United Nations

Press Release

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A sharp growth slowdown is expected in Latin America and the Caribbean, according to UN flagship report

Slower global growth, tightening monetary conditions and elevated inflation weigh on growth outlook and sustainable development

Mexico, 25 January – Latin America and the Caribbean's economic outlook is rapidly deteriorating amid challenging external conditions, stubbornly high inflation, and limited macroeconomic policy space, according to the **UN World Economic Situation and Prospects (WESP) 2023**, which was launched today.

A series of severe and mutually reinforcing shocks — the COVID-19 pandemic, the war in Ukraine and resulting food and energy crises, surging inflation, debt tightening, as well as the climate emergency — battered the world economy in 2022. Against this backdrop, world output growth is projected to decelerate from an estimated 3.0 per cent in 2022 to 1.9 per cent in 2023, marking one of the lowest growth rates in recent decades.

The report presents a gloomy and uncertain economic outlook for the near term. Global growth is forecast to moderately pick up to 2.7 per cent in 2024 as some of the headwinds will begin to subside. However, this is highly dependent on the pace and sequence of further monetary tightening, the course and consequences of the war in Ukraine, and the possibility of further supply-chain disruptions.

"This is not the time for short-term thinking or knee-jerk fiscal austerity that exacerbates inequality, increases suffering and could put the SDGs farther out of reach. These unprecedented times demand unprecedented action," said António Guterres, United Nations Secretary-General. "This action includes a transformative SDG stimulus package, generated through the collective and concerted efforts of all stakeholders," he added.

Latin America and the Caribbean face a challenging economic outlook

Regional GDP growth is projected to slow to 1.4 per cent in 2023, after an estimated expansion of 3.8 per cent in 2022. The report warns that recurrent global shocks continue to impede growth. In 2022, higher borrowing costs, together with lower capital flows, increased financial volatility and limited investment. In 2023, the slowdown in the major world economies will constrain export growth. On the domestic front, the impact of restrictive monetary policy stances on economic activity will become more visible, and elevated inflation will continue to affect real incomes in many countries. However, inflation is projected to gradually ease in 2023 as aggregate demand slows and commodity prices soften.

GDP growth in Brazil is projected to slow sharply to only 0.9 per cent in 2023 amid still elevated inflation, higher interest rates and slower export growth. Economic activity in Mexico will remain subdued, with GDP projected to expand by only 1.1 per cent due to the slowdown in the United States, lower credit growth and supply chain disruptions.

Slower economic activity will weigh on job creation

The prospects for labour markets are challenging. Unemployment rates have declined to pre-pandemic levels or lower in several economies. However, aggressive monetary tightening, rising production costs and slowing growth may curtail job creation in 2023. As a result, significant reductions in poverty — still above pre-pandemic levels — are unlikely in the near term.

Monetary and fiscal policy face mounting challenges

Most central banks have accelerated monetary tightening. Early and swift monetary decisions have helped preserve the credibility of monetary frameworks. Central banks now need to carefully calibrate the way forward. The effectiveness of further increases in interest rates remains doubtful, given the key role of supply-side constraints in inflation. Overly aggressive monetary tightening could inflict further harm and exacerbate solvency risks for households and firms.

Fiscal policy needs to strike a balance between supporting growth and investment, protecting vulnerable groups, and maintaining the credibility of fiscal frameworks. This requires expanding its fiscal space. In the short term, more widespread use of digitalization could lessen tax avoidance. Reducing tax expenditures such as tax exclusions, exemptions, and deductions could also strengthen fiscal revenues. In the medium term, the region will need to strengthen fiscal revenues through increasingly progressive tax systems.

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The full report will be available on 25 January 2023, 12:00 noon EST at:
https://desapublications.un.org/

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