CHAPTER 1

The State of the LAC Region

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This chapter is an advance excerpt from the upcoming World Bank report "Organized Crime and Violence in Latin America and the Caribbean" which will be released on Monday, April 28th, 2025.

Overview

T he outlook for the Latin America and the Caribbean (LAC) region has become more uncertain as modest advances on the internal front are being compounded by a more challenging external scenario. Progress continues in the fight against inflation, although the last mile is proving long and the pace of interest rate declines has slowed. Consumer and business confidence continue to rise or remain stable, tourism in the Caribbean has fully recovered, and job markets in the largest economies continue to tighten, facilitating modest poverty reduction.

The external environment, however, has changed substantially in the six months since the October 2024 Latin America and Caribbean Economic Review (LACER), with both short-term and long-term consequences. Inflation in the advanced countries, instead of being nearly vanquished as previously expected, looks to persist, delaying further interest rate cuts and constraining regional authorities' room to loosen monetary policy further. The apparent shift toward higher tariffs by the United States casts uncertainty on the nearshoring project, the practice of bringing offshore operations to nearby or friendly countries, and global market access more generally. LAC's other principal market—China— continues to show sluggish growth. Recent cuts to overseas development assistance by world's advanced economies will affect some countries acutely. Though over the last decade, growing migratory flows have shifted away from the United States and have increased from one LAC country to another, increased return migration from the United States will strain local labor markets and resources for reintegration. Finally, the growing expansion of transnational organized crime has elevated crime and violence to be a dominant source of civic discontent and poses acute challenges to governance and development within LAC.

These challenges will complicate efforts to reignite growth, redress fiscal imbalances and reduce debt, and regain the advances in reducing poverty of the previous decade. LAC's growth rates continue to be one of the slowest of any world region. Investment, both public and private, remains subdued and even before the increased uncertainty introduced by the rising US tariffs, there was evidence that the region was potentially missing the boat on "nearshoring". The modest results in both growth and trade underline the need for progress on the long-standing reform agenda to prepare regional economies for new challenges and potential opportunities.

Chapter 1 of this report lays out the recent macroeconomic and social evolution of the region and the near-term challenges it faces, particularly in the realm of growth, trade, and balancing the fiscal accounts.

Chapter 1. Continued Recovery Amidst New Challenges

The region continues to make progress reducing inflation although the convergence to the inflation targets has slowed, largely due to increased labor costs pushing up the prices of services and continued increases in international food prices. Inflation expectations remain anchored as all major countries expect to hit their targets by 2026 and monetary policies continue to ease; both nominal and real rates have begun to fall, except for Brazil's. In the Caribbean, because many currencies are broadly pegged, the initial inflation shock was more modest and manageable, while both the Dominican Republic and Jamaica's targeting regimes have led to more inflation and slower reductions.

Over the medium term, international headwinds are expected to be more challenging. Less certain decreases in near-term interest rate declines in the United States and Europe may limit the room for further local reductions as countries defend against capital outflows and weak currencies. Higher rates will also contribute to modest growth in Group of Seven (G-7) countries, while China continues to struggle with a contracting real estate sector and declining consumer confidence. All these factors imply that commodity prices will soften.

Growth in LAC is forecast to reach 2.1 percent in 2025, driven by Argentina's recovery, with other major economies showing little dynamism. Tourism-based Caribbean countries will do better, with growth in St. Vincent and the Grenadines and Dominica likely to surpass 4 percent, although continued expansion will probably require increased connectivity and growth in hotel capacity. Commodity exporters such as Trinidad and Tobago and Suriname will see slight improvements in growth this year.

On the financial front, the continued high interest rates will maintain the pressure on households and firms that has resulted in increases in non-performing loans, although recent rate cuts have provided relief in some countries. These risks must continue to be monitored, although to date, banks appear to be well provisioned and international markets remain sanguine.

Of more general concern are the ongoing global trade tensions that threaten market access and which are likely to have a dampening effect on global growth. Higher tariffs, and the highest levels of trade uncertainty in a decade, impede further integration of the region into US supply chains, as well as imperiling jobs in export-related industries. The recently signed Mexico and Mercosur agreements with the European Union represent a step toward diversification of markets and a continued relatively open stance toward the global markets. But the emerging challenges require addressing a now decades-old agenda in infrastructure, education, regulation, competition, and tax policy to increase both productivity and the nimbleness of the region's economies in the face of new uncertainty. In addition, cuts to overseas development assistance will have varied impacts including weakening relief efforts in Haiti, weakening conservation of the Amazon in South America, and reducing humanitarian assistance to Venezuelan migrants in host countries.

On the fiscal front, government spending remains elevated, and deficits remain substantial. Debt service continues to be high, averaging 10.9 percent of government spending in the largest economies (LAC-6), importantly, driven by continued high interest rates on the expanded stock of post-pandemic debt. Transitory transfers to vulnerable individuals and businesses during the COVID-19 pandemic are continuing to recede—albeit incompletely, while in many countries, other spending has not fallen or has increased. Overall, progress on debt reduction remains limited: the debt-to-GDP ratio increased in 2024 to 63.3 percent and remains above the 2019 level of 59.4 percent. Overall, debt levels in the Caribbean remain stable, although several countries—Barbados, Belize and Jamaica in particular—have engineered impressively large declines of 26 percentage points to 40 percentage points of GDP in recent years. The entire region still needs to generate more fiscal space through gains in efficiency, spending reductions, and better designed tax systems.

Some reduction in current account imbalances has occurred, though mostly due to stagnation in investment and increased private sector savings. This low public and private capital accumulation, combined with low productivity gains over the longer term, bodes ill for long-term growth.

Poverty and Inequality

Progress on poverty reduction continues to advance, albeit at a slower pace. Estimates for 2024 indicate that monetary poverty is expected to decrease marginally to 24.4 percent of LAC's population from 25.0 percent in 2023 (based on an upper-middle-income poverty line of $6.85 per day in 2017 purchasing power parity terms), while inequality is expected to remain high by global standards, with a Gini coefficient of 49.9 percent. About 65 percent of the improvement in poverty from 2018 to 2023 was driven by a combination of transfers and stronger labor markets, in particular higher inflation-adjusted earnings. The brightest spots were in Brazil, Colombia, and Mexico, but given that these countries were already operating in a historically low unemployment rates by mid-2024, and transfers are retrenching in many countries, additional gains are more likely to be achieved by improving the quality of jobs through productivity growth. In Colombia, for example, a 1 percent rise in productivity can lead to almost a half point rise in wages with attendant falls in poverty. At present, labor productivity hovers between 20 percent and 60 percent of levels in Organisation for Economic Co-operation and Development (OECD) member states, suggesting room for gains with appropriate reforms. Raising modern sector productivity, along with improving the skills of the region's workers, are also critical to lowering the stubbornly high informality rate.

Creating High Productivity Jobs: The Challenge of Artificial Intelligence and the Energy Transition

Though raising minimum wages from very low levels can increase wages and lower poverty, the long-term solution to social progress is to promote growth in the number of modern sector high-productivity jobs. Two shifts in the global economy, the emergence of artificial intelligence (AI) and the evolution of the green economy, both offer challenges and opportunities to creating such jobs.

While Generative AI (GenAI) has not been widely adopted in LAC, its potential to augment jobs (increase productivity) but also automate (and displace) workers has raised concerns in the advanced countries. However, the technology is diffusing more slowly to LAC: at present, 26 percent to 38 percent of employment is estimated to be exposed to GenAI , with 1 percent to 6 percent of employment the most vulnerable—especially jobs such as customer support agents and data entry clerks. Between 7 percent to 14 percent of jobs in LAC could become more productive through GenAI augmentation, particularly in sectors such as education, health, and personal services. However, to maximize the benefits of GenAI and minimize its potential to increase inequality, complementary policies are necessary, such as developing digital infrastructure, providing income support for displaced workers, and equipping workers with foundational skills.

The energy transition has significant implications for labor demand and income inequality as well, by displacing jobs in traditional sectors while creating opportunities in new ones. Employment in sectors with relatively low greenhouse gas emissions is relatively low at about 10 percent, while employment in sectors with high greenhouse gas emissions, such as agriculture, is widespread. As with AI, emerging sectors will potentially require a different set of skills. As in most emerging sectors, providing workers with the education and skills to compete is a critical complementary policy.

The Impact of Higher Return Migration

Over the medium term, announced deportations from several advanced economies—but especially the United States—will require integrating return migrants into local labor markets. Though total migration rose slightly over the 2021–24 period to 1.5 million per year from the historically high 2016–20 period of 1.4 million, both destination and origin countries have changed substantially in the past decade. More stringent migration norms in the United States have redirected migrant flows from the United States to Latin America and Southern Europe, with approximately 20 percent of migrants destined for the United States, 61 percent to other countries in the region, and the remainder to parts of Europe. That said, the largest share of total LAC migrants (55 percent) are concentrated in the United

States, although that level is significantly down from a decade ago (68 percent). The humanitarian crisis in República Bolivariana de Venezuela has made the country the source of 57 percent of total migrant flows from LAC, while net flows from Mexico have become negative over the past decade. Because of the overall expansion of migration, even with the historically high rates of deportation in the 2021–22 period, net flows to the United States remain positive. Remittance flows remain high in some countries—amounting to more than 15 percent of GDP in Nicaragua, Honduras, El Salvador, Guatemala, Haiti, and Jamaica. These countries will see a slowdown in growth—if not a continued fall in the case of Haiti.

Growth Outlook for the Region

Real GDP Growth Rates

	2022	2023	2024e	2025f	2026f	2027f
Argentina	5.3	-1.6	-1.8	5.5	4.5	4.0
Bahamas	10.8	2.6	1.9	1.1	1.2	1.3
Barbados	17.8	4.1	3.8	2.8	2.0	1.7
Belize	9.4	1.1	8.2	2.8	2.4	2.3
Bolivia	3.6	3.1	1.4	1.2	1.1	1.1
Brazil	3.0	3.2	3.4	1.8	2.0	2.0
Chile	2.2	0.5	2.6	2.1	2.2	2.1
Colombia	7.3	0.7	1.7	2.4	2.7	2.9
Costa Rica	4.6	5.1	4.3	3.5	3.7	3.8
Dominica	5.6	4.7	4.6	4.3	3.4	2.8
Dominican Republic	5.2	2.2	5.0	4.0	4.2	4.4
Ecuador	5.9	2.0	-2.5	1.9	2.0	2.1
El Salvador	3.0	3.5	2.6	2.2	2.4	2.9
Grenada	7.3	4.7	3.7	3.8	3.4	2.7
Guatemala	4.2	3.5	3.7	3.5	3.8	3.8
Guyana	63.3	33.8	43.4	10.0	23.0	24.3
Haiti	-1.7	-1.9	-4.2	-2.2	2.0	2.5
Honduras	4.1	3.6	3.6	2.8	3.4	3.7
Jamaica	5.2	2.6	-0.7	1.7	1.7	1.6
Mexico	3.7	3.3	1.5	0.0	1.1	1.8
Nicaragua	3.8	4.6	3.6	3.4	3.3	3.3
Panama	10.8	7.4	2.9	3.5	3.8	4.3
Paraguay	0.2	5.0	4.2	3.5	3.6	3.6
Peru	2.8	-0.4	3.3	2.9	2.5	2.5
St. Lucia	20.4	2.2	3.7	2.8	2.3	1.9
St. Vincent and the Grenadines	5.0	5.8	4.5	4.9	2.9	2.7
Suriname	2.4	2.5	2.8	3.1	3.3	3.5
Trinidad and Tobago	1.1	1.4	1.7	2.8	1.3	3.2
Uruguay	4.5	0.7	3.1	2.3	2.2	2.2

Source: World Bank staff calculations.
Note: The cut-off date for the data is April 10, 2025. "e" stands for estimate; "f" for forecast.

Many assumptions about the direction of movement of the global economy have changed in the six months since the October 2024 *Latin America and the Caribbean Economic Review* (LACER)[1]. Inflation in the advanced countries, instead of being vanquished as previously expected, looks to persist, delaying further interest rate cuts and constraining room for central banks in Latin America and the Caribbean (LAC) to further loosen monetary policy. The apparent shift toward higher tariffs by the United States casts uncertainty on the nearshoring project in LAC and global market access more generally, while LAC's other principal market, China, continues to show sluggish growth. In addition, recent cuts to overseas development assistance by world's largest economies could be consequential for several countries. Though over the last decade, most migratory flows have been within LAC, increased return migration from the United States may stress some local labor markets and resources for reintegration, while dampening remittances. The global order will likely be in a state of flux for some time.

Economic Activity: Growth Continues to Lag

Once again in 2024, as in previous years, LAC was one of the slowest growing regions in the world (figure 1.1, panel a). Output growth continued to moderate, largely reflecting the continued convergence to potential output of Mexico, and the adjustment process in Argentina. Growth in Brazil remained robust. The remaining large economies—Chile, Colombia, and Peru—experienced a moderate uptick in growth, narrowing the output growth gap from their negative cyclical position. For 2025, growth is expected to slightly decelerate, with only Argentina and Colombia showing stronger performance than in 2024 (figure 1.1, panel b).

FIGURE 1.1.

Growth Continues to Lag Relative to Other Regions

a. Growth by region
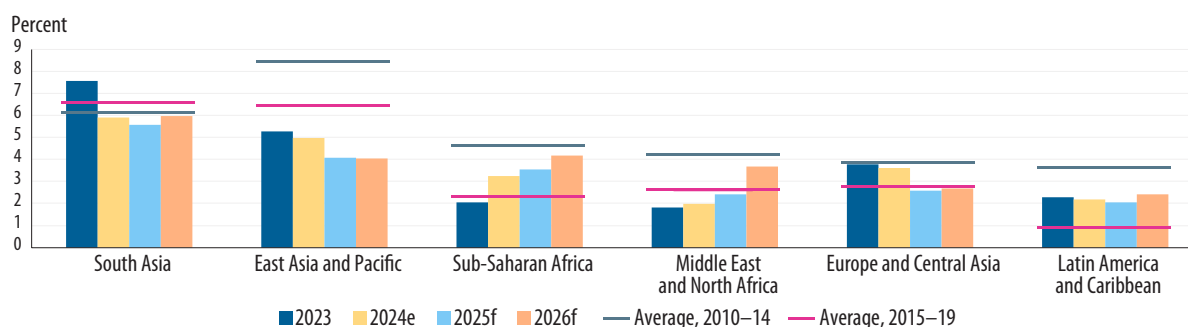
b. Growth in the LAC-6
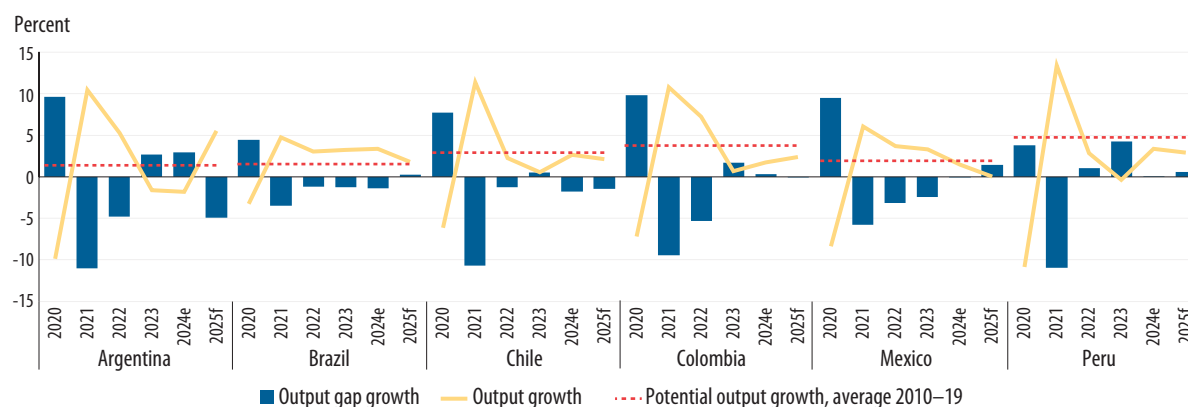
Source: World Bank Macro-Poverty Outlook (Spring Meetings 2025).
Note: The values are based on projections (as of April 10, 2025). In panel b, the LAC-6 includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru. e = estimate; f = forecast; GDP = gross domestic product.
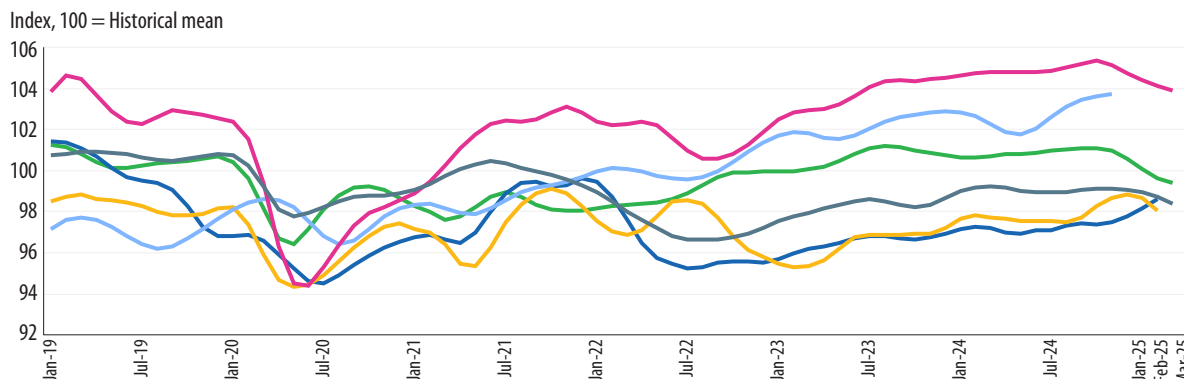
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1   World Bank (2024a).

Across the region in 2024, growth continued to be propelled by consumption, except for Argentina and Chile, where growth has been led by the external sector. In Mexico, public investment supported the expansion of aggregate investment and output growth during 2023, but as it lost momentum during 2024, this stimulus weakened. In the rest of the region, investment remained subdued, due to high interest rates and expectations of persistently low economic growth (figure 1.2).

FIGURE 1.2.

Consumption Continued to Propel Growth in Most LAC-6 Countries

Contributions to real GDP growth

Percent change, year-on-year
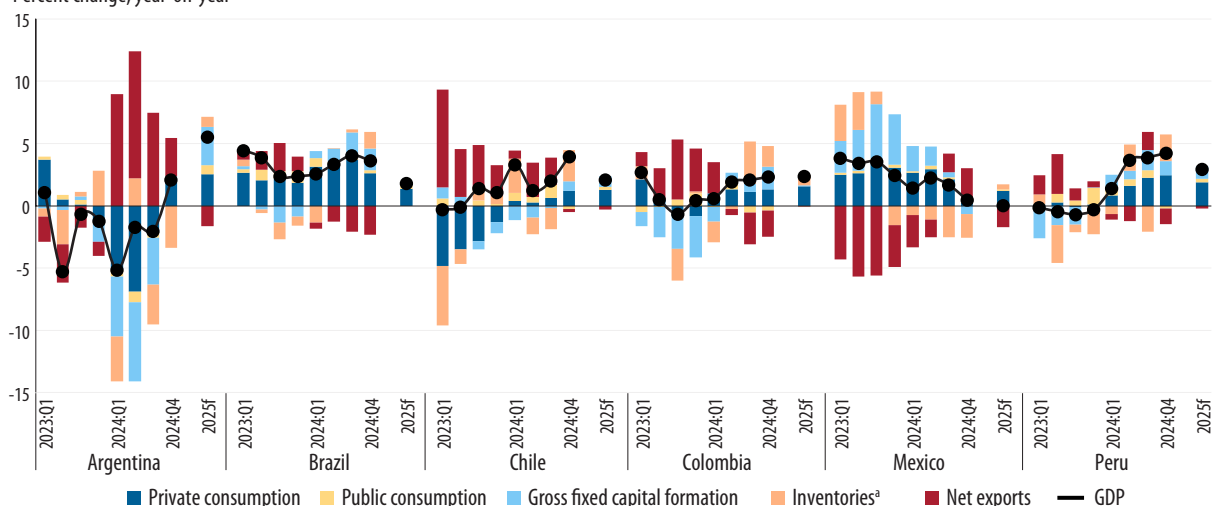
Sources: Haver Analytics; Banco Central de Chile; World Bank Macro-Poverty Outlook (Spring Meetings 2025); and World Bank staff calculations.
Note: The values are based on projections (as of April 10, 2025). f = forecast; GDP = gross domestic product.
a. Inventories include statistical discrepancies.

The slowdown in internal demand has contributed to correcting imbalances in the external sector. While fiscal deficits persist across the region, increases in net savings by the private sector have helped improve the external position in most countries (figure 1.3).

FIGURE 1.3.

As Budget Deficits Remain, Increased Private Savings Has Led to Improvements in the Current Account

Percent of GDP
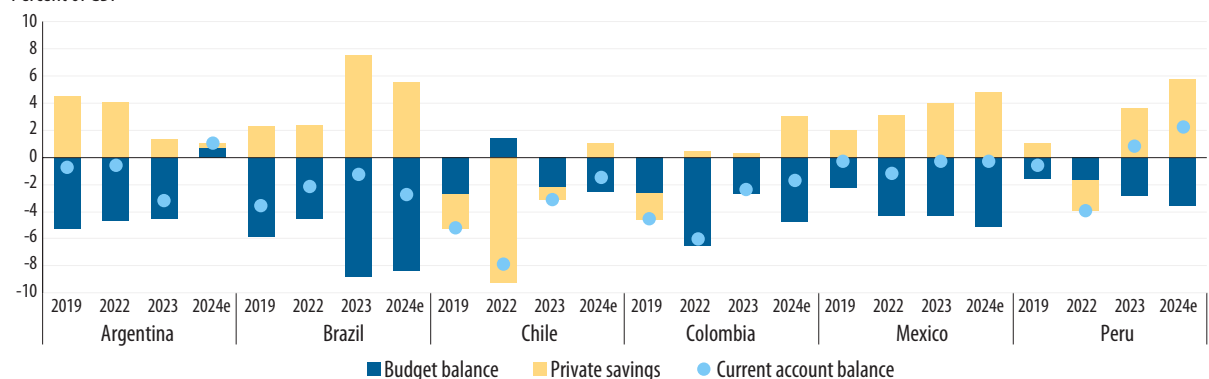
Source: World Bank Macro-Poverty Outlook (Spring Meetings 2025).
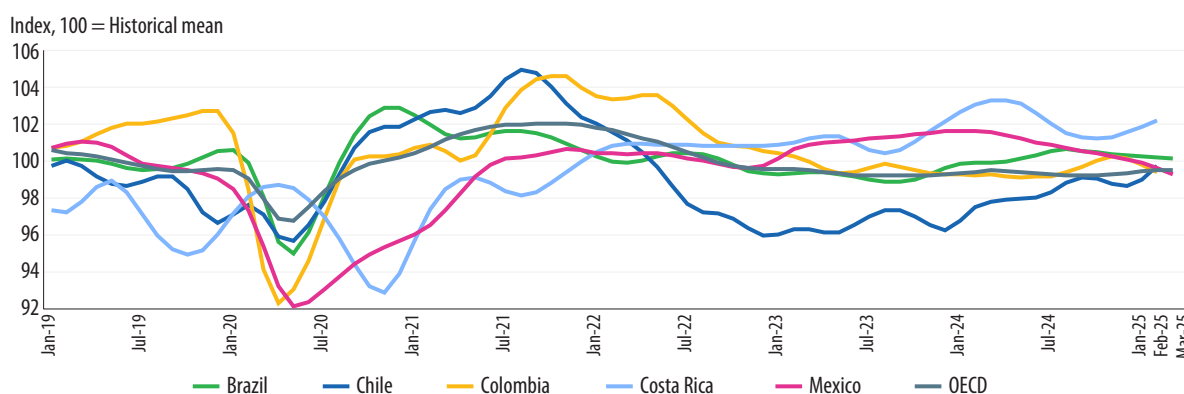*Note:* The values are based on projections (as of April 10, 2025). e = estimate; GDP = gross domestic product.

FIGURE 1.4.

Consumer Confidence Continues to Rise, While Business Confidence Remains Stable

a. Consumer confidence index

Index, 100 = Historical mean

b. Business confidence index

Index, 100 = Historical mean

Brazil — Chile — Colombia — Costa Rica — Mexico — OECD

Sources: For panel a, OECD (Consumer Confidence Index (CCI) (indicator) (doi: 10.1787/46434d78-en). For panel b, OECD Business Confidence Index (BCI) (indicator) (doi: 10.1787/3092dc4f-en).
Note: OECD = Organisation for Economic Co-operation and Development.

Households' expectations continue to improve, supported largely by decreasing inflation and dynamic labor markets (figure 1.4, panel a). Business confidence remains stable around historical values, consistent with sluggish investment rates (figure 1.4, panel b). This pattern suggests that low investment, rather than being only a cyclical phenomenon, is partially explained by LAC's economic fundamentals.

External Environment—External Headwinds Remain Challenging

The external environment continues to be challenging and is likely to remain so. On the positive side, in the third quarter of 2024, the US Federal Reserve (Fed) began to slowly normalize interest rates, a process that is expected to continue into 2025, easing financial conditions around the world. However, uncertainty remains about the speed of the interest rate decrease as the Fed delays further cuts, as well as the end point, which is likely to remain higher than in the pre-inflationary period (figure 1.5, panel a). Additionally, while commodity prices are below their 2022 peak, they remain high compared to pre-pandemic levels (figure 1.5, panel c). On the negative side, output growth of LAC's main trading partners continues to moderate. After a slowdown in 2024, growth in the G-7 is expected to continue moderating and reaching 1.2 percent in 2025, reflecting a moderation of the economy of the United States and the anemic growth in Europe (figure 1.5, panel b). At the same time, China's prospects remain subdued and uncertain (figure 1.5, panel d).
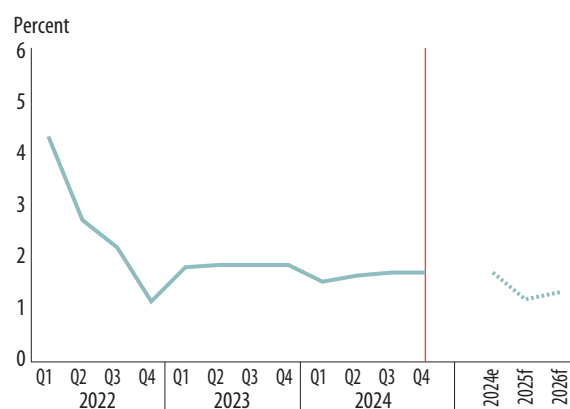
FIGURE 1.5.

External Uncertainty Will Remain in 2025

a. Fed funds rate and real yield on 10-year US Treasury Note
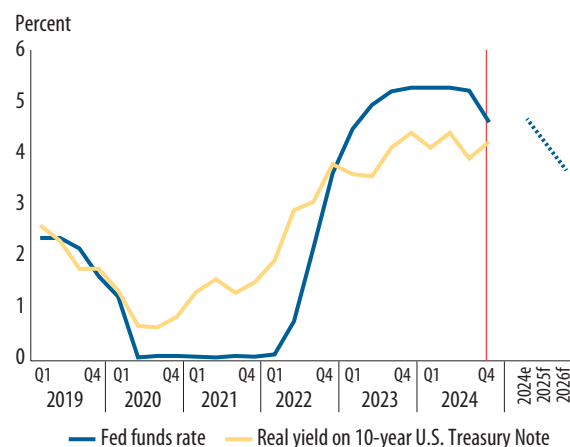
b. G-7 growth

c. Commodity prices

d. China growth

Sources: For panel a, US Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis; for panel b, Organisation for Economic Co-operation and Development (OECD) Quarterly GDP (indicator) (doi: 10.1787/b86d1fc8-en) and International Monetary Fund (IMF) World Economic Outlook (WEO) database (https://www.imf.org/en/Publications/WEO/weo-database/2024/October); for panel c, World Bank Commodity Prices (Pink Sheets) (https://www.worldbank.org/en/research/commodity-markets) and IMF WEO database; for panel d, Haver Analytics and IMF WEO database.
Note: f = forecast; G-7 = Group of Seven.

Heightening Uncertainty over Trade

The less dynamic external scenario is complemented by increased uncertainty about trade policies in the region's main trading partners, from protective measures undertaken or under study by the largest economies (United States, China, and the European Union) to realignments consistent with the nearshoring phenomenon. The Trade Policy Uncertainty Index shows that over the last 10 years uncertainty has increased, staying persistently above the levels observed before 2015 (figure 1.6).

This increased uncertainty in the world's largest economies is especially relevant for LAC, as most countries have steadily made progress in integrating themselves into global value chains. Over the last two decades, LAC has increased its exports from 14.6 percent to 21 percent of GDP, with both the United States and China growing more important as export markets. While the United States remains LAC's main export destination, countries in LAC have sought to diversify their trading partners. Some countries like Chile and Peru have expanded their exports to China significantly (figure 1.7), and recently Mexico and Mercosur have pursued Free Trade Agreements with the

Trade Policy Uncertainty Has Increased over the Past Decade
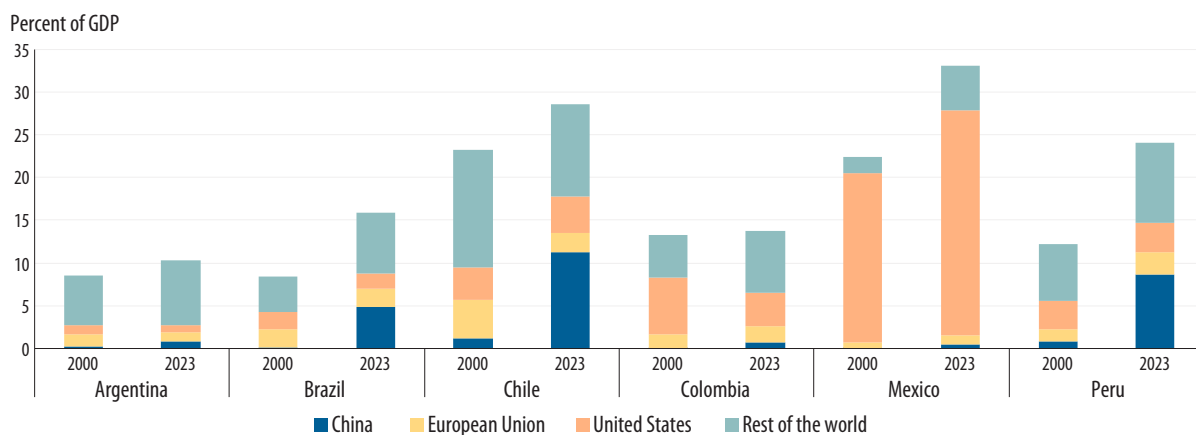
Trade policy uncertainty index
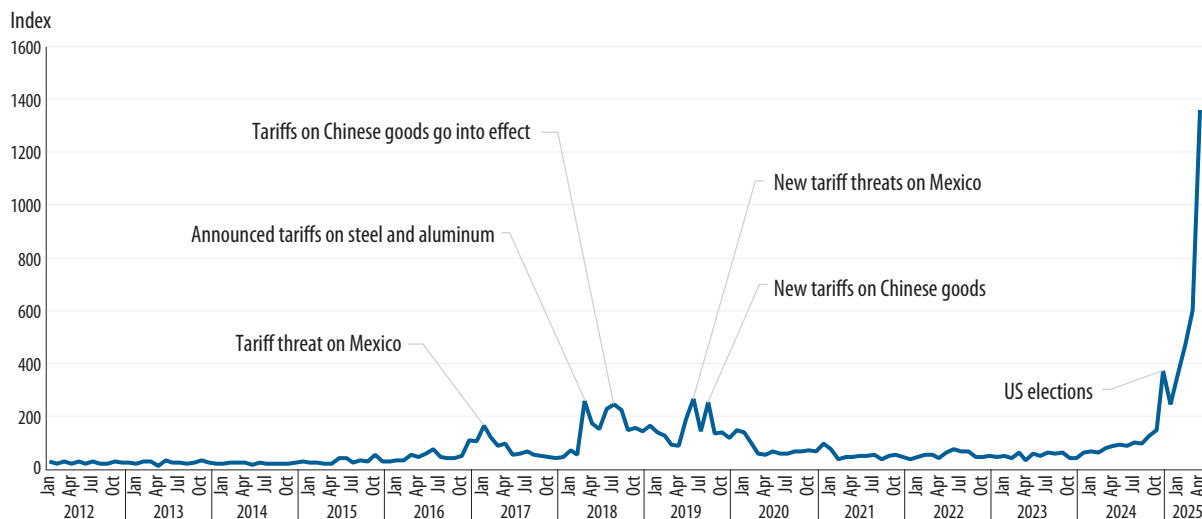
Source: Caldara et al. 2020.
Note: The index represents the proportion of news articles that contain references to trade policy uncertainty (TPU). A value of 100 in the index corresponds to 1 percent of articles mentioning TPU.

LAC Has Been Integrating into the World

Exports by destination

Sources: World Bank staff using data from the United Nations Department of Economic and Social Affairs (UN DESA) Statistics Division, National Accounts Main Aggregates and Commodity Trade (Comtrade) Database.
Note: The figure focuses on the LAC-6 (Argentina, Brazil, Chile, Colombia, Mexico, and Peru).

European Union. While this increased integration has created ample opportunities for firms and workers, it also means that a significant share of workers is employed in exporting industries, and consequently, exposed to changes in international trade (figure 1.8).

The sensitivity to changes in the global trade regime varies with the differing exports baskets to destination countries. While LAC exports mostly primary goods, 39 percent of exports are manufactured goods, mostly from Brazil and Mexico to the United States. In contrast, exports to China are focused almost exclusively on unprocessed food and mining. Thus, changes in global trade policies would be felt unevenly across countries and industries (figure 1.9). Even primary goods sectors will be challenged.

FIGURE 1.8.

Workers in Export Industries Are Exposed to Changes in International Trade

Domestic employment embodied in gross exports in 2019 in LAC-6 countries

Percent of total employment

Source: World Bank staff using data from OECD, Trade in Employment (TiM) database (https://www.oecd.org/en/data/datasets/trade-in-employment.html).
Note: The figure focuses on the LAC-6 (Argentina, Brazil, Chile, Colombia, Mexico, and Peru).

In addition to disruptions in international trade, recent cuts in overseas development assistance (ODA) by some of the largest economies could be consequential for the region— not only because some economies, like Haiti, are highly dependent on it, but also because it plays an important role for key policy challenges, such as Amazon conservation and humanitarian assistance to migrants from the República Bolivariana de Venezuela.

FIGURE 1.9.

LAC Export Patterns Vary by Trade Partner

Exports by destination and sector in 2023

Percent
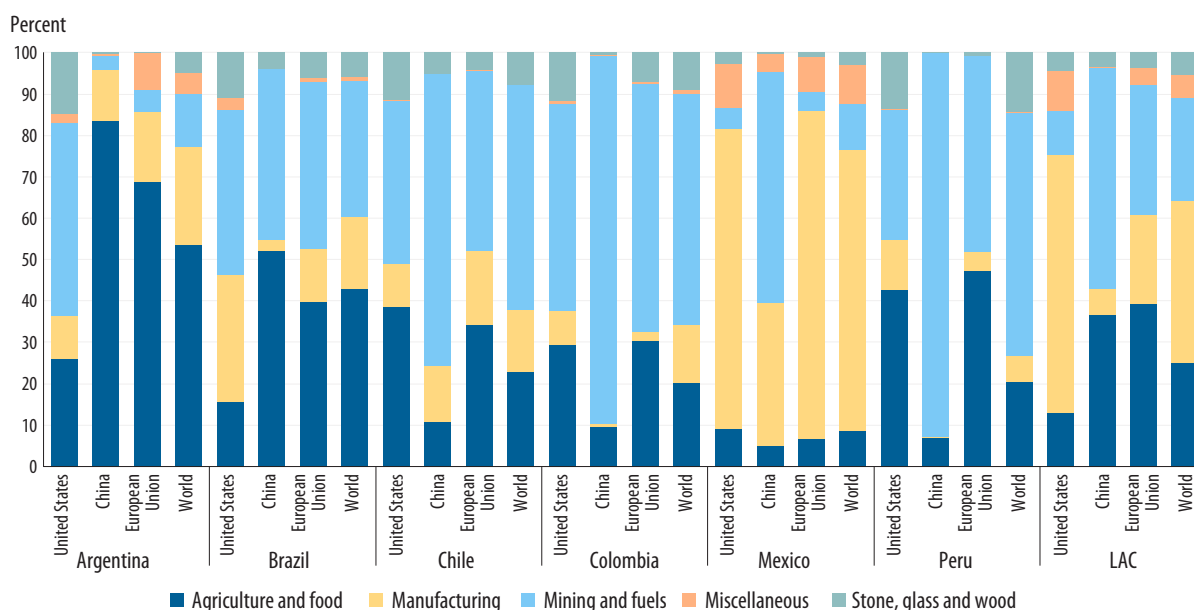
Source: World Bank staff using WITS (World Integrated Trade Solution).
Note: Manufacturing category includes machinery and electrical, rubber and chemicals, textiles and related, and transportation. Mining and fuels category includes metals, minerals and fuels. LAC = Latin America and the Caribbean.

It is impossible to know where the new tariff regime will settle. However, trade will remain an engine of growth for LAC. While the United States will remain a major export market worldwide, its share of global imports of goods has fallen to 13 percent, while LAC is increasingly diversifying its trade in a world that continues to pursue Free Trade Agreements and increased connection. Both Mercosur and Mexico have signed agreements with the EU, and presidents from the LAC region have recently visited India and Japan and discussed trade. The nearshoring project, although it is certainly much more uncertain, is not necessarily moribund. With major Asian competitors under heavy tariffs, Mexico and LAC look more attractive.

Further, the future of trade is increasingly in services, which have grown as manufactures trade has slowed. For instance, India and China export both low-end and high-end (engineering) services, and this will be increasingly feasible with advances in translation and communication software. LAC remains underrepresented in this area: 15 percent of LAC's exports are in services compared to 17 percent globally—and, instructively, 30 percent in India. With increases in services trade of 4.4 percent per year, LAC is growing at the global average—but India, again, shows the possibilities, growing at 9.3 percent.

Building resilience against changes going forward, and taking advantage of new opportunities, will require undertaking long-delayed reforms in education, infrastructure, behind the border regulations, and the overall enabling environment that disincentive investment and trade even before the recent changes in the global landscape. Between the likely countermovement of exchange rates and the fact that certain policies, such as managerial extension programs, have been shown to achieve gains in firm productivity of 10 percent in a year, the currently discussed base level of tariffs need not be an insuperable barrier to access. Such productivity growth has proven elusive so far. Despite LAC's comparative advantage in producing primary goods, the exporting sector is affected by the region's lack of competitiveness in the same way as the rest of the economy. The labor productivity embedded in LAC's export's basket significantly lags that of the United States (figure 1.10).

FIGURE 1.10.

Exporters' Productivity in LAC Lags Behind That of the United States

Relative Export Productivity Index in 2019 as percent of US productivity in gross exports
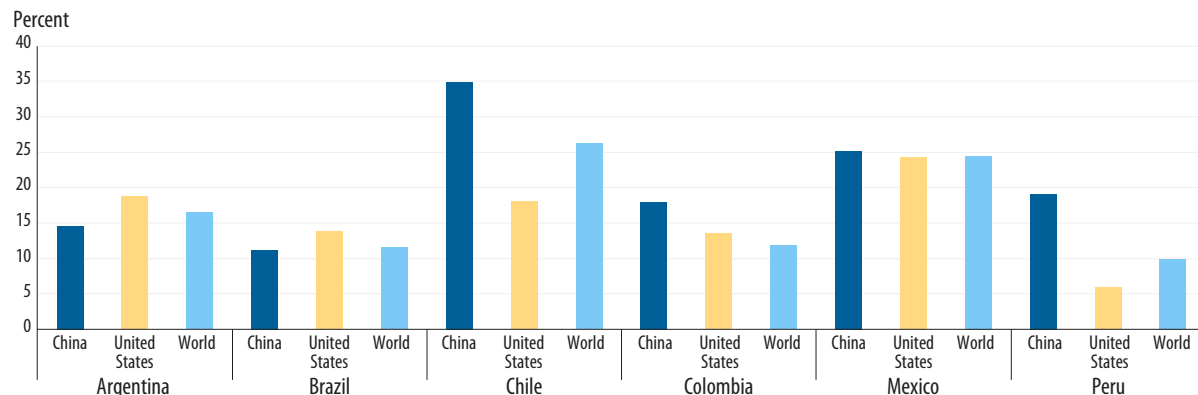
Sources: World Bank staff using data from OECD, Trade in Employment (TiM) database (https://www.oecd.org/en/data/datasets/trade-in-employment.html); Trade in Value Added (TiVA) (https://www.oecd.org/en/topics/sub-issues/trade-in-value-added.html); and The Conference Board (https://data-central.conference-board.org/).
Note: The Relative Export Productivity Index measures the domestic value added per job in gross exports for each LAC-6 country (Argentina, Brazil, Chile, Colombia, Mexico, and Peru), expressed as a percentage of the United States (US) level.

It may be, as some have argued, that globalization has changed in such a way that LAC cannot follow the paths of the Asian miracles. But it is also the case that the region has not engaged in the building of human capital, quality universities, and research institutes linked to the private sector, or more generally embraced the goal of getting to the technological frontier that the success stories have pursued. These steps will be essential to leverage both new and traditional sectors, as well as high-end services. What is clear is that access to new technologies, and taking advantage of scale economies, will require maintaining an open stance toward the eventual system that emerges.

Inflation is Slowly Receding, while Monetary Policy Has Loosened

After the decisive response of monetary authorities and the normalization in global supply chains, inflation receded significantly throughout the region from its peak in 2022. However, during 2024, the disinflation process slowed as core inflation remained high, largely due to increased labor costs affecting the prices of services and rising international food prices (figure 1.11).
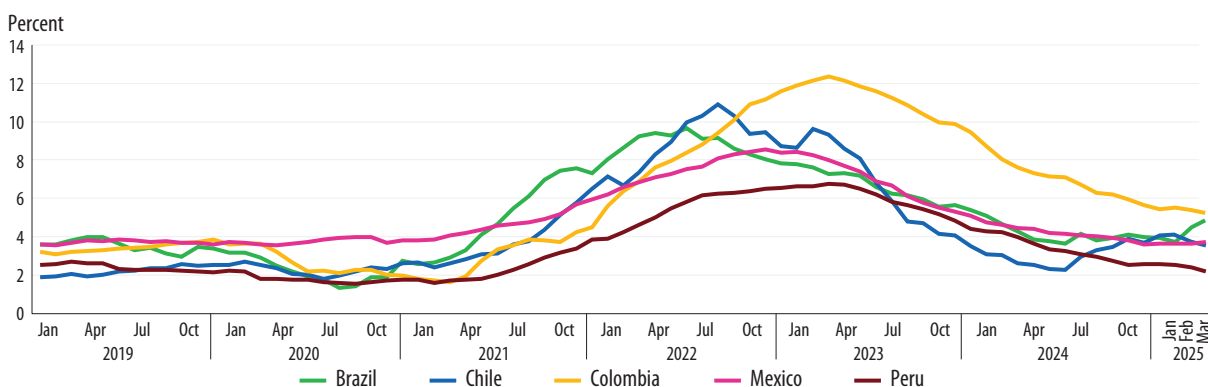
FIGURE 1.11.

Inflation is Moderating, but More Slowly than Anticipated

a.   Annual headline inflation (percent, year-on-year)
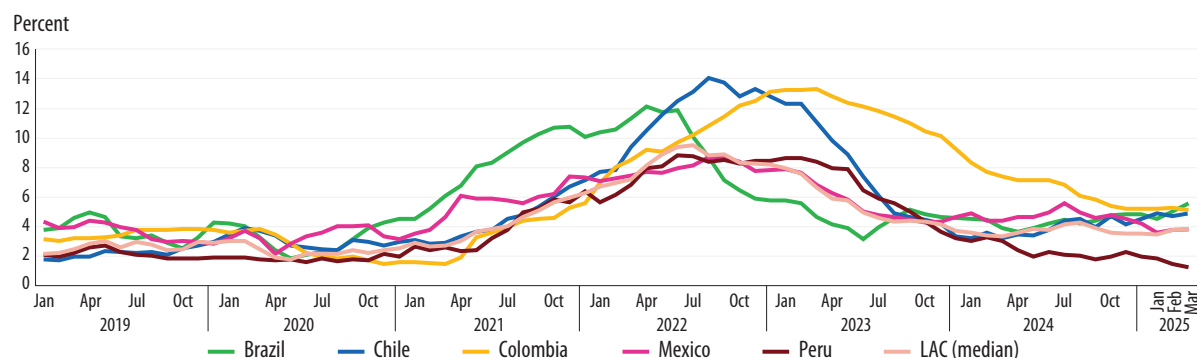
b.   Annual core inflation (percent, year-on-year)

c.   Annual services inflation (percent, year-on-year)
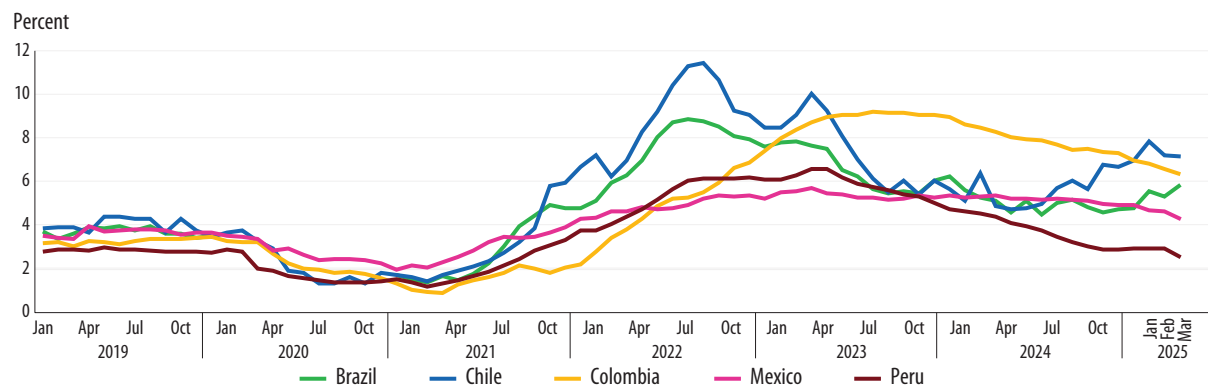
Source: World Bank Macro-Poverty Outlook (Spring Meetings 2025).
Note: LAC = Latin America and the Caribbean. LAC (median) includes Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, and Uruguay.

Still, inflation expectations remain anchored as markets expect inflation to fall within central bank targets for all countries by the end of 2026. However, convergence to the target will require further efforts, necessitating a slower decline in interest rates than previously anticipated. A rise in Brazilian inflation in the middle of 2024, associated with increased food prices and labor costs, led to a reversal of previous interest rate reductions (figure 1.12). In Chile, inflation also increased during 2024, due to a combination of cost factors: depreciation of the peso, and heightened real wages and electricity rates. However, during 2025, inflation is expected to moderate as internal demand remains weak, allowing the central bank to forgo possible interest rates increases.

Considering the initially rapid decrease in inflation, the major central banks of the region began normalizing their monetary policy rates more aggressively than most advanced economies in 2024, a trend that is expected to continue during 2025 (figure 1.13, panel a). However, market expectations suggest that at least in the short to medium term, real interest rates will not reach their relatively low levels of the 2010s for most countries, staying on average 2.4 percentage points higher, reflecting higher neutral rates for the region and for major economies (figure 1.13, panel b).

FIGURE 1.12.

Inflation Expectations Remain Anchored

**Inflation forecasts and central banks targets**
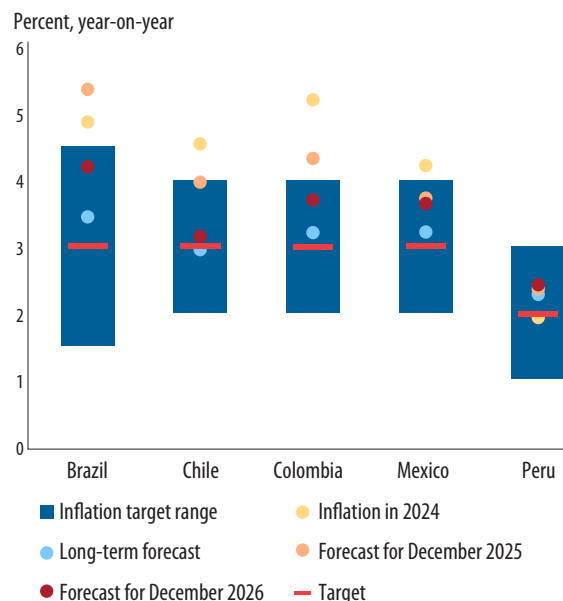
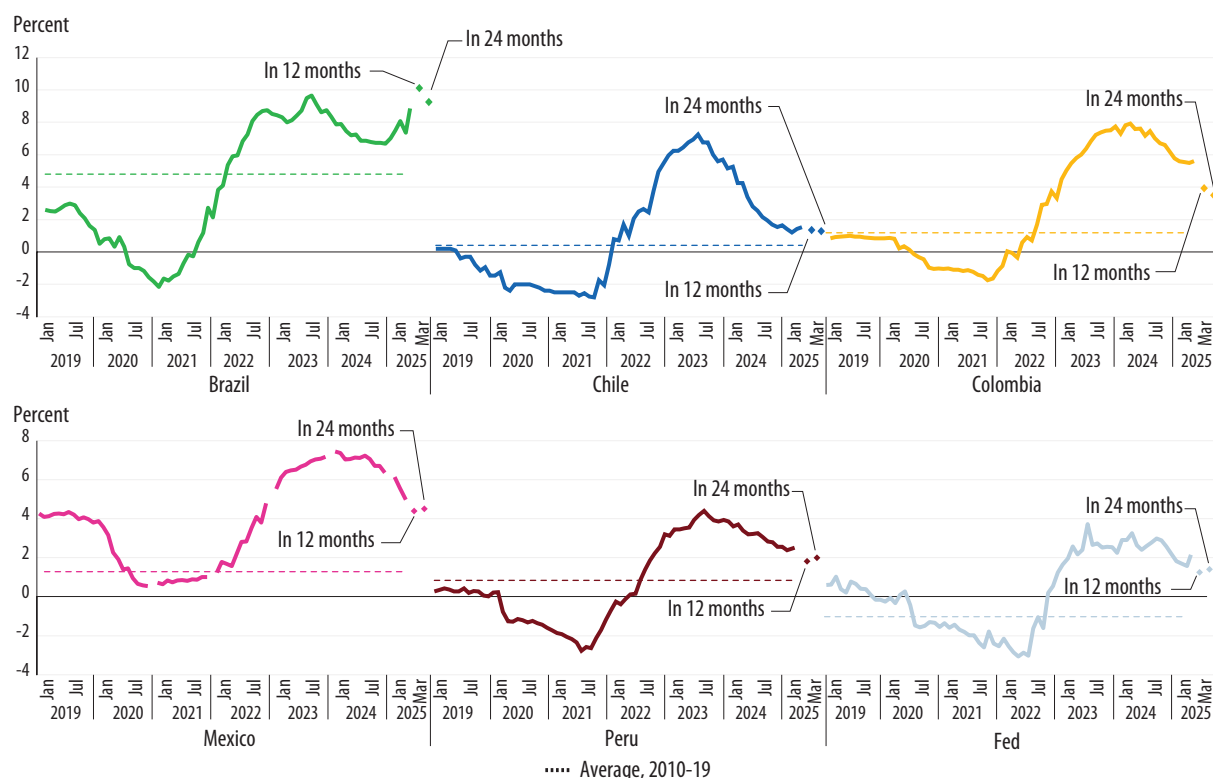

Source: Consensus Economics.
Note: The survey date was April 2025 for the December 2025 and December 2026 forecasts, and April 2025 for the long-term forecasts. Long-term forecasts are period averages at the 6–10-year horizon.

The major currencies of the region have depreciated against the dollar during 2024 due to global factors, such as the relative strength of the dollar, and domestic ones, such as diminished interest rate differentials caused by monetary loosening (figure 1.14, panel b). The slower monetary policy relaxation in the United States puts further bounds on the ability of central banks in LAC to decrease interest rates if they wish to avoid further capital outflows and depreciations. While interest rate differentials for Brazil, Colombia, and Mexico are consistent with their historical levels, they are close to the minimum for Chile and Peru (figure 1.14, panel a).

FIGURE 1.13.

Monetary Policy Has Slowly Loosened in the LAC-5, Except for Brazil

a.   Monetary policy rates, January 2021 to March 2025 and projected (percent)
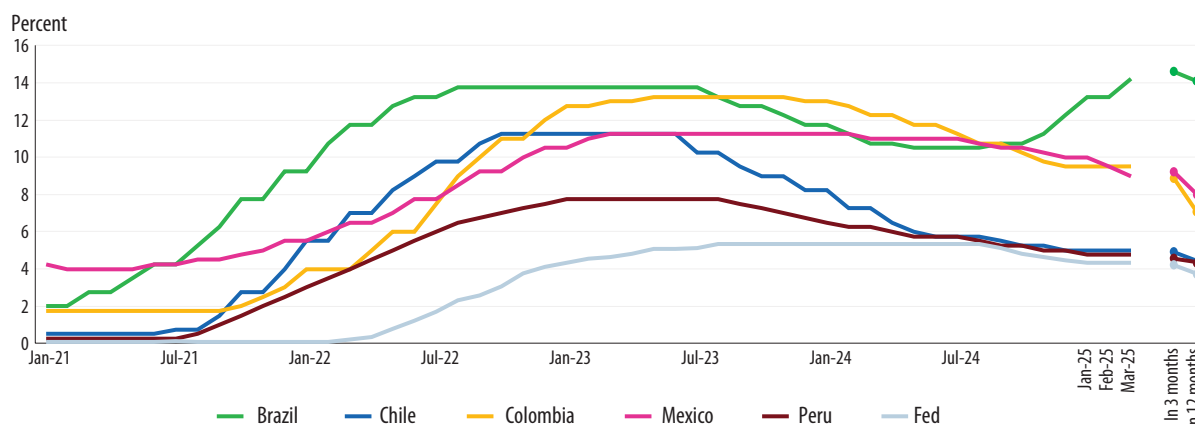
Figure 1.13. Monetary Policy Has Slowly Loosened in the LAC-5, Except for Brazil (continuation)

b. Real policy rates, January 2019 to March 2025 and projected (percent)

Sources: World Bank Macro-Poverty Outlook (Spring Meetings 2025); Consensus Economics; central banks databases.
*Note:* For panel b, real interest rates are calculated as the difference between the nominal monetary policy rate and the expected inflation rate for the next 12 months, based on data from central banks. For forecasted values, the same calculation is applied, using national central bank forecasts for the nominal policy rate. For inflation rates, the 12-month forecast uses expected inflation for 2026 from Consensus Forecasts, while the 24-month forecast uses the inflation target for each country. The series for Mexico contains breaks due to the unavailability of inflation expectations data in December of each year since 2020, based on data from Bank of Mexico. LAC-5 includes Brazil, Chile, Colombia, Mexico, and Peru. Fed = US Federal Reserve.

FIGURE 1.14.

Major Currencies in the Region Have Depreciated Due to a Strong Dollar and Monetary Loosening

a. Interest rates differentials, January 2010–March 2025
Difference between monetary policy
rate and federal funds rate
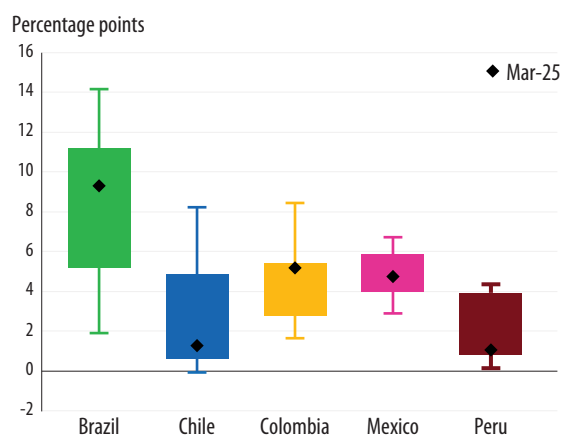
b. Exchange rates, January 2024–March 2025
Local currency per US dollar (USD)
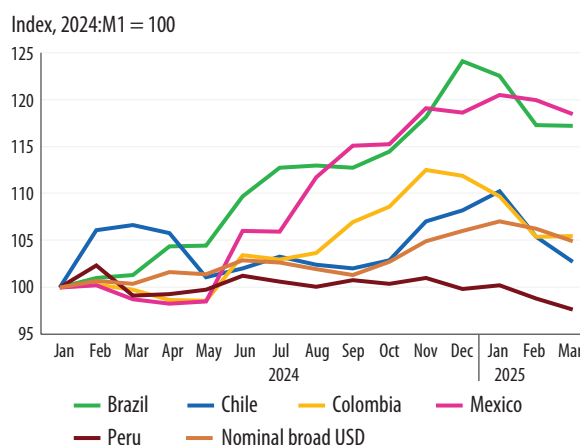
Sources: World Bank staff calculations based on Haver Analytics and US Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis.
*Note:* For panel a, each box plot provides a summary of the distribution of the interest rate differentials for the 2010–25 period. The central box represents the interquartile range (IQR), spanning from the first quartile (Q1, 25th percentile) to the third quartile (Q3, 75th percentile). The "whiskers" extend to the minimum and maximum values. For panel b, the nominal broad USD index measures the value of the US dollar (USD) against a trade-weighted basket of foreign currencies.

Fiscal Sector: Fiscal Deficits and Debt Remain High

Fiscal deficits remain stubbornly high in the largest economies of Latin America. While most countries have undertaken measures to address the primary deficit, such as phasing out the pandemic-era stimulus and proposed tax reforms to increase revenue, they have been unable to completely balance the fiscal budget as debt service requires increasing resources (figure 1.15).

FIGURE 1.15.

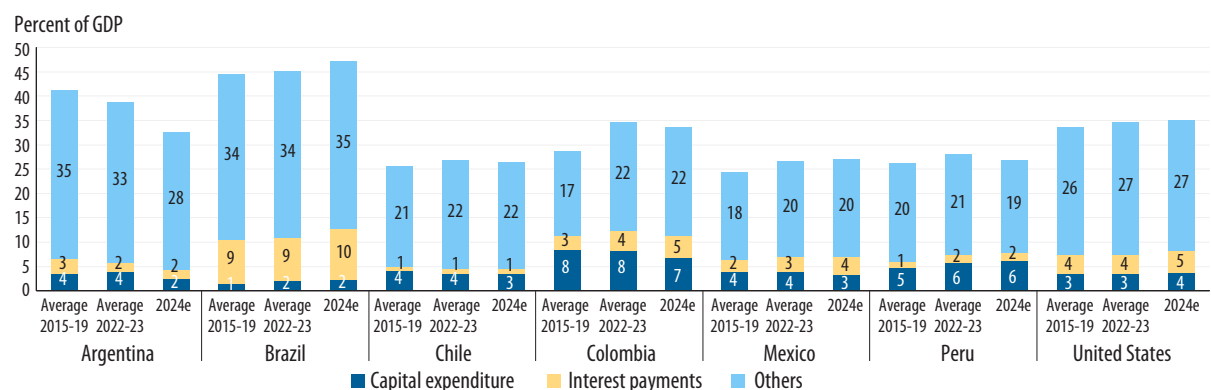**Fiscal Deficits Persist Significantly Due to Rising Interest Payments**
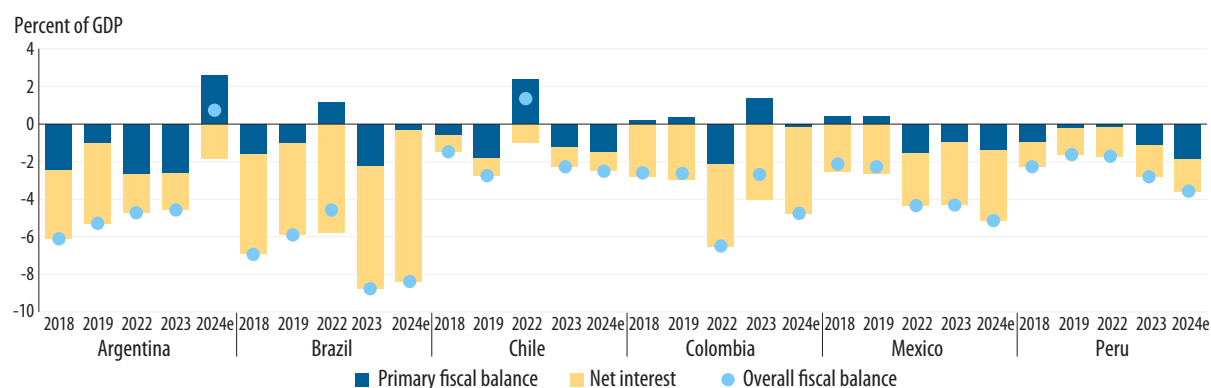
Source: World Bank Macro-Poverty Outlook (Spring Meetings 2025).
Note: The values are based on projections (as of April 10, 2025). e = estimate; GDP = gross domestic product.

Hence, while the likelihood of a debt crisis along the lines of those of the 1980s and 1990s in Latin America is unlikely, the relatively high public debt is still proving costly. Debt service currently represents 10.9 percent of government spending in the LAC-6, crowding out investment in items such as infrastructure to meet their citizens' demands for public goods, as well as support for pension payments (figure 1.16). As discussed in the World Bank flagship report *Public Spending Policies in Latin America and the Caribbean: When Cyclicality Meets Rigidities*[2], the rigidities inherent in fiscal spending harm the ability of countries to navigate cyclical elements such as marked increase in interest rates.

FIGURE 1.16.

Debt Service Weighs Heavily on Public Spending, Limiting Investment

Source: World Bank Macro-Poverty Outlook (Spring Meetings 2025).
Note: The values are based on projections (as of April 10, 2025). e = estimate; GDP = gross domestic product.

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2   Riera-Crichton and Vuletin (2024).

While higher interest rates are partly responsible for higher debt service, the persistent increment in government debt stock observed throughout the region over the last 15 years is just as important. After a surge during the pandemic, debt-to-GDP ratios have stabilized due to smaller deficits and the strong GDP growth during the reopening. However, in the absence of further fiscal consolidation, they are not expected to revert to the levels observed before the pandemic for most countries (figure 1.17). The October 2022 LACER, *New Approaches to Closing the Fiscal Gap,* proposes a framework for improving fiscal accounts by increasing revenue mobilization in growth-friendly ways[3].

FIGURE 1.17.

Public Debt Stabilized at High Levels

General government debt stock
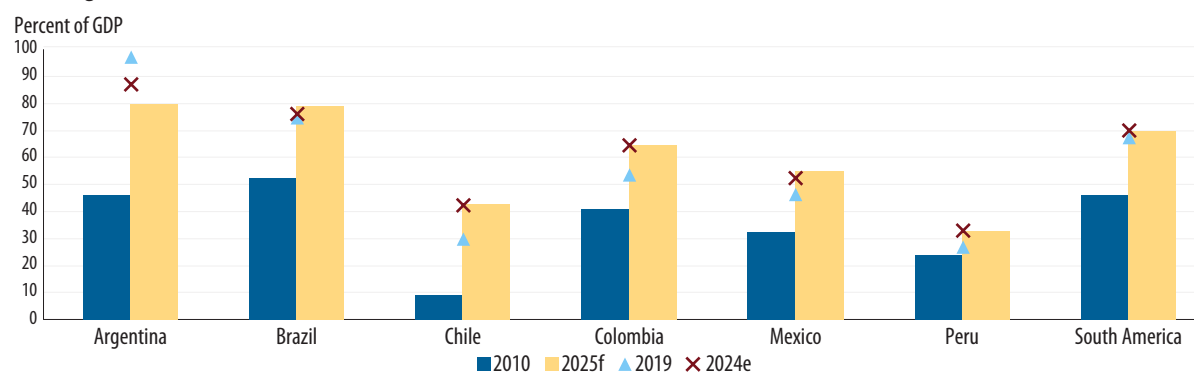
Source: World Bank Macro-Poverty Outlook (Spring Meetings 2025).
Note: The values are based on projections (as of April 10, 2025). e = estimate; GDP = gross domestic product.

The latest increase in debt stocks occurs in the context of relatively high interest rates for LAC, which has historically faced abnormally high interest rates on government debt (figure 1.18, panel a). The cycle of monetary policy tightening increased borrowing costs for most LAC-5 governments (figure 1.18, panels b and c). The normalization of interest rates will help alleviate this cost, but it is unlikely to return to the levels observed during the past decade. For Colombia and Mexico, sovereign risk premiums have also contributed to increase borrowing costs.

Exposure to interest rate hikes depends on how indebted countries are. While most LAC-6 economies have increased their debt interest payments, for the less indebted countries, Chile and Peru, this increase is the result of increasing debt stocks. For the other countries, increased interest rates played an important role (figure 1.19).
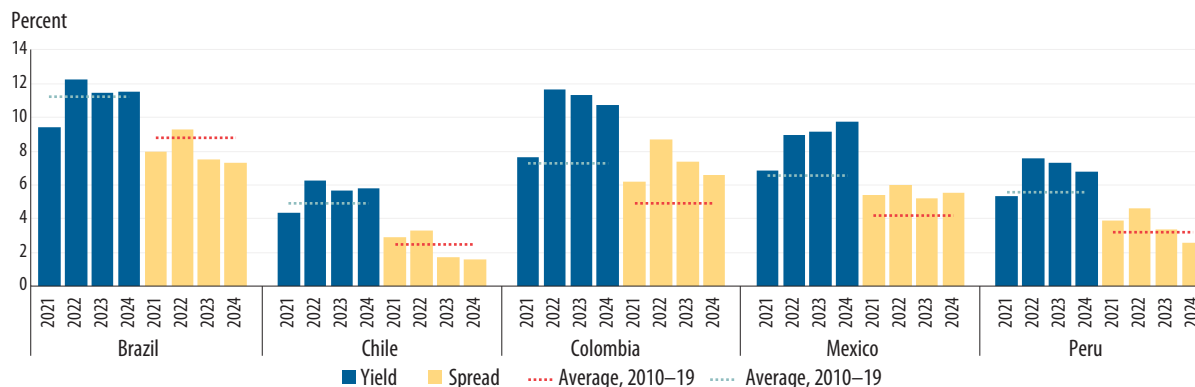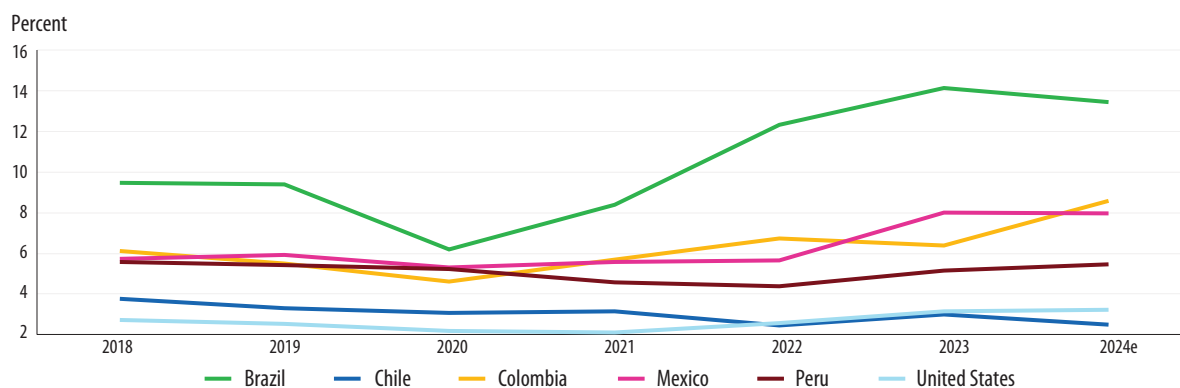
FIGURE 1.18.

Borrowing Costs Remain High

a. EMBI Global Diversified Subindexes, strip spread, regions


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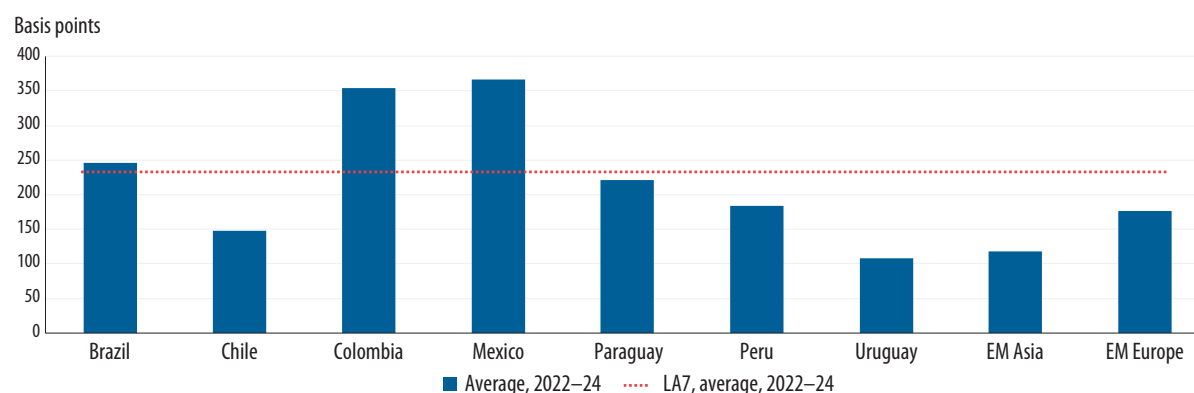
3   World Bank (2022).

Figure 1.18. Borrowing Costs Remain High (continuation)

b. Long-term government bonds: 10-year, LAC-5

Percent

Yield · Spread · Average, 2010–19 · Average, 2010–19

c. Implicit interest rate

Percent

Brazil · Chile · Colombia · Mexico · Peru · United States

Sources: For panel a, World Bank staff calculations based on J.P. Morgan; for panel b, World Bank staff calculations based on Haver Analytics, Central Bank of Peru and US Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis; for panel c, World Bank staff calculations based on World Bank Macro-Poverty Outlook (Spring Meetings 2025).
Note: EM = emerging market; LAC = Latin America and the Caribbean.
a. For panel a, the J.P. Morgan EMBI Global Diversified Index (EMBIGD) tracks liquid, US dollar-denominated emerging market fixed, and floating-rate debt instruments issued by sovereign and quasi-sovereign entities. The Emerging Markets Bond Index (EMBI) spread reflects the difference between the yield on these instruments and the yield on US Treasury bonds of comparable maturity. Aggregates are simple averages. EM Asia includes India, Indonesia, Malaysia, Philippines, Thailand. EM Europe includes Bulgaria, Hungary, Poland, Romania, Serbia. LA7 includes Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay.
b. For panel b, the spread shown in the chart represents the difference between the 10-year government bond yields of LAC-5 countries and the yield on the 10-year U.S. Treasury bond. The LAC-5 includes Brazil, Chile, Colombia, Mexico, and Peru.
c. For panel c, the implicit interest rate is measured as the ratio of interest payments to the debt stock from the previous period. Converted to real terms with consumer price index (CPI) from the U.S. Bureau of Labor Statistics. Values for implicit interest rates in 2024 are based on estimations (as of April 10, 2025). 2024e = 2024 estimate.

FIGURE 1.19.

More Indebted Countries Are More Sensitive to Interest Rates Hikes

Change in interest payments, 2018 versus 2024e

Percent

■ Change explained by interest rate ■ Change explained by debt stock ● Total change
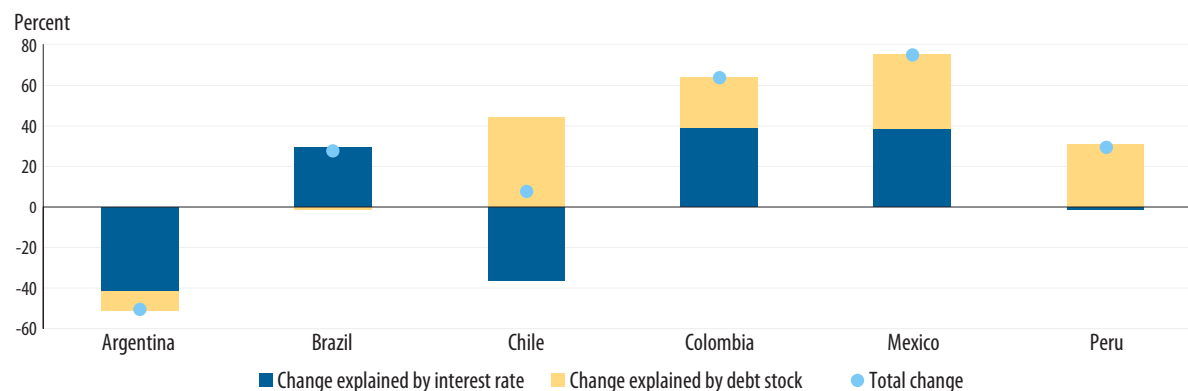
Source: World Bank Macro-Poverty Outlook (Spring Meetings 2025).
Note: Converted to real terms with consumer price index (CPI) from the U.S. Bureau of Labor Statistics. The values are based on projections (as of April 10, 2025). e = estimate.

Caribbean Focus

The Caribbean economies outperformed Latin American countries during 2024, albeit with marked differences between tourism-dependent countries and commodity exporters (table 1.1). Tourism-dependent countries have recovered their pre-pandemic levels of GDP, boosted by the rebounding tourism sector. Some countries have already reached their pre-pandemic levels of tourist arrivals, suggesting a moderation in growth rates of the services sector, while others still have room to catch up. Further efforts in improving connectivity and hotel capacity would contribute to sustaining the momentum (figure 1.20, panel a).

Among the commodities exporters countries, Trinidad and Tobago and Suriname were severely affected by the sharp decline in commodity prices during the pandemic, leading to a commensurate decline in output. As prices have rebounded since 2021, even surpassing their pre-pandemic levels, GDP growth has accelerated but has not yet reached its 2019 level (figure 1.20, panel b). In Guyana, the exploitation of recently found oil fields has led to an impressive and sustained expansion of GDP since 2020.

TABLE 1.1

Growth Prospects in the Caribbean Exceed the Regional Average but Vary

Real GDP growth estimates and forecasts

Country	2024e	2025f
Commodity exporters		
Trinidad and Tobago	1.7	2.8
Suriname	2.8	3.1
Guyana	43.4	10.0
Tourism-dependent		
St. Vincent and the Grenadines	4.5	4.9
St. Lucia	3.7	2.8
Jamaica	-0.7	1.7
Grenada	3.7	3.8
Dominica	4.6	4.3
Belize	8.2	2.8
Barbados	3.8	2.8

Source: World Bank Macro-Poverty Outlook (Spring Meetings 2025).
Note: The values are based on projections (as of April 10, 2025). e = estimate. f = forecast.

FIGURE 1.20.

While Tourism-Dependent Countries Have Recovered from Pre-Pandemic Levels, Commodity Exporters Have Not

a. Tourism-dependent countries
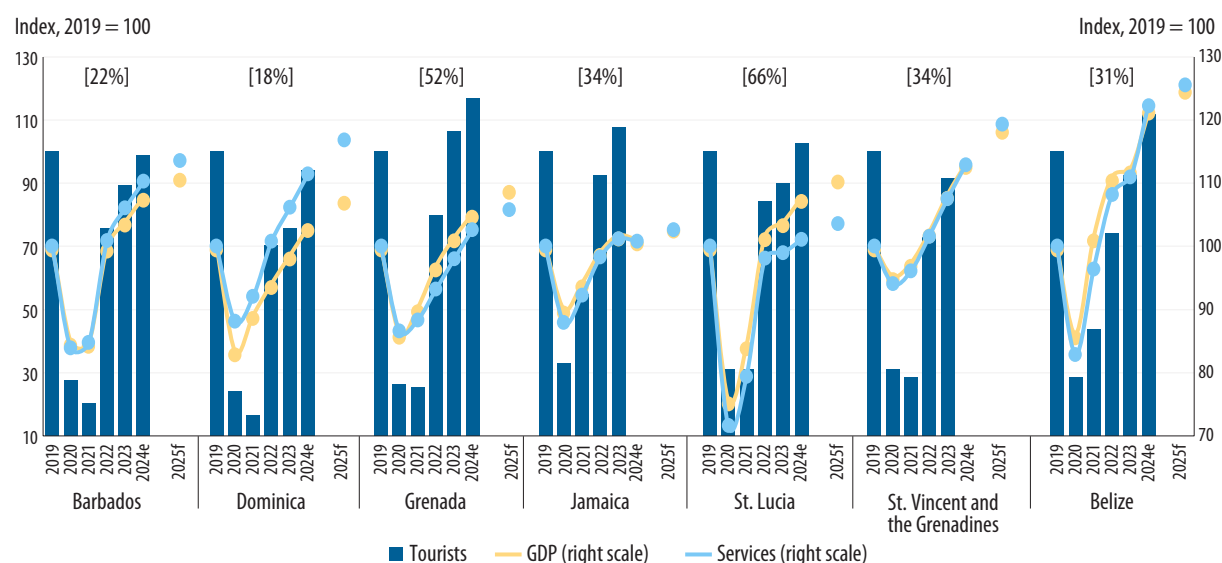
Figure 1.20. While Tourism-Dependent Countries Have Recovered from Pre-Pandemic Levels, Commodity Exporters Have Not (continuation)

b. Commodity exporters

Index, 2019 = 100

■ Commodity Export Price Index   ─── GDP (right scale)   ─── Industry (right scale)
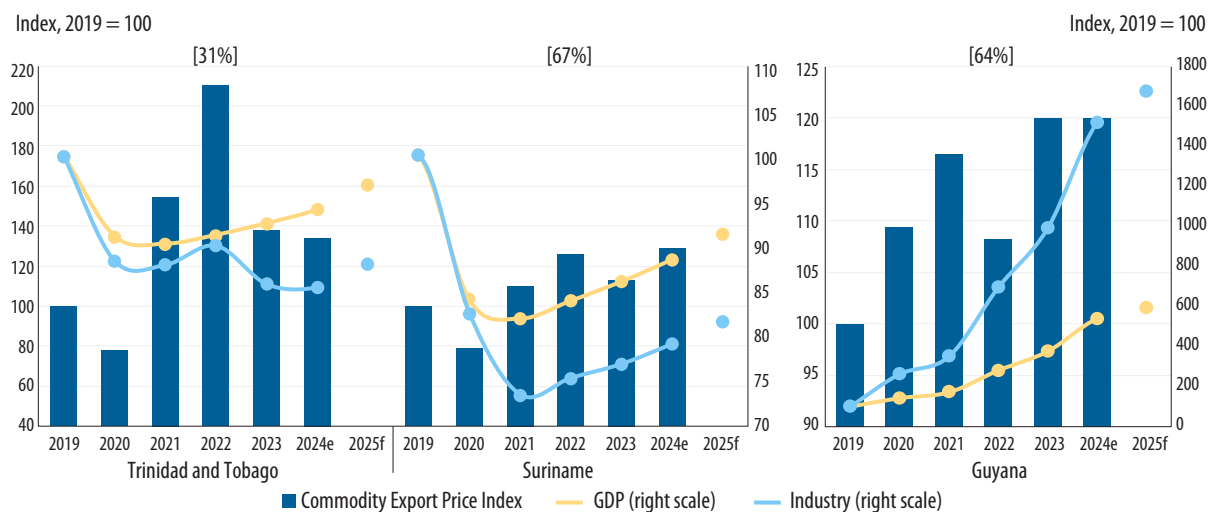
Sources: For panel a, World Bank Macro-Poverty Outlook (Spring Meetings 2025); Tourism Analytics; World Travel & Tourism Council (WTTC); and World Bank staff calculations; for panel b, World Bank Macro-Poverty Outlook (Spring Meetings 2025); UN Comtrade; and International Monetary Fund (IMF).
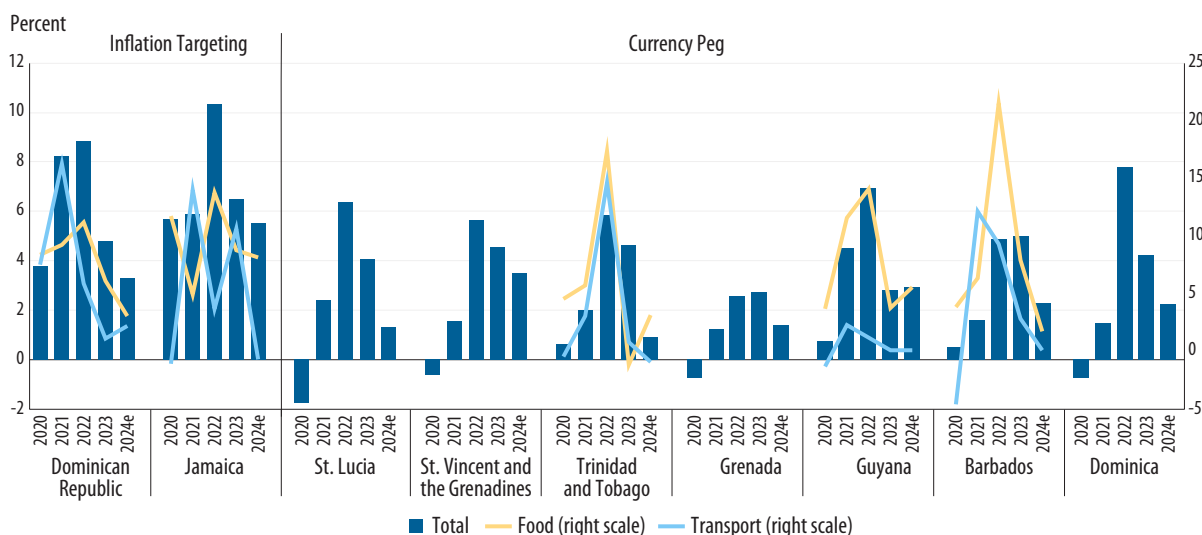*Note:* The values are based on projections (as of April 10, 2025). For panel a, the ratio of tourism to GDP (2023) is shown in brackets; for panel b, the ratio of exports of goods to GDP (2023) is shown in brackets. e = estimate; f = forecast; GDP = gross domestic product.

Like the rest of Latin America, countries in the Caribbean experienced an important increase in inflation during 2022, associated with the dynamics of food and fuels in international markets. However, because most of the Caribbean follows a currency peg monetary regime, the inflation peak was less severe than in the rest of Latin America. Jamaica and the Dominican Republic, two countries with inflation-targeting monetary policies, experienced the largest inflation surge, with considerable persistence. The normalization of prices since 2023 has contributed to bringing down inflation throughout the region (figure 1.21).

FIGURE 1.21.

The Inflation Surge is Receding

Annual headline inflation

Percent

■ Total   ─── Food (right scale)   ─── Transport (right scale)

Sources: World Bank Macro-Poverty Outlook (Spring Meetings 2025), Guyana's Bureau of Statistics, Barbados Statistical Service, International Monetary Fund (IMF) and World Bank staff calculations.
Note: The values are based on projections (as of April 10, 2025). e = estimate.

The Path of Public Debt Varies across the Caribbean and Central America Regions

General government debt stock
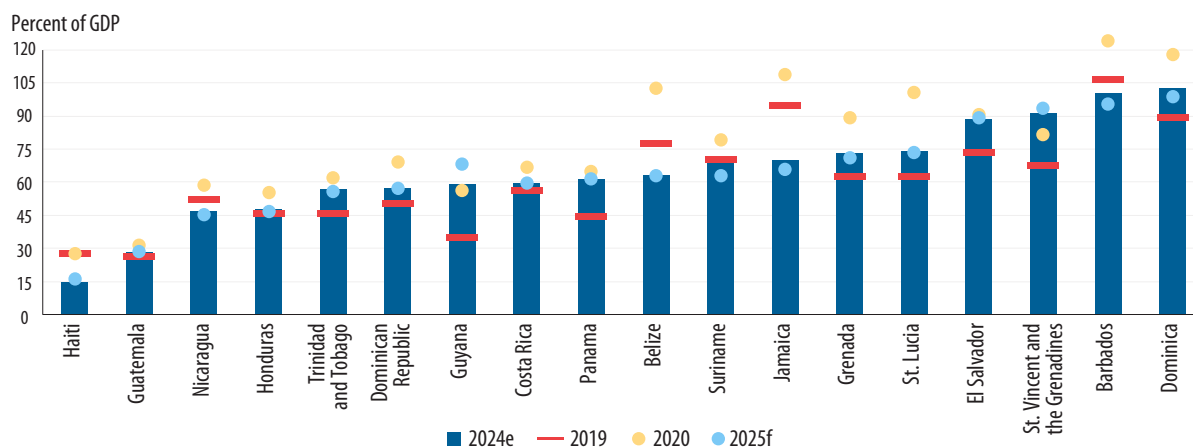
Sources: World Bank Macro-Poverty Outlook (Spring Meetings 2025).
Note: The values are based on projections (as of April 10, 2025). e = estimate; f = forecast; GDP = gross domestic product.

The path of public debt varies considerably across the Caribbean and Central America regions. Economic growth and fiscal discipline have contributed to some countries making significant progress in lowering debt-to-GDP ratios, reaching levels significantly below the pre-pandemic situation. As noted in the October 2023 LACER[4]. Jamaica's use of the Economic Programme Oversight Committee (EPOC) to ensure transparency and build societal consensus around fiscal discipline serves as a model for the LAC region. Similarly, Barbados and Belize, that have struggled with high debt over the past decade, have engaged in ambitious fiscal consolidation, managing to lower debt-to-GDP ratios substantially. In contrast, several highly indebted Caribbean countries still need to undertake measures to bring debt dynamics to more sustainable patterns (figure 1.22).

Financial Sector: Non-Performing Loans Moderate, While Credit Growth Diverges across Subregions

The monetary tightening process that started in 2022 has increased borrowing costs for households and businesses across the region, leading to a moderate rise in non-performing loans (NPLs). As central banks relax monetary policy, borrowing costs are expected to fall, leading a moderation in NPLs, a trend already observable in Brazil, Colombia, and Mexico. However, slower reductions in interest rates in advanced economies will limit the downward trajectory of domestic rates in LAC. Further, in Chile, despite interest rate declines, NPLs have steadily increased since 2022, albeit from a low level (figure 1.23).

Credit growth continues to diverge between South America and Central America and the Caribbean. Most South American countries have exhibited weak credit growth, having been unable to reach their pre-pandemic trend (figure 1.24, panel a). A noteworthy exception is Paraguay, where credit growth has recently accelerated to more than 9 percent per year. In contrast, Central America and the Caribbean have exhibited significantly faster growth, consistent with their rapid economic growth (figure 1.24, panel b).

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4   World Bank (2023).

FIGURE 1.23.

Despite Moderation in Non-Performing Loans, Vigilance is Still Necessary

Share of non-performing loans to total gross loans, LAC-5
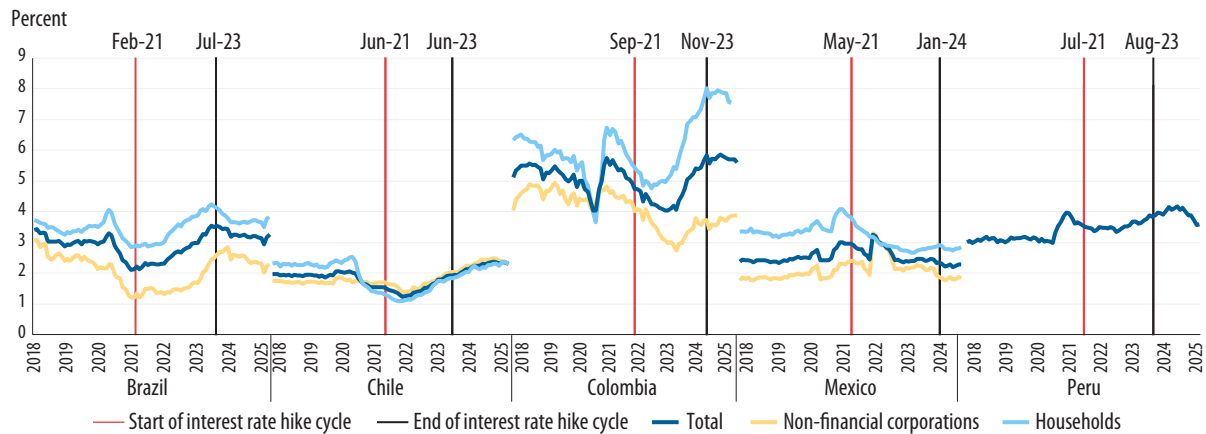
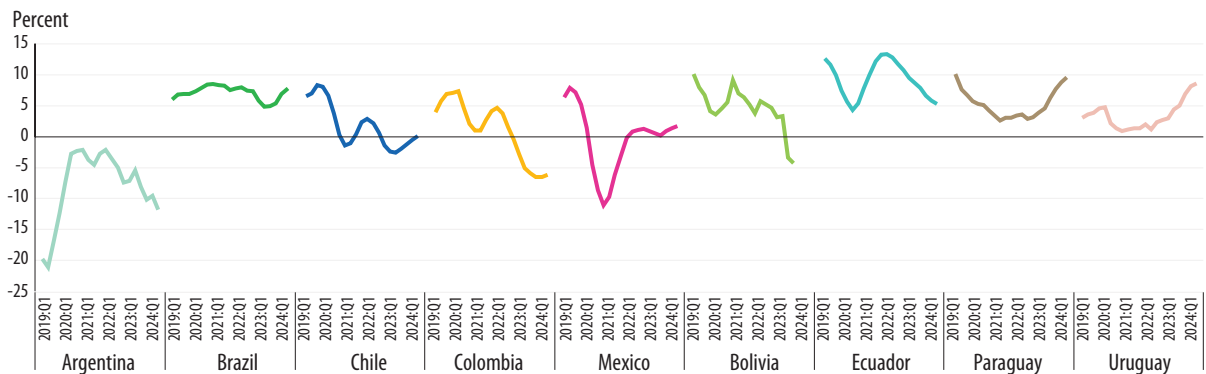*Source:* World Bank staff calculations based on national statistics.
Note: Household debt is composed of mortgages and consumption loans. Non-performing loans are loans for which the contractual payments are delinquent, defined as the NPL ratio being overdue for more than 90 days in the case of Brazil, Chile, Mexico and Peru, and 30 days in the case of Colombia.
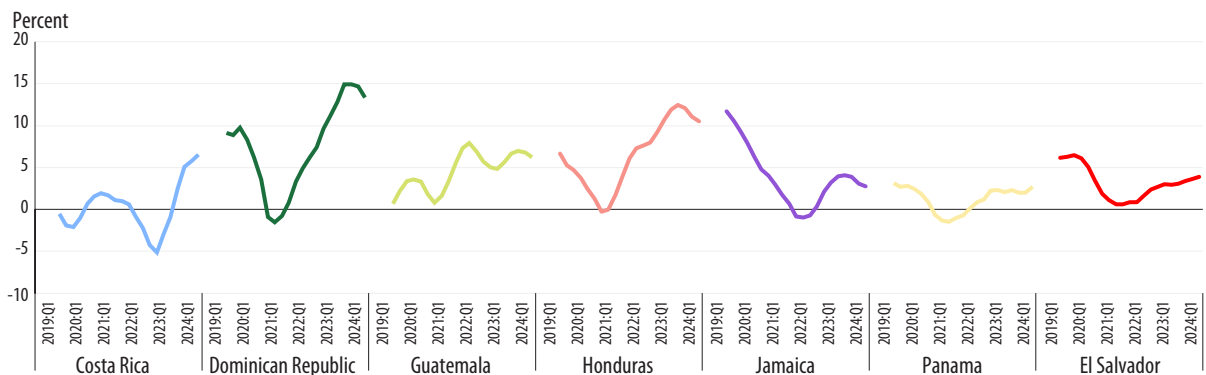
FIGURE 1.24.

Credit Growth Diverges among LAC Economies

Real credit growth (annual moving average)
a. South America and Mexico

b. Central America and the Caribbean

Source: World Bank staff calculations based on Haver Analytics.

Labor Markets and Social Conditions: Recent Trends and Future Prospects

Economic Growth and Poverty Reduction Have Slowed

Social progress in key variables, such as monetary poverty, has closely followed economic performance across emerging regions. In LAC, the poverty rate dropped by 17.4 percentage points during the 2003–13 "Golden Decade" of high commodity prices and robust growth. However, as economic growth slowed, poverty reduction also decelerated, with a modest 7.4 percentage point decrease from 2013 to 2024 (figure 1.25).

FIGURE 1.25.

The Pace of Poverty Reduction Tracks Economic Growth across Emerging Regions
Poverty rates by world region, 2000–24
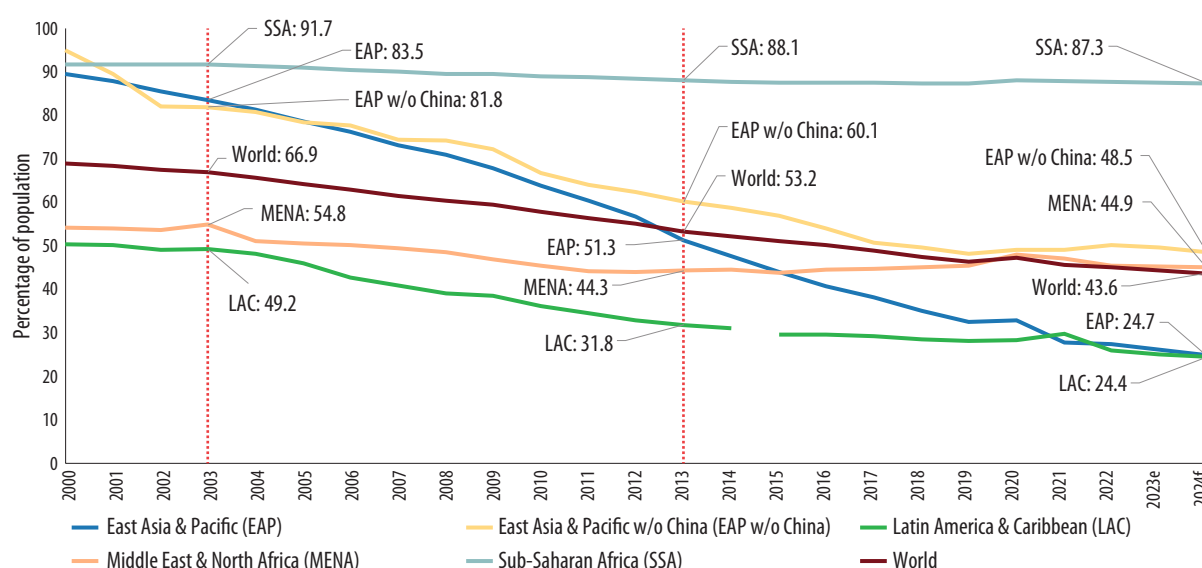
Sources: World Bank staff calculations based on Regional Poverty and Inequality Update, Latin America and the Caribbean, October 2024 (World Bank 2024b). Data for the LAC region are drawn from the World Bank Group LAC Equity Lab Database, while data for other regions are sourced from the World Bank Group Poverty and Inequality Platform (PiP). Data for China are obtained from the World Bank Group Macro Poverty Outlook (last updated: April 10, 2025).
*Note:* The figure uses a poverty line for upper-middle-income countries of $6.85/day in 2017 PPP terms. The LAC regional aggregate is based on 18 countries in the region for which microdata were available at national level. In cases where data were unavailable, values have been estimated using a combination of methods, including microsimulations, and then pooled to create regional estimates. Due to substantial methodological revisions in Mexico's official household survey in 2016, which resulted in a discontinuity in the poverty series, a break has been introduced in the LAC-18 series from 2015 onward. For other regions, the 2023 and 2024 values were estimated by the nowcasting model implemented by PiP. The estimate for East Asia and the Pacific (without China) is derived by subtracting China's data on the poor population and total population from the East Asia and Pacific aggregates published by PiP. e = estimate; f = forecast; PPP = purchasing power parity; w/o = without.

In contrast, regions with more sustained GDP and labor productivity growth, such as East Asia and the Pacific (EAP), reduced poverty more aggressively in both periods (figure 1.26). EAP, led by China's strong performance, caught up to LAC's poverty rate.

FIGURE 1.26.

LAC's Poverty Reduction Slowed in the Last Decade and Was Outpaced by Regions with Stronger Growth

Economic growth, labor productivity growth, and poverty reduction, 2000–24
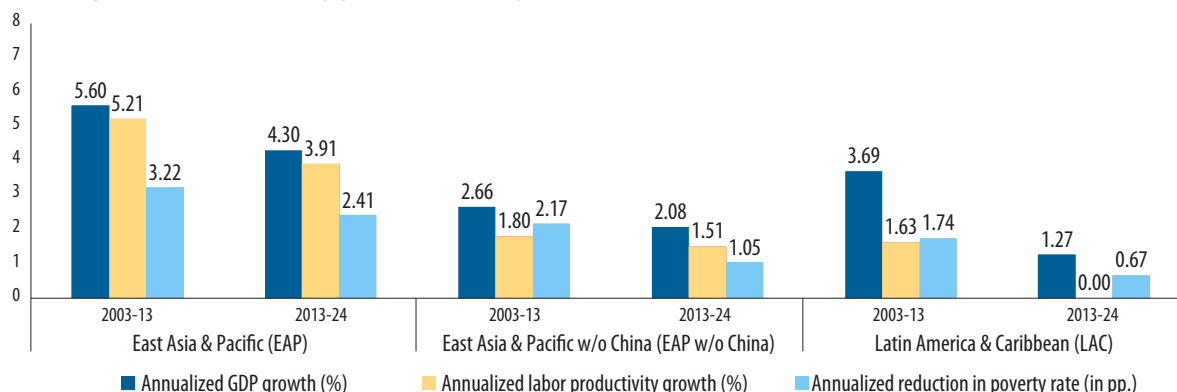
Source: World Bank staff calculations based on SEDLAC (CEDLAS-World Bank), Macro Poverty Outlook, Poverty and Inequality Platform (PiP), and Word Development Indicators (WDI).
Note: GDP measured in real terms. Labor productivity is GDP (in constant 2021 international dollars, PPP) per person employed. The figure uses a poverty line for upper-middle-income countries of $6.85/day in 2017 PPP terms. pp = percentage points; PPP = purchasing power parity; w/o = without.

Key Drivers of Poverty Reduction

LAC exhibits diverging trends in poverty reduction (figure 1.27). While most countries reduced poverty at a slower pace during the 2018–23 period than during the 2013–18 period, in Brazil, Colombia, and Mexico, poverty reduction accelerated, largely as result of improved labor markets.

FIGURE 1.27.

LAC's Poverty Reduction Trends Improved in Brazil and Mexico, While Most Other Countries Faced Setbacks in 2018–23

Contribution of household income sources to changes in poverty rate
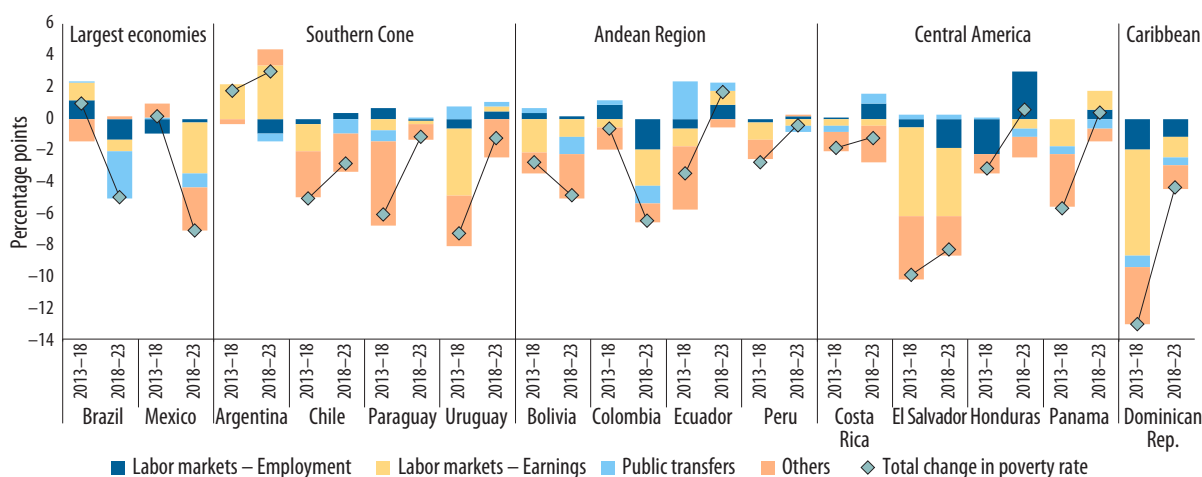
Source: World Bank staff calculations based on SEDLAC (CEDLAS-World Bank) (last updated: October 2024).
Note: The figure uses a poverty line for upper-middle-income countries of $6.85/day in 2017 purchasing power parity (PPP) terms. The "Others" category includes remittances, retirement and pensions, demographics (share of individuals aged 15–64), and other non-labor income.

The dynamics of labor markets and public transfers explain most (more than 65 percent) of poverty reduction in LAC across this period. The performance of real earnings—primarily determined by the ability of nominal labor earnings to keep pace with inflation—was the most crucial driver, surpassing the impact of employment levels. Public transfers

also played a vital role, both in increasing gains (as in Brazil, through the Bolsa Familia program) and in cushioning the setbacks in poverty reduction. As the pandemic-era public transfers return, albeit incompletely, to their pre-2020 levels (figure 1.28), and governments grapple with fiscal concerns, poverty reduction is expected to become even less reliant on this channel in the upcoming years. Thus, moving forward, the evolution of labor markets will be increasingly critical in the fight against poverty.

FIGURE 1.28.

Public Transfers Have Mostly Returned to Pre-Pandemic Levels Amidst Limited Fiscal Space

Average public transfer amount per household and average share of public transfer in total family income
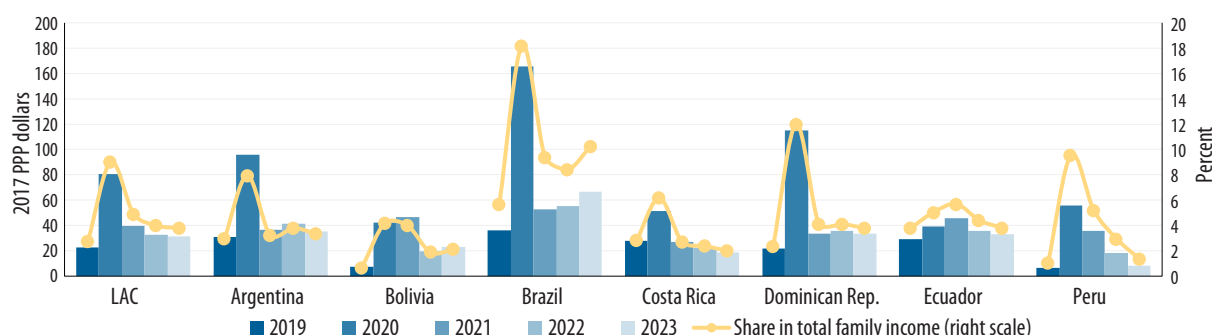
Source: World Bank staff calculations based on SEDLAC (CEDLAS-World Bank).
Note: The bars for LAC present a simple/unweighted average of seven countries: Argentina, Bolivia, Brazil, Costa Rica, Dominican Republic, Ecuador, and Peru. LAC = Latin America and the Caribbean; PPP = purchasing power parity.

Employment and Labor Income Trends

By mid-2024, employment rates had largely returned to pre-pandemic levels, with some exceptions among specific groups (figure 1.29). Moreover, the three largest economies in the region—Brazil, Mexico, and Argentina—were already operating at historically low unemployment rates by mid-2024 (figure 1.30). This makes it unlikely that substantial social gains will be achieved, at least in the short term, by increasing employment. Thus, social policies should focus on job quality rather than quantity.

FIGURE 1.29.

Employment Rates Were Mostly Back to Pre-Pandemic Levels by Mid-2024, with a Few Exceptions
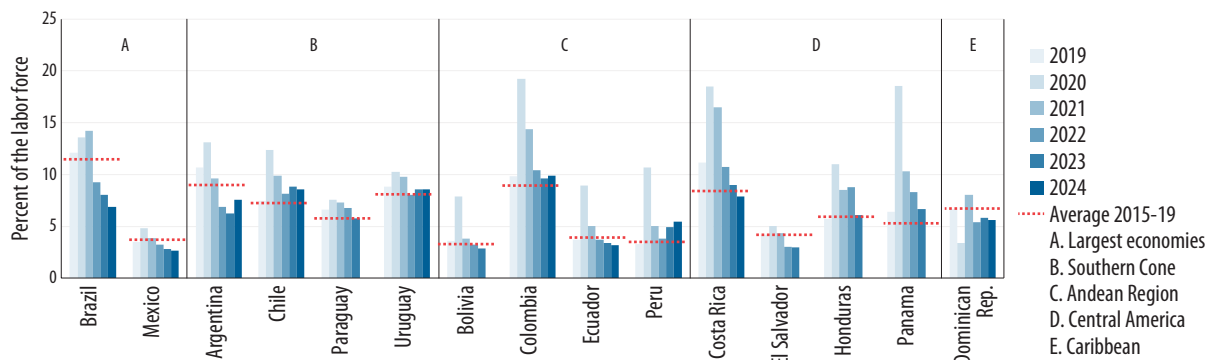
Employment-to-population ratio
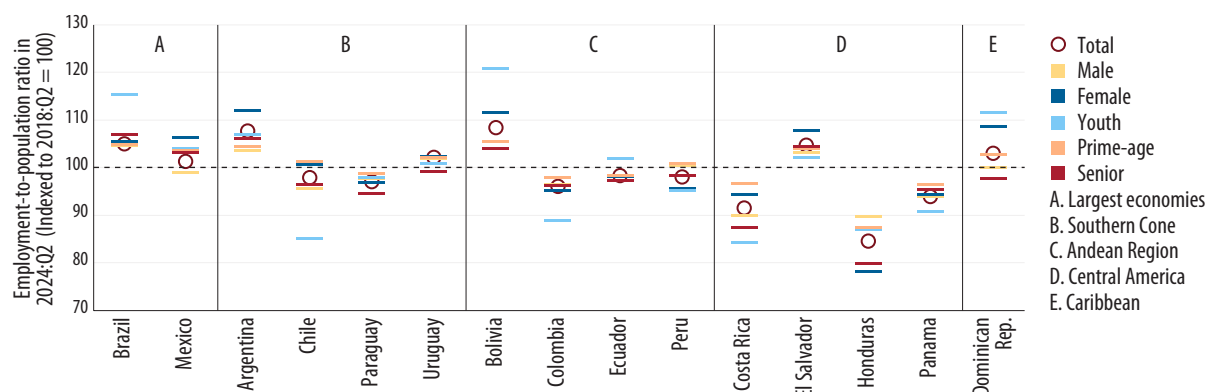
Source: World Bank staff calculations using ILO (International Labour Organization) Modelled Estimates Database, ILOSTAT [database] (https://ilostat.ilo.org/data/).
Note: The employment-to-population ratio is total employment divided by working-age population. Due to data availability, for Bolivia, the compared periods are 2023:Q4 and 2018:Q4; for El Salvador, Honduras, and Panama, they are 2023 and 2018.

FIGURE 1.30.

The Three Largest Economies in the Region—Brazil, Mexico, and Argentina—Were Already Operating at Historically Low Unemployment Rates by Mid-2024
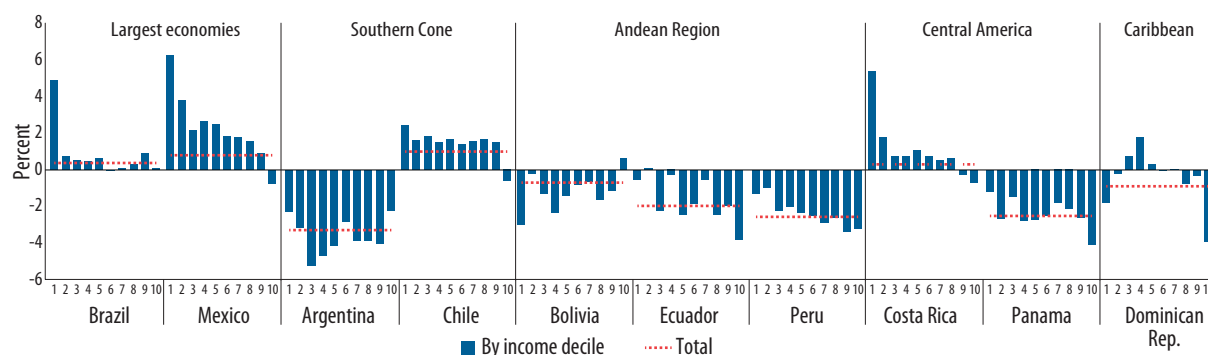
Unemployment rate, 2019–24

Source: World Bank staff calculations using ILO (International Labour Organization) Modelled Estimates Database, ILOSTAT [database] (https://ilostat.ilo.org/data/). The data in the plot are primarily from the second quarter of each year. However, for Bolivia, the data correspond to the fourth quarter. For El Salvador, Honduras, Panama, and Paraguay, the data are reported annually.
Note: The unemployment rate is total unemployment divided by the labor force.

Labor income presents a mixed picture. Up to 2023, average real individual labor income was mostly stagnant or decreasing throughout the region (see dotted lines in figure 1.31). This trend was particularly evident among the middle class in multiple countries, where labor income struggled to keep pace with inflation. However, in Brazil and Mexico, relatively better performance in the lower income deciles allowed these countries to still reduce poverty. In addition, the relative tightness of labor markets after the pandemic has accelerated the pace of real wage growth for most countries, most notably in Mexico, Colombia, and Brazil.
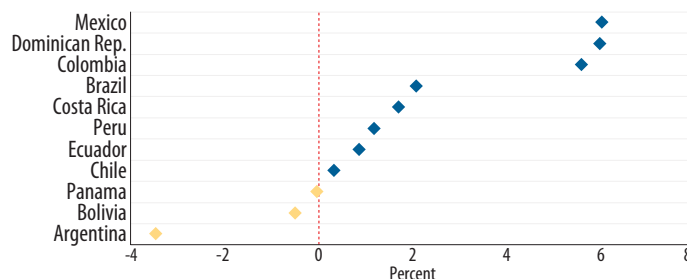
FIGURE 1.31.

Labor Income Was Stagnant in Most Countries, with Gains in Lower Income Deciles in Brazil, Colombia, and Mexico

a. Annualized real individual labor income growth by decile, 2018–23

b. Annualized real wage growth, 2021–23

Source: World Bank staff calculations based on SEDLAC (CEDLAS-World Bank).
Note: For Argentina, data have only urban coverage. In panel a, for Chile, the 2017 value is used for 2019, and the 2022 value for 2023; for Mexico, the 2018 value is used for 2019 and the 2022 value for 2023. In panel b, for Chile and Mexico, the 2020 value is used for 2021, and the 2022 value for 2023.

Employment in Most LAC Countries Is Highly Concentrated in Small Firms with 1–4 Workers
Employment composition by firm size
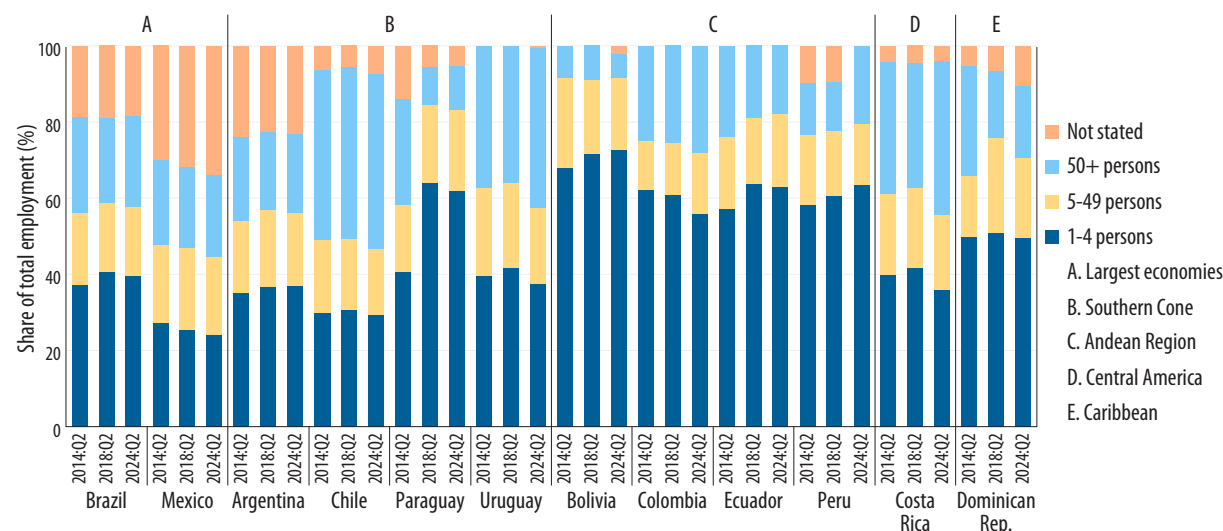
Source: World Bank staff calculations using ILO (International Labour Organization) Modelled Estimates Database, ILOSTAT [database] (https://ilostat.ilo.org/data/).
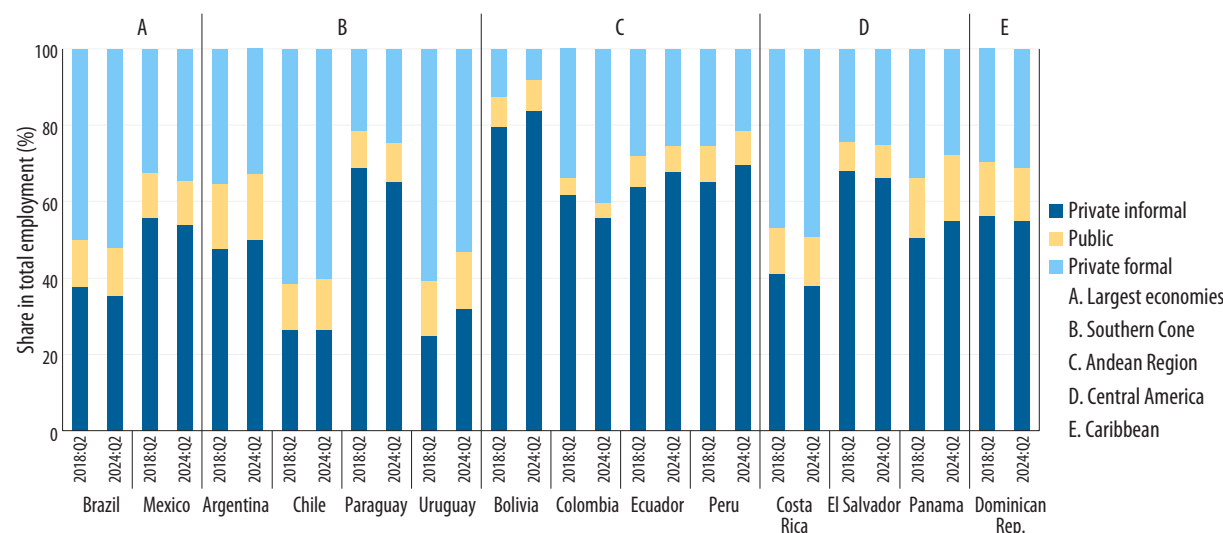*Note:* Due to data availability, for Bolivia, the compared periods are 2023:Q4, 2017:Q4, and 2015:Q4; for Uruguay, they are 2014:Q2, 2018:Q2, and 2021:Q2.

Increasing the availability of jobs in higher-productivity, better-paying firms is one of the main channels through which the poverty gains of the previous decade can be extended. However, jobs available in LAC have largely stagnated since 2018 in dimensions such as employer size and informality (figures 1.32 and 1.33), suggesting that, in accordance with low productivity growth, jobs offer no better opportunities today than they did in 2018. Recent global trends on artificial intelligence and the green transition present opportunities to create high-productivity and high-paying jobs (boxes B1.1 and B1.2).

LAC's Low Growth, Lack of Skills and Tough Labor Rules Perpetuate the Large Informal Sector
Employment breakdown by institutional sector and formality

Source: World Bank staff calculations using ILO (International Labour Organization) Modelled Estimates Database, ILOSTAT [database] (https://ilostat.ilo.org/data/).
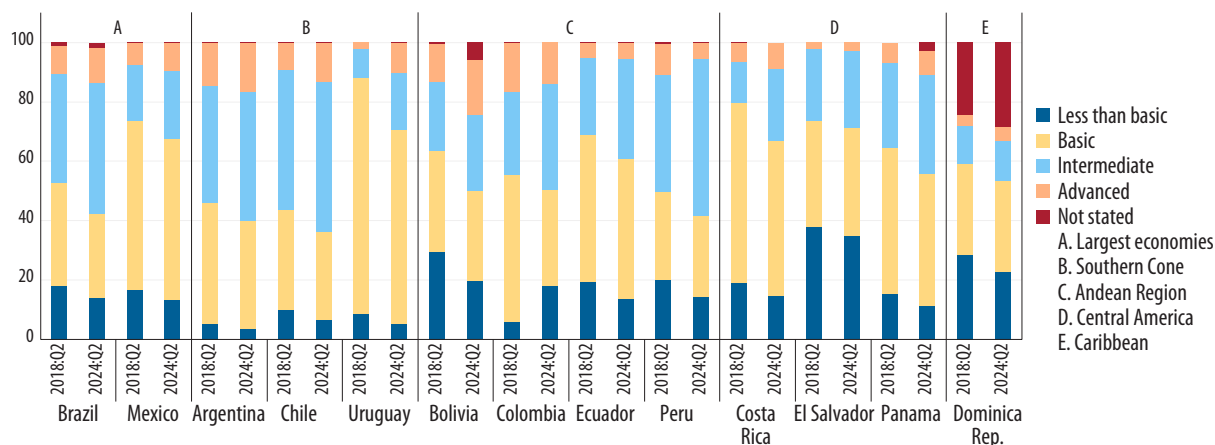*Note:* Due to data availability, for Bolivia the compared periods are 2023:Q4 and 2018:Q4; for El Salvador and Panama, they are 2023 and 2018.

A substantial body of literature indicates that informal self-employment often emerges as a desirable (and often higher-paying) alternative to low-productivity formal jobs that poorly educated workers can access.[5] In the case of LAC, the persistently high informality rates arise in the interplay between low formal sector growth, costly labor market regulations, and lack of skills (figure 1.34), which limit the supply of attractive formal sector alternatives.

FIGURE 1.34.

Most of the Informal Labor Force Has Basic or Less-than-Basic Education

Informal employment breakdown by educational attainment

Source: World Bank staff calculations using ILO (International Labour Organization) Modelled Estimates Database, ILOSTAT [database] (https://ilostat.ilo.org/data/).
*Note:* Due to data availability, for Bolivia the compared periods are 2023:Q4 and 2018:Q4; for El Salvador and Panama, they are 2023 and 2018.

Growth-enhancing reforms that increase labor productivity are the main long-term channel to revitalize real labor earnings. As well-established in the literature and evidenced across the region, there is a positive association between labor productivity growth, employment, and real labor earnings growth (figure 1.35). Moreover, there is significant potential to improve labor productivity in the region. Pre-pandemic estimates by economic sector place overall productivity at just 20 percent to 60 percent of levels in Organisation for Economic Co-operation and Development (OECD) member states, with considerable variation across sectors (figure 1.36). Despite the positive association between productivity and labor earnings, it is an open question whether there are labor market institutions that prevent the pass-through from being higher, and what reforms might increase it.

FIGURE 1.35.

Labor Productivity Growth Leads to Real Labor Earnings Growth across the Region

Correlation between annual growth rates of employee's real monthly earnings and labor productivity, 2000–22
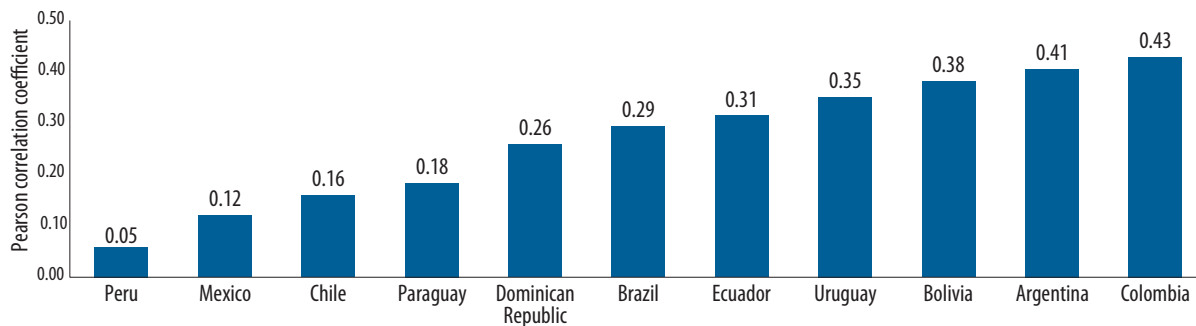
Source: World Bank staff calculations using ILO (International Labour Organization) Modelled Estimates Database; ILOSTAT [database] (https://ilostat.ilo.org/data/); National Accounts–Analysis of Main Aggregates (AMA) Database; UN-DESA [database] (https://unstats.un.org/unsd/snaama/); and World Economic Outlook (WEO).
Note: Labor productivity is measured as real GDP per worker. Monthly earnings have been adjusted for inflation using the Consumer Price Index (CPI). The figure illustrates the "contemporaneous" correlation, which does not account for dynamic pass-through effects that could result in a delayed transmission of labor productivity gains to real employee earnings gains.

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5   See Perry et al. (2007).

FIGURE 1.36.

The Potential for Labor Productivity Improvement Is Significant

Labor productivity as a percentage of the OECD average, 2018

Source: World Bank staff calculations using harmonized series from the WBG Aggregate and Sectoral Productivity Database [database] (https://prosperitydata360.worldbank.org/en/dataset/WB+ASPD) (last updated: March 27, 2024).
Note: Labor productivity is measured as real GDP per worker (at PPP-adjusted 2011 international dollars). OECD average excludes countries from Latin America and the Caribbean. OECD = Organisation for Economic Co-operation and Development; PPP = purchasing power parity.

Acknowledging Social Progress and Future Challenges

Overall, it is important to acknowledge the impressive gains in poverty reduction in LAC over the past two decades, while recognizing that the pace of this progress has significantly slowed and that, for most countries in the region, much more remains to be done—especially when compared to the average OECD poverty rate (figure 1.37). In terms of reducing income inequality, more moderate advances have been made in lowering the Gini coefficient. However, by the end of 2024, most of the region remained above the World Bank's high inequality threshold, defined by a Gini coefficient greater than 40 (figure 1.38).

FIGURE 1.37.

Poverty Reduction Gains in LAC over the Past Two Decades Have Been Impressive

Evolution of poverty rates
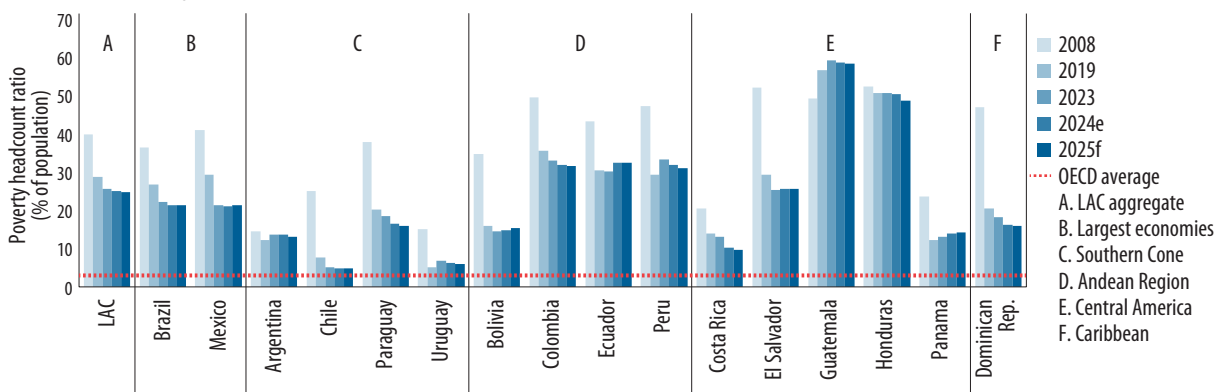
Source: World Bank *Macro Poverty Outlook* (April 2025, forthcoming).
Note: The figure uses a poverty line for upper-middle-income countries of $6.85/day in 2017 PPP terms. For Argentina, data have only urban coverage. For Brazil, Costa Rica, the Dominican Republic, Honduras, Mexico, and the LAC aggregate, due to survey and methodological changes, the 2008 value is not entirely comparable with the rest of the series. For Colombia, Paraguay, and Uruguay, due to survey and methodological changes, values from 2023 onward are not entirely comparable with the rest of the series. For Chile, the 2009 value is used for 2008 and the 2017 value for 2019. For Guatemala, the 2006 value is used for 2008 and the 2014 value for 2019. For Mexico, the 2018 value is used for 2019. Mexico 2023, 2024, and 2025 figures are a projection using neutral distribution (2022) with pass-through = 0.87, based on GDP per capita in constant local currency units (LCU). The LAC regional aggregate is based on 18 countries in the region for which microdata were available at national level. In cases where data were unavailable, values have been estimated using a combination of methods, including microsimulations, and then pooled to create regional estimates. Updated April 10, 2025. 2024e = 2024 estimate. 2025f = 2025 forecast. LAC = Latin America and the Caribbean; PPP = purchasing power parity.

FIGURE 1.38.

Advances in Reducing Income Inequality Have Been Moderate

Evolution of Gini coefficient
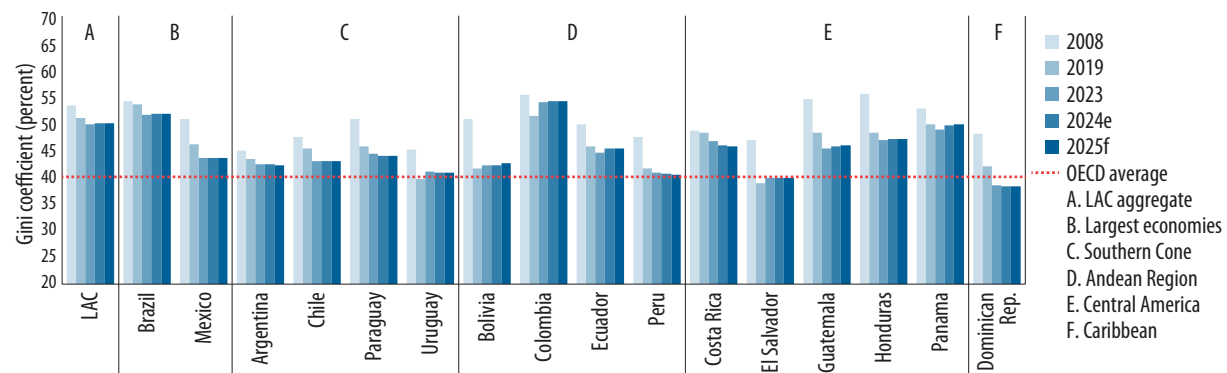
Source: World Bank *Macro Poverty Outlook* (April 2025, forthcoming).
Note: For Argentina, data have only urban coverage. For Brazil, Costa Rica, the Dominican Republic, Honduras, Mexico, and the LAC aggregate, due to survey and methodological changes, the 2008 value is not entirely comparable with the rest of the series. For Colombia, Paraguay, and Uruguay, due to survey and methodological changes, values from 2023 onward are not entirely comparable with the rest of the series. For Chile, the 2009 value is used for 2008 and the 2017 value for 2019. For Guatemala, the 2006 value is used for 2008 and the 2014 value for 2019. For Mexico, the 2018 value is used for 2019. Mexico 2023, 2024, and 2025 figures are a projection using neutral distribution (2022) with pass-through = 0.87, based on GDP per capita in constant local currency units (LCU). The LAC regional aggregate is based on 18 countries in the region for which microdata were available at national level. In cases where data were unavailable, values have been estimated using a combination of methods, including microsimulations, and then pooled to create regional estimates. Updated April 10, 2025. 2024e = 2024 estimate. 2025f = 2025 forecast. LAC = Latin America and the Caribbean.

Migration Diversion

Just as they have tightened their trade policies, several advanced economies have shifted toward more restrictive migration regimes in recent years. This change is especially relevant for LAC because 7.3 percent of all citizens of the region are migrants, and the flow of migrants has steadily risen over the last 15 years (figure 1.39). Moreover, several countries in Central America and the Caribbean are highly dependent on the remittances their expats send back home, which in some cases surpass 20 percent of domestic GDP.

The more stringent migration norms in the United States have generated a shift of migrant flows from the United States to Latin America and, albeit less severely, to Southern Europe (mostly to Spain, Italy, and Portugal). While during 2006–15 most new migrants moved to the United States (56 percent) and only 26 percent to other countries in LAC, over the last decade migration within the region has represented 61 percent of all new migrants, and migration to the United States, 20 percent (figure 1.40). However, the largest stock of migrants from LAC remains in the United States (55 percent) (figure 1.41), although the share is significantly lower than a decade ago (68 percent). Over the same period, the share in other LAC countries has risen from 17 percent to 29 percent.

FIGURE 1.39.

LAC's Net Migration Flows Continue to Increase

LAC net migration flow, annualized, by destination
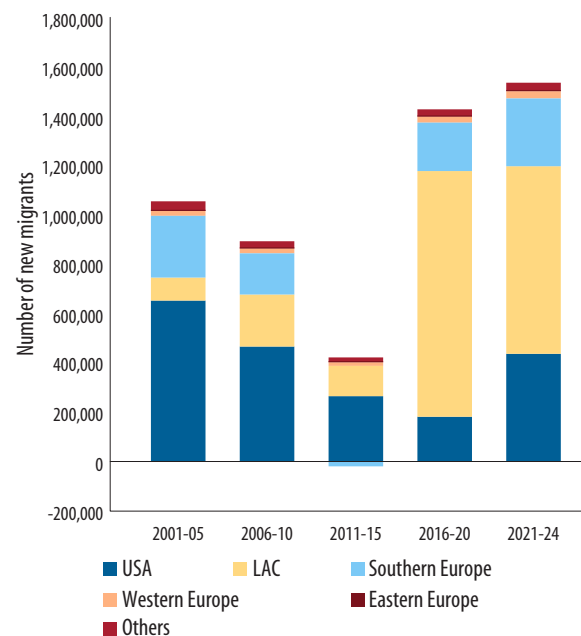
Source: World Bank staff calculations using International Migrant Stock database (UN-DESA, Population Division, 2024).
Note: LAC = Latin America and the Caribbean; USA = United States of America.

FIGURE 1.40.

Other LAC Countries Have Emerged as the Top Destination for Venezuelan Migrants

LAC net migration flow composition

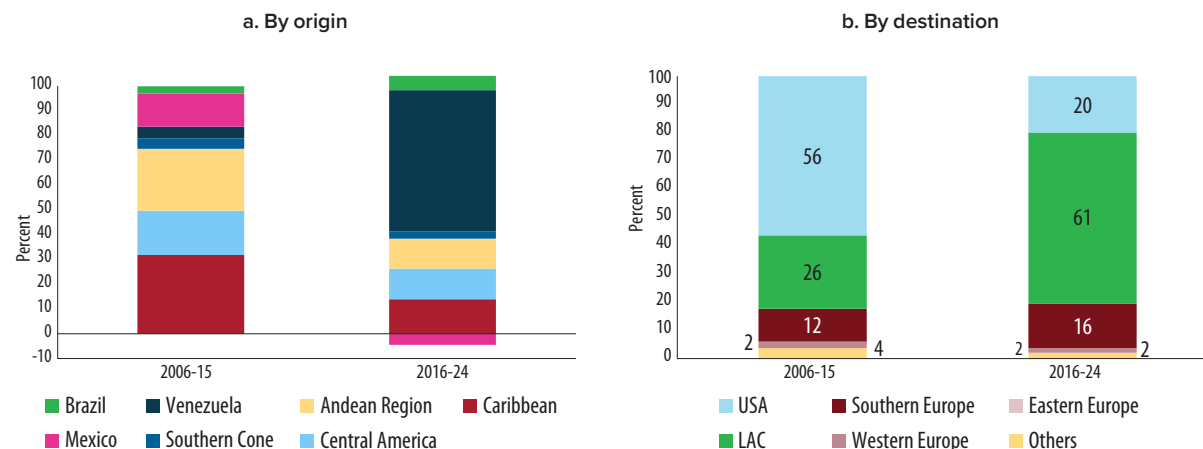### a. By origin

b. By destination

Source: World Bank staff calculations using International Migrant Stock database (UN-DESA, Population Division, 2024).
Note: LAC = Latin America and the Caribbean.

Source: World Bank staff calculations using International Migrant Stock database (UN-DESA, Population Division, 2024).
Note: LAC = Latin America and the Caribbean; USA = United States of America.

The shift in destinations has been accompanied by a change in the countries of origin. The humanitarian crisis in the República Bolivariana de Venezuela has fostered a diaspora among its citizens, which, in addition to the relatively high growth of Mexico and the Caribbean economies, have decreased the incentives of locals to emigrate. Countries such as Colombia, Peru, Brazil, Chile, and Ecuador have been especially targeted by the emigrates from the República Bolivariana de Venezuela because of their cultural and geographical proximity, in addition to their migration laws (figure 1.41).

Deportations to LAC nations from the United States have increased in recent years and are expected to accelerate starting in 2025. In addition, the region has agreed to receive repatriations from the United States and extra regional flows. Before 2025, Mexico, Guatemala, and Haiti had the highest returnee numbers, but the most dramatic increases have been in Colombia and Ecuador, with 369.5 percent and 366.1 percent growth in returnee flows since 2019, respectively. However, while deportations target a significant number of migrants, across the 2019-24 period net migration to the United States continued to be positive because the share of newcomers was larger than the share of deportees (figure 1.42).

FIGURE 1.41.

Most Emigrates from LAC Countries Live in the United States

LAC migration stock (thousands of migrants), by destination, 2024
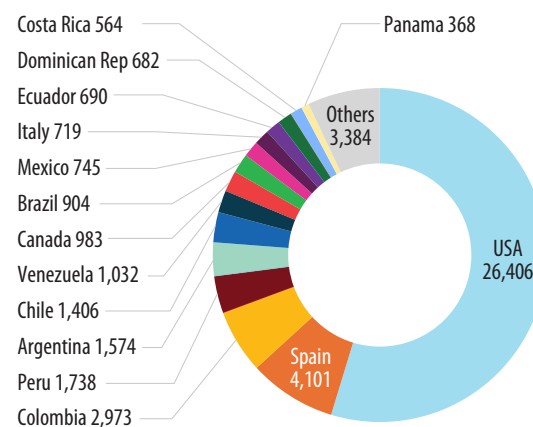
Source: World Bank staff calculations using International Migrant Stock database (UN-DESA, Population Division, 2024).
Note: USA = United States of America.

This increase in returnee flows is challenging in different dimensions. First, it has been accompanied by higher vulnerability. Several countries in LAC report that a significant share of deportees are minors, and/or in need of state services. In addition, reintegration of returnees is likely to be challenging. These migrants return to countries without roots, jobs, or social networks. Thus, they are likely to migrate again (secondary migration) to places such as Chile, Brazil, and Europe, and their integration into local labor markets is likely to be costly. For example, a substantial

As Deportations Increase, Net Migration into the United States Continues to Be Positive for Most LAC Countries

a. Total deportations from the United States

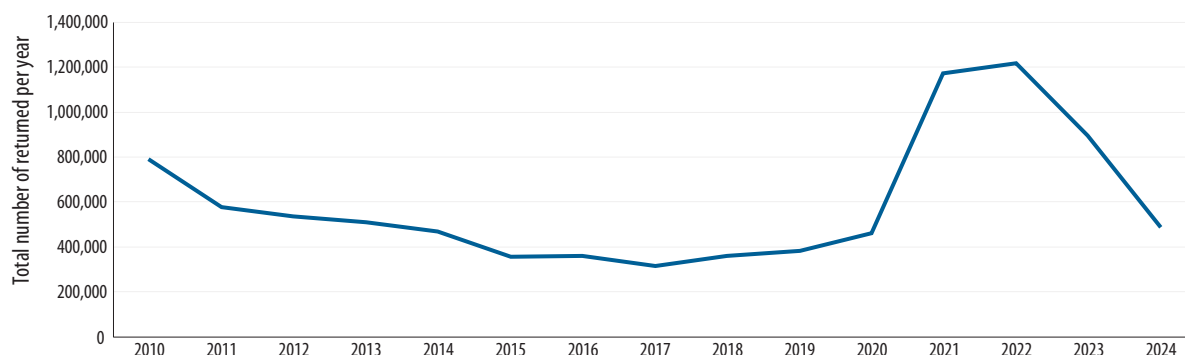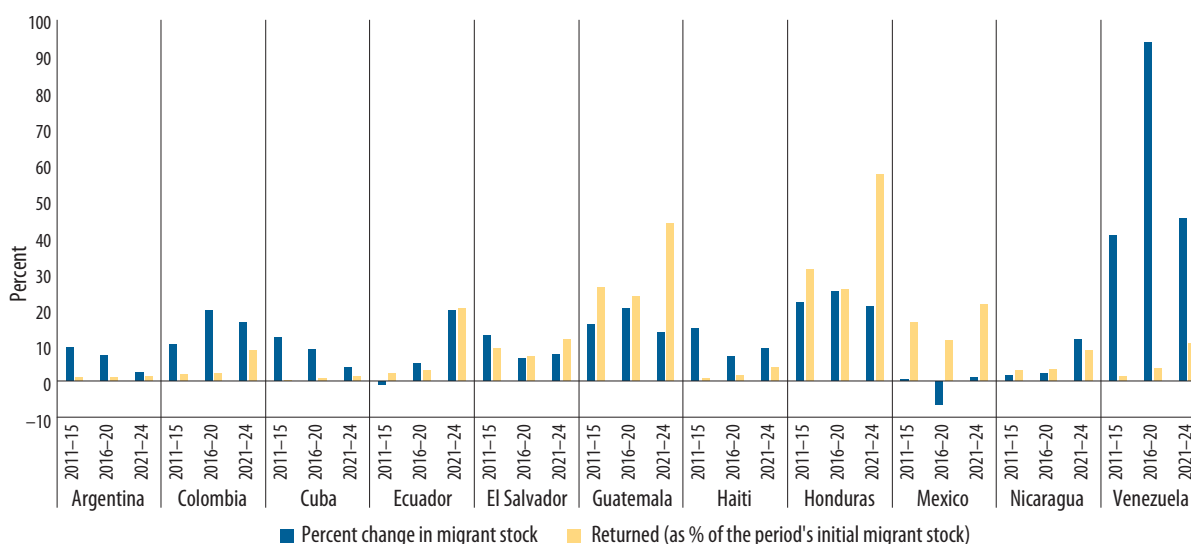*Source:* World Bank staff calculations using International Migrant Stock database (UN-DESA, Population Division, 2024) and statistics on the number of returned, processed by the World Bank's Social Development Global Practice.
Note: Includes returns from migrants of Argentina, Bolivia, Colombia, Cuba, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, and Venezuela, RB.

b. Evolution of returned migrants and total migrant stock living in the United States, per country of origin

■ Percent change in migrant stock   ■ Returned (as % of the period's initial migrant stock)

Source: World Bank staff calculations using International Migrant Stock database (UN-DESA, Population Division, 2024) and statistics on the number of returned, processed by the World Bank's Social Development Global Practice.
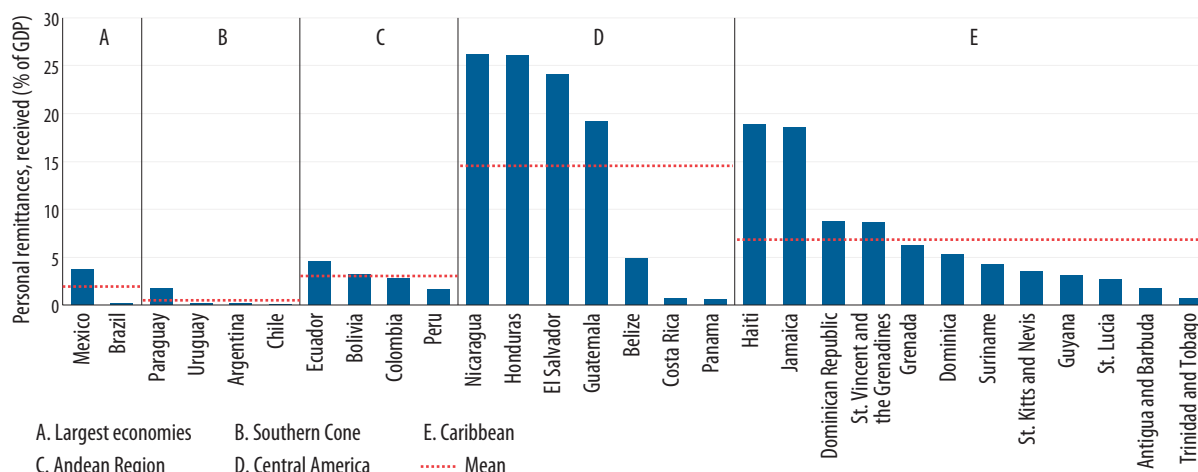
number of children and adolescents would require education and training to integrate effectively.[6] Second, several countries in Central America and the Caribbean are highly dependent on remittances (figure 1.43), which are likely to decrease should deportations increase significantly enough to decrease the number of migrants in the United States (figures 1.43 and 1.44). Recent news about the United States government planning to revoke the legal status of a significant number of migrants from several LAC countries could prove consequential, as in some of these economies, received remittances represent a large portion of their GDP.

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6   For a thorough analysis on the challenges posed by returned migration, please refer to *Latin America and the Caribbean Regional Strategy for Human Mobility* (World Bank, forthcoming).

Countries in Central America and the Caribbean Are Highly Dependent on Remittances
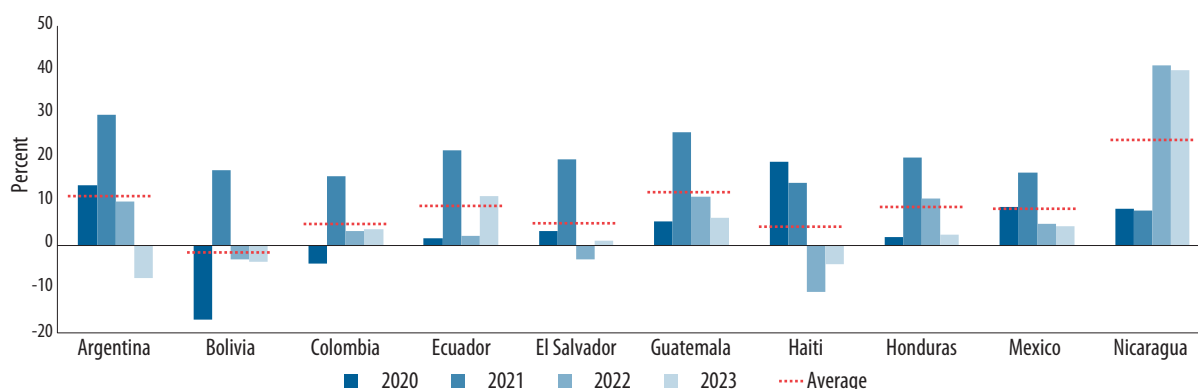
Personal remittances received, 2023 (percent of GDP)

A. Largest economies   B. Southern Cone   E. Caribbean

C. Andean Region   D. Central America   ······· Mean

Source: World Bank staff calculations based on World Development Indicators (WDI).

The Recent Spike in Deportations Has Helped Lower the Growth of Remittances

Annual growth rate in real personal remittances received

| ■ 2020 | ■ 2021 | ■ 2022 | ■ 2023 | ······· Average |

Source: World Bank staff calculations based on World Development Indicators (WDI) and World Economic Outlook (WEO).
Note: Real personal remittances received are calculated as nominal remittances (in millions of US dollars), adjusted for inflation using the US Consumer Price Index (CPI).

Rising Sources of Social Insecurity

Despite the continued—albeit slowing—progress on the poverty and inequality fronts, crime and violence have climbed to be the number one concern in many public opinion polls. Indeed, both the number of incidents (raw quantity) of crime and the nature of crimes have intensified, becoming more associated with organized crime previously not experienced in many parts of the region. This new source of social insecurity not only lowers the quality of life but also threatens the growth dynamism that is necessary for progress on all social fronts. This is the subject of the next chapter.

Can Artificial Intelligence Be the Long-Awaited Remedy for Income Inequality in Latin America?

Public interest in Generative AI (GenAI) has significantly increased in recent years.[a] The emergence of conversational models such as ChatGPT has raised concerns in various areas, particularly regarding the impact on employment. Most US adults are more worried than excited about AI in daily life, mainly due to fears of job loss[b].

The broad adoption of this new technology is still pending, making it premature to gauge its impacts on jobs. However, we can evaluate the extent to which jobs are exposed to GenAI. When a job is exposed to GenAI, it means many tasks within that job are likely to be automated by GenAI. Yet automating some tasks does not mean the entire job will be replaced. In fact, exposure to GenAI could make some jobs more productive if workers can delegate tasks to the technology and focus on other tasks.

In LAC, 26 percent to 38 percent of employment is exposed to GenAI. Exposure is higher in more developed countries such as Costa Rica and Uruguay, and it is lower in Bolivia, Ecuador, and Barbados (figure B1.1.1). This overall level of GenAI exposure can be divided into three categories. First, some jobs are at risk of being automated by GenAI, representing about 1 percent to 6 percent of employment across countries in the region. Examples of these occupations include customer support agents and data entry clerks. Second, some jobs can be augmented or become more productive through GenAI. About 7 percent to 14 percent of employment across LAC countries fall into this category. In other words, the fraction of jobs that could benefit from GenAI is larger than the fraction facing the risk of automation.

Employment Exposure to GenAI is Higher in the More Developed LAC Countries
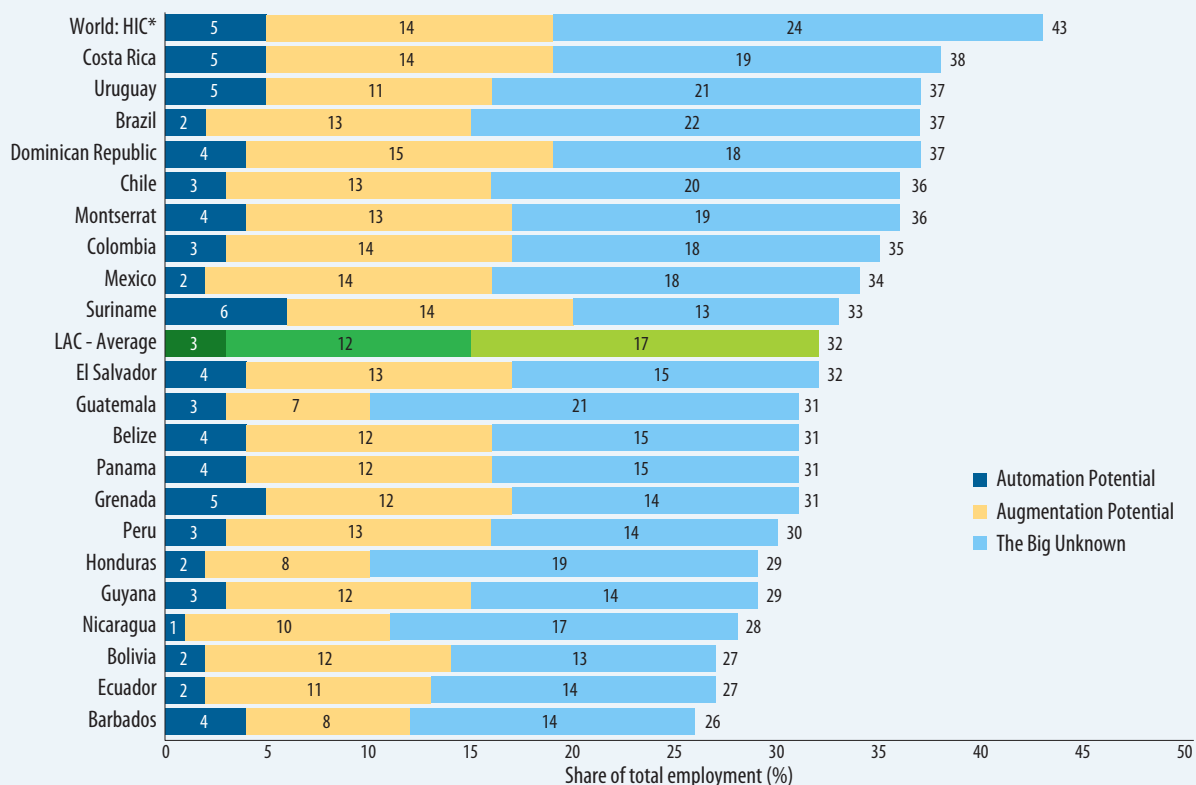
Source: Gmyrek, Winkler, and Garganta 2024.
Note: "The Big Unknown" refers to jobs for which it is unclear which is higher: the risk of automation or the potential for augmentation. HICs = high-income countries; LAC = Latin America and the Caribbean.

Examples of occupations exposed to GenAI augmentation include teachers, health professionals, and coaches. Finally, for a significant portion of jobs (13 percent to 22 percent), it is not yet clear whether they face the risk of automation or have the potential for augmentation.

To understand the impacts of GenAI on income inequality, we need to identify the profile of exposed workers. In LAC, those at risk of automation are typically female, urban, young, and well-educated, have high incomes, and work in formal jobs in banking, finance, insurance, or the public sector. The profile for GenAI augmentation is similar but less defined by age and gender, with higher exposure in education, health, and personal services. These trends suggest that while automation risks could increase inequality across gender and age groups, the benefits of GenAI, which favor higher-income and well-educated households, may also lead to greater income inequality.

These estimates of exposure do not consider that the rate of GenAI adoption in LAC may differ from that in wealthier regions. For example, while the same occupation might have a similar potential for augmentation in both New Zealand and Peru, the adoption pace of GenAI might be slower in Peru. Consequently, the advantages of this technology may take longer to materialize in developing regions.

When considering the distance to the technology frontier, the potential for job augmentation shows a significant disparity between wealthier and poorer countries (figure B1.1.2). Specifically, although the proportion of jobs that could benefit from GenAI is similar (about 14 percent) in wealthy countries like New Zealand and Slovenia as well as in selected LAC countries, the fraction unable to utilize GenAI due to technological limitations is notably higher in the latter. For example, only 5.1 percent of Peruvian workers have roles exposed to GenAI augmentation and simultaneously use digital technologies at work, compared to more than 11 percent in wealthier nations.

FIGURE B1.1.2.

LAC Countries Currently Use Fewer Digital Technologies in Jobs with GenAI Augmentation Potential Compared to Advanced Counterparts
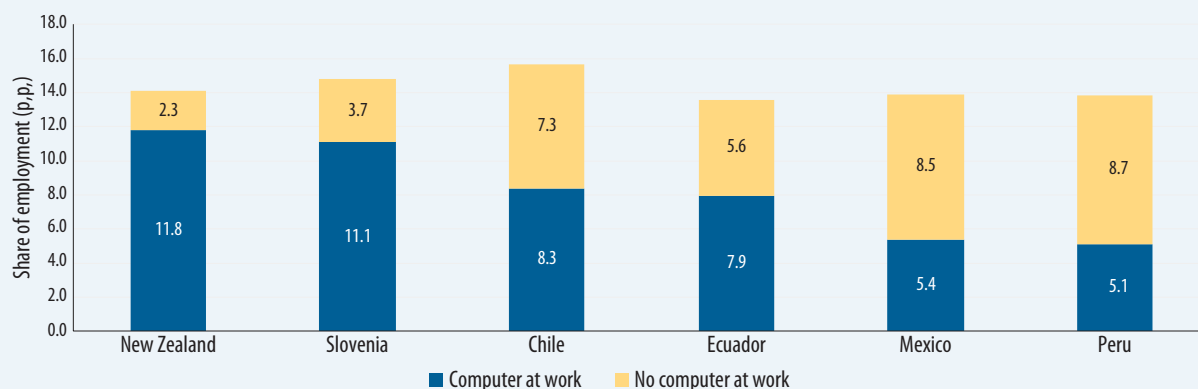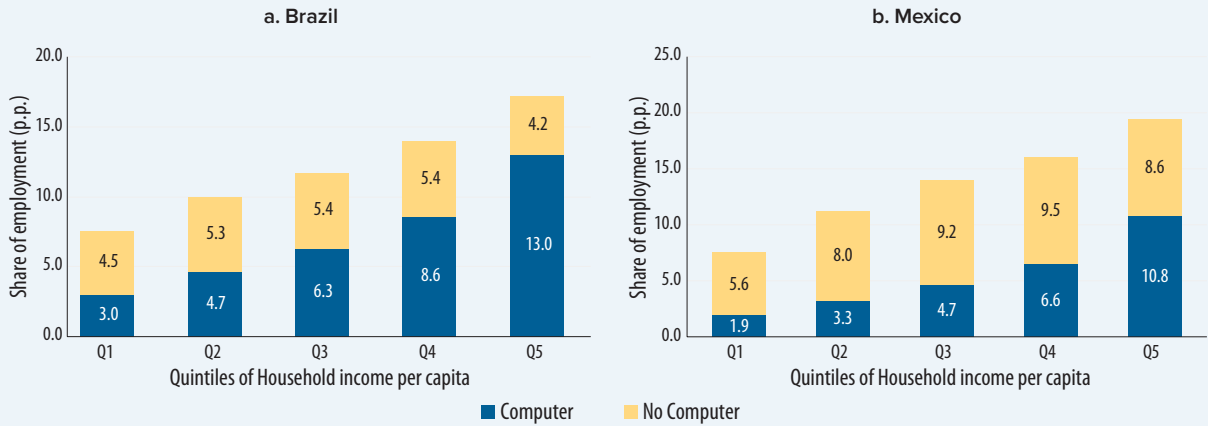

Source: Gmyrek, Winkler, and Garganta 2024, based on PIAAC data.
Note: PIAAC data refers to microdata from the Programme for the International Assessment of Adult Competencies (PIAAC) collected by the Organisation for Economic Co-operation and Development (OECD). LAC = Latin America and the Caribbean.

Similar patterns are observed when evaluating the proportion of jobs exposed to GenAI across different income levels within countries. In both Brazil and Mexico, the percentage of workers who can benefit from GenAI significantly increases with their income levels (figure B1.1.3). Individuals in the highest income quintile are at least twice as likely to have access to such positions compared to those in the lowest quintile. This disparity is further amplified when considering access to digital technologies. In Mexico, for instance, workers in the top income quintile are 5.6 times more likely to hold jobs that involve GenAI augmentation and utilize computers than those in the bottom quintile. Across the LAC region, there are approximately 17 million jobs that could potentially benefit from GenAI but are hindered by inadequate access to digital technologies. These missed opportunities disproportionately affect lower-income countries and poorer segments of the workforce.

FIGURE B1.1.3.

Households in Higher Income Quintiles Have a Higher Share of Workers Exposed to GenAI Augmentation and Who Use a Computer at Work

a. Brazil

b. Mexico

Source: Gmyrek, Winkler, and Garganta 2024.
Note: p.p. = percentage points.

In summary, while GenAI can benefit many workers in the region, complementary policies are needed to ensure these benefits. This includes developing digital infrastructure, offering income support for displaced workers, and providing foundational skills to adapt to job changes. These policies should aim to help all workers, not just those at the top, to use GenAI effectively and thus mitigate a potential increase in inequality.

Notes

a.   This box is based on Gmyrek, Winkler, and Garganta (2024).

b.   Rutgers (2024).

Are Latin American Workers Ready for an Energy Transition?

While "green" technologies can promote a healthier planet, their adoption can have unintended consequences.[a] These technologies have the potential to reduce fossil fuel reliance, boost energy efficiency, and increase renewables. Adopting them transforms production processes, changing input types and quantities while mitigating negative impacts on the environment. Importantly, they affect labor demand, making some skills essential and others obsolete, potentially leading to increased income inequality. The impact of green technologies on workers will depend on the balance of skill demand and supply. Inclusive growth is more likely when the needed skills are plentiful, as displaced workers can find jobs more easily and wages for these skills may rise.

What are the expected impacts of the green transition on workers in the LAC region?

The concentration of employment in green occupations and sectors is relatively small in several LAC countries (figure B1.2.1). Green occupations include various jobs such as those intensive in specifically (pure) green skills (for example, climate change specialists); those that may require some re-skilling (for example, an architect needing training to use green materials); and existing occupations that may see increased demand even if they are not distinctly "green" (for example, carpenters). Green sectors are characterized by having relatively low greenhouse gas emissions (GHGE) per worker. Workers in these sectors face lower displacement risk during the green transition compared to their counterparts in non-green sectors. Approximately 90 percent of workers in each country in the region are employed in either a non-green sector or a non-green occupation. Non-green sectors account for a significant portion of jobs, ranging from 37 percent in Argentina to 59 percent in Guatemala. This share is influenced by the size of the agricultural sector, which has one of the highest levels of GHGE per worker and predominantly employs individuals in non-green occupations—about 90 percent or more in most countries.

FIGURE B1.2.1.

Green Occupations and Green Sectors Are at Relatively Low Levels in LAC
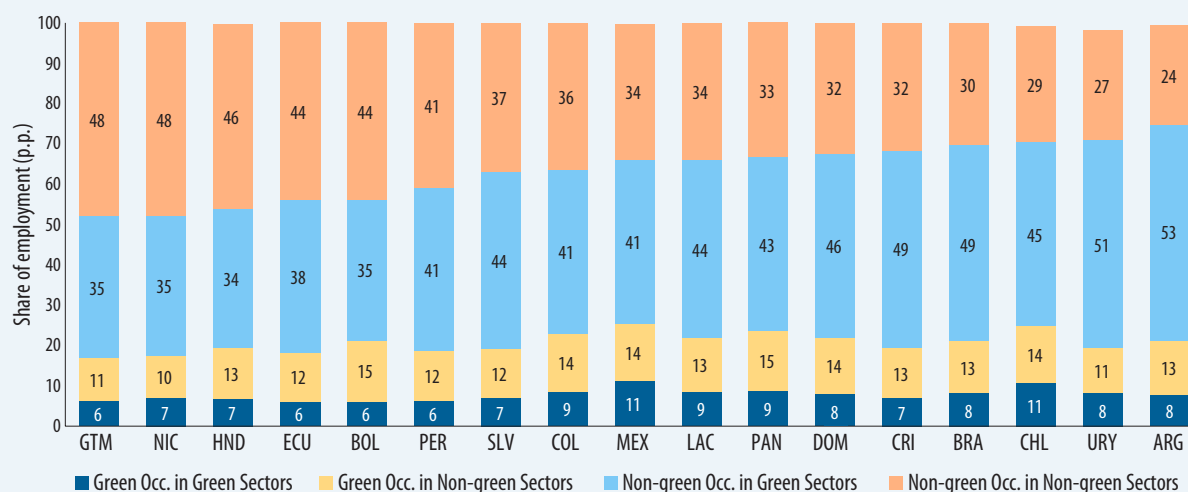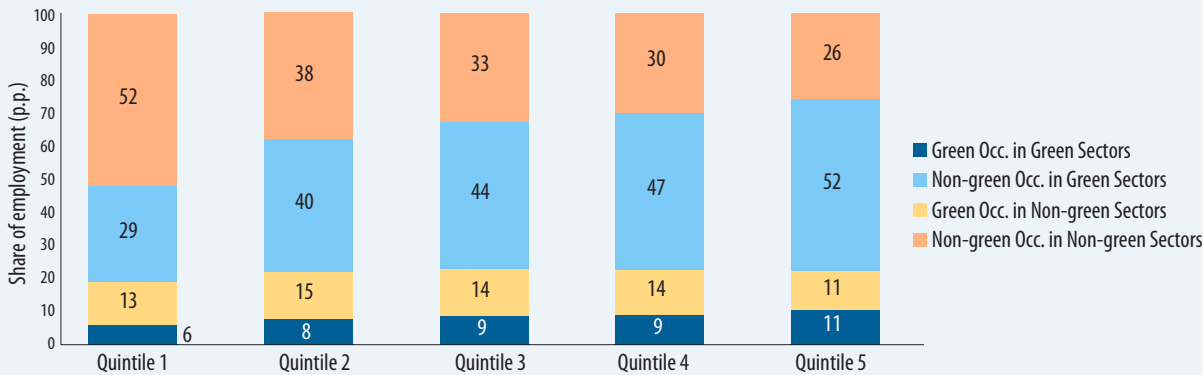

Source: Winkler et al. 2024.
Note: Data are as 2019. LAC = Latin America and the Caribbean.

The profile of workers in green jobs within countries highlights the potential distributional impacts of the green transition. In the LAC region, men and urban workers dominate green occupations and have better re-employment prospects if displaced. However, overall employment in green sectors is higher for women and those with higher education levels, who face a lower risk of displacement. This gender bias in green occupations reflects the male dominance in roles like chief executives, electricians, and construction workers. Conversely, women's higher presence

FIGURE B1.2.2.

The Poorest Quintiles in LAC are Most Vulnerable to Job Loss during a Green Transition

Source: Winkler et al. 2024.
Note: Data are as of 2019.

in green sectors is due to their concentration in services such as the care economy and retail. Differences in the share of green occupations across household income quintiles is not particularly large (figure B1.2.2), but the share of the most vulnerable workers during a green transition (that is, workers in non-green occupations and in non-green sectors) is significantly higher in the poorest quintiles.

In conclusion, these findings underscore the necessity for complementary policies that address the potential impacts of green transitions on income inequality. Countries with a lower share of green occupations often face challenges such as lower levels of human capital and higher rates of labor market informality. These factors raise concerns regarding the preparedness of their workforce to acquire the skills required for a green economy and to safeguard themselves against the risk of job displacement during this transition.

Notes

a.   This box is based on Winkler et al. (2024).

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