



Regional Report
Latin America and the Caribbean

**Enduring Weaknesses and
Emerging Challenges**

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Regional Report BTI 2026

Latin America and the Caribbean

Enduring Weaknesses and Emerging Challenges

by Ariam Macias-Weller and Thomas Kestler*

Overview of the transformation processes in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela



This regional report analyzes the results of the Bertelsmann Stiftung's Transformation Index BTI 2026 in the re-view period from February 1, 2023, to January 31, 2025. Further information can be found at www.bti-project.org.

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Introduction

Democratic and economic transformation, as well as the quality of governance in Latin America and the Caribbean, showed no pronounced trend during the review period. Democratic quality decreased slightly (-0.09), while economic (+0.02) and governance (+0.03) indicators posted very modest improvements. While most countries have left behind the upheavals of the COVID-19 crisis, new risks and challenges are emerging. Social unrest and immediate economic pressures have eased to some degree, giving way to a situation of relative calm. Overall, developments since February 2023 point to either stagnation or continuity, depending on perspective. A closer look at individual criteria, however, reveals both divergent developments and areas of continuity.

In terms of democratic transformation, several peaceful and largely fair electoral processes, along with the resolution of post-election crises in both Brazil and Guatemala, stand out as positive developments. After a period of intense mobilization, social and political conflicts were partially averted and institutionally channeled in Bolivia, Chile and Ecuador. Overall, democratic institutions are fulfilling their basic functions, although little progress has been made toward liberal democracy. At the same time, autocratic regimes in the region not only failed to liberalize but in some cases became even more repressive, especially El Salvador (-0.30) and Nicaragua (-0.28). Nonetheless, the Bukele administration's success in containing gang violence and improving public security is widely acknowledged, raising the appeal of punitive populism across the region. While democracy remains highly valued in principle among Latin Americans and Caribbeans, dissatisfaction with its dysfunctional aspects creates fertile ground for populist movements. Additional challenges stem from fragmented party systems and rising polarization, which often translate into institutional deadlock or imbalance.

At the same time, economic development remains largely stagnant. While fundamentals such as banking systems and fiscal accounts are comparatively solid in most countries and inflation is mostly under control, productivity remains low and high levels of informality, poverty and income inequality persist. After a brief post-COVID rebound, growth rates returned to modest levels in most countries. Average regional growth was 2.09% in 2023 and 2.4% in 2024, according to the Economic Commission for Latin America and the Caribbean (ECLAC). A reversal of the downward trend that began after the end of the commodity boom is not yet in sight. Meanwhile, economic risks have risen sharply in several countries, including Bolivia, Colombia, El Salvador and especially Cuba, reflecting widening deficits, falling export revenues and heavy reliance on remittances. Overall, economic performance remains closely linked to political transformation. Democratic countries are more likely to post solid results, while most autocratic regimes – Cuba, Haiti and Venezuela – continue to struggle. Across the region, progress in market organization (+0.02), property rights (-0.02) and welfare regimes (-0.07) has stalled. Persistent weaknesses in sustainable development also remain, as many governments continue to prioritize short-term economic interests over environmental protection. Low education quality and limited R&D spending further constrain prospects for long-term growth.

The predominant development strategy in Latin America and the Caribbean is best described as fragmented and reactive, shaped by political cycles, external factors and social pressures. Many governments have moved away from rigid economic models and now seek pragmatic compromises between growth, inclusion and macroeconomic stability. Left-leaning administrations in

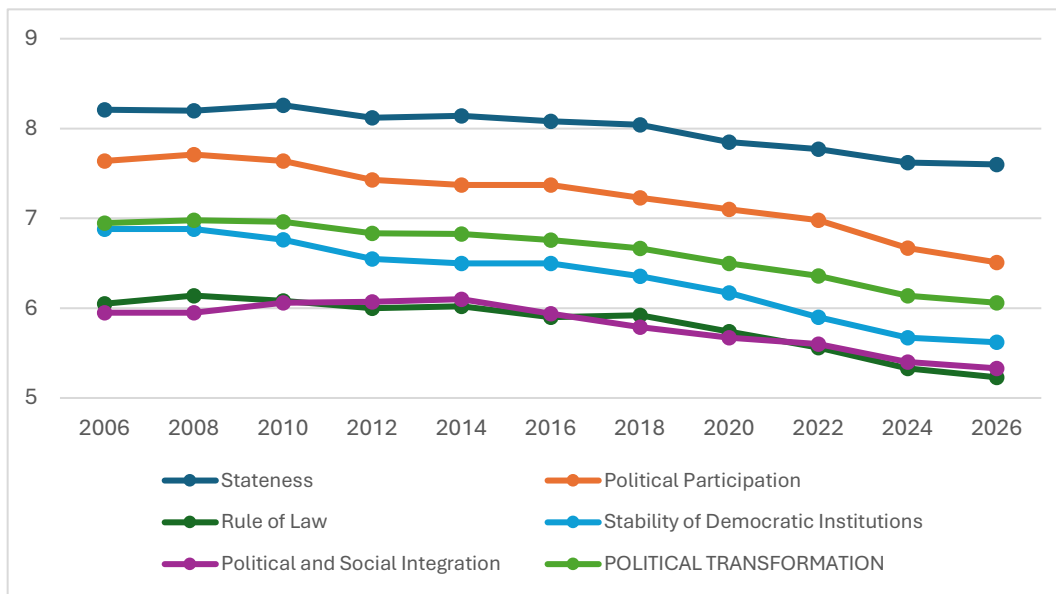
Chile, Colombia and Mexico, for example, have not dismantled market-friendly policies but have instead tried to blend social objectives with economic discipline. The election of Javier Milei in Argentina in 2023 elevated a radically liberal agenda of fiscal retrenchment and deregulation, though its sustainability remains unproven. Overall, development paths across the region continue to diverge and most countries still lack long-term, coordinated strategies, constraining sustained growth.

Governance indicators paint a similarly uneven picture. After several years of decline, aggregate performance has largely stagnated. Many countries, particularly in Central America, still suffer from serious structural constraints and vulnerabilities, including extreme poverty, crime, low levels of education and risks arising from their geographical location, which makes them especially vulnerable to the effects of climate change. They also lack effective mechanisms for policy learning and coordination, resulting in inefficient use of scarce resources. Autocratic regimes – Venezuela (1.57), Nicaragua (2.61) and Haiti (2.62) – rank at the bottom in governance quality (see Table 4). By contrast, several countries, mostly in the Southern Cone, have reached comparatively high standards, as reflected in more effective policy implementation and administrative reform. Brazil (+1.89) stands out, where the erratic and confrontational style of the Bolsonaro era has been replaced by a more constructive approach and key state agencies are again functioning. Yet serious deficiencies persist in the fight against corruption, owing to weak institutional safeguards and the influence of criminal actors over the judiciary and security forces. A series of high-profile cases highlights the nexus between organized crime and senior state officials. Despite notable anti-corruption initiatives, selective enforcement and uneven accountability continue to undermine the rule of law and public confidence in democratic institutions.

Political transformation

At the aggregate level, the core institutional architecture of democracies in Latin America and the Caribbean remains resilient and largely functional. Even so, overall democratic quality is declining, notably in party competition, interest representation and the rule of law (see Figure 1). Political participation and the rule of law suffered the steepest drops during the review period, at -0.15 and -0.10, respectively. All other indicators of political transformation also fell, though more moderately, by between -0.07 and -0.02. Meaningful advances toward democratic consolidation were rare. Most countries either stagnated or slightly declined in democratic quality (see Figure 2). An upward outlier is Brazil, which has returned to previous levels of democracy after the turbulent Bolsonaro years, recording marked improvements in political participation (+1.0) and the rule of law (+0.8). Smaller gains were also observed in Guatemala (+0.20), the Dominican Republic (+0.15) and, to a lesser extent, Colombia (+0.05), reflecting changes or continuity in leadership aligned with democratic norms and institutional commitments. The broader regional trend, however, is negative. The sharpest declines are found in party systems (-0.28) and freedom of expression (-0.23). Enduring structural weaknesses, compounded by emerging internal and external pressures such as rising insecurity, Trumpism and geopolitical uncertainty, continue to hinder democratic progress.

Figure 1. Political Transformation in Latin America and the Caribbean, BTI 2006–2026*



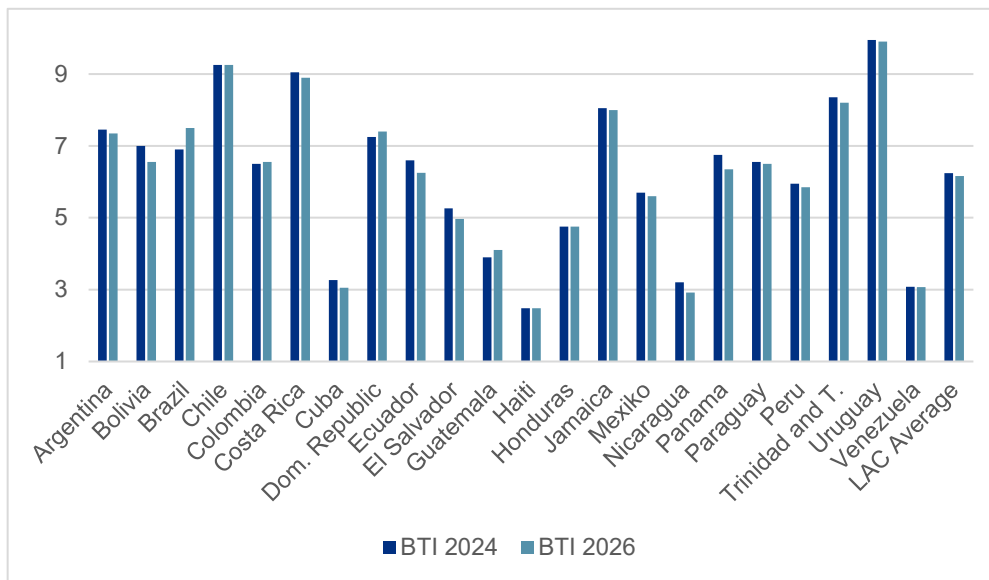
*without Trinidad and Tobago

The steepest democratic decline occurred in the moderate autocracy of El Salvador, where political participation deteriorated most sharply (-1.0). Nayib Bukele launched the region's 2024 super election cycle and won a landslide with about 83% of the vote, securing a second term. While international observers largely accepted the outcome, his candidacy and re-election were widely criticized as unconstitutional. In the hard-line autocracy of Venezuela, the electoral process was marred by irregularities and overwhelming evidence indicated that the incumbent, Nicolás Maduro, lost by a wide margin. Nevertheless, the electoral authority declared Maduro the winner without releasing vote tallies, elevating electoral fraud to a new level.

Outside these cases, the electoral regime functioned relatively well across most of the region. Among countries classified as democratic, the average score for free and fair elections is 8.63 on a 1-to-10 scale, indicating that competitive elections are generally conducted in a transparent manner. In Mexico, landmark elections in 2024 saw the ruling Morena party retain power. Claudia Sheinbaum became the country's first female president, winning about 61% of the vote and the highest total ever recorded for a candidate while carrying 31 of 32 states. In the legislative race, the Sigamos Haciendo Historia alliance secured a Senate majority and captured the largest share of seats in the Chamber of Deputies, 300 of 500, for any party or coalition since 1982. Incumbent parties also prevailed in Paraguay and the Dominican Republic, where President Luis Abinader has made measurable gains since taking office in 2020, particularly in strengthening the rule of law and restoring stable democratic institutions. The Dominican Republic stands out as a promising case of democratic recovery amid broader regional backsliding. In Uruguay, the center-left Frente Amplio returned to power after narrowly defeating the ruling conservative bloc in the October 2024 general election. Voters also opted for a change in government in Guatemala, Argentina, Ecuador and Panama. In Guatemala, elections took place in a highly polarized environment and while they were deemed sufficiently free and competitive, they were marred by legal and institutional challenges. In the post-election period, the Public Prosecutor's Office made several unsuccessful attempts to annul the results and block the inauguration of Presi-

dent-elect Bernardo Arévalo of the center-left Movimiento Semilla, triggering instability. In Argentina, the libertarian outsider Milei won the November 2023 run-off, ending the long-standing bipolar competition between Peronists and conservatives. In all cases, defeated parties and candidates accepted the outcomes, even amid intense political conflict and polarization. Where applicable, incumbents respected constitutional term limits, a norm that cannot be taken for granted in the region.

Figure 2. Political Transformation in Latin America and the Caribbean: BTI 2024 vs. BTI 2026



While electoral institutions have remained largely resilient, serious shortcomings are evident in other areas of political participation, especially freedom of expression and association and assembly rights. Haiti and El Salvador recorded the lowest scores and further declines during the review period. In Haiti, the environment for journalists has become even more dangerous as lawlessness has spread across much of the country and police protection is largely absent. Haiti ranks as the worst performer in allowing journalist killings to go unpunished, according to the Committee to Protect Journalists' Global Impunity Index 2024. While independent media outlets in El Salvador (e.g., El Faro and La Prensa Gráfica) continue to report critically on the government, punitive audits, persistent harassment and attacks increasingly impede their watchdog role. Many journalists now self-censor. Anticipating further pressure, critical outlets such as El Faro relocated their headquarters abroad. In May 2025, shortly after the review period, the government also passed the controversial "foreign agents" law, granting itself sweeping powers to sanction or dissolve organizations designated as foreign agents. In contrast, Brazil was the only country to register an improvement in freedom of expression, as President Lula restored what are widely seen as normal relations between the media and state authorities after the Bolsonaro administration, known for spreading misinformation and attacking the press, left office.

In several countries, association and assembly rights were curtailed through (partial) states of emergency, including Ecuador, El Salvador, Honduras, Jamaica and Trinidad and Tobago. Ecuador recorded the steepest decline (-2) as the government expanded the military role in public security. This led to arbitrary arrests and reports of human rights abuses, including arbitrary detention and excessive force against protesters. By contrast, Brazil and Guatemala each im-

proved by one point. Whereas the Bolsonaro government openly defended excessive police violence, the new Brazilian administration imposed no restrictions on association and assembly rights. In Guatemala, mass protests in 2023 demanding respect for election results and sustained pressure from domestic and international actors, especially the U.S., ultimately secured a peaceful transfer of power. Although police had previously relied heavily on intimidation and force, such practices have eased under President Arévalo, even as the justice system continues to shield impunity and pursue legal attacks against key figures in the Semilla party.

Serious weaknesses also persist in the rule of law, particularly judicial independence. In Bolivia, courts have become entangled in electoral disputes and MAS factionalism. The popular election of judges, introduced in 2009, has failed to improve independence and instead reinforced perceptions of political bias. In Ecuador, Honduras and Paraguay, corruption and intimidation by criminal groups seeking favorable rulings are widespread, especially at lower court levels. Mexico faces similar problems, with backlogs, inefficiency and pervasive corruption fueling impunity. Shortly before leaving office, former President Andrés Manuel López Obrador intensified efforts to pass judicial reforms that critics warn would further weaken independence, including proposals for the popular election of more than 1,000 judges – including electoral tribunal and Supreme Court justices. Bolivia’s experience highlights the risks of such reforms, which can erode trust and deepen politicization within the judiciary. In Guatemala, the Public Prosecutor’s Office has played a central role in undermining judicial independence by weaponizing the legal system against political opponents, independent judges, and those committed to combating corruption.

Corruption remains a major challenge across the region. On average, the prosecution of office abuse is the lowest-scoring rule of law indicator in Latin America and the Caribbean, underscoring weak enforcement against public officials. During the review period, Argentina, Ecuador and Panama each registered a one-point decline in this indicator, while only the Dominican Republic posted gains. The latter reflects the Abinader administration’s emphasis on anti-corruption measures, including increased resources for complex investigations, the appointment of widely respected officials to senior positions in the Attorney General’s Office and the president’s restraint from interfering in probes, even when they involve members of his own government. By contrast, corruption remains pervasive in Argentina, particularly in peripheral provinces where impunity is entrenched. In Ecuador, the government actively undermined anti-corruption efforts, while in Panama corruption cases often fail to reach the courts. Even among the region’s strongest democracies, such as Chile and Uruguay, large-scale corruption cases still emerge, though they are generally investigated and sanctioned. In Guatemala, Mexico, Paraguay and Trinidad and Tobago, however, office abuse is inadequately prosecuted. In authoritarian systems such as Haiti, Nicaragua and Venezuela, corruption among public officials is endemic and impunity prevails.

Another enduring weakness is the shallowness of party systems. In many countries, party systems show low levels of institutionalization, with Brazil, Ecuador and Peru among the most prominent cases, each marked by high volatility and fragmentation. In Brazil, party competition is driven more by negative than positive appeals, as many voters are motivated by hostility toward the Workers’ Party or Bolsonarismo. Across the region, programmatic linkages remain weak, while personalist appeals and clientelist practices dominate, for example in Honduras,

Mexico and Paraguay. In Argentina, Ecuador and Panama, personalist outsiders have won presidential elections. Fragmentation has also intensified in Bolivia, Chile, Colombia, Costa Rica and Panama. By contrast, party systems in El Salvador, Mexico and Paraguay are characterized by one-party dominance, with El Salvador and Mexico approaching de facto one-party systems under Nuevas Ideas and Morena, respectively. Another factor undermining partisan representation is polarization, which has increased in Costa Rica, Jamaica and Brazil, where it has reached alarmingly high levels. In Chile, polarization accelerated after the 2019 social unrest and has persisted following failed constitutional reform attempts in 2022 and 2023.

Another source of potential democratic dysfunction lies in executive-legislative relations. Most democracies in the region operate under presidential systems with varying distributions of power between branches. Historically, executive dominance has been common, at times taking the form of hyperpresidentialism and producing the defective subtype of delegative democracy. Today, however, the picture is more mixed, as the balance of power has shifted toward legislatures in several countries, most notably in Peru and to a lesser extent in Brazil, where Congress was granted sweeping budgetary authority under Bolsonaro as a safeguard against impeachment.

Overall, progress toward democratic consolidation faces substantial barriers. While levels of democratization vary widely across the region, most countries remain stuck in the category of defective democracy, reflecting enduring weaknesses in the rule of law, party systems and political integration (see Table 1). No country experienced a regime shift toward democracy or autocracy during the review period, though Guatemala's trajectory improved. It moved from classification as a hard-line autocracy to a moderate autocracy, largely due to a change in political leadership in early 2024. Nevertheless, serious violations of civil rights, including selective prosecution and the criminalization of opposition figures, activists and independent journalists, along with widespread human rights abuses and systemic impunity, continue to impede further progress.

While the overall picture has changed little in recent years, a range of risks and challenges has emerged. Most notably, high levels of crime and widespread perceptions of insecurity are undermining stateness and democratic stability. Although these problems are not new to the region, transnational organized crime is now affecting countries previously viewed as safe havens, including Chile and Uruguay. While homicide rates in both countries remain low by regional standards, insecurity is becoming a growing concern for citizens.

According to the Igarape Institute, six countries in Latin America and the Caribbean assessed by the BTI ranked among the world's top 10 for homicide rates in 2023. Jamaica led with 49.3 homicides per 100,000 inhabitants, followed by Ecuador at 45.13 and Haiti at 40.9, largely due to gang-related and drug-trafficking violence. While the figure for Jamaica is staggering, murders there have declined in part due to increased investment in law enforcement. In Haiti, gang violence spiraled after the 2021 assassination of President Jovenel Moïse. The ill-equipped and understaffed Haitian National Police cannot match the sophisticated arsenals of gangs, which control about 85% of Port-au-Prince and have expanded into middle-class neighborhoods previously considered safe. Another notable case is Ecuador, where the August 2023 assassination of presidential candidate Fernando Villavicencio and the January 2024 takeover of a television station by a criminal group underscored the deepening security crisis.

Several governments have imposed states of emergency to curb crime. While such measures can reduce violence in the short term, they ultimately weaken the rule of law and fail to address the underlying drivers of crime and violence. The most prominent example is El Salvador, which has maintained a nationwide state of emergency since March 2022. Although the homicide rate reportedly fell to a record low of 1.9 per 100,000 inhabitants in 2024, detentions have often been arbitrary, prisons are severely overcrowded at about 300% of capacity and more than 8,000 innocent people are reportedly incarcerated. States of emergency aimed at crime hotspots have also been declared in Colombia, Ecuador, Honduras, Jamaica, Peru and Trinidad and Tobago, with mixed results.

High levels of criminal activity across the region fuel public perceptions of insecurity and victimization, which are positively correlated with support for mano dura approaches and inversely correlated with support for democracy and trust in government institutions. While approval of democracy shows limited variation across countries, comparatively large shares of citizens – 16%, according to Latinobarómetro – say they would accept an authoritarian government under certain circumstances. This is troubling, especially since fewer than 50% of citizens in most countries report satisfaction with how democracy functions. El Salvador illustrates the trend. Despite significant infringements on civil liberties and human rights, President Bukele retains one of the world’s highest approval ratings, at more than 80%, and Salvadorans report the region’s second-highest level of satisfaction with the political system at 62%, trailing only Uruguay.

Overall, the state of democracy is not uniformly bleak. Electoral processes in particular have shown notable resilience amid intense political conflict. Yet entrenched weaknesses and growing pressures from criminal activity continue to erode democratic quality and constrain the effective functioning of democratic institutions.

Tab. 1: State of political transformation

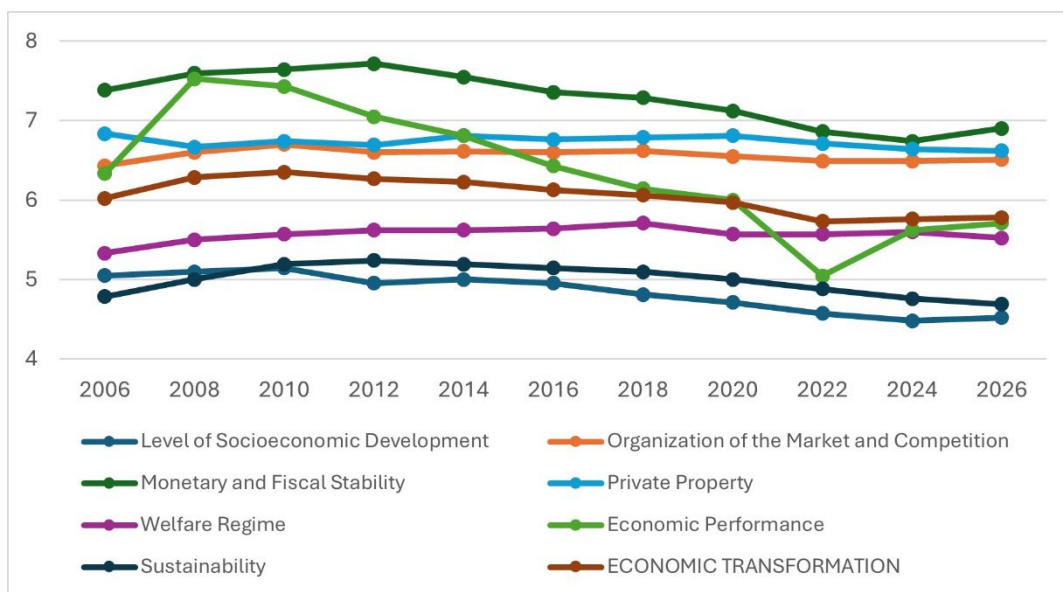
consolidating democracies	defective democracies	highly defective democracies	moderate autocracies	hard-line autocracies
Score 10 to 8	Score < 8 to 6	Score < 6	Score ≥ 4	Score < 4
Uruguay	Brazil	Peru	El Salvador	Venezuela
Chile	Dominican Republic	Mexico	Guatemala ▲	Kuba
Costa Rica	Argentina	Honduras		Nicaragua
Trinidad and Tobago	Bolivia			Haiti ●
Jamaica	Colombia			
	Paraguay			
	Panama			
	Ecuador			

The table follows the BTI 2026 index scores. Countries are ranked according to their system categorization and respective score in political transformation status. Arrows mark a change of category compared with the BTI 2024, dots mark failing states.

Economic transformation

While most countries in the region qualify as market economies and are highly open to foreign trade, economic systems remain fragile in several respects and continue to face serious structural constraints. Many countries face widening financing gaps driven by moderate growth, persistent poverty and widespread informality. Structural weaknesses such as low productivity and weak tax systems further constrain governments' capacity to finance development. Ecuador stands out as a positive exception, with a comparatively professional tax administration that generates nearly three-quarters of government revenue from taxes. In most countries, however, tax receipts remain low and overly dependent on regressive indirect taxes. During the pandemic, public debt in the region rose above 70% of GDP, increasing debt service costs and crowding out spending on education and health. Many households rely heavily on remittances, which accounted for 2.3% of Latin American and Caribbean GDP in 2024, as a vital income source to meet basic needs. In several countries, especially in Central America, remittances serve as a key macroeconomic stabilizer. Financial markets remain shallow, with limited access to credit and persistent inefficiencies, although banking systems are generally stable. Capital markets function but are often concentrated and dependent on foreign currency. Advancing economic transformation will require deeper and more diversified financial systems, together with stronger regulation, broader financial literacy and greater inclusion.

Figure 3. Economic transformation in Latin America and the Caribbean, BTI 2006-2026*



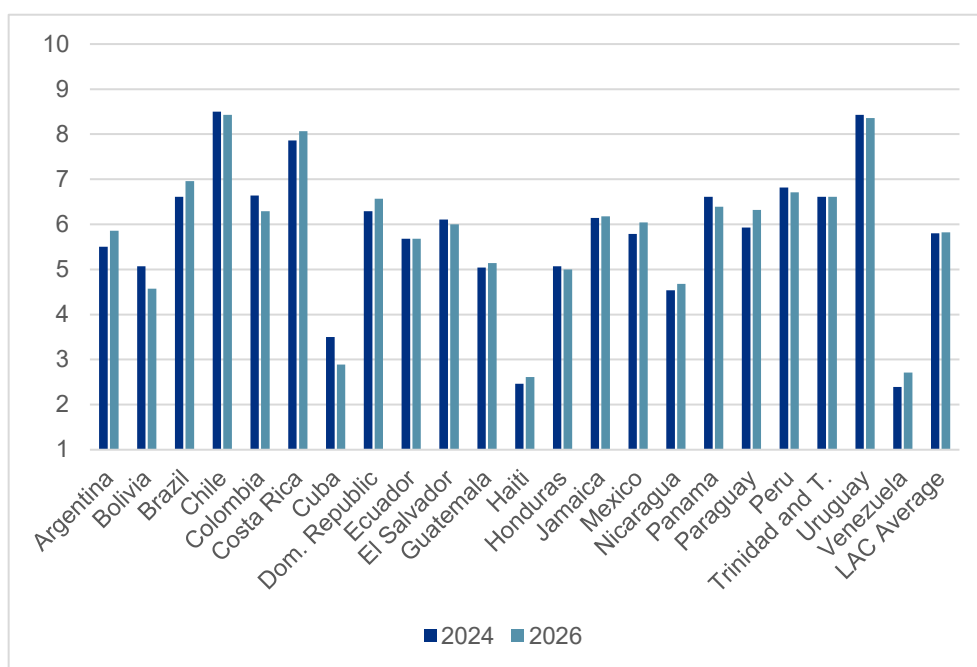
* without Trinidad and Tobago

During the review period, economic performance has been marked by further normalization following the deep recession prompted by COVID-19. Growth in 2023 was positive in most countries, with the exception of Argentina, Cuba, Peru and especially Haiti, which recorded negative growth, while unemployment reached historically low levels. Inflation was largely contained, despite persistently high rates in Argentina and Venezuela. Overall, economic indicators moved mostly sideways and show little variation compared with the BTI 2024, as modest gains in some countries were offset by declines in others (see Figure 3). Despite some progress in fiscal and

monetary stability, which registered the largest shift with a +0.16 improvement, significant risks remain as a second Trump presidency turns toward protectionism and the region grapples with financial market volatility.

Economic transformation varies widely, from severely distressed economies in Cuba, Haiti and Venezuela to highly developed and diversified market economies in Chile, Costa Rica and Uruguay, with many countries falling into an intermediate category of restricted market economies (see Table 2). In general, democracies perform better economically than autocracies in the region, though variation within both groups is substantial (see Figure 4). Based on the standard deviation of economic indicators, Latin American and Caribbean economies have diverged over the past two decades, with the widening performance gap driven largely by economic collapse in Cuba and Venezuela. Sustainability is another area of divergence, with notable progress in Chile and Uruguay and marked deterioration in Mexico, Nicaragua and Venezuela. By contrast, welfare regimes are more homogeneous across the region, and levels of socioeconomic development have converged somewhat.

Figure 4. Economic transformation in Latin America and the Caribbean, BTI 2024 vs. BTI 2026



Looking at the individual criteria used to assess economic transformation, countries in the region score only moderately on most indicators. Performance is relatively strong in market organization and competition policy, monetary and fiscal stability and property rights. The overall market framework, including banking systems and foreign trade, is particularly robust in Chile, Costa Rica, Peru and Uruguay and among autocracies in El Salvador. These democracies illustrate different models of economic governance. Chile and Uruguay pair institutional and policy stability with relatively low informality. Costa Rica emphasizes consumer protection and fair competition but continues to struggle with informal employment. Peru, despite far-reaching liberalization, remains constrained by entrenched informality and rising populist pressures. All of these countries, including El Salvador, have maintained broadly market-oriented policies, though with differing institutional foundations, degrees of state involvement and levels of informality.

With the exception of Cuba and Venezuela, most countries in Latin America and the Caribbean are open to foreign trade, notably Chile, Costa Rica, El Salvador and Mexico. Mexico remains among the world's most open economies, with largely unrestricted flows of goods and capital. It is deeply integrated into North American trade through the updated USMCA, which includes revised rules of origin and labor provisions. However, the re-election of U.S. President Donald Trump has created new challenges, including threats to impose 25% tariffs on all Mexican imports over concerns related to drug-trafficking and migration. Recent constitutional reforms have also curtailed foreign investment in strategic sectors such as oil, electricity and lithium. Trade tensions have further intensified over Mexico's ban on imports of genetically modified maize. El Salvador likewise maintains a highly liberal trade regime shaped by long-standing commitments to the WTO and regional agreements. Average tariffs are low, though protective measures remain in textiles and agriculture. Recent developments, including a 2022 free trade agreement with China and continued tariff reductions within Central America, underscore the country's commitment to trade openness.

Countries in the region also perform relatively well in monetary and fiscal stability, with Chile, Costa Rica, Paraguay and Peru leading the rankings. During the review period, Argentina recorded notable gains as the Milei administration implemented radical reforms that balanced the budget and curbed inflation, albeit at significant social cost. Milei took office amid a severe crisis, with monthly inflation at 25.5% and a wide gap between official and market exchange rates. Following a sharp currency devaluation in December 2023 and fiscal tightening, inflation fell significantly.

By contrast, monetary and fiscal stability deteriorated sharply in Colombia and Bolivia. New pressures are undermining Colombia's long-standing commitment to macroeconomic discipline. Structural fiscal weaknesses, including limited tax capacity, dependence on oil revenues and spending pressures linked to Venezuelan migration, have eroded budget stability. President Gustavo Petro's redistributive agenda has further strained public finances, especially after elements of a major 2022 tax reform were struck down. In 2024, the government faced a widening deficit, estimated at 5.3% to 8.4% of GDP, and introduced austerity measures. Resistance in Congress to budget and tax proposals prompted the administration to adopt the 2025 budget by decree, raising concerns about fiscal sustainability. In Bolivia, the macroeconomic outlook is deteriorating even faster, driven mainly by falling gas revenues, a key source of fiscal income. The fiscal deficit reached 10.9% of GDP in 2023, or 6.9% excluding subsidies, and is being financed through debt and monetary expansion. Inflation climbed to 9.95% in 2024, while reserves dropped below \$200 million, putting imports and debt servicing at risk.

The open economies of Latin America and the Caribbean are highly exposed to external shocks. Economic risks are rising amid geopolitical uncertainty and China's expanding role in the region, exemplified by the large Chinese-built port in Chancay, Peru. The Russia-Ukraine war has also affected regional economies to varying degrees, chiefly by disrupting global supply chains, intensifying inflationary pressures and increasing uncertainty in countries such as Trinidad and Tobago. A renewed shift toward protectionism under the Trump administration could disrupt trade flows, particularly for Mexico and Central America. At the same time, reliance on Chinese demand for commodities such as copper, soy and oil heightens exposure to U.S.-China tensions.

Private property protection remained broadly stable, with only marginal changes overall. While disputes over the ancestral lands of Indigenous communities persist, for example in Argentina, Chile and Paraguay, and squatting remains an issue in parts of the Caribbean, including the Do-

minican Republic, Jamaica and Trinidad and Tobago, property rights are generally well protected, especially in Chile and Uruguay, which continue to rank at the top. During the review period, Argentina recorded the most notable improvements in property rights. The Milei administration adopted a more business-friendly stance and scrapped rent control rules that had previously discouraged property leasing. By contrast, property protection deteriorated in Honduras and Nicaragua. In Nicaragua, the decline reflects the government's arbitrary confiscation of property from individuals and institutions labeled subversive and the weakening of legal safeguards for private firms. Honduras continues to struggle with widespread corruption that obstructs the acquisition and retention of property titles, along with the influence of criminal groups and a slow, opaque bureaucracy that hampers business activity.

Although most countries in Latin America and the Caribbean achieve high or very high levels of human development, structural inequality continues to undermine inclusive socioeconomic progress and weaken welfare regimes. Poverty remains widespread, affecting 27.3% of the population, while 10.4% live in extreme poverty as of 2023, according to ECLAC. Haiti is still the poorest country in the region, constrained by political instability and unprecedented violence, with nearly 60% of its population living below the poverty line. Critically low levels of socioeconomic development also persist in Cuba, Guatemala, Honduras, Nicaragua and Venezuela, while the highest levels are found in Chile, Costa Rica and Uruguay. In Brazil, inequality remains among the highest in the world, with a Gini coefficient of 0.52, contributing to a 24.1% decline in the inequality-adjusted Human Development Index. Racial disparities are stark, with most people living in poverty being nonwhite while wealth is concentrated among whites. Social programs have helped reduce poverty and extreme poverty, but progress has been uneven. Colombia and Mexico have also made gains in recent years, yet large shares of their populations, particularly in rural and marginalized areas, remain poor. In Mexico, recent poverty reduction has been driven largely by wage growth, though the weakening of social oversight institutions is a growing concern. While gender inequality is slowly declining, structural barriers persist, especially in conflict-affected areas.

Social policies are generally inadequate to correct deep-rooted inequalities and ensure equal opportunity. As shown in Figure 3, the average quality of welfare systems is moderate and the corresponding indicator declined by -0.07 across the region. Welfare regimes are underfunded, marked by uneven quality and access and hampered by administrative inefficiency. Although health coverage is nearly universal in law in most countries, this is not always reflected in practice. Public health systems are segmented, combining universal tax-funded services, social security schemes for formal workers and private providers. Pension systems are similarly fragmented, consisting of public pay-as-you-go schemes that cover 30% to 50% of the labor force, noncontributory pensions such as those in Bolivia and Brazil and privately managed accounts, which dominate in Chile. Unemployment insurance remains underdeveloped in most countries, though targeted programs such as Brazil's Bolsa Família support the most vulnerable groups.

No major advances were recorded in social safety nets. Instead, funding for social programs and intermediary organizations was sharply cut in Argentina under the government's austerity drive. In Cuba, the share of people living in extreme poverty or precarious conditions has surged since the pandemic and the failed monetary reform of January 2021. Health and education services have deteriorated to critical levels, with severe shortages of basic supplies and medicines. Family ties to the diaspora and access to hard currency through remittances have become essential for

survival but disproportionately benefit white Cubans, leaving Afro-Cubans at a structural disadvantage. Overall, welfare regimes in the region have changed little over the past two decades, as shown in Figure 3, pointing to strong institutional inertia. Resistance to pension reform in Uruguay illustrates the political costs that often accompany efforts to overhaul welfare systems.

Sustainability efforts also faced headwinds, with a net decline of -0.07 points driven mainly by losses in education and R&D policy (-0.18). Serious deficiencies persist in education quality, especially in Haiti, Honduras, Nicaragua and Venezuela. Honduras and Nicaragua in particular struggle with limited access to secondary and tertiary education, high dropout rates, stagnant literacy levels and declining institutional transparency, which hampers policy evaluation. In Nicaragua, the government has tightened control over universities and curtailed academic freedom. Across much of the region, chronic underfunding, weak oversight and low levels of innovation continue to impede progress toward more equitable and effective education systems, thereby constraining the potential for future growth.

Tab. 2: State of economic transformation

highly advanced Score 10 to 8	advanced Score < 8 to 7	limited Score < 7 to 5	very limited Score < 5 to 3	rudimentary Score < 3
Chile		Brazil	Nicaragua	Cuba ▼
Uruguay		Peru	Bolivia ▼	Venezuela
Costa Rica ▲		Trinidad and Tobago		Haiti
		Dominican Republic		
		Panama		
		Paraguay		
		Colombia		
		Jamaica		
		Mexico		
		El Salvador		
		Argentina		
		Ecuador		
		Guatemala		
		Honduras		

The table follows the BTI 2026 index scores. Countries are ranked according to their respective score in economic transformation status. Arrows mark a change of category compared with the BTI 2024.

Environmental policy registered a modest improvement of +0.04, though only Chile, Costa Rica and Uruguay scored above 7. In Chile, environmental protection has become a central policy priority, especially under the Boric administration. Since 2010, the country has built a comprehensive institutional framework that includes the Ministry of Environment and several agencies responsible for oversight and enforcement. Yet environmental regulation often clashes with Chile’s extractive economic model, a tension highlighted by the stalled Dominga mining project following legal challenges. In Uruguay, environmental governance has advanced steadily, with strong growth in renewable energy placing the country 21st worldwide in the energy transition. The establishment of the Ministry of Environment in 2020 marked a milestone, although projects such as pulp mills and the Montevideo water plan have triggered environmental protests. More broadly, dependence on commodity exports complicates efforts to balance sustainability

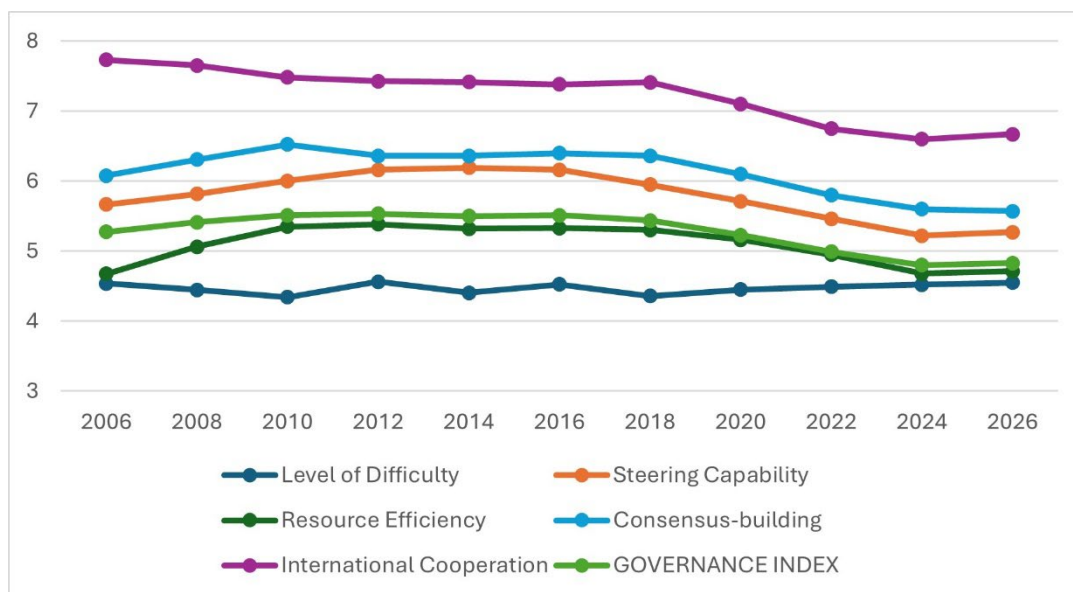
with economic priorities. In Costa Rica, for example, presidential plans to explore natural gas reserves threaten its long-standing reputation as a regional environmental leader. In Mexico, debate over hydraulic fracturing has intensified, reflecting the friction between energy security, environmental protection and economic pressures.

Prospects for economic transformation remain constrained by deep-seated structural weaknesses and the volatility of the global environment. While current economic conditions across the region are uneven, growth potential is limited. Average annual growth was below 1% between 2015 and 2024, less than half the rate recorded during the 1980s “lost decade,” according to ECLAC. Preparing the workforce for a more dynamic economy will require not only higher investment in education but also broader access to educational and professional opportunities. Expanding quality formal employment is equally essential to tackle youth unemployment and deter young people from criminal activity. Meaningful social progress will depend on the emergence of strong pro-reform coalitions, backed by political resolve, institutional stability and favorable external conditions.

Governance

The quality of governance in Latin America and the Caribbean largely reflects the state of democratic and economic transformation, as performance across these three dimensions is closely correlated. Countries that top the Status Index – Uruguay, Chile and Costa Rica – also lead the Governance Index, while Haiti, Nicaragua and Venezuela consistently rank at the bottom (see Table 4). Compared with the previous review, most countries maintained their largely moderate level of governance quality for the BTI 2026 compared to the last review period. Only two countries, Brazil (+1.89) and Guatemala (+1.10), recorded notable improvements.

Figure 5. Governance in Latin America and the Caribbean, BTI 2006–2026

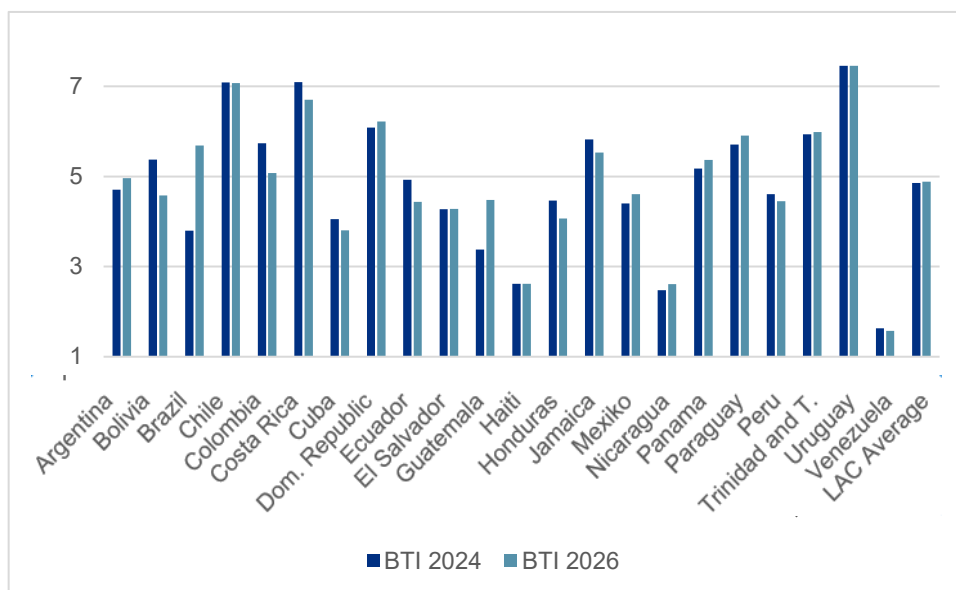


*without Trinidad and Tobago

A closer look at the data reveals not only shared patterns but also divergent trajectories. Overall levels of structural difficulty changed little. Although governance in the region is generally less constrained by structural factors than the global average, several countries remain severely affected. In Haiti, rampant gang violence and political instability have triggered mass displacement and the collapse of basic services. While some progress has been made in disaster risk management, environmental and public health threats, including cholera, continue to pose serious risks. Other countries, including Bolivia, Colombia, Cuba, El Salvador, Honduras, Nicaragua and Paraguay, also face entrenched structural challenges such as persistent poverty, sluggish growth and weak state capacity. In addition, fragile civil society traditions and deep social cleavages undermine governance capacity. Conflict potential is further fueled by urban-rural divides and by the reemergence of unresolved transition-era conflicts linked to past dictatorships in countries such as Argentina and Brazil.

Across the region, the poverty rate fell by more than five percentage points to 27.3% in 2023 from 2020, the peak of the COVID-19 pandemic, marking the lowest level yet recorded by ECLAC. This improvement is driven largely by Brazil, home to about one-third of the region's population, where conditional cash transfer programs have markedly improved social conditions. Despite this progress, income inequality and gaps in social protection remain high. Chronic poverty continues to be a major concern, with about one in seven people living in extreme poverty. Indigenous peoples and Afro-descendants are disproportionately affected.

Figure 6. Governance in Latin America and the Caribbean, BTI 2024 vs. BTI 2026



Many governments across the region struggle to manage reforms effectively, limiting their ability to pursue long-term priorities, as reflected in the moderate regional average score for steering capability of 5.35. Institutional inefficiencies often impede the definition of clear policy objectives. In Ecuador, extremely high turnover among ministers and senior officials has eroded continuity and professionalism, as highlighted during the electricity crises of 2023 and 2024. Similar problems affect Mexico, Panama and Peru, where recruitment and dismissal of officials are frequently politically motivated. By contrast, Argentina and Brazil recorded notable improvements in prioritization and policy coordination. From the outset, the Milei administration

in Argentina focused on economic stabilization while also elevating security and crime reduction. Despite limited legislative backing, Milei advanced key elements of his agenda, including passage of the sweeping “Omnibus Law” in June 2024 and the conclusion of an economic pact with provincial governors. These steps created the basis for austerity measures aimed at reducing inflation and balancing the budget. In Brazil, the Lula government emphasized growth, job creation, gender equality, social inclusion and environmental sustainability through fiscal and tax reforms. Implementation has been uneven, however, due to congressional fragmentation and polarization. While some major measures, including tax reform and social media legislation, were adopted, legislative gridlock continues to delay government initiatives.

In Guatemala, the Arévalo government has demonstrated a greater commitment than previous administrations to establishing and maintaining strategic priorities. Its first-year achievements include substantial investment in social programs, infrastructure and poverty reduction. The government has emphasized policy innovation and flexibility, seeking to modernize public administration and promote more inclusive policymaking. It has adopted a “learning by doing” approach, adjusting policies based on outcomes and experience, particularly in tackling chronic malnutrition. While efforts to institutionalize innovation are underway, limited cross-ministerial coordination and resistance in Congress remain key constraints. Sustaining prioritization efforts will depend on the administration’s ability to overcome political gridlock, strengthen institutional capacity and secure continued external financing for long-term development projects. Innovative approaches have also emerged in Ecuador, notably the “Government by Results” system for monitoring policy and administrative performance, though budget constraints have limited its scope. In Uruguay, experts played a central role in shaping education and social security reforms, developed through technical input and broad political consensus, underscoring strong policy coordination.

In many cases, however, governance quality continues to suffer from poor coordination and resistance from entrenched interests. In Panama, for example, business elites exert significant influence over politics, with private interests closely tied to state contracts. The boundary between public authority and corporate power is often blurred, despite strong regulatory and democratic institutions, creating a persistent risk of state capture. More direct threats to democratic governance are found where the military intervenes in politics, where criminal gangs or guerrilla groups wield power or where institutions are undermined by corrupt networks. Although Guatemala recorded the second-largest gain in governance performance at +1.20, after Brazil’s +2.23, entrenched actors continue to block reform. The most prominent obstacle is Attorney General María Consuelo Porras, who has worked to undermine corruption and human rights investigations and has pursued politically motivated cases lacking factual basis. Scheduled elections for a new attorney general and other senior judicial officials in 2026 nevertheless present a crucial opportunity to strengthen the rule of law and advance President Arévalo’s democratic reform agenda.

While in most countries there is a broad consensus among key actors on the basic principles of democracy and a market economy, their practical interpretation is frequently contested. Balancing competing policy objectives remains difficult and often generates serious tradeoffs. Efforts to combat crime, for example, involve restrictions on civil liberties that are not always proportionate to actual threats. In many contexts, the boundary between legitimate state action and executive overreach is blurred. In El Salvador, that boundary has clearly been crossed into authoritarian repression. In some cases, the actors involved in the policy process pursue contra-

dictory objectives. In Jamaica, weak interagency coordination and competing government initiatives undermine effectiveness. Programs intended to strengthen local agriculture and rural employment are offset by incentives that encourage farmer migration abroad and by duty-free food imports for the tourism sector. In Bolivia, internal divisions within the MAS have severely weakened the Arce administration's capacity to implement and coordinate policy. As a result, it has conceded to various societal pressures, such as allowing deforestation in protected areas and accepting minimal public revenue from gold mining.

Many governments also struggle to address societal cleavages effectively. Instead of building bridges and acting as a moderating force, they contribute to deepening conflicts. Populist leaders in particular amplify conflict and polarization. Argentina illustrates this dynamic, as President Milei relies on divisive rhetoric and culture wars to mobilize supporters. Brazil remains highly polarized as well, although the Lula administration has made concerted efforts to prevent further escalation of social tensions. In the region's autocracies, social and political divisions are deliberately exploited as instruments of rule. Nicaragua, for example, is sharply split between pro- and anti-Sandinista camps, largely because of the Ortega government's sustained repression. Hopes that the 2021 elections would ease political tensions were quickly dispelled when the ruling FSLN instead intensified its crackdown on the opposition. A zero-sum logic of political competition often prevails and political actors often aggravate existing cleavages for short-term political gain.

Countries across the region also display areas of strength in governance, most notably in international cooperation, with a comparatively high regional average score of 6.73, which points to a willingness and ability to cooperate with external organizations and governments. Brazil in particular has resumed its role as a cooperative and credible actor in global affairs. Under President Lula, the country rejoined the Paris Agreement and reaffirmed its commitment to sustainable development. Other positive examples include Costa Rica, the Dominican Republic, Jamaica, Paraguay and Trinidad and Tobago, all of which have demonstrated an ability to integrate international assistance into coherent long-term strategies spanning environmental sustainability, economic reform and digital innovation. At the same time, setbacks are evident in several countries. Colombia was temporarily suspended from the Egmont Group, the international network combating money-laundering and terrorist financing, after President Petro disclosed classified information related to the Pegasus spyware. In Argentina, the Milei government has adopted a more skeptical and selective attitude toward international organizations and multilateralism, increasingly favoring bilateral relations over active participation in regional and multilateral institutions. Overall, countries in the region remain broadly cooperative at the international and regional levels and generally use external assistance to pursue development goals, though institutional weaknesses often limit its effectiveness. Growing uncertainty in the global environment, rising geopolitical tensions and the winding down of USAID programs pose additional challenges to regional integration and to strengthening the region's political and economic standing.

Despite a modest decline compared to the BTI 2024 (-0.14), regional cooperation remains high, with an average score of 7. Migration and approaches to authoritarian regimes represent emerging fault lines. While conservative-leaning governments downplay democratic deficits in El Salvador, leftist governments often tend to turn a blind eye to authoritarianism in Venezuela and Nicaragua. This pattern shifted recently when most governments across the political spectrum refused to recognize Venezuela's fraudulent election. In response, President Maduro ordered the

withdrawal of representatives from Argentina, Chile, Costa Rica, the Dominican Republic, Panama, Peru and Uruguay, accusing them of interference. Not all authoritarian regimes, however, show low regional engagement. El Salvador, for instance, scores comparatively high on this indicator, as President Bukele actively promotes the unification of Central American countries. His domestic popularity and hard-line stance on crime have also translated into growing political influence beyond the subregion.

Overall, Latin America and the Caribbean recorded modest improvements in governance during the review period, driven in particular by gains in Brazil. At the same time, nearly half of the countries assessed registered declines in the Governance Index. Emerging pressures, including reduced foreign aid and migration, alongside persistent weaknesses such as corruption, institutional gridlock and weak prioritization and coordination, continue to undermine governance effectiveness. Confronting these challenges will require a multidimensional strategy that combines administrative professionalization with institutional frameworks that enable effective policy learning and coordination. At the same time, stronger regional and international cooperation remains pivotal for sustainable development.

Tab. 3: Quality of governance

very good	good	moderate	weak	failed
Score 10 to 7	Score < 7 to 5.6	Score < 5.6 to 4.3	Score < 4.3 to 3	Score < 3
Uruguay	Costa Rica ▼	Jamaica ▼	El Salvador	Haiti
Chile	Dominican Republic	Panama	Honduras ▼	Nicaragua
	Trinidad and Tobago	Colombia ▼	Cuba	Venezuela
	Paraguay	Argentina		
	Brazil ▲▲	Mexico		
		Bolivia		
		Guatemala ▲		
		Peru		
		Ecuador		

The table follows the BTI 2026 index scores. Countries are ranked according to their respective score in the Governance Index. Arrows mark a change of category compared with the BTI 2024.

Outlook

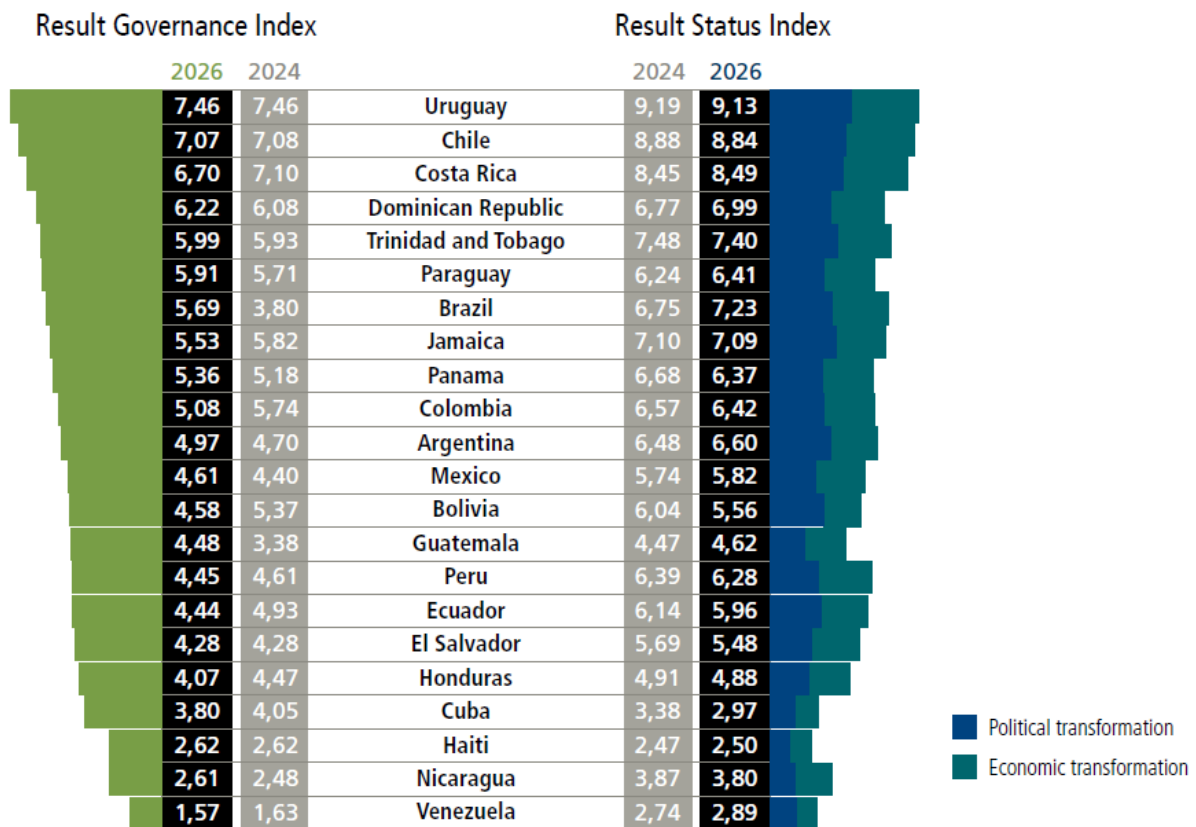
As Latin America and the Caribbean enter the midpoint of the 2020s, countries are navigating a volatile mix of political polarization, economic uncertainty and environmental vulnerability. While electoral regimes in democratic systems have remained largely resilient, long-standing weaknesses and emerging pressures are straining democratic institutions. Endemic corruption, impunity, economic and social inequality and rising crime and violence are eroding public trust in government, fueling the appeal of populism. Populist leaders, often emerging outside traditional party structures, draw on mounting social frustrations, offering simplified solutions to entrenched structural problems and public insecurity. Once in power, populist leaders tend to fuel polarization, undermine democratic institutions and struggle to set, sustain and implement coherent long-term policies.

The region's two heavyweights, Argentina and Brazil, face especially acute political and economic challenges. Argentina offers the region's most visible experiment in radical libertarian governance. President Milei, elected on a platform of economic shock therapy and anti-establishment rhetoric, has thrown out conventional policymaking in favor of executive decrees and cultural confrontation. While he has delivered short-term macroeconomic gains, his reforms have widened social inequality and circumvented the legislature, prompting concerns about democratic backsliding. In Brazil, the stakes are more familiar but no less consequential. President Lula has reclaimed the country's role as a regional power and environmental champion, particularly in global climate debates. His administration, however, confronts entrenched opposition in Congress, sluggish reform progress and the prospect of renewed instability should Jair Bolsonaro or his allies return to the political stage in 2026. The January 2023 insurrection remains a stark reminder of how fragile Brazil's democratic advances are in an increasingly polarized environment.

Economic and political uncertainty is especially acute in Bolivia. Long dependent on gas exports, the country is approaching a critical juncture as reserves decline and debt rises, while key political actors remain consumed by internal power struggles within the MAS. Honduras and Guatemala, by contrast, reflect chronic patterns of democratic decay: weak institutions, fragmented party systems and governments with limited capacity to address widespread violence, poverty and corruption. Guatemala nonetheless posted gains across most indicators during the review period, largely due to the leadership of President Arévalo. His reform agenda, however, is constrained by a fractured Congress and resistance from entrenched political and economic interests. At the same time, Central America and parts of the Caribbean remain heavily reliant on remittances and U.S. aid, making them particularly exposed to President Trump's tougher approach on migration and regional cooperation. Even Chile, which continues to rank at the top on many measures, is marked by public disillusionment. Once seen as the region's most stable democracy, the country has endured two failed constitutional reform efforts and remains mired in political gridlock. The fragmentation of both left and right parties has hollowed out the political center, opening space for hard-line forces, especially on the right.

Across the region, organized crime, drug-trafficking and weak state institutions are converging into a sustained and in many cases intensifying internal security crisis. Haiti stands out as a near-failed state that has lost large swaths of territory to gangs during the review period. Without

urgent measures to rebuild the police force, reassert territorial control and combat corruption, any path toward economic and political stabilization is effectively blocked. Successive transitional governments have failed to reverse the security collapse or hold elections, while the economy contracted for a sixth straight year in 2024 and poverty remains widespread. In several countries, organized crime has effectively become a parallel power structure that challenges the authority of the state. Mexico and the Northern Triangle remain epicenters of cartel activity, extortion and gang violence. Ecuador, once comparatively secure, is now grappling with surging violence as its ports and borders become critical nodes in global drug-trafficking routes. Meanwhile, Brazil continues to grapple with entrenched urban violence, particularly in Rio de Janeiro and São Paulo, where militias and criminal gangs exert territorial control. Organized crime is less pervasive but growing in Argentina and Chile. In Argentina, cities such as Rosario have seen sharp increases in drug-related violence. In Chile, concerns over crime and immigration have risen to the top of the political agenda, fueling hard-line rhetoric and populist appeals. The security outlook is further complicated by external dynamics. Transnational criminal networks are increasingly adaptive, using digital platforms, cryptocurrency and expanded trafficking routes linking Europe and Asia to evade enforcement. Without substantial investment in justice systems, police reform and socioeconomic inclusion, the region risks deeper entrenchment of criminal groups. The most serious threat in this environment is not only escalating violence but the gradual normalization of criminal influence over democratic institutions and public space



An even more worrying development is the deepening entrenchment of autocratic rule in several countries. In Venezuela, the Maduro regime has grown more repressive in the wake of the fraudulent 2024 election. Despite a modest economic rebound fueled by oil revenues and limited foreign investment, the structural deficiencies of the rentier state persist, leaving more than half of

the population in poverty and public services in steep decline. In Nicaragua, authoritarian consolidation under the Ortega-Murillo sultanistic regime has accelerated, extinguishing domestic political opposition through repression and exile. Recent constitutional reforms have set the stage for dynastic rule, formalizing absolute power for Daniel Ortega and his wife, Rosario Murillo. A new constitutional amendment established the post of “co-president,” a role Murillo had effectively assumed, and transferred legislative, judicial and oversight authority to the couple. The upcoming 2025 constitutional reforms will further entrench autocracy by codifying mechanisms of centralized control and silencing dissent. In Cuba, prospects for democratization appear increasingly remote amid tighter U.S. sanctions and the abandonment of dialogue in favor of maximum pressure. Even limited reforms or the expansion of the private sector are perceived by the Cuban regime as potential Trojan Horses for U.S.-driven regime change.

El Salvador represents a unique case where electoral legitimacy and security gains have underpinned an increasingly illiberal regime. President Bukele has dismantled institutional checks and concentrated power under the banner of effective governance. Gang violence has declined dramatically, though questions remain about the accuracy of homicide figures. However, the reduction has come at a significant cost to civil liberties and judicial independence. By contrast, Guatemala under President Arévalo offers a rare but fragile opening for democratic renewal.

Overall, the short-term outlook for democratization in the region’s autocratic regimes remains bleak, with most regimes showing increasing resilience through repression, co-optation and institutional manipulation. Still, limited opportunities for incremental change may emerge, notably in Venezuela and potentially through fractures within Nicaragua’s ruling elite. In the case of Venezuela, a calibrated approach combining targeted sanctions relief, regional mediation and support for opposition unity could yield progress, though expectations should remain tempered as long as the regime retains internal unity. Even so, sustained international engagement, strategic dialogue and long-term support for civil society and exiled reformers remain essential to preserve any prospect of democratization.

The international context further complicates reform and transformational progress. President Trump’s return to the White House weighs heavily on countries dependent on U.S. investment, trade, humanitarian and military assistance and diplomatic engagement. Colombia and Haiti were the largest recipients of USAID support in 2023. USAID’s withdrawal from Haiti had an immediate effect on an already dire humanitarian situation. The suspension of U.S. funding to Mexico and the Northern Triangle also carries serious implications for the rule of law and crime prevention, as these programs targeted the root causes of U.S.-bound migration. More broadly, reductions or the termination of U.S. assistance across Latin America and the Caribbean are creating gaps in critical areas such as social protection and health care. This void may force governments to seek alternative sources of support, including from authoritarian partners such as China, which is already making economic inroads in the region. While Chinese engagement offers economic opportunities, it also entails risks of geopolitical entanglement and domestic backlash, as Chinese projects often bypass local suppliers and labor. Ultimately, the region’s democratic development hinges on whether governments can rebuild institutional trust, balance fiscal discipline with social inclusion, address the spiraling security crisis, and confront environmental threats not as peripheral issues but as central to long-term stability. Without such adjustments, many democracies risk drifting into a gray zone, neither fully authoritarian nor genuinely liberal.

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Since 2004, the Bertelsmann Stiftung's Transformation Index (BTI) has regularly analyzed and evaluated the quality of democracy, market economy and governance in currently 137 developing and transition countries. The assessment is based on over 5,000 pages of detailed country reports produced in cooperation with over 280 experts from leading universities and think tanks in more than 120 countries.

The current assessment period is from February 1, 2023 to January 31, 2025.

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