflicts.

Resilience of the financial and fiscal system

Higher government debt holdings, combined with greater fiscal uncertainty, could negatively impact the value of local financial institutions' investment portfolios.
Despite improving recently, credit institutions' profitability remains at historically low levels, affected by the heightened uncertainty.

Foreign exchange risk

Most corporate foreign currency debt is covered by mechanisms to mitigate exchange rate risk.
However, the high share of such debt heightens the sector's vulnerability, since depreciation would undermine ability to pay.

SOURCE: Banco de España.

a The information reflects the main risks discussed in the financial stability reports of Brazil (April 2025), Mexico (June 2025), Chile (2025 H1), Colombia (August 2025) and Peru (May 2025).

Figure 1

Recent developments in Latin American banking systems and risks to financial stability according to the region's central banks (a) (cont'd)

PERU

Political/ geographical risk

Rising geopolitical risks, in particular trade tensions between the United States and China due to tariffs.

Credit risk

Mitigation of credit risk owing to a moderate recovery in the lower-risk sectors (greater demand from larger firms and stabilisation of the retail portfolio).
Less economic growth due to a potential global economic slowdown could lead to firms postponing their investment decisions, affecting their profitability (lower value of equity securities) and reducing domestic savings (less demand for fixed-income assets).

International risk

Greater financial market volatility owing to geopolitical issues which, if heightened, could trigger drastic adjustments in financial conditions, abrupt capital outflows in emerging market economies and, consequently, high interest rates for a longer period than expected by agents.

Resilience of the financial and fiscal system

Additional pension fund withdrawals, which would result in portfolio assets being less liquid. These would lose value given that pension fund administrators would need to make bulk sales to cover the withdrawals, exacerbating domestic capital markets' structural problems (low liquidity and shallowness).

Foreign exchange risk

The dollarisation of placements remains stable, thanks to macroprudential measures implemented in previous years to reduce the dollarisation of credit.

MEXICO

Political/ geographical risk

Impact of more restrictive trade policies and higher US tariffs. Possible abrupt capital movements due to greater volatility in the emerging market economies arising from geopolitical tensions.
Heightened climate change impact and greater implementation of artificial intelligence. Climate risks encompass both direct climate risks and those related to the energy transition.
Floods are particularly worrisome as they have a greater impact on corporate and mortgage lending.

Credit risk

The concentration of credit among a few creditors in the Mexican banking system could impact stability in the event of specific sectoral shocks. Possible increase in default rates arising from lower corporate earnings.

International risk

Trade tensions and protectionist measures have dampened the short and medium-term growth outlook, both globally and domestically.
International trade frictions could reconfigure the global value chains, reducing efficiency and adversely affecting the potential growth of the world economy.

Resilience of the financial and fiscal system

Unanticipated credit rating adjustments for Mexican sovereign debt issuers or other key domestic issuers such as Pemex. However, two of the main international credit rating agencies ratified their rating for Mexico's long-term foreign currency sovereign debt at levels consistent with investment grade.
The rating agencies consider the inclusion of Pemex, for the second year running, in the Federal Government budget to be "credit positive", given the level of support this entails. However, they also note that the firm has financial vulnerabilities.

Foreign exchange risk

Following the appreciation of the peso, greater volatility or abrupt exchange rate corrections could arise, affecting the banks and firms most exposed to exchange rate risk.

SOURCE: Banco de España.

a The information reflects the main risks discussed in the financial stability reports of Brazil (April 2025), Mexico (June 2025), Chile (2025 H1), Colombia (August 2025) and Peru (May 2025).

Box 1

EFFECTS OF THE TAX ON REMITTANCES FROM THE UNITED STATES TO CENTRAL AMERICA AND THE DOMINICAN REPUBLIC

Evelyn C. Badilla and Juan F. Izaguirre,[1] in collaboration with the authors of this report

Introduction

Remittances are particularly significant for most economies in Central America and the Dominican Republic (CADR), where they are one of the main sources of revenue in the current account balance. In several cases, they exceed earnings from exports and foreign direct investment. Aside from their macroeconomic weight, remittances play an essential role in household spending by invigorating sectors such as trade and construction[2] and by acting as a subsistence mechanism.[3] In addition, their stability, even in the setting of a global crisis (such as the COVID-19 pandemic), has helped to cushion external imbalances and to support the exchange rate.

Most remittances sent to the CADR region are from the United States,[4] which makes the recent change to US legislation on remittances, due to come into effect on 1 January 2026,[5] especially important. According to this change, a tax of 1% will be levied on certain types of remittances sent abroad. This measure will only affect cash remittances transferred via money orders or cashiers' cheques and will not include transfers from bank accounts or funded with a credit or debit card issued in the United States. The tax will be paid by the sender when the money is transferred and could particularly impact migrants who have limited access to formal banking systems and usually send cash.[6]

The effect of the tax on remittances

Different studies have identified factors influencing remittance flows such as the size of the diaspora,[7] the exchange rate[8] and the income level in the source country.[9] However, the effect of remittance costs has received less attention despite its potential importance. Orozco[10] indicates that lower costs may spur the sending of remittances, although elasticity to remittance costs is low.

Although a downward trend has generally been observed in the cost of sending remittances from the United States to countries in the CADR region in the last decade,[11] these costs remain very high (above 4%) and there are significant cross-country differences (Chart 1). For instance, the average cost of sending remittances to EL Salvador and Honduras is lower than the consistently higher costs of sending them to the Dominican Republic. This is because there are fewer formal operators, such as authorised banks and firms, which drives down competition and raises costs.

To analyse the effect of changes in these costs on remittances, Badilla and Izaguirre[12] use a panel of quarterly data from 2011 Q1 to 2025 Q1 for five countries in the CADR region (El Salvador, Guatemala, Honduras, Nicaragua and the

1 Evelyn C. Badilla and Juan F. Izaguirre are an economic statistics and database analyst and an economist, respectively, of the Executive Secretariat of the Central American Monetary Council (SECMCA).

2 Alina Carare, Alejandro Fiorito Baratas, Jessie Kilembe, Metodij Hadzi-Vaskov and Wenzhang Zhang. (2024). "The Joint Effect of Emigration and Remittances on Economic Growth and Labor Force Participation in Latin America and the Caribbean". IMF Working Papers, WP/24/175, International Monetary Fund.

3 According to the Banco Central de Reserva de El Salvador, 98.7% of remittances were used for household consumption in 2024. In Guatemala, the Encuesta sobre Migración Internacional de Personas Guatemaltecas y Remesas 2022 indicates that 58.4% were used for household spending and the remainder for investment, saving, health and education. In Honduras, 76.4% were spent on food, whereas a lower share was allocated to education, saving and investment.

4 Chart 2.a of Juan Carlos Berganza, María Pía Cobián González, María Teresa García Cid and Esther López Espinosa. (2025). "Remittances from Spain to Latin America: some key figures". *Economic Bulletin - Banco de España,* 2025/Q2, 01.

5 It is a provision of the One Big Beautiful Bill Act signed by the US President on 4 July 2025.

6 According to the nota de remesas published by CEMLA, the percentage of cash remittances sent from the United States ranges from 40% to 47% for Mexico and from 76% to 80% for Guatemala.

7 Richard H. Adams Jr. and John Page. (2005). "Do international migration and remittances reduce poverty in developing countries?". *World Development,* Vol. 33(10), pp. 1645-1669.

8 Dean Yang. (2008). "International migration, remittances and household investment: Evidence from Philippine migrants' exchange rate shocks". *The Economic Journal,* Vol. 118(528), pp. 591-630.

9 Dilip Ratha. (2003). "Chapter 7. Workers' remittances: An important and stable source of external development finance". In World Bank, *Global Development Finance 2003,* pp. 157-175.

10 Manuel Orozco. (2002). "Globalization and migration: The impact of family remittances in Latin America". *Latin American Politics and Society,* Vol. 44(2), pp. 41-66.

11 Thorsten Beck, Mathilde Janfils and Kangni R. Kpodar. (2022). "What Explains Remittance Fees? Panel Evidence". IMF Working Papers, WP/22/63, International Monetary Fund.

12 Evelyn C. Badilla Barrantes and Juan F. Izaguirre Silva. (2025). "Impacto del costo de envío en los flujos de remesas hacia Centroamérica y República Dominicana" Documento de Trabajo SECMCA-05-2025.

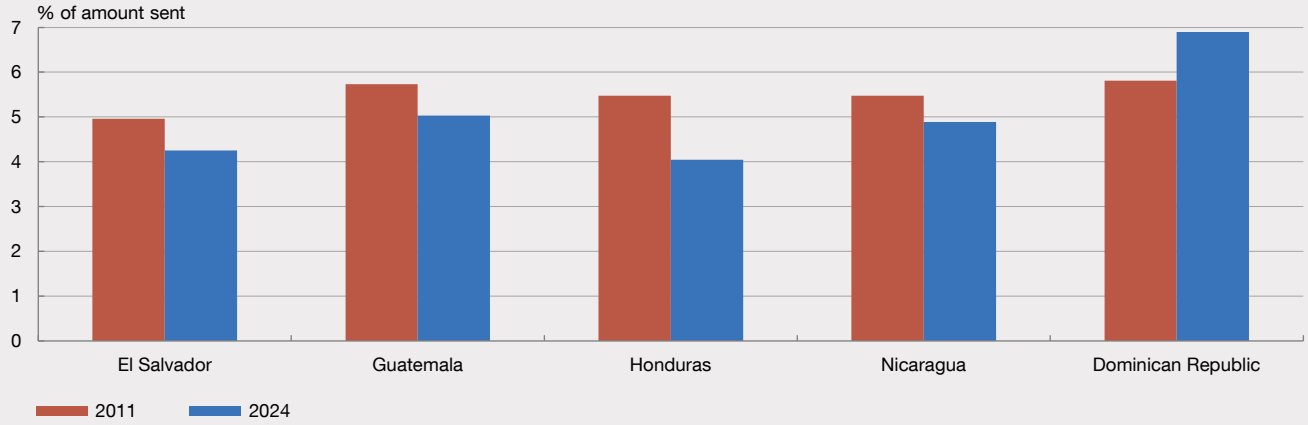
Box 1

EFFECTS OF THE TAX ON REMITTANCES FROM THE UNITED STATES TO CENTRAL AMERICA AND THE DOMINICAN REPUBLIC (cont'd)

Dominican Republic). The results show that a one percentage point (pp) increase in remittance costs (i.e. the same magnitude as the tax on certain remittance transfers approved in the United States) reduces the volume of remittances by 0.37% in the short term. If this increase in cost is persistent, the cumulative reduction may reach 1.21%.

Considering these results, cash remittances sent from the United States to the CADR region are not expected to be significantly affected by the new tax which will come into force on 1 January 2026. What is more, the effect will be mixed across countries and will be higher, the higher the share of cash remittances sent.

Chart 1
Average cost of sending US$200 from the United States



SOURCE: Authors' calculations drawing on World Bank data (Remittance Prices Worldwide).

Box 2

REMITTANCES, CONSUMER CREDIT AND NON-PERFORMING LOANS IN MEXICO

Martín Tobal,[1] in collaboration with the authors of this report

Introduction

Developing a sound and accessible financial system is essential for fostering economic growth and reducing poverty, especially in emerging market economies.[2] In this setting, remittances – money transfers sent by migrants to their families in their country of origin – have become increasingly important in Mexico. Indeed, more than 10% of households receive remittances and for 60% of these they constitute their first or second source of income.[3]

According to the economic literature, access to financial services encourages investment, smooths consumption in the face of shocks and contributes to social mobility.[4] In developing countries remittances can foster financial deepening, by increasing banking penetration and facilitating access to credit.[5] However, they have contrasting effects on debt: on the one hand they can serve as a guarantee and enhance borrowers' credit histories, incentivising bank lending, but on the other hand, as they ease liquidity constraints, they can also reduce demand for bank funding.[6]

This box analyses the impact of remittances on consumer credit and non-performing loans (NPLs) in Mexico, focusing particularly on the different effects by loan type and borrower profile.

Data and methodology

The analysis focuses on consumer credit, which includes personal loans, microcredits, loans for consumer durables (excluding cars), car loans and payroll loans. These products have different conditions in terms of interest rates, amounts and terms and can be split into two main segments:

- High-quality segment: car loans and payroll loans, which are generally larger, longer term and with lower interest rates.
- Low-quality segment: personal loans, microcredits and loans for consumer durables, which tend to be smaller, shorter term and with higher interest rates.

The information available covers 83% of fixed-term credit in Mexico and 96% of Mexican municipalities. The regional distribution (Table 1) shows that there is a higher proportion of low-quality loans and remittances in medium-high and high-poverty areas, and a higher proportion of high-quality loans in lower-poverty areas.

To estimate the impact of remittances on consumer credit and NPLs, a municipal-level panel data model is used, with half-yearly information for more than 2,000 municipalities between 2017 and 2019. Three dependent variables are analysed: outstanding credit, NPLs and the NPL ratio (NPLs to total outstanding loans).

The model includes half-year and municipality-year fixed effects and controls for state-level economic activity and real wages.[7] To address possible problems of reverse causality and unobserved factors, an instrumental variables specification is used, taking the unemployment rate in the United States (in particular, that of persons of

1 Martín Tobal is the Director of Macrofinancial Risk Analysis at the Banco de México. The views expressed do not necessarily reflect the position of that or any other institution. The results are based on David Heres, David Jaume, Everardo Tellez de la Vega and Martín Tobal. (2023). "Credit Use, Credit Delinquency Rates and Remittances". Mimeo, Banco de México, 21 October.

2 Ross Levine. (1997). "Financial Development and Economic Growth: Views and Agenda". *Journal of Economic Literature,* Vol. 35(2), pp. 688-726; Ross Levine, Norman Loayza and Thorsten Beck. (2000). "Financial intermediation and growth: Causality and causes". *Journal of Monetary Economics,* Vol. 46(1), pp. 31-77; and John H. Boyd, Ross Levine and Bruce D. Smith. (2001). "The impact of inflation on financial sector performance". *Journal of Monetary Economics,* Vol. 47(2), pp. 221-248.

3 According to the 2015 Intercensal Survey of the National Institute of Statistics and Geography (INEGI). Between 2016 and 2019, remittances grew on average by 10% per year. In 2019 they accounted for 2.9% of GDP and 4.5% of household spending. See Jesús A. Cervantes. (2019). "Las remesas y la medición de la pobreza en México". CEMLA.

4 Hossein Jalilian and Colin Kirkpatrick. (2002). "Financial development and poverty reduction in developing countries". *International Journal of Finance & Economics,* Vol. 7(2), pp. 97-108; World Bank. (2001). *World development report 2000/2001.* Oxford University Press; Robin Burgess and Rohini Pande. (2005). "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment". *American Economic Review,* Vol. 95(3), pp. 780-795; Dean Karlan and Jonathan Zinman. (2010). "Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts". *The Review of Financial Studies,* Vol. 23(1), pp. 433-464; and Abhijit Banerjee, Emily Breza, Esther Duflo and Cynthia Kinnan. (2019). "Can Microfinance Unlock a Poverty Trap for Some Entrepreneurs?". NBER Working Paper Series, 26346, National Bureau of Economic Research.

5 Reena Aggarwal, Asli Demirguc-Kunt and María Soledad Martínez Pería. (2011). "Do remittances promote financial development?". *Journal of Development Economics,* Vol. 96(2), pp. 255-264; and Diego Anzoategui, Asli Demirguc-Kunt and María Soledad Martínez Pería. (2014). "Remittances and Financial Inclusion: Evidence from El Salvador". *World Development,* Vol. 54, pp. 338-349.

6 Paola Giuliano and Marta Ruiz-Arranz. (2009). "Remittances, financial development, and growth". *Journal of Development Economics,* Vol. 90(1), pp. 144-152; and Christian Ambrosius and Alfredo Cuecuecha. (2013). "Are Remittances a Substitute for Credit? Carrying the Financial Burden of Health Shocks in National and Transnational Households". *World Development,* Vol. 46, pp. 143-152.

7 A state is a larger political-administrative unit that includes municipalities.

Box 2
REMITTANCES, CONSUMER CREDIT AND NON-PERFORMING LOANS IN MEXICO (cont'd)

Mexican origin) as an instrumental variable for remittances.[8] This approach makes it possible to isolate the exogenous variation in remittances stemming from US labour market shocks that affect the supply of remittances but not the demand for credit in Mexico.

Results

Effect of remittances on consumer credit. The results show that a 10% increase in the remittances received by a municipality drives up outstanding consumer credit by 1.8%. This positive impact is concentrated in the high-quality segment: a 10% increase in remittances prompts a 2.2% rise in outstanding consumer credit in this segment, while in the low-quality segment there is no significant impact. These results are presented in Table 2 (column (1)).[9]

Effect on NPLs. Remittances also help lower NPLs. A 10% increase in remittances reduces NPLs by 5.4% and the NPL ratio by 0.24 percentage points (pp). This effect is especially relevant in the low-quality segment, where NPLs fall by 8.3% and the NPL ratio by 0.44 pp. By contrast, no significant effect is detected in the high-quality segment (columns (2) and (3) of Table 2).

Differences by gender. Analysis by gender shows that remittances have a more marked impact on women, who are the main recipients of these transfers. A 10% increase in remittances drives up women's outstanding credit by 2.3%, which is almost double the growth in men's outstanding credit (1.4%). In addition, the decrease in NPLs is greater for women: NPLs decline by 7.3% and the NPL ratio by 0.29 pp, compared with a drop of 4% and of 0.18 pp, respectively, for men (panel C of Table 2).

Discussion and conclusions

The results obtained highlight the dual role that remittances play in the Mexican financial system: they complement soft loans, facilitating access to higher quality products, and help reduce NPLs, especially among the most vulnerable segments and among women. This mitigating effect on

Table 1
Regional coverage and distribution of remittances and consumer credit

	Coverage: municipalities		Distribution: proportion in municipalities by poverty level			
			Low	Medium-low	Medium-high	High
	Number	%	< 28%	(28%-40%)	(40%-57%)	> 57%
1 Population (Mexico)	2,457	100	25%	25%	25%	25%
2 Remittances	2,362	96	20%	19%	30%	30%
3 Low-quality credit segment						
Total	2,365	96	32%	27%	23%	17%
Microcredits	2,181	89	18%	25%	31%	25%
Consumer durables	2,197	89	18%	25%	32%	24%
Personal loans	2,359	96	35%	27%	21%	15%
4 High-quality credit segment						
Total	2,352	96	40%	29%	20%	9%
Payroll loans	2,266	92	45%	28%	17%	8%
Car loans	2,344	95	36%	29%	23%	10%
5 Mortgage loans	1,858	76	55%	28%	13%	3%

SOURCE: Author's calculations, drawing on information from the Banco de México, the Comisión Nacional Bancaria y de Valores and the INEGI.
NOTE: The low-quality segment groups together microcredits, personal loans and loans for consumer durables. The high-quality segment covers car loans and payroll loans. Municipalities are divided into four groups (quartiles) of equal population size based on poverty levels in 2015.

8 See the Table 2 footnote for more information on how the instrument is constructed.

9 In the first stage of the estimation, the effect on the volume of remittances of the instrument – the state-level unemployment rate of Mexican migrants in the United States relevant for each municipality – is estimated. Based on the usual contrasts, this effect is significant (see the Table 2 footnote for more details).

Box 2
REMITTANCES, CONSUMER CREDIT AND NON-PERFORMING LOANS IN MEXICO (cont'd)

credit risk enhances recipients' credit histories and increases their chances of accessing financing in the future, creating a virtuous circle of inclusion and financial stability.

From a public policy standpoint, these findings underscore the importance of promoting banking penetration and the use of formal financial services among households that receive remittances, and of designing products tailored to their specific needs. They also increase the importance of remittances as a social protection mechanism and as a way to reduce financial vulnerability among low-income and informal-economy households.

Table 2
Effect of remittances on outstanding credit, NPLs and the NPL ratio, by credit segment and borrower gender

	Outstanding credit (1)	NPLs (2)	NPL ratio (3)
	Panel A. All loans		
Log of remittances	0.1823***	-0.539***	-0.0236***
	(0.071)	(0.251)	(0.0009)
	Panel B. By credit segment		
i) Low quality	-0.001	-0.831**	-0.0441***
	(0.072)	(0.337)	(0.016)
ii) High quality	0.218***	0.830	0.0001
	(0.083)	(0.647)	(0.006)
	Panel C. By borrower gender		
i) Women	0.229****	-0.725**	-0.0289***
	(0.086)	(0.347)	(0.011)
ii) Men	0.138*	-0.396	0.0182**
	(0.062)	(0.284)	(0.009)
Observations	14,132	14,132	14,132

SOURCE: Author's calculations, drawing on information from the Banco de México, the Comisión Nacional Bancaria y de Valores and the INEGI.
NOTE: A two-stage model is estimated, using as an instrument the unemployment rate at state level of persons of Mexican origin in the United States relevant for each Mexican municipality, constructed as the sum for all US states of the unemployment rate of persons of Mexican origin in each state, taken from the Current Population Survey, based on the proportion of migrants from that municipality established in that state, estimated for 2002-2012 by María Esther Caballero, Brian C. Cadena and Brian K. Kovak. (2018). "Measuring Geographic Migration Patterns using *Matriculas Consulares*". *Demography*, Vol. 55(3), pp. 1119-1145. All regressions include half-year and municipality-year fixed effects and controls for state-level economic activity and real wages. Standard errors are clustered at the municipality-year level and are reported in brackets. Low-quality loans include personal loans, microcredits and loans for small consumer durables. High-quality loans are car and payroll loans. The Kleibergen-Paap Wald rk F statistic in the first stage is 12.08 in all regressions. The significance levels are denoted as follows: ***1%, **5% and *10%.

Box 3

THE FINANCIAL SAFETY NET IN LATIN AMERICA IN TIMES OF GLOBAL UNCERTAINTY

Carlos Giraldo,[1] in collaboration with the authors of this report

In the face of challenges to its macro-financial stability, Latin America requires robust fiscal, monetary and financial policies, supplemented by a financial safety net capable of responding effectively to external shocks in an uncertain world. This box analyses recent developments in the financial safety net and its current state, along with its capacity to support national policies at critical moments. Understanding and strengthening the safety net is a strategic investment in the resilience and sustained development of the region, not only allowing Latin America to successfully handle shocks, but also to take advantage of the opportunities in the current global environment.

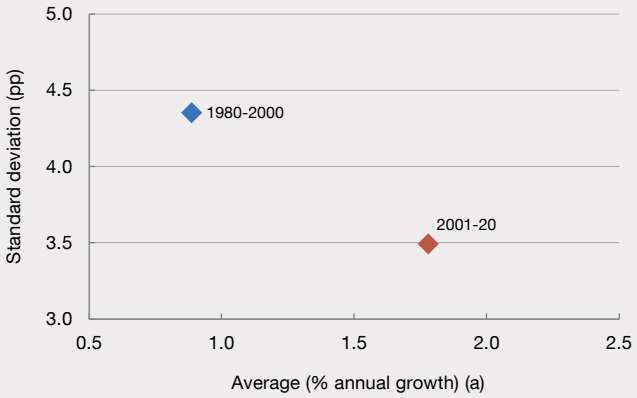
A strong financial safety net for the region

The currency and financial crises in Latin America at the end of the last century had a significant impact on GDP growth and inflation.[2] This prompted the development of institutions and macroeconomic policies focused on strengthening macroeconomic and financial resilience in many Latin American economies, through a framework of monetary,[3] fiscal,[4] macroprudential and microprudential policies.[5, 6] Having reinforced these institutions and policies, the region saw an improvement in GDP per capita growth and inflation (Chart 1).

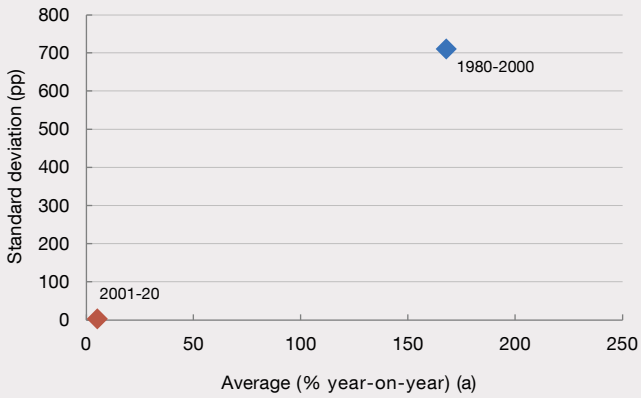
This new macro-financial framework was effective when facing external shocks, such as the global financial crisis, the episode of financial volatility in 2013 known as the taper tantrum, the negative shocks in the terms of trade in 2014-15, the COVID-19 pandemic (supply and demand shocks and financial shocks), the war in Ukraine (terms of trade shocks and supply shocks), the unexpected surge in inflation and the rapid rise in external interest rates.

Chart 1
Latin America: change in and volatility of GDP per capita growth and inflation

1.a GDP per capita



1.b Inflation



SOURCE: IMF (World Economic Outlook). Authors' calculations.

a Simple average: Brazil, Chile, Colombia, Costa Rica, Mexico, Paraguay, Peru and Uruguay.

1 Carlos Giraldo is Chief Economist at the Latin American Reserve Fund (FLAR by its Spanish acronym). He thanks Valeria Saldaña, adviser at FLAR, for her excellent assistance. The opinions and observations of the authors do not necessarily reflect the position of FLAR or its governing bodies.

2 Among the forces behind these crises were the terms of trade shocks, outflows or abrupt reversals of capital flows, unsustainable fiscal policies and exchange rate regimes and fiscal dominance of monetary policy.

3 Central bank independence, flexible inflation target, (managed) exchange rate regimes, better communication, transparency and accountability and restrictions on direct financing of governments.

4 Adoption of fiscal rules and independent fiscal councils, medium-term fiscal frameworks and laws governing fiscal responsibility.

5 Measures to manage capital flows, countercyclical capital requirements, limits to the foreign currency position, limits to leverage and the liquidity coverage ratio.

6 José Uribe. (2025). "Seeking Stability and Responses to Shocks in Latin America". Presentation for the SARB Biennial Conference: 25 Years of Inflation Targeting: Lessons for the Future.

Box 3
THE FINANCIAL SAFETY NET IN LATIN AMERICA IN TIMES OF GLOBAL UNCERTAINTY (cont'd)

However, these developments should not be cause for complacency. It is essential to make an additional effort to improve the quality of the macro-financial institutions and policies, especially in economies with large budget deficits or unsustainable current accounts, elevated levels of inflation, excessive public or external debt, or where a significant part of the financial sector is not subject to adequate prudential regulation or supervision.[7]

Though sound macroeconomic and financial policies are essential, they do not always suffice to prevent external liquidity crises. These tend to stem from elevated volatility in global financial markets, including significant fluctuations in capital flows. Developments in global financial markets are amplified by market failings – such as information asymmetry – and by deficiencies in international coordination, making episodes of sudden stops or reversals in capital flows more likely. This environment can even affect solvent and well-managed economies, underscoring the need for a financial safety net that complements national policies.

The financial safety net should be strengthened in light of growing risks, such as fiscal vulnerability due to high levels of debt or external trade uncertainty caused by US economic policy. Recent research[8] shows that the Latin American region is vulnerable to uncertainty from the United States, which is mainly transmitted to the real sector through trade and investment. The impact on GDP growth is negative and uneven across Latin American economies, particularly in the quarter after the shock.

Likewise, the increasing use of unilateral financial and trade policies may reduce the likelihood of multilateral support and assistance from developed countries to emerging and developing economies. Moreover, this likelihood could also decrease if a fresh crisis started in emerging market countries, insofar as the sequence of events is nothing like the global financial crisis and the pandemic, to which the US Federal Reserve System responded rapidly and comprehensively, alleviating international liquidity problems for the emerging economies.

For these reasons, countries need to have sound macro-financial policies and establish a robust financial safety net.

Latin America's financial safety net: developments and current state

The financial safety net has four layers:

- *Global layer:* the International Monetary Fund (IMF);
- *Regional layer:* FLAR;
- *Bilateral layer:* swap lines arranged between central banks issuing reserve currency;
- *Local or domestic layer:* central banks' international reserves.

Each layer has its strengths and drawbacks. Accordingly, countries find it advisable to be a member of the IMF and regional funds (FLAR) and have an appropriate level of international reserves. Swap lines arranged with central banks from outside the region are less predictable, particularly amid global geopolitical tensions. Under certain circumstances, multilateral development banks, such as the World Bank, Inter-American Development Bank and CAF -Development Bank of Latin America and the Caribbean-, could supplement the supply of external liquidity to the economies.

The financial safety net's coverage levels vary and, in some cases, are insufficient (Chart 2, where each dot represents a country). In addition, the layers' coverage is fragmented: not all countries have swap lines with central banks from outside the region or are party to regional financing arrangements (RFAs) (Chart 3). At present, Argentina, Brazil and Chile have active swap lines arranged with the People's Bank of China. During the pandemic, Brazil and Mexico had access to temporary US dollar liquidity swap lines granted by the Federal Reserve System that are not currently active. Meanwhile, Brazil and Mexico are parties to regional or interregional integration frameworks (the BRICS Contingent Reserve Arrangement (CRA) and the United States–Mexico–Canada Agreement (USMCA) respectively), which also function as liquidity arrangements. The USMCA envisages a formal swap line between Mexico and the United States that can be activated by the US Department of the Treasury, with the Federal Reserve providing the liquidity. The BRICS CRA is an RFA between Brazil, Russia, India, China and South Africa.

7 Working Group on Regional Financial Stability. (2019). "Toward a FLAR with a regional outreach". Fondo Latinoamericano de Reservas.

8 Carlos Giraldo, Iader Giraldo, Jose E. Gomez-Gonzalez and Jorge M. Uribe. (2025). "US uncertainty shocks, credit, production, and prices: The case of fourteen Latin American countries". *Research in International Business and Finance,* 78, 103003.

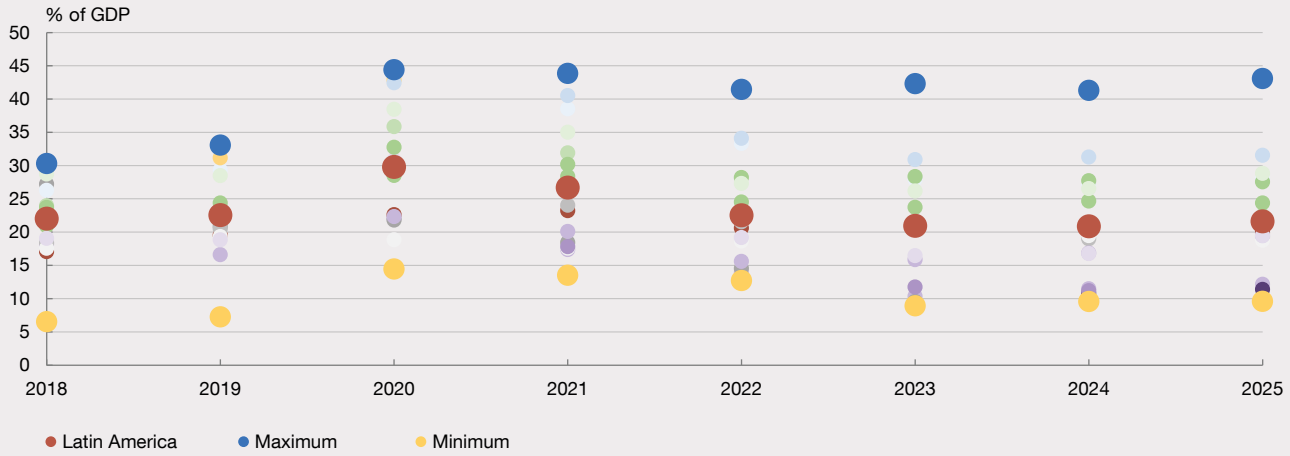
Box 3

THE FINANCIAL SAFETY NET IN LATIN AMERICA IN TIMES OF GLOBAL UNCERTAINTY (cont'd)

In Latin America, the safety net largely depends on international reserves and the IMF (Chart 4). Reserves are the largest layer, although they incur costs for the countries and are unevenly distributed and low in some economies.

In addition, there is also a risk that a fear of losing reserves may arise during episodes of stress in international markets, underscoring the need for supplementary international liquidity arrangements.

Chart 2
Access to the financial safety net, by country (2018-25) (a)



SOURCES: IMF, BRICS CRA, FLAR and central banks. Authors' calculations.

a Denotes the access limit per safety net layer. For the IMF, a quota limit for conditional support lines over a three-year period equal to 4.35 times each country's quota for 2018-19 and 6 times the country's quota for 2020-25 is assumed. While these limits are not strict ceilings, any application that exceeds them is subject to the IMF's exceptional access policy. Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay were the countries considered for the estimation. "Latin America" refers to a simple average of the aforementioned countries.

Chart 3
Number of financial safety net layers, by country (2025)

SOURCES: IMF, BRICS CRA, FLAR and central banks. Authors' calculations.

Box 3

THE FINANCIAL SAFETY NET IN LATIN AMERICA IN TIMES OF GLOBAL UNCERTAINTY (cont'd)

The IMF is the second most important layer for emergency financing in the event of balance of payments problems. However, it has its drawbacks, such as the stigma associated with seeking IMF assistance and protracted negotiations in some countries.

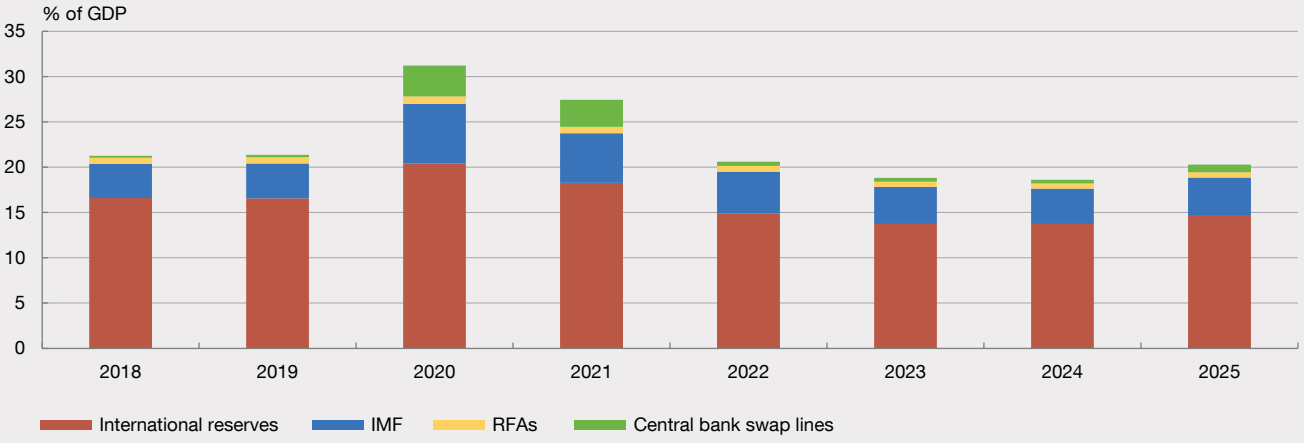
In response to these weaknesses, central bank swaps and RFAs have grown in importance since the global financial crisis, although swaps can still only be accessed by some countries and their future availability is uncertain. RFAs have come to the fore more significantly in the euro area, with the European Stability Mechanism (ESM), and in Asia, with the Chiang Mai Initiative Multilateralisation/ ASEAN+3 Macroeconomic Research Office (CMIM/ AMRO) (Charts 5 and 6).[9]

FLAR has proven effective in providing financial support to Latin American countries. Created in 1978, its main objective is to support its members' balance of payments. Its initial members were Bolivia, Colombia, Ecuador, Peru and Venezuela. Costa Rica, Uruguay and Paraguay joined as member countries in 2001, 2008 and 2015 respectively, and in 2022 the Chilean central bank became a FLAR member as an Associate Central Bank. FLAR has played a key role during episodes such as the crises of the 1980s, the Asian crisis and, more recently, the pandemic and other idiosyncratic shocks affecting its members.

FLAR has contributed to its members' macroeconomic and financial stability, providing financial support more than 50 times since it was created. One recent example is a balance of payments support loan to the Banco Central de Costa Rica (BCCR) amounting to $1.1 billion (18% of its net international reserves) in August 2022.[10]

The loan was granted amid adverse shocks stemming from the pandemic, the war in Ukraine and the rise in interest rates around the world, which exerted considerable pressure on the foreign exchange market. At that time, the local currency, the Costa Rican colón, was depreciating

Chart 4
Financial safety net, by layer (2018-25) (a)



SOURCES: IMF, BRICS CRA, FLAR and central banks. Authors' calculations.

a Denotes the access limit per safety net layer. For the IMF, a quota limit over a three-year period equal to 4.35 times each country's quota for 2018-19 and 6 times the country's quota for 2020-25 is assumed. While these limits are not strict ceilings, any application that exceeds them is subject to the IMF's exceptional access policy. Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay were considered for the international reserves and IMF estimations. Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Paraguay, Peru and Uruguay were considered for the RFA estimation. Argentina, Brazil, Chile and Mexico were considered for the central bank swap line estimation.

9 Arab Monetary Fund, ASEAN+3 Macroeconomic Research Office, European Commission, Eurasian Fund for Stabilization and Development, European Stability Mechanism and Fondo Latinoamericano de Reservas. (2018). "Working together with the IMF: enhancing financial safety nets in emerging markets". Discussion Paper Series, 4, European Stability Mechanism.

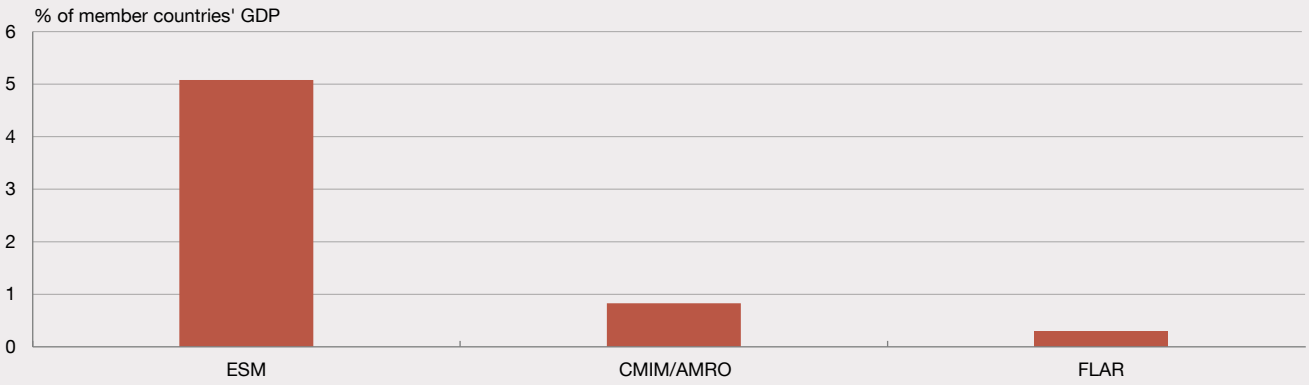
10 The loan was disbursed in a lump sum on 19 August 2022.

Box 3
THE FINANCIAL SAFETY NET IN LATIN AMERICA IN TIMES OF GLOBAL UNCERTAINTY (cont'd)

significantly and the central bank had lost close to a quarter of its international reserves over the previous two years.[11]

The authorities had adopted measures to preserve macroeconomic and financial stability, including reducing the fiscal deficit and raising policy interest rates

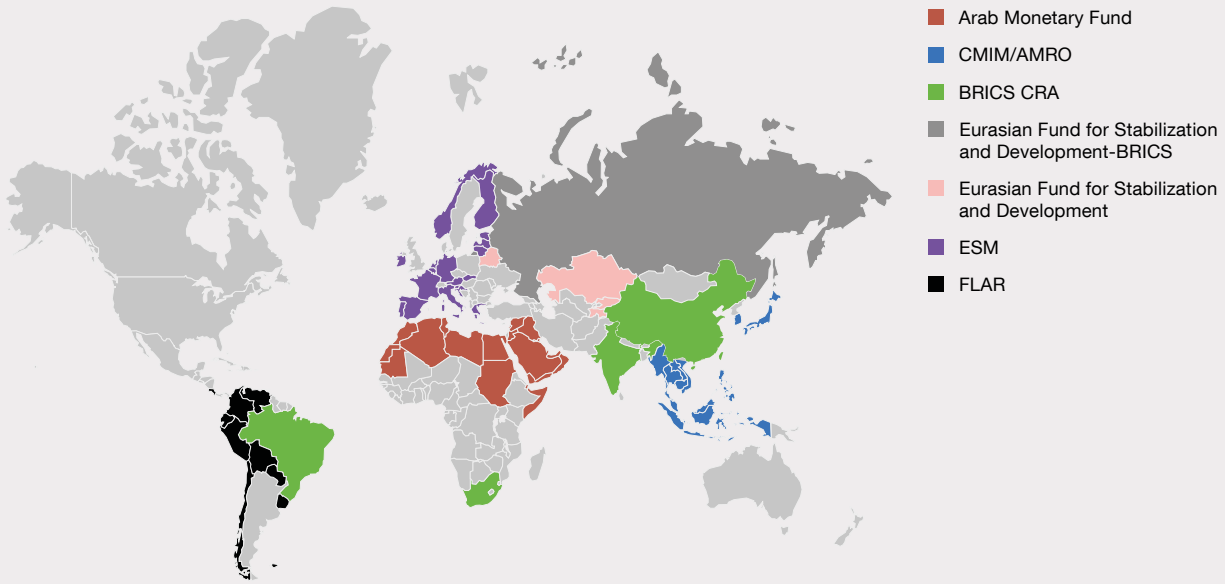
Chart 5
Paid-in capital of the ESM, CMIM/AMRO and FLAR (a)



SOURCES: ESM, CMIM, FLAR and IMF (World Economic Outlook). Authors' calculations.
NOTES: For the ESM, Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland are considered. For the CMIM, Brunei, Cambodia, China, Hong Kong (China), Indonesia, Japan, Laos, Malaysia, Myanmar, the Philippines, Singapore, South Korea, Thailand and Vietnam. For FLAR, Bolivia, Chile, Colombia, Costa Rica, Ecuador, Paraguay, Peru, Uruguay and Venezuela.

a The latest available figure for total paid-in capital is considered, while for CMIM/AMRO the total value of the arrangement is taken into account. Reference GDP: 2024.

Chart 6
Parties to RFAs around the world



SOURCES: RFAs and FLAR staff calculations.

11 Up to 24 July 2022.

Box 3

THE FINANCIAL SAFETY NET IN LATIN AMERICA IN TIMES OF GLOBAL UNCERTAINTY (cont'd)

substantially to contain inflation and achieving the goals under the IMF Extended Fund Facility arrangement. However, the foreign exchange market remained under heavy pressure (Chart 7).

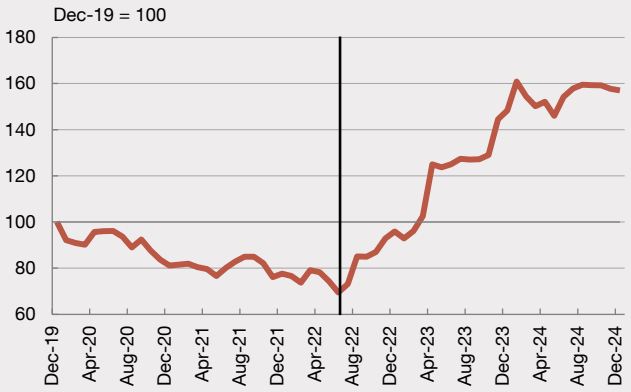
After the FLAR loan was approved (depicted by the vertical black lines in the panels of Chart 7), Costa Rica's exchange rate, net international reserves and sovereign spread performed positively: the colón appreciated steadily, the central bank's net international reserves increased to appropriate levels and the sovereign spread fell below the regional average, generating confidence in the economy and the macroeconomic policy implemented.

Conclusion

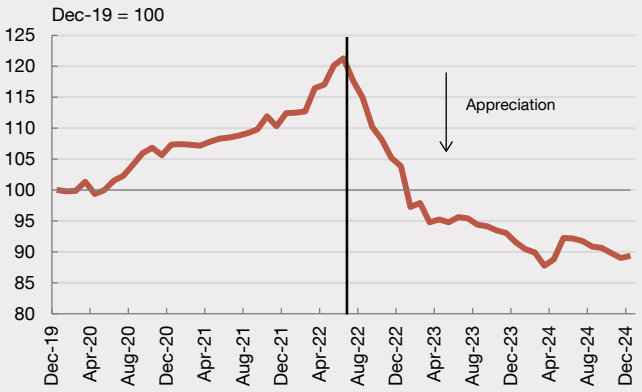
Stronger macro-financial policies have made Latin America more resilient to external shocks. Nonetheless, international capital market failings highlight the need for a strong financial safety net comprising the IMF, RFAs such as FLAR, swap lines with central banks from outside the region and international reserves. FLAR's recent track record, including the loan granted to Costa Rica in 2022, shows that this regional arrangement mitigates the impacts on the real economy and the financial markets, builds confidence in economic policy and facilitates productive investment. Consolidating and expanding the

Chart 7
Costa Rica: international reserves, nominal exchange rate and EMBIG spread (a)

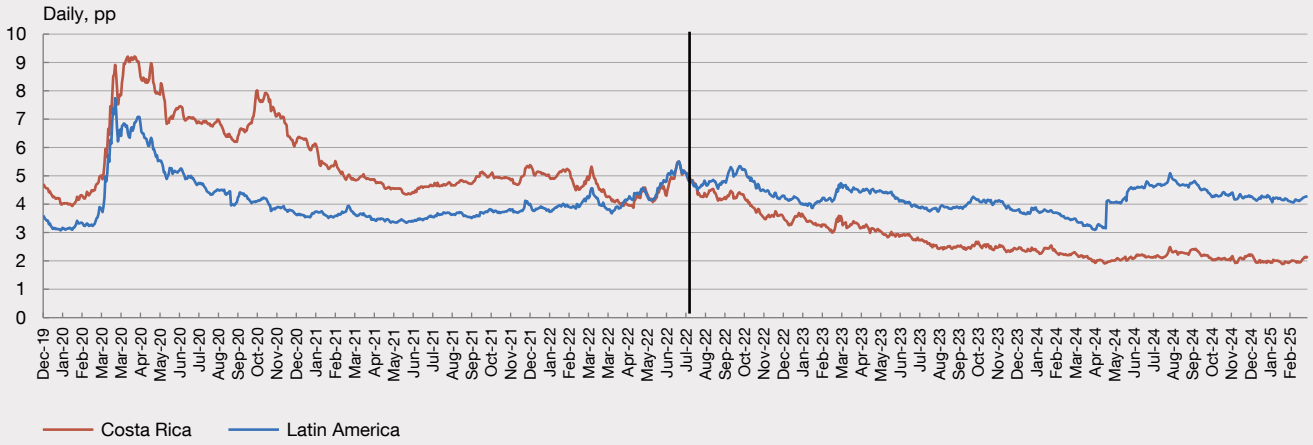
7.a BCCR: international reserves



7.b Costa Rica: nominal exchange rate



7.c Costa Rica and Latin America: EMBIG spread



SOURCES: BCCR, Bloomberg and FLAR staff calculations.

a The vertical black line denotes the disbursement date of the FLAR loan to Costa Rica.

Box 3

THE FINANCIAL SAFETY NET IN LATIN AMERICA IN TIMES OF GLOBAL UNCERTAINTY (cont'd)

regional layer of the financial safety net is a strategic imperative for Latin America to preserve stability and seize opportunities in an uncertain global environment. Lastly, a high reliance on a single currency for debt issuance and exports invoicing limits options and entails vulnerabilities. In light of this, the region's countries could assess the possibility of expanding the range of reference currencies used to gain access to international markets.[12]

12 José Luis Escrivá. (2025). The future of payments and the international role of the euro. 52nd Annual Meeting of the Federación Iberoamericana de Bolsas.

ACRONYMS AND ABBREVIATIONS

ARS	Argentine peso
CADR	Central America and the Dominican Republic
CEMLA	Center for Latin American Monetary Studies
ECB	European Central Bank
EMAE	Monthly estimator of economic activity
ENARGAS	Argentine national regulatory entity for gas
ENRE	Argentine national regulatory entity for electricity
EPU	Economic policy uncertainty
EU	European Union
GDP	Gross domestic product
IIF	Institute of International Finance
IMF	International Monetary Fund
LSEG	London Stock Exchange Group
NACE	Statistical classification of economic activities in the EU
NiGEM	National Institute Global Econometric Model
PAIS	Tax for inclusion and solidarity in Argentina
PPP	Purchasing power parity
ROC curve	Receiver operating characteristic curve
SECMCA	Executive Secretariat of the Central American Monetary Council
SIRA	Republic of Argentina Import System
UN	United Nations
US	United States
USD	US dollar
USMCA	United States-Mexico-Canada Agreement
VAR	Vector Autoregressive Model
WEO	World Economic Outlook
WTI	West Texas Intermediate
WTO	World Trade Organization
YPF	Yacimientos Petrolíferos Fiscales, S.A.

bn	Billion
bp	Basis points
pp	Percentage points
H	Half
Q	Quarter
Q-o-q	Quarter-on-quarter
Y-o-y	Year-on-year

How to cite this document

Banco de España. Monetary Policy and International Economy Department. (2025). *Report on the Latin American economy. Second half of 2025.* https://doi.org/10.53479/40632

Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.
© Banco de España, Madrid, 2025