Executive summary

Preliminary Overview of the Economies of Latin America and the Caribbean 2024

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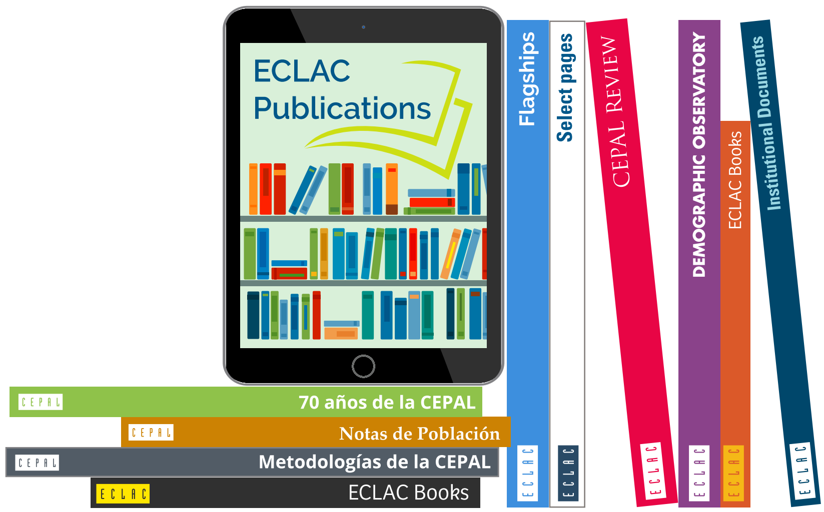

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In the preparation of this document, the Economic Development Division was assisted by the Statistics Division, the Division of International Trade and Integration, the ECLAC subregional headquarters in Mexico City and Port of Spain, and the Commission's country offices in Argentina, Bogotá, Brasilia, Montevideo and Washington, D.C.

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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. 2023/2024) 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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Executive summary

In 2024 and 2025, global economic growth is set to hold steady at 2023 levels, driven largely by emerging economies

The world's major central banks expanded liquidity in 2024, ending the tight monetary cycle

The region's debt issuance on international markets is increasing, but the net transfer of resources abroad is on the rise

Economic activity remains low and is increasingly dependent on private consumption

Despite continued low job creation, the region's labour markets are showing modest improvements

Fiscal space remains limited in Latin America and the Caribbean

Inflation is converging towards target ranges, albeit at a slower pace

Falling inflation and rate cuts in the United States have prompted looser monetary policy in the region

Projections and outlook for 2024 and 2025

Policies to overcome the trap of low capacity for growth

The countries of the region are facing what the Economic Commission for Latin America and the Caribbean has termed a trap of low capacity for growth. Average annual growth for the decade 2015–2024 stands at 1%, pointing to stagnant per capita GDP during that period. While projections for 2024 and 2025 are above the average for the decade, economic growth will remain low.

The international macroeconomic context in which the countries of the region operate points to expected global growth of around 3.2% per year for 2024 and 2025. Growth in international trade in goods and services is at 3.1% for 2024 and 3.4% for 2025. The world's leading central banks have been lowering interest rates, which has coincided with increasing global liquidity and a stronger dollar. This greater liquidity has translated into increased capital flows, however, these have been towards developed economies.

In 2024, the region's debt issuances on bond markets were higher than in 2023. Despite interest rate cuts in international financial markets, the cost of financing remains high. Increased financing costs have driven up interest payments from the region's economies to the rest of the world, which helps to explain the region's net resource transfers abroad in 2024.

In 2024, domestic macroeconomic policy space remained tight. On the fiscal front, regional economies have been under pressure to keep public debt on track as interest payments are expected to reach record highs. On the monetary front, falling inflation and lower interest rates in international markets have helped to lower monetary policy reference rates across the region. However, depreciations in the region's currencies have affected the speed and magnitude of adjustments in these policy rates.

The slowdown in economic growth in the countries of the region has continued. In 2024, the region's economies expanded by an estimated 2.2%, and for 2025, regional growth is projected at 2.4%. This slow growth in regional GDP has led to the declining share of Latin American and Caribbean economies in global growth and persistently weak employment growth.

For the region to break from the trap of low growth capacity, complementary and coherent policies to mitigate business cycle fluctuations and boost long-term trends in regional growth are needed. This means increasing policy space to boost the mobilization of financial resources that will help to smooth the business cycle and support the region's productive transformation for high, inclusive, sustained and sustainable growth. In addition, greater policy space is essential if the region is to meet the mitigation and adaptation challenges posed by the fourth industrial revolution and the intensification of climate change.

In 2024 and 2025, global economic growth is set to hold steady at 2023 levels, driven largely by emerging economies

The global economy is expected to grow at a rate of around 3.2% in 2024 (compared to 3.3% in 2023) and to remain at that level in 2025. Growth in the United States, which accounts for 25% of global GDP, is estimated at 2.8% in 2024 and 2.2% in 2025, driven by consumption that has been sustained by a labour market with low unemployment and wage increases. Consumption trends also benefited from the wealth effect, reflecting the rise in share prices, which reached record highs towards the end of 2024.

The eurozone is expected to register economic growth of 0.8% in 2024 and 1.2% in 2025, reflecting the decline in industrial production, which has not been offset owing to the sluggishness of the services sector. Germany, the eurozone's largest economy, accounting for 24% of GDP, and the region's largest producer of manufactured goods, has been experiencing economic stagnation since late 2021. This is largely the result of the trend decline in German industry, including the automotive sector, the chemical industry and the engineering sector, since 2017 (between 2017 and 2023, the industrial sector contracted by 2.4% and, according to the latest available data, in September 2024, the country's industrial production fell by 2.5%). Growth in France and Italy, the two largest economies in the eurozone after Germany, accounting for 17% and 12% of the region's GDP, respectively, was also affected by lacklustre investment, particularly in the machinery and equipment component.

Meanwhile, GDP growth is on the rise in emerging economies and they will be the main drivers of global economic growth. Their estimated growth rate in 2024 was 4.2%, more than double that of the advanced economies, and this is expected to be maintained in the short and medium term. Consequently, emerging economies will play a greater role in driving global growth.

The world's major central banks expanded liquidity in 2024, ending the tight monetary cycle

Since the second quarter of 2024, the world's major central banks have expanded liquidity, ending the tight monetary policy cycle implemented in 2022 to combat rising inflation. During this period, the money supply increased 0.9% in the United States, 1.3% in Japan, 0.7% in the United Kingdom and 1.7% in the eurozone. In the third quarter, liquidity was expanded further, except in Japan, with growth rates of 2.0% in the United States, 2.2% in the United Kingdom and 2.8% in the eurozone. In line with money supply trends at the world's major central banks, worldwide lending to the non-financial sector trended upwards and showed a clear recovery in the first two quarters of 2024 (with rates of 2.5% and 2.4% in the first and second quarters of 2024, respectively).

Global liquidity is partly explained by the reduction in monetary policy interest rates. In September 2024 the United States Federal Reserve lowered the federal funds rate for the first time since March 2020, by 50 basis points, bringing it from a 5.25%–5.50% target range to 4.75%–5.00%. Subsequently, in November, it cut the federal funds rate again, by 25 basis points, bringing it to a range of 4.50%–4.75%. In the case of the European Central Bank (ECB), it decided on three occasions (June, September and October 2024) to cut the interest rate with which it steers monetary policy by 25 basis points, lowering it from 4.00% to 3.25%. This was the first time in 13 years that ECB has adopted an expansionary monetary policy. Meanwhile, the Bank of England cut its monetary policy rate in November from 5.00% to 4.75%. Lastly, the Bank of Japan left its interest rate unchanged at around 0.25%.

These interest rate cuts are in response to falling inflation rates and inflation expectations that are in line with targets (2% for the world's major banks), and the aim of avoiding a weakening of economic growth and the labour market. The rate of change in global energy prices —which had reached record highs of 168% in October 2021— declined from August 2022 onwards. Between January 2023 and September 2024, world energy prices contracted systematically (except in June and July 2024).In September 2024, the rate of change in international energy prices stood at -16.7%.

Similarly, food price inflation fell from a peak of 10.9% in July 2022 in the United States and 17.9% in May 2023 in the eurozone to lows of 2.3 % and 1.4 % in September 2024, respectively. In addition, labour market pressures have eased. However, an analysis of the labour market shows that from April 2023 onwards, the ratio between the level of unemployment (labour supply) and the supply of jobs (labour demand), both expressed in numbers, trended upwards. The latest United States labour market survey, released in November, shows that the unemployment rate has remained virtually unchanged at 4.2%.

The lowering of monetary policy interest rates by the world's major central banks and the expectation that this trend will continue in 2025 have had a positive effect on equity market performance. These factors have helped to maintain the upward trend in equity prices since the restrictive monetary policy stance was abandoned in September 2023. Higher share valuations have a direct effect on the economy by increasing corporate and household wealth. Lower monetary policy rates have led to a moderate downswing in interest rates on treasury securities in the eurozone. Between April and September 2024, the average yield on government bonds fell from 3.08% to 2.83%.

The buoyancy of the United States economy, which has kept it from slipping into a recessionary phase and boosted growth, coupled with rising long-term interest rates, growing geopolitical tension in the Middle East and the war in Ukraine, have pushed up the value of the dollar internationally.

The increase in global liquidity has boosted financial flows worldwide. However, the bulk of international financial flows are towards developed countries, where 72% of total foreign direct investment (FDI) and portfolio flows were concentrated in 2010 and 63% in 2022. Meanwhile, financial flows from developed to developing countries accounted for 10% of total outflows in 2010, a figure that rose by a mere 3 percentage points in 12 years. Financial flows from developing economies to advanced economies also increased by only 3 percentage points, from 8% of total outflows in 2010 to 11% in 2022. Another advantage for developed countries is that they can reduce the borrowing costs of their liabilities, while at the same time increasing the returns on their assets.

The region's debt issuance on international markets is increasing, but the net transfer of resources abroad is on the rise

The region's overall balance of payments will record a projected deficit of 1.2% of GDP in 2024, as the current account deficit widens in 2024, following a large adjustment in 2023. This reflects the larger share of higher interest payments abroad, recorded in factor account debits, consistent with still-tight global financial conditions. In the first six months of 2024, these interest payments accounted for about 50% of total income account debits.

The goods account is showing signs of recovery and moving towards a surplus. However, the services account remains in deficit —albeit a narrowing one— reflecting the low capacity of exports to finance imports, despite the ongoing recovery in the region's tourism sector and lower transport and freight costs. With the services account deficit fully offset by the goods account surplus, the region's external trade will become a net source of foreign exchange, but less so than in previous decades, reflecting weak external and domestic demand. In addition, the current transfers account, including remittances received, has been a stable source of external resources. On the current transactions side, the income account deficit, which has become structural in the region, has gained prominence. While reinvested earnings represent a significant proportion of the income account debit, they do not, strictly speaking, result in a currency outflow. Rather, the higher interest burden paid abroad has become the main cause of foreign exchange outflows.

The widening current account deficit comes with higher external financing needs. From this perspective, financial inflows have increased, as in the case of emerging economies, while the region's credit risk has fallen on the whole. FDI inflows to the region, the largest source of external financing, have risen sharply to date, sustained by some countries, including Brazil and Mexico. Between the second half of 2023 and the first half of 2024, these flows increased by 56%, accounting for 3.2% of GDP. In addition, there was a slight pick-up in financial outflows from the region, as a result of a reversal of the capital repatriation recorded in the second half of 2023, mainly as a result of portfolio investment.

Higher net capital inflows in 2024, sustained by inward FDI, coincided with a positive change in international reserves. These reserves are equivalent to 0.7% of regional GDP in the first half of 2024. However, the current account deficit —and the resulting higher financing needs— is not expected to be fully offset by net capital transfers, which have been shrinking in the region since 2015. As a result, the search for alternative financing channels has led some countries to turn to international debt markets. In 2024, debt issuance on international markets continued to increase, underpinned mainly by sovereign debt and private corporate issuance, with thematic bonds gaining ground as a means of raising additional financing. In the first nine months of 2024, debt issuance in international markets increased by 35% year-on-year to US$ 98.9 billion.

Economic activity remains low and is increasingly dependent on private consumption

In the second half of 2024, GDP in Latin America and the Caribbean is projected to continue growing, at a regional annual average of 2.2%. The slower pace of economic growth compared to previous years reflects faltering domestic demand and a smaller external contribution. On the supply side, with the exception of the manufacturing industry, various economic activities have shown increases in output, although at lower levels than in previous quarters.

At the subregional level, both in South America and in the group comprising Mexico and Central America, growth rates have slowed from the second half of 2022. In South America, the slowdown is more pronounced when Brazil is not included, as that country pushes up the overall subregional GDP growth rate owing to its size and better performance. The output rates of the remaining South American countries vary from those in 2023, with half of them increasing and the other half decreasing, and Argentina experiencing a contraction in activity. Economic growth in South America accelerated in the second half of 2024 to an average rate of 2.6%, compared with the year-earlier period. On the contrary, growth in the Mexico and Central America group slackened in the second half of 2024 compared to the second half of 2023, to a rate of around 1.5%.

The slowdown in economic activity reflects a weakening of both consumption and gross fixed capital formation. However, growth is increasingly dependent on private consumption. In the second quarter of 2024, private consumption increased at an annual rate similar to that recorded in 2023. These patterns in private consumption are the result of the slowdown in eight countries of the region and the acceleration in the rest of the region. Private consumption is being maintained amid inflation control, less of a decline in the purchasing power of real wages and ebbing confidence levels, as well as the start of monetary policy easing in some countries. Similarly, in the second quarter of 2024, public consumption trends remained the same as in the year-earlier period.

Growth in gross fixed capital formation was 1 percentage point lower in the first half of 2024 than in the same period of the previous year, further underlining the signs of stagnation and of a decline in its share of GDP (it was down from 19.0% of GDP in the first half of 2023 to 18.5% of GDP in the first half of 2024). Owing to the global slowdown, net exports have not contributed to GDP growth. Exports and imports have slackened symmetrically. As a result, net exports had a negative contribution of almost 1 percentage point from the first quarter of 2023, while in 2022 it contributed almost nothing to GDP. However, after four quarters in which exports had a negative impact on GDP growth, in the second quarter of 2024 the impact was positive.

Moderated growth has been generalized across the various branches of economic activity, except for the manufacturing industry, where activity has declined. In all branches of economic activity, growth in value added has slowed, except in the general, social and personal services sector, where it was more than double the annual growth of the regional economy in the first half of 2024. In terms of momentum, this was followed by the electricity, gas and water services sector, the transport and communications sector and the financial and business services sector. There was robust growth in agriculture in the second quarter of 2024, owing specifically to the low base of comparison in the case of four countries, where sharp declines in 2023 were followed by recoveries in the second quarter of 2024: Argentina (81.2%), Colombia (10.2%), Peru (14.2%) and Uruguay (25.2%).

Despite continued low job creation, the region's labour markets are showing modest improvements

There has been limited employment growth in the region, consistent with this low GDP growth. Employment creation in the region is projected to grow by 1.7% in 2024, the lowest level in the post-coronavirus disease (COVID-19) pandemic period.

Sectoral analysis shows that the number of employed persons in the industrial and services sectors grew by an estimated 2.7% and 2.0% in 2024, respectively, while employment in the agricultural sector contracted by 1.3%. In the industrial sector, employment growth was greatest in basic services —electricity, gas and water— which was up 5.4% in the first half of 2024, 1.2 percentage points higher than in the same period of 2023. Employment in the construction sector grew by 1.4% in the first half of 2024, up 1.3 percentage points from the year-earlier period, while employment in manufacturing increased by 1.1% in the first half of 2024, up 0.1 percentage points from the same period in 2023.

Employment growth in the services sector, which accounts for more than 60% of regional employment, slowed by 0.8 percentage points, from 2.8% in 2023 to 2.0% in 2024. These estimates reflect the slowdown observed in the first half of 2024 in employment growth in activities such as commerce, restaurants and hotels (down by 0.1 percentage points), financial and business services (down 1.3 percentage points) and community, social and personal services (down 1.2 percentage points).

After reaching record highs during the COVID-19 pandemic, average unemployment rates in the region have trended down, remaining below 7% since 2022. The projected unemployment rate for 2024 is 6.1%, down slightly from the 6.2% recorded in 2023.

Most countries report declining rates of informal employment in 2024, and the average rate of informal employment in the region is estimated at 46.7%, down 0.4 percentage points compared to 2023 levels. Despite this slight reduction in informality, significant challenges remain regarding the formalization of employment in the region, which underlines the need to implement effective policies promoting more secure and stable working conditions.

Despite the improvement in most labour market indicators, the effects of the crisis caused by the COVID-19 pandemic and the socioeconomic measures taken to address it remain evident, especially in labour participation. In spite of a recovery in recent years and a projected post-pandemic peak of 62.8% in 2024, this figure is lower than the level recorded in 2019, 63.3%.

Employment trends by occupational category show a 7.9% increase in employers and others in the first half of 2024. The proportion of wage earners, domestic workers and own-account workers also grew, by 2.3%, 2.0% and 1.7%, respectively. Meanwhile, the number of unpaid family workers contracted by 5.9%, continuing the negative trend seen since the pandemic. Despite the recovery seen in employers and others and domestic workers in the first half of 2024, the number of employed people in both groups remained below pre-pandemic levels. This indicates that there is still a long way to go before the labour market recovers fully, in spite of the progress made.

In the first half of 2024, falling inflation in most Latin American and Caribbean countries, along with adjustments in nominal values, led to wage increases across the region. The real minimum wage climbed in 15 countries (by more than 3% in Colombia, Mexico, Nicaragua and Trinidad and Tobago). However, in that same period it fell in five countries (by more than 10% in Argentina and Haiti). Meanwhile, in the first half of 2024, the average real wage also rose in most countries for which data were available (eight of nine countries), up by more than 4% in Brazil, Costa Rica, Mexico and Uruguay. Argentina, where the average real wage declined by 11% over the period, was the only exception.

In the first half of 2024, gender gaps in labour participation and unemployment narrowed slightly, but remained wide. Women's participation rate was 52.1%, up 0.3 percentage points from the prior-year period, the highest level since the first half of 2021. The participation rate for men, meanwhile, was 74.3%, up slightly from the 74.0% recorded in the first half of 2023. These figures indicate a gap of 22.2 percentage points in participation between men and women. Note, however, that this gap is the smallest recorded since the pandemic and the second-narrowest since 2018. Unemployment trended downward among both women and men, falling to the lowest first-half levels since 2018. From 2018 onward, the differences between unemployment rates for women and men also declined, and in both the first half of 2023 and of 2024, women's unemployment was 2.3 percentage points higher than that of men, the smallest first-half gap since 2018, a period over which the corresponding figures ranged from 2.7 to 4.0 percentage points.

Fiscal space remains limited in Latin America and the Caribbean

Updated official projections indicate stable total central government income in Latin America in 2024, similar to the level seen in 2023. Tax revenue is expected to edge up slightly, driven mainly by revenue collected from taxes on the consumption of goods and services. Revenue from other sources is expected to decline, owing to lower income from non-renewable natural resources.

Meanwhile, official projections for the Caribbean point to a rise in total central government income stemming from the expected increase in external grants to finance public investment projects. At the same time, tax revenue is forecast to remain stable compared to 2023. However, total income is likely to have been weighed down by the significant impact of Hurricane Beryl on many countries in July 2024.

With regard to public spending, updated official projections indicate a slight increase for central governments in Latin America, owing mainly to rising interest payments, in line with the increase in public debt over the past decade, along with higher national and international interest rates. Interest payments are expected to average 3.0% of GDP in 2024, compared to 2.7% in 2023.

In the Caribbean, official projections also point to an increase in public spending. All components of total spending are forecast to rise, especially capital spending. Against this backdrop, the impact of Hurricane Beryl was considerable, as it generated economic damage amounting to 16.5% of GDP in Grenada and 22.0% of GDP in Saint Vincent and the Grenadines. As a result, spending forecasts have been revised upward, with greater outlays expected for social assistance and reconstruction.

Amid conditions of stagnant public income and rising public spending, the overall deficit of central governments is estimated to expand slightly in Latin America in 2024. Updated official projections indicate an average overall deficit of 3.3% of GDP, compared to 3.2% of GDP in 2023. However, the primary balance, which excludes interest payments, is forecast to improve slightly as a result of a contraction in primary current expenditure.

In the Caribbean, the overall deficit is expected to widen in 2024. The primary balance is expected to remain in surplus, at an average of 0.4% of GDP, which is lower than in 2023, when it was 1.4% of GDP. This trend is largely due to the estimated increase in total spending, driven by efforts to repair the economic and social damage caused by Hurricane Beryl.

These projections, for both Latin America and the Caribbean, are based on estimated trends in various macroeconomic variables towards the end of the year. The effect of trends in private consumption and imports on tax revenue is notable. At the same time, there may be adjustments in public spending, especially capital spending, in the event of gaps between cumulative fiscal balances and previously established fiscal targets.

Gross central government public debt in Latin America averaged 52.6% of GDP in 2024, compared to 55.0% of GDP in December 2023. Meanwhile, the ratio for the Caribbean was 66.4% of GDP in June 2024, compared to 70.6% of GDP in the prior-year period. Although public debt levels in the region have fallen relative to GDP, they remain high and represent a source of vulnerability, given the current macrofinancial context.

Inflation is converging towards target ranges, albeit at a slower pace

After peaking in 2022, inflation in Latin American and Caribbean countries has fallen steadily. Average regional inflation fell from 8.2% in 2022 to 3.7% in December 2023, and is expected to continue falling, to 3.4% in 2024, representing a decline of 0.3 percentage points relative to 2023. Although this variable has moved closer to 3.0%, the middle of the target range of many central banks, the projection for 2024 remains above pre-pandemic levels.

The decrease in regional inflation has been driven by several factors, especially falling international food and energy prices, and restrictive monetary polices implemented in the region to meet inflation targets. Food inflation and core inflation both declined in 2024, and in January–September 2024 fell by 1.5 percentage points and 0.4 percentage points, respectively, compared to the prior-year period, considering that food inflation decreased from 5.9% to 4.4% and core inflation fell from 3.9% to 3.5%. Although both indicators moved closer to the 3.0% target set by most of the region's central banks, the current levels are still higher than those seen in 2018 and 2020.

Restrictions on service provision and the normalization of prices in sectors such as public transport, electricity and gas drove the upturn in the services component of inflation. In 2022 and part of 2023, the prices of such services were partly controlled to mitigate the effects of rising headline inflation. However, in 2024, several countries of the region raised the prices of these services. This trend was also seen globally, and services are one of the reasons why global inflation has failed to decline to the level forecast in mid-2023. Services inflation in the region has risen from 2.4% at the end of 2023 to 3.0% in 2024, an increase of 0.6 percentage points.

Falling inflation and rate cuts in the United States have prompted looser monetary policy in the region

The continued decline in inflation in Latin American and Caribbean countries, along with looser monetary policy in the United States, have allowed all the countries of the region with inflation-targeting regimes to begin cutting monetary policy rates in 2024.

The lowering of rates has been uneven and cautious, reflecting countries' diverse cyclical positions and considerations of the impact of exchange-rate depreciation on inflation expectations. In Brazil, following a lowering of the benchmark rate from 13.75% in mid-2023 to 10.5% in May 2024, authorities began raising the rate once again in September 2024 owing to mounting inflationary pressure due partly to the fiscal stimulus.

Although the monetary policy stance has eased, it remains restrictive, as real monetary policy rates are still above the natural interest rates reported by the respective central banks.

As benchmark rates have fallen, net domestic credit has risen, driven by lending to the private sector. Against the backdrop of solid capitalization of the region's banking system, lower interest rates in 2024 have resulted in an improvement in asset quality which, nonetheless, has been accompanied by slightly lower profitability. In light of the narrowing of interest rate spreads relative to the United States, nominal currencies have depreciated since mid-2023 and exchange-rate volatility has increased.

Inflation expectation surveys indicate that inflation in several countries, including Brazil, Colombia, Mexico and Peru, will remain higher than the targeted levels for the next 24 months. This suggests that future downward adjustments in monetary policy will continue to reflect a cautious stance conditioned by the risk of exchange-rate devaluations.

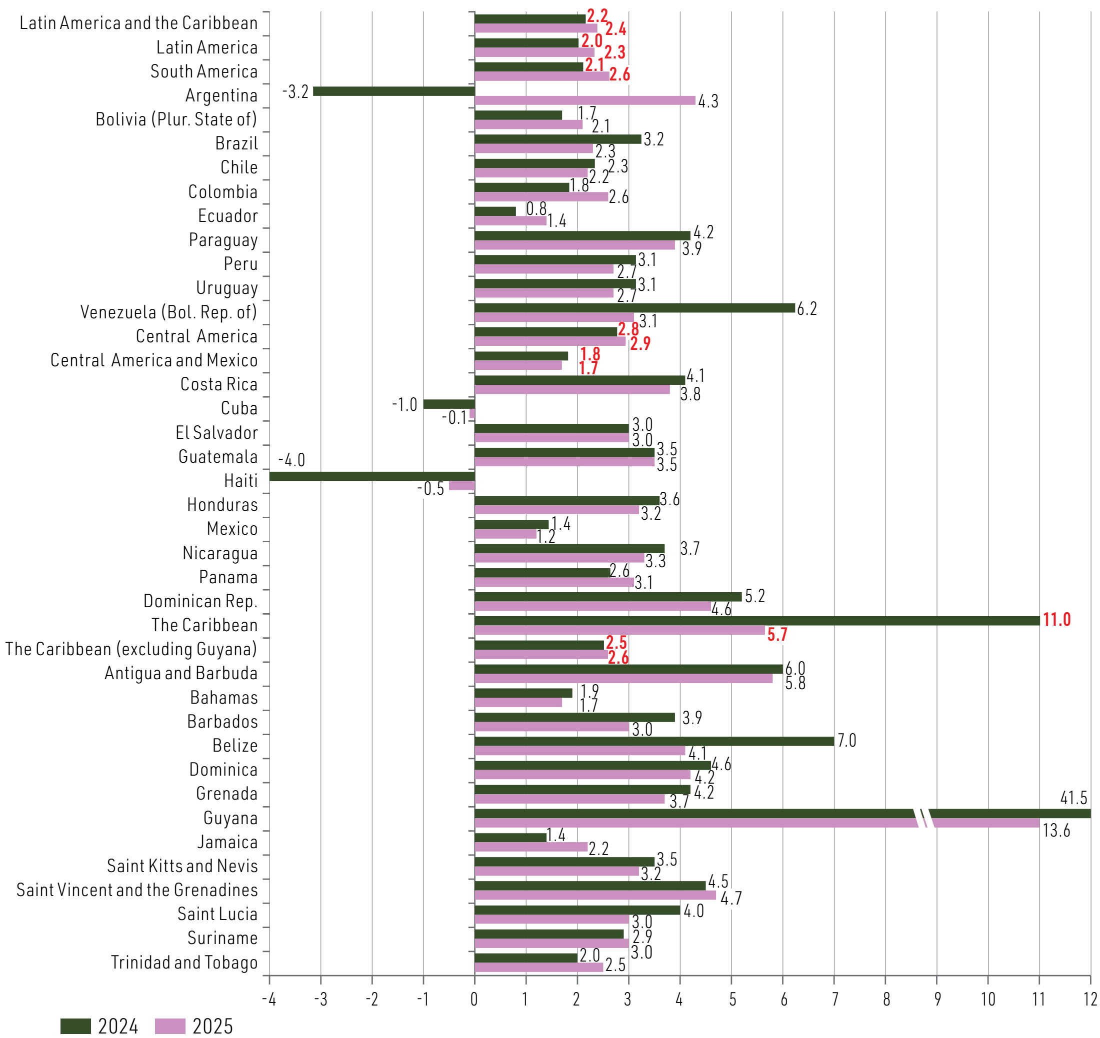
With the exception of Brazil, where the increase in monetary policy rates is forecast to continue throughout 2025, rates are expected to continue falling, albeit remaining above pre-pandemic benchmark rates.

In light of the relatively high rates expected over a prolonged period, the Economic Commission for Latin America and the Caribbean (ECLAC) has reiterated its call for comprehensive use of the available monetary, foreign-exchange and prudential policy tools to ensure price stability, lessening the impact on economic activity and well-being.

Projections and outlook for 2024 and 2025

Economic growth in Latin America and the Caribbean is expected to remain low in 2024, at 2.2%, compared to 2.3% in 2023 (see figure 1). In 2025, regional GDP growth is projected at 2.4%, which would still be low. Compared to 2024, GDP is expected to expand by 2.6% in South America. Meanwhile, Central America is forecast to record growth of 2.9%, similar to the level seen in 2024, but slower when including Mexico (by 1.7%), and growth in the Caribbean excluding Guyana will also lose pace, to 2.6%, in line with the trend seen in 2024. This estimated weak performance suggests that in the medium term, Latin American and Caribbean economies' contribution to global growth, expressed in percentage points, will be almost halved.

Figure 1
Latin America and the Caribbean: projected GDP growth, 2024 and 2025
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and ECLAC projections expressed in national currency and at constant prices.

Note: Central America includes Cuba, the Dominican Republic and Haiti.

Global economic growth in 2025 is expected to remain stable compared to 2024, at 3.2%, owing mainly to the expansion of emerging economies in Asia (5%), contrasting with the slower growth of advanced economies, including the United States, relative to 2024. International trade in goods and services is forecast to recover and rise by 3.4% (compared to 3.1% in 2024), outstripping global GDP growth. However, this more optimistic global outlook is not expected to benefit the region, owing in part to the economic slowdown projected in major trading partners such as China, the United States and some countries in the region, such as Brazil. External demand, as the driver of economic activity in the countries of the region, will therefore continue to lose momentum.

Global financial conditions are expected to improve in light of the trend seen, especially in the second half of 2024, as a result of the continued loosening of monetary policy, particularly in the United States and other advanced economies, and weaker global inflation. Nonetheless, risks remain, considering that global prices and monetary policy rates are still higher than pre-pandemic levels. As long as there are also risks linked to the strengthening of the dollar, the region could continue to face high financing costs.

Domestically, private consumption is likely to continue to spur growth in the region in 2025, in line with the trend in 2024, albeit more slowly. Employment is expected to continue increasing slightly, while labour participation is projected to remain weaker than it was prior to the pandemic and gender inequalities in labour markets are forecast to persist. In addition, real wages are expected to recover slightly, in line with the 2024 trend. Demand for credit from households continues to improve, helped by more favourable lending conditions. By contrast, the investment outlook for 2025 is discouraging, amid weak public spending. Gross fixed capital formation is projected to continue contracting, which calls into question its role in sustaining the region's medium- and long-term economic growth. Lastly, goods and services exports and imports are expected to recover in 2025 relative to 2024, in line with the projected improvement in global trade and the upturn in imports driven by the loosening of financial conditions, albeit with an estimated weaker contribution to regional growth. Meanwhile, inflation is expected to continue declining in 2025, at a slower pace than in 2024.

In line with the outlook for the external context and international financial conditions, the region's current account deficit is projected at around 1.7% of GDP in 2025. The trade surplus is forecast to narrow slightly relative to 2024, owing to stronger momentum in imports in keeping with less restrictive monetary policies, among other factors. An analysis of the current account balance by component indicates that remittance flows into the countries of the region will continue to be the main net source of foreign exchange income. By contrast, the income account deficit is forecast to widen, amid financial conditions that remain complex in the region. Although capital inflows are expected to remain similar to the level seen in 2024, countries may access more external resources through debt issuances and refinancing of higher-cost long-term loans.

Given the economic outlook for the end of 2024 and 2025, macroeconomic policy space is forecast to remain limited amid weak external demand, still-high commodity prices and tough financing conditions, among other factors, which tends to disturb the internal and external macroeconomic balance. An improvement in fiscal space will be difficult to achieve in the short term, as no upturn in revenues is expected and increasing interest payments will put pressure on public spending. This situation may heighten fiscal sustainability challenges linked to weak GDP growth, high financing costs and exchange-rate fluctuations. In addition, the loosening of monetary policy could be put on hold owing to slower disinflation than in 2024 and risks stemming from local currency devaluation and the monetary policy stance of the United States Federal Reserve. In this scenario, the strengthening of the dollar and rising global long-term interest rates are decisive.

In short, external demand is expected to lose momentum as the driver of regional growth. Despite weaker pressure on supply and global supply chains, along with falling commodity prices, among other factors, underlying risks remain, including the worsening of geopolitical and trade tensions, which could affect international commodity prices, and renewed frictions relating to transport routes and logistics. In addition, there is a significant risk of a return to protectionism, which would further increase inflationary pressures. Thus, although global inflation is expected to continue falling, the pace and magnitude of monetary policy rate cuts may pose a risk given the exposure of the region's countries to the monetary policy stances of advanced economies, particularly the United States.

Policies to overcome the trap of low capacity for growth

Overcoming the trap of low capacity for growth will require a major mobilization of financial resources and the implementation of productive policies to boost investment and productivity.

The mobilization of domestic resources calls for the strengthening of public finances, which implies focusing on increasing tax revenue and making tax systems more progressive through taxes on income, property and wealth. There is also a need to curb tax evasion and carry out cost-benefit analyses of existing tax expenditures. Strengthening institutional capacity is key to boosting the mobilization of resources and ensuring that they are used more efficiently. To that end, the region must have access to macroeconomic institutions with suitable technical, operational, political and prospective (TOPP) capabilities. This implies, for example, the development of comprehensive public policy frameworks, the improvement of information and budget management systems, the strengthening of coordination of macroeconomic policies and the identification of risks through foresight analysis to guide strategic decisions with a long-term perspective.

The reform of the international financial architecture will also play a central role in enhancing the capacity for resource mobilization in the region. It will require better regional coordination to influence global reforms that facilitate access to resources for development. Such reforms include the modernization of global economic governance, the creation of crisis prevention and resolution mechanisms relating to payment and financing of sovereign debt, the increase in multilateral banks' lending capacity, encouragement of the reallocation of special drawing rights and international tax reforms.

With regard to productive development policies, ECLAC has underscored the need to implement "new generation" policies to drive a productive transformation, which is required to overcome the trap of low capacity for growth.[1] The Commission has thus highlighted the importance of identifying areas with strong potential to drive growth, prioritizing environmental sustainability; science, technology and innovation; digitalization, business financing and attraction of investment. It has also emphasized the need to leverage global value chains to diversify economies.

Implementing these new productive development policies calls for the coordination of action on many fronts. Priority areas include: science, technology and innovation; technology extension; digital transformation; support for entrepreneurship; closing of human talent gaps; financing over the whole life cycle of businesses; attraction of investment, including foreign direct investment; development of specific infrastructure and other public goods; adaptation of regulatory frameworks; and internationalization.

[1] See Economic Commission for Latin America and the Caribbean (ECLAC), *Development Traps in Latin America and the Caribbean: Vital Transformations and How to Manage Them* (LC/SES.40/3-P/-*), Santiago, 2024.

ECLAC has identified 14 strategic sectors that fall into three categories: industry, services and key sectors for sustainability. These sectors are priorities for Latin American and Caribbean countries, as they harbour considerable potential to boost growth and productivity. They also present cross-cutting opportunities linked to the relocation of global production and value chains, which affects many of these sectors. Each country and territory must define its own sectoral agenda, adapting it to specific conditions, but always with a clear vision of priorities to drive a great productive transformation towards greater inclusiveness and environmental sustainability.

Implementing productive development policies requires robust institutions that can design, manage, monitor and evaluate initiatives in various areas. Technical capabilities include the ability to formulate and implement productive development strategies integrated with other dimensions of development, supported by coherent planning. Operational capabilities allow effective harmonization and coordination mechanisms to be established. Political capabilities are essential to build relationships and partnerships to overcome political obstacles that curb productivity. Prospective capabilities, meanwhile, through the analysis of technological and market trends, facilitate the building of future scenarios, reinforcing the ability to design strategic routes, making adjustments in the face of disruptive change.[2]

2 Ibid.

One of the Indigenous symbols featured in the craftwork of the peoples of the Americas, an essential part of their culture and economy.
Bas-relief on the spiral tower at ECLAC headquarters in Santiago.

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Latin America and the Caribbean is caught in a trap of low capacity for growth, according to the Economic Commission for Latin America and the Caribbean (ECLAC). The region's economies are projected to expand by 2.2% and 2.4% in 2024 and 2025, respectively. Although these figures are above the 2015–2024 average of 1.0%, they are insufficient to close the gap with the economies of developed countries.

The 2024 and 2025 international context is one of highly uncertain financial and trade conditions and slowing growth for the region's main trading partners. Domestic macroeconomic policy space remains limited, and while fiscal efforts are focused on avoiding a sharp increase in public debt, the speed and magnitude of monetary policy rate cuts are determined by the depreciation of the region's currencies.

Overcoming the trap of low capacity for growth requires a massive mobilization of financial resources and a concerted effort to coordinate macroeconomic policies, smooth fluctuations in the economic cycle and implement productive development policies that boost investment and productivity for the economies of the region.

Economic Commission for Latin America and the Caribbean (ECLAC)
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