

LATIN AMERICA: ONE OF THE SLOWEST GROWING REGIONS IN ECONOMIC TERMS DESPITE HIGHER COMMODITY PRICES

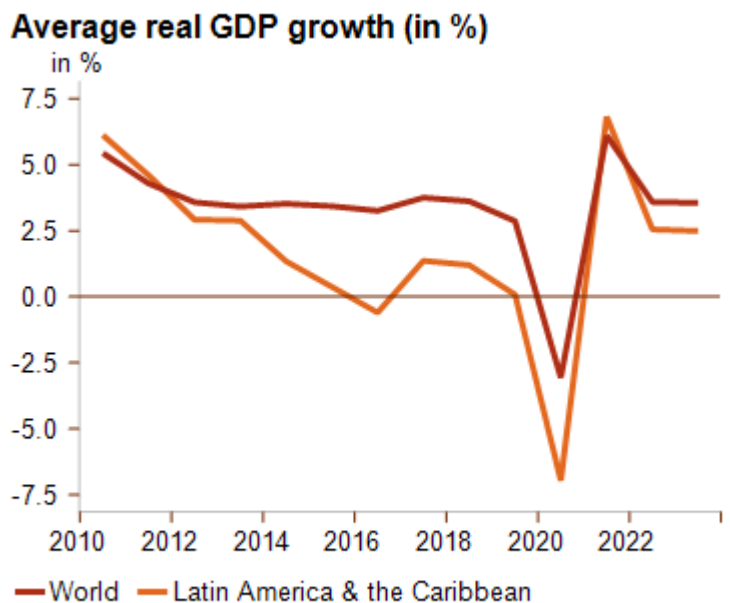


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Event

Latin America's economic growth was rather low in the last decade (see graph below). It amounted to an average of 1.3% between 2011 and 2022, around half of the world average of 3.2%. Especially since the end of the commodity supercycle in 2014, the region has experienced a meagre growth of about 0.5% between 2014 and 2022, not even a fifth of the world average real GDP growth of 2.9% in the same period. Indeed, since 2014, the region has regularly been the slowest growing region in the world in terms of economic growth. This year as well, the region is projected to be one of the slowest growing regions, with an average real GDP growth of just 2.5%, according to the IMF WEO of April 2022. Only emerging Europe would be faring worse, with a projected contraction of 2.9% due to the Russia-Ukraine conflict. This might be surprising for Latin America, as a new commodity boom seems in the making since the end of 2020, and notably given the (soft) rise in commodity prices due to the Russia-Ukraine conflict.



Source: IMF

Impact

Higher international food prices are benefiting Latin America: most countries are large food exporters, on average accounting for a fifth of current account revenues. On top of that, South America also profits from higher international oil and metal prices (together accounting for about half of current account revenues). Nevertheless, other crucial factors weighing on Latin America's economic growth are at play. First of all, **inflation**, which is at a 15-year high in most countries, triggered aggressive monetary tightening in the past year and is weighing on credit, investment and consumption and, hence, on economic growth. Secondly, governments are winding down their support to households and companies, while lowering investments. Many governments in the region have elevated to high public debt ratios and,

corruption and large income inequality has led to a rise in populism and a higher number of anti-establishment candidates being elected in the past year (for example in **Chile**, **Peru** and **Costa Rica**). On top of that, voters demand for a stronger role of the state in the economy, leading to rising resource nationalism (for example, lithium), more changes in public contract, especially after a regime change (for example in **Honduras**) and more project cancellations after protests (especially if environmental issues are a concern). These developments are harming both (foreign) investment and economic growth. Moreover, slower economic growth of trading partners, such as the USA (due to labour shortages and the quick tightening of the monetary policy by the Fed) and **China (given its zero-Covid policy)**, is weighing on economic growth as well.

Looking ahead, the outlook for medium-term growth will depend on the ability of Latin American governments to enact the structural reforms that have been a burden for economic growth for decades. In the context of a possible US nearshoring – the process of returning back the production and manufacturing of goods from Asia closer to the USA given supply bottlenecks, after the Covid-19 pandemic and the ongoing trade war between the USA and China –, tackling these structural disadvantages will be crucial. Examples are the need to improve infrastructure and to address deep-seated inequality and protectionism. Furthermore, investment in human capital will be key, as an education gap has emerged after the long school closures due to Covid-19 restrictions. This education gap will have a clear negative impact on real GDP growth, poverty, inequality and unrest in the MLT if it remains unaddressed. Lastly, adaptation to **climate change** will be essential, as illustrated by the regular severe droughts hurting **Paraguay, Argentina and Brazil** and the dry corridor in Central America, and by the **fiercer tropical storms and hurricanes** frequently hurting Central America and the Caribbeans.

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