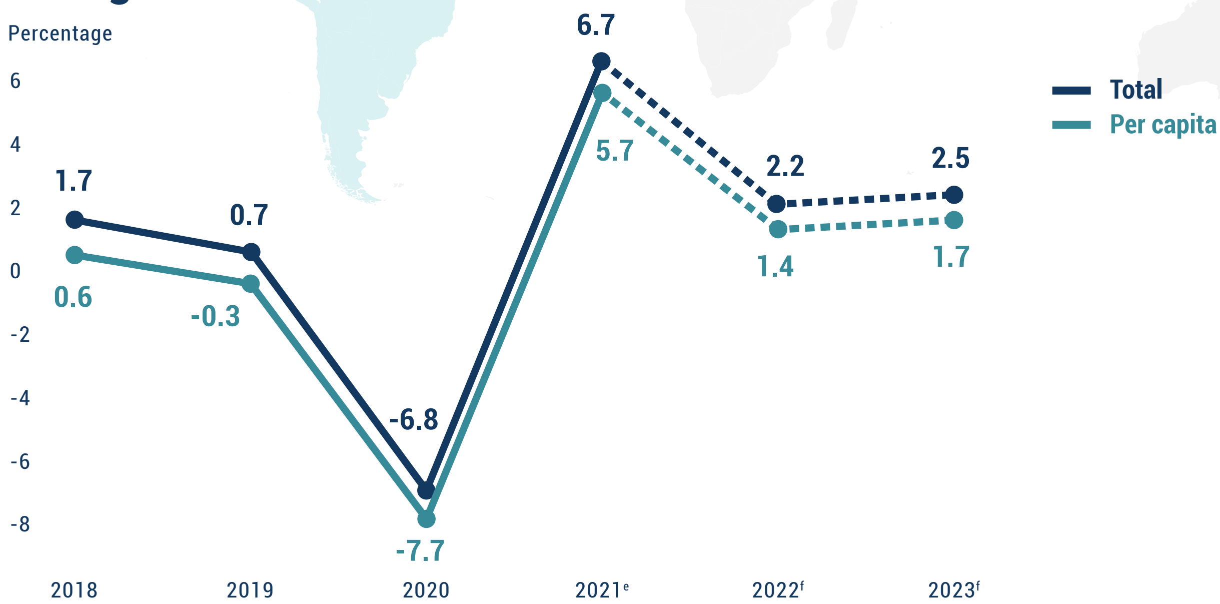
Latin America and the Caribbean

GDP growth

Percentage



COVID-19 cases & deaths

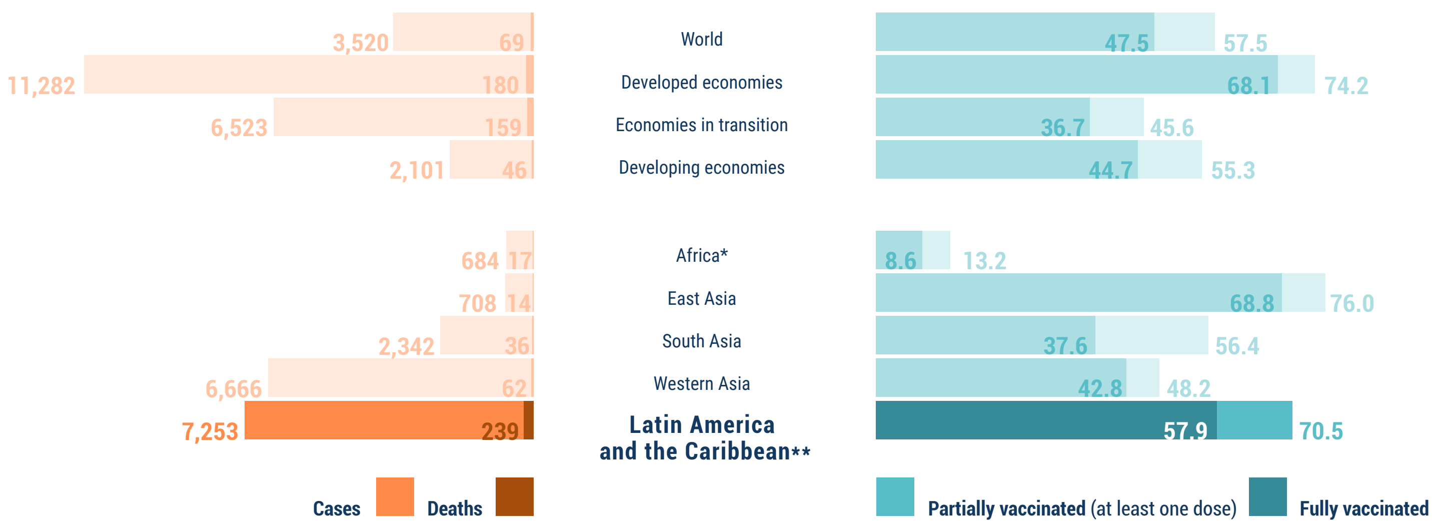
as of 20 December 2021

Per 100,000 people

Vaccination

as of 20 December 2021

Percentage of population



Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map represents countries and/or territories or parts thereof for which data is available and/or analysed in World Economic Situation and Prospects 2022. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries. Aggregate data for Africa, excluding Libya.

* Excluding Libya; **Excluding Bolivarian Republic of Venezuela. **e:** 2021 estimates. **f:** 2022-2023 forecasts.

Source for COVID-19 data: UN DESA calculations, based on data from Johns Hopkins University.

Latin America and the Caribbean: recovery to lose steam amid fading external tailwinds and policy tightening

- Despite a faster-than-expected rebound in economic activity, the region faces lasting damage from the pandemic.
- Governments and central banks are expected to withdraw policy support to address fiscal pressures and combat rapidly rising inflation.
- The spread of new COVID-19 variants, a sharp tightening of global financial conditions, and social and political instability pose significant downside risks.

After a strong recovery from COVID-19, a slowdown is looming

Economies in Latin America and the Caribbean have largely rebounded from the COVID-19-induced recession, amid favourable external conditions, successful vaccine roll-outs and strong domestic policy support. But recovery has been insufficient to reverse damage from the pandemic, which has pushed millions out of work and into poverty. As global tailwinds recede and structural weaknesses exacerbated by the pandemic resurface, the region faces the prospect of a sharp economic slowdown, with growth returning to its weak pre-crisis trend. Real GDP expanded by an estimated 6.5 per cent in 2021 following the 7.4 per cent contraction in 2020, the region's deepest pull back in 120 years (Maddison Project Database, 2020). Growth is projected to average only 2.2 per cent in 2022 and 2.5 per cent in 2023. Uncertainties surrounding these forecasts remain exceptionally large as the region confronts significant downside risks, including the spread of more contagious or deadly COVID-19 variants, a sharp tightening of global financial conditions, and mounting social and political instability.

The region has experienced faster-than-expected but uneven recovery in economic activity over the past year. The growth rebound in 2021 was partly due to strong base effects, stemming from the output collapse at the beginning of the pandemic, but also reflected improved domestic conditions and supportive external factors. Many countries in Central America and South America recorded high growth rates, with annual GDP expanding at double-digit rates in Chile, Panama and Peru. The Caribbean small island developing States recovered more slowly as fiscal policy was less supportive, due to high levels of debt, and because they depend on international travel, which resumed only gradually.

The pandemic has loosened its grip on the region's economy

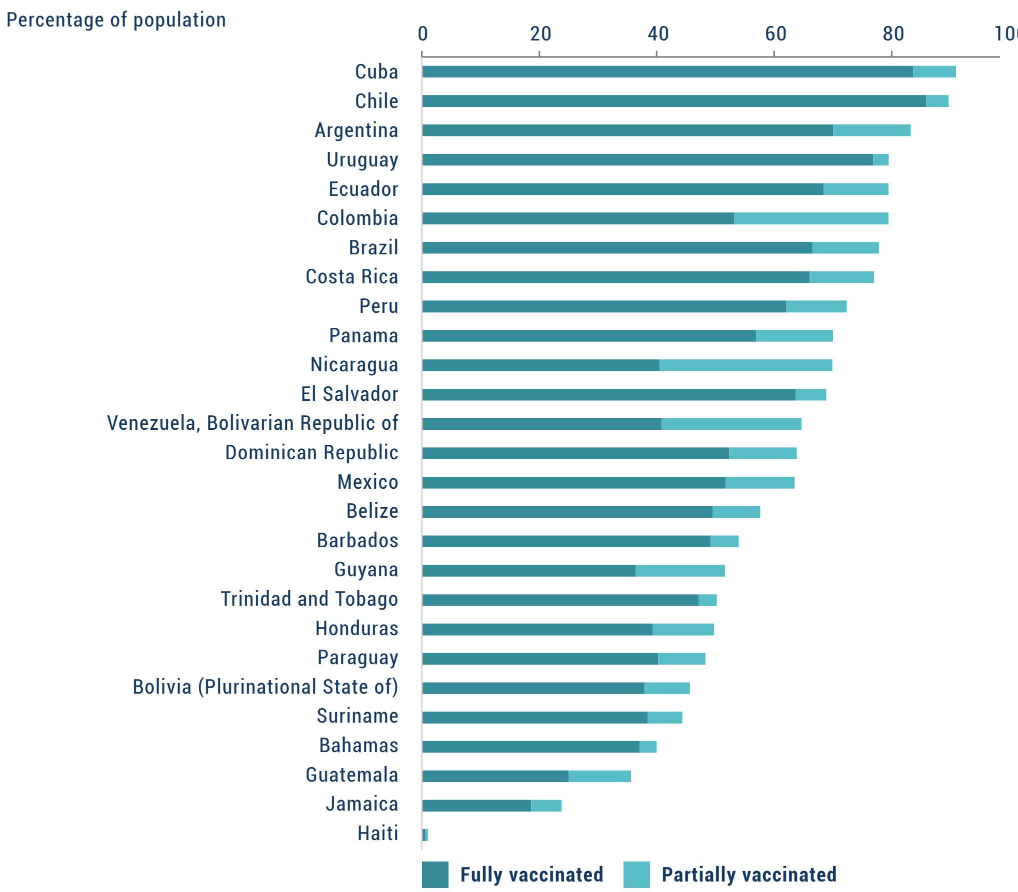
The pandemic has loosened its grip as governments, businesses and households have adapted to restrictions, which are having much less of an impact on output than in the early stages of the crisis (Oliveros-Rosen, 2021). The release of pent-up demand has driven higher private consumption and investment. With the numbers of daily COVID-19 cases and deaths declining sharply since mid-2021 amid significant progress on vaccination, governments have also more assertively eased restrictions and reopened economies.[25] In about half of the countries, more than 50 per cent of people were fully

25 Latin America and the Caribbean's share of the death toll from COVID-19 is the highest in the world. In mid-November 2021, the region accounted for 30.1 per cent of global deaths from the pandemic while having only 8.4 per cent of the world's population.

vaccinated by the end of November 2021 (figure III.21). Disparities in vaccination rates remain large, however. In Bermuda, Chile, Cuba and Uruguay, more than 75 per cent of people are fully vaccinated compared to less than 20 per cent in Jamaica and under 1 per cent in Haiti.

Figure III.21

Vaccination progress in Latin America and the Caribbean (as of 20 December 2021)



Source: UN DESA, based on data from Our World in Data (accessed on 20 December 2021).

Favourable external conditions supported economic recovery

The region has benefited from supportive external conditions. Strong demand from its main trading partners, notably China, the European Union and the United States, has boosted export growth. The global recovery has also led to sharp increases in the prices of oil, metals and agricultural goods, with South America's commodity exporters recording significant improvements in their terms of trade (ECLAC, 2021a).[26] At the same time, rapid growth in remittance inflows, driven by a recovering economy in the United States, has supported private demand in Mexico, Central America and parts of

26 By contrast, Mexico, Central America and the Caribbean experienced a slight worsening in the terms of trade in 2021.

the Caribbean.[27] Total remittance flows to the region reached an estimated record high of $126 billion in 2021, up 21.6 per cent over 2020 (World Bank, 2021c). Exceptionally accommodative global financial conditions have allowed governments and businesses across the region to access international financing on favourable terms.

Fading external tailwinds and policy tightening weigh on growth

While South America's commodity exporters have led the region's pandemic recovery, their growth prospects for 2022 and 2023 are subdued. Tailwinds from higher commodity prices, buoyant demand from China and the United States and favourable global financial conditions will gradually fade. At the same time, central banks are expected to tighten monetary policy to combat rapidly rising inflationary pressures. Governments will increasingly move away from fiscal stimulus and towards the consolidation of public finances. Altogether, these factors are expected to lower GDP growth in South America to only 1.6 per cent in 2022. Short-term growth prospects are more favourable for Central America and especially the Caribbean, where the continued resumption of tourism will stimulate economic activities.

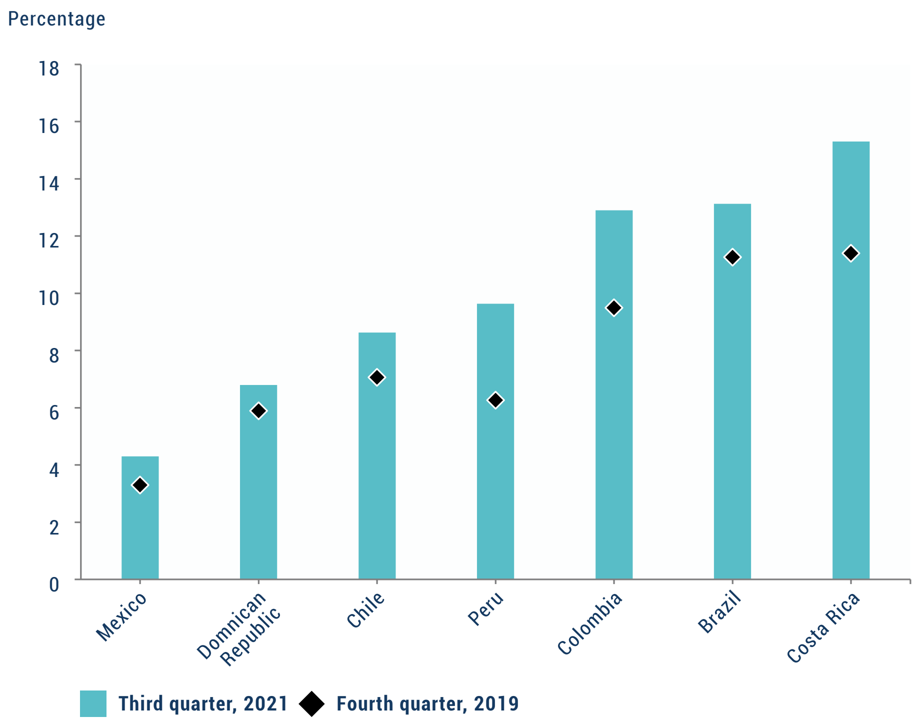
Labour market recovery has been slow and uneven

The region's labour markets have seen only a partial and uneven recovery after suffering an unprecedented shock during the early stages of the COVID-19 crisis. While economic activity rebounded, job creation has been insufficient in terms of quantity and quality. In most countries, unemployment rates have remained significantly higher and participation rates lower than before the pandemic (figure III.22). In addition, informal employment has accounted for a large portion of the jobs created during the recovery (ILO, 2021b). ECLAC (2021a) warns that unemployment rates may increase even further in the coming years as people re-enter the labour market. Risks of long-term unemployment are greatest for groups hit particularly hard by the pandemic, including young people, women and less educated workers. Box III.5 examines the pandemic's disproportionate impact on the employment of vulnerable groups, underscoring the need to adopt comprehensive macroeconomic and labour market policy packages.

27 In El Salvador, Guatemala, Honduras and Jamaica, the value of remittances exceeded 18 per cent of GDP in 2021.

Figure III.22

Unemployment rates in select Latin American countries



Source: CEIC, national data.

Box III.5

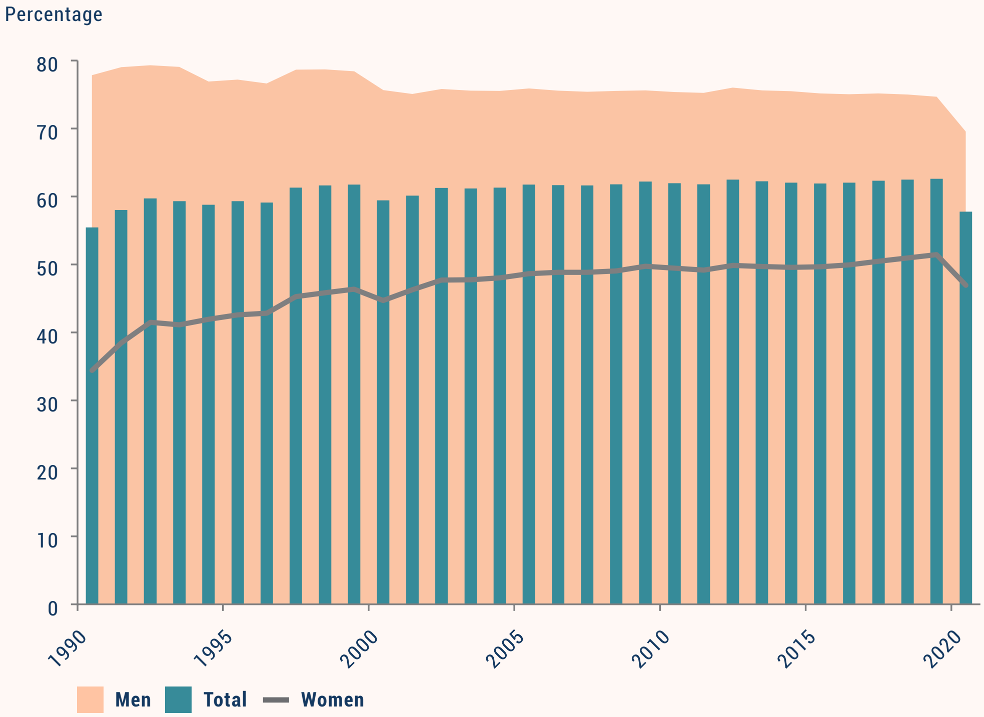
Healing from the pandemic: the impact of COVID-19 on labour markets in Latin America and the Caribbean and policies to promote a transformative recovery

The pandemic triggered an unprecedented crisis in labour markets across Latin American and the Caribbean. Although the entire global economy was affected in 2020, countries in this region saw the largest contraction in employment. It declined 3.5 per cent on average around the world but 9 per cent in Latin America and the Caribbean. Before the crisis, the region's pace of employment growth was already slowing, with 2010-2019 producing the most sluggish growth in the number of employed people since 1950.

For various reasons, the crisis weighed most heavily on employed women and the most vulnerable social groups, such as young people, migrants and less-educated workers. Between 2019 and 2020, the number of people in employment fell by almost 25 million, including about 13 million women. This resulted in a female unemployment rate of 11.9 per cent, up from 9.3 per cent in 2019. The unemployment rate for men in 2020 was 9.3 per cent compared with 6.9 per cent in 2019. These unemployment levels would have been higher (15.3 per cent for men and 22.2 per cent for women) if many workers had not withdrawn from the labour market altogether.

Figure III.5.a

Latin America and the Caribbean's labour force participation rate by gender



Source: ECLAC, based on official national data.

The crisis prompted a marked decline in labour force participation, especially among women, bringing an end to more than 30 years of continuous growth. By the close of 2020, women's participation rate was similar to that of 2001 (see figure III.5.a). This noticeable impact stems from women's strong presence in activities that were highly restricted during the pandemic, such as commerce and tourism, but also from the greater burden of unpaid work linked to household care for children, older persons and the sick that typically falls on women and in many cases grew worse during pandemic-related lockdowns.

Informal employment was heavily affected by the COVID-19 crisis, even as it provided work for nearly half of the people employed in Latin America and the Caribbean. In contrast to previous crises, informal employment did not act as a buffer in the labour market but actually fluctuated more than formal employment, as shown in figure III.5.b.

Figure III.5.b

People in formal and informal employment and total employed, first quarter of 2019 to fourth quarter of 2020

Source: ECLAC, based on official national data.
Note: Percentage change from the same quarter of the previous year.

The 2021 economic recovery boosted employment in the region but for most countries, neither economic activity nor employment returned to pre-crisis levels. In fact, in 2020, the number of employed persons fell by 25.3 million, of whom 17.3 million (68 per cent) returned to the labour force in 2021. This means the number of employed persons in the region was 2.8 per cent lower in 2021 than in 2019.

The total unemployment rate rose to 11 per cent, a rate worse for women at 12.7 per cent, 3 percentage points higher than the rate for men at 9.7 per cent.

Beyond the rebound in 2021, economic growth is likely to remain sluggish, which will not support rapid recovery in employment or improvements in the quality of jobs. Policies to drive the creation of high-quality jobs will be essential. These should focus on strengthening employment among groups most affected during the crisis, including women, young people and migrants. It is also necessary to support productive sectors with the greatest potential for job creation and labour market formalization, and to advance care systems that modify the traditional gender-based division of labour. Such systems should enshrine the right to care and the right to be cared for under conditions of quality and equality. All these steps should be taken in the medium term as the challenges will only grow if the region fails to break the pattern of weak growth seen before the COVID-19 crisis.

Fiscal stimulus packages to respond to COVID-19, particularly job support measures, have played a crucial role in protecting households and businesses and boosting aggregate demand. This support must be maintained in coming years to halt rising inequalities in the region. Furthermore, comprehensive short-term policies should support jobs and productivity and protect the incomes of the most disadvantaged groups, aiming for productive transformation capable of creating and maintaining high-quality jobs.

This comprehensive vision requires training, public employment programmes, employment subsidies, self-employment and microentrepreneurship programmes, employment services and infrastructure for labour intermediation, among other core measures.[a]

[a] See United Nations Economic Commission for Latin America and the Caribbean (2021a) for the strategies followed by Latin American economies to mitigate the impacts of the crisis and promote job creation during the recovery. UN Women and United Nations Economic Commission for Latin America and the Caribbean (2021) show the importance of comprehensive national care systems to foster growth and gender equality in the region.

Author: United Nations Economic Commission for Latin America and the Caribbean

Soaring food and energy prices have pushed inflation higher

The strong rebound in economic growth in Latin America and the Caribbean has been accompanied by rapidly rising inflationary pressures. Excluding the Bolivarian Republic of Venezuela, average consumer price inflation accelerated to an estimated 11.3 per cent in 2021, the fastest annual pace in more than two decades. In October, year-on-year inflation exceeded the central bank target range in all large economies (Argentina, Brazil, Chile, Colombia, Mexico and Peru). In contrast, upward pressures on prices have been more limited in most Central American countries. The recent surge in inflation reflects several factors, which vary in importance by country: the release of pent-up demand as pandemic-related restrictions have eased; supply shortages, for example, in the electronics, automotive and agricultural industries; higher prices of imported goods and services due to exchange rate depreciation; and, most importantly, soaring food and energy prices, which make up a larger share of consumer price indices in Latin America and the Caribbean than in developed countries. The spike in food prices has particularly affected low-income households, many of which are still reeling from the pandemic.

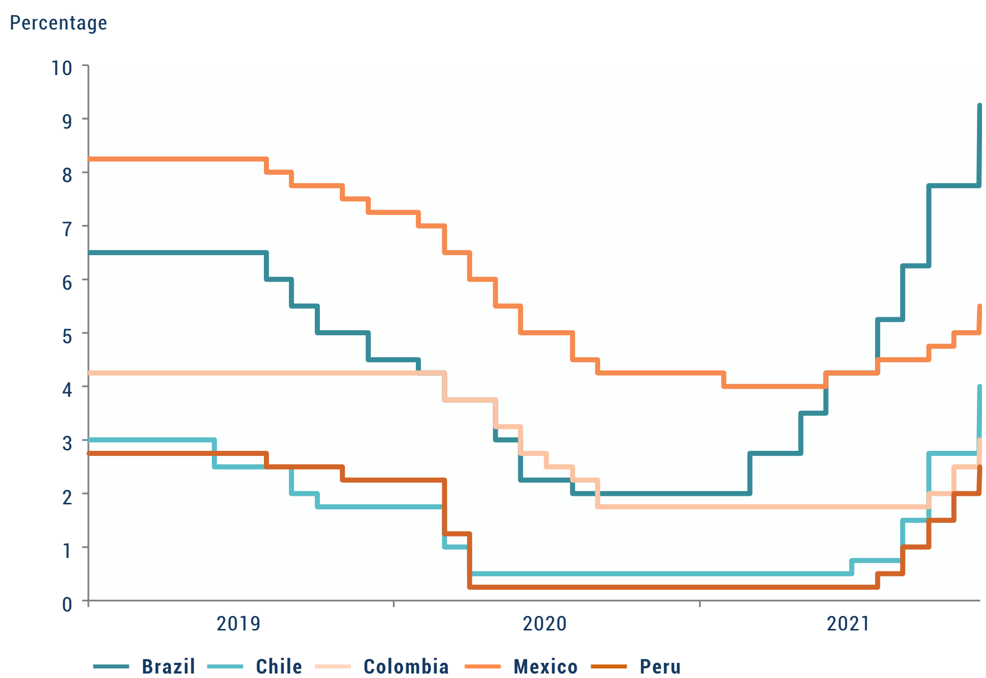
Inflation expectations have so far remained well anchored

Medium-term inflation expectations have so far remained well anchored, reflecting improved monetary policy frameworks and greater central bank credibility in much of the region, even though the growth outlook for major economies remains weak. In August 2021, three-year-ahead inflation expectations were below 4 per cent in Brazil, Chile, Colombia, Mexico and Peru (IMF, 2021b). Although core inflation, which excludes volatile food and energy prices, has accelerated, most factors pushing prices up are likely temporary. Food and energy prices are expected to plateau in 2022, while demand pressures and supply-chain bottlenecks will likely ease gradually in the coming year. A baseline forecast projects average consumer price inflation in the region to moderate to 9.6 per cent in 2022 and 7.2 per cent in 2023. But large uncertainties surrounding the inflation outlook and concerns over deteriorating growth prospects present monetary policymakers with a challenging environment to navigate.

Several central banks have tightened monetary policy

After providing unprecedented monetary policy support in response to the pandemic, central banks started to withdraw monetary stimulus in 2021. Many have raised their policy rates, aiming to rein in inflationary pressures and prevent de-anchoring of inflation expectations (figure III.23). The Central Bank of Brazil has embarked on the most aggressive tightening cycle in the region, lifting its main policy rate from 2 per cent at the start of the year to 7.75 per cent in late October and projecting the rate will reach 9.75 per cent in 2022. Several other central banks, for example, in Chile, Colombia and Peru, accelerated tightening in late 2021. While the monetary tightening cycle is set to continue in 2022, the question is how aggressively central banks will raise borrowing costs. Since current upward pressure is partly due to global and supply-side factors, sharp tightening of monetary policy may not be effective in reducing inflation and could undermine a fragile and incomplete recovery. If it leads to increased capital inflows and exchange rate appreciations, it could hurt exports.

Figure III.23
Central bank policy rates in select Latin American countries



Source: Bank for International Settlements.

Pressures to consolidate public finances are likely to rise

Large-scale fiscal stimulus measures were vital in cushioning social fallout from the pandemic and supporting economic recovery in the region. Most governments, with major exceptions being Chile and Peru, started scaling back their extraordinary policy support in 2021 but spending levels remained significantly higher than before the crisis. At the same time, public revenues recovered through higher economic growth and rising commodity prices. This temporary cyclical improvement, however, should not obscure a still challenging fiscal outlook. With global financial conditions expected to tighten, pressures to consolidate public finances are likely to increase, especially for countries with large dollar-denominated debt (for example, Argentina and the Dominican Republic). In many countries, fiscal space will further shrink as the debt-servicing burden continues to rise. Given large and increasing demands for greater spending, including to strengthen health and education systems, expand social protection coverage, facilitate energy transition and carry forward policies to support industry and technology, additional resource mobilization will remain critical. Above all, this requires increasing contributions from direct taxes. More progressive taxation, coupled with increased efforts to close loopholes and combat tax evasion, can put public finances on a more solid footing while reducing income inequalities (Hanni and others, 2015; Martorano, 2018).