

IN LATIN AMERICA, THE ENERGY CRISIS IS EXPECTED TO HAVE A MODERATE IMPACT ON PUBLIC FINANCES

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Latin America is not exposed to the risk of a disruption in hydrocarbon supplies due to the conflict in the Middle East. However, the rise in international energy prices is exerting pressure on the region's public finances. In Brazil, Mexico and Colombia, fuel subsidies are increasing the risk of fiscal slippage; however, this risk is somewhat mitigated by the projected rise in oil-related fiscal revenues. In Chile and Peru, the lack of subsidies points to a significant inflationary impact that could result in a monetary tightening. This would increase the interest burden on public debt, but the moderate fiscal deficits in these countries should enable them to absorb the shock. Furthermore, governments in the region are expected to manage any tightening of international financial conditions with relative ease.

The energy shock poses moderate risks to public finances in Latin America

	Brazil	Colombia	Mexico	Chile	Peru
Fiscal deficit 2025, % GDP	8.1	5.7	4.9	2.8	2.4
Interest payments on debt 2025, % government revenue	19.5	8.4	24.4	3.3	7.4
Government debt, % GDP	75.2	64.3	47.8	43.5	28.8
Share of debt held by non-resident investors, % total	12.0	28.8	25.7	34.2	12.4
Share of foreign-currency debt, % total	3.4	28.3	15.7	34.0	41.6

Note: Sovereigns are ranked according to their level of risk exposure, ranging from green (low exposure) to red (high exposure).

SOURCES : IMF, WORLD BANK, NATIONAL INSTITUTES OF STATISTICS, BNP PARIBAS

The impact of the energy shock on primary fiscal balances is expected to be limited, but the risks of slippage should be closely monitored

The governments of Chile and Peru have not introduced any fuel subsidies. Consequently, gasoline and diesel prices have risen by 31% and 60% respectively in Chile, and by 43% and 65% in Peru since the start of the conflict in the Middle East. The inflationary impact of rising energy prices in these countries will be significant¹, as transport accounts for 12-13% of the consumer price index.

In Brazil, the cost of the subsidies introduced since March (BRL 7.5 billion per month) is expected to be entirely offset by the rise in oil revenues (BRL +8.5 billion per month). However, given the electoral context, these subsidies could be increased. In such a scenario, the energy shock could result in a negative net cost for public finances.

In Mexico and Colombia, fuel prices are set by the government, which increases the risk of fiscal slippage. The difference between international and domestic prices is an indirect subsidy financed by the state. Since late February, gasoline and diesel prices have risen slightly in Mexico (+10.6% and +4.1% respectively) while remaining virtually unchanged in Colombia (+1.9% and +2.7% respectively). The cost of subsidies could therefore be significant and may not be fully offset by the increase in fiscal revenue from oil.

Chile and Peru have the fiscal leeway to absorb higher rates in the event of a monetary tightening.

So far, the monetary *status quo* expected prior to the energy shock has been preserved in Chile and Peru; however, given the inflationary impact of the energy shock, an increase in key interest rates is likely. Monetary tightening is expected to result in a higher interest burden on debt, yet these countries have the fiscal leeway to absorb this additional cost. Fiscal deficits were below 3% of GDP in 2025, and interest payments did not exceed 8% of fiscal revenue (*Heatmap, lines 1 and 2*).

Other central banks in the region are not expected to react to the energy shock. In Brazil and Mexico, they have cut their key interest rates since the start of the conflict, in reaction to disinflation (in Brazil) and slowing growth (in Mexico). In contrast, the Colombian central bank has raised its key interest rate in response to domestic inflationary pressures that existed prior to the conflict in the Middle East. In Colombia, the rise in debt interest payments in 2026 will further reduce fiscal space, which has already been diminished by the government's expansionary fiscal policy.

¹ Year-on-year, inflation rose from 2.2% in February to 3.9% in May in Peru. In Chile, it rose from 2.4% in February to 4% in April.

The risks associated with a tightening of global financial conditions are limited in the short term

Latin American sovereigns appear vulnerable to a tightening of international financial conditions (Heatmap, lines 4 and 5), which raises risks of capital outflows and downward pressure on currencies. This vulnerability arises from the significant shares of debt denominated in foreign currency (Peru, Chile, Colombia) and debt held by foreign investors (Chile, Colombia, Mexico). Only Brazil has limited exposure to these risks.

However, certain factors help to mitigate the risks for the most vulnerable countries. In Chile and Peru, the governments can manage an increase in debt servicing costs due to their comfortable fiscal buffers. Besides, the depreciation of exchange rates against the US dollar since the start of the conflict has been modest (-3.3% in Chile and -1.7% in Peru). Colombia and Mexico, being oil-producing countries, have thus far avoided the financial volatility resulting from the energy shock – Colombia's energy trade balance shows a healthy surplus, while Mexico's shows a moderate deficit².

In conclusion, similar to Asia³, the energy shock poses moderate risks to Latin America's public finances, which should remain manageable if the conflict in the Middle East is resolved soon. Despite the fact that Colombia and Mexico are oil-producing countries, the deterioration of public finances in these countries is expected to continue.

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² See also: [Latin America: more exposed to inflationary pressures than to disruptions in hydrocarbon supplies](#).

³ See also: [The impact of the energy crisis on public finances in emerging Asia](#).



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