PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

Inter-American Development Bank Group

Latin America's Growth Prospects in a Changing Global Economy

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THE GROWTH PROBLEM

Stability has improved; growth has not

Stronger monetary frameworks, credible central banks and flexible exchange rates have helped the region absorb shocks — but growth remains near its long-run average.

RESILIENCE

209 bp

Median sovereign spread, end-2025 (268 bp in 2019)

RESILIENCE

2.1%

Projected regional growth in 2026 (2.2% in 2025)

CONSTRAINT

5.5%

Cumulative rise in real GDP per capita, 2015–2025

CONSTRAINT

59%

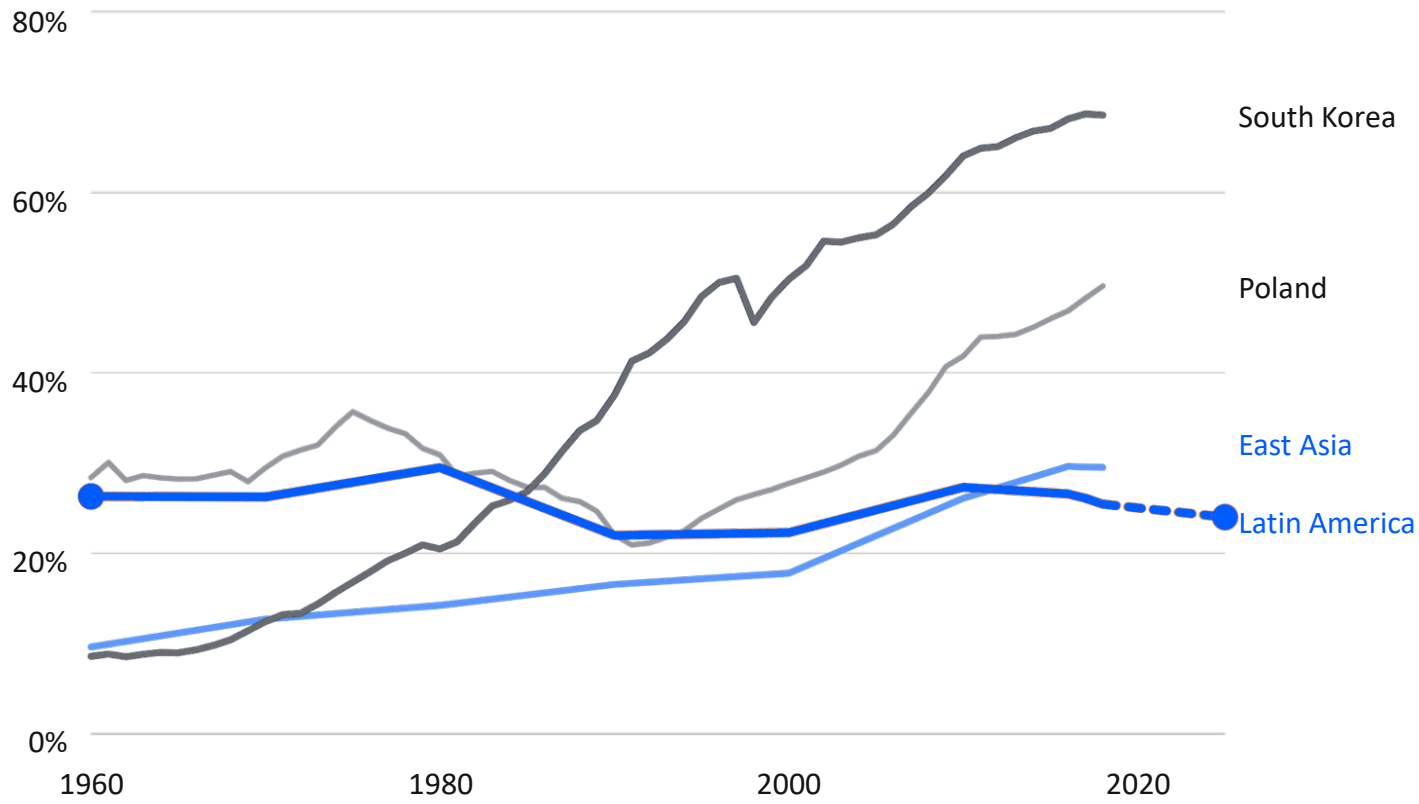
Average public debt, % of GDP, with rising interest costs

Source: IDB (2026), Latin American and Caribbean Macroeconomic Report: Resilience and Growth Prospects in a Shifting Global Economy; IDB estimates.

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THE GROWTH PROBLEM

Six decades without convergence



GDP per capita as a share of the US level (PPP)

26% → 24%

Latin America, 1960 → 2025

9% → 69%

South Korea, 1960 → 2018

10% → 30%

East Asia, 1960 → 2018

Source: Maddison Project Database 2020 (Bolt & van Zanden), 1960–2018; Latin America 2025 (dashed) from IDB estimates.

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THE GROWTH PROBLEM

Low investment, weak productivity

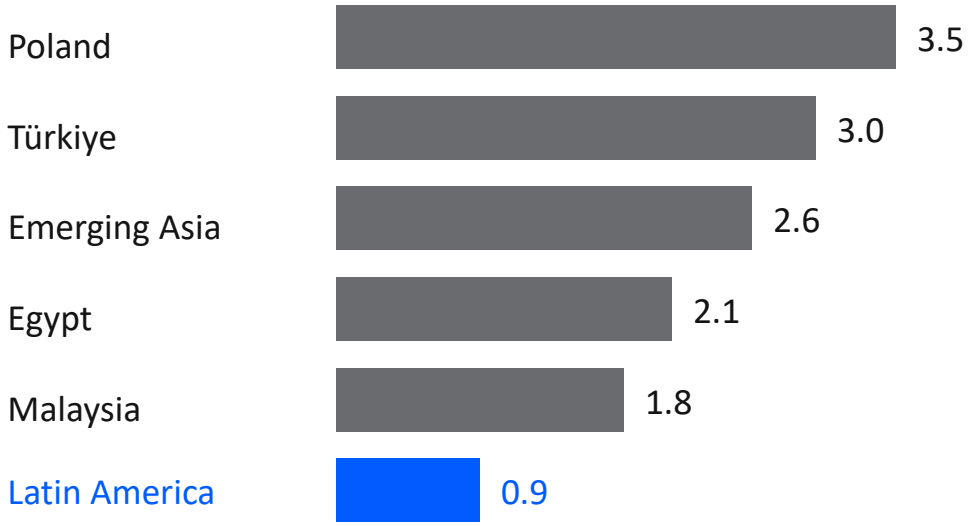
Investment rate

Gross fixed capital formation, % of GDP, average of the past ~20 years



Capital deepening

Contribution of capital per worker to annual labor-productivity growth, percentage points, 1997–2022



Source: McKinsey & Company (2025), Seizing the moment: Latin America's productivity opportunity, based on World Bank WDI and The Conference Board Total Economy Database.

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WHAT IS DIFFERENT NOW

Cyclical tailwinds and structural shifts

Cyclical tailwinds

Welcome — but in the past they have not produced lasting productivity gains

More favorable global financial conditions reduce financing costs and attract capital inflows

Terms of trade at their strongest since the 2000s supercycle

Sovereign spreads near historic lows: 209 bp median, end-2025

The last sustained acceleration, 2003–08, rested on the same mix.

Three structural shifts

1 **Changing geography of production**

Firms diversify suppliers; proximity helps, but costs, skills and rules decide.

2 **Energy, food and critical minerals**

Natural advantages, if demand builds broader productive capabilities.

3 **Digital services and AI**

Digital trade shrinks distance; gains hinge on skills and complementary investment.

Sources: Citi Research (2026), LatAm Poised for Take-Off; IDB (2026), Latin American and Caribbean Macroeconomic Report.

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WHAT IS DIFFERENT NOW

Natural advantages in energy, food and minerals

The aim: capture more value where the region can do so competitively.

~50%
of global lithium resources

~35%
of global copper reserves

>20%
of global rare-earth reserves

60%+
of electricity from renewables, about twice the global average

14%
of the world's arable land; a leading food exporter

+470–800%
projected rise in global lithium demand by 2050

Sources: IDB (2026), Macroeconomic Report (minerals, lithium demand); IEA, Latin America Energy Outlook (renewables); FAO via McKinsey (2025) (arable land).

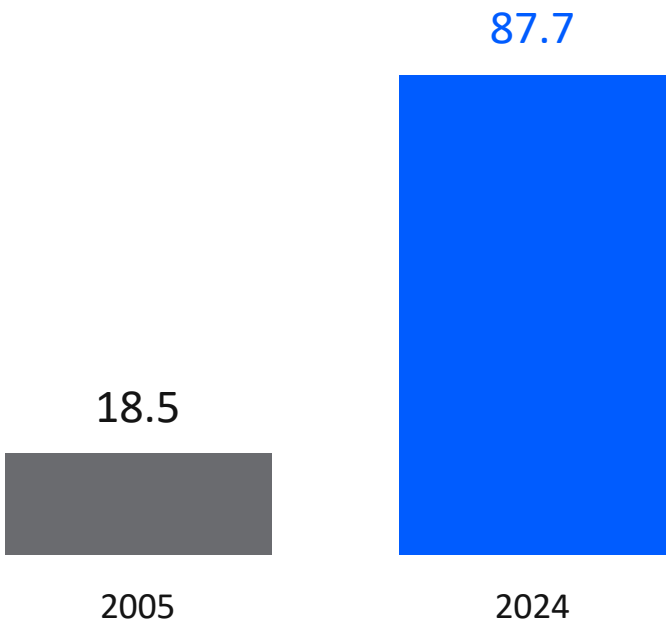
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WHAT IS DIFFERENT NOW

Digital services: fast growth, small share

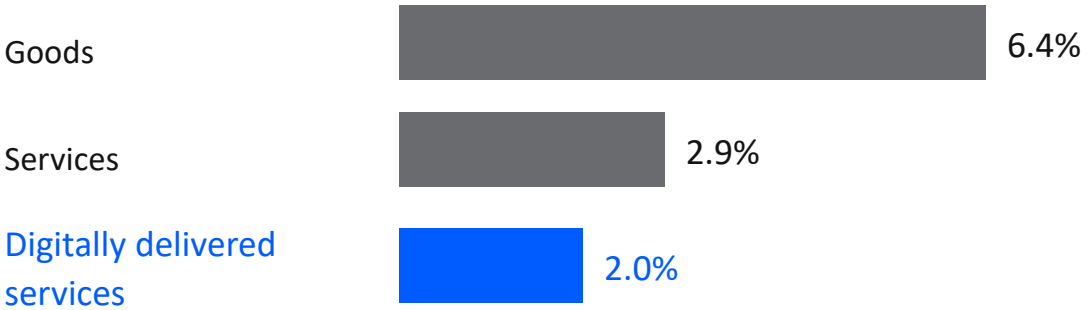
Nearly fivefold since 2005

LAC exports of digitally delivered services, US$ billion



…but a small slice of world markets

LAC share of world exports, 2024



Leaders, 2024: Brazil $29.4bn · Mexico $15.2bn · Costa Rica $8.6bn · Argentina ~$8bn

Source: IDB, World Bank Group and WTO (2026), Digital Trade in Latin America and the Caribbean: Connecting Markets, Powering Growth.

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WHAT IS DIFFERENT NOW

AI: the gains depend on how broadly it is adopted

+5.1%

Regional GDP after a decade with broad AI adoption

+0.3%

Regional GDP after a decade with limited adoption

The risk: adoption concentrated in a few large firms widens productivity gaps.

7% of job vacancies referenced AI skills by mid-2025, the fastest-growing skill.

Sources: IDB (forthcoming, launch November 16, 2026), report on artificial intelligence; IDB (2026), Macroeconomic Report.

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THE POLICY AGENDA

Turning opportunities into growth

1 · Investment environment

Regulatory predictability, permitting, agency coordination and the capacity to execute projects — not only financing.

A high-income path by 2040 implies investment of ~28% of GDP, up from ~20% today.

2 · Resource allocation and firm growth

Competition, lower barriers to entry and expansion, finance and skills — so smaller firms can adopt AI too.

Productivity added only 0.8 of 2.3 points of annual GDP growth, 1997–2022.

3 · Regional integration

Cross-border infrastructure, efficient trade procedures and regulatory compatibility: energy, transport, digital.

Intraregional share of digital services exports: 8.4% in LAC vs. 62.4% in Europe.

Priorities differ across countries: identify the binding constraints and sequence accordingly.

Sources: McKinsey & Company (2025), Seizing the moment (cards 1–2); IDB, World Bank Group and WTO (2026), Digital Trade in LAC (card 3).

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CONCLUSION

EXTERNAL PROSPECTS	Stronger than recent growth suggests
UNDERLYING GROWTH CAPACITY	Within the region’s own reach

By removing the constraints on investment, firm growth and productivity, countries can turn today’s favorable conditions into a lasting rise in growth.

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