

## Executive summary

The *Latin American Economic Outlook 2021* (LEO) sets out the key foundations for a strong, sustainable and inclusive recovery from the coronavirus (COVID-19) pandemic in Latin America and the Caribbean (LAC) and provides tailored policy messages to help stakeholders take action and build forward better.

The pandemic hit LAC at a time when the region already faced the deep development traps identified in the *Latin American Economic Outlook 2019*. It exacerbated existing socio-economic challenges inherent to the four traps: i) low productivity; ii) inequalities and social vulnerability; iii) institutional weaknesses; and iv) the threat to environmental sustainability. The post COVID-19 context should be seized as a unique opportunity to adopt a multi-dimensional strategy for development and to redefine national policies by building consensus among citizens and implementing the pending reforms needed to drive the recovery. Moreover, stronger regional integration and international co-operation that involves LAC countries on an equal footing, regardless of their development level, should play an important role in the region's recovery.

### The socio-economic consequences of COVID-19 and the path to recovery

Despite rapid and well-targeted policy action to respond to the pandemic, LAC has been the most affected region in the world in socio-economic terms. Although positive growth is expected for 2021, gross domestic product per capita is not expected to return to pre-crisis levels before 2023-24. The impact of the crisis has been asymmetric, particularly affecting the most vulnerable groups. Poverty and extreme poverty levels have not been so high for the past 12 and 20 years, respectively. Demand policies, mainly through non-conditional cash transfers as well as other innovative measures, provided rapid support to public health systems, households and firms. Without this response, the losses in lives and increases in poverty and inequality would have been much steeper. Without government transfers to mitigate the loss of labour income, the Gini Index would have increased by 5.6% with respect to 2019, instead of the 2.9% recorded.

There is no unique approach or solution to ensure a strong, sustainable and inclusive recovery. The socio-economic characteristics of each country, coupled with the varying impacts of the crisis, call for a tailored approach. However, countries across the region share the need to implement well-defined sequencing of fiscal policy actions on expenditure, taxation and public debt management. Mobilising resources for the recovery will require efforts at the national level and better co-operation and co-ordination at the international level, notably regarding public debt.

### Renewed social policies and quality public services for an inclusive recovery

The COVID-19 crisis revealed that current social protection mechanisms in the region are insufficient due to widespread labour informality, which affects more than 50% of workers. The prevalence of gender gaps in the labour market and the predominance of women in poorer households are also major structural challenges. The crisis dramatically exposed the need to improve access to and quality of basic public services, including health and education. LAC is the region with the highest average number of school days lost due to the pandemic worldwide (70% higher than in the OECD and 13% higher than the global average), posing a concrete threat to human capital development.

Social protection programmes in LAC need to move towards systems that ensure universal coverage. Improving social protection schemes, both pensions and healthcare coverage to support the elderly is key. Designing gender-sensitive policies for the recovery

and ensuring a more equitable redistribution of household care work are essential measures to improve women's labour force participation and socio-economic conditions. Policy action, as part of the recovery, to tackle inequalities in education and skills acquisition at an early stage of people's lives is critical to increasing positive outcomes and opportunities.

### **Stronger regional integration should boost formal jobs and environmental resilience**

The main challenge the region will face during the recovery will be to generate quality formal jobs while ensuring the long-term sustainability. The current productive structure hampers the development possibilities of the region.

LAC countries should take more ambitious policy action to enhance workers' skills, achieve productive transformation, upgrade the economic structure and attract sustainable investments. Productive policies should foster innovation, technological upgrading and the diversification of the productive structure in less resource-intensive sectors by promoting greener investments, a circular economy and the adoption of new technologies. Urgent policy objectives in the post-COVID-19 context include bolstering intra-regional trade, creating regional value chains and increasing the region's participation in global value chains and quality investment flows, and connecting micro, small and medium-sized enterprises with international trade. Further regional integration could strengthen competitiveness and job creation on sectors with high potential, including the automotive, pharmaceutical and renewable energy sectors, the circular economy and sustainable agriculture.

### **A new social contract for the post-pandemic world**

Building consensus across citizens will be crucial to advance the ambitious reform agenda needed to drive the recovery. However, high levels of social discontent in LAC, demonstrated by the wave of protests across some countries of the region since 2019, present a significant challenge. The drivers of social dissatisfaction are multi-dimensional and in large part explained by unmet aspirations for better jobs, quality public services and greater political representation. These expressions of social discontent highlight the need for LAC countries to renew their social contract to improve people's well-being and ensure citizen engagement.

In practice, renewing the social contract entails striking pacts in specific policy domains (e.g. the fiscal pact) and building broad support among stakeholders (e.g. government, civil society, trade unions and the private sector). The building blocks of a post-pandemic social contract should revolve around two interconnected dimensions. First, it should be a transversal agreement across: i) socio-economic groups, through an intersectional approach mindful of income, gender, ethnic and racial differences, among others; ii) territories, taking into account different local needs and opportunities and bridging territorial divides; and iii) generations, ensuring that policy decisions strike a balance between the interests of current and future generations, providing opportunities to the youth and building on the notion of intergenerational solidarity. Second, it should aim to achieve: i) resilient and sustainable productive strategies that prioritise the creation of quality jobs and embrace the green and digital transformation; ii) broader and more effective social protection systems; and iii) a more sustainable financing for development model. The intersection of these two dimensions shows how the social contract in each country is underpinned by concrete and specific pacts in various policy domains.

An open and inclusive policy-making process that incorporates and empowers citizens and local authorities can promote greater accountability and more effective

implementation of pending policy reforms, while involving all relevant actors in the discussion. Understanding the political economy of reform is crucial to reaching stable and long-lasting agreements or to revising them when necessary. An evaluation of the socio-political context, clear communication strategies and compensation schemes to make reforms fairer by mitigating their potential adverse distributional impacts will be key.

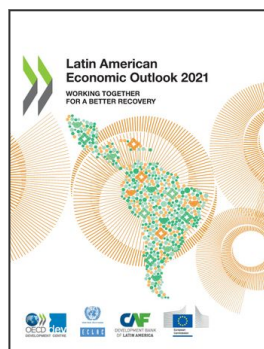
### **International co-operation for the recovery: Facilitating the new social contract in LAC**

The global reach of the pandemic has shown that national responses to both the sanitary and socio-economic consequences of this crisis are not enough. Given rising social discontent and the increasing interconnection between national development dynamics and global megatrends, international co-operation has become critical to supporting LAC countries' recovery.

The Development in Transition approach proposes a new role for international co-operation as a facilitator to help LAC transform its structural challenges into development opportunities. Continued international and regional co-operation becomes essential to redefine the social contract in LAC.

Reinforcing partnerships that are grounded on shared values is necessary to support LAC countries in building new development models that place sustainability, resilience and well-being at their core. These new models should provide multi-dimensional policy responses, including efforts to measure development beyond income. To use full potential of international co-operation and multilateralism, they must continue to adapt and evolve, building on lessons learned and innovations during the crisis. Mission-driven partnerships, stronger regional co-operation and integration, as well as a balanced use of co-operation tools like sustainable financing, global rules and standards, technical co-operation and capacity building, could be catalysts to break existing vicious cycles between international and national development dynamics in LAC, therefore facilitating a new social contract in the region that comprehensively tackles its development traps.

Looking ahead, the multi-dimensionality and complexity of development call for these new partnerships to bring citizens into the international policy-making process, and to push for a comprehensive approach across international co-operation efforts, tools and actors, that promotes policy coherence to articulate sustainable and inclusive national, regional and global objectives for the post-COVID-19 world.



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