



2021

Economic Survey of Latin America and the Caribbean

Labour dynamics and employment policies
for sustainable and inclusive recovery
beyond the COVID-19 crisis



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COVID-19
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Comments and suggestions were received from Alicia Bárcena, Mario Cimoli and Vianka Aliaga, and the Economic Development Division was assisted by the Statistics Division, the Division of International Trade and Integration, the Division for Gender Affairs, the ECLAC subregional headquarters in Mexico City and Port of Spain, and the Commission's country offices in Bogotá, Brasília, Buenos Aires, Montevideo and Washington, D.C.

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The chapters of part II entitled "Labour dynamics and employment policies for sustainable and inclusive recovery beyond the COVID-19 crisis", were coordinated by Daniel Titelman, Sonia Gontero and Ramón Pineda Salazar. They were prepared with inputs by Claudio Aravena, Sonia Gontero, Ramón Pineda Salazar and Jürgen Weller, and with the collaboration of Sonia Albornoz, Emanuel Menendez and ECLAC subregional headquarters and national offices. Inputs prepared by Cristina Fernández, Matías Gómez, Angel Martín Caballero, Jesisbé Mejía, Javiera Ravest, María Eugenia Rodríguez, Juan Manuel Salazar-Xirinachs, Evelyn Vezza and Omar Zambrano were also used.

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Explanatory notes:

- Three dots (...) indicate that data are not available or are not separately reported.
- A dash (-) indicates that the amount is nil or negligible.
- A full stop (.) is used to indicate decimals.
- The word "dollars" refers to United States dollars, unless otherwise specified.
- A slash (/) between years (e.g. 2013/2014) indicates a 12-month period falling between the two years.
- Individual figures and percentages in tables may not always add up to the corresponding total because of rounding.

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Presentation and executive summary

Presentation

Executive summary

A. The economic situation and outlook for 2021 and 2022

B. Labour dynamics and employment policies for a sustainable and inclusive recovery beyond the COVID-19 crisis

Presentation

The 2021 edition of the *Economic Survey of Latin America and the Caribbean*, its seventy-third issue, consists of three parts. Part I outlines the region's economic performance in 2020 and analyses trends in the early months of 2021, as well as the outlook for growth for 2021 and 2022. It examines the external and domestic factors that have influenced the region's economic performance in 2020, trends for 2021, and how these factors will affect economic growth in the coming years.

Part II of this edition analyses the impact of the crisis caused by the coronavirus disease (COVID-19) pandemic on the region's labour markets, with a comparison of historical trends, and particular emphasis placed on the disproportionate effect of the pandemic on female and youth employment. It also presents the outlook for regional labour markets amid profound technological transformations, highlighting the policy challenges arising therefrom, and examining the risks and opportunities related to the introduction of new technologies. It also looks at the challenges and characteristics of digital platform work and teleworking. Lastly, it gives an overview of the labour policies implemented since the start of the crisis and identifies the main policy challenges for the region if it is to achieve a transformative recovery with decent work.

Part III of this publication may be accessed on the website of the Economic Commission for Latin America and the Caribbean (www.eclac.org). It contains the notes relating to the economic performance of the countries of Latin America and the Caribbean in 2020 and the first half of 2021, together with their respective statistical annexes. The cut-off date for updating the statistical information in this publication was 30 July 2021.

A. The economic situation and outlook for 2021 and 2022

Global growth is projected at close to 6% for 2021 and 4.5% for 2022. However, the economic outlook shows growing divergences between countries, reflecting significant asymmetries in access to vaccines—which significantly hinders a rapid normalization of economic activity—and asymmetries in countries' capacity to maintain expansionary fiscal and monetary policies. As long as the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) continues to circulate globally, recovery remains uncertain, even in countries with high vaccination rates.

In 2021, the group of developed economies is expected to grow by 5.5%, with the United States growing by almost 7%. The eurozone should grow by 4.7%, Japan by almost 3% and the United Kingdom by about 7%. In the group of emerging economies, which are expected to grow by 6.2% this year, China and India should be in the forefront with growth of 8.4% and 9.2%, respectively. However, some developing subregions such as the Middle East and North Africa (4% growth) and sub-Saharan Africa (3.4%) are expected to be less buoyant.

In 2022, the world economy is expected to grow by an average of 4.5%. Developed economies are forecast to grow by 4.2% owing to rapid progress with vaccination and increased fiscal stimulus in the United States, while emerging economies are expected to expand by 5.0%, once again led by emerging and developing Asia (6.4%), including China and India.

The growth in developed economies is owed more to the significant fiscal efforts made in 2020 and the continuation of stimulus packages in 2021 than to improvements on the health front. In 2020, the advanced economies mobilized US\$ 6.3 trillion in spending and tax relief measures and US\$ 5.2 trillion in liquidity instruments (an average of 12.7% and 11.3% of GDP, respectively) to mitigate the economic and social effects of the pandemic. In emerging countries, meanwhile, the fiscal policy response was smaller, at only 4% of GDP in additional spending and tax relief.¹

The fiscal packages approved in developed economies have sought not only to mitigate the effects of the pandemic in the short term but also to lay the foundations for recovery and subsequent growth. The European Union approved a Multiannual Financial Framework worth 1.8 trillion euros for the period 2021–2027, which is about double the resources of the previous Multiannual Financial Framework. The 2021–2027 framework includes a new temporary facility (NextGenerationEU) to finance an ambitious economic recovery plan worth roughly 750 billion euros. The United States approved the American Rescue Plan Act of 2021, which involves stimulus funding of US\$ 1.9 trillion to pay for immunization, strengthen health-care networks, provide economic relief for families, extend unemployment insurance benefits and maintain support for businesses. This stimulus plan, on top of those implemented in 2020, brings the United States fiscal response to COVID-19 to about 25% of GDP.²

The effects of the COVID-19 pandemic crisis have also been far from symmetrical. While more than 140 million jobs were lost globally in 2020, global wealth grew by 7.4% owing to burgeoning stock markets, rising real estate values, low interest rates and unplanned savings resulting from the lockdown periods. However, the increase was not uniform: while wealth grew by 12.4% in Canada and the United States, 9.2% in

¹ See Economic Commission for Latin America and the Caribbean (ECLAC), *Fiscal Panorama of Latin America and the Caribbean, 2021* (LC/PUB.2021/5-P), Santiago, 2021 and International Monetary Fund (IMF), *Fiscal Monitor: A Fair Shot*, April 2021.

² In addition, there is a US\$ 1.2 trillion bipartisan infrastructure deal, which includes US\$ 550 billion in new spending, outlining a plan for investment over the next eight years. At the time of writing, the bill was still under debate.

in Europe and 4.4% in China, it fell by 4.4% in India and by 11.4% in Latin America and the Caribbean. There are also marked differences between countries in access to vaccines, with vaccine procurement highly concentrated in the more developed countries, as reflected in 53.0% of the population in the United States and Canada and 55.6% in the European Union having completed their vaccination schedule as of 22 August 2021, compared to a global figure of just 24.5%. In the case of Latin America and the Caribbean, the figure was 24.8% (26.8% in South America, 22.4% in Central America and Mexico and just 5.8% in the Caribbean).³

Global economic growth is subject to uncertainties that could have direct effects on growth in Latin America and the Caribbean. Added to the unknowns related to the evolution of the pandemic, such as the slow roll-out of vaccination worldwide—which could leave room for further mutation of the virus making it difficult to control—are those that could result in an adjustment of expansionary policies in developed countries. Financial conditions could be tightened on the back of a reassessment of the monetary policy outlook in advanced economies should inflation expectations rise more rapidly than anticipated. These factors would imply greater restrictions in the economies of the region, limiting their recovery capacity.

World trade mirrored global GDP trends and grew at double-digit year-on-year rates in the first four months of 2021, mainly because the same months of 2020 provide a very low base for comparison. For this reason, these rates are expected to moderate over the course of the year, with trade volumes projected to grow by an average of 8% in 2021.

The recovery in trade is being accompanied by rising prices for the region's commodity exports, with prices some 38% higher on average in 2021. Energy—primarily oil—prices are projected to be 58% higher in 2021 than their averages in 2020; the same goes for metal and mineral prices and agrifood prices, which are expected to be up 38% and 20%, respectively, in 2021. Their dynamics are largely explained by higher global demand and, in the case of agricultural products, also by supply-side issues.

So far this year, financial markets have been bolstered by improved global economic activity, increased fiscal stimulus and progress in pandemic control and vaccination, particularly in the United States and Europe.

Global liquidity has remained high; central banks in the major developed economies have kept rates at historically low levels and continued their asset purchase programmes, thereby expanding their balance sheets, albeit at a slower pace in recent months. As a result, global liquidity continued its upward trend in 2021, to the benefit of equity and bond markets, which have consolidated their position as the main provider of cross-border liquidity globally (53% of the total in the last quarter of 2020).

The greater importance of the private capital market has its counterpart in an increase in external government and non-financial corporate sector debt in developing economies, including those in Latin America and the Caribbean. This leaves them vulnerable to changes in international conditions, in particular in perceptions of risk and variations in nominal exchange rates. In Latin America and the Caribbean, as in other developing regions, there is currency mismatch in the non-financial corporate sector, and more than 30% of firms (based on a sample of 23,820 firms) are in a financially fragile position.

Capital markets are highly sensitive to international financial conditions and to perceptions of risk in issuing countries, making them extremely volatile and liable to sudden reversals. The countercyclicality displayed by capital markets may not last through time, leaving Latin America and the Caribbean in a more vulnerable position.

³ As of 22 August or latest figures available, calculated on the basis of information from Our World in Data [online] www.ourworldindata.org.

In this context, multilateral action has a key role to play in reducing asymmetries and bolstering prospects for inclusive and sustainable growth. Equitable access to vaccines is one area of multilateral cooperation; another is facilitating concessional financing without conditionalities for financially constrained economies, including middle-income countries, to access global liquidity. The International Monetary Fund (IMF) allocation of special drawing rights (SDRs) equivalent to US\$ 650 billion, that became effective in August, will help to increase global liquidity in a more expeditious and sustainable manner that is less costly and available to all IMF member countries, as it is intended to increase reserve assets for all countries and alleviate liquidity constraints.

The new SDR issue was distributed to IMF members according to their quota shares, meaning that developed countries received 58% (US\$ 375 billion), with the remainder going to developing and emerging economies. In this regard, the new SDR issue will strengthen the external position of developing countries and, in the case of Latin America and the Caribbean, the smaller and more debt-burdened economies, including some Caribbean countries. In order to balance the quota-based distribution, it has been proposed to reallocate SDRs from developed to developing economies.

The new SDR issue should be accompanied by institutional reform of the multilateral debt architecture with the creation of a multilateral debt restructuring mechanism and the establishment of a multilateral credit rating agency, innovative instruments that link countries' repayment capacity to their exposures and vulnerability to natural disasters (such as the case of hurricane clauses) or to the ups and downs of the business cycle (such as income-linked bonds or GDP), and the issuance of social and sustainable bonds by emerging economies. Added to these are initiatives such as the proposal by Costa Rica to create a solidarity fund financed by high-income countries, to be called the Fund to Alleviate COVID-19 Economics (FACE).

Growth projections for 2021 for the countries of Latin America and the Caribbean, as in other countries around the world, have been revised upwards. After having registered the largest contraction since 1900 (-6.8%) and the worst performance of any developing region in 2020, Latin America and the Caribbean should see a growth rate of 5.9% for 2021 and of 2.9% for 2022. While the region's growth pattern in 2021 can be attributed to improved external conditions, the gradual opening of economies and the easing of physical distancing measures, it primarily reflects the low basis for comparison due to the fall in 2020.

A growth rate of 5.9% in 2021 will not be sufficient to bring GDP back to the level recorded in 2019: this would be achieved in only 9 of the 33 countries in the region; with a projected average growth rate of 2.9% for 2022, a further 5 countries would regain 2019 levels. Beyond the growth expected in 2021, one of the great challenges for the region is the ability to maintain sustainable and inclusive growth in the coming years. This is no small challenge considering the already low growth in the region prior to the crisis: in 2014–2019, growth averaged 0.3%, one of the weakest six-year runs since records began, comparable only to those that spanned World War I and the Great Depression. Furthermore, the underlying structural problems that have hindered growth over the last four decades persist.

Negligible growth prior to the crisis, coupled with the contraction of 2020, resulted in record declines in employment, unprecedented increases in unemployment, falling incomes and increases in poverty and inequality that further exacerbated the region's pre-existing structural problems. The 2020 crisis also accentuated the region's uneven production structure, numerous closures of micro-, small and medium-sized enterprises and the destruction of human capital and employment, compounding the region's poor performance in investment.

Investment has been falling steadily in the region, reaching its lowest level in the last three decades in 2020 (17.6% of GDP). As a share of GDP, investment is lower in Latin America and the Caribbean than in any other developing region or developed country. In the second quarter of 2020, total investment fell by 23.4% year-on-year in real terms. This slump was widespread in the region and persisted through the second and third quarters of that year. The increase observed in the first quarter of 2021 is explained mainly by the positive variation in stocks, which have accumulated owing to lack of demand. The challenges for investment involve not only increasing its level, but also targeting employment-intensive sectors that contribute to environmental sustainability and productivity gains.

The upturn in 2021 has been driven by more flexible domestic supply-side conditions in countries as the easing of restrictions has led to greater mobility of people; higher domestic demand, thanks to fiscal and monetary policy; and positive global economic trends, particularly in the United States and China, as well as the significant rebound effect given the low basis for comparison in 2020.

Remittances have contributed significantly to the region's growth. Migrant remittance flows to the region rose by 32% in the first few months of 2021 compared to the same period in 2020. This is a result of the ongoing economic recovery in the major economies of origin, and of a reduced inflow of remittances during the second quarter of 2020. Taking this into account, the growth rate can be expected to slow over the course of the year. In Mexico, remittances to June 2021 were up 22% year-on-year.

As a result of commodity price trends, the terms of trade are also expected to increase in 2021 for commodity exporters. In the South American subregion, which is a net exporter, these are projected to grow by almost 12%, while the opposite is true for Central America, a net importer of fuels and also—in some countries—of food, where the terms of trade are expected to worsen by 1% this year. In the Caribbean (excluding Trinidad and Tobago), a decrease of 4% is expected, since this subregion is also a net importer of energy and food.

In the first quarter of 2021, total financial flows to the region rose compared to the previous quarter, in line with the favourable global financial conditions. Positive flows are also expected for the second quarter of the year in the region. This is explained by lower financial volatility, a greater appetite for risky assets and relatively greater control of the pandemic and its economic effects.

In 2020, total bond issues in international markets by Latin American countries grew by 22.5%, driven by sovereign issues (45% of the total), while corporate sector issues accounted for 26% of the total in 2020. In the first half of 2021, bond issues grew by 3% compared to the year-earlier period, with sovereign bond issues reflecting modest growth and corporate bond issues doubling. This highlights the growing importance of social and sustainable bond issues to finance social and green projects, which will result in interest rate hikes if their medium- and long-term goals are not achieved.

The dynamism in sovereign bond issues reflects good financial conditions with low sovereign risk, which allow for lower interest rates. Indeed, the sovereign risk index, as measured by the Emerging Markets Bond Index (EMBI), has declined to values similar to those recorded before the pandemic. After rising in the early months of the pandemic, the EMBI has declined steadily to 380 basis points in June 2021 for Latin America. There is a large group of countries in the region with EMBI values below 500 basis points.

By the first quarter of 2021, 41% of the economic activity lost in 2020 had been recovered. Economic activity recorded the biggest drop in the second quarter of 2020, when it declined by 15.4% year-on-year, while the first quarter of 2021 shows a contraction of just 0.2% year-on-year.

The pace of recovery in the countries of the region has been very mixed. While some continued to reflect declines in the first quarter of 2021 compared to the same quarter of 2020, others recorded positive GDP growth rates. Growth was negative in the first quarter of 2021 in 5 of 18 Latin American economies, increased slightly in 8 (growth of less than 3%) and exceeded 3% in just 5.

Sectors such as hotels, restaurants and other services have been hard hit by the crisis, which also had a very intense, but mixed, impact on wholesale and retail trade. Lockdown measures also implied a drastic decrease in activity for part of the transport sector, although essential services remained active. Some sectors, such as agriculture and basic services, were extremely resilient, and others, such as manufacturing, recovered quickly from downturns. These were the only sectors to show positive year-on-year growth rates in the first quarter of 2021.

Investment was the only component of spending that contributed to GDP growth in the first quarter of 2021. By contrast, in the same quarter, total consumption continued to weigh on growth given its decrease of 1.6% compared to the year-earlier period, which indicates five quarters of negative growth rates. This poor performance derived from the slow recovery of jobs lost, as 12.3 million jobs have yet to be recovered to return to pre-pandemic employment levels, and from declining real wages. In the same period, investment reflected a significant and widespread increase, up 11% over the same quarter of the previous year, because of the resumption of construction work in spite of lockdowns, and the increase in the use of machinery and equipment, which has led to growth in demand.

As discussed in part two of this *Economic Survey*, the COVID-19 pandemic crisis had a much greater impact on the labour market than previous crises, with bigger job losses, declines in labour participation and increases in unemployment. For various reasons, the crisis weighed most heavily on female employment and on the most vulnerable groups, such as young people, migrants and less educated workers. Between 2019 and 2020, the number of people in employment fell by almost 25 million, including about 13 million women. This resulted in a female unemployment rate of 11.9%, up from 9.3% in 2019. Meanwhile, the unemployment rate for men in 2020 was 9.3%, compared with 6.9% in 2019. These unemployment levels would have been higher if many workers had not withdrawn from the labour market. The female participation rate fell from 51.4% in 2019 to 46.9% in 2020, while the male participation rate decreased from 74.7% to 69.6%. This decline in the female participation rate brought it back to a level similar to that of 2001.

Despite the increase in the number of employed, by the first quarter of 2021 the region had only recovered 58% of the jobs lost during the crisis. For 2021 as a whole, the labour participation rate is expected to rise by 3.4 percentage points, from 57.7% in 2020 to 61.1% in 2021. However, this increase is expected to be greater for men than for women: while participation among men is projected to return to levels similar to those seen prior to the crisis, among women these rates are expected to be similar to those recorded in 2008, equivalent to 49%.

The slow increase in employment levels and higher participation rates suggest that unemployment will be higher in 2021, with the rate forecast to rise to 11%, than in 2020 (10.5%). As with participation rates, when broken down by sex, women appear to be worse off, since their unemployment rate is 12.7%, three percentage points higher than that of men (9.7%).

As already noted, beyond the recovery in 2021, economic growth is likely to remain sluggish in the coming years, which will not support a rapid recovery in employment or improvements in employment quality. Therefore, policies to drive the creation of

high-quality jobs will be essential. These should focus on strengthening employment among the groups most affected during the crisis, including women, young people and migrants. It is also necessary to support the productive sectors with the greatest potential for job creation and labour market formalization. In the medium term, these challenges will be even bigger if the region fails to break the pattern of weak growth seen before the COVID-19 crisis.

In 2020, fiscal policy proved to be a key economic policy tool to address the crisis caused by the COVID-19 pandemic. The countries of the region announced major fiscal packages, averaging 4.6% of GDP, to strengthen public health systems, support household incomes and protect the production structure. These efforts pushed public spending up to historic levels in Latin America. At the same time, public revenues contracted sharply, as a result of shocks to private consumption and gross national income. Taken together, these trends led to large fiscal deficits and a significant increase in public debt.

There have been signs of improvement in the region's fiscal situation in 2021. The revival of economic activity and higher prices for non-renewable natural resources are driving a recovery in public revenues in Latin America, which is reflected in an increase in receipts for the main taxes, such as value added tax and income tax, in the first half of 2021. In some countries, particularly where mining is a major industry, tax revenues from non-renewable natural resources have boosted total revenues considerably. In the Caribbean, government revenues are also projected to improve in 2021.

Official country projections indicate weaker growth in public spending as a percentage of GDP for Latin America. In the first half of 2021, spending on current transfers and subsidies declined. At the same time, the countries of the region have announced their intention to boost public investment in order to revive economic activity and create jobs, which has translated into higher capital spending in several countries. Although interest payments are expected to remain stable on average, pressure is growing for some countries. Meanwhile, in the Caribbean, official estimates point to continued growth in public spending during the year, particularly in public investment. However, this capital spending will depend, in part, on the resources available to the countries of this subregion, particularly grants.

Based on official projections of revenue and public spending trends, fiscal balances in Latin America are expected to improve. At the end of 2021, the overall central government balance is expected to be equivalent to -5.5% of GDP, on average, compared to -6.9% of GDP in 2020. The primary balance is forecast to come to -2.9% of GDP this year, compared with -4.2% of GDP in 2020. In the Caribbean, balances are projected to improve, with an overall balance of -6.2% of GDP, compared with -7.3% of GDP in 2020, and a primary balance of -3.1% of GDP, compared with -4.6% of GDP in 2020. Although smaller than in the previous year, these deficits in the region are likely to put pressure on financing and on public debt service coverage. Thus, central government debt levels will remain high.

The fragility of the recovery and the need for economic and social transformation underscore the catalytic role that the public sector must play in Latin America and the Caribbean. However, strengthening the fiscal capacity of the State poses significant challenges. It requires a strategic reorientation of public spending to make it an instrument of development. In this regard, actions taken to address the emergency must be linked to medium- and long-term strategic measures. In the short term, emergency social transfer programmes and support for productive sectors must be maintained in order to prevent the widespread bankruptcy of micro-, small and medium-sized enterprises (MSMEs) and to promote policies for high-quality employment. Another priority is focusing public spending on the universalization of social protection systems, health, care and education, and creating the fiscal space to make them financially sustainable.

Investment must also be boosted in order to reverse its persistent decline, which has led to Latin America and the Caribbean recording the lowest rate in comparison with other regions. There is also a need to incorporate the gender perspective into fiscal policy by analysing the distributive effects of applying this approach to revenue, spending and investment policies, and to the budget cycle.

Creating the fiscal space needed to sustain an expansionary spending policy requires measures to access financing, reduce tax losses in the short term and strengthen tax revenues gradually over the medium term. In the short term, it is essential to eliminate tax evasion, which represented US\$ 325 billion in lost revenues in 2018 (equivalent to 6.1% of regional GDP). Tax expenditure, which accounted for forgone revenue equivalent to 3.7% of GDP, also needs to be reassessed. In the medium term, tax revenue must be progressively increased to make public spending sustainable. This requires consolidating income taxes, extending the scope of property and wealth taxes, progressively reviewing and updating royalties on the exploitation of non-renewable resources, and considering taxes relating to the digital economy, the environment and public health.

The sustainability and orientation of fiscal policy require new social and fiscal compacts that contribute synergistically to the revival of economic activity, investment and employment, and to equality, the closure of gender gaps and climate action. These compacts are needed to create the social, political and economic conditions for an expansionary horizon for fiscal policy and thus avoid premature demands for consolidation and austerity that would slow down the recovery.

Financing for development and international cooperation must play a key role in improving countries' ability to maintain short-term expansionary fiscal policies and to strengthen the debt architecture so that it is more conducive to sustainable economic development. However, the financing made available by international financial institutions to the international community has been less than that provided during the global financial crisis. IMF has lent the equivalent of US\$ 113 billion to developing economies. Excluding flexible credit lines, the total financing provided by this institution stands at US\$ 67 billion. This amount is less than IMF financing commitments during the 2008–2009 global financial crisis, which amounted to US\$ 75 billion between January and September 2009.

In order to respond to the increased financing needs of developing countries, including those in the region, the IMF Executive Board approved a new issue of special drawing rights (SDRs) in August 2021. The resulting increase in international reserves will provide an important financial cushion by reducing risk and strengthening countries' external financial position. This issue of SDRs should be complemented by mechanisms for SDR reallocation from developed to developing countries. Developing countries could use SDRs allocated for financial stability while developed countries could donate their SDRs to multilateral and regional trust funds for the provision of public goods.

Liquidity can also be redistributed by creating multilateral funds, such as the Fund to Alleviate COVID-19 Economics (FACE) proposed by the Government of Costa Rica, and by strengthening regional cooperation with an increase in the lending and response capacity of regional, subregional and national development banks and other regional institutions.

Access to increased financing should be complemented by policy measures aimed at reforming the international debt architecture. This would include the creation of a multilateral debt restructuring mechanism and the establishment of a multilateral credit rating agency. The scope of the Debt Service Suspension Initiative (DSSI) of the Group of 20 (G20) should be broadened to include all relevant stakeholders (the private sector and multilateral institutions) and vulnerable middle-income countries. Furthermore, the

initiative should be extended beyond 2021. This should be accompanied by increased use of different innovative instruments aimed at avoiding debt distress and improving countries' capacity to repay and service debt.

The large contraction in aggregate demand due to the effects of the COVID-19 crisis drove regional inflation to historically low levels in 2020. At the close of 2020, average inflation in the economies of Latin America and the Caribbean was 3.0%, 0.1 percentage points lower than in 2019. Inflation declined in a total of 21 economies in 2020, in 9 of them by more than 1 percentage point.

The pattern of inflation varied greatly over the year, falling heavily in the first half of 2020—given the sharp contraction in domestic aggregate demand—and climbing from May onwards, driven by rising prices for food, energy and other productive inputs whose trade processes had been disrupted since the beginning of the pandemic, as well as by greater exchange-rate volatility.

However, in 2021 inflation has remained relatively low, with core inflation at rates similar to pre-crisis levels, reflecting the persistent weakness of aggregate domestic demand.

In this context, in 2020, most central banks in the region adjusted their monetary policy instruments to stimulate the sluggish economic activity amid the pandemic. On the one hand, low inflation levels and poorer growth prospects led to interest rate cuts by central banks that use these as their main policy tool, and to increases in primary issuance and reductions in reserve requirements by banks that use monetary aggregates as their policy tools. The region's central banks also employed "non-conventional" instruments to expand credit to both the private and public sectors, including the outright purchase of securities held by banks, the establishment of financing programmes for firms and households jointly with the Treasury, as well as the increased use of direct financing to the region's governments.

The efforts of monetary authorities led to a fall in lending rates, which declined in 2020 in the vast majority of the region's economies from the end-2019 level, with annual average lending rates coming down in 23 of the 26 economies for which information is available. The situation shifted during the first four months of 2021, and lending rates rose by an average of 2.2 percentage points in 14 economies in the region. Even with this increase, however, lending rates as of April 2021 remain lower than those of December 2019 in 20 of 26 economies for which information is available.

Lending stimulus measures had a positive impact on real short-term credit to the private sector, which rose at an increased rate in the second or third quarter of 2020 in 18 economies of the 25 for which data are available. However, this momentum has slackened, and real credit to the private sector fell year-on-year in 15 countries between the first and second quarters of 2021. This slower lending growth could be reflecting weaker signals from credit programmes and reduced capacity or willingness on the part of firms and individuals to continue incurring debt amid expectations that the crisis will be prolonged.

At the start of 2020, central banks had to deal with critical episodes of massive and sudden capital outflows, excessive currency fluctuations and rising risk premiums, while attempting to prevent the collapse of economic activity. In such adverse circumstances, the region's monetary authorities deployed a comprehensive battery of macroprudential tools to preserve macroeconomic and financial stability in the face of high risks multiplying in the real, financial and external sectors. These efforts included managing international reserves to respond quickly, pragmatically and flexibly to potentially destabilizing factors that could heighten exchange-rate volatility, trigger capital flight or increase the chances of banking crises. To this end, the region's monetary authorities strengthened their international liquidity position, increasing reserves by 4.6% during 2020, or US\$ 39.318 billion in total.

In addition, monetary and financial authorities adjusted their pre-crisis prudential rules in order to allow financial institutions to absorb losses and prevent a credit crunch, as often occurs during recession. The monetary authorities made extensive use of macroprudential flexibilities to allow banks to operate below capital requirements and other countercyclical capital buffers, including by modifying risk weightings, and by allowing certain credits linked to support programmes to be excluded from the calculation of capital requirements or of banks' leverage limits. Stronger measures were also taken to increase the liquidity of financial institutions, such as changes of different types to legal reserve requirements—for example, in the rate, in the currency (local or foreign), or in terms of specific deposits—or changes in liquidity coverage ratios.

Macroprudential and capital controls policies will have to be strengthened over the short and medium terms to avoid permanent stigmas that could undermine the recovery of economic activity with sustained, inclusive and job-creating growth.

B. Labour dynamics and employment policies for a sustainable and inclusive recovery beyond the COVID-19 crisis

The second part of the *Economic Survey* analyses the challenges that the countries of the region are expected to face as they work to revive the labour market, recover the jobs lost during the crisis, reduce informality and build labour markets that provide decent employment.

The coronavirus disease pandemic triggered an unprecedented crisis in the region's labour markets, with historic declines in the number of employed persons (9.0%) and in participation (4.9 percentage points), and equally historic increases in unemployment rates (2.5 percentage points). The combination of a demand shock (external and domestic) and a supply shock (mainly domestic) deriving from lockdown measures and restrictions on certain activities seriously disrupted economic activity and roiled the region's labour markets.

In 2020, the crisis prompted the largest GDP contraction in the past 100 years and a decline in employment not seen in the past seven decades. An important point to remark is that policy efforts afforded protection mostly to formal labour markets, so that job destruction was greater in the region's informal sector, which increased the risk of inequality becoming sharper.

Because of the crisis, labour participation in the region has declined markedly, especially among women, bringing an end to more than 30 years of continuous growth. The noticeable impact of the crisis on women's labour market participation stems from their strong presence in activities that were highly restricted during the pandemic, such as commerce and tourism, but also from the greater burden of unpaid work linked to household care (children, older persons and the sick) that falls on women.

Before the crisis, the pace of employment growth in the region was already slowing, given that 2010–2019 produced the most sluggish growth in the number of employed since 1950. Latin America and the Caribbean is one of the regions with the slowest employment growth, which indicates certain structural limitations that hinder job creation. The economic recovery expected in 2021 is also projected to boost employment in the region. However, neither economic activity nor employment is expected to return to pre-crisis levels in 2021.

The COVID-19 pandemic may accelerate structural changes in the region's labour markets, driven by innovation and automation processes involving medium- and long-term changes in the output-employment ratio, which may then lead to labour underutilization. Hence, in the current context, the countries of the region must promote policies that foster a transformative recovery with investment aimed at the incorporation of technological innovations, the energy transition, and the creation of more and better jobs, increasing the space for the expansion of micro-, small and medium-sized enterprises, as these play a central role in a development strategy for inclusive growth.

The nature and scale of the current crisis pose a major challenge for policymakers in the region and require serious efforts to formulate and implement policies to mitigate the immediate impact on the population, especially the traditionally most vulnerable groups, and to promote a transformative recovery with stronger economic growth and more high-quality jobs. In this regard, comprehensive policies must be adopted that, in the short term, support jobs and the productive fabric and protect the income of the most disadvantaged, and that aim for a productive transformation capable of creating and maintaining high-quality jobs. This requires the design of new labour policies to upgrade workers' skills, coordinate the process of matching labour supply and demand, and foster the creation of productive jobs. In accordance with this comprehensive vision, countries must implement training measures, public employment programmes, employment subsidies and support programmes for self-employment and micro-entrepreneurship, and provide employment services and labour intermediation infrastructure. Such policies are widely used in member countries of the Organisation for Economic Co-operation and Development (OECD) and have proven to be very effective in increasing employment, improving equity, labour mobility and job quality, and reducing poverty.

Accordingly, the second part of this edition of the *Economic Survey* examines the impact of the COVID-19 crisis on the region's labour markets, comparing historical trends in these markets. Labour market reactions to the current context are contrasted with the dynamics observed during previous (systemic or specific) crises to compare the main features of crises past and present, and also to characterize how economic activity recovered and how the labour market performed during those times. Special emphasis is placed on the disproportionate effect of the pandemic on the employment of women and young people. While they tend to suffer the most in economic crises, some particularities of the current crisis have made them especially vulnerable.

The outlook for regional labour markets amid profound technological, economic and social transformations is also analysed, highlighting the relevant policy challenges. To this end, this edition examines the risks and opportunities related to the introduction of new technologies, as well as the challenges and characteristics of digital platform work and teleworking. This part of the *Economic Survey* gives an overview of the main labour policies implemented since the start of the crisis to mitigate its impact on the region's labour markets.

Informality, low productivity and new trends that could compromise job creation have negatively affected labour markets. This calls for comprehensive policies, including monetary and fiscal policies to boost demand and support businesses, and active industrial and labour market policies that foster quality employment and increase productivity. In this regard, support for micro-, small and medium-sized enterprises (MSMEs) must be the cornerstone of strategies to save jobs, stimulate the labour market and drive up average productivity in economies.

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