Logos Universality Mentality Education Novelty: Law
ISSN: 2284-5968 | e-ISSN: 2458-1046
Covered in: ERIH PLUS, HeinOnline, CEEOL, Index Copernicus, CrossRef, CrossCheck, J-GATE, Google Scholar, Ideas RePeC, Econpapers, Socionet, KVK, WorldCat.

2022, Volume 10, Issue 2, pages: 46-52 | doi: https://doi.org/10.18662/lumenlaw/10.2/77

Latin America will Grow Less than Expected This Year, 2.1%, According to ECLAC

Sylvia STAN[1]

[1] PhD Student, University of Bucharest, Faculty of Political Sciences, Romania, sylvia-gineta.stan@fspub.unibuc.ro

Abstract: According to ECLAC, the expected average growth of 2.1% reflects a high degree of heterogeneity between countries and subregions: the Caribbean will grow 6.1% (excluding Guyana), Central America will grow 4.5%, while South America will grow 6.1%. will do in 1.4%. Meanwhile, in 2021 the region showed higher-than-expected growth, averaging 6.2%, thanks to the low base of comparison that constituted the year 2020, the greater mobility and the favorable external context. According to the report, the region faces a very complex 2022: persistence and uncertainty about the evolution of the pandemic, sharp slowdown in growth, low investment, productivity and slow recovery of employment, persistence of the social effects caused by the crisis, less fiscal space, increases in inflationary pressures and financial imbalances.

Keywords: *growth; pandemic; low investment; employment; social effects.*

How to cite: Stan, S. (2022). Latin America will Grow Less than Expected This Year, 2.1%, According to ECLAC. *Logos Universality Mentality Education Novelty: Law, 10*(2), 46-52. https://doi.org/10.18662/lumenlaw/10.2/77

©2022 Published by LUMEN Publishing. This is an open access article under the CC BY-NC-ND license http://creativecommons.org/licenses/by-nc-nd/4.0/

Introduction

In its annual Preliminary Balance of Economies 2021 report, ECLAC highlights that 2022 will be a year of great challenges for growth, job creation and facing the social costs of the pandemic. The Latin American and Caribbean region will slow down its growth rate in 2022 to 2.1%, after growing 6.2% on average last year. This slowdown occurs in a context of significant asymmetries between developed, emerging, and developing countries regarding the ability to implement fiscal, social, monetary, health, and vaccination policies for a sustainable recovery from the crisis unleashed by the COVID-19 pandemic. The emerging economies, for their part, would have a growth of 5.1% in 2022 but they would only resume the growth trajectory forecast before the pandemic in 2025. In 2021, 11 countries in Latin America and the Caribbean managed to recover the levels of GDP prior to the crisis.

"The expected slowdown in the region in 2022, together with the structural problems of low investment and productivity, poverty and inequality, require that strengthening growth be a central element of policies, while addressing inflationary pressures and macro financial risks" Alicia Bárcena (2021) pointed out.

In terms of employment, last year it recovered at a slower rate than economic activity: 30% of the jobs lost in 2020 had not yet been recovered in 2021. Likewise, inequality between men and women was accentuated, which it reflects the burden of care on women and the lower dynamism of sectors that concentrate female employment, such as services. For 2022, ECLAC projects an unemployment rate of 11.5% for women -slightly lower than the 11.8% recorded in 2021, but still much higher than the 9.5% existing before the pandemic in 2019-, while for men, unemployment would be 8.0% this year, almost the same as in 2021 (8.1%), but still well above the 6.8% recorded in 2019 (ECLAC, 2022).

In 2022, there will be major challenges related to development, job creation, along with the existence of social costs due to the pandemic. A major cause is the uncertain context of strong asymmetries between developed and developing countries.

In 2021, inflationary pressures were recorded in most countries in the region, driven by rising food and energy prices (inflation averaged 7.1% in November, excluding Argentina, Haiti, Suriname and Venezuela), and these are to be expected. persist in 2022. Central banks anticipate that inflation levels will remain above the target range, although they will tend to converge towards the end of 2022 or the beginning of 2023. Again, the price of energy and food in international markets and the evolution of the

exchange rate exchange rates will be essential to explain the future price dynamics (El Pais, 2022).

Inflation and Covid will slow Latin America's growth in 2022

The Economic Commission for Latin America and the Caribbean (ECLAC) reported a general inflation of 7.2% for the Latin American region in 2021, not counting countries with chronic inflation, such as Argentina, Haiti, Suriname and Venezuela. Brazil registered inflation in 2021 above 10%, while in Mexico and Chile it was above 7%, which has caused central banks to raise their interest rates to counteract inflationary pressures. Regarding Mexico, the chief economist of the international organization indicated that the second half of 2021 was "weaker than expected", especially due to "the problems in global supply chains" due to the new omicron variant of the coronavirus, and that this slowdown will extend a little during this year. Argentina discusses with the IMF about the refinancing of debts acquired since the financial aid agreement signed in 2018 between the agency and Buenos Aires, which, due to the macroeconomic difficulties it is going through, the South American country is not able to face.

ECLAC emphasizes that inflation is a multi-causal phenomenon, so the monetary authorities must continue to use the wide range of instruments (monetary, exchange rate and macroprudential) available to them, beyond the interest rate, to deal with inflationary pressures. without undermining the drive to recover growth and employment and achieve sustainable, inclusive and equalizing growth.

"As of early December 2021, two-thirds of the region's population had received at least one dose of the vaccine, although disparities between countries remained large. In addition, the region benefited from favorable external conditions, such as strong demand from China and the United States, high commodity prices, and rising remittance inflows. But the recovery has not been enough to reverse the damage of the pandemic, which has pushed millions of people into unemployment and poverty" (UN, 2022).

"The region's labor markets have only experienced a partial and uneven recovery after suffering an unprecedented shock during the early stages of the COVID-19 crisis. Although economic activity has recovered, job creation has been insufficient in terms of quantity and quality. In most countries, unemployment rates remain significantly higher and participation rates lower than before the pandemic" (UN, 2022). Young people, women and workers with lower levels of education have been the most affected by

the deterioration of the labor market, and informal employment represents a large part of the jobs created during the recovery (UN, 2022).

The impact of COVID-19 has varied in different segments of the labor market. Employment in some countries remains quite below pre-pandemic levels, although in others (particularly Mexico) it has recovered almost completely. But in some cases, recovery may be occurred at the expense of the quality of employment, as in Mexico, where workers appear to have re-entered the labor force in jobs less paid and where underemployment remains high (International Monetary Fund, 2021).

The rapid spread of the omicron variant indicates that the pandemic is likely to continue to affect economic activity in the near term. Also, the sharp slowdown in major economies (such as the United States and China) will weigh on external demand in emerging and developing economies. At a time when governments in many developing countries lack the macroeconomic space to support activity if needed, new outbreaks of COVID-19, persistent inflationary pressures and supply chain bottlenecks, as well as high financial vulnerability in many parts of the world, could increase the risk of a hard landing.

"After last year's strong economic rebound, the Latin American and Caribbean region faces a difficult outlook for 2022 and 2023. At the same time, many of the region's central banks will continue to raise interest rates to control inflation, while governments will increasingly turn away from fiscal stimulus. In the face of these headwinds, GDP growth in South America is projected to reach just 1.6% in 2022. The near-term outlook is more favorable for Central America and especially the Caribbean, where the continued resumption of tourism will support economic recovery" (United Nations Department of Economic and Social Affairs Economic Analysis, 2022).

Monetary and fiscal tightening will weigh on growth

Since 2020, despite the fiscal and monetary measures implemented by most countries in the region, there is an imbalance in economic activity, the growth rate being stagnant or negative (CEPAL, 2020).

The rapid rise "in inflation has prompted many central banks to tighten monetary policy. In 2021, average consumer price inflation in the region reached its highest level in two decades, driven by the release of pent-up demand, supply shortages, rising prices of imported goods and services due to the depreciation of the exchange rate and, above all, the increase in food and energy prices. Although most of these factors are probably temporary, several central banks - for example in Brazil, Chile, Colombia,

Mexico and Peru - have raised interest rates to curb inflation and prevent inflation expectations from becoming unanchored. Although the cycle of monetary tightening is set to continue in 2022, the question is how aggressively central banks will raise borrowing costs in the face of a still fragile and incomplete recovery" (United Nations Mexico, n.d.).

"The region's fiscal perspective also remains difficult. With global financial conditions expected to tighten, pressures to consolidate public finances are likely to increase, especially for countries with large dollar-denominated debt. In many countries, fiscal space will shrink further as debt service burdens continue to rise, while spending demands - for example, to strengthen health and education systems, expand social protection coverage, facilitating the energy transition and promoting industrial and technological policies - will continue to increase. As the pandemic threatens to leave lasting scars on the region's sustainable development prospects, policymakers continue to face difficult decisions" (United Nations Mexico, n.d.).

The exceptional fiscal stimulus of 2020 is being partially withdrawn in 2021, except in Chile and Colombia and that is holding back the recuperation. As a consequence of the reversal of the fiscal impulse and the rebound in activity, the public debt ratios have stopped growing in most countries, but these are still high. Persistence of the pandemic has led Latin America and Caribbean governments to preserve or increase transfers to households, although in a more focused way, thus cushioning in a certain way the impact of the important fiscal retrenchment in 2021 that was screened in April. The acceleration of inflation in 2021 has led to several of the main central banks of Latin America and the Caribbean start raising monetary policy rates, but monetary policies in general maintain an accommodating orientation. Headline inflation in Latin America and the Caribbean accelerated more than core inflation, and rapidly rising food prices has made the burden of the pandemic heavier than support low-income households, while that core inflation neutralized the decline initial derived from the impact of the shock of the COVID-19 and has surpassed the trend prior to the pandemic (International Monetary Fund, 2021).

"*In order to maintain expansionary fiscal and monetary policies, the countries of the region need to complement domestic resources with greater access to international liquidity and with multilateral mechanisms that facilitate debt management, if necessary. Multilateral initiatives are needed to address uncertainties about vaccination and developing countries' access to financing on adequate terms*." (Bercena, 2021).

During 2022, 5 risks are foreseen that could complicate the management of fiscal policy: slowdown in economic growth in 2022, low

investment and generation insufficient jobs, inflationary pressures, higher interest rates as monetary policy is normalized in developed countries and national authorities take measures to respond to growing inflationary pressures, exchange rate depreciations, Potential Downgrades in Sovereign Credit Ratings.

ECLAC revises down its growth forecast for Latin America

The Latin American countries that grew the most in 2021, according to estimates, are Peru (13.5%), Panama (12.4%), Chile (11.8%), the Dominican Republic (10.4%), El Salvador (10%), Argentina (9.8%), Colombia (9.5%) and Honduras (9%). In the middle are Nicaragua (7.4%), Mexico (5.8%), Costa Rica (5.5%), Guatemala (5.4%), Bolivia (5.2%), Brazil (4, 7%) and Paraguay (4.6%). While the worst performers in 2021 were Uruguay (3.9%), Ecuador (3.1%), the Caribbean islands (3%), Cuba (0.5%), Haiti (-1.3%) and Venezuela (-3%).

Latin America is the region most affected in economic and health terms by the COVID-19 pandemic, which has left nearly 50 million cases and more than 1.5 million deaths, with Brazil, Mexico, Peru, Colombia and Argentina at the head. For the region, which had a historical contraction of 6.8% in 2020, "*the macroeconomic situation will also become more uncertain and complex in 2022"* (ECLAC, 2022).

ECLAC ensures that Latin American countries need an annual increase of 4% in order to provide employment opportunities for young people who are about to integrate into the labor market.

It is estimated that the region will have the lowest economic growth in the world in 2022 due to the impact on health and the existence of very high external debts. At the same time, the impact of populism on foreign investments should be mentioned (investment rate of 16.5%, the lowest in recent years).

The future of the region at a social, political and economic level

Some countries will have presidential elections (Brazil and Colombia) that could mark a new political direction. More precisely, the region will have to face a deep economic crisis, debt crisis, migration and unemployment.

All Latin America has a common ground between the pandemic and the economic recession. These challenges require social protection. Experts say that the pandemic will not be the most important aspect this year as it was in 2020 and 2021. In general, the region will have to face a strong

economic crisis, unemployment, debt and also social unrest. This year's electoral processes will be decisive for Latin America. It is anticipated that the pandemic will not have the same political effect this year as it has in years past.

The elections that will have the most geopolitical impact on the continent will be those of October 2022, in Brazil. There are three game names that are called to the dispute. The first, the current president, Jair Bolsonaro: his terrible management of the pandemic crisis has greatly affected his popularity. The social and economic indicators during his government have been strongly affected and, aware of his difficult political situation, he has recently chosen to abandon the anti-political discourse and concur under the acronym of the traditional Liberal Party, while promoting initiatives to eradicate of poverty.

The Latin American and Caribbean region faces a difficult outlook for 2022 and 2023. The external environment will become less favorable as growth in the region's main trading partners slows and global financial conditions tighten. At the same time, many of the region's central banks will continue to raise interest rates to control inflation, while governments will increasingly move away from fiscal stimulus. In the face of these headwinds, GDP growth in South America is projected to reach just 1.6% in 2022. The near-term outlook is more favorable for Central America and especially the Caribbean, where the continued resumption of tourism will support economic recovery.

Conclusion

In conclusion, 2022 integrates needs and demands still to be resolved, especially at the socioeconomic level of the States and the region, since it may imply profound changes in the geopolitical sphere. The possible change of ideological color in two countries, today conservative like Colombia and Brazil, as has happened in Chile, can help rebuild both the battered Latin American regional framework, apart from relations with third parties such as the European Union or even China. In any case, they are aspects that are integrated into much broader cycles of transformation, more structural than conjunctural, but as it happened at the beginning of the first decade of this century, they need stimuli and a turning point that, throughout this year, they can find the necessary springs for an urgent change of course.

References

Barcena, A. (2021). Preliminary overview of the economies of Latin American and the Caribbean. https://www.cepal.org/sites/default/files/presentation/files/220112_1250_220111_ppt_bp_2021_abi_version_final-rev4_ingles.pdf

El Pais. (2022). Economia. https://elpais.com/economia

International Monetary Fund. (2021). Perspectivas Económicas Las Américas: Un largo y sinuoso camino hacia la recuperación [Economic outlook The Americas: A long and winding road to recovery]. https://www.imf.org/-/media/Files/Publications/REO/WHD/2021/Spanish/Text.ashx#:~:text=La%20recuperaci%C3%B3n%20econ%C3%B3mica%20en%20Am%C3%A9rica,de%20casos%20de%20COVID%2D19.

United Nations (UN). (2022). Development. https://www.un.org/development

United Nations Department of Economic and Social Affairs Economic Analysis. (2022). World Economic Situation and Prospects 2022. https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2022/

United Nations Economic Commission for Latin America and the Caribbean (ECLAC). (2022). ECLAC Foresees that Growth Will Decelerate in Latin America and the Caribbean in 2023, with a Projected Expansion of 1.4%. https://www.cepal.org/es/comunicados/

United Nations Economic Commission for Latin America and the Caribbean (ECLAC). (2020). Estudio Económico de América Latina y el Caribe 2020: principales condicionantes de las políticas fiscal y monetaria en la era pospandemia de COVID-19 [Economic Survey of Latin America and the Caribbean 2020: main determinants of fiscal and monetary policies in the post-COVID-19 pandemic era]. https://www.cepal.org/es/publicaciones/46070-estudio-economico-america-latina-caribe-2020-principales-condicionantes

United Nations Mexico. (n.d.). Los Objetivos de Desarrollo Sostenible en México [The Sustainable Development Goals in Mexico]. https://mexico.un.org/