

October 2026

Atradius LAC Economic Outlook

Resilience holds but pressure rising

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Summary

Economic growth in Latin America and the Caribbean remains subdued and uneven

Latin America and the Caribbean (LAC) continues to withstand global shocks better than in earlier periods of stress. Nevertheless, growth remains modest and varies sharply across the region. South America is slowing, while Central America is benefitting from remittances. The Caribbean stands out, with tourism, investment and reconstruction supporting stronger growth.

Geopolitical and climate risks are compounding

In our view, the combination of the Iran war, a more interventionist US policy and a potentially historic El Niño presents the region's most important near-term test. Higher energy, fertiliser and food prices are reviving inflationary pressures, while extreme weather could disrupt agriculture, hydropower and infrastructure. Trade risks are still of concern, particularly around Mexico's USMCA review and Brazil's elevated US tariff burden.

Reforms provide grounds for cautious optimism

Policy frameworks, flexible exchange rates and stronger external buffers provide important protection for LAC. Recent political shifts have also created new momentum for fiscal discipline, investment and structural reform. We believe these improvements will strengthen LAC's medium-term resilience, although difficult adjustment programmes may initially constrain growth and intensify social pressures in some countries.

Interpretation and limitations: This publication provides Atradius Economic Research's general economic analysis and scenario-based forecasts using selected data and assumptions available as at 5 October 2026. Forecasts are not predictions or guarantees and actual outcomes may differ materially. Country, legal, regulatory, sanctions, tax and investment-regime references are high-level only and should not be relied upon for transaction or compliance decisions. Readers should obtain appropriate professional advice and conduct independent verification.

LAC economic outlook 2026-2027



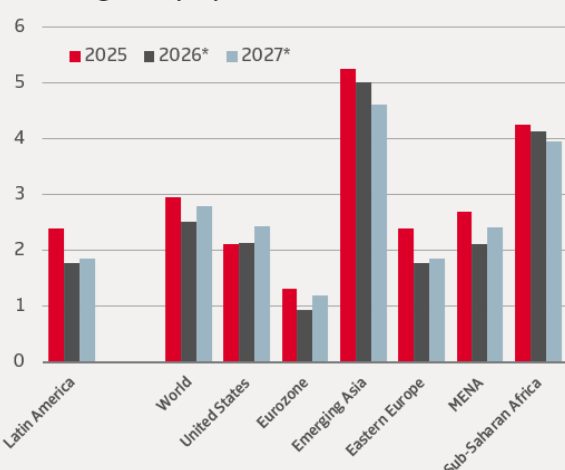


Resilience is being tested by external and domestic pressures

Latin America and the Caribbean (LAC) is once again demonstrating considerable resilience in a challenging global environment. Economic growth remains modest by emerging-market standards (figure 1), but major external shocks have not triggered the widespread instability experienced during earlier periods of global stress. Stronger monetary policy frameworks, flexible exchange rates and improved external buffers have made much of the region better able to absorb shocks.

Figure 1 LAC growth underperforms EMEs

Real GDP growth, y-o-y %

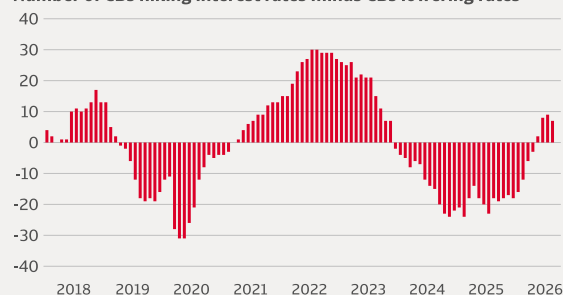


Source: Oxford Economics, Atradius (* forecast)

The external environment is becoming less supportive. The global economy is in a period of slower, increasingly uneven but still steady growth, with world GDP growth forecast to ease from 3.0% in 2025 to 2.5% in 2026 before recovering modestly to 2.8% in 2027. The US continues to outperform most advanced economies with AI-driven investment cushioning other sectoral slowdowns and fiscal expansion boosting growth further next year. Emerging Asia remains the main driver of global growth, although momentum is easing. However, energy-market disruption and higher freight costs resulting from the Iran war are keeping global inflationary pressures higher than expected. This is slowing disinflation, limiting the scope for monetary easing (figure 2) and keeping global financing conditions tighter for longer. Global trade is also losing momentum as geopolitical rivalries, supply-chain diversification and industrial policy measures reshape trade flows. For LAC, these trends matter mainly through commodity prices, export demand, investment flows and financing conditions.

Figure 2 Global monetary policy cycle tightening again

Number of CBs hiking interest rates minus CBs lowering rates

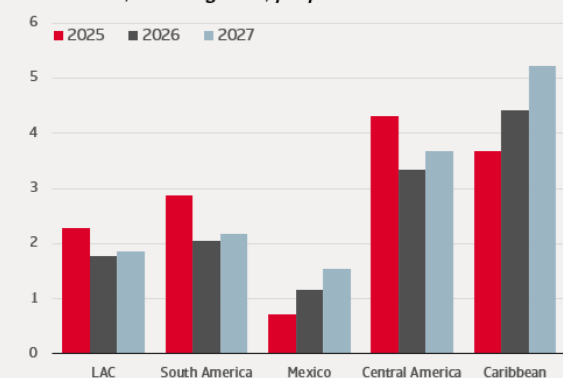


Source: BIS, Macrobond

Growth prospects vary considerably across the region (figure 3). South America remains the weakest-performing subregion with growth expected to slow from 2.9% in 2025 to 2.0% in 2026 and 2.2% in 2027, dragged down by persistent inflation and tighter financing conditions. Mexico is also growing below its potential as concerns about the weakening rule of law, fiscal consolidation and uncertainty surrounding trade with the US keep growth close to only 1%. Central America has a more favourable outlook with strong remittance inflows supporting domestic demand. Growth in the Caribbean is set to outpace the other subregions, driven by tourism, investment and reconstruction efforts – as well as higher oil output from Guyana – although high debt and exposure to natural disasters remain important constraints.

Figure 3 LAC growth to recover slightly in 2027

Latin America, real GDP growth, y-o-y %



Source: Oxford Economics, Atradius

The past year has been busy with many national elections (table 1) that have brought significant changes in economic policy that could help reinforce the region's resilience. New governments in Bolivia, Chile, Colombia, Costa Rica and Peru are placing greater emphasis on fiscal discipline, investment and structural reform, but implementation capacity and political support vary widely. Argentina continues to progress



Table 1 Selected election results across LAC over the past year

Country	Date	Type	Outcome
Argentina	26 Oct 25	Midterm	Voters elected 127 deputies and 24 senators, representing nearly half of the Chamber of Deputies and one-third of the Senate. The ruling far-right La Libertad Avanza (LLA) emerged as the clear winner, securing 40.7% of the vote, well ahead of the Peronist opposition's 33.7%. The strong result helped restore investor confidence after political uncertainty had sparked pressure on the peso and required exceptional financial support from the US Treasury, including a USD 20 billion swap facility.
Bolivia	17 Aug 25	General	The general elections marked a major shift in Bolivia's political landscape. The centrist Partido Demócrata Cristiano (PDC) won, securing 49/130 seats in the Chamber of Deputies and 16/36 in the Senate. The left-wing MAS, which had governed Bolivia for two decades, was reduced to two deputies and no senators.
	19 Oct 25	Runoff	Rodrigo Paz of the PDC won securing 54.6% of the vote. He took office on November 8. Together with the centre-right Alianza Unidad the coalition commands a workable legislative majority.
Brazil	4 Oct 26	General	Senator Flávio Bolsonaro of the right-wing Partido Liberal (PL) won 47% of the vote compared with 45.2% for incumbent Luiz Inácio Lula da Silva of the left-wing Partido dos Trabalhadores (PT). He is the son of former president Jair Bolsonaro (2019-22), who is in custody over his alleged involvement in a failed coup attempt following the 2022 election. Preliminary results also point to a strong performance of right-wing parties in Congress.
	25 Oct 26	Runoff	Outcome not yet known.
Chile	16 Nov 25	General	Right-of-centre parties strengthened their position in Congress. Chile Grande y Unido (CGU), Partido de la Gente (PDG) and Cambio por Chile (CPC), secured a majority (90/155) in the Chamber of Deputies. But in the Senate CGU and CPC fell one seat short of an outright majority.
	14 Dec 25	Runoff	In the presidential runoff, PLR leader José Antonio Kast achieved a landslide victory, receiving 58.2% of the vote compared with 41.8% for Unidad por Chile (UC) candidate Jeannette Jara. Kast was inaugurated on 11 March 2026.
Costa Rica	1 Feb 26	General	The governing right-wing Partido Pueblo Soberano (PPSO) strengthened its political position in the election. Laura Fernández won the presidency outright in the first round, an outcome not seen since 2010, capturing 48.3% of the vote against 33.4% for the second-placed candidate. The party also secured a legislative majority for the first time in over 20 years. Fernández began her four-year term in May.
Colombia	8 March 26	General	Right-wing Centro Democrático (CD) strengthened its position in Congress, but left-wing incumbent Pacto Histórico (PH) retained its status as the largest party in an increasingly fragmented legislature in which none of the parties has a majority. Right-wing political outsider Abelardo De La Espriella secured a narrow presidential victory over PH's Iván Cepeda and assumed office on August 7th. His Salvación Nacional holds only five seats in Congress, and his ruling coalition falls well short of a majority in either chamber, necessitating alliance-building with centrist parties.
	21 Jun 26	Runoff	
Honduras	30 Nov 25	General	The traditional governing right-wing parties, Partido Nacional (PN) and Partido Liberal (PL) strengthened their position in the unicameral National Congress and formed an informal alliance that commands a qualified majority after PN candidate Nasry Asfura was declared the winner of the presidential election. Although the result was contested, the transfer of power proceeded smoothly. The former governing left-wing Libre party lost power and became the leading opposition force.
Jamaica	3 Sep 25	General	The conservative Jamaica Labour Party (JLP) under Andrew Holness won a third consecutive term. The JLP lost seats compared with the 2020 election but retained a parliamentary majority.
Peru	12 Apr 26	General	Fuerza Popular (FP) became the largest party in both houses of Congress following the elections, with far-left Juntos por el Perú (JP) ranking second. None of the six parties represented in Congress obtained a majority in either chamber.
	7 Jun 26	Run-off	After nearly a month of vote counting, right-wing candidate Keiko Fujimori of the FP was declared the winner of the presidential run-off election by a razor-thin margin, securing 50.1% of the vote against 49.9% for left-wing challenger Roberto Sánchez (JP). She was sworn in on 28 July, becoming Peru's ninth president in ten years.

Source: Atradius



in correcting earlier macroeconomic imbalances, while reforms in countries including Paraguay and the Dominican Republic are strengthening institutional frameworks and investment prospects. These developments could improve resilience over time, but in the short term, fiscal consolidation may weigh on growth and intensify social pressures, particularly where adjustment follows an extended period of policy mismanagement in countries like Argentina and Bolivia.

Geopolitical risks on the rise

The geopolitical environment has become more challenging amid the Iran war and US policy uncertainty, reflected in both a more interventionist regional stance and continuing trade-policy risks (see box 1). The conflict in the Middle East, particularly the disruption of shipping through the Strait of Hormuz, has raised global prices for oil, gas, fertilisers and food since March. Although subsequent US-Iran negotiations eased some pressures, recent flare-ups have driven prices higher again, and the situation remains uncertain. As a net importer of oil, gas and fertilisers, the region faces higher import costs, renewed inflationary pressures and less room for monetary easing.

The effects of the conflict in the Middle East also vary across LAC. Energy-importing economies, particularly in the Caribbean and Central America, as well as Chile, are relatively vulnerable. Energy exporters such as Argentina, Brazil, Colombia and Guyana benefit from stronger export prices and higher production. However, even oil-producing economies face higher domestic costs because they often import refined fuels or fertilisers. Direct trade exposure to Gulf economies remains limited, reducing the region's vulnerability compared with Asia and Africa.

At the same time, US influence in LAC is increasing as hemispheric security and economic interests move to the forefront of Washington's foreign policy agenda. The US has adopted a more interventionist stance, combining military intervention, economic coercion, sanctions and security cooperation to advance its objectives. This includes the January capture of Venezuela's President Nicolás Maduro by US forces and increasing pressure on Cuba, which the US frames as a national security concern. Although this pressure has so far focused on economic measures – expanded sanctions and an oil blockade – the risk of targeted military action remains elevated.

Initial threats of unilateral military action against drug-trafficking targets in Mexico and Colombia have gradually given way to a more collaborative approach centred on partnerships with national authorities and multilateral co-operation. The March launch of the Shield of the Americas initiative, aimed at creating an American Counter Cartel Coalition, reflects this shift. At the same time, the US has become more active in domestic politics, openly backing right-

wing candidates in Honduras, Colombia and Brazil, while pressuring governments to reduce their reliance on Chinese investment, particularly in strategic infrastructure projects.

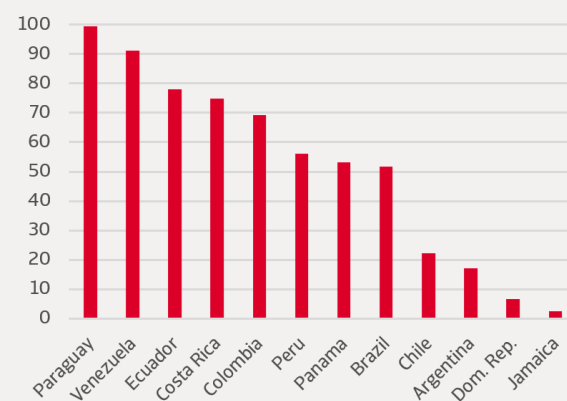
A potentially historic El Niño adds to climate risks

Climate risks compound these economic and geopolitical risks. According to the NOAA Climate Prediction Center, El Niño is strengthening, with a greater than 90% chance of a very strong event during the Northern Hemisphere autumn and winter of 2026-27. For October to December 2026, it estimates a 75% probability of an event exceeding the strength of previous El Niño episodes recorded since 1950. Moreover, the centre emphasises that stronger El Niño conditions increase the probability of typical impacts without guaranteeing them.

The economic effects of such a super El Niño will vary across LAC. Drought could weaken agricultural production and hydroelectric generation in parts of northern South America, Central America and the Caribbean. Elsewhere, excessive rainfall could damage crops, infrastructure and supply chains. Countries heavily reliant on hydropower, such as Paraguay, Venezuela and Ecuador, face an additional energy-security risk (figure 4), while food supply disruptions could sustain inflation and delay monetary easing.

Figure 4 South America is most reliant on hydropower

Hydropower, % total power generation



Source: Ember

The potential intensity of this event makes preparedness especially important. Strong public finances, disaster-risk financing and resilient infrastructure can help limit the economic damage. Ongoing reform efforts – from Argentina's stabilisation programme to governance reforms in Paraguay and competitiveness reforms in the Dominican Republic – leave much of LAC better positioned to navigate shocks than in previous periods of global stress.



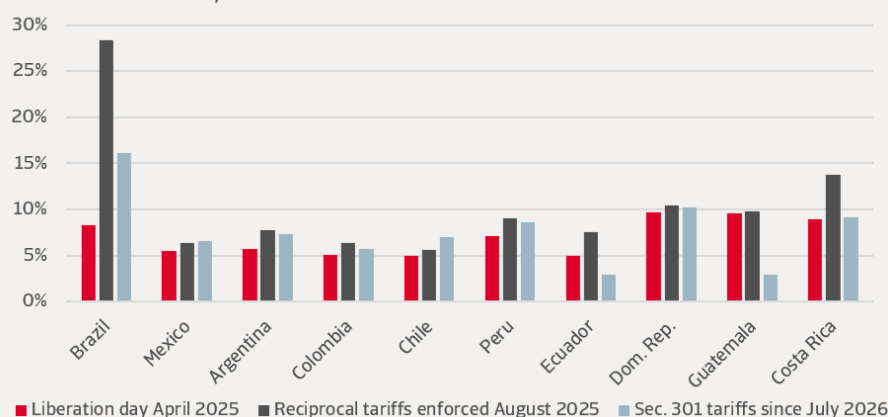
Box 1 Trade fragmentation creates risks but also new opportunities for LAC

US trade policy remains a key source of uncertainty for Latin America and the Caribbean. Since 2025, Washington has moved away from a rules-based multilateral approach towards a more discretionary system that combines baseline tariffs with country- and sector-specific measures. For LAC, tariffs peaked following the introduction of reciprocal tariffs in August 2025, after starting the year at or near zero in most markets. Although several measures were subsequently challenged in court, many have since been reintroduced under alternative legal authorities, notably Section 301. While trade policy uncertainty remains elevated and further changes cannot be ruled out, the current framework appears more stable and predictable than during the frequent policy shifts of the past two years.

Despite the more protectionist US stance, most major LAC economies remain relatively insulated. Effective tariff rates are now below 10% across the majority of the region's largest markets. Mexico remains on the 10% tariff tier but continues to benefit from the USMCA carve-out for compliant goods, keeping its effective rate at around 6.5%, while Ecuador and Guatemala also secured 10% rates. Costa Rica is in the 12.5% tier after standing out as one of the few countries in the region facing reciprocal tariffs of almost 15%, reflecting its trade surplus with the United States. Peru is also subject to the 12.5% rate but its effective rate is lower due to exceptions for copper and critical minerals. Brazil is the clear outlier of the region over the past year though. Alongside placement in the 12.5% tariff tier, it has been subject to additional politically motivated sector-specific measures, pushing its effective tariff rate above 15%. However, Brazil's relatively limited reliance on the US market compared with many regional peers should help contain the economy-wide impact.

Figure 5 Brazil stands out with highest US tariff rate in LAC by far

Effective US tariff rates, selected countries



Source: Yale Budget Lab

The ongoing review of the United States-Mexico-Canada Agreement (USMCA) remains the most significant trade policy uncertainty for the region. While the agreement remains in force, negotiations increasingly resemble parallel bilateral discussions between the US and its North American partners rather than a traditional trilateral review. Discussions with Mexico have generally progressed more smoothly than those with Canada, reflecting Mexico's deep integration with the US economy and the strong lobbying efforts of North American manufacturers seeking to preserve cross-border supply chains. Our baseline scenario remains that USMCA survives, but with stricter rules of origin, tighter labour and security provisions, and greater restrictions on Chinese content in strategic sectors such as automotive manufacturing, electronics and semiconductors.

At the same time, the changing global trade landscape is creating opportunities for Latin America & the Caribbean. As the US becomes more selective in its trade relationships, the European Union is moving in the opposite direction by pursuing deeper economic integration with key partners. The EU-Mercosur agreement, which entered provisional application in 2026, will gradually reduce tariffs on most goods traded between the two blocs, simplify customs procedures and improve access to public procurement markets. In parallel, Mexico has strengthened its trade relationship with the EU.

These developments support a broader trend towards diversification of trade, investment and supply chains. For Latin America, this creates opportunities to attract investment linked to critical minerals, renewable energy, food production and strategic manufacturing. Countries such as Argentina and Brazil are particularly well positioned to benefit from growing demand for lithium, rare earths and other minerals essential for the energy transition. More broadly, LAC's large agricultural sector, abundant natural resources, including of renewable energy, and relatively limited exposure to major geopolitical conflicts could increase its attractiveness as companies seek to build more resilient and geographically diversified supply chains.



South America: LAC's weakest growth performer

South America remains the slowest-growing subregion in LAC, with growth expected to moderate from 2.9% in 2025 to 2.0% in 2026 before recovering modestly to 2.2% in 2027 (table 2). The slowdown primarily reflects domestic constraints in three of the subregion's largest economies: elevated interest rates in Brazil, sticky inflation in Argentina, and weaker copper-sector performance and fiscal tightening in Chile. These challenges are compounded by the inflationary effects of the Middle East conflict and El Niño, prompting most central banks to pause monetary easing. Brazil is proceeding more cautiously, while Colombia is raising interest rates. Against this backdrop, Paraguay and Peru are expected to continue growing well above the subregional average, supported by solid domestic fundamentals.

The impact of these external shocks varies considerably across the subregion. Whereas net energy exporters, including Argentina, Brazil, Colombia, Ecuador and Venezuela, also benefit from higher export revenues, net importers such as Bolivia, Chile, Paraguay, Peru and Uruguay only face higher import costs. El Niño is also expected to affect countries differently. Colombia, Venezuela, northern Brazil, northern Chile and southern Peru could face drier conditions and elevated wildfire risks, while southern Brazil, Uruguay, northern Argentina, central Chile, and the coastal regions of Peru and Ecuador will likely experience above-average rainfall.

Table 2 South America slows down further

South America, real GDP growth, y-o-y %

	2025	2026*	2027*
Argentina	4.5	2.0	3.0
Bolivia	-1.2	-0.8	3.3
Brazil	2.3	2.0	1.3
Chile	2.6	0.3	2.7
Colombia	2.6	2.9	2.4
Ecuador	3.7	2.1	1.9
Paraguay	6.6	4.0	4.1
Peru	3.4	3.0	3.0
Uruguay	1.8	0.8	2.0
Venezuela	6.1	6.3	15.5
South America	2.9	2.0	2.2

Source: Oxford Economics, Atradius (* forecast)

Box 2 Overcoming the legacy of policy mismanagement

Venezuela, Bolivia and Argentina illustrate how prolonged policy mismanagement can weaken economic resilience and how difficult it can be to restore it. While Venezuela remains constrained by persistent macroeconomic imbalances and weak institutions, Bolivia is navigating a painful but necessary adjustment process. Argentina has made the most progress, with reforms beginning to restore stability and improve investor confidence. Together, these cases highlight the importance of policy credibility, institutional strength and reform continuity in supporting sustainable growth.

Venezuela remains one of LACs most fragile economies, despite benefiting from stronger oil prices and rising oil output. Political uncertainty remains elevated, institutions are weak and the US effectively controls access to much of the country's oil revenues. Decades of mismanagement have left the country with large macroeconomic imbalances, including persistent exchange rate pressures, triple-digit inflation, depleted foreign exchange reserves and a large stock of defaulted sovereign debt. Resolving these challenges will require extensive reforms and a lengthy debt restructuring process. An IMF programme would help but is unlikely in the near term and would depend on political developments.

Meanwhile Bolivia entered a three-year IMF Extended Fund Facility in October. The programme supports the policy shift initiated by President Paz, who came to power following the historic electoral defeat of the left-wing MAS party. Reforms include fiscal consolidation, abandoning the long-standing currency peg, and opening the mining sector (particularly tin, zinc, silver and lithium) to foreign investments. While these measures should strengthen the economy over time, they will likely lead to economic contraction in the short run. This has fuelled massive social unrest, weighing on economic activity as well and sustaining elevated political risks. Depleted reserves and still restricted access to international capital markets, highlighted by the high interest rate on the sovereign's return bond issuance, leave Bolivia vulnerable to shocks and dependent on official financing.

Argentina illustrates the challenges of overcoming economic imbalances of past policy failures. It shows how difficult but sustained policy adjustment can begin to restore macroeconomic stability. Fiscal consolidation, deregulation and investment reforms have improved investor confidence and attracted substantial interest under the RIGI framework (see Argentina section). However, inflation remains elevated and maintaining reform momentum depends on political support and policy continuity.



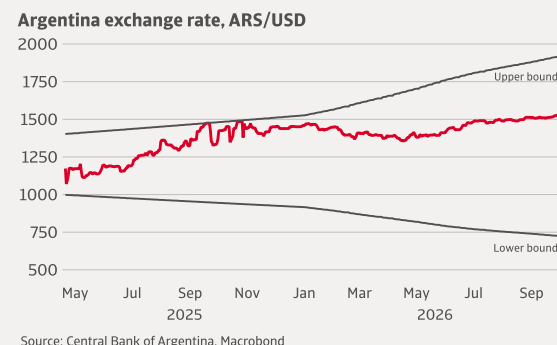
Argentina: advancing reforms, but sticky inflation remains a key challenge

Macroeconomic stabilisation in Argentina is continuing, albeit at a slower pace. We forecast economic growth to slow from 4.5% in 2025 to 2.0% in 2026 as rising inflation weighs on consumer demand, before recovering to 3.0% in 2027, supported by stronger investment. If realised, this would mark the first time in more than two decades that the economy records growth for three consecutive years. Annual inflation declined sharply last year, falling from triple-digit to double-digit levels, but bringing it down to single digits is likely to take longer. We expect the disinflation process to continue, with average annual inflation easing from 42% in 2025 to 33% in 2026 and 26% in 2027, although volatility in global energy, food and currency markets could make this challenging.

Economic growth is likely to remain uneven, with export-oriented sectors such as agriculture, mining, and oil and gas continuing to drive activity. In late 2024, Argentina overtook Colombia to become the fourth-largest oil producer in LAC and became a net exporter of oil and gas. By contrast, domestically oriented sectors, including construction and manufacturing, are expected to expand only modestly. This reflects ongoing fiscal austerity, which affects public investment, subdued domestic demand and stronger international competition following trade liberalisation. We expect Argentina to be less affected than other LAC countries by El Niño, which typically brings increased rainfall and has historically boosted agricultural production.

Bringing inflation under control continues to be challenging, and the transition to single-digit annual inflation is likely to be gradual. A key obstacle is the widespread indexation of wages and pensions, which helps to sustain inflationary pressures. Progress in disinflation slowed from the second half of 2025 as currency depreciation ahead of the mid-term elections added to price pressures (figure 6), while the effects of fiscal consolidation and wage restraint measures began to fade. Higher global energy and fertiliser prices linked to conflict in the Middle East also fuelled inflation. Argentina is exposed to this as it continues to import refined petroleum products, including from Gulf countries, and is a small net importer of fertilisers. Although a temporary fuel price freeze helped reduce monthly inflation, annual inflation still rose to 33.8% in July, the highest rate since August 2025. While we expect inflationary pressures to ease over the forecast horizon, recent developments underscore that the disinflation process is likely to be uneven and vulnerable to fluctuations in global energy, food and foreign exchange markets. Although strong exports have helped keep the peso relatively stable in recent months (figure 6), we expect depreciation pressures to intensify as political uncertainty increases in the run-up to the 2027 general election.

Figure 6 Argentine peso broadly stable in recent months



Following the October 2025 midterm election (table 1), the Milei administration has been able to advance its reform agenda. Progress has been made across several areas, including the simplification of administrative and regulatory frameworks, privatisation initiatives, the Large Investment Incentive Regime (RIGI), the newly approved SMI investment regime (RIMI), and the Labour Modernisation Law, aimed at increasing labour market flexibility and reducing informality.

RIGI has already attracted strong interest from foreign investors. According to the Ministry of Economy, 23 projects worth around USD 50 billion (6.6% of GDP) had been approved by early September. Most are in mining (lithium, gold and silver) and energy (oil and gas), but they also include the construction of Latin America's largest urea plant. The proposed Súper RIGI, currently in the Senate, would extend investment incentives to higher-value-added activities such as industrial processing, renewable energy and high-tech activities, including artificial intelligence, data centres and lithium batteries. This could substantially improve Argentina's medium-term growth prospects.

However, investment is likely to materialise only gradually, crucially depending on the durability of the market-friendly reforms. The general election in October 2027 will thus be an important test of policy continuity. Meanwhile, falling approval ratings for President Milei amid persistent inflation, elevated unemployment, and a series of corruption scandals concerning members of his administration have heightened investor concerns and lifted the country risk premium. Maintaining investor confidence is key considering Argentina's high financing needs and low official reserves. This underscores the need to strengthen reserves, reduce inflation further and ensure that reforms deliver meaningful improvements in living standards.



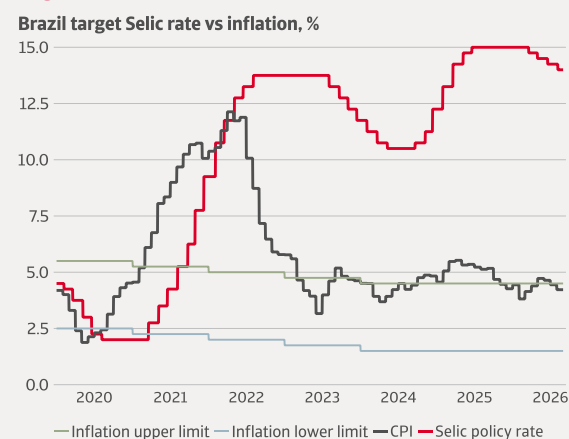
Brazil: high rates and geopolitical risks slow momentum

Brazil's economy has shown remarkable resilience in recent years but is losing momentum after four years of above-trend growth. GDP expanded by 2.3% in 2025, mainly reflecting the lagged impact of sharp monetary tightening on household consumption and private investment. We expect GDP growth to ease further to 2.0% in 2026 and 1.3% in 2027 as the pace of monetary easing slows amid higher-than-expected inflation and the temporary impact of pre-election spending fades. A super El Niño is the main downside risk, as drought and flooding could disrupt agriculture (9% of GDP) and hydroelectric generation.

The main domestic constraint is still tight monetary policy, and higher-than-expected inflation does not help in this regard. Inflation had eased to 3.8% in February 2026, within the target band 1.5%-4.5%, supported by slower activity and a stronger real. Although Brazil is a net energy exporter, higher prices for imported fuels and fertilisers due to the Iran war have raised domestic fuel, transport and food costs. Domestic price pressures have been amplified by pre-election spending and adverse weather conditions associated with El Niño. As a result, we expect inflation to average 4.4% in both 2026 and 2027, although prices pressures should ease during 2027 as the impact of higher global energy prices and pre-election spending fades.

Against this backdrop, the central bank has taken a more cautious approach to monetary easing. After keeping the policy rate on hold since mid-2025, it reduced the rate in five small 25-basis-point steps between March and September, to 13.75%. We expect one more cut this year, bringing the rate to 13.5%, followed by further easing during 2027 to 11.75% by year-end. At this level, monetary policy remains restrictive.

Figure 7 Monetary easing complicated by above-target inflation



Source: Central Bank of Brazil, Macrobond

Brazil is comparatively well placed to absorb external shocks. It is a large and relatively closed economy, with exports equal to around 18% of GDP and exports to the US below 2% of GDP. This limits the macroeconomic impact of higher US tariffs, especially after broad exemptions reduced the effective tariff burden. Ample official reserves and a flexible exchange rate also remain important shock absorbers. The real appreciated strongly in 2025 and continued to strengthen in early 2026, supported by wide interest-rate differentials and improving terms of trade. We still expect mild depreciation as Brazilian interest rates fall and the differential with the US narrows.

Brazil is also increasingly seeking to position itself as a regional hub for AI-related investment. Public and private initiatives are supporting the development of data centres, cloud infrastructure and AI capabilities, while the country's large domestic market and abundant renewable energy resources provide favourable conditions for expansion. Although adoption remains uneven, the growing use of AI across sectors such as healthcare and energy could support productivity gains and strengthen medium-term growth prospects.

Fiscal policy remains the main medium-term vulnerability. The current fiscal framework has not been sufficient to stabilise the debt burden, with high interest costs keeping the overall deficit above 8% of GDP. Pre-election spending is likely to widen the deficit in 2026, while government debt is projected to rise further towards 85% of GDP in 2027. Risks are mitigated by favourable debt characteristics, including mostly domestic and local-currency financing, a diverse investor base and sizeable government cash buffers. Even so, we expect fiscal credibility to remain central to investor confidence and the pace of monetary easing. This challenge will confront the next administration irrespective of whether incumbent Lula or Flávio Bolsonaro prevails in what currently appears to be a tightly contested presidential race.

Chile: Slowed by copper and Middle East conflict

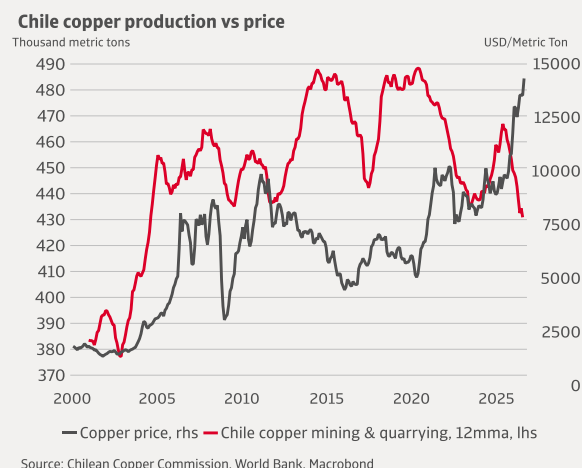
A change in government, structural challenges in the mining sector and the conflict in the Middle East are creating headwinds for Chile's short-term outlook. Economic growth is expected to slow from 2.6% in 2025 to 0.3% in 2026 before rebounding to 2.7% in 2027 as private investment strengthens. Expected higher energy prices will slow the pace of disinflation. However, weak growth should limit underlying price pressures, allowing annual inflation to moderate from 4.2% in 2025 to 3.8% in 2026 and 3.6% in 2027 as energy prices gradually normalise.

Policy shifted sharply after right-wing President José Antonio Kast took office in March. His centre-right government prioritises fiscal discipline and strengthening the business environment. While these measures should support stronger growth over the longer term, they are weighing on economic activity in the short term.



Economic growth slowed in the first half of 2026 due to front-loaded spending cuts, lower copper output caused by declining ore quality and weather-related supply disruptions, and weaker private consumption amid rising unemployment and inflation. Annual inflation increased from 2.4% in February to 4.1% in August 2026, partly reflecting higher energy and food prices following the Middle East conflict. As a net importer of oil and gas (4.2% of GDP), Chile is vulnerable to higher global energy prices, although its direct dependence on Gulf countries is minimal. In response to rising inflation, the central bank has paused monetary easing. We expect the policy rate to stay at 4.5% through 2026 before declining to 4% in 2027.

Figure 8 Chile's copper production declining



The new administration has made an encouraging start in advancing its reform agenda. Already in early-August, Chile's National Congress approved the government's National Reconstruction and Development Bill, aimed at boosting investment and employment. Key measures include lower corporate tax rates, employment incentives, faster environmental and sectoral permitting, and a tax stability mechanism for strategic investments. These reforms should enhance Chile's attractiveness for foreign investors, particularly in mining, including copper and lithium, alongside energy, technology and infrastructure.

Going forward, we expect a more favourable business environment under the new administration to strengthen private investment and employment growth. Combined with robust global demand for copper and lithium, driven by the energy transition and AI-boom, and gradually easing inflation, this should support an economic rebound in 2027. Growth faces downside risks from the potential super El Niño later this year. Associated flooding in central and southern Chile and drought in the mining-rich north could disrupt agricultural and mining output. However, Chile is well positioned to absorb this shock. Resilience remains strong, supported by robust

institutions and policy frameworks, a flexible exchange rate and adequate official reserves.

Colombia: Policy tightening is clouding the outlook

We expect Colombia's economic growth to strengthen from 2.6% in 2025 to 2.9% in 2026, driven by policy measures implemented by the previous government, including a higher minimum wage and pre-election spending. Together with the pass-through of higher global energy and fertiliser prices, this has pushed annual inflation up from 5.1% in 2025 to 6.3% in August. Despite being a net exporter of oil and gas, Colombia remains reliant on imports of refined petroleum products. In response, the central bank started a new tightening cycle in January, raising its policy rate from 9.25% in December to 12.25% in September. This and much-needed fiscal consolidation that we expect the new government to begin in 2027 will likely weigh on economic activity, with growth slowing to 2.4% in 2027. Inflation is likely to remain elevated in both 2026 and 2027, averaging 6.1% and 6.2%, respectively, as the impact of the minimum wage increase fades only gradually while El Niño-related price pressures begin to materialise.

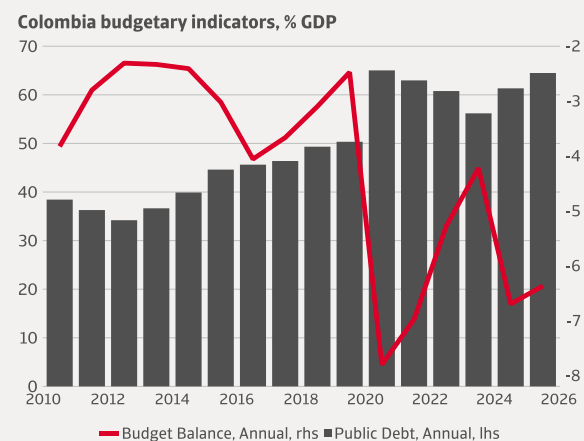
Despite the heavy human toll, we expect the economic fallout of the August earthquake in western Colombia to be limited. Major economic centres, including Bogotá, and the oil sector, were largely unaffected, while reconstruction efforts should support economic activity. However, the associated spending will make fiscal consolidation more challenging. Meanwhile, the high probability of a super El Niño later this year poses a downside risk. Resulting drought in central Colombia could disrupt agricultural production and exports (Colombia is a net-exporter of food) and reduce hydroelectric power generation.

Elevated political risks are another downside risk. Right-wing outsider Abelardo De La Espriella narrowly won the presidential runoff in June and took office on 7 August. Following four years under the country's first left-wing administration, his presidency marks a clear shift towards more business-friendly policies. Key priorities include strengthening security, combating organised crime, and revitalising the hydrocarbons sector and expenditure-led fiscal consolidation.

Fiscal consolidation is urgently needed after expansionary policies under the previous government widened fiscal deficits to over 6% of GDP and raised government debt to 64% of GDP in 2025 (figure 9), while eroding the credibility of the fiscal rules. Financial markets responded positively to De La Espriella's victory. Ten-year government bond yields fell and the currency appreciated by over 20% against the USD before moderating following the Fed's rate hike. Even so, it remains up around 15% year-to-date, making it one of the world's best-performing currencies.



Figure 9 Colombia's wide deficit pushing back up debt



However, policy implementation may prove challenging. Congress remains highly fragmented, and the president's party holds only a handful of seats, requiring support from centrist parties to pass legislation. Coalition-building may prove difficult given his lack of political experience, potentially slowing his policy agenda. An important test will be securing approval of the budget before the October 20 deadline.

Paraguay: Strong growth supported by structural reforms

Paraguay is one of LAC's fastest-growing economies, and the outlook remains favourable. After growth accelerated to a 12-year high of 6.6% in 2025, driven by a record soy harvest, we expect GDP growth to moderate to a still-robust 4.0% in 2026 and 4.1% in 2027. Private consumption and major investments in pulp production, green hydrogen, biofuels and low-carbon fertilisers are expected to support activity. Paraguay's abundant hydropower resources, which generate all its electricity, enhance the country's attractiveness to investors. We expect inflation to stay within the central bank's 1.5%-5.5% target range, averaging 3.4% in 2026 and 4.8% in 2027. El Niño is likely to weaken agricultural exports next year, reversing recent currency gains and raising import and food prices. Risks remain tilted to the downside, as a super El Niño could trigger flooding, reduce crop yields and disrupt supply chains.

Strong economic performance is underpinned by sound macroeconomic policies and ongoing structural reforms to strengthen governance, combat corruption, improve government efficiency and oversight, protect property rights, develop domestic capital markets and enhance climate resilience. These efforts have strengthened resilience, supported by a flexible exchange rate, sound government finances and ample reserves, and have contributed to investment-grade ratings from two major rating agencies. Reforms are set to continue under the 'Paraguay National

Development Plan 2050' launched in late 2025. The plan provides a roadmap for raising Paraguay's development level. Key priorities include upgrading infrastructure and human capital, both essential for attracting investments, raising productivity and supporting a move up the value chain.

Figure 10 Paraguay exports moving up value chain



Peru: Moderating growth, but strong resilience

Peru has so far weathered elevated geopolitical tensions and domestic political instability relatively well. Household spending and investment have remained remarkably resilient, supported by policy rate cuts, high copper prices and ongoing infrastructure projects. However, with some of these projects nearing completion and elevated inflation, we expect economic growth to moderate gradually from 3.4% in 2025 to 3.0% in 2026 and remain at that pace in 2027. Inflation reached 4.4% in August, from 1.5% in 2025, amid the Middle East conflict and adverse weather conditions. A newly introduced fuel subsidy and a normalisation of energy prices should help bring inflation down to 3.8% in 2026 and 2.9% in 2027, within the central bank's 1%-3% target range. This should enable the central bank to maintain the policy rate at 4.25% throughout the forecast period.

The main downside risk is a super El Niño event. Heavy rainfall and flooding along Peru's northern and central coast could disrupt fisheries, agriculture and infrastructure, while droughts in the south may affect mining activity. The resulting supply shocks could also push inflation higher. The government has already increased mitigation spending and Peru's strong public finances provide ample room to respond, while high copper prices should help offset the fiscal costs.

Political stability is likely to improve following the recent election (table 1), as Congress is substantially less fragmented than before and Fujimori's coalition government controls more than one-third of Senate seats. This is enough to block an impeachment process, which was a common source of



political instability in recent years. Nevertheless, elevated social and political tensions are likely to persist, as the root causes, notably high inequality and entrenched perceptions of corruption, are expected to endure.

Fujimori is widely seen as market friendly. Her priorities include tackling rising crime and corruption, reducing regulatory burdens, further improving infrastructure and maintaining fiscal discipline. While Peru's fiscal position remains strong, the Fiscal Council has warned about the long-term implications of rising congressional spending. A recent Constitutional Court ruling should help contain these pressures by removing Congress's ability to initiate new spending legislation. The new administration also seeks to improve tax collection to reverse the decline in tax revenues, which fell from 16.9% of GDP in 2022 to 14.8% in 2025. Strong government finances, a flexible exchange rate and ample official reserves continue to underpin Peru's resilience to external shocks.

Mexico: resilient economy, subdued growth

Following a weak start to the year, Mexico's economy rebounded in the second quarter, expanding by 1.4% quarter on quarter after contracting by 0.6% in the first quarter. Growth was supported by a recovery of private consumption and investments, boosted by the FIFA World Cup, which Mexico co-hosted with the US and Canada in June and July, increased public infrastructure spending under Plan Mexico, and stronger exports, particularly of advanced electronics linked to the US artificial intelligence (AI) investment boom. However, we do not expect this stronger performance to sustain. The temporary boost from the World Cup will fade, while persistent uncertainty surrounding the future of the United States-Mexico-Canada Agreement (USMCA; see box 1) and we expect concerns over the quality and independence of the judicial system to continue to weigh on private investments. At the same time, fiscal consolidation is expected to constrain public investments. We forecast modest GDP growth of 1.2% in 2026 and 1.5% in 2027.

Table 3 Lacklustre growth in Mexico

Real GDP growth, y-o-y %

	2025	2026*	2027*
Mexico	0.7	1.2	1.5

Source: Oxford Economics, Atradius (* forecast)

Inflation has moderated in recent months as weather conditions improved and measures to contain fuel-price increases helped offset the effects of the conflict in Iran.

Headline inflation declined from 4.6% in March to 3.3% in July. However, persistent core inflation and the risk of weather-related disruptions associated with El Niño are likely to keep inflation pressures elevated. We expect broadly stable average inflation of 3.8% in 2026 and 3.9% in 2027.

Risks remain skewed to the downside. Geopolitical tensions, including the conflict in Iran and USMCA negotiations, could still escalate. In addition, a super El Niño poses a weather-related risk, bringing unusually dry summer conditions across much of Mexico and heavier-than-normal winter rainfall in northern and central regions.

Mexico's direct exposure to the Iran conflict is limited. The country is a small net importer of oil and gas, with negligible dependence on Gulf supplies. Although around 75% of fertiliser demand is imported, only about 10% comes from Gulf countries. The main transmission channel is therefore indirect, particularly through higher food prices, as fuel price stabilisation mechanisms help contain the impact on domestic fuel costs.

El Niño could amplify food price pressures and affect farmers producing water-intensive crops such as sugar cane and cotton. However, we expect the macroeconomic impact to remain manageable, given that agriculture accounts for less than 5% of GDP. Against this backdrop of rising price pressures, we expect Banxico to keep its policy rate at 6.5% throughout the forecast period, following the final rate cut that ended the easing cycle in May (figure 11).

Figure 11 Wide interest rate differential with US supports peso

Mexican peso vs Mexican & US monetary policy



Source: Macrobond

Despite persistent external uncertainty, Mexico's economy remains remarkably resilient. Although the peso experienced volatility against the US dollar following the outbreak of the Iran conflict, it had on balance appreciated by around 6.8% before moderating after the Fed's rate hike (figure 11). This resilience reflects a favourable interest rate differential with



the US, a flexible exchange rate, solid external finances and adequate official reserves. Although subdued economic growth has delayed fiscal consolidation and pushed government debt towards 60% of GDP, the debt burden remains manageable given its favourable composition with debt largely financed domestically.

Mexico's key challenge remains growth. Weak productivity gains over the past two decades have constrained economic performance. To boost productivity, the Sheinbaum administration launched Plan Mexico in January 2025. This includes measures to address infrastructure gaps, support strategic sectors, and facilitate private investments. The plan is a step in the right direction but should be complemented by measures to strengthen institutions and governance, upgrade skills and tackle crime and insecurity.

Central America: Remittances cushion the impact of external pressures

The outlook for Central America remains broadly favourable despite a more challenging external environment. Higher oil, gas and fertiliser prices, El Niño-related weather disruptions and changes in US policy are expected to weigh on growth and push inflation somewhat higher, but their overall impact should remain manageable. We forecast economic growth to slow from 4.3% in 2025 to 3.3% in 2026 before recovering to 3.7% in 2027. Strong remittance inflows and resilient domestic demand continue to support household spending and act as important buffers against external shocks. Costa Rica and Guatemala are expected to outperform, with average growth of around 3.6% in 2026 and 2027, while El Salvador is likely to lag, averaging just 1.8% (table 4), reflecting its greater exposure to drought, food insecurity and high commodity prices.

Table 4 Favourable growth outlook for Central America

Central America, real GDP growth, y-o-y %

	2025	2026*	2027*
Costa Rica	4.5	3.3	3.9
El Salvador	3.9	2.2	1.4
Guatemala	4.3	3.4	3.9
Honduras	3.8	2.7	3.4
Nicaragua	4.9	3.3	2.8
Panama	4.3	4.0	4.3
Central America	4.3	3.3	3.7

Source: Oxford Economics, Atradius (* forecast)

As net importers of oil, gas and fertilisers, Central American countries remain vulnerable to higher global commodity prices, with Costa Rica and Guatemala being the least exposed. Rising import costs are likely to contribute to higher inflation and somewhat weaker economic activity. El Niño – which typically brings below-average rainfall to much of Central America, particularly the countries located within the Central American Dry Corridor (figure 12) – is likely to reinforce these pressures throughout the second half of 2026 and the first half of 2027. We forecast inflation to increase from 1.4% in 2025 to 2.7% in 2026 and to 3% in 2027.

Figure 12 Central America facing drought conditions



Source: Revista mesoamericana

These external headwinds are partly offset by strong remittance inflows, a key source of household income and economic activity across Central America, particularly outside high-income Costa Rica and Panama. Inflows rose by around 20% in 2025, reaching record levels equivalent to almost 21% of GDP in Guatemala and 30% in Honduras. Much of this growth reflected migrants' front-loading of transfers in response to tighter US migration policies and the introduction of a 1% remittance tax. Although growth moderated, inflows continued to expand in 2026, rising by 9.1% year-on-year in Q1, with the strongest increases recorded in Honduras (14.4%) and the weakest in El Salvador (6.8%). This should continue to support private consumption and economic resilience across the region.

Costa Rica: Reform momentum amid a two-speed economy

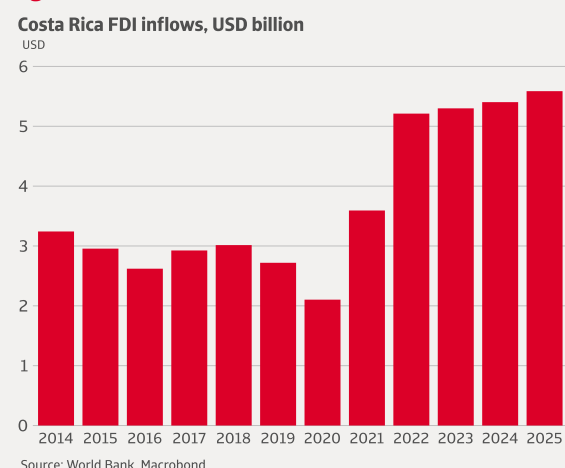
We expect economic growth to ease from 4.5% in 2025 to 3.3% in 2026 due to weaker external demand, particularly medical devices and services, after earlier frontloading effects fade. The resulting softer labour market conditions are also expected to weigh on household consumption. Growth should accelerate to 3.9% in 2027, supported by construction and



investment, aided by monetary easing that reduced the policy rate from 4% in June 2025 to 3% in July 2026.

Strong currency appreciation, exceeding 50% against the USD since mid-2022 and 8.5% year to date at the time of writing, has created significant challenges for Costa Rican policy makers. It has contributed to a prolonged period of deflation and reinforced the emergence of a two-speed economy. Key drivers were strong exports from free trade zones, a robust post-pandemic recovery in tourism and record FDI inflows reaching USD 5.1 bn in 2025 (figure 13). Most of these inflows reflected reinvested earnings, although they also included 19 new foreign investment projects, according to the investment promotion agency CINDE. Although the US still dominates investment, inflows from Europe and Asia are increasing. This broader investor base could counterbalance semiconductor reshoring to the US, exemplified by Intel's planned closure in Costa Rica by the end of 2026.

Figure 13 Record FDI inflows for Costa Rica



While inflation is likely to remain subdued, we expect it to turn marginally positive in the second half of 2026 and average 2.0% in 2027. This is driven by higher energy prices stemming from the conflict in the Middle East (Costa Rica is a net importer of oil and gas) and rising food prices linked to El Niño. El Niño is likely to bring drier and hotter conditions to Costa Rica's Pacific coast and Central Valley and heavier rainfall to the Caribbean coast, affecting agricultural output and hydroelectric power generation. A severe El Niño is a downside risk to growth and could further increase inflationary pressures. However, even in this scenario, we expect inflation to remain within the central bank's 1%-3% target range.

The appreciation of the colón also contributed to a two-speed economy. High-tech industries, concentrated in the free trade zones, continue to expand at near double-digit annual rates. In contrast, traditional agricultural and manufacturing sectors, as

well as tourism, are growing by less than 3%. These sectors have struggled to offset the impact of the stronger currency through productivity gains and face weakening demand and shrinking profit margins. According to BMI, several multinational agribusiness firms have announced partial or complete closures of production facilities.

To raise productivity in the traditional sectors, Costa Rica needs to address longstanding structural bottlenecks, particularly weaknesses in infrastructure and rigidities in the labour market. The reform outlook has improved following the governing centre-right party's success in securing a congressional majority in February for the first time in more than two decades, although it did not obtain the supermajority required for constitutional amendments. Nonetheless, President Laura Fernández, who took office in May, is likely to be better placed than her predecessor to advance labour market reforms and introduce greater flexibility. Her administration should also be able to make progress on another key priority, infrastructure development. Planned initiatives include upgrades to airports, highways and ports, a new railway connecting San José with surrounding areas, and further expansion and maintenance of the electricity network. Reducing violent crime remains another policy priority, given its implications for Costa Rica's attractiveness to foreign investors and tourists.

Panama: Robust growth, supported by infrastructure investment

Panama's economy grew strongly in the first half of the year, supported by private consumption, ongoing large-scale infrastructure investment, and a buoyant transport sector. Canal traffic benefited from stronger demand for US energy exports following disruptions to shipping routes through the Strait of Hormuz. However, we expect growth to moderate in the second half and average 4.0% in 2026 from 4.3% in 2025. Lower rainfall linked to the recently emerged El Niño is reducing canal capacity, limiting the benefits from shipping rerouting, while also posing risks to hydroelectric generation and agriculture. Growth should recover to 4.3% in 2027 as the impact of El Niño gradually passes and investment remains robust. Inflation is expected to temporarily rise to 1.8% in 2026 owing to higher food and energy costs before easing to 1.2% in 2027 as these pressures subside. Full dollarisation helps keep inflation in check. A super El Niño episode represents the main downside risk to the outlook.

Positively, Panama is better prepared for drought than during the 2023-2024 El Niño episode, owing to improved water management, healthy reservoir levels and precautionary measures by the Panama Canal Authority (ACP). Transit and cargo restrictions are being gradually tightened from 3 September and are likely to remain in place through the 2027 dry season, with further tightening possible if El Niño strengthens. Combined, these measures should reduce the likelihood of disruptions reaching the levels experienced



during the previous water crisis. In the longer term, a new reservoir, currently scheduled to enter construction in 2027, should help improve water security and canal resilience.

The canal remains a key driver of Panama's economy, helping to attract foreign direct investment and reinforcing the country's position as a regional trade and logistics hub. The planned reservoir is part of the ACP's USD 8.5 billion investment plan for the next decade, which also includes a gas pipeline and two ports. Other major projects include a metro extension, a fourth canal bridge, a tunnel crossing under the canal and enhancements to Puerto Armuelles on the Pacific coast.

Despite high investment levels, productivity growth has been disappointing in recent years, while regional income disparities remain substantial, with rural and indigenous provinces continuing to lag. The Mulino administration's 2024-2029 investment plan therefore prioritises expanding rural infrastructure alongside measures to improve education, skills and human capital. These measures could strengthen social inclusion and enhance Panama's attractiveness to foreign investors, particularly as FDI inflows have slowed markedly this decade. Improvements in governance, transparency and anti-corruption efforts would provide additional support. While the Mulino administration has taken several measures, more progress is still needed.

Caribbean: Stronger resilience supports growth

The economic outlook for the Caribbean remains broadly favourable, although performance expectations vary across countries. Regional economic growth is set to strengthen in 2026 and 2027 – to 4.4% and 5.2% respectively from 3.7% in 2025 – supported by tourism, investment and reconstruction activity (table 5). The Dominican Republic remains among the region's strongest performers while Jamaica is recovering more gradually from hurricane damage.

Table 5 Caribbean growth accelerating

Caribbean, real GDP growth, y-o-y %

	2025	2026*	2027*
Dominican Republic	2.1	4.1	5.4
Jamaica	-0.5	-0.1	3.7
Caribbean	3.7	4.4	5.2

Source: Oxford Economics, Atradius (* forecast)

The region remains highly vulnerable to external shocks. Most Caribbean economies depend heavily on imported energy, food and capital goods, while their exports are concentrated in

tourism or a narrow range of commodities. High public debt and limited fiscal space constrain the ability of some governments, like Barbados and Jamaica, to respond to shocks. These interconnected vulnerabilities exacerbate each other: natural disasters can destroy infrastructure, disrupt tourism and agriculture and, in turn, rapidly increase government financing needs.

But policy reforms and new financing instruments are gradually strengthening resilience in the Caribbean. Across the region, governments are developing a more comprehensive approach that combines resilient infrastructure, disaster preparedness, social protection and fiscal risk management. Barbados, for instance, is combining fiscal consolidation with a precautionary IMF arrangement that offers insurance against external shocks. Catastrophe bonds, regional insurance, contingent credit and climate-resilient debt clauses can provide liquidity or debt-service relief after disasters, reducing the need for abrupt fiscal adjustment. Jamaica provides a leading example: its layered disaster-risk financing framework includes a new USD 200 million catastrophe bond, following the full payout of its previous bond after Hurricane Melissa.

The possible super El Niño represents a downside risk to the Caribbean outlook in 2026-27. Historically, El Niño episodes have brought hotter and drier conditions to much of the Caribbean. While this typically suppresses Atlantic hurricane activity, reducing one source of disaster risk, it also raises the probability of drought-related losses, water shortages and heat stress. For tourism-dependent economies such as the Dominican Republic and Jamaica, the direct impact on visitor arrivals may be limited, but lower rainfall and higher temperatures could strain water resources, raise operating costs for hotels and utilities, and reduce agricultural output, particularly in climate-sensitive crops. This would increase reliance on food imports and add upward pressure to food inflation. This highlights the growing risks to food security, water availability and energy resilience across the Caribbean, alongside the need for continued infrastructure investment and stronger disaster-financing frameworks.

Dominican Republic: Reform momentum reinforces resilience and growth

The Dominican Republic remains one of Latin America and the Caribbean's strongest growth performers. After real GDP growth slowed to 2.1% in 2025 amid weaker export momentum and uncertainty around US tariffs, we expect growth of 4.1% in 2026 and 5.4% in 2027. The outlook is supported by modest monetary easing, stronger credit growth and continued expansion in tourism, remittances and free-trade zones. Political stability, improving institutions and a generally business-friendly policy environment reinforce the outlook. Structural risks persist though, stemming from natural disasters, external demand shocks and domestic migration-related social tensions.



A relatively diversified economic structure helps mitigate these risks. Tourism remains a key growth engine, with substantial infrastructure investment attracting record tourist arrivals. In January 2026, the government announced USD 13.4 billion (9.6% of GDP) in investment pledges to develop and improve tourism infrastructure over the following three to four years, underpinning a strong outlook for the sector. Free-trade zones are another important growth pillar, with higher-value-added exports such as medical and electrical equipment complementing traditional textile production. Mining also supports export earnings, particularly through gold production, while ongoing exploration for rare earth minerals could create additional medium-term opportunities if commercially viable deposits are confirmed.

Inflationary pressures remain manageable, but energy continues to represent the main structural vulnerability. The Dominican Republic depends heavily on imported fuels and continues to face inefficiencies in electricity distribution. Government transfers to state-owned electricity distributors remain a significant fiscal burden. Although the authorities had planned to gradually phase out fuel and electricity subsidies, higher global energy prices following the Iran conflict have delayed these efforts. The implementation of a major tax reform in June 2026 should partly offset these costs, generating around 0.5% of GDP in additional annual revenue while preserving support for vulnerable households.

The policy outlook remains supportive. President Luis Abinader's PRM enjoys comfortable congressional majorities, providing a strong mandate for fiscal consolidation and pro-market reforms. The government's Meta RD 2036 strategy provides an important medium-term framework, with objectives that include doubling real GDP by 2036, improving competitiveness, raising employment and strengthening productivity through public-private cooperation. While energy-sector weaknesses, fiscal pressures and instability in neighbouring Haiti remain challenges, the Dominican Republic's reform momentum, diversified economy and stable policy environment continue to strengthen its resilience.

Jamaica: Recovery constrained by climate shocks and fuel vulnerability

Jamaica's outlook remains shaped by the recovery from Hurricane Melissa (October 2025), prudent macroeconomic management and persistent supply-side constraints. After a minor contraction in 2025, we expect real GDP growth to remain broadly stagnant (-0.1%) in 2026 before recovering to 3.7% in 2027, supported by reconstruction spending, public consumption and fixed investment. Jamaica's strong policy framework, including the Fiscal Responsibility Law, the Independent Fiscal Commission and a well-developed disaster risk financing framework, should help support the recovery. However, tourism, agriculture and small businesses are likely to recover only gradually following the extensive infrastructure damage caused by the hurricane.

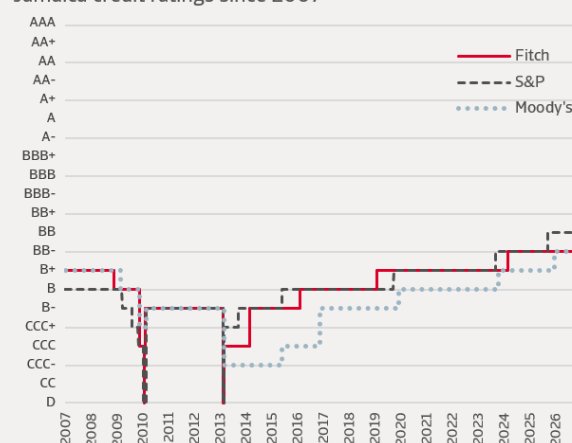
Similar to other Caribbean islands, inflation remains the main short-term vulnerability. As a net energy importer, Jamaica is exposed to higher global oil prices resulting from the conflict in the Middle East. Higher global fuel, electricity, transport and food costs are feeding into domestic inflation. The government has sought to smooth the pass-through through oil refinery Petrojam's fuel-pricing mechanism while encouraging energy conservation. These measures should help contain inflation but also add fiscal costs at a time when reconstruction spending remains elevated. The Bank of Jamaica's inflation-targeting framework continues to anchor expectations, although inflation will remain sensitive to global energy prices, weather shocks and exchange-rate movements.

The medium-term upside lies in infrastructure and logistics. Alongside reconstruction efforts, the government is advancing its long-standing strategy to position Jamaica as a leading Caribbean logistics and trans-shipment hub and diversify growth beyond tourism and mining. Key initiatives include the expansion of the Kingston Freeport Terminal, development of the Caymanas Special Economic Zone and investments in transport and logistics infrastructure around Kingston. Successful implementation of these projects should improve competitiveness, attract investment and strengthen Jamaica's position in regional supply chains.

Policy continuity also remains an important support. Although the Jamaica Labour Party's reduced majority could slow legislation, the government is expected to maintain its commitment to fiscal discipline and structural reform. Public debt has increased following Hurricane Melissa, but Jamaica's strong track record of primary surpluses and access to multilateral and disaster-contingent financing help limit sovereign risk. This is reflected in its steadily improving credit ratings over the past decade (figure 14), supporting the island's increasing resilience.

Figure 14 Steady and sustained upgrades for Jamaica

Jamaica credit ratings since 2007



Source: Bloomberg, Atradius



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