LATIN AMERICA and THE CARIBBEAN

Growth in Latin America and the Caribbean (LAC) is forecast to slow sharply in 2022 and remain weak in the following two years. Elevated inflation, tighter financial conditions, and policy uncertainty are expected to take a toll domestically, while slowing growth in key export markets, U.S. monetary tightening, and global supply bottlenecks impart negative spillovers to the region. The largest economies in LAC will be some of the slowest growing this year, dragging region-wide growth down to 2.5 percent. Growth is set to slow further in 2023 to just 1.9 percent. The Russian Federation's invasion of Ukraine has raised prices for many regional exports, but is likely to have a negative net effect on growth in LAC via weaker global trade and increases in input costs and consumer prices. Recent high inflation is likely to extend monetary policy tightening cycles. Risks to the baseline projections are tilted to the downside, and include further shocks to global growth, domestic stagflation, financial stress, and social unrest linked to sharply higher prices for food and energy.

Recent developments

The war in Ukraine has limited direct effects on Latin America and the Caribbean (LAC), given the region's modest trade and financial linkages with eastern Europe and central Asia, but there are substantial indirect spillovers via commodity prices and global growth. Current account and fiscal balances of some LAC commodity exporters are benefitting from high commodity prices (figure 2.3.1.A). However, positive effects on economic activity are being outweighed by rising consumer prices, higher policy interest rates to rein in inflation and weaker sentiment (World Bank 2022c). The net negative effect on growth compounds a slowdown already underway across the region. Even before the war, headwinds from high inflation, rising interest rates, and protracted supply chain disruptions had been weighing on activity. The recovery from the pandemic remains incomplete, hampered by structural impediments such as low productivity growth and high inequality (Dieppe 2021; World Bank 2022b).

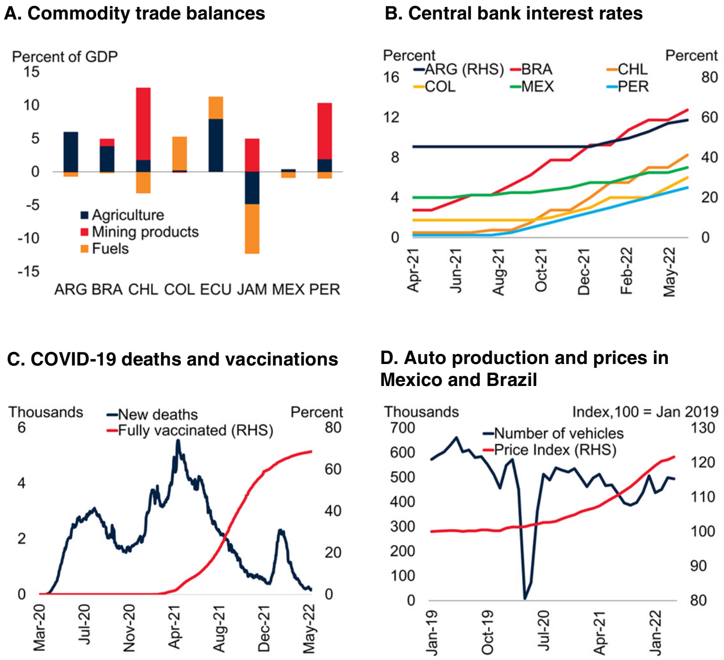
Inflation across LAC has risen well above central bank targets. Increases in food and fuel prices have been a major driver, but recent data show price acceleration broadening across consumption baskets. Adding to the pressures are supply chain bottlenecks in some countries (Brazil, Mexico) and above-trend domestic demand following stimulative policies in others (Chile, Colombia). In Argentina, amid rising international food and energy prices, continued, albeit declining, monetary financing of the fiscal deficit has contributed to pushing monthly inflation to about 6 percent. Monetary authorities in LAC have raised policy interest rates significantly and signaled further increases this year, even as activity indicators have remained soft in some countries (figure 2.3.1.B). Governments across the region (Chile, Colombia, Mexico, Suriname) have increased subsidies or cut taxes on fuel to limit the impact of high oil prices on consumers, while the government of Mexico has also introduced voluntary price agreements with the private sector, while suspending import tariffs for staple goods and facilitating access to fertilizer for small food producers.

Financial conditions in LAC have tightened notably in recent months, largely as a result of rising U.S. and domestic interest rates. Across Brazil, Chile, Colombia, Mexico, and Peru, the average ten-year government bond yield has increased by about 150 basis points year-to-date. LAC financial markets showed resilience early in

Note: This section was prepared by Phil Kenworthy.

FIGURE 2.3.1 LAC: Recent developments

Higher commodity prices will benefit fiscal and current account balances in much of LAC, but positive effects will be offset by sharply higher inflation and rapidly rising interest rates. High vaccination rates have led to substantial reductions in deaths from COVID-19, but supply chain disruptions continue to curb manufacturing output.



Sources: Federal Reserve Bank of St. Louis (database); Haver Analytics; national sources; Our World in Data (database); WTO stats (database); World Bank.

A. B. ARG = Argentina; BRA = Brazil; CHL = Chile; COL = Colombia; ECU = Ecuador; JAM = Jamaica; MEX = Mexico; PER = Peru.

A. Average of annual net exports as a percent of GDP for 2015-19.

B. Policy rates at the end of the reference month. Last observation is May 2022.

C. New deaths show seven-day moving average. Fully vaccinated is the number of people in LAC fully vaccinated as a percent of the LAC population. Last observation is May 30, 2022.

D. Sum of production of vehicles in Mexico and Brazil. Last observation is April 2022. Price index is an average of auto prices in Brazil, Mexico, and the United States.

the year, but reversed course in April as nonresident debt and equity flows turned negative and South American currencies depreciated swiftly. Sovereign spreads also widened, though they generally remain contained compared to historical episodes of financial stress in the region.

The spread of the Omicron variant of COVID-19 caused a sharp but brief spike in case rates in LAC in 2022Q1. The regional rise in deaths was muted by relatively high vaccination levels, though vaccination rates in several Caribbean countries remain below 40 percent, reflecting vaccine hesitancy and insufficient health infrastructure (figure 2.3.1.C; PAHO 2022). Successive COVID-19 waves around the world have exacerbated bottlenecks in LAC supply chains, weighing on manufacturing. For example, auto production in Mexico and Brazil remains far below 2019 levels despite high prices, illustrating the extent of supply chain frictions (figure 2.3.1.D).

Outlook

Growth in LAC is projected to slow sharply to 2.5 percent in 2022, after a post-pandemic rebound of 6.7 percent in 2021. The region's growth is expected to decelerate further in 2023, to 1.9 percent, before picking up slightly to 2.4 percent in 2024. This slowdown reflects the maturing of the recovery from the pandemic-recession, tighter financial conditions, in part because of faster-than-anticipated U.S. monetary tightening, weakening external demand growth, increased inflation, and high policy uncertainty in some countries. Regional growth in 2022 has been downgraded marginally from previous projections, by 0.1 percentage point. Growth in 2023 has been downgraded by 0.8 percentage point. This largely corresponds to the lagged effects on investment from rising interest rates. The growth outlook underscores the challenge to deliver rising living standards in LAC. Per capita GDP is set to increase just 0.6 percent between 2019 and 2023, compared to 1.3 percent per year in the preceding 20 years.

All large LAC economies except Mexico are net commodity exporters, so higher commodity prices will generally improve terms of trade and export earnings. Prices of several key exports are expected to be substantially higher on average in 2022, including oil, coal, agricultural commodities, copper, and gold. However, benefits to growth will take time to materialize and be dampened by factors such as adverse weather, which is impacting crop yields, and long lags in the response of metals production to higher prices (Boer, Pescatori, and Stuermer 2021). Further, commodity price developments are not as favorable for LAC as for predominantly energy-exporting regions. Surging energy prices instead represent sharply increasing input costs in many countries, while higher fertilizer costs will curb benefits from elevated agricultural export prices.

Brazil imports about 80 percent of its fertilizer, while Argentina imports close to 70 percent.

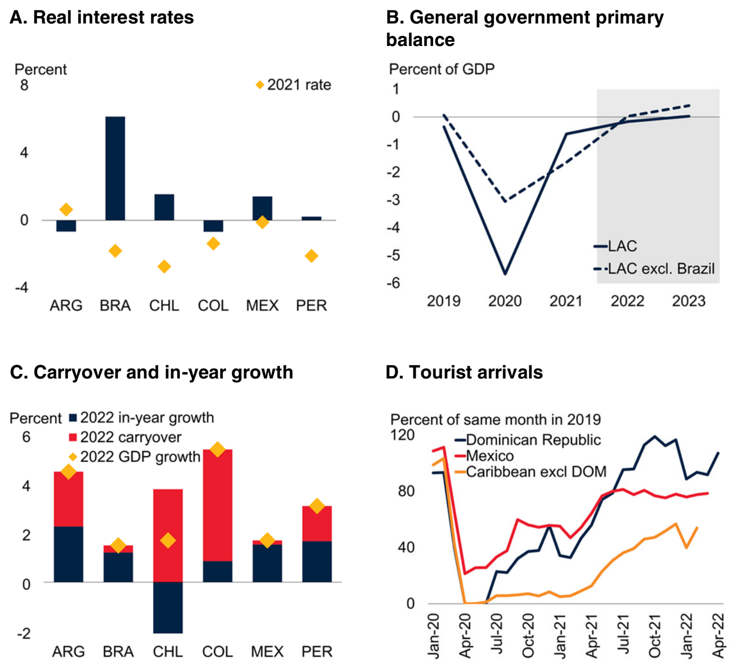
The ongoing monetary tightening cycle has seen real policy interest rates climb sharply in some LAC economies, but inflation is expected to remain above central bank targets throughout 2022, prompting further tightening (figure 2.3.2.A). In this context, investment in LAC is expected to rise only modestly, by 2.2 percent in 2022 and 1.6 percent in 2023. The projections assume fiscal consolidation in about three-quarters of LAC economies in 2022 and 2023. New policies to shield consumers from food and energy price rises in about 40 percent of LAC countries have reduced the pace of consolidation, but fiscal policy is still expected to exert a modest drag on growth (Acosta-Ormaechea, Goldfajn, and Roldos 2022). The regionwide primary fiscal deficit is expected to narrow to less than 1 percent of GDP in 2022 (figure 2.3.2.B).

In *Brazil*, growth is expected to fall sharply to 1.5 percent in 2022, from 4.6 percent in 2021, and then slow further to just 0.8 percent in 2023. After a solid start to 2022, growth is expected to wane over the year, owing to the squeeze on real incomes from double-digit inflation, stalling investment growth, and heightened domestic policy uncertainty. Recently announced programs to allow extraordinary withdrawals from unemployment insurance funds, accelerate social security payments, and extend concessional loans will offer some relief to households, but possibly at the cost of further stoking inflation. In 2023, weak momentum and the ongoing effects of tighter monetary policy on investment and activity are expected to limit growth.

Growth in *Mexico* is forecast to weaken to 1.7 percent in 2022, from 4.8 percent in 2021, before picking up slightly to 1.9 percent in 2023. Given above-target and broad-based inflation, the central bank is expected to continue raising interest rates throughout 2022, which will weigh on investment. Weaker output growth is also a consequence of supply bottlenecks, which have disrupted Mexico's globally integrated manufacturing sector and are expected to abate only gradually. Regulatory uncertainty in sectors

FIGURE 2.3.2 LAC: Outlook

Real interest rates have risen sharply in some LAC economies, and monetary policies are expected to tighten further, dampening demand. Fiscal policy will also exert a modest drag on growth in 2022. With tighter macroeconomic policies and weakening growth, much of projected growth in 2022 is due to carryover effects. Caribbean tourism is expected to continue to recover in coming years.



Sources: Consensus Economics; Haver Analytics; International Monetary Fund; national sources; World Bank.

A. Real interest rate is the central bank policy rate minus one-year-ahead inflation expectations constructed from 2022 and 2023 Consensus Economics estimates for consumer price inflation. Transformation is via the method used in Ruch (2021), Bordo and Siklos (2017), and Siklos (2013). "2021 rate" is the equivalent value for June 2021.

A. B. ARG = Argentina; BRA = Brazil; CHL = Chile; COL = Colombia; MEX = Mexico; PER = Peru.

B. Figure shows the GDP-weighted general government primary balance. Gray shading indicates forecasts. Sample includes 29 LAC economies.

C. Carryover assumes that real GDP is the same in every quarter of 2022 as it was in 2021Q4.

D. Data are international tourist arrivals. Caribbean includes Antigua and Barbuda, The Bahamas, Barbados, Belize, Jamaica, and St. Lucia. Last observation is February 2022 for tourism to the Caribbean, April 2022 the Dominican Republic and March 2022 for tourism to Mexico. DOM = the Dominican Republic.

such as energy and extractives may dampen investment, despite supportive prices. Tax cuts intended to limit fuel price increases will provide some relief for households, but are not targeted to those most in need.

Output in *Argentina* is expected to grow 4.5 percent in 2022 and 2.5 percent in both 2023 and 2024. The projected expansion in 2022 represents a 1.9 percentage point upgrade from previous forecasts, which is close to the statistical carryover effect from strong growth momentum (figure 2.3.2.C). Net trade is forecast to be broadly neutral for growth, while the rising cost of imported energy compared to 2021 is expected to limit current account benefits from higher prices for agricultural exports. High energy prices will put pressure on spending, given large energy subsidies. Control of inflation remains elusive, which will continue to weigh on activity.

Growth in *Colombia* is projected to reach 5.4 percent in 2022, mostly owing to carryover effects, and 3.2 percent in 2023. Monetary policy is expected to tighten this year, while the primary fiscal deficit is envisioned to decline rapidly over the forecast horizon as the yield from recent tax reforms kicks in and pandemic-related spending declines. Colombia's current account balance will benefit substantially from higher prices for oil, coal, and metals.

Chile is forecast to grow 1.7 percent in 2022 owing to carryover effects from strong consumption growth. Rapid tightening of fiscal and monetary policies in light of elevated inflation is projected to slow activity in 2022, though the current account balance is expected to improve markedly as imports fall. Annual growth is forecast to slow further in 2023 to 0.8 percent, as export growth declines and investment remains subdued.

Peru is projected to grow by 3.1 percent in 2022 and 2.9 percent in 2023, bolstered by increasing mining output, though heightened policy uncertainty will curb investment. The ongoing normalization of labor markets will support steady expansion of consumption, as will growth in government spending.

Growth in *Central America* is forecast at 3.9 percent in 2022 (on a GDP-weighted basis), moderating to 3.5 percent in 2023. Growth and consumption will slow more than previously forecast in 2022-23, broadly tracking activity in the United States, the main source of export demand and remittances. Fiscal policy is expected to be contractionary in much of Central America, as pandemic-related spending is withdrawn, and governments seek to stabilize debt, though in *Guatemala*, public spending is expected to increase, supporting growth in 2022. Across most of Central America oil imports will weigh on terms of trade, while sharply rising food prices will cut into real household spending. *Panama* is a set to outperform the surrounding region, with growth of 6.3 percent in 2022 thanks to rising mining output and a pick-up in tourism.

For the *Caribbean*, robust growth of 6.9 percent is forecast for 2022, slowing slightly to 6.5 percent in 2023. The continued, but incomplete, recovery of tourism towards pre-pandemic levels is an important driver of growth, supporting exports, employment, and investment (figure 2.3.2.D). In addition, *Guyana's* economy is forecast to double in size in 2022-23, on account of the rapid development of the offshore oil and gas industry. In *Jamaica*, increasing alumina production will boost exports, though dependence on imported oil will weigh on the current account.

Risks

Risks to the forecast are to the downside. In the context of unusually high uncertainty over the global outlook, there is a significant risk that weaker-than-expected growth in major trading partners could result in softer exports and investment in LAC. China is the largest export market for most South American countries, while for Mexico and Central America, the United States provides the majority of export demand and remittances (figure 2.3.3.A). A sharper slowdown in China would likely lead to lower prices for LAC exports such as copper, soybeans, and iron ore. Given sluggish domestic demand, a negative external shock would further increase the chances of recession in some large LAC economies.

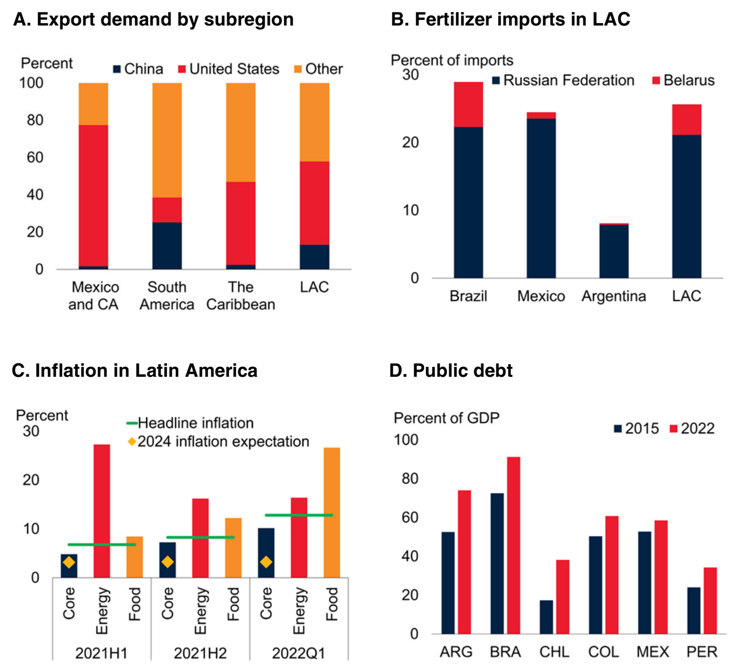
Russia's invasion of Ukraine has exacerbated the rise in fertilizer prices. The largest agricultural producers in LAC depend on fertilizer imports, as the region has limited production capacity. In 2019, LAC countries sourced about one-quarter of these fertilizer imports from Belarus and Russia (figure 2.3.3.B). So far, fertilizer inventories and planting schedules have prevented rising fertilizer costs from substantially impacting crop yields. However, if war-related disruptions, recession in Russia, and continued high energy prices cause fertilizer shortages, future harvests could be impacted (World Bank 2022d). As a direct consequence, agricultural output in LAC could fall. Indirect reverberations could be more severe. Food prices could rise further, increasing food insecurity and poverty—high food prices could contribute to an additional 3 million people in LAC experiencing extreme poverty in 2022, versus pre-pandemic projections (Mahler et al. 2022). Social unrest could follow, dampening investment and sentiment. In response, governments might be tempted to pursue ultimately counterproductive policies such as price controls and export restrictions (World Bank 2020).

Given the history of inflation problems and macroeconomic instability in LAC, there is a serious risk that high inflation becomes embedded in inflation expectations. Though medium-term measures of inflation expectations appear relatively well-anchored, core inflation in the region's largest economies has risen swiftly alongside food and fuel prices (figure 2.3.3.C). If inflation does not decline substantially in the coming months, the region's central banks may be forced to raise interest rates significantly more than expected, even in the context of slowing growth, possibly resulting in a sharp slowdown or recession.

Another risk, especially given rising U.S. interest rates, is that negative sentiment and regional vulnerabilities combine to generate financial stress. The pandemic has weakened long-term growth prospects and public debt-to-GDP ratios in the largest LAC economies are expected to be on average 18 percentage points higher in 2022 than they were in 2015 (figure 2.3.3.D). Sovereign spreads remain contained, but further shocks to activity or sentiment could see investors reappraise growth outlooks and debt-carrying capacity in LAC. Capital outflows and increases in risk premia could follow. Countries with elevated public debt or lacking strong fiscal frameworks could be at particular risk, especially where high levels of uncertainty and fractious politics make it challenging for policy makers to credibly commit to necessary reforms. Debt management strategies that lean towards excessive short-term or external debt could exacerbate vulnerabilities in some countries in the region.

FIGURE 2.3.3 LAC: Risks

Slower-than-forecast growth in major trading partners would pose risks to export demand in LAC. Dependence on imported fertilizer could compromise food production. Increases in core inflation may necessitate faster-than-expected monetary tightening. Public debt has risen considerably across the region in recent years, eroding financial buffers.



Sources: Comtrade (database); Consensus Economics; Haver Analytics; International Monetary Fund; World Bank.

A. CA = Central America. Shows the source of export demand for 2019 and 2020 exports. "Other" includes intraregional exports.

B. Percent of imports. LAC sample includes 18 economies.

C. Data represent averages for Brazil, Chile, Colombia, and Mexico. Rates of inflation in each category and time period are annualized for comparability. Data are seasonally adjusted. 2024 inflation expectation is the Consensus Economics inflation forecast for 2024. Categories contain some common elements and category definitions vary by country.

D. General government gross debt as a percentage of GDP. ARG = Argentina; BRA = Brazil; CHL = Chile; COL = Colombia; MEX = Mexico; PER = Peru.

TABLE 2.3.1 Latin America and the Caribbean forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f	Percentage point differences from January 2022 projections 2022f	2023f
EMDE LAC, GDP [1]	**0.8**	**-6.4**	**6.7**	**2.5**	**1.9**	**2.4**	**-0.1**	**-0.8**
GDP per capita (U.S. dollars)	-0.3	-7.4	5.7	1.7	1.1	1.6	0.0	-0.8
(Average including countries that report expenditure components in national accounts)[2]								
EMDE LAC, GDP [2]	0.8	-6.5	6.7	2.4	1.8	2.4	-0.1	-0.8
PPP GDP	0.8	-6.7	6.9	2.5	1.9	2.4	-0.1	-0.7
Private consumption	1.1	-7.9	7.3	2.8	2.1	2.4	0.1	-0.8
Public consumption	0.0	-2.4	3.7	0.8	0.5	0.5	-1.0	0.3
Fixed investment	-0.7	-11.0	17.4	2.2	1.6	3.5	0.7	-2.1
Exports, GNFS [3]	0.8	-8.9	8.2	4.9	4.7	4.2	-0.4	0.1
Imports, GNFS [3]	-0.8	-13.9	17.7	4.3	4.3	4.2	0.2	-0.6
Net exports, contribution to growth	0.4	1.2	-2.0	0.1	0.0	0.0	-0.1	0.1
Memo items: GDP								
South America [4]	0.9	-5.8	7.0	2.5	1.6	2.3	0.4	-1.0
Central America [5]	2.7	-7.6	10.3	3.9	3.5	3.6	-0.8	-0.2
Caribbean [6]	3.2	-6.7	8.9	6.9	6.5	4.0	-0.4	0.6
Brazil	1.2	-3.9	4.6	1.5	0.8	2.0	0.1	-1.9
Mexico	-0.2	-8.2	4.8	1.7	1.9	2.0	-1.3	-0.3
Argentina	-2.0	-9.9	10.3	4.5	2.5	2.5	1.9	0.4

Source: World Bank.

Note: e = estimate; f = forecast; PPP = purchasing power parity; EMDE = emerging market and developing economy. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. The World Bank is currently not publishing economic output, income, or growth data for República Bolivariana de Venezuela owing to a lack of reliable data of adequate quality. República Bolivariana de Venezuela is excluded from cross-country macroeconomic aggregates.

1. GDP and expenditure components are measured in average 2010-19 prices and market exchange rates.
2. Aggregate includes all countries in notes 4, 5, and 6, plus Mexico, except Antigua and Barbuda, Barbados, Dominica, Grenada, Guyana, Haiti, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Suriname.
3. Exports and imports of goods and nonfactor services (GNFS).
4. Includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, and Uruguay.
5. Includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.
6. Includes Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Suriname.

TABLE 2.3.2 Latin America and the Caribbean country forecasts[1]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f	Percentage point differences from January 2022 projections: 2022f	2023f
Argentina	-2.0	-9.9	10.3	4.5	2.5	2.5	1.9	0.4
Bahamas, The	0.7	-14.5	5.6	6.0	4.1	3.0	-2.0	0.1
Barbados	-1.3	-13.7	1.4	11.2	4.9	3.0	2.7	0.1
Belize	2.0	-16.7	9.8	5.7	3.4	2.0	1.7	1.6
Bolivia	2.2	-8.7	6.1	3.9	2.8	2.7	0.4	0.1
Brazil	1.2	-3.9	4.6	1.5	0.8	2.0	0.1	-1.9
Chile	0.8	-6.0	11.7	1.7	0.8	2.0	-0.5	-1.0
Colombia	3.2	-7.0	10.6	5.4	3.2	3.3	1.3	-0.3
Costa Rica	2.4	-4.1	7.6	3.4	3.2	3.2	-0.1	0.0
Dominica	5.5	-11.0	3.7	6.8	5.0	4.6	-1.3	-0.9
Dominican Republic	5.1	-6.7	12.3	5.0	5.0	5.0	0.0	0.0
Ecuador	0.0	-7.8	4.4	3.7	3.1	2.9	0.6	0.6
El Salvador	2.6	-8.0	10.7	2.7	1.9	2.0	-1.3	-0.6
Grenada	0.7	-13.8	5.3	3.8	3.4	3.1	-0.6	-0.4
Guatemala	4.0	-1.8	8.0	3.4	3.4	3.5	-0.5	-0.1
Guyana	5.4	43.5	19.9	47.9	34.3	3.8	-1.8	9.3
Haiti[2]	-1.7	-3.3	-1.8	-0.4	1.4	2.0	-0.4	-0.1
Honduras	2.7	-9.0	12.5	3.1	3.6	3.7	-1.3	-0.2
Jamaica	0.9	-10.0	4.6	3.2	2.3	1.2	0.2	0.3
Mexico	-0.2	-8.2	4.8	1.7	1.9	2.0	-1.3	-0.3
Nicaragua	-3.8	-1.8	10.3	2.9	2.3	2.5	-0.1	-0.2
Panama	3.0	-17.9	15.3	6.3	5.0	5.0	-1.5	0.0
Paraguay	-0.4	-0.8	4.2	0.7	4.7	3.8	-3.3	0.8
Peru	2.2	-11.0	13.3	3.1	2.9	3.0	-0.1	-0.1
St. Lucia	-0.1	-20.4	6.6	6.4	5.2	3.3	-3.2	-1.9
St. Vincent and the Grenadines	0.4	-5.3	-2.8	3.7	6.4	3.2	-4.6	0.3
Suriname	1.1	-15.9	-3.5	1.8	2.1	2.7	0.0	0.0
Uruguay	0.4	-6.1	4.4	3.3	2.6	2.5	0.2	0.1

Source: World Bank.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

1. Data are based on GDP measured in average 2010-19 prices and market exchange rates.

2. GDP is based on fiscal year, which runs from October to September of next year.

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