LATIN AMERICA and THE CARIBBEAN

After moderating to an estimated 2.2 percent last year, growth in Latin America and the Caribbean is projected to edge up to 2.3 percent in 2026 and 2.6 percent in 2027. The positive impact of easier financing conditions and high metal and food commodity prices on regional growth this year is expected to be tempered by elevated trade tensions and uncertainty—despite some signs of resilience—as well as constrained fiscal space and sluggish consumption and investment in several countries. Restoring strong output growth is critical for sustaining wage employment creation and improving job quality. Risks to the outlook are tilted to the downside. Additional increases in trade barriers and associated uncertainty, or a softening of commodity prices, could dampen exports, investment, and fiscal revenues. Given elevated debt burdens, an unexpected tightening of financial conditions could result in capital outflows, and climate-related shocks pose a risk to vulnerable sectors such as agriculture, fisheries, and energy.

Recent developments

Economic activity in Latin America and the Caribbean (LAC) slowed in the second half of 2025, amid elevated global uncertainty, marginally below the June forecast (refer to figure 2.3.1.A and table 2.3.1). Despite some resilience in LAC's goods trade in 2025, several indicators—including industrial production and manufacturing and services PMIs—point to subdued activity going forward. For 2025 as a whole, growth rates of private and public consumption, as well as investment, were estimated to be higher than anticipated in the June forecast, although still relatively subdued. Stronger domestic demand was supported by import growth that exceeded expectations. Despite elevated trade tensions, exports also remained solid during the year, as commodity exporters weathered trade tensions relatively well (refer to figure 2.3.1.B and to chapter 1).

In most LAC countries in 2025, inflation rates remained within central bank target ranges (refer to figure 2.3.1.C). In Argentina, the marked tightening of fiscal and monetary policy has substantially dampened inflation. Monetary policy easing resumed in several economies, with Chile and Mexico cutting interest rates, while Brazil maintained its policy rate at 15 percent amid sticky inflation expectations.

Capital flows to the region have picked up, supporting financing needs. However, this was accompanied by widening current account deficits in some countries, as LAC experienced real appreciation that was more pronounced than in other regions (refer to figure 2.3.1.D). Sovereign issuance increased last year, as spreads narrowed from early-year peaks and equity prices surged during the second half of 2025 amid easing global financial conditions.

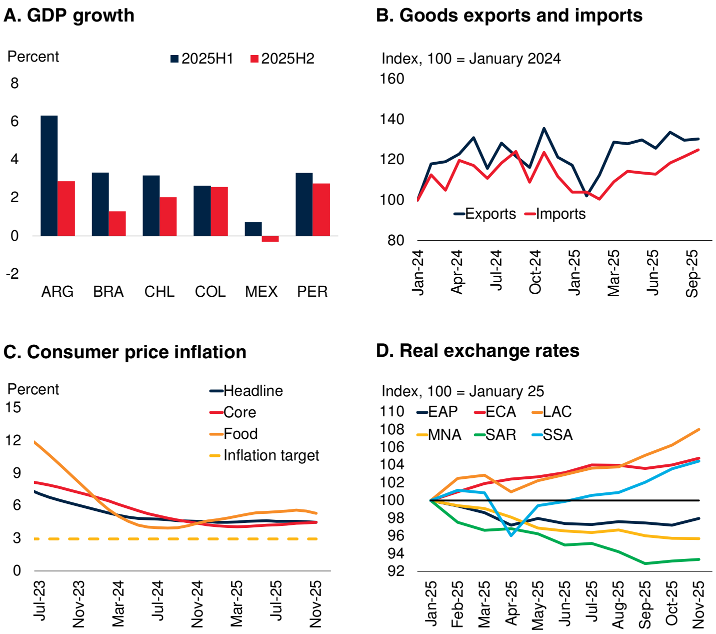
Outlook

Regional growth is projected to firm gradually over the next two years (refer to figure 2.3.2.A and table 2.3.1). In 2026, growth in LAC is expected to edge up slightly, to 2.3 percent, as trade tensions and related uncertainty remain elevated and domestic demand continues to be sluggish in some countries, partly offsetting the positive effect of easing financing conditions. Regional growth is then anticipated to firm to 2.6 percent in 2027, as trade flows recover and domestic demand improves, with the latter assuming that monetary policy rates in several large economies decline

Note: This section was prepared by Francisco Arroyo Marioli and Emiliano Luttini.

FIGURE 2.3.1 LAC: Recent developments

Growth decelerated in the second half of 2025 across LAC, amid elevated global uncertainty and subdued domestic demand. Exports remained resilient during 2025 despite elevated global trade tensions. Inflation has remained stable in much of the region, though it is still above central bank targets in some countries. Real exchange rates have appreciated in the region amid widening current account deficits.



Sources: Bank for International Settlements (BIS) (database); Haver Analytics; UN Comtrade (database); White House; World Bank.

Note: ARG = Argentina; BRA = Brazil; CHL = Chile; COL = Colombia; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MEX = Mexico; MNA = Middle East and North Africa; PER = Peru; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Bars show year-over-year seasonally adjusted annual growth rates.

B. Value-weighted average exports and imports for Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Last observation is September 2025.

C. Year-over-year consumer price inflation. Aggregate is a 12-month moving weighted average for Brazil, Chile, Colombia, Mexico, and Peru. Last observation is November 2025.

D. Panel shows broad indexes of the multilateral real effective exchange rate as calculated by the BIS. An increase indicates an appreciation of the economy's currency against a broad basket of currencies. Country aggregates are formed as follows: EAP = China, Indonesia, Malaysia, the Philippines, Thailand; ECA = Bosnia and Herzegovina, Hungary, North Macedonia, Poland, Romania, the Russian Federation, Serbia, Türkiye; LAC = Brazil, Chile, Colombia, Mexico, Peru; MNA = Algeria, Morocco, Saudi Arabia, United Arab Emirates; SAR = India; SSA = South Africa.

toward neutral ranges. Given the high prevalence of self-employment in LAC, restoring strong output growth is essential to sustain wage employment creation and support improvements in job quality by increasing participation in wage employment relative to self-employment (Loungani, Luttini, and Pallan 2025). Relative to June 2025 projections, forecasts for 2026 are downgraded for thirteen countries, upgraded for eight countries, and unchanged for eight countries (refer to table 2.3.2). It is too early to assess the macroeconomic implications of recent events involving the República Bolivariana de Venezuela.

Trade tensions and elevated uncertainty continue to dampen the near-term growth outlook. Average tariff rates on exports to the United States have remained broadly stable since June, and tariffs imposed in 2025 are assumed to remain in place over the forecast horizon, posing headwinds to exports. Commodity exporters are likely to remain comparatively insulated from the increase in trade barriers, as the redirection of their basic-materials exports is likely to occur more readily than for non-commodity exporters, whose differentiated products typically require a more involved process of customer acquisition (Fitzgerald and Haller 2024; Kohn et al. 2024). For metal and food commodity exporters, export prices are expected to remain elevated, providing continued support to their terms of trade, which have trended up in recent years (refer to figure 2.3.2.B).

Macroeconomic policy space is expected to remain limited, which may affect the region's ability to respond to further adverse shocks. Inflation has eased across much of the region but is anticipated to remain near the upper end of target bands in some countries. Accordingly, shifts in the stance of monetary policy are likely to be mixed, with modest monetary easing expected in the largest economies, but some increases in real policy rates elsewhere (refer to figure 2.3.2.C). Fiscal positions are also anticipated to remain constrained: high borrowing costs and fragile debt dynamics limit the scope for fiscal support, with most governments expected to maintain broadly contractionary stances in 2026 and 2027 (refer to figure 2.3.2.D).

Growth in Brazil is projected to moderate to 2 percent in 2026 before inching up to 2.3 percent in 2027. With gross government debt on an upward trajectory and expected to continue rising, fiscal sustainability remains a concern. Near-term fiscal prospects are constrained by mandatory expenditure commitments, elevated real rates, and modest external demand. Although monetary policy is envisaged to ease somewhat after interest rates reached 15 percent in 2025, still-high real interest rates, trade-related headwinds, and elevated global uncertainty are anticipated to weigh on investment and exports.

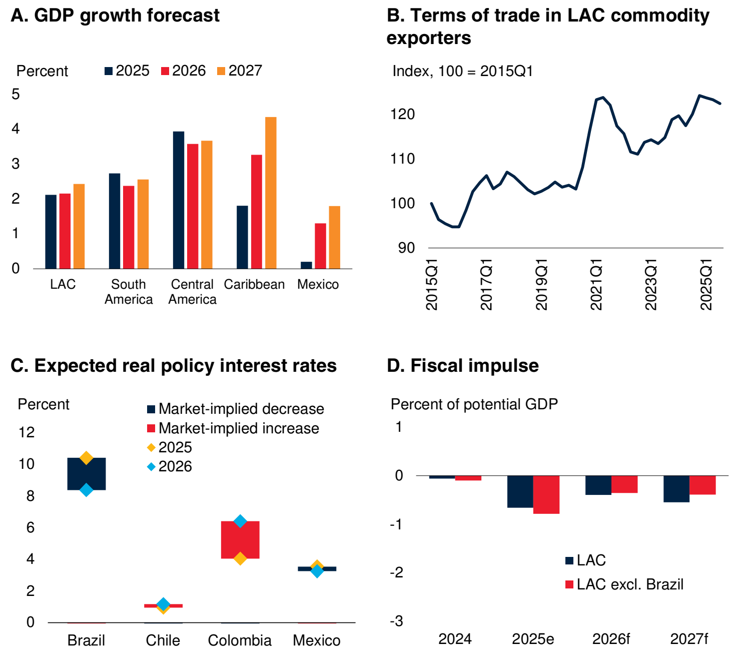
Mexico's economy is anticipated to expand 1.3 percent in 2026 and 1.8 percent in 2027, as it recovers from a spike in trade policy-uncertainty and as firms adapt to the new trade environment. Ongoing tariff disputes and the pending United States–Mexico–Canada Agreement (USMCA) review are nonetheless expected to continue weighing on investment and trade, as roughly 80 percent of the country's exports are destined for the United States. The central bank is expected to continue easing policy through 2026; even so, aggregate demand is projected to remain subdued. Fiscal consolidation efforts are expected to reduce the share of government spending in GDP in the short term; however, more ambitious consolidation efforts may be required to stabilize the public debt and create fiscal space (IMF 2025b).

Argentina's growth is projected to moderate to 4 percent in 2026—0.5 percentage point lower than projected in June—and remain at 4 percent in 2027. Domestic policy uncertainty late last year led to bouts of exchange rate pressure, prompting increases in market interest rates that are expected to weigh on domestic demand and growth this year. Support from the United States, including the provision of swap lines, helped stabilize financial conditions (IMF 2025c). The transition to an exchange rate band in April 2025 is projected to increase exchange rate flexibility, strengthening the exchange rate's role as a shock absorber.

Colombia's economy is projected to expand by 2.6 percent in 2026 and 2.8 percent in 2027, supported by resilient consumption and a gradual recovery in private investment as inflation falls within target and monetary easing continues. Nonetheless, policy uncertainty continues to cloud the outlook, tempering investment growth. The current account deficit widened in 2025 amid strong import demand but is expected to stabilize at levels somewhat above those of the pre-pandemic period. Fiscal deficits are anticipated to remain sizable but gradually narrow, conditional on the implementation of consolidation efforts (IMF 2025a).

FIGURE 2.3.2 LAC: Outlook

Growth in LAC is expected to edge up to only 2.3 percent in 2026 amid elevated trade tensions and uncertainty and sluggish domestic demand. However, growth projections are mixed across the region. Terms of trade in commodity exporters are expected to remain steady but at higher levels than before the pandemic, contributing to exports' stable purchasing power, especially for metal and food commodity exporters. Real policy rates are expected to decline slowly in the largest regional economies. Fiscal stances are projected to remain broadly contractionary in 2026–27.



Sources: Bloomberg; Consensus Economics; Haver Analytics; International Monetary Fund (IMF) World Economic Outlook (database); World Bank.

Note: e = estimate; f = forecast. excl. = excluding; LAC = Latin America and the Caribbean.

A. Bars show year-over-year real annual growth rates. GDP weights are based on average real U.S. dollar GDP (at average 2010–19 prices and market exchange rates) for the period 2000–24. Data for 2026–27 are forecasts.

B. Value-weighted terms-of-trade indexes for total trade for Argentina, Brazil, Chile, and Peru. Last observation is 2025Q3.

C. Yellow diamonds denote the end-of-November-2025 policy rate minus the 2025 inflation expectation from Consensus Economics. Blue diamonds denote the one-year-ahead market-implied policy rate, using a 30-day average of data up to December 12, 2025, minus the 2026 inflation expectation from Consensus Economics. Bars show the expected change in real interest rates from 2025 to 2026.

D. Fiscal impulse is the negative annual change in the structural primary balance for 18 LAC economies, using data from the October 2025 International Monetary Fund (IMF) World Economic Outlook database. A positive value indicates fiscal expansion, and a negative value indicates contraction.

Chile's growth is forecast to slow to 2.2 percent in 2026 and 2.1 percent in 2027. Domestic demand is expected to recover gradually as the monetary policy rate converges to the neutral range and inflation returns to target. Investment in copper and lithium mining is anticipated to bolster growth, benefiting from strong demand from the renewable energy sector globally and especially in China. At the same time, weaker commodity demand from China's real estate sector is expected to partly offset these gains by curbing export growth.

Peru's activity is projected to expand by 2.5 percent in 2026 and 2027. Growth is expected to be underpinned by copper and infrastructure investment, even as domestic consumption softens under tighter fiscal policy and lingering political uncertainty. Inflation has eased to levels close to the central bank's target, allowing policy rates to remain near neutral levels (BCRP 2025).

In the Caribbean, subregional growth is set to increase to 5.2 percent in 2026 and 6.6 percent in 2027, driven by Guyana's ongoing oil boom. Excluding Guyana, the subregion is projected to grow by about 2.9 percent and 3.7 percent, supported by tourism and related services. The Dominican Republic is expected to expand by an average of 4.5 percent over the forecast horizon, benefiting from reforms aimed at attracting foreign investment and progress on export diversification. Jamaica's growth is projected at -2.3 percent in 2026 and 3.7 percent in 2027, remaining constrained by structural bottlenecks and the extent and speed of reconstruction following Hurricane Melissa. Haiti's growth is forecast to rebound to 2 percent in 2026 after seven consecutive years of contraction, conditional on modest gains in stability and security.

In Central America, growth is projected to remain broadly stable at 3.6 percent in 2026 and 3.7 percent in 2027. Remittance flows are set to decline, adversely affecting economic activity (Estevão et al. 2025). On the upside, despite trade-related uncertainty, the subregion is expected to continue benefiting from U.S. growth and resilient exports. Panama's activity is forecast to expand by 4.1 percent in 2026, driven by finance, business, and logistics services, with FDI expected to continue financing current account deficits. Costa Rica's economy is expected to grow by 3.6 percent in 2026, supported by solid consumption. Service exports, which account for a large share of total exports in Costa Rica and Panama, are envisaged to remain insulated from tariffs.

Risks

Risks to the regional outlook remain tilted to the downside. Rising trade barriers, weaker external demand, and an unexpected decline in global commodity markets could further constrain growth and policy space. Elevated debt levels and current account deficits increase exposure to financial market stress and limit the ability of macroeconomic policies to respond to shocks. The growing incidence of climate-related events poses a significant threat to key sectors and could exacerbate existing vulnerabilities. On the upside, rapid advances in artificial intelligence could support growth by spurring investment in digital infrastructure and by raising productivity through broad technology adoption.

A key downside risk is an escalation of trade barriers. Further tariff increases or a trade-restrictive outcome to the USMCA review in 2026 would weigh on regional activity. Given its tight economic linkages to the United States, Mexico is particularly vulnerable, while related supply-chain disruptions could have broader negative spillovers to other economies (refer to figure 2.3.3.A). More generally, higher-than-anticipated trade barriers and persistently heightened global uncertainty could weigh on external demand by curbing growth in major trading partners, further dampening regional investment and exports.

Weaker-than-expected global growth could also lead to a pronounced slump in commodity prices. Lower prices for key regional exports would then weigh on fiscal revenues and external balances. This, in turn, could compound existing vulnerabilities in economies with narrow fiscal space or large current account deficits (Arroyo Marioli and Vegh 2023). An additional regional risk stems from immigration policies. Tightening immigration policies could constrain remittance inflows in the Caribbean, Central America, and elsewhere, weighing on consumption growth and current account balances (refer to figure 2.3.3.B; Combes and Ebeke 2011; Hassan and Holmes 2016).

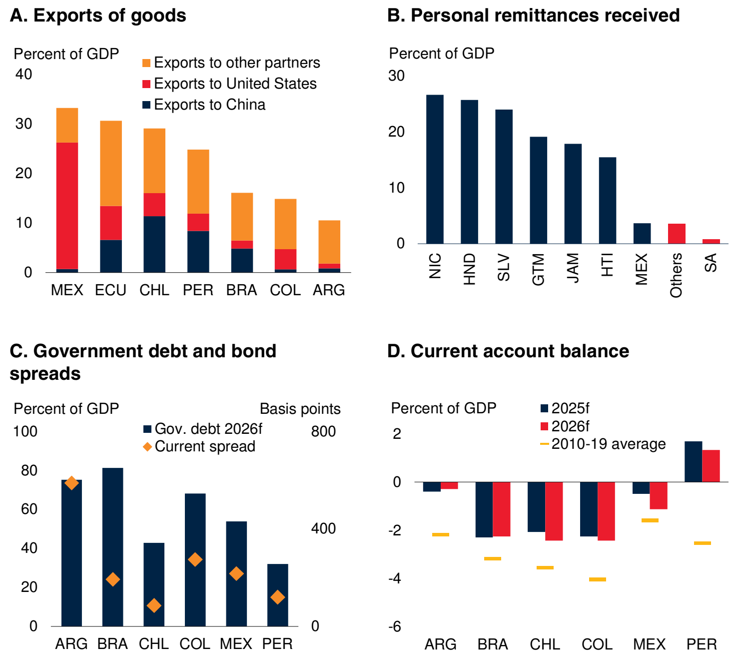
Financial market volatility could amplify existing vulnerabilities, even if they are, on average, less acute than a decade ago. Elevated public debt levels in several economies leave the region exposed to sudden changes in global financial conditions (refer to figure 2.3.3.C). Ongoing current account deficits underscore the region's reliance on external financing, which could lead to currency volatility and significant asset price adjustments should a souring risk sentiment prompt capital outflows (refer to figure 2.3.3.D). Such dynamics would complicate efforts to stabilize public finances and could require more pronounced adjustments than currently envisaged.

Climate change remains a significant source of risk for the region. Agriculture, fisheries, and energy sectors are vulnerable to extreme weather events. Natural disasters, including floods and storms, could place heavy strain on less-developed economies and exacerbate pre-existing weaknesses in infrastructure (World Bank 2014). A shift toward La Niña conditions, for example, would heighten the likelihood of droughts in southern South America, with potentially severe consequences for agricultural output and rural livelihoods.

The adoption of artificial intelligence could potentially boost productivity within the region, especially in countries with more educated labor forces, which are better positioned to harness the benefits of this emerging technology. Those economies capable of hosting critical digital infrastructure, such as data centers, could also experience strengthening in investment growth as the build-out of enabling computing capacity continues. Yet, countries exhibiting deficient infrastructure, unsupportive regulatory environments, and limited human capital are less likely to benefit (Bakker et al. 2024). The emergence of artificial intelligence may also cause disruptions in the region's labor markets: employment complemented by the technology is likely to expand, while in fields subject to substitution may shrink.

FIGURE 2.3.3 LAC: Risks

Risks to the regional outlook remain tilted to the downside. The region is highly exposed to trade shocks, with several economies dependent on exports to China and the United States. Remittances constitute a large share of income in parts of Central America and the Caribbean, leaving economies in these areas vulnerable to slowdowns in host countries and shifts in immigration policies. Elevated debt burdens limit fiscal space, and some countries are particularly exposed to external financing shocks given sizable current account deficits.



Sources: BACI (database); Haver Analytics; IMF, World Economic Outlook database; J.P. Morgan; World Bank.

Note: e = estimate; f = forecast. ARG = Argentina; BRA = Brazil; CHL = Chile; COL = Colombia; ECU = Ecuador; EMBI = JPMorgan Emerging Markets Bond Index; Gov. = government; GTM = Guatemala; HND = Honduras; HTI = Haiti; JAM = Jamaica; MEX = Mexico; NIC = Nicaragua; PER = Peru; SA = South America; SLV = El Salvador.

A. Goods exports to China and the U.S. as a share of GDP. Last observation is 2023.

B. Bars show personal remittances received as a percentage of GDP in 2024. "Others" refers to Central American and Caribbean countries not displayed individually in the panel.

C. General government gross debt as a percentage of GDP and EMBI bond spread as of December 15, 2025. Data for 2026 are projections.

D. Bars show current account balance as percent of GDP from October 2025 International Monetary Fund (IMF) World Economic Outlook database.

TABLE 2.3.1 Latin America and the Caribbean forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2023	2024	2025e	2026f	2027f	Percentage-point differences from June 2025 projections 2025e	2026f	2027f
EMDE LAC, GDP [1]	**2.4**	**2.4**	**2.2**	**2.3**	**2.6**	**-0.1**	**-0.1**	**0.0**
GDP per capita (U.S. dollars)	1.6	1.6	1.5	1.6	1.9	0.0	-0.1	-0.1
(Average including countries that report expenditure components in national accounts)[2]								
EMDE LAC, GDP [2]	2.3	2.2	2.2	2.2	2.5	0.0	-0.1	0.0
PPP GDP	2.3	2.1	2.2	2.2	2.5	0.0	-0.1	0.0
Private consumption	2.6	2.9	2.9	2.3	2.5	0.3	-0.2	-0.2
Public consumption	3.0	1.2	1.9	1.7	1.2	0.2	0.2	0.0
Fixed investment	2.5	2.7	3.2	2.8	2.9	1.1	0.8	0.6
Exports, GNFS [3]	-0.5	4.2	1.9	2.7	3.3	1.7	0.5	0.6
Imports, GNFS [3]	0.4	4.5	4.1	2.8	3.1	2.2	0.6	0.5
Net exports, contribution to growth	-0.2	-0.2	-0.6	-0.1	0.0	-0.2	0.0	0.0
Memo items: GDP								
South America [4]	1.8	2.4	2.7	2.4	2.5	-0.1	-0.2	-0.1
Central America [5]	4.9	3.5	3.9	3.6	3.7	0.6	0.0	-0.1
Caribbean [6]	4.3	7.0	3.3	5.2	6.6	-0.6	-0.6	-0.1
Caribbean excluding Guyana	2.0	3.2	1.7	2.9	3.7	-1.3	-0.2	0.2
Brazil	3.2	3.4	2.3	2.0	2.3	-0.1	-0.2	0.0
Mexico	3.4	1.4	0.2	1.3	1.8	0.0	0.2	0.0
Argentina	-1.9	-1.3	4.6	4.0	4.0	-0.9	-0.5	0.0

Source: World Bank.

Note: e = estimate; f = forecast. EMDE = emerging market and developing economy; PPP = purchasing power parity. World Bank forecasts are frequently updated based on new information and changing global circumstances. Consequently, projections presented here may differ from those in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. The World Bank is currently not publishing economic output, income, or growth data for República Bolivariana de Venezuela owing to a lack of reliable data of adequate quality. República Bolivariana de Venezuela is excluded from cross-country macroeconomic aggregates.

1. GDP and expenditure components are measured in average 2010–19 prices and market exchange rates.

2. Aggregate includes all countries in notes 4, 5, and 6, plus Mexico, but excludes Antigua and Barbuda, Barbados, Dominica, Grenada, Guyana, Haiti, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Suriname.

3. Exports and imports of goods and nonfactor services (GNFS).

4. Includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, and Uruguay.

5. Includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

6. Includes Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

TABLE 2.3.2 Latin America and the Caribbean country forecasts[1]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2023	2024	2025e	2026f	2027f	Percentage-point differences from June 2025 projections: 2025e	2026f	2027f
Argentina	-1.9	-1.3	4.6	4.0	4.0	-0.9	-0.5	0.0
Bahamas, The	3.0	3.4	2.3	2.1	1.8	1.2	0.9	0.5
Barbados	4.1	4.0	2.7	2.0	2.0	-0.1	0.0	0.3
Belize	0.5	3.5	1.5	2.4	2.2	-1.3	0.0	-0.1
Bolivia	3.1	0.7	-0.5	-1.1	-1.5	-1.7	-2.2	-2.6
Brazil	3.2	3.4	2.3	2.0	2.3	-0.1	-0.2	0.0
Chile	0.5	2.6	2.6	2.2	2.1	0.5	0.0	0.0
Colombia	0.7	1.6	2.6	2.6	2.8	0.1	-0.1	-0.1
Costa Rica	4.9	4.2	4.1	3.6	3.7	0.6	-0.1	-0.1
Dominica	3.7	2.1	3.1	3.0	2.9	-1.2	-0.4	0.1
Dominican Republic	2.2	5.0	2.5	4.5	4.5	-1.5	0.3	0.1
Ecuador	2.0	-2.0	3.2	2.0	2.4	1.3	0.0	0.3
El Salvador	3.5	2.6	3.5	3.0	3.0	1.3	0.6	0.1
Grenada	4.5	3.7	4.4	3.3	3.0	0.6	-0.1	0.3
Guatemala	3.5	3.7	4.0	3.7	3.7	0.5	-0.1	-0.1
Guyana	33.8	43.6	14.6	19.6	21.9	4.6	-3.4	-2.4
Haiti[2]	-1.9	-4.2	-2.0	2.0	2.5	0.2	0.0	0.0
Honduras	3.6	3.6	3.8	3.5	3.7	1.0	0.1	0.0
Jamaica	2.7	-0.5	-1.3	-2.3	3.7	-3.0	-4.0	2.1
Mexico	3.4	1.4	0.2	1.3	1.8	0.0	0.2	0.0
Nicaragua	4.4	3.6	3.1	3.0	3.0	-0.3	-0.3	-0.3
Panama	7.4	2.9	3.9	4.1	4.1	0.4	0.3	-0.2
Paraguay	5.3	4.7	5.5	3.9	3.9	1.8	0.3	0.3
Peru	-0.4	3.3	3.0	2.5	2.5	0.1	0.0	0.0
St. Lucia	2.2	3.9	1.8	2.0	2.1	-1.0	-0.3	0.2
St. Vincent and the Grenadines	5.3	4.1	4.0	2.9	2.7	-0.9	0.0	0.0
Suriname	2.4	1.7	1.4	3.5	3.7	-1.7	0.2	0.2
Trinidad and Tobago	1.5	2.5	1.4	0.3	2.5	-1.4	-1.0	-0.7
Uruguay	0.7	3.1	2.3	2.2	2.2	0.0	0.0	0.0

Source: World Bank.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing global circumstances. Consequently, projections presented here may differ from those in other World Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

1. Data are based on GDP measured in average 2010–19 prices and market exchange rates.

2. GDP is based on fiscal year, which runs from October to September of next year.

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