Atradius
Managing risk, enabling trade

July 2025

Atradius LAC Economic Outlook

Growing resilience tested by US policy shifts

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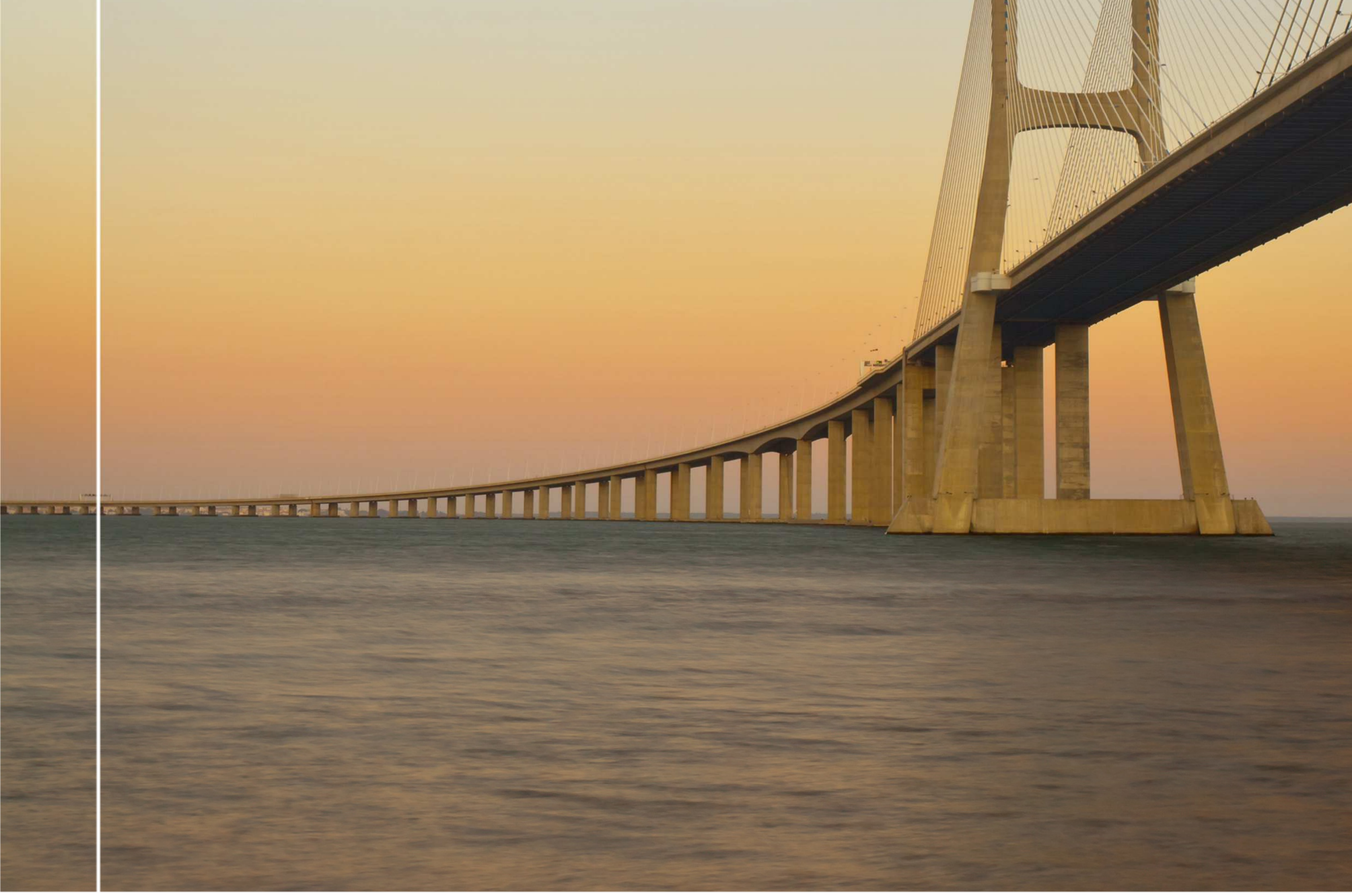


Summary

Subdued growth outlook shaped by largest economies

We project economic growth in Latin America and the Caribbean (LAC) to rise from 1.7% in 2024 to 2.1% in 2025, then ease to 1.8% in 2026, keeping it the slowest-growing emerging market region. Growth is shaped by divergent dynamics in the region's three largest economies: Argentina (rebounding from recession), Brazil (dragged by high interest rates and political uncertainty) and Mexico (facing investor concerns over judicial quality and fallout from US policy changes under President Trump).

US policy changes are creating significant external pressure for region

LAC is highly exposed to US policy changes due to its geographic proximity and economic integration. Mexico, Central America and the Caribbean are most exposed, given their strong ties to the US through trade, investment, remittances, and financial linkages. South America is more insulated due to more diversified trade partners and less open economies. However, also this commodity rich subregion is not immune to broader spillovers, such as elevated global policy uncertainty, persistently high US interest rates, lower oil prices, and a weaker US dollar. While South America, particularly copper exporters and Brazil, would be more directly affected by the escalation of Trump's trade policies than other subregions, we expect the impact to remain relatively localised, even if all measures take effect from August 1.

But stronger domestic policy records support broader resilience

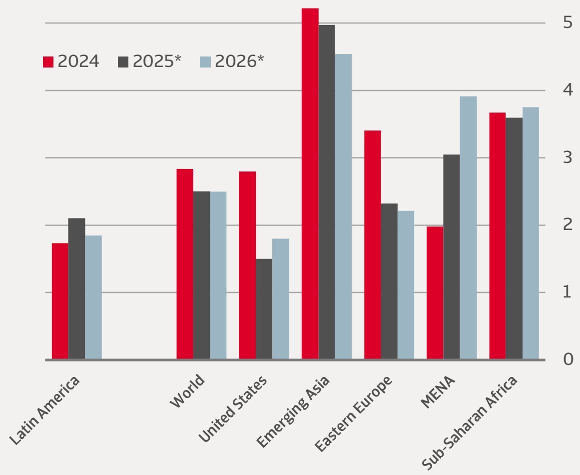
These external pressures will test LAC's improved resilience underpinned by stronger policy frameworks, independent central banks, flexible exchange rates and higher official reserves in most of the region.

Growing resilience tested by US policy shifts

Tariffs, trade and turbulence

We project economic growth in Latin America and the Caribbean (LAC) to rise from 1.7% in 2024 to 2.1% in 2025 and to ease to 1.8% in 2026, keeping LAC the slowest-growing emerging market region (see figure 1). This subdued outlook mainly reflects divergent dynamics in the region's three largest economies: Argentina's rebound from recession, Brazil's drag from high interest rates and political uncertainty, and investor concerns related to judicial quality in Mexico. Due to its proximity to the US, the LAC region is also highly exposed to the Trump administration's policy shift, including higher US import tariffs, stricter immigration measures, the dissolution of USAID and a slowing US economy.

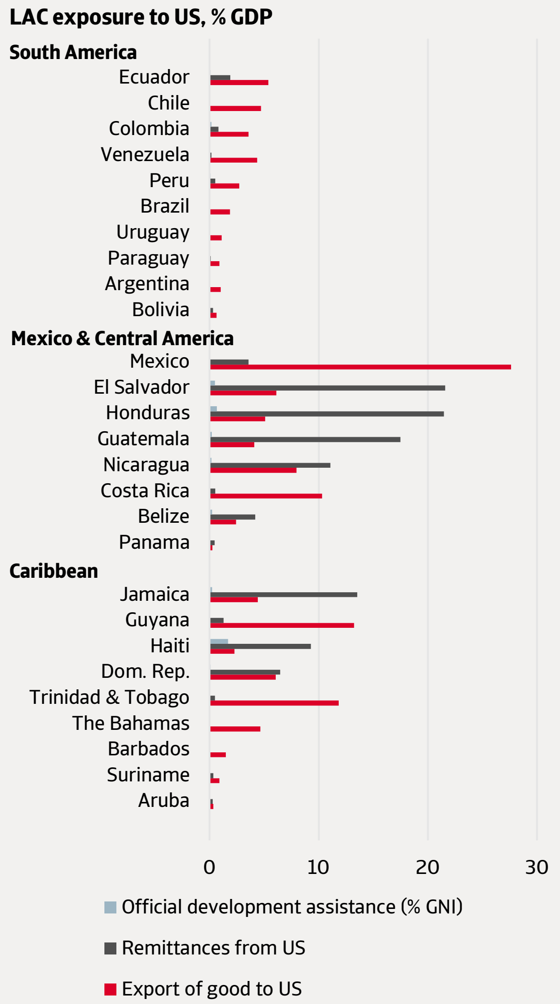
Figure 1 LAC continues to lag EMEs



Source: Oxford Economics, Atradius (* forecast)

The effects of changing US policy are especially pronounced in Mexico, Central America, and the Caribbean (see figure 2), given their deep economic ties with the US through trade, investment, remittances, and financial linkages. Moreover, broader spillovers such as heightened global policy uncertainty, persistently high US interest rates, weaker oil prices, and a weaker US dollar further weigh on the outlook. While lower oil prices may benefit oil-importing countries in Central America and the Caribbean, they pose challenges for oil-producing Mexico and parts of South America and the Caribbean.

Figure 2 Mexico and Central America most exposed to US policies



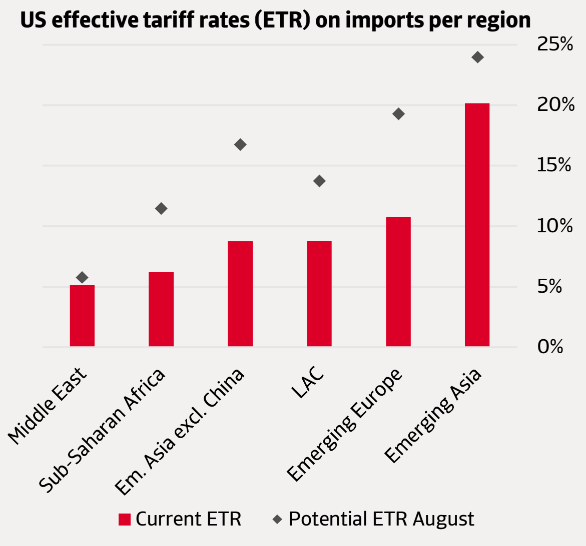
Source: IMF, World Bank, OECD, Atradius

While the LAC region has strong trade ties with the US, average US import tariffs on the region are still moderate at 8.8% (see figure 3). This is because most LAC nations import more from the US than they export. All countries face the 10% blanket tariff imposed by President Trump in early April, but most have avoided the 'reciprocal' tariffs, paused until August, targeting trade surplus countries. Only Guyana, Nicaragua, and Venezuela were facing additional levies. Mexico was exempt but faces a separate 25% levy on goods that do not comply with the United States-Mexico-Canada Agreement (USMCA) due to its large trade surplus with the US. Additional sector-specific tariffs include 25% on cars and parts, and 50% on steel and aluminium, with exemptions for energy.

In early July, Trump threatened to (re-)impose reciprocal tariffs on trade partners that have yet to reach a deal with the US. The LAC region is relatively insulated from this, but it is exposed to a slew of sector- and country-specific tariffs that have also been threatened to start in August. This is especially the case for South America and Mexico. For instance, Trump threatened in early July to impose a 50% tariff on copper (previously exempt) starting August 1. This potentially raises the effective rates for major copper exporters like Chile (from 5.0% to 23.7%) and Peru (from 7.5% to 12.3%). Further announcements in July targeted Mexico and Brazil. Tariff hikes of 30% on Mexico would bring its ETR to 13.1% from almost 10% currently. The threat of 50% tariffs on Brazil however would hike its ETR to 34.9%, the highest in LAC, from 8.6% currently. As Brazil has one of the highest trade deficits with the US, this tariff threat illustrates Trump's geopolitical use of tariffs.

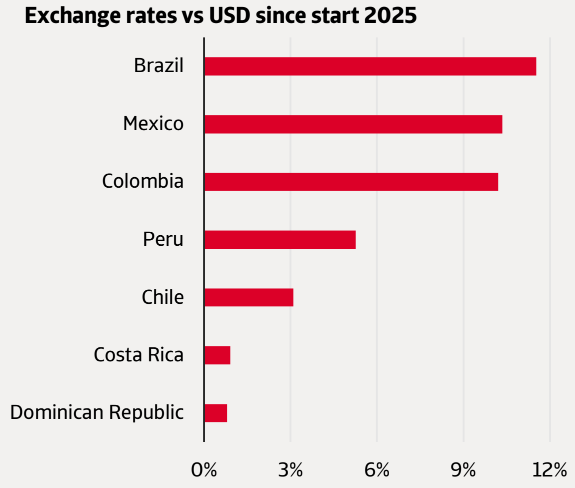
If all announced measures take effect on August 1, the LAC region's average tariff rate would rise significantly to 13.7% (see figure 3). This would keep the ETR applied to LAC on the lower end of EMEs. For Brazil and Chile though, this would mean a significant jump in ETRs to the highest in the region. It would bring them both above Mexico, the country with the largest trade surplus with the US. Brazil's ETR would even be raise above the current level faced by China (30.7%). While the copper and Brazil tariffs may be manageable at the macrolevel, some Brazilian sectors, like aviation, could be impacted. We think retaliation is unlikely; affected LAC countries are more likely to deepen trade ties elsewhere. For instance, Brazil and Mexico are already exploring closer trade cooperation.

Figure 3 LAC tariffs moderate compared to other EME regions



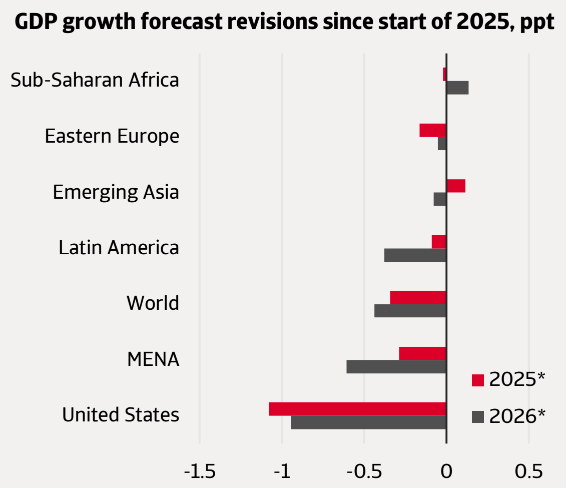
Despite these challenges, most countries in the region remain well-equipped to navigate the more demanding external environment. Strengthened policy frameworks, independent central banks, flexible exchange rate regimes, and increased official reserves have significantly bolstered resilience across the region (with Argentina, Cuba, Bolivia and Venezuela being the main exceptions). This is reflected in the appreciation of the currencies in some of the region's larger markets against the US dollar (see figure 4) and relatively modest downward revisions of the regional growth forecasts (see figure 5).

Figure 4 LAC currencies strengthening against USD



Source: Macrobond

Figure 5 Downward revision to LAC outlook below world average



South America: subdued momentum shaped by Argentina and Brazil

The economic outlook for South America remains subdued, shaped largely by developments in the subregion's two largest economies—Brazil and Argentina. Growth is expected to rise from 2.2% in 2024 to 2.5% in 2025, before easing to 1.8% in 2026 (see table 1). In Brazil, high interest rates and the 2026 general elections weigh on prospects. In Argentina, October's mid-terms are crucial for continuing President Milei's reform agenda. In Bolivia, where shrinking gas exports are dragging on economic growth, avoiding a disorderly devaluation of the overvalued currency will be a policy priority for the new government (elections in August, potential run-off in October), but dwindling reserves keep this risk very high. Meanwhile, Ecuador's April elections ensured policy continuity, supporting a modest rebound despite security concerns and low oil prices.

Table 1 Slowdowns in South America's biggest economies

South America, real GDP growth, y-o-y %

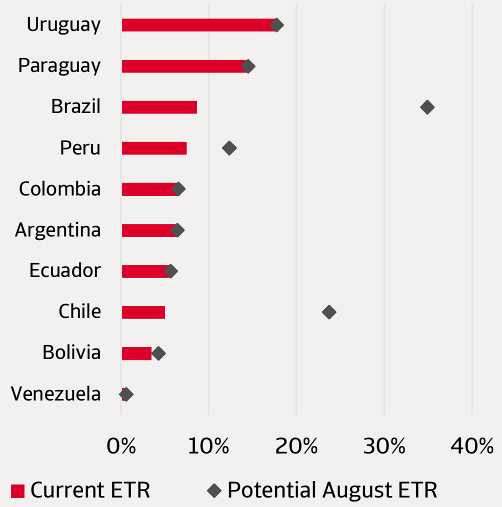
	2024	2025*	2026*
Argentina	-1.3	4.2	2.1
Bolivia	1.7	1.1	1.7
Brazil	3.4	2.2	1.5
Chile	2.4	2.4	2.2
Colombia	1.6	2.8	2.9
Ecuador	-2.0	1.7	2.3
Paraguay	4.2	3.6	3.4
Peru	3.3	2.8	2.4
Uruguay	3.1	2.3	2.1
Venezuela	4.4	-5.0	-3.3
South America	**2.2**	**2.5**	**1.8**

Source: Oxford Economics, Atradius (* forecast)

Direct exposure to US policy shifts under Trump is limited due to weaker trade and financial linkages, more diversified trade partners (including China) and less open economies. Some countries, however, illustrate Trump's use of tariffs for broader geopolitical aims. Venezuela is most affected, facing renewed recession as the US revoked Chevron's license and threatens 25% tariffs on importers of Venezuelan oil to intensify pressure on the authoritarian regime of President Maduro. This has led to falling oil output, declining official reserves, currency depreciation, and surging inflation in that country. Another example is Brazil, which runs a trade deficit with the US and was therefore initially exempt from reciprocal tariffs. In early July, Trump announced a 50% tariff on Brazil starting August 1, citing political persecution of his ally, former president Bolsonaro, over an alleged coup attempt after the 2022 election. The announcement triggered a 3% depreciation of the real against the USD, though it's still up 11% year-to-date. The economic impact of the tariff is expected to be limited, as Brazil remains a relatively closed economy. We do not expect Brazil to retaliate, although the risk of tit-for-tat escalation cannot be entirely ruled out.

Figure 6 South America exposed to higher imminent tariff rates

US effective tariff rates (ETR) on South America



Source: Fitch, Atradius

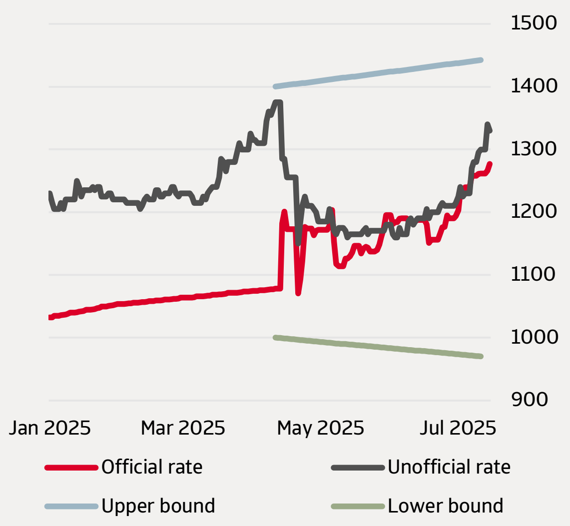
Argentina: bouncing back, yet fragile

Argentina's economy is set to rebound in 2025 with 4.2% growth after two years of contraction, driven by private investment—especially in mining and energy—underpinned by President Milei's pro-business reforms, and a recovery in consumption as inflation eases. Fiscal consolidation has reduced monthly inflation to 1.5% in May, the lowest in five years, though annual inflation remains high at 43%. Further disinflation is challenged by fiscal bills recently passed by Congress that threaten fiscal consolidation and persistent depreciation of the peso since June. Since April, the peso's been allowed to float within wide bands and after trading near the midpoint of the band, the peso is down 10% (see figure 7), potentially fuelling inflation and complicating Milei's party's prospects in the October 2025 midterms. To advance his reform agenda—backed by an IMF programme since April—Milei's party must gain ground in Congress.

Meanwhile, strong domestic demand and the removal of most currency controls in April have triggered a surge in imports, particularly in tourism, outpacing exports and dragging on growth. Moreover, the current account has slipped into deficit, complicating reserve accumulation, a key IMF target. Reserve accumulation remains heavily reliant on repo agreements and external financing, including a USD 1 billion peso-denominated bond issued in dollars but payable in pesos. While the issuance marked a small step toward regaining market access, the high 29.5% coupon reflects investor concerns over currency risk. The re-emergence of a gap between the official and parallel exchange rates underscores these concerns (see figure 7). Despite these efforts, official reserves remain critically low, and the government missed its June IMF target. Combined with uncertainty surrounding the election outcome and the continuity of Milei's reform agenda, investor sentiment remains fragile—particularly outside the mining and energy sectors. Looking ahead, absent a broader investment recovery and given the continuation of tight fiscal policies, we expect growth to moderate to 2.1% in 2026.

Figure 7 Argentine peso depreciates

Argentina exchange rate, ARS per USD



Source: BCRA, Macrobond

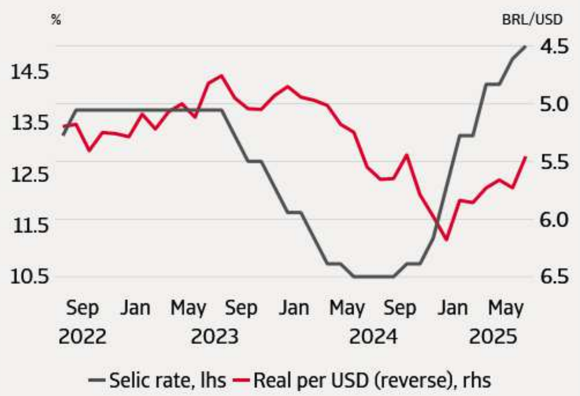
Argentina has limited direct exposure to US President Trump's policies due to its closed economy and diverse export markets. The US is its third-largest export destination, after Brazil and the EU, accounting for 8% of exports (1% of GDP). A 10% blanket US import tariff, mainly affecting food exports like wine and beef, excludes Argentina's top export, fuel. But aluminium exports face the steeper tariff of 50%. This has raised Argentina's effective tariff rate from 1.1% in 2024 to 6.4% today. President Milei aims to secure duty-free access for 50 Argentine goods exports, but we think US exemptions are unlikely, despite his warm relationship with Trump. Argentina is largely insulated from US policies on migration and USAID, but it is highly vulnerable to global uncertainty and the persistence of elevated US long-term interest rates. The sovereign faces substantial debt maturities starting this year on its restructured international bonds. Refinancing these obligations is likely to become more costly and complex amid rising global volatility. Persistently low official reserves, Argentina's Achilles' heel, are weighing on investor sentiment as well, making it more difficult to lift the remaining currency controls on corporates.

Brazil: limited US ties but still losing steam

Brazil's economy is cooling off from a resilient 2024. A strong labour market and firm household spending fuelled 3.4% growth in 2024. But we now see growth slowing to 2.2% in 2025 and further to 1.5% in 2026. This mostly reflects the impact of monetary tightening and uncertainty related to the October 2026 general elections that will dampen investment and consumption. The central bank began a tightening cycle in September 2024 and has lifted interest rates from 10.5% to 15% in June (see figure 8). We expect it to hold rates at this level and only begin cutting rates in early 2026 as a slowing economy, lower oil prices and a firming currency reduce inflation (expectations). The real has appreciated by over 10% against the USD to date in 2025, despite a 3% depreciation triggered by Trump's threat of a 50% import tariff on Brazilian goods imports from 1 August (see figure 8). This follows a sharp depreciation (almost 22%) in 2024 due to fiscal uncertainty.

Figure 8 Monetary tightening and BRL appreciation

Brazil exchange rate vs. interest rate



Source: Macrobond

Brazil is well positioned to absorb any trade war shock. It is a relatively closed economy and the limited trade with the US that there is accounts for only 2% of GDP. As such, the 10% blanket tariff imposed on Brazilian exports to the US has limited direct or indirect impact on the Brazilian economy. Nearly 70% of its exports to the US consist of commodities — particularly oil, coffee and iron —, which are fungible and can be redirected to other markets. The country is mildly impacted by the sector-specific tariffs for steel and aluminium and cars and parts but does benefit from the exemptions for energy and minerals. The effective tariff for Brazil lies now at 8.6%, from 1.3% in 2024. However, Trump's proposed 50% tariff on Brazil, effective August 1, would substantially raise the effective rate (see figure 6) to one of the world's highest, potentially even above China. We think this is manageable at the macrolevel, although some sectors, such as aviation, could be impacted. Trump cited political persecution of ally, former president Bolsonaro, in connection with an alleged coup attempt following the 2022 election and unfair trading practices as justification for the 50% tariff. As Brazil runs a trade deficit with the US and was originally exempt from reciprocal tariffs, the imposition appears to be politically motivated. We do not expect Brazil to retaliate, although the risk of tit-for-tat escalation cannot be entirely ruled out. Brazil is well positioned to weather any turbulence from that given its strong official reserves. There is also some upside risk that Brazil might benefit from increased trade diversion away from the US by China and the EU.

Concerns over Brazil's government finances have eased since last year but will likely intensify ahead of the next general elections in October 2026. The popularity of leftist President Lula has surged following Trump's 50% import tariff threat, which has sparked a "rally-around-the-flag" effect, with broad political support for Lula—including from left-wing, centrist, and some right-wing voters—who view the tariffs as undue US interference. However, Lula's recent popularity boost is unlikely to last amid a weakening economy. With Bolsonaro expected to remain ineligible for the 2026 election, a more market-friendly, centre-right candidate could emerge, potentially improving Brazil's fiscal outlook. We expect fiscal deficits to stay high at over 8% of GDP, pushing government debt from 77% of GDP in 2024 to 82% in 2026. While this remains sustainable, investor confidence will remain subdued, dragging on Brazil's growth prospects.

Chile: steady growth, copper tariffs limited impact

Chile's economic growth will remain steady at 2.4% in 2025, before moderating slightly to 2.2% in 2026. This year, growth will be primarily driven by resilient private consumption and a rebound in private investments, which are expected to offset the drag from a weakening export performance. A gradual decline in inflation toward the central bank's 2%-4% target range over the course of this year will support household spending and create room for monetary easing. Following a pause in policy rate cuts since December 2024, we anticipate the central bank to resume its rate-cutting cycle by the end of 2025. We expect the policy rate to be lowered from 5% to 4% in 2026. Lower interest rates, combined with expectations of a more business-friendly administration taking office after the November 2025 elections, will continue to bolster household spending and private investments into 2026. However, the pace of growth is likely to slow slightly next year, as weaker government consumption and subdued external demand will weigh on overall economic activity.

Chile's direct exposure to US President Trump's policies is limited. China is Chile's dominant trading partner, accounting for nearly 40% of its goods exports. The US accounts for 16% of Chile's goods exports—equivalent to 4.7% of its GDP. Currently, Chilean exports to the US are only subject to a blanket tariff of 10% as there is no reciprocal tariff on its goods entering the US. The blanket tariff primarily impacts food exports, especially fish and grapes, while copper exports have so far remained exempt. As a result, the effective tariff rate has surged from zero in 2024 to 5% today. However, a recent US announcement in early July regarding a potential 50% sector-specific tariff on copper could significantly increase this rate, even to above that for Mexico (see figure 6 and 10). Chile is the largest supplier of refined copper to the US, accounting for around 70% of imports by value, followed by Canada and Peru. China's large role in Chile's mining sector is likely to complicate negotiations with the US over a tariff reduction deal. The tariff's short-term impact on Chile's economy is likely minimal, as the US relies on these hard-to-replace copper imports. High-income Chile is largely insulated from US policies on migration and USAID. Indirect exposure, however, may arise from broader global impacts—particularly a slowdown in Chinese economic growth and, to a lesser extent, appreciation of the Chilean peso in response to shifts in US policy and rising copper prices.

Colombia: accelerating but modest GDP growth

We forecast Colombia's economic growth to accelerate from 1.6% in 2024 to 2.8% in 2025, driven primarily by a rebound in private consumption. The recovery is underpinned by monetary easing, with the central bank cutting interest rates from 13.25% in November 2023 to 9.25% by May 2025 (see figure 9), enabled by a gradual decline in inflation. While we anticipate further rate cuts to 7.0% by end 2026, the pace is likely to slow due to inflation remaining above the central bank's 2%-4% target range and ongoing concerns about expansionary fiscal policies and the credibility of the fiscal rules. These concerns continue to weigh on investor confidence. However, we expect sentiment to improve following the 2026 elections, when a more market-oriented government is likely to take office. This political shift, combined with improved business confidence is expected to spur a pickup in private investments, lifting economic growth to 2.9% in 2026.

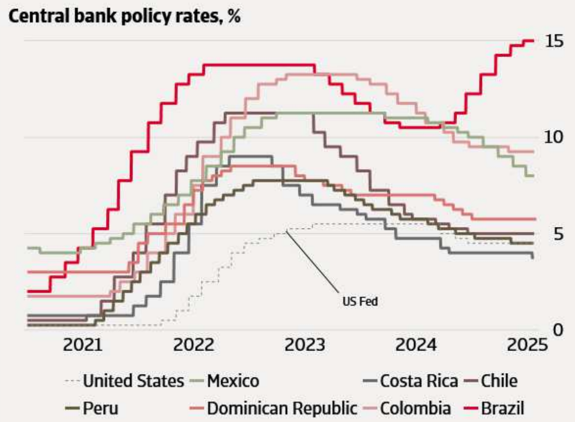
Colombia’s direct exposure to US President Trump's policies is limited. Although about a third of Colombia’s exports are destined for the US, these exports account for only 3.6% of the country’s GDP, highlighting the closed character of Colombia’s economy. The country faces a blanket tariff of 10% on imports to the US but no reciprocal tariff. The blanket tariff will primarily impact agricultural goods—especially coffee—while oil and coal remain exempt. As a result, the effective tariff rate has surged from just 0.1% in 2024 to 6.5% today. Other channels of direct exposure are minimal. Remittances from Colombian migrant workers in the US and USAID contributions have been low at less than 1% of GDP. However, Colombia is indirectly affected, with a stronger peso, undermining export competitiveness, and falling oil prices weighing on the economy.

Peru: slowing growth, minimal impact from copper tariffs

Following a recovery from successive natural disasters and social unrest, Peru’s economic growth will ease from 3.3% in 2024 to 2.8% in 2025 and 2.4% in 2026. While private consumption and public investment will remain key drivers of growth, heightened uncertainty ahead of the April 2026 elections is likely to hurt private investment. Inflation remains firmly anchored within the 1%-3% target range, in contrast with much of the South American region. This enabled the central bank to lower its policy rate to 4.5% in May (from 7.75% in August 2023), aligning it with the US Federal Reserve (see figure 9). We anticipate further monetary easing in tandem with the Fed, which should support private consumption. Additionally, the potential approval of another pension fund withdrawal later this year could provide an extra boost to household spending in 2026.

Peru’s direct exposure to US President Trump's policies is minimal. China is Peru’s primary trading partner, while the United States accounts for just over 10% of Peru’s goods exports—equivalent to only 2.7% of its GDP. Although Peruvian exports to the US face a blanket tariff of 10%, there is no reciprocal tariff. The blanket tariff primarily affects food exports-particularly blueberries and grapes-while gold, and copper remain exempt. Consequently, the effective tariff rate has jumped from just 0.1% in 2024 to currently 7.5%. However, the US announcement in early July of a potential 50% sector-specific tariff rate for copper would further lift the effective rate (see figure 6). As in Chile, China’s significant presence in Peru's mining sector is likely to complicate negotiations with the US over a tariff reduction deal. But also in Peru the tariff's short-term impact on its economy is likely minimal, as the US relies on these hard-to-replace copper imports. Other economic linkages with the US are minor. Remittances from Peruvian workers in the US and contributions from USAID account for less than 1% of Peru’s GDP. Indirect exposure will be mainly felt through a slowing of economic growth in China and to a lesser extent the appreciation of the Peruvian sol in response to US policy shifts and rising copper prices.

Figure 9 LAC central banks slow or pause rate cutting



Source: national sources, Macrobond

Mexico facing trade war-induced recession

Rising investor uncertainty and the slowdown in the US are bringing Mexican GDP growth to a halt in 2025. While we anticipate a slight recovery in 2026, with growth picking up to 1.8%, this is contingent on several preconditions, most importantly, the completion of USMCA renegotiations in the first half of the year.

Table 2 Mexico's economy grinds to a halt

Real GDP growth, y-o-y %

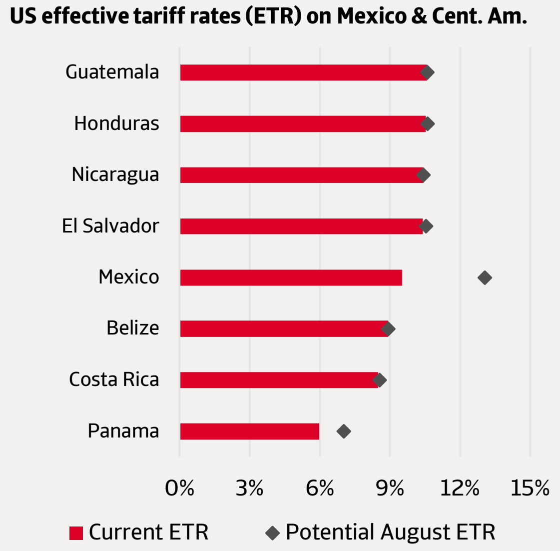
	2024	2025*	2026*
Mexico	**1.2**	**0.2**	**1.8**

Source: Oxford Economics, Atradius (* forecast)

Mexico is one of the most exposed countries in the world to the US economy and trade policy. Over 80% of Mexico's goods exports are sent to the US, accounting for nearly 28% of GDP (see figure 2). The country faces a 25% tariff on all non-USMCA compliant goods, 25% on (non-US content of) cars and parts, and 50% on steel and aluminium. This has raised the effective tariff rate on Mexico's exports to the US from nearly zero at the start of the year to 9.5%. Trump's early July threat to raise tariffs to 30% (not clear on what goods), citing the failure to curb drug cartels and the flow of fentanyl into the US, along with a separate 17% tariff on Mexican tomato exports would further increase the effective tariff rate to 13.1% (see figure 10). We expect the July tariff threats to be withdrawn but the initial tariffs to remain in place, at least until mid-2026.

The impact of the trade war and surrounding uncertainty compounds Mexico's structural weaknesses, further darkening its economic outlook. Real GDP growth already slowed sharply in 2024 to just 1.2%, starting the year off on a weak note. The completion of major infrastructure projects and uncertainty related to judiciary reforms caused fixed investment to contract. We expect these trends to continue this year, exacerbated by US tariffs, tariff-induced uncertainty and slower US growth. The fiscal adjustment to lower stimulus now that the 2024 elections are behind us will also dampen the growth outlook. The unpredictability of the US-Mexico relationship could also pose a threat to the government's fiscal consolidation plans as it may influence spending priorities.

Figure 10 Mexico by far most exposed to US tariff threats



Source: Fitch, Atradius

The disinflation process underway since last summer that has allowed the central bank (Banxico) to ease its monetary policy, has lost momentum. Inflation has exceeded expectations, reaching 4.3% in June compared to 3.6% at the start of the year. This exceeds the central bank's 2%-4% target range but is driven by a surge in food prices resulting from adverse weather conditions across the country. The relative strength of the peso (up about 10% vis-à-vis the USD since the start of the year) and a weak domestic demand outlook suggest inflation will continue gradually easing. We expect it to return to the target range with 3.9% by the end of 2025 and 3.5% by end-2026. This should allow the central bank to continue lowering interest rates. Banxico cut its policy rate by 50 basis points to 8% in its June meeting, down from a peak of 11.25% (see figure 9). We expect the pace of cuts to slow and end 2026 at 6.25% (see figure 9).

Mexico's economy is set to recover moderately in 2026 with growth reaching 1.8%, supported by lower domestic interest rates, stronger US demand, and higher public investments. But risks to this outlook are significant given the high uncertainty about US-Mexico relations, US trade policy direction and the renewal of USMCA by July 2026. Concerns about the quality and independence of Mexico's judicial system following the 2024 constitutional reform may complicate negotiations, especially given prior criticism of the reform by both the US and Canadian governments. These concerns might also undermine Mexico's attractiveness as a destination for international investment.

Central America: Moderate outlook, manageable US policy impact

The economic outlook for Central America remains moderate, with the impact of recent US policy shifts deemed manageable. We expect economic growth in Central America to slow from 3.5% in 2024 to 3.0% in 2025, stabilising at 3.1% in 2026. Guatemala will lead with average growth of 3.8%, while El Salvador and Nicaragua will lag at 1.3%; see table 3). This subregion is highly exposed to US policy shifts, given its strong trade, investment, and migration ties.

Remittances are vital for consumer demand in countries like El Salvador, Guatemala, Honduras, and Nicaragua (11%–22% of GDP; see figure 2). But they're projected to decline amid a US slowdown and stricter migration policies. While remittances surged in early 2025 in anticipation of these tighter policies, BMI Research forecasts a drop by 4.8% in 2025 and 7.2% in 2026, bringing levels back to those seen in 2023 (Nicaragua) and 2021 (El Salvador). We expect the impact of the 1% US remittance tax under the "One Big Beautiful Bill" to be limited. Migrants will likely find ways to circumvent the tax.

On the upside, lower oil prices will cushion some of the impact, as the region is a net oil importer. Exposure to US tariffs is significant for Costa Rica, Nicaragua and El Salvador (see figure 2). While most countries in the subregion face a 10% blanket rate, despite being in a free-trade agreement with the US (DR-CAFTA), Nicaragua, risks an additional 8% reciprocal tariff (excluding gold), weakening its competitiveness. Country-specific challenges like sanctions and financing constraints in Nicaragua and legal uncertainty in El Salvador, will further weigh on investment and growth in these countries.

Table 3 Moderate growth outlook for Central America

Central America, real GDP growth, y-o-y %

	2024	2025*	2026*
Costa Rica	4.3	3.0	2.4
El Salvador	2.5	1.6	1.0
Guatemala	3.7	3.1	4.5
Honduras	3.6	3.4	3.0
Nicaragua	3.6	2.0	0.6
Panama	2.9	3.5	3.7
Central America	**3.5**	**3.0**	**3.1**

Source: Oxford Economics, Atradius (* forecast)

Costa Rica: US policy shifts undermine trade and investment outlook

Costa Rica's economic growth will slow from 4.3% in 2024 to 3.0% in 2025 and 2.4% in 2026, driven by declining infrastructure and residential investment due to execution challenges, and weaker investor sentiment, exports, and tourism, partly influenced by US policy shifts. In 2025, growth will be supported mainly by resilient private consumption, underpinned by rising disposable income and subdued inflation. Inflation turned negative in May due to lower oil prices. That's well below the central bank's 2%–4% target band and is only expected to return within this band in the course of 2026. This created room for the central bank to resume its easing cycle, which it paused in December 2024, in alignment with the Federal Reserve. In mid-July, the central bank cut the policy rate from 4.0% to 3.25% (see figure 9). We anticipate one more cut to 3.5% by year-end. This combined with rising government spending ahead of the February 2026 general election, will boost growth in 2026, though insufficient to offset weaker export and tourism revenues resulting from US policy shifts. Rising insecurity linked to international drug gangs may further weigh on tourism.

Costa Rica faces significant direct exposure to US President Trump's trade policies. The United States is by far Costa Rica's largest trading partner, absorbing nearly 50% of its goods exports, equivalent to about 10% of Costa Rica's GDP. Currently, these exports are subject to a blanket US tariff of 10%, with no reciprocal tariffs imposed on Costa Rica. This tariff affects key export sectors, including medical instruments, orthopaedic implants, computer chips, and pineapples. As a result, Costa Rica's effective tariff rate on exports to the US has surged from just 0.1% in 2024 to 8.5% today (see figure 10). Cooperation with the US on deporting undocumented immigrants should shield the country from harsher US tariffs, although President Chaves' hardline stance here is drawing criticism at home. However, US interest in Costa Rican semiconductor manufacturing is likely to fade as the Trump administration shifts focus from nearshoring to reshoring. In contrast to most of Central America, high-income (since this year) Costa Rica remains largely shielded from US policies on migration and foreign aid. Remittances from Costa Rican migrants in the US are minimal, accounting for only 0.5% of GDP. However, indirect exposure may arise through the negative impact of global uncertainty on investor sentiment, declining tourism (the US is a key source of tourists) and regional trade dynamics. About 21% of Costa Rica's exports go to neighbouring countries, including Mexico and the Dominican Republic, which themselves are highly exposed to US policies.

In focus: US-China rivalry heats up in Panama

Panama's relations with both the United States and China have become increasingly complex with the return of Trump to the White House. Trump intensified his criticism of China's growing influence in Panama, particularly around the Panama Canal. He accused China of "running the Panama Canal" and threatened to "take back" the canal from Panama if the country failed to curb Chinese involvement and lower tolls for US vessels. In response, Hong Kong-based conglomerate CK Hutchison announced plans to sell its global port operations, including two in Panama, to a US-backed consortium led by BlackRock. However, the deal was delayed following backlash from China, citing concerns about competition. Talks between the consortium and China's antitrust regulator are ongoing.

Meanwhile, Panamanian President José Raúl Mulino's handling poses risks to political stability. He signed a Memorandum of Understanding (MoU) with the United States, granting American military access to three strategic facilities near the Canal. This move has struck a nerve in a country where many still remember the 1989 US invasion that killed hundreds of Panamanians. It triggered public protests and a (still pending) legal challenge in Panama's Supreme Court over concerns about the MoU's constitutionality. This underscores Mulino's delicate balancing act between accommodating US strategic interests and safeguarding Panama's sovereignty.

Compounding Mulino's challenges, President Trump's threats and the controversial MoU have further fuelled public outrage over inequality and corruption. Protests reignited in April when workers in Bocas del Toro launched a strike in response to President Mulino's proposed pension reforms. Although the capital has not yet witnessed large-scale demonstrations, there is growing concern that Panama could see a resurgence of the mass protests that paralysed its economy in 2023.

Caribbean stands out in terms of both growth and vulnerability

The economic outlook for the Caribbean remains moderate. Excluding Guyana, which is booming as it boosts oil exports, the region's economy is steady at 3.2% in 2025, compared to 3.3% in 2024. GDP growth is set to ease further to 2.6% in 2026. This easing of momentum partially reflects a slowdown from the rapid rebound in tourism after the pandemic. But overall growth is supported by investment in tourism and attempts at economic diversification. This has boosted potential growth in the region compared to before the pandemic but the region continues to struggle with structural issues like lack of diversification, high informal employment and unemployment, and low productivity and population growth. Moreover, the region is highly vulnerable to external shocks due to reliance on imports and concentration in either services industry (tourism) or commodity exports. Whereas the resilience of larger Caribbean economies like the Dominican Republic and Jamaica has been gradually improving, smaller island nations such as Saint Lucia, Grenada and Dominica continue to face insufficient buffers to protect against external shocks.

Table 4 Caribbean growth weighed down by uncertainty

Caribbean, real GDP growth, y-o-y %

	2024	2025*	2026*
Dominican Republic	5.0	4.1	3.2
Guyana	44.3	10.5	23.0
Jamaica	-0.6	3.2	2.1
Trinidad & Tobago	0.9	2.8	2.5
Caribbean	**7.4**	**4.1**	**5.4**
Caribbean, excl. Guyana	**3.3**	**3.2**	**2.6**

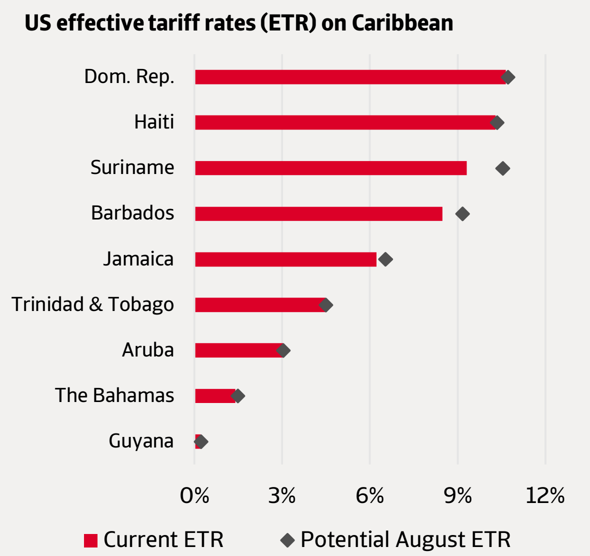
Source: Oxford Economics, Atradius (* forecast)

The most significant external shock this year is US policy shifts and the spillover effects. Most Caribbean countries have a trade deficit with the US (with the exception of oil exporters, Guyana and Trinidad & Tobago) so they're generally subject to the 10% blanket tariff and sector-specific tariffs. The region is less dependent on the US for goods exports, and as such less exposed to direct tariffs, compared to Central or South America (figure 2). The commodity exporters of the region, especially Trinidad & Tobago and Guyana, are the exceptions as they both export more than 10% of GDP towards the US. But these exports are primarily oil which is exempted from the blanket tariffs. The Dominican Republic is the only other

Caribbean country with significant trade exposure to the US (6.5% of GDP).

The region is more significantly exposed to US policy indirectly. As also shown in figure 2, some Caribbean countries are moderately dependent on remittances from workers working abroad in the US. Jamaica is the most vulnerable in this regard with remittances from the US totalling 13.6% of GDP, more in line with the Central American average (10.9%). Haiti is also reliant on remittances from the US (9.3% of GDP). The Dominican Republic also has a large diaspora in the US that sends back 6.5% of GDP worth of remittances. These flows can be directly impacted by the immigration crackdown resulting in job losses for migrant workers. But they're also vulnerable to the broader slowdown in the US which weighs on incomes and demand for labour.

Figure 11 Risks of reciprocal tariffs on Caribbean contained

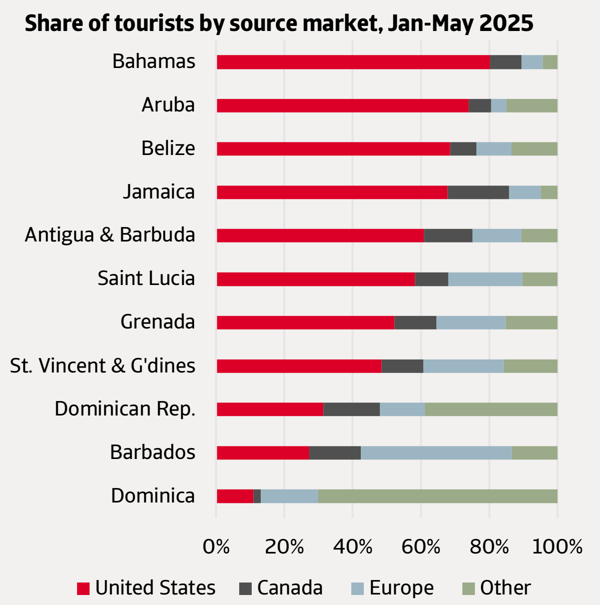


Source: Fitch, Atradius

Tourism is also one of the most important industries of many Caribbean islands and the US is the main source of tourists. That means a slowdown in the US spurred by the trade war drags on tourist arrivals, in turn weighing on overall demand and employment in the Caribbean. US tourists account for over two-thirds of all international arrivals in Jamaica, Belize, Aruba and the Bahamas (see figure 12). St. Lucia follows closely with almost 60% of tourists coming from the US, but with its economy dependent on tourism for 65% of GDP, it's among the most vulnerable.

Finally, the macroeconomic structure risk of the Caribbean remains high, especially concerning import dependence and climate risk. Most Caribbean islands depend on imports, especially from the US. This can push up price pressures indirectly if US tariffs cause inflation there to increase, especially of concern for the tourism industry which is reliant on construction and infrastructure. The region as a whole also remains exceptionally vulnerable to climate risk. Risks are especially dire for countries like the Bahamas, Haiti, the Dominican Republic and Cuba which lie in the hurricane belt. Rising water temperatures increase the risk of more destructive hurricanes that pose a risk to human lives and property and infrastructure. The risk of extreme weather events this hurricane season (July-November) has moderated though compared to last year as the El Niño conditions are neutral.

Figure 12 US is primary source of tourists in Caribbean



Source: Caribbean Tourism Organization (CTO)

Dominican Republic's relative diversification mitigates external risks

The Dominican Republic is by far the largest economy in the Caribbean, accounting for nearly half the region's economic output. After a solid 5.0% expansion in 2024, growth is easing to 4.1% this year – still among the highest growth rates in all Latin America & the Caribbean. Mounting external pressures are dragging on the Dominican economy, namely the slowdown in the US and the US's protectionist trade policies. These are feeding through to marked slowdowns in private consumption and investment. Government consumption is also decelerating as the centrist Partido Revolucionario Moderno (PRM) government shifts to fiscal consolidation after its 2024 election victory.

The Dominican Republic is significantly exposed to US policy shifts as its economy is driven by tourism, remittances and the promotion of free-trade zones (FTZs). These have been policy priorities and major attractors of FDI inflows in the past decades, fuelling among the region's strongest economic growth rates since 2010. While the Dominican Republic does benefit from significant remittances from the US (6.5% of GDP), the Dominican diaspora in the US is large and mostly documented. This reduces their exposure to restrictive US policies compared to other countries. Still there's been an 11% surge in inward remittances to the Dominican Republic in H1 2025 compared to H1 2024 in anticipation of potential restrictions.

Moreover, its domestic demand is more dependent on its external sectors: tourism and trade. Services dominate the Dominican economy. Tourism is the main driver of services sector growth, accounting for about 16% of Dominican GDP and a similar amount of employment. The US is the top source of tourists to the Dominican Republic (31%), but the tourism breakdown is relatively diversified, especially in contrast to other Caribbean islands (figure 12). The sector will face some drag from lower demand in the US but that will be partially offset by higher demand from non-US tourists, especially from South America. This can be seen in the first half of this year with tourism arrivals matching the levels in H1 2024 (0.9% growth).

Exports to the US account for 6.1% of Dominican GDP. Despite being in a free-trade agreement with the US (DR-CAFTA), the Dominican Republic is subject to 10% blanket tariffs and the sector-specific tariffs on metals and automobiles. This particularly impacts the Dominican Republic's well-established network of over 90 free-trade zones (FTZs). FTZs account for 67% of the country's exports and are a central pillar of the government's economic policy. They're attractive destinations for both domestic and foreign investment as they offer companies tax exemptions and streamlined bureaucracy for export-oriented industries. Textile and apparel exports remain major exports but also higher value-added sectors like medical device manufacturing and electronics have enjoyed significant growth in recent years. The products that the Dominican Republic exports are similar to those exported by Mexico. Since Mexico benefits from tariff exemptions for USMCA-compliant goods, this could undermine Dominican competitiveness further.

The Dominican Republic does have a positive relationship with the US though so the risk that additional reciprocal tariffs are imposed is balanced. The US Secretary of State, Marco Rubio, visited the Dominican Republic in February of this year. This symbolises some increase in strategic interest in the region by the US. Key issues like the Haitian crisis, drug trafficking and regional security were discussed which the two governments align on. Economic cooperation in strategic sectors like semiconductors and rare earths (reserves of which the government's currently investigating) were discussed.

Jamaica's economic recovery weighed down by US slowdown

Jamaica's economy is on track to rebound 3.2% in 2025 and grow a moderate 2.1% in 2026. This comes after a contraction of 0.6% in 2024 due to the devastating impact of Hurricane Beryl that hit the island in July 2024. Growth is supported by stronger domestic demand. Investment in tourism and infrastructure is driving growth alongside higher government consumption in anticipation of elections later this year. Monetary policy easing and disinflation are also contributing to stronger demand. Overall though, the government will remain committed to fiscal consolidation – refusing to threaten the remarkable progress the country has made in reducing debt from a long history of runaway debt crises (currently standing at 64% of GDP from 140% a decade ago). This fiscal austerity will prevent any stronger boost to growth from government spending and also holds back meaningful diversification of Jamaica's tourism- and mining-dependent economy.

Jamaica is vulnerable to US economic policy changes as the US is its primary trade and investment partner. The US is Jamaica's most significant trade partner (just of 50% of total exports) and source of remittances (13.6% of GDP) and tourists (68% of total). Jamaica's tourism sector recovering well in the forecast period despite economic weaknesses in the US and other source markets, underpinned by continued improvements in hospitality capacity and related infrastructure. With stricter immigration laws complicating the migrant labour work environment in the US and Washington's new 1% excise tax on remittances set to come into effect on 1 January 2026, remittance inflows will moderate. Since they're such an important part of the Jamaican economy, even a small reduction can significantly affect consumption, especially in rural and low-income areas.

Unlike the Dominican Republic, Jamaica does not have an FTA with the US, but the previous US tariff rate was also ultra-low (0.1%) owing to Jamaica's membership in the Caribbean Basin Initiative (CBI). Jamaica is still subject to the 10% blanket tariff and other sectoral tariffs. But a significant portion, one-third of its exports to the US are exempt from tariffs. This includes refined petroleum, bauxite and alumina (raw and refined inputs to aluminium). That's why its effective tariff rate is closer to 6%. The remaining exports still subject to the 10% tariff rate are mostly agricultural products (yams, coffee, meats, rum). Like the Dominican Republic, Jamaica has a constructive relationship with Washington, also hosting the US secretary of state earlier this spring and signalling cooperation on immigration and regional security countering the trafficking of weapons and drugs. But we expect the current tariffs to remain in place for the forecast period.

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