



MACROECONOMIC AND DEVELOPMENT CHALLENGES IN LATIN AMERICA

Martin Guzman (Columbia University SIPA, IPD, Suramericana Visión)

53rd Annual Meeting of ANPEC

Sao Paulo, Brazil

December 18, 2025

LATAM MACRO

- Low growth
- High public debt
- Volatile and expensive external flows

LOW GROWTH

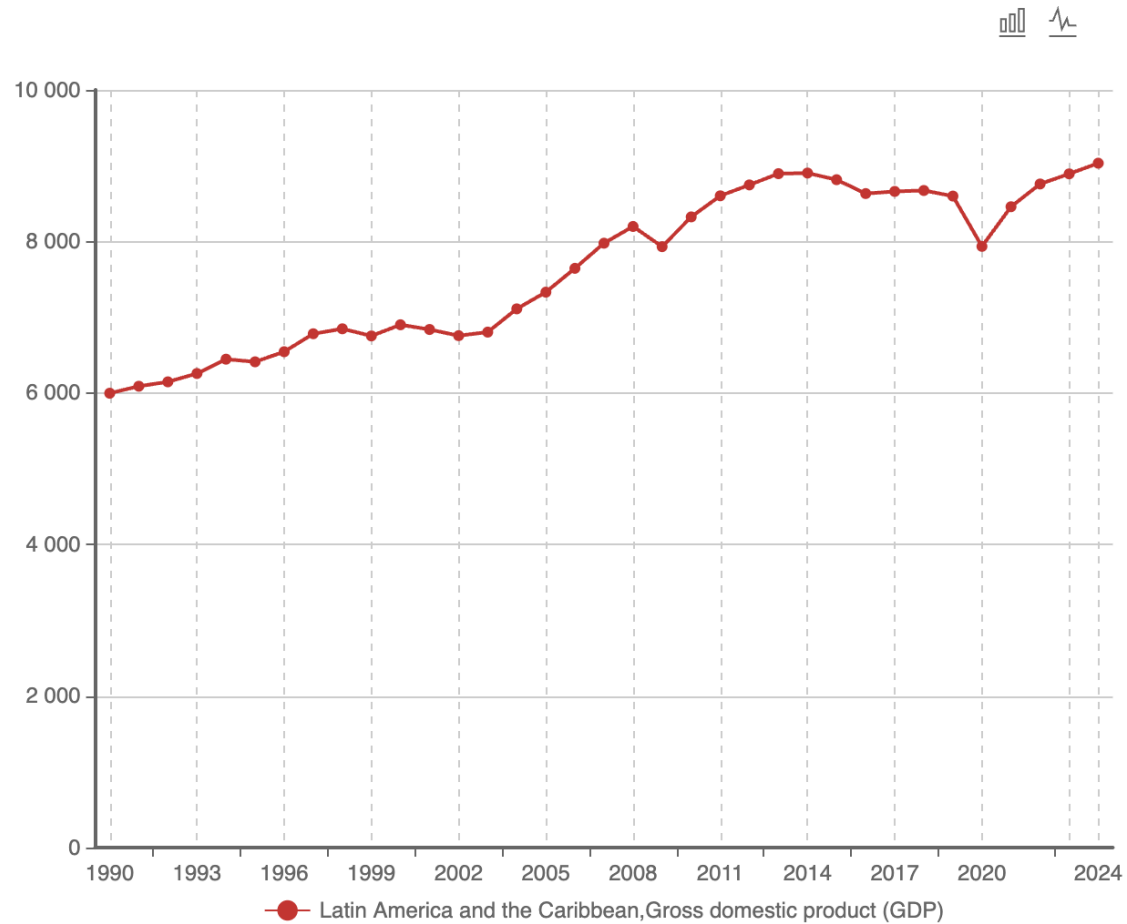
- GDP growth 2016-2025: 1.2% (CEPAL)
 - GDP growth 1980s: 1.4%
 - GDP growth 2024: 2.2%
- Lowest growth region in the developing world, behind the Middle East, Asian emerging and developing economies, and Sub-Saharan Africa
- 2004-2008: high growth during the commodity boom but no transformation of the economies
- **Low growth in the region is explained by a deterioration in the contributions of capital and productivity**
 - Premature de-industrialization following the market reforms of the late 1970s and 1980s-1990s
 - Low investments in R&D (0.6% of GDP, versus almost 3% in China and high-income countries)
 - Low-mid diversification and low-to-mid value added / complexity

LOW GROWTH IN LAC

Economic / GDP and national accounts / Annual / Dollars

Annual Gross Domestic Product (GDP) per capita by activity at constant prices in dollars

(Dollars per inhabitant)



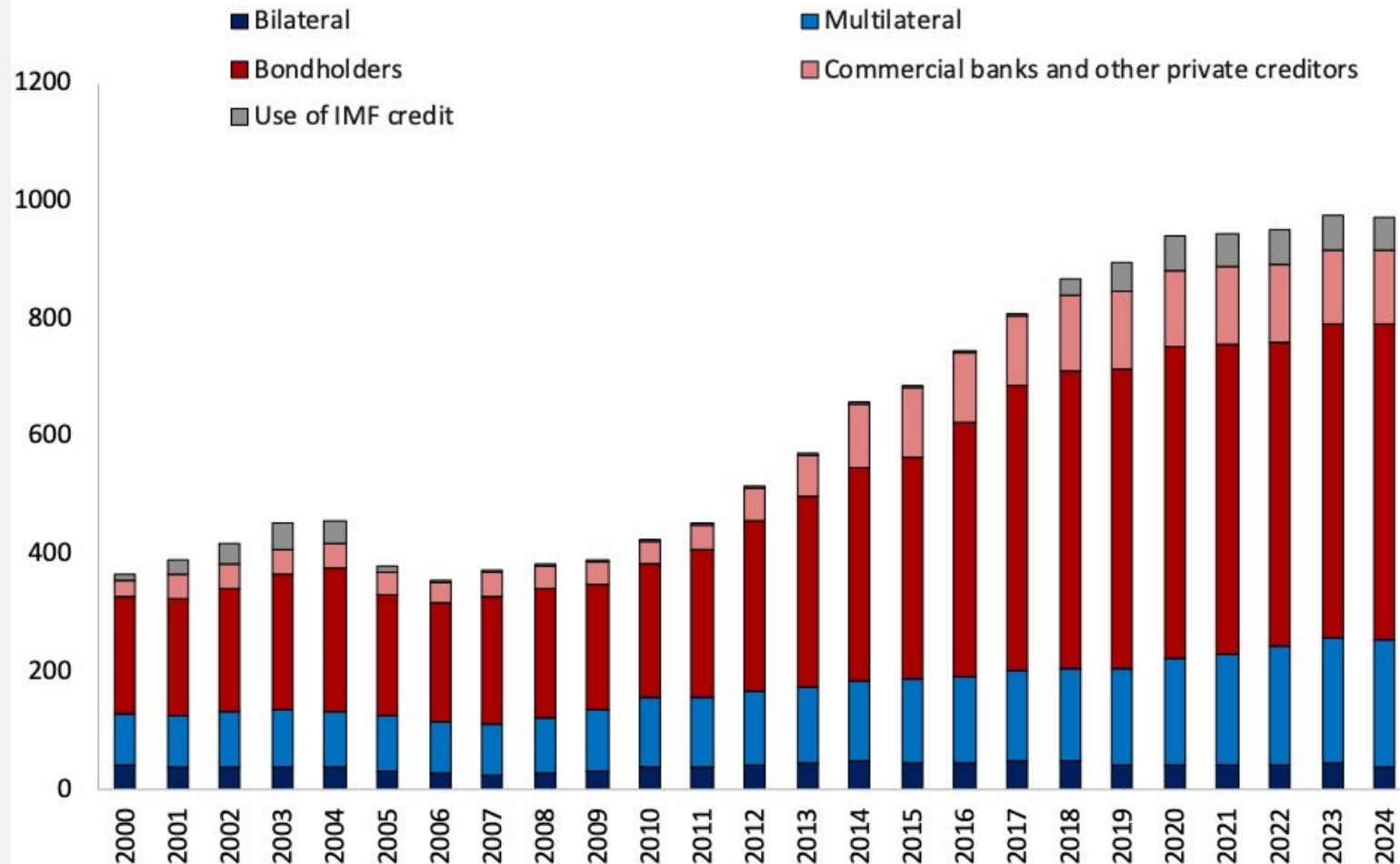
Source: CEPALSTAT - ECLAC - UNITED NATIONS

HIGH PUBLIC DEBT

- Overall deficit: 3.1% of GDP in 2025
- Interest payments: 3% of GDP in 2025
- Public debt was 50.2% of GDP in the first quarter of 2025

GROWING DEPENDANCE TO FINANCIAL MARKETS EXPECTATIONS

LAC's long-term public and publicly guaranteed external debt by creditor type
(including IMF credit) in USD Billion



FINANCE

- Pro-cyclical capital flows for the region
- Need for a different financial integration
 - Current IFA not convenient for development prospects in LAC
 - This is a key theme of the *Jubilee Report commissioned by Pope Francis*
 - Capital account regulations play a different role in developing economies with pro-cyclical flows than in reserve currency issuers with counter-cyclical flows

TAXATION

- Regressive taxation built around indirect goods and services taxes to progressive taxation
- High tax avoidance and high tax evasion

SPENDING

- The challenge: a simultaneous
 1. sustained push for public investment;
 2. improvement of spending efficiency;
 3. and strengthening of fiscal institution
- **While keeping macroeconomic and fiscal consistency**

BALANCE OF PAYMENTS

- Still low diversification makes the region sensitive to commodity shocks
- According to ECLAC, in 2025 net factor income outflows will continue to squeeze the current account owing to the burden of interest payments in line with borrowing needs
 - Net capital inflows are expected to slow down in all components
 - FDI will continue to be the region's main source of financing, albeit with a larger share of reinvested earnings, which will raise the risk of sectoral concentration and increase dependence on the strategies of multinational enterprises while dimming prospects for productive diversification and innovation
- A special case: Argentina is covering the balance of payments imbalances with financial support of the IMF and US Treasury
 - But the debt-trade model that emerges in the US may be applied to other countries of the region

KEY ISSUES FOR PRODUCTIVITY

- Composition of public spending, including investments in infrastructure, human capital, and R&D
- Regional integration to exploit economies of scale
- WTO bad but the new international scenario might be even worse
 - Transfer of technological capabilities is at least as important as financing for development

AN AGENDA FOR A POSITIVE INTEGRATION

- **Key challenges:**

- Create and/or enable economies of scale in the region
- Increase productivity and improve income and wealth distribution

- **Diagnostic:**

- Massive under-exploitation of opportunities for increasing economies of scale and productivity
- Endogenous evolution of trade patterns is not contributing to “sustainable development”
- Lack of coordination among States
- Lack of bilateral/multilateral dialogue of academic institutions and think tanks
- Lack of dialogue among national private sectors

→ A LOT OF ROOM FOR IMPROVEMENT

AN AGENDA FOR A POSITIVE INTEGRATION

1. Infrastructure for transportation of energy
 - Pipelines, transmission grids
 - Normative/regulatory harmonization
2. Transportation of goods and passengers
 - Railways, shipping
3. Education: an Erasmus of Mercosur/LatAm?

CONCLUSION

- Neither the free market agenda of the 1980s/90s nor the progressive left-wing agendas of the 2000s led to sustainable prosperity in the region
- The region needs a new development model
 - With a redefined role for the state and a different financial integration
 - With a common agenda for the international rules of trade, finance, and taxation
 - With a different productive integration

Thank you