Macro Report 2026
Inter-American Development Bank

Chapter 5: External Accounts

Vanessa Alviarez Leticia Juarez

October, 2025

1 Introduction

After a temporary improvement in 2024, Latin America and the Caribbean's external position weakened again in 2025. While regional currencies appreciated alongside the decline of the U.S. dollar, the gains were uneven and short-lived. A rebound in imports, continued fiscal pressures, and tighter global financing conditions pushed current account deficits back up, undoing much of the recent adjustment. At the same time, global uncertainty — driven by interest rates, commodity prices, and shifts in trade policy—affected both the volume and composition of external flows, revealing structural differences across countries. For a region where external balances support inflation control, reserves, and fiscal space, these pressures deserve renewed attention.

Beyond the near-term swings, deeper shifts in external dynamics are taking shape. Multinationals are reorganizing their production and investment patterns, especially in sectors linked to digital services and energy transition. Foreign direct investment remains concentrated, but the geography and sectoral composition of new flows signal strategic repositioning. At the same time, the role of multilaterals as a stable source of external financing has grown, especially for countries with limited market access. These evolving patterns of trade, investment, and financial flows are not only cyclical; they speak to broader questions about competitiveness, resilience, and the external constraints shaping growth in Latin America and the Caribbean.

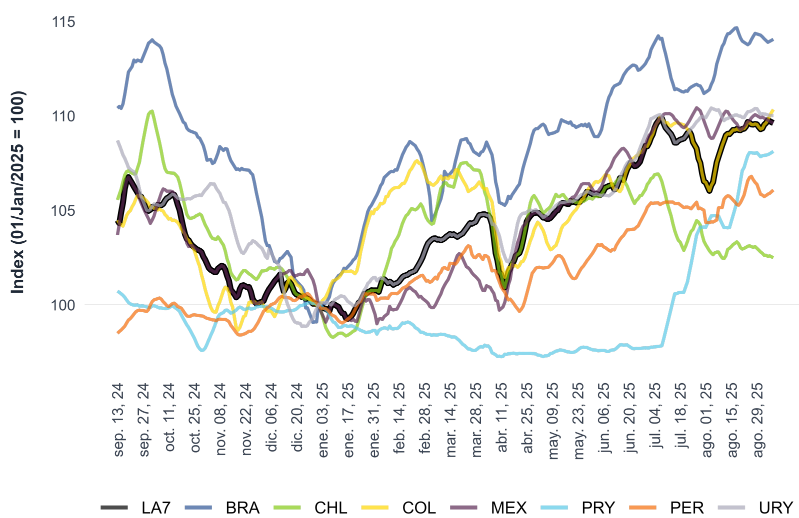
2 Exchange Rate Volatility

In 2025, LAC currencies reacted sharply to global uncertainty shocks, including shifts in U.S. interest rate expectations, geopolitical tensions, and trade disputes. This section will analyze the drivers, volatility across countries, and the implications for inflation and monetary policy.

changes in U.S. monetary policy expectations, geopolitical tensions, and commodity price fluctuations drove subsectionGlobal Drivers Currency swings. Episodes of capital outflows triggered short-term adjustments, particularly in countries with higher external financing needs.

In 2025, Latin American currencies have generally appreciated against the U.S. dollar, supported in part by the dollar's cyclical weakness. Since the start of the year, the dollar has lost roughly 9% of its value, while regional currencies gained about 6% on average. This marks one of the most synchronized episodes of appreciation in recent years, in contrast to the more fragmented dynamics observed in 2023–24.

Figure 1: Bilateral exchange rates against the US dollar.



Sources: European Central Bank and IDB staff calculations. Notes: Series are weekly moving averages. An increase denotes an appreciation. LA7 = median (BRA, CHL, COL, MEX, PRY, PER, URY). Data as of September 7, 2025.

The Brazilian real has been the standout performer, appreciating by about 11% year-to-date. Its strength reflects favorable terms of trade, particularly in agriculture and mining, combined with a still-attractive interest rate differential that has maintained foreign portfolio inflows. The Mexican peso follows closely, gaining 9.2%. In Mexico's case, both resilient remittances and the nearshoring narrative have helped sustain confidence in the currency, even as growth forecasts have been revised downward.

Elsewhere in the region, appreciation has been more moderate. The Chilean peso has strengthened by 5.7%, initially supported by favorable copper prices and a gradual unwinding of restrictive monetary policy, though structural fiscal constraints limit further gains. The Colombian peso, up 4.8%, has benefited from a temporary boost in commodity exports and an improved perception of political risk, but investment and export growth remain weak. The Peruvian sol has appreciated by 2.9%, reflecting the broader regional trend rather than strong domestic fundamentals.

Overall, while regional currencies have appreciated in tandem with the dollar's decline, their performance also highlights heterogeneity. The largest economies, Brazil and Mexico, captured most of the upside driven by specific domestic factors. In contrast, the Andean countries experienced smaller gains, constrained by weaker growth outlooks and fiscal pressures. This suggests that the current episode of appreciation should be seen less as a sign of robust local fundamentals and more as a combination of cyclical global forces and selective country-specific advantages

According to J.P. Morgan, Latin American currencies are expected to weaken in the second half of the year as interest rate differentials narrow.

2.1 Regional Differentiation

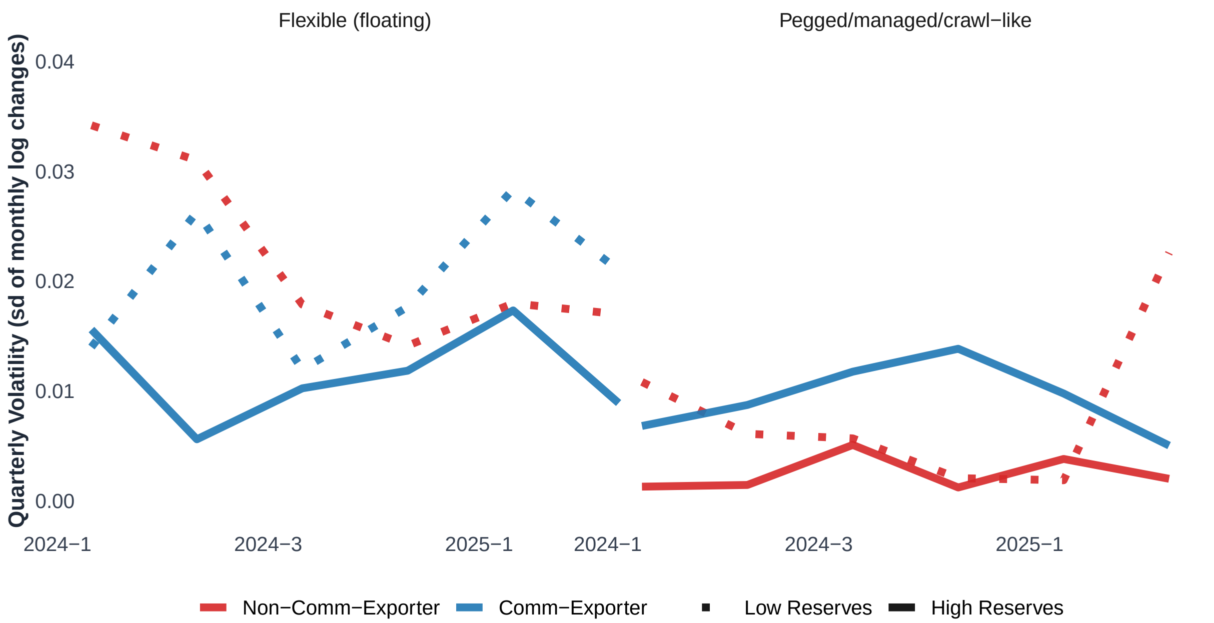
Volatility was not uniform: commodity exporters with more substantial reserve buffers experienced more minor changes, while importers and fiscally weaker economies faced larger swings. This divergence reflects both external shocks and domestic fundamentals.

Exchange rate volatility in Latin America continues to show strong regional heterogeneity, reflecting differences in countries' exposure to external shocks, dependence on commodity exports, and the strength of macroeconomic buffers such as fiscal credibility, institutional quality, and international reserves. The region's resilience in past episodes — including the global financial crisis — has been underpinned by more flexible exchange rate regimes and the accumulation of precautionary reserves, which deter speculative pressures and allow for countercyclical policy responses (De Gregorio, 2013; Magud and Sosa, 2014).

Figure 2 illustrates that since 2024, volatility has remained higher for countries with lower reserves, particularly among commodity exporters. Economies combining high reserves with strong policy frameworks have seen more contained fluctuations, even amid tightening global financial conditions. Figure 3 reinforces this pattern: countries with higher reserve levels—such as Peru, Uruguay, and Jamaica—display markedly lower exchange rate volatility, whereas economies with limited buffers, including Mexico and the Dominican Republic, remain more exposed.

These patterns confirm the stabilizing role of international reserves as both a liquidity cushion and a credible policy signal. Countries entering periods of uncertainty with stronger reserve positions experience smaller depreciations and lower sovereign spreads.In Latin America international reserves significantly dampen exchange rate volatility—particularly (Aizenman et al. (2024)) in commodity-dependent economies where terms-of-trade shocks are more pronounced.

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



Sources: IMF AREAER and authors' calculations using IMF data. **Notes:** Volatility is the within–quarter standard deviation of monthly *log* changes in the bilateral real exchange rate vis-à-vis the U.S. dollar. Flexible (floating): Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. Pegged, managed, or crawl-like: Dominican Republic, Guatemala, Honduras, and Jamaica

3 Balance of Payments

High uncertainty in global markets has been the main external challenge for Latin America and the Caribbean in 2024–25. Commodity prices surged after the pandemic and the war in Ukraine, then corrected downward, leaving balances highly exposed to price swings. At the same time, tariff schedules in key markets shifted unpredictably, and investment flows remained uneven. For a region where external accounts drive fiscal space, inflation dynamics, and reserves, these shocks matter directly. The chapter assesses how much of the region's trade and financial performance reflects commodity windfalls and higher import bills versus more durable shifts in market access and investment.

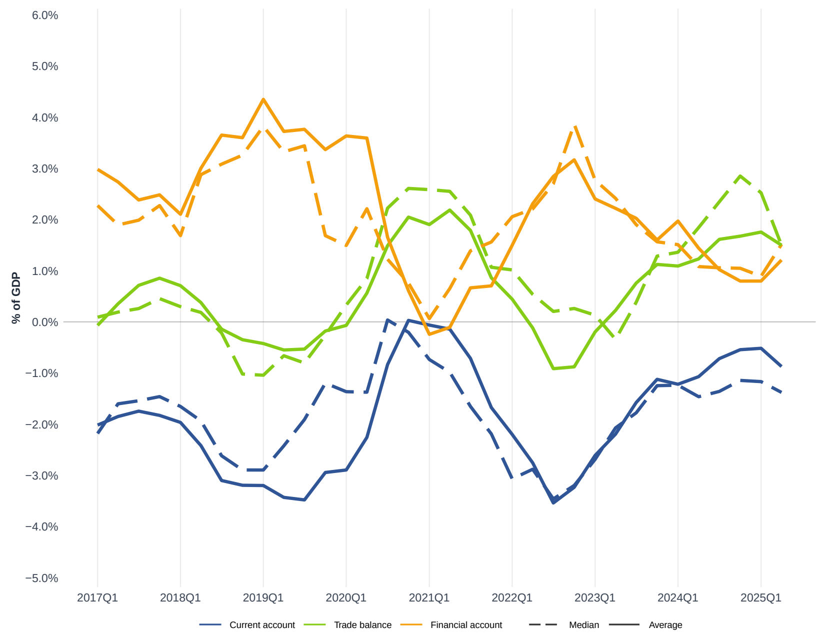
In 2024, Latin America recorded a temporary improvement in external accounts. Current account deficits narrowed sharply, supported by weaker import demand, exchange rate depreciation, and monetary easing that began earlier than in advanced economies. By the third quarter of the year, the median deficit had fallen to just 1.1% of GDP, while financial inflows moderated, suggesting a relatively smooth adjustment. The narrowing of current account deficits during 2023–24 was one of the sharpest improvements in recent years. The regional median fell from around 3% of GDP in 2022 to just 1.1% by late 2024, as imports weakened and financial inflows slowed. At the time, the adjustment suggested external vulnerabilities were easing.

This picture shifted in 2025. **Current account balances have widened again, as imports recovered and fiscal pressures persisted. Import demand picked up as domestic consumption and investment rebounded, while weaker growth projections failed to offset stronger import volumes. With global interest rates still elevated, the region's financing needs are now higher, leaving countries more exposed to sudden changes in global sentiment. The chart shows this reversal clearly: after narrowing in 2023–24, both current and financial account balances have moved upward, eroding earlier gains.**

Mexico's forecast, for example, was revised from 1.3% growth to –0.5% for 2025, while Colombia and the Dominican Republic also saw significant downward revisions. **Even with slower growth, external balances deteriorated, showing how fragile the earlier adjustment had been.**

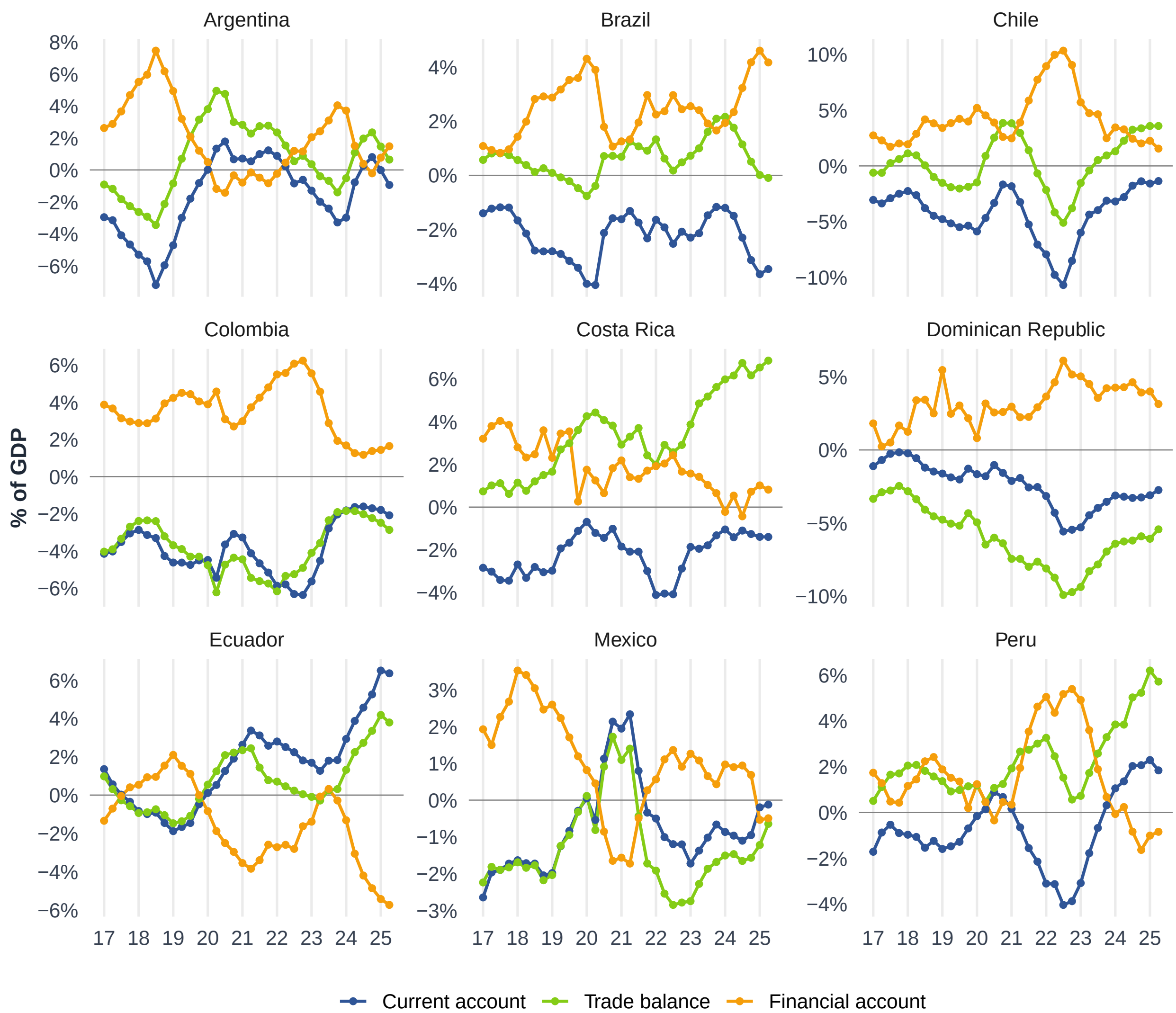
The result is greater uncertainty. Higher global rates keep debt service costs elevated, and external positions are once again vulnerable to market swings. Without the temporary compression of imports that characterized 2023–24, current account deficits have returned, leaving countries more exposed to shifts in global conditions and trade frictions.

Figure 3: External accounts: averages and medians.



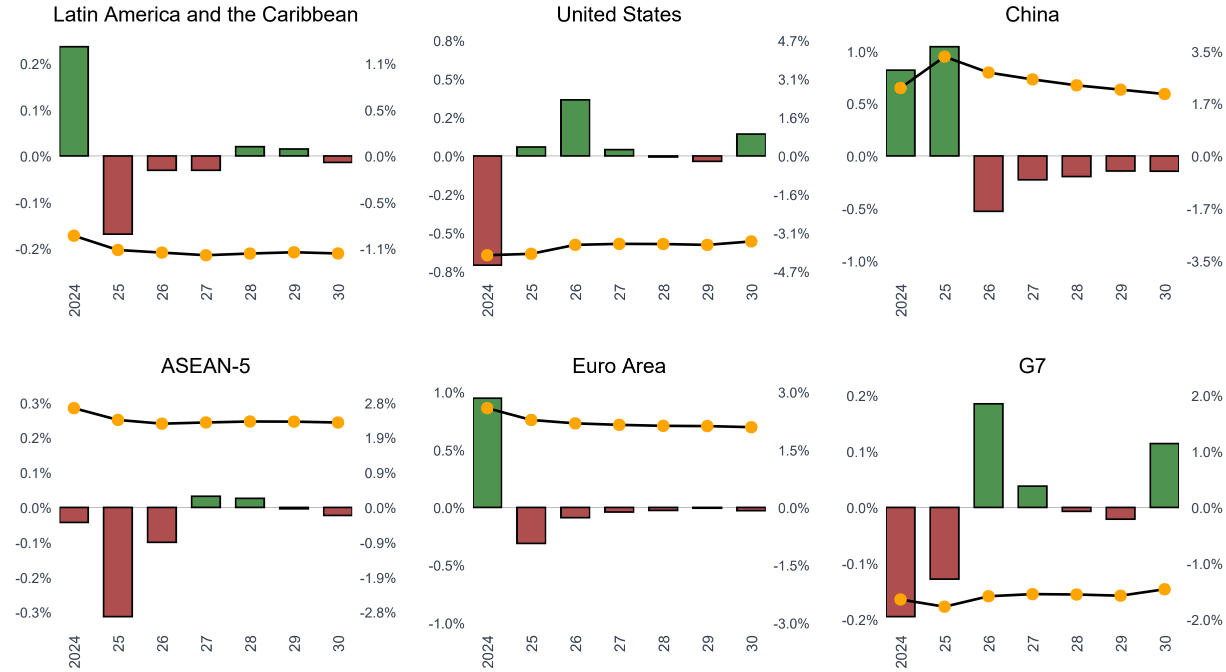
Sources: IMF and national sources. Series are four-quarter moving averages. Countries considered: Argentina, Belize, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Paraguay, Suriname, and Uruguay. To be updated with new country data.

Figure 4: External accounts in selected LAC countries.



Sources: IMF and national sources. Series are four-quarter moving averages.

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



Left axis (bars): Annual variation.

Right axis (line): Current account balance as share of GDP.

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

3.1 Current Account and Trade Vanessa

Recent changes in trade balances can be decomposed into price and volume effects, and within prices, into commodities versus non-commodities. This makes it possible to see whether a widening deficit reflects higher oil import costs, increased intermediate input imports, or falling export volumes, and whether an improvement is largely a commodity windfall. Global uncertainty has widened the dispersion across countries: commodity importers have faced larger deficits, while energy and mineral exporters have experienced some relief, but this is coming to an end as prices stabilize. What appears as resilience in some cases often masks heavy dependence on volatile prices, while in others the deterioration reflects structural exposure to imported energy and inputs.

3.2 Tariff Changes, Market Access, and Policy Volatility Vanessa

External policy shocks added another layer of uncertainty. Statutory tariffs are only part of the story; what matters are effective tariffs, which depend on whether exporters meet specific conditions. In Mexico, for example, carve-outs under Section 232 make access contingent on production rules. These conditional regimes generate volatility in themselves. Uncertainty can also be seen in the gap between policy announcements and their actual implementation — including delays, reversals, and shifting exemptions. A dedicated box on Mexico will illustrate how these dynamics alter competitiveness and shape investment decisions.

3.3 Foreign Direct Investment

FDI inflows remain subdued, with a high share of reinvested earnings and fewer new greenfield projects. This weakens the region's ability to translate trade opportunities into sustained capacity. Comparing announced projects with realized flows highlights how much of the "nearshoring" narrative has actually materialized. The gap between pledges and outcomes mirrors the uncertainty observed in trade policy, reinforcing the message that external buffers are thinner than they appear.

Projections from mid-to-late 2025 suggest a mixed outlook for foreign direct investment in Latin America. **Total inflows are expected to remain flat or even decrease relative to 2024. Some countries and sectors are projected to receive higher investment, but overall performance is constrained by global uncertainty and regional structural challenges.**

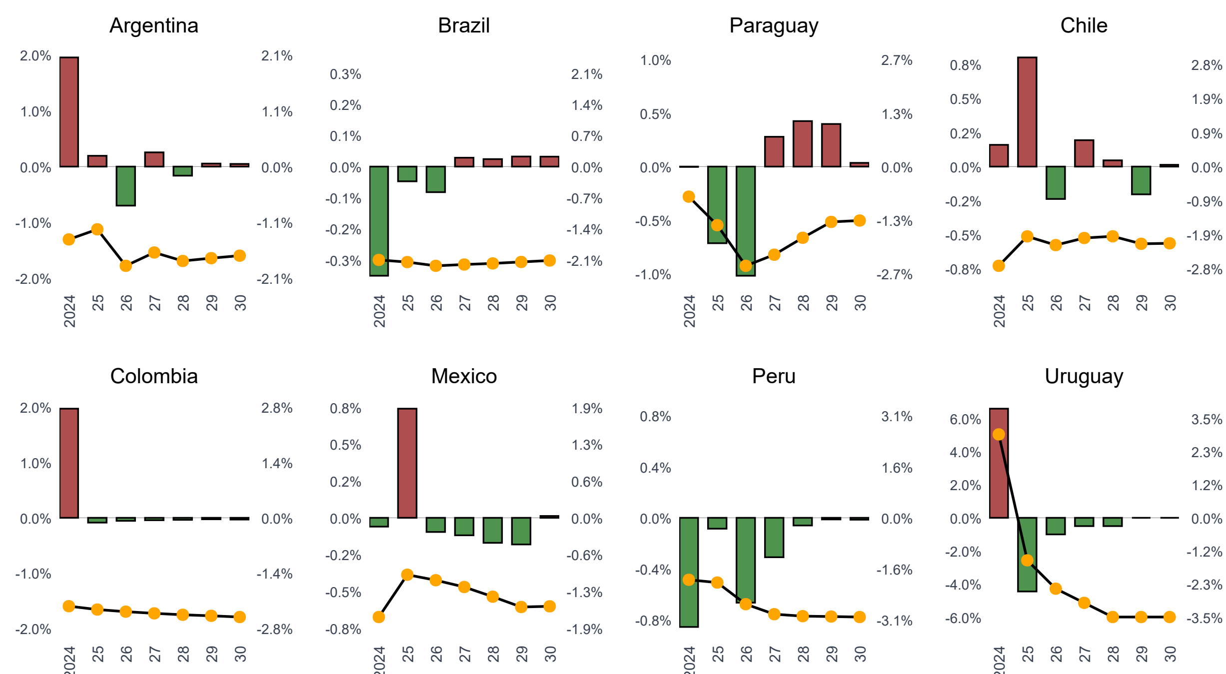
The 2025 forecast shows stagnant inflows. According to ECLAC, FDI in 2024 increased by 7.1 percent over 2023, reaching 188.962 billion dollars. However, this increase was mainly driven by reinvested earnings from existing multinational firms, while new foreign capital contributions remained stagnant. Projections for 2025 indicate that this weakness will persist. McKinsey reports that FDI announcements in Latin America through May 2025 were 50 percent lower than the average observed between 2022 and 2024. Although nearshoring remains a key driver, the slowdown in major economies such as Mexico and cautious investor sentiment have reduced overall momentum.

At the sectoral level, three main forces are shaping investment. The first is nearshoring, as companies continue to move parts of their supply chains closer to the United States, especially in Mexico and Central America. However, the uncertainty surrounding U.S. tariffs has limited the strength of this trend. The second is the energy transition, which continues to attract investment in renewable energy, green hydrogen, and critical minerals, particularly in Chile and Peru. The third is digital transformation, which fuels growing investment in fintech, e-commerce, and software services across the region.

Country dynamics remain uneven. In Mexico, FDI inflows are expected to slow in 2025. Nearshoring continues to support long-term prospects, but uncertainty over U.S. trade policy and weaker Chinese investment have generated a temporary slowdown. Brazil faces headwinds from fiscal pressures and high interest rates, which have weighed on investor confidence. Argentina, after a difficult 2024, has regained some investor interest under the Milei administration, as the IMF-backed stabilization program improved its outlook for 2025. In Peru and Chile, higher copper prices and strong investment in natural resources have sustained foreign capital inflows.

The regional environment still presents major challenges for future FDI. Growth across Latin America and the Caribbean remains slow, with GDP expansion expected to hover around 2.2 to 2.5 percent in 2025, which limits the region's attractiveness to investors. The broader global environment also poses risks: the deceleration of the world economy, ongoing geopolitical tensions, and uncertainty surrounding U.S. trade and monetary policy are all dampening investment sentiment. Finally, structural problems such as weak institutions, political instability, and security concerns continue to undermine the region's ability to attract new, long-term foreign capital.

Figure 6: Latin America: 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.

Foreign direct investment in Latin America during 2025 and 2026 is expected to be highly concentrated, both geographically and by sector. A small number of large economies will continue to attract most inflows, while capital will increasingly target strategic, high-growth industries that align with global economic transitions.

At the country level, the distribution of FDI remains uneven. Brazil continues to dominate, accounting for roughly 41 percent of regional inflows as of 2023. Its large domestic market, diversified industrial base, and expanding renewable energy and technology sectors make it a consistent magnet for investment. Mexico is the second-largest destination, capturing around 17 percent of the total. Its proximity to the United States, strong trade integration through USMCA, and established manufacturing capacity position it as the region's main nearshoring hub. Chile, Colombia, Argentina, and Peru also attract significant volumes of FDI, and together with Mexico and Brazil, these six economies have represented more than 80 percent of all project announcements between 2005 and 2024. Guyana stands out as an exception: it is projected by the World Bank to post the highest economic growth rate in Latin America for 2025 and 2026, driven by rapid expansion in its oil sector.

Sectoral patterns indicate that investment is increasingly focused on future-oriented industries. Technology and digital transformation remain the fastest-growing area for FDI, encompassing fintech, e-commerce, software development, data infrastructure, and communications systems required for artificial intelligence. Mexico and Brazil are leading destinations for this type of investment. Renewable energy and critical minerals represent another major source of capital inflows, reflecting the region's comparative advantage in solar, wind, hydroelectric, and green hydrogen projects, as well as its rich reserves of copper, lithium, cobalt, and nickel. Agribusiness continues to attract investment, with emphasis on sustainability, productivity, and the integration of agricultural technology.

Manufacturing related to nearshoring also plays a crucial role in attracting new investment. As global firms diversify production away from Asia, industries such as automotive, electronics, and textiles are shifting toward Mexico and, to a lesser extent, Central America and northern South America, in order to serve North American markets more efficiently. Infrastructure investment remains a complementary area of growth, particularly in transportation, logistics, and energy transmission networks. Projects in Brazil, Chile, Colombia, and Peru continue to draw foreign participation as countries seek to modernize their physical and energy infrastructure to support long-term productivity.

Figure 7: U.S. Outward Direct Investment (current US$), LATAM

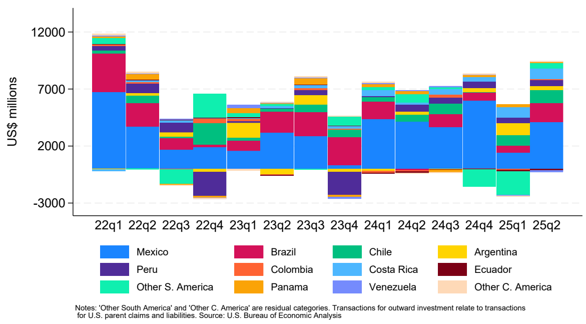
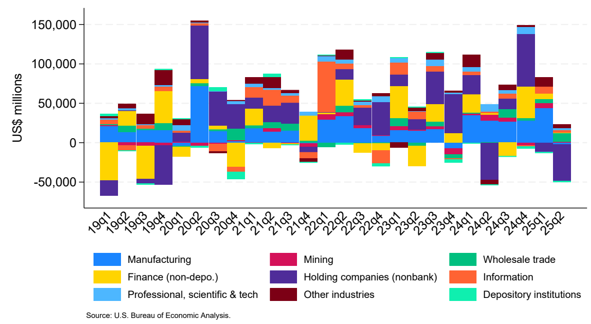


Figure 8: U.S. Outward Direct Investment to World (current US$)



Source: BEA Table 6.2 — By Country or Industry (quarterly), ITA. *U.S. International Financial Transactions for Direct Investment by Country and Industry.*

4 External financing in a high-rate environment

Persistently high interest rates in advanced economies have reshaped financing conditions for Latin America and the Caribbean, amplifying uncertainty around access, costs, and the durability of external buffers. This section examines how restricted market access, remittances, multilateral flows, and reserves interact under conditions of heightened global volatility.

4.1 Restricted access

Higher global rates have raised the cost of sovereign debt and limited market access, especially for frontier and lower-rated borrowers. Issuance has become more sporadic, maturities shorter, and spreads remain wider than pre-pandemic levels. The implication is that many countries face tighter external financing constraints just as fiscal space is narrowing.

Many Latin American economies, net interest payments as a share of exports are trending upward in 2025.

After the post-pandemic normalization, **export growth in Latin America slowed unevenly**. South America's commodity exporters (Chile, Peru, Brazil) saw a mild recovery in volumes but weaker prices, especially for metals and energy. Mexico and Central America, more tied to the U.S. cycle, maintained higher export levels, but remittances and nearshoring flows masked softer manufacturing momentum. Caribbean and smaller economies faced persistent current account deficits as tourism plateaued.

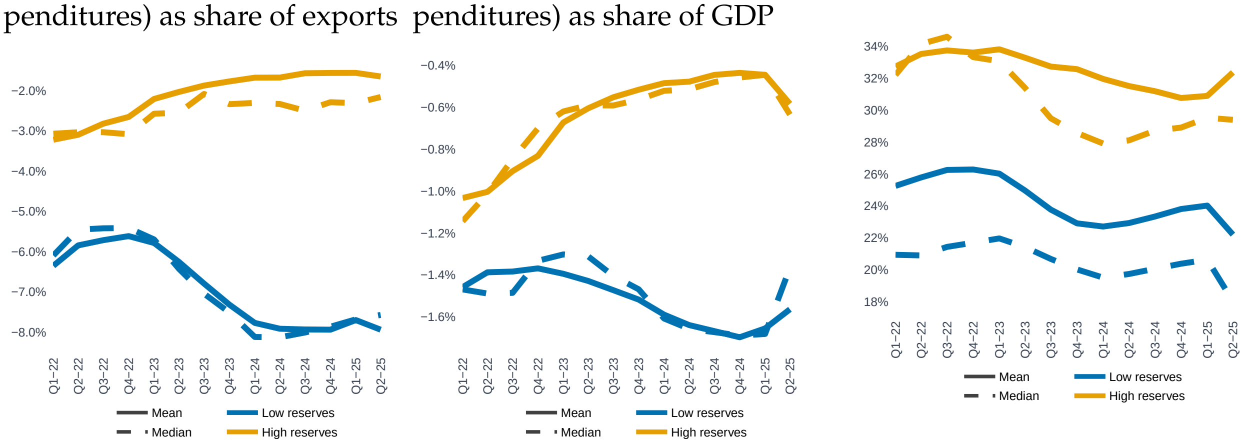
Meanwhile, interest payments rose. Higher global rates (Fed policy staying above 5%) and a strong dollar raised the cost of rolling over debt. Several sovereigns issued debt at shorter maturities and higher spreads, increasing annual interest outlays. For example, Brazil's domestic debt issuance costs have already reached multi-year highs (in part due to tighter financial conditions). That suggests rising interest burdens domestically which may spill over to sovereign interest exposures linked to external debt servicing. Also, local currency depreciation in some cases (e.g., Argentina, Colombia early 2025) made external debt servicing more expensive in domestic terms.

Therefore, even if overall debt stocks didn't spike, the ratio of net interest payments to exports deteriorated — not because countries borrowed massively more, but because exports diverged while servicing costs rose. In aggregate terms, for Latin America and the Caribbean (LAC), the ratio is estimated to have increased from roughly 6.5% of exports in 2023 to about 8–9% in 2025, driven by weaker trade growth and tighter global conditions. For frontier economies (like the Dominican Republic, Paraguay, and smaller Central American states), it's in double digits.

Exports correspond to *exports of goods*. All series are computed as four-quarter rolling sums (right-aligned) and then expressed as percentages (e.g., net interest payments divided by exports or by GDP $\times 100$).

Figure 9: Net interest payments and exports in Latin America

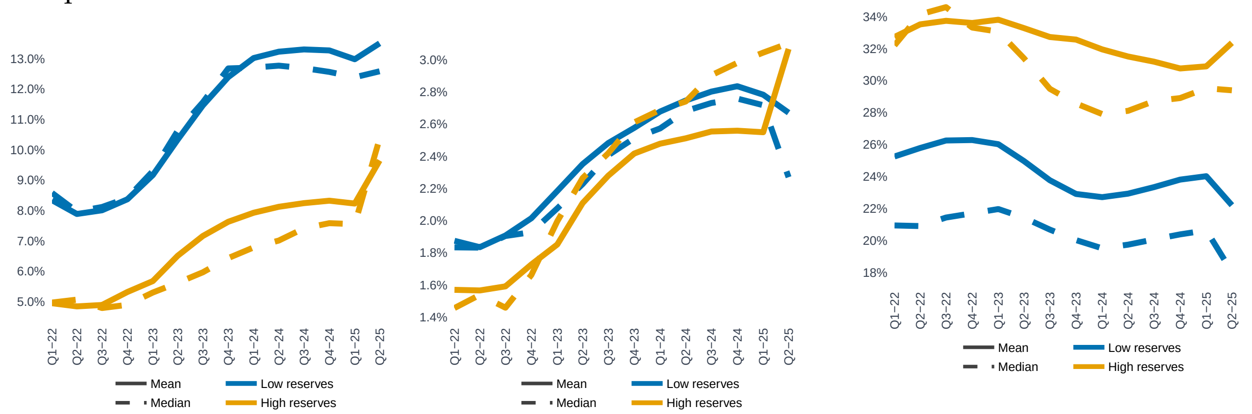
((a)) Net interest (revenues - expenditures) as share of exports ((b)) Net interest (revenues - expenditures) as share of GDP ((c)) Exports as share of GDP



Notes: Each panel shows group *means* (solid) and *medians* (dashed) for Low and High reserves countries by quarter. High/Low Reserves: above/below sample median of reserves (20% of GDP). High reserves: Uruguay, Paraguay, Jamaica, Peru, Honduras, Nicaragua, Guatemala. Low reserves: Brazil, Argentina, Mexico, Colombia, Chile, Dominican Republic.

Figure 10: Gross interest payments and exports in Latin America

((a)) Interest payments as share of exports ((b)) Interest payments as share of GDP ((c)) Exports as share of GDP

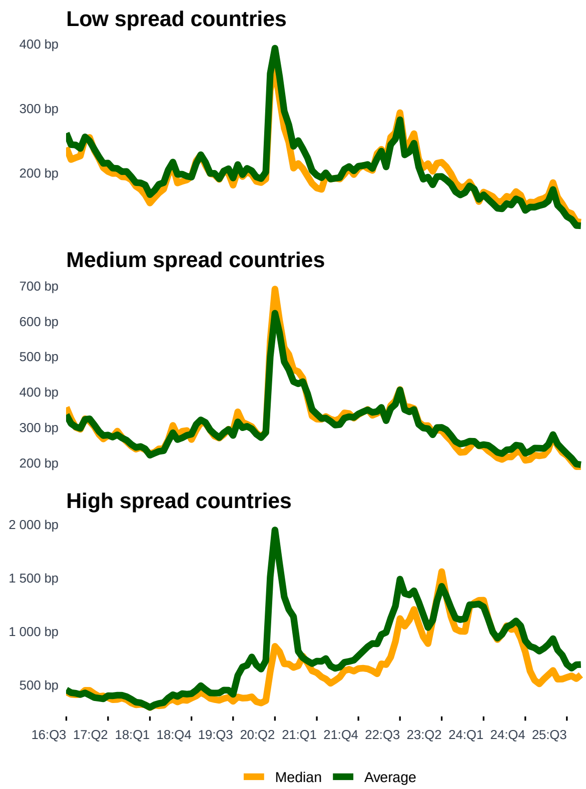


Notes: Each panel shows group *means* (solid) and *medians* (dashed) for Low and High reserves countries by quarter. High/Low Reserves: above/below sample median of reserves (20% of GDP). High reserves: Uruguay, Paraguay, Jamaica, Peru, Honduras, Nicaragua, Guatemala. Low reserves: Brazil, Argentina, Mexico, Colombia, Chile, Dominican Republic.

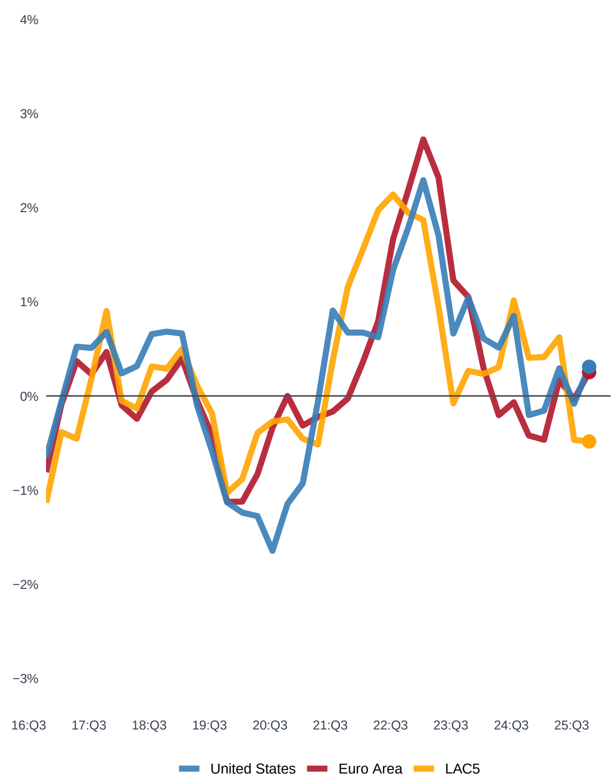
Latin American sovereigns will likely face more sporadic issuance and shorter maturities as a response to these stresses, increasing rollover or refinancing risks.

Figure 11: 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.

4.2 Remittances as a buffer

Remittance flows continue to support external income and domestic consumption, providing a counterweight to weaker capital inflows. However, their resilience is not guaranteed: potential shifts in migration patterns, labor market conditions, or tax and regulatory policies in the U.S. and Europe could slow growth in these flows. The section will emphasize both their stabilizing role and their vulnerability.

This section:

- **Some countries rely heavily on remittances, which account for a large share of their GDP.**
- **The growth of remittances accelerated in the first half of 2025—consistent with precautionary transfers—rather than reflecting labor market conditions in the United States. In fact, U.S. Hispanic unemployment rose, which should have reduced remittance growth.**
- **Remittances are projected to decline going forward amid tighter U.S. migration policies.**
- **Remittances to Mexico fell sharply in April 2025—by about 12.1 % year-on-year, the steepest drop since 2012. Much of this to increased immigration enforcement in the U.S., which has raised fear among undocumented Mexican workers and reduced their willingness or ability to send money home.In contrast, Central American migrants appear to have responded differently: in countries such as El Salvador, Honduras and Guatemala remittances rose by double-digit rates in early 2025.**
- **In fact, Mexico receives remittances that, in value, exceed the combined inflows of all Central American countries that are highly dependent on them. However, this pattern is changing: in the past year, most Central American countries have seen a sharp increase in remittances as a share of GDP, while Mexico's ratio has remained broadly stable.**
- **Country-specific dynamics**

In El Salvador and Nicaragua, the recent rise in remittances primarily reflected larger per-transfer amounts rather than a higher number of transactions. The termination of the U.S. parole program for Nicaraguans and the expiration of Temporary Protected Status

(TPS) for Nicaraguan and Honduran nationals could lead to increased repatriations to their countries starting in mid-2025.

In Guatemala, the strong remittance inflows have helped finance current account deficits. However, a reversal in this trend would pose a risk to external balances, particularly in economies where remittances play a stabilizing role.

By contrast, Mexico's more established migrant population shows less urgency to adjust transfers in response to policy shifts.This divergence also reflects deeper structural differences in remittance dynamics. While Mexico receives the largest total remittance volume in the region, these flows represent only about 3–4 percent of its GDP, compared with more than 15–25 percent in several Central American economies (Financial Times). Because Mexican flows are large and structurally stable, policy changes—such as U.S. transfer-tax proposals—tend to have proportionally larger effects on volume (Reuters). Smaller Central American economies, by contrast, remain more sensitive to short-term shifts in migrant behavior, which can boost remittance growth in the near term. Also, labor market and exchange rate developments have reinforced these contrasting trends. Despite higher Hispanic unemployment in the United States—which would typically dampen remittance flows—the decline in transfers to Mexico also reflects fewer transactions and smaller average amounts per transfer (Reuters). Meanwhile, the continued rise in Central American inflows suggests that many migrants are front-loading remittances as a precaution, rather than responding directly to changes in U.S. labor income.

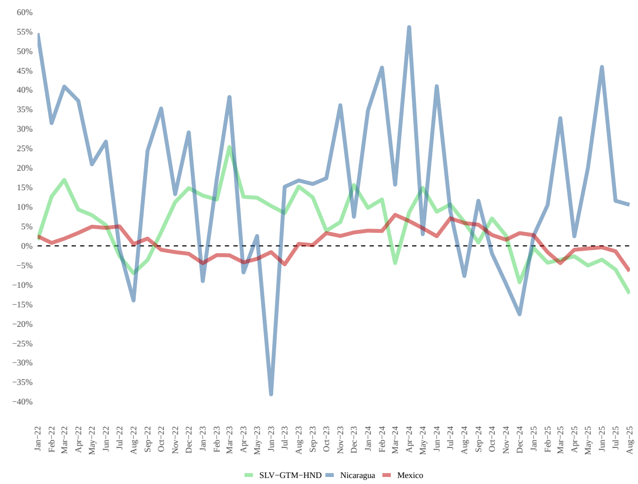
Figure 12: Remittance Dependence and Migration Trends in Latin America

(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

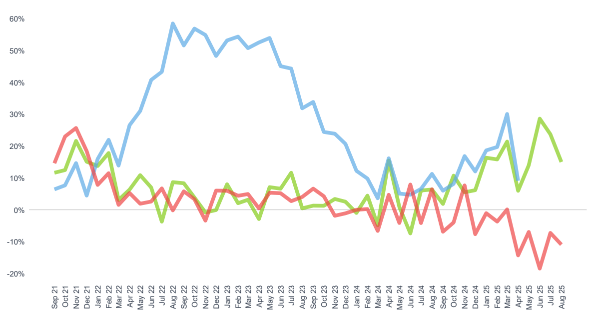
Source: IMF. Values are simple averages of quarterly data for 2024.

(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.

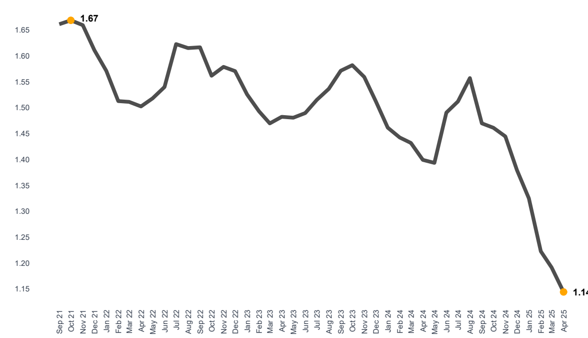
Figure 13: Annual percentage change in real remittances.



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



Sources: National statistical offices and central banks.

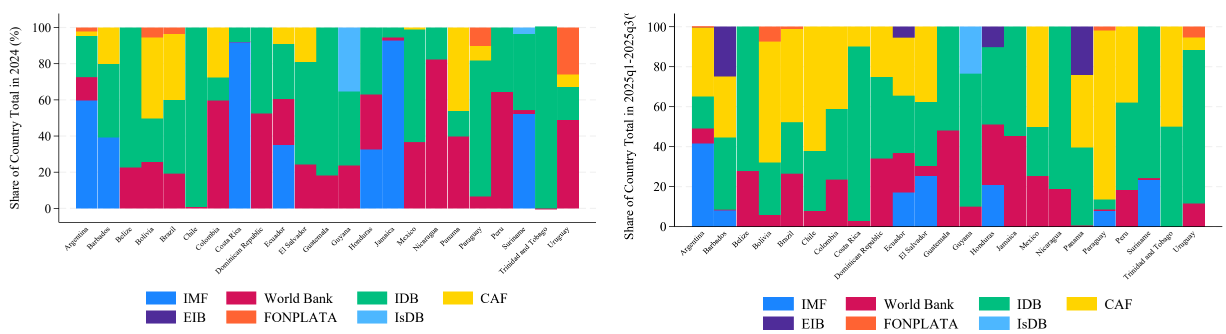
Notes: Series shows the ratio $MEX/(SLV + GTM + HND + NIC)$, smoothed with a quarterly moving average.

4.3 Role of multilaterals

Multilateral institutions have become the main source of stable external financing for Latin America amid tighter global conditions. With private market issuance remaining subdued and sovereign spreads still above pre-pandemic averages, disbursements from the IDB, World Bank, CAF, and IMF have filled a growing share of funding gaps across the region. In countries such as Argentina and Ecuador, official financing has been crucial to sustain macroeconomic stability and anchor reform programs, while Peru and Chile have relied more on precautionary credit lines and programmatic lending to preserve market confidence. Meanwhile, Central American and Caribbean economies, facing smaller domestic markets and high external debt burdens, continue to depend on multilaterals to smooth current-account financing and respond to climate-related shocks. **This growing reliance on official flows brings the need for a renewed discussion on their long-term sustainability, conditionality frameworks, and the coordination of multilateral lending with domestic fiscal consolidation strategies.**

Figure 15: LAC: Disbursements. Composition by Institution (% of Country Total)

((a)) Period: 2024 ((b)) Period: 2025q1-2025q3



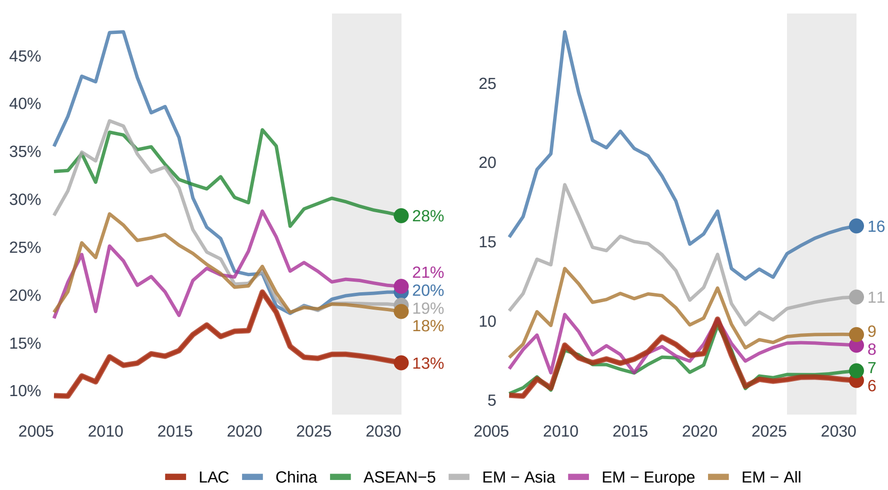
4.4 Reserves as a Cushion

Most countries maintain adequate international reserves, which provide insurance against sudden stops or commodity shocks. Yet the adequacy is uneven: some commodity importers have drawn down reserves to manage external pressures, while exporters benefited from earlier price windfalls. This divergence will be highlighted to show where vulnerabilities are concentrated.

Latin America and the Caribbean (LAC) entered 2025 with relatively low reserve buffers compared to other emerging regions, reflecting past drawdowns and limited capacity to rebuild reserves. After a steady accumulation during the 2000s, reserve levels in the region stabilized around 15% of GDP before declining to about 13% by 2025, according to IMF estimates. This downward trend contrasts sharply with Asian emerging markets, where reserves remain above 25–30% of GDP. 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.

Going forward, uneven reserve adequacy across the region could heighten external vulnerabilities, particularly if global financing conditions tighten again. When expressed in months of imports, LAC's reserves average around six months—roughly half the level observed in Asia and below pre-pandemic norms. While commodity exporters have benefited from previous price windfalls, import-dependent economies, especially in Central America and the Caribbean, have struggled to replenish reserves as current account deficits widen. IMF projections suggest only a modest rebuilding of reserves through 2030, contingent on stable capital inflows and continued access to external financing. Strengthening these buffers will require credible fiscal frameworks and macroprudential coordination to ensure that reserves remain a reliable cushion against external shocks.

Figure 16: 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.