

REPORT ON THE LATIN AMERICAN ECONOMY

Latin America: resilience to external shocks
and persistent domestic challenges

Monetary Policy and International Economy
Department

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Editorial

Latin America has proven remarkably resilient to the geopolitical and trade tensions that have marked 2026. Economic activity continued to grow in the first half of the year and external financial conditions improved, despite the conflict in the Middle East and the resulting rise in energy prices. Nevertheless, this resilience sits alongside a modest growth outlook, persistent inflationary pressures and fiscal vulnerabilities in some economies. Moreover, some of the external tailwinds – improved terms of trade and the attractiveness of financial investments – could become headwinds.

Exposure to the energy shock varies across products and countries. Although the region is a net exporter of crude oil, it relies on imported refined products, which have risen sharply in price since July. By contrast, gas price pressures have been more contained than in Asia and Europe. Recent US tariff measures have improved much of Latin America's position relative to competitors, with the notable exception of Brazil. Even so, the rules governing access to the US market remain uncertain. A survey conducted in six countries in collaboration with their central banks shows that the trade tensions of 2025 had a relatively limited impact on business activity, even though almost half of firms reported higher input costs. Uncertainty surrounding the tariff regime is firms' main concern and is prompting them to diversify their customer and supplier bases.

Against this backdrop, financial conditions in the region eased until mid-September, mainly thanks to better access to external financing. The region's currencies and stock markets outperformed those of other emerging market economies, buoyed by improved terms of trade and relatively high carry trade returns. Latin America retained access to international debt markets and continued to attract portfolio inflows into bonds, although those into equities slowed. However, the strengthening of the dollar and the depreciation of Latin American currencies in September show how sensitive the region is to shifts in expectations for US interest rates.

Economic activity also weathered the shock in the first half of the year, helped by declining economic policy uncertainty from April onwards. The growth forecast for 2026 has been revised down only slightly, from 2.2% in February to 2.0% in September. It is nevertheless expected to slow in the second half of the year and downside risks to the 2027 outlook have risen. In Argentina lower inflation, exchange rate stability and the accumulation of reserves coexist with weak domestic demand and labour market difficulties (Box 2).

Inflation has been more contained than in other emerging regions, although price pressures and upside risks persist. After the initial energy-driven rise, headline inflation has levelled off. Core inflation, however, remains high, particularly in services. Medium and long-term inflation expectations changed little in most of the region's economies, although pressures were more pronounced in Brazil. Inflation forecasts have been revised upwards, particularly for 2026, while the El Niño event poses additional risks through its impact on food production and electricity generation. Central banks responded in different ways. Monetary policy remains restrictive in Brazil and

Colombia, but is closer to neutral in Chile, Mexico and Peru. An indicator of the tone of central bank communications, constructed using natural language models, shows a relationship between the tone and interest rate expectations implied by markets and offers insight into the role of monetary policy communication.

Bank lending continues to grow, with no signs of a broad-based deterioration in asset quality. The non-performing loan ratio continues to fall in most Latin American economies, although defaults on consumer loans have picked up in Brazil. At the same time, innovation in payment systems is creating new opportunities to broaden access to financial services. As [Box 4](#) explains, central bank initiatives are encouraging the uptake of digital payments and exploring ways to reach the unbanked population and streamline cross-border transactions. In doing so, they are supporting financial inclusion and regional integration.

The main domestic vulnerability remains the fiscal position of some countries. Sovereign spreads on external debt remain close to historic lows. However, the costs for local currency-denominated financing have increased across much of the region and the expected rise in government debt will limit fiscal headroom, particularly in Brazil and Colombia. These low spreads contrast with the vulnerabilities and suggest that markets are taking a relatively benign view of sovereign risk, possibly in part because of global financial conditions. Banks' exposure to sovereign debt also provides a channel through which fiscal stress can spill over into the financial system. [Box 3](#) shows that the relationship between public debt and bank capitalisation varies with institutional quality. A stable or rising equity-to-assets ratio does not necessarily mean that banks are more resilient. To interpret this ratio properly, government debt holdings, provisions and balance sheets must also be taken into account.

Looking beyond the current situation, the digital transformation offers opportunities to diversify and increase investment and boost the region's growth potential. [Box 1](#) documents major data centre investment announcements, against a backdrop of limited installed capacity concentrated in just a handful of countries. The high share of renewables in the electricity generation mix of several economies could offer an advantage, although expansion will depend on grid access and on the cost and reliability of supply. If these projects go ahead, they could expand digital infrastructure and encourage the development of new economic activities.

The extent to which the region is able to seize these opportunities and tackle its vulnerabilities will also depend on how economic policies are implemented. Recent changes of Government in Chile, Colombia and Peru come amid public concern about security and the economy. The election platforms set out differing agendas, combining measures to enhance security with others to strengthen fiscal discipline, reduce regulation and attract investment. These changes should not be read as blanket support for a single economic agenda. Clear communication about the aims of reforms, coupled with careful attention to how their costs and benefits are distributed, will help build the public support needed to implement and sustain them. The challenge for the region is to preserve macro-financial stability and turn opportunities for investment and reform into more lasting growth.

Report

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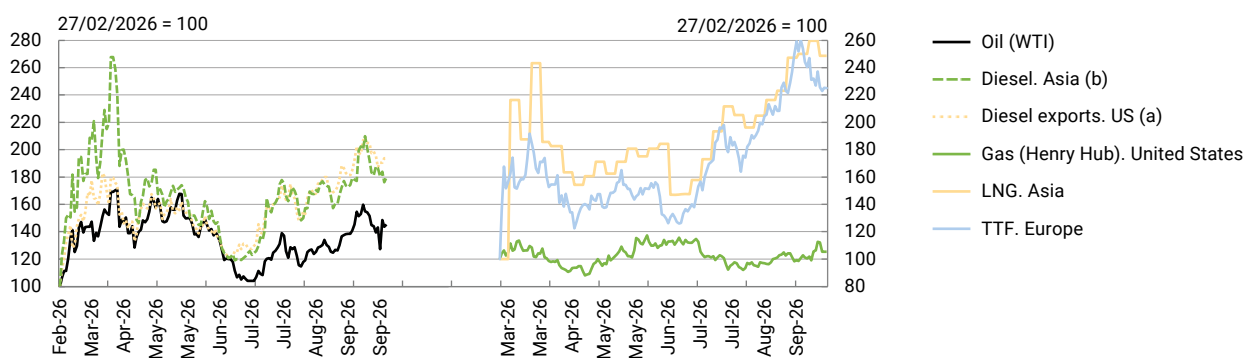
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1 The energy shock has shifted to refined products ...

- Since early July, prices for refined oil products have risen sharply in Latin America, in line with the global trend. The benchmark price for the region – that of US diesel exports – has climbed by around 50% in recent months (Chart 1.a, left-hand panel).
- Globally, this rise appears to reflect reduced refining capacity in the Middle East, the further decline in Russian exports and the seasonal increase in demand, at a time when stocks of refined oil products are low.
- By contrast, gas prices in Latin America have remained contained in comparison with the increases seen in the Asian and European markets in recent months (Chart 1.a, right-hand panel).

Chart 1

1.a Oil, gas and oil product prices



SOURCE: LSEG Datastream. Latest data: 30 September. 27 February 2026 was the last market day before the start of the conflict in Iran.

- a** Gulf Coast ultra-low sulphur No. 2 diesel.
b Diesel oil 50 ppm free on board Singapore.

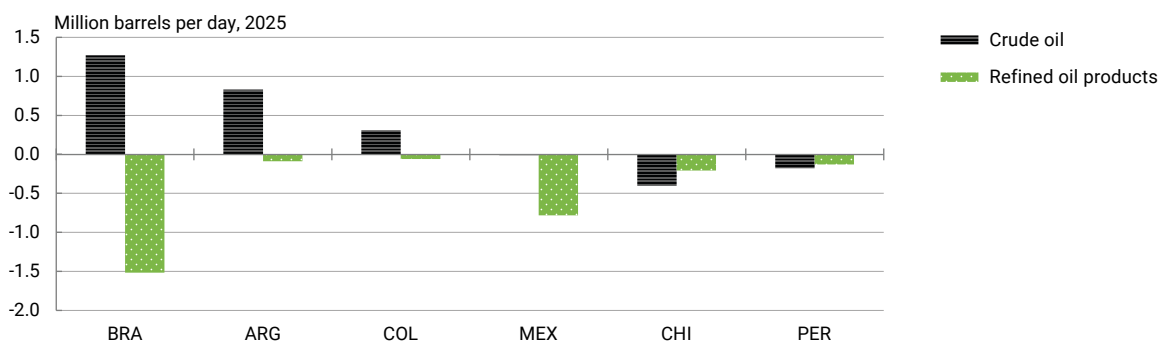


2 ... leaving the region vulnerable, while gas prices add little pressure in Latin America

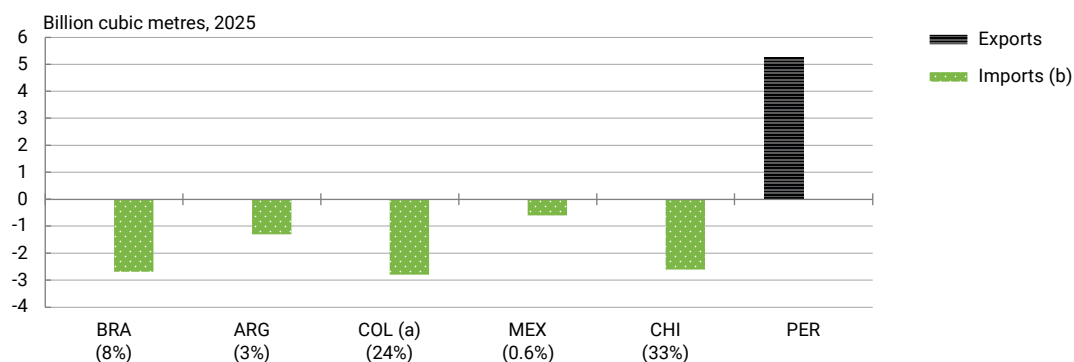
- Although Latin America is a net exporter of crude oil, it has a shortfall in refined products¹ and depends on fuel imports, mainly from the United States (Chart 2.a). This dependence leaves the region exposed to price rises and to possible export restrictions in supplier countries. Mexico and Chile, for example, source 98% and 88%, respectively, of their refined product imports from the United States.
- The region is generally less exposed to international pressures in the gas market because LNG imports account for only a small share of total gas consumption. Peru stands out as a net exporter. Chile is the main exception (followed, to a lesser extent, by Colombia), as it relies on imported LNG for more than 30% of its gas consumption (Chart 2.b).

Chart 2

2.a Oil and oil products production less consumption



2.b LNG



SOURCES: Energy Institute (2026), *Statistical Review of World Energy* and GIIGNL (2025), *GIIGNL Annual Report*.

a 2024 data.

b The percentage shown in brackets is the share of imports in each country's total gas consumption.



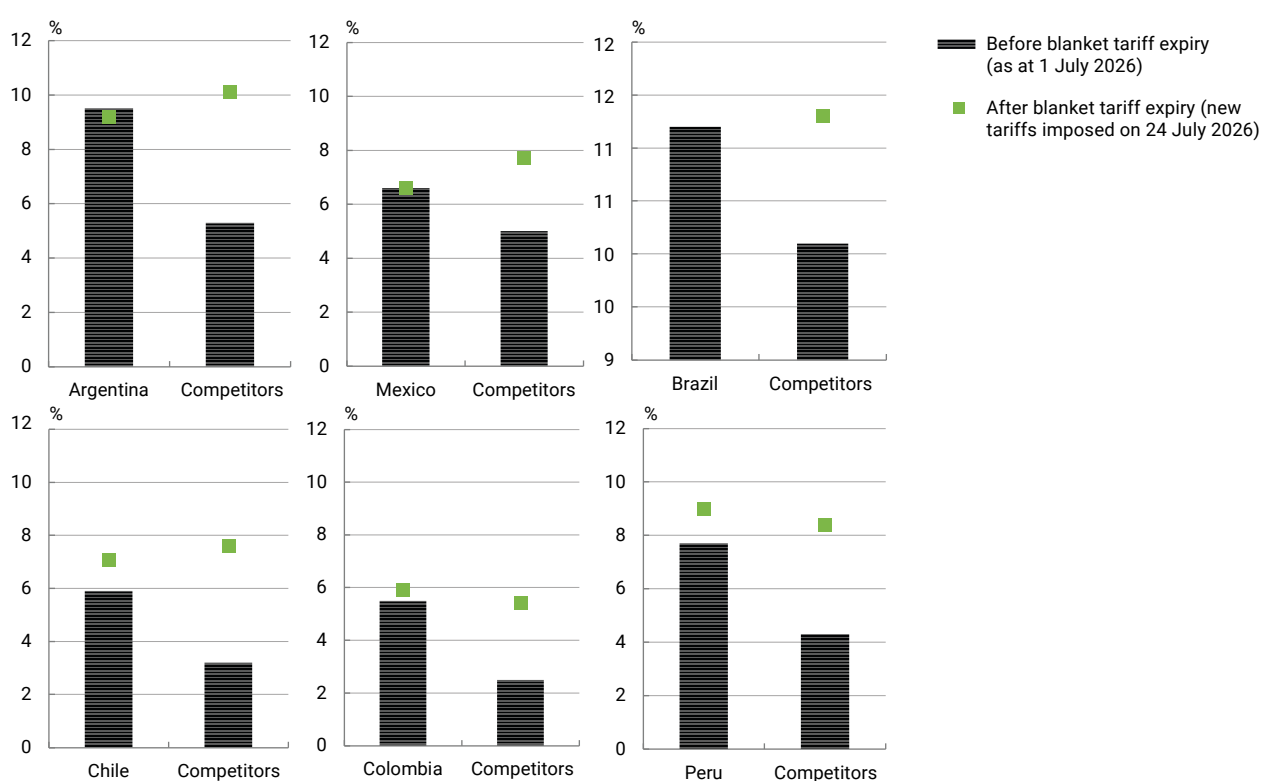
¹ See page 27 of the *Report on the Latin American Economy. First Half of 2026*.

3 In terms of trade tensions, recent changes have improved Latin America's tariff position relative to its competitors in the US market

- On 24 July, the blanket 10% tariffs imposed by the United States² for 150 days expired, following the annulment by the US courts of the tariffs introduced under the IEEPA in February 2026. The US Administration then turned to other trade instruments³ and announced new tariffs of 10% or 12.5% for 60 countries, linked to investigations into forced labour.⁴
- These measures barely change the effective tariff on Latin American exports to the United States, but they do raise tariffs on competing exporters, thereby improving the region's relative position (Chart 3.a). Brazil is the main exception, as it faces an additional 25% tariff.⁵

Chart 3

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



SOURCES: GTA and Banco de España.

a The data refer to the effective tariffs imposed by the United States. "Before" and "after" refer to the expiry on 24 July 2026 of the blanket 10% tariff and the subsequent application of new tariffs. They distinguish between the tariffs imposed on imports from the Latin American country in question and those imposed on all countries competing with it in the US market.



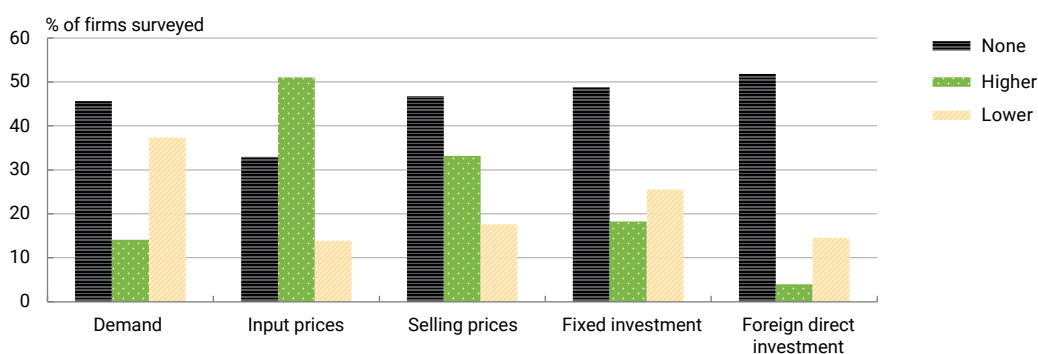
- Section 122 of the Trade Act of 1974 allows the US President to impose broad temporary tariffs quickly to address balance of payments imbalances.
- Section 301 of the Trade Act allows tariffs to be imposed to address "unfair" trade practices identified in an investigation by the United States Trade Representative.
- For countries that have a trade agreement with the United States, the new tariffs constitute a minimum combined tariff rate of 10% or 12.5%, depending on the country. As a result, tariffs rise only on products that previously faced a lower rate, while higher tariffs remain unchanged.
- The US Government approved this tariff on the grounds of unfair trade practices.

4 A new business survey suggests that trade tensions have had only a limited impact on activity, although they have pushed up costs

- A survey conducted in six countries in the region⁶ in late 2025 suggests that trade tensions had a relatively limited effect on firms' activity, although they did exert upward pressure on costs (Chart 4.a).
- Around half of firms reported higher input prices, while close to one-third said demand had fallen. The firms surveyed are deeply integrated into international markets: imported inputs account for one-third of their costs on average, while exports generate around 30% of their revenue.
- The effects vary from country to country. Firms in Chile reported a more adverse impact, particularly on demand and investment.

Chart 4

4.a Impact of trade tensions on business activity indicators



SOURCES: Central banks of Chile, Colombia, Costa Rica, Dominican Republic, Mexico and Peru.

NOTE: Firms' responses to the question: "What impact has the rise in trade tensions and tariff barriers around the world in 2025 had on the following indicators of your business?". Possible responses: "1. Very negative"; "2. Mildly negative"; "3. None"; "4. Mildly positive"; "5. Very positive" for each of these metrics: "1. Demand for the products or services you offer"; "2. Price of the inputs or materials you purchase"; "3. Selling prices for the products or services you offer"; "4. Planned investment in fixed assets (buildings, machinery and equipment, transportation equipment, etc.)"; and "5. Foreign direct investment in your firm". The questions varied slightly to tailor them to the language and format of those asked regularly in each country.



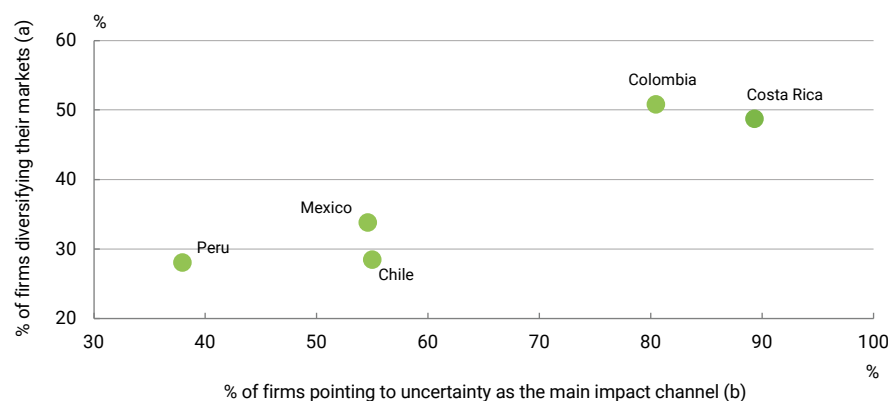
6 K. Muñoz, D. Pérez, I. Zapata, C. Ramírez, D. Cristiano, E. González, I. Sobrado González, M. E. Ávila Gamboa, M. Acosta, A. Balderas, K. García, M. J. Orraca, P. Castilla, A.P. Gutiérrez, I. Aldave, J. Félix, N.S. López Hawa, C. Ghirelli, E. Vidal and A. Maravalle. (2026). "El impacto de las tensiones comerciales globales durante 2025 sobre las empresas en algunos países de América Latina: un análisis basado en encuestas de opinión empresarial". Documentos Ocasionales, Banco de España. Forthcoming.

5 Trade uncertainty is firms' main concern, prompting them to diversify customer and supplier bases

- The same survey finds that firms are more concerned about uncertainty surrounding how trade tensions will develop than about their direct effects. The countries where the largest share of firms see uncertainty as the main channel of impact are also those where firms are most likely to respond by diversifying their customer and supplier bases (Chart 5.a).
- The review of the trade agreement between the United States, Mexico and Canada (USMCA) has left uncertainty hanging over trade rules and regional value chains.⁷ Meanwhile, the agreement between the EU and Mercosur could open up new opportunities to diversify and deepen trade and production links.⁸

Chart 5

5.a Uncertainty surrounding trade policies and market diversification



SOURCES: Central banks of Chile, Colombia, Costa Rica, Dominican Republic, Mexico and Peru, and Banco de España.

- a** Percentage of firms that consider diversifying their markets as a relevant strategic response to trade tensions. Average percentage of firms reporting having searched for new customers and percentage that report replacing suppliers or finding new ones. Question: "In the context of the rise in global trade tensions seen since early 2025, rate the importance of the following strategies that you have either implemented or plan to implement in the next 12 months".
- b** Percentage of firms that consider uncertainty to be a significant channel of transmission for the impact of trade tensions. Question: "Indicate the importance of each of the following factors in explaining why your firm has been affected, or could be affected over the next 12 months, by the rise in global trade tensions and tariff barriers during 2025." Response: "Uncertainty regarding future changes in trade policy worldwide."



⁷ The USMCA negotiations ended without the agreement being extended to 2042. Even so, the agreement will remain in force until at least 2036 and will be reviewed annually at the request of the United States. Any member country retains the right to withdraw after giving notice. In the July negotiations, the United States proposed raising the North American auto content to qualify for preferential tariff treatment from the current level of 75% to 82%. In addition, at least 50% of that 82% would also have to be produced in the United States.

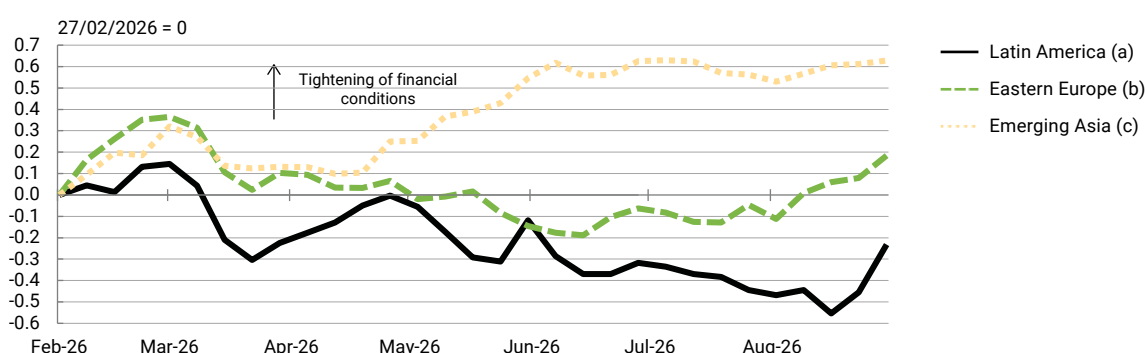
⁸ *Report on the Latin American economy. First half of 2026.*

6 Despite global geopolitical and trade uncertainty, financial conditions in the region eased up to mid-September

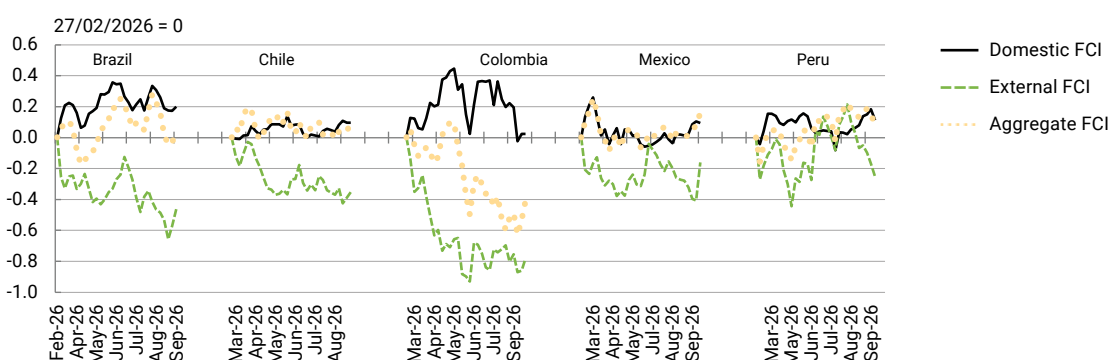
- Financial conditions in Latin America eased between the start of the conflict in the Middle East and mid-September. This contrasts with the tightening seen in other emerging market regions, particularly Asia (Chart 6.a).
- The easing was driven mainly by better external financial conditions, in line with narrower **sovereign spreads** and favourable developments in **commodity markets**. Domestic financial conditions, by contrast – which depend partly on long-term interest rates – were tighter in September than at the start of the year in every country in the region (Chart 6.b).

Chart 6

6.a FCIs



6.b Domestic and external FCIs (d)



SOURCE: Banco de España. Latest data: 25 September 2026.

- a Created with the principal components using the individual variables of Brazil, Chile, Colombia, Mexico and Peru.
 b Created with the principal components using the individual variables of Czech Republic, Hungary and Poland.
 c Created with the principal components using the individual variables of India, Indonesia, Malaysia, South Korea and Thailand.
 d The domestic FCIs are constructed using variables that are more closely related to conditions within each country (e.g. stock market performance), while the external FCIs use variables reflecting international markets' assessment of the country (e.g. sovereign spreads on external debt). See Juan Carlos Berganza and Luis Molina. (2027). "The use of Financial Conditions and Stress Indices to monitor Emerging Market Economies". Forthcoming.

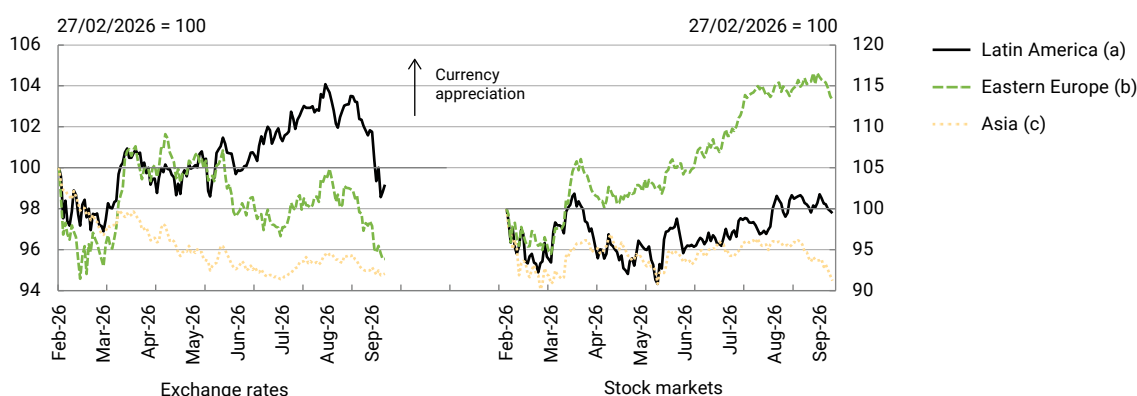


7 Currencies and stock markets proved resilient, underpinned by carry trade returns and improved terms of trade

- Latin American currencies and stock markets outperformed those of the other emerging market economies from the start of the Middle East conflict to early September. The region's currencies appreciated by 3.5% on average, whereas those of Asia and eastern Europe depreciated by 4.3% and 1%, respectively (Chart 7.a).
- This performance was supported by the appeal of carry trades,⁹ whose returns remained higher than in other emerging market economies. In Brazil, returns have recently declined from high levels. This decrease has been due more to increased exchange rate volatility than to the narrowing of short-term interest rate differentials in recent months, resulting in part from the **central bank's monetary easing cycle**.
- Moreover, the higher prices of several of Latin America's commodity exports improved the region's terms of trade by more than 10% from end-2025, compared with deteriorations of 7% in Asia and 2% in eastern Europe in the same period. This improvement would also have been conducive to the appreciation of Latin American currencies.
- However, amid renewed expectations of rate hikes by the US Federal Reserve, the strengthening of the US dollar in September was reflected in a depreciation of all emerging market currencies, including those of Latin America (4.7%), eastern Europe (4.1%) and Asia (1.0%), as well as a significant appreciation of the dollar against the euro and the yen.

Chart 7

7.a Exchange rates and stock market indices



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest data: 30 September 2026. 27 February 2026 was the last market day before the start of the conflict in Iran.

- 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 and Thailand.



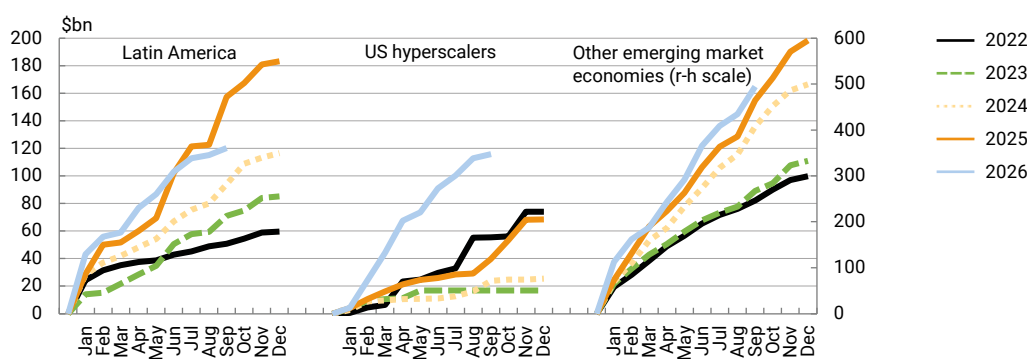
⁹ Investment strategy that involves borrowing money in a currency with a low interest rate and using it to invest in another with a higher yield, thus obtaining a return from the differential.

8 The region maintained access to international debt markets despite the increase in global issuance

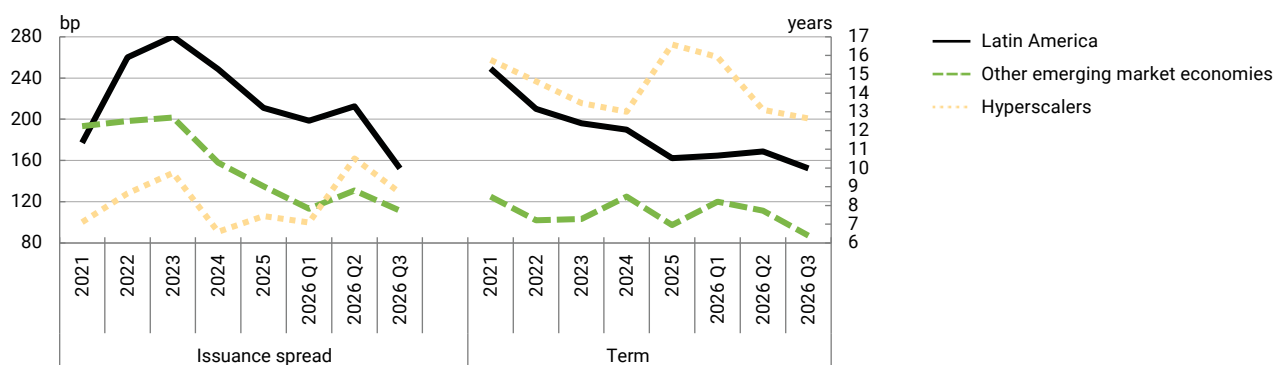
- In the first nine months of 2026, Latin America issued more than \$120 billion in international debt markets, exceeding the volume in each full year from 2022 to 2024 and in line with the figure for the same period of 2025 (Chart 8.a).
- Issuance conditions remained relatively favourable: the average term held at around ten years and the cost of issuance declined in both 2025 and 2026 (Chart 8.b). So far, there have been no signs that the increase in issuance volumes by large US tech firms has crowded out regional placements or worsened issuance conditions.
- **Box 1** provides an initial assessment of the scale of data centre investment in Latin America within the context of the global AI boom.

Chart 8

8.a Debt issuance in international markets



8.b Cost and term of debt issuance by emerging market economies and US hyperscalers (a)



SOURCE: Dealogic. Latest data: 30 September 2026.

a Firms directly involved in the development or operation of data centres or artificial intelligence (cloud/hyperscale operators; data centre and computing operators and investment vehicles; semiconductors, memory, EDA software and manufacturing equipment; servers, storage and networks; power, cooling and physical infrastructure).

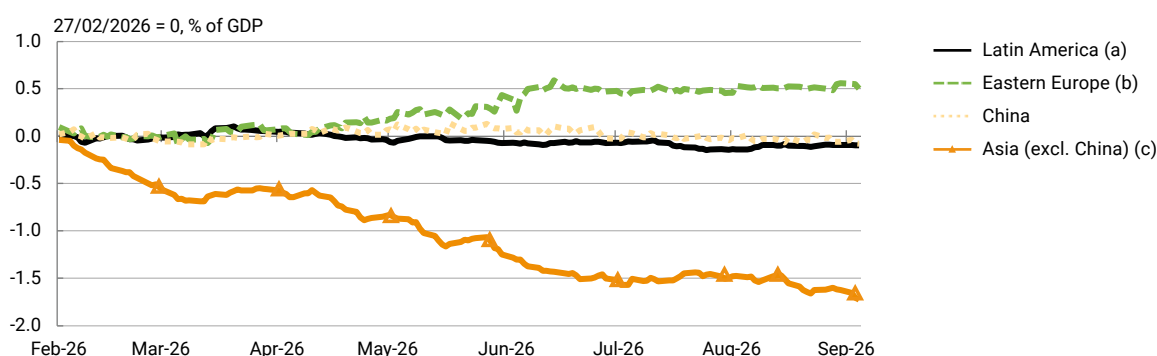


9 Portfolio inflows moderated in equities, but remained steady in the bond markets

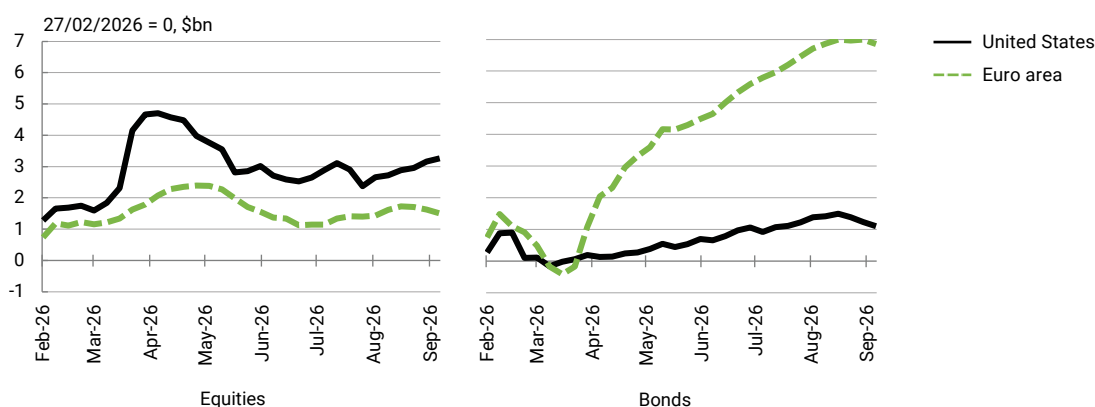
- Following the outbreak of the war in Iran, portfolio capital inflows into Latin America remained relatively stable until early May, when they began to moderate. Nevertheless, the region did not see outflows on the scale observed in the Asian emerging market economies (Chart 9.a).
- The moderation in capital inflows was concentrated in equities and owed mainly to a decline in investment by US funds. By contrast, capital continued to flow into bond markets from US funds and, especially, euro area funds (Chart 9.b).

Chart 9

9.a Portfolio capital flows to emerging market economies



9.b Portfolio capital flows: Latin America



SOURCES: IIF and EPFR. Latest data: 30 September 2026. 27 February 2026 was the last market day before the start of the conflict in Iran.

a Brazil, Colombia and Mexico.

b Hungary, Poland, Türkiye and Ukraine.

c India, Indonesia, Malaysia, Pakistan, Philippines, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam.

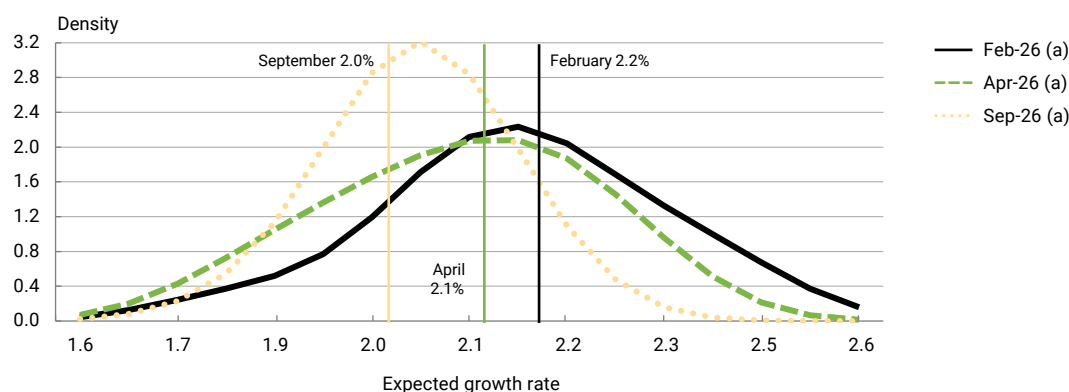


10 Economic activity also proved resilient, although the growth outlook remains subject to downside risks

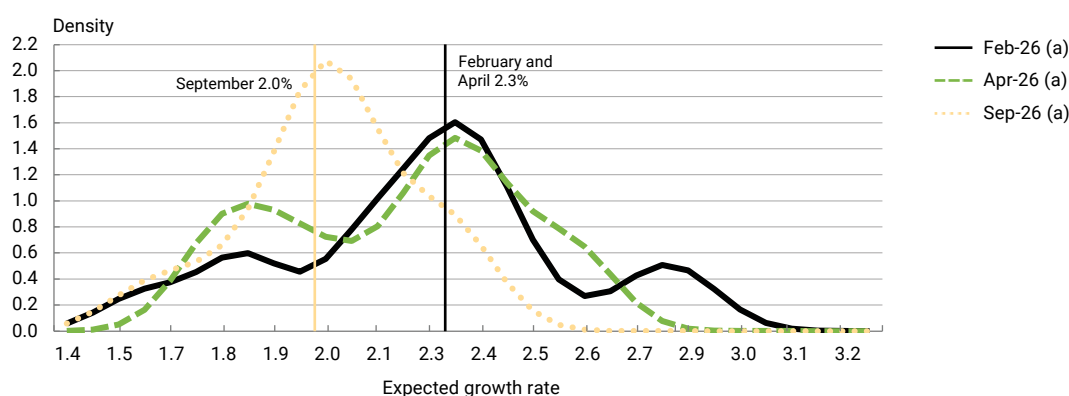
- Economic activity in Latin America withstood the geopolitical turmoil in the first half of 2026, with Mexico exhibiting a particularly strong performance in the second quarter (Table 5). Nevertheless, growth is expected to ease in the second half of the year.
- This resilience is also reflected in the growth forecasts for 2026, which have remained broadly unchanged since the conflict began. The consensus forecast for the region declined from 2.2% in February to 2.0% in September (Chart 10.a), albeit with differences across countries.¹⁰ Forecasts for 2027 have been revised down slightly. In addition, the distribution of forecasts indicates a greater probability of lower growth rates, pointing to increased downside risks (Chart 10.b).¹¹
- In Argentina, macroeconomic stabilisation is progressing, but activity and employment remain weak (Box 2).

Chart 10

10.a Growth forecasts for 2026



10.b Growth forecasts for 2027



SOURCE: Consensus Forecasts.

a The vertical lines show the median values of their respective distribution. The aggregate is constructed drawing on all analysts' forecasts for the five countries analysed (Brazil, Chile, Colombia, Mexico and Peru).

10 For instance, the growth forecast has been revised up for Brazil but down for Chile, where economic activity has been dampened by weakness in industries linked to the primary sector.

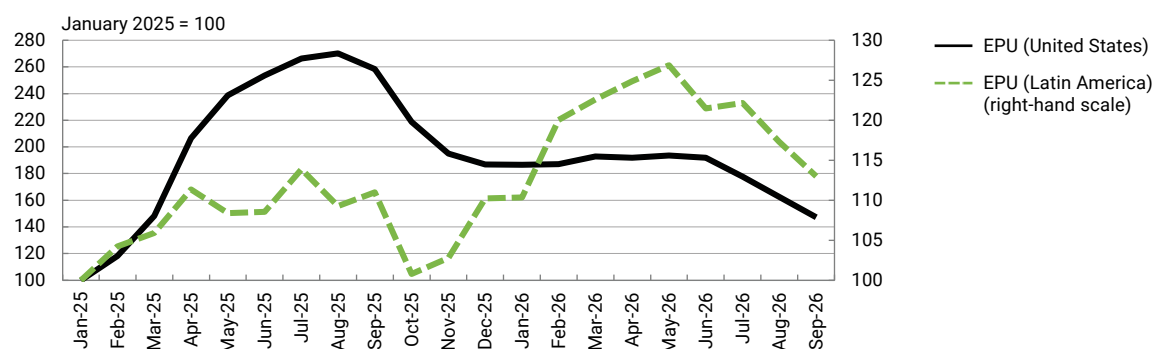
11 The increase in downside risks is particularly sharp in economies such as Brazil, Mexico and Colombia.

11 Lower economic policy uncertainty helped to sustain activity

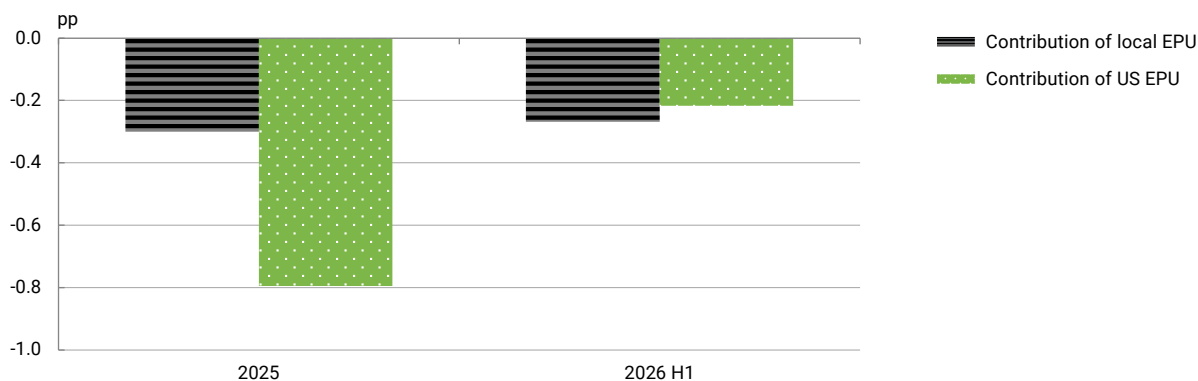
- The resilience of activity also benefited from a decline in economic policy uncertainty. After rising in the first few months of 2026, uncertainty indicators in Latin America decreased from April onwards, while also falling in the United States (Chart 11.a).
- The estimates suggest that uncertainty exerted less of a drag on the region's growth in 2026 H1 than in 2025, mainly owing to the smaller negative contribution from uncertainty in the United States (Chart 11.b).

Chart 11

11.a Uncertainty in Latin America and the United States (a)



11.b Contributions of local EPU and US EPU to GDP 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 (<https://www.policyuncertainty.com/>)

b Contribution of the average EPU of the LatAm-5 (Brazil, Chile, Colombia, Mexico and Peru). 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.

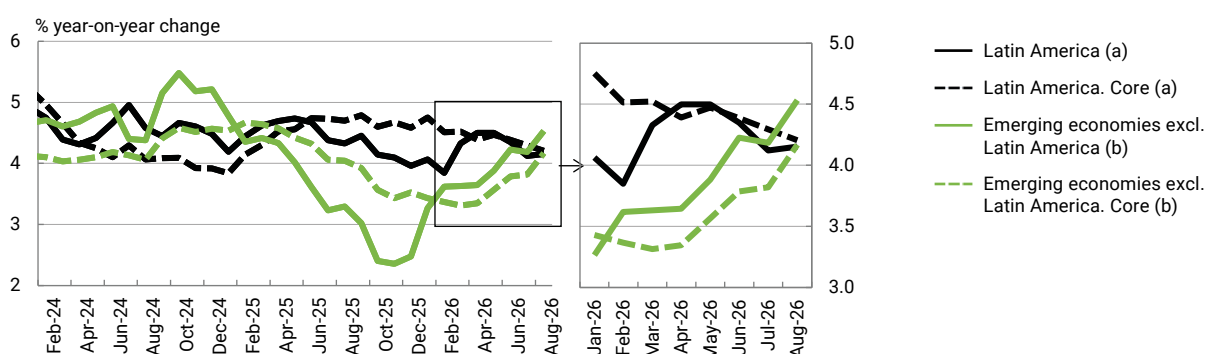


12 Inflation has held stable in Latin America, in contrast to the increase observed in other emerging market economies

- Inflation in the five main inflation-targeting economies in the region has not increased since the April and May peak prompted by higher energy prices.¹² This stands in contrast to the overall developments in other emerging market economies, where inflation has surged in recent months (Chart 12.a).
- This pattern is explained, at least in part, by the smaller contribution from food inflation in recent months and the more limited increase in energy prices. Meanwhile, core inflation, particularly the services component, remains relatively high by historical standards (Table 1).

Chart 12

12.a Headline and core inflation



SOURCES: LSEG Datastream and national statistics.

a Aggregate of Brazil, Chile, Colombia, Mexico and Peru, weighted by PPP-adjusted GDP.

b Aggregate of emerging economies, excluding Latin America, China and Türkiye, weighted by PPP-adjusted GDP.



Table 1

Inflation in Latin America (headline, core and main components) (a)

	Year-on-year rates of change					
	Headline	Core	Goods	Services	Food	Energy
Mar-26	4.2	4.1	2.0	5.0	4.2	0.7
Jun-26	4.5	4.1	2.3	5.3	3.7	4.8
Sep-26	4.6	4.1	2.6	5.3	4.2	4.5
	Percentiles of distribution of the year-on-year rates of inflation (since 2013) (%)					
Mar-26	49	51	40	65	31	9
Jun-26	62	57	55	76	19	46
Sep-26	65	53	60	76	34	41

SOURCES: LSEG Datastream and national statistics.

a Simple average of Brazil, Chile, Colombia, Mexico and Peru.

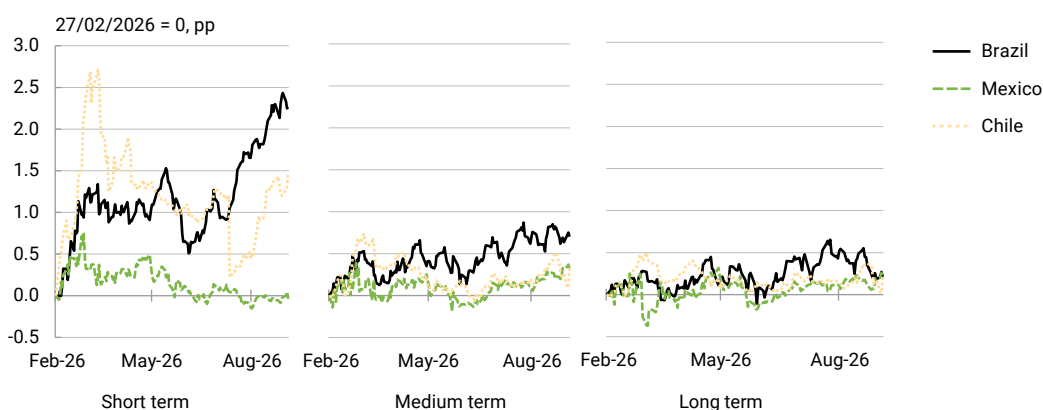
12 Nevertheless, inflation rates remain above their target ranges in nearly all the countries.

13 Market-based medium and long-term inflation expectations have remained relatively anchored, although tensions emerged in Brazil ...

- The outbreak of the war in Iran raised short-term inflation expectations, with little change over the medium and long term in most of the economies analysed (Chart 13.a). This pattern is consistent with the strengthening of the region's monetary policy frameworks, which appears to have helped contain the pass-through of the shock to longer-term expectations.¹³
- Brazil is the main exception: the initial rise in short-term inflation expectations extended to longer horizons amid uncertainty surrounding the government measures adopted during the election year to support domestic demand (Chart 13.a).

Chart 13

13.a Inflation expectations according to market indicators (a): cumulative changes



SOURCES: Banco de España and LSEG Datastream. Latest data: 30 September 2026. 27 February 2026 was the last market day before the start of the conflict in Iran.

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.



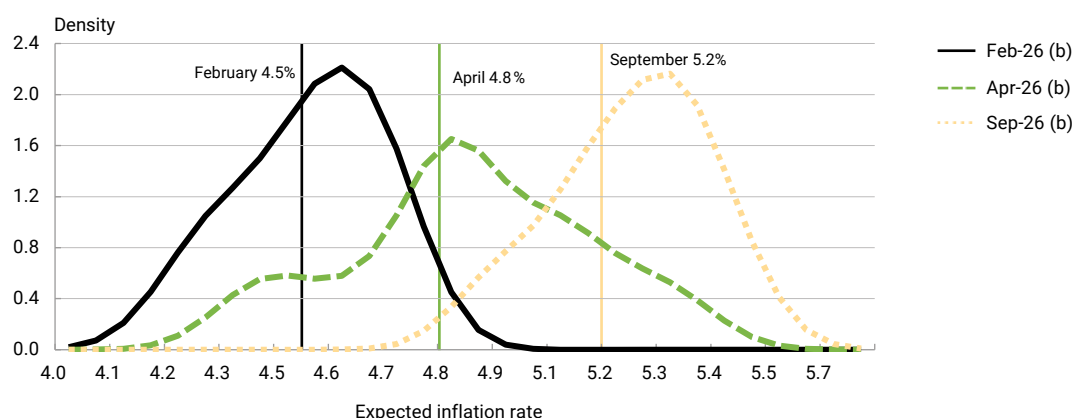
13 On the credibility of the region's central banks and their response to changes in the global environment, whether stemming from the Federal Reserve System's decisions or from exchange rate fluctuations, see, for example, [Pelin and Mendoza-Fernández \(2025\)](#), [Campos and Paz \(2023\)](#), [McLeay and Tenreiro \(2026\)](#) and [Obstfeld \(2026\)](#).

14 ... while inflation forecasts have been progressively revised upwards since the Middle East conflict began, with more substantial revisions for 2026 than for 2027

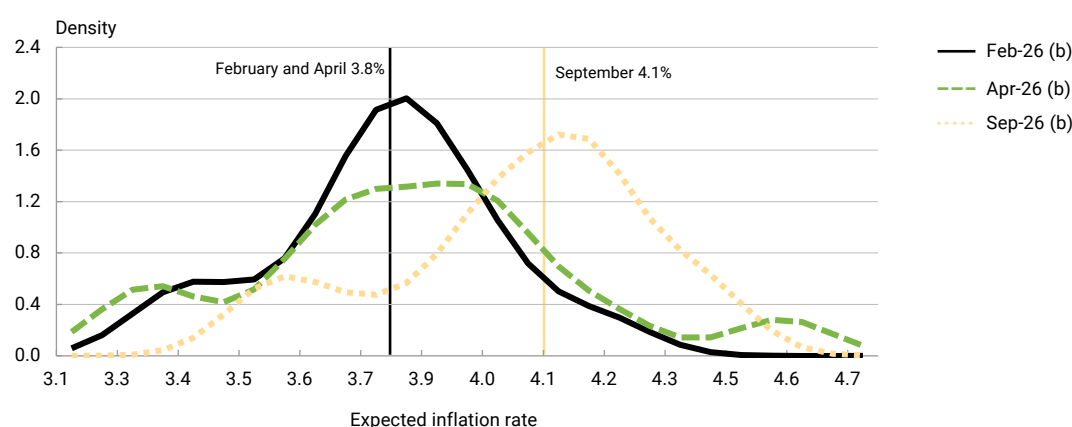
- Inflation forecasts for 2026 were revised upwards following the outbreak of the war, in line with the surge in prices observed in the first few months of the year. The median forecast increased from 4.5% in February to 5.2% in September (Chart 14.a).
- For 2027, the revision was less pronounced: the median increased from 3.8% to 4.1% over the same period. The forecasts continue to point to moderating inflation, albeit with cross-country differences in the outlook for a return to central bank target ranges (Chart 14.b).
- By country, Brazil is a notable case – with its median forecast for 2026 standing half a percentage point above the target range –, as is Colombia, where the median forecast is projected at 6.4% in 2026 and 4.8% in 2027, with a sizeable share of the probability distribution above the central bank's target range of 2%-4%.

Chart 14

14.a Inflation forecasts for 2026 (a)



14.b Inflation forecasts for 2027 (a)



SOURCE: Consensus Forecasts.

a The aggregate is constructed drawing on analysts' forecasts for Brazil, Chile, Colombia, Mexico and Peru, weighted by 2025 GDP adjusted for purchasing power parity, from which the corresponding distribution is subsequently derived.

b The vertical lines show the median values of their respective distribution.



15 El Niño heightens upside risks to inflation, albeit to varying degrees across countries

- A new El Niño episode, expected to be severe, began in the second half of 2026. Pacific Ocean warming and changes in rainfall and temperatures affect agricultural and energy production differently across countries.¹⁴
- Available estimates point to weaker growth and stronger inflationary pressures in several economies in the region, mainly through the impact on food prices, which account for around 20% of the CPI basket.¹⁵ The main transmission channels are droughts, flooding and reduced hydroelectric power generation (Table 2).
- The effects are expected to be adverse in Brazil, Chile, Colombia and Peru, although their severity and transmission channels may vary. By contrast, Argentina could benefit from increased water availability for agricultural production. However, excessive rainfall could also damage crops and infrastructures.¹⁶

Table 2

"El Niño" transmission channels and effects

	Argentina	Brazil	Chile	Colombia	Peru
Transmission channels					
Climate-related effect	Heavier rainfall	Drought in the north, rainfall in the south	Heavier rainfall	Drought	Rainfall, coastal warming
Affected sector	Soybean, maize and wheat	Fresh produce, meat and energy	Agriculture	Food and electricity	Agriculture and fishing
Estimated impact on inflation and GDP					
Inflation	1.1 pp (c) ↑	0.3 pp (b) ↑	0.5 pp (a) ↑	0.5 pp (a) ↑	0.1 pp (a) ↑
GDP	2.6 pp (a) ↑	1.2 pp (a) ↓	0.2 pp (c) ↓	0.1 pp (a) ↓	0.7 pp (b) ↓

SOURCES: Central banks of Brazil and Peru, JP Morgan and Goldman Sachs.

a Estimates for 2026, under a severe El Niño scenario. The Goldman Sachs estimates reflect the cumulative response of general consumer prices and GDP over a four-month horizon starting in 2026 Q3 using local projections and a VAR model.

b Monetary Policy Report, June 2026, of the Banco Central do Brasil and Inflation Report, June 2026, of the Central Reserve Bank of Peru.

c J.P. Morgan estimates for 2026, under a severe El Niño scenario.

¹⁴ See BBVA Research. (2026). *El Niño and the primary sector in Latin America* and CEPAL. (2026). *Los efectos del fenómeno El Niño en América Latina y el Caribe y recomendaciones para enfrentarlo*.

¹⁵ Up to September, no increase in food prices associated with the El Niño phenomenon had been observed.

¹⁶ Coastal flooding may result in crop losses, disruptions to transport networks and higher costs.

16 Central banks followed different policy rate paths, with the stance remaining restrictive in Brazil and Colombia

- In 2026, Brazil continued to cut its policy rates, while Mexico concluded its easing cycle. Chile and Peru kept their policy rates unchanged, and Colombia raised them by 300 bp between January and September, to 12.25% (Table 3).
- Despite the rate cuts, monetary policy in Brazil remained restrictive, as it did in Colombia. By contrast, the monetary policy stance moved closer to neutral in Chile, Mexico and Peru, as indicated by the gap between the real interest rate and the estimated neutral rate shown in the final column of the table.

Table 3

Monthly changes in policy interest rates (a)

% and bp

	2026									Policy interest rate (%)	Gap between real policy interest rate and the neutral real interest rate (b)
	J	F	M	A	M	J	J	A	S		
Brazil			-25	-25		-25		-25	-25	13.75	4.20
Chile										4.50	0.00
Colombia	+100		+100			+75			+25	12.25	3.72
Mexico			-25		-25					6.50	-0.35
Peru										4.25	-0.80
Hungary		-25				-25	-25	-25		5.50	
Poland			-25							3.75	
India										5.25	
Thailand		-25								1.00	
Euro area						+25			+25	2.50	
United States									+25	3.75 - 4.00	
Japan						+25			+25	1.25	

SOURCES: LSEG Datastream, J.P. Morgan, *FocusEconomics Consensus Forecast* and national statistics.

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

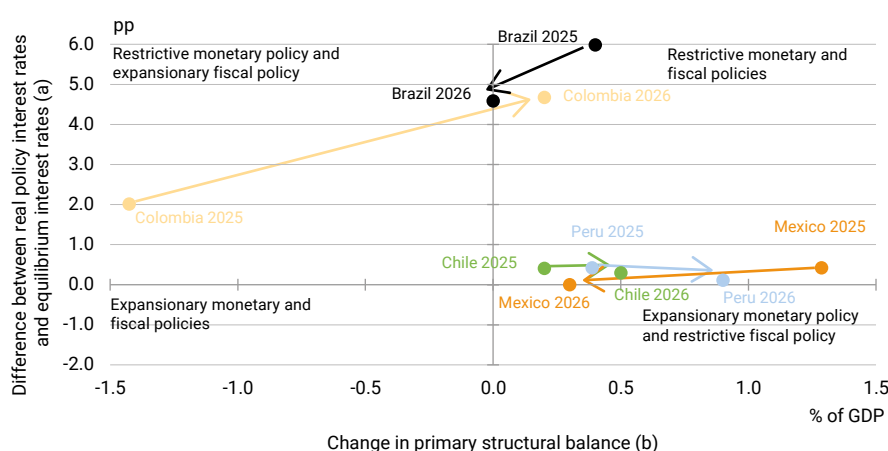
b Calculated as the difference between the policy interest rate of each central bank less the one-year-ahead inflation expectations drawn from *FocusEconomics Consensus Forecast* (September 2026).

17 Monetary policy stances vary across countries, as does the degree of fiscal tightening

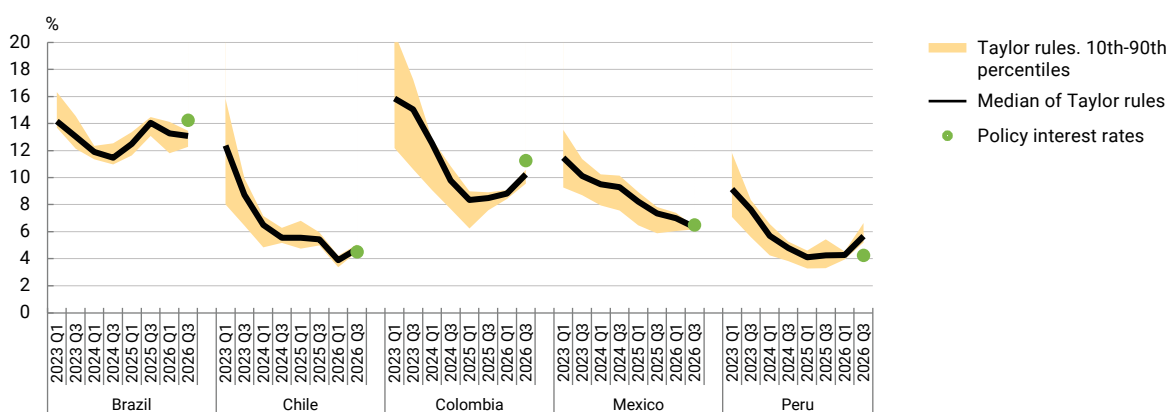
- In Colombia, Chile, Mexico and Peru, the fiscal tightening envisaged for 2026 is expected to help curb demand and support disinflation. Brazil, however, combines a virtually neutral fiscal policy with a still restrictive monetary policy stance (Chart 17.a).
- Policy rates lie within the range derived from various Taylor rules, although these suggest a stance that may be more restrictive than necessary in Brazil and Colombia and more expansionary in Peru (Chart 17.b). Overall, monetary policy decisions are broadly aligned with each country's economic conditions.

Chart 17

17.a Monetary and fiscal policy stance



17.b Policy interest rates and Taylor rules (c)



SOURCE: Consensus Forecasts.

- Real policy interest rates calculated using one-year-ahead inflation expectations, drawn from *FocusEconomics Consensus Forecast* (September 2026). For December 2026 and December 2027 they are calculated using policy interest rate futures. Equilibrium interest rates are calculated drawing on estimates by the region's various central banks.
- Budget balance data are drawn from the IMF's October 2026 *Fiscal Monitor* (2026 forecasts).
- 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.



18 Market expectations for the policy rate path are consistent with central bank communication

- A new indicator based on natural language models identifies whether the tone of central bank monetary policy communication is dovish, neutral or hawkish. Movement in the indicator in 2026 enables a comparison of monetary policy signals with the policy rate expectations implied by futures markets (Table 4).
- The markets expect further policy rate cuts in Brazil, rate increases of varying magnitudes in Chile, Colombia and Peru and unchanged rates in Mexico. These expectations are consistent with central bank communication about monetary policy and point to persistent cross-country differences in policy rate developments over the coming months.
- The correspondence between the two indicators highlights the informational value of monetary policy communication, but does not determine its impact on market expectations.

Table 4

Central bank communication and market expectations

	Changes in monetary policy tone in 2026 (a)			One-year-ahead market expectations
	DOVISH	NEUTRAL	HAWKISH	
Brazil			●←●	Additional cut
Chile	●————→●			Hikes
Colombia			●→●	Additional hikes
Mexico	●————→●			Hikes
Peru		○————→●		Hikes
United States	●————→●			Additional hikes

SOURCES: Devised by authors and the national central banks of the six countries.

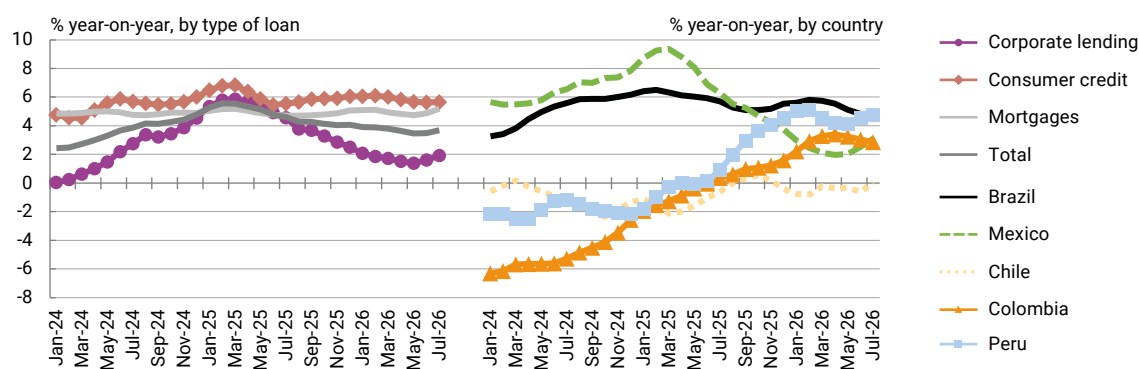
a The table captures the change in tone of press releases published following central banks' monetary policy meetings from late 2025 to the end of the third quarter of 2026, as measured by the monetary policy stance indicator described in Juan Carlos Berganza, Miguel Ángel Martín-García and Carlos Moreno-Pérez, "Guiding the Markets: LLM-Based Measures of Monetary Policy Tone in Latin American and U.S. Central Bank Communications and Financial Market Effects" (forthcoming). The indicator is derived by applying large language models (LLMs) to these press releases. The closer the value is to 1, the more hawkish the monetary policy tone; the closer it is to -1, the more dovish the tone; and a value close to 0 indicates a neutral tone.

19 Real credit growth remains robust and could gain momentum in the coming months

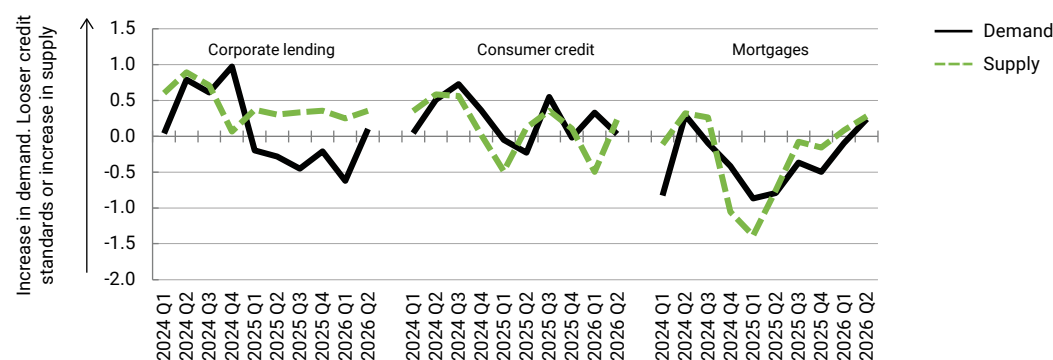
- Credit grew by 4% year-on-year in real terms, although the pace moderated slightly in recent months. This slowdown was concentrated in business lending and, at the country level, in Brazil (Chart 19.a).
- Central bank surveys on credit conditions point to stronger momentum in the coming months, supported by a recovery in firms' demand for loans and relatively accommodative financing conditions in that segment. They also indicate a larger contribution from mortgage lending (Chart 19.b).

Chart 19

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



19.b Credit conditions indices: Latin America (a)



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest data: July 2026.

a Aggregate of Brazil, Chile, Colombia, Mexico and Peru, with GDP adjusted for purchasing power parity.

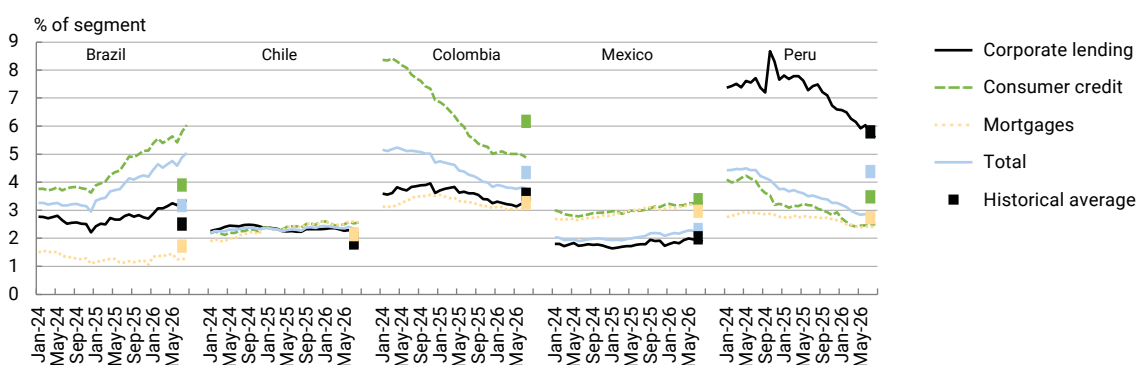


20 Bank asset quality remains sound, although non-performing consumer credit has increased in Brazil

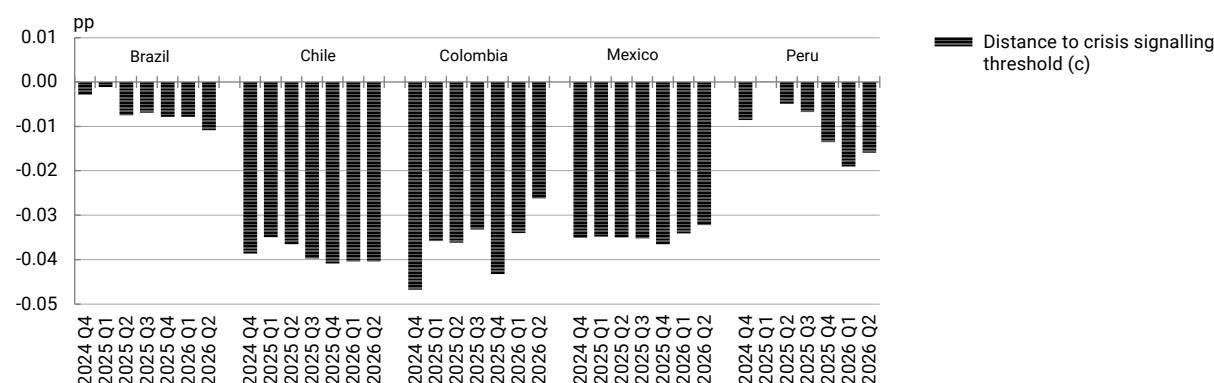
- The non-performing loan ratio continued its downward trend, standing below historical averages in most of the economies analysed (Chart 20.a).
- The main exception is Brazil, where non-performing consumer credit has risen further. The deterioration is concentrated in higher-risk credit segments, such as credit cards, unsecured personal loans and overdrafts, against a backdrop of high interest rates and household debt.
- Early warning indicators of banking crises have eased, moving away from alert thresholds across all countries analysed (Chart 20.b).

Chart 20

20.a Non-performing loans (a)



20.b Vulnerability to a banking crisis (b)



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest data: July or August 2026 (non-performing loans) and 2026 Q2 (early warning indicator of crises).

- a** Percentage of all loans extended. The squares denote the historical average (2015-2024) for each type of loan and each country.
- b** Probability of a banking crisis estimated using a logit probability model with variables pre-selected based on the correct signalling of crises six quarters ahead (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*, 125(106304).

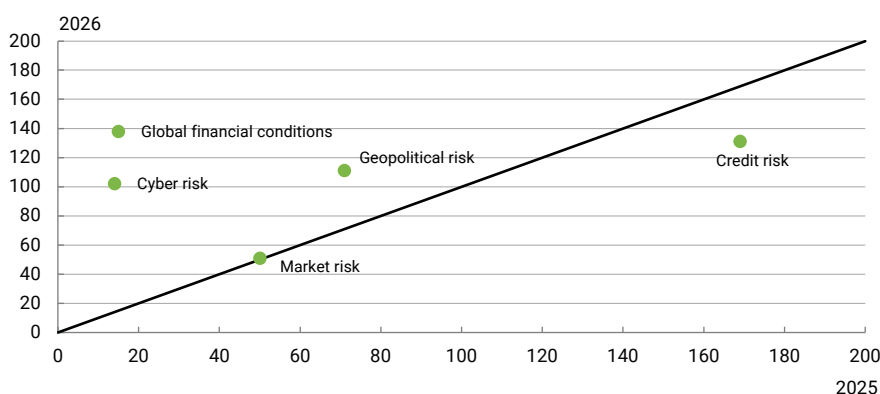


21 Central banks emphasise the resilience of the financial system, but warn of growing external risks and public finance strains

- Central banks' financial stability reports have highlighted the risks linked to geopolitical conflicts, protectionism and a possible tightening of global financial conditions. They also note the risk of a sharp correction in the valuations of AI-related firms (Figure 1 and Chart 21.a).
- A pick-up in inflation and higher global interest rates could prompt an unwinding of **carry trades** and complicate debt refinancing. These developments could weaken some of the factors underpinning the region's financial resilience. Domestic vulnerabilities continue to include strains in public finances and non-performing assets in certain segments, while interconnections with non-bank financial intermediaries could amplify the sovereign-bank nexus. As **Box 3** shows, weaker institutional quality may delay the recognition of bank losses associated with fiscal shocks, temporarily masking their impact on capital.
- Meanwhile, Latin America has emerged as a laboratory for innovation in payments. Central banks are driving initiatives that combine digitalisation, speed and financial inclusion. **Box 4** examines how new payment infrastructure can increase financial inclusion, speed up transactions and connect the region's markets.

Chart 21

21.a Main risks highlighted in financial stability reports: changes between 2025 and 2026 (a)



SOURCES: Financial stability reports of Argentina, Brazil, Chile, Colombia, Mexico and Peru for 2025 H1 and 2026 H1.

a Artificial intelligence (Copilot) is used to identify the main risks in 2026 and compare them with mentions of the same risks in 2025 across the six countries.

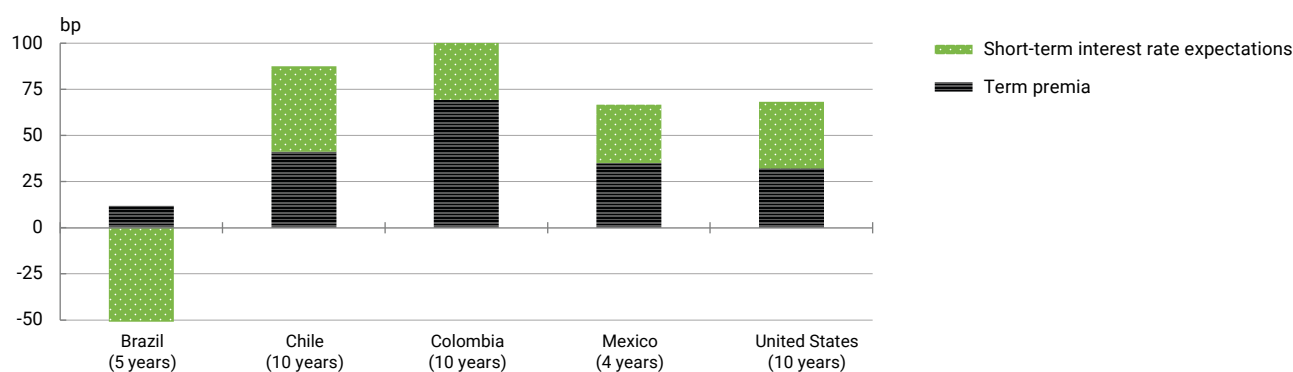


22 Financing costs for local currency-denominated government debt increased across much of the region, with differences linked to domestic factors

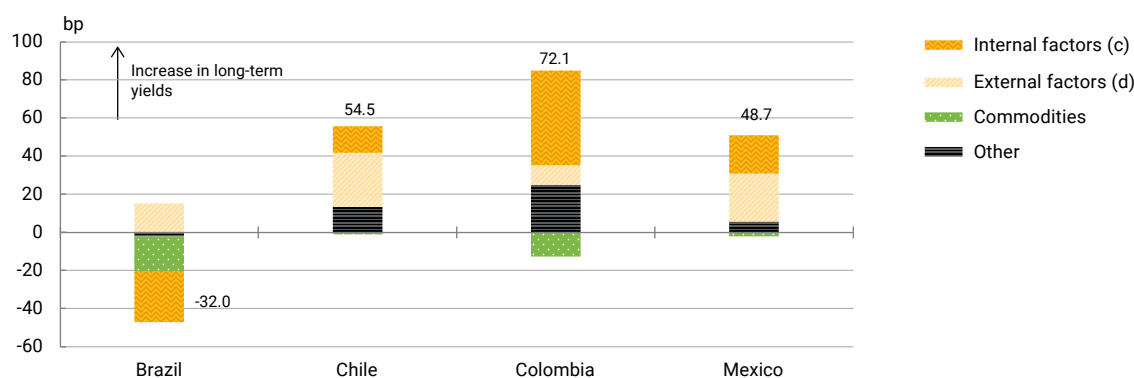
- Long-term sovereign yields rose in line with global developments, owing to higher short-term interest rate expectations and an increase in term premia since end-June. This increase may reflect, among other factors, uncertainty surrounding the fiscal outlook and debt issuance needs (Chart 22.a).
- Domestic factors tempered these global pressures. In Brazil, lower idiosyncratic risk, amid expectations of **fiscal consolidation** following the **elections**, contributed to a decline in yields between end-June and September. In Chile and Mexico, the monetary policy outlook exerted upward pressure on financing costs. In Colombia, meanwhile, domestic monetary policy offset the post-election easing in idiosyncratic risk (Chart 22.b).

Chart 22

22.a Change in components of long-term yields: 25 June - 30 September (a)



22.b Change in local currency long-term government bond yields: 25 June - 30 September (b)



SOURCES: Banco de España, LSEG Datastream and national statistics. Latest observation: 30 September 2026.

- a** Estimated using the methodology in Adrian, Crump and Moench (2013), based on overnight index swaps or zero coupon curve rates.
- b** Decomposition of changes in long-term yields in local currency 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.
- c** Contribution of each country's monetary policy and macroeconomic shocks and local risk.
- d** Contribution of US monetary policy and macroeconomic shocks and global risk.

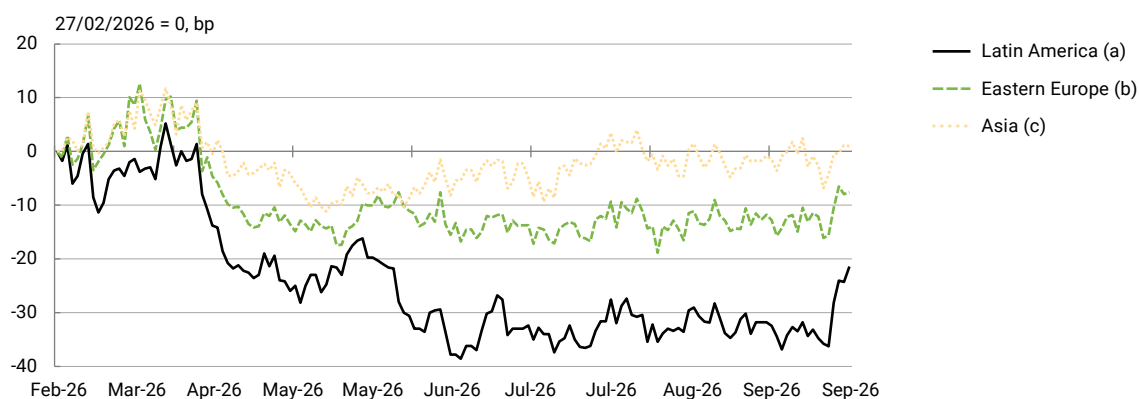


23 Sovereign external debt spreads remain close to historical lows despite the fiscal vulnerabilities

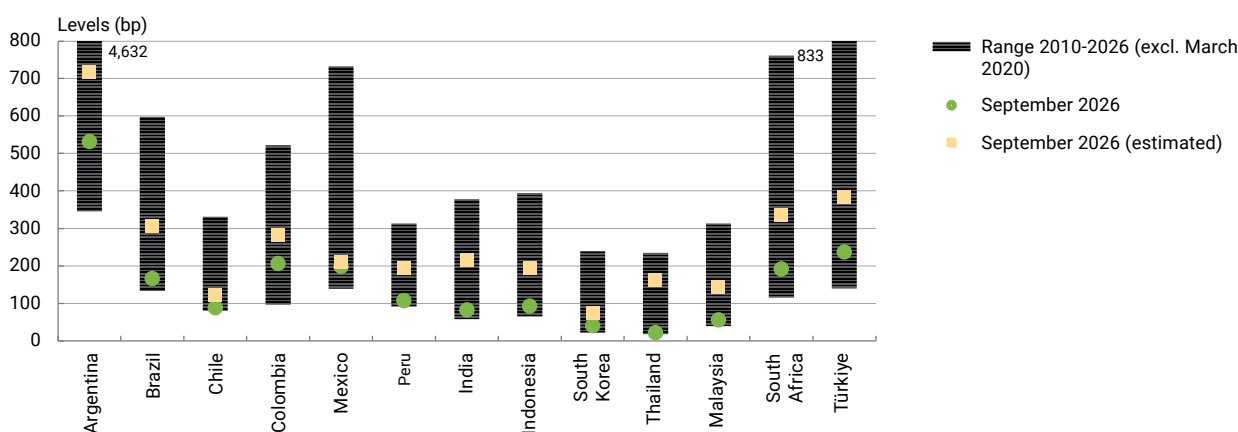
- In contrast to local-currency sovereign yields, sovereign external debt spreads have narrowed since the onset of the conflict, more so than in other emerging regions. This brought them close to the lows for the 2010-2026 period, helping to ease external financing conditions (Chart 23.a).
- These levels appear at odds with the persistent fiscal vulnerabilities. In Colombia, Brazil and Argentina, actual spreads are lower than those estimated based on the historical relationship between spreads and credit ratings. This suggests a relatively benign sovereign risk assessment, although it does not, on its own, constitute evidence of an underestimation of fiscal risk (Chart 23.b).

Chart 23

23.a Sovereign spreads



23.b Sovereign spreads: actual and estimated (d)



SOURCE: LSEG Datastream. Latest data: 30 September 2026. 27/02/2026 was the last market day before the start of the conflict in Iran.

a Average of Brazil, Chile, Colombia, Mexico and Peru.

b Average of Czech Republic, Hungary and Poland.

c Average of India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

d The estimated spread is defined as the level consistent with an exponential regression curve between sovereign spreads and credit ratings in the period from January 2010 to September 2026. Actual spreads below the estimated level indicate a lower risk premium than would be expected based on the country's medium-term fundamentals, represented by its sovereign ratings.

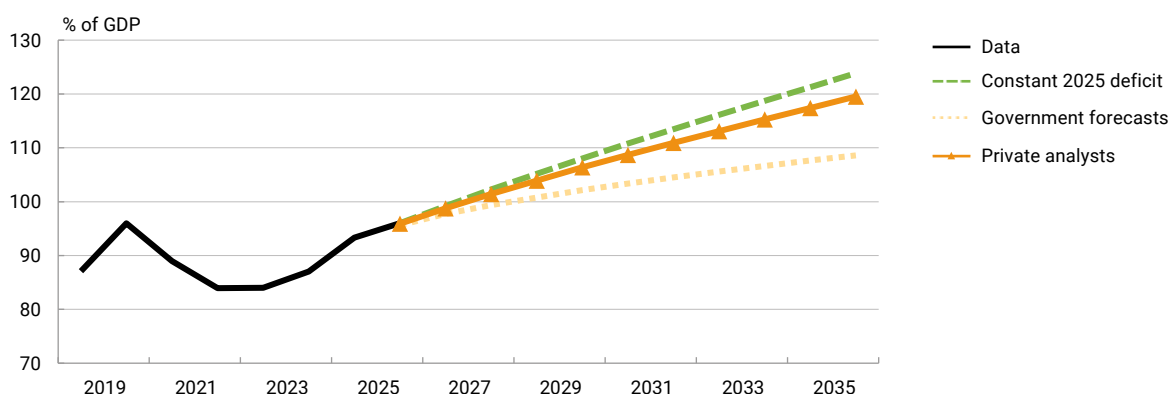


24 The outlook for public debt is unfavourable, particularly in Brazil and Colombia

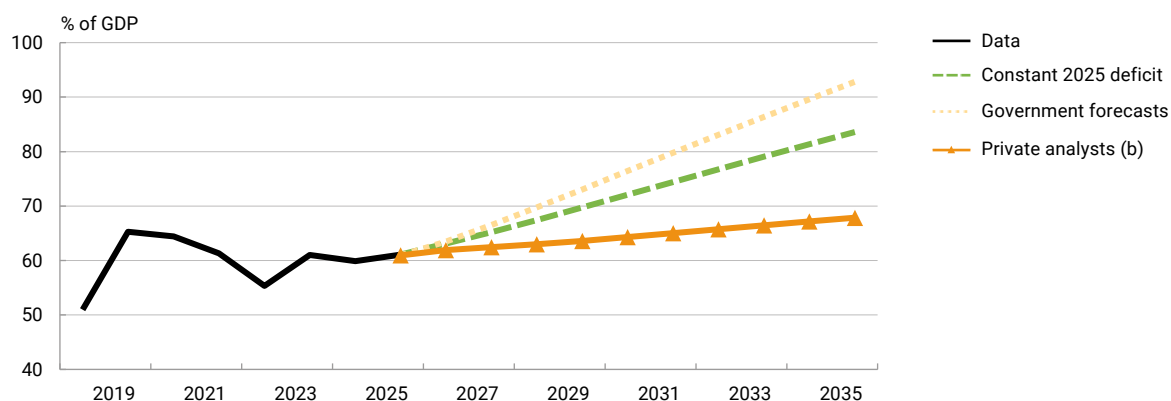
- Brazil is expected to remain the region's most indebted country, with a public debt ratio of 97% of GDP in 2026, the highest level in recent decades, driven by a sizeable interest burden (7.7% of GDP). Elsewhere in the region, debt is expected to rise moderately in Mexico (62.4% of GDP) and Chile (42.7%) and decline slightly in Colombia (59.7%) and Peru (28.8%).¹⁷
- In Brazil, the public debt ratio could stabilise at around 100% of GDP by around 2036, provided that the Government's fiscal consolidation targets are met. In Colombia, the Government's latest fiscal projections point to an increase of around 35 pp, bringing public debt close to 95% of GDP over the same time horizon. Private sector analysts project a more moderate trajectory, although their forecasts do not yet incorporate the latest fiscal projections (Charts 24.a and 24.b).
- Higher public debt strengthens the link between sovereign risk and the banking system, given banks' sizeable exposure to government debt in the region (Box 3).

Chart 24

24.a Brazil. Simulated debt path scenarios over the next decade (a)



24.b Colombia. Simulated debt path scenarios over the next decade (a)



SOURCES: Banco de España, Refinitiv, IMF and World Bank.

a Under the constant deficit scenario, the 2025 primary structural deficit is held constant over the next two years and the level of public debt consistent with that deficit is calculated. The other two scenarios incorporate government and private analyst forecasts for the primary structural balance in 2026 and 2027, and the debt path consistent with those projections is calculated.

b In the case of Colombia, private analyst projections do not incorporate the latest announcements made by the newly-elected government.

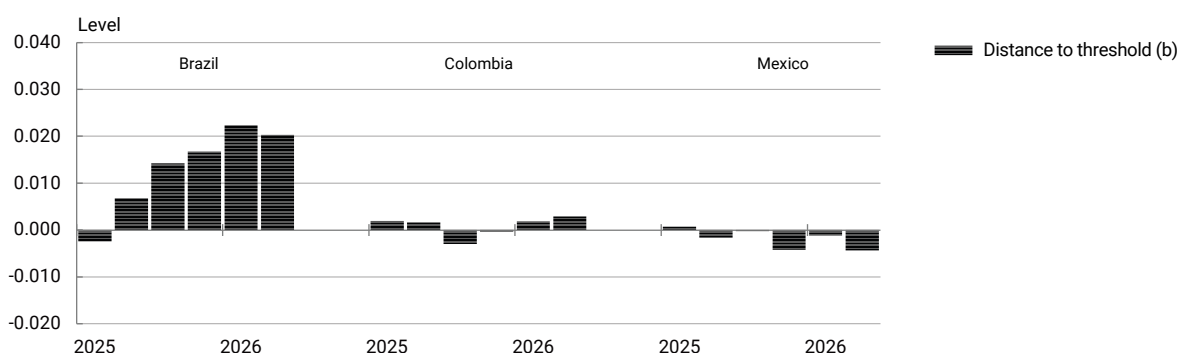
¹⁷ However, Colombia starts from significantly higher primary deficit levels than Mexico.

25 The vulnerability of public finances is reflected in the estimated probability of sovereign debt market stress in some of the region's economies

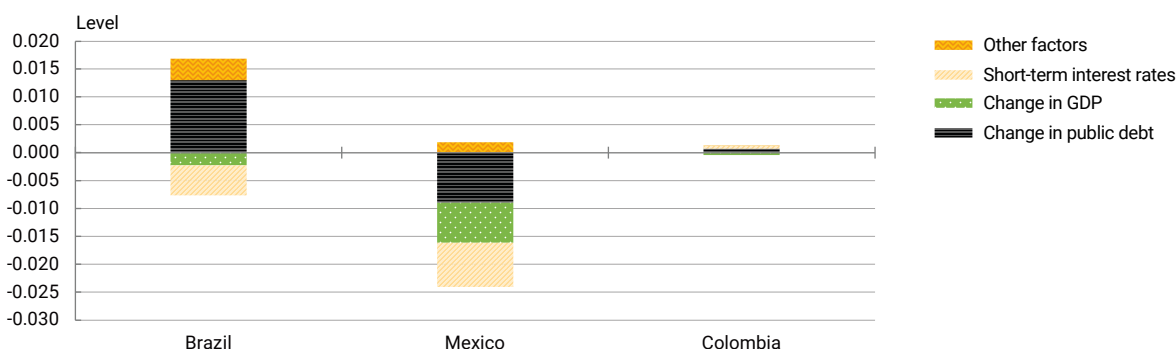
- In Brazil, the sovereign debt crisis early warning indicator deteriorated in 2026 H1 relative to end-2025, as a result of rising public debt. This offset the decline in the probability of a sovereign debt crisis associated with the monetary policy easing cycle, at a time when debt is largely indexed to either inflation or policy interest rates. In Colombia and Mexico, the indicator remained relatively stable at low risk levels (Charts 25.a and 25.b).

Chart 25

25.a Synthetic indicator of vulnerability to sovereign crises (a)



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



SOURCE: Banco de España.

- The synthetic indicator represents the likelihood of a sovereign debt crisis (sovereign default), estimated using a logit probability model with variables pre-selected based on the correct signalling of crises six quarters ahead (ROC curve threshold). An increase in the synthetic indicator therefore implies a higher probability of a crisis occurring.
- 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 last available sample and depend on the level of the synthetic indicator.
- Contribution of each factor to the change in the synthetic vulnerability indicator between 2025 Q4 and 2026 H1. The contributions are calculated based on the effect of each of the variables on the linear probability estimated by the model, reweighted.

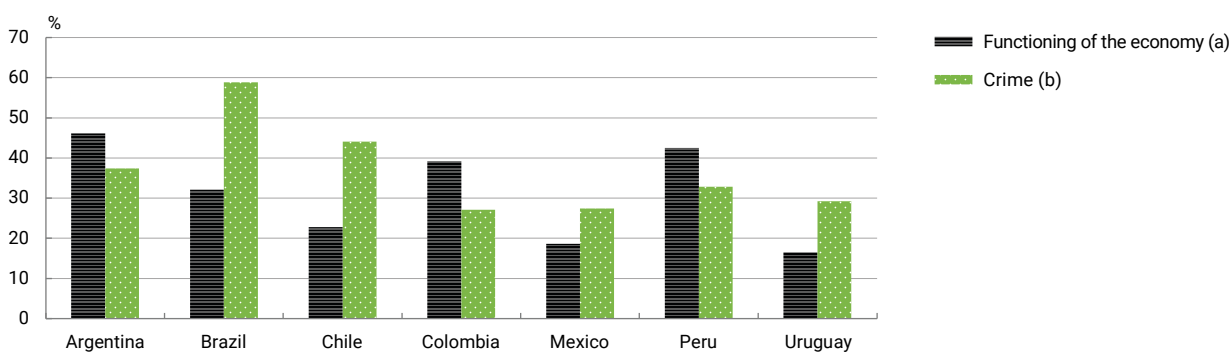


26 Several countries in the region have seen changes of government amid public concerns about the economy and security

- Recent elections in Chile, Colombia and Peru led to a shift in the political orientation of their governments, amid public concern over the economic situation and crime and violence. The relative prominence of these concerns varies across countries and opinion polls point to security as one of the main public concerns in Brazil and Chile, while employment and income are the dominant concerns in Argentina, Colombia and Peru (Chart 26.a).
- The newly elected governments in Chile, Colombia and Peru have announced measures that combine fiscal discipline, administrative streamlining and attracting investment with efforts to strengthen public security, such as restoring territorial control, tougher sentencing and closer coordination between intelligence agencies. However, the scope and relative importance of these policy measures differ across countries.

Chart 26

26.a Public concerns



SOURCE: Latinobarómetro 2026.

- a** Percentage of respondents who answer "Not at all satisfied" to the question: "How satisfied are you with how the economy is functioning?".
- b** Percentage of respondents who answer "All of the time or almost all of the time" to the question: "How often do you worry that you may become the victim of a violent crime?".

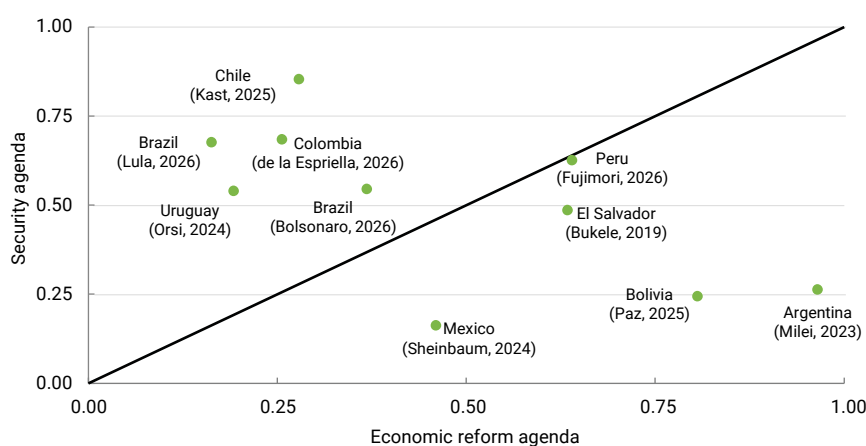


27 Security and economic reform proposals feature prominently in election manifestos

- An indicator based on textual analysis of election manifestos makes it possible to compare the emphasis on economic reform and security proposals. The indicator combines, with equal weights, topic coverage, the number of proposals per 1,000 words and the proportion of text devoted to each policy area. Economic measures include initiatives to liberalise the economy and reduce the role of the State, while security measures include steps to strengthen policing and territorial control and impose harsher criminal penalties.
- The results show that manifesto profiles vary across countries. The manifestos on which the new governments of Chile and Colombia were elected placed greater emphasis on security proposals, while economic liberalisation featured more prominently in the election manifesto that led to Argentina's current government. In Peru, by contrast, the two policy areas are combined and receive equal emphasis. At the same time, the manifestos shared some economic proposals, such as fiscal discipline, deregulation and tax cuts (Chart 27.a).
- The implementation and continuation of reforms depend, among other factors, on their social acceptability. According to [IMF analyses](#), consulting affected groups, communicating the need for the measures and their effects and trust in institutions help foster public support. Taking social concerns into account from the design stage and adopting compensatory measures for those who bear the costs of the adjustment can facilitate the implementation of reforms and reduce the risk of their being dropped in the face of social resistance.

Chart 27

27.a Government agendas based on election manifestos (a)



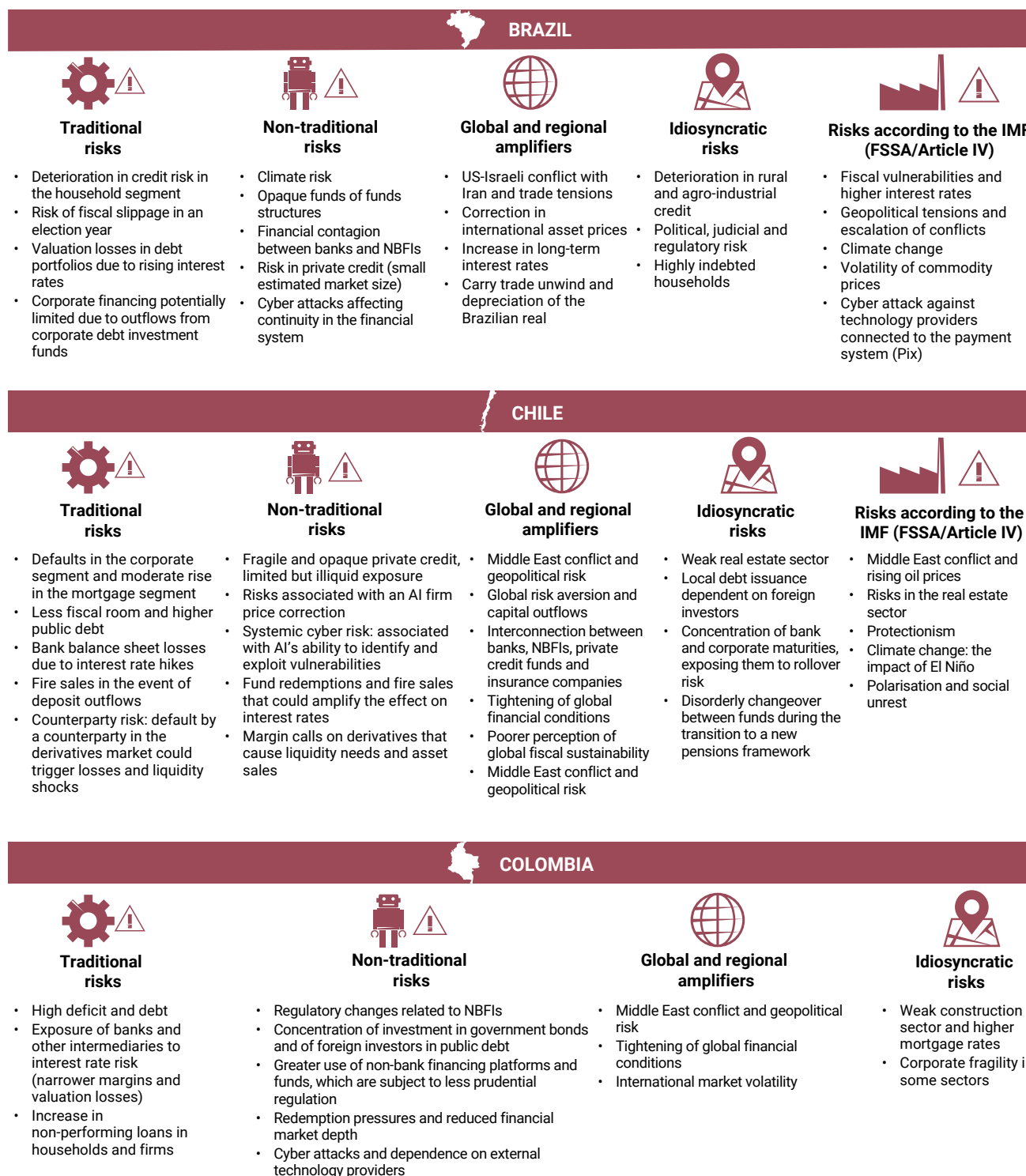
SOURCE: Banco de España calculations, drawing on the candidates' election manifestos.

a The chart depicts an index that weights equally three sub-indices: a topic coverage index (the extent to which topics within a predefined universe for each area are mentioned), a proposal intensity index (the number of proposals relating to each area per 1,000 words) and a relative textual salience index (the number of words devoted to proposals associated with each area). The economic reform agenda refers to economic liberalisation and a retrenchment of the State, while the security agenda refers to State enforcement and coercive powers.



Figure 1

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

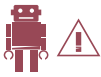
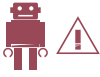
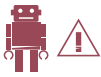


SOURCES: Financial stability reports published by the central banks of Brazil, Chile, Colombia, Mexico, Peru and Argentina in the first half of 2026, Staff Reports for the 2026 Article IV consultations with Brazil, Chile, Peru and Argentina, and Brazil's 2026 Financial Sector Stability Assessment.

a A maximum of five key risks are identified in each category. Pix is an instant payment system operated by the Banco Central do Brasil 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-traditional risks	Global and regional amplifiers	Idiosyncratic risks	Risks according to the IMF (FSSA/Article IV)
• Defaults under stress scenarios • Valuation losses on fixed-income portfolios • Foreign exchange risk at firms with no US dollar-denominated income or appropriate hedges	• Climate risk and El Niño • Cyber attacks and operational vulnerabilities on payment platforms	• Geopolitical and trade risks • Global inflationary energy shock • International market volatility • Lower growth of the world economy and deterioration in the outlook for China • Lower demand for commodities	• Electoral and political uncertainty • Extraordinary withdrawals from pension funds • Social unrest • Lower solvency of the smallest non-bank financial institutions	• Private fund withdrawals and pension reform risks • Middle East war and energy shock • Political instability and uncertainty
MEXICO				
				
Traditional risks	Non-traditional risks	Global and regional amplifiers	Idiosyncratic risks	
• Non-performing loans in some household segments and loans for house purchase • Losses on bonds/shares • Financial domino effects • Fiscal risk from a more gradual fiscal consolidation	• Climate and natural disasters • Cyber attacks • Cryptocurrency and stablecoin volatility • Use of AI may amplify risks stemming from correlated behaviour in financial markets and increase operational risks	• Conflicts and geopolitical tensions • Surprises in global financial conditions • Lower global growth • Global systemic event • Protectionism and downturn in trade	• Downgrades to domestic issuers' credit ratings • Contagion between non-bank financial intermediaries and banks • Outflow of funds and exchange rate volatility	
ARGENTINA				
				
Traditional risks	Non-traditional risks	Global and regional amplifiers	Idiosyncratic risks	Risks according to the IMF (FSSA/Article IV)
• Defaults by households and firms • Interconnection between investment funds and banks • Interest rate risk in the banking book • Sovereign risk	• Technology dependence on third parties • Crypto-assets and stablecoins	• Geopolitical risk in the Middle East • Global monetary tightening • Increase in global debt • Interconnections between global non-bank intermediaries – including private credit – and banks	• Foreign currency mismatches • Risk of slippages from stabilisation targets affecting sovereign risk • Interconnections between banks and non-bank financial institutions	• Geopolitical risk • Reserves and external fragility • Political uncertainty • Non-performing loans in consumer credit

SOURCES: Financial stability reports published by the central banks of Brazil, Chile, Colombia, Mexico, Peru and Argentina in the first half of 2026, Staff Reports for the 2026 Article IV consultations with Brazil, Chile, Peru and Argentina, and Brazil's 2026 Financial Sector Stability Assessment.

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

Table 5
Latin America: main economic indicators

			IMF forecasts October 2026 WEO		2025				2026	
	Average 2007-24	2025	2026	2027	Q1	Q2	Q3	Q4	Q1	Q2
GDP (change on previous period) (a) (b)										
Latin America and the Caribbean (c)	2.0	2.4	2.3	2.5	0.9	0.3	0.3	0.4	0.6	0.6
Argentina	1.4	4.5	2.5	3.5	1.0	-0.1	0.6	0.6	1.1	-0.6
Brazil	2.0	2.3	2.2	2.0	1.5	0.3	0.0	0.1	1.2	0.5
Mexico	1.4	0.7	1.5	1.8	0.3	0.5	0.1	0.9	-0.5	1.4
Chile	2.9	2.5	0.6	2.6	0.9	0.4	-0.3	0.6	-0.4	0.0
Colombia	3.4	2.6	2.2	2.3	0.5	0.4	1.3	0.1	0.5	1.3
Peru	4.0	3.4	2.9	2.8	0.6	0.6	1.2	0.6	0.8	0.4
CPI (year-on-year rate) (a)										
Latin America and the Caribbean (c)	7.3	7.6	6.9	5.6	4.4	4.7	4.4	4.1	4.1	4.5
Argentina	38.6	41.9	32.7	21.5	68.0	43.3	33.9	31.4	32.7	33.0
Brazil	5.7	5.0	4.4	3.8	5.0	5.4	5.2	4.5	4.1	4.6
Mexico	4.5	3.8	3.8	3.6	3.7	4.2	3.6	3.7	4.1	3.9
Chile	4.1	4.2	3.7	3.5	4.8	4.4	4.2	3.4	2.7	4.1
Colombia	4.9	5.1	6.0	5.4	5.2	5.0	5.1	5.3	5.4	5.9
Peru	3.4	1.5	3.8	2.7	1.5	1.7	1.4	1.4	2.6	4.0
Budget balance (% of GDP) (a) (d)										
Latin America and the Caribbean (c)	-4.1	-5.1	-4.8	-4.4	-5.3	-5.0	-5.4	-5.6	-6.1	-6.1
Argentina	-3.7	0.2	0.4	0.8	0.3	0.3	0.4	0.2	0.2	0.0
Brazil (e)	-5.4	-8.3	-	-	-7.9	-7.3	-8.1	-8.3	-9.4	-10.0
Mexico (e)	-3.3	-5.1	-	-	-4.3	-4.2	-4.9	-5.1	-5.4	-5.5
Chile	-1.3	-2.8	-2.0	-1.6	-2.7	-2.7	-2.3	-2.8	-2.8	-2.3
Colombia	-3.2	-5.8	-6.9	-6.5	-7.1	-6.7	-6.1	-5.8	-5.6	-4.0
Peru	-1.1	-2.9	-1.7	-1.8	-3.7	-3.7	-3.1	-2.9	-2.9	-1.7
Public debt (% of GDP) (a)										
Latin America and the Caribbean (c)	58.4	73.6	73.5	73.9	68.4	68.6	70.1	71.1	70.5	70.8
Argentina	68.3	80.3	68.0	65.5	69.6	66.3	70.2	69.7	68.7	62.3
Brazil	74.4	93.3	97.0	99.4	87.9	89.5	90.2	93.3	91.8	95.8
Mexico	48.6	61.8	62.4	63.4	55.2	54.4	56.2	55.8	56.5	56.3
Chile	21.0	41.8	42.7	44.3	42.0	41.8	41.7	41.5	41.3	41.1
Colombia	47.1	59.9	59.7	62.9	60.0	61.1	64.2	64.4	64.6	60.6
Peru	27.2	30.2	28.8	29.4	31.0	31.6	30.9	30.1	29.2	28.3
Current account balance (% of GDP) (a) (d)										
Latin America and the Caribbean (c)	-1.9	-1.2	-0.6	-0.8	-1.6	-1.8	-1.8	-1.6	-1.3	-1.0
Argentina	-0.9	-1.1	0.3	0.4	0.1	-0.8	-1.1	-1.1	-0.6	-0.1
Brazil	-2.6	-3.0	-2.5	-2.2	-3.5	-3.5	-3.4	-2.9	-2.7	-2.5
Mexico	-1.1	-0.5	-0.2	-0.4	-0.3	-0.6	-0.4	-0.5	-0.7	0.0
Chile	-3.1	-1.2	-0.2	-1.2	-1.7	-1.7	-2.0	-1.2	-0.2	0.2
Colombia	-3.7	-2.4	-2.6	-3.4	-1.7	-1.9	-2.2	-2.4	-2.2	-2.5
Peru	-1.8	3.5	4.0	2.8	2.4	2.4	2.7	3.5	4.4	4.5
External debt (% of GDP) (a)										
Latin America and the Caribbean (c)	39.0	42.9	38.6	38.2	33.9	34.4	35.1	-	-	-
Argentina	41.6	46.8	—	—	41.4	43.7	45.5	46.6	47.0	46.6
Brazil	29.6	36.0	—	—	34.7	35.7	36.6	35.9	35.9	34.8
Mexico	12.4	13.0	—	—	14.2	13.2	13.5	12.1	12.3	11.7
Chile	57.6	77.6	—	—	75.5	76.1	77.7	77.6	76.1	75.9
Colombia	35.4	-	—	—	47.9	48.8	48.4	-	-	-
Peru	25.9	39.1	—	—	42.2	42.7	41.0	38.9	36.2	36.1
MEMORANDUM ITEMS: Aggregate of emerging market economies excluding Latin America and China (IMF, October 2026 WEO)										
GDP (year-on-year rate)	4.2	4.5	3.7	5.3						
CPI (year-on-year rate)	7.9	7.7	8.0	6.8						
Budget balance (% of GDP)	-3.0	-4.9	-5.2	-4.8						
Public debt (% of GDP)	43.7	59.3	63.5	65.0						
Current account balance (% of GDP)	0.8	0.3	-0.2	0.4						
External debt (% of GDP)	26.5	25.3	25.0	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 Four-quarter moving average.
e Annual IMF forecasts are not shown since they are not comparable with quarterly data from national sources.

Box 1

DATA CENTRES IN LATIN AMERICA: INSTALLED CAPACITY, ANNOUNCED EXPANSION, POTENTIAL ADVANTAGES AND CONSTRAINTS¹

Data centre investment announcements point to a significant expansion of digital infrastructure in Latin America, where existing capacity is concentrated in a few countries. Several economies are well placed to attract these projects, thanks to the high share of renewables in their electricity mix and government support measures. Implementation of these projects requires access to the electricity grid, a stable and competitively priced supply of electricity and adequate connectivity, and could foster new economic activities and boost productivity.

Global demand for digital infrastructure has risen in recent years as the rollout of artificial intelligence (AI) has increased the need for computing capacity. This has materialised in the construction and operation of large data centres around the world, including in Latin America, mainly by US and Chinese companies.²

The decision on whether and where to build a data centre depends primarily on three factors. The first is energy: access to the electricity grid, the time required to establish a connection, and the price and stability of the supply of electricity. In practice, grid access is often the most binding constraint on expansion.³ The second is connectivity and proximity to demand, including proximity to submarine cables and, in Mexico's case, to the US market. The third is a regulatory framework that fosters shorter permit processing times and provides stability and incentives.⁴

Overview of current installed data centre capacity in the region

In 2025, Latin America had 1.3 gigawatts (GW) of installed data centre capacity, following a record annual increase of 20% (Table 1).⁵ Brazil accounted for 44% of this figure, Mexico for 24% and Chile for 20%. Together with Colombia, these countries represented 90% of the regional total. One of Latin America's advantages is the lower cost of building these centres, at least in some countries. The average cost is \$9 million per megawatt (MW), although this varies across countries.⁶ This figure is lower than the average cost in Spain and the United States.⁷ The average for the other major emerging market economies stands at \$10.8 million per MW (with costs ranging from \$9.2 million to \$14.4 million).⁸

These average costs can be used to estimate the value of the installed capital stock. The estimates show that Latin America has a relatively small initial data centre capital stock, ranging from 0.1% of GDP in Colombia to 0.6% in Chile, although these figures are broadly comparable with Spain's 0.2%. By contrast, in terms of investment flows, Spain invested around €2.1 billion in 2025, virtually on a par with total investment by Latin America (just over \$2 billion), despite having one-third of its capacity.

A further 0.7 GW of capacity is under construction in Latin America, although only 26% of it has already been committed.⁹ Planned capacity totals 3.9 GW. By way of

1 In collaboration with Ángel Melguizo and Manuel Balmaseda (Argia GTE).

2 IDB. (2025). *Capturing the Data Center Opportunity in Latin America and the Caribbean* provides a detailed analysis and an analytical framework for harnessing the economic and technological potential of the data centre industry. Likewise, World Bank. (2026). *Latin America and the Caribbean Economic Update. Harnessing the AI Transition*, analyses the global spread of AI as a potential catalyst for productivity in Latin America.

3 In the region's major markets (São Paulo, Santiago, Rio de Janeiro and Bogotá), developers may face greater difficulties in finding available power and land, opening up opportunities for other markets (JLL. (2026). *Latin America Data Center Report Year-end 2025*). In Mexico, the industry itself identifies transmission, distribution and interconnection as the main bottlenecks, with Querétaro being the most visible case (L. Beltrán, R. Rueda, S. Isusi and J. M. Martín. (2026). *Data Centers and Energy in Mexico: Reliability, Critical Infrastructure, and Competitiveness in the Digital Economy*. Institute of the Americas). See also Standard and Poor's. (2026). "Latin America's data centers policy".

4 Other factors, such as access to water for cooling, the availability of skilled labour and the existence of a supplier ecosystem, also play a role. See S&P Global. (2026). "Latin America's Data Centers Policy". *Economics and Country Risk*.

5 *Latin America Data Center Report Year-end 2025* and DCD/DC Byte.

6 Turner & Townsend. *Data Centre Cost Index 2025*.

7 The average cost is \$10 million in Spain and \$10.8 million in the United States, with substantial geographical dispersion, within a range of \$9.5 million to \$13.3 million per MW.

8 The average for the other emerging market economies includes Singapore, Malaysia, Saudi Arabia, Indonesia, Nigeria, South Africa, Kenya, Poland and the United Arab Emirates. Of this group, only the last three have a cost clearly below the Latin American average. The estimated average cost for India and China stands at \$6.6 million and \$6.1 million, respectively.

9 *Latin America Data Center Report Year-end 2025*.

Box 1

DATA CENTRES IN LATIN AMERICA: INSTALLED CAPACITY, ANNOUNCED EXPANSION, POTENTIAL ADVANTAGES AND CONSTRAINTS (cont'd)

comparison, installed capacity in Spain could reach 2.5 GW by 2030, around six times its current level,¹⁰ while grid connection applications for data centres are estimated to total 8.7 GW. However, only around one quarter of this requested capacity has been granted so far.

Future expansion

Analysis of announced greenfield investment flows can complement data on installed capacity, as these flows confirm the growing momentum of foreign direct investment in digital infrastructure.¹¹ Between January 2024 and

July 2026, 97 digital infrastructure projects worth \$63.5 billion were announced in Latin America and the Caribbean.¹² Of these, 59 involve data centres and hosting and processing services, and the remainder relate to rollouts of mobile and satellite communications infrastructure and landline networks (Table 2). Data centre projects account by far for the largest share of announced investment in digital infrastructure, at close to 90% of the total.

The home countries of the investors in the 59 projects are: the United States (28 data centres), China (11 data centres)

Table 1
Installed capacity and construction cost of data centres

	Installed capacity (GW) (2025)	Construction cost per MW (\$m)	Capital stock (\$bn)	Capital stock (% of GDP)
Brazil	0.57	10.8	6.1	0.3
Mexico	0.31	10.4	3.2	0.2
Chile	0.26	8.6	2.2	0.6
Colombia	0.05	7.5	0.4	0.1
Argentina	0.05	7.5	0.3	0.0
Spain	0.44	10.0	4.4	0.2
Singapore	1.40	14.5	20.3	3.6
Malaysia	0.52	11.4	5.9	1.3
Saudi Arabia	0.47	11.3	5.3	0.5
Indonesia	0.97	11.2	10.9	0.8
Nigeria	0.09	10.5	0.9	0.5
South Africa	0.30	10.2	3.1	0.7
Kenya	0.02	9.7	0.2	0.1
Poland	0.25	9.2	2.3	0.2
United Arab Emirates	0.50	9.2	4.6	0.8
Memorandum item:				
United States	50.00	10.8	538.9	1.7
Other emerging market economies (a)	4.52	10.8	48.8	0.6

SOURCES: JLL for installed capacity in Latin America; Spain DC and Pb7 Research for installed capacity in Spain; Turner & Townsend 2025 for construction costs, except for Argentina (*Argentina Data Center Market - Investment Analysis & Growth Opportunities 2026-31*); and national associations and governments for country-specific data.

a Sum of the installed capacity and average cost for Singapore, Malaysia, Saudi Arabia, Indonesia, Nigeria, South Africa, Kenya, Poland and the United Arab Emirates.

10 SpainDC. (2025). *Informe Anual 2025 sobre el Sector de los Centros de Datos en España*.

11 Balmaseda, Melguizo and Muñoz. (2026). *Towards a Green AI Valley in Latin America and the Caribbean? An Empirical Analysis of Greenfield Investment in Digital Infrastructure*. Argia GTE.

12 fDi Markets. This measures foreign investment announcements, rather than realised investment, and includes IT equipment.

Box 1

DATA CENTRES IN LATIN AMERICA: INSTALLED CAPACITY, ANNOUNCED EXPANSION, POTENTIAL ADVANTAGES AND CONSTRAINTS (cont'd)

and intra-Latin American projects (10 data centres). Although China accounts for 75% of total planned capital investment, a large proportion hinges entirely on a single project: the \$40.6 billion investment in Pecém, Brazil, which is more than three times the capital stock in the region.¹³ Excluding this investment, the United States accounts for almost 65% of capital and close to half of the projects, China comprises more than 15%, and intra-Latin American projects represent 8%. It is also worth noting that, in terms of the host country, Brazil receives 20 of the 59 computing projects and Mexico 13, while Chile, Colombia and Paraguay together account for 18 and the rest of the region for 8 (Table 2). These figures are consistent with the high concentration of installed capacity in Brazil and Mexico.

The region's advantages: electricity generation

Electricity consumption usually accounts for between 40% and 60% of data centres' operating expenses, which

makes price a key factor when investing in their construction. Latin America's electricity prices are slightly higher than those of some of their emerging market competitors, particularly in Asia.¹⁴ Nevertheless, the region's comparative advantage over other host countries lies in its electricity generation mix: it has a high share of renewables – except for in Argentina and Mexico – comparable only to that in Kenya (Chart 1). The marginal generation cost of these renewable energies is close to zero. They also comply with environmental commitments, are generally more socially acceptable and, above all, reduce exposure to fossil fuel price volatility, which is highly relevant in the current context of heightened geopolitical tensions.¹⁵

The region's advantages: government support

International evidence suggests that this type of investment generates tax revenue, mobilises

Table 2

Announced greenfield data centre and computing projects, by home and host country (2024-26)

Host country	United States		China		Canada		Intra-Latin America and the Caribbean		United Kingdom		EU 27		Total	
	No of projects	\$m	No of projects	\$m	No of projects	\$m	No of projects	\$m	No of projects	\$m	No of projects	\$m	No of projects	\$m
Brazil	13	7,657	4	41,553	0	0	1	310	1	310	0	0	20	49,949
Mexico	8	1,927	3	1,048	0	0	0	0	2	698	0	0	13	3,673
Chile	2	263	1	133	0	0	3	246	1	133	0	0	7	776
Colombia	3	179	1	106	0	0	1	106	0	0	1	106	6	499
Paraguay	0	0	1	165	3	496	1	200	0	0	0	0	5	861
Argentina	1	252	0	0	0	0	1	252	0	0	0	0	2	503
Other countries	1	165	1	133	0	0	3	220	0	0	1	100	6	619
TOTAL	28	10,443	11	43,139	3	496	10	1,334	4	1,142	2	206	59	56,879
Memorandum item:														
Other investments in digital infrastructure	13	2,490	—	—	15	2,501	5	896	—	—	3	733	25	6,620

SOURCE: fDi Markets.

¹³ Estimated total investment amounts to \$40.6 billion, \$9.8 billion of which relates to the initial phase, which is currently under construction with 200 MW of computing capacity.

¹⁴ GlobalPetrolPrices, "Electricity prices for the industry: world map" (2026 Q1), and International Energy Agency, "Estimated final electricity price for large industrial customers in energy-intensive industries, 2019-2025" (March 2026). The average price of electricity in the region is \$0.192 per kilowatt-hour, compared with \$0.100 in India, Indonesia and Thailand. This seemingly small difference represents an additional annual cost of just under \$90 million for a 100 MW data centre. In the United States, the average price would be around 3 US cents below that in Latin America, and in Spain around 6 US cents lower.

¹⁵ In countries with a higher share of generation of hydroelectric power, such as Brazil, Colombia and Peru, supply depends on hydrological conditions and is vulnerable to droughts, as illustrated by periods of drought in Brazil in 2021 and Colombia in 2024.

Box 1

DATA CENTRES IN LATIN AMERICA: INSTALLED CAPACITY, ANNOUNCED EXPANSION, POTENTIAL ADVANTAGES AND CONSTRAINTS (cont'd)

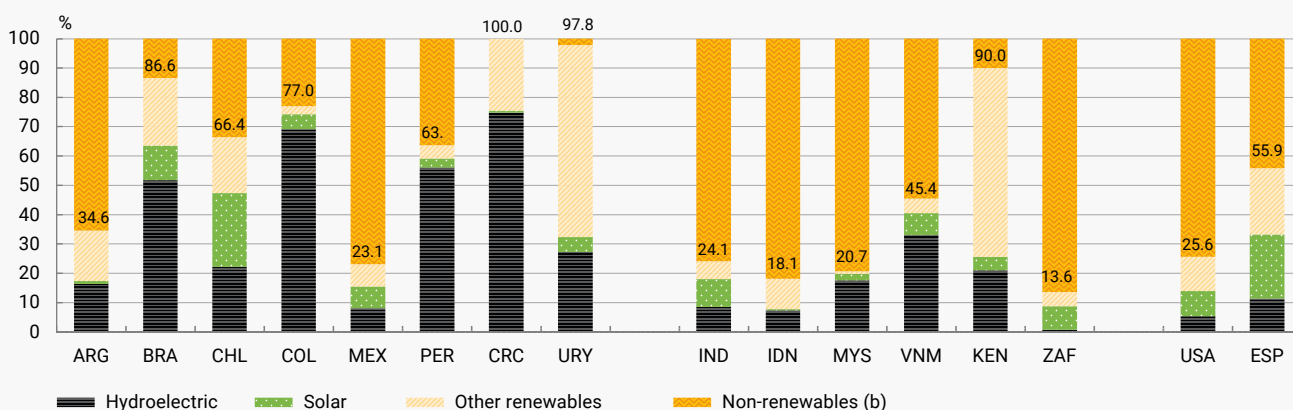
complementary investment in telecommunications, energy and digital infrastructure, and shores up the competitiveness of host economies by facilitating the digital transformation of firms and general government. Similarly, data centres promote the consolidation of technology ecosystems by attracting digital firms, start-ups and specialised service providers, which can increase the productivity of the whole economy.¹⁶ Conversely, this type of investment faces a series of challenges relating to energy consumption and pressure on electricity grids, the use of natural resources, the need for proper regulatory frameworks and, in this region's case, the high degree of informal employment. All these factors may restrict growth of this type of investment.

Due to its advantages, governments in the region have committed to attracting investment in data centres. Brazil's measures are the most notable: it has implemented an industrial policy based on tax incentives (accounting for up to 0.13% of GDP) along with support measures funded by public-sector banks for firms to adopt AI. By contrast, the objective of other countries, such as Chile and Argentina, is to leave the initiative to the private sector by clarifying the

regulatory framework and reducing the administrative burden for this type of investment. Colombia and Mexico are in an intermediate position since they have applied government-sponsored incentives while leaving the initiative to the private sector. Specifically, Colombia has created some free-trade zones and Mexico has used a general-purpose instrument to harness the advantages of nearshoring (Table 3).¹⁷ Moreover, so as to bolster and highlight the advantages of the electricity generation mix, the measures announced by Brazil specifically require beneficiaries to adhere to sustainability criteria and use renewable or low-emission energy sources in order to access funding. They must also meet certain water and electricity efficiency requirements. The Brazilian Artificial Intelligence Plan (PBIA) identifies providing Brazil with an AI infrastructure powered by renewable energy as a strategic objective, and the construction of data centres is explicitly linked to the availability of renewable energy. Similarly, Chile's plan highlights the availability of abundant renewable energy as one of the country's advantages for building data centres there.

In conclusion, Latin America has joined the recent global trend of building data centres. The current situation

Chart 1
Breakdown of electricity generation mix (2025)



SOURCE: *Our World in Data*.

16 Alvarez, Argente, Chow and Van Patten (2026) ("Data Centers and Local Economies in the Age of AI: A Shift-Share Approach". NBER Working Paper 35194), using data from US counties, show positive effects on employment, local income and salaries but also find house and electricity prices increase. The extensive IDB report (2022), drawing on local studies, includes several reference cases corroborating the impact of these data centres on activity and employment.

17 Compared with the strategies of other emerging market economies, Brazil's measures are similar to those of Korea and India, which have also announced tax incentives, energy discounts and investment subsidies.

Box 1

DATA CENTRES IN LATIN AMERICA: INSTALLED CAPACITY, ANNOUNCED EXPANSION, POTENTIAL ADVANTAGES AND CONSTRAINTS (cont'd)

shows that there is relatively limited installed capacity concentrated in a few countries, but the investment plans that have been announced indicate that it will increase substantially. Renewable electricity and the government support measures implemented by certain countries have clear advantages. Nevertheless, investment in data centres faces a series of challenges

relating to the availability of sufficient electricity; access to water resources for which there are competing alternative uses, that could generate opposition from society; regulatory obstacles, that governments are seeking to reduce through the specific plans described above; and skilled labour shortages in certain specific segments.

Table 3
Main measures announced to incentivise AI investment in the region

	Main measures announced	Cost (% of GDP)	Potential investment linked to measures
Brazil	ReDATA: (tax incentives). PBIA (Brazil's 2024-28 Artificial Intelligence Plan). Fund for AI-intensive startups.	0.13 (a)	\$92 billion (3.7% of PIB) from 2025 to 2031.
Mexico	National Artificial Intelligence Plan. 2025-30 Sector programme of the Digital Transformation and Telecommunications Agency. Plan Mexico: attracting investment in data centres; nearshoring.	N.A.	\$7 billion in data centres during 2023-27 (0.4% of GDP).
Chile	2024-30 Data Centre National Plan: legal certainty, simplification of permits and harnessing of renewable energies.	N.A.	\$4.2 billion (1.2% of GDP) and 28 new data centres in 2030.
Colombia	CONPES 4144 (2025) (National Artificial Intelligence Policy). Policy to attract data centres: tax benefits, simplification of regulations.	0.03	N.A.
Argentina	Super RIGI (Incentive regime for large investments): tax incentives and regulatory stability. Stargate Argentina.	N.A.	Up to \$25 billion (4% of GDP). Projects announced by OpenAI.

SOURCES: IDB (2025), Standard and Poor's (2026) and national sources.

a The government estimated a further 0.03% of GDP in tax exemptions under ReDATA in 2027 and 2028.

Box 2

ARGENTINA: HEADWAY IN THE STABILISATION PROCESS AND CHALLENGES FOR GROWTH

Argentina has made headway with macroeconomic stabilisation: inflation is down, the exchange rate is more stable and reserves are being accumulated. Yet these achievements coexist with weak activity and persistent financial and fiscal risks. The challenge is to cement the stability and transform it into investment, employment and steady growth. Structural reforms may help achieve this aim, although weak demand and tax revenue make it more difficult to sustain the recovery and the fiscal balance.

Headway in stabilisation, although risks remain high

Argentina has continued to make progress in macroeconomic stabilisation, although some vulnerabilities persist. Monthly

inflation resumed its downward path, reaching 1.7% in August, half the March figure (3.4%), and core inflation also fell below 2%. These developments were accompanied by greater exchange rate stability and reserve accumulation (Charts 1, 2 and 3).

The Argentine peso has remained relatively stable in recent months, limiting one of the main channels through which inflationary pressures are transmitted. Meanwhile, the Central Bank of Argentina (BCRA) has maintained a net purchasing position in the foreign exchange market since the beginning of the year, accumulating purchases of around USD 14 billion up to September 2026. In addition,

Chart 1
Inflation

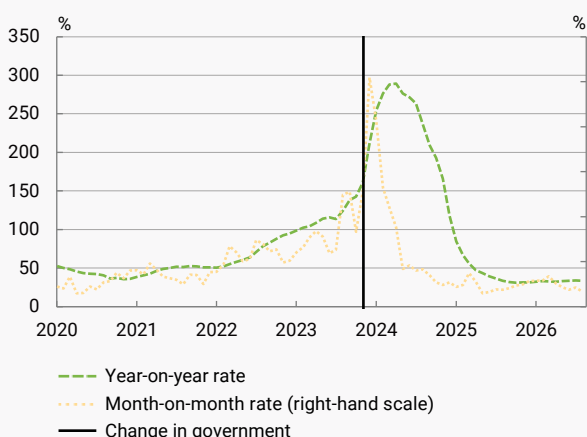


Chart 2
Foreign exchange reserves

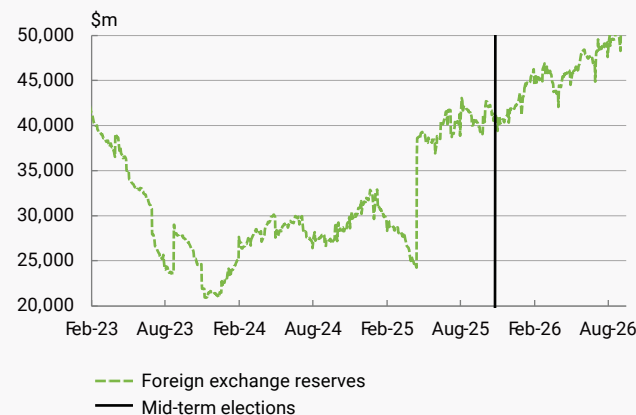
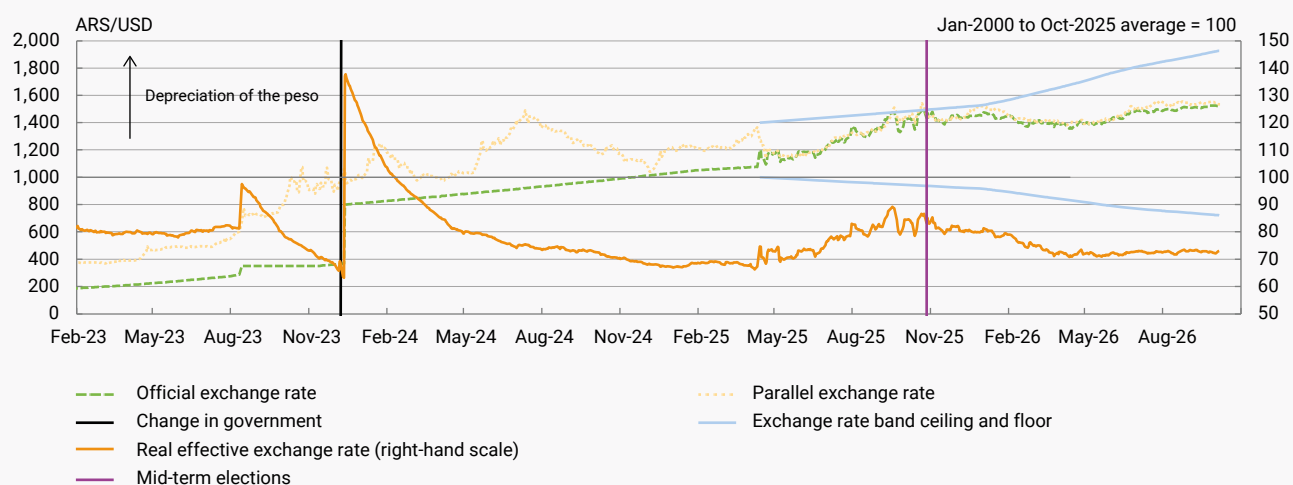


Chart 3
Exchange rates



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

Box 2

ARGENTINA: HEADWAY IN THE STABILISATION PROCESS AND CHALLENGES FOR GROWTH (cont'd)

the main wholesale market interest rates have declined to 20%-24%, compared with levels above 33% at the beginning of the year.¹ The increase in international reserves, together with the improvement in financial conditions, has helped to strengthen macro-financial stability and perceptions of the country's creditworthiness.²

The reform of the Charter of the BCRA could help consolidate this progress. Its main amendments include a prohibition on the monetary financing of the Treasury, limits on the use of reserves for fiscal purposes and a redefinition of the BCRA's mandate.³

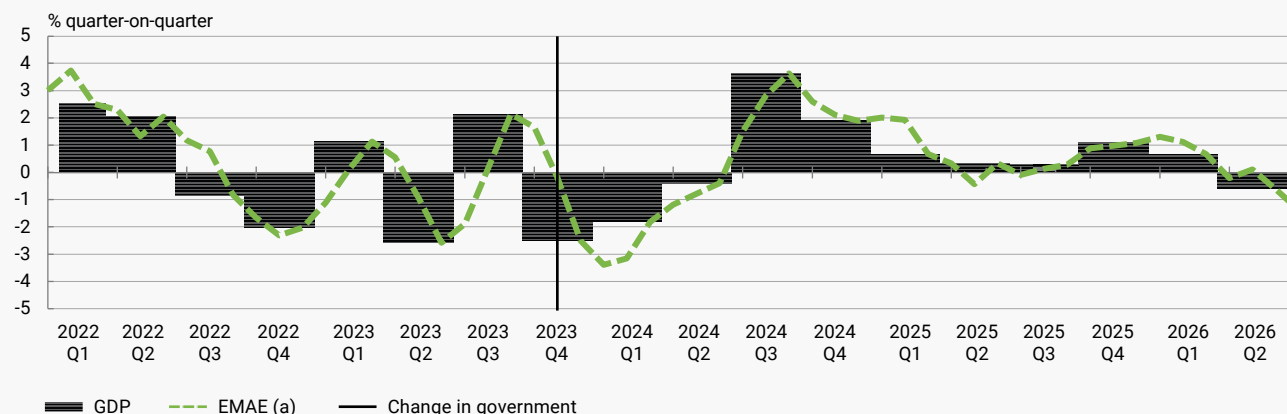
Nevertheless, stabilisation remains fragile. Inflation expectations for 2026 increased from around 22% year-on-year at the beginning of the year to close to 30% in August, pointing to slower disinflation than expected in early 2026. Furthermore, the tightening of financial conditions worldwide and rising political uncertainty ahead of the 2027 presidential elections could test the improvement in financial conditions observed in recent months, particularly with a very heavy public debt redemption schedule looming in 2027.

Weak economic activity

The progress made in consolidating the stabilisation process has coincided with a loss of momentum in economic activity during 2026, amid fiscal consolidation and monetary tightening. After growing by barely 0.7% quarter-on-quarter in 2026 Q1, GDP contracted by 0.6% in Q2, its first decline in two years (Chart 4). This was mainly attributable to a deterioration in domestic demand: private consumption fell by 2.4% and investment by 0.8%, the latter declining for the fifth consecutive quarter. The latest data suggest that this loss of momentum continued into the beginning of the third quarter, with July's leading indicator for activity recording a further broad-based decline. At the same time, consumer confidence fell by 14% between January and August,⁴ amid a deterioration in disposable income and greater household pessimism, factors that continue to weigh on consumption decisions.

The labour market also deteriorated. The unemployment rate rose again in Q2 and the informal employment rate increased from 43.2% to 45.0% in barely a year. Overall,

Chart 4
Economic activity



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

a The EMAE is an economic activity index published by Argentina's National Institute of Statistics and Censuses (INDEC). Its quarter-on-quarter rate of growth is considered a sound leading indicator of Argentina's GDP.

- Under the current monetary framework, which is based on the control of monetary aggregates, there is no benchmark policy rate.
- The three rating agencies (Fitch, S&P and Moody's) upgraded Argentina to B-.
- The reform was adopted by the Senate, but contained amendments to laws on the appointment and removal of central bank officials, requiring the draft Charter to return to the House of Representatives for these changes to be ratified.
- Universidad Torcuato Di Tella's consumer confidence index.

Box 2

ARGENTINA: HEADWAY IN THE STABILISATION PROCESS AND CHALLENGES FOR GROWTH (cont'd)

these figures depict an economy struggling to achieve a sustained recovery in activity and domestic demand.

On the supply side, pronounced sectoral heterogeneity persists (Chart 5). Energy, mining and agriculture remain highly buoyant, but they are relatively capital-intensive activities, with limited capacity to create jobs. By contrast, more labour-intensive sectors – such as construction, trade and manufacturing – continue to lag behind. Construction has been hit hard as public works have come to a standstill, while manufacturing faces greater competition from imports amid the peso's real appreciation.

The loss of momentum is also starting to strain the public finances, the economic programme's main anchor.⁵ Lower activity and weak consumption limit tax revenue. Therefore, the main challenge is to preserve the progress made in stabilisation and the fiscal balance, while fostering a more robust economic recovery.

From stabilisation to growth: the role of reforms

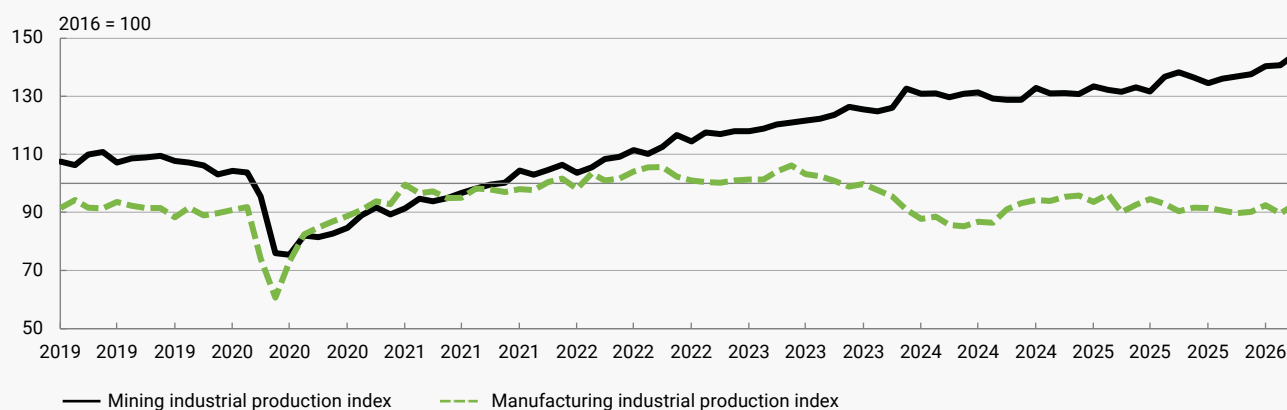
The structural reforms under way could help to raise the economy's potential growth and spur a steadier recovery

in investment and employment. To date, the measures have largely focused on deregulation and reducing administrative hurdles (Table 1). However, in 2026 more far-reaching reforms have started to take shape, geared towards changing some of the general frameworks governing how the economy works. Specifically, the labour market reform, in force since March 2026, aims to make the labour market more flexible through changes to hiring and severance arrangements, a reduction in non-wage labour costs and changes to the trade union framework.

In parallel, the reform of the Charter of the BCRA, which is still pending final approval, seeks to consolidate stabilisation at the institutional level by strengthening the price stability mandate and limiting monetary financing of the Treasury.

This agenda is complemented by public sector reorganisation, privatisation and new measures to open up trade and deregulate specific sectors. The challenge is no longer merely to stabilise the economy, but to transform that stability into investment, employment and sustained growth.⁶

Chart 5
Production indices



SOURCE: INDEC.

5 The National Public Sector recorded a fiscal deficit in June 2026, the first June of La Libertad Avanza's mandate with a primary deficit. In any event, the Government's draft budget for 2027 targets a fresh overall fiscal surplus of 0.2% of GDP for the Federal Government.

6 Elena Vidal. (2026). "Box 2. The macroeconomic stabilisation plan in Argentina". *Report on the Latin American economy. First half of 2026 - Banco de España*.

Box 2

ARGENTINA: HEADWAY IN THE STABILISATION PROCESS AND CHALLENGES FOR GROWTH (cont'd)

Table 1

Main structural reforms aimed at boosting market access and competition (December 2023-September 2026) (a)

Date	Public sector reforms and elimination of red tape
July 2024: Law 27,742	Authorises the Executive to close or restructure public sector entities (with various exceptions) and allows the full or partial privatisation of certain state-owned enterprises and a greater use of concession contracts
July 2024: Law 27,742	Reforms the administrative procedure to make it quicker, simpler, more effective and more efficient, incorporating positive administrative silence in certain circumstances
August 2024: Decree 747/2024	Eliminates frameworks that required the central government to procure certain goods and services from state-owned enterprises and allows competitive procurement processes involving private suppliers
July 2025: General Resolution 1073/2025	Speeds up procedures for firms seeking funding on the capital market
August 2025: Resolution 1199/2025	Allows provinces, municipalities and the City of Buenos Aires to continue projects by assuming their funding when the central government does not cover the expected outlays
February 2026: General Resolution 5824/2026	Updates the invoicing regime and allows monthly electronic settlements, in order to automate the collection of information required for VAT and income tax returns and reduce administrative burdens
June 2026: General Resolution 5/2026 of the Inspección General de Justicia	Advances the digitalisation of the companies register: eliminates paper copies for several procedures and allows the issuance and submission of entries with a digital signature, thereby reducing in-person formalities and duplicate documentation
Labour market reform	
July 2024: Law 27,742	Introduces a simplified labour register, removes certain penalties for undeclared employment and permits alternative employment termination schemes agreed in collective agreements, among other changes
February 2026: Labour Modernisation Law	Increases flexibility in employment termination arrangements and allows for collective bargaining at firm level
Investment and sectoral reforms	
July 2024: Law 27,742	Creates the Incentive Regime for Large Investments (RIGI), with benefits and regulatory stability for large-scale projects in sectors such as energy, mining, infrastructure, forestry, tourism and technology
July 2024: Law 27,742	Reforms the energy framework, extending freedom of contract and exports and adjusting the regulation of hydrocarbons, gas and electricity
July 2025: Decree 452/2025	Creates the National Gas and Electricity Regulatory Authority (ENReGE), combining the functions of Enargas and ENRE in a single regulator
August 2025: Decree 538/2025	Simplifies processes and administrative frameworks linked to the food sector and accelerates the process to update the Argentine Food Code
May 2026: General Resolution 4/2026 of the Inspección General de Justicia	Simplifies the foreign companies register framework: reduces documentation requirements, allows apostilled digital documentation and speeds up registrations, branches and legal representation
June 2026: General Resolutions 1145-1150/2026 of the Comisión Nacional de Valores	Extends automatic authorisation of offers to the public for marketable debt securities, shares, financial trusts and funds, largely replacing pre-approval with ex post audits
June 2026: Decree 482/2026	Updates the regulations implementing the Mining Investment Law: digitalises procedures, replaces pre-approvals with affidavits in certain cases and simplifies access to tax benefits
July 2026: Resolution 49/2026	Establishes a permanent and transparent framework for allocating national and international air traffic capacity and frequency, cementing the open skies policy

SOURCES: Ministerio de Desregulación y Transformación del Estado and OECD. (2025). *OECD Economic Surveys: Argentina 2025*.

a A total of 770 deregulation measures have been implemented to September 2026.

Box 2

ARGENTINA: HEADWAY IN THE STABILISATION PROCESS AND CHALLENGES FOR GROWTH (cont'd)

Table 1

Main structural reforms aimed at boosting market access and competition (December 2023-September 2026) (a) (cont'd)

	Trade liberalisation
December 2023: Resolution 1/2023	Abolishes the automatic and non-automatic import licensing framework and eliminates the need to process Argentine System of Imports (SIRA) requests
May 2024: Resolution 302/2024	Eliminates tariff-rate quotas for wheat and maize
August 2024: Decree 697/2024	Reduces or eliminates export duties on certain agricultural products
October 2024: Decree 908/2024	Reduces import tariffs on certain goods and eliminates reference export values
December 2024: Expiry of Law 27,541	Expiration of the PAIS tax on imports as the law lapsed
January 2025: Decree 33/2025	Reforms the anti-dumping system and limits the maximum duration of the measures to five years
September 2025: Resolution 357/2025	Eliminates 27 additional rules to the Supply Law, which established price controls and reporting and production requirements
October 2025: Resolution 546/2025	Simplifies vehicle imports by recognising international environmental certifications and certificates from accredited laboratories
December 2025: Decree 892/2025	Recognises international certifications, trials and standards for several imported goods, avoiding duplicate domestic certification
April 2026: Decree of Necessity and Urgency (DNU) 252/2026	Extends the In-Plant Customs Regime industry-wide, deferring or eliminating taxes on imported inputs depending on the destination of the end-product and eliminating prior sectoral agreements
January 2026: Decree 333/2025	Eliminates tariffs on imported mobile phones
May 2026: General Resolution 5842/2026 of the Agencia de Recaudación y Control Aduanero	Allows certain customs guarantees to be pledged via a digital affidavit in the system, reducing intermediation, financial costs and administrative burdens
July 2026: Resolutions 166/2026 and 593/2026	Eliminates procedures to export oil and gas and animal products
July 2026: Decree 604/2026	Eliminates caps on postal exports

SOURCES: Ministerio de Desregulación y Transformación del Estado and OECD. (2025). *OECD Economic Surveys: Argentina 2025*.

a A total of 770 deregulation measures have been implemented to September 2026.

Box 3

PUBLIC DEBT EXPANSION AND BANK CAPITALISATION IN LATIN AMERICA: THE ROLE OF INSTITUTIONAL QUALITY¹

Rising public debt strengthens the sovereign-bank nexus, particularly in Latin America, where banks have relatively high exposure to government debt. A key variable is institutional quality: in countries with better regulation, losses arising from fiscal deterioration are recognised earlier, whereas in weaker regulatory environments, balance sheet adjustment is delayed and may hide vulnerabilities. Therefore, during episodes of fiscal stress, bank capital ratios, regulatory quality and other prudential indicators should be monitored to properly assess the solvency of the financial system.

The interplay between public finances and financial system stability has become increasingly important in recent years. The rise in public debt across numerous economies has strengthened the sovereign-bank nexus, increasing financial institutions' exposure to developments in the fiscal position. Although government debt issuance is a standard instrument for financing governments, persistent increases in indebtedness may worsen perceptions of sovereign risk and affect the strength of bank balance sheets, especially in economies where government securities account for a significant share of banks' assets.

In Latin America, this nexus is particularly important. Financial markets are characterised by the large share of savings intermediation conducted by banks, and by credit institutions' significant participation in domestic sovereign

debt markets. In 2024, bank exposures to the public sector accounted for around 17% of bank assets in emerging market economies, compared with approximately 6%-7% in advanced economies.² As for Latin America, Argentina, Guyana, Mexico and Brazil recorded public sector exposures exceeding 20% of bank assets; El Salvador and Guatemala recorded exposures of between 10% and 20%; and Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, Honduras, Nicaragua, Panama, Paraguay, Peru and Uruguay had exposures below 10% (Table 1).³

Against this background, the financial system's capacity to weather episodes of fiscal stress is central to preserving financial stability and preventing a deterioration in public finances from ultimately amplifying fluctuations in the financial cycle. An increase in public debt may affect banks through various channels. A deterioration in the fiscal position is usually accompanied by higher sovereign risk premia, valuation losses in government debt portfolios, tighter financing conditions and a worsening macroeconomic outlook. These factors may simultaneously weaken the value of bank assets and the credit quality of households and firms, reducing banks' capacity to absorb losses and maintain the flow of credit to the economy. Farhi and Tirole (2018)⁴ formalise these amplification mechanisms and show that their intensity increases with the home bias of banks' portfolios.

Table 1
Public debt, banking system and regulatory quality

Countries	Bank claims on the non-financial public sector as a percentage of total assets	Average public debt-to-GDP ratio	Regulatory quality dimension (a)
Advanced economies	6%	107.6%	1.24
Emerging economies	17%	69.9%	-0.39
Latin America	12%	70%	-0.15

SOURCE: Wezel, Barrail and Dehmej (2026) for the second column, IMF World Economic Outlook (WEO) for the third column, and the regulatory quality dimension of the World Bank's worldwide governance indicators for the fourth column.

a The regulatory quality dimension ranges from -2.5 (lowest quality) to +2.5 (highest quality).

¹ In collaboration with Carlos Giraldo (Latin American Reserve Fund), Iader Giraldo (Latin American Reserve Fund), José E. Gómez-González (City University of New York and Universidad de La Sabana) and Jorge M. Uribe (Universitat Oberta de Catalunya).

² By region, the highest average exposures in 2024 were observed in sub-Saharan Africa and in the Middle East and Central Asia, both at close to 22% of bank assets. In Asia-Pacific and Europe they ranged from around 8% to 11%. In the western hemisphere, comprising North America, Latin America and the Caribbean, the exposure was close to 12%, after declining to 9% for much of the 2010s and rising again after the pandemic. For further details of this analysis, see T. Wezel, Z. Barrail and S. Dehmej. (2026). "The Sovereign-Bank Nexus in Emerging Markets and Developing Economies: Trends, Determinants, and Macrofinancial Implications". IMF Working Paper, 2026/113.

³ These data cover central and sub-national government and non-financial public corporations, and are therefore broader than the general government debt measure used in the econometric exercise in this box.

⁴ E. Farhi and J. Tirole. (2018). "Deadly Embrace: Sovereign and Financial Balance Sheets Doom Loops". *The Review of Economic Studies*, 85(3), pp. 1781-1823.

Box 3

PUBLIC DEBT EXPANSION AND BANK CAPITALISATION IN LATIN AMERICA: THE ROLE OF INSTITUTIONAL QUALITY (cont'd)

However, the strength of the nexus may also depend on each economy's institutional quality and, in particular, on the quality of its regulatory and supervisory framework, insofar as both play a decisive role in determining how these shocks are reflected on bank balance sheets. Stronger frameworks may help identify asset deterioration at an early stage, require provisioning or recapitalisation, and support a more orderly balance sheet adjustment. In weaker institutional environments, regulatory forbearance, delayed loss recognition and constraints on recapitalisation may shift the adjustment further into the future. Consequently, two banking systems with similar exposures may follow very different capitalisation paths after the same deterioration in the fiscal position.⁵

In the context of Latin America, this box discusses the findings of Giraldo, Giraldo, Gómez-González and Uribe (2026),⁶ who estimate how banks' equity-to-assets ratios respond to changes in the public debt-to-GDP ratio and how that response varies with each country's institutional quality. To this end, the local projection methodology proposed by Jordà (2005)⁷ is used, adapted to a panel data structure with bank-level fixed effects (Jordà, Schularick and Taylor, 2020;⁸ Adämmmer, 2019⁹). The dependent variable is the equity-to-total-assets ratio¹⁰ of

each bank,¹¹ while the regressor of interest is each country's public debt-to-GDP ratio.¹² This approach estimates directly the path of bank capitalisation following an increase in public debt, without imposing restrictions on the dynamics of the adjustment process. It is especially suitable when the focus is on comparing the speed and scale of the response in different institutional environments.

To verify whether the link between bank capital and public debt varies based on institutional quality levels, the analysis uses the state-dependent local projection approach of Auerbach and Gorodnichenko (2012, 2013).¹³ This approach uses a logistic function to identify two representative states of regulatory quality, corresponding to the 25th and 75th percentiles of the regulatory quality dimension of the worldwide governance indicators.¹⁴ The analysis also includes bank-level fixed effects and a set of macroeconomic control variables, such as real GDP growth and inflation, together with bank-specific characteristics including size, profitability and portfolio quality. The available sample covers the period 2000-24 and includes 2,462 banks from 139 countries and 23,305 bank-year observations (for further details, see Giraldo, Giraldo, Gómez-González and Uribe, 2026).

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- 5 The literature also identifies structural factors that may interact with institutional quality. In emerging market economies, shallow capital markets, limited access to external funding, a significant presence of state-owned banks and favourable prudential treatment of sovereign debt may strengthen the nexus. Wezel, Barrail and Dehmej (2026) find that public debt, deposit rates and non-performing loans are robust correlates of banks' sovereign exposures.
 - 6 C. Giraldo, I. Giraldo, J. E. Gómez-González and J. M. Uribe. (2026). "Bank capital adjustment to public debt shocks: The role of institutions in emerging markets". *Emerging Markets Review*, 73, 101497.
 - 7 Ò. Jordà. (2005). "Estimation and inference of impulse responses by local projections". *American Economic Review*, 95(1), pp. 161-182.
 - 8 Ò. Jordà, M. Schularick and A. M. Taylor. (2020). "The effects of quasi-random monetary experiments". *Journal of Monetary Economics*, 112, pp. 22-40.
 - 9 P. Adämmmer. (2019). "Ipirfs: an R package to estimate impulse response functions by local projections". *The R Journal*, 11(2), pp. 421-438.
 - 10 Also known as the equity ratio. It measures the share of a company's assets financed by equity rather than debt.
 - 11 This measure prevents the favourable regulatory treatment of sovereign debt, which often receives low or zero risk weightings, from concealing balance sheet strains. At the same time, a change in the ratio may stem from changes in either equity or the volume of assets, meaning that an increase does not necessarily imply improved solvency.
 - 12 Most empirical evidence on the so-called sovereign-bank nexus has focused on market variables, such as sovereign risk premia, government bond spreads or the share prices of financial institutions (see, for example, J. E. Gómez-González, J. M. Uribe, O. M. Valencia and B. Kim. (2025). "Doom loops in Latin America". *Emerging Markets Review*, 68, 101334). Although these indicators can be used to assess market perceptions of risk, they provide only a partial view of the implications of fiscal deterioration for banking system solvency. From a financial stability perspective, it is equally important to analyse how banks' capital levels evolve, since capitalisation is the first line of defence against unexpected losses and determines the banking system's capacity to continue financing the economy during episodes of stress.
 - 13 A. J. Auerbach and Y. Gorodnichenko. (2012). "Measuring the output responses to fiscal policy". *American Economic Journal: Economic Policy*, 4(2), pp. 1-27. A. J. Auerbach and Y. Gorodnichenko. (2013). "Output spillovers from fiscal policy". *American Economic Review*, 103(3), pp. 141-146.
 - 14 This dimension summarises the government's ability to formulate and implement policies and the predictability of the regulatory environment, but does not directly measure the intensity or effectiveness of banking supervision (D. Kaufmann, A. C. Kraay and M. Mastruzzi (2011). "The worldwide governance indicators: Methodology and analytical issues". *Hague Journal on the Rule of Law*, 3(2), pp. 220-246).
Consequently, timely loss recognition, supervisory action and recapitalisation are mechanisms consistent with the estimated responses. Moreover, given this identification strategy, the estimates should be interpreted as conditional dynamic associations, rather than as the causal effects of exogenous fiscal shocks.

Box 3

PUBLIC DEBT EXPANSION AND BANK CAPITALISATION IN LATIN AMERICA: THE ROLE OF INSTITUTIONAL QUALITY (cont'd)

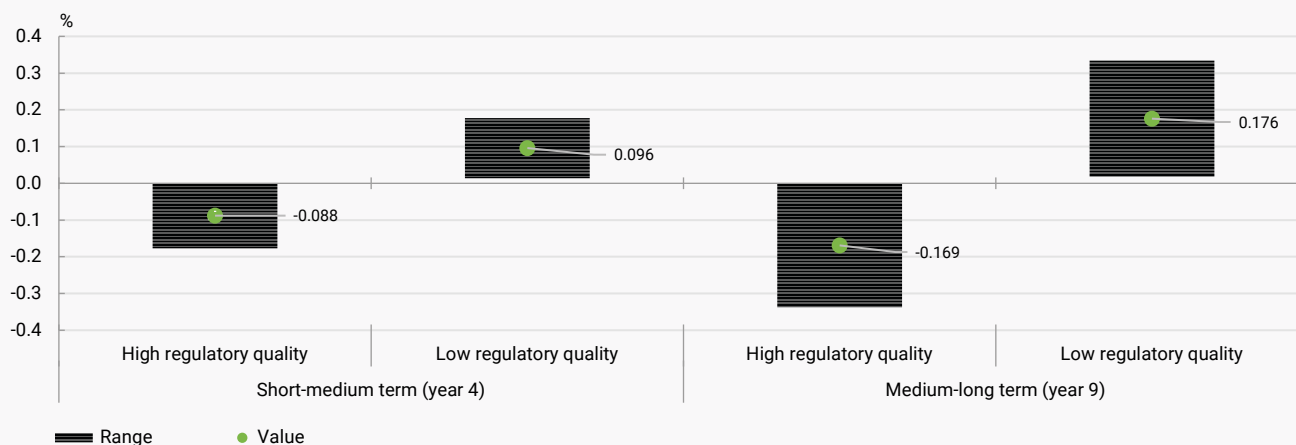
The results show that institutional quality is key to interpreting the banking system's response to bouts of growth in public debt. In economies with sounder regulatory frameworks, fiscal deterioration tends to be reflected relatively quickly in lower bank capital ratios, a behaviour consistent with earlier loss recognition and more demanding prudential supervision. Conversely, in countries with lower regulatory quality, the adjustment is more gradual and capital ratios may even increase temporarily. Far from being interpreted as an unequivocal sign of greater financial strength, this pattern is consistent with slower adjustment processes, a contraction of bank balances sheets and recapitalisations following an increase in sovereign risk. This delay in adjusting balance sheets in low quality regulatory settings prevents them from being corrected in an orderly fashion and allows weaknesses to build up, exposing the financial system to a potentially severer and more disorderly erosion of capital in the medium term. Consequently, changes in bank capitalisation following a deterioration in public finances should be interpreted considering the institutional environment in which the financial system operates.

This divergence in regulations is shown in particular when the quantitative results for emerging market economies

are analysed over key time frames. Over the short to medium term (year 4), following a one percentage point (pp) expansionary shock in public debt, the capital ratios of banks operating in high quality regulatory environments fall immediately by -0.088 pp, as banks write down their sovereign assets in a transparent and timely manner. By contrast, in low quality regulatory regimes, their capital ratio increases by 0.096 pp. Looking at the longer term (year 9), the gap between the two regimes virtually doubles. Whereas in systems with sound supervision capital contracts further to -0.169 pp, in weak institutional environments the ratio rises artificially to peak at +0.176 pp (Chart 1). This accumulated accounting gap of almost 0.35 pp between the two regimes does not mean that weak institutional environments are genuinely strong, but that the recognition of unrealised losses is delayed and that the allocation of assets on balance sheets is distorted. According to these results, changes in the banking sector's actual solvency following a deterioration in the fiscal position may be misinterpreted if the institutional framework is not taken into account.

From a financial stability standpoint, this evidence indicates that institutional quality may affect both the time when strains appear on bank balance sheets and

Chart 1
Regulatory quality determines the speed and direction of the capital adjustment (a)



SOURCE: Giraldo, Giraldo, Gómez-González and Uribe (2026).

a Chart based on local projections estimations (Panel C: emerging market economies). It shows the estimated impact on banks' capital ratio of a +1 pp shock to the debt-to-GDP ratio. In high regulatory quality environments losses are recognised immediately and reduce capital. In low quality regulatory environments, the delay in recognising losses or their concealment temporarily inflates capital.

Box 3

PUBLIC DEBT EXPANSION AND BANK CAPITALISATION IN LATIN AMERICA: THE ROLE OF INSTITUTIONAL QUALITY (cont'd)

their scale.¹⁵ Monitoring the sovereign-bank nexus should therefore combine several indicators and pay due attention to heterogeneity across countries and institutions. More specifically, in order to interpret bank solvency indicators during bouts of fiscal stress, the characteristics of institutions and, particularly, the regulatory capacity of each economy need to be considered so as to properly assess developments in the solvency of its banks.¹⁶

In Latin America, where some banking systems are highly exposed to sovereign risk and average regulatory quality is lower than in advanced economies,¹⁷ fiscal stress may gradually feed through to bank balance sheets but not be reflected immediately in capital ratios. Macroprudential oversight should therefore complement those indicators of bank solvency with information on government debt holdings, their accounting valuation, provisions, changes in credit and in balance sheet size.

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- 15 It should be noted that the equity-to-assets ratio considered in this box should be analysed together with banks' sovereign debt holdings, the accounting treatment of these holdings, changes in equity and assets, profitability, provisions and regulatory capital measures. This overall picture would determine whether the ratio increases due to stronger capital, a recapitalisation or, conversely, a balance sheet contraction. In other words, isolated developments in this indicator do not, by themselves, provide a conclusive diagnosis of banks' solvency and resilience.
- 16 In this regard, it should be emphasised that the differences associated with the regulatory quality dimension should be understood as evidence of institutional heterogeneity, and not as causal identification of the effect of regulation or of banking supervision. This dimension summarises general aspects of governments' ability to formulate and implement policies, but does not directly measure the intensity or effectiveness of prudential supervision. Therefore, the mechanisms relating to loss recognition, balance sheet transparency and recapitalisation should be presented as interpretations which are consistent with the findings and not as channels which are identified empirically.
- 17 According to the regulatory quality dimension of the worldwide governance indicators, on a scale of -2.5 (lowest quality) to +2.5 (highest quality), the average for advanced economies is around 1.2 but for Latin American countries it is approximately -0.1, with low cross-country dispersion.

Box 4

INNOVATIONS IN LATIN AMERICA'S PAYMENT SYSTEMS

Latin America has become a testing ground for payment system innovations, with central bank-led initiatives that combine digitalisation, speed and financial inclusion. The foremost example is Pix in Brazil, which is used by 80% of the population and has become one of the world's most widely adopted instant payment systems. The Central Reserve Bank of Peru's central bank digital currency (CBDC) project is primarily aimed at advancing financial inclusion by enabling the unbanked population to make digital payments, including in areas with poor connectivity or without access to smartphones. Regional integration is the next major challenge. The Central American Payment Interconnection System (SIPA) has shown that interoperability between national infrastructures can deliver faster and cheaper cross-border payments and foster regional financial integration through central bank cooperation.

The digital transformation of the retail payment ecosystem is advancing rapidly worldwide. In recent years, the sector has undergone far-reaching changes driven by innovation, digitalisation and the adoption of new technologies, in response to growing demand for payment solutions that are faster, more efficient, interoperable and accessible, while fostering financial inclusion.

Latin America is no exception to the transformation of payment systems. Among the region's leading initiatives are Brazil's Pix, which has accelerated the adoption of instant payments; the Central Reserve Bank of Peru's CBDC project, aimed at advancing financial inclusion; and

SIPA, a regional infrastructure designed to facilitate cross-border payments. This box examines these three experiences and presents some conclusions.

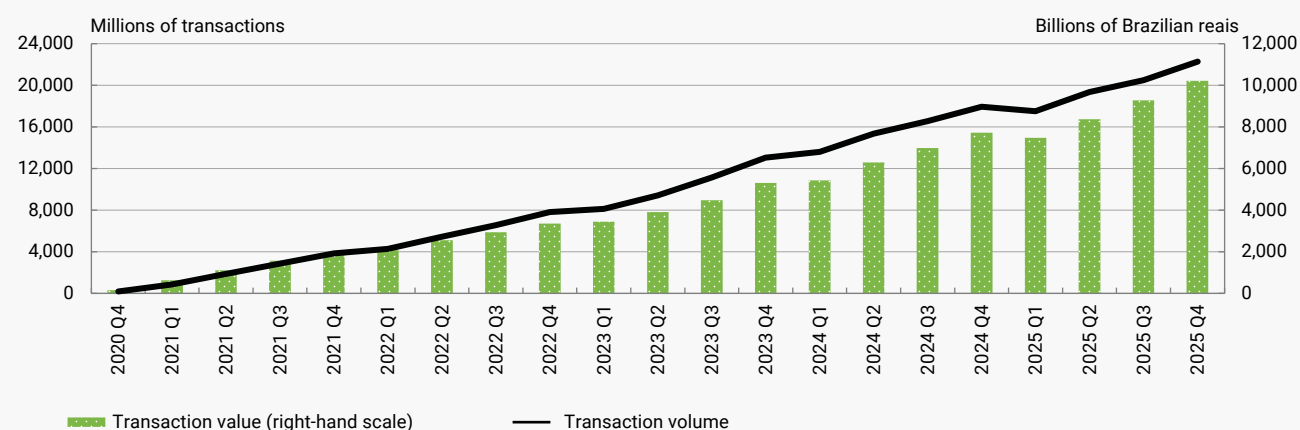
Pix: a global benchmark for instant payments

The Banco Central do Brasil (BCB) launched Pix in 2020 as part of Brazil's instant payment ecosystem to enable individual users, businesses and government agencies to send and receive payments in Brazilian reais within seconds, around the clock, including on non-business days.

The BCB is responsible for managing both the settlement infrastructure – Instant Payment System (SPI) – and the database of user identifiers or aliases – Transaction Account Identifier Directory (DICT) –. As the owner of the instant payment system, it is also responsible for establishing its regulatory framework and ensuring compliance.

Its success stems from its simplicity, interoperability and low cost. Payments can be initiated using an access code linked to the user, such as a mobile telephone number, email address, tax identifier or randomly generated alphanumeric code. Pix also supports QR code payments, facilitating both person-to-person transfers and in-store and online payments. Pix is used by 80% of Brazil's population¹ and already accounts for more than 50% of non-cash payments in the country (Chart 1). Since its

Chart 1
Pix payment system growth



SOURCE: Banco Central do Brasil.

1 <https://www.elibrary.imf.org/view/journals/002/2023/289/article-A004-en.xml>.

Box 4

INNOVATIONS IN LATIN AMERICA'S PAYMENT SYSTEMS (cont'd)

launch, Brazil's electronic payment system has recorded one of the fastest adoption rates in terms of increases in per capita transaction volumes worldwide, including in comparison with systems operating in advanced economies.

The statistical evidence suggests that this system has had a significant impact on financial inclusion in Brazil, giving previously excluded population groups access to digital means of payment. According to the International Monetary Fund, in late 2022, approximately 71.5 million active Pix users (close to 40% of Brazil's adult population) had not made any electronic transfers in the year leading up to its launch. Moreover, the growth in these transactions has not reduced the use of other electronic payment channels. Between 2023 and 2025, Pix recorded cumulative growth of 91%, while card transactions also rose in cumulative terms by approximately 13% over the same period.

The Brazilian experience can be compared with that of Bizum in Spain, although there are some important differences. While Pix is a nationwide public infrastructure promoted by the central bank, Bizum is a private initiative developed by Spanish financial institutions. Pix supports several forms of user identification and makes extensive use of QR codes; Bizum relies mainly on mobile telephone numbers and near-field communication (NFC) mobile

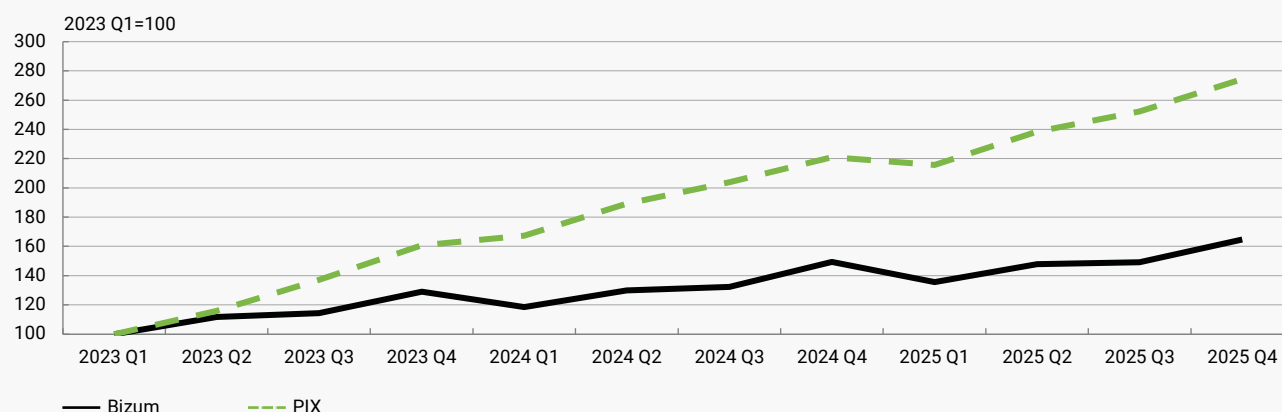
payments. In addition, at present, Bizum mainly covers person-to-person payments and, to a lesser extent, e-commerce, while Pix is a comprehensive payment platform encompassing all types of transactions. This, together with the fact that Pix operates in a payment market that was initially less mature than Spain's, helps explain why it has grown far more strongly than Bizum in recent years (Chart 2). Nevertheless, this year Bizum has started to roll out in-store point-of-sale payments, which should also boost its growth in the coming years.

Peru's digital currency project

Some countries in the region are exploring CBDCs, which are digital forms of central bank money issued directly by the central bank. Among the most prominent initiatives is the project being developed by the Central Reserve Bank of Peru (BCRP).²

After completing the research phase in 2023, the BCRP launched a pilot project and began practical assessments to determine how a CBDC could help address two of the country's main challenges: a low level of financial inclusion and the need for more efficient and secure national payment systems. The strategy is targeted primarily at people without access to banking services and sectors that rely heavily on cash, such as street vending, transport and construction.

Chart 2
A comparison of Bizum and Pix growth, by transaction volume



SOURCES: Banco Central do Brasil and Bizum.

² <https://www.bcrp.gob.pe/docs/Sistema-Pagos/cbdc/cbdc-presentacion.pdf>.

Box 4

INNOVATIONS IN LATIN AMERICA'S PAYMENT SYSTEMS (cont'd)

The BCRP developed the pilot project together with the telecommunications company Bitel, which distributes the digital money issued by the BCRP through its BiPay digital wallet. BiPay's success has led to the pilot project's extension until March 2027. By the end of 2026 Q1, BiPay had more than 4.7 million users, over 330,000 of whom were active, and had processed more than 21 million transactions since October 2024, including bill payments and transfers between individuals and businesses. In March 2026 alone, it averaged 63,600 transactions per day. One of the initiative's most innovative features is that transactions can be carried out where users do not have a smartphone or internet access. The extension is intended to allow for a more thorough assessment of the CBDC's adoption, repeated use and user retention.

One of the pilot project's most relevant findings concerns the role that non-financial corporations can play in expanding payment services. The participation of telecommunications companies can help extend the reach of digital payments and make them more accessible.

The results to date indicate that digital money has the potential to significantly broaden access to payment services, particularly in regions where financial inclusion remains a challenge.

The Peruvian experience also shows how CBDCs can serve objectives that differ from those of other initiatives, such as the digital euro in Europe. For instance, while Peru focuses on fostering financial inclusion and expanding the use of digital payments among the unbanked population, the main objective of the digital euro being developed by the Eurosystem is to preserve the role of central bank money in an increasingly digital economy, ensuring that citizens have access to a public, secure and accessible digital means of payment. It also seeks to strengthen the resilience of the European payments ecosystem, reduce strategic dependencies on external providers and boost innovation and competitiveness in the European financial sector.

SIPA: a model for regional payment interoperability

A third significant and pioneering regional initiative is the Payment Interconnection System (SIPA),³ a regional infrastructure designed to enable cross-border transfers in US dollars between Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. The

system was developed partly in response to these countries' heavy reliance on the US dollar for international payments, remittances, savings and financial intermediation. Moreover, El Salvador is a fully dollarised economy.

SIPA was launched in 2011 as an initiative of the Central American Monetary Council to modernise, harmonise and strengthen regional financial integration by connecting the national real-time gross settlement systems operated by the region's central banks. This system processes transactions such as transfers between financial institutions, international remittances, import payments and invoice settlement, at a fixed standard fee per transaction for customers, established by each participating central bank. SIPA thereby helps reduce fragmentation in the regional payments market, facilitates cross-border payments and improves the operational efficiency of participating institutions. In recent years, faster transaction processing and same-day settlement, together with enhanced security, have helped pave the way for deeper regional financial integration. Work is currently under way on the automation, operational continuity and strengthening of SIPA's future interoperability.

The Central Bank of the Dominican Republic currently manages the system and facilitates real-time settlement through a US dollar account held with a correspondent bank and funded by the participating central banks.

However, the regional distribution of flows is highly uneven. Based on the available data, most transactions originate in El Salvador (more than 90% so far in 2026), with Guatemala as the destination for over 60% in the same period. The growth seen in recent years (Chart 3) is partly explained by regulatory changes in El Salvador requiring commercial banks to make their electronic platforms compatible with this infrastructure. In addition, growth in transaction numbers has significantly outpaced growth in value, suggesting that lower-value payments are gradually being incorporated.

Compared with other developing economic regions, Central America has achieved a relatively high degree of institutional integration in cross-border payments through SIPA. Whereas cross-border payments elsewhere in Latin America still rely heavily on correspondent banking networks or bilateral arrangements, SIPA provides a

³ <https://www.secmca.org/sipa/>

Box 4

INNOVATIONS IN LATIN AMERICA'S PAYMENT SYSTEMS (cont'd)

common multilateral mechanism for settling regional transfers. Central America has opted for a model that interconnects its national systems at regional level and preserves monetary sovereignty in each jurisdiction. The euro area, by contrast, shares a currency and has progressed from a similar model of interconnected national systems to payment integration through pan-European infrastructures such as T2 and TIPS. SIPA plays a central role in advancing regional financial integration and facilitating intraregional payments, as corridor-level data (payment flows between two jurisdictions) indicate significant scope for further progress in this area.

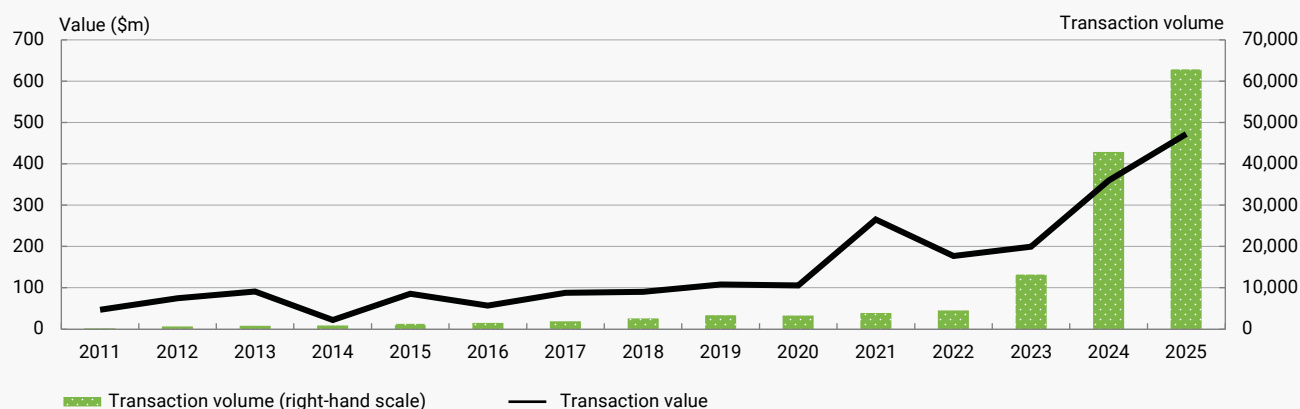
Conclusions

In conclusion, Pix in Brazil and the Central Reserve Bank of Peru's CBDC project place Latin America at the forefront of innovation in payment systems, developing central

bank-led solutions that not only incorporate new technologies but also help address one of the region's main structural challenges: financial inclusion. While Pix has driven the mass adoption of digital payments, Peru's project explores ways to expand access to modern means of payment among unbanked population segments and areas with limited connectivity. The experience of SIPA, meanwhile, focuses on regional integration, another key dimension for the future of payments in Latin America. In a region where cross-border payments remain relatively fragmented, SIPA is a pioneering model of central bank cooperation and interoperability between national infrastructures, providing valuable lessons for the rest of Latin America. The Banco de España supports this work by sharing knowledge and technical expertise with regional authorities to strengthen and further develop these payment infrastructures.

Chart 3

Payment Interconnection System (SIPA) growth



SOURCE: Executive Secretariat of the Central American Monetary Council.

ACRONYMS AND ABBREVIATIONS

AI	Artificial Intelligence
CPI	Consumer price index
EDA	Electronic design automation
EPFR	Emerging Portfolio Fund Research
EPU	Economic policy uncertainty
EU	European Union
GDP	Gross domestic product
GIIGNL	International Group of Liquefied Natural Gas Importers
GTA	Global Trade Alert
IEEPA	International Emergency Economic Powers Act
IIF	Institute of International Finance
IMF	International Monetary Fund
LNG	Liquefied natural gas
LSEG	London Stock Exchange Group
Mercosur	Mercado Común del Sur (Southern Common Market)
PPP	Purchasing power parity
ROC curve	Receiver operating characteristic curve
TTF	Title Transfer Facility
US	United States
USMCA	United States-Mexico-Canada Agreement
VAR model	Vector autoregressive model
VIX	CBOE Volatility Index
WEO	World Economic Outlook
WTI	West Texas Intermediate
bn	Billion
bp	Basis points
m	Million
pp	Percentage points
H	Half
Q	Quarter
Q-o-q	Quarter-on-quarter
Y-o-y	Year-on-year

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