IMF: LAC countries to grow by 2.2% this year

International Monetary Fund's chief economist Pierre Olivier Gourinchas

The International Monetary Fund (IMF) yesterday predicted that economic growth in Latin America and the Caribbean is projected to slow to 2.2 per cent in 2025 and recover back to 2.4 per cent the following year.

Excluding Guyana, the economies of Caribbean countries are projected to expand by 2.5 per cent in 2025, but prospects vary across countries, with some anticipating a more robust expansion than others. Tourism and construction activity are expected to remain key drivers of growth.

The region faces challenges including the impact of natural hazards, with some countries still recovering from pre-pandemic output levels.

The projection comes as the Washington-based financial institution projected that global growth will be three per cent this year and 3.1 per cent in 2026.

This new forecast for 2025 is an increase of 0.2 percentage points compared to the reference forecast in the April 2025 World Economic Outlook (WEO), while the outlook for 2026 is up by 0.1 percentage points.

"Global growth has been revised up to three per cent in 2025 and 3.1 per cent in 2026, reflecting stronger than expected front loading, lower tariff rates compared to early April, easier financial conditions, including a weaker US dollar and fiscal expansion in some jurisdictions.

"Still, projections remain about 0.2 percentage point below our pre-April 2 forecasts, indicating that the trade tensions are hurting the global economy. Global inflation continues to decline, reaching 4.2 per cent in 2025 and 3.6 per cent in 2026," said Pierre-Olivier Gourinchas, the IMF's chief economist.

The IMF said that growth for most countries in the Latin America and the Caribbean continues to converge to its potential from different cyclical positions. Economic activity has been largely driven by consumption while investment remains sluggish.

The IMF said the region's gross domestic product of 2.2 per cent makes it one of the slowest-growing regions globally.

While inflation has been generally cooling, key challenges include weak investment, high debt levels, and an evolving global economic environment with potential trade tensions and fiscal fragility.

Globally, Gourinchas said that overall, risks to the outlook remain tilted to the downside, as in the April WEO.

"Risks remain tilted to the downside. A breakdown in trade talks or renewed protectionism could dampen growth globally and fuel inflation in some countries.

Persistent uncertainty may weigh on investment, while geopolitical tensions and fiscal vulnerabilities pose additional threats.

"Financial conditions have eased, but they could tighten abruptly, especially in case of threats to central bank independence. On the upside, breakthroughs in trade negotiations could boost confidence and structural reforms could lift long term productivity," Gourinchas added.

In terms of advice to policy makers, Gourinchas said economic policies need to bring confidence, predictability, and sustainability by calming tensions, preserving price and financial stability, restoring fiscal buffers, and implementing much-needed structural reforms.

"Reducing policy uncertainty is essential. This is especially true for trade policy, where the global economy needs clear, transparent and predictable rules. Many countries need to address fiscal vulnerabilities and rebuild fiscal buffers even if they face increased spending needs.