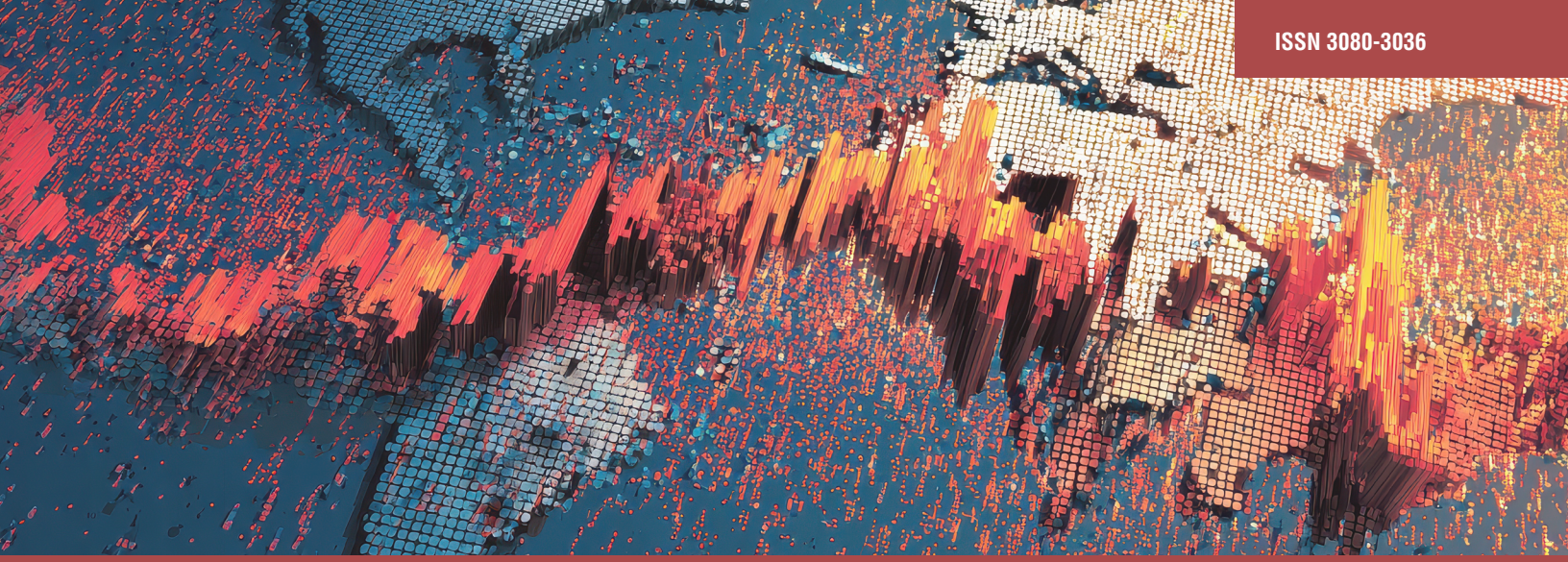


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# Effects of the recent hostilities in and around the Islamic Republic of Iran on Latin America and the Caribbean

## Introduction[1]

The coronavirus disease (COVID-19) pandemic that broke out in 2020 and the conflict between the Russian Federation and Ukraine that erupted in 2022 have demonstrated how the effects of initially localized events can quickly propagate and impact production, supply chains, prices, financial conditions and growth prospects in today's highly interdependent world.

The recent hostilities involving the United States and Israel, on one side, and the Islamic Republic of Iran, on the other, that began on 28 February 2026 provide yet another example of just how interdependent the world economy is and how swiftly disruptions and shocks spread across countries and regions. There are many different channels of transmission: trade, logistics and global value chains, prices and inflation, fiscal accounts, monetary and financial conditions, and global economic growth dynamics. Shocks do not

[1] This report is based on information available up to May 2026.

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flow through these channels at a uniform pace, however. Their impact depends on the international position of each economy, its production structure and its trade and financial links with the rest of the world.

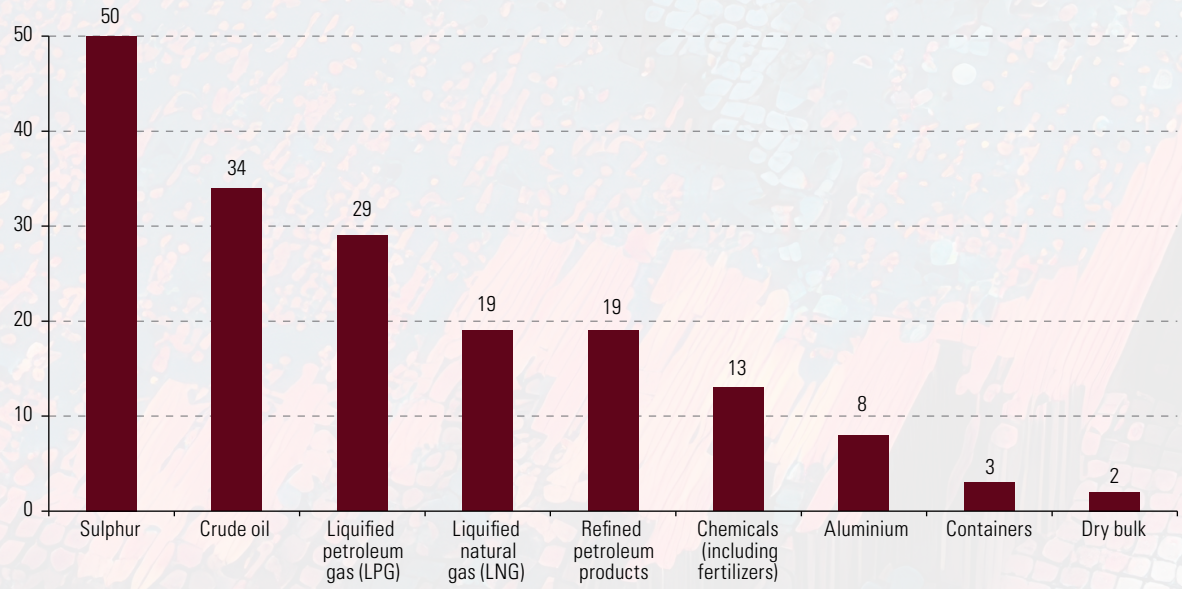
This report starts out by providing an analysis of what impacts the recent hostilities have had at the global level and will then go on to explore their specific implications for Latin America and the Caribbean.

# I. Global impacts

## A. A critical chokepoint for the world economy

The recent hostilities in and around the Islamic Republic of Iran have disrupted shipping in the Strait of Hormuz. This is one of the world's main trade routes, with around 50% of the sulphur that is shipped around the world transiting the Strait, along with 34% of its crude oil, 29% of its liquified petroleum gas (LPG), 19% of its liquified natural gas (LNG), 19% of refined petroleum products and 13% of all chemicals, including fertilizers. In addition, the Gulf States account for nearly 8% of the world's aluminium output (see figure 1).

**Figure 1** Global maritime trade transiting the Strait of Hormuz
*(Percentages based on average volumes recorded the week before 28 February 2026)*

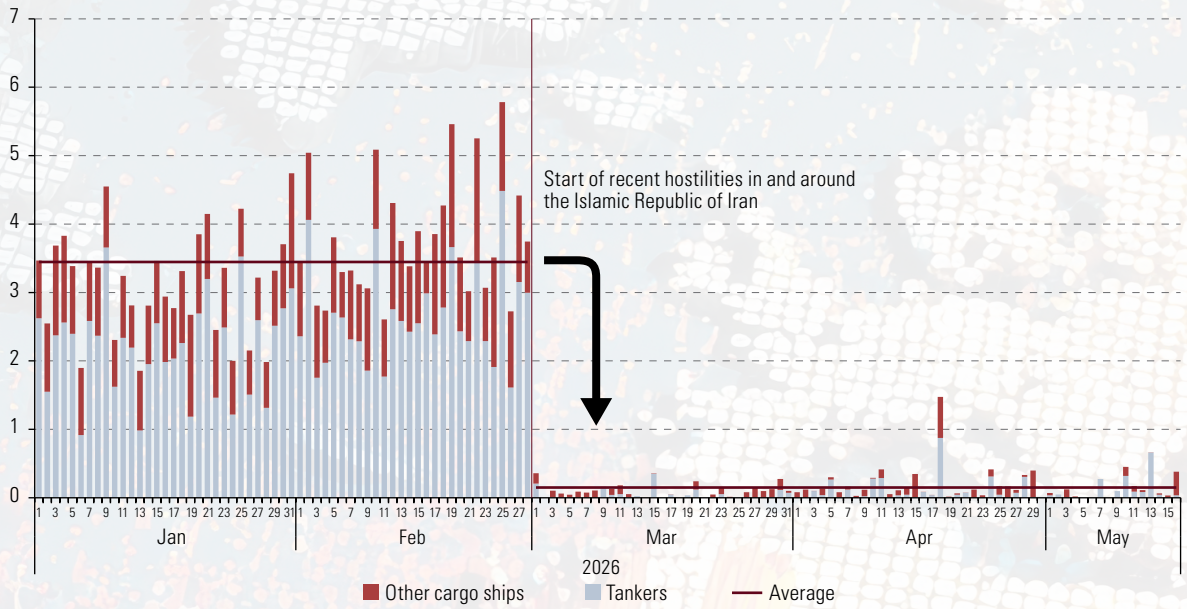



Source: Economic Commission for Latin America and the Caribbean, on the basis of World Bank. (2026). *Commodity Markets Outlook; Financial Times.* (2026, 28 April). The great commodities disruption. https://www.ft.com/content/88cec47c-ea6d-47db-97f8-0431aae7427d?syn-25a6b1a6=1, and Clarksons Research, cited in United Nations Conference on Trade and Development. (2026, 30 March). *From gas to grain: fertilizer disruptions raise risks for food security and trade.* https://unctad.org/news/gas-grain-fertilizer-disruptions-raise-risks-food-security-and-trade, using data from average flows for the week prior to 28 February 2026.

Note: In 2024, approximately 20 million barrels of oil per day (bpd) —about 25% of global maritime trade in petroleum— were transported through the Strait of Hormuz. Some 14 million barrels per day of that total were of crude oil and condensate, while refined petroleum products accounted for the other 6 million bpd. The figure given for aluminium is a percentage of total world supply. Dry bulk includes grains.

At the start of the recent hostilities, maritime transit in the area plummeted and has remained well below pre-conflict levels since then (see figure 2). Because this route plays such a pivotal role in world trade, the disruption of traffic through the Strait of Hormuz has had an impact on numerous supply chains and production sectors.

**Figure 2** Daily shipping traffic through the Strait of Hormuz, 1 January to 16 May 2026
*(Millions of metric tons)*




Source: Prepared by the authors, on the basis of IMO portwatch. https://portwatch.imf.org/pages/cb5856222a5b4105adc6ee7e880a1730.

## B. Disruptions in production, logistics and international trade

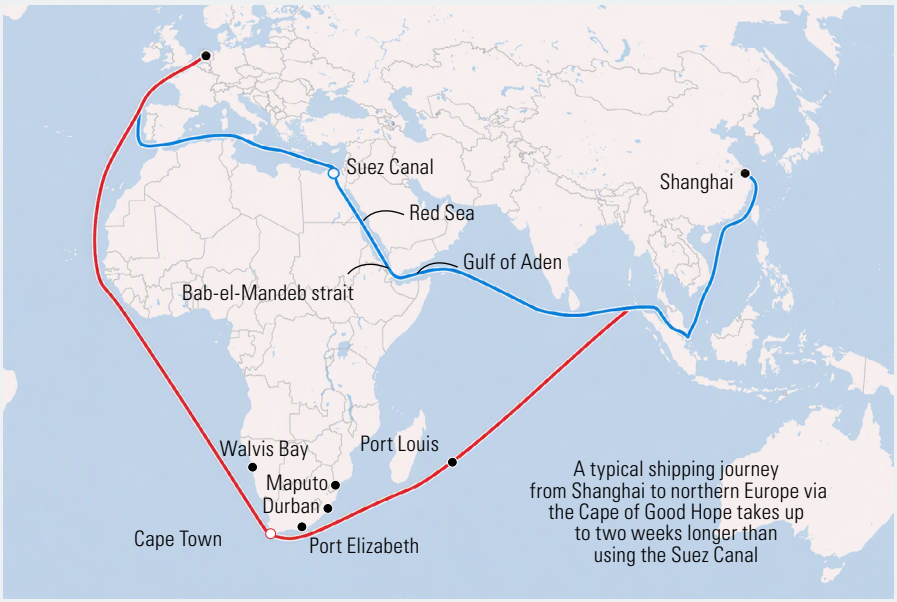
Damage to critical infrastructure in the Persian Gulf countries and the near-total paralysation of shipping in the Strait of Hormuz have precipitated a slump in the production and trade of key goods, especially in energy and related commodity markets. Given the marked geographical concentration in this region of the global supply of these types of products and the limited substitution options in the short term, these events have generated significant international supply constraints. In fact, according to the International Energy Agency (IEA), this is "creating the largest supply disruption in the history of the global oil market" (AIE).[2]

These supply constraints have been coupled with considerable logistical disruptions. With its energy supply from the Persian Gulf cut off, Asia has had to turn to more distant suppliers. In April, the volume of oil carried by long-haul supertankers from the Gulf of Mexico and West Africa to Asia was double what it had been the month before[3] and, increasingly, ships travelling between Asia and Europe have had to be rerouted around the Cape of Good Hope (see map 1) as the disruptions in the Persian Gulf compound the still troubled situation in the Red Sea. This alternative route —whose use by tankers reached an all-time high in mid-April 2026[4]— adds at least two weeks of travel time, which drives up fuel consumption and operating costs considerably.

Along with higher insurance premiums due to the risks associated with the conflict, the above-mentioned factors have pushed up shipping costs. According to Freightos, container freight rates for routes rounding the Cape of Good Hope climbed from approximately US$ 2,500 per forty-foot equivalent unit (FEU) to nearly US$ 3,000 in mid-March before they settled back to around US$ 2,700 per FEU in May.[5]

2 International Energy Agency. (2026). *Oil Market Report*. https://www.iea.org/reports/oil-market-report-march-2026.
3 Ibid.
4 *Financial Times*. (30 April 2026). Iran war diverts more ships from Suez to long route round Africa. https://www.ft.com/content/017d2524-22c6-4dce-8853-66b95cc5e70e?syn-25a6b1a6=1.
5 Ibid.

**Map 1** Rerouting of cargo ships around the Cape of Good Hope




Source: *Financial Times*. (2026, 30 April). Iran war diverts more ships from Suez to long route round Africa. https://www.ft.com/content/017d2524-22c6-4dce-8853-66b95cc5e70e?syn-25a6b1a6=1.

## C. Disruptions in global supply chains

As a result of the supply constraints affecting various critical inputs, along with the shift to alternative shipping routes, which affects the planning of port operations, the availability of containers and delivery times, significant disruptions have occurred in essential global supply chains. In April 2026 the Global Supply Chain Pressure Index (GSCPI) maintained by the Federal Reserve Bank of New York reached its highest level since mid–2022, at the height of the disruption of global supply chains caused by the large-scale invasion of Ukraine by the Russian Federation.[6]

The supply chains that have been the hardest-hit include those that are heavily concentrated in the Persian Gulf region and those involving energy inputs, such as fertilizers. The Gulf countries account for a large proportion of world exports of some of these products (around 34% of the total supply of urea and nearly 20% of the supply of diammonium phosphate and anhydrous ammonia).[7] Moreover, the production of nitrogenous fertilizers uses large amounts of liquified natural gas (LNG) as a key input, which heightens this chain's exposure to natural gas supply disruptions and price increases. The damage sustained by critical infrastructure in March 2026 in Ras Laffan, Qatar, which houses the world's largest LNG export facility,[8] has reduced the supply of LNG, put upward pressure on its prices and thus made an essential input for the production of fertilizers more expensive.

Sulphur is another example. Both the supply of this by-product of natural gas processing and oil refining operations and world trade in sulphur are also concentrated in the Persian Gulf region. Sulphuric acid, which is made from elemental sulphur, is an essential input in numerous industrial processes, notably the production of phosphate fertilizers, as well as in the chemicals industry, the manufacture of semiconductors and metal processing. Sulphur supply constraints have thus created additional bottlenecks in these chains.[9]

Yet another example is helium. An essential input for the manufacture of semiconductors and medical diagnostic equipment, this byproduct of natural gas is also heavily concentrated in the Persian Gulf region. Qatar, in particular, produces between 30% and 40% of the world's helium. The disruptions in the region have thus strained global supply, driven up prices and spurred the search

[6] The GSCPI is a synthesis of information on transport costs, delivery times and logistical congestion. See Federal Reserve Bank of New York. Global Supply Chain Pressure Index (GSCPI). https://www.newyorkfed.org/research/policy/gscpi.
[7] Organisation for Economic Co-operation and Development. (2026). *OECD Economic Outlook, Interim Report March 2026.*
[8] https://www.qatarenergy.qa/en/MarketingAndTrading/Pages/PortsInformation.aspx
[9] *Financial Times*. (2026, 11 March). Gulf disruption chokes sulphur flows supporting swaths of global industry. https://www.ft.com/content/dd2498cc-d221-4645-9fae-34d1d832c15d?syn-25a6b1a6=1.

for alternative sources.[10] Aluminium is another case in point. The Gulf countries produce around 8% of the world's supply and, since its production is highly energy intensive and uses fossil fuels, the damage sustained by production facilities in the region and the logistical difficulties involved have put further pressure on world supply chains of this strategic metal.

Looking beyond the challenging situation created by the disruption of the supply of certain key products and tracing the effects through downstream supply chains, it is difficult to find sectors that are entirely untouched by these disruptions. The disturbances in the supply and prices of these inputs are eventually transmitted, either directly or indirectly, to much of the world's production and trade activities.[11]

## D. A price shock with cascading effects

Against the backdrop of these supply constraints and logistical disruptions, the prices of commodities whose production and trade activities are concentrated in the Persian Gulf region (mainly petroleum, natural gas, fuels and fertilizers) soared following the outbreak of the recent hostilities. This soon was reflected in world energy prices and, indirectly, in the prices of related products (food, chemicals and petrochemicals).

The price of Brent crude oil spiked to an average of US$ 120 per barrel in April 2026, which was nearly 70% higher than the average for February, before the start of the recent hostilities, while the price of natural gas was 37% above its February levels.[12] Fertilizer prices were 44% higher in April than in February as a result of higher natural gas prices and regional supply disruptions. Urea jumped the most of all (82%), reaching levels comparable to those seen at the height of the disruptions in 2022 following the large-scale invasion of Ukraine by the Russian Federation (see figures 3A and 3B).

The prices of refined petroleum products rose just as sharply. In April, petrol and diesel soared to levels approximately 64% and 70%, respectively, higher than their February price levels, while aviation fuel climbed the most of all, posting a 74% price increase during that same period.[13]

Lastly, food prices were 4% higher in April than in February, and it is likely that higher energy and fertilizer prices will continue to gradually seep into food prices as they impact the costs of agricultural production and transport during the coming harvests.

Higher energy prices, higher prices for other inputs, supply problems and the increase in international trade costs point to a scenario of higher and more persistent inflation than was foreseen before the start of the recent hostilities. This, in turn, may have significant effects on monetary policy, international financial conditions and global economic growth.

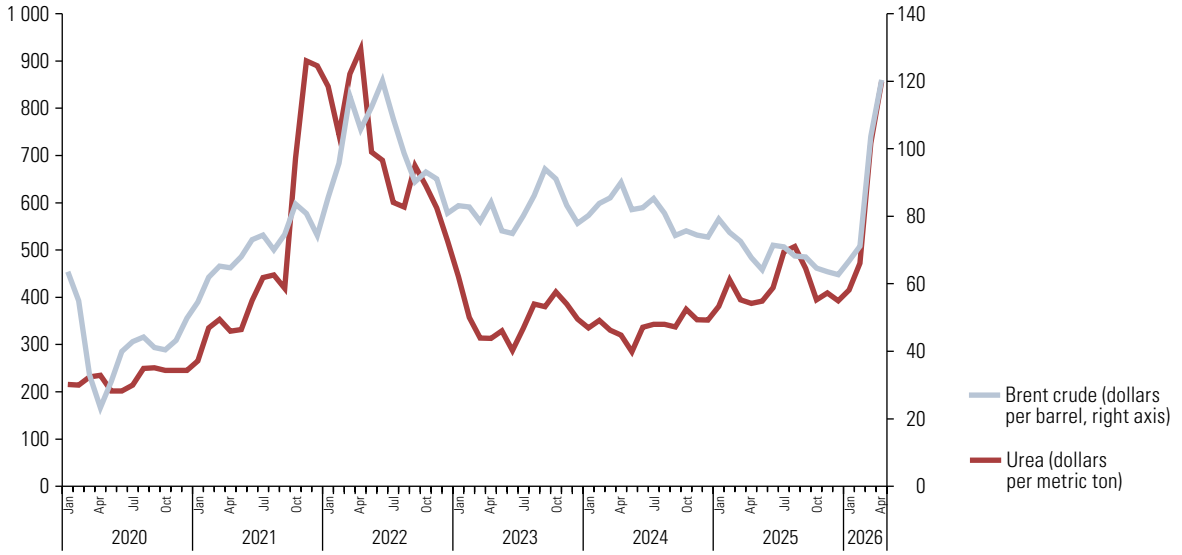
The United States is a case in point. Its annual inflation rate climbed to 3.8% in April 2026 —its highest level since May 2023— mainly as a result of the sharpest rise in energy prices (an annual rate of 18%) seen since September 2022.[14]

In the April 2026 edition of its *World Economic Outlook,* the International Monetary Fund (IMF) revised its inflation projections for 2026 and 2027 upward, both at the world level and for advanced and emerging economies. At the global level, the projected inflation rate for 2026 was raised from the 3.8% rate predicted in the January 2026 edition to 4.4% in April, for an upward revision of 0.6 percentage points (see figure 4). The report also examines two alternative scenarios (an "adverse scenario" and a "severe scenario") that incorporate increasingly intense and prolonged impacts on oil and natural gas prices, inflation expectations and international financial conditions. Under these scenarios, the annual world inflation rate for 2026 would stand at 5.4% and 5.8%, respectively.

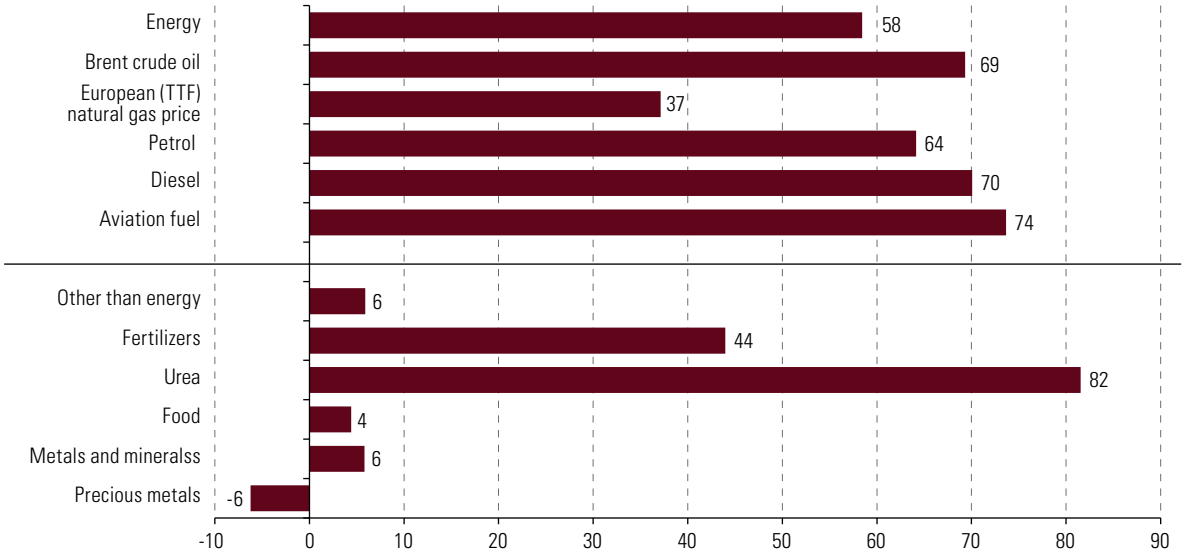
[10] *Financial Times*. (2026, 29 March). Iran war chokes off helium supplies in threat to chipmakers and healthcare. https://www.ft.com/content/2c5068d6-b0a5-4b9e-967f-958f8df23899?syn-25a6b1a6=1.
[11] *Foreign Policy*. (2026, 28 May). No commodity is safe from the Iran war. https://foreignpolicy.com/2026/05/28/iran-war-hormuz-commodities-supply-chain-fossil-fuels-semiconductors-diet-coke-fertilizer/.
[12] European natural gas prices at the virtual Title Transfer Facility (TTF) point of sale.
[13] Energy Information Administration. (2026, May). Spot Prices. https://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm.
[14] In the energy prices category, the annual rates of increase as of April 2026 were 28.4% for petrol and 54.3% for heating oil. See United States Bureau of Labor Statistics. Consumer Price Index Summary. https://www.bls.gov/news.release/cpi.nr0.htm.

**Figure 3** Commodity price variations

A. Brent crude oil and urea prices, January 2020 to April 2026
*(Dollars per barrel and metric ton)*



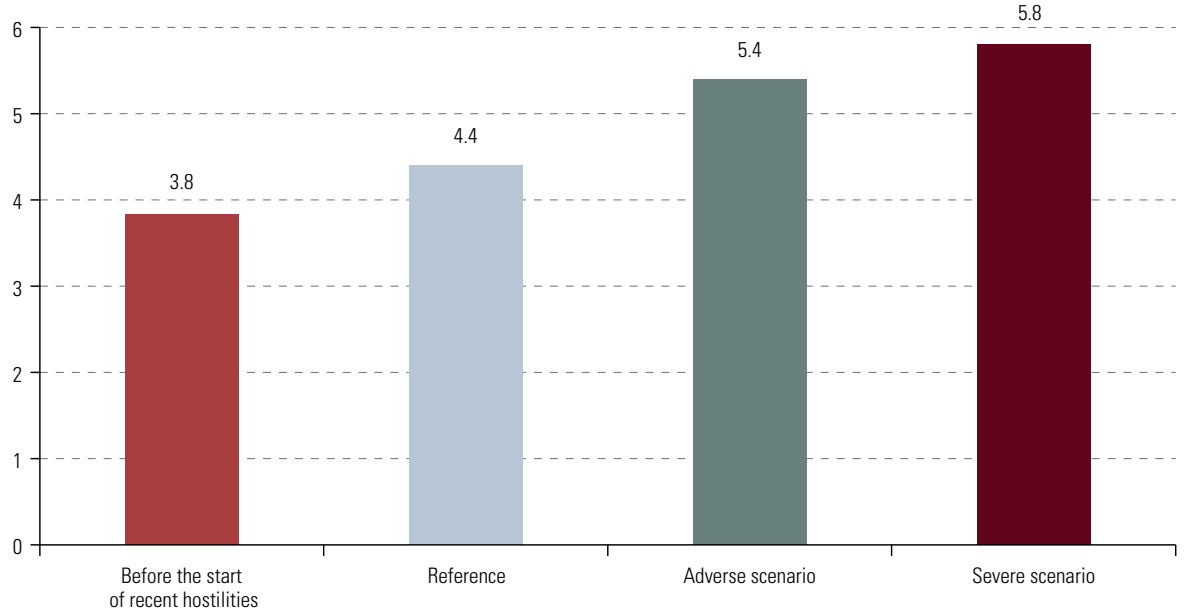

B. Commodity prices, by category and product, April 2026 relative to February 2026
*(Percentages)*




Source: Economic Commission for Latin America and the Caribbean, on the basis of World Bank. (2026, May). *Pink sheet*; and Energy Information Administration. (2026, May). *Spot Prices*. https://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm.

The revised figures are particularly significant in the cases of emerging and developing economies. The projected inflation rate for those economies for 2026 was raised from 4.8% in January to 5.5% in April, while, in the case of advanced economies, the 2026 projected rate was increased from 2.2% to 2.8%.

**Figure 4** Global inflation projections, 2026
*(Percentages)*




Source: Prepared by the authors, on the basis of International Monetary Fund. (2026, April). *World Economic Outlook: Global Economy in the Shadow of War.*
Note: The adverse and severe scenarios incorporate increasingly intense and prolonged impacts on petroleum and natural gas prices, inflation expectations and financial conditions.

## E. The impact on food security

Recent hostilities in and around the Islamic Republic of Iran will have significant consequences for global food security. The World Food Programme (WFP) estimates that, if the hostilities do not cease by midyear and if oil prices remain above US$ 100 per barrel, then in 2026 almost 45 million more people could find themselves in an acute or worse food security situation (known as Integrated Food Security Phase Classification 3+ [IPC 3+]).[15] This would be in addition to the approximately 318 million people around the world who are already experiencing food insecurity. Higher energy, fertilizer and food prices would have an especially strong impact on net food- and fuel-importing countries, since they would make their imports more expensive and erode the most vulnerable households' purchasing power.

Energy shocks and trade and supply-chain disruptions are transmitted to agrifood systems through various channels (see table 1). At first, higher fuel prices drive up the costs of transport, irrigation, farm machinery and logistics, which put upward pressure on food production and distribution costs. Then, higher fertilizer prices are reflected in the area of land under cultivation and agricultural yields. The Food and Agriculture Organization of the United Nations (FAO) estimates that the greatest impact is usually felt between 6 and 12 months later, when smaller harvests and inventories and higher logistical costs translate into widespread food price increases.[16]

[15] World Food Programme. (2026). WFP projects food insecurity could reach record levels as a result of Middle East escalation. https://www.wfp.org/news/wfp-projects-food-insecurity-could-reach-record-levels-result-middle-east-escalation.
[16] Food and Agriculture Organization of the United Nations. (2026, 2 April). Presentation of the *Global Agrifood Implications of the 2026 Conflict in the Middle East: Impacts on Energy and Fertilizer Trade, and Food Security*. https://openknowledge.fao.org/items/0c349e43-acd1-43df-a2a2-fa7b2f262c70.

**Table 1** Effects of recent hostilities in and around the Islamic Republic of Iran on agrifood systems

| Timeline | Stage | Key trigger | Primary impact | Downstream effect |
|---|---|---|---|---|
| 0 days | Hostilities and disruption of shipping in the Strait of Hormuz | Geopolitical instability, shipping disruption | Reduced oil and gas transit | Global energy price shock |
| 0–30 days | Input cost surge | Higher crude and natural gas prices | Rising fuel and logistics costs | Increased farm operating expenses |
| After 30 days | Fertilizer shock | Gas-intensive nitrogen production | 50%+ fertilizer price increase | Lower application rates |
| 60–360 days | Yield contraction | Reduced fertilizer use | Declining crop yields and shifts in cropping patterns | Tighter global grain supply |
| 180–360 days | Food inflation | Supply scarcity and substitution | Cross-commodity price increases | Consumer food insecurity |

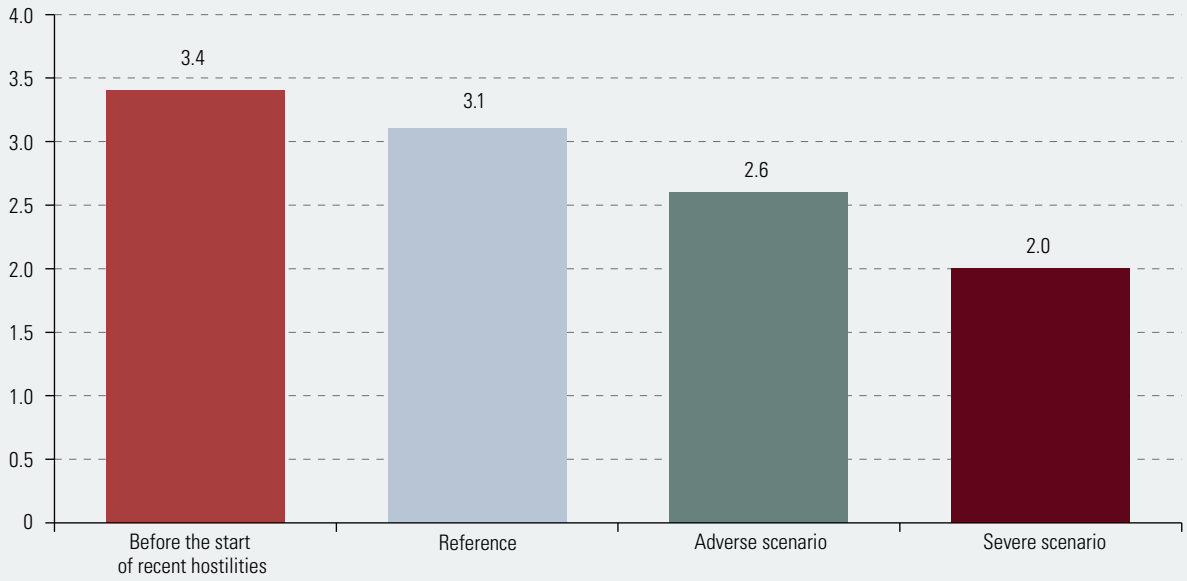
Source: Food and Agriculture Organization of the United Nations. (2026, 2 April). Presentation of the *Global Agrifood Implications of the 2026 Conflict in the Middle East: Impacts on Energy and Fertilizer Trade, and Food Security.*

## F. The impact on global growth

The shock generated by the hostilities is dampening global economic activity, and this is being reflected in downward revisions of growth prospects for 2026.

The new IMF projections presented in the April 2026 edition of the *World Economic Outlook* indicate that, after expanding by 3.4% in 2025, the world economy is expected to grow by 3.1% in 2026 rather than the 3.3% growth rate projected in January, before the outbreak of the recent hostilities. Under the adverse and severe scenarios included in the projections (described in section I.D), the world economy would grow at rates of 2.6% or even as little as 2.0%, respectively (see figure 5).[17]

**Figure 5** Projected global GDP growth, 2026
*(Percentages)*




Source: Prepared by the authors, on the basis of International Monetary Fund. (2026, April). *World Economic Outlook: Global Economy in the Shadow of War.*
Note: Both the adverse and the severe scenarios incorporate increasingly intense and protracted impacts on oil and natural gas prices, inflation expectations and financial conditions.

[17] International Monetary Fund. (2026, April). *World Economic Outlook: Global Economy in the Shadow of War.* https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026.

# II. Shock transmission channels to Latin America and the Caribbean

Latin America and the Caribbean, taken as a whole, is in a relatively better position than other regions such as Asia or Europe. This is because some of the region's biggest economies, along with smaller ones such as Guyana and Trinidad and Tobago, are net hydrocarbon exporters. For these economies, the energy shock has improved their terms of trade and boosted their export earnings and their fiscal revenues, although these effects could be counteracted at some point by inflationary pressures, supply-chain disruptions (including in food supply chains) and the possibility of a future tightening of international financial conditions.

Another reason why Latin America and the Caribbean is in a relatively more favourable position is that, on average, the region's direct logistical and trade exposure to the Persian Gulf and the disruption of shipping in the Strait of Hormuz is fairly limited. The region's exports to countries in that area amount to a scant 1.4% of its total exports, while its imports from that area come to around 0.7% of total imports.[18] Furthermore, Latin America and the Caribbean do not depend directly on that route for their energy supply.

Yet another reason is that, as a whole, the region has an exceptionally clean energy matrix: over 64% of its electricity is generated using renewable (hydroelectric, wind, solar and biomass) sources, which is far higher than the world average of around 33%.[19] This blunts the transmission of the energy shock to electricity generation costs, which are a major transmission factor in other regions.

Although the region, as a whole, is in this more favourable position, a majority of the countries in the region are actually net energy importers and, for them, the energy shock generated by the recent hostilities in and around the Islamic Republic of Iran is stronger (see figure 6).

As will be discussed in more detail below, the energy shock is transmitted to the Latin American and Caribbean economies through many different channels, and the impacts on the various countries therefore differ.

## A. The trade channel: winners and losers in the energy trade balance

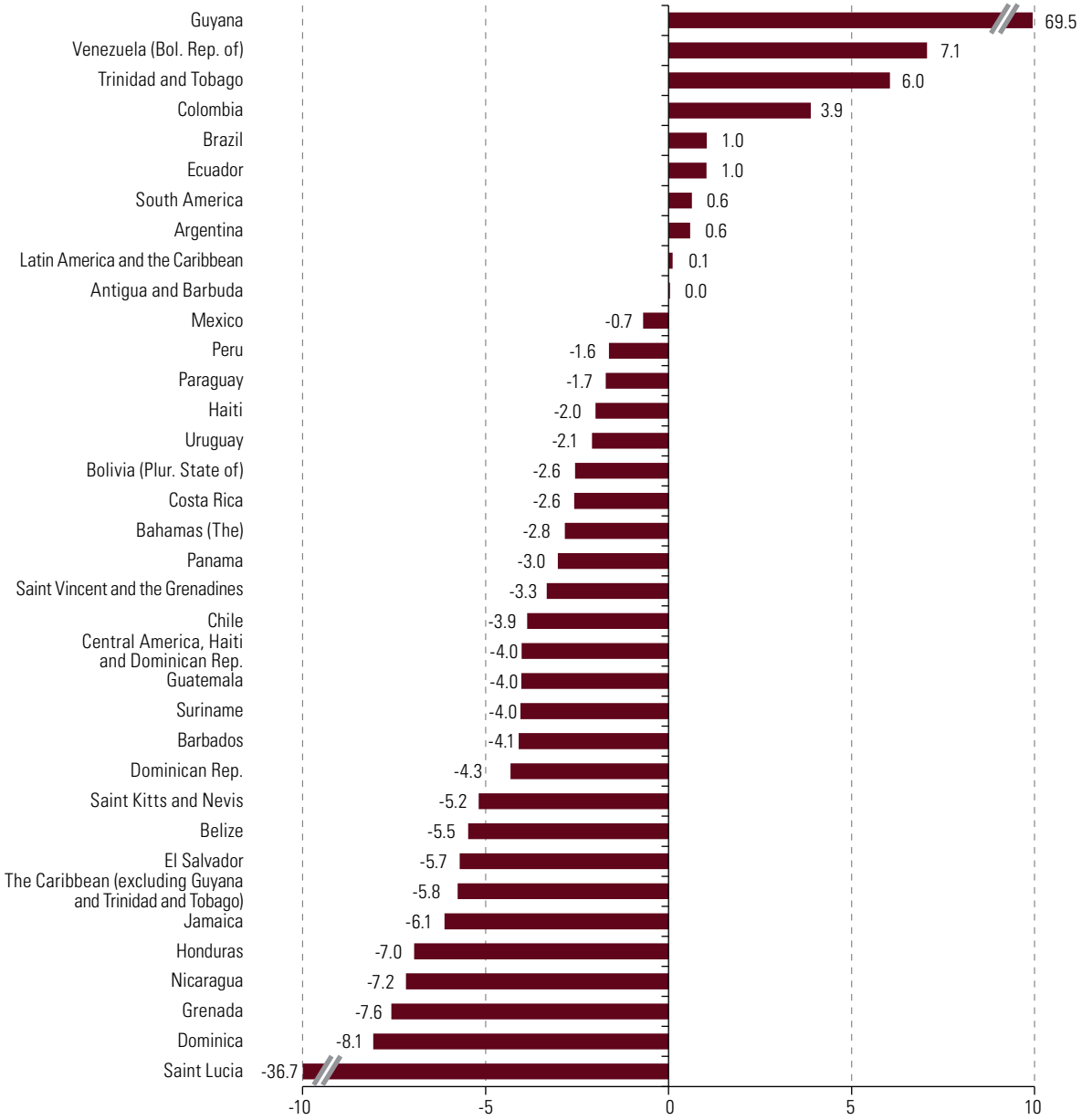
In addition to the indirect effects of supply-chain disruptions[20] and increased logistical costs in international trade, the recent hostilities in and around the Islamic Republic of Iran are having a direct impact on the trade balance of Latin America and the Caribbean owing to changes in energy prices and the prices of other exported or imported goods that are of varying importance in the different countries' trade balances.

This section presents estimates of the combined effect of higher crude oil prices, higher prices for refined petroleum products and higher TTF prices for natural gas on the trade balances of 24 Latin American and Caribbean countries based on three different price scenarios (see annex 1 for information on the methodology used). To this end, the energy impact simulator, an interactive tool developed for this study, was used. This tool provides a way of exploring different outcomes for each country and subregion in Latin America and the Caribbean based on different sets of price assumptions.[21]

This analysis focused on the effects of energy price hikes because they have been the sharpest price increases and the ones that have had the greatest impact on the trade balances of countries of the region, although, of course, trends in the prices for other goods will also have an influence.[22]

[18] Based on the Trade Map, 2024.
[19] Latin American and Caribbean Energy Organization. (2024). *Panorama Energético de América Latina y el Caribe, 2024.*
[20] Economies with major electronics or manufacturing sectors, such as Costa Rica and Mexico, may be indirectly affected by the impacts on their value chains.
[21] Includes 24 countries covered in the UN Comtrade Database at the closing date for this report (May 2026). The simulator is being tested (Beta version). The results are preliminary estimates and are subject to revision.
[22] For example, in Chile, the recent increase in copper prices (a 4% upswing between late February and mid-May 2026) has generated higher export earnings that have partially offset the downturn in trade associated with the higher prices of energy imports. In Argentina, the positive effect of higher international grain prices has been strengthened by the positive upward trend in prices of energy commodities, as discussed in detail in section IV of this report.

**Figure 6** Latin America and the Caribbean (32 countries): energy trade balance, 2025 or the latest year for which information is available
*(Percentages of GDP)*




Source: Economic Commission for Latin America and the Caribbean, on the basis of United Nations (2025). *UN Comtrade Database*. https://comtradeplus.un.org/, and International Trade Centre. *Trade Map*. https://www.trademap.org/, and own data.

The following three scenarios, which are based on those used by the World Bank in its 28 April 2026 edition of *Commodity Markets Outlook*, were analysed (see table 2).[23]

- Scenario 1: An average price for Brent crude of US$ 86 per barrel in 2026 is assumed. It is implicit in this assumption that the price will remain high in the short run and will then gradually ease during the second half of the year. This price level is 25% higher than the 2025 average of US$ 69 per barrel. The same percentage increases over 2025 levels are assumed for the natural gas TTF price and the prices of petroleum products.
- Scenario 2: An average price for Brent crude of US$ 95 per barrel in 2026 is assumed. It is implicit in this assumption that disruptions in oil production and trade in the Middle East last longer than they do under scenario 1. This price level is 38% higher than the 2025 average. For the natural gas TTF price and the prices of petroleum products, the same percentage increases as observed in 2025 are assumed.

[23] https://openknowledge.worldbank.org/server/api/core/bitstreams/b2dbffe7-2f9f-41c3-a6cc-4ddfa3b37c1a/content.

- Scenario 3: An average price for Brent crude of US$ 115 per barrel in 2026 is assumed. In this scenario, disruptions are longer-lasting and more severe, and interruptions in the flow of petroleum through regional pipelines is a possibility. This price level is 67% higher than the 2025 average. For the natural gas TTF price and the prices of petroleum products, the same percentage increases as observed in 2025 are assumed.

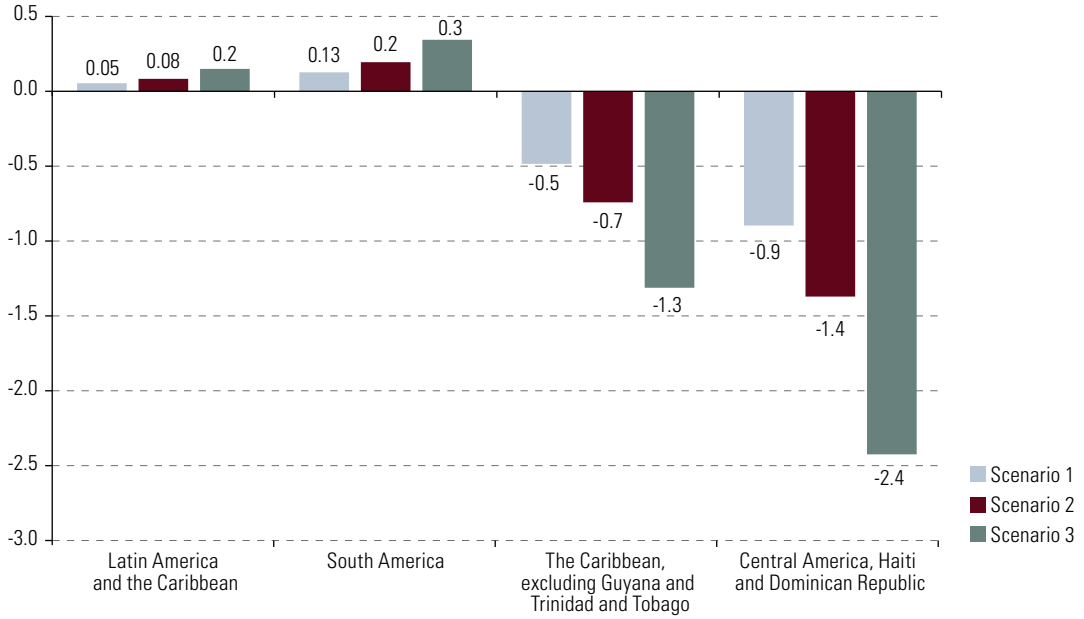
**Table 2** Oil price scenarios involving varying price differences relative to the preceding year's average price level, 2026
*(Dollars per barrel and percentages)*

| | Average 2026 price *(Dollars per barrel)* | Difference from 2025 average price[a] *(Percentages)* |
|---|---|---|
| Scenario 1 | 86 | 25 |
| Scenario 2 | 95 | 38 |
| Scenario 3 | 115 | 67 |

Source: Prepared by the authors, on the basis of World Bank. (2026, 28 April). *Commodity Markets Outlook*.
[a] The average price of Brent crude in 2025 was US$ 69 per barrel.

Higher prices for petroleum, petroleum products and natural gas improve the trade balances of net energy exporting countries and worsen those of net importers by driving up their energy bills. Under the first scenario, the overall impact on the trade balance of Latin America and the Caribbean in 2026 is positive but small (an increase of 0.05 percentage points of GDP). South America registers a net improvement of 0.13 percentage points of GDP, although some of those countries lose ground. (Chile and Peru, among others, are net importers and are therefore hurt by the price increases). Caribbean countries that do not export hydrocarbons see a downturn of 0.5 percentage points of GDP, while the Central American countries, the Dominican Republic and Haiti see a decline of 0.9 percentage points of GDP (see figure 7).

**Figure 7** Latin America and the Caribbean and subregions: impact of the energy shock on the trade balance under three different oil price scenarios
*(Percentage points of GDP)*




Source: Economic Commission for Latin America and the Caribbean, on the basis of United Nations (2024). *UN Comtrade Database*. https://comtradeplus.un.org/; International Monetary Fund, and own data.
Note: The methodology used to gauge these impacts is as follows: Δ trade balance = crude oil trade balance × Δ% in crude oil price + refined petroleum products trade balance × Δ% in refined petroleum products price + natural gas trade balance × Δ% in natural gas price. The 2024 physical amounts were used as is. The various scenarios use different average petroleum prices for 2026 and the increases over the average 2025 price differ accordingly. Scenario 1: US$ 86 per barrel (a 25% increase); scenario 2: US$ 95 per barrel (a 38% increase); scenario 3: US$ 115 per barrel (a 67% increase). For these calculations, the same changes in price that were used for oil were also used for refined petroleum products and for TTF natural gas prices.

Under the first scenario, the countries that would benefit the most are Guyana (an atypical case because of the size of its petroleum sector in relation to the size of its economy), whose trade balance would improve by 17 percentage points of GDP, followed by Trinidad and Tobago and Ecuador (increases of 1.5 and 0.9 percentage points, respectively). The net importers whose trade balances would worsen the most are Grenada (-1.8 percentage points) and Nicaragua and Honduras (-1.7 percentage points in each case) (see annex A2).[24]

Under the second scenario, the impact of the oil shock on the region's trade balance would be slightly more positive (an increase of 0.08 percentage points of GDP). South America's trade balance would register a net improvement of 0.2 percentage points of GDP, while the non-hydrocarbon-exporting Caribbean countries would see a deterioration of 0.7 percentage points and the trade balance of the group made up of Central America, Haiti and the Dominican Republic would worsen by 1.4 percentage points.

Under the third and last scenario, where an average oil price for 2026 of US$ 115 per barrel was used (almost 70% higher than the average 2025 price), the impact on the region's trade balance would amount to 0.2 percentage points of GDP; for South America, it would come to 0.3 percentage points; for the Caribbean countries that do not export hydrocarbons, it would be -1.3 percentage points; and for the group of Central American countries, Haiti and the Dominican Republic, it would be -2.4 percentage points.

When considering these results, it is important to remember that most countries in the region —including a number of net exporters of crude oil— do not have enough refining capacity to cover domestic demand and are therefore net importers of refined petroleum products such as petrol, diesel fuel and kerosene. This lessens the beneficial effect on the trade balances of crude oil exporting countries and raises costs for importing countries. Mexico provides a good illustration of this. Even though it is a major net exporter of crude oil, its imports of refined petroleum products outweigh its exports of crude in terms of value, so the net effect of the energy shock is still slightly negative.

## B. The fiscal channel: more fiscal revenue for some, stronger expenditure pressures for all

The shock generated by the recent hostilities in and around the Islamic Republic of Iran affects countries' public finances through two opposing mechanisms.

The first is through public expenditure. If a government decides to absorb part of the shock through the use of subsidies, reductions in fuel taxes or other domestic price stabilization mechanisms, the pressure on public expenditure will mount. This is not a trivial decision: allowing the increase in costs to fully pass through to prices will protect public accounts but will also fuel inflation, erode household purchasing power and, in some cases, have considerable political costs, while absorbing the cost increases will dampen the inflation impact but will have a direct fiscal cost.

The second  is through public revenue. In countries that are net exporters of oil, refined petroleum products and/or natural gas, higher prices will translate into higher revenues, whether through the corporate taxes paid by exporters or through transfers from State-owned enterprises to government coffers. In some cases, the sums involved are substantial. Revenues linked to the hydrocarbons sector represent around 17% of total government revenue in Ecuador and 26% in Trinidad and Tobago (see table 3). In these countries, the shock could buffer the fiscal cost of stabilization measures. The net effect on fiscal revenue will also be influenced by the way that domestic economic activity plays out, however. Higher inflation and more sluggish consumption and investment could reduce receipts from value added and income taxes, thereby partially offsetting the higher earnings from the hydrocarbons sector.[25]

In the case of net importing countries, on the other hand, this cost is not counterbalanced by any change in revenues and therefore will directly reduce the available fiscal space.

[24] The actual scale of the impact on the trade balance will also depend on specific conditions in each country that fall outside the scope of this analysis. These figures should therefore be regarded as a first-order approximation based on the assumption that the physical quantities involved remain constant.

[25] Economic Commission for Latin America and the Caribbean. (in press). *Economic Survey of Latin America and the Caribbean, 2026.*

**Table 3** Latin America and the Caribbean (selected countries): share of total general government revenue provided by fiscal revenue from petroleum and natural gas exploration and production, 2015–2025
*(Percentages of total revenues)*

| Country | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Argentina | 1.8 | 1.3 | 1.2 | 1.5 | 1.6 | 1.1 | 1.2 | 1.5 | 1.3 | 1.4 | ... |
| Bolivia (Plurinational State of) | 24.6 | 14.2 | 13.3 | 16.2 | 14.5 | 16.1 | 13.2 | 14.6 | 11.7 | 9.7 | ... |
| Brazil | 1.2 | 0.8 | 1.1 | 3.1 | 4.9 | 1.9 | 3.3 | 6.4 | 4.6 | 3.8 | 3.1 |
| Colombia | 7.5 | 1.6 | 3.9 | 6.8 | 8.3 | 5.6 | 4.1 | 10.2 | 10.9 | 6.4 | ... |
| Ecuador | 18.3 | 18.2 | 22.6 | 26.7 | 25.6 | 18.2 | 22.6 | 24.8 | 20.8 | 20.3 | 16.6 |
| Mexico | 13.1 | 8.7 | 11.5 | 14.1 | 10.9 | 5.0 | 8.6 | 13.5 | 6.7 | 3.8 | 4.1 |
| Peru | 2.8 | 2.2 | 2.8 | 3.4 | 2.5 | 1.9 | 3.5 | 5.5 | 3.9 | 3.1 | 2.4 |
| Trinidad and Tobago | 23.9 | 8.5 | 11.8 | 14.5 | 24.8 | 17.3 | 18.5 | 39.8 | 41.2 | 22.1 | 26.0 |

Source: Economic Commission for Latin America and the Caribbean, on the basis of data from the Fiscal revenues from non-renewable natural resources database.
Note: The figures shown for Ecuador represent the non-financial public sector's oil revenues from crude oil exports. The figures for Mexico correspond to the federal government's oil revenues and do not include the earnings of Petróleos Mexicanos (PEMEX), the State-owned oil and natural gas producer.

The governments of the countries of the region have responded in different ways to this shock (see table 4). Some of them have chosen to buffer the effect on consumers to a greater degree by assuming a large share of the fiscal cost involved, while others have allowed more of the shock to pass through to domestic fuel prices. Some governments have also targeted fiscal expenditure for the selective protection of what are seen as the more vulnerable social sectors. The differences in the extent to which each government has absorbed or passed on the shock has largely determined how strong an inflationary effect it has had. This is analysed in greater detail in section II.C.

**Table 4** Latin America and the Caribbean (selected countries): examples of measures taken in response to the increase in fuel prices

| Country | Measures |
|---|---|
| Brazil[a] | Waiver of all national taxes on diesel fuel and direct per-litre subsidy for producers and importers of on-road diesel. A special tax has been levied on exports of crude oil and diesel in order to finance these measures. |
| Chile[b c] | The Fuel Price Stabilization Mechanism (MEPCO) has been adjusted in order to align domestic fuel prices with international prices. This has resulted in price increases of 30% for petrol and 60% for diesel —the biggest fuel price increases in Chile in recent decades.<br>The government has also frozen the price of kerosene and mass transit fares in Santiago, is providing a monthly subsidy to taxi and shared taxi (*colectivo*) drivers, approved a direct subsidy on liquified petroleum gas (LPG) for vulnerable households (US$ 225 million) and for small-scale fisheries, and extended a preferential line of credit to help taxi and shared taxi drivers buy electric vehicles (EVs). |
| Honduras[d] | Subsidies of 50% or 100%, depending on consumption levels, on electricity charges for residential use and for small and medium-sized enterprises (SMEs) and partial absorption (up to 50%) of weekly increases in fuel prices. |
| Mexico[e] | Temporary reductions in the excise tax on production and services (IEPS) for petrol and diesel fuel, with larger reductions for the latter. |
| Dominican Republic[f g] | A mechanism for setting weekly fuel prices (include LPG and natural gas), with a possible reallocation of budgetary funds to cover the cost. |
| Uruguay[h] | Holding price increases for petrol, diesel fuel and LPG to a maximum of 7%. Diesel price increases will be absorbed by a subsidy from the Trust Fund for Sustainable Mobility (FIMS) to avert mass transit fare increases. Preferential lines of credit for affected agricultural sectors. |

Source: Economic Commission for Latin America and the Caribbean, on the basis of data from the Fiscal revenues from non-renewable natural resources database.
[a] *Diario Oficial de la Unión*, Decree No. 12875 of 12 March 2026. https://www.gov.br/planalto/pt-br/acompanhe-o-planalto/noticias/2026/03/governo-do-brasil-zera-pis-cofins-do-diesel-para-proteger-populacao-da-alta-internacional-do-petroleo/2026_03_12_assinado_do1_extra_b.pdf.
[b] https://www.gob.cl/noticias/medidas-apoyo-alza-combustibles-despachadas-ley/
[c] https://www.gob.cl/noticias/plan-chile-sale-adelante-dos-nuevas-medidas-subsidio-gas-licuado-pesca-artesanal/
[d] https://tnh.gob.hn/gobierno/gobierno-aprueba-pcm-para-subsidio-electrico/
[e] *Diario Oficial de la Federación*. (13 March 2026). This agreement sets out the percentages and amounts of fiscal stimulus measures, the reductions in the IEPS and the per-litre amounts applying to different fuels for the specified periods. https://www.dof.gob.mx/nota_detalle.php?codigo=5782299&fecha=13/03/2026#gsc.tab=0.
[f] https://presidencia.gob.do/noticias/gobierno-protege-precios-de-combustibles-esenciales-en-semana-santa
[g] https://presidencia.gob.do/noticias/gobierno-y-sector-productivo-pasan-balance-avances-de-meta-rd-2036-en-consejo-de-0
[h] Ministry of Economic Affairs and Finance. https://www.gub.uy/ministerio-economia-finanzas/comunicacion/noticias/gobierno-alivia-impacto-suba-del-petroleo-conflicto-medio-oriente.

## C. The price channel: inflation and the erosion of purchasing power

The energy and commodity price shock has generated inflationary pressure in the region that is reflected in the most recent consumer price index (CPI) data (April 2026). For example, the 12-month inflation rate jumped from 2.4% in February to 4% in April in Chile, from 1.5% to 3.2% in Guatemala, from 3.5% to 5.6% in Honduras and from 2.2% to 4% in Peru.

The inflationary impact of the shock unfolds in two ways: directly and indirectly. The magnitude of the direct impact depends on how big a share of the consumer basket is made up of vehicle fuels and fuels for household use and the extent to which governments have or have not buffered the pass-through of the shock to domestic prices.

This section will discuss the estimates calculated in this study of the direct impact of energy price increases on inflation rates in various countries of the region. Following Goldman Sachs (2026),[26] the weighting of energy products in each country's consumption basket is used and a 60% pass-through of variations in international fuel prices to final consumer prices is assumed. Under these assumptions, a 25% increase in 2026 energy prices from their 2025 levels (scenario 1 in table 2) would translate into an increase in the annual inflation rate of between 0.3 percentage points and 1.7 percentage points in 2026 (see table 5). Under scenario 3, the direct effects on inflation range from 0.9 percentage points to over 4.6 percentage points. However, in practice, the actual impact will depend on the extent of the pass-through to domestic prices and the kind and extent of the mitigation measures used, so the effect could be less in countries that have employed fiscal cushioning mechanisms or in which the pass-through is less than the assumed 60%.

**Table 5** Latin America and the Caribbean (selected countries): direct impact of the oil shock on the annual CPI under three energy scenarios, 2026
*(Percentage points)*

| | Share of energy inputs in consumption basket *(Percentages)* | Estimated impact on CPI inflation, 2026 *(Percentage points)* | | |
|---|---|---|---|---|
| | | Scenario 1 | Scenario 2 | Scenario 3 |
| Dominican Republic | 11 | 1.7 | 2.6 | 4.6 |
| Mexico | 10 | 1.5 | 2.3 | 4.0 |
| Belize | 10 | 1.4 | 2.2 | 3.8 |
| Honduras | 9 | 1.4 | 2.1 | 3.7 |
| Guatemala | 7 | 1.1 | 1.7 | 2.9 |
| Brazil | 7 | 1.1 | 1.6 | 2.9 |
| Argentina | 6 | 0.9 | 1.4 | 2.5 |
| Paraguay | 6 | 0.9 | 1.4 | 2.5 |
| Chile | 6 | 0.9 | 1.4 | 2.4 |
| Uruguay | 5 | 0.7 | 1.1 | 2.0 |
| Peru | 5 | 0.7 | 1.1 | 1.9 |
| Costa Rica | 4 | 0.6 | 1.0 | 1.7 |
| Bolivia (Plurinational State of) | 4 | 0.6 | 1.0 | 1.7 |
| Colombia | 4 | 0.6 | 0.9 | 1.6 |
| Ecuador | 2 | 0.3 | 0.5 | 0.9 |

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures and Latin American and Caribbean Energy Organization. (n.d.). *América Latina y el Caribe alcanza un 65% de renovabilidad eléctrica*. https://www.olade.org/noticias/america-latina-y-el-caribe-alcanza-un-65-de-renovabilidad-electrica/.

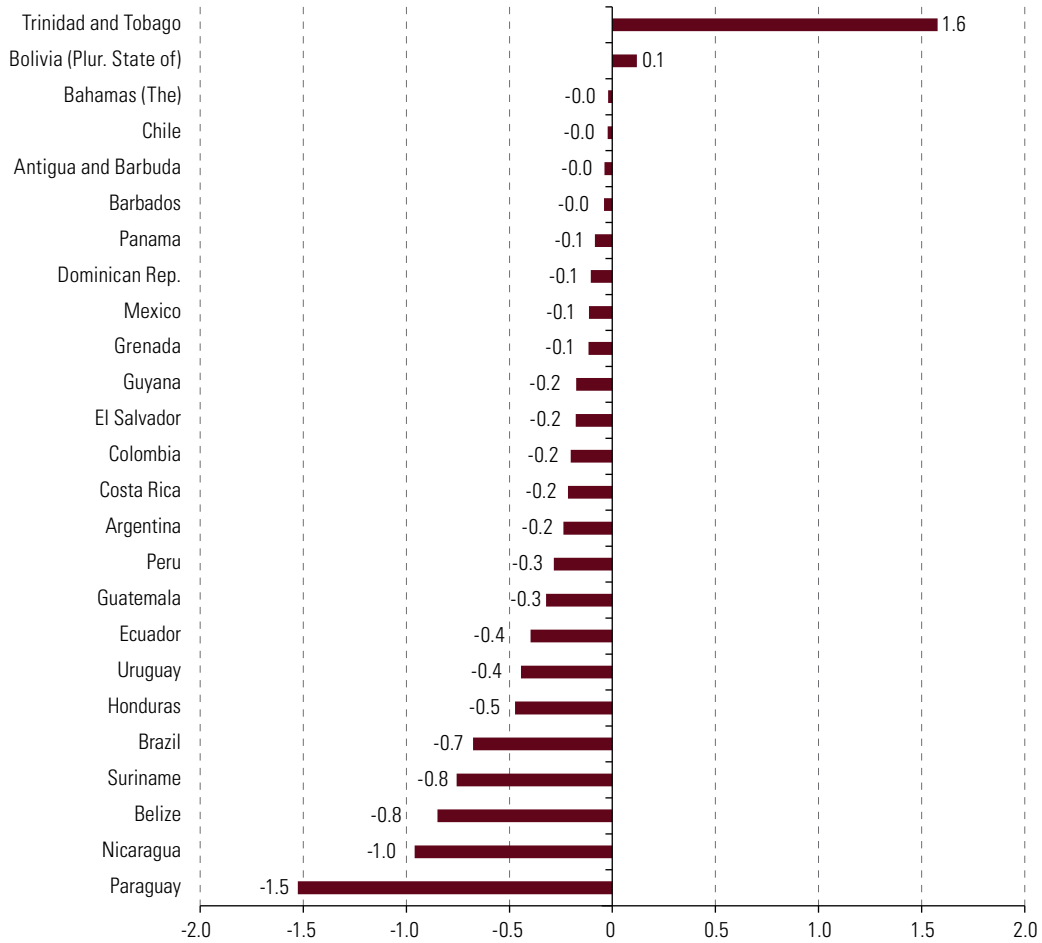
Note: The various scenarios use different average petroleum prices for 2026 and the increases over the average 2025 price therefore differ. Scenario 1: US$ 86 per barrel (a 25% increase); scenario 2: US$ 95 per barrel (a 38% increase); scenario 3: US$ 115 per barrel (a 67% increase). For countries that generate 70% or more of their electricity from renewable sources, electricity prices are not included in the calculations. Those prices are included in the calculations for the remaining countries since the prices of thermoelectric energy will vary in line with hydrocarbon prices.

[26] Ramos, A., Armella, S., Tellez, S. y Moscoso, J. (24 March 2026). Under crude pressure. *Latin America Economics Analyst*. Goldman Sachs.

In addition to the estimated direct impact, the indirect impact —via the prices of transport, food and other items— amplifies inflationary pressures. Higher transport costs make both passenger transportation and the distribution of goods more expensive and are gradually transmitted to the entire economy through higher logistical and marketing costs.

As mentioned earlier, higher fertilizer prices jeopardize crop yields and thus put upward pressure on food prices. Brazil has a particularly high exposure to this risk because it is a large-scale exporter of agricultural goods and relies heavily on imported fertilizers (nearly 85% of the fertilizers it uses come from other countries).[27] It is not the only country in the region in this position, however. With the exception of Trinidad and Tobago and the Plurinational State of Bolivia, most of the Latin American and Caribbean countries run trade deficits in fertilizers (see figure 8). In some cases, such as in Paraguay, that deficit is as large as 1.5% of GDP, which amounts to a high degree of exposure to price increases and possible supply constraints in international markets.

**Figure 8** Latin America and the Caribbean (25 countries): trade balance in fertilizers, 2024
*(Percentages of GDP)*




Source: Prepared by the authors, on the basis of United Nations (2025). UN Comtrade Database. https://comtradeplus.un.org/.

In the countries where the shock leads to a deterioration in their net external positions (particularly net energy and fertilizer importers), the pressure on their trade balances and on the availability of foreign exchange can lead to currency depreciations, which will heighten the pass-through of the external shock to domestic prices.

Price channels have significant distributive effects and can deepen food insecurity in Latin America and the Caribbean, with the impacts on lower-income households being especially severe (see section I.E). In the Caribbean, where most of the countries —apart from Belize, Guyana and Suriname— are small island States faced with structural limitations on farm production, higher international food

[27] https://www.agrolatam.com/agricultura-latam/brasil-dependencia-fertilizantes-importados-guerra-medio-oriente/

prices are swiftly passed through to domestic prices and could increase constraints on people's access to food. Because of the scarcity of land in these countries and their high degree of exposure to extreme weather events, their ability to adjust local supply is limited, making them more vulnerable to external shocks.

This high level of vulnerability is particularly significant given that the cost of accessing a healthy diet in the Caribbean is 30% higher than the world average, which already restricts large segments of the population's access to adequate nourishment. As a result, the prevalence of hunger in the subregion (17.2%) is over three times higher than it is in South America (5.2%) and in Central America and Mexico (5.8%).[28]

## D. The channel of a cooling world economy: less external demand

As discussed in section I.F, the prospects for global GDP growth have been affected by the recent hostilities in and around the Islamic Republic of Iran, while the intensity of that effect will depend on the duration and severity of the situation. For Latin America and the Caribbean, this points to a slowdown in external demand. Even before the recent hostilities had begun, the World Trade Organization (WTO) had forecast a sharp slowdown in the growth of world trade in goods (down from its 2025 level of 4.6% to just 1.9% in 2026), and the hostilities have only dimmed the outlook even more.[29]

The region's three biggest trading partners —the United States, China and the European Union— will grow less in 2026 than had been projected in January according to the IMF *World Economic Outlook* of April 2026, although the downward revisions have been slight. The most recent growth projections for the United States (2.3%) and China (4.4%) are just one tenth of a percentage point lower than they were at the start of the year, while the projected growth rate for the European Union has been lowered by two tenths to 1.3%.

## E. The financial channel: initial financial market tensions and continuing risks

If hostilities persist, another transmission channel comes into play that has historically proved to be detrimental to the region: tighter global financial conditions. This effect works in two parallel ways.

First of all, the persistence of energy and other input price shocks fuels global inflationary pressures, which could prompt central banks in advanced economies to keep interest rates high for longer than had been foreseen before the hostilities began. And, in fact, the Federal Reserve, the European Central Bank and the Bank of England have all maintained a cautious stance in the face of these pressures and have left interest rates unchanged through May. At the same time, market expectations have shifted towards a tighter monetary policy in the United States and the rest of the world.[30] The situation is compounded by the direct effect of the hostilities on yields on benchmark United States Treasury securities, which have risen in step with the increase in inflation risk. In May 2026, the United States Treasury placed 30-year bonds at a rate of 5.046%, which was the first auction above 5% since 2007.[31] This raises the cost of external financing for the region and limits the scope for local central banks to ease their monetary policy without running a risk of triggering capital outflows and exchange rate pressures.

Secondly, heightened geopolitical uncertainty tends to give rise to episodes of risk aversion that shift investment portfolios towards safer assets, strengthen the dollar and put more pressure on emerging market currencies.

In March 2026, this channel was particularly active. The Geopolitical Risk (GPR) Index overshot the levels seen when the conflict between the Russian Federation and Ukraine erupted (see figure 9), while, at the same time, global financial volatility increased (see figure 10) and the main stock indices were down sharply (see figure 11).

[28] Economic Commission for Latin America and the Caribbean. (2024). *International Trade Outlook for Latin America and the Caribbean, 2024* (LC/PUB.2024/16-P).
[29] https://www.wto.org/english/news_e/news26_e/stat_19mar26_329_e.htm
[30] https://www.bcentral.cl/documents/33528/8335323/Informe+de+Estabilidad+Financiera+Primer+Semestre+2026.pdf/2070ddef-91ee-29fd-64a7-8ddb2ad8fbaf?t=1779158151253
[31] https://www.ft.com/content/11233902-2054-4ed5-b647-26402e7b58bd?syn-25a6b1a6=1

**Figure 9** Geopolitical Risk Index, 1 January 2019 to 1 April 2026
*(Base period: 1985–2019 = 100)*




Source: Caldara, D. and Iacoviello, M. (2022). Measuring geopolitical risk. *American Economic Review, 112*(4), 1194-1225. https://www.matteoiacoviello.com/gpr.htm.

**Figure 10** VIX, V2X and VXEEM financial volatility indices, 1 January 2025 to 15 May 2026




Source: Prepared by the authors, on the basis of data from Bloomberg.
Note: The VIX Index maintained by the Chicago Board Options Exchange (CBOE) measures expected volatility over the next 30 days based on the prices of S&P 500 index options. Using the same approach, CBOE also calculates the VXEEM Index, which measures emerging-market volatility. The V2X Index developed by the Deutsche Börse, in conjunction with Goldman Sachs, measures volatility in the euro area. Option prices climb when volatility increases because investors are willing to pay more for protection. A VIX Index value over 30 is an indication of investor fear.

**Figure 11** Morgan Stanley Capital International (MSCI) stock market index, 1 January 2025 to 15 May 2026
*(Index: 1 January 2025 = 100)*




Source: Prepared by the authors, on the basis of data from Bloomberg.

Under these circumstances, the currencies of a number of Latin American countries have depreciated considerably against the dollar. Cases in point include Chile (whose currency had depreciated by 6.1% since late February, before the start of the recent hostilities), Uruguay (5.4%), Mexico (4.1%) and Peru (3.7%).

These pressures started to ease somewhat in April, when a temporary ceasefire between the United States and the Islamic Republic of Iran was announced and the two countries entered into negotiations, prompting international financial markets to take a more optimistic view regarding the scope and duration of hostilities.[32] However, moving forward, and given the lack of a definitive resolution of the hostilities, there is a risk that global financial conditions could deteriorate once again. This channel of transmission may be particularly harmful for the countries of the region with the greatest external vulnerabilities, as the shock conveyed through this channel may limit their access to external financing, make credit more expensive and put more pressure on exchange rates.

## F. The monetary policy channel: the cycle of cuts at risk

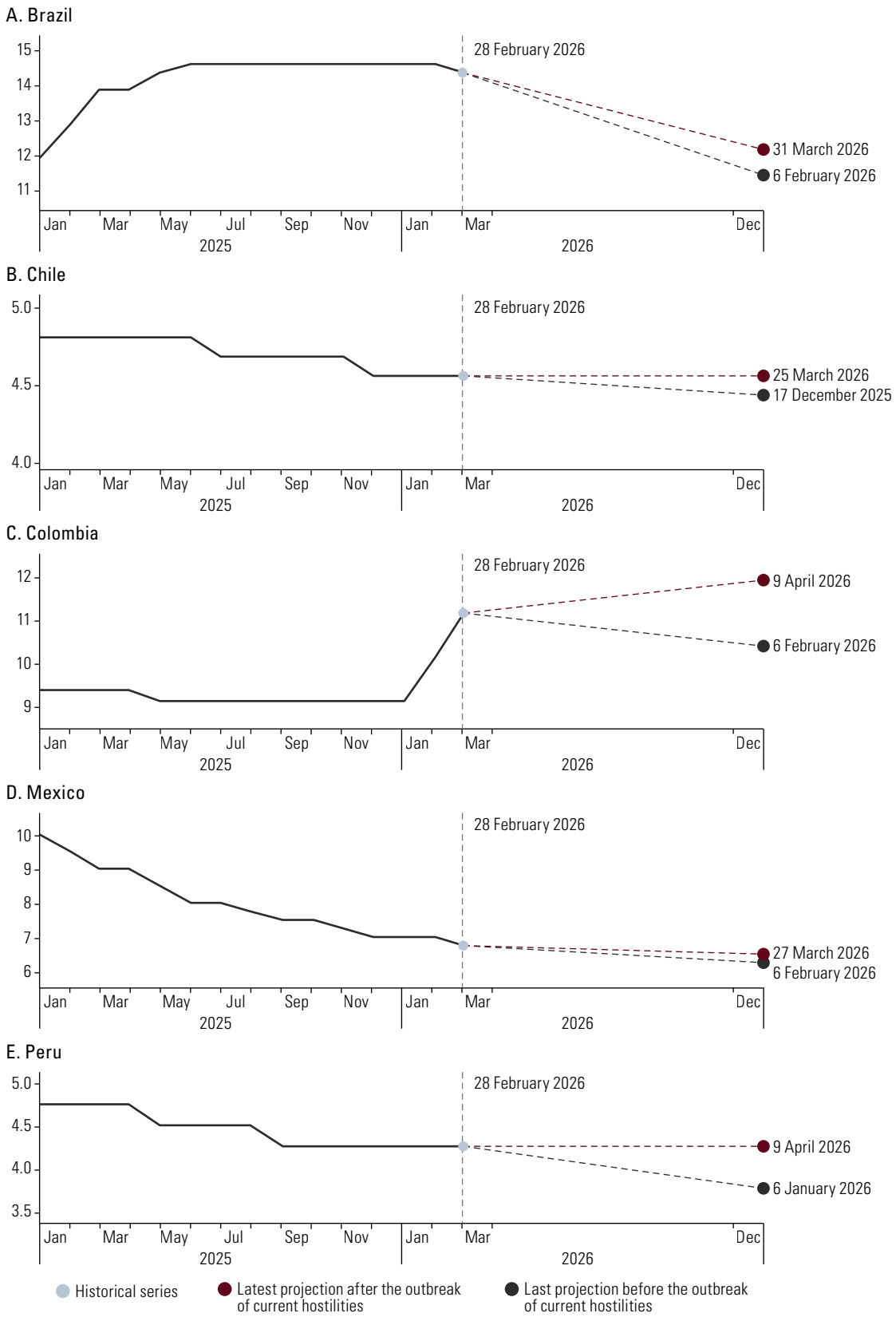
Central banks in the region are facing a policy dilemma: whether to sustain the monetary easing cycle some have undertaken —much needed to bolster economic activity— or to prioritize anchoring expectations amid inflationary pressures stemming from the hostilities. Should global financial conditions tighten further, the related exchange-rate pressures would impose additional constraints on the scope for monetary policy action.

This dilemma is most acute for economies that are heavily dependent on energy imports and have limited fiscal space to absorb international price shocks. The sharpest upward revision to the projected policy rate has occurred in Colombia, whose central bank had already raised interest rates in January. According to Capital Economics,[33] expectations regarding end–2026 interest rates rose from 10.5% before the outbreak of the recent hostilities to 12% in the latest available projection (see figure 12).

For now, countries that had been cutting their monetary policy rates, such as Chile, Mexico and Peru, are expected to continue to do so, albeit more gradually, depending on the evolution of inflationary and exchange-rate pressures.

[32] https://www.bcentral.cl/documents/33528/8335323/Informe+de+Estabilidad+Financiera+Primer+Semestre+2026.pdf/2070ddef-91ee-29fd-64a7-8ddb2ad8fbaf?t=1779158151253
[33] https://www.capitaleconomics.com/data-and-charts/central-bank-hub

**Figure 12** Latin America and the Caribbean (5 countries): expectations for the monetary policy rate in December 2026
*(Percentages)*




Source: Economic Commission for Latin America and the Caribbean, on the basis of Capital Economics. https://www.capitaleconomics.com/data-and-charts/central-bank-hub.
Note: The date the projection was made is shown next to each line.

### G. Impact of hostilities in and around the Islamic Republic of Iran on growth in Latin American and Caribbean countries

With the external sector outlook turning cooler for most countries, in April 2026 ECLAC lowered its 2026 growth projection for the region from the 2.3% forecast in December 2025 to 2.2%.[34] Although the revision cannot be attributed solely to the hostilities in and around the Islamic Republic of Iran, these introduced additional risks to regional growth through the various transmission channels examined in the preceding sections.

For net energy-importing countries, the shock operates in the same direction through all the transmission channels, creating a clearly growth-adverse environment, with a deterioration in the terms of trade and the trade balance; inflationary pressures —both direct and indirect— eroding household purchasing power and domestic demand; and higher interest rates as a potential policy response, which in turn hurt economic activity. Compounding this are weaker global demand, supply chain disruptions, reduced international trade, and potentially tighter international financial conditions, all of which intensify the contractionary impact.

For net energy-exporting countries, the picture is mixed, depending mainly on how long the hostilities last and how the external environment evolves. In the short term, rising energy prices improve terms of trade, boost export revenues and strengthen fiscal accounts, potentially supporting economic activity. However, these positive effects may be offset by other, negative factors: domestic inflationary pressures, tighter monetary policy, weaker global demand, supply chain disruptions, reduced international trade and possibly tighter global financial conditions. In a scenario of ongoing shock, these factors could outweigh initial gains, resulting in a net negative impact on economic activity.

The impact of hostilities in and around the Islamic Republic of Iran also varies significantly across sectors. Fitch Ratings signals particular vulnerabilities for Latin American companies in the chemicals, pharmaceuticals, agriculture, alcoholic beverages, retail, automotive and airline sectors, as well as utilities such as electricity, gas, and water.[35] Exposure in these sectors stems mainly from rising costs for energy, raw materials, transportation and logistics, as well as squeezed margins as weakened demand makes it harder to pass costs on to consumers.

## III. Future scenarios

Hostilities in and around the Islamic Republic of Iran and disruptions to navigation in the Strait of Hormuz have already impacted the global and regional economies in the ways and through the channels described in this document.

Future impacts and consequences will depend on two sets of interrelated factors: on the one hand, the evolution of hostilities —including the situation in the Strait of Hormuz— and, on the other, disruptions to the production, transport and prices of oil and oil products, as well as of fertilizers and other products. The two sets of factors, though closely linked, should be distinguished, since even in a scenario of immediate cessation of hostilities and improved navigation in the Strait, the effects of disruptions to production, transport and oil prices will persist until the end of the year or even longer.

The likely impacts of hostilities in and around the Islamic Republic of Iran on the Latin America and Caribbean region depend on various potential scenarios regarding the course of the conflict and shipping through the Strait of Hormuz.

These potential impacts are outlined below on the basis of the scenarios identified by Roubini.[36]

According to Roubini, a first scenario is that the ceasefire agreed upon in April leads to successful short-term negotiations, ending military hostilities and improving shipping conditions in the Strait of Hormuz.

In a second scenario, the ceasefire holds, but negotiations drag on for several more months, with shipping through the Strait remaining severely restricted in the interim. This would result in lower global economic growth and higher inflation.

[34] https://www.cepal.org/es/comunicados/america-latina-caribe-crecera-22-2026-un-contexto-internacional-caracterizado-conflictos
[35] https://www.fitchratings.com/research/corporate-finance/iran-war-is-further-elevating-risk-for-latin-american-corporates-20-05-2026
[36] See Roubini, N. (2026, 5 May). *Four scenarios for the Iran war.* Project Syndicate.

The third and fourth scenarios envision an escalation of the hostilities and, under the most severe scenario, significant, lasting damage on energy facilities in the Persian Gulf while maintaining control over the Strait of Hormuz. Should it materialize, this scenario could trigger a sharp increase in oil prices with corresponding repercussions for the global economy.

These scenarios would produce different consequences in terms of disruptions to the production, transport and pricing of oil and its derivatives and other commodities and would impact the global economy. In this regard, the global economy would be best served by scenarios leading to the rapid restoration of safe navigation through the Strait.

The second scenario —reflecting the situation as of mid-May, with a ceasefire accompanied by protracted negotiations— would deepen the negative impacts on the global economy and the region. Each month that passes without a resolution to the situation in the blocked Strait lowers growth and increases global inflation. Broadly speaking, this aligns with the adverse scenario analysed by IMF in its *World Economic Outlook* of April 2026, which sees global growth falling from the projected 3.1% to 2.6%.

The scenario of escalation with significant and permanent damage to energy infrastructure in the Persian Gulf and restricted navigation in the Strait is the worst scenario in terms of the impacts of the global economy. This would align with the severe outlook envisioned by IMF in its April report, in which global growth could fall to 2% or even lower.

An important conclusion is that, even in a favourable scenario involving an end to hostilities and rapidly improved navigation through the Strait of Hormuz, the disruptions to shipping will have lasting effects.

As *The Economist*, a newspaper, argues, "the crisis in oil markets will get bigger before it goes away",[37] because of the complexities of oil markets and the determinants of their stocks and flows. First of all, the disruption to shipping in the Strait has already triggered heavy use of inventories in transit and at sea. Secondly, in March the 32 member countries of the International Energy Agency (IEA) agreed to sell 400 million barrels —equivalent to one third of their total reserves— from their strategic emergency reserves. Lastly, some oil and gas production and refining infrastructure has sustained significant damage, and repairs and the restoration of normal operations will take months or even years, limiting the supply response capacity in the short term.

There are also significant operational hurdles to the normalization of transport through the Strait. Mines will have to be cleared from the area, insurance companies must regain the confidence to insure vessels traversing the route, and oil —whose supply chains were disrupted— must be transported to refineries, processed and then distributed to end-users.

All this means that, even in the most favourable scenario, the world will continue to face significant supply shortages over the coming months, and the energy shock that began in March 2026 will yet persist before it subsides. In the bleaker scenarios, the world and the region will continue to feel the impact through the various channels identified here, resulting in slower growth, higher inflation, weaker trade balances and limited fiscal space.

# IV. Case studies: initial impacts and policy responses in selected Latin American and Caribbean countries

This section presents case studies for four countries in the region: Argentina, Brazil, Mexico and Barbados. It outlines the initial impacts of the energy shock on various variables, as well as some of the policy responses these countries have adopted to address the negative effects of the external shock.

## A. Argentina

### 1. Trade balance

Prior to the outbreak of hostilities in and around the Islamic Republic of Iran, foreign-exchange earnings from the mining and energy sectors were steadily rising. Both sectors produced foreign-exchange surpluses in the first two months of 2026: mining US$ 1.5 billion, and energy US$ 1.9 billion —both

[37] "Nothing in the tank" Briefing Oil Markets, *The Economist.* (2026, 2 May).

two-decade records for the time of year. The upturn in the mining sector was driven by the rise in precious metal prices between late 2025 and early 2026. In the energy sector, it was linked to increased production of non-conventional hydrocarbons, resulting in record production for the second consecutive month in January 2026. What is more, in January 2026, 12-month cumulative energy exports reached an all-time high of US$ 11.1 billion.

After the outbreak of hostilities —and the consequent rise in commodity prices— this surplus is expected to keep rising. ECLAC estimates that the trade surplus could rise by US$ 6.6 billion, equivalent to approximately one month of goods imports, driven solely by the rise in international prices.[38] The price-driven increase in the energy sector trade surplus is estimated at US$ 2.5 billion, resulting from the hike in crude oil prices. The expansion in the agricultural sector surplus is projected at approximately US$ 3.1 billion, owing mainly to rising prices for wheat, soybeans and sunflowers. This sector will likely be the largest contributor to the growth of the trade surplus. Part of the gain from the rise in these prices will be offset by the higher cost of fertilizer imports, which have accounted for over 60% of domestic fertilizer consumption over the past decade.[39] Lastly, the surplus in the mining sector will rise by some US$ 1 billion, driven by the rise in the price of gold.

## 2. Inflation

At a monthly rate of 2.9%, inflation was low by historical standards in February 2026, although it had risen for nine consecutive months, driven by the previous year's exchange rate depreciation, adjustments to energy and transport tariffs, rising fuel prices, and an increase in domestic beef prices. In March, following the outbreak of hostilities, inflation rose again to a monthly rate of 3.4%, the highest figure since March 2025. On top of the factors already present in February, fuel prices spiked (by up to 20%, according to March estimates) amid rising international oil prices, producing a direct impact of up to 0.7 percentage points on the consumer price index. In April, inflation subsided to 2.6% per month as domestic fuel prices stabilized. In the coming months, the impact of rising oil prices on inflation will depend on the trajectory of international prices, the pass-through of price fluctuations to domestic fuel prices, and second-round effects on products for which fuel is a significant input. Rising oil prices could also affect inflation by pushing up the cost of imports and international freight.

## 3. Fiscal result

The fiscal balance was already deteriorating before the hostilities began. In the first two months of 2026, real revenues contracted by 4.9% year-on-year, more steeply than primary expenditure, which fell by 4.7%. On the revenue side, tax sources were a particular drag (negatively contributing -8.5 percentage points), albeit partially offset by a positive contribution from capital revenues (3.8 percentage points), which reflected the privatization of four hydroelectric power plants in the Comahue region (Alicurá, El Chocón, Cerros Colorados and Piedra del Águila). Key factors in primary expenditure included the rise in subsidies (contributing 2.2 percentage points) —amid a gradual public utility tariff readjustment process— and the decline in social benefits (-3 percentage points) and operating expenses (-2.7 percentage points) as a result of lagged inflation indexation mechanisms.

Rising international prices for key export products could boost tax revenue through export duties, albeit with a limited effect. The increase in primary export values could generate windfall revenue for the treasury, partially offsetting the decline in other revenue sources. ECLAC estimates that additional revenue from export duties could amount to 0.14% of annualized GDP, with 0.09 percentage points coming from agricultural products and 0.05 percentage points from hydrocarbons. In the case of metals, the rise in the price of gold should not directly impact tax revenue, as no export duties are levied on this metal.

## 4. Financial front

Argentina faced a challenging financial situation in early 2026, with a large amount of maturing debt, no access to capital markets and international reserves running low. The picture improved somewhat in the first two months of the year, on the back of foreign-currency debt issuances by companies and

[38] This calculation takes the flow of Argentina's exports and imports in 2025, then applies the price variation up to the end of April.
[39] See Bolsa de Comercio de Rosario. (2026, 20 March). Informativo semanal. https://www.bcr.com.ar/es/mercados/investigacion-y-desarrollo/informativo-semanal/noticias-informativo-semanal/la-89.

provinces, which enabled the Central Bank of the Argentine Republic to purchase foreign exchange in the currency market and thus meet maturing national government debt obligations and build up international reserves. The country's risk premium accordingly fell significantly, to below 500 basis points by late January, and this helped improve the prospects of an eventual return to refinancing on the international markets for refinancing purposes.

With the outbreak of hostilities, global financial conditions deteriorated, adversely affecting Argentina's financial situation. Expectations that rising oil prices would trigger global inflation —and consequently change United States monetary policy— drove up long-term interest rates. This shock also impacted the sovereign risk premium, which remained above 500 basis points, despite the positive effect of rising commodity prices on the trade balance.

### 5. Measures implemented by the authorities

The government adopted a series of measures to cushion the impact of rising international oil prices on domestic fuel prices. The main measure was a temporary 45-day fuel price stabilization mechanism put in place by the State-controlled company Yacimientos Petrolíferos Fiscales (YPF), starting on 1 April 2026. Under this measure, YPF used its refining margins to absorb the impact of the higher international prices. In mid-May, YPF raised fuel prices by an additional 1% —on top of the increases that had occurred in March— and extended the price stabilization mechanism for another 45 days. The government also took other, complementary measures: suspending the scheduled April increase in the liquid fuels tax (ICL), lowering the price of bioethanol, and authorizing refiners to voluntarily use a higher percentage of biofuels in their final product composition.

## B. Brazil

### 1. Trade balance

Before the hostilities, Brazil's trade surplus was growing. It stood at US$ 3.739 billion (free on board (FOB)) in January 2026, 60% higher than a year earlier, and by February had risen to US$ 4.005 billion (both FOB figures), according to official national data.[40] This performance was driven by a stronger rise in exports than imports during the first two months of the year, on the back of record agricultural export volumes —particularly of soybeans, with an all-time record crop, thanks to benign weather conditions and an expansion of areas sown— as well as robust external demand, especially from China.

In view of the hostilities, the surplus is likely to widen further in the short term, driven by both rising commodity prices on international markets and heightened external demand with the squeeze on global access to products transiting the Strait of Hormuz. The trade surplus in fact rose to US$ 10.5 billion (FOB) in April 2026 —the highest monthly figure since June 2023— fuelled by higher prices for agricultural goods (such as soybeans, beef and maize) as well as larger volumes (specifically for soybeans, beef and coffee). However, the trade balance could be adversely impacted in the medium term, as higher prices for raw materials strategic to Brazilian trade, particularly fertilizers, and, potentially, shortages of those materials are expected. Brazilian agriculture is highly vulnerable to external fertilizer supplies, which account for over 85% of domestic usage, supporting the sector's main export of soybeans (accounting for 20.4% of the country's total FOB export value in April 2026), as well as of maize, cotton, coffee and rice, among other products. Furthermore, although Brazil produces and exports crude oil, it lacks sufficient domestic refining capacity and therefore relies on imports of petroleum derivatives to meet domestic demand, especially for diesel, which is crucial for the transport sector. Accordingly, the impact of the hostilities on Brazil's trade balance for oil and petroleum derivatives could be mixed.[41]

### 2. Inflation

Before the hostilities began, inflation in Brazil was relatively stable, fluctuating at between 4% and 5% year-on-year since June 2024. It dipped slightly in February 2026, with the consumer price index showing a year-on-year variation of 3.81% according to official central bank data, within the

[40] Ministry of Development, Industry, Commerce, and Services. (2026). Resultados do comércio exterior brasileiro - Dados Consolidados. Secretariat of Foreign Trade.

[41] Inter-Union Department of Statistics and Socioeconomic Research. (2026). A guerra no Irã, os efeitos sobre o setor de óleo e gás e os desafios para a soberania energética brasileira. https://assets.cut.org.br/system/uploads/ck/DIEESE%20NOTA%20TEC%20292%20guerra%20e%20petroleovf.pdf.

country's 2026 inflation target (3% year-on-year, with a tolerance band of 1.5 percentage points on either side). The inflation projection for 2026 prior to the outbreak of hostilities was 3.91% year-on-year. Against this backdrop of relatively controlled inflation, coupled with a high interest rate (the Selic rate) —at a 20-year high of 15% per annum— the expectation was that the policy rate would be gradually cut to around 12% per annum by the end of 2026.

Following the outbreak of hostilities, inflation initially picked up, driven by transport and food prices (which rose by 1.64% and 1.56%, respectively, in March 2026 compared to February). Government measures to curb the surge in fuel prices prevented a sharper increase in transport costs in April, keeping prices in the sector stable relative to March; however, food prices continued to rise (by 1.34% in April compared to March), and price inflation rose for health and personal care (up 1.16% over the same period). Measures to control rising freight and passenger transport costs are important for preventing pricing cascades; however, the figures show they are not enough to prevent price rises for other strategic inputs (such as fertilizers) from passing through to the rest of the economy. In May 2026, the annual inflation forecast for the year stood at 5.04%.[42] This figure is likely to stymy the gradual reduction of interest rates. Indeed, market expectations indicate an interest rate of 13.25% by end-2026.[43] The high interest rate in Brazil today is a key factor underlying its low investment rate, which stood at 16.8% of GDP in 2025, close to its historic low of 15% in 2017.

## 3. Fiscal result

Brazil's fiscal balance was improving prior to the hostilities, with the central government posting a surplus of around US$ 21 billion in January 2026. The primary balance then deteriorated in March, with a deficit of some US$ 16 billion, although this was attributable to court-ordered payments[44] and unrelated to the impacts of the hostilities. These may be expected to have a mixed impact on Brazil's fiscal outcome: on the one hand, royalties and special oil levies are projected to produce increased revenue amid rising prices, while on the other, public spending is expected to rise in connection with measures to contain the increase in transport costs. As of February 2026, the primary balance for 2026 was projected to reach 0.5% of GDP, and the central bank's forecast remains unchanged in this regard.

## 4. Financial front

Brazil holds international reserves of over US$ 360 billion, providing some margin for manoeuvre in response to challenging external conditions. Reserves also showed relative stability, with a small dip from US$ 364 billion in January 2026 to US$ 362 billion following the outbreak of hostilities in March 2026. This stability is reflected in the sovereign credit ratings given to Brazil by major rating agencies, which have maintained its BB category (speculative grade). This indicates that Brazil is considered capable of meeting its financial obligations, albeit subject to economic, political or financial uncertainties. The rating's relative stability does not imply an absence of vulnerabilities. On the contrary, the fact that it lacks investment grade means the country is exposed to significant risks.

Brazil does face significant financial vulnerabilities, considering its domestic and external financial position. According to central bank data, the public sector's gross domestic and external debt edged up, from 78.6% of GDP in January 2026 to 80% in March. After deducting international reserves and other government assets, public sector net debt rose from 65% of GDP in January 2026 to 67% in March. However, market expectations regarding net debt for the year overall remained relatively stable, shifting from 70% of GDP in February 2026 to 69.83% in May, suggesting that the impact of the hostilities on the public sector's financial position has been fairly neutral.

## 5. Measures implemented by the authorities

In the wake of the hostilities, the Government of Brazil implemented a series of measures aimed at domestic energy sovereignty and supply security. These measures focus mainly on containing the rise in prices of diesel —the main fuel used for freight transport in Brazil— to prevent a domino effect on prices across the economy. Diesel was fully exempted from domestic taxes,[45] and financial aid was made available for diesel producers and importers. Each of these measures is expected

[42] Central Bank of Brazil. (2026, 22 May). *Focus. Relatório de mercado*. https://www.bcb.gov.br/content/focus/focus/R20260522.pdf.
[43] Ibidem.
[44] These are expenditures related to a payment order issued by the Judiciary to compel the government to settle a debt.
[45] Full exemption from contributions to the Social Integration Programme (PIS) and the Contribution for the Financing of Social Security (COFINS), both national taxes levied on corporate revenue to fund social security.

to lower the price of diesel by US$ 0.07 per litre, resulting in an overall reduction of US$ 0.14 per litre for the consumer. The forgone tax revenue resulting from these measures is expected to come to US$ 4 billion and US$ 2 billion, respectively. The government also announced transparency and oversight measures in conjunction with gas stations, aiming to ensure that consumers actually benefit from these subsidies. The government also imposed an export tax of 12% on crude oil and 50% on diesel and authorized an increase in domestic refining to protect supply for the population and offset the fiscal impact of the aforementioned measures. Specific measures were adopted for the aviation sector, including a full waiver of domestic taxes[46] for aviation fuel and the opening of approximately US$ 1.8 billion in credit lines for the sector.

## C. Mexico

### 1. Trade balance

In 2025, goods exports were already the main driver of economic growth in Mexico, against a backdrop of sluggish domestic demand with slowing consumption and falling investment.

In March 2026, Mexico's goods trade posted a surplus of US$ 5.932 billion, which nearly offset the deficits from the first two months of the year. Exports accelerated significantly more than imports, particularly in February and March. Year-on-year monthly growth in total exports rose from 8.1% in January 2026 to 15.8% in February and 27.7% in March. Meanwhile, import growth went from 9.8% in January to 20.8% in February and 24.3% in March.

However, the external sector's strong performance could be affected by the hostilities. Although Mexico is a net oil exporter, its reliance on imports of gasoline and natural gas, which account for nearly 70% and 60% of total consumption, respectively, and the need to import many production inputs (whose prices have risen significantly) could negatively impact the trade balance.

### 2. Inflation

Mexico recorded a year-on-year inflation rate of 3.69% in December 2025, below the year-earlier figure of 4.21%, with the decline occurring mainly in the prices of certain food items and fuels.

However, year-on-year inflation rose in the first three months of 2026, with rates of 3.79% in January, 4.02% in February, and 4.59% in March. In April, the figure stood at 4.45%, driven by significant price increases in certain food items, fuel, healthcare and educational services. This was despite government efforts as of April to lower fuel costs by reducing the Special Tax on Production and Services (IEPS).

According to the Bank of Mexico, headline and core inflation should start to come down in the second quarter of 2026 onward, after the first-quarter rises. Headline inflation is expected to converge towards the target (between 2% and 4%, with a midpoint estimate of 3%) in the second quarter of 2027, while core inflation is expected to stand at 3% in that same quarter.

### 3. Fiscal result

Between January and February 2026, before the outbreak of hostilities, public sector budgetary revenues rose by 2.0% in real terms year-on-year, reflecting an increase in non-oil revenues (3.3%) and a decline in oil revenues (-9.5%). Net public sector budgetary expenditure increased by 2.2% in real terms, primarily due to a rise in current expenditure (10.1%) and a marked drop in capital expenditure (-38.7%), particularly the decrease in physical investment (-45.0%). The public deficit narrowed by 8.3% year-on-year during those two months.

In March 2026, the situation took a slight turn for the worse. Public sector budgetary revenues declined by 0.7% in real terms year-on-year, with a combination of higher non-oil revenues (0.4%) and lower oil revenues (-9.4%). Meanwhile, net public sector budgetary expenditure increased by 2.6% in real terms. The public deficit expanded by 91.8% year-on-year. Total public debt is expected to reach approximately 55% of GDP by the end of 2026, in line with the borrowing parameters approved by the Congress of the Union.

[46] Central Bank of Brazil. (2026, 22 May). *Focus. Relatório de mercado.* https://www.bcb.gov.br/content/focus/focus/R20260522.pdf.

Mexico's reliance on gasoline and natural gas imports is a source of vulnerability for its public finances. The higher costs of purchasing these products are compounded by the negative impact on State revenue. To contain fuel price rises, the government reduced the Special Tax on Production and Services starting in April, in the event that hostilities last until the end of the year. It also introduced corporate tax incentives through deductions and accelerated depreciation schemes, which produce further losses in public revenue.

In May 2026, Fitch Ratings left Mexico's sovereign debt rating unchanged, but S&P Global Ratings revised the country's debt outlook from stable to negative amid risks of slower fiscal consolidation, and Moody's Investors Service downgraded its rating from Baa2 to Baa3, also shifting the outlook from stable to negative. This leaves Mexico one notch away from losing investment grade status and falling into the speculative grade category, owing to weak economic growth, deteriorating public finances, rising debt, and the increasing cost of financial support for PEMEX.

### 4. Monetary policy

In early 2026, Mexico adopted a laxer monetary policy stance in the previous year. The Bank of Mexico lowered the interbank interest rate by 25 basis points in March and again in May 2026, bringing it to 6.50%, as the Bank's Governing Board took the view that that the disinflationary process had continued to progress. However, the Bank also considered that existing inflationary pressures could lead to a lengthy pause in cuts to the reference interest rate.[47]

### 5. Measures implemented by the authorities

The Bank of Mexico, the Ministry of Finance and Public Credit (SHCP), the Federal Consumer Protection Agency (PROFECO), and the federal government adopted a set of policies to mitigate the negative effects of the hostilities on domestic prices, economic activity and household well-being. While these measures help cushion the impact of the shock, they carry significant fiscal costs in the medium and long terms.

- A hiatus in the cuts to the reference interest rate set by the Bank of Mexico, due to inflationary pressures.
- Weekly downward adjustments to the Special Tax on Production and Services to contain prices.
- Stabilization of domestic prices for various products through implicit price caps on regular gasoline and diesel, through an agreement with fuel retailers. Prices are also being monitored by PROFECO, with inspections of gas stations and commercial establishments.
- Price controls on the basic food basket with the adoption of the Package Against Inflation and Scarcity (PACIC), which aims to reduce inflation and the decline in household consumption through agreements with business leaders and subsidies for producers.
- Tax incentives for businesses with deductions and accelerated depreciation schemes.
- Management of the energy transition by using renewable energy to reduce exposure to rising energy prices, with an estimated annual cost of around US$ 8.5 billion, in accordance with the Ministry of Energy's strategy for 2030.[48]

## D. Barbados

The hostilities in and around the Islamic Republic of Iran have come at an inopportune time for Barbados. Before the start of recent hostilities, the country benefited from tailwinds such as a record number of stayover visitors in 2025, economic growth of 1.7% in the first quarter of 2026 relative to the same quarter of 2025 and modest inflation of 1.3% year-on-year in February 2026.[49] Higher growth had led to improved labour market conditions, with the unemployment rate falling to 7.2% in December 2025, below the historical average of around 10%. The Barbados Economic Recovery and Transformation (BERT) programme, supported by IMF, had yielded results, with

[47] The Bank of Mexico's statement of May 2026 concerning the interest rate decision stated that the cycle of rate cuts would undergo a lengthy pause. https://www.banxico.org.mx/publicaciones-y-prensa/minutas-de-las-decisiones-de-politica-monetaria/%7B3F15F7F1-3E5A-4FD4-E0C0-B4BEA1703FAF%7D.pdf.

[48] https://www.gob.mx/sener/articulos/sener-presenta-instrumentos-para-detonar-inversion-en-generacion-electrica-por-casi-740-mil-mdp-rumbo-a-2030.

[49] Central Bank of Barbados. (2026). *Review of Barbados' Economic Performance: January to March 2026: Resilient Growth, Strong Buffers: Barbados Navigates a More Uncertain Global Environment* [Press release]. https://www.centralbank.org.bb/news/economic-reviews/economic-review-january-march-2026.

the fiscal deficit declining to 0.4% of GDP and public debt to 94.6% of GDP. In addition, the current account balance-of-payments deficit narrowed in the first quarter of 2026. The hostilities are expected to present headwinds and downside risks to macroeconomic stability.

## 1. Trade balance

In the first quarter of 2026, the current account deficit narrowed from 0.4% of GDP to 0.1% of GDP. This stemmed from higher tourism receipts, a smaller goods trade deficit and a better income account position. These were partly offset by a US$ 128.5 million decline in the financial account surplus, driven by lower net public sector inflows and foreign direct investment. Nevertheless, gross international reserves remained dynamic at US$ 1.5 billion at the end of March 2026, covering six months of imports, twice the global benchmark.

The hostilities in and around the Islamic Republic of Iran are expected to pose significant downside balance of payments risks. ECLAC estimates that the goods trade deficit will widen from 14.2% of GDP to more than 16.0% of GDP, reflecting the impact of higher average oil prices and rising import costs for fuel, food and other commodities.

However, the pass-through effects will also have an impact on the services account. As a predominantly tourism-based economy, Barbados is likely to be affected by higher jet fuel prices, which will increase travel costs for visitors from major markets. In addition, rising consumer prices in tourist source markets will erode the disposable income of potential tourists, likely softening demand for Barbados' tourism product. Further, an increase in United States Federal Reserve interest rates to contain fuel-cost-induced inflationary pressures could dampen tourist demand and trigger capital outflows from Barbados as investors seek higher returns elsewhere, weighing on domestic investment.

## 2. Inflation

Inflation was trending upward in the first quarter of 2026. The year-on-year inflation rate rose from -0.3% in February 2025 to 1.3% in February 2026.[50] Higher inflation reflected rising costs of restaurant services, healthcare, education, recreational goods and transport. As a result of the hostilities in and around the Islamic Republic of Iran, higher international fuel prices will pass through to most sectors with a lag, leading to an increase in inflation in 2026. This will be driven by higher fuel, transport and food prices, which carry the largest weights in the retail price index.

The pass-through effects of these higher fuel prices are reflected in the almost 24% increase in the fuel clause adjustment (FCA) by the electricity provider, Barbados Light and Power Company, from 28.9949 cents per kWh in February to 35.8256 cents per kWh in March 2026.

## 3. Fiscal result

Barbados had a relatively strong fiscal position at the onset of the fuel price shock. The overall fiscal deficit had narrowed to 0.4% of GDP in fiscal year 2025/26 from the 0.8% of GDP recorded in fiscal year 2024/25. This reflected strong revenue growth, buoyed by value added tax (VAT) receipts and personal income tax, alongside contained growth in expenditure on the back of lower domestic and external debt interest costs thanks to the early repayment of the Eurobond and savings from the debt-for-climate swap. Notably, the government achieved a primary surplus, which excludes interest payments on the public debt, of 4% of GDP, helping maintain public debt on a downward trajectory. As a result, public debt fell from 97.4% of GDP in March 2025 to 94.6% of GDP in March 2026.

In the budget for fiscal year 2026/27, the government projected an overall fiscal deficit of 0.8% of GDP and a primary surplus of 4.8% of GDP.[51] However, the hostilities are likely to generate fiscal pressure on both the revenue and expenditure sides. Revenue will be dampened by the expected slowdown in tourism activity and the spillover of higher costs to domestic demand. Meanwhile, expenditure is already increasing as the government offsets the fuel price shock through fuel tax and VAT relief and subsidies. The central bank estimates that the cost-of-living package would reduce revenue by 0.55% of GDP and raise expenditure by 0.45% of GDP. Therefore, the fiscal deficit is expected to widen.

[50] Ibidem.
[51] Mottley, M. A. (2026, 14 May). *Press Conference - Barbados/IMF Precautionary Stand-by Arrangement* [Video]. Barbados Government Information Service. YouTube. https://www.youtube.com/watch?v=Lz-LxzADkOo.

## 4. Financial front

Generally, financial sector conditions in Barbados were relatively strong at the start of 2026. Financial sector stability was bolstered by improved banking sector asset quality, driven by lower non-performing loans, stronger capital positions and higher liquidity. Moreover, the country's sovereign risk rating was upgraded from B to B+ by Standard & Poor's in October 2025, supporting its return to international capital markets. In May 2026, Barbados signed a 36-month precautionary stand-by arrangement with IMF for US$ 260 million, roughly in line with its special drawing rights allocation. This is a proactive insurance facility against worsening external shocks and potential natural disasters.

Further, gross international reserves of US$ 1.5 billion, covering six months of imports, provide a solid buffer for the fixed exchange rate peg. The combination of ample reserves, improved credit rating and market access, and the precautionary stand-by agreement strengthens the country's resilience. Importantly, Barbados has been removed from the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring (grey list) and the European Union List of High-Risk Third Countries (blacklist), indicating compliance with international anti-money laundering and counter-terrorist financing standards.

Nevertheless, its financial position is subject to downside risks, particularly if global financial conditions deteriorate as a result of the hostilities. Tighter financial conditions could weigh on global growth and income, weakening external demand —including tourism— and widening sovereign risk premiums, thereby increasing borrowing costs.

## 5. Measures implemented by the authorities

The Government of Barbados has been proactive in cushioning the impact of the fuel and commodities shock on households and businesses. The main measure has been the agreement to absorb 50% of the fuel clause adjustment to mitigate the increase in electricity costs for consumers. This has been supported by a three-month hedge that locks the price of imported heavy fuel oil at US$ 92 per barrel.[52] To protect the tourism sector, a three-year extension was granted under the Tourism Development Act for properties that were granted concessions on or after 1 January 2005. The measure, intended to support recovery and enhance the sector's competitiveness, includes exemptions from the payment of customs duties on imports of building materials and supplies, the write-off of interest payments on loans obtained for upgrading hotels and restaurants, and a 150% income tax deduction for expenditure on training and marketing.

On the social front, key relief measures have also been introduced, including the use of free on board (FOB) rather than cost, insurance and freight (CIF) valuation in the calculation of VAT and import duties on food, personal care items and construction materials, thereby lowering costs for households. The government has also reduced the personal income tax rate from 12.5% to 11.5% on taxable income up to 50,000 Barbados dollars (BDS$) (US$ 25,000) and from 28.5% to 27.5% on income above BDS$ 50,000. In addition, a BDS$ 100 monthly cost-of-living cash credit is provided to pensioners with maximum yearly earnings of BDS$ 50,000 (US$ 25,000), as well as to other vulnerable groups.[53]

There is growing recognition that the oil price shock presents an opportunity for Barbados to accelerate the green energy transition and reduce its dependence on fossil fuels. Accordingly, the government will allow taxpayers to claim a deduction for the replacement of electric vehicle (EV) batteries. There is also a focus on improving energy efficiency to reduce waste and optimize the use of available energy supply.

[52] Straughn, R. (2026, 16 March). *Financial Statement and Budgetary Proposals* [Video]. Barbados Government Information Service. YouTube. https://www.youtube.com/watch?v=P2kZyRsPE4E.
[53] Ernst & Young. (2026, 16 March). *Focus on the Barbados Budget 2026: Key Measures.*

# Annexes

## Annex A1

### Methodological note

**Latin America and the Caribbean (24 countries) and four regional groupings: estimation of the impact of the energy price shock on the trade balance**

The impact of variations in international energy prices on the trade balance were estimated for 24 Latin American and Caribbean countries and four regional groupings (Latin America and the Caribbean; South America; Central America plus Haiti and the Dominican Republic; and the Caribbean excluding Trinidad and Tobago and Guyana).

The exercise covers three categories of the 2017 Harmonized System (HS): crude oil (HS 2709), refined products (HS 2710), and gas in its various forms (HS 2711), using trade balances (FOB exports minus CIF imports) from the 2024 base year (based on UN Comtrade data), expressed as a percentage of each country's nominal GDP in current dollars.

The calculation assumes constant physical quantities (ceteris paribus), and that the impact arises exclusively from price changes.

The general formula is:

$$\Delta \text{ Trade balance}_i = \text{Balance}_i \text{ (MM USD)} \times \beta_i \times \Delta\% \text{ price}_i$$

where $\text{Balance}_i = \text{Exports}_i - \text{Imports}_i$ for product i (crude, derivatives or gas).

Three independent price shocks are considered:

(i) Crude oil price shock

(ii) Refined derivatives price shock

(iii)Natural gas price shock

The TTF (Title Transfer Facility) price was used as a reference to represent a shock in international natural gas prices. The gas price reference for each country was determined based on the type of gas predominating in its foreign trade flows.

The natural gas price shock was not applied directly for countries whose gas imports or exports consist mainly of liquefied petroleum gas (LPG), primarily propane and butane. Instead, for the purposes of the simulation, the price variation was proxied using the evolution of the Brent crude oil price, applying a pass-through coefficient of $\beta = 0.50$.

In countries (such as Mexico) where the natural gas market is integrated mainly with the United States market and prices are linked to North American benchmarks, the shock associated with the TTF price does not apply.

The classification of the predominant gas type by country was reviewed by specialists from the ECLAC offices in Argentina, Mexico and the Caribbean.

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

## Annex A2

**Table A2.1** Latin America and the Caribbean (24 countries): impact of the energy shock on the trade balance, in scenario 1
*(GDP percentage points)*

| Country or regional grouping | Δ crude | Δ derivatives | Δ gas | Δ total |
|---|---|---|---|---|
| **Net exporters** | | | | |
| Guyana | 18.16 | -1.02 | -0.01 | 17.12 |
| Trinidad and Tobago | 1.55 | -0.58 | 0.54 | 1.51 |
| Ecuador | 1.55 | -0.61 | -0.08 | 0.86 |
| Colombia | 0.68 | -0.11 | -0.06 | 0.51 |
| Brazil | 0.41 | -0.05 | -0.05 | 0.30 |
| Argentina | 0.19 | -0.02 | -0.01 | 0.16 |
| **Net importers** | | | | |
| Mexico | 0.29 | -0.34 | 0.00 | -0.04 |
| Peru | -0.30 | -0.19 | 0.08 | -0.41 |
| Uruguay | -0.28 | -0.19 | -0.02 | -0.49 |
| Costa Rica | 0.00 | -0.58 | -0.02 | -0.60 |
| Bahamas (The) | 0.00 | -0.63 | -0.03 | -0.66 |
| Panama | 0.00 | -0.70 | -0.02 | -0.72 |
| Bolivia (Plurinational State of) | -0.06 | -1.43 | 0.69 | -0.80 |
| Guatemala | 0.02 | -0.85 | -0.04 | -0.88 |
| Dominican Republic | -0.16 | -0.57 | -0.26 | -0.98 |
| Barbados | 0.05 | -1.00 | -0.04 | -0.99 |
| Suriname | 0.00 | -1.01 | 0.00 | -1.02 |
| Chile | -0.38 | -0.49 | -0.17 | -1.03 |
| Paraguay | 0.00 | -1.10 | -0.01 | -1.12 |
| El Salvador | 0.00 | -1.12 | -0.14 | -1.26 |
| Belize | -0.00 | -1.23 | -0.08 | -1.31 |
| Honduras | 0.00 | -1.64 | -0.03 | -1.67 |
| Nicaragua | -0.65 | -0.99 | -0.05 | -1.69 |
| Grenada | 0.00 | -1.84 | -0.00 | -1.84 |
| **Regional groupings** | | | | |
| Latin America and the Caribbean | 0.33 | -0.25 | -0.03 | 0.05 |
| South America | 0.29 | -0.13 | -0.04 | 0.13 |
| Central America, Haiti and the Dominican Republic | -0.06 | -0.75 | -0.09 | -0.90 |
| The Caribbean, excluding Guyana and Trinidad and Tobago | 0.01 | -0.47 | -0.02 | -0.48 |

Source: Economic Commission for Latin America and the Caribbean, on the basis of United Nations (2024). *UN Comtrade Database.* https://comtradeplus.un.org/, International Monetary Fund and own data.

Note: The results are estimates subject to revision. The methodology is as follows: Δ trade balance = crude oil trade balance × %Δ crude oil price + derivatives trade balance × %Δ derivatives price + natural gas trade balance × %Δ natural gas price. Physical quantities for 2024 were held constant. This exercise assumed an average Brent crude oil price of US$ 86 per barrel in 2026 (a 25% increase over the 2025 average price), and price variations for refined petroleum products and TTF gas were assumed to match that of crude oil.

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