2021

Preliminary Overview of the Economies
of Latin America and the Caribbean

UNITED NATIONS

ECLAC

Principal messages

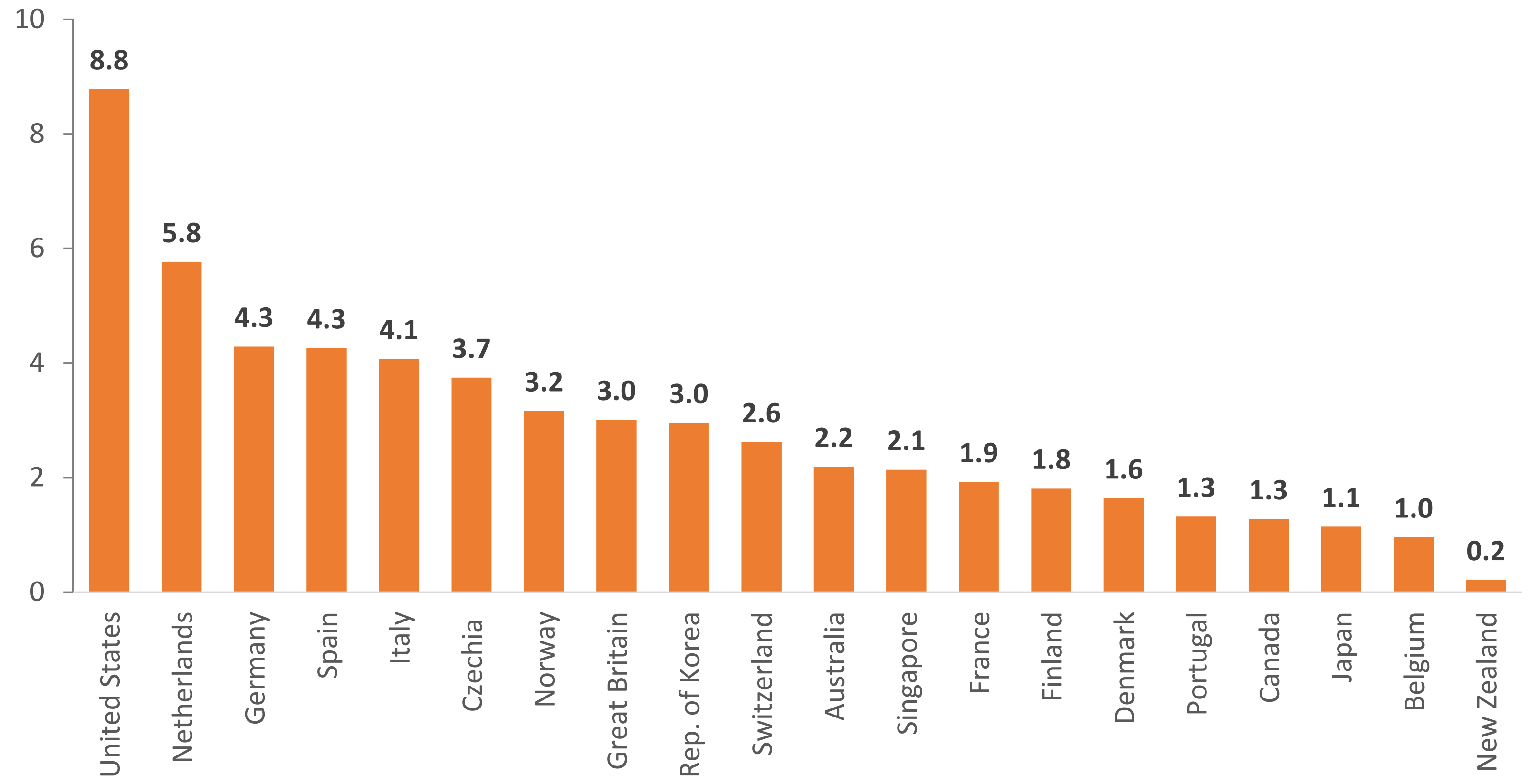
1. **Uncertainty** and profound **asymmetries** between developed and developing countries in:
   - Policy response capacity (macroeconomic, productive, social and health) with divergences in the velocity and recovery of growth and investment.
   - Advanced economies alone are projected to return to their forecasted pre-pandemic growth trajectory in 2022. Emerging economies would only return to it in 2025.
2. **Less global growth and trade**, slowdown in the United States and China – a financial context with greater uncertainties and more restrictive.
3. The **region** faces a **less favourable external context** and a strong deceleration of growth, **less fiscal space, inflationary pressures and exchange rate volatility**.
4. **Low investment and productivity**, slow recovery in employment and persistence of the social effects caused by the crisis.
5. It is essential to **maintain growth through coordinated fiscal and monetary policies** to prioritize the challenges of growth and monetary-financial stability.

Asymmetries in the spaces to undertake active fiscal policies

- Advanced economies have maintained fiscal stimulus, taking advantage of favourable financing conditions - low interest rates (negative in some cases).
- Between January and September of 2021, advanced economies announced new fiscal measures in the order of **2.5 trillion dollars vs 330 billion** in emerging markets.

SELECTED ADVANCED ECONOMIES (20 COUNTRIES): DISCRETIONAL EXPENDITURE AND REVENUE MEASURES ANNOUNCED OR IMPLEMENTED TO FACE THE CRISIS DERIVED FROM COVID-19, JANUARY TO SEPTEMBER 2021[a]

(In percentages of 2020 GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of IMF (2021c) and IMF (2021a).

[a] Includes measures announced or in the process of implementation between January and September 2021.

Asymmetries in the response of monetary policy interest rates: up to now the largest rate increases have been made by emerging economies

Interest rates in the main advanced economies remain at historic lows

Country / Region	Policy rate	Change in policy rate (last year, in basis points)	Interannual inflation
Australia	0.10%	0	3.0%
Canada	0.25%	0	4.7%
Czech Rep.	2.75%	250	6.0%
Denmark	-0.45%	-50	3.4%
Euro zone	0.00%	0	
Hong Kong	0.50%	0	1.7%
Iceland	2.00%	100	4.8%
Israel	0.10%	0	2.4%
Japan	-0.10%	0	0.1%
New Zealand	0.75%	50	4.9%
Norway	0.50%	50	5.1%
Singapore	0.08%	5	3.2%
South Korea	1.00%	50	3.7%
Sweden	0.00%	0	3.3%
Switzerland	-0.75%	0	1.5%
U.K.	0.25%	15	5.1%
U.S.	0.25%	0	6.8%

Country / Region	Policy rate	Change in policy rate (last year, in basis points)	Interannual inflation
Bahrain	2.25%	0	0.3%
Bulgaria	0.00%	0	7.3%
China	4.35%	0	2.3%
Croatia	3.00%	0	3.8%
Egypt	9.25%	0	5.6%
Hungary	2.40%	180	7.4%
India	4.00%	0	4.9%
Indonesia	3.50%	-25	1.7%
Lebanon	10.00%	0	173.6%
Malaysia	1.75%	0	2.9%
Morocco	1.50%	0	1.7%
Oman	0.50%	0	3.4%
Pakistan	10.75%	275	11.5%
Philippines	2.00%	0	4.2%
Poland	1.75%	165	7.8%
Qatar	1.00%	0	6.1%
Romania	1.75%	25	7.8%
Russia	7.50%	325	8.4%
Saudi Arabia	1.00%	0	1.1%
South Africa	3.75%	25	5.5%
Thailand	0.50%	0	2.7%
Turkey	14.00%	-100	21.3%
Ukraine	9.00%	300	10.3%

Country / Region	Policy rate	Change in policy rate (last year, in basis points)	Interannual inflation
Brazil	**9.25%**	**725**	**10.7%**
Chile	**4.00%**	**350**	**6.7%**
Colombia	**3.00%**	**125**	**5.3%**
Mexico	**5.50%**	**125**	**7.4%**
Peru	**2.50%**	**225**	**6.4%**

+ Level of the policy rate -

+ Change in the policy rate -

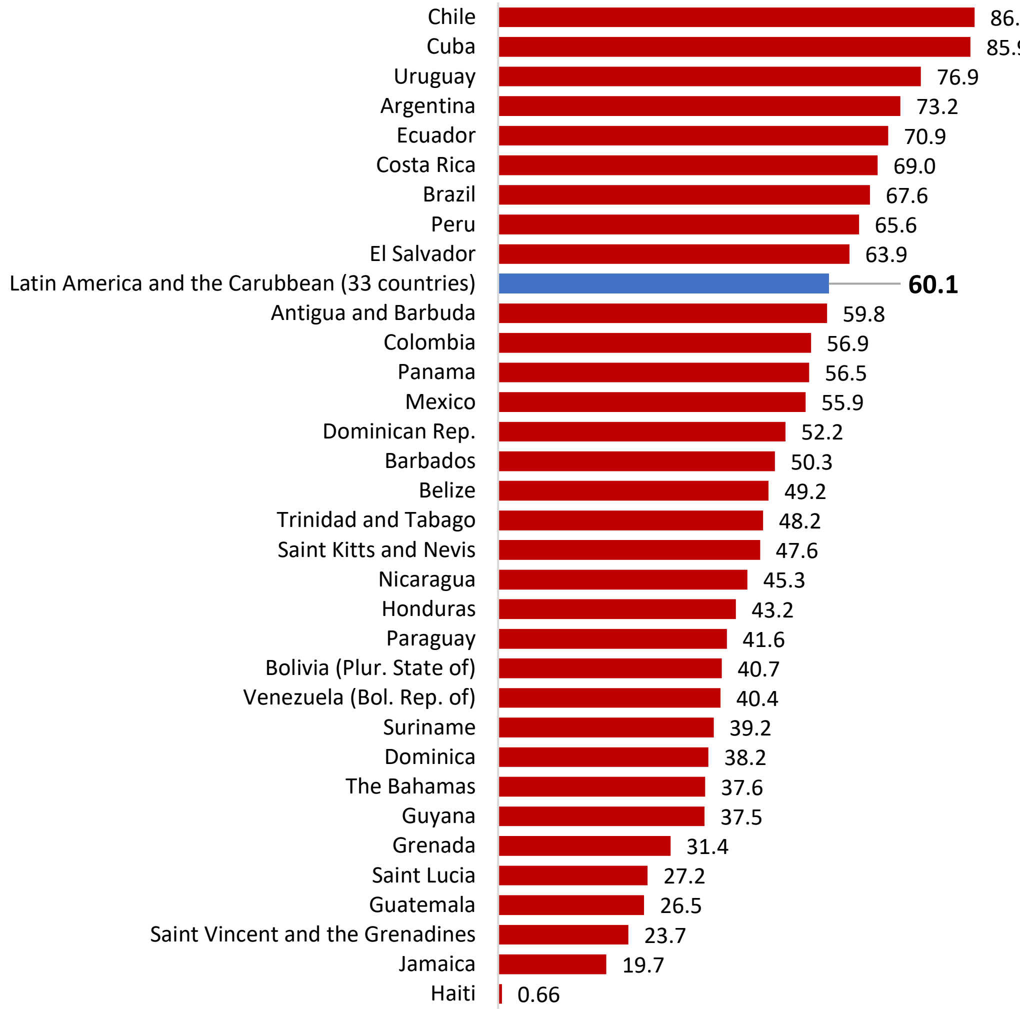
+ Variation in prices -

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg as of **December 16 2021**.

The motivation for the plan: unequal access to vaccination

LATIN AMERICA AND THE CARIBBEAN (33 COUNTRIES): PERCENTAGE OF TOTAL POPULATION WITH COMPLETE VACCINATION SCHEME

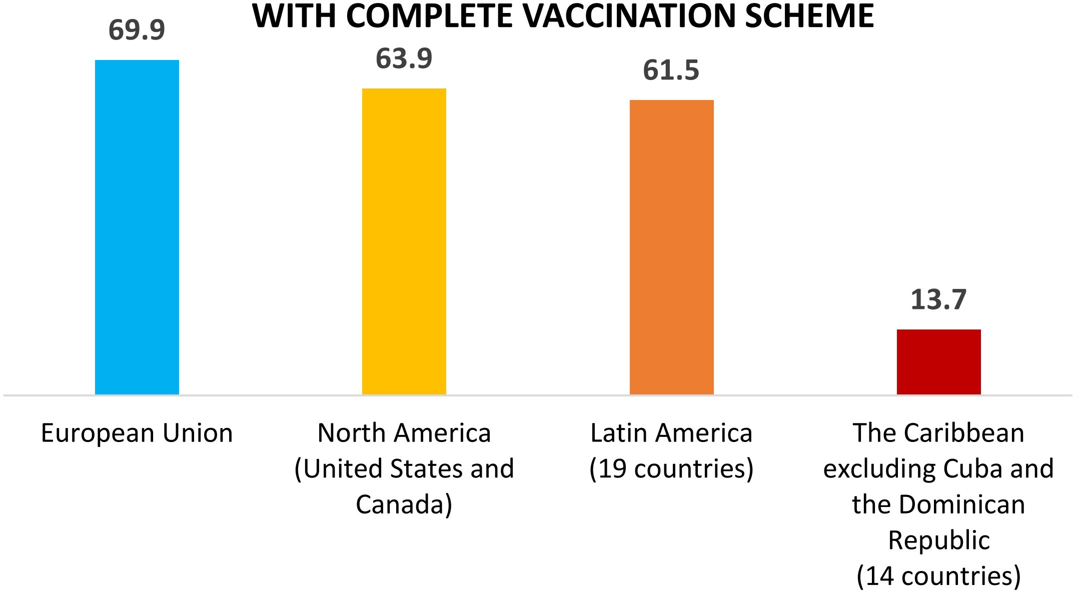
(In percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Our World in Data* [online] www.ourworldindata.org.
Note: Registry for countries that report the breakdown of administered doses (first and second) as of January 10, 2022 or latest available date.

The region has vaccinated almost 60% of its population, with important advances but also great differences between countries

PERCENTAGE OF TOTAL POPULATION WITH COMPLETE VACCINATION SCHEME

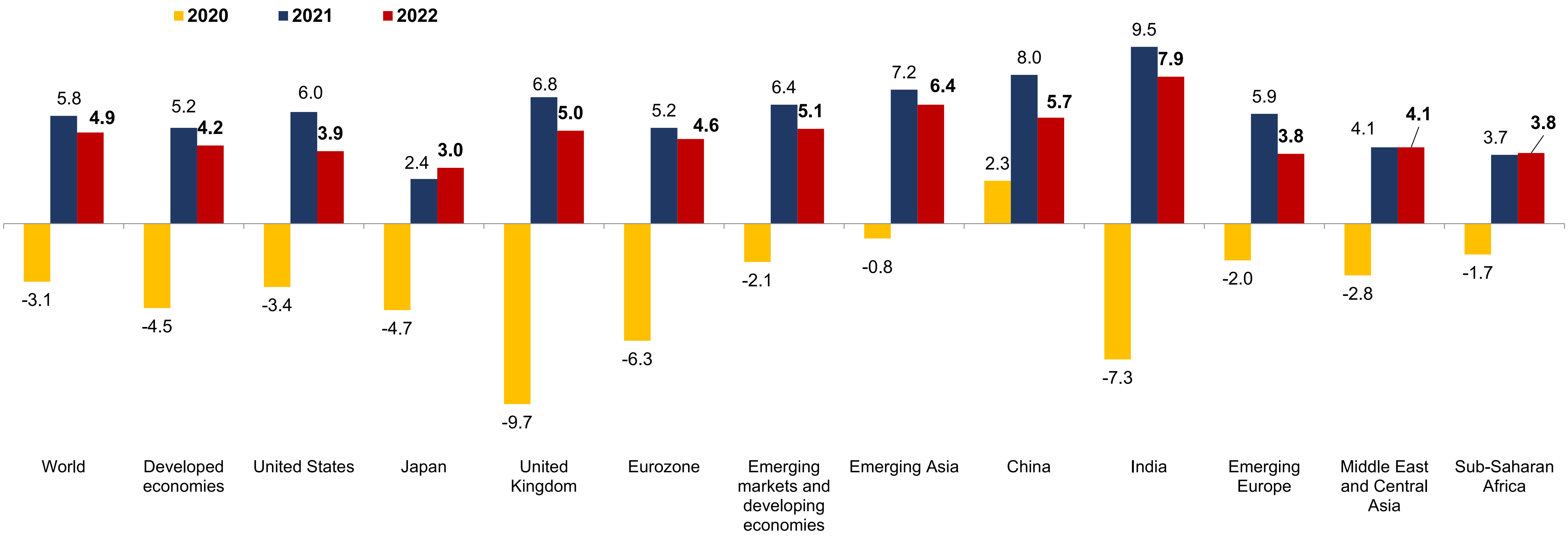


Purchases of some countries surpass their vaccination needs. European Union, United States, United Kingdom, Canada and Japan **represent 39% of purchase commitments,** while making up only 12.9% of the world's population[a].

Source: Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC's COVID-19 Observatory, on the basis of *Duke Global Health Innovation Center. (2021). Launch and Scale Speedometer. Duke University. Retrieved from: https://launchandscalefaster.org/covid-19* for November 19th 2021 or latest available date.

Global GDP growth projections are lower for 2022 than for 2021, in particular for the region's main commercial partners, the United States and China

SELECTED REGIONS AND COUNTRIES: GDP GROWTH RATES, 2020 AND PROJECTIONS FOR 2021 AND 2022[a]
(in *percent*)

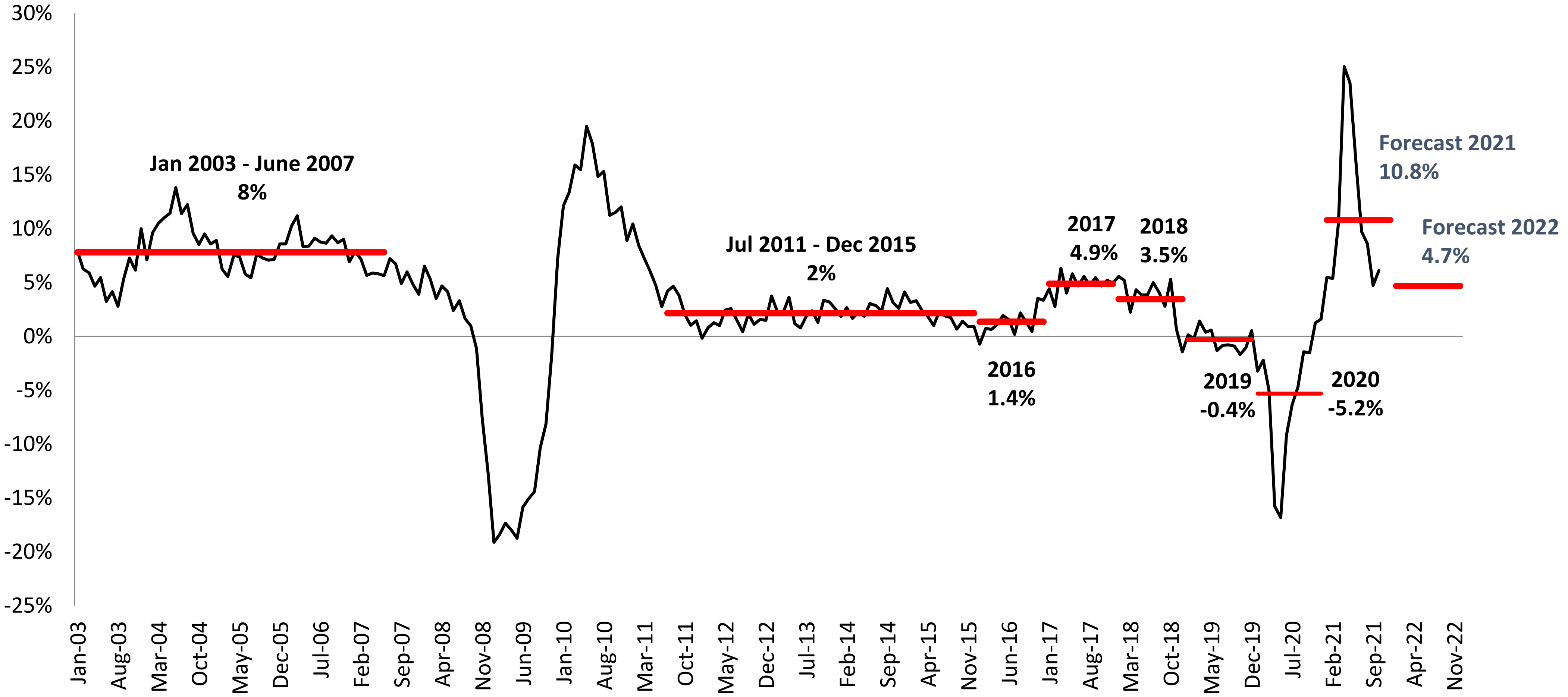


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), *OECD Economic Outlook, Interim Report September 2021*, September 2021; International Monetary Fund (IMF), World Economic Outlook (WEO), October 2021; European Central Bank (ECB), "Eurosystem staff macroeconomic projections", September 2021 and Capital Economics accessed 18 October 2021.
[a] In India, the fiscal year begins in April and ends in March the following year.

Trade volumes are also expected to register slower growth in 2022, 4.7% vs 10.8% in 2021

WORLD TRADE VOLUME: YEAR-ON-YEAR RATE OF CHANGE, JANUARY 2003 – SEPTEMBER 2021

(Percentages, on the basis of a seasonally adjusted index)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau for Economic Policy Analysis (CPB), World Trade Monitor, World Trade Monitor [online database] https://www.cpb.nl/en/worldtrademonitor and World Trade Organization (WTO), “La recuperación del comercio mundial supera las expectativas, aunque con divergencias regionales”, Press Release, 4th October 2021 [online], https://www.wto.org/spanish/news_s/pres21_s/pr889_s.htm

Commodity prices are expected to stabilize in 2022 after rising strongly in 2021

ANNUAL VARIATION IN MEAN INTERNATIONAL COMMODITY PRICES, 2020 AND PROJECTIONS FOR 2021 AND 2022

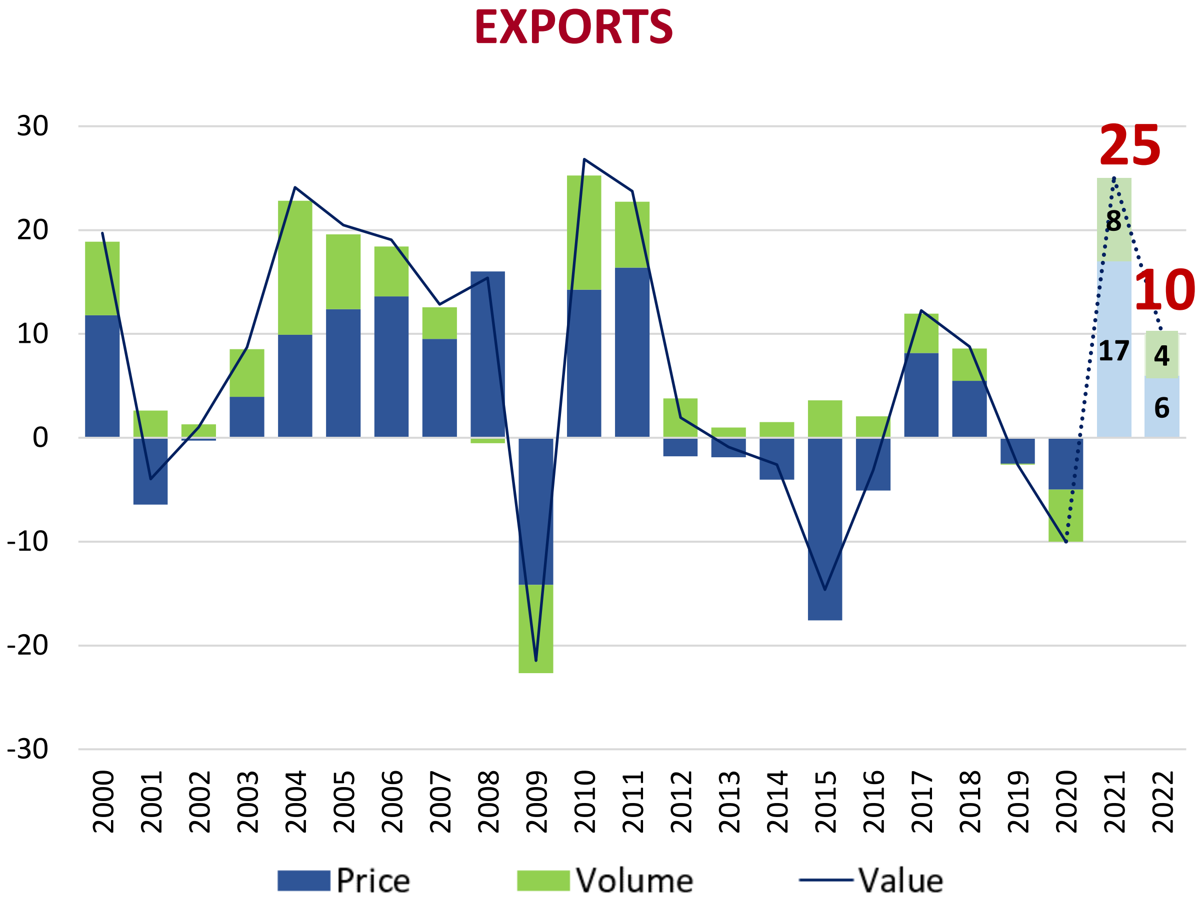
	Price changes 2020 (%)	Projected price changes 2021 (%)	Projected price changes 2022 (%)
Agricultural products	**1.6%**	**22.4%**	**-0.4%**
Food, tropical beverages and oilseed	**2.7%**	**27.7%**	**-0.5%**
Food	-2.3%	20.1%	0.4%
Tropical beverages	10.0%	34.1%	5.2%
Vegetable oilseeds and oils	8.4%	36.2%	-2.9%
Agricultural raw products	**-2.2%**	**4.0%**	**-0.2%**
Minerals and metals	**9.1%**	**36.9%**	**-8.4%**
Energy	**-29.3%**	**74.2%**	**0.3%**
Crude oil	**-32.7%**	**69.0%**	**1.0%**
Total primary products	**-6.6%**	**41.8%**	**-3.2%**
Total primary products (excluding energy)	**5.5%**	**30.2%**	**-4.9%**

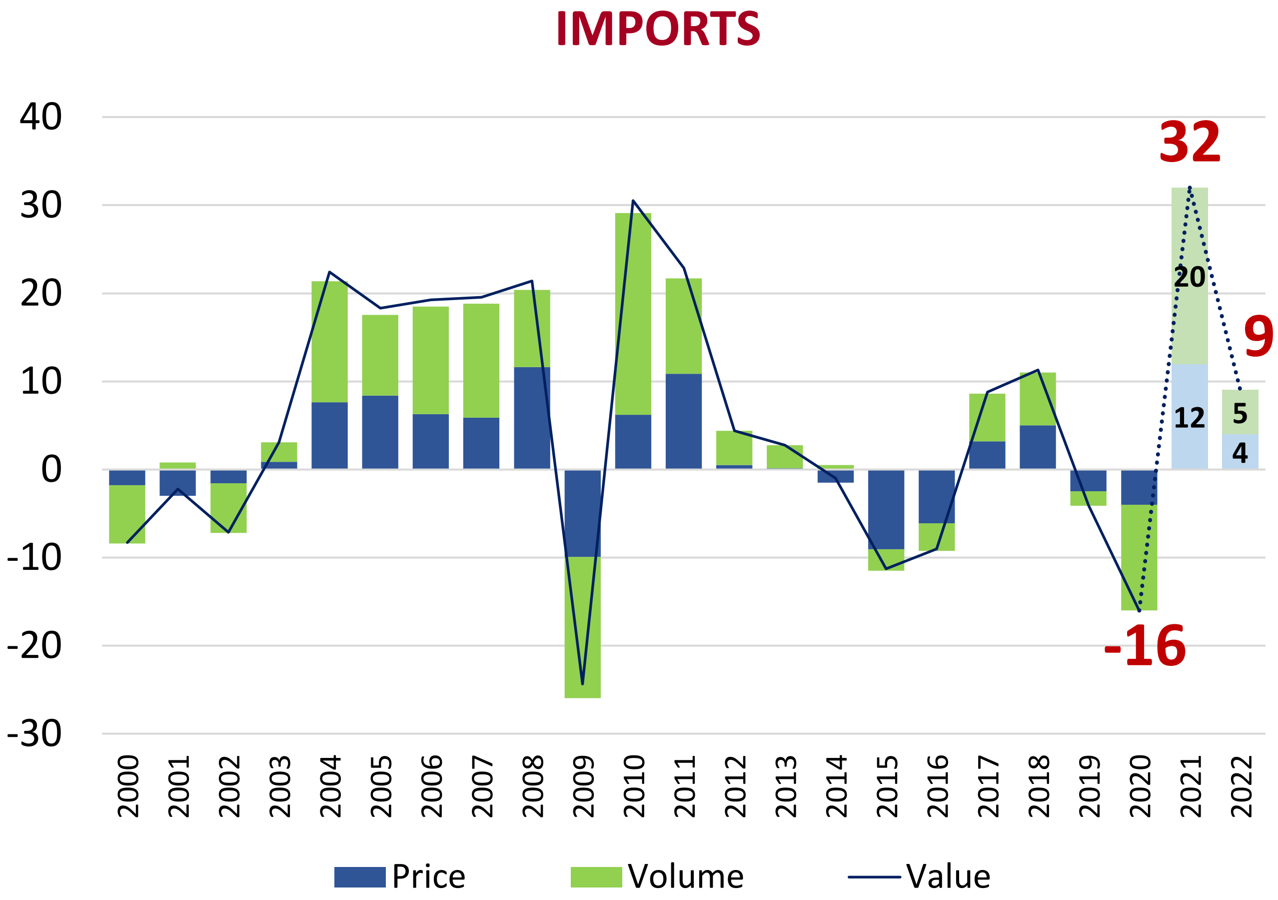
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank (The Pink Sheet) Data [Online] https://www.worldbank.org/en/research/commodity-markets and for the projections 2021 source: International Monetary Fund (IMF); Economist Intelligence Unit, Bloomberg; U.S. Energy Information Administration (EIA), "Short-Term Energy Outlook", Capital Economics and Banco Central de Chile, “Informe de política monetaria, septiembre 2021” Santiago de Chile, for the copper price.

After a strong recovery of exports and imports in 2021, growth is expected to continue in 2022, but at a more moderate rate

LATIN AMERICA AND THE CARIBBEAN: RATE OF CHANGE IN THE TRADE OF GODOS, BY VALUE, VOLUMEN AND PRICE, 2000 TO 2022

(In percentages)





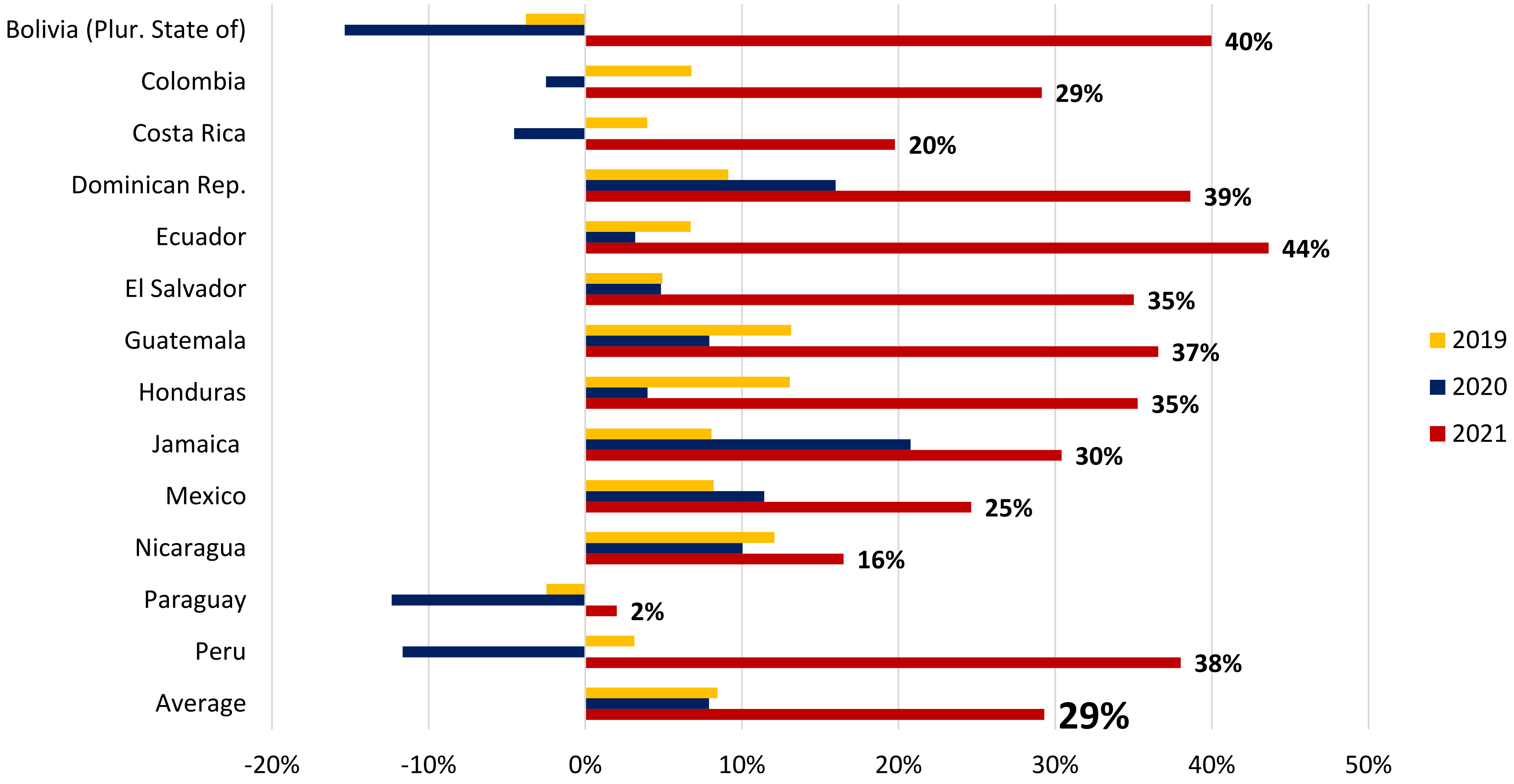
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures of the International Trade and Integration Division of ECLAC.

Note: In 2021, exports would have surpassed 13% and imports 11% their 2019 values.

Remittances increased by 30% in 2021, and for 2022 they are expected to continue to be an important source of external resources

LATIN AMERICA (SELECTED COUNTRIES): RATE OF CHANGE IN MIGRANT REMITTANCE REVENUES, 2019–2021*

(*In percentages, on the basis of current dollars*)



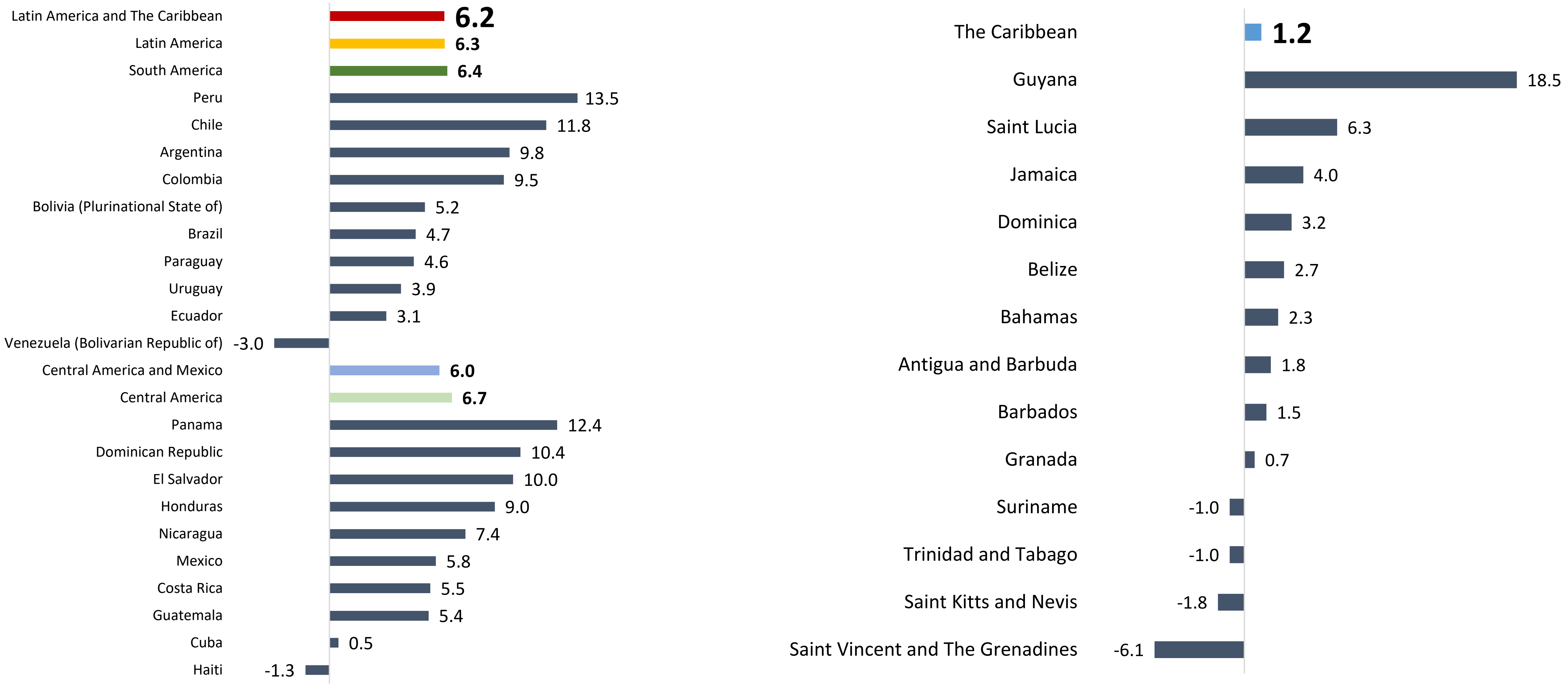
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

* 2021 corresponds to the period between January and September in the case of Nicaragua and Peri; January and October for Bolivia, Colombia, Honduras, Jamaica, Mexico and Paraguay; January and November in the case of the Dominican Republic, El Salvador and Guatemala; January and June in the case of Costa Rica and Ecuador.

The region grew 6.2% in 2021

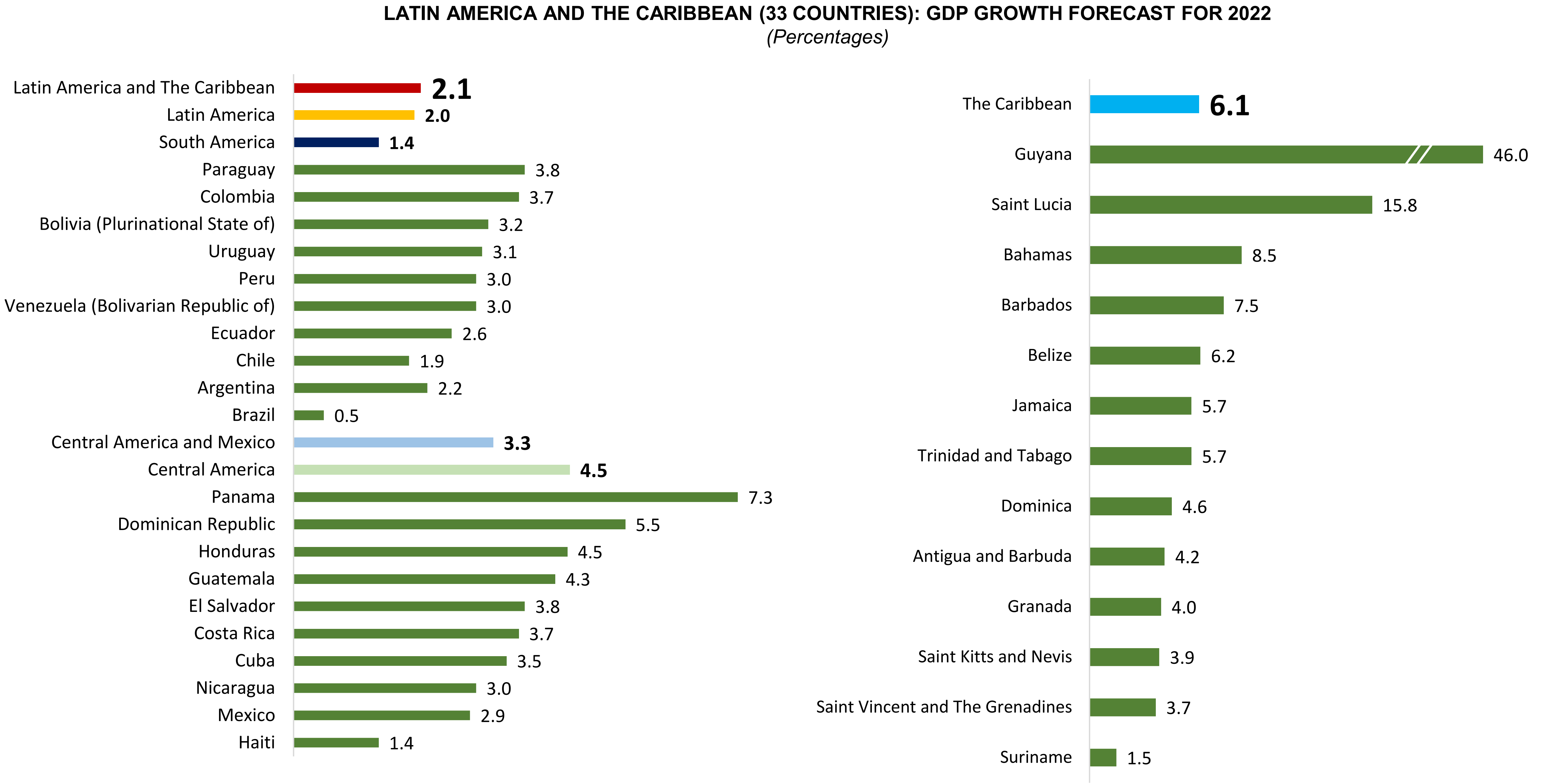
LATIN AMERICA AND THE CARIBBEAN (33 COUNTRIES): GDP GROWTH FORECAST FOR 2021

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures
Note: Central America includes Cuba, Haiti and the Dominican Republic. The Caribbean does not include Guyana.

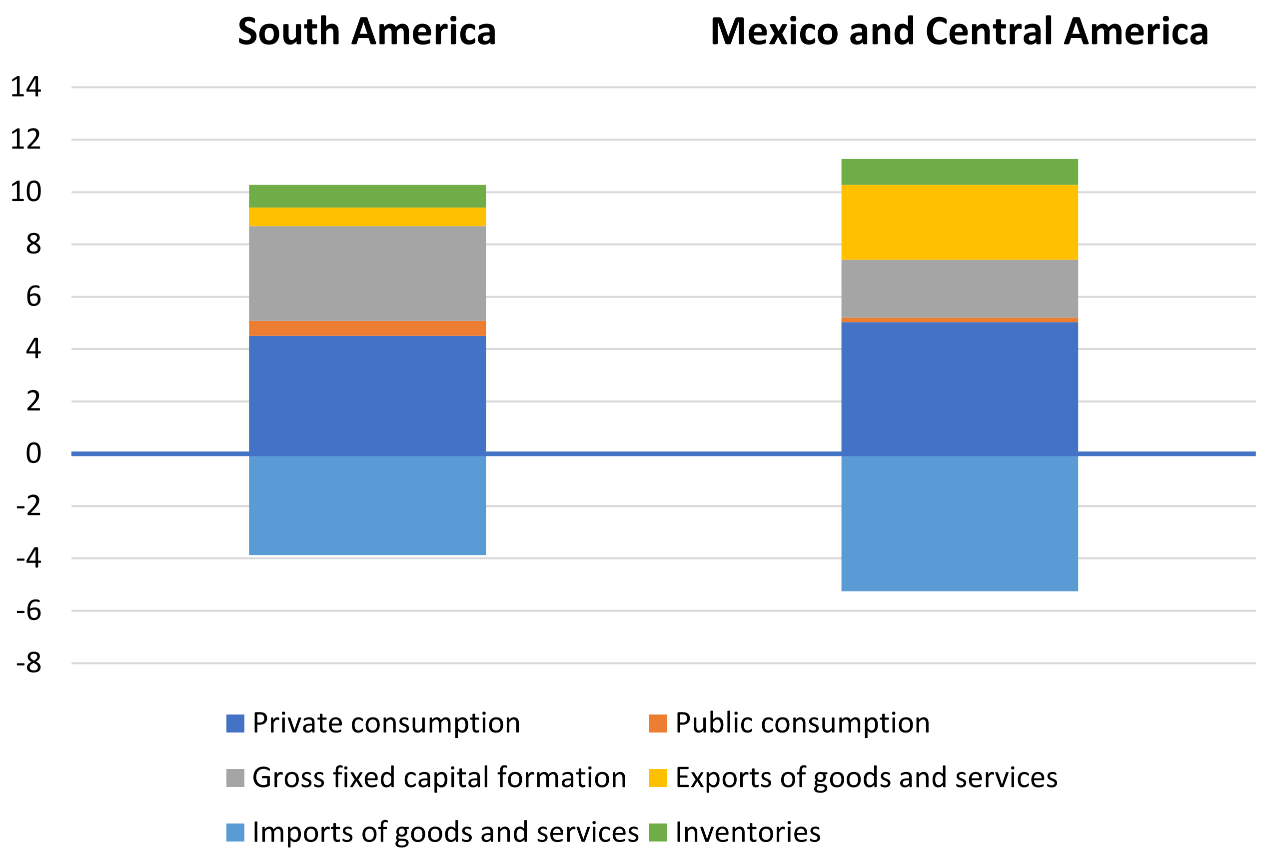
GDP growth in the region is expected to slow in 2022: 2.1%



Note: Central America includes Cuba, Haiti and the Dominican Republic. The Caribbean does not include Guyana.

Consumption was the primary driver of growth in 2021, supported by exports and GFCF

SOUTH AMERICA AND MEXICO AND CENTRAL AMERICA: GDP GROWTH AND CONTRIBUTION OF COMPONENTS OF FINAL DEMAND TO GDP GROWTH
(En porcentajes, dólares constantes de 2010)



Principal drivers

South America

- Increase in private consumption due to increased transfers and higher national income linked to higher commodities prices.
- Recovery in **construction bolstered GFCF**
- Recovery in China impacted commodities prices.

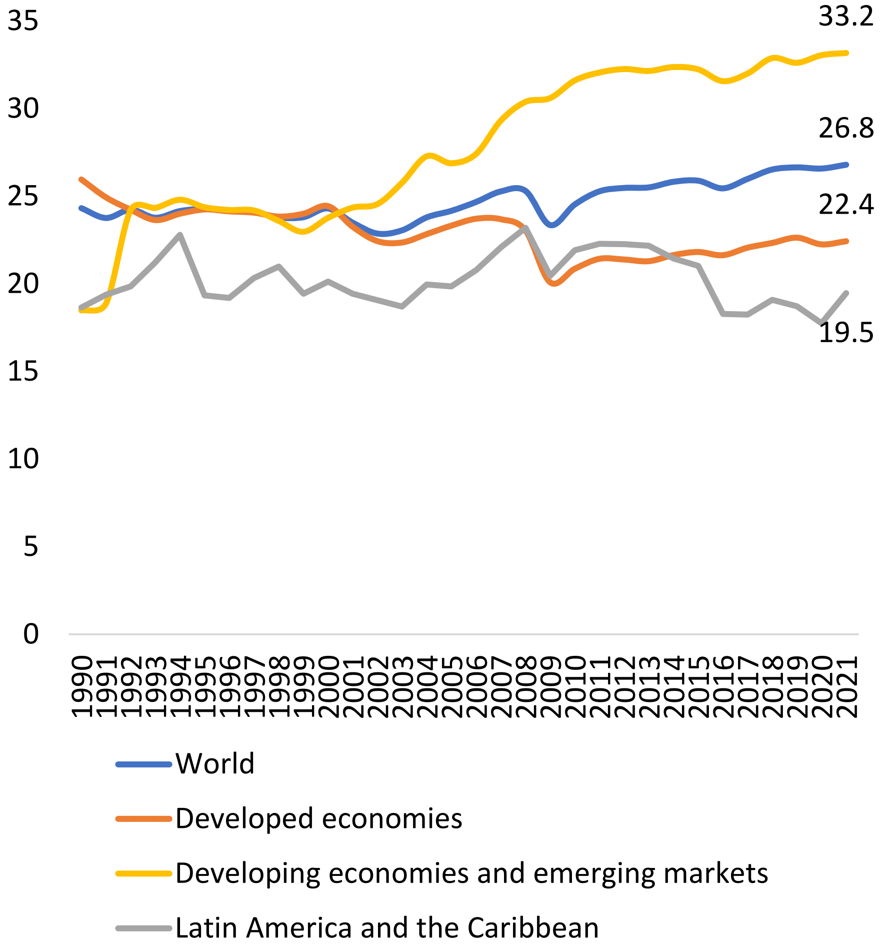
Mexico and Central America

- Increase in private consumption supported by higher remittances flows
- Recovery in the United States bolstered **exports**, especially of manufactured goods
- Increase in foreign investment with a GFCF component

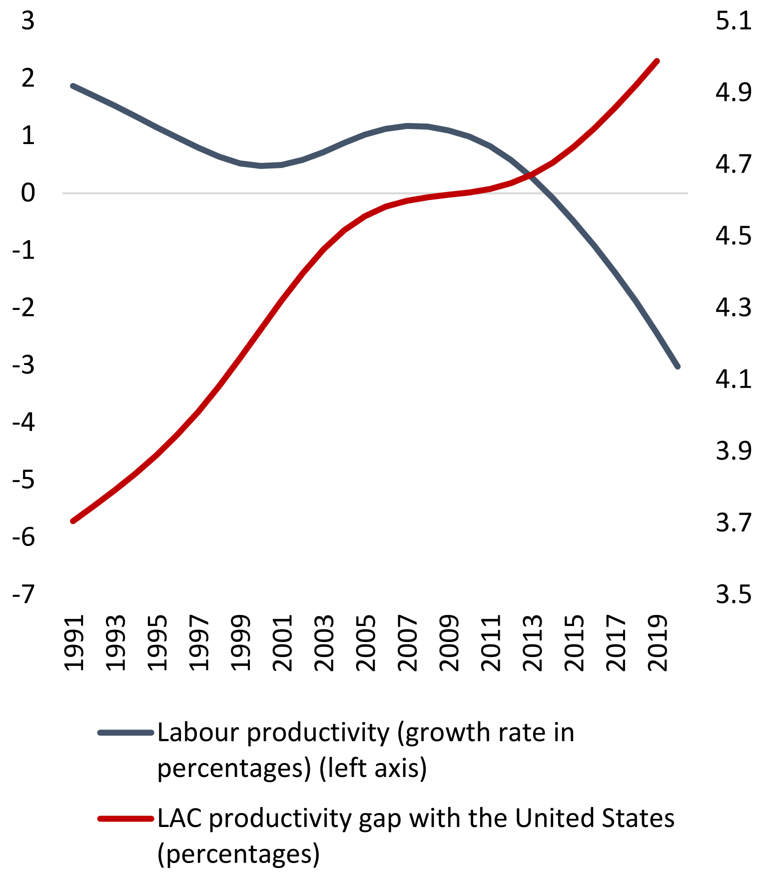
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Investment and productivity are a structural problem that condition the possibility of sustaining a recovery beyond the GDP rebound in 2021

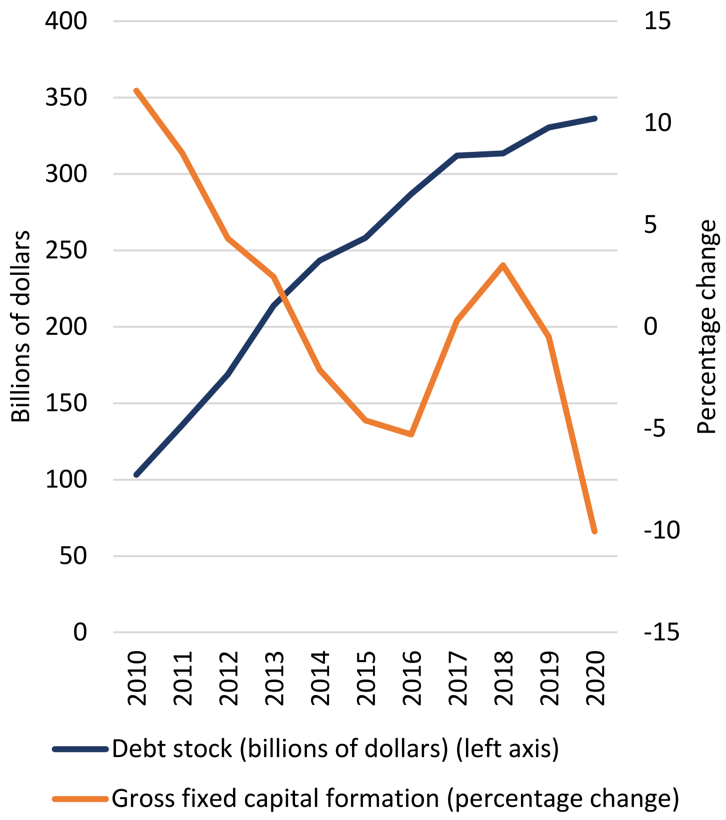
WORLD AND SELECTED REGIONS: INVESTMENT OVER GDP RATIO, 1990 TO 2021
(Ratios based on current dollars, in percentages)



LATIN AMERICA AND THE CARIBBEAN: LABOR PRODUCTIVITY GROWTH AND LABOR PRODUCTIVITY GAP IN LAC COMPARED TO THE US, 1991 to 2020
(In percentages)



LATIN AMERICA AND THE CARIBBEAN: GROWTH OF GROSS FIXED CAPITAL FORMATION AND STOCK OF EXTERNAL BONDS OF THE NON-FINANCIAL CORPORATE SECTOR, 2010 TO 2020
(Percentages and billions of dollars)

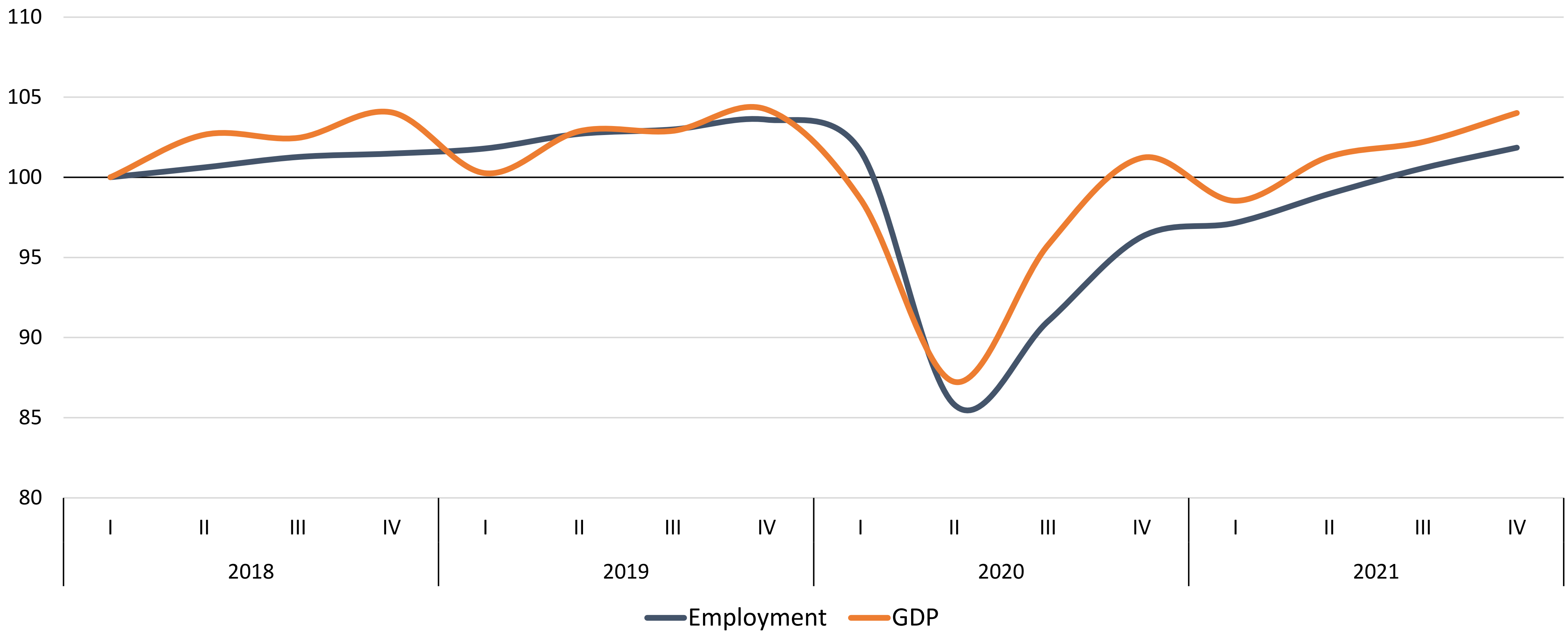


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from *World Economic Outlook October 2021* (IMF), BIS and official figures.

Employment will recover at a slower pace than economic activity: 30% of jobs lost in 2020 will not be recovered in 2021

LATIN AMERICA: NUMBER OF EMPLOYED AND GROSS DOMESTIC PRODUCT, 2018 TO 2021

(Index 2018=100)



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

In 2021, inequality between men and women increased, reflecting the overload of care provision on women and the lower dynamism of sectors that concentrate female employment

LATIN AMERICA AND THE CARIBBEAN: PARTICIPATION RATE, UNEMPLOYMENT RATE AND CHANGE IN NUMBER OF EMPLOYED, TOTAL AND BY GENDER
(In percentages)

	2019	2020	2021	2022
Participation rate (%)	**63.3**	**58.9**	**61.4**	**62.2**
Female	51.8	47.7	50.0	51.3
Male	75.5	70.8	73.5	73.8
Unemployment rate (%)	**7.9**	**10.3**	**9.7**	**9.5**
Female	9.5	12.1	11.8	11.5
Male	6.8	9.1	8.1	8.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: 2020 are estimates and 2022 are projections.

- In 2021, more than 38% of the jobs held by women that were destroyed during the crisis were not recovered In the case of men this number is 21%.
- In 2020 and 2021, higher unemployment and falling labour force participation impacted women more, particularly women in households with children under 5 years of age (due to the greater burden of care).
- In 2022, under a scenario of recovery of the participation rate to pre-crisis levels (2019), the estimated unemployment rates would be:
  - Female: 12.4%
  - Male: 10.2%
  - Total: 11.1%

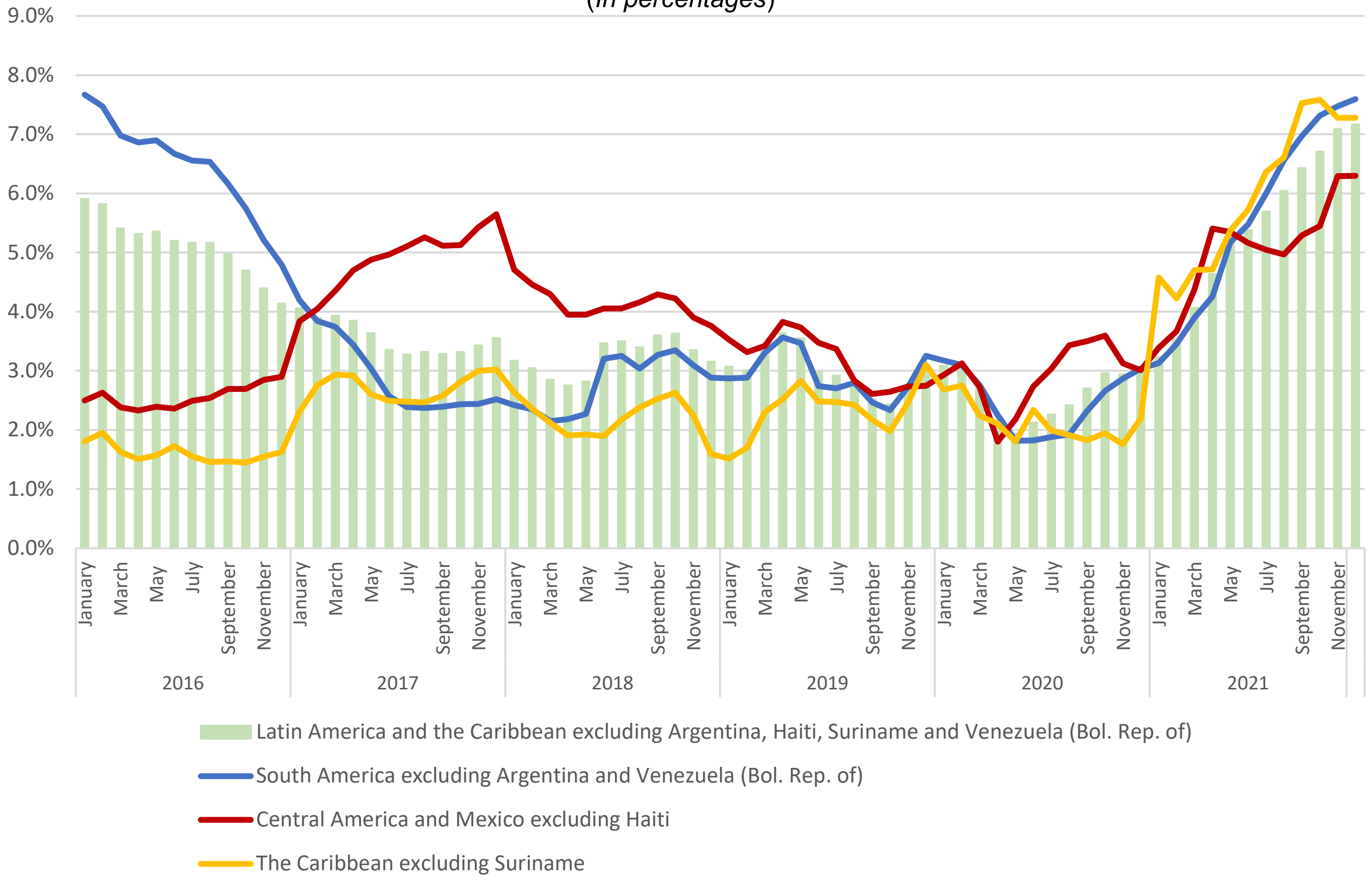
During 2022, 5 risks are envisioned that could complicate fiscal policymaking

1. A slowing economic growth in 2022, low investment and generation of jobs.
2. Inflationary pressures.
3. Higher interest rates as monetary policy normalizes in developed countries and national authorities take measures to respond to growing inflationary pressures.
4. Risk of exchange rate depreciation.
5. Risk of possible deterioration in sovereign credit ratings.

The region experienced inflationary pressures in 2021, which are expected to persist in 2022, led by food and energy prices

LATIN AMERICA AND THE CARIBBEAN: YEAR-ON-YEAR GROWTH IN CONSUMER PRICE INDEX (CPI) BY TYPES OF INFLATION, WEIGHTED AVERAGE, JANUARY 2016 TO DECEMBER 2021

(In percentages)



LATIN AMERICA AND THE CARIBBEAN: YEAR-ON-YEAR GROWTH RATE OF THE CONSUMER PRICE INDEX (CPI) [a]

(In percentages)

By subregion	2020	2021
Latin America and the Caribbean excluding Argentina, Haiti, Suriname and Venezuela (Bol. Rep. of)	3.0	7.2
South America excluding Argentina and Venezuela (Bol. Rep. of)	3.0	7.6
Central America and Mexico excluding Haiti	3.0	6.3
Central America excluding Haiti	1.0	1.6
The Caribbean excluding Suriname	2.2	7.3
By CPI components		
General	3.0	7.2
Core	1.9	4.9
Tradable	5.8	6.9
Food	7.5	7.8
Nontradable	1.6	6.9

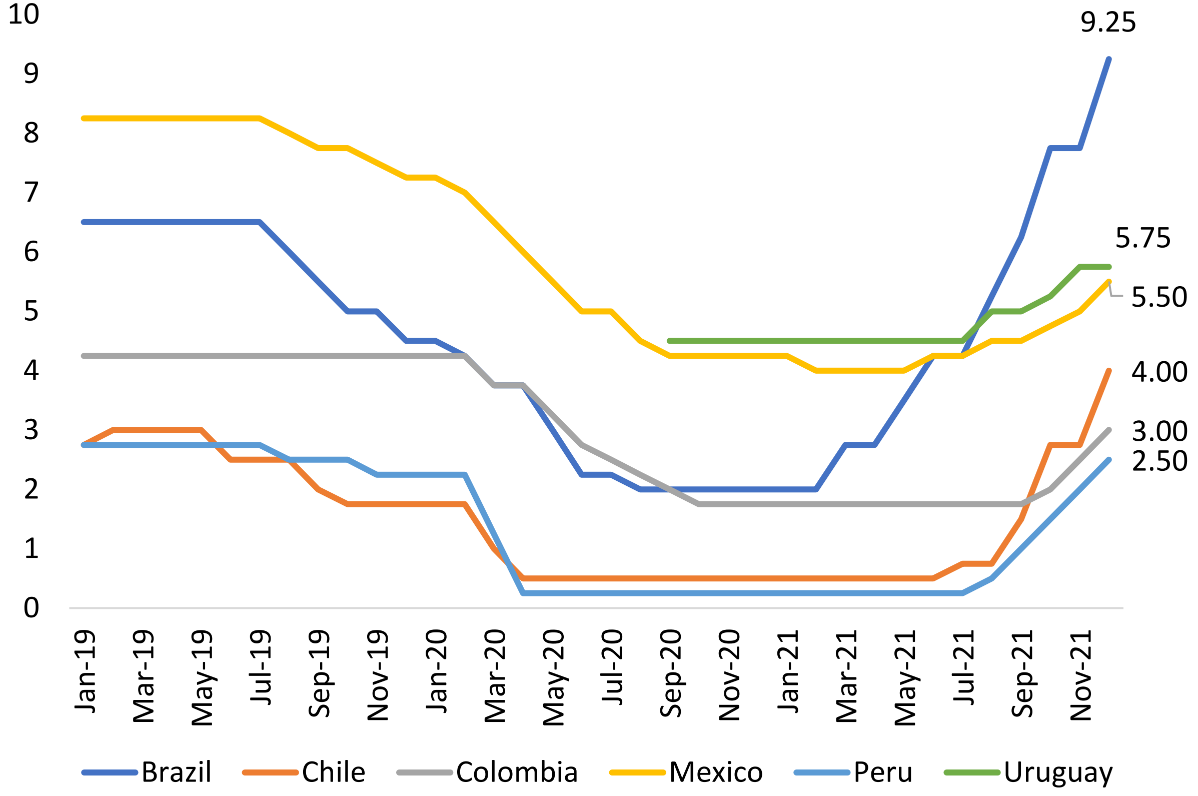
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Central banks have mainly used interest rate hikes to deal with inflationary pressures

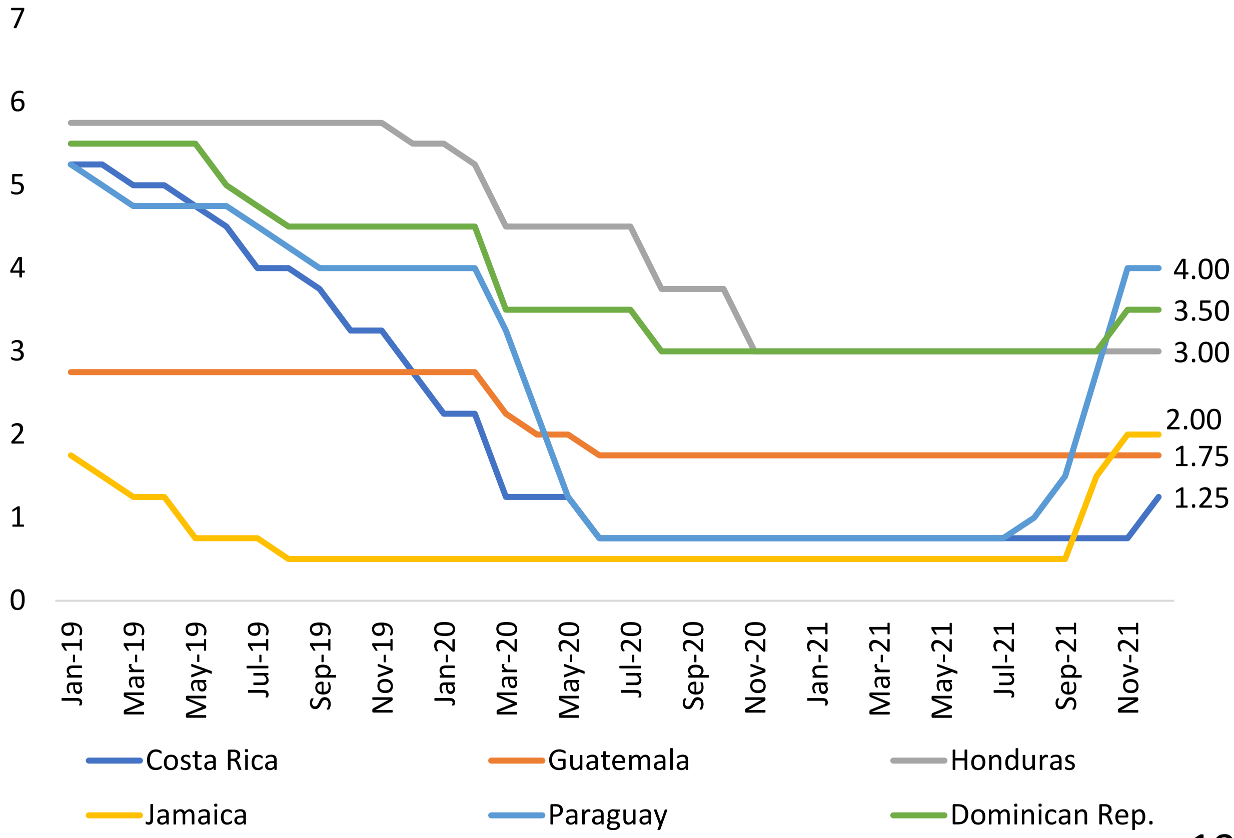
LATIN AMERICA AND THE CARIBBEAN (12 COUNTRIES): MONETARY POLICY RATE IN THE COUNTRIES THAT USE IT AS THE MAIN POLICY INSTRUMENT, JANUARY 2019 TO DECEMBER 2021

(In percentages)

A. Countries with flexible exchange rates



B. Countries with intermediate exchange rates

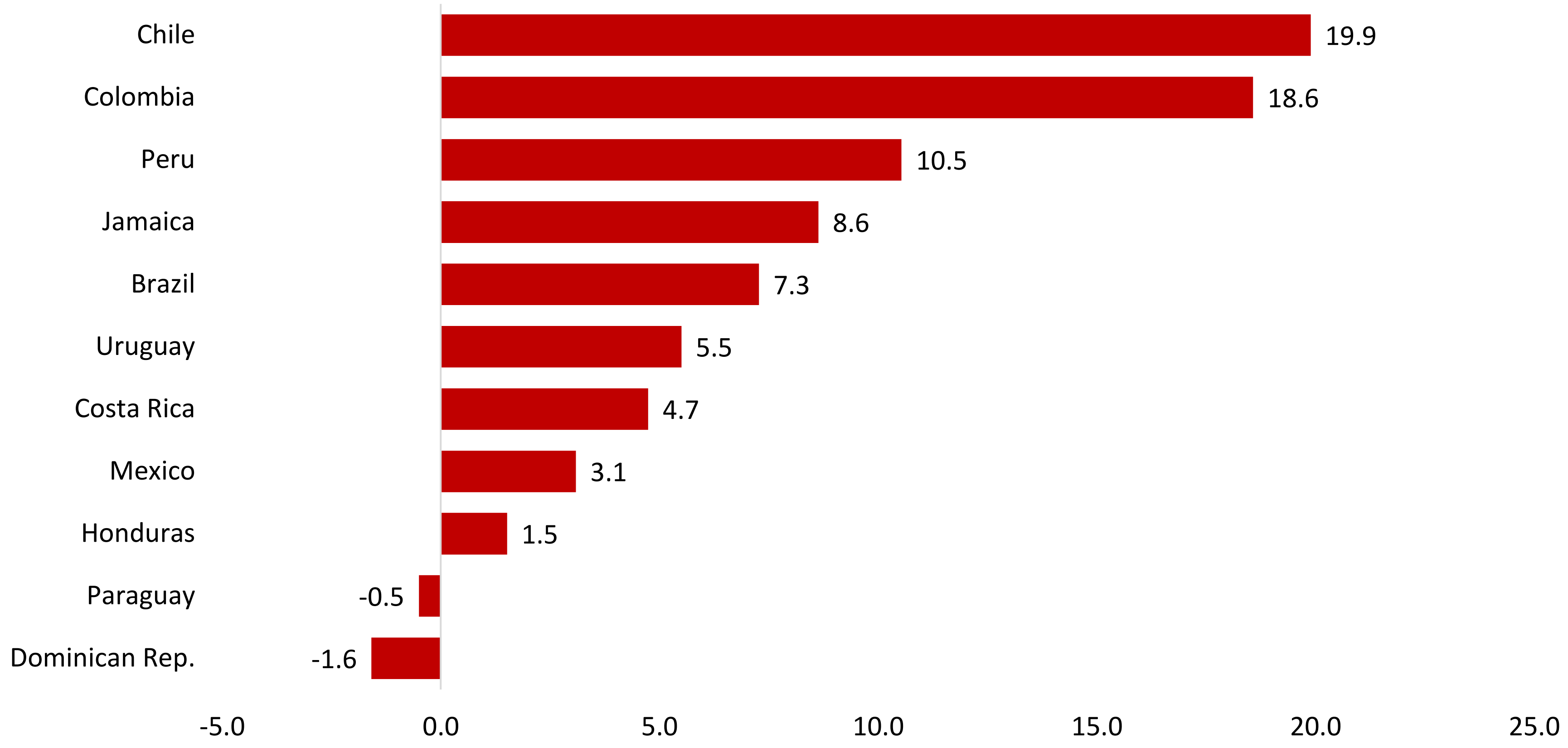


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

During 2021, many currencies in the region depreciated against the dollar, a risk that remains latent in 2022

LATIN AMERICA AND THE CARIBBEAN (11 COUNTRIES): VARIATION (+ DEPRECIATION / - APRECIATION) OF THE NOMINAL EXCHANGE RATE, 2021

(*In percentages*)



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

Using multiple instruments is essential to support growth in a context of inflationary pressures

MAIN POLICY INSTRUMENTS USED SIMULTANEOUSLY BY THE MONETARY AUTHORITIES OF THE REGION, MARCH 2020 - MARCH 2021

Monetary	Exchange rate	Macroprudential
• Interest rates • Purchases of assets (treasury bonds, pension fund bonds) • International reserves • Expansion of overnight liquidity facilities • Authorization to cover legal reserve requirements with public and / or Central Bank bonds • Deposit accounts guarantees • Credit guarantees • Monetary policy guidelines	• Repo and swap operations • Spot contracts and derivatives • Overnight repo and deposit rates • Open position ceiling on currency transactions • Participation of new players (development banks) • NDF operations (forward currency contracts with settlement by differences) as hedging instruments for international investors	• Reserve requirements (in local and foreign currency) • Relaxation of macroprudential regulation (bank liquidity) • Capital conservation ***buffers*** • Countercyclical provisions for financial entities • Liquidity coverage ratio / risk weight of banks • Accumulated countercyclical provisions • Regulation of capital flows

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

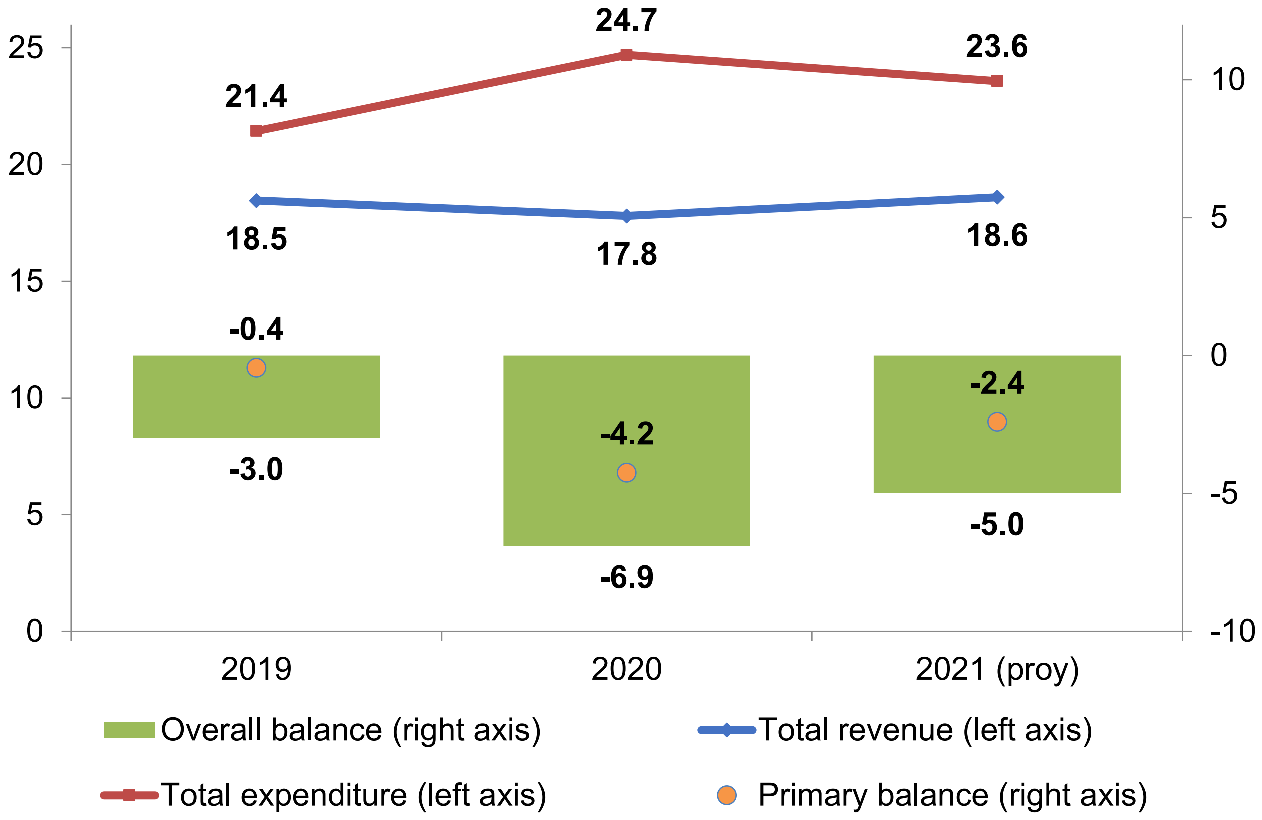
The challenge for fiscal policy in the coming years is to maintain pro-growth public spending in a context of fiscal sustainability

- The important fiscal measures adopted in 2020 led to a sharp increase in public spending which, together with a fall in revenues, raised fiscal deficits and public debt.
- In 2021, total expenditure declines, but remains at a higher level than in 2019: fiscal stimulus is withdrawn to reduce deficits and stabilize the growth of public debt.
- The budgets for 2022 suggest that public spending will maintain a downward trajectory and that revenues will remain stable, which would translate into a reduction in deficits.
- It is crucial to increase tax revenues and the tax structure to provide fiscal sustainability to support pro-growth policies and to advance in the universalization of social protection.

Fiscal deficits will narrow in 2021 as a result of lower spending and higher public revenues, public debt will remain at elevated levels

LATIN AMERICA (16 COUNTRIES[a]): CENTRAL GOVERNMENT FISCAL INDICATORS, 2019 TO 2021[b]

(In percentages of GDP)



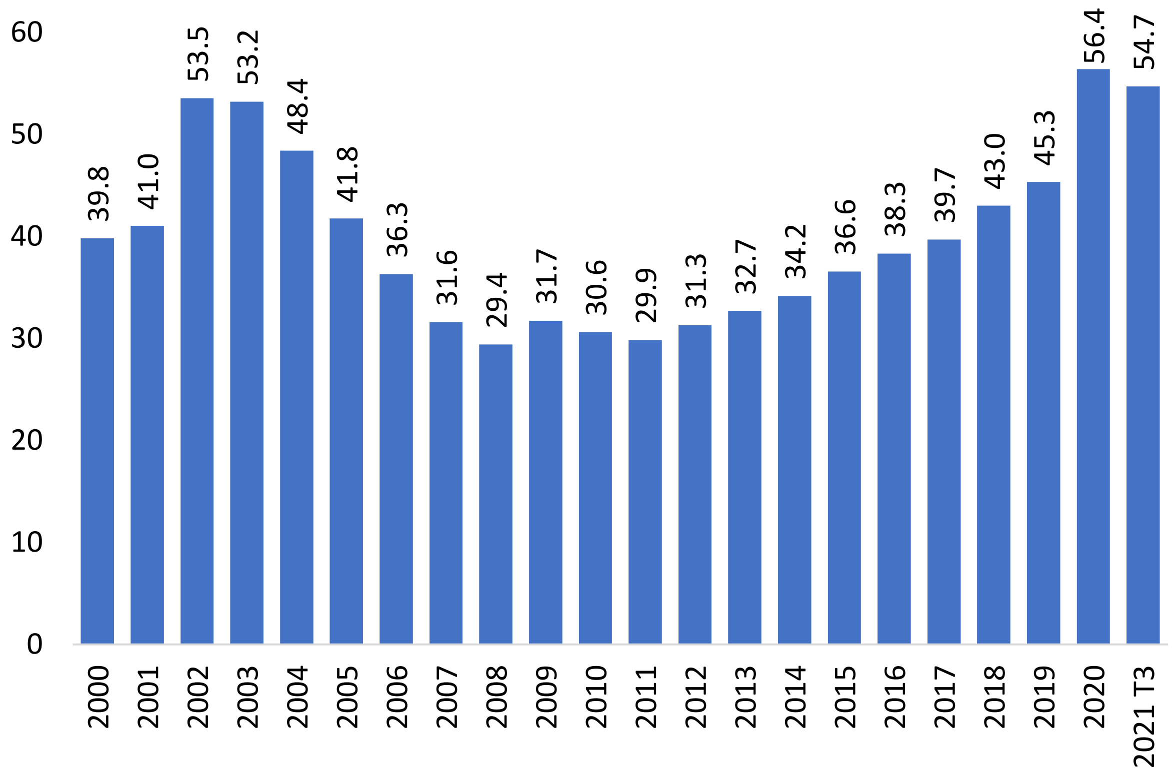
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Argentina (NPA), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico (FPS), Nicaragua, Panama, Paraguay, Peru (GG) and Uruguay.

[b] Simple averages. Figures for 2021 correspond to official estimates or budgets.

LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2000 TO THIRD QUARTER 2021 (PRELIMINARY)[a]

(In percentages of GDP)

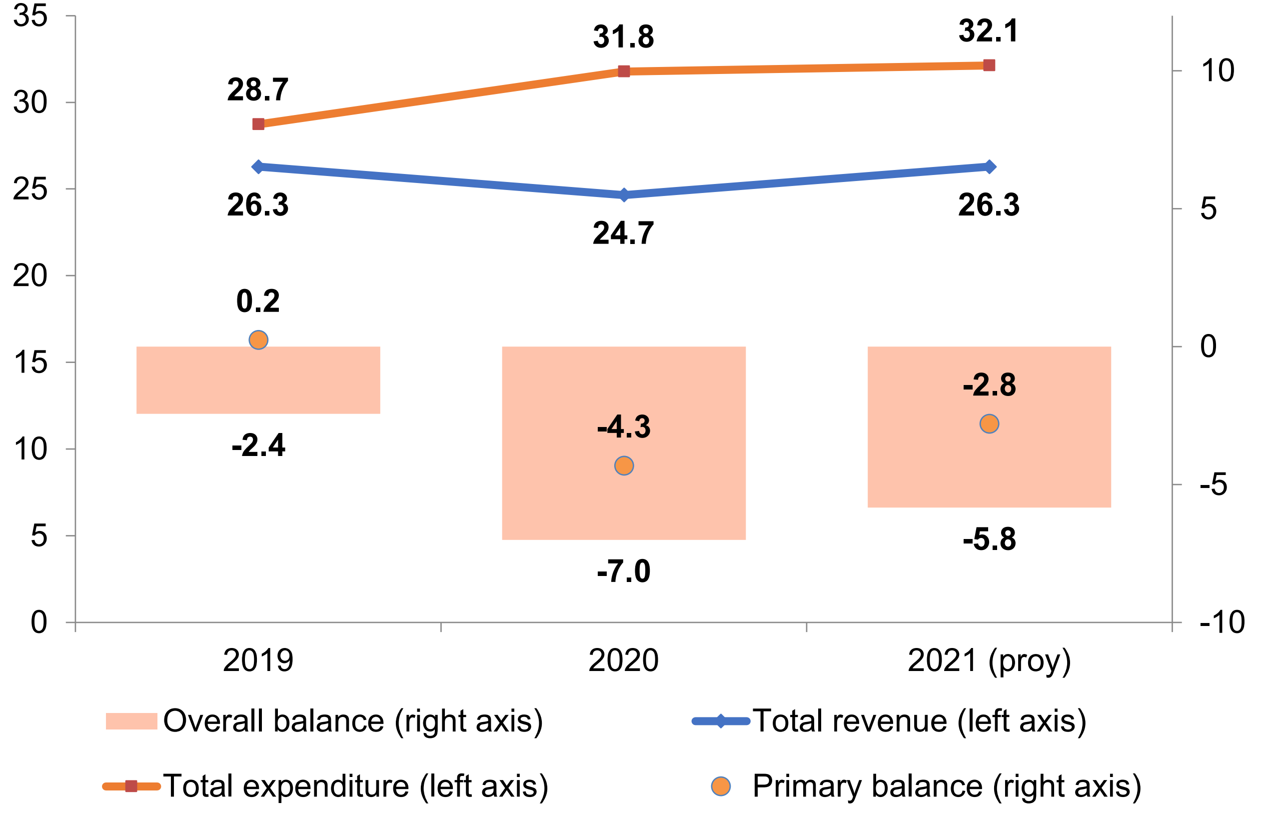


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Figures for Argentina, Chile and Nicaragua refer to June 2021. Data for Brazil are for the general government.

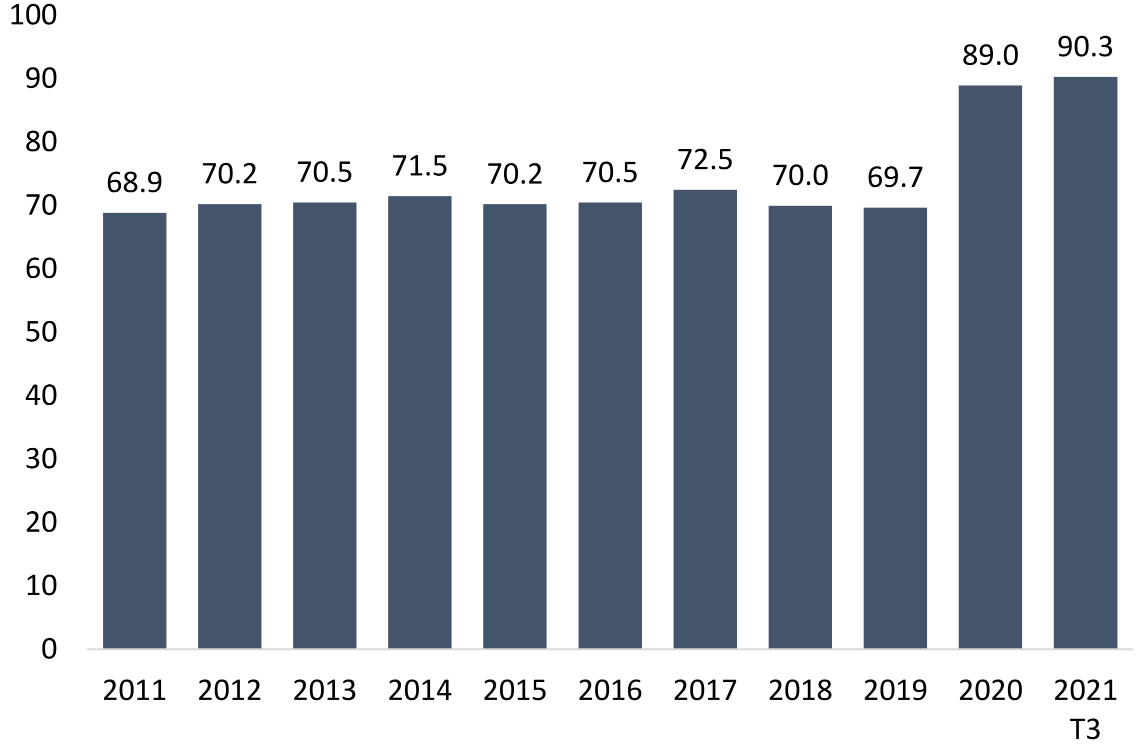
In the Caribbean, fiscal deficits will also narrow and public debt will remain at elevated levels

THE CARIBBEAN (12 COUNTRIES[a]): CENTRAL GOVERNMENT FISCAL INDICATORS, 2019 TO 2021[b]
(In percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Antigua and Barbuda, Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tabago.
[b] Simple averages. Figures for 2021 correspond to official estimates or budgets.

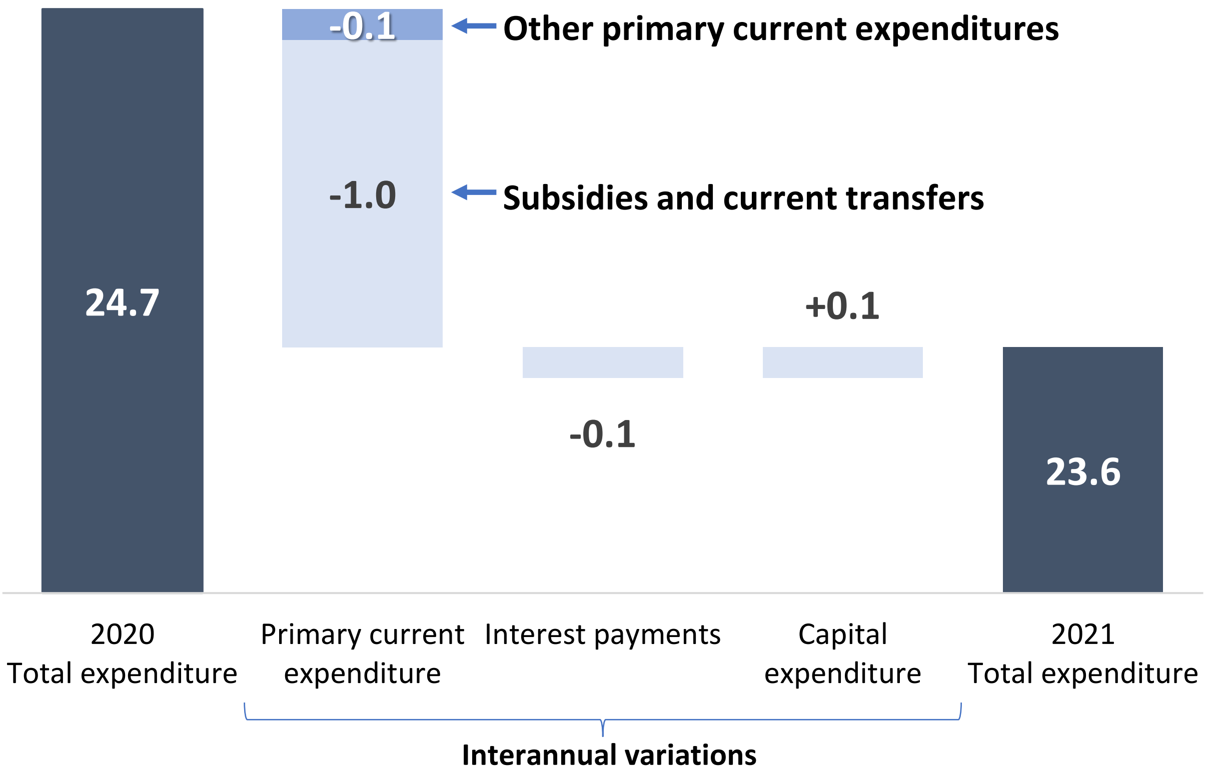
THE CARIBBEAN (13 COUNTRIES): CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2011 TO THIRD QUARTER 2021 (PRELIMINARY) [a]
(In percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Figures for Guyana correspond to March 2021 and refer to the public sector. Figures for The Bahamas, Belize and Trinidad and Tabago correspond to June 2021.

Lower public spending in 2021 is principally due to a reduction in subsidies and transfers

LATIN AMERICA (16 COUNTRIES[a]): INTERANNUAL VARIATION IN CENTRAL GOVERNMENT TOTAL EXPENDITURE, 2020 TO 2021[b]
(In percentages of GDP)

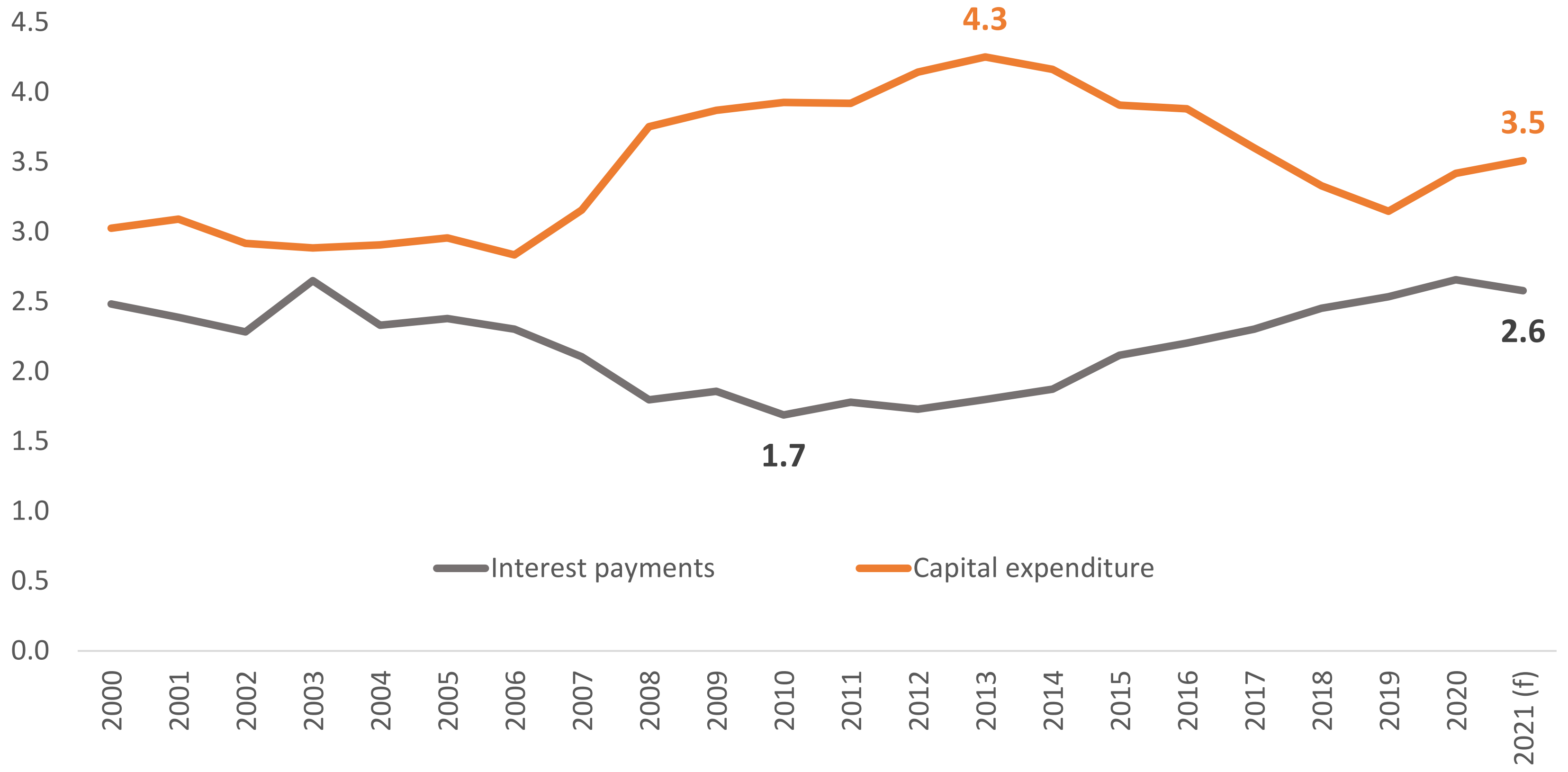


- In 2020, subsidies and current transfers were the main driver of primary current spending, with an increase of 2.2 percentage points of GDP compared to 2019.
- In 2021, subsidies and transfers are expected to fall by 1.0 percentage point of GDP compared to 2020, representing the majority of the contraction in primary current spending.
- Budgets for 2022 point to a continuation in the downward trajectory of public spending.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Argentina (NPA), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico (FPS), Nicaragua, Panama, Paraguay, Peru (GG) and Uruguay.
[b] Simple averages. Figures for 2021 correspond to official estimates or budgets.

Two areas of concern for growth are the low levels of public investment and the increase in interest payments

LATIN AMERICA (16 COUNTRIES[a]); CENTRAL GOVERNMENT INTEREST PAYMENTS AND CAPITAL EXPENDITURE, 2000 TO 2021[b]
(In percentages of GDP)



- Rising interest payments in recent years has reduced the space for other priority expenses.
- Expenditure for public investment has been the principal variable of fiscal adjustment. This situation should be avoided in the future so as not to affect potential growth of the economy.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Argentina (NPA), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico (FPS), Nicaragua, Panamá, Paraguay, Peru (GG) and Uruguay.
[b] Simple averages. Figures for 2021 correspond to official estimates or budgets.

Public spending adopt a strategic perspective

- Beyond the level of spending, it is necessary to link short-term demands with long-term investments.
- As long as the pandemic persists, it will be necessary to maintain emergency social transfers and pro-employment policies to continue to cope with the social and economic effects of the pandemic.
- Prioritize investment in strategic sectors such as clean, environmental, digital energy, mobility and care, promoting employment and gender equality.
- Public investment should be used to attract private investment (*crowding-in*) and tax incentives should be directed towards renewable energy, decarbonisation, digital inclusion, research and development.
- In a complementary manner, progress should be made in closing social gaps through the universalization of social protection systems, health, care and education, in addition to laying the foundations to guarantee their financial sustainability.

A strategic view of investment: universalization of public services

BENEFITS AND COSTS OF INVESTMENTS TO UNIVERSALIZE THE COVERAGE OF DRINKING WATER, SANITATION AND ELECTRICITY

ITEM	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 **fuels and clean technologies for cooking**
Annual cost of non-payment of water, sanitation and electricity bills, quintiles 1 and 2	0.12% of GDP per year	0.29% of GDP per year
Investment required annually until 2030	1.3% of GDP per year	1.3% of GDP per year
Cost-benefit ratio per dollar invested	USD 2.4 in drinking wáter USD 7.3 in sanitation	Not available
New direct jobs	3.6 million jobs per year	0.5 million jobs for year

- Improved public health and environment
- Bolster sustainable water and energy transitions
- Reduce CO2 emissions by roughly 100 MT
- Public-private partnerships
- Incentives for regional energy integration and complementarity
- Regulatory requirements: legal certainty, technological neutrality and effective public regulatory bodies

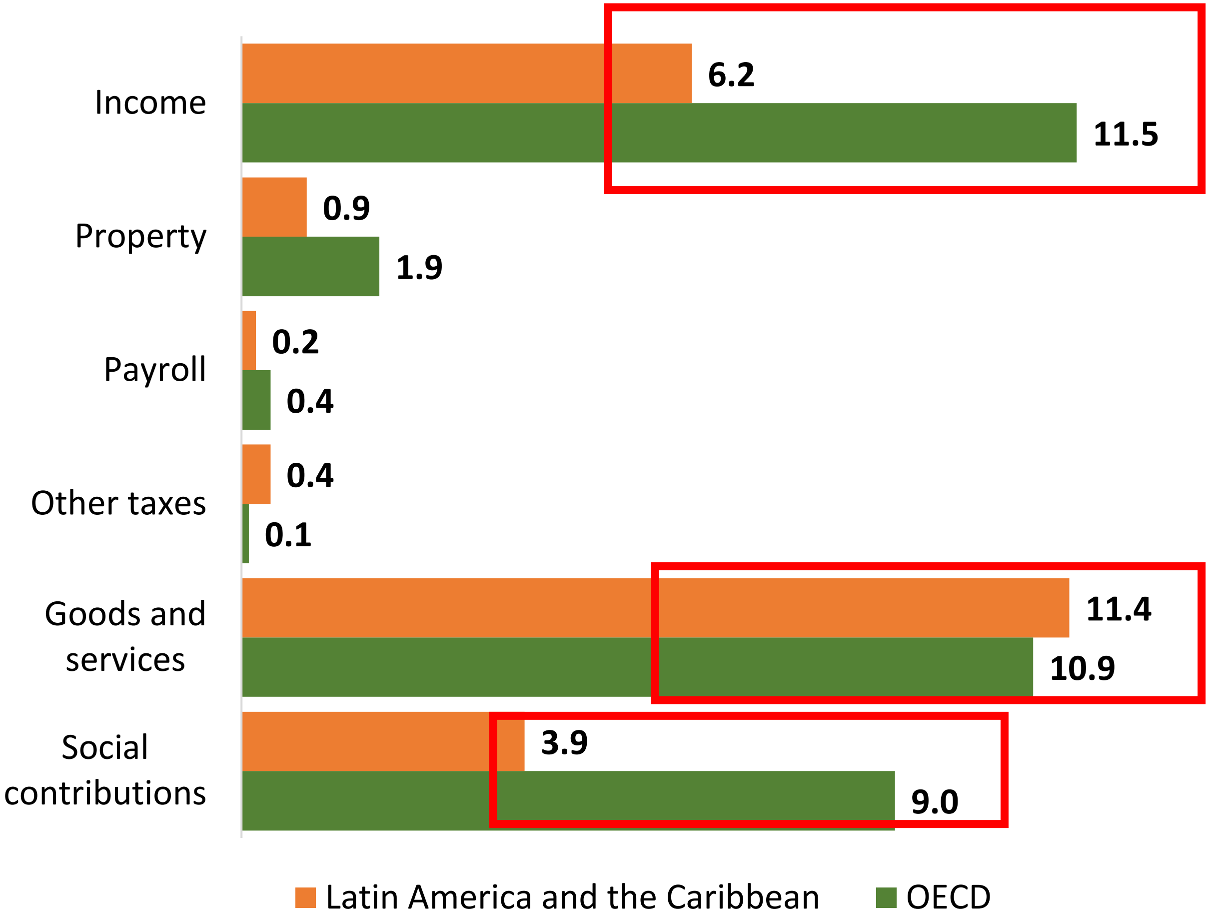
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Options to expand fiscal space and make public spending sustainable

- Eliminate tax evasion: tax noncompliance represented US $ 325 billion, 6.1% of regional GDP.
- Consolidate income tax for individuals and corporations.
- Extend the scope of taxes on wealth and property.
- Taxes on the digital economy, environmental and related to public health problems.
- Review and progressively update royalties for the exploitation of non-renewable resources.

LATIN AMERICA AND THE CARIBBEAN (26 COUNTRIES) AND OECD: TAX STRUCTURE OF THE GENERAL GOVERNMENT, 2019

(Percentages of GDP)

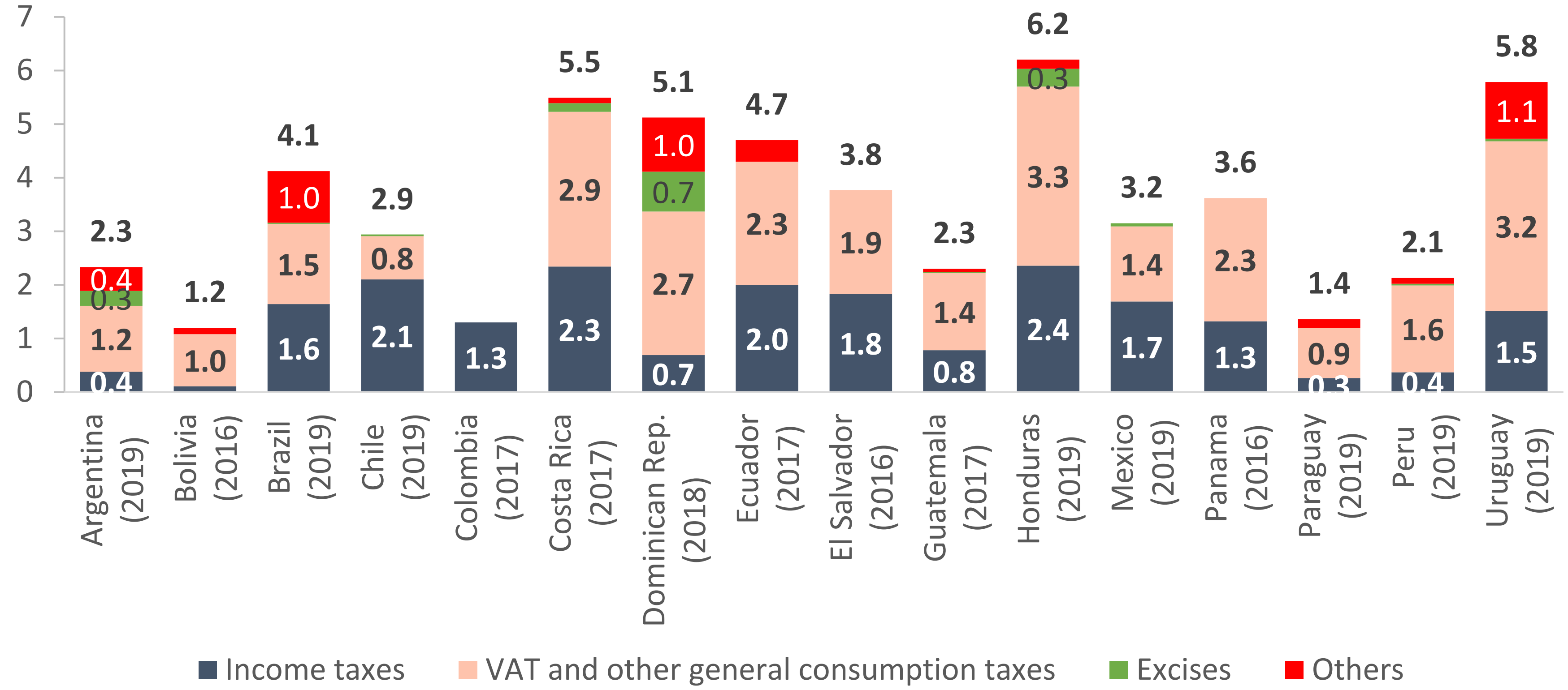


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Revenue Statistics in Latin America and the Caribbean 2021*.

Tax expenditures represent important foregone revenues in the region, averaging 3.7% of GDP

LATIN AMERICA: TAX EXPENDITURES BY TYPE OF TAX, AROUND 2016 TO 2019

(In percentages of GDP)



- Tax expenditures are an indirect spending mechanism that would significantly increase the level of budget spending.
- On average they are equivalent to 17% of budget expenditures.
- It is necessary to evaluate them and redirect them towards productive and social priorities.

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

The implementation of the global minimum rate agreement of 15% would benefit several countries in the region

ESTIMATED ADDITIONAL TAX COLLECTION, ACCORDING TO THE MINIMUM TAX RATE CONSIDERED
(In millions of euros)

	Tasa de 15% (agreement)	Tasa de 25% (ICRICT proposal)
Argentina	100	200
Brazil	1,500	10,500
Mexico	400	1,100
Peru	100	800

Source: Barake, Neef, Chouc y Zucman (2021), "Revenue Effects of the Global Minimum Tax: Country-by-Country Estimate", EUTax Observatory, October.
Note: Estimates of potential tax revenues associated with the adoption of Pillar 2 of BEPS.

The region must maintain common positions for issues to be considered in the future:

- Increase the minimum rate.
- Increase the universe of multinational enterprises covered by the agreement.
- Achieve a more equitable distribution of tax revenues between developed and developing countries.

Along with defining the global minimum rate, it is essential to advance in:

- Global agreements to reduce tax evasion.
- Eliminate the use of tax havens, the transfer of profits and illicit financial flows.

Tax and financial transparency agreements are required at a global level.

Different areas in which Financing for Development supports policy and investment space

Expand and redistribute liquidity	*Strengthen development banks*	*Reform international debt architecture*	*Innovative instruments*	*Integrate liquidity measures and debt reduction*
• Fiduciary Fund of middle income countries (financed primarily by SDRs) • Multilateral funds (FACE)	• Expand the universe of instruments to capture and assign resources • Expanding lending capacity requires greater levels of capitalization	• Expand the scope of the DSSI • IMF surcharge policies • Credit rating agencies	• Contingent clauses (hurricane bonds) • Bonds linked to GDP and national income	• Strategic approach to investment • Role of development banks • Caribbean Resilience Fund

Multilateral policies for access to liquidity and debt management are key to increasing policy space

The issuance of special drawing rights (SDRs) equivalent to USD 650 billion has strengthened the international reserve position of all developing regions.

However, their distribution has disproportionately benefited developed countries. Developing countries, which make the greatest use of SDRs, received only 35.6% of the total.

ALLOCATION OF SDR AND THEIR DOLLAR EQUIVALENT, AUGUST 2021

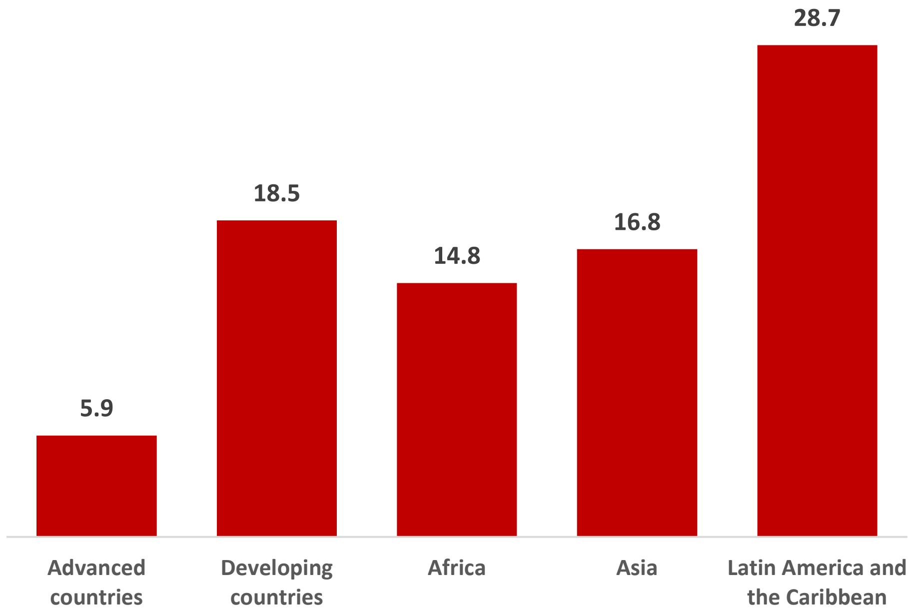
(Billions of dollars, participation in total and percentage of international reserves)

	Billions of dollars	% of total	% of international reserves
Developing countries	**231,6**	**35,6**	**27,5**
Latin America and the Caribbean	**51,2**	**7,9**	**6,9**
South America	33,7	5,2	4,5
Central America	3,6	0,5	8.3
Mexico	12,2	1,9	6.1
The Caribbean	2,1	0,3	13.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from IMF (2021).
Note: Percent of international reserves corresponds to the median for each region/subregion.

SELECTED REGIONS: SDR UTILIZATION RATE, 2020

(Percentages of IMF quota)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from IMF (2021).

Reassignment of Special Drawing Rights

Countries of the region have made use of the SDRs in three principal ways:

1. Increase the level of international reserves to strengthen their external position and reduce risk, this has been the case for the majority of countries in the region
2. Financing public expenditure
   - Ecuador: capital expenditure contemplated in the Annual Investment Plan.
   - Paraguay: finance the implementation of the Economic Consolidation and Social Containment Law, approved on August 25, 2021, whose main objective is to provide resources for the health system and guarantee the continuity of the financial and assistance programs implemented at the beginning of the pandemic.
3. Restructuring/repayment of public debt
   - Colombia: short-to-medium-term government debt swap, which reduced financing needs for 2021-2022 and improved the authorities' liquidity position.
   - Argentina: payment of interest and amortization of its debt with the IMF due in September and December 2021.

In sum, 2022 faces great challenges for growth, the generation of employment coupled with the social costs of the pandemic

1. Uncertain environment with strong asymmetries between developed and emerging economies.
2. In 2022 Latin America and the Caribbean will grow only a third of what it grew in 2021 and will slow more than the world; it will grow 4 points less in 2022.
3. Growing inflationary pressures and the multi-causal nature of inflation require expanding the range of instruments available to the monetary authority (reserve requirements, interest rates, international reserves, use of SDRs).
4. Redistribution of liquidity to developing countries and in particular to middle-income countries with multilateral policies of reallocation of SDRs, debt management and creation of funds to support resilience for climate action.
5. Confront the structural problems of low investment and productivity, poverty and inequality.

Policy challenges

- **Growth and employment policies with productive, labour and care policies, especially for women and young people and with a vision of universalization of social protection**
- **Fiscal sustainability implies** increasing revenues, raising the tax burden and improving its structure, to finance an upward trajectory of growing spending demands.
- **Reduce evasion,** increase direct, environmental and digital taxes and review royalties related to the production of non-renewable natural resources.
- Avoid premature fiscal consolidation measures that would slow recovery with **public spending** that prioritizes investment towards sectors intensive in employment and environmental sustainability.
- Expand the spectrum of instruments (monetary, exchange rate and macroprudential) beyond the interest rate, to face inflationary pressures without undermining efforts to recover growth and employment.
- **Expand the toolbox available both domestically and internationally** with multilateral policies for access to liquidity, financing, and debt management to increase fiscal space.

2021

Preliminary Overview of the Economies
of Latin America and the Caribbean

United Nations

ECLAC