



**WESTERN HEMISPHERE
DEPARTMENT**

Turning Tailwinds into Lasting Gains

OCTOBER 2026

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Director

CURRENT SNAPSHOT

WHERE ARE WE GOING?

POLICY IMPLICATIONS

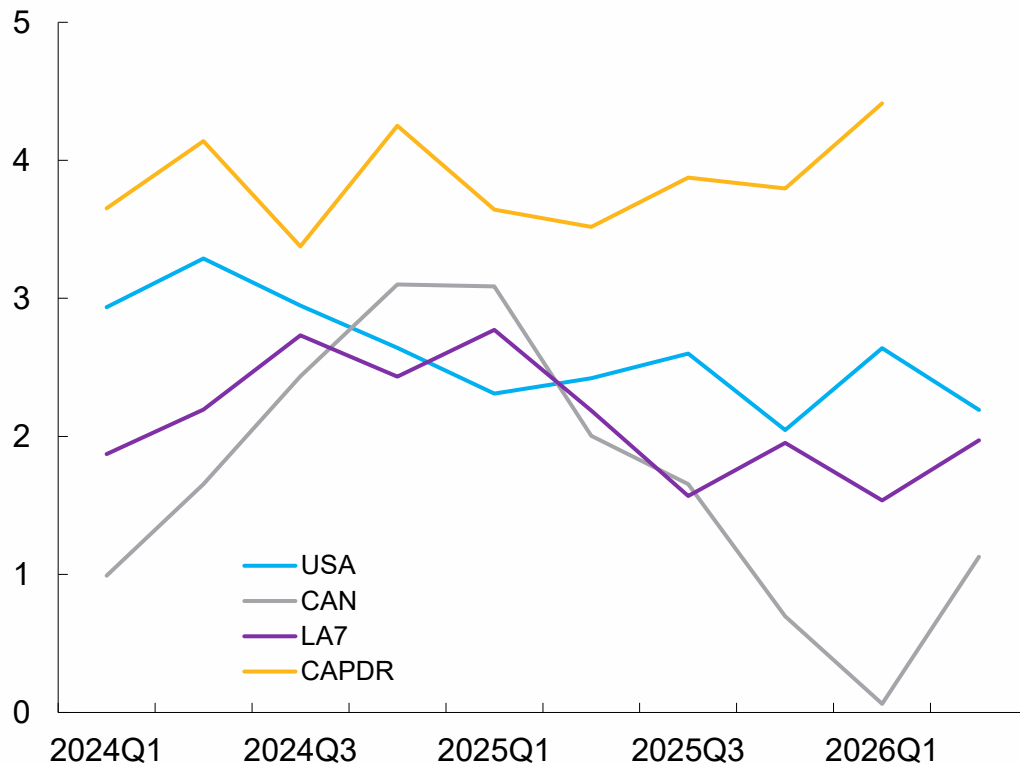


Current snapshot

Robust activity in the face of global shocks

Growth has held up well across most of the Western Hemisphere.

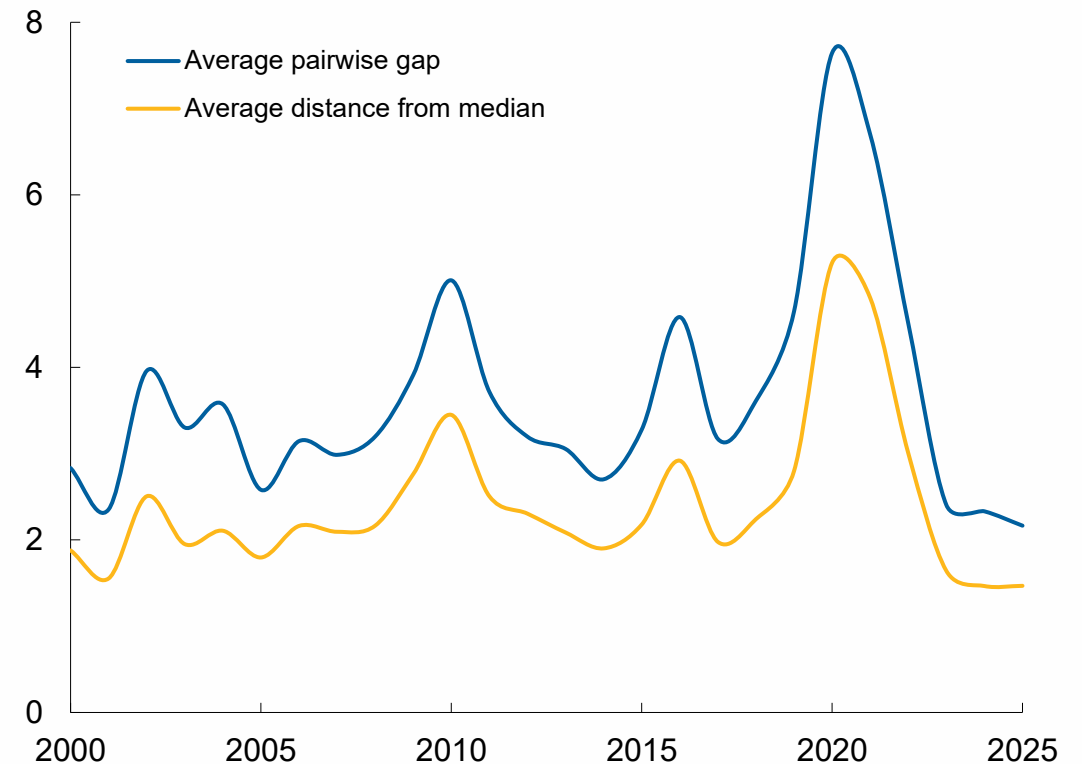
Real GDP Growth
(Year-over-year percent change)



Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted average. CAPDR = Central America, Panama, and the Dominican Republic; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

The growth dispersion across the region is at historically low levels, suggesting that common external factors are playing a key role.

LAC: Growth Dispersion
(Percentage points)



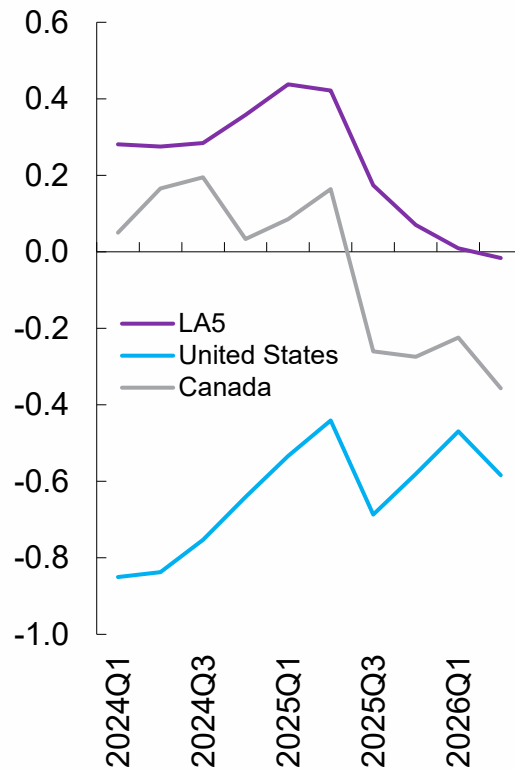
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Average pairwise gap is the average absolute difference in growth rates across all country pairs. Average distance from median is the average absolute deviation of each country's growth rate from the regional median. Sample excludes Guyana. LAC = Latin America and the Caribbean.

Three big global forces at work: *financial conditions*, terms of trade, and uncertainty

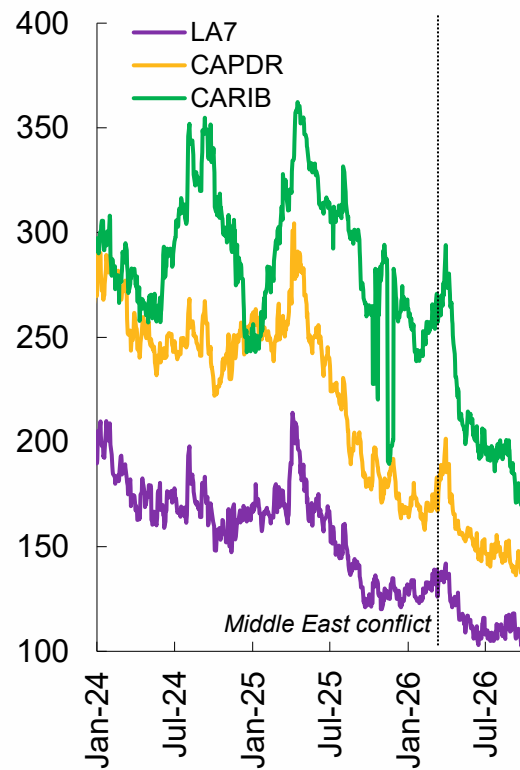
Financial conditions have eased, with sovereign spreads declining...

... while bond issuances continue at historically high levels, reflecting a global portfolio reallocation toward the region.

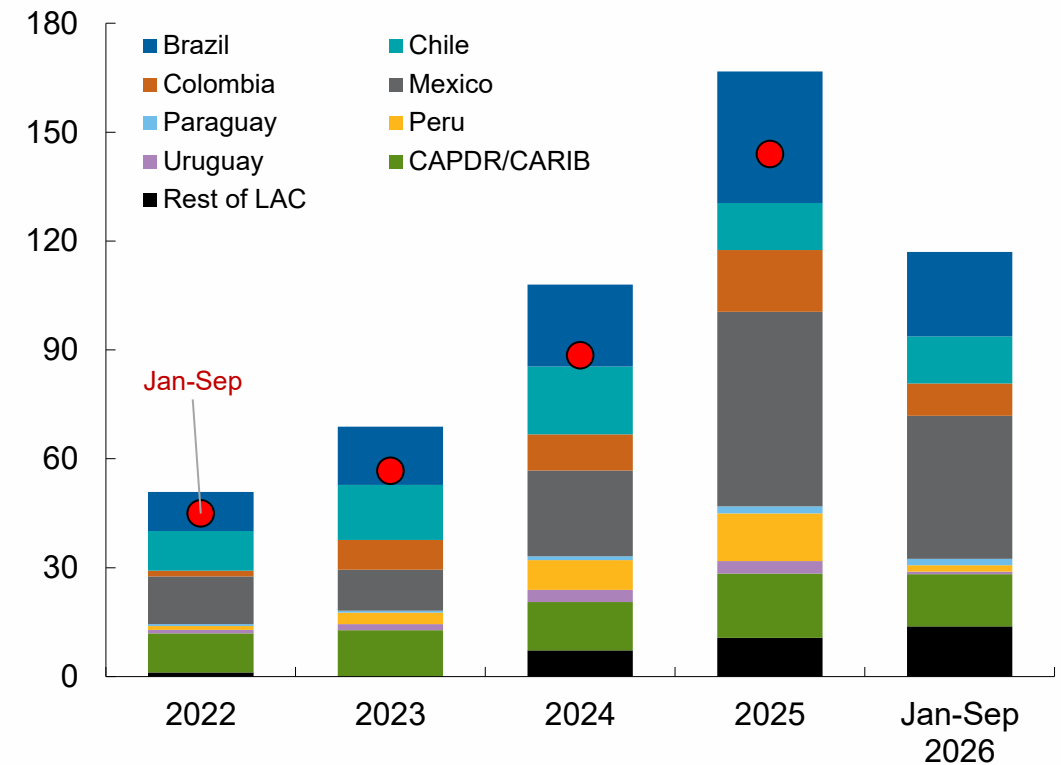
Financial Conditions Index
(0 = neutral; +/- = tight/loose)



Sovereign Spreads
(Basis points)



LAC: International Bond Issuance
(Billions of US dollars)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

Note: LA5 in FCI is purchasing-power-parity GDP-weighted averages. Aggregates in sovereign spreads are medians. Sovereign spread refers to EMBIG spread. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay; LA5 = LA7 excluding Paraguay and Uruguay.

Sources: Bond Radar; and IMF staff calculations.

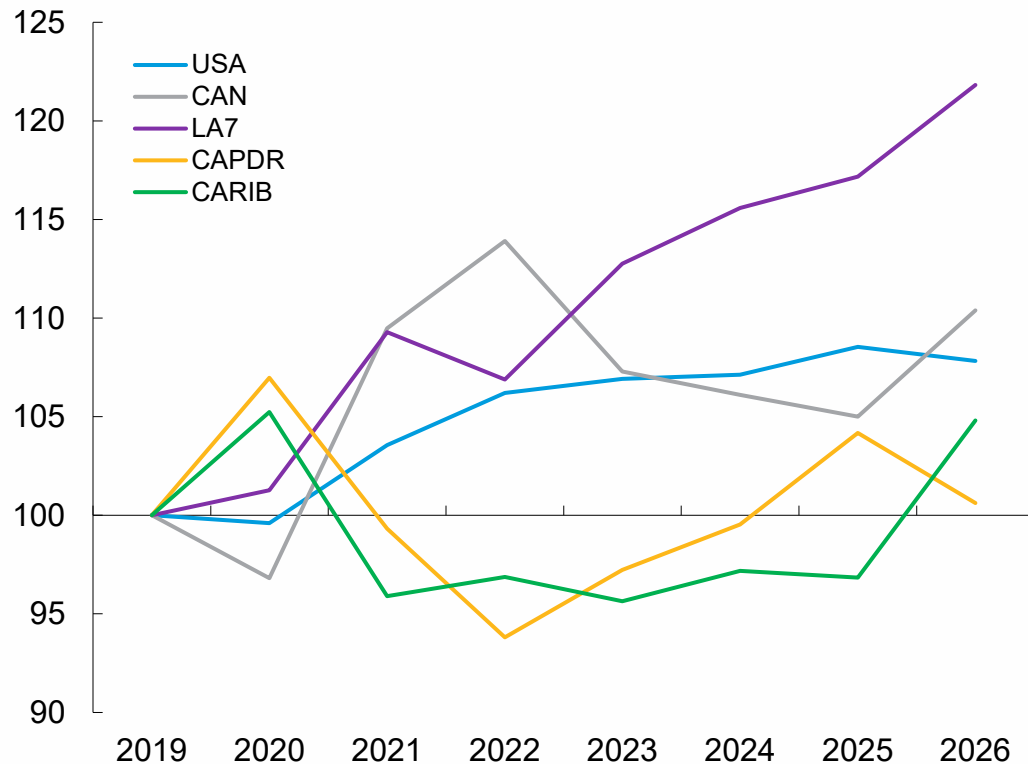
Note: Includes sovereign and corporate/financial bond issuances. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LAC = Latin America and the Caribbean.

Three big global forces at work: financial conditions, *terms of trade*, and *uncertainty*

Terms of trade have been improving, especially for LA7.

Uncertainty has begun to decline, after a sharp increase in 2025.

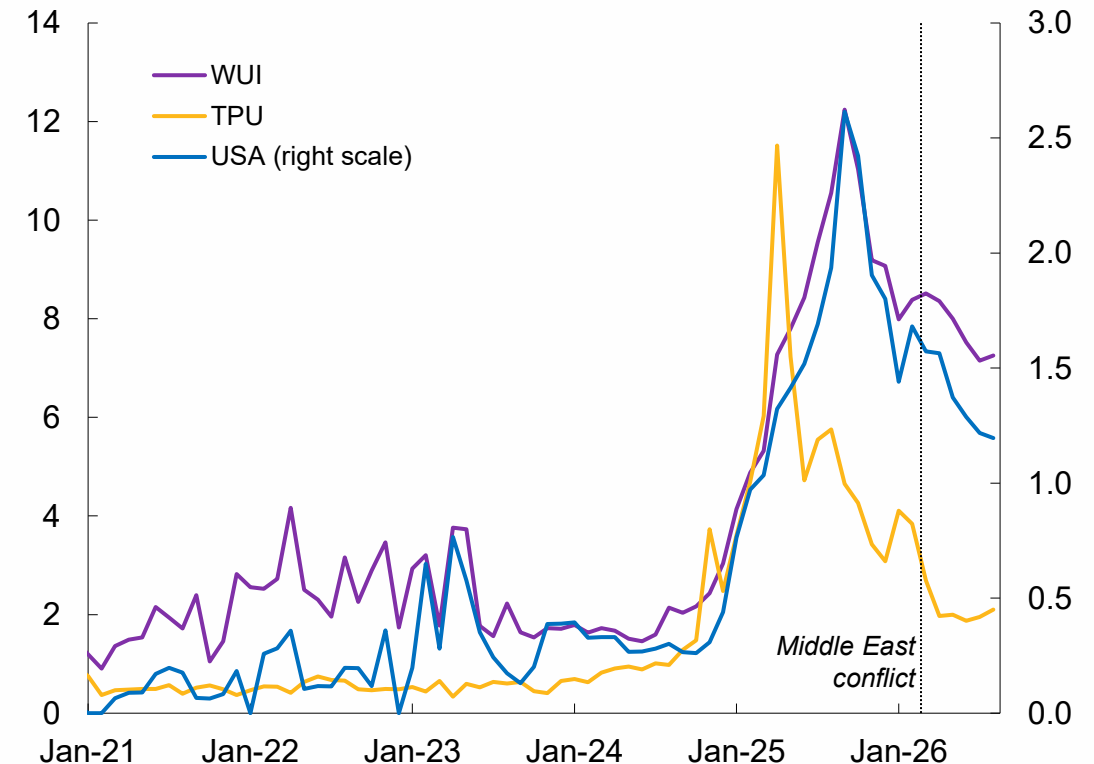
Terms of Trade
(Index: 2019 = 100)



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

Note: Aggregates are purchasing-power-parity GDP-weighted averages. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Overall and Trade Policy Uncertainties
(Index)



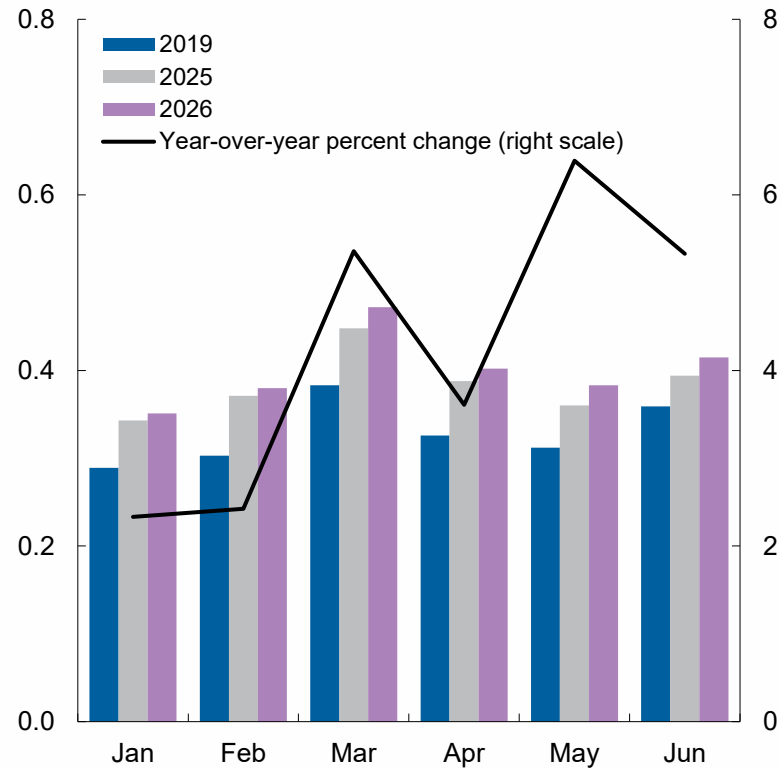
Sources: Ahir, H, N Bloom, and D Furceri (2022), "World Uncertainty Index", NBER Working Paper; Caldara and others (2020); and Haver Analytics.

Note: The uncertainty measures are news- and media-outlets-based indices that quantify media attention to global news related to overall uncertainty (WUI) and trade policy uncertainty (TPU). Uncertainty index shown for the United States is from the WUI.

United States is generating positive outward spillovers through tourism, remittances, and import demand

US tourism flows are at historic levels despite higher airfare costs.

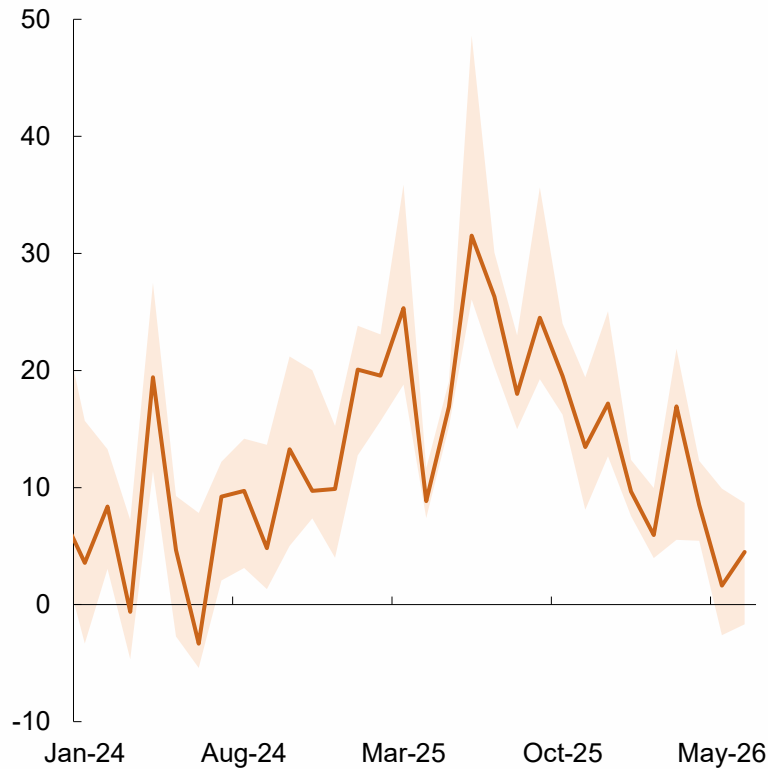
US Citizen Departures to the Caribbean
(Millions; unless noted otherwise)



Sources: US International Trade Administration; and IMF staff calculations.
Note: Data include 15 countries and exclude Jamaica.

Remittances to CAPDR have surged, which appears to be driven in part by anticipation to US immigration enforcement.

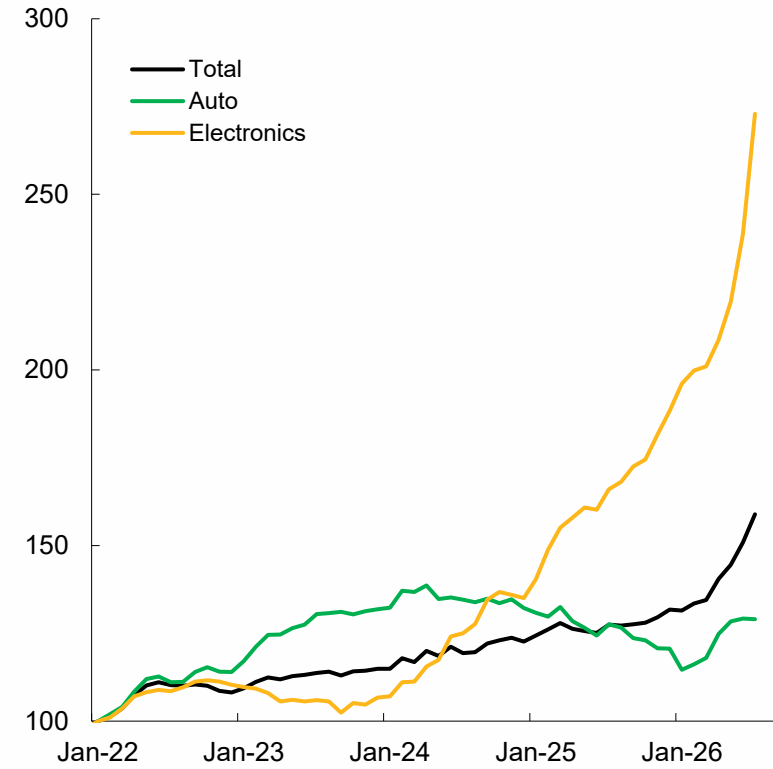
Remittances to Central America
(Year-over-year percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Nicaragua's 2025–26H1 data are IMF staff estimates. Central America in this chart includes El Salvador, Guatemala, Honduras, and Nicaragua.

US demand for electronics has benefited Mexico's export industry.

Mexico: Exports of Goods to the United States
(3-month moving sum; index: January 2022 = 100)



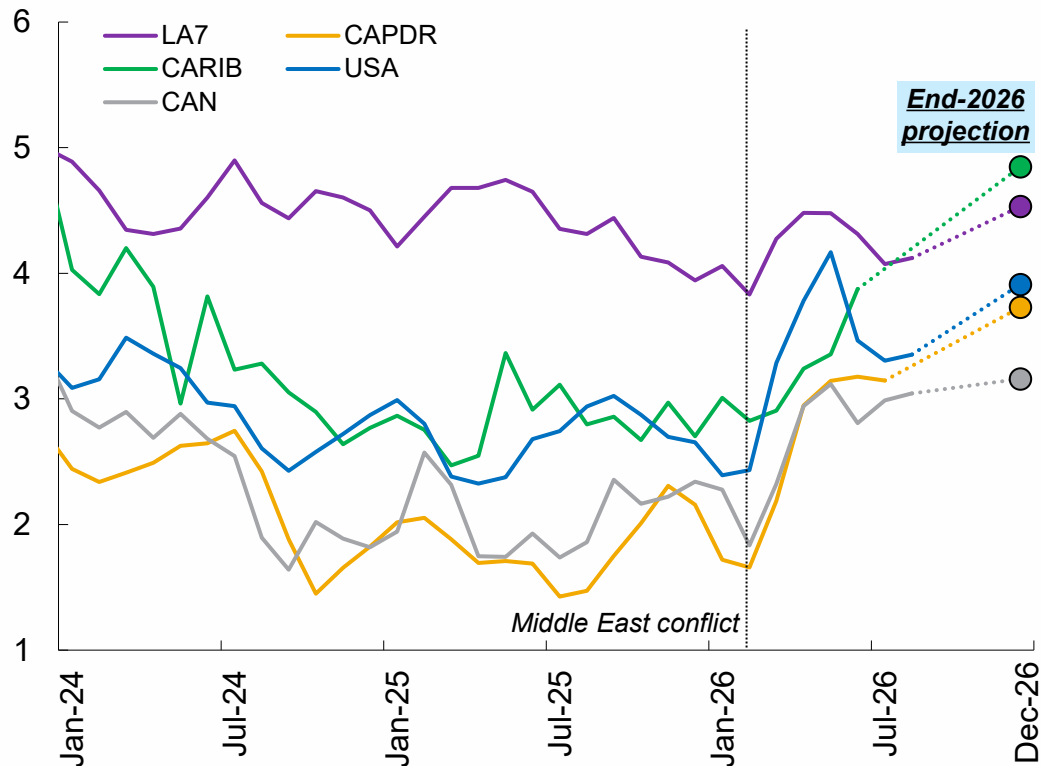
Sources: Haver Analytics; and IMF staff calculations.

The latest energy shock has delayed disinflation

Higher global energy and food prices are adding to headline inflation...

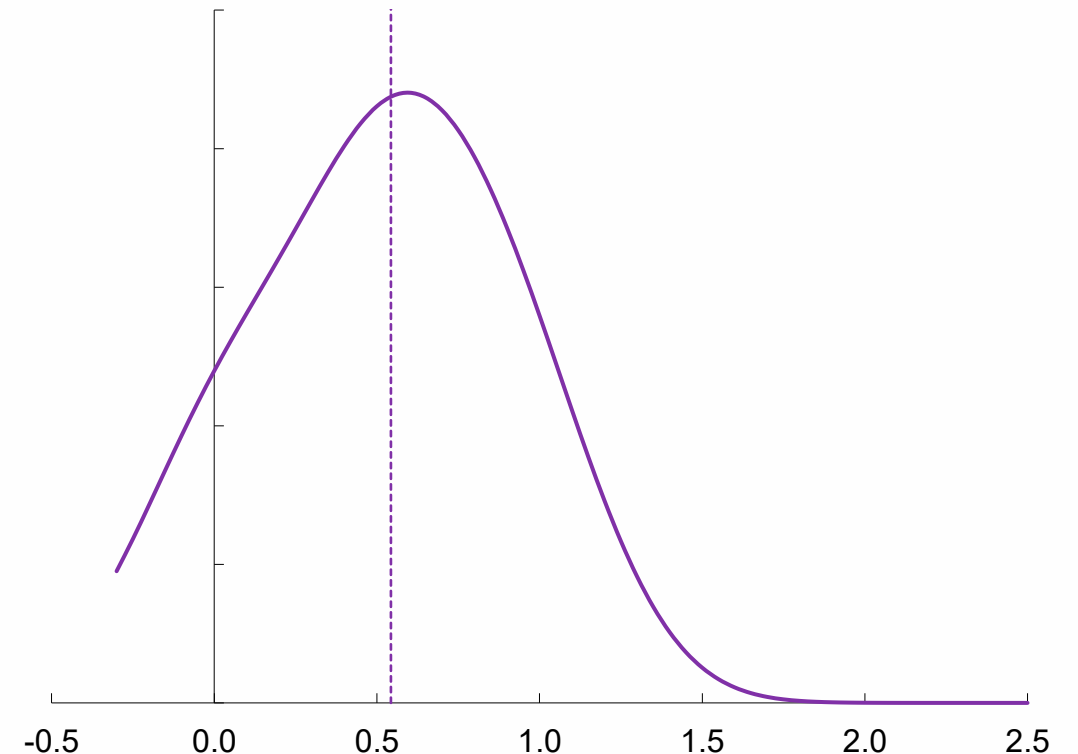
... despite an incomplete pass-through to domestic energy prices, in part due to fiscal interventions.

Headline Consumer Price Inflation
(Year-over-year percent change)



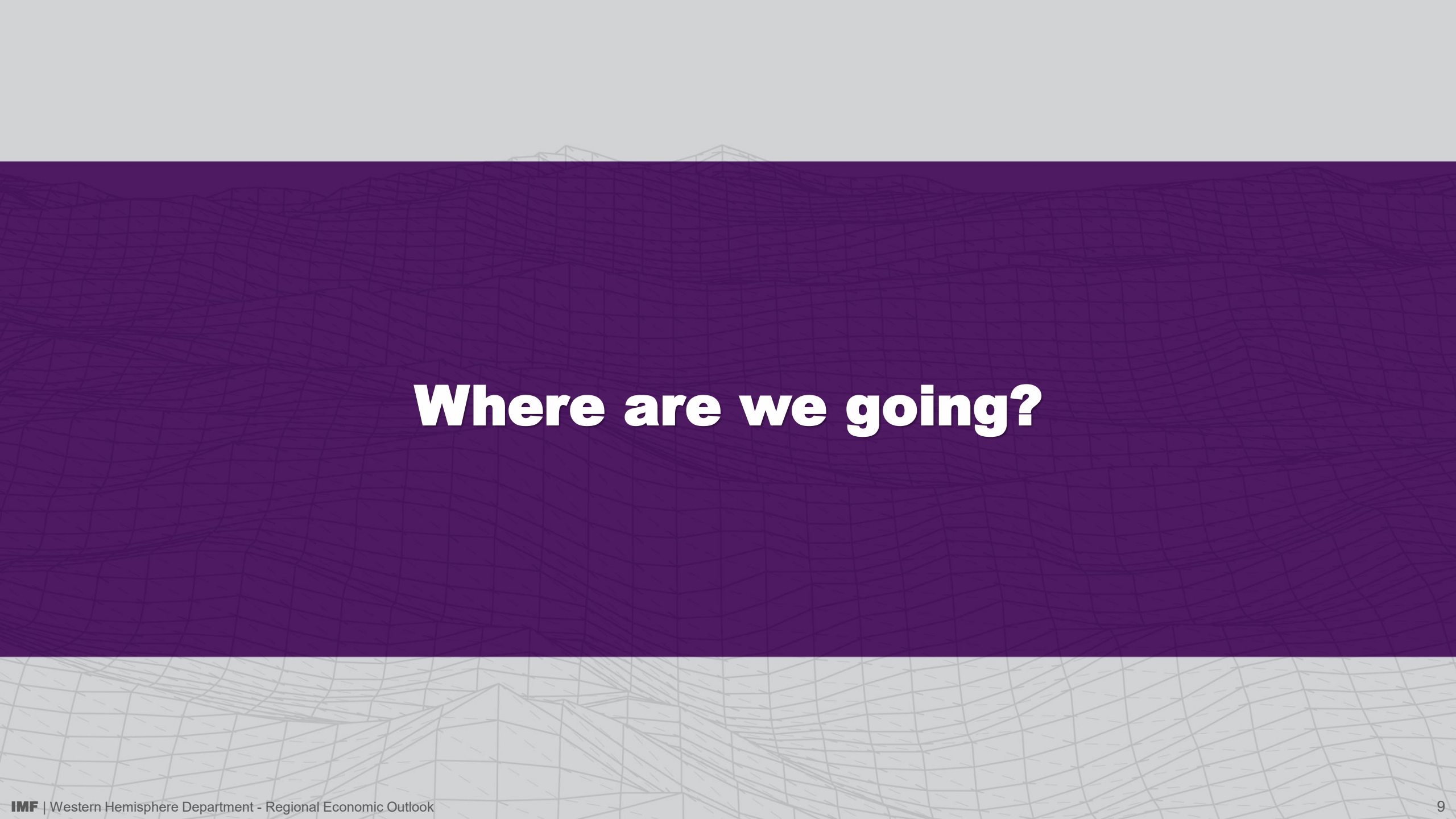
Sources: Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay.

LAC: Oil Price Pass-through
(Ratio)



Source: IMF staff calculations.

Note: Vertical dashed line refers to the median of the region. Pass-through is calculated as the percentage change in domestic dollar retail diesel prices over the percentage change in international diesel prices (both measured in US dollars). Pass-through is trimmed at the 1 percent level. LAC = Latin America and the Caribbean.



Where are we going?

A solid growth outlook

Real GDP Growth
(Year-over-year percent change)

	 Western Hemisphere	 United States	 Canada	 Latin America and the Caribbean	 Latin America 8 (LA8)	 Latin America 7 (LA7)	 CAPDR	 Caribbean: Tourism dependent	 Caribbean: Non-tourism dependent
2026	2.2	2.3	1.1	2.3	2.0	2.0	4.2	1.4	11.0
Difference from April 2026	-0.1	0.0	-0.4	0.0	-0.2	0.0	0.5	0.5	3.1
2027	2.3	2.3	1.7	2.5	2.2	2.0	4.0	2.3	9.6
Difference from April 2026	0.0	0.2	-0.2	-0.2	-0.2	-0.2	0.0	-0.2	-1.7
2028	2.3	2.1	1.7	2.9	2.6	2.4	4.1	2.0	8.2
Difference from April 2026	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	-7.2

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

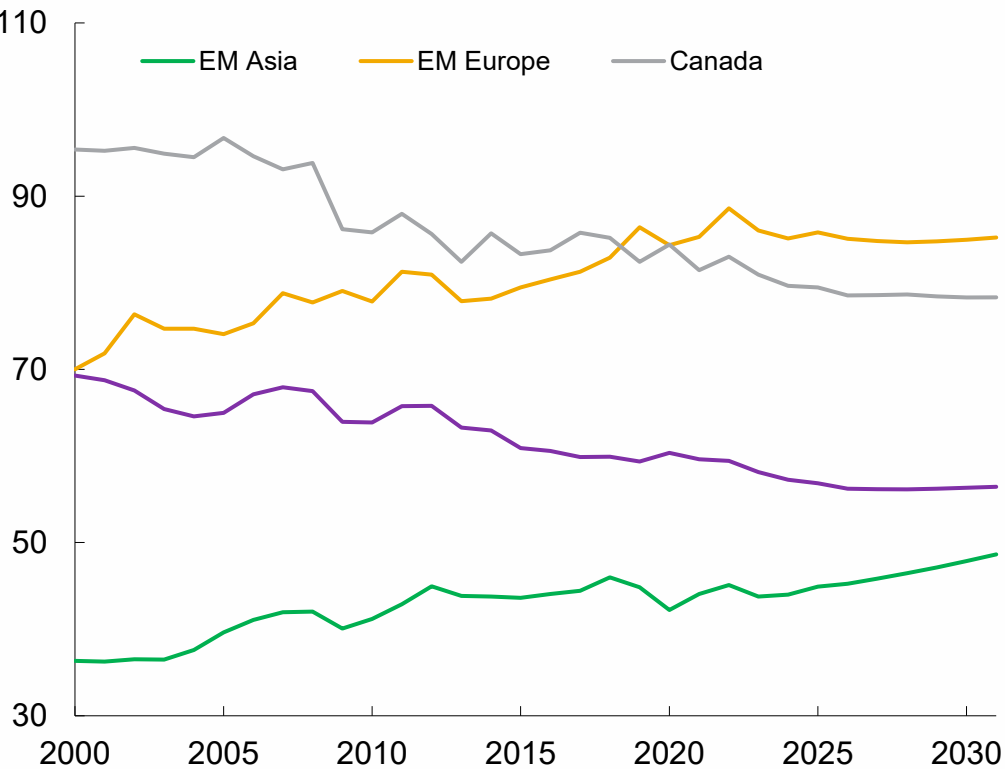
Note: Aggregates are PPP GDP-weighted averages. Difference based on rounded figures for the October 2026 and April 2026 WEO vintages. Green/red colors denote an increase/decrease compared with the April 2026 WEO vintage. LA8 includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. LA7 is LA8 excluding Argentina. CAPDR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Caribbean: Tourism dependent encompasses the rest of the Caribbean countries not included in the Caribbean: Non-tourism dependent group, which includes Commodity Exporters (Guyana, Suriname, Trinidad and Tobago) and Haiti.

The region is not expected to close the gap with the US

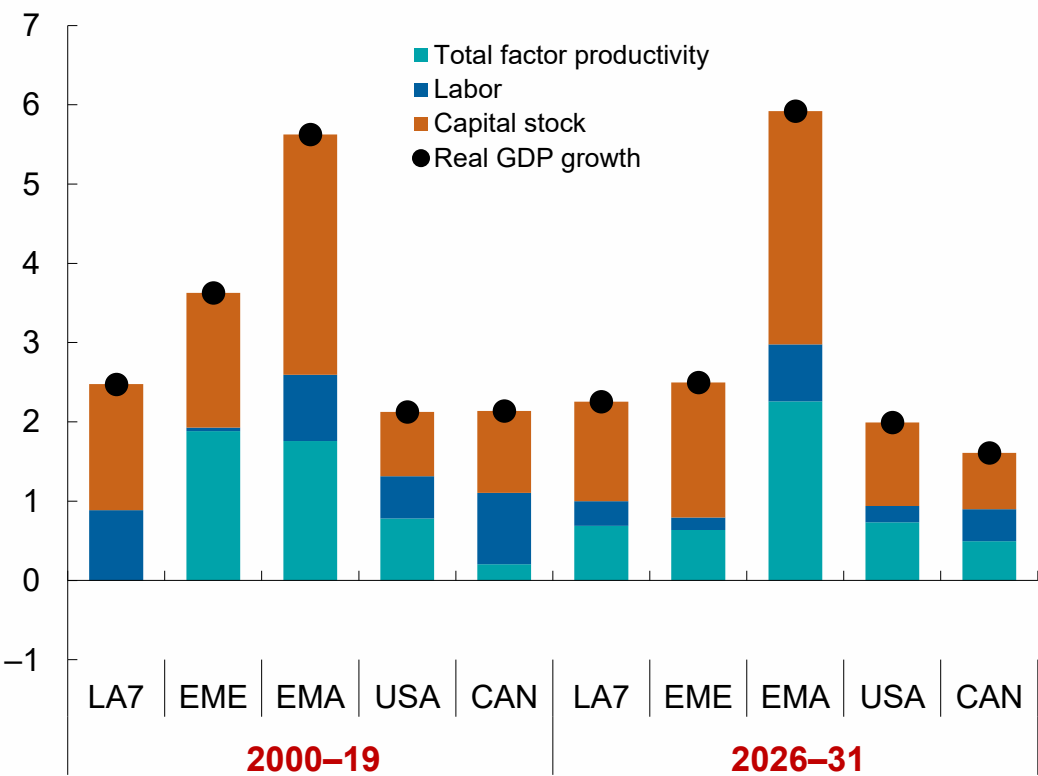
LAC and Canada's productivity differentials relative to the United States continue to widen,...

... even though there are expected gains in TFP, offsetting the slower growth in the labor force.

Total Factor Productivity Relative to the United States
(Percent)



Contributions to Real GDP Growth
(Year-over-year percent change)



Sources: IMF, World Economic Outlook database; PWT 11.0 database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. EM = emerging; EM Asia = India, Indonesia, Malaysia, Philippines, Thailand; EM Europe = Hungary, Poland, Romania, Serbia; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay; Peru, Uruguay).

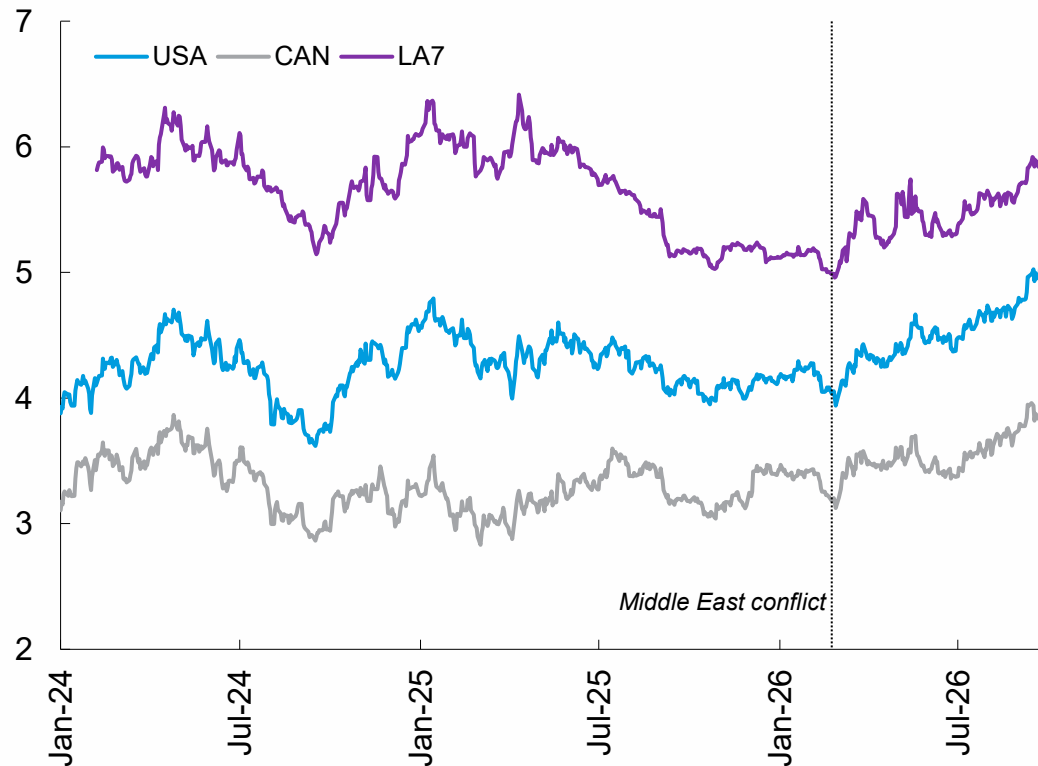
Sources: IMF, World Economic Outlook database; PWT 11.0 database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. EM = emerging; EMA = EM Asia (India, Indonesia, Malaysia, Philippines, Thailand); EME = EM Europe (Bosnia and Herzegovina, Hungary, Poland, Romania, Serbia); LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay; Peru, Uruguay).

Tighter financial conditions represent a key downside risk

Further increases in term premia or a shift in risk aversion would tighten financial conditions, ...

... with negative effects on activity.

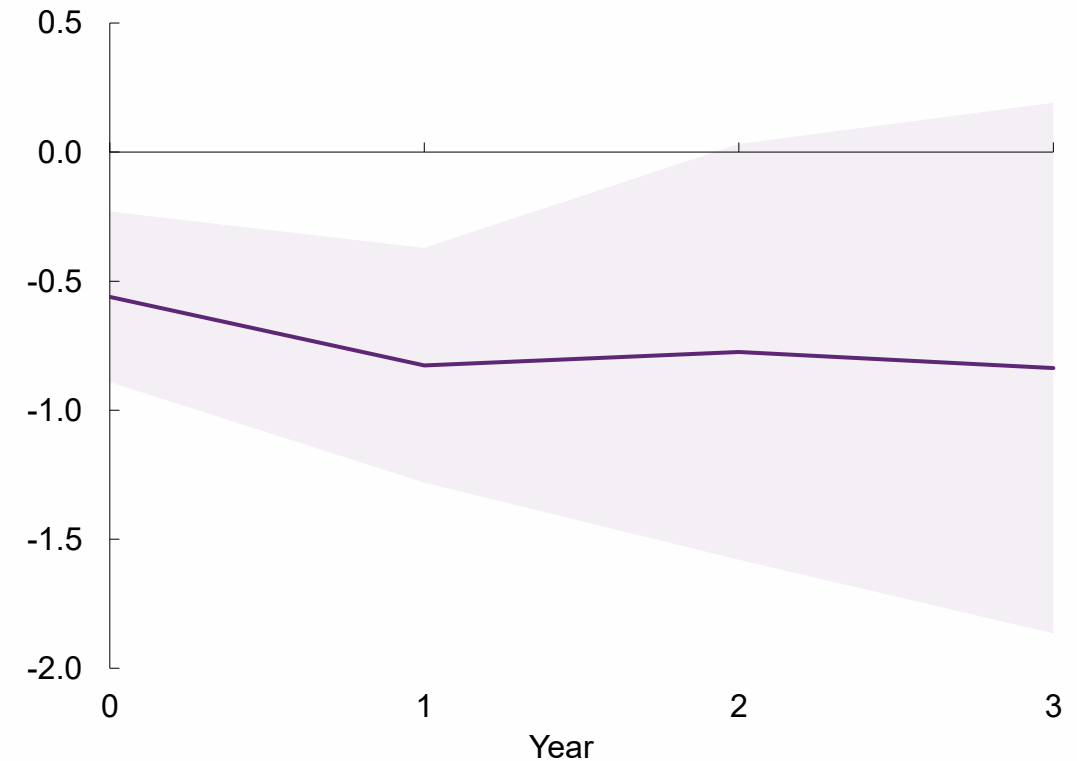
**Ten-year Bond Yields
(Percent)**



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

Note: LA7 is median. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

**LAC: Impact of Tighter Domestic Financial Conditions
on Growth
(Percentage points)**



Source: IMF staff calculations.

Note: The chart shows the effect of a half-standard-deviation-tightening in domestic financial conditions on GDP growth, estimated using local projections. Half standard deviation financial conditions is broadly equivalent to the magnitude of easing from 2025 to mid-2026. Controls include terms of trade, external uncertainty, and US GDP growth. LAC countries included in the sample are Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

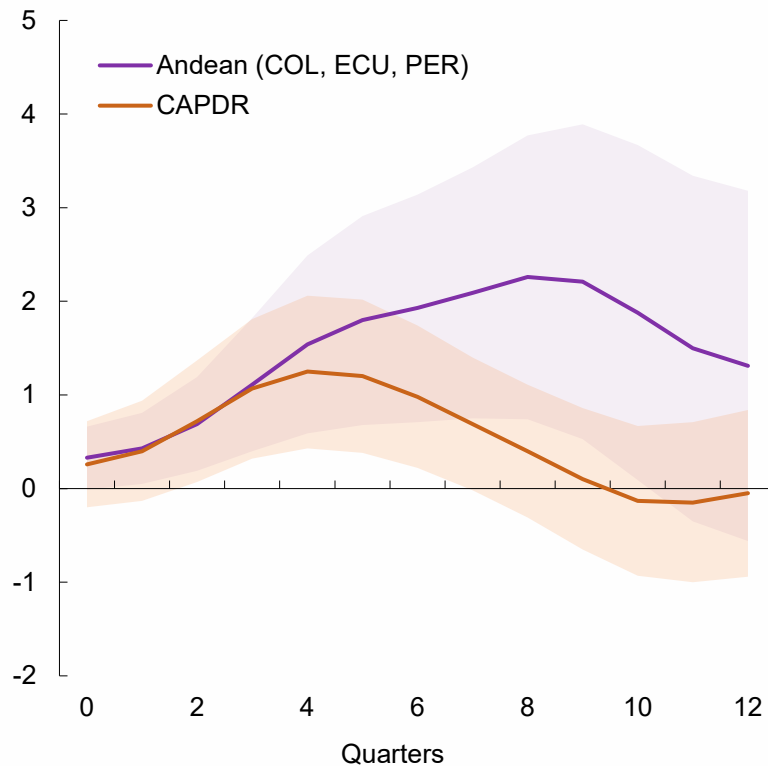
El Niño will add to near-term inflation with heterogenous growth effects

Strong El Niño episodes are estimated to raise inflation...

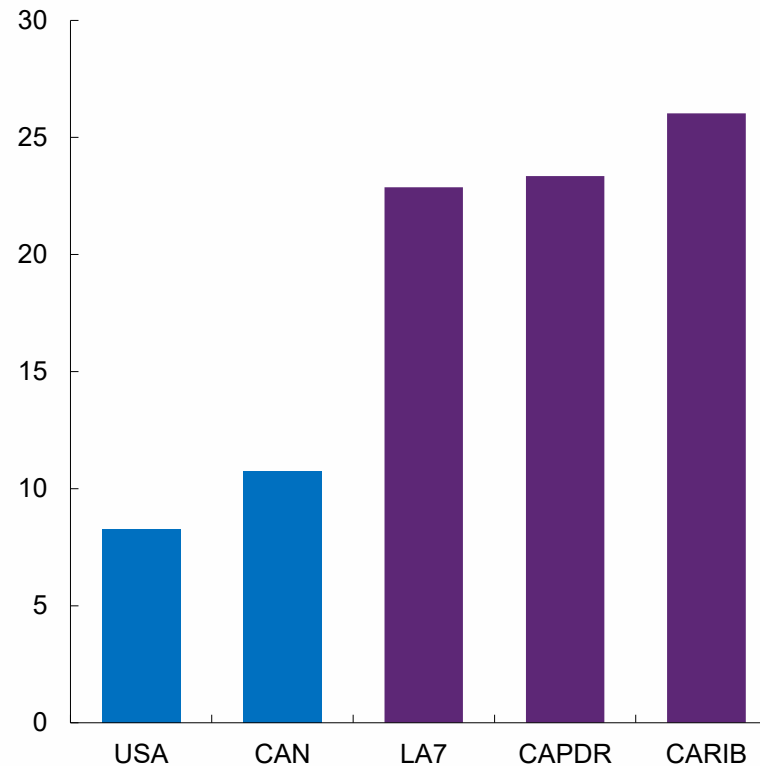
... given the relatively high weight of food in CPI baskets across the LAC region.

Output losses are expected to be largest in the Andes, followed by CAPDR.

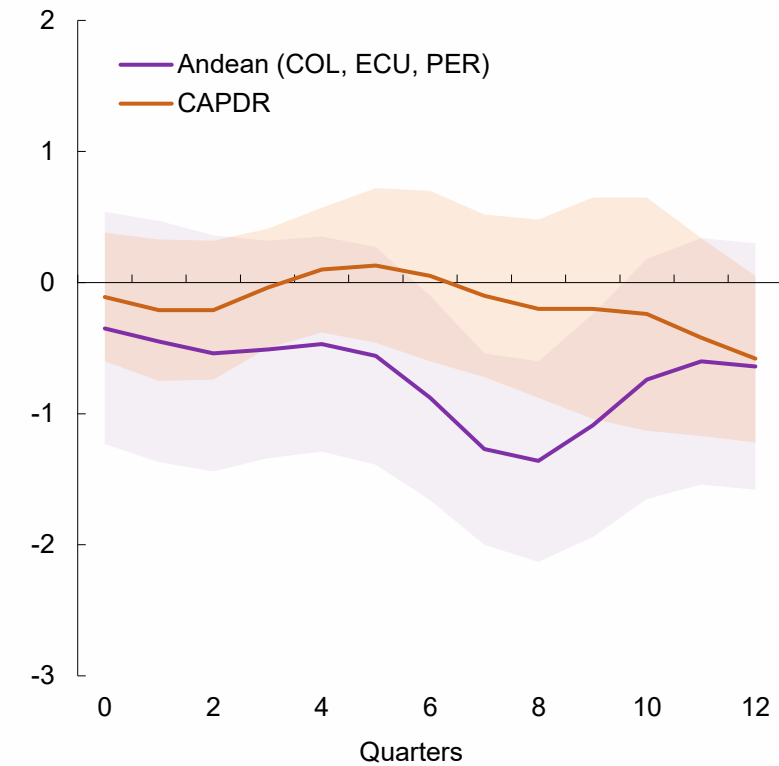
Impact of Strong El Niño on Inflation
(Percent; cumulative impact)



Food and Nonalcoholic Beverages CPI Weight
(Percent)



Impact of El Niño on Growth
(Percent; cumulative impact)



Source: IMF staff calculations.

Note: Shows the estimated impact of strong El Niño events on inflation using the local projection method in a cross-country panel. Shaded areas correspond to 10th/90th percentile confidence intervals. Andean = Colombia, Ecuador, Peru; CAPDR = Central America, Panama, and the Dominican Republic.

Sources: Haver Analytics; IMF, Consumer Price Index database; IMF, World Economic Outlook database; and IMF staff calculations.

Note: Aggregates are PPP GDP-weighted averages. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Source: IMF staff calculations.

Note: Shows the estimated impact of El Niño events on growth using the local projection method in a cross-country panel. Shaded areas correspond to 10th/90th percentile confidence intervals. Andean = Colombia, Ecuador, Peru; CAPDR = Central America, Panama, and the Dominican Republic.

Despite the energy and food price shocks, inflation is still expected to moderate in 2027–28

End-of-period Inflation
(Year-over-year percent change)

	 Western Hemisphere	 United States	 Canada	 Latin America and the Caribbean	 Latin America 8 (LA8)	 Latin America 7 (LA7)	 CAPDR	 Caribbean: Tourism dependent	 Caribbean: Non-tourism dependent
2026	4.8	3.9	3.2	6.8	7.2	4.5	3.7	4.6	6.8
Difference from April 2026	1.0	1.1	0.7	0.2	0.4	0.3	0.4	1.6	-1.6
2027	3.1	2.2	2.0	5.0	5.2	3.6	3.4	3.5	6.2
Difference from April 2026	0.2	-0.2	0.0	0.8	1.0	0.5	0.2	0.4	0.0
2028	2.6	2.0	2.0	4.1	4.1	3.0	3.1	3.2	5.7
Difference from April 2026	0.0	-0.2	0.0	0.6	0.6	0.0	-0.1	0.0	0.1

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

Note: Aggregates are PPP GDP-weighted geometric averages. *All inflation aggregates exclude Venezuela.* Difference based on rounded figures for the October 2026 and April 2026 WEO vintages. Green/red colors denote a decrease/increase compared with the April 2026 WEO vintage. LA8 includes Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. LA7 is LA8 excluding Argentina. CAPDR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Caribbean: Tourism dependent encompasses the rest of the Caribbean countries not included in the Caribbean: Non-tourism dependent group, which includes Commodity Exporters (Guyana, Suriname, Trinidad and Tobago) and Haiti.

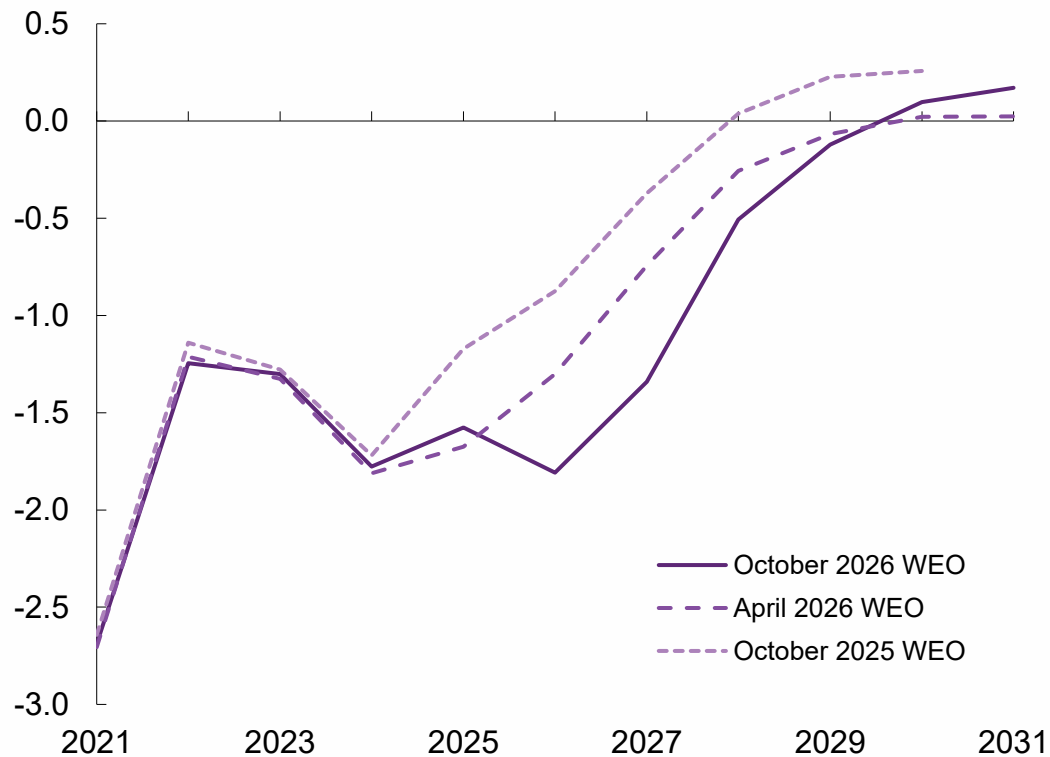
Policy implications

Lowering public debt is a priority

Fiscal adjustment has generally been smaller than envisaged in many countries, although advancing in Argentina, Bolivia, and Ecuador.

High public debt and rising financing costs continue to constrain the fiscal space to respond to further shocks.

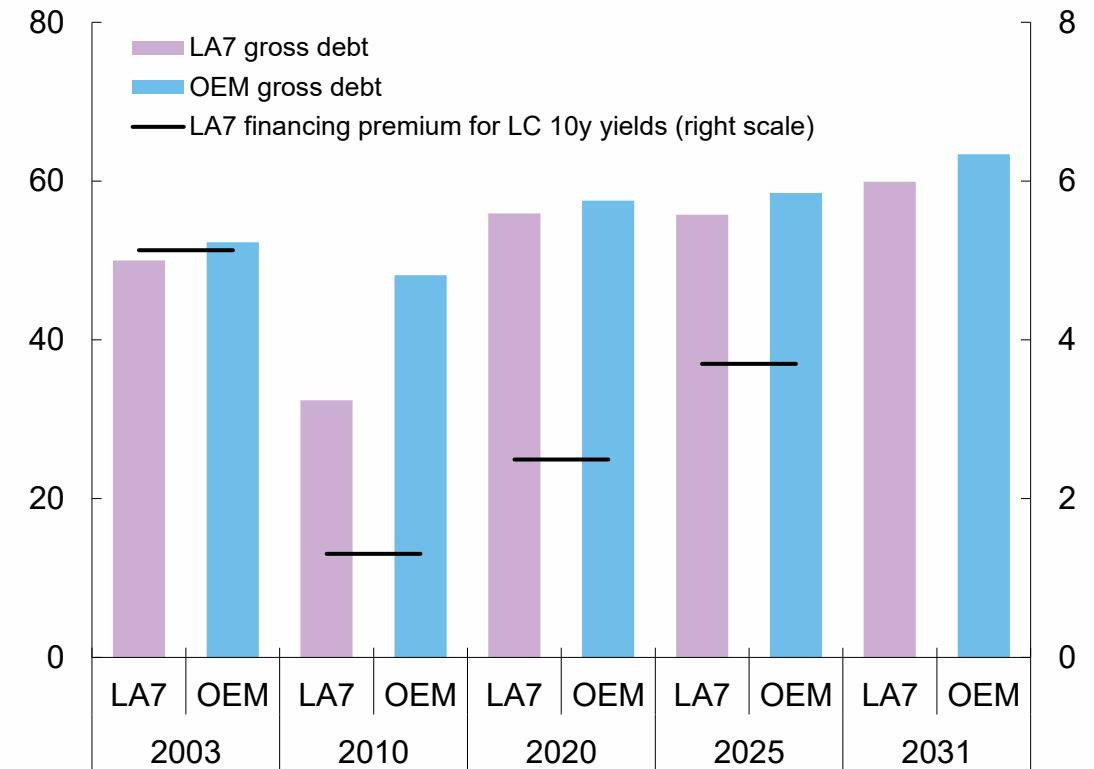
LA7: General Government Structural Primary Balance
(Percent of potential GDP)



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

Note: Aggregates are simple averages. Chile refers to the central government's structural non-mining primary balance. Colombia refers to the consolidated public sector's structural non-oil primary balance. Peru refers to the nonfinancial public sector's structural primary balance. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

General Government Gross Debt and Financing Cost
(Percent of GDP)



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

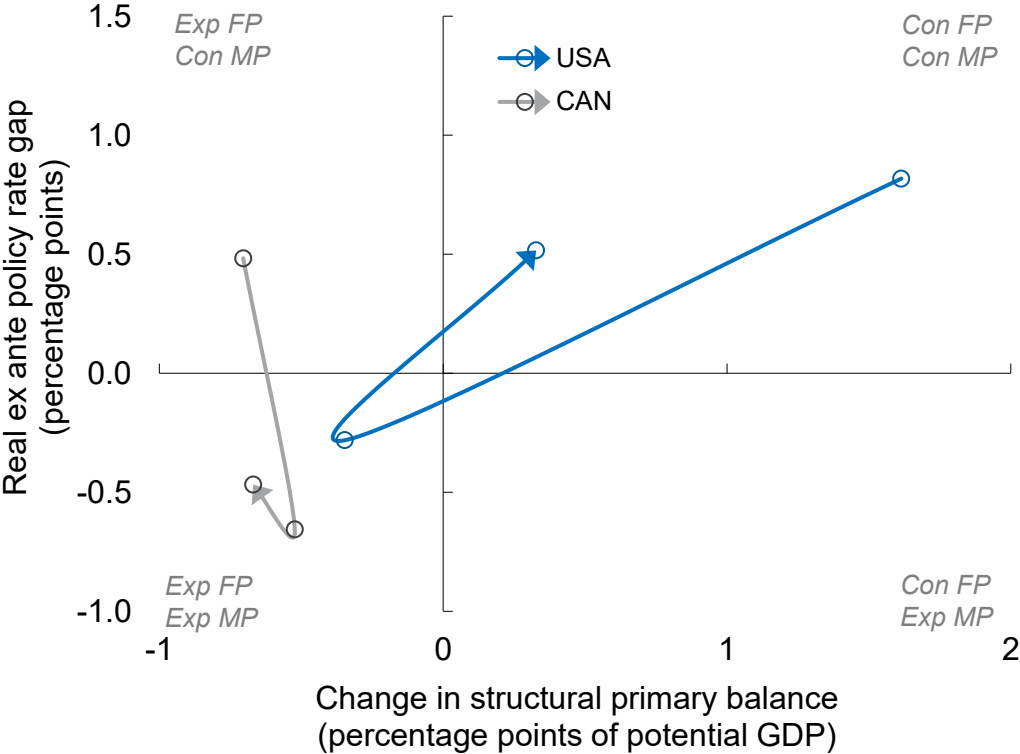
Note: Financing cost in percentage points is the difference between LA7 and OEM's nominal 10-year local currency bond yields. Aggregates are simple averages. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); OEM = other emerging markets (Bosnia and Herzegovina, Hungary, India, Indonesia, Malaysia, Philippines, Poland, Romania, Serbia, Thailand).

Fiscal restraint would help ease the burden on monetary policy in resisting the expected inflationary impulses

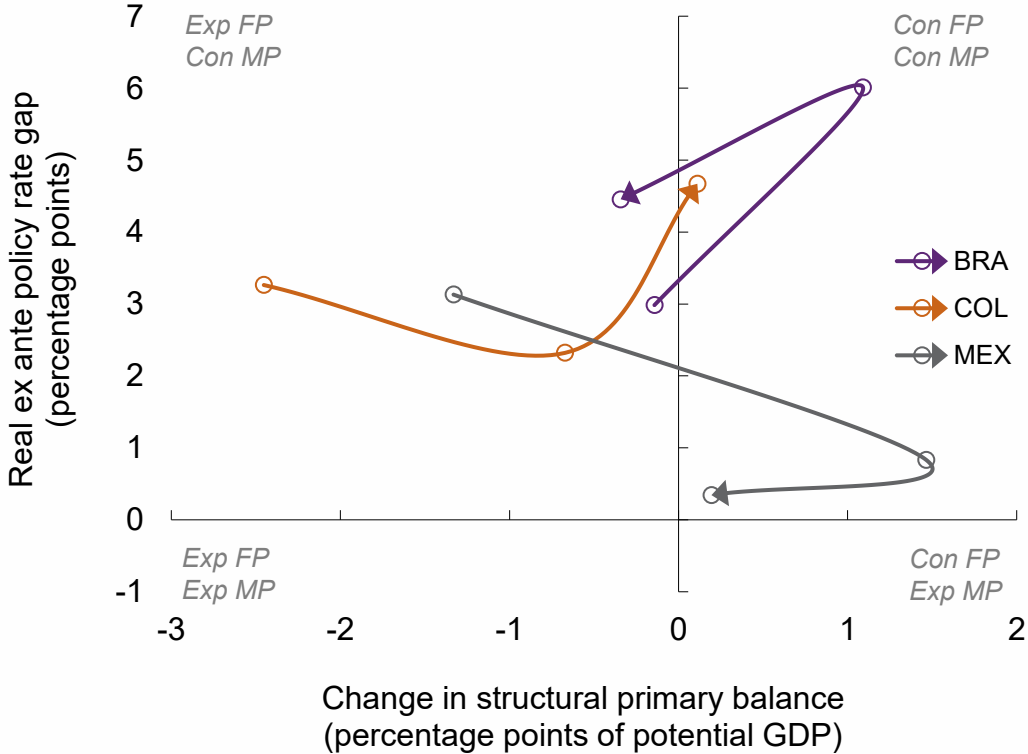
Policies have become less restrictive in the United States and somewhat expansionary in Canada.

Brazil and Colombia have restrictive monetary stances while Mexico is slightly contractionary.

Monetary and Fiscal Policy, 2024–26
(United States and Canada)



Monetary and Fiscal Policy, 2024–26
(Brazil, Colombia, Mexico)



Sources: Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: The real ex ante policy rate gap is the difference between the real ex ante policy rate and the real neutral rate. The real ex ante policy rate is the difference between the nominal policy rate and the 1-year ahead inflation expectations. Con = contractionary; Exp = expansionary; MP = monetary policy; FP = fiscal policy.

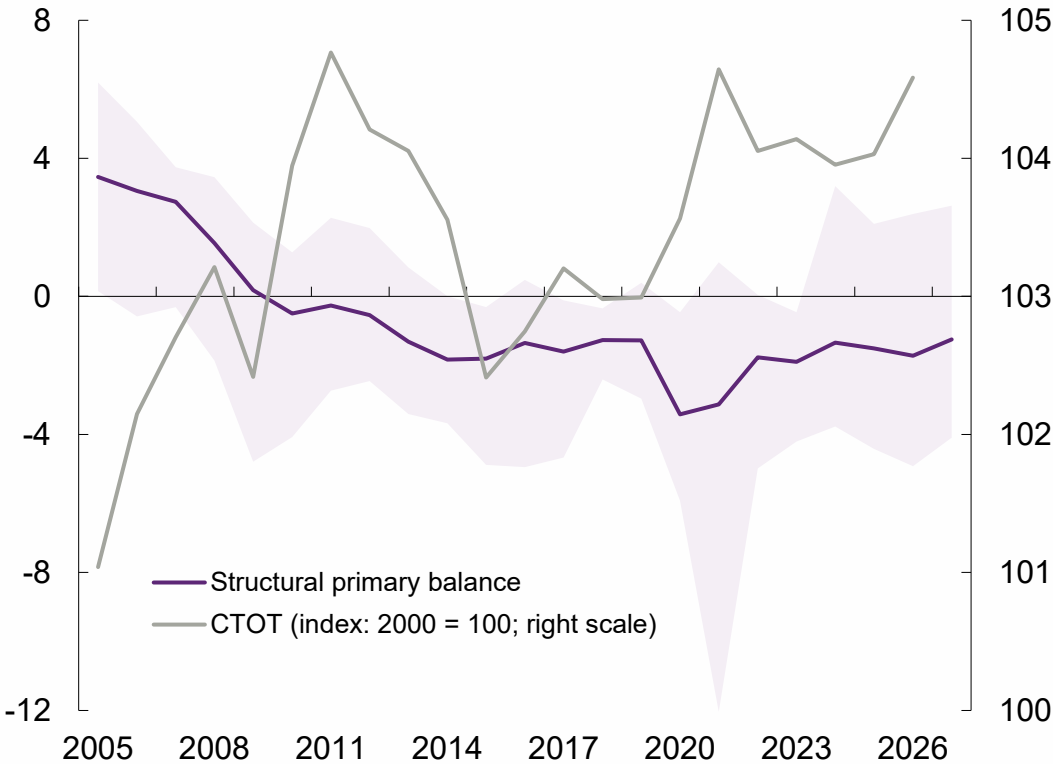
Sources: Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: The real ex ante policy rate gap is the difference between the real ex ante policy rate and the real neutral rate. The real ex ante policy rate is the difference between the nominal policy rate and the 1-year ahead inflation expectations. Con = contractionary; Exp = expansionary; MP = monetary policy; FP = fiscal policy.

Countercyclical fiscal policy would help amplify the impact of terms-of-trade gains on export performance

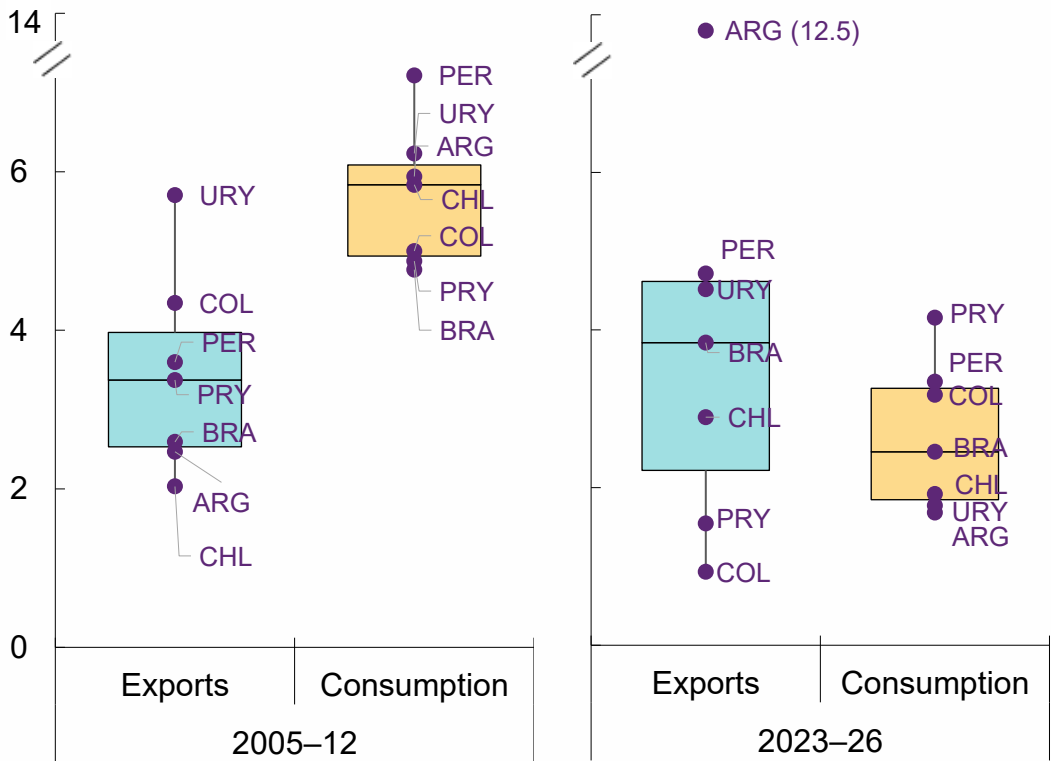
In 2005–12, the commodity price boom was characterized by pro-cyclical fiscal policy, ...

... which helped to boost domestic consumption and weakened the export response.

LA8 excluding Mexico: Structural Primary Balance and Commodity Terms of Trade
(Percent of GDP; unless noted otherwise)



Real Export and Real Private Consumption Growth
(Average annual growth; percent)



Sources: IMF, Commodity Terms of Trade database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Structural primary balance is simple average. CTOT is purchasing-power-parity GDP-weighted average.
CTOT = commodity terms of trade; LA8 = Latin America 8 (Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

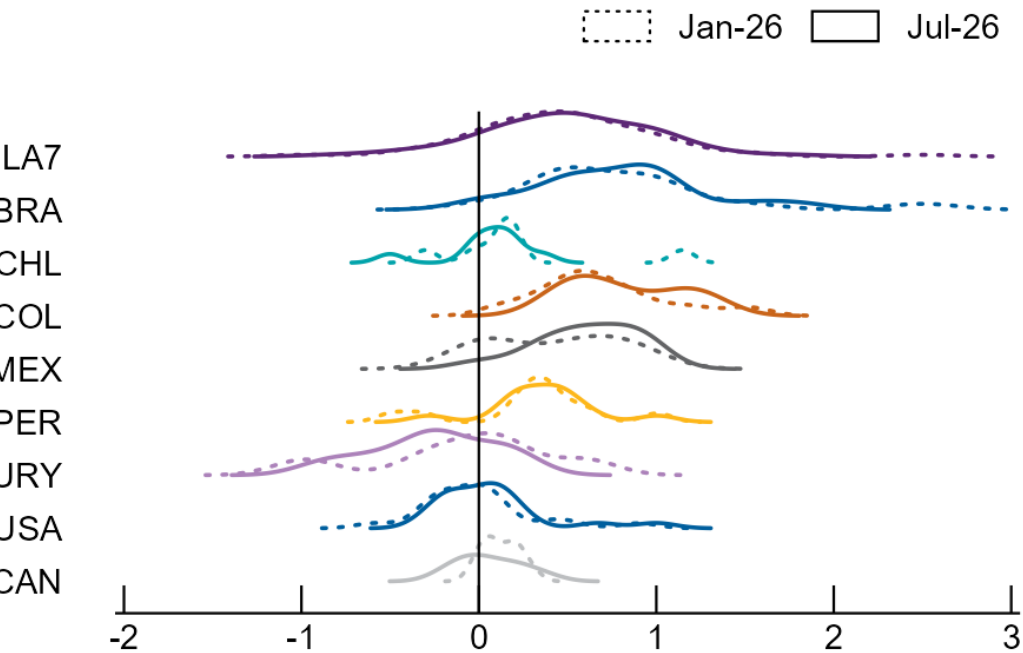
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Monetary frameworks have performed well; El Niño will pose yet another challenge to price stability

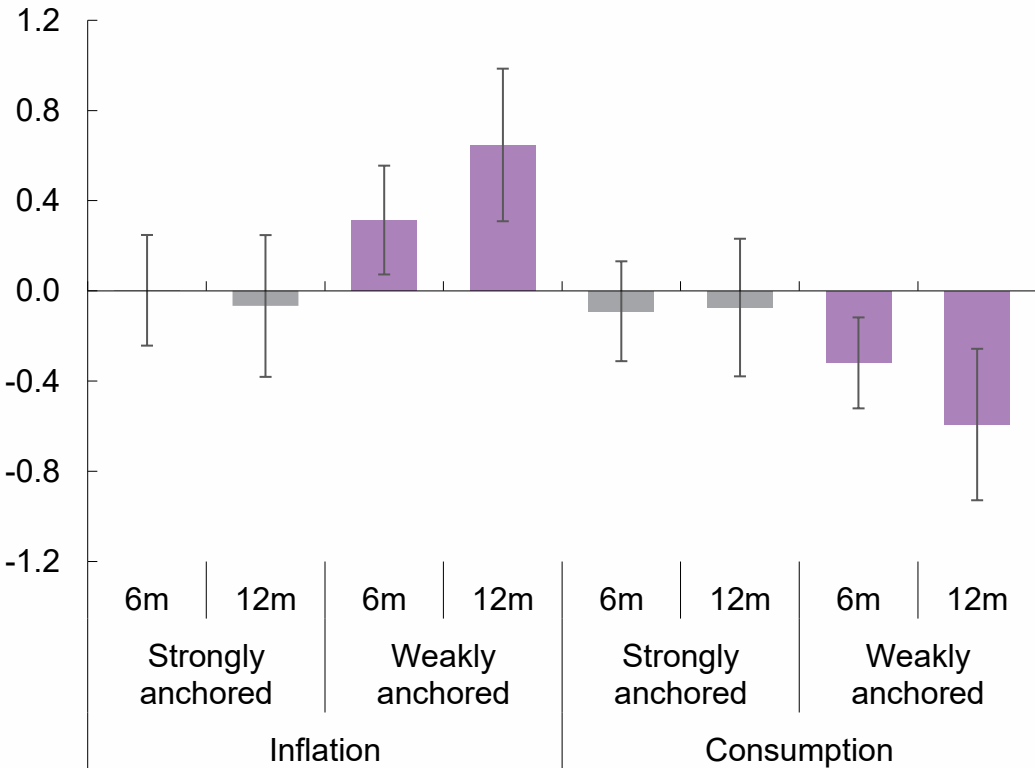
Inflation expectations remain broadly stable despite the energy price shock.

Anchored expectations reduce the impact of terms-of-trade shocks on inflation and consumption.

Distribution of Inflation Expectations by Forecasters, 2028
(Percentage points; deviation from target)



Response to Terms-of-Trade Shock by Anchoring Level
(Percentage points)



Sources: Consensus Economics; and IMF staff calculations.
Note: Density plots of one-year-ahead (December-over-December for LA7; 12-month for USA/CAN) inflation forecast deviation from inflation targets by Consensus Forecasts vintage. LA7 excludes Paraguay due to data limitations.

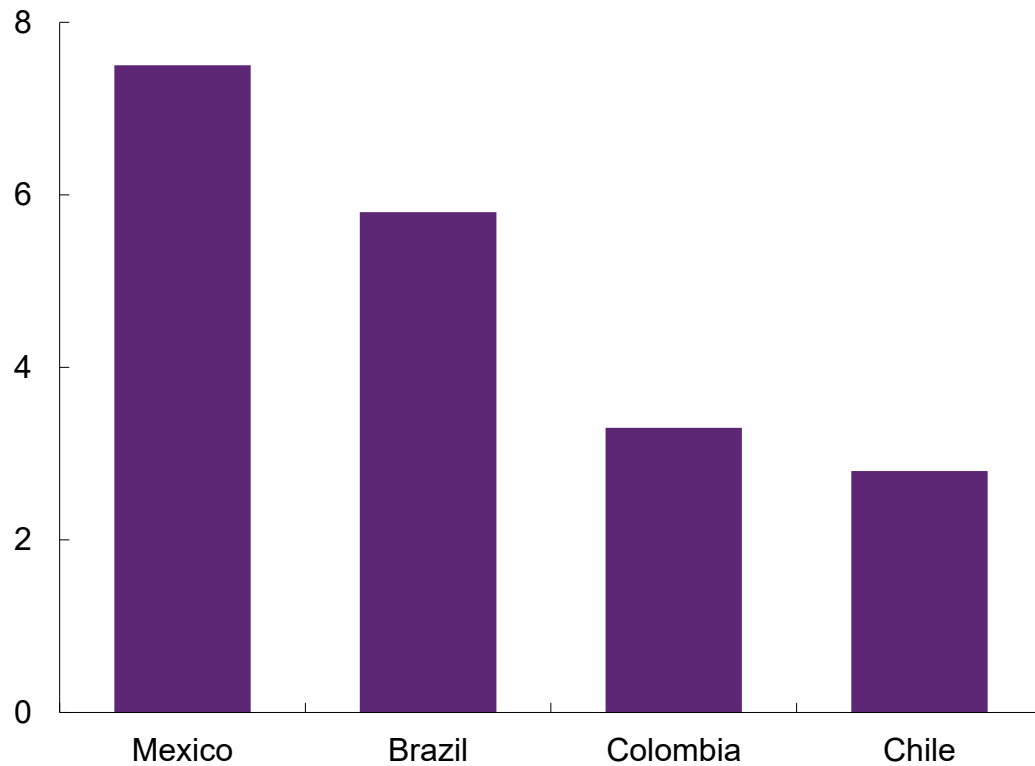
Sources: Barrett and others (forthcoming); Bems and others (2021); and IMF staff calculations.
Note: Cumulative response to month-on-month percentage change in the commodity terms-of-trade index (Gruss and Kebhaj 2019). Each country-year is classified as strongly (weakly) anchored when it is in the top (bottom) 25 percent of the observations of the anchoring index. Error bars denote 90 percent confidence intervals.

Increasing trade with Asia offers new export markets but also increases competitive pressures on domestic producers

US tariffs on China are prompting a redirection of Chinese goods toward much of the region...

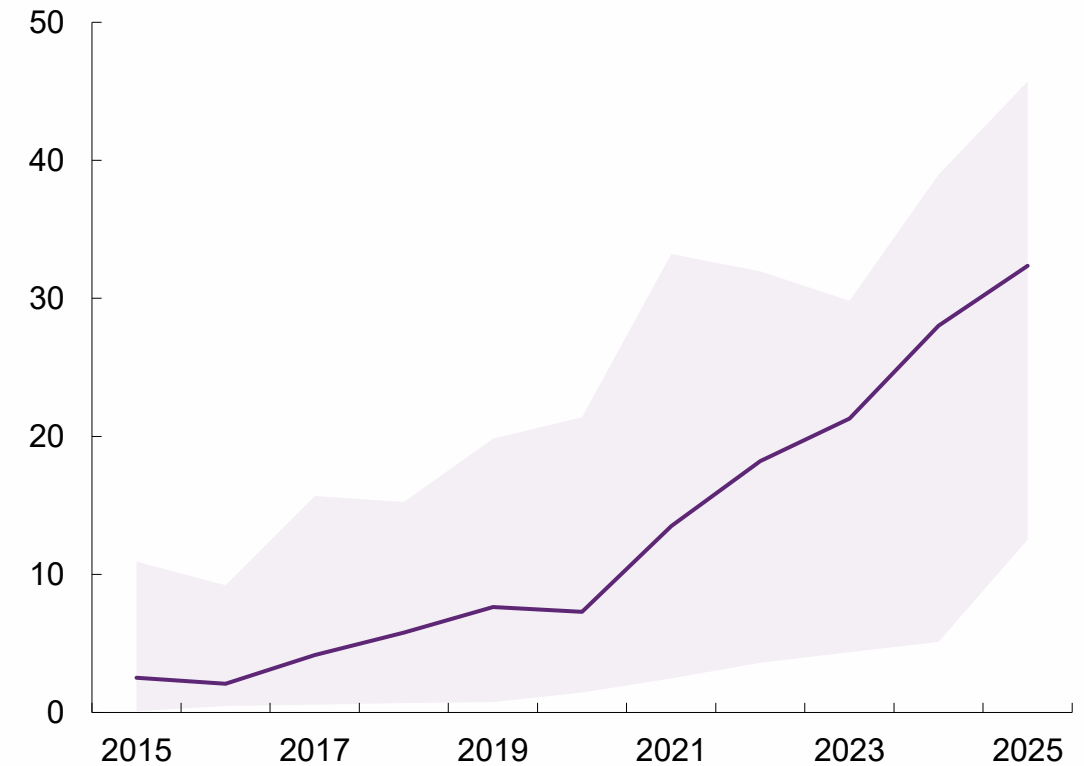
... increasing competitive pressures on domestic producers.

Effect of 2025 US Tariffs on China on LAC Imports from China
(Predicted change in imports from China; percent)



Sources: Arizala, Schauer, and Grittayaphong (forthcoming); and IMF staff calculations.
Note: Estimates have been calculated using a difference-in-difference analysis on the impact of US tariffs faced by Chinese products on the imports of those products by LAC countries.

China's Share of Latin American Passenger Car Imports
(Percent share)



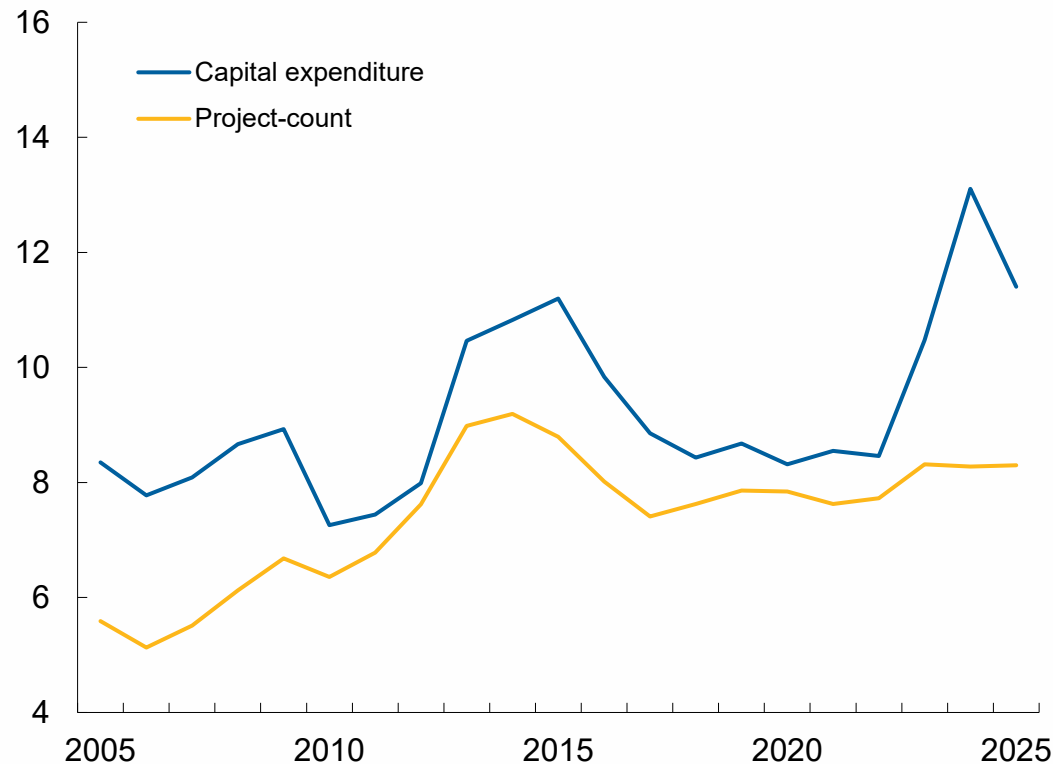
Sources: UN Comtrade; World Bank, World Integrated Trade Solution; and IMF staff calculations.
Note: Shaded area refers to the min-max range.

Ongoing shifts in supply chains and commodity prices are boosting LAC's appeal as an FDI destination

Latin America's share of global greenfield FDI has increased in recent years, particularly in manufacturing and mining...

... reflecting supply-chain diversification and increasing demand for ICT, critical minerals, and other strategic commodities.

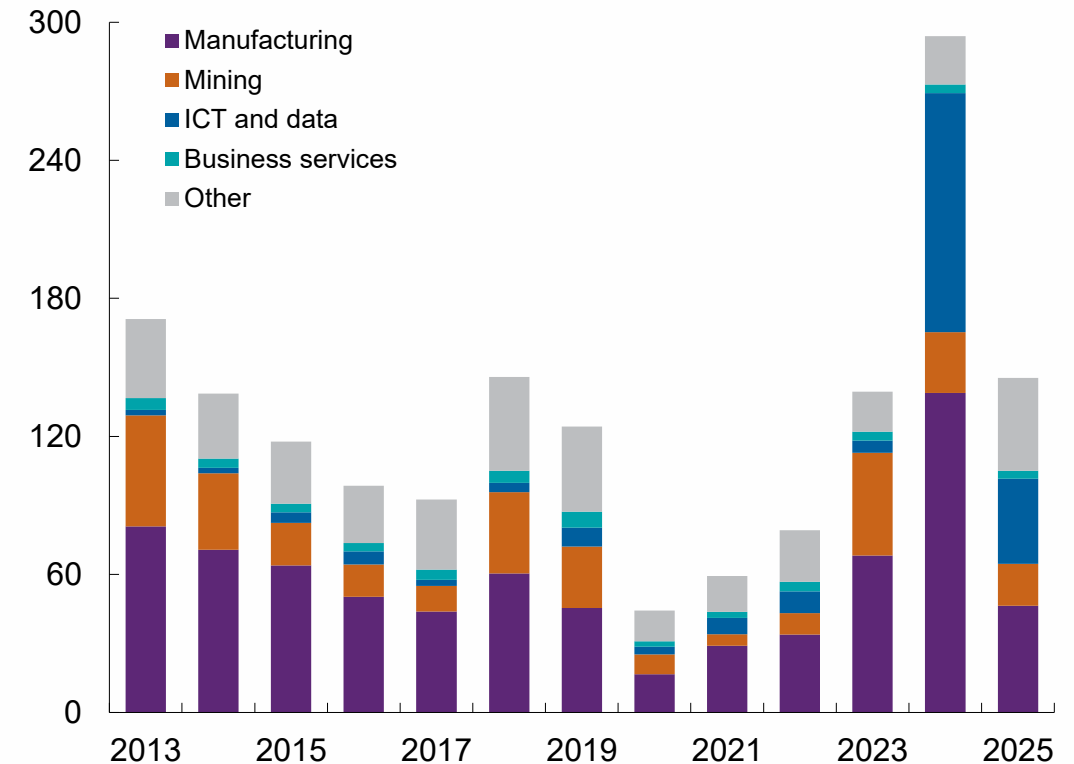
LAC: Share of FDI Global Greenfield Investment
(Percent of world total; three-year trailing moving average)



Sources: Orbis Crossborder Investment database; and IMF staff calculations.

Note: Shares are computed on announcement years relative to all destination economies in the database and cover announced and completed projects. Latest available data as of September 2, 2026. FDI = foreign direct investments; LAC = Latin America and the Caribbean.

LAC: Composition of FDI Capital Expenditure
(Billions of US dollars; annual levels)



Sources: Orbis Crossborder Investment database; and IMF staff calculations.

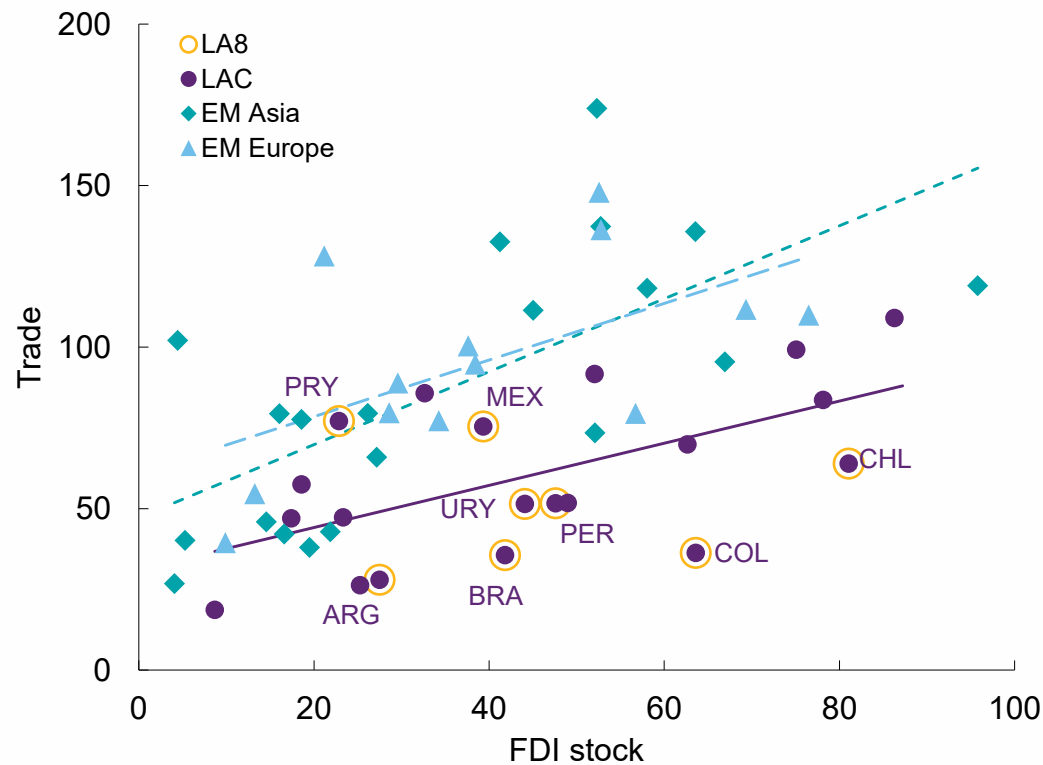
Note: Years are announcement years and cover announced and completed projects. Latest available data as of September 2, 2026. FDI = foreign direct investments; ICT = information and communications technology and data; LAC = Latin America and the Caribbean.

Turning robust FDI into export-led growth requires supportive domestic policies

LAC has relatively high inward FDI but with a relatively weak impact on trade.

Closing absorptive capacity gaps, notably in technology and logistics, would raise LAC's export response to FDI.

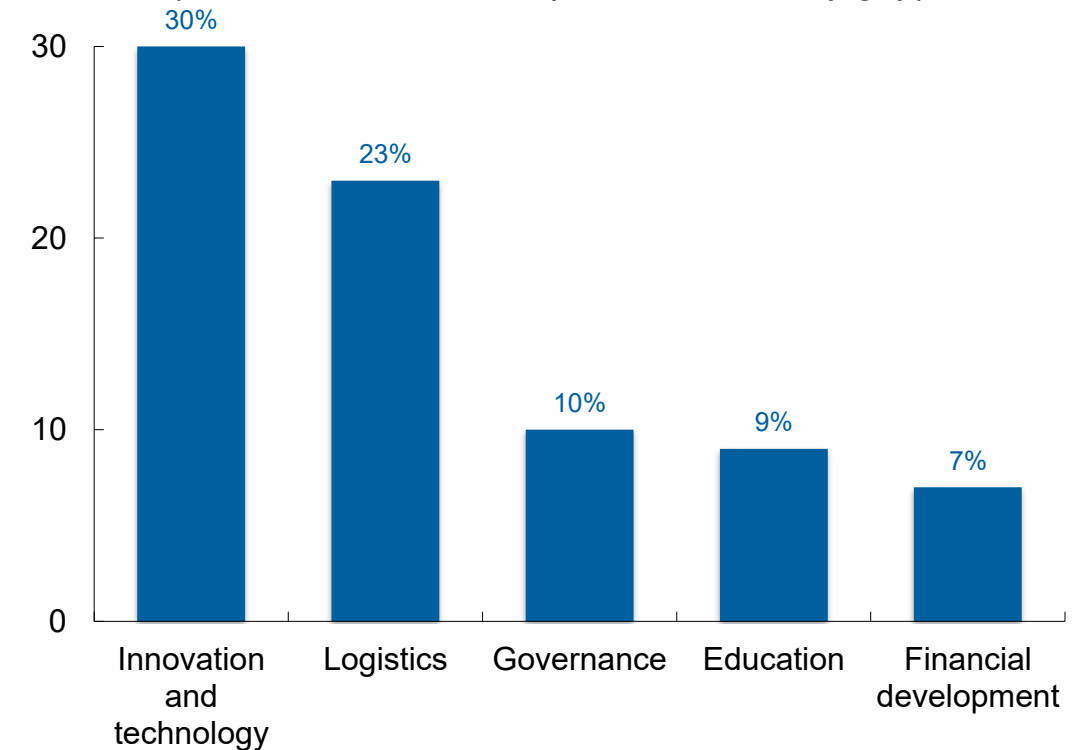
Trade and Inward FDI Stock, 2024
(Percent of GDP)



Sources: United Nations Conference on Trade and Development; World Bank, World Development Indicators database; and IMF staff calculations.

Note: Trade is the sum of exports and imports of goods and services as a percent of GDP. Inward FDI stock is expressed as a percent of GDP. Country groups based on the World Economic Outlook database. Data labels use International Organization for Standardization (ISO) country codes. Economies with inward FDI stocks above 100 percent of GDP are excluded. LAC includes LA8. EM = emerging markets; FDI = foreign direct investment; LAC = Latin America and the Caribbean.

Gains in LAC's Export Response to FDI from Closing Absorptive Capacity Gaps
(Percent share of LAC-peer EM elasticity gap)

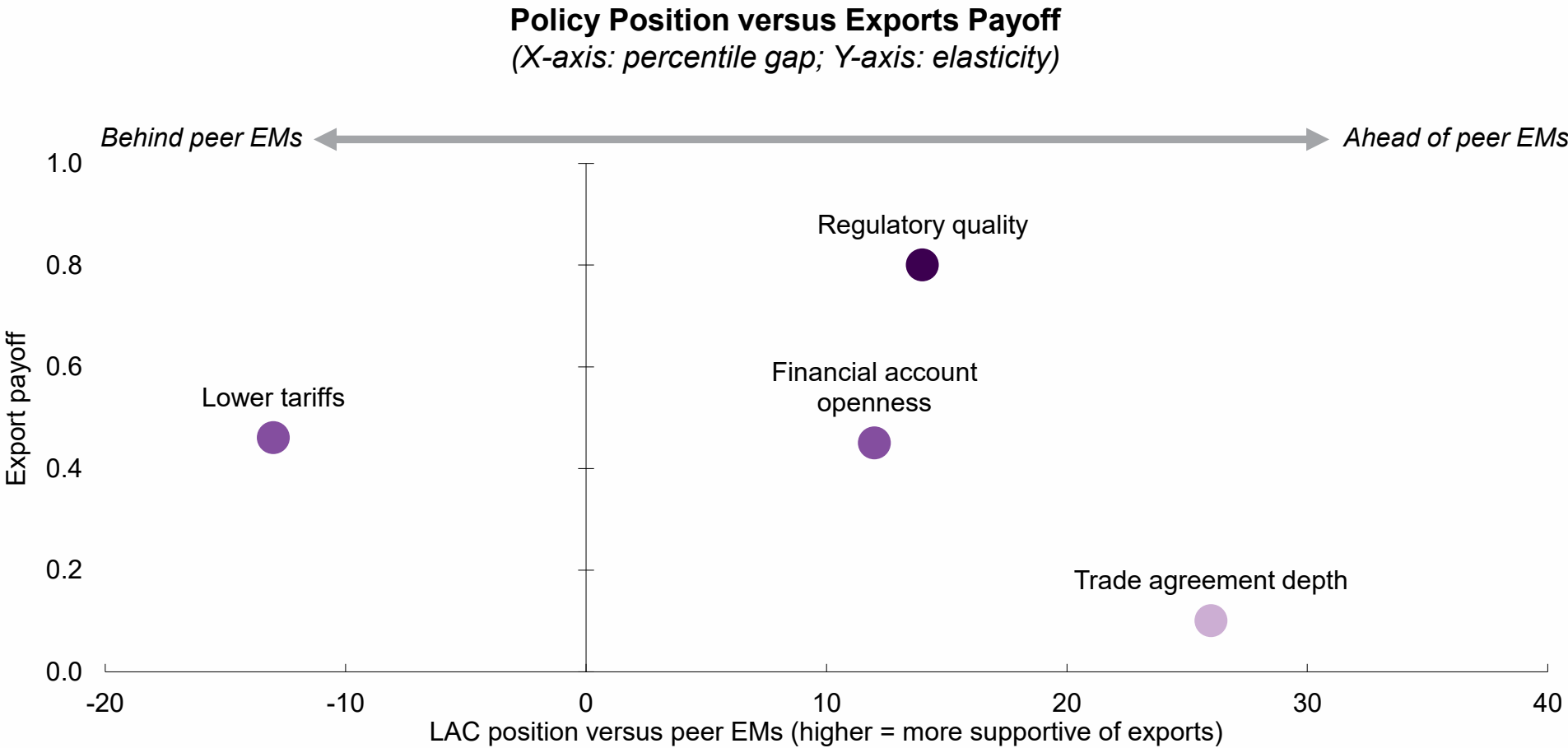


Sources: International Trade and Production Database for Estimation (ITPD-E) (Borchert and others 2021; Larch, Shikher, and Yotov 2025); Multinational Revenue, Employment, and Investment Database (MREID) (Ahmad and others 2025); and IMF staff calculations.

Note: Bars show the increase in LAC's elasticity of exports with respect to inward FDI from matching peer EM absorptive capacity, as a share of the total LAC-peer EM elasticity gap. EMs = emerging markets; FDI = foreign direct investment; LAC = Latin America and the Caribbean.

Lowering barriers to firm operations, trade and foreign investment can boost export growth

Better regulatory quality and fewer trade and investment barriers support stronger export performance.

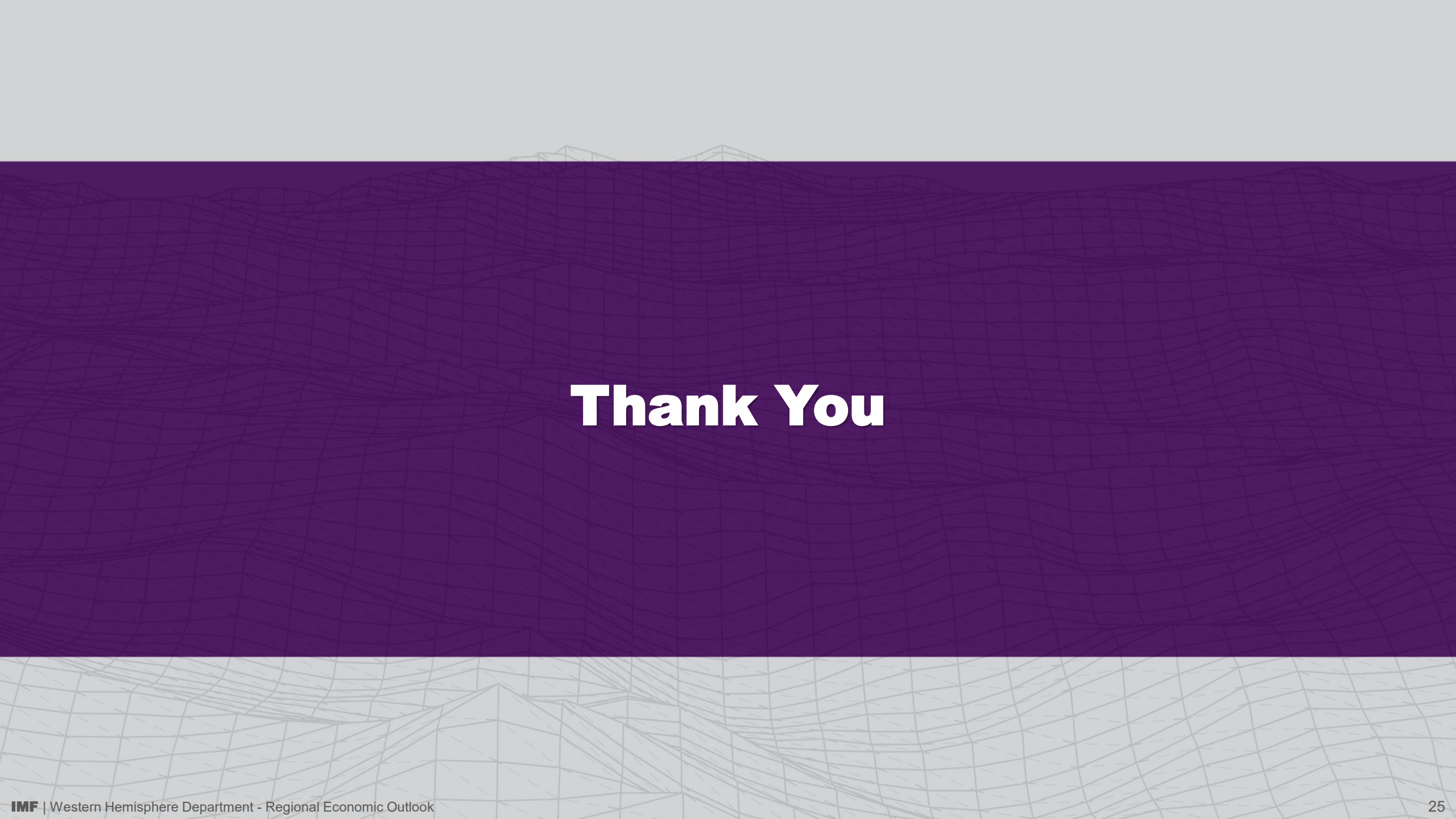


Sources: Chinn–Ito Index; Design of Trade Agreements (DESTA) database (Dür, Baccini, and Elsig 2014); Global Tariff Database (Teti 2024); Orbis Crossborder Investment (OCBI); World Bank Worldwide Governance Indicators; and IMF staff calculations.

Note: Each marker shows one of four policy areas. The horizontal axis shows the gap, in percentile points, between the LAC median and the median for peer EMs; positive values indicate that the LAC median is ahead of the peer EM median in the policy-supportive direction, and negative values indicate that it is behind. Tariffs are direction-adjusted, so that lower tariffs correspond to a more policy-supportive position. The vertical axis shows the estimated payoff from a more supportive policy position, for exports (panel 1) and for FDI (panel 2), expressed as elasticities. EM = emerging market; FDI = foreign direct investment; LAC = Latin America and the Caribbean.

Supply-side reforms are even more critical in light of accelerating productivity gains in the United States

- ❖ Realizing opportunities from the reshaping of global trade, attracting FDI, and unlocking export-led growth require more flexible and competitive economies
- ❖ There is no silver bullet but a range of policies will be needed, including:
 - ❖ Cut red tape and reduce tax distortions
 - ❖ Strengthen governance and reduce crime
 - ❖ Lower barriers to entry and boost competition
 - ❖ Upgrade infrastructure and improve logistics
 - ❖ Reduce trade barriers
 - ❖ Improve education and skills
 - ❖ Incentivize R&D and technology adoption
 - ❖ Tackle informality and remove obstacles to labor mobility and labor force participation



Thank You