INTERNATIONAL MONETARY FUND

REGIONAL ECONOMIC OUTLOOK

WESTERN HEMISPHERE

Navigating a Shifting Global Environment

2025
OCT

INTERNATIONAL MONETARY FUND

REGIONAL ECONOMIC OUTLOOK

WESTERN HEMISPHERE

Navigating a Shifting
Global Environment

2025
OCT

Cataloging-in-Publication Data
IMF Library

Names: International Monetary Fund, publisher.
Title: Regional economic outlook. Western Hemisphere : navigating a shifting global environment.
Other titles: Western Hemisphere : navigating a shifting global environment. | Navigating a shifting global environment. | Regional economic outlook : Western Hemisphere.
Description: Washington, DC : International Monetary Fund, 2025. | Oct. 2025. | Includes bibliographical references.
Identifiers: ISBN:
9798229025065(paper)
9798229025119 (ePub)
9798229025133 (Web PDF)
Subjects: LCSH: Economic forecasting—Western Hemisphere. | Economic development—Western Hemisphere. | Western Hemisphere—Economic conditions.
Classification: LCC HC95.R44 2025

The *Regional Economic Outlook: Western Hemisphere* is published once a year, in the fall, to review developments in Latin America and the Caribbean. Both projections and policy considerations are those of the IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF Management.

Publication orders may be placed online, by fax, or through the mail:
International Monetary Fund, Publication Services
P.O. Box 92780, Washington, DC 20090 (USA)
T. +(1) 202.623.7430
F. +(1) 202.623.7201
publications@IMF.org
www.IMFbookstore.org
www.elibrary.IMF.org

Contents

BOXES

FIGURES

TABLES

Acknowledgments

The October 2025 *Regional Economic Outlook: Western Hemisphere* was prepared by the Western Hemisphere Department (WHD) under the general direction of Rodrigo Valdés, Director, WHD, and Nigel Chalk, Deputy Director, WHD. The report was directed and supervised by Esteban Vesperoni, Division Chief, WHD, and Lusine Lusinyan, Deputy Division Chief, WHD.

The report includes three chapters and three online annexes. Chapter 1, "Navigating a Shifting Global Environment," was prepared by Camila Casas (co-lead), Eric Huang, Genevieve Lindow, and Juan Treviño (co-lead). Contributions for boxes were provided by Juan Pablo Celis and Alexander Culiuc, with research analysis by Manuel Escobar and Alfredo Alvarado (Box 1.2); Junghwan Mok, Peter Nagle, and Jongsoon Shin, with research analysis from Spencer Siegel (Box 1.3); WHD country teams (Box 1.4); and Tannous Kass-Hanna (Box 1.5). Chapter 2, "Fostering Growth through Business Dynamism," was prepared by Olusegun A. Akanbi, Armine Khachatryan (co-lead), Nils H. Lehr (co-lead), and Nicolás Gómez Parra, with inputs from Francisco Cabezón and Federico Díez. Chapter 3, "Preserving Hard-Won Monetary Policy Gains amid Persistent Fiscal Risks," was prepared by Agnese Carella, Dimitris Drakopoulos (co-lead), Juan Passadore (co-lead), and Genevieve Lindow, with inputs from Sophia Chen and Francisco Arizala.

Genevieve Lindow and Nicolás Gómez Parra delivered outstanding research support, under the exceptional coordination by Genevieve Lindow. Joan Thangaraj provided excellent production support. The report also benefited from excellent coordination of editing and production by Cheryl Toksoz from the Communications Department. Translations to other languages (Spanish and Portuguese) were led by Vanesa Demko, Eric Fernandes Macedo, Carlos Viel, Maria Celeste Braschi, Susana Varela Braga, and Emilia Soto Galindo with review from Camila Casas, Nicolás Gómez Parra, Gabriel Hegab, Rafael Machado Parente, Juan Passadore, Roberto Perrelli, and Juan Treviño.

This report reflects developments and staff projections available through September 30, 2025.

Country Groupings

Country Groups

Caribbean: Commodity Exporters (CARCE)	Caribbean: Non-Tourism Dependent (CARNT)	Caribbean: Tourism Dependent (CARTD)	Central America, Panama, and the Dominican Republic (CAPDR)	Eastern Caribbean Currency Union (ECCU)	Latin America 7 (LA7)	Latin America 8 (LA8)	South America (SA)
Guyana	Guyana	Antigua and Barbuda	Costa Rica	Anguilla	Brazil	Argentina	Argentina
Suriname	Haiti	Aruba	Dominican Republic	Antigua and Barbuda	Chile	Brazil	Bolivia
Trinidad and Tobago	Suriname	The Bahamas	El Salvador	Dominica	Colombia	Chile	Brazil
	Trinidad and Tobago	Barbados	Guatemala	Grenada	Mexico	Colombia	Chile
		Belize	Honduras	Montserrat	Paraguay	Mexico	Colombia
		Dominica	Nicaragua	St. Kitts and Nevis	Peru	Paraguay	Ecuador
		Grenada	Panama	St. Lucia	Uruguay	Peru	Paraguay
		Jamaica		St. Vincent and the Grenadines		Uruguay	Peru
		St. Kitts and Nevis					Uruguay
		St. Lucia					Venezuela
		St. Vincent and the Grenadines					

List of Country Abbreviations

ATG	Antigua and Barbuda	GUY	Guyana
ARG	Argentina	HTI	Haiti
ABW	Aruba	HND	Honduras
BHS	The Bahamas	JAM	Jamaica
BRB	Barbados	MEX	Mexico
BLZ	Belize	NIC	Nicaragua
BOL	Bolivia	PAN	Panama
BRA	Brazil	PRY	Paraguay
CAN	Canada	PER	Peru
CHL	Chile	PRI	Puerto Rico
COL	Colombia	KNA	St. Kitts and Nevis
CRI	Costa Rica	LCA	St. Lucia
DMA	Dominica	VCT	St. Vincent and the Grenadines
DOM	Dominican Republic	SUR	Suriname
ECU	Ecuador	TTO	Trinidad and Tobago
SLV	El Salvador	USA	United States
GRD	Grenada	URY	Uruguay
GTM	Guatemala	VEN	Venezuela

1. Navigating a Shifting Global Environment[1]

The global economy is facing significant policy shifts and persistent shocks amid unusually high uncertainty. In this context, growth in Latin America and the Caribbean is expected to be affected by varying exposures to global trade and reliance on remittances, commodities, and global capital markets. Many economies are expected to decelerate, although a rebound in some countries recovering from recent shocks would help sustain regional growth in 2025. Amid spillovers from global policy shifts and persistent uncertainty, a slight deceleration is projected in 2026, with risks tilted to the downside. The disinflation process continues, but convergence to targets will likely take longer than previously envisaged in a few countries. In this context, credible policy frameworks that rely on central bank independence, rules-based fiscal policy, and exchange rate flexibility, where feasible, are essential. The continued increase in public debt underscores the need for fiscal consolidation, underpinned by further strengthening of policy frameworks. Addressing fiscal challenges would also support monetary policy implementation. Amid lackluster medium-term growth prospects—partly reflecting persistent resource misallocation—structural reforms remain critical to foster productivity, enhance the business environment, and harness opportunities for further trade integration, including within the region.

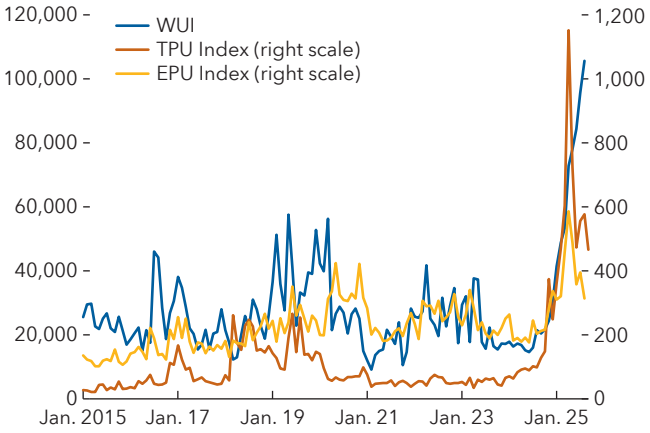
1.1 Global Economy

A Shifting Global Environment

The global economy is facing significant policy shifts and persistent shocks. The United States announced a series of trade policy measures—including country- and product-specific tariffs on imports from about 70 countries, some bilateral agreements, a 10-percent universal tariff for many countries, and some exemptions—that raised its import tariffs to levels not seen since 1930. This led to some retaliatory measures from several countries—some of them reversed—as trade negotiations unfolded. A shift in immigration policies is also taking place in several advanced economies—notably in the United States—which is likely to have a negative impact on net migration flows into those countries. Persistent geopolitical conflicts continue to disrupt global trade and affect commodity markets. These developments, along with a continued deceleration in some large economies and the associated surge in uncertainty (Figure 1.1) could affect Latin America and the Caribbean (LAC) countries through several channels (Box 1.1).

Figure 1.1. Uncertainty Indicators
(Index)

Uncertainty levels reached decade-highs.



Sources: Ahir, Bloom, and Furceri (2022); Caldara and others (2020); Davis (2016); and Haver Analytics.
Note: The uncertainty measures are news- and media-outlets-based indices that quantify media attention to global news related to uncertainty. EPU = Economic Policy Uncertainty; TPU = Trade Policy Uncertainty; WUI = World Uncertainty Index.

Key global markets remained relatively stable, and global growth was robust during the first half of 2025. Trade policy announcements triggered an increase in market volatility but did not have a persistent impact on commodity prices and financial conditions. Equity and other asset prices fell, the US dollar depreciated, and key commodity prices declined initially, but financial conditions eased, global equity markets recovered, and commodity prices remained

[1] Prepared by Camila Casas (co-lead), Eric Huang, Genevieve Lindow, and Juan Treviño (co-lead).

broadly stable around their end-2024 levels. Although uncertainty around trade policies has remained high and geopolitical tensions continued, global economic activity has shown notable strength in the first half of the year amid accommodative financial conditions, some frontloading of trade in anticipation of higher tariffs, lower tariffs than originally announced, and looser fiscal policies in some major economies.

Notwithstanding these developments, growth in key trading partners for LAC is anticipated to lose momentum in 2025. In the United States, IMF staff forecasts GDP growth to decelerate to 2 percent in 2025 and remain steady at 2.1 percent in 2026—from 2.8 percent in 2024. The projected slowdown is explained by weaker consumer spending and slowing investment. In China, growth in 2025 is projected at 4.8 percent—close to the 5 percent in 2024—with a further deceleration to 4.2 percent in 2026. China's activity was supported by exports to destinations other than the United States and domestic demand, possibly driven by policy stimulus. The euro area is expected to see a modest pickup this year to 1.2 percent, from 0.9 in 2024, and remain around 1.1 percent in 2026, partly reflecting a historically high increase in Ireland's pharmaceutical exports to the United States this year and the likely impact of increased defense spending in subsequent years. Other advanced economies are projected to decelerate, partly because of the impact of tariffs. Global inflation is expected to decline amid cooling global demand and falling energy prices. For countries where tariffs represent a negative demand shock, inflationary pressures are expected to ease.

1.2. Recent Economic Developments in Latin America and the Caribbean

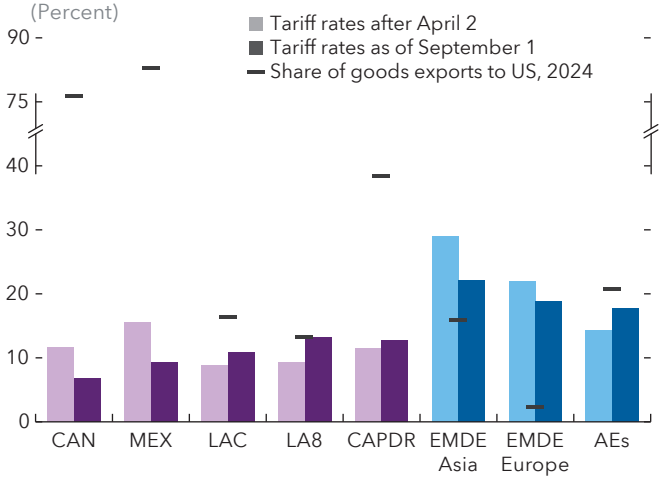
Growth Still Supported by the External Environment in the First Half of the Year

Structural and external factors have cushioned the short-term impact of global shifts in LAC. The relatively low trade exposure of many economies to the United States (Box 1.1), lower global tariff rates than those originally announced, and the region's lower tariff rates compared with other emerging market economies (Figure 1.2, panel 1) provided some buffers. The external environment remained generally favorable to LAC through the first half of the year. After the initial bout of volatility early in the spring, sovereign spreads fell below end-2024 levels (Figure 1.2, panel 2), regional

Figure 1.2. Tariffs, Exports, and Spreads

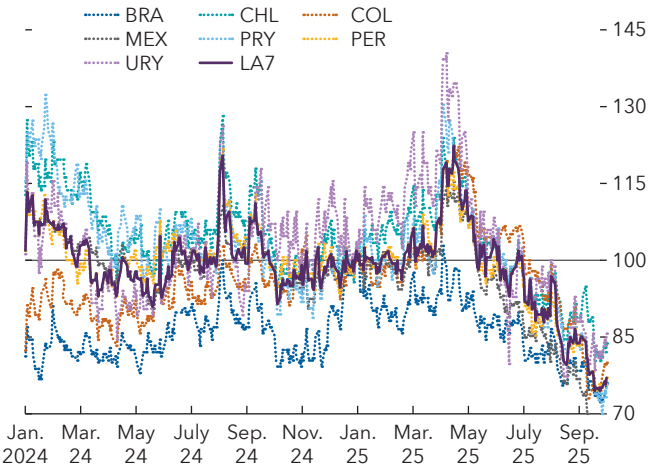
Statutory tariffs are low in LAC relative to peers.

1. Statutory Tariff Rates and Share of Exports to the United States[1]
(Percent)



After a short-lived spike, sovereign spreads fell below end-2024 levels.

2. EMBIG Sovereign Spreads[2]
(Index: January 1, 2025 = 100)



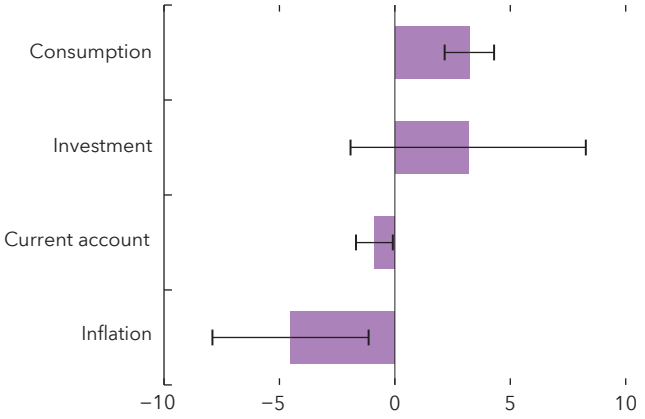
Sources: Bloomberg Finance L.P.; IMF, Direction of Trade Statistics database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; CAPDR = Central America, Panama, and the Dominican Republic; EMBIG = emerging markets bond index global; EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); LA8 = Latin America 8 (LA7 plus Argentina).
[1]Tariff rates aggregates are simple averages. LAC and LA8 exclude Mexico.
[2]LA7 is median.

currencies rebounded after an initial depreciation, bond yields declined and exhibited greater differentiation across countries, and commodity prices stabilized. Moreover, empirical evidence points to lags in the effect of global uncertainty on growth in the region (Online Annex 1), and activity surprised to the upside in several LAC countries early in the year.

The recent US dollar depreciation may also be tempering the effects of shocks, including by reducing inflationary pressures. Exchange rate fluctuations can affect LAC through changes in the prices of imports, export competitiveness, and financial conditions (IMF 2023a, Obstfeld and Zhou 2023). Currency appreciation in LAC can lower prices of imported goods, easing inflationary pressures and potentially opening policy space. This, in turn, can support real income and boost private consumption (Figure 1.3). A stronger local currency can ease financial conditions and foster investment, although the evidence is not conclusive. Previous work also suggests that real appreciation can reduce debt.[2]

Figure 1.3. LAC: Currency Appreciation and Macroeconomic Developments
(Percent)

Currency appreciations are associated with lower inflation.



Source: IMF staff calculations.
Note: Currency appreciation or depreciation is evaluated based on yearly movements in the nominal effective exchange rates. The estimates are derived from local projections for the period 1990–2023, controlling for trade openness, exchange rate regime type, and commodity prices. The bars represent point estimates of the first-year impact of a one-standard-deviation appreciation, and the error bars indicate 90 percent confidence intervals. LAC = Latin America and the Caribbean.

In this context, economic growth during the first half of 2025 remained relatively stable in LAC. The contribution of exports to growth increased, as export volumes grew at par with global trends (Figure 1.4, panels 1 and 2). This reflects solid copper and manufacturing exports (Chile, Mexico), and increased exports associated with strong agricultural output in several countries (Argentina, Brazil, Colombia, Uruguay). Conversely, the contribution of private consumption to growth declined in some large economies (Brazil, Mexico), although it still showed strength in some countries (Argentina, Colombia, Paraguay, Uruguay) as labor markets and consumer credit growth remained relatively strong (Figure 1.4, panels 3 and 4). Corporate lending showed signs of moderation, in line with the continued muted contribution of investment to growth in recent years (IMF 2024b). In Central America, Panama, and the Dominican Republic (CAPDR), activity was supported by a pickup in remittances during the first half of 2025 (Box 1.2), whereas growth in the Caribbean remained solid from expanding tourism and construction activities in some countries and higher energy production in others (Box 1.3).

The Disinflation Process Remains Slow

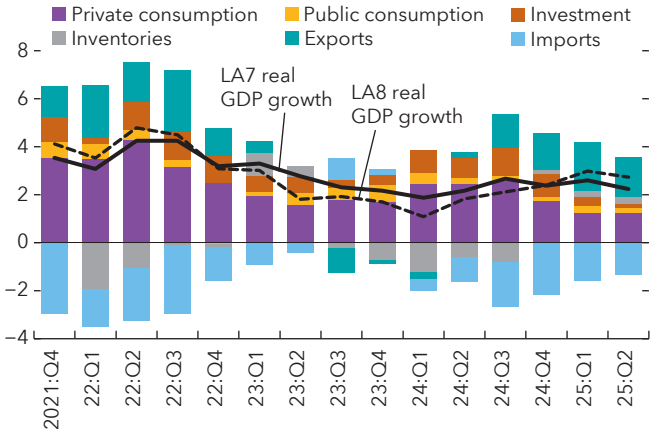
Inflation convergence toward targets continues, though at a slower pace since early 2024 (Figure 1.5, panel 1). Headline inflation is hovering around or moving closer to targets in some countries, but convergence is somewhat slower in others. More specifically, headline inflation has been broadly stable around the target in Peru and Paraguay, and continued to fall in Chile and Uruguay, amid currency appreciations, tighter policies, and/or fading effects of past hikes in utility tariffs. However, inflation in Brazil and Mexico picked up in early 2025 because of the still strong demand and/or residual exchange rate pass-through from previous depreciations (partly reversing during the summer), and after a decline in the first half of 2025, inflation edged up in Colombia. Argentina has continued to make progress in the context of its stabilization program. After declining rapidly from its 2022 peak, core goods and core services inflation rose slightly in the region in 2025 (Figure 1.5, panel 2), reflecting positive output gaps, increases in labor costs, and/or inflation expectations above target in some countries. Pressures from

[2] A one-standard-deviation shock to the real exchange rate could decrease LA7 debt by about four percentage points of GDP over the next five years (IMF 2024a).

Figure 1.4. Selected Economic Indicators

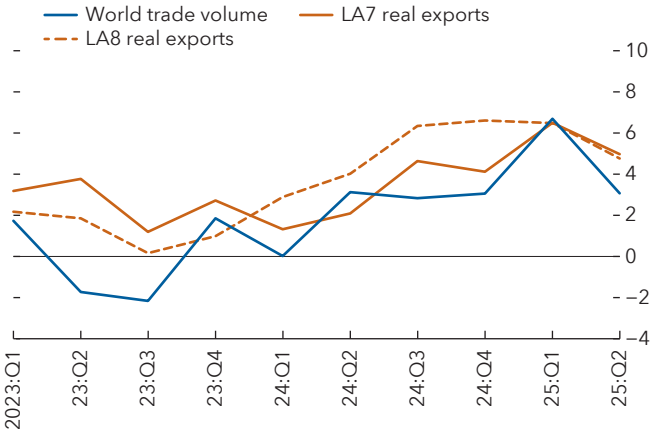
The contribution of exports to growth increased ...

1. LA7: Contributions to Real GDP Growth[1]
(Year-over-year percent change)



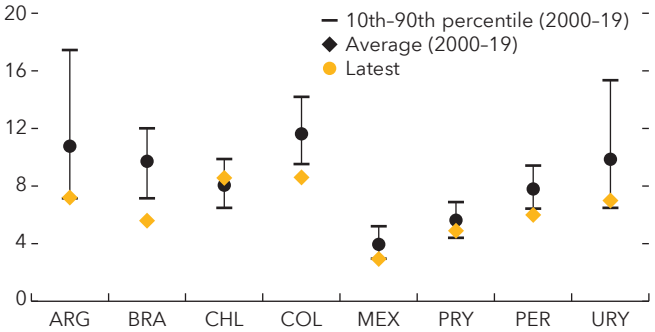
... reflecting higher volumes growth earlier in 2025.

2. Exports Growth[2]
(Year-over-year percent change)



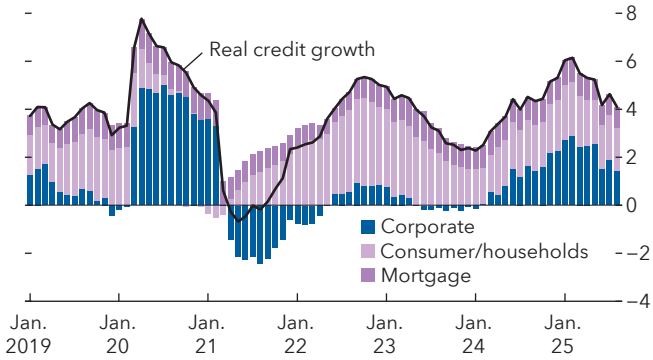
Labor markets remained solid ...

3. Unemployment Rate
(Percent)



... while corporate credit growth moderated.

4. Real Credit Growth[3]
(Year-over-year percent change)



Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages, unless noted otherwise. Data labels in the figure use International Organization for Standardization (ISO) country codes. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); LA8 = Latin America 8 (LA7 plus Argentina).
[1]Seasonally adjusted. Inventories include statistical discrepancies.
[2]Real exports growth is purchasing-power-parity GDP-weighted average. World trade volume is end of period.
[3]Includes Brazil, Chile, Colombia, Mexico, and Peru.

imported inflation are gradually receding, largely reflecting exchange rate dynamics—currency depreciations in 2024 pushed up imported inflation late that year, but inflationary pressures are unwinding as currencies strengthen (Figure 1.5, panel 3).

1.3 Policies

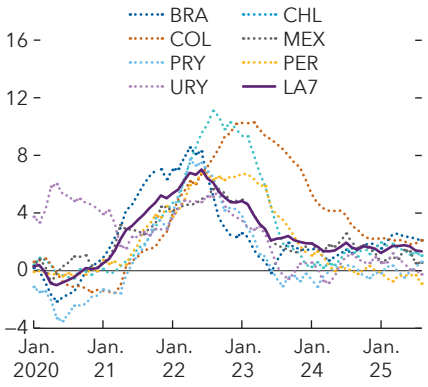
Fiscal Consolidation Efforts Are Not Turning the Debt Trajectory

Most countries are expected to strengthen their fiscal positions in 2025, but public debt ratios continue to increase and have reached or surpassed pandemic peaks in some (Figure 1.6, panels 1 and 2; Appendix Table 1.2). This is particularly concerning given the region's unfavorable interest rate-growth differential, especially since

Figure 1.5. Inflation Developments

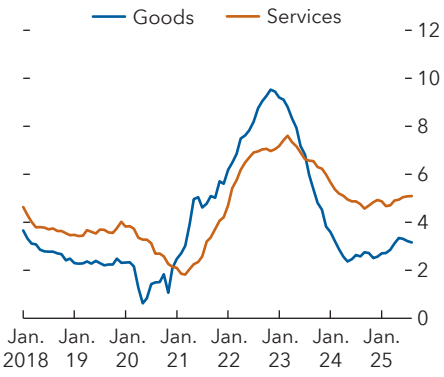
Headline inflation continues to recede ...

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



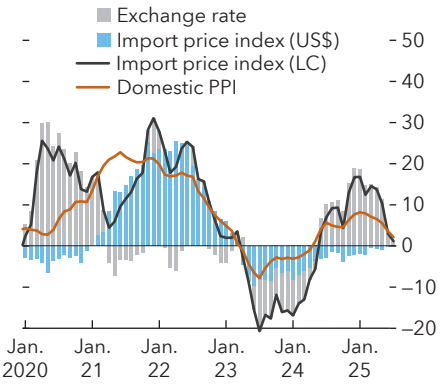
... with the recent uptick in core inflation ...

2. LA7: Core Goods and Core Services Inflation[1]
(Year-over-year percent change)



... being offset by lower import price inflation.

3. LA7: Imported Inflation[2]
(Year-over-year percent change)



Sources: Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. Data labels in the figure use International Organization for Standardization (ISO) country codes. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); LC = local currency; PPI = producer price index.
[1]Core goods exclude food, transport, and housing items. Core services exclude transport and housing items.
[2]LA7 excludes Chile and Paraguay because of data limitations.

financing costs increase with debt.[3] Primary balance improvements reflect a combination of revenue upticks, including because of improvements in tax administration (Paraguay), and expenditure restraint. Some countries are planning ambitious fiscal adjustments, although they continue to face challenges in identifying and enacting medium-term measures (Brazil, Mexico). Others are targeting deficit reductions more gradually, facing uncertainties around revenue performance and/or the approval of necessary measures by legislatures (Chile, Peru). Assuming financing costs in line with long-term trends, primary balances needed to stabilize LA7 debt at the current (high) levels are, on average, about 1½ percentage points of GDP higher than the 2024 outcomes (Figure 1.6, panel 3).

Disinflation Required Continued Calibration of Monetary Policy

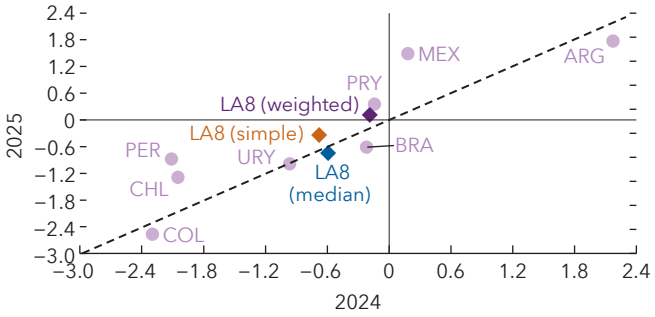
Monetary policy in LAC has appropriately responded to inflation developments across the region, keeping inflation contained amid fiscal consolidation delays. Central banks have remained data driven as global uncertainty rose. Mexico continued its easing cycle that started in early 2024, while others have resumed it after pausing and/or pivoting in early 2025 (Chile, Colombia, Peru, Uruguay). Brazil pivoted toward tightening in early 2025, and Paraguay stayed on hold. In some countries (Brazil, Colombia, Mexico), the monetary stance remains restrictive (Figure 1.6, panel 4). The timely monetary policy actions have also helped keep inflation expectations close to targets (Figure 1.6, panel 5). Nonetheless, a continued cautious approach to monetary policy is warranted in the current juncture of heightened uncertainty, as inflation expectations are stable but remain above target, and expectations regarding both the short-term policy rate path and the terminal rate have generally increased compared to last year (Figure 1.6, panel 6).

[3] For a detailed analysis of debt dynamics in LAC since 2003 and the drivers of its determinants, including the rise of financing costs in both local and foreign currency (IMF 2024a).

Figure 1.6. Selected Fiscal Indicators and Recent Monetary Policy Actions

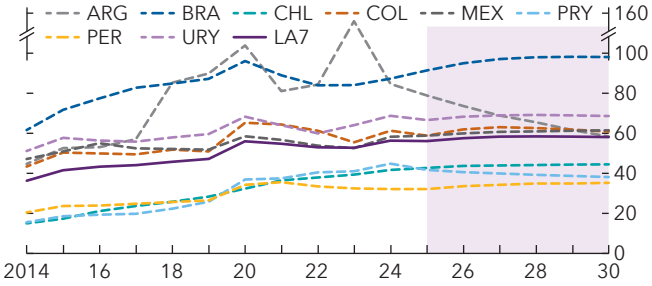
Primary balances are expected to improve in most LA8 countries ...

1. General Government Primary Balance
(Percent of GDP)



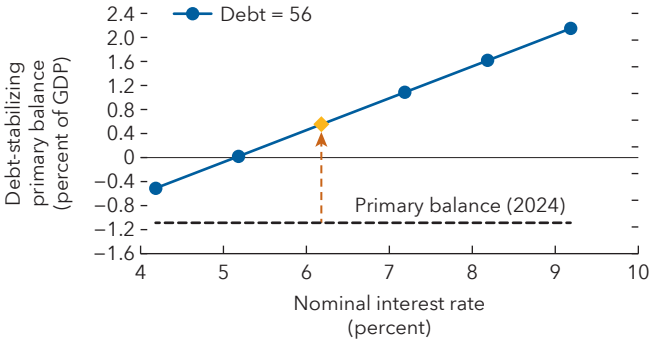
... but public debt remains on the rise, set to reach pandemic peaks.

2. General Government Gross Debt[1]
(Percent of GDP)



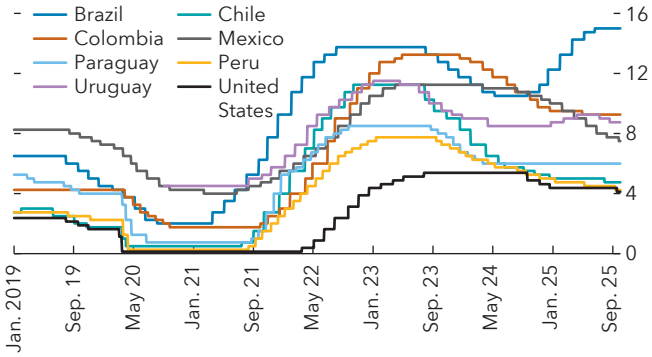
Higher primary balances are needed to stabilize debt.

3. LA7: Debt-Stabilizing Primary Balance, Gross Public Debt, and Nominal Interest Rate[2]



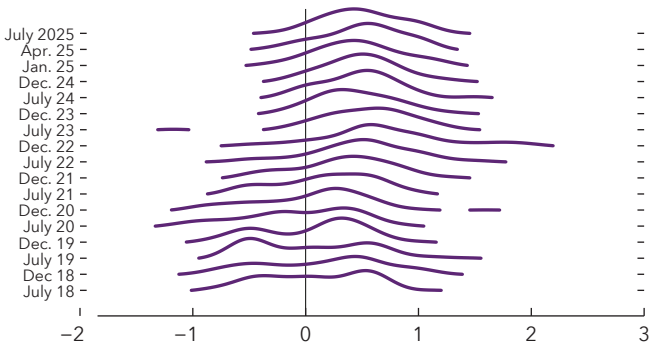
Monetary policy has generally been timely and well calibrated ...

4. Monetary Policy Rates
(Nominal; percent)



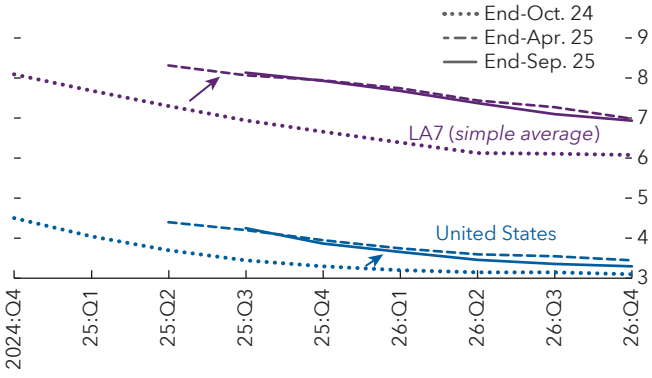
... keeping inflation expectations contained.

5. LA7: Distribution of Two-Year Ahead Inflation Expectations by Forecasters[3,4]
(Percentage points; deviation from target)



Terminal rates are expected to be higher.

6. Monetary Policy Rate Expectations[3]
(Percent)



Sources: Bloomberg Finance L.P.; Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); LA8 = Latin America 8 (LA7 plus Argentina).
[1]LA7 is simple average. For gross debt, the break in y-axis applies to Argentina only.
[2]Blue dots are computed by increasing or decreasing the average nominal rate of local and foreign currency debt by 100 basis points, keeping growth and debt-to-GDP fixed.
[3]LA7 excludes Paraguay and Uruguay because of data limitations.
[4]Density plots of two-year-ahead (December-over-December) inflation forecast deviation from inflation targets by Consensus Forecasts vintage.

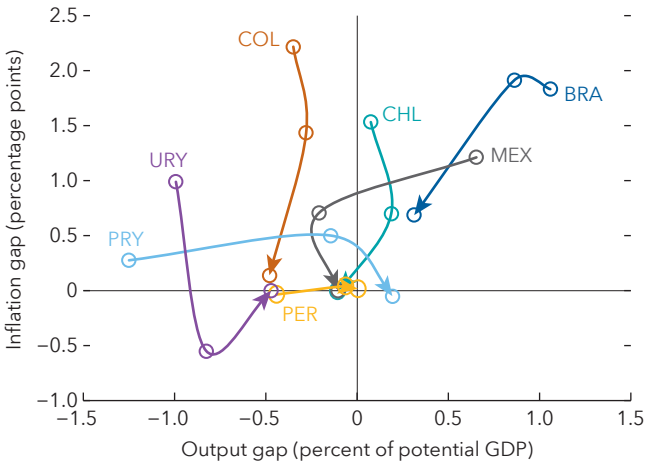
1.4. Outlook and Risks

Growth Moderating amid Gradual Inflation Convergence

Growth in LAC is projected at 2.4 percent in 2025, moderating to 2.3 percent in 2026 (Appendix Table 1.1; Boxes 1.2–1.4). Growth in 2025 is expected to be lifted by a rebound in economies that tightened policies and/or experienced shocks in 2024 (Argentina, Ecuador, Jamaica). On the other hand, growth in LA7 is expected to decelerate—mainly driven by Brazil and Mexico. As for 2026, the projected slight moderation is mainly driven by a deceleration in most LA7 countries and Argentina, partly offset by a recovery in Mexico, along with the Dominican Republic, Ecuador, and several countries in the Caribbean. The global slowdown is contributing to this outlook, but country-specific factors are important, as countries in the region continue to approach potential from different cyclical positions (Figure 1.7):

Figure 1.7. Output Gap and Inflation Gap, 2024–26

Output is set to edge closer to potential in some countries as inflation gaps close.



Sources: Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Inflation gap is the deviation of end-of-period inflation from the inflation target. Data labels in the figure use International Organization for Standardization (ISO) country codes.

- Positive output gaps are expected to narrow in Brazil and Mexico and remain broadly balanced in Chile. In Brazil, growth is projected to moderate in 2025 and 2026 amid tighter policies and the impact of tariffs, although strong growth in agriculture earlier this year would help moderate the slowdown. In Chile, growth is also anticipated to moderate this year and next—domestic demand is expected to be the main driver of economic activity, whereas the contribution of net exports will narrow as imports rise and mining export growth moderates. Mexico is expected to decelerate in 2025 because of ongoing fiscal consolidation, still-restrictive monetary policy, and headwinds from tariff-related uncertainty—given its deep integration with the United States—despite recent resilience of exports. Activity should recover in 2026, supported in part by less restrictive macroeconomic policies.
- After a strong recovery in 2024, growth in Peru and Uruguay is expected to moderate this year and next despite stronger-than-anticipated domestic demand (Peru) and strong tourism and agriculture (Uruguay) early in 2025. Paraguay growth momentum is expected to continue in 2025 and moderate in 2026.
- Amid strong private consumption and some fiscal easing, growth in Colombia is expected to pick up this year but moderate somewhat in 2026. In Argentina, domestic demand is projected to support growth in 2025 despite tight macroeconomic policies; growth is expected to moderate in 2026.
- Growth in CAPDR (Box 1.2) is expected to decelerate in 2025 before picking up in 2026, particularly in the Dominican Republic, reflecting the region's exposure to US trade.
- Caribbean economies (excluding Guyana and Haiti) are expected to grow 1.9 percent in 2025 and 2026, after the strong postpandemic recovery (Box 1.3).

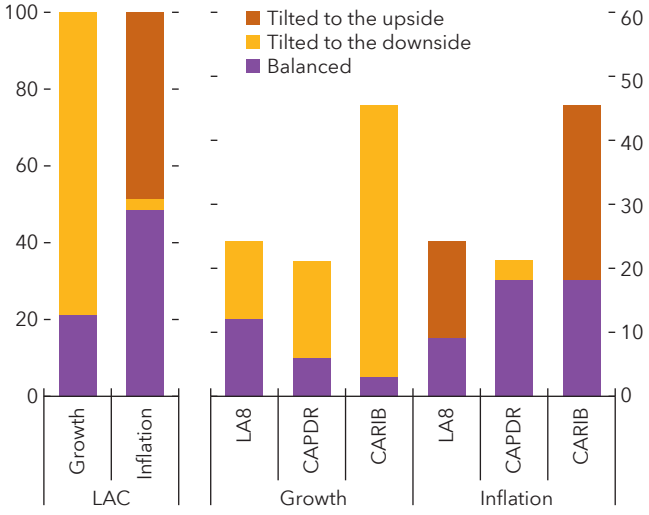
Inflation in LAC (excluding Argentina and Venezuela) is expected to remain broadly stable at 4.3 percent in 2025, resuming its downward trend to reach 3.5 percent in 2026. Some countries are projected to remain within the target range (Paraguay, Peru, Uruguay), while inflation is expected to remain above the upper limit in others, converging gradually to the target (Brazil, Chile, Colombia, Mexico). Argentina is projected to continue making

progress to curb inflation in the context of its stabilization program despite the recent peso depreciation. In CAPDR, inflation is expected to rise to 2.2 percent in 2025 and 3.3 percent next year, reflecting a pickup in dollarized countries with very low readings in 2024 (El Salvador and Panama) and Costa Rica, where inflation has been below the target since early 2023 (Box 1.2). For the Caribbean, external factors such as higher shipping and import costs are projected to lift inflation moderately in 2025, before dropping to 6.1 percent by the end of 2026 (Box 1.3).

The medium-term growth outlook for LAC remains lackluster, with output expected to grow at about 2½ percent annually, close to its low historical average and lagging its peers. This tepid outlook is partly due to slowing labor force growth, as population growth decelerates and population ages while labor participation has plateaued (IMF 2024c). Capital accumulation will likely stay at historic lows, reflecting also low public investment. Total factor productivity growth, though slightly improving, is projected to remain stagnant and low relative to peers, amid persistent resource misallocation (Chapter 2).

Figure 1.8. Growth and Inflation Risks
(Percent share of total number of LAC countries)

Downside risks to growth, balanced risks to inflation.



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

Downside Risks to Growth, Balanced for Inflation

Risks to growth remain tilted to the downside (Figure 1.8). At the global level, slower-than-expected growth in major economies, heightened global policy uncertainty, tighter financial conditions, and higher trade barriers and shipping costs could weigh on growth. On the domestic front, tighter-than-expected macroeconomic policies and more frequent or intense natural disasters pose downside risks for several countries. Potential trade diversion, stronger progress in long-standing reforms, and higher commodity prices pose upside risks to growth in some countries.

Risks to inflation are more balanced. Persistent services inflation, higher labor costs, and delays in fiscal consolidation could lead to higher inflation while a stronger negative demand shock from trade policies and elevated uncertainty could put downward pressure on prices. Exchange rate movements and commodity price fluctuations pose risks in both directions.

1.5. Policy Recommendations

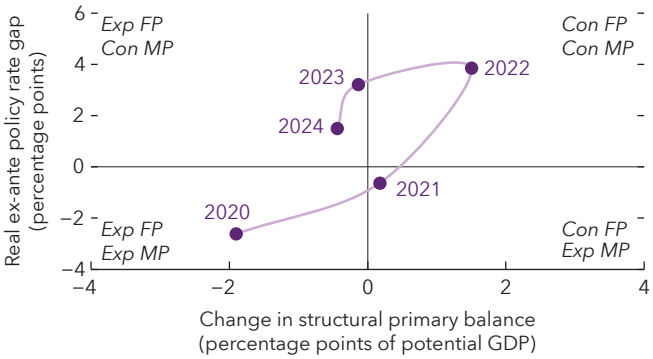
Fiscal Consolidation Is Critical and Cannot Be Further Delayed

The uncertain external environment, high financing costs, and an unfavorable interest rate-growth differential in the region call for fiscal consolidation to reduce debt levels. Despite the timely withdrawal of policy support deployed during the pandemic, a rebalancing of the policy mix remains necessary, as fiscal policy has been expansionary amid tight monetary policy since 2022 (Figure 1.9, panel 1). Structural primary balances for 2025 and 2026 are projected to be lower than anticipated in October 2024 (Figure 1.9, panel 2), pointing to fiscal consolidation delays. Moreover, greater efforts would be needed to put debt on a downward path, and fiscal targets need to be supported by concrete actions, as they rely on measures yet to be identified in some

Figure 1.9. Fiscal Consolidation

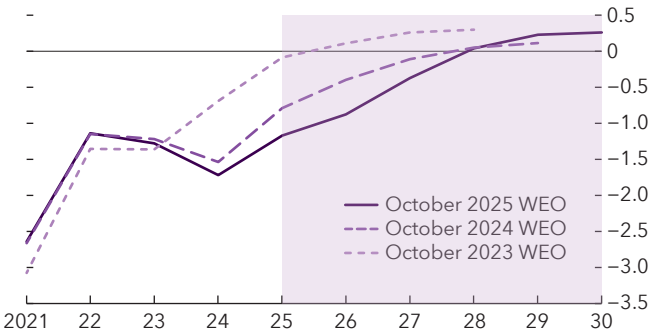
Fiscal policy has been expansionary amid tight monetary policy ...

1. LA7: Monetary and Fiscal Policies



... with consolidation further delayed.

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



Sources: Calderon, Dhungana, and Wales (forthcoming); Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: LA7 is simple average. For structural primary balance, Chile refers to the central government's structural non-mining primary balance, Colombia refers to the consolidated public sector's structural non-oil primary balance, and Peru refers to the nonfinancial public sector's structural primary balance. Con = contractionary; Exp = expansionary; FP = fiscal policy; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); MP = monetary policy.

countries. Fiscal consolidation is crucial for rebuilding buffers and would also support inflation convergence to targets, including through its impact on inflation and inflation expectations (Chapter 3). Addressing spending inefficiencies and implementing growth-friendly revenue mobilization should help protect investment and social spending (IMF 2021). Anchoring fiscal policy within credible multiyear frameworks underpinned by clear rules is instrumental for reducing debt and financing costs, supporting growth over time through a better investment climate.

Monetary Policy Should Remain Guided by Strong Policy Frameworks

The complex global environment calls for a cautious and data-driven approach to monetary policy to bring inflation back to targets while avoiding undue pressures on activity. In this context, monetary authorities should remain vigilant to global trade developments and financial conditions, inflation expectations, and fiscal policy stances. They should also strive to preserve the solid monetary policy frameworks established in recent decades, underpinned by reforms that enhance central bank independence. These reforms have served the region well in reducing inflation and better anchoring expectations, particularly in low-public-debt environments (Figure 1.10). Further steps to continue strengthening central banks' autonomy, capitalization, and governance will be instrumental for maintaining price stability and managing external shocks (Chapter 3). Where feasible, exchange rates should be allowed to absorb shocks, and, when warranted, the IMF's Integrated Policy Framework can guide foreign exchange market interventions to address financial stability risks from disorderly market conditions.

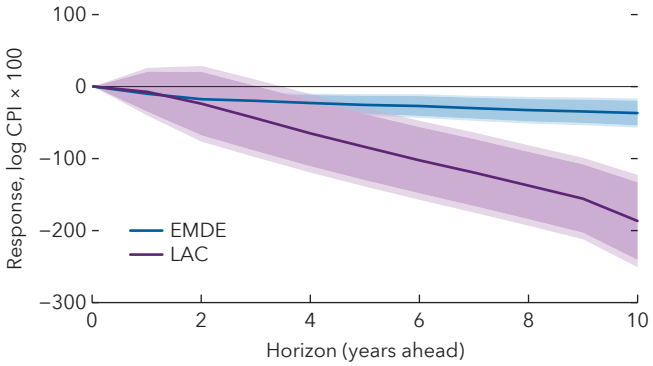
Addressing Structural Challenges

Advancing structural reforms will be crucial to address long-standing challenges and lift LAC's potential growth and living standards. These reforms are critical to cope with the shifting global environment and to foster investment amid heightened uncertainty, as short-term macroeconomic policies alone cannot achieve these goals. The lackluster productivity growth associated with persistent resource misallocation is among the most binding constraints in the region (Figure 1.11, panel 1), together with sluggish firm-level productivity growth (Chapter 2). Several frictions—for example, size-based policies, financial constraints, and limited competition—are likely behind

Figure 1.10. Central Bank Independence and Monetary Policy

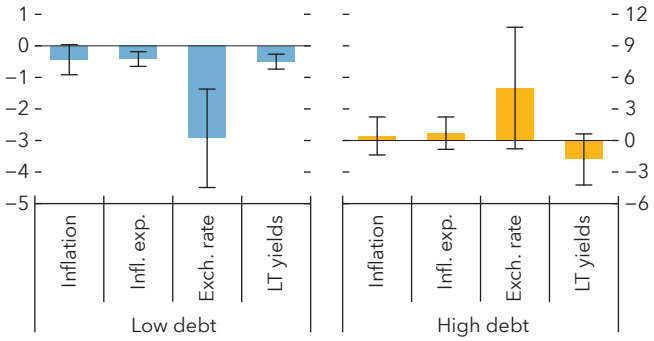
Central bank independence has helped to reduce inflation ...

1. Response of Inflation to Changes in CBI
(Cumulative change of 100 × log CPI)



... with monetary policy highly effective in low-debt economies.

2. Response to a 100-Basis-Point Monetary Policy Tightening Shock at 18-Month Horizon[2]
(Percent)

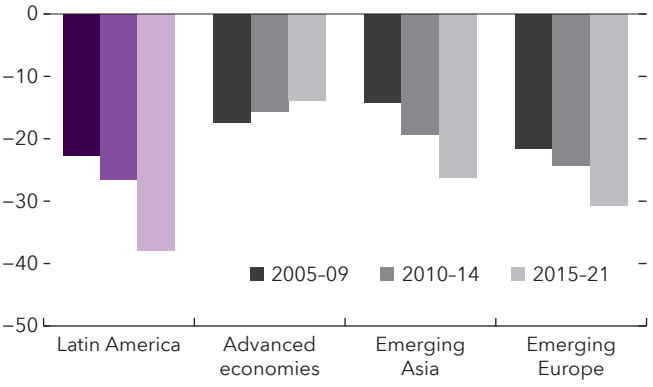


Sources: Romelli (2024); and IMF calculations.
Note: CBI = central bank independence; CPI = consumer price index; EMDE = emerging market and developing economies; Exch. = exchange; Infl. exp. = inflation expectations; LAC = Latin America and the Caribbean; LT = long term.
[1]Local projection of cumulative change of 100 times the log of CPI in country i between year $t + h$ and year t on CBI index, over a 10-year horizon. Control variables are one lag of output gap, transformed CPI inflation, exchange rate regime, general government gross debt, a fiscal rule indicator, and US inflation. Solid line is the point estimate; dark and light-shaded areas are the 90 and 95 percent confidence bands, respectively.
[2]Change in the level of each of the variables at 18-month horizon from a local projection into monetary policy shocks from Checo, Grigoli, and Sandri (2024). Local projections specification is calculated as follows: $\mathbf{Y}_{c,t+h} - \mathbf{Y}_{c,t} = \alpha_c^h + \delta_t^h + \beta_I^h I_t + \gamma_I^h Interaction_{it} \times I_t + u_{it}$. Interaction is an indicator for each country that debt is higher than the 80th percentile. Plots depict the response to a 100 basis point shock. Left panel: β_I^h. Right panel: $\beta_I^h + \gamma_I^h$. Inflation, inflation expectations, and LT yields denote change in level of the variable (measured in percent). Exchange rates are measured in logs, and an increase denotes depreciation. Monthly frequency. Sample: Brazil, Chile, Colombia, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Nigeria, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Türkiye.

Figure 1.11. Total Factor Productivity and Trade Integration

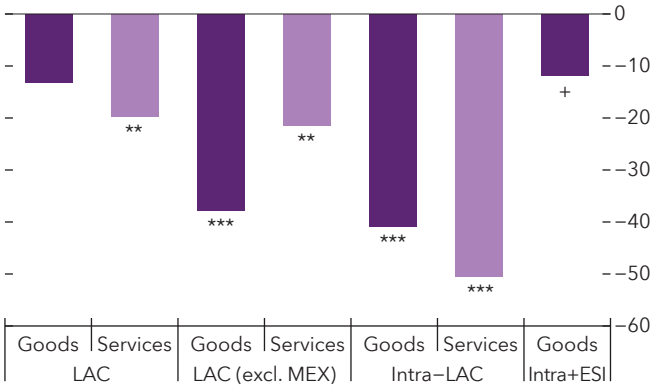
Low productivity growth partly reflects resource misallocation.

1. TFP Losses from Resource Misallocation[1]
(Percentage points)



There are opportunities for enhancing trade in the region.

2. LAC: Trade Integration Relative to Peers After Accounting for Country Characteristics[2]
(Percent)



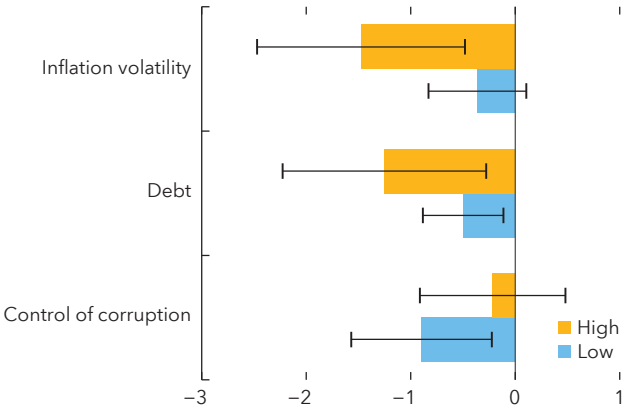
Sources: Moody's Orbis; World Bank Enterprise Surveys (WBES); and IMF staff calculations.
Note: ESI = export similarity index; LAC = Latin America and the Caribbean; MEX = Mexico; TFP = total factor productivity.
[1]Estimates for the entire economy from 2005 to 2021. Observations are reweighed to match the size distribution in the WBES. Advanced economies include Estonia, France, Germany, and Spain. Emerging Asia includes Malaysia, Thailand, and Vietnam. Emerging Europe includes Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia. Latin America includes Brazil, Colombia, and Mexico.
[2]Percent difference in each region's trade flows relative to non-LAC trade flows, conditional on population, GDP, distance, border, common language, and landlocked. ESI is the Spearman index for goods trade at the product level. ***p < 1%, **p < 5%, *p < 10%, +p < 20%.

the weak business dynamism and the prevalence of small and inefficient firms in the region. Boosting productivity calls for eliminating barriers to factor reallocation and financing frictions that hinder firm expansion. Removing policy distortions, such as subsidies and differential tax treatment, could also strengthen incentives for firms to grow.

Low trade integration, including within the region, is also constraining growth in LAC (IMF 2023b). The recent changes in the international trade landscape underscore the need for the region to capitalize on opportunities to deepen global integration and foster trade diversification. With a few exceptions, regional exports rely heavily on commodity-related goods, and most countries are not integrated into global value chains (Box 1.1). The low level of integration is particularly striking when looking at intra-regional trade—it is between 40 and 50 percent lower than in regions with similar economic and geographic characteristics (Figure 1.11, panel 2). This is partly explained by shortfalls in transport- and customs-related infrastructure and, in some cases, weak governance and capacity constraints. Hence, the potential gains from improving infrastructure in the region are sizable. Streamlining regulatory frameworks and reaching trade agreements could help boost integration, investment, and growth.

Figure 1.12. Uncertainty and Effect on Real GDP by Domestic Vulnerabilities, Two Years After Shock

Uncertainty effects are more contained with stronger institutions and lower debt.



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

Stronger governance, less volatile inflation, and lower debt are instrumental to foster growth, including by mitigating the negative impact from uncertainty (Figure 1.12). In recent years, improvements to policy frameworks have played a critical role in the ability of emerging markets to withstand risk-off shocks (IMF 2025a). In addition, improving security and addressing crime in the region, including by curtailing money laundering and combating the financing of terrorism, would further help boost investment, productivity, and long-term growth (IMF 2023c, 2025b).

Box 1.1. Spillovers and Transmission Channels of Policy Shifts

The economic impact of recent policy shocks will depend on country-specific characteristics and vulnerabilities. Trade structure, commodity dependence, the degree of reliance on global capital markets, and the importance of remittances as a source of external income can all play a role in the propagation of shocks. These features can also amplify the negative effects of heightened policy uncertainty, which in turn could weigh on global growth, upend commodity markets, and affect financing conditions for the region.

The region's heterogeneous trade structure in terms of export destinations and participation in global value chains (GVCs) suggests that recent shifts in trade policy can have a larger effect in Central America, Panama, and the Dominican Republic (CAPDR) and Mexico, where the share of exports to the United States is higher than in the rest of the region (Box Figure 1.1.1, panel 1). As for participation in GVCs, exports from Latin America and the Caribbean (LAC) are used less as inputs in other countries' exports (forward, or upstream participation) relative to peers, whereas Mexico uses more imported inputs in its exports (backward, or downstream participation) (Box Figure 1.1.1, panel 2).[1] LAC is also characterized by its dependence on commodities (Box Figure 1.1.1, panel 3). Economies that rely on primary commodities could be particularly affected through lower export receipts and larger shifts in commodity terms of trade (Gruss 2014).[2] A slowdown in key trading partners (IMF 2025c) could also affect regional growth through lower demand for exports and, in some countries, through reduced tourism and remittance flows (IMF 2019a).[3]

The increase in policy uncertainty can also affect economic activity through several intertwined channels. It can impact growth by distorting consumption and investment decisions, especially in the presence of domestic vulnerabilities (Carrière-Swallow and Céspedes 2013; Bloom 2014; IMF 2025d). For LAC, the estimated immediate impact of uncertainty on growth is limited (Online Annex 1), but it becomes increasingly negative over time (Box Figure 1.1.1, panel 4). Importantly, this holds irrespective of whether the uncertainty is a result of global, regional, or domestic shocks.[4] Heightened tensions and uncertainty can also trigger a reassessment of risk and assets valuation, leading to increased price volatility and higher risk premiums (IMF 2024d, 2025e). These developments can tighten financial conditions, raising financing costs (Box Figure 1.1.1, panel 5).

On balance, and despite the differences across countries, the impact of policy shifts and the associated increase in uncertainty on LAC growth is likely to be negative. This could be mitigated by a reconfiguration of trade patterns by redirecting exports where there appears to be trade potential (Figure 1.1.1, panel 6). The complex interplay of shocks and propagation channels makes the impact on inflation in the region less clear, but it is likely to be deflationary. The slowdown in global growth—a negative demand shock—and the US dollar depreciation are likely to ease pressures on inflation. However, for countries that are more integrated with the United States, ongoing developments could lead to a disruption of supply chains (a negative supply shock) that pushes inflation up. The overall effect would depend on monetary policy space to respond to shocks—including from exchange rate regimes, output and inflation gaps, anchoring of inflation expections, and the level and composition of debt, in terms of both currency denomination and term structure.

The author of this box is Camila Casas.

[1] Overall, the region's participation in GVCs is significantly lower than in other emerging markets (IMF 2023b).

[2] The aggregate impact of changes in commodity prices and the changes in the terms of trade can mask country-specific differences (Gruss 2014). In general, trade theory suggests that the prices of goods with high (low) demand (supply) elasticities and a large share of demand by countries imposing tariffs would adjust the most in international markets.

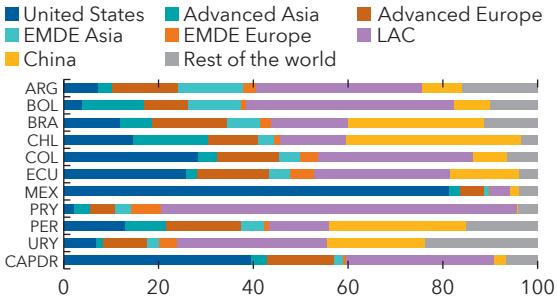
[3] This impact will depend on the correlation with the United States and/or China's GDP growth (Ahuja and Nabar 2012; Duval and others 2014; Dizioli and others 2016; Kose and others 2017).

[4] Online Annex 1 shows the statistical decomposition of the World Uncertainty Index (WUI) as well as impulse-responses of growth to a shock in each component of the WUI.

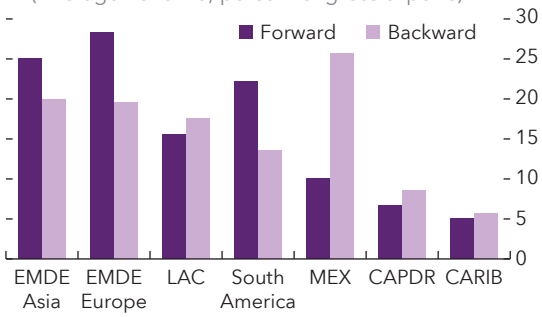
Box 1.1. *(continued)*

Box Figure 1.1.1. Trade and Effect of Uncertainty on LAC Economic Activity and Financial Conditions

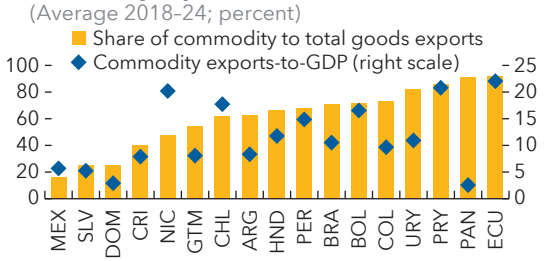
1. Goods Exports by Destination
(Average 2018–24 excluding 2020; percent)



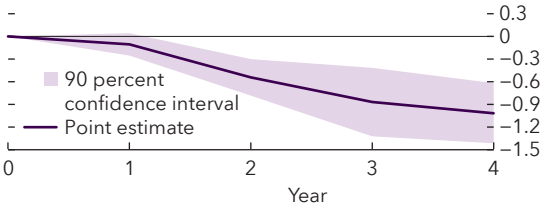
2. Forward and Backward GVC Participation[1]
(Average 2015–18; percent of gross exports)



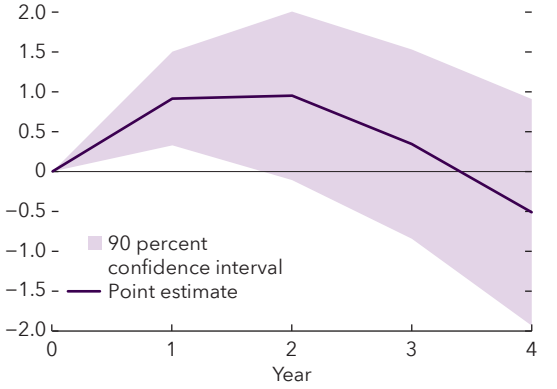
3. Commodity Exports[2]
(Average 2018–24; percent)



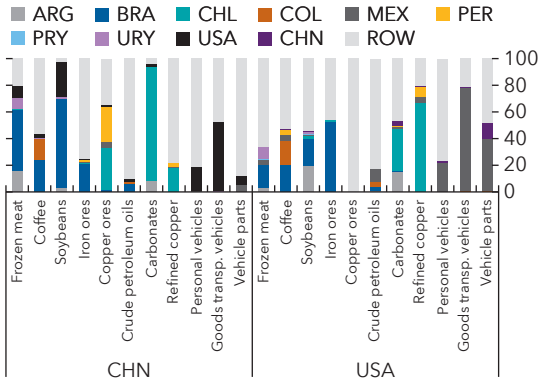
4. Response of Real GDP Growth to a One-Standard-Deviation Increase in Uncertainty
(Percent)



5. Response of Sovereign Spread to a One-Standard-Deviation Increase in Uncertainty
(Percent)



6. The United States and China's Imports by Origin: LA8 Top Export Products, 2022–24[3]
(Percentage of goods imports)

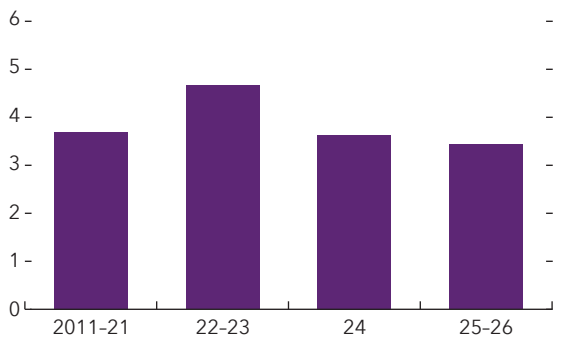


Sources: EORA Global Supply Chain database; IMF, Direction of Trade Statistics database; IMF, World Economic Outlook database; Trade Data Monitor; UN Comtrade (Standard International Trade Classification Revision 4, SITC Rev. 4); World Bank, World Integrated Trade Solution; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; EMDE = emerging market and developing economies; GVC = global value chains; LAC = Latin America and the Caribbean; LA8 = Latin America 8 (Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); ROW = rest of the world; transp. = transport.
[1]Forward participation refers to the export of inputs used in the importing country's exports. Backward participation refers to the use of imported inputs in exports.
[2]Commodity exports include SITC Rev. 4 codes 0–4 for traditional (non-manufactured) commodities.
[3]Country aggregates are calculated as the total nominal imports in US dollars at the HS4-digit level. Selected LA8 top export products are HS4-digit items accounting for more than 10 percent of exports to the United States and China. Carbonates include percarbonates.

Box 1.2. CAPDR in Changing Migration and Trade Policy Environments

In Central America, Panama, and the Dominican Republic (CAPDR), real GDP growth eased in 2024—to 3.6 percent—and continued to do so in the first half of 2025. Growth is projected to ease further to 3.4 percent in 2025–26 (Box Figure 1.2.1), reflecting weaker growth in key trading partners and elevated global uncertainty weighing on the region's exports and private investment. Domestic activity remains supported by resilient consumption. Remittances are anticipated to stay robust through 2025 supported by precautionary transfers, and to start easing from 2026 onward. Inflation is projected to remain broadly unchanged from 2024—with a sharper disinflation expected in Nicaragua and a rise in inflation in Costa Rica toward the 3 percent target, from very low levels.

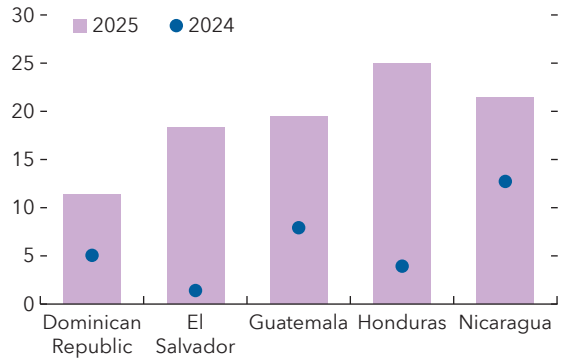
Box Figure 1.2.1. CAPDR: Real GDP Growth
(Year-over-year percent change)



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

The growth of remittances accelerated in the first half of 2025—consistent with temporary precautionary transfers—but is projected to decline going forward amid US migration policy tightening. The growth rate of remittances to CAPDR in January–August 2025 was much higher than that in 2024 (Box Figure 1.2.2). This was not the result of the US labor market: US Hispanic unemployment rose, which should have reduced remittances growth.[1] Data for El Salvador and Nicaragua show that the rise primarily reflected larger per-transfer amounts. The recent rise in remittances is projected to unwind as tighter US migration policies are expected to outweigh increased transfers from remaining migrants, thereby leading to a decline in remittances (especially as a percent of GDP) from 2026 onward. For CAPDR, the United States has terminated the parole program for Nicaragua, and the Temporary Protected Status for Nicaragua and Honduras. IMF staff estimates show an increase in repatriations from the United States to CAPDR countries in 2025, in particular starting in May (Box Figure 1.2.3).

Box Figure 1.2.2. CAPDR: Remittances Growth
(January to August cumulative; year-over-year percent change)



Sources: National authorities; and IMF staff calculations.
Note: For Nicaragua, data for May is estimated by IMF staff and changes shown are for January to May cumulative. CAPDR = Central America, Panama, and the Dominican Republic.

The authors of this box are Juan Pablo Celis and Alexander Culiuc, with research analysis by Manuel Escobar and Alfredo Alvarado. Bas Bakker, Alina Carare, and Varapat Chensavasdijai provided useful edits and suggestions.

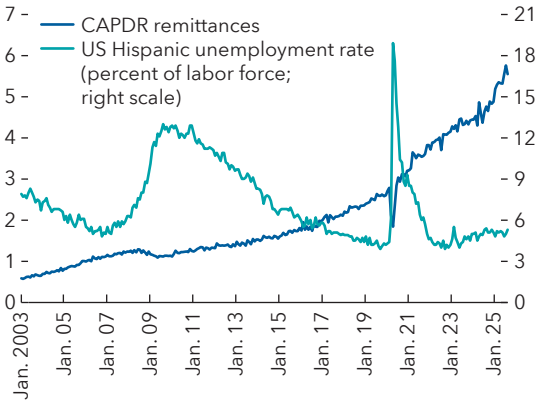
[1] An improvement in the host country's economic conditions (as measured by the US Hispanic unemployment rate or US real wages) is associated with an increase in remittances and explains a significant share of the region's remittance dynamics. For example, see Babii and others (2022).

Box 1.2. *(continued)*

Box Figure 1.2.3. CAPDR: Remittances and Repatriations Developments

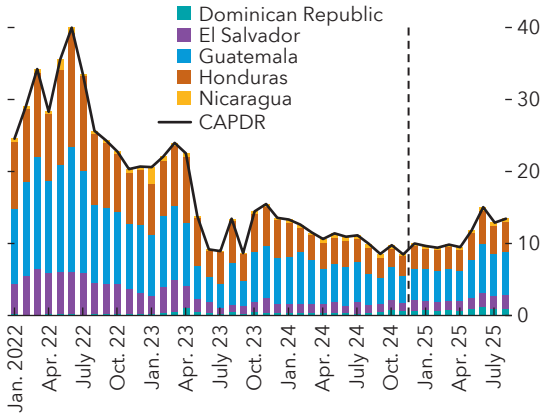
Remittances growth points to precautionary savings being transferred in 2025, rather than changes in US labor market ...

1. Remittances to CAPDR and US Unemployment Rate[1]
(Billions of US dollars, unless noted otherwise)



... and the latest data suggest that repatriations are trending upward, although they are still below their 2022 high.

2. Repatriations to CAPDR[2]
(Thousands of persons)



Sources: National authorities; US Bureau of Labor Statistics; US Department of Homeland Security; US Immigration and Customs Enforcement (ICE); and IMF staff calculations.
Note: Includes the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. CAPDR = Central America, Panama, and the Dominican Republic.
[1]Seasonally adjusted. For Nicaragua, data for May is estimated by IMF staff. Remittances data for June to August 2025 excludes Nicaragua.
[2]Repatriations include administrative and enforcement returns, removals and Title 42 expulsions. Since December 2024, repatriations are estimated using ICE book-ins. The repatriations-to-book-ins ratio is calculated through November 2024 and projected to remain constant. Since data for book-ins are published through August 2025, this allows to estimate the repatriations in 2025.

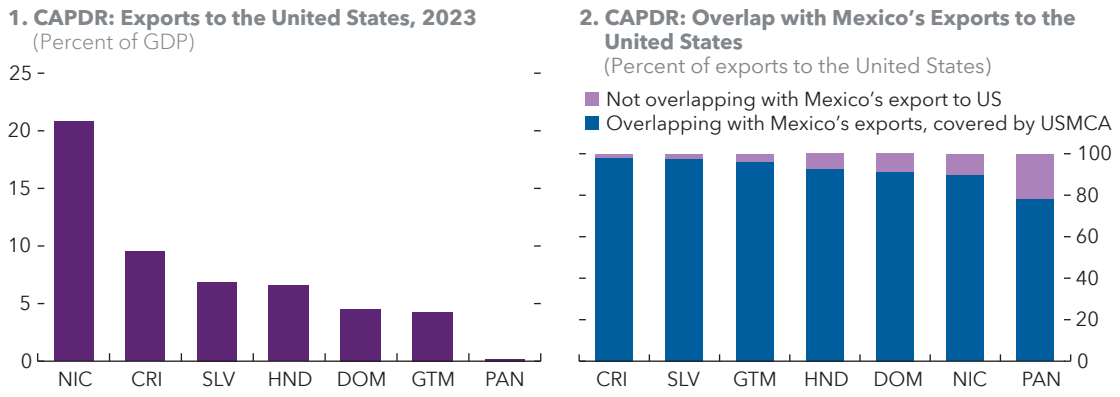
Most of CAPDR is subject to relatively low US import tariffs, but the region's reliance on the US market combined with an export basket heavily overlapping with that of Mexico poses risks. The United States is the largest market for CAPDR: exports constitute between a third and a half of all exports, accounting for 4–21 percent of GDP (except Panama, where goods exports are a small share of GDP).

Risks associated with this reliance are partly mitigated by the fact that CAPDR countries (except Costa Rica and Nicaragua)[2] face the baseline 10 percent tariff in the US market, comparatively lower than in other emerging markets. However, as shown in Box Figure 1.2.4, a significant share of products that CAPDR countries export to the United States are also exported by Mexico, and virtually all of these products are covered by the US-Mexico-Canada Agreement (USMCA). As of now, Mexico faces no tariffs on these products on the US market, which puts CAPDR at a competitive disadvantage.[3] In addition, since CAPDR producers are not deeply integrated in USMCA-based supply chains, any indirect benefits from a potential expansion of intra-USMCA trade would be limited.

[2] As of August 7, 2025, announced tariffs are 15 percent for Costa Rica and 18 percent for Nicaragua, broadly in line with the World Trade Organization trade-weighted world average of about 18 percent.
[3] The direction of trade diversion is subject to uncertainty, as the tariff landscape is rapidly evolving.

Box 1.2. *(continued)*

Box Figure 1.2.4. CAPDR Goods Exports to the United States and Their Overlap with Mexico's Goods Exports

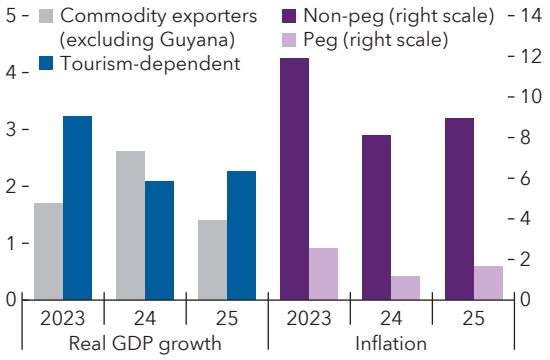


Sources: IMF, Direction of Trade Statistics; UN Comtrade; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. CAPDR = Central America, Panama, and the Dominican Republic; USMCA = US-Mexico-Canada Agreement.

Box 1.3. The Caribbean: Navigating External Uncertainties with Fiscal Resilience

Real GDP growth in the region—excluding Guyana and Haiti—is projected to rise to 1.9 percent in 2025, after a slight easing in 2024 following the strong post-pandemic recovery (Box Figure 1.3.1).[1] In 2024, tropical cyclones (especially hurricane Beryl) dented growth in some tourism-dependent economies (for example, Jamaica), and an ongoing security crisis continued to weigh on Haiti. Meanwhile, Guyana's oil and non-oil growth remained exceptionally strong. In 2025, tourism-dependent countries are expected to experience broadly stable growth—supported by expanding tourism capacity, increased construction activity, and a rebound from the storm-related slowdown. Activity in commodity-exporting economies is projected to expand modestly in 2025, supported by higher energy production and a resilient non-energy sector. In Haiti, growth is projected to contract for the seventh consecutive year because of persistent insecurity, which has displaced over 1.3 million people internally. The direct impact of the US tariffs on the region has been limited so far, as a large portion of its exports to the United States is exempt from tariffs. Inflation in the Caribbean is expected to rise moderately to 6.9 percent (year over year) in 2025, up from 6.1 percent in 2024. This uptick is driven by higher import prices and the pass-through effect of the US dollar depreciation in economies with currency pegs. Inflation is anticipated to begin easing in 2026.

Box Figure 1.3.1. Real GDP Growth and Inflation
(Percent)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Real GDP growth is based on purchasing-power-parity GDP-weighted averages, and inflation is presented as annual averages. The 2025 figures are IMF staff forecasts. Haiti is not classified as a tourism-dependent or commodity-exporting country. Because of idiosyncratic factors, Haiti experienced negative growth rates over the period.

Risks to growth are tilted to the downside, whereas inflation is subject to upside risks. For tourism-dependent countries, key risks include a potential slowdown in major tourism source markets, particularly the United States. Economies reliant on Citizenship-by-Investment (CBI) programs may see reduced fiscal revenues amid heightened international scrutiny. For commodity exporters, commodity price volatility and weaker-than-expected global growth could dampen economic performance. The region's high vulnerability to natural disasters also poses a threat to infrastructure and economic activity. In Haiti, policy changes in the United States—for example, expiration of the Temporary Protected Status, termination of HOPE/HELP preferential trade access for textiles and apparel, and the one percent remittance tax—coupled with increasing gang violence could deepen the humanitarian and economic crises. On the inflation front, unexpected price increases in key trading partners, commodity price increases (for example, food or oil), exchange rate movements, or supply-chain disruptions linked to geopolitical tensions could lead to higher inflation.

The authors of this box are Junghwan Mok, Peter Nagle, and Jongsoon Shin, with research analysis from Spencer Siegel.

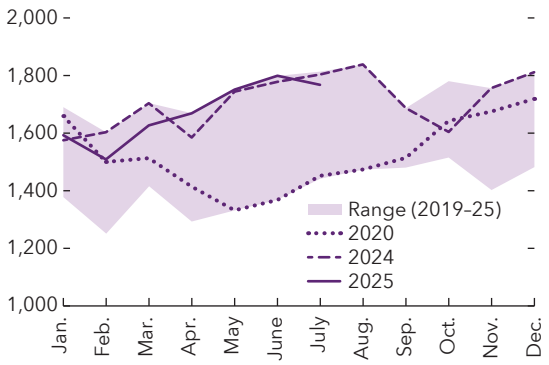
[1] Guyana and Haiti are excluded from the average growth rates for the Caribbean, as both are outliers in terms of economic performance: (i) Guyana had one of the world's highest growth rates in 2024 (43.6 percent) because of a ramp-up in oil production; and (ii) in Haiti, a multidimensional crisis, driven by global and country-specific shocks, resulted in negative growth rates over the period.

Box 1.3. *(continued)*

Exposure to Trade Policy Uncertainty

Caribbean economies—affected by geographic isolation with difficult production and trade logistics and a heavy dependence on imported goods—are highly vulnerable to shifts in global trade policy. So far, high-frequency data through July indicate that import volumes are broadly comparable to 2024 levels (Box Figure 1.3.2), suggesting a still-limited impact of policy changes on the region's international trade. Nevertheless, persistent trade policy uncertainty—particularly if it translates into elevated shipping and import costs—can increase inflation and erode the region's tourism competitiveness, primarily by disrupting supply chains. As a result, diversifying import sources geographically emerges as a strategic way to bolster economic resilience over time.

Box Figure 1.3.2. Monthly Import Volumes
(Thousands of metric tons)



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

Navigating External Uncertainties with Fiscal Resilience

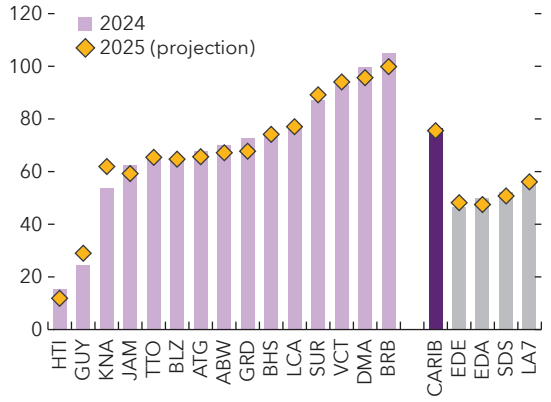
Global policy uncertainties also underscore the need for stronger policy buffers. Although several Caribbean countries have made notable progress in reducing debt-to-GDP ratios since the pandemic, public debt levels remain elevated, constraining the authorities' ability to respond effectively to external shocks (Box Figure 1.3.3). Moreover, debt sustainability concerns may limit growth-enhancing investments—particularly in education, health, and infrastructure—which are vital to reversing the region's decline in potential growth (see Box 2 of IMF 2024b for more details).

In this context, strengthening fiscal policy frameworks and rebuilding fiscal buffers are critical to safeguard macroeconomic resilience. IMF staff analysis suggests that the region—excluding Guyana and Haiti—is currently operating approximately 8.5 percent of GDP below its estimated tax potential, highlighting ample scope for tax revenue mobilization (Box Figure 1.3.4). Priority reforms could include broadening the tax base, reducing distortionary tax exemptions, and strengthening tax administration capacity. At the same time, improving public spending efficiency—by streamlining overlapping expenditures and prioritizing capital investments—can elevate the quality of fiscal adjustments.

Taken together, these reforms will support a more sustainable public debt trajectory while safeguarding public investment and targeted social protection for the most vulnerable.

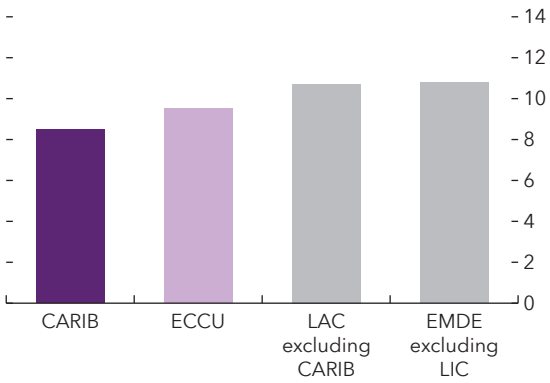
Box 1.3. *(continued)*

Box Figure 1.3.3. General Government Gross Debt
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are simple averages. CARIB = Caribbean (excluding Guyana and Haiti); EDA = emerging and developing Asia; EDE = emerging and developing Europe; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); SDS = small developing states (excluding Caribbean).

Box Figure 1.3.4. Average Tax Gap: Difference between Tax Revenue and Potential
(Average 2014–18; percent of GDP)



Sources: Rayner and others (2022); and IMF staff calculations.
Note: The results are obtained from a stochastic frontier analysis with 2000–19 data from 127 EMDEs. CARIB = Caribbean (excluding Guyana and Haiti); ECCU = Eastern Caribbean Currency Union; EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean; LIC = low-income countries.

Box 1.4. Latin America 8 and Other South American Countries: Country Focus

In *Argentina*, tight fiscal and monetary policies under the new Extended Fund Facility (EFF) program have supported the transition to a more flexible exchange rate regime and the easing of most foreign exchange (FX) restrictions. Annual core inflation continues to gradually fall, while activity has softened more recently, also reflecting election-related shocks and uncertainties. Sustained efforts are needed to maintain the fiscal anchor, strengthen the monetary and liquidity management framework, and boost reserve buffers to facilitate durable access to international capital markets. Under baseline policies, real GDP growth is projected to moderate from around 4½ percent this year to 4 percent in 2026, with annual inflation falling from around 28 percent by the end of 2025 to around 7–12 percent by the end of 2026.

Having shown a remarkable resilience in the past three years, growth in *Brazil* is expected to moderate in 2025. GDP growth is forecast to slow to 2.4 percent amid tight monetary policy, a scaling back of fiscal support, and increased global uncertainty. Higher US tariffs are expected to have a relatively minor effect on the Brazilian economy, for several reasons: the United States is Brazil's third-biggest export market (about 12 percent) after China (30 percent) and the European Union (14 percent); targeted products represent only about 36 percent of Brazil's exports to the United States; and many are commodities, which can be redirected elsewhere. Headline inflation has declined in recent months and is projected at 4.9 percent for the end of 2025, above the target tolerance interval, while inflation expectations remain above the target. As a result, continued monetary restraint remains appropriate; staff expects inflation to gradually converge to the 3 percent target by the end of 2027. At about 0.6 percent of GDP, the primary fiscal deficit is expected to remain within the target tolerance interval in 2025 after allowed deductions. The authorities' commitment to improving the fiscal position, while protecting targeted social support and investment spending, is welcome. To put public debt on a firmly downward path and open space for priority investments, IMF staff recommends a sustained and ambitious fiscal effort.

In *Bolivia*, economic conditions have deteriorated markedly in 2025. Liquid international reserves are nearly depleted, and the boliviano has been trading at an average of nearly twice the official exchange rate in parallel markets, forcing large import compression. Inflation surged to 24 percent as of August because of high import costs and supply bottlenecks, including prolonged fuel shortages. Food inflation reached 37 percent. External pressures are mounting as external financing remains limited, and a 36 percent year-over-year fall in gas exports widened the trade deficit to 1.1 percent of yearly GDP in the first half of 2025. GDP growth fell to 0.7 percent in 2024 and is expected to moderate further in 2025. Fiscal imbalances remain large, with the 2025 deficit projected above 10 percent of GDP, mostly financed by the central bank, and debt nearing 100 percent of GDP. Urgent steps are needed to restore macroeconomic stability, including a credible fiscal consolidation program, realignment of the exchange rate, and supply-side reforms to boost growth and support reserve accumulation.

Chile's economy is expected to grow by 2.5 percent in 2025, supported by continued strong export growth and recovering private consumption and investment, before moderating to 2.0 percent growth in 2026 because of global trade tensions. Inflation is likely to converge toward the 3-percent target early in 2026, as the effects of electricity price hikes dissipate. The central government fiscal deficit is projected to narrow to 2.1 percent of GDP in 2025, a notable consolidation but less than envisaged by the authorities (1.5 percent of GDP) with the difference reflecting uncertainty about the implementation of corrective measures. Over the medium term, additional fiscal efforts of about 1.5 percent of GDP are needed to reach a broadly balanced fiscal position by 2028.

The authors of this box are the Latin America 8 (Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay) and other South America country teams.

Box 1.4. *(continued)*

Colombia's real GDP growth is projected to reach around 2½ percent in 2025 but is expected to decline somewhat in 2026 because of planned fiscal adjustment. Inflation is expected to gradually fall to about 4½ percent by the end of 2025 and reach the 3 percent target by early 2027, conditional on tight monetary policy and the resumption of fiscal restraint. A decisive and credible fiscal adjustment is urgently needed to re-anchor expectations, lower borrowing costs, and improve the overall policy mix. Meeting the revised 2025 deficit target (7.1 percent of GDP) will still require immediate spending cuts and a reduction in budgetary backlogs. The proposed fiscal plan over 2026–28 will require a structural adjustment to be underpinned by fundamental reforms. Given fiscal slippages and the upside risks to inflation, monetary policy should remain tight, with rate cuts proceeding at a backloaded pace.

In *Ecuador*, the economy is recovering well from last year's recession after the electricity supply normalized, with growth expected to reach 3.2 percent in 2025, despite recent weather-related oil production disruption. Inflation remains low at only 0.8 percent year-over-year as of August 2025. Strong current account performance, driven by high non-oil trade surplus and sizable remittance inflows, is helping build external buffers and improve liquidity in the domestic financial system. Fiscal performance remains satisfactory and broadly in line with program targets, as the authorities continue to pursue measures to firmly place public finances on a sustainable path while protecting vulnerable populations.

In *Mexico*, economic activity has been slow since mid-2024, reflecting capacity constraints, fiscal tightening, and a restrictive monetary stance. The introduction of U.S. tariffs added to these headwinds, mainly as uncertainty dampened consumption and investment. As a result, growth in 2025 has remained subdued. A modest pickup in activity is anticipated for 2026 as the drag from fiscal and monetary policies eases. However, tariffs and lingering trade uncertainty will continue weighing on growth. Inflation is projected to gradually converge to the target by the second half of 2026, accompanied by a gradual decline in the policy rate. While medium-term fiscal consolidation is planned, a more front-loaded and ambitious deficit reduction is needed to put debt-to-GDP on a downward trajectory.

Paraguay's growth momentum continues backed by strong domestic demand with real GDP expected to expand 4.4 percent in 2025, and 3.7 percent in 2026. Medium-term growth prospects remain robust supported by foreign investment and structural reforms. Monetary policy remains data-driven as inflation is contained and medium-term inflation expectations are firmly anchored around the central bank target. Fiscal consolidation is proceeding as planned. The fiscal deficit would reach 1.9 percent of GDP this year, down from 2.6 percent of GDP in 2024, and the 2026 draft budget envisages a further reduction to 1.5 percent of GDP, which would restore compliance with the Fiscal Responsibility Law. Public debt remains relatively low at around 42 percent of GDP and trades with one of the lowest risk spreads in the region. Increased issuance of local-currency-denominated bonds both in the domestic and global capital markets is helping de-dollarize public debt.

In *Peru*, after a strong recovery in 2024, a favorable momentum in private investment and consumption continues but is moderating. The economy is expected to grow at 2.9 percent in 2025, amid global policy uncertainty and pre-election tensions. Low inflation, an improving labor market, and buoyant business expectations have supported strong domestic demand. Strong terms of trade are sustaining a current account surplus. With headline inflation expected to remain firmly within the 1–3 percent target range, a broadly neutral monetary policy stance is adequate. The fiscal deficit has fallen, after increasing in 2024, but additional measures will be needed to meet the 2025 fiscal deficit target. In the medium term, fiscal

Box 1.4. *(continued)*

consolidation measures are necessary to ensure compliance with the fiscal targets and maintain public debt low and on a sustainable downward path, while structural reforms are urgently needed to lift potential growth.

Domestic demand and exports are expected to support *Uruguay's* GDP growth of 2.5 percent in 2025 and 2.4 percent in 2026. Inflation is projected to consolidate around the Central Bank's target of 4.5 percent. The monetary policy stance has been appropriately contractionary, with recent declines in policy rates justified by lower inflation and inflation expectations. The fiscal deficit of the nonfinancial public sector, including *cuarentones*, is expected to increase to 3.3 percent of GDP in 2025. The new five-year budget law and a new fiscal rule with expanded mandate for the fiscal council are expected to lead to a reduction of the deficit by 1.5 percent of GDP over 5 years, permitting a stabilization in the debt-to-GDP ratio in the medium term.

In *Venezuela*, growth is forecast to decelerate to 0.5 percent in 2025 amid mounting macroeconomic challenges. Trade and political uncertainty have increased, reigniting economic distortions and weighing on domestic demand. Despite a relatively strong performance from the oil sector (at about one million barrels per day), lower oil prices, larger price discounts, and logistical issues have weakened oil export proceeds, triggering a generalized FX scarcity. Fiscal deficit has widened, leading to a larger monetary financing of the deficit. Against this background, the depreciation of the Bolivar exchange rate is expected to continue, with the Bolivar losing about 80 percent of its value in 2025. Despite larger FX interventions and efforts to control price increases, inflation will reverse its 6-year downward trend and rise to about 549 percent. Venezuela remains in a deep economic, political, and humanitarian crisis, which has led to about 8 million people (25 percent of the population) leaving the country since 2014.

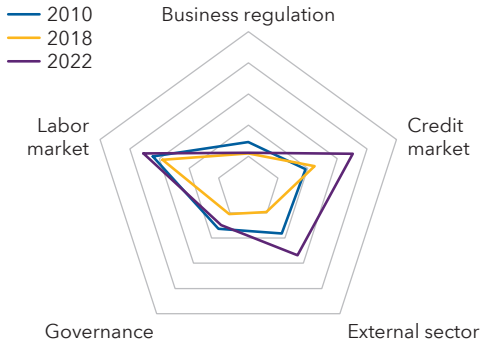
Box 1.5. Argentina's Structural Reform Agenda

Since December 2023, the Milei administration has implemented an ambitious package of market-oriented reforms to boost productivity and growth. Reforms have focused on eliminating entrenched barriers in trade, lifting stringent financial, product, and labor market regulations, and enacting governance reforms.

Background

Argentina has faced substantial structural impediments to growth that worsened during 2010–22 (Box Figure 1.5.1) resulting from (1) harsh restrictions and heavy price, interest rate, and foreign exchange (FX) controls; (2) stringent product and labor market regulations that discouraged formal employment and increased the cost of doing business; and (3) a deterioration in regulatory quality, government effectiveness, and overall governance and transparency.

Box Figure 1.5.1. Evolution of Structural Gaps
(Compared to Emerging Markets Frontier)



Source: Fraser Institute (2023 release), World Bank, and IMF staff calculations.
Note: A longer distance from the origin denotes a wider gap.

Core Reform Areas

- *Trade Liberalization*—To boost trade and competition, the Milei administration has reduced numerous (and highly discretionary) tariff and non-tariff trade barriers, eased most FX restrictions (although some were reintroduced recently), simplified customs procedures through digitalization, and better aligned regulations with international norms. A new investment regime (RIGI) has secured commitments of over 15 billion dollars in foreign direct investment (FDI), primarily in energy and mining.
- *Financial Deregulation*—To foster credit and investment, as well as improve monetary policy transmission, interest rate controls on loans and deposits were removed, and new financial instruments were introduced. The securities regulator shifted focus to market-friendly post-issuance oversight, making capital markets more accessible.
- *Product Market Deregulation*—To remove market distortions, reduce administrative burdens, and enhance competition, over 1,000 regulations were repealed or amended across key sectors such as oil, gas, mining, electricity, transportation, retail, and real estate.
- *Labor Market Modernization*—As a first step toward improving labor market flexibility, regulations were updated to permit sectoral collective bargaining, simplify the tax system for independent workers, and extend the trial periods for new hires.
- *State Transformation*—To streamline the state, increase efficiency, reduce intervention, and improve transparency, numerous regulations were issued enabling the streamlining of public entities, the closing of trust funds, and the conversion of state-owned enterprises to joint-stock companies ahead of their privatization. Administrative processes were also modernized, and a civil service reform was put in place.

The author of this box is Tannous Kass-Hanna.

Box 1.5. *(continued)*

Ongoing Agenda and Outlook

After the expiration of delegated executive powers in July 2025, the administration has launched the "Zero Bureaucracy" initiative to further reduce red tape and gather public input to further reduce regulatory burdens. Additional efforts to reform labor markets and tax policy are seen as vital for addressing informality and boosting productivity. The IMF expects that, if sustained and deepened, these reforms could generate significant medium-term gains by opening Argentina's economy, improving the quality and predictability of the regulatory and tax regime, and streamlining administrative procedures.[1] These policies will need to be complemented by efforts to address governance weaknesses and to close critical infrastructure and skills gaps.

[1] See Box 5 of IMF (2025f) for a discussion on the potential output gains from structural reforms.

2. Fostering Growth through Business Dynamism[1]

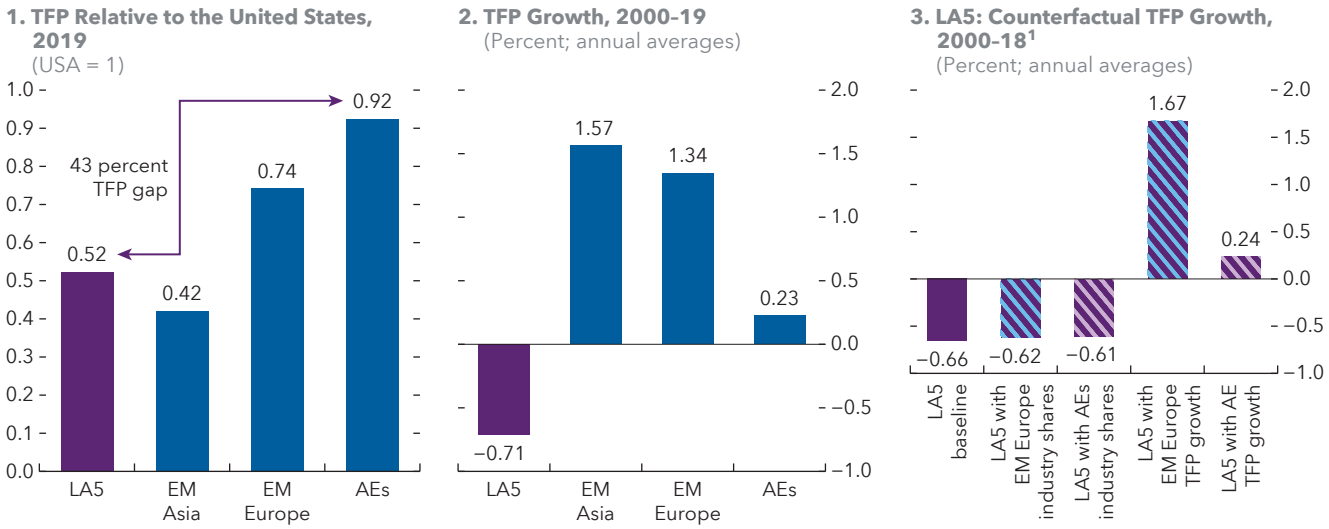
Low productivity has weighed on Latin America's growth over the past decades, in part attributable to persistent resource misallocation and sluggish productivity growth among firms, constraining the region's ability to foster growth. Addressing these challenges requires reforms targeting core frictions, including size-based regulations, financial constraints, and limited market competition. Successful reform efforts in other regions offer valuable guidance to reinvigorate productivity and enhance business dynamism.

2.1 Introduction

Latin America's (LA) weak productivity performance remains a major constraint on the region's income convergence with advanced economies (AEs). Despite periods of strong capital accumulation and labor force expansion, the region has struggled to achieve sustained convergence with AEs, unlike other emerging market economies (EMs) that are gradually closing the productivity gap with AEs (Figure 2.1, panels 1 and 2).

At the heart of this underperformance is a dual productivity challenge: low *levels* of total factor productivity (TFP) and persistently weak TFP *growth*. These challenges reflect, inter alia, resource misallocation and associated sluggish firm-level productivity gains. Persistent misallocation, where resources are not allocated toward more productive firms, can constrain not only aggregate productivity but also firms' incentives and ability to make

Figure 2.1. Latin America's Dual Productivity Challenge: TFP Levels, Growth, and Sectoral Gaps



Sources: IMF, World Economic Outlook database; EU KLEMS database (Bontadini and others 2023); LA KLEMS database (Gu and Hofman 2021); national authorities; Penn World Table 10.01 database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. Regional groupings use 2005 *World Economic Outlook* classification. Countries are abbreviated using International Organization for Standardization (ISO) country codes. AEs = advanced economies (AUT, BEL, DEU, DNK, FIN, FRA, GRC, ITA, JPN, LUX, NLD, NOR, ESP, SWE, GBR, USA); EM = emerging markets; EM Asia = IDN, IND, MYS, PHL, THA; EM Europe = CZE, EST, LTU, LVA, SVK, SVN, POL, ROU; LA5 = Latin America 5 (BRA, CHL, COL, MEX, PER); TFP = total factor productivity.
[1]Excludes EM Asia and some countries (NOR, POL, ROU) because of data availability. No data are available for 2019.

[1] Prepared by Olusegun A. Akanbi, Armine Khachatryan (co-lead), Nils H. Lehr (co-lead), and Nicolás Gómez Parra.

productivity-enhancing investments. Moreover, high-productivity firms consistently face barriers to expansion, barring them from scaling up to a more efficient size. Low-productivity firms, on the contrary, remain active for too long. Misallocation also inhibits the shift of resources across firms. Jointly, these margins hold back productivity growth in LA.

The region's productivity underperformance extends across all sectors of the economy. It does not appear to be driven by the sectoral composition of the economies (for example, predominance of sectors characterized by sluggish productivity growth). For instance, if the sectors could have achieved productivity growth rates comparable to those in peer EMs, LA's performance could significantly improve (Figure 2.1, panel 3; see Online Annex 2 for methodology).

Understanding these challenges is essential for formulating effective policy responses. This chapter explores why productivity remains low in LA, which margins are holding back productivity growth, what kind of structural frictions are behind these margins, and what policies could unlock higher productivity growth.[2] It contributes to the literature by examining how business dynamism—productive firms' growth, efficient resource reallocation, and entry and exit—can enhance productivity and foster a more competitive economy (Banerjee and Moll 2010; Busso and others 2012; Hsieh and Klenow 2014; Hsieh and Olken 2014; Camacho and others 2024; Eslava and others 2024; Fentanes and Levy 2024; Amundsen and others 2025).

2.2. A Deeper Understanding of the Dual Productivity Challenge

Assessing the drivers of LA's productivity challenges requires connecting aggregate trends to the underlying dynamics using firm-level data. This section decomposes the TFP level and its growth rate into underlying drivers, with resource misallocation and low firm-level productivity growth emerging as important contributors.

Resource Misallocation Contributes Significantly to Low Total Factor Productivity Levels

TFP can be constrained by low firm-level productivity and by misallocation of resources across firms. Although TFP naturally increases when countries host many high-productivity firms, these firms can only scale to efficient size when they have access to adequate production resources. In a frictionless economy, inputs such as labor and capital flow freely toward their most productive use at firms with the highest marginal returns, thereby maximizing aggregate output. However, frictions—such as credit constraints or regulatory barriers—can disrupt this process, leading to resource misallocation that reduces aggregate productivity. These frictions create "wedges" between firms' marginal benefit and costs from additional inputs, preventing high-productivity firms from expanding and allowing low-productivity firms to retain resources.

Hsieh and Klenow (2009) provide the canonical measure of misallocation by analyzing differences in revenue-to-input ratios across firms. In the case of optimal resource allocation, these ratios should be similar. When these ratios differ, their dispersion across firms indicates that some firms are using inputs more efficiently than others but are not receiving enough resources. Therefore, reallocating inputs from firms with low revenue-to-input ratios (less productive use) to those with high ratios (more productive use) would increase aggregate output without additional inputs. Formalized in a general equilibrium framework, this insight enables the calculation of aggregate allocative efficiency—the ratio of actual TFP to a benchmark without variation in revenue-to-input ratios—and thereby the estimation of the TFP loss from misallocation (for further details, see Online Annex 2).

[2] This topic has been extensively analyzed within the IMF and across other policy institutions. See, for example, Goncalves (2018), IDB (2018, 2024), David and others (2021), Acosta-Ormaechea and others (2022), Arena and Chau (2024), and Bakker and others (2024).

Empirical estimates show that misallocation imposes significantly higher TFP costs in LA than in AEs.[3]

- Misallocation in manufacturing reduces TFP in LA3 (Brazil, Colombia, Mexico) by 18 percent below potential. This reduction is substantially higher than the 12 percent gap in emerging Asia and Europe and the benchmark of AEs, which exhibit significantly lower misallocation levels (Figure 2.2, panel 1).
- Misallocation is consistently higher than in AEs across all sectors (Figure 2.2, panels 2 and 3).
- From 2005 to 2021, misallocation increased in EMs but declined slightly in AEs (Figure 2.2, panel 4).[4]
- Misallocation of variable inputs—such as labor and intermediate goods—accounts for over 95 percent of the overall TFP loss in LA and other EMs (Figure 2.2, panel 5).[5]

Addressing misallocation challenges could reduce the overall TFP gap relative to AEs by more than one-third. Achieving convergence to levels of misallocation observed in AEs (that is, increasing the region's TFP by 16 percent in Figure 2.2, panel 3) would close 37 percent of the region's current productivity gap with AEs (estimated at 43 percent in Figure 2.1, panel 1), presenting a substantial gain for the region.

Frictions are particularly severe for high-productivity firms (Figure 2.2, panel 6; Restuccia and Rogerson 2008). These firms face greater exposure to frictions—for example, because of increasingly binding constraints in terms of access to finance, regulatory burdens, or market access—often limiting their growth (Ayerst and others 2024).[6] Although this pattern is observed globally, it is more pronounced in LA, arguably because of deeper institutional and market frictions. As a result, high-productivity firms remain smaller than optimal, which can also help to explain why large firms in LA account for a relatively smaller share of total employment compared to AEs.

Firms Improve Their Productivity Less in Latin America

TFP gaps have been persistent amid low productivity growth, which can be decomposed into contributions from surviving firms and from firm entry and exit (Griliches and Regev 1995; Melitz and Polanec 2015).[7] Surviving firms—that is, operating throughout the relevant time-window—contribute through two channels: improvement of firms' productivity and reallocation of resources toward more productive ones. Entry contributes positively when new firms are more productive than surviving firms, whereas exit does so when exiting firms are less productive.

Slow productivity growth among surviving firms is the main drag on TFP growth in LA3 (Figure 2.3, panel 1). For the 2005–19 period, average TFP growth in LA3 was −0.7 percent, with a 0.9 percent contribution from firm entry and exit, and a −1.5 percent contribution from surviving firms. The firm entry and exit margins contributed equally, reflecting strong selection dynamics—new entrants are generally more productive than surviving firms, whereas exiting firms are significantly less so—attenuated by low entry and exit rates. This may reflect higher entry and exit barriers, leading to stronger selection at low rates.[8] Although LA's entry and exit margin outperforms

[3] Estimates are based on firm data from the Orbis dataset adjusted for sampling differences across countries with observation weights constructed from the World Bank Enterprise Surveys. The sample covers 2005–21. Estimates for LA are based on data for Brazil, Colombia, and Mexico. See figure footnotes for other regions and Online Annex 2 for details on the data construction and implementation of Hsieh and Klenow (2009).

[4] In line with this finding, Chapter 3 of the April 2024 World Economic Outlook documents that rising misallocation contributed significantly to low TFP growth in emerging markets for 2000–19.

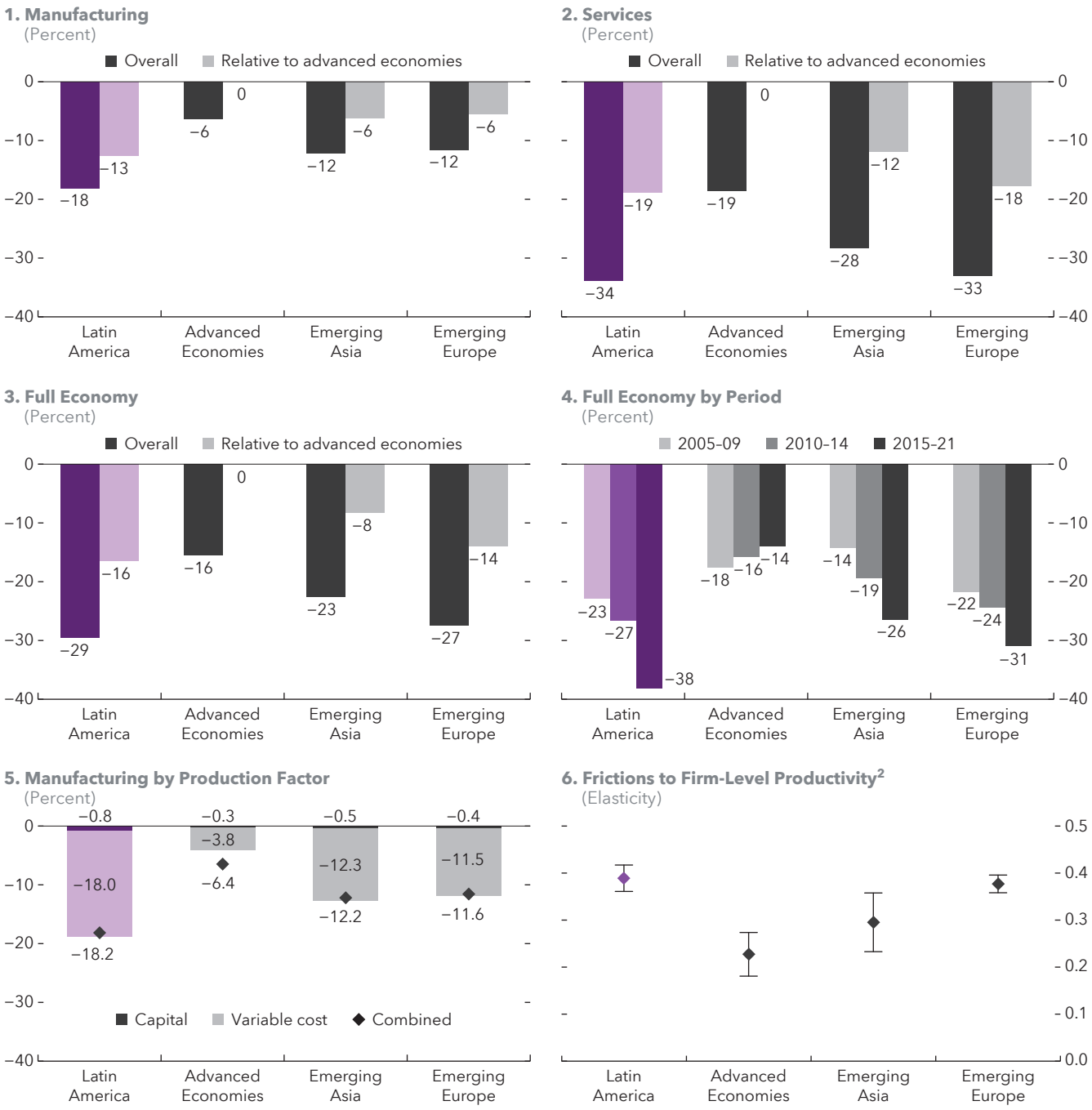
[5] This finding is driven by the low estimated output elasticity to capital rather than low misallocation of capital. Indeed, capital is consistently more misallocated across all countries. However, such misallocation is muted by an output elasticity that is commonly below 0.1, whereas variable costs enter with an elasticity of 0.9 or higher under the assumption of constant returns to scale. If the capital output elasticity was larger, its contribution to misallocation would increase as well.

[6] High-productivity firms tend to expand output, employ more labor, and invest more to exploit their efficiency advantage, which means that they need more financing and broader market access than less productive firms. Because their marginal returns to capital or labor are higher for a given level of capital and labor inputs, frictions such as lack of financing, trade barriers, and logistic bottlenecks prompt larger foregone productivity gains.

[7] See Online Annex 2 for additional details on the decomposition. Reported results combine the decomposition approach proposed in Griliches and Regev (1995) and Melitz and Polanec (2015). Firm-level productivity is estimated as residual from a two-factor Cobb-Douglas production function in capital and variable costs. Factor elasticities are estimated using the production function estimation approach followed by Díez and others (2021).

[8] To further caveat, the Orbis sample for Brazil and Mexico is tilted toward large, often-listed firms for which entry and exit may be inherently low. Although this study adjusts for this via sampling weights, those adjustments might be imperfect when studying entry and exit.

Figure 2.2. TFP Losses from Misallocation[1]

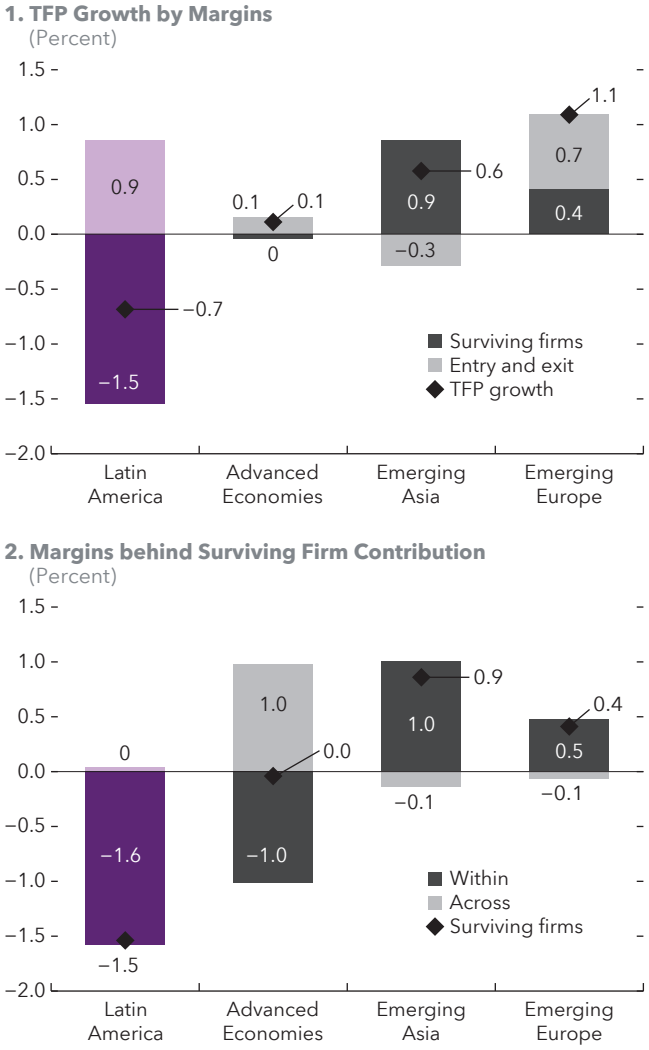


Sources: IMF, World Economic Outlook database; Penn World Table 10.01 database; Orbis; World Bank Enterprise Surveys; and IMF staff calculations.
Note: Estimates from applying the Hsieh and Klenow (2009) framework from 2005 to 2021. Aggregates are purchasing-power-parity GDP-weighted averages. Regional groupings use 2005 *World Economic Outlook* classification. Countries are abbreviated using International Organization for Standardization (ISO) country codes. Estimates relative to advanced economies report gains from achieving advanced economies' level of misallocation. Observations are weighed to match the size distribution in the World Bank Enterprise Surveys. Advanced economies = DEU, FRA, ESP; Emerging Asia = MYS, THA, VNM; Emerging Europe = SVN, SVK, LVA, LTU, ROU; Latin America = BRA, COL, MEX; TFP = total factor productivity.
[1]In TFP level decomposition, results are driven by Brazil and Colombia.
[2]Regression coefficients for regressing the Hsieh and Klenow (2009) measure of frictions on firm-level productivity. A positive coefficient suggests that more productive firms are greater constrained by frictions with the effect increasing in the magnitude of the coefficient. Regressions control for year-country-four-digit industry fixed effects. Standard errors clustered at the industry and country level.

other regions, its surviving firms' margin is notably negative, whereas it is either positive or only slightly negative in other regions. If LA's survivor margin had matched the levels observed in AEs, TFP growth would have matched the highest regional rate at 0.9 percent annually observed in emerging Asia. The negative productivity contribution from surviving firms in LA3 reflects their deteriorating performance over time. This pattern aligns with broader findings of negative productivity growth in LA. Many surviving firms appear constrained in their ability to invest and upgrade, including in R&D, limiting their long-term performance. This finding suggests that there may be more scope for productivity-enhancing exits as some surviving firms increasingly drag down productivity.

The negative survivor margin in LA stems from weak within firm productivity growth (Figure 2.3, panel 2). Although AEs also experience negative productivity growth among survivors, they benefit from a strong reallocation effect that mitigates the impact. In contrast, other EMs exhibit strong productivity growth among surviving firms, even if reallocation effects are weaker. LA, however, shows both stagnant productivity within firms and limited reallocation, preventing the region from harnessing productivity gains over time. Qualitatively, the results are in line with a world in which production resources are stuck and unresponsive to productivity signals while firms fail to make productivity-enhancing investments.

Figure 2.3. TFP Growth Rates Decomposition[1]



Sources: IMF, World Economic Outlook database; Penn World Table 10.01 database; Orbis; World Bank Enterprise Surveys; and IMF staff calculations.
Note: Melitz and Polanec's (2015) decomposition of growth rates and contributions. Aggregates are purchasing-power-parity GDP-weighted averages. Regional groupings use 2005 *World Economic Outlook* classification. Countries are abbreviated using International Organization for Standardization (ISO) country codes. Observations are weighed to match the size distribution in the World Bank Enterprise Surveys. Advanced economies = DEU, FRA, ESP; Emerging Asia = MYS, THA, VNM; Emerging Europe = SVN, SVK, LVA, LTU, ROU; Latin America = BRA, COL, MEX; TFP = total factor productivity.
[1]In the TFP growth analysis, results are driven by Brazil and Mexico.

2.3 From Diagnosis to Reforms: Linking Productivity to Underlying Frictions

The preceding analyses highlight two interrelated drivers behind LA's persistent productivity underperformance: misallocation of resources across firms and stagnant productivity within surviving firms. Capital and labor are not flowing to their most productive use—resources are stuck in the wrong places—and therefore, firms that continue operating fail to become more efficient, unlike trends observed in more dynamic regions.

The literature suggests that these drivers stem from institutional, regulatory, and financial frictions (IMF 2024b, 2024e, 2024f). Misallocation and firm-level stagnation reflect structural distortions—such as limited access to finance, regulatory burdens, or restricted market access, impairing firm behavior (Hsieh and Klenow 2009). High-productivity firms often face disproportionately high barriers that hinder their growth and innovation (Restuccia

and Rogerson 2008; Ayerst and others 2024). Meanwhile, low-productivity firms persist, often shielded by subsidies, preferential (including subsidized) credit, or weak enforcement of market discipline (including toward state-owned enterprises).[9] This results in an environment that undermines incentives for upgrading and slows productivity gains (Konig and others 2022).

In what follows, the chapter focuses on a selection of frictions that are likely binding in the LA context. Although a wide array of frictions may curb productivity, the ones assessed in this section are both closely linked to misallocation and stagnation margins revealed in the data and empirically documented across the region.

a. Size-Based Frictions. Many countries in LA operate dual-track regulatory regimes. Firms below a size threshold face lighter compliance burdens—in taxation, labor regulation, or social security contributions. Though originally designed to support small enterprise survival and tackle informality, these regimes create disincentives for firms to grow, ultimately discouraging productivity gains and scaling up (Guner and others 2008; Benedek and others 2017). Empirical evidence suggests that firms tend to cluster just below regulatory thresholds to avoid higher taxation and compliance costs. These structural distortions compress firms' size, limiting allocative efficiency[10] (Figure 2.4, panels 1 and 2; Online Annex 2).

b. Financial Frictions. Financial market inefficiencies restrict firm expansion. Credit-to-GDP ratios in LA remain well below EM averages, and even productive firms may lack adequate access to financing (Figure 2.4, panel 3).[11] In LA, these constraints are compounded by concentrated banking sectors, weak creditor protection, and underdeveloped risk assessment tools. Relaxing financial frictions could allow surviving firms to expand and startups to enter markets.

c. Limited Competition. This friction prevents the reallocation of market share toward more efficient producers and reduces incentives for surviving firms to innovate. In LA, competition is often undermined by weak enforcement of antitrust rules, high market entry costs, and regulatory capture. The region is characterized by high market concentration and the presence of dominant conglomerates (Figure 2.4, panel 4). When competition is weak or absent, the incentive for productivity-enhancing investments diminishes. Thus, without competitive pressure, firms stagnate, reallocation forces weaken, and aggregate productivity slows (Brooks and others 2021; Armangué-Jubert and others 2025; Schiffbauer and others 2025).

Policy Levers to Lift Constraints

LA's productivity challenge is deep-rooted but could be addressed through well-designed and targeted reforms. Reform experiences elsewhere (Box 2.1) show that targeted, well-sequenced actions in high-impact areas can deliver gains and boost business dynamism, investment, and growth.[12] For instance, gradual phasing out of size-based thresholds and the introduction of smoother compliance regimes can eliminate *size-based distortions* (Online Annex 2). Expanded credit information systems, improved legal frameworks for creditor rights,

[9] Weak enforcement of market discipline implies that underperforming and inefficient firms are not forced to restructure or exit because of insufficient application of competitive pressures, financial discipline, or regulatory forbearance.

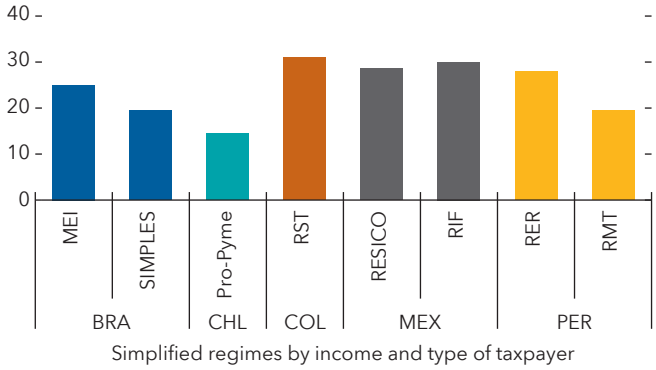
[10] Empirical research supports these findings. Garicano and others (2016) and Aghion and others (2023) document how such thresholds in France distort firm behavior, leading to productivity losses. Akcigit and others (2025) estimate that removing such regulations in Türkiye could raise the share of large firms and boost GDP. Dabla-Norris and others (2018) find that size-based tax regimes in Peru lead to inefficient hiring and underuse of managerial talent. However, Moreau (2019) finds that firms misreport their employment to take advantage of preferential treatment without actually suppressing hiring, suggesting that size-based policies may further foster tax evasion.

[11] Theoretical models suggest that financial frictions exacerbate misallocation by misdirecting capital away from more productive firms. Banerjee and Moll (2010) and Moll (2014) emphasize that persistent credit constraints can reduce long-term aggregate TFP. Empirically, Midrigan and Xu (2014) show that such frictions explain substantial productivity gaps in emerging markets. Cavalcanti and others (2024) highlight that these frictions are important in the developing market context.

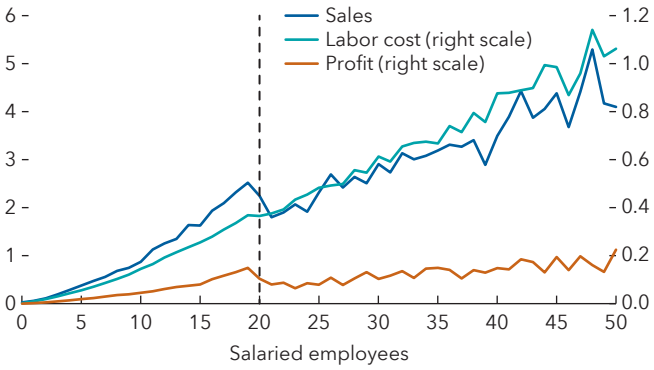
[12] Budina and others (2023) find that structural reforms improve economic performance in developing countries, while Eslava and others (2004) study the structural reforms in Colombia during the 1990s, finding an improvement in business dynamism. Relatedly, Bustos (2011) finds that market expansion due to the Mercosur agreement led to investment in technology adoption by Argentinian firms and improved aggregate productivity.

Figure 2.4. Frictions

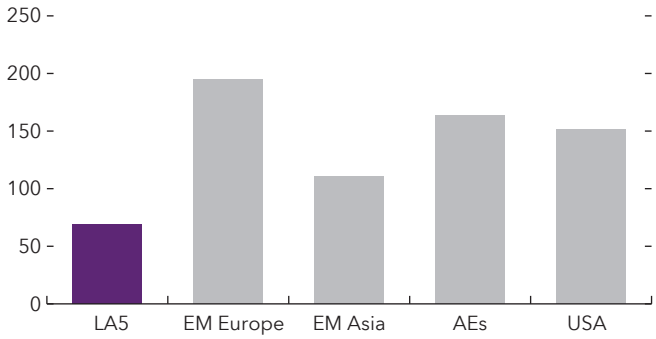
1. LA5: Incentive Gap in Corporate Income Tax[1]
(Percentage points; statutory minus simplified tax rate)



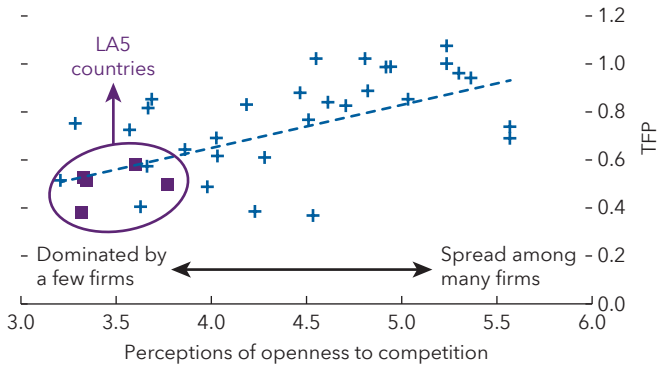
2. Peru: Firm Performance and Frictions at Thresholds[2]
(Millions of local currency)



3. Total Credit to Non-Financial Sector, 2022–24[3]
(Percent of GDP; quarterly average)



4. TFP and Competition, 2019[4]
(*x*-axis: USA = 1; *y*-axis: index)



Sources: Bank for International Settlements; Dabla-Norris and others (2018); IMF, World Economic Outlook database; EU KLEMS database (Bontadini and others 2023); LA KLEMS database (Gu and Hofman 2021); national authorities; Penn World Table 10.01 database; World Economic Forum; and IMF staff calculations.
Note: Country labels refer to the International Organization for Standardization (ISO) country codes. AEs = advanced economies (AUT, BEL, DEU, DNK, ESP, FIN, FRA, GBR, GRC, ITA, JPN, LUX, SWE); EM = emerging markets; EM Asia = CHN, IDN, IND, MYS, THA; EM Europe = CZE, EST, HUN, LVA, LTU, NLD, SVK, SVN; LA5 = Latin America 5 (BRA, CHL, COL, MEX, PER); TFP = total factor productivity.
[1]Simplified regimes included here are as follows: BRA = Microempreendedor Individual (MEI), Simples Nacional (SIMPLES); CHL = Régimen Tributario enfocado a pequeños y medianos contribuyentes (Pro-Pyme); COL = Régimen Simple de Tributación (RST); MEX = Régimen simplificado de confianza (RESICO), Régimen de Incorporación Fiscal (RIF); PER = Régimen Especial de Renta (RER), Régimen MYPE Tributario (RMT). For BRA–SIMPLES, COL–RST, and MEX–RESICO, the median statutory CIT within each STR schedule by revenue bracket and/or sector is used. This illustrates the presence of incentive gaps under these regimes. BRA–SIMPLES rates bundle multiple taxes, including CIT and social security contributions. For comparability with the general regime's CIT of 25 percent, after surtax, the SIMPLES CIT is proxied by subtracting the 9 percent social contribution from the median SIMPLES nominal rate across revenue brackets and sector. For MEX–RIF, the year-1 schedule (100 percent CIT discount from the general regime rate) is used to reflect entry incentives; the discount decreases by ten percent each year over ten years. For PER-RER, there is no annual CIT, but a statutory monthly revenue-based quota of 1.5 percent. CIT = corporate income tax; STR = simplified tax regime.
[2]Stricter labor regulations apply only to firms with more than 20 salaried workers. Each taxpayer identification number is treated as a separate firm; some firms may split into subunits with different identification numbers to remain below the threshold.
[3]Aggregates are purchasing-power-parity GDP-weighted averages.
[4]The 2019 market dominance index reflects the responses to the following survey question: "In your country, how do you characterize corporate activity?" in the Global Competitiveness Index 4.0 dataset (WEF 2019). This indicator is based on a perception survey of business executives and should be interpreted with caution. Perception-based indicators may reflect respondents' views at the time of the survey and can be affected by sampling biases, framing, and changes in sentiment.

and stronger bank competition can mitigate *financial frictions*. Fintech solutions and digital credit platforms can broaden access while reducing risk premiums. Strengthening antitrust bodies, streamlining business registration, and enhancing transparency in public procurement can help strengthen *competition*.

Tackling core frictions can help unlock firm dynamism and support stronger productivity growth. Reforms in the region would be instrumental in fostering stronger growth, unlocking the full potential of human and capital resources, and supporting income convergence with AEs.

Box 2.1. Successful Reforms in Reviving Business Dynamism: New Zealand and Peers

This box describes cases of well-aligned, cross-cutting reforms to unlock productivity (see Online Annex 2 for technical details).

Comprehensive and well-sequenced reforms revitalized New Zealand's economy in the mid-1980s. They transformed it from one of the most regulated in the Organisation for Economic Co-operation and Development into a dynamic environment conducive to firm entry, growth, and innovation. Reforms comprised trade policy, financial markets, taxation, and labor policies, which enhanced competition, expanded access to credit, eliminated frictions, and bolstered productivity.

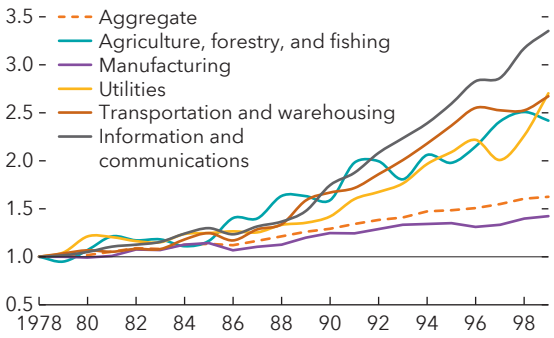
Productivity gains were driven by both within-sector improvements and resource reallocation toward higher-productivity industries. Notably, labor productivity surged in the reformed sectors such as information and telecommunications, transportation, and agriculture (Box Figure 2.1.1, panel 1). Although aggregate productivity gains were moderate, the sectoral breadth of improvement underscores improved business dynamism.

Financial sector reforms played a pivotal role. Private sector credit increased from about 50 to about 115 percent of GDP after reform, whereas foreign direct investment inflows rose from 1.3 to 4.5 percent of GDP (Box Figure 2.1.1, panel 2). These shifts reflect stronger capital allocation, increased investment, and greater firm turnover.

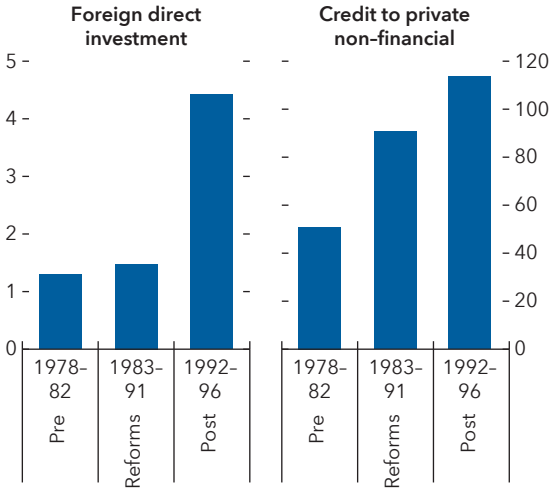
Peer reformers offer parallel lessons. Estonia's early 2000s reforms in deregulation and digital governance enhanced transparency, reduced red tape, and fostered firm creation. Peru's 1990s reforms similarly addressed labor rigidities, boosted capital flows, and expanded financial intermediation—echoing New Zealand's path to strengthening business dynamism.

Box Figure 2.1.1. New Zealand Indicators

1. Labor Productivity Growth by Industry[1]
(1978 = 1; index)



2. Foreign Direct Investment and Credit to Private Non-Financial Sector[2]
(Percentage of GDP)



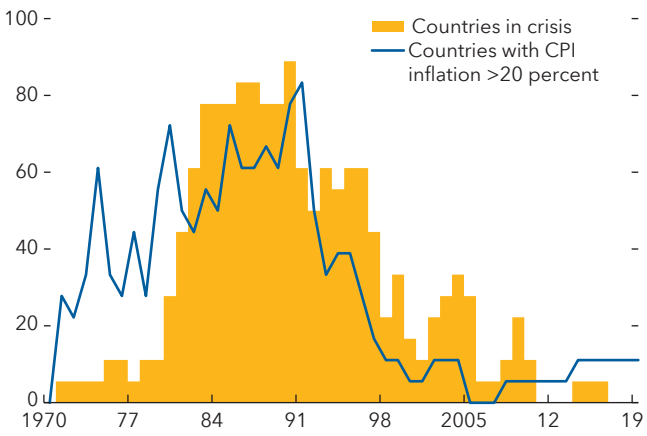
Sources: Federal Reserve Bank of St. Louis, Federal Reserve Economic Data; Stats New Zealand; World Bank, World Development Indicators; and IMF staff calculations.
[1]Growth in real GDP per unit of labor input.
[2]Foreign direct investment shows net inflows. Credit is provided by domestic banks, all other sectors of the economy and non-residents. The "private non-financial sector" includes non-financial corporations (both private-owned and public-owned), households and non-profit institutions serving households.

3. Preserving Hard-Won Monetary Policy Gains amid Persistent Fiscal Risks[1]

By the early 2000s, countries in Latin America and the Caribbean had achieved price stability supported by sweeping reforms that enhanced central bank independence and strengthened monetary policy frameworks. These advances helped anchor inflation expectations and enabled effective monetary transmission. However, fiscal frameworks and policies raise challenges, particularly associated with high debt levels and interest costs, which can amplify the fiscal impact of monetary policy and hinder monetary policy transmission. Evidence in this chapter shows that low public debt and appropriate fiscal stances aid monetary policy in achieving inflation targets. It also shows that there is scope to further improve monetary policy frameworks. To safeguard price stability, countries in the region must focus on advancing fiscal consolidation, improving fiscal policy frameworks, and continuing reforms to further strengthen central bank independence.

3.1. Introduction

Figure 3.1. LAC Countries with High Inflation and in Crisis
(Percent share)



Sources: Ha and others (2023); and Harvard Business School (Behavioral Finance and Financial Stability), Global Crises database.
Note: A country is considered in crisis if it is classified in either banking, sovereign debt or currency crisis. CPI = consumer price index; LAC = Latin America and the Caribbean.

After a long history of battling with high inflation and crises, many countries in Latin America and the Caribbean (LAC) implemented extensive institutional reforms in the 1990s and early 2000s (Figure 3.1). A pivotal aspect was new legislation that granted independence to central banks. Notably, these reforms restricted central banks' financing of public deficits—a major contributor to high inflation in the region—while governments concurrently took steps to reduce these deficits. These changes not only alleviated inflationary pressures but also enabled central banks to implement countercyclical policies during shocks, such as the Global Financial Crisis and the COVID-19 pandemic.

Notwithstanding this progress, a key concern moving forward is whether heightened fiscal pressures may hinder monetary policy effectiveness in managing inflation (Figure 3.2). Challenges associated with the fiscal stance, particularly in the context of expansionary or procyclical fiscal policies and overly timid fiscal consolidation plans, can impose significant pressures on monetary policy by stimulating demand when inflation is above the target. Similarly, unfavorable debt dynamics can increase risk premiums and weaken the local currency, further complicating inflation dynamics. Related to these challenges, as debt and debt-servicing needs climb, the fiscal costs of high real interest rates—necessary for stabilizing inflation—can also increase. These dynamics underscore policy interaction challenges that might undermine the effectiveness of monetary policy.

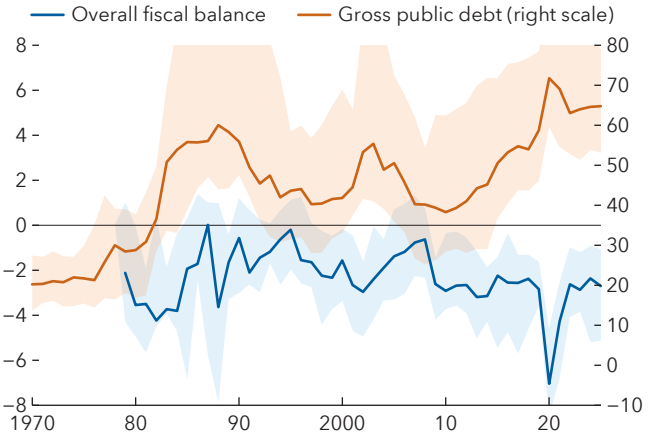
In this context, this chapter explores the following questions: (1) how did Latin America enhance central bank independence and what were the effects of these reforms?; (2) how fiscal policy may affect the channels of transmission of monetary policy?; and (3) does fiscal policy, via high debt levels and sustained deficits, affect the credibility of central banks and the ability to achieve inflation targets?

[1] Prepared by Agnese Carella, Dimitris Drakopoulos (co-lead), Juan Passadore (co-lead), and Genevieve Lindow.

3.2. Central Bank Reforms

During the 1990s, most countries in the region undertook substantial reforms to bolster the autonomy of their central banks (Figure 3.3, panel 1). According to well-known indices, central bank independence (CBI) saw a marked improvement,[2] especially in restricting monetary financing of the budget and prioritizing price stability. Some central banks have achieved scores that placed them at the top of emerging market (EM) peers and close to the average of the Organisation for Economic Co-operation and Development (OECD) countries (Figure 3.3, panel 2). Even though there were some reversals in just a few countries in the 2000s, overall progress has been substantial. The reforms took place across several areas, and the following are the most notable ones:

Figure 3.2. LAC: Overall Fiscal Balance and Government Debt
(Percent of GDP)



Sources: IMF, Historical Public Debt database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are medians. Shaded areas refer to the interquartile ranges. LAC = Latin America and the Caribbean.

Monetary financing. A cornerstone reform was the restriction of central bank financing to the government. This reflected the consensus that monetary financing was the main cause of chronic inflation in the region (Kehoe and Nicolini 2022). These restrictions were both codified and largely respected in practice,[3] resulting in a substantial reduction in central bank claims against the public sector (Figure 3.3, panel 3). Notably, during the pandemic, amid fiscal pressures, central banks largely refrained from direct monetary financing.

Price stability. Price stability became the primary objective for most central banks, often alongside other non-conflicting goals such as ensuring the stability of the payment system (Figure 3.3, panel 4). This marks a significant shift from the 1980s—when a small number of central banks prioritized price stability—to the current situation in which around three quarters do so.

Political influence in decision making. Governance reforms made significant strides across the region, although progress generally lags OECD countries (Figure 3.3, panel 5). Notable achievements were the introduction of longer and staggered terms for board members—to reduce alignment with electoral cycles—and stricter conditions for their removal by the executive branch.[4] There was also progress in reducing government representation on central bank boards, although in some cases the minister of finance has retained a seat—typically without voting rights.[5]

Financial independence. Financial independence reforms have been less pronounced compared to other areas (Figure 3.3, panel 6), with some reforms happening more recently, most notably in Brazil, the Bahamas, and Jamaica. Crucially even though some countries have automatic government recapitalization rules, others either

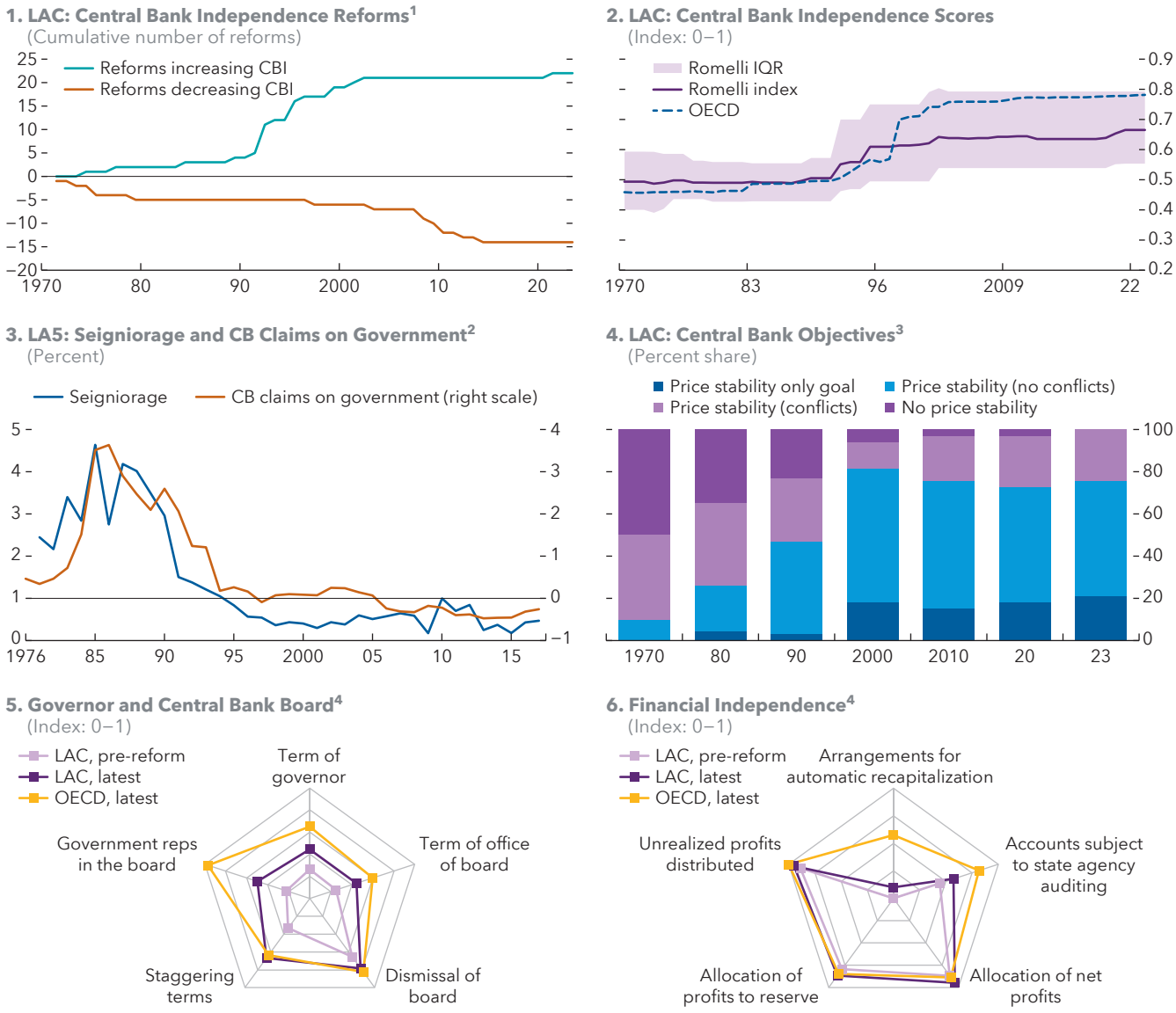
[2] De jure indices are based on interpretation of legal texts, which can lead to inconsistent readings among different authors. Central banks may struggle to maintain their independence from political pressure, and some laws may be subject to interpretation and contain gaps. For instance, Unsal and Papageorgiou (2023) observe that profit distribution rules are not always observed in practice and that members of monetary policy committees may be dismissed prematurely, contrary to their legally defined terms.

[3] Some exceptions include Argentina, Bolivia, and Venezuela.

[4] Exceptions remain in countries such as Peru and Uruguay, where board terms align with political cycles. Brazil implemented staggered terms in 2021.

[5] Colombia is an exception, since the minister of finance participates as a full voting member.

Figure 3.3. Central Bank Reforms



Sources: Garriga (2025); IMF, International Financial Statistics database; Kehoe and Nicolini (2022); Romelli (2024); and IMF staff calculations.
Note: CB = central bank; CBI = central bank independence; IQR = interquartile range; LAC = Latin America and the Caribbean; LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru); OECD = Organisation for Economic Co-operation and Development.
[1]Legal reform is a country passing a central bank reform in a year, increasing (decreasing) the CBI index.
[2]Seigniorage is calculated as $m_{t-1}(1-\frac{1}{g_t\pi_t})$ where m_{t-1} is the monetary base as a fraction of nominal GDP, g_t is the growth, and π_t is the inflation. CB claims on government in percent of monetary base.
[3]"Price stability only goal" also includes cases where the central bank has the final authority in determining the objective in case of conflict; "Price stability (no conflicts)" is defined as price stability along with other objectives that do not seem to conflict with the former; "Price stability (conflicts)" is defined as price stability along with other objectives of potentially conflicting goals (for example, full employment).
[4]Pre-reform index is the level before the first reform since 1985. Aggregates are simple averages. OECD sample excludes LAC countries.

have discretionary arrangements that are not implemented in practice or lack them entirely. All in all, several central banks in the region still show inadequate capitalization, awaiting a recapitalization agreement with the government.[6] Another key aspect is the ability of the central bank to determine its own budget, including staff

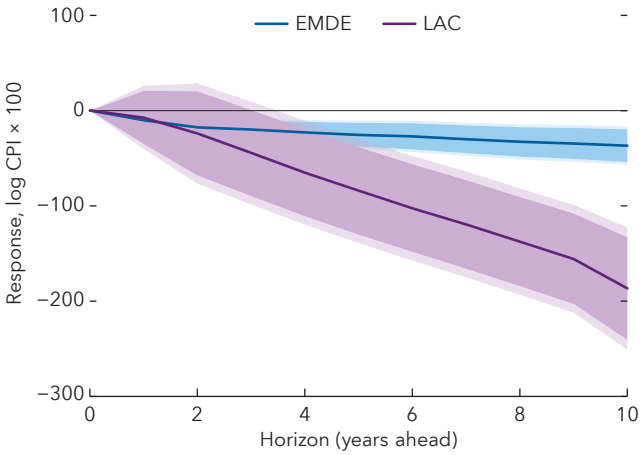
[6] Negative capital is not inherently problematic. Chile and Mexico are among the most prominent examples globally of central banks that have successfully fulfilled their mandates while operating with negative equity in some years.

compensation. Although on average the region is comparable to OECD, some key exceptions remain.[7]

Impact of Reforms

Reforms to strengthen CBI were associated with improvements in inflation outcomes (see Online Annex 3 for more details). To capture the dynamic effects of these reforms, the local projections method of Jordà (2005) is applied. The specification controls for key macroeconomic and external factors, including lagged output gap, inflation, exchange rate regime, and fiscal factors. Empirical evidence from a sample over the period of 1980–2023 indicates that increased independence was associated with lower long-term inflation levels in LAC compared to other emerging market and developing economies (EMDEs) (Figure 3.4), which reflects to some extent LAC's historically high inflation levels. Quantile techniques are applied to uncover how the association varies across different segments of the inflation distribution (Figure 3.5). The coefficients on the CBI index consistently decline across quantiles, becoming notably more negative at higher inflation levels. The relationship is again consistently larger in LAC countries than in EMDEs.

Figure 3.4. Response of Inflation to Changes in CBI
(Cumulative change of 100 × log CPI)



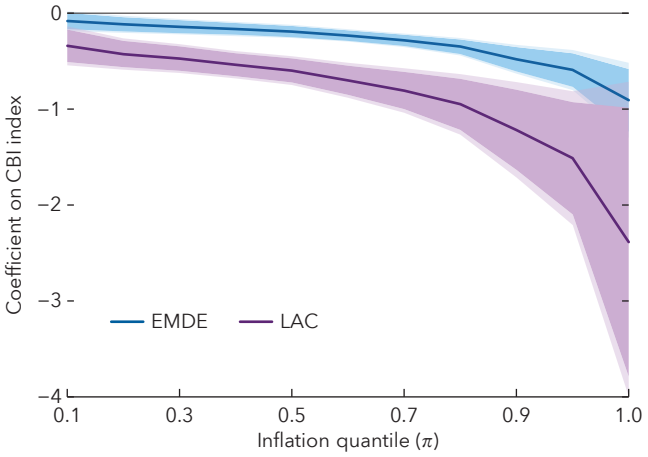
Sources: Romelli (2024); and IMF staff calculations.
Note: Local projection of cumulative change of 100 times the log of CPI in country *i* between year *t+h* and year *t* on CBI index, over a 10-year horizon. Control variables are one lag of output gap, transformed CPI inflation, exchange rate regime, general government gross debt, a fiscal rule indicator, and US inflation. Solid line is the point estimate; dark and light-shaded areas are the 90 and 95 percent confidence bands, respectively. CBI = central bank independence; CPI = consumer price index; EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean.

These reforms have also paved the way for better inflation anchoring, greater monetary policy effectiveness, lower sacrifice ratios, and an increase in resilience (as highlighted in IMF 2025a). The credibility of Latin America 5 (LA5) monetary policy frameworks has strengthened over the years as central banks demonstrated their commitment to their mandates and inflation rates generally remained within the target range.[8] This increased credibility is evident among the more mature inflation targeting regimes in LA5, as seen in the improved anchoring of inflation expectations since the mid-2000s (Figure 3.6). Analysis using a time-varying vector autoregression model across LA5 also indicates that the transmission of monetary policy to inflation has been strong, even when compared to advanced economies (see IMF 2024g and Online Annex 3 for more details). All in all, the combination of enhanced credibility and stronger anchoring has helped to mitigate the costs traditionally associated with bringing down inflation, leading to a better sacrifice ratio (Forbes, Ha, and Kose 2025).

[7] At the time of writing, a constitutional amendment granting financial autonomy to the Central Bak of Brazil is under discussion in congress.

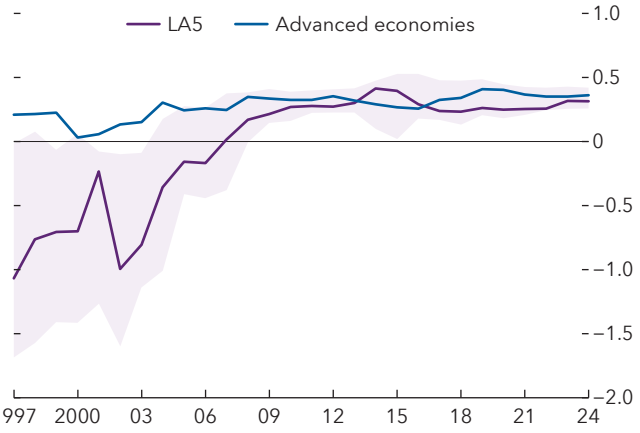
[8] The transformation of monetary policy frameworks happened sequentially following the legal reforms of the 1990s. Initially, central banks continued to rely on the exchange rate as their primary monetary policy tool. By the early 2000s, countries started to transition toward more flexible exchange rate regimes, which facilitated the adoption of comprehensive inflation-targeting frameworks (see Carrière-Swallow and others 2016).

Figure 3.5. CBI Index across the Inflation Distribution
(Δπ per CBI unit; re-scaled CPI; CBI index: 0–1)



Sources: Romelli (2024); and IMF staff calculations.
Note: Quantile regression of transformed inflation on CBI index. The solid line is the point estimate; the dark and light-shaded areas are the 90 and 95 percent confidence bands, respectively. CBI = central bank independence; CPI = consumer price index; EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean.

Figure 3.6. Index of Inflation Expectations Anchoring
(Index)



Source: Bems and others (2018).
Note: Shaded area refers to the minimum–maximum range. LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru).

3.3. Interactions between Monetary and Fiscal Policy

Monetary and fiscal policies interact through several channels. Adding to the standard aggregate demand channel, fiscal policy may also have an impact through the effects of debt levels and the fiscal stance on local currency bond spreads, inflation expectations, and the exchange rate risk premium. High debt also amplifies aggregate demand through wealth effects[9] and raises the risk that central banks accommodate fiscal needs.

Debt Levels and Monetary Policy

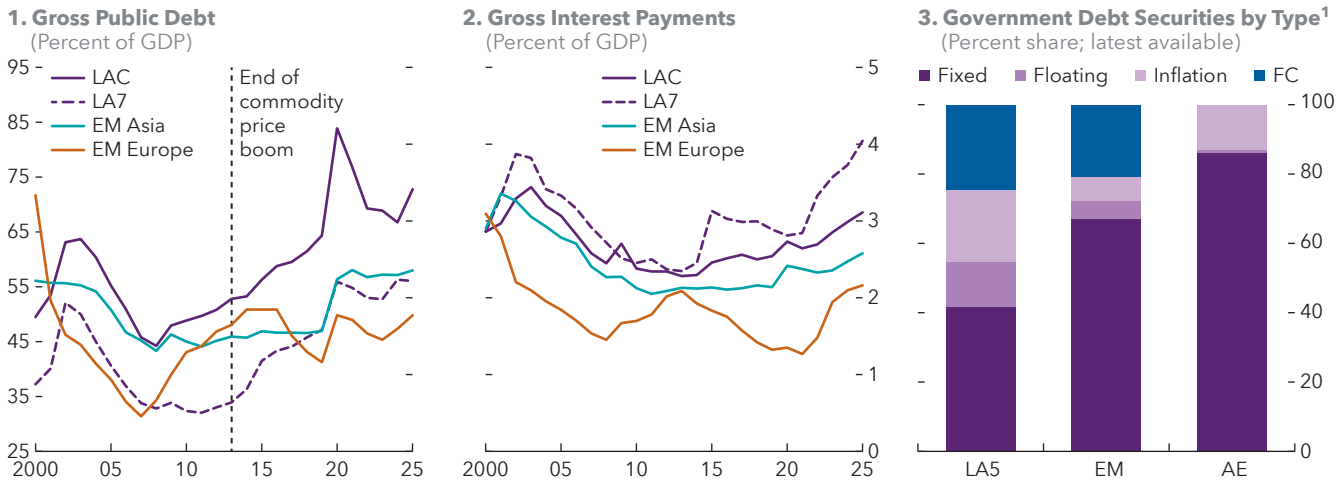
Monetary policy decisions have a fiscal impact through financing costs, especially if debt is high and its maturity is short. This is relevant for the region, as current debt levels and interest payments are high compared to both other regions and historical standards (Figure 3.7, panels 1 and 2). In addition, although the region has achieved significant improvements in debt composition by reducing foreign currency debt and extending the average maturity, the amount of floating and indexed rate debt in some countries remains substantial.[10] This results in a more immediate pass-through from monetary policy decisions to debt-servicing costs compared to advanced economies (Figure 3.7, panel 3).

High debt levels may compromise the achievement of inflation targets. Estimates of local projections using monetary policy shocks as computed by Checo, Grigoli, and Sandri (2024) show that in EMs with low debt levels, monetary policy is effective in reducing inflation. Monetary policy tightening leads to an exchange rate appreciation and lower short-term inflation expectations, aiding the convergence of inflation to the target

[9] There is large literature that emphasizes the impact of increases in nominal wealth and their implications for inflation. See among others Leeper (1991); Cochrane (2001); Sims (1994); Woodford (1995); Bianchi and Melosi (2022); Bianchi, Faccini, and Melosi (2023); Caramp and Silva (2023).

[10] The maturity structure of debt shapes the fiscal impact of monetary policy as the debt service on long-maturity bonds is fixed at issuance. Moreover, as emphasized by Cochrane (2001) and Caramp and Silva (2023), increases in interest rates lower the market value of long-term debt, leading to a negative revaluation of these assets and, through this channel, reducing aggregate nominal demand. Because of data limitations, the econometric exercises focus on debt levels and not on the maturity structure of debt.

Figure 3.7. Debt, Interest Payments, and Financing Costs



Sources: Bank for International Settlements; Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Aggregates are simple averages. Advanced economies = Germany, Japan, United Kingdom, the United States; EM = emerging markets; EM Asia = India, Indonesia, Malaysia, Philippines, Thailand, Vietnam; EM Europe = Bosnia and Herzegovina, Bulgaria, Hungary, Poland, Romania, Serbia; FC = foreign currency; LAC = Latin America and the Caribbean; LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru); LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).
[1]AE sample excludes Japan. EM sample includes Hungary, Indonesia, Malaysia, Philippines, Saudi Arabia, South Africa, Thailand, and Türkiye.

(Figure 3.8).[11] Concurrently, it lowers long-term yields, pointing to a reduction in risk premium that alleviates the impact of monetary policy on the fiscal accounts (see Online Annex 3 for technical details). In contrast, monetary policy likely faces more challenges to reduce inflation in EMs with high debt levels, defined as having current debt levels higher than the 80th percentile in the past 20 years. In high-debt environments, monetary policy shocks have no significant impact on exchange rates, short-term inflation expectations, and long-term yields (Figure 3.8).[12]

High debt may also raise concerns about central banks' implementation of an appropriate interest rate policy. Estimates of the Taylor rules in EMs show that the policy rate responds more to inflation in low-debt economies compared to high-debt economies (Figure 3.9). This weaker response suggests that elevated debt levels may limit the willingness or ability of central banks to tighten policy, potentially undermining confidence in their commitment to controlling inflation.

Monetary and Fiscal Policy Mix

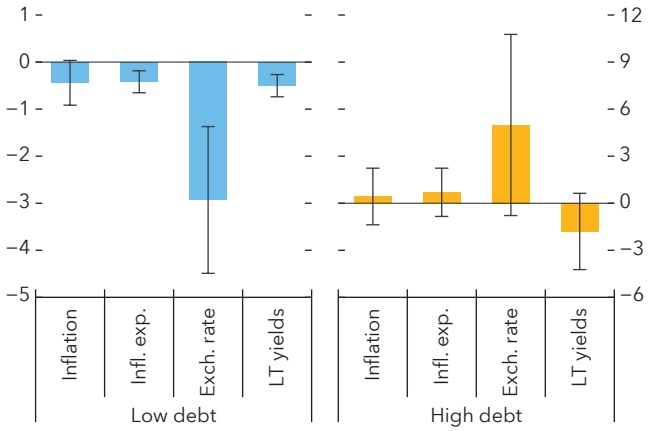
Beyond debt levels, fiscal stance can also influence the effectiveness of monetary policy in achieving its inflation target. This issue is particularly relevant in Latin America. At the onset of the pandemic, both monetary and fiscal policies were expansionary. However, although monetary policy was tightened significantly in 2021 and 2022—contributing to a rapid decline in inflation after the COVID-19 shocks—needed fiscal consolidations have been delayed (Figure 3.10, panel 1). Hence, although several countries continue to experience inflation above the target and monetary policy remains restrictive, fiscal policy has stayed expansionary in recent years, creating a policy mix that might have slowed the disinflation process (Figure 3.10, panel 2).

The policy mix may pose challenges, particularly by influencing aggregate demand. In fact, estimates of local projections for selected EMDEs suggest that a surprise increase in structural primary deficits—defined as the difference between actual and the October *World Economic Outlook* (WEO) projection of the year—pushes

[11] Even in cases in which inflation expectations remain anchored, lower short-term inflation expectations facilitate convergence in cases in which inflation is above the central bank target.
[12] These results are in line with those of Caramp and Feilich (2024).

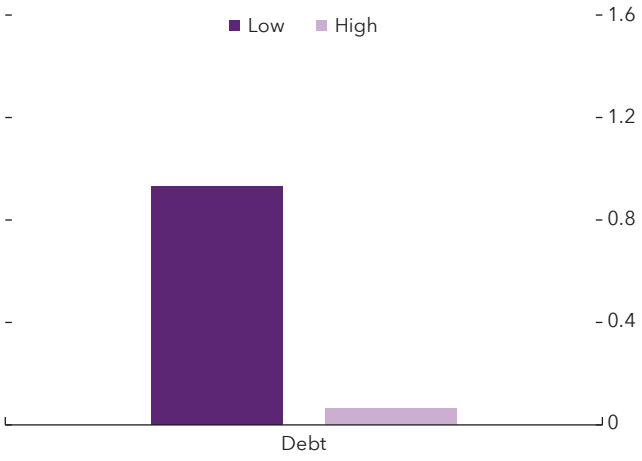
Figure 3.8. Response to a 100-Basis-Point Monetary Policy Tightening Shock at 18-Month Horizon

(Percent)



Source: IMF staff calculations.
Note: Change in the level of each of the variables at 18-month horizon from a local projection into monetary policy shocks from Checo, Grigoli, and Sandri (2024). Local projections specification is calculated as follows: $Y_{c,t+h} - Y_{c,t} = \alpha_c^h + \delta_t^h + \beta_I^h I_t + \gamma_I^h Interaction_{it} \times I_t + u_{it}$. Interaction is an indicator for each country that debt is higher than the 80th percentile. Plots depict the response to a 100-basis point shock. Left panel: β_I^h. Right panel: $\beta_I^h + \gamma_I^h$. Inflation, inflation expectations, and LT yields, denote change in level of the variable (measured in percent). Exchange rates are measured in logs, and an increase denotes depreciation. Monthly frequency. Sample: Brazil, Chile, Colombia, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Nigeria, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Türkiye. Exch. = exchange; Infl. exp. = inflation expectations; LT = long term.

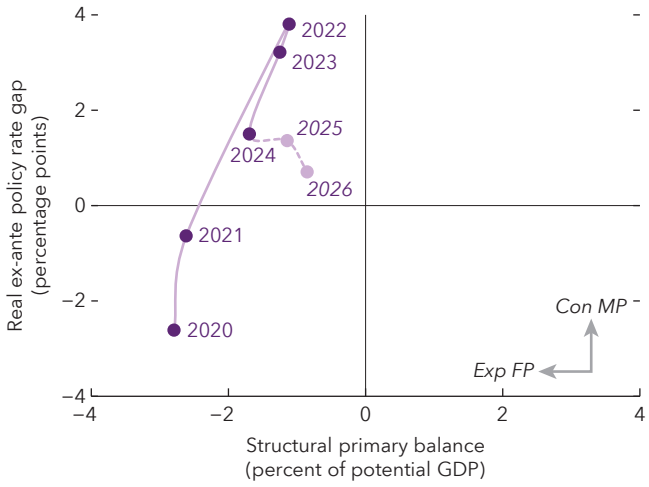
Figure 3.9. Estimated Taylor Rule Coefficient on Inflation by Subsamples of High and Low Debt



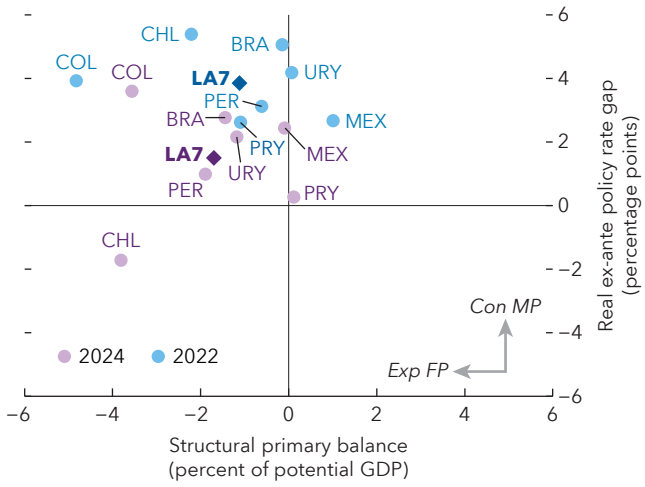
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: The Taylor rule estimation is as follows: $i_{i,t} = \alpha i_{i,t-1} + \beta_1 \pi_{i,t} + \beta_2 \pi_{i,t} Interaction_{it} + \gamma_i x_{i,t} + \epsilon_{i,t}$. Interaction is an indicator for each country that debt is higher than the 80th percentile. The bars depict $\frac{\beta_1}{1-\alpha}$ and $\frac{\beta_1+\beta_2}{1-\alpha}$, respectively. Notation: i, nominal rate; x, output gap; π, inflation. Quarterly frequency. Sample: Brazil, Chile, Colombia, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Nigeria, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Türkiye.

Figure 3.10. Monetary and Fiscal Policies

1. LA7



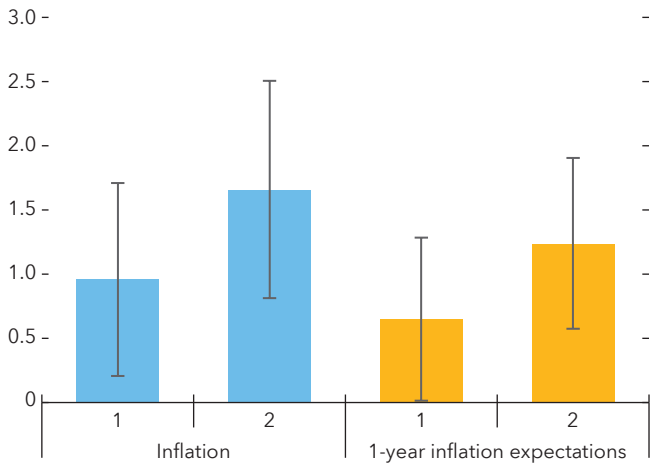
2. 2022 versus 2024



Sources: Calderon, Dhungana, and Wales (forthcoming); Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: LA7 is simple average. Chile refers to the central government's structural non-mining primary balance. Colombia refers to the consolidated public sector's structural non-oil primary balance. Peru refers to the nonfinancial public sector's structural primary balance. Real ex-ante policy rate gap is the current level of the real rate minus the neutral rate computed in Calderon, Dhungana, and Wales (forthcoming). Con = contractionary; Exp = expansionary; FP = fiscal policy; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); MP = monetary policy.

inflation and inflation expectations up at both one- and two-year horizons (Figure 3.11). Debt levels may also compound the impact of fiscal shocks on inflation; Arizala and others (forthcoming) show that fiscal consolidations prompt a reduction in inflation that is larger in countries with high debt.

Figure 3.11. Impact of Fiscal Deficit Shocks: Headline Inflation
(Percent)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Local projections is calculated as follows: $\mathbf{Y}_{c,t+h} - \mathbf{Y}_{c,t} = \alpha_c^h + \delta_t^h + \beta_I^h FP_t + \Sigma_{k=0}^{1} \gamma^h \text{Controls}_{c,t-k} + u_{it}$, where $\mathbf{Y}_{c,t}$ is the outcome variable for country c in time t, α_c^h, δ_t^h are country and time fixed effects for each horizon h, FP_t is the fiscal deficit shock, and $\text{Controls}_{c,t-k}$ are a vector of control variables for country c in time $t-k$. Annual frequency. Fiscal deficit shocks are computed from *World Economic Outlook* forecast errors on structural primary balance. Controls include current and lagged real GDP growth and debt to GDP. Sample: Brazil, Chile, Colombia, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Nigeria, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Türkiye.

3.4. Policies for Preserving Hard-Won Gains

Since the 1990s, reforms enhancing CBI and improving monetary policy frameworks have led to lower inflation levels, better anchoring of expectations, stronger monetary policy transmission, and greater resilience.

Sound fiscal frameworks and policies are instrumental to preserving the hard-won gains associated with monetary policy reforms. This chapter shows that high public debt and an inappropriate policy mix may introduce friction to the convergence of inflation to targets. Securing price stability requires maintaining public debt levels that do not undermine monetary policy transmission through its impact on expectations and asset prices, preserving the ability of central banks to implement appropriate interest rate policy. In the current regional context, credible fiscal consolidation, supported by stronger fiscal rules and policy frameworks and the introduction in some cases of well-calibrated debt anchors (see IMF 2024a), remains critical and is required not only to stabilize debt and create fiscal space but also to keep monetary policy effective.

There is also scope for further strengthening of CBI. Building on the effective reforms over the past decades—which involved critical steps to reduce monetary financing of the budget and to improve central bank mandates and governance—there is room in some countries to enhance the governance of central bank boards and bolster financial independence, including through budgetary autonomy and proper capitalization.

Appendix Table 1.1. Western Hemisphere: Main Economic Indicators[1]

	Real GDP Growth (Year-over-year percent change)					Inflation[2] (End of period; percent)					External Current Account Balance (Percent of GDP)				
				Projections					Projections					Projections	
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
North America	**2.8**	**2.9**	**2.6**	**1.8**	**2.0**	**6.6**	**3.4**	**2.8**	**2.7**	**2.3**	**-3.4**	**-3.0**	**-3.6**	**-3.6**	**-3.3**
Canada	4.2	1.5	1.6	1.2	1.5	6.6	3.2	1.9	2.0	2.1	–0.3	–0.6	–0.5	–1.4	–1.3
Mexico	3.7	3.4	1.4	1.0	1.5	7.8	4.7	4.2	3.7	3.0	–1.3	–0.7	–0.9	–0.2	–0.3
United States	2.5	2.9	2.8	2.0	2.1	6.4	3.2	2.7	2.6	2.2	–3.8	–3.3	–4.0	–4.0	–3.6
Puerto Rico[3]	3.0	0.5	3.2	–0.8	–0.1	6.1	1.9	1.9	1.9	2.5	…	…	…	…	…
South America	**4.1**	**1.7**	**2.3**	**2.7**	**2.2**	**18.4**	**24.4**	**16.8**	**8.0**	**4.6**	**-2.7**	**-1.5**	**-1.1**	**-1.6**	**-1.5**
Argentina	6.0	–1.9	–1.3	4.5	4.0	94.8	211.4	117.8	28.0	10.0	–0.6	–3.2	0.9	–1.2	–0.4
Bolivia	3.6	3.1	0.7	0.6	…	3.1	2.1	10.0	26.2	…	2.6	–2.5	–3.0	–3.4	…
Brazil	3.0	3.2	3.4	2.4	1.9	5.8	4.6	4.8	4.9	3.7	–2.2	–1.3	–2.7	–2.5	–2.3
Chile	2.2	0.5	2.6	2.5	2.0	12.8	3.9	4.5	3.7	3.0	–8.8	–3.1	–1.5	–2.5	–2.2
Colombia	7.3	0.7	1.6	2.5	2.3	13.2	9.3	5.2	4.4	3.1	–6.0	–2.3	–1.7	–2.3	–2.6
Ecuador	5.9	2.0	–2.0	3.2	2.0	3.7	1.3	0.5	3.6	1.7	1.9	1.9	5.7	4.9	3.4
Paraguay	0.2	5.0	4.2	4.4	3.7	8.1	3.7	3.8	4.0	3.5	–7.0	–0.4	–3.9	–3.5	–3.7
Peru	2.8	–0.4	3.3	2.9	2.7	8.5	3.2	2.0	2.0	2.0	–4.0	0.3	2.2	1.8	1.2
Uruguay	4.5	0.7	3.1	2.5	2.4	8.3	5.1	5.5	4.0	4.5	–3.8	–3.4	–1.0	–1.4	–1.5
Venezuela	8.0	4.0	5.3	0.5	–3.0	234.0	190.0	47.2	548.6	628.8	4.0	5.8	4.9	4.2	2.5
CAPDR	**5.5**	**4.0**	**3.9**	**3.4**	**3.8**	**7.5**	**2.7**	**1.8**	**2.2**	**3.3**	**-2.9**	**-1.1**	**-0.4**	**-0.1**	**-1.0**
Costa Rica	4.6	5.1	4.3	3.6	3.3	7.9	–1.8	0.8	0.1	3.0	–3.3	–1.4	–1.4	–1.9	–2.1
Dominican Republic	5.2	2.2	5.0	3.0	4.5	7.8	3.6	3.3	3.7	4.0	–5.8	–3.7	–3.3	–2.5	–2.5
El Salvador	2.9	3.5	2.6	2.5	2.5	7.3	1.2	0.3	0.7	1.2	–6.7	–1.1	–1.8	–0.8	–1.8
Guatemala	4.2	3.5	3.7	3.8	3.6	9.2	4.2	1.7	2.2	4.0	1.2	3.1	2.9	3.9	2.2
Honduras	4.1	3.6	3.6	3.8	3.5	9.8	5.2	3.9	4.9	4.0	–6.7	–3.9	–4.4	–0.4	–2.5
Nicaragua	3.6	4.4	3.6	3.0	2.9	11.6	5.6	2.8	2.0	2.7	–2.9	8.2	4.2	7.1	2.1
Panama	11.0	7.2	2.7	4.0	4.0	2.1	1.9	–0.2	0.7	2.0	0.0	–3.1	1.9	–0.9	–1.7
Caribbean	**13.6**	**8.1**	**12.1**	**3.6**	**8.2**	**15.3**	**8.8**	**6.1**	**6.9**	**6.1**	**4.5**	**1.7**	**2.6**	**-0.2**	**-0.6**
Caribbean: Tourism Dependent	**9.2**	**3.2**	**2.1**	**2.3**	**2.0**	**7.3**	**4.4**	**2.7**	**2.8**	**3.0**	**-5.7**	**-3.4**	**-2.5**	**-3.2**	**-3.4**
Antigua and Barbuda	9.1	2.4	3.7	2.5	2.5	9.2	3.3	5.4	3.0	2.0	–15.6	–13.5	–8.2	–11.0	–10.4
Aruba	5.1	7.7	6.8	2.0	2.2	5.7	2.3	0.3	1.9	2.1	6.5	5.6	9.5	10.1	9.2
The Bahamas	10.9	3.0	3.4	2.2	2.1	5.5	1.9	0.0	0.6	1.4	–8.9	–7.0	–7.6	–7.6	–7.3
Barbados	17.8	4.1	4.0	2.7	2.1	3.8	3.2	0.4	3.3	2.4	–9.9	–8.8	–4.5	–6.3	–5.7
Belize	9.3	0.5	3.5	1.5	2.4	6.7	3.7	2.6	1.5	1.3	–8.3	–0.6	–1.6	–1.7	–1.6
Dominica	5.6	4.7	3.5	4.2	3.3	8.7	2.5	2.1	3.1	2.3	–27.0	–34.2	–33.4	–32.9	–26.4
Grenada	7.3	4.5	3.3	3.3	3.4	2.9	2.2	0.8	1.0	1.6	–12.1	–18.2	–16.3	–15.9	–13.9
Jamaica	6.4	2.7	–0.5	2.1	1.5	9.4	6.9	5.0	4.5	5.0	–0.7	2.7	3.1	1.8	0.4
St. Kitts and Nevis	10.3	4.7	2.0	1.7	2.2	3.9	1.6	1.9	1.7	2.1	–11.4	–11.5	–14.4	–14.5	–14.0
St. Lucia	20.6	3.3	4.7	2.4	2.1	6.9	1.7	1.6	1.3	–0.9	–3.6	–1.6	–1.0	–1.5	–1.0
St. Vincent and the Grenadines	5.0	5.5	5.2	4.4	2.7	6.7	4.0	2.1	2.2	2.0	–20.6	–16.9	–18.4	–15.8	–13.5
Caribbean: Non-Tourism Dependent	**16.2**	**10.8**	**17.3**	**4.2**	**11.2**	**20.5**	**11.4**	**7.9**	**9.0**	**7.6**	**12.6**	**6.3**	**6.4**	**2.0**	**1.4**
Haiti[4]	–1.7	–1.9	–4.2	–3.1	–1.2	38.7	31.8	27.9	29.4	24.1	–2.5	–3.5	–0.6	0.0	–0.6
Commodity Exporters	23.7	15.4	23.5	6.1	14.0	13.6	4.8	2.7	4.2	4.1	18.9	10.5	9.7	3.1	2.5
Guyana	63.3	33.8	43.6	10.3	23.0	7.2	2.0	2.9	4.3	4.5	25.9	9.9	16.4	7.9	11.8
Suriname	2.4	2.5	3.0	2.7	3.7	54.6	32.6	10.1	10.6	8.2	1.9	4.3	0.2	–33.4	–51.8
Trinidad and Tobago	0.9	1.5	2.5	1.0	1.2	8.7	0.7	0.5	2.2	2.3	17.5	11.8	4.8	4.9	2.9
Memorandum															
Latin America and the Caribbean	**4.3**	**2.4**	**2.4**	**2.4**	**2.3**	**14.9**	**17.2**	**12.2**	**6.5**	**4.2**	**-2.2**	**-1.2**	**-0.9**	**-1.1**	**-1.1**
LAC (simple average)	*7.7*	*3.9*	*4.0*	*2.7*	*3.0*	*12.5*	*11.6*	*7.3*	*5.3*	*4.4*	*–3.6*	*–2.8*	*–2.3*	*–3.6*	*–4.2*
LAC excluding Argentina and Venezuela	4.0	2.8	2.7	2.2	2.2	7.8	4.7	4.2	4.3	3.5	–2.5	–1.1	–1.3	–1.2	–1.3
Latin America 7	3.6	2.6	2.6	2.0	1.9	7.9	5.0	4.5	4.2	3.3	–2.8	–1.2	–1.6	–1.4	–1.4
Latin America 8	3.9	2.1	2.1	2.3	2.2	16.0	19.5	13.7	6.8	4.1	–2.5	–1.4	–1.3	–1.4	–1.3
Eastern Caribbean Currency Union[5]	11.6	4.0	4.0	3.0	2.6	6.7	2.3	2.4	1.9	1.2	–12.4	–10.3	–9.9	–10.4	–9.0

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

Note: CAPDR = Central America, Panama, and the Dominican Republic; LAC = Latin America and the Caribbean; Latin America 7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay; Latin America 8 = Latin America 7 plus Argentina.

[1]Regional output growth aggregates are purchasing-power-parity GDP-weighted averages. Consumer price index (CPI) inflation aggregates exclude Venezuela and are geometric purchasing-power-parity GDP-weighted averages. Current account aggregates are US dollar nominal GDP-weighted averages. See Country Notes for details on the data. Data in this table have been compiled based on information available through September 30, 2025, but may not reflect the latest published data in all cases. For the date of the last data update for each economy, please refer to the notes provided in the online *World Economic Outlook* database.

[2]These figures will generally differ from period average inflation reported in the IMF *World Economic Outlook*, although both are based on the same underlying series.

[3]Puerto Rico is classified as an advanced economy. It is a territory of the United States, but its statistical data are maintained on a separate and independent basis.

[4]Fiscal year data.

[5]Eastern Caribbean Currency Union comprises Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as Anguilla and Montserrat (which are not IMF members).

Appendix Table 1.2. Western Hemisphere: Main Fiscal Indicators[1]

	General Government Primary Expenditure (Percent of GDP)					General Government Primary Balance (Percent of GDP)					General Government Gross Debt (Percent of GDP)				
				Projections					Projections					Projections	
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
North America	**33.4**	**33.7**	**33.8**	**33.4**	**33.4**	**-0.8**	**-4.0**	**-4.1**	**-3.4**	**-3.6**	**114.4**	**114.8**	**117.6**	**120.4**	**123.5**
Canada	37.9	38.9	41.2	41.1	41.0	0.2	0.3	-1.9	-1.9	-2.0	104.2	107.7	111.3	113.9	113.0
Mexico	23.2	22.3	23.8	22.3	22.2	0.7	1.5	0.2	1.5	1.6	53.8	52.6	58.3	58.9	59.9
United States	33.7	34.1	34.0	33.6	33.6	-1.0	-4.7	-4.6	-3.8	-4.1	119.1	119.8	122.3	125.0	128.7
Puerto Rico[2]	19.9	21.2	21.2	22.1	21.8	2.5	1.3	0.4	0.4	0.4	16.7	16.6	16.9	18.0	18.7
South America	**32.5**	**33.4**	**32.5**	**32.9**	**32.7**	**0.1**	**-1.9**	**-0.5**	**-0.7**	**-0.3**	**75.2**	**85.3**	**77.5**	**81.5**	**82.5**
Argentina	35.5	35.1	29.3	30.4	30.4	-1.7	-2.8	2.2	1.8	2.7	84.3	154.6	84.7	78.8	73.6
Bolivia	34.4	36.4	36.7	35.0	…	-5.5	-8.7	-7.5	-9.9	…	80.1	90.8	98.0	93.7	…
Brazil	35.4	37.2	37.4	38.0	37.9	1.3	-2.2	-0.2	-0.6	-0.4	83.9	84.0	87.3	91.4	95.0
Chile	25.7	26.3	25.5	25.5	25.3	1.8	-1.9	-2.1	-1.3	-0.6	37.9	39.4	41.7	42.7	43.7
Colombia	29.8	30.8	30.3	29.7	29.0	-2.5	0.9	-2.3	-2.6	-1.5	61.3	55.5	61.2	58.9	61.9
Ecuador	37.3	37.3	35.8	…	…	0.5	-2.6	-0.2	…	…	57.2	54.3	53.8	…	…
Paraguay	18.9	19.8	19.0	18.3	18.0	-1.4	-2.1	-0.1	0.4	0.7	40.5	41.1	44.8	41.7	40.6
Peru	21.7	20.6	20.8	20.2	19.8	0.0	-1.3	-2.1	-0.9	-0.7	33.5	32.4	32.2	32.1	33.6
Uruguay	28.0	28.4	28.9	29.9	30.2	-0.5	-1.0	-1.0	-1.0	-1.5	59.9	64.0	68.7	66.6	68.3
Venezuela	14.1	12.4	16.9	…	…	-4.3	-0.5	-2.9	…	…	164.4	138.5	164.3	…	…
CAPDR	**16.9**	**16.9**	**17.1**	**16.8**	**16.6**	**0.2**	**0.2**	**-0.2**	**0.2**	**0.4**	**52.8**	**51.9**	**51.9**	**52.5**	**52.3**
Costa Rica	14.3	13.7	14.0	13.5	13.4	2.1	1.6	1.1	1.3	1.3	63.0	61.1	59.8	59.7	59.5
Dominican Republic	15.7	16.0	16.1	15.8	15.1	-0.4	-0.1	0.3	0.2	0.4	59.6	60.5	58.8	60.0	58.9
El Salvador	24.0	26.0	26.8	25.7	24.8	2.0	-0.1	0.0	2.0	2.9	83.7	85.1	87.5	87.6	86.9
Guatemala	12.6	12.1	11.8	13.3	13.4	0.0	0.4	0.7	-0.9	-1.0	29.0	27.2	26.3	27.0	27.8
Honduras	21.8	24.7	23.4	23.7	23.4	2.7	-0.7	-0.4	-1.0	-0.8	51.0	47.9	47.1	45.1	44.1
Nicaragua	27.3	24.5	25.1	25.5	25.6	1.9	3.8	4.4	4.0	4.3	45.9	42.3	39.1	39.3	40.1
Panama	19.6	18.8	20.2	18.1	18.3	-2.3	-1.4	-4.5	-0.5	-0.4	52.7	51.2	57.4	59.6	60.3
Caribbean	**20.9**	**21.5**	**20.9**	**21.3**	**20.6**	**0.9**	**1.3**	**1.5**	**0.4**	**0.4**	**60.5**	**59.7**	**53.1**	**51.4**	**50.7**
Caribbean: Tourism Dependent	**23.3**	**22.5**	**22.9**	**23.1**	**22.8**	**2.0**	**2.9**	**3.8**	**3.3**	**3.0**	**81.8**	**77.3**	**72.9**	**70.9**	**68.9**
Antigua and Barbuda	18.1	16.6	17.5	19.3	19.7	-0.3	0.5	3.9	2.9	0.9	82.0	76.3	67.6	65.7	63.8
Aruba	19.3	18.5	17.1	18.6	18.6	3.7	7.0	7.9	5.3	4.9	97.8	82.5	70.2	67.1	63.9
The Bahamas	21.4	19.3	17.0	17.5	18.3	-1.3	0.3	2.7	3.3	3.4	84.7	78.3	73.8	74.1	72.9
Barbados	25.2	23.2	24.6	23.0	23.2	2.4	3.5	4.3	4.4	4.4	113.7	111.5	104.8	99.8	94.6
Belize	21.7	23.5	23.8	24.9	25.6	0.7	-0.2	1.3	1.3	1.0	66.8	67.5	65.4	64.7	63.5
Dominica	67.1	62.1	56.9	53.1	45.4	-4.3	-2.0	-0.3	0.3	0.6	104.3	99.8	99.9	95.7	92.5
Grenada	30.4	27.2	33.8	34.8	29.6	2.6	9.4	10.0	-3.5	0.1	79.3	74.5	72.7	67.7	65.5
Jamaica	22.1	22.5	24.9	25.1	24.5	5.3	5.2	5.4	4.8	3.4	70.2	66.5	62.4	59.2	57.4
St. Kitts and Nevis	48.2	42.0	41.9	39.3	37.7	-2.9	0.9	-9.8	-11.0	-6.1	60.3	55.7	53.8	61.9	67.5
St. Lucia	19.9	21.9	21.1	22.1	21.8	1.3	0.2	1.1	0.5	0.7	73.9	75.2	76.6	77.0	77.2
St. Vincent and the Grenadines	34.3	36.4	36.0	33.3	26.4	-7.2	-10.3	-10.1	-4.8	1.9	86.3	89.4	92.7	94.0	90.5
Caribbean: Non-Tourism Dependent	**19.0**	**20.6**	**19.3**	**19.9**	**18.9**	**0.0**	**-0.2**	**-0.3**	**-1.7**	**-1.6**	**43.2**	**44.1**	**37.9**	**36.9**	**37.1**
Haiti	8.0	6.2	5.0	4.9	5.7	-1.5	1.1	7.2	0.8	0.0	29.5	28.5	15.5	11.8	10.0
Commodity Exporters	23.8	26.8	25.9	28.3	25.9	0.7	-0.7	-3.8	-3.0	-2.4	49.1	50.8	48.2	50.8	51.4
Guyana	20.0	23.3	22.9	24.5	22.6	-4.8	-5.4	-7.0	-4.6	-4.0	24.8	26.7	24.3	29.0	29.3
Suriname	25.8	25.9	26.4	33.5	26.7	1.0	1.4	0.3	-5.8	2.0	116.9	98.2	87.3	89.1	82.7
Trinidad and Tobago	25.6	29.1	28.7	30.9	29.1	3.6	2.1	-1.4	-1.1	-1.6	53.2	60.2	64.6	65.3	68.5
Memorandum															
Latin America and the Caribbean	**28.8**	**29.0**	**28.7**	**28.6**	**28.2**	**0.3**	**-0.8**	**-0.3**	**0.0**	**0.3**	**67.9**	**73.5**	**69.8**	**72.6**	**73.2**
LAC (simple average)	*25.6*	*25.5*	*25.4*	*25.5*	*24.4*	*-0.2*	*-0.1*	*0.0*	*-0.6*	*0.2*	*69.3*	*68.9*	*66.7*	*72.7*	*72.1*
LAC excluding Argentina and Venezuela	28.2	28.6	28.9	28.5	28.2	0.6	-0.6	-0.5	-0.1	0.1	64.2	63.3	66.4	67.8	69.3
Latin America 7	29.2	29.6	30.0	29.7	29.3	0.7	-0.6	-0.5	-0.1	0.2	65.4	64.5	68.2	69.9	71.8
Latin America 8	30.0	30.2	29.9	29.8	29.5	0.4	-0.8	-0.2	0.1	0.4	67.8	74.7	70.0	70.9	72.0
Eastern Caribbean Currency Union[3]	30.3	29.3	30.0	30.5	26.0	-0.5	0.8	0.8	-2.1	1.7	76.5	73.9	72.1	72.4	71.3

Sources: IMF, World Economic Outlook database; and IMF staff calculations and projections.
Note: CAPDR = Central America, Panama, and the Dominican Republic; LAC = Latin America and the Caribbean; Latin America 7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay; Latin America 8 = Latin America 7 plus Argentina.
[1]Government coverage varies across countries, depending on country-specific institutional differences, including on what constitutes the appropriate coverage from a fiscal policy perspective, as defined by the IMF staff. See Country Notes for details on the data. All indicators are reported on a fiscal year basis. Regional aggregates are fiscal year US dollar nominal GDP-weighted averages. Data in this table have been compiled based on information available through September 30, 2025, but may not reflect the latest published data in all cases. For the date of the last data update for each economy, please refer to the notes provided in the online *World Economic Outlook* database.
[2]Puerto Rico is classified as an advanced economy. It is a territory of the United States, but its statistical data are maintained on a separate and independent basis.
[3]Eastern Caribbean Currency Union comprises Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as Anguilla and Montserrat (which are not IMF members).

Country Notes

Argentina. The official national consumer price index (CPI) starts in December 2016. For earlier periods, CPI data for Argentina reflect the Greater Buenos Aires Area CPI (prior to December 2013); the national CPI (IPCNu, December 2013 to October 2015); the City of Buenos Aires CPI (November 2015 to April 2016); and the Greater Buenos Aires Area CPI (May 2016 to December 2016). Given limited comparability of these series because of differences in geographic coverage, weights, sampling, and methodology, the WEO does not report average CPI inflation for 2014–16 and end-of-period inflation for 2015–16. In addition, Argentina discontinued the publication of labor market data starting in the fourth quarter of 2015, and new series became available starting in the second quarter of 2016.

Bahamas, The. Coverage of fiscal series is central government.

Barbados. Overall and primary balances cover budgetary central government. Gross debt covers central government debt, central government guaranteed debt, and arrears.

Belize. Coverage of fiscal series is central government.

Bolivia. Projections for 2026–30 have been omitted due to significant uncertainty regarding the economic outlook. Nonfinancial public sector is reported excluding the operations of nationalized mixed-ownership companies in the hydrocarbon and electricity sectors.

Brazil. Nonfinancial public sector is reported excluding Petrobras and Eletrobras and consolidated with the Sovereign Wealth Fund. The definition includes treasury securities on the central bank's balance sheet, including those not used under repurchase agreements (repos). The national definition of general government gross debt includes the stock of Treasury securities used for monetary policy purposes by the central bank (those pledged as security in reverse repo operations). It excludes the rest of the government securities held by the central bank.

Colombia. Nonfinancial public sector is reported for primary balances (excluding statistical discrepancies); combined public sector, including Ecopetrol and excluding Banco de la República's outstanding external debt, is reported for gross public debt.

Costa Rica. The central government definition was expanded as of January 1, 2021, to include 51 public entities in accordance with Law 9524. Data back to 2019 are adjusted for comparability.

Dominican Republic. The fiscal series have the following coverage: Public debt, debt service, and the cyclically adjusted/structural balances are for the consolidated public sector (which includes the central government, the rest of the nonfinancial public sector, and the central bank); the remaining fiscal series are for the central government.

Eastern Caribbean Currency Union (ECCU). For all countries, coverage for primary expenditure and primary balance is central government; public sector gross debt is reported.

Ecuador. Fiscal projections for 2025–30 are excluded from publication because of ongoing program discussions. Public sector gross debt includes liabilities under advance oil sales, which are not treated as public debt in the authorities' definition. In late 2016, the authorities changed the definition of debt to a consolidated basis; both the historical and projection numbers are now presented on a consolidated basis.

El Salvador. Coverage for primary expenditure and primary balance applies to the nonfinancial public sector. Gross debt is presented on a consolidated basis.

Guatemala. Coverage of fiscal series is central government.

Guyana. Coverage of fiscal series is central government, including the National Insurance Scheme for primary expenditure and primary balance.

Haiti. Coverage of fiscal series is central government.

Jamaica. Central government is reported for primary expenditure and primary balance. Public debt includes central government, guaranteed, and PetroCaribe debt.

Mexico. Fiscal series have the following coverage: central government, social security system funds, nonfinancial public corporations, and nonmonetary public financial corporations.

Nicaragua. Coverage for primary expenditure and primary balance is general government. Gross debt is presented on a consolidated basis.

Panama. Ratios to GDP are based on the 2018-base GDP series. Fiscal data cover the nonfinancial public sector excluding the Panama Canal Authority.

Paraguay. Coverage of fiscal series for the WEO is broader than the budgetary central government, which is used by the authorities to measure fiscal rules and targets.

Peru. Gross debt is that of the nonfinancial public sector.

Suriname. Primary expenditures exclude net lending.

Trinidad and Tobago. Coverage of fiscal series is central government.

United States. For cross-country comparability, expenditure and fiscal balances of the United States exclude the items related to the accrual-basis accounting of government employees' defined-benefit pension plans, which are counted as expenditure under the 2008 System of National Accounts (2008 SNA) adopted by the United States but not for countries that have not yet adopted the 2008 SNA. Data for the United States in Appendix Table 1.2 may thus differ from data published by the US Bureau of Economic Analysis.

Uruguay. In December 2020, the authorities began reporting national accounts data according to the SNA 2008, with base year 2016. The new series begin in 2016. Data prior to 2016 reflect the IMF staff's best effort to preserve previously reported data and avoid structural breaks.

Starting in October 2018 *Uruguay's* public pension system received transfers in the context of Law 19,590 of 2017, which compensates people affected by the creation of the country's mixed pension system. These funds are recorded as revenues, consistent with the IMF's methodology. Therefore, data for 2018–22 are affected by these transfers, which amounted to 1.2 percent of GDP in 2018, 1.0 percent of GDP in 2019, 0.6 percent of GDP in 2020, 0.3 percent of GDP in 2021, 0.1 percent of GDP in 2022, and 0 thereafter. See IMF (2019b) for further details. The disclaimer about the public pension system applies only to the revenues and net lending/borrowing series.

The coverage of the fiscal data for *Uruguay* was changed from consolidated public sector to nonfinancial public sector with the October 2019 WEO. In *Uruguay*, nonfinancial public sector coverage includes the central government, local government, social security funds, nonfinancial public corporations, and Banco de Seguros del Estado. Historical data were also revised accordingly. Under this narrower fiscal perimeter—which excludes the central bank—assets and liabilities held by the nonfinancial public sector, for which the counterpart is the central bank, are not netted out in debt figures. In this context, capitalization bonds issued in the past by the government to the central bank are now part of the nonfinancial public sector debt.

Venezuela. Projecting the economic outlook, including assessing past and current economic developments used as the basis for the projections, is rendered difficult by the lack of discussions with the authorities (the most recent Article IV consultation took place in 2004), incomplete metadata for limited reported statistics, and difficulties in reconciling reported indicators with economic developments. The fiscal accounts include the budgetary central government; social security; FOGADE (the country's deposit insurance institution); and a reduced set of public enterprises, including Petróleos de Venezuela, S.A. Following some methodological upgrades to achieve a more robust nominal GDP, historical data and indicators expressed as a percentage of GDP have been revised from 2012 onward. For most indicators, data for 2018–24 are IMF staff estimates. The effects of hyperinflation, the paucity of reported data, and uncertainty mean that the IMF staff's estimated and projected macroeconomic indicators should be interpreted with caution. Venezuela's consumer prices are excluded from all WEO group composites.

References

Acosta-Ormaechea, Santiago, Isabela Duarte, and Samuel Pienknagura. 2022. "Productivity in Latin America and the Caribbean: Recent Trends and the COVID-19 Shock." IMF WHD Regional Economic Outlook Background Paper.

Aghion, Philippe, Antonin Bergeaud, and John Van Reenen. 2023. "The Impact of Regulation on Innovation." *American Economic Review* 113 (11): 2894–936.

Ahir, Hites, Nicholas Bloom, and Davide Furceri. 2022. "The World Uncertainty Index." NBER Working Paper 29763, National Bureau of Economic Research.

Ahuja, Ashvin, and Malhar Nabar. 2012. "Investment-Led Growth in China: Global Spillovers." IMF Working Paper 2012/267, International Monetary Fund, Washington, DC.

Akcigit, Ufuk, Y. Emre Akgunduz, Harun Alp, Seyit M. Cilasun, and Jose M. Quintero. 2021. "Cost of Size-Dependent Regulations: The Role of Informality and Firm Heterogeneity."

Amundsen, Alexander, Amélie Lafrance-Cooke, and Danny Leung. 2025. "Firm Performance, Business Supports and Zombification over the Pandemic." IMF Working Paper No. 2025/029, International Monetary Fund.

Arena, Marco, and Vu Chau. 2024. "Unpacking Low Productivity in Colombia: Evidence from Firm-Level Data." IMF Selected Issues Paper, International Monetary Fund, Washington, DC.

Arizala, Francisco, Santiago Bazdresch, Tomohide Mineyama, and Shiqing Hua. Forthcoming. "The Impact of Fiscal Policy on Inflation Expectations." IMF Working Paper, International Monetary Fund, Washington, DC.

Armangué-Jubert, Tristany, Nezih Guner, and Alessandro Ruggieri. 2025. "Labor Market Power and Development." *American Economic Review: Insights* 7 (2): 177–95.

Ayerst, Stephen, Duc M. Nguyen, and Diego Restuccia. 2024. "The Micro and Macro Productivity of Nations." NBER Working Paper 32750, National Bureau of Economic Research.

Babii, Aleksandra, Alina Carare, Dmitry Vasilyev, and Yorbol Yakhshilikov. 2022. "Evolution of Remittances to CAPDR Countries and Mexico during the COVID-19 Pandemic." IMF Working Paper 2022/092, International Monetary Fund, Washington, DC.

Bakker, Bas B., Sophia Chen, Dmitry Vasilyev, Olga Bespalova, Moya Chin, Daria Kolpakova, Archit Singhal, and Yuanchen Yang. 2024. "What Can Artificial Intelligence Do for Stagnant Productivity in Latin America and the Caribbean." IMF Working Paper No. 2024/219, International Monetary Fund.

Banerjee, Abhijit V., and Benjamin Moll. 2010. "Why Does Misallocation Persist?" *American Economic Journal: Macroeconomics* 2 (1): 189–206.

Bems, Rudolfs, Francesca Caselli, Francesco Grigoli, Bertrand Gruss, and Lian Weicheng. 2018. "Expectations' Anchoring and Inflation Persistence." IMF Working Paper 18/280, International Monetary Fund, Washington, DC.

Benedek, Dora, Deb Pragyan, Borja Gracia, Sergejs Saksonovs. 2017. "The Right Kind of Help? Tax Incentives for Staying Small." IMF Working Papers, WP/17/139, International Monetary Fund.

Bianchi, Francesco, and Leonardo Melosi. 2022. "Inflation as a Fiscal Limit." Federal Reserve of Chicago Working Papers 2022–37.

Bianchi, Francesco, Renato Faccini, and Leonardo Melosi. 2023. "A Fiscal Theory of Persistent Inflation." *The Quarterly Journal of Economics* 138 (4): 2127–79.

Bloom, Nicholas. 2014. "Fluctuations in Uncertainty." *Journal of Economic Perspectives* 28 (2): 153–76.

Bontadini, Filippo, Carol Corrado, Jonathan Haskel, Massimiliano Iommi, and Cecilia Jona-Lasinio. 2023. "EUKLEMS & INTANProd: Industry Productivity Accounts with Intangibles. Sources of Growth and Productivity Trends: Methods and Main Measurement Challenges." Luiss Lab of European Economics, Rome.

Brooks, Wyatt J., Joseph P. Kaboski, Yao Amber Li, and Wei Qian. 2021. "Exploitation of Labor? Classical Monopsony Power and Labor's Share." *Journal of Development Economics* 150: 102627.

Budina, Nina, Christian H. Ebeke, Florence Jaumotte, Andrea Medici, Augustus J. Panton, Marina Mendes Tavares, and Bella Yao. 2023. "Structural Reforms to Accelerate Growth, Ease Policy Trade-offs, and Support the Green Transition in Emerging Market and Developing Economies." IMF Staff Discussion Note No. 2023/007, International Monetary Fund.

Busso, Matías, Lucía Madrigal, and Carmen Pagés. 2012. "Productivity and Resource Misallocation in Latin America." IBD Working Paper 306, Inter-American Development Bank.

Bustos, Paula. 2011. "Trade Liberalization, Exports, and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinian Firms." *American Economic Review* 101 (1): 304–40.

Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo. 2020. "The Economic Effects of Trade Policy Uncertainty." *Journal of Monetary Economics* 109:38–59.

Calderon, Diego, Sandesh Dhungana, and Daniel Wales. Forthcoming. "Natural Interest Rates in Inflation Targeting Emerging Markets." IMF Working Paper, International Monetary Fund, Washington, DC.

Camacho, Adriana, Emily Conover, and Dean Scrimgeour. 2024. "Misallocation and Manufacturing TFP in Colombia." *Economía* 23 (1): 1–29.

Caramp, Nicolas, and Dejanir H. Silva. 2023. "Fiscal Policy and the Monetary Transmission Mechanism." *Review of Economic Dynamics* 51: 716–46.

Caramp, Nicolas, and Ethan Feilich. 2024. "Monetary Policy and Government Debt." *Journal of Money, Credit and Banking*.

Carrière-Swallow, Yan, and Luis Felipe Céspedes. 2013. "The Impact of Uncertainty Shocks in Emerging Economies." *Journal of International Economies* 90 (2): 316–25.

Carrière-Swallow, Yan, Luis Jácome, Nicolas Magud, and Alejandro Werner. 2016. "Central Banking in Latin America: The Way Forward." IMF Working Paper WP/16/197, International Monetary Fund, Washington, DC.

Cavalcanti, Tiago, Joseph P. Kaboski, Bruno Martins, and Cezar Santos. 2024. "Financing Costs and Development." STEG Working Paper 092.

Checo, Ariadne, Francesco Grigoli, and Damiano Sandri. 2024. "Monetary Policy Transmission in Emerging Markets: Proverbial Concerns, Novel Evidence." Bank for International Settlements, Monetary and Economic Department.

Cochrane, John H. 2001 "Long-Term Debt and Optimal Policy in the Fiscal Theory of the Price Level." *Econometrica* 69 (1): 69–116.

Dabla-Norris, Era, Laura Jaramillo Mayor, Frederico Lima, and Alexandre Sollaci. 2018. "Size Dependent Policies, Informality, and Misallocation." IMF Working Paper No. 2018/179, International Monetary Fund.

David, Joel M., Venky Venkateswaran, Ana Paula Cusolito, and Tatiana Didier. 2021. "Capital Allocation in Developing Countries." *The World Bank Economic Review* 35 (4): 1102–21.

Davis, Steven. 2016. "An Index of Global Economic Policy Uncertainty." NBER Working Paper 22740, National Bureau of Economic Research.

Díez, Federico J., Jiayue Fan, and Carolina Villegas-Sánchez. 2021. "Global Declining Competition?" *Journal of International Economics* 132: 103492.

Dizioli, Allan, Jaime Guajardo, Vladimir Klyuev, Rui Mano, and Mehdi Raissi. 2016. "Spillovers from China's Growth Slowdown and Rebalancing to the ASEAN-5 Economies." IMF Working Paper 2016/170, International Monetary Fund, Washington, DC.

Duval, Romain A., Kevin C. Cheng, Kum Hwa Oh, and Richa Saraf. 2014. "Trade Integration and Business Cycle Synchronization: A Reappraisal with Focus on Asia." IMF Working Paper 2014/52, International Monetary Fund, Washington, DC.

Eslava, Marcela, John Haltiwanger, Adriana Kugler, and Maurice Kugler. 2004. "The Effects of Structural Reforms on Productivity and Profitability Enhancing Reallocation: Evidence from Colombia." *Journal of Development Economics* 75 (2): 333–71.

Eslava, Marcela, John Haltiwanger, and Nicolas Urdaneta. 2024. "The Size and Life-Cycle Growth of Plants: The Role of Productivity, Demand, and Wedges." *Review of Economic Studies* 91: 259–300.

Feenstra, Robert C., Robert Inklaar, and Marcel P. Timmer. 2015. "The Next Generation of the Penn World Table." *American Economic Review* 105 (10): 3150–3182.

Fentanes, Oscar, and Santiago Levy. 2024. "Dysfunctional Firm Dynamics and Mexico's Dismal Productivity Performance." *Economía* 23 (1): 283–310.

Forbes, Kristin, Jongrim Ha, and M. Ayhan Kose. 2025. "Tradeoffs over Rate Cycles: Activity, Inflation and the Price Level." NBER Macroeconomics Annual, April.

Garicano, Luis, Claire LeLarge, and John Van Reenen. 2016. "Firm Size Distortions and the Productivity Distribution: Evidence from France." *American Economic Review* 106 (11): 3439–79.

Garriga, Ana Carolina. 2025. "Revisiting Central Bank Independence in the World: An Extended Dataset." Quality of Government Institute, University of Gothenburg.

Goncalves, Carlos. 2018. "Productivity in Latin America." IMF WHD Regional Economic Outlook Background Paper.

Griliches, Zvi, and Haim Regev. 1995. "Firm Productivity in Israeli Industry 1979-1988." *Journal of Econometrics* 65: 175–203.

Gruss, Bertrand. 2014. "After the Boom–Commodity Prices and Economic Growth in Latin America and the Caribbean." IMF Working Paper 2014/154, International Monetary Fund, Washington, DC.

Gu, Wulong, and André Hofman. 2021. "LA KLEMS Productivity Level Database: Methodology for Estimating Purchasing Power Parities of Output and Inputs and Relative Productivity Levels in Latin America." Technical Report, LA KLEMS.

Guner, Nezih, Gustavo Ventura, and Yi Xu. 2008. "Macroeconomic Implications of Size-Dependent Policies." *Review of Economic Dynamics* 11: 721–44.

Ha, Jongrim, M. Ayhan Kose, Franziska Ohnsorge, and Hakan Yilmazkuday. 2023. "What Explains Global Inflation." Policy Research Working Papers; 10648.

Harvard Business School (Behavioral Finance and Financial Stability), Global Crises Data by Country database. https://www.hbs.edu/behavioral-finance-and-financial-stability/data/Pages/global.aspx

Hsieh, Chang-Tai, and Benjamin A. Olken. 2014. "The Missing "Missing Middle"." *Journal of Economic Perspectives* 28 (3): 89–108.

Hsieh, Chang-Tai, and Peter J. Klenow. 2009. "Misallocation and Manufacturing TFP in China and India." *Quarterly Journal of Economics* 124 (4): 1403–48.

Hsieh, Chang-Tai, and Peter J. Klenow. 2014. "The Life Cycle of Plants in India and Mexico." *Quarterly Journal of Economics* 129 (3): 1035–84.

Inter-American Development Bank. 2018. "A Mandate to Grow." Latin American and Caribbean Macroeconomic Report.

Inter-American Development Bank. 2024. "Ready for Take-off? Building on Macroeconomic Stability for Growth." Latin American and Caribbean Macroeconomic Report.

International Monetary Fund (IMF). 2019a. "Spillovers to Latin America from Growth Slowdowns in China and the United States" (Chapter 5). In *Regional Economic Outlook: Western Hemisphere*. Washington, DC, October.

International Monetary Fund (IMF). 2019b. "Uruguay: 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Republic of Uruguay." IMF Country Report 2019/064, Washington, DC.

International Monetary Fund (IMF). 2021. "Tax Policy for Inclusive Growth in Latin America and the Caribbean" (Background Paper 1). In *Regional Economic Outlook: Western Hemisphere*. Washington, DC, October.

International Monetary Fund (IMF). 2023a. "External Sector Implications of the Global Dollar Cycle" (Chapter 2). In *External Sector Report*. Washington, DC, July.

International Monetary Fund (IMF). 2023b. "Trade Integration and Implications of Global Fragmentation for Latin America and the Caribbean" (Background Paper 2). In *Regional Economic Outlook: Western Hemisphere*. Washington, DC, October.

International Monetary Fund (IMF). 2023c. "Crime and its Macroeconomic Consequences in Latin America and the Caribbean" (Online Annex 4). In *Regional Economic Outlook: Western Hemisphere*. Washington, DC, October.

International Monetary Fund (IMF). 2024a. "Public Debt Dynamics in Latin America: Time to Rebuild Buffers and Strengthen Fiscal Frameworks" (Background Paper 2). In *Regional Economic Outlook: Western Hemisphere*. Washington, DC, October.

International Monetary Fund (IMF). 2024b. "Rebalancing Policies and Pressing with Reforms." In *Regional Economic Outlook: Western Hemisphere*. Washington, DC, October.

International Monetary Fund (IMF). 2024c. "Closing the Gap: Labor Market Participation in Latin America" (Background Paper 1). In *Regional Economic Outlook: Western Hemisphere*. Washington, DC, October.

International Monetary Fund (IMF). 2024d. "Macrofinancial Stability Amid High Global Economic Uncertainty" (Chapter 2). In *Global Financial Stability Report*. Washington, DC, October.

International Monetary Fund (IMF). 2024e. "Slowdown in Global Medium-Term Growth: What Will It Take to Turn the Tide?" (Chapter 3). In *World Economic Outlook*. Washington, DC, April.

International Monetary Fund (IMF). 2024f. "Understanding the Social Acceptability of Reforms" (Chapter 3). In *World Economic Outlook*. Washington, DC, October.

International Monetary Fund (IMF). 2024g. "The Great Tightening: Insights from the Recent Inflation Episode." In *World Economic Outlook*. Washington, DC, October.

International Monetary Fund (IMF). 2025a. "Emerging Market Resilience: Good Luck or Good Policies?" (Chapter 2). In *World Economic Outlook*. Washington, DC, October.

International Monetary Fund (IMF). 2025b. "Spending Smarter: How Efficient and Well-Allocated Public Spending Can Boost Economic Growth" (Chapter 1). In *Fiscal Monitor*. Washington, DC, October.

International Monetary Fund (IMF). 2025c. "Global Prospects and Policies" (Chapter 1). In *World Economic Outlook*. Washington, DC, October.

International Monetary Fund (IMF). 2025d. "Riding the Waves: Building Resilience in an Era of High Uncertainty" (Chapter 2). In *Regional Economic Outlook: Middle East and Central Asia*. Washington, DC, May.

International Monetary Fund (IMF). 2025e. "Geopolitical Risks: Implications for Asset Prices and Financial Stability" (Chapter 2). In *Global Financial Stability Report*. Washington, DC, April.

International Monetary Fund (IMF). 2025f. "Argentina: Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; Staff Supplement; and Statement by the Executive Director for Argentina." IMF Country Report 2025/095, Washington, DC.

Jordà, Òscar. 2005. "Estimation and Inference of Impulse Responses by Local Projections." *American Economic Review* 95 (1): 161–82.

Kehoe, Timothy J., and Timothy J. Nicolini. 2022. "A Monetary and Fiscal History of Latin America, 1960–2017." University of Minnesota Press.

Konig, Michael, Kjetil Storesletten, Zheng Song, and Fabrizio Zilibotti. 2022. "From Imitation to Innovation: Where Is All That Chinese R&D Going?" *Econometrica* 90 (4): 1615–54.

Kose, Ayhan, Csilla Lakatos, Franziska Ohnsorge, and Marc Stocker. 2017. "The Global Role of the US Economy: Linkages, Policies and Spillovers." World Bank Policy Research Working Paper 7962.

Leeper, Eric M. 1991. "Equilibria under 'Active' and 'Passive' Monetary and Fiscal Policies." *Journal of Monetary Economics* 27 (1): 129–47.

Melitz, Marc J., and Sašo Polanec. 2015. "Dynamic Olley-Pakes Productivity Decomposition with Entry and Exit." *RAND Journal of Economics* 46 (2): 362–75.

Midrigan, Virgiliu, and Daniel Yi Xu. 2014. "Finance and Misallocation: Evidence from Plant-Level Data." *American Economic Review* 104 (2): 422–58.

Moll, Benjamin. 2014. "Productivity Losses from Financial Frictions: Can Self-Financing Undo Capital Misallocation?" *American Economic Review* 104 (10): 3186–221.

Moreau, Flavien. 2019. "Inferring Capital-Labor Substitution from Firm-level Distortions." Working Paper.

Obstfeld, Maurice, and Haonan Zhou. 2023. "The Global Dollar Cycle." NBER Working Paper 21004, National Bureau of Economic Research.

Rayner, Brett, Priscilla S Muthoora, Charles Vellutini, Ling Zhu, Vincent de Paul Koukpaizan, Alireza Marahel, Mahmoud Harb, Imen Benmohamed, Shafik Hebous, Andrew Okello, Nathalie Reyes, Thomas Benninger, and Bernard Sanya. 2022. "Revenue Mobilization for a Resilient and Inclusive Recovery in the Middle East and Central Asia." IMF Departmental Paper 2022/013, International Monetary Fund, Washington, DC.

Restuccia, Diego, and Richard Rogerson. 2008. "Policy Distortions and Aggregate Productivity with Heterogeneous Establishments." *Review of Economic Dynamics* 11: 707–20.

Romelli, Davide. 2024. "Trends in Central Bank Independence: A De-jure Perspective." BAFFI CAREFIN Centre Research Paper 217.

Schiffbauer, Marc, James Sampi, and Javier Coronado. 2025. "Competition and Productivity: Evidence from Peruvian Municipalities." *The Review of Economics and Statistics* 107 (1): 95–108.

Sims, Christopher A. 1994. "A Simple Model for Study of the Determination of the Price Level and the Interaction of Monetary and Fiscal Policy." *Economic Theory* 4: 381–99.

The World Bank Group. 2024. The World Bank Enterprise Survey (WBES). (version June 2025).

Unsal, Filiz, and Chris Papageorgiou. 2023. "Emerging Markets' Kryptonite: Inconsistencies in Monetary Policymaking." Presented at the 2024 American Economic Association Conference, December. https://www.aeaweb.org/conference/2024/program/paper/4drHKB6d

Woodford, Michael. 1995. "Price-Level Determinacy without Control of a Monetary Aggregate." Carnegie-Rochester Conference Series on Public Policy (Vol. 43, pp. 1–46). North-Holland, December.

World Economic Forum (WEF). 2019. The Global Competitiveness Index 4.0. (version October 2019).