

# The recovery paradox in Latin America and the Caribbean

**Growth amid persisting structural problems:  
inequality, poverty and low investment  
and productivity**

*8 July 2021*



# A review amidst great uncertainty

- I. Economic rebound does not ensure sustained growth**
- II. Social impacts worsen and will persist into the economic recovery**
- III. The pandemic has worsened the state of the environment to levels increasingly difficult to reverse**
- IV. Policy and strategy proposals**

# Messages

- **Unsustainable growth:** risk of a return to low-growth paths, with low investment and employment and further environmental degradation.
- **Rising inequality, poverty and informality:** the groups hardest hit being women, school children and older persons.
- **Fiscal measures cushioned** the social impacts of the pandemic: the challenge is to sustain them.
- **Accentuating global asymmetries:** developed countries are investing, but where does the region stand?

# An ongoing health crisis

- More than 1.260 million deaths (32% of world total in region with 8.4% of global population)
- Unequal access to vaccines and health services and uneven vaccination coverage
- Uncertainty surrounding future course of pandemic
- Intermittent restrictions on movement

# Two examples of increasing global asymmetries

## ECONOMIC DIVIDE RELATIVE TO DEVELOPED COUNTRIES

- Significant investment: € 750 billion in Europe; US\$ 4 trillion allocated in the United States, with a further US\$ 4 trillion proposed
- Global wealth grew by 7.4%
- Richest 1% owned 50% of world's total wealth
- United States and Canada: 12.4%
- Europe: 9.2%
- China: 4.4%
- India: - 4.4%
- Latin America and the Caribbean: -11.4%

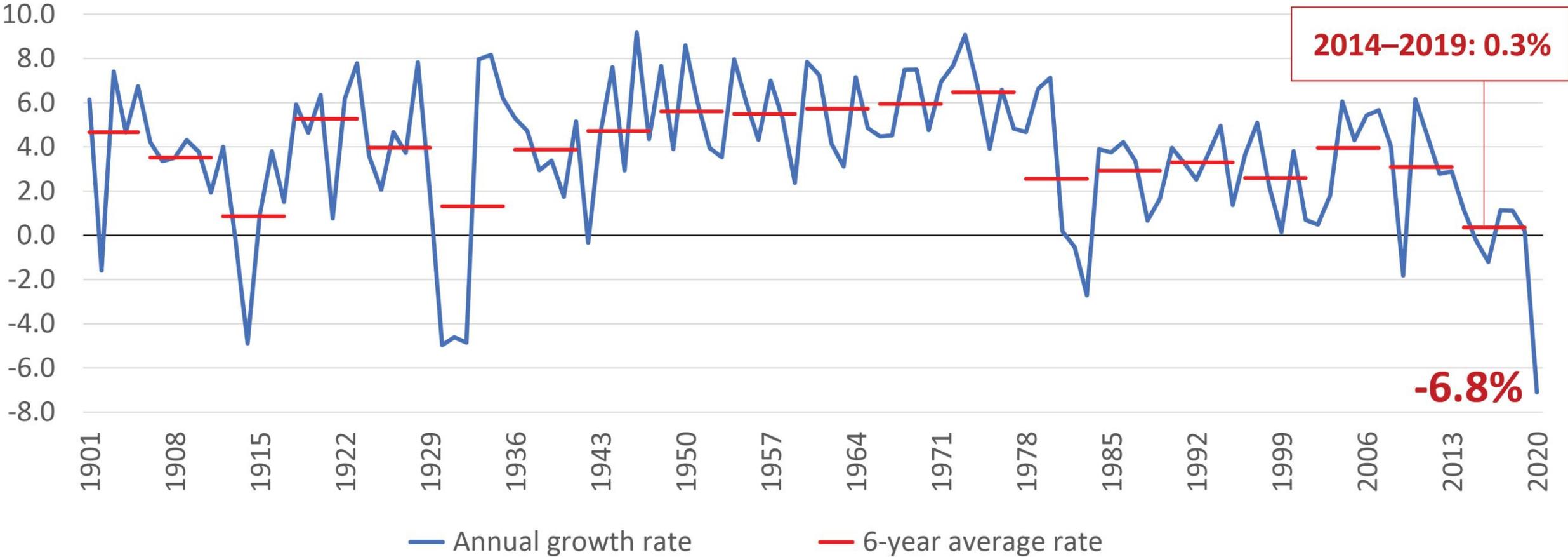
## DISPARITIES IN ACCESS TO VACCINES AND VACCINATION

### Percentage of population fully vaccinated:

- World: 11.3%
- United States and Canada: 46.3%
- European Union: 34.9%
- Latin America and the Caribbean (30 countries): 13.6%
  - South America (10 countries): 13.5%
  - Central America (including Mexico): 14%
  - The Caribbean (12 countries): 7.9%

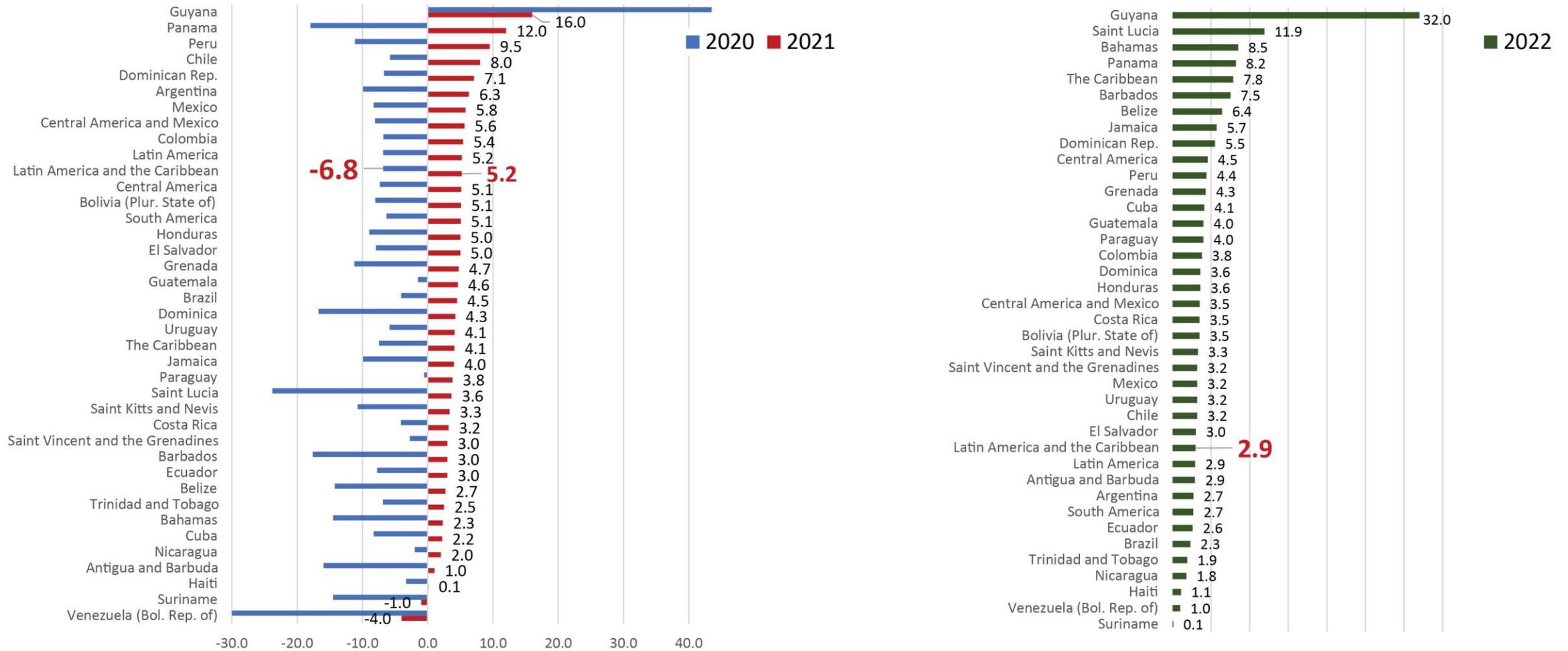
# Negligible growth as 2020 saw the worst economic contraction in 120 years

Latin America and the Caribbean: annual GDP growth rate and six-year averages, 1901–2019



# Growth projections: 5.2% in 2021 and 2.9% in 2022

Latin America and the Caribbean (33 countries): GDP growth rate in 2020 and projections for 2021 and 2022  
(Percentages)

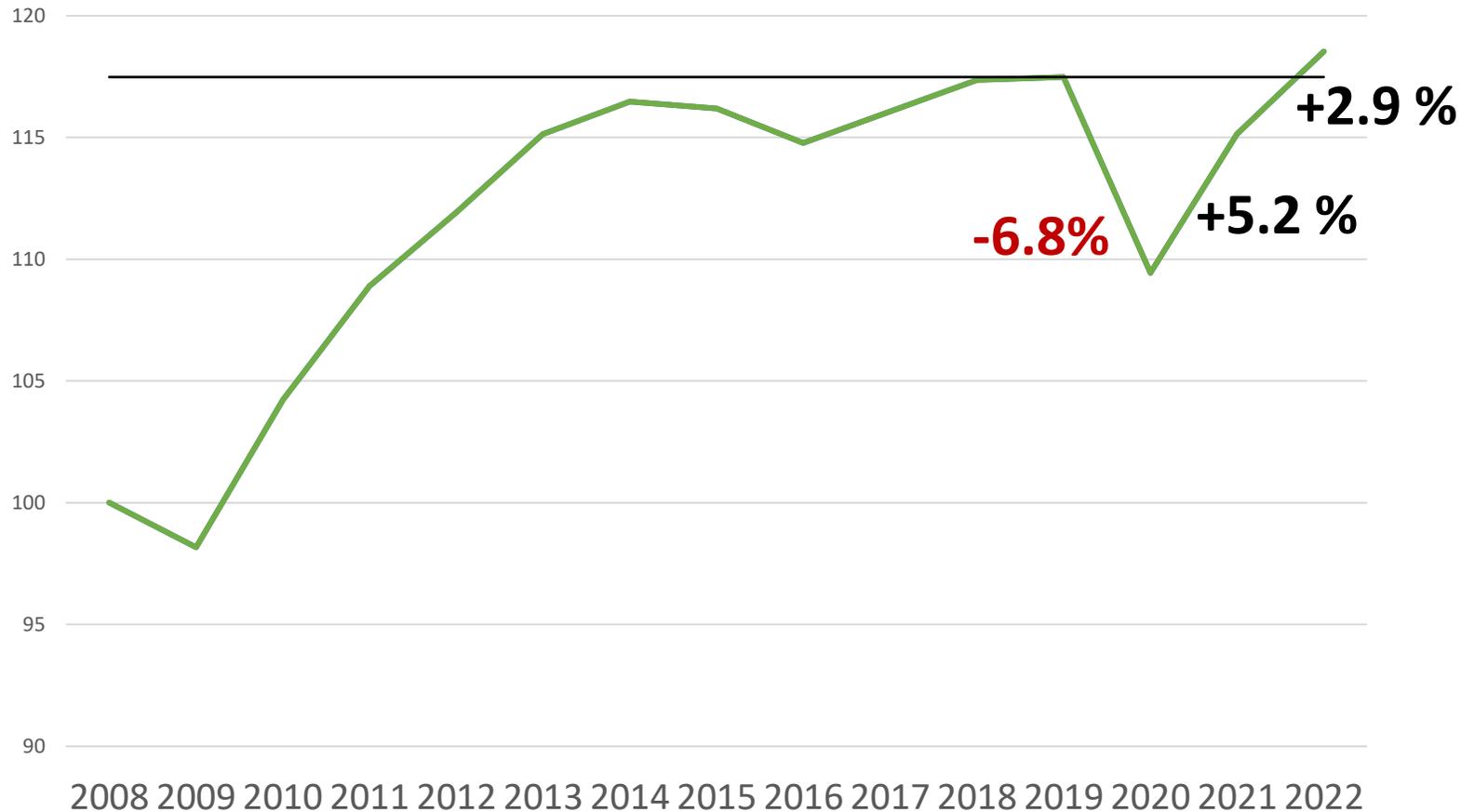


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

# The recovery paradox

## LATIN AMERICA AND THE CARIBBEAN: LEVEL OF GDP IN REAL TERMS

(Index: 2008=100)



## Heterogeneity and uncertainty

By end-2022, 19 of the 33 countries of the region will not have regained 2019 GDP levels

Risk of return to weak pre-pandemic growth without investment and structural change

Middle-income traps

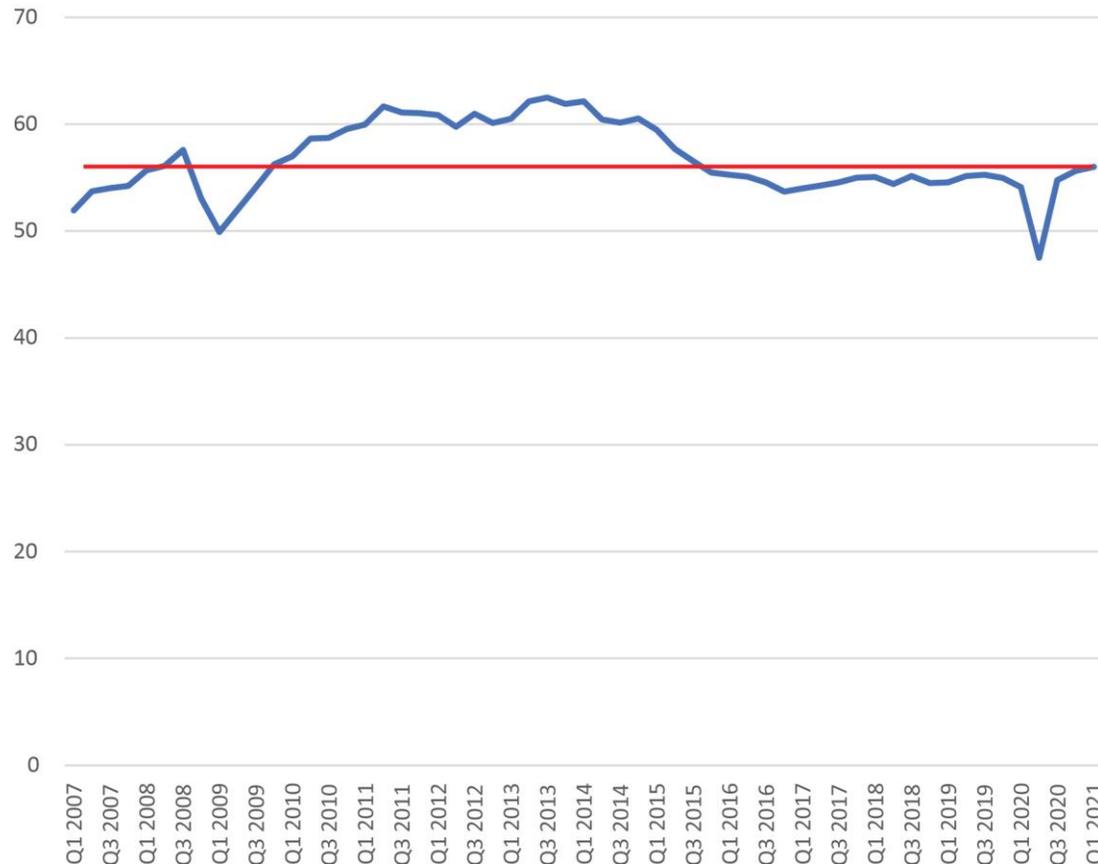
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

# Foreseeable return to pre-pandemic stagnation in the absence of structural change: two examples

Brazil and Mexico: quarterly industrial value added, first quarter of 2007–first quarter of 2021

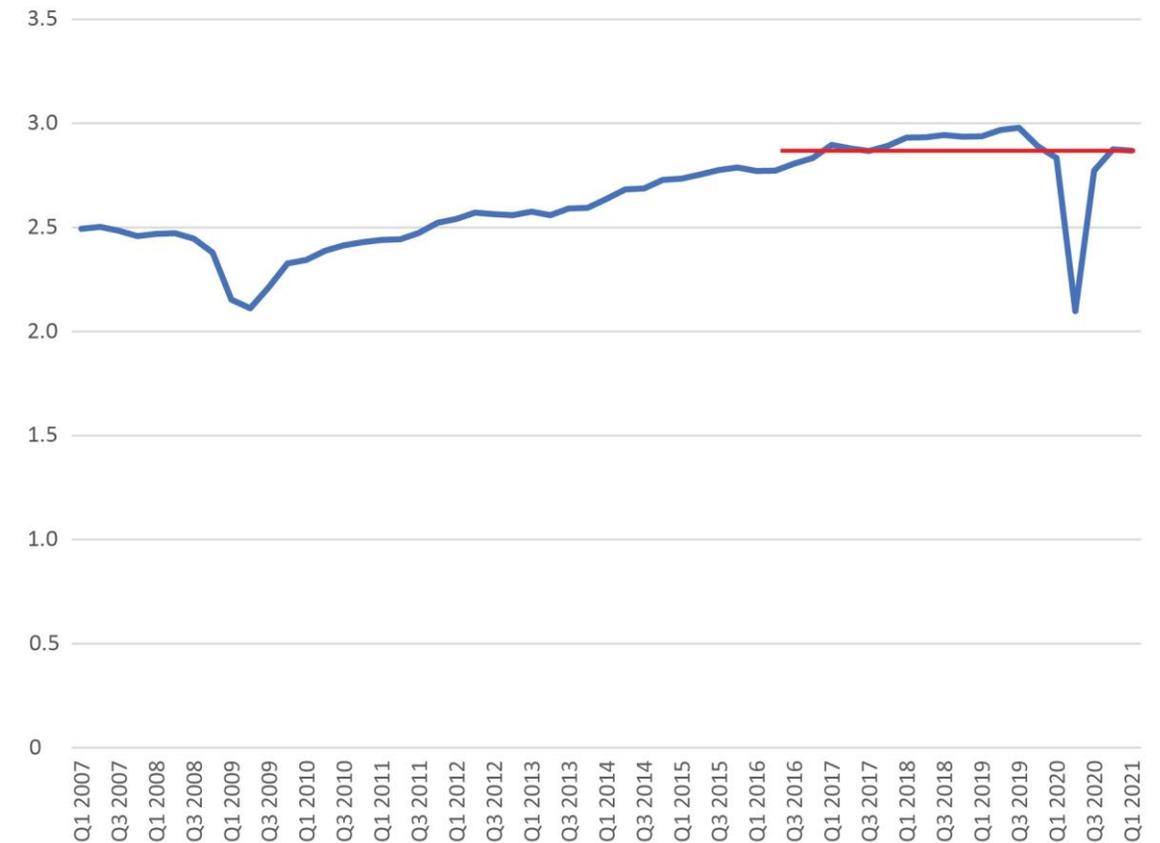
## Brazil

(Billions of reais at 1995 prices)



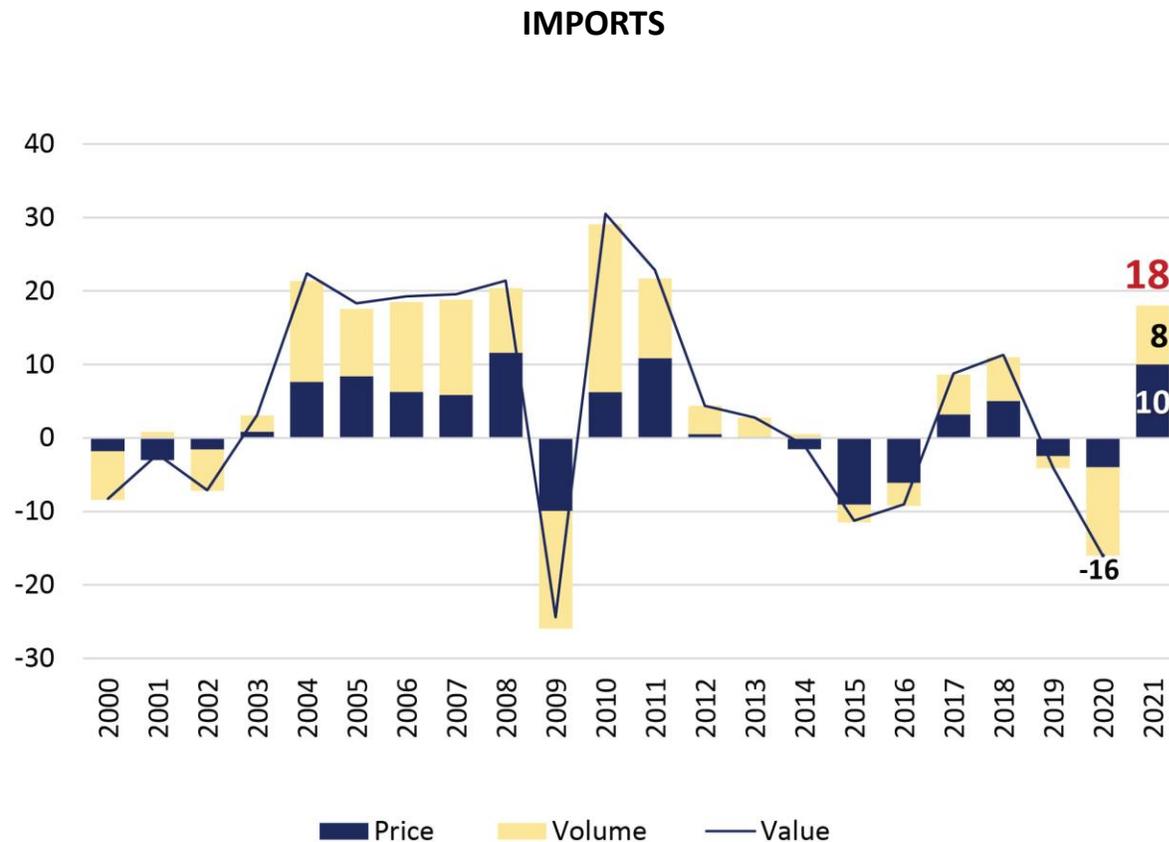
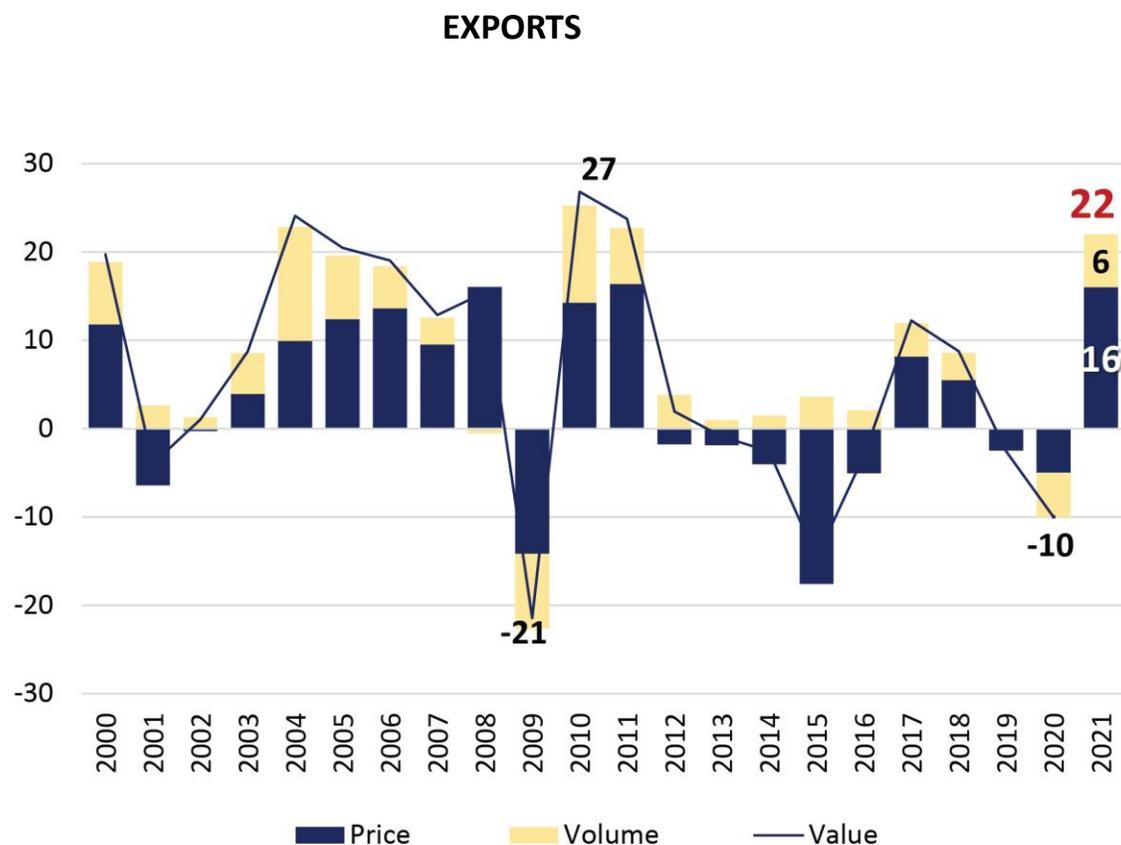
## Mexico

(Trillions of Mexican pesos at 2013 prices)



# Rebound in external trade is strong...

Latin America and the Caribbean: variations in external trade, 2000–2021  
(Annual growth rates in percentages)

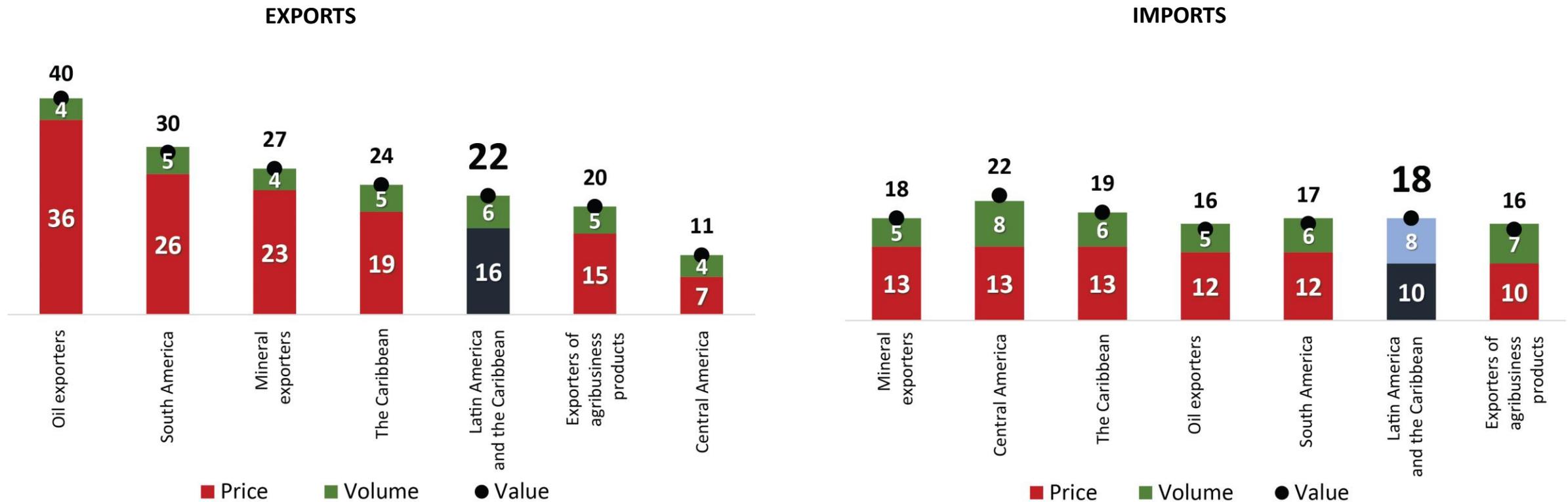


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics.

# ...but uneven

- Expansion driven by recovery of demand in the United States and China for commodities but which does not promote export diversification.

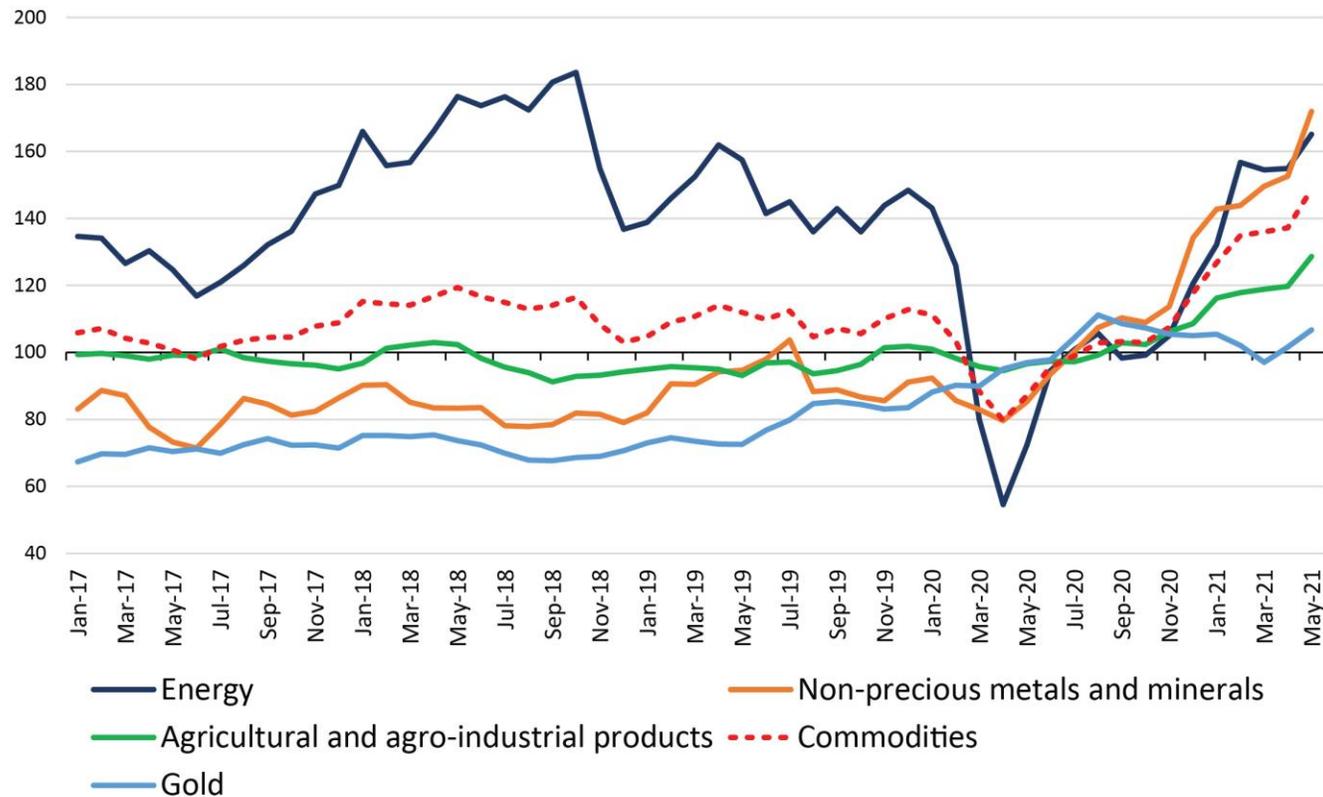
Latin America and the Caribbean: exports and imports of goods, by subregion, 2021  
(Percentage change)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics.

# Strong recovery in international commodity prices since April 2020 no indication of new supercycle

International commodity price indices, January 2017–May 2021  
(Index: January 2020=100)



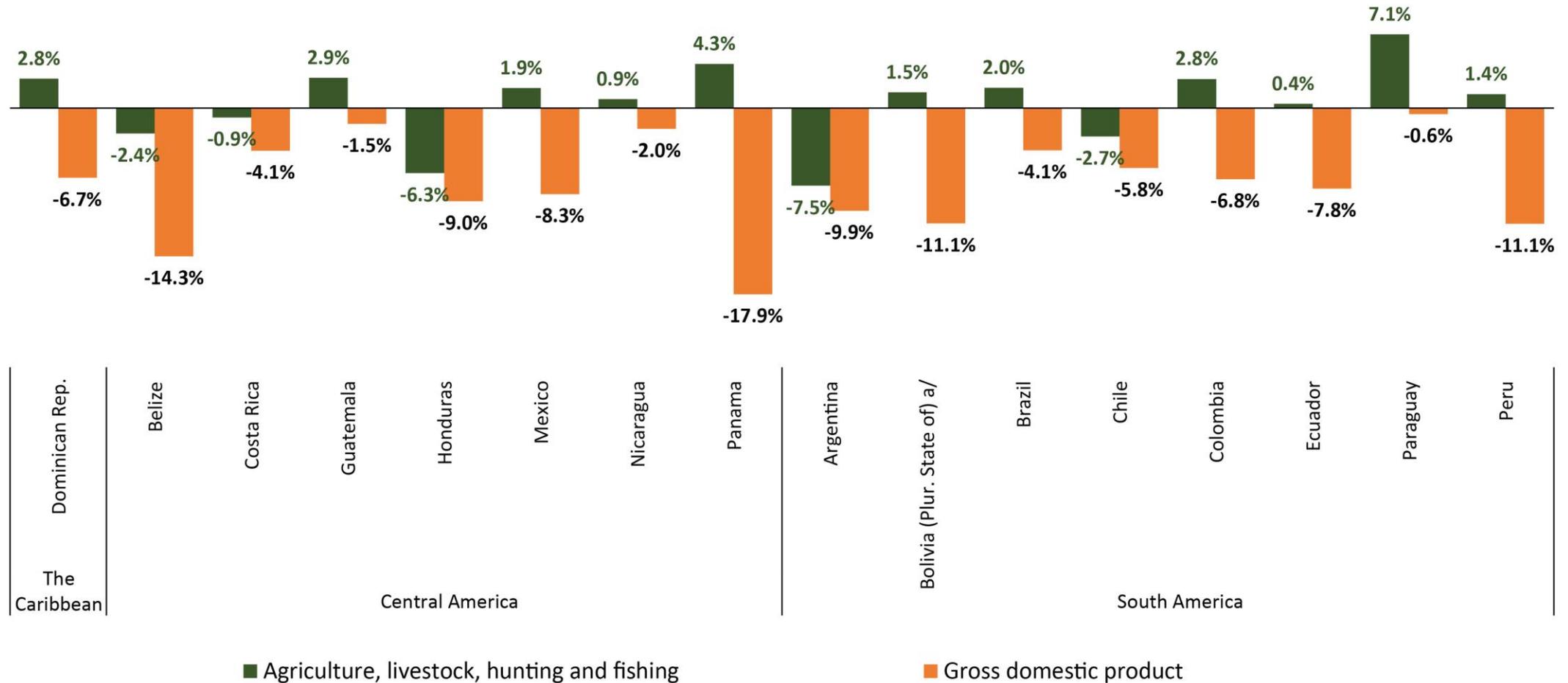
## Uncertain prospects for a new supercycle

- Possible slowdown of world economy
- Change in China's economic model
- Commodities are assets in futures markets
- Transition to renewable energies will have differentiated effects on price trends

Source: ECLAC, index and estimates constructed from price set representative of the commodity export basket of Latin American and Caribbean countries. Individual prices were obtained from: the World Bank, the Energy Information Administration (EIA), the Chilean Copper Commission (COCHILCO), the Office of Agricultural Studies and Policies (ODEPA), the Rosario Stock Exchange and other sources.

# Resilience of the agriculture sector

Latin America and the Caribbean (16 countries): annual growth rates of agriculture-sector and total GDP, 2020  
(Percentages)

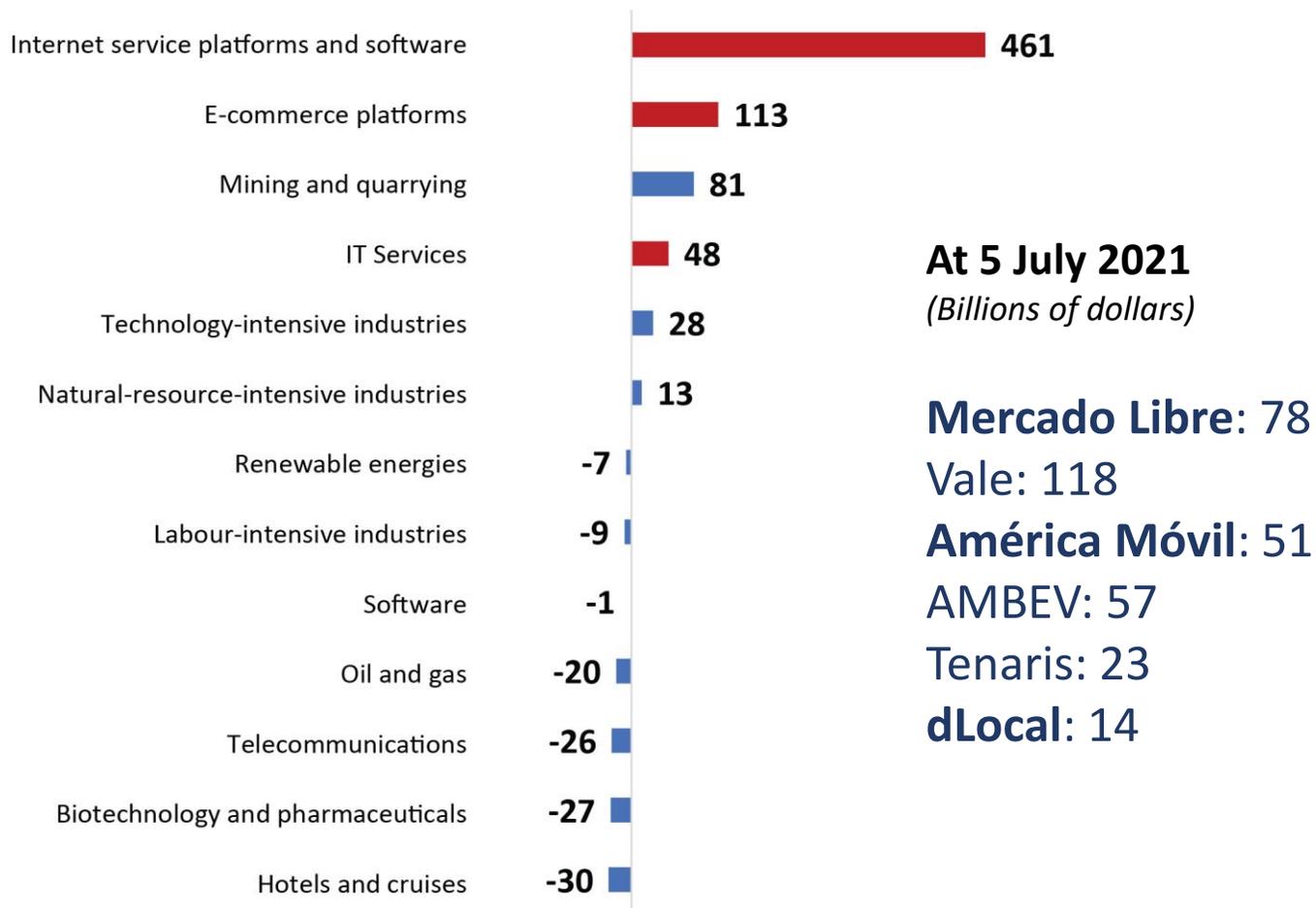


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a The data for the Plurinational State of Bolivia refer to the first two quarters of the year relative to the year-earlier period.

# The digital platform boom offers opportunities to strengthen regional trade, particularly for SMEs

Latin America: variation in the market capitalization of firms by sector, 1 March 2019–31 March 2021  
(Percentages)



- The market capitalization structure of major groups in the region has changed
- The winners: digital platforms
- Boom in Internet services and e-commerce
- Strong presence of SMEs
- With trade facilitation, can contribute to productive integration and the creation of a regional digital market

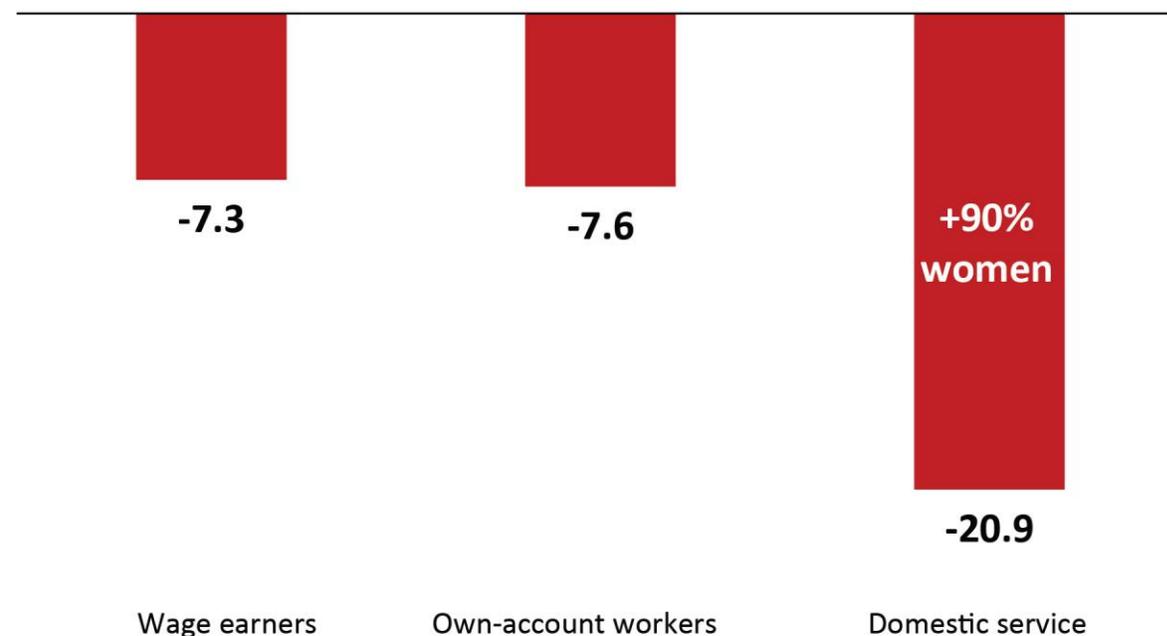
# Collapse in women's labour market participation

## Latin America and the Caribbean: employment, participation and unemployment

Year-on-year change in the number of employed persons, overall participation rate and unemployment rate, 2019–2020  
(Percentages and percentage points)

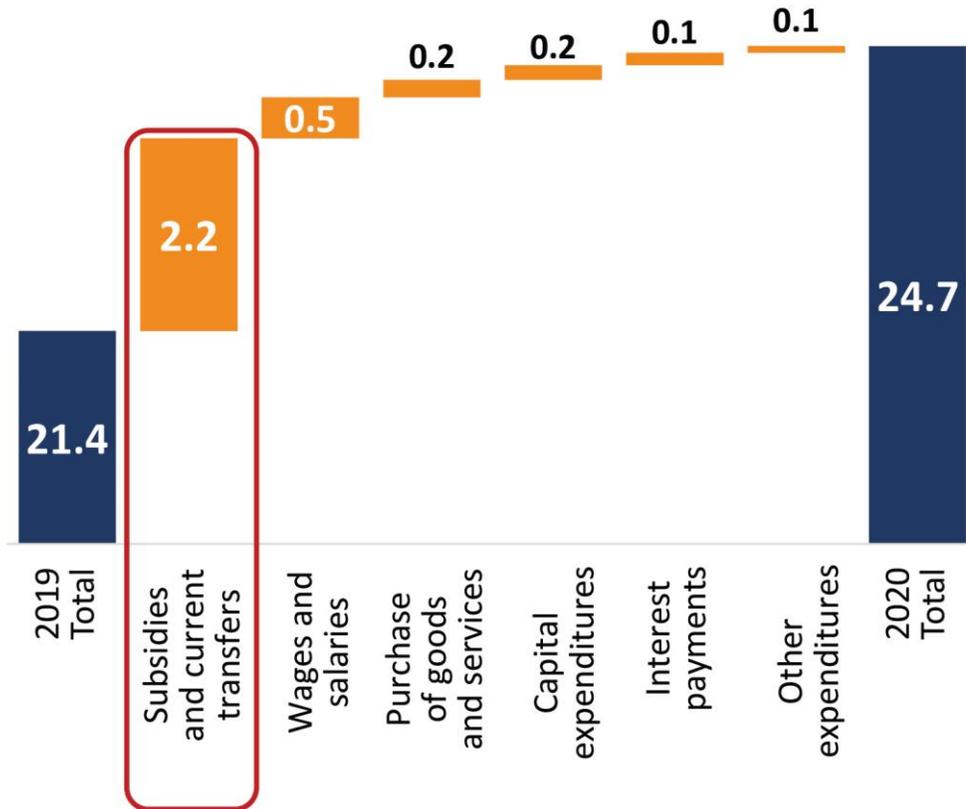


Year-on-year change in the number of employed persons, by occupational category, 2019–2020  
(Percentages)



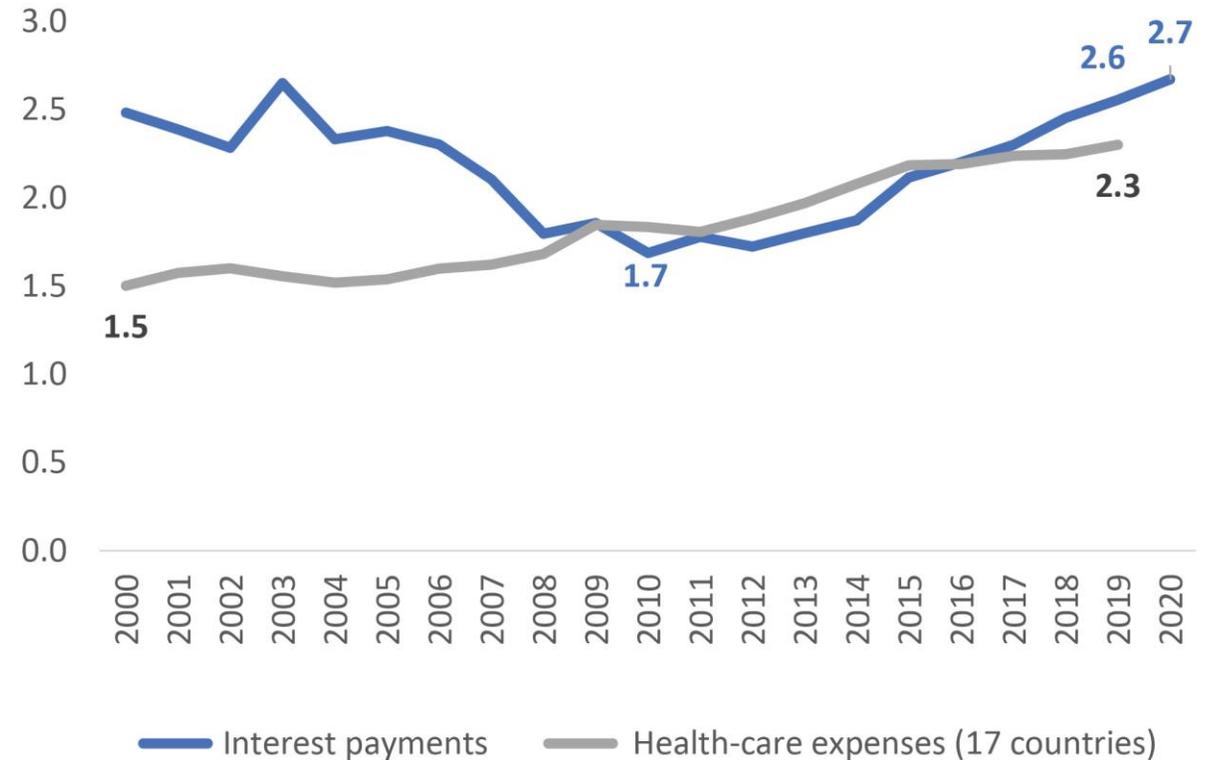
# Fiscal measures strengthened public health systems and supported families through cash transfers

Latin America (16 countries): Year-on-year change in total central government spending, by component, 2019–2020  
(Percentages of GDP)



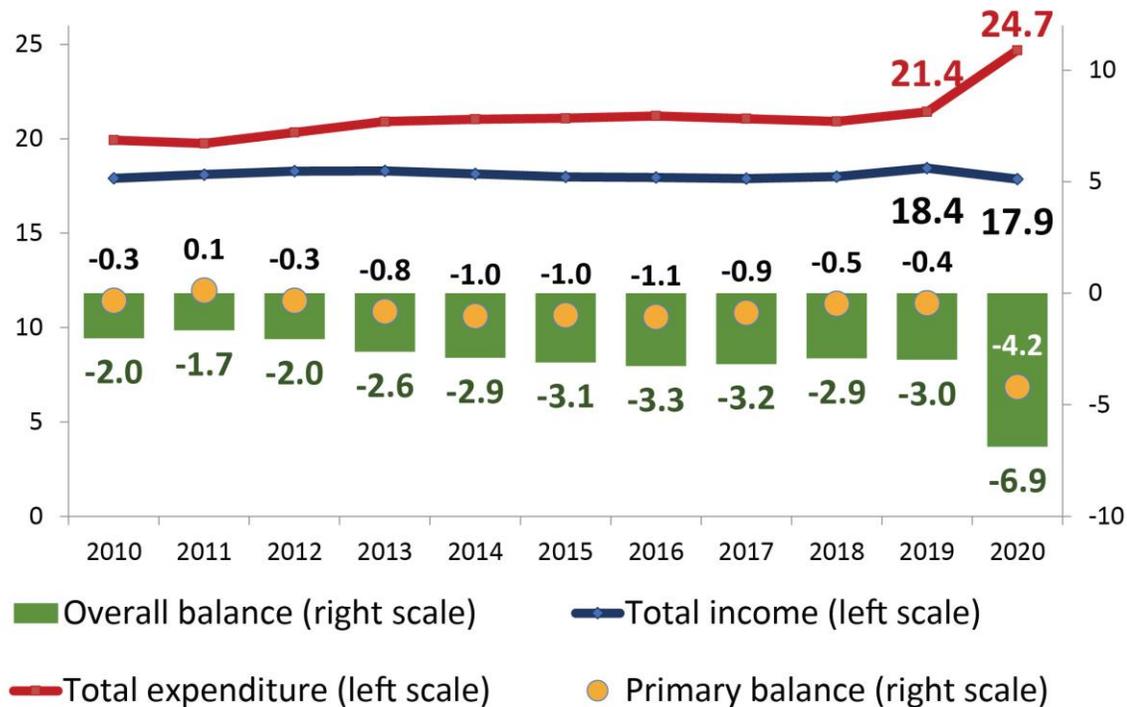
## The increase in interest payments reduces fiscal space

Latin America (16 countries): Central government interest payments and health-care expenditures, 2000–2020  
(Percentages of GDP)

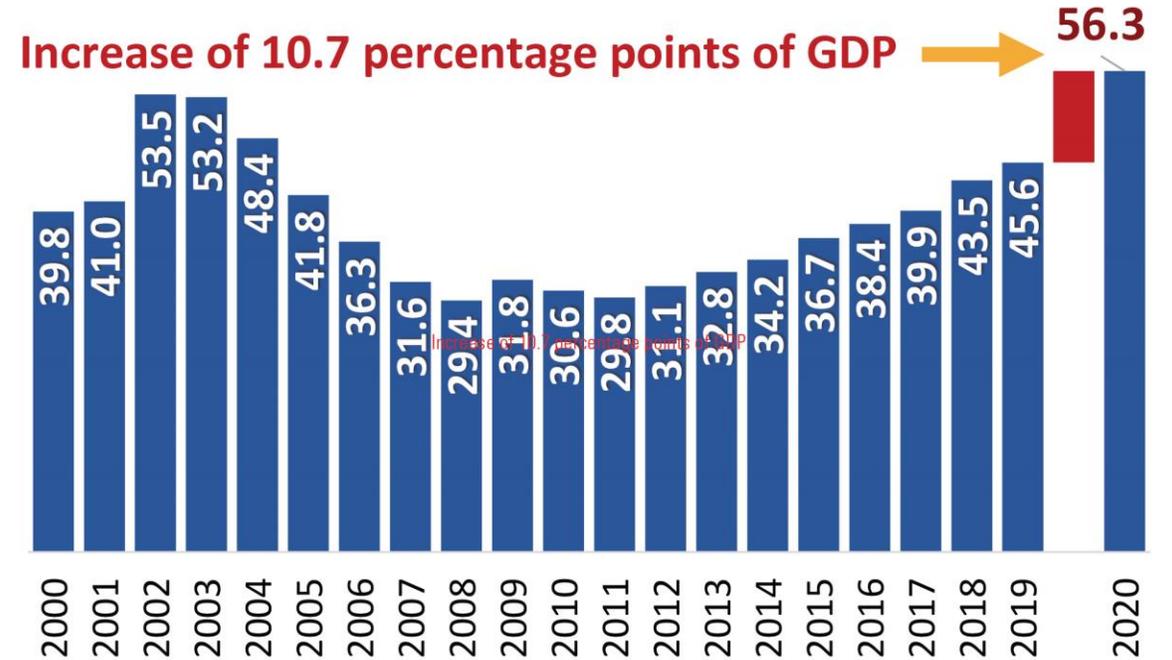


# Lower income and higher public spending: increase in deficits and debt

Latin America (16 countries): central government fiscal indicators,  
2010–2020  
(Percentages of GDP)



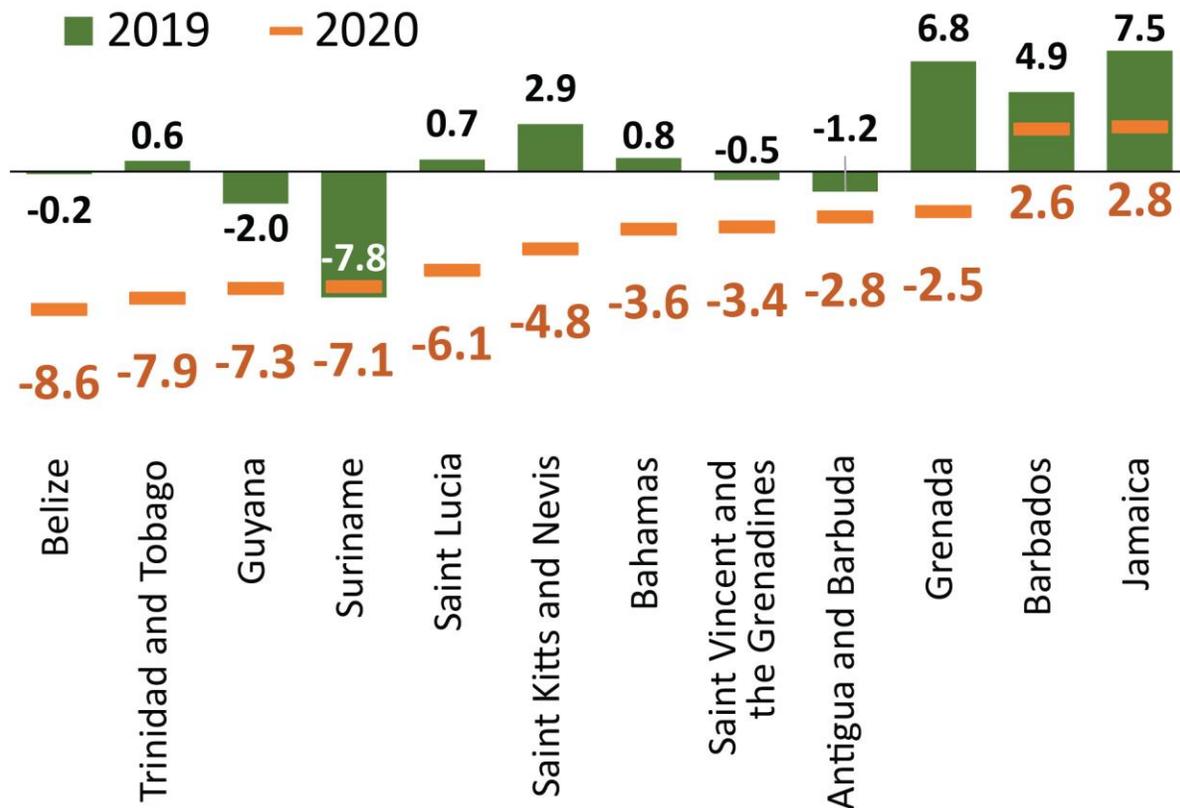
Latin America (16 countries): central government gross public debt,  
2000–2020  
(Percentages of GDP)



# Caribbean SIDS: debt burden continues to rise

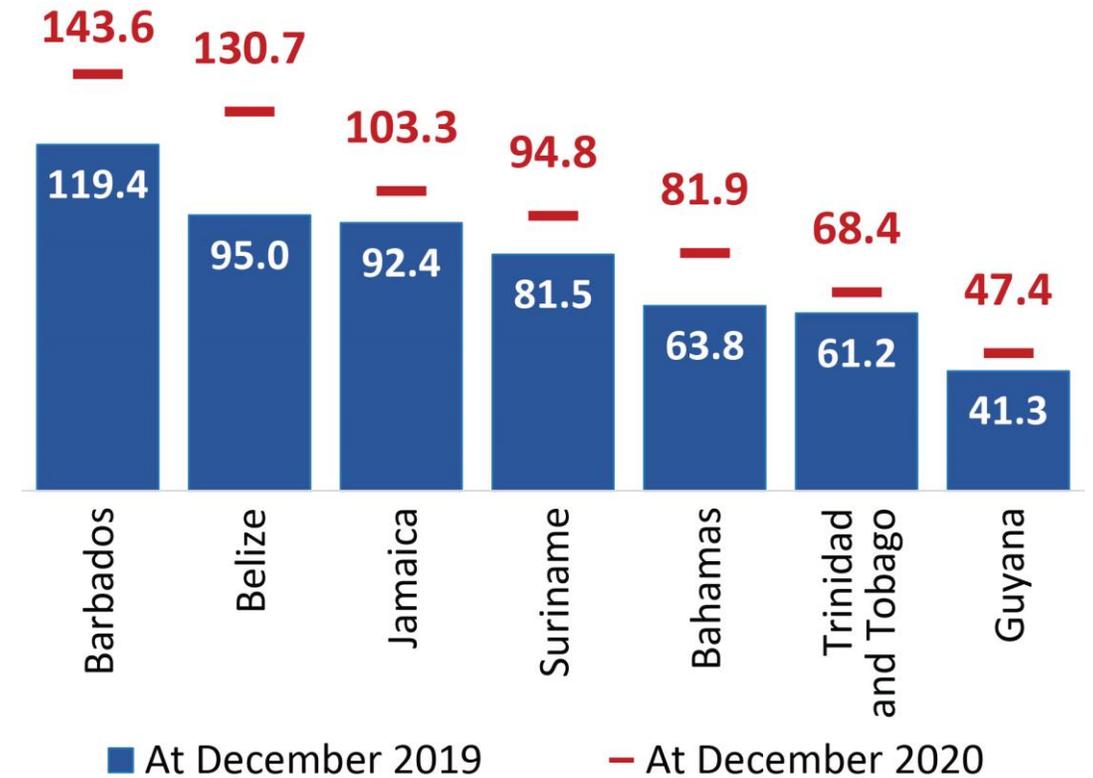
The Caribbean (12 countries): central government primary balances, 2019–2020<sup>a</sup>

(Percentages of GDP)



The Caribbean (7 countries): central government gross public debt, 2019–2020

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Fiscal Panorama of Latin America and the Caribbean, 2021* (LC/PUB.2021/5-P), Santiago, 2021.

<sup>a</sup> Figures refer to April–December 2020 for Barbados, January–September 2020 for Suriname and January–December 2020 for Belize and Jamaica.



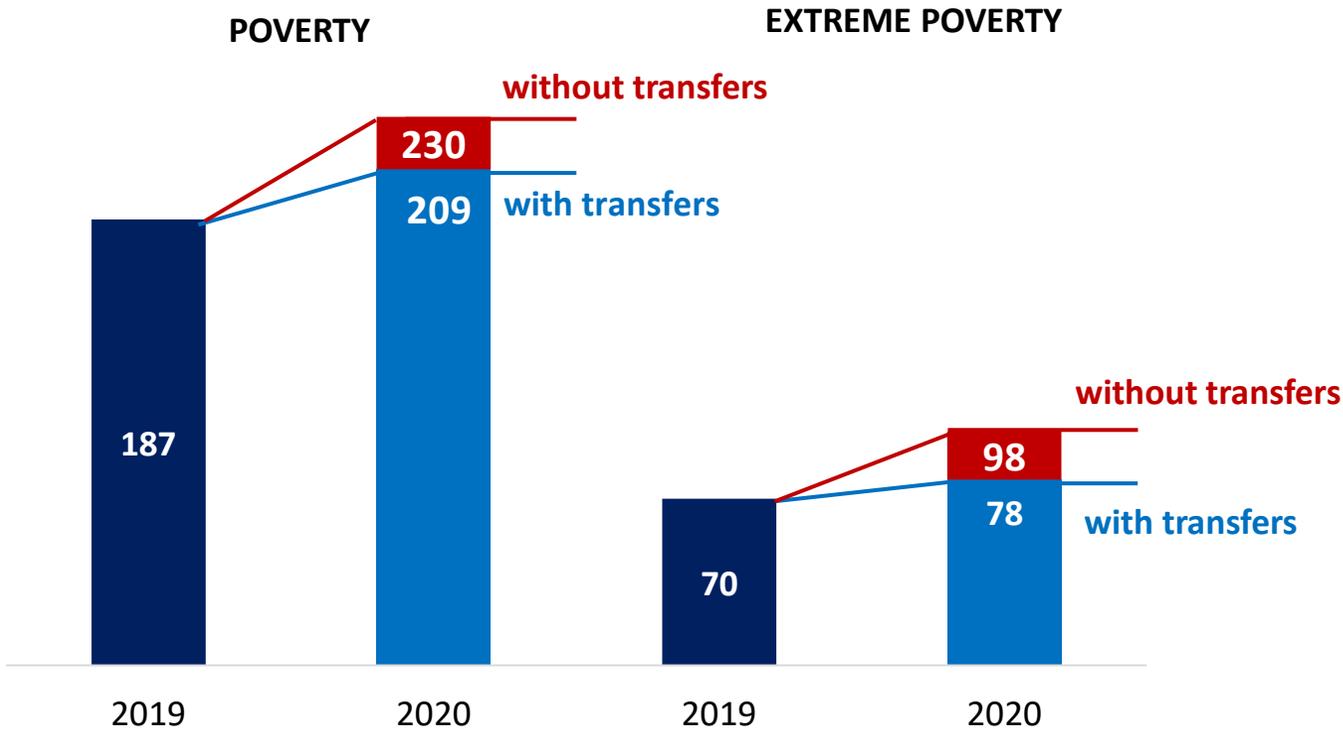
COVID-19 Observatory  
in Latin America and the Caribbean  
Economic and social impact

Social impacts worsen and will persist  
into the economic recovery



# Without transfers, poverty would have been even greater in 2020

Latin America: poverty and extreme poverty, 2019 and 2020, with and without cash transfers<sup>a</sup>  
(Millions of people)



Extreme poverty: 12.5%

Poverty: 33.7%

Transfers in 32 countries covered 326 million people, or 49.4% of the population

Family remittances reflected record levels in Mexico (3.8% of GDP) and Central America (10.1%)

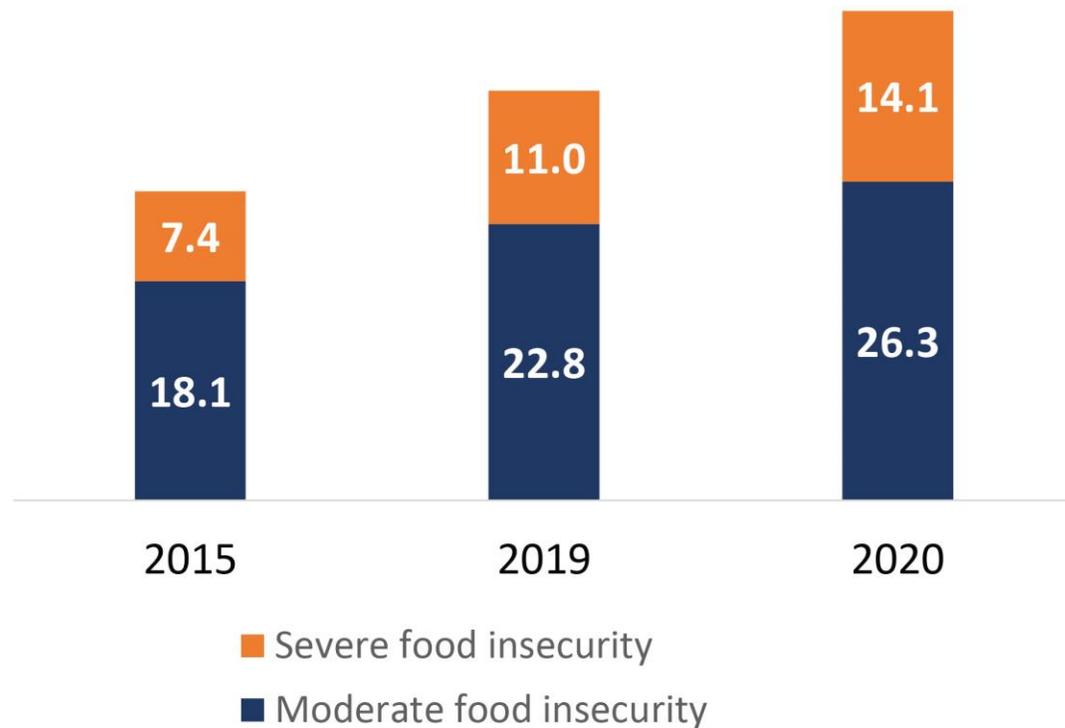
Greater inequality in income distribution: 2.9% increase in Gini coefficient

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).

<sup>a</sup> Weighted average for the following countries: Argentina, Bolivia (Plur. State of), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela (Bol. Rep. of). The simulation does not include changes in remittances to households.

# Food insecurity has increased

Latin America and the Caribbean: incidence of food insecurity,  
2015, 2019 and 2020  
(Percentages)



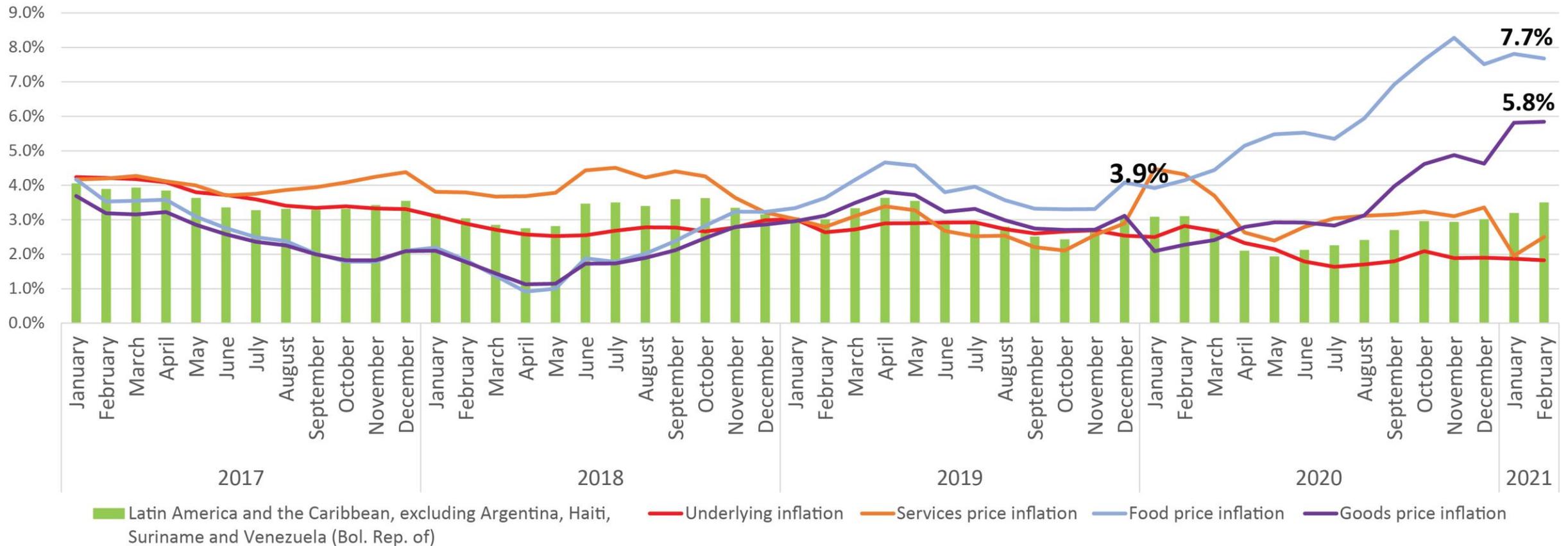
**Moderate or severe food insecurity affected 40.4% of the population in 2020, an increase of 6.5 percentage points over 2019.**

**44 million more people** became moderately or severely food insecure in the region.

**Of these, 21 million were severely food insecure.**

# Food price inflation: international prices and devaluation

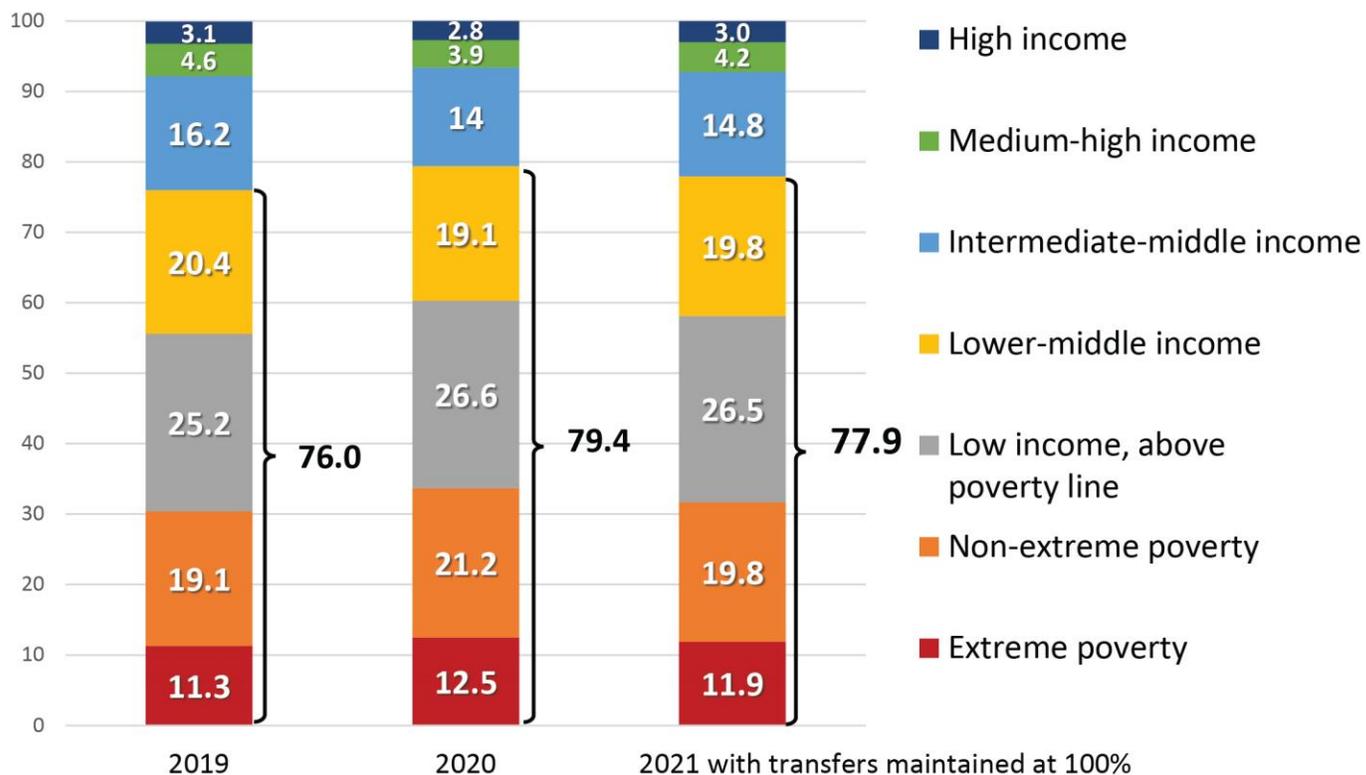
Latin America and the Caribbean: 12-month rates of variation in the consumer price index (CPI), by category of inflation, weighted averages, January 2017–February 2021  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.  
Note: 2020 figures are estimates for some countries that have not published official figures yet.

# Middle-income population remains vulnerable

Latin America (18 countries): population by per capita income bracket, 2019, 2020 and 2021 (Percentages)



The **income group below three times the poverty line** grew from 76% to 79.4% of the total between 2019 and 2020.

Emergency transfers have mitigated the impact on the lower income groups, but they are insufficient.

**243 million** people remained in the middle-income group in 2020, but a decline in their income is projected.

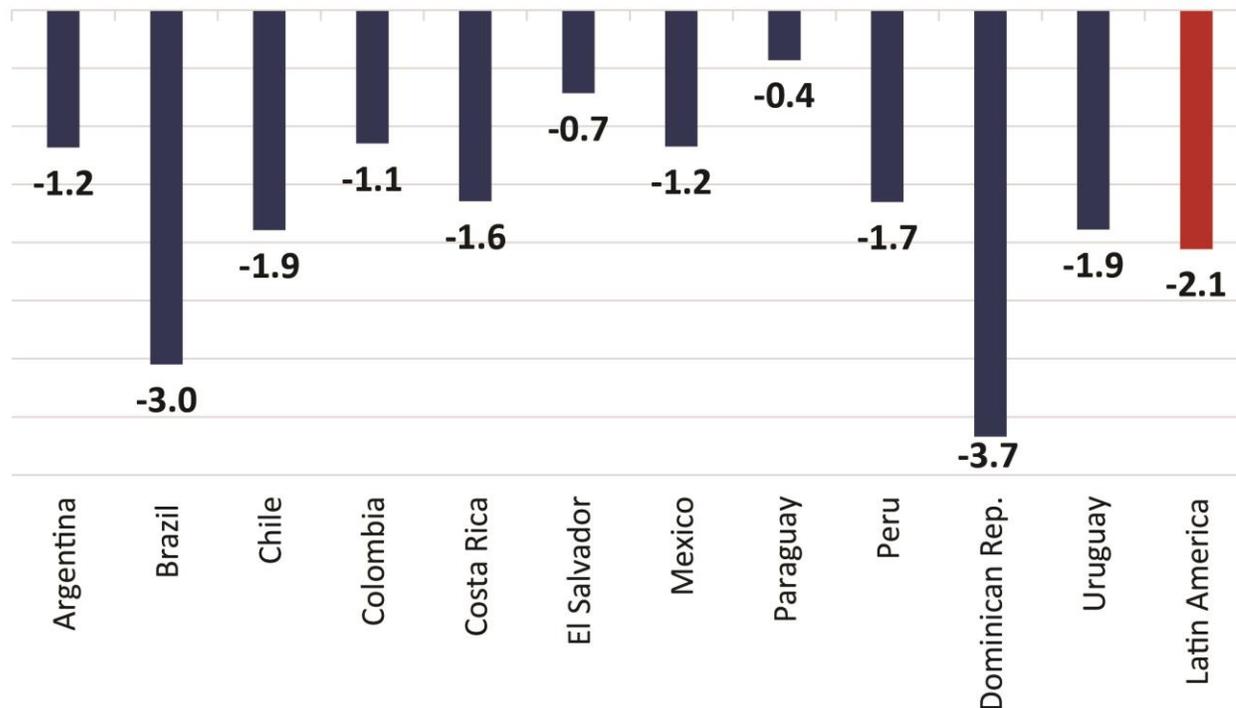
In 2021, vulnerable income groups are expected to represent **77.9%** of the population if 2020 transfers are maintained.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).

# Negative impact on pension systems in terms of future coverage of and access to benefits

Figure 18

Latin America (11 countries): variation in the coverage of contributors in the working-age population, October–December quarters 2019 and 2020  
(Percentage points)



Between 2019 and 2020, the number of contributors fell by 5.3%, representing roughly 6.2 million contributors.

Coverage of contributors in the working-age population decreased by 2.1 percentage points.

Women appear to have been more affected than men.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, “Latin America and the Caribbean: population estimates and projections” [online] <https://www.cepal.org/en/population-estimates-and-projections-excel-tables>; and United Nations, World Population Prospects 2019, New York [online] <https://population.un.org/wpp/>.

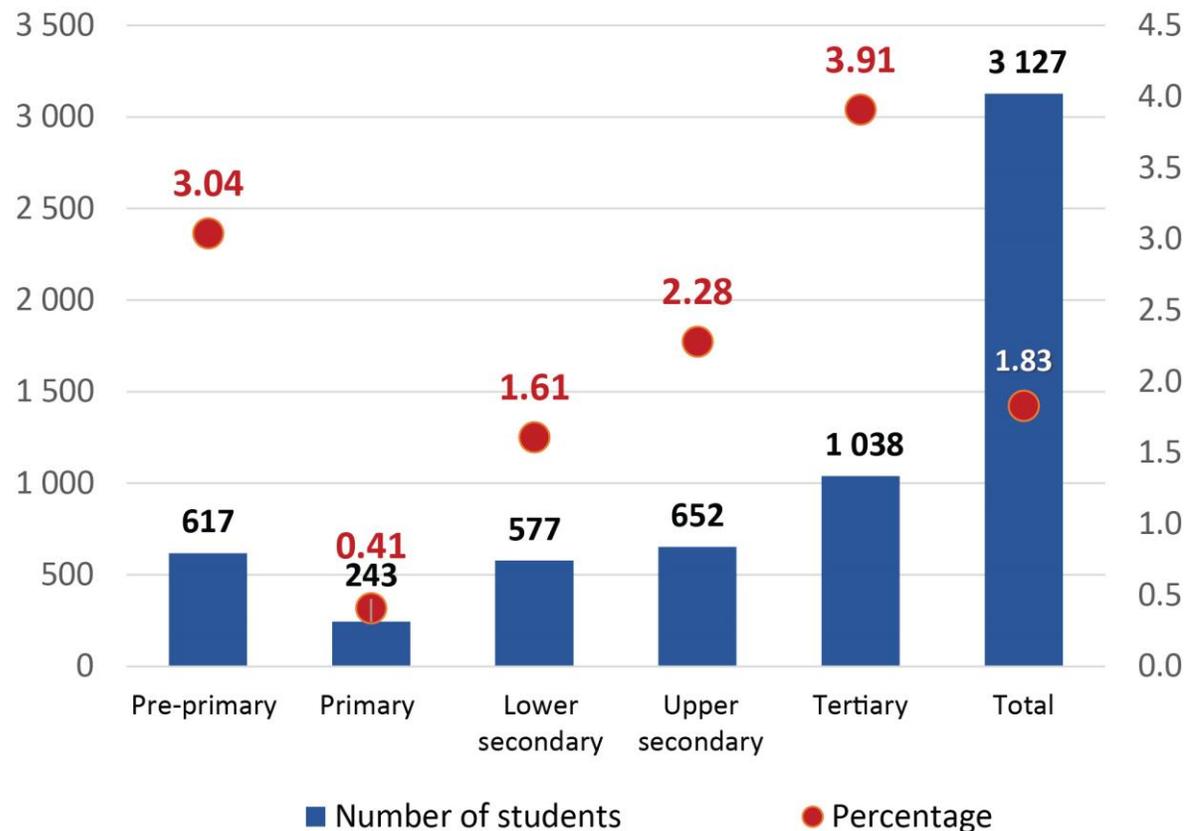
# Insufficient emergency transfers in January–April 2021

In January–April 2021, 20 countries announced or extended emergency transfers amounting to US\$ 10 billion (0.26% of 2020 GDP)

- If this level of spending is maintained until the end of 2021, **spending for the full year will amount to just 0.78% of 2020 GDP**
- This is **half of the level spent in 2020**: 1.55% of 2019 GDP
- Coverage would decrease from 49% to 29% of the population; i.e., from 326 million people to 231 million people, between 2020 and 2021

# The risk of a lost generation

Latin America and the Caribbean (30 countries): students at risk of not returning to education, projections to June 2020  
(Thousands of students and percentages)



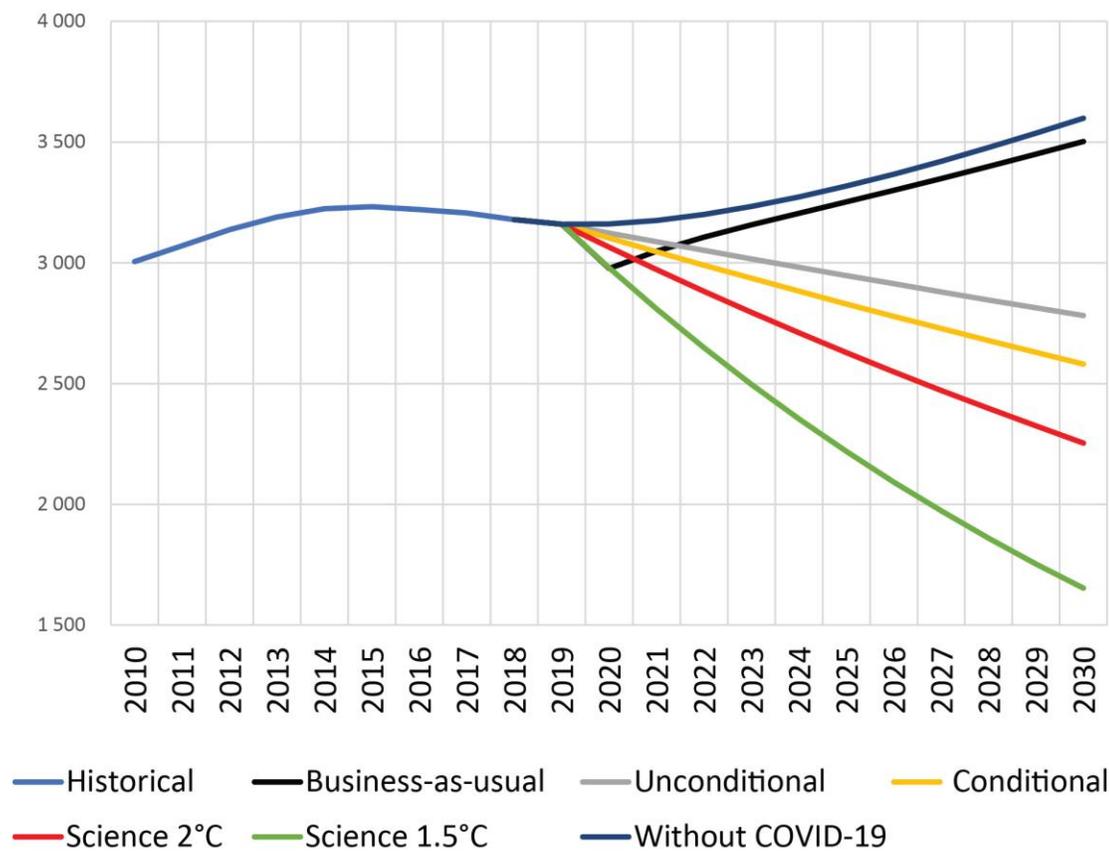
- 167 million students lost up to one year of face-to-face schooling with an impact on their education
- 3.1 million young people girls and boys are at risk of dropping out of school
- Food insecurity: school feeding programmes
- Greater impact of the digital divide: 66 million households without an Internet connection
- Five-year setback in reducing the adolescent fertility rate
- Increase in violence and exposure to child labour

Environmental deterioration continues and environmental policies suffer a setback



# The activity slowdown afforded a brief respite

Latin America and the Caribbean: emissions by 2030 under different scenarios, 2010–2030  
(MtCO<sub>2</sub>eq)



**Emissions are projected to rise by 5% in 2021.**

Temporary improvements in air quality and emissions of greenhouse gases.

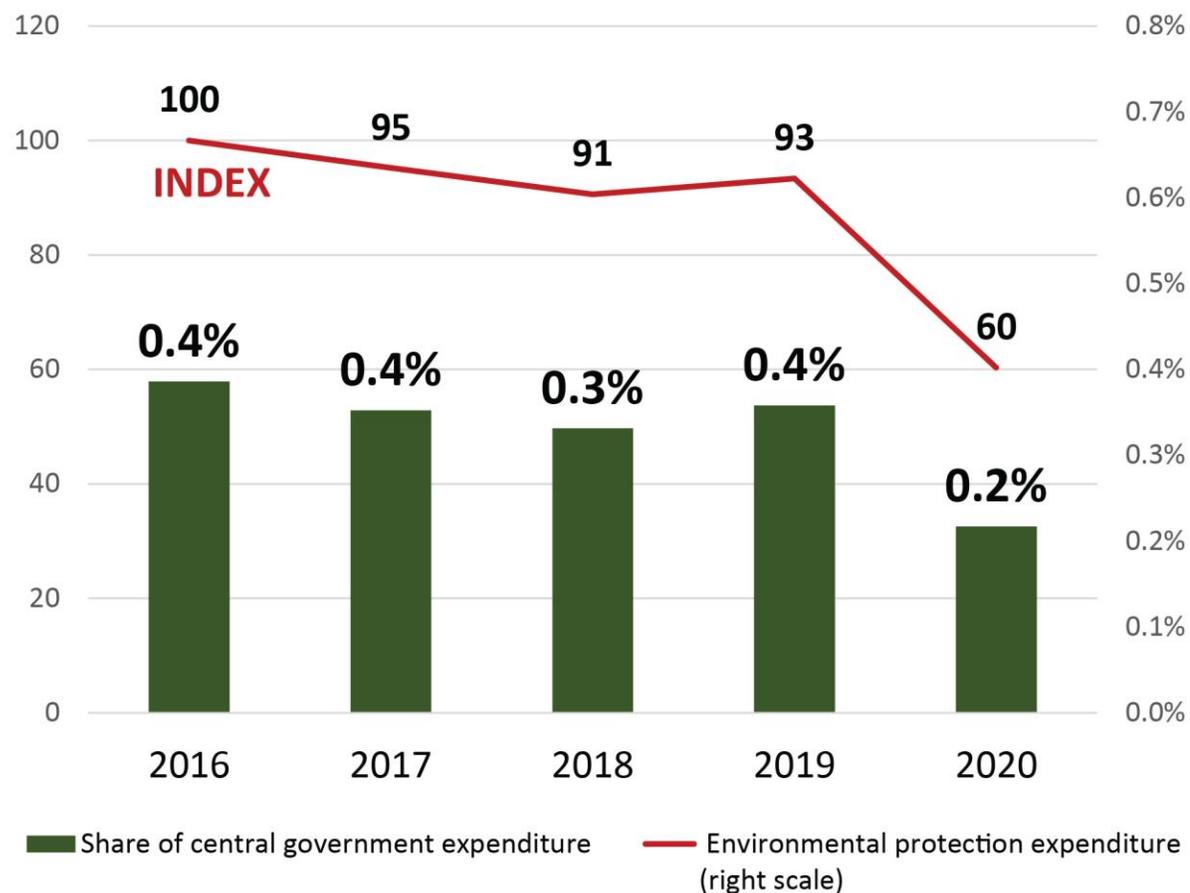
The decrease was less than the amount needed to meet the Paris Agreement.

**The window of opportunity to achieve the goals of the Paris Agreement is closing fast.**

# Less public budgets to underpin environmental discourse

Latin America and the Caribbean (11 countries): expenditure on environmental protection, 2016–2020

(Index: 2016=100 and percentages)



- A 35% fall in budgets or expenditure on environmental protection in 11 countries of the region in 2019–2020.
- The decrease in budgetary resources means governments' capacity for action is diminished.

# The region remains on an unsustainable path

- The 50 largest economies in the world announced fiscal measures for a total of US\$ 14.6 trillion in 2020: **just US\$ 341 billion (2.5%) is for green recovery.**
- The total for Argentina, Brazil, Chile, Colombia, Mexico and Peru is US\$ 278 billion, of which US\$ 1.2 billion (0.43%) is aligned with environmental and climate goals.
- Inconsistency in the announcements of 15 countries in the region regarding their increased ambition in climate action commitments for 2030.
- From 1990 to 2020, 150 million hectares of natural forest were lost in Latin America and the Caribbean. Forest cover shrank by 7%.
- Emergency measures erode environmental democracy, despite the entry into force of the Escazú Agreement, which protects environmental defenders.

# Policy and strategy proposals



# The backdrop: the developed countries are acting now

- The pandemic has strengthened positions that run counter to the economic orthodoxy.
  - Expansionary fiscal and monetary policy, with considerable resources and reach.
  - New approaches to the labour market, welfare and production policies.
  - Sectoral orientations with an emphasis on sustainability and climate change mitigation, industrial policy, investment in science and technology, and greater national or regional self-reliance.
- Cooperation on issues relating to the environment, competition and geopolitical rivalries between developed Western countries and China.
- Growing fiscal needs and rising debt-to-GDP ratios have fuelled discussion of tax hikes on individuals and corporations.

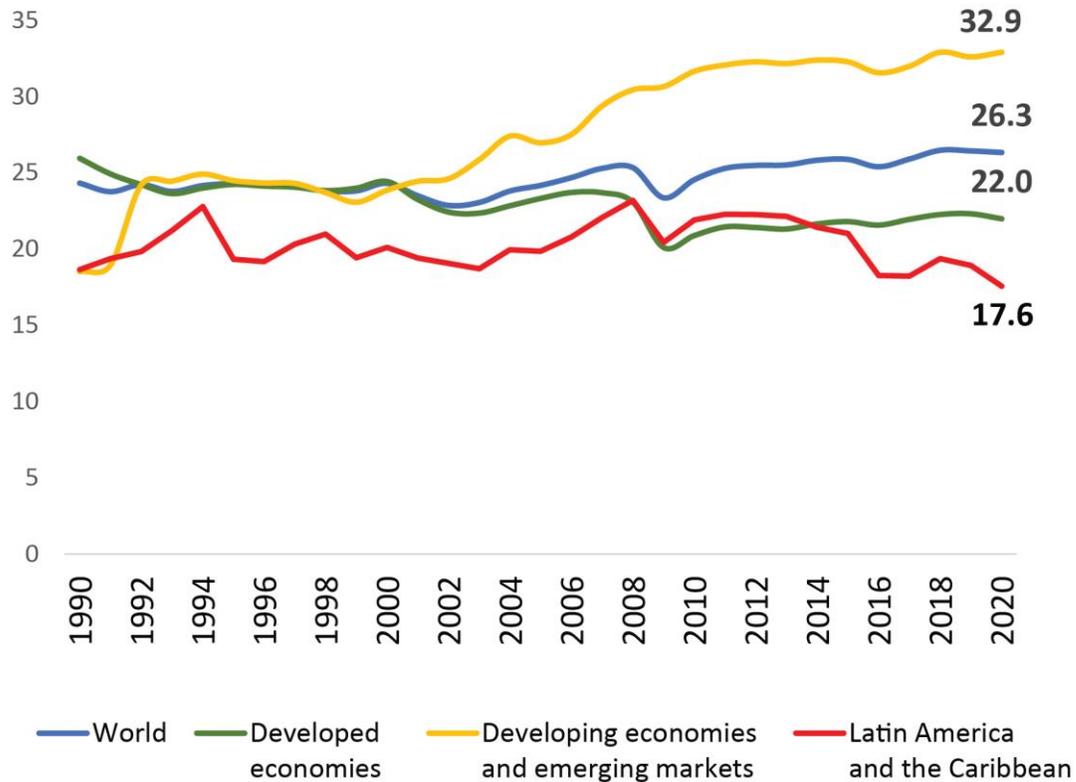
# What should the region do in a context that challenges the orthodoxy?

- Strengthen the role of the State and of public policies
- Sustain expansionary fiscal and monetary policy: bolster investment
- Maintain emergency transfers
- Strengthen social protection systems
- Restructure education and health systems
- Cross-cutting policies, and industrial, sectoral and gender policies, for a new development model
- Integration of regional production and trade
- Global compact for a new international financial architecture: taxation, debt and liquidity

# Sustaining expansionary fiscal policies: transfers and investment

## Investment to GDP ratio, 1990–2020

(Percentages, on the basis of dollars at current prices)



- **Expansionary fiscal policies to support social protection and investment, which is at its lowest level in 30 years.**
- **Maintain emergency social transfers**, support production sectors and reverse the fall in investment.
- Expand fiscal space through growth in **tax revenues and reductions in tax expenditures.**
- Progressive taxation: strengthen and expand the scope of income, property and wealth taxes.
- **Match international standards**, royalties (exploitation of non-renewable resources) and taxes on the digital economy, and on goods that harm the environment or public health.
- **Mainstream gender throughout the budget cycle.**

Source: ECLAC, on the basis of International Monetary Fund (IMF), World Economic Outlook Database, April 2021.

# In 2021, if emergency transfers are discontinued, there will be 15 million more people living in extreme poverty

**Figure 26**  
Latin America (18 countries): extreme poverty and poverty, 2019–2021  
(Millions of people)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).

# Investment in universalizing basic services by 2030

**Latin America and the Caribbean (18 countries):  
benefits and costs of investing to universalize coverage  
of drinking water and sanitation and electricity**

Item	Safely managed water and sanitation	Electricity
Population of Latin America and the Caribbean without access	166 million people without safely managed drinking water 443 million people without safely managed sanitation	19 million people without access to electricity 77 million people without access to clean cooking fuels and technologies
Annual cost of the non-payment of water, sanitation, and electricity bills, quintiles I and II, resulting from pandemic-related measures	0.12% of annual GDP	0.29% of annual GDP
Annual investment required until 2030 to achieve universal coverage	1.3% of annual GDP	1.3% of annual GDP
Cost-benefit ratio per dollar invested	US\$ 2.4 in drinking water US\$ 7.3 in sanitation	n.a.
New direct jobs	3.6 millions of jobs per year	0.5 millions of jobs per year

- Improvement of public and environmental health
- Create new jobs
- Boost to sustainable water and energy transitions
- Reduction of CO<sub>2</sub> emissions by nearly 100 million tons equivalent
- Public-private partnerships
- Incentives for regional energy integration and complementarity
- Regulatory requirements: legal certainty, technological neutrality, effective public regulator

# A new international financial architecture to address the emergency and the region's development

- Access to different sources of international financing
- Multilateral forum to discuss restructuring and issuance of external debt, including private creditors and multilateral credit rating agency
- Inclusion of middle-income countries in all initiatives relating to debt relief and access to concessional and non-concessional liquidity
- Innovative instruments: hurricane clauses, green bonds and SDG bonds
- Capitalization and strengthening of development banks at all levels
- Multilateral mechanisms to apply global taxes, end tax avoidance and evasion, and put a stop to illicit financial flows
- Rethinking of the cooperation system: multidimensional measurement that goes beyond per capita GDP

# A transformative recovery, with an emphasis on investment in equality and sustainability

- **Transform the State:** restructure education and health systems
- **Strengthen** welfare states and transition to a care society
- **Short-term proposals:** maintain transfers, emergency basic income, anti-hunger grant, basic digital basket and support for micro-, small and medium-sized enterprises (MSMEs)
- **Industrial and technological policies:** support for sectors that can drive a big push in investment for sustainability
- **Regional integration:** vital to the short-term recovery and the transition to more inclusive and sustainable development
- **A new social and fiscal pact** that promotes investment, employment, equality and climate action
- **Inclusive discussions to overcome the lack of international solidarity**