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# Latin America: Economic situation

Mr. President, Distinguished Ambassadors, Ladies and Gentlemen,

I would like to share with you the **assessment** of the **World Bank** on Latin America published in April. I just spent one month in Peru, held various meetings and travelled across the country.

I went through **inundations** in the north affected by the Coastal El Niño Phenomenon, lived a few days with the miners exploiting a small formal **artisanal gold mine** in the highlands of the Department of Ayacucho, followed in the press several corruptions cases involving Congress representatives, met business, the former president Pedro Pablo Kuczynski (2016-2018), a think tank, the Swiss Ambassador and members of the Swiss-Peruvian Chamber of Commerce. Just before leaving, I witnessed the **extradition by the United States** of the former President Alejandro Toledo (2001-2006) for a presumed bribe of USD35 million from Brazilian construction companies. This demonstrates the determination and willingness of the Peruvian judiciary at the highest level to condemn major violations of the law. I watched, I listened and I learned a lot with great interest.

I lived through the reality of the country, taking taxis, the metro and spending one day in San Juan de Lurigancho at the **Taller de los Niños**, a 45-year old institution led by a Swiss woman, Christiane Ramseyer, providing support to young mothers, babies and small children from poor families with several programs including a medical and daycare center as well as educational and professional programs for teenage mothers.

Although Peru is only one country in Latin America, my observations concur overall with the World Bank.

According to the World Bank, Latin America and the Caribbean have proved to be **relatively resilient** in the face of increased **debt stress**, **stubborn inflation**, and uncertainty arising from the Russian invasion of Ukraine.

Income and employment have largely **recovered** from the pandemic, poverty has receded, and markets remain guardedly optimistic about the near future.

However, **global uncertainty** is rising, including a recent wave of bank failures in the US and Europe. Strengthening resilience, both on the **health** and **macroeconomic fronts**, will be paramount. Progress remains **pending** in both **vaccination coverage** and health system preparedness, while the institutionality of **macroeconomic policy** in some countries is being questioned.

The evolution of the global economy is providing two new areas of opportunity for the region: the trend toward **nearshoring** -moving production closer to the US and European markets- and the imperative to combat **climate change**, which is giving the region a **new comparative advantage** in sun, wind, hydro, and natural capital.

Taking advantage of these will require **greater integration** into the global economy. Yet, paradoxically, in the face of these opportunities, the Latin American Region is becoming **less integrated.** Trade intensity has largely stagnated, and foreign direct investment (FDI) to most countries has **declined**.

Latin America needs **long-term structural reforms** to reduce systemic risk, raise the level and quality of education, invest in infrastructure, and ensure well-functioning financial markets; it also needs to preserve the **reputational gains** of the past 20 years in terms of macro stability and streamlining regulation dealing with customs and transport to lower the **cost of doing business** in the region.

A comprehensive approach to both **shorter- and longer-term reforms** could move LAC toward a renewed and more dynamic engagement with the global economy.

Largely following these trends, 2023 growth forecasts have been steadily downgraded over the last six months to **1.4 percent** with an increase to **2.4 percent** in 2024.

Growth forecasts for 2023 are respectively 0.8% for **Brazil**, 1.5% for **Mexico**, 0% for **Argentina**, 1.1% for **Colombia**, -0.7% for **Chile**, 2.4% for **Peru**, 1.8% for **Uruguay,** 3% for **Ecuador**, 2.7% for **Costa Rica**, 4.8% for **Paraguay**, 4.4% for the **Dominican Republic** and 5.7% for **Panama**. It is to be noted that several smaller countries will perform much better than the three largest ones.

The average public debt to Gross Domestic Product (GDP) ratio rose sharply during the pandemic by 15 points to **75.4 percent** which while eroded to **69.3 percent** by the recovery in GDP, will remain a brake on any major investments in equity and productivity enhancements.

Disappointing news on inflation in the G7 and strong US jobs reports point to continued **rises in global interest rates** that will put further stress on **fiscal accounts**.

**Regional inflation**, excluding Argentina and the República Bolivariana de Venezuela, stands at **7.9 percent**, which is below that of the Organisation for Economic Co-operation and Development (**9.4**) and Eastern Europe (**18.8**), although above inflation in East Asia (**4.7**). Who could have guessed some years ago that Latin America -with the exception of two countries- would achieve an average inflation rate lower than the OECD!

This **relative success** reflects the early and **aggressive increases of interest rates** of regional monetary authorities, which have led to decreases in inflation in several countries. The authorities in Chile and Brazil have announced a pause in further interest rates hikes. In most countries, inflationary expectations remain anchored and central bank targets are expected to be **achieved in 2024**.

**Foreign direct investment** to the region has been falling both in absolute terms and as a share of rising flows to the developing world, falling **16.4 percent** in absolute terms and **9.5 percentage points** as a fraction of total FDI to emerging markets since 2010. Inward FDI has risen in **Mexico** by almost **40 percent** over the past decade, while it has fallen in **South America** by **9 percent**. Mexico's achievement reflects its strategic position under the US-Mexico-Canada Agreement with a privileged access to the US market.

The region is **sliding** on the longer-term indicators of **political stability** and the **rules of the game** in virtually all the big countries. There is a need to address long-simmering **social tensions**. Stability weighs heavily on both foreign and domestic **investors** whose projects may have **gestations** measured in **decades**.

<u>Conclusion</u>

- With a population of more than **650 million people** and 13% of the earth's land surface area, Latin America displays a good potential.

- Swiss firms have **comparative advantages** in several sectors and can meet significant needs in particular with pharmaceuticals, machinery, cleantech and medtech products.

- For the first four months of this year, Swiss exports to the emerging economies of Latin America increased by **17.3%** (Total Swiss exports: +1.2%), with a **25.4%** increase for **chemicals** and **pharmaceuticals**.