Latin America

Resilience in a challenging environment

Latin America enters 2027 after a year marked by external shocks, political uncertainty and demanding financial conditions, which most economies navigated better than expected. Imbalances remain contained, but the challenge now is to consolidate the stability achieved and translate it into a sustained recovery in investment and growth.

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Latin America's economic performance in 2026 has been shaped by a complex global environment. Trade and geopolitical tensions were compounded by conflicts in the Middle East and higher energy prices. While the impact has been uneven (benefiting oil producers but worsening the terms of trade for net importers), it has broadly generated inflationary and fiscal pressures.

At the start of 2026, expectations were for weak growth, with doubts lingering about the region's ability to make further progress on disinflation without a pronounced deterioration in activity. The outcome, however, has been more favourable than expected in most countries, with a few exceptions. Growth has stayed close to 2% and labour markets have shown notable resilience, while weakness in some economies reflects temporary factors, including climate-related and sector-specific shocks. Inflation has continued to moderate, with limited pass-through from higher energy prices to underlying components. This has allowed monetary policy normalisation to proceed, albeit at different speeds.

At the same time, rising sovereign bond yields in advanced economies and uncertainty surrounding the US economy and monetary policy have influenced financial conditions, capital flows and investment decisions. Despite this, Latin American markets have performed well, with the main currencies appreciating against the dollar, risk premia remaining contained and equity markets reaching record highs in some cases.

The political calendar has also been busy. Several countries have held presidential elections in 2026 or are preparing to do so. Traditionally, such periods have been associated with greater financial volatility and weaker investor sentiment. This year, however, the impact has been limited and has not significantly disrupted either the financial markets or the region's broader macroeconomic performance.

The external position is holding solid. Exports have stayed dynamic, supported by the diversification of trading partners and the region's productive structure, which combines manufacturing with agriculture, mining and energy. Trade balances are still strong, while current account deficits are moderate and comfortably financed by foreign direct investment. Portfolio inflows have also recovered, supported by a more favourable perception of Latin America among international investors. Together with

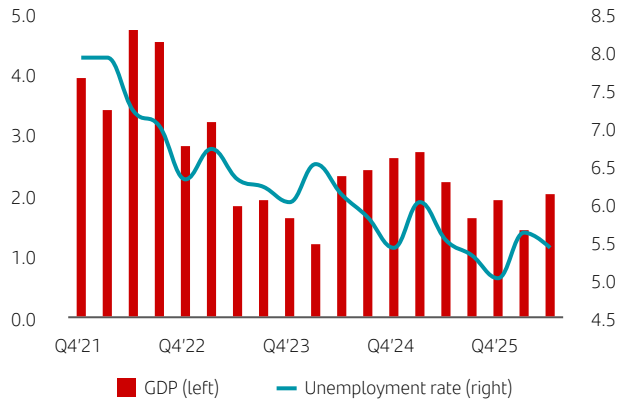
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high foreign-exchange reserves, these factors strengthen the region's ability to absorb potential external shocks.

Looking ahead to 2027, growth is expected to remain moderate, with significant differences across countries. Inflation should continue to decline and move closer to central banks' tolerance ranges, although in most economies it will stay above target. El Niño could temporarily delay this process in some countries, without altering the broader disinflationary trend. This backdrop should allow further monetary policy normalisation where rates are still restrictive, while in other cases supporting a relatively stable policy stance despite higher global interest rates.

Labour markets should continue to support domestic demand, although they are likely to lose some momentum. At the same time, further progress on fiscal discipline will remain important, while a recovery in investment will be essential to sustain activity beyond the short term. The scope to respond to growing economic and social demands will be constrained by both modest potential growth and the need for further fiscal consolidation. Even so, Latin America enters 2027 with stronger fundamentals and an opportunity to turn the resilience demonstrated in recent years into a new phase of growth and investment.

Latin America-7[1]: GDP growth & unemployment
(%, y/y; and %)



Sources: INE's and Central Banks.

Latin America-7: Trade balances
(12-month cumulative balance, USD bn)



Source: Refinitiv.

Macroeconomic forecasts

	2026e	2027e	2028e
GDP growth (%)	1.8	1.9	2.2
Unemployment rate	5.4	5.7	5.9
CPI inflation*	4.2	3.6	3.1

Latin America - 7: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay.
Source: Santander Research. Annual average.
* Without Argentina.

[1] Latin America-7 includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay.