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Statement By
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Latin America and the Caribbean faces multiple crises that threaten to deepen historical inequalities. In addition to a low-growth trend that affects the possibility of creating better jobs – regional growth was only 0.8% on average between 2014 and 2023 – there is an environmental crisis that can jeopardize growth and social progress. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the region will remain on a path of low growth in 2024, with job creation projected to decelerate, and informality and gender gaps to persist. According to ECLAC estimates, the region is projected to grow 1.9% in 2024, following an estimated 2.2% growth in 2023.[1]

The projections reflect, in part, low dynamism in global economic growth and trade, which translates into a limited impetus from the global economy. Although inflation has declined, the interest rates in major advanced economies remain high, as do the region's financing costs, which are anticipated to stay elevated in the coming years. This low-growth path is also attributable to Latin American and Caribbean countries limited domestic space for fiscal and monetary policy.

While public debt levels have declined, they remain high and, coupled with the increase in financing costs, restrict fiscal space. In this more restrictive financial context, global debt has risen to an all-time high, especially in advanced economies. This, in turn, has added to the cost of borrowing for Emerging Market and Developing Economies (EMDEs), including those in Latin America and the Caribbean. In fact, debt service in these economies is at its highest level since 2010. More importantly, the high cost of financing has increased the risk of default for several developing countries.

Latin America and the Caribbean, as well as other emerging and developing regions, has been facing stagnating public revenues that are insufficient to support public spending, leading to persistent and elevated fiscal deficits and an increase in the debt stock, which was aggravated by the COVID-19 pandemic. Higher debt has led to a stepwise increase in interest payments. As a result, countries are faced with trade-offs between debt service and pursuing development objectives. At ECLAC we call this "Development Distress."

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[1] ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean 2023*, (LC/PUB.2023/22-P), Santiago, 2023.

The growing burden of interest payments and its impact on fiscal space impose strong restrictions on growth. Worryingly, public investment has been used as the main factor for fiscal adjustment in the last decade. Most countries devote more resources to interest payments than to public investment, which harms economic growth, productive development, investment in climate change action, and hinders the fight against inequality.

The region's monetary policy has maintained a restrictive bias, even as inflation continues to decline. ECLAC estimates that the region's average inflation in 2023 was 3.8%, far below the 8.2% recorded in 2022. The average regional inflation rate is projected to decline further in 2024, to 3.2%. As interest rates in advanced economies remain high, authorities in the region are showing caution in pursuing less restrictive monetary policy due to the effects that rate cuts may have on capital flows and exchange rates.

To escape the low-growth trap and limited policy space, the region must escalate productive development policies with a focus on strategic and dynamic sectors, carry forward policies to promote public and private investment, and adjust the financing framework to enhance resource mobilization. ECLAC recommends a sectoral approach – an integrative vision that promotes production transformation policies along with an active macroeconomic policy that stimulates robust, sustained, and sustainable growth – to mobilize resources and attract investments to driving economic sectors, such as renewable energies, green hydrogen and lithium, electromobility, sustainable agriculture and the circular economy, among others. A new consensus on debt resolution – including debt restructuring, transparency and debt relief – with broad stakeholder participation is fundamental to mobilize a big push of transformative investments in the region. Although each country has different conditions and priorities, it is critical to make productive transformations that help them diversify beyond commodities, generate quality employment, and insert themselves in the global supply chain geographical reconfiguration.

In December 2023, to strengthen cluster and production transformation programs in the region, ECLAC launched the *Platform for cluster and other territorial productive articulation initiatives*. The new platform seeks to create a regional network to support these initiatives, which ECLAC sees as an effective way to organize productive development efforts and prioritize lines of action that address the bottlenecks or obstacles that limit productivity growth in the region.

The sectoral/clusters approach must be shored up by a macroeconomic policy agenda that stimulates sustainable growth and encompasses five areas. First, the region must expand its fiscal space by strengthening revenue raising capacity and progressivity of the tax structure and promoting green procurement and access to new financing mechanisms, such as thematic bonds. In 2023, ECLAC estimates that Latin America and the Caribbean issued US$ 31 billion in international Green, Social, Sustainability and Sustainability-linked (GSSS) bonds, up 52% from 2022. This total represented a record 35% share of the region's overall annual issuance in international markets, highlighting the resilience of these novel instruments in the current global environment.

Second, the region must manage financial and exchange rate risks and create incentives for sustainable investment allocation through macroprudential policy options. Macroprudential policy initiatives related to financial supervision and systemic risk analysis – such as macro-financial stress test instruments, including coverage of climate risks, and implementation of countercyclical capital requirements – are a valuable tool for supporting monetary and exchange-rate policies in the event of external shocks and abrupt capital movements.

Third, as debt service is at all-time highs, increasing the risk of default for some countries, a global growth-enhancing policy framework should include establishing institutional mechanisms for debt restructuring and debt relief and supporting the inclusion of disaster- and hurricane-linked and climate goal compliance clauses within the contractual terms of a debt instrument. The international financial architecture has not succeeded thus far in establishing suitable mechanisms for debt relief and restructuring in EMDEs. The United Nations has proposed a fundamental reform of this architecture, including an institutional framework to improve the alignment of the international financial system with the fulfilment of the Sustainable Development Goals (SDGs), along with more representative rules and procedures.

Fourth, concessional finance and financial support from development banks are crucial for mobilizing the necessary resources to implement a sustainable economic strategy. Climate financing through multilateral, regional and national development banks must be increased, and climate-related Official Development Assistance (ODA) should be fostered to support mitigation strategies in sectors with more potential for greenhouse gas emissions abatement, such as transport and energy, and adaptation strategies in those sectors closely linked to the ecosystem, such as agriculture, forestry and fishing, or water supply and sanitation.

Fifth, capacity building and technological access and transfer is critical, in complement with productive development policies, to maximize the socioeconomic benefits of green investments in the region. Building innovative, technological and productive capacities to supply at least part of the solutions for decarbonization is the critical bridge to translate the low-carbon transition agenda into a development opportunity in the region.

To reduce poverty and informality, and promote sustainable growth, Latin America and the Caribbean must veer away from its current low-growth path through structural transformations. In face of common global challenges, ECLAC looks forward to deepening the collaboration with the G-24 to find solutions to shared problems, advancing production transformation and the implementation of the 2030 Agenda for Sustainable Development.