LATIN AMERICA and THE CARIBBEAN

Growth in Latin America and the Caribbean (LAC) rebounded to an estimated 6.7 percent in 2021, boosted by supportive external conditions and, in the second half of the year, rapid progress on COVID-19 vaccination and a sharp drop in new cases. Regional growth is projected to slow to 2.6 percent in 2022 and 2.7 percent in 2023, reflecting sluggish labor market improvement, tighter macroeconomic policy, softer external demand, and a fading boost from last year's rise in commodity prices. Growth during the forecast horizon will not be sufficiently robust to reverse the region's long-standing decline in per capita income relative to advanced economies. Downside risks to the forecast include renewed surges in COVID-19 cases; financial stress; disruptions related to natural disasters, including weather events linked to climate change; and, in the longer term, failure to implement productivity-enhancing and other needed reforms.

Recent developments

Economic conditions in Latin America and the Caribbean (LAC) improved in the second half of 2021 as the pandemic eased and external conditions remained supportive. As a result, regional growth reached an estimated 6.7 percent in 2021—1.5 percentage points higher than projected last June.

COVID-19 vaccination has progressed rapidly: 60 percent of the LAC population was fully vaccinated as of early January, compared to about 15 percent in early July (figure 2.3.1.A). Some countries, however, are still short of reaching the World Health Organization's target of vaccinating at least 40 percent of people in each country by the end of 2021. New cases and deaths declined rapidly in the second half of 2021 in much of South America, where several large economies have suffered among the world's highest per capita deaths from COVID-19. Mexico and some Central American and Caribbean countries experienced renewed outbreaks in the second half of the year, however, and many countries in the region reported a spike in cases at the end of the year as the Omicron variant spread.

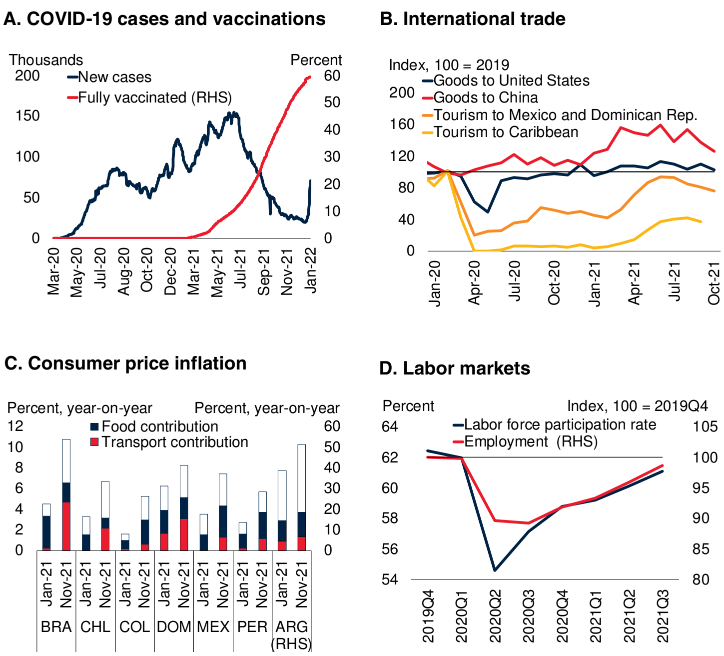
Strong growth in key export destinations (the United States and China), high commodity prices, and continued strong remittance inflows to Central American and Caribbean countries were supportive of LAC growth in 2021 (figure 2.3.1.B). The recovery in tourism has been uneven. International arrivals in Mexico and the Dominican Republic, for instance, have risen close to pre-pandemic levels, while arrivals in most of the remainder of tourism-reliant Caribbean countries are still much lower, in part because of continued restrictions on cruises.

Inflation has risen across the region, above central banks' targets in most cases. The increase reflects firming demand associated with economic reopening; rising global food and energy prices; disruptions in electricity production in some of the region; and, in some countries, pass-through from currency depreciation and large increases in money supply (figure 2.3.1.C). Parts of Argentina, Brazil, Chile, and Paraguay are experiencing their worst droughts in decades, requiring a switch to fossil fuels to produce electricity typically generated from hydropower in some countries. Policy interest rates were hiked in 2021 in nine of the 11 LAC countries with inflation-targeting frameworks in response to rising inflation and short-term inflation expectations. Government bond yields have increased and sovereign spreads have risen, particularly for countries without

Note: This section was prepared by Dana Vorisek.

FIGURE 2.3.1 LAC: Recent developments

COVID-19 eased in Latin America and the Caribbean (LAC) in the second half of 2021, before new cases spiked at the end of the year, even as vaccination has proceeded rapidly in many countries. External conditions, including export demand from key trading partners, supported LAC growth, although the recovery in tourism in the region remains uneven. Inflation has intensified in most of the region, reflecting stronger demand associated with economic reopening, rising food and energy prices, and pass-through from currency depreciation. The recovery in labor markets to pre-pandemic conditions is incomplete.



Sources: Haver Analytics; National Institute of Statistics and Geography (Mexico); national tourism agencies; Our World in Data (database); World Bank.
Note: LAC = Latin America and the Caribbean.
A. New cases show 7-day moving average. Fully vaccinated is the number of total number of people in LAC fully vaccinated as a percent of the LAC population. Last observation is January 2, 2022.
B. Monthly export values are indexed to 2019 average. “Tourism” is international arrivals. Goods exports reflect data for Brazil, Chile, Colombia, and Mexico. Caribbean includes Antigua and Barbuda, The Bahamas, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. Last observation is October 2021 for goods exports and for tourism to Mexico and the Dominican Republic, and September 2021 for tourism to the Caribbean.
C. ARG = Argentina, BRA = Brazil, CHL = Chile, COL = Colombia, DOM = Dominican Republic, MEX = Mexico, and PER = Peru. Full height of bars shows headline inflation. The “food” portion of the bars represents data for food and beverages. For Argentina, the food and transportation weights in the CPI basket for Greater Buenos Aires are used to calculate the contribution of food and transportation inflation to headline inflation.
D. Lines are GDP-weighted averages for Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, and Mexico. Last observation is 2021Q3.

investment-grade credit ratings, although risk premiums for most countries remain low relative to historical levels.

Labor force participation and employment have picked up across the region since bottoming out in mid-2020, but they have not fully recovered (figure 2.3.1.D). The drop in formal labor force participation raises concerns about reintegrating those unemployed for extended periods. Although the provision of transfer payments and other government support to households during the pandemic has helped to partly maintain living standards, earned income losses have resulted in increases in poverty and other signs of hardship, such as food insecurity. With low-income workers—a large share of whom work informally—less likely than their higher-income counterparts to be able to work from home during prolonged lockdowns, income inequality, already among the highest in the world in many LAC countries, is likely to have increased, at least partially reversing declines since the early 2000s (World Bank 2021f; chapter 4).

Fiscal support was reduced in most LAC countries in 2021—including in Brazil, which provided a large amount of stimulus in 2020 (figure 2.3.2.A). Yet several economies introduced additional substantial new support measures in 2021. These include a third round of pension withdrawals allowed in Chile and the extension of emergency payments to households until 2022 in Colombia.

Outlook

Regional growth is projected to slow to 2.6 percent in 2022 and 2.7 percent in 2023 (tables 2.3.1, 2.3.2). This reflects tightening fiscal and monetary policy, sluggish reintegration of workers into the labor market, softening external demand as growth in major global economies slows, and fading support from the surge in commodity prices in 2021. The regional growth forecast for 2022 has been downgraded slightly, by 0.3 percentage point relative to June 2021, in part because of base effects, following a stronger rebound in 2021 than previously projected for most countries. The growth forecast for 2023 has been revised up marginally.

The outlook assumes fiscal consolidation in nearly 90 percent of LAC economies in 2022 and 85 percent in 2023. The support measures introduced since 2020 will be mostly unwound by 2023 (figure 2.3.2.A).[1] Monetary policy tight-

[1] As measured by an increasing primary fiscal balance for a larger sample of 29 LAC economies.

ening implemented in 2021 will act as a further drag on growth during the forecast horizon, and is likely to be accompanied by additional tightening in the short term. After rising slightly in 2022, oil prices are projected to drop more sharply in 2023, while metals and agricultural prices are expected to soften in 2022 and 2023.

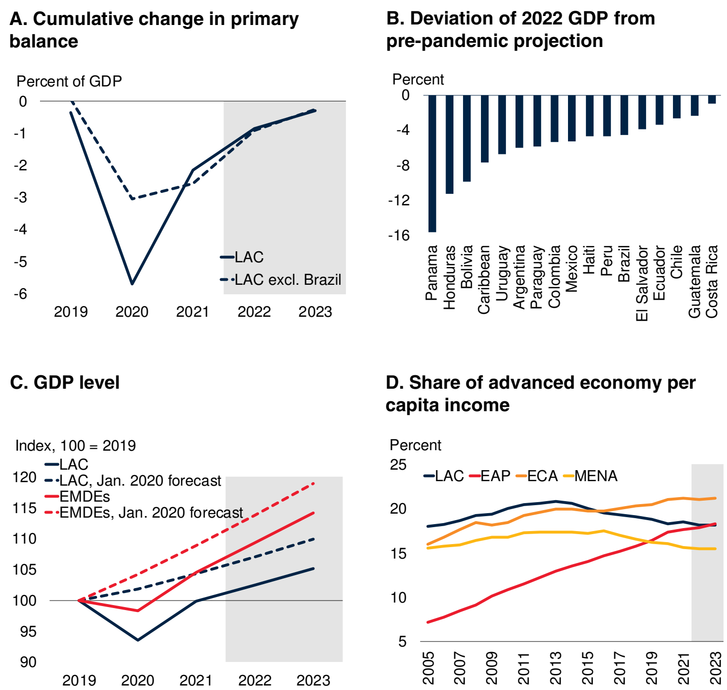
The recovery to pre-pandemic levels of GDP will be prolonged in LAC, and the recovery will be uneven across the region. In some countries, GDP in 2022 is projected to be about, or even more than, 10 percent below what was projected just before the pandemic (Panama, Honduras, Bolivia; figure 2.3.2.B). By 2023, regional GDP is projected to be 4.3 percent below the pre-pandemic trend (figure 2.3.2.C). The projections through 2023 imply that LAC will continue to lose ground in per capita income relative not only to advanced economies, but also to two other emerging market and developing economy (EMDE) regions, East Asia and Pacific and Europe and Central Asia (figure 2.3.2.D).

Growth in Brazil is projected to slow sharply in 2022, to 1.4 percent—more than a percentage point lower than forecast last June, owing to weak incoming data and worsening investor sentiment—before firming to 2.7 percent in 2023. Private consumption is expected to soften substantially in 2022 as high inflation diminishes purchasing power and labor market conditions improve only sluggishly. The unemployment rate remains stubbornly high, at more than 12 percent in the second half of 2021. Slowing growth in China—Brazil's largest export destination—and a related sharp downturn in iron ore prices will weigh on exports in the near term. Tightening monetary policy will further constrain growth.

In Mexico, growth is projected to soften to 3 percent in 2022 and 2.2 percent in 2023. Supply chain disruptions, which hindered the manufacturing sector last year, are expected to linger in the first half of 2022, while external demand will be limited by slowing growth in the United States. Domestically, further monetary policy tightening will be needed to combat high inflation expectations, and fiscal austerity is slated to continue in the near term.

FIGURE 2.3.2 LAC: Outlook

Growth in Latin America and the Caribbean (LAC) is projected to slow to 2.6 percent in 2022 and 2.7 percent in 2023 as macroeconomic policy is tightened; the labor market recovery is sluggish; and external conditions, including commodity prices, become less supportive. Despite the strong performance in 2021, regional GDP will still be more than 4 percent below the pre-pandemic trend by 2023. The pace of growth in LAC will be insufficient to reverse the region's decline in per capita income levels relative to levels in advanced economies, a trend underway since 2014.



Source: International Monetary Fund; World Bank.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa. Gray shading indicates forecasts.

A. Figure shows the GDP-weighted cumulative change between 2019 and the year indicated in the primary balance. Gray shading indicates forecasts. Sample includes 29 LAC economies.

B. "Caribbean" includes tourism-reliant economies (Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines).

C. Solid lines show actual levels for 2019 and 2020, estimated levels for 2021, and forecasts for 2022.

D. Lines show GDP-weighted averages for each region.

Argentina's economy is forecast to expand by 2.6 percent in 2022, faster than previously projected, partly reflecting carry-over from strong growth in 2021 as the COVID-19 vaccination rollout progressed rapidly in the second half of the year. Growth of 2.1 percent is projected for 2023. Very high inflation, at more than 50 percent year-on-year in late 2021, combined with current policies of price controls and restrictions on capital movements, are expected to contribute to softening investment growth. Private consumption is also expected to slow, in part because of the drawdown of pandemic-related fiscal support to households.

Growth in Colombia is forecast to slow to fairly robust rates, of 4.1 in 2022 and 3.5 percent in 2023, as the drag from high, investment-driven growth last year fades and labor market conditions improve. A fiscal reform plan passed in September, together with a reinstated fiscal rule after a two-year suspension due to the pandemic, provides a framework for fiscal consolidation in the medium term.

In Chile and Peru, strong cyclical rebounds in 2021 are projected to soften in 2022. The withdrawal of substantial fiscal policy support in Chile, including the winding down of short-term boosts from several rounds of pension withdrawals, will slow consumption growth sharply, while investment growth will be restrained by domestic policy uncertainty. In Peru, deteriorating business confidence in the context of high policy uncertainty, together with the recent reinstatement of the fiscal rule, is expected to underpin a growth slowdown. For both countries, external economic conditions will become less favorable, with slower growth in China, the largest export destination for both countries, and softening copper prices (World Bank 2021g). In all, growth in 2022 and 2023 is projected to be 2.2 and 1.8 percent, respectively in Chile, and 3.2 and 3 percent, respectively, in Peru.

For Central America, most growth forecasts for 2022 have been upgraded, in part reflecting an improved outlook for COVID-19 vaccinations. The United States has donated substantial numbers of doses to Central American countries. Donations to date number nearly half of the population of El Salvador and Guatemala and about one-third of Honduras' population. Remittance inflows to Central America are expected to remain robust, which will continue to support private consumption in the near term. A strong forecast for Panama in 2022—at 7.8 percent—will be fueled by public investment as the government builds transport-related infrastructure.

In the Caribbean, growth is projected to be 7.3 percent this year and 5.9 percent in 2023, though the aggregate reflects a large contribution from Guyana, where offshore oil production recently began. Growth in the Caribbean excluding Guyana, most of which is highly reliant on tourism, is projected to be substantially weaker, at 4.6 percent in 2022 and 4.2 percent in 2023. In most tourism-reliant economies, however, growth in 2022 is projected to accelerate relative to 2021 rates, on account of the timing of the expected recovery in international arrivals.

Risks

The outlook is subject to several downside risks. These include renewed surges in COVID-19 cases; financing and debt-related stress; disruptions from extreme weather events and natural disasters. In the medium term, failure to implement productivity-enhancing and other necessary reforms will hinder growth.

The durability of economic recovery in LAC, as elsewhere, is contingent on control of the pandemic. A resurgence in new COVID-19 cases—including from the Omicron variant—could temporarily disrupt activity in some countries. Countries that have made the least progress on vaccination are experiencing challenges securing vaccines (The Bahamas, Grenada, Guatemala, Haiti, Paraguay, St. Lucia, Suriname), delays obtaining the vaccines they have secured (Guatemala, Guyana, Haiti, Honduras, Jamaica), and, in some cases, difficulty administering vaccines (figure 2.3.3.A).

Downside risks related to financing conditions in LAC have increased as rising domestic inflation has triggered policy interest rate hikes and higher spending on social safety nets, health care, and support to businesses during the pandemic, together with reduced revenues, has driven up already-high government debt (figure 2.3.3.B; World Bank 2021h). Monetary policy tightening in the United States could proceed faster than expected, increasing borrowing costs and triggering capital outflows in LAC. Although most large LAC economies have lower corporate debt relative to GDP than the average EMDE (Chile is an exception), contingent liabilities could be realized as fiscal support continues to be removed, in turn driving government debt higher. In some other countries, firms' balance sheets are already strained: more than 40 percent of firms in four Central American countries surveyed during the pandemic (El Salvador, Guatemala, Honduras, Nicaragua) expected that they will fall into arrears on their debt in the short term (World Bank 2021i). A sudden deterioration of investor sentiment, given these underlying conditions, could result in debt servicing challenges and even sudden stops.

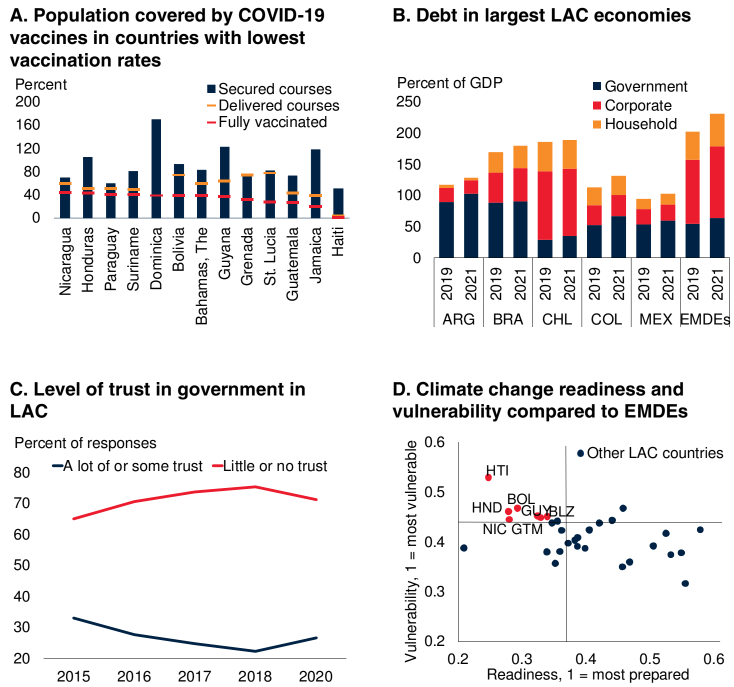
In view of a splintered political environment and upcoming elections in several countries in the region, the economic policy trajectory is uncertain. Failure to reach political consensus on fiscal adjustment and the structural reform agenda could have detrimental impacts on growth through a deterioration of consumer, business, or investor sentiment. Low trust in the government in LAC is a further source of downside risk (figure 2.3.3.C). Together with discontent about challenging economic conditions (including rising inflation) during the past two years, this could contribute to a spike in social unrest.

Disruptions related to extreme weather, related partly to climate change, and other natural disasters are a significant source of downside risk for the regional outlook, and for the lives and livelihoods of individuals. Island countries in the Caribbean, together with Central American countries and coastal areas elsewhere, face rising sea levels, more frequent extreme storms, coastal flooding and erosion in the future, while parts of South America, including agricultural areas, face rising risk of drought (Masson-Delmotte et al. 2021). In addition, a large swath of the region is prone to earthquakes. Improving resilience to and preparation for climate-and weather-related events is critical in limiting their economic impact, especially in countries where vulnerability to climate change is elevated (figure 2.3.3.D; World Bank 2021j).

Failure to address long-standing structural shortcomings in LAC, including sluggish productivity growth and low investment-to-GDP ratios, are a downside risk to growth in the medium to long term. Regulatory overhaul, innovation incentives, technological advancements in sectors such as banking and retail, and communications and transport infrastructure upgrades could help overcome this challenge. Failure to reintegrate workers separated from labor markets during the pandemic, including through reskilling or

FIGURE 2.3.3 LAC: Risks

Latin America and the Caribbean (LAC) has made substantial progress on COVID-19 vaccination in recent months, but some economies are lagging, putting them at greater risk of economic disruptions from renewed surges in cases. Tightening financing conditions, especially in an environment of already-high levels of government debt and the possible realization of contingent liabilities, are another key downside risk. The baseline outlook is also subject to downside risks from social unrest, which could be triggered by low levels of trust in governments or discontent about economic conditions, and from disruptions from extreme weather and natural disasters.



Sources: Bank for International Settlements; International Monetary Fund; Latinobarómetro; Multilateral Leaders Task Force on COVID-19; Our World in Data (database); UNICEF COVID-19 Vaccine Market Dashboard; University of Notre Dame Global Adaptation Initiative; World Bank.

A. Bars show cumulative share of the population of each country or group of countries that is fully vaccinated. Countries shown are those with the lowest shares of their populations fully vaccinated among LAC countries (St. Vincent and the Grenadines is not shown). Last observation is January 2, 2022.

B. ARG = Argentina, BRA = Brazil, CHL = Chile, COL = Colombia, MEX = Mexico, EMDEs = emerging market and developing economies. "Government" refers to credit to general government debt from all sectors at nominal value. "Corporate" refers to credit to nonfinancial corporations from all sectors at market value. "Household" refers to credit to households and nonprofit institutions serving households (NPISH) from all sectors at market value. All values are in percent of GDP. Corporate and household debt is for 2019Q4 and 2021Q2. For Argentina, 2021 government debt reflects data for 2020.

C. Lines summarize approximately 20,000 survey responses for each year in 18 LAC countries to a question about respondents' level of trust in the national government. Responses of "don't know" or "no answer" are excluded from the summary.

D. BLZ = Belize, BOL = Bolivia, GTM = Guatemala, GUY = Guyana, HND = Honduras, HTI = Haiti, NIC = Nicaragua. Horizontal and vertical lines are medians for all emerging market and developing economies.

upskilling, is a further downside risk. Policy action is especially important for women, who are more likely than men to have dropped out of the labor force, and for youth (Mejía-Mantilla et al. 2021). Nontraditional modes of education, such as short-cycle programs, could build human capital quickly and train workers in new fields (Ferreyra et al. 2021). Equally important for avoiding long-term scarring from the pandemic is helping primary and secondary students recoup education losses, particularly those in vulnerable households (Neidhöfer, Lustig, and Tommasi 2021).

TABLE 2.3.1 Latin America and the Caribbean forecast summary

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

						Percentage point differences from June 2021 projections		
	2019	2020	2021e	2022f	2023f	2021e	2022f	2023f
EMDE LAC, GDP[1]	**0.8**	**-6.4**	**6.7**	**2.6**	**2.7**	**1.5**	**-0.3**	**0.2**
GDP per capita (U.S. dollars)	-0.2	-7.3	5.7	1.7	1.9	1.5	-0.4	0.2
(Average including countries that report expenditure components in national accounts)[2]								
EMDE LAC, GDP[2]	0.8	-6.4	6.7	2.5	2.6	1.5	-0.4	0.1
PPP GDP	0.8	-6.7	6.9	2.6	2.6	1.7	-0.3	0.1
Private consumption	1.1	-7.7	7.5	2.7	2.9	2.2	-0.5	0.2
Public consumption	0.1	-1.7	3.4	1.8	0.2	2.7	1.3	-0.3
Fixed investment	-0.6	-11.1	16.3	1.5	3.7	7.5	-3.8	-0.6
Exports, GNFS[3]	0.8	-8.5	8.3	5.3	4.6	1.0	0.4	0.7
Imports, GNFS[3]	-0.8	-14.0	16.1	4.1	4.9	6.4	-1.3	0.0
Net exports, contribution to growth	0.4	1.3	-1.6	0.2	-0.1	-1.1	0.3	0.1
Memo items: GDP								
South America[4]	0.9	-5.7	7.0	2.1	2.6	1.8	-0.6	0.1
Central America[5]	2.6	-7.5	7.1	4.7	3.7	2.3	0.2	0.1
Caribbean[6]	3.1	-6.8	8.0	7.3	5.9	3.3	1.2	0.2
Brazil	1.2	-3.9	4.9	1.4	2.7	0.4	-1.1	0.4
Mexico	-0.2	-8.2	5.7	3.0	2.2	0.7	0.0	0.2
Argentina	-2.0	-9.9	10.0	2.6	2.1	3.6	0.9	0.2

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, and 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	Percentage point differences from June 2021 projections: 2021e	2022f	2023f
Argentina	-2.0	-9.9	10.0	2.6	2.1	3.6	0.9	0.2
Bahamas, The	0.7	-14.5	2.0	8.0	4.0	0.0	-0.5	0.0
Barbados	-1.3	-18.0	3.3	8.5	4.8	0.0	0.0	0.0
Belize	1.8	-16.8	9.0	4.0	1.8	7.1	-2.4	-2.4
Bolivia	2.2	-8.8	5.5	3.5	2.7	0.8	0.0	-0.3
Brazil	1.2	-3.9	4.9	1.4	2.7	0.4	-1.1	0.4
Chile	0.9	-5.8	11.8	2.2	1.8	5.7	-0.8	-0.7
Colombia	3.3	-6.8	9.9	4.1	3.5	4.0	0.0	-0.5
Costa Rica	2.3	-4.1	5.0	3.5	3.2	2.3	0.1	0.1
Dominica	3.5	-11.0	3.4	8.1	5.9	2.4	5.1	3.4
Dominican Republic	5.1	-6.8	10.8	5.0	5.0	5.3	0.2	0.2
Ecuador	0.0	-7.8	3.9	3.1	2.5	0.5	1.7	0.7
El Salvador	2.6	-7.9	8.0	4.0	2.5	3.9	0.9	0.1
Grenada	0.7	-13.7	3.0	4.4	3.8	-0.5	-0.6	-1.1
Guatemala	3.9	-1.5	7.6	3.9	3.5	4.0	-0.1	-0.3
Guyana	5.4	43.5	21.2	49.7	25.0	0.3	23.7	2.0
Haiti [2]	-1.7	-3.3	-0.8	0.0	1.5	-0.3	-1.5	-0.5
Honduras	2.7	-9.0	4.7	4.4	3.8	0.2	0.5	0.0
Jamaica	0.9	-10.0	4.3	3.0	2.0	1.3	-0.8	-1.2
Mexico	-0.2	-8.2	5.7	3.0	2.2	0.7	0.0	0.2
Nicaragua	-3.7	-2.0	5.5	3.0	2.5	4.6	1.8	1.1
Panama	3.0	-17.9	9.9	7.8	5.0	0.0	0.0	0.1
Paraguay	-0.4	-0.8	4.3	4.0	3.9	0.8	0.0	0.1
Peru	2.2	-11.1	13.2	3.2	3.0	2.9	-0.7	-0.5
St. Lucia	-0.1	-20.4	5.2	9.6	7.1	2.6	-1.9	-1.0
St. Vincent and the Grenadines	0.5	-3.0	-6.1	8.3	6.1	0.0	0.0	0.0
Suriname	1.1	-15.9	-3.5	1.8	2.1	-1.6	1.7	0.8
Uruguay	0.4	-5.9	3.4	3.1	2.5	0.0	0.0	0.0

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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