



Latin America and the Caribbean: After an economic rebound from COVID-19, a sharp slowdown is looming, warns new UN report

More challenging external environment and tighter macroeconomic policies weigh on growth outlook

Mexico City, 13 January – Latin America and the Caribbean’s economic recovery from the COVID-19 crisis is expected to lose traction as global tailwinds recede and structural weaknesses resurface, according to the UN *World Economic Situation and Prospects (WESP) 2022*, which was launched today.

The report notes that the global economic recovery is facing significant headwinds amid new waves of COVID-19 infections, persistent labour market challenges, lingering supply-chain challenges and rising inflationary pressures. After expanding by 5.5 per cent in 2021, the global output is projected to grow by only 4.0 per cent in 2022 and 3.5 per cent in 2023.

“Without a coordinated and sustained global approach to contain COVID-19 that includes universal access to vaccines, the pandemic will continue to pose the greatest risk to an inclusive and sustainable recovery of the world economy,” noted Liu Zhenmin, Under-Secretary-General of the United Nations Department of Economic and Social Affairs.

In Latin America and the Caribbean, GDP growth is forecast at 2.2 per cent in 2022, down from 6.5 per cent in 2021 when economic activities rebounded from the COVID-19-induced downturn. The faster-than-expected recovery was supported by significant progress on vaccination, which allowed governments to ease restrictions and reopen their economies. By early December 2021, two thirds of the region’s population had received at least one dose of the vaccine, even as disparities between countries remained large. In addition, the region benefited from favourable external conditions, including strong demand from China and the United States, high commodity prices, and soaring remittance inflows. But recovery has been insufficient to reverse damage from the pandemic, which has pushed millions out of work and into poverty.

The region is facing a challenging economic outlook

The report cautions that after last year’s strong economic rebound, Latin America and the Caribbean is facing a challenging outlook for 2022 and 2023. The external environment will become less supportive as growth in the region’s major trading partners slows and global financial conditions tighten. At the same time, many of the region’s central banks will continue raising interest rates to tame inflation, while Governments will increasingly shift away from fiscal stimulus. In the face of these headwinds, GDP growth in South America is projected to reach only 1.6 per cent in 2022. The short-term prospects are more favourable for Central America and especially the Caribbean, where the continued resumption of tourism will support economic recovery.

Labour markets are only slowly recovering

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 are still significantly higher and participation rates lower than before the pandemic. Young people, women, and less educated workers have borne the brunt of the deterioration in the labour market, with informal employment accounting for a large portion of the jobs created during the recovery

Monetary and fiscal tightening will weigh on growth

Rapidly rising inflation has prompted many central banks to tighten monetary policy. In 2021, average consumer price inflation in the region reached its highest level in two decades, driven by the release of pent-up demand, supply shortages, higher prices of imported goods and services due to exchange rate depreciation; and, most importantly, soaring food and energy prices. While most of these factors are likely temporary, several central banks – for example in Brazil, Chile, Colombia, Mexico, and Peru – have raised interest rates to rein in inflation and prevent de-anchoring of inflation expectations. While the monetary tightening cycle is set to continue in 2022, the question is how aggressively central banks will raise borrowing costs in view of a still fragile and incomplete recovery.

The region's fiscal outlook also remains challenging. With global financial conditions expected to tighten, pressures to consolidate public finances are likely to increase, especially for countries that have large dollar-denominated debt. In many countries, fiscal space will further shrink as the debt servicing burden continues to rise, while expenditure demands - for example to strengthen health and education systems, expand social protection coverage, facilitate energy transition, and foster industrial and technological policies - will continue to rise. As the pandemic threatens to leave lasting scars on the region's sustainable development prospects, policymakers continue to face difficult choices.

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