Global Economic Prospects: June 2023

Recent developments: In 2022, growth slowed in major Latin American economies due to weaker external demand and monetary tightening. Argentina and Brazil experienced a contraction in the fourth quarter of 2022, while other economies saw softer growth. This slowdown carries over into projected growth for 2023. In this year's first quarter, private sector activity has shown weak but improving growth, while consumer confidence has been mixed across the region. Prices of main export commodities have partly recovered after declines in late 2022.

Although tourism has not fully recovered from the pandemic, popular tourism destinations have benefited from external demand. Central banks in the region have maintained elevated interest rates to combat persistently high core inflation. Fiscal balances improved in 2022, providing support to monetary efforts. Social unrest and political uncertainty have affected consumer and investor confidence in several Latin American countries, with policy adjustments being discussed across the region.

Outlook: Growth in LAC is projected to slow further in 2023, to 1.5 percent. Weak growth in advanced economies is expected to weigh on export demand, while continuing tight monetary policies in those economies, together with persistently high domestic inflation, are likely to prevent any material near-term easing of financial conditions.

Brazil's growth is expected to slow to 1.2 percent in 2023, with a slight pickup to 1.4 percent in 2024. Mexico's growth rate is projected to moderate to 2.5 percent in 2023 and continue growing by 1.9 percent in 2024. Argentina's output is projected to fall in 2023 to a negative 2 percent and then grow by 2.3 percent in 2024 as the economy recovers from this year's major drought that has impacted its agricultural production.

Colombia's growth is expected to weaken to 1.7 percent in 2023, with a pickup to 2 percent in 2024. Chile is likely to experience a contraction of 0.4 percent in 2023, followed by 1.8 percent in 2024. Peru's growth in 2023 is projected at 2.2 percent, with a slight increase to 2.6 percent in 2024.

Central America's growth is expected to slow to 3.6 percent in 2023, picking up slightly to 3.8 percent in 2024. Remittances and tourism are expected to support activity in the region. In the Caribbean, besides the oil boom in Guyana, the rest of the subregion's countries are expected to grow at an average rate of 3.3 percent in 2023, boosted by continued recovery in tourism and buoyant remittances.

In the current decade, the potential output growth in the region is expected to be the lowest among emerging market and developing economy (EMDE) regions as a result of below-average growth of both total factor productivity and the labor force.

Risks: The outlook is subject to various downside risks. Persistent inflation in advanced economies may require their central banks to maintain tighter monetary policies than assumed in the baseline. In particular, LAC currencies may depreciate against those of advanced economies, increasing debt-service costs and further pushing up local inflation

Additionally, there is a risk that China's real estate sector weakens even further. This would affect metal prices – mostly copper and iron ore, posing a downside risk to Brazil, Chile, and Peru. Finally, climate change continues to pose risks to the region. For example, droughts in Argentina or excessive rainfall in Colombia could again increase the probability of extreme La Niña or El Niño events.

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Latin America and the Caribbean Country Forecasts

(Annual percent change unless indicated otherwise)

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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. 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.

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