Atradius
Managing risk, enabling trade

September 2024

Latin America & the Caribbean Economic Outlook

It's time to sow the seeds of growth

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Executive Summary

Growing resilience but still lacklustre growth

The economy of Latin America & the Caribbean is slowing this year in the face of higher-for-longer interest rates and elevated political uncertainty. This slowdown comes relatively smoothly and we expect a significant recovery in 2025, demonstrating the region's improved resilience. But the region's structural challenges – especially low domestic investment – continue to keep its growth prospects well below other emerging market regions.

Stage set to attract more investment to boost growth potential

With greater resilience, Latin America & the Caribbean has a fertile opportunity to attract the investment needed to unlock stronger growth potential to move up the country-income ladder. Chile and Costa Rica are leading examples. These economies have strong institutions and a skilled labour force with policies that support investment, knowledge sharing and innovation. The Dominican Republic, Jamaica and Panama are also investing in these characteristics, making them best positioned to attract productivity boosting FDI. Argentina, which is currently undergoing a painful economic adjustment with tentatively brighter future opportunities, is a far runner-up.

But many obstacles still stand in the way

LAC's short-term growth outlook and current chance to improve the investment climate faces an array of risks. The La Niña weather phenomenon, US elections, and elevated political uncertainty in many of the region's economies are key downside risks to our outlook. Policymaking across the region is also increasingly challenging, including minority governments in many countries, democratic backsliding and growing repression in Central America (El Salvador, Nicaragua) and the spreading of drug-related violence to previously peaceful countries (Costa Rica, Ecuador). Difficult political environments are one of the main impediments for unlocking higher growth potential.

It's time to sow the seeds of growth

LAC struggling to move up income ladder

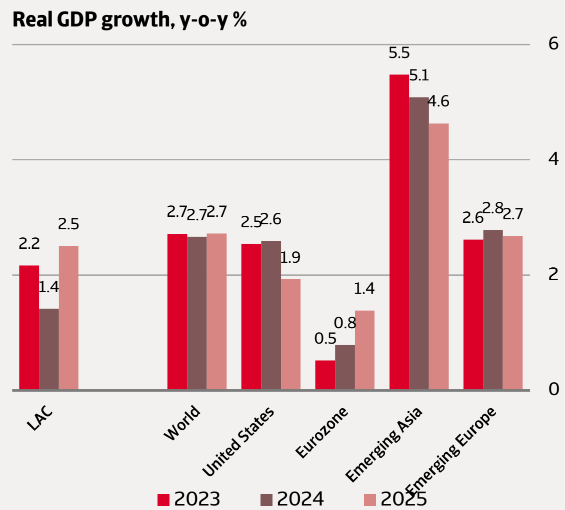
Latin America and the Caribbean (LAC) has significantly improved its resilience in the past decades. As a result, the region has weathered the recent shocks remarkably well. It will also help the region to steer through the current volatile and uncertain period. But improved resilience has not translated into higher economic growth needed to move up the income ladder. GDP growth in LAC lags that of other regions and we forecast this to be no different in the coming years.

Annual real GDP growth will fall from 2.2% in 2023 to 1.4% in 2024 followed by a significant recovery to 2.5% in 2025. This remains the slowest growth pace among emerging regions (see figure 1). Higher-for-longer interest rates in the US are subduing economic growth in most of the region. It has put downward pressure on the currencies and slowed the region's disinflation process (see figure 2). This has made the region's central banks more cautious in cutting interest rates (see figure 3). Meanwhile, country-specific factors such as 'shock therapy' in Argentina and devastating flooding in Brazil contribute to the region's annual swings in GDP in 2024 and 2025.

Risks to the outlook are mainly to the downside. The faster-than-usual transition from weather phenomenon El Niño to La Niña this year is such a risk (see [our 2023 Regional Outlook] for more detail on this weather phenomenon). The increased frequency of this phenomenon goes hand-in-hand with more frequent disruptions to agriculture, transport and energy supply which is heavily reliant on hydropower. Political uncertainty is also elevated, even by regional standards, as will be discussed throughout this report.

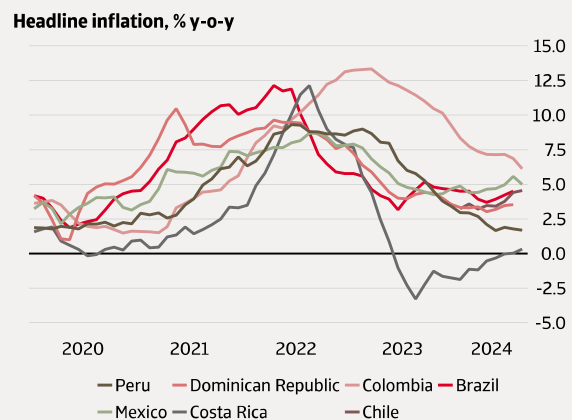
In this Regional Economic Outlook, we will focus on one of the underlying reasons for LAC's structurally low growth rates: investment. We flag countries in the LAC region which stand out in a positive way, or which are taking measures in the right direction to support investments and continue building resilience to economic risks. Taking measures that facilitate foreign investments in the local economy and stimulate local companies to team up with local multinationals, join their value chains and innovate will be key to boosting the region's productivity. Strengthening institutions, boosting human capital, and implementing business-friendly policies that are supportive for investment, knowledge dissemination and innovation are needed to sow the seeds for economic growth in LAC.

Figure 1 LAC growth in global perspective



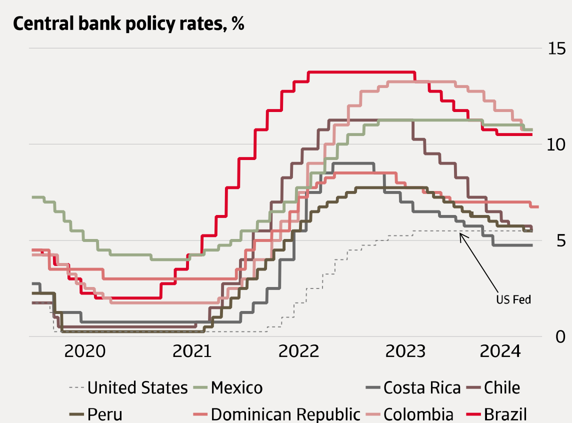
Source: Oxford Economics, Atradius

Figure 2 Pace of disinflation slows



Source: national sources, Macrobond

Figure 3 LAC central banks slow or pause rate cutting



Source: national sources, Macrobond

In focus 1: Central America and Caribbean have the most to lose (or gain) from US elections

About 45% of Latin America and the Caribbean's merchandise exports are sent to the US and the US accounts for about one-third of total FDI inflows. Therefore, LAC is vulnerable to a potential return to protectionist policies in the US – and their impact on trade, investment and remittance flows – following the elections later this year. Mexico is the most significant trade and investment partner and thus faces the highest risks. But countries in Central America and the Caribbean – those who have the most to gain from potential nearshoring investment – are also exposed to a shift in US policy. South America is generally more insulated with more closed economies and less economic integration with the US.

Should the Democratic Party retain the White House, the predictability of trade policy would continue with an eye for friendshoring. This would be benign for the trade outlook and it could also spark more FDI into the region. A Trump presidency on the other hand would be much less predictable. The greatest risks for LAC trade and investment under a Trump presidency are policies to reduce the trade deficit and bring production back to the US. A threatened 10% flat import tariff by end-2025 would heavily weigh on countries with significant exports to the US that do not have an FTA. Ecuador is the most vulnerable in this regard as most other South American countries without an FTA export less than 1% of their GDP worth of products to the US. Mexico, Chile, Colombia, Peru, Central America and the Caribbean have some protection thanks to FTAs with the US. But the Trump administration can use renegotiations as a platform to assert influence, particularly with the renewal of USMCA coming up in 2026.

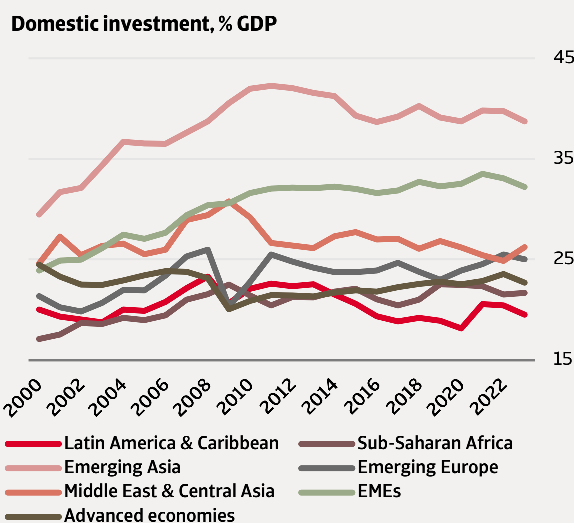
Trump's efforts to bring industrial jobs back to the US, in contrast to friend- or nearshoring as emphasised by Harris, could threaten related FDI streams into LAC. His desire to erode green subsidies would also threaten important FDI flows in the renewables sector, especially for Mexico's EV manufacturing sector. This could also depress demand for the critical minerals needed for the energy transition, weighing on global prices and limiting prospects for countries like Argentina and Chile.

Both candidates are likely to have a more restrictive approach to immigration than the current administration, but Trump's is significantly more restrictive. One more extreme threat is to deport 11 million undocumented migrants living in the US. Amongst this group, Mexicans and Central Americans are most represented. This would negatively impact migrant remittances, an important driver of household consumption, investment and economic growth in Central America and the Caribbean (see figure 11).

Boosting investment is key to moving up

Averaging 20% of GDP since 2000, LAC's domestic investments are consistently below those of other emerging regions, including Africa (see figure 4). Whereas Africa saw an upturn in the ratio of domestic investments to GDP over the past decade, the ratio remained flat in LAC. This reflects an adverse business climate, with high costs of doing business, political uncertainty and/or security issues in many countries in the region.

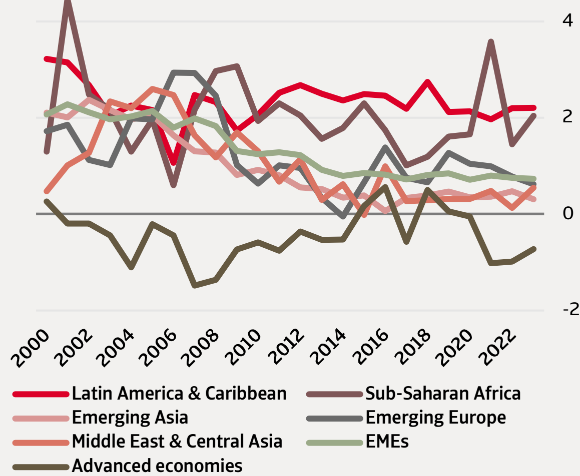
Figure 4 LAC underinvests domestically



Source: IMF WEO

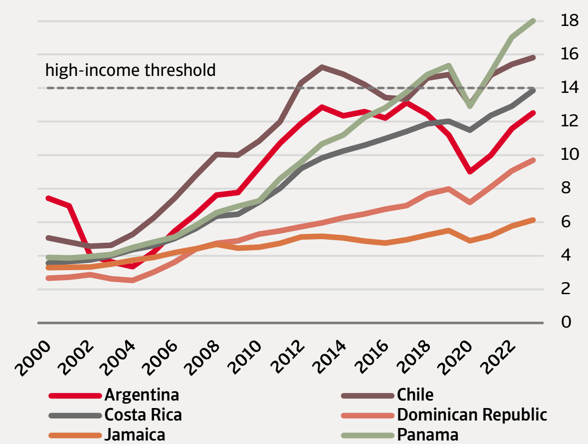
Perhaps surprisingly, the LAC region performs remarkably well in attracting foreign direct investments, in contrast to structurally low domestic investments. UNCTAD data show that non-residents invested on average 2.3% of GDP annually in LAC since 2000. This was the highest among emerging market economies (see figure 5). Central America and the small islands in the Caribbean were champions in attracting foreign investments, averaging 3.9% of GDP over the same period. A closer look into the data reveals that non-residents generally invest in sectors that boast natural resources. This shows that foreign investments alone do not lift economic growth and that more is needed to really take advantage of the so-called comparative advantage of being resource rich.

Figure 5 But is a leader in attracting FDI inflows



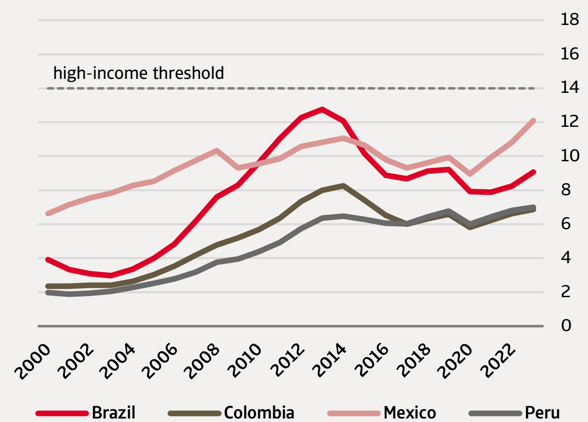
Source: UNCTAD, IMF, Atradius

Figure 6 LAC countries on the right development track



Source: World Bank WDI, Atradius

Figure 7 LAC countries with room for improvement



Source: World Bank WDI, Atradius

We present the developments in income level in LAC in figures 6 and 7, divided by countries that we identify as 'promising' (figure 6) – those who have reached high income or are taking meaningful measures towards it – and those with room for improvement (figure 7). Resource rich countries – like Argentina, Brazil, Chile, Colombia and Mexico – were hit hard by the end of the commodity super cycle in 2014. This brought more-or-less an end to the gradual increase in the income levels. Chile has managed to maintain its high-income status since thanks to strong institutions and active domestic investment policies. Argentina's economy has been riddled by economic crises but its income per capita has recovered strongly since the pandemic and the current 'shock therapy' appears promising for development in the medium term. Brazil, Colombia and Mexico on the other hand have not managed to meaningfully boost their income levels over the past decade with Brazil even seeing a 25% decline in gross national income per capita since 2014.

This reinforces the need for the region's governments to integrate their FDI attraction policy into a broader strategy focused on adding more value to the local economy. This does not only hold for resource rich countries but is a general ingredient for success that differentiates countries like Costa Rica and the Dominican Republic, highlighted in figure 6. For the needed reforms to materialise, broad political support is key. Currently, in many LAC countries the political situation is not conducive to such reforms. As table 2 shows, 2023 and 2024 have been host to a significant number of national elections. With the exception of the Dominican Republic, policymaking across the region is constrained by either a minority government, popular dissatisfaction or a combination.

South America: business environment inconducive to investments

After a stronger than expected performance in 2023, we project economic growth in commodity-rich South America to moderate to 1.1% in 2024 and to accelerate to 2.5% in 2025 (see table 1). This slowdown reflects central banks shifting to a more cautious stance, pausing their easing cycle with an eye to resuming later in 2024-2025 in line with the US Fed. But South America once again will be the weakest performing sub-region in Latin America and the Caribbean. Structural issues like policy uncertainty and high costs of doing business in the region's largest markets constrain investment attractiveness and growth rates.

South America's prospects mask unevenness across the individual countries. 'Shock therapy' under Argentina's new leadership (see table 2) will improve its prospects, but at the cost of extending its economic contraction well into this year. In Bolivia, declining gas exports weigh on economic growth while a very high risk of a disorderly devaluation of the overvalued currency keep downside risks to the outlook substantial. Mounting headwinds in Brazil, LAC's largest economy, slow its growth. And Ecuador's economy is suffering from political uncertainty after snap elections (see table 2), the closure of a main oil field and concerns about high insecurity.

Meanwhile, several other countries are recovering from overheating (Chile and Colombia) or the aftereffects from weather-related shocks (Peru and Uruguay). Paraguay remains the region's star performer but will shift to lower gear as exports to its main trading partners, Argentina and Brazil, fall. Despite decent growth, Venezuela's economy is still only about a quarter of its size prior to its long 2014-2020 depression. Economic mismanagement and sanctions have fuelled inflation and undermined the business climate and investments. The election outcome (see table 2) indicates that will continue to hinder Venezuela's prospects.

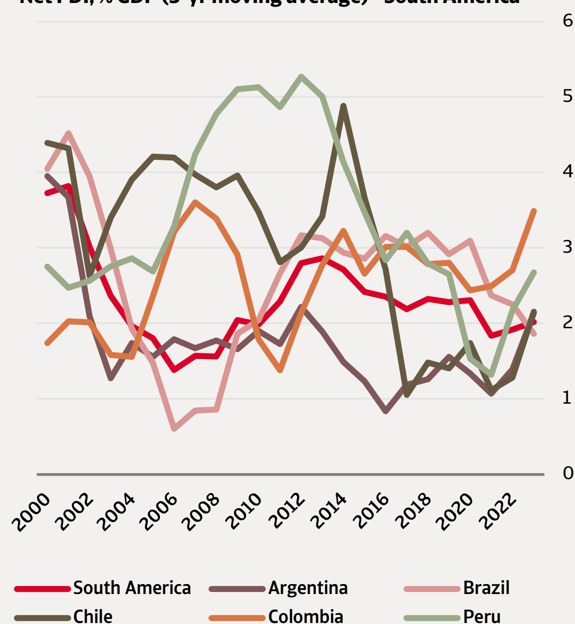
A more severe La Niña than we currently expect is a major downside risk to the outlook for Argentina, Bolivia, southern Brazil, Paraguay, and Uruguay. These countries will face droughts that will impact their harvests, power generation (Argentina, Brazil, Paraguay, and Uruguay), and transport and distribution (Bolivia and Paraguay). This will weigh on GDP growth directly and indirectly through higher inflation and further delays in monetary policy easing.

Table 1 Real GDP growth, % - South America

Regions	2023	2024*	2025*
Argentina	-1.6	-3.5	4.1
Bolivia	2.2	1.6	2.7
Brazil	2.9	1.8	1.9
Chile	0.3	2.6	2.9
Colombia	0.6	1.9	2.5
Ecuador	2.4	0.9	1.4
Paraguay	4.7	3.7	4.0
Peru	-0.6	2.8	3.3
Uruguay	0.4	2.9	2.8
Venezuela	3.2	4.0	3.5
South America	1.5	1.1	2.5

Source: Oxford Economics, Atradius

Figure 8 Brazil is losing attractiveness for FDI



Source: UNCTAD, IMF, Atradius

Table 2 Election results across LAC in 2023 and 2024

Country	Date	Type	Outcome
Argentina	22-Oct-23	General	In the run-off, outsider Javier Milei of the far-right La Libertad Avanza (LLA) beat Sergio Massa of the governing left-wing Unión por la Patria (UP, a coalition of Perionist parties) by a landslide. He governs with a minority in Congress. LLA and its allies have 79 of the 257 seats in the Chamber of Deputies (the lower house) and 13 of the 72 seats in the Senate (the upper house).
	19-Nov-23	Run-off	
Dominican Republic	19-May-24	General	President Luis Abinader of the centrist Partido Revolucinario Moderno (PRM) was re-elected for a second term and the PRM gained greater control in both houses of Congress. Political dominance will facilitate the implementation of market-friendly policy and reforms, but a hard-line approach towards Haiti could challenge stability.
Ecuador	20-Aug-23	Snap	Outsider Daniel Noboa of the centre-right Acción Democrática Nacional (ADN) defeated Luisa González of the hard-left Revolución Ciudadana (RC, of former president Rafael Correa 2007-2017) with 52% of the votes in a run-off election. He governs with a minority with his bloc controlling just a quarter of the 137 seats in the unicameral National Assembly. Mr Noboa's term is just 18 months long, as he is completing the four-year term of his predecessor, conservative Guillermo Lasso. The next general election is due in February 2025.
	15-Oct-23	Run-off	
El Salvador	04-Feb-24	General	Incumbent President Nayib Bukele won the elections by a landslide, having got the Supreme Court (which he appointed himself) to overturn a ban on re-election. His right-wing party, Nuevas Ideas (NI), secured 54 out of the 60 seats in the unicameral Legislative Assembly. This effectively turned El Salvador into a one-party state.
Guatemala	25-Jun-23	General	Bernardo Arévalo of the left-wing Movimiento Semilla won the run-off elections by a landslide. Attempt by the outgoing legislature to block his presidency failed. Arévalo took office on January 15, 2024, for a four-year term. Governability is challenging. Semilla has just 24 of the 160 seats in the unicameral Congress and political opponents continue to undermine his policy agenda. This results in regular protests by his supporters.
	20-Aug-23	Run-off	
Mexico	02-Jun-24	General	Claudia Sheinbaum of the ruling left-wing Movimiento Regeneración Nacional (Morena) won the presidential election with a landslide. She takes office on October 1 for a six-year term. She will rule with a supermajority in the Chamber of Deputies and a near-super majority in the Senate after Morena and its allies - unexpectedly - won large a large number of seats in both chambers of Congress. The new Congress takes its seats on September 1, providing incumbent President López Obrador the opportunity to pass controversial constitutional reforms before he leaves office by the end of the month. This has rattled markets and heightened tensions between Mexico and USMCA-members the US and Canada.
Panama	05-May-24	General	José Raúl Mulino of the right-wing RM won the presidential elections and was sworn in on July 1 for a five-year term. He succeeds Laurentino Cortizo of the centre-left PRD and governs with a minority. The RM and Alliance parties together won 15 seats in the 71-seat unicameral National Assembly.
Venezuela	29-Jul-24	General	Both incumbent president Nicolas Maduro, in power since 2013, and opposition candidate Edmundo González claim victory. But the government-controlled National Electoral Council declared unpopular Nicolás Maduro the winner without publishing a detailed breakdown of the results. The OAS, US, EU and most Latin American countries do not recognise the outcome. Nationwide protests followed which Maduro has cracked down with at least 27 people killed and over 1,700 imprisoned. Neighbours Brazil and Colombia are pursuing negotiations between Maduro and the opposition. US sanctions remain in place.

Source: Atradius

Argentina: moving into right direction, but a long and difficult road lies ahead

We project real GDP to shrink for a second consecutive year by 3.5% in 2024 from -1.6% in 2023, when the worst drought on record hit agricultural production and exports. A rebound of the agricultural sector won't be sufficient to offset a sharp fall in domestic demand due to another year of triple digit annual inflation, following the maxi-devaluation and fiscal consolidation of President Milei's 'shock therapy'. The new president has succeeded in passing his flagship structural and tax reforms and getting the country's IMF programme back on track. The fiscal balance and current account are showing surpluses, the monthly rate of inflation is falling, and official reserves are growing. But these much-needed policy adjustments come at the cost of a deeper economic contraction. For instance, the Milei administration spent 75% less on public work projects in H1 2024 compared to the same period in 2023. This is concerning, as domestic investment is already trending below the regional average, averaging 17% of GDP per annum in 2000-23.

Decades of unorthodox and business unfriendly policies have undermined private investments in Argentina, including those by foreign investors (see figure 8). It is therefore positive that an investment promotion scheme is part of Milei's reforms. This includes tax, trade, and foreign exchange benefits for 30 years to encourage projects in specific sectors such as forestry, tourism, infrastructure, mining (particularly lithium), technology, (renewable) energy and oil & gas. However, it will take time before these measures will be visible in the economic data. Moreover, its impact on foreign direct investment will be limited as long as currency controls, the main hindrance for foreign investors, remain in place. Full removal of these controls requires official reserves to grow to adequate levels. This will be challenging, considering that they are still significantly below these levels. Meanwhile, the pressure on reserves will rise as from next year on restructured external bond fall due and international capital markets are still closed.

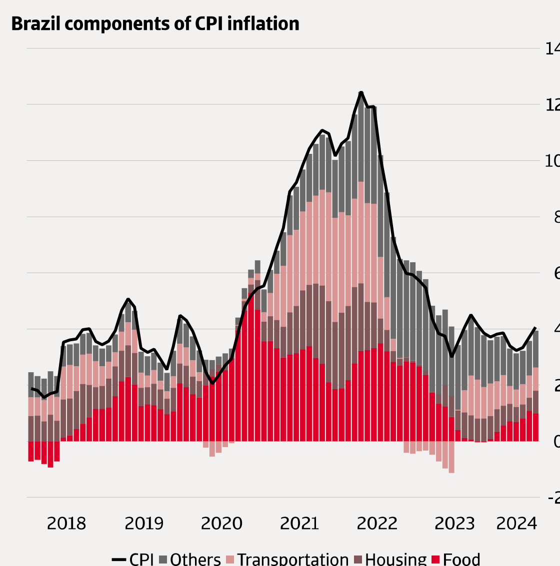
In our base scenario, we expect Argentina to enter a successor IMF programme, which will support business and market confidence, re-entrance to the internal financial markets and official reserves. This would set the stage for a recovery of annual GDP growth to 4.1% in 2025. But downside risks are significant and include social pressures and challenging governability. Given Argentina's opposition-dominated Congress, it remains to be seen whether Milei will succeed in following up his 'shock therapy' with additional measures needed for a durable adjustment of the economy.

Brazil: mounting headwinds slow economic growth

Brazil's resilient economy is facing mounting headwinds that will weigh on GDP growth in 2024 and 2025. Last year, growth surpassed expectations at 2.9%, on the back of record agricultural and hydrocarbon output, loose fiscal policy and strong household spending. The latter benefitted from a strengthening labour market – the unemployment rate reached a decade low of 6.9% in June – a rise in the minimum wage and steadily declining inflation for the past two years from double-digit highs. This allowed the central bank to make the first step in relaxing financing conditions already in August 2023. It has cut the policy rate from 13.75% to 10.5% since. While we expect these factors to continue to keep household spending firm, it is losing momentum over our forecast period.

Wage increases, higher food prices following devastating floods in major grain producer Rio Grando do Sul, and a depreciating real have reversed Brazil's disinflation process. Investor concerns about the government's commitment to its fiscal targets made the real one of the weakest currencies this year. Inflation rose from a low of 3.7% in April to 4.5% in July (see figure 9), hitting the upper threshold of the central bank's 1.5% to 4.5% target range. In response, the central bank ended its easing cycle in June and signalled a long pause. We now expect inflation to converge to the central bank's mid-point target only in 2026 and the central bank to remain on hold until H2 of 2025 when it will cut the policy rate to 10% by end-2025 (from 9% previously).

Figure 9 Inflation in Brazil is coming down gradually



Source: IBGE, Macrobond

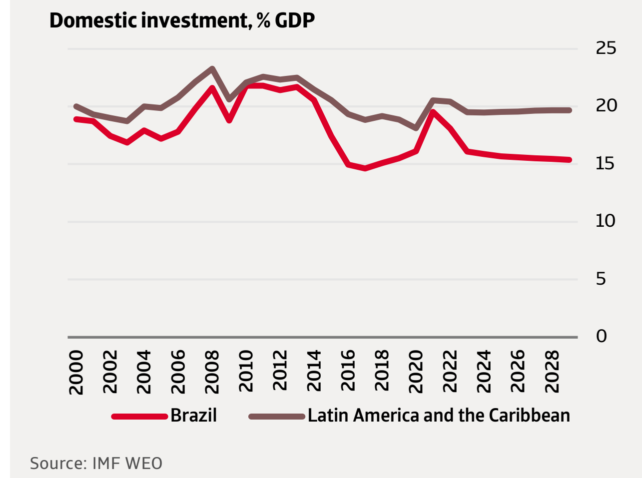
Higher for longer borrowing costs, lower agricultural output due to base effects and flooding, and some belt-

tightening measures by the government will translate to a steady slowing in GDP growth to 1,8% in 2024 around which level we expect it to stabilize in 2025 (1.9%). This is above the pre-pandemic average of 1.4% (2010-2019) but below the long-term average of 2.1% (1990-2023). Downward risks are high. If inflation pressures persist, the next step of the central bank could be a raise in the interest rate. Failure by the government to regain trust in its commitment to rein in spending and comply with the fiscal framework could trigger such a scenario.

Lacklustre economic growth in LAC's largest economy reflects structurally weak domestic investments, averaging 18% of GDP between 2020-2024. This reflects the 'Custo Brasil', which refers to the high costs of doing business in Brazil due to factors such as excessive bureaucracy, high corruption, a complex tax system, heavy labour regulation, high labour and electricity costs and an underdeveloped infrastructure. Even more concerning, heightened policy uncertainty has pushed the ratio down to 16% on average over the past ten years (see figure 10). This was triggered by 'Car Wash', the landmark anti-corruption probe that erupted in 2014. The 'Custo Brasil' also constrains foreign direct investments in other sectors than those related with its vast natural resources. Averaging 2.5% of GDP between 2000-2023, foreign investments into Brazil are below their potential. Even more concerning, they are declining since the pandemic (see figure 8). Meanwhile, Brazil's policymakers actively discouraged technology spillovers by imposing a tax on payments for international intellectual property, limiting labour productivity gains.

To attract more private investments, Brazil thus needs a more conducive business environment. Positively, the government has started to address some of these issues. A labour market reform in 2017 to reduce litigation and increase flexibility in employment contracts and wage setting has resulted in a marked drop of labour disputes reducing labour costs. The landmark consumption tax reform approved in December 2023 simplifies the system by unifying several federal, state and local sales taxes into a dual value-added tax (VAT). Furthermore, mobilising private investments by reducing the costs of doing business is at the centre of the 2024-2028 strategic partnership between the World Bank and Brazil, Moreover, the Lula administration aims to increase public investment to improve infrastructure, as part of its Growth Acceleration Plan. But it will take time before these reform efforts lift investments. The IMF forecasts domestic investments to remain low for the remainder of the decade (see figure 10). This will continue to hamper Brazil's growth prospects and will make it difficult to escape the middle-income trap.

Figure 10 Brazil's domestic investments lag LAC average



Source: IMF WEO

Chile: rebounding domestic demand drives moderate recovery

After stagnating in 2023 we expect Chile's economy to recover in 2024 as a stronger labour market and lower borrowing costs boost private consumption. Chile's central bank started its easing cycle in July 2023, cutting the policy rate aggressively from 11.25% to 5.75% last June as annual inflation fell within the 2%-4% target range. However, the unfreezing of electricity rates drove electricity prices and annual inflation up, from a low of 3.7% in March to 4.6% in July, making the central bank pause its easing cycle. We now expect the central bank to maintain the policy rate at 5.75% in 2024 and to resume its cutting cycle in 2025, bringing it to 4% at end-2025. We expect consumer demand to remain robust. Energy subsidies will shield consumer demand from the impact of higher electricity prices. Meanwhile, lower borrowing costs will allow investments to recover, particularly in the (critical) mining and renewable energy sectors. This will support a strengthening of GDP growth from 2.6% in 2024 to 2.9% in 2025.

Chile's investment ratios are among the highest of the region's largest markets. Domestic investments averaged 24% of GDP between 2000-2023 and foreign direct investments 2.9% of GDP over the same period. Chile's relative success reflects strong democratic institutions, business-friendly policies, one of the world's most open foreign investment regimes, and a highly educated workforce. Combined with policies to support transfers of knowledge and technologies from advanced players to local companies, this has stimulated growth and productivity and resulted in Chile becoming the first LAC high-income country in 2012.

However, more state interventionism under left-wing President Gabriel Boric and particularly a complex regulatory approval process could hinder future foreign investments. Increasing regulatory and legal hurdles have lengthened the project approval process, particularly for securing the environmental permits, or caused projects to stall altogether. Positively, the Boric administration has introduced a set of bills to Congress, seeking to streamline investment approvals and modernise environmental institutions. But political gridlock is slowing the approval of these bills while the window of opportunity to pass these reforms quickly is narrowing ahead of the November 2025 presidential election.

Colombia: business-unfriendly policies constrain economic recovery

Colombia's economy is rebounding from a meagre – after overheating - performance in 2023. We forecast GDP growth to pick up from 0.6% in 2023 to 1.9% in 2024. Domestic demand will be the main driver of GDP growth supported by the government's social spending programmes and lower borrowing rates. Colombia's central bank started its easing cycle in December 2023, making it the last among the region's major central banks. It has since cut the policy rate in six steps from 13.25% to 10.75% in July 2024, enabled by a sharp fall in consumer price inflation from a peak of 13.3% in March 2023 to 6.9% in July 2024. We expect disinflation to continue with inflation easing towards the mid-point of the central bank's 2%-4% target range by end-2025. This would likely pave the way for further easing of the policy rate to 8.5% end-2024 and 6% end-2025. Combined with a more supportive external environment, this will lift GDP growth to 2.5% in 2025.

Despite economic growth accelerating, it remains well below its pre-pandemic growth rate of 3.7%, reflecting lacklustre private sector domestic investments. Colombia suffered one of the largest drops in domestic investment in South America and saw a much slower pace of recovery. Investments declined again in 2023, partially reflecting monetary policy tightening, but also policy uncertainty under President Gustavo Petro, the country's first leftwing president.

So far, this uncertainty has not impacted Colombia's foreign investments inflows. At 4.5% of GDP in 2023 and an average 2.7% of GDP in 2000-2023, these are among the highest in the region. But this has not lifted productivity growth. Upcoming large infrastructure projects could enable this. So could foreign investments in manufacturing, which have doubled in 2023, albeit from a low share, and diversifying Colombia exports away from fossil fuels. Positively, a third of the value of foreign investment announcements, which increased by 80%, consist of investments in the renewable sector.

Peru: public investments and private consumption support a rebound

Following an economic contraction in 2023 due to widespread social unrest and extreme weather, we expect Peru's GDP to grow by 2.8% in 2024. Positive base effects in agriculture and fishing, investments by regional governments and private consumption support the recovery. The latter benefits from a stronger labour market, a new withdrawal of pension funds, decreasing inflation and lower borrowing rates. The central bank has cut the policy rate from 7.75% in August 2023 to 5.5% in August 2024. The latest cut followed a two-month pause indicating that the central bank has become more cautious in response to high for longer US interest rates. We expect the central bank to gradually reduce the policy rate to 5% by end-2024 and 4% by end-2025. Stronger demand and lower borrowing costs have improved business confidence. This, and the resumption of the long-stalled and controversial Tía María mining project by end-2024 or early 2025 as environmental and social conditions are met, should boost private investment going forward. This will lift GDP growth to 3.3% in 2025.

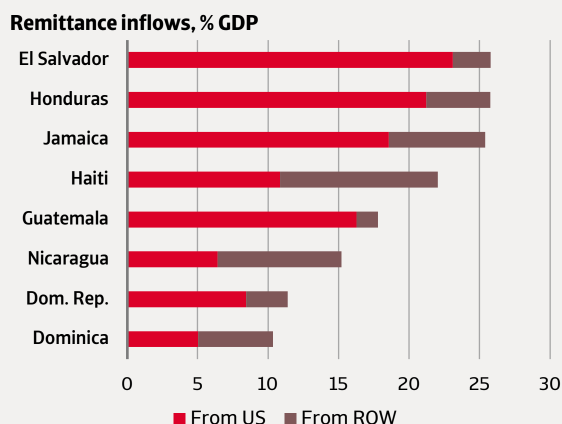
Although Peru's annual growth outlook compares well with its South American peers, it remains below its pre-pandemic level, averaging 4.5%. This partly reflects below pre-pandemic business confidence, due to political uncertainty under President Dina Boluarte, in power since December 2022. But Peru particularly needs structural reforms to boost investments and economic growth.

Peru's investment ratios compare favourably with the LAC region. Domestic investments averaged 21% of GDP in 2000-2023 and foreign direct investments 3.3% of GDP over the same period. However, this average reflects a sharp fall in the ratios following the end of the commodity boom in 2014. Domestic investments fell for instance from 26% of GDP in 2013 to 19% in 2023. IMF research shows that the higher ratio prior to 2013 reflected not only the commodity boom but also reforms aimed at stimulating private investments in the non-mining sector. These included improvements in infrastructure, healthcare, education, taxes and the development of agriculture and tourism. Combined with the commodity boom, this lifted Peru's average annual GDP growth to 6% in 2002-2013. Since then, investments have fallen and productivity growth stagnated or became even negative in sectors that used to be most productive. Labour and tax legislation and regulations have created barriers to firm growth, constraining investments, productivity, and economic growth. We do not expect reforms to address these barriers anytime soon, given Peru's highly fragmented party system and growing polarisation.

Mexico and Central America: politics hinder investments

We expect economic growth in Central America to moderate from a reasonably strong 4.9% in 20023 to 2.9% in 2024 at which level it more or less stabilises in 2025 (3%; see table 3). The region's growth performance is closely linked to developments in the US, its main trade and investment partner and home to over 7 million immigrants (see In Focus box 1). The money they send home, remittances, support consumer demand. This is particularly true for El Salvador, Guatemala, Honduras and Nicaragua, where remittances range between 20% of GDP (Guatemala) and 27% of GDP (Nicaragua) (see figure 11). We project growth in remittances to ease this year and to strengthen next year in line with US economic developments. But drier weather conditions due to La Niña, which hurt the agricultural sector, and country specific factors hurting investments will slow economic growth in El Salvador (political backsliding), Honduras (elevated policy risks), and Nicaragua (strong repression limits access to external finance).

Figure 11 LAC countries most reliant on remittances



Source: World Bank KNOMAD

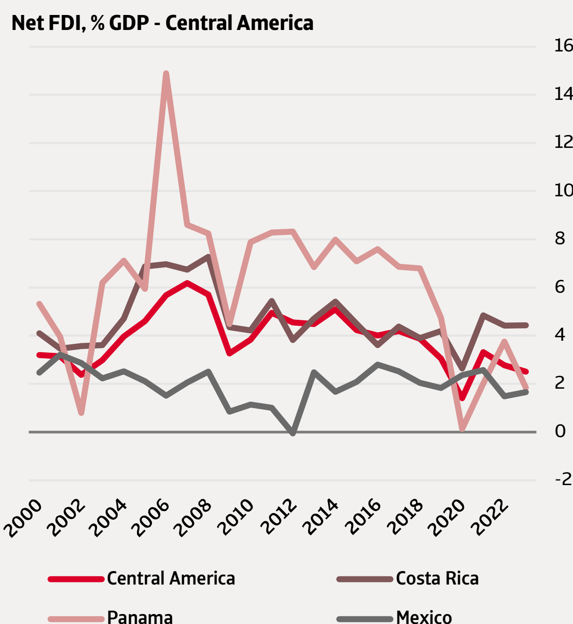
Although the subregion shows decent growth prospects, growth remains below its pre-pandemic level in most of the countries (Guatemala and Honduras being the exceptions). This is concerning as growth levels were already low compared to their income status and way too low to converge to that of high-income countries. Panama is the only country in Central America that has reached high-income status – in fact, it's even the richest country in the LAC region. Costa Rica is close to reaching this status and its income level has surpassed Mexico's, which is at risk of falling in the middle-income trap (figures 6 and 7). Costa Rica and Panama are the region's best candidates for friend/nearshoring. Mexico is also a potentially prime destination but there are several factors discussed below that hinder the use of its full potential.

Table 3 Real GDP growth, % - Central America & Mexico

Regions	2023	2024*	2025*
Costa Rica	5.1	3.5	2.5
El Salvador	3.5	2.4	2.0
Guatemala	3.5	3.2	3.6
Honduras	3.6	4.2	4.0
Nicaragua	4.6	2.4	2.2
Panama	7.3	2.0	3.0
Central America	4.9	2.9	3.0
Mexico	3.2	1.4	1.7

Source: Oxford Economics, Atradius

Figure 12 Costa Rica leads Central America FDI



Source: IMF WEO

Mexico shifting to a lower gear

Mexico outperformed regional peers in 2023 with 3.2% growth, but we expect momentum to ease this year to 1.4%. The strong 2023 performance as a basis for comparison partially explains the slower growth. More tangibly, a slowing US economy, Mexico's primary export market and source of remittances, growing caution among Mexican consumers and a decline in investments are dragging on growth. Businesses are in wait-and-see mode ahead of the US elections and the end of key infrastructure

projects weighs on government investments. Moreover, fiscal stimulus will become less supportive as pre-election spending fades.

The Banco de México (Banxico) made its first rate cut of 25 basis points in March, followed by a second cut in August, that brought the policy rate to 10.75%. The recent 3-2 split decision was unexpected, given accelerating annual headline inflation (5.6% in July from 4.4% in March), depreciating pressure on the peso and higher-for-longer rates in the US. However, most board members gave more weight to slowing economic growth and easing annual core inflation (excluding food and energy prices) to 4.1% in July. Nevertheless, the monetary policy stance will remain restrictive, easing only gradually to 10.25% by year-end and accelerating in 2025 to 7%, as lacklustre domestic demand lowers average headline inflation from 4.7% to 3.7%. In this context, economic growth will remain sluggish in 2025 at 1.7%. Some fiscal consolidation and a slowdown in government investments will counterbalance the positive impact on GDP growth from a recovery in exports and private investments as policy uncertainty fades and easing financial conditions kick in.

However, a controversial judicial reform proposed by outgoing president Andrés Manuel López Obrador (AMLO; see table 2) has increased downside risks to the outlook. This proposal would mean a shift from appointing to electing judges, including those at the Supreme Court, by popular vote. The unexpected near-supermajority of his left-wing Morena party following the elections has increased the chances of its approval. It raised concerns about a further deterioration of the rule of law and rattled financial markets and USMCA partners and weighs negatively on business confidence.

Sluggish economic growth characterises Mexico's economy throughout the century. At just 1.7% on average in 2000-2023, Mexico's annual GDP growth was below the regional average and even lagged that of Argentina. Quite interestingly, this coincides with above average domestic investments, averaging 23% of GDP in 2000-2023. And although annual foreign direct investments in Mexico, at 2.0% of GDP in 2000-2023, are trending below the regional average (see figure 12), they are concentrated in manufacturing and financial services, sectors with a higher added value. This reflects Mexico's membership in USMCA, the free-trade agreement between itself, the US and Canada. So why hasn't this translated into higher economic growth?

One of the explanations is a high degree of heterogeneity among states. The states where Mexico's tourism and manufacturing sector is concentrated, are more integrated with the US. These states show decent growth levels (ranging from 2.5% to 3.9% on average in 2000-2023). In contrast, most of the southern, mostly agriculturally based, states are lagging. Incumbent President AMLO had therefore invested heavily in infrastructure projects in the southern states, including the Interoceanic Corridor of the Isthmus of Tehuantepec, a railway that connects the Pacific and Atlantic Oceans, the Maya Train, which interconnects southern states, and the 'Dos Bocas' refinery. So far, this has only benefitted Oaxaca and particularly AMLO's home state, Tabasco, lifting its GDP growth rate into the double digits. But whether this will durably lift economic growth remains to be seen. So does the impact on the poorest states.

But the main explanation is that so far, investments have failed to lift productivity. Major forces that constrain productivity are the small size of firms, weak institutions, and most of all high insecurity. Meanwhile, during AMLO's term (2018-2024) violent crime increased and institutions have weakened, particularly government effectiveness, regulatory quality and rule of law. Combined with his business unfriendly policies these factors have discouraged foreign direct investments (see In focus box 2). This all means that President-elect Sheinbaum, a close ally of AMLO and fellow member of Morena, has work to do to improve Mexico's investment climate and lift productivity rates. For one thing, her stance on crime will be much tougher. Her hardline approach to crime as a mayor of Mexico City was quite successful. It will however take time before this translates into higher productivity and economic growth rates. Needless to say that approval of the judicial reforms would give Sheinbaum a false start. This all makes a continuation of Mexico's strong post-pandemic recovery of income per head uncertain.

Costa Rica: moderating but steady economic growth

Following a stronger than expected economic performance in 2023, we project Costa Rica's GDP growth to moderate to 3.5% in 2024 and 2.5% in 2025. The main drivers of last year's upturn, dynamic exports and investments, are losing steam. This reflects lower external demand, fewer investment projects and a postponement of public investment projects. Nevertheless, even at the lower level, investment growth will remain robust, supported by the National Development and Investment Plan, as will private consumption. Lower interest rates will continue to support private domestic demand, but the impact will moderate as Costa Rica's central bank nears the end of its easing cycle. In March 2023, Costa Rica's central bank was the first in the LAC region to reduce interest rates. It has since cut the policy rate from 9% to 4.75% in April 2024, when it became more cautious given higher for longer US interest rates. We expect the central bank to resume its easing cycle after the US Fed starts cutting rates and bring the policy rate to 4.25% in 2024 and 4%, its neutral rate, in 2025. We project inflation to leave deflationary territory and to gradually

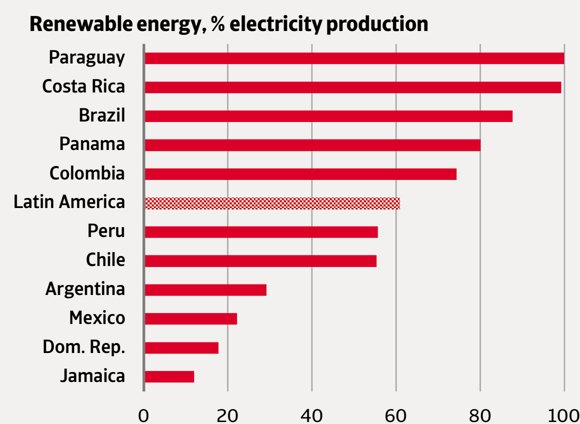
In focus 2: Mexico needs energy reforms to unlock its nearshoring potential

López Obrador's business unfriendly policies have discouraged foreign direct investments. He has for instance reversed key reforms undertaken by his predecessor Enrique Peña Nieto aimed at opening up the energy sector to the private sector. This has angered Mexico's USMCA partners and is weighing negatively on foreign direct investments. Greenfield investments are for instance falling since 2021 according to data of Banxico.

Meanwhile US Census data show that Mexico's share in US manufacturing imports is declining since 2022, whereas that of India and Southeast Asia increased. Mexico is thus not benefiting from a relocation away from China, confirming our earlier conclusion (see Atradius Energy transition can help unlock Latin America's potential from nearshoring).

Aside from well-known bottlenecks for FDI, the OECD in its recent Economic Survey on Mexico mentions another factor: Mexico's low share of renewables in electricity production. At 22% in 2022, this is the lowest of the LAC-region's major economies. With global manufacturers increasingly seeking to decarbonize their production processes to reach the climate goals, Mexico needs to shift to renewables to unlock its potential for nearshoring.

Figure 13 Mexico's energy mix isn't so green



Source: IRENA, Atradius

During her campaign, president-elect Sheinbaum indicated that she plans to boost renewable energy projects, mainly wind and solar. To achieve this, foreign investments will be necessary. Although Sheinbaum has signalled to open the electricity generation sector to private-sector investment in the electricity generation sector, her commitment to maintaining AMLO's pledge to keep at least 54% of electricity generation under state control could hinder this. This would mean that Mexico will continue to show sub-par nearshoring performance.

emerge towards the 2%-4% central bank target range. Currency depreciation on the back of a slowdown in external demand will push average annual inflation from 0.2% in 2024 to 2.7% in 2025.

Costa Rica has been quite successful in attracting foreign investments and promoting knowledge and technology spillovers and innovation. A government programme set up in the early 2000s facilitated business, particularly SMEs, to collaborate with local or foreign universities or private research centres which has proven quite successful. Furthermore, structural reforms to support knowledge sharing and the integration of local firms in global value chains are part of Costa Rica's National Development and Investment Plan. Foreign direct investments are at an average of 4.7% of GDP in 2000-2023 among the highest in the LAC region, with manufacturing being the most important recipient sector. This has helped the country to lift productivity and move up the value chain.

The ongoing nearshoring trend in the US creates further upward potential in foreign investments in Costa Rica, which could translate into higher GDP growth than we currently project. Its attractive business climate, experience in high-end manufacturing, high share of renewables in the energy mix and a trade agreement with the US (CAFTA-DR) make the country a good nearshoring candidate. Foreign direct investments reached a record high in 2023 (see figure 12), with the bulk coming from the US. In 2023, some major US companies such as chip manufacturer Intel and Johnson & Johnson MedTech announced investments plans, attracted also by Costa Rica's high share of renewables in the energy mix.

However, the total amount of announcements was 35% lower than in 2022. Although the reason is unknown, this might reflect the rise in violent crime. Costa Rica's homicide rate jumped by nearly 40% in 2023 from 2022, as gangs fight for control of drug-trafficking routes. Although the murder rate at 17.2 per 100,000 inhabitants, is still much lower than most countries in Central America and the Caribbean, rising violence weighs negatively on Costa Rica's reputation as a safe investment partner. Tackling crime will thus be crucial to stimulate FDI but will be challenging given the weak position of President Rodrigo Chaves in the legislature.

Panama: facilitating knowledge and technology sharing needed to sustain its economic success

Panama's economic growth will decelerate sharply from 7.2% in 2023 to 2% in 2024 due to the closure of a large copper mine. We forecast only a mild recovery to 3% in 2025, driven by a normalisation of activity of the Panama Canal as La Niña rains bring relief following the El Niño

drought in 2023 early 2024. These growth rates are significantly below the nearly 6% annual rate over the past three decades, the highest in the sub-region. In Panama, high – foreign – investments to finance a construction boom and the expansion of tourism and financial services were the main growth drivers. This transformed the country into a logistics and financial hub and enabled Panama to reach high income status in 2017. However, these investment projects are nearing an end. FDI inflows reflect this: they are significantly below pre-pandemic levels and Panama lost its first position as FDI recipient in Central America to Costa Rica (see figure 12). To sustain its success, Panama needs to lift labour productivity growth. This requires raising its education standards, but particularly facilitating knowledge spillovers by lifting bans for highly educated foreign workers and staying attractive for foreign direct investments. Given that in 2023 FDI inflows fell by 22% and the total value of project announcements by even 80%, Panama's new government (see table 2) has work to do.

Caribbean: steady investment to boost resilience

Economic growth in the Caribbean is likely to accelerate above 6% in 2024 and 2025, far surpassing GDP growth in other LAC subregions. Regional growth is skewed upwards by Guyana's rapidly expanding energy sector, fuelling national GDP growth of 30.9% in 2024 and 25.2% in 2025. But Guyana is not the only driver. Excluding Guyana, the rest of the region is still forecast to expand 3.5% in 2024 and 3.9% in 2025 – well above the next fastest growing sub-region, Central America. Risks to the Caribbean's outlook, however, lean to the downside due to the region's high exposure to the US (see In Focus box 1) and the shifting La Niña weather pattern which raises the chance of an above-normal hurricane season this year.

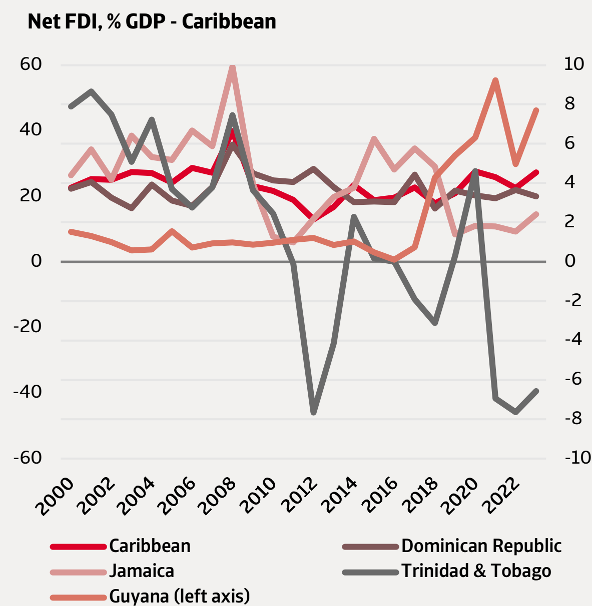
Table 4 Real GDP growth, % - Caribbean

Regions	2023	2024*	2025*
Dominican Republic	2.3	4.5	4.9
Guyana	36.1	30.9	25.2
Jamaica	2.9	2.1	2.1
Trinidad & Tobago	2.9	3.0	2.6
Caribbean	**4.9**	**6.3**	**6.6**

Source: Oxford Economics, Atradius

The Caribbean's growth outlook for 2024 and 2025 is more positive than the decade up to the pandemic when growth averaged 3.0% per year. Public debt ratios have been reined in from historic highs. It is remarkable that Caribbean governments managed to make such progress in improving public finances against a backdrop of soaring import prices and high interest rates, demonstrating strong institutional capacity and fiscal discipline. At the same time, domestic investment exceeded other subregions – a critical contributor to economic development, bringing large markets like Jamaica and, most significantly, the Dominican Republic towards high-income status. This contributes to the attractiveness of the region for FDI which is critical in continuing to develop the region's resilience.

Caribbean commodity exporters have been benefitting from higher-than-usual global prices and the discovery of new reserves. Moreover, geopolitical uncertainty in traditional supply markets like the Middle East and Venezuela have offered more export and investment opportunities for Caribbean exporters. The discovery of significant oil and gas reserves off the Guyanese coast in 2015 has translated into a 60-fold increase in net FDI inflows into Guyana – bringing the country into the top 10 FDI destinations in all of LAC. Trinidad & Tobago is also developing new maritime gasfields in the waters bordering Venezuela that should help turn around its FDI prospects. Since 2010, Trinidad experienced average annual net non-residential FDI outflows exceeding USD 500 million, the worst FDI record in LAC and accompanying only Venezuela with net outflows. Barring a change in US policy that waives Trinidadian cooperation with Venezuela in developing these fields, LNG exports will likely start picking up from 2026 onwards. This bodes well for a turnaround in non-residential FDI flows but we expect it to be limited to the extractive sector.



Tourism-dependent economies of the Caribbean have now broadly recovered from the pandemic: tourist arrivals finally surpassed 2019 levels in 2023, reaching record levels in the Bahamas, Jamaica and the Dominican Republic. These economies have also experienced relief from the cost-of-living crisis, with inflation declining significantly from its 2022 highs. FDI inflows have remained solid in the Dominican Republic, well above 3% of GDP annually through the pandemic (figure 14). In value terms, they've increased nearly 50% since the pandemic compared to the ten years up to and including 2019. Jamaica's annual FDI inflows have averaged 4.2% from 2000-2023, leading most other tourism dependent economies. While they still remain below pre-pandemic levels, the latest data shows a significant tick upwards to 2.4% of GDP in 2023.

Dominican Republic: steady growth and targeted policies increase attractiveness for FDI

The Dominican Republic, by far the Caribbean's largest economy (47% regional GDP), is regaining momentum in 2024 and 2025 following a weak 2023. Economic growth disappointed last year with only 2.4% due to subdued consumption and investment amid higher interest rates and inflation. Tourism remained a bright spot though with tourist arrivals reaching an all-time high above 800,000. Tourism is on track to reach another record this year, up 8% from last year. Remittances, totalling nearly 10% of GDP primarily from the US, have also been steady. These are both bolstering private consumption and fixed investments in the forecast period. Domestic demand is further supported by monetary easing. The central bank, BCRD, was also one of the first to begin cutting interest rates last year, allowing some relief from tight interest rates to be felt this year. While the BCRD paused easing at the end of 2023, we expect it to resume cutting rates in the coming months following the Federal Reserve's monetary policy shift. By maintaining an interest-rate differential with the US, the authorities aim to contain inflationary pressures while supporting economic growth.

Political stability under President Luis Abinader and his Partido Revolucionario Moderno (PRM) will remain strong in the coming years. The ruling PRM won a landslide victory in the May 2024 elections. This political dominance will facilitate the implementation of market-friendly policies and reforms, including tax and fiscal measures aimed at broadening the tax base and curbing spending. Nonetheless, the ongoing security crisis in Haiti and potential corruption scandals could challenge this stability. Large-scale unrest is unlikely though as the government continues to meaningfully strengthen the rule of law and social security schemes.

Solid investments support the Dominican Republic's economic outlook and are important to ensure more sustainable growth. The Dominican Republic's domestic investments have risen to 30% of GDP, well above the LAC regional average of 20% of GDP and up from its pre-pandemic average of 24% of GDP. Net FDI inflows have averaged USD 3.7 billion per year since the pandemic, up nearly 50% from the pre-pandemic average. The authorities have a growing track record of supporting international business in the past decades. In 1997 the government established the Export and Investment Centre of the Dominican Republic, ProDominicana, with manufacturing, energy, tourism and agribusiness among the priority sectors. The Dominican Republic is also prioritising strategic industries like semiconductor chips through its 'ChipDRiven' initiative aimed to attract friendshoring investment from the US under its CHIPS act. Free trade zones are also a significant incentive for FDI. Most investment flows into the services sector (78% total in 2023 according to ECLAC), followed by manufacturing (13%). In 2023, the renewables sector accounted for over 40% of project announcements for FDI. This is promising for helping shift the country's energy matrix away from fossil fuels.

Jamaica: strong policymaking paves way for more productivity-enhancing investments

Economic growth in Jamaica is shifting down to 2.1% in 2024 and 2025 from a tourism-led rebound of 2.9% in 2023. While modest, this is still more dynamic than the 1.2% average growth prior to the pandemic. Stubborn inflation is finally firmly back within the Bank of Jamaica's (BOJ) 4%-6% target range. This allowed the BOJ to cut its

policy rate for the first time since October 2022, by 25bp to 6.75% last August. Monetary easing and disinflation will help boost domestic demand this year and next, further supported by solid remittances. The outlook for the tourism sector (more than 30% of GDP) remains positive while the mining sector will also be a solid pillar for growth. We expect mining activity to continue growing over the forecast period now that the Jamalco alumina plant is in full operation again and the Alpart bauxite plant comes back online following refurbishment work. Jamaica's growth outlook however is still overly reliant on tourism and mining activity.

While growth is sluggish, Jamaica is a rare success story in recovering debt sustainability. Jamaica is historically a highly indebted country. But the authorities have made impressive progress keeping debt on a downward trajectory while keeping the economy stable against a difficult external backdrop in recent years. Jamaican government debt is now around 75% of GDP, down from 130% a decade ago, and the IMF assesses it as sustainable. The authorities have also taken steps to reduce the vulnerability of public finances to climate risks. Jamaica was the first small island state to sponsor a catastrophe bond in 2021, which provides USD 150 million insurance coverage against hurricane damage. The country renewed this bond in April this year.

Commitment to fiscal austerity has improved Jamaica's macroeconomic fundamentals but has prevented meaningful diversification from these sectors. On top of this, exposure to natural disasters, and rising public concerns about crime and security are structural risks that need to be addressed. Domestic investments have risen above pre-pandemic levels to 23% of GDP in 2023, slightly above the regional average. FDI inflows have not yet recovered to pre-pandemic levels: averaging 1.9% of GDP since the pandemic, down from 3.4% in the decade before. While FDI in tourism continues to grow, FDI in mining has nearly dried up. Concentration of FDI into the hospitality sector and related infrastructure as opposed to more productivity boosting sectors that could help improve long-term development. We expect investment in Jamaica to continue to rise in the forecast period, but only steadily. With government finances increasingly under control, there is increasing space in the forecast period for the government to prioritise productivity-boosting policies. Mitigating climate risk is a priority policy area for this, including expanding renewables as Jamaica has among the lowest shares of renewables in its energy mix in all of LAC (see figure 13). Jamaica has secured multiple financing facilities from multilateral institutions to alleviate the constraints on high-cost climate-oriented investments. This should help catalyse more private investment in Jamaica, improving its economic resilience and attractiveness for further investment.

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