



NATIONAL INTELLIGENCE COUNCIL

NATIONAL INTELLIGENCE ESTIMATE

August 2022

NIE 2022-10370

Latin America and the Caribbean: Lagging Economies, Frustrated Publics Will Create Governance Challenges Through 2030

(U) *This National Intelligence Estimate was prepared under the auspices of the National Intelligence Officer (NIO) for Western Hemisphere. It was drafted by the National Intelligence Council*

Classified By: [REDACTED]

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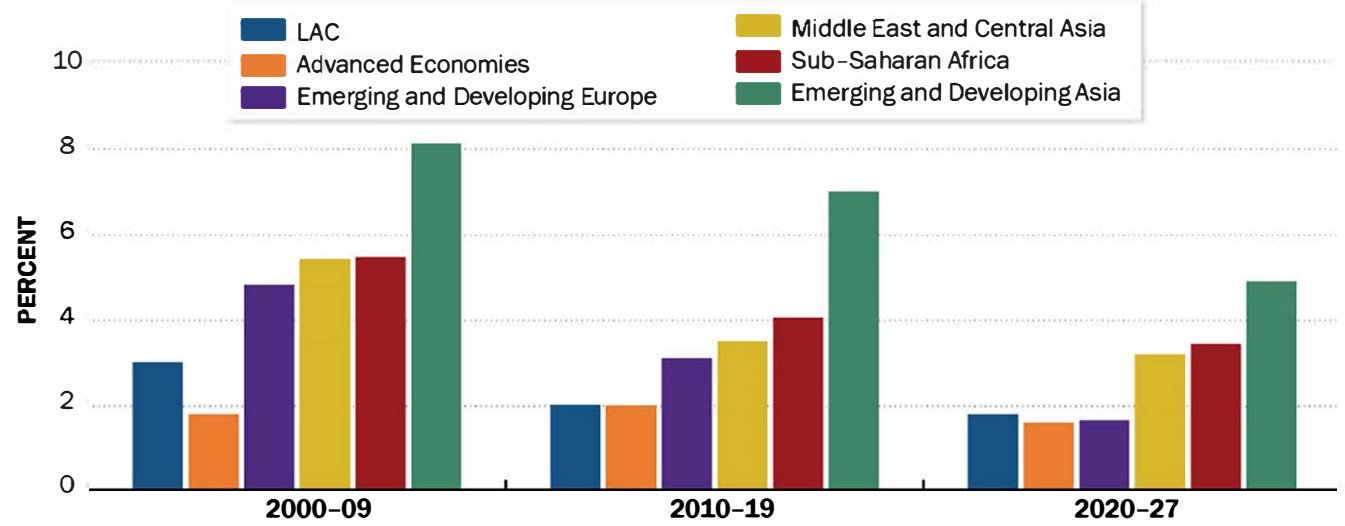
(U) **Latin America and the Caribbean (LAC) Macroeconomic and Socioeconomic Indicators**

(U) The region is consistently behind emerging market average growth, sapping investor interest compared with other world regions. As a result, GDP per capita has increased by roughly 30 percent since 1980, whereas GDP per capita has doubled for emerging markets worldwide.

(U) From 1990 to 2019, the region's poverty levels decreased to make way for a rising middle class, but the pandemic probably has upended these gains. Since 2000, the region's governments have spent below global averages or recommended levels on education and public health, which has contributed to the region's poor socioeconomic conditions.

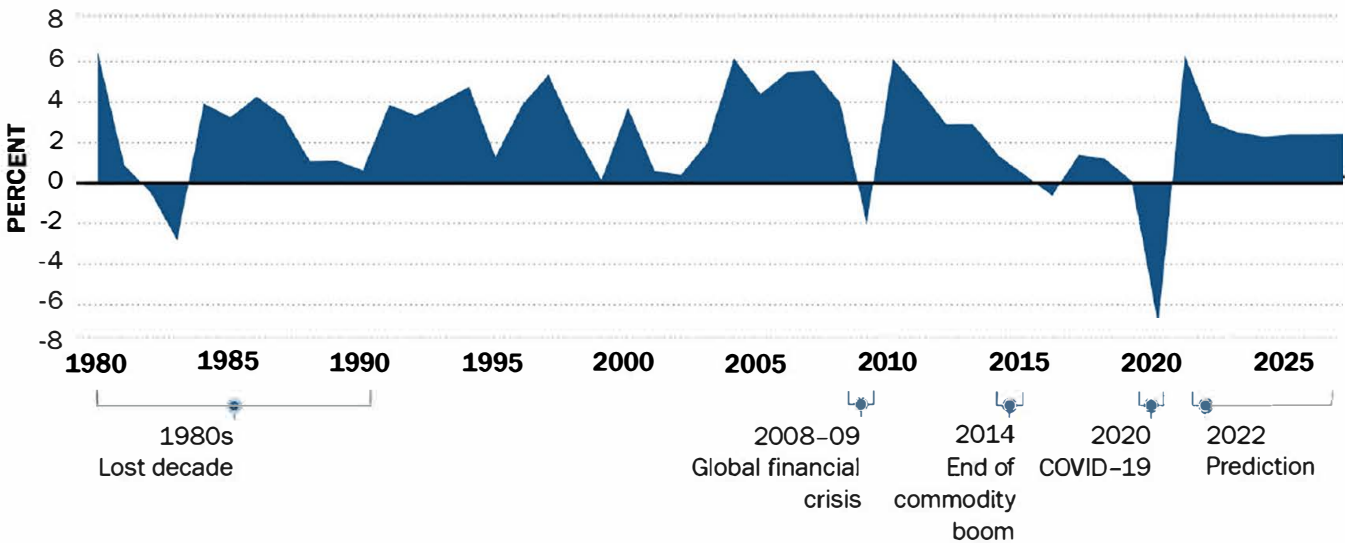
(U) These charts are UNCLASSIFIED.

(U) **GDP Growth By World Region**



(U) Source: IMF's World Economic Outlook, April 2022

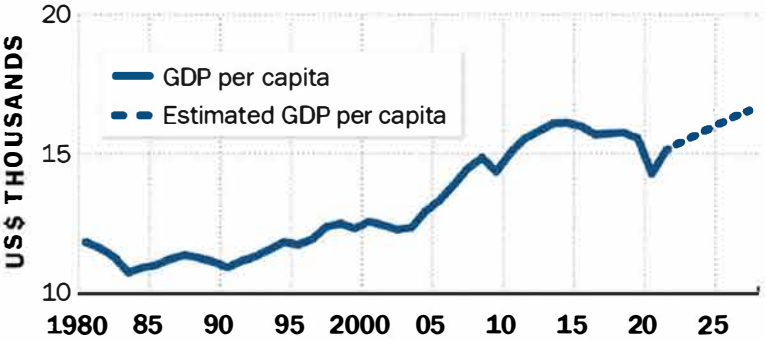
(U) **LAC GDP Growth, 1980-2027**



(U) Source: IMF's World Economic Outlook, April 2022

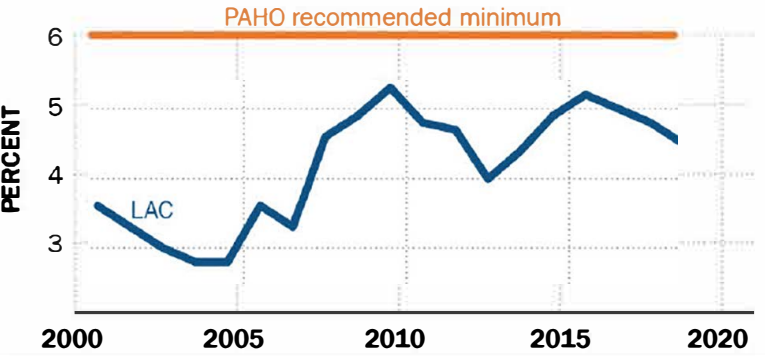
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(U) **LAC GDP per Capita, Constant Prices, 1980-2027**



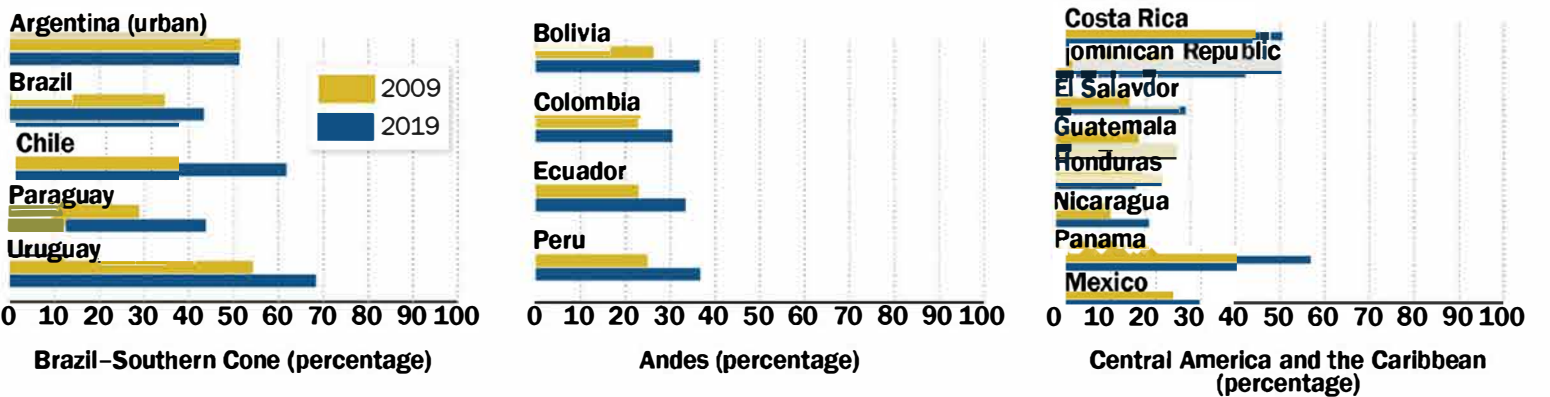
(U) Source: IMF's World Economic Outlook, April 2022

(U) **Public Health Spending as a Percentage of GDP**



(U) Source: World Bank

(U) **Middle Class as Share of Population, 2009-19**

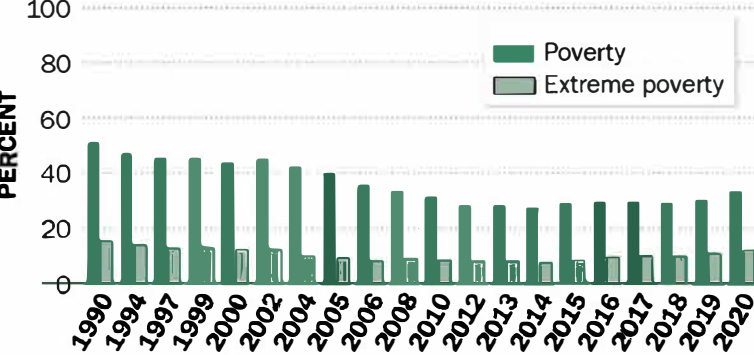


a. (U) Middle class is defined as an income of \$13-\$70 per day adjusted for inflation.

(U) Source: World Bank

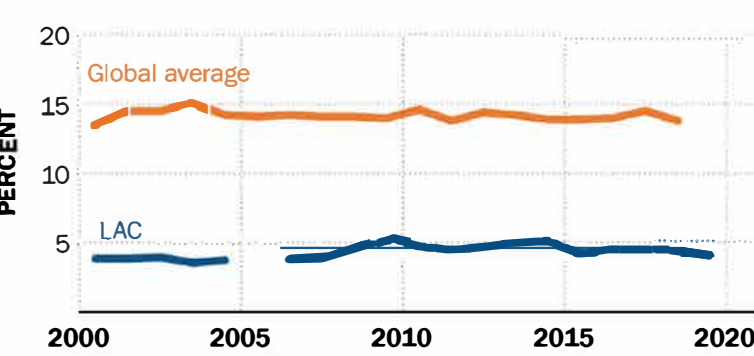
(U) These charts are UNCLASSIFIED.

(U) **LAC, Percentage of Population Living in Poverty and Extreme Poverty, 1990-2020**



(U) Source: ELCAC "Building Forward Better", March 2021

(U) **Education Spending as a Percentage of GDP**



(U) Source: World Bank



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(U) Key Takeaway

Persistent economic weakness, compounded by the damaging effects of the COVID-19 pandemic, insecurity, and corruption, are fueling public frustration and anti-status quo pressures that very likely will challenge Latin American and Caribbean (LAC) governments through 2030. Faced with competing demands to reinvigorate growth while addressing public demands for lasting reforms, Latin American leaders probably will have little flexibility to adjust budget priorities or borrow funds to meet key goals. The resulting shortfalls in government services and inability to create new jobs probably will stymie productivity gains and serve as a driver of US-bound migration.

- (U) Regional leaders most likely will prioritize quick economic fixes over difficult reforms to secure some policy successes. Many Latin American democracies will average two administration turnovers before 2030, creating tight timelines for leaders to achieve results without souring voters and creditors on a ruling party before the next presidential election.
- Regional leaders looking to the United States for support probably will be most open to engagement on improving access to education, renewable energy, and innovative financing to boost economic resiliency.

We have moderate confidence in our judgments, based on forecasts of private, regional, and international financial institutions and think tanks, US diplomatic reporting, . Fluctuations in commodity prices and interest rates are likely to influence LAC's economic performance.

Key Judgment 1: The Latin American and Caribbean region's economic growth through 2030 very likely will be too slow and uneven to realize major socioeconomic advances that meet the public's demands for improved living standards and public services. We assess that few governments will show the political durability or will to overcome entrenched socioeconomic deficiencies that will drive US-bound migration. In a positive development, we assess that the largest LAC economies probably will be able to ward off major shocks.

Key Judgment 2: We assess that the region's poor socioeconomic prospects will increase public frustration with and demands on leaders in ways that are likely to incentivize short-term fixes at the expense of macroeconomic and institutional changes that would promote better governance and growth. The appeal of often-polarizing populist figures and their policy agendas probably will increase and potentially thwart national and regional consensus on socioeconomic strategies through 2030.

Key Judgment 3: We assess that the region would be most open to US engagement on shared interests, such as improving access to quality education, attracting new private investment, and implementing a gradual strategy toward increasing renewable energy generation. LAC leaders are likely to look for consistency in US policies and engagements across US administrations in the face of regional narratives alleging US disinterest in the hemisphere.



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(U) Discussion

(U [REDACTED]) The outsized impact of the COVID-19 pandemic on Latin America and the Caribbean (LAC) has triggered region-wide recessions and socioeconomic setbacks that are challenging governments to respond. As of 2021, LAC suffered nearly one-third of the global deaths from COVID-19 despite representing 8 percent of the world's population. Most LAC countries experienced high job losses, rising poverty rates, higher emigration, localized political unrest, and shaken public faith in democracy's ability to raise living standards.

(U [REDACTED]) Most US partners in the LAC region probably will face formidable challenges in the coming years, including stubborn levels of poverty and labor informality. The average regional GDP per capita probably will not return to pre-pandemic levels until the end of 2023, and about half of the region will not recover until 2024 to 2027, according to International Monetary Fund (IMF) projections. From this year through 2027, the IMF expects the region's economic growth to hover at 2 percent below average for emerging markets and developing economies. These projections represent roughly \$100 billion in lost growth potential annually, suggesting foreign investors are likely to focus their capital and attention on other higher growth regions.

- (U [REDACTED]) Rising inflation, reflecting global increases in food and energy prices, is likely to contribute to deteriorating living standards and slower economic growth as LAC central banks increase interest rates in an attempt to control inflation. Following Russia's invasion of Ukraine, the region's commodity exporters will benefit from higher global prices, but reduced global trade flows, rising US interest rates, and inflation will offset some gains.

- [REDACTED] The region's ability to address security and economic risks to US interests most likely will depend on regional governments' ability to address the structural economic and political problems that underpin the region's anemic performance.

[REDACTED]



[REDACTED]