

# REGIONAL ECONOMIC OUTLOOK

WESTERN HEMISPHERE



**WESTERN HEMISPHERE  
DEPARTMENT**

## Outlook for the Western Hemisphere

**APRIL 2022**

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Director

# ROADMAP

- I. Recent Developments
- II. Impact of War in Ukraine
- III. Outlook and Risks
- IV. Policy Priorities

# Key Messages on Recent Developments, Outlook, and Risks

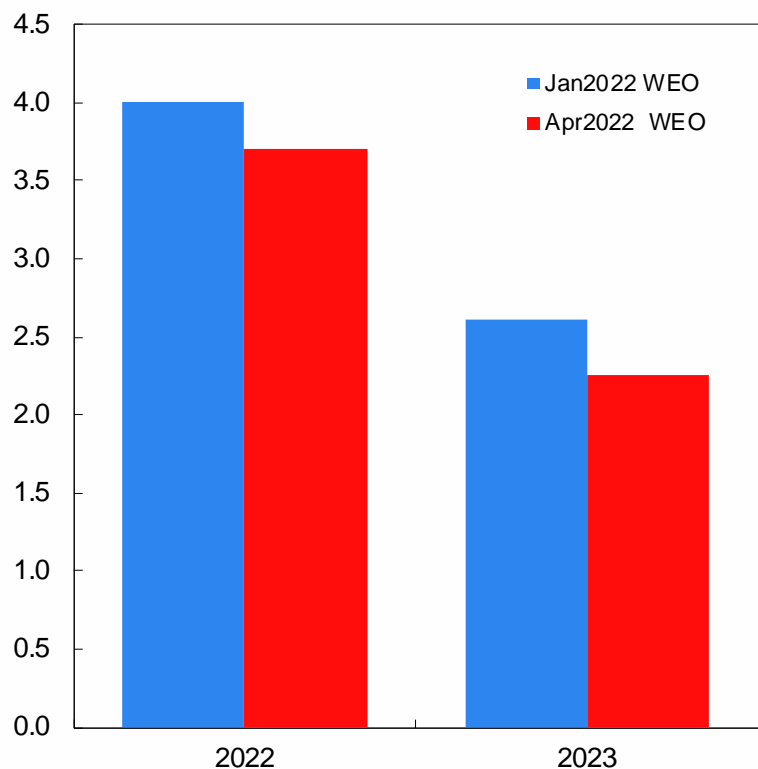
- ❖ **Inflationary shock on top of existing one: A high inflation environment, legacy of Covid shock, has been exacerbated by impact of the war in Ukraine.**
- ❖ **After a robust yet divergent recovery in 2021, activity is slowing amid tighter monetary and fiscal policies while formal labor markets are still recovering**
- ❖ **Financial market impact of the war in Ukraine has been muted so far, but a prolonged and deeper war could lead to financial stress and significant adverse effects.**
- ❖ **Social unrest is a risk in the context of rising food and energy prices**



# US is slowing, on the back of tighter monetary policy...

*Growth projections are revised down, reflecting a tighter monetary policy...*

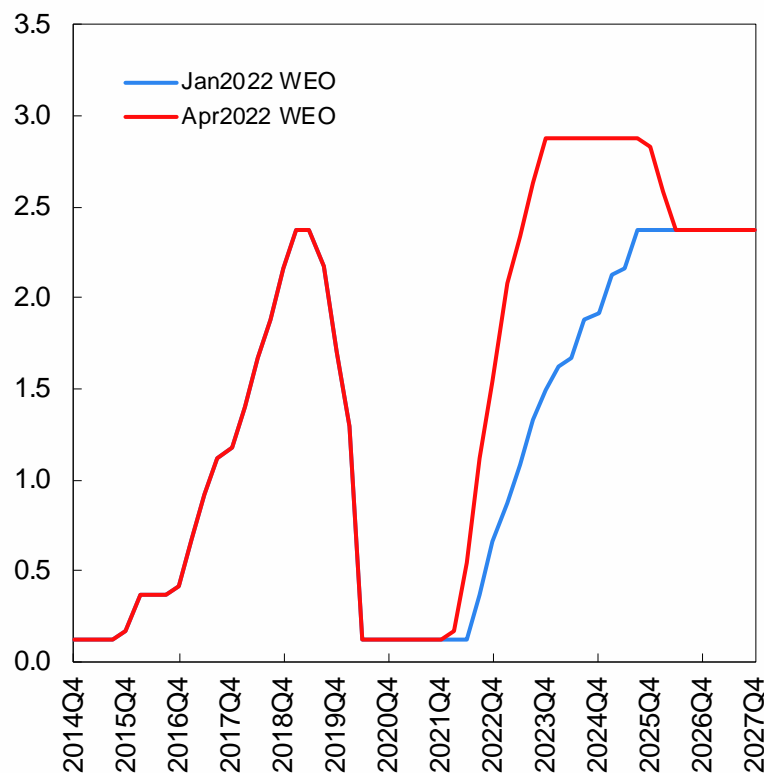
### Real GDP Growth (Year-over-year percent change)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

*... which is aligned with latest FOMC projections of a cumulative 275 bps increase by end-2023...*

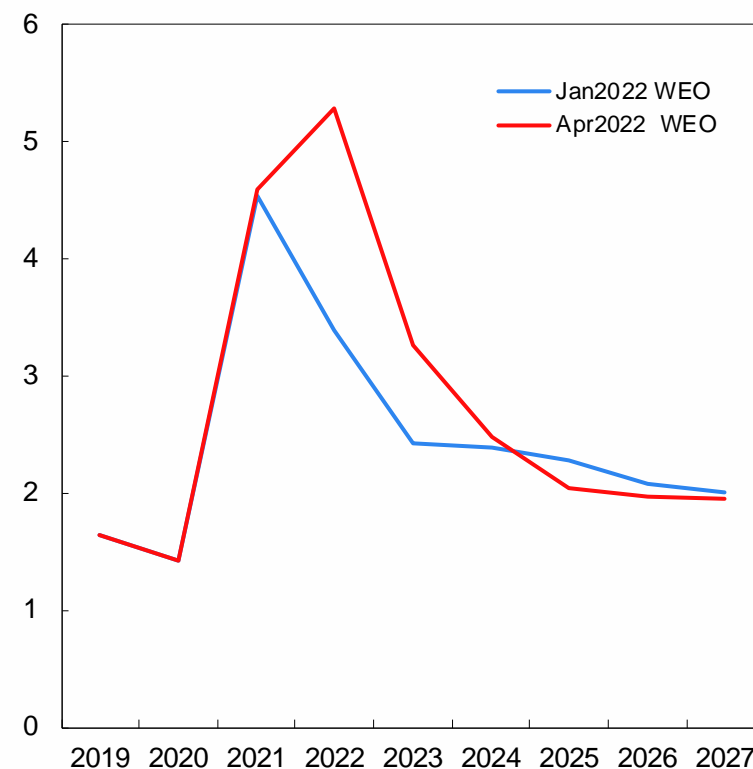
### Fed Funds Rate (Percent)



Sources: IMF, World Economic Outlook database; Haver Analytics; US Federal Reserve; and IMF staff calculations.

*... in reaction to the higher and more persistent inflationary pressures than initially expected, partly due to higher commodity prices*

### Core PCE Inflation (Q4/Q4 percent change)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: PCE = personal consumption expenditure.



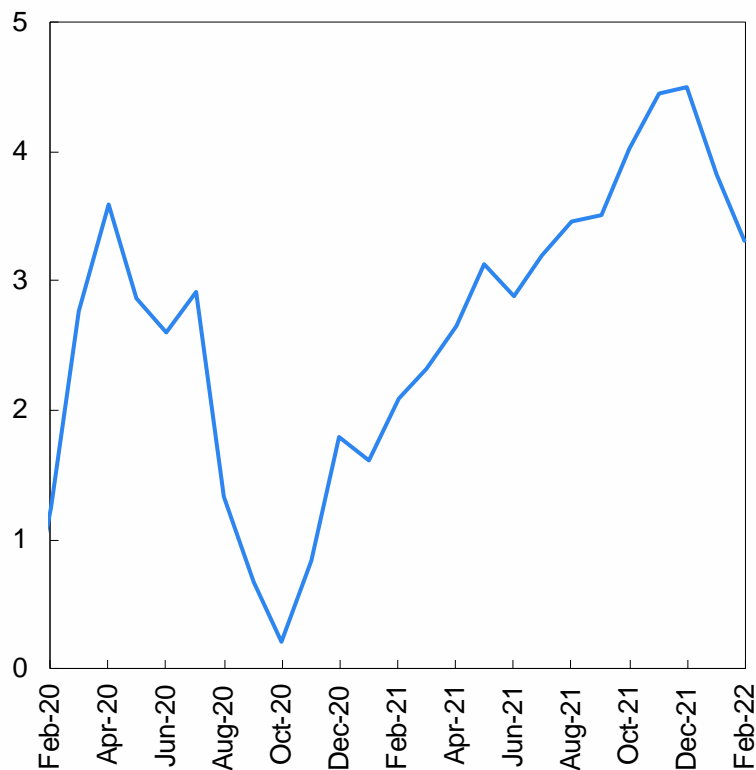
# ... with inflation becoming broad-based, despite some easing of global supply chain constraints

Global supply chain pressure eased somewhat as of February, but may increase again following the Russian invasion of Ukraine...

... while domestic inflation has become more broad-based...

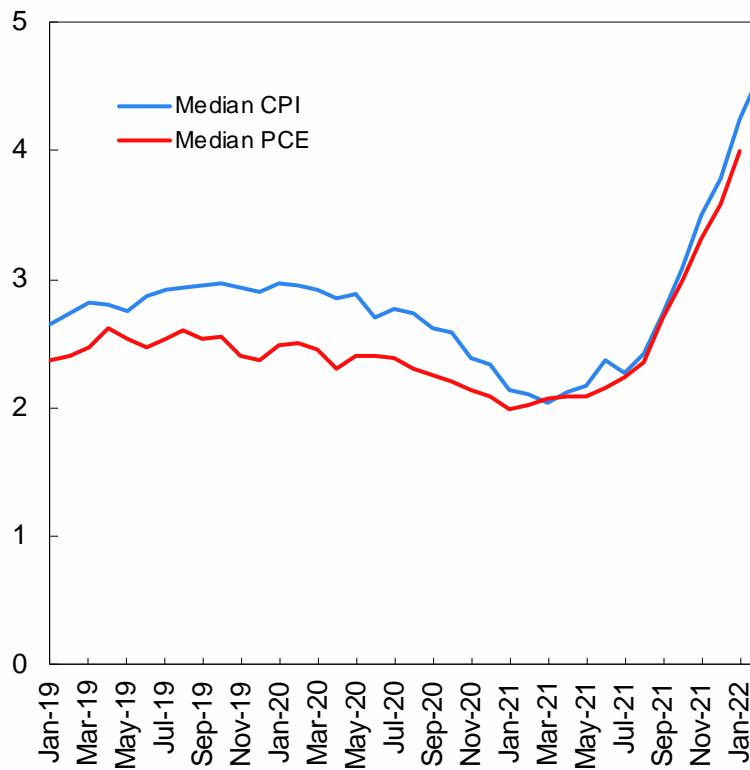
... most notably non-tradable inflation (shelter and other services) has also picked up and is expected to keep inflation high going forward

### Global Supply Chain Pressure Index (Standard deviation points)



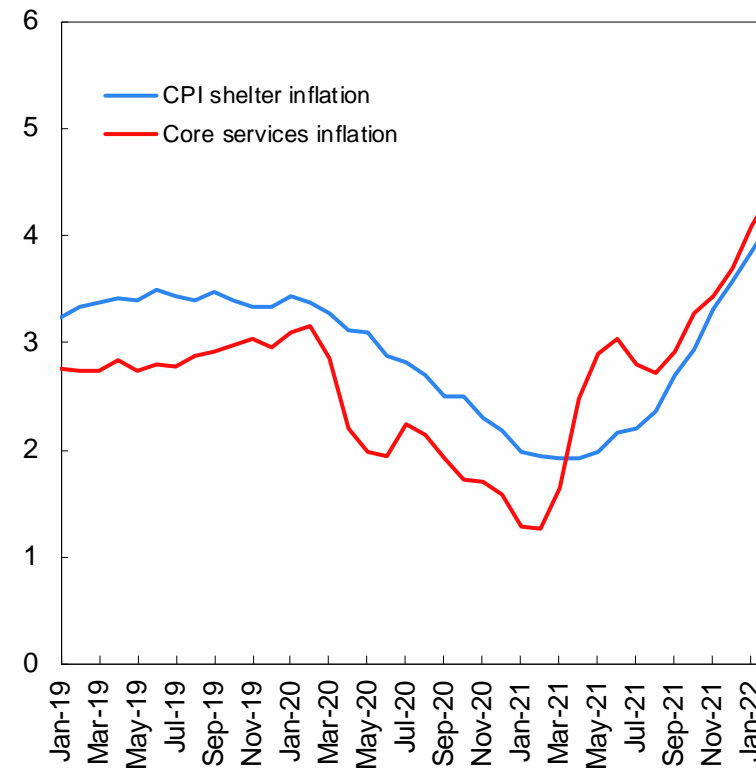
Sources: Haver Analytics; NYFEDLSE; and IMF staff calculations.

### Median Inflation (Year-over-year percent change)



Sources: Haver Analytics; Cleveland Fed; and IMF staff calculations.  
Note: PCE = personal consumption expenditure.

### Services Inflation (Year-over-year percent change)



Sources: Haver Analytics; NYFEDLSE; and IMF staff calculations.

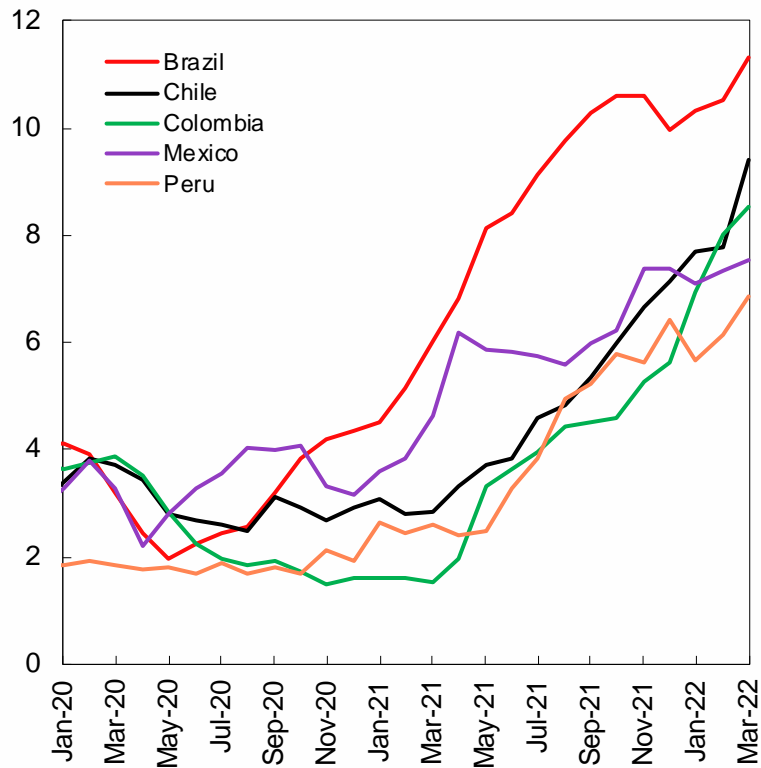
# The rest of the region is experiencing higher inflation...

Headline inflation increased rapidly in all LatAm countries in 2021...

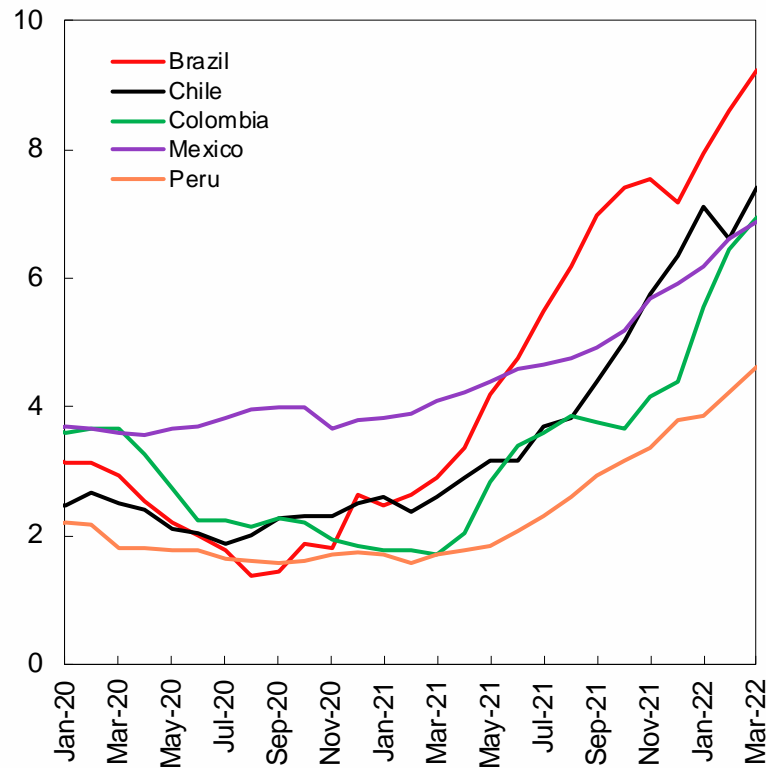
... while core price inflation has also accelerated...

... contributing increasingly more to headline inflation

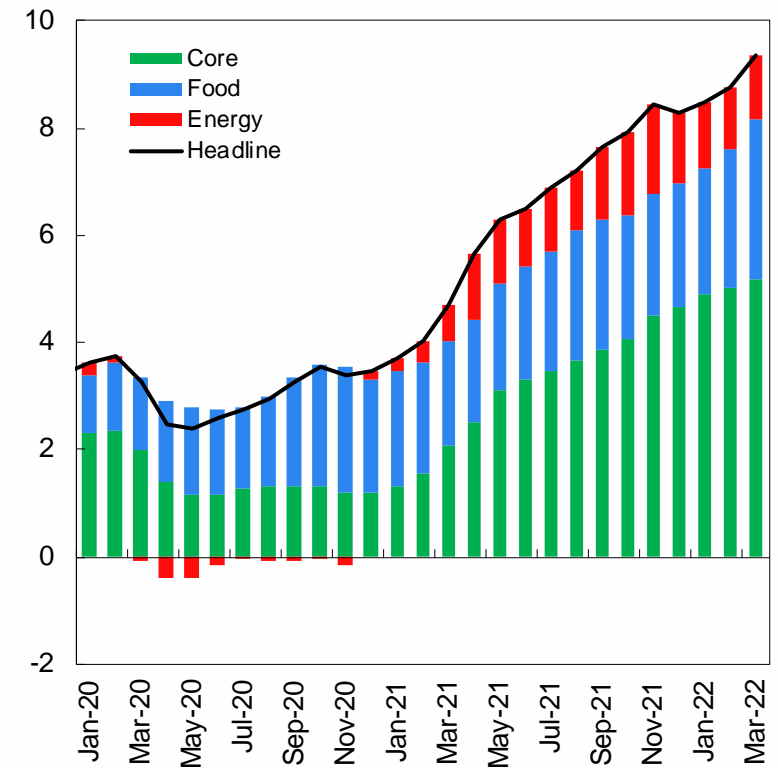
**Headline Consumer Price Inflation**  
(Year-over-year percent change)



**Core Consumer Price Inflation**  
(Year-over-year percent change)



**LatAm: Contributions to Headline Inflation**  
(Year-over-year percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.

Note: Peru refers to Lima.

Sources: Haver Analytics; national authorities; and IMF staff calculations.

Note: Peru refers to Lima.

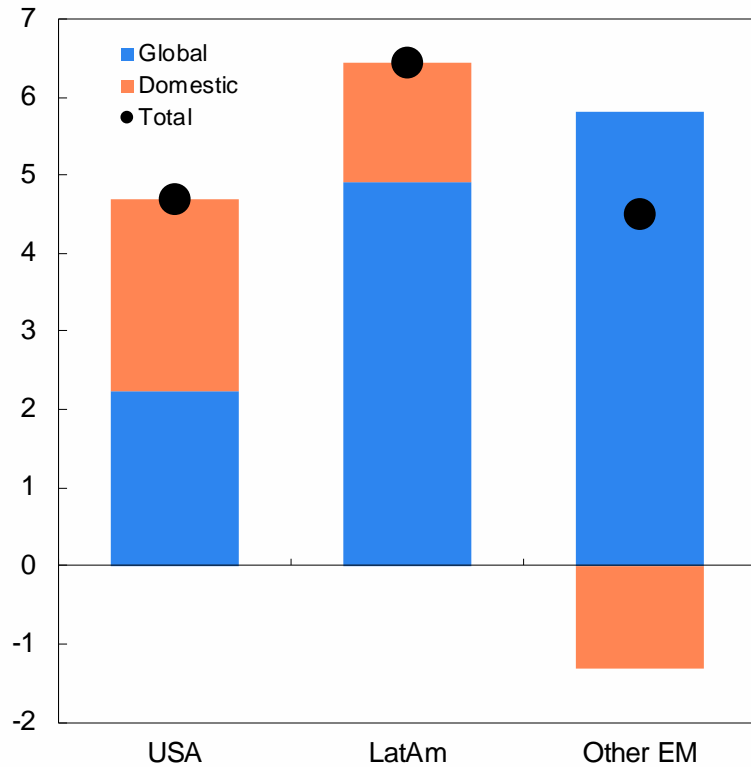
Sources: Haver Analytics; national authorities; and IMF staff calculations.

Note: PPP-weighted average of LatAm countries (Brazil, Chile, Colombia, Mexico, Peru). Core inflation is defined as headline inflation less food and energy. Peru refers to Lima.

# ... driven by a combination of global and domestic factors

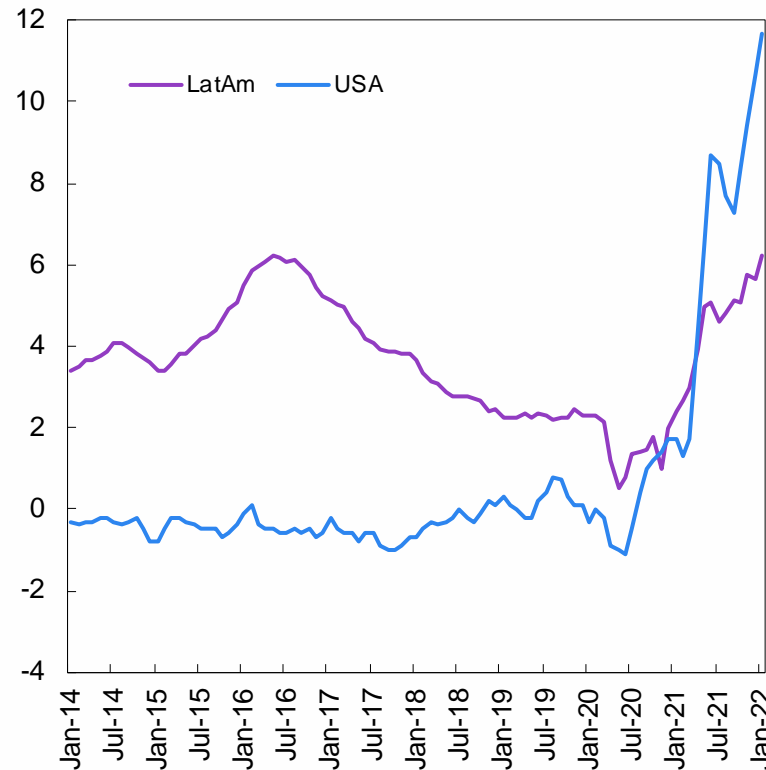
Global factors, correlated with commodity prices, explain ¾ of average headline inflation in LatAm

**Decomposition of Average Inflation, 2021**  
(Year-over-year percent change)



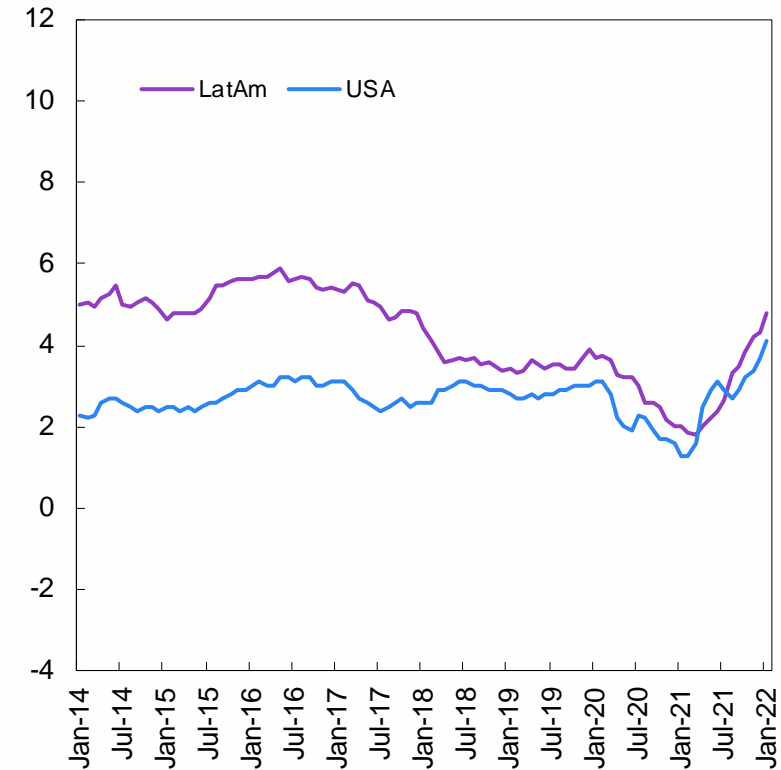
Core goods price inflation contributed first to the headline inflation...

**Core Goods Inflation**  
(Year-over-year percent change)



... and now core services inflation is also rising

**Core Services Inflation**  
(Year-over-year percent change)



Sources: IMF staff calculations.  
Note: Results from a Dynamic Factor Model (DFM) that exploits the variation in monthly headline inflation to identify the exposure of each country's inflationary process to an estimated autoregressive global factor. The chart shows the average predicted value of each country's exposure to the DFM's global factor, where the domestic factor is computed as residual. GDP-PPP weighted averages for country groups. LatAm = BRA, CHL, COL, MEX, PER; Other EM = EM Europe (BGR, HUN, POL, ROU, RUS) and EM Asia (IDN, IND, THA, PHL, MYS).  
emisphere Department - Regional Economic Outlook

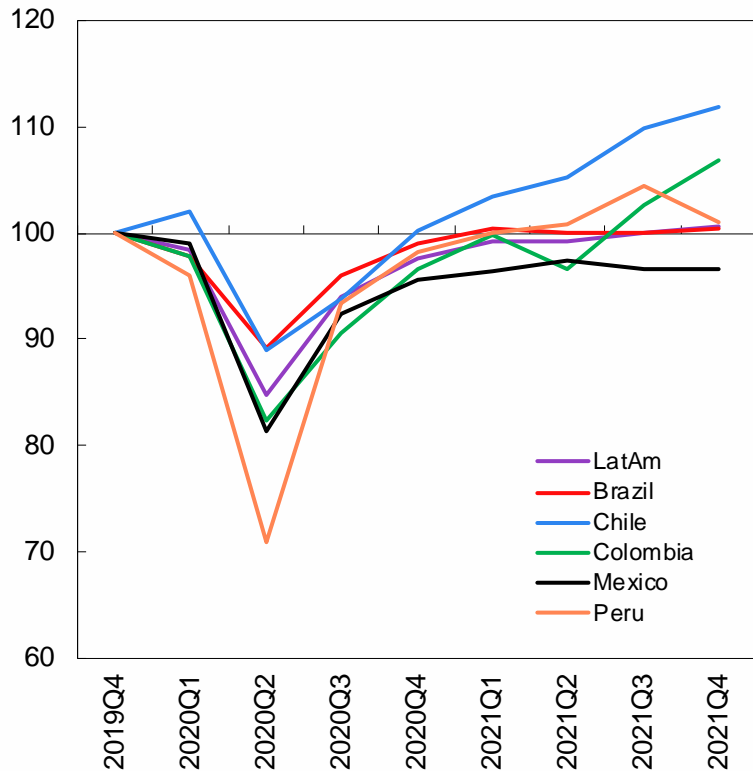
Sources: Haver Analytics; and IMF staff calculations.  
Note: Core goods exclude food, transport, and household items.  
LatAm = Brazil, Chile, Colombia, Mexico, Peru.

Sources: Haver Analytics; and IMF staff calculations.  
Note: Core services exclude transport and household items.  
LatAm = Brazil, Chile, Colombia, Mexico, Peru.

# These developments occur on the back of a brisk but divergent recovery in LatAm...

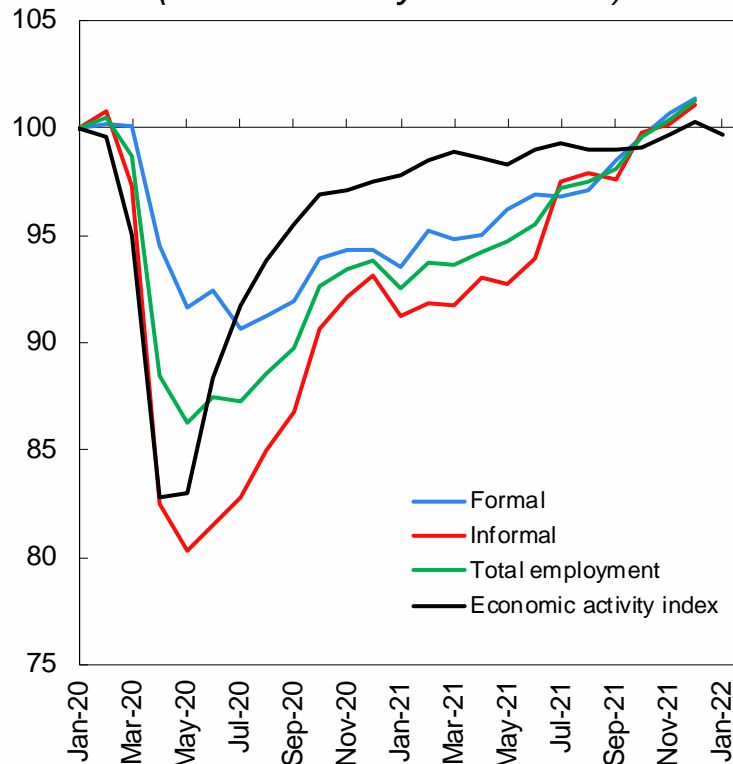
Largest countries except MEX have returned to their pre-pandemic GDP levels in 2021

**Real GDP Level**  
(Index: 2019Q4 = 100)



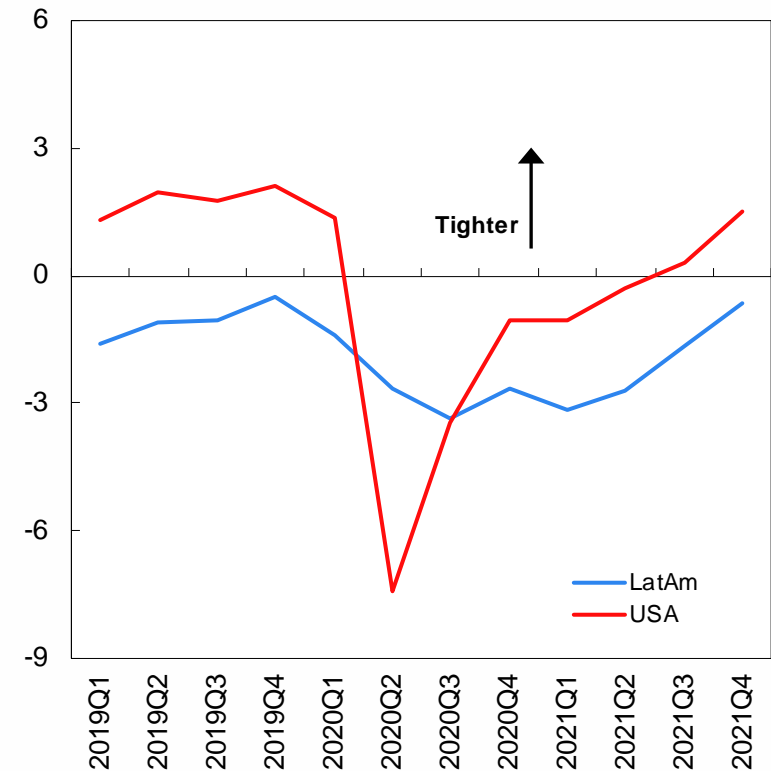
Employment reached pre-pandemic levels, but with a more muted recovery in formal employment...

**LatAm: Employment and Economic Activity Index**  
(Index: January 2020 = 100)



... with signs of labor market tightness less acute than those observed in the US

**Employment Rate Gap**  
(Difference in ppts relative to 2012-19 average)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: LatAm is purchasing-power-parity GDP-weighted average of Brazil, Chile, Colombia, Mexico, and Peru.

Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: LatAm is labor force-weighted average of Brazil, Chile, Colombia, Mexico, and Peru.

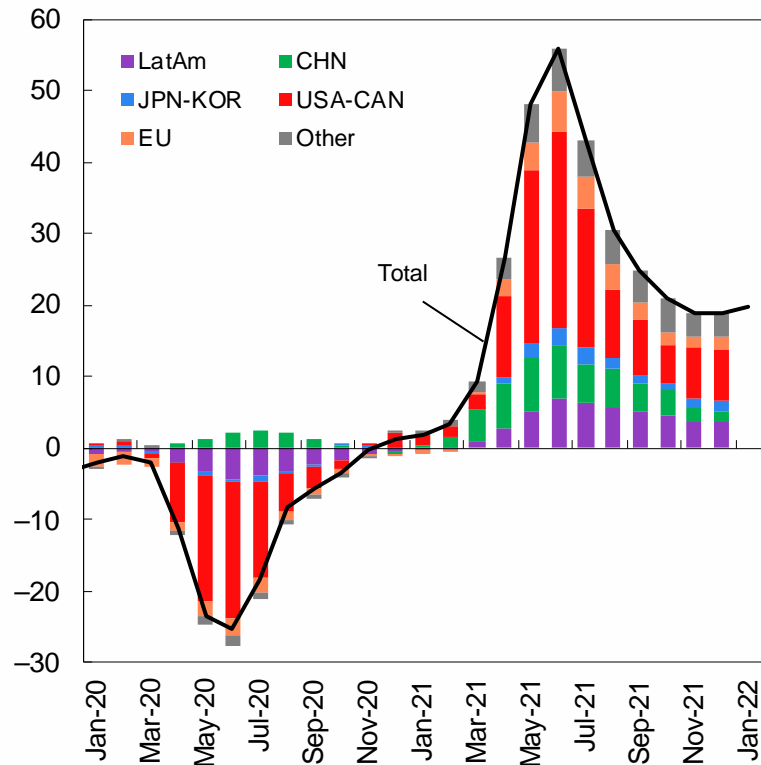
Sources: National authorities; and IMF staff calculations.  
Note: Employment rate gap measures the difference between the employment rate, defined as total employment divided by labor force participation, and the average employment rate observed during 2012-19. Peru is not included since data is unavailable yet for 2021Q4. LatAm = Brazil, Chile, Colombia, Mexico.



# ... which was supported by generally favorable external conditions

The recovery in trading partners supported growth in 2021 though now has slowed

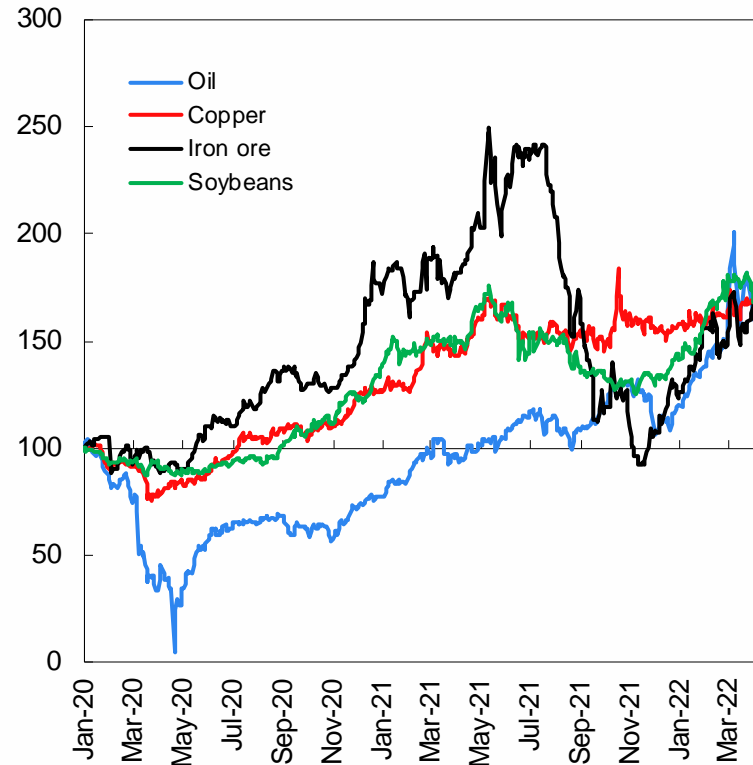
**Contributions to Merchandise Exports Growth**  
(3-month moving sum; year-over-year percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.  
Note: Includes Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay.

Commodity prices have generally bounced back, though they remain volatile

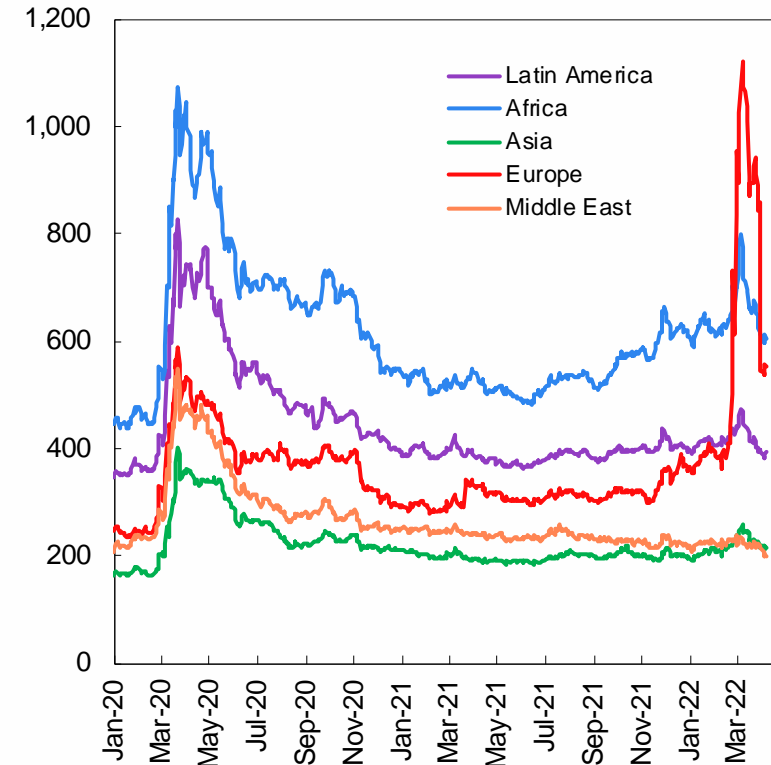
**Commodity Prices**  
(Index: January 1, 2020 = 100)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.  
Note: Oil prices refer to the average petroleum spot prices: Brent, West Texas Intermediate, and Dubai Fateh.

Favorable financing conditions remained supportive though now are tightening

**EMBIG Spreads**  
(Basis points)



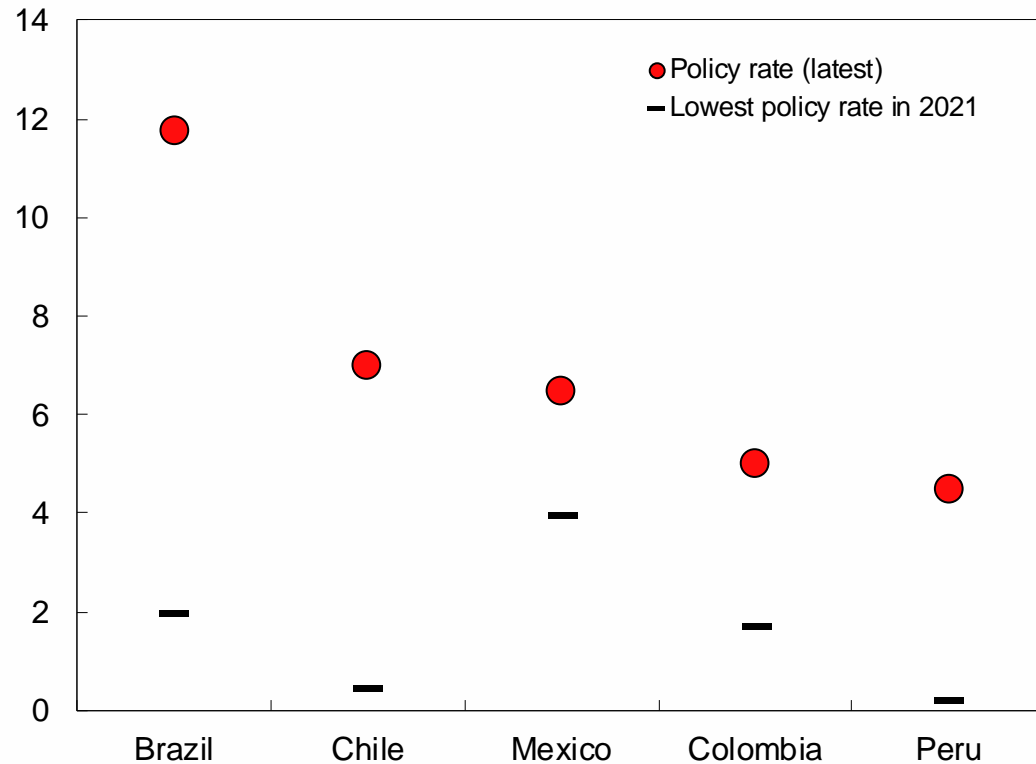
Sources: Bloomberg Finance, L.P.; Haver Analytics; and IMF staff calculations.

# Monetary policy have kept long term inflation expectations anchored...

*Monetary policy may have created headwinds to growth as central banks increased policy rates to fight inflation, ...*

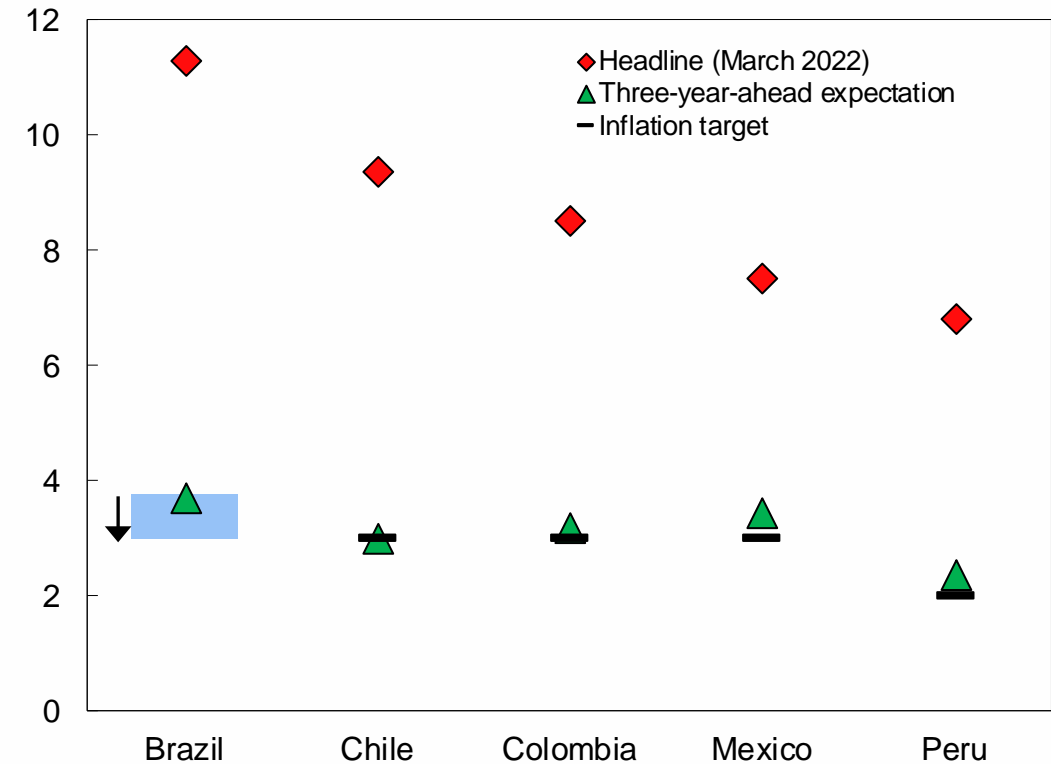
*... preserve the hard-won credibility, and keep long-term expectations well-anchored*

### Policy Rates (Percent)



Sources: Haver Analytics; national authorities; and IMF staff calculations.

### Headline Inflation and Expectations (Percent)



Sources: Consensus Economics; Haver Analytics; and national authorities.

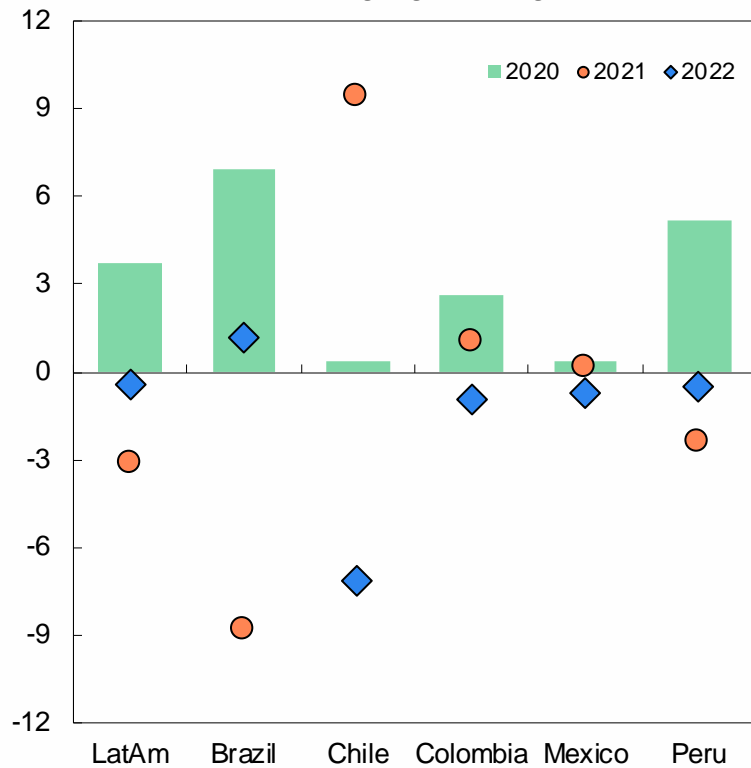
Note: Brazil inflation target is set to decline over time from 3.75 percent in 2022 to 3 percent in 2024.

# ... while fiscal policy is broadly neutral, with some concerns about debt dynamics

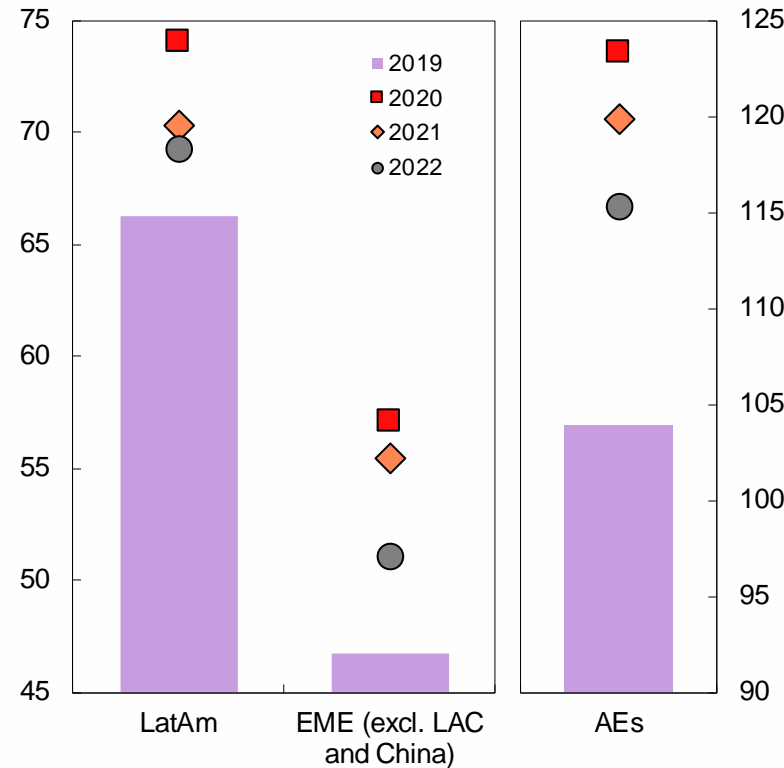
After removal of stimulus in 2021, fiscal policy is expected to be broadly neutral in 2022

While the public debt to GDP ratio fell sharply in 2021, the decline is likely to stall in 2022 as interest payments are expected to continue rising, and even more than in other regions...

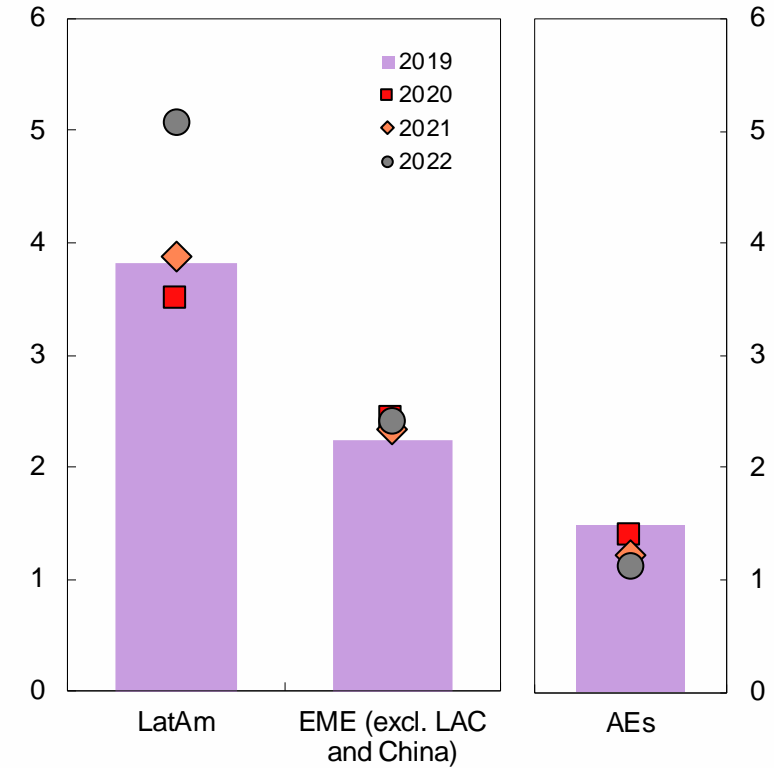
**General Government Fiscal Impulse**  
(Percentage points of GDP; +/- = loosening/tightening)



**Gross Public Debt**  
(Percent of GDP)



**Net Interest Payments**  
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: Defined as the change in structural primary deficit. LatAm is US\$ nominal GDP-w eighted average of Brazil, Chile, Colombia, Mexico, and Peru.

Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: Aggregates are US\$ nominal GDP-w eighted averages. LatAm = Brazil, Chile, Colombia, Mexico, Peru.

Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: Aggregates are US\$ nominal GDP-w eighted averages. LatAm = Brazil, Chile, Colombia, Mexico, Peru.

# Impact of War in Ukraine

# Main channels of transmission of war in Ukraine to LAC

## Main channels

- ❖ **Higher inflation** due to higher commodity prices, on top of an already high inflation in LAC: likely to trigger additional monetary policy tightening, lower real incomes and amplify risk of social unrest
- ❖ **Lower growth** due to lower global growth (lower exports, tourist arrivals, remittances) and tighter monetary policy
- ❖ **Direct trade ties** to Russia and Ukraine are small. The impact on growth from **higher commodity prices is heterogenous** (good for net commodity exporters, bad for net commodity importers). Possible negative impact on agriculture through lower fertilizer imports from Russia.

## Possible additional channels

- ❖ **Financial distress channel** due to increased investor risk aversion if war in Ukraine escalates: further downward pressure on growth, upward pressure on inflation through exchange rate depreciations, and add to stresses on public finances

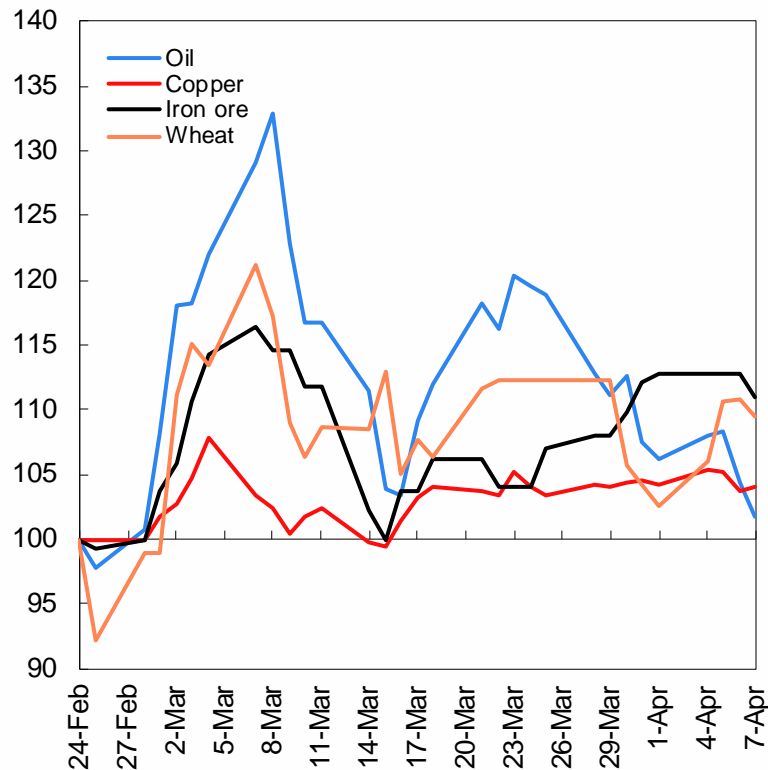
# Inflationary shock on top of existing one, hurting the poor most

The war in Ukraine is leading to higher food and energy prices...

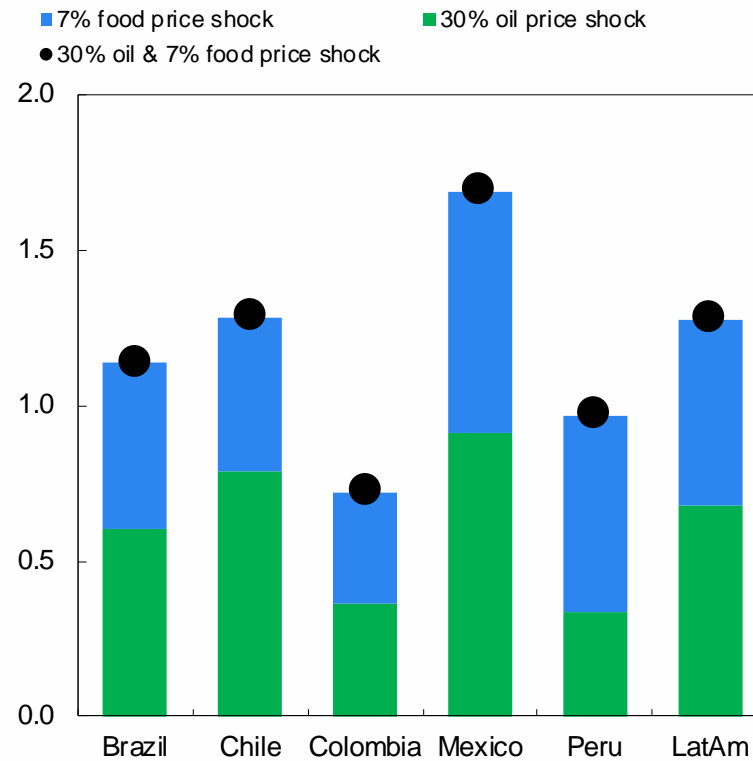
... putting an upward pressure on inflation in LatAm...

... and hurting the poor most

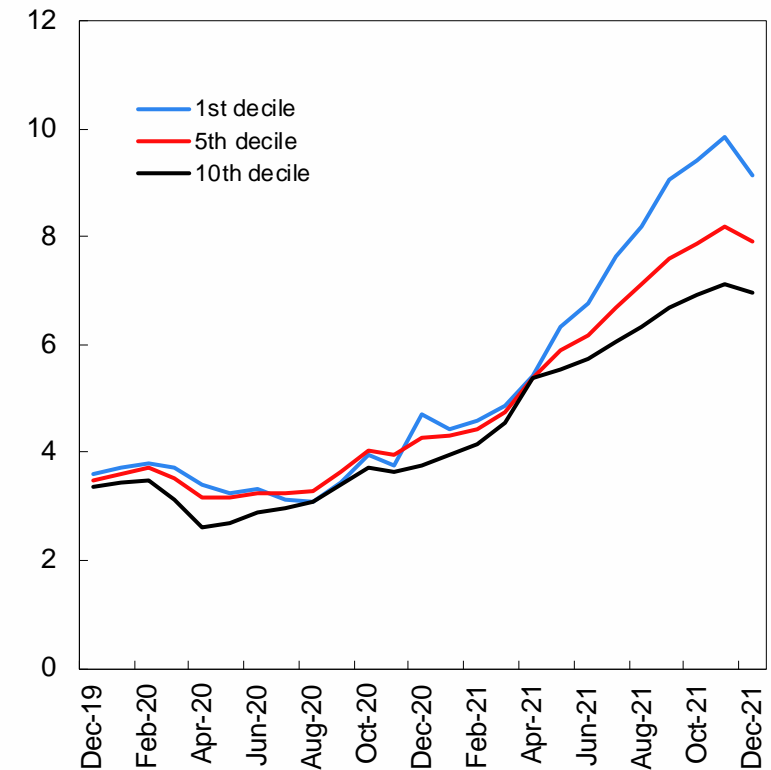
**Commodity Prices**  
(Index: February 24, 2022 = 100)



**Estimated Impact of Global Food and Oil Price Shocks on Inflation**  
(percentage points)



**LatAm: Inflation by Income Deciles**  
(Year-over-year percent change)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.  
Note: Oil prices refer to the average petroleum spot prices: Brent, West Texas Intermediate, and Dubai Fateh.

Source: IMF staff calculations.  
Note: Results of a panel Local Projection regression of headline inflation on respective shocks (12-month cumulative effect). Lags, country, and time-fixed effects included. LatAm is PPP-weighted average of Brazil, Chile, Colombia, Mexico, and Peru.

Source: IMF staff calculations.  
Note: For each decile, inflation is calculated using product weights from household surveys. LatAm = Brazil, Chile, Colombia, Mexico, Peru.

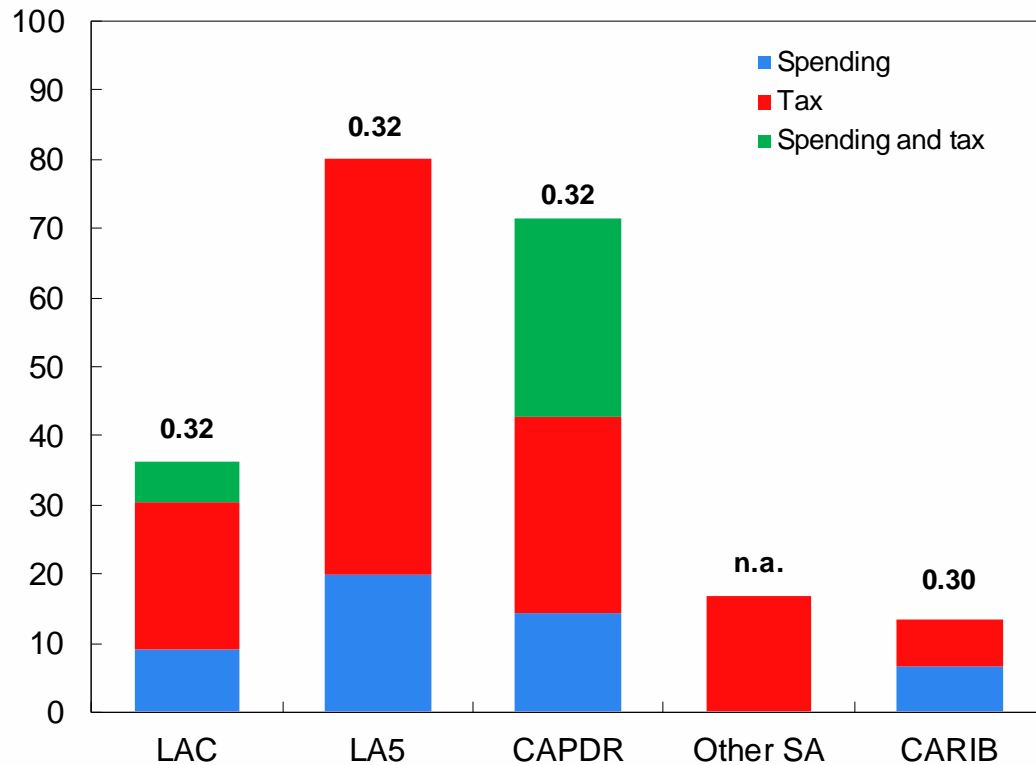
# Countries are reacting to food and energy price spikes

*These new measures to contain the impact of commodity price increases on inflation could preserve social cohesion...*

*.... but need to be well-targeted to minimize their fiscal cost*

## Share of Countries Implementing New Measures in Response to Rise in Energy and Food Prices after Russia's Invasion of Ukraine

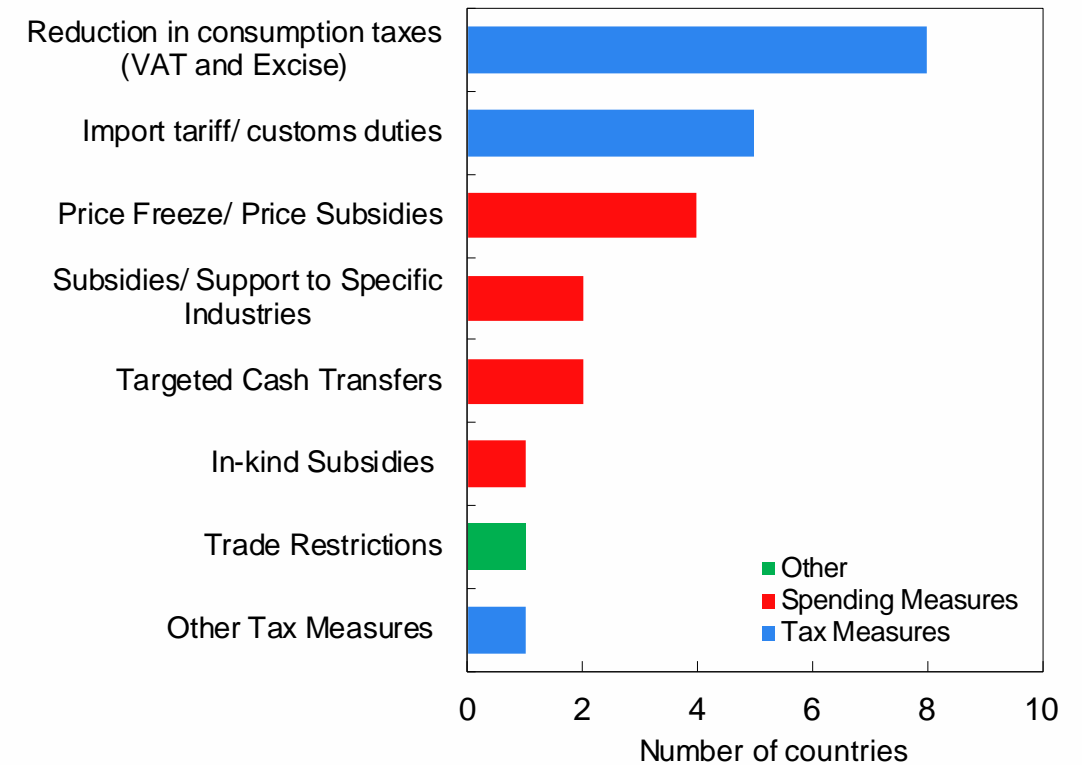
*(Data labels refer to GDP-PPP weighted average cost for 2022 in percent of GDP)*



Source: IMF staff calculations

Note: The chart summarizes only new tax and spending measures implemented after the beginning of the war in Ukraine based on 11 country desks survey run from February 24, 2022 through March 23, 2022. For LA5 countries additional measures taken up to April 14, 2022 are included. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LAC = Latin America and the Caribbean; LA5 = Brazil, Chile, Colombia, Mexico, Peru; SA = South America.

## Types of New Announced Measures in Response to Higher Energy and Food Prices after War in Ukraine



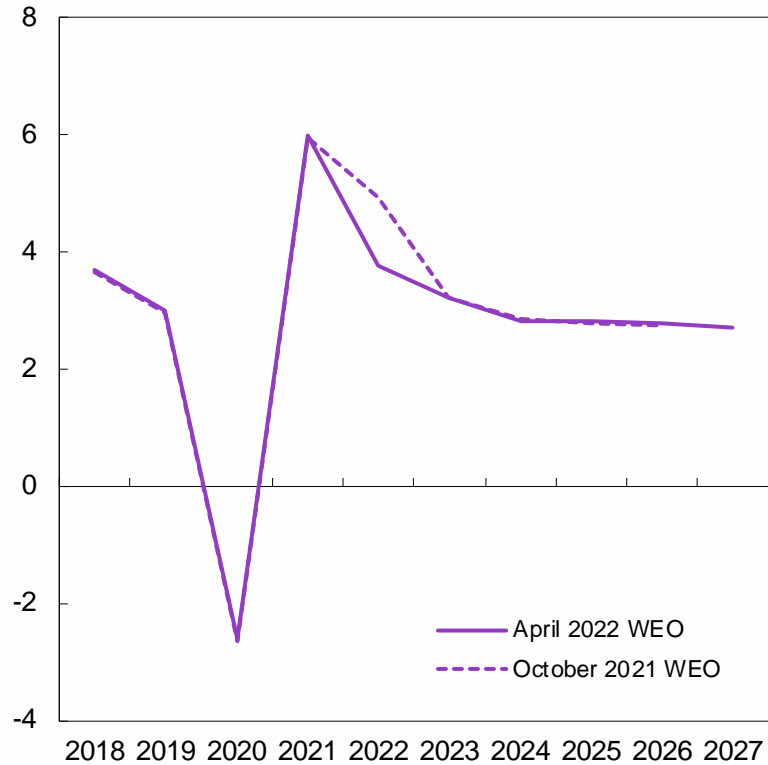
Source: IMF staff calculations

Note: The chart summarizes only new tax and spending measures implemented after the beginning of the war in Ukraine based on 11 country desks survey run from February 24, 2022 through March 23, 2022. For LA5 countries additional measures taken up to April 14, 2022 are included.

# Mixed impact on growth forecast revisions

Lower trading partner growth will weigh on growth in largest economies...

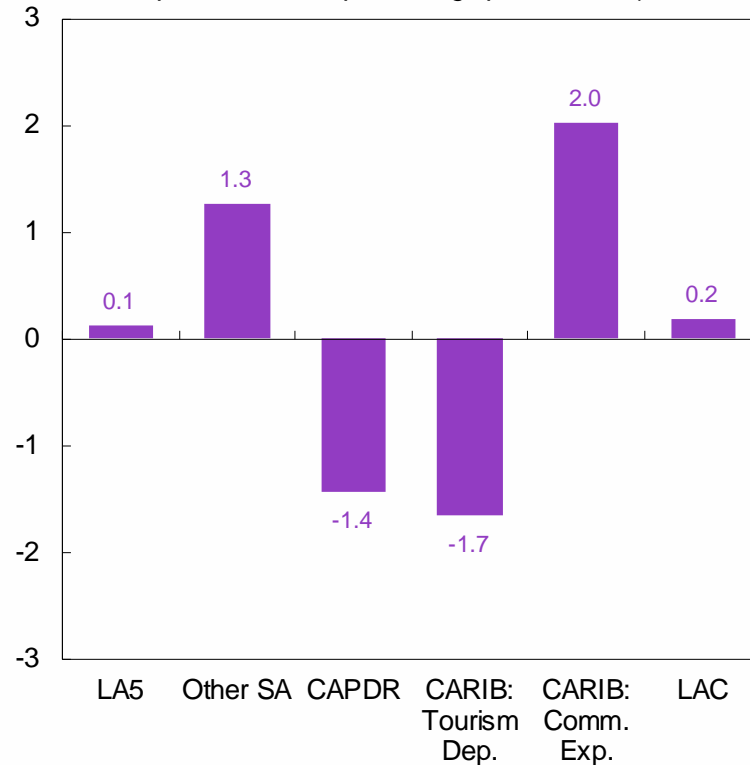
**LatAm: Trading Partners Real GDP Growth**  
(Year-over-year percent change; weighted by exports)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: Based on data for non-LAC partner countries that together account for 100 percent of trade of reporting country. LatAm = Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay.

... while higher commodity prices will benefit net commodity exporters but hurt net commodity importers

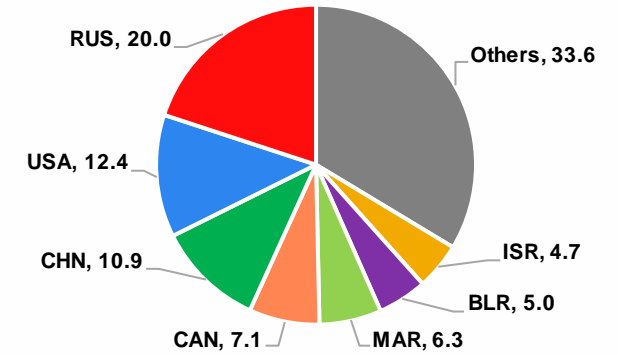
**Changes in Commodity Terms of Trade Index, 2022**  
(Percent change; April 2022 versus January 27 GAS)  
(One percentage point change in the CTOT index can be interpreted as a change in aggregate disposable income equivalent to one percentage point of GDP)



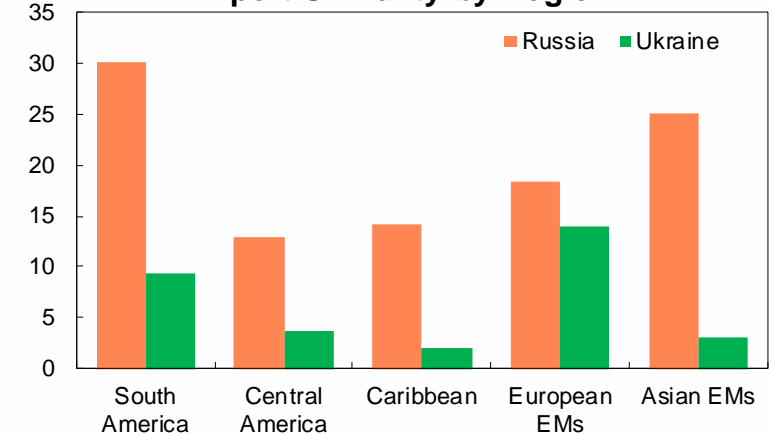
Sources: IMF, Commodity Terms of Trade database; and IMF staff calculations.  
Note: Regional aggregates are PPP-weighted averages. CAPDR = Central America, Panama, and the Dominican Republic; CARIB: Comm. Exp. = Caribbean: Commodity exporters; CARIB Tourism Dep. = Caribbean: Tourism dependent; LAC = Latin America and the Caribbean; LA5 = Brazil, Chile, Colombia, Mexico, Peru; SA = South America.

Lower imports of fertilizers from RUS may hurt agriculture but opportunities to boost exports in some countries

**Share of Fertilizers Imports of LAC by Country**  
(Percent of total LAC fertilizers imports)



**Export Similarity by Region**



Source: IMF staff calculations.



# Outlook and Risks

# After strong recovery in 2021, growth to slow in 2022

Most LAC countries are expected to be above or at pre-pandemic GDP levels by 2022, except MEX and tourism-dependent Caribbean

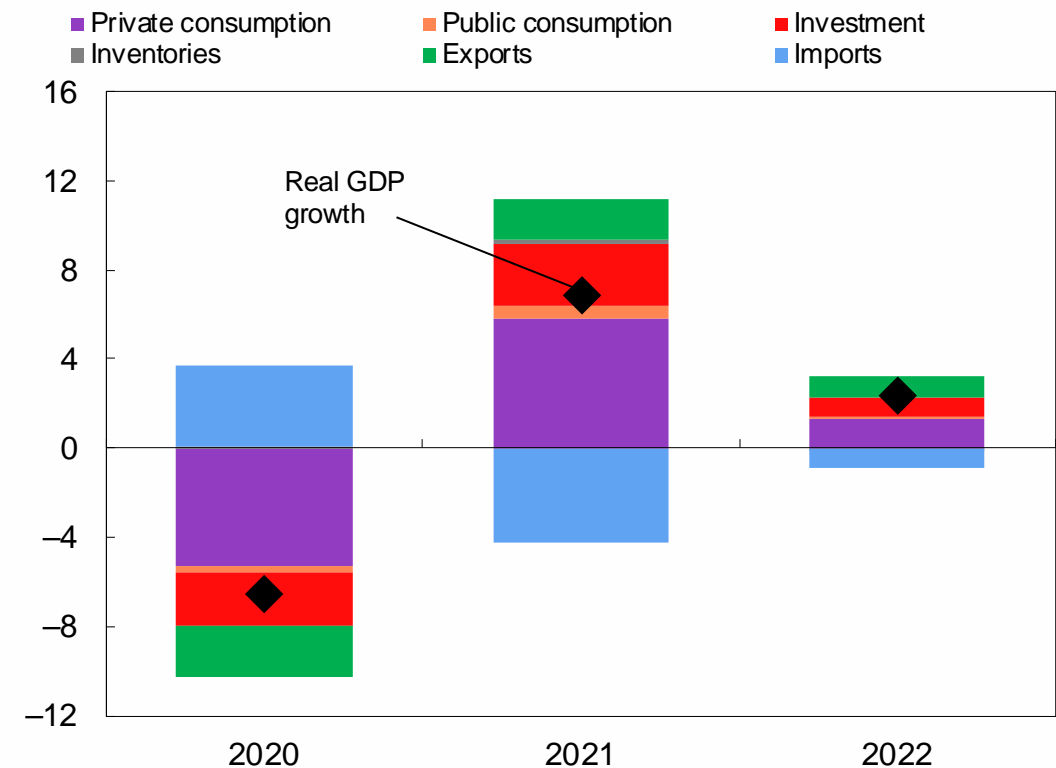
## Latin America and the Caribbean: Real GDP Growth (Year-over-year percent change)

	Year of return to end-2019 level	2019	2020	Est. 2021	Projections	
					2022	Avg. 2023–26
<b>Latin America and the Caribbean</b>	<b>2022</b>	<b>0.1</b>	<b>-7.0</b>	<b>6.8</b>	<b>2.5</b>	<b>2.4</b>
LAC excl. Venezuela	2022	0.8	-6.6	6.9	2.6	2.4
South America	2021	-0.2	-6.5	7.2	2.3	2.3
Argentina	2022	-2.0	-9.9	10.2	4.0	3.0
Brazil	2021	1.2	-3.9	4.6	0.8	1.9
Chile	2021	0.8	-6.1	11.7	1.5	1.7
Colombia	2021	3.2	-7.0	10.6	5.8	3.5
Peru	2021	2.2	-11.0	13.3	3.0	3.0
Mexico	2023	-0.2	-8.2	4.8	2.0	2.1
CAPDR	2021	3.3	-7.1	11.0	4.8	4.0
Caribbean						
Tourism dependent	2024	0.0	-9.4	2.8	3.2	2.3
Commodity exporters	2020	1.0	4.0	4.7	20.2	6.2

Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: PPP GDP-weighted average. Green/red denotes upward/downward revision compared with the October 2021 World Economic Outlook forecasts. WEO data as of April 8, 2022. CAPR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Caribbean: Commodity Exporters include Guyana, Suriname, and Trinidad and Tobago. Caribbean: Tourism dependent encompasses the rest of the Caribbean countries not in the Commodity Exporters group, including Haiti.

The recovery in 2021 was supported by a strong rebound in private consumption, which is expected to be more muted in 2022

## Selected LAC: Contributions to Real GDP Growth (Year-over-year percent change)

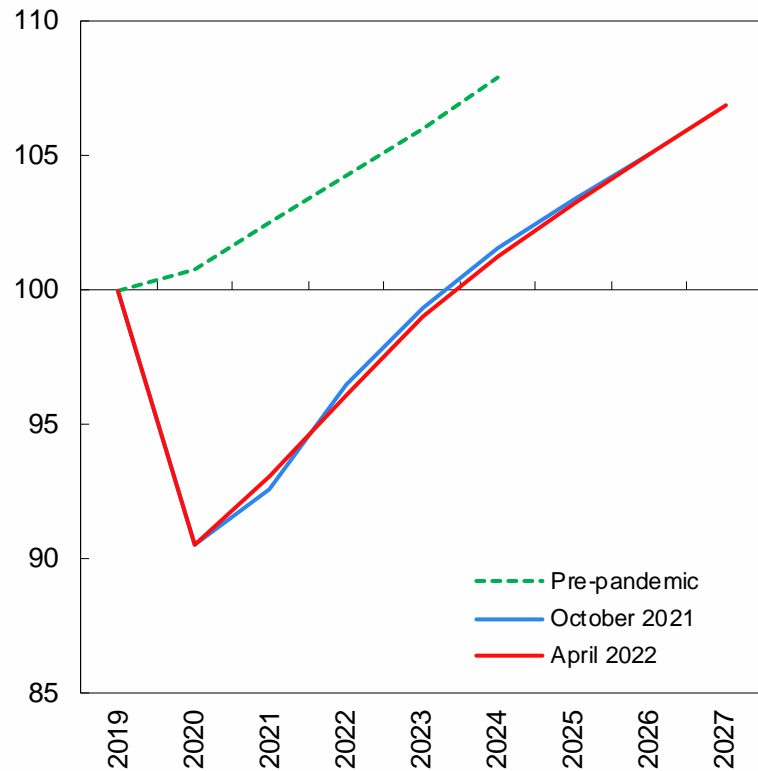


Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: Purchasing-power-parity GDP-weighted average. Also excludes Aruba, Barbados, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago due to data limitations. Inventories include statistical discrepancies.

# The Caribbean economies are recovering strongly

Economic activity is recovering faster than projected in October 2021...

**Tourism-Dependent Caribbean: Real GDP**  
(Index: 2019 = 100)

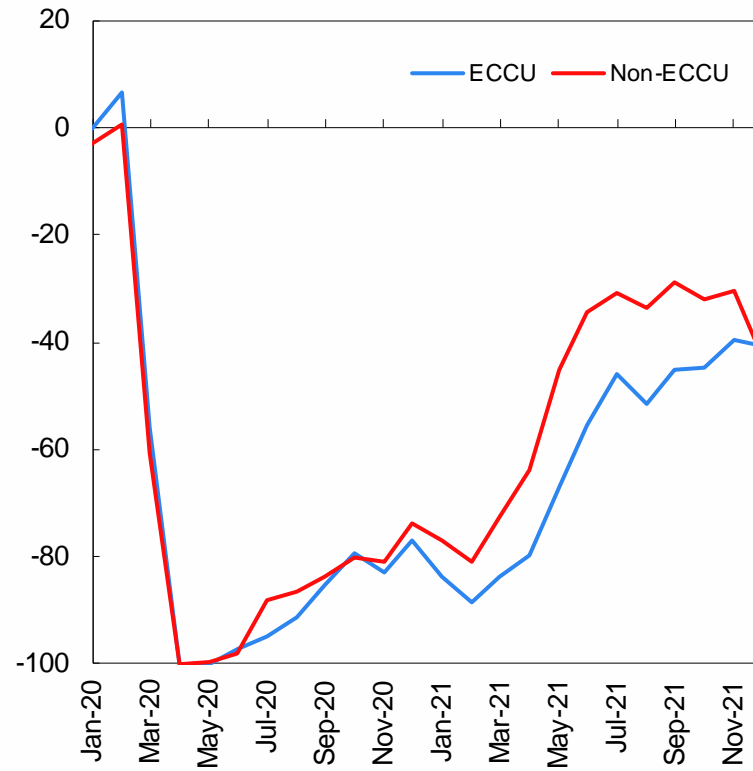


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Pre-pandemic refers to the January 2020 WEO vintage.

... led by a strong pickup in tourism activity during the second half of 2021

**The Caribbean: Total Tourist Arrivals**  
(Percent change relative to the same month in 2019)

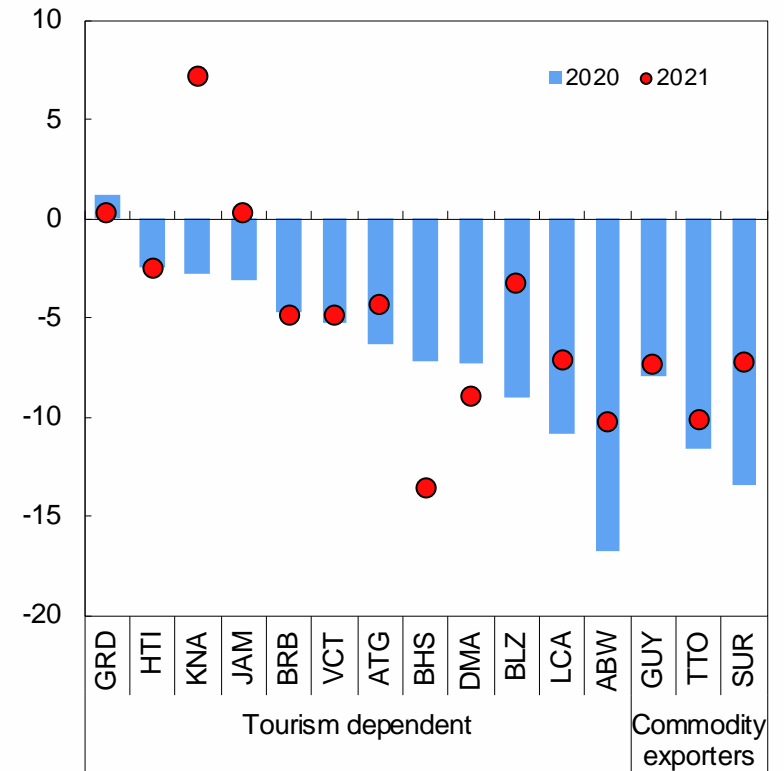


Sources: Caribbean Tourism Organization; Eastern Caribbean Central Bank; and IMF staff calculations.

Note: ECCU (Eastern Caribbean Currency Union) includes AIA, ATG, DMA, GRD, MSR, KNA, LCA, VCT. Non-ECCU includes ABW, BHS, BRB, BLZ, JAM.

The fiscal position has also improved, in line with the strong recovery and policy measures

**The Caribbean: Overall Fiscal Balance**  
(Percent of GDP)



Source: IMF, World Economic Outlook database.

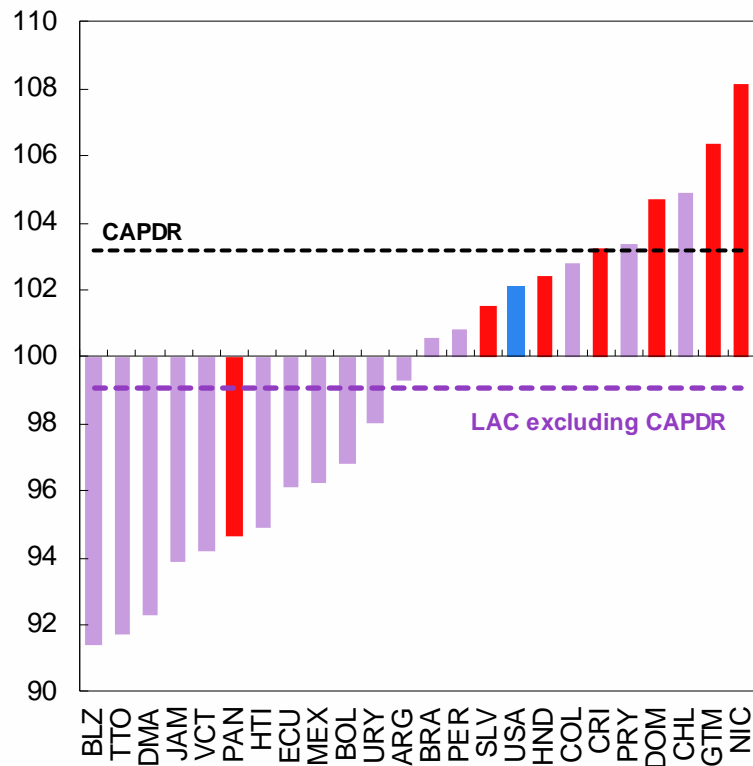
# CAPDR has also seen a robust recovery, but risks remain

CAPDR recovery in 2021 was strong...

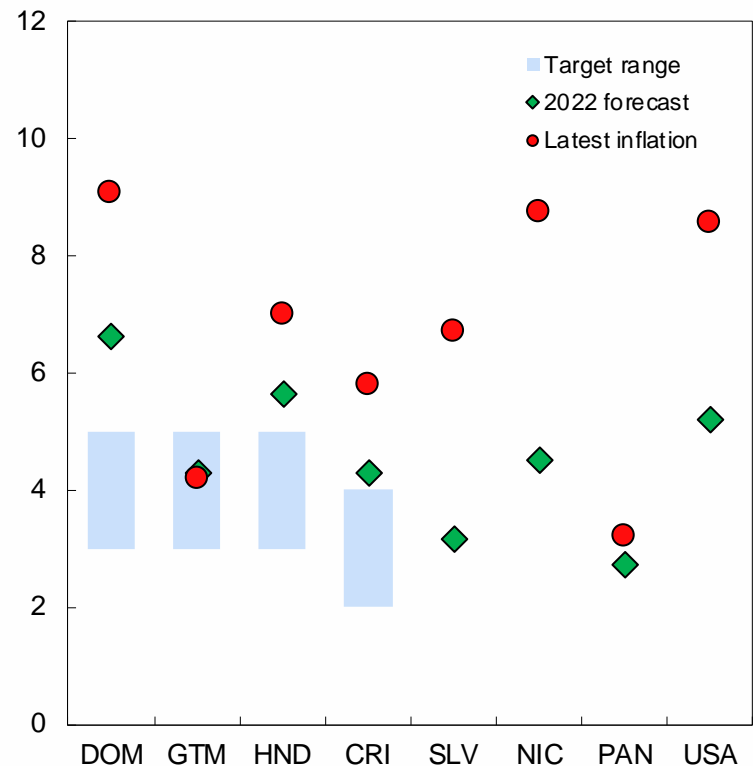
... but rising inflationary pressures are calling for tighter monetary policy stances...

... and large public financing needs in most countries require fiscal prudence

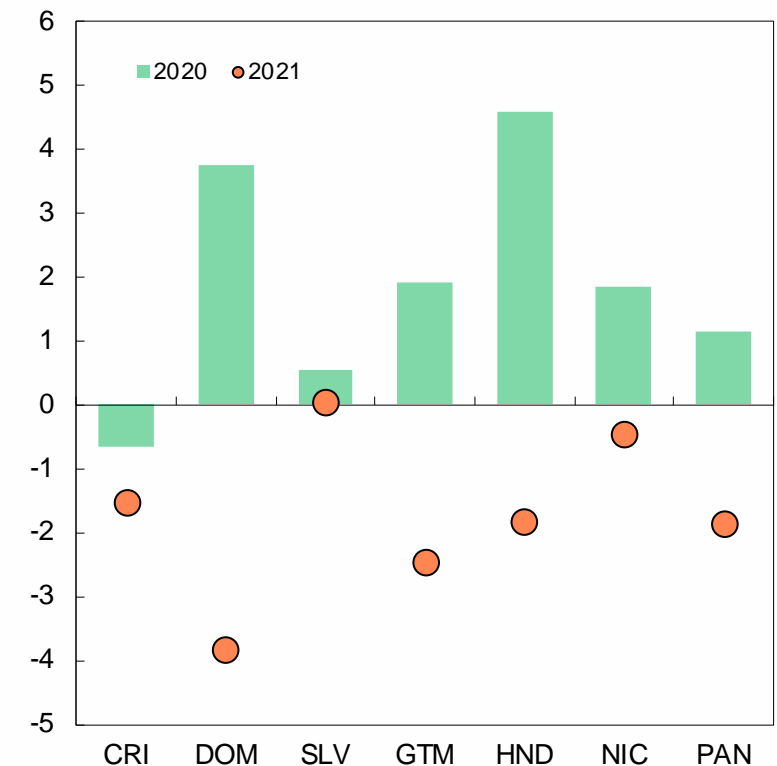
**Recovery in Real GDP, 2021**  
(Index: 2019 = 100)



**CAPDR: Inflation Expectations**  
(End of period; year-over-year percent change)



**CAPDR: General Government Fiscal Impulse**  
(Percentage points of GDP; +/- = loosening/tightening)

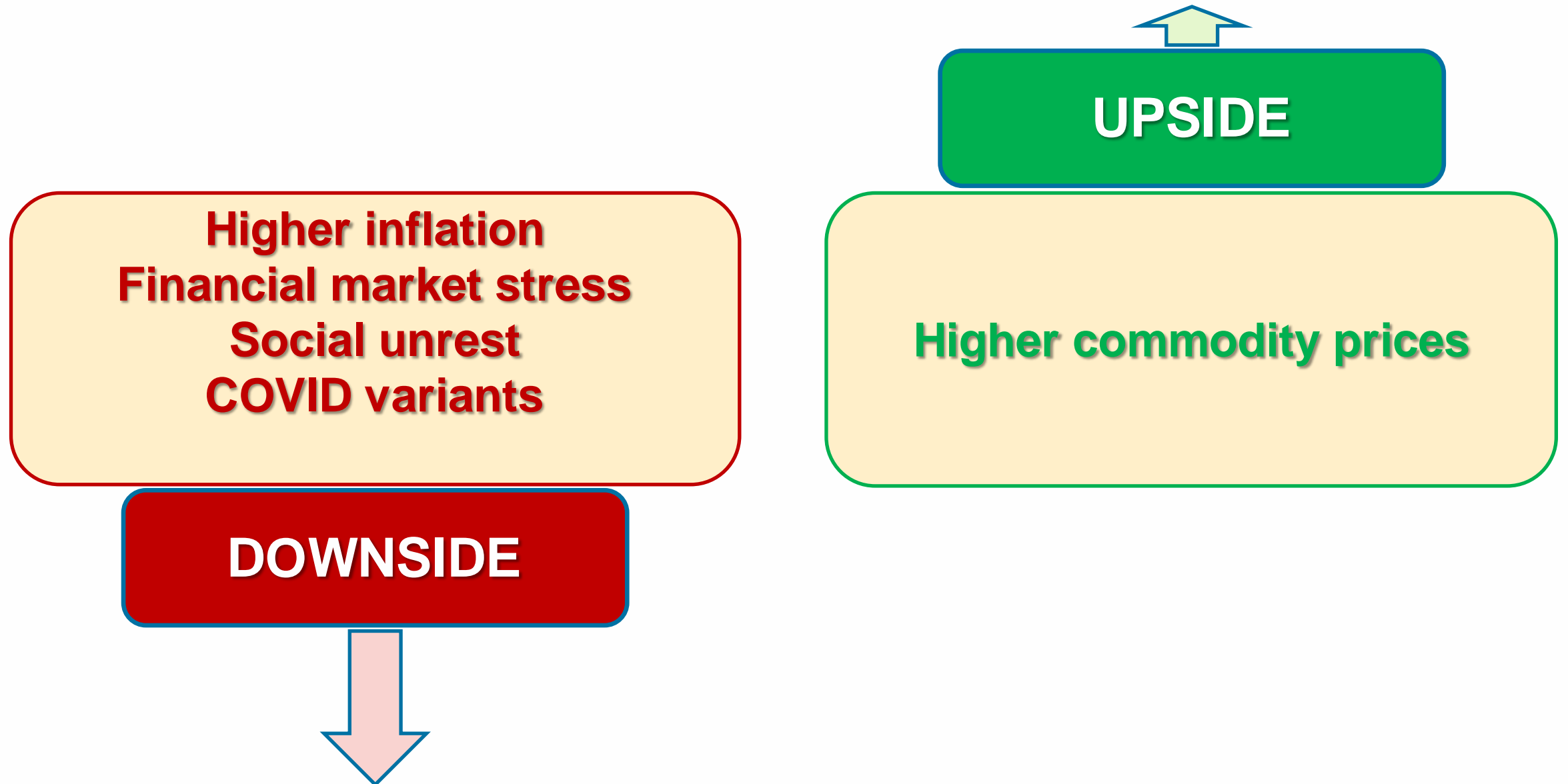


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Sources: Central banks' expectation surveys, Consensus Economics, and IMF staff calculations. Note: 2022 forecasts based on central bank surveys (CRI, DOM, GTM, HND) and Consensus forecasts (SLV, NIC, PAN, and USA are from February 7 and 14). Latest inflation refers to March 2022.

Sources: IMF, World Economic Outlook database; and IMF staff calculations. Note: Defined as the change in structural primary deficit, except for Honduras and Nicaragua, which are changes in overall primary deficit.

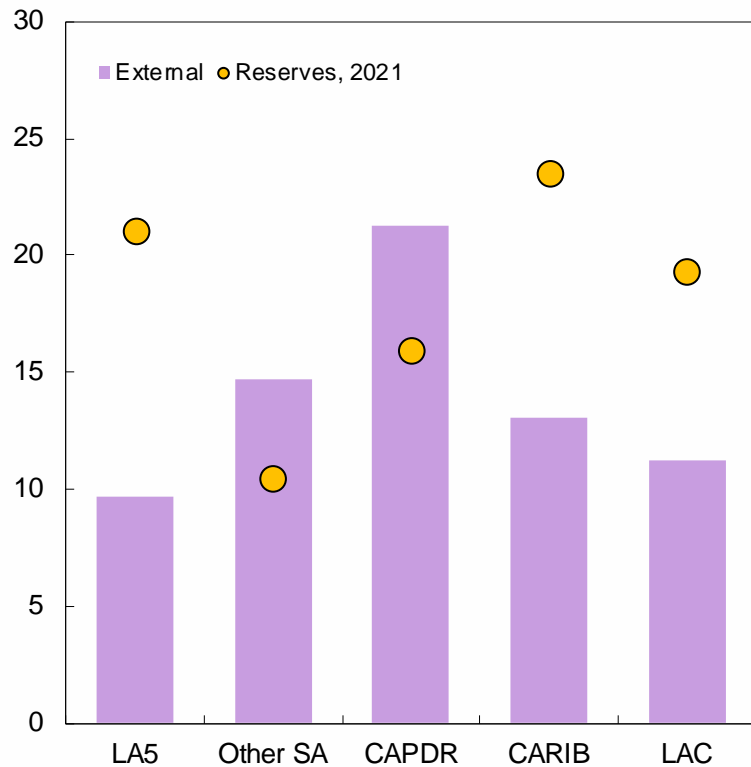
# Risks are tilted to the downside



# Vulnerability to financial global distress

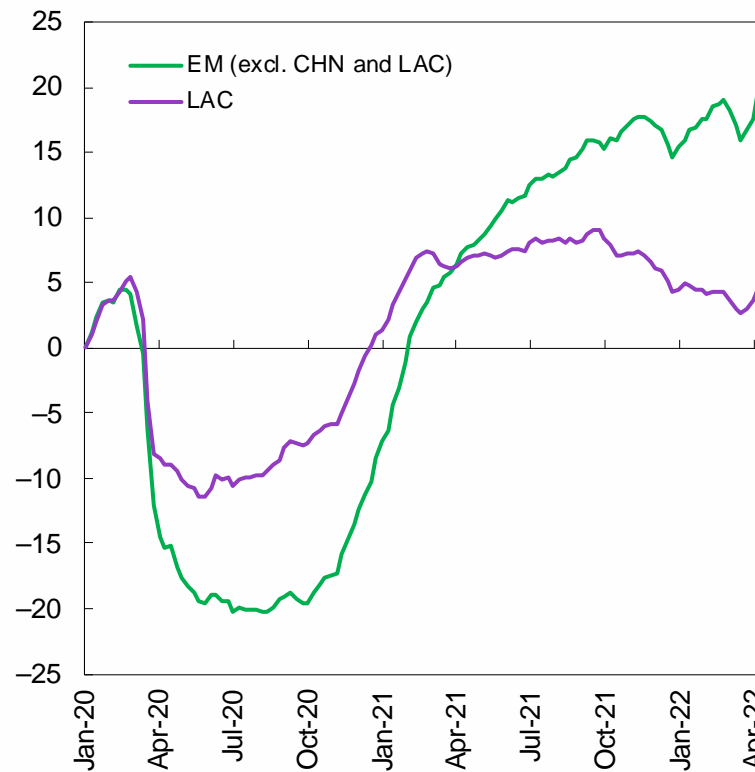
Some countries have significant external gross financing needs and weak reserve cushions...

**External Financing Requirements, 2022**  
(Percent of GDP)



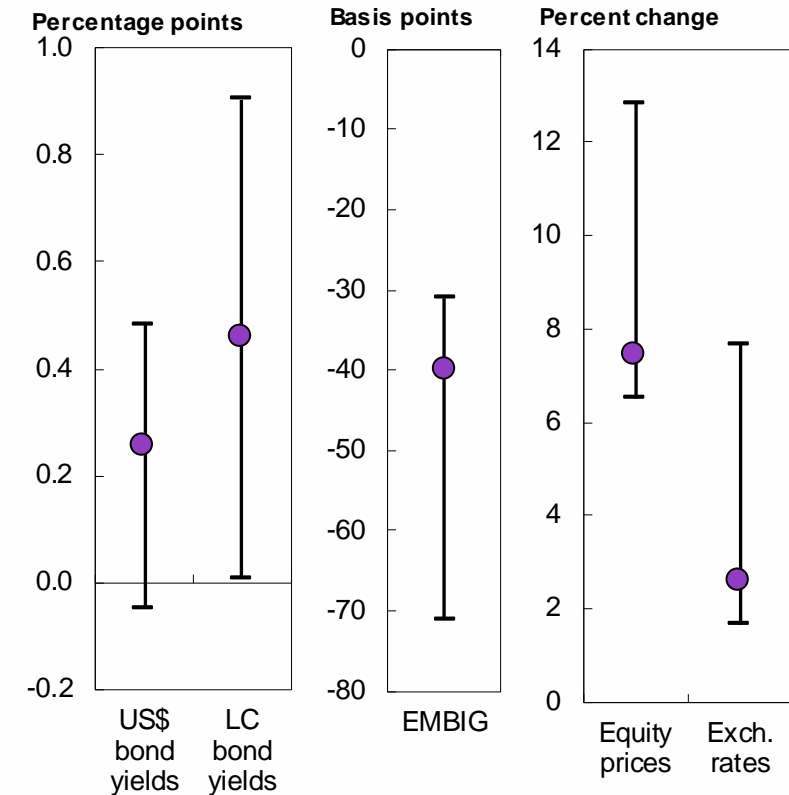
... making the region vulnerable to capital outflows...

**Cumulative EPFR Flows**  
(Percent of initial stock)



... though financial conditions in LatAm have been little affected so far by the war in UKR

**LatAm: Selected Financial Indicators**  
(Change; February 24 to April 7, 2022)



Sources: IMF, World Economic Outlook database; and IMF staff calculations  
Note: External financing requirements (public and private sector) calculated as the difference between short-term debt on a remaining maturity basis and current account balance. Regional aggregates are PPP GDP-weighted averages. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean (excl. GUY/TTO); LAC = Latin America and the Caribbean; LA5 = Brazil, Chile, Colombia, Mexico, Peru; Other SA = Other South America.

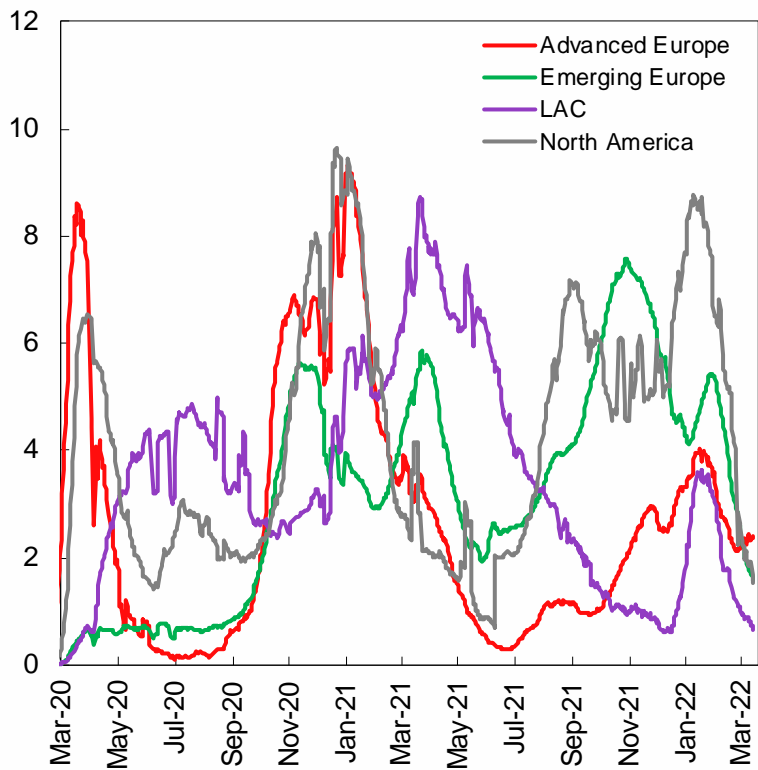
Sources: Emerging Portfolio Fund Research (EPFR) database; Haver Analytics; and IMF staff calculations.  
Note: EM = emerging markets; LAC = Latin America and the Caribbean.

Sources: Bloomberg Finance L.P.; and IMF staff calculations.  
Note: Purple marker refers to the median of LatAm countries (Brazil, Chile, Colombia, Mexico, Peru).

# Rising energy/food prices increase the risk of social unrest

The pandemic inflicted a large human toll on LAC but now appears to be waning...

**New COVID-19 Deaths per Million**  
(7-day moving average; as of April 6, 2022)

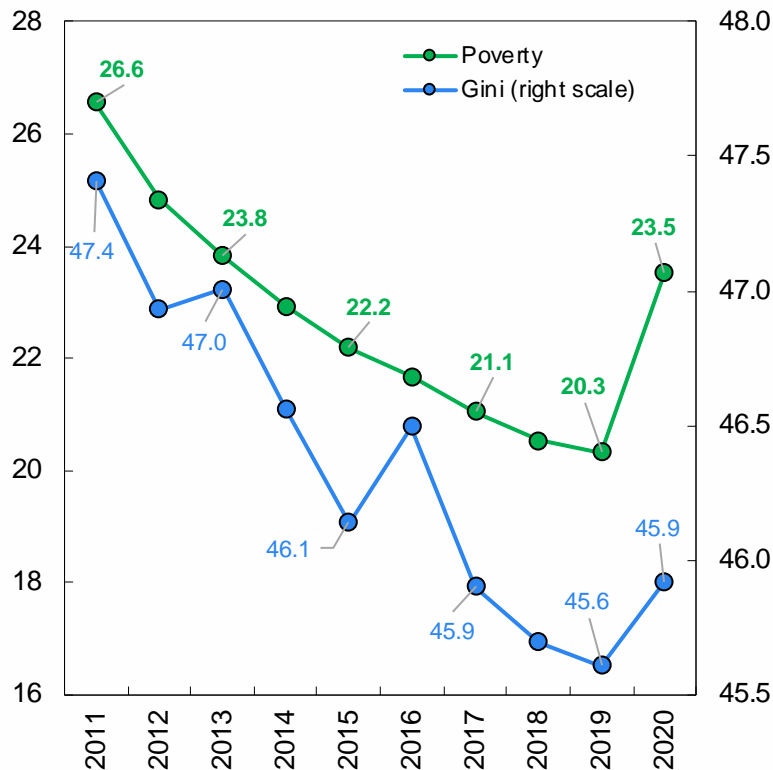


Sources: Johns Hopkins University; Our World in Data database; and IMF staff calculations.

Note: LAC = Latin America and the Caribbean.

... leaving a legacy of higher poverty and inequality, which...

**LAC: Poverty Ratio and Gini Index**  
(Poverty: share of population; \$5.5 threshold; Gini: index)

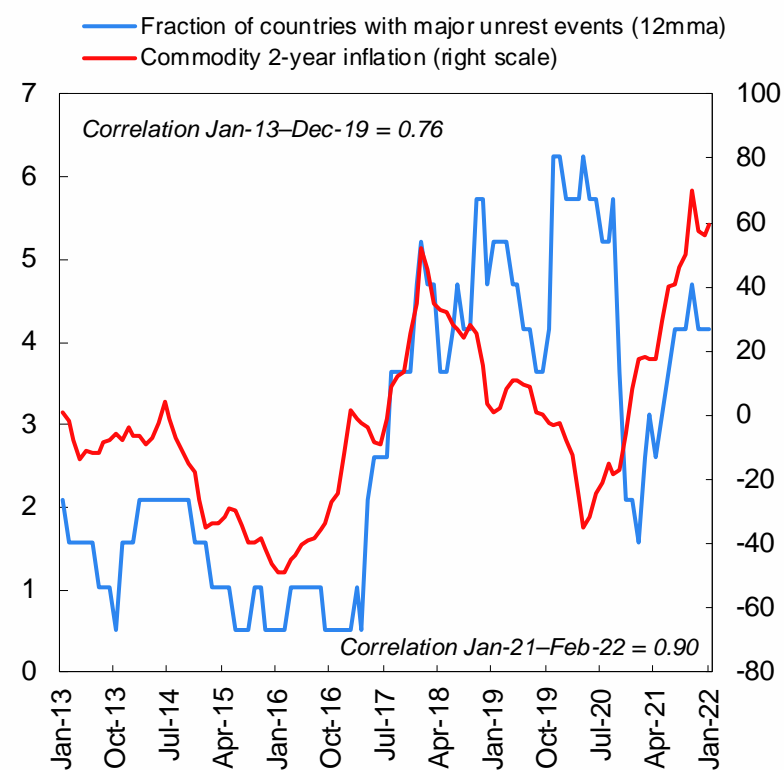


Sources: IMF, World Economic Outlook database; The Standardized World Income Inequality Database (SWIID); World Bank, World Development Indicators database; and IMF staff calculations.

Note: Gini data for 2020 estimated using available LAC countries in SWIID.

... combined with rising food and energy prices, raises the risk of social unrest

**LAC: Fraction of Countries with Major Unrest Events and Commodity Inflation**  
(Percent)



Sources: IMF, Global Assumptions database for commodity prices; Barret et al (2020) for unrest; and IMF staff calculations

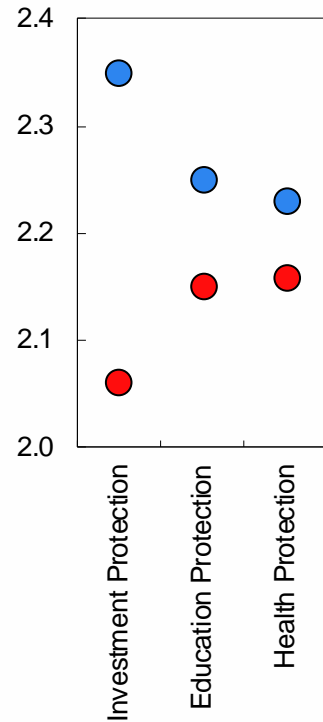
# "Inclusive consolidation" needed and feasible

Fiscal consolidations that safeguard investment, education and health spending, rank better in terms of supporting growth and equity

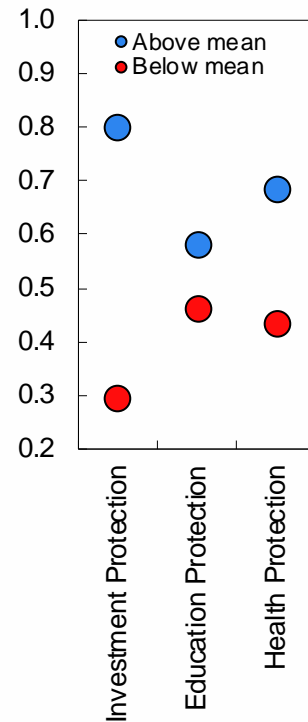
PIT can bring more revenue while improving equity by streamlining deductions (raising low PIT effective rates) while reducing maximum income thresholds

## Impact on Growth, Employment and Income Distribution of Fiscal Consolidations (Percent of GDP)

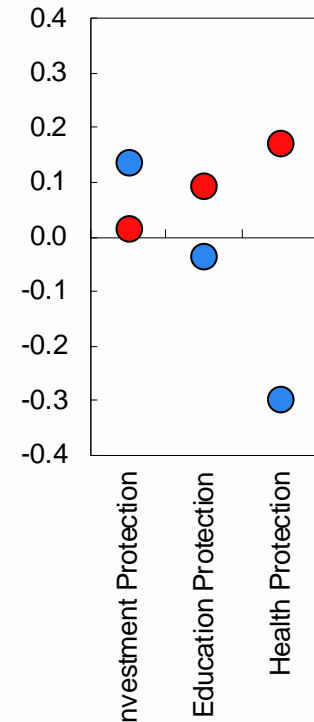
Real GDP Growth



Employment Growth

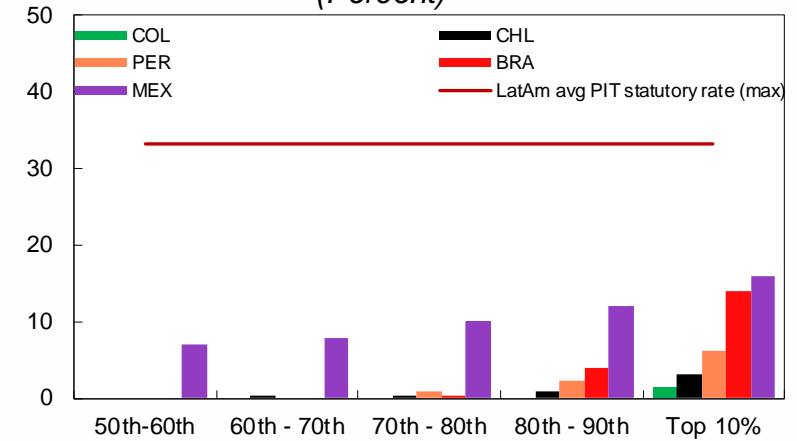


Gini Index, Disposable Income

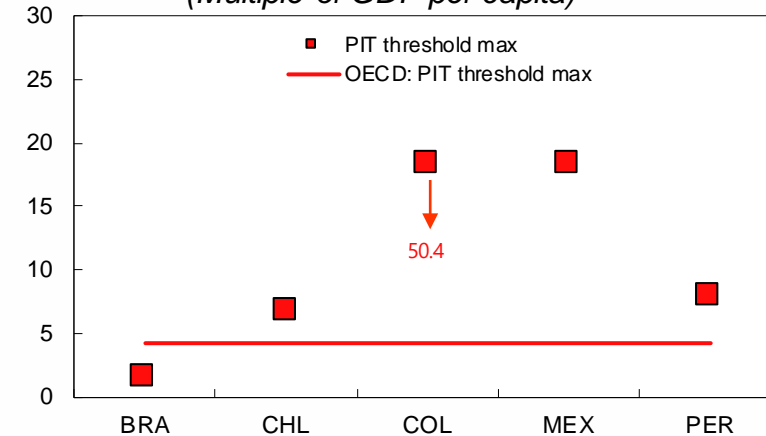


Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
 Note: Above (below) mean refer to cases in which public investment, education and health spending during the consolidation years have an annual change above (below) the median value observed in all consolidation episode analyzed in the chart. When such spending changes are above the mean, the underlying consolidation episode is classified as intending to "protect" the respective spending outlay.

## Effective PIT Rate by Income Quantile, 2019 (Percent)



## Income Thresholds at which Max Statutory PIT Rates Apply, 2019 (Multiple of GDP per capita)



Sources: OECD Tax Revenue Statistics database; and IMF staff calculations.  
 Note: LatAm is calendar year US\$ nominal GDP-weighted average of Brazil, Chile, Colombia, Mexico, and Peru.



# Policy Priorities

# Key Messages on Policy Priorities

## Short-term

- ❖ **Monetary policy and effective communication needed to contain inflation**
- ❖ **“Inclusive consolidation” needed to achieve fiscal sustainability along with social objectives:** increase and better target social assistance, protect health, education, public investment; reduce inefficient spending; improve design of PIT, CIT, and consumption taxes

## Long-term

- ❖ **A boost to potential growth needed:** remove labor market rigidities, improve competition laws, strengthen bankruptcy procedures, invest in human capital



# Thank You