Executive summary

2022

Preliminary Overview of the Economies of Latin America and the Caribbean

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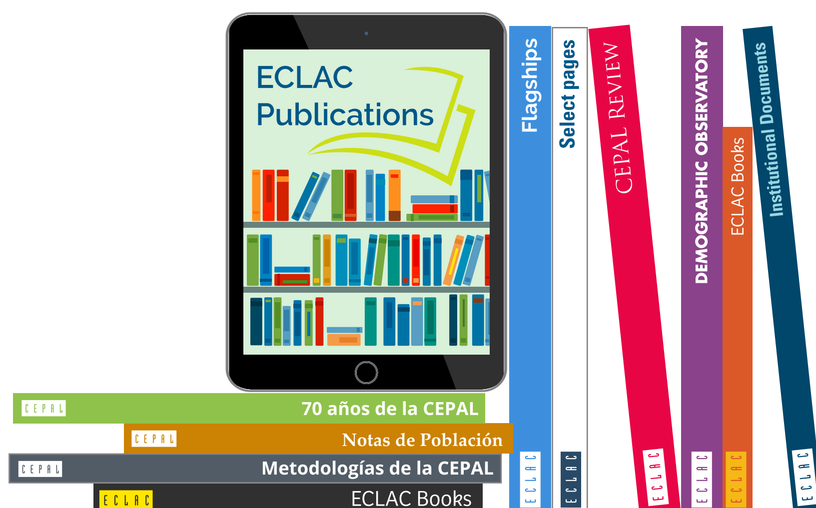

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The *Preliminary Overview of the Economies of Latin America and the Caribbean* is an annual publication prepared by the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC). This 2022 edition was prepared under the supervision of Daniel Titelman, Chief of the Division, while Ramón Pineda Salazar, Economic Affairs Officer in the same Division, was responsible for its overall coordination.

In the preparation of this edition, the Economic Development Division was assisted by the Statistics Division, the ECLAC subregional headquarters in Mexico, the ECLAC subregional headquarters for the Caribbean, and the Commission's country offices in Bogotá, Brasilia, Argentina, Montevideo and Washington, D.C.

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- Three dots (...) indicate that data are not available or are not separately reported.
- A dash (-) indicates that the amount is nil or negligible.
- A full stop (.) is used to indicate decimals.
- The word "dollars" refers to United States dollars, unless otherwise specified.
- A slash (/) between years (e.g. 2013/2014) indicates a 12-month period falling between the two years.
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Executive summary

Growth in economic activity in 2022 was faster than expected in the first half of the year in Latin America and the Caribbean, but slowed in the second half. This slowdown will continue into 2023, meaning that the growth rate for the coming year will be significantly lower than in 2022.

The sharp slowdown in growth has been accompanied by continued inflationary pressures. Although inflation is not expected to accelerate, it will remain high in 2023, influencing monetary policy measures, especially policy rates in the region. On the fiscal side, although the primary deficit has narrowed, debt levels are still high. Fiscal space may therefore be expected to continue to determine public spending patterns. Added to these macroeconomic complexities are a decline in creation of formal jobs, a rise in informality, stagnation or falls in real wages, drops in investment and growing social demands. All this puts pressure on macroeconomic policy, which must reconcile efforts to promote economic recovery through investment and job creation, on the one hand, and to control inflation and pursue fiscal sustainability, on the other.

Not only is the region's internal situation complex, but the global panorama has continued to deteriorate and growth forecasts for world economic activity and trade have both been cut. Global GDP growth projections have been lowered, primarily in response to the effects of the Russian Federation's invasion of Ukraine. Growth is now expected to be 3.1% at the end of 2022, compared with the rate of 4.4% projected before the war. The slowdown is expected to intensify in 2023, with world GDP growing by 2.6%. Advanced economies are forecast to grow by 0.6% and emerging and developing economies by 3.7%.

Regarding the main trading partners of Latin America and the Caribbean, the United States is expected to grow by 1.9% in 2022, more than 2 percentage points below the forecast before the war. An even sharper slowdown is forecast for 2023, with growth of just 0.7%. For the eurozone, growth of 3.2% is forecast for 2022, as the bloc's activity has proven more resilient than originally anticipated. However, the effects of the war in Ukraine will be reflected more strongly in next year's growth rate, which is forecast to slow sharply to just 0.3% (2.4 points less than forecast before the war). Lastly, in China, growth is expected to be 3.3% in 2022 —the lowest rate in more than four decades— and slightly higher in 2023 (4.4%).

Based on the expected decline in global economic activity, projected world trade volume growth in 2023 was lowered from the figure of 3.4% given in April to just 1.0% in October.

The invasion of Ukraine last February, and the effect this has had on food and energy prices, accentuated inflationary trends that were already apparent in 2021. Producer and consumer price indexes increased across the board in 2022, in some cases hitting levels not seen for decades.

In this context of high inflation and a risk of expectations becoming unanchored, the global monetary policy response has been the most synchronized in several decades, with the largest number of simultaneous policy rate hikes since at least 1970. Among the major central banks, the United States Federal Reserve had raised its policy rate by 375 basis points by November 2022, putting it at 4.0%; the European Central Bank (ECB) set its rate at 1.5% in October; and the Bank of England had raised rates 275 basis points in 2022 to 3.0% by November. In all three cases, further rate hikes are expected until at least mid-2023.

In addition to higher monetary policy rates to reduce available liquidity, since early 2022 major central banks have also been shrinking their balance sheets, which reached unprecedented sizes in 2020 in the context of the crisis of the coronavirus disease (COVID-19) pandemic. For example, the Federal Reserve has adopted a

monetary strategy of quantitative tightening, part of which is reinvesting the principal of maturing long-term treasury bonds only to the extent that they exceed a monthly cap of US$ 60 billion, starting in September 2022. ECB decided to end net bond purchases in July 2022, although it will continue to reinvest the principal of bonds when they mature. The Bank of England began quantitative tightening in early November 2022, when it started selling government bonds.

These restrictive monetary policies caused global liquidity to tighten in 2022. From 2021 to 2022, the growth rate of the money supply fell from 15.8% to 2.07% in the United States, from 6.95% to 5.33% in Japan, from 11.2% to 10.5% in the United Kingdom and from 11.21% to 5.83% in the eurozone.

In recent months, commodity prices in general, and food and energy prices in particular, have been falling. This downtrend is expected to continue in 2023, but the prices of some commodities will nevertheless remain above 2021 levels. Specifically, in 2023 the prices of energy goods are forecast to be over 40% higher than in 2021 and prices for food 11% higher. However, in the case of base metals and minerals, prices are expected to be 17% lower than in 2021.

In addition to energy and food inflation easing, global supply chain disruptions —another of the supply-side factors that drove inflationary pressures from late 2020 onward— have also abated in recent months.

For advanced economies, inflation is projected to close 2023 at 4.4%, while for emerging and developing economies, the projection is 8.1%. Even though these rates are almost 3 and 2 percentage points lower, respectively, than in 2022, they are still much higher than the average rates for the decade prior to the pandemic (2010–2019): 2.0% in advanced economies and 5.1% in emerging and developing economies.

Global financial conditions have tightened, financial volatility has increased in both emerging and advanced economies, equity markets in much of the world have fallen sharply, risk appetite has declined, capital outflows from emerging markets have intensified, and the dollar has appreciated significantly worldwide.

On fixed-income markets, yields for the long-term bonds of countries considered risk-free benchmarks —such as the United States and Germany— have climbed sharply in response to inflationary pressures and the resulting tightening of monetary policy. Higher bond yields for these countries, together with diminished risk appetite, have pushed up the cost of financing for other economies. As a result of these higher financing costs, cross-border lending and debt issuance have been in decline since the fourth quarter of 2021. In fact, between December 2021 and June 2022, global

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