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Outlook for Latin America and the Caribbean: New Challenges to Growth

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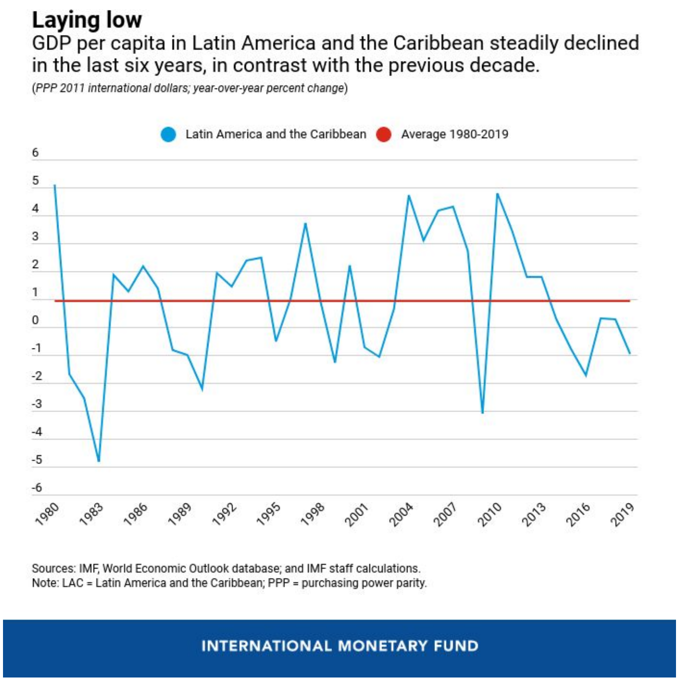
Economic activity in Latin America and the Caribbean stagnated in 2019, continuing with the weak growth momentum of the previous five years and adding more urgency and new challenges to reignite growth. Indeed, real GDP per capita in the region has declined by 0.6 percent per year on average during 2014–2019—a sharp contrast from



This weak momentum reflects structural and cyclical factors. On the structural side, potential growth remains constrained by low investment, slow productivity growth, a weak business climate, and the low quality of infrastructure and education. On the cyclical side, growth has been held back by low global growth and commodity prices, elevated economic policy uncertainty, economic rebalancing in some economies, and social unrest in others.

Regional challenges

Elevated policy uncertainty in several large Latin American countries continues to weigh on growth. For example, uncertainty about the course of economic policy and reforms in Brazil and Mexico likely contributed to the slowdown in real GDP and investment growth in 2019.

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while helping restore internal and external balances, have also acted as a drag on economic growth.

More recently, a few countries in the region experienced social unrest—Bolivia, Colombia, Chile, and Ecuador—which, in some cases, disrupted economic activity. Economic policy uncertainty has also risen in these countries as governments consider alternative policies and reforms to make growth more inclusive and address social demands.

Outlook and risks

As noted in the recent World Economic Outlook update , growth in the region is projected to rebound to 1.6 percent in 2020 and 2.3 percent in 2021—supported by a gradual pick up in global growth and commodity prices, continued monetary support, reduced economic policy uncertainty, and a gradual recovery in stressed economies.

However, there are also prominent downside risks. While previous external downside risks have moderated following globally synchronized monetary policy easing and the signing of the U.S.-China phase one trade deal, some new risks have appeared, including the potential global spread of the coronavirus, which could significantly disrupt global economic activity, trade, and travel. Domestic and regional downside risks have also intensified. Social unrest could spike throughout the region, while economic policy uncertainty could rise further due to both heightened social tensions and policy slippages.

Policy priorities

safety net on the other hand.

Although the causes and triggers of social unrest have varied across countries, they generally reflect discontent with some aspects of the economic and political systems. A key priority going forward is to reignite growth, while making it more inclusive. Promoting competition will be important to avoid monopolistic practices that may hurt the poor disproportionally. Tackling corruption and weak governance will help make political systems more representative, although deeper political reforms may be needed.

Fiscal policy will need to support to growth, expand the social safety net, and improve the quality of public goods and services. However, in many countries, spending room in the budget remains constrained by high deficits and public debt. These countries will need to improve spending efficiency, reallocate spending from nonpriority areas to public investment and social transfers and increase revenues over the medium term to finance additional increases in these areas.

Monetary policy can remain accommodative to support growth given the stable inflation outlook, well-anchored inflation expectations, and declining neutral rates worldwide.

South America:

In **Brazil**, growth remained subdued at 1.2 percent in 2019, but is projected to accelerate to 2.2 percent in 2020 due to improving confidence following the approval of the pension reform and lower monetary policy interest rates in the context of low inflation. Steady implementation of the government's broad fiscal and structural reform agenda will be essential to safeguard public debt sustainability and boost potential growth.

In **Chile**, the outlook is subject to uncertainty resulting from social unrest and the evolving policy responses to the social demands. Following a sharp decline in late 2019, economic activity is expected to recover gradually supported by a significant fiscal

In **Colombia**, strong domestic demand led to a pickup in growth to 3.3 percent in 2019 and a widening of the current account deficit to 4½ percent of GDP. Growth is projected to accelerate to around 3½ percent in 2020 due to continued monetary support, migration from Venezuela, remittances, civil works and higher investment due to recent tax policy changes.

In **Peru**, growth is estimated to have slowed to 2.4 percent in 2019, hampered by lower global trade and under-execution of government spending. With these factors dissipating in the coming years, growth is projected to recover to 3.2 percent in 2020 and 3.7 percent in 2021, with inflation remaining well-anchored within the central bank's target range.

Venezuela remains immersed in a deep economic and humanitarian crisis . Since the end of 2013, real GDP has contracted by 65 percent driven by declining oil production, hyperinflation, collapsing public services, and plummeting purchasing power. A continuation of these trends is projected for 2020, although at a slower pace. The acute humanitarian crisis has led to one of the largest migratory crises in history, with migration to neighboring countries expected to surpass 6 million—20 percent of the population—by 2020.

Mexico, Central America, and the Caribbean

In **Mexico**, economic activity stagnated in 2019 due to policy uncertainty and slower global and U.S. manufacturing production. Growth is expected to recover to 1 percent in 2020 as conditions normalize, including with the ratification of the trade agreement between the United States, Mexico, and Canada (USMCA) and the recent easing of monetary policy, which should continue as along as inflation expectations are well-anchored. Fiscal policy should be geared at putting the public debt-to-GDP ratio on a downward trajectory, with priority on increasing revenues, improving the efficiency of spending, and enhancing the fiscal framework.

In **Central America, Panama, and the Dominican Republic** growth is projected to rebound to 3.9 percent in 2020, from 3.2 percent in 2019, supported by the beginning of operations of a will be key to rebuild market confidence and fiscal space.

In **Honduras**, the economic plan includes important efforts to improve institutional, governance, and anti-corruption frameworks supporting business confidence, while **Guatemala** is expected to continue benefitting from a fiscal impulse and economic reform plans of the new administration. **El Salvador** is already reaping the effects of the pro-growth agenda of the new administration inaugurated in June, while unfavorable political tensions in **Nicaragua** are creating a significant headwind to economic recovery.

In the **Caribbean**, economic prospects are improving, but with substantial variation across countries. Growth in tourism-dependent economies is expected to strengthen in 2020. With commodity prices remaining broadly stable, commodity exporters are expected to see modest recovery in growth, while large oil discoveries and the start of their production in 2020 is expected to boost growth in **Guyana**.

The region's exposure to climate risks continues to require strong policies. Potential growth continues to be impeded by lingering structural problems including high public debt, weaker financial systems, high unemployment, and vulnerability to commodity and climate-related shocks. Some countries have started to strengthen their fiscal positions, but further tightening is needed in others to ensure debt sustainability.

		Est.	Projections		October 2019 WEO Projections	
	2018	2019	2020	2021	2020	2021
Latin America and the Caribbean	1.1	0.1	1.6	2.3	-0.2	-0.1
Excluding Venezuela	1.8	0.8	1.9	2.4	-0.2	-0.1
South America	0.5	-0.2	1.5	2.3	-0.2	-0.1
Excluding Venezuela	1.4	0.9	1.8	2.5	-0.2	-0.1
CAPDR	3.9	3.2	3.9	4.0	0.0	0.0
Caribbean						
Tourism dependent	1.8	1.4	1.1	1.9	0.0	0.0
Commodity exporters	0.6	0.9	17.9	2.8	0.0	0.0
Latin America						
Argentina	-2.5	-3.1	-1.3	1.4	0.0	0.0
Brazil	1.3	1.2	2.2	2.3	0.2	-0.1
Chile	4.0	1.0	0.9	2.7	-2.1	-0.5
Colombia	2.6	3.3	3.5	3.8	-0.1	0.1
Mexico	2.1	0.0	1.0	1.6	-0.3	-0.3
Peru	4.0	2.4	3.2	3.7	-0.4	-0.3
Venezuela	-18.0	-35.0	-10.0	-5.0	0.0	0.0

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Notes: Regional aggregates are purchasing-power-parity GDP-weighted averages. CAPDR = Central America, Panama, and the Dominican Republic.
South America: excludes Guyana and Suriname.
Tourism dependent: includes Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
Commodity exporters: includes Guyana, Suriname, and Trinidad and Tobago.

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