

Economic Survey of Latin America and the Caribbean **2025**

Resource mobilization
to finance development



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José Manuel Salazar-Xirinachs

Executive Secretary

Javier Medina Vásquez

Deputy Executive Secretary a.i.

Noel Pérez Benítez

Officer in Charge, Economic Development Division

Sally Shaw

Chief, Documents and Publications Division

The *Economic Survey of Latin America and the Caribbean* is issued annually by the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC). This 2025 edition was prepared under the supervision of Noel Pérez Benítez, Officer in Charge of the Economic Development Division, while Ramón Pineda Salazar, Senior Economic Affairs Officer in the same Division, was responsible for its coordination.

Thanks are extended, for their assistance, to the Statistics Division, the Division of International Trade and Integration, the ECLAC subregional headquarters in Mexico City and Port of Spain, and the Commission's country offices in Argentina, Bogotá, Brasília, Montevideo and Washington, D.C.

The sections of the first chapter, "Regional overview", are based on inputs prepared by the following experts: Esteban Pérez Caldentey and Jeanelle Clarke (international context and global liquidity), Christine Carton and Pablo Carvallo (external sector), Claudio Aravena and Ramón Pineda Salazar (economic activity), Ramón Pineda Salazar, Claudio Aravena and Tomás Gálvez (employment and wages), Ramón Pineda Salazar and Temitope Farotimi (prices), Noel Pérez Benítez, Dalmiro Morán, Michael Hanni, Ivonne González, Patricia Weng, Elisa Araneda and Juan Manuel Badilla (fiscal policy), Francisco Villarreal, Franciss Peñaloza and Alejandra Acevedo (monetary, exchange-rate and prudential policies), Ramón Pineda Salazar, Pablo Carvallo, Christine Carton, Claudio Aravena and Temitope Farotimi (economic projections and outlook), with the assistance of the subregional headquarters and national offices of the Commission. Tomás Gálvez coordinated the statistical annex in collaboration with Alejandra Acevedo, Claudio Aravena, Pablo Carvallo, Ivonne González, Michael Hanni and Elisa Araneda.

The chapters of part II, "Resource mobilization to finance development", were coordinated by Noel Pérez Benítez, Esteban Pérez Caldentey, Francisco Villarreal and Ramón Pineda Salazar. Chapter II was prepared by Noel Pérez Benítez, Dalmiro Morán, Michael Hanni, Ivonne González, Patricia Weng, Elisa Araneda and Juan Manuel Badilla; chapter III, by Francisco Villarreal, Dalmiro Morán, Michael Hanni and Jeanelle Clarke, and chapter IV, by Esteban Pérez Caldentey, Georgina Cipoletta and Jeanelle Clarke.

The country notes were prepared by the following experts: Laura Abramo, Alejandra Acevedo, Anahí Amar, Claudio Aravena, Raquel Artecona, Fernando Balbuena, Christine Carton, Pablo Carvallo, Martín Cherkasky, Georgina Cipoletta, Jeanelle Clarke, Keon Constantine, Jayde Eastmond, Temitope Farotimi, Tomás Gálvez, Enrique González, Camila Gramkow, Michael Hanni, Michael Hendrickson, José Iraheta, Mayra Juruá Gomes, Álvaro Lalanne, Li Ma, Sheldon McLean, Claudia Ospina, Roberto Orozco, Ramón Padilla, Ángela María Penagos, Franciss Peñaloza, Guillermo Peredo, Noel Pérez Benítez, Esteban Pérez Caldentey, Ramón Pineda Salazar, Manuel Quesada, Verónica Quiroz, Juan Carlos Rivas, Miosotis Rivas Peña, Indira Romero, Jesús Santamaría, Daniel Vergara, Soledad Villafaña, Francisco Villarreal, Patricia Weng and Romain Zivy.

The statistical annex of *Economic Survey of Latin America and the Caribbean, 2025* is available at: <https://bit.ly/EconomicSurvey-2025>.

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United Nations publication

ISBN: 978-92-1-003557-6 (print) • ISBN: 978-92-1-107380-5 (pdf) • ISBN: 978-92-1-107381-2 (ePub)
Sales No.: E.25.II.G.2 • LC/PUB.2025/12-P • Distribution: G • Copyright © United Nations, 2026 • All rights reserved
Printed at United Nations, Santiago • S.2500222[E]

Explanatory notes:

Three dots indicate that data are not available or are not separately reported.

A dash indicates that the amount is nil or negligible.

A full stop is used to indicate decimals.

The word "dollars" refers to United States dollars, unless otherwise specified.

A slash between years (e.g. 2024/2025) indicates a 12-month period falling between the two years.

Individual figures and percentages in tables may not always add up to the corresponding total because of rounding.

This publication should be cited as: Economic Commission for Latin America and the Caribbean. (2026). *Economic Survey of Latin America and the Caribbean, 2025* (LC/PUB.2025/12-P).

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Presentation and Executive summary.....	11
Part I	
Regional macroeconomic report and outlook for 2025 and 2026.....	27
Chapter I	
Regional overview	29
A. The international context.....	31
1. In 2025, global economic growth will fall to its lowest rate since the coronavirus disease (COVID-19) pandemic	31
2. Among advanced economies, the slowdown will be most pronounced in the United States	31
3. Overall, eurozone growth will remain sluggish	33
4. In China, economic growth has fallen short of official targets, and the outlook is deflationary.....	34
5. Emerging and developing economies will continue to drive global economic growth.....	36
B. Global liquidity	39
1. The upward trend in global liquidity growth seen since early 2024 continued in the first quarter of 2025.....	39
2. The policy responses of the world's leading central banks reflect greater divergence and heterogeneity between countries in economic performance and inflation	39
3. The dollar depreciated in 2025 despite higher long-term Treasury bond yields	41
4. The eurozone, including the periphery, has benefited from the diversification of foreign investors' portfolios.....	43
5. Volatility and uncertainty notwithstanding, the dollar remains the world's leading international reserve currency	44
C. The external sector.....	45
1. In 2025, the region's current account deficit will come under mounting pressure from emerging global risks, in particular global economic fragmentation and financial volatility, despite a resilient trade surplus and remittances	45
2. Net capital inflows, led by foreign direct investment, will continue to rise, but the financing available is expected to diminish once the current account deficit is covered.....	51
3. Rising debt issuance, driven by the private sector, will approach pre-pandemic levels, while the contribution of thematic bond issues will remain marginal	53
D. Domestic performance.....	58
1. Economic growth in Latin America has begun to slow and is converging on low levels.....	58
2. The slowdown in GDP growth has been quite uniform across the Latin American countries.....	59
3. The slowdown in economic activity reflects the weakening of both private consumption and gross fixed capital formation.....	61
4. The deterioration and stagnation of the labour and capital factors, together with declining productivity, are behind the low economic growth of Latin America.....	65
5. Inflation has gone on falling in the region's economies, albeit more and more slowly	66
6. Inflation held steady in the first half of 2025, although there were marked differences between subregions	70
7. Core inflation has been trending upward while food inflation has fallen	72
8. Services inflation has increased in 2025 even as goods inflation has decreased	73
9. There are still risks that could change the recent inflation trajectory	74

10. Formal employment has been expanding because of favourable dynamics in the most productive sectors, including financial services and manufacturing	75
11. Informality and unemployment rates have fallen by more than expected, and wage employment has accounted for most new jobs.....	76
12. The incipient recovery in the region's labour markets faces significant risks	85
E. Macroeconomic policies.....	87
1. Despite heightened global uncertainty, government revenues are expected to remain stable in Latin America, but are likely to diminish in the Caribbean	87
2. Public spending is expected to remain stable in the region, albeit with slight changes in composition, especially in Latin America	91
3. Fiscal balances in Latin America likely to be broadly unchanged, but the overall deficit in the Caribbean is projected to widen.....	95
4. Although the region's public debt continues to diminish, its persistently high levels compromise the fiscal space available for public policies.....	97
5. Monetary policy in Latin America and the Caribbean eased somewhat in 2024, but the region's central banks maintained a generally contractionary stance	101
6. Since late 2024, global uncertainty has led the region's authorities to adopt a more cautious stance, so that a number of central banks have put rate cuts on hold.....	102
7. Interest-rate differentials with developed countries led to the region's currencies depreciating in 2024	104
8. The depreciating trend of regional currencies slowed from early 2025, with some appreciating from April onward, which heightened exchange-rate volatility.....	105
9. More and more countries' currencies are depreciating in real terms.....	106
10. Net international reserves in Latin America and the Caribbean increased again in 2024, a trend that continued into 2025	106
11. The tightening of external financial conditions since the fourth quarter of 2024 and the restrictive bias of monetary policy have led to higher rates in the financial system.....	108
12. Net domestic credit has responded to the region's public and private financing needs, picking up strongly in the first two months of 2025.....	109
13. The combination of economic recovery and rising interest rates in South America and the Caribbean in 2024 boosted deposit growth in the banking sector, especially in foreign currency.....	111
14. High levels of uncertainty led banks to increase their liquidity coverage ratios and shore up their regulatory capital	112
15. The global environment has created significant challenges for the conduct of monetary, exchange-rate and prudential policies in Latin America and the Caribbean	116
F. Economic projections and prospects for Latin America and the Caribbean in 2025 and 2026	118
1. If projections for 2025 and 2026 materialize, real GDP growth in the region will have remained low, at around 2.3%, for four years running	118
2. Private consumption, the main driver of growth, is slackening	119
3. The macroeconomic situation in 2025–2026 will be marked by an unfavourable international environment, which will limit external support for regional growth.....	121
4. The external sector is highly vulnerable because of rising current account deficits and greater reliance on external capital	123
5. Employment growth is slowing, although there have been small declines in unemployment and informality.....	124
6. Inflation is expected to remain stable and close to target, although there could be upside risks and differences between subregions.....	126
7. Medium- and long-term policies: towards a transformation of the development model.....	127
Bibliography.....	129
Part II	
Mobilizing resources for development financing.....	133
Introduction	135
Chapter II	
Fiscal challenges for the mobilization of domestic resources	141
A. The fiscal context in the region.....	143
1. A context of looming transitions and persistent gaps	143

2. Inadequate fiscal revenues and structural constraints.....	146
3. Fiscal deficits and debt as development constraints.....	150
B. Proposals for necessary reforms.....	152
1. The role of fiscal policy as a tool for facilitating sustainable development.....	152
2. Fiscal strategies for strengthening domestic resource mobilization.....	154
3. Governance and technical, operational, political and prospective (TOPP) capabilities.....	158
Bibliography.....	159
Chapter III	
Mobilizing resources for productive transformation.....	161
A. The global economic context and its implications for the financing of productive transformation.....	163
B. Renewal of the international financial architecture.....	166
1. Strengthen international tax cooperation.....	166
2. Improve debt management mechanisms.....	167
3. Extend the global financial safety net.....	169
C. The strengthening of international development cooperation.....	170
D. Encouragement of private sector investment.....	172
1. Develop domestic capital markets and integrate capital market platforms at the regional level.....	172
2. Strengthen policies for attracting FDI.....	173
3. Enhance the use of innovative financial instruments.....	174
E. Prospects for the Sevilla Commitment agreements.....	175
Bibliography.....	177
Chapter IV	
The role of development banks in mobilizing resources.....	181
Introduction.....	183
A. The functions of development banks.....	183
B. Multilateral development banks and their heterogeneity.....	184
1. Subregional multilateral development banks and their productive specialization.....	185
2. Factors that can expand the lending capacity of multilateral banks.....	188
C. National development banks in Latin America and the Caribbean: characteristics, evolution, heterogeneity, productive specialization, financial inclusion and instruments.....	190
1. The characteristics, heterogeneity and evolution of national development bank financing.....	190
2. Development bank financing instruments for promoting financial inclusion and productive activities.....	193
D. Conclusions, recommendations and final comments.....	197
Bibliography.....	199
ECLAC recent publications.....	201
Tables	
Table 1	Latin America and the Caribbean: real GDP growth in 2024 and projections for 2025 and 2026..... 22
Table I.1	Latin America and the Caribbean (25 countries): annual changes (2024–2025) and average annual rates of change (2013–2024) in exports and imports..... 48
Table I.2	Latin America and the Caribbean: bond issuance on international markets, by sector, 2024 and January–April 2025..... 55
Table I.3	Latin America and the Caribbean: thematic bond issuance on international markets, by sector and country, 2024..... 56
Table I.4	Latin America and the Caribbean: 12-month rates of change in the consumer price index (CPI), December 2022 to December 2024..... 67
Table I.5	Latin America and the Caribbean (25 countries): factors contributing to the build-up of net international reserves, 2024–2025..... 108
Table I.6	Latin America and the Caribbean: real GDP growth projections, 2025–2026..... 118
Table I.7	Latin America and the Caribbean: main external indicators, 2024–2026..... 121

Table I.8	Latin America and the Caribbean: summary of macroeconomic indicators, 2024–2026.....	123
Table I.9	Latin America and the Caribbean: main labour market indicators, by sex, 2024–2026	125
Table IV.1	Multilateral, regional and subregional development banks: selected financial indicators, 2024.....	185
Table IV.2	CABEL: lending approved by sector, average shares of total, 2010–2024.....	187
Table IV.3	CAF: lending approved by sector, average shares of total, 2007–2024	187
Table IV.4	Latin America and the Caribbean: national public development banks, by mandate, as of July 2023	191
Table IV.5	Latin America (selected countries): heterogeneity of development bank financial profiles	192
Table IV.6	Constraints affecting national development banks.....	193

Figures

Figure I.1	Selected regions and countries: GDP growth, projections for 2025 and 2026.....	31
Figure I.2	United States: ratio between the level of unemployment (labour supply) and job openings (labour demand), monthly data, January 2023 to April 2025.....	33
Figure I.3	China: rate of change in the producer price index, December 2021–May 2025	36
Figure I.4	Year-on-year change in the volume of world goods trade, January 2019–August 2024.....	37
Figure I.5	Price indices for all commodities, industrial inputs, agricultural products and metals, monthly figures, January 2016–April 2025	38
Figure I.6	Debt and portfolio flows to emerging markets, January 2024–May 2025	38
Figure I.7	Rates of change in the money supply of the world's leading central banks, first quarter 2024–first quarter 2025 and April 2025.....	39
Figure I.8	United States: National Financial Conditions Index of the Federal Reserve Bank of Chicago, 5 January 2024–30 May 2025.....	40
Figure I.9	VIX, V2X (EURO STOXX 50) and VXEEM volatility indices, 30-day moving averages, 1 February 2023–12 June 2025	42
Figure I.10	United States: nominal broad dollar index and 30-year Treasury bond yields, daily values, 2 January 2024–13 June 2025.....	43
Figure I.11	Latin America and the Caribbean (25 countries): current account balance, by component, 2013–2025	45
Figure I.12	Latin America and the Caribbean (25 countries): trade balance, 2013–2025	46
Figure I.13	Latin America and the Caribbean: terms of trade and export and import prices, 2013–2024	48
Figure I.14	Latin America and the Caribbean (25 countries): interest payments abroad (income account debit), 2013–2024	49
Figure I.15	Latin America and the Caribbean (10 countries): remittance inflows, first quarter of 2013–first quarter of 2025	50
Figure I.16	Latin America and the Caribbean (selected countries): cumulative GDP shares of remittance inflows, 2020–2024	51
Figure I.17	Latin America and the Caribbean (25 countries): financial account balances, by investment category, 2013–2024.....	52
Figure I.18	Latin America and the Caribbean (25 countries): direct investment liabilities, by instrument, 2013–2024	53
Figure I.19	Latin America and the Caribbean: bond issuance on international markets, by sector, 2013–2024.....	54
Figure I.20	Latin America: annual GDP growth rates, first quarter of 2022 to fourth quarter of 2025.....	58
Figure I.21	Latin America: cumulative four-quarterly GDP growth rate, first quarter of 2019 to fourth quarter of 2025	59
Figure I.22	Latin America: per capita GDP, first quarter of 2014 to first quarter of 2025	59
Figure I.23	Latin America: annual GDP growth rates, first quarter of 2022 to first quarter of 2025	60
Figure I.24	Latin America: rates of acceleration or deceleration in the year-on-year growth of activity indicators, first quarter of 2024	61
Figure I.25	Latin America: expenditure components, first quarter of 2022 to first quarter of 2025.....	62
Figure I.26	Latin America: investment effort and investment levels.....	63

Figure I.27	Latin America: contribution of expenditure components to growth, first quarter of 2022 to first quarter of 2025.....	64
Figure I.28	Latin America: value added and contributions to value added growth by sector of economic activity, first quarter of 2022 to fourth quarter of 2024	65
Figure I.29	Latin America: annual GDP growth rates and breakdown of GDP growth, first quarter of 2022 to fourth quarter of 2025	66
Figure I.30	Latin America and the Caribbean: median annual rates of change in the consumer price index (CPI), 2018–2024	67
Figure I.31	Latin America and the Caribbean: year-on-year differences in median consumer price inflation (CPI), January 2023 to December 2024.....	69
Figure I.32	Latin America and the Caribbean: median annual rates of change in the consumer price index (CPI), January 2021 to June 2025.....	70
Figure I.33	Latin America and the Caribbean: annual rates of change in the consumer price index (CPI), first four months of 2024 to June 2025.....	71
Figure I.34	Latin America and the Caribbean: median 12-month rates of change in the headline consumer price index (CPI) and in its food and core components, January 2021 to June 2025	72
Figure I.35	Latin America and the Caribbean: 12-month median rates of change in the goods and services components of the consumer price index (CPI), January 2021 to June 2025	73
Figure I.36	Latin America and the Caribbean: 12-month median rates of change in the consumer price index (CPI), by type of monetary and exchange-rate mechanism, January 2021 to June 2025	74
Figure I.37	Latin America and the Caribbean (17 countries): year-on-year changes in the numbers employed, 2019–2024	75
Figure I.38	Latin America and the Caribbean (13 countries): year-on-year changes in the numbers employed, by economic sector, 2022–2024.....	76
Figure I.39	Latin America and the Caribbean (13 countries): year-on-year changes in the numbers employed, by occupational category, 2022–2024	77
Figure I.40	Latin America and the Caribbean (15 countries): informal employment rate, 2020–2024	78
Figure I.41	Latin America and the Caribbean (21 countries): regional unemployment rate, 2018–2024.....	78
Figure I.42	Latin America and the Caribbean (21 countries): regional labour participation rates, 2018–2024	79
Figure I.43	Latin America and the Caribbean (14 countries): year-on-year changes in the numbers employed, by production sector, first quarter, 2023–2025.....	80
Figure I.44	Latin America and the Caribbean (14 countries): year-on-year changes in the numbers employed, industrial sector activities, first quarter, 2023–2025	80
Figure I.45	Latin America and the Caribbean (14 countries): year-on-year changes in the numbers employed, service sector activities, first quarter, 2023–2025.....	81
Figure I.46	Latin America and the Caribbean (14 countries): year-on-year changes in the numbers employed, occupational categories, first quarter, 2023–2025	81
Figure I.47	Latin America and the Caribbean (11 countries): average labour informality rate, first quarter, 2022–2025	82
Figure I.48	Latin America and the Caribbean (14 countries): unemployment rate, first quarter, 2022–2025	83
Figure I.49	Latin America and the Caribbean (14 countries): average total, male and female labour participation rates, first quarter, 2022–2025	83
Figure I.50	Latin America and the Caribbean (14 countries): average male and female employment rates, first quarter, 2022–2025	84
Figure I.51	Latin America and the Caribbean (14 countries): male and female unemployment rates, first quarter, 2022–2025	84
Figure I.52	Latin America and the Caribbean (selected countries): average real minimum wage and average real wage, first quarter, 2020–2025	85
Figure I.53	Latin America (16 countries): total central government revenue and tax revenue, 2019–2025	87
Figure I.54	Latin America (15 countries): year-on-year variation in value added tax and income tax revenue collected by central government, January–March 2024 and January–March 2025	89
Figure I.55	The Caribbean (12 countries): composition of total central government revenue, 2019–2025.....	90

Figure I.56	Latin America (16 countries): total and primary central government expenditure, 2019–2025	91
Figure I.57	Latin America (selected countries) and the United States: nominal interest rates on 10-year bonds denominated in national currency and year-on-year variation in central government interest payments, 2020–2025	93
Figure I.58	The Caribbean (12 countries): composition of total central government expenditure, 2019–2025.....	94
Figure I.59	Latin America (16 countries): central government fiscal indicators, 2010–2025	95
Figure I.60	The Caribbean (12 countries): central government fiscal indicators, 2010–2025	96
Figure I.61	Latin America (16 countries): central government gross public debt, 2000–March 2025	97
Figure I.62	The Caribbean (13 countries): central government gross public debt, 2011–2024	98
Figure I.63	Latin America (10 countries): central government gross public debt, by currency, March 2025	100
Figure I.64	Latin America (16 countries): central government gross public debt, by creditor residency, March 2025	100
Figure I.65	Latin America and the Caribbean (11 countries): nominal monetary policy rate, medians and interquartile ranges, January 2019 to May 2025	101
Figure I.66	Latin America and the Caribbean (11 countries): 12- and 24-month inflation targets and expectations, May 2025	102
Figure I.67	Latin America (9 countries): difference between actual monetary policy rates and the neutral interest rate, June 2023 and May 2025.....	103
Figure I.68	Latin America and the Caribbean (23 countries): year-on-year growth in the monetary base, quarterly moving averages, January 2023 to April 2025.....	103
Figure I.69	Latin America and the Caribbean (20 countries): nominal exchange rates, medians by country grouping, January 2023 to April 2025	104
Figure I.70	Latin America and the Caribbean (20 countries): volatility of the region's nominal exchange rates and the DXY Index, quarterly averages of daily movements, medians for the countries, first quarter of 2023 to second quarter of 2025.....	105
Figure I.71	Latin America and the Caribbean (32 countries): countries whose real exchange rates appreciated or depreciated, first quarter of 2023 to first quarter of 2025	106
Figure I.72	Latin America and the Caribbean (31 countries): changes in net international reserves, December 2024 and March 2025.....	107
Figure I.73	Latin America and the Caribbean (24 countries): nominal bank and monetary interest rates, March 2021 to March 2025	109
Figure I.74	Latin America and the Caribbean (25 countries): annual growth in the regional net domestic credit index, January 2020 to February 2025	110
Figure I.75	Latin America and the Caribbean (25 countries): annual growth in nominal net domestic lending, by component, February 2024 to February 2025	110
Figure I.76	Latin America and the Caribbean (17 countries): annual growth in the regional index of total financial system deposits, March 2019 to March 2025	111
Figure I.77	Latin America and the Caribbean (17 countries): annual growth in financial system deposits, by component, September 2024 to March 2025	112
Figure I.78	Latin America and the Caribbean (20 countries): regional portfolio quality index for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024.....	113
Figure I.79	Latin America and the Caribbean (20 countries): regional liquidity index for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024.....	113
Figure I.80	Latin America and the Caribbean (20 countries): regional index of market risk sensitivity for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024.....	114
Figure I.81	Latin America and the Caribbean (20 countries): regional profitability index for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024.....	115
Figure I.82	Latin America and the Caribbean (20 countries): regional capital adequacy index for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024.....	115

Figure I.83	Latin America and the Caribbean (7 countries): 12-month monetary policy rate expectations, medians and interquartile ranges, January 2024 to May 2025	116
Figure I.84	Latin America: contribution of expenditure components to GDP growth, 2022–2026	120
Figure I.85	Latin America and the Caribbean: GDP growth rates, by decade, 1951–2026	120
Figure I.86	Selected regions and countries: GDP growth rates, 2024 and projections for 2025 and 2026	122
Figure I.87	Latin America and the Caribbean: median annual rates of change in the consumer price index, January 2021 to June 2026	126
Figure I.88	Latin America and the Caribbean: median annual rates of change in the consumer price index, January 2021 to June 2026	127
Figure II.1	Latin America (12 countries): general government public health and pension spending and ageing index, around 2019	144
Figure II.2	Latin America and the Caribbean (24 countries): central government social spending, 2000–2023	146
Figure II.3	Latin America and the Caribbean (26 countries) and OECD (36-country average): general government tax revenues, 2013 and 2023	147
Figure II.4	Latin America and the Caribbean (26 countries) and OECD (36 countries): tax revenues (simple averages), 2023	148
Figure II.5	Latin America (17 countries): income tax and value added tax non-compliance, 2023	149
Figure II.6	Latin America (18 countries): composition of tax revenues foregone, 2024 or latest year available	150
Figure II.7	Latin America (16 countries): interest payments and acquisition of fixed capital assets by central government, 2000–2024	151
Figure II.8	Latin America and the Caribbean (23 countries): central government interest payments as a proportion of expenditure on education, healthcare and social protection, 2012 and 2023	152
Figure III.1	Developing countries: annual shortfalls in financing needed to achieve the Sustainable Development Goals (SDGs), 2015 to 2030	163
Figure III.2	Latin America and the Caribbean: selected external financing sources, 1990 to 2024	164
Figure IV.1	Latin America and the Caribbean: financing provided by the subregional banks, IDB and the World Bank, 1996–2024	185
Figure IV.2	Latin America and the Caribbean: financing provided by CAF and CABI, 1996–2024	186
Figure IV.3	Latin America (15 countries): development bank assets as a share of commercial bank assets, 2019	191
Figure IV.4	Shares of BNDES disbursements and operations, by company size, 2021	194
Figure IV.5	Latin America (selected countries): SMEs covered by guarantee schemes, 2021	195
Figure IV.6	Latin America: credit mobilized by guarantee funds, 2000–2021	196
Boxes		
Box I.1	Latin America and the Caribbean: evolving perceptions of risk	56
Box III.1	The challenge of incentivizing investment of remittances in income-generating activities	165
Diagram		
Diagram II.1	Roles and levels of application of fiscal policy	153

Presentation and Executive summary

Presentation

The seventy-seventh edition of the *Economic Survey of Latin America and the Caribbean, 2025* is divided into three parts.

Part I (chapter I) outlines the region's economic performance in 2024 and analyses trends in the early months of 2025, as well as the growth outlook for 2025 and 2026. It highlights the external and domestic factors that have influenced the region's economic performance and examines how they will affect economic growth in the coming years.

Part II (chapters II, III and IV), titled “Resource mobilization to finance development”, argues that Latin America and the Caribbean must urgently step up resource mobilization for development to close development gaps and overcome the traps of low capacity for growth; high inequality, low social mobility and weak social cohesion; and low institutional capacity and ineffective governance. This is especially important amid an international landscape of weak growth, high financing costs, geopolitical rivalry and considerable uncertainty.

The aftermath of the coronavirus disease (COVID-19) pandemic, tightening global financial conditions, geopolitical tensions and the effects of climate change have exacerbated the region's structural vulnerabilities. In this context, financial resource mobilization takes on strategic importance, not only for sustaining economic stability but also for catalysing more productive, inclusive and sustainable development. At the Fourth International Conference on Financing for Development, held recently in Seville, Spain, the international community reaffirmed its commitment to achieving its sustainable development aspirations and increasing financing to that end, which is an opportunity that the region must seize.

The chapters of the present document served as a technical and analytical basis for the participation of the Economic Commission for Latin America and the Caribbean in the Conference and comprehensively address three interrelated dimensions of financing for development: (i) fiscal challenges for domestic resource mobilization; (ii) the reforms needed to close the financing gap for the productive transformation; and (iii) the strategic role of development banks in mobilizing financing for the productive sector. In each chapter, key messages aim to convey the magnitude of the challenge but also highlight opportunities for action and cooperation.

Chapter II focuses on the region's need for a transformative fiscal policy that expands fiscal space, prioritizes public investment and strengthens institutional frameworks. Latin America and the Caribbean is facing a structurally precarious fiscal situation: its tax revenue is insufficient (averaging 21.3% of GDP) and reflects a regressive tax structure built around indirect goods and services taxes. It also faces significant tax evasion—estimated at an annual US\$ 433 billion—and a widespread use of tax expenditures which, given that this adds to the erosion of fiscal space, should be reassessed. Spending needs are growing rapidly to cope with the added strain on health and pension systems due to population ageing; to address climate change, which requires investment of up to 5% of regional GDP; and to overcome the persistence of profound social inequality. And yet, instead of increasing, public investment since 2020 has been treated as a fiscal adjustment variable, weakening the State's capacity to stimulate growth. In response to this situation, the proposal of ECLAC is to pursue active fiscal policy based on five pillars: progressive tax reform; reduction of tax evasion and assessment of tax benefits; a sustained push for public investment; improvement of spending efficiency; and strengthening of fiscal institutions. Only a robust, inclusive and resilient fiscal policy will make it possible to mobilize the domestic resources needed for sustainable development.

Chapter III argues that overcoming the trap of low capacity for growth requires the region's economies to undergo a productive transformation. To achieve this, the expanding financing gap must be closed through global reforms and greater private investment. The financing gap for achieving the Sustainable Development Goals (SDGs) faced by developing countries—including those in the

region— continues to widen: before the pandemic, it was estimated at US\$ 2.5 trillion annually; that figure has risen to between US\$ 3 trillion and US\$ 4 trillion for 2025 and is projected to exceed US\$ 6 trillion by 2030. Low growth, high debt and volatile external flows are further widening the gap. The chapter emphasizes the need to reform the international financial architecture to make it more equitable, stable and predictable, and proposes three areas for action: (i) strengthening international tax cooperation and combating tax evasion by the wealthy and on digital platforms; (ii) establishing more effective mechanisms for public debt management and adopting criteria that take investment needs for development into account; and (iii) enhancing the financial safety net through the reorientation of existing liquidity-generating mechanisms, contingency clauses and the expanded use of special drawing rights. Public resources are not enough; private investment, both domestic and external, must therefore be actively pursued. This calls for advancing the development of national capital markets and supporting their regional integration, expanding the use of innovative financial instruments (e.g. green and social bonds) and attracting foreign direct investment that is aligned with national productive development plans. The chapter also calls for renewed international development cooperation, redefined criteria for measuring development and determining official development assistance eligibility, smoother transitions for graduating countries and strengthened regional cooperation.

Lastly, chapter IV examines how to strengthen the critical role of development banks in financing strategic sectors and rectifying market failures. The chapter highlights the irreplaceable nature of these institutions when it comes to channelling resources towards productive activities.

Development banks have five main functions: (i) financing economic, social and environmental projects; (ii) providing financing for micro-, small and medium-sized enterprises (MSMEs); (iii) developing the financial sector and capital markets; (iv) serving as a countercyclical source of financing; and (v) exploring and identifying emerging productive sectors. These functions help to correct market failures and foster productive, sustainable and inclusive development.

The region's expansive and diverse ecosystem of development banks comprises multilateral and subregional entities in addition to more than 100 development finance institutions.

Regional and subregional development banks in Latin America focus primarily on infrastructure financing, while national banks concentrate on the financial inclusion of MSMEs, key sectors for employment and productive diversification. Development finance institutions, meanwhile, have increased their involvement in projects linked to climate action, green financing and sustainability, though national investment in these areas remains limited.

The impact of many national banks is hampered by operational, financial and governance-related challenges. Hence, improved coordination among multilateral, regional, subregional and national development banks will be key to the alignment of efforts to meet objectives.

The chapter identifies strengthened technical capacities, professionalization, financial sustainability and institutional coordination as priorities in this regard. It also emphasizes progress on instruments like guarantee systems, digital financing, thematic bonds and financing in local currency. These innovations, combined with public-private partnerships and in synergy with the fintech sector, could significantly increase the capacity to mobilize resources for sustainable and inclusive development. In the pursuit of SDG achievement by 2030, development banks have a central role in mobilizing resources and implementing efficient financial instruments that can attract public and private capital for large-scale projects, which are often beyond the means of governments and companies. To overcome these challenges, different stakeholders must be brought together under various mechanisms and innovative financing instruments.

Promoting financial innovation by encouraging the use of new, creative and next-generation financial instruments that are geared towards MSMEs (e.g. credit guarantees and private sector co-financing) and that can be adapted according to the bank's capacity and help to mitigate risk —especially in

emerging sectors or those with high social and environmental impact— will help to compensate for market failures in financial inclusion. In addition, improving financial education for these enterprises so that more of them can access credit on better terms will boost their growth and integration into production chains.

Together, these chapters provide an ambitious but realistic road map for the changes needed to overcome the challenges of financing for development in Latin America and the Caribbean. Their overarching message is that the region needs to upgrade its fiscal, financial and institutional architecture, not only with increased resources but also through better governance, strengthened international cooperation and political leadership. The implementation of the Sevilla Commitment presents an opportunity for advancement in financing for economic, social and environmental development. Political will and the coordination of public, private, national and international stakeholders will be key in bringing about this change.

Part III of this publication may be accessed on the ECLAC website (www.eclac.org). It contains the notes relating to the economic performance of the countries of Latin America and the Caribbean in 2024 and the first half of 2025, together with their respective statistical annexes. The cut-off date for updating the statistical information in this publication was 30 June 2025.

Executive summary

A. Global and regional trends in 2024 and 2025

1. The international context

Global GDP growth is expected to slow from 3.3% in 2024 to around 3% in 2025, the lowest rate in the years following the coronavirus disease (COVID-19) pandemic. The slowdown will be widespread, affecting advanced and developing economies alike, amid heightened uncertainty and growing trade tensions.

The United States, which accounts for 25% of global GDP, will register the most pronounced deceleration of all the advanced economies —with projected GDP growth of roughly 2%— owing to three factors: greater uncertainty about the future course of the country’s political economy and economic conditions; the economic impact of tariffs; and long-term interest rates that have been high since the pandemic and higher still since April 2025. However, the labour market continues to show resilience, and unemployment remains low (4.2%).

Low GDP growth of around 1% is projected for the eurozone, owing to the heavy impact of tariffs on manufacturing countries and weak competitiveness stemming from lacklustre investment and productivity. Some economies with a stronger focus on the services sector, like Greece and Spain, are proving more resilient.

China’s GDP is projected to grow at a rate below its official target of 5%, with declining consumption, a property crisis, persistent deflation and shrinking external demand partially offset by the depreciation of the yuan.

Emerging and developing economies will continue to contribute significantly to global growth, although they too will see their GDP growth slacken. The volume of global trade in goods is expected to contract, to the detriment of export-dependent regions like Latin America and Asia.

Capital flows to emerging economies showed signs of flagging in 2024, while commodity prices remained relatively high. The trade war that began in April 2025 has made matters worse, with repercussions for financial flows, trade and the outlook for global growth.

2. Global liquidity

The expansion of global liquidity continued in the first half of 2025, led by the United States and the eurozone, but showed signs of winding down in Japan and the United Kingdom. Monetary policy approaches varied according to the countries’ respective levels of inflation and economic growth.

In the United States, the Federal Reserve maintained a stable stance, keeping interest rates steady despite inflation falling to 2.4% and unemployment remained low. The European Central Bank, meanwhile, cut its interest rate in June 2025 to avoid liquidity restrictions amid growing global uncertainty. The Bank of England, facing an inflationary upturn and a contracting economy, made no change in June to its benchmark rate of 4.25%. The Bank of Japan raised interest rates for the first time since 2008 in response to climbing prices and wages, despite indications of weakness in the economy.

Regarding exchange rates, the dollar depreciated against the other major currencies even as Treasury bond yields increased. This unusual combination —currency depreciation and rising interest rates— reflects uncertainty surrounding the trade war, a growing fiscal deficit in the United States (which surpassed 6% of GDP) and an expanding volume of debt service payments, which might exceed US\$ 1 trillion in 2025.

The falling value of United States currency and Treasury bonds defies historical patterns but has not weakened the dollar's position as the world's dominant reserve currency. Taken together, these trends point to a volatile global financial climate, with significant implications for monetary stability, access to financing and risk management in emerging economies.

3. External accounts

In 2025, Latin America and the Caribbean will face added external account pressures arising from emerging global risks. The correction in the current account that began in 2022 is expected to continue despite a slight deterioration of its balance, with a projected deficit of 1.1% of GDP in 2025.

The goods and services trade balance will remain fragile, with no clear sign of stronger exports on the horizon and still-anaemic domestic demand curbing economic growth.

Net factor income outflows will continue to squeeze the current account owing to the burden of interest payments in line with borrowing needs. Remittances will lessen this strain, helping to mitigate external imbalances, but this will only go so far amid rising factor income pressures, which are further intensified by high interest rates in an uncertain environment.

Net capital inflows are expected to slow down in all components (foreign direct investment (FDI), portfolio investment, financial derivatives and other investment), leaving fewer resources to build up international reserves and respond to external shocks, after covering the current account deficit. FDI will continue to be the region's main source of financing, albeit with a larger share of reinvested earnings, which will raise the risk of sectoral concentration and increase dependence on the strategies of multinational enterprises while dimming prospects for productive diversification and innovation.

At the same time, the debt market is expected to experience sustained growth, driven primarily by private company and sovereign debt offerings. Thematic bond issuance is projected to play a diminished role relative to recent years, which highlights the limits of sustainable finance. This combination of circumstances increases the likelihood of higher external debt and more severe macroeconomic policy adjustments at the national level, against a backdrop of global uncertainty and weaker growth both regionally and internationally.

4. Economic activity

Latin America and the Caribbean will go through another economic slowdown in 2025. After rebounding in the first two quarters of 2024, regional GDP growth lost momentum towards the end of the year, and annual growth is expected to dip from 2.3% in 2024 to 2.2% in 2025. This trend is in line with a decade of low growth: at an average of just 1.2% for the period 2016–2025, GDP growth is even lower than it was in the 1980s.

The slowdown is unfolding region-wide —in the first quarter of 2025, only 5 of 17 countries recorded growth above 1%, and only 1 country had a rate above 2%— but its causes vary. In Chile and Colombia, it is attributable to stalled investment, while weaker consumption and investment are responsible in Brazil. The agricultural sector was a decisive factor in Peru, as it was in Costa Rica, where construction also played a role. In contrast, Mexico's agricultural sector rebounded, and its growth rate remained stable, while Argentina dodged the slowdown altogether, with year-on-year growth of 6.1%.

The economy's sluggishness is an indication of weakness in private consumption and gross fixed capital formation. Consumption remains the main driver of GDP, but its pace has slackened amid weaker job creation, low levels of confidence and high interest rates. Investment, meanwhile, is constrained by restrictive financial conditions and high levels of geopolitical uncertainty.

The contribution of net exports to economic growth turned positive in 2024, for the first time since 2019, but this trend could reverse in 2025 owing to an increase in trade protectionism. At the sectoral level, growth is decelerating across nearly all industries, except for certain services. Lastly, low growth in the region is explained by a deterioration in the contributions of capital and productivity, with employment remaining the only source to power the economy —albeit not as strongly.

5. Employment and wages

Employment growth remained low, in line with the pace of GDP growth. In 2024, employment in Latin America and the Caribbean grew by 1.8%, increasing in 15 of 17 countries, driven mainly by higher-productivity sectors such as manufacturing and financial services and led by wage employment. In 2025, the first-quarter employment growth rate decelerated marginally to 1.7% year-on-year, while remaining stable in the industrial sector (2.3%) and in services (2.0%). In contrast, agricultural employment continued to contract.

Employment growth was driven primarily by wage employment, which rose by 2.2%, accounting for 82% of the total increase. Employment also rose in the category of own-account workers, while declines were recorded among domestic workers, unpaid family workers and employers.

The increase in formal employment was reflected in a lower regional labour informality rate, which fell from 46.8% to 46.3%. Nonetheless, nearly half of the region's workers are still informally employed. The unemployment rate dropped from 6.7% in the first quarter of 2024 to 6.0% in the first quarter of 2025, with substantial declines in countries such as Brazil, Colombia and Jamaica.

Wide gender gaps persist. Women's labour market participation came to 52.1% in the first quarter of 2025, compared with 74.0% for men, while women's employment rate was 22 percentage points lower than men's. However, these gaps narrowed slightly, and female unemployment also declined, from 8.1% in the first quarter of 2024 to 7.4% in the first quarter of 2025.

Real wages continued to climb in the first quarter of 2025, with the real average wage rising by 3.3% and the real minimum wage by 1.3% compared with the year-earlier period, underpinned by lower inflation and by job growth in higher-paying formal sectors.

6. Domestic prices

Inflation is stabilizing, albeit with differences across countries. In 2024, inflation continued to trend down in Latin America and the Caribbean, to a regional average of 2.9% by the end of the year, compared with 3.7% in 2023. This moderation was driven by lower international commodity prices and by domestic policies aimed at curbing inflationary pressures. However, headline inflation stabilized in the first half of 2025, and the regional median remained at 3.9% in June, unchanged from December 2024.

Subregional trends were uneven. The sharpest drops were recorded in the economies of Central America and Mexico, where median inflation fell to 1.6% by June 2025. Inflation edged up to 2.3% in the English- and Dutch-speaking Caribbean, while remaining higher in South America at 4.7%, despite a slight deceleration.

By component, core inflation—which excludes the most volatile elements—increased by 1 percentage point, to a median rate of 3.8% in June. In 17 countries, it was over 3%, above the central bank target in several cases. In contrast, food inflation cooled slightly, from 3.5% to 3.1%.

Services inflation remained stubborn, climbing from 2.8% to 3.2% in the first half of 2025, in contrast to goods inflation (excluding unprocessed foods), which fell from 3.0% to 2.5%.

These trends are shaped by multiple factors. Core and services inflation were driven by wage adjustments, price indexation mechanisms, and rising costs in regulated services such as health, education and transport. The easing of goods and food inflation, however, reflected falling international food prices, a return to normal in global transport and weaker external demand.

7. Fiscal performance

Fiscal space remained limited, with a heavier interest payment burden. On the fiscal front, a modest increase in total central government revenue is expected in 2025, to 18.7% of GDP on average, driven by marginally higher tax revenue. In the Caribbean, however, public revenue is forecast to fall to 27.2% of GDP in 2025, stemming from a drop in non-tax receipts, in particular those from foreign donations for rebuilding following Hurricane Beryl. Public spending is expected to hold steady in the region, at an average of around 21.8% of GDP in Latin America and 30.3% of GDP in the Caribbean. A slight restructuring is also projected, with an increase in capital expenditure in Latin America and in primary current expenditure in the Caribbean.

In 2025, the primary deficit is expected to narrow slightly in Latin America, settling at 0.1% of GDP, amid progress with fiscal consolidation measures in several of the region's countries. However, the overall deficit is projected to remain unchanged from the previous year, at 3.1% of GDP. In keeping with the trend observed in 2024, the overall deficit is projected to widen in the Caribbean while the primary surplus shrinks, coming in at 3% and 0.2% of GDP, respectively.

Interest payments are expected to increase in Latin America, to 3% of GDP in 2025, but are set to remain stable in the Caribbean, at 3.2% of GDP. Although public debt has declined in Latin America, it remains high in most cases, and represented 50.2% of GDP in the first quarter of 2025. In the Caribbean, the debt stood at 68.4% of GDP at the end of 2024, declining in all the subregion's countries.

8. Monetary conditions

In 2024 and early 2025, the central banks of Latin America and the Caribbean gradually eased their monetary policy stance, amid falling inflation and in anticipation of a loosening of the United States Federal Reserve policy. Interest rates nonetheless remain contractionary, above pre-pandemic levels. Against a backdrop of global uncertainty, persistent inflationary pressures prompted several countries to pause their rate cuts in late 2024, with some, such as Brazil and Uruguay, even raising their rates.

Depreciation among the region's currencies intensified in the second half of 2024, especially in inflation-targeting countries or those with chronic inflation. Some currencies appreciated beginning in April 2025, as the outbreak of the tariff war weakened the dollar. However, exchange-rate volatility remains high, reflecting an uncertain global political and trade environment.

The region's net international reserves grew steadily from 2023 on, to US\$ 878 billion in the first quarter of 2025, driven by central banks' precautionary strategies, export growth, remittance flows and agreements with international organizations.

Tighter external financing conditions pushed up bank lending rates, fuelling a preference for domestic credit. Net domestic lending surged in 2025, especially in the public sector. By March 2025, bank deposits had also risen by 13.8% year-on-year, with a notable increase in foreign-currency deposits. Although lending was brisk, bank profitability fell, while liquidity and capitalization remained sufficient. Heightened global uncertainty poses challenges for monetary, exchange-rate and macroprudential policy and highlights the need to strengthen policy coordination to prevent spiralling financial vulnerability in the region.

B. Economic outlook for Latin America and the Caribbean in 2025 and 2026

1. The region is expected to remain on a low-growth path in the 2025–2026 biennium

Regional growth is projected at 2.2% in 2025 and at 2.3% in 2026, amid a complex global landscape marked by heightened uncertainty. Economic performance will continue to be shaped by weak external demand, tight financial conditions and fragility stemming from domestic factors such as slacker consumption, low investment, high labour informality and persistent structural inequalities.

In the subregions, the countries of South America are projected to grow by 2.7% in 2025 and by 2.4% in 2026, with weaker growth of 1.0% in 2025 and 1.7% in 2026 in Central America and Mexico, owing to the slowdown in the United States. In the Caribbean (excluding Guyana), growth is estimated at 1.8% for 2025 and 1.7% for 2026, although trends will be heavily influenced by changes in the tourism sector, high logistics costs and climate vulnerability (see table 1). The significant disparities in countries' economic growth rates reflect both their diverse domestic conditions and their degree of external exposure.

2. Global uncertainty will remain high

In 2025, the global landscape will be marked by moderate economic growth. Growth will slow in the United States and in Europe, and be lacklustre in China. Amid ongoing geopolitical tensions and rising protectionism, supply chain disruptions are foreseeable. Emerging economies will continue to support global growth, although they also remain exposed to a potential deceleration in capital flows and increased financial selectivity.

International financial conditions pose growing risks. While some central banks, such as the European Central Bank, have begun cutting interest rates, others, like the Bank of Japan, are maintaining a tight monetary policy stance. This lack of synchronization is increasing the uncertainty faced by developing economies. Moreover, volatility in the prices of commodities such as energy, food and metals along with exposure to extreme weather events could generate inflationary pressure and limit the scope for macroeconomic policy action.

Table 1

Latin America and the Caribbean: real GDP growth in 2024 and projections for 2025 and 2026
(Percentages)

	2024	2025	2026
Latin America and the Caribbean	2.3	2.2	2.3
Latin America	2.2	2.2	2.2
South America	2.4	2.7	2.4
Argentina	-1.3	5.0	4.0
Bolivia (Plurinational State of)	1.7	1.5	1.1
Brazil	3.4	2.3	2.0
Chile	2.6	2.4	2.2
Colombia	1.6	2.5	2.7
Ecuador	-2.0	1.5	2.1
Paraguay	4.2	4.0	4.0
Peru	3.3	3.1	2.9
Uruguay	3.1	2.8	2.5
Venezuela (Bolivarian Republic of)	6.2	2.0	2.0
Central America	2.8	2.6	3.4
Central America and Mexico	1.8	1.0	1.7
Costa Rica	4.3	3.5	3.7
Cuba	-1.1	-1.5	0.1
Dominican Republic	5.0	3.7	4.8
El Salvador	2.6	2.4	2.7
Guatemala	3.7	3.6	4.0
Haiti	-4.2	-2.3	-1.0
Honduras	3.6	3.2	3.8
Mexico	1.4	0.3	1.0
Nicaragua	3.6	3.1	3.4
Panama	2.9	4.2	4.6
The Caribbean	11.2	4.1	7.8
The Caribbean (excl. Guyana)	2.6	1.8	1.7
Antigua and Barbuda	4.3	3.5	3.0
Bahamas (The)	3.4	1.8	1.7
Barbados	4.0	2.6	1.8
Belize	8.1	1.5	2.5
Dominica	2.1	2.5	3.0
Grenada	4.0	3.5	3.0
Guyana	43.6	10.3	23.0
Jamaica	1.4	1.3	1.2
Saint Kitts and Nevis	1.2	1.0	2.5
Saint Lucia	3.9	2.5	2.6
Saint Vincent and the Grenadines	4.1	4.0	3.0
Suriname	3.0	3.2	3.5
Trinidad and Tobago	1.5	1.5	1.2

Source: Economic Commission for Latin America and the Caribbean.

Note: On the basis of information as at 30 June 2025.

3. External vulnerability will persist and weigh on the balance of payments

Latin America and the Caribbean is projected to record a current account deficit of 1.1% of GDP in 2025. The region remains dependent on foreign direct investment and external debt, while it faces weaker capital inflows and rising financial costs. This limits countries' ability to correct external imbalances without making costly internal adjustments. Building resilience against external factors requires active macroeconomic policies, regional integration and productive diversification.

4. Domestic demand is expected to be sluggish

Private consumption will continue to drive growth, but at a slower pace than in previous quarters, owing to weaker labour income, relatively high interest rates and falling consumer confidence. Investment will continue to lag, reflecting moderate growth and accounting for 18.5% of GDP, without making a sustained recovery. Public spending, limited by tighter fiscal space, will not be enough to boost the economy. Net exports, which buoyed growth in 2024, will lose momentum in 2025.

5. Employment growth will be weaker than in previous years, with slight improvements in terms of unemployment and informality

Job creation is slowing: growth in the 2025 and 2026 employment rates is estimated at 1.5% and 1.2%, respectively, lower than in 2023 and 2024. Even so, unemployment is expected to remain stable at 5.6% and labour informality is projected to continue decreasing thanks to stronger job creation in formal sectors. Labour market participation is expected to continue improving gradually, especially for women, which will boost equity indicators, although gender gaps will remain wide.

6. Inflation is expected to remain steady in 2025 and 2026, close to target levels, though it may trend upward

Regional inflation stabilized at around 3% in 2024 and is expected to remain unchanged in 2025 and 2026. However, prices for services and underlying components remain stubbornly high, owing to wage adjustments and regulated factors. Inflation risks are predominantly on the upside, owing to potential hikes in international food and energy prices, and fresh geopolitical tensions. Inflation in South America will move more slowly towards target levels, while uncertainty in countries with a history of chronic inflation remains high.

7. Fiscal space will remain limited and upward pressure on spending will continue

The region has been recording structural fiscal deficits for more than a decade. Although public revenue has returned to pre-pandemic levels, growth prospects are limited. Primary spending is coming under pressure from rising interest payments and the need for macroeconomic stability.

Fiscal sustainability will depend on economic growth, interest and exchange rates and commodity prices. The need to consolidate spending without affecting economic activity is one of the greatest challenges for the governments of the region. Increasing fiscal space and enhancing growth require simultaneous progress on three fronts: (i) improving spending efficiency, channelling investment towards key sectors, such as infrastructure and education; (ii) mobilizing domestic resources through progressive tax reforms that combat tax evasion, strengthen direct taxes, streamline tax expenditures and consolidate complementary fiscal resources; and (iii) strengthen fiscal institutions and adopt medium-term frameworks that incorporate environmental and social sustainability criteria.

8. Monetary authorities will not have more room to boost growth

Although low inflation provides some room for less restrictive monetary policy, considerable global uncertainty, exchange-rate volatility and capital flows determine the measures taken by central banks. Monetary policy must preserve the stability of inflation expectations without worsening the economic slowdown. There is need of stronger coordination of fiscal, monetary and exchange-rate policy and a broader range of instruments to ensure macrofinancial stability and avoid recessionary spirals.

C. Medium- and long-term policies: towards an inclusive and sustainable productive transformation

Latin American and Caribbean countries must urgently step up resource mobilization for development to avoid a new lost decade, amid a challenging and grim global landscape. The projections included in this report confirm unresolved structural tensions, such as high dependence on commodity exports, weak productive diversification, low levels of investment, sluggish and highly informal labour markets and procyclical macroeconomic policies.

In such a scenario, the mobilization of financial resources becomes strategic, not only to sustain macroeconomic stability, but as a crucial stimulus to overcome the structural challenges facing the economies of the region and other developing economies.

The Fourth International Conference on Financing for Development, held in Seville, Spain, from 30 June to 3 July 2025, provided a framework to act on and give political weight to these policy areas and reaffirmed the need to renew global and regional commitments to increase financing for development. The second part of this *Economic Survey* by the Economic Commission for Latin America and the Caribbean (ECLAC) titled “Resource mobilization to finance development” is a comprehensive analysis of the challenges and opportunities facing the region in its efforts to mobilize resources to finance its sustainable development. It served as the technical basis for the participation of ECLAC in the Conference and was centred around three key dimensions: fiscal policy, the reforms needed to mobilize additional resources and the role of development banks.

Chapter II “Fiscal challenges for domestic resource mobilization”, underscores that the strengthening of fiscal policy is a necessary condition for all development strategies. The region is facing growing pressure with regard to public spending, as well as weak tax revenue and limited institutional capacity. Despite overcoming the immediate effects of the pandemic, the region continues to face structural challenges such as low and regressive tax revenue (21.3% of GDP in 2023, compared with an average of 34% in 2022 for the countries of the Organisation for Economic Cooperation and Development (OECD)), high tax evasion (US\$ 433 billion) and costly tax expenditures. At the same time, public investment has shrunk to curb deficits, which has in turn weakened the State’s role as a driver of growth. In order to reverse this trend, ECLAC recommends a transformative fiscal policy

based on more progressive taxation, reduction of tax evasion and assessment of tax benefits, along with prioritization of investment in strategic sectors, strengthening of tax rules, integration of climate risks and improvement of accountability.

Chapter III, “Mobilization of resources for productive transformation” examines the reforms needed to complement efforts to mobilize domestic public resources to transform the development models of the region’s economies. The financing gap for achieving the Sustainable Development Goals in developing countries globally has widened from US\$ 2.5 trillion per year before the pandemic to between US\$ 3 trillion and US\$ 4 trillion per year in 2025, with this figure projected to exceed US\$ 6 trillion by 2030. Against this backdrop, the region must advance in the following areas: (i) renewing the international financial architecture, including international tax cooperation to combat evasion and improvement of sovereign debt management mechanisms; (ii) strengthening international cooperation for development, including South-South cooperation; and (iii) fostering private sector investment, an area in which strengthening of policies to attract foreign direct investment is key.

Lastly, chapter IV “The role of development banks in resource mobilization” underscores the importance of development banks in financing strategic investments and overcoming market failures. In Latin America and the Caribbean, these institutions are fundamental for supporting micro-, small and medium-sized enterprises (MSMEs) and providing financing for infrastructure and emerging sectors, such as clean energy. However, multilateral, subregional and national banks vary considerably in terms of their capacity and focus. Strengthening their governance, improving their resource mobilization capacity, promoting financial instruments adapted to the needs of the region’s economies and fostering financial education for MSMEs are essential to increase these banks’ impact.

This document emphasizes that resource mobilization not only requires available funds, but also effective governance, political leadership and international cooperation. In this regard, implementation of the Sevilla Commitment presents an opportunity for advancement in financing for economic, social and environmental development.

PART



Regional macroeconomic report and outlook for 2025 and 2026

CHAPTER

I

Regional overview

- A. The international context
- B. Global liquidity
- C. The external sector
- D. Domestic performance
- E. Macroeconomic policies
- F. Economic projections and prospects for Latin America and the Caribbean in 2025 and 2026
- Bibliography

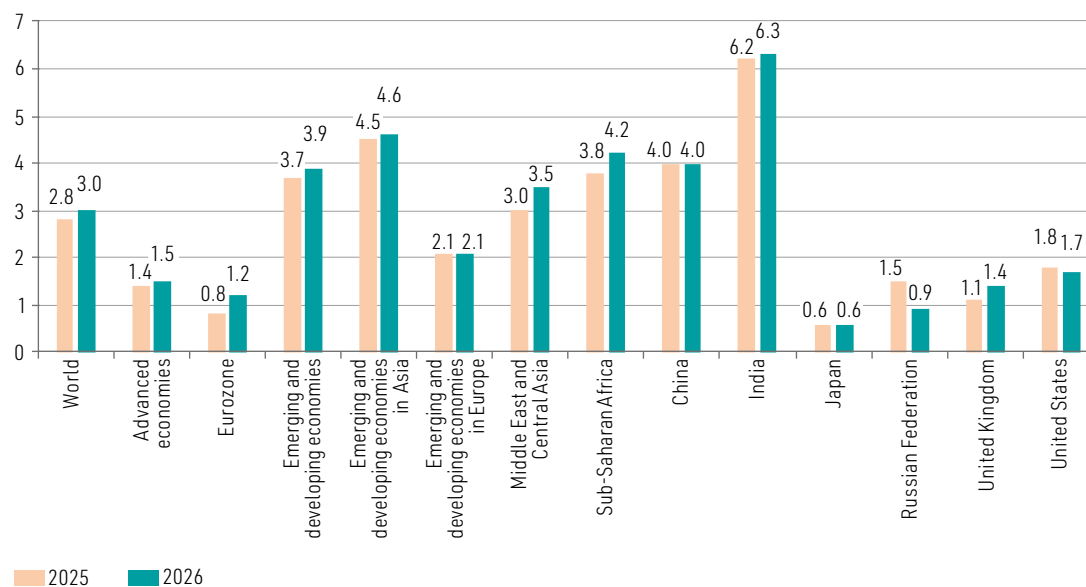
A. The international context

1. In 2025, global economic growth will fall to its lowest rate since the coronavirus disease (COVID-19) pandemic

Global GDP growth of 2.8% is projected for 2025, down on the 3.3% of 2024 and the lowest rate since the early 2000s, with the exception of 2009 (during the global financial crisis) and 2020 (during the COVID-19 pandemic) (see figure I.1). The slowdown will be widespread, affecting most developing and developed regions of the world and their major economies. This outlook stems from a climate of growing uncertainty, which has affected plans for investment and for expenditure in general, and from the impact of tariff policy on global trade. Matters could get worse in the event of a protracted armed conflict between Israel and the Islamic Republic of Iran, as rising oil prices would leave little room for central banks to enact countercyclical policies, significantly impacting global inflation.¹

Figure I.1

Selected regions and countries: GDP growth, projections for 2025 and 2026
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of International Monetary Fund (2025, April). *World Economic Outlook: A Critical Juncture amid Policy Shifts*.

Note: In India, the fiscal year begins in April and ends in March.

2. Among advanced economies, the slowdown will be most pronounced in the United States

The United States (accounting for 25% of global GDP) will experience the sharpest slowdown of all the advanced economies, with GDP growth of 1.8% in 2025, compared to 2.7% in 2024. This estimate is based on three factors: heightened uncertainty regarding the direction of the country's

¹ The conflict could also disrupt maritime transport, increasing the cost of shipping. However, as occurred during the pandemic, the resulting impact on global inflation is expected to be relatively modest (see Capital Economics, 2025c).

economic policy and future economic conditions; the economic impact of United States tariffs; and high long-term interest rates since the end of the pandemic and particularly since April 2025, with 10-year and 30-year Treasury bond yields currently the highest they have been since around 2007.² With the average tariff rate having increased to 17.8%, a level not seen since 1934, final goods prices will rise by 1.7%. At the sectoral level, textiles and apparel will be most affected.³

The direct impact of these tariffs will be to decrease consumers' purchasing power and real disposable income. The resulting downward pressure on aggregate consumption will be exacerbated by more cautious consumer behaviour in response to heightened uncertainty, which will cause savings to rise.

According to the most recent figures available, the rate of change in the consumer price index was just 0.1 percentage points higher in May 2025 than in April, at 2.4% (below the projected 2.5%). Core inflation (excluding energy and food prices) held steady at 2.8%.

Growing uncertainty, together with reduced profit margins for those companies that are able and willing to absorb the impact of tariffs without raising prices, will negatively affect investment and hiring decisions. The figures available, based on an average 17.8% tariff, indicate a 0.4 percentage point increase in the unemployment rate by the end of 2025.

At the same time, United States exports are likely to fall, owing to the slowdown in global GDP growth and, above all, retaliatory tariffs imposed by the country's main trading partners.

These factors will largely negate the positive impact of the wealth effect created by stock market and property price rises and increased fiscal expenditure. After a decline that began early in the year, in February, and continued into April in response to uncertainty about the direction of United States economic policy and, in particular, to the trade war that began in April, the S&P 500 stock market index rebounded, recouping the losses of the first four months of the year.⁴ Residential housing prices, meanwhile, remain at historically high levels, averaging upward of US\$ 400,000.⁵

In the past 12 months, federal public expenditure has hit a record US\$ 7.1 trillion, far outstripping fiscal revenue of US\$ 5.1 trillion and bringing the national fiscal deficit to US\$ 2 trillion (Yardeni, 2025).⁶

The labour market is proving to be the most resilient part of the United States economy, having been spared the effects of the slowdown. The latest unemployment rate (4.2% in May) showed a slight increase since the beginning of the year (4.0% in January), while the number of unemployed persons remained unchanged at 7.2 million.⁷ The unemployment rate is now the lowest it has been since February 2001, reflecting the continued strength of the labour market overall.⁸ A more detailed analysis shows that the ratio of unemployed persons (labour supply) to job openings (labour demand) decreased between March and April, indicating increased demand for labour (see figure I.2). Given recent cuts to the federal workforce and stricter immigration measures, an unemployment rate of 4.3% is forecast for the year's end (Capital Economics, 2025a).

² The most recent available data (June 2025) show 10-year and 30-year Treasury bond yields at 4.36% and 4.84%, levels comparable to those of October 2007 (4.48%) and March 2007 (4.84%) (see Federal Reserve Bank of St. Louis, 2025a).

³ The data on tariffs and their impact are from The Budget LAB (2025).

⁴ The S&P 500 is an index of 500 leading listed companies weighted by market capitalization (see Federal Reserve Bank of St. Louis, 2025b).

⁵ The rise in residential housing prices since the onset of the pandemic has been the largest since 1965. The average home price rose from US\$ 329,000 to US\$ 442,000 between the first quarter of 2020 and the fourth quarter of 2024 before falling back to US\$ 416,000 during the first quarter of 2025. Despite the decline, average housing prices are much higher now than at any other time in the past five decades (see Federal Reserve Bank of St. Louis, 2025c).

⁶ According to Yardeni (2025), the import tariffs announced by the Government of the United States represent a new source of federal revenue, with a steep rise to US\$ 273.8 billion in May at an annualized rate. The bad news is that these tariffs are paid to the federal government by domestic importers, whose corporate tax rate is thereby effectively increased unless they can secure discounts from their overseas suppliers or pass the cost on to the consumer by raising prices.

⁷ See United States Bureau of Labor Statistics (2025, May).

⁸ See Federal Reserve Bank of St. Louis (2025d).

Figure I.2

United States: ratio between the level of unemployment (labour supply) and job openings (labour demand), monthly data, January 2023 to April 2025



Source: Federal Reserve Bank of St. Louis (2025). *Economic data*. Federal Reserve Economic Data. <https://fred.stlouisfed.org/>.

With no immediate pressures pushing up inflation or unemployment, the Federal Reserve has opted to maintain its monetary policy stance (Capital Economics, 2025c), holding the federal funds rate—the overnight interest rate at which commercial banks lend to one another—in the 4.50% to 4.75% range since December 2024.⁹

3. Overall, eurozone growth will remain sluggish

Weak real GDP growth of 0.8% is forecast for the eurozone in 2025 (falling short of earlier estimates). Despite moderately good results with respect to trade in services, the bloc's overall economic performance was weighed down by persistent trade uncertainty. The European economies that depend more heavily on manufacturing and strong trade ties with the United States have seen their prospects dim, as higher tariffs drive up costs and reduce their ability to compete. Consumer spending has also suffered as a result.

Conditions are similar in Europe's emerging and developing economies, where economic growth has also slowed because of decreased investment, lower consumer spending and a difficult labour market (International Monetary Fund [IMF], 2025b). However, services-based economies such as Croatia, Greece, Portugal and Spain have shown more resilience amid harsher economic conditions, thanks to the recovery and sustained growth of tourism and hospitality, along with consumer spending (Department of Economic and Social Affairs, 2025).

A slight uptick in real GDP growth, to 1.2%, is expected in the eurozone for 2026 thanks to increased consumption, investment and external demand. Growth is also likely to benefit from rising household purchasing power, falling inflation and wage resistance in the medium term (European Central Bank, 2025a).

⁹ The effective federal funds interest rate has been stable at 4.33% since January (see Federal Reserve Bank of St. Louis, 2025e).

Several countries of the region have upped their defence spending and loosened fiscal policy in response to the threat of the war between the Russian Federation and Ukraine spreading to other countries in Europe.

Beginning in April 2025, the European Central Bank has announced new cuts of 25 basis points apiece to official interest rates. All told, the eurozone will probably have larger budget deficits and higher interest rates in the short term. It is also likely that, in the aggregate, these deficits will surpass the pandemic-era figure of 0.9% of GDP to reach 3% of GDP in the next five years (Capital Economics, 2025b). Countries such as France and Italy will try to close their deficits next year, while Germany's deficit could continue to grow. Headline inflation is projected to average 2.3% in 2025 and a slightly lower rate of 1.9% in 2026 (European Central Bank, 2025a).

In the next year, rising food and energy prices are expected to be the main sources of inflationary pressure. As of March 2025, industrial production was up by 3.6% in the eurozone and 2.7% in the European Union year-on-year. In both groupings, non-durable consumer goods, durable consumer goods, capital goods and energy all registered increases, with a decline for intermediate goods. With regard to trade performance in 2024, the value of European Union exports was US\$ 1.64 trillion, compared to US\$ 1.44 trillion for imports (World Trade Organization [WTO], 2025). WTO projects export growth of 1.0% in 2025 and 2.5% in 2026, and import growth of 1.9% and 2.7%, respectively.

The eurozone's largest economy, Germany, which accounts for 17% of the bloc's GDP, has also adopted measures to increase fiscal expenditure and is likely to take on more debt in the coming years, which will translate into an expanded fiscal deficit and a higher debt-to-GDP ratio.

In the last year, growth has been essentially flat. An annual rate of 1% is projected for the next two years, with even slower growth in the medium term. Contributing factors include high spending on defence and infrastructure, slow progress in more innovative areas (e.g., digitalization and green technology), deindustrialization and population ageing. To make matters worse, the United States has announced tariffs on automobiles imported from the European Union, which will have a considerable impact on German automobile manufacturers (Capital Economics, 2025b). According to estimates, United States tariffs will reduce German economic activity by 0.3%.

In the United Kingdom, inflation figures for April 2025 revealed a 3.5% increase in the consumer price index (House of Commons Library, 2025), which was higher than the average rate among its eurozone neighbours. As regards GDP, the International Monetary Fund (IMF) forecasts 1.1% growth for 2025 and 1.4% for 2026. Unemployment rose to 4.5% in 2024 from 4.3% in 2023 (House of Commons Library, 2025), and a further increase is projected for 2026 (Bank of England, 2025). The services sector, the backbone of the economy, recorded its largest decline since October 2023 as economic uncertainty suppressed exports. At the time of writing, the United Kingdom has been pursuing discussions with the United States in hopes of securing a bilateral trade agreement to avoid a general tariff on the latter's imports from the former.

4. In China, economic growth has fallen short of official targets, and the outlook is deflationary

In 2025, China's growth is projected at between 4.0% and 4.5%, falling short of the 5.0% target announced by the authorities at the beginning of the year. The purpose of the growth target is to address and reverse a situation of economic stagnation, characterized in the first four months of 2025 by a contraction in manufacturing. In April, the sector recorded its worst decline in 16 months.

Consumption has also been relatively weak. Retail sales grew by 2.7% year-on-year in the first quarter, the lowest rate since mid-2023. Another symptom of China's economic stagnation have been falling house prices since the third quarter of 2023.¹⁰ This decline has been the largest since 2011 and has affected the vast majority of the cities included in official real estate statistics (96% of the total). The country's property crisis represents a loss of US\$ 18 trillion in household wealth, causing savings to rise at the expense of consumption.

Compounding this situation, the tariff measures announced by the Government of the United States have hit the Chinese economy particularly hard, reducing the exports that were a major source of stimulus in 2024,¹¹ although this has been partially offset by the yuan's depreciation against the dollar (by 10% between mid-April and June 2025).

Diminished demand and overcapacity have incentivized intense price competition among producers and businesses in a number of economic sectors, resulting in particularly fierce price cutting in the automotive sector.¹²

The government has announced a countercyclical monetary and fiscal policy to stimulate the economy, including measures to support the stock market.

Monetary actions to expand aggregate demand have included quantitative measures (reduction of the legal reserve ratio by 40 basis points), which freed up US\$ 145 billion for extra bank lending, and measures to decrease the cost of borrowing, including the reduction of some short-term monetary policy rates. Additional measures have included the allocation of 500 billion yuan for the establishment of lending facilities for durable consumer goods purchases and 500 billion yuan for investments in cutting-edge technology (semiconductors, infrastructure for the development of artificial intelligence and renewable energy).

On the fiscal front, the Government of China has announced that it will increase public expenditure by 1 trillion yuan, with a focus on investing in infrastructure, the green energy transition and the digital economy. It is also considering tax incentives for the sectors most affected by higher tariffs, including electronic devices, medical equipment and agricultural products. In addition, some small and medium-sized enterprises (SMEs) in the manufacturing sector will benefit from temporary reductions in the value added tax rate, from 13% to 11%, until the end of 2025.

Lastly, the economic stimulus package includes a number of initiatives designed to bolster the stock market, such as reducing transaction costs, increasing liquidity and simplifying administrative procedures.

One of the issues of most concern to policymakers is that the period of deflation that began in 2023 could continue into 2025, which would make it China's longest since the 1990s. Between December 2024 and May 2025, the annual rate of change in the producer price index fell from -2.3% to -3.3% (see figure I.3), and the rate of change in the consumer price index has been negative since February 2025.

¹⁰ See Federal Reserve Bank of St. Louis (2025f).

¹¹ In April, the United States and China agreed to reduce tariffs for a period of 90 days to allow bilateral discussions to proceed on a possible trade deal. During this period, the 125% tariff on Chinese exports announced by the United States was to be reduced to 10%. China has also committed to bringing tariffs down towards 10% while the two countries continue to work towards a deal (see The Budget LAB, 2025).

¹² See Bloomberg News (2025).

Figure I.3

China: rate of change in the producer price index, December 2021–May 2025
(Percentages)



Source: Bloomberg News. (2025, 9 June). China consumer deflation streak persists as price wars rage. *Bloomberg*. <https://www.bloomberg.com/news/articles/2025-06-09/china-s-consumer-deflation-streak-persists-as-price-wars-rage>.

The negative effect of deflation on gross fixed capital formation could be a significant drag on economic growth. Overcapacity in China's economy, combined with the projected decline in aggregate demand, will result in decreased gross fixed capital formation. At the same time, deflation has a considerable destabilizing effect on balance sheets because of its tendency to inflate liabilities and debt, which makes it a further drag on aggregate demand growth. Currently, combined general and local government debt is estimated at 144% of GDP, and to this must be added corporate debt (mainly incurred by State enterprises) estimated at 120% of GDP (Arak, 2024).

5. Emerging and developing economies will continue to drive global economic growth

Taken together, emerging and developing economies are projected to grow at double the rate of developed economies in 2025. If this performance is maintained, emerging and developing economies will account for over one third of average global growth in the period 2025–2029.

Like advanced economies, the majority of emerging and developing economies will experience slower growth, with a rate of 3.7% or 3.8% projected for 2025, compared to 4.2% in 2024.¹³ According to the World Bank (2025b), two thirds of this group will be negatively impacted by the tariff war.

This situation will probably result in slower global trade growth. WTO expects world goods trade to contract by 0.2% in 2025, reversing some of the gains accumulated since 2023 and especially since the beginning of the year (see figure I.4). World goods trade averaged 4.5% growth between January and March, its highest since 2021.

¹³ Growth in both GDP and per capita GDP in emerging and developing economies in 2025 is projected to be below the 2000–2019 average (see Fleming and Cotterill, 2025).

Figure I.4

Year-on-year change in the volume of world goods trade, January 2019–August 2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Netherlands Bureau for Economic Policy Analysis, World Trade Monitor Database.

Reduced trade will be especially damaging for economies that have benefited from greater global integration. According to the World Bank (2025), goods and services exports were responsible for 38% of economic growth in emerging and developing economies in 2024; that figure is expected to fall to 16% in 2025. A more detailed analysis shows that the regions where the highest shares of exports go to the United States are Latin America and the Caribbean (44%), followed by South Asia (17.7%), East Asia and the Pacific (14.2%), sub-Saharan Africa (4.7%), Europe and Central Asia (3.3%) and the Middle East and North Africa (1.9%).

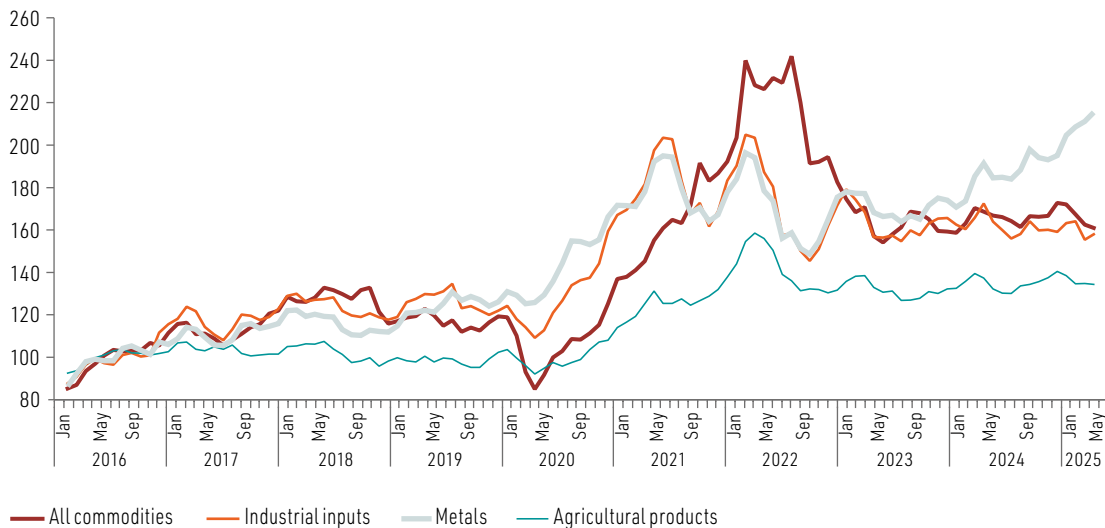
Apart from increasing uncertainty, the economic slowdown will have a negative impact on the machinery and equipment sector, which is the most dynamic component of gross fixed capital formation, given that a significant percentage of these goods are imported. Diminished capital accumulation is likely to put downward pressure on employment and inputs for the production of final goods and services, with commodity prices falling (see figure I.5).

According to available data on the period from January to May 2025, both overall commodity prices and those of agricultural products, industrial inputs and metals remained above pre-pandemic levels, with very limited fluctuations in the form of slight declines averaging 0.4%, 0.9%, 1.9% and 1.5%, respectively (see figure I.5).

Slower growth, together with heightened uncertainty, instability and armed conflicts in certain subregions, as well as an increase in the yields of developed country financial assets relative to those of emerging and developing economies, could have a dampening effect on capital flows to the latter. Between 2023 and 2024, net capital flows to this group fell from US\$ 132 billion to US\$ 83 billion.

Figure I.5

Price indices for all commodities, industrial inputs, agricultural products and metals, monthly figures, January 2016–April 2025
(Index: 2016 = 100)

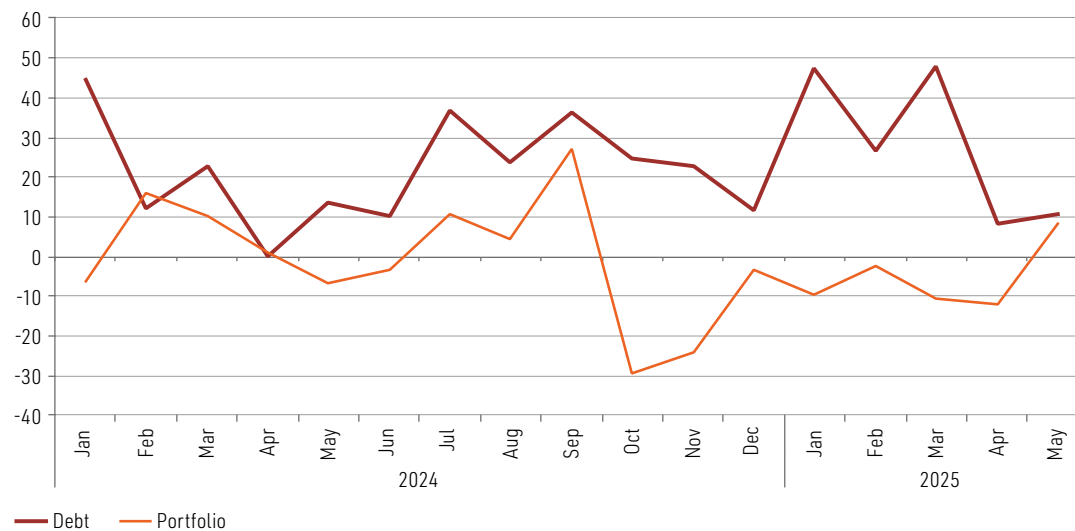


Source: International Monetary Fund. (2025, April). *World Economic Outlook: A Critical Juncture Amid Policy Shifts*.

Available data for 2025 show combined debt and portfolio flows to emerging economies averaging US\$ 33 billion, an increase on the US\$ 19.6 billion of the fourth quarter of 2024 but similar to the figure for the first quarter of that year, with debt flows outstripping portfolio flows (see figure I.6). The outbreak of the tariff war in April caused both categories to decline, with a combined US\$ 3.7 billion drop to US\$ 18 billion in May.

Figure I.6

Debt and portfolio flows to emerging markets, January 2024–May 2025
(Billions of dollars)



Source: Institute of International Finance. (2025, July). *Capital Flows Tracker*.

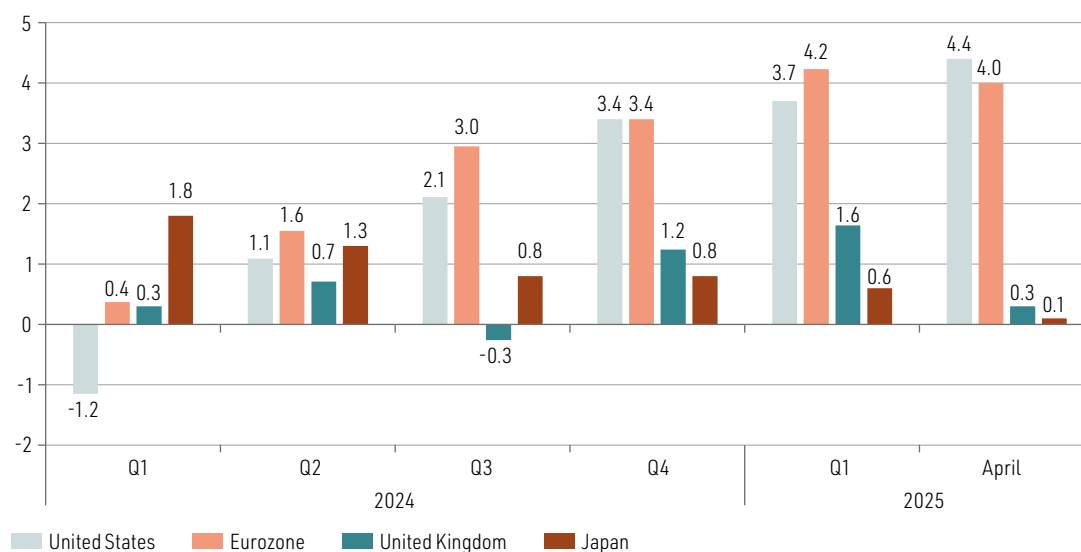
B. Global liquidity

1. The upward trend in global liquidity growth seen since early 2024 continued in the first quarter of 2025

In the first quarter of 2025, global liquidity remained strong: relative to 2024, broad money supply growth increased in the United States, the United Kingdom and the eurozone, although not in Japan. In April 2025, liquidity continued to expand in the United States and eurozone (by a respective 4.7% and 4.2% during the first quarter of 2025 and by 4.4% and 4.0% in April) and, less strongly, in Japan and the United Kingdom, with the clear deceleration in these two latter countries (to a respective 0.6% and 1.6% during the first quarter and 0.1% and 0.3% in April) being accounted for by inflationary pressures (see figure I.7).

Figure I.7

Rates of change in the money supply of the world's leading central banks, first quarter 2024–first quarter 2025 and April 2025
(Percentages)



Source: Federal Reserve Bank of St. Louis, "Economic Data", Federal Reserve Economic Data (FRED), 2024 [online] <https://fred.stlouisfed.org/> and Bank of Japan. (2025). *Money stock: preliminary figures for April 2025*. Research and Statistics Department.

Note: The money supply measure used is the M2 monetary aggregate in the case of the United States and M3 in the cases of the eurozone, Japan and the United Kingdom.

2. The policy responses of the world's leading central banks reflect greater divergence and heterogeneity between countries in economic performance and inflation

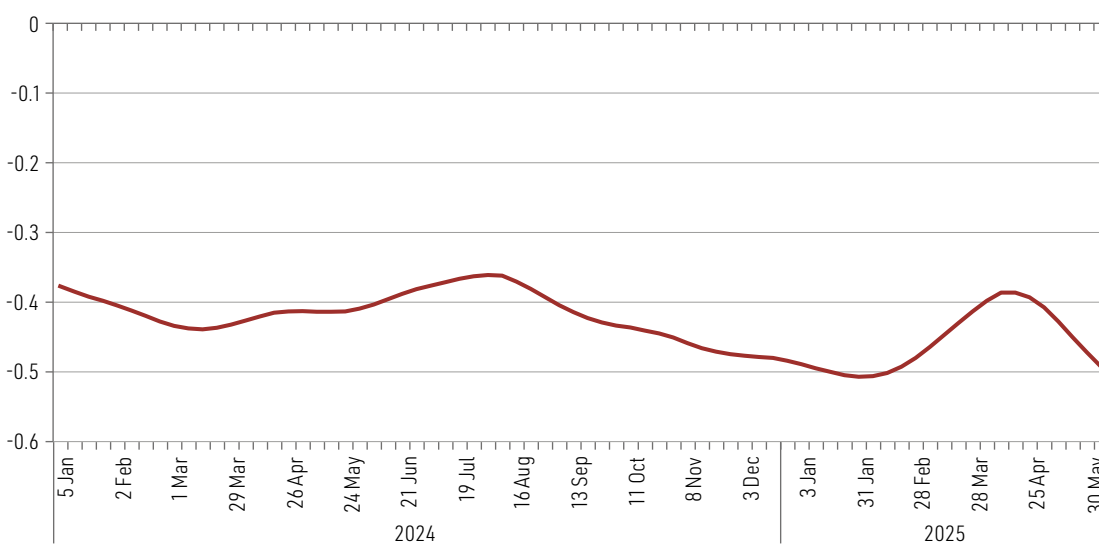
(a) The United States Federal Reserve maintained its monetary policy stance

The Federal Reserve kept the target range for its federal funds rate at between 4.25% and 4.50%. Currently, the effective federal funds rate, which is the real average interest rate charged on overnight loans, is approximately 4.33%. One explanation for the Federal Reserve's policy stance is the inflationary cooling observed since July 2022, when monthly inflation hit its highest level since June 1982 (8.44%).

Between January and May 2025, monthly inflation fell from 3.0% to 2.4%, which is consistent with the price stability target of 2.0% set in 2012. To date, that target has not been affected by higher tariffs and their potential impact on prices. Another explanation for the Federal Reserve's monetary policy stance is the situation with unemployment, which has held remarkably steady at a historically low level over the course of the year (4.0% in January and 4.1% in June). Similarly, financial conditions have not hardened or become restrictive, as is reflected in the National Financial Conditions Index of the Federal Reserve Bank of Chicago, which has recorded negative values since early 2024 (see figure I.8).

Figure I.8

United States: National Financial Conditions Index of the Federal Reserve Bank of Chicago, 5 January 2024–30 May 2025
(Percentages)



Source: Federal Reserve Bank of St. Louis, "Economic Data", Federal Reserve Economic Data (FRED), 2024 [online] <https://fred.stlouisfed.org/>.

Note: The National Financial Conditions Index is a weighted average of 105 indicators of risk, credit and leverage in the financial system. The risk component reflects the premium placed on risky assets and embedded in their returns, together with the volatility of asset prices. The credit component reflects willingness to both borrow and lend at prevailing prices. The leverage component reflects the share of debt in the financing of assets. Positive index values indicate tighter than average financial conditions, while negative values indicate looser than average financial conditions.

(b) The European Central Bank ended the expansionary cycle it had begun in June 2024

In June 2025, the European Central Bank cut its deposit facility rate by 25 basis points to 2.0%,¹⁴ aiming to ward off potential liquidity constraints in Europe's interbank markets due to the growing uncertainty caused by United States tariff policy.

This move marked the end point of the expansionary monetary policy initiated in June 2024, when the European Central Bank's monetary policy rate peaked at 4%.¹⁵ Eurozone annual inflation was 2.0% in June 2025 (2.2% in April), meeting the target set by the Bank (as by most developed economies). The future trajectory of eurozone monetary policy will be determined in large measure by trends in the nominal euro to dollar exchange rate and by the fiscal stimulus packages adopted, in particular, by France and Germany.

¹⁴ The deposit facility rate is the main interest rate used by the European Central Bank to conduct monetary policy.

¹⁵ See Storbeck and Stubbington (2025).

(c) The Bank of England went into 2025 with an expansionary stance, despite upward pressures on prices and liquidity constraints

In April and May 2025, the Bank of England cut its benchmark short-term interest rate from 4.75% to 4.25%, where it is expected to remain until at least the end of the first half. The Bank faces two major monetary policy challenges. First, after peaking at 11.10% in October 2022, inflation began to subside almost without interruption, falling to a low of 1.7% in September 2024. However, increased oil prices due to armed conflict in the Middle East began to put upward pressure on inflation, sending it up to 3.4% by May 2025.

In addition, the policy of quantitative tightening adopted by the Bank of England in June 2022 downsized its balance sheet from approximately 800 billion pounds sterling to 619 billion pounds as of May 2025, which represents an annual reduction of 100 billion pounds. This policy measure could create liquidity pressures at times of heightened volatility and uncertainty and during economic slowdowns, like the one under way in the United Kingdom,¹⁶ where a 0.3% contraction in April 2025 led the authorities to favour the use of financial instruments to avoid liquidity constraints.¹⁷

(d) The Bank of Japan tightened its monetary policy for the first time since the global financial crisis

Unlike the rest of the world's leading central banks, the Bank of Japan raised its monetary policy rate, from 0.25% in December 2024 to 0.50% in January 2025. This hike, which brought the rate to its highest level since 2008, was carried out in response to growing inflationary pressures and increases in wage growth. After averaging 2.5% in 2024, inflation neared 4.0% in the first five months of 2025 owing to rising food and energy prices.

This comes at a time of weakness for the Japanese economy, where a contraction of 0.2% in the first quarter ruled out further rate hikes by the monetary authorities. The situation that led to Japan's poor economic performance, namely a 0.8% drop in net exports, was accompanied by inventory growth of 0.6%, indicative of a net oversupply of goods and weak consumption growth (0.1%). Given the weight of consumption in the economy (60% of GDP), this has curbed the expansion of aggregate demand.¹⁸

3. The dollar depreciated in 2025 despite higher long-term Treasury bond yields

The dollar's external value depreciated almost continuously in 2025, in particular against the euro, the pound sterling and the Swiss franc.¹⁹ The nominal broad dollar index, which measures the dollar's appreciation or depreciation against a basket of world currencies, fell from 130 at the beginning of January to 121 by mid-June and 120 in early July.

The factors contributing to this depreciation have included volatility (see figure I.9) and uncertainty surrounding the potential effects of the tariff war, alongside concerns about the growth of the United States fiscal deficit, which came in at nearly US\$ 2 trillion for 2024 and US\$ 1.1 trillion for the period from January to the end of April 2025, a rise of 13% on the same four months of 2024.²⁰ The deficit currently exceeds 6% of United States GDP.

¹⁶ See Aldrick and Rees (2025).

¹⁷ See Smith (2025).

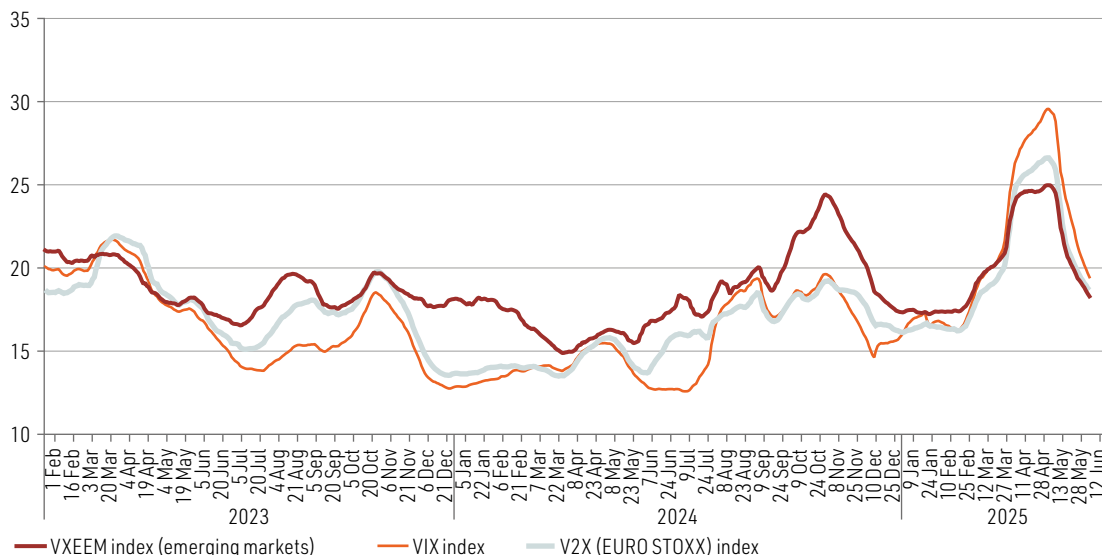
¹⁸ See Yokoyama (2025).

¹⁹ See Johnson et al. (2025) and Smith and Fleming (2025).

²⁰ Bipartisan Policy Center (2025).

Figure I.9

VIX, V2X (EURO STOXX 50) and VXEEM volatility indices, 30-day moving averages, 1 February 2023–12 June 2025



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg.

Note: The VIX Index, compiled by the Chicago Board Options Exchange (CBOE), measures expected volatility over the next 30 days and is derived from prices of call and put options on the S&P 500 index. Following the same logic, CBOE also produces the VXEEM index, which measures volatility in emerging markets, while Deutsche Börse and Goldman Sachs produce the V2X index, which measures eurozone volatility. Option prices rise when volatility is higher because investors are willing to pay more for protection. A VIX index value above 30 reflects fear among investors.

Debt service payments are one of the leading causes of the widening deficit in the United States. Treasury bond yields have risen, in particular since the presidential elections in early November 2024. Between mid-September 2024 and mid-June 2025, 10-year and 30-year yields rose from 3.63% to 4.41% and from 3.94% to 4.84%, respectively, driving up debt service payments to US\$ 881 billion in 2024 and, potentially, to over US\$ 1 trillion in 2025.²¹

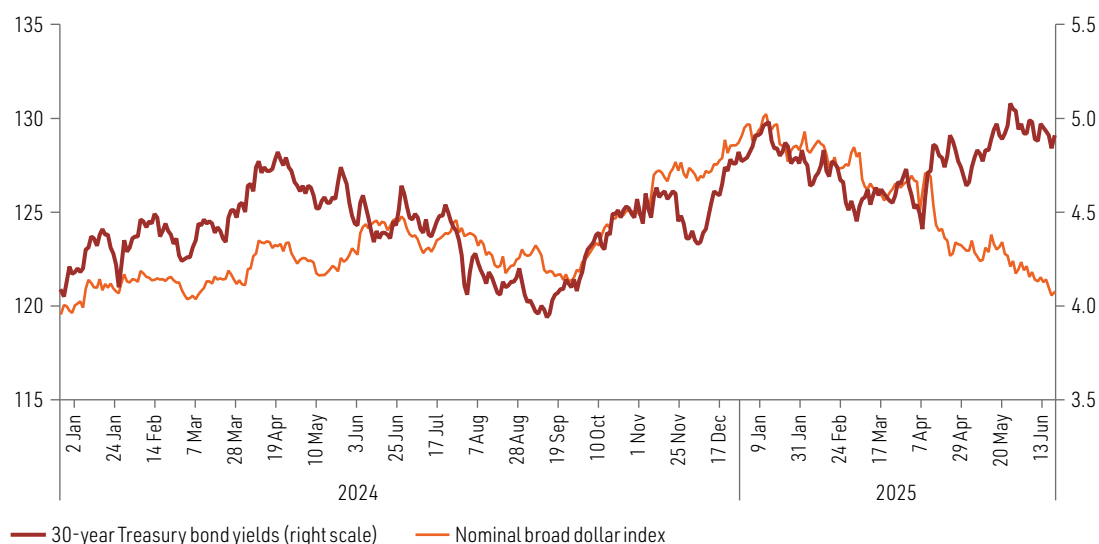
Another explanation for the depreciating dollar is the increased use of local currencies by foreign investors as a back-up for their exposure to dollar assets. This has happened in a context of continued strength in the United States stock market, despite a market sell-off at the beginning of the tariff war and unstable interest rate differentials. This means that investors are not so much reducing their dollar holdings as diversifying their asset portfolios across other currencies to navigate increased uncertainty and instability (see figure I.9).

As the dollar's value has fallen, so has that of Treasury bonds, resulting in higher long-term interest rates on government securities. This combination is anomalous, as the borrowing costs of the Government of the United States and the value of the currency have tended to move in tandem in recent years, and higher yields tend to indicate a robust economy and attract foreign capital. However, since the beginning of the tariff war, the yield on 10-year bonds has increased from 4.16% to 4.42%, while the dollar has fallen by 8% against a basket of currencies. According to the latest data, the correlation between trends in the nominal broad dollar index and long-term Treasury bond yields is at its lowest level in nearly three years (see figure I.10).

²¹ Congressional Budget Office (2025) and Peter G. Peterson Foundation (2025). Figures are for the fiscal year, running from 1 October to 30 September the following year.

Figure I.10

United States: nominal broad dollar index and 30-year Treasury bond yields, daily values, 2 January 2024–13 June 2025
(Index: 2006 = 100 and percentages)



Source: Federal Reserve Bank of St. Louis, "Economic Data", Federal Reserve Economic Data (FRED), 2024 [online] <https://fred.stlouisfed.org/>.

Note: The nominal broad dollar index measures the appreciation or depreciation of the dollar against a basket of world currencies.

4. The eurozone, including the periphery, has benefited from the diversification of foreign investors' portfolios

Portfolio diversification has been a boon for government securities in Germany, but also in countries on the periphery of the eurozone, including Greece, Ireland, Italy, Portugal and Spain. The latter have all received more of this investment thanks to their improved longer-term fiscal performance, which has reduced their government securities interest rate differentials with France and Germany. In the case of Germany, the fiscal package announced in April 2025, which includes 1 trillion euros in fiscal expenditure on infrastructure and defence, increased government bond yields, which also helped to narrow the spread with other eurozone countries.²²

This situation drove up demand for euros, meaning that the currency's value has moved in tandem with the price of these countries' government bonds, in a departure from the historical relationship between the two variables. Higher demand for eurozone government bonds and the concomitant rise in prices reduces their yields and thus the incentive to hold euro-denominated instruments and to buy euros for this purpose. Moreover, higher demand for eurozone bonds should lead to a depreciation in the currency's external value relative to other international reserve currencies.²³

²² See Smith (2025).

²³ See Smith and Fleming (2025).

5. Volatility and uncertainty notwithstanding, the dollar remains the world's leading international reserve currency

The depreciation of the dollar, the falling price of United States Treasury bonds and the resulting abnormal relationship between the two variables, together with the growing fiscal deficit, have not diminished the dollar's dominance as an international reserve currency, a medium of exchange, a store of value and, above all, a unit of account.²⁴ There are two main indicators that demonstrate the strength of the dollar: sales of Treasury bonds to finance the public deficit are proceeding normally, and demand for these from countries (their primary holders) is undiminished.²⁵ Sell-offs of Treasury bonds by certain economies are a routine central bank practice, not a sign of flight to other assets.²⁶

Regarding the dollar's role as a medium of exchange, it accounts for 48.0% of all Society for Worldwide Interbank Financial Telecommunication (SWIFT) payments, compared to 24% for the euro and 4% for the renminbi.

As for the dollar's use as a store of value, data show that approximately 60% of international reserves are held in dollars, compared to 21% in euros, 6% in yen and 2% in renminbi.²⁷ For example, BRICS Plus created the Contingent Reserve Arrangement, but its operations since then have been limited, owing to their dependence on dollar availability and access to the SWIFT messaging system.

Lastly, regarding the dollar's role as a unit of account, it is used as a benchmark in 88% of foreign exchange transactions, compared to much lower figures of 31% for euros, 17% for yen, 13% for pounds sterling and 7% for renminbi. Again, between 1999 and 2019, the dollar was the unit of account for 96% of global trade invoicing in Latin America and the Caribbean, 74% in the Asia-Pacific region and 79% in the rest of the world.²⁸

²⁴ See Authers, J. (2025) and Tett (2025).

²⁵ As indicated by Atkins and McCormick (2025), no other investment compares to the depth and liquidity of Treasury bonds.

²⁶ Japan, the United Kingdom and China are the main holders of Treasury bonds outside the United States. China has been reducing its bond holdings since mid-2016 (from US\$ 1.2 trillion in June 2016 to US\$ 765 billion in March 2025). In March 2025, China became only the third-largest holder of Treasury bonds, after Japan and the United Kingdom. This development was partly due to the adoption of a policy of diversification into other assets and a shortening of maturities. It should also be noted that China's holdings are perhaps being underestimated, given that it also owns Treasury bonds in other jurisdictions. Japan has held Treasury bonds worth in excess of US\$ 1 trillion since 2013 (US\$ 1.1 trillion in March 2025). The United Kingdom has been increasing its holdings since 2012, and these were worth US\$ 779 billion in March 2025, surpassing China's (see Alim et al. (2025) and McCormick (2025)).

²⁷ Lagarde (2025) offers an explanation of the requirements and obstacles involved in improving the euro's role as an international reserve currency. Central banks have responded to growing global uncertainty and United States economic policy by increasing their holdings of gold rather than of other reserve currencies. In fact, gold has recently become the second-largest reserve asset after the dollar, outstripping the euro (see Hook (2025)).

²⁸ See Duffie (2023), Li (2024) and Pérez Caldentey (2024).

C. The external sector

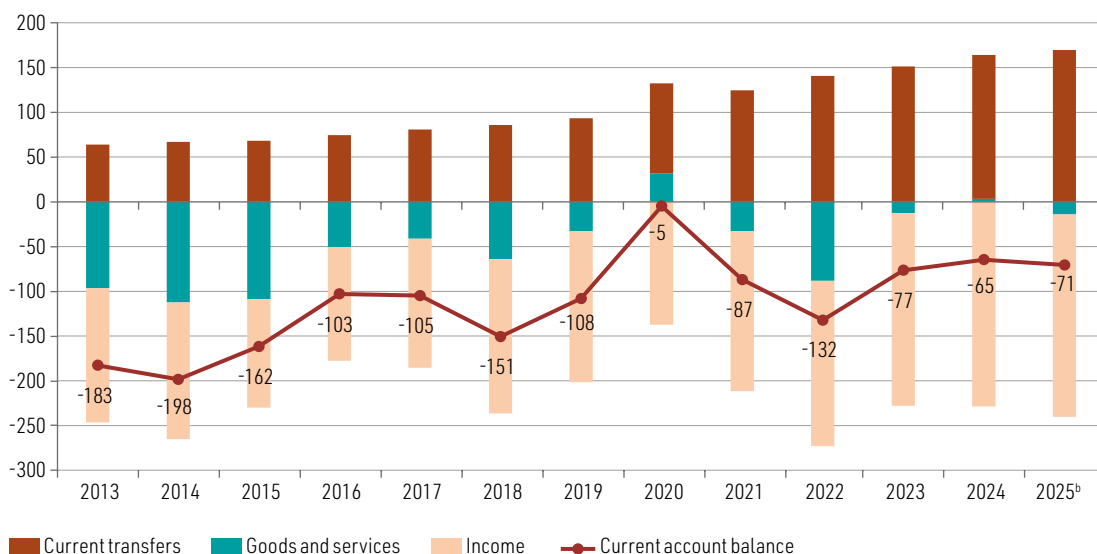
1. In 2025, the region's current account deficit will come under mounting pressure from emerging global risks, in particular global economic fragmentation and financial volatility, despite a resilient trade surplus and remittances

Macrofinancial conditions have contributed to a significant post-pandemic correction in the current account that is likely to be sustained, even though the deficit is projected to increase in 2025.

A confluence of multiple factors at the international level, including high interest rates in advanced economies, exchange-rate volatility, a slowdown in trade, persistent inflationary pressures, mixed commodity price trends and restrictive financial conditions, has reconfigured the direct determinants of the region's balance of payments. During the 2023–2024 biennium, the region's external accounts underwent a major correction, while the current account deficit shrank to US\$ 65 billion (1% of GDP) in 2024, down US\$ 12 billion year-on-year (see figure I.11).²⁹

Figure I.11

Latin America and the Caribbean (25 countries):^a current account balance, by component, 2013–2025
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The countries included were those with complete information available up to 30 May 2025.

^a Antigua and Barbuda, Argentina, Brazil, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago and Uruguay.

^b Figures for 2025 are projections.

Driven by remittances to the region, the current transfers surplus (secondary income) continued to grow in 2024, to US\$ 161 billion (2.4% of GDP). In addition, the goods and services balance closed out the year with a US\$ 3 billion surplus after three years of deficits. Meanwhile, the impact of higher

²⁹ The larger than anticipated correction was due to greater economic buoyancy in the United States and China, favourable prices for certain key export commodities and, in particular, a stronger economic performance from Argentina.

interest payments abroad was evident in the negative income account balance (primary income), which at US\$ 229 billion (3.5% of GDP) represented the largest deficit of the past decade and offset those net foreign-exchange inflows.

Projections for 2025 indicate a moderate deterioration in the current account balance with a US\$ 71 billion deficit (1.1% of GDP), mainly due to unfavourable developments in the goods and services balance and a rise in net factor income outflows, discussed in greater detail below. However, this projection is predicated on the great uncertainty surrounding the implementation, scope and magnitude of the new trade tariffs announced by the United States feeding into expectations for global economic growth and trade and fuelling volatility in international financial and commodity markets.³⁰ Should this scenario materialize, the correction in the current account would be expected to continue, bearing in mind that the medium-term average of the regional deficit between 2013 and 2024 was 2.3% of GDP.³¹

The trade balance in Latin America and the Caribbean is expected to go into deficit in 2025, a reversal of its prior-year position, with large variations between subregions.

On the one hand, the goods balance is expected to post a solid surplus of around US\$ 50 billion (0.8% of GDP), although this would represent an 18% decline relative to 2024 (see figure I.12.A). South America will be largely responsible, with projections pointing to a US\$ 122 billion surplus in 2025 on the heels of the record surplus recorded in 2024 (US\$ 133 billion).

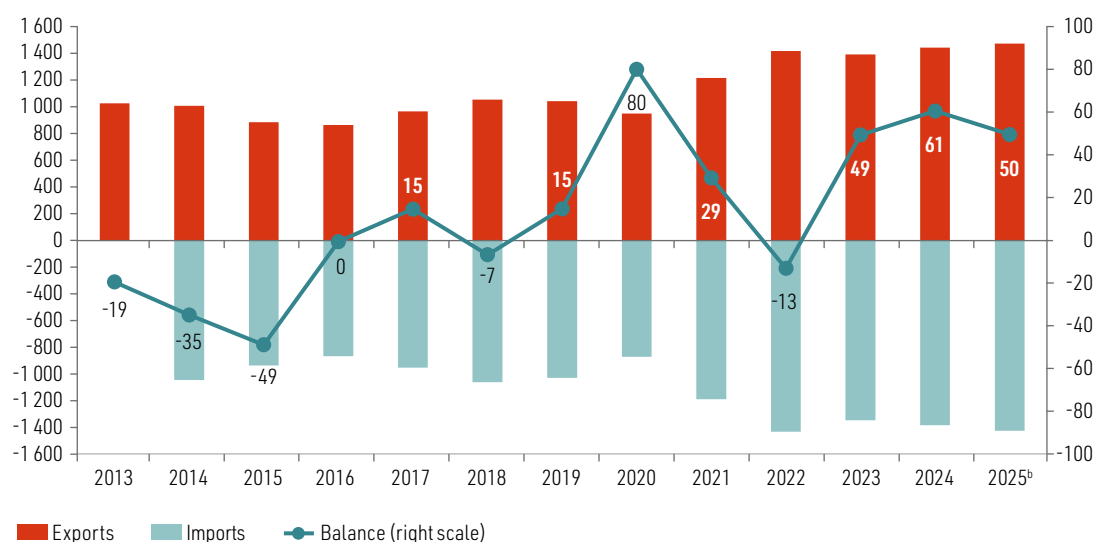
On the other hand, the services account is projected to post a US\$ 64 billion deficit (1% of GDP), 13% larger than in 2024 (see figure I.12.B), owing mainly to growth in information and communications technology (ICT) imports and charges for intellectual property use.

Figure I.12

Latin America and the Caribbean (25 countries):^a trade balance, 2013–2025

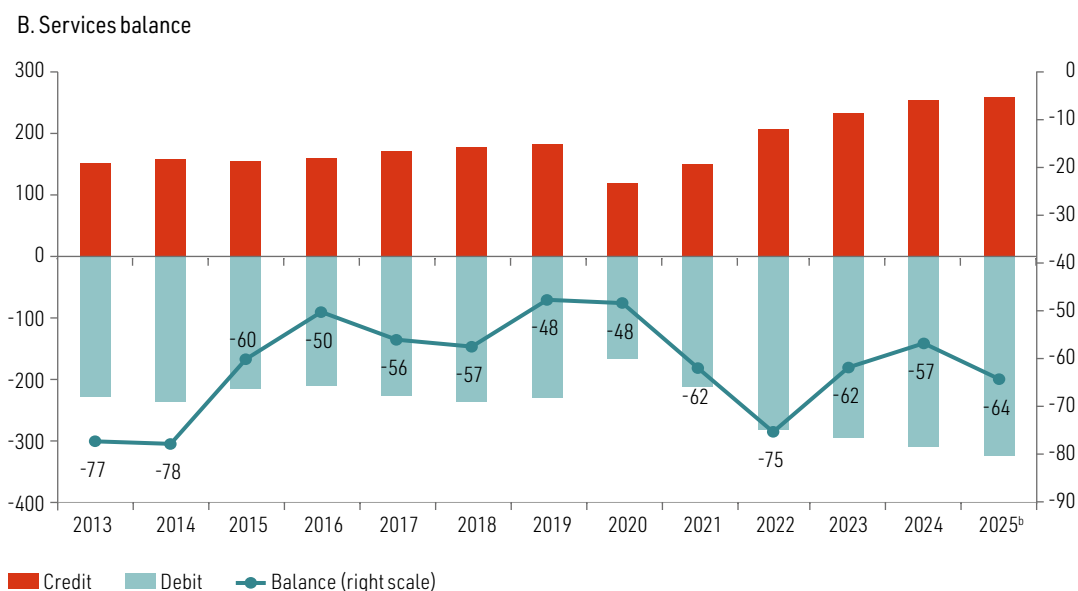
(Billions of dollars)

A. Goods balance



³⁰ According to the projection models, there is a 70% probability that the regional current account deficit will fall within a range of -1.3% to -0.9% of GDP in 2025 and a 10% probability that it will exceed -2.1% of GDP.

³¹ This average does not include 2020, which was an outlier.



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The countries included were those with complete information available up to 30 May 2025.

^a Antigua and Barbuda, Argentina, Brazil, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago and Uruguay.

^b Figures for 2025 are projections.

In the aggregate, both Central America and the Caribbean should maintain services surpluses (of US\$ 20 billion and US\$ 3 billion, respectively). Tourism, in particular, showed a stabilizing trend in 2024 following its strong post-pandemic rebound, and this is expected to continue. South America remained in negative territory, with declines on both sides of the balance sheet (-6% in credits and -2% in debits). In the Caribbean, credits (+6%) and debits (+3%) both increased by less than in 2023, the result being a net surplus. Central America, meanwhile, recorded a very considerable increase (of 18%, the highest rate in the region) on the debit side due to outbound tourism.

The value of exports is projected to increase in 2025 for both goods and services, by a respective 2.2% and 2.4%, although both rates are below historical averages (see table I.1). Demand for imports is also expected to increase for both goods and services (by 3% and 4.4%, respectively), which is an indication that consumption and investment in the region have more room for recovery. Add to this the projection of a gradual fall in international prices for some commodities and sustained high prices for others, such as copper and coffee, and the outlook for 2025 is one of differentiated effects on each country's trade balance according to its production and export specialization.

This dynamic is closely linked to regional trends in the terms of trade. In 2024, the terms of trade index saw modest year-on-year growth (2%) because export prices were higher than import prices, despite the continuation of a downward trend in both, dating from 2022 (see figure I.13), which left import prices 3% lower and export prices 1% lower in 2024 than in 2023.

Table I.1

Latin America and the Caribbean (25 countries):^a annual changes (2024–2025)^b and average annual rates of change (2013–2024) in exports and imports (Percentages)

Indicator	South America	The Caribbean	Central America	Region
Goods exports				
Annual change	3.9	0.7	0.4	2.2
Average rate of change	3.8	-2.0	4.7	4.1
Goods imports				
Annual change	6.6	1.4	0.4	3.0
Average rate of change	2.2	0.3	4.6	3.4
Services exports				
Annual change	2.6	0.5	2.4	2.4
Average rate of change	1.6	2.4	5.7	3.4
Services imports				
Annual change	4.7	5.8	3.7	4.4
Average rate of change	0.9	1.8	5.2	2.2

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

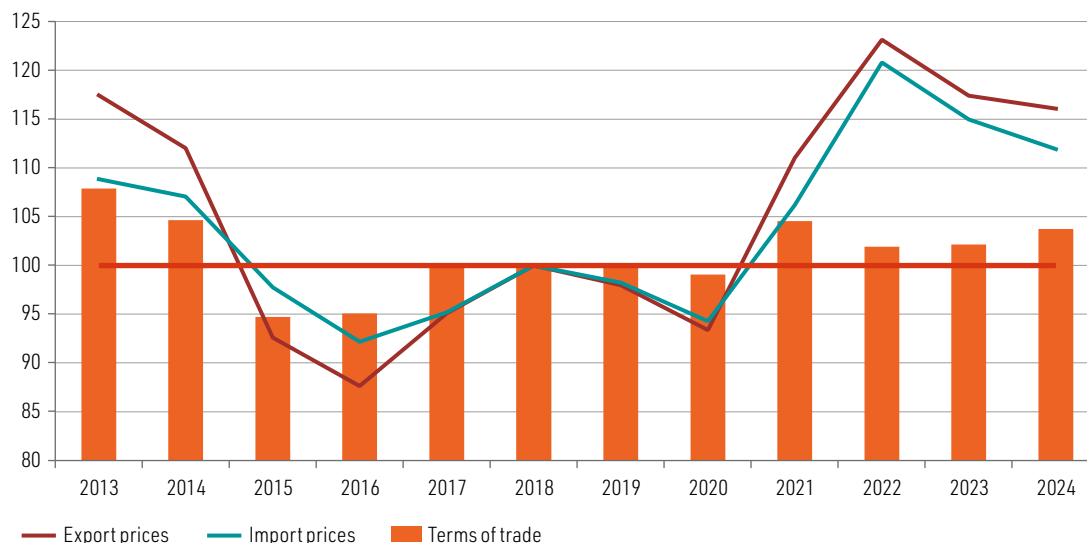
Note: The countries included were those with complete information available up to 30 May 2025. Averages for the period 2013–2024 were calculated by logarithmic estimation.

^a Antigua and Barbuda, Argentina, Brazil, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago and Uruguay.

^b Figures for 2025 are projections.

Figure I.13

Latin America and the Caribbean: terms of trade and export and import prices, 2013–2024 (Index: 2018 = 100)



Source: Economic Commission for Latin America and the Caribbean, on the basis of CEPALSTAT.

Preliminary figures for the first quarter of 2025 point to a continuation of the trend observed in 2024, with the terms of trade growing year-on-year in several countries, such as Brazil (3%), Argentina (7%), Colombia (8%) and Peru (17%). By contrast, they have been deteriorating in others, like Chile (-3%) and Mexico (-6%).

This behaviour is a reflection, in particular, of the specific bilateral relations of certain countries in the region, since in some cases their main trading partner (e.g., China) registered higher import prices in the early months of 2025. Mixed projections for global commodity prices,³² in an international context of growing trade fragmentation, geopolitical tensions and intensification of the effects of climate change, are further complicating the equation.

In summary, notwithstanding the resilience of the region's trade balance, import demand has grown, there are no clear signs of a meaningful recovery in exports, and strains in traditional export sectors have been accompanied by a rising dependency on high value added imports.³³

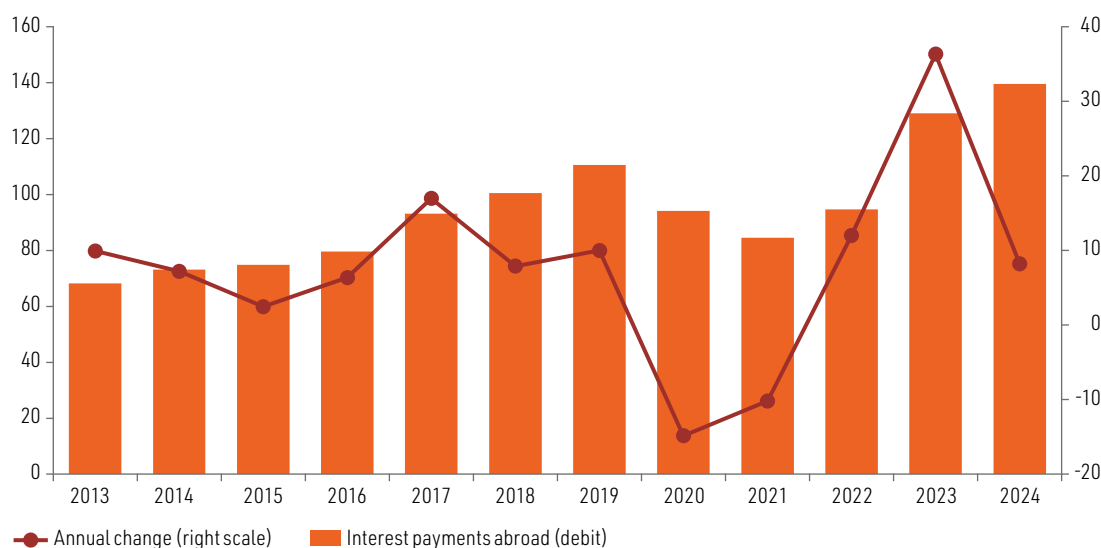
Net factor income outflows will continue to put pressure on the current account balance in 2025, while remittances will consolidate their position as the primary counterbalance in the region's external accounts.

Income account pressures are expected to mount in 2025, with net outflows totalling US\$ 226 billion (3.5% of GDP). On the debit side,³⁴ comprising investment income, interest payments abroad are the largest item, averaging more than 40% of this income.

The upward trajectory of interest payments since 2022, as shown in figure I.14, reflects a tightening of international financial conditions.

Figure I.14

Latin America and the Caribbean (25 countries):^a interest payments abroad (income account debit), 2013–2024
(Billions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The countries included were those with complete information available up to 30 May 2025.

^a Antigua and Barbuda, Argentina, Brazil, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago and Uruguay.

Interest payments grew at a substantial year-on-year rate of 36% in 2023, moderating to 8% in 2024. Nevertheless, projections for 2025 suggest that the return to normality in the easing cycle will be slower than expected as central banks adopt differing approaches in the face of global economic

³² See "Commodity Markets", World Bank, April 2025. <https://www.worldbank.org/en/research/commodity-markets>.

³³ See Giordano and Michalczewsky (2025).

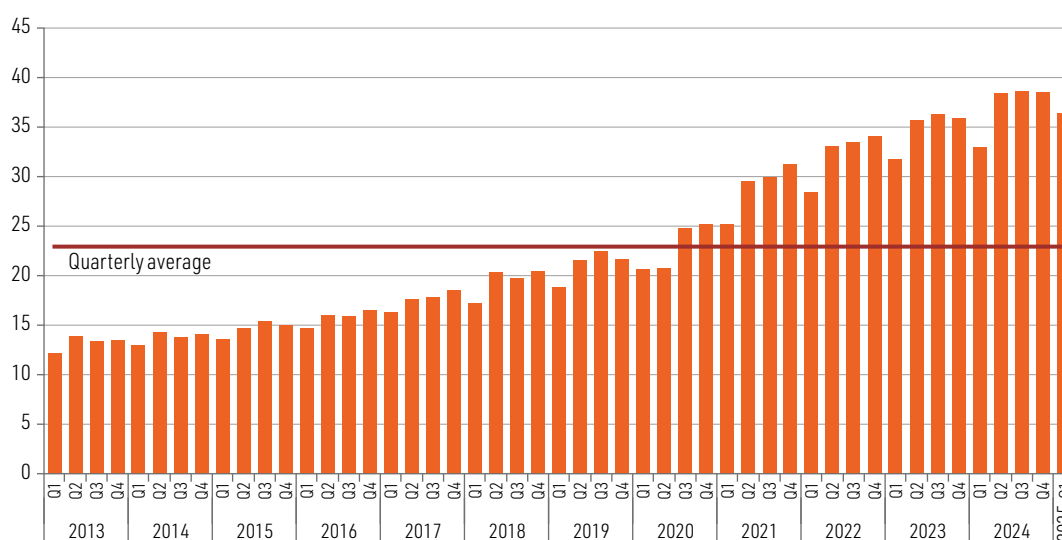
³⁴ Reinvested earnings are a significant component of the primary account that will be considered in the financial account analysis further on.

uncertainty and inflationary risks. This will keep up the pressure on global interest rates, making it harder to finance the current account deficit. In this context, the region's external capital dependency and exposure to the global liquidity cycle are especially apparent.

Conversely, the strong growth in remittances to the region during the five years since the 2020 pandemic is projected to continue in 2025 (see figure I.15). Aggregate remittances reached a record high in 2024 at US\$ 163 billion, a 7% increase relative to 2023.³⁵

Figure I.15

Latin America and the Caribbean (10 countries):^a remittance inflows, first quarter of 2013–first quarter of 2025 (Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The countries included in the chart, accounting for 90% of total remittances received in 2024, were those with information available up to 30 May 2025.

^a Brazil, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Peru.

Central America³⁶ accounted for more than two thirds of total inbound remittances, with annual growth of 4%, while South America recorded an 8.5% increase in remittances, the highest rate in the region, propelled by flows to Colombia. Remittances are especially consequential in countries like El Salvador, Honduras, Jamaica and Nicaragua, where they account for more than 20% of GDP, indicating a high level of vulnerability to external factors and structural dependency on these flows (see figure I.16).

This buoyancy since the pandemic confirms the stabilizing effect of remittances during external shocks. Despite the global health crisis and the inflationary episodes that followed, remittances not only recovered swiftly but climbed to high levels in a climate of pronounced macrofinancial uncertainty.

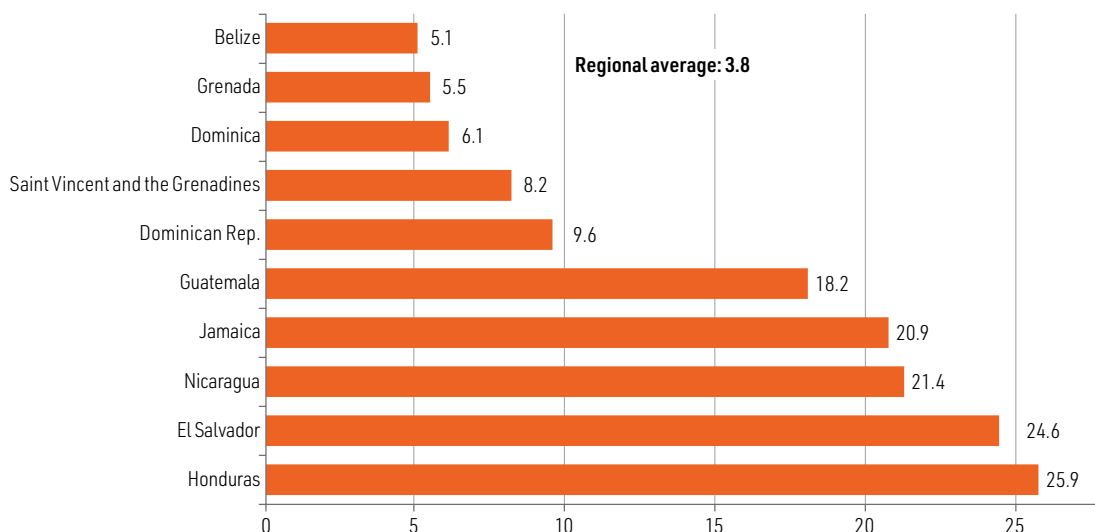
Current transfers are projected to sustain their momentum in 2025 and register a US\$ 170 billion surplus, in line with the recent trend, although this forecast could be affected by a range of risks, most of them external. The most prominent include the performance of the United States labour market and tougher migration policies, as well as the high cost of sending remittances.

³⁵ In 2024, inbound remittances grew year-on-year in all the countries of the region except Antigua and Barbuda and Saint Kitts and Nevis.

³⁶ Mexico, Guatemala and the Dominican Republic are the top destinations for remittances in absolute terms, with cumulative totals in the last five years of US\$ 294 billion, US\$ 87 billion and US\$ 51 billion, respectively.

Figure I.16

Latin America and the Caribbean (selected countries): cumulative GDP shares of remittance inflows, 2020–2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

On this last point, the implementation of a 3.5% tax on remittances by the United States can be expected to raise the risks associated with flows to the region and encourage the use of informal financial channels, compromising the transparency of transactions (Dempster, Ward and Huckstep, 2025).

2. Net capital inflows, led by foreign direct investment, will continue to rise, but the financing available is expected to diminish once the current account deficit is covered

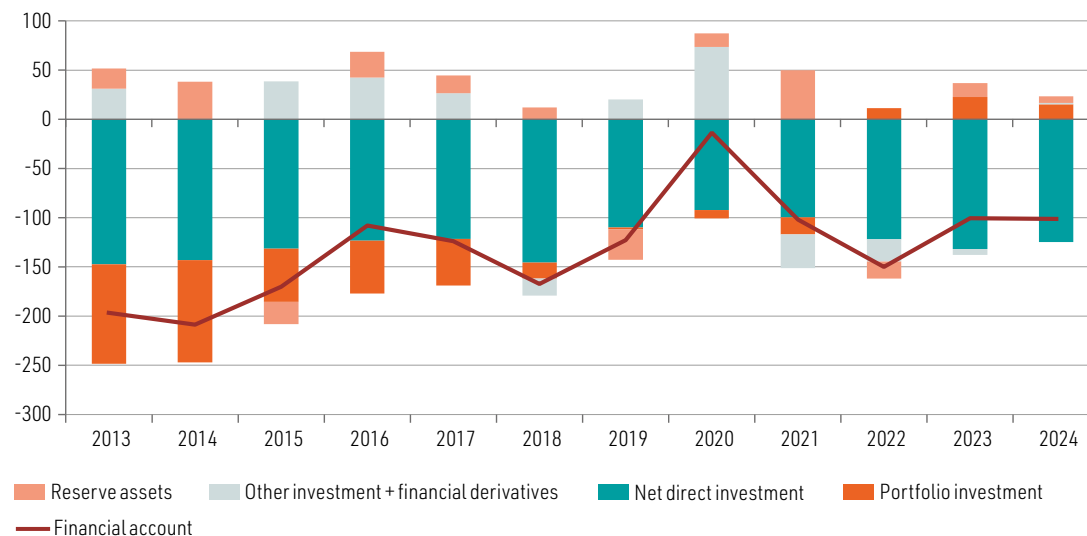
Recently, growth in net capital inflows has been moderate, owing to a slowdown in foreign direct investment (FDI).

In 2024, the financial account registered net capital inflows of US\$ 101 billion (1.5% of GDP), including reserve assets (see figure I.17). Capital inflows (net issuance of liabilities) totalled US\$ 118 billion, up 12% on 2023 but still lower than the US\$ 233 billion average recorded in the period 2013–2019. Meanwhile, capital outflows (net acquisition of assets abroad) totalled US\$ 9.8 billion in 2024 after a contraction in 2023 (US\$ 10 billion). In fact, the region's capital inflows were mainly accounted for by the high volume of FDI, which netted out at US\$ 125 billion (1.9% of GDP). The other line items, in contrast, registered net outflows, including portfolio investment (US\$ 15 billion) and other investment and financial derivatives (US\$ 1.5 billion).³⁷

³⁷ The "other investment" category mainly consists of loans, deposits, trade credit, currency and other accounts receivable/payable. Financial derivatives are defined as financial contracts linked to but negotiated separately from an underlying asset (e.g., the interest rate, the exchange rate, commodity prices).

Figure I.17

Latin America and the Caribbean (25 countries):^a financial account balances, by investment category, 2013–2024
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The capital account registered net inflows in 2024 (of US\$ 15 billion, or 0.2% of GDP). The errors and omissions line item came in at a negative US\$ 21 billion (-0.3% of GDP). By convention, the financial account is recorded with the same sign as the current account, with a negative balance denoting net capital inflows.

^a Antigua and Barbuda, Argentina, Brazil, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago and Uruguay.

In 2024, net capital inflows made it possible to finance the current account deficit and grow reserve assets by a modest US\$ 7 billion (0.1% of GDP). However, the financial account balance at the regional level has clearly deteriorated over the years, both in absolute terms and as a share of GDP, reflecting reduced access to external financing. The financial account surplus averaged 3.5% of regional GDP in the mid-2010s but fell to 2.5% of GDP between 2016 and 2019 and currently stands at just 1.5% of GDP. This is primarily symptomatic of reduced net FDI inflows, worth 2.5% of GDP up until the pandemic but less than 2% now, and lower portfolio investment inflows, which went from 1% of GDP between 2013 and 2019 to 0.3% of GDP between 2023 and 2024. These developments translate into a decrease in the net financial resources available once the persistent current account deficit has been covered (see figure I.11).

In 2025, net capital inflows are expected to grow, albeit at a slower pace. In the first quarter of the year, the combined financial account deficit of Brazil, Chile, Mexico and Peru was US\$ 35 billion, a 17% reduction on the same period in 2024.³⁸ This was due to declines in FDI inflows in all the countries except Peru and, especially in Brazil, in portfolio investment. The “other investment” category went from surplus to deficit, partially offsetting the trend. This moderation points to a diminished capacity to attract new capital flows into the region, which limits its options for financing economic development and coping with external shocks without having to increase the debt burden or resort to more severe macroeconomic adjustments.

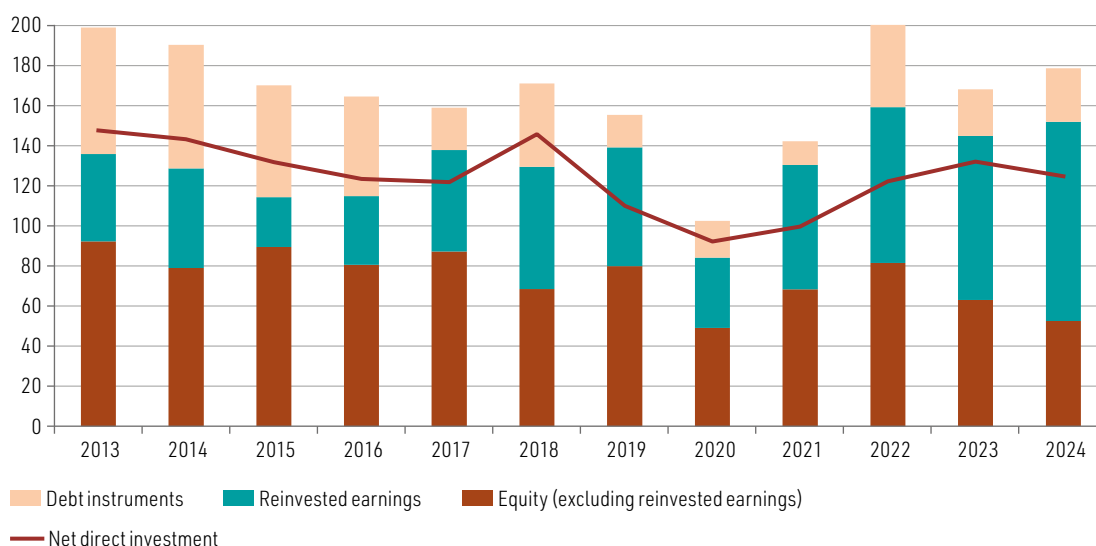
FDI inflows are concentrated in just a few countries of the region, with Brazil and Mexico accounting for 65% between them, followed by Argentina, Chile and Colombia, averaging a combined 22%.

³⁸ These four countries were responsible for more than 90% of the financial account deficit in 2024 and represent 75% of cumulative direct and portfolio investment liabilities alike.

This, too, reflects limited access to external financing in the rest of the region's economies. The drop in FDI inflows noted earlier is part of a broader global decline observed in 2024.³⁹ The region's growing dependence on FDI thus highlights the constraints that it confronts in attempting to mitigate exposure to external shocks amid intensifying risks in order to maintain external equilibrium; and it bears repeating that reinvested earnings, which continued their post-pandemic growth with a 21% year-on-year increase in 2024, account for more than half of FDI inflows (see figure I.18).

Figure I.18

Latin America and the Caribbean (25 countries):^a direct investment liabilities, by instrument, 2013–2024
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Antigua and Barbuda, Argentina, Brazil, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago and Uruguay.

The trends described above are projected to continue in 2025, subject to evolving international conditions. Reinvested earnings have been crucial in stabilizing FDI flows without producing currency outflows from the recipient countries and are expected to remain the principal form of financing.

However, their growing share at the expense of equity, which accounted for 46% in 2013 and just 29% in 2024, reinforces a production structure that is centred on the exploitation of existing resources, limiting the scope for diversification, innovation and job creation. To this must be added a variety of latent risks, such as heightened vulnerability to adverse economic cycles, potential capital flight and the perpetuation of extractive models that severely impact the environment.

3. Rising debt issuance, driven by the private sector, will approach pre-pandemic levels, while the contribution of thematic bond issues will remain marginal

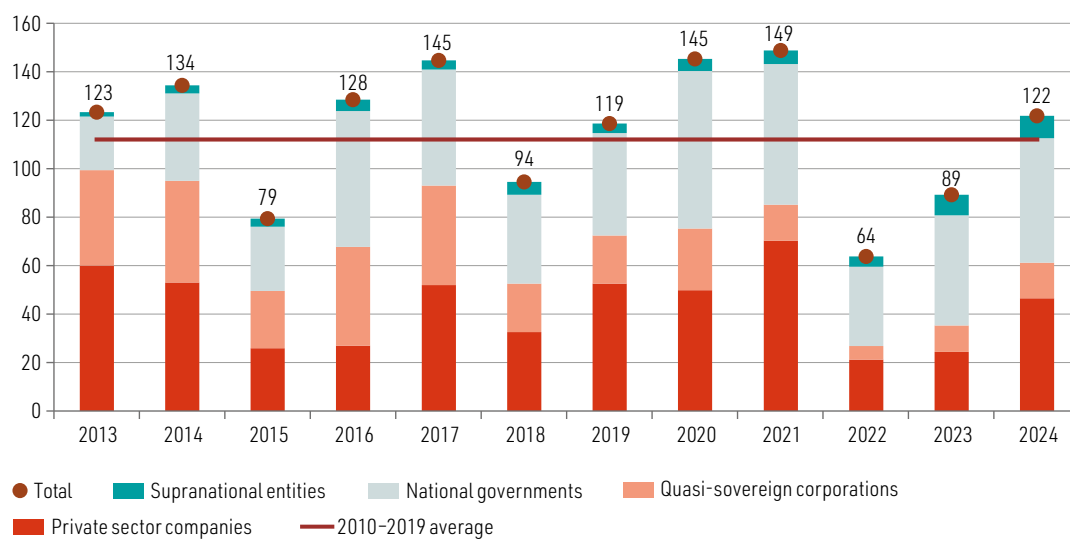
In a reversal of the 2022 trend, debt issuance on international markets in 2024 totalled US\$ 122 billion, representing an annual increase of 37% and even exceeding the US\$ 112 billion average of the previous decade (see figure I.19). This played out in a regional context of relatively favourable

³⁹ According to preliminary figures, FDI flows to developing economies fell in 2024 (-2%) for the second year in a row, and investments in SDG-related sectors were down 11% (UNCTAD, 2025a).

international financial conditions and diminished perception of risk (see box I.1). In addition, the average coupon on dollar-denominated issuance across all sectors is no longer rising, having in fact fallen from 7.2% in 2023 to 7% in 2024 and 6.6% in the first four months of 2025. That said, it is still higher than the 4.2% average recorded in 2021.

Figure I.19

Latin America and the Caribbean: bond issuance on international markets, by sector, 2013–2024
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Of the total issued in 2024, 57% was accounted for by three countries, namely Mexico (US\$ 25 billion), Brazil (US\$ 24 billion) and Chile (US\$ 21 billion), bolstered by an increase in issuance by private companies. There was a notable change of trend in Argentina's debt issuance, which had been at very low levels since 2018. Private and quasi-sovereign corporations issued a total of US\$ 5.5 billion in 2024 and US\$ 1.8 billion in the first four months of 2025 alone, although there were no sovereign issues.

At the sectoral level, there was a sizeable increase in private companies' debt issuance, which nearly doubled in value in 2024 relative to 2023, to US\$ 47 billion, and accounted for 40% of total issuance on international markets, compared to 27% in the prior year (see table I.2). Quasi-sovereign corporations also increased their debt issuance by 34% to US\$ 15 billion, while supranational entities —essentially development banks— issued US\$ 9 billion in debt, up 11% year-on-year. Sovereign debt issuance totalled US\$ 51 billion in 2024, a 13% annual increase.

However, sovereign debt saw its share of total issuance shrink to 42% (from 51% in 2023) owing to the expansion of private issuance. Mexico, which accounted for 21% of issuance, led in this sector and had the lowest average coupon (5.3%). Brazil, Chile and Colombia followed with shares ranging from 10% to 15% of total issuance but higher coupons (6.4% on average). The rest (42%) was in countries like Ecuador, Guatemala, Honduras, Peru, Trinidad and Tobago and Uruguay, with an average coupon of 7%.

Table I.2

Latin America and the Caribbean: bond issuance on international markets, by sector, 2024 and January–April 2025
(Millions of dollars and percentages)

	Private companies	Quasi-sovereign corporations	National governments	Supranational entities	Total
2024 total	46 580	14 635	51 288	9 270	121 774
Year-on-year growth (Percentages)	91	34	13	11	37
Share of total (Percentages)	38	12	42	8	100
January–April 2025	18 625	3 100	24 596	5 875	52 196
Year-on-year growth (Percentages) ^a	3	-52	10	-15	-3
Share of total (Percentages)	36	6	47	11	100

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Relative to the same period in 2024.

Issuance has been proving more restrained in 2025 amid heightened global economic uncertainty. In the first four months of the year, total issuance dropped 3% compared to the prior-year period, with a slight increase in private company issues, substantial growth in sovereign issues and declines in quasi-sovereign and supranational issues.

Following strong growth in 2023, issues denominated in local currency were down 20% in 2024 owing to a decline in the sovereign debt category, despite increases in private and supranational issues. Chile led the segment with nearly US\$ 4 billion in local-currency sovereign bonds, accounting for 56% of total sovereign debt issuance, all in the form of thematic bonds.⁴⁰ Although denominating debt in local currency allows issuers to mitigate foreign-exchange risk, it also costs more. For example, the average coupon in 2024 was 8.2% for debt issued in Mexican pesos and 8% for Peruvian soles, compared to 7% for dollars.

Since 2021, thematic bonds (social, green, blue, sustainable and sustainability-linked) have accounted for approximately one third of the region's debt issuance. In 2024, thematic issuance totalled US\$ 33 billion, representing a 6.4% year-on-year increase and 27% of the total amount issued (see table I.3). Brazil, Chile and Mexico accounted for three fourths of thematic issuance, with a strong increase in private companies' share in 2024. Globally, thematic issuance reached US\$ 1.1 trillion, a 5% increase, continuing the growth trend observed since 2022. The region makes up just 3% of the global market, where green bonds continue to dominate; they account for 32% of the total in Latin America as compared to 57% globally (World Bank, 2025).

Green bond issuance nearly quintupled in 2024. Among the most significant examples were a sovereign issue by Ecuador for Amazon conservation and issues by private companies in Brazil's and Chile's energy sectors and in Mexico's telecommunications and real estate sectors. Sustainability-linked bonds, on the other hand, experienced a fall of 93%, from US\$ 11 billion in 2023 to just US\$ 800 million in 2024, the issuers being private sector companies in Brazil. Debt issuance in the first four months of 2025 included, in particular, a social bond from the Government of Chile and several sustainable bonds from the Financial Fund for the Development of the River Plate Basin (FONPLATA) and the Central American Bank for Economic Integration (CABEI), totalling US\$ 1.63 billion.

⁴⁰ The Dominican Republic issued the largest proportion of its sovereign debt in local currency (59%), followed by Uruguay (52%) and Peru (38%).

Table I.3

Latin America and the Caribbean: thematic bond issuance on international markets, by sector and country, 2024
(Millions of dollars)

	Green	Sustainability-linked	Social	Sustainable	Total
Private sector companies	8 580	800	320	110	9 810
Brazil	4 566	800			5 366
Chile	2 255		320	110	2 686
Mexico	1 759				1 759
Quasi-sovereign corporations	183		300	2 250	2 733
Brazil				750	750
Chile	183				183
Mexico				1 500	1 500
Peru			300		300
National governments	1 750		9 105	8 575	19 430
Brazil				2 000	2 000
Chile			7 805		7 805
Colombia			1 300		1 300
Dominican Republic	750				750
Ecuador	1 000				1 000
Guatemala				800	800
Honduras				700	700
Mexico				3 220	3 220
Peru				1 855	1 855
Supranational entities			762	394	1 157
Total	10 513	800	10 487	11 329	33 130

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Box I.1

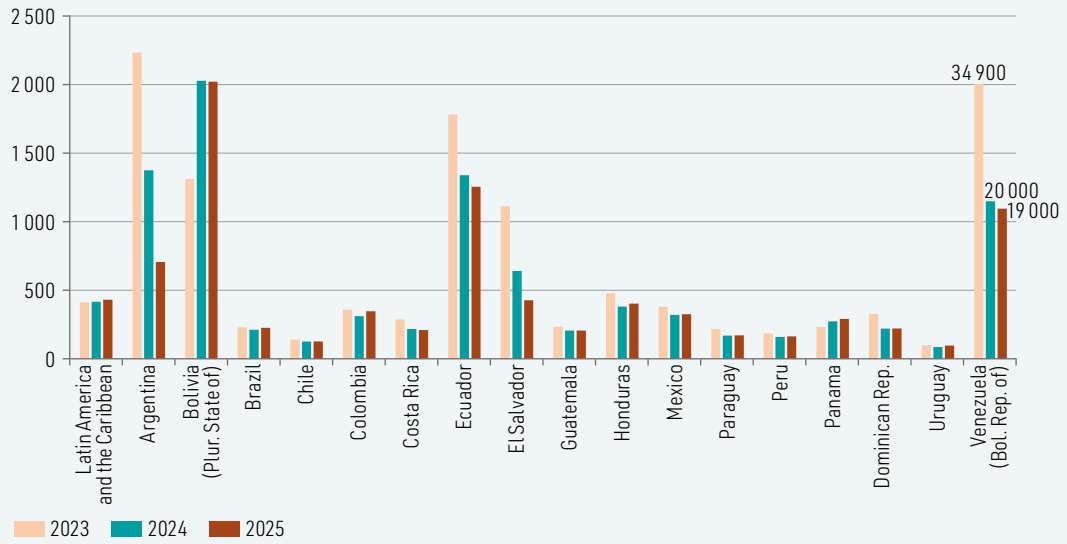
Latin America and the Caribbean: evolving perceptions of risk

In 2024, a low perception of risk and favourable economic conditions were reflected in the region's sovereign risk as measured by the emerging markets bond index (EMBI), whose average value of 415 basis points was virtually unchanged from the previous year. Uruguay had the lowest sovereign risk, followed by Chile, Peru and Paraguay, all with values below 200 basis points.

Average EMBI levels fell in almost all the countries, although the declines were most pronounced in Argentina, Ecuador and, albeit still with a very high value, the Bolivarian Republic of Venezuela.

In the first five months of 2025, the EMBI value for the region averaged 429 basis points, 15 basis points higher than the 2024 average, signalling increased market uncertainty. On the one hand, among countries with low index values, a slight uptick in risk in Mexico and Brazil was enough to affect the regional aggregate; on the other, a downward trend has persisted among countries with high index values. There are some striking examples, with Argentina ending May 2025 at 700 basis points and El Salvador's risk level now on a par with the regional average. Values in the Bolivarian Republic of Venezuela and Ecuador, meanwhile, have been declining at a more moderate pace.

Latin America (16 countries): index of sovereign risk as measured by the emerging markets bond index (EMBI), 2023–May 2025
(Basis points)



Source: Economic Commission for Latin America and the Caribbean, on the basis of JP Morgan.

Source: Economic Commission for Latin America and the Caribbean, on the basis of JP Morgan.

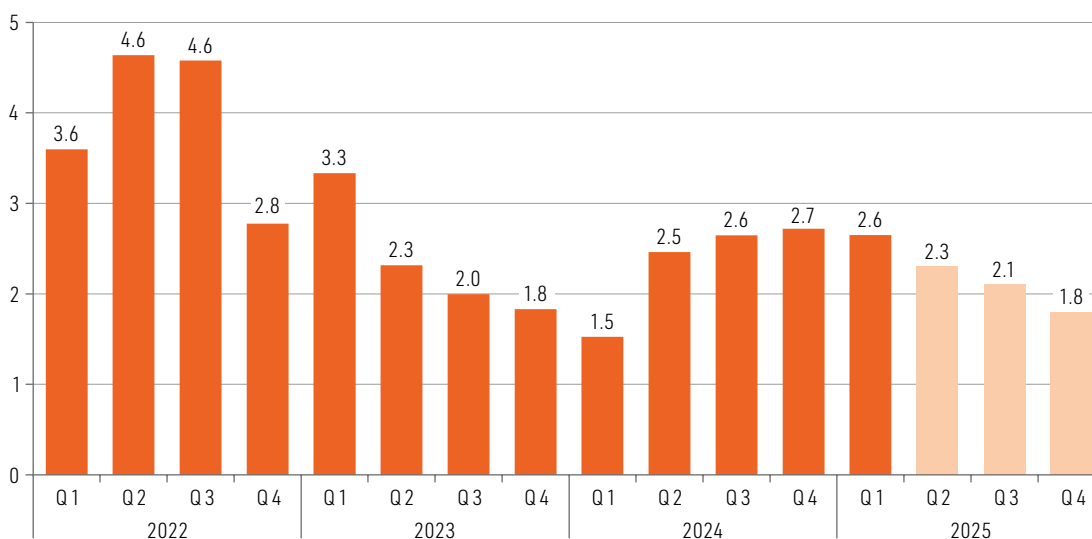
D. Domestic performance

1. Economic growth in Latin America has begun to slow and is converging on low levels

After rebounding in the early quarters of 2024, economic activity in the Latin American economies lost momentum at the end of the year and entered a slowdown that is forecast to worsen quarter by quarter in 2025 (see figure I.20). Thus, economic growth in Latin America is expected to moderate from 2.3% in 2024 to 2.0% in 2025 and to continue converging on low levels in 2026. Latin America's economic performance over the last 10 years has been poor (1.2%), with average GDP growth below the 2% of the so-called lost decade of the 1980s, in contrast to the 2.7% of the 1990s and the 3% of the first decade of this century.

Figure I.20

Latin America: annual GDP growth rates, first quarter of 2022 to fourth quarter of 2025
(Percentages, constant 2018 dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

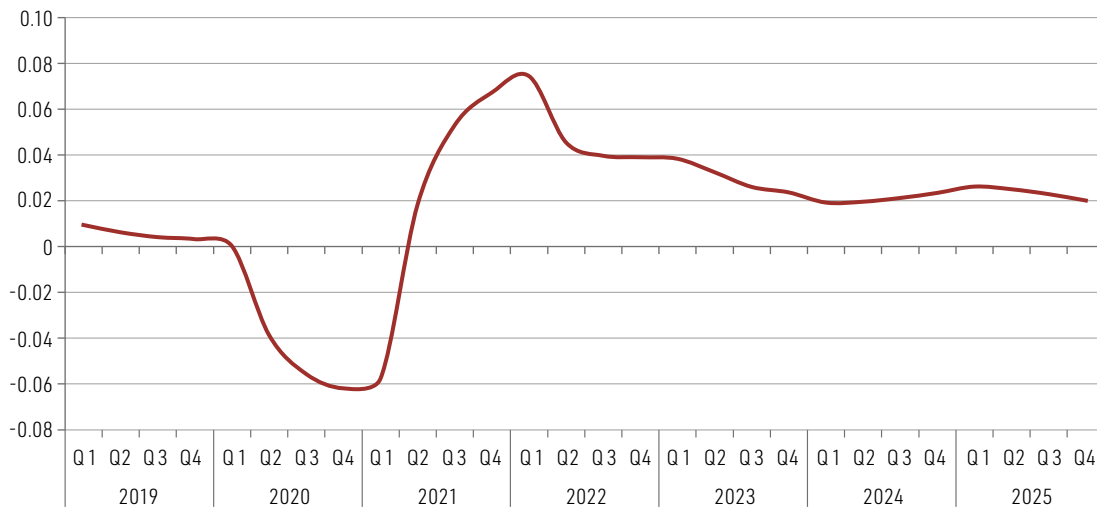
Note: The figures for 2025 are preliminary estimates and projections.

A similar dynamic can be observed when the evolution of cumulative four-quarterly growth is analysed. This growth declined steadily until early 2024, began to accelerate slightly quarter on quarter in late 2024, then started to slow again (see figure I.21).

The region's per capita GDP began falling in 2014 because of the slow growth in regional economic activity, and by the fourth quarter of 2024, even after recovering from the sharp economic contraction caused by the COVID-19 pandemic, it had only regained its level of 10 years previously. In other words, over 40 quarters, the region's per capita GDP remained unchanged (see figure I.22).

Figure I.21

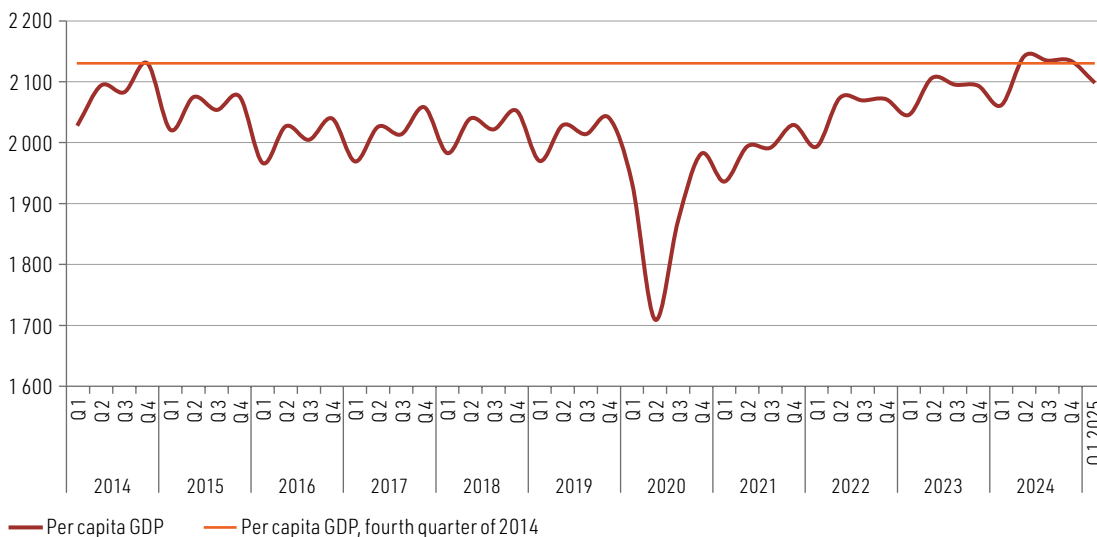
Latin America: cumulative four-quarterly GDP growth rate, first quarter of 2019 to fourth quarter of 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Figure I.22

Latin America: per capita GDP, first quarter of 2014 to first quarter of 2025
(Constant 2018 dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

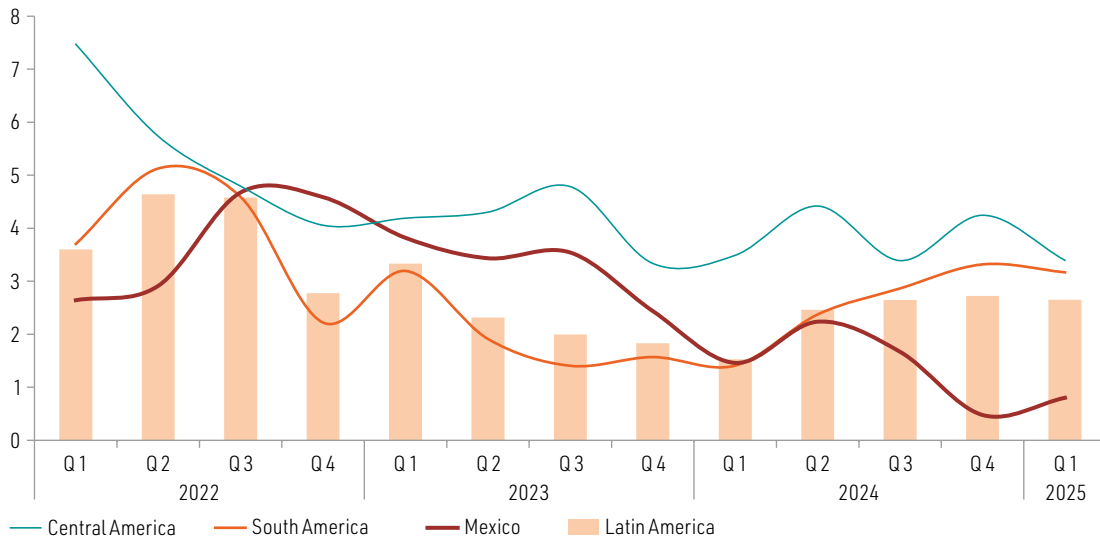
2. The slowdown in GDP growth has been quite uniform across the Latin American countries

Economic activity indicators show that the slowdown in the first quarter of 2025 was quite uniform across the region's economies. Thus, the average growth rate for Latin America declined, with the slowdown translating into reductions of 0.2 and 0.8 percentage points in the economies of

South and Central America, respectively (see figure I.23). The smaller reduction in South America was due to the strong rebound in Argentina in the first quarter of 2025; without it, the reduction in the subregion would have been equivalent to that in Central America.

Figure I.23

Latin America: annual GDP growth rates, first quarter of 2022 to first quarter of 2025
(Percentages, constant 2018 dollars)

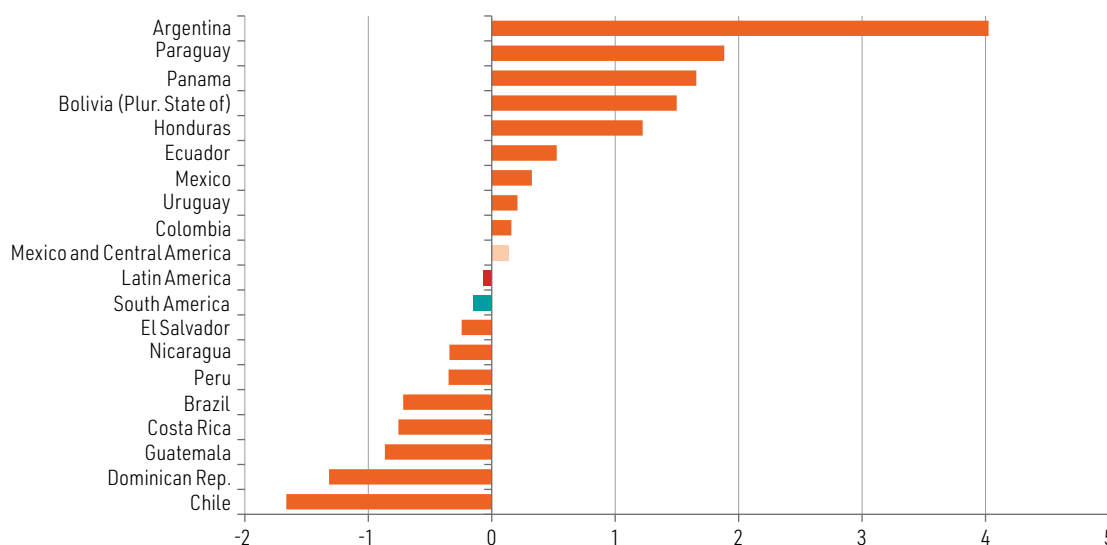


Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

South America contains special cases such as Argentina, where after two years of contraction the growth rate increased by 6.1% from the same period in 2024 thanks to the recovery in economic activity resulting from the country's stabilization plan. The strongest growth was in the mining, industry, commerce and financial intermediation sectors. In Colombia, slower growth in economic activity was the result of a sharp decline in investment growth relative to the fourth quarter of 2024. By sector of economic activity, mining, manufacturing and financial and business services offset the slowdown in other activities. In Brazil, slower growth in household consumption and gross fixed capital formation resulted in a lower growth rate in the first quarter of 2025, with agriculture, mining, and electricity, gas and water sustaining the economy. In the case of Mexico, economic activity was mainly supported by a rebound in the agricultural sector, which, among other major factors holding back agricultural production, had suffered a drought affecting an average of 28% of the country in 2024, although the severity and extent of the drought decreased between July and December 2024, with the affected area falling to an average of 18%. This downward trend continued during the early months of 2025, with a 20 percentage point reduction in the area affected by moderate drought compared to the same period the previous year. In Peru, where production levels in the agricultural and fishing sectors and the associated manufacturing industry had already recovered, these were the sectors that lost momentum and impacted the slowdown in the economy. Of the 16 countries analysed, economic activity accelerated by more than 1% in only five and by more than 2% in only one (see figure I.24). In Costa Rica, a combination of currency appreciation and adverse weather conditions during the last few months of 2024 had a negative impact on the agricultural sector that, together with a weaker performance in construction, resulted in a growth slowdown. In the case of Chile, stagnating investment was the main factor contributing to the slackening of growth.

Figure I.24

Latin America: rates of acceleration or deceleration in the year-on-year growth of activity indicators, first quarter of 2024
(Percentages, constant 2018 dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

3. The slowdown in economic activity reflects the weakening of both private consumption and gross fixed capital formation

In the fourth quarter of 2024 and the first quarter of 2025, private consumption growth slowed to an annual rate lower than that of 2022, when it began to decline in the second quarter (see figure I.25A). During this period, 13 of the 18 countries in the region had lower growth rates than in 2022. This slowdown occurred in the context of a deterioration in the purchasing power of real wages, low job creation, declining consumer confidence and greater restrictions on domestic credit. Similarly, limited fiscal space led to a reduction in public spending, weakening consumption in some of the region's countries.

Slowdown notwithstanding, private consumption remains a major component of GDP compared to others (see figure I.25B), and over the last eight quarters its contribution to GDP growth has held steady at around two percentage points, with the other components of expenditure causing the variability in GDP growth.

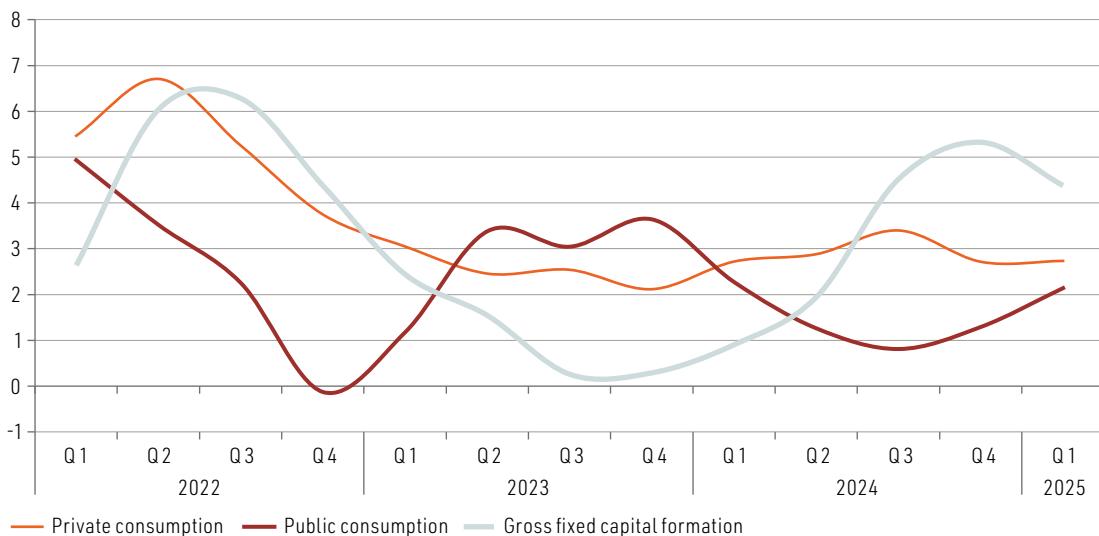
Growth in gross fixed capital formation also slowed to a modest 4% between the third quarter of 2024 and the first quarter of 2025. This slowdown was due both to the effect of restrictive monetary policies implemented by the countries to control inflation, which have resulted in high interest rates, and to geopolitical tensions that have increased uncertainty.

After increasing slightly in 2022, the investment effort, i.e., investment as a proportion of GDP, resumed its more than decade-long decline in 2023 before recovering slightly at the end of 2024. Only then did it return to pre-pandemic levels, against a backdrop of great global uncertainty and weakening business confidence in many countries because of the instability of the global economy, the effects of climate change, the tariff war and international conflicts (see figure I.26). Similarly, cautious interest rate management by monetary authorities has left monetary policy restrictive.

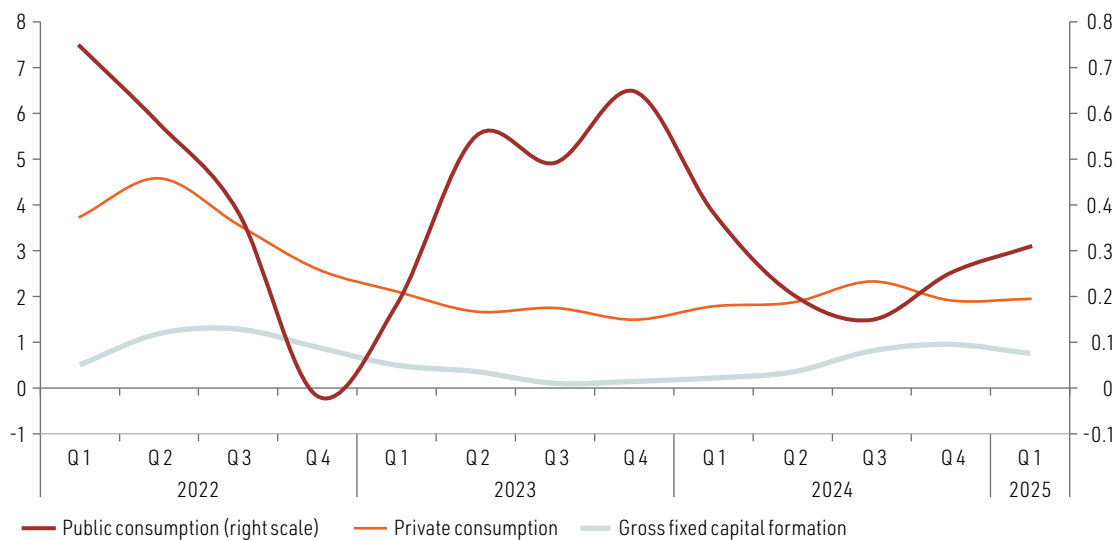
Figure I.25

Latin America: expenditure components, first quarter of 2022 to first quarter of 2025
(Percentages)

A. Rates of change



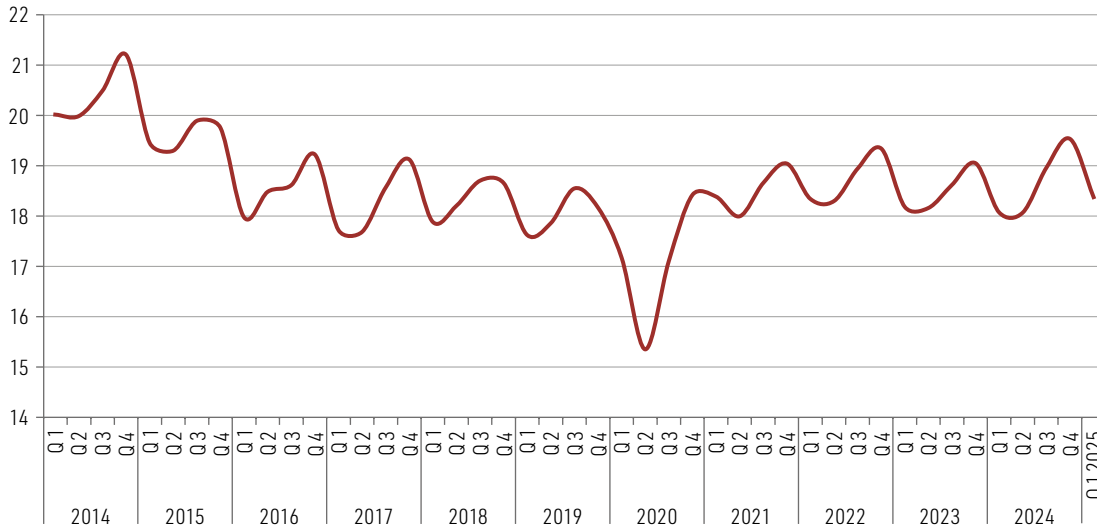
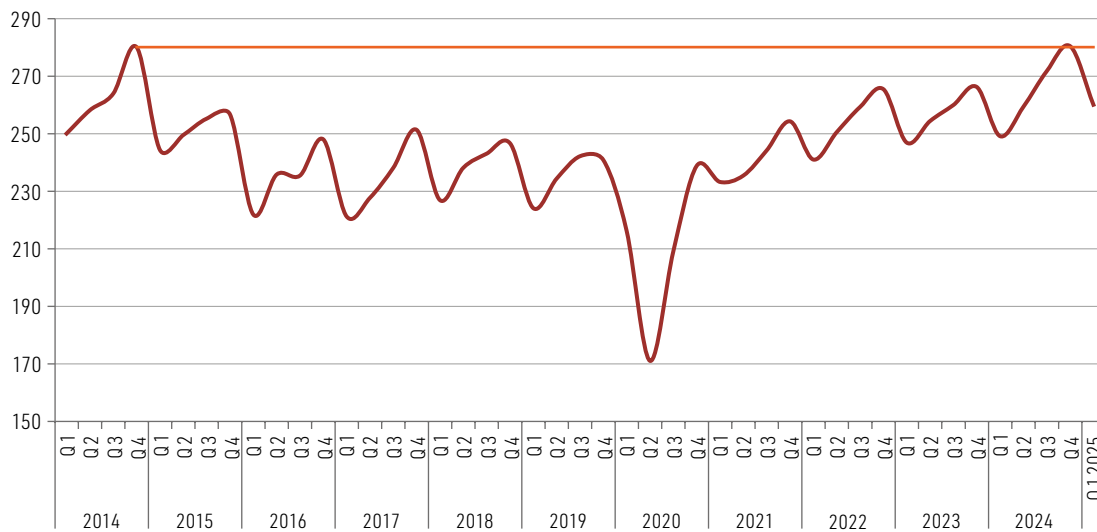
B. Contributions to GDP growth



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Figure I.26

Latin America: investment effort and investment levels
(Percentages of GDP and billions of constant 2018 dollars)

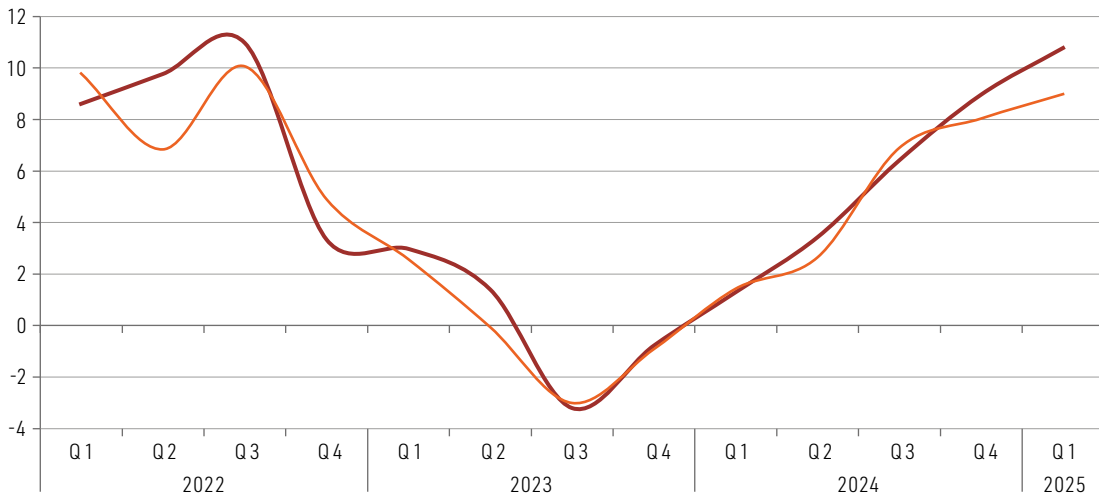
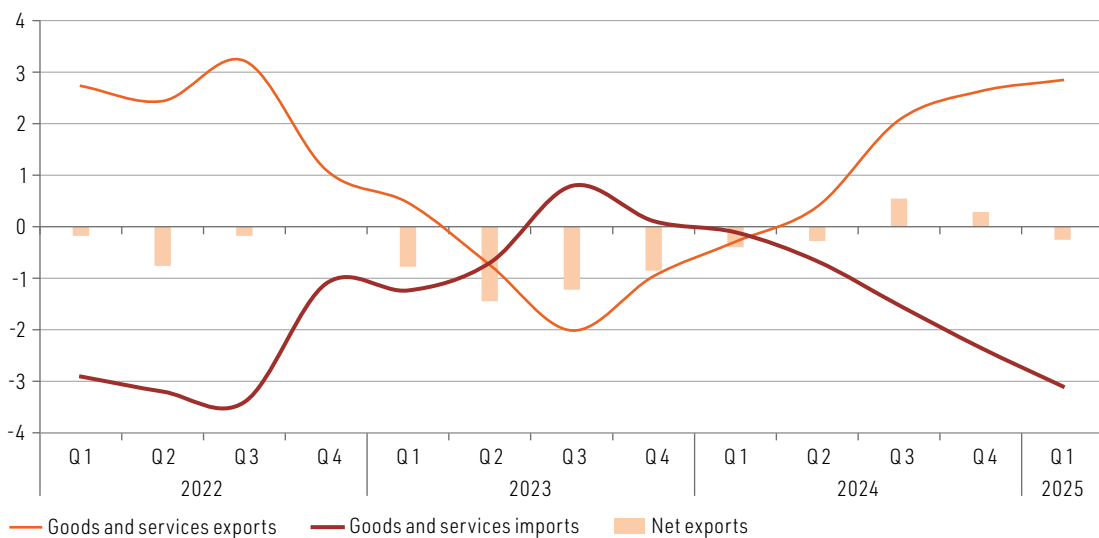
A. Percentages of GDP**B. Billions of constant 2018 dollars**

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Exports and imports increased symmetrically, with a similar contribution from both, but in opposite directions. After a 2023 of constantly declining exports, a recovery began in the first quarter of 2024, leading to positive contributions from net exports (see figure I.27). The external sector had not contributed positively to GDP growth in Latin America since 2019. However, this positive trend will tend to fade during 2025 because of the effects of higher tariffs in the United States, which will limit increases in the region's exports.

Figure I.27

Latin America: contribution of expenditure components to growth, first quarter of 2022 to first quarter of 2025 (Percentages)

A. Rates of change**B. Contributions to GDP growth**

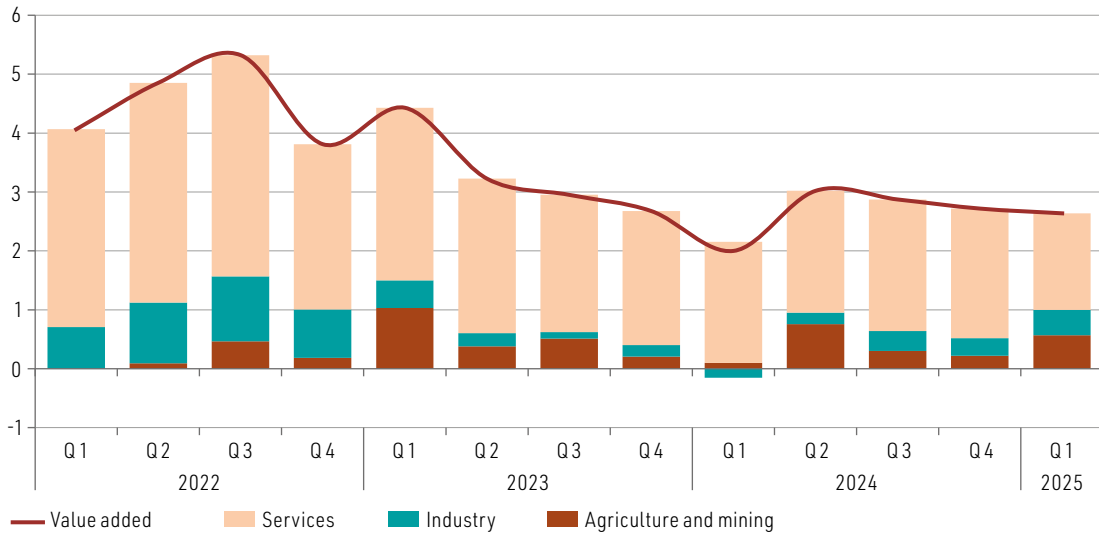
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

As with the expenditure components, so on the supply side value added has grown more slowly across all sectors of economic activity (see figure I.28). In the fourth quarter of 2024, economic expansion was led by the service sector. Specifically, financial and business services and the commerce, transport and communications sectors showed higher growth. In contrast, community, social and personal services and electricity, gas and water services declined, affected by lower private consumption. Meanwhile, the contribution of the agricultural and mining sector to value added, which had increased substantially in the second quarter of 2024 as a result of improved weather conditions, declined again in the following quarters of that year before rebounding in early 2025.

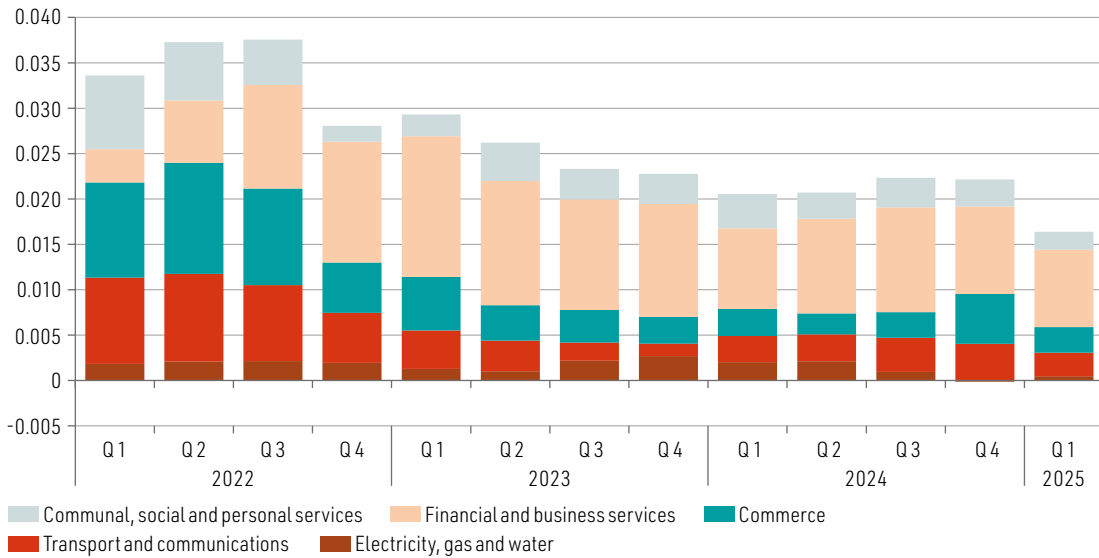
Figure I.28

Latin America: value added and contributions to value added growth by sector of economic activity, first quarter of 2022 to fourth quarter of 2024
(Percentages)

A. Agriculture and mining, industry and services



B. Service sector, disaggregated



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

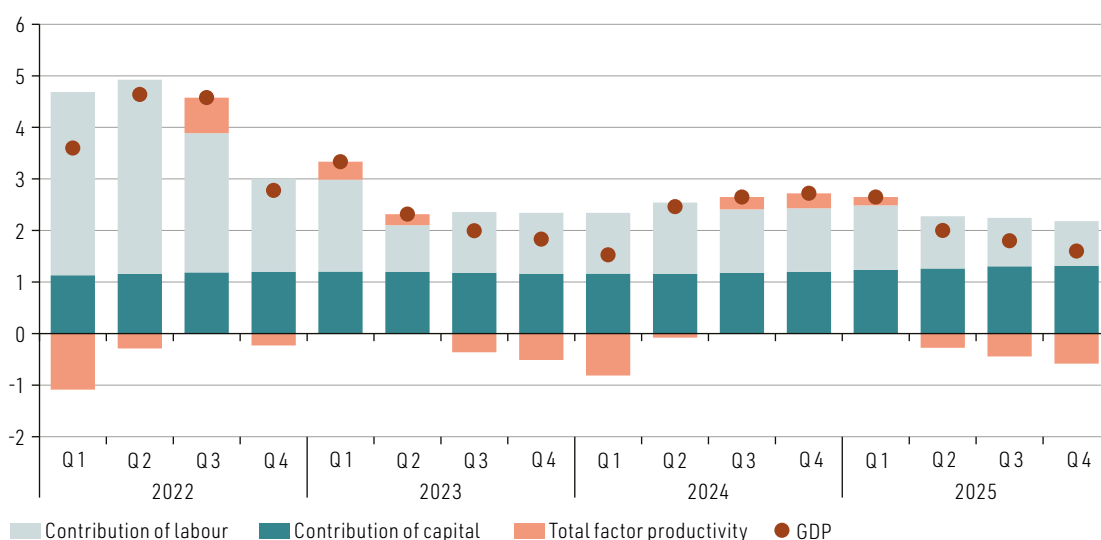
4. The deterioration and stagnation of the labour and capital factors, together with declining productivity, are behind the low economic growth of Latin America

When the GDP growth rate is broken down into the contributions attributable to capital, labour and total factor productivity, it transpires that the main source of GDP growth in the region has been the labour factor, which accounted for 75% of it in 2022, although its contribution declined to 55%

in 2025. This decrease was due to the normalization of the employment level following the COVID-19 health crisis, when the number of people in employment fell and then rose, after which employment growth returned to its previous average annual rate of 1.8%, with a still lower figure in 2025. As regards capital, its contribution to GDP growth has remained low and constant in recent years at around 1.2 percentage points, with the investment effort having held steady since 2022 at the low level of about 18.5% of GDP (see figure I.26). Lastly, the contributions to GDP growth of the adoption of new technology, the impact of increased investment and the capacity to produce more with the same resources, as reflected in total factor productivity, have been negative over the last 10 years, and the outlook is also negative for 2025 (see figure I.29). To break out of the trend of 2% economic growth rates, Latin America must increase its investment effort and raise the participation rates of women and youth, with greater increases in the numbers employed. This must be accompanied by improvements in education to increase their contribution and better conditions to facilitate a more appropriate allocation of factors to the most dynamic sectors and thus bring about improvements in productivity.

Figure I.29

Latin America: annual GDP growth rates and breakdown of GDP growth, first quarter of 2022 to fourth quarter of 2025
(Percentages, constant 2018 dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

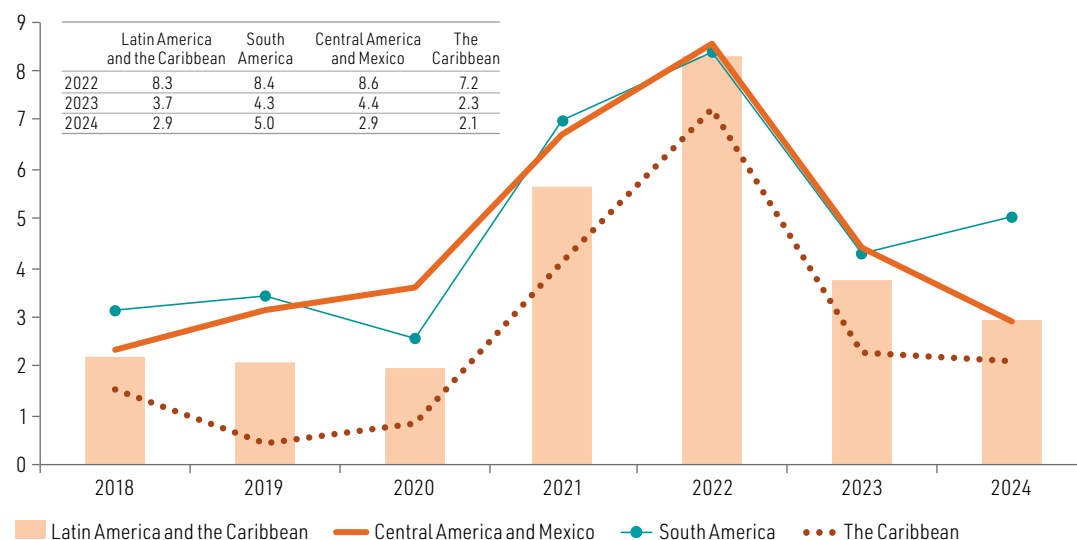
5. Inflation has gone on falling in the region's economies, albeit more and more slowly

In 2024, inflation in the economies of Latin America and the Caribbean continued the downward trend observed since 2023. The regional median inflation rate in December 2022 was 8.2%, and the figure gradually declined to close 2024 at 2.9%. This reduction of 5.3 percentage points between the two years reflects a sustained reduction that, while positive, evinces marked differences between subregions and countries.

When December 2024 is compared with the end of 2023, the regional median inflation rate fell by 0.8 percentage points, from 3.7% to 2.9% (see figure I.30). This moderation in inflation reflects both external factors, such as the stabilization and reduction of international commodity prices, and domestic economic policies adopted to contain inflationary pressures.

Figure I.30

Latin America and the Caribbean: median annual rates of change in the consumer price index (CPI), 2018–2024 (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Figure I.30 also shows that, at the subregional level, it was in Central America and Mexico that inflation rates fell the most in 2024, with the median declining from 4.4% in December 2023 to 2.9% in December 2024, a decrease of 1.5 percentage points. Inflation also declined in the English- and Dutch-speaking Caribbean, albeit more moderately, falling from 2.3% to 2.1% over the same period.

However, South America showed a different trend: median inflation in the subregion accelerated from 4.3% to 5.0%. This rise was due to internal factors in several South American countries, where persistent structural pressures are holding back inflation convergence. These pressures include wage rises, price indexation of basic goods and services, episodes of currency depreciation and increases in regulated tariffs and labour costs.

At the country level, the analysis reveals that 22 of the 33 economies in the region succeeded in reducing their annual inflation rates between December 2023 and December 2024 (see table I.4). The steepest declines, of more than 10 percentage points, were in economies with a history of chronic inflation such as Argentina, the Bolivarian Republic of Venezuela and Suriname. In the cases of Argentina and the Bolivarian Republic of Venezuela, the decline in inflation reflects, among other factors, a significant change in exchange-rate trends, as the depreciation of these countries' currencies slowed significantly in 2024. On the other hand, inflation increased by more than 6 percentage points in Haiti and the Plurinational State of Bolivia, reflecting internal vulnerabilities and external shocks that particularly affected food and fuel prices.

Table I.4

Latin America and the Caribbean: 12-month rates of change in the consumer price index (CPI), December 2022 to December 2024 (Percentages)

	To December 2022	To December 2023	To December 2024
Latin America and the Caribbean			
Weighted average	7.6	4.6	4.3
Median	8.3	3.7	2.9
South America			
Weighted average	7.3	4.9	4.2
Median	8.4	4.3	5.0

	To December 2022	To December 2023	To December 2024
Bolivia (Plurinational State of)	3.1	2.1	10.0
Brazil	5.8	4.6	4.8
Chile	12.8	3.9	4.6
Colombia	13.1	9.3	5.2
Ecuador	3.7	1.3	0.5
Paraguay	8.1	3.7	3.8
Peru	8.5	3.2	2.0
Uruguay	8.3	5.1	5.5
Central America and Mexico			
Weighted average	8.0	4.3	3.5
Median	8.6	4.4	2.9
Central America			
Weighted average	8.5	3.9	2.8
Median	8.6	3.9	2.1
Costa Rica	7.9	-1.8	0.8
Dominican Republic	7.8	3.6	3.3
El Salvador	7.3	1.2	0.3
Guatemala	9.2	4.2	1.7
Honduras	9.8	5.2	3.9
Mexico	7.8	4.7	4.2
Nicaragua	11.3	5.6	2.5
Panama	2.1	1.9	-0.2
The Caribbean (English- and Dutch-speaking)			
Weighted average	8.4	4.0	2.8
Median	7.2	4.4	2.3
Antigua and Barbuda	9.2	3.3	5.4
Bahamas (The)	5.5	1.9	0.0
Barbados	12.5	4.2	-0.2
Belize	6.7	3.7	2.6
Dominica	8.4	2.3	0.9
Grenada	2.9	2.2	0.8
Guyana	7.2	2.0	2.9
Jamaica	9.3	6.9	5.0
Saint Kitts and Nevis	3.9	1.6	1.9
Saint Lucia	6.9	2.1	2.1
Saint Vincent and the Grenadines	6.7	4.0	4.0
Trinidad and Tobago	8.7	0.7	0.7
Countries with chronic inflation			
Argentina	95.2	210.1	122.1
Cuba	39.1	31.3	24.9
Haiti	48.1	22.1	28.7
Suriname	54.6	32.6	10.1
Venezuela (Bolivarian Republic of)	234.1	189.8	23.6 ^a

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The regional and subregional averages are weighted by population size and do not include data from the economies with chronic inflation (Argentina, the Bolivarian Republic of Venezuela, Cuba, Haiti and Suriname). The regional and subregional medians include all countries in the region or subregion.

^a Data to October 2024.

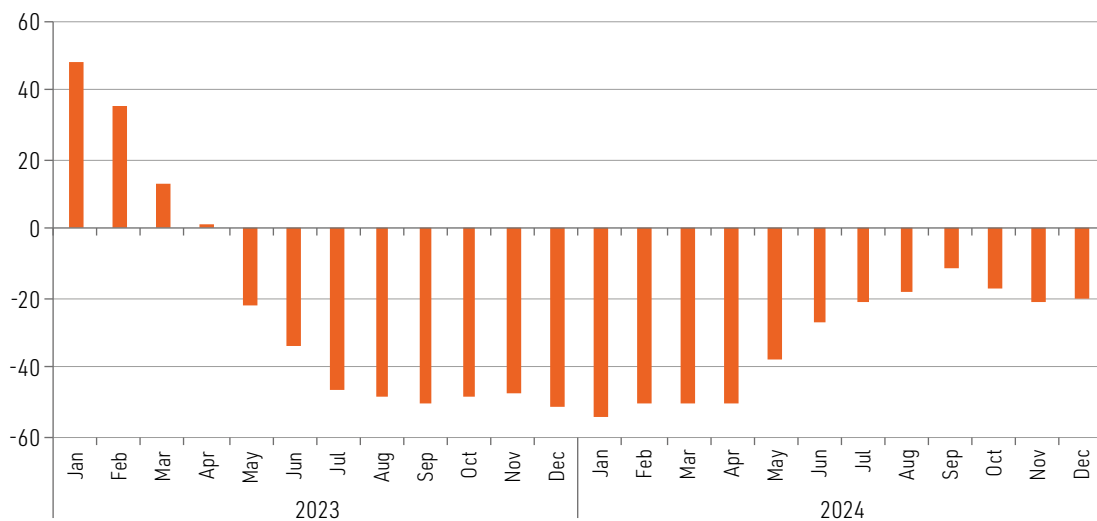
Analysis of the consumer price index (CPI) by component indicates that the reduction in overall inflation was mainly driven by falling food prices. The regional median inflation rate in this category fell from 6.0% in December 2023 to 3.5% in December 2024, a drop of 2.5 percentage points. The reduction was associated with an improvement in the global agricultural supply, stabilization of international prices and a lessening of exchange-rate pressure in several of the region's economies.

Likewise, there was a significant reduction in non-food inflation, from 5.1% to 3.0%. Median core inflation, which excludes volatile components, decreased slightly from 4.2% to 3.6%. However, the services component followed the opposite trend, increasing by 0.4 percentage points during the period from 2.4% to 2.8%. This behaviour reflects rigidities associated with cost structures in regulated sectors, inflationary inertia and the impact of wage rises in the service sector.

Figure I.31 shows year-on-year changes in inflation during 2023 and 2024, revealing a gradual slowing in the pace at which inflation declined. Between August 2023 and March 2024, many economies in the region experienced significant reductions in their inflation rates, in some cases exceeding 50% relative to the level a year earlier (2022), when inflation averaged around 9%.

Figure I.31

Latin America and the Caribbean: year-on-year differences in median consumer price inflation (CPI), January 2023 to December 2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

However, the rate of decline in regional inflation has moderated as it has converged on 3% (a threshold targeted by various central banks). This trend is typical of inflation reduction dynamics, in which initial declines tend to be greater when the starting level of inflation is high, but further reductions become harder to achieve as rates approach values defined as “price stability”.

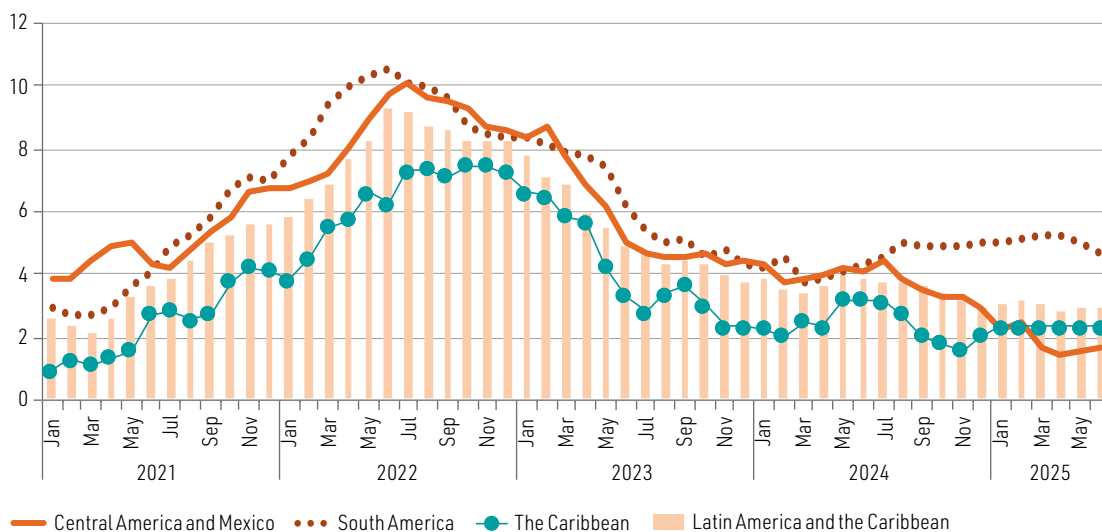
Although the so-called “base effect” or comparison effect largely explains this slowing in the rate of decline, there are a number of other factors that have prevented a more rapid reduction, in particular increases in the prices of regulated public services, such as transport, and essential goods, such as fuel. The persistent use in some countries of indexation mechanisms linking wage and price increases to past inflation introduces further rigidities. Yet another factor is the depreciation of several currencies in the region during 2024, which has made imported goods more expensive and put pressure on domestic prices. Lastly, supply shocks associated with extreme weather events have also been instrumental in slowing the decline in inflation.

6. Inflation held steady in the first half of 2025, although there were marked differences between subregions

Headline inflation in Latin America and the Caribbean remained relatively stable during the first half of 2025 at levels similar to those at the end of 2024. In June 2025, the regional median was 3.9%, the same value as in December 2024 (see figure I.32).

Figure I.32

Latin America and the Caribbean: median annual rates of change in the consumer price index (CPI), January 2021 to June 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

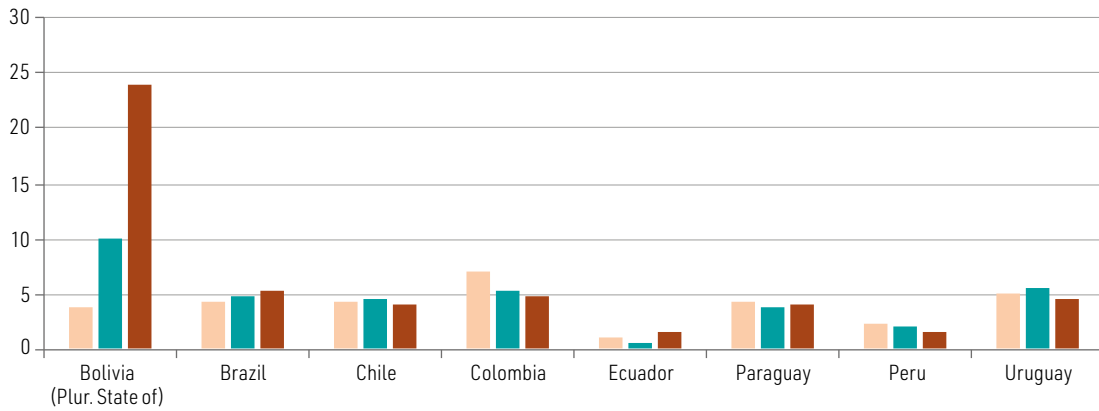
Figure I.32 also shows large differences between subregions. In the English- and Dutch-speaking Caribbean economies, median inflation rose by 0.2 percentage points from its December 2024 value (2.1%). In Central America and Mexico, there was a drop of 1.3 percentage points, from 2.9% in December 2024 to 1.6% in June 2025. Inflation in the South American economies eased slightly, with the median declining by 0.3 percentage points from 5.0% in December 2024 to 4.7% in June 2025. As a group, the economies of South America have much higher inflation than their counterparts in other subregions.

At the country level, 16 countries of the region succeeded in reducing their inflation rates between December 2024 and June 2025. The most significant decreases, of around 4 percentage points, were in Argentina, Cuba and Suriname, whose economies continue to face structural challenges related to chronic inflation. Of particular note within this group was the fall of more than 78 basis points in inflation in Argentina as a result of the inflation reduction programme adopted by the country's authorities. On the other hand, just as many countries experienced increases in their inflation rates during the period. In particular, inflation rose by more than 14 percentage points in the Bolivian economy, and there were increases of more than 0.5 percentage points in the Bahamas, Brazil, Ecuador, Dominica, Honduras, Saint Lucia and Trinidad and Tobago (see figure I.33).

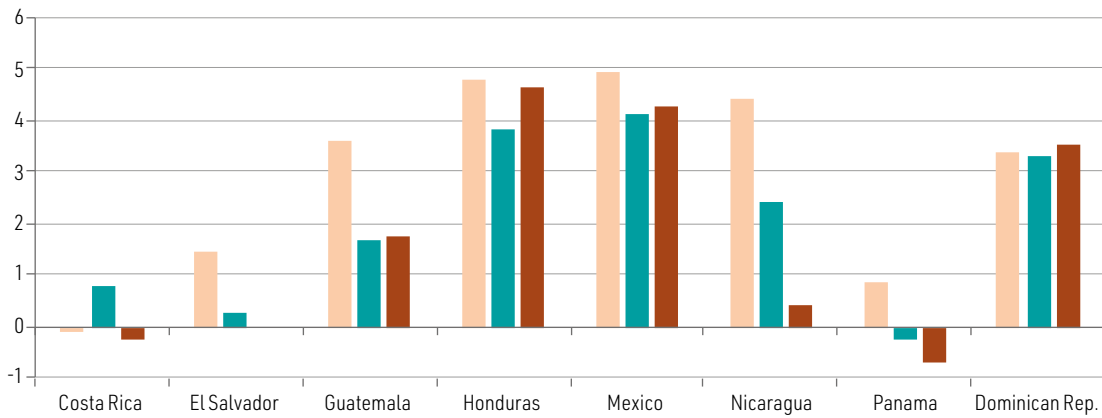
Figure I.33

Latin America and the Caribbean: annual rates of change in the consumer price index (CPI), first four months of 2024 to June 2025
(Percentages)

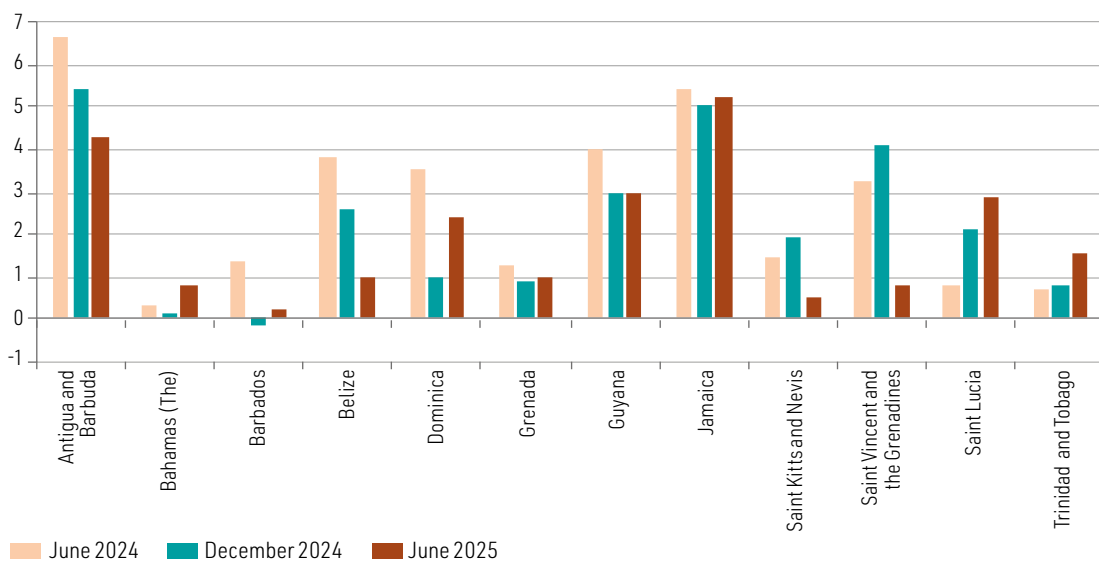
A. South America



B. Central America and Mexico

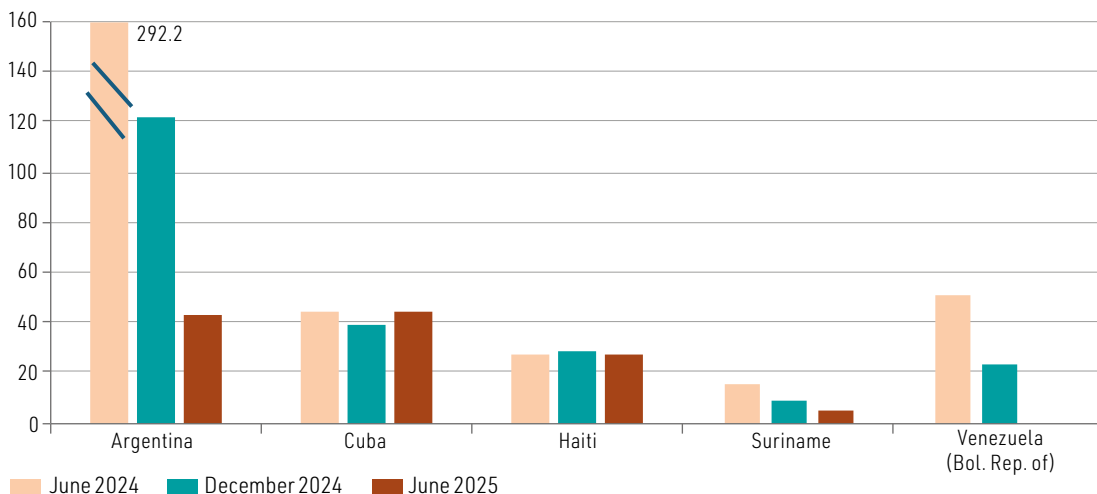


C. The Caribbean (English- and Dutch-speaking)



June 2024 December 2024 June 2025

D. Countries with chronic inflation



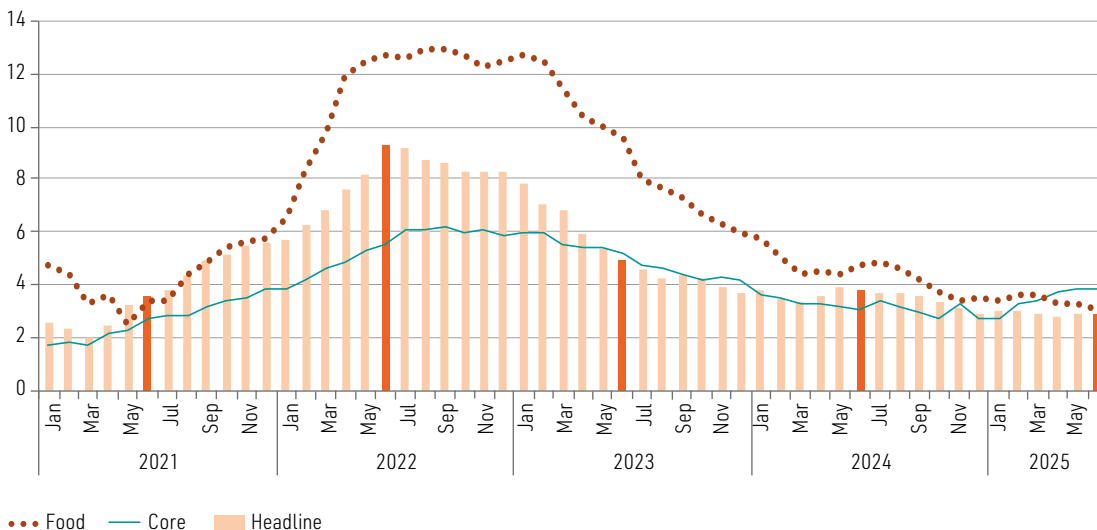
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

7. Core inflation has been trending upward while food inflation has fallen

Analysis by CPI component shows that the prices of the least volatile elements, as measured by core inflation, rose by 1 percentage point between December 2024 and June 2025. Median core inflation in the region as of June 2025 was 3.8%, as shown in figure I.34.

Figure I.34

Latin America and the Caribbean: median 12-month rates of change in the headline consumer price index (CPI) and in its food and core components, January 2021 to June 2025 (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

At the country level, 17 economies had core inflation above 3% as of June 2025, this being a threshold used by many central banks as an inflation targeting benchmark. Persistently high core inflation during the first half of 2025 was due to several factors, among them wage rises (including minimum wage increases), the existence of price and wage indexation mechanisms and rising prices for regulated or semi-regulated services such as education, transport, healthcare and rents, which prevented this component of inflation from declining more quickly.

As regards food inflation, there was a slight decrease of 0.4 percentage points in the first half of 2025, from 3.5% to 3.1%. This reduction was partly due to the 5.9% fall in international food prices during the period.

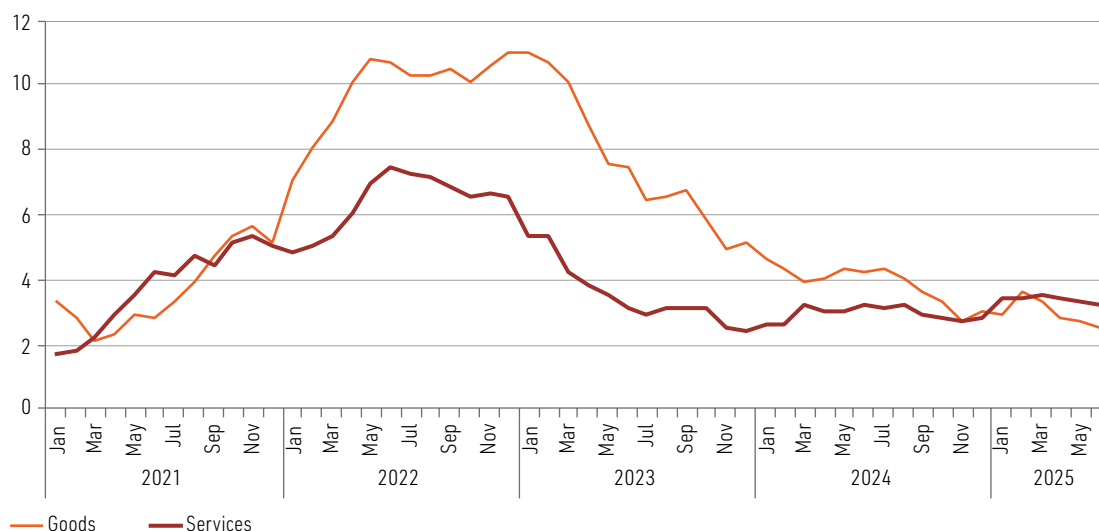
As with core inflation, however, there are significant obstacles to the reduction of food price inflation. Inflation in this category is still above 3% in 16 countries and above 5% in 8 of these. A variety of factors, such as extreme weather events in certain areas of the region, greater exchange-rate volatility and rising domestic costs, owing in particular to wage increases in rural areas, have prevented a steeper decline, while bottlenecks in retail markets and deficiencies in distribution chains have also contributed to the persistence of high prices in the food sector.

8. Services inflation has increased in 2025 even as goods inflation has decreased

The services component of inflation has remained stubbornly high during 2025. Between December 2024 and June 2025, the regional median rose from 2.8% to 3.2% (see figure I.35). This behaviour reflects structural factors already mentioned in the analysis of core inflation, such as minimum wage rises and higher prices for regulated services, particularly in sectors such as education, transport and healthcare.

Figure I.35

Latin America and the Caribbean: 12-month median rates of change in the goods and services components of the consumer price index (CPI), January 2021 to June 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

In contrast, inflation for goods (excluding unprocessed food) fell slightly, from 3.0% in December 2024 to 2.5% in June 2025, a decrease of 0.5 percentage points. This decline was associated with the normalization of international transport costs, lower external demand pressure and the moderation of global inflation, a set of factors that helped to hold down price increases for both imported and domestically produced goods.

9. There are still risks that could change the recent inflation trajectory

The behaviour of inflation in Latin America and the Caribbean during 2024 and the first half of 2025 reflects major progress in reducing inflation rates, albeit with significant differences between countries and subregions. This inflation reduction process has been supported by a combination of favourable external factors and restrictive domestic monetary policies that played a crucial role in containing inflationary pressures over the course of 2024.

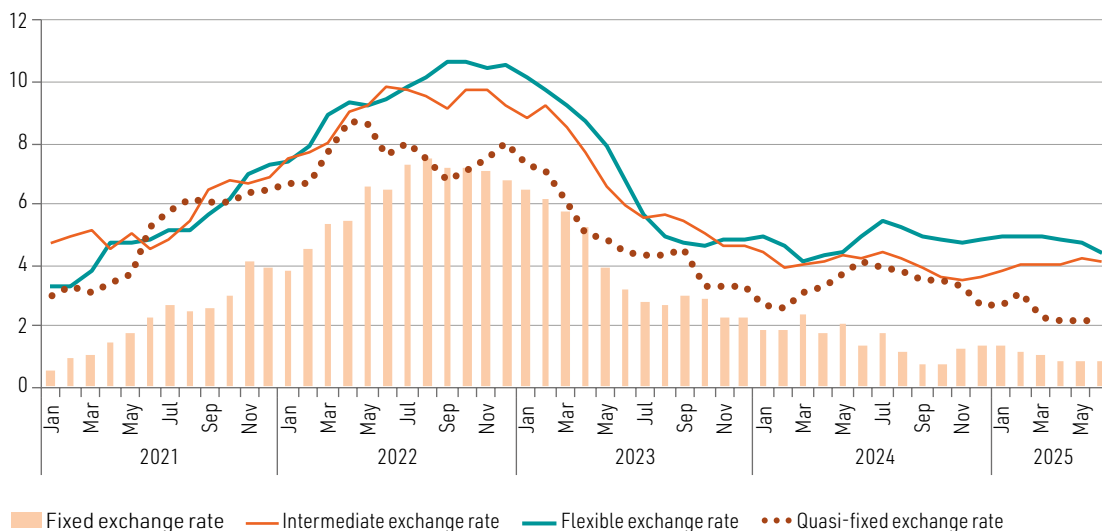
However, a more uncertain global environment and increased volatility in foreign-exchange markets appear to be slowing the pace of inflation reduction. In particular, some components of the consumer price index (CPI), such as core inflation, and particularly services inflation within this, have proved very sticky. This has largely been due to structural factors such as wage rises (including increases in minimum wages), the continuing operation of indexation mechanisms and increases in the prices of regulated services.

The inflation outlook for the remainder of 2025 and for 2026 will largely depend on the countries' ability to expand their room for manoeuvre in macroeconomic policy. This would make it possible to strengthen coordination between different public policies and implement productive development strategies aimed at improving the efficiency of distribution chains in the region. Likewise, factors such as the evolution of domestic economic activity, labour market dynamics and the occurrence of climate shocks will be critical to the future trajectory of inflation.

At the same time, it will be essential to monitor how external shocks are transmitted to the region's economies, particularly those generated by possible increases in international food and energy prices and those linked to the volatility of international financial markets. Figure I.36 shows that there are marked differences in the inflation dynamics experienced by the region's economies, depending on the monetary and exchange-rate regimes adopted by the countries. Thus, inflation rates in economies with fixed exchange-rate regimes have fallen significantly in 2025, with the median rate now being around 1%, whereas rates in economies operating with flexible or intermediate exchange-rate mechanisms, although lower than before, still exceed 3% and have tended to values of between 4% and 5%. Meanwhile, rates in the countries with a history of chronic inflation (which are not included in the chart) have come down substantially but are still the highest in the region, reflecting persistent structural imbalances and marked vulnerability to exchange-rate dynamics.

Figure I.36

Latin America and the Caribbean: 12-month median rates of change in the consumer price index (CPI), by type of monetary and exchange-rate mechanism, January 2021 to June 2025 (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Lastly, the evolution of geopolitical conflicts in the Middle East and the intensification of trade and financial tensions arising from the so-called “trade war” between superpowers constitute upside inflationary risks which, if they materialize, could significantly reverse the trend observed in the first half of 2025 and alter the scenario projected for the short and medium term.

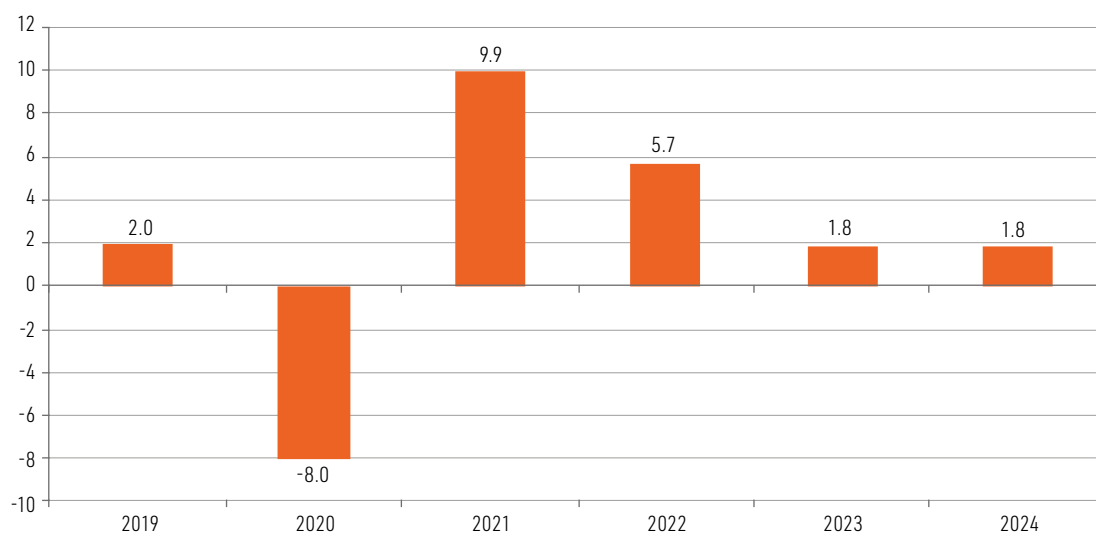
10. Formal employment has been expanding because of favourable dynamics in the most productive sectors, including financial services and manufacturing

In line with estimates in the *Preliminary Overview of the Economies of Latin America and the Caribbean, 2024*, employment in Latin America and the Caribbean grew by 1.8%, driven by the recovery in economic activity in the fourth quarter. In the first quarter of 2025, the labour market continued on a positive trajectory, albeit with less momentum. Employment expanded at a year-on-year rate of 1.7%. Employment growth in the period, although low, was concentrated in more formal and productive sectors and in wage-paying jobs, which contributed to further reductions in informality and unemployment. Real wages increased, and modest progress was made in closing gender gaps.

The economies of Latin America and the Caribbean registered a 1.8% increase in the number of people in employment during 2024, which was slightly higher than the 1.7% estimated in the 2024 *Preliminary Overview*. Although the outcome exceeded estimates, growth in 2024 was the same as in 2023 and lower than in 2019. This greater dynamism can be explained by a rebound in regional economic activity during the fourth quarter of the year that drove the demand for labour (see figure I.37).

Figure I.37

Latin America and the Caribbean (17 countries):^a year-on-year changes in the numbers employed, 2019–2024 (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Trinidad and Tobago and Uruguay.

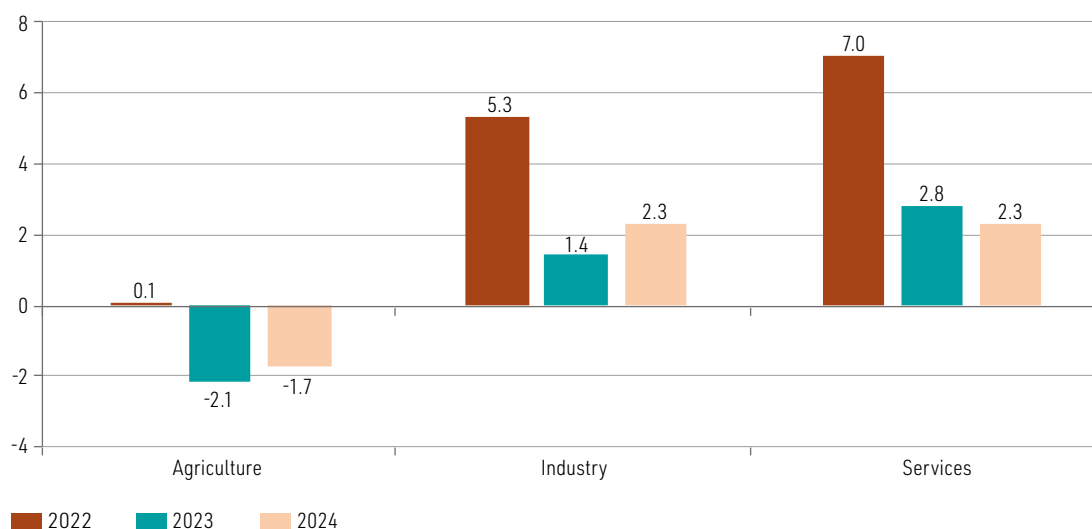
Employment grew across the board, with increases reported by 15 of the 17 economies for which data are available. The rise exceeded 2.5% in Brazil, Chile, Costa Rica, the Dominican Republic and the Plurinational State of Bolivia. Brazil, in particular, accounted for more than 60% of the total increase in regional employment during the year. In contrast, there were declines in Panama and

Trinidad and Tobago, associated in Panama with the closure of the Cobre Panamá mine and in Trinidad and Tobago with job losses in the energy sector.

Figure I.38 shows the evolution of employment by sector. Employment in the industrial sector grew by 2.3% in 2024, 0.9 percentage points more than in 2023 (1.4%). Brazil, the Dominican Republic, Paraguay and the Plurinational State of Bolivia led the way with increases of over 4%, while Argentina and Trinidad and Tobago recorded declines of over 3.5%. Within the industrial sector, employment grew by 4.8% in electricity generation, gas and water, by 1.9% in construction and by 1.0% in manufacturing.

Figure I.38

Latin America and the Caribbean (13 countries):^a year-on-year changes in the numbers employed, by economic sector, 2022–2024 (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Trinidad and Tobago.

Service sector employment also saw growth, of 2.3%, although this was lower than the 2.8% recorded in 2023. Given the sector's share of total employment (63%), this growth accounted for 77% of the total increase in regional employment in 2024. Service sector employment growth exceeded 3% in Brazil, Chile, Costa Rica, the Dominican Republic and the Plurinational State of Bolivia. There were particularly large gains in financial, insurance and business services (4.0%), community, social and personal services (2.0%) and commerce, restaurants and hotels (2.1%).

In contrast, agricultural employment fell by 1.7%, although this was a smaller contraction than in 2023 (2.1%). At the country level, there were increases of more than 2% in Argentina, Chile, Ecuador, Jamaica, Panama and Trinidad and Tobago, while Brazil, Costa Rica, Honduras, Mexico, Paraguay, the Plurinational State of Bolivia and Uruguay reported reductions of more than 2%.

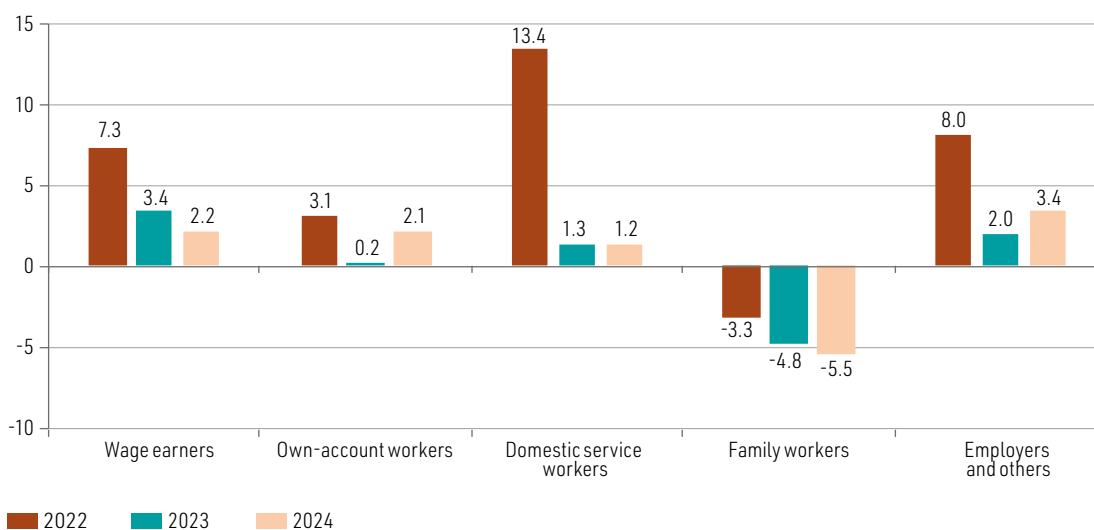
11. Informality and unemployment rates have fallen by more than expected, and wage employment has accounted for most new jobs

Most occupational categories grew in 2024, the exception being the unpaid family workers category, which shrank by 5.5%, as compared to 4.8% in 2023. The employers and others category expanded by 3.4% (1.4 percentage points more than in 2023) and the wage earners and own-account workers

categories by 2.2% and 2.1%, respectively. Employment in domestic service grew by 1.2%, slightly below the 1.3% recorded in 2023 (see figure I.39). This behaviour explains why wage earners accounted for 68% of employment growth and own-account workers for 30%.

Figure I.39

Latin America and the Caribbean (13 countries):^a year-on-year changes in the numbers employed, by occupational category, 2022–2024 (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Trinidad and Tobago.

At the national level, the number of wage earners grew in most countries, with increases of more than 4% in Brazil, the Dominican Republic, Peru and the Plurinational State of Bolivia. By contrast, there were declines of over 0.9% in Nicaragua and Trinidad and Tobago. As for own-account workers, this category expanded in a number of countries, notably Argentina, Costa Rica, Nicaragua and Peru, with rises of more than 4%. Mexico and Trinidad and Tobago reported the largest declines, exceeding 1.5%.

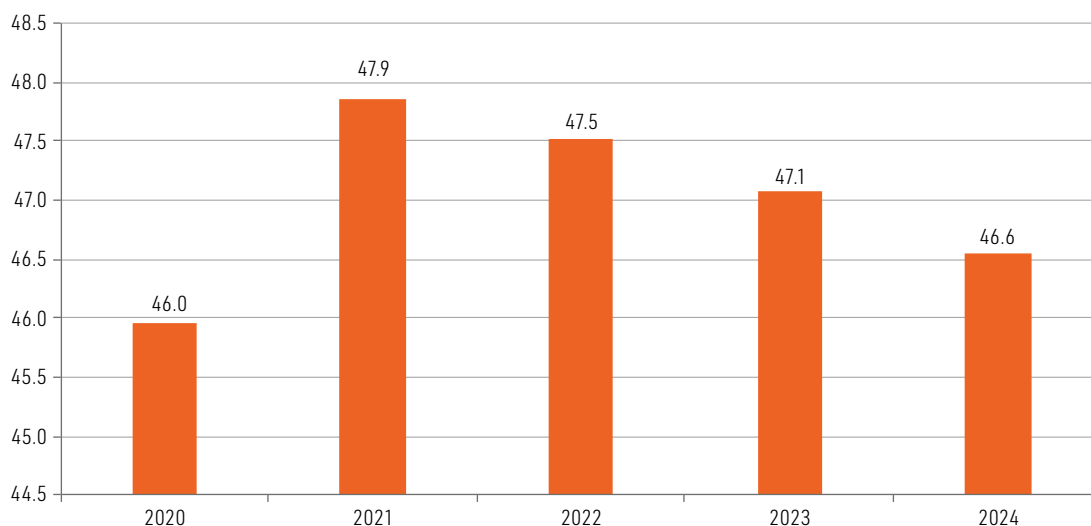
In 2024, the average informality rate in the region fell to 46.6% of total employment, 0.5 percentage points less than in 2023 (47.1%) and 0.4 less than projected in the 2024 *Preliminary Overview* (47.0%) (see figure I.40). This downward trend in the informal employment rate has been observed since 2021.

Informality declined in 9 of the 15 countries for which information is available, with reductions of more than 0.5 percentage points in Brazil, Colombia, the Dominican Republic and Mexico. By contrast, it increased in Ecuador, El Salvador, Panama and Paraguay. This situation reflects, first, the growth of formal employment in the wage earner category (where a high proportion of workers are formal) and, second, a possible exit of informal workers from the labour market, including workers traditionally employed in agriculture.

The regional unemployment rate in 2024 was 5.9%, 0.3 percentage points below the 2023 level (see figure I.41) and 0.4 percentage points below the 6.3% forecast in the 2024 *Preliminary Overview*. The decline in the unemployment rate can be attributed to higher than expected economic growth, particularly in the fourth quarter of the year, which generated increased demand for employment; a drop in the number of unemployed; and the fact that the labour force participation rate, despite a recovery, remains below the levels seen prior to the COVID-19 pandemic.

Figure I.40

Latin America and the Caribbean (15 countries):^a informal employment rate, 2020–2024
(Percentages)

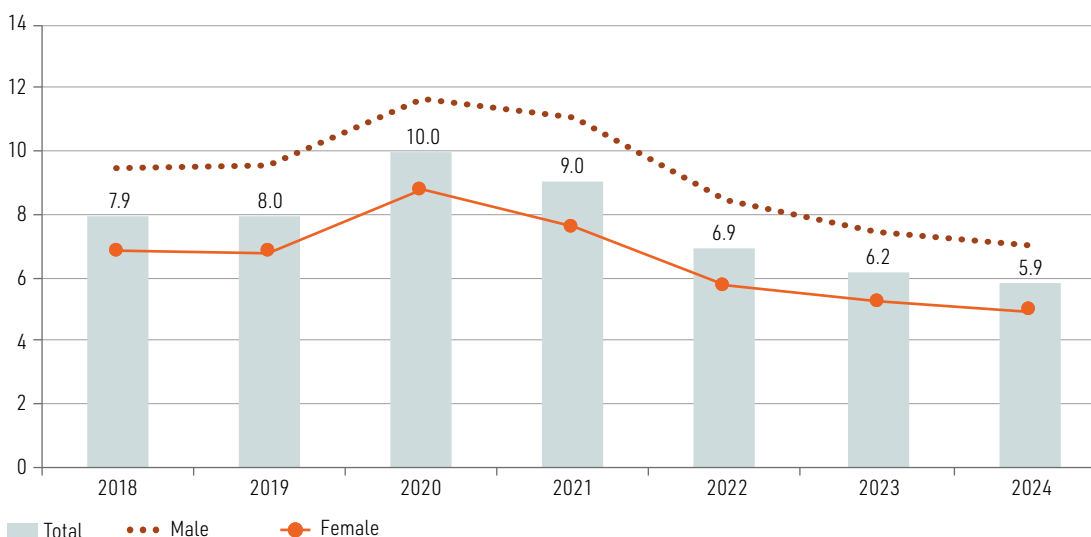


Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia, Trinidad and Tobago and Uruguay.

Figure I.41

Latin America and the Caribbean (21 countries):^a regional unemployment rate, 2018–2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

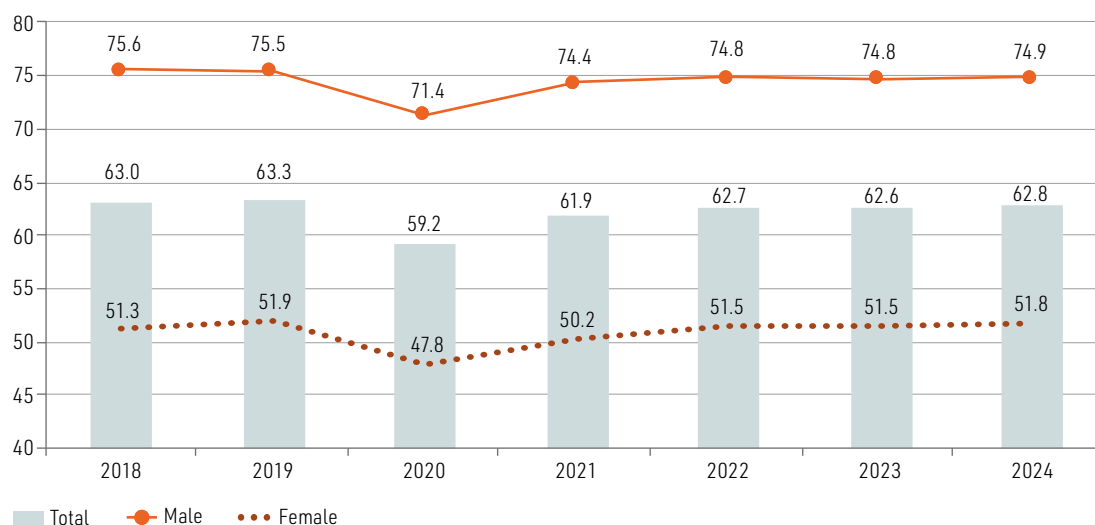
^a Argentina, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Lucia, Trinidad and Tobago and Uruguay.

The unemployment rate fell in 15 of the 22 countries with up-to-date figures, declining by more than 1 percentage point in Brazil, Costa Rica, Honduras and Saint Lucia. By contrast, it rose by more than a point in Argentina, Panama and Trinidad and Tobago. At the same time, there was an overall reduction by sex, with the male rate falling from 5.3% to 5.0% and the female rate from 7.4% to 7.0%.

The average regional labour participation rate rose by 0.2 percentage points in 2024, from 62.6% to 62.8%, in line with the estimates in the 2024 *Preliminary Overview* (see figure I.42). There were increases in 13 of 21 countries, notably Barbados, Costa Rica, Honduras and Jamaica, where the rate rose by more than 2 percentage points. In contrast, Belize and El Salvador recorded declines of more than 1 percentage point.

Figure I.42

Latin America and the Caribbean (21 countries):^a regional labour participation rates, 2018–2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Lucia, Trinidad and Tobago and Uruguay.

Despite this increase, labour participation still remains below pre-pandemic levels. Substantial gaps persist in 12 countries, exceeding 5% in Belize, Costa Rica, El Salvador and Nicaragua. The rise was stronger for women (0.3 percentage points) than for men (0.1 percentage points), and the recovery gap is now wider for men.

Slowing inflation and rising nominal minimum wages meant that the average real minimum wage in the region rose by 2.5% in 2024, although this was down from 3.0% in 2023. There were increases in 16 of 20 countries with data available, including gains of more than 10% in Jamaica, Mexico and Trinidad and Tobago. However, Argentina and Haiti, two countries affected by high inflation, saw declines of more than 10%.

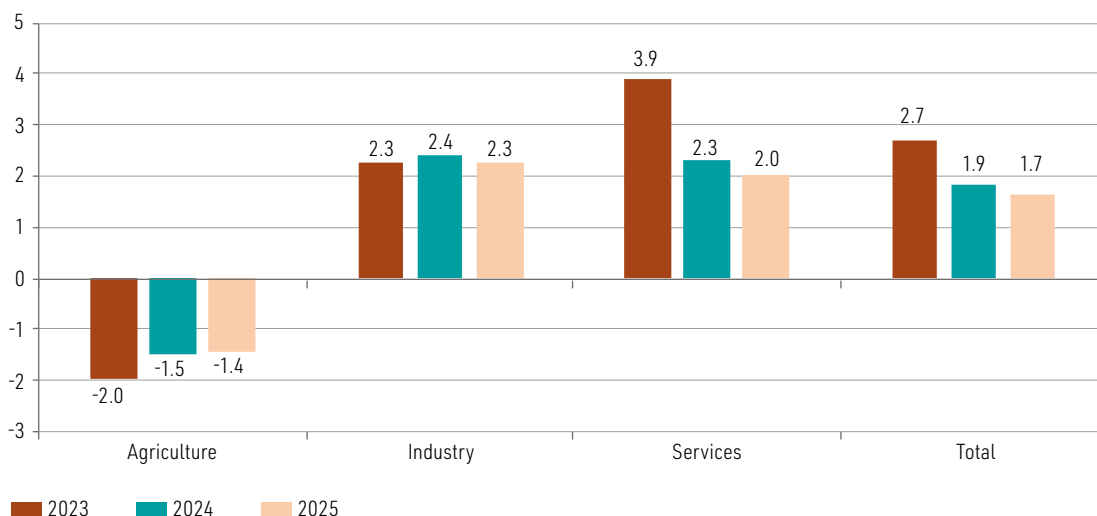
Average real wages also increased in most countries that have data available, with average growth of 3.0% and rises of more than 4% in Costa Rica, Mexico and Panama. In Argentina, the average real wage fell by 6.1%.

Employment in Latin America and the Caribbean continued to expand during the first quarter of 2025, albeit at a more moderate pace. The year-on-year growth rate was 1.7%, compared with 1.9% in the same period of 2024 (see figure I.43). This slowdown was observed in 10 of the 13 countries that have information available, with declines of more than a percentage point in Chile, Jamaica, Mexico, Nicaragua, Paraguay, the Plurinational State of Bolivia and Uruguay. Colombia, by contrast, saw strong growth of 3.4%.

The industrial sector continued to lead employment growth, with an increase of 2.3%, followed by the service sector (2.0%). Despite its lower growth, the service sector accounted for 74% of the total change in employment, owing to its larger share of overall employment. In contrast, agricultural employment contracted by 1.4% (see figure I.43).

Figure I.43

Latin America and the Caribbean (14 countries):^a year-on-year changes in the numbers employed, by production sector, first quarter, 2023–2025 (Percentages)



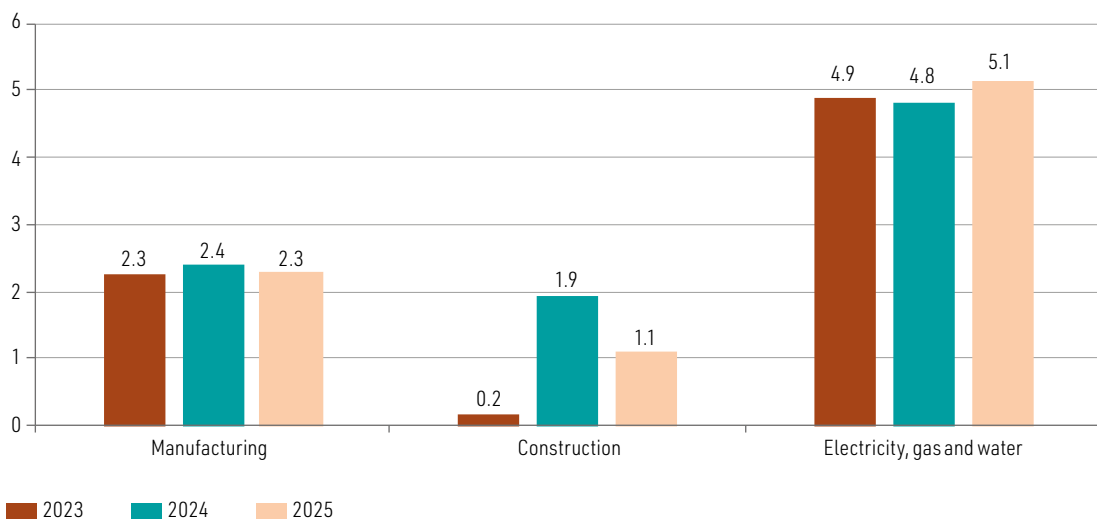
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

In the industrial sector, employment growth dropped from 1.9% to 1.1% in construction and increased from 4.8% to 5.1% in basic services (electricity, gas and water) (see figure I.44). In the service sector, all branches showed growth, although at lower rates than in the previous year, with a marked slowdown in financial, insurance and business services; commerce, restaurants and hotels; and community, social and personal services (see figure I.45).

Figure I.44

Latin America and the Caribbean (14 countries):^a year-on-year changes in the numbers employed, industrial sector activities, first quarter, 2023–2025 (Percentages)

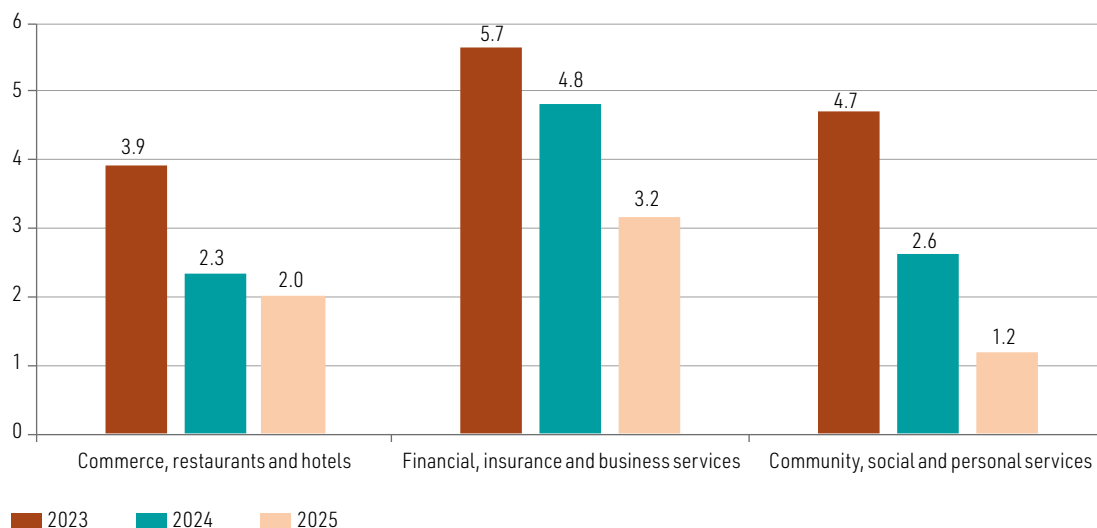


Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

Figure I.45

Latin America and the Caribbean (14 countries):^a year-on-year changes in the numbers employed, service sector activities, first quarter, 2023–2025
(Percentages)



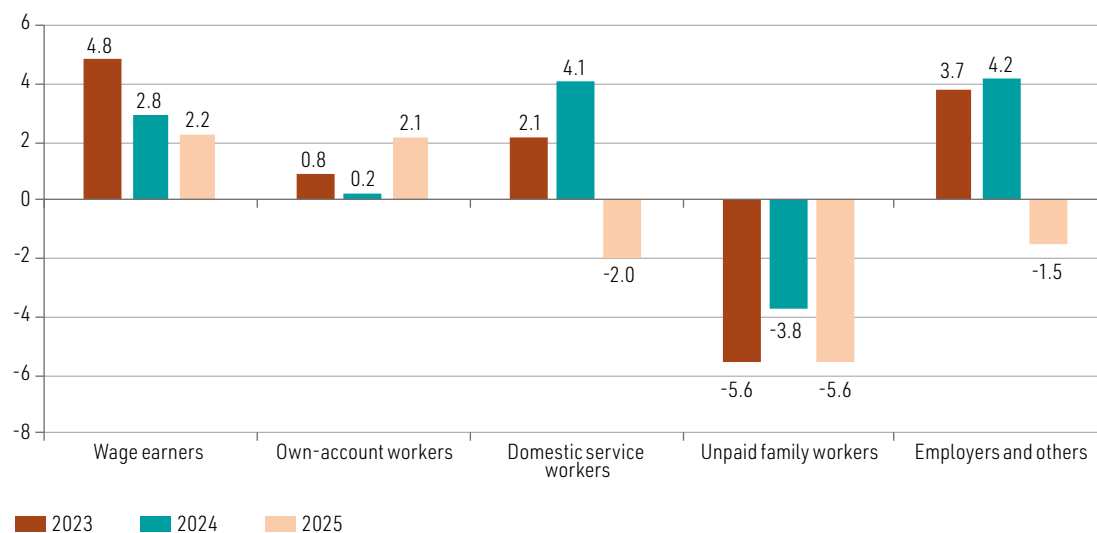
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

The increase in employment in the first quarter of 2025 was led by wage earners and own-account workers, with growth of 2.2% and 2.1%, respectively. In the case of wage earners, this represented a slowdown of 0.6 percentage points from the same quarter of 2024, while for own-account workers it represented an acceleration of 1.9 percentage points (see figure I.46). Overall, wage earners accounted for 82% of total employment growth. In contrast, there were declines in the categories of domestic service (2.0%), unpaid family workers (5.6%) and employers and others (1.5%).

Figure I.46

Latin America and the Caribbean (14 countries):^a year-on-year changes in the numbers employed, occupational categories, first quarter, 2023–2025
(Percentages)



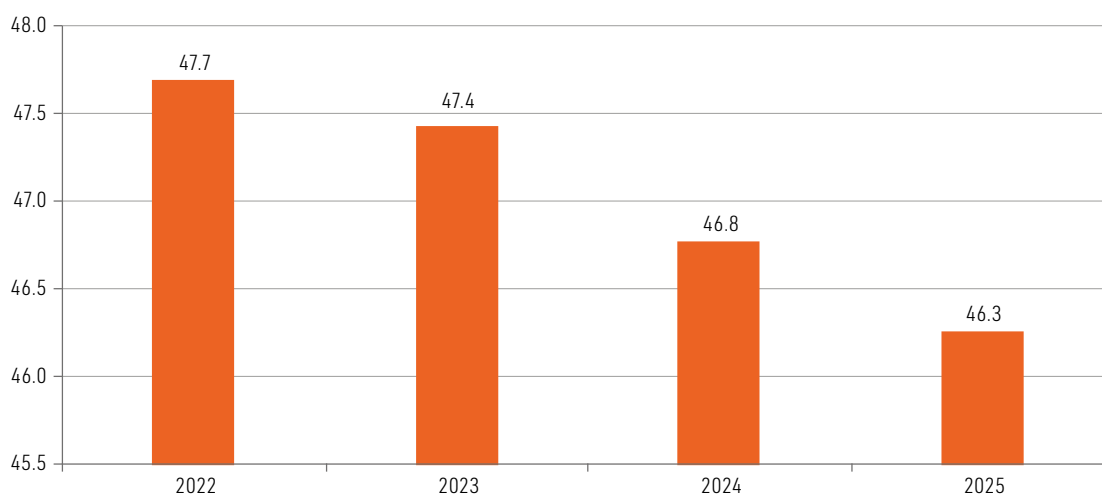
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia, Trinidad and Tobago and Uruguay.

The average regional informality rate fell from 46.8% in the first quarter of 2024 to 46.3% in the same period of 2025 (see figure I.47). Notwithstanding this improvement, at the regional level, 23 out of every 50 workers are informally employed, meaning that they generally have no employment contract and only low levels of social protection.

Figure I.47

Latin America and the Caribbean (11 countries):^a average labour informality rate, first quarter, 2022–2025 (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Paraguay, Peru and Uruguay.

The informality rate fell in 9 of the 11 economies for which information is available, with particularly large reductions (more than 2 percentage points) in Chile and the Dominican Republic. In contrast, there were increases in Argentina and Colombia. This decline in the informal employment rate has been associated with the growth of wage employment and of employment in more formal sectors, such as manufacturing, basic services (electricity, gas and water) and financial and business services.

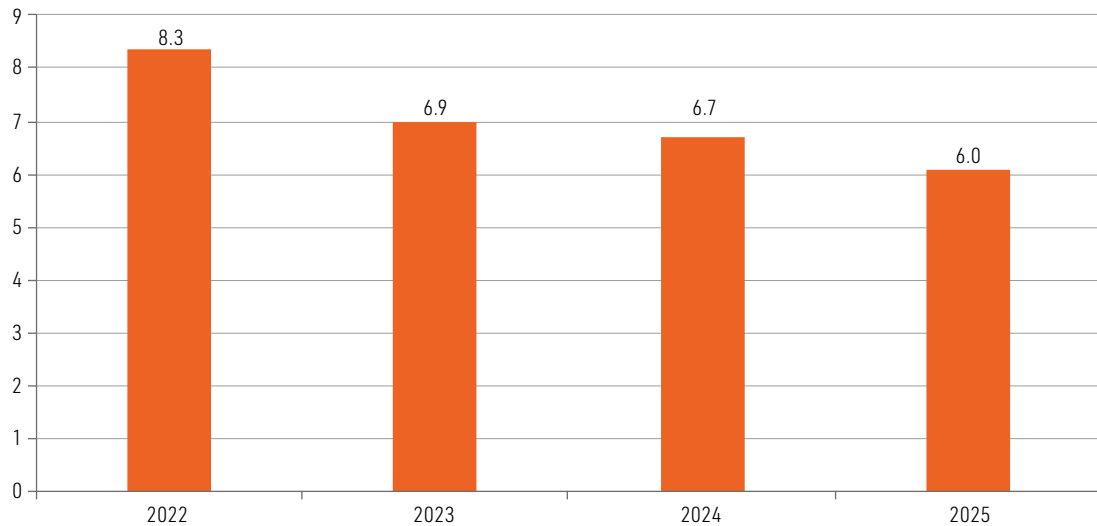
The unemployment rate also fell during the period, from 6.7% to 6.0% year-on-year (see figure I.48). It declined in 11 of the 14 countries for which information is available, with particularly large drops of more than 1.5 percentage points in Argentina, Colombia and Jamaica. By contrast, unemployment increased in Chile, Peru and Trinidad and Tobago.

Gender gaps in labour force participation, employment and unemployment narrowed slightly during the first quarter of 2025, although they remain significant.

The regional labour participation rate was 62.6%, with figures of 74.0% for men and 52.1% for women, a gap of 21.9 percentage points, or 0.3 points less than in the same period of 2024 (see figure I.49). This reduction was due to an increase in female participation and a slight decline in male participation.

Figure I.48

Latin America and the Caribbean (14 countries):^a unemployment rate, first quarter, 2022–2025
(Percentages)

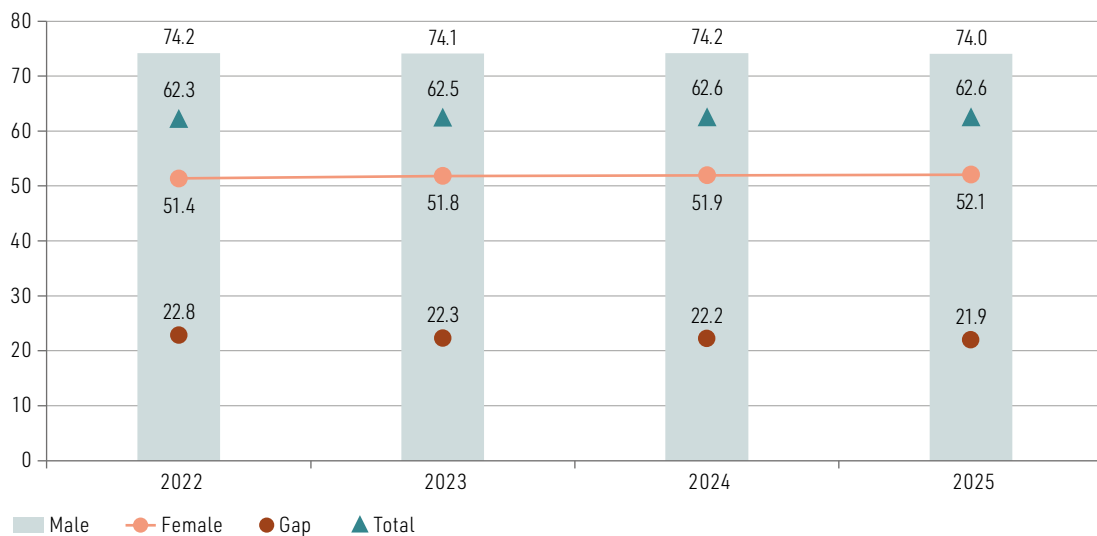


Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

Figure I.49

Latin America and the Caribbean (14 countries):^a average total, male and female labour participation rates, first quarter, 2022–2025
(Percentages)



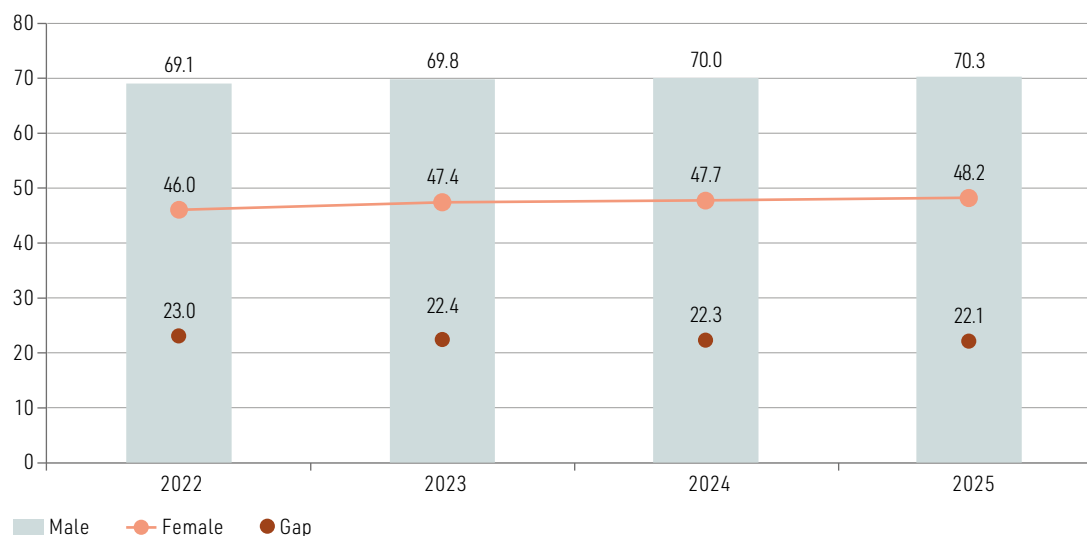
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

The employment rate also showed progress at the regional level, rising from 70.0% to 70.3% for men and from 47.7% to 48.2% for women between the first quarter of 2024 and the same period of 2025, so that the gender gap narrowed from 22.3 to 22.1 percentage points (see figure I.50).

Figure I.50

Latin America and the Caribbean (14 countries):^a average male and female employment rates, first quarter, 2022–2025
(Percentages)



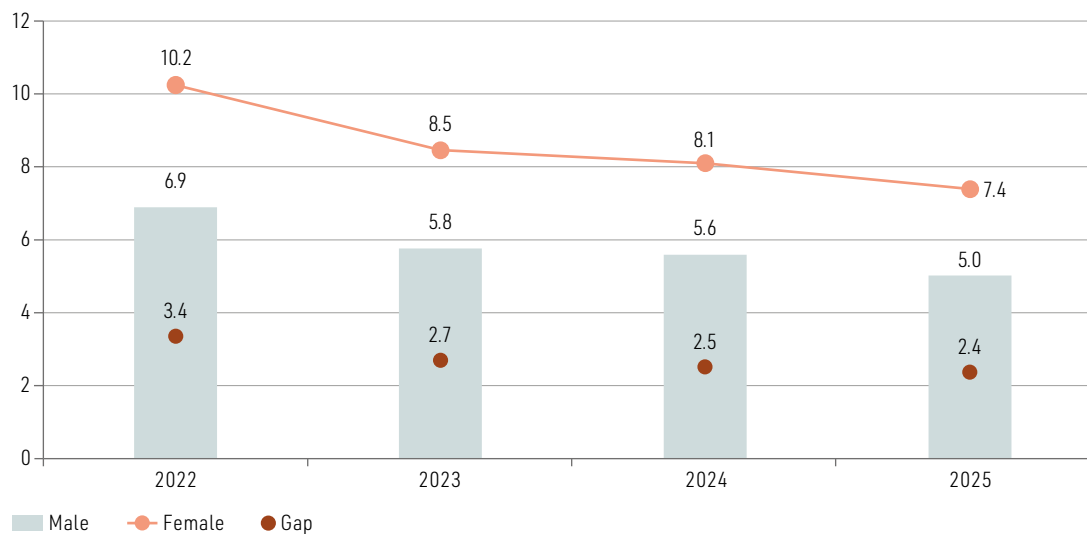
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

The female unemployment rate fell from 8.1% to 7.4%, a drop of 0.7 percentage points. In the case of men, unemployment fell from 5.6% to 5.0%, so that the gap narrowed from 2.5 to 2.4 percentage points (see figure I.51).

Figure I.51

Latin America and the Caribbean (14 countries):^a male and female unemployment rates, first quarter, 2022–2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

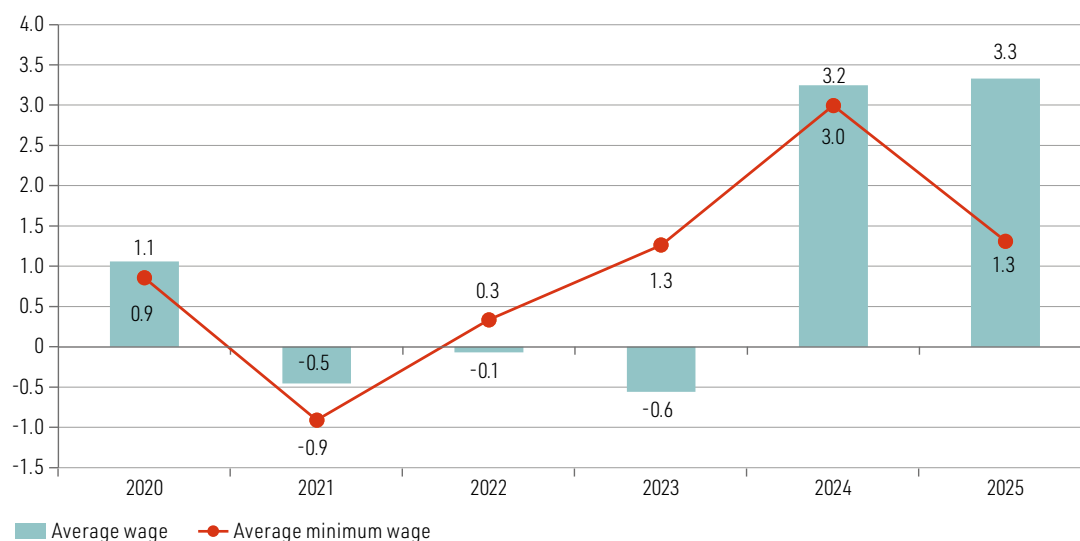
^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

A notable development was the decline in domestic employment and unpaid work, two highly feminized activities. In combination with rising wage employment and falling unemployment and informality rates, this might suggest that women are transitioning towards occupations with better working conditions.

Real wages continued to climb between the first quarter of 2024 and the first quarter of 2025. Although the real minimum wage increased by 1.3%, this was below the 3.0% growth observed a year earlier. Meanwhile, the real average wage grew by 3.3%, 0.1 percentage points more than in the same period of 2024 (see figure I.52).

Figure I.52

Latin America and the Caribbean (selected countries):^{a,b} average real minimum wage and average real wage, first quarter, 2020–2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Minimum wage: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Trinidad and Tobago and Uruguay.

^b Real wage: Argentina, Brazil, Chile, Colombia, Costa Rica, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

This development was supported by rising nominal wages and moderating inflation. In addition, employment growth in sectors with higher levels of formalization and productivity and generally above-average pay, such as manufacturing, basic services and financial services, may also have contributed to the increase in real wages in the region.

12. The incipient recovery in the region's labour markets faces significant risks

The results presented, although insufficient to set the region on a growth path that would lead it out of the trap of low capacity for growth and job creation, are relatively favourable. Employment is growing, albeit slowly, and is being created in the most productive activities. This has helped to reduce informality and unemployment. In addition, there have been increases in real wages and in the number of wage earners.

In the present context, even these modest results could be reversed. First, a possible worsening of the economic slowdown, both globally and regionally, would undoubtedly limit job creation in

the economies of Latin America and the Caribbean. In addition, further episodes of inflation could erode household purchasing power and reduce the dynamism of domestic consumption, one of the main drivers of growth in the region. These risks could be exacerbated by developments in the Middle East conflicts or by changes in the trade policies of the major powers. Higher inflation, should it materialize, could lead to the adoption of more restrictive policies, which would negatively affect the generation of formal employment, the reduction of gender gaps and the evolution of real wages.

A number of major structural gaps could also widen, examples being low female labour participation, high levels of informality in a number of countries and limited social protection coverage, which reduce the potential for inclusive and sustainable economic growth.

In this context, it is essential for the countries of the region to better coordinate labour, production and social inclusion policies with a view to achieving a lasting, inclusive and resilient recovery in employment.

E. Macroeconomic policies

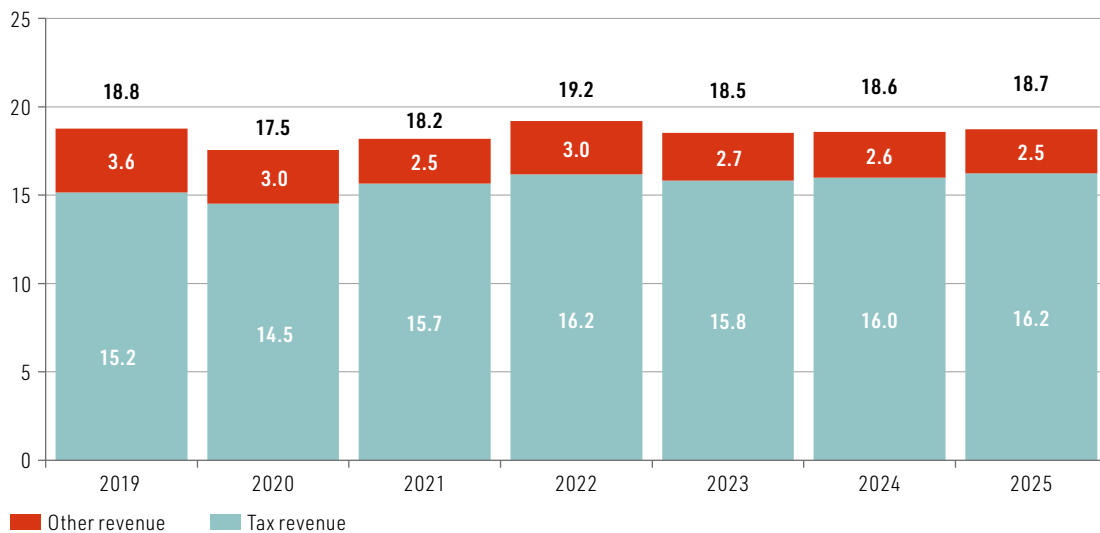
1. Despite heightened global uncertainty, government revenues are expected to remain stable in Latin America, but are likely to diminish in the Caribbean

Having contracted in 2023, government revenues stabilized by the end of 2024, and updated official projections for 2025 indicate slight growth in the Latin American countries, to an average of 18.7% of GDP. This increase is explained by higher tax revenues, which could grow to the equivalent of 16.2% of GDP on average for 16 countries, similar to their 2022 level (see figure I.53). However, country projections are subject to a number of downside risks, including elevated uncertainty stemming from recent geopolitical tensions and the economic slowdown expected in the region. During the first quarter of 2025, the pace of tax collection slackened in eight of the countries analysed, although the year-on-year variations remained mostly positive. In contrast, other countries experienced significant upturns, in some cases fuelled by specific domestic factors. Revenue from other sources—including non-tax and capital revenue and external grants—is expected to continue trending downward slightly.

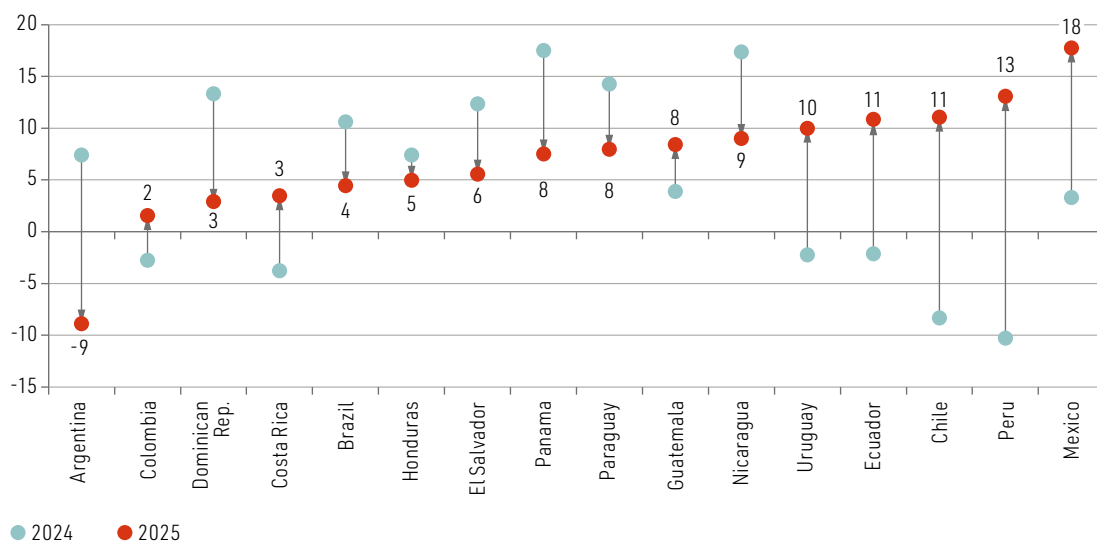
Figure I.53

Latin America (16 countries): total central government revenue and tax revenue, 2019–2025
(Percentages of GDP and percentages)

A. Composition of total revenue, 2019–2025^{ab}
(Percentages of GDP)



B. Year-on-year variation in tax revenue, excluding social security contributions, January–March 2025 and January–March 2024^c (Percentages, at constant prices)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

^b Simple averages. The figures for 2025 refer to official estimates. In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

^c The figures for the Dominican Republic, Ecuador, Honduras and Nicaragua refer to January–February. In the cases of Argentina and Mexico, the figures refer to the national public administration and the federal public sector, respectively.

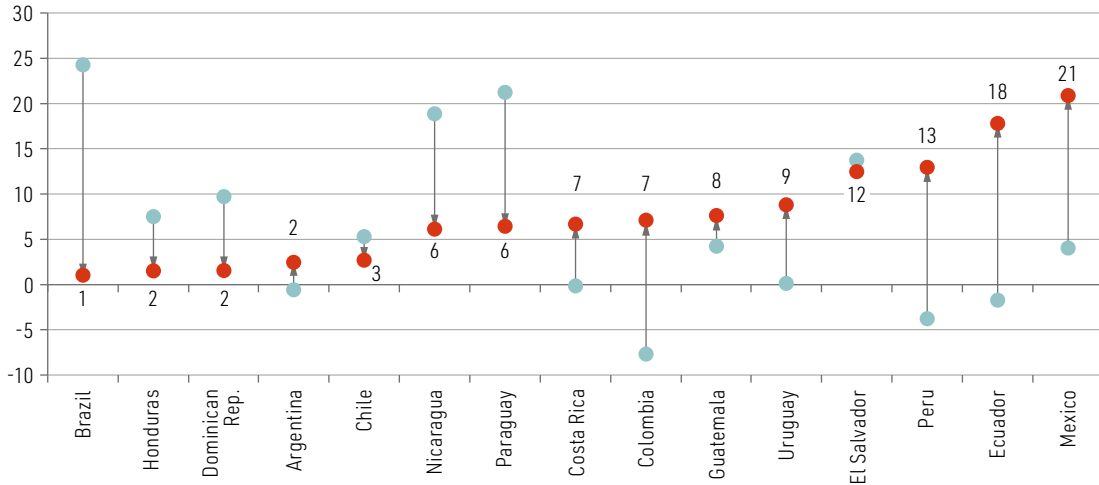
Although overall tax collection remained relatively stable in the first quarter of the year, there were significant differences in the main taxes (see figure I.54). In the case of value added tax (VAT), there are signs that private consumption could be cooling, which would explain the meagre year-on-year revenue growth recorded in some countries. In other cases, specific macroeconomic trends boosted VAT collection. In both Colombia and Mexico, the depreciation of the national currency generated additional revenue from VAT levied on imports (Ministry of Finance and Public Credit of Colombia, 2025; Ministry of Finance and Public Credit of Mexico, 2025).

Specific regulatory changes also affected revenue growth. For example, in Ecuador, there was a base effect resulting from having raised the VAT rate to 15% in April 2024, under the organic Act to address the internal armed conflict, and the social and economic crisis. In Peru, in contrast, revenue was lifted by the inclusion of digital services in the general sales tax base since December 2024, and the charging of selective consumption tax on online gaming and sports betting since January 2025, through Legislative Decrees No. 1623 and No. 1644, respectively (Ministry of Economy and Finance of Peru, 2025). In the case of Brazil, there was a year-on-year uptick in the first quarter of 2025, following the implementation of a series of measures to boost tax collection, adopted a year earlier (Economic Commission for Latin America and the Caribbean [ECLAC], 2024).

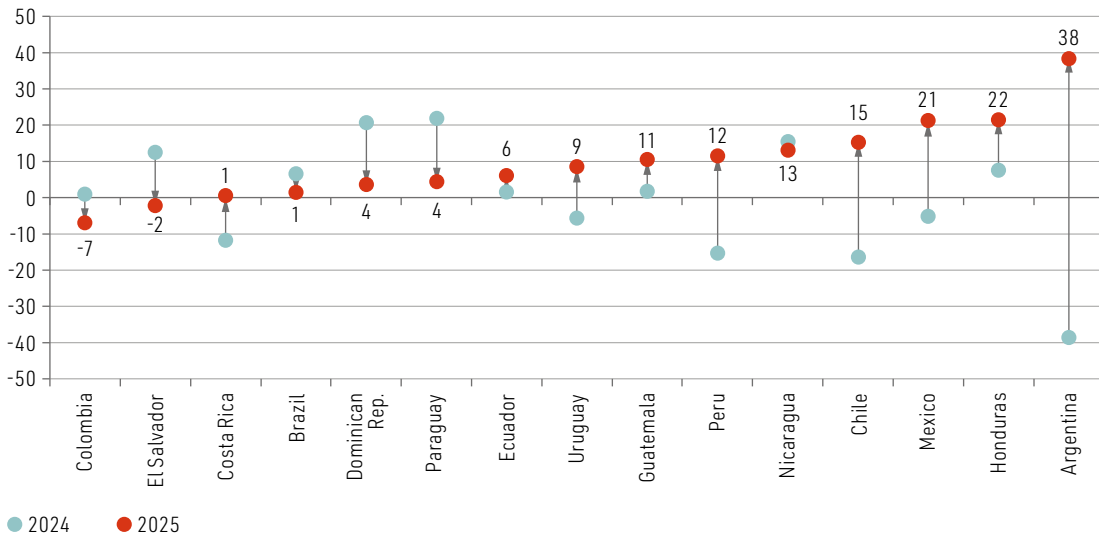
Figure I.54

Latin America (15 countries): year-on-year variation in value added tax and income tax revenue collected by central government, January–March 2024 and January–March 2025^a
(Percentages, at constant prices)

A. Value added tax



B. Income tax



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
^a The figures for the Dominican Republic, Ecuador, Honduras, Nicaragua and Paraguay refer to January–February.

Trends in income tax varied between countries, and there were pronounced year-on-year revenue fluctuations in the first quarter of 2025, reflecting changes in the payment schedule or in the regulations in some countries. For example, the increase in Mexico is explained partly by the timing of the annual corporate income tax return, which in 2024 was filed in March instead of April (Ministry of Finance and Public Credit of Mexico, 2025). There was a similar effect in Peru, associated with a change in the income tax payment schedule (Ministry of Economy and Finance of Peru, 2025). In contrast, the

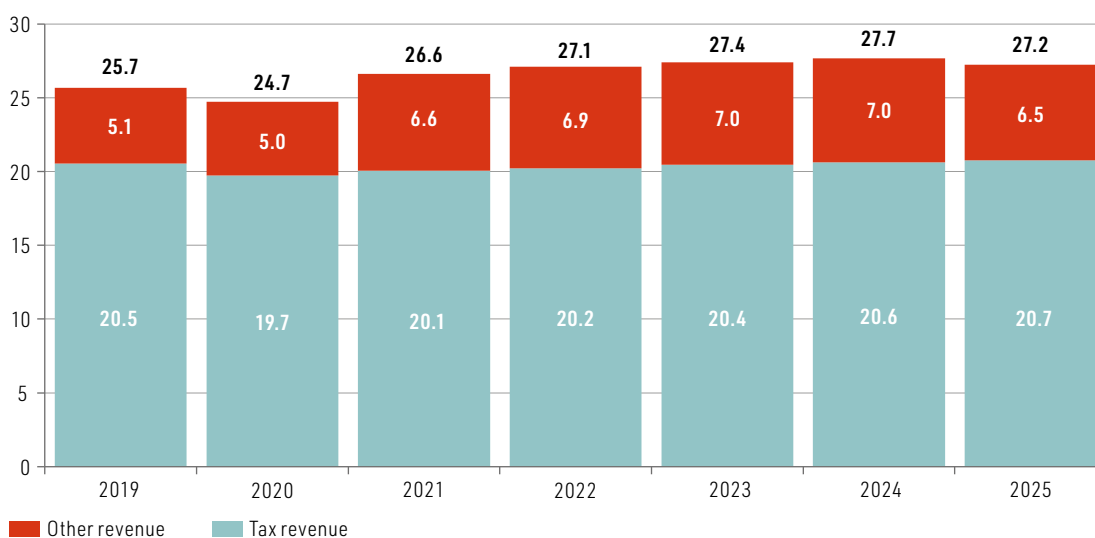
vigorous revenue growth seen in Argentina is explained mainly by increased tax withholding from workers, resulting from real wage growth and the changes introduced through Act No. 27743 on palliative and relevant tax measures (Budget Office of the Argentine Congress, 2025).

The global macroeconomic environment has also had repercussions on income tax collection in some countries, through its effect on natural resource prices. For example, the rise in metal prices, particularly copper, boosted corporate income tax collection in countries such as Chile and Peru (Budget Directorate of Chile, 2025b; Ministry of Economy and Finance of Peru, 2025). In contrast, falling crude oil and coal prices led to a reduction in the tax surcharge applied to the extractive sector in Colombia, which resulted in lower monthly corporate income tax payments (Ministry of Finance and Public Credit of Colombia, 2025).

In the Caribbean, although total revenue was slightly higher year-on-year at the end of 2024 thanks to improved tax collection, official projections for 2025 indicate that total revenue will fall on average, as a result of a significant reduction in revenue from other sources, such as non-tax and capital revenue and external grants (see figure I.55). For example, in Grenada, non-tax revenue is expected to contract sharply, by more than 10% of GDP. This is explained by a high base of comparison with the previous year, when exceptional revenue was received from the Citizenship by Investment Programme and from the Caribbean Catastrophe Risk Insurance Facility following Hurricane Beryl (Government of Grenada, 2025). Nonetheless, tax revenues are expected to remain stable in the Caribbean. Indirect tax revenue linked to the tourism sector is expected to increase in some countries and could largely offset fluctuations in other taxes (Ministry of Finance of The Bahamas, 2025).

Figure I.55

The Caribbean (12 countries):^a composition of total central government revenue, 2019–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: Simple averages. The figures for 2025 refer to official estimates. In the cases of Barbados and Saint Kitts and Nevis, the figures refer to the non-financial public sector and the federal government, respectively.

^a Antigua and Barbuda, The Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

2. Public spending is expected to remain stable in the region, albeit with slight changes in composition, especially in Latin America

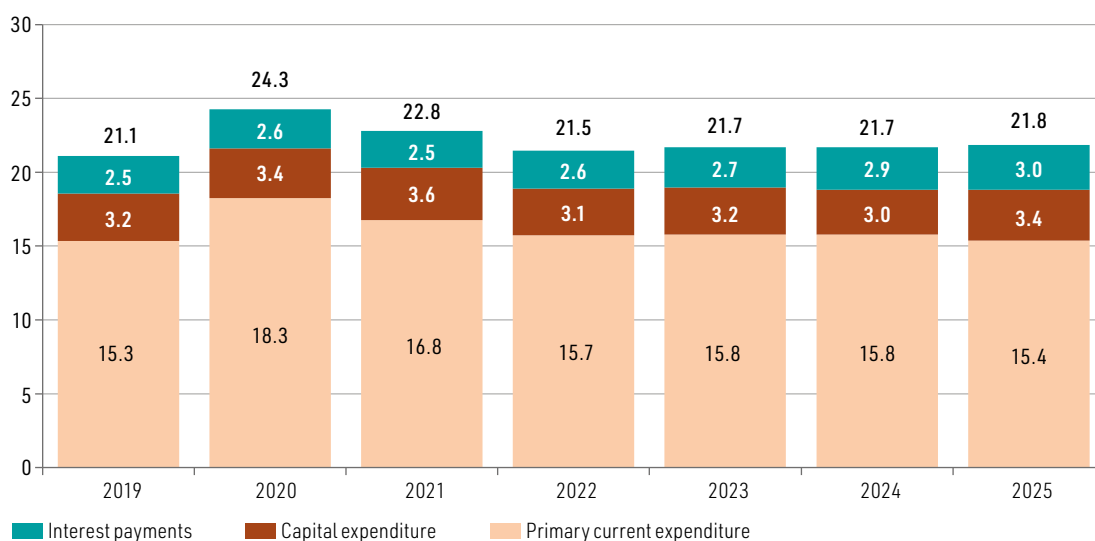
At end-2024, average public expenditure in Latin America remained relatively stable, with a slight increase in the share of interest payments being offset by an equivalent reduction in capital spending. Updated official projections for 2025 indicate that total central government expenditure will grow slightly, on average, for 16 countries (see figure I.56). These initial estimates also reveal a change in composition, since capital expenditure is expected to increase, following cutbacks in previous years when it was used as a fiscal adjustment and consolidation variable. However, given the multiple pressures on primary current spending and the uncertainties surrounding tax collection, public investment budgets could undergo changes during the year.

The countries are also striving to make their primary expenditure more effective and address the challenges posed by high levels of public debt, such as the rising —albeit moderate— trend in interest payments. For example, Brazil, Colombia and El Salvador have included measures in their current budgets to reduce primary current spending, without compromising the financing of their national priorities. The measures in question aim to underpin interest payments on debt, while also increasing capital expenditure to promote these priorities. In Colombia, the increase in capital spending is geared towards economic recovery, while in El Salvador it targets areas such as social development, justice and citizen security (Ministry of Finance of El Salvador, 2025; Ministry of Finance of Brazil, 2025; Ministry of Finance and Public Credit of Colombia, 2024).

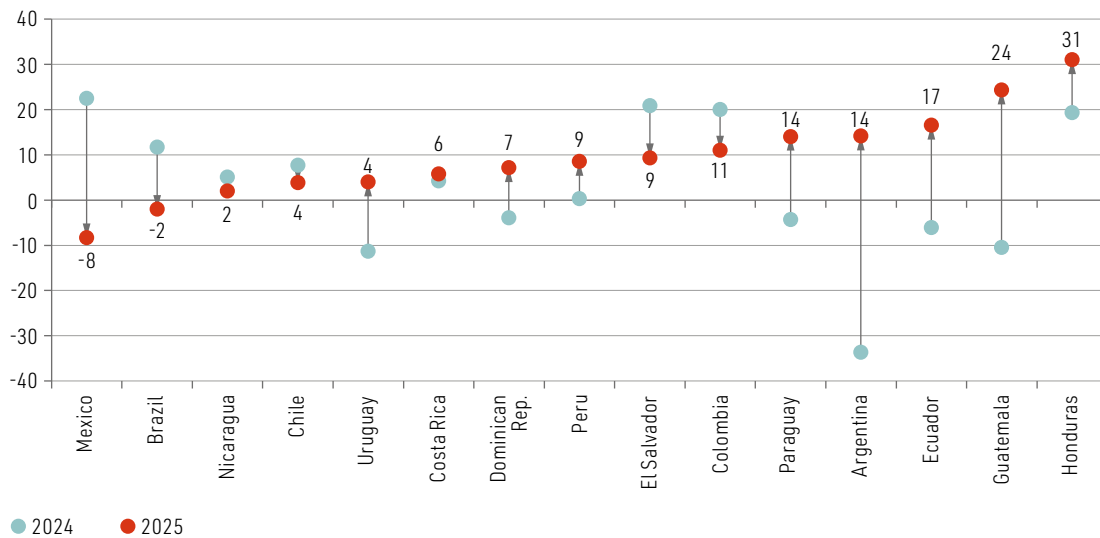
Figure I.56

Latin America (16 countries): total and primary central government expenditure, 2019–2025
(Percentages of GDP and percentages)

A. Composition of total expenditure, 2019–2025^{ab} (Percentages of GDP)



B. Year-on-year variation in primary expenditure, January–March 2025 and January–March 2024^c
(Percentages at constant prices)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

^b Simple averages. The figures for 2025 refer to official estimates. In the cases of Argentina, Mexico, and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

^c The figures for the Dominican Republic, Ecuador, Honduras and Nicaragua refer to January–February. In the cases of Argentina and Mexico, the figures refer to the national public administration and the federal public sector, respectively.

In the first quarter of the year, most countries recorded significant growth in primary spending relative to the year-earlier period. In particular, Guatemala and Honduras were among the few countries that budgeted increases in both current and capital spending relative to GDP. In Guatemala, an increase in current expenditure is expected to underpin and strengthen the provision of essential public services to the population, especially in social areas such as education, healthcare and security. In contrast, capital spending will be directed largely towards the recovery of highway infrastructure through road improvements and the construction of overpasses (Ministry of Public Finance of Guatemala, 2025a, 2025b). In Honduras, the higher budgeted expenditure is explained by investment resources allocated to the execution of programmes and projects in priority sectors, such as highway and hospital infrastructure, energy and employment, including the upgrading of secondary roads to facilitate connectivity and product marketing (Ministry of Public Finance of Honduras, 2025). Argentina also reported primary expenditure growth in the first quarter of the year, driven mainly by higher social spending resulting from above-inflation increases in the amounts of retirement and other pensions (Budget Office of the Argentine Congress, 2025).

Conversely, some countries reduced their primary expenditure in the first quarter of 2025. For example, Mexico made partial progress in its fiscal convergence process, designed as part of the 2025 Economic Package, by reducing primary expenditure, particularly current spending, relative to the year-earlier level. This decrease in programmable spending is partly explained by the scheduling of subsidy and transfer payments, as well as by reduced physical investment, reflected in lower expenditures by the federal government and some parastatal entities. Expenditure on social development was also reduced, without compromising the provision of support in this area (Ministry of Finance and Public Credit of Mexico, 2025).

Capital expenditure was buoyant in most countries in the first quarter of 2025. However, this component of public spending tends to fluctuate widely throughout the year, so its performance in the first quarter does not necessarily indicate a specific trend. In the case of Colombia, for example, this variable increased in the first quarter as a result of floating debt, which is consistent with the large budgetary backlog in terms of investment in the previous period (Ministry of Finance and Public Credit of Colombia, 2025).

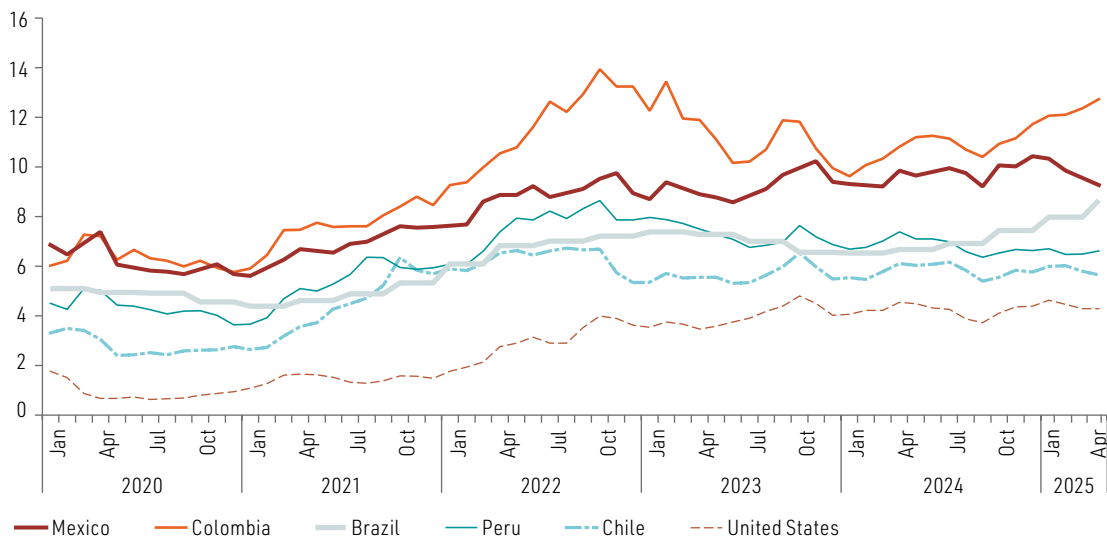
The rising trend of interest payments remains a major concern, since these are forecast to reach an average of 3.0% of GDP in 2025, compared with 1.7% of GDP in 2012. This increase, which stems from rising public debt and macrofinancial conditions, entails a significant loss of fiscal space for implementing development-oriented public policies. As shown in figure I.57, long-term interest rates remain elevated in both international and domestic markets, and are even rising in some countries. The hike in the benchmark rate in the United States has set the course for interest payments on Latin America's external debt, as it has been the main driver of the significant increase in these outgoings in countries such as Ecuador and Paraguay (Ministry of Economy and Finance of Paraguay, 2025).

In addition, interest rate movements on domestic markets have had a significant impact in some Latin American countries. In the case of Brazil, the hike in the monetary policy rate, from 10.50% in September 2024 to 14.75% in May 2025, is a decisive factor, since most of the country's public debt is traded in the domestic market. In Colombia, the increase in interest payments is due to a heavier implicit financial burden resulting from the application of larger discounts for domestic bond placements (Ministry of Finance and Public Credit of Colombia, 2025).

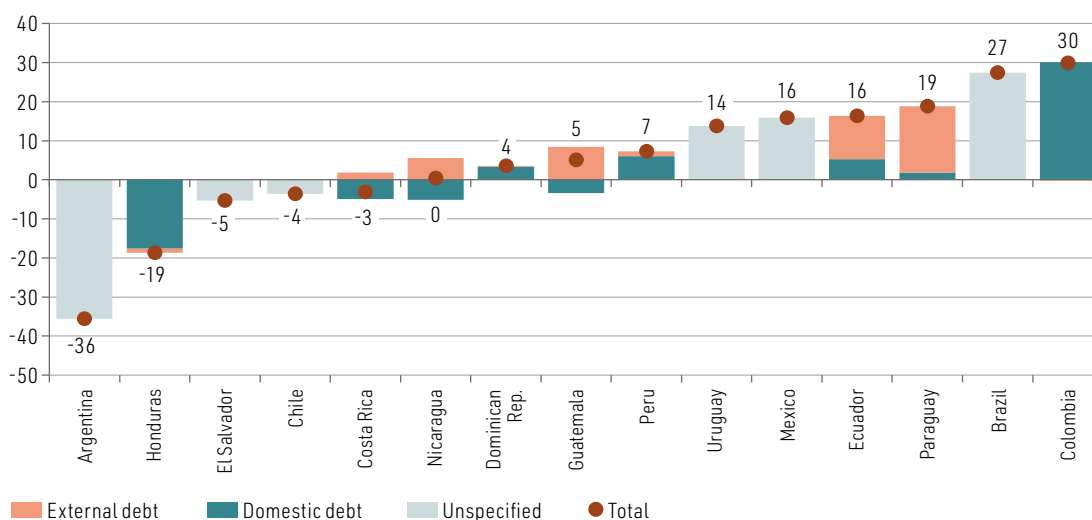
Figure I.57

Latin America (selected countries) and the United States: nominal interest rates on 10-year bonds denominated in national currency and year-on-year variation in central government interest payments, 2020–2025
(Percentages and percentage points)

A. 10-year bond interest rates, January 2020–April 2025
(Percentages)



B. Year-on-year variation and breakdown of growth in central government interest payments, January–March 2025^{ab}
(Percentages at constant prices)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures, and Organisation for Economic Co-operation and Development. OECD Data Explorer. <https://data-explorer.oecd.org/>.

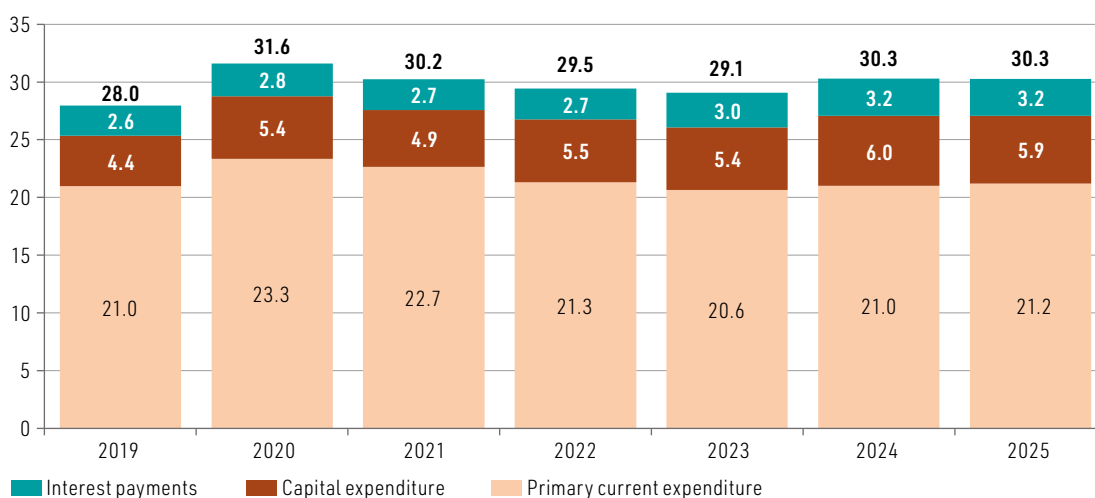
^a In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

^b The figures for the Dominican Republic, Ecuador, Honduras and Nicaragua refer to January–February.

In the Caribbean, average total central government spending was higher at the end of 2024 than a year earlier, driven mainly by robust capital spending as part of reconstruction efforts following Hurricane Beryl (see figure I.58). Official projections see average public expenditure for 12 countries remaining stable in 2025 relative to the previous year, albeit with a slight change in composition. Specifically, primary current expenditure is forecast to rise by 0.2 percentage points, offset by a reduction in capital spending.

Figure I.58

The Caribbean (12 countries):^a composition of total central government expenditure, 2019–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: Simple averages. The figures for 2025 refer to official estimates. In the cases of Barbados and Saint Kitts and Nevis, the figures refer to the non-financial public sector and the federal government, respectively.

^a Antigua and Barbuda, The Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

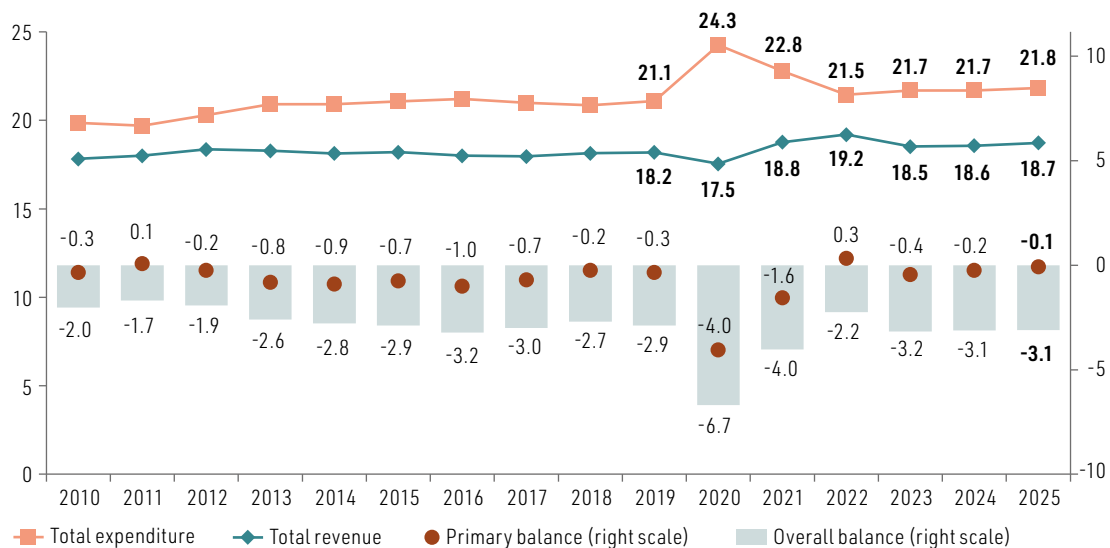
Among countries, total spending in Grenada is projected to grow by 3.9 percentage points of GDP, driven mainly by an increase in current expenditure for the payment of wages and salaries to strengthen healthcare and education systems, as well as for subsidies and transfers to support households affected by Hurricane Beryl (Government of Grenada, 2025). Current expenditure is also expected to grow in The Bahamas, Guyana and Trinidad and Tobago. In the latter case, the rise is explained largely by increased disbursements for goods and services, particularly information technology, telecommunications and rents, as well as scholarship programmes, grants and funding for public institutions (Ministry of Finance of The Bahamas, 2025). In contrast, in Jamaica, the non-wage component of primary current expenditure is projected to decrease by 1.3 percentage points in fiscal year 2025, reflecting compliance with the country's fiscal rule (Government of Jamaica, 2025).

3. Fiscal balances in Latin America likely to be broadly unchanged, but the overall deficit in the Caribbean is projected to widen

Updated official projections indicate a slight reduction in Latin America's primary deficit—from 0.2% of GDP in 2024 to 0.1% in 2025—with revenue slightly outpacing expenditure. The overall fiscal deficit is expected to remain at the previous year's level (3.1% of GDP) (see figure I.59).

Figure I.59

Latin America (16 countries):^a central government fiscal indicators, 2010–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: Simple averages. The figures for 2025 refer to official estimates. In the cases of Argentina, Mexico, and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

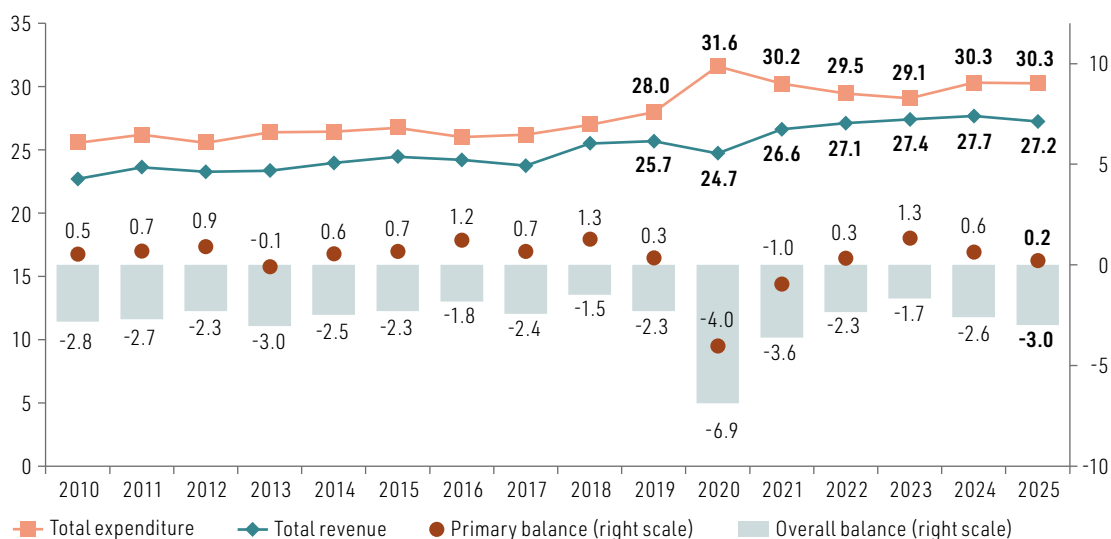
^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

As noted above, several of the region's countries are moving ahead on fiscal consolidation processes, with the aim of containing and reducing their high levels of public debt. In Chile, for example, several measures and proposals to contain public spending have been considered, including medium-term reviews and adjustments to secure a sustainable fiscal pathway (Budget Directorate of Chile, 2025a). In Peru, in contrast, the capitalization of Petroperú in 2024 led to the non-financial expenditure growth rule being broken, which will imply a lower public expenditure growth ceiling for 2025 (Central Reserve Bank of Peru, 2025).

In the Caribbean, official projections point to a widening of the overall deficit and a reduction in the primary surplus —by 0.4% of GDP in both indicators (see figure I.60). This represents a continuation of the trend seen in 2024, which contrasts with the situation in the years following the coronavirus disease (COVID-19) pandemic. If total public expenditure remains close to the previous year's level, the deterioration in the average fiscal balance is likely due to a projected decrease in non-tax revenue for 2025.

Figure I.60

The Caribbean (12 countries):^a central government fiscal indicators, 2010–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: Simple averages. The figures for 2025 refer to official estimates. In the cases of Barbados and Saint Kitts and Nevis, the figures refer to the non-financial public sector and the federal government, respectively.

^a Antigua and Barbuda, The Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

In this context, several countries have initiated a fiscal consolidation process to curb their deficits. In Suriname, for example, the Public Financial Management Act was passed in December 2024, introducing more stringent fiscal rules, with the aims of making public expenditure more efficient, promoting long-term economic stability and establishing the Saving and Stabilization Fund of Suriname to strengthen the country's fiscal resilience (Suriname Economic Oversight Board, 2025b).

4. Although the region's public debt continues to diminish, its persistently high levels compromise the fiscal space available for public policies

As of March 2025, central government public debt in the Latin American and Caribbean countries was down on average relative to GDP. As shown in figure I.61A, the public debt has been trending down since 2021 and despite an uptick in 2023, it resumed this trend at the end of 2024.⁴¹ This occurred amid sluggish growth, global uncertainty, higher interest rates in developed countries and significant exchange-rate fluctuations across much of the region. In March 2025, the average public debt of 16 Latin American countries represented 50.2% of GDP, 1.2 percentage points lower than at the end of 2024. By subregion, public debt levels in South America averaged 54.8% of GDP in March, while in the Central American countries, the Dominican Republic and Mexico, they were equivalent to about 45.7% of GDP.

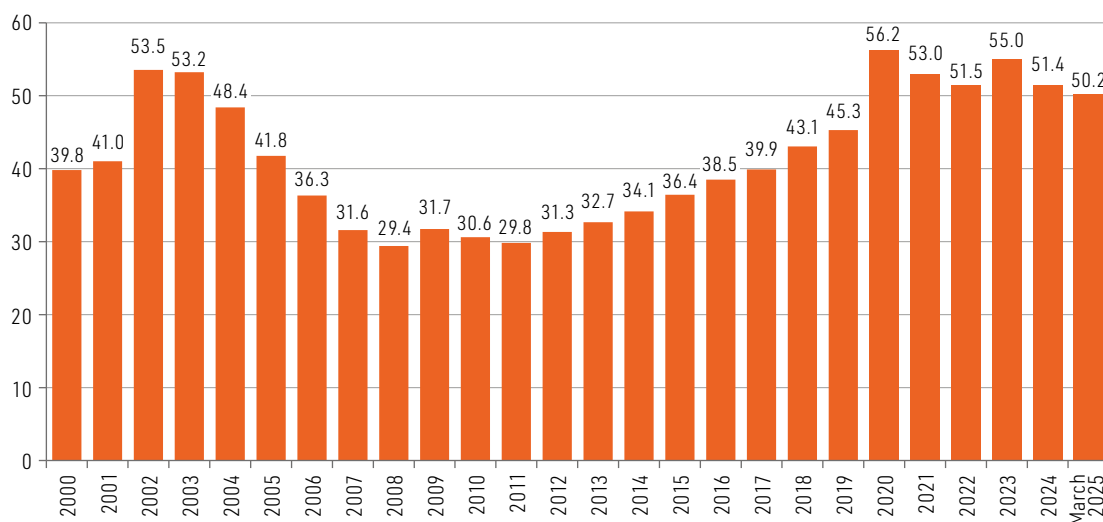
The national figures available for the first quarter of 2025 reflect mixed results compared with those of end-2024, although in most cases the Latin American average shows a general decline (see figure I.61B). Public debt levels fell in 11 countries in the subregion—notably Argentina, Costa Rica, Ecuador, Honduras and Nicaragua—while elsewhere they remained stable or edged up slightly.

In several Latin American countries, nominal GDP growth had a major impact on public debt. In Brazil, the debt level in March 2025 was 0.6 percentage points of GDP lower than in the previous December, owing mainly to the various components that fuel the debt trend, such as the contribution of GDP growth, the accrued nominal interest rate and cumulative exchange-rate depreciation (Central Reserve Bank of Brazil, 2025).

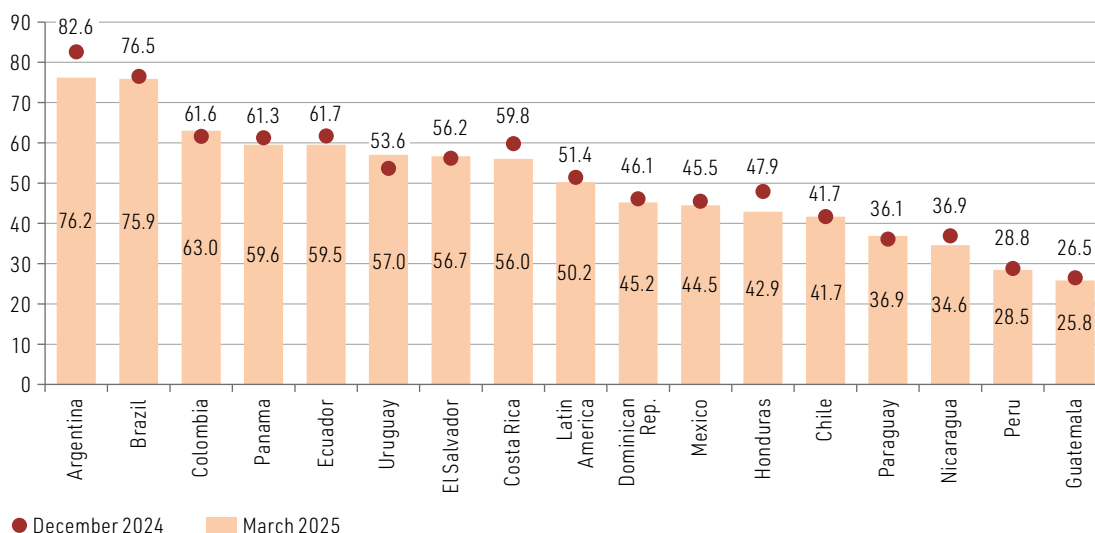
Figure I.61

Latin America (16 countries): central government gross public debt, 2000–March 2025
(Percentages of GDP)

A. Central government gross public debt, simple average, 2000–March 2025



⁴¹ The year-on-year reduction in the regional average at end-2024 was influenced by the specific case of Argentina. In that country, the sharp reduction in debt recorded in 2024 mainly reflected a statistical effect derived from the official methodology used to calculate the debt-to-GDP ratio (Ministry of Economy of Argentina, 2025).

B. Central government gross public debt, by country, December 2024 and March 2025^a

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

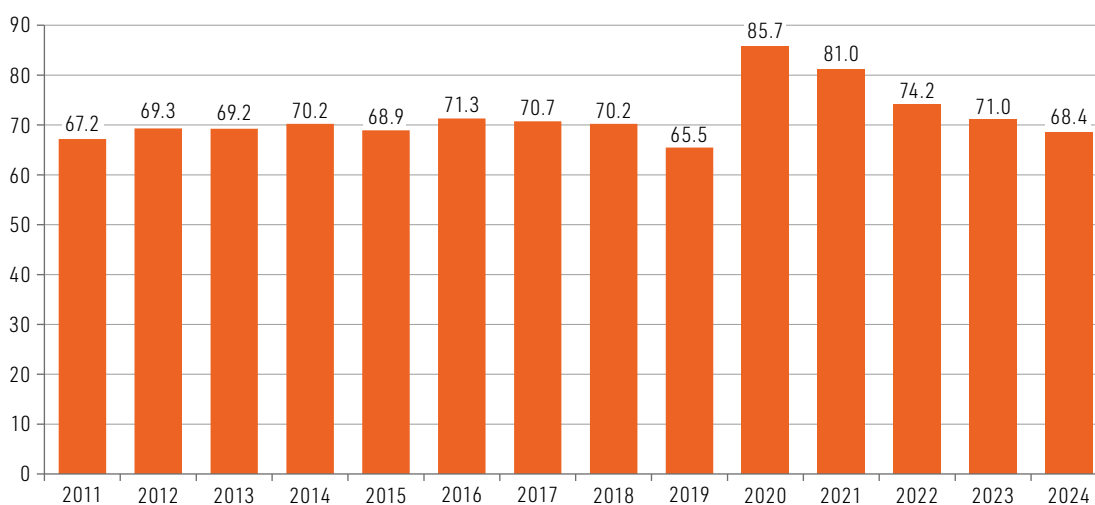
^a In the case of Brazil, the figures refer to the general government.

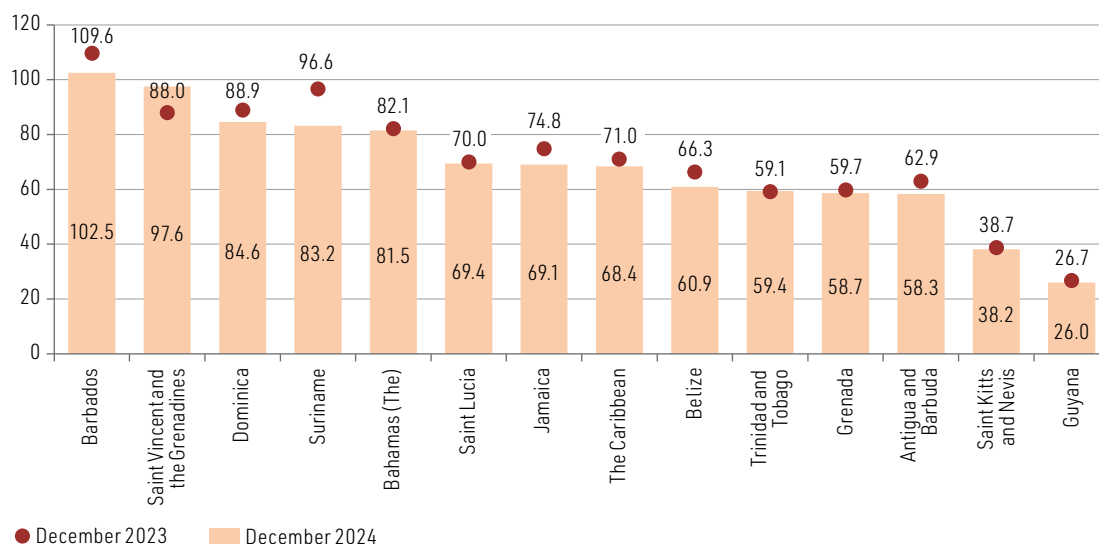
In the Caribbean, the central government gross public debt was equivalent to 68.4% of GDP in December 2024, 2.6 percentage points lower than a year earlier (see figure I.62A). In this subregion, the uptick in economic growth had a strong denominator effect on the debt-to-GDP ratio, since public debt levels remained relatively stable in absolute terms. Eleven of the 13 countries analysed saw their debt levels fall, including Barbados, Belize, Jamaica and Suriname. The only exception was Saint Vincent and the Grenadines, where a sharp increase in borrowing in late 2024 was due to higher financing needs associated with several infrastructure projects that had been severely affected by Hurricane Beryl (Ministry of Finance, Economic Planning and Information Technology of Saint Vincent and the Grenadines, 2025). Nonetheless, aside from the declining trend in the subregional average, the debt level in Caribbean countries remains very high, above 80% of GDP in five of the countries analysed.

Figure I.62

The Caribbean (13 countries): central government gross public debt, 2011–2024
(Percentages of GDP)

A. Central government gross public debt, simple average, 2011–2024



B. Central government gross public debt, by country, December 2023 and December 2024^a

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a The figures for Guyana refer to the public sector.

Although central government public debt levels relative to GDP in the region have retreated, they remain high in most countries. This situation represents a source of macroeconomic vulnerability and is exacerbated by the uncertainty prevailing in the global financial environment.

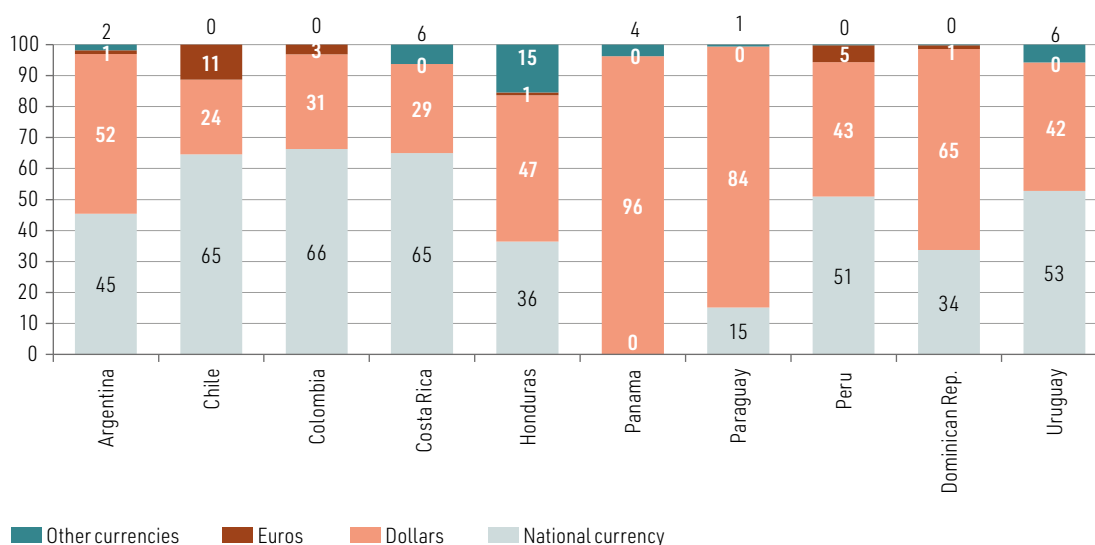
In the medium term, the accumulation of public debt also undermines the sustainability of the public finances and generates fiscal deficits, owing mainly to an increase in the cost of debt service. Domestic and external factors that fuel the accumulation of public debt include the primary fiscal deficit, the rate of output growth, the implicit interest rate and the exchange rate. As noted above, the deterioration of conditions on domestic and international financial markets can be especially relevant, as it is associated with higher interest rates, local currency depreciation and a greater likelihood of credit rating downgrades for countries in the region, which makes it harder for them to manage the public debt.

These factors can have a short-term impact on interest payments on the existing debt stock—particularly in countries with debt denominated in foreign currency or at variable interest rates—and also on the costs associated with future issuances under less favourable financial conditions. Rising interest payments also affect public expenditure management, in terms of both level and composition. For example, over the last decade, countries have cut back on capital expenditure to contain the growth of total public spending and thus partly mitigate the increase in debt service costs. Less benign conditions on the financial markets pose challenges for the region in terms of rolling over the existing public debt.

Active management of debt portfolios is extremely important for ensuring the sustainability of the public finances in Latin American countries. This requires consideration of the risks associated with the specific composition of the debt, by currency and creditor residency. The public debt stock of the region's countries, by currency, shows that a large proportion is denominated in dollars (see figure I.63). For example, in the Dominican Republic, Honduras, Panama and Paraguay, debt denominated in foreign currency—mostly in dollars—accounts for over 60% of the total. Conversely, in other countries such as Chile, Colombia and Costa Rica, the public debt is denominated mainly in national currency.

Figure I.63

Latin America (10 countries): central government gross public debt, by currency, March 2025
(Percentages of total)



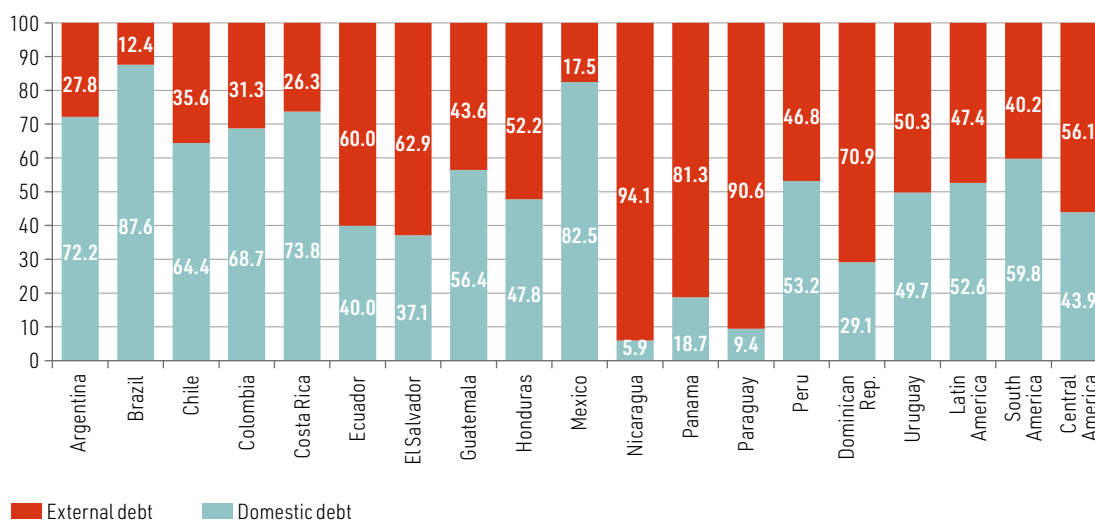
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The figures for public debt refer to central government in the cases of Argentina, Chile, Costa Rica, Honduras, Paraguay and Uruguay; to general government in the case of Brazil; to central national government in the case of Colombia; to the non-financial public sector in the case of the Dominican Republic and to the public sector in the cases of Ecuador, Panama and Peru.

Creditor residency is another relevant factor influencing the relative burden of central government financing. Although the region has a balanced structure between domestic and external creditors on average, the individual country scenario is quite mixed (see figure I.64). For example, in Nicaragua and Paraguay, external creditors hold over 90% of the total debt, while in countries such as Brazil and Mexico, more than 80% of the total public debt is linked to domestic financing, which reduces their exposure to the different sources of external vulnerability, to some extent.

Figure I.64

Latin America (16 countries): central government gross public debt, by creditor residency, March 2025
(Percentages of total)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

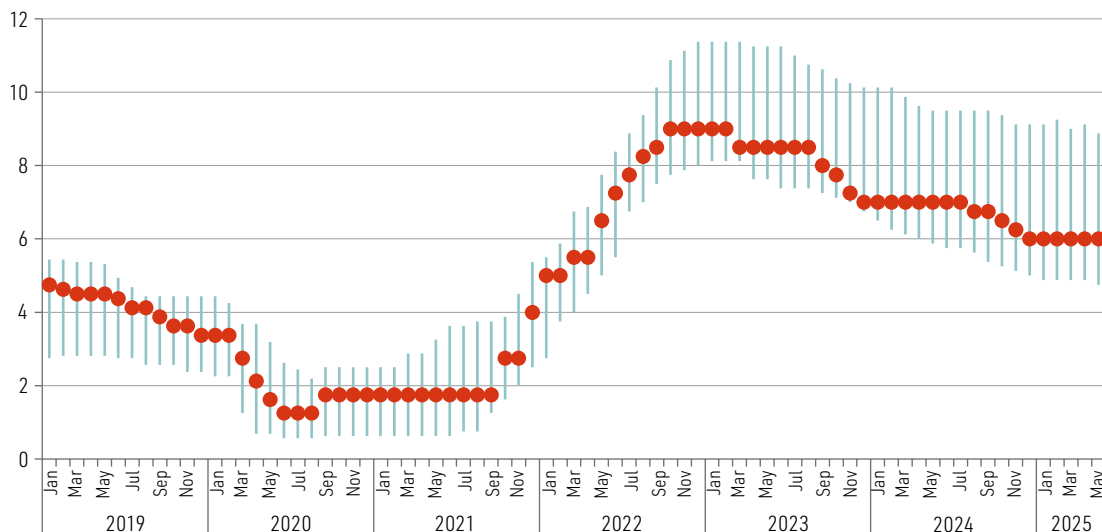
Note: The public debt figures for Brazil refer to general government.

5. Monetary policy in Latin America and the Caribbean eased somewhat in 2024, but the region's central banks maintained a generally contractionary stance

Up to the third quarter of 2024, the convergence of inflation on central bank targets and expectations of monetary policy easing by the United States Federal Reserve allowed monetary policy in Latin America and the Caribbean to be eased slightly (see figure I.65). It is important to note that the region's central banks maintained a generally contractionary stance and that, despite the downward trend in monetary policy rates, these are still above pre-pandemic levels in both nominal and real terms.

Figure I.65

Latin America and the Caribbean (11 countries):^a nominal monetary policy rate, medians and interquartile ranges, January 2019 to May 2025
(Percentages)



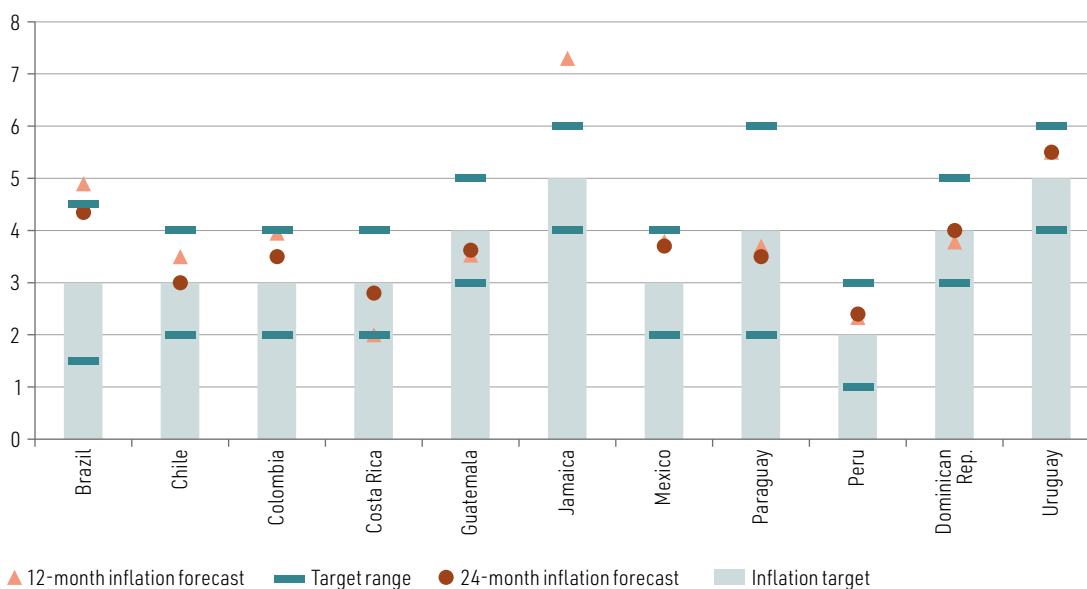
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Jamaica, Mexico, Paraguay, Peru and Uruguay.

Monetary policy has varied across the countries of the region, being dependent on the evolution of inflation expectations, exchange-rate dynamics and economic growth prospects. For example, interest rates were cut more significantly in countries such as Chile and Costa Rica, where 24-month inflation expectations are in line with central bank targets (see figure I.66).

Figure I.66

Latin America and the Caribbean (11 countries): 12- and 24-month inflation targets and expectations, May 2025
(Percentage points)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

6. Since late 2024, global uncertainty has led the region's authorities to adopt a more cautious stance, so that a number of central banks have put rate cuts on hold

Since the fourth quarter of 2024, uncertainty about the impact of United States trade policies on monetary policy in Latin America and the Caribbean has prompted the region's authorities to adopt an even more prudent stance. As a result, a number of central banks have put their rate-cutting cycles on hold.

In Colombia and Mexico, this caution is explained by the slowness with which expectations for inflation have been converging on the targets set for it, largely as a result of fiscal uncertainty in the first case and exchange-rate volatility in the second. In Chile, Costa Rica, Paraguay and Peru, on the other hand, the slowdown in the easing cycle reflects a near-neutral monetary policy stance, with real rates being kept close to levels that balance savings and investment (see figure I.67).

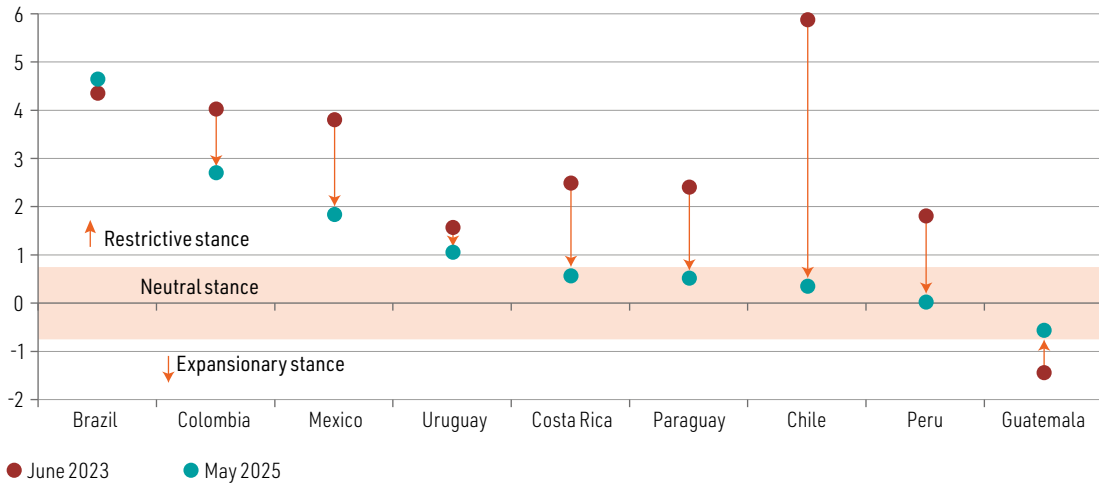
For their part, the central banks of Brazil and Uruguay began a new cycle of rate increases in the fourth quarter of 2024, since recorded inflation and 12- and 24-month inflation expectations alike were above target. In Brazil's case, this is attributed to the persistence of core inflation, driven by a buoyant labour market and fiscal stimulus. In Uruguay's case, inflationary pressures stem from the volatility of international commodity prices and the high level of global uncertainty.

Conversely, in Guatemala, where the cycle of increases ended in the second quarter of 2023 and the rate has fallen by only 50 basis points since September 2024, monetary policy has remained expansionary.

Looking beyond the countries with inflation targeting regimes, monetary conditions have eased across much of the region, as evidenced by the acceleration in the growth of the monetary base since the second half of 2023, although this trend went into reverse in late 2024 (see figure I.68).

Figure I.67

Latin America (9 countries): difference between actual monetary policy rates and the neutral interest rate, June 2023 and May 2025
(Percentage points)

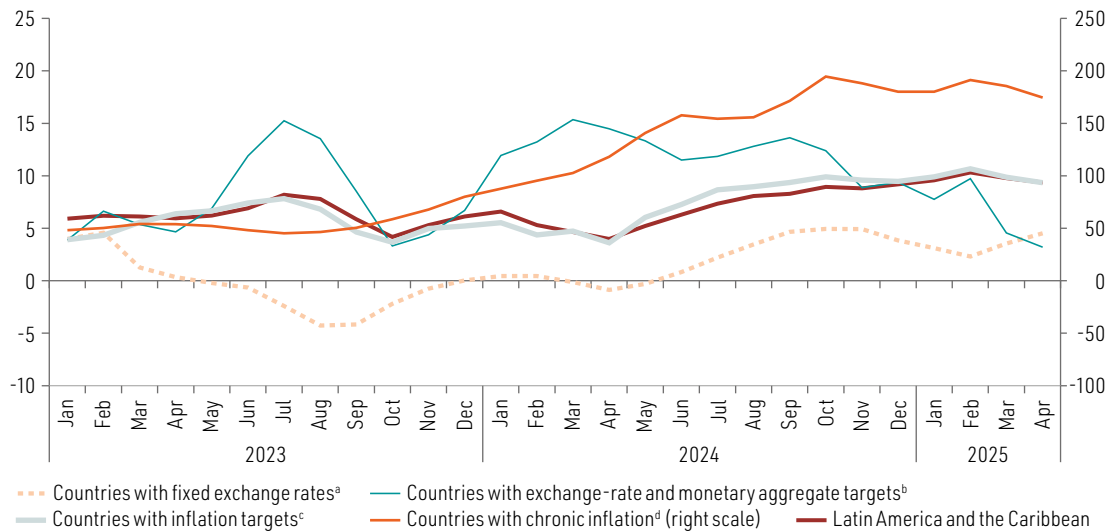


Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The rate differential is calculated with reference to the most recent estimate of the neutral interest rate by each country's monetary authorities. The range for the neutral stance is the average of the range of estimates in each country.

Figure I.68

Latin America and the Caribbean (23 countries): year-on-year growth in the monetary base, quarterly moving averages, January 2023 to April 2025
(Percentage points)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Bahamas, Barbados, Belize, Ecuador, El Salvador and Panama.

^b Honduras, Nicaragua and Trinidad and Tobago.

^c Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Jamaica, Mexico, Paraguay, Peru and Uruguay.

^d Argentina, the Bolivarian Republic of Venezuela and Suriname.

In the case of countries with fixed exchange rates, slowing growth in the monetary base has reflected the impact of financial volatility and the rise in United States Treasury bond yields, leading to tighter external financial conditions. As for countries with chronic inflation, such as Argentina, the slowdown

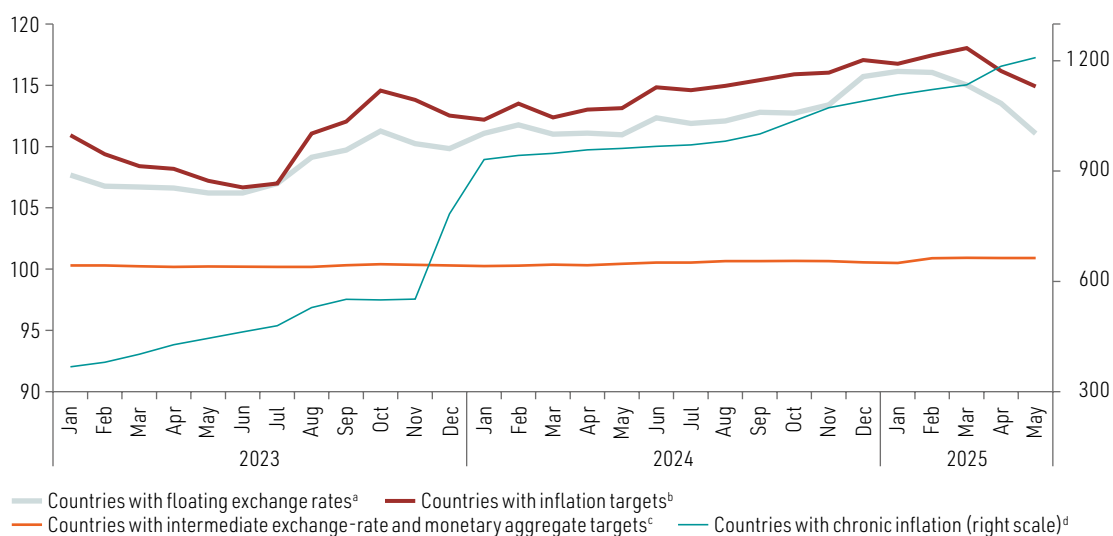
since mid-2024 has been associated with public spending cuts. At the same time, countries with exchange-rate and monetary aggregate targets have seen a slowdown in the growth of their monetary base that began in mid-2024 and intensified from the first quarter of 2025.

7. Interest-rate differentials with developed countries led to the region's currencies depreciating in 2024

In 2024, the Latin American and Caribbean countries with floating exchange-rate regimes experienced a strong trend towards currency depreciation. This phenomenon, which intensified in the last quarter of 2024 and continued into the first quarter of 2025, was particularly marked in countries with inflation targets or chronic inflation and less so in those that targeted monetary aggregates (see figure I.69).

Figure I.69

Latin America and the Caribbean (20 countries): nominal exchange rates, medians by country grouping, January 2023 to April 2025
(Index: December 2019 = 100)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a The Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru, Suriname, Trinidad and Tobago and Uruguay.

^b Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru and Uruguay.

^c Guyana, Nicaragua, the Plurinational State of Bolivia and Trinidad and Tobago.

^d Argentina, the Bolivarian Republic of Venezuela, Haiti and Suriname.

As for the group of countries with floating exchange rates, depreciation was mainly associated with a narrowing of the interest-rate differential between the region's central banks and those of the developed economies, especially the United States Federal Reserve. However, a slower pace of rate cutting, with even some increases, moderated capital outflows and eased the pressure on nominal exchange rates. Exchange-rate depreciation in the last quarter of 2024 and early 2025 was largely due to the strengthening of the dollar on international markets. In countries with chronic inflation, the evolution of exchange rates was determined by internal factors such as inflation expectations and the level of international reserves. A notable recent development was the easing of exchange controls in Argentina, allowing the dollar to trade freely within a crawling band on the currency market, with the aim of controlling inflation.

8. The depreciating trend of regional currencies slowed from early 2025, with some appreciating from April onward, which heightened exchange-rate volatility

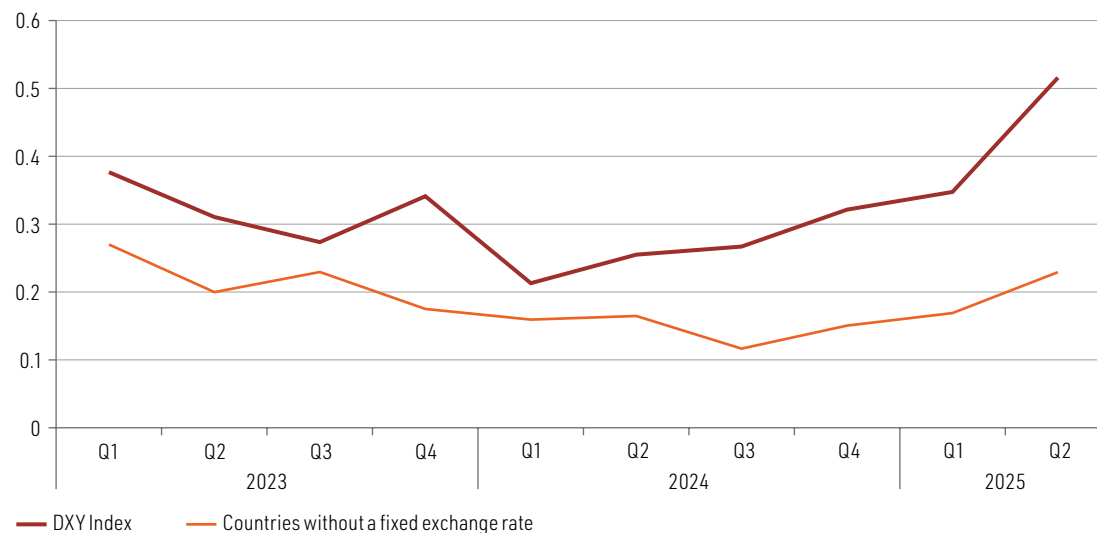
The announcement of unilateral increases in import tariffs by the United States led to international depreciation of the dollar, which intensified in April and May 2025. This contributed to appreciation of the region's currencies, although the exchange rates of the countries with chronic inflation continued to weaken owing to inflationary processes.

There are currently no factors suggesting any alteration in the regional exchange-rate trend. It remains to be seen whether the region's currencies will carry on appreciating or stabilize, as this depends on the evolution of the dollar, commodity prices and the effects of possible interest-rate cuts by the United States Federal Reserve. Even if the dollar weakens globally, the slowdown in the economy of the United States could put further pressure on the currencies of countries for which it is the main trading partner, as export revenues decline.

The lessening of uncertainty about monetary policy in the region and in developed economies led to a reduction in exchange-rate volatility from late 2022 to the third quarter of 2024. However, currency volatility in the region increased from the fourth quarter of 2024 in line with the trend of dollar volatility (see figure I.70). This increase was influenced by uncertainty in financial markets stemming from the elections in the United States, the new administration's economic measures, the announcement of tariff policies and subsequent trade negotiations, and the downgrading of the country's credit ratings. Volatility was most in evidence in countries with floating exchange-rate regimes.

Figure I.70

Latin America and the Caribbean (20 countries):^a volatility of the region's nominal exchange rates and the DXY Index, quarterly averages of daily movements, medians for the countries, first quarter of 2023 to second quarter of 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The DXY Index measures the value of the United States dollar against a basket of six international currencies.

^a Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru, Suriname, Trinidad and Tobago and Uruguay.

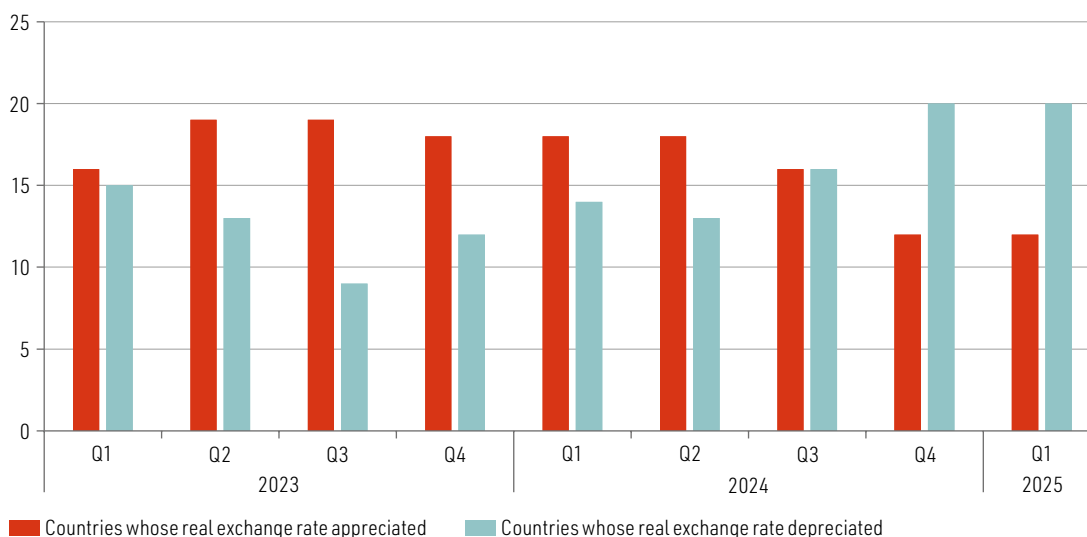
The expectation for the remainder of 2025 is that exchange-rate volatility in the region will be greater than in 2024 owing to uncertainty about the tariff policy of the United States and its effects on international trade and the value of the dollar, and to idiosyncratic factors such as the large debt burdens of some countries in the region.

9. More and more countries' currencies are depreciating in real terms

The combination of nominal depreciation and the general decline in inflation in the region has changed the dynamics of real exchange rates. While real-term currency appreciation prevailed in 2023 and much of 2024, the number of countries whose currencies have depreciated in real terms has increased since the last quarter of 2024 and the first quarter of 2025 (see figure I.71), which may boost foreign trade.

Figure I.71

Latin America and the Caribbean (32 countries):^a countries whose real exchange rates appreciated or depreciated, first quarter of 2023 to first quarter of 2025
(Numbers)



Source: Economic Commission for Latin America and the Caribbean.

^a Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago and Uruguay.

In 2023 and through the first half of 2024, real-term depreciation was mainly seen in countries with fixed exchange rates because inflation there was low in comparison with their trading partners. Since the third quarter of 2024, the weakening of nominal exchange rates in countries with inflation targets has entailed real-term depreciation in most. However, the recent trend towards nominal appreciation could reverse this trend, portending a return to real-term appreciation in the region, except in economies with chronic inflation.

Given the outlook for nominal exchange rates, which are expected to appreciate in most of the countries (the exceptions being those with chronic inflation), and a stable inflation trend, it is possible to predict that the overall trend in the region will again be one of real-term appreciation.

10. Net international reserves in Latin America and the Caribbean increased again in 2024, a trend that continued into 2025

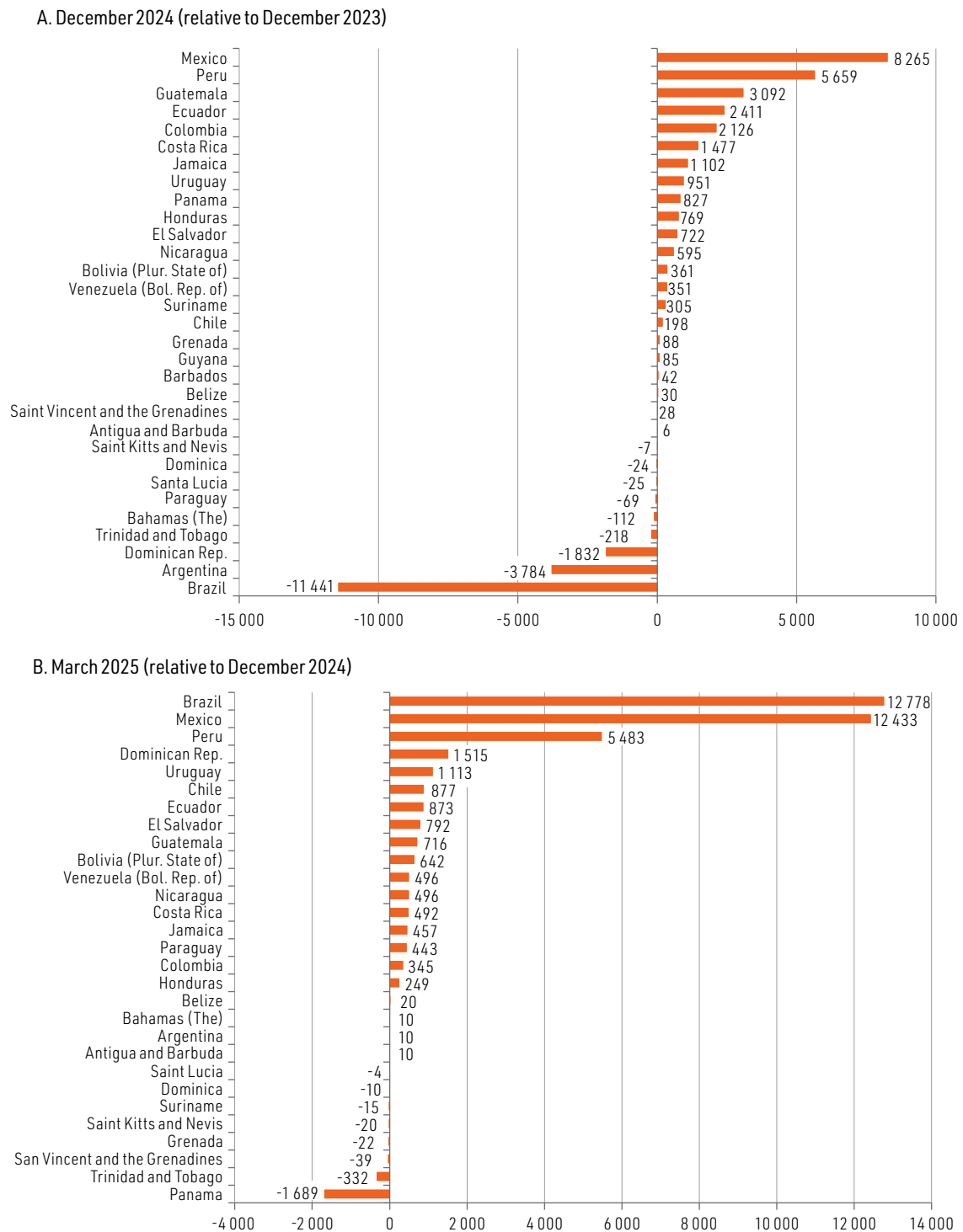
Following the decline in net international reserves in 2022, the region began a process of international asset accumulation. Reserves rose from US\$ 806.61 billion at the end of 2022 to US\$ 831.747 billion in 2023, US\$ 846.55 billion in 2024 and US\$ 877.862 billion at the end of the first quarter of 2025.

The rise in net international reserves has mainly been due to central banks' strategy of strengthening their positions in the face of the financial and economic uncertainty that has prevailed since late 2024

(see figure I.72). This accumulation has allowed a number of countries to increase their import coverage. However, some countries, such as Brazil and Paraguay, drew on their reserves to stabilize their currencies in the fourth quarter of 2024.

Figure I.72

Latin America and the Caribbean (31 countries): changes in net international reserves, December 2024 and March 2025
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Other factors that have contributed to the build-up of reserves include an increase in the value of exports and growth in demand for services, especially tourism-related services in the case of the Caribbean, where there has also been an increase in foreign investment flows, particularly in hotel construction. Increased remittances have benefited Central American countries and Ecuador. In addition, agreements between countries and international organizations, such as those reached by Argentina and El Salvador with the International Monetary Fund (IMF) and Suriname with the World Bank, have helped to strengthen reserves. Table I.5 summarizes the main factors contributing to the increase in international reserves in the region and identifies the countries that have benefited most from each factor.

Table I.5

Latin America and the Caribbean (25 countries): factors contributing to the build-up of net international reserves, 2024–2025

Factor	Countries
Rise in net exports of goods and services	Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, the Bolivarian Republic of Venezuela, Brazil, Chile, Ecuador, Grenada, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay
Profits from the management of net international reserves, financial operations with foreign currencies and asset revaluation	Barbados, Costa Rica, Ecuador, Guatemala, Jamaica, Mexico, Nicaragua and Paraguay
Increased foreign direct investment	Antigua and Barbuda, the Bahamas, Jamaica, Panama and Suriname
Remittance inflows	The Dominican Republic, Ecuador, Guatemala, Honduras and Nicaragua
Increase in financial institutions' deposits with the central bank	Costa Rica, Ecuador and Honduras
Agreements with IMF and other entities	Argentina, El Salvador and Suriname
Gold purchases	Plurinational State of Bolivia

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

If uncertainty persists in financial markets during 2025, central banks in Latin America and the Caribbean are likely to continue accumulating international reserves as a buffer against potential financial or trade turbulence that could affect exchange rates and economic sectors dependent on the external environment.

11. The tightening of external financial conditions since the fourth quarter of 2024 and the restrictive bias of monetary policy have led to higher rates in the financial system

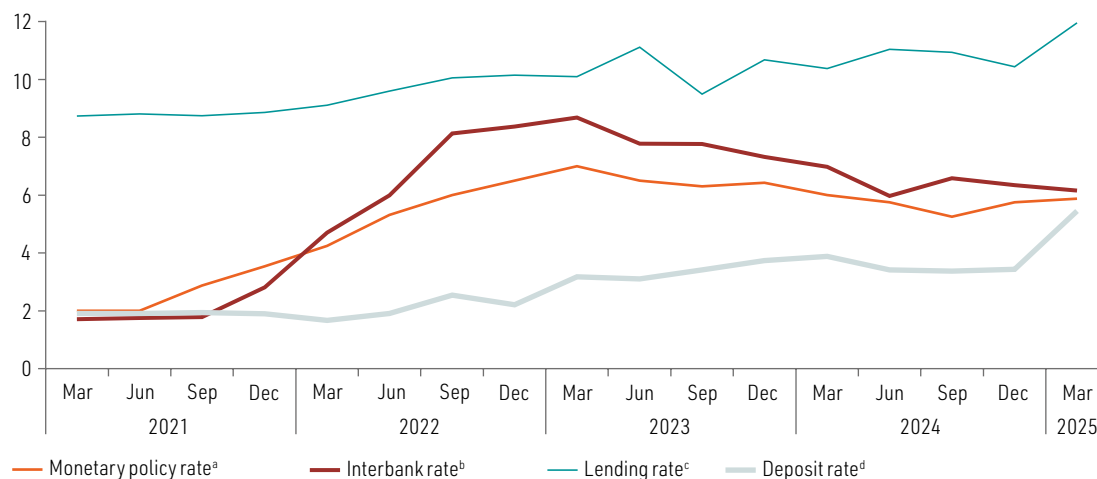
In the financial sphere, several factors have resulted in a tightening of external conditions. First, the imposition and escalation of tariffs caused a risk preference shock in the markets, encouraging cautious behaviour that limited access to financing for emerging economies and put upward pressure on long-term interest rates. Second, the prevailing expectation in the second half of 2024 of a more rapid pace of monetary easing in the region than in other economies and the resulting currency depreciation reduced incentives for foreign investment and financing. This effect was further reinforced by the downward revision of regional growth forecasts.

In this context, lending and deposit rates in the banking system responded quickly to monetary policy guidance, rising by 150 and 210 basis points, respectively, between December 2024 and March 2025. The greater increase in deposit rates than in lending rates restored the average financial rate differential that had historically prevailed and prevented an excessive build-up of credit risk.

At the same time, interbank rates tended to converge on the monetary policy rate as the liquidity levels of financial intermediaries rose. This liquidity was driven both by the implementation of the Basel III regulations and by voluntary decisions taken in response to growing uncertainty and volatility in capital markets (see figure I.73).

Figure I.73

Latin America and the Caribbean (24 countries): nominal bank and monetary interest rates, March 2021 to March 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, the Bahamas, Barbados, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru, Trinidad and Tobago and Uruguay.

^b Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Peru, the Plurinational State of Bolivia and Trinidad and Tobago.

^c Argentina, Bahamas, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Suriname, Trinidad and Tobago and Uruguay.

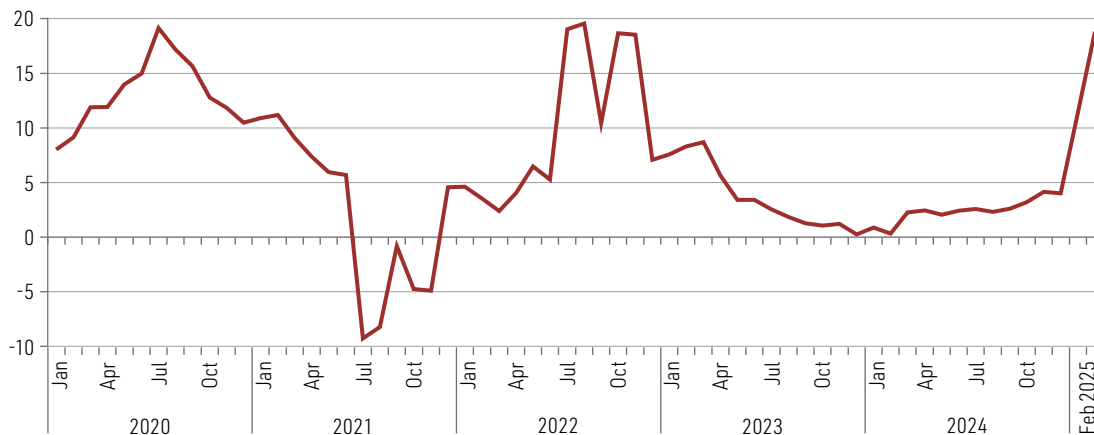
^d Argentina, the Bahamas, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Suriname and Uruguay.

12. Net domestic credit has responded to the region's public and private financing needs, picking up strongly in the first two months of 2025

The tightening of external financial conditions gave the countries an incentive to meet public and private financing needs mainly from domestic sources. Thus, net domestic credit growth, which averaged 2.1% in nominal terms in 2024, had accelerated to 11.4% by February 2025 (see figure I.74). Most of this growth was in the public sector, which restructured its financing sources to meet the growing demand for resources for interest payments and the associated exchange-rate risks (see figure I.75). Meanwhile, lending to the private sector regained its pre-pandemic momentum.

Figure I.74

Latin America and the Caribbean (25 countries):^a annual growth in the regional net domestic credit index, January 2020 to February 2025
(Percentages)



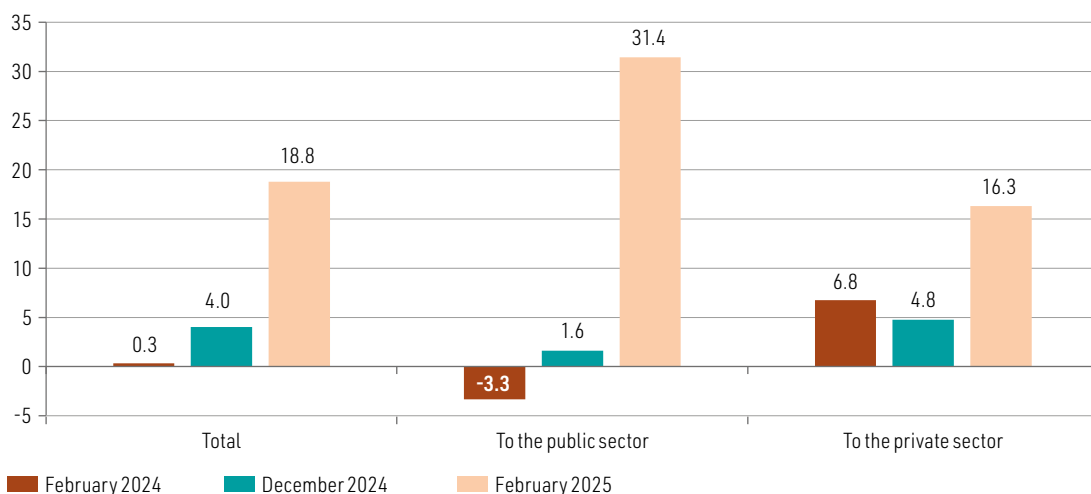
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The index represents the median of individual net domestic credit subindices in nominal terms, constructed with the 2010–2012 financial cycle as the baseline.

^a Antigua and Barbuda, Argentina, Barbados, Belize, Brazil, Chile, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Uruguay.

Figure I.75

Latin America and the Caribbean (25 countries):^a annual growth in nominal net domestic lending, by component, February 2024 to February 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Antigua and Barbuda, Argentina, Barbados, Belize, Brazil, Chile, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Uruguay.

13. The combination of economic recovery and rising interest rates in South America and the Caribbean in 2024 boosted deposit growth in the banking sector, especially in foreign currency

The economic recovery in South America and the Caribbean during 2024 and the recent increase in deposit rates supported financial system deposits (see figure I.76). Nominal year-on-year deposit growth was 13.8% as of March 2025.

Figure I.76

Latin America and the Caribbean (17 countries):^a annual growth in the regional index of total financial system deposits, March 2019 to March 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

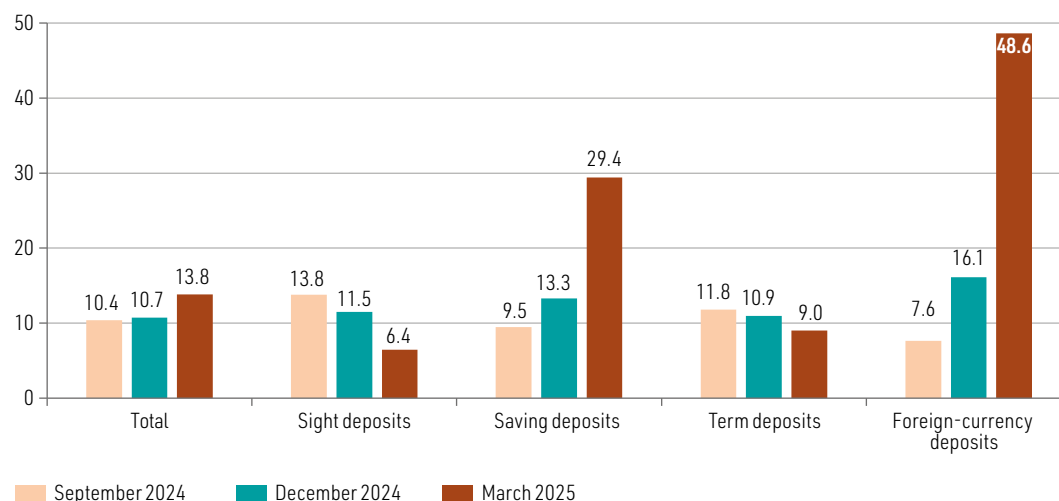
Note: The index represents the median of individual financial system deposit subindices in nominal terms, constructed with the 2010–2012 financial cycle as the baseline.

^a Argentina, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, Suriname and Uruguay.

As regards the composition of deposits, the significant currency depreciation faced by most regional economies in the second half of 2024 led households to protect the value of their savings by purchasing dollars. Thus, foreign-currency deposits led growth in the first quarter of 2025, with a year-on-year rate of increase exceeding 40%. At the same time, global uncertainty and weaker growth prospects encouraged a greater preference for semi-liquid deposits, such as saving deposits (see figure I.77).

Figure I.77

Latin America and the Caribbean (17 countries):^a annual growth in financial system deposits, by component, September 2024 to March 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, Suriname and Uruguay.

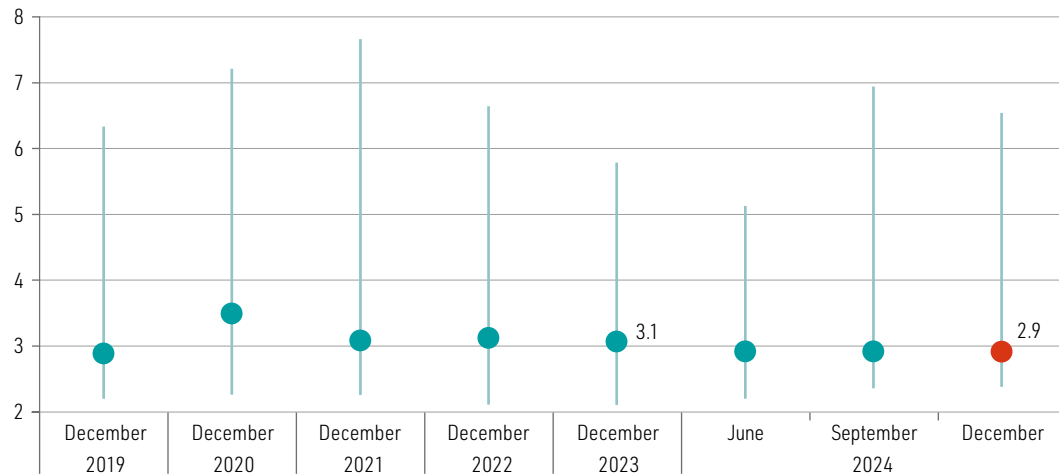
14. High levels of uncertainty led banks to increase their liquidity coverage ratios and shore up their regulatory capital

The decline in lending rates during the second half of 2024, combined with greater economic dynamism and the prudential practices adopted by financial institutions for new lending, contributed to a small reduction in non-performing loans. Specifically, between December 2023 and December 2024, the proportion of loans that were more than 90 days overdue fell from 3.1% to 2.9% of the overall portfolio. Although dispersion between countries increased, most were at the bottom end of the scale, with relatively low levels of non-performing loans (see figure I.78).

At the same time, financial system liquidity increased in 2024 as deposits grew by more than loans and a number of countries adapted to the higher liquidity coverage ratios required by Basel III. In addition, financial institutions voluntarily built up liquid assets in response to growing global uncertainty and changes in risk preferences in the markets. Thus, most of the countries adopted a cautious stance and were positioned at the upper end of the liquidity sample distribution, without their dispersion widening (see figure I.79).

Figure I.78

Latin America and the Caribbean (20 countries):^a regional portfolio quality index for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024
(Percentages)



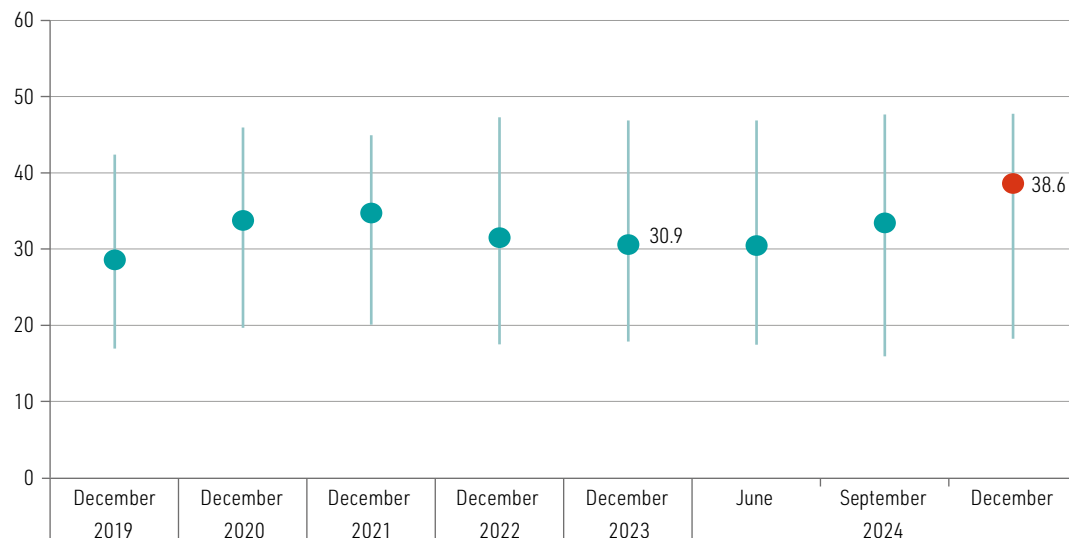
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The index represents the value of non-performing loans (i.e., those with interest or principal payments that are 90 or more days overdue) as a proportion of the total value of the loan portfolio (including non-performing loans and before deduction of special provisions for insolvencies).

^a Antigua and Barbuda, Brazil, Chile, Colombia, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Suriname.

Figure I.79

Latin America and the Caribbean (20 countries):^a regional liquidity index for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

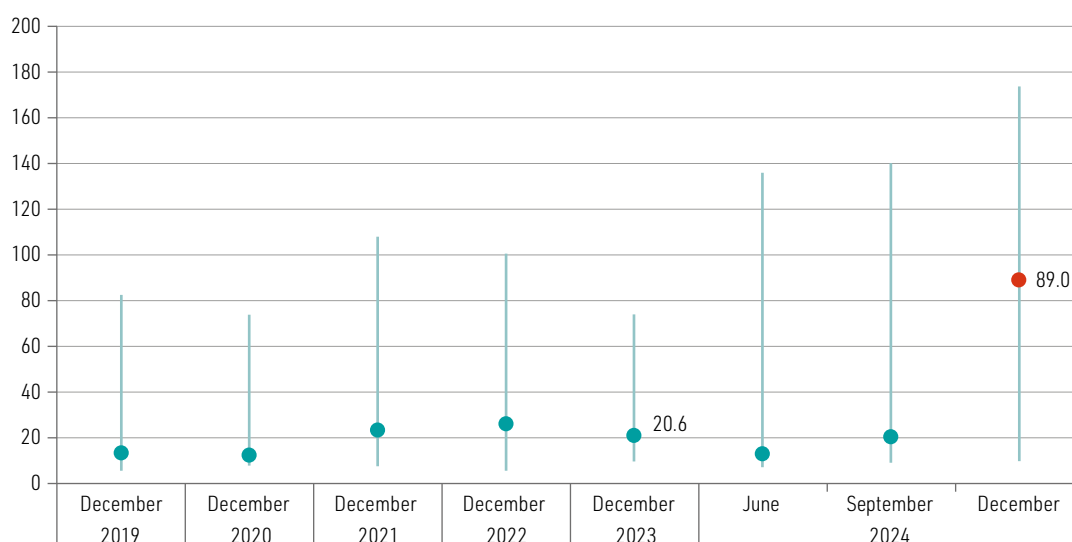
Note: The index represents liquid assets as a proportion of total assets.

^a Antigua and Barbuda, Brazil, Chile, Colombia, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Suriname.

The significant depreciations experienced by a number of economies in the second half of 2024 not only prompted households to protect their savings by converting them into dollars, but led financial intermediaries to modify the currency composition of their assets. In fact, the latter's acquisitions of dollar-denominated assets exceeded the dollar deposits they received. Other things being equal, this leaves the region's banks more exposed to currency risk, which could have implications for their stability in the event of sharp fluctuations in the dollar exchange rate. There is greater dispersion between the countries on this indicator, suggesting that some intermediaries are more dollarized than others (see figure I.80).

Figure I.80

Latin America and the Caribbean (20 countries):^a regional index of market risk sensitivity for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024 (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The index represents the mismatch between foreign-currency assets and liabilities as a proportion of total regulatory capital or Tier 1 capital.

^a Antigua and Barbuda, Brazil, Chile, Colombia, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Suriname.

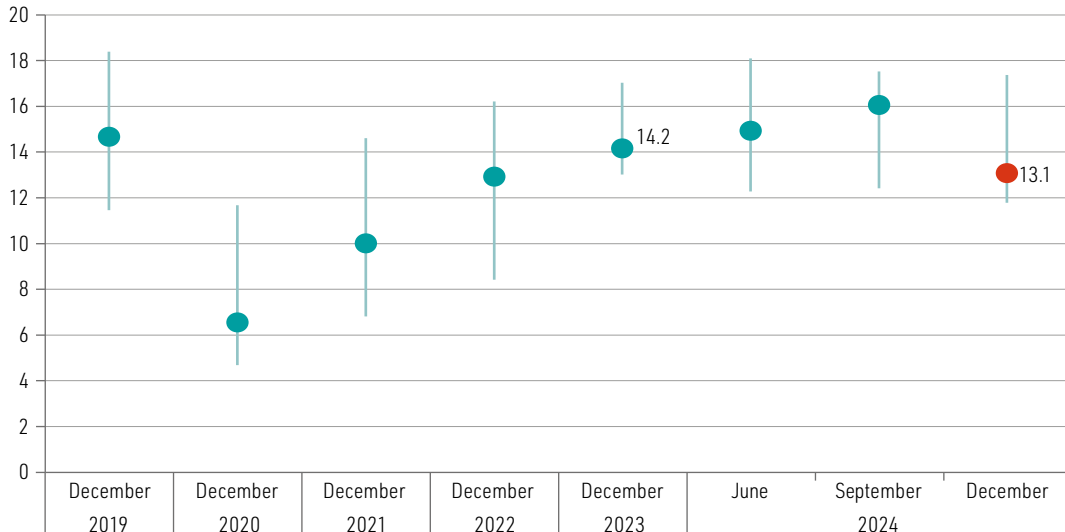
Despite stronger credit growth and lower delinquency rates, financial system profitability declined in 2024. The main factor was the narrowing of the spread between lending and deposit rates, which fell back to near its historical average after a period of restrictive monetary policy (see figure I.81).

Lastly, in accordance with international standards, financial intermediaries in the region have adequate capital to cope with potential adverse scenarios. As of December 2024, regulatory capital represented 16.7% of risk-weighted assets (see figure I.82).⁴²

⁴² Under the Basel III agreements, banks must maintain minimum total capital equivalent to 8% of their risk-weighted assets. A minimum of 4.5% of these assets must be the highest-quality capital, primarily common stock and retained earnings, and a minimum of 1.5% must be additional Tier 1 capital, which includes preferred stock and convertible bonds. The remainder of regulatory capital may be Tier 2, which includes subordinated debt and voluntary provisions. Basel III also provides for two additional liquidity coverage ratios that must be covered by the highest-quality capital: a capital conservation buffer equivalent to 2.5% of risk-weighted assets, and a countercyclical capital buffer equivalent to up to 2.5% of risk-weighted assets, depending on the economic situation of each country.

Figure I.81

Latin America and the Caribbean (20 countries):^a regional profitability index for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024
(Percentages)



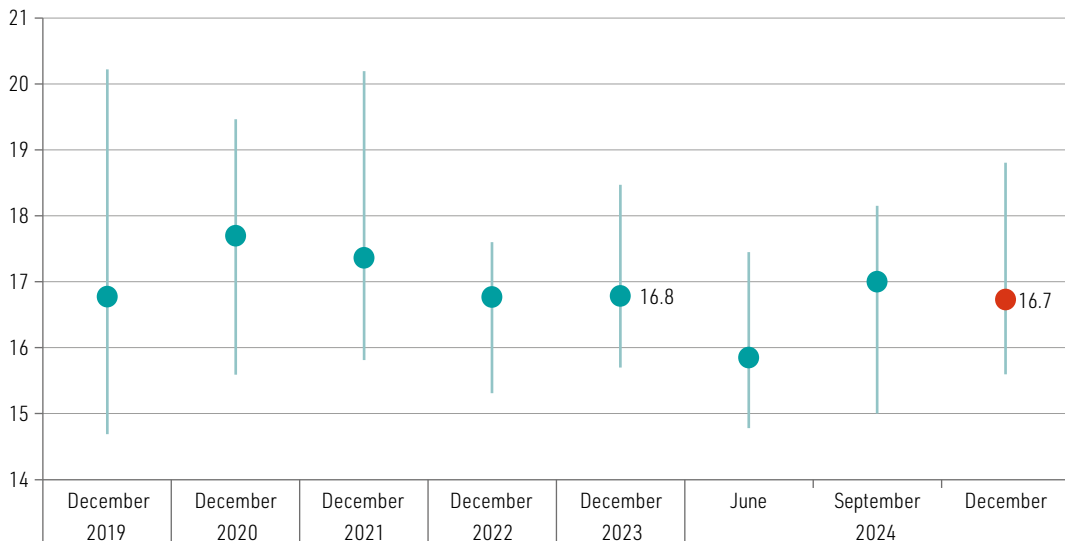
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The index represents the operating margin as a proportion of equity.

^a Antigua and Barbuda, Brazil, Chile, Colombia, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Suriname.

Figure I.82

Latin America and the Caribbean (20 countries):^a regional capital adequacy index for depository institutions in the financial system, medians and interquartile ranges, December 2019 to December 2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The index represents total regulatory capital as a proportion of risk-weighted assets.

^a Antigua and Barbuda, Brazil, Chile, Colombia, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Suriname.

15. The global environment has created significant challenges for the conduct of monetary, exchange-rate and prudential policies in Latin America and the Caribbean

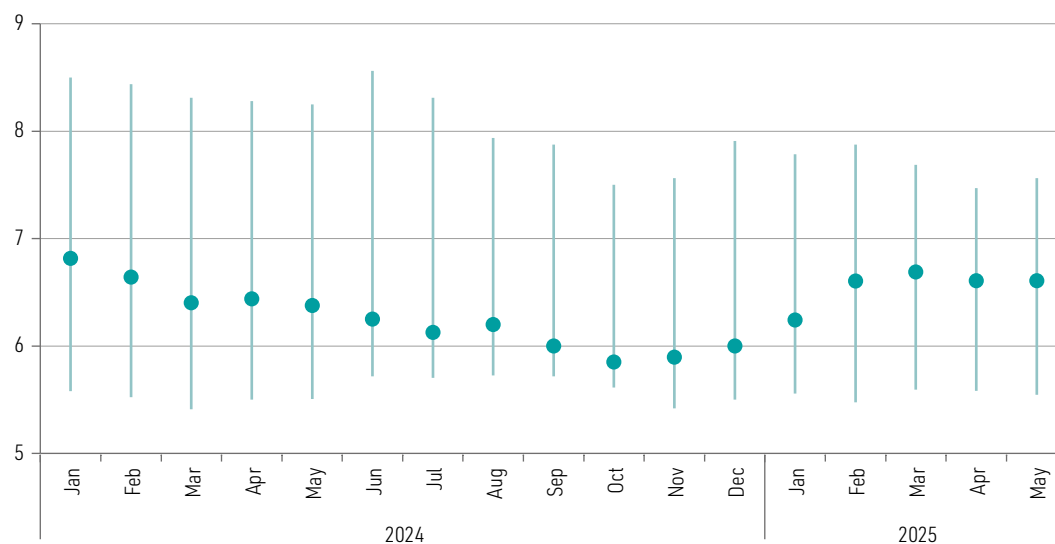
The scope for monetary policy action remains limited and constrained, as the main central banks in developed economies, particularly the United States Federal Reserve, face an uncertain scenario that makes it difficult to predict the timing and magnitude of future adjustments.

The short-term inflation outlook remains vulnerable to external shocks. In this context, monetary policy decision-making requires conflicting signals to be interpreted. On the one hand, caution is needed in the face of possible increases in inflation expectations. On the other, the slowdown in global trade and lower demand from key partners such as the United States could justify further monetary easing to boost the dynamism of the region's economies.

These factors are reflected in the evolution of median 12-month monetary policy rate expectations, pointing to a tightening stance from the fourth quarter of 2024 and stabilization of rates at current levels from the second half of 2025 (see figure I.83). However, expectations vary widely between countries.

Figure I.83

Latin America and the Caribbean (7 countries):^a 12-month monetary policy rate expectations, medians and interquartile ranges, January 2024 to May 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Brazil, Chile, Colombia, the Dominican Republic, Mexico, Paraguay and Peru.

One of the main sources of uncertainty relates to the imposition of import tariffs by the United States. According to the recent literature, to minimize their effect on household welfare, monetary policy should adopt an expansionary stance (Bergin and Corsetti, 2023, 2025; Bianchi and Coulibaly, 2025; Monacelli, 2025), especially in countries with floating exchange rates.

It is important to mention that easing monetary policy under these conditions would stimulate employment and economic activity through nominal depreciation, which seeks to counteract the distorting effect of tariffs on relative prices. However, this would lead to an increase in inflation in the short term, so the scope for easing policy is conditioned by the stability of inflation expectations over the policy horizon (24 months), in accordance with the targets set by central banks.

Where exchange rates are concerned, as long as the dollar continues to depreciate against other international currencies, mainly those of developed countries, Latin American and Caribbean currencies are likely to continue to appreciate, either at much the same pace as before or more quickly. This trend would be bolstered if commodity prices remained high and, in the case of China's trading partners, if demand from China improved. In the specific case of countries whose main trading partner is the United States, on the other hand, the trend would be reversed in the event that economic activity in that country weakened.

Furthermore, there is no sign at present of any factors conducive to a decrease in exchange-rate volatility, given the uncertainty surrounding the evolution of United States tariff policy and the measures adopted by the affected countries in response, since the international exchange rate of the dollar is significantly impacted whenever new information appears on the subject, and such reactions therefore look likely to continue.

As for international reserves, continuing market uncertainty makes it likely that central banks will wish to keep building these up as a precaution against potential financial or trade turbulence that could affect the region's exchange rates and economic sectors reliant on external demand.

Regarding macroprudential policy in an uncertain environment, there are several possible areas of action. The combination of high levels of leverage among households and governments, slowing economic activity and high interest rates sustained over a long period increases the likelihood of various financial risks materializing, making it necessary for regulators to establish higher liquidity and capital coverage ratios. Similarly, supervisory processes need to be strengthened and invigorated, particularly for non-bank financial intermediaries and systemically important institutions.

Coordination and integration of exchange-rate, monetary, fiscal and macroprudential policies is essential to prevent potential downturns from feeding back into a financial spiral, given that a series of major shocks to financial intermediaries in the last few years may have limited their capacity to respond in a more polarized environment. Thus, the timely provision of liquidity and other types of intervention by central banks as lenders of last resort could become important in extreme scenarios.

F. Economic projections and prospects for Latin America and the Caribbean in 2025 and 2026

1. If projections for 2025 and 2026 materialize, real GDP growth in the region will have remained low, at around 2.3%, for four years running

Latin America and the Caribbean is caught in a trap of low capacity for growth, with real GDP growth projected to decline from 2.3% in 2024 (a figure similar to that of 2023) to 2.2% in 2025 before rising back to 2.3% in 2026 (see table I.6). These estimates imply an upward revision to the growth forecast for 2025 compared with the figure announced in April (2.0%), reflecting a better than expected performance in the first quarter of the year.

Table I.6

Latin America and the Caribbean: real GDP growth projections, 2025–2026
(Percentages)

	2025	2026
Latin America and the Caribbean	2.2	2.3
Latin America	2.1	2.2
South America	2.7	2.4
Argentina	5.0	4.0
Bolivia (Plurinational State of)	1.5	1.1
Brazil	2.3	2.0
Chile	2.4	2.2
Colombia	2.5	2.7
Ecuador	1.5	2.1
Paraguay	4.0	4.0
Peru	3.1	2.9
Uruguay	2.8	2.5
Venezuela (Bolivarian Republic of)	2.0	2.0
Central America	2.7	3.4
Central America and Mexico	0.9	1.7
Costa Rica	3.5	3.7
Cuba	-1.5	0.1
Dominican Republic	4.5	4.8
El Salvador	2.4	2.7
Guatemala	3.6	4.0
Haiti	-2.3	-1.0
Honduras	3.2	3.8
Mexico	0.1	1.0
Nicaragua	3.1	3.4
Panama	4.2	4.6
The Caribbean	4.1	7.8
The Caribbean (excluding Guyana)	1.8	1.7
Antigua and Barbuda	3.5	3.0
Bahamas (The)	1.8	1.7
Barbados	2.6	1.8
Belize	1.5	2.5
Dominica	2.5	3.0
Grenada	3.5	3.0
Guyana	10.3	23.0
Jamaica	1.3	1.2
Saint Kitts and Nevis	1.0	2.5
Saint Lucia	2.5	2.6
Saint Vincent and the Grenadines	4.0	3.0
Suriname	3.2	3.5
Trinidad and Tobago	1.5	1.2

Source: Economic Commission for Latin America and the Caribbean.

Note: Based on information to 30 June 2025.

In South America, the 2.7% growth forecast for 2025 is mainly attributable to Argentina and Ecuador, which are expected to see positive growth rates in 2025 after contracting in 2024. In addition, growth in Colombia has accelerated substantially, supported by improved private consumption and investment as a result of lower interest rates and declining inflation, while Paraguay is expected to expand by 4.0%. For the other countries, average growth is expected to be a percentage point lower in 2025 than in 2024. In 2026, South America will remain on a low growth path, with a projection of 2.4%.

In Central America and Mexico, GDP is expected to expand by 0.9% in 2025, half the 1.8% recorded in 2024. This subregion has been the most affected by the weakening of aggregate external demand, particularly from the United States. Economies such as the Dominican Republic, Guatemala and Panama will be relatively resilient in 2025, with growth rates above 3.5%, thanks to the dynamics of the service sector, the behaviour of private consumption and rising remittances. In other cases, such as Mexico, weakening external demand has led to a downward revision of the growth rate. Although growth in the subregion is expected to remain low in 2026, it should recover to 1.7%. However, it remains highly vulnerable to potential external shocks, given its structural dependence on the United States business cycle in the areas of trade, finance and migration, and to the possible adverse effects of climate change.

Lastly, the growth rate in the Caribbean (excluding Guyana) is expected to be 1.8% in 2025, a significant slowdown from the 2.6% of 2024, owing to the normalization of tourist flows and the anticipated slowdown in global demand for services.⁴³ In addition, the subregion is likely to continue to have high spending levels, in particular because of its level of energy imports, its transport costs and its extreme exposure to natural disasters, which will put pressure on its external position and debt situation.

A similar level of growth (1.8%) is anticipated for the Caribbean (excluding Guyana) in 2026. In the case of Guyana, growth rates are expected to remain robust in 2025–2026, as they have been since 2020, thanks to investments in the hydrocarbon sector.

The outlook for 2025 and 2026 is one of potentially heightened risks from the international context, particularly those stemming from geopolitical tensions, the proliferation of protectionist measures and the synchronized slowdown in emerging markets. In addition, if financial volatility increased suddenly in response, as it did in the second quarter of the year, the resulting changes in international monetary conditions could impact capital inflows into the region. The net effect will depend on how financial and real transmission channels operate, and their magnitude.

2. Private consumption, the main driver of growth, is slackening

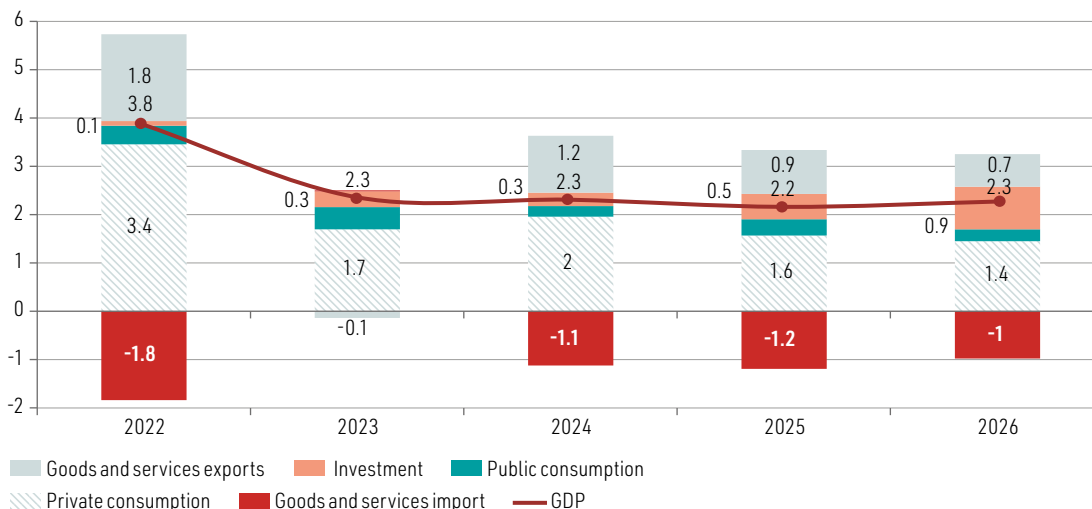
One of the key factors in the low growth expected for the coming years is private consumption, a variable that is expected to lose momentum in the region's economies. As figure I.84 shows, consumption is the component that has been contributing most to GDP growth, accounting for more than half the total. In fact, of the 2.3% GDP growth seen in 2024, private consumption contributed 2 percentage points. For 2025 and 2026, private consumption is expected to contribute 1.6 and 1.4 percentage points to GDP growth of 2.2% and 2.3%, respectively. Similarly, the contribution of public consumption to GDP growth in 2024 fell to less than half the previous year's level and will remain weak in 2025 and 2026.

Meanwhile, the contribution of investment will increase from 0.3 percentage points in 2023 and 2024 to 0.5 and 0.9 percentage points in 2025 and 2026, respectively. Over the 2025–2026 biennium, by contrast, the contribution of net exports (exports minus imports) will once again be negative.

⁴³ See WTO (2025).

Figure I.84

Latin America: contribution of expenditure components to GDP growth, 2022–2026
(Percentages)



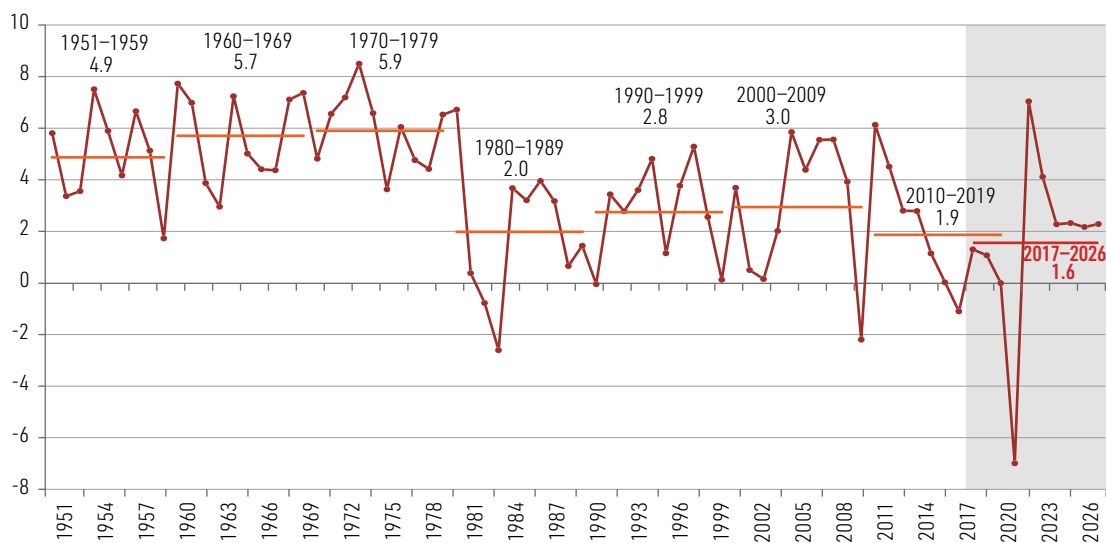
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: Data for 2025 and 2026 are projections.

As a result, GDP projections for 2025 and 2026 tend to conform to a pattern of moderate regional growth that will remain below its historical average (see figure I.85). Real-term growth will be insufficient to reverse the region's social, formal employment and investment gaps, so that its exposure to global financial cycles and shocks will be heightened. In addition to adverse external factors, domestic constraints limit the responsiveness of aggregate demand, while policy space is shrinking.

Figure I.85

Latin America and the Caribbean: GDP growth rates, by decade, 1951–2026
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

3. The macroeconomic situation in 2025–2026 will be marked by an unfavourable international environment, which will limit external support for regional growth

The international outlook for 2025 and 2026 indicates a moderation in the global economic cycle in consequence of a number of simultaneous shocks (geoeconomic fragmentation, still restrictive financial conditions, weakening international trade and armed conflicts, among others) which are tending to put a check on any sustained expansion in global aggregate demand (see table I.7). Global GDP growth is projected to slacken to 2.8% in 2025 and stabilize at around 3.0% in 2026 as the result of a synchronized slowdown in both advanced and emerging and developing economies. Similarly, international trade is expected to lose momentum, with global trade in goods and services growing by only 1.7% in 2025 and 2.4% in 2026.

Table I.7

Latin America and the Caribbean: main external indicators, 2024–2026
(Percentages)

Real GDP (annual changes)	2024	2025	2026
World	3.3	2.8	3.0
Advanced economies	1.8	1.4	1.5
Emerging and developing economies	4.3	3.7	3.9
Trade indicators (annual changes)	2024	2025	2026
Volume of world goods and services trade	3.6	1.7	2.4
Goods and services export prices			
China	-5.9	-0.5	-0.5
United States	0.9	2.1	1.5
Canada	1.2	2.9	2.2
Germany	0.9	2.0	1.3
Goods and services import prices			
China	0.9	0.6	0.5
United States	0.7	1.5	2.3
Canada	2.2	3.3	2.2
Germany	-0.4	2.8	1.3
International commodity prices (annual changes)	2024	2025	2026
Aggregate index	-2.7	-12.4	-4.8
Energy index	-5.1	-17.4	-5.9
Food index	-7.6	-7.0	-0.9
Base metals index	4.7	-9.3	-2.5
Precious metals index	22.3	33.0	-0.9
Inflation	2024	2025	2026
Global inflation	4.9	4.0	3.4
Advanced economies ^a	2.5	2.5	2.1
Emerging and developing economies	6.6	5.1	4.2
Benchmark interest rate (end of period)	2024	2025	2026
United States	4.5	4.0	3.4
Eurozone (deposit facility rate)	3.0	1.8	1.8
United Kingdom	4.75	4.0	3.5
Japan	0.25	0.75	1.25

Source: Economic Commission for Latin America and the Caribbean, on the basis of information from World Bank (June 2025); Organisation for Economic Co-operation and Development (June 2025); Department of Economic and Social Affairs (May 2025); International Monetary Fund (April 2025); UN Comtrade Database; International Trade Centre (ITC) and Trading Economics.

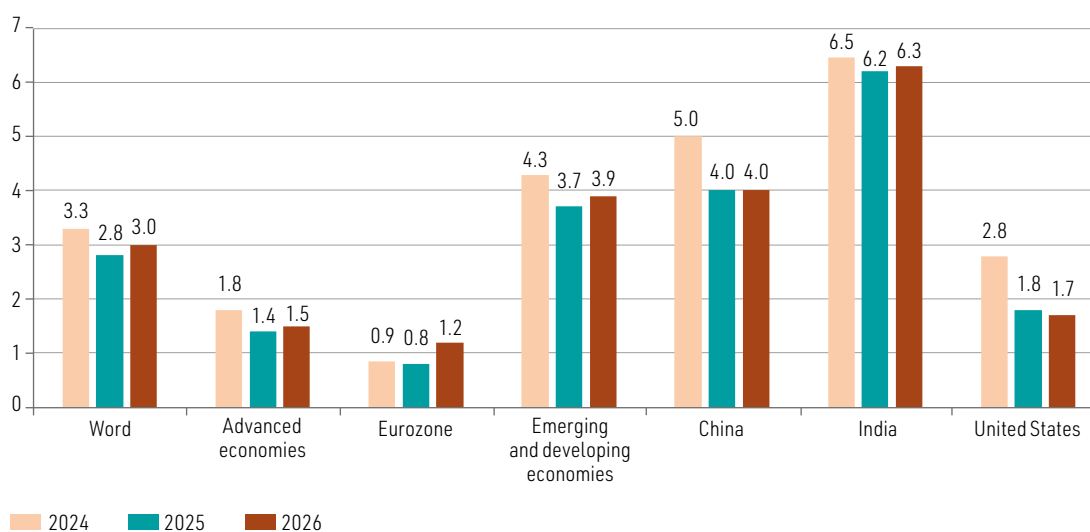
Note: Data for 2025 and 2026 are projections.

^a Group of Seven (G7) countries.

With regard to the region's main trading partners, a sharp slowdown in growth is anticipated in the United States, down from 2.8% in 2024 to 1.8% in 2025 and 1.7% in 2026, with the negative effects of rising tariffs impacting consumption, investment and foreign trade, despite a resilient labour market. Eurozone growth will remain moderate (0.8% in 2025 and 1.2% in 2026), affected by trade and fiscal uncertainty. A slight recovery is expected from 2026 onward, driven by private consumption and lower inflationary pressures, although large fiscal risks remain, especially in Germany. China, meanwhile, is expected to grow by about 4% in the 2025–2026 biennium, below the official target of 5%. The country will continue to face persistent deflation, despite fiscal and monetary stimulus measures, while trade tensions and weakness in the real estate sector will continue to affect domestic demand (see figure I.86).

Figure I.86

Selected regions and countries: GDP growth rates, 2024 and projections for 2025 and 2026
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Monetary Fund.
Note: Based on information to 30 June 2025.

Where international commodity prices are concerned, a gradual decline is expected as a result of movements in the aggregate commodity index (-12% in 2025 and -5% in 2026), largely driven by an anticipated fall in energy and food prices. Precious metals, such as gold and silver, will be the only ones to maintain an upward trend in 2025, thanks to their role as safe haven assets in times of high uncertainty.

In the financial and monetary sphere, although a slowdown is expected, global liquidity should remain on a positive trajectory in 2025, albeit with a clear divergence between the major economies in terms of monetary policy normalization, which is expected to be gradual and still incomplete. Specifically, the Federal Reserve kept its monetary policy unchanged during the first half of the year, while the European Central Bank and the Bank of England began to make moderate rate cuts. For its part, the Bank of Japan adopted a more restrictive stance for the first time since the global financial crisis. This lack of synchronization reflects growing heterogeneity in the conduct of monetary policy between the advanced economies and creates uncertainty about international financial conditions for the second half of 2025 and for 2026, especially as regards developing countries' access to external financing.

In this context, the dollar has gradually depreciated, despite an increase in long-term Treasury bond interest rates. However, it remains the leading international reserve currency. At the same time, geopolitical fragmentation, trade conflicts and the risks associated with climate change continue to shape an uncertain global environment in which investors are diversifying their portfolios without altogether abandoning dollar-denominated assets. In 2026, the international environment is expected to be one of lower liquidity, greater selectivity in capital flows and a possible uptick in inflation, unless the risks from supply shocks fail to materialize.

Persistently high international interest rates will put greater pressure on external debt servicing, increase risk premiums and lead to more restrictive conditions of access to financial markets, especially for economies that are highly exposed to sovereign bonds or have accumulated fiscal imbalances. Global portfolio adjustments could amplify exchange-rate volatility and trigger capital outflows, which would exacerbate the external fragility of several countries in the region. This scenario presents some pressing challenges for the economies most dependent on capital flows and favourable refinancing conditions in a financial environment marked by sudden and repeated changes in international investors' risk aversion.

4. The external sector is highly vulnerable because of rising current account deficits and greater reliance on external capital

In the period 2025–2026, the region's balance-of-payments position will remain vulnerable to the multiple risks stemming from simultaneous global shocks, such as escalating geopolitical conflicts, commodity price volatility and a synchronized slowdown in the world's major economies.

As shown in table I.8, the economic slowdown in the region's main trading partners, which are forecast to grow by an average of just 2.2% in the period 2025–2026, will limit external demand, particularly that for commodities, which is expected to grow at a rate below its historical average (1.6% in 2025 and 2.3% in 2026).

Table I.8

Latin America and the Caribbean: summary of macroeconomic indicators, 2024–2026
(Percentages)

Domestic conditions (selected indicators)	2024	2025	2026
External sector			
Current account deficit	1.0	1.1	1.3
Growth in main trading partners ^a	2.9	2.2	2.1
Demand for goods exports from Latin America and the Caribbean ^b	3.3	1.6	2.3
Rate of penetration of goods imports in Latin America and the Caribbean ^c	22.1	23.0	24.4
Terms of trade (annual change)	0.5	-0.5	-0.5
International prices of key commodities			
Brent crude (dollars/barrel)	80.7	64.0	60.0
Soybeans (dollars/ton)	462	382	386
Copper (dollars/ton)	9 142	8 200	8 000
Gold (dollars/troy ounce)	2 388	3 250	3 200
Silver (dollars/troy ounce)	28.3	33.0	34.0

Domestic conditions (selected indicators)	2024	2025	2026
Employment indicators			
Economically active population (change)	1.2	1.1	1.1
Labour participation rate	62.8	62.9	63.0
Numbers employed (change)	1.8	1.5	1.2
Unemployment rate	5.9	5.6	5.5
Labour informality rate	46.6	46.5	46.4
Inflation			
Regional inflation (median)	2.9	3.0	3.0
Main trading partners in Latin America and the Caribbean ^a	6.3	3.5	2.8

Source: Economic Commission for Latin America and the Caribbean.

Note: Values for 2025 and 2026 are projections.

^a Weighted by the volume of international trade in the period 2023–2024.

^b Calculated on the basis of 168 countries (destination markets for exports from the region) and weighted by the volume of international trade in the period 2023–2024.

^c Medians of the gross domestic demand share of imports (at constant prices) in Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru.

Likewise, the region's terms of trade and the prices of the commodities that are vital to it are projected to decline, which will have a negative impact on tax revenues, the external accounts and public investment spending.

In this context, and given the sluggishness of goods trade, a current account deficit of 1.1% of GDP is forecast for 2025, driven by net foreign-exchange outflows from trade in services and factor income payments. Although remittances continue to play a strong countercyclical role, their ability to cushion a downturn will be increasingly limited by possible changes in migration policy or the adoption of other measures by the United States, such as greater control over the sending of funds or the application of taxes and levies that make personal transfers more expensive. The deficit is expected to widen to 1.3% of GDP in 2026. Although this is the central estimate, the figure could be as high as 1.5% of GDP if impacts associated with financing costs, global logistical disruptions and inflationary pressures from supply shocks worsen. This central scenario is further complicated by asymmetries between the countries in their exposure to global shocks and their room for manoeuvre vis-à-vis the international financial cycle.

Although the current account deficit is forecast to increase in the 2025–2026 biennium, the region is expected to continue along the corrective path that it entered on in 2022, after posting deficits averaging 2.5% of GDP between 2015 and 2019. Despite this correction, the deficit continues to be weighed down by the heavy burden of net income payments abroad, which is perpetuating and reinforcing the region's dependence on external capital flows. This situation is tending to increase the risks to macrofinancial stability in an increasingly uncertain global environment (International Monetary Fund [IMF], 2025c). It also highlights the limited capacity of the countries to correct their external imbalances without resorting to large domestic adjustments, which could entail high macroeconomic and social costs.

5. Employment growth is slowing, although there have been small declines in unemployment and informality

Consistently with the dynamics of economic activity, employment growth is expected to remain low in the region's economies. The increase in the number of employed persons is projected to be smaller in 2025 and 2026 than in the past few years, with growth rates of 1.5% in 2025 and 1.2%

in 2026, representing declines of 0.3 and 0.6 percentage points, respectively, from growth in 2024 (see table I.8). Meanwhile, the labour participation rate is forecast to increase again, although, as in previous years, without returning to the levels seen before the COVID-19 pandemic, when it was 63.3%. This recovery in participation would mean the economically active population increasing in the region, but at a slower pace than in 2024.

If current dynamics in the different production sectors continue, with employment growth dominated by highly formalized sectors such as electricity, gas and water services, financial services and manufacturing, the expectation is that wage work will once again drive job creation. Thus, a further reduction in the level of informal employment is anticipated for 2025 and 2026.

The regional unemployment rate, meanwhile, is expected to be at historically low levels (around 5.6%) in 2025 and 2026. However, if labour participation levels move as predicted, regional unemployment could rise in 2026, marking a turning point from the steady decline since the pandemic.

With regard to the gaps between men and women on various labour market indicators, these are expected to remain wide, albeit, as in recent years, with slight improvements. Similarly, the female labour participation rate is projected to continue increasing, to 51.4% in 2025 and 51.7% in 2026, with the male rate continuing to decline slightly, to 74.8% and 74.7% in the same years. As for unemployment, if the sectoral dynamics of job creation since the COVID-19 pandemic continue, not only will the overall unemployment rate decline, but so will the male and female rates separately, with the latter falling faster, so that the gap on this indicator also narrows (see table I.9).

However, as with the other variables reflecting economic conditions in Latin America and the Caribbean, employment dynamics in the region may undergo major changes that would reverse the modest improvements observed recently. An adverse external environment in which the slowdown in global demand deepened, already high financial volatility increased and new inflationary pressures emerged could significantly curb investment and domestic consumption, which would limit GDP growth, job creation and, consequently, household labour income. Likewise, slower expansion in sectors with higher labour productivity and higher levels of formalization could translate into slower growth in formal employment and real average wages.

Table I.9

Latin America and the Caribbean: main labour market indicators, by sex, 2024–2026
(Percentages)

Men	2024	2025	2026
Population aged 15 and over (change)	1.18	1.30	1.10
Economically active population (change)	1.30	1.21	0.96
Total participation rate	74.87	74.80	74.70
Unemployment rate	4.96	5.00	4.90
Informality rate	54.60	54.60	54.60
Women			
Population aged 15 and over (change)	1.19	0.98	1.10
Economically active population (change)	1.63	1.20	1.59
Total participation rate	51.30	51.41	51.66
Unemployment rate	7.12	6.31	6.49
Informality rate	35.14	35.11	34.91

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: Data for 2025 and 2026 are projections.

6. Inflation is expected to remain stable and close to target, although there could be upside risks and differences between subregions

Significant progress was made with inflation in Latin America and the Caribbean during 2024 and the first half of 2025. The regional median inflation rate stabilized at around 3%, notwithstanding marked differences between countries and subregions (see table I.8). This decline in inflation was due to a combination of favourable external factors and restrictive domestic monetary policies, which played a key role in containing price pressures over 2024 and reducing them in the first half of 2025. By the end of 2025 and for 2026, the median projection is for regional inflation to remain at around 3% (see figure I.87). However, as the chart shows, the different models used indicate that inflation values are more likely to trend up than down. This is because the evolution of inflation in the second half of 2025 and in 2026 will largely depend on the ability of the countries to expand their macroeconomic room for manoeuvre in the face of potential external shocks. The trajectory of inflation at the regional level will thus be determined by how potential increases in international food and energy prices, fluctuations in the dollar on international financial markets and global financial volatility are transmitted.

Figure I.87

Latin America and the Caribbean: median annual rates of change in the consumer price index, January 2021 to June 2026
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

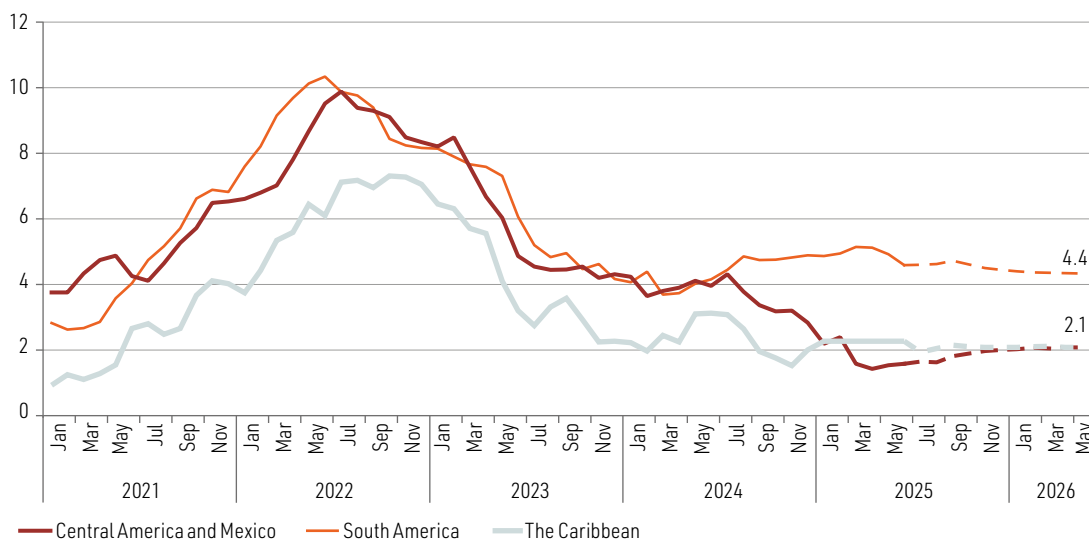
Note: Data from July 2025 to June 2026 are projections (dotted lines).

These risks could increase in the event of a resurgence of the geopolitical conflicts in the Middle East and a worsening of trade and financial tensions between the major powers, which might generate upward inflationary pressures and reverse the trend observed up to the first half of 2025. On the other hand, the chart shows that inflation could continue to fall, dropping below 3%. These scenarios may reflect weaker than expected GDP growth in a context where interest rates remain relatively high, underscoring the authorities' concern about the high level of uncertainty in international financial markets.

An analysis by subregion shows that inflation in South America will be slower to converge on the target range. Although this is expected to occur by the end of 2026, inflation rates in the short term will continue to be higher there than in the other subregions, where the medians are around 2% (see figure I.88).

Figure I.88

Latin America and the Caribbean: median annual rates of change in the consumer price index, January 2021 to June 2026
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: Data from July 2025 to June 2026 are projections (dotted lines).

Lastly, inflation in some countries with a history of chronic inflation is expected to go on declining in the coming years, continuing the recent decreases recorded in 2023 and 2024. However, inflation levels there will remain high, reflecting persistent structural imbalances. Uncertainty about the trajectory of prices is greater in these cases and will largely depend on exchange-rate movements and the availability of foreign assets, as these variables continue to play a central role in the stabilization plans of the countries concerned.

7. Medium- and long-term policies: towards a transformation of the development model

The economic projections for 2025 and 2026 in Latin America and the Caribbean and the wide margin of uncertainty highlight persistent structural tensions: (i) heavy dependence on commodities; (ii) dependence on external sources of financing, such as remittances; (iii) the weakness of productive development and trade policies aimed at diversifying the production base; (iv) the need to strengthen employment policies that promote formalization and reduce gaps between men and women; and (v) the procyclical effects of macroeconomic policies in a context of low economic dynamism. In the medium term, the region will face the challenge of pursuing macroeconomic stability and productive transformation in an increasingly uncertain international environment, which requires a long-term vision to mitigate latent risks and the region's exposure to external shocks.

The low growth projected for Latin America and the Caribbean in 2025 and 2026 underscores the challenges facing the region's economies as they seek to reconcile an unfavourable external position with a fragile domestic one, marked by weakening demand, slow recovery in employment and limited scope for promoting sustainable and inclusive development. Likewise, the macroeconomic scenario projected for the region is characterized by persistent constraints affecting the dynamism of domestic demand and by growing external vulnerability. In the current context of geo-economic fragmentation, more restrictive financial conditions and weaker global demand, Latin America and the Caribbean faces increasing challenges in maintaining a favourable external position without compromising domestic macrofinancial stability or increasing its dependence on capital flows.⁴⁴

Chapters II, III and IV of this *Economic Survey* address three fundamental dimensions related to resource mobilization with the aim of promoting policies that can foster development in the region. The first dimension is that of the fiscal and structural challenges that limit the mobilization of domestic resources; the second is the growing gap in financing for productive transformation, which requires reforms to the international financial architecture and efforts to attract private financing; and the third is the strategic role of development banks in channelling financing to key sectors. Emphasis is also placed on the fact that sustainable development can only be achieved with a transformative fiscal policy, greater private investment and renewed international cooperation, as well as strong and responsive institutions. The diagnosis and proposals chart a road map towards a new global financial covenant that can serve to close structural gaps and strengthen the region's resilience.

⁴⁴ See ECLAC (2025b) for a detailed analysis of capital flows to the region in 2024 and early 2025.

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PART



Mobilizing resources for development financing

Introduction

The economies of Latin America and the Caribbean are at a crucial juncture in their efforts to reshape their development strategies within a global context marked by great economic uncertainty, growing geopolitical tensions and an urgent need to move towards a more sustainable, inclusive and resilient production model. In this situation, the mobilization of financial resources is essential, both to sustain macroeconomic stability and to respond to the structural challenges facing the region.

The Fourth International Conference on Financing for Development, held in Seville (Spain) in 2025, which adopted the Sevilla Commitment, provided a framework of reflection and political impetus for these debates and reaffirmed the need to renew global and regional commitments with a view to mobilizing greater resources for development.

The chapters in this second part of the *Economic Survey of Latin America and the Caribbean, 2025* provided the basis for the main technical and analytical contributions that underpinned the participation of ECLAC in the conference. Taken together, these chapters address three interrelated dimensions.

Chapter II deals with the fiscal challenges that limit the mobilization of domestic resources. It emphasizes that the starting point for any development financing strategy in Latin America and the Caribbean must be a strengthened fiscal policy. Currently, the region faces a combination of public spending pressures, inadequate revenues and fragile institutional capabilities. Although the majority of the countries have overcome the most immediate fiscal effects of the pandemic, structural conditions that limit fiscal space persist: a low and regressive tax burden, high levels of tax evasion and an expenditure structure that tends to sacrifice public investment in the interests of deficit control. Tax revenues in the region, which averaged 21.3% of GDP in 2023, are well below levels in developed economies (averaging 34.0% of GDP in the countries of the Organisation for Economic Co-operation and Development (OECD) in 2022) and are heavily skewed towards indirect taxes on goods and services. This tax structure not only limits the redistributive capacity of the State, but is also highly vulnerable to fluctuations in the business cycle. This is compounded by tax evasion, which totalled US\$ 433 billion in 2023, and by tax expenditures that need to be more thoroughly evaluated, since they further erode the fiscal space available.

At the same time, spending needs are still increasing. The demographic transition, with rapid population ageing, is putting sustained pressure on health, pension and care services. Climate change requires annual investments of close to 5% of regional GDP. Persistent social inequalities and poverty necessitate more and better social spending. Yet public investment has been one of the main adjustment variables since 2020, weakening the role of the State as a driver of growth and structural change. In these circumstances, ECLAC recommends moving towards a transformative fiscal policy capable of acting as an engine of development. This must involve expanding and increasing the progressivity of tax systems, reducing tax evasion and avoidance, evaluating the costs and benefits of tax expenditures, prioritizing public investment in strategic sectors and strengthening fiscal institutions through sustainable fiscal rules, accountability mechanisms and better integration of climate risks. Only with a strengthened fiscal policy will it be possible to formulate an effective response to the manifold demands of sustainable development.

Chapter III focuses on the reforms needed to supplement efforts to mobilize public resources at the national level. Developing countries, including those of the region, face a growing gap between the investment needed to achieve the Sustainable Development Goals (SDGs) and the actual availability of resources, both public and private. While the gap was estimated at US\$ 2.5 trillion per year before the COVID-19 pandemic, as of 2025 the figure is put at between US\$ 3 trillion and US\$ 4 trillion, with projections exceeding US\$ 6 trillion by 2030 on current trends.

In this context, it is essential to reconfigure the international financial architecture to make it fairer and more stable and predictable. The Sevilla Commitment represents an important step in that direction. Latin America and the Caribbean must press ahead with the implementation of the Commitment on three priority fronts: (i) strengthening international tax cooperation to combat tax evasion and avoidance, which should extend to the treatment given to high-net-worth individuals and digital platforms; (ii) improving sovereign debt management mechanisms by incorporating criteria that reflect the needs of investment-oriented development; and (iii) extending the coverage of the international financial safety net, in particular through the widespread adoption of contingent clauses in debt contracts and greater use of special drawing rights.

The chapter also emphasizes that mobilizing resources for productive transformation requires active promotion of private investment. This means strengthening national capital markets and integrating them regionally, increasing the use of innovative financial instruments (such as thematic bonds) and establishing regulatory and governance frameworks that incentivize foreign direct investment. There is also an urgent need to revitalize international cooperation by reorienting official development assistance towards more effective and flexible mechanisms that are aligned with the real needs of middle-income countries, and by pursuing greater regional cooperation.

Ultimately, closing the financing gap is a matter not just of resources, but of governance. The necessary basis for effective resource mobilization is a combination of political leadership, robust institutional frameworks and a clear strategy for sustainable productive development.

The focus of the fourth and last chapter is on the function that development banks can and should fulfil in this process. These institutions play an irreplaceable role in financing strategic investments in production activities that are not profitable enough to be attractive to the private sector and in addressing information asymmetries. In Latin America and the Caribbean, development banks are particularly important in supporting micro-, small and medium-sized enterprises (MSMEs), improving infrastructure, promoting emerging sectors (technology, clean energy) and responding to economic crises.

However, there is considerable heterogeneity among the multilateral, subregional and national banks operating in the region. Institutions such as the Inter-American Development Bank (IDB), the Development Bank of Latin America and the Caribbean (CAF) and the Central American Bank for Economic Integration (CABEI), plus more than 100 development-oriented banks and financial institutions, differ greatly in their governance structures, financial capacity and sectoral focus. Heterogeneity also means that not all banks have the same approach or capabilities when it comes to promoting financial inclusion. Thus, while some have made progress on financing for MSMEs, others lack adequate resources or strategies, leaving part of the production fabric outside the financial system. Support for training and institution-building and the implementation of programmes of technical assistance and financing for institutional capabilities in smaller or less developed banks could help improve their risk management, corporate governance and resource mobilization capacity so that they can make a more effective contribution to production policies.

Promoting financial innovation by encouraging the use of innovative and creative next-generation financial instruments geared towards MSMEs, such as credit guarantees or co-financing with the private sector that can be adapted to the different capacities of banks and contribute to risk mitigation, especially in emerging sectors or those with a high social and environmental impact, will help cushion the effects of market failures on financial inclusion. Likewise, strengthening financial education in MSMEs, and thus ensuring that more companies can access credit on better terms, will foster their growth and integration into production chains.

In short, development banks can and should be vital catalysts in the effort to mobilize resources for development. If they are to be this, it is necessary to strengthen their institutional capacities, consolidate innovative financing mechanisms and align their actions with national public policies and international cooperation frameworks.

Latin America and the Caribbean urgently needs to mobilize resources for its development. It can only achieve this by redesigning its fiscal, financial and institutional architecture and channelling resources towards growth and productive transformation (which is necessary to escape the low growth capacity trap), greater investment in the social, education and health policies required to tackle the high inequality and low social mobility and cohesion trap, and the investments that are essential to address climate change and ensure environmental sustainability.

Achieving this will require not only political will on the part of the region's countries, but multilateral cooperation, a strengthened global institutional framework and the working out of a design for the suggested new growth and development strategy.

Each chapter in this second part contributes to a better understanding of the scale of the challenge the region is now dealing with. The chapters also identify areas for action and opportunities for improving the coordination of macroeconomic policies with productive development policies and other sectoral policies to bring about a change in the region's development model. Lastly, the chapters lay out a road map for the mobilization of resources to finance development.

CHAPTER



Fiscal challenges for the mobilization of domestic resources

- A. The fiscal context in the region
- B. Proposals for necessary reforms
- Bibliography

A. The fiscal context in the region

Even though the crisis associated with the coronavirus disease (COVID-19) pandemic is over, fiscal space remains limited in Latin America and the Caribbean, and public revenues are insufficient to finance current levels of public spending. The situation is aggravated by growing pressure from social demands in a context of persistent structural gaps and medium-term transitions whose effects are looking increasingly imminent. Interest payments on debt have also risen in recent years, becoming a source of development distress for the countries of the region. Against this backdrop, public investment has been one of the main adjustment variables for balancing the public accounts. Debt remains high in most countries, which means that substantial fiscal consolidation efforts are needed to bring it down to more sustainable levels.

1. A context of looming transitions and persistent gaps

The region has experienced rapid population ageing over the last few decades, with the proportion of people aged 65 and over rising from 5.5% of the total in 2000 to 10.2% in 2025 and projected to reach 18.9% by 2050. This transformation of the age structure will entail a substantial increase in demand for social protection, health and care services. Women are the main providers of care services, owing to the strongly feminized nature of care work, most of which is unpaid or performed under substandard conditions, an issue that poses a further challenge for the design and implementation of public policies (Economic Commission for Latin America and the Caribbean [ECLAC], 2024a).

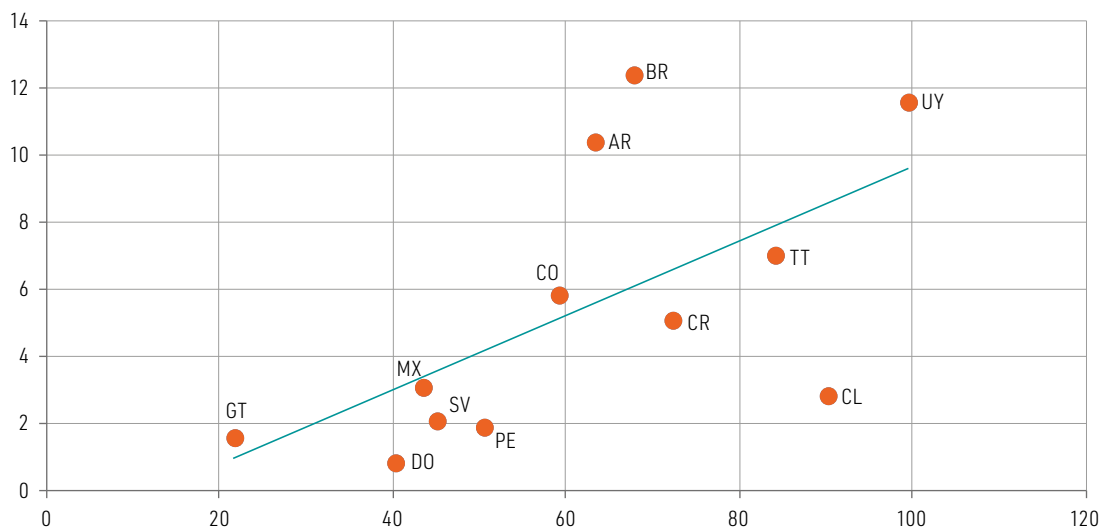
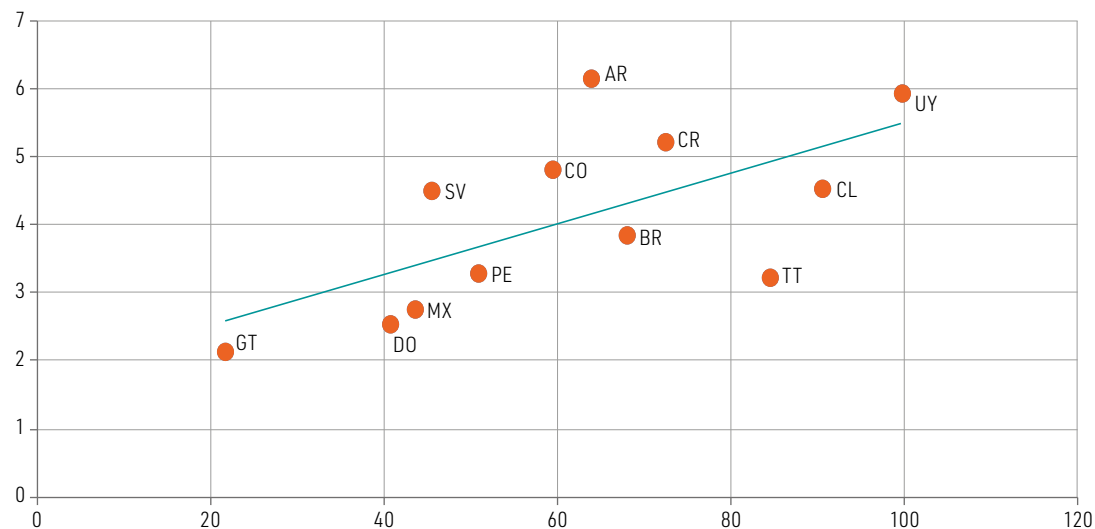
Currently, one of the main fiscal challenges throughout the region is securing the financial sustainability of social protection systems. In this context, the debate on pension systems and possible reforms to them amid the demographic transition necessarily involves a discussion of fiscal policy, given that public pension spending is closely linked to the degree of population ageing (Arenas de Mesa, 2019). Meanwhile, healthcare systems are having to cope with a changing epidemiological profile, characterized by a rising prevalence of chronic and degenerative diseases whose treatment entails higher costs and thus greater financing needs (see figure II.1).

In a context of high labour informality and marked income inequality in which contributory pension systems have not attained wide population coverage, non-contributory pension systems have become increasingly important. This has led to public spending on these systems rising in the region. In 2000, spending on non-contributory old-age pensions averaged 0.15% of GDP in the countries of Latin America, but by 2021 this figure is estimated to have almost tripled to an average of 0.42% of GDP (Arenas de Mesa, Espíndola and Vila, 2024).

Population ageing is being compounded by new challenges linked to climate change mitigation and adaptation, since the manifestations of climate change, such as droughts, heavy rainfall, extreme temperatures and ecosystem degradation, pose risks to production systems and are conducive to the spread of disease. Food systems are particularly vulnerable to these effects, so failing to adequately address the needs arising from climate change could have major social, productive, economic and labour market consequences. Against this backdrop, the region has made commitments within the nationally determined contribution framework involving annual investment estimated at between 3.7% and 4.9% of regional GDP (ECLAC, 2025a).

Figure II.1

Latin America (12 countries): general government public health and pension spending^a and ageing index, around 2019
(Percentages of GDP)

A. Public pension spending**B. Public health spending**

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: Ageing index = (population aged 60 and over/population aged 0 to 14) * 100.

^a Measured using the Social Expenditure Database (SOCX) methodology.

The climate change emergency is also accelerating what has been a gradual energy transition, driven by the need to find environmentally sustainable energy sources. Public investment—which requires fiscal space and adequate financing—and the crowding in of private investment are essential to pursue investments in climate adaptation, mitigation and resilience.

The countries of the region also face profound transitions in other areas that will affect the medium-term sustainability of the public finances. In particular, these include changes in labour markets, some of which have intensified since the COVID-19 pandemic, such as new forms of remote working, more

flexible contractual relationships, the incorporation of technology into production processes (value chains) and the digitalization of the economy, transformations that pose specific challenges for the adaptation of traditional tax collection mechanisms and the financing of social protection systems.

These trends pose major challenges for medium-term fiscal sustainability, amplified by the high levels of structural inequality that persist in Latin America and the Caribbean. Inequalities impair the quality of institutions, are inimical to the consolidation of democracy and social cohesion and generate development inefficiencies by making it harder to draw on the productive potential of certain sectors of the population. The result is greater pressure on public spending and investment, as the region's deep structural inequalities make it hard to respond effectively to these challenges.

A recent study estimated the global expenditure needed to accelerate progress towards the 2030 Agenda for Sustainable Development (Organisation for Economic Co-operation and Development [OECD] et al., 2024b). In the case of Latin America and the Caribbean, the cost of accelerating progress towards the Sustainable Development Goals (SDGs) is estimated at between US\$ 1.3 trillion and US\$ 1.6 trillion, depending on the area prioritized for sustainable development, which works out as an average annual gap of US\$ 99 billion between the expenditure required and the current trajectory, distributed across various priority areas, such as social protection and decent employment (US\$ 77 billion), climate change, biodiversity loss and pollution (US\$ 102 billion) and the energy transition (US\$ 92 billion). This shows the scale of the financial effort needed to move towards truly sustainable development in the region.

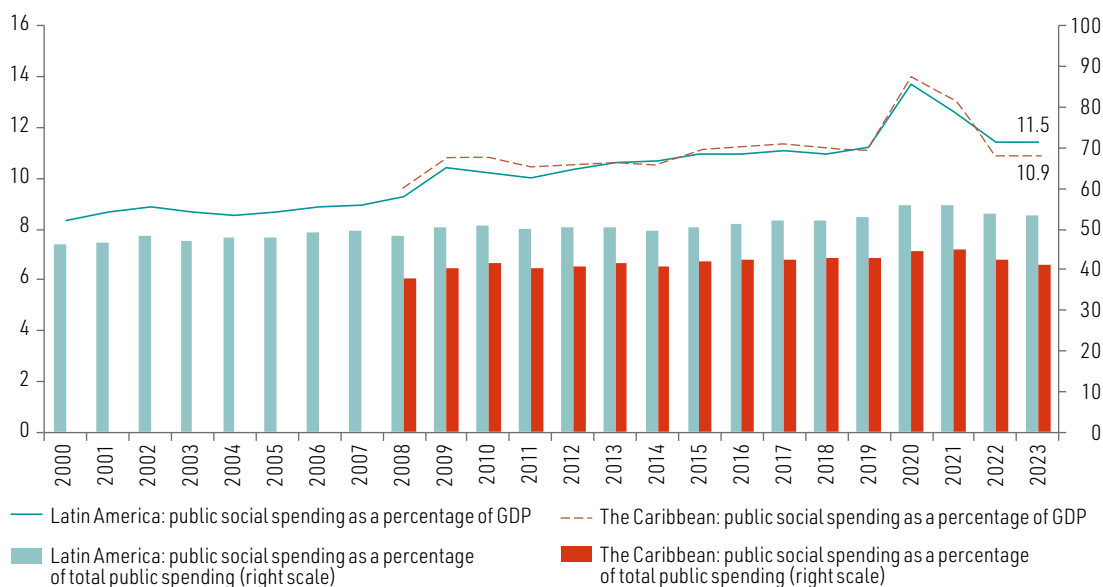
Among the SDGs, poverty eradication requires special attention. It is estimated that 27.3% of the Latin American population was poor in 2023, a level similar to that of 2014 (27.7%). Extreme poverty, meanwhile, stood at 10.6%, an increase of 2 percentage points over the 2014 level (ECLAC, 2025a). In addition, the total poverty gap, i.e. the sum of resources that, if transferred to all poor households, would raise their incomes to at least the poverty line, is estimated at 1.64% of GDP on average for 14 countries of the region as of around 2022. In the case of extreme poverty, the estimated gap was equivalent to an average public expenditure requirement of 0.32% of GDP for the same reference year. Discounting the current level of non-contributory transfers to households below the poverty line, the additional amount required for this income threshold to be reached is estimated at an average of 1.34% of GDP, or 0.22% of GDP in the case of extreme poverty (ECLAC, 2024b).

Although social spending has increased by almost 3 percentage points of GDP in the last two decades, its share of total public spending has held steady since 2009, at around 50%. In other words, there has been no sustained socialization of public spending in relative terms. The pandemic period was an exception, with a significant increase in social spending to respond to healthcare and social protection demands. Two years later, however, spending had returned to previous levels, resuming its trend of slow growth (see figure II.2).

Poverty and inequality gaps are not only reflected in household income levels, but also in profound disparities in opportunities, particularly as regards access to basic social infrastructure such as public spaces, housing, transport, water and sanitation. This situation entrenches exclusion and inequity. Inequalities are reflected both in the availability of infrastructure for service provision and in the relative cost of services to households. Proportionally, for example, the lowest-income quintile devotes 1.6 times as much of its expenditure to water and sanitation as the highest-income quintile. In addition, vulnerable people have access to lower-quality services and consume less. In all cases, a substantial increase in public investment is needed to narrow these gaps. Thus, it is estimated that achieving universal access to safely managed drinking water and sanitation in the region will require an annual investment equivalent to 1.3% of regional GDP over the next 10 years (ECLAC, 2024a).

Figure II.2

Latin America and the Caribbean (24 countries):^a central government social spending,^b 2000–2023
(Percentages of GDP and total public spending)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Argentina, The Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Lucia, Trinidad and Tobago and Uruguay.

^b The figures for Peru and the Plurinational State of Bolivia are for general government and the central administration, respectively.

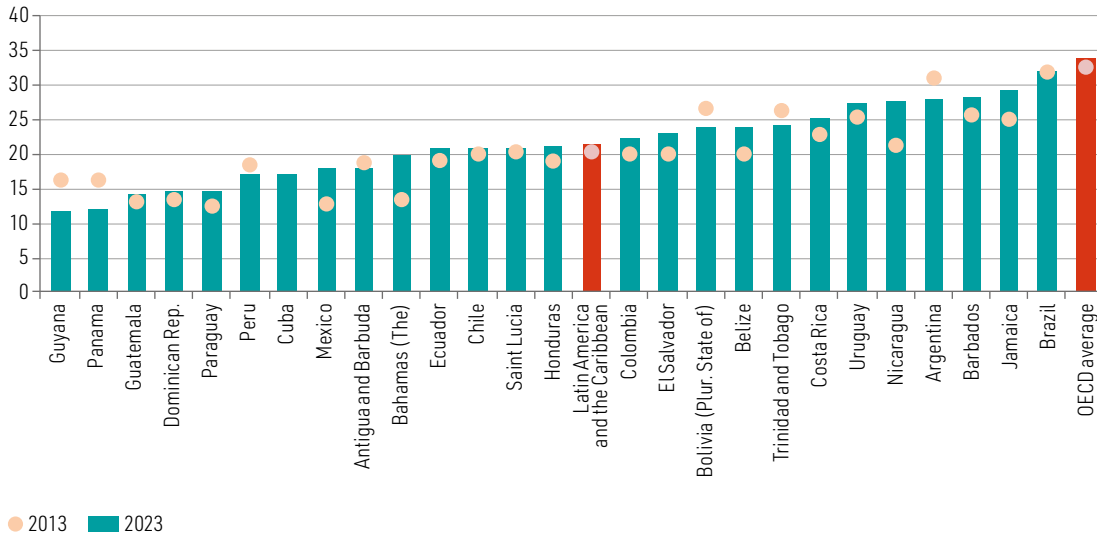
In short, given the growing challenges posed by population ageing, climate change and profound labour market transformations resulting from technological progress amid low economic growth and persistent socioeconomic inequalities, the region needs to substantially increase its investment levels. Public investment in particular plays a central role, as it is directed towards a wide range of economic and social objectives, including the provision of economic services such as infrastructure and research and development, as well as essential social services such as education, public health, security and justice. Given that public investment has been low and declining, strengthening it would serve to mobilize private investment in strategic sectors that would contribute to social, economic and environmental resilience, facilitating transformations that would lay the foundations for a productive, inclusive and sustainable development model.

2. Inadequate fiscal revenues and structural constraints

The fiscal resources generated by tax systems in Latin America and the Caribbean tend to be too small to meet public spending needs. In 2023, the average tax take in the region was equivalent to 21.3% of GDP, a relatively low level compared with the average for the countries of the Organisation for Economic Co-operation and Development (OECD), which was about 34% of GDP in 2022. There is also marked heterogeneity between countries: some have a tax take below 15% of GDP, while only one has attained a level close to the OECD average, i.e. above 30% of GDP (see figure II.3).

Figure II.3

Latin America and the Caribbean (26 countries) and OECD (36-country average):^a general government tax revenues, 2013 and 2023
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Organisation for Economic Co-operation and Development, Economic Commission for Latin America and the Caribbean, Inter-American Center of Tax Administrations and Inter-American Development Bank. (2024). *Revenue Statistics in Latin America and the Caribbean 2024*. OECD Publishing.
^a The figures used to calculate the average for 36 OECD countries are from 2013 and 2022.

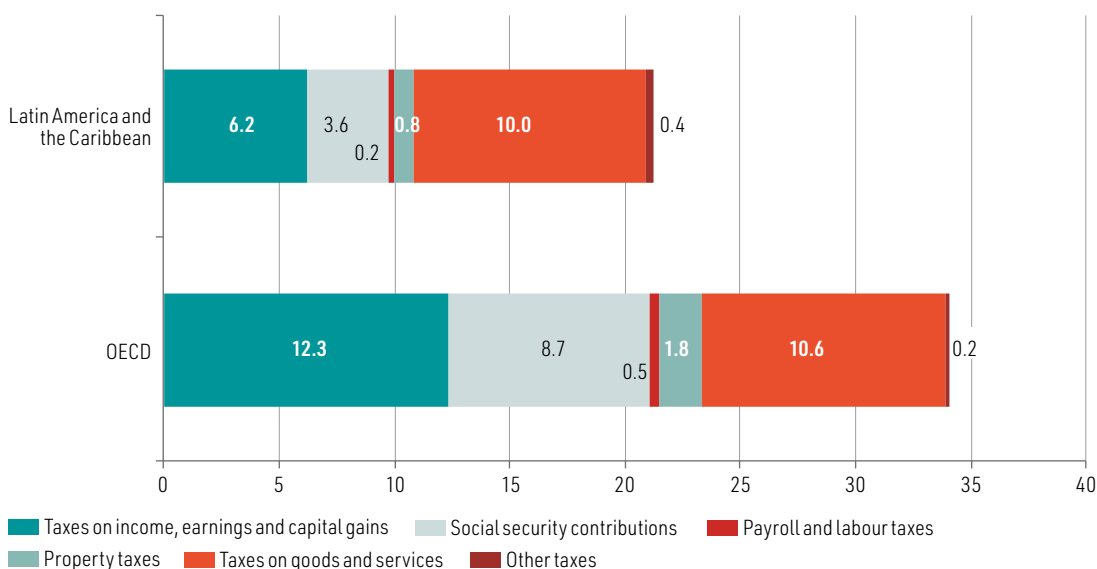
As regards the trend in tax revenues, the countries of the region have not, on average, managed to increase them substantially over the last decade. As a result, the gap of more than 10 percentage points of GDP relative to the OECD countries has remained unchanged. At the national level, changes in tax revenues between 2013 and 2023 were heterogeneous.

At the same time, the relative structure of tax revenues in Latin America and the Caribbean differs greatly on average from that of the OECD countries. In the region, the bulk of revenues come from taxes on the consumption of goods and services, which accounted for 47.2% of total tax revenue in 2023 (equivalent to 10.0% of GDP), led by value added tax (6.0% of GDP). Conversely, income and capital gains taxes accounted for only 29.1% of total tax revenue (6.2% of GDP). By contrast, the revenue base of the OECD countries was supported mainly by income and capital gains taxes, which supplied 36.2% of tax revenues (12.3% of GDP), while taxes on goods and services furnished 31.1% (10.6% of GDP). In particular, personal income taxation represented the main difference between the region and OECD, accounting for 9.5% of tax revenue in Latin America and the Caribbean (2.0% of GDP), as compared with 24.1% in OECD (8.2% of GDP) (see figure II.4).

The bias characterizing the region, with its predominance of goods and services taxes, which tend to be mostly regressive, has major implications for distribution. Where personal income tax specifically is concerned, various studies have emphasized the progressivity of its design (Hanni, Martner and Podestá, 2015). In Latin America and the Caribbean, however, it has evinced limited redistributive capacity because of the low level of collection. In 2014, the reduction in the Gini coefficient attributable to this type of tax ranged from 0.3% to 5.9%, with an average of 2.0% estimated for 18 countries of the region, well below the average of 12.5% for the European Union countries (ECLAC, 2017).

Figure II.4

Latin America and the Caribbean (26 countries)^a and OECD (36 countries):^b
tax revenues (simple averages), 2023
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Organisation for Economic Co-operation and Development, Economic Commission for Latin America and the Caribbean, Inter-American Center of Tax Administrations and Inter-American Development Bank. (2024). *Revenue Statistics in Latin America and the Caribbean 2024*. OECD Publishing.

^a Antigua and Barbuda, Argentina, The Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Lucia, Trinidad and Tobago and Uruguay.

^b The figures used to calculate the average for 36 OECD countries are from 2022.

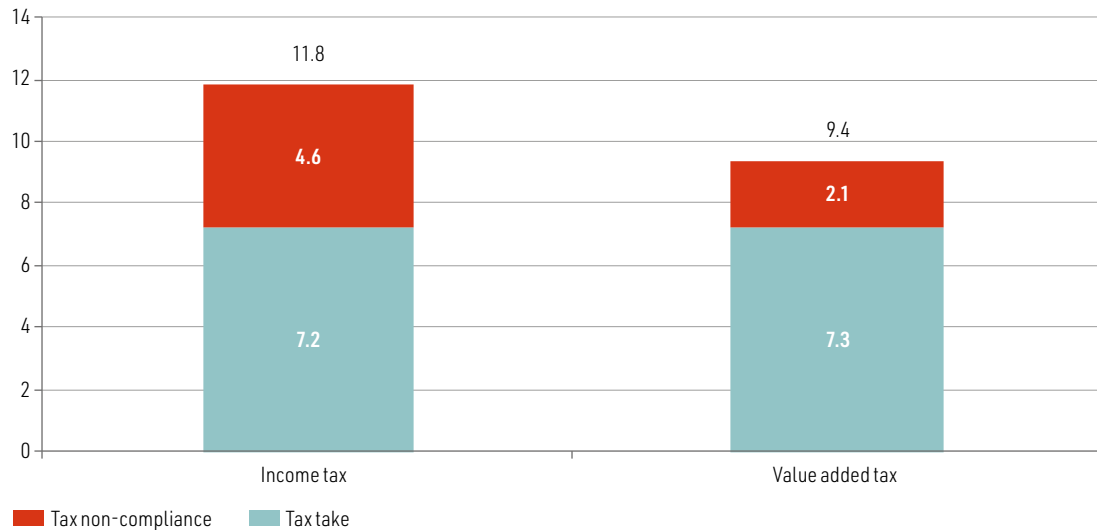
The low yield of this tax in the region can be explained by four main factors: (i) relatively high thresholds, averaging a value equivalent to 2021 per capita GDP, which is more than double the average taxable income threshold in the OECD countries; (ii) numerous forms of differential treatment (deductions and exemptions); (iii) narrow tax bases, mostly limited to the earnings of wage workers, with low taxes on capital income; and (iv) high levels of tax evasion and avoidance (Cetrángolo et al., 2023).

Furthermore, property taxes, which can potentially enhance the progressivity of tax systems, have historically raised little revenue in the region, accounting for only 4.0% of its tax take in 2023 (0.8% of GDP). Although this is not so different from the average for the OECD countries, where they accounted for 5.2% of the tax take (1.8% of GDP), taxes on real estate are particularly weak, with several design and implementation problems being common to the countries of the region (OECD et al., 2025). Again, only four countries in the region have asset and wealth taxes: Argentina, Colombia, the Plurinational State of Bolivia and Uruguay.

One of the main constraints on the region's revenue-raising capacity is high tax evasion. According to ECLAC estimates, tax non-compliance in Latin America represented 6.7% of GDP in 2023, equivalent to US\$ 433 billion. This compliance gap can be broken down into 4.6% of GDP for income tax and 2.1% of GDP for value added tax (VAT), representing in total almost half (47%) the actual revenue from the two taxes at the regional level (see figure II.5).

Figure II.5

Latin America (17 countries):^a income tax and value added tax non-compliance, 2023
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean.

Note: Estimates are based on national studies dealing with income tax and VAT non-compliance. The figures are weighted averages based on dollar GDP at current prices and are not comparable with previous years' because of changes in methodology and in the number of countries considered.

^a In the case of VAT, the countries included are Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. In the case of income tax, the countries included are Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and Uruguay.

This phenomenon has repercussions not only for the solvency of the tax system, but also for its vertical and horizontal equity, by distorting the effective incidence of taxes. Not only does tax evasion have multiple causes, including historical, economic, social, institutional and idiosyncratic factors, but in most countries the challenge starts with an incomplete diagnosis, since there is little evidence available on the scale and severity of the problem. In any event, although there has been major progress with tax administration and enforcement, the gap between theoretical tax resources and those collected remains substantial throughout the region (Gómez Sabaini and Morán, 2020).

Another constraint on the mobilization of domestic resources that could be used to finance public spending and investment is the tax expenditure resulting from multiple tax incentives or benefits. By reducing the fiscal burden on certain taxpayers, these instruments are meant to achieve specific economic, social, sectoral, environmental or other policy objectives. Tax breaks are widely used in the countries of the region and can generate a range of externalities that must be considered because of their potential consequences for the efficiency and equity of the tax system. Concrete evidence for the benefits of these instruments remains very limited, though, and a systematic evaluation has yet to be performed in the region.

Although there are large methodological differences between the countries, official measurements suggest that the cost in revenue foregone is usually significant. The latest available figures put tax expenditure in the region at an average of 4.0% of GDP, equivalent to 25% of tax revenue. Preferential tax treatment in the region is considerably mixed, both overall and in the types of measure adopted for the different taxes. In general, preferences are most significant for VAT and income tax (see figure II.6).

Figure II.6

Latin America (18 countries): composition of tax revenues foregone, 2024 or latest year available
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

Note: The categories are exclusively for total tax expenditure and that associated with VAT and income tax.

3. Fiscal deficits and debt as development constraints

Latin America and the Caribbean is a region where public revenues have historically been insufficient to meet growing public spending demands. In particular, Latin America's fiscal accounts have posted persistent overall deficits since the global economic and financial crisis of 2008–2009. As in other emerging and developing regions, the countries of the region were severely affected by the deterioration of the main macroeconomic indicators. Tax revenues stagnated and were left too low to keep pace with public spending, resulting in large and persistent fiscal deficits and a significant increase in public debt.

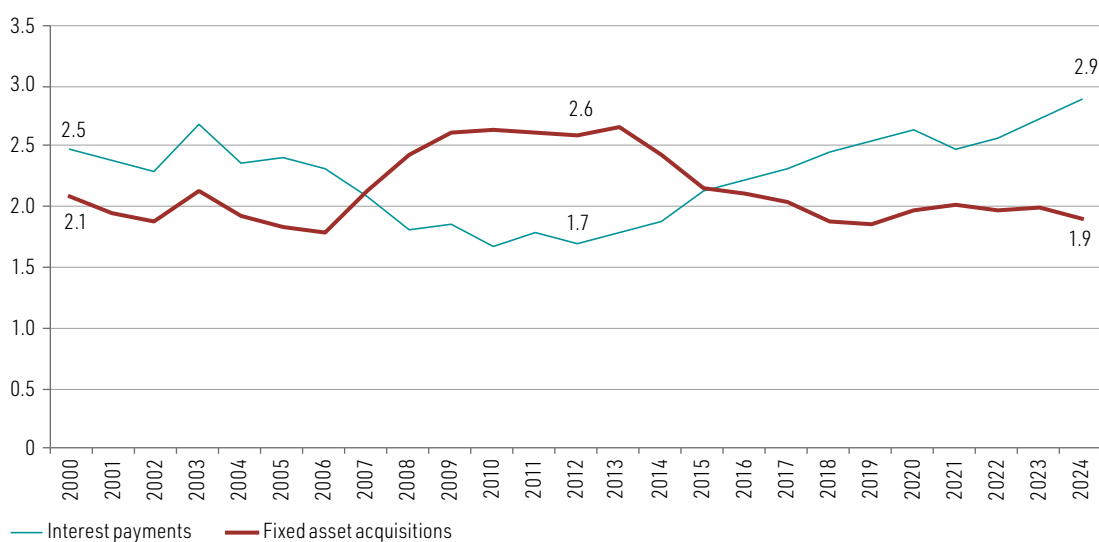
As a result, average central government public debt in Latin America rose from a low of 29.4% of GDP in 2008 to 51.2% of GDP in 2024. In the Caribbean, debt represented an average of 68.4% of GDP in 2024, a similar proportion to that of 2011. These high levels of public debt entail large costs in the form of interest payments, further reducing the already limited fiscal space available.

Historical experience suggests that countries struggle to develop when adverse macrofinancial conditions coincide with high levels of debt. Increased debt service costs, especially interest payments, force them to allocate a growing share of public resources to maintaining debt sustainability. In contexts of stagnant fiscal receipts or constraints on revenue growth, this usually translates into cuts in investment and social spending. When such decisions can no longer be taken without significantly compromising development, and debt service becomes unsustainable, the risk of a crisis increases. The historical record shows that crises of this type have profound and lasting effects on growth, investment, poverty and inequality. Even if no crisis is triggered, situations of excessive debt and high debt payments can linger for years, with severe economic and social repercussions (ECLAC, 2023).

As concerns about public debt sustainability increased, the countries of Latin America began to take measures to reduce primary deficits and restrain borrowing. Fiscal consolidation focused mainly on cutting primary spending, particularly capital spending. Fixed asset acquisition was the component most affected, leading to the freezing of infrastructure projects and restrictions on machinery purchases. Thus, higher interest payments in recent years have been partly offset by cuts in public investment (see figure II.7).

Figure II.7

Latin America (16 countries):^a interest payments and acquisition of fixed capital assets by central government, 2000–2024^b
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a The countries included are Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

^b Simple averages. In the cases of Argentina, Mexico and Peru, the figures relate to the national public administration, the federal public sector and general government, respectively.

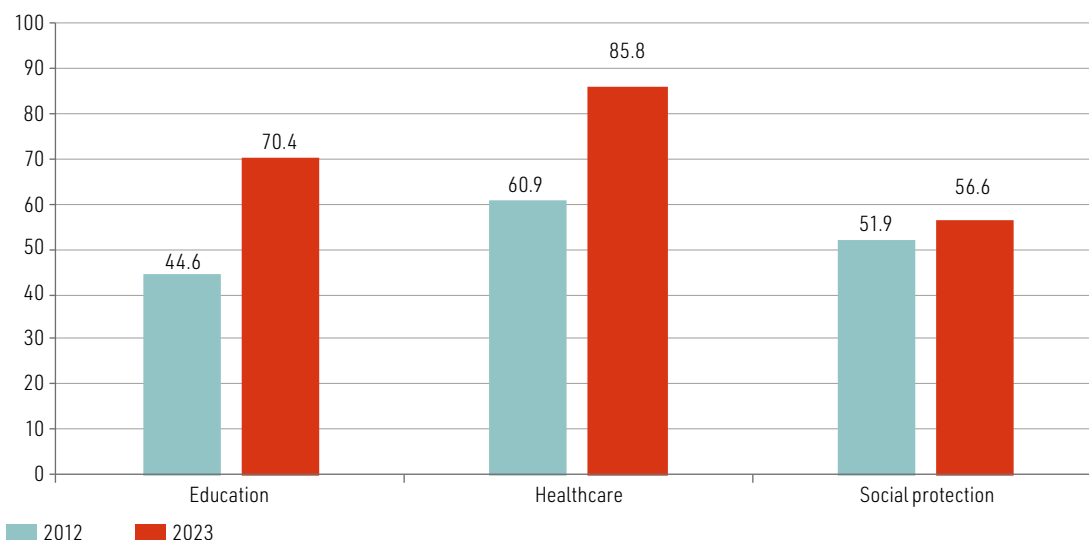
In addition to these adjustments, many countries took the difficult decision of prioritizing debt service over progress towards development goals and limiting spending on essential services. In some cases, interest payments match or even exceed the budget allocated to sectors that are vital for social development, such as education, healthcare and social protection. Between 2012 and 2023, debt service expenditure grew significantly more than spending on these priority areas (see figure II.8).

Weak economic growth is limiting the ability of States to increase the tax take and thus restricting the resources available to finance development and meet debt obligations. In some countries of the region, a growing proportion of tax revenues is consequently being allocated to interest payments, and this is significantly reducing the funds available for public investment and social spending, resulting in lower and less sustainable economic growth and setting up a vicious circle.

In these circumstances, the situation with global benchmark interest rates is important, as is the ability of countries to generate fiscal surpluses that allow them to stabilize medium-term public debt dynamics. Thus, persistently limited fiscal space, the size of social gaps in the region and the need for public spending in priority areas, amid low growth capacity, emphasize the need to mobilize domestic resources by strengthening fiscal revenues in the countries.

Figure II.8

Latin America and the Caribbean (23 countries):^a central government interest payments as a proportion of expenditure on education, healthcare and social protection, 2012 and 2023 (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Economic Commission for Latin America and the Caribbean (2023). *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20).

Note: Figures are medians. The data are for the public sector in Argentina, the non-financial public sector in El Salvador and Mexico and general government in Brazil, Colombia, Costa Rica, Guatemala, Paraguay and Peru.

^a The countries included are Argentina, The Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Trinidad and Tobago and Uruguay.

B. Proposals for necessary reforms

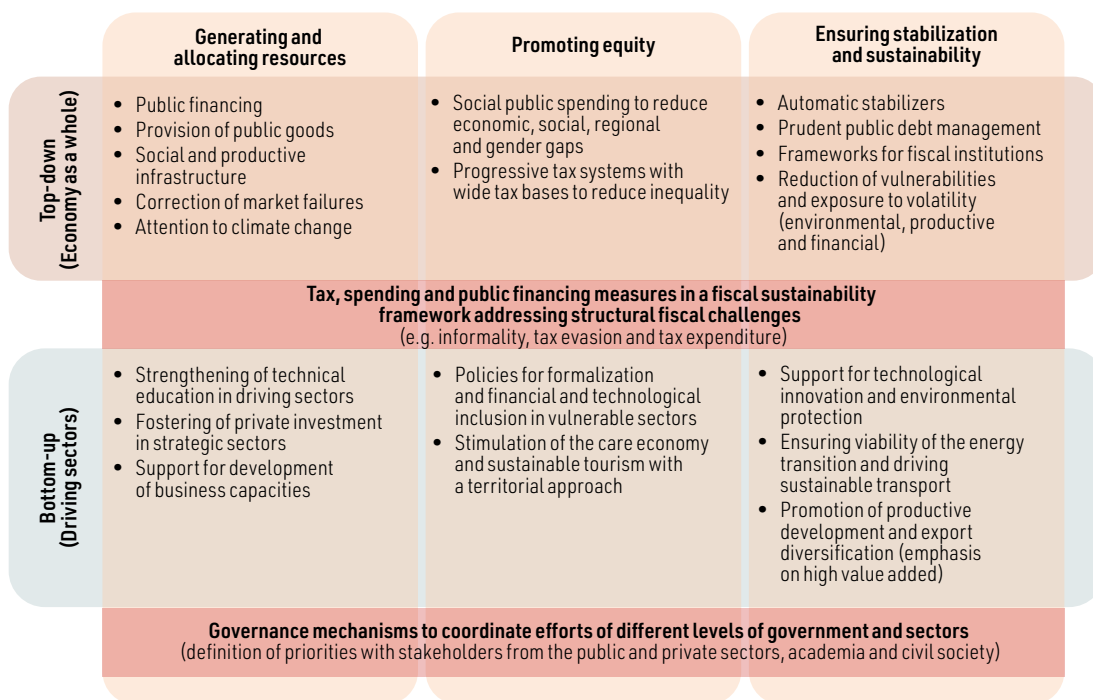
1. The role of fiscal policy as a tool for facilitating sustainable development

An active fiscal policy would create the basis for a development-oriented macroeconomy with sound and sustainable public finances capable of supporting the mobilization of domestic resources, which is essential to secure financing for multiple public policies with a strategic and medium-term approach (ECLAC, 2025b).

Among the functions of fiscal policy, three main roles can be identified: (i) resource generation and allocation; (ii) the promotion of equity; and (iii) economic stabilization, together with fiscal and environmental sustainability. These roles are linked by a multidimensional approach whereby stimuli are generated with a view to increasing the productivity of capital and labour in strategic sectors, while offsetting any inequalities that may arise in the process. These functions can be applied at two levels of action, depending on their scope: a general or “top-down” level, associated with policies that affect all or a large part of the country’s territory and the economy as a whole, and a targeted or “bottom-up” level, meaning focused stimuli (such as transfers, investments and incentives) in strategic sectors or specific geographical areas (see diagram II.1).

Diagram II.1

Roles and levels of application of fiscal policy



Source: Economic Commission for Latin America and the Caribbean.

The resource generation and allocation role comprises measures aimed at the provision of quality public goods and services (such as education, healthcare and social protection) to boost economic activity and improve social welfare. This role also includes the building of productive infrastructure and the correction of market inefficiencies or failures, such as externalities. In its targeted dimension, the aim is to promote investment in strategic production sectors, while underpinning private investment through instruments such as tax incentives or public-private partnerships.

When it comes to equity, fiscal policy has the potential to reduce the socioeconomic inequalities by geographical location, ethnic origin and gender that persist in the region. This involves, on the one hand, strengthening tax revenues, with an emphasis on direct taxation, and, on the other, implementing social spending programmes designed with a view to the coverage and adequacy of benefits, goods and services so that the basic needs of the population are met. From a bottom-up perspective, this role may translate into policies for generating decent employment and reducing informal work.

At the same time, fiscal policy helps to stabilize macroeconomic variables by smoothing the peaks and troughs of the business cycle and reducing vulnerability to external shocks. Automatic stabilizers (such as personal income tax, unemployment insurance and social safety nets) and fiscal rules are particularly important here. Fiscal policy can also be used to influence other structural aspects of countries' macroeconomic stability, such as environmental sustainability, by incorporating climate change adaptation and mitigation or ecosystem conservation criteria into the design of its instruments. At a more targeted level, there is an important role for the creation of new incentives, such as credit policies for technological innovation and financial support for productive diversification and the energy transition.

2. Fiscal strategies for strengthening domestic resource mobilization

(a) Strengthen tax collection with an emphasis on progressivity

To increase fiscal space while improving the progressivity of tax systems, a first option for the countries is to strengthen direct taxation, particularly by bolstering personal income tax and introducing or consolidating property and wealth taxes. Again, to broaden the tax base, there needs to be progress in integrating self-employed workers into the tax system.

With regard to personal income tax, there is scope for reviewing statutory tax rates in each country, giving consideration to their level, number and range of application. Although the final adjustment should be assessed in the light of specific national circumstances, a general recommendation is to increase top statutory rates and introduce relatively low minimum rates, with a view to gradually bringing in taxpayers who are currently outside the general tax system. It is also important to integrate the income tax treatment of self-employed workers and check that they are engaging with simplified tax regimes designed to facilitate gradual formalization and, in some cases, expand social protection. Particular attention should be paid to the technical design of these regimes to avoid consolidating incentives that encourage people to remain indefinitely in special systems, which could negatively affect the solvency, equity and efficiency of the tax system.

At the same time, harmonizing the taxation of different income types would broaden the tax base and improve revenue-raising and redistribution potential, with a gradual move towards a tax system with progressive rates covering all of each taxpayer's income. Dual variants can be considered an appropriate intermediate solution here. However, it is necessary to ensure that capital income is taxed broadly and effectively, even when differentiated rates are applied. Technological and administrative advances should be capitalized on to facilitate this process, preventing tax compliance from being critically dependent on the accuracy of taxpayers' returns and reducing opportunities for tax evasion and avoidance. Tax reforms should also pay special attention to the linkage between the tax levied on legal entities and that subsequently payable on business income received by individuals. Given the evidence on the wage and wealth gaps that characterize the region's economies, measures aimed at thus improving the redistributive impact of personal income taxation would undoubtedly have an implicit positive effect on gender equality.

To complement these measures, the possibility of implementing taxes on property, individual or family wealth, and inherited assets could be explored. The coexistence of these direct taxes could generate concrete administrative benefits via cross-checking and comparison of taxpayers' returns. It would also allow the capital gains derived from the ownership of declared assets to be calculated effectively. It should be noted that responsibility for taxing assets is shared with subnational governments in many countries of the region, so special coordination is required to achieve consistent taxation (Cetrángolo et al., 2023).

(b) Consolidate other complementary sources of tax revenue

Although VAT is already one of the pillars of taxation in the region, there is scope for improving its performance and its contribution to the mobilization of revenue in most of the countries. Differential tax treatment (e.g. exemptions and reduced rates) erodes its yield and its relative advantages in terms of efficiency, and is not usually the most effective tool for mitigating the regressivity of the tax. Some recent estimates suggest that compensatory transfers to low-income households could be a more efficient alternative when it comes to its yield and distributional impact (Barreix et al., 2022).

Again, the technological advances of recent decades have made taxation of the digital economy increasingly important. Adapting VAT to changes in consumption patterns resulting from digitalization represents an opportunity to broaden its tax base. As consumers increasingly turn to online digital services and direct purchases from foreign suppliers, it is essential to ensure that this consumption is also taxed. Some countries in Latin America and the Caribbean have already moved in this direction, incorporating digital services into the VAT base as part of a strategy to strengthen VAT collection (ECLAC, 2020).

A complementary alternative for increasing receipts is to apply environmental and corrective taxes designed not only to generate revenue but to pursue development objectives such as discouraging polluting energy use or unhealthy practices. Following this approach, some countries in Latin America and the Caribbean have implemented carbon taxes. A study by ECLAC (2024c) estimates that a tax of US\$ 50 per ton of carbon dioxide equivalent could generate revenue averaging 1.4% of GDP in the region. While this measure represents a substantial source of revenue, it would not be enough on its own to offset the economic losses resulting from climate change (ECLAC, 2024c). Importantly, its distributional impact also needs to be assessed, as it could have regressive effects that would need to be mitigated through compensation mechanisms. In any event, these measures should be complemented by a review and reduction of fossil fuel subsidies, which also tend to have significant environmental and distributional implications transcending the strictly fiscal sphere. Among corrective taxes for public health purposes, there is room for progress in reviewing and adjusting taxes on tobacco and alcoholic beverages, as well as the possibility of introducing new taxes on sugary drinks and other unhealthy foods.

An important issue for Latin America and the Caribbean is the reinforcement of fiscal regimes applicable to the extraction of non-renewable natural resources. The objective is to ensure that States capture a fair share of the economic rent generated by the exploitation of these resources. Information from developing countries shows that an appropriate combination of mechanisms, such as ad valorem royalties with moderate rates that yield revenue from the start of operations, profit taxes and levies on economic income, can improve the efficiency and progressivity of the tax system. In a region where fiscal systems tend to be regressive, a mechanism of this type that prioritizes taxes on profits or economic rents would make it possible to capture a larger share of windfall gains without discouraging investment. Mention should be made here of the experiences of the mining sector in Chile and Peru and the hydrocarbon sector in Mexico, where progressive taxes on hydrocarbon sector profits have been implemented (ECLAC, 2022).

(c) Reduce tax evasion and facilitate compliance

Tax evasion has highly detrimental effects on public revenue, significantly reducing the tax take. To improve tax compliance, it is essential to first conduct a comprehensive assessment of the scale of tax evasion. This should include quantifying the tax gap and identifying its main trends and determinants. It would be desirable to establish regular estimates of non-compliance levels, which would help to consolidate diagnoses and orient the efforts of tax administrations.

In this context, it is essential to apply a domestic approach tailored to each country's particular characteristics. In recent years, the countries of the region have used information and communications technologies (ICTs) to strengthen their mechanisms for monitoring and detecting anomalies, have moved towards the implementation of electronic invoicing, and have adopted measures to facilitate voluntary compliance, such as electronic payment and the development of applications and channels for contact with taxpayers. Similarly, the implementation of automatic withholding taxes on financial transactions has proven to be an effective tool for improving tax compliance.

These national efforts have been complemented by global initiatives aimed at reducing cross-border tax evasion. They have included updating and strengthening regulatory frameworks for transfer pricing, thin capitalization rules and payments between related companies, redefining the concept of a permanent establishment and incorporating anti-abuse clauses into bilateral agreements. International mechanisms to encourage information sharing between jurisdictions, in line with global tax cooperation standards, have also been developed (ECLAC, 2024c).

(d) Evaluate and rationalize tax expenditure

As noted, tax expenditure entails a loss of revenue that reduces the fiscal space available for other public policies. Their use should therefore be carefully rationalized and duly justified. Given that different types of tax incentive have varying effects, e.g. in their ability to stimulate investment, it is recommended that priority be given to those instruments which have proven most effective. In particular, preference should be given to incentives that are linked to the size of the investment made and that reduce capital costs, such as deductions, tax credits and accelerated depreciation mechanisms. Conversely, consumption-related incentives, such as exemptions and reduced rates, should be limited, except where there are clear justifications assessed on a case-by-case basis. To begin analysing these types of preferential treatment, a first step is to identify and classify incentives according to their objectives (e.g. economic, social and environmental).

To justify the introduction of a new tax incentive or benefit, it is advisable to conduct ex ante evaluations based on a theory of change that establishes the causal relationship between the proposed incentive and the expected results, as well as how it would interact with other public policy measures. This prior assessment should include: a justification of its economic and social relevance, ensuring that it meets a clearly defined policy objective; estimates of its fiscal cost (i.e. revenue foregone); a comparison of its effectiveness with that of alternative instruments; an analysis of the data available on its impact; an assessment of possible side effects or externalities; and a monitoring and evaluation plan that identifies the institutions responsible, the frequency of reviews and the methods for measuring effectiveness. Again, proposed tax expenditure should be consistent with the country's fiscal strategy, aligning with the national budget and international commitments (Redonda et al., 2023).

To decide whether existing forms of preferential treatment should be maintained, ex post evaluations should be carried out to analyse their efficiency and effectiveness, considering whether they meet the objectives for which they were implemented, whether the benefits outweigh the costs, whether they represent the best alternative vis-à-vis other policy instruments, and whether they produce externalities that can be quantified and, if necessary, offset. These evaluations also help to make fiscal policy more transparent. To this end, it is essential to strengthen institutional frameworks with a view to regular, timely and detailed publication of the costs, expected benefits, main beneficiaries and objectives of tax expenditures. It is also important to have adequate control and accountability mechanisms, encourage greater citizen participation and promote coordination between the various government institutions involved. Ideally, tax expenditures should be subject to legislative processes and integrated into the budget discussion.

(e) Improve the scope and efficiency of public spending and boost public investment

Given structural gaps in access to essential goods and services and fiscal constraints exacerbated by rising interest payments on debt, it is essential to improve the efficiency of public spending in order to expand its coverage and quality. Although spending and investment priorities vary according to each country's context, there are general recommendations that can guide efforts in this area. These include investing in comprehensive information, registration, evaluation and monitoring systems that strengthen social policy management; consolidating results-based accountability mechanisms;

optimizing operational processes through digitalization and automation; improving training and human talent management; and strengthening the interoperability of social information systems, inter-agency collaboration and citizen communication channels.

The demographic transition and climate change will place additional pressures on pension, health and care systems, especially in countries with high levels of informality, where the population depends heavily on non-contributory social protection. It is therefore necessary to conduct prospective studies on the sustainability of social protection systems, considering the coverage, adequacy and financial viability of benefits. It is also essential to strengthen the care sector by recognizing, redistributing and reducing unpaid work. In the area of healthcare, physical and technological infrastructure must be improved, and medical personnel must be trained in the use of digital tools. Lastly, to ensure that public spending is financially sustainable, it is essential to move past the logic of subsidiarity and promote investment in social infrastructure and basic services (ECLAC, 2024a).

Public investment has a central role to play as a tool for fostering economic growth and reducing structural inequalities. In addition, greater investment in resilient infrastructure and care services will be necessary to address the challenges of climate change and the demographic transition. In a context of low public investment in the region, evidence suggests that even a moderate increase could translate into significant gains in output, employment and productivity. However, these benefits depend heavily on governance mechanisms and institutional capacities, as the fiscal multipliers of public investment have proven to be highly sensitive to government efficiency levels (ECLAC, 2025b).

Alongside increased resources to boost public investment, it is important to encourage private investment as a complementary driver of development. In this context, public-private partnerships with soundly designed governance could be used as a tool to mobilize private capital and harness the technical capabilities of the private sector in infrastructure and public service projects. These partnerships can help close gaps, especially in sectors such as transport, energy, water and sanitation, provided they are designed with clear regulatory frameworks, transparency mechanisms and adequate fiscal and social risk assessment.

(f) Strengthen fiscal institutions with a medium- and long-term perspective

In view of the sustained fiscal deficits and high levels of public debt that the region has incurred in recent years, there is a clear need for sound fiscal institutions to underpin responsible and sustainable debt management. In this area, the recommendations are to strike a balance between fiscal rules and prudent debt management in relation to the allocative and distributive functions of fiscal policy; identify in a technically precise way the fiscal aggregate to be regulated; prioritize simplicity, clarity and transparency in the design of rules; establish escape clauses for exceptional events that require a higher level of spending, together with paths back to compliance with the rules; take account of any fiscal rigidities, such as requirements to allocate resources for specific purposes, when combining fiscal rules with minimum social spending floors; and ensure consistency between these rules and the use of sovereign wealth funds.

It is also essential to strengthen the role of independent fiscal councils in monitoring and enforcing fiscal rules, as well as in assessing the fiscal cost of mitigation measures. Lastly, it is very important to protect social spending and public investment, even during periods of fiscal consolidation, and to incorporate measures for tackling climate change into medium-term fiscal frameworks. In this connection, it is also essential to strengthen the governance of sovereign wealth funds as countercyclical tools, especially in countries exposed to particular volatility because of their dependence on fiscal revenues from the exploitation of non-renewable natural resources, but also in those with high exposure to extreme weather events.

A sound fiscal framework can also serve as a platform for fostering innovative financing mechanisms, such as thematic bonds. These fixed-income instruments, which some countries in the region have

already used in recent years, provide access to private capital on preferential terms while ensuring that the resources mobilized contribute effectively to sustainable development objectives, such as the pursuit of environmental and social solutions. For countries to take advantage of these opportunities, it is essential that they have the right institutional framework in place so that instruments can be issued and placed transparently and effectively on the international market.

3. Governance and technical, operational, political and prospective (TOPP) capabilities

As noted, the potential of fiscal policy as a key tool for fostering development in the region has been limited by persistent structural obstacles, including high levels of informality and tax evasion, discretionary use of tax expenditure and growing public debt. Addressing these challenges requires sound fiscal governance mechanisms to ensure effective coordination between the various actors involved in policy design and implementation. In this context, strengthening the technical, operational, political and prospective (TOPP) capabilities of public institutions is essential for formulating fiscal policies that are more effective, transparent and adaptable to new development challenges.

The political economy dimension of public policy design and implementation must be carefully considered, as this provides insight into how reforms are identified and implemented in the light of power relations, the interests at stake and the different institutional contexts. Accordingly, the establishment of a broad, inclusive and consensus-oriented social dialogue is essential for building lasting fiscal compacts. These processes not only strengthen the viability and effectiveness of fiscal policy, but also help to consolidate democracy and legitimize public decisions. The creation of intergovernmental forums with a territorial approach is particularly important, as it allows for better coordination between levels of government and a more appropriate response to the peculiarities and needs of territories (ECLAC, 2024a).

Regarding public revenue, recent experience in the region shows that it is crucial to reach agreements that allow tax reforms to be implemented with a view to increasing receipts and improving progressivity. The aim here is to consolidate tax systems as the primary source of public funding, giving clear priority to criteria of distributive equity on the basis of efficient tax management that is simple and flexible enough to adapt to the changing international context and the specific circumstances of each country.

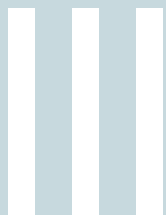
In the area of public spending, priority should be given to improving its efficiency, coverage and quality, especially in key sectors such as health, education, housing, pensions, care services and environmental sustainability. This requires strategic allocation of the resources available, accompanied by measures to strengthen specific TOPP capabilities, which may include, for example, designing policies to ensure the medium- and long-term sustainability of spending, or strengthening inter-agency and citizen information channels. Efficient public spending not only contributes to better provision of essential goods and services; it also plays a substantive role in generating social and political legitimacy, which is essential to the viability of fiscal reforms aimed at greater equity and sustainability.

Lastly, progress needs to be made on a financial architecture that supports the mobilization of resources as needed to address the long-term challenges of sustainable development. International cooperation platforms are important here for establishing common positions on reform of the international financial architecture and other regional and global integration topics. To participate actively in these processes and take advantage of opportunities that may arise from consensus and multilateral cooperation, the countries of the region should consolidate their specific TOPP capabilities, such as the formulation of scenarios incorporating different combinations of development financing sources.

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CHAPTER



Mobilizing resources for productive transformation

- A. The global economic context and its implications for the financing of productive transformation
 - B. Renewal of the international financial architecture
 - C. The strengthening of international development cooperation
 - D. Encouragement of private sector investment
 - E. Prospects for the Sevilla Commitment agreements
- Bibliography

A. The global economic context and its implications for the financing of productive transformation

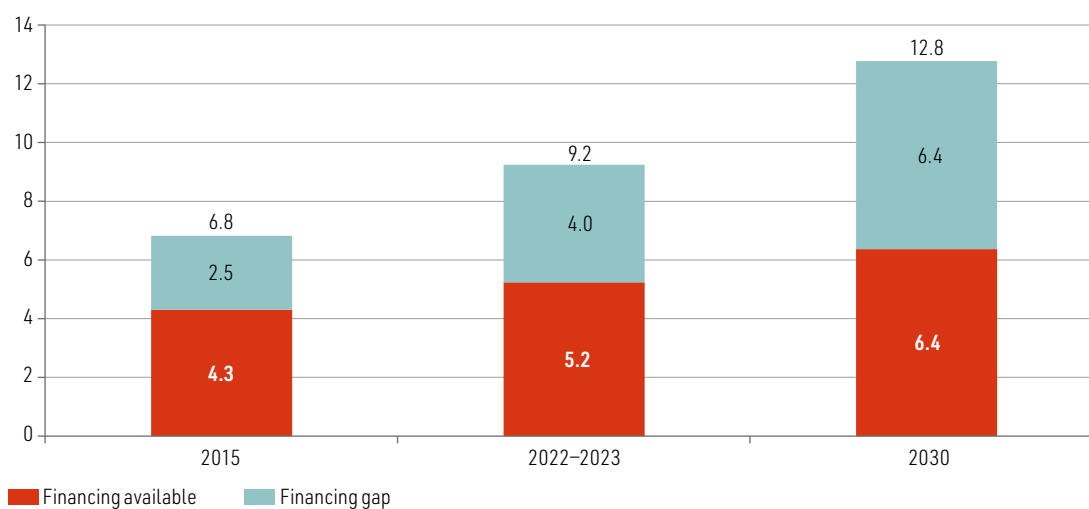
Following the cascade of recent crises, which included first the coronavirus disease (COVID-19) pandemic and ensuing supply chain disruptions and then the energy and food crises triggered by the Russian Federation's invasion of Ukraine, which were followed by a sharp spike in inflation and rapid interest rate hikes to counter this, the outlook for long-term growth and short-term global financial stability as of mid-2025 is clouded by considerable uncertainty, while rising geopolitical tensions threaten to fragment global cooperation and hamper development.

Geo-economic fragmentation has accelerated in recent years (Aiyar et al., 2023; Institute for Economics and Peace, 2024; D'Orazio et al., 2024; Organisation for Economic Co-operation and Development [OECD], 2025b), and this is reflected in both trade policy (Carluccio et al., 2024) and financial flows (Financial Action Task Force [FATF], 2021; Kida and Paetzold, 2021). Furthermore, the medium-term growth outlook has been revised downward since the global financial crisis, especially for developing countries. These macroeconomic vulnerabilities have translated into greater development financing needs.

The annual shortfall in the financing needed to achieve the Sustainable Development Goals (SDGs) in developing countries has grown considerably since the COVID-19 crisis, from approximately US\$ 2.5 trillion per year (United Nations Conference on Trade and Development [UNCTAD], 2014) to US\$ 3.9 trillion in 2020 (OECD, 2020, 2022). The current development financing landscape is characterized by systemic challenges, such as inadequate investment, debt vulnerability and limited fiscal space, and recent estimates put the gap at between US\$ 3 trillion and US\$ 4 trillion annually (UNCTAD, 2023; G20 Independent Expert Group, 2023; Bhattacharya et al., 2022). Furthermore, needs are growing faster than the resources available: between 2015 and 2022, resources increased by 22%, while the gap increased by 60%. If this trend continues, according to OECD (2025b) estimates, the shortfall could reach US\$ 6.4 trillion by 2030 (see figure III.1).

Figure III.1

Developing countries: annual shortfalls in financing needed to achieve the Sustainable Development Goals (SDGs), 2015 to 2030
(Trillions of dollars)



Source: Organisation for Economic Co-operation and Development (2025b). *Global Outlook on Financing for Sustainable Development 2025: Towards a More Resilient and Inclusive Architecture*.

Note: The financing gaps for 2015 and 2022 are estimated on the basis of United Nations Conference on Trade and Development (2023). World Investment Report 2023: Investing in Sustainable Energy for All. United Nations. The projection to 2030 is calculated by extrapolating the rates of growth in financing needs and the financing available between 2015 and 2022.

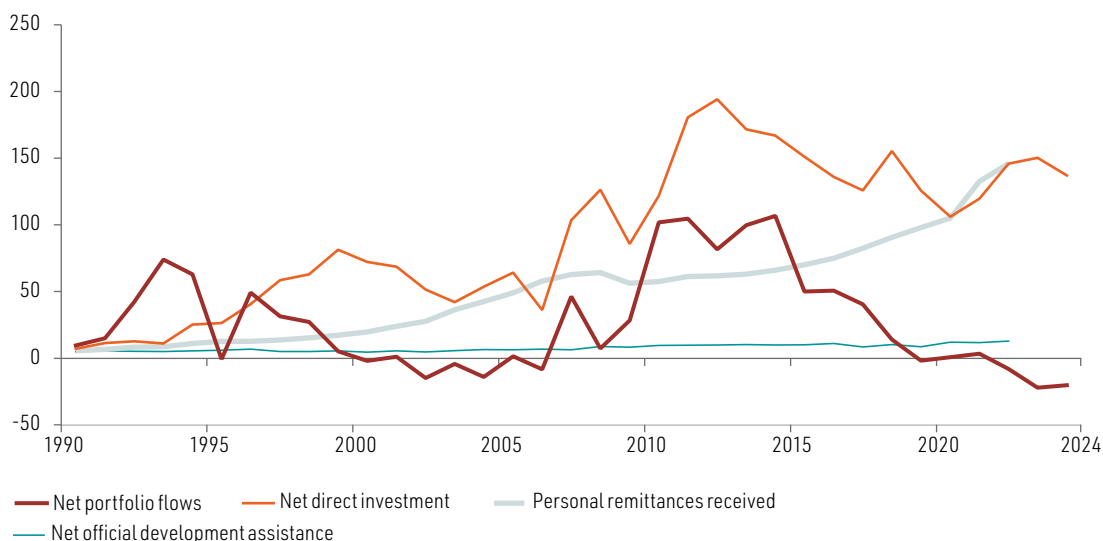
In this context, macroeconomic policy space in developing countries is increasingly limited. Extraordinary spending during the pandemic left little fiscal scope for development financing, including productive transformation. Tightening monetary policy in advanced economies has raised financing costs globally. High interest rates are discouraging investment in sustainable development and increasing the risk of financial crises (Arteta, Kamin and Ruch, 2022). Fiscal deficits, although they have improved compared to the levels during the pandemic, continue to limit investment capacity (ECLAC, 2025b, 2024a, 2023). As a result, debt levels have exceeded 50% of GDP in many countries of Latin America and the Caribbean since 2020 (ECLAC, 2025b), while interest payments have increased so that they exceed spending on health, education and climate investment in many countries (ECLAC, 2024a, 2024b, 2023).

The countries of Latin America and the Caribbean urgently need a sustained and gradual increase in investment to support the productive transformation of their economies. This implies that, although the domestic public resource mobilization analysed in chapter II is fundamental to the development financing process, the scale of the financing required means that the funds mobilized for productive transformation must be supplemented by domestic private sector resources and external funding.

For the region, the main sources of external funding are private (see figure III.2). However, the flows it receives are insufficient (e.g. official development assistance (ODA)), procyclical (e.g. foreign direct investment (FDI)) and often destabilizing (e.g. net portfolio flows, with capital flowing out of the region on balance since 2022, to the detriment of long-term growth prospects). Remittance flows are comparable in scale to FDI, the main challenge being their fragmentation, which limits the extent to which they can be invested in productive activities (see box III.1).

Figure III.2

Latin America and the Caribbean: selected external financing sources, 1990 to 2024
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures and World Bank. World Development Indicators (2025). <https://databank.worldbank.org/source/world-development-indicators/preview/on>.

Box III.1**The challenge of incentivizing investment of remittances in income-generating activities**

During 2024, the countries of Latin America and the Caribbean, excluding high-income countries, received a record US\$ 154.34 billion in family remittances, of which almost 44% went to Mexico. Family remittances represented 26.6% of GDP in Nicaragua, 25.7% in Honduras, 24.0% in El Salvador, 19.1% in Guatemala and 18.9% in Haiti that year.

Most of the remittances received are used to cover immediate needs, such as food, healthcare and housing, all of which contributes to the attainment of the Sustainable Development Goals (SDGs) in recipient households (International Fund for Agricultural Development [IFAD], 2017). Considering this, the first line of action for enhancing the role of remittances in development financing is to make them cheaper to send.

In the region, the cost of sending remittances as a proportion of the amount sent has averaged 5.8% since 2017. While this is lower than the global average of 6.6%, it is almost double the SDG target of less than 3%. To reduce the cost of sending remittances, Huckstep and Dempster (2025) recommend four strategies:

- (i) Improve transparency through cost comparison services, such as the one developed by the SaverPacific platform for Pacific countries;
- (ii) Promote competition among remittance service providers, for example by introducing publicly funded service providers such as the United Kingdom's Terra Payment Services;
- (iii) Link remittance service providers to central bank payment systems in recipient countries, such as the Directo a México initiative of the United States Federal Reserve and the Bank of Mexico; and
- (iv) Waive fees in special circumstances, such as natural disasters.

Family remittances have the potential to foster economic growth through investment in income-generating activities. However, their use to finance productive development is still limited by the fragmentation of the resources available, among other factors (Verma et al., 2024).

Setting out from an analysis of rural value chains in Latin America and the Caribbean, Padilla Pérez et al. (2020) propose strategies in two areas of public policy to encourage greater investment of family remittances in income-generating activities.

In the area of financial inclusion policies, the following four strategies are proposed:

- (i) Strengthen institutional architecture to promote financial inclusion, for example by using existing collateral legislation to facilitate access to finance for small rural producers;
- (ii) Develop the capabilities of both financial service providers and remittance recipients;
- (iii) Promote the design of new financial products that meet the financial needs of migrants and remittance recipients; and
- (iv) Strengthen financial offerings, for example by improving financial cooperatives' access to second-tier financing sources.

In the area of productive development policies, the following three strategies are proposed:

- (i) Strengthen partnerships and linkages within value chains in which remittance recipients participate, for example through the design and implementation of programmes for using remittances in productive activities;
- (ii) Develop the managerial and technical capabilities of remittance recipients, for example through technical assistance in the development and management of production projects that make use of family remittances; and
- (iii) Promote investment by migrants in income-generating activities in their communities of origin, for example through programmes offering matching funds for migrant investment.

Source: Economic Commission for Latin America and the Caribbean, on the basis of International Fund for Agricultural Development. (2017). *Sending Money Home: Contributing to the SDGs, One Family at a Time*; Huckstep, S. and H. Dempster (2025). *After Aid Cuts, Here's How to Make the Most Out of Remittances*. Center for Global Development. <https://www.cgdev.org/blog/after-aid-cuts-heres-how-make-most-out-remittances>; Padilla Pérez, R., Stezano, F. and Villarreal, F.G. (2020). Fomento de la inversión de las remesas familiares en cadenas de valor: estudios de casos de El Salvador, Guatemala y la República Dominicana. *Documentos de Proyectos* (LC/TS.2020/102; LC/MEX/TS.2020/26). Economic Commission for Latin America and the Caribbean; and Verma, B., Bhardwaj, M., Arora, S. and Oberoi, S. (2025). Unveiling the impact of remittances on productive efficiencies: investigating productivity growth of prominent remittance-receiving developing nations. *International Journal of Productivity and Performance Management*. 74(4). pp. 1101–1124. <https://doi.org/10.1108/IJPPM-05-2023-0213>.

To achieve sustainable structural change, the countries of the region need access to affordable and countercyclical financing, both domestic and external, that will enable them to withstand shocks without sacrificing the financing of development objectives.

At the Fourth International Conference on Financing for Development, held in Seville (Spain) from 30 June to 3 July 2025, the countries adopted the Sevilla Commitment by consensus (United Nations, 2025b). The agreements arising from it are intended to be the cornerstone of a renewed and ambitious global framework to address the persistent and growing sustainable development financing gap, especially in developing countries.

B. Renewal of the international financial architecture

The financial architecture is the global framework of legal agreements, institutions and economic practices, both formal and informal, that determine international financial relations and global economic governance. This architecture, which includes the rules and institutions that facilitate investment, resource mobilization and financial flows, was designed after the end of the Second World War but has not been able to adequately support the mobilization of stable, long-term financing on a scale sufficient to make the investments necessary for productive transformation.

This section sets out three sets of proposals for the reforms needed to make the international financial architecture more inclusive and effective.

1. Strengthen international tax cooperation

The international tax architecture suffers from various shortcomings that are undermining countries' tax reforms. Corporate tax avoidance and evasion are rife, fostered by the rapid digitalization of the global economy. Competition between countries over corporate taxation is depriving the region's countries of development financing resources. Illicit financial flows and the abuse of offshore financial centres are other causes for concern.

The debate over reform of the international tax architecture turns on various global mechanisms, such as the G20 and OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS), the United Nations Framework Convention on International Tax Cooperation and initiatives to promote progressive taxation under Brazil's G20 presidency. At the regional level, one of the main forums for discussion is the Regional Platform for Tax Cooperation in Latin America and the Caribbean (PTLAC).

The Inclusive Framework on BEPS Project reflects more than a decade of efforts to address the challenges involved in taxing transnational enterprises. The outcome of the project is the so-called Two-Pillar Solution (Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy), adopted in 2021. The purpose of Pillar One is to reallocate a portion of the profits of the largest multinational enterprises from where they report their income to where they sell their goods and services. Pillar Two sets a global minimum tax rate for the income of multinational enterprises with an annual revenue of 750 million euros or more.

One of the main concerns of developing countries participating in the Inclusive Framework Project is that the revenue generated by adopting the Two-Pillar Solution will not compensate for the loss of fiscal sovereignty, especially in the area of digital taxation. Furthermore, in January 2025, the United States Government notified OECD that until such time as Congress legislated on the relevant provisions of the Framework, this would not apply in the United States, which significantly limits its scope.

In the global debate, developing countries have highlighted a number of objectives, such as the elimination of illicit financial flows, increased progressivity in the tax system through the use of wealth taxes, and environmental taxation to finance investments that are urgently needed to tackle climate change.

These concerns are reflected in the current negotiations on the establishment of a United Nations Framework Convention on International Tax Cooperation. The initiative was proposed by the African Group in 2023, and the terms of reference for the Convention were adopted by the General Assembly in December 2024. In February 2025, an intergovernmental negotiating committee began drafting the convention and its early protocols. The committee will present the final draft of the Convention to the General Assembly in 2027.

The debate currently centres on measures to strengthen the taxation of income from cross-border service provision, complementing the measures in the Inclusive Framework on BEPS Project. Other key issues include tax-related illicit financial flows, tax evasion and avoidance by high-net-worth individuals and the prevention and resolution of tax disputes. The available information indicates that a substantial portion of these flows arises from transactions between subsidiaries of large multinational enterprises, with possible abuse of transfer pricing rules. Illicit financial flows in the extractive sector are a major concern for the countries of Latin America and the Caribbean, given the importance of tax revenues from the exploitation of non-renewable natural resources in many countries of the region (ECLAC, 2017).

During 2024, under Brazilian leadership, the effective taxation of high-net-worth individuals was at the forefront of G20 policy debates. According to estimates by Alstadsæter et al. (2024), a minimum tax of 2% on the wealth of individuals with fortunes exceeding US\$ 1 billion could raise up to US\$ 250 billion annually. However, its application entails technical difficulties, meaning that there is a key role to be played by international cooperation in reducing the risk of tax evasion.

The uncertainty of the international economic outlook means that the multilateral initiatives described above are becoming increasingly important. For their part, developing countries need to take a leadership role and promote solutions to speed up the mobilization of resources. To support these efforts, various regional initiatives have been launched to develop common positions and analyse policy options. In the region, the Regional Platform for Tax Cooperation for Latin America and the Caribbean is a good example of this trend. Created in 2023 through a joint effort by Colombia, Brazil and Chile, this regional platform is supported by ECLAC as technical secretariat.

The Platform has two objectives. The first is to create a mechanism that facilitates discussion among the Latin American and Caribbean countries on key cross-border taxation issues and provides member countries with a space where they can share technical information on common tax challenges and arrive at potential solutions based on available information about international experiences and the specific needs of the region and each of its countries. The second objective is to create a forum for the countries of the region to coordinate their positions and leverage their impact in international tax negotiations.

2. Improve debt management mechanisms

As analysed in chapter II, rising debt levels and financing costs, combined with slower economic growth and more restrictive international conditions, have increased debt vulnerability and impaired sovereign credit quality in a number of economies, including those of Latin America and the Caribbean, irrespective of their income level.

Against this backdrop, the Sevilla Commitment calls for a rethink of the current sovereign debt management architecture. The starting point for the necessary reform is to recognize that sovereign

debt, if prudently managed, is an important tool for financing investments in sustainable development, which can stimulate growth and increase resilience to shocks, thereby strengthening debt sustainability over time (Adarov and Panizza, 2024; Gallagher et al. 2025).

According to the Commitment, a development-oriented international sovereign debt management architecture should encourage responsible borrowing; help developing countries reduce their financing costs and expand fiscal space; and, when necessary, achieve restructuring that is efficient, fair, predictable, coordinated, timely and orderly. This architecture should be based on transparency in the issuance and holding of sovereign debt, and on robust and transparent analyses of its sustainability.

To this end, the group of experts appointed by the United Nations Secretary-General to promote viable policy solutions and mobilize the political and public support needed to resolve the debt crisis has proposed key reforms with a view to addressing what ECLAC has called debt-related development distress (ECLAC, 2023) and creating the conditions for unlocking affordable long-term financing for sustainable development (United Nations, 2025a). The proposals build on and complement those of similar initiatives, including the Jubilee Report commissioned by Pope Francis (Guzmán and Stiglitz, 2025) and the Bridgetown Initiative launched by the Government of Barbados (2024).

The reforms are organized around three interdependent areas: improvement of national debt management mechanisms and financing strategies, international cooperation for capacity-building in debtor countries and reforms to the multilateral financial system.

At the national level, the denomination of debt in foreign currency, interest rate fluctuations and capital flow volatility represent risks that need to be mitigated. To improve debt profiles in respect of both composition (by favouring local currency debt) and maturity, it is necessary to develop domestic capital markets and integrate them at the regional level, as detailed in section D.1. The use of risk management instruments such as exchange-rate hedging can make debt servicing more predictable and conserve fiscal space.

To promptly identify and mitigate the risks associated with public debt, mechanisms for monitoring its level and composition need to be developed and strengthened. This also improves the standing of debtor countries with credit rating agencies.

The development of national investment platforms can facilitate access to new sources of financing by reducing transaction costs, potentially through the use of innovative financial instruments as detailed in section D.3. A platform of this nature has the potential to enhance investment quality and impact, thereby contributing to debt sustainability and the financing of development objectives.

As regards international cooperation for capacity-building in debtor countries, the report of the United Nations (2025a) proposed the establishment of an integrated platform to provide technical assistance, develop capabilities and share important information on resource mobilization via innovative financial instruments with interested countries. The Government of Spain took up the proposal at the Fourth International Conference on Financing for Development and announced the launch of the Global Hub for Debt Swaps for Development in collaboration with the World Bank.¹

A borrowing countries' forum was also proposed. According to the United Nations proposal, this forum would have a permanent secretariat whose mandate would include acting as a repository of knowledge for peer learning, technical assistance and maintenance of a public debt information transparency platform, and improving the capacity of borrowing countries to conduct their own debt sustainability assessments. Establishment of the borrowers' forum is one of the agreements of the Sevilla Commitment, and implementation is being organized by the United Nations Conference on Trade and Development (UNCTAD).²

¹ See: <https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/economia-comercio-empresa/Paginas/2025/010725-plataforma-conversion-deuda-ffd4.aspx>.

² See: <https://unctad.org/es/osgstatement/4a-conferencia-internacional-sobre-financiacion-para-el-desarrollo-rueda-de-prensa>.

The United Nations has also called on national treasuries and debt management offices to expand technical assistance and capacity-building with a view to strengthening debt management mechanisms, including legal frameworks, and to developing national capital markets, thereby reducing the risk of future debt difficulties. This is already being done through mechanisms such as the UNCTAD Debt Management and Financial Analysis System (DMFAS) and by IMF and World Bank.

Regarding reforms to sovereign debt management in the multilateral financial system, the United Nations (2025a) proposed that the G20 Common Framework for Debt Treatments should be reformed to deal with its current limitations, since it is seen as slow, inefficient and too narrow in scope.

The proposals are to: (i) extend the coverage of the Common Framework to all middle-income countries; (ii) implement automatic debt service pauses during negotiations, which would provide relief from liquidity problems and encourage the search for timely and constructive resolutions; (iii) conduct parallel negotiations between official and private creditors and debtors to expedite resolutions; (iv) strengthen the definition and application of comparability of treatment and collective action clauses to facilitate orderly restructurings and reduce uncertainty for all parties; (v) ensure shorter time frames for completion of the restructuring process; and (vi) apply the IMF lending into arrears policy consistently to provide adequate liquidity and encourage the participation of private creditors.

Similarly, the United Nations (2025a) advocates regular updating of the methodologies used to conduct debt sustainability analyses so that they adequately reflect the liquidity and solvency of developing countries.

Debt sustainability assessments should be adjusted to take account of the resource mobilization needs entailed by development objectives. The traditional approach, focused on stabilizing short-term debt levels, restricts countries' ability to invest in long-term sustainable development. These criteria need to be revised to include goals for economic growth and domestic resource mobilization, financing frameworks aligned with national development objectives and external financing needs, including debt relief (Gill and Pinto, 2023; Gill and Pinto, 2025; Kharas, 2025).

Lastly, the creation of a Global Hub for Debt Swaps for Development, to be run by Spain and the World Bank, was announced during the Seville Conference. The Hub's goals include capacity-building and improved collaboration to scale up debt-for-development swaps, thereby reducing the burden of debt servicing.

3. Extend the global financial safety net

External capital flows to emerging and developing countries are procyclical and can be destabilizing (Erten et al., 2021). Fluctuations in flows can derail development strategies. During capital booms, currency appreciation and credit expansion boost demand and growth, but during sudden stops this process is reversed, leading to depreciation, increased external debt service costs and lower aggregate demand (Korinek, 2011).

It is therefore imperative for the international financial architecture to facilitate increased resource mobilization in a fiscally sound and financially stable manner, thereby preventing or mitigating external shocks such as climate change, pandemics and interest rate rises (Task Force on Climate, Development [TFCD] and IMF, 2024).

However, the global financial safety net, which includes IMF, networks of currency swap agreements and regional financial arrangements, has struggled to meet these challenges (Aizenman et al., 2022; Mühlich et al., 2023; Zucker-Marques et al., 2023). The poor coverage and performance of the global financial safety net have forced many developing countries to adopt measures that allocate resources inefficiently (Cormier, 2023; Gallagher and Shrestha, 2012). As discussed in section B.2 on sovereign debt and its sustainability, this has serious consequences, with a growing number of countries spending more on debt servicing than on health or education.

Comprehensive reforms to the global financial safety net are essential to address these challenges. In addition to the sovereign debt management proposals outlined above, and in line with the agreements of the Sevilla Commitment, the following measures are proposed: (i) refocus and strengthen existing trust funds to expand available liquidity by extending loan maturities, financing debt buybacks and reducing debt service at times of crisis; (ii) normalize debt service pauses during crises, including those related to natural disasters; and (iii) rechannel special drawing rights (SDRs) through existing trusts and multilateral development banks.

Where the new approach and the strengthening of existing trusts are concerned, the discussion has focused on the Debt Relief Trust Fund, established as part of the Heavily Indebted Poor Countries Initiative, and the Catastrophe Containment and Relief Trust, established by IMF to support low-income countries in the event of natural disasters, together with similar mechanisms administered by regional development banks. These funds provide mechanisms for sovereign debt relief and restructuring.

The proposal is to leverage existing institutions and expand their coverage to middle-income countries so that liquidity can be provided at times of crisis. This would require donations to top up existing funds with fresh resources.

To normalize debt service pauses during crises, meanwhile, the idea is to expand the use of contingent clauses in debt instruments, linking a country's ability to meet its debt service obligations with its economic performance. These types of instruments provide an insurance mechanism at times of crisis that avoids the need for procyclical fiscal adjustments, reducing the likelihood of debt crises and forced restructuring, without the need for lengthy periods of negotiation (Pérez Caldentey and Villarreal, 2023).

Although contingent clauses have been adopted by official creditors, both bilateral and multilateral, private creditors have been slower to include them (United Nations, 2025a). Thus, a major challenge is to design instruments that are not only useful for borrowers but attractive to investors, thereby stimulating demand for them and reducing premiums.

At the Seville Conference, a coalition including Canada, France, Spain and the United Kingdom, together with regional development banks such as the Inter-American Development Bank (IDB) and the Development Bank of Latin America (CAF), committed to including contingent clauses in their loan agreements to suspend debt service payments at times of crisis.

With regard to SDRs, data show greater demand for these among developing countries than among advanced countries (Economic Commission for Africa and ECLAC, 2021; Pérez Caldentey and Villarreal, 2023). SDRs can currently be rechannelled through the IMF Resilience and Sustainability Trust, but the process is slow (United Nations, 2025a).

One of the main proposals regarding the rechanneling of SDRs beyond IMF is to use them to recapitalize multilateral and regional development banks, potentially increasing the efficiency with which these rights are used (G20 Independent Expert Group, 2023). The main challenge is to preserve the reserve asset character of SDRs. The United Nations (2025a) proposal is to modify IMF SDR quotas so that a proportion of new issues are pre-allocated for the recapitalization of development banks.

C. The strengthening of international development cooperation

ODA has been a major source of funding for social, economic and environmental initiatives in Latin America and the Caribbean. ODA allocated to ECLAC member countries grew steadily until 2022, peaking at US\$ 17.3 billion (OECD, 2025a), which represented 0.36% of donor countries' gross national income. For the region's low- and middle-income countries, ODA has been a stable and reliable source of funding.

However, this positive trend reversed in 2023, when aid disbursements to the region fell to US\$ 14.9 billion, a decline of approximately 14% from 2022. Globally, international assistance from official donors fell by 7.1% in real terms in 2024 from 2023 (OECD, 2025c), mainly owing to changes in the national priorities of key development partners.

ODA from donors, channelled through the OECD Development Assistance Committee, is allocated according to the gross national per capita income thresholds set by the World Bank and United Nations. These thresholds determine the type and amount of concessional financing available, with categories ranging from low-income to upper-middle-income countries. Most ECLAC member countries are middle-income.

When a country achieves high-income status for three years running, it is considered to have graduated and is no longer eligible for ODA. Several countries in the region have graduated in the last decade, including Saint Kitts and Nevis in 2014, Chile and Uruguay in 2018 and, most recently, Antigua and Barbuda in 2022 (OECD, 2025e). Guyana and Panama crossed the high-income threshold in 2022 and will be considered for graduation in 2026. OECD (2014, 2024) estimates that between 2025 and 2035, Argentina, Brazil, Costa Rica, Cuba, the Dominican Republic, Mexico, Peru, Saint Lucia, Saint Vincent and the Grenadines and Suriname could also graduate.

Although a number of institutions provide development financing in the region, many countries do not qualify for concessional financing. Between 2014 and 2023, cumulative ODA disbursements to the countries of the region, representing the equivalent of US\$ 119.096 billion, were more than double the amount disbursed by the World Bank, equivalent to US\$ 50.296 billion. As regards IDB financing, only Haiti, Honduras and Nicaragua have access to this on concessional terms. Over the last decade, Brazil, Cuba, Colombia, Haiti and the Plurinational State of Bolivia have been the main recipients of ODA measured in dollars, which highlights the importance of these flows and the challenges posed by the prospect of losing them after graduation.

Graduation from ODA eligibility presents both opportunities and challenges. While it is evidence of economic progress, it also means losing access to concessional financing that can be difficult to replace from alternative sources, which tend to have stricter conditions. To address these challenges, the following strategies are recommended:

- (i) **Revise ODA eligibility criteria:** exclusive reliance on per capita GNI has been widely criticized because it does not reflect the complexity of development needs. More nuanced approaches, such as classification of financing needs based on structural gaps (ECLAC, 2012; Kaldewei, 2015) or the transition development framework (ECLAC, 2021), could better identify areas requiring support, regardless of income level. More recently, at the Seminar on the Measurement of Development and its Relationship to International Cooperation, member States emphasized the importance of measuring development in a way that looks beyond GDP (ECLAC, 2025c).
- (ii) **Support more gradual transitions to graduation:** in March 2025, the Development Assistance Committee (DAC) approved a mechanism that emphasizes smoother transitions, sustainable financing and continued partnerships after graduation (OECD, 2025d). Special consideration has been given to small island developing States, and recommendations have included the adoption of graduation strategies, the use of regional cooperation channels and the application of vulnerability indices other than income indicators to assess needs (OECD, 2024).
- (iii) **Strengthen regional cooperation:** given the reduction in ODA resources, greater coordination is needed to maximize aid effectiveness. This includes expanding South-South cooperation, developing larger-scale multinational projects to avoid duplication and reduce administrative costs and minimizing aid fragmentation at the national level.

D. Encouragement of private sector investment

Private sector investment, whether of domestic or external origin, is one of the main drivers of sustainable growth (Inter-Agency Task Force on Financing for Development, 2024). For this reason, aligning private sector investment with sustainable development was one of the main objectives of the Fourth International Conference on Financing for Development. Proposals for leveraging private sector investment to finance development goals will now be presented, with an emphasis on the productive transformation of the region's countries.

1. Develop domestic capital markets and integrate capital market platforms at the regional level

To ensure the long-term sustainability of businesses (whose main financing sources, especially in the case of smaller companies, are their own resources and bank loans) and to narrow the infrastructure financing gap in the region, domestic capital markets need to be further developed and integrated at the regional level.

Data indicate that the expansion of capital markets in developing countries requires an enabling environment which encourages saving and increases investment opportunities for companies (Bank for International Settlements [BIS], 2019; Carvajal et al. 2019). According to the World Bank (2020), such an environment is characterized by high levels of saving and investment, a solid current account balance and stable inflation and exchange rates.

Apart from the macroeconomic policies needed to develop such an enabling environment, which are beyond the scope of this chapter, Pedraza and Ul Haq (2025) identify two sets of policies that have the potential to foster the development of capital markets in developing countries. These are policies aimed at increasing the volume of savings available for investment and improving financial intermediation.

To increase the volume of savings available for investment, an initial recommendation in the Sevilla Commitment is to leverage advances in the digitalization of services to continue expanding financial inclusion for individuals and businesses. Progress on inclusion should be sought both at the extensive margin, since large segments of the population are still excluded from financial services, and at the intensive margin, by reducing costs and tailoring products to users' financial needs (Inter-Agency Task Force on Financing for Development, 2024; Pérez Caldentey and Titelman, 2018; Villarreal, 2017).

Furthermore, considering the role played by institutional investors such as pension funds and insurance companies in capital market development, Pedraza and Ul Haq (2025) propose that strategies to increase national saving should be complemented by reforms to pension systems designed both to secure their financial sustainability and to stimulate activity in domestic capital markets. According to the data analysed in Meh and Scmukler (2025), the development of institutional investors at the country level tends to favour smaller companies that do not have the scale to participate directly in international markets.

Additionally, Pedraza and Ul Haq (2025) recommend opening up domestic capital markets to foreign investment, thereby giving larger companies access to a wider range of financing sources. It is important to emphasize that the sequence of reforms needed to develop capital markets has significant implications both for the stability of the financial system as a whole and for the development financing outlook (De La Torre et al., 2013).

Policies to improve financial intermediation also contribute to the development of domestic capital markets, facilitating the allocation of savings to business investment. A first recommendation that comes out of the analysis by Pedraza and Ul Haq (2025) is to develop benchmarks for corporate bond issuance via regular government debt placements that establish and maintain a benchmark yield curve.

Furthermore, developing and strengthening regulatory frameworks that stimulate competition between financial system actors, while ensuring the stability of the system and establishing minimum corporate governance standards to protect investors' rights, also contributes to the development of domestic capital markets.

Considering that the scale of domestic capital markets in several countries of the region is insufficient to meet private sector financing needs, domestic capital market development policies can be complemented by policies aimed at integrating capital markets at the regional level. Integration has the potential to make resource allocation more efficient, thereby reducing transaction costs, increasing liquidity and mitigating risks by extending access to new market participants.

According to Bonita, Shapiro et al. (2020), barriers to financial integration can be classified into four interrelated categories: macroeconomic and institutional barriers, supply and demand barriers, regulatory and supervisory barriers and market infrastructure and intermediation barriers.

Setting out from an analysis of the experience of regional capital market integration in the Nordic countries and member countries of the Association of Southeast Asian Nations (ASEAN), and considering ongoing initiatives in Latin America and the Caribbean,³ Bonita, Shapiro et al. (2020) suggest that a capital market integration strategy for the region needs to achieve the following: (i) increase liquidity by reducing costs and other barriers to entry in the primary and secondary markets through regulatory relief and regional product promotion to attract new investors and issuers; (ii) increase market access and transparency to ensure the credibility and efficiency of regional capital markets, creating effective market infrastructure to this end; and (iii) increase supervision and oversight of capital market development and integration by setting up a regional coordination body and surveillance unit.

Thus, the approach to capital market integration in Latin America and the Caribbean needs to go beyond the merger of technical and operational platforms at stock exchanges and actively involve all stakeholders. The recommended strategy focuses on three fundamental pillars (Bonita, Shapiro et al., 2020):

- (i) Creation of an environment conducive to integration by establishing a regionwide strategic platform for the region; formulation of a long-term development plan, with the integration process mapped out; development of a mutual recognition framework and policy harmonization; and creation of a community of practice and a knowledge-sharing programme.
- (ii) Development of a robust market infrastructure by integrating trading, integrating back office infrastructure and creating a database for market participants.
- (iii) Product diversification and capacity-building for intermediaries in the region, improving both the demand and supply sides of capital markets.

2. Strengthen policies for attracting FDI

Net FDI is one of the main sources of external financing for the region, amounting to 1.9% of GDP in 2024. FDI has the potential to support productive transformation by enhancing export sophistication, diversification and industrial capacity. It can also have a positive impact on recipient economies through technology transfer and indirect productivity effects, facilitate access to international markets and mobilize resources to diversify economic activity and broaden the industrial base.

³ Leading regional integration initiatives include the Latin American Integrated Market (MILA), which aims to integrate the operations of the stock exchanges of Chile, Colombia, Mexico and Peru within the framework of the Pacific Partnership, and the Association of Capital Markets of the Americas (AMERCA), which includes the stock exchanges of Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Panama, but which in practice has progressed only with the integration of the stock exchanges of El Salvador and Panama.

As noted by ECLAC (2024c), the potential for FDI to affect economic growth is greater if the recipient country has adequate absorption capacity, which depends on macroeconomic and institutional factors and good governance, as well as on the specific conditions of the sectors involved and the policies in place to promote, regulate and manage FDI. This means that policies to attract FDI should be formulated according to the specific characteristics of the country, territory and sectors concerned.

Setting out from an analysis of the experiences of different countries in Latin America and the Caribbean and in other regions, ECLAC (2024c) has proposed a number of guidelines for the design and implementation of policies to attract FDI, which are summarized below.

Policies to attract FDI should be integrated into a consistent strategy for productive development at the national and territorial levels, with strong political leadership and the involvement of a variety of actors such as government, the private sector, academia and civil society.

It is essential to update and review these strategies periodically to improve their effectiveness, while strengthening economic conditions that facilitate investment, including integration of local suppliers into global chains and the development of technical capabilities.

It is also necessary to encourage investment in research, development and human capital formation, and to promote technology transfer and collaboration with academic centres.

A clear, transparent regulatory framework with simplified processes is essential to provide investors with legal certainty. The design of incentives must include conditions that are aligned with productive policies, and there must be monitoring mechanisms in place to ensure their effectiveness. This means that investment promotion agencies need to be adequately resourced and have the autonomy and tools they need to provide post-investment follow-up.

Lastly, there should be regional coordination of country initiatives, and arrangements for sharing best practices should be put in place to enhance the competitive advantages of each country or territory.

3. Enhance the use of innovative financial instruments

Given the prospect that the mobilization of public resources will not be sufficient to finance the sizeable investments needed for productive transformation, the international financial community has actively explored mechanisms for using available resources more efficiently and encouraging private sector investment. Following the example of the corporate sector, sovereign issuers have adopted innovative financial instruments such as thematic bonds⁴ and sustainability-linked bonds,⁵ adapting them to meet public sector financing needs.

The sustainable finance market in Latin America and the Caribbean has grown since 2014. According to figures from ECLAC (2025a), in 2024 the region issued US\$ 33.13 billion in such bonds, 6% more than in 2023 and the highest volume since 2021.

Despite the relatively high upfront costs of issuance, which include the development of operating frameworks, project preparation and selection, and monitoring and reporting requirements, interest in green, social, sustainable and sustainability-linked bonds continues to grow among both issuers and investors. Issuers value access to a broader investor base, while investors seek to meet demand for impactful products.

⁴ Thematic bonds are debt instruments that raise funds exclusively for new or existing green, blue or social projects, as defined in the relevant frameworks, regulations or standards of the market concerned. If more than one label applies to a single debt instrument, it is known as a sustainability bond. The main feature of thematic bonds is that the proceeds can only be used for eligible activities. For this reason, thematic bonds are often referred to as labelled bonds or use-of-proceeds bonds.

⁵ Sustainability-linked bonds are bonds that explicitly link financial conditions, including coupon rates, to the issuer's performance against preset sustainability objectives, measured by key performance indicators. A central feature of sustainability-linked bonds is that the funds raised can be used for general purposes, by contrast with thematic bonds, which are specific to certain activities or projects. This flexibility allows issuers to apply the capital to a wider range of activities while committing to sustainability objectives.

For sovereign issuers seeking to access capital markets with innovative financial instruments such as thematic bonds or sustainability-linked debt, several critical factors need to be in place to ensure successful and impactful outcomes, including capacity-building, strategic coordination, compliance with internationally accepted standards and alignment with national development objectives (Dauchy, 2025; United Nations, 2025a).

The development and placement of innovative financial instruments require the development of strong institutional capacity. Sovereign issuers must invest in training and development programmes so that national and regional institutions can understand and manage the complexities of sustainable finance. This includes creating specialized teams or units with expertise in development finance, green initiatives, climate risk assessment and impact reporting. Peer-to-peer knowledge-sharing initiatives at the regional level can also foster a unified approach to sustainable finance, strengthening capabilities and preparedness.

Sovereign issuers need to develop a consistent strategy that incorporates contributions from the different stakeholders, including government agencies, international organizations and local communities. Governance frameworks and platforms for regular communication should be created to align efforts and maximize impact. Determining the development objectives to be financed, identifying the investment categories that will orient the use of proceeds and establishing mechanisms to select specific projects and effectively manage governance processes all form an integral part of this coordination.

The International Capital Market Association (ICMA), among other institutions, has proposed internationally recognized principles for sustainable debt instruments. Sovereign issuers should seek to align national frameworks for green and sustainability-linked bonds with these principles to enhance credibility and attract a broader investor base.

Key performance indicators are essential for demonstrating the impact of sustainable financing instruments. Sovereign issuers should identify key performance indicators that are directly linked to national priorities for productive transformation. These indicators should be measurable, transparent and verifiable, with clear baselines and goals. Institutional mechanisms should also oversee the selection and monitoring of key performance indicators to ensure accountability and alignment with development objectives.

Sovereign issuers need to establish robust systems for collecting, managing and analysing data on the use of proceeds and the achievement of key performance benchmarks. Regular publication of impact reports detailing the environmental and social benefits achieved is essential to maintain transparency. Governance mechanisms should also be implemented to validate data and promote consistency in oversight and reporting processes in the interests of accountability (Torres et al., 2023).

E. Prospects for the Sevilla Commitment agreements

As mentioned, the Sevilla Commitment seeks to establish a renewed global framework to deal with the sustainable development financing gap. The document is based on agreements from previous conferences, with particular emphasis on the Addis Ababa Action Agenda, many of whose agreements are still awaiting implementation.

Despite the aspirations of the Addis Ababa Action Agenda to rebalance the structure of the international financial architecture, it is still not designed in a way that facilitates the mobilization of stable, long-term financing on the scale needed for the investments development financing requires. With regard to public debt sustainability, as discussed, debt servicing challenges are among the main obstacles to development financing in Latin America and the Caribbean.

Again, although ODA flows to the region have continued to grow, there is still a gap between donor countries' commitments and disbursements, while opportunities for the countries of the region to access concessional development financing have been significantly reduced.

Lastly, the Addis Ababa Action Agenda assumed that financing mechanisms such as blended finance would make it possible to catalyse private resources for development financing. A decade on, however, private financing flows, particularly to lower-income countries, remain insufficient to close the financing gap.

In this context, the main challenge for the Sevilla Commitment is to transcend rhetoric and achieve concrete progress in implementing the agreements. The fact that the document was adopted by consensus, despite the reservations of some developed countries, reaffirms the international community's commitment to sustainable development aspirations, especially in the face of growing geopolitical tensions, economic challenges and environmental crises. However, the withdrawal of the United States from the negotiations and the Conference is a reminder that development financing remains vulnerable.

The Commitment includes a comprehensive set of proposals in key areas of action, including mobilization of large-scale investment for sustainable development, measures to deal with the debt and development crisis, reform of the international financial architecture and revitalized multilateral cooperation.

To begin to implement the agreements of the Sevilla Commitment within the framework of the Sevilla Platform for Action, more than 100 initiatives focused on boosting public and private investment for sustainable development, some of which have been discussed in this chapter, were launched.

For these initiatives to be truly transformative, national agendas laying down development objectives need to be the coordinating framework for resource mobilization efforts, and this requires greater consistency between financing policies (ECLAC, 2024a). In turn, countries' ability to strengthen consistency depends on the institutions and processes whereby development financing policies are formulated, implemented and managed, that is, on effective governance.

International experience shows that three factors are crucial for effective governance of development finance: commitment and leadership; access to knowledge and diverse perspectives; and coordination among actors (INFF Facility, 2024).

Strong commitment and high-level leadership, both political and technical, are essential for arriving at a clear vision and strategic direction for development financing. This leadership must transcend electoral cycles and ensure ownership and active participation by multiple actors in the formulation and implementation of financing strategies.

Effective governance requires the knowledge and perspectives of stakeholders to be incorporated into the decision-making process. This allows public policymakers to consider a broad spectrum of needs, priorities and interests, and facilitates the formulation of comprehensive financing approaches. It also improves access to important information and strengthens the accountability of finance providers.

Effective coordination between government actors, the private sector, academia and civil society allows synergies to be exploited in the formulation and implementation of financing policies. This coordination is vital to minimize contradictions and manage the trade-offs inherent in policy combinations.

To complement capacity-building and governance efforts in the development financing process at the national level, it is crucial for a common position on reform of the international financial architecture to be adopted at the regional level. This will enable the countries of Latin America and the Caribbean to influence the configuration of a fairer and more efficient global financial system.

These three pillars, namely leadership, knowledge and coordination, are crucial for strengthening the governance of development financing. Integrating them will improve the consistency of national strategies and facilitate the mobilization of external resources for productive transformation.

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CHAPTER

IV

The role of development banks in mobilizing resources

Introduction

A. The functions of development banks

B. Multilateral development banks and their heterogeneity

C. National development banks in Latin America and the Caribbean:
characteristics, evolution, heterogeneity, productive specialization,
financial inclusion and instruments

D. Conclusions, recommendations and final comments

Bibliography

Introduction

Development banking is a crucial tool for productive and social development. The traditional role of development banks is to provide financial support for mainly productive activities that are justified by their high social returns, but whose private returns are insufficient to make them attractive to the private sector.

The gap between social and private rates of return is traditionally explained by market failures such as information asymmetry, coordination issues and externalities.¹ Information asymmetry is an explanatory factor in credit rationing for micro-, small and medium-sized enterprises (MSMEs), whether through high interest rates, collateral requirements or a combination of the two.

If the analysis is extended beyond market flaws, the gap between social and private returns also reflects the fact that certain investments of vital importance to structural change and economic and social development require long periods of gestation and maturation, while there may be uncertainty about their prospects for success and profitability.² The special character of such investments, for example in infrastructure, technological innovation and emerging industries, makes them difficult for the private sector to undertake unaided, as they are considered high-risk.

Development banks can not only lead this type of investment, but also develop forms of financing, such as co-financing, and innovative instruments, including credit guarantee mechanisms and capital funds, capable of attracting the private sector.³ The importance of this second consideration is reflected in the leading role played by these institutions in investment financing and productive development policies generally in developed countries.⁴

A. The functions of development banks

The functions of development banks can be classified according to five main objectives. The first is to mobilize and channel public and private savings for public and private projects in the economic, social and environmental areas specified in their strategic vision. This objective answers to the more traditional mandate of development banks to provide financing for productive investment in strategic productive sectors and in areas that promote economic complementarity, a task that involves identifying, evaluating, promoting and financing investment projects. Thus, development banks play a substantial role in channelling domestic resources to specific areas requiring support, since these institutions, whether national, subregional or regional in character, have proven effective at mobilizing development finance resources for medium- and long-term investments in a variety of sectors, especially infrastructure, financial intermediation and social and productive development.

The second objective is to provide financing to MSMEs. This objective reflects the importance of the sector to the region's economies. According to the latest estimates by the World Bank and International Finance Corporation (2017) (based on 2017 data) and IDB (2023), formal MSMEs in Latin America and the Caribbean number an estimated 28 million and represent 20% of the region's GDP, more than 40% of private sector employment and over 90% of all enterprises. On the most recent estimate, financing needs total US\$ 1.2 trillion.

¹ See, for example, Central Bank of Mexico (2020); De Luna-Martínez and Vicente (2012); Gutiérrez et al. (2011).

² See Griffith-Jones and Ocampo (2018, p. 8). The authors argue that these types of projects are highly complex and require sophisticated expertise to evaluate, given their positive effects through the economy.

³ Once the private sector is involved, development banks with greater capabilities are able to provide technical guidance (Pazarbasioglu, 2017).

⁴ The most important institutions, by the value of this group's assets, are KfW (Germany), the Development Bank of South Korea, the Development Bank of Japan, the International Finance Corporation (United States), the Business Development Bank of Canada and Bpifrance (France).

The third objective is to contribute to the development of the financial sector and capital markets. This objective represents a key area of indirect support for private sector development and complements the first two objectives, since developing the financial sector and capital markets greatly facilitates the mobilization of savings.

The fourth objective of development banking is to participate in the exploration and identification of emerging productive sectors with the potential to help sophisticate or diversify the economy, in support of a productive development policy or strategy. In other words, development banks have a discovery function in relation to the potential for economic sophistication and diversification, which they perform through their assessment and lending activities (Fernández-Arias, Hausmann and Panizza, 2019). Here they can play an important role by generating market knowledge about the failures that constrain the productive transformation process, with this information then becoming a public good of potential benefit to other market actors. These institutions can finance strategic sectors and support modernization and productive diversification.

Lastly, besides their role as stable providers of resources for productive development in the region, development banks have the objective of acting as a countercyclical financing source. This has mitigated fluctuations in the business cycle, alleviating market constraints in situations of crisis (Cipoletta and Abdo, 2022), as happened during the two greatest crises the region has faced: the global financial crisis (2008–2009) and the coronavirus disease (COVID-19) pandemic (2020).⁵

B. Multilateral development banks and their heterogeneity

There are five multilateral development banks serving the Latin America and Caribbean region. One, the World Bank, is global; another, the Inter-American Development Bank (IDB), is regional; and there are three subregional banks, the Development Bank of Latin America and the Caribbean (CAF), the Central American Bank for Economic Integration (CABEI) and the Caribbean Development Bank (CDB).⁶

An analysis of these institutions shows that there is no predetermined development banking model; rather, different models coexist, which means that there is significant potential for cooperation and coordination between development banks.

The size, financial and institutional profiles and regional coverage of these institutions are heterogeneous. This is equally true of multilateral, regional and subregional banks and of national banks.

By way of example, a comparison of multilateral, regional and subregional banks shows that the World Bank has the largest volume of assets, followed by IDB, CAF, CABEI and CDB. IDB is the main lender to Latin America and the Caribbean. The greater diversification of the World Bank and IDB means that these two development banks have more capacity for leverage than CAF, CABEI or CDB. As regards regional coverage, the World Bank, IDB and CAF cover the whole of Latin America and the Caribbean, CABEI activities centre on the Central American Isthmus and CDB focuses on the Caribbean. Geographical diversification is one determinant of these institutions' credit ratings (see table IV.1).

An important difference between the World Bank, IDB, CAF and CABEI is the composition of their shareholders. Voting power at the World Bank is essentially under the control of countries that are not borrowers, such as the United States, which is the largest shareholder, and the United Kingdom,

⁵ This study focuses entirely on the first four functions of development banking.

⁶ In 2024, following the incorporation of new Caribbean member States, the Andean Development Corporation (CAF) officially changed its name to the Development Bank of Latin America and the Caribbean (although it retains the acronym). Accordingly, whereas it would be classified as a subregional development bank until 2023, it should be treated as regional from 2024 onward. It is deemed to be a subregional bank for the purposes of this study, however, because the CAF time series data used in the analysis predate 2024.

which is the second-largest. In the case of IDB, however, lending countries control approximately half the voting power, while at CAF and CABEL, lending countries have the majority of voting power. This largely determines the volume and orientation of lending, as well as capitalization.

Table IV.1

Multilateral, regional and subregional development banks: selected financial indicators, 2024
(Millions of dollars and units)

	World Bank	IDB	CAF	CABEL
Financing committed	19 400 (9 732)	12 000	15 856	2 290
Financing disbursed	6 907	9 100	9 118	1 905
Total assets	356 612	155 368	56 460	18 239
Capital	323 100	170 940	14 700	7 000
Paid-up capital	22 500	6 039	10 000	1 730
Callable capital	296 000	164 901	...	5 192
Leverage	4	4	2	2
Credit rating	AAA	AAA	AA	AA

Source: Prepared by the authors, on the basis of Fleiss, P. (2021). "Multilateral development banks in Latin America: recent trends, the response to the pandemic, and the forthcoming role", *Studies and Perspectives Series - ECLAC Office in Washington, D.C.* (21) (LC/TS.2021/62-LC/WAS/TS.2021/2), Economic Commission for Latin America and the Caribbean. Standard & Poor Ratings (2025, 25 January). Andean Development Corporation: detailed analysis. Spglobal.com/ratings. Development banks' annual reports (2024).

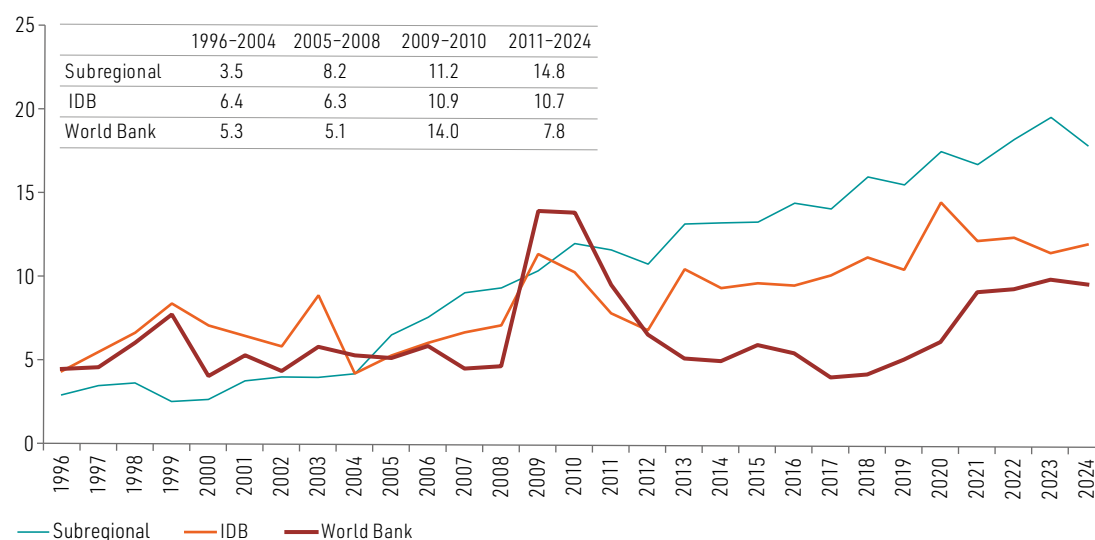
Note: According to Standard and Poor (2025), CAF has no callable capital.

1. Subregional multilateral development banks and their productive specialization

Since the mid-2000s, the subregional development banks (CABEL, CDB and CAF) have been one of the main sources of financing for the public sector in the countries of Latin America and the Caribbean (see figure IV.1). The financial commitments of the subregional banks rose from 21.8% of the total in the period 1996–2004 to 45.3% in the period 2011–2024.

Figure IV.1

Latin America and the Caribbean: financing provided by the subregional banks, IDB and the World Bank, 1996–2024
(Billions of dollars)

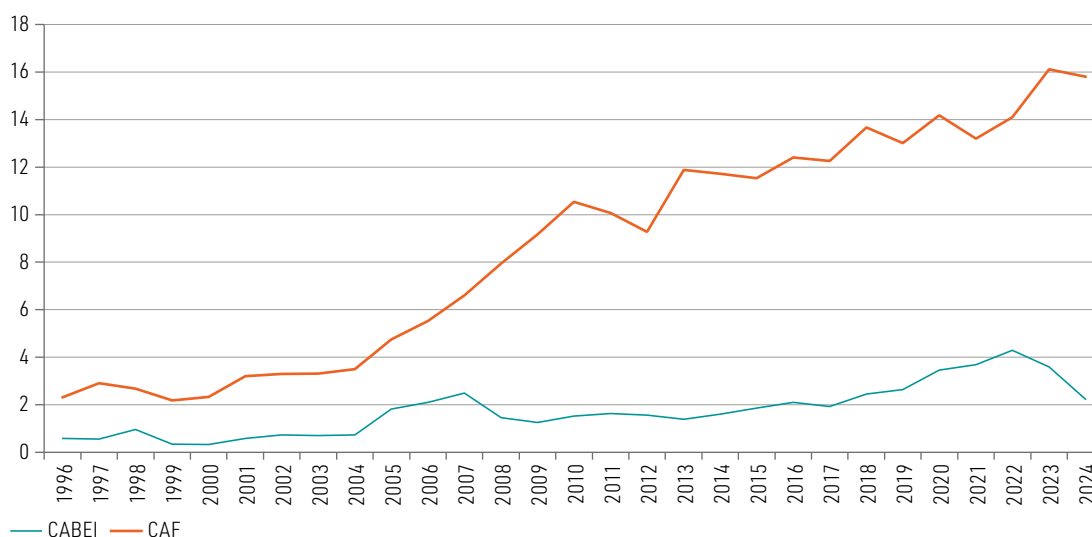


Source: Prepared by the authors on the basis of annual reports from the World Bank, the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEL), the Development Bank of Latin America and the Caribbean (CAF) and the Caribbean Development Bank (CDB).

The performance of the subregional banks is explained by a rise in CAF lending, which accounted for 88% of the financing committed by subregional banks in Latin America and the Caribbean during the period 1996–2024 (see figure IV.2). Nonetheless, CABEL and CDB financing to their respective members is significant. CABEL provides approximately half of all the multilateral financing received by the Central American countries. Data for the period 2004–2021 show that the CABEL share of total disbursements in Central America was 47%, surpassing the World Bank (17%) and IDB (36%) (CABEL, 2024).

Figure IV.2

Latin America and the Caribbean: financing provided by CAF and CABEL, 1996–2024
(Billions of dollars)



Source: Prepared by the authors on the basis of annual reports from the Central American Bank for Economic Integration (CABEL) and the Development Bank of Latin America and the Caribbean (CAF).

Development bank financing consists mainly of medium- and long-term loans to the public sector. Thus, 96.2% of the CAF loan portfolio and 93.9% of the CABEL portfolio were allocated to the public sector in 2022.

Loans have a low level of risk. The vast majority are sovereign-guaranteed (91.0% of the loan portfolio in the case of CAF and 82.3% in the case of CABEL in 2024). Both banks' financing is executed through long-term loans and credit lines.

Sector-level analysis shows that most lending goes to the infrastructure sector (on the broadest definition). In the case of CABEL, this includes human development and social infrastructure; production infrastructure; energy; and industry, urban development and services for competitiveness, accounting for 20.7%, 31.3%, 16.2% and 11.5%, respectively, of the total loan portfolio for the period 2010–2024 (see table IV.2).

In the case of CAF, similarly, the sectors that most lending goes to are infrastructure (which includes transport, storage and commerce); energy; and electricity, gas and water supply (27.1%, 9.0% and 8.2% of the total, respectively) (see table IV.3). Part of the loan portfolio in the education, social services and health sectors may also involve infrastructure improvements, including the provision of basic services such as roads, transport, energy, drinking water, sanitation and urban development (CAF, 2024, p. 41).

Table IV.2

CABEI: lending approved by sector, average shares of total, 2010–2024
(Percentages)

Sector	Share of total
Human development and social infrastructure	20.7
Production infrastructure	31.3
Energy	16.2
Financial sector	4.8
Industry, urban development and services for competitiveness	11.5
Rural development and environment	15.5

Source: Prepared by the authors on the basis of annual reports from the Central American Bank for Economic Integration (CABEI).

Note: Loans are classified primarily by strategic area. CABEI has five strategic areas: human development and social inclusion, sustainable competitiveness, regional integration, environmental and social sustainability, and gender equality.

Table IV.3

CAF: lending approved by sector, average shares of total, 2007–2024
(Percentages)

Sector	Share of total
Transport, storage and commerce	27.1
Education and social and health services	15.2
Energy	9.0
Electricity, gas and water supply	8.2
Public administration	30.3
Financial sector	9.0
Agriculture, manufacturing and natural resources	1.3

Source: Prepared by the authors on the basis of annual reports from the Development Bank of Latin America and the Caribbean (CAF).

Note: By "financial sector" is meant the financial support provided by CAF to small and medium-sized enterprises as a second-tier bank.

Besides the emphasis on infrastructure, another area of focus that is common to both institutions and important for productive development policies is the financial inclusion of MSMEs (12.9% and 12.0% of the loan portfolios of CABEI and CAF, respectively).

More recently, the multilateral and subregional development banks have adapted the composition of their financial portfolios to address long-term challenges such as climate change.

A substantial proportion of climate finance for Latin America and the Caribbean (45% of the total) is provided by the multilateral development banks. In November 2023, the World Bank announced that it would increase its global climate finance lending portfolio from 35% to 45% (US\$ 40 billion per year, distributed equally between mitigation and adaptation), and this was achieved in fiscal years 2024 and 2025 (World Bank, 2024).

The regional and subregional development banks have also taken steps in this direction. Between 2020 and 2023, IDB set a minimum target of 30% of its portfolio being devoted to climate change-related financing each year. In late 2023, it announced that it would triple direct and mobilized climate financing in Latin America and the Caribbean to US\$ 150 billion over the next 10 years. CABEI and CAF have set targets of 35% and 30% of their respective totals. Furthermore, CAF projects that it will devote 40% of its portfolio to climate investments by 2025 and 50% by 2050.

2. Factors that can expand the lending capacity of multilateral banks

Multilateral development banks can increase their capacity to lend to the production sector through: (i) increased capitalization; (ii) greater access to the international bond market; (iii) improved transparency; and (iv) local-currency lending.

(a) Increased capitalization

One of the factors that have increased the lending capacity of CAF is the institution's policy of recurring capital increases. CAF increased its capital seven times between 1999 and 2022. The largest capital increase, worth US\$ 7 billion, was in 2022.⁷ According to CAF, this capital expansion will allow it to double its loan portfolio by 2030.

In 2020, CABEL increased its authorized capital for the eighth time (the second in less than 10 years), from US\$ 5 billion to US\$ 7 billion, which represents a 40% increase in its capital base. According to CABEL, the increase should boost institutional lending capacity by approximately 45%, which translates into an increase in loan approvals worth approximately US\$ 1 billion per year.

It is important to note that IDB lends only to governments. Resources channelled by IDB Invest, which is part of the IDB Group and focuses on the private sector, are not included. If IDB Invest were included in the data presented in figure IV.1, the sums mobilized by IDB would exceed US\$ 25 billion, a far higher figure than that of CAF.

The importance of IDB Invest as a tool for addressing growth and productivity issues is evident in the resolution approved at the IDB Board of Governors meeting in March 2024, which increased its capital by US\$ 3.5 billion.

(b) A greater role for the bond market as a funding source

CAF funding is distributed as follows: 77% from bond markets, 11% from commercial paper, 6% from time deposits and 6% from long-term loans. As of September 2024, CAF had US\$ 29.9 billion in bonds outstanding in 22 different currencies. Most of the bonds (64%) are denominated in foreign currencies (32% in dollars and 32% in euros).

This has important implications for risk management. Conditions of access to bond markets, which are reflected in development banks' credit ratings, become a benchmark for risk assessment. Shareholders expect these institutions to maintain high credit ratings. As of 2025, CAF has the best credit rating in its history (+AA stable).

In the case of CABEL, the proportion of funding from the international bond market rose from 62% of the total in 2016 to 86% in 2023.

(c) Greater transparency to draw in private sector resources⁸

The scale and complexity of the challenges involved for Latin America and the Caribbean in mobilizing the resources needed to meet the Sustainable Development Goals (SDGs), including those related to climate change, have made transparency particularly important.

According to the Economic Commission for Latin America and the Caribbean (ECLAC, 2023), just meeting the climate action commitments of Latin America and the Caribbean will require an annual investment of between 3.7% and 4.9% of regional GDP until 2030. This is a challenge not only of finance but of confidence,

⁷ Capital increases since 1999 have been as follows: US\$ 600 million in 1999, US\$ 200 million in 2002, US\$ 1.5 billion in 2007, US\$ 2.5 billion in 2009, US\$ 2 billion in 2011, US\$ 4.5 billion in 2015 and US\$ 7 billion in 2022 (see CAF, 2023)

⁸ Transparency can be defined as a process whereby information about an institution's current situation, decisions and actions is managed in a visible, accessible and understandable manner. The information provided allows its performance and the effectiveness and scope of its policies to be evaluated.

as it involves establishing a framework with incentives (clear rules, stability and control mechanisms for channelling funds into large projects) that create a suitable investment climate for the public and private sectors to participate as active partners in this initiative.

A policy of transparency helps with follow-up and management of the status of investment projects, and makes it easier to monitor their progress. This acts as a major catalyst for the participation of other investors and facilitates access to information about the terms and details of projects, making it possible to identify costs and understand market dynamics for new products or services.

Increasing transparency through greater data access and disclosure, together with harmonization and standardization, is crucial in maximizing positive impacts for the people and communities of Latin America and the Caribbean and for minimizing the risk to these populations. It is a response to the increased transparency demands being made of multilateral development banks for there to be effective, joint participation by the private sector on the scale required.

CAF introduced transparency as a core operational principle in 2021, and in December 2022 it approved the Access to Information and Institutional Transparency Policy, based on (i) public access to CAF financial information and activities; (ii) public disclosure of information; (iii) accountability; and (iv) periodic monitoring and review of its policies, processes, procedures and activities. The Policy has three pillars⁹ and is aligned with other regional initiatives such as the Access to Information Policy of CABI (2021).

(d) Local-currency lending

In recent years, there have been frequent calls to expand access to and use of local-currency financing in the international financial architecture, in the light of the observation that traditional financing methods have not been sufficient to meet the needs of developing countries. Many have argued that the traditional approach to financing economic growth has come with its own financial stress factors and risks, which may be caused by debt levels, terms and conditions, the currency used and other external factors.

Many developing countries are forced to borrow in foreign currency by what is known as “original sin”, namely the inability to issue local-currency debt in international markets. The result is a mismatch between the local currency and the currency of external obligations, leading to increased vulnerability to currency depreciation, since this results in higher debt levels and interest payments.

Multilateral and regional development banks in Latin America and the Caribbean have provided local-currency financing instruments in recent decades. These banks include CAF, the World Bank, IDB, CDB and CABI. Although considered an area of opportunity, local-currency lending and bond issuance represent only a fraction of these banks’ operations. For example, the World Bank reports that it has executed 130 local-currency conversions worth US\$ 6.9 billion globally since 2005. These currency conversions have been executed for six countries and into five currencies, with three of the countries being in Latin America: Colombia, Mexico and Uruguay. Local-currency conversions currently account for 1.2% of disbursements and outstanding balances, of which 0.68% is accounted for by Latin America. In the case of CDB, local-currency issues have been minimal, with about US\$ 10 million in disbursements to Jamaica. At this time, local-currency loans and grants are not made as a regular part of the bank’s operations.¹⁰

Local-currency financing offers a number of advantages for developing country economies, including: (i) reduced exposure to currency mismatches and decreased vulnerability to financial shocks with a more diversified portfolio and lower exposure to debt servicing; (ii) greater control for governments over their fiscal space, without the risk of exchange-rate fluctuations, since higher levels of local-currency

⁹ The first pillar is reporting to the collegiate bodies, which are the highest authorities in the corporate governance of CAF and are essentially two in number, the Shareholders’ Assembly and the Board of Directors. The main CAF shareholders are Argentina, Brazil, Colombia, Ecuador and Peru, with Argentina, Colombia and Peru holding 50% of CAF shares (data as of September 2024). The second pillar is compliance with international transparency measurement standards based on 48 indicators, and the third is responsiveness to requests from the general public.

¹⁰ Information obtained through correspondence with the Caribbean Development Bank.

financing can support the development of the domestic money market while increasing resilience to external financial shocks; and (iii) support for local economic development, especially large infrastructure projects that generate revenue in local currency.

However, there are challenges that must be overcome to encourage its spread. One is the fact that local-currency lending can entail risks for multilateral development banks and regional development banks, as they too may face currency mismatches and downgrades by international credit rating agencies. Again, interest rates on local-currency loans may not be as attractive to borrowers, with rates on hard-currency loans very often being more affordable than the local-currency option.

Furthermore, seeking a local-currency loan for a project is an urgent process that requires rapid approvals for an appropriate rate to be set, and this may not be possible with normal bureaucratic lead times. In addition, smaller economies seeking to issue local-currency bonds may struggle to develop a liquid domestic market, as it can be difficult to mobilize the large sums of money needed to create sufficient cash flow.

Many economies may lack the local regulations and infrastructure needed to support the creation of a local bond market, or may be limited to a known investor base and lack an adequate domestic savings base. As a result, issuing bonds in local currency may not be a viable option in the short term unless these fundamental issues are addressed.

C. National development banks in Latin America and the Caribbean: characteristics, evolution, heterogeneity, productive specialization, financial inclusion and instruments

1. The characteristics, heterogeneity and evolution of national development bank financing

National development banks in Latin America and the Caribbean are characterized by marked institutional heterogeneity in respect of their size, the breadth of their mandates, their technical capabilities and their financial characteristics. According to recent figures, some 107 national-level institutions operate in the region, with a predominance of first-tier banks (73%) and a smaller proportion of second-tier banks (20%) (Cipoletta Tomassian and Pérez Caldentey, 2024). This diversity reflects the absence of a uniform model and the coexistence of different institutional approaches adapted to the policy priorities and economic peculiarities of each country.

Heterogeneity is also in evidence in the financial and institutional profiles and geographical coverage of each entity. An examination of key indicators such as capital, net worth, assets, liabilities and loan portfolios reveals substantial differences between institutions. These disparities extend to other balance sheet components, such as lending volumes and capital adequacy ratios.

The information compiled in table IV.4 illustrates this variety by showing the core mandates of the main national public banks as of July 2023. Banks focused on MSMEs (34%) and those with flexible mandates (30%) had the strongest presence, which highlights the importance of support for small businesses and a plurality of institutional objectives.

In contrast, sectors such as infrastructure (1%) and local government (3%) were less well represented. Again, 17% of banks had an agricultural mandate, which shows the importance of this sector for certain economies, especially in rural areas. The housing sector accounted for 9%, indicating that although this is an area of interest, it is not among the most important priorities.

Table IV.4

Latin America and the Caribbean: national public development banks, by mandate, as of July 2023
(Numbers of institutions and percentages of the total)

Region	Agriculture	International trade	Flexible	Housing	Infrastructure	Local government	MSMEs	Total
Central America	4	1	4	3			2	14
Mexico	3	1		2		1	2	9
South America	4	1	15	2	1	1	20	44
The Caribbean	2	1	4				2	9
Total	13	4	23	7	1	2	26	76
Percentages of total	17	5	30	9	1	3	34	100

Source: Jiajun, X., Marodon, R., Ru, X., Ren, X. and Wu, X. (2021). What are public development banks and development financing institutions? Qualification criteria, stylized facts and development trends. *China Economic Quarterly International*, 1(4), 271–294.

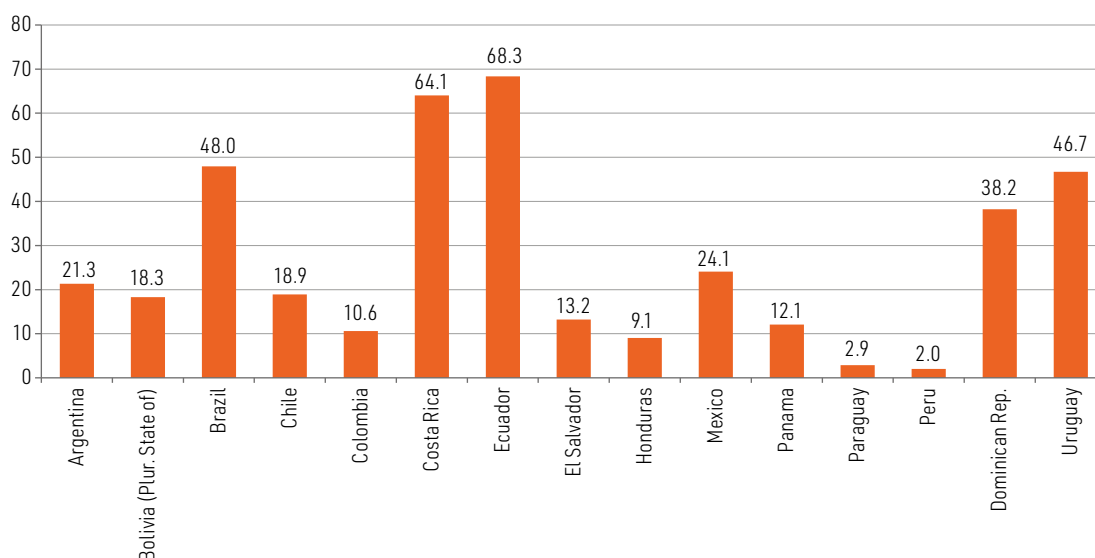
From a regional perspective, 40% of the banks were located in South America, where the greatest diversity of institutional objectives was also found. Central America had fewer institutions (14), while Mexico and the Caribbean had 9 banks apiece. Strikingly few national banks in the region had infrastructure-oriented mandates.

The orientation of development banks as indicated by their mandates shows that MSME support is a clear priority, with 34% of a sample of 76 institutions centring their institutional action on the financing of MSMEs (see table IV.4).

As regards relative weight, domestic financial institutions account for about a quarter of commercial banking assets on average, although with large differences between countries, according to 2019 data (see figure IV.3).

Figure IV.3

Latin America (15 countries): development bank assets as a share of commercial bank assets, 2019



Source: Economic Commission for Latin America and the Caribbean, on the basis of Latin American Association of Development Finance Institutions. (2023). Financial database on development banking in Latin America. <https://alidedatabank.org/index.php>.

Institutional diversity is also reflected in financial profiles, confirming that there is no single model for development banking in the region. Instead, several institutional and financial systems coexist (see table IV.5). This variety of profiles not only reflects the plurality of approaches but is also conducive to collaboration between development banks, something that is vital in strengthening financing and financial inclusion policies.

Table IV.5

Latin America (selected countries): heterogeneity of development bank financial profiles

Country	Number of institutions	Assets (Millions of dollars)			Capital (Millions of dollars)			Loans (Millions of dollars)		
		Average	Lowest	Highest	Average	Lowest	Highest	Average	Lowest	Highest
Argentina	12	5 826	207	46 337	590	10	5 287	2 412	100	19 461
Belize	1	52	42	59	16	13	20	41	31	48
Bolivia (Plurinational State of)	1	1 778	160	5 453	141	52	351	958	120	2 976
Brazil	24	55 454	3	555 834	3 708	2	38 845	36 583	0	354 466
Chile	3	23 786	184	63 284	3 938	175	9 595	12 281	144	34 303
Colombia	13	2 834	166	9 216	745	26	6 276	1 610	3	4 316
Costa Rica	5	5 428	151	13 035	666	71	1 297	3 447	124	7 748
Cuba	14	19 751	17 638	23 061	1 779	1 619	2 035	15 779	13 948	19 284
Dominican Republic	3	3 099	115	13 131	278	21	878	1 804	3	6 394
Ecuador	4	2 268	1 138	3 866	736	347	1 651	1 201	802	1 573
El Salvador	3	438	247	594	130	25	254	280	133	408
Guatemala	2	3 773	336	11 192	397	17	1 090	1 912	119	4 411
Haiti	1	930	764	991	66	41	92	188	93	248
Honduras	2	460	137	1 116	294	12	911	364	60	986
Mexico	9	12 732	1 137	46 686	1 532	93	5 113	6 167	8	22 816
Panama	3	5 925	1 624	10 851	517	198	1 015	2 727	1 164	4 396
Paraguay	4	576	14	1 753	123	3	335	331	8	1 062
Peru	4	3 757	89	12 693	642	50	1 206	1 465	41	3 035
Uruguay	4	5 828	18 090	18 090	763	67	1 911	3 998	207	12 859

Source: Economic Commission for Latin America and the Caribbean, on the basis of Latin American Association of Development Finance Institutions. (2023). Financial database on development banking in Latin America. <https://alidedatabank.org/index.php>.

Again, the effectiveness of national development banks is limited by significant technical constraints (see table IV.6), which also reflect differences in capabilities between institutions. The main obstacles identified include risk management, cited by 51% of institutions, with difficulties in this area complicating the handling of credit and market risks (mentioned by 33%) and affecting their ability to promote financial inclusion. In addition, 48% face financial sustainability challenges, which may compromise the mobilization of long-term resources and the continuity of their operations. Furthermore, 39% are deficient in corporate governance and transparency, which can create tensions between their goals and their day-to-day performance. Other major constraints include difficulty in recruiting qualified staff (31%) and undue political influence (14%), which undermines technical independence and innovation capacity.

As these constraints clearly show, the heterogeneity of national banks is not limited to their mandates, but extends to technical and operational capabilities. Risk management, governance, staff professionalization and the ability to preserve their autonomy are fundamental to the success of these institutions. Furthermore, the shortcomings cited can limit the effectiveness of public policies for financial inclusion and sustainable development.

Table IV.6

Constraints affecting national development banks
(Percentages of all banks)

Challenges	Proportion affected	Requirements for the effectiveness of public policies aimed at financial inclusion
Low risk management capacity	51	Scope and capacity
Financial sustainability	48	Financial capacity
Weak corporate governance and transparency	39	Clear goals/reconciliation of contradictions
High credit risk and market risk	33	Appetite for development
Difficulties in recruiting qualified staff	31	Innovativeness
Undue political interference	14	Technical autonomy

Source: Economic Commission for Latin America and the Caribbean, on the basis of World Bank. (2017). *MSME Finance Gap* and Ferraz, J. C. (2022). *Cambio climático y transición energética y las instituciones financieras públicas*. [unpublished].

2. Development bank financing instruments for promoting financial inclusion and productive activities

This section provides an overview of the financing instruments that development banks can offer to promote both financial inclusion and production policies, with a special focus on support for MSMEs. It also presents a selection of examples of their implementation in Latin America by various of the region's national development banks and outlines some programmes designed for these purposes (for further details and examples, see Cipoletta Tomassian and Pérez Caldentey, 2024).

(a) Direct credit instruments

- (i) First tier: revolving credit card from Brazil's National Bank for Economic and Social Development (BNDES)

The main mechanism used by development banks to promote financial inclusion are direct credit instruments. Of these, the BNDES card, designed as a revolving credit facility with a pre-approved limit aimed at MSMEs and individual business owners with gross annual incomes of up to 300 million reais, stands out as one of the most innovative solutions.

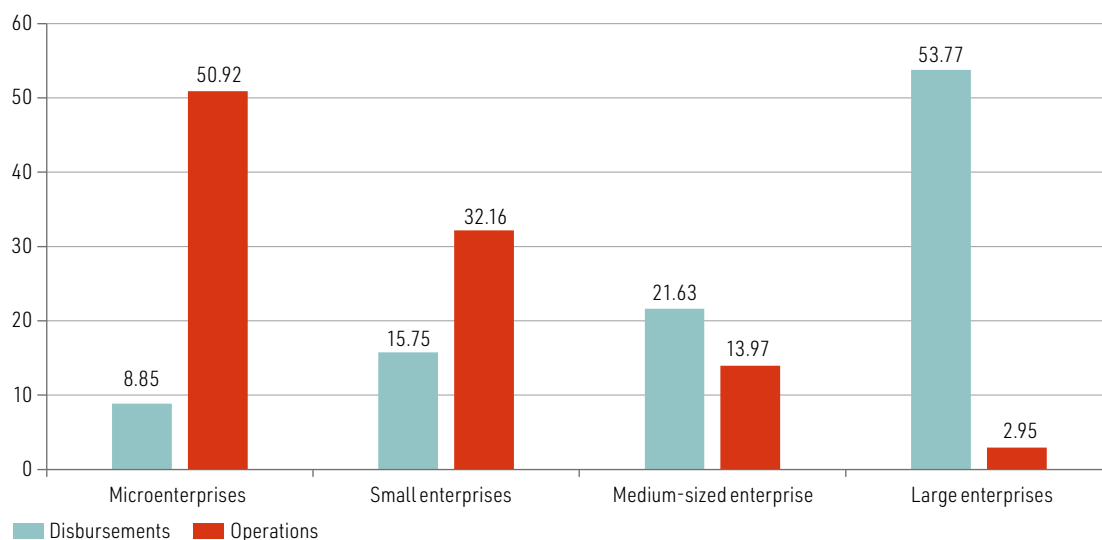
With assets totalling US\$ 167 billion (2024), BNDES is one of the world's largest national development banks. BNDES focuses on financing development and infrastructure projects, with a strong emphasis on climate change mitigation, agriculture, industry and SMEs. It is the main financial agent for development in Brazil. The legal mandate of BNDES establishes that it is the main instrument for implementing and carrying through federal government investment policy, and its main objective is to support programmes, projects, construction works and services related to the country's economic and social development. As in the case of the subregional development banks, the bulk of lending goes to infrastructure projects (56.2% of the total in 2023). Agriculture, industry and commerce, and services accounted for 16.0%, 14.4% and 13.4% of the total, respectively (BNDES, 2023).

This BNDES instrument allows businesses to finance the purchase of production inputs such as machinery, equipment, computers, software, mobile phones, commercial vehicles and motorcycles for delivery services, with repayment terms of up to 48 months and below-market interest rates. The card is issued by BNDES-authorized financial institutions, and inputs and capital goods must be purchased from BNDES-approved suppliers.

MSME financing accounts for approximately 44% of the total credit disbursed by BNDES, with 54% going to large companies.

Figure IV.4

Shares of BNDES disbursements and operations, by company size, 2021
(Percentages of the total)



Source: Brazilian National Bank for Economic and Social Development. (2021). *Annual Report*.

Note: Microenterprises: gross annual operating income up to 360,000 reais; small enterprises: between 360,000 and 4.8 million reais; medium-sized enterprises: between 4.8 and 300 million reais; large enterprises: more than 300 million reais.

The effectiveness of the BNDES card has been demonstrated by quantitative measurements identifying a 3% increase in labour productivity in service sector companies and a 22.7% increase in capital productivity in manufacturing companies. These results highlight the impact that specialized development banking instruments can have in improving business productivity.

(ii) Second tier: production chains (NAFIN) (Mexico)

The Nacional Financiera (NAFIN) production chain programme is another emblematic example of innovation in financial inclusion instruments. Launched in 2001, this reverse factoring mechanism operates entirely through an electronic platform and has established itself in Mexico as the leading second-tier credit programme. Its importance in financing for the private sector is reflected in its share of the total: 28% in 2002, 57% in 2005, 49% in 2010, 37% in 2018 and 44% in 2022.

Reverse factoring operates in four phases: (i) a contract is entered into between the buyer, the supplier, the financial intermediary and NAFIN; (ii) the supplier receives the purchase order from the buyer; (iii) the supplier delivers the goods and the buyer uploads the documents certifying the receivables to the platform, allowing the supplier to assign the accounts receivable to a financial intermediary; (iv) the supplier receives the full amount of the receivables net of the factoring fee, and the buyer settles the amount with the financial intermediary.

The success of this model rests on its technological platform, which acts as an electronic marketplace for information, products and services that streamlines processes, enhances transparency and

reduces transaction times and costs. Centralizing information and making it accessible to all stakeholders reduces the costs of information asymmetry and acquisition, while the programme's credit risk is mitigated by selecting as purchasers top-tier companies that are established buyers with a credit history and access to financing, allowing the financial sector to take on the risk associated with this segment.

(b) Guarantees as risk reduction instruments

Guarantee schemes are mainly targeted at MSMEs, owing to their structural vulnerability and their importance for job creation. However, data indicate that these mechanisms have also benefited larger companies.¹¹

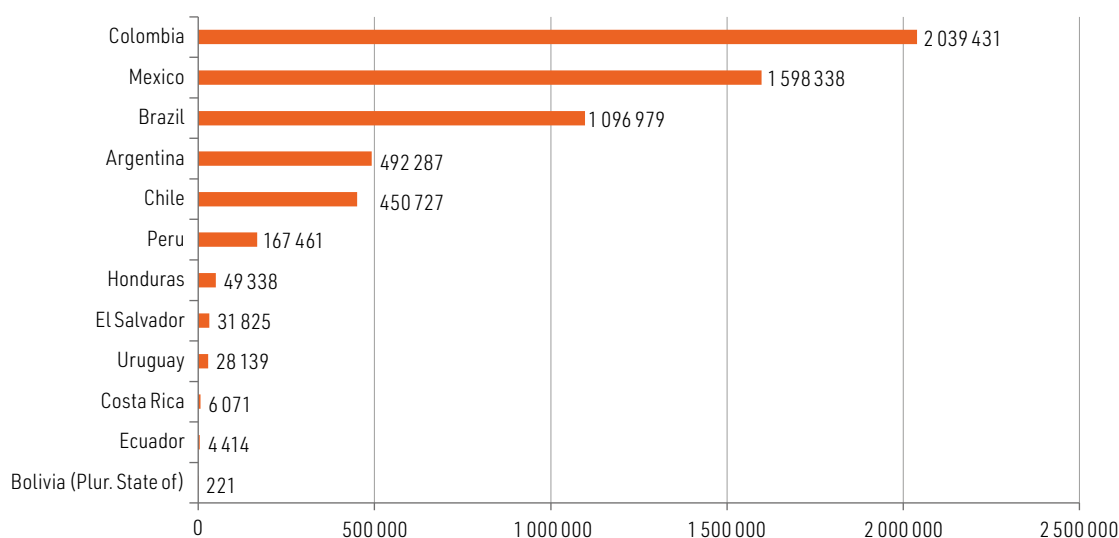
There are three main advantages to guarantee schemes: (i) they enable the financial system to increase the supply of credit, since the backing of guarantees allows financial institutions to extend financing to companies that have the capacity to manage a higher level of capital but do not have enough assets to offer as collateral; (ii) guarantees facilitate access to the formal financial system for more companies, enabling companies without sufficient assets, start-ups and those with a limited credit history to meet their financing needs; and (iii) guarantee mechanisms help improve credit conditions by mitigating risk for financial institutions and thus allowing these to offer better interest rates, loan amounts and terms (ECLAC, 2021).

These systems have become more important as regards both the volume of credit mobilized and the coverage of firms, especially since the COVID-19 pandemic. Data for the period 2000–2023 show that the number of SMEs covered by guarantee schemes rose from 688,000 in 2000 to 3.3 million in 2010 and 6.4 million in 2020, before falling back to 5.1 million in 2023.

Despite the benefits provided by guarantees, their importance varies considerably among the countries of the region. The largest economies have the highest coverage, in both absolute and relative terms. Colombia leads with 2 million MSMEs covered by guarantee systems, followed by Mexico with 1.6 million and Brazil with 1.1 million, equivalent to 29.7%, 23.3% and 16.0% of the total, respectively (see figure IV.5).

Figure IV.5

Latin America (selected countries): SMEs covered by guarantee schemes, 2021
(Numbers of SMEs)



Source: Red Iberoamericana de Garantías. (2023). *The regulatory framework of SMEs from an international perspective* [powerpoint]. <https://www.redegarantias.com/>.

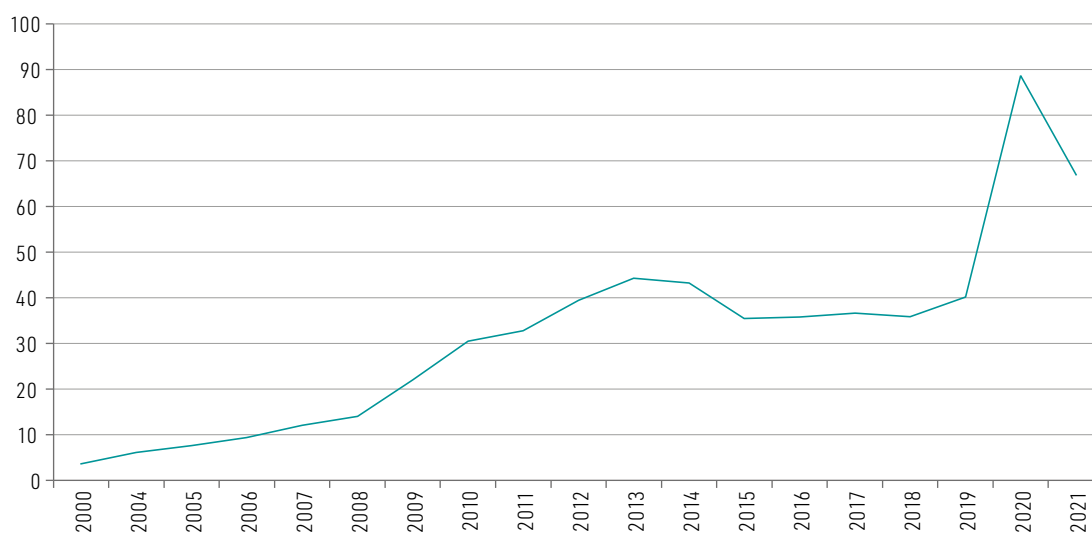
¹¹ The data are for Chile, Colombia, Costa Rica and Uruguay during the COVID-19 pandemic.

Similarly, the volume of credit mobilized through these mechanisms grew from US\$ 3.675 billion in 2000 to US\$ 30.527 billion in 2010, then peaked at US\$ 88.658 billion during the pandemic before falling back to US\$ 66.992 billion in 2021 (see figure IV.6).

Figure IV.6

Latin America: credit mobilized by guarantee funds, 2000–2021

(Billions of dollars)



Source: Red Iberoamericana de Garantías. (2023). *The regulatory framework of SMEs from an international perspective* [powerpoint]. <https://www.redegarantias.com/>.

Although coverage of MSMEs and the volume of credit mobilized through guarantee schemes have grown, they still have a smaller role in Latin America than in developed countries. As of late 2020, credit backed by guarantee schemes in the region as a proportion of GDP ranged from 0.1% in Argentina and Ecuador to 7.4% in Peru. Excluding Peru, the most important systems are in Chile and Mexico, with coverage equivalent to 4.5% and 1.7% of their respective GDP. From an international perspective, guarantee schemes in Latin America remain smaller than those in advanced economies.

This difference can be explained by the fact that fully exploiting the potential of guarantee schemes requires effective institutional coordination and consistency between the regulatory framework, governance, operation, management and links with commercial banks. All this involves a lengthy process of institutional maturation and learning on the part of the actors involved (ECLAC, 2021).

(c) Technological innovations and fintech in financial services provision

Financial technology, or fintech, represents an emerging opportunity for development banks to provide innovative financial services. Fintech companies rely primarily on technology to deliver basic financial functions, transforming the way users save, apply for credit, make payments and invest.

The growth of fintechs in Latin America has been remarkable, although they are mainly concentrated in Mexico (47% of the total in the region) and Brazil (30%), followed by Argentina (7%), Colombia (5%) and other countries (11%). Between 2024 and 2028, fintechs are projected to grow approximately three times as fast as the traditional banking industry (McKinsey & Company, 2023). This represents a significant opportunity for development banks, which can leverage the technological and business model innovations developed by fintechs, such as digital payments, alternative credit scoring, digital onboarding and collaborative financing, to modernize their processes, improve efficiency and

impact, and expand access to finance, especially into traditionally underserved segments. In this way, development banks can better fulfil their social mandates without incurring the high R&D costs involved in creating these solutions from scratch, either through competitive pressure or through strategic collaborations with fintechs.

However, given that the provision of digital services focuses mainly on consumers (77%) and to a lesser extent on businesses (23%) (Finnovista and IDB, 2024), there remains the challenge of expanding their scope to the business sector in order to contribute more effectively to financial inclusion.

(d) Financial education as an instrument for strengthening business capabilities

Financial education should be an essential component of any financial inclusion strategy. According to the Global Federation of Insurance Associations (GFIA, 2018), this education can foster understanding of financial and insurance products, encourage responsible financial behaviour and give people the confidence to take control of their finances.

By and large, financial inclusion is not a core area for development banks, with financial education programmes usually being designed and implemented by government entities such as planning ministries and central banks.

Nevertheless, development banks' experience means they could play a significant role in these programmes. ECLAC has proposed that financial education be integrated with the specific needs and characteristics of businesses through the creation of a technological platform that allows existing programmes to be adapted to the production requirements of each business (Pérez Caldentey and Titelman, 2018).

Production needs can be classified according to the level of access to and effective use of financial services. Accordingly, a typology with three main categories is proposed, namely: companies with adequate access to credit and other instruments to cover their needs and strategic objectives; start-ups requiring specialized advice; and companies that claim not to need credit but could benefit from it.

The technology platform centralizes information accessible to all stakeholders, thereby reducing information asymmetry and acquisition costs alike. Its growing use strengthens this process and endogenously generates a credit history for participating companies.

D. Conclusions, recommendations and final comments

This chapter¹² examines the role, characteristics and capabilities of development banks in Latin America and the Caribbean, setting out from an approach that delimits the essential functions of these financial institutions. The five key functions of development banks can be summarized as follows: (i) financing projects in economic, social and environmental areas; (ii) providing financing to MSMEs; (iii) contributing to the development of the financial sector and capital markets; (iv) acting as a countercyclical financing source; and (v) participating in the exploration and identification of emerging production sectors. These functions help to correct market failures and promote sustainable and inclusive productive development.

As regards sectoral specialization, regional and subregional development banks in Latin America have focused their efforts mainly on infrastructure financing, while national banks have directed their efforts towards the financial inclusion of MSMEs, which are vital for employment and productive diversification. In turn, development finance institutions have increased their participation in projects related to climate action, green financing and sustainability, although investment in these areas

¹² Prepared on the basis of inputs from Cipoletta Tomassian and Pérez Caldentey (2024).

remains limited at the national level. Better coordination between multilateral, regional, subregional and national development banks will be essential to align efforts in pursuit of these objectives.

Given the aim of achieving the SDGs by 2030, development banks have a central role to play in mobilizing resources and implementing efficient financial instruments that can attract public and private capital for large-scale projects, which are often beyond the reach of governments and companies. Addressing these challenges will require partnerships between different actors, using different mechanisms and innovative financing instruments.

At the national level, development banks in the region are remarkably heterogeneous in terms of objectives, size, structure and instruments, as well as financial and technical capabilities. Most prioritize MSMEs, although there is dispersion in other sectors such as agriculture and housing. While some banks, such as those of Brazil and Mexico, are robust institutions, others are smaller and face financial and risk management constraints. This can make the implementation of production policies less coherent and limit the ability of these banks to pursue high-risk or large-scale projects. Developing a framework of common standards and practices that enabled development banks in the region to align themselves with national and regional production policies would facilitate coordination and the implementation of sustainable and consistent development strategies.

This diversity likewise poses challenges for regional coordination, as the variability of banks' objectives and structures can limit cooperation on regional or subregional projects. This makes it difficult for them to address common productive development challenges, such as strengthening infrastructure or promoting technological innovation. In this context, the consolidation of collaborative forums and platforms for development banks (at their different levels of territorial coverage objectives and sectors of activity) is essential to strengthen regional cooperation, as they create spaces for dialogue, close collaboration and the sharing of resources, experiences and training. Such arrangements will continue to be essential for implementing large-scale projects that exceed the capacity of smaller institutions and for jointly addressing the main development challenges.

Heterogeneity also means that not all banks have the same approach or capacity to promote financial inclusion: while some have made progress in financing MSMEs, others lack adequate resources or strategies, leaving part of the production fabric outside the financial system. Supporting training and institutional strengthening, and implementing programmes of technical assistance and financing for the institutional capabilities of smaller or less developed banks, could help improve risk management, corporate governance and resource mobilization capacity so that they can play a more effective role in promoting production policies.

Although the financial sector has grown, the consequences of market failures for financial inclusion persist, so that MSMEs struggle to access credit because of information asymmetries and a lack of collateral. Promoting financial innovation by encouraging the use of innovative and creative next-generation MSME-oriented financial instruments such as credit guarantees and co-financing with the private sector, which can be adapted to the different capacities of banks and help mitigate risks, especially in emerging sectors and those with high social and environmental impact, will help to cushion the impact of such market failures on financial inclusion. Likewise, strengthening financial education at MSMEs and thus ensuring that more companies can access credit on better terms will foster their growth and integration into production chains.

The aim of this comprehensive approach is to reduce gaps in institutional capacity and strategic focus and optimize the role of development banks in implementing production policies in pursuit of more equitable and sustainable growth in Latin America and the Caribbean.

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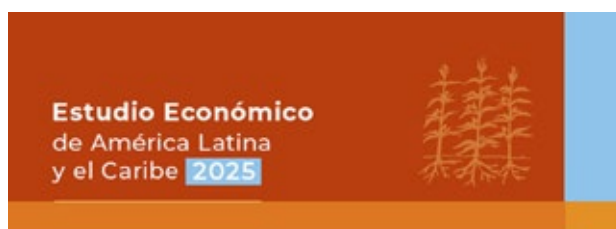
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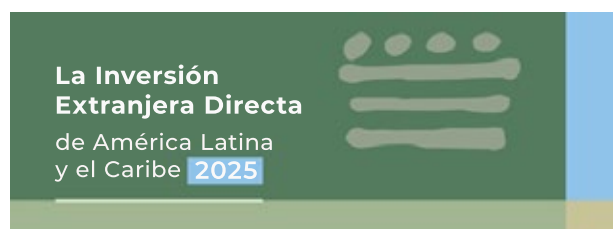
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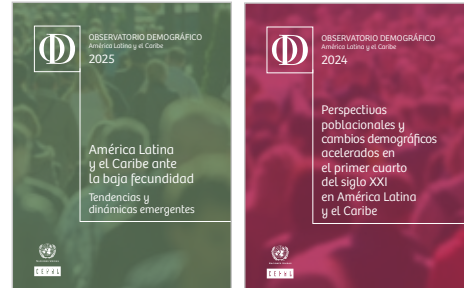
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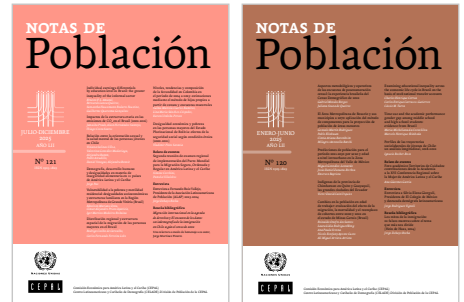
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