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Growth prospects in Latin America and the Caribbean remain weak amid difficult external conditions and heightened policy uncertainty: UN report

The region's prolonged economic slump is increasingly undermining development progress

Mexico City, 16 January – Amid difficult external conditions and high policy uncertainty, the growth outlook for Latin America and the Caribbean remains weak, undermining the region's development prospects, according to the United Nations World Economic Situation and Prospects (WESP) 2020, which was launched today.

The Report states that the global economy suffered its lowest growth in a decade, slipping to 2.3 per cent in 2019, as economic activity was impacted by prolonged trade disputes. The world, however, could see a slight uptick in growth in 2020 if risks are kept at bay.

While global growth of 2.5 per cent in 2020 is possible, the Report cautions that a flareup of trade tensions, financial turmoil, or an escalation of geopolitical tensions could derail a recovery. In a downside scenario, global growth would slow to just 1.8 per cent this year. A prolonged weakness in global economic activity may cause significant setbacks for sustainable development, including the goals to eradicate poverty and create decent jobs for all. At the same time, pervasive inequalities and the deepening climate crisis are fuelling growing discontent in many parts of the world.

UN Secretary-General António Guterres warned that “These risks could inflict severe and long-lasting damage on development prospects. They also threaten to encourage a further rise in inward-looking policies, at a point when global cooperation is paramount.”

Growth prospects in Latin America and the Caribbean

Latin America and the Caribbean is expected to experience a slow and uneven recovery over the next two years, amid strong domestic and external headwinds. After growing by only 0.1 per cent in 2019, aggregate GDP is projected to expand by 1.3 per cent in 2020 and 2.0 per cent in 2021. Economic activity will be supported by accommodative monetary policy, along with a pickup in domestic demand in Brazil and Mexico. But even this projected modest recovery is subject to significant downside risks, such as a further deterioration in global trade, renewed financial volatility, and heightened policy uncertainty.

In 2019, per capita incomes stagnated or declined in many of the region's economies, including Argentina, Brazil and Mexico. Since the end of the commodity boom, the region has failed to achieve meaningful economic growth. The average per capita GDP today is about 4 per cent below the 2014 level. Amid lower average incomes and persistently high inequality, poverty levels have risen. The failure to deliver inclusive

economic growth, coupled with an erosion of trust in political institutions, has fuelled growing popular discontent in parts of the region.

Sub-regional prospects

In South America, a return to robust growth remains elusive. In many countries, longer-term structural obstacles to growth are compounded by short-term headwinds, such as weak global trade, subdued commodity prices and volatile political situations. Brazil's recovery will likely gain some momentum as business confidence improves, with growth projected to accelerate from an estimated 1 per cent in 2019 to 1.7 per cent in 2020. Argentina's short-term outlook is subject to major uncertainties. The baseline forecast for 2020 projects a third consecutive year of contraction, albeit at a milder rate than in 2019. Among the other countries, Paraguay, Peru and Uruguay are expected to see a notable pickup in economic activity in 2020 on the back of recovering domestic demand.

Economic activity is projected to pick up slowly in Central America and Mexico, after growth fell to a 10-year low in 2019. While Mexico's economy stagnated last year, looser monetary conditions and reduced policy uncertainty should support a modest recovery in 2020, with growth projected at 1.3 per cent. In many parts of Central America, the economic prospects remain subdued. Incomes will continue to grow at rates that are insufficient to address pressing development needs, including large infrastructure deficits and a lack of decent employment opportunities for young people.

In the Caribbean, ongoing fiscal consolidation efforts, coupled with the countries' high exposure to extreme weather events, continue to weigh on the growth outlook. Excluding Guyana, where the commencement of oil production is projected to boost economic activity in 2020, only a modest acceleration in growth is anticipated during the forecast period.

Policy challenges

With risks skewed to the downside, policymakers across Latin America and the Caribbean face major challenges. The region has been relying primarily on monetary policy to buffer the current slowdown. However, given already low interest rates and fragile financial market sentiment, space for further monetary easing is limited. At the same time, fiscal pressures remain large as many countries grapple with sizeable deficits and rising debt-servicing costs. Fiscal consolidation is often implemented through cuts in public investment, which could further hamper long-term growth prospects.

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