



**WESTERN HEMISPHERE
DEPARTMENT**

Navigating a Shifting Global Environment

OCTOBER 2, 2025

Rodrigo Valdés
Director

Outline



I

RECENT DEVELOPMENTS

II

OUTLOOK AND RISKS

III

IN FOCUS

- MACROECONOMIC IMPACT OF UNCERTAINTY
- MONETARY-FISCAL POLICY INTERACTIONS
- RESOURCE ALLOCATION AND PRODUCTIVITY

Recent Developments

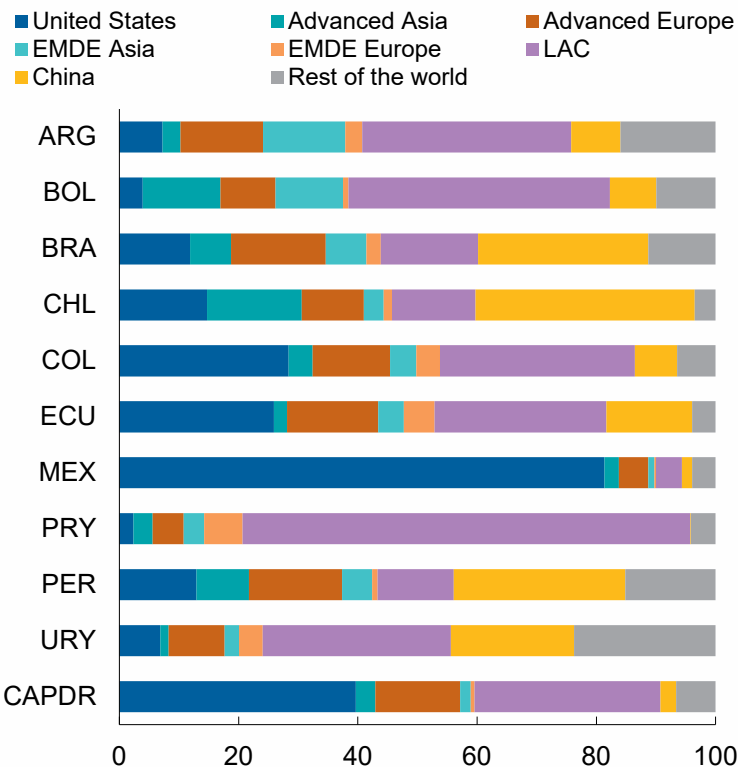
LAC is facing comparatively low US tariffs amid limited trade exposure and low participation in GVCs

Trade exposure to the US is limited in most LAC economies.

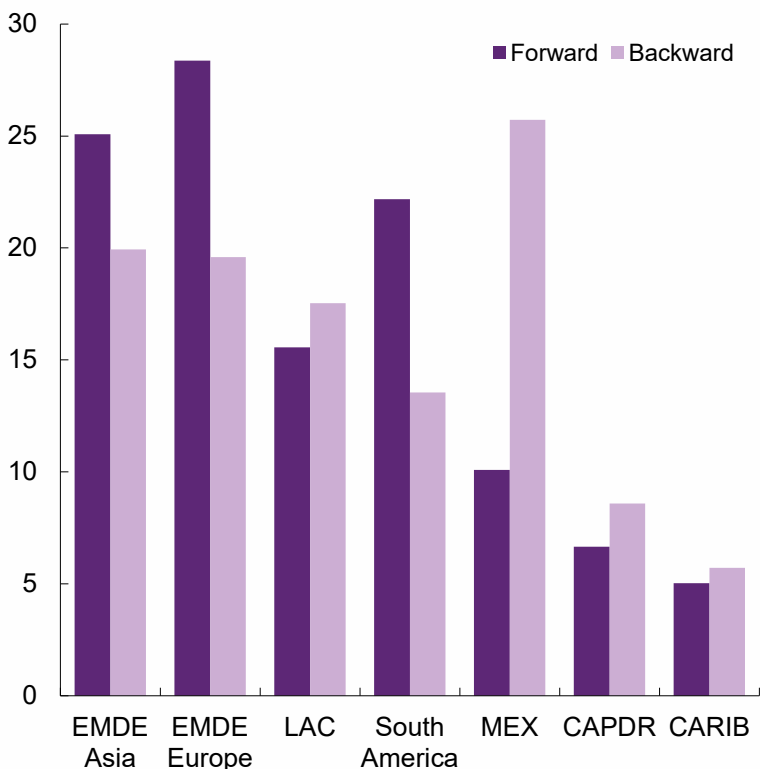
Exports are generally used less as inputs in other countries' exports relative to peers.

Tariffs in LAC are low relative to other emerging market and advanced economies.

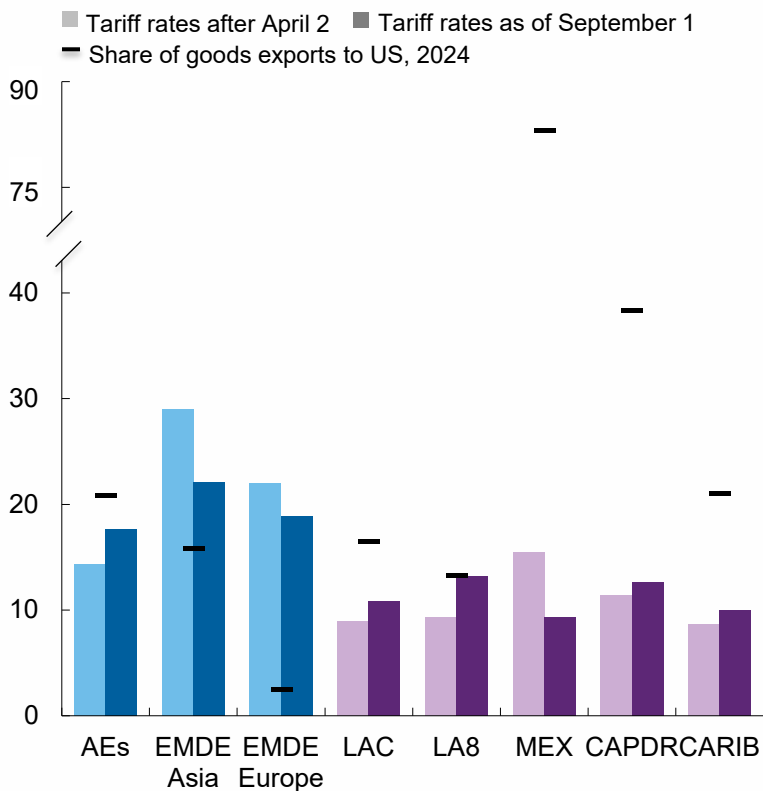
Goods Exports by Destination
(Average 2018–24; percent)



Forward and Backward GVC Participation
(Average 2015–18; percent of gross exports)



Statutory Tariff Rates and Share of US Exports
(Percent)



Sources: IMF, Direction of Trade Statistics database; and IMF staff calculations.
Note: Average for 2018–24 excludes 2020. CAPDR = Central America, Panama, and the Dominican Republic; EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean.

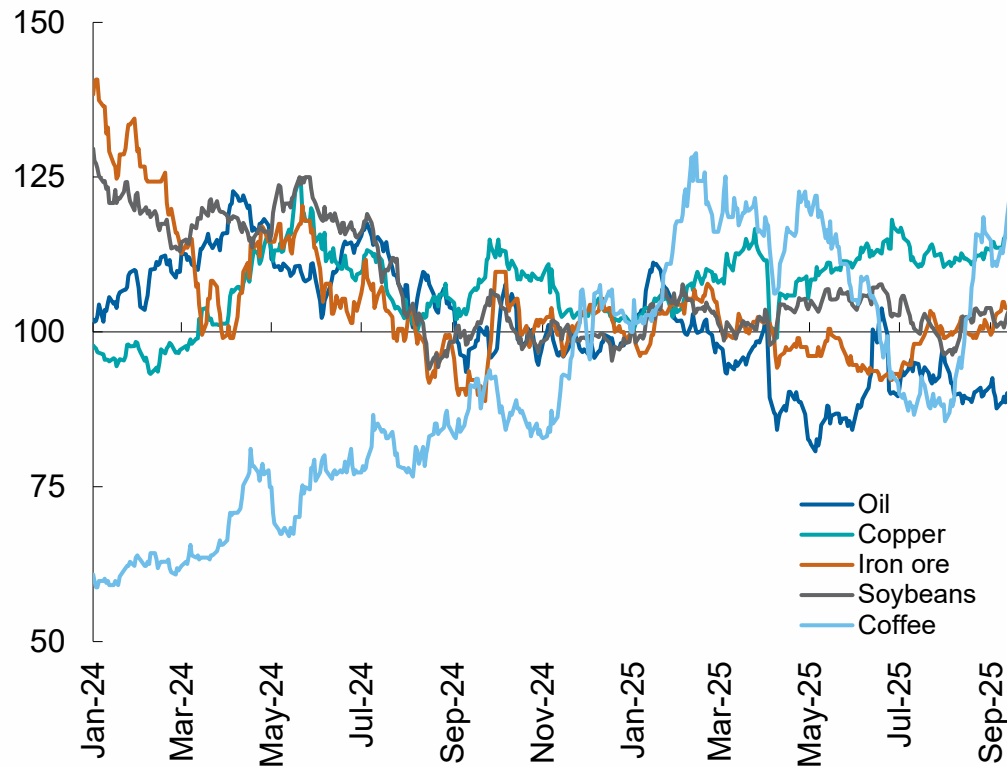
Sources: EORA Global Supply Chain database; and IMF staff calculations.
Note: Backward participation refers to the use of imported inputs in exports; Forward participation refers to the export of inputs used in the importing country's exports. GVC = global value chains.

Sources: IMF, Direction of Trade Statistics database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Tariff rates aggregates are simple averages. LA8 excludes Mexico. LAC share of US exports to world excludes Mexico. CARIB = Caribbean; LA8 = Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay.

The global environment has been broadly supportive of LAC

After a short-lived bout of volatility, commodity prices have remained broadly stable...

Commodity Prices
(Index: January 1, 2025=100)

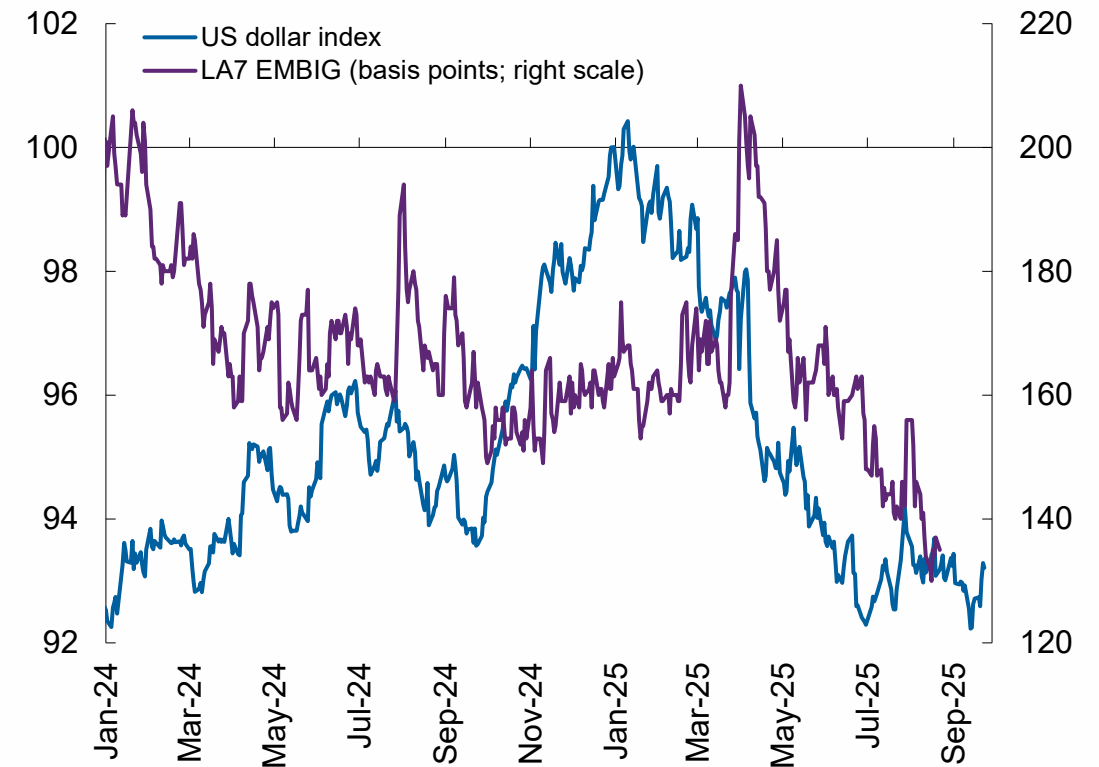


Source: Bloomberg Finance L.P.

Note: Coffee refers to the international coffee composite indicator price, copper is from the London Metal Exchange, iron ore is Shanghai SteelHome E-Commerce, oil is the average petroleum spot price, and soybeans is from the Chicago Board of Trade.

... and financial conditions have eased.

US Dollar Index and LA7 EMBIG Sovereign Spread
(Index: January 1, 2025 = 100; unless noted otherwise)



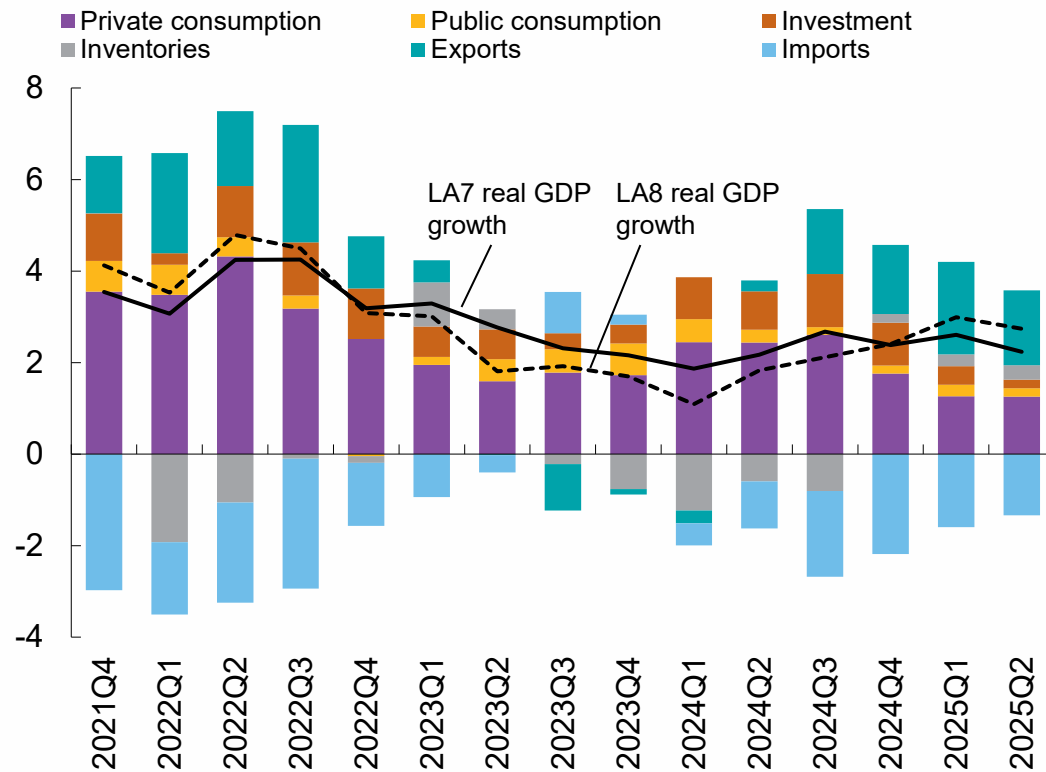
Sources: Haver Analytics; and IMF staff calculations.

Note: US dollar index refers to the Federal Reserve Board broad trade-weighted dollar index. LA7 is median. LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay.

Economic activity remained relatively stable during the first half of 2025...

The contribution of exports to growth increased...

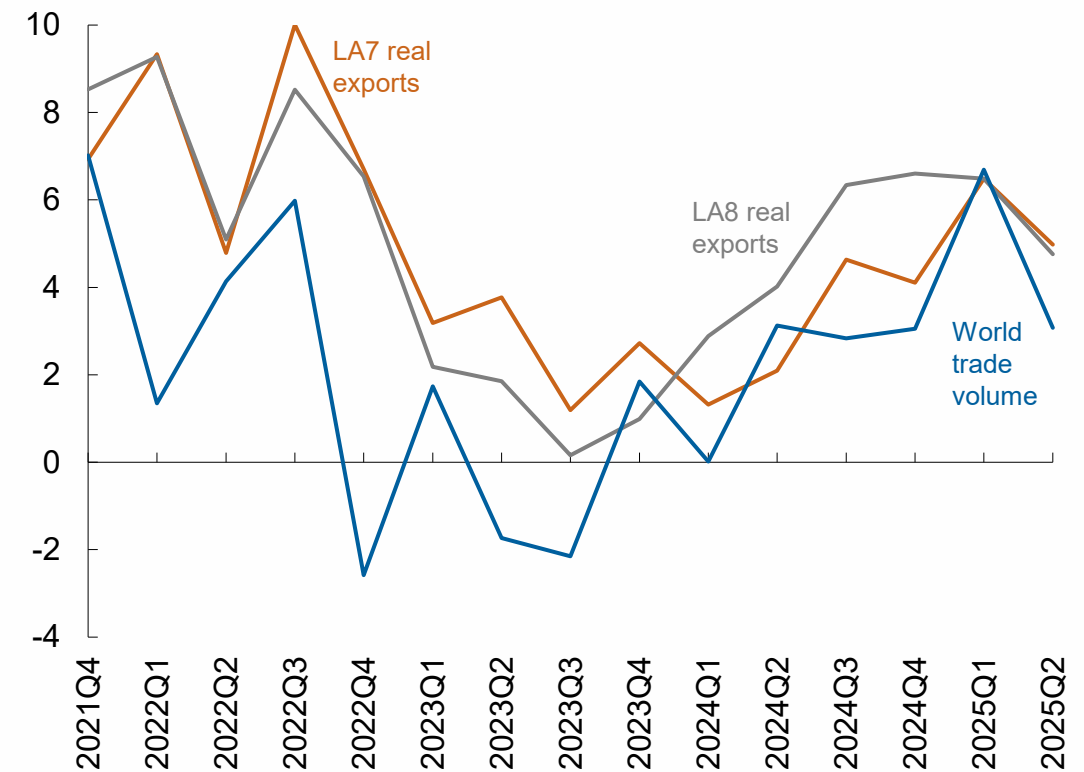
LA7: Contributions to Real GDP Growth
(Year-over-year percent change)



Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Seasonally adjusted. Purchasing-power-parity GDP-weighted average. Inventories include statistical discrepancies. LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay; LA8 = LA7 plus Argentina.

... reflecting a pickup in export volumes early in the year, in line with global developments.

Exports Growth
(Year-over-year percent change)

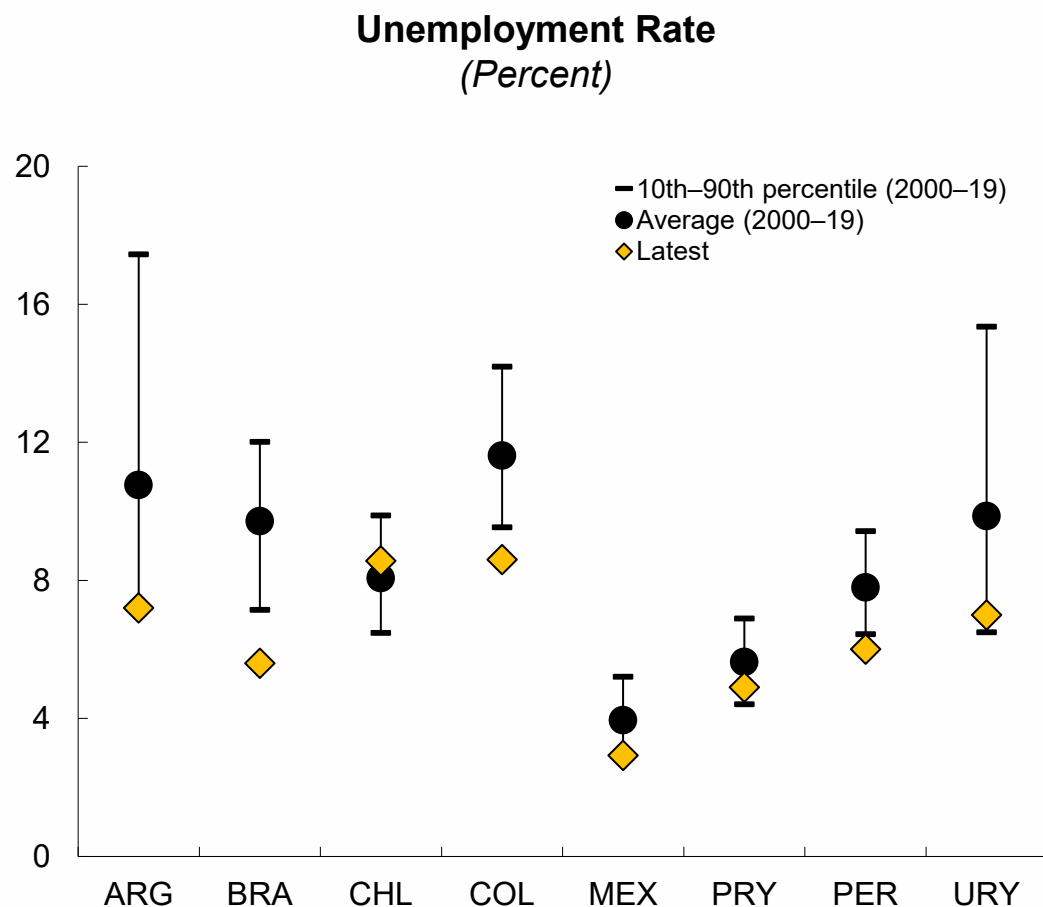


Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; national authorities; and IMF staff calculations.

Note: Merchandise exports (value) growth aggregate is based on the sum of individual country data. Real exports growth is purchasing-power-parity GDP-weighted average. World trade volume is end of period. LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay; LA8 = LA7 plus Argentina.

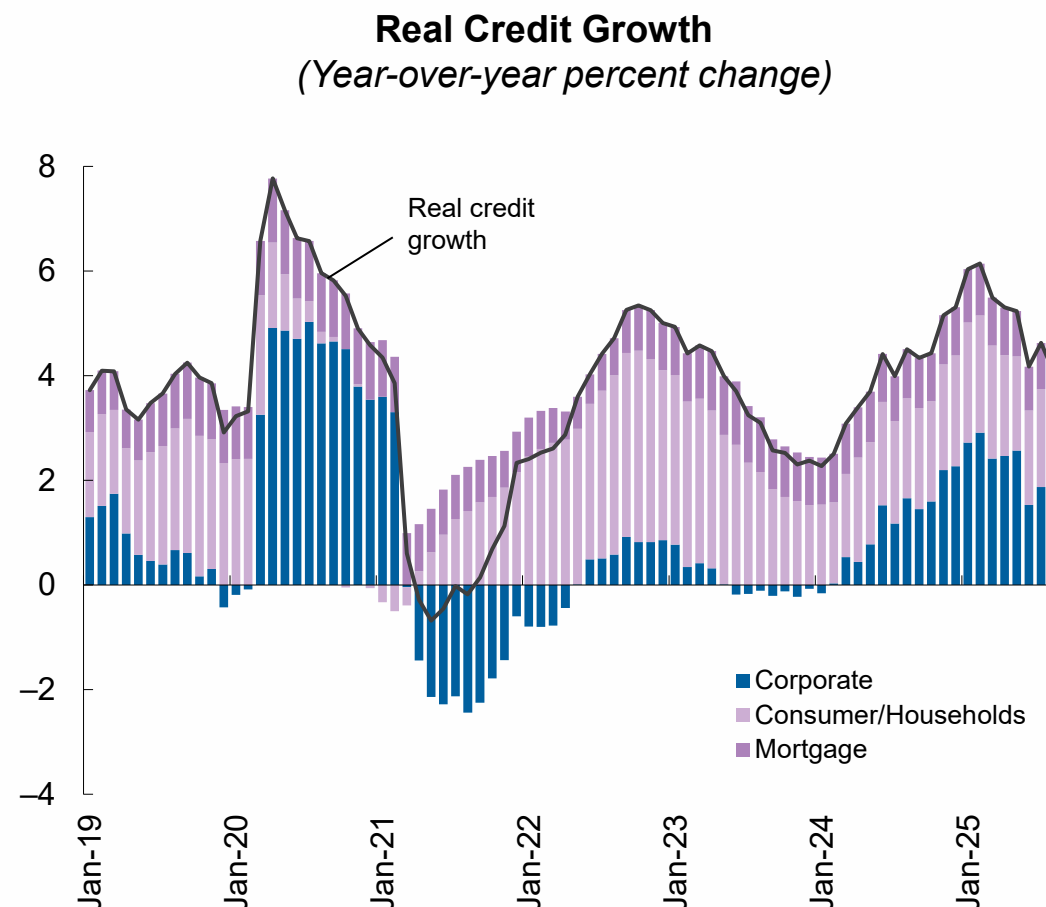
... supported by strong labor markets and credit growth

Labor markets have remained strong, with unemployment rates around historical lows in many countries...



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

... while private sector credit has continued to grow, albeit with some moderation in corporate credit.



Sources: Haver Analytics; national authorities; and IMF staff calculations.

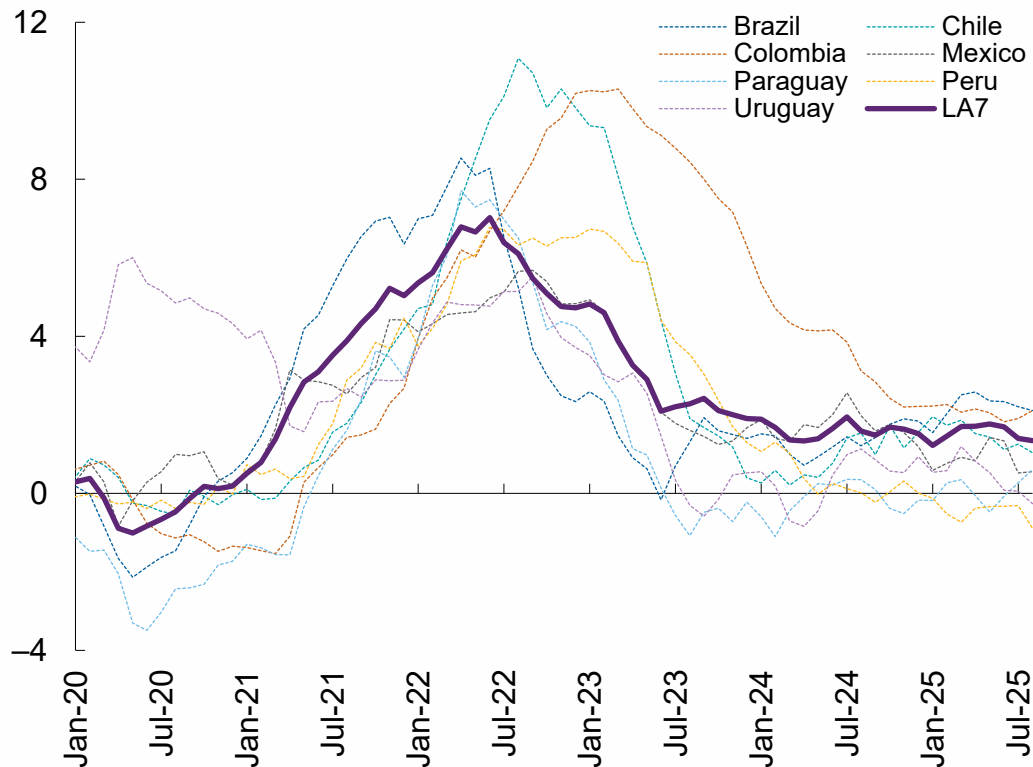
Note: Aggregates are purchasing-power-parity GDP-weighted averages. Includes Brazil, Chile, Colombia, Mexico, and Peru.

Inflation convergence has slowed in some countries

Inflation is hovering around targets in some countries, although convergence slowed notably in others.

Core goods and core services inflation has edged up.

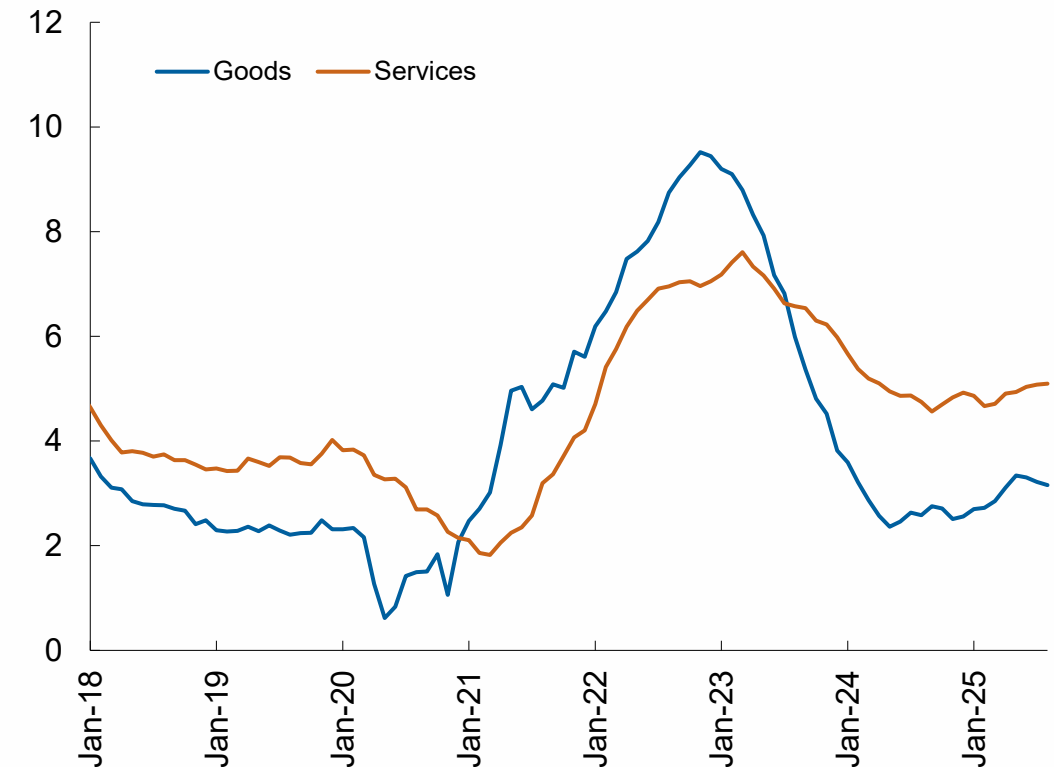
Headline Consumer Price Inflation
(Deviation from inflation target; percentage points)



Sources: Haver Analytics; national authorities; and IMF staff calculations.

Note: LA7 is purchasing-power-parity GDP-weighted average. Peru refers to Lima. LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay.

LA7: Core Goods and Core Services Inflation
(Year-over-year percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.

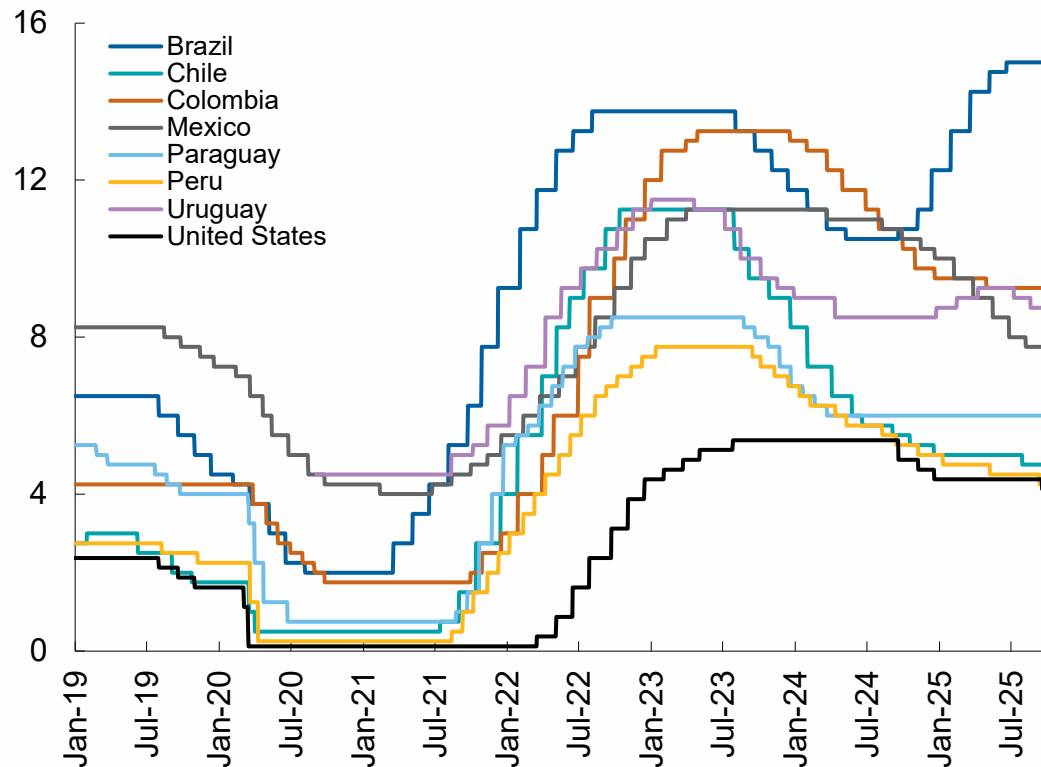
Note: Core goods exclude food, transport, and housing items. Core services exclude transport and housing items. LA7 is purchasing-power-parity GDP-weighted average. LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay.

Monetary policy required careful calibration

Monetary policy has appropriately responded to inflation developments.

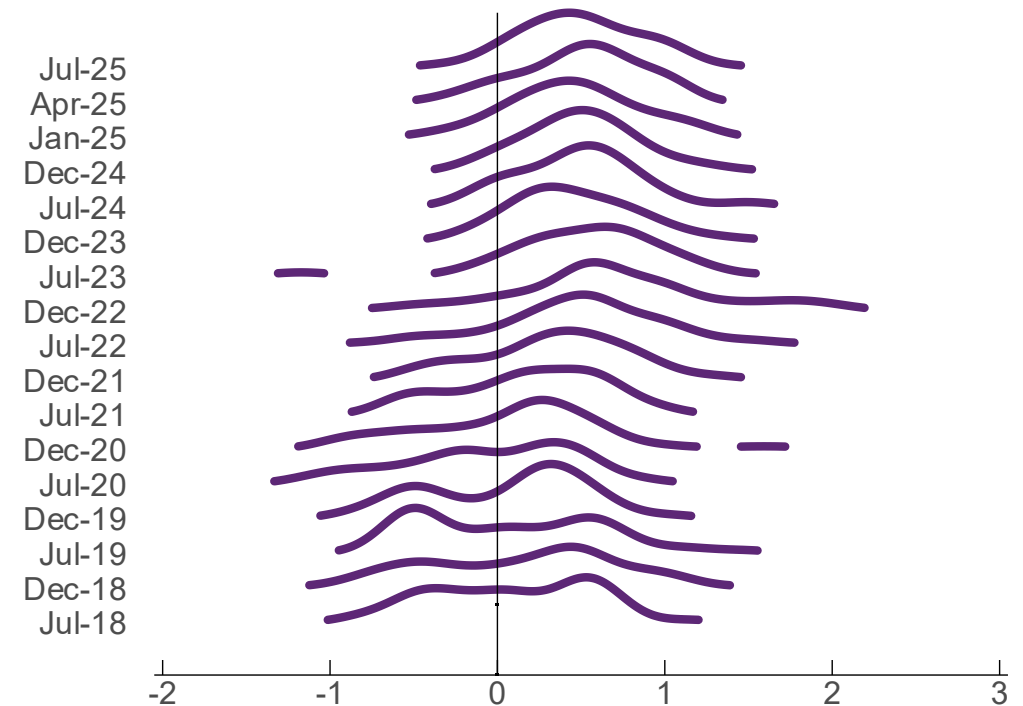
Inflation expectations have been stable but remain above targets.

Monetary Policy Rates
(Nominal; percent)



Sources: Bloomberg Finance L.P.; Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

LA7: Distribution of Two-Year Ahead Inflation Expectations by Forecasters
(Percentage points; deviation from target)



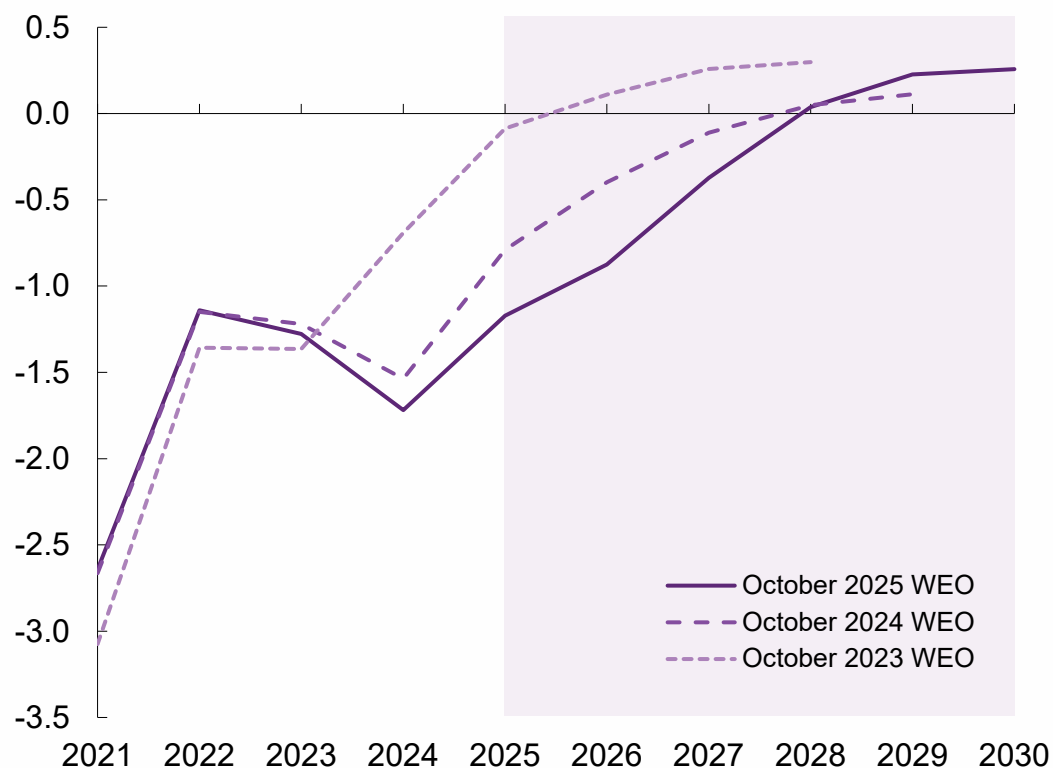
Sources: Bloomberg Finance L.P.; Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

Notes: Density plots of two-year year-ahead (December-over-December) inflation forecast deviation from inflation targets by Consensus Forecasts vintage.

Fiscal policy actions have not turned the debt trajectory

Fiscal consolidation efforts have been delayed...

LA7: General Government Structural Primary Balance
(Percent of potential GDP)

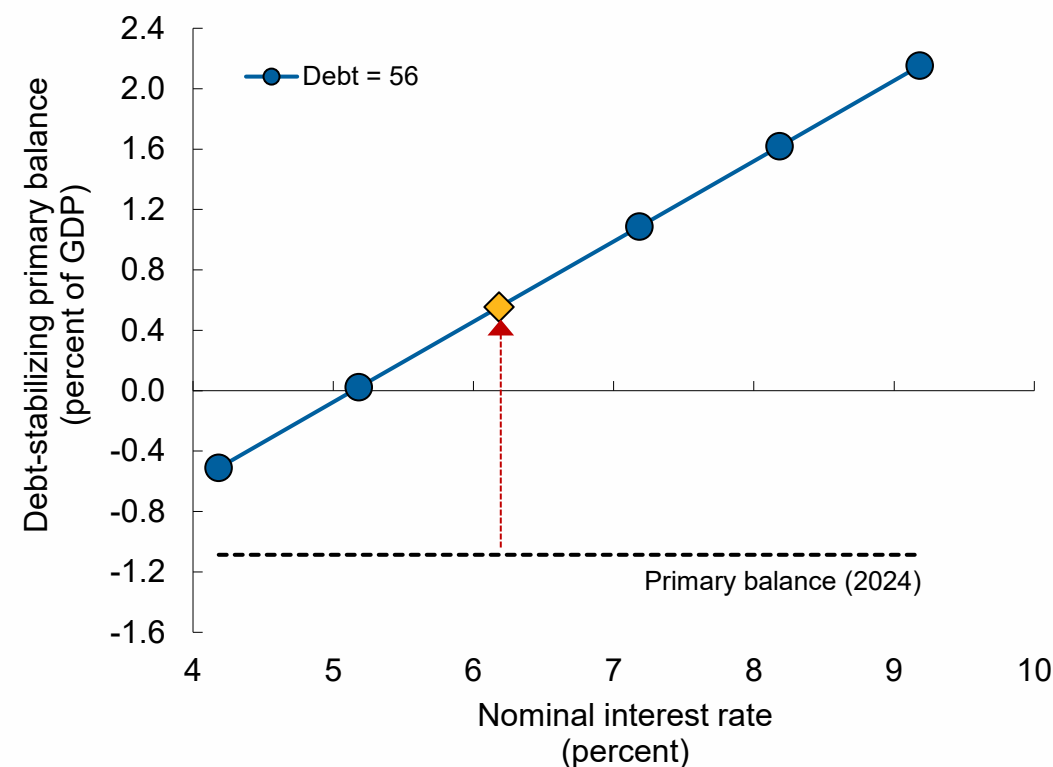


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: LA7 is simple average. Chile refers to the central government's structural non-mining primary balance. Colombia refers to the consolidated public sector's structural non-oil primary balance. Peru refers to the nonfinancial public sector's structural primary balance. LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay.

... and are insufficient to stabilize debt.

LA7: Debt-Stabilizing Primary Balance, Gross Public Debt, and Nominal Interest Rate



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Blue dots are computed by increasing or decreasing the average nominal rate of local and foreign currency debt by 100 basis points, keeping growth and debt-to-GDP fixed. LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay.

Outlook and Risks

Growth in LAC will lose momentum in 2026...

Latin America and the Caribbean: Real GDP Growth
(Year-over-year percent change)

	 Latin America and the Caribbean	 Latin America 8 (LA8)	 Latin America 7 (LA7)	 CAPDR	 Caribbean: Tourism dependent	 Caribbean: Non-tourism dependent
2024	2.4	2.1	2.6	3.9	2.1	17.3
Difference from October 2024	0.3	0.4	0.2	0.1	-0.7	0.8
2025	2.4	2.3	2.0	3.4	2.3	4.2
Difference from October 2024	-0.1	-0.1	0.0	-0.4	-0.1	-2.9
2026	2.3	2.2	1.9	3.8	2.0	11.2
Difference from October 2024	-0.4	-0.4	-0.4	-0.2	0.0	2.6

Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Aggregates are PPP GDP-weighted averages. Difference based on rounded figures for the October 2025 and October 2024 WEO vintages. LA8 includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. LA7 is LA8 excluding Argentina. CAPDR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Caribbean: Tourism dependent encompasses the rest of the Caribbean countries not included in the Caribbean: Non-tourism dependent group, which includes Commodity Exporters (Guyana, Suriname, Trinidad and Tobago) and Haiti.

... amid gradual disinflation

Latin America and the Caribbean: End-of-period Inflation (Year-over-year percent change)

	 Latin America and the Caribbean	 Latin America 8 (LA8)	 Latin America 7 (LA7)	 CAPDR	 Caribbean: Tourism dependent	 Caribbean: Non-tourism dependent
2024	12.2	13.7	4.5	1.8	2.7	7.9
Difference from October 2024	-1.0	-1.0	0.1	-1.2	-0.8	-1.2
2025	6.5	6.8	4.2	2.2	2.8	9.0
Difference from October 2024	-0.4	-0.6	0.9	-1.1	-0.3	1.4
2026	4.2	4.1	3.3	3.3	3.0	7.6
Difference from October 2024	-0.9	-1.3	0.3	-0.1	-0.2	1.6

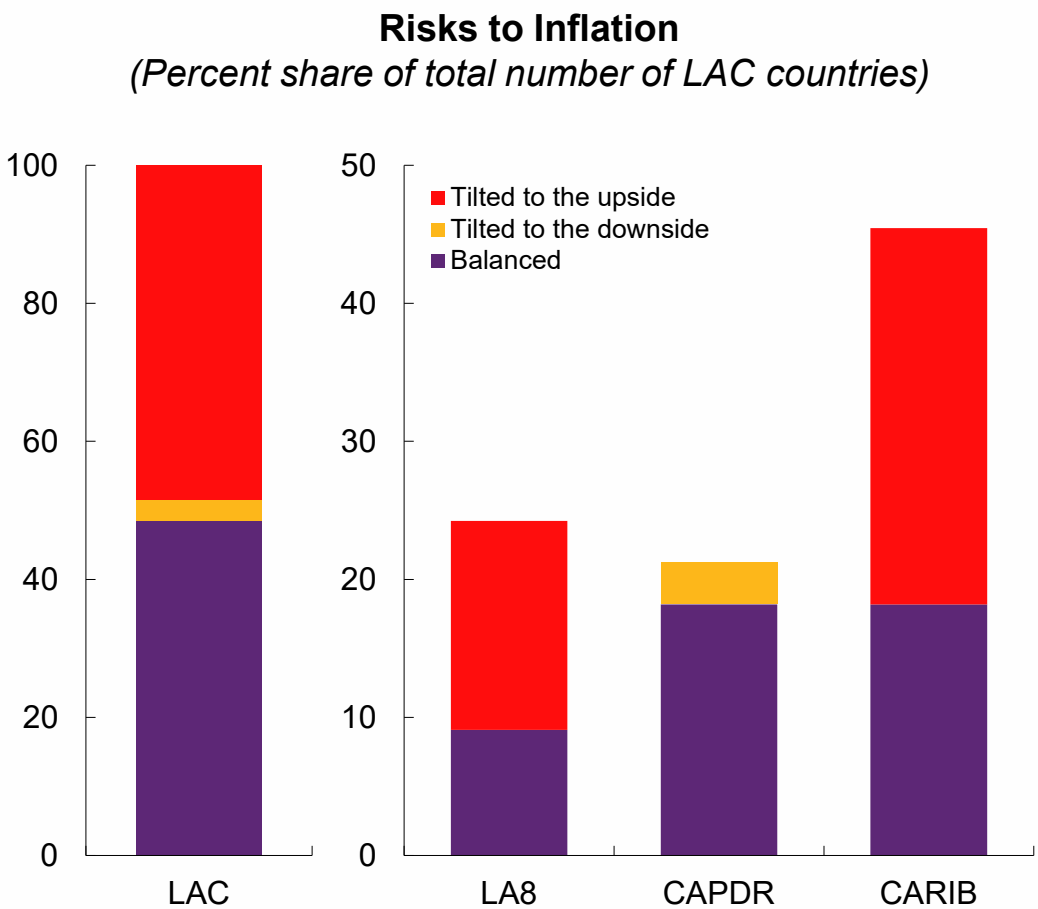
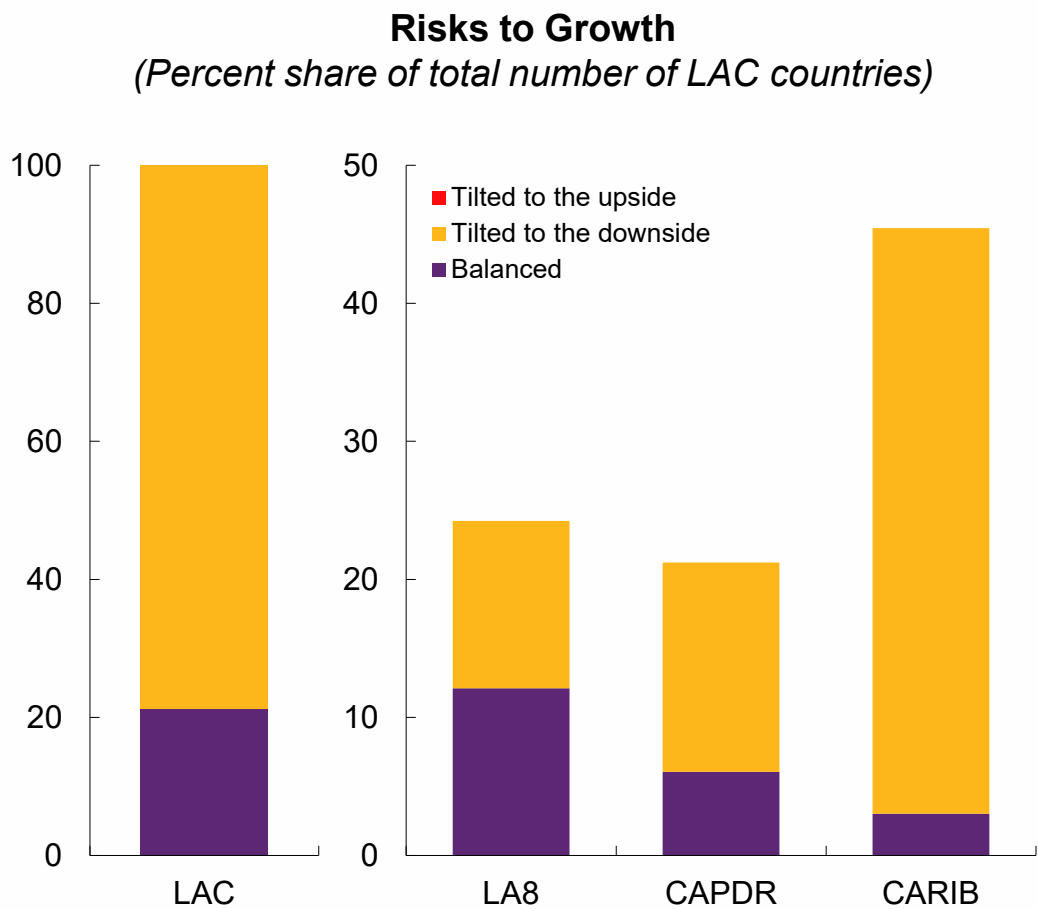
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Aggregates are PPP GDP-weighted geometric averages. All inflation aggregates exclude Venezuela. Difference based on rounded figures for the October 2025 and October 2024 WEO vintages. LA8 includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. LA7 is LA8 excluding Argentina. CAPDR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Caribbean: Tourism dependent encompasses the rest of the Caribbean countries not included in the Caribbean: Non-tourism dependent group, which includes Commodity Exporters (Guyana, Suriname, Trinidad and Tobago) and Haiti.

Downside risks to growth; more balanced risks to inflation

Risks to near-term growth are tilted to the downside...

... while risks to inflation are generally more balanced.



Source: IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LAC = Latin America and the Caribbean; LA8 = Latin America 8 (Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

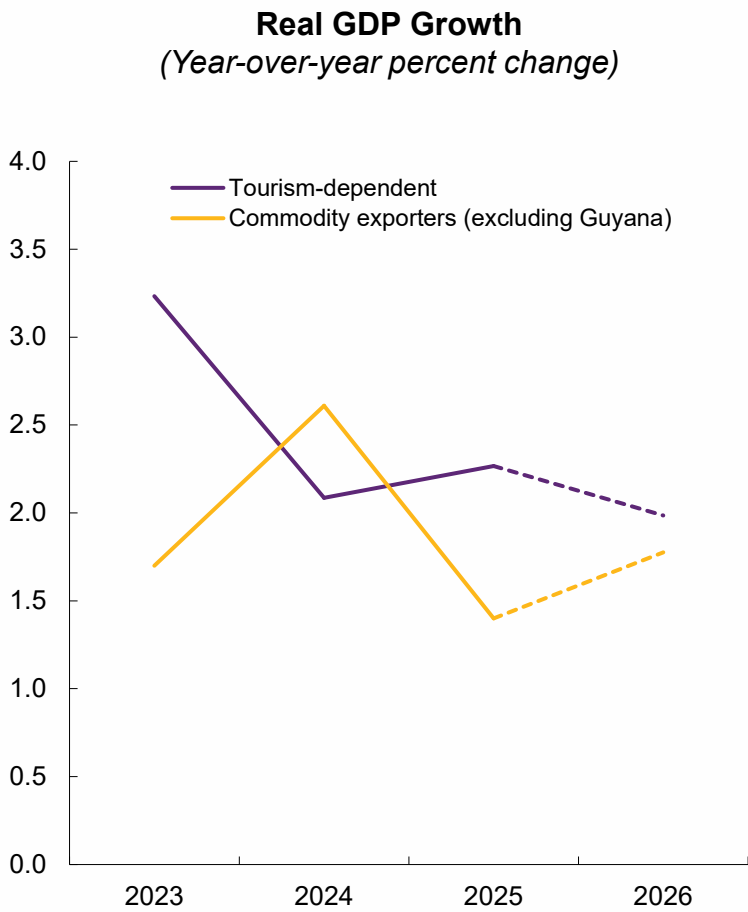
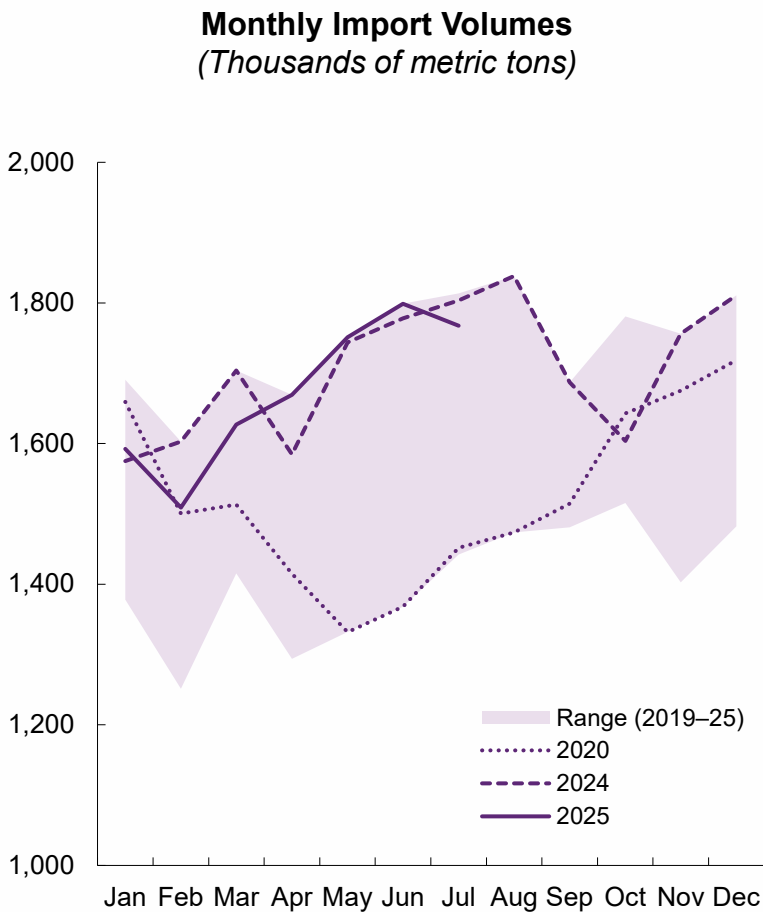
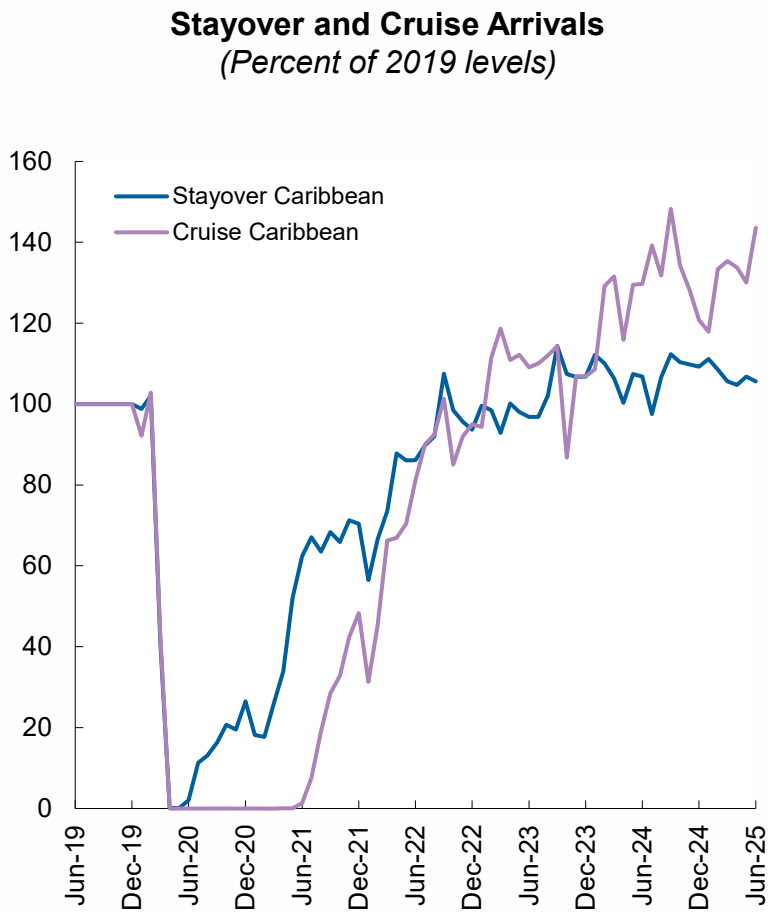
Source: IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LAC = Latin America and the Caribbean; LA8 = Latin America 8 (Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

The Caribbean: Despite resilient tourist arrivals and trade, GDP growth is expected to moderate toward its potential

Tourist arrivals have remained above pre-pandemic levels.

Import volumes are comparable to 2024 levels, suggesting the impact of global trade policies has been limited so far.

Growth is holding up, but is expected to soften in 2026.



Sources: The Caribbean Tourism Organization; Tourism Analytics; ECCB; national authorities; and IMF staff calculations.
Note: The chart is comprised of 11 destinations: ABW, ATG, BHS, BRB, BLZ, DMA, GRD, JAM, KNA, LCA, and VCT. For stayover arrivals from April to June 2025, figures for BHS have been extrapolated using the average annual growth rate of the available countries.

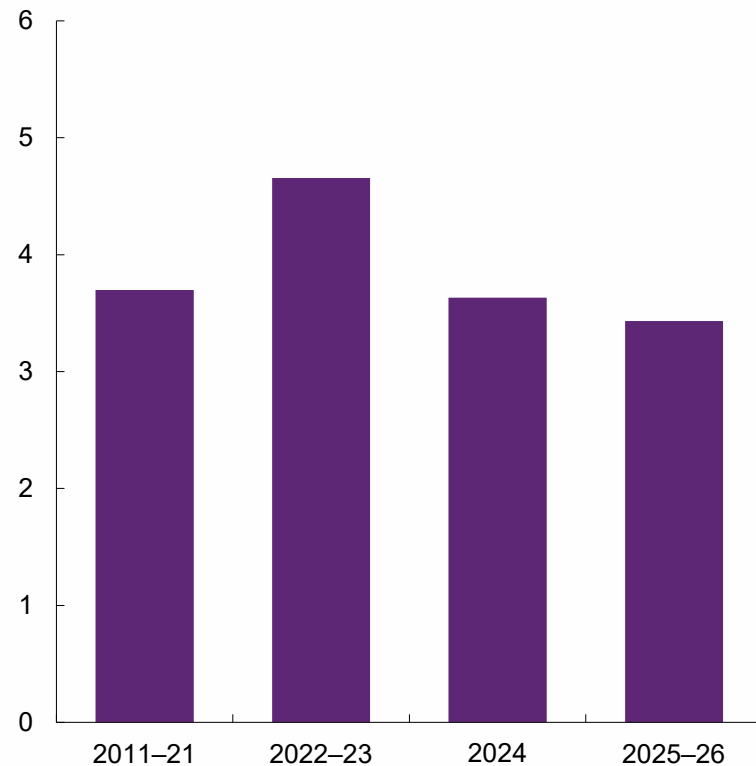
Sources: Portwatch; and IMF staff calculations.
Note: Figure shows cargo import volumes only and excludes Guyana.

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Real GDP growth is purchasing-power-parity GDP-weighted average. The 2025–26 figures shown with the dashed lines represent staff forecasts. Haiti is not classified as a tourism-dependent or commodity-exporting country. Due to idiosyncratic factors, Haiti experienced negative growth rates over the period.

CAPDR: New migration and trade policies

Growth slowed in 2024 and is projected to ease in 2025–26.

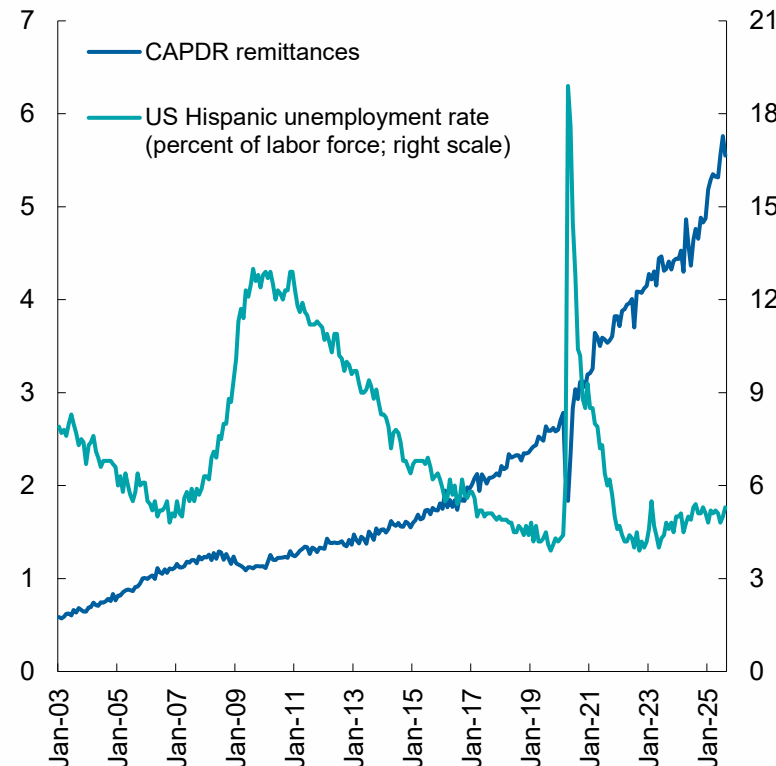
Real GDP growth
(Year-over-year percent change)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregate is simple average. CAPDR = Central America, Panama, and the Dominican Republic.

Remittance growth accelerated in H1-2025 despite stable unemployment.

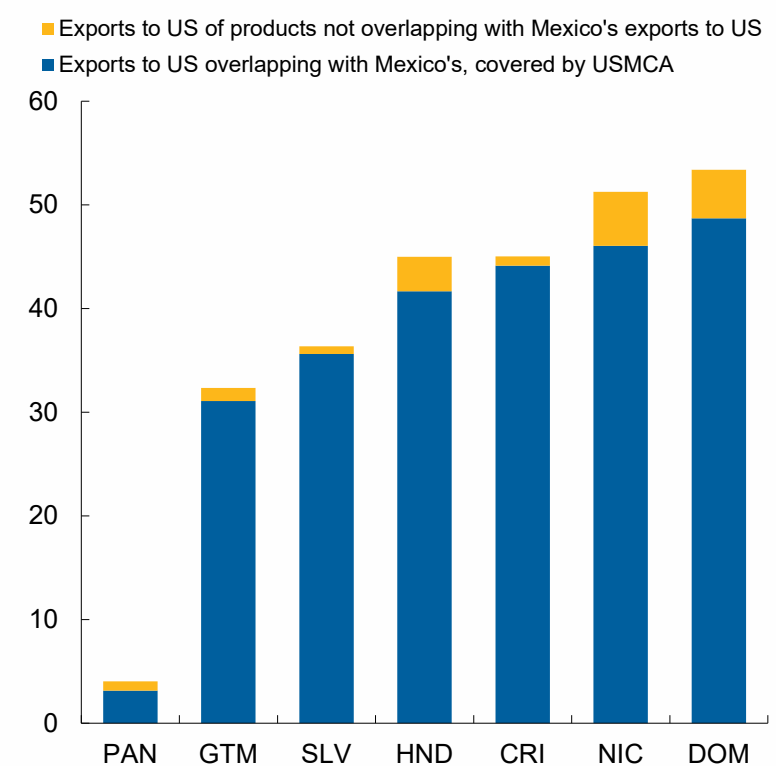
Remittances to CAPDR* and US Hispanic Unemployment Rate (SA)
(US\$ billions and as percent of labor force)



Sources: National authorities; US Bureau of Labor Statistics; and IMF staff calculations.
Note: CAPDR* includes Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. For Nicaragua, data for May is estimated by IMF staff. Remittances data for June to August 2025 excludes Nicaragua. SA = seasonally adjusted.

Heavy reliance on the US market and the substantial overlap with Mexico's export basket pose risks

Overlap with Mexico of Exports to US
(Percent of total goods exports)



Sources: IMF, Direction of Trade Statistics; UN Comtrade; and IMF staff calculations.
Note: USMCA = US-Mexico-Canada Agreement.

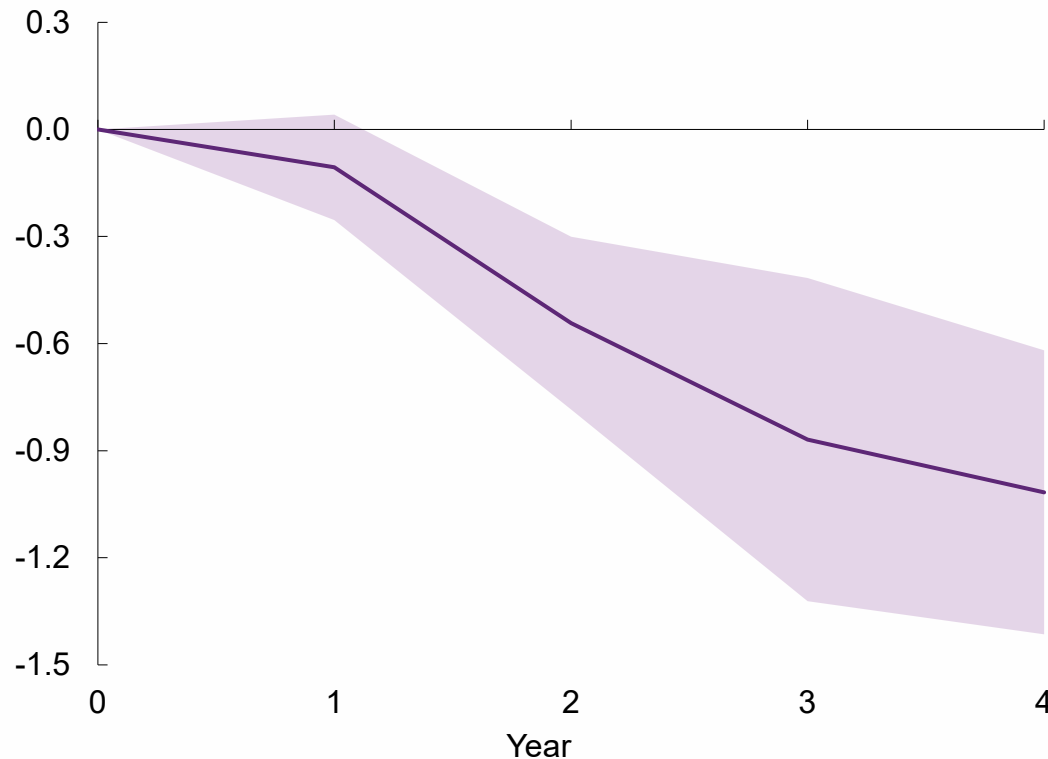
In Focus

- Macroeconomic Impact of Uncertainty**
- Monetary-Fiscal Policy Interactions**
- Resource Allocation and Productivity**

Addressing vulnerabilities could reduce the impact of uncertainty

Uncertainty has a delayed yet negative effect on growth in the region.

Response of Real GDP Growth to a One-Standard-Deviation Increase in Uncertainty (Percent)

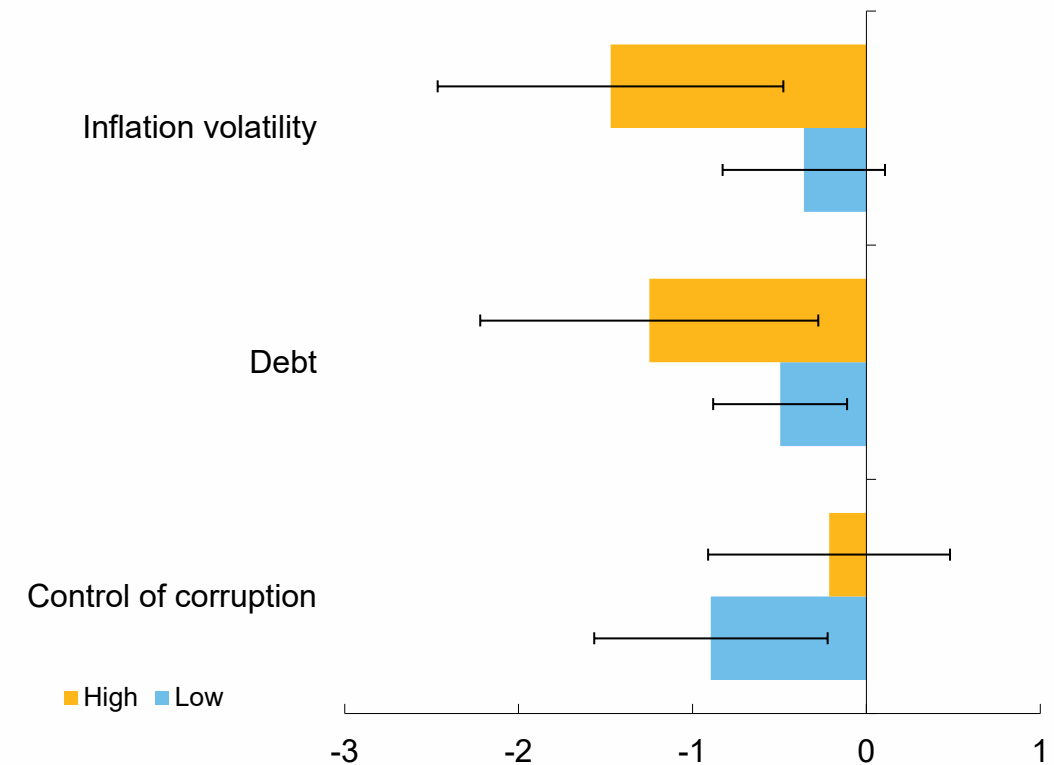


Source: IMF staff calculations.

Note: The line represents point estimates, and the shaded areas indicate 90 percent confidence intervals.

The impact of uncertainty is more contained with stronger institutions and lower debt.

Effect of Uncertainty on Real GDP by Domestic Vulnerabilities, Two Years After Shock



Source: IMF staff calculations.

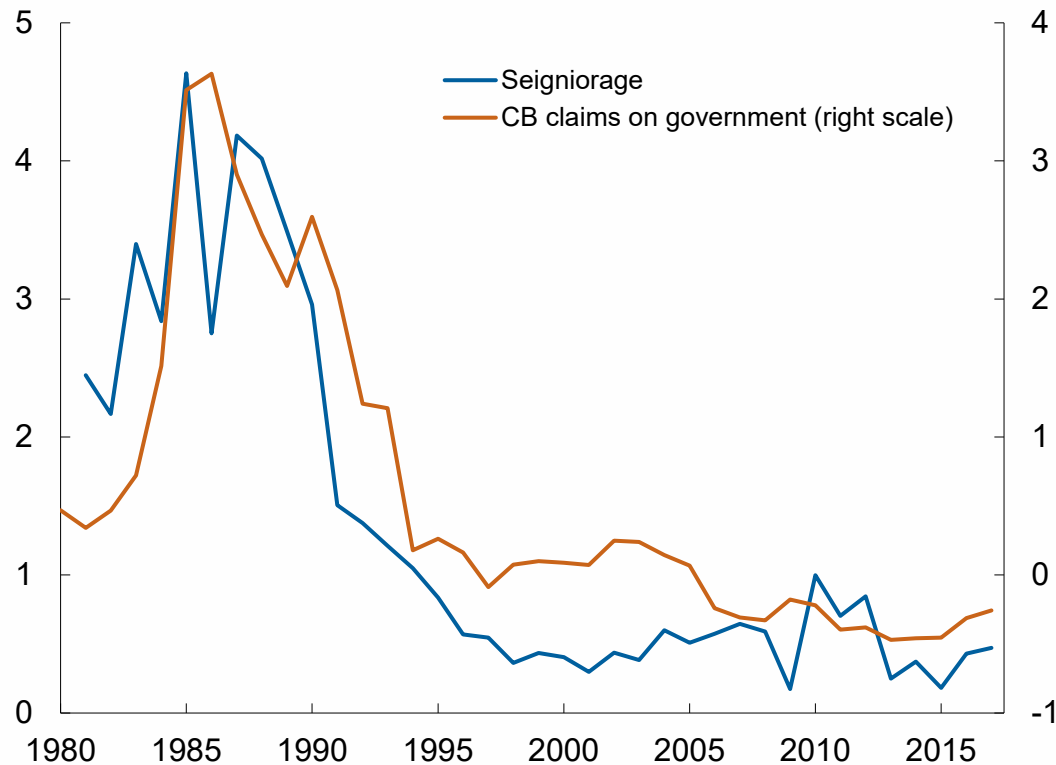
Note: The estimates are derived from impulse responses of real GDP growth to a one-standard-deviation increase in the World Uncertainty Index using local projections. Online Annex 1 provides details on the estimation.

Reforms that enhanced central bank independence were pivotal for price stability...

Central bank financing of the government significantly declined...

... and inflation expectations became better anchored.

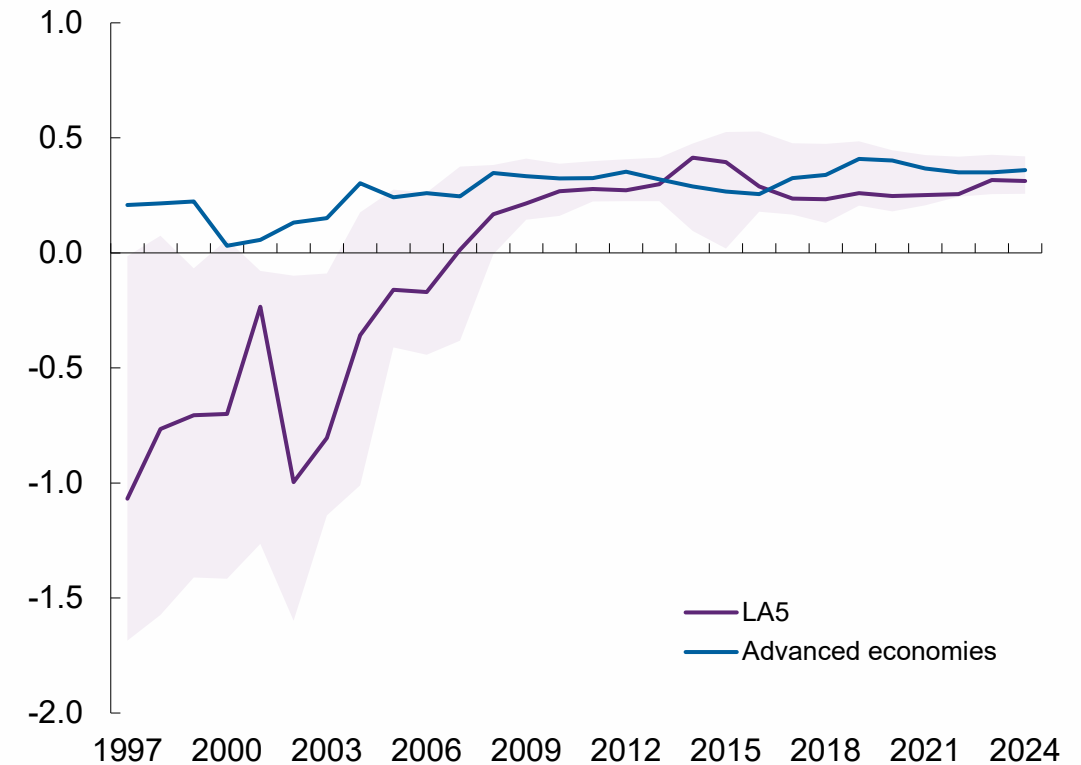
**LA5: Seigniorage and CB Claims on Government
(Percent)**



Sources: Kehoe Nicolini (2022); and IMF, International Financial Statistics database.

Note: Seigniorage is calculated as $m_{t-1} \left(1 - \frac{1}{g_t \pi_t}\right)$ where m_{t-1} is the monetary base as a fraction of nominal GDP, g_t is growth, and π_t is inflation. CB claims on government in percent of monetary base. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

**Index of Inflation Expectations Anchoring
(Index)**



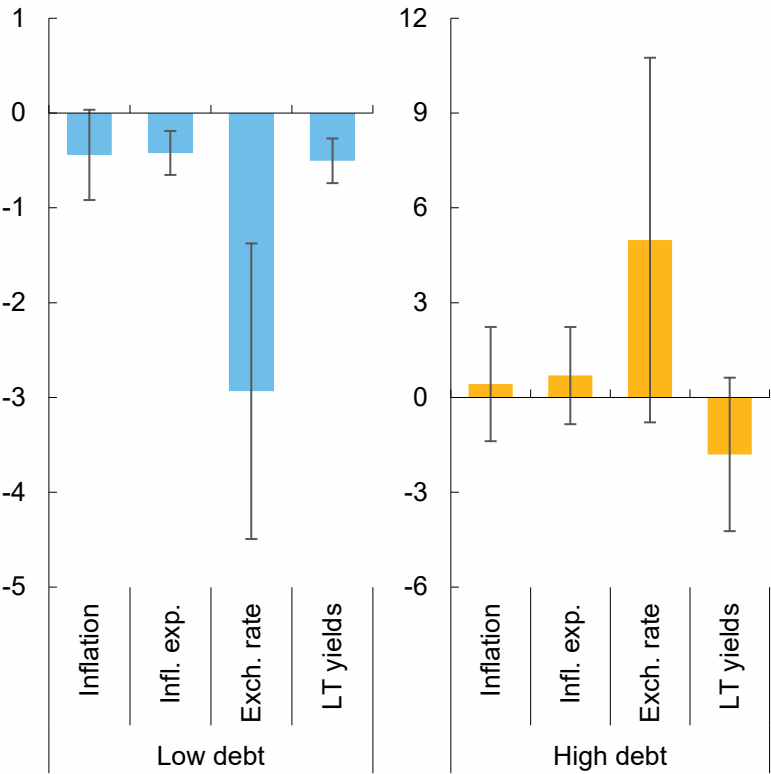
Source: Bems and others (2018).

Note: Shaded area refers to the minimum-maximum range. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

... but fiscal policy can hinder monetary policy effectiveness

High levels of public debt can hinder the impact of monetary policy on key variables.

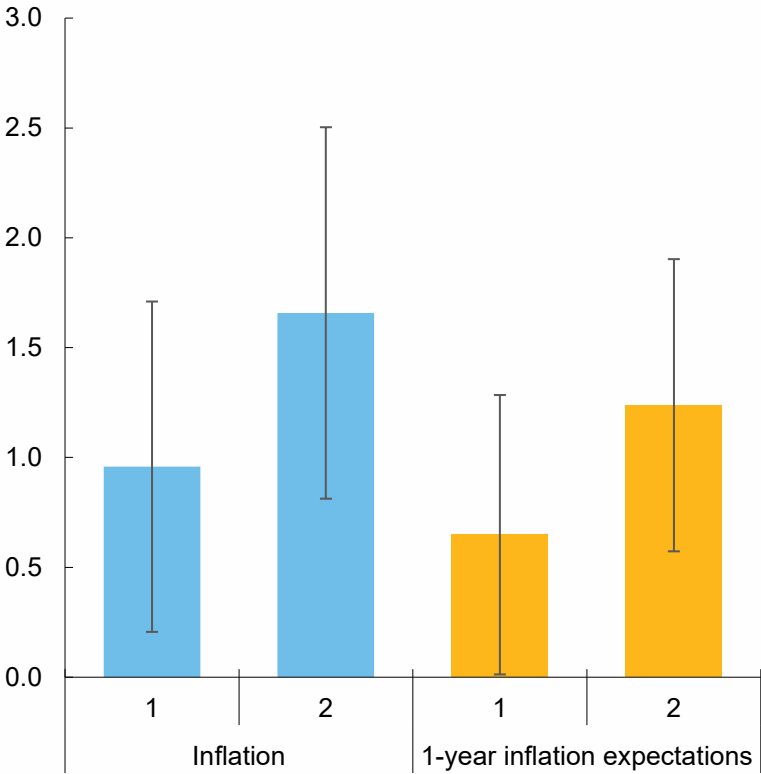
Response to a 100-Basis-Point Monetary Policy Tightening Shock at 18 Month Horizon (Percent)



Source: IMF staff calculations.
Note: Change in the level of each of the variables at 18-month horizon from a local projection into monetary policy shocks from Checo, Grigoli, and Sandri (2024). High debt is an interaction that measured for each country whether debt is higher than the 80th percentile. Plots depict the response to a 100-basis point shock. Inflation, inflation expectations, and LT yields, denote change in level of the variable (measured in percent).

Fiscal shocks can push inflation and inflation expectations up.

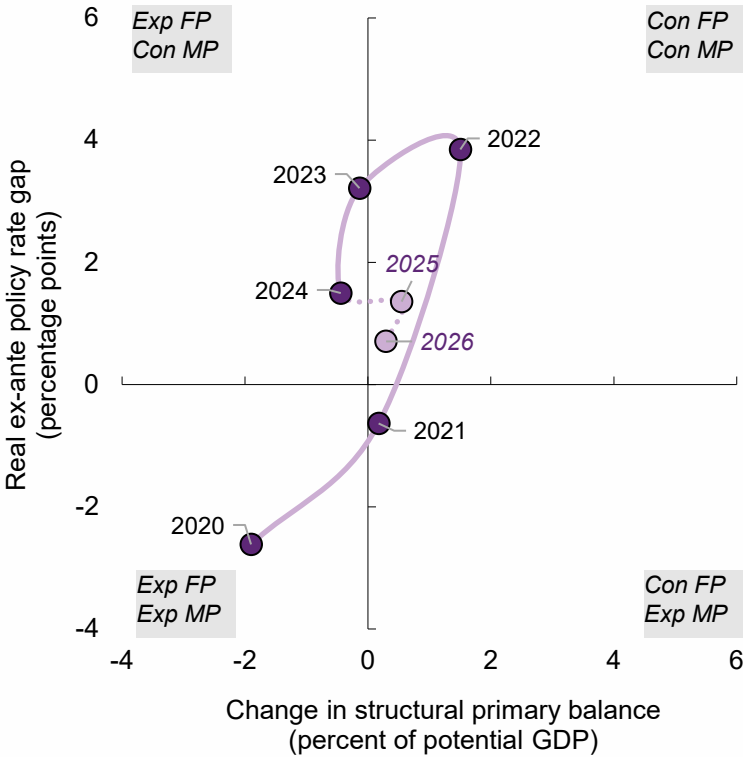
Impact of Fiscal Deficit Shocks: Headline Inflation (Percent)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Change in the level of each of the variables at 1- and 2-year horizons as a result of a shock to the structural primary balance, which are computed from World Economic Outlook forecast errors.

Adequate fiscal stances would support monetary policy implementation.

LA7: Monetary and Fiscal Policy



Sources: Calderon, Dhungana, and Wales (forthcoming); Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: LA7 is simple average. Con = contractionary; exp = expansionary; LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay; MP = monetary policy.

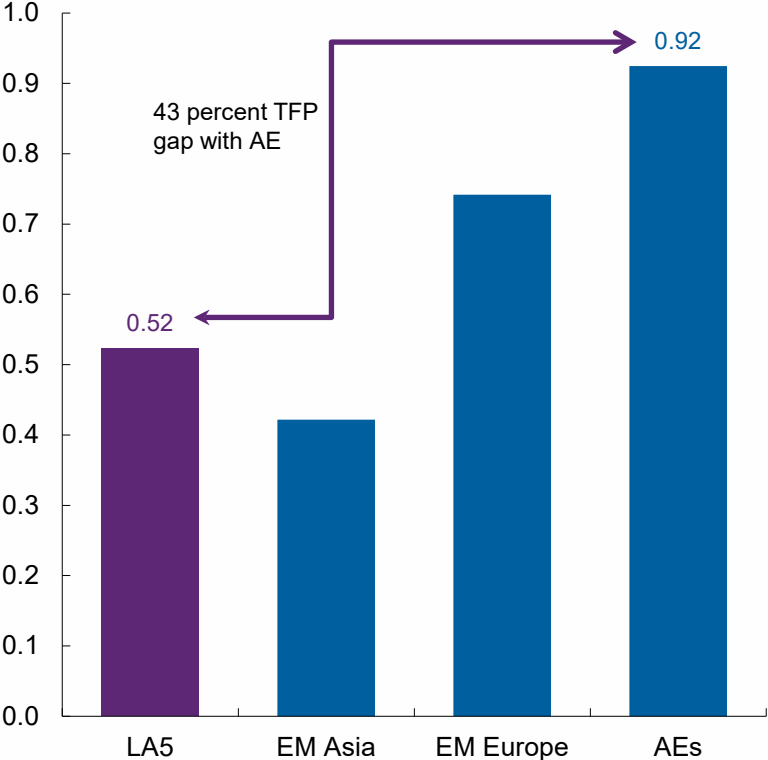
Misallocation depresses Latin America's productivity...

Low TFP levels in Latin America...

... partly reflect resource misallocation...

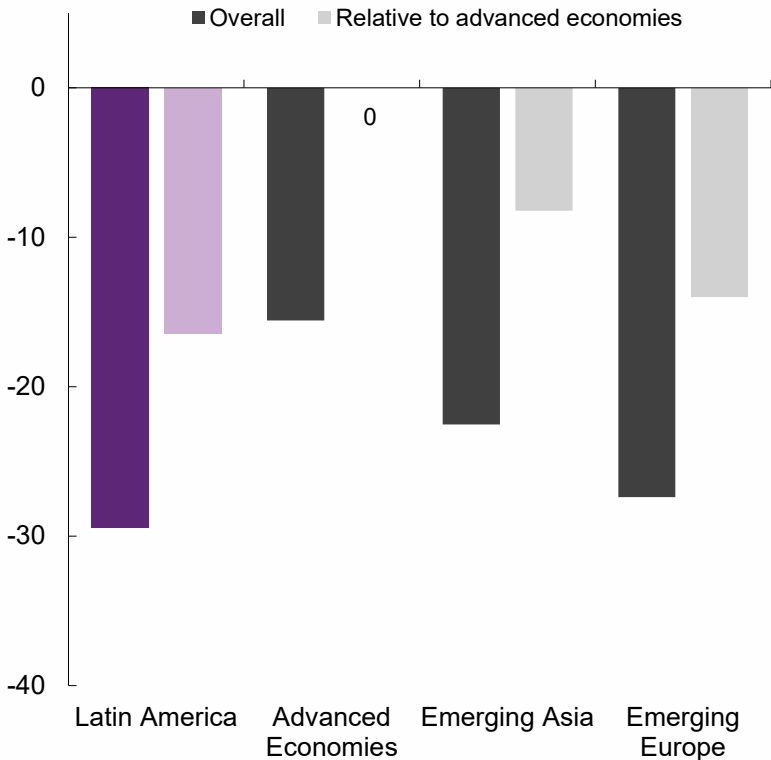
... with more productive firms facing higher barriers to expansion.

TFP Relative to the United States, 2019
(USA=1)



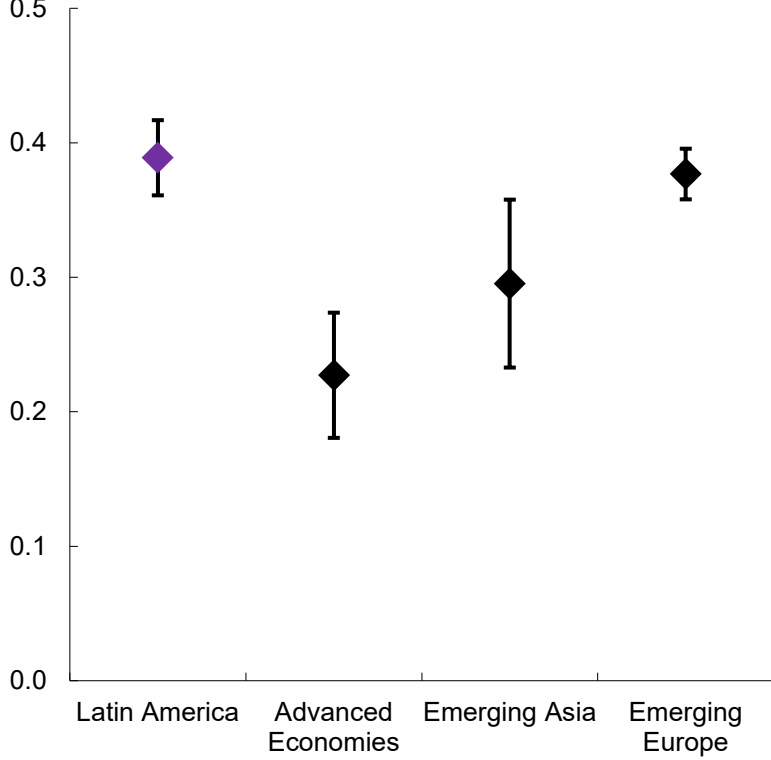
Sources: IMF, World Economic Outlook database; Penn World Table 10.01 database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. AEs = AUT, BEL, DEU, DNK, FIN, FRA, DEU, GRC, ITA, JPN, LUX, NLD, NOR, ESP, SWE, GBR, USA; EM Asia = IDN, IND, MYS, PHL, THA; EM Europe = CZE, EST, LTU, LVA, SVK, SVN, POL, ROU; LA5 = BRA, CHL, COL, MEX, PER.

TFP Losses from Misallocation
(Percent)



Sources: IMF, World Economic Outlook database; Penn World Table 10.01 database; Orbis; World Bank Enterprise Surveys; and IMF staff calculations.
Note: Hsieh and Klenow's (2009) estimates from 2005 to 2021. Aggregates are purchasing-power-parity GDP-weighted averages. Estimates relative to advanced economies report gains from achieving advanced economies' level of misallocation. Observations are weighed to match the size distribution in the World Business Environment Survey. Advanced economies = DEU, FRA, ESP; Emerging Asia = MYS, THA, VNM; Emerging Europe = SVN, SVK, LVA, LTU, ROU; Latin America = BRA, COL, MEX.

Friction to Firm-Level Productivity
(Elasticity)



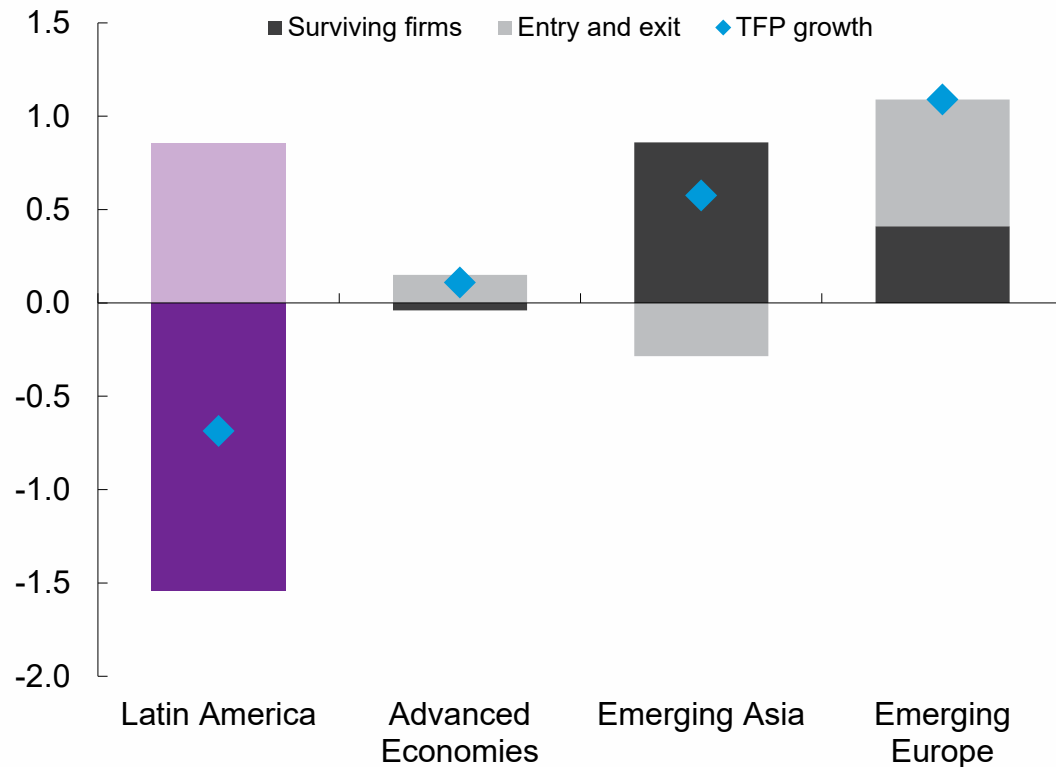
Sources: WEO; PWT; Orbis; WBES; and IMF staff calculations.
Note: Regression coefficients for regressing the Hsieh and Klenow (2009) measure of frictions on firm-level productivity. A positive coefficient suggests that more productive firms are greater constrained by frictions with the effect increasing in the magnitude of the coefficient. Regressions control for year-country-four-digit industry fixed effects. Standard errors clustered at the industry and country level. Observations are weighed to match the size distribution in the WBES. Advanced economies = DEU, FRA, ESP; Emerging Asia = MYS, THA, VNM; Emerging Europe = SVN, SVK, LVA, LTU, ROU; Latin America = BRA, COL, MEX.

... and surviving firms restrain productivity growth

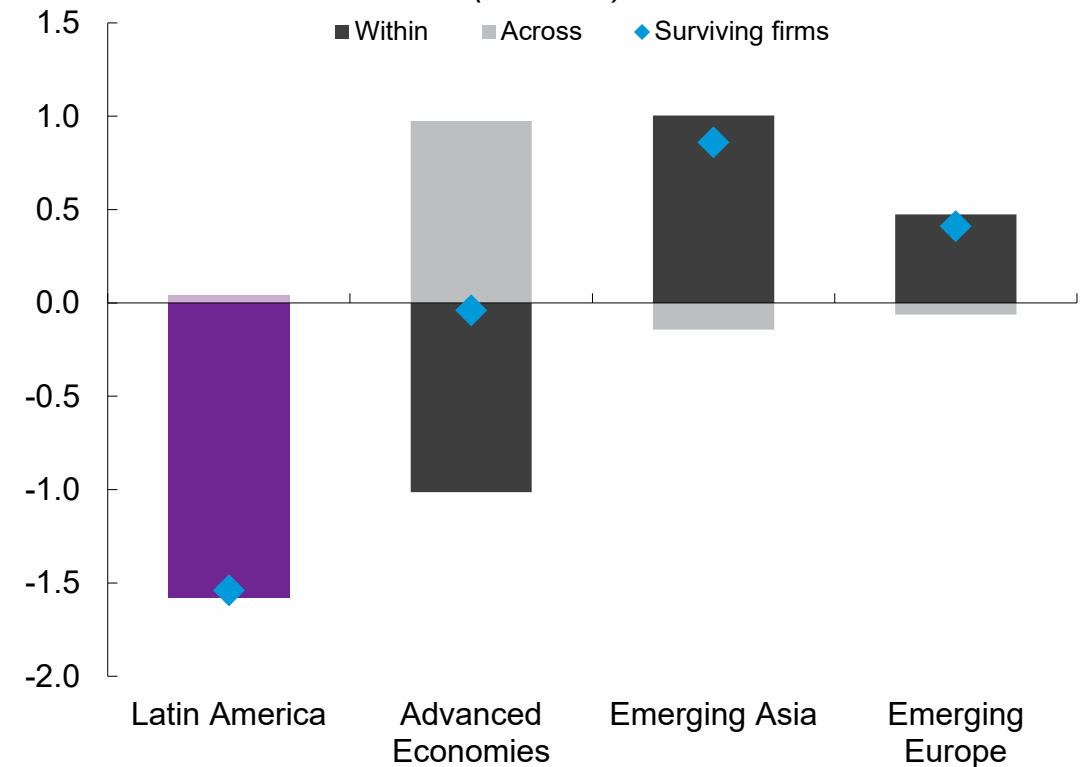
Low TFP growth in Latin America is largely explained by surviving firms...

... which show weak firm-level productivity growth.

**TFP Growth Rates Decomposition
(Percent)**



**Decomposition of Surviving Firms' TFP Growth
Contribution
(Percent)**



Sources: IMF, World Economic Outlook database; Penn World Table 10.01 database; Orbis; World Bank Enterprise Surveys; and IMF staff calculations.

Notes: Melitz and Polanec's (2015) decomposition of growth rates and contributions. Aggregates are purchasing-power-parity GDP-weighted averages. Regional groupings use 2005 *World Economic Outlook* classification. Countries are abbreviated using International Organization for Standardization (ISO) country codes. Observations are weighed to match the size distribution in the World Business Environment Survey. Advanced economies = DEU, FRA, ESP; Emerging Asia = MYS, THA, VNM; Emerging Europe = SVN, SVK, LVA, LTU, ROU; Latin America = BRA, COL, MEX; TFP = total factor productivity.

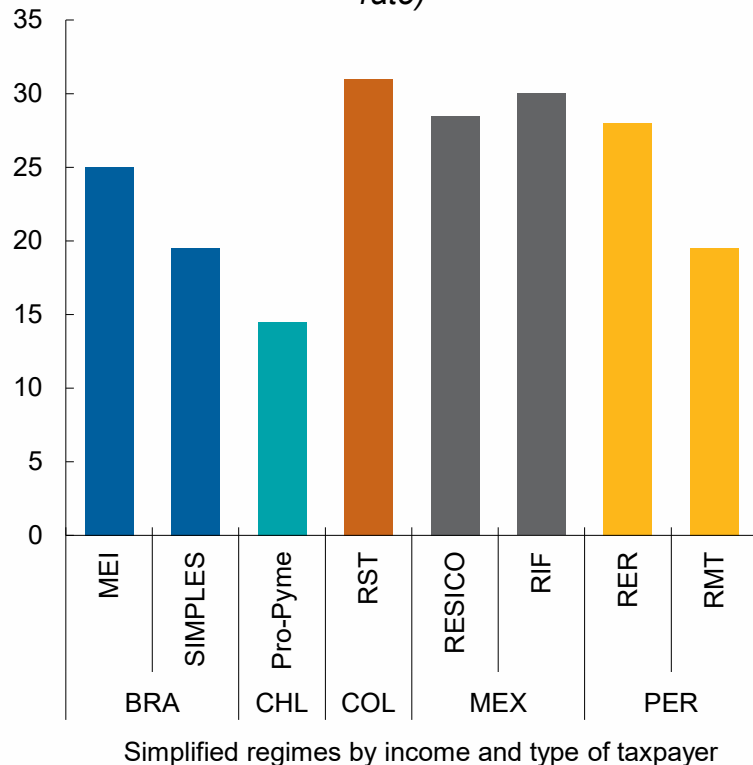
Sources: IMF, World Economic Outlook database; Penn World Table 10.01 database; Orbis; World Bank Enterprise Surveys; and IMF staff calculations.

Notes: Melitz and Polanec's (2015) decomposition of growth rates and contributions. Aggregates are purchasing-power-parity GDP-weighted averages. Regional groupings use 2005 *World Economic Outlook* classification. Countries are abbreviated using International Organization for Standardization (ISO) country codes. Observations are weighed to match the size distribution in the World Business Environment Survey. Advanced economies = DEU, FRA, ESP; Emerging Asia = MYS, THA, VNM; Emerging Europe = SVN, SVK, LVA, LTU, ROU; Latin America = BRA, COL, MEX; TFP = total factor productivity.

Many frictions can constrain productivity

Size-based tax policies offer incentives to remain small.

LA5: Incentive Gap in Corporate Income Tax
(Percentage points; statutory minus simplified tax rate)

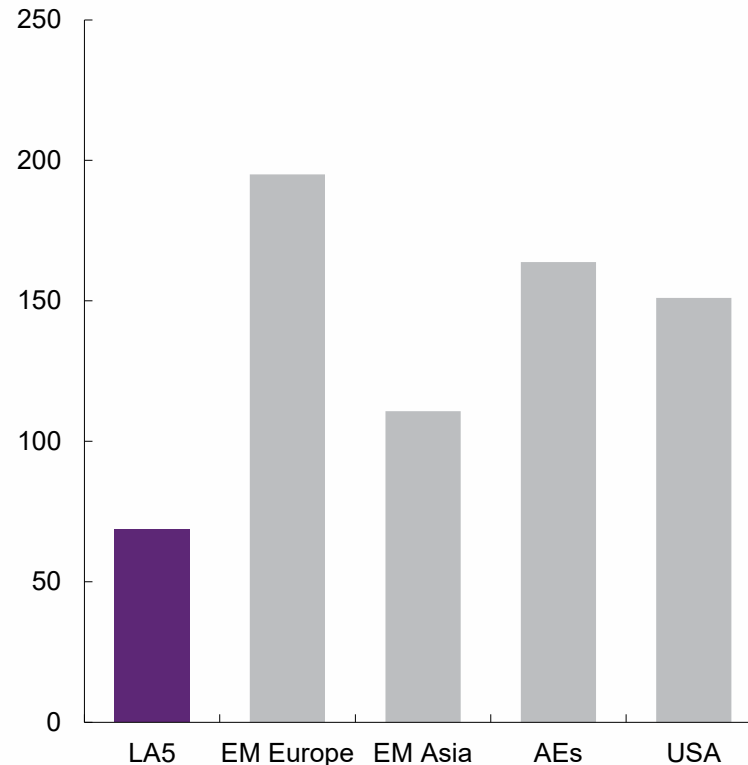


Sources: national authorities; and IMF staff calculations.

Note: Simplified regimes included here are as follows: BRA = Microempreendedor Individual (MEI), Simples Nacional (SIMPLES); CHL = Régimen Tributario enfocado a pequeños y medianos contribuyentes (Pro-Pyme); COL = Régimen Simple de Tributación (RST); MEX = Régimen simplificado de confianza (RESICO), Régimen de Incorporación Fiscal (RIF); PER = Régimen Especial de Renta (RER), Régimen MYPE Tributario (RMT). For BRA - SIMPLES, COL - RST, and MEX - RESICO, the median statutory CIT within each STR schedule by revenue bracket and/or sector is used. For MEX- RIF, we use the year-1 schedule. For PER-RER, there is no annual CIT, but a statutory monthly revenue-based quota of 1.5 percent. CIT = corporate income tax; STR = simplified tax regime.

Credit constraints can limit firm growth.

Total Credit to Non-financial Sector, 2022-24
(Percent of GDP; quarterly average)

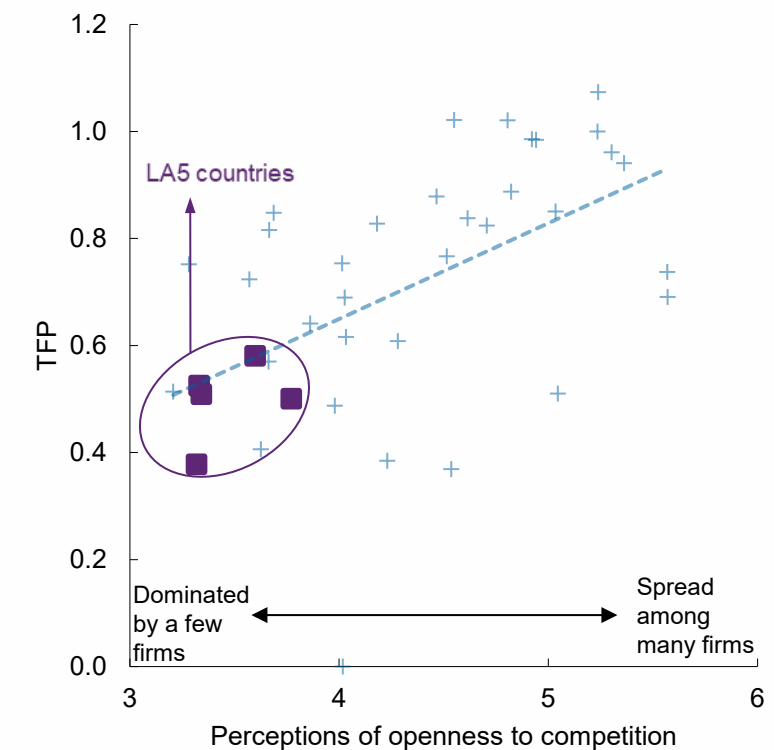


Sources: Bank for International Settlements; Dabla-Norris and others (2018); IMF, World Economic Outlook database; World Economic Forum; and IMF staff calculations.

Note: Country labels refer to the ISO country codes. Aggregates are purchasing-power-parity GDP-weighted averages. AEs = AUT, BEL, DEU, DNK, ESP, FIN, FRA, GBR, GRC, ITA, JPN, LUX, SWE; EM Asia = CHN, IDN, IND, MYS, THA; EM Europe = CZE, EST, HUN, LVA, LTU, NLD, SVK, SVN; LA5 = BRA, CHL, COL, MEX, PER.

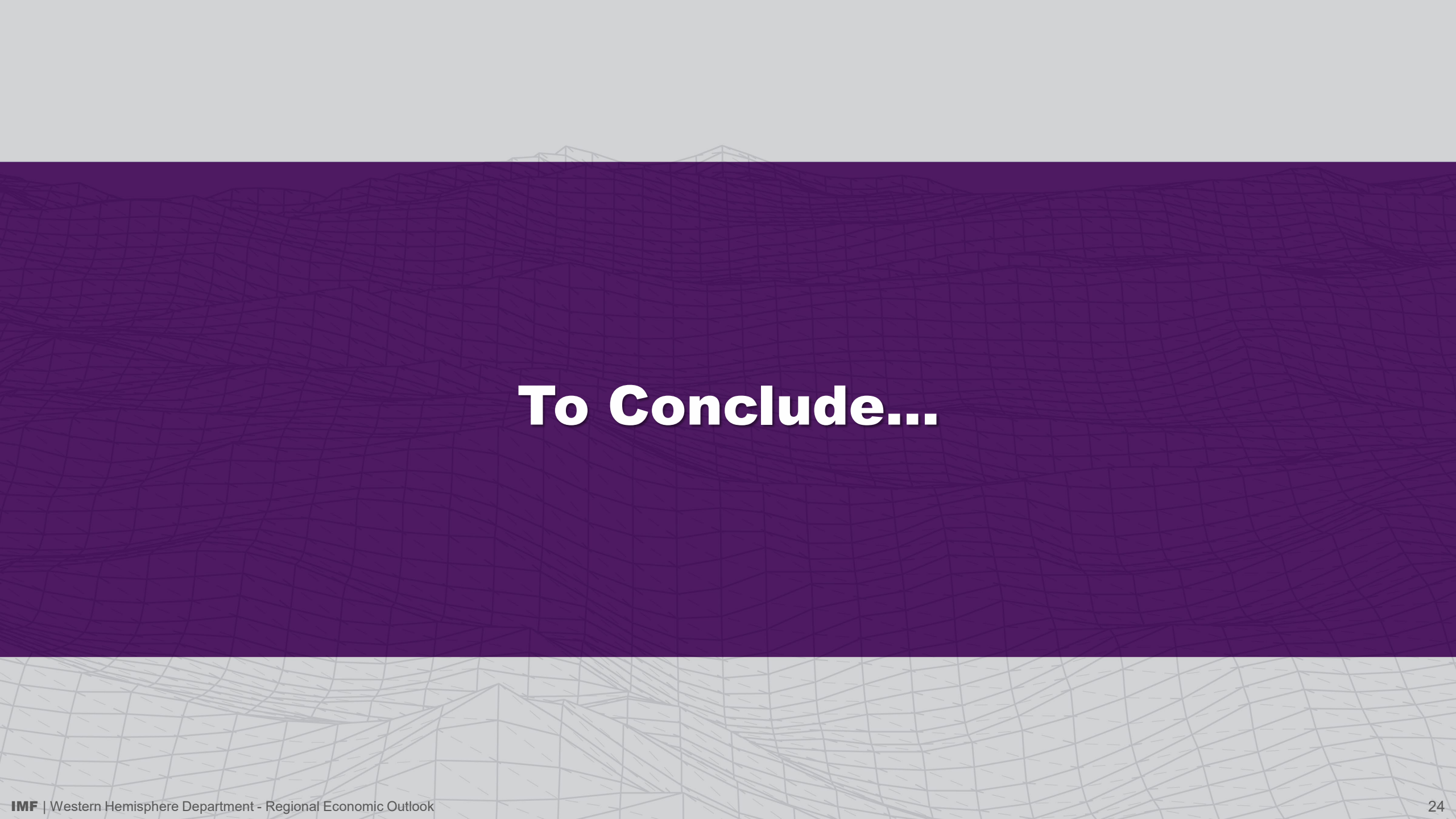
Market dominance of surviving firms reduces pressure to grow and deters entry.

TFP and Competition, 2019
(Y-axis: USA=1; X-axis: index)



Sources: WEO; EU KLEMS; LA KLEMS; national authorities; PWT; WEF; and IMF staff calculations.

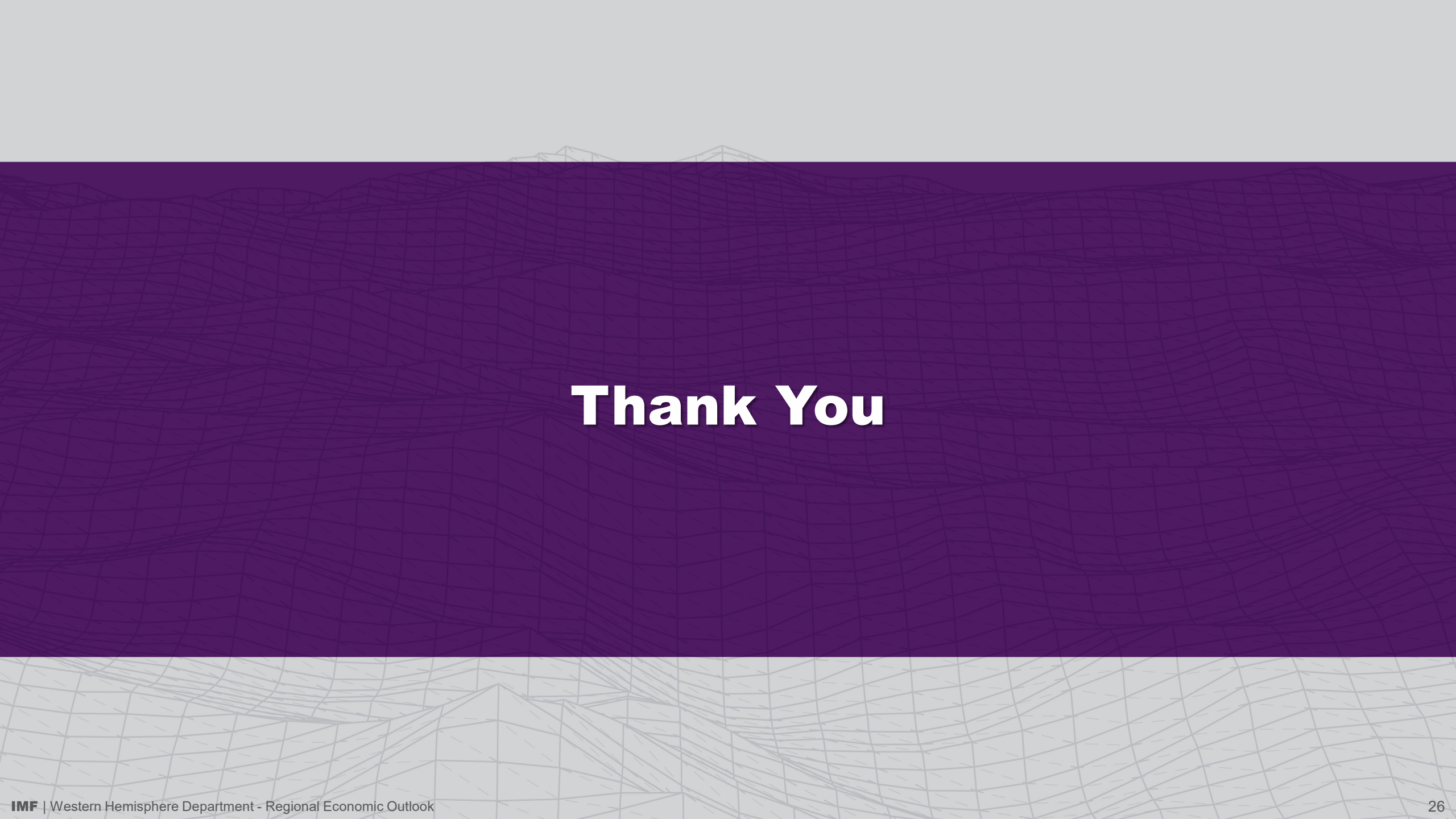
Note: The 2019 market dominance index reflects the responses to the following survey question: "In your country, how do you characterize corporate activity?" in the Global Competitiveness Index 4.0. This indicator is based on a perception survey of business executives and should be interpreted with caution. Perception-based indicators may reflect respondents' views at the time of the survey and can be affected by sampling biases, framing, and changes in sentiment.



To Conclude...

Main messages

- Growth in LAC remained stable during the first half of 2025, while the disinflation process slowed in some countries.
- The region is projected to decelerate slightly in 2026, with risks tilted to the downside, and inflation convergence toward targets will likely take longer than previously envisaged in a few countries.
- Monetary policy should remain vigilant of global trade developments and financial conditions, inflation expectations, and fiscal policy stances.
 - It should continue to rely on strong policy frameworks, including central bank independence.
- Fiscal consolidation is critical for rebuilding buffers, stabilizing debt, and supporting inflation convergence, and cannot be further delayed.
- Advancing structural reforms will be crucial to address lackluster productivity growth associated with persistent resource misallocation.
- Strong institutions and low public debt can help mitigate the impact of high uncertainty on growth.



Thank You