

Consolidating the Recovery: Seizing Green Growth Opportunities

Semiannual report for
Latin America and the Caribbean

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World Bank – April 2022



Chapter 1: Consolidating an Uncertain Recovery

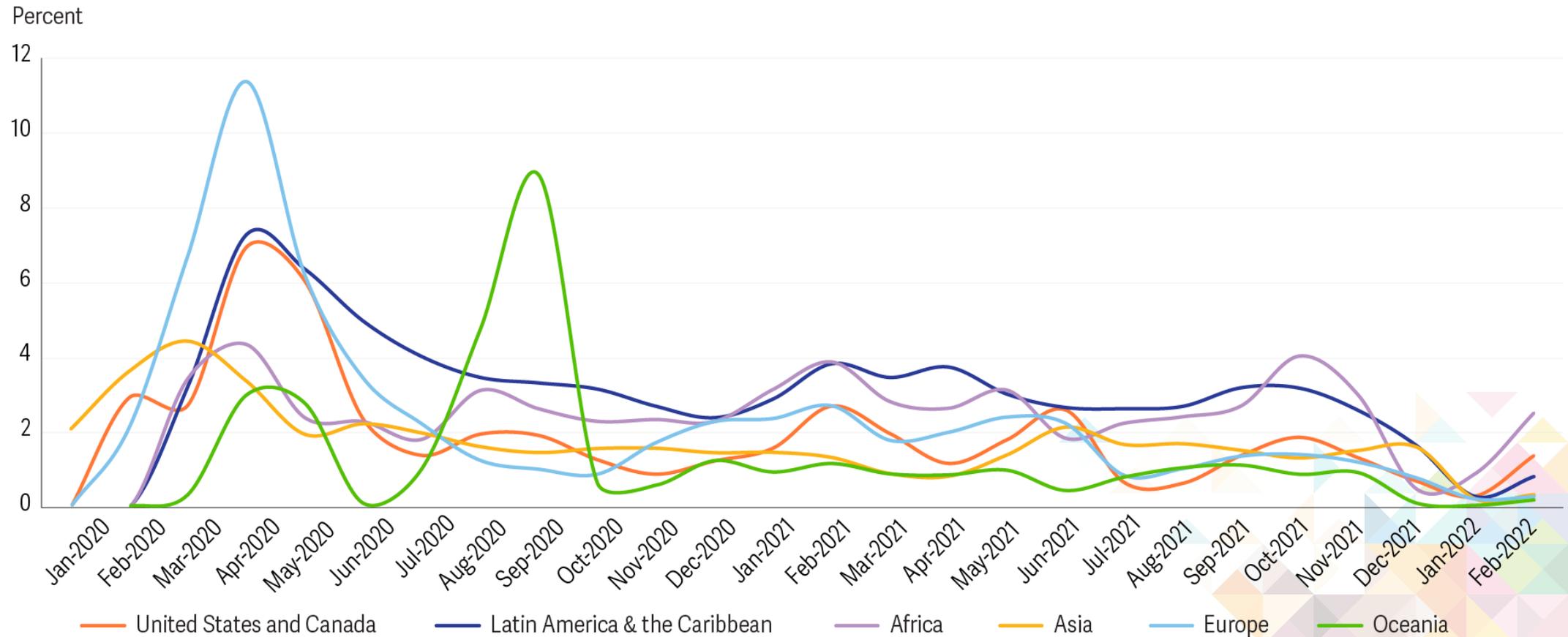
- COVID-19: Fading Threat, but Still Work to Do
- Growth: Anemic and Increasingly Uncertain
- Risks to the Recovery
- From Fiscal Stimulus to Debt Sustainability
- Banking Crises?: Receding Risk, but Vigilance Needed



COVID-19: Fading Threat, but Still Work to Do

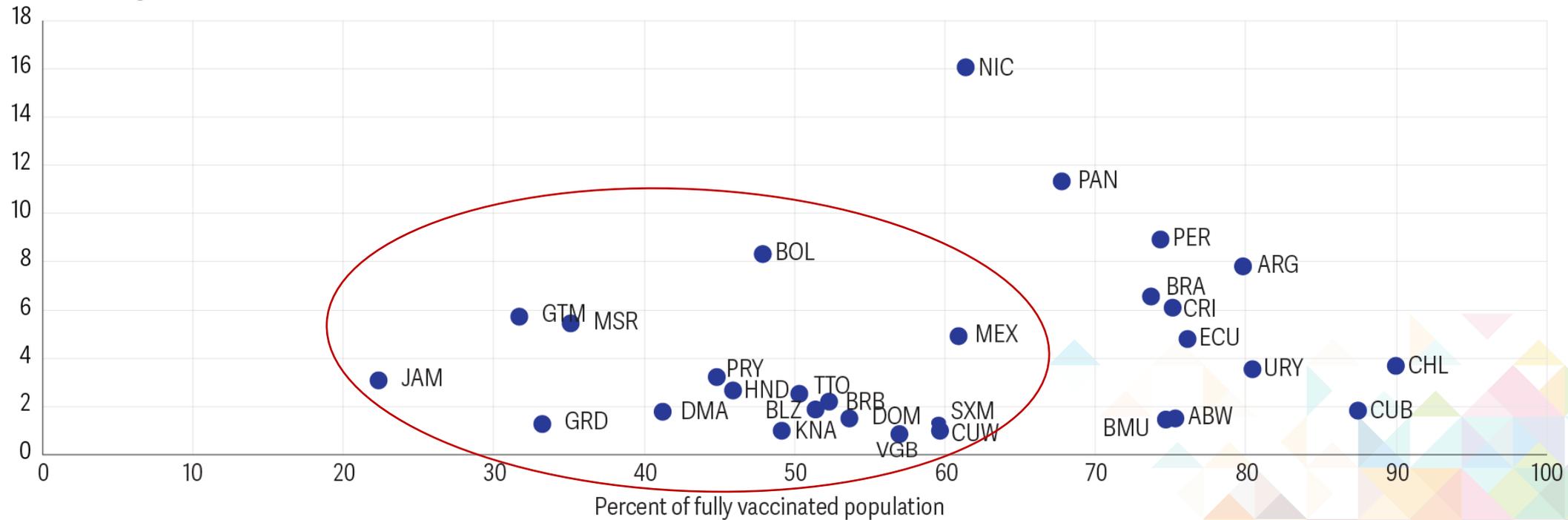


Despite recent record-high new cases in LAC, COVID-19 fatality ratios are at the lowest level



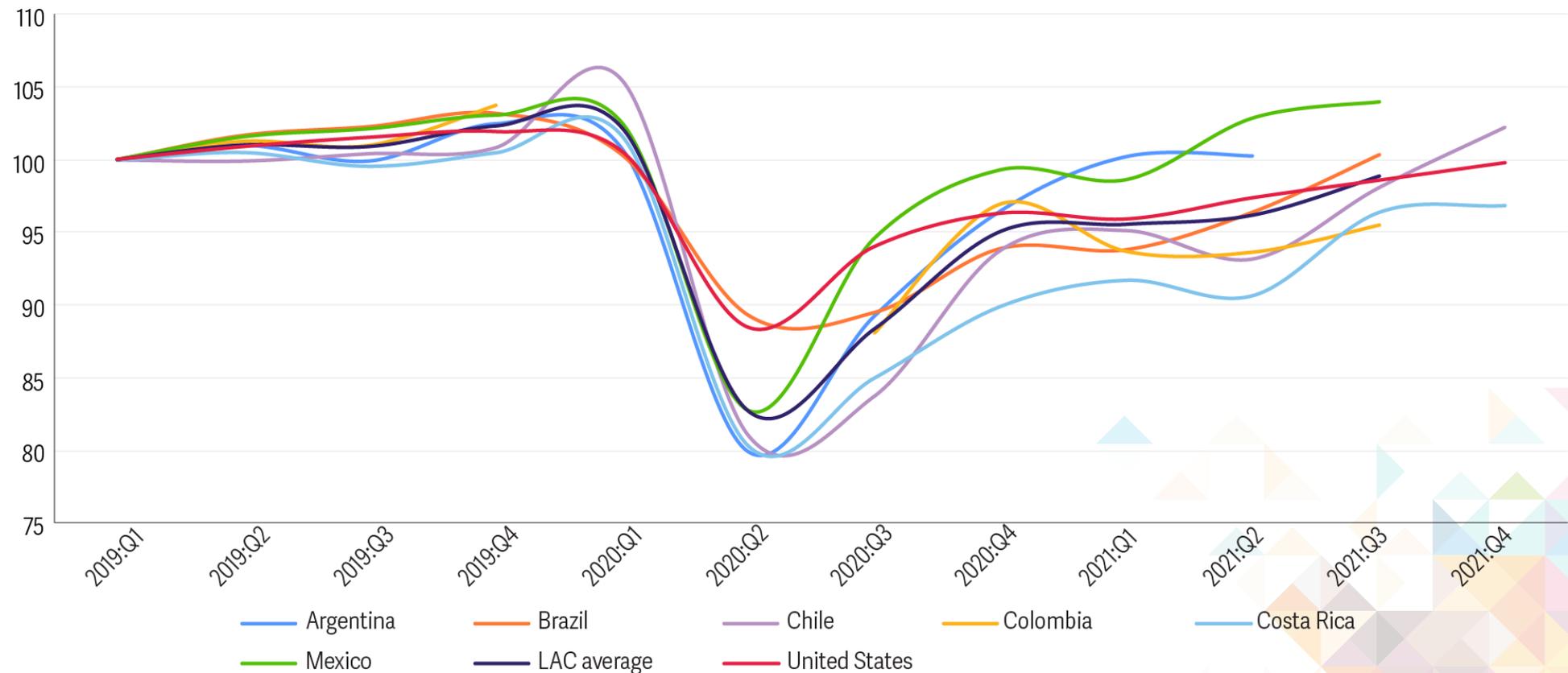
Despite globally high rates of vaccination in South America, many LAC countries remain vulnerable to new variants

Percent change of fully vaccinated population in 2022



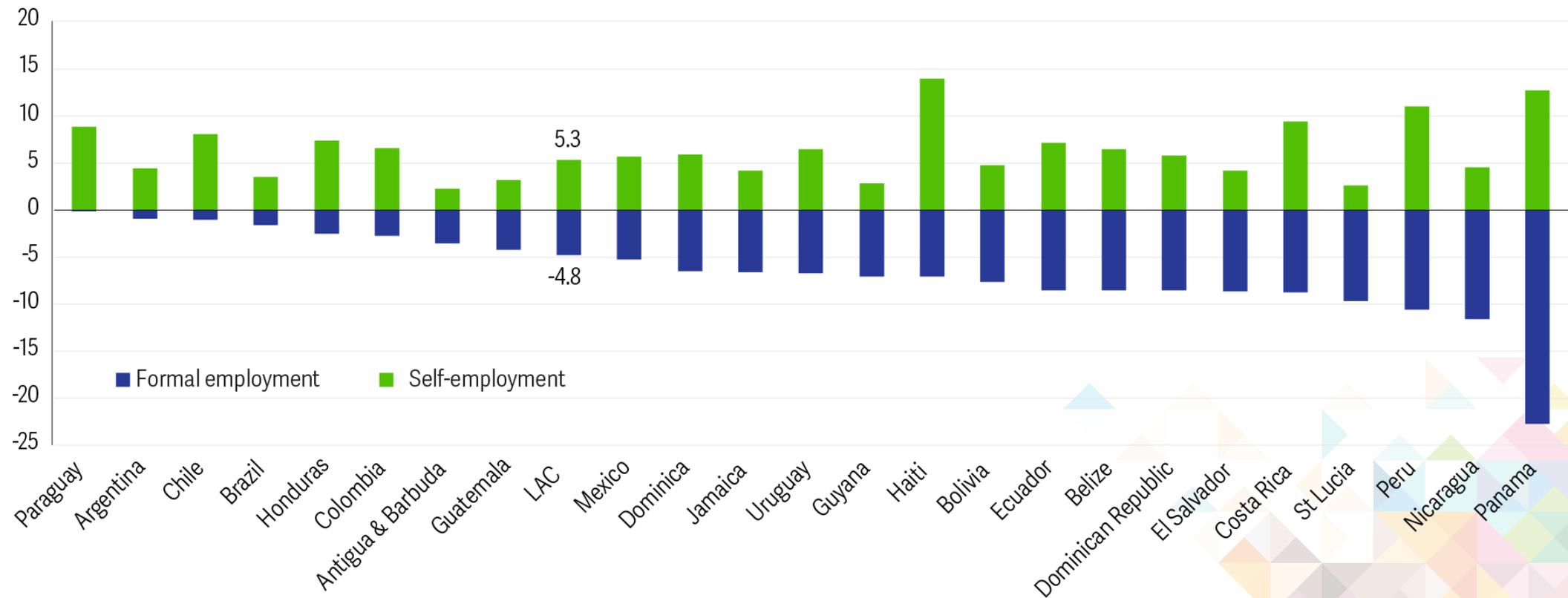
Employment losses were vast but have almost been recovered

Total employment, 2019:Q1 = 100



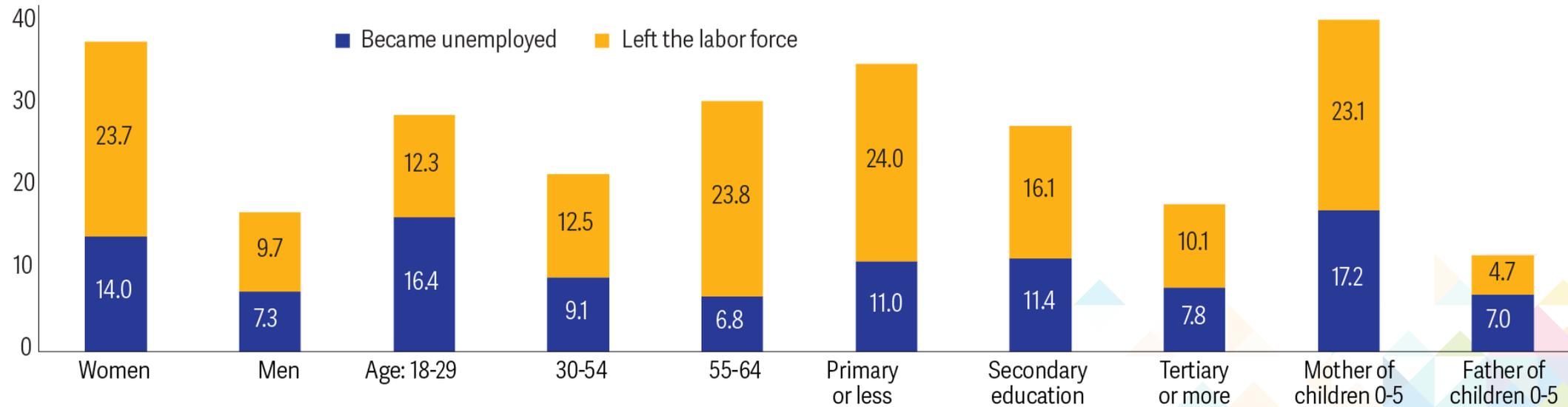
However, job quality has deteriorated- Informality has increased

Percentage point change in the share of formal employment and self-employment, HFPS-II period vs. before the pandemic



... and recovery is uneven across groups, most notably women and primary educated.

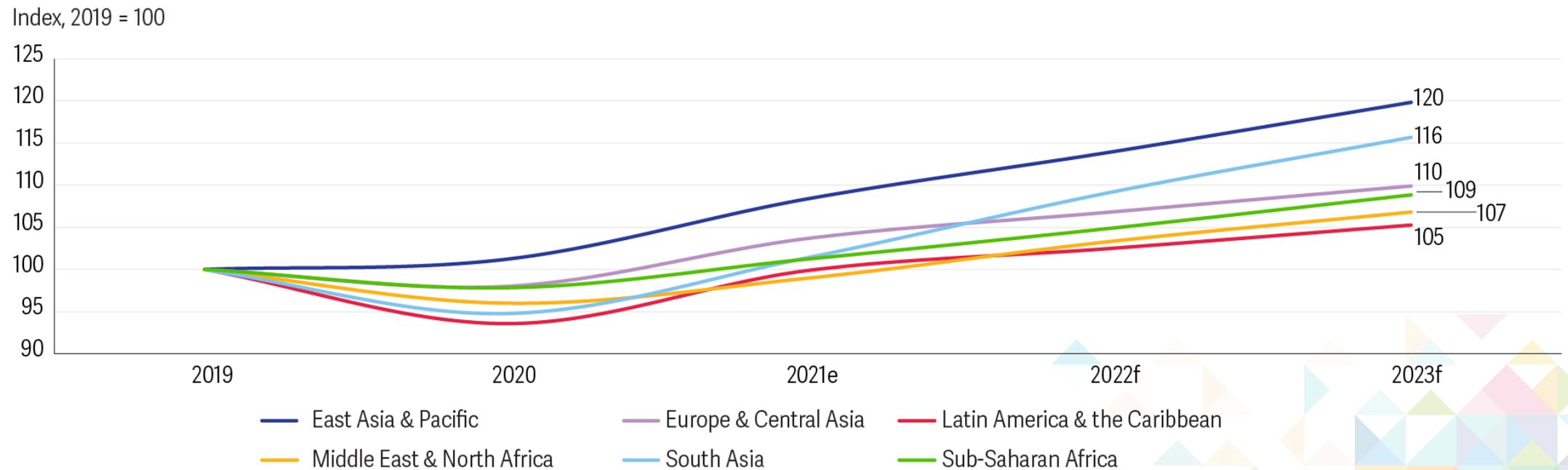
Change in employment status



Growth: Anemic and Increasingly Uncertain

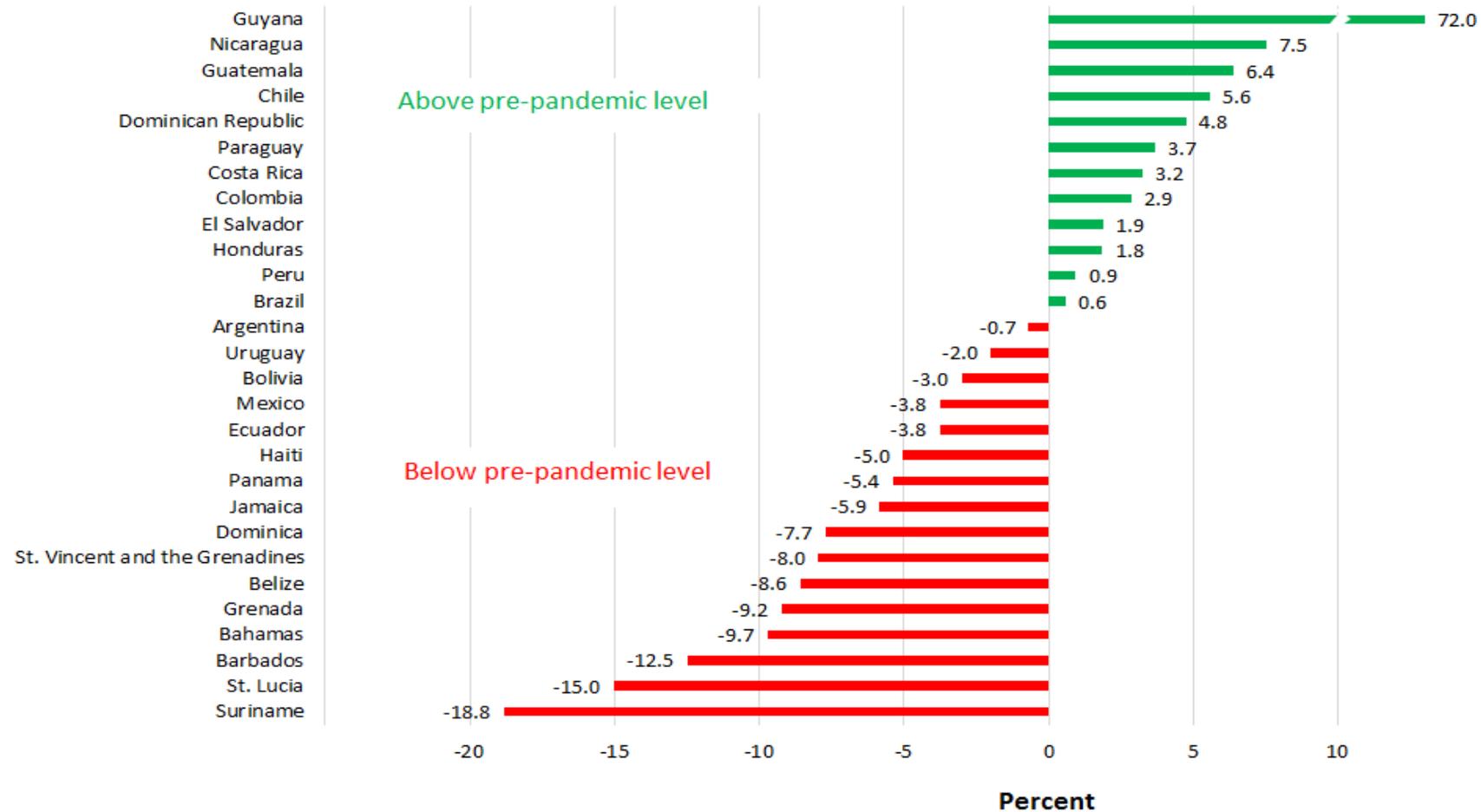


LAC is recovering to pre-pandemic levels, and business confidence has returned, but recovery is the weakest globally.



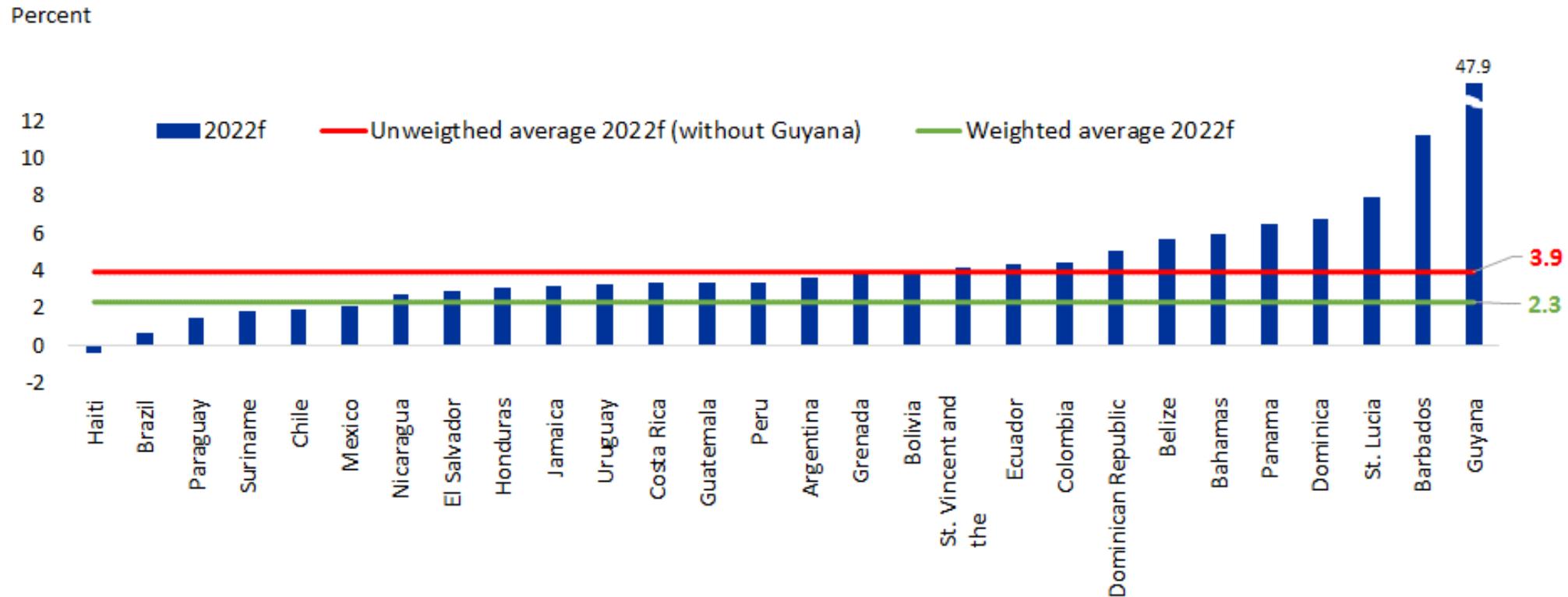
... and varies greatly across countries

GDP growth 2019-2021



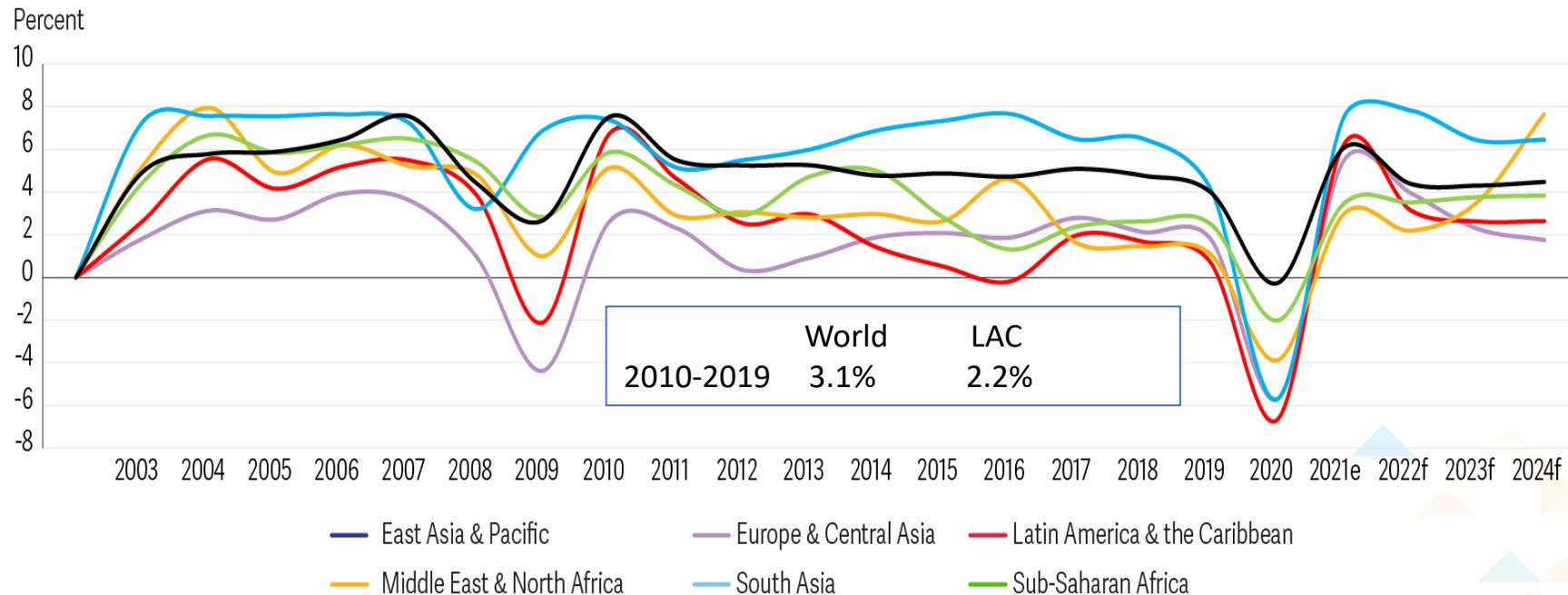
Anemic growth rates forecasted for 2022

GDP growth rate in LAC in 2022f



Meager growth rates expected, similar to those of the 2010s

Real GDP Growth



- LAC growth forecasts are expected to remain low:
 - 2022: 2.3%
 - 2023: 2.2%
 - 2024: 2.4%
- See SA2021 for discussion of growth related reforms

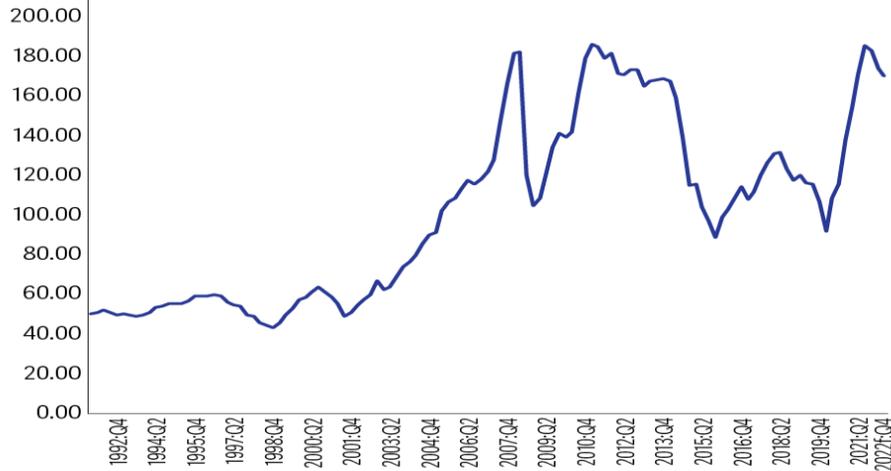
Risks to the Recovery



Tailwinds remain favorable from a historical perspective, but increasingly less so

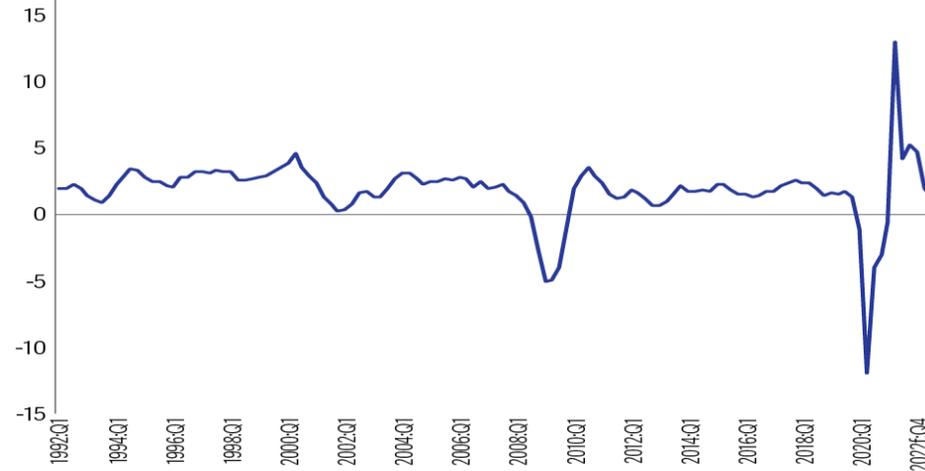
a. Commodity price index

Index, 2016:Q2 = 100



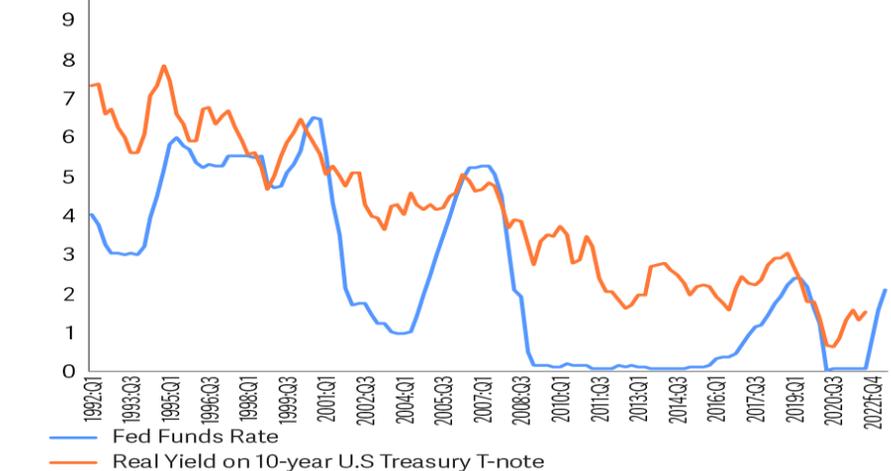
b. G7 growth

Percent



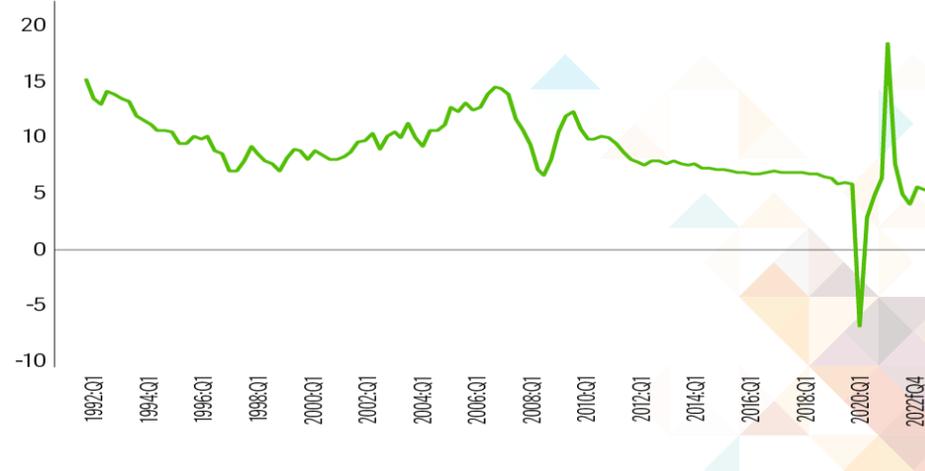
c. Fed Funds rate and 10-year US Treasury yields

Percent



d. China growth

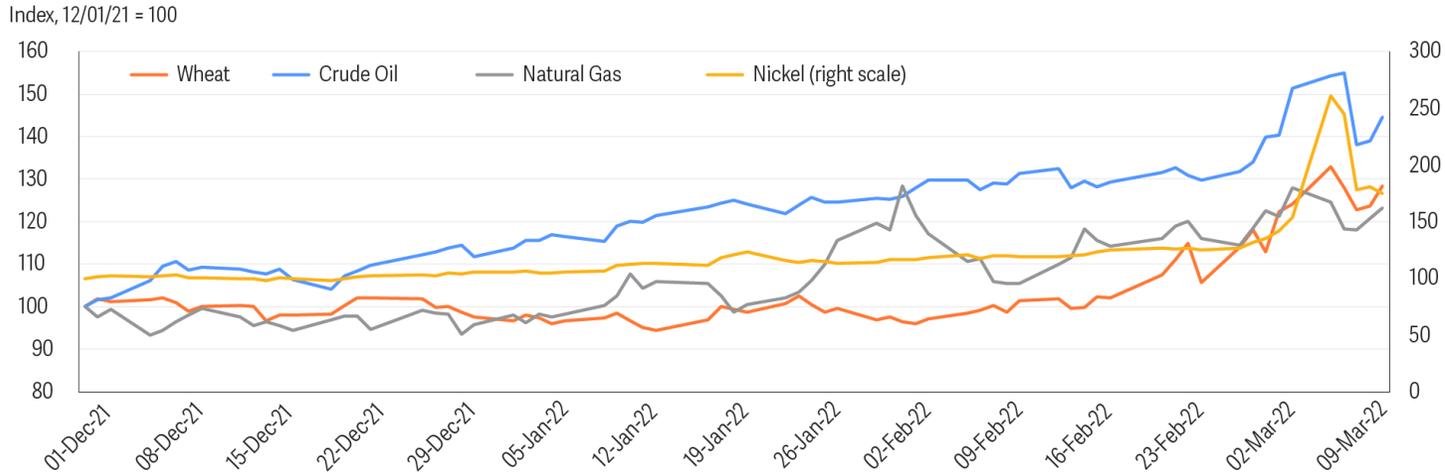
Percent



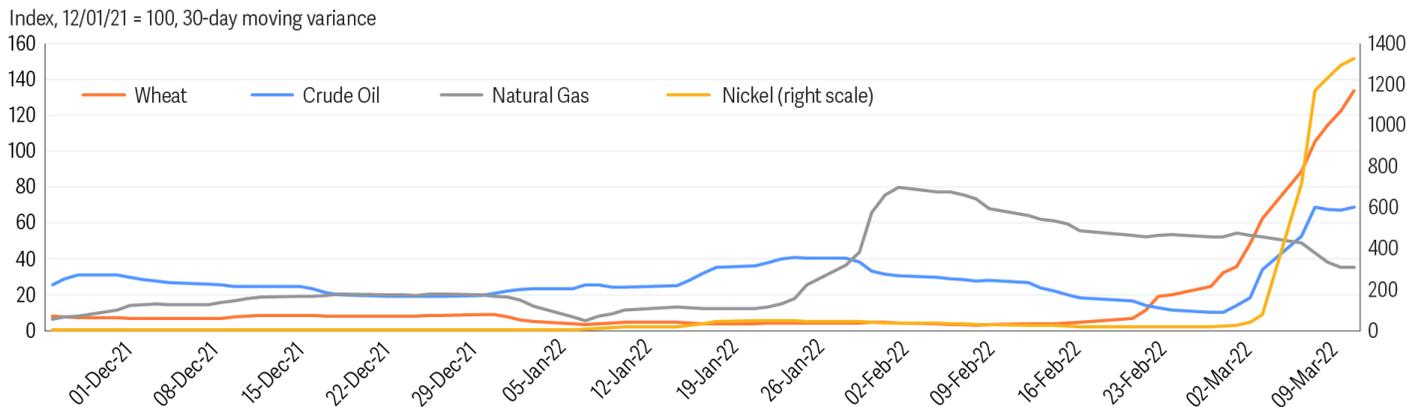
Together explain 88% of LAC performance

The Russian invasion of Ukraine slows recovery and injects uncertainty

Commodity Prices- Level



Commodity Prices - Variance



Impact on LAC growth forecasts: **-.4%**

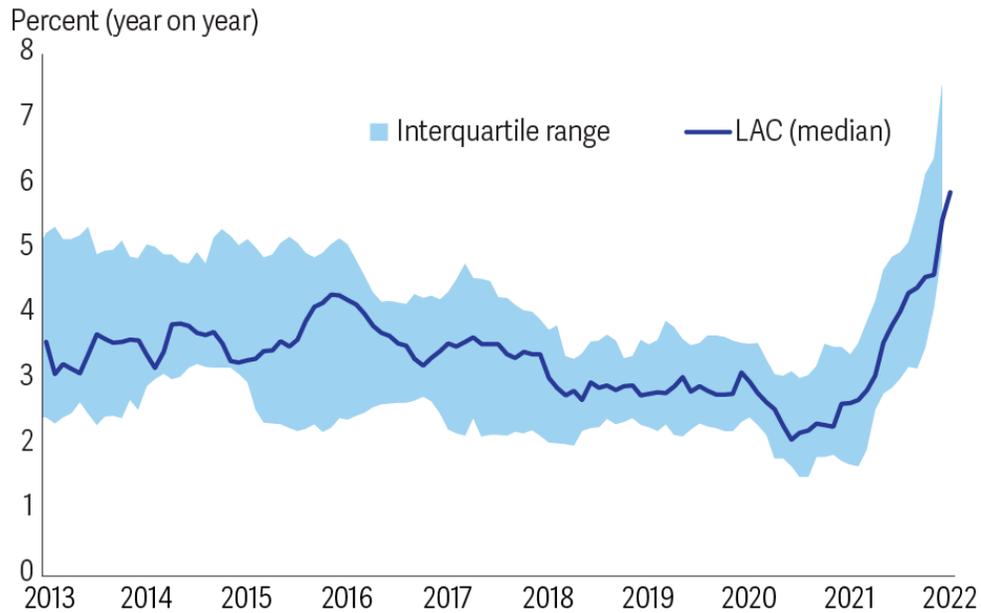
- Yes, higher commodity rents for *exporters* but... hurts importers
- Drought-inability to take advantage of higher grain export prices
- Slower advanced country growth
- Exacerbated inflation
- Input bottlenecks (fertilizer)
- Lost markets

Volatility in commodities prices up 15 times adding uncertainty

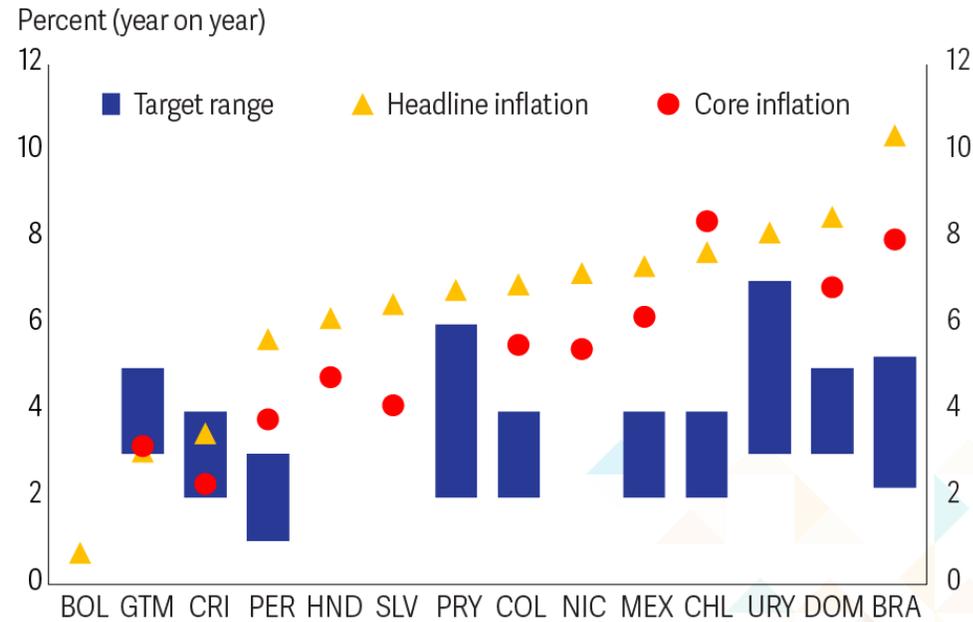
Good news: EMBI spreads have not increased with new shocks.

The return of inflation and potential for stagflation

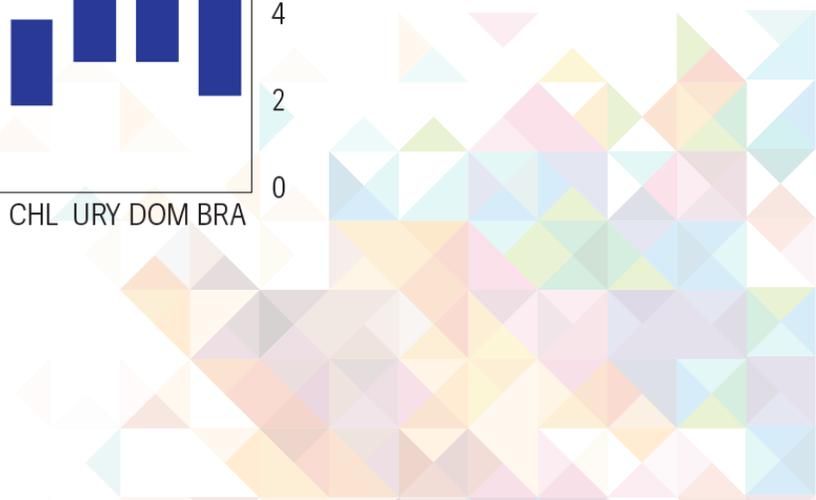
Median Headline Inflation



Inflation Target versus Headline and Core Inflation



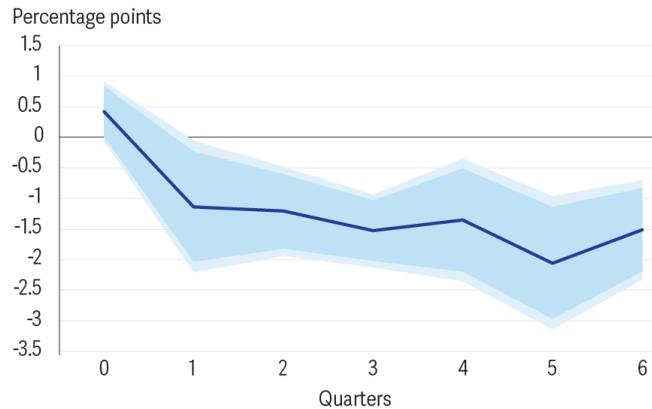
Shift from demand to supply side drivers across 2021



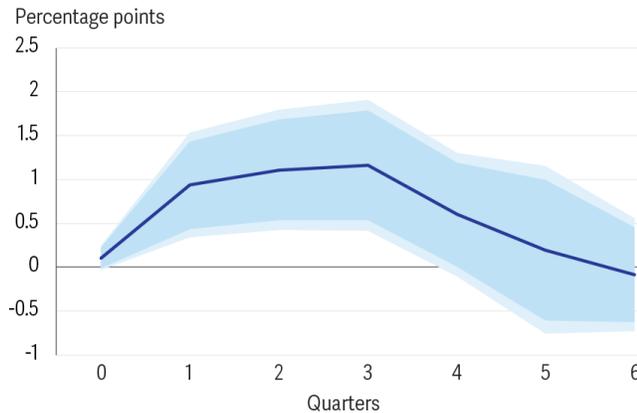
Monetary dilemma facing central banks and the “cycle within the cycle” phenomenon

Response to a one percentage point increase in international interest rates

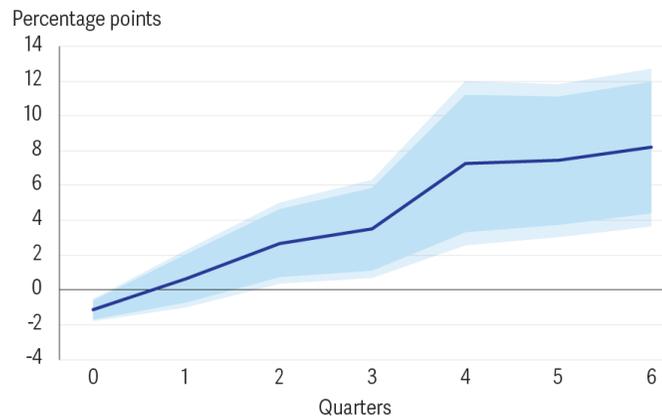
a. GDP



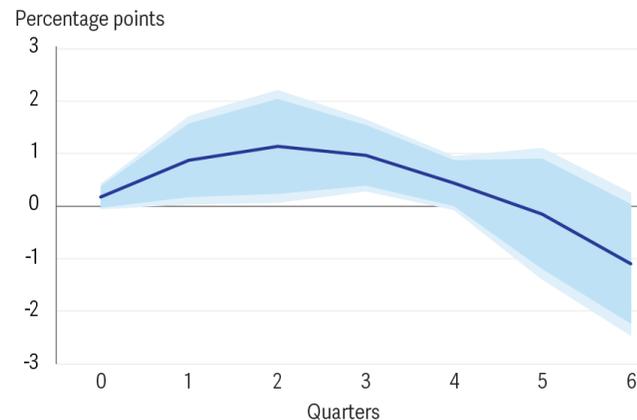
b. Consumer price index



c. Exchange rate



d. Policy rate



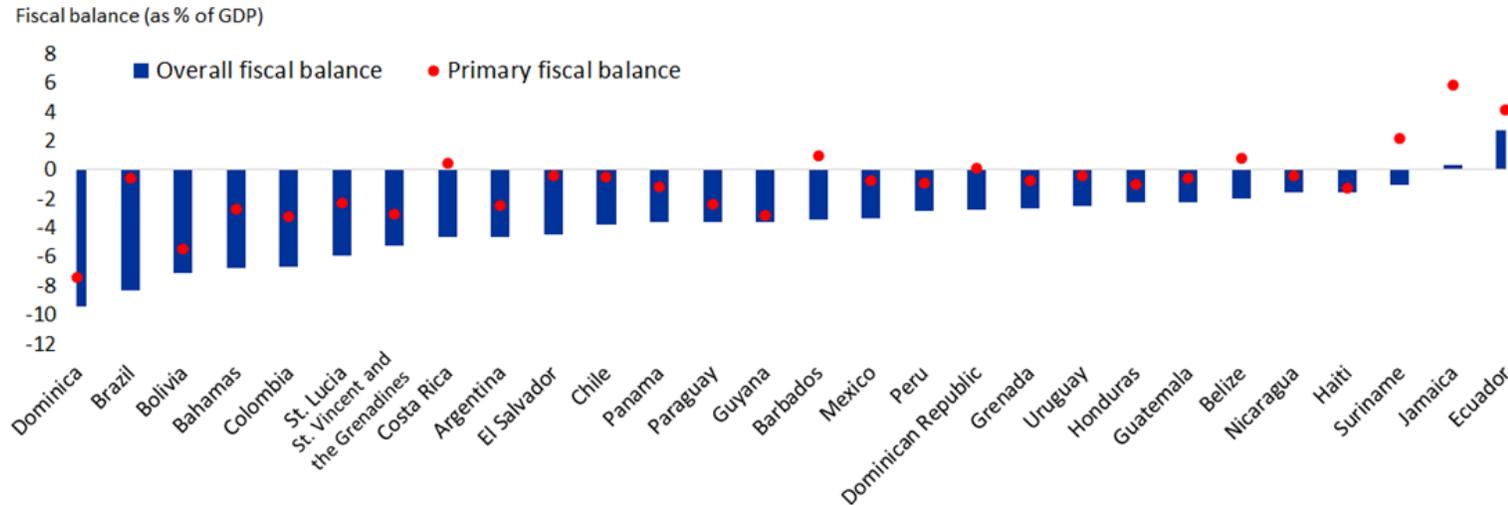
- CB dilemma
 - Increase rates to defend currency, control inflation and maintain local currency value of foreign debt or
 - Stimulate economic activity?
- History suggests a “cycle within a cycle,”
 - Initial rise to curb inflation
 - Easing to moderate depressive effects.
- Problem exacerbated when inflation supply driven

From Fiscal Stimulus to Debt Sustainability



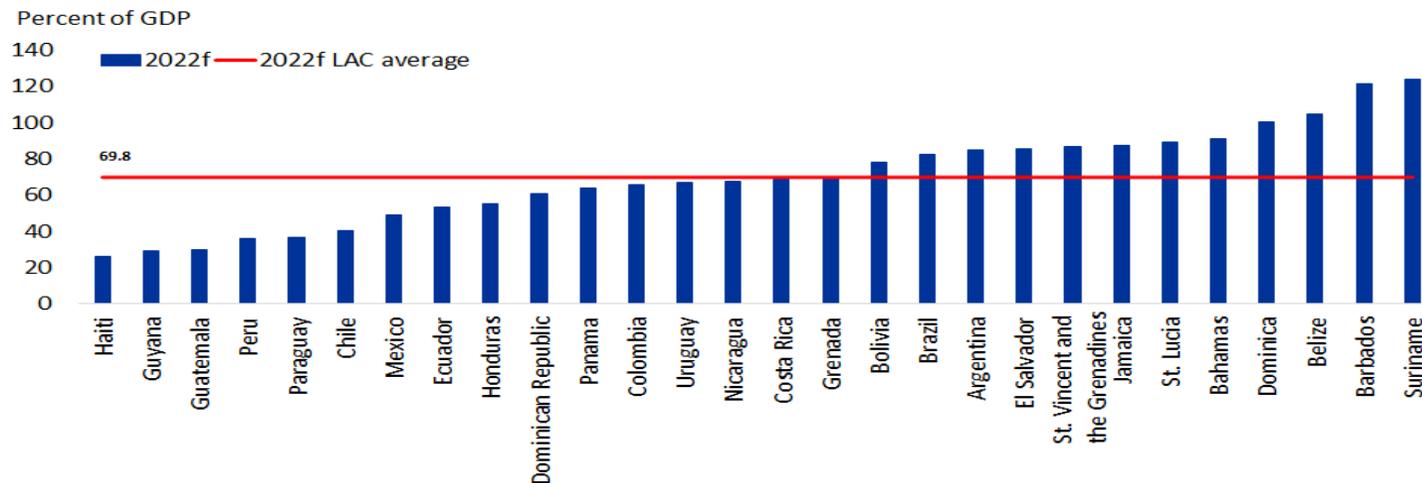
Move from stimulus toward fiscal consolidation, but debt remains at high levels

Fiscal Balance in LAC 2022F



	2021	2022
Av. Overall Balance	-4.1%	-3.7%
Av. Primary Balance	-1.6%	-0.9%

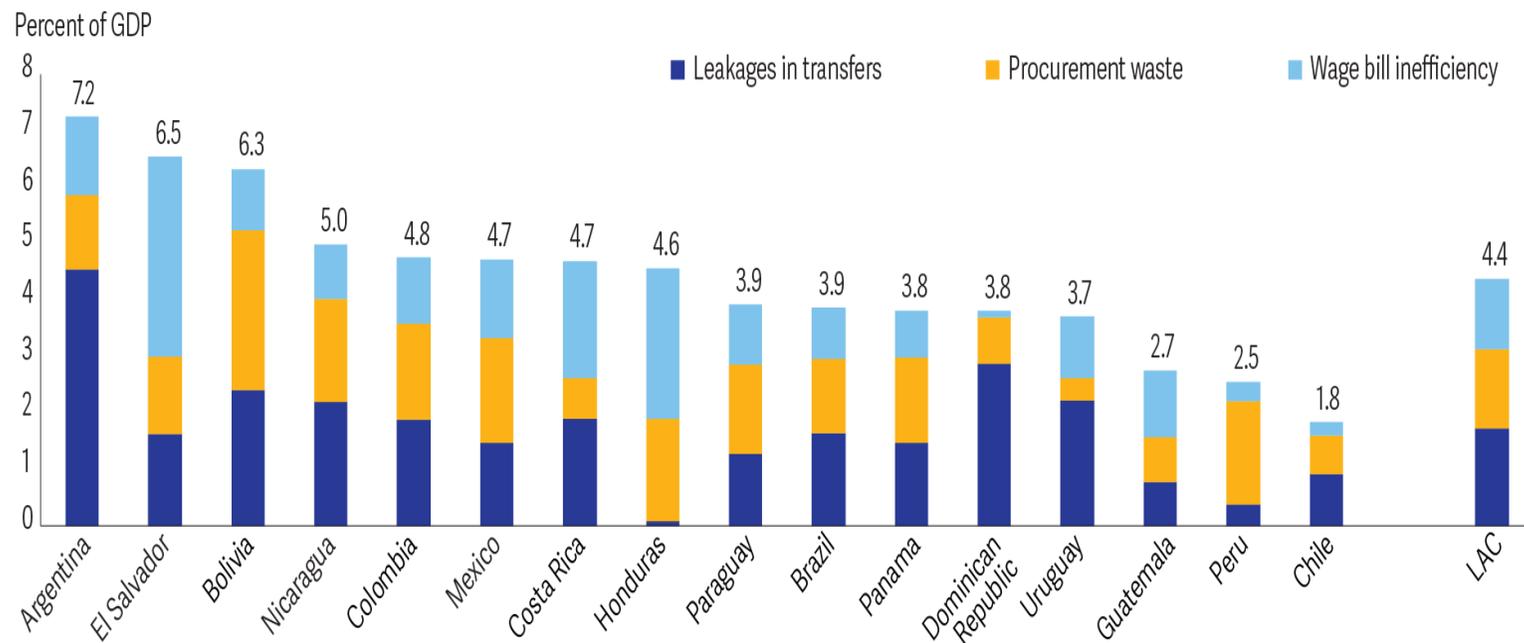
General Government Debt Stock % of GDP for 2022f



Decline from 75% due to recovery

No fiscal room, but need for public investments for growth and social mobility.

Inefficiencies in Government Spending



Izquierdo, Pessino, and Vuletin, 2018

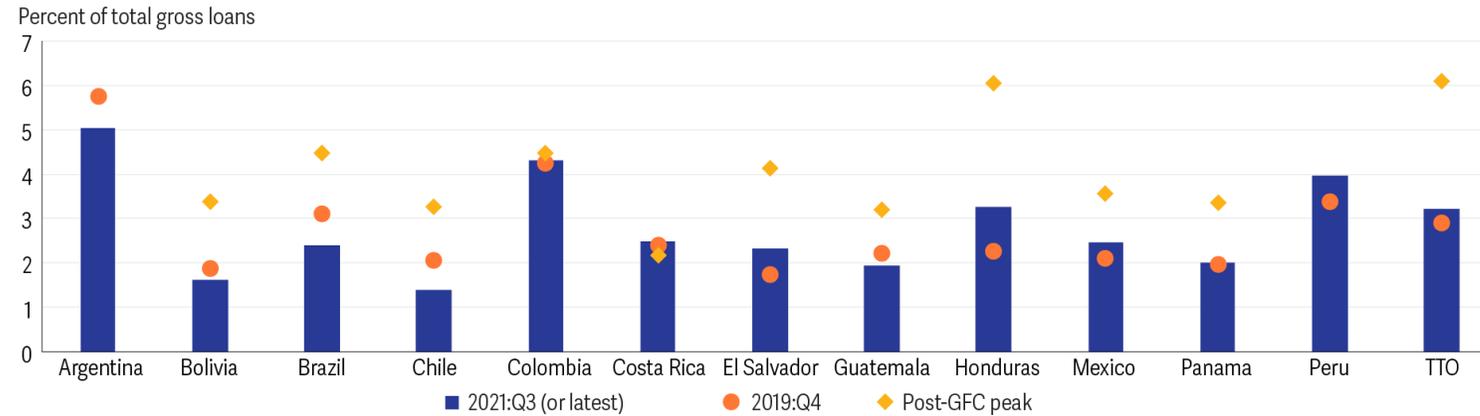
- Need investments in education, infrastructure and innovation.
- 4.4% of GDP in wasted gov't spending
- Careful raising taxes- see pending WB regional study. (Gunter, Riera-Crichton, Vegh, and Vuletin, 2021) and tax bases are narrow (Venturi, Riera-Crichton, and Vuletin, 2022)

Banking Crises?: Receding Risk,
but Vigilance Needed



Increased firm distress during pandemic has not yet caused a visible deterioration in banks' asset quality

Non-performing loans

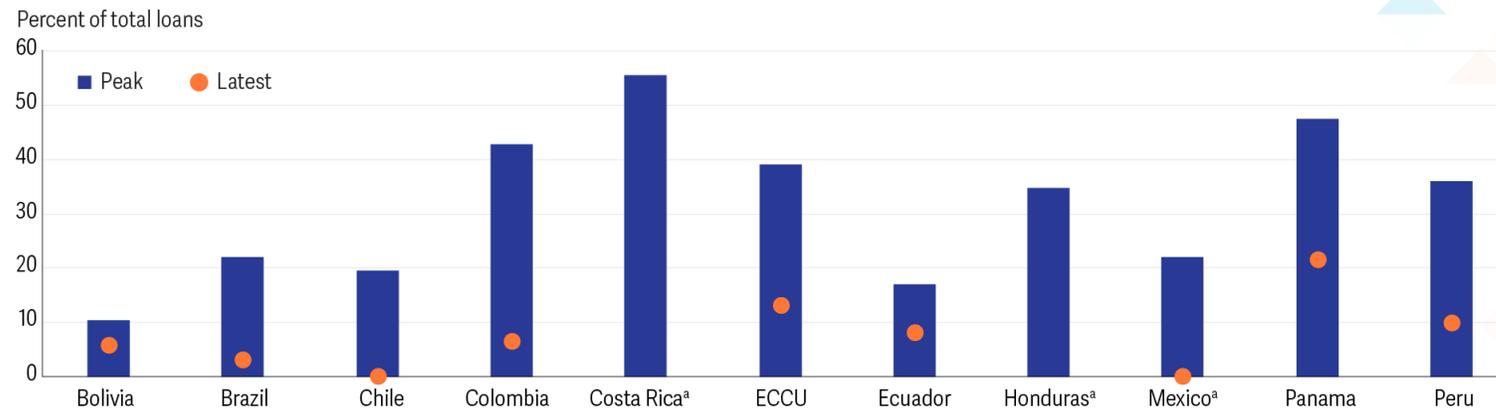


Public support reduced firm arrears and employment loss

Increased distress of firms during pandemic- increase in $ICR < 1$

But vigilance merited as a fraction of deferred loans don't recover.

Deferred loan portfolio



Chapter 2: Seizing Green Growth Opportunities

- Mitigating our Climate Impact
- Facing Adaptation Challenges
- Our Green Comparative Advantage
- Necessary Policy Initiatives

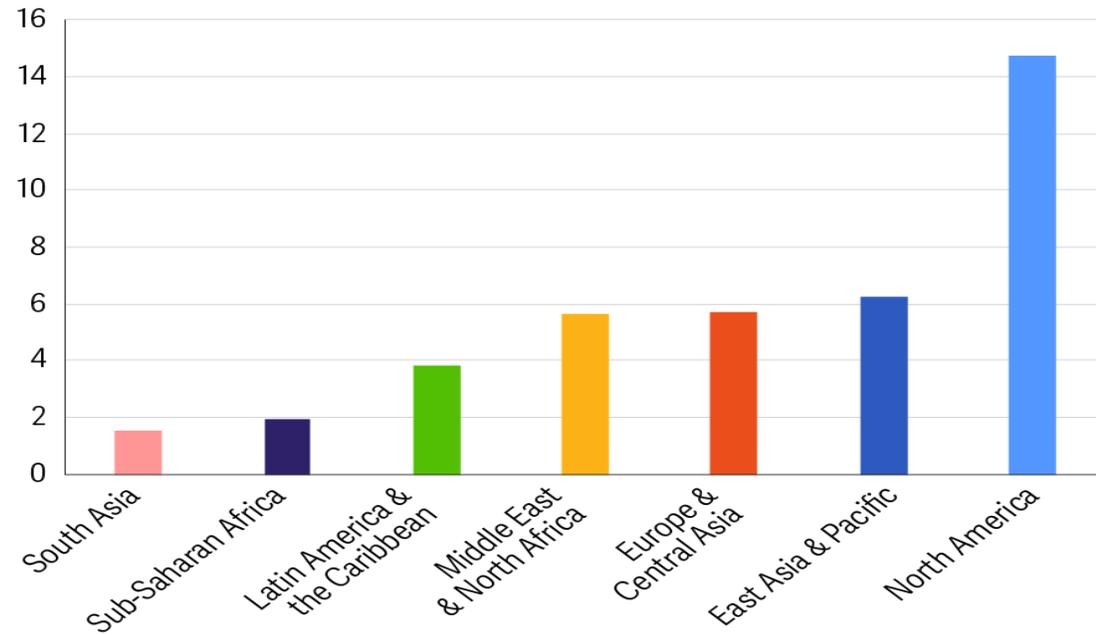


Mitigating our Climate Impact

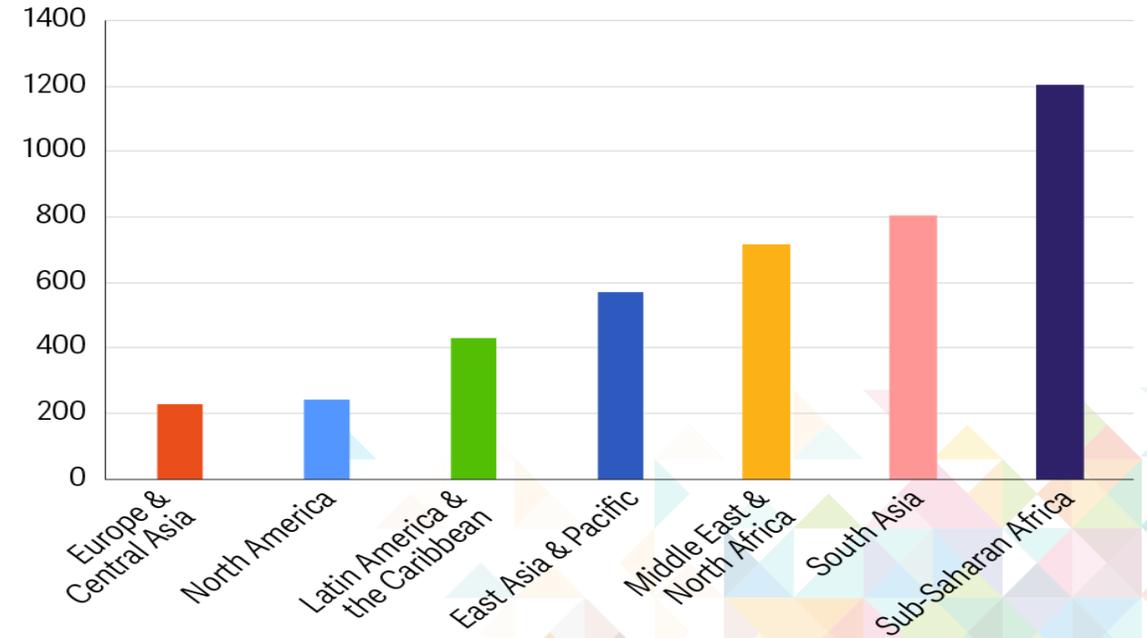


LAC contributes 8% of global GHGs and has developed with low carbon intensity

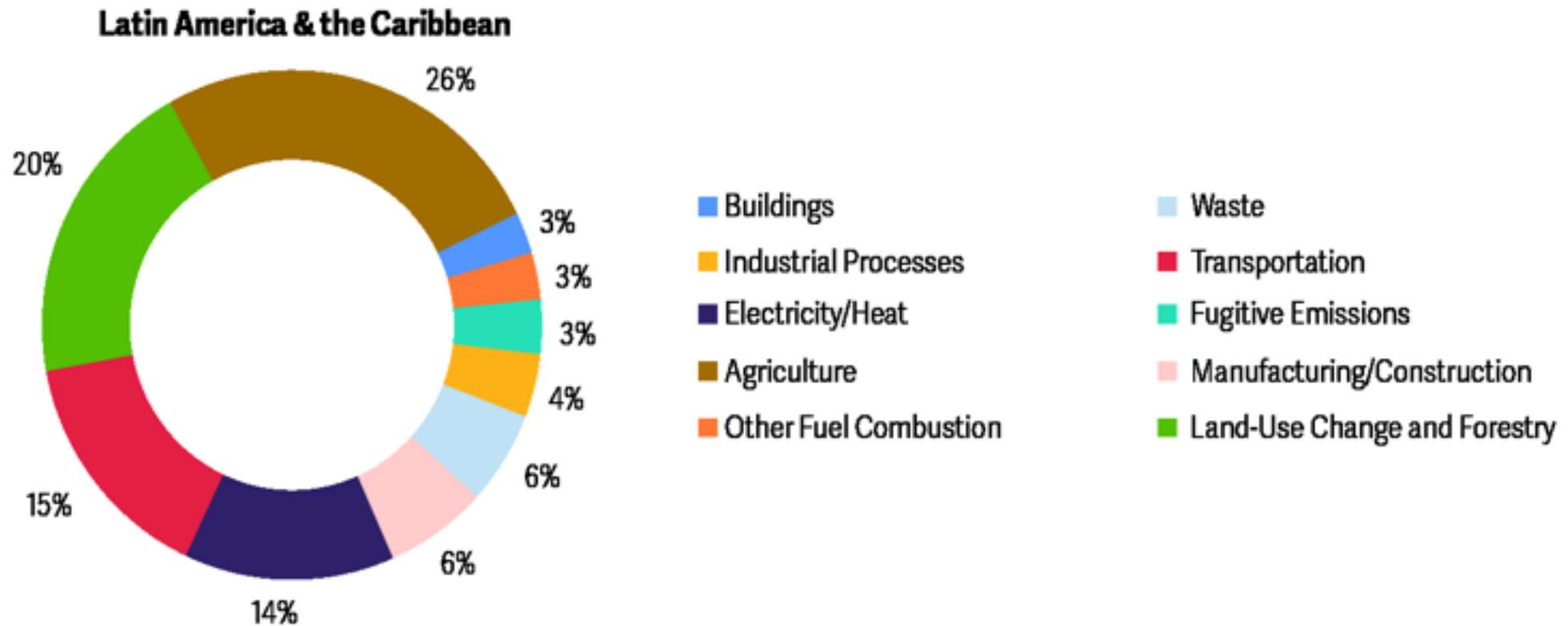
Carbon Emissions per capita (tons CO2)



Carbon Emissions per \$US million GDP (tons CO2)



Unlike ROW, most LAC emissions come from Agriculture & Land-Use Change and Forestry- a different recipe for mitigation



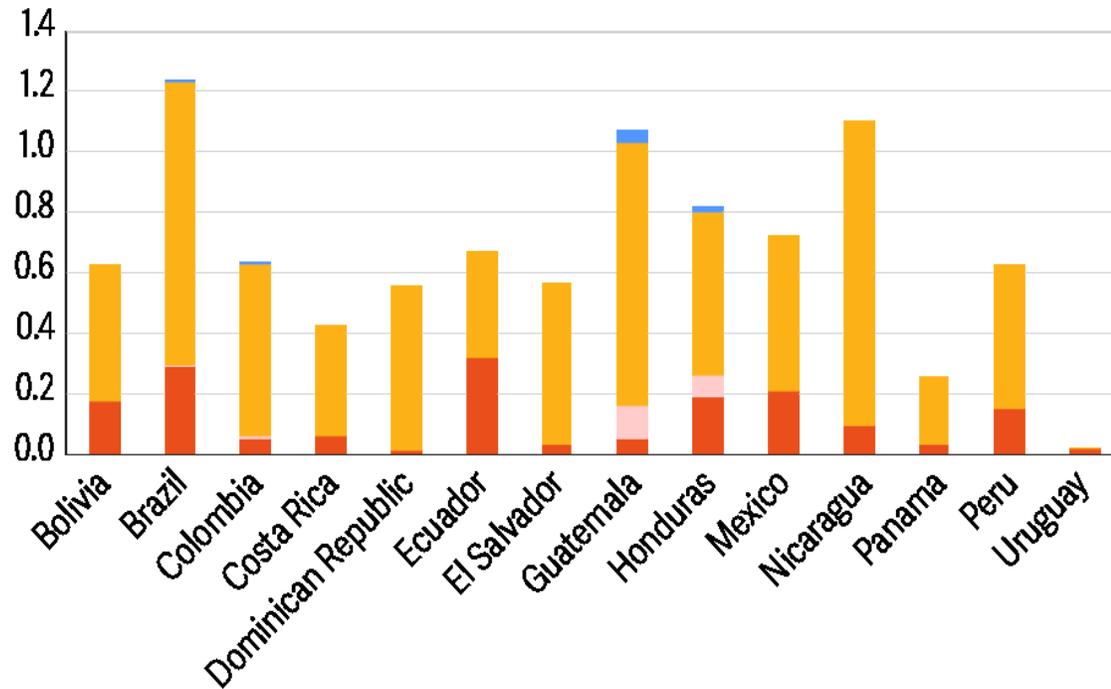
Facing Adaptation Challenges



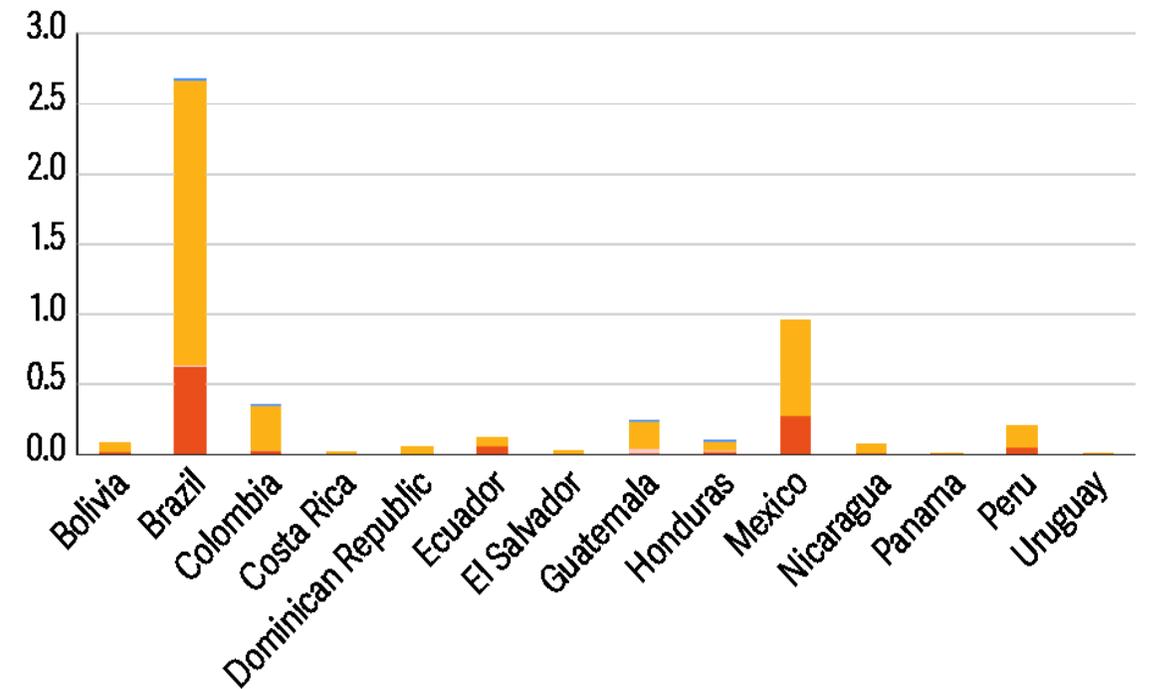
By 2030, climate change could push an estimated 2.4-5.8 million people into extreme poverty in LAC

Climate change impacts on poverty by 2030

Percent of total population



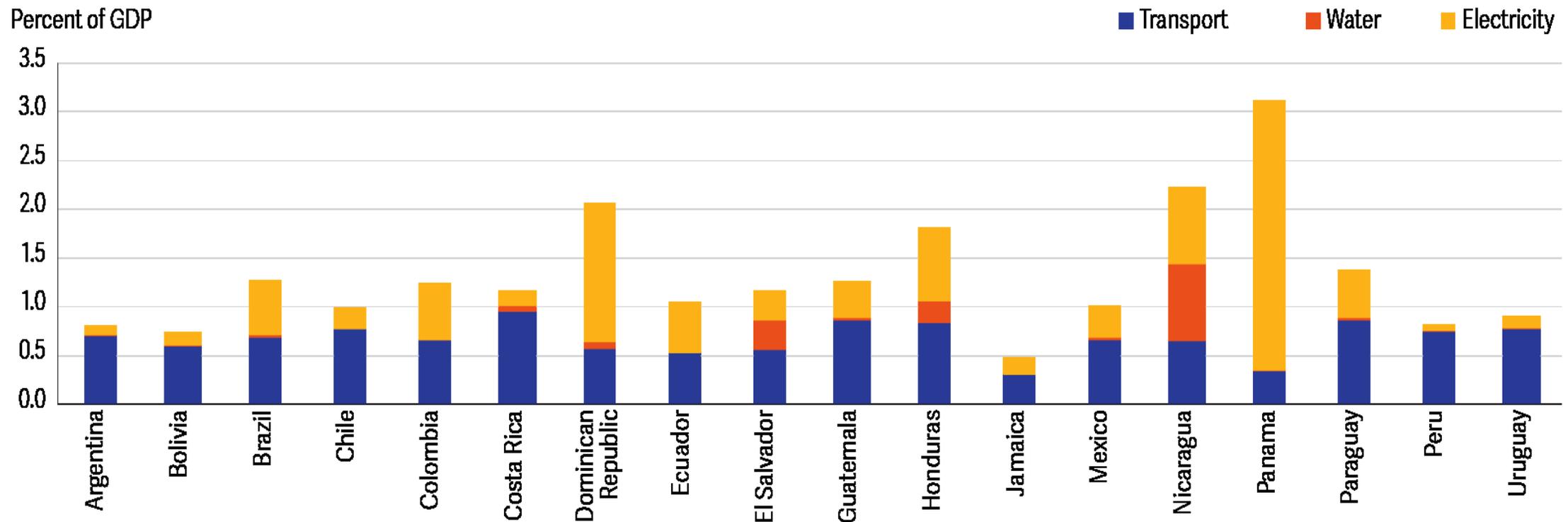
Million



■ Ag revenues ■ Disasters ■ Food prices ■ Health ■ Labor productivity

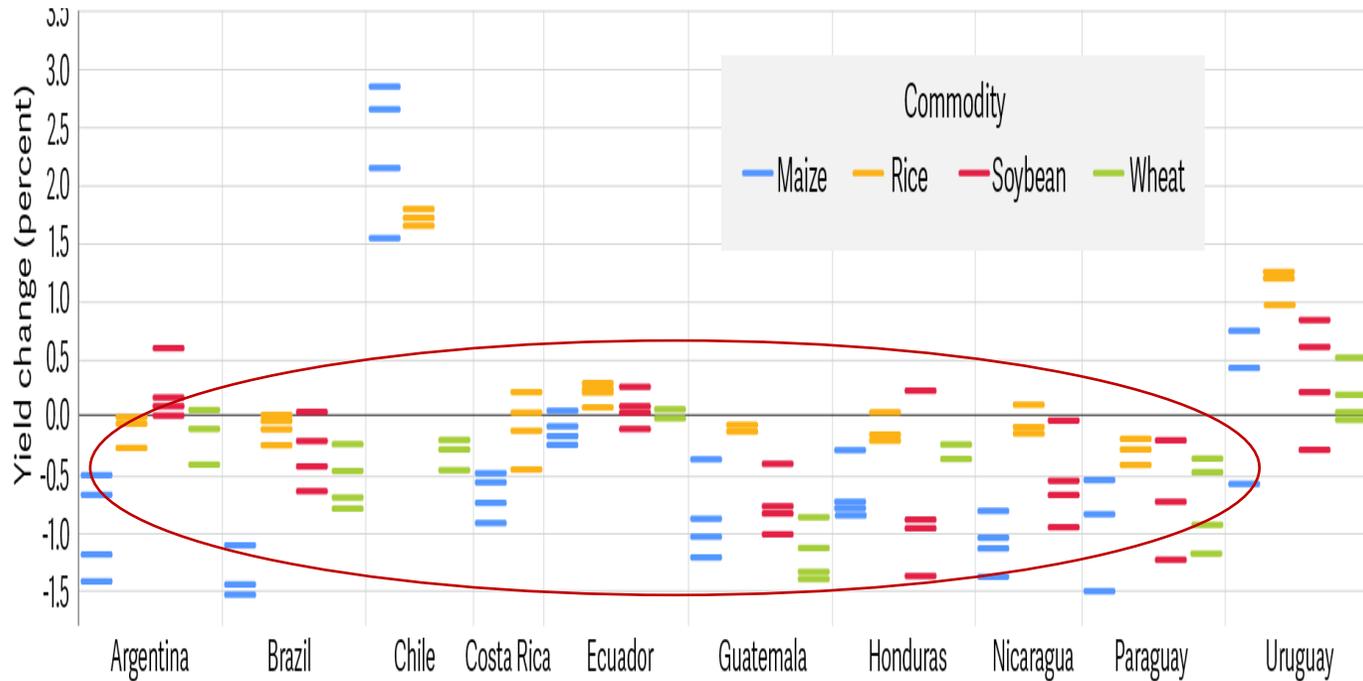
...and increase extreme weather events, raise sea levels and degrade ecosystems

Costs for infrastructure disruptions for LAC firms from natural disasters



Scarcer water and higher temperatures affect 2 key sectors of LAC: agriculture and electricity

Forecasts of CC Impact on Agriculture by Crop (2050)



Hydrological cycle is becoming less predictable and more extreme

- Ag sector highly exposed as 90% is rainfed and extreme weather events erode soils
- May lead to less and less-reliable production of hydropower



Advanced countries may soon place trade restrictions on carbon intensive/environmentally destructive imports

- Carbon Border Adjustment Measures (CBAM) contemplated (EU-Mercosur held up).
 - Could affect agricultural exports
 - Special focus on the Amazon
 - Need to work toward Climate-Smart-Agriculture (CSA) and Sustainable Landscape Management (SLM)
 - Must take active measures to meet standards
- **But possible opportunities: If done right, get a quality premium on export market....**



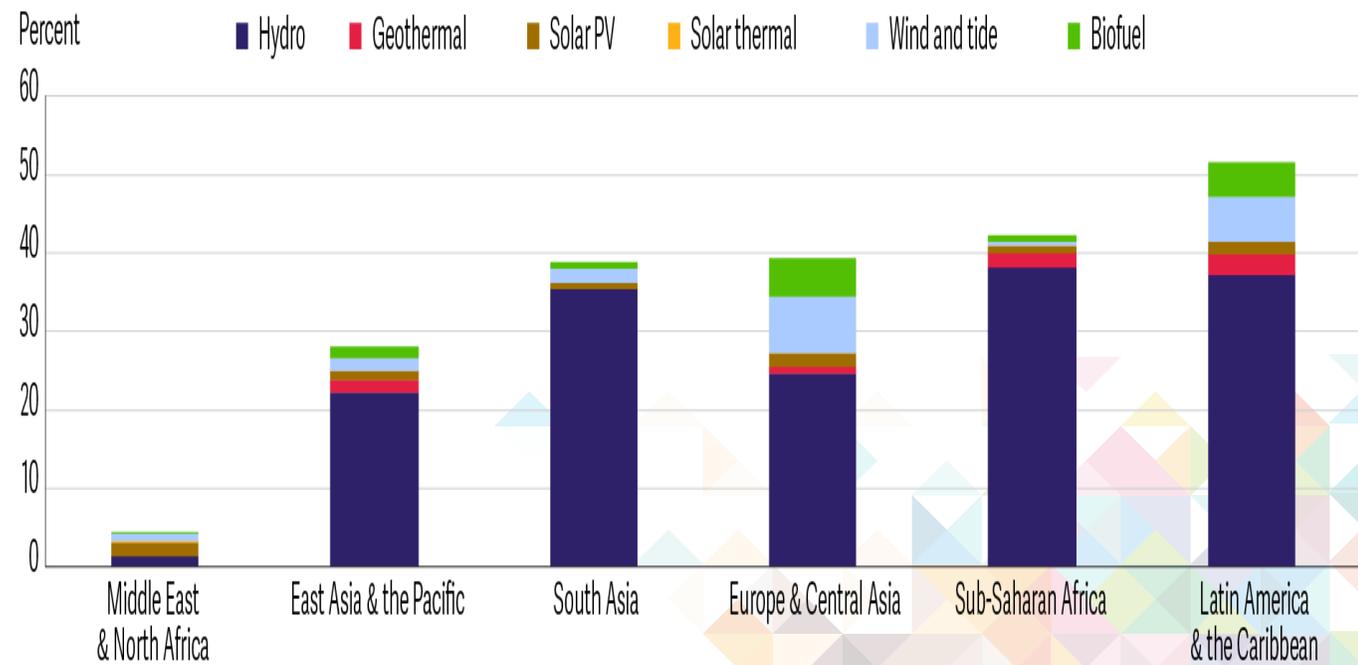
Our Green Comparative Advantage



Electricity Generation is quite green

- LAC electricity generation matrix is already one of the cleanest in the world
- Ideal complements to the intermittent production of renewables: Hydropower and Natural Gas
- LAC is an innovator in adding RE and has a thriving RE market
- Abundant, reliable, green electricity will be a major asset

Renewable share of generation

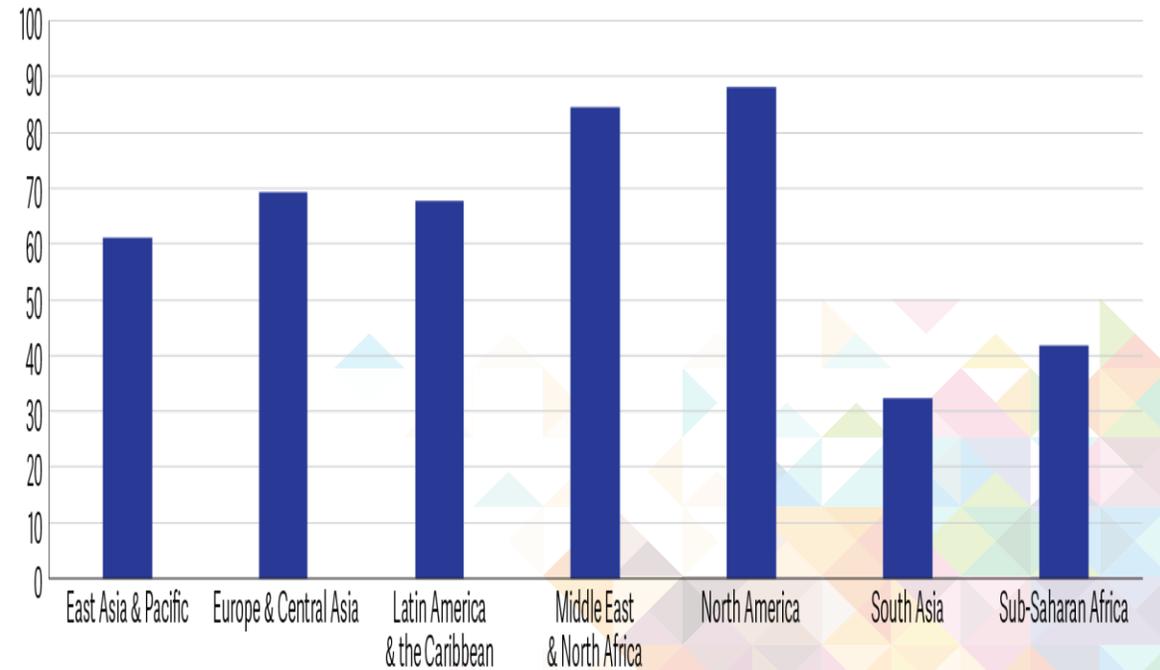


Region is very urbanized

Higher Urbanization and density allows for economies of scale in emission-reducing investments:

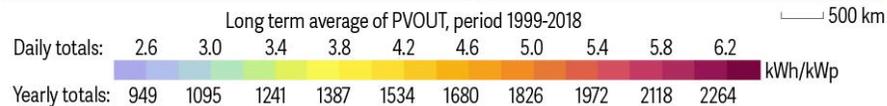
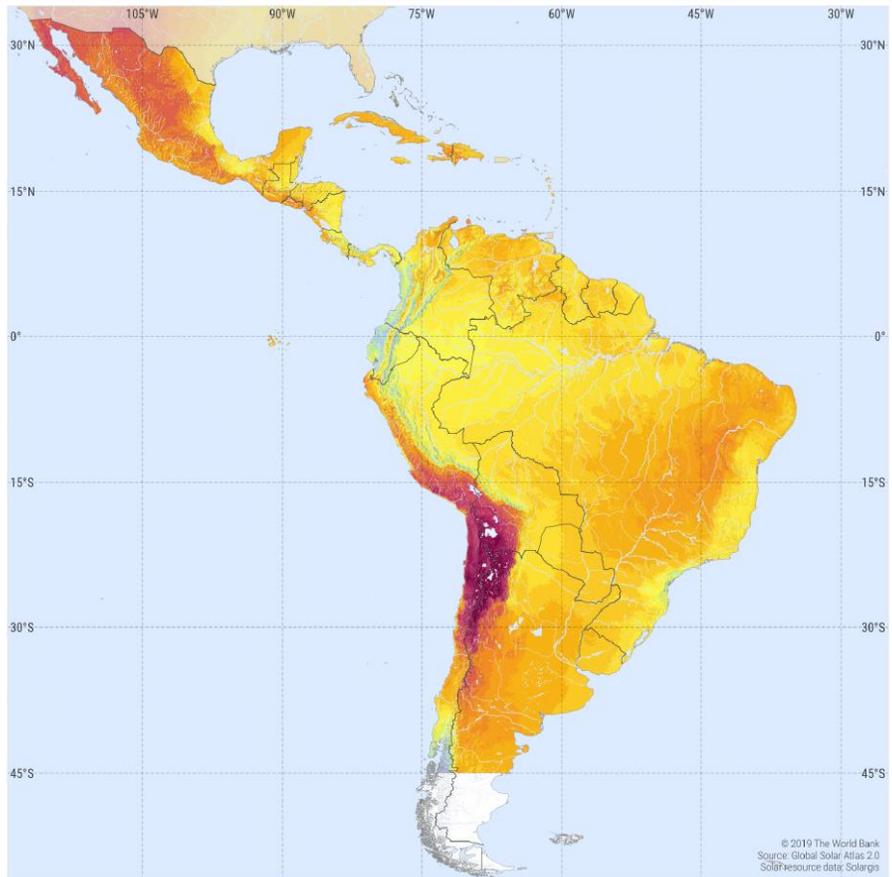
- Potential De-carbonization of urban transport
- Energy Efficiency of Buildings
- Waste Management and Circular Economy initiatives
- Less infrastructure needs per capita (roads, buildings, pipes, electric transmission lines)

Share of urban population to total population
Percent

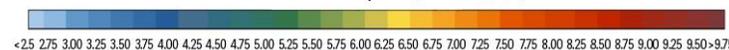


Huge Potential in Renewable Energy

Solar



Wind

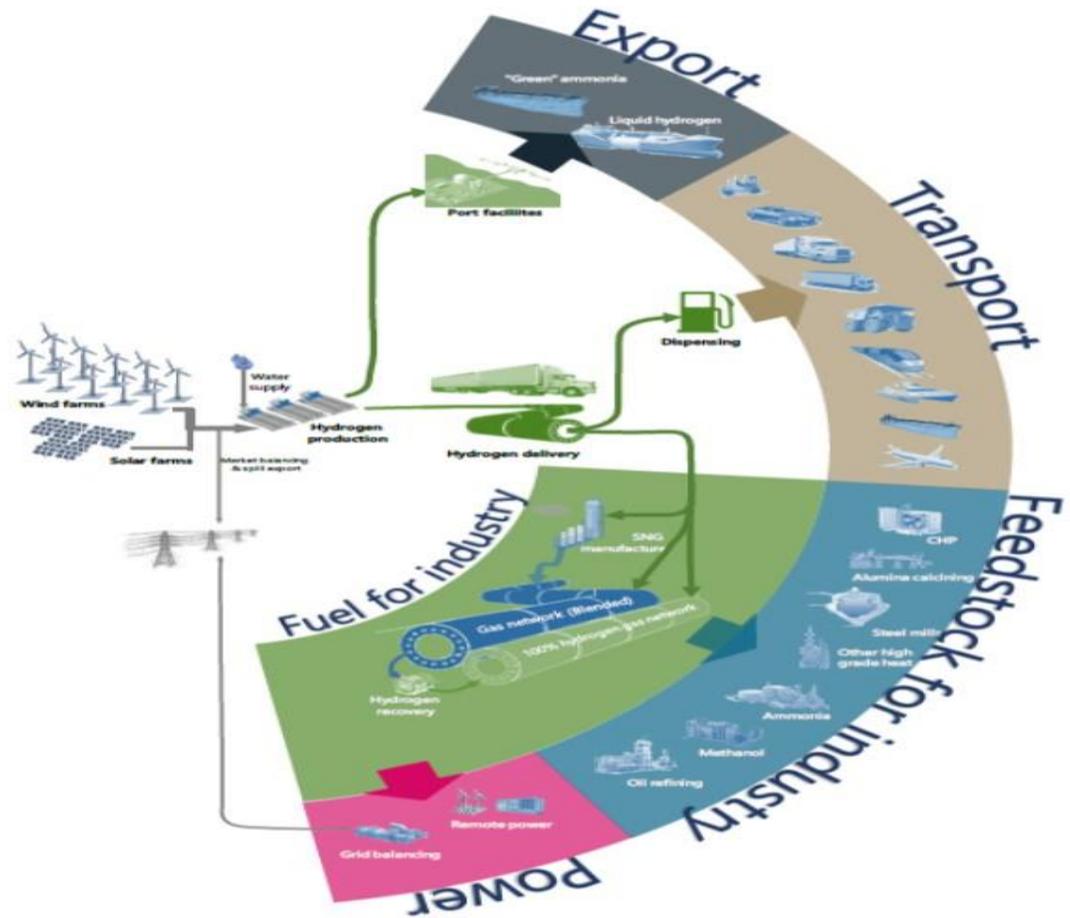


Potential in:

- Renewable electricity (in addition to solar and wind)
- Geothermal (CA, Carib, parts of SA)
- Coastline that can sustain off-shore wind farms
- LAC has been an innovator in mechanisms to add renewable power cheaply and has a thriving market

Green Hydrogen and alternative fuels (bio and synthetic) could become significant exports

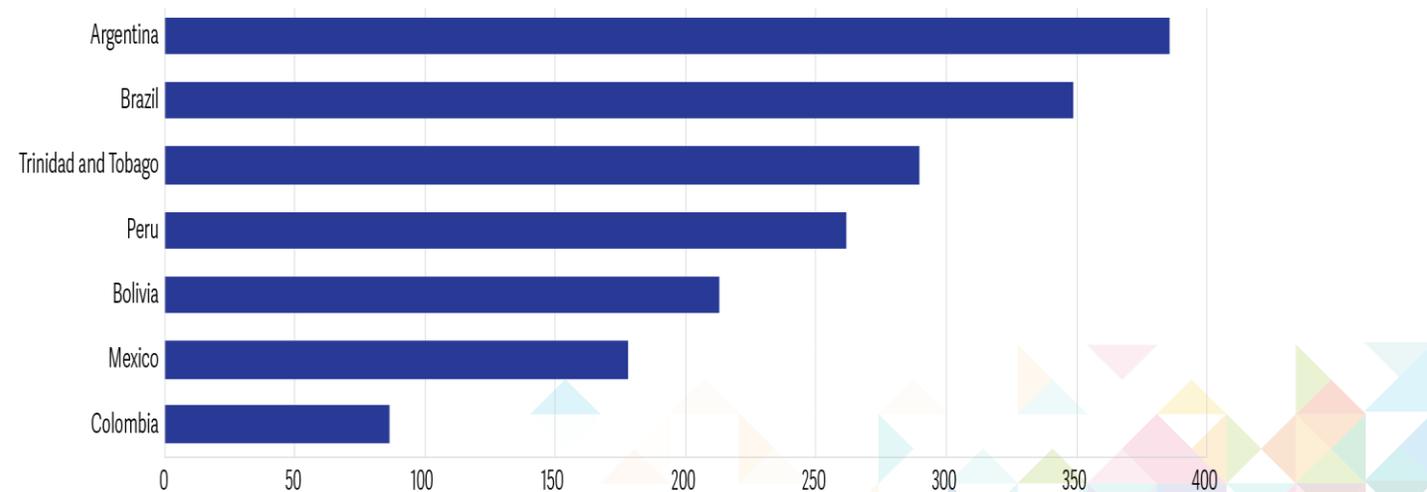
- Used as a means to 'store' Renewable Energy
- It could help abate emissions in steel and cement which can't be electrified
- Green Fertilizers and Chemicals
- Green Ammonia can be used to power transport
- Mixed with captured CO2 can produce synthetic fuels-airplanes and ships
- **But important scale challenges!**



Large natural gas reserves-transition fuel

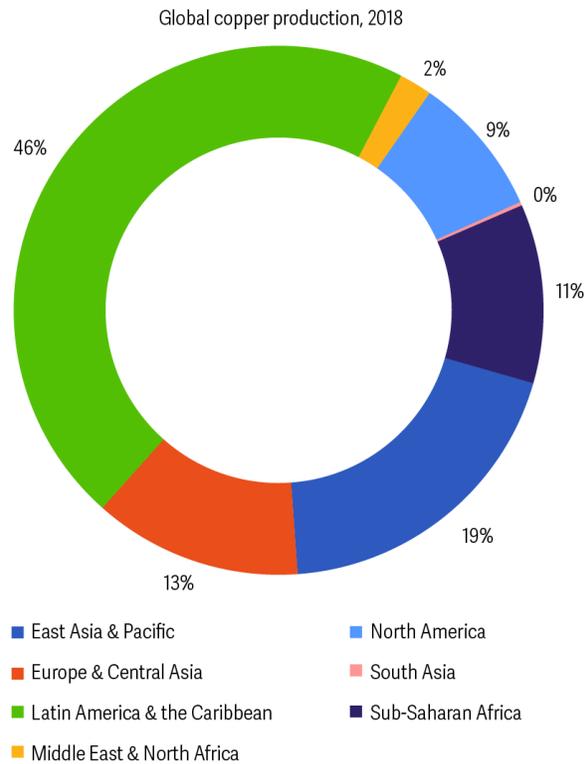
- Large reserves of Natural Gas that can displace more polluting sources (Coal, Oil, and Diesel).
- However, most NG is co-produced with petroleum
 - Uncertainty about whether LAC will remain competitive as prices fall.
 - Risk of stranded assets
 - Long-term carbon lock-in?
 - Must diversify budgets away from petroleum!

Gas reserves (Billion cubic meters)

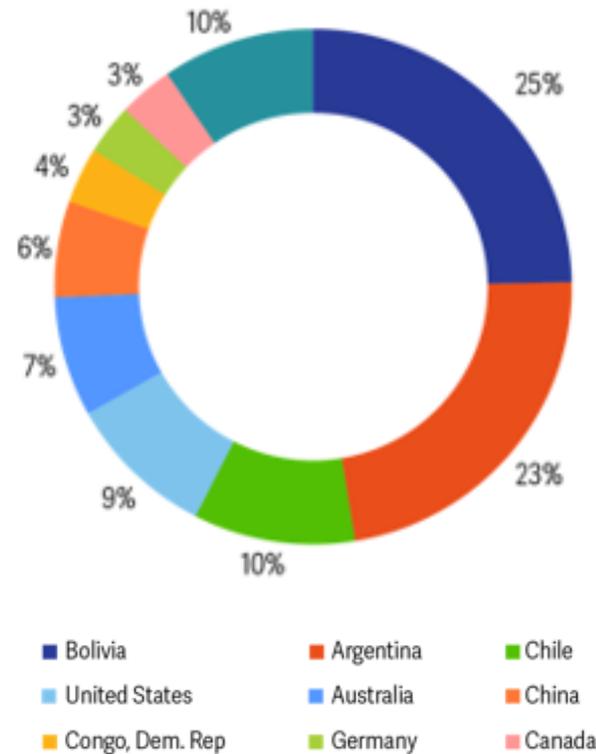


Huge reserves of minerals important for the energy transition

Global Copper Production



Global Lithium Resources

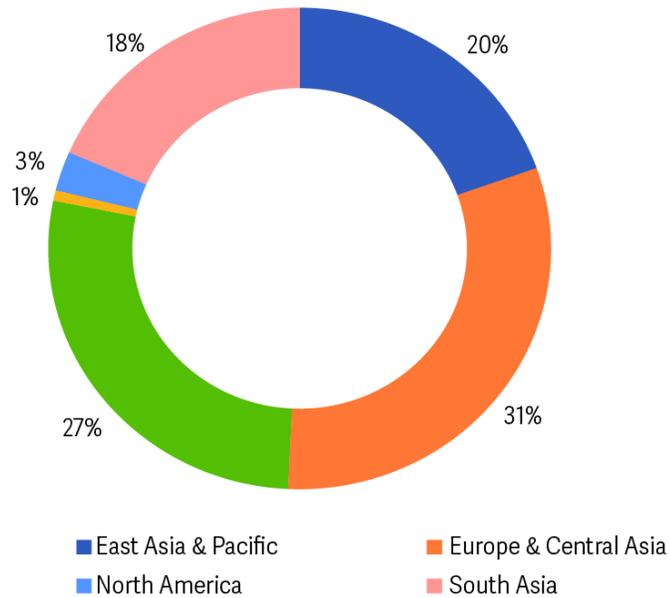


Key: Can we learn to master these industries and linkages, or will we just let foreigners extract?!

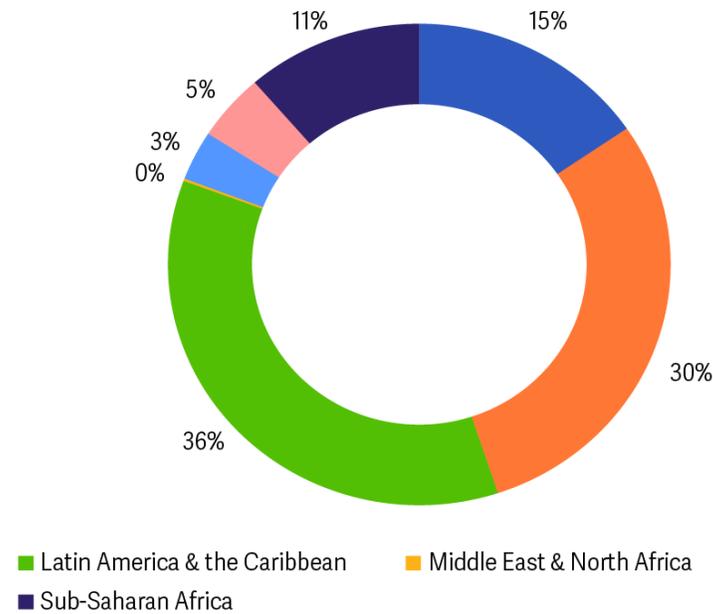


Abundant natural capital (water, trees, biodiversity): new industries, environmental services (carbon sinks)

Forest Area, percent of world's forest



Renewable freshwater resources



- LAC contains half of global biodiversity. Some of the most species-rich biomes on the planet, like tropical forests, wetlands and mangroves.
- Protecting LAC's biodiversity is key to meeting global climate goals.

Policy Challenges



Helping markets facilitate the green transition

Getting Prices & Incentives right

- Reform ff subsidies; Carbon taxes & ETS
- Incentives for EV adoption; DG; Energy & Water Efficiency;
- Ag subs-> CSA

Complementary Investments and Commitments

- Transmission lines; Water Infrastructure; EV charging infra
- De-risking, PPPs; Political risk insurance
- Strong, credible enforcement of environmental and building regulations

Coordination between actors

- RE & Hydrogen & End-users; EV and Energy policy

Build Human Capital & Institutional Capacity

Establish credible tracking, labeling, and MRV regimes

Generate and Disseminate Accurate Information with inclusivity in mind

- Early warning systems
- Monitoring and reporting of Climate Change impacts
- Zoning risks

Get financial sector fully involved:

- Catch up in Green Bonds and Sustainability-Linked Bonds
- Transparency about climate risks in financial sector
- Innovate and expand Disaster Risk Insurance; make it inclusive
- Raise capabilities to invest in innovation in all sectors.

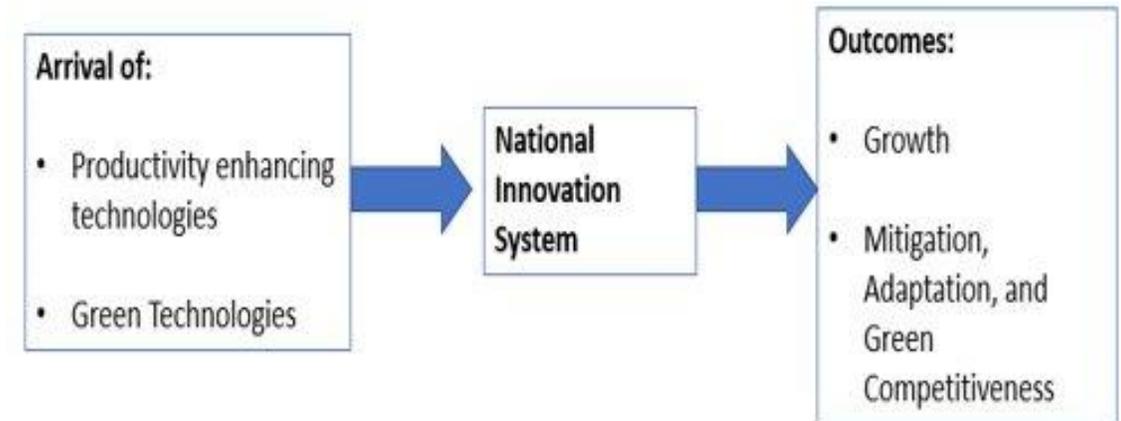
Technology adoption capabilities are key to both Growth and 'Greening': Mitigates trade offs!

Green and growth agenda are intimately intertwined.

- Low growth prospects are related to the low levels of technological adoption and innovation. 75% of income differences
- This “knowledge” or “innovation agenda” needs to move front and center of both the growth and greening debate and policy.

The synergies between the two agendas are potentially huge.

- Requires entrepreneurial capabilities, technical literacy, and a well functioning innovation and entrepreneurial systems.
- Strengthen regulatory frameworks and institutions





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Opportunities for All

Thank you

