Macro Report 2026
Inter-American Development Bank

Chapter 5: External Accounts

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1 Introduction: A False Sense of External Relief

After a temporary improvement in 2024, Latin America and the Caribbean's external position deteriorated again in 2025. While headline indicators—appreciated exchange rates, narrower current account deficits, and stable reserves—may suggest resilience, the reality is more fragile. The region's apparent external adjustment has relied disproportionately on temporary buffers: surging remittances, multilateral disbursements, and drawdowns of international reserves.

A rebound in imports, persistent fiscal pressures, and tighter global financial conditions have pushed current account deficits back up, undoing much of the recent correction. Meanwhile, global uncertainty—driven by interest rates, commodity prices, and shifting trade policy—has affected both the volume and composition of external flows, exposing asymmetries across countries. Beneath the surface, vulnerabilities remain, and the sustainability of recent external gains is far from assured.

Rather than reflecting structural strengthening, the region's external position rests on a fragile equilibrium—one supported by factors that are themselves exposed to reversal. Volatile capital flows, uncertain trade policy, and shallow foreign direct investment point to deeper weaknesses in how Latin America and the Caribbean integrates into the global economy.

This chapter documents how these patterns are playing out across five areas: exchange rate dynamics, current account imbalances, trade performance, foreign direct investment,

and external financing conditions. Our focus is on distinguishing between durable adjustments and temporary supports, and on highlighting the risks of complacency at a time when external buffers are being quietly eroded.

2 Exchange Rate Dynamics: Temporary Gains, Persistent Risks

After a period of volatility in 2023 and 2024, Latin American and Caribbean currencies appreciated sharply in early 2025. The movement was broad-based across the region—one of the most synchronized episodes in recent years—and came alongside a nearly 9 percent depreciation of the U.S. dollar. While some country-specific factors played a role, the appreciation was driven primarily by global forces: looser financial conditions, a temporary rebound in risk appetite, and renewed capital flows to emerging markets.

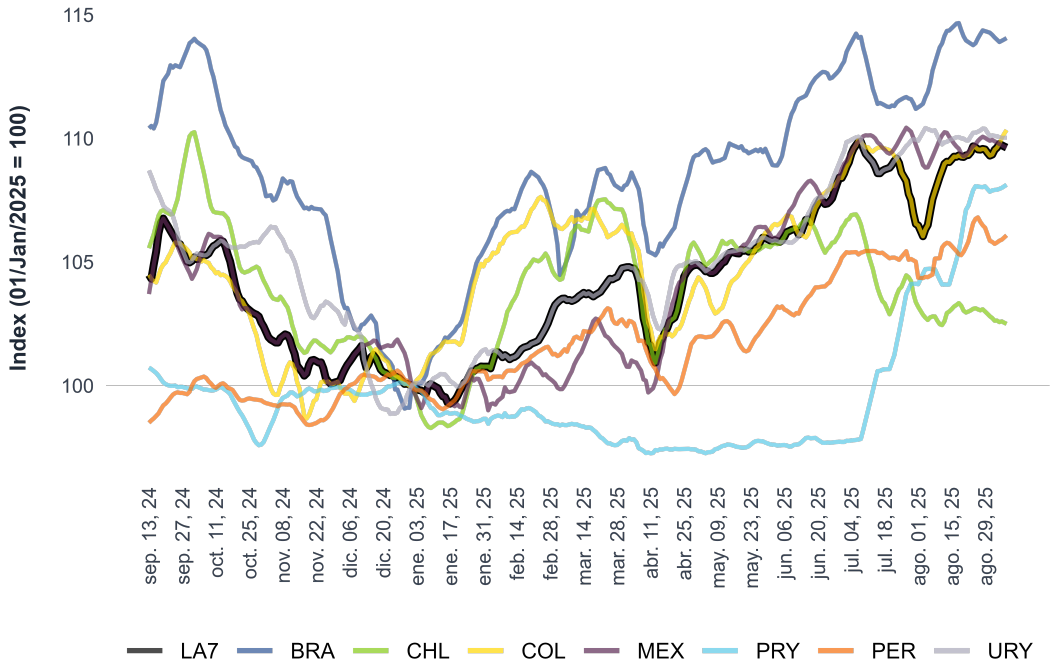
The broad appreciation of Latin American currencies in early 2025 has offered momentary relief from inflation and external debt pressures. But this gain is more the result of cyclical shifts—such as dollar weakness and easing global risk sentiment—than a sign of improved fundamentals. As external drivers lose strength and rate differentials narrow, the region's currencies may once again come under pressure—especially where domestic anchors remain weak.

Widespread appreciation driven by global financial conditions

Since January, the U.S. dollar has depreciated by nearly 9 percent, while Latin American currencies have appreciated by an average of 6 percent. This marks one of the most synchronized episodes of regional exchange rate appreciation in recent years, in contrast to the fragmented, country-specific movements observed during 2024. Figure **??** shows that the Brazilian real and Mexican peso led the trend, while others appreciated more modestly.

Despite this common movement, the drivers varied. Brazil's 11 percent appreciation reflects favorable terms of trade—particularly in agriculture and mining—combined with a still-attractive interest rate differential that has sustained portfolio inflows. The Mexican peso, up 9.2 percent, benefited from resilient remittances and continued investor positioning around supply chain reconfiguration, even as domestic growth forecasts were revised downward.

Figure 1: Bilateral exchange rates against the US dollar.



Notes: This figure shows bilateral exchange rates against the U.S. dollar for a group of Latin American economies. Series are indexed to January 1, 2025 = 100 and expressed as weekly moving averages. An increase denotes an appreciation of the domestic currency. The bold black line represents the median across seven countries (LA7): Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. Data cover the period from September 2024 to early September 2025. *Sources*: European Central Bank; IDB staff calculations.

In Chile, the peso gained 5.7 percent, supported early on by stronger copper prices and monetary easing, though fiscal constraints have limited further gains. Colombia's currency rose 4.8 percent, helped by commodity exports and a brief improvement in political risk sentiment, but investment and export momentum remain weak. The Peruvian sol appreciated by 2.9 percent, tracking regional patterns more than domestic developments.

Although the region's currencies moved broadly in the same direction, the underlying conditions varied widely—confirming that the current episode of appreciation is best understood as a global tide lifting economies unevenly.

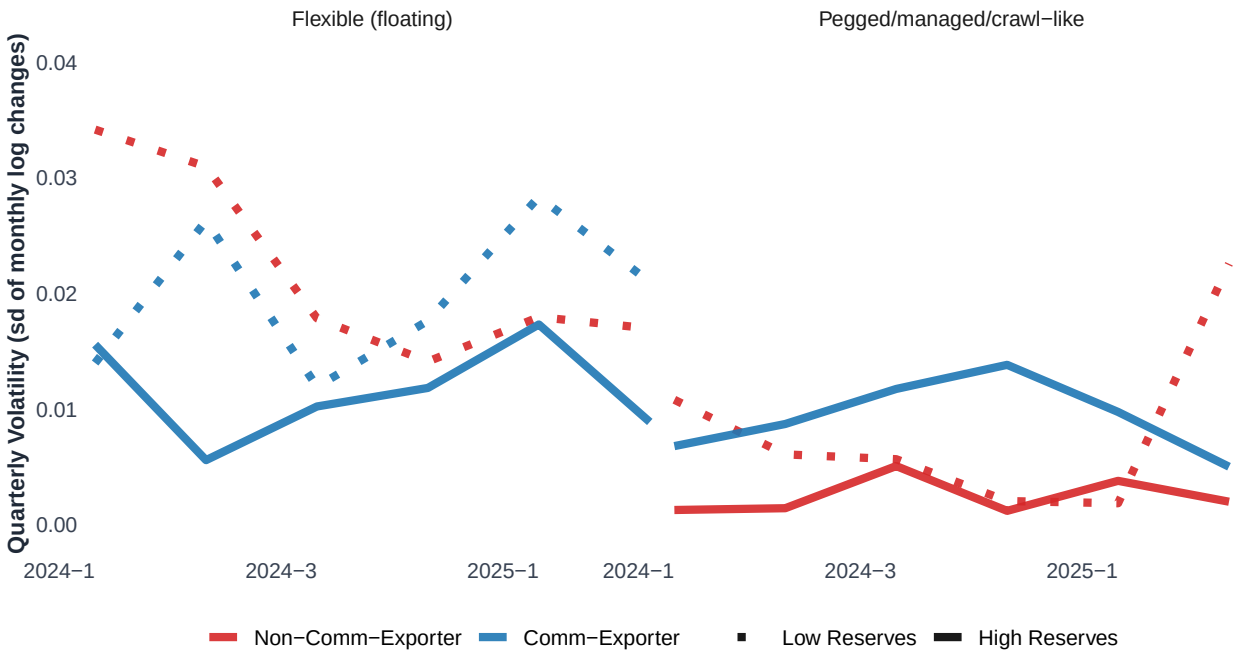
Volatility patterns reveal uneven shock absorption

While most currencies in the region appreciated in early 2025, the nature of those movements varied not only in scale but also in volatility. Some adjusted gradually with limited disruption; others experienced sharper and more frequent swings. Volatility, unlike ap-

preciation, reveals how much of an external shock is absorbed and how much is transmitted directly to domestic prices, portfolios, and expectations.

The contrast has been especially sharp among commodity exporters with flexible exchange rate regimes. In early 2025, quarterly real exchange rate fluctuations exceeded 3.5 percent in countries with limited reserve buffers, compared to around 2 percent in those with stronger external positions. As global financial conditions tightened, the gap widened further (Figure 2).

Figure 2: Real exchange rate volatility by regime, commodity status, and reserves (LAC).



Notes: This figure shows real exchange rate volatility across Latin American economies, grouped by exchange rate regime, commodity export status, and reserve adequacy. Volatility is measured as the within-quarter standard deviation of monthly *log* changes in the bilateral real exchange rate vis-à-vis the U.S. dollar. The left panel includes countries with flexible (floating) exchange rates: Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. The right panel includes countries with pegged, managed, or crawl-like regimes: Dominican Republic, Guatemala, and Honduras. Country groups are further classified as commodity exporters or non-exporters, and by whether their international reserves are above or below 20% of GDP.

These patterns suggest that regime choice alone does not explain the divergence in outcomes. What matters is whether adequate reserves and credible policy anchors back the regime. Countries like Mexico and the Dominican Republic, despite operating under different exchange rate frameworks, exhibited similar levels of volatility. In contrast, Peru, Uruguay, and Jamaica—each with more substantial buffers—maintained far more stable exchange rate dynamics.

The role of international reserves is central. They serve not only as a liquidity buffer, but also as a signal of macroeconomic credibility. Countries that entered the period of uncertainty with stronger reserve positions faced smaller depreciations, tighter spreads, and lower volatility. This matters especially for commodity exporters, where terms-of-trade shocks are frequent and persistent. In Latin America, building and maintaining reserve buffers remains one of the most effective tools for absorbing external shocks without amplifying them domestically (Aizenman et al. 2024).

3 From Adjustment to Fragility: LAC's External Balances

After a temporary improvement in 2024, Latin America's external position began to deteriorate again in 2025. Current account deficits, which had narrowed significantly the year before, widened once more as import volumes recovered and fiscal pressures persisted. The median current account balance—improved to around –1.1% of GDP by late 2024—has since turned downward. The speed of this reversal exposes how fragile the prior adjustment truly was.

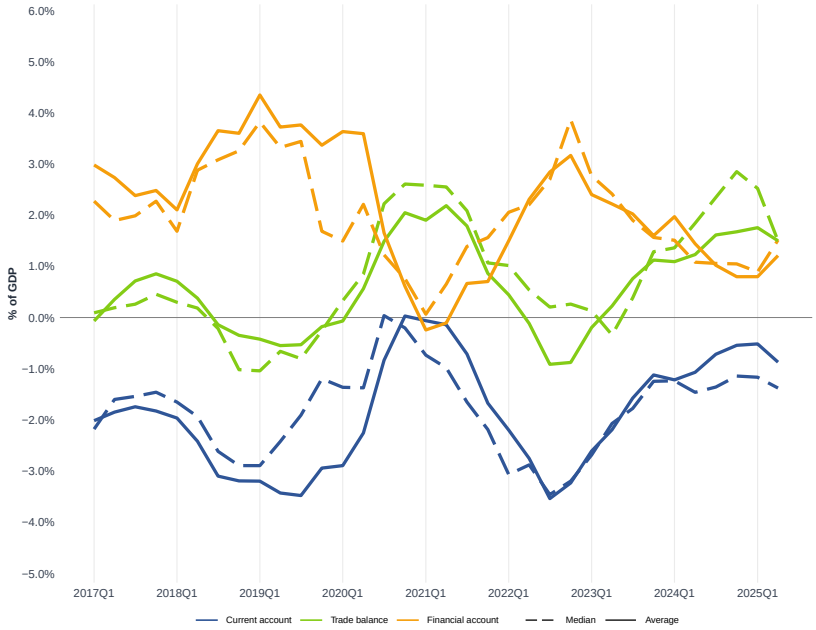
Much of the 2023–24 correction was driven not by structural gains, but by temporary factors: weak domestic demand, real depreciation, and an early start to monetary easing. Imports fell sharply across the region, narrowing current account deficits from roughly 3% of GDP in 2022 to just over 1% in 2024. While financial inflows remained subdued, the adjustment appeared smooth, giving the illusion that external vulnerabilities were receding.

A closer look at the country-level data reveals just how shallow this improvement was. In many cases, the narrowing of current account deficits reflected a collapse in imports rather than a stronger export performance or improved competitiveness. Where external gaps persisted or re-emerged—despite weak growth—they pointed to deeper structural constraints and high import dependency. Trade balances and financial flows moved differently across countries, revealing divergent and often unstable paths of external adjustment.

By 2025, the picture had shifted. Despite slower growth, import volumes rebounded—driven by recovering consumption and investment, especially in countries that had experienced downward forecast revisions. Mexico's projected growth, for example, was revised from 1.3% to –0.5%, while Colombia and the Dominican Republic also saw significant downgrades. Yet even with this deceleration, current account deficits widened again—highlighting how little of the prior adjustment had been anchored in fundamentals.

With global interest rates still high and financial flows volatile, the region's external financing needs are once again rising. In the absence of another temporary collapse in imports, the gaps must be covered by more costly debt or reserves. Latin America's external accounts are once again exposed—not only to commodity cycles and financial conditions, but to deeper questions about competitiveness and productive capacity.

Figure 3: External accounts: averages and medians.



Notes: This figure shows the evolution of external account components across a sample of Latin American and Caribbean countries. The lines report four-quarter moving averages for the current account (blue), trade balance (green), and financial account (orange), each shown as a share of GDP. For each component, both the regional average (solid line) and median (dashed line) are displayed. *Sources*: IMF and national sources. Countries included: Argentina, Belize, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Paraguay, Suriname, and Uruguay.

Figure 4: External accounts in selected LAC countries.

Notes: This figure presents the current account, trade balance, and financial account as a share of GDP for a selection of Latin American and Caribbean countries. Each panel shows quarterly data as four-quarter moving averages. The blue line represents the current account, the green line the trade balance, and the orange line the financial account. Units are in percent of GDP, and axes are scaled individually by country to reflect variation in volatility and magnitude. *Sources*: IMF and national sources. Series are four-quarter moving averages.

Figure 5: Projected change in current account balance (percentage points of GDP).

Notes: This figure presents projected changes in the current account balance for selected economies and regional groups between 2024 and 2030. The bars represent the annual change in the current account balance, expressed in percentage points of GDP (left axis), while the orange line shows the level of the current account balance as a share of GDP (right axis). The panels correspond to Latin America and the Caribbean (Argentina, Brazil, Chile, Colombia, Mexico, and Peru), the United States, China, ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand, and Vietnam), the Euro Area (reported as a single aggregate), and the G7 (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States). Projections are based on data from the October 2025 edition of the IMF's *World Economic Outlook*, with additional calculations by IDB staff.

Projections of current account dynamics reinforce this concern. After a temporary narrowing in 2024, current account deficits in Latin America and the Caribbean are expected to widen again and remain elevated through the end of the decade. In contrast, deficits in the United States, Euro Area, and China are projected to stabilize or improve gradually. This persistent gap reflects structural vulnerabilities that cannot be resolved through short-term compression. The external adjustment in LAC was not a turning point—it was a pause.

3.1 Trade Dynamics and Tariff Uncertainty

Trade tensions have re-emerged as an important factor shaping external balances in Latin America and the Caribbean. While recent improvements in trade balances suggest some resilience, they remain concentrated in a few countries and sectors—and have occurred amid shifting policy conditions. Understanding how tariff dynamics have evolved, what could have occurred under more adverse escalation, and what risks remain, is key to assessing the region's trade outlook.

Recent developments: targeted escalation, uneven effects

Between February and May 2025, a new phase of U.S. tariff adjustments introduced increases on a range of strategic sectors—including autos, electronics, and select intermediate inputs—as well as updated enforcement mechanisms under Section 232. In aggregate terms, U.S. imports declined, particularly from countries directly affected by the new measures. Mexico, by contrast, maintained its export performance. As shown in Figures 6 and 7, while implied tariffs on Mexican products rose by up to 5 percentage points, trade volumes remained stable, particularly in sectors like motor vehicles and auto parts.

This divergence reflects multiple factors. Some of Mexico's resilience stems from long-standing integration in regional value chains and rules of origin under USMCA. However, much of the recent performance also reflects temporary exemptions and specific product carve-outs. As a result, gains may be less permanent than they appear.

A counterfactual: what if April 2 had played out differently

Model-based simulations help quantify the potential impact of an earlier and broader tariff escalation. Under Scenario 2—assuming an extension of U.S. tariffs to include Mexico and Canada across automotive goods—Mexico's export performance would have declined substantially. As shown in Figure 33 of the accompanying presentation, total exports would have contracted, with motor vehicles, fabricated metals, and upstream electronics most affected.

Beyond Mexico, the broader region would have faced meaningful disruption. In a more adverse scenario involving retaliation by China and Canada (Scenario 3), modeled exports for Latin America fall between 4 and 7 percent, with countries highly exposed to intermediate inputs—such as Costa Rica and Colombia—experiencing the largest effects. That these shocks did not materialize in full underscores how sensitive trade performance remains to discretionary policy decisions.

Looking ahead: a pivotal moment for Mexico and the region

The outlook will depend on whether recent exemptions are consolidated, expanded, or reversed. In a constructive scenario, the exemption of Mexico and Canada from Section 232 is reinstated on a lasting basis, and North American tariffs are harmonized in a way that facilitates integration and provides clear signals to investors. Under this configuration (Scenario 6), the model shows Mexico strengthening its export position, particularly in autos and machinery, while import patterns rebalance across key sectors.

Alternatively, renewed frictions over rule enforcement, labor provisions, or other compliance mechanisms could reopen uncertainty around tariff treatment. In this case, trade patterns would likely shift again—potentially eroding recent export gains and complicating investment decisions in key manufacturing sectors. Given that over 60 percent of Mexico's manufactured exports are linked to products affected by recent trade actions, the risks of renewed volatility remain material

Latin America's trade performance in 2025 reflects a mix of adaptation and exposure. Mexico has played a central role in absorbing trade reallocation, but much of this rests on policy frameworks that are still evolving. For other countries, the combination of concentrated gains and global uncertainty underscores the importance of both diversification and predictability in trade relationships. Ensuring that trade remains a reliable source of external strength will depend on how current tensions are managed—and on the region's ability to navigate a system where the rules are increasingly dynamic.

Figure 6: Tariff escalation - Recent Events

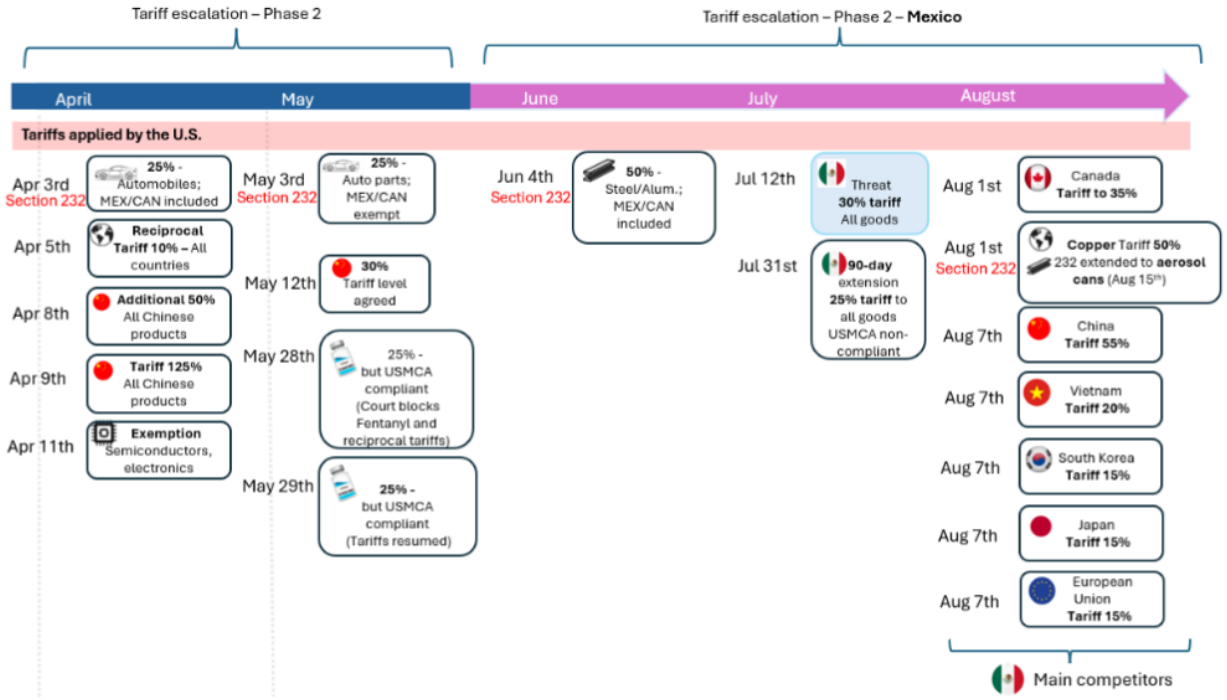
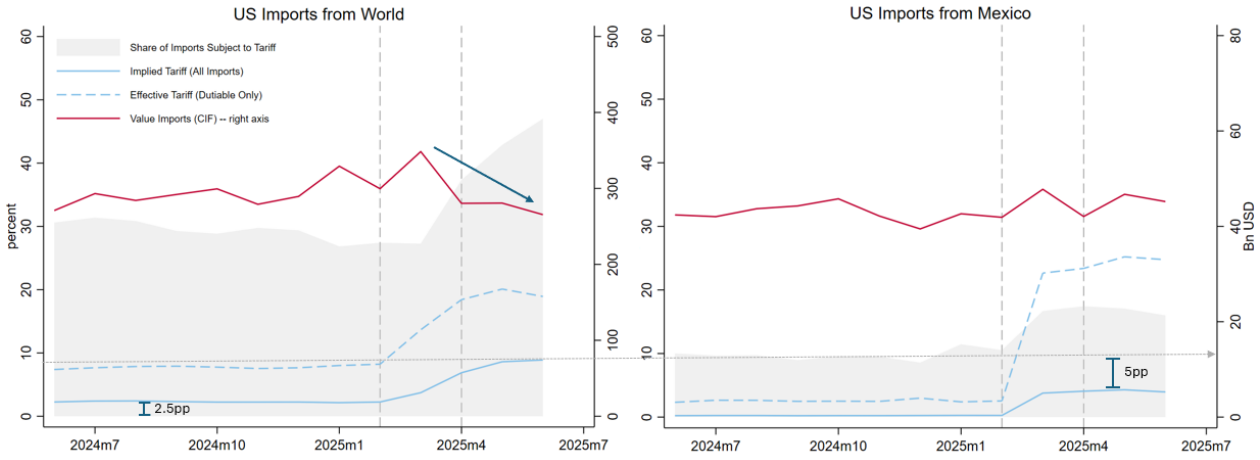


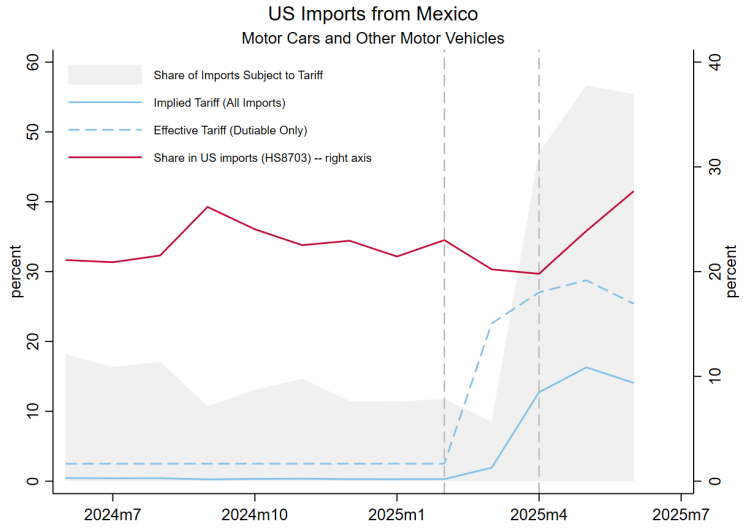
Figure 7: Impact of Tariff on Total US Imports (World Vs Mexico)



Calculations: (a) share of imports subject to tariff=dutiable imports/total imports. (b) Implied tariff=duties paid/total imports. (c) Effective tariff=duties paid/dutiable imports.

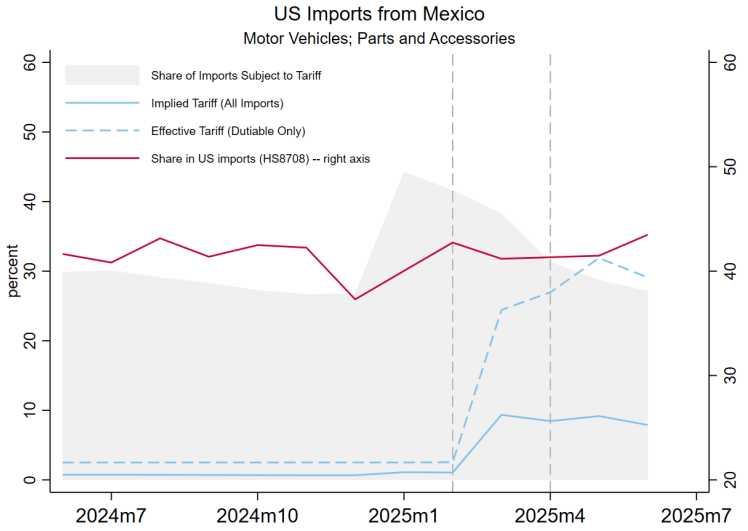
- U.S. imports fall; Mexico's hold steady.
- Mexico's implied-tariff upside widens from 2.5 to 5 p.p. after February 2025.

The Trade Impact of U.S. Tariff on Motor Cars



Calculations: (a) share of imports subject to tariff=dutiable imports/total imports. (b) Implied tariff=duties paid/total imports. (c) Effective tariff=duties paid/dutiable imports.

Trade Impact of U.S. Tariff on Auto Parts



Calculations: (a) share of imports subject to tariff=dutiable imports/total imports. (b) Implied tariff=duties paid/total imports. (c) Effective tariff=duties paid/dutiable imports.

3.2 FDI in LAC: Weak Momentum, Shallow Recovery

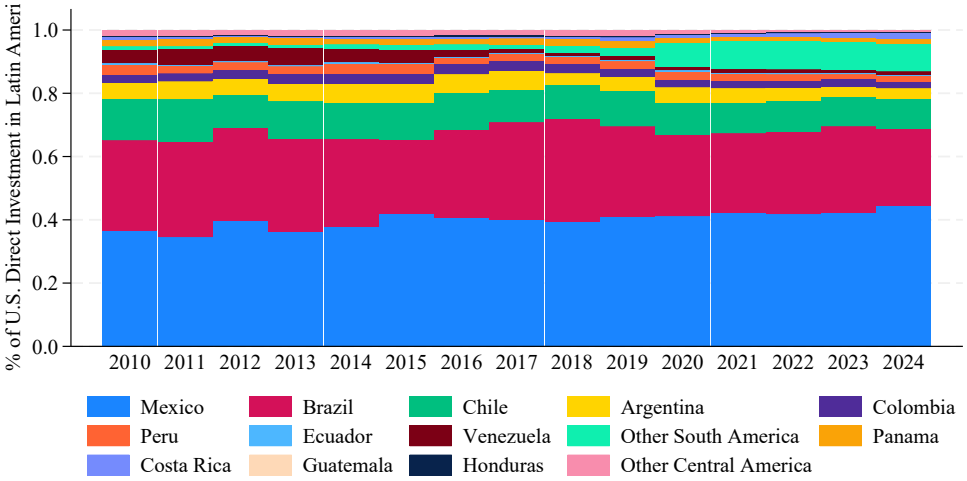
Foreign direct investment (FDI) in Latin America and the Caribbean reached about US$189 billion in 2024, registering around 7.1% growth. However, most of this increase derived from reinvested

earnings by multinational companies already operating in the region, rather than new green-field investments or fresh capital contributions. This pattern suggests that while existing operations remain confident, the region struggles to attract new, productive investment to expand capacity and advance productive transformation.

Recent data confirm this disconnect. Figure 10 shows quarterly direct investment flows from U.S. parent companies to Latin America, based on transactions data. Panel (a) reports the distribution by destination country, highlighting the dominance of Mexico and Brazil. Panel (b) shows total U.S. outward FDI by industry. Despite strong narratives around nearshoring and energy transitions, actual flows to the region remain concentrated and volatile, with no clear upward trend in strategic sectors.

Early indicators for 2025 suggest that the region's FDI momentum has weakened. Announcements through May were about 50 percent below the 2022–24 average, reflecting persistent global uncertainty and domestic structural constraints. While long-term narratives around nearshoring remain intact, realized inflows continue to fall short of expectations. High interest rates, subdued growth, and trade policy volatility have contributed to investor hesitation across the region.

Figure 8: U.S. Outward Direct Investment (% of South America)



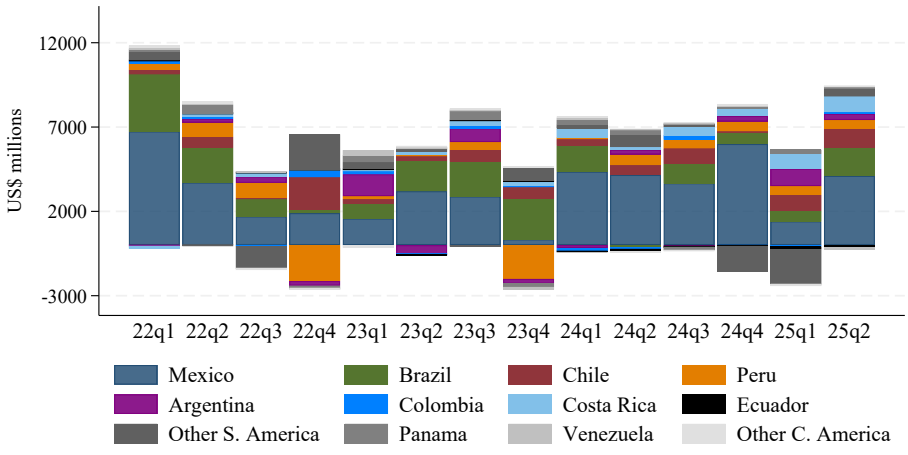
Notes: 'Other South America' includes Bolivia, French Guiana, Guyana, Paraguay, Suriname, and Uruguay.
'Other Central America' includes Belize, El Salvador, Guatemala, Nicaragua. Source: U.S. Bureau of Economic Analysis.

Figure 9: Projected change in direct investment, net (percentage points of GDP).

Left axis (bars): Annual variation.
Right axis (line): Direct investment, net, as share of GDP.
Sources: IMF, World Economic Outlook; and IDB staff calculations.

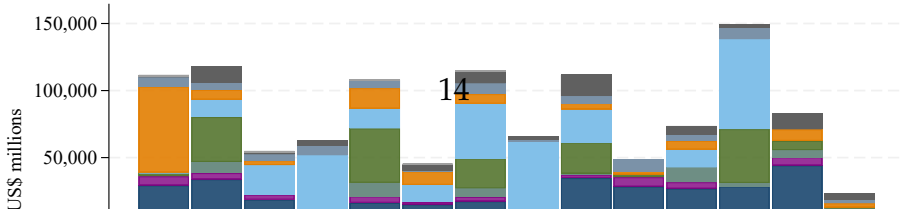
Figure 10: U.S. Outward Direct Investment to Latin America and the World

(a) U.S. outward direct investment to Latin America (current US$)



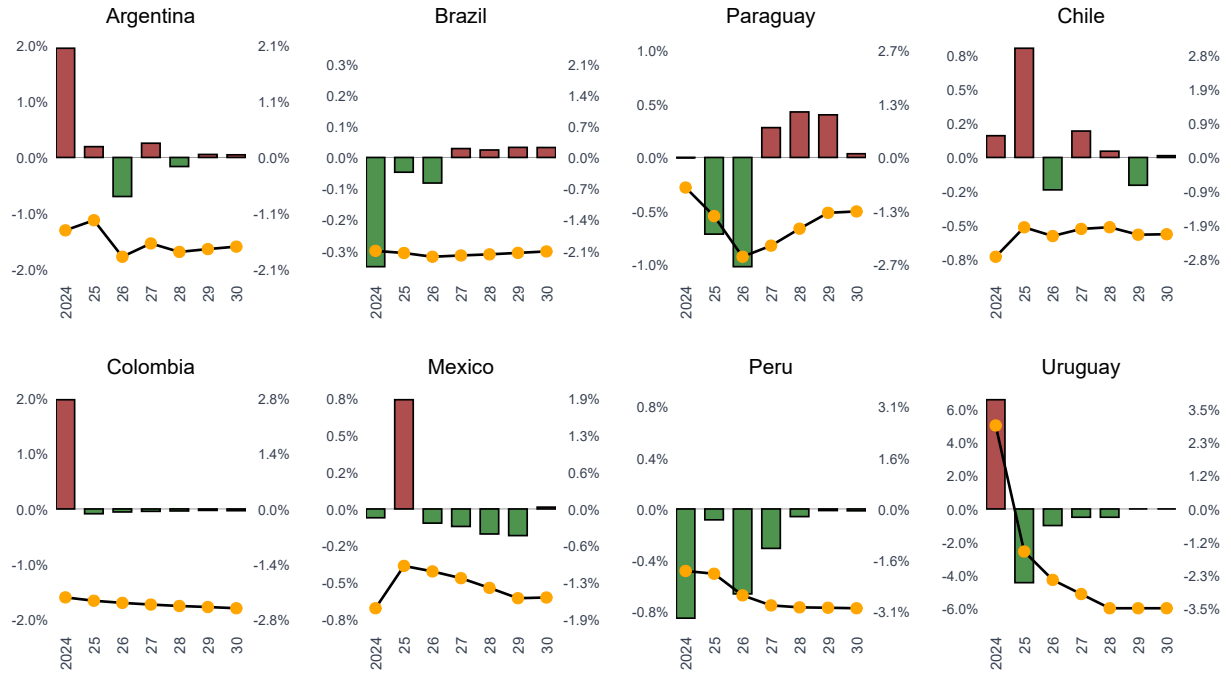
Notes: 'Other South America' and 'Other C. America' are residual categories. Transactions for outward investment relate to transactions for U.S. parent claims and liabilities.
Source: U.S. Bureau of Economic Analysis

(b) U.S. outward direct investment to the world, by industry (current US$)



Looking ahead, the outlook remains flat. Projections suggest that total inflows will stagnate or decline slightly relative to 2024, with limited evidence of a region-wide rebound in new capital formation. Figure 11 presents projected changes in net FDI across selected countries through 2030, showing low aggregate momentum and continued geographic concentration.

Figure 11: Latin America: Projected change in direct investment, net (percentage points of GDP)



Notes: This figure presents projected changes in net foreign direct investment for selected Latin American countries from 2024 to 2030. Bars show annual changes in net FDI as a share of GDP (left axis), while the orange line represents the level of net FDI (right axis). Data from IMF, *World Economic Outlook*, October 2025, and IDB staff calculations.

FDI in Latin America during 2025 and 2026 is expected to remain highly concentrated, both geographically and by sector. A small number of large economies will continue to attract most inflows, while capital increasingly targets strategic, high-growth industries aligned with global transitions.

At the country level, Brazil and Mexico continue to dominate. Together they account for nearly 60 percent of regional FDI. Brazil alone received 41 percent of inflows in 2023, supported by its large domestic market, diversified industrial base, and expanding renewable energy and technology sectors. Mexico remains the second-largest destination, driven by proximity to the United States, trade integration via USMCA, and a strong manufacturing platform. Chile, Colombia, Argentina, and Peru also attract consistent investment—particularly in natural resources and energy-related sectors. Guyana stands out as an exception, with high projected growth due to rapid expansion in its oil sector.

Sectoral patterns are also shifting. Investment is increasingly focused on future-oriented industries. Technology and digital services—including fintech, e-commerce, and software—are among the fastest-growing FDI segments, led by flows into Mexico and Brazil. Renewable energy and critical minerals continue to draw capital, reflecting the region's advantage in solar, wind, and green hydrogen, as well as in reserves of copper, lithium, cobalt, and nickel. Agribusiness also remains relevant, especially when paired with sustainability and technology. Manufacturing linked to nearshoring is gaining traction in Mexico and parts of Central America, supported by diversification of global supply chains. Infrastructure investment continues across Brazil, Chile, Colombia, and Peru, particularly in transport, logistics, and energy transmission.

4 External Financing: Tighter Access, Shifting Buffers

The external financing landscape for Latin America and the Caribbean has shifted under tighter global financial conditions. Persistently high interest rates, wider sovereign spreads, and a stronger U.S. dollar have made market access more costly and less predictable. In this environment, countries have relied more heavily on non-market buffers—remittances, multilateral disbursements, and international reserves—to sustain external stability. This section examines how these components interact and how financing dynamics differ across countries with varying levels of market access and reserve coverage.

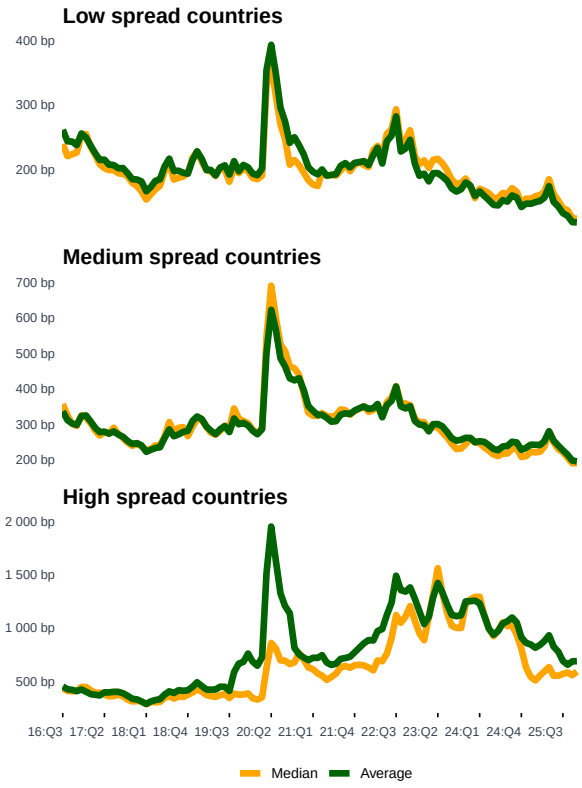
4.1 Tighter Access and Shorter Maturities

Higher global interest rates have raised the cost of sovereign borrowing and limited market access, especially for frontier and lower-rated issuers. Debt issuance has become more sporadic, maturities shorter, and spreads remain wider than pre-pandemic levels. As fiscal pressures mount, many countries now face tighter external financing constraints, even in the absence of large increases in debt stocks. Figure 12 illustrates these conditions. Sovereign spreads across all rating groups remain elevated relative to pre-pandemic norms, while long-term government bond yields have yet to stabilize. For many countries in the region, the expected cost of refinancing remains high, and market access limited or uneven.

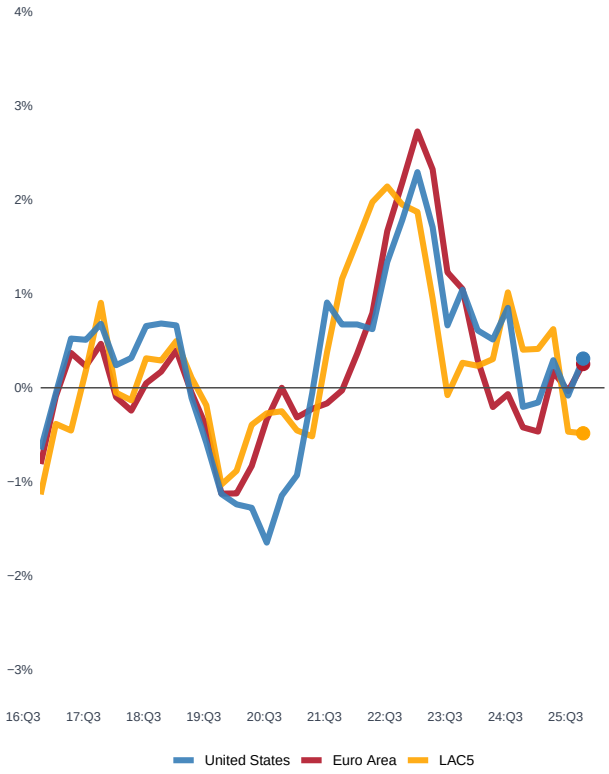
For most of the region, the challenge lies in the interaction between higher financing costs and a slowdown in export growth. South American commodity exporters such as Chile, Peru, and Brazil saw a mild recovery in export volumes, but prices remained weak—particularly for metals and energy. In Mexico and Central America, export levels held up better due to proximity to the U.S. cycle, while remittances and nearshoring-related flows helped mask softer momentum in manufacturing. Caribbean and smaller economies continued to post persistent current account deficits as tourism plateaued.

Figure 12: Latin America: EMBIG country spreads (left) and long-term government bond yields (right).

((a)) EMBIG country spreads (bp)



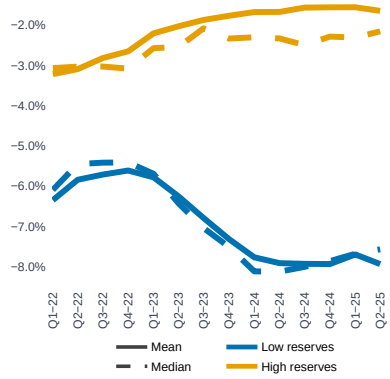
((b)) Long-term government bond yields (Percent, YoY)



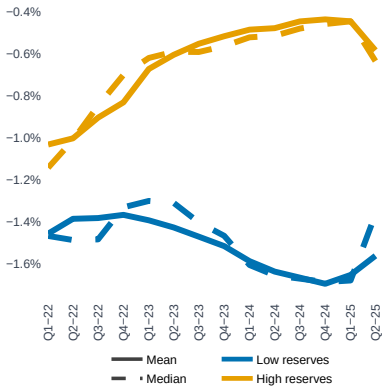
Notes: Left panel shows J.P. Morgan EMBIG country spreads (basis points). Right panel shows the year-over-year change in 10-year government bond yields, in percentage points, computed from quarterly averages. Low spread: Chile, Guatemala, Jamaica, Paraguay, Peru, Uruguay. Medium spread: Brazil, Costa Rica, Dominican Republic, Mexico, Panama, Trinidad and Tobago. High spread: Argentina, Bolivia, Colombia, Ecuador, El Salvador, Honduras. LAC5: Brazil, Colombia, Mexico, Chile, and Peru. Source: J.P. Morgan EMBI Global; OECD/FRED; Bloomberg; IDB staff calculations.

Figure 13: Net and gross interest payments and exports in Latin America

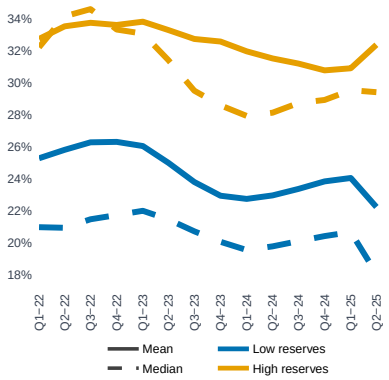
((a)) Net interest (revenues - expenditures) as share of exports



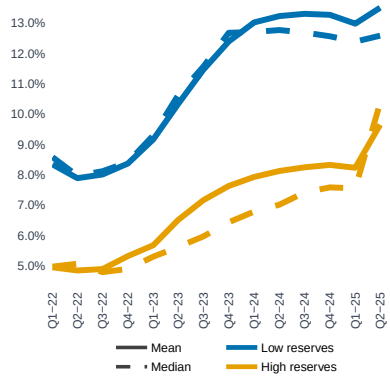
((b)) Net and Gross Interest (revenues - expenditures) as share of GDP



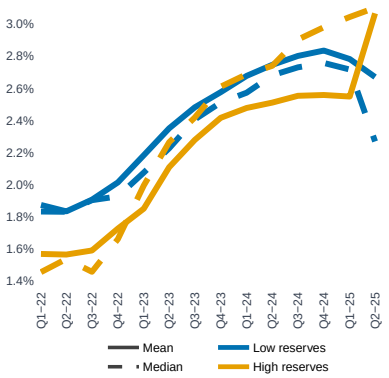
((c)) Exports as share of GDP



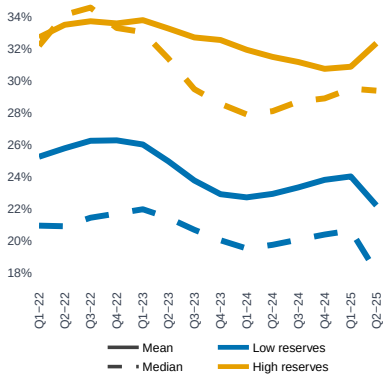
((d)) Interest payments as share of exports



((e)) Interest payments as share of GDP



((f)) Exports as share of GDP



Notes: This figure shows six indicators related to interest payments and export performance for countries with high and low international reserves. Panels a–c (top row) present net interest payments—defined as interest revenues minus expenditures—as a share of exports (Panel a), as a share of GDP (Panel b), and the corresponding exports-to-GDP ratio (Panel c). Panels d-f (bottom row) report the same indicators using gross interest payments instead of net: gross interest as a share of exports (Panel d), as a share of GDP (Panel e), and exports-to-GDP ratios based on the same grouping (Panel f). All series are shown quarterly, with solid lines representing group *means* and dashed lines representing *medians*. Country groups are defined by whether international reserves exceed or fall below 20% of GDP. High-reserve countries include Uruguay, Paraguay, Jamaica, Peru, Honduras, Nicaragua, and Guatemala. Low-reserve countries include Brazil, Argentina, Mexico, Colombia, Chile, and the Dominican Republic.

Interest payments have increased across the board. With U.S. policy rates above 5% and a stronger dollar, rolling over external debt has become more expensive. Sovereigns in the region have is-

sued debt at higher spreads and shorter maturities, pushing up annual interest costs. In Brazil, for example, domestic issuance costs reached multi-year highs in early 2025, partly reflecting tighter financial conditions. In some cases—such as Argentina and Colombia—local currency depreciation has further raised the cost of external debt servicing in domestic terms.

As a result, net interest burdens are rising, not necessarily because countries are borrowing more, but because export growth has slowed while servicing costs have climbed. On average, net interest payments rose from 6.5% of exports in 2023 to an estimated 8–9% in 2025. In several frontier and smaller economies, the ratio has reached double digits. Gross interest payments and debt-to-GDP ratios show similar trends.

Figure 13 presents six indicators that track these dynamics, separating countries by reserve coverage. The top row displays net interest payments as a share of exports and GDP, and their corresponding export-to-GDP ratios. The bottom row shows the same indicators using gross interest payments. Across panels, countries with lower reserve buffers consistently show higher interest burdens and weaker export performance.

4.2 Remittances in LAC: A Buffer That's Holding, But Shifting

Remittance flows continue to provide an important cushion for external accounts in Latin America and the Caribbean. In several countries, they help sustain income, stabilize domestic consumption, and offset weaker capital inflows. But while the aggregate role of remittances remains strong, country-level patterns are no longer aligned.

In 2024, remittances exceeded 25% of GDP in Nicaragua and Honduras, and remained above 20% in El Salvador and Guatemala (Figure 14a). These flows are central to external and household balances in much of Central America. Mexico, by contrast, receives the largest volume of remittances in the region, but they account for a smaller share of output—just 3–4% of GDP. This distinction matters: Mexico's flows are large and stable, but increasingly exposed to regulatory shifts. In contrast, Central America's flows are smaller in dollar terms, but more sensitive to migration dynamics and labor market risk.

Early 2025 data confirm this divergence. Remittances to Mexico fell sharply in April—down 12.1% year-on-year, the steepest drop since 2012. This decline coincided with increased U.S. immigration enforcement, which may have discouraged transfers among undocumented migrants. The contraction reflects both fewer transactions and smaller average amounts. In contrast, remittance flows to Central America surged, growing by double digits in El Salvador, Honduras, and Guatemala (Figure 15). In Nicaragua, larger average remittance amounts also drove up total inflows.

These trends cannot be explained by economic fundamentals alone. U.S. Hispanic unemployment increased during the same period—typically a drag on remittances. Instead, the rise in Central America appears precautionary: migrants may be front-loading transfers in response to policy

risk. The expiration of Temporary Protected Status and the termination of parole programs for certain nationalities may accelerate repatriations later in the year. In Guatemala, strong inflows have helped finance external deficits, but this buffer would be at risk if the trend reverses.

Figure 14b shows that the number of U.S. residents born in El Salvador, Guatemala, and Honduras has continued to grow, even as the Mexican-born population plateaus. These migration patterns partly explain why Mexico's remittance performance has diverged from the rest. The relative weight of Mexico's flows compared to its Central American neighbors has also declined, as shown in Figure 16.

Together, these dynamics point to an evolving role for remittances. They remain a vital stabilizer in many countries—but the patterns behind the flows are shifting. Future vulnerability will depend not just on U.S. labor market conditions, but on enforcement policy, migrant composition, and the legal framework under which transfers occur.

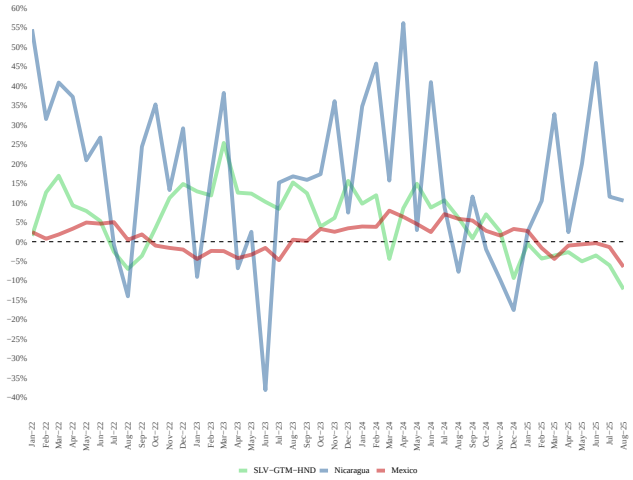
Figure 14: Remittance Dependence and Migration Trends in Latin America

(a) Remittances by country (% of GDP)

Country	% of GDP
Nicaragua	26.6
Honduras	25.6
El Salvador	23.6
Guatemala	19.0
Haiti	14.8
Dominican Republic	8.7
Ecuador	5.2
Mexico	3.5
Colombia	2.8
Bolivia	2.7

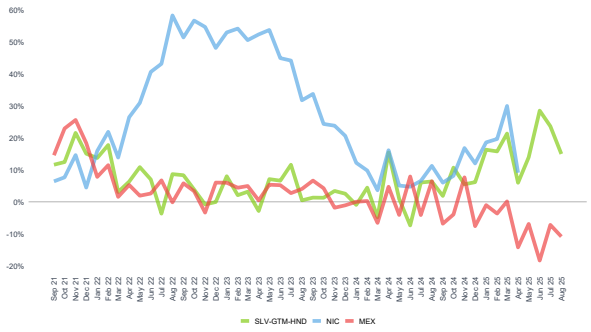
Source: IMF. Values are simple averages of quarterly data for 2024.

(b) Annual change in the U.S. foreign-born population



Notes: 12-month % change in CPS-weighted counts of foreign-born residents by birthplace. Series include Mexico, Nicaragua, and the combined El Salvador–Guatemala–Honduras group (SLV–GTM–HND). Source: IPUMS CPS Basic Monthly microdata using person weights.

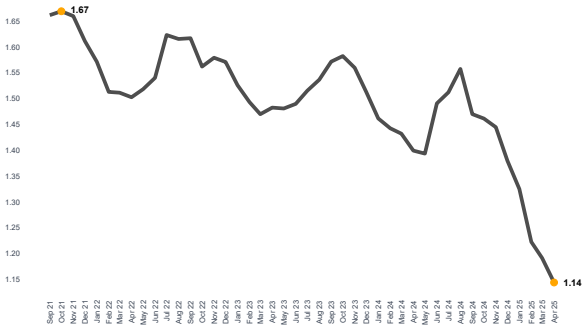
Figure 15: Annual percentage change in real remittances.



Sources: National statistical offices and central banks.

Notes: Normalized using U.S. CPI (Jan-19 = 100). SLV = El Salvador; GTM = Guatemala; HND = Honduras; NIC = Nicaragua; MEX = Mexico.

Figure 16: Ratio of Mexico's remittances to El Salvador, Guatemala, Honduras, and Nicaragua.



Sources: National statistical offices and central banks.

Notes: Series shows the ratio $\text{MEX}/(\text{SLV}+\text{GTM}+\text{HND}+\text{NIC})$, smoothed with a quarterly moving average.

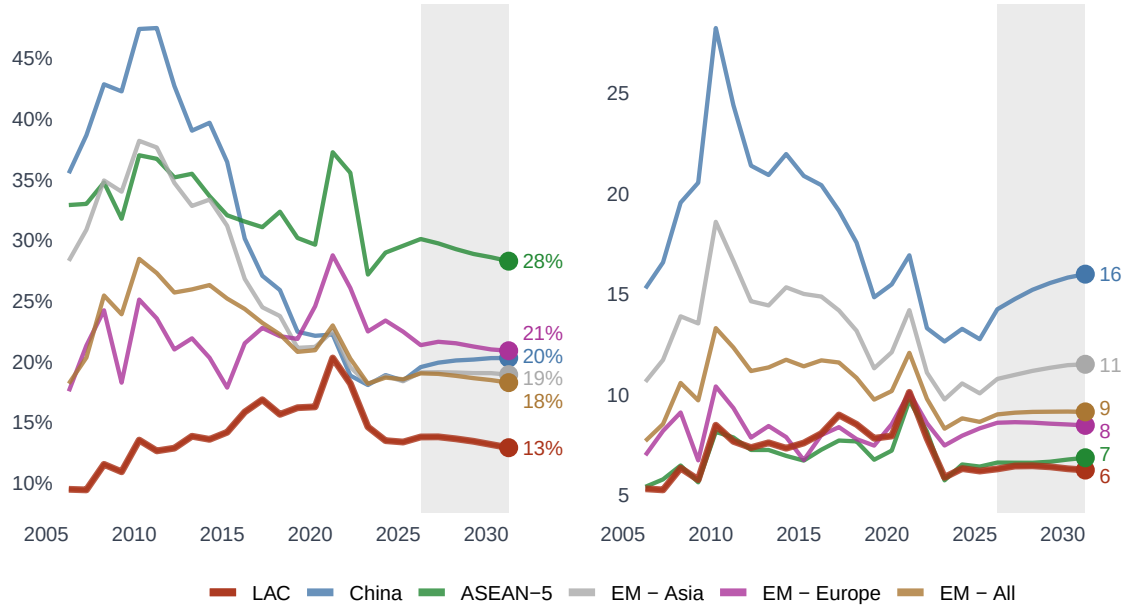
4.3 The Reserve Buffer in LAC: Adequate, But Not Rebuilt

Most countries in Latin America and the Caribbean maintain international reserves that offer a basic level of protection against sudden stops or commodity shocks. However, reserve adequacy remains uneven. While commodity exporters benefited from earlier windfalls and preserved larger buffers, several commodity importers have drawn down reserves to manage external pressures. This divergence highlights where vulnerabilities are concentrated.

As of 2025, international reserves in LAC stand at around 13% of GDP, compared to ratios above 25–30% in emerging Asia and China (IMF, World Economic Outlook, October 2025). In months of import coverage, the region averages just under six months—about half the levels observed in Asia and below pre-pandemic norms (Figure 17). The decline in LAC's reserves reflects the combined effects of exchange rate interventions amid tighter global financial conditions, lower commodity revenues for non-oil exporters, and higher external debt service burdens. Countries with limited fiscal space and persistent current account pressures have often used reserves to manage exchange rate volatility, eroding liquidity buffers in the process.

Looking ahead, only modest increases in reserve coverage are expected through 2030. In the absence of stronger capital inflows or improved access to external financing, the gap with peer regions is likely to persist. While reserve levels remain adequate by standard metrics, their role as a buffer will increasingly depend on the policy environment, fiscal anchors, and the availability of external financing.

Figure 17: Reserves as share of GDP (left) and reserves in months of imports (right).



Source: IMF *World Economic Outlook*. Shaded gray regions (2025–2030) denote forecast values.

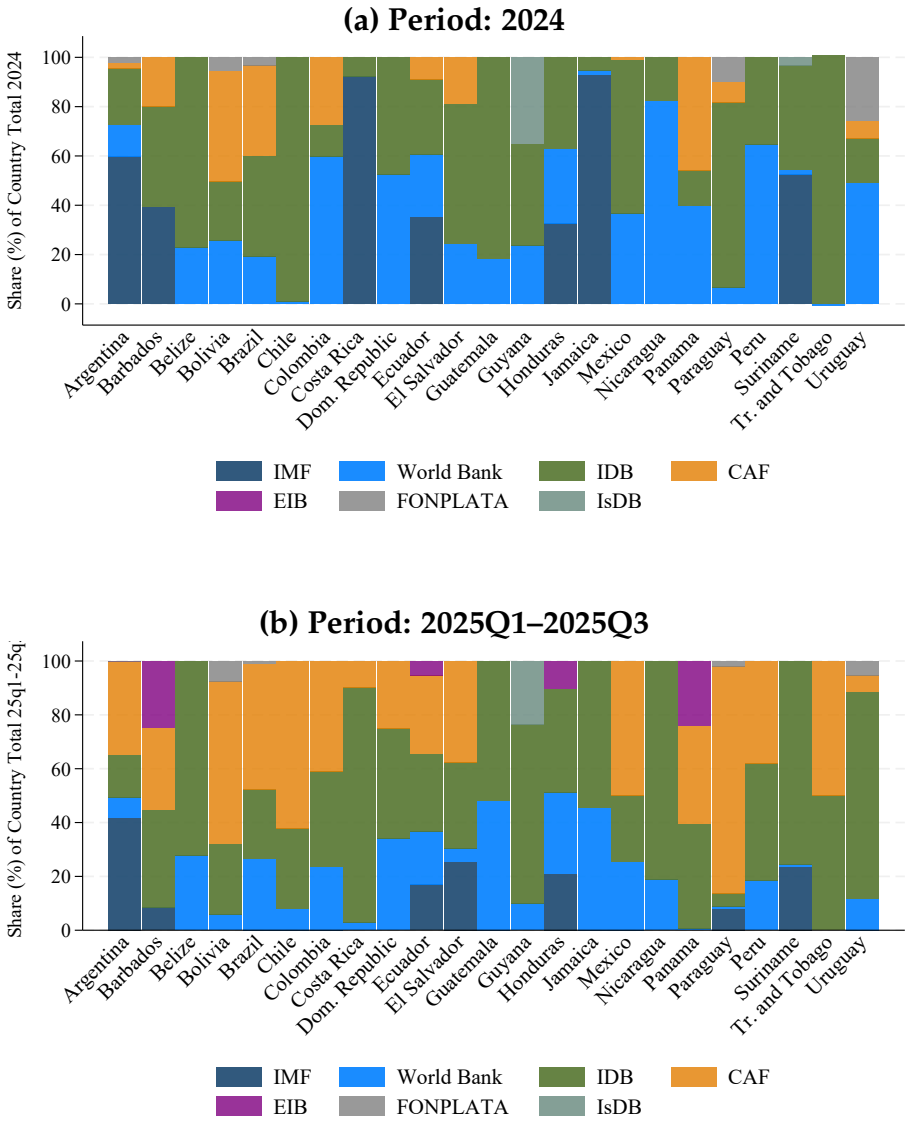
4.4 Multilaterals as a Stable Anchor in a Tighter Environment

Amid tighter global financial conditions, multilateral institutions have taken on a leading role in financing Latin America's external needs. With private issuance subdued and sovereign spreads remaining elevated, disbursements from the IDB, World Bank, CAF, and IMF have increasingly filled the space left by constrained market access.

The nature of this support varies across the region. In countries such as Argentina and Ecuador, multilateral flows have been central to maintaining macroeconomic stability and anchoring reform programs. Elsewhere, including in Peru and Chile, access to precautionary credit lines and programmatic lending has helped preserve market confidence. In Central America and the Caribbean, where domestic capital markets are limited and external debt burdens are high, official financing continues to play a critical role—both for current-account support and for responding to climate-related and external shocks.

The growing weight of official flows in the region's external financing architecture raises broader questions. Long-term sustainability, the structure and implementation of conditionality frameworks, and the alignment between multilateral lending and domestic fiscal strategies have all become more salient as the role of multilaterals expands.

Figure 18: Distribution of Multilateral Disbursements by Institution (% of Country Total)



Notes: Each panel shows the composition of total external disbursements received by each country in Latin America and the Caribbean, disaggregated by multilateral institution. Values are expressed as a share of each country's total multilateral financing in the corresponding period. Institutions include the IMF, World Bank, Inter-American Development Bank (IDB), CAF, and others. *Source*: IDB staff calculations based on official disbursement data.

References

AIZENMAN, J., Y.-W. CHEUNG, AND H. ITO (2024): "Precautionary Reserves, Volatility, and External Shocks: Revisiting the Buffer Role of Reserves in Emerging Markets," *Journal of International Economics*, forthcoming.