

Economic Survey of Latin America and the Caribbean **2023**

Financing a sustainable
transition: investment
for growth and climate
change action



UNITED NATIONS

ECLAC

Executive summary

Accessible version

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transition: investment
for growth and climate
change action**



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ECLAC

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Explanatory notes:

- Three dots indicate that data are not available or are not separately reported.
- A dash indicates that the amount is nil or negligible.
- A full stop is used to indicate decimals.
- The word “dollars” refers to United States dollars, unless otherwise specified.

- A slash between years (e.g. 2022/2023) indicates a 12-month period falling between the two years.
- Individual figures and percentages in tables may not always add up to the corresponding total because of rounding.

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A. Latin America and the Caribbean: economic situation and outlook for 2023 and 2024

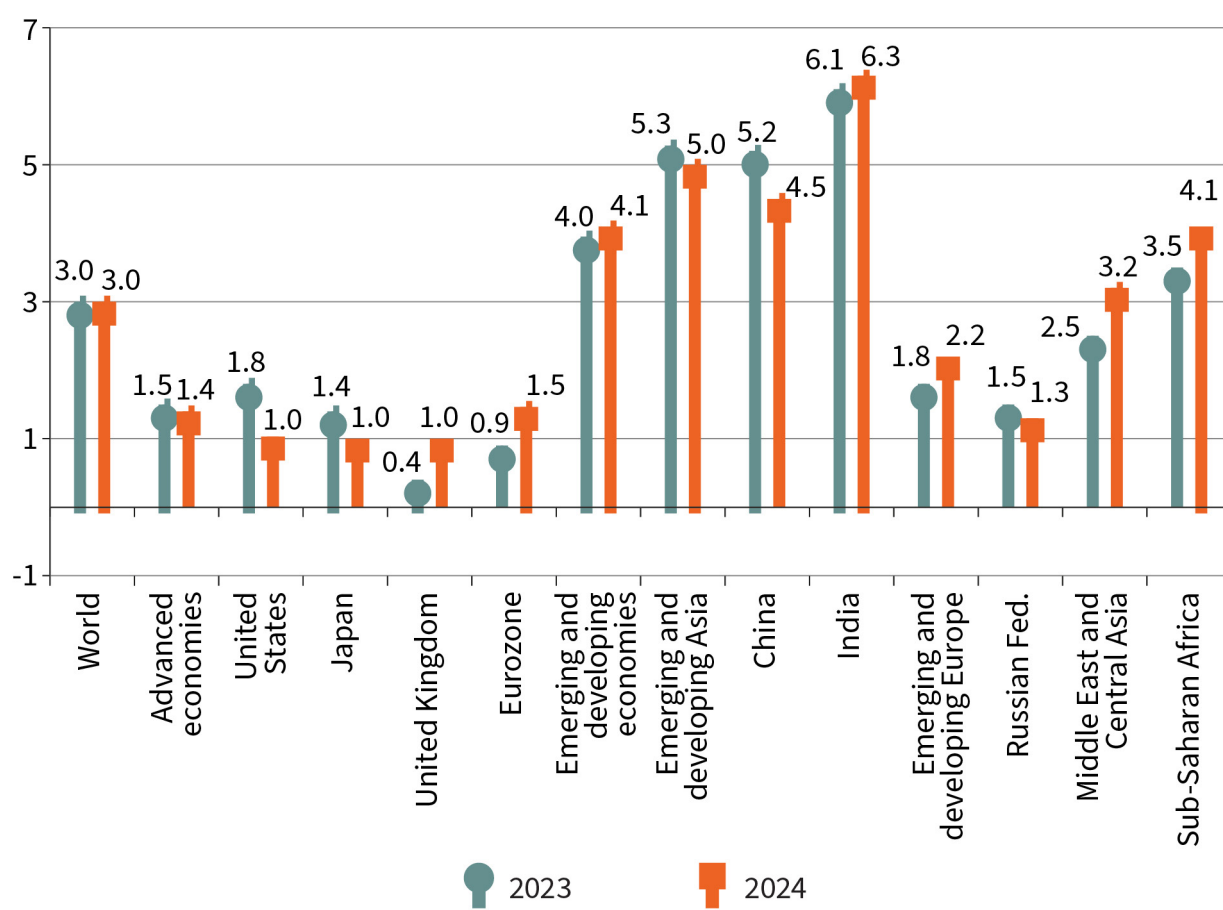
The countries of Latin America and the Caribbean are faced with a complex macroeconomic landscape in 2023. Low economic growth is projected to continue. Although the inflation rate has slowed, it remains above pre-pandemic levels and outside the upper limits set by central banks, which suggests that interest rates will remain relatively high for the rest of the year. High public debt levels, together with rising domestic and external interest rates and the decline in tax revenues expected to result from lower economic growth, will likely translate to limited fiscal space for the region as a whole. Forecasts indicate waning job growth, falling investment and growing social demands. This situation presents major challenges for macroeconomic policy, which must boost investment and stimulate sustainable and inclusive economic growth. The complex regional context in 2023 is compounded by persistent financial uncertainty and the dampening of growth and trade at the global level. Global GDP growth of 3.0% is projected for 2023, which is lower than the 3.5% recorded in 2022 and the 3.7% averaged between 2010 and 2019.

The advanced economies are projected to grow by 1.5% in 2023, well below the 2.7% recorded in 2022. Meanwhile, annual growth is expected to remain unchanged at 4% in the developing economies, owing mainly to China's economic rebound following its reopening at the beginning of the year.

In 2024, global growth is projected to remain steady at 3.0%, while developing economies and advanced economies will grow by 4.1% and 1.4%, respectively, as shown in figure 1.

Figure 1

Selected groupings and countries: projected GDP growth rates, 2023 and 2024 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook, July 2023.

Growth in the volume of global trade in goods, which has weakened alongside economic growth, is projected at 1.7% in 2023, down a percentage point from 2022 (2.7%). Although an upswing to 3.2% is expected in 2024, that figure would remain relatively low by historical standards; the volume of global trade averaged over 6% growth between 1990 and 2007 but less than half that rate since 2011. A number of factors have contributed to this deceleration, including trade and technological tensions between the United States and China, which have been intensifying; geopolitical tensions; an increase in trade restrictions; and policies implemented by some large economies aimed at protecting domestic production of key supplies to the detriment of global value chains.

Commodity prices have fallen since the second half of 2022, a trend that is likely to continue in 2023, with an average decrease of 11% compared to 2022.

Energy commodity prices are expected to fall the most, declining by 23% from their 2022 level, owing both to a milder than expected start to the year in the northern hemisphere, with the strong effect this has had on natural gas and coal prices, and to the global economic slowdown, which has affected energy demand in general.

The price of industrial metals and minerals, such as iron ore and copper, are expected to decline by 4% on average, also owing to the economic slowdown, in particular in the construction sector. Agricultural commodity prices are forecast to dip by 3.0% on average compared to 2022, but with differences between products: food prices are projected to rise by 5.0%, while those of tropical beverages and oils are expected to fall by 13% and 9%, respectively.

In 2024, it is possible that energy commodity prices will see a minor bump, but the downward trend is generally expected to continue for non-energy commodities. Still, this would indicate commodity prices more than 30% higher than the average recorded in 2019, before the onset of the pandemic.

Despite letting up, global inflation is expected to remain above the 3.6% averaged in the decade prior to the pandemic (2010–2019), with rates of 6.8% and 5.2% projected for 2023 and 2024, respectively. The major developed economies are maintaining their tight monetary policy stance, with interest rate hikes and a reduction in global liquidity.

1. Monetary tightening by the world's central banks has increased international financial market volatility and the cost of financing

The slump in global liquidity that began in 2021 intensified in 2023. Between 2022 and 2023, the rate of change in the money supply contracted in the United States (from 5.2% to -3.2%) and decelerated in the euro area (from 5.9% to 2.5%), the United Kingdom (from 5.8% to 1.5%) and Japan (from 2.9% to 2.2%).

Rising short-term interest rates and quantitative tightening measures involving the reduction of central bank balance sheets are the main factors affecting global liquidity.

Monetary policy has contributed to increased volatility and global financial uncertainty. For example, the tightening of monetary policy in the United States contributed to that country's recent banking crisis, which affected perceptions of risk in emerging and developing economies, thus hindering their access to international capital market financing.

Cross-border credit has diminished and borrowing costs have risen for developing countries. Between December 2021 and December 2022, cross-border credit flows decreased by 3.9% worldwide. Cross-border lending has been affected by the same conditions that influenced domestic credit in developed economies, in particular the United States. The reduction in bond issuance on the international market is explained by the rise in international long-term interest rates, which has increased borrowing costs for emerging and developing economies.

As a result of tighter global financial conditions, debt levels have risen to record high levels in emerging economies and developing economies (more than US\$ 100 trillion, equivalent to 250% of GDP). According to International Monetary Fund (IMF) estimates, 60% of low-income countries were at high risk of debt distress at the end of 2022 ([Chuku and others, 2023](#)). At least 25% of middle-income countries are in a similar situation.

2. Trade volume is expected to decline and average terms of trade are likely to deteriorate amid decelerating financial flows to the region

With regard to the balance-of-payments current account, a deficit equivalent to 1.8% of GDP is projected in 2023, representing an improvement over 2022, when the deficit was equivalent to 2.6% of GDP.

The value of goods exports is expected to decline by 1% in 2023, owing to falling prices, while volumes will continue to grow, albeit at a slower pace than in 2022. Meanwhile, following two years of growth, imports are projected to decrease by 2% in terms of value in 2023 owing to weaker economic activity.

On average, the region is expected to record a 2% reduction in the terms of trade in 2023. Conditions vary by subregion, however. Terms of trade in hydrocarbon-exporting countries are projected to deteriorate by 14%, owing to lower energy commodity prices. For countries exporting agro-industrial products, terms of trade are projected to fall by 3% owing to price declines for some foods. By contrast, falling energy commodity prices are estimated to buoy terms of trade in fuel-importing countries (which include many Caribbean and Central American countries).

In 2022, financial flows to the region continued, albeit more slowly than in 2021. The capital and financial account surplus equivalent to 2.5% of GDP in 2022 (compared to 3.2% in 2021) was not enough to finance the current account deficit, and the region's reserves declined as a result.

In a climate of heightened global uncertainty, debt issuance on international markets fell by 57% to US\$ 64 trillion in 2022. Sovereign debt issuance decreased by 43%, to US\$ 33 trillion, with an average coupon rate of 6.3% and an increase in value of 150 basis points compared to 2021. However, the first half of 2023 saw signs of improvement, including a 9% year-on-year increase in total debt issuance. Notably, green debt issuance to finance sustainable projects, including sustainability-linked bonds, continues to increase its share of total issuance.

3. Economic activity in Latin America and the Caribbean has stalled

Regional growth figures for the first quarter of 2023 not only confirm the year-on-year economic slowdown but also reveal that GDP has flatlined in the past four quarters. Year-on-year GDP growth slowed by 0.5 percentage points in the first quarter of 2023. This

widespread deceleration was borne out in 13 of the 16 countries that published economic indicators for the quarter.

Domestic demand in the region has followed the same pattern as GDP growth, slackening and readjusting following the high levels of spending seen in 2021 and part of 2022, owing mainly to weaker private consumption and the rollback of fiscal stimulus measures implemented during the pandemic. In the first quarter of 2023, year-on-year growth in domestic aggregate demand moderated (2.7%), outpaced by economic activity for the second consecutive quarter.

Total consumption decelerated, owing mainly to weaker growth in private consumption, which nevertheless remains the chief driver of GDP. In the first quarter of 2023, year-on-year growth in private consumption was 2.3%, compared to 3.9% in 2022. This deceleration corresponds to the decreased purchasing power of real wages, the erosion of confidence and the draining of the household savings that had accumulated during the pandemic, compounded by reduced access to credit as a result of monetary tightening.

In the first quarter of 2023, amid a general slowdown in all components of domestic demand, investment fell the furthest in the majority of the region's countries. The external sector also failed to contribute to GDP growth owing to diminishing imports and exports.

4. Slower employment growth, declining wages, falling labour productivity and persistent gender gaps

In 2022, the post-pandemic recovery in the region's labour markets continued, as shown by indicators such as the participation rate, the unemployment and employment rates, and the number of persons employed. However, in the first quarter of 2023, the pace of recovery in labour participation stagnated in the 14 countries of the region that report this indicator, stalling at around 62.8% since the third quarter of 2022, below the 63.4% recorded in the fourth quarter of 2019.

The regional unemployment rate continued in the downward trend seen since 2021, reaching 6.8% in the first quarter of 2023, 1.5 percentage points below the figure seen in the first quarter of 2022 and 2.1 percentage points below that of the same period in 2019. The change in the workforce could be behind the improved employment rate, since persons who in principle would have been unemployed have remained outside the labour market, thereby reducing the unemployment rate.

Employment in the economies of Latin America and the Caribbean continues to recover: the number of persons employed in the first quarter of 2023 was 3.2% higher than in the fourth quarter of 2019. In line with the economic trend, employment growth in the region has been slowing, and year-on-year growth reached 3.1% in the first quarter of 2023, less than half the growth reported in the prior-year period (7.2%).

While the number of people employed in the three main sectors —agriculture, manufacturing and construction, and services— has recovered as economies return to normal, only the services sector recorded an increase in the number of employed persons in the first quarter

of 2023, of 4.1%. It was also the only sector to record higher numbers of employed than in the fourth quarter of 2019.

In the first quarter of 2023, wage earners were the strongest growing occupational category (up by 4.8% relative to the year-earlier period), while employment in domestic service was up by 2.6%. Over the same period in 2023, the number of self-employed workers increased by 0.9% relative to the first quarter of 2022, compared to a 0.6% decline in the fourth quarter of 2022.

Since 2021, the average rate of informal employment in the region has remained at around 48%, below the 49.1% recorded in the fourth quarter of 2019. It edged down slightly from 48.3% in 2021 to 48.2% in 2022. That trend held in the first quarter of 2023, when the informal employment rate was 48.0%.

One of the groups most affected by the pandemic was women, who are charged with the bulk of activities associated with caring for children, older persons and the sick. From the fourth quarter of 2020, owing to the larger relative lag, women's labour participation rate recovered faster than that of men, allowing for a gradual narrowing of the gap that had widened during the first year of the pandemic. However, the gap in the first quarter of 2023 was 22.2 percentage points, much the same as in the fourth quarter of 2019. The situation is similar with regard to the unemployment rate: it continued trending downward in the first quarter of 2023 for both men and women; however, the unemployment rate among women declined faster, by 1.6 percentage points, compared to 1.2 percentage points for men. Despite this behaviour, a persistent gap of more than 2.0 percentage points remains between the unemployment rates for men and women.

The upsurge in inflation in 2022, especially in the first half of the year, significantly eroded the purchasing power of Latin American and Caribbean households. To counteract the effect on workers and lower-income households in general, the nominal minimum wage was raised throughout the region, with a median increase of 9.0% in 2022. The interaction between inflation growth and nominal minimum wage hikes resulted in a 2.3% rise in the region's median real minimum wage in 2022, following the 2.0% reduction in 2021.

Regarding the average real wage, increases between the second quarter of 2021 and the first quarter of 2022 were followed by steady reductions between the second quarter of 2022 and the first quarter of 2023, reflecting lower growth in nominal wages and the re-entry of a large percentage of people who had exited the labour market during the pandemic.

Labour productivity in the region has also changed significantly in recent years, as it began to fall in the third quarter of 2021 on the heels of the recovery between 2020 and mid-2021. This reflects an increase in the number of persons employed in the region's services sector and possibly a greater concentration of employment in that sector, where productivity tends to be low, compounded by lower labour productivity in both the manufacturing and the construction sectors. In addition, slumping investment and the persistence of informal employment at levels close to 50% also help to explain the stagnation of labour productivity that has characterized the region since the 1980s.

5. Reduced fiscal policy space, with a significant drop in tax revenues

On the fiscal front, a drop in total central government revenues is projected in Latin America in 2023 as a result of the economic slowdown and lower international commodity prices.

During the first five months of the year, most countries reported contractions in tax revenues. Revenues from other sources, particularly oil revenues, are projected to decline.

Central governments in the Caribbean are also forecasting lower total government revenues owing to the contraction expected in tax revenues. Revenues from taxes on the consumption of goods and services were down in several countries, partly because of the slump in private consumption and tourism.

In terms of public spending, the central governments of Latin America are expected to spend slightly less in 2023, mainly because of a decrease in primary current spending. In particular, the downtrend in outlays for subsidies and current transfers that began in 2021 is expected to continue. By contrast, capital spending is expected to recover. Interest payments are projected to remain stable relative to GDP, although in several countries, significant increases were seen in absolute terms during the first five months of the year.

In the Caribbean, total central government spending is expected to drop in 2023 as a result of a reduction in subsidies and current transfers. On average, slightly lower capital spending is also expected. Interest payments are forecast to increase in several countries, partly reflecting the impact of higher interest rates on floating-rate government debt and a dampening of the effect of recent government debt restructuring.

Opposing trends in fiscal balances are expected in the region. Overall, deficits are expected to widen in Latin America in 2023, mainly because of the expected decline in total revenues. Along the same lines, following the average surplus in 2022, the primary balance is expected to reflect a deficit. In the Caribbean, narrower fiscal deficits are projected as a result of planned adjustments to overall spending.

In Latin America, despite wider fiscal deficits, public debt as a proportion of GDP has continued to trend downward since 2021, although it remains high. In March 2023, the gross public debt of central governments in Latin America reached 49.5% of GDP, compared to 51.4% of GDP in December 2022. The gross public debt of central governments in the Caribbean, as a percentage of GDP, has also fallen, reaching 77.9% in December 2022.

6. Inflation is trending downward, but remains above pre-pandemic levels and central bank targets

In keeping with international economic trends, inflation in the economies of Latin America and the Caribbean also accelerated until mid-2022. Following a downtrend that had prevailed since 2000, inflation in the region began to accelerate in the second half of 2020. Between May 2020 and June 2022, inflation grew steadily. By the end of that period, year-on-year inflation had reached 9.7%, the highest rate recorded since 2005. This trend in the region's economies in the first half of 2022, as in the rest of the world, reflected the effects of the coronavirus disease (COVID-19) pandemic and higher food and fuel prices caused by the conflict between the Russian Federation and Ukraine. Higher food, oil and transportation costs, further disruptions to supply chains and heightened financial volatility gave renewed impetus to inflation in Latin American and Caribbean economies in the first half of 2022.

Regional inflation has been receding since July 2022, and in December of that year, the cumulative year-on-year rate was 7.6%. This trend has held in 2023, with year-on-year inflation reaching 5.7% in May. The factors underlying the slowdown include lower domestic aggregate demand, the withdrawal of the policies adopted during the pandemic to support aggregate demand, contractionary monetary policies and lower global food and energy prices.

In general, inflation has fallen across the region. In June 2023, a total of 26 countries reported an inflation rate that was lower than at the end of 2022. The largest reductions were recorded in Chile, Costa Rica, Guatemala, Guyana, Honduras and Trinidad and Tobago, where inflation was down by more than 4 percentage points.

In the economies of South America, inflation fell from 10.6% in June 2022 to 7.3% in December 2022 and then to 5.0% in June 2023. In the economies of Central America and Mexico, inflation fell from 8.2% in June 2022 to 8.0% in December of that year and 4.4% in June 2023. In the economies of the English-speaking and Dutch-speaking Caribbean, inflation rose from 8.0% in June 2022 to 8.4% in December of that year and then fell to 5.5% in June 2023.

Breaking down the trend in the consumer price index into food, energy and core inflation (which excludes the most volatile components of the index) shows that inflation fell in all these components in the second half of 2022, which was also the case with headline inflation, and that the trend persisted in the first six months of 2023. Between December 2022 and June 2023, food inflation fell from 13.5% to 7.2%, energy inflation dropped from 4.3% to -3.2% and core inflation slackened from 8.1% to 6.1%.

Domestic aggregate demand is projected to continue weakening in the region's economies in 2023, along with energy and food prices on international markets. As noted, the contractionary monetary policy stance is also expected to continue. Moreover, in the first half of 2023, the region's currencies have tended to appreciate. All these factors are expected to contribute to lower cumulative inflation at the end of 2023 than in the previous two years.

Nonetheless, in the case of food, despite the reduction, there is concern that prices could continue rising in the coming months owing to problems linked to climate change and phenomena such as El Niño, as well as the suspension of the agreement between the Russian Federation and Ukraine for the export of grain to international markets, which could even jeopardize food supply. Given the preponderance of food in the consumption basket of households in the region, this situation poses a risk that the pace of inflation will pick up in the future.

Despite the downward trend in regional inflation, it is very likely that at the end of 2023 and for most of 2024, the rate will remain above the 4.3% average recorded in the five-year period 2015–2019 and therefore above the upper limit of the target range usually set by monetary authorities in the region.

7. Central banks continued their efforts to lower inflation, keeping interest rates at high levels

Amid high inflation, in 2022, central banks in the region further tightened the monetary policy stance adopted in 2021, mainly with conventional monetary instruments such as the monetary policy rate and monetary aggregate growth. Inflation-targeting countries increased the frequency and magnitude of monetary policy rate increases. Benchmark rate hikes were accompanied by a slowdown in monetary aggregate growth until the first quarter of 2022. As inflation began to show signs of abating, year-on-year rates of change in the monetary base started to trend upward, although they remained below the levels seen during the pandemic. The tight monetary policy stance was accompanied by a sharp contraction in central banks' balance sheets, which had expanded considerably during the pandemic as unconventional policies were implemented.

Despite the decline in inflation since the second half of 2022, most central banks maintained a restrictive monetary policy stance until the first half of 2023. Since March 2023, Brazil, Chile, Costa Rica, the Dominican Republic and Uruguay have begun to gradually lower their benchmark rates. However, most central banks in the region are maintaining a conservative stance, awaiting the consolidation of the decline in headline inflation and in core inflation, which has been more persistent, and of inflation expectations, which remain high and above the targets set by inflation-targeting countries. The region's central banks are also monitoring the decisions made by the monetary authorities of developed countries, which determine the room for manoeuvre in terms of monetary policy management in the region.

Central bank measures to curb inflation were reflected in higher lending rates in the banking and financial systems. Less favourable lending conditions and high inflation have constrained real credit to the private sector, which recorded year-on-year growth close to zero in 2021 and even contracted in more than half of the region's economies at some point in 2022. Lower inflation led to an improvement in real credit to the private sector in the first quarter of 2023, although it remains weaker than before the pandemic, except in countries with chronic inflation, which show a sustained slowdown in the contraction of this indicator.

In 2022, uncertainty over the pace and extent of monetary policy rate adjustments, both locally and internationally, fuelled volatility in financial flows, leading to changes in countries' nominal exchange rates. A combination of easing inflation, relative resilience of economic activity in the first quarter of 2023, and an expectation of the end of the rate hike cycle have contributed to a reduction in uncertainty during the year.

The exchange rate volatility and nominal depreciation recorded in 2022 prompted exchange rate interventions and the use of international reserves by monetary authorities, mainly in countries with floating exchange rates and inflation targets. As a result, the region as a whole saw its stock of international reserves decline by almost 7%, to end the year at US\$ 871,414 billion. By contrast, in the first half of 2023, it recorded an accumulation of reserves.

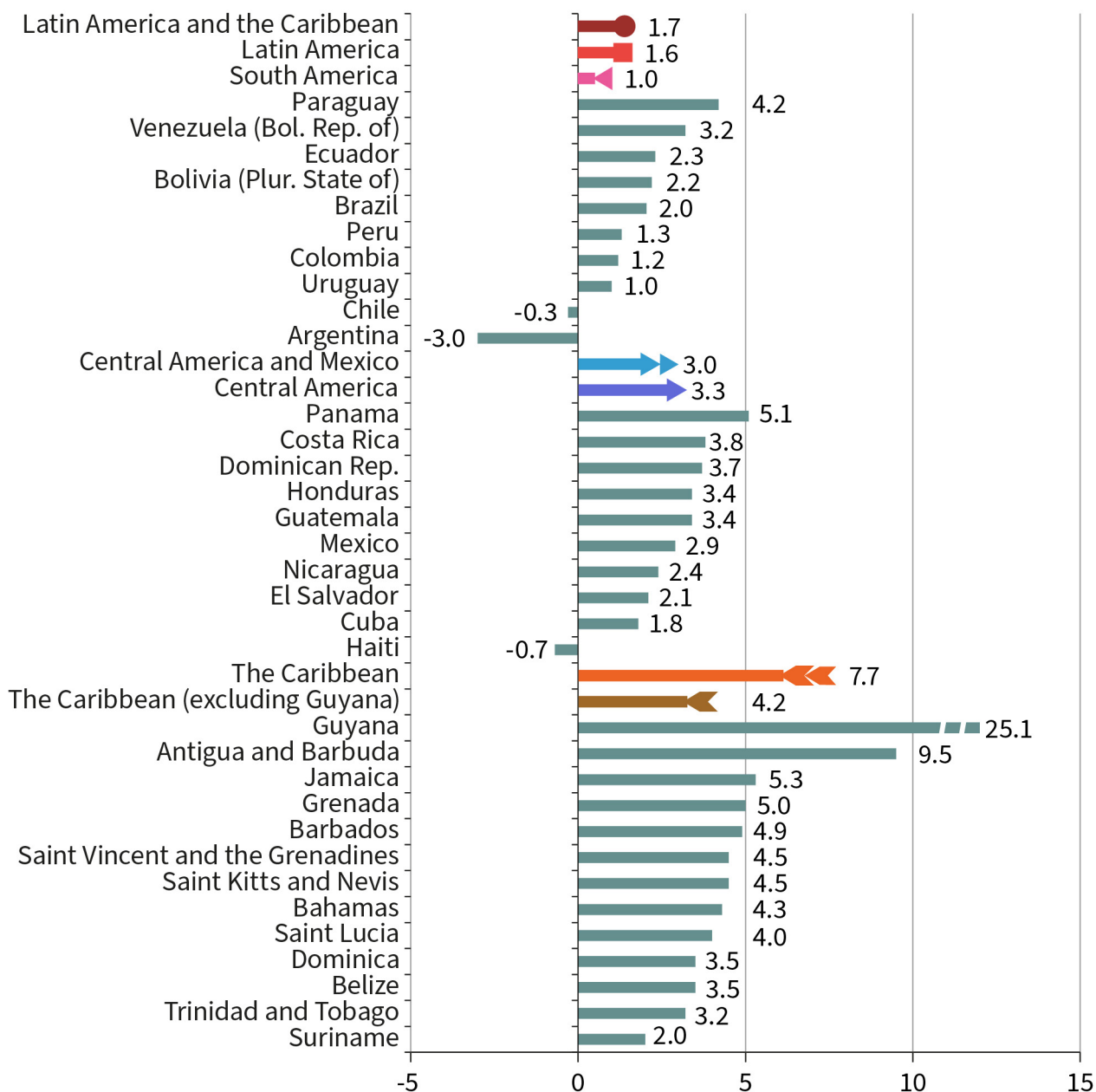
In the banking sector, non-performing loans are limited and profitability has returned to a level similar to that seen before the pandemic, while capitalization is above regulatory requirements. However, there are still risks in the global financial system that threaten the financial stability of the region, such as the episode of instability in the banking systems of the United States and Switzerland in March 2023. Amid this backdrop, some monetary authorities in the region have suspended the macroprudential easing rules set during the COVID-19 pandemic crisis and have resumed a more restrictive stance, making progress on bringing regulatory frameworks into line with Basel III standards, tightening existing instruments, for example, with the activation of countercyclical capital requirements, as the central banks of Chile and Uruguay have done, or strengthening macroprudential regulatory standards for the non-banking financial sector, for example in Brazil and Mexico.

8. Growth projections and policy proposals

For 2023, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that growth in the region will remain weak. GDP for the region as a whole is expected to edge up by 1.7% in 2023, while that of the subregions is projected to record weaker growth than in 2022, with South America up by 1.2% (compared to 3.7% in 2022), Central America and Mexico by 3.0% (3.4% in 2022) and the Caribbean (excluding Guyana) by 4.2% (6.3% in 2022), as shown in figure 2.

Figure 2

Latin America and the Caribbean (33 countries): projected GDP growth rates, 2023
(Percentages)

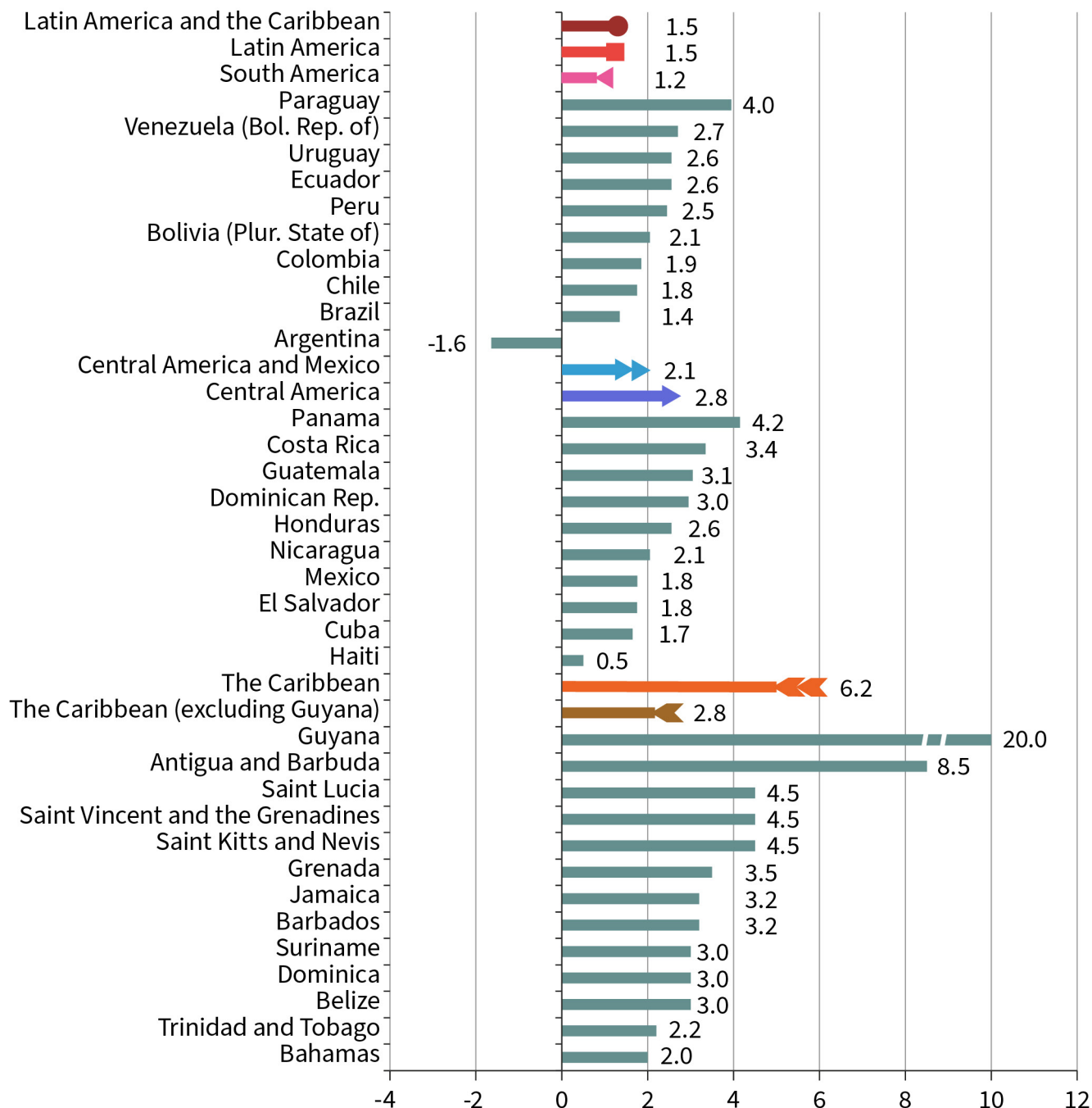


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Projections for 2024 indicate that momentum in the region will remain weak. The international environment is expected to remain unfavourable, with global GDP and trade growth well below historical averages. In internal markets, meanwhile, macroeconomic policy space is forecast to remain limited, in terms of both fiscal and monetary policy. In these circumstances, average growth of 1.5% is projected for Latin America and the Caribbean for 2024, with growth of 1.2% in South America, 2.1% in Central America and Mexico, and 2.8% in the Caribbean (excluding Guyana), as shown in figure 3.

Figure 3

Latin America and the Caribbean (33 countries): projected GDP growth rates, 2024
(Percentages)



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

Weak growth in economic activity in 2023 and 2024 is expected to result in a slowdown in employment growth, which is estimated at 1.9% in 2023 and 1.1% in 2024. Similarly, the quality of jobs created in an environment of low growth is worrying, as workers will likely be more vulnerable, have weaker social protection and be employed in less productive sectors, which would result in lower average wages and greater poverty and inequality in the region.

In the light of this scenario of sluggish growth, ECLAC has advocated for an active macroeconomic policy that stimulates robust, sustained and sustainable growth. This policy agenda encompasses national monetary and fiscal measures, along with international measures to reform the global financial architecture, for example.

In the current environment, in which developed countries maintain a contractionary monetary policy stance and international financing conditions remain tight, monetary policy measures in the region are constrained by the possible effects of rate cuts on capital flows and exchange rates.

In this context, both conventional and unconventional instruments must be employed, as suggested by ECLAC and as was done during the pandemic, in order to mitigate the adverse effects of a contractionary monetary policy on variables such as investment and consumption, which are essential to maintain economic momentum and foster job creation.

The region has extensive experience in the use of prudential macroregulation tools. A suitable combination of policy instruments can be more effective than a single instrument. For example, easing the reserve requirements for commercial banks in a context such as the current one, in which monetary policy is contractionary owing to exchange rate and

capital flow considerations, may mitigate adverse effects on economic activity. Also, in the face of deteriorating external financing conditions, targeted interventions in the foreign exchange market and restrictions on capital flows have proven to be effective in stabilizing macrofinancial conditions and expanding the available monetary policy space.

With regard to fiscal policy, ECLAC has proposed the establishment of a new fiscal covenant that lays the foundations for a sustainable public finance framework centred on increasing permanent revenues to meet the needs of well-being, investment and environmental sustainability through more efficient and effective public spending. To this end, it is necessary to increase not only the level of tax collection, but also its progressiveness and capacity to reduce income and wealth inequalities. At the same time, measures to strengthen fiscal institutions are needed to improve the management of the economic cycle, and to strategically allocate resources to maximize their contribution to robust, sustained and sustainable growth.

In the short term, measures to address the high level of tax evasion are crucial. Tax non-compliance in Latin America stood at US\$ 325 billion, equivalent to 6.1% of regional GDP, in 2018. The revision of tax expenditures would also offer a significant opportunity to strengthen public revenues. In 2021, tax expenditures in Latin America averaged 3.7% of GDP, representing 19% of central government budget expenditures.

In the medium term, fiscal covenants are needed to strengthen personal income tax, which is considered the source of the main tax gap between the region and the countries of the Organisation for Economic Co-operation and Development (OECD). Expanding the scope of estate and property taxes is crucial. Countries could also consider implementing taxes related to the environment and to public health issues. In countries producing

non-renewable natural resources, the fiscal frameworks applied to the extractive sector could be reviewed and updated.

A complementary proposal is to develop a strategic perspective in public spending policy to make this more effective at narrowing social divides and boosting the growth potential of the economy, with priority for measures that yield high economic, social and environmental returns. Public spending should not only be geared towards meeting short-term needs, but also drive productive, sustainable and inclusive development in the medium and long run.

Public investment must be strengthened to stimulate economic growth, boost productive development and create climate-resilient economies and societies. Public investment in the region is low compared to advanced economies, and even compared to other developing regions. This weak level of investment has resulted in a public capital stock —infrastructure— that is unable to stimulate economic growth and foster productive development.

Lastly, given the failures and difficulties of the international financial architecture to establish suitable mechanisms for debt relief and restructuring in developing countries, the [United Nations \(2023\)](#) has proposed a fundamental reform of this architecture, including an institutional framework to improve the consistency of the international financial system aligned to fulfilment of the Sustainable Development Goals, along with more democratic and representative rules and procedures. It also envisages global economic governance based, among other elements, on a reform of the system of IMF quotas and voting rights in the allocation of resources based on need and degrees of vulnerability, together with greater transparency and accountability in the decision-making processes of the different institutions in the international financial architecture.

B. Macroeconomic implications and financing and investment needs to address climate change

The second part of the Economic Survey of Latin America and the Caribbean, 2023 analyses the macroeconomic implications of climate change in Latin America and the Caribbean, and possible financial mechanisms to facilitate the investments needed to create resilient economies able to stimulate robust, sustained and sustainable growth.

The region is highly vulnerable to climate change. Most of its countries are located in geographical areas that are particularly exposed to changes in hydrometeorological conditions—with a higher incidence of droughts and heatwaves and greater variability in precipitation levels and patterns— or severe weather events. At the same time, the region is highly dependent on economic activities that could be affected by climate change, such as agriculture, mining and tourism.

The macroeconomic damage of climate change could be significant for the countries of the region. The estimates presented in chapter II indicate that in 2050, the GDP of a group of six countries could be between 9% and 12% lower than the level corresponding to a scenario of trend growth.

Offsetting these economic losses would require exceptionally large additional investments, of between 5.3% and 10.9% of GDP per year. This would represent a significant increase over current investment levels. A less ambitious investment drive, in line with the needs set out in nationally determined contributions (NDCs), would limit macroeconomic damage, but still result in smaller and poorer economies in 2050.

The fiscal implications of an investment drive in line with the NDCs are not insignificant, as several countries would see a considerable increase in public debt. However, public debt dynamics would be more sustainable if countries were able to finance their adaptation investments on concessional terms, highlighting the catalytic role that international financial institutions could play in creating fiscal space for climate investment.

Financing of the investment needed to foster robust, sustained and sustainable growth cannot rely solely on higher levels of public debt. As discussed in chapter III, a framework should be in place to facilitate the mobilization of multiple sources of financing.

The chapter examines a range of financing mechanisms that countries could consider to ensure the viability of the investments needed to address climate change and transform the development paradigm in the region. It emphasizes the importance of boosting domestic resource mobilization through measures to strengthen tax collection and deepen domestic capital markets. It also underscores the need for greater international cooperation to create more fiscal space, especially for vulnerable countries with high levels of public debt.

In the face of the climate emergency, chapter IV explores the debate on the crucial role to be played by financial system authorities, central banks and supervisory bodies in enhancing the development of sustainable finance and mitigating the financial risks arising from climate change, preserving macrofinancial stability and preventing these risks from translating into higher inflationary pressures and compromising monetary policy transmission channels.

At the regional level, the initiatives undertaken by central banks and financial supervisory authorities are framed within the countries' respective legal mandates, in line with international

climate policy standards. With a view to ensuring an orderly transition to low-carbon economies, the countries have opted to move forward simultaneously in relation to three strategic pillars: (i) the inclusion of environmental, social and governance criteria to guide investment decisions in sustainable and inclusive projects; (ii) the management of climate change risks; and (iii) the development of capital markets to foster sustainable finance.

International recommendations on macroprudential and monetary policy options to address climate change currently make no distinction between advanced and developing economies, including those of the region. In particular, they do not consider specific conditioning factors that amplify the interconnection between countries' climate and financial vulnerabilities, which affects the scope and magnitude of possible policy responses aimed at aligning financial flows and meeting national climate targets. The challenges faced are even more complex as the demands of short-term macroeconomic swings must be reconciled with the need to move towards a complete decarbonization of the economy in the long term, which adds additional pressures to financing needs.

In view of these restrictions, greater regional cooperation in this area is necessary. Part of the solution at the national level is, on the one hand, adopting a precautionary approach to advance the implementation of policy instruments, and, on the other hand, exploring the potential for timely coordination of macroeconomic policies (fiscal, monetary and macroprudential) based on the experience of the COVID-19 crisis.

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Maize, which originated in the Americas, is one of the world's most important crops.

Bas-relief on the spiral tower at ECLAC headquarters in Santiago.

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The Economic Survey of Latin America and the Caribbean 2023 analyses the complex macroeconomic scenario for the countries of Latin America and the Caribbean, and projects that low economic growth will continue in 2023 and 2024. Inflation is expected to ease, although it will remain relatively high, as will public debt levels. This is coupled with a slowdown in employment, investment and consumption, and rising social demands. The report shows that both external and domestic factors have affected the region's economic performance.

This edition of the Economic Survey also analyses the macroeconomic repercussions of climate change on the economies of Latin America and the Caribbean and the potential financial mechanisms for facilitating the investment needed to make economies resilient and drive dynamic, sustained and sustainable growth. It explores the role that central banks and financial supervisors can play in addressing climate risks and strengthening sustainable financing and investment. The report posits that this will require multiple sources of financing and a significant mobilization of domestic and external resources.