ECONOMIC VIEW
Latin America
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LatAm Outlook: Navigating Headwinds

- Despite tariff uncertainty, the outlook has improved since the beginning of the year.
- Brazil has shown resilience despite mounting fiscal challenges and high inflation.
- In Mexico, tariff uncertainty amplifies the hit from sharp cuts in government spending.
- The Andean region continues to recover from 2023's policy-driven downturn.

External and Domestic Headwinds

LatAm GDP Growth, 2025
2.2%
LatAm GDP Growth, 2026
2.1%

Latin America's economic outlook for 2025 has improved slightly since the beginning of the year despite an uncertain external environment and multiple domestic challenges. Moody's Analytics now expects the region to grow 2.2% this year, up slightly from 2.1% in our December baseline forecast. Most of the region performed better than expected in the first quarter, with Argentina, Brazil and Chile leading the way. The region's economy expanded 3.1% year on year in the first quarter, better than the 2.6% we expected in December.

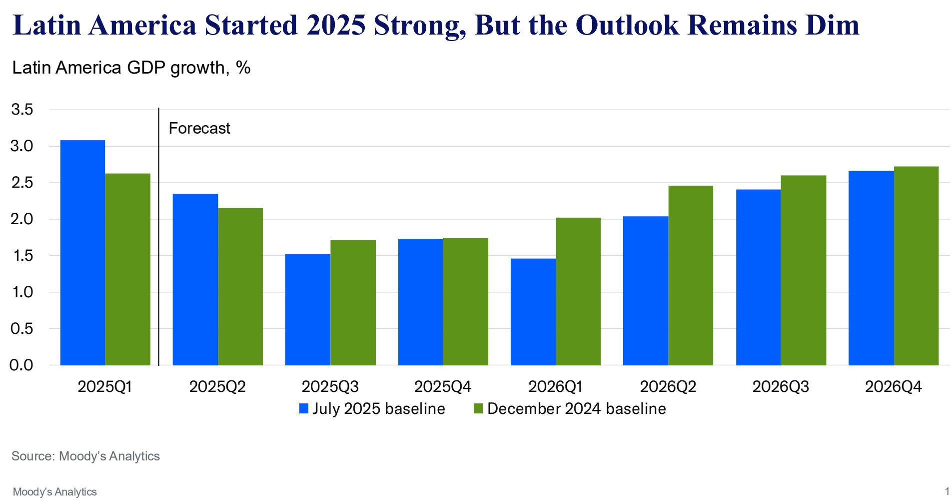
The region's largest economy, Brazil, has shown resilience in 2025 despite mounting fiscal challenges and stubbornly high inflation. A robust labor market has helped sustain private consumption growth despite restrictive monetary conditions. The Andean economies of Peru, Chile and Colombia also performed well as they continued to recover from the policy-induced downturn suffered in 2023. In Chile, the mining industry bolstered the economy in the first quarter amid historically high copper prices. Peru has also benefited from higher metal prices, while on-target inflation and a solid labor market have boosted private consumption growth.

Lower unemployment has also helped the Colombian economy despite stubbornly high inflation and still-restrictive monetary conditions. In Argentina, the stabilization program has yielded positive results, with inflation down sharply since late 2024 and credit growing strongly. Challenges remain, but the Argentine economy has started a solid recovery that will prolong well into 2026. The Mexican economy has not been as fortunate, with tariff uncertainty compounding the hit from sharp cuts in government spending. While the economy returned to growth in the first half of the year, defying our call for a contraction in the second quarter, its performance was hardly something to celebrate. Increased social spending and a smaller-than-expected decline in remittances have helped stabilize household incomes and spending, but investment remains in free fall. Hiring in the formal sector, a historically reliable predictor of investment spending, has ground to a halt.

Beyond Mexico, all of Latin America's major economies extended their run in the second quarter. We estimate the region's GDP expanded 2.3% year over year in this period, slightly better than our forecast in December. Despite the better-than-anticipated first half of the year, we still see the region's economic performance deteriorating in the next 12 months. Growth will decelerate as the uncertain external environment takes a toll, and economic policy options remain constrained by above-target inflation and little fiscal space in most countries. A strained political and social environment will also hinder growth.

U.S. Tariffs Driving the Narrative

U.S. tariff policy continues to drive the narrative in Latin America, and the Trump administration's latest announcements bring both relief and new challenges. After several weeks of high-level negotiations between U.S. and Mexican officials, the Trump administration granted a 90-day postponement of its planned hike of its fentanyl and migration tariffs, which would have raised the duty on Mexican exports that do not comply with the United States-Mexico-Canada Agreement to 30% from the current 25%. While this will bring some relief for Mexican exporters, higher duties for a broad range of Mexican exports remain in place. Lingering tariff uncertainty will blur the picture for firms contemplating investments in Mexico, and we expect FDI inflows to slow over the next year, weighing more broadly on growth.



The downsizing of the Trump administration's copper tariffs is a win for Chile and Peru, the top two exporters of the red metal. Because the announced duties exclude refined copper—which makes up the bulk of U.S. copper imports—there will be little direct effect on U.S. and global copper consumption. While the U.S. accounts for only 12% of Chile's overall copper exports, it is the top buyer of Chilean refined copper. The U.S. copper tariffs posed less of a risk for Peru, given that the Andean nation exports most of its copper to China as unprocessed ore. However, because refined copper is just one step up on the value chain, any increase in the supply of refined copper outside of the U.S. could have displaced demand for ore.

The announcement of steep new tariffs on Brazil represents the biggest shake-up in U.S. tariff policy and will hurt the outlook for the Brazilian economy over the next year. The 50% levy imposed by the Trump administration excludes several of Brazil's largest exports, but we estimate that Brazil's exports will still face an effective duty of around 30%.

The tariffs target Brazil's non-tariff barriers for foreign firms and actions to regulate U.S. social media platforms, as well as the trial of former President Jair Bolsonaro, who stands accused of plotting a coup in the aftermath of the 2022 presidential elections. Current President Luis Inacio Lula da Silva, known as Lula, has shown little willingness to concede on the former and has stated that he lacks the authority to intervene on Bolsonaro's behalf. With Lula or Trump unlikely to reach a deal soon, we assume U.S. tariffs remain in place. The gradual rerouting of some of Brazil's U.S.-bound exports over the next year will soften the negative effect, but the hit to growth will be tangible.

Risks

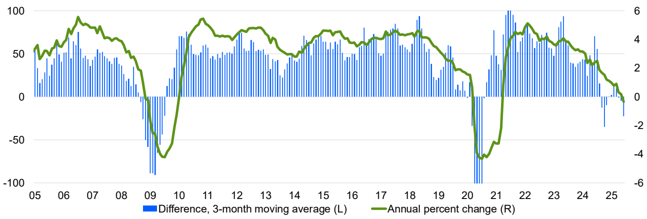
Latin America has experienced several positive surprises in 2025. Major currencies have appreciated against the dollar, which usually benefits consumption in the region. Commodity prices have also performed better than anticipated, especially for copper and other metals. Oil prices have experienced excess volatility but have performed as expected for the most part. Meanwhile, agricultural commodity prices have shown broad stability. The adverse effects of the trade war have been limited so far. At home, inflation remains above target in most countries but has moved generally in the right direction.

However, some positive trends might wane in the next 12 months, complicating the region's outlook. The uncertainty generated by the trade war and other U.S. policies might still hinder the global economy. Moreover, domestic political and business cycles will hamper growth in some major economies in the region. The region's election calendar gets busy in the next year and a half with presidential elections scheduled in Chile, Colombia, Brazil and Peru. Also, Argentina will have a midterm election in October. All these elections will have a significant consequence on economic policy, uncertainty, business confidence and political stability. Fiscal constraints in countries such as Mexico, Brazil and Colombia will also take a toll. As a result, the region's growth will decelerate in the next 12 months. The region will grow just 2.1% in 2026, below our December expectation of a 2.5% expansion.

What We're Monitoring

Formal Sector Hits the Breaks

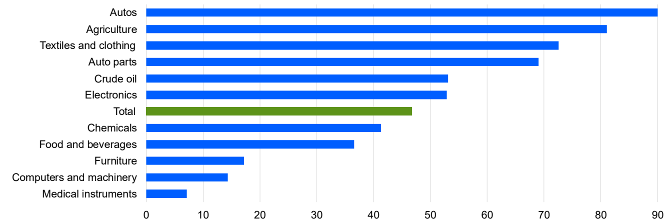
IMSS social security enrollees, seasonally adjusted



Sources: IMSS, Moody's Analytics

Autos, Agriculture Most Reliant on USMCA

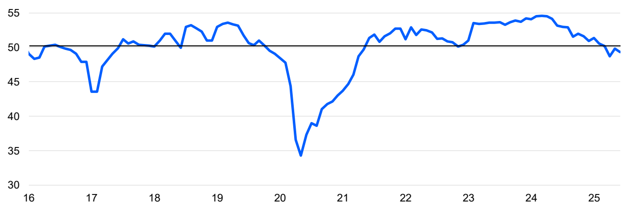
U.S. imports from Mexico, selected goods categories, % compliant with USMCA, Mar-May 2025



Sources: U.S. Census Bureau, Moody's Analytics

Mexican Firms Harbor Concerns

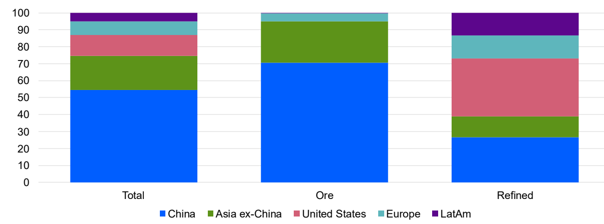
Business confidence survey, <50 is pessimistic



Sources: INEGI, Moody's Analytics

U.S. Copper Tariffs Spare Chile, Peru

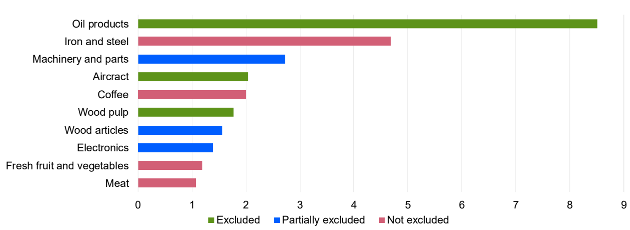
Chilean copper exports by destination and type, %



Sources: U.N. Comtrade, LME, Bloomberg LP, Moody's Analytics

U.S. Tariffs on Brazil Exclude Many Top Exports

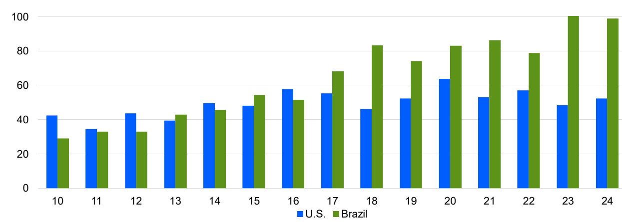
Exports to the US from Brazil, US$ bil



Sources: U.S. Census Bureau, Moody's Analytics

Brazilian Soybean Exports Leapfrog U.S.

Soybean exports, metric ton, ths



Sources: USDA, MDIC, Moody's Analytics

LatAm Forecast Summary

Latin America Macro Summary - Forecast

	GDP, % change yr ago			Inflation, % change yr ago			Unemployment rate, %		
	2025	2026	2027	2024	2025	2026	2025	2026	2027
Mexico	0.1	1.0	2.6	4.7	4.0	3.4	2.7	3.0	3.8
Brazil	2.4	1.8	2.7	4.4	5.1	3.5	6.8	6.3	7.1
Argentina	5.2	3.5	3.5	219.4	40.8	23.7	7.3	7.0	6.9
Chile	2.4	2.0	2.2	3.9	4.2	3.2	8.5	8.7	8.1
Colombia	2.6	2.9	3.3	6.6	5.0	3.9	10.2	9.0	9.1
Peru	3.1	2.9	3.0	2.3	1.8	2.2	5.1	4.2	4.0
Uruguay	2.1	2.0	3.1	4.9	4.8	4.3	7.8	7.9	7.7

	Policy Rate, %			Exchange Rate: local currency per USD			Sovereign Yield, %		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Mexico	10.9	8.4	7.4	18.33	19.65	19.22	9.67	9.47	8.99
Brazil	10.9	14.4	12.0	5.39	5.69	5.67	11.92	14.58	14.26
Argentina	56.0	30.5	23.5	915.49	1219.48	1416.72			
Chile	6.2	4.8	4.2	943.53	951.80	924.51	5.61	5.14	5.01
Colombia	11.4	9.2	7.5	4074.58	4204.24	4278.06	10.74	12.28	11.08
Peru	5.7	4.6	4.2	3.75	3.65	3.68	6.81	6.42	5.83
Uruguay	8.8	9.0	8.0	43.22	45.00	43.76			

	Stock Market			House Price Index			Industrial Production Index		
	2024	2025	2026	2025	2026	2027	2025	2026	2027
Mexico	53,951	54,656	55,034	243.8	266.3	286.4	101.6	101.4	104.5
Brazil	128,215	131,836	136,661	235.8	247.1	266.9	103.0	103.6	105.7
Argentina	1,565,379	2,305,322	3,056,139	12940.7	21896.5	26775.4	116.7	120.7	124.0
Chile	17,261	20,099	20,952	199.3	210.8	225.1	102.8	103.7	104.5
Colombia	1,341	1,639	1,894	353.9	396.9	438.6	113.9	117.4	121.5
Peru	29,006	30,593	31,537	252.9	258.2	265.8	136.0	140.9	145.0
Uruguay				552.1	580.0	609.4	117.6	121.8	127.0

	Current Account Balance, % of GDP			Central Government Budget Balance, % of GDP		
	2025	2026	2027	2025	2026	2027
Mexico	-2.4	-6.3	-5.6	-5.2	-5.9	-5.1
Brazil	-5.3	-10.4	-11.7	-5.9	-6.7	-7.4
Argentina	-2.0	-1.9	-2.1	1.5	1.2	-0.1
Chile	-1.5	-2.1	-2.2	-2.3	-2.1	-2.2
Colombia	-2.9	-3.3	-3.5	-4.7	-5.3	-5.9
Peru	0.9	-1.8	-1.8	-2.7	-2.5	-2.5
Uruguay	-1.2	-1.8	-2.1	-4.9	-4.4	-3.6