REPORT ON THE LATIN AMERICAN ECONOMY

Latin America: risks and supporting factors amid the crisis in the Middle East

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Editorial

The macro-financial landscape in Latin America in 2026 H1 has been significantly reshaped by a geopolitical shock. The outbreak of the conflict in the Middle East triggered an immediate reaction in Latin American financial markets, including currency depreciation, rises in long-term yields, wider sovereign spreads and falling equity indices. Together, these developments translated into a broad-based tightening of global financial conditions (Box 1). This deterioration followed a period of marked resilience up to February, during which Latin America benefited from a favourable global environment – driven by high commodity prices – and exceptionally benign financial conditions, underpinned by record debt issuance, strong risk appetite and a weak US dollar.

The impact of the shock is now beginning to feed through into macroeconomic variables and expectations for 2026. Higher energy prices and currency depreciation have pushed up inflation forecasts for the year as a whole, while futures markets are pricing in a more restrictive monetary policy stance in several of the region's main economies. Although forecasts do not yet fully reflect these developments, the balance of risks has shifted towards more persistent inflationary pressures and a possible moderation in activity should the shock prove prolonged.

This new scenario comes after a stronger 2025 than expected. Despite the tariffs imposed by the United States and the uncertainty surrounding them, growth expectations for the region were revised upwards over 2025, amid a correction of both global and domestic uncertainty and a more favourable external environment than anticipated, particularly owing to improved terms of trade. Mexico, initially penalised by shifts in US trade and migration policy, saw its outlook revised upwards, while Brazil experienced a slowdown in 2025 H2, although projections remained broadly stable. Argentina continued to make progress with its macroeconomic stabilisation programme and structural reforms (Box 2).

Price dynamics showed significant, albeit still incomplete, progress in the disinflation process. Headline inflation had converged towards levels comparable to those in other emerging economies, but core inflation remains shaped by sticky services inflation. In countries such as Colombia, the effects of a sharp increase in the minimum wage and price stickiness in certain services components continue to hinder a return to the inflation target.

Against this backdrop, monetary policy decisions displayed some heterogeneity prior to the conflict. Mexico was gradually cutting its policy rate, Chile and Peru appeared to have completed their easing cycles, Brazil was close to starting one and Colombia adopted a tighter stance to help anchor expectations. Since the geopolitical shock, markets have priced in more limited scope for rate cuts and, in some cases, the possibility of policy rate increases. On the fiscal side, the policy stance in 2025 became notably restrictive in Mexico, while loosening in Brazil.

The region's banking system continues to perform solidly, although emerging structural risks are becoming more pronounced. Non-performing loans declined and balance sheets remained robust.

However, according to central bank financial stability reports, risks relating to cybersecurity, digitalisation, climate change and credit concentration have gained prominence in a context of heightened geopolitical uncertainty.

Commodity markets add an additional layer of opportunities and risks. After months of momentum in metal and agricultural prices, the energy shock prompted by the war in the Middle East has raised volatility and driven up oil and gas prices. For net exporters of oil and gas, these developments offer improved terms of trade and boost tax revenue, while for net importers, beyond also generating inflationary pressures, they pose additional risks to external balances. Venezuela could gain greater prominence if regulatory incentives and financing to increase oil production materialise, although uncertainty remains high.

Public finances remain the main source of structural vulnerability in the region, potentially limiting countries' capacity to respond to the economic fallout from the war in the Middle East. Brazil, Mexico and Colombia combine high public debt levels with moderate growth and relatively high interest rates, increasing the likelihood of rising public debt trajectories. Recent financial market reactions to negative fiscal surprises demonstrate the importance of confidence in public finances and show that sound fiscal frameworks help to avoid financial tensions (Box 3). At the same time, strong performances from the region's export commodities, oil in particular, are expected to boost tax revenues, helping to partially cover the cost of the measures adopted to mitigate the war's impact.

Geoeconomic dynamics also continue to shift. Recent developments in US trade policy – combining sectoral exemptions and a new blanket tariff of 10% – have once again reshaped the region's relative standing, providing tariff relief for Brazil and consolidating the sizeable advantage enjoyed in certain segments by Mexico, a country that is also significantly affected by US migration policy (Box 4). At the same time, progress on the agreement between the European Union (EU) and Mercosur signals a new era for manufacturing, critical raw materials and bilateral trade flows. Exports to the EU generate higher-skilled jobs than those to other major destinations (the United States, China and other Asian economies), reinforcing the added value of closer integration with the bloc (Box 6). This agreement is part of a broader strengthening of economic integration between the EU and Latin America, which will encourage direct investment in the region, including by Spanish firms in strategic sectors (Box 5).

In sum, Latin America heads into 2026 with more robust fundamentals than in previous years, an external position underpinned by favourable commodity prices and a stable financial system. However, the recent geopolitical shock, persistent core inflation, fiscal fragilities and a more restrictive financial environment make for a higher-risk scenario. The region's capacity to sustain growth will depend on fiscal prudence, monetary credibility, progress on strategic reforms and the effective management of external shocks amid growing global uncertainty.

Report

Contents

War in the Middle East: initial impacts on Latin America

1 The geopolitical shock stemming from the Iran war has reshaped Latin America's macro-financial landscape ... 6

2 ... although it has not been the most severe shock to affect the region in recent decades 7

3 The outbreak of the war prompted a tightening of financial conditions ... 8

4 ... while exchange rates depreciated somewhat due to changes in external factors ... 9

5 ... which in turn pushed up long-term yields 10

6 Portfolio capital flows into Latin America had risen from early 2026 before stabilising after the outbreak of the Iran war 11

7 Debt issuance reached all-time highs in 2025 and early 2026, with incipient currency diversification, but came to an abrupt halt after the outbreak of the Iran war 12

8 The Iran conflict is beginning to be reflected in inflation and policy rate expectations 13

9 The balance of risks is tilted towards more persistent inflation ... 14

10 ... although analysts' revisions to growth forecasts remain limited 15

The region's resilience in 2025 put it on a sound footing before the war

11 Latin America was in a relatively favourable position prior to the conflict in the Middle East: growth in 2025 was stronger than expected ... 16

12 ... supported by a decline in uncertainty and a favourable external environment 17

13 While inflation eased up to the onset of the war, helping Latin America to converge towards other emerging regions, underlying pressures remain ... 18

14 ... particularly in services, where persistent inflation is hampering convergence on Latin American central bank targets 19

15 In the months leading up to the outbreak of the Iran war, monetary policy continued to diverge across the region 20

16 Monetary and fiscal policy stances across the region remain heterogeneous 21

17 Latin America's GDP is close to potential, with inflation somewhat above target and monetary policy generally in line with the Taylor rule 22

Banking system stability also contributed to the region's relatively favourable position amid the challenges posed by the Middle East conflict

18 In 2025 bank lending in the region grew to generally high rates 23

19 Risks to the banking system have remained contained, with declines in non-performing loans 24

20 Financial stability reports highlight technological, climate and fiscal risks, although credit risk remains the main regional concern 25

Commodity markets pose risks to the different Latin American countries, but they also represent trade and fiscal opportunities

21 The conflict in the Middle East has triggered a surge in oil and gas prices, following months of rising prices for agricultural and metal commodities exported by Latin America 26

22 The rise in oil and gas prices is expected to benefit net energy exporters 27

23 Higher oil prices could potentially drive up Venezuela's oil production in the coming years 28

24 Commodity prices have exceeded budget benchmarks in most countries, creating some fiscal space ... 29

25 ... to fund fiscal support measures aimed at alleviating the impact of higher energy prices on households and firms 30

26 Public debt levels are projected to continue rising in the years ahead 31

27 Rising public debt heightened vulnerability to a potential sovereign crisis in 2025 32

Recent trade policy developments have brightened the outlook for the region

28 The US tariffs applicable to Latin American countries are now lower ... 33

29 ... but countries in the region, except for Mexico, have been put at a slight competitive disadvantage in the US market 34

30 The United States remains a key trading partner for some Latin American countries, while China's trade influence in the region is increasing 35

31 Meanwhile, the EU is strengthening its presence in the region through the agreement with Mercosur 36

32 The EU and Mercosur will keep tariffs high in some sensitive sectors 37

33 The agreement grants the EU a competitive advantage over third countries in sales of manufactured goods to Mercosur 40

34 The elimination of tariffs on critical raw materials grants Mercosur a significant competitive advantage and boosts the EU's ability to substitute suppliers 41

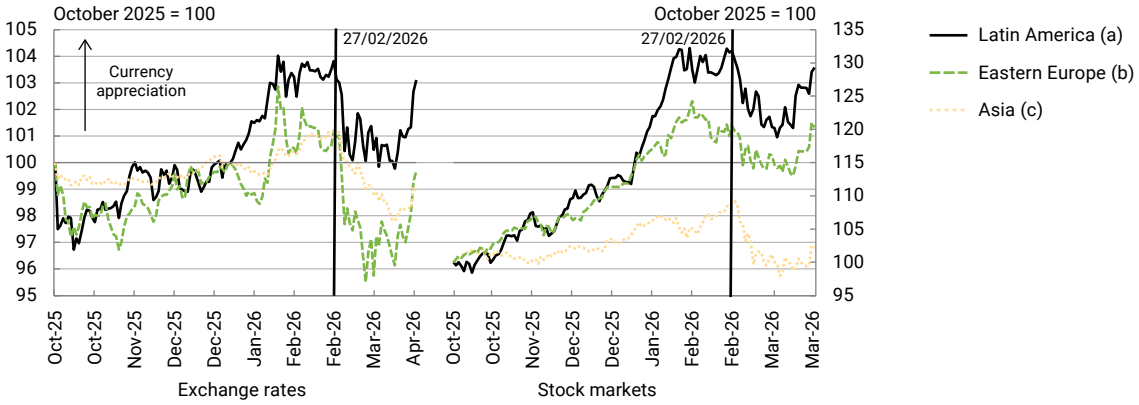
1 The geopolitical shock stemming from the Iran war has reshaped Latin America's macro-financial landscape ...

— Latin American financial markets, like those of other emerging market economies, had shown considerable resilience until late February, with stock market gains, currency appreciation and easing debt financing costs (Charts 1.a and 1.b). The outbreak of the Iran war triggered an immediate market response, including exchange rate depreciation, rising long-term yields, widening sovereign spreads and equity market declines, amid a flight to quality in international markets. These tensions eased somewhat following the ceasefire agreed on 7 April.

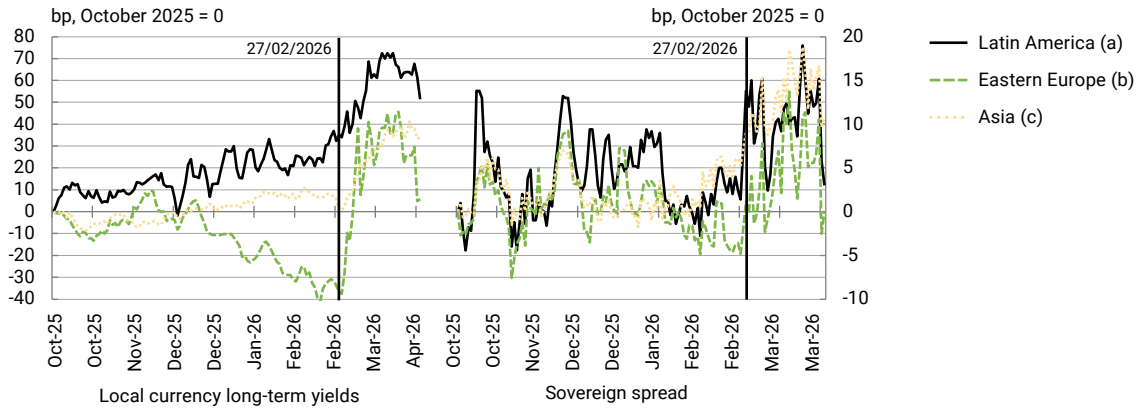
— In 2025 and up until the conflict began, emerging market economies had benefited from favourable external factors, including a weak US dollar and the resilience of global activity and trade to US trade policy. They likewise benefited from idiosyncratic factors, most notably higher commodity prices in Latin America (commodity-related firms dominate the region's stock market indices) and, in the case of Asia, expectations related to the effects of recent technological developments.

Chart 1

1.a Exchange rates and stock market indices



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



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest data: 9 April 2026. October 2025 is the cut-off date for the last report. 27/02/2026 was the last market day before the start of the Iran war.

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

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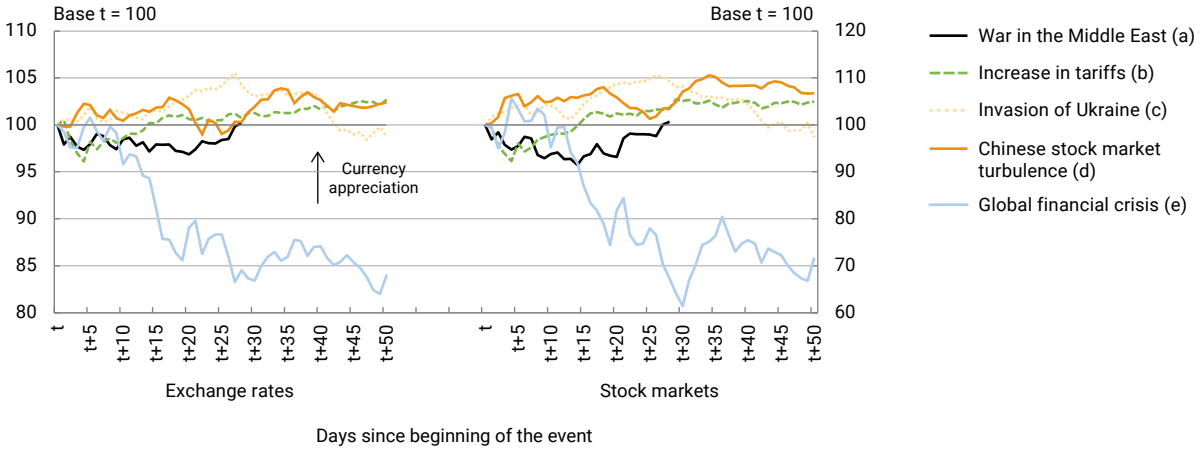
2 ... although it has not been the most severe shock to affect the region in recent decades

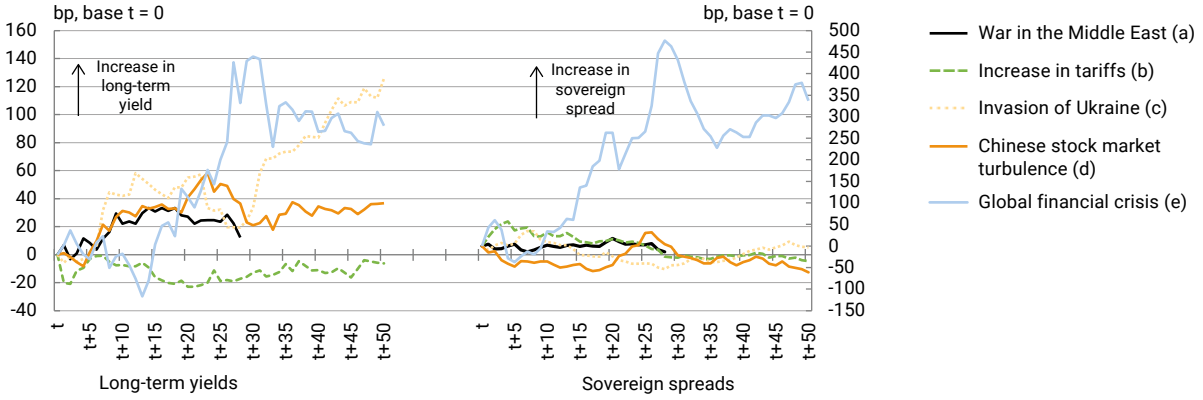
— The downturn in the region's financial markets as a result of the war in the Middle East is in line with past episodes of turbulence and partially corrected from 7 April onwards. The impact was most pronounced in equity markets and exchange rates (Chart 2.a), the latter reflecting shifts in global risk perception.[1]

Chart 2

2.a Shock comparison: exchange rates and stock market indices (aggregate of Latin America)



2.b Shock comparison: local currency long-term government bond yields and sovereign spreads (aggregate of Latin America)



SOURCES: LSEG Datastream and national statistics. Latest data: 9 April 2026.

a Rebase date 27/02/2026: last market day before the Iran war.
b Rebase date 02/04/2025: US blanket tariffs announced.
c Rebase date 24/04/2022: Russia invades Ukraine.
d Rebase date 24/08/2015: "Black Monday" on Shanghai stock market.
e Rebase date 15/09/2008: Lehman Brothers bankruptcy.

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1 Latin America's exposure to periods of heightened global risk aversion is examined in Chapter 3 of Ayers and Juvenal (2026).

3 The outbreak of the war prompted a tightening of financial conditions ...

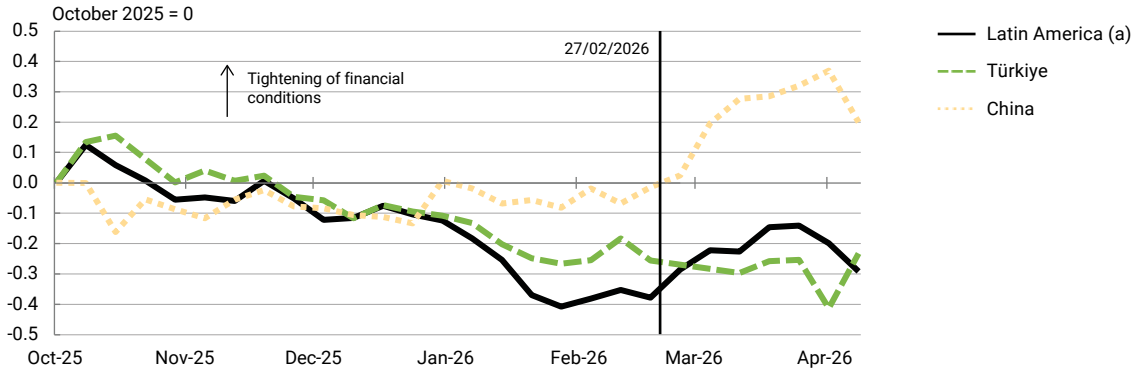
— The start of the war led to a marked tightening of financial conditions (Chart 3.a), particularly internal conditions (Chart 3.b), due to declining stock market indices. In some countries the financial conditions more closely linked to valuations in international markets eased as the prices of their export commodities rose.

— To March, financial conditions in the region had eased to a greater extent than in other major emerging market economies (Chart 3.a). This loosening of both internal and external conditions (Chart 3.b) was attributable to external sovereign and corporate bond spreads.

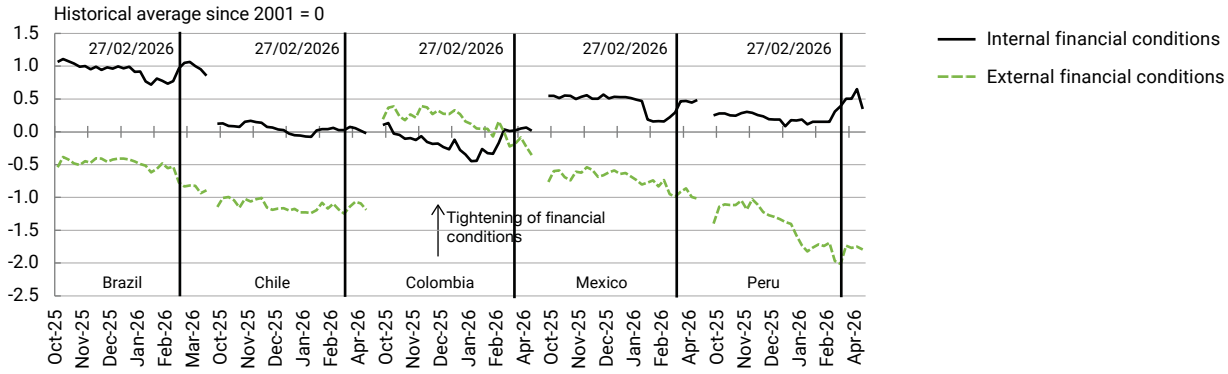
— Box 1 explores the structural drivers underlying the influence of global financial markets on the region's financial conditions. The easing observed in 2025 and up to the outbreak of the war was driven by a favourable risk perception towards emerging market economies – Latin America in particular – and the resilience of the Chinese economy, which provides significant support to investment in the region. Since the start of the war the preference for Latin American assets has diminished, almost neutralising the impulse to demand and activity provided by external financial conditions.

Chart 3

3.a Financial conditions indices



3.b Internal and external financial conditions (b)



SOURCE: Banco de España. Latest data: 10 April 2026.

a Simple average of Brazil, Chile, Colombia, Mexico and Peru.
b Internal financial conditions are constructed using variables more closely related to conditions within the country (such as stock markets), while external financial conditions are based on variables reflecting international market valuations (such as sovereign external debt spreads). See Juan Carlos Berganza and Luis Molina. (2026). "The use of Financial Conditions and Stress Indices to monitor Emerging Market Economies". Forthcoming.

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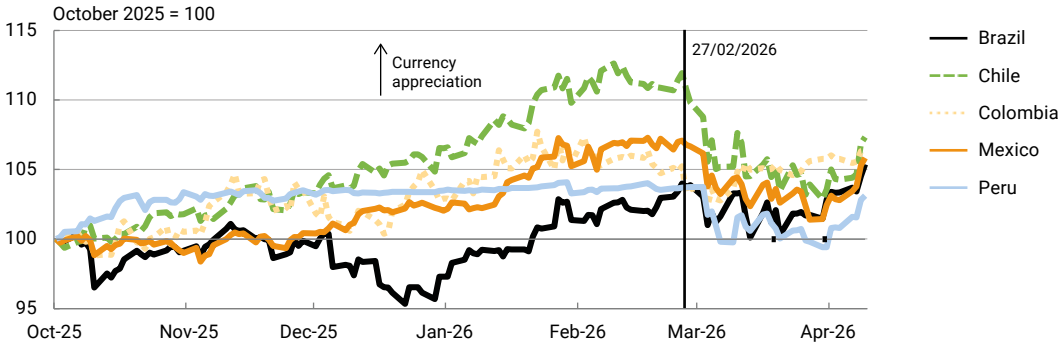
4 ... while exchange rates depreciated somewhat due to changes in external factors ...

— Latin American currencies depreciated between the outbreak of the war and 7 April (Chart 4.a), driven by higher global risk and changing economic conditions in the United States (Chart 4.b). Exchange rates began to appreciate from 7 April onwards, following the start of the ceasefire. Chile stands out on the negative side, with depreciation of almost 5% since the outbreak of the war, while Colombia lies at the other extreme, with appreciation of 1.7%. In both cases commodity prices have played a key role, given that Chile has a particularly negative energy balance, while Colombia is, in relative terms, one of the region's largest oil exporters, resulting in substantial tax revenues (pages 28 and 29).

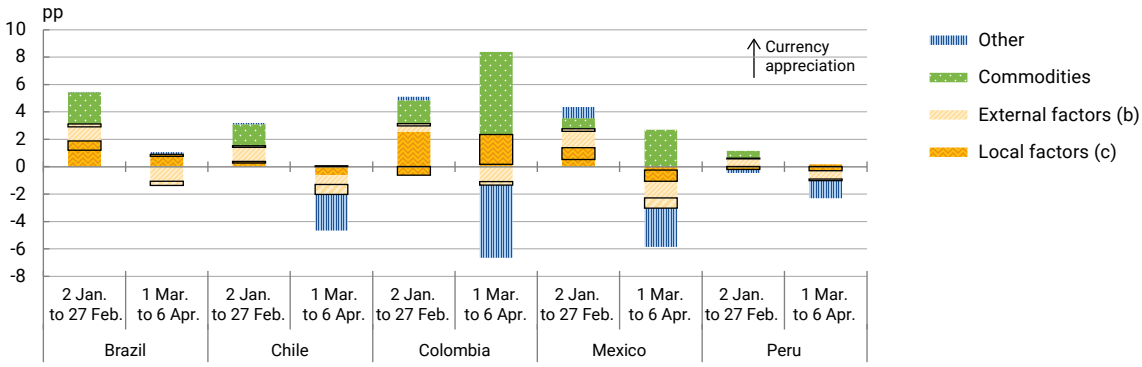
— Exchange rates in the region had appreciated between October 2025 (when the previous report was published) and the start of the war in late February 2026 (Chart 4.a), thanks to rising commodity prices and, in the case of Brazil and Mexico, lower perceived local risk among investors (Chart 4.b).

Chart 4

4.a Exchange rates against the US dollar



4.b Decomposition of the exchange rate variation against the US dollar in 2026 (a)



SOURCES: Banco de España and LSEG Datastream. Latest data: 9 April 2026. 27/02/2026 is the last market day before the Iran war.

a Decomposition of exchange rate variations against the dollar estimated drawing on a Bayesian VAR model using short and long-term yields, the local and US stock markets, the long-term yield 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.
b Contribution of US monetary policy and macroeconomic shocks and global risk (framing).
c Contribution of each country's monetary policy and macroeconomic shocks and local risk (framing).

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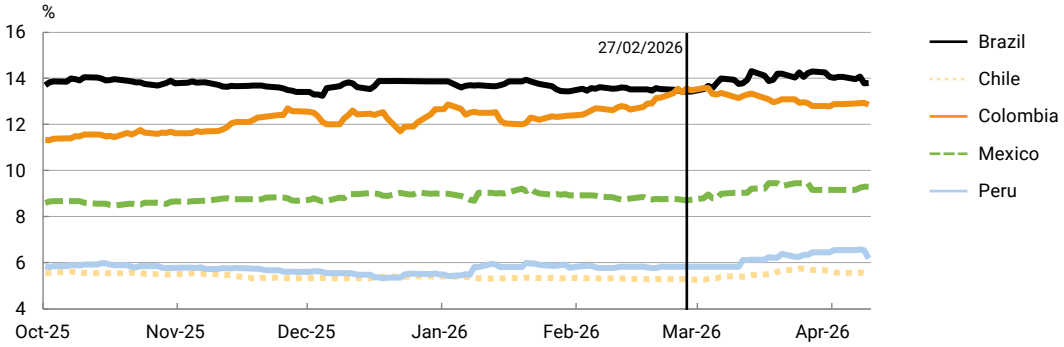
5 ... which in turn pushed up long-term yields

— The conflict in the Middle East exerted upward pressure on long-term yields until the ceasefire began on 7 April (Chart 5.a). This was driven by changes in external factors, particularly shifts in US conditions (Chart 5.b), together with higher local risk in Mexico. Once again the exception was Colombia, where lower local risk and higher oil prices offset the external factors, resulting in a decline in long-term yields.

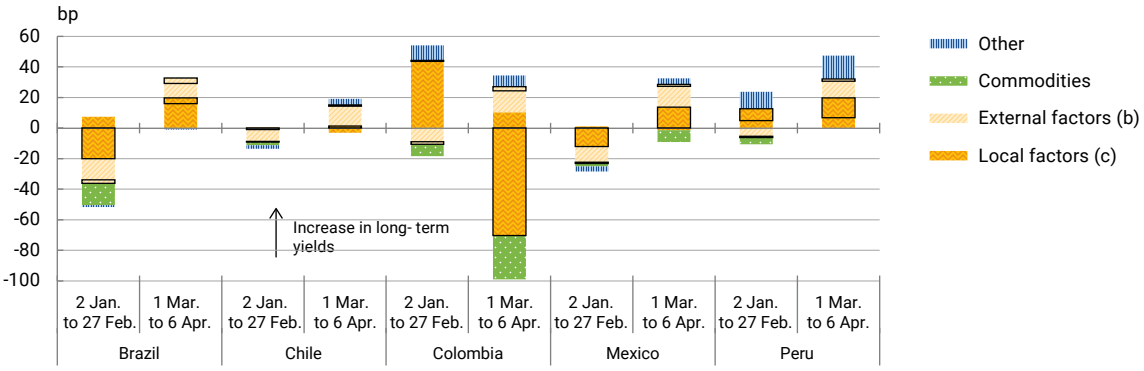
— Local currency long-term yields held relatively stable up until the start of the war, except in Colombia where they rose by 2 pp (Chart 5.a). Local risk played a key role in these dynamics, significantly lowering yields in Brazil, Chile and Mexico (Chart 5.b), while raising them in Peru.

Chart 5

5.a Local currency long-term government bond yields



5.b Decomposition of the change in local currency long-term government bond yields in 2026 (a)



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest data: 9 April 2026. 27/02/2026 is the last market day before the Iran war.

a Decomposition of changes in long-term yields in local currency drawing on a Bayesian VAR model using short and long-term yields, 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.
b Contribution of the monetary policy and macroeconomic shocks of the United States and of global risk (framing).
c Contribution of the monetary policy and macroeconomic shocks of each country and of local risk (framing).

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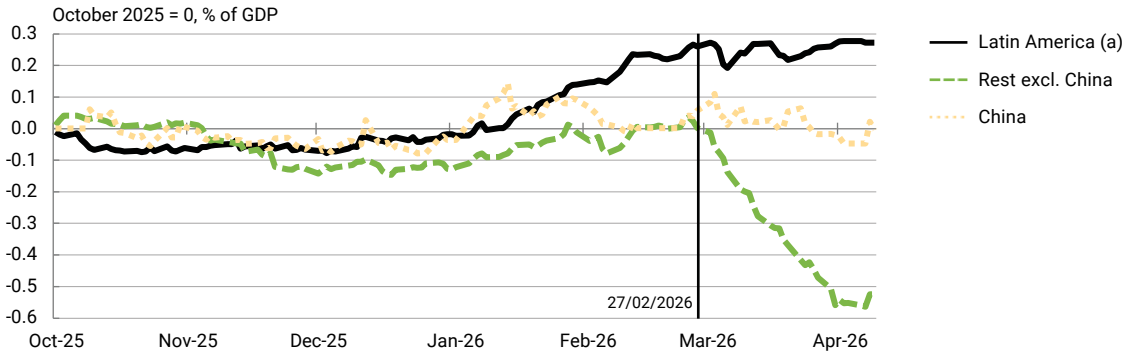
6 Portfolio capital flows into Latin America had risen from early 2026 before stabilising after the outbreak of the Iran war

— Latin America has outperformed other emerging regions in terms of portfolio capital inflows (Chart 6.a): inflows to the region slowed following the start of the war in the Middle East, compared with a pronounced decline in other emerging market economies, particularly in the Asian countries most affected by the closure of the Strait of Hormuz.

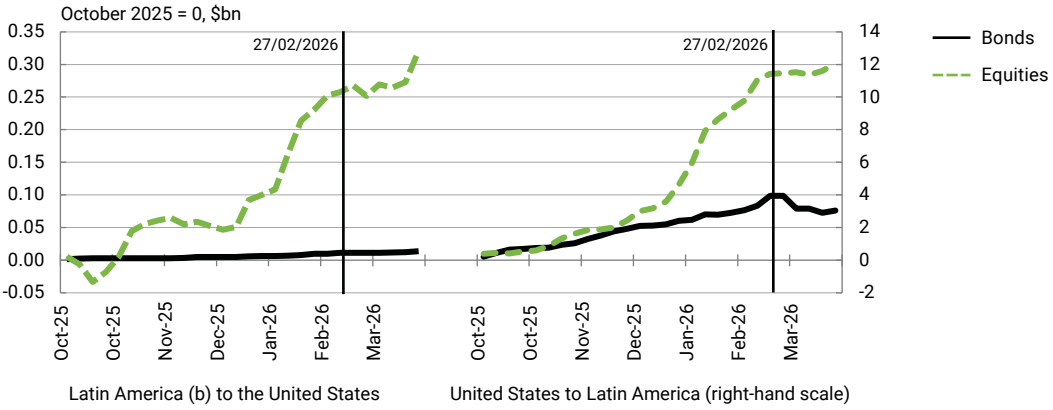
— More granular data suggest that both capital outflows to and inflows from the United States have been unaffected by the increase in global geopolitical risks, with equities recording the largest net flows in both directions (Chart 6.b).

Chart 6

6.a Portfolio capital flows to emerging market economies



6.b Portfolio capital flows: Latin America



SOURCES: IIF and EPFR. Latest data: 9 April 2026. 27/02/2026 is the last market day before the start of the war in Iran.

a Brazil, Colombia and Mexico.
b Net purchases of equities or bonds from the United States by funds based in Brazil, Colombia and Mexico.

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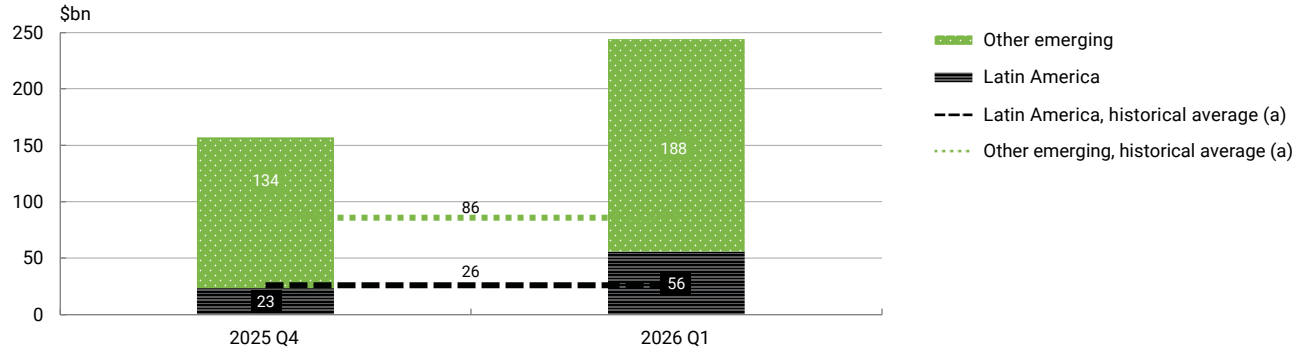
7 Debt issuance reached all-time highs in 2025 and early 2026, with incipient currency diversification, but came to an abrupt halt after the outbreak of the Iran war

— Despite placements coming to a standstill from 1 March, Latin America issued more than $56 billion in debt securities in 2026 Q1, above the historical average (Chart 7.a). Issuance also became more diversified by currency, with euro-denominated issuances increasing to 11.9% of the total, likewise exceeding the historical average, albeit still short of the shares seen in other emerging market economies (Chart 7.b).

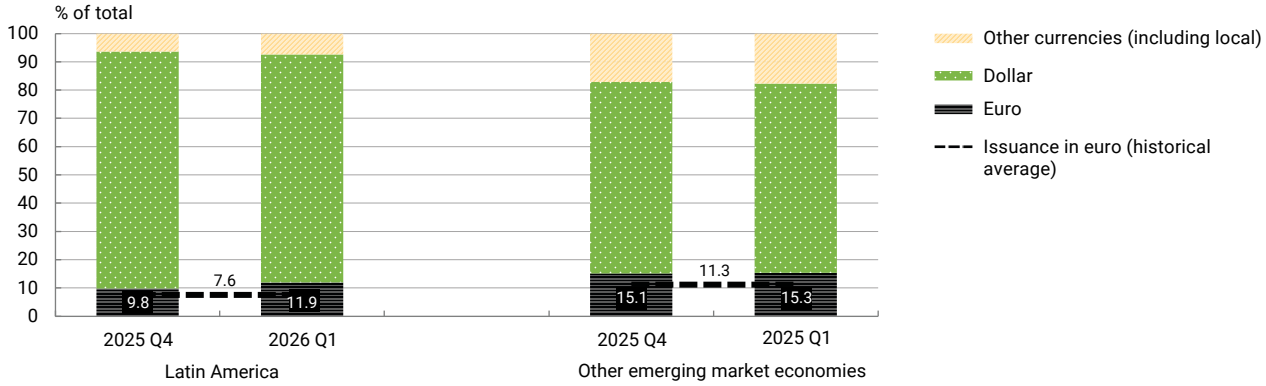
— In 2025 debt issuance by emerging market economies in international markets reached an all-time high of over $760 billion. These elevated placement volumes benefited from favourable external financial conditions, particularly a weak US dollar, which could generate risks going forward in the event of an abrupt reversal. Indeed, this is one of the main risks identified in the recent financial stability reports published by the region's central banks (Figure 1).

Chart 7

7.a Emerging market economies: debt issuance in international markets



7.b Emerging market economies: debt issuances in international markets, by currency



SOURCE: Dealogic. Latest data: 31 March 2026.

a 2005-2026 Q1 average.

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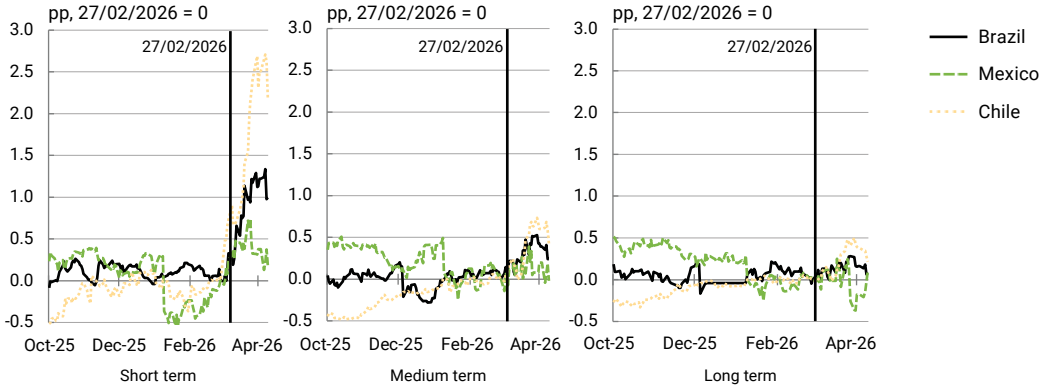
8 The Iran conflict is beginning to be reflected in inflation and policy rate expectations

— Higher energy prices, the risk of disruptions to global supply chains and currency depreciation have pushed up inflation forecasts for the year as a whole. Since early March, markets have revised their one-year-ahead inflation expectations sharply upwards, while those over longer horizons are up much more moderately (Chart 8.a).

— At the same time, futures markets have started to price more restrictive monetary policy expectations in the coming months than prior to the conflict. This would imply larger than previously expected rate increases in Colombia and Peru, smaller cuts in Brazil, no change in Mexico and the possibility of rate hikes in Chile (Table 1).

Chart 8

8.a Markets (a) inflation expectations: cumulative changes



SOURCES: Banco de España and LSEG Datastream. Latest data: 9 April 2026. 27/02/2026 was the last market day before the Iran war.

a Break-even inflation for Brazil, 3, 5 and 10-year government bond yield less UDIBONOS yields for Mexico and the 1, 5 and 10-year government bond yield less Unidad de Fomento yields for Chile.

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Table 1

Monetary policy rate expectations

% and bp

		Expectations: December 2026 (a)		
	Current policy interest rate (%)	Before the outbreak of war 27 February (%)	After the outbreak of war 9 April (%)	Change (9 April-27 February) (pp)
Brazil	14.75	13.2	14.0	0.8
Chile	4.50	4.3	4.7	0.4
Colombia	11.25	12.5	12.8	0.2
Mexico	6.75	6.7	6.8	0.2
Peru	4.25	4.7	5.3	0.6
Hungary	6.25	6.1	6.5	0.5
Poland	3.75	3.8	3.9	0.1
India	5.25	5.5	5.8	0.3
Thailand	1.00	1.2	1.1	-0.1
Euro area	2.00	2.0	2.8	0.8
United States	3.5-3.75	3.2	3.8	0.6

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

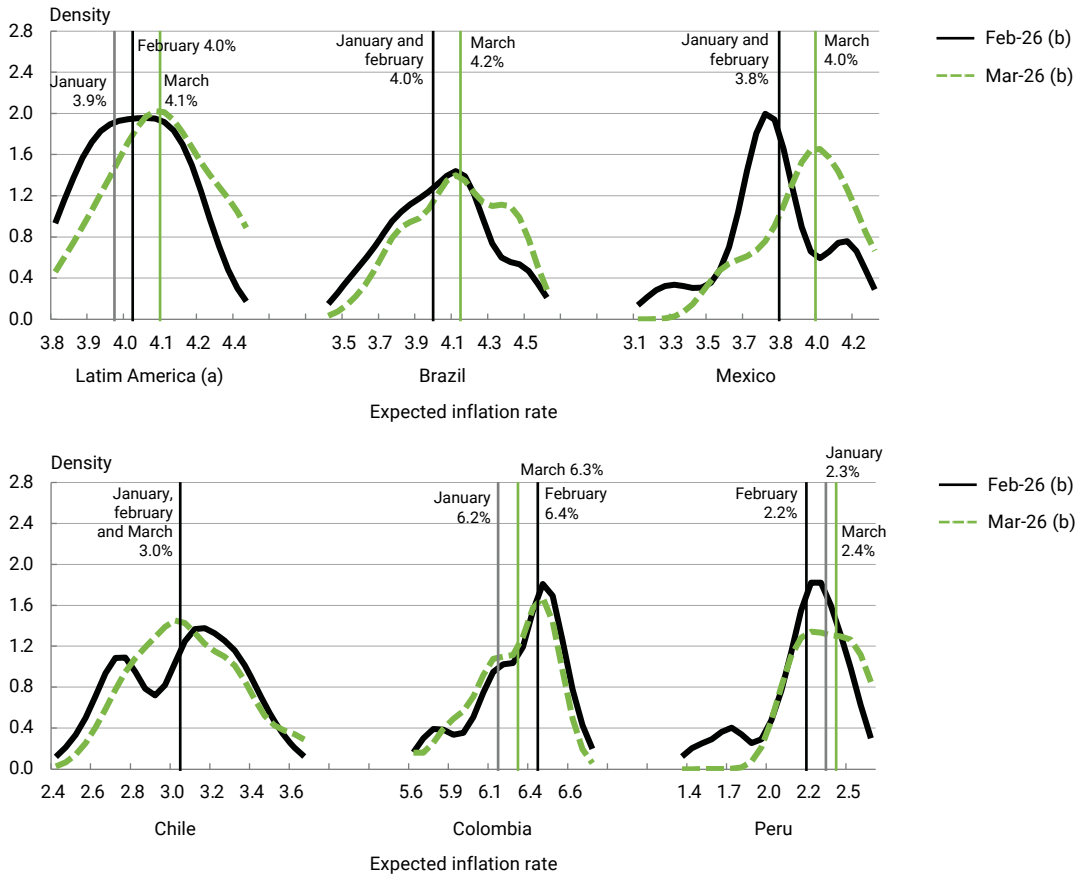
a Priced in by financial markets. Calculated as the average for the five days to 27 February and to 9 April 2026.

9 The balance of risks is tilted towards more persistent inflation …

— According to the latest available consensus forecasts (March),[2] aggregate regional inflation is expected to reach 4.1% in 2026, slightly above levels projected in previous months. The balance of risks is tilted towards inflation remaining more persistent than anticipated in February (Chart 9.a).

Chart 9

9.a Inflation forecasts for 2026 (a)



SOURCE: Consensus Forecasts.

a The aggregate is constructed drawing on analysts' forecasts for Brazil, Chile, Colombia, Mexico and Peru and weighting their forecasts by 2025 PPP-adjusted GDP.
b The vertical lines show the medians of their respective distribution. The median of the January 2026 distribution (in grey) is also shown for reference.

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2 Consensus Forecasts projections published on 18 March 2026, reflecting surveys conducted among analysts two days earlier.

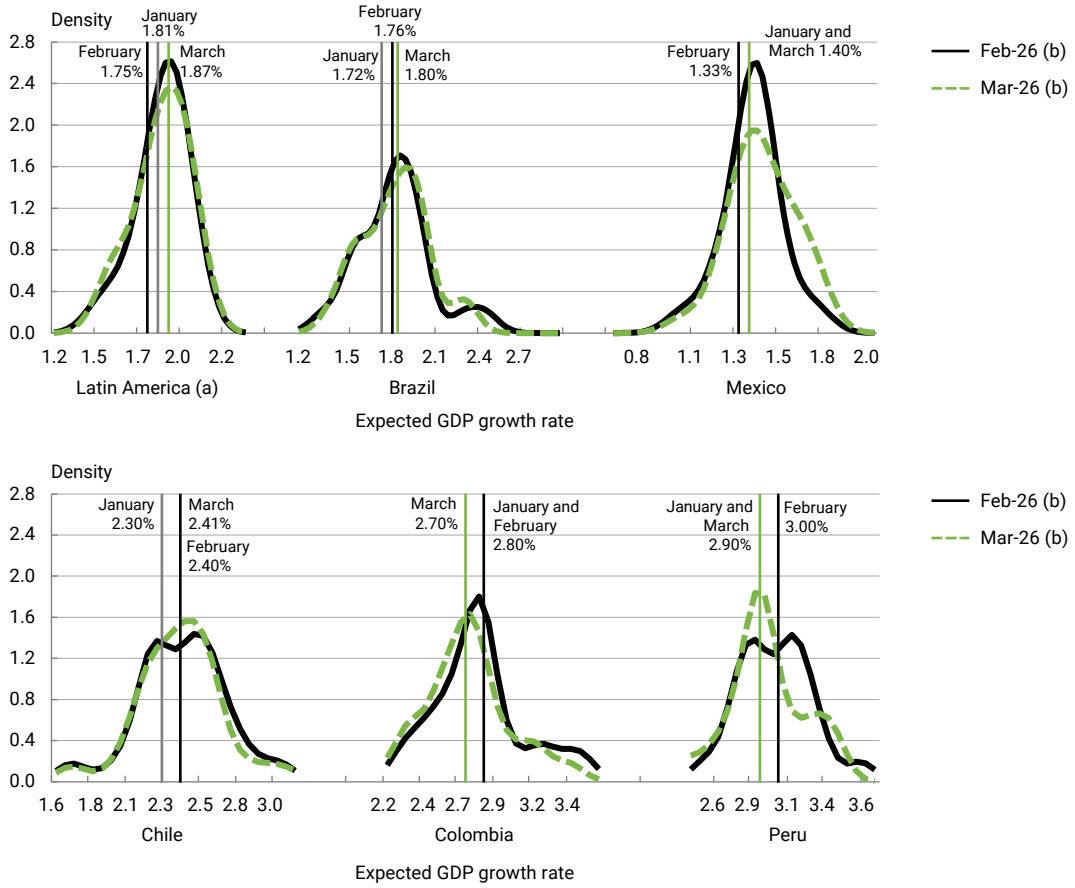
10 … although analysts' revisions to growth forecasts remain limited

— Based on the latest consensus forecasts available (March), aggregate regional growth in 2026 is expected to be again close to 2.0%, below its estimated potential rate (2.4%, according to the IMF) and lower than projected growth for other emerging regions (Table 7).

— Analysts have not yet incorporated potential spillovers from the Iran war (Chart 10.a). By contrast, inflation reports from the region's central banks indicate that risks have shifted mainly to the downside owing to the prospect of weaker global growth, tighter financial conditions and heightened uncertainty linked to the conflict. Country-specific developments will also be influenced by the terms of trade.

Chart 10

10.a GDP growth forecasts for 2026



SOURCE: Consensus Forecasts.

a The aggregate is constructed drawing on analysts' forecasts for Brazil, Mexico, Chile, Colombia and Peru and weighting their forecasts by 2025 PPP-adjusted GDP, after which the corresponding distribution function is derived.
b The vertical lines show the medians of their respective distribution. The median of the January 2026 distribution (in grey) is also shown for reference.

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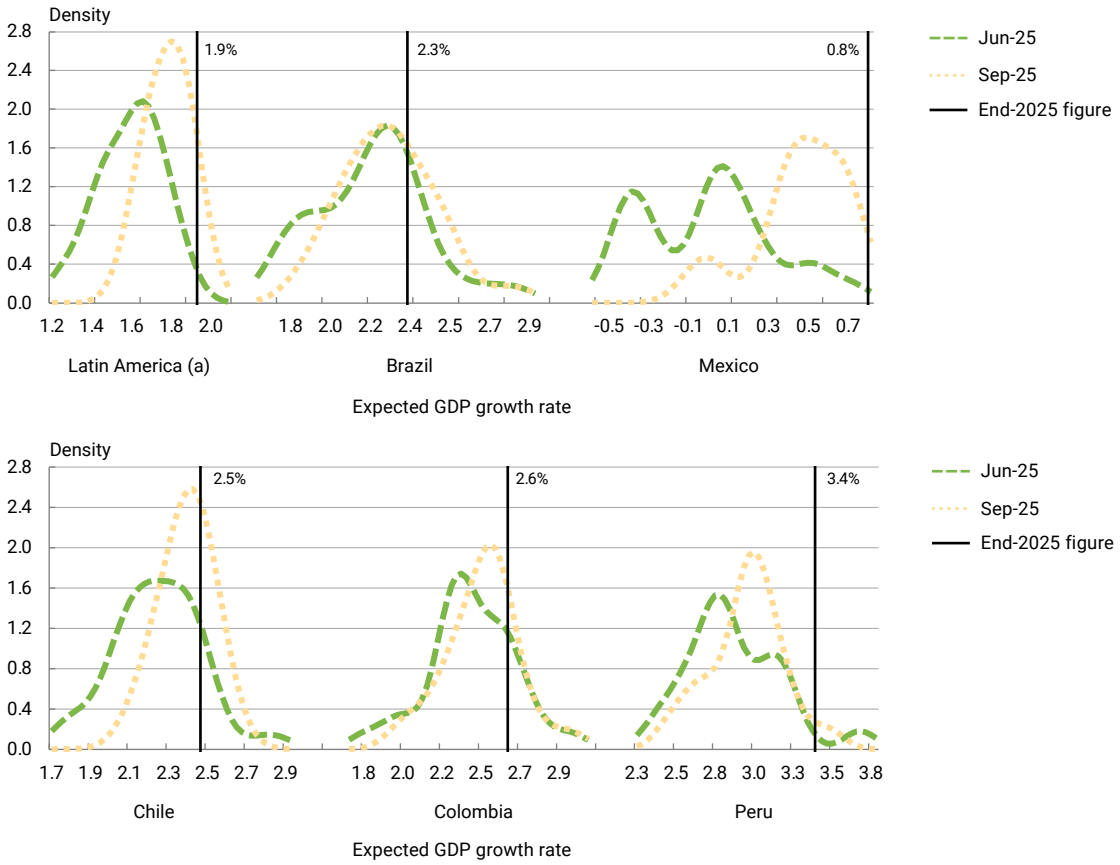
11 Latin America was in a relatively favourable position prior to the conflict in the Middle East: growth in 2025 was stronger than expected …

— Economic activity in Latin America proved notably resilient throughout 2025, as reflected in the gradual improvement in growth forecasts over the course of the second half of the year. The median forecast increased, while analysts' forecasts also became more tightly clustered (Chart 11.a).[3] Regional GDP growth in 2025 reached 1.9%, placing it at the upper end of the September forecast distribution and the very top of the June 2025 distribution.

— The decline in forecast dispersion and the upward revision to growth expectations were particularly pronounced in Mexico, the country potentially most exposed to changes in US economic policies (trade, migration and taxation). Indeed, by mid-2025 a significant group of analysts expected Mexico's growth for that year to be negative. Growth ultimately turned out to be positive, albeit weaker than in previous years. Brazil, the region's other major economy, experienced a marked slowdown in the second half of the year (Table 7).

Chart 11

11.a GDP growth forecasts for 2025



SOURCE: Consensus Forecasts.

a The aggregate is constructed drawing on analysts' forecasts for Brazil, Mexico, Chile, Colombia and Peru and weighting their forecasts by 2025 PPP-adjusted GDP, after which the corresponding distribution function is derived.

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3 Developments in the Argentine economy are discussed in Box 2.

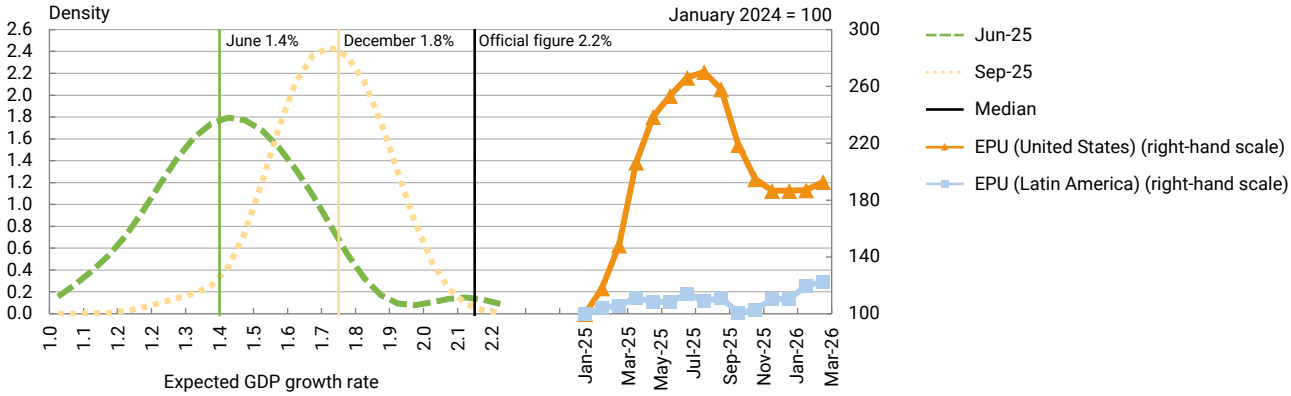
12 … supported by a decline in uncertainty and a favourable external environment

— In their inflation reports, central banks partly attribute the gradual upward revision to their 2025 growth forecasts to stronger-than-expected domestic demand in some countries.[4] They also note that, while the global environment was subject to risks, these did not materialise and in fact provided some tailwinds, including favourable financial conditions.

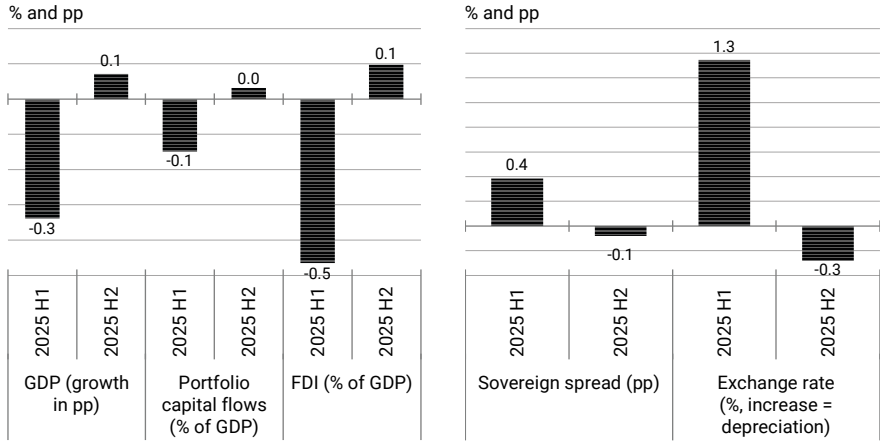
— The resilience observed in 2025 was also underpinned by the upward revision in US GDP growth projections and declining uncertainty (Chart 12.a) as well as by the positive impact on economic activity of more favourable terms of trade resulting from higher commodity prices. At the same time, economic activity ceased to be negatively affected by domestic uncertainty, which declined somewhat in 2025 H2 (Chart 12.b).

Chart 12

12.a United States: GDP growth forecasts in 2025, uncertainty (a) and the impact of local uncertainty on Latin America



12.b Contributions of domestic EPU to different real and financial variables in the region (b)



SOURCES: Consensus Forecasts, Economic Policy Uncertainty and Banco de España.

a The economic policy uncertainty index of Baker, Bloom and Davies.
b Contribution of the average EPU of the Latam-5 (Brazil, Chile, Colombia, Mexico and Peru) to GDP growth, exchange rate, direct investment and portfolio flows and the Latam-5 sovereign spread in the semesters shown. The contributions are estimated using a pooled panel VAR model that includes the region's EPU, regional variables (the aggregate exchange rate, foreign direct investment, GDP growth and portfolio inflows), and global variables (the VIX and commodity prices). See Erik Andres-Escayola, Luis Molina, Javier J. Pérez and Elena Vidal. (2025). "How economic policy uncertainty spreads across borders: the case of Latin America". Documentos de Trabajo, 2549, Banco de España.

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4 Regarding labour market developments, see the first chapter of Ayres and Juvenal (2026).

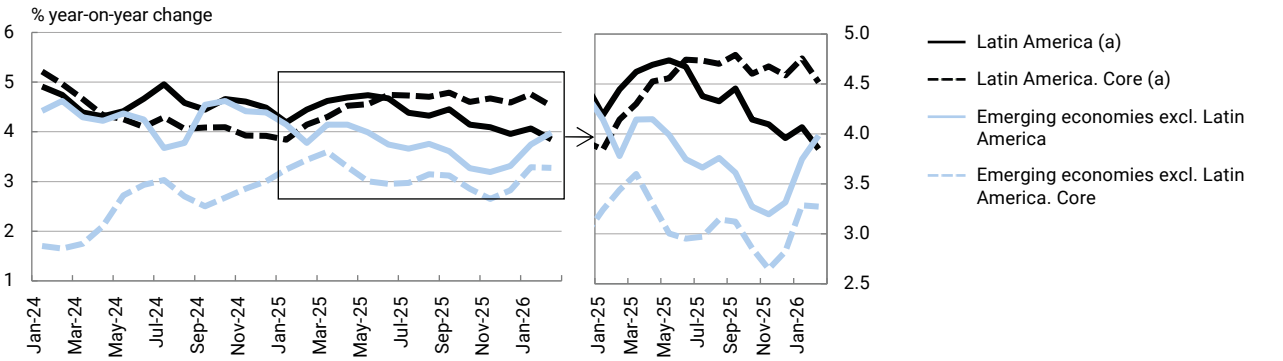
13 While inflation eased up to the onset of the war, helping Latin America to converge towards other emerging regions, underlying pressures remain ...

— In the five largest Latin American economies with explicit inflation targets, headline inflation eased in 2025 H2 and in the first two months of 2026 (Chart 13.a), mainly owing to a reduction in the positive contribution from energy prices. This effect is expected to reverse in the coming months given the rise in oil and natural gas prices. As a result, headline inflation has converged with that in other emerging regions. However, there is still a gap in core inflation rates.

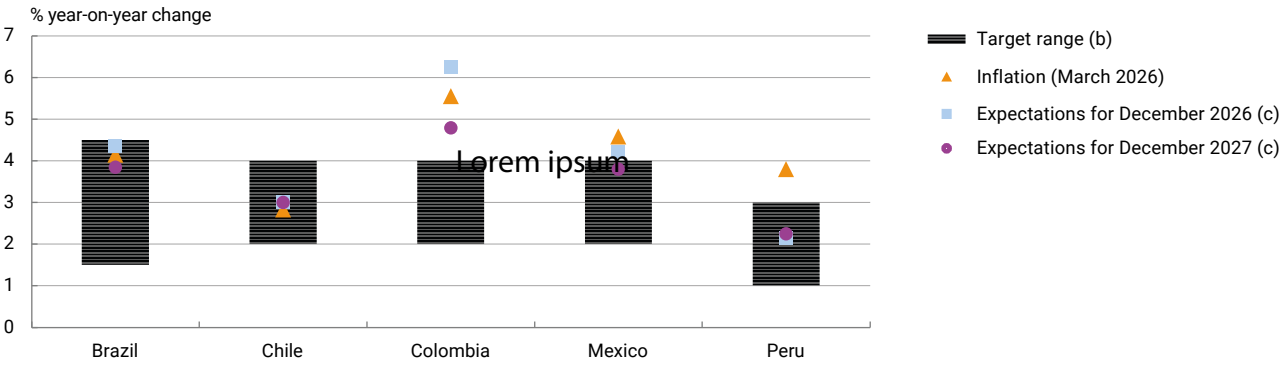
— In March (the first data available following the outbreak of the Iran war) inflation rose, standing above the target range in Colombia, Mexico and Peru (Chart 13.b). According to central bank surveys, this pattern is expected to persist in the coming months in Mexico and, in particular, in Colombia, where inflation is expected to rise, in part owing to the impact on prices of a substantial minimum wage increase.[5]

Chart 13

13.a Headline and core inflation



13.b Inflation: rates, targets and expectations



SOURCES: LSEG Datastream and national statistics.

a Aggregate of Brazil, Chile, Colombia, Mexico and Peru, weighted by the PPP-adjusted GDP.
b The inflation target is 3% for the central banks of Brazil, Chile, Colombia and Mexico and 2% for the central bank of Peru, weighted by the PPP-adjusted GDP.
c Inflation expectations for 2026 and 2027 are obtained from central bank surveys.

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5 See Box 1, "Possible macroeconomic effects of the minimum wage", *Monetary Policy Report 01/26*, Banco de la República.

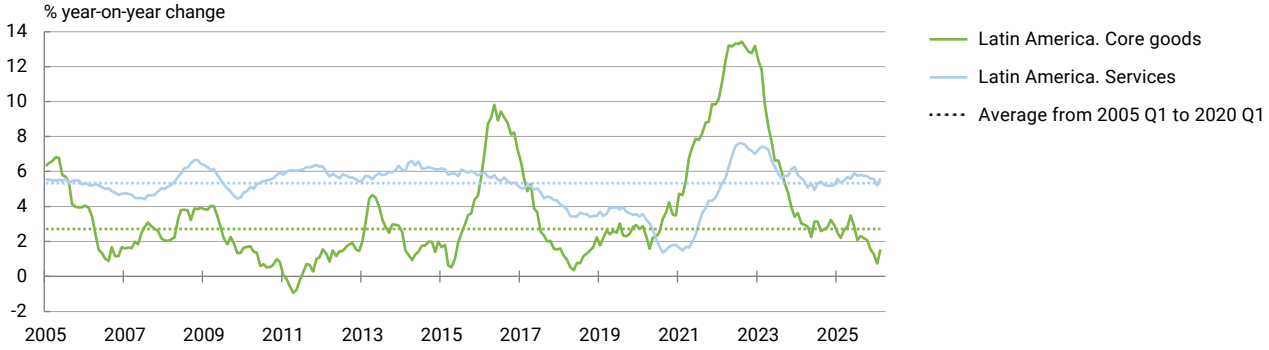
14 … particularly in services, where persistent inflation is hampering convergence on Latin American central bank targets

— Persistent core inflation remains the main obstacle to bringing inflation back towards the targets of the region's central banks. While in February 2026 headline inflation for the aggregate of the region's main inflation-targeting economies stood at 3.8%, below its historical average since adoption of inflation targeting and until the onset of the pandemic (4.6%),[6] core inflation was close to its historical average of 4.5%.

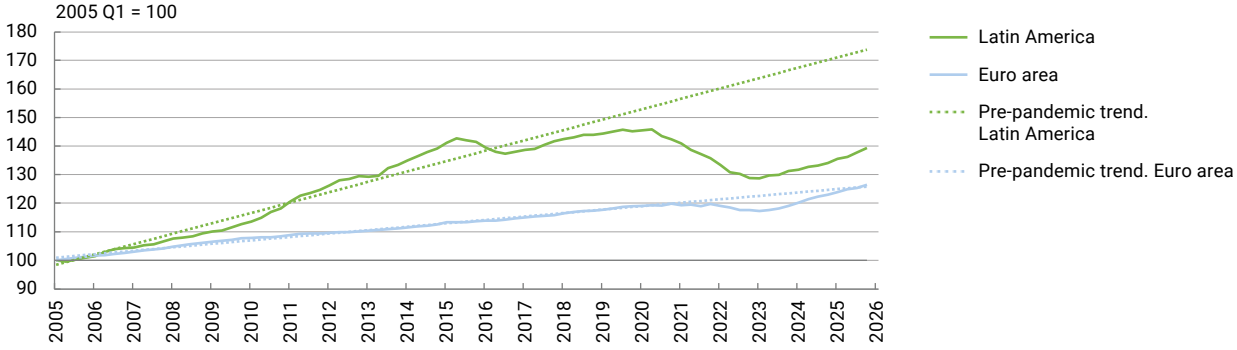
— This persistence largely reflects developments in services prices (Chart 14.a). Moreover, it may remain elevated over the coming quarters if, as observed in the euro area, the relative price ratio between core goods and services continues to adjust back towards its pre-COVID trend (Chart 14.b).

Chart 14

14.a Inflation in Latin America: goods and services components in core inflation (a)



14.b Price of services relative to core goods in Latin America (a)



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

a The Latin America aggregate is defined as the aggregate of Brazil, Chile, Colombia and Mexico, weighted by the PPP-adjusted GDP according to the IMF.

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6 Inflation targets in some countries were previously set at higher levels than at present.

15 In the months leading up to the outbreak of the Iran war, monetary policy continued to diverge across the region

— Since mid-2025 monetary policy decisions among the region's main central banks have differed somewhat. While Mexico has continued to cut policy interest rates at nearly all of its meetings, Chile and Peru appear to have reached the end of their easing cycles (Table 2).

— Brazil kept its policy rate unchanged until March 2026, when it began an easing cycle, albeit a very gradual one. By contrast, Colombia implemented larger-than-expected increases to address the deanchoring observed in its inflation expectations.

— Following the geopolitical shock and in line with other emerging economies and the euro area, futures markets have begun to price in increases in policy interest rates across the region, except in Brazil and perhaps Mexico.

Table 2
Monthly changes in policy interest rates (a)

% and bp

	2025												2026			Policy interest rate (%)	9 April. Policy rate expected for Dec-2026 (%) (b)
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M		
Brazil	+100		+100		+50	+25									-25	14.75	14.0
Chile							-25					-25				4.50	4.7
Colombia				-25									+100		+100	11.25	12.8
Mexico		-50	-50		-50	-50		-25	-25		-25	-25			-25	6.75	6.8
Peru	-25				-25				-25							4.25	5.3
Hungary														-25		6.25	6.5
Poland					-50		-25		-25	-25	-25	-25			-25	3.75	3.9
India		-25		-25		-50						-25				5.25	5.8
Thailand		-25		-25				-25				-25		-25		1.00	1.1
Euro area	-25		-25	-25		-25										2.00	2.8
United States									-25	-25		-25				3.5 - 3.75	3.8

SOURCES: LSEG Datastream, JP Morgan and national statistics.

a Red (blue) denotes monetary policy tightening (easing), while the intensity of the colour indicates the scale of the change.
b Priced in by financial markets. Calculated as the average for the five days to 9 April 2026.

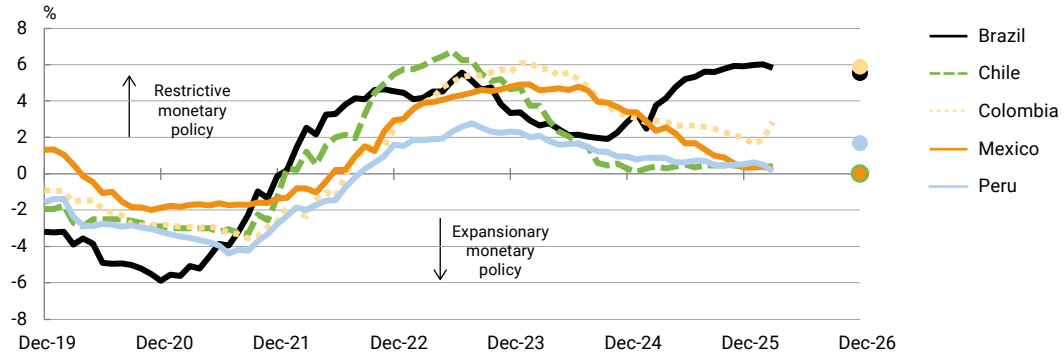
16 Monetary and fiscal policy stances across the region remain heterogeneous

— On the monetary policy front, some central banks (including those of Chile, Mexico and Peru) maintain a relatively neutral monetary policy stance, while others display a restrictive stance (Colombia and, most notably, Brazil) (Chart 16.a).

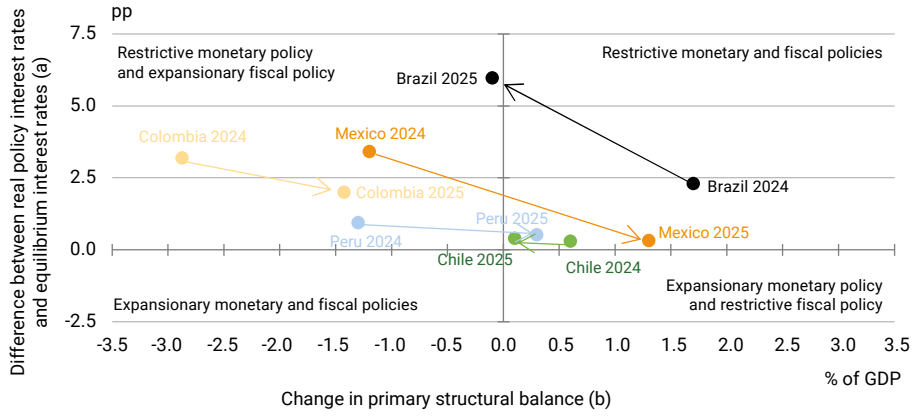
— As for fiscal policy, Brazil adopted a broadly neutral stance in 2025, following a strongly restrictive position in 2024 (Chart 16.b). Chile's stance also eased over the same period. By contrast, in Colombia the positive fiscal impulse in 2025 was smaller than in 2024, while Peru and Mexico's fiscal policies shifted from a notably expansionary stance in 2024 to a restrictive one in 2025, which was particularly marked in Mexico.

Chart 16

16.a Real policy interest rates less equilibrium interest rates (a)



16.b Monetary and fiscal policy stance



SOURCES: LSEG Datastream, JP Morgan, LatinFocus, IMF (Fiscal Monitor) and national statistics.

a Real policy interest rates calculated using one-year-ahead inflation expectations, drawn from central bank surveys. For December 2026 they are calculated using policy interest rate futures and one-year-ahead inflation expectations from LatinFocus (March 2026). The equilibrium interest rates are calculated drawing on estimates by the region's various central banks.
b Difference in the primary structural balance compared with the previous year (drawn from the IMF Fiscal Monitor). An increase in the balance denotes a more restrictive policy and a decrease a more expansionary policy.

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17 Latin America's GDP is close to potential, with inflation somewhat above target and monetary policy generally in line with the Taylor rule

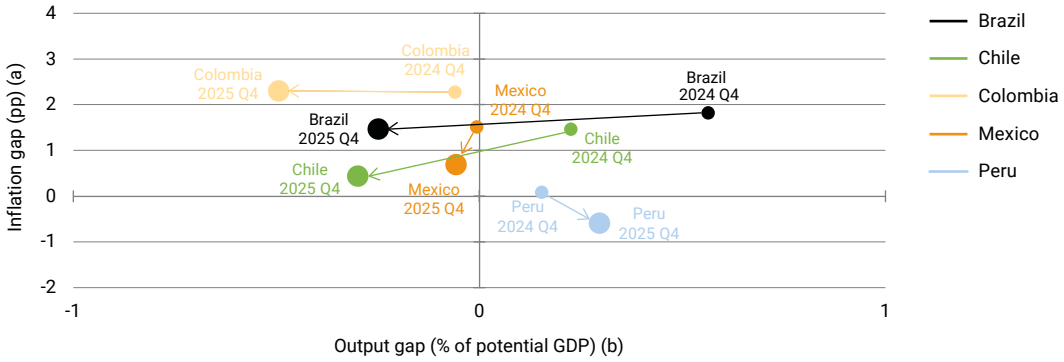
— Over 2025 the output gap shifted from slightly positive to slightly negative, except in Peru. Nevertheless, in almost all countries GDP remained close to its potential level (Chart 17.a). The largest deviation was in Colombia, with the output gap standing at roughly -0.5% at end-2025.

— The inflation gap (observed changes in inflation at year-end relative to its target) declined but remained positive in all countries, except Peru. Colombia stands out in this respect, as the inflation gap remained high (2 pp).

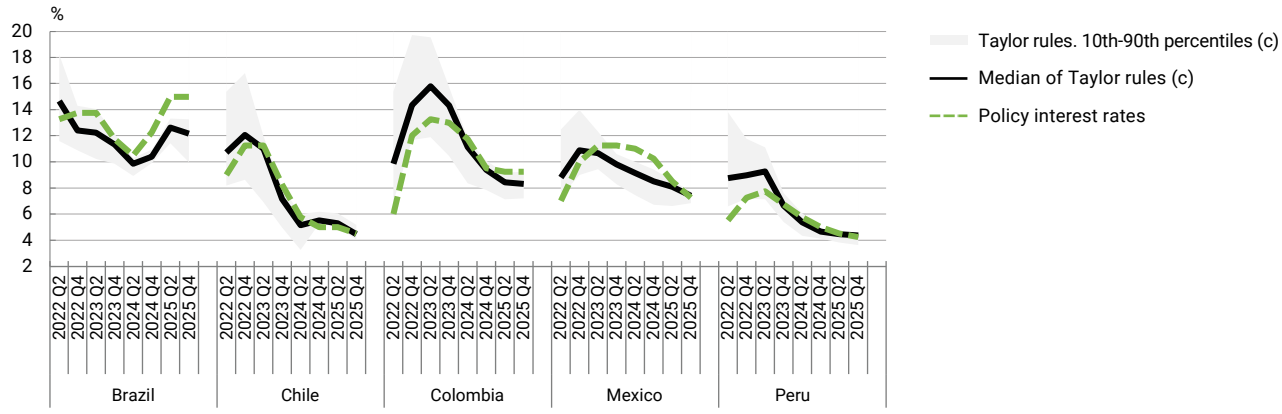
— Almost all countries' policy interest rates lie within the range estimated for various Taylor rules (which also consider expected developments in GDP and inflation, for example) (Chart 17.b). These rules suggest that the monetary stance is too restrictive in Brazil and marginally so in Colombia.

Gráfico 17

17.a Output and inflation gaps in Latin America



17.b Policy interest rates and Taylor rules



SOURCES: LSEG Datastream and central banks.

a Difference between inflation in the relevant quarter and the mid-point of 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 median and 10th-90th percentile range are shown in the chart.

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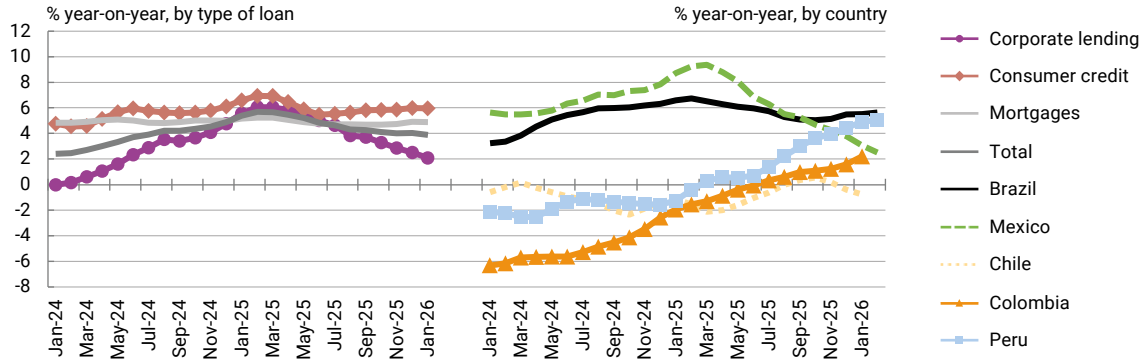
18 In 2025 bank lending in the region grew to generally high rates

— Real credit growth rates hovered around 5%, except for corporate credit, which slowed down slightly (Chart 18.a, left-hand panel). By country, lending decelerated in Chile and Mexico (Chart 18.a, right-hand panel), due in both cases to adverse developments in lending to firms and dollar-denominated loans.

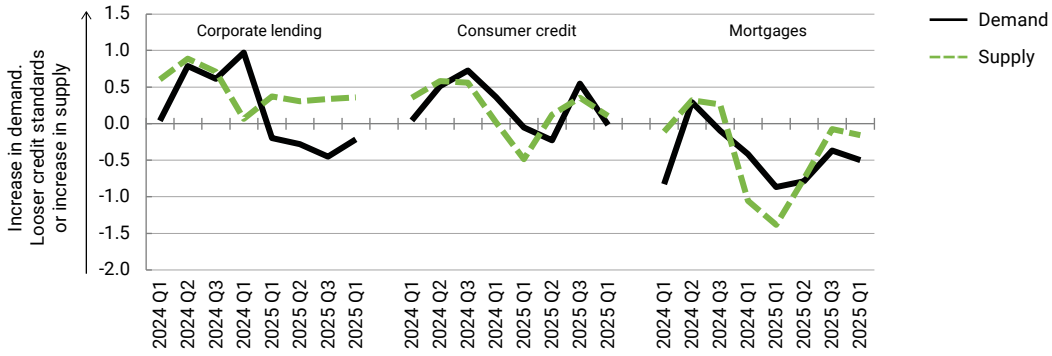
— In the same vein, in the second half of the year demand from firms declined – possibly owing to favourable financing conditions in international financial markets and an increase in fixed-income placements abroad – and credit standards for loans to households and mortgages eased (Chart 18.b).

Chart 18

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



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



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest data: January or February 2026 (credit) and 2025 Q4 (surveys).

a Aggregate of Brazil, Chile, Colombia, Mexico and Peru, with GDP in PPP.
b Aggregates calculated using PPP-adjusted GDP weightings.

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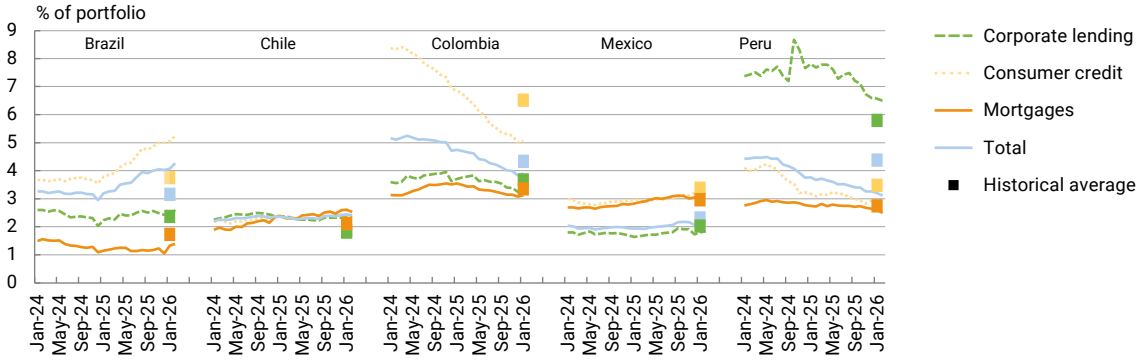
19 Risks to the banking system have remained contained, with declines in non-performing loans

— Non-performing loans continued to decrease in 2025 (Chart 19.a), except in the consumer segment in Brazil, a risk highlighted in its central bank's latest Financial Stability Report (Figure 1).

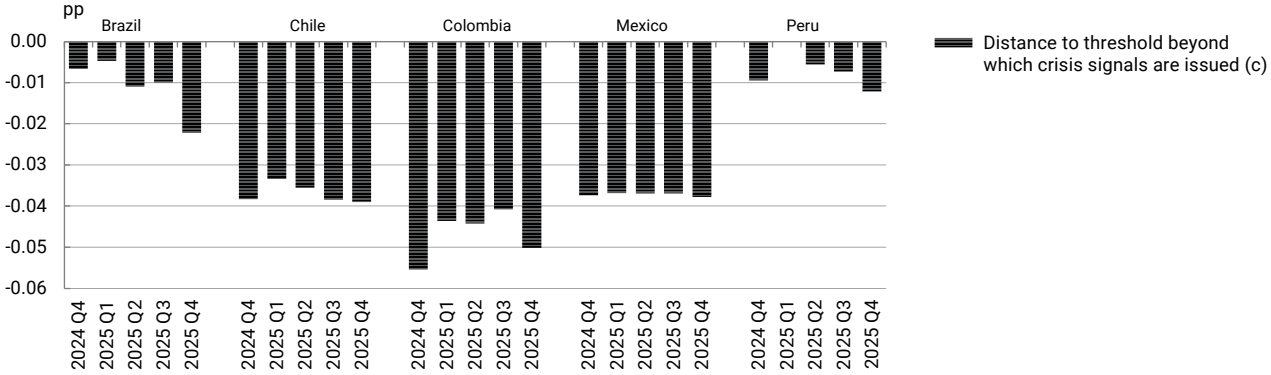
— Indicators of vulnerability to a banking crisis remain below alert thresholds in all countries and they have improved or stabilised in almost all of them (Chart 19.b).

Chart 19

19.a Non-performing loans (a)



19.b Vulnerability to a banking crisis (b)



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest data: December 2025 or January 2026 (non-performing loans) and 2025 Q4 (leading indicator of crises).

a Percentage of gross loans. The squares denote the historical average (2015-2024) for each type of loan and each country.
b Likelihood of a banking crisis, 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).

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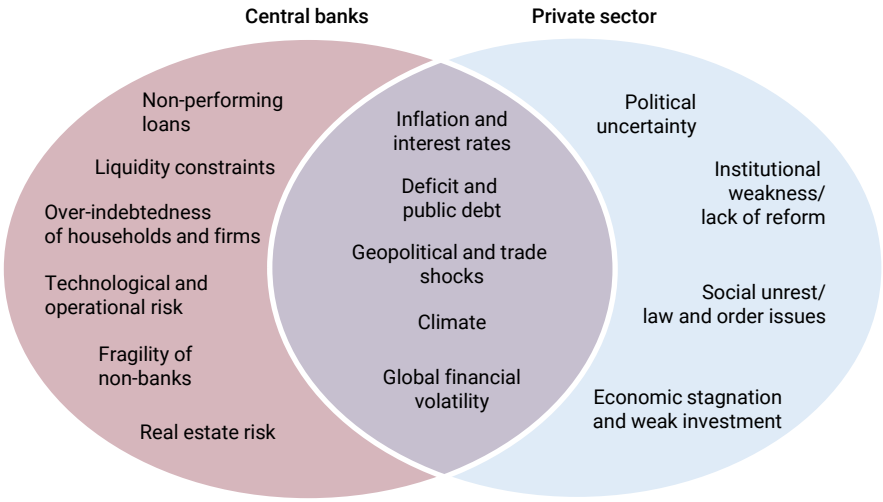
20 Financial stability reports highlight technological, climate and fiscal risks, although credit risk remains the main regional concern

— In 2025 H2, financial stability reports across the region indicate a shift in key risks towards cyber security, artificial intelligence, digitalisation and climate change. While longer-standing issues such as public debt and liquidity constraints remain, concerns about international trade and abrupt capital flow movements have eased. The risk of an increase in loan defaults is still considered high, especially because of the concentration of lending in certain sectors and changes in credit origination practices resulting from the use of artificial intelligence (Figure 1).

— Some of the common risks identified by the central banks of countries that are material for the Spanish banking system[7] are increases in non-performing loans, exposure to external shocks (financial market volatility and commodity price falls), fiscal fragility and public indebtedness, inflationary pressures with high interest rates, and technological and climate risks, especially cyber attacks and extreme events, such as the El Niño weather phenomenon.

— In contrast, the private sector emphasises macroeconomic and sociopolitical issues, such as political uncertainty, institutional weakness and economic stagnation.[8]

Chart 20
Main risks identified by the central banks and the private sector (2025 H2) (a)



SOURCE: Banco de España drawing on the latest central bank financial stability reports of the five countries analysed and on private sector reports, published between July and December 2025. The private sector includes Consensus Forecasts, Oxford economics, Scotiabank, UBS, BBVA research, Santander, HSBC, Itaú Unibanco, Deloitte, Asobancaria, Centro de Estudios del Sector Privado (CEESP) and IMCO (public policy think tank).

a Risks that appear in more than one country and are mentioned either in the financial stability reports for 2025 H2 or in private sector reports. The basis for this chart are the risks identified in Figure 1.

7 Each year the Banco de España identifies countries outside the European Economic Area that are materially significant to the Spanish financial system for the purpose of the countercyclical capital buffer (CCyB). To this end, the size of Spanish banks' international exposures is analysed according to the European Systemic Risk Board's guidelines. In 2025 Brazil, Chile, Colombia, Mexico and Peru were identified as materially significant.

8 This comparison should be taken with caution, as national central banks' reports address financial stability, while private sector reports are concerned with the general economic situation.

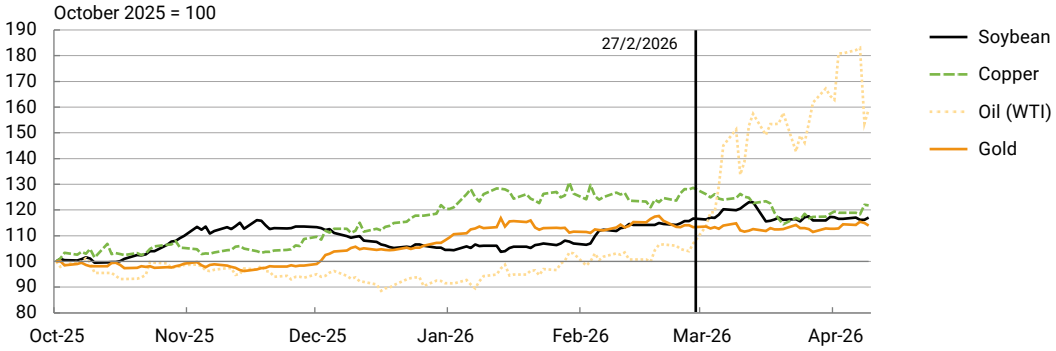
21 The conflict in the Middle East has triggered a surge in oil and gas prices, following months of rising prices for agricultural and metal commodities exported by Latin America

— From October 2025 until the start of the war in the Middle East, there was a marked increase in the price of some of the region's commodity exports (Chart 21.a), especially non-energy products such as soybeans (+17%), copper (+28%) and gold (+15%). The factors behind these movements are the uncertainty over whether the United States would impose tariffs on copper, mining disruptions in the main producing countries, private investors' use of gold as a safe-haven asset, and stronger demand for gold from the central banks of a number of emerging economies wishing to diversify their international reserves.

— The war has severely disrupted oil and natural gas flows in the Middle East, substantially pushing up the price of both products, despite several countries having released some of their strategic reserves. As a result, from 27 February WTI oil prices have surged by close to 60% (Chart 21.a).

Chart 21

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



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SOURCE: LSEG Datastream. Latest data: 9 April 2026. 27/2/2026 is the last market day before the start of the war in Iran.

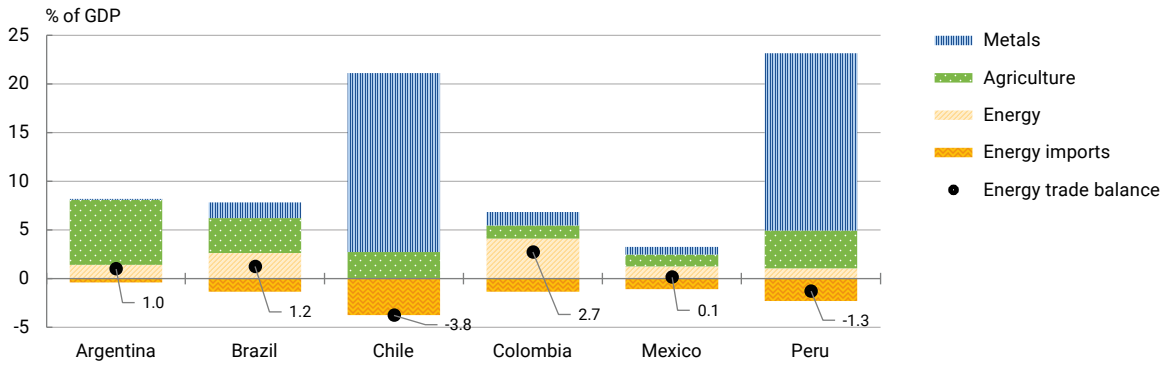
22 The rise in oil and gas prices is expected to benefit net energy exporters

— Rising oil and gas prices are expected to benefit Latin American countries that have an energy surplus, such as Argentina, Brazil and, in particular, Colombia, but to negatively impact net energy importers like Chile and Peru (Chart 22.a). That said, the pre-war increase in non-energy commodity prices appears to have significantly improved the latter two countries' trade balance, offsetting, for now, the impact of the surge in energy import prices (Chart 22.b).

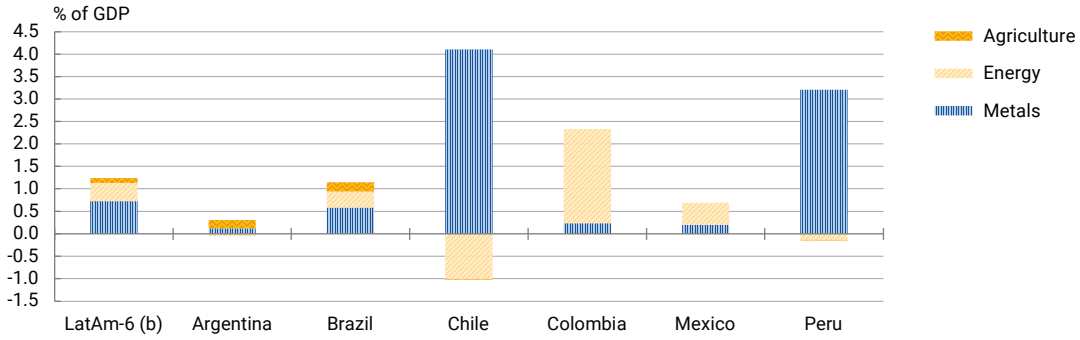
— This trade balance improvement may only partially feed through to the current account, since higher commodity prices can worsen the income balance if foreign-owned extractive firms repatriate some of their profits.

Chart 22

22.a Commodity exports and energy trade balance in 2025, as a % of GDP



22.b Impact of the change in commodity prices on the trade balance (a)



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

a Percentage difference in GDP resulting from applying two different sets of commodity prices (the January 2015-February 2026 average and the 1 March-9 April 2026 average) to average trade volumes between 2015 and 2022. Commodity prices are aggregate S&P prices, except in some cases where they are taken as the price of the country's most representative commodity: soybeans for agriculture in Argentina and Brazil; copper for metals in Chile and Peru; and oil for energy in Colombia and Mexico.
b Aggregate of Argentina, Brazil, Chile, Colombia, Mexico and Peru, weighted by GDP in PPP.

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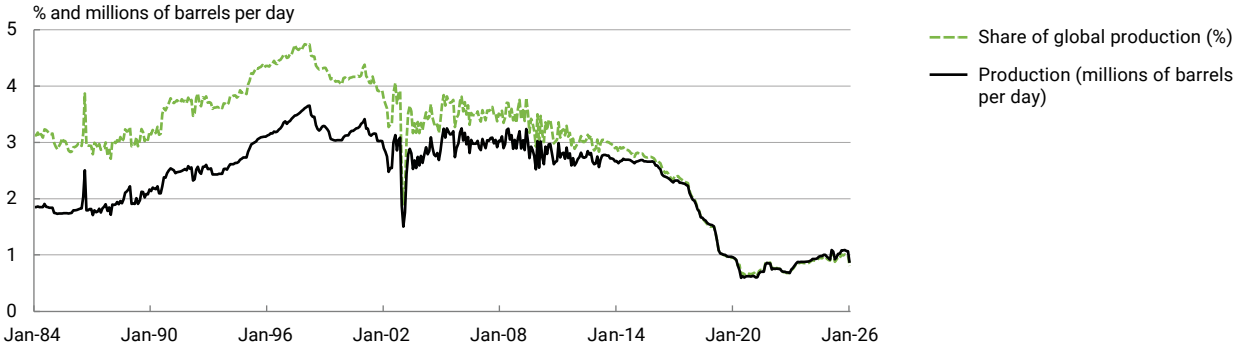
23 Higher oil prices could potentially drive up Venezuela's oil production in the coming years

— In recent decades, Venezuela's oil production has fallen sharply to account for less than 1% of global production in 2025 (Chart 23.a). This fall was driven by a lack of investment in the sector, declining profitability and productivity at the state-owned oil company PDVSA, and the sanctions imposed on the country. That said, Venezuela still has the world's largest oil reserves (some 300 billion barrels).[9]

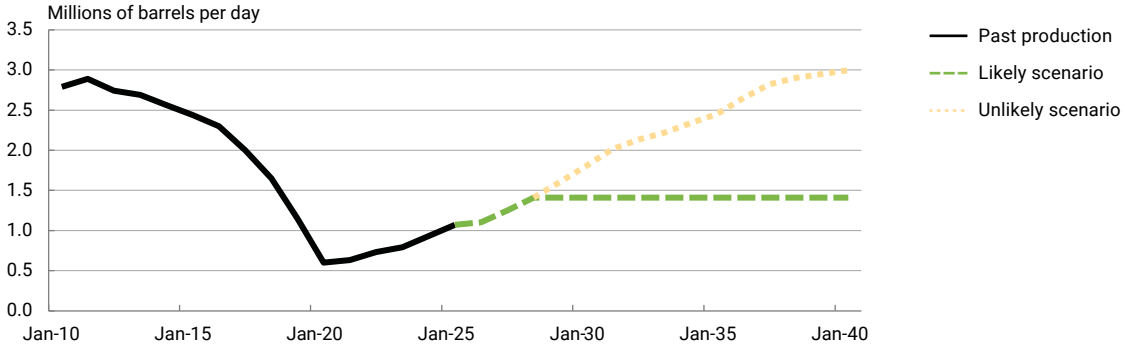
— The National Assembly of Venezuela has approved a reform of the Hydrocarbons Law that seeks to attract private and foreign investment through tax incentives and production sharing agreements in the oil sector, allowing private firms to operate directly without providing capital. Depending on the amount of investment mobilised, production could reach 2 million barrels per day in 2030 (Chart 23.b).

Chart 23

23.a Venezuela's oil production and global share



23.b Production scenarios for Venezuela (a)



SOURCES: International Energy Agency and Rystad Energy

a Following the US intervention in Venezuela in January 2026, a likely scenario is for investment to increase to $80 billion (100% of GDP), with production reaching 1.4 million barrels per day by 2028 and remaining at that level until 2040. Under an unlikely scenario, in which production reaches up to 3 million barrels per day by the end of the period considered, the total investment required is much higher ($183 billion, 229% of GDP), and oil prices would need to be higher for it to be profitable.

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9 International Energy Agency (2022).

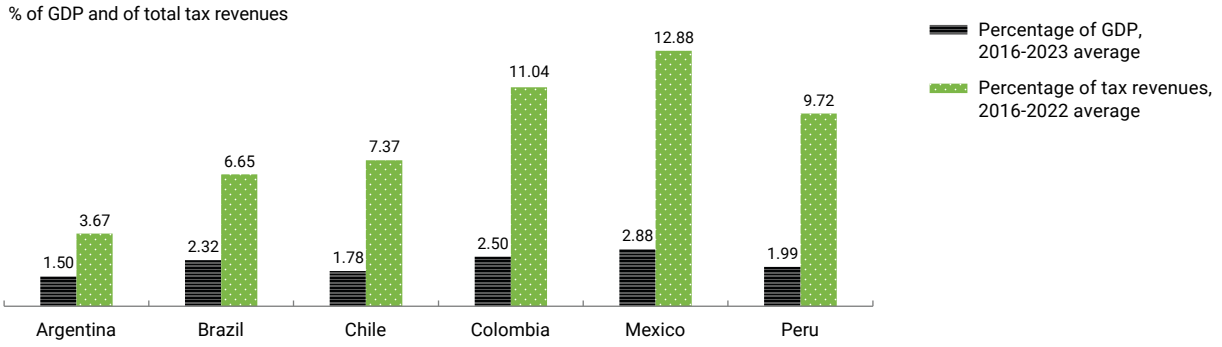
24 Commodity prices have exceeded budget benchmarks in most countries, creating some fiscal space ...

— Commodities generate substantial tax revenues – both directly and indirectly – for the region's main economies, especially for those more reliant on oil, such as Colombia and Mexico (Chart 24.a).[10]

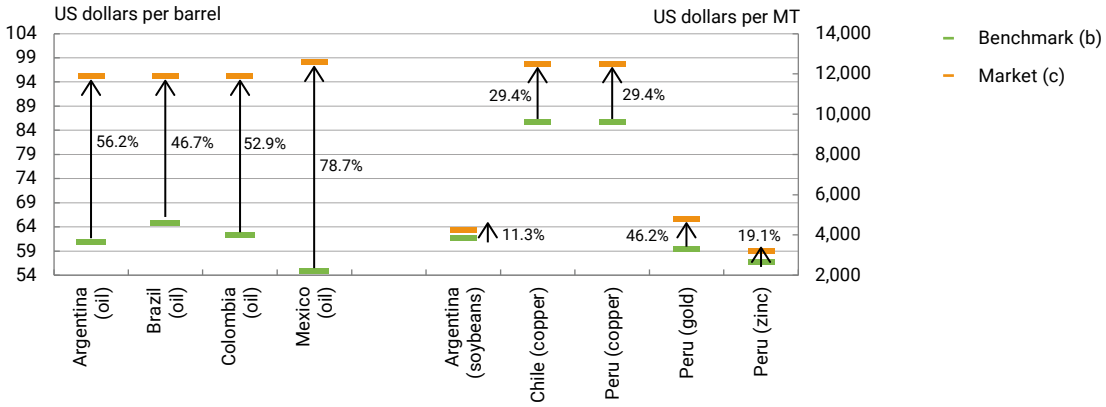
— Since March 2026, average market prices have already exceeded the benchmark levels incorporated in most countries' 2026 budgets or fiscal rules, potentially providing some fiscal space for the region (Chart 24.b). In general, the elasticity of tax revenues to commodity price increases is greater than one.

Chart 24

24.a Tax revenues from commodities (a)



24.b Benchmark price and market price



SOURCES: CEPAL, Finance ministries, national statistics and LSEG Datastream.

a Taxes and royalties and, in some cases, dividends from the state-owned company.
b Price included in the multi-year fiscal frameworks or in the fiscal rules, for each of the commodities considered, for 2026.
c Average price from 2 March to 9 April 2026.

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10 Banco de España (2024), Box 3.

25 ... to fund fiscal support measures aimed at alleviating the impact of higher energy prices on households and firms

— Governments have reinstated the fiscal measures introduced in 2022 or adopted new ones to mitigate the impact of rising fuel prices on households and firms (Table 3), seeking to contain inflationary pressures.[11] These measures include fuel tax cuts (Argentina, Brazil, Chile and Mexico), direct subsidies for households and firms (Brazil, Colombia, Mexico and Peru), price controls and regulated price freezes and caps (Brazil, Chile, Colombia and Mexico), and new taxes on exports (Argentina and Brazil).

— These measures may come at a substantial fiscal cost. Thus, to keep the budget deficit in check, the Chilean and Colombian governments have allowed much of the rise in international prices to be passed through to domestic fuel prices. Some countries, such as Chile, Colombia and Peru, have sovereign wealth funds that they can use as fiscal buffers. In Mexico, however, these funds have been depleted following their intensive use during recent crises.[12]

Table 3
Fiscal mechanisms to mitigate the rise in fossil fuel prices in Latin America

Country	Measures adopted in 2022	Announced measures (28 February - 10 April 2026)	Main mitigating mechanisms
Argentina	Setting a domestic price for crude oil below international levels, fuel price controls and subsidies for gas imports.	Higher taxes on crude oil exports following the surge in international prices.	Taxes on exports and postponement of fuel tax increases.
Brazil	Fuel tax cuts, direct financial assistance for hauliers, intervention in Petrobras to contain the impact of international prices.	Elimination of taxes on diesel, introduction of federal diesel subsidies for importers and exporters, 12% tax on crude exports.	International parity price system that aligns domestic prices with the global market and prevents Petrobras from selling below import costs. Lacks an automatic instrument.
Chile	Expansion of the stabilisation mechanism, subsidies for households and businesses, strengthening of the kerosene fund and protection for vulnerable electricity consumers.	Reform of MEPCO (specific tax): extension from two to four weeks the period used to calculate the fuel benchmark price, alleviating spikes but reducing subsidies (a).	21-day adjustment cycle for specific fuel taxes to soften the impact of international price hikes. Other funds are used to compensate electricity and kerosene distributors and consumers.
Colombia	Intensive use of the FEPC to prevent the pass-through of international prices to consumers, resulting in a large fiscal deficit.	No new measures have been announced. Ongoing use of the FEPC and gradual normalisation of prices, with specific petrol price adjustments.	Stabilisation fund compensating refineries and importers when domestic prices fall below international ones. Acts as an implicit consumer subsidy.
Mexico	100% fiscal stimulus applied to the IEPS for petrol and diesel, complementary subsidies, cap on LPG prices and freeze on electricity prices.	The Government has announced the partial reactivation of fiscal stimuli if oil prices exceed $90 per barrel for more than two weeks.	The IEPS on petrol and diesel is adjusted on a weekly basis, even turning negative in the form of subsidies, and acting as an automatic buffer.
Peru	Intensive use of the FEPC to prevent the pass-throughof international prices to consumers, resulting in a large fiscal deficit.	Exceptional subsidy for taxi drivers owing to the sudden shortage of NGV (b). Enforcement actions and sanctions against service stations that speculate on fuel prices.	The stabilisation fund operates on the basis of price bands and compensates wholesalers when international prices exceed certain thresholds.

SOURCE: Banco de España.

a Although prices could be adjusted at a more gradual pace, the option of a sharp adjustment is maintained.
b A gas pipeline rupture prompted the adoption of support measures for households and businesses, excluding transport.

11 Higher energy prices raise the HICP and boost demand in exporting countries, while more favourable terms of trade lead to currency appreciation and curb inflationary pressures.

12 Chile, Colombia, Mexico and Peru have stabilisation funds. Brazil had a sovereign wealth fund from 2009 to 2019.

26 Public debt levels are projected to continue rising in the years ahead

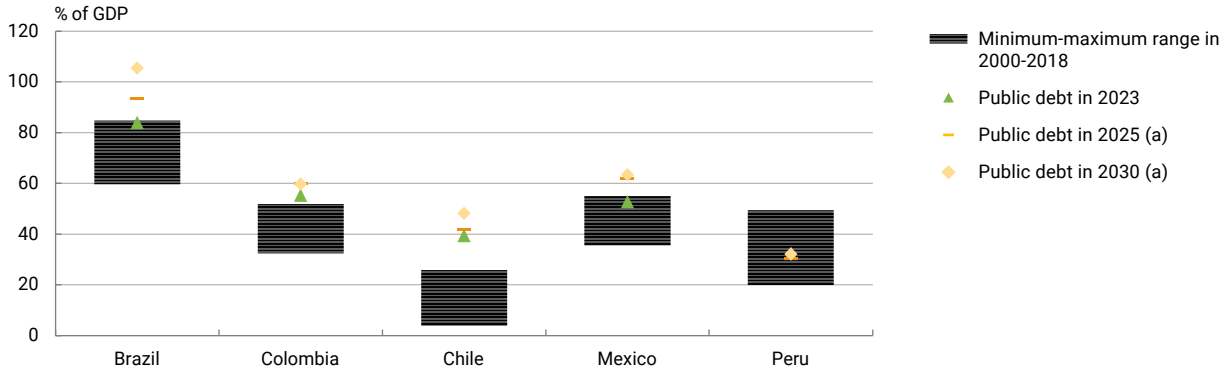
— Once the pandemic-related emergency measures were withdrawn, the general government debt of the main Latin American economies was higher than before the health crisis. In addition, with the exception of Peru, all countries in the region recorded higher public debt levels in 2025 than in the period 2000-2018 (Chart 26.a).

— Debt sustainability models indicate that the probability of Brazil and Mexico stabilising their debt at close to current levels has declined to below 30% and 20% (Chart 26.b). By contrast, in Colombia, the probability of debt stabilising at or below current levels remains above 70%. Nonetheless, according to IMF projections, public debt will rise in the three countries, with large budget deficits in 2026, particularly in Brazil, mainly driven by high debt-servicing costs.

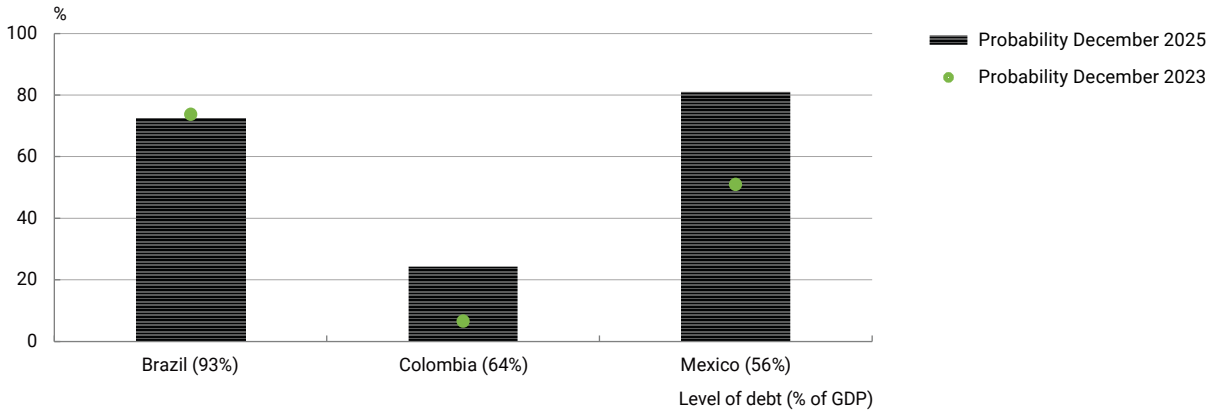
Chart 26

Gross general government debt in Latin America

26.a Public debt. April 2026 WEO



26.b Probability of public debt stabilising at above 2025 levels in the next 10 years (b)



SOURCES: IMF, World Bank and LSEG Datastream.

a IMF Projections (Fiscal Monitor, April 2026).
b Probability calculated using a stochastic sustainability model on quarterly debt series based on the methodology in Banco de España. (2022). "Box 3. Public debt sustainability in Latin America". *Report on the Latin American Economy. First half of 2022.* The threshold applied is the debt in 2025 Q4 (in brackets). For Colombia the quarterly series from the central government's Ministry of Finance is used; for Mexico the quarterly outstanding public debt is used, based on data availability.

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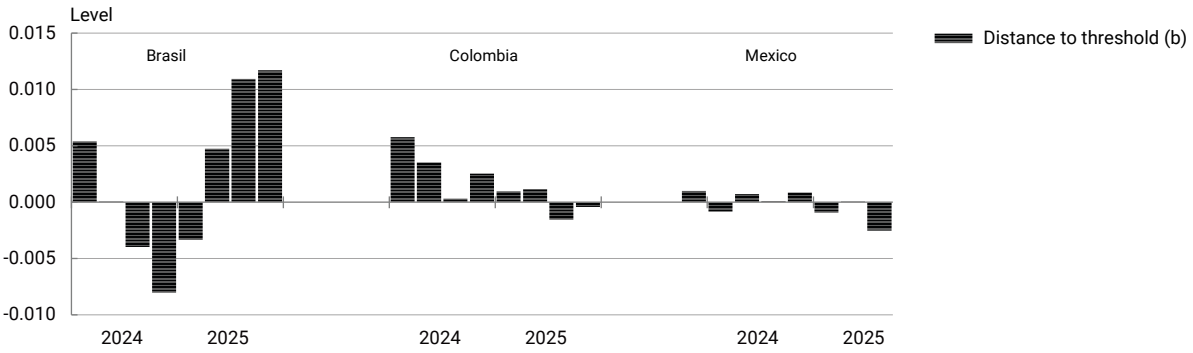
27 Rising public debt heightened vulnerability to a potential sovereign crisis in 2025

— In 2025, vulnerabilities to a sovereign debt crisis increased significantly in Brazil – exceeding alert thresholds – and rose to a lesser extent in Colombia, while declining in Mexico (Chart 27.a). Box 3 examines the impact of negative fiscal surprises in Brazil and Colombia on the exchange rate and sovereign risk premia, two variables that are crucial for fiscal sustainability.

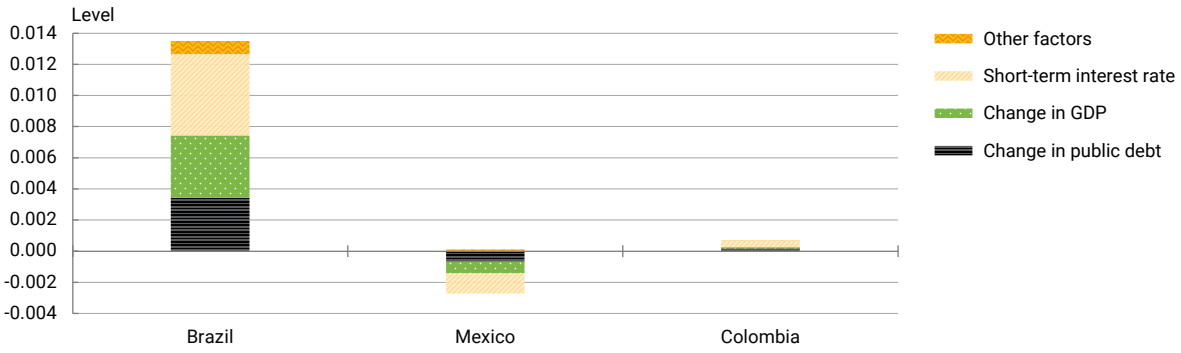
— The worsening of Brazil's leading indicator of crises stemmed from a slowdown in economic activity, rising short-term interest rates and a quicker build-up of public debt (Chart 27.b). These factors reinforce one another through a feedback loop, as a large share of the country's public debt is indexed to the official interest rate. The slight deterioration in Colombia's leading indicator was essentially driven by the interest rate rise.

Chart 27
Synthetic vulnerability indicators

27.a Synthetic vulnerability indicators (a)



27.b Contributions to change in the synthetic vulnerability indicator (c)



SOURCE: Banco de España.

a The synthetic indicators represent the likelihood of a sovereign debt crisis (debt default), estimated using a logit probability model with pre-selected variables based on the issuance of correct signals six quarters before a crisis (ROC curve threshold). An increase in the synthetic indicator therefore implies a higher probability of a crisis occurring.
b The thresholds indicate the percentiles of the estimated probability of being in a state of vulnerability, so that in the event of possible adverse shocks, the probability of a crisis would be high (based on the past occurrence of crises). The thresholds are estimated with the latest available sample and depend on the level of the synthetic indicators.
c The contribution of each of the factors to the change in the synthetic vulnerability indicators between 2024 Q4 and 2025 Q4. The contributions are calculated based on the effect of each of the variables on the linear probability estimated by the model, reweighted.

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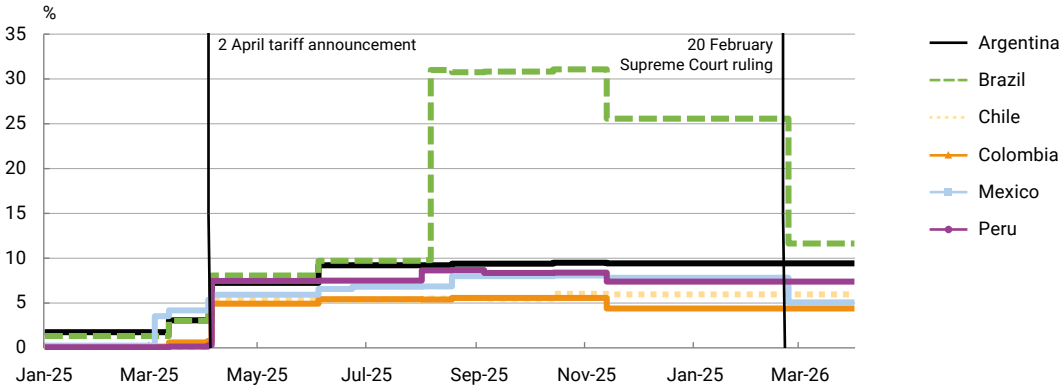
28 The US tariffs applicable to Latin American countries are now lower …

— The US Government has begun bilateral negotiations and preferential trade agreements with several Latin American countries,[13] amid growing competition for economic influence in the region. The deal reached with Argentina in February[14] is aimed at strengthening supply chains for critical minerals (such as lithium and copper) and reducing the country's dependency on China. In November 2025, the United States also granted tariff exemptions to other countries (such as Brazil) that produce import-dependent agricultural goods (Chart 28.a).[15]

— On 20 February, the US Supreme Court ruled that the tariffs adopted in April 2025 under the IEEPA were unlawful. In turn, the US Government imposed a new global tariff of 10% for a period of 150 days,[16] while maintaining the sector-specific tariffs on steel, aluminium and automobiles. As a result, the average effective tariff for Latin America has fallen from 9% to 6%, where it will likely remain until the new temporary measure expires in mid-July. This tariff easing for the region is due to the lower effective rates for Brazil and Mexico, whose average tariffs have declined from 26% to 12% (Brazil) and from 8% to 5% (Mexico).

Chart 28

28.a Average effective tariff



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SOURCES: GTA and Banco de España.

13 In November 2025 the Trump Administration announced trade agreements with Argentina, Ecuador, Guatemala and El Salvador, under which tariffs will be lifted on certain products, particularly in the agrifood sector.

14 Argentina commits to eliminating tariffs on US exports of machinery, motor vehicles, medical devices and chemicals; reducing tariffs on certain automotive parts to 2%; and establishing quotas for vehicles and agricultural produce. In the agricultural sector, the annual tariff-rate quota for beef exports to the United States will be increased from 20,000 to 100,000 tonnes. In addition, the agreement eliminates tariffs on a further 80,000 tonnes of US meat exports.

15 In parallel, the Mexican Government imposed tariffs of up to 50% on countries with which it does not have a trade agreement, including China. This measure may also form part of a geopolitical strategy, influenced largely by US pressure in the USMCA negotiations and reviews.

16 Under Section 122 of the Trade Act of 1974. These tariffs may be raised to a maximum legal rate of 15%.

29 … but countries in the region, except for Mexico, have been put at a slight competitive disadvantage in the US market

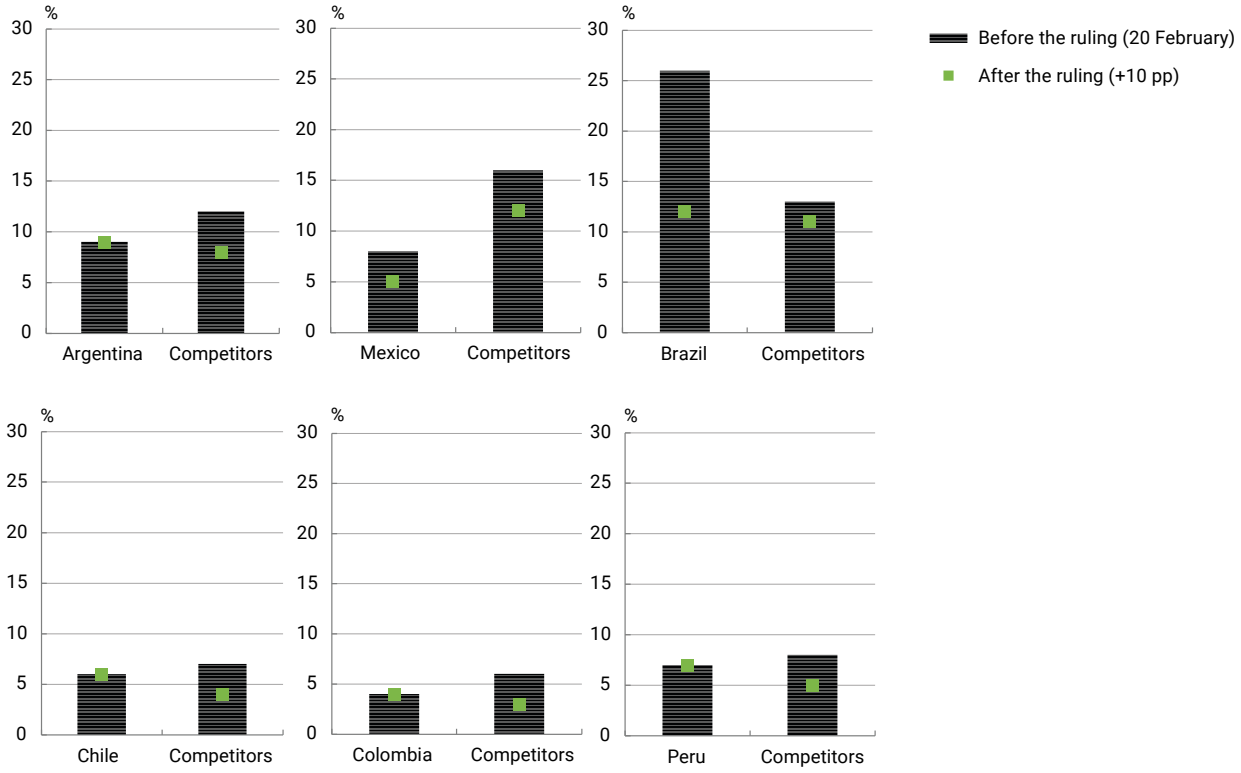
— Apart from Brazil and Mexico, the region's overall relative position in the US market has worsened as a result of these new tariffs (Chart 29.a). In the case of Brazil, the new tariff arrangements represent a significant improvement, with its effective tariff falling by around 14 pp.

— Meanwhile, Mexico continues to have a broad relative advantage over its direct competitors, as over 50% of its exports to the United States are carried out under the USMCA[17] and are therefore not subject to tariffs. The effective tariff for Mexico has therefore declined from 8% to 5%.

— However, this close economic integration between the two countries means that Mexico is also more affected by US policies, as occurs with migration policy, for instance (Box 4).

Chart 29

29.a Effective US tariffs on imports from Latin America and competitors in the US market (a)



SOURCES: GTA and Banco de España.

a The data reflect the effective tariffs imposed by the United States. The "before" and "after" distinction refers to the US Supreme Court ruling of 20 February nullifying the application of the executive orders issued under the IEEPA, and the subsequent application of a general tariff of 10%, distinguishing between the tariffs imposed on imports from the Latin American country in question and those applied to a group of competitor countries in the US market.

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17 This agreement is scheduled for review in July 2026. With these negotiations, the United States is seeking to cap imports from Asia and other regions, tighten the USMCA rules of origin, strengthen North American supply chains, curb Chinese investment in Mexico and prevent Chinese goods from being channelled through Mexico to access the US market at a lower tariff.

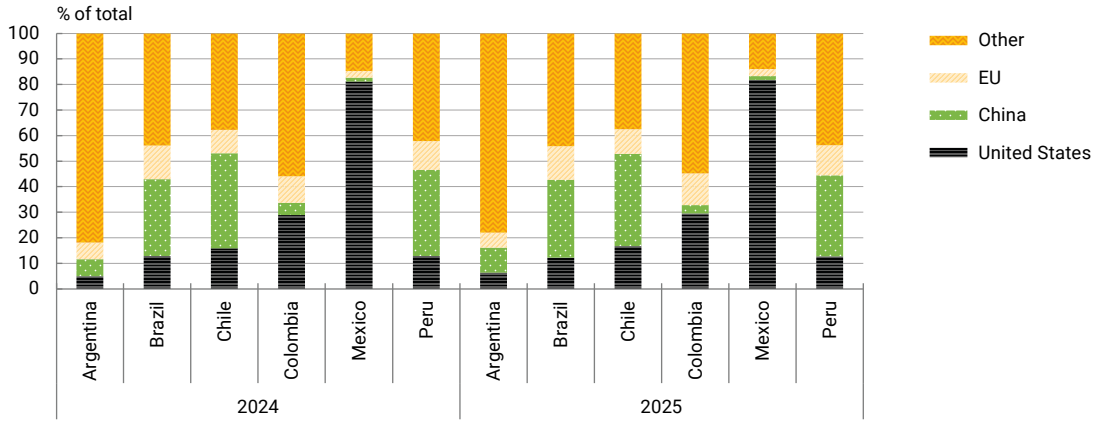
30 The United States remains a key trading partner for some Latin American countries, while China's trade influence in the region is increasing

— Despite the tariff hike, the United States maintains its position in trade with Latin America, with the region's exports to the country proving resilient (Chart 30.a). China is also strengthening its position as a key partner, especially for Chile, Brazil, Peru and Colombia,[18] and while the EU's share is smaller in some countries (such as Mexico), in others it is comparable to that of the United States (Chart 30.b).

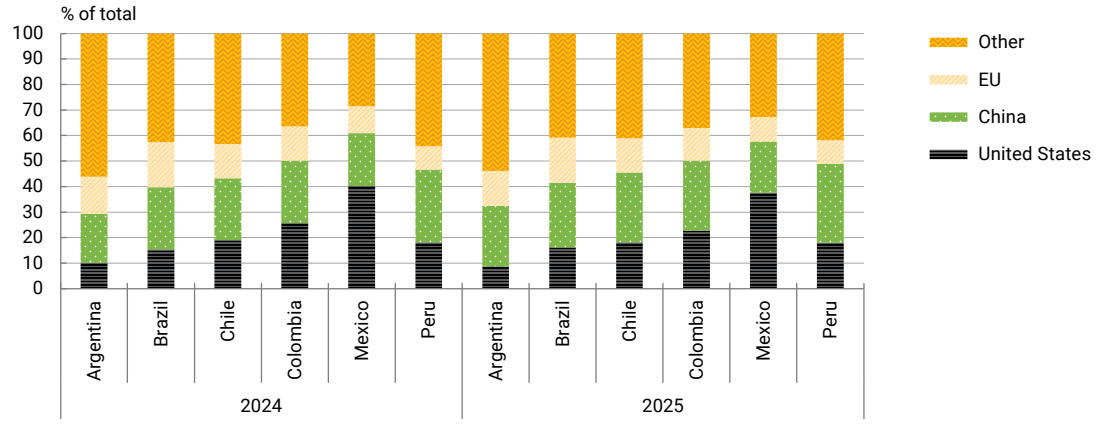
— So far, the shifts in US trade policy have not brought about substantial changes to the region's external trade with the United States, China or the EU, but they could influence trade relations in the future. In the case of the EU, the new trade agreements with Latin America could have a significant impact in the medium term.

Chart 30

30.a LatAm-6 exports, by destination



30.b LatAm-6 imports, by source



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SOURCE: Trade Data Monitor.

18 The Mexican Government, however, has imposed tariffs of up to 50% on countries with which it does not have a trade agreement, including China. This policy could place constraints on trade between the two countries.

31 Meanwhile, the EU is strengthening its presence in the region through the agreement with Mercosur

— Amid increased competition and geopolitical fragmentation, the EU has stepped up its trade agenda to boost its economic and cooperation ties and diversify its alliances with Latin America. In this respect, one key development is the trade agreement with Mercosur (Argentina, Brazil, Paraguay and Uruguay), which, having been greenlit by the EU Council and signed in Paraguay, will be provisionally applied from May.[19]

— The EU-Mercosur agreement will create a market of over 770 million people covering not just trade in goods, but also services and investment (Box 5 provides an analysis of Spanish firms' investment in Latin America drawing on granular data). The agreement is also part of a wider process to strengthen economic integration between the EU and Latin America.[20] As a result, Europe will gain preferential access to markets representing around 95% of overall Latin American GDP, strengthening the EU's presence in the region vis-à-vis other global actors.

— In 2024, the effective tariff applied by the EU on bilateral trade was 4% while that applied by Mercosur was around 11%, but under the agreement, they will gradually reduce to 2% and 1%, respectively, albeit with some sectoral differences: while the Mercosur countries will lower tariffs across the board, the EU will primarily reduce those on mining and manufacturing and maintain high tariff levels in agriculture (Table 4).

Table 4
Import-weighted tariffs, EU-Mercosur agreement

	EU		Spain	
	Pre-agreement tariff	Post-agreement tariff	Pre-agreement tariff	Post-agreement tariff
Tariffs applied by Mercosur				
Agricultural products	9.1	1.1	9.2	0.1
Manufactured products	11.5	1.0	11.5	1.4
Base metals	12.8	0.6	12.8	0.8
Minerals	0.4	0.1	0.4	0.0
TOTAL	10.8	1.0	9.1	1.1
Tariffs applied by the EU				
Agricultural products	7.9	6.3	6.2	3.7
Manufactured products	4.6	1.5	4.8	3.0
Base metals	1.0	0.0	1.0	0.0
Minerals	0.0	0.0	0.0	0.0
TOTAL	3.9	2.2	3.0	1.6

SOURCE: Campos, Timini, Viani and Vidal (2026).

19 The agreement is structured as an interim trade agreement (iTA) and a broader EU-Mercosur Partnership Agreement (EMPA). It has already been approved by the four Mercosur countries. Its signing in Paraguay does not mean that the agreement has entered into force, as it is yet to receive consent from the European Parliament and then be formally concluded by the EU Council. The European Parliament voted to submit the agreement in advance to the Court of Justice of the European Union for an assessment of its compatibility with the EU Treaties, thus putting on hold its final approval. However, the European Commission has decided to implement the iTA, pending a ruling by the Court of Justice.

20 As part of this process, in the last two years the EU has updated its existing trade agreements with Mexico and Chile.

32 The EU and Mercosur will keep tariffs high in some sensitive sectors

— The main imports to the EU and Spain from Mercosur are concentrated in the agricultural sector (a particularly sensitive sector of the EU economy), with approximately 16% of the EU's total agricultural imports coming from the bloc. Lower tariffs could therefore increase the pressure from competition on European producers, since Mercosur has a clear comparative advantage in this sector. Mercosur is similarly concerned about the leather and footwear sector and is seeking to protect it.

— The EU-Mercosur agreement applies higher tariffs on imports in sectors especially exposed to international competition, thereby maintaining relative protection for sectors in which the other bloc has more robust output capacity. For certain products, lower tariffs are restricted to specific import volumes (tariff-rate quotas), which are set at levels close to current trade flows. Specifically, 30% of the agricultural products the EU imports from Mercosur are subject to these quotas, resulting in higher effective tariffs (Table 5). In addition, the EU has adopted a safeguard whereby certain agricultural products are subject to ongoing monitoring.[21]

— The EU maintains high tariffs on some dairy products, such as whey (effective tariff of close to 130%) and butter (a tariff of 60%), meat of bovine animals (tariffs of over 50%) and certain fresh produce, such as onions and garlic (tariff held at 67%). The tariffs on poultry meat (16%) and rice (9.5%), which are especially sensitive products for Spain, are also unchanged. Lastly, cane sugar, which remains subject to a tariff of up to 70%, stands out within the food group.

— By contrast, the biggest cuts to tariffs mainly affect vegetable products (soya beans, maize, wheat, cereals and oats) and olive oil. Tariff liberalisation has a limited impact on these products as they are already abundant in the EU market. Tariffs are also lower for certain fruits and vegetables (bananas, citrus fruits and grapes), although these are mostly sourced from non-Mercosur countries, which equally mitigates their effects.

— Meanwhile, Mercosur maintains tariffs of 20%-30% on a set of raw hides and skins and leather products that it mostly imports from outside the bloc (Table 6).

21 According to the terms of the agreement, an annual increase in such imports above 5% of the three-year average and the existence of import prices at least 5% lower than the relevant domestic price are considered sufficient evidence to suspend lower tariffs. See Campos, Timini, Viani and Vidal (2026).

Table 5

Tariffs imposed by the EU on agricultural products (a)

	EU			Spain		
	Pre-agreement tariff	Post-agreement tariff	Scarcity (b)	Pre-agreement tariff	Post-agreement tariff	Scarcity (b)
Products whose tariffs remain high						
Whey; products consisting of natural milk constituents	130.4	130.4	0.0		–	
Cane sugar	69.8	69.8	0.3	70.0	70.0	0.3
Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled	67.7	67.7	0.2	66.9	66.7	0.6
Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream	57.5	57.5	0.0		–	
Meat of bovine animals, frozen	56.9	56.9	0.2	56.9	56.9	0.2
Meat of bovine animals, fresh or chilled	50.0	50.0	0.1	50.0	50.0	0.1
Meat and edible meat offal, salted, in brine, dried or smoked	44.1	27.2	0.2	44.2	27.2	0.1
Milk and cream, concentrated or containing added sugar or other sweetening matter	39.5	39.5	0.0	37.2	37.2	0.0
Meat of sheep or goats, fresh, chilled or frozen	37.5	37.5	0.3	37.0	37.0	0.2
Starches; inulin	33.6	33.5	0.1	33.5	33.4	0.1
Cheese and curd	31.8	31.8	0.0	33.5	33.5	0.0
Meat of swine, fresh, chilled or frozen	21.8	21.8	0.0	19.7	19.7	0.0
Edible offal of bovine animals, swine, sheep, fresh, chilled or frozen	18.8	18.1	0.1	27.0	27.0	0.0
Natural honey	17.3	17.3	0.5	17.3	17.3	0.5
Poultry meat and edible poultry offal, fresh, chilled or frozen	17.2	15.3	0.1	17.6	15.8	0.1
Rice	10.3	8.4	0.6	9.6	9.5	0.8
Birds' eggs, not in shell, and egg yolks, fresh, dried, cooked or otherwise preserved	9.7	9.7	0.1	9.7	9.7	0.0
Products with deep tariff cuts						
Olive oil and its fractions, whether or not refined, but not chemically modified	45.8	0.0	0.2	45.8	0.0	0.5
Cereal groats, meal and pellets	32.6	0.0	0.0	32.2	0.0	0.0
Wheat gluten	28.9	0.0	0.0		–	
Wheat flour	28.8	0.0	0.1	28.8	0.0	0.0
Cereal grains	28.7	0.8	0.1	26.1	0.0	0.1
Barley	26.1	0.0	0.1		–	
Malt	24.7	0.0	0.0		–	
Wheat and meslin	23.6	2.6	0.3		–	
Milk and cream	21.1	0.0	0.0		–	
Residues resulting from the treatment of fatty substances	20.0	0.0	0.8		–	
Oats	18.7	0.0	0.0	18.7	0.0	0.0
Cereal flour	18.5	0.0	0.1	15.8	0.0	0.1
Bananas, including plantains, fresh or dried	16.6	4.6	0.8	16.6	4.6	1.0
Pig fat (including lard) and poultry fat	14.5	0.0	0.0		–	
Vegetables (uncooked or cooked by steaming or boiling in water), frozen.	14.4	0.0	0.2	14.4	0.0	0.3
Margarine	14.2	0.0	0.1		–	
Carrots, turnips, salad beetroot, salsify, celeriac and radishes, fresh or chilled	13.6	0.0	0.1		–	
Fish, frozen, excluding fish fillets	13.5	0.0	0.6	14.5	0.0	0.7
Citrus fruit, fresh or dried	13.2	0.0	0.4	13.8	0.0	0.8
Grapes, fresh or dried	12.9	0.0	0.6	14.3	0.0	0.7
Other vegetables, fresh or chilled	12.8	0.0	0.2	12.8	0.0	0.7
Live bovine animals	12.6	0.0	0.0		–	
Fruit and nuts, uncooked or cooked by steaming or boiling in water, frozen	12.5	0.0	0.5	12.5	0.0	0.5
Flour, meal, powder, flakes, granules and pellets of potatoes	12.2	0.0	0.0		–	
Crustaceans, live, fresh, chilled, frozen, dried, salted or in brine	12.0	0.0	0.7	12.0	0.0	0.8
Fish, dried, salted or in brine	11.6	0.0	0.3	10.0	0.0	0.7
Cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas, fresh or chilled	11.3	0.0	0.1	12.0	0.0	0.0
Fish, fresh or chilled	10.9	0.0	0.6	10.9	0.0	0.3
Leguminous vegetables, shelled or unshelled, fresh or chilled	10.4	0.0	0.6		–	
Lettuce and chicory, fresh or chilled	10.4	0.0	0.0		–	
Cut flowers and flower buds, fresh, dried, etc.	9.0	0.0	0.3	10.0	0.0	0.7

SOURCE: Campos, Timini, Viani and Vidal (2026).

Notes +INFO

Table 6

Tariffs imposed by Mercosur on the EU for raw hides and skins, leather and footwear (a)

	Pre-agreement tariff	Post-agreement tariff	Scarcity (b)
Products whose tariffs remain high			
Footwear with outer soles of wood, rubber, string, paperboard, raffia, straw or felt	34.8	32.4	0.9
Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials	34.2	31.2	0.8
Waterproof footwear with outer soles and uppers of rubber or of plastics, not assembled by stitching or riveting	34.0	31.3	0.6
Trunks, suit-cases, handbags, rucksacks, wallets, cases and similar containers, of leather, of plastics and of textile materials	23.5	21.1	1.0
Hats and other headgear, knitted or crocheted, or made up from lace, felt or other textile fabric, in the piece (but not in strips); hair-nets	20.0	18.0	0.9
Articles of apparel and clothing accessories, of leather or of composition leather	20.0	20.0	1.0
Other articles of leather or of composition leather, not elsewhere specified or included	20.0	20.0	0.4
Hats and other headgear, plaited or made by assembling strips of any material	20.0	20.0	1.0
Saddlery and harness for any animal, of any material	20.0	20.0	1.0
Artificial fur	20.0	20.0	0.0
Hat-forms, hat bodies and hoods of felt, neither blocked to shape nor with made brims	18.0	18.0	0.0
Hat-shapes, plaited or made by assembling strips, neither blocked to shape, nor lined, nor trimmed	18.0	18.0	1.0
Parts, trimmings and accessories of articles of umbrellas, sun umbrellas, walking-sticks, whips and the like	18.0	18.0	1.0
Skins and other parts of birds with their feathers or down, feathers, parts of feathers, down and articles thereof	16.0	16.0	1.0
Artificial flowers, foliage and fruit and parts thereof	16.0	16.0	1.0
Human hair, dressed, thinned, bleached or otherwise worked	16.0	16.0	1.0
Wigs, false beards, eyebrows and eyelashes and the like, of human hair or of textile materials	16.0	16.0	1.0
Composition leather with a basis of leather or leather fibre, in slabs, sheets or strip	10.0	9.3	1.0
Products with deep tariff cuts			
Footwear with uppers of leather	34.4	0.0	0.8
Walking-sticks, whips, riding-crops and the like	20.0	0.0	1.0
Articles of apparel, clothing accessories and other articles of furskin	20.0	4.3	1.0
Umbrellas, sun umbrellas, seat-sticks and the like	20.0	3.5	1.0
Hats and other headgear	18.9	0.4	1.0
Head-bands, linings, covers, hat foundations, hat frames, peaks and chinstraps, for headgear	18.0	0.0	0.9
Raw, tanned or dressed furskins	14.0	0.6	0.7
Raw hides and skins of bovine (including buffalo) or equine animals, preserved or tanned	10.0	0.0	0.0
Leather of sheep or lambs or goats or kids, preserved or split/prepared	10.0	3.9	0.5
Leather further prepared after tanning or crusting	10.0	0.0	1.0

SOURCE: Campos, Timini, Viani and Vidal (2026).

a The tariffs associated with each product at Harmonised System (HS) heading (4-digit) level are calculated as a weighted average of the tariffs applied by Mercosur to products classified at HS subheading (6-digit) level, using as weights Mercosur imports from the EU. The average compound tariffs, or tariff-rate quotas, on some products were calculated according to the tariffs applied to each product in the last year for which information is available and taken from the World Bank's World Integrated Trade Solution (WITS) database. In all cases, the final tariff without adjusting for gradual reductions over time is considered.

b Scarcity is measured as imports of each product from outside Mercosur divided by total imports. These indexes range from 0 to 1, with higher values reflecting greater dependence on external supply. Green cells denote, on the one hand, products whose tariffs remain high after the agreement and, on the other, cases where, despite tariffs being cut by more than 50%, the products are abundant in Mercosur. Red cells refer to products that are scarce in Mercosur whose tariffs are cut significantly. Yellow cells identify scarce products in Mercosur whose tariffs nevertheless remain high and barely change following the agreement.

33 The agreement grants the EU a competitive advantage over third countries in sales of manufactured goods to Mercosur

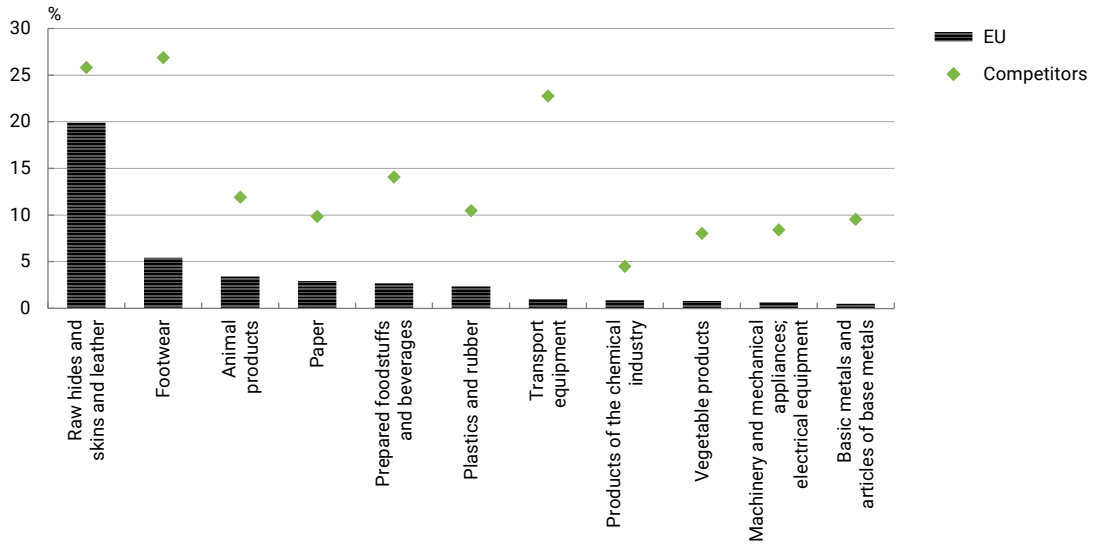
— Under the trade agreement, the EU has a clear competitive advantage over other international competitors in most sectors, particularly for its top exports (e.g. machinery, electrical household appliances, aircraft and aircraft parts and pharmaceuticals). At the same time, there are opportunities for growth in products that are currently exported less to the Latin American market, such as clothing and footwear. In these sectors, the tariffs applied by Mercosur to imports from the EU are eliminated for clothing – versus the 21% imposed on its main competitors in this market – and are slashed in the case of footwear (25% for third countries, versus 5% for the EU) (Chart 33.a).

— Growth opportunities are also identified in certain agricultural sectors, particularly in agrifood products and beverages, notably wine and olive oil. These products are extremely important for Spain, as the agreement with Mercosur eliminates the tariff imposed on them, while its main competitors will continue to face a tariff rate of 10%-15%, thereby bolstering Spain's competitiveness in the market.

— Reciprocally, Mercosur will be subject to more favourable tariffs than its competitors in sectors such as food, some animal and vegetable products, footwear and minerals.[22]

Chart 33

33.a Effective tariff imposed by Mercosur on imports from the EU versus its direct competitors (a)



SOURCES: GTA and Banco de España.

a The columns depict the level of effective tariffs applied by Mercosur to imports from the EU. The diamonds reflect the average tariff applied by Mercosur to imports from exporting countries within the same product category subheading (Harmonised System at 6-digit level) as the EU. The trade data refer to 2024 and the tariff level refers to 2023.

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22 EU tariffs on Mercosur products are low and similar to those applied to its main competitors in other sectors.

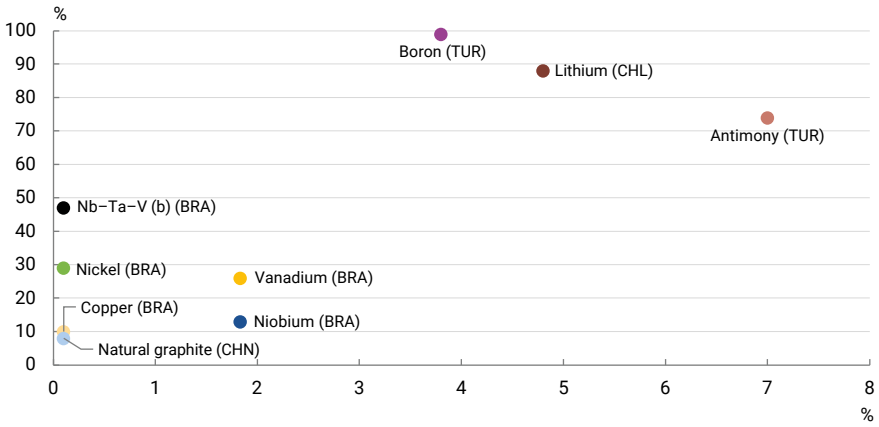
34 The elimination of tariffs on critical raw materials grants Mercosur a significant competitive advantage and boosts the EU's ability to substitute suppliers

— For the EU, the agreement is an opportunity to diversify the supply of critical raw materials for the digital and green transitions. For example, Brazil is already positioning itself as the EU's primary supplier of several strategic minerals (such as nickel, niobium, tantalum and vanadium),[23] resources which are scarce in Europe and for which the EU currently depends on a small number of trading partners. The EU's elimination of tariffs on imports of critical raw materials, for which it has an external dependency of more than 50%, therefore provides the Mercosur countries with a significant comparative advantage over other international suppliers. Mercosur's current export flows of critical and strategic raw materials should suffice to cover in full or in part the EU's extra-EU import needs (Chart 34.a).

— In addition, this agreement will prevent higher tariffs on processed products than on raw materials, potentially reducing the disincentives to process raw materials in Mercosur and encouraging exports of higher value-added goods linked to higher-skilled jobs (Box 6).

Chart 34

34.a Percentage of EU imports of critical raw materials that could be imported from Mercosur (a)



SOURCES: GTA and Banco de España.

a Products of which more than 50% of imports are from outside the EU. The main supplier is denoted in brackets. The vertical axis shows the percentage of the EU's extra-EU imports that could be covered by Mercosur when their tariffs are eliminated under the EU-Mercosur agreement. The horizontal axis represents the tariff applied by the EU to Mercosur's competitors, i.e. other countries that export the same raw materials to the EU.
b Mix of niobium, tantalum and vanadium.

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23 See Chapter 2 in Ayres and Juvenal (2026).

Figure 1

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

BRAZIL

Traditional risks

- Non-performing loans
- Liquidity constraints
- Fiscal uncertainty
- Weak bank solvency
- Lower bank earnings

Non-traditional risks

- Cyber attacks
- AI in banking
- Extreme weather events (El Niño)
- Operational failures
- Concentrated risks

Global and regional amplifiers

- Global trade tensions
- Volatile markets
- Global rate rises
- Dependence on foreign investors
- Weaker demand from China

Idiosyncratic

- Highly indebted households
- Loans without payroll backing (high risk)
- Indebted SMEs
- New banking rules
- Reliance on Pix payment system

Risks according to the private sector

- Fiscal uncertainty and high public debt
- Political and electoral uncertainty
- Persistent inflation and restrictive monetary policy
- External shocks: trade and commodity prices
- Climate and environmental risk

CHILE

Traditional risks

- Global fall in asset prices (domestic impact)
- High rates; increased country risk
- Capital outflows; weak peso
- Domestic debt maturing in the short-term
- Real estate risk (unsold housing stock)

Non-traditional risks

- Greater presence of non-banks
- Funds with longer-term bonds
- Funds heavily concentrated in domestic bonds
- Banks exposed to private funds
- Outdated financial infrastructure

Global and regional amplifiers

- High debt levels in rich countries
- Global conflicts and reduced trade
- Crisis in international funds
- Large deficits in major economies

Idiosyncratic

- SMEs with high delinquency rates
- Highly indebted construction firms
- Domestic issuance dependent on foreign investors
- Opaque non-bank funds
- Short-term maturity of bank debt

Risks according to the private sector

- Global economic slowdown and trade tensions
- Reliance on China and commodities (copper)
- Social unrest and internal instability
- Political fragmentation and reform gridlock
- Fiscal deterioration and rising public debt

COLOMBIA

Traditional risks

- Increase in non-performing loans
- Less solvent banks
- Fiscal deficit and public debt
- High inflation; high interest rates
- Volatile peso

Non-traditional risks

- Cyber attacks
- FinTech (digital competition)
- Reliance on external providers
- Biased AI models
- Non-bank financing
- Reliance on cloud services

Global and regional amplifiers

- Reduced international liquidity
- Global conflicts (affecting trade)
- Unstable world markets
- Declines in commodity prices
- Volatile foreign capital

Idiosyncratic

- At-risk housing sector
- Critical payment systems (possible failures)
- Logistics disruptions (affecting business turnover)
- Extreme weather events (floods, droughts)
- Mistrust due to rumours and scandals

Risks according to the private sector

- High fiscal imbalance and rising public debt
- Political uncertainty and delayed policy adjustments
- Persistent inflation and wage pressures
- Trade tensions with the United States and external shocks
- Dependence on commodities and energy transition

SOURCES: Financial stability reports for 2025 Q2 published by the five national central banks, Consensus Forecast, Oxford Economics, Fitch Ratings and UBS. Moreover, by country: Brazil: Itaú Unibanco, BBVA Research and Deloitte; Chile: Santander; Colombia: BBVA research, Deloitte and Asobancaria; Peru: BBVA research, Deloitte and Scotiabank Perú; Mexico: Centro de Estudios del Sector Privado (CEESP), BBVA Research, HSBC, IMCO (public policy think tank) and Scotiabank. Copilot was used to identify the most frequently cited risks.

a A maximum of five key risks are identified in each category. Pix is an instant payment system operated by the Central Bank of Brazil that allows real time transfers and payments.

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

Traditional risks

- Non-performing loans (mining, trade, microfirms)
- Less available financing
- High inflation; high interest rates
- Decline in domestic bond and stock prices
- Weaker sol (exchange rate risk)

Non-traditional risks

- Cyber attacks (banks, payment systems)
- Digital wallets (regulatory vacuum)
- Reliance on technological providers (cloud)
- New payment platform (initial risks)
- Extreme weather events
- and green transition

Global and regional amplifiers

- Less international credit
- Global financial stress (external crises)
- Declining copper/gold prices
- Volatile foreign capital
- Global conflicts (affecting exports)

Idiosyncratic

- Highly indebted households
- Weak demand for formal housing
- Fragile payment infrastructure
- Banking sector highly exposed to the mining sector
- Unexpected internal regulatory changes

Risks according to the private sector

- Political and electoral uncertainty
- Fiscal fragility and risk of deficit overrun
- Increase in crime and expansion of the underground economy
- External shocks: tariffs, geopolitical and financial tensions
- Climate risks: El Niño phenomenon and extreme weather conditions

MEXICO

Traditional risks

- Non-performing loans
- Losses on bonds/shares
- Liquidity shortages at banks
- Financial knock-on effect
- Serious operational failure (service interruption)

Non-traditional risks

- Cyber attacks
- Hurricanes and floods
- Energy transition (risk for oil companies)
- Volatile cryptocurrencies (stablecoins)
- Greenwashing

Global and regional amplifiers

- Geopolitical conflicts
- Unexpected global rate hikes
- Volatile capital flows
- Credit rating downgrades
- Global financial crisis

Idiosyncratic

- Fragile non-bank finance companies
- Defaults on social mortgages
- Defaults on consumer loans
- Deficit and debt (federal and regional)
- Highly indebted large firms

Risks according to the private sector

- Economic stagnation and weak investment
- External trade uncertainty (USMCA and United States)
- Fiscal deterioration and rising public debt
- Institutional weakness and internal uncertainty
- Persistent inflation and restrictive monetary policy

SOURCES: Financial stability reports for 2025 Q2 published by the five national central banks, Consensus Forecast, Oxford Economics, Fitch Ratings and UBS. Moreover, by country: Brazil: Itaú Unibanco, BBVA Research and Deloitte; Chile: Santander; Colombia: BBVA research, Deloitte and Asobancaria; Peru: BBVA research, Deloitte and Scotiabank Perú; Mexico: Centro de Estudios del Sector Privado (CEESP), BBVA Research, HSBC, IMCO (public policy think tank) and Scotiabank. Copilot was used to identify the most frequently cited risks.

a A maximum of five key risks are identified in each category. Pix is an instant payment system operated by the Central Bank of Brazil that allows real time transfers and payments.

Table 7

Latin America: main economic indicators

			IMF forecasts April 2026 WEO		2025			
	Average 2007-24	2025	2026	2027	Q1	Q2	Q3	Q4
GDP (change on previous period) (a) (b)								
Latin America and the Caribbean (c)	2.0	2.4	2.3	2.7	0.9	0.3	0.3	0.4
Argentina	1.4	4.4	3.5	4.0	1.0	-0.1	0.6	0.6
Brazil	2.0	2.3	1.9	2.0	1.5	0.3	0.0	0.1
Chile	2.9	2.5	2.4	2.6	0.9	0.4	-0.3	0.6
Colombia	3.4	2.6	2.3	2.5	0.5	0.4	1.3	0.1
Mexico	1.4	0.8	1.6	2.2	0.3	0.5	0.1	0.9
Peru	4.0	3.4	2.8	2.8	0.6	0.6	1.2	0.6
CPI (year-on-year rate) (a)								
Latin America and the Caribbean (c)	7.3	7.6	6.7	4.9	4.4	4.7	4.4	4.1
Argentina	46.3	41.9	30.4	15.7	68.0	43.3	33.9	31.4
Brazil	5.7	5.0	4.0	3.4	5.0	5.4	5.2	4.5
Chile	4.1	4.2	2.9	3.3	4.8	4.4	4.2	3.4
Colombia	4.9	5.1	5.9	5.2	5.2	5.0	5.1	5.3
Mexico	4.5	3.8	3.9	3.4	3.7	4.2	3.6	3.7
Peru	3.4	1.5	2.5	1.8	1.5	1.7	1.4	1.4
Budget balance (% of GDP) (a) (d)								
Latin America and the Caribbean (c)	-4.1	-5.1	-4.7	-4.0	-5.3	-5.0	-5.4	-5.6
Argentina	-3.7	0.2	0.5	0.4	0.3	0.3	0.4	0.2
Brazil (e)	-5.4	-8.3	—	—	-7.9	-7.3	-8.1	-8.3
Chile	-1.3	-2.8	-2.5	-1.9	-2.7	-2.7	-2.3	-2.8
Colombia	-3.2	-5.8	-5.2	-4.3	-7.1	-6.7	-6.1	-5.8
Mexico (e)	-3.3	-5.1	—	—	-4.3	-4.3	-4.9	-5.1
Peru	-1.1	-2.9	-2.0	-2.0	-3.7	-3.7	-3.1	-2.9
Public debt (% of GDP) (a)								
Latin America and the Caribbean (c)	58.4	73.6	72.6	73.5	68.5	68.6	70.0	71.2
Argentina	68.3	66.8	70.4	68.1	70.2	66.4	69.8	70.3
Brazil	74.4	93.3	96.5	100.0	87.9	89.5	90.2	93.3
Chile	21.0	41.0	42.5	44.4	41.8	41.3	41.1	41.0
Colombia	47.1	64.3	60.9	61.3	60.1	61.1	64.3	64.3
Mexico	48.6	55.9	62.7	63.1	55.3	54.6	56.3	55.9
Peru	27.2	30.2	30.0	30.9	31.0	31.6	30.9	30.2
Current account balance (% of GDP) (a) (d)								
Latin America and the Caribbean (c)	-1.9	-1.2	-0.9	-1.1	-1.6	-1.8	-1.8	-1.6
Argentina	-0.9	-1.1	-0.8	-0.6	0.0	-0.9	-1.3	-1.1
Brazil	-2.6	-3.0	-2.7	-2.4	-3.5	-3.6	-3.5	-3.0
Chile	-3.1	-1.2	-0.8	-1.8	-1.7	-1.7	-2.0	-1.2
Colombia	-3.7	-2.4	-2.5	-2.6	-1.7	-1.9	-2.1	-2.4
Mexico	-1.1	-0.4	-0.4	-0.5	-0.3	-0.5	-0.3	-0.4
Peru	-1.8	3.2	3.4	2.5	2.3	2.2	2.5	3.1
External debt (% of GDP) (a)								
Latin America and the Caribbean (c)	39.0	42.9	—	—	33.6	34.1	34.8	—
Argentina	41.6	47.0	—	—	41.5	43.8	45.6	46.8
Brazil	29.6	36.0	—	—	34.7	35.7	36.6	35.9
Chile	57.6	77.7	—	—	75.7	76.2	77.8	77.7
Colombia	35.4	—	—	—	48.0	48.8	48.4	—
Mexico	12.4	13.1	—	—	14.3	13.3	13.5	12.1
Peru	25.9	33.5	—	—	36.5	36.6	35.3	33.4
MEMORANDUM ITEMS: Aggregate of emerging market economies excluding Latin America and China (IMF, April 2026 WEO)								
GDP (year-on-year rate)	4.2	4.5	3.9	4.6				
CPI (year-on-year rate)	7.9	7.7	7.7	6.3				
Budget balance (% of GDP)	-3.0	-4.9	-4.7	-4.6				
Public debt (% of GDP)	43.7	59.3	60.8	62.8				
Current account balance (% of GDP)	0.8	0.3	0.0	-0.2				
External debt (% of GDP)	26.5	25.3	25.2	24.7				
Share of global GDP, in PPP (%)	31.3	33.8	34.1	34.5				

SOURCES: IMF, LSEG Datastream, LatinFocus 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% of all Latin America and the Caribbean (IMF).
b Quarterly data, seasonally adjusted series.
c Quarterly data, aggregate of the six main economies (Argentina, Brazil, Chile, Colombia, Mexico and Peru), and for inflation, aggregate excluding Argentina.
d 4-quarter moving average.
e Annual IMF forecasts are not shown since they are not comparable with quarterly data from national sources.

Box 1

GLOBAL STRUCTURAL DRIVERS AND FINANCIAL CONDITIONS IN LATIN AMERICA

Elías Albagli, Guillermo Carlomagno, Javier Ledezma and María Teresa Reszczynski[1] (Banco Central de Chile), in collaboration with the authors of the report

The role played by the global financial markets in how emerging market economies perform

Between 1980 and 2025, the aggregate stock of the United States' Treasury and corporate bonds and market capitalisation rose from around 100% of its GDP to 400%. Against this backdrop, global financial market dynamics have become ever more relevant to understanding macroeconomic developments and, as a result, to designing monetary policy, both at global level and, especially, in the emerging market economies (EMEs).

Building on Cieslak and Pang (2021),[2] Albagli, Carlomagno, Ledezma and Reszczynski (2026) propose a methodology for analysing financial conditions and their macroeconomic effects, placing particular emphasis on EMEs, with the premise that similar movements in different financial asset prices may reflect distinct underlying conditions. For example, a rise in an economy's long-term yields may reflect either a contraction (if it is attributable to a higher risk premium) or an expansion (if it is the result of an improved growth outlook). If there is no structural decomposition to disentangle these mechanisms, central banks run the risk of incorrectly diagnosing the state of financial conditions and, consequently, adopting a sub-optimal response.[3]

This issue also affects the most commonly used financial conditions indices (FCIs). Since these indices are constructed as the weighted average prices of various assets, they do not distinguish between the nature of the underlying shocks. As a result, they may offer misleading signals when the combination of drivers is out of the ordinary. Under the proposed methodology, daily asset price changes are decomposed into a set of structural drivers, which are used to construct FCIs.

Main structural drivers of global financial conditions

The methodology used is based on a daily structural vector autoregression (SVAR) model.[4] The baseline model includes seven variables for identifying the structural drivers of global financial markets, namely: 2-year US Treasury bond yields, 10-year US Treasury bond yields, the S&P 500 index and a series of principal components summarising – individually for 15 EMEs – 2-year sovereign yields, 10-year sovereign yields, stock market indices and bilateral dollar exchange rates.[5] Drawing on contemporaneous sign and magnitude restrictions,[6] the authors identify seven structural shocks as drivers of global financial market movements:

i) *US growth shock,* which captures revisions to the United States' economic outlook.

ii) *US monetary policy shock,* which reflects unexpected changes in the Federal Reserve System's stance.

iii) *Global hedging risk-premium shock,* associated with typical risk-on/risk-off dynamics. In bouts of heightened risk aversion on the global financial markets, investment portfolios shift towards safe assets, bringing down both long-term yields in the United States and the price of riskier assets, including those of EMEs and those on the US stock market.

iv) *US common risk-premium shock,* reflecting an increase in the term premium operating in opposing directions on the stock market and bonds in the United States (a fall in stock market prices and a rise in bond yields, particularly at the long end). This can be interpreted as a preference for liquidity shock, which tends to depreciate all assets at global level

1 This box is based on Elías Albagli, Guillermo Carlomagno, Javier Ledezma and María Teresa Reszczynski. (2026). "Fundamental Drivers of Financial Conditions". Documentos de Trabajo, 1080, Banco Central de Chile.

2 Anna Cieslak and Hao Pang. (2021). "Common shocks in stocks and bonds". *Journal of Financial Economics,* 142(2), pp. 880-904.

3 In this spirit, pages 9 and 10 of this report present structural decompositions of the recent movements in bilateral exchange rates against the US dollar and in local currency long-term yields for Brazil, Chile, Colombia, Mexico and Peru.

4 Recent literature has used SVAR models estimated with high-frequency financial data to identify structural shocks. This approach allows for untangling monetary policy surprises from other macroeconomic news (Troy Matheson and Emil Stavrev. (2014). "News and monetary shocks at a high frequency: a simple approach". *Economics Letters,* 125(2), pp. 282-286) and distinguishing between different financial shocks relevant to activity and estimating their effects on EMEs (David Lodge and Ana-Simona Manu. (2022). "EME financial conditions: Which global shocks matter?". *Journal of International Money and Finance,* 120(102479)). It also enables risk shocks that affect both the equity and bond markets to be identified (Cieslak and Pang (2021); Anna Cieslak and Andreas Schrimpf. (2019). "Non-monetary news in central bank communication". *Journal of International Economics,* 118, pp. 293-315).

5 For each group of variables, the first principal component – which accounts for the largest part of the dataset's variability in the estimation period (4 January 2010 to 9 April 2026) – is included. The 15 economies are: Brazil, Chile, Colombia, Czech Republic, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Poland, South Africa, South Korea, Sri Lanka and Thailand.

6 For the specific structure of sign and magnitude restrictions, see Albagli, Carlomagno, Ledezma and Reszczynski (2026) and the references included therein.

Box 1
GLOBAL STRUCTURAL DRIVERS AND FINANCIAL CONDITIONS IN LATIN AMERICA (cont'd)

and leads to the dollar appreciating against all currencies, especially EME currencies.

v) *Dollar-hedging risk shock,* which captures episodes of global investors reducing their exposure to all US assets, including the dollar. These could be considered a reduction in the US convenience yield.[7] This type of movement is key to understanding the developments observed in 2025 (higher long-term US yields and dollar depreciation) that do not fit the usual interpretations attributable to other drivers.[8]

vi) *China growth shock,* which reflects changes in the Chinese economic outlook and is particularly important for EMEs.

vii) *Emerging markets' specific risk-premium shock,* which captures changes in the risk perception associated with this group of countries, beyond global financial cycle movements.

Effects of global drivers on the financial variables of Latin American economies such as Chile, Brazil and Mexico

After estimating the structural drivers of global financial market movements using the above model, Albagli, Carlomagno, Ledezma and Reszczynski (2026) estimate similar, country-specific SVAR models for a group of individual EMEs, including Latin American economies. Identification of the structural shocks in these individual models is conditional on the seven types of shock extracted from the global model.

This strategy allows for a decomposition of each country's asset prices into the contribution from global drivers and that from a set of idiosyncratic structural shocks associated with: local growth, local monetary policy, local hedging risk premium (risk-on/risk-off), local common risk premium and terms of trade, which capture movements in commodity prices relevant to each country that are not explained by global shocks.[9]

By way of illustration, Chart 1 presents a decomposition of the nominal bilateral exchange rates of Chile, Brazil and Mexico against the dollar.[10] The chart covers the period from July 2025 (after the global markets had recovered from the effects of the tariff announcements at the start of the year) to 9 April 2026. The outbreak of the war in the Middle East marks a clear dividing point in this period, with the three countries' currencies appreciating in nominal effective terms by 10%-15% before it began, and depreciating by 3%-6% afterwards.

In the period prior to the conflict, the three countries saw a noticeable decline in the emerging markets' specific risk-premium shock as a major global driver of currency appreciation, suggesting a shift in global investor preference towards EMEs in general and towards Latin America in particular. This could hypothetically be associated with an improvement in macroeconomic fundamentals, increased geopolitical interest in the region, a smaller relative exposure to tariffs and the region's distance from the main conflict hotspots. Indeed, the reduction in local risk also makes a significant contribution in all three cases.

As regards the other global structural drivers, China's growth, which was able to maintain its pace of expansion despite the trade war, also made a noticeable contribution to currency appreciation. Also noteworthy was the contribution of monetary policy in Brazil, where policy rates remained at a high level (see page 20 of this report).

The start of the war in the Middle East marked a turning point from these dynamics. Some factors that had contributed to currency appreciation changed sign, while others made a greater contribution to depreciation (Chart 2). There were noticeable rises in the emerging markets' specific risk-premium shock and local risk, suggesting a correction of the previous increase in risk appetite for EMEs. Moreover, the US-centred risk factors, which had also previously exerted downward pressure, continued to become increasingly important. This notwithstanding, the moderation has not led to a complete reversal of the shift in preferences towards EMEs.

7 The convenience yield is the amount that investors are willing to pay to hold US Treasury bonds rather than other financial assets with similar risk and liquidity characteristics. The ensuing higher bond value results in a lower interest rate.

8 Unlike global hedging risk-premium shocks, these do not reflect a search for safe-haven US treasury bonds and, unlike US common risk-premium shocks, they do not necessarily imply a greater preference for liquidity.

9 This would primarily reflect commodity supply shocks, which are not captured by the global drivers.

10 Page 9 of this report also presents an analysis of the decomposition of the region's exchange rates into their structural drivers using an SVAR model. As in this box, the analysis identifies the appreciation pressure attributable to the lower local risk before the conflict in the Middle East began. As regards the external structural factors, it also identifies the contribution of US growth and monetary policy shocks, commodity price shocks (not included in this box) and an additional aggregate global risk shock, which is detailed separately in this box.

Box 1

GLOBAL STRUCTURAL DRIVERS AND FINANCIAL CONDITIONS IN LATIN AMERICA (cont'd)

Financial condition indices with a structural interpretation

Drawing on the changes in the global, idiosyncratic and structural drivers estimated in the individual models for each economy, it is possible to construct FCIs that can be interpreted structurally. Unlike traditional FCIs[11] (which simply aggregate asset prices such as interest rates, equities or exchange rates), the proposed FCI aggregates structural shocks using as weights the impulse response

Chart 1
Decomposition of the cumulative nominal exchange rate between 1 July 2025 and 9 April 2026 (%)

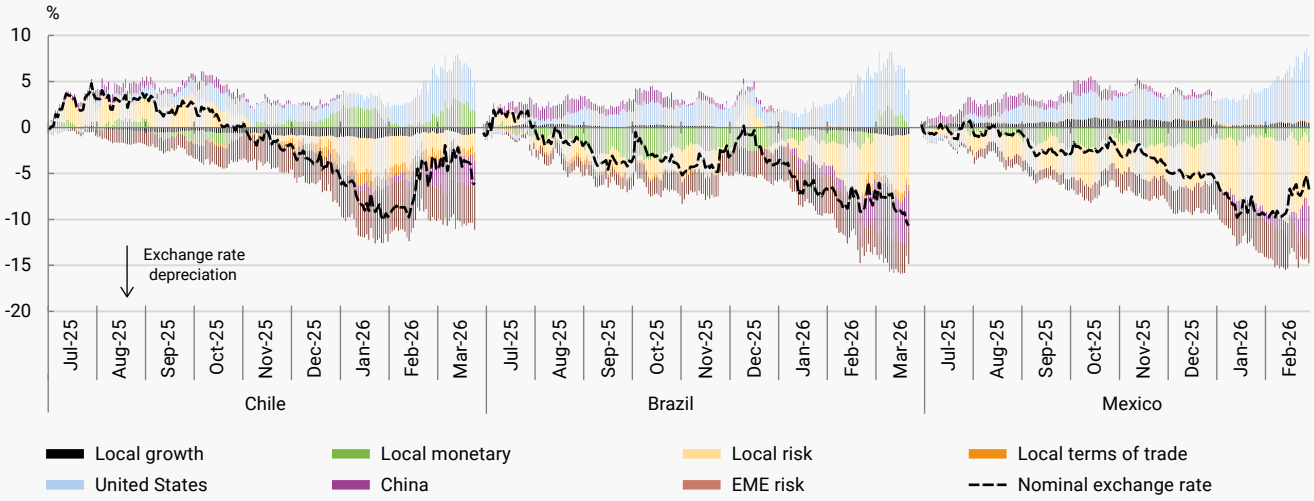
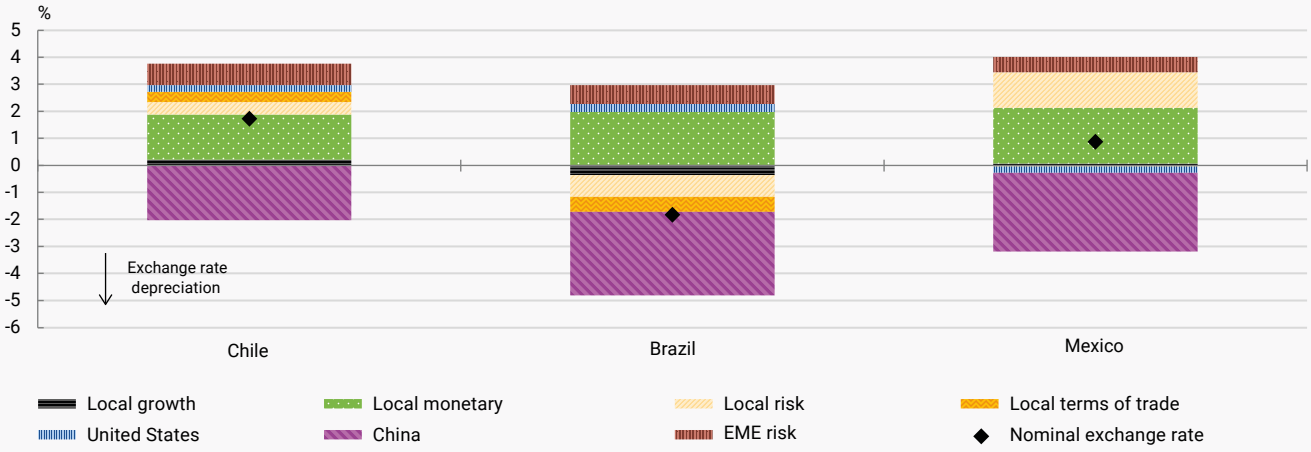


Chart 2
Decomposition of the cumulative nominal exchange rate between 28 February 2026 and 9 April 2026 (%)



SOURCE: Banco Central de Chile.
NOTE: "Local monetary" reflects the difference between US and local monetary policy shocks. "Local risk" incorporates both the shock associated with the local hedging risk premium (risk-on/risk-off) and the local common risk premium. "United States" groups together the external shocks associated with that country: growth, US common risk premium, global hedging risk premium and dollar-hedging risk.

11 The FCIs used for the analysis on page 8 of this report are constructed as a weighted aggregation of variables (Juan Carlos Berganza and Luis Molina. (2026). "The use of Financial Conditions and Stress Indices to monitor Emerging Market Economies". Forthcoming) but, unlike more usual FCIs, they separate the internal FCI component (constructed using variables more related to a country's domestic conditions, such as its stock exchange) from the external component (constructed using valuations in global financial markets, such as the sovereign spread on external debt). Focusing on developments since October 2025, the analysis finds, as in this box, that the FCIs – particularly in their external component – of Chile, Brazil and Mexico eased until the conflict in the Middle East began.

Box 1
GLOBAL STRUCTURAL DRIVERS AND FINANCIAL CONDITIONS IN LATIN AMERICA (cont'd)

coefficients of a macroeconomic aggregate (such as GDP, consumption or investment) to each shock. These coefficient estimates are based on the local projections approach.[12]

Chart 3 presents the quarterly FCIs associated with total gross fixed capital formation, again for Chile, Brazil and Mexico, in the period 2019 Q1-2026 Q3. During the pandemic (2020-21), dynamics were dominated by shocks

Chart 3
Decomposition of FCIs. Annual variation (%)

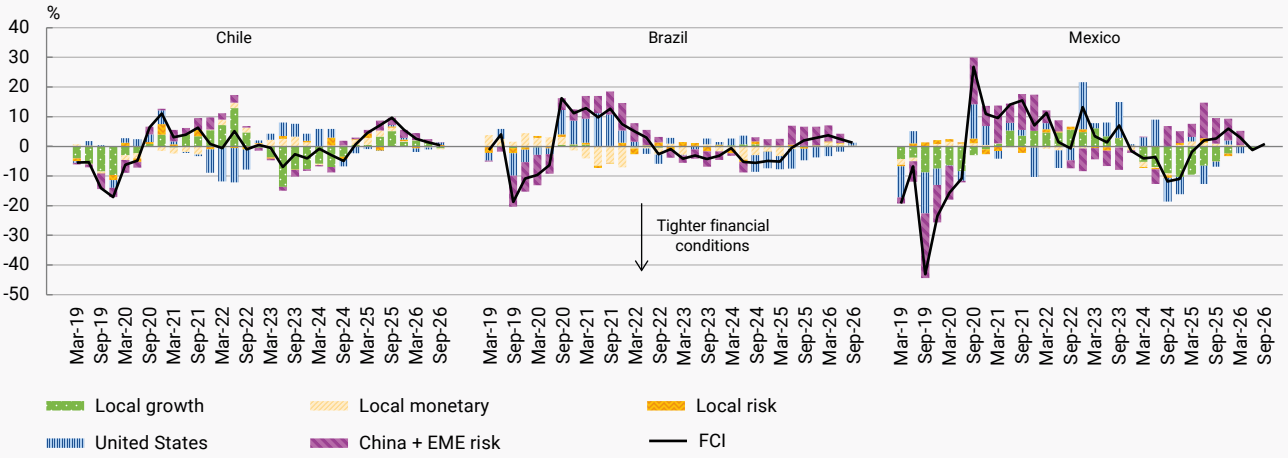
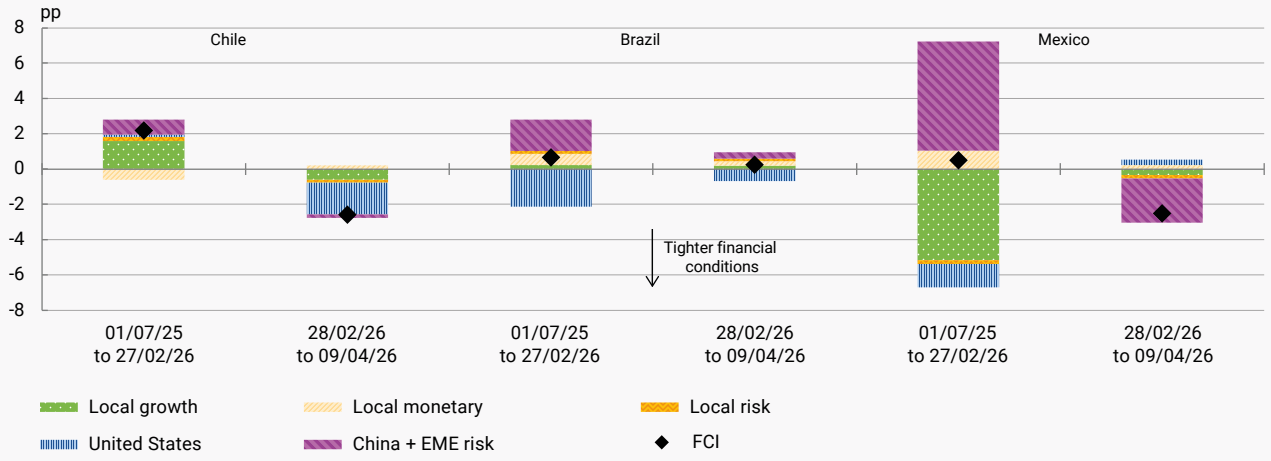


Chart 4
Decomposition of FCIs. Variation between the period 1 July 2025-27 February 2026 and the period 28 February 2026-9 April 2026 (pp)



SOURCE: Banco Central de Chile.
NOTE: The FCIs are constructed taking a forward-looking approach. For each quarter, the effects on gross fixed capital formation for the current quarter and the following three quarters are included. To complete the information for the current quarter (2026 Q2), it is assumed that from 10 April onwards each shock will converge to the average observed between 28 February 2026 and 9 April 2026. For the following quarters, it is assumed that there are no further shocks.
"Local monetary" reflects the difference between US and local monetary policy shocks. "Local risk" incorporates both the shock associated with the local hedging risk premium (risk-on/risk-off) and the local common risk premium. "United States" groups together the external shocks associated with that country: growth, US common risk premium, global hedging risk premium and dollar-hedging risk.

12 Òscar Jordà. (2005). "Estimation and Inference of Impulse Responses by Local Projections". *American Economic Review,* 95(1), pp. 161-182.

Box 1
GLOBAL STRUCTURAL DRIVERS AND FINANCIAL CONDITIONS IN LATIN AMERICA (cont'd)

to the external and internal growth-related structural drivers, which acted in a contractionary manner. As from 2021, when interest rate hike cycles began, local monetary policies became a significant source of financial tightening, whose effects were especially visible in Chile and Brazil.

In more recent years, the decline in the emerging markets' specific risk-premium shock and the improvement in China's growth outlook have operated as a significant expansionary impulse for investment in the region, as can be observed in the contribution of the aggregate of these two global structural drivers to the easing of the FCIs associated with gross fixed capital formation (Chart 4). Since the war in the Middle East began, these factors have reversed, easing the impulse from financial conditions to investment.

Conclusion

Albagli, Carlomagno, Ledezma and Reszczynski (2026) stress that, from a central banking perspective, it is not enough to just carefully analyse asset price movements: it is important to understand their key causes. The proposed methodological framework finds that, from mid-2025 to the start of the war in the Middle East, asset prices in EMEs – particularly in Latin America – benefited from a shift in global investor preferences, which contributed to an expansion of their financial conditions and bolstered domestic demand. The Chinese economy's resilience to the new tariff scenario also appears to have played a major role in the expansion of these economies' financial conditions. Since the start of the war, the preference for regional assets has eased, almost neutralising the impulse from external financial conditions to local demand.

Box 2

THE MACROECONOMIC STABILISATION PLAN IN ARGENTINA

Elena Vidal, in collaboration with Enrique Martínez Casillas, Maximiliano Moreno (Paris School of Economics) and Adolfo Rodríguez (OECD)

Political consolidation and improvement in financial conditions

The Argentine Government's victory in the mid-term elections on 26 October 2025 reinforced political support for the macroeconomic stabilisation plan and enhanced its credibility. Financial markets were quick to reflect this change in outlook, rallying after a period of high volatility and strong depreciation pressures that had been partially subdued by support from the US Government (Chart 1). The sovereign spread held below 600 basis points (bp) between December 2025 and March 2026, when it rose above that level as a result of the Iran war. Up to that point, the more favourable setting had driven an improvement in financial conditions and an increase in US dollar-denominated sovereign and corporate debt issuance.

However, the external debt maturity profile remains challenging in the short term, with significant obligations falling due in 2026 and 2027 ($13 billion and $20 billion, respectively). This underscores the importance of the Government continuing to accumulate foreign exchange reserves and bolster investor sentiment as a necessary condition to regain steady access to world markets.

Adjustments to the exchange rate regime and accumulation of reserves

Against the backdrop of greater political and social stability,[1] in January 2026 the Government widened the exchange rate band and introduced a mechanism to update monthly its ceiling and floor (which will be adjusted based on actual inflation with a two-month lag) in order to ease exchange rate pressures. The changes aim to mitigate real appreciation of the peso, which had intensified since the mid-term elections as a result of the acceleration in inflation (Chart 3).

In conjunction, the Central Bank of Argentina (BCRA, by its Spanish initials) authorised foreign exchange purchases within the band. This enabled the launch of a programme to build up foreign exchange reserves geared to achieving the goals agreed with the International Monetary Fund (IMF). Depending on money demand, foreign exchange purchases of up to $10 billion are expected under this programme in 2026. In the opening months of the year the BCRA purchased more than $2.4 billion (Chart 2).

The fiscal balance anchor

Fiscal balance remains the stabilisation programme's central plank. In 2025 the Government recorded a primary surplus of close to 1.4% of GDP, down slightly on 2024 (1.8%), but still high. This was possible thanks to government spending discipline and deep cuts in subsidies, which offset the real contraction in government receipts associated with lower tax revenue.

There will likely be less scope for further spending cuts in 2026. Accordingly, fiscal consolidation will depend more on the recovery in tax revenue linked to the rise in economic activity. Against this background, the Government's tax reform[2] aims to streamline the tax system, reduce the number of taxes and improve efficiency in order to widen the tax base and boost tax revenue.

Recent economic performance

After GDP contracted in 2024, the Argentine economy grew by 4.4% in 2025, despite the deceleration in 2025 H2. Growth was mainly driven by the carry-over effect of the recovery recorded in 2024 H2, equal to 2.9 percentage points (pp), and the improvement in private consumption and investment in the first quarter of 2025. However, since then activity has waned, with moderate quarter-on-quarter GDP growth recorded three quarters running. This was largely attributable to the contraction in investment; 2025 Q4 was the third quarter in a row in which it had declined due to the lack of recovery in public works and the absence of larger-scale private projects.

On the supply side, the most buoyant sectors were agriculture, financial intermediation and energy and mining, while manufacturing and construction contracted. Against this background, the leading indicators of activity confirm the economic deceleration in early 2026. In particular, the decline in the monthly estimator of economic activity (EMAE, by its Spanish initials) in January is associated with lower private consumption, affected by real wages that have not yet managed a steady recovery and by insufficient access to credit (Chart 4).

1 The exchange rate operates as the nominal anchor of the stabilisation plan. The priority given to disinflation led the Government to be wary of liberalising the foreign exchange system despite it being one of the International Monetary Fund's main recommendations.

2 2026 reform proposal. Some tax measures are already enshrined in the Labour Modernisation Law.

Box 2

THE MACROECONOMIC STABILISATION PLAN IN ARGENTINA (cont'd)

Inflation, monetary policy and the nominal anchor

Inflation continued to accelerate in early 2026. In March the monthly inflation rate reached 3.4%, rising year-on-year by 32.6%. This was mainly driven by the surge in regulated prices,[3] food – particularly meat – inflation and higher fuel prices associated with the Iran war (Charts 5 and 6). Some upside risks to inflation also persist: inflation expectations remain unanchored and have continued to rise for 2026 (18.7% in October 2025 to 29.1% in March 2026), amid high inflationary inertia. These dynamics could be compounded by the introduction of the new exchange rate band framework.

There are significant limitations to using the exchange rate as the nominal anchor. Real appreciation of the peso helps to subdue imported inflation, but at the expense of a loss of external competitiveness that weighs on economic activity. Widening the exchange rate bands eases automatic real appreciation, but the lagged indexation of the exchange rate to inflation weakens the nominal anchor that characterised the previous framework.

Chart 1
Sovereign spread and stock market

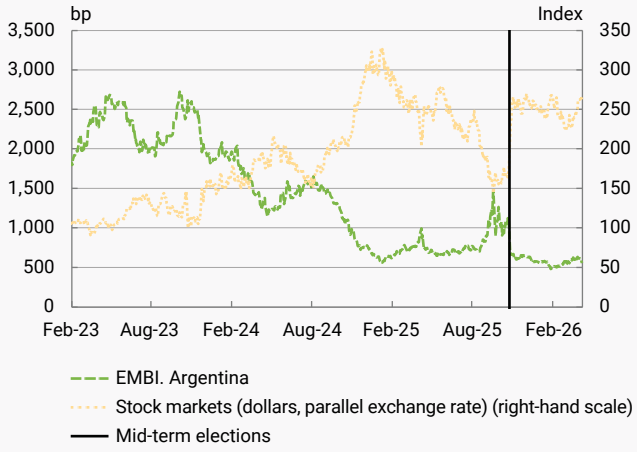


Chart 2
Foreign exchange reserves

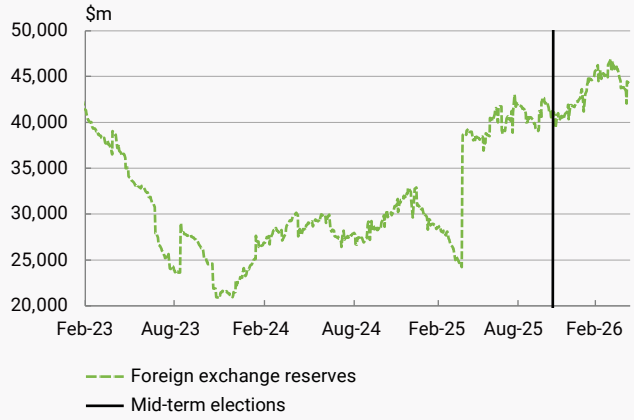
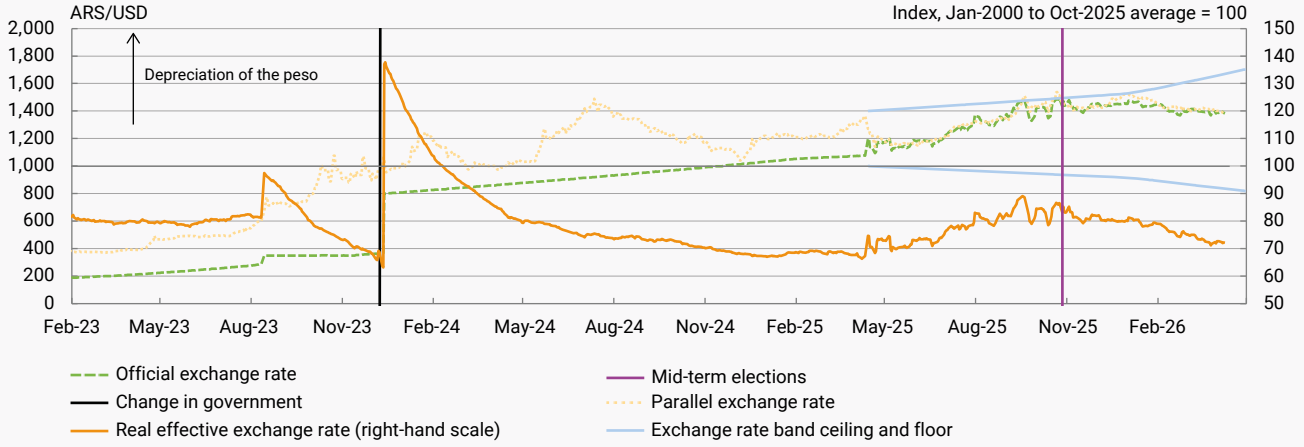


Chart 3
Exchange rates



SOURCES: LSEG Datastream and BCRA.

3 Banco de España. (2024). "Box 1. Recent economic policy measures in Argentina". *Report on the Latin American economy. Second half of 2023.*

Box 2

THE MACROECONOMIC STABILISATION PLAN IN ARGENTINA (cont'd)

In the monetary area, interest rates have reached very high levels and are highly volatile, and there is a wide spread between peso and dollar interest rates. This has contractionary effects on credit, consumption and investment. In addition, the monetary policy framework based on controlling monetary aggregates limits the role of interest rates as a clear signal of the monetary policy stance, amid elevated dollarisation and particularly volatile money demand. While the BCRA has opted to keep this framework in place to reduce the aforementioned volatility, strict control over the supply of money is slowing the remonetisation of the economy: the monetary base is not expanding despite foreign exchange reserve purchases, as the BCRA and Argentine Treasury are sterilising issuance.

External sector and current account

Despite real exchange rate appreciation, Argentina ran a goods trade surplus once again in 2025, underpinned by a bumper harvest and the sound performance of the energy

Chart 4
Economic activity

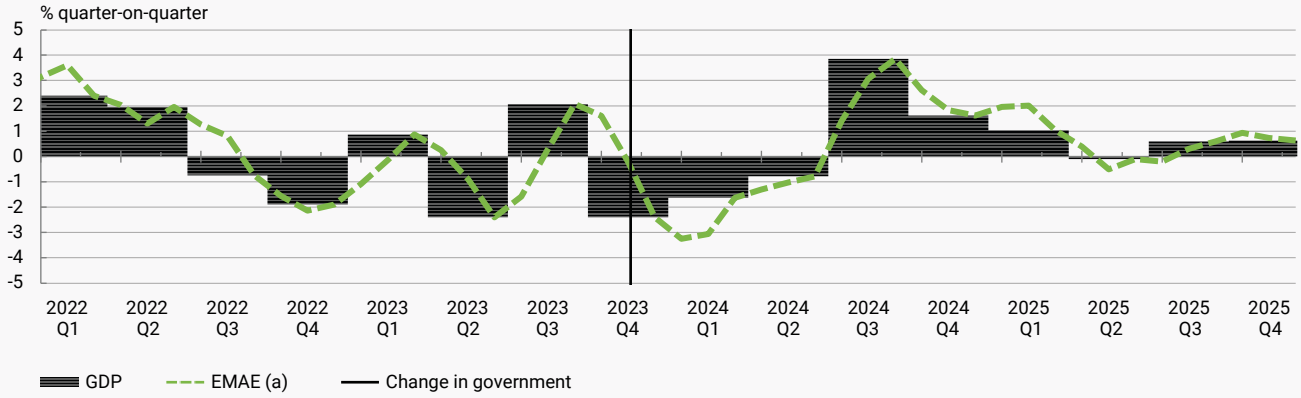


Chart 5
Inflation

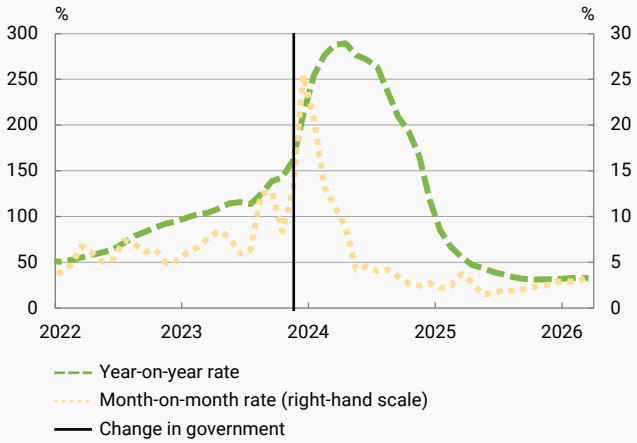
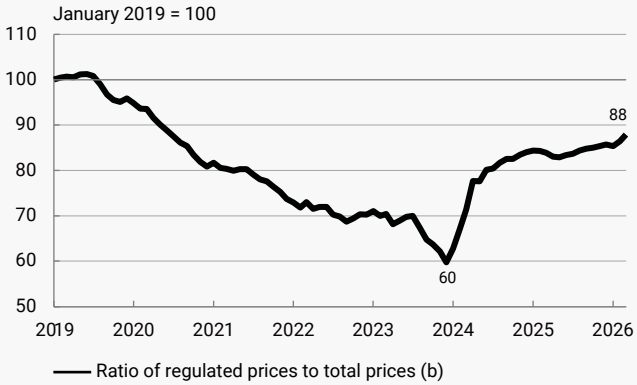


Chart 6
Relative prices of regulated goods



SOURCES: LSEG Datastream, INDEC and BCRA.

a The EMAE is an economic activity index published by Argentina's National Institute of Statistics and Censuses (INDEC), and its quarter-on-quarter rate of growth is considered a sound leading indicator of Argentina's GDP.
b Latest data: March 2026.

Box 2
THE MACROECONOMIC STABILISATION PLAN IN ARGENTINA (cont'd)

sector (Vaca Muerta oil exports rose,[4] lithium production consolidated and there was less need for liquefied natural gas imports). The recent rise in oil prices associated with the war in the Middle East could push this surplus higher.

By contrast, the services balance continued to deteriorate (due to the increase in trips abroad by Argentines). Combined with the income deficit, this led to a current account deficit in 2025 (Chart 7) that was financed by strong capital inflows (mainly a disbursement by the IMF), which enabled the BCRA to build up substantial reserves despite weak foreign direct investment and portfolio investment.

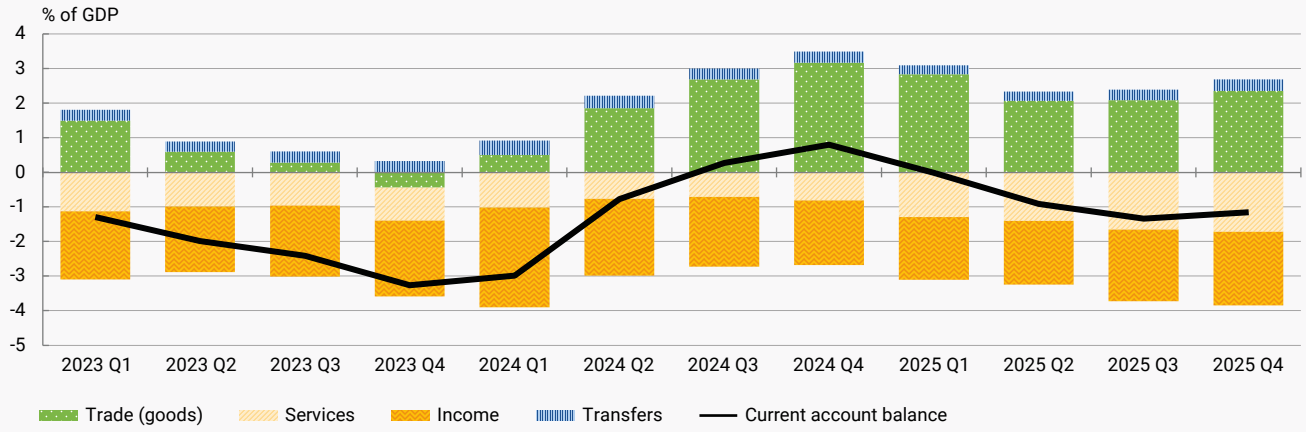
Structural reforms and long-term growth: evidence based on GTAP simulations

Argentina's weak economic performance in recent years, together with low trade openness and the economy's limited integration with global value chains, highlights the need to press forward with structural reforms that drive formal employment,[5] productivity and potential growth. Argentina remains a relatively closed economy, with trade openness[6] below 30% of GDP and little integration with global value chains. This limits its ability to benefit from economies of scale, technology transfer and greater external competition.

Since the beginning of its term of office, the Government has implemented a raft of economic deregulation measures in different areas,[7] which are already yielding some positive results in certain sectors, such as energy and agriculture. These initiatives are in addition to the labour market reform adopted last February, which represents a significant step towards reducing non-wage labour costs and easing the collective bargaining system that introduced significant rigidities and barriers to employment.[8] In particular, the new law makes termination costs more flexible and allows for collective bargaining at firm level.[9]

The Government has also pressed ahead with its trade liberalisation strategy by slashing tariffs on a broad set of products, particularly in the textiles and leather sector and certain electronic goods, such as mobile phones and electrical household appliances. These measures seek to facilitate access to imported capital goods and

Chart 7
Current account balance. Components



SOURCE: LSEG Datastream.

4 The Vaca Muerta Formation is a geologic formation that hosts oil and gas deposits located in the Neuquén Basin in the provinces of Neuquén, Río Negro, La Pampa and Mendoza. It is the world's second largest unconventional natural gas reservoir and the fourth largest unconventional oil reservoir.

5 In 2025 Q4 the informal employment rate was 43%.

6 The sum of imports and exports as a percentage of GDP.

7 See Table 3 in Banco de España. (2025). *Report on the Latin American economy. Second half of 2025.*

8 In April the Argentine judiciary suspended the application of 82 of the Labour Modernisation Law's 218 articles.

9 https://oecdecoscope.blog/2026/02/20/why-argentina-needs-a-labour-market-reform/.

Box 2
THE MACROECONOMIC STABILISATION PLAN IN ARGENTINA (cont'd)

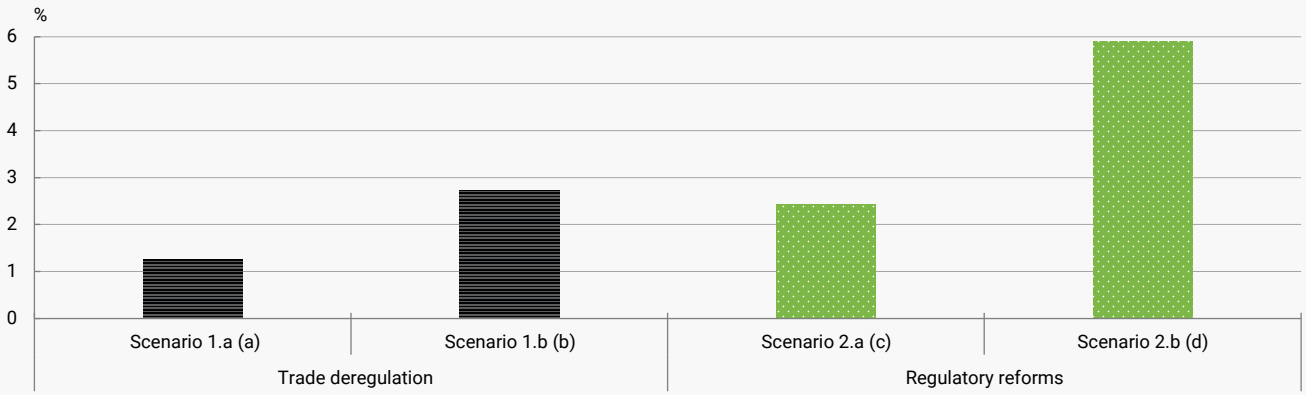
intermediate inputs, lower production costs and make the economy more competitive.

Simulations were performed using the Global Trade Analysis Project (GTAP) model[10] to quantify the macroeconomic impact of these reforms. This model enables consistent analysis of the effects of trade and regulatory policy change on trade, sectoral output and aggregate GDP.

The analysis uses a baseline scenario that reflects economic performance in the absence of the recent trade and regulatory reforms. Two main simulations are conducted. The first analyses two scenarios: 1.a, involving a 50% reduction in tariffs on a series of technological goods[11] which the Government has already started to cut outside the scope of the agreement with Mercosur, and 1.b, where such tariffs are eliminated entirely. In both cases, the results show a sizeable increase in external trade, with greater geographical diversification of imports and a relative reduction in those from Brazil in favour of other trading partners. From a macroeconomic perspective,[12] compared with the baseline these reforms result in an increase in GDP of around 1.3% under scenario 1.a and of up to 2.7% under scenario 1.b (Chart 8). Assuming that the new steady state is achieved over a five-year horizon, the estimated effects of the two scenarios on the level of GDP would be consistent with average increases in year-on-year growth of approximately 0.3 pp and 0.5 pp, respectively, throughout the reform process.

The second simulation assesses the impact of a positive productivity shock of 1.9% associated with the regulatory reforms already implemented,[13] calibrated on the basis of the elasticities estimated by the Organisation for Economic Co-operation and Development (OECD) that link improvements in Product Market Regulation (PMR) indicators to permanent productivity gains.[14] Under this scenario (scenario 2.a), which does not incorporate further reforms, GDP rises by around

Chart 8
Deviation of GDP from baseline scenario



SOURCES: GTAP and OECD.

a 50% reduction in tariffs on capital goods and information and telecommunication goods.
b Elimination of tariffs on capital goods and information and telecommunication goods.
c 1.9% increase in labour productivity across all sectors.
d 4.6% increase in labour productivity across all sectors.

10 The GTAP model is a computable general equilibrium model used to analyse the effect of economic policies on international trade. It is a multi-region and multi-sector model that contains information for 141 countries and 76 economic sectors, and has substitution elasticities that tend to be higher for final goods, since these are more differentiated and are less replaceable than intermediate goods or commodities. In addition, cross-border flows of intermediate goods in the manufacturing stage of the value chain are included in the GTAP model in line with the customs policy between the two countries. See Banco de España. (2025). *Report on the Latin American economy. Second half of 2024*.

11 Transportation equipment, machinery, motor vehicles, electrical equipment and electronics.

12 Lower tariffs drive GDP primarily by making imported goods less expensive and consequently by raising real income. This encourages a reallocation of resources to more efficient sectors.

13 Consistent productivity gains across all sectors.

14 Using as reference the OECD's simulations for 2050.

Box 2
THE MACROECONOMIC STABILISATION PLAN IN ARGENTINA (cont'd)

2.4%[15] compared with the baseline (Chart 8).[16] Over a longer horizon (scenario 2.b), Argentina's regulatory framework gradually converging with OECD standards could result in a higher increase in productivity and GDP (4.6% and 5.9%, respectively). Assuming gradual convergence to 2050, the estimated effects of these two scenarios on the level of GDP would result in average increases in year-on-year growth of approximately 0.1 pp and 0.2 pp, respectively, during the reform process.

Overall, these simulations highlight that the structural reforms under way have the potential to yield sizeable macroeconomic gains in the medium and long term. However, whether these effects materialise will depend on the continuity and credibility of the reform process, its consistency with the general macroeconomic framework and the economy's ability to absorb the structural reforms in a setting that remains marked by high nominal imbalances.

15 Scenario applied to data from the GTAP-E 11 model. The effects are particularly significant on manufacturing and services output.
16 For 2035 Argentina's PMR indicator converges with the first quartile of the distribution of OECD countries' PMR values for 2025.

Box 3

THE PASS-THROUGH OF FISCAL POLICY SURPRISES TO THE EXCHANGE RATE AND TO SOVEREIGN RISK IN BRAZIL AND COLOMBIA

Paula Garda (OECD), Michael Koelle (OECD) and Luis Molina[1]

This box analyses the effects of fiscal surprises on key financial variables in Colombia and Brazil, two Latin American economies where public finances have performed less favourably.

These unexpected fiscal policy developments or shocks are identified using high-frequency data and statistical techniques for dataset simplification, estimating the principal components of changes in financial variables around major fiscal policy announcements, which may influence expectations regarding the sustainability of public finances. These announcements are sourced from the financial news service EmergingMarketWatch.[2] A fiscal surprise can be defined as the first principal component of changes in the sovereign risk premium (credit default swap or CDSs), in response to a significant event.[3]

Exchange rate and sovereign CDS responses to such fiscal shocks are estimated using a local projections model,[4] based on daily data from January 2010 to February 2026. In addition to the fiscal surprise, the model includes domestic monetary policy shocks[5] – which capture potential monetary policy surprises[6] – and global factors.[7]

Following a negative fiscal shock, sovereign risk rises and the currency depreciates

What happens after a negative fiscal surprise? In Colombia, a negative fiscal shock triggers an immediate and sustained rise in five-year sovereign CDSs (Chart 1). Over the following two weeks, the Colombian peso depreciates by close to 0.7% (Chart 2), with no reversal in the subsequent ten business days, indicating the pass-through of fiscal risk to the exchange rate.

A similar, albeit less persistent, pattern is observed in Brazil. As the fiscal outlook worsens, sovereign CDSs increase, peaking at a level similar to that observed in Colombia, but begin to reverse three days after the shock. The Brazilian real also depreciates, peaking around day two, before correcting somewhat and settling at a cumulative depreciation of around 0.8% after ten days.

Impact of fiscal policies on exchange rates and sovereign risk premia

In Brazil, the adoption of the new fiscal rule in May 2023 marked a major shift in the country's macroeconomic management framework, along with the approval, in late 2023, of the tax reform introducing a value added tax that will gradually replace other indirect taxes. As a result of these measures, the country's sovereign rating was upgraded for the first time since 2018. However, in 2024 markets began to question the attainability of the ambitious primary surplus targets. While the authorities were initially reluctant to revise them, these concerns triggered a market response that led the Government to announce spending cuts of nearly 2.5% of GDP in late 2024. In Colombia, fiscal balances have deteriorated in recent years, and its fiscal framework has undergone a series of changes. In 2024 compliance with the fiscal rule was partly achieved through one-off transactions, which were not endorsed by the Fiscal Council. In 2025 against a backdrop of pressures from lower-than-expected tax revenues and growing expenditure rigidity, the authorities activated the fiscal rule's escape clause and temporarily suspended its application until 2027. These changes in the implementation of the fiscal framework and successive revisions to targets have eroded the rule's credibility and

1 The findings are based on Paula Garda and Michael Koelle. (2026). "Policy Shocks and Exchange Rate Dynamics in Colombia". OECD. Mimeo.

2 Excluding any news items related solely to the release of fiscal data or to fiscal policy statements or reforms not yet discussed or approved.

3 Specifically, the first principal component of the change in sovereign CDSs at three-, five- and ten-year maturities measured between the business day preceding a major fiscal policy announcement and the following business day.

4 Òscar Jordà. (2005). "Estimation and Inference of Impulse Responses by Local Projections". *American Economic Review,* 95(1), pp. 161-182.

5 Monetary policy shocks are identified using the Emi Nakamura and Jón Steinsson approach. (2018). "High-Frequency Identification of Monetary Non-Neutrality: The Information Effect". *The Quarterly Journal of Economics,* 133(3), pp. 1283-1330, and the methodology of Chunya Bu, John Rogers and Wenbin Wu. (2021). "A unified measure of Fed monetary policy shocks". *Journal of Monetary Economics,* 118, pp. 331-349, which corrects for the "information effect" (Michael D. Bauer and Eric T. Swanson. (2023). "An Alternative Explanation for the 'Fed Information Effect'". *American Economic Review,* 113(3), pp. 664-700).

6 These surprises are identified on the basis of unexpected changes in sovereign yields around monetary policy decisions announced by central banks, which reflect revisions to expectations about the future path of interest rates.

7 Global factors include the dollar exchange rate against a basket of currencies (DXY), US stock market volatility (VIX) and soybean (Brazil) or West Texas Intermediate oil (Colombia) prices. Calendar fixed effects are also included.

Box 3

THE PASS-THROUGH OF FISCAL POLICY SURPRISES TO THE EXCHANGE RATE AND TO SOVEREIGN RISK IN BRAZIL AND COLOMBIA (cont'd)

heightened uncertainty about the medium-term fiscal consolidation path.

Given the findings in this box, which indicate that negative fiscal policy announcements exert significant depreciation pressures and increase sovereign CDSs, counterfactual scenarios were developed to gauge the contribution of fiscal surprises to changes in sovereign risk and the exchange rate. To this end, 2025 was chosen for Colombia and 2024 for Brazil, because, as discussed above, this is when negative fiscal surprises were most prevalent in those countries. Chart 3 shows, over a ten-day window, the changes observed in the sovereign CDSs for Colombia and Brazil (black line), alongside the effects of negative fiscal shocks on the CDSs in the selected years (green line). According to these estimates, overall, the negative fiscal

Chart 1
Impulse response function of five-year sovereign CDSs to negative fiscal shocks (a)

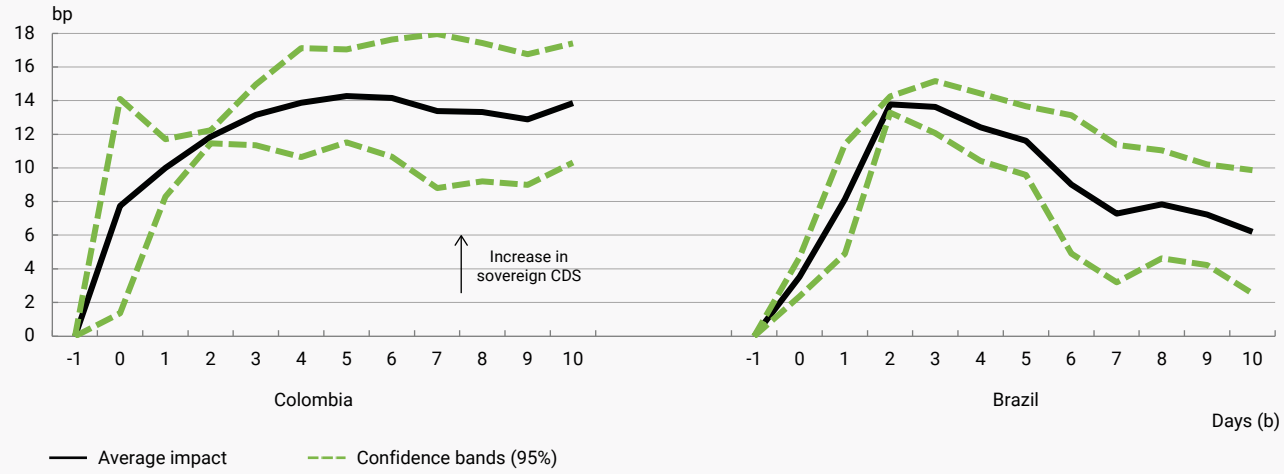
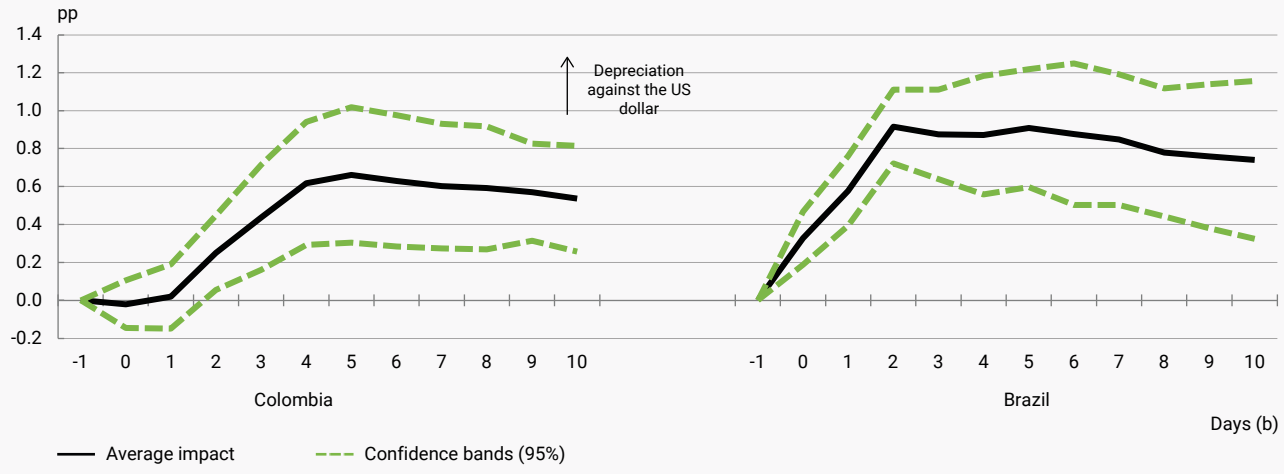


Chart 2
Impulse response function of exchange rate against the US dollar to negative fiscal shocks (a)



SOURCE: Paula Garda and Michael Koelle. (2026). "Policy Shocks and Exchange Rate Dynamics in Colombia". OECD. Mimeo.

a The model-based line shows the implied cumulative movements in five-year sovereign CDSs and the exchange rate against the dollar following a negative fiscal shock, calculated on the basis of the impulse-response functions estimated in Charts 1 and 2. The contribution is obtained by applying the estimated coefficients to the average negative fiscal shocks observed in 2025 (Colombia) and 2024 (Brazil) and including the sum of their dynamic effects. The observed line relates to the average exchange rate and five-year sovereign CDS movement following a fiscal shock.
b Number of days since the fiscal shock (0 on the horizontal axis).

Box 3

THE PASS-THROUGH OF FISCAL POLICY SURPRISES TO THE EXCHANGE RATE AND TO SOVEREIGN RISK IN BRAZIL AND COLOMBIA (cont'd)

shocks increased the CDSs by 92 basis points (bp) in Colombia in 2025 and 69 bp in Brazil in 2024.[8]

As regards the exchange rate, Chart 4 shows the average movements and those resulting from negative fiscal

Chart 3
Implied pressure on five-year sovereign CDSs of negative fiscal shocks (a)

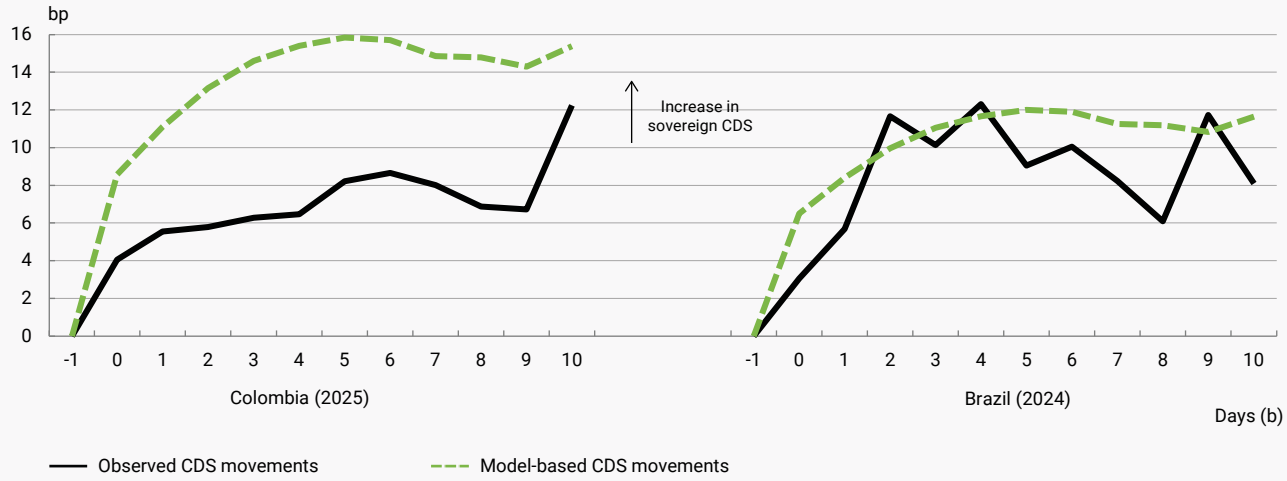
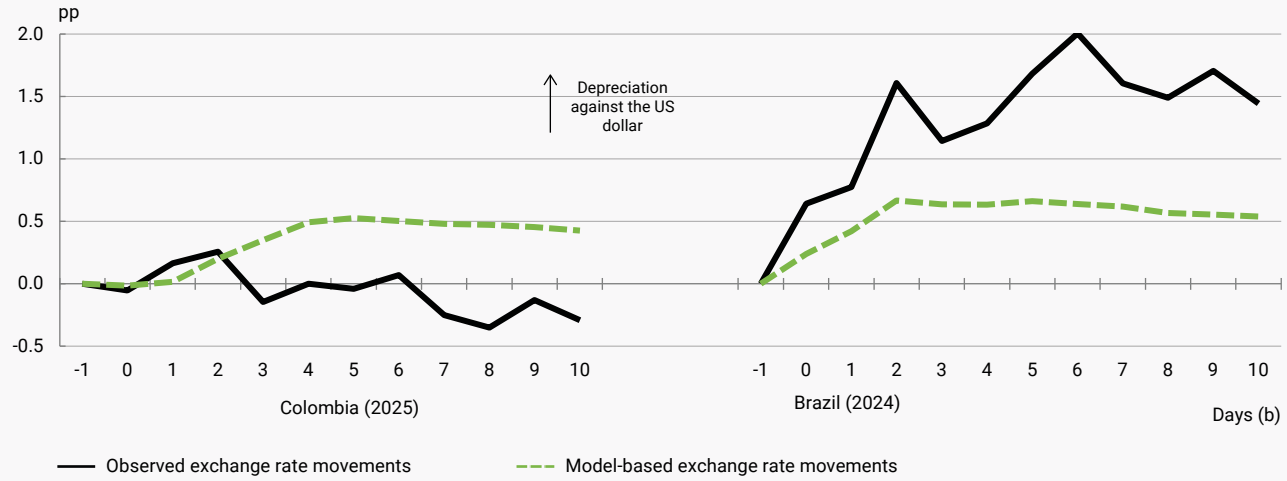


Chart 4
Implied depreciation pressure of negative fiscal shocks (a)



SOURCE: Paula Garda and Michael Koelle. (2026). "Policy Shocks and Exchange Rate Dynamics in Colombia". OECD. Mimeo.

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b Number of days since the fiscal shock (0 on the horizontal axis).

8 When positive fiscal shocks, i.e. those that strengthen fiscal credibility, are also taken into account, these effects are reduced to 49 bp and 53 bp for Colombia and Brazil, respectively.

Box 3

THE PASS-THROUGH OF FISCAL POLICY SURPRISES TO THE EXCHANGE RATE AND TO SOVEREIGN RISK IN BRAZIL AND COLOMBIA (cont'd)

shocks for both countries in the selected years. In this case, negative fiscal shocks are estimated to have depreciated the Colombian peso by 4.3 percentage points (pp) over 2025; when positive fiscal shocks are considered, the net effect amounts to a depreciation of 2.6 pp. In short, in the absence of fiscal pressures, the Colombian peso would have appreciated by almost 3% more than it did in 2025, in line with the patterns observed in other Latin American economies that benefited from the favourable external environment.

Brazil displayed a somewhat different pattern in 2024, as the Brazilian real followed a depreciating trend throughout the year. Model estimates indicate that negative fiscal shocks exerted sustained depreciation pressures on the Brazilian real, accounting for roughly one-third of the total depreciation over the ten business days following a fiscal shock (Chart 4). Cumulatively, negative fiscal shocks are estimated to have contributed 3.8 pp to the depreciation of the Brazilian real in 2024, or 1.8 pp when both positive and negative shocks are included.

Conclusions

The findings presented in this box show that negative fiscal surprises quickly translate into higher sovereign risk, as measured by CDSs, and exert depreciation pressures on the exchange rate. They also underline the importance of a sustained and credible fiscal consolidation strategy, and the need to clearly communicate any deviation from the announced path, comply with existing fiscal frameworks and strengthen institutions. These measures are essential for anchoring expectations, limiting sovereign risk premia, ensuring a more stable and sustainable growth path and easing monetary policy pressures stemming from financial stability risks.

Box 4

DEMOGRAPHICS, IMMIGRATION AND GROWTH: WHAT CHANGES IF EMIGRANTS RETURN TO MEXICO?

Mar Delgado-Téllez, Enrique Martínez Casillas, Liliya Matiko and Elena Vidal

The end of the demographic dividend in Mexico: emigration and population ageing

Mexico, like the rest of Latin America, is contending with progressive demographic ageing exacerbated by sustained emigration flows.[1] Specifically, in recent decades the country has experienced a steady decline in the share of younger generations and an increase in the proportion of those aged 65 and over, driving the dependency ratio up to 12.5% in 2025 (Charts 1 and 2). According to demographic projections from the United Nations and ECLAC,[2] this trend will continue over the forthcoming decades. As a result of these demographic dynamics, Mexico is projected to reach an old-age

Chart 1
Population pyramid: Mexico and Latin America

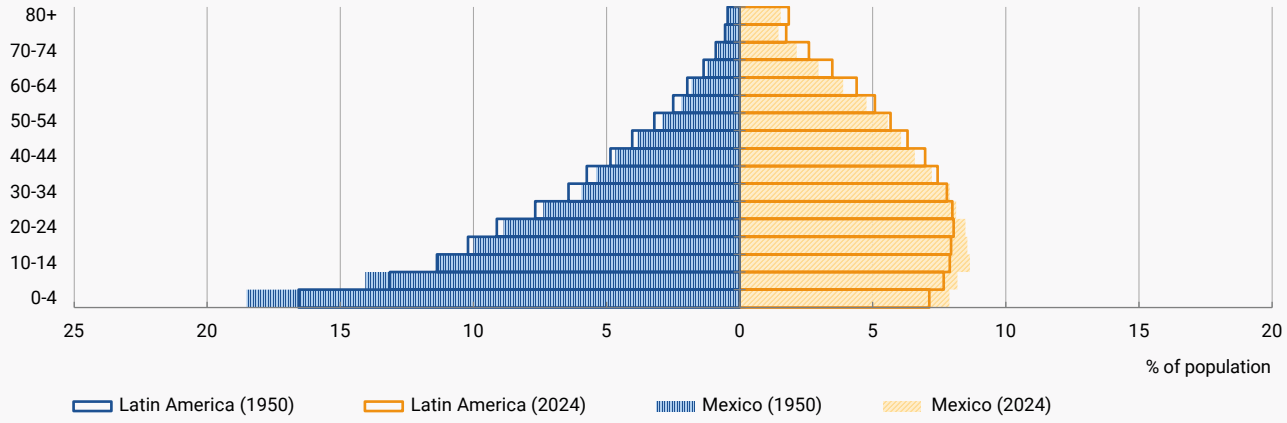
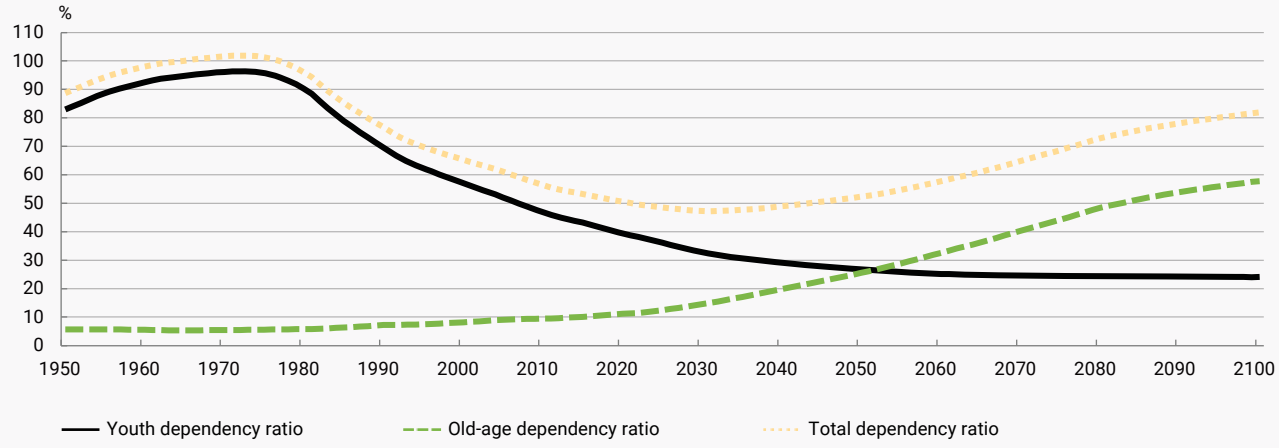


Chart 2
Median dependency ratio in Mexico (a)



SOURCE: Eikon.

a The youth dependency ratio is the proportion of the population aged 0-14 relative to the working-age population. The total dependency ratio is the sum of the population aged 0-14 and 65+ relative to the working-age population.

1 Juan Carlos Berganza, Rodolfo Campos, Enrique Martínez Casillas and Javier Pérez. (2020). "The end of the demographic dividend in Latin America: challenges for economic and social policies". *Economic Bulletin - Banco de España,* 1/Q2, 2020, Analytical Articles

2 Economic Commission for Latin America and the Caribbean. (2025). *Observatorio Demográfico*, 2025.

Box 4

DEMOGRAPHICS, IMMIGRATION AND GROWTH: WHAT CHANGES IF EMIGRANTS RETURN TO MEXICO? (cont'd)

dependency ratio of more than 30% in half the time that advanced economies did and with a per capita income level 50% below the OECD average. Indeed, the old-age dependency ratio is expected to reach 25% in the 2050s and nearly 58% by the end of the century.

The impact of declining fertility[3] and population ageing has been magnified by net emigration among the young working-age population. Although migration flows have eased compared with previous decades, Mexico – like much of Latin America – remains a net emigration country, with the United States as the primary destination (Charts 3 and 4).

The impact of stricter US migration policies

Against this background, the recent tightening of US migration policy could encourage Mexican migrants to return to their country of origin, particularly working-age individuals. The militarisation of border controls and the increase in deportations by the US Government have reduced irregular crossing attempts and led to the

Chart 3
Regions

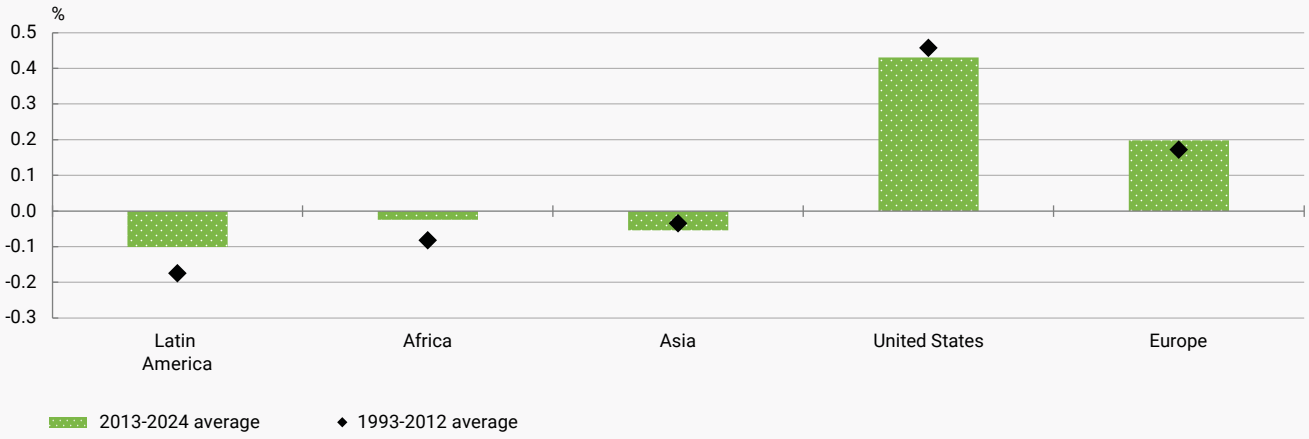
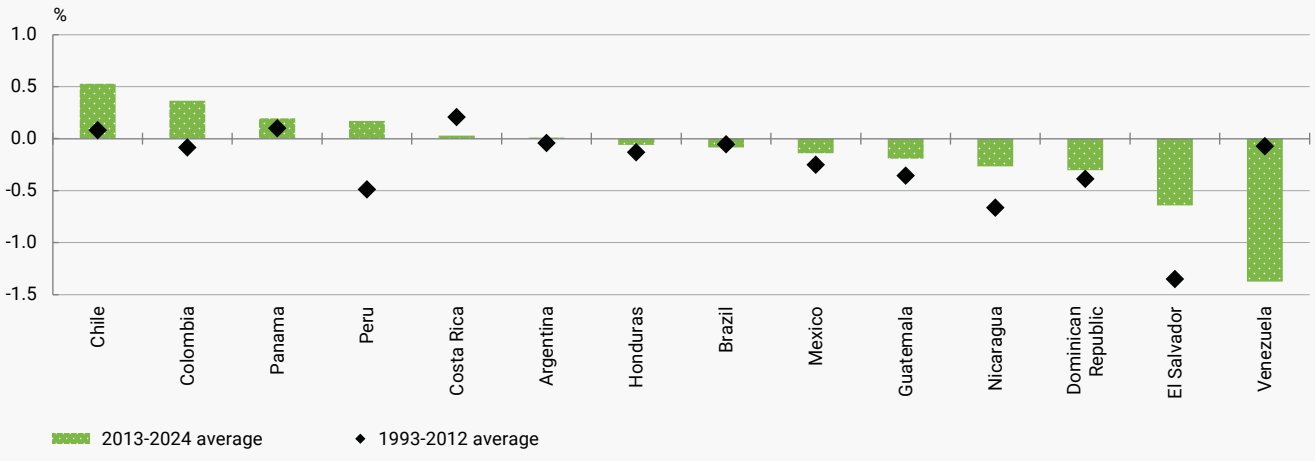


Chart 4
Latin American countries



SOURCES: Banco de España and United Nations data.

3 According to the World Bank, Mexico's fertility rate fell from 2.7 in 2000 to 1.9 in 2023, below the OECD-recommended replacement fertility rate of 2.1 children per woman.

Box 4

DEMOGRAPHICS, IMMIGRATION AND GROWTH: WHAT CHANGES IF EMIGRANTS RETURN TO MEXICO? (cont'd)

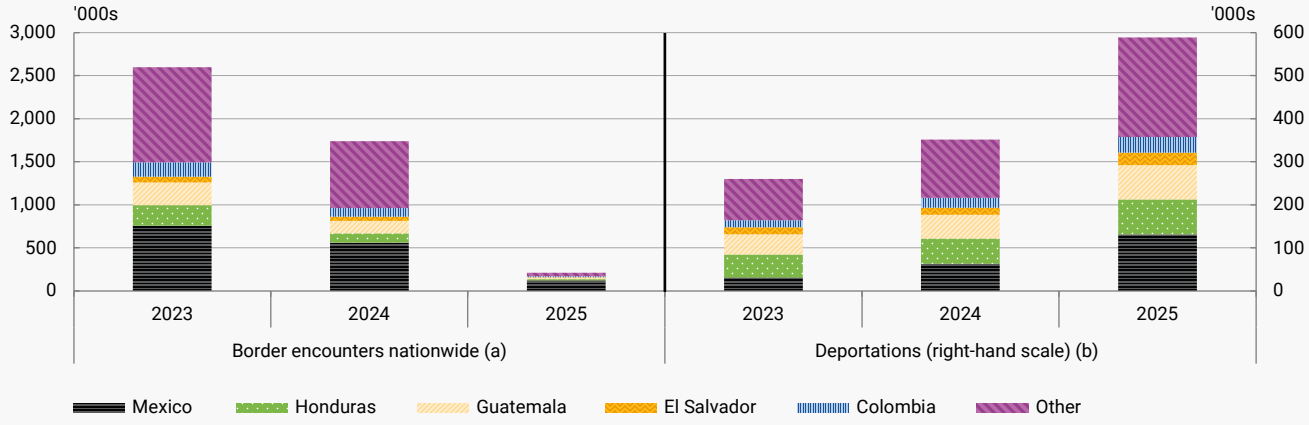
expulsion of around 500,000 foreign nationals this year, the vast majority of whom are from Latin America. Mexicans have been the most affected group in absolute terms, with more than 200,000 deported or intercepted at US borders in 2025 (Chart 5).[4]

In the short term, however, the increase in the number of returning migrants primarily translates into a reduction in remittances, which play a significant role in the Mexican economy, accounting for around 3.5% of GDP. In 2025 remittances from the United States fell by 4.6%.[5] This decline continued into early 2026, with a cumulative year-on-year drop of 0.5% to February.[6] However, the re-entry of returnees into the labour market and the domestic economy may generate positive effects that could, at least in part, offset the negative impact of lower remittance inflows.

A new wave of return migration could help to mitigate the decline of the demographic dividend, although its impact on economic growth will largely depend on the Mexican labour market's capacity to absorb returnees. While the labour market has ample absorption capacity, most of it lies in the informal sector, which will foreseeably limit the positive effects of a larger labour force. According to Mexico's National Survey of Occupation and Employment, at end-2025 labour market participation stood at around 60%, with a significant gender gap. Job creation was concentrated mainly in the informal sector (informality rate of 55%) and the services sector.

Part of the labour force growth is attributable to Mexican nationals returning from the United States, primarily deportees without regular migration status. Around one-third of Mexicans living in the United States have irregular status, most of whom work in the services sector. By contrast, the potential contribution of foreign immigration in Mexico has declined sharply, in line with the marked reduction in migratory flows – regular and irregular alike – associated with lower transit migration to the United

Chart 5
Lower border entries and increased deportations from the United States



SOURCES: U.S. Customs and Border Protection, TRAC - Outcomes of Immigration Court Proceedings.

a Administrative records of detection, apprehension and processing by border authorities. Number of encounters with border control agents. A single individual may be recorded in more than one encounter.
b Deportation orders and voluntary departures.

4 Since Trump took office in January 2025, the number of deportations following arrests made in the interior of the United States has already surpassed the total recorded during the entire four-year Biden Administration.

5 For a multi-perspective analysis of remittances to Latin America and how they are affected by US migration policy, see Banco de España (2025). *Report on the Latin American economy*. Second half of 2025.

6 To understand the determinants of remittance flows in Mexico, see Box 6.1 in João Ayres and Luciana Juvenal. (2026). *2026 Latin American and Caribbean Macroeconomic Report: Resilience and Growth Prospects in a Shifting Global Economy*.

Box 4
DEMOGRAPHICS, IMMIGRATION AND GROWTH: WHAT CHANGES IF EMIGRANTS RETURN TO MEXICO? (cont'd)

States via Mexico.[7] However, this impact could be tempered if a share of migrants from other countries in the region who are expelled from, or denied entry to, the United States choose to remain in Mexico, whether temporarily or permanently, attracted by relatively more favourable economic prospects than in their countries of origin.

Reintegration and reinsertion plans are therefore key to prepare the countries of origin for a possible increase in returnees and, above all, to harness the potential economic benefits of their labour market re-entry, as illustrated by the simulation detailed below.[8]

Simulating the contribution of returnees to Mexico's GDP per capita growth

The scale of deportee flows from the United States over the past year underlines the importance of quantifying the economic effects of returning emigrants. The exercise summarised in Table 1 simulates the impact of an increase in returnees on Mexico's GDP per capita growth between 2025 and 2028, considering the demographic and employment channels only, following the methodology used in Cuadrado and Regil (2025).[9]

GDP per capita in Mexico is decomposed into the product of four factors: the working-age population as a proportion of the total population (the demographic factor), the employment rate, the number of hours worked per person employed (average working hours) and productivity per hour worked. The decomposition of GDP per capita is expressed as follows:

$$GDP/N = GDP/H \times H/L \times L/N1564 \times N1564/N$$

where N is the total population, N1564 is the working-age population (aged 15-64), H is total hours worked and L is total employment.

Accordingly, the GDP per capita growth rate can be approximated by the sum of the rates of change of these four components. In past expansionary periods, such as 2010-2012 and 2021-2023, the primary drivers of GDP per

Table 1
Decomposition of GDP per capita growth in the Mexican economy

	GDP per capita	Demographic factor (a)	Employment rate (a)	Working hours	Productivity per hour
2014-2019	0.7	0.8	0.2	-1.1	0.8
2022-2024	1.8	0.4	1.2	-2.5	2.8
2026-2028					
Baseline scenario	-0.2	0.1	-0.8	-1.4	1.9
Deportations scenario (b)	0.2	0.4	-0.7	-1.4	1.9
Deportations and lower outward migration scenario (c)	0.5	0.6	-0.6	-1.4	1.9

SOURCES: Banco de España and national statistics.

a The working-age population is persons aged between 15 and 64.
b Assuming an annual inflow of 131,833 deportees in the period 2025-2028. The productivity factor and working hours are held constant at 2024 levels.
c Assuming an annual inflow of 257,824 deportees and lower net outward migration in the period 2025-2028. The productivity factor and working hours are held constant at 2024 levels.

7 Between 2024 and 2025 the number of irregular migrants in Mexico fell by 95%. See Juan José Li Ng. (2026). *Mexico. Did Deportations of Mexicans from the U.S. Increase?* Observatorio de Migración y Remesas. BBVA.

8 OECD (2024), *Return, Reintegration and Re-migration: Understanding Return Dynamics and the Role of Family and Community*, OECD Publishing.

9 Pilar Cuadrado and Ana Regil. (2025). "An estimation of the contribution of the foreign population in Spain to GDP per capita growth in the period 2022-2024". *Economic Bulletin - Banco de España,* 2025/Q2, 10.

Box 4
DEMOGRAPHICS, IMMIGRATION AND GROWTH: WHAT CHANGES IF EMIGRANTS RETURN TO MEXICO? (cont'd)

capita growth were the employment rate and productivity, while the demographic factor played a far more limited role.

For the period 2025-2028, various scenarios for higher numbers of Mexican deportees are examined to assess the impact of their arrival on growth in the demographic factor and employment – both determinants of GDP per capita – from 2025 onwards.[10] According to the 2023 National Survey of Demographic Dynamics, 90% of the Mexicans who returned to their country of origin were of working age, while 76% of them had already re-entered the labour market.

Drawing on the Mexican Government's official projections for the years after 2024, this simulation exercise compares the path of GDP per capita under three scenarios. The baseline scenario assumes population developments in line with the official projections. The second scenario introduces the annual arrival of 131,833[11] deported Mexicans during the period 2025-2028. The third is an extended scenario, which considers the arrival of those deported Mexicans and further assumes a reduction in net outward migration from Mexico associated with fewer illegal entries into the United States[12] compared with the average during the Biden Administration, resulting in a total impact equivalent to 257,824 individuals.[13]

During 2022-2024 the demographic factor contributed around 0.4 percentage points (pp) to Mexico's GDP per capita growth. However, under the third scenario this contribution would rise to 0.6 pp in 2026-2028 due to returning deportees and lower outward migration, helping to ease population ageing pressures and the negative net migration balance (Table 1). The results also show an initial drop in employment, although this effect would tend to reverse with the appropriate reintegration policies.[14]

The results suggest that the deportees from the United States returning to Mexico would substantially increase the working-age population, resulting in higher GDP growth relative to the baseline scenario, which envisages neither deportations nor a reduction in illegal entries to the United States (Charts 6 and 7). This stronger economic activity would lead to a gradual increase in GDP per capita, up to 2 pp higher in 2028 under the third scenario relative to the baseline. However, as noted in Cuadrado and Regil (2025), the results of this mechanical decomposition of growth in GDP per capita should be interpreted with caution, since the simulation assumes constant contributions from productivity and working hours and is subject to considerable uncertainty regarding both the actual number of returnees and their labour market integration.[15] In the case of Spain, Cuadrado and Regil (2025) finds immigration makes a negative contribution to productivity. However, the characteristics of Mexicans returning from the United States may differ markedly from those of immigrants arriving to the country. Indeed, those who have spent extended periods in the United States tend to display higher productivity levels, whereas those with briefer periods of residence in the country (typical of deportees) exhibit lower observable productivity gains.

The recent literature suggests that return migration can serve as an additional driver of economic growth, since it fosters income growth,[16] job creation and the accumulation and transfer of human capital (Bucheli and Fontenla, 2025;[17] Wahba, 2021).[18] These effects can materialise

10 Assuming constant productivity growth and working hours.

11 Based on the number of deportation orders recorded in 2025.

12 The reduction in illegal entries resulting from stricter migration policy is estimated by converting border encounters that lead to removals into total entry attempts, applying an apprehension rate. The analysis draws on the U.S. Department of Homeland Security. (2023). *Border Security Metrics Report.* Office of Homeland Security Statistics, which indicates an apprehension rate of 81% in 2021 (based on direct and indirect observations). Accordingly, a successful entry rate of 19% is assumed. Comparing the annual average border encounters in the period 2021-2024 with those in 2025, the estimated difference in illegal entries from Mexico amounts to around 126,000 individuals.

13 Based on the number of individuals deported by U.S. Immigration and Customs Enforcement in 2025 and intercepted at the border by U.S. Customs and Border Protection.

14 OECD (2024), *Return, Reintegration and Re-migration: Understanding Return Dynamics and the Role of Family and Community.* OECD Publishing.

15 Interception statistics capture events at the border only and there are no data for successful immigrant crossings. In addition, the data track incidents rather than individuals, meaning they may include duplicates.

16 José R. Bucheli and Matías Fontenla. (2020). "Return migration and financial inclusion in Mexico". Discussion Paper, IDB-DP-812, Inter-American Development Bank.

17 José R. Bucheli and Matías Fontenla. (2025). "The impact of return migration on economic development". *The Review of Economics and Statistics,* 107(2), pp. 393-407.

18 Jackline Wahba. (2021). "Who benefits from return migration to developing countries?". *IZA World of Labor,* 123(v2).

Box 4

DEMOGRAPHICS, IMMIGRATION AND GROWTH: WHAT CHANGES IF EMIGRANTS RETURN TO MEXICO? (cont'd)

through various channels, including accumulated savings conducive to investment and entrepreneurship, higher wages linked to skills acquired abroad and knowledge transfers that boost productivity.[19] In sum, return migration could partially mitigate the decline of Mexico's demographic dividend, although its macroeconomic impact will crucially hinge on the successful integration of returnees into formal and productive employment.

Chart 6
Impact on the labour force

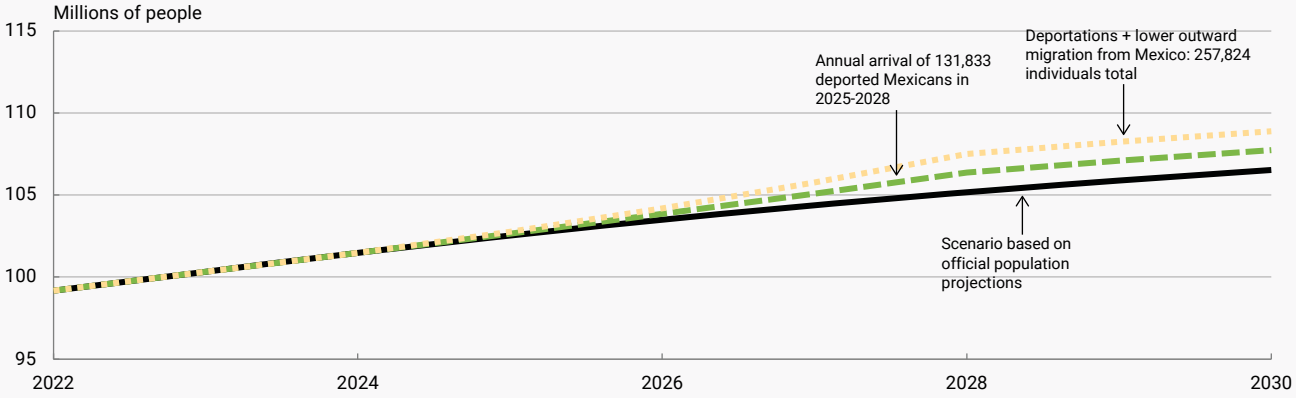
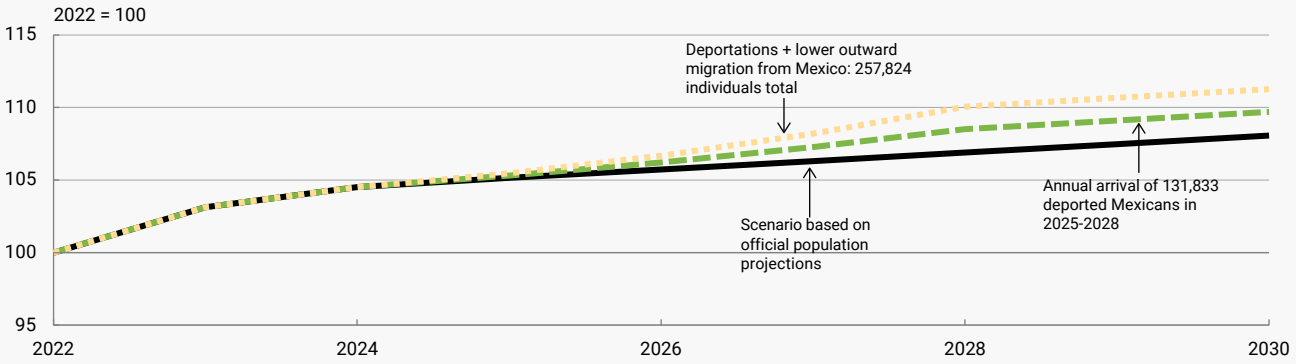


Chart 7
Impact on GDP (a)



SOURCE: Banco de España.

a Scenario simulations following the decomposition methodology in Cuadrado and Regil (2025).

19 Shan Li. (2018). "Investment and interruption: effects of the US experience on the earnings of return migrants in Mexico". *Applied Economics,* vol. 50(4), pp. 426-440.

Box 5

SPANISH FIRMS' INVESTMENT IN LATIN AMERICA: WHAT THE MICRO DATA REVEAL

Esther López Espinosa and César Martín Machuca

Latin America is one of the main destinations for Spanish outward FDI, as discussed in an article published alongside the 2024 H2 Report on the Latin American Economy.[1] This box extends that analysis using micro data on direct investment from the balance of payments, available through the Banco de España data laboratory, BELab.[2] The database covers the period 2013-24, that is, the new and more selective expansion phase following the entry of large Spanish firms into the region in the mid-1990s and the subsequent slowdown triggered by the global financial crisis from 2008 onwards.[3]

The micro data available make it possible to break down the number of firms making direct investments by country and economic activity, together with their average stock of investment and the currency used. On this basis, the analysis targets key aspects of Spanish multinationals' choices, including the factors driving changes in the FDI stock (extensive margin, i.e. an increase in the number of investing firms, versus the intensive margin, i.e. larger investments by firms that are already making such investments), the concentration of FDI by investment stock per firm, and the degree of geographical diversification.

This analysis of Spanish firms' investment activity will be complemented in the future with additional sources of information on firm characteristics, such as the Banco de España Central Balance Sheet Data Office.

Latin America is the region with the second-largest presence of Spanish firms, after the euro area

The number of Spanish firms with outward FDI rose by 40% between 2013 and 2024, reaching 4,629 (Chart 1).[4, 5] Over the period as a whole, the number of Spanish firms investing in Latin America grew more strongly than the global total. This consolidated Latin America's position as the second most important destination region after the euro area, with 1,709 firms investing there in 2024 (37% of the total). Since 2015, however, the pace of expansion in Latin America has slowed, in contrast to more pronounced growth in other regions, such as the United States and the United Kingdom. This pattern is consistent with the decline in Latin America's relative weight in global FDI, partly reflecting the cyclical fluctuations in the region and in commodity prices.[6] In addition, factor endowment and Latin American economies' trend of productive specialisation shape their ability to attract direct investment, which at a global level is characterised by a growing share of advanced services and new technologies.[7] Within the region, the number of investing firms has risen in the main economies (with the exception of Argentina), most notably in Mexico, which ranks first by a considerable margin (Chart 2).

The increase in the number of firms explains the rise in FDI stock in Latin America

The growth in the number of Spanish firms investing in Latin America has gone hand in hand with a more stable presence than in other regions such as the United States and the United Kingdom, where turnover is somewhat higher, as can be seen in the entry and exit rates in investment activity (Chart 3).

Between 2013 and 2024, the increase in the Spanish FDI stock in Latin America was driven mainly by the extensive margin (47%)[8] as average investment per firm declined (Chart 4). This contrasts with other regions, such as the EU, where the consolidation of existing positions (i.e. the intensive margin) has predominated. As new investing firms in Latin America become more established, their investment volumes in the region can be expected to gradually rise over the medium term.

1 Isabel Álvarez, Juan Carlos Berganza and César Martín Machuca. (2025). "Foreign direct investment between Latin America and Spain". *Economic Bulletin - Banco de España,* 2025/1, 05.

2 BELab provides controlled access to FDI data, specifically assets and liabilities (stocks, transactions and other volume changes) relating to quoted shares, unquoted shares and other equity, loans, and other debt instruments dating back to 2013.

3 Enrique Alberola and Esther López. (2013). "La evolución de la inversión directa española en América Latina". *Boletín Económico - Banco de España,* June 2013, pp. 61-69.

4 A single firm may invest directly in more than one country. As a result, investing firms may be counted in more than one geographical area, meaning that regional shares do not necessarily sum to 100%.

5 These firms represent a very small fraction of the total (around 0.1%, rising to 0.8% if firms with fewer than three employees are excluded, according to the National Statistics Institute's Central Business Register data).

6 See Álvarez, Berganza and Martín Machuca (2025).

7 UNCTAD. (2025). *World Investment Report 2025*.

8 Measured relative to GDP, the change in the Spanish FDI stock in Latin America in 2013-24 shows two distinct phases: a moderate increase up to the pandemic, followed by a return to levels broadly similar to those observed at the beginning of the period. In 2024, Spanish investment amounted to around 3% of the region's GDP (close to 13% when measured against Spanish GDP).

Box 5

SPANISH FIRMS' INVESTMENT IN LATIN AMERICA: WHAT THE MICRO DATA REVEAL (cont'd)

Average FDI stock per firm[9] is smaller in Latin America than in economically larger regions

Average FDI stock per firm is positively correlated with the size of the destination economy and its role as an international financial or economic hub. Accordingly, average stocks in the United States and the United Kingdom are substantially higher than in Latin American countries, while euro area members sit between the two. This pattern can also be seen within Latin America: the largest average investment volumes by far are found in the region's largest economies, notably Brazil and, to a lesser extent, Mexico (Chart 5). Both Brazil and Mexico also benefit from strategic positioning owing to their participation in free trade areas, such as Mercosur and the free trade agreement between the United States, Mexico and Canada (USMCA), respectively.

Firm-level geographical diversification of FDI is generally limited, both among companies operating in Latin America and worldwide (Chart 6). Most firms in Latin America invest in only one country (around 70% of firms, accounting for more than 76% of the equity investment stock), with just 30% maintaining a presence in two or more markets. This pattern holds across most economic activities, although geographical diversification is somewhat higher in the

Chart 1
Number of Spanish firms with direct investment abroad

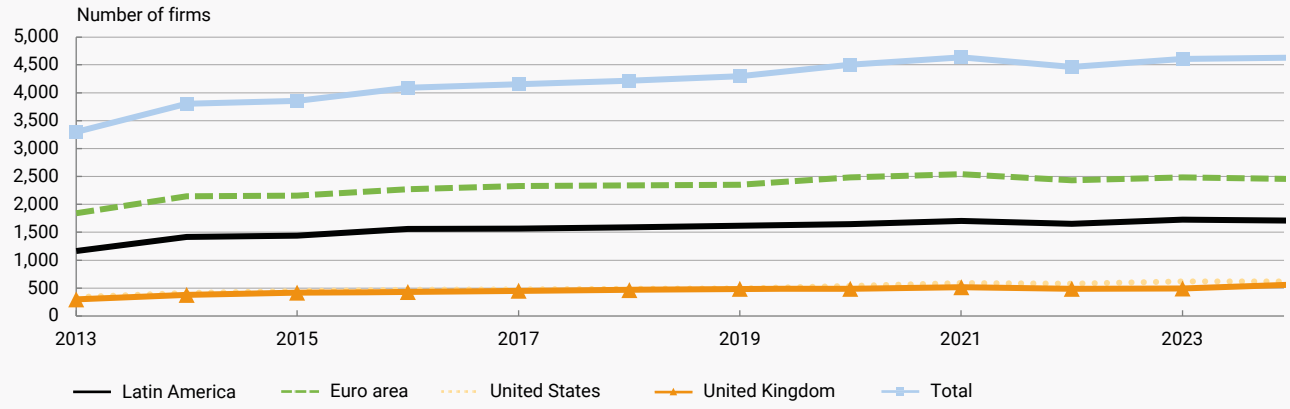
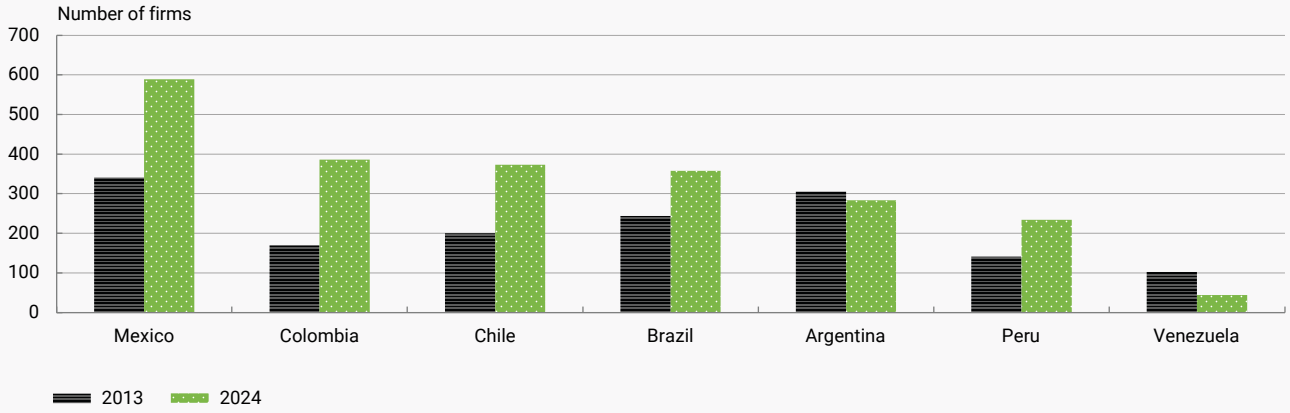


Chart 2
Number of Spanish firms with direct investment in Latin America, by country



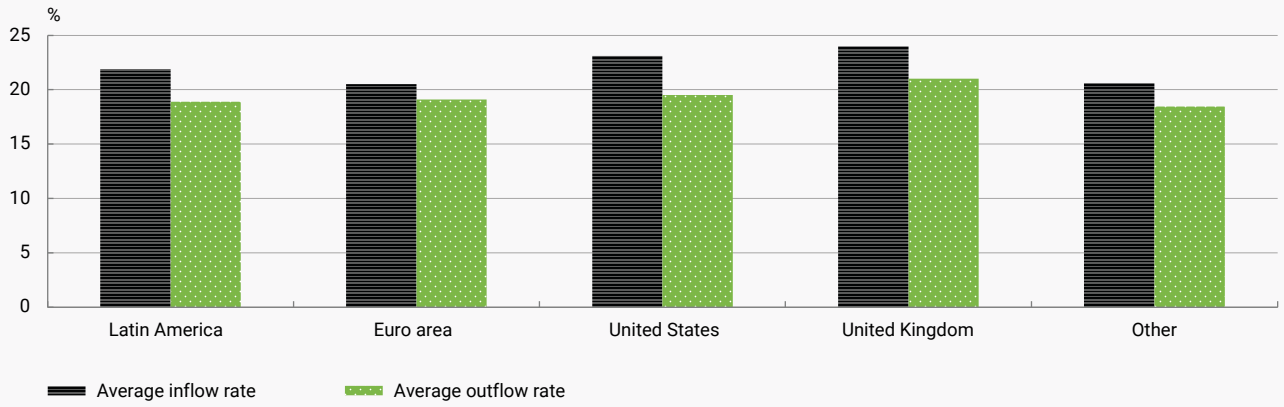
SOURCE: Banco de España.

9 Calculated for equity investments by Spanish parent companies abroad.

Box 5

SPANISH FIRMS' INVESTMENT IN LATIN AMERICA: WHAT THE MICRO DATA REVEAL (cont'd)

Chart 3
FDI. Firm inflow and outflow rates (a)



SOURCE: Banco de España.

a The inflow rate is calculated as the average percentage of new firms that begin to make direct investments in the region. The outflow rate is calculated as the average percentage of firms that cease to have any direct investments in the region from one year to another. Both are calculated for 2013-24.

Chart 4
Average stock of direct equity investment per firm

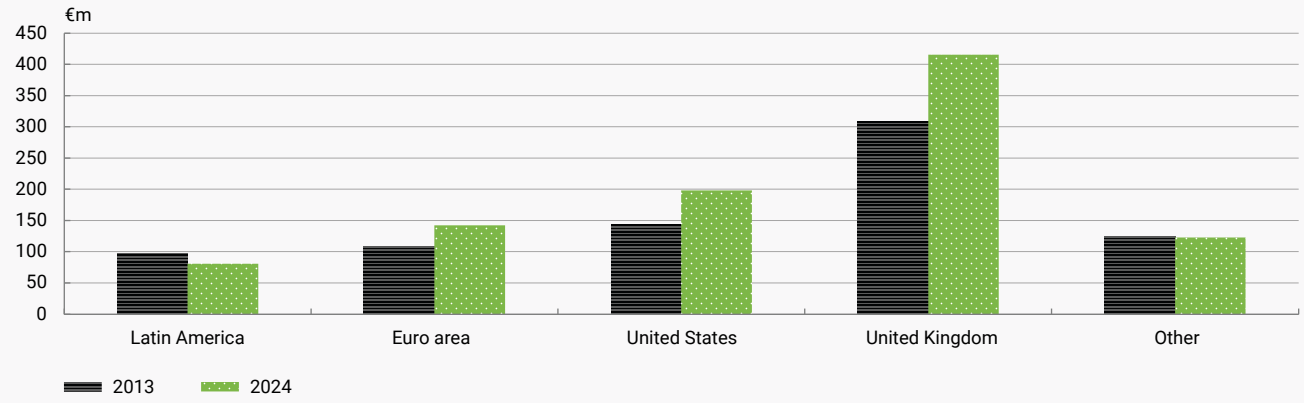
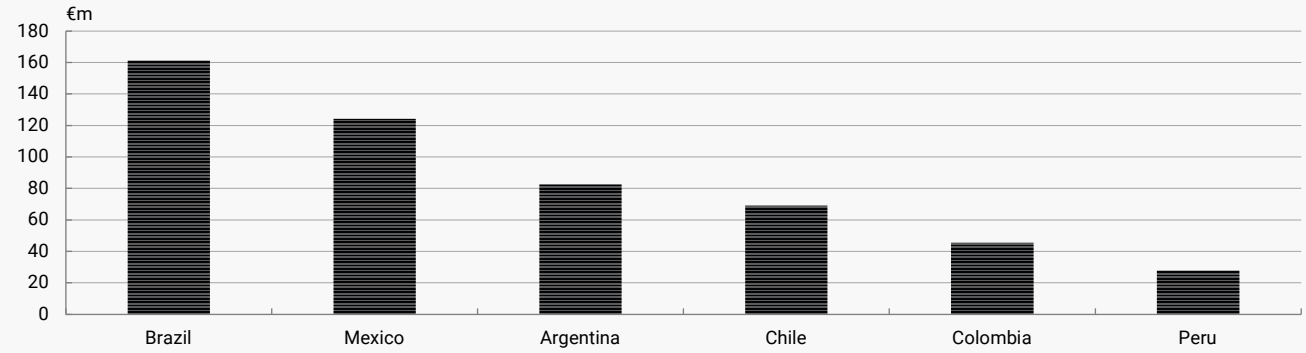


Chart 5
Average stock of direct equity investment in Latin America per firm. 2024



SOURCE: Banco de España.

Box 5
SPANISH FIRMS' INVESTMENT IN LATIN AMERICA: WHAT THE MICRO DATA REVEAL (cont'd)

information and communications sector: 15% of such firms operate in two countries and almost 34% in three or more.

The sectoral composition of Spanish firms in Latin America is more evenly distributed than at the global level (Chart 7). Globally, investment is characterised by particularly high average amounts in information and communications and in financial activities. This is not the case in Latin America, despite past acquisitions of strategic financial institutions and the involvement of Spanish multinationals in public utility privatisation processes, including in the telecommunications sector, which took place several decades ago.

The FDI stock is concentrated in a small number of firms

FDI tends to be concentrated in a relatively small share of firms (generally the largest ones), which is a characteristic of economies' transactions with the rest of the world, as can be observed in Spanish exports.[10] Although FDI concentration is somewhat lower in Latin America than in other regions, it remains significant. Firms with average investment stocks exceeding €1 billion account for more than 70% of the total FDI stock worldwide, compared with around 50% in Latin America (Chart 8). These firms represent only a small fraction of direct investors (between 3% and 5% of those worldwide and in Latin America,

Chart 6
Number of investment countries per firm

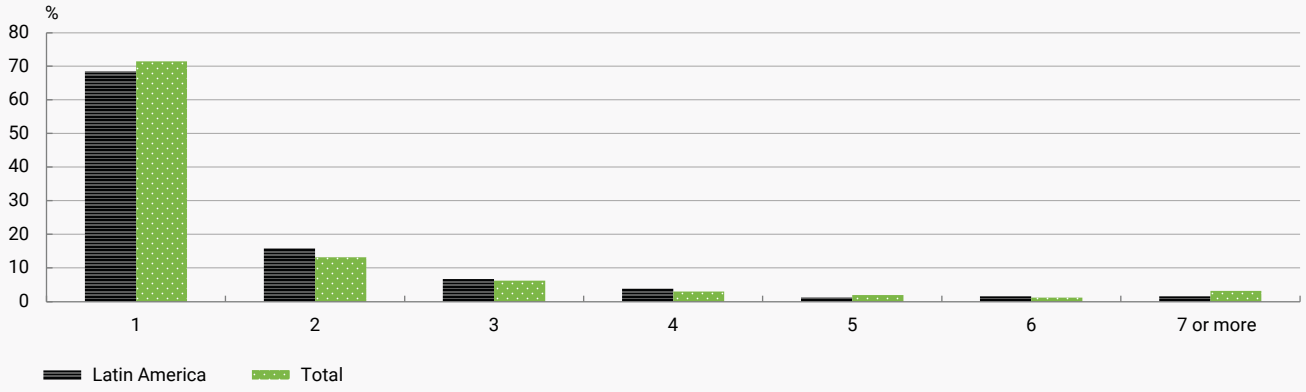
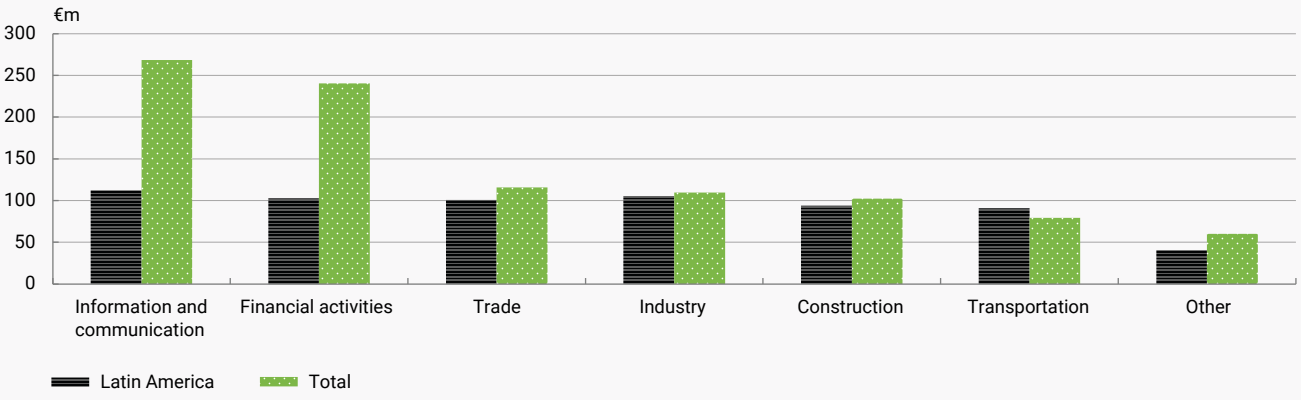


Chart 7
Average stock of direct equity investment per firm, by activity



SOURCE: Banco de España.

10 César Martín Machuca and Antonio Rodríguez Caloca. (2011). "Las empresas españolas exportadoras de bienes y servicios no turísticos: análisis comparativo e impacto de la crisis". *Cuadernos Económicos de ICE,* No 82.

Box 5
SPANISH FIRMS' INVESTMENT IN LATIN AMERICA: WHAT THE MICRO DATA REVEAL (cont'd)

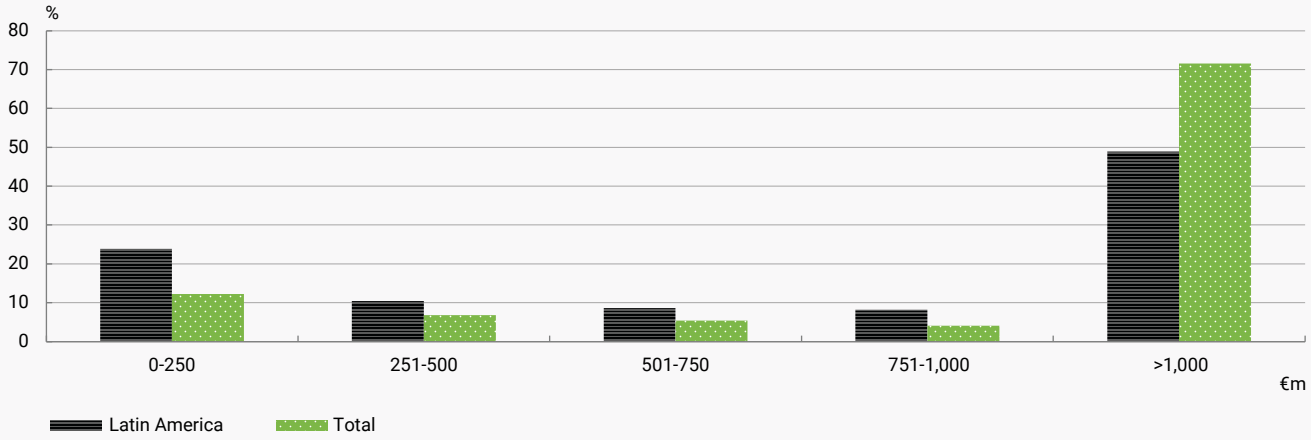
respectively) (Chart 9). Indeed, the majority are firms with an average FDI stock of less than €250 million (accounting for around 90% of the global total and 80% in Latin America).

To summarise, BELab data show that between 2013 and 2024 the number of Spanish firms making direct investments abroad grew more in Latin America than in other regions. This expansion largely explains the increase in the region's FDI stock, around half of which is concentrated in a small subset of firms, specifically those with investments exceeding €1 billion. Firm-level geographical diversification is limited as most companies invest in only one country within the region. Diversification is somewhat higher among firms with larger investment stocks, though most still focus on a single destination country.

The EU-Mercosur agreement could support Spanish FDI in Latin America

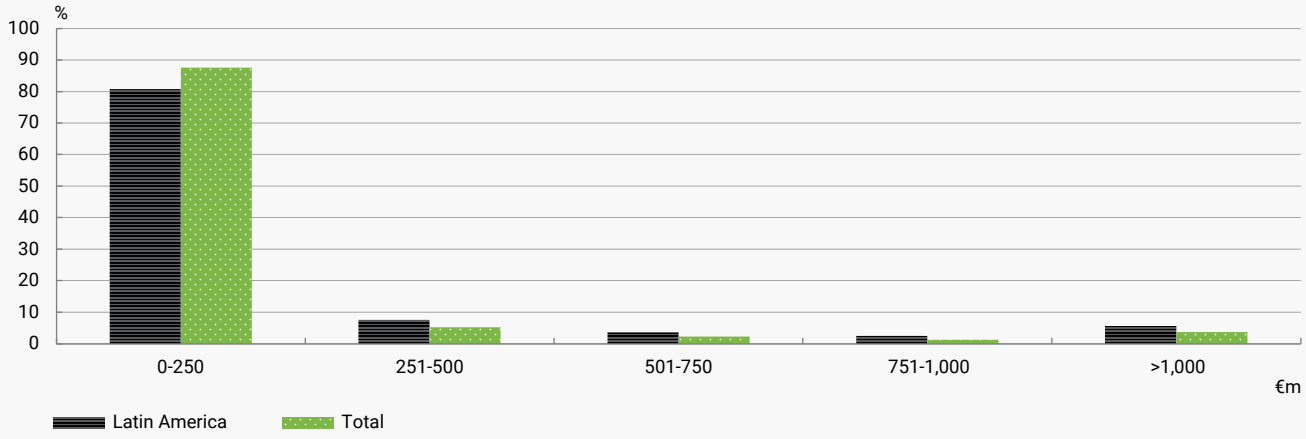
The recently reached free trade agreement between the EU and Mercosur is likely to support Spanish firms' FDI in Latin America by providing a more transparent and

Chart 8
Percentage of total FDI stock by firms' average investment



SOURCE: Banco de España.

Chart 9
Percentage of firms by average investment amount



SOURCE: Banco de España

Box 5
SPANISH FIRMS' INVESTMENT IN LATIN AMERICA: WHAT THE MICRO DATA REVEAL (cont'd)

predictable legal framework, thereby encouraging bilateral investment flows. The agreement is particularly relevant in the current context of heightened geopolitical and trade uncertainty, geoeconomic fragmentation and upside inflation risks. These latter factors, exacerbated by the conflict in the Middle East, could have adverse effects on economic activity, tighten financing conditions and weigh on the rollout of new investment projects.

Box 6

LATIN AMERICAN EXPORT-RELATED EMPLOYMENT: EXPORTS TO THE EUROPEAN UNION AND SPAIN SUPPORT HIGHER-SKILLED JOBS THAN THOSE TO OTHER REGIONS

José Durán Lima, Sebastián Castresana and Areum Han,[1] in collaboration with the authors of the report

The European Union (EU) is one of Latin America's key trade and investment partners, with interests across a wide range of sectors such as infrastructure, energy, telecommunications, agriculture and agribusiness, medium and high-tech manufacturing and financial services.

This box shows the composition of export-related employment for six Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico and Peru) in 2023-24, taking into account the human capital component of these exports.[2] To this end, it studies the structure and skill level of employment across various large sectors, and how exports to the EU compare with those to other destinations.

This analysis adds to the existing research on the region's export-related employment,[3] with a particular focus on two aspects: (i) differences across trading partners, considering both the structure and geographical distribution of exports; and (ii) the technological content of trade, proxied by workers' skill level.

What do Latin American exports to the European Union look like and what type of employment do they generate in the region?

The data analysed are input-output matrices from Comisión Económica para América Latina y el Caribe (CEPAL), combined with Comtrade and Trade Map data for trade in goods and European Commission data for trade in services. This information is complemented with data from the various countries. The intensity and skill level of labour linked to trade with the European Union and other relevant trading partners are estimated for each country, following a recent CEPAL paper.[4] The objective is to answer three basic questions:

- How much employment do Latin American exports to the EU generate?
- Which sectors have the most export-related labour intensity?
- Are exports to the EU more skill-intensive than those to other regions?

Exports of goods and services from the six selected Latin American countries to the European Union support around 4.3 million jobs, representing 11.4% of these countries' total export-related employment (Table 1). This is much lower than jobs supported by exports to the United States (over 14 million) and somewhat lower than the figures for intra-regional exports and exports to China (more than 5 million each). Excluding Mexico – which sends 85% of its exports to the United States – the EU's share in export-related employment rises to 14.5%. This share is still lower than that for intra-regional exports (18.4%), China (18.6%) and the United States (17.4%), but the gap with the latter narrows significantly.

Spain accounts for 15% of exports to the EU from the six countries (16% excluding Mexico). On average, approximately two out of every one-hundred jobs in the selected countries are directly linked to exports to Spain.

Export-related employment by country and sector

Brazil generates the most jobs from its exports to the EU (over two million), well above Peru and Colombia (each with over half a million) and Mexico (just under half a million) (Table 2). By sector, goods exports to the EU support close to 3 million jobs, while the remaining 1.3 million are supported by services exports:

- The ratio of jobs related to goods exports to those related to services exports is highest in Brazil and Peru.
- Peru and Colombia are the countries where the primary sector accounts for the largest proportion of jobs

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2 The following skill levels are defined: employment is considered low-skilled when workers have fewer than 12 years of formal education, medium-skilled when they have between 12 and 17 years of formal education and high-skilled when they have more than 17 years of formal education.

3 These studies have focused, among other issues, on employment multipliers (for Ecuador, see José Durán Lima and Sebastián Castresana. (2016). "Estimación del empleo directo e indirecto asociado a las exportaciones del Ecuador a la Unión Europea". Serie Comercio Internacional, 127, CEPAL; for Colombia and Argentina, see Departamento Administrativo Nacional de Estadística. (2021). *Boletín técnico: Matriz insumo producto 2017*), the effects of employment on trade (see Luis Villanueva. (2014). "Wage inequality and trade globalization in Chile and Mexico". Draft for discussion only) and sector-specific estimations of export-related employment (see Confederação Nacional da Indústria. (2023). "Exportações focadas em bens industriais impulsionam a economia brasileira". Nota Econômica, 29).

4 See CEPAL. (2025). *Perspectivas del Comercio Internacional de América Latina y el Caribe, 2025*.

Box 6

LATIN AMERICAN EXPORT-RELATED EMPLOYMENT: EXPORTS TO THE EUROPEAN UNION AND SPAIN SUPPORT HIGHER-SKILLED JOBS THAN THOSE TO OTHER REGIONS (cont'd)

supported by exports to the EU (67.6% and 32.5%, respectively).

- For the six countries as a whole, export-related manufacturing employment is concentrated in the light manufacturing segment (in particular, the food, beverages and tobacco sector), especially in Argentina and Brazil.
- By contrast, Mexico has the highest share of export-related employment in heavy manufacturing (47%), concentrated mainly in the automobile, machinery and electrical and non-electrical equipment sectors. Despite this, at regional level, Brazil accounts for a larger share of total regional employment in heavy manufacturing supported by exports to the EU (41%) than Mexico (36%), reflecting its larger volume of trade with Europe.

For comparison purposes, exports of goods and services from the selected countries to Latin America and the Caribbean (which represent 11.6% of their total exports, compared with 9% in the case of the EU) support just over 5.2 million jobs. Slightly more than 50% of these jobs are in manufacturing, with heavy manufacturing playing a larger role (36%) than in the case of the EU (15%). In Brazil and Mexico, compared with exports to the EU, employment supported by intra-regional exports is more heavily weighted towards food, beverages and tobacco, iron and steel, chemicals, machinery and equipment, and automobiles, among other products. Only Argentina – and, to a lesser extent, Peru – features a greater proportion of light manufacturing (mainly agricultural products, including oilseeds and fruits and vegetables) in employment supported by intra-regional exports. In Colombia and Chile, the proportion of intra-regional exports of chemicals, fuel, food beverages and tobacco, cellulose and fabricated metal products stands out.

Exports to the EU support higher-skilled employment than those to other regions

By analysing the skill level of jobs supported by exports, it is possible to estimate the relationship between exports and their human capital content and to overcome a traditional constraint of the technological content approach: the absence of criteria to identify low, medium and high-technology products within the primary goods and manufacturing categories.

Jobs supported by exports to the EU are often in high-skilled sectors, particularly modern services such as finance, insurance and telecommunications, where medium and high-skilled jobs account for over 74% of the total. This is in contrast to jobs supported by exports of agricultural products and transport-related services, which are all low-skilled-labour intensive (Chart 1).

Table 1
Latin America-6: Distribution of exports of goods and services and supported employment, by main destination (a)

	Distribution of exports (% of total)		Employment supported by exports			
			(number of people)		(% of total)	
Countries / regions	LatAm-6	Excl. Mexico	LatAm-6	Excl. Mexico	LatAm-6	Excl. Mexico
European Union	9.0	12.2	4,271,475	3,777,193	11.4	14.5
Spain	1.4	2.4	636,293	606,773	1.7	2.3
Latin America and the Caribbean	11.6	18.4	5,205,008	4,785,986	13.9	18.4
China	12.8	26.3	5,006,319	4,859,816	13.3	18.6
United States	45.3	13.3	14,042,494	4,535,370	37.4	17.4
ASEAN	2.9	5.3	1,393,799	1,347,297	3.7	5.2
Rest of the world	18.3	24.5	7,619,389	6,131,584	20.3	23.5
TOTAL	100	100	37,538,484	26,073,539	100	100

SOURCE: CEPAL.

a Calculated using the input-output approach, input-output matrices of each selected country, total domestic employment and exports of goods and services for the period 2023-24. LatAm-6 includes Argentina, Brazil, Chile, Colombia, Mexico and Peru.

Box 6

LATIN AMERICAN EXPORT-RELATED EMPLOYMENT: EXPORTS TO THE EUROPEAN UNION AND SPAIN SUPPORT HIGHER-SKILLED JOBS THAN THOSE TO OTHER REGIONS (cont'd)

On average, between 2023 and 2024, the combined exports of medium and high-skilled goods and services from the selected Latin American countries to the EU amounted to $68 billion[5] (53% of total goods and services exports). Brazil is the country with the most export-related high-skilled employment, followed by Mexico and Chile.

The proportion of high-skilled employment supported by goods and services exports to the EU and to Latin America (16.1% in both cases) is greater than for exports to China (13.9%), the Association of Southeast Asian Nations (ASEAN) (14.7%) and the rest of the world (15%) (see top panel in Table 3). It is also greater than for exports to the

Table 2
Latin America-6: Jobs supported by exports of goods and services, 2023-24 (a)

Economic sectors	Argentina	Brazil	Chile	Colombia	Mexico	Peru	LatAm-6
A. Number of people							
Goods	189,687	1,491,195	195,367	365,401	269,128	488,040	2,998,816
Primary (b)	57,376	673,999	115,216	277,713	20,527	382,898	1,527,729
Manufacturing	132,310	817,196	80,152	87,687	248,601	105,142	1,471,088
Light (b)	113,165	549,839	37,147	29,627	16,700	81,991	828,467
Heavy (b)	19,145	267,357	43,005	58,061	231,902	23,151	642,620
Services	117,132	585,050	92,344	174,183	225,155	78,796	1,272,659
Goods and services	306,818	2,076,244	287,711	539,584	494,283	566,836	4,271,475
B. Percentage share (%)							
Goods	61.8	71.8	67.9	67.7	54.4	86.1	70.2
Primary (b)	18.7	32.5	40	51.5	4.2	67.6	35.8
Manufacturing	43.1	39.4	27.9	16.3	50.3	18.5	34.4
Light (b)	36.9	26.5	12.9	5.5	3.4	14.5	19.4
Heavy (b)	6.2	12.9	14.9	10.8	46.9	4.1	15
Services	38.2	28.2	32.1	32.3	45.6	13.9	29.8
Goods and services	100	100	100	100	100	100	100
C. Distribution by country (%)							
Goods	6.3	49.7	6.5	12.2	9	16.3	100
Primary (b)	3.8	44.1	7.5	18.2	1.3	25.1	100
Manufacturing	9	55.6	5.4	6	16.9	7.1	100
Light (b)	13.7	66.4	4.5	3.6	2	9.9	100
Heavy (b)	3	41.6	6.7	9	36.1	3.6	100
Services	9.2	46	7.3	13.7	17.7	6.2	100
Goods and services	7.2	48.6	6.7	12.6	11.6	13.3	100

SOURCE: CEPAL.

a Calculated using the input-output approach, input-output matrices of each selected country, total domestic employment and exports of goods and services for the period 2023-24.
b Primary products include agriculture, hunting and fishing, and mined energy (coal, oil and gas) and non-energy products (metals, including iron, copper, zinc, gold and silver). Manufacturing is, in turn, broken down into light manufacturing (which includes food, beverages and tobacco, textiles, clothing and footwear, and wood, cellulose and paper) and heavy manufacturing (which includes chemicals, fuels, rubber and plastic, pharmaceuticals, machinery and equipment, automobiles, iron and steel, metal products and other manufactures).

5 Of the $128 billion exported to the EU by the six selected countries, $24.3 billion are linked to high-skilled employment, $43.9 billion to medium-skilled employment and $59.5 billion to low-skilled employment.

Box 6

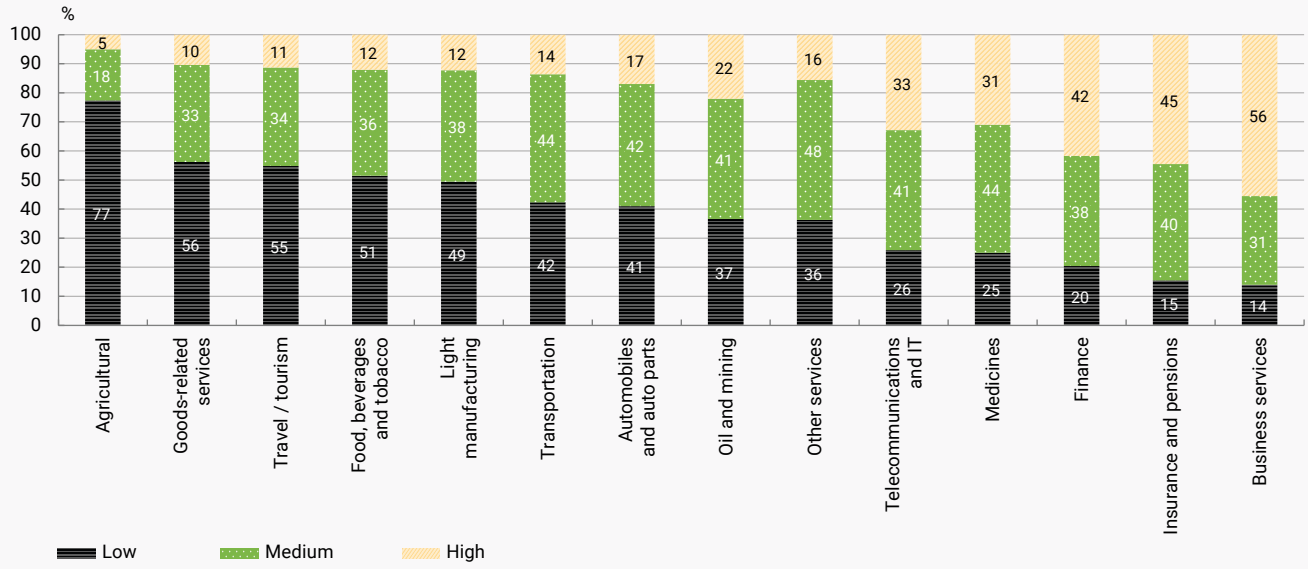
LATIN AMERICAN EXPORT-RELATED EMPLOYMENT: EXPORTS TO THE EUROPEAN UNION AND SPAIN SUPPORT HIGHER-SKILLED JOBS THAN THOSE TO OTHER REGIONS (cont'd)

United States (15.4%), where the gap is even wider in the medium-skilled category.

On average for the six countries, the greater relative skill level is due to the fact that the European-bound export basket includes a higher proportion of services sectors, such as finance, telecommunications, insurance and business services, where between 42% and 56% of jobs are high-skilled positions.[6] A breakdown of the skill level by exporting country shows a larger proportion of high-skilled workers in Mexico, Chile, Argentina and Brazil (see bottom panel in Table 3). Colombia and Peru have a natural resource-intensive export structure and, therefore, a greater concentration of low-skilled employment.

In conclusion, although Latin American exports to the EU and Spain are lower than to other regions, they generate employment of a higher quality. Higher-skilled jobs are associated with greater productivity, stronger R&D&I, higher wages and other benefits. This makes the region's economic relationship with the EU all the more valuable, increasing the potential for more productive and higher quality development in Latin America.

Chart 1
Human capital content of employment supported by exports of goods and services to the European Union, 2023-24 (a)



SOURCE: CEPAL.

a Calculated using the input-output approach, input-output matrices of each selected country, total domestic employment and exports of goods and services for the period 2023-24.

6 See CEPAL. (2021). *Perspectivas del Comercio Internacional de América Latina y el Caribe, 2021. La Integración regional es clave para la recuperación tras la crisis.* A high density of high-skilled employment is, in turn, associated with better wage conditions, especially in financial intermediation (banking and insurance) and business services. In 2018, average hourly wages in the three highest-skilled sectors ranged between $6 and $9, which is two to four times higher than the roughly $2 earned by low-skilled workers.

Box 6

LATIN AMERICAN EXPORT-RELATED EMPLOYMENT: EXPORTS TO THE EUROPEAN UNION AND SPAIN SUPPORT HIGHER-SKILLED JOBS THAN THOSE TO OTHER REGIONS (cont'd)

Table 3
Latin America-6: Employment supported by exports, by skill level, destination and country of origin, 2023-24 (a)

Number of people and percentage

Destination countries / regions	Total employment	Low-skilled	Medium-skilled	High-skilled	% low-skilled	% medium-skilled	% high-skilled
European Union	**4,271,475**	2,167,562	1,417,687	686,215	**50.7**	**33.2**	**16.1**
Spain	636,293	327,065	214,022	95,204	51.4	33.6	15.0
Latin America and the Caribbean	5,205,008	2,466,536	1,898,141	840,321	47.4	36.5	16.1
China	5,006,319	2,490,727	1,818,906	696,675	49.8	36.3	13.9
United States	14,042,494	7,890,153	3,995,467	2,156,844	56.2	28.5	15.4
ASEAN	1,393,799	631,212	557,281	205,301	45.3	40.0	14.7
Rest of the world	7,619,389	3,633,895	2,840,713	1,144,759	47.7	37.3	15.0
TOTAL	37,538,484	19,280,085	12,528,195	5,730,115	51.4	33.4	15.3

Employment supported by exports to the European Union							
Exporting countries	Total employment	Low-skilled	Medium-skilled	High-skilled	% low-skilled	% medium-skilled	% high-skilled
Argentina	306,818	131,461	117,764	57,593	42.8	38.4	18.8
Brazil	2,076,244	819,207	896,616	360,422	39.5	43.2	17.4
Colombia	539,584	435,190	54,296	50,084	80.7	10.1	9.3
Chile	287,711	80,362	146,553	60,796	27.9	50.9	21.1
Peru	566,836	465,509	64,784	36,543	82.1	11.4	6.4
Mexico	494,283	235,834	137,674	120,777	47.7	27.9	24.4
TOTAL LatAm-6	**4,271,475**	2,167,562	1,417,687	686,215	**50.7**	**33.2**	**16.1**

SOURCE: CEPAL.

a Calculated using the input-output approach, input-output matrices of each selected country, total domestic employment and exports of goods and services for the period 2023-24. LatAm-6 is the aggregate of Argentina, Brazil, Chile, Colombia, Mexico and Peru.

ACRONYMS AND ABBREVIATIONS

CCyB	Countercyclical capital buffer
CEPAL	Economic Commission for Latin America and the Caribbean
EPU	Economic policy uncertainty
EU	European Union
FEPC	Fuel price stabilisation fund
GDP	Gross domestic product
GTA	Global Trade Alert
HICP	Harmonised index of consumer prices
IEEPA	International Emergency Economic Powers Act
IEPS	Special tax on production and services
IIF	Institute of International Finance
IMF	International Monetary Fund
LPG	Liquefied petroleum gas
LSEG	London Stock Exchange Group
MEPCO	Fuel price stabilisation mechanism
Mercosur	Mercado Común del Sur (Southern Common Market)
NGV	Natural gas for vehicles
PPP	Purchasing power parity
ROC curve	Receiver operating characteristic curve
UDIBONOS	Mexican Federal Government Development Bonds Denominated in Units of Investment
US	United States
USMCA	United States-Mexico-Canada Agreement
VAR model	Vector autoregressive model
WEO	World Economic Outlook
WTI	West Texas Intermediate

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

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