REGIONAL ECONOMIC OUTLOOK

WESTERN HEMISPHERE

WESTERN HEMISPHERE DEPARTMENT

Slower Growth Stubborn Inflation

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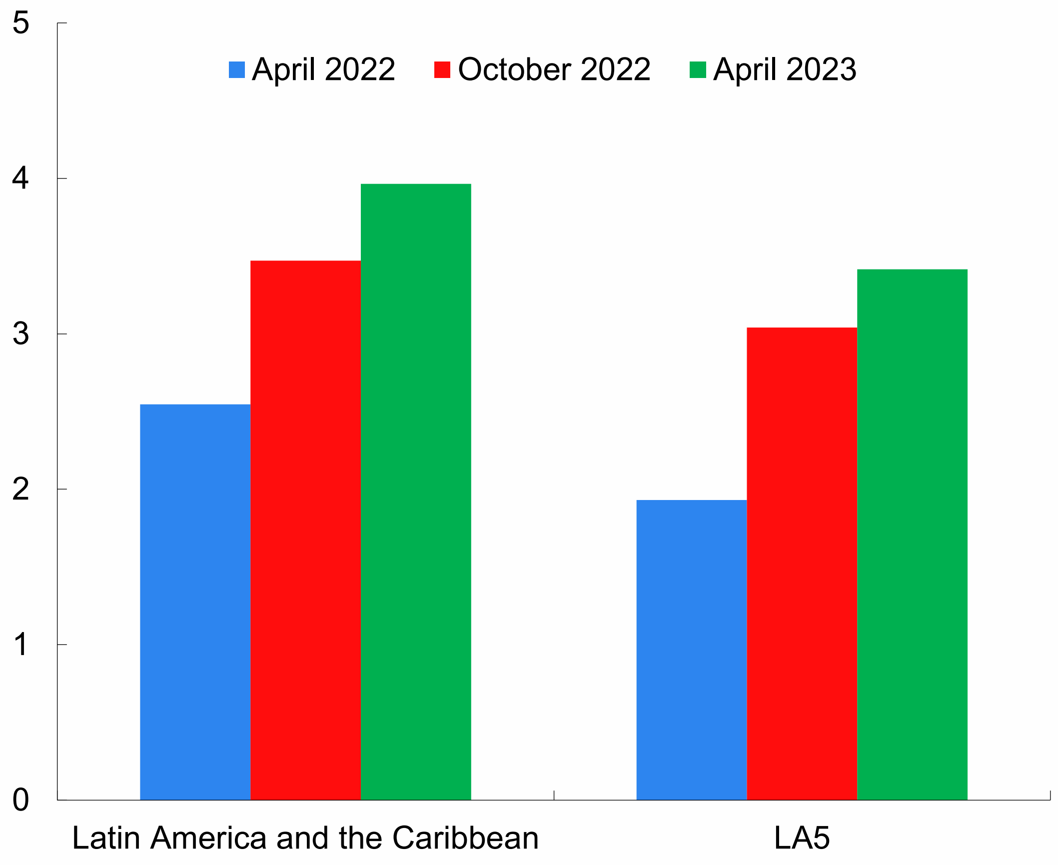
Recent Outturns

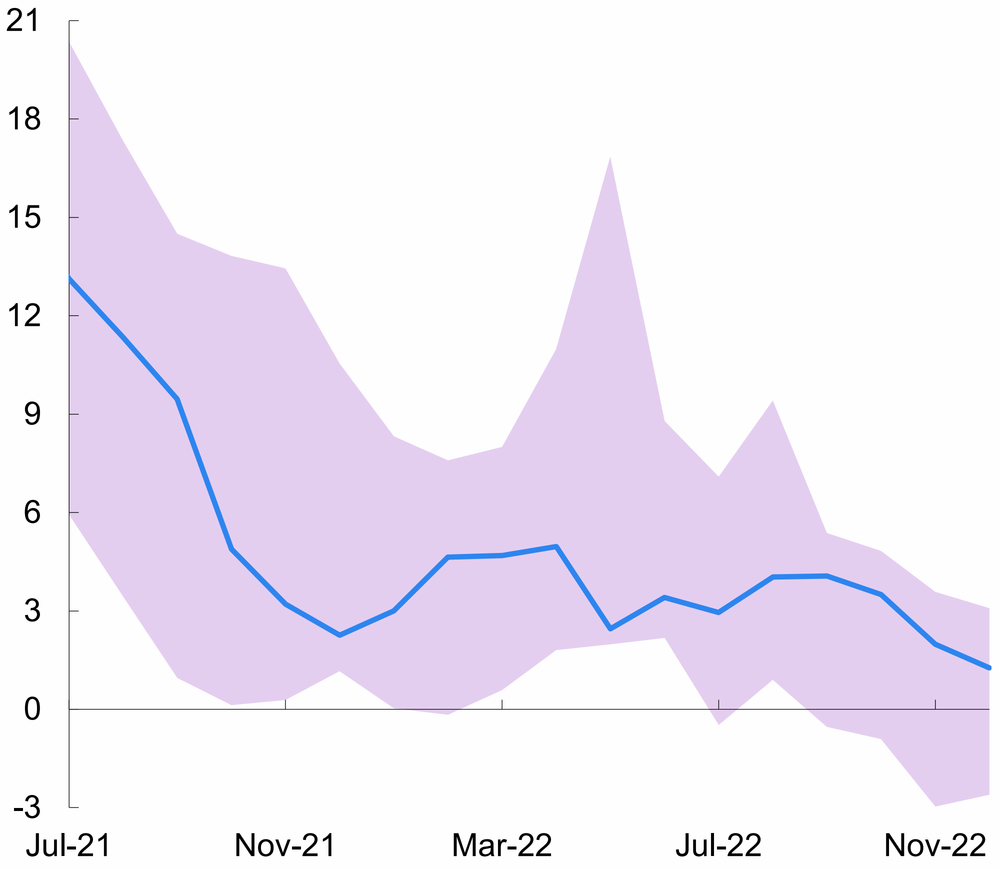
The region proved more resilient in 2022
Nevertheless, activity is slowing

Real GDP Growth by WEO Vintage, 2022
(Year-over-year percent change)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages.

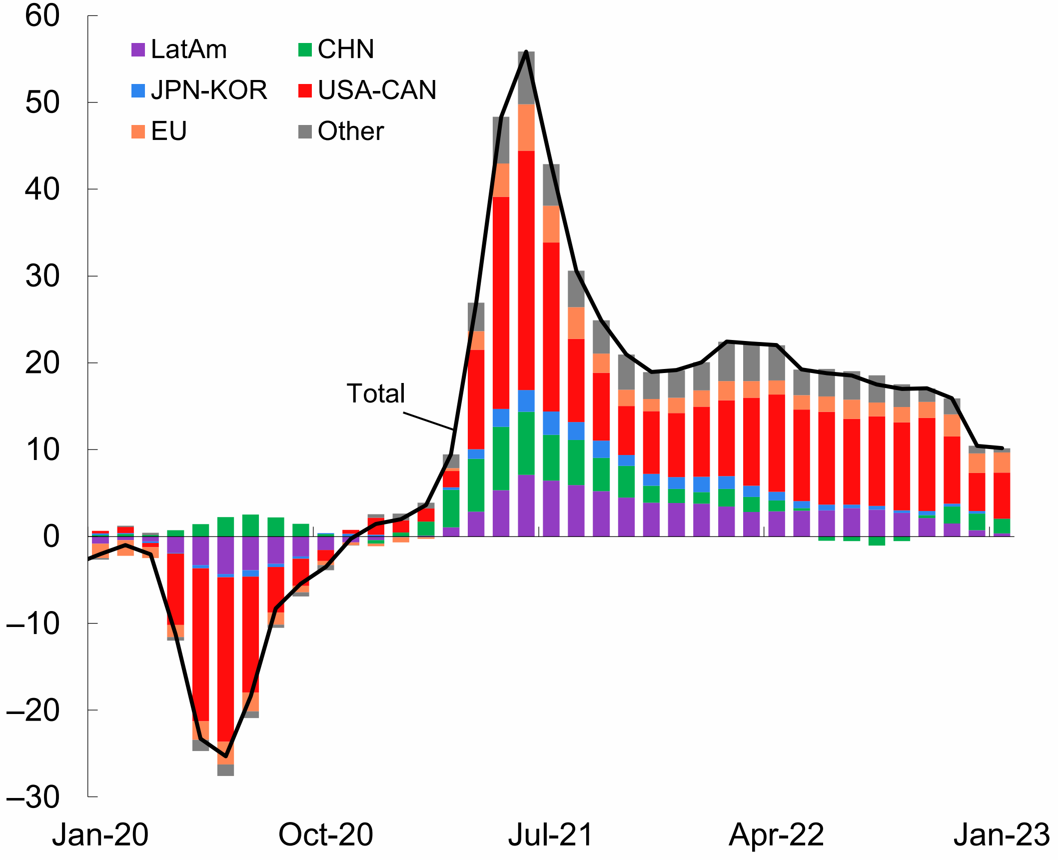
LA5: Economic Activity Index
(Median; year-over-year percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Shaded area shows min-max range of LA5 countries. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

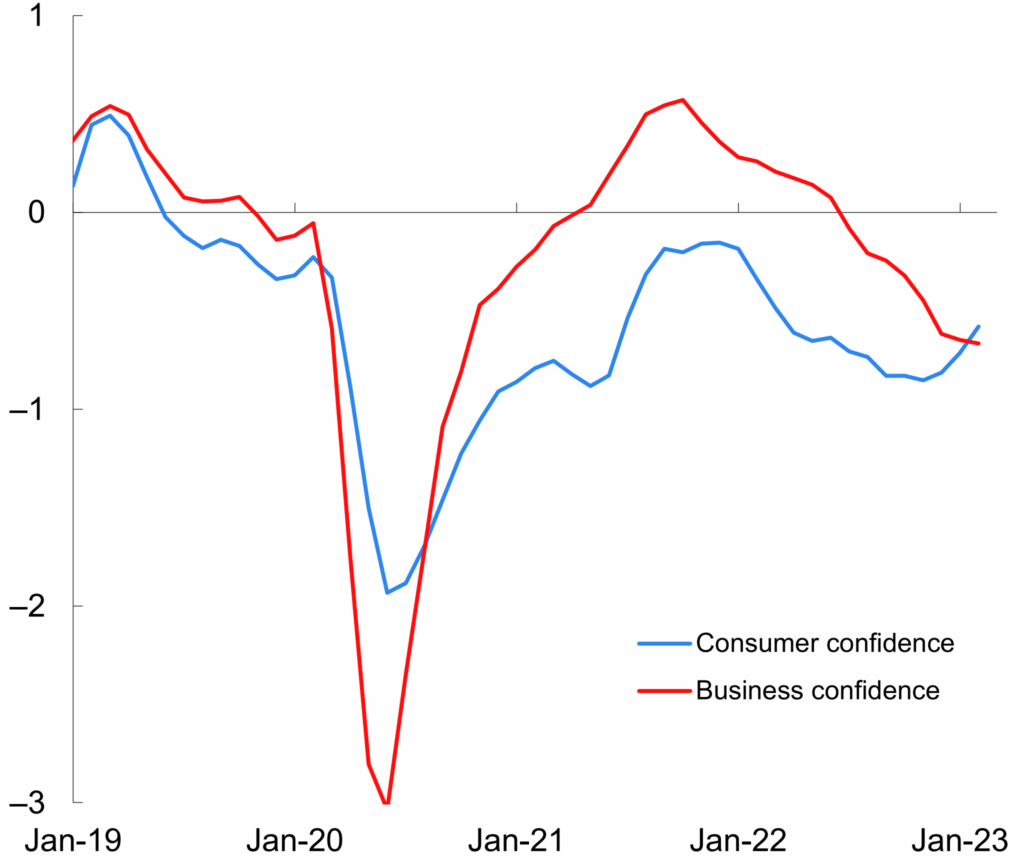
Weakening support from both external and domestic factors

Merchandise Export 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.

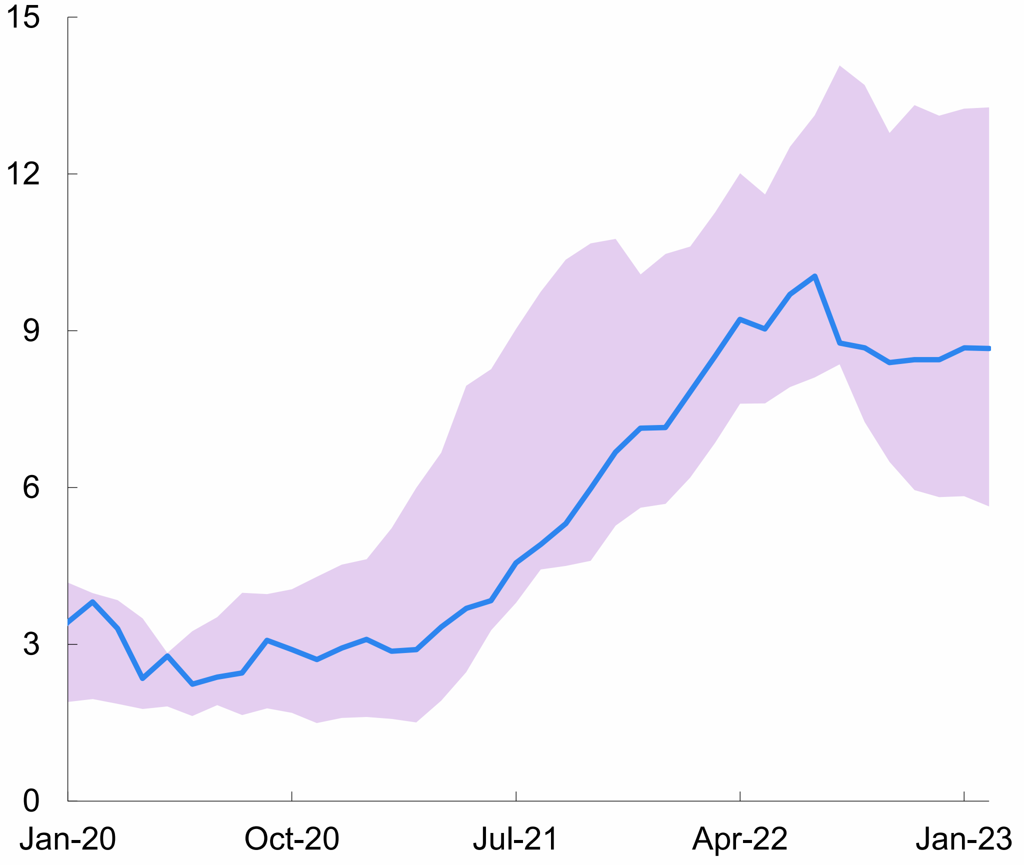
LA5: Confidence Indices
(Normalized z-score; three-month moving average)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Consumer confidence index is the simple average of Brazil, Chile, Colombia, and Mexico. Business confidence index is the simple average of LA5. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

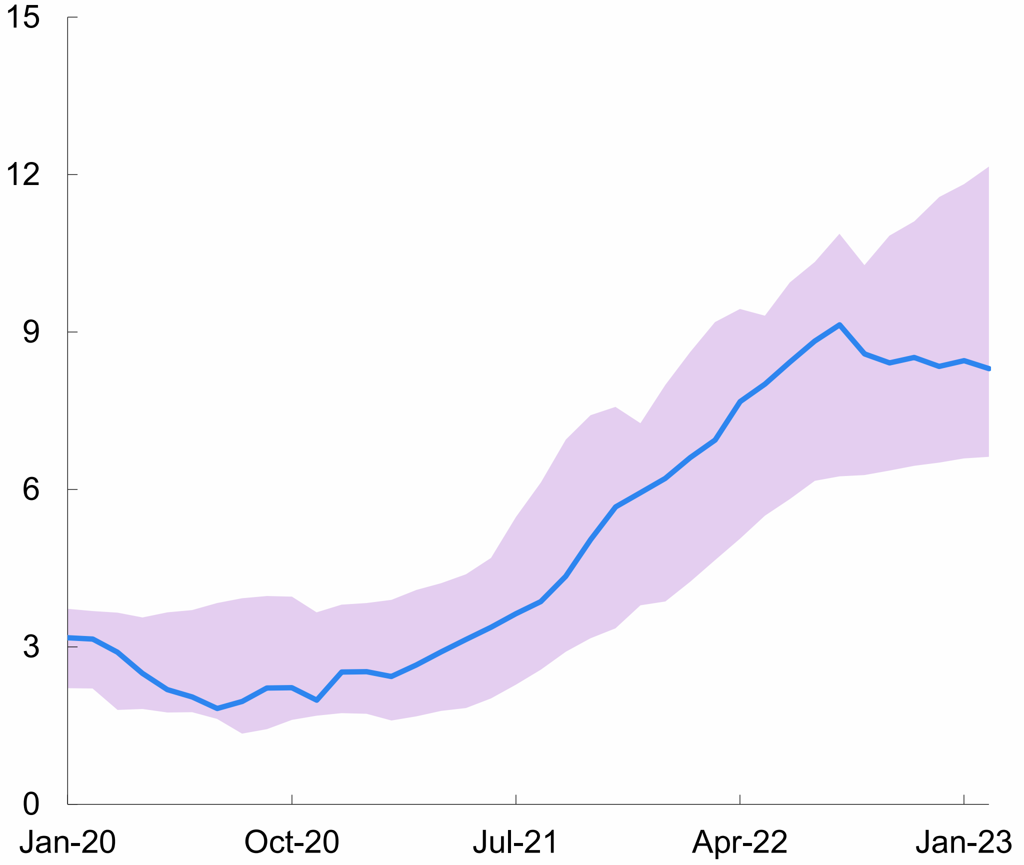
Monetary policy has not yet put inflation on a decisive downward path

LA5: Headline Consumer Price Inflation
(Median; year-over-year percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Shaded area shows min-max range of LA5 countries. LA5 = Brazil, Chile, Colombia, Mexico, Peru (Lima).

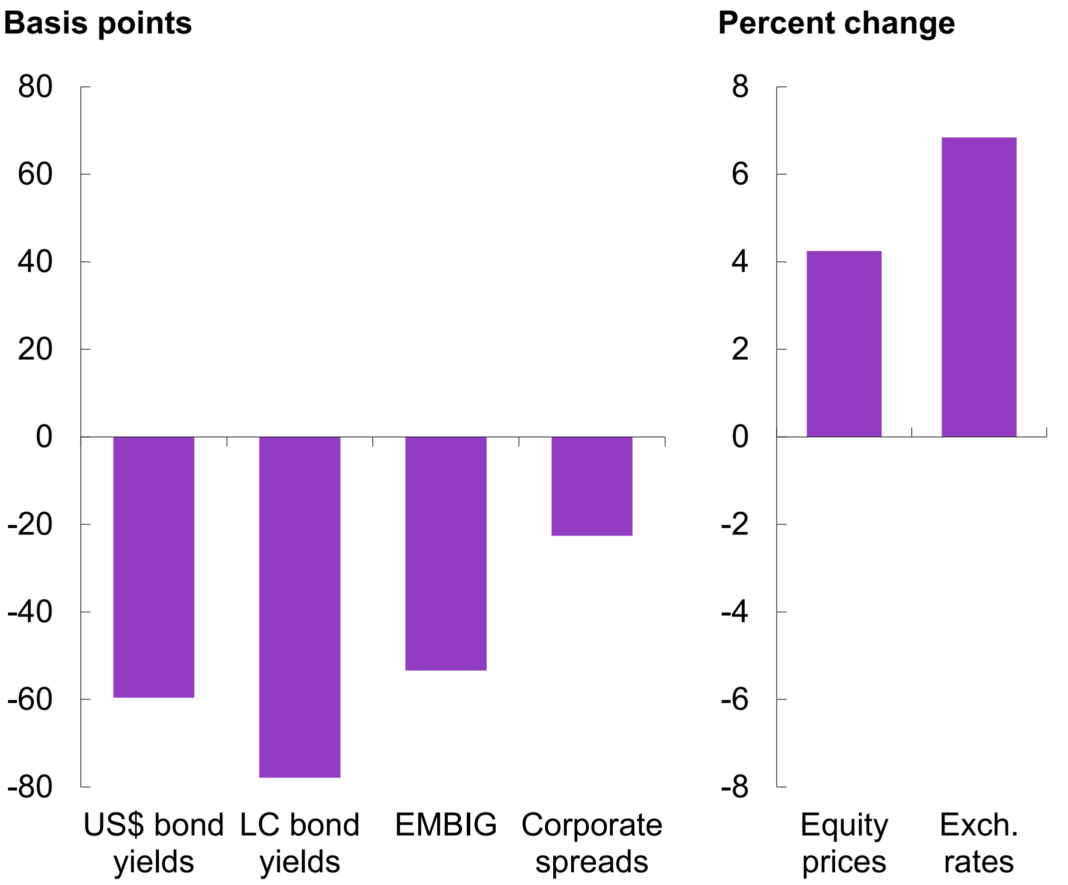
LA5: Core Consumer Price Inflation
(Median; year-over-year percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Shaded area shows min-max range of LA5 countries. LA5 = Brazil, Chile, Colombia, Mexico, Peru (Lima).

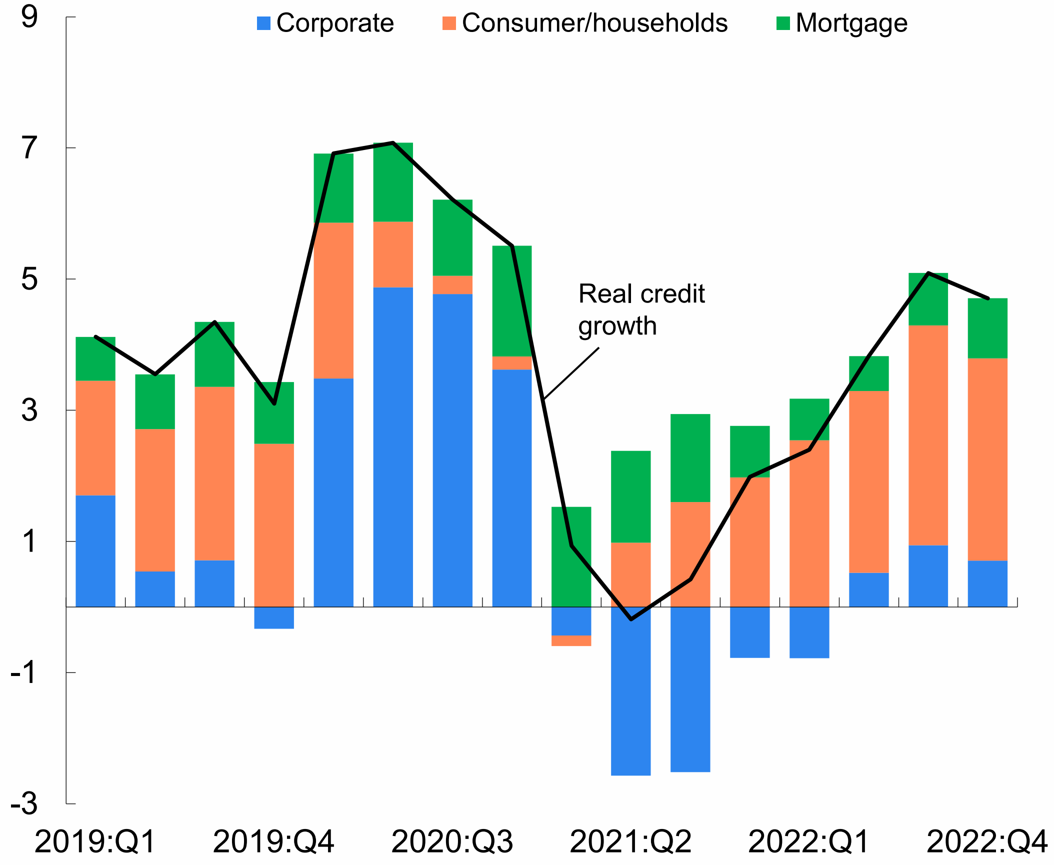
Financial conditions have been easing, …

LA5: Selected Financial Indicators
(Change; October 2022 to date)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: LA5 is simple average. Latest data are as of March 30, 2023. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

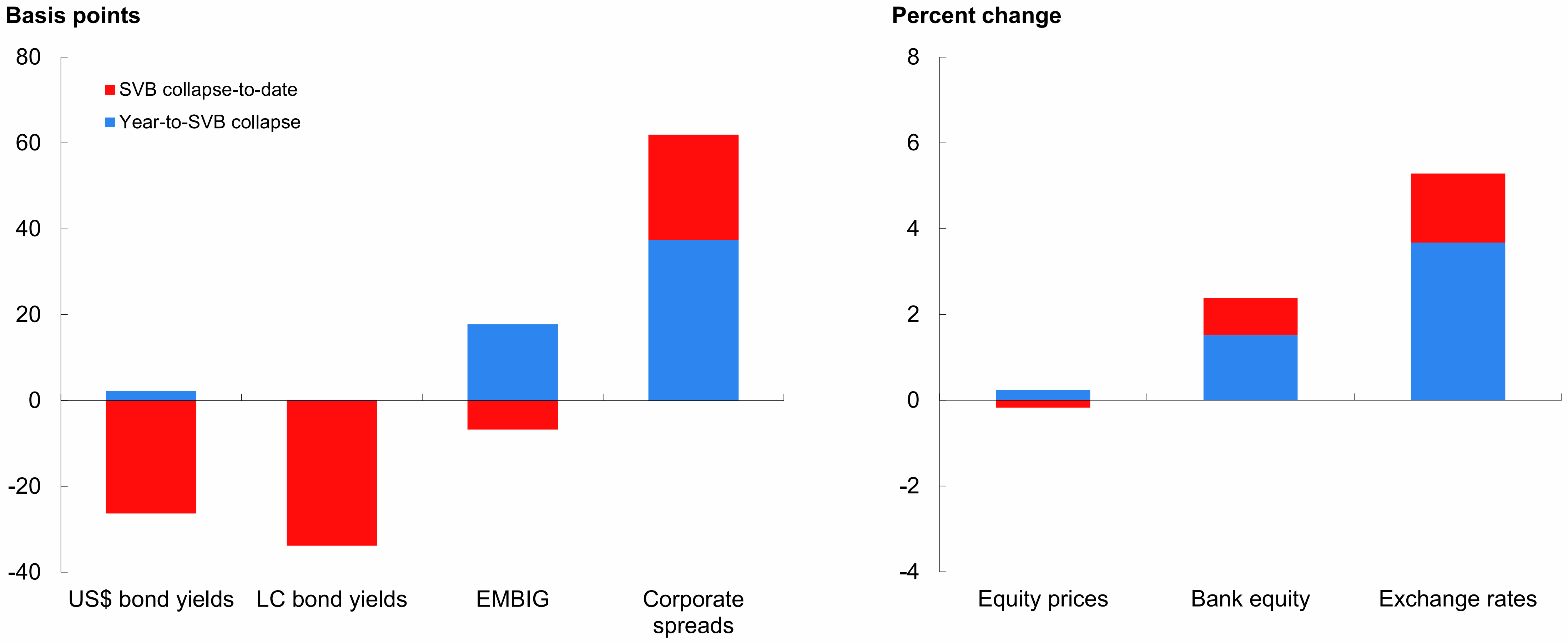
LA5: Real Credit Growth
(Year-over-year percent change unless noted otherwise)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Credit aggregates are fiscal year US dollar nominal GDP-weighted averages. FCI is PPP GDP-weighted average For methodology and variables included in the financial conditions index, refer to the online annex of the October 2018 Global Financial Stability Report. FCI = financial conditions index; LA5 = Brazil, Chile, Colombia, Mexico, Peru.

… limited impact from the turmoil in AE banking systems so far

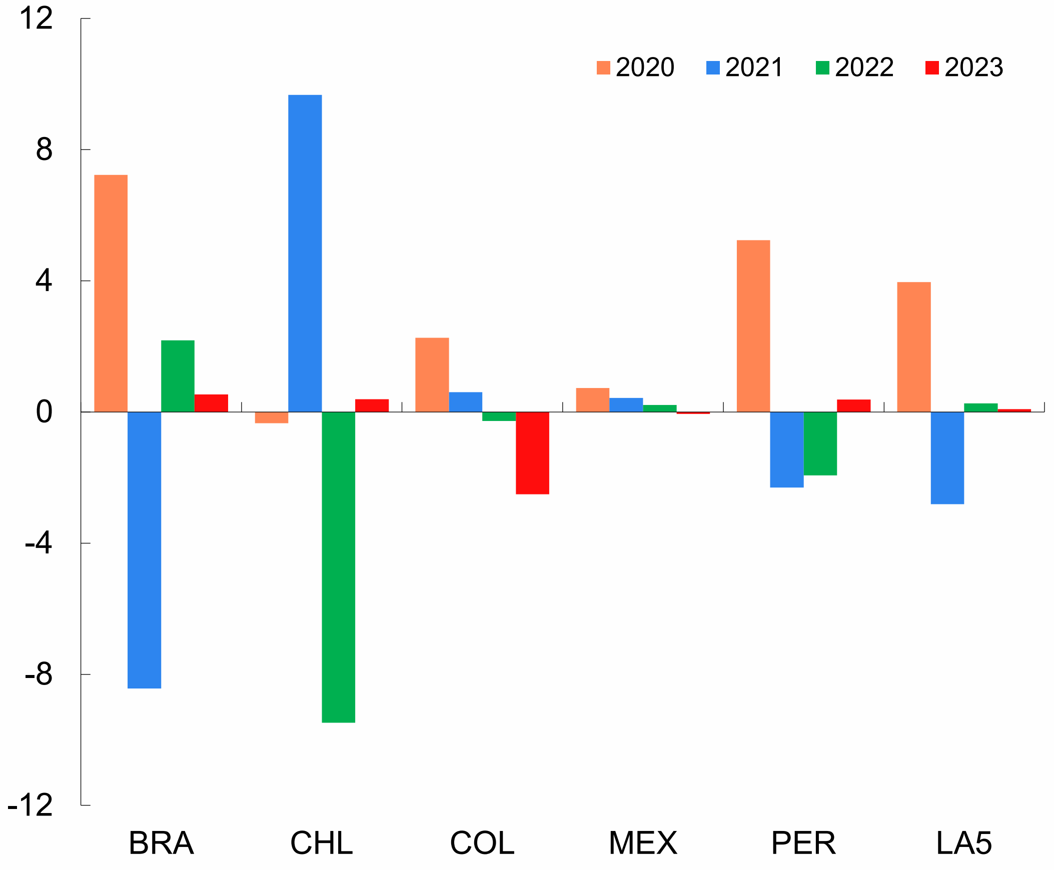
LA5: Selected Financial Indicators
(Change)



Sources: Bloomberg Finance L.P.; national authorities; and IMF staff calculations.
Note: SVB (Silicon Valley Bank) collapse: March 10, 2023. EMBIG: J.P. Morgan Emerging Market Bond Index Global spread. Corporate spreads (CEMBI): J.P. Morgan Corporate Emerging Market Bond Index spread. Exchange rates: increase denotes an appreciation. LA5 is simple average. Latest data are as of March 30, 2023. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

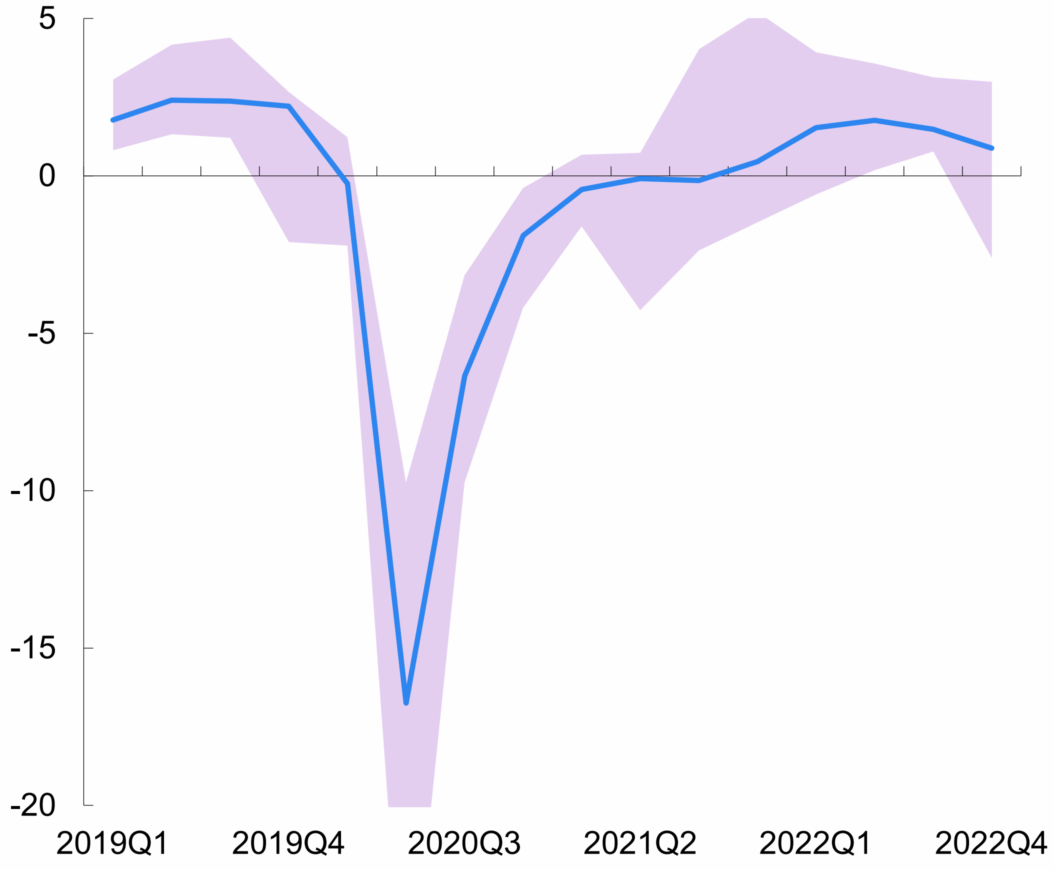
Fiscal policy has been neutral while output gaps turned positive

General Government Fiscal Impulse
(Percentage points of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Defined as the change in structural primary deficit. Chile refers to the central government's change in structural non-mining primary deficit. Colombia refers to the consolidated public sector's change in structural non-oil primary deficit. Peru refers to the nonfinancial public sector's change in structural primary deficit. Aggregate is fiscal year US dollar nominal GDP-weighted average. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

LA5: Output Gap
(Median; percent of potential real GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Shaded area shows min-max range of LA5 countries. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

Outlook and Risks

Slowing growth, stubbornly high inflation

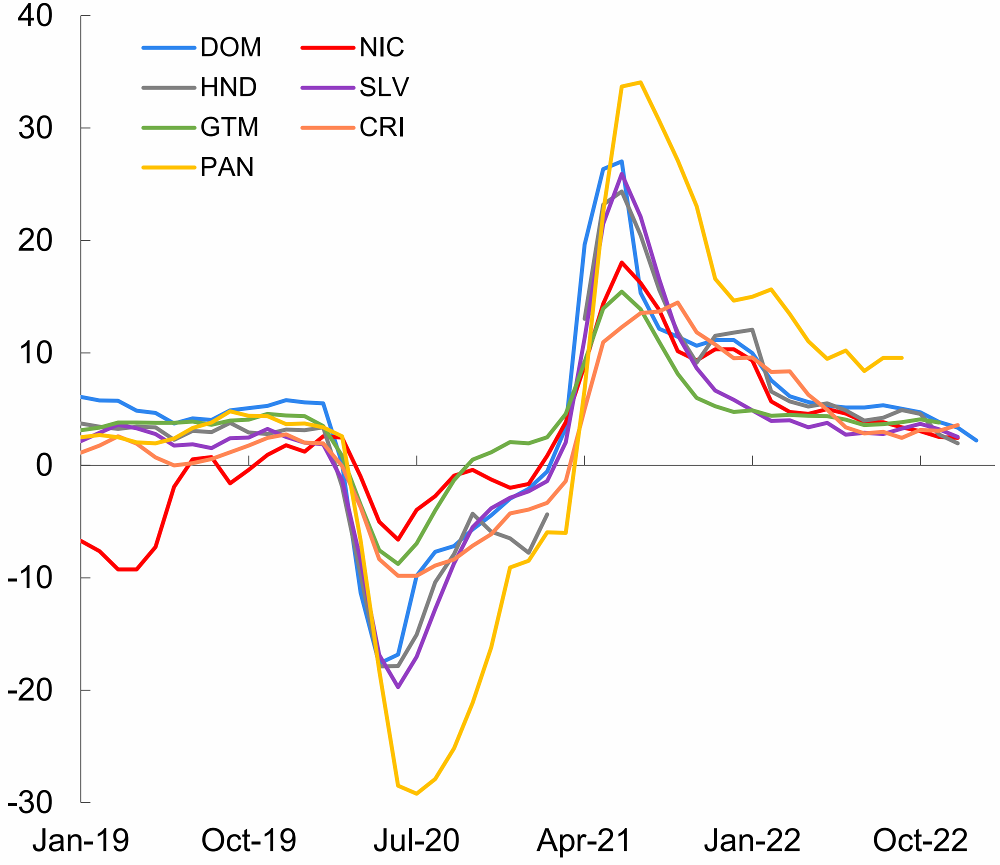
Western Hemisphere: Real GDP Growth and Inflation
(Year-over-year percent change)

	Real GDP Growth				Headline Inflation, end of period			
			Projections				Projections	
	2021	2022	2023	2024	2021	2022	2023	2024
United States	5.9	2.1	1.6	1.1	7.4	6.6	3.0	2.1
Canada	5.0	3.4	1.5	1.5	4.7	6.6	3.0	2.1
Latin America and the Caribbean (LAC)	**7.0**	**4.0**	**1.6**	**2.2**	**11.6**	**14.7**	**11.8**	**7.7**
LAC excluding Argentina and Venezuela	6.7	3.7	1.7	2.2	7.8	7.8	5.4	3.7
South America	7.5	3.9	1.0	1.9	14.1	18.3	15.6	9.9
CAPDR	11.0	5.3	3.8	3.8	5.1	7.4	4.7	3.6
Caribbean								
Tourism Dependent	7.8	7.2	3.2	2.4	5.4	7.9	4.3	3.4
Non-Tourism Dependent	2.5	17.2	13.6	20.0	11.7	20.2	13.6	6.7
Of which: Commodity Exporters	4.7	25.5	18.7	25.8	11.0	13.0	7.6	4.9
Memorandum items:								
LA5	6.5	3.4	1.2	1.7	8.3	7.8	5.4	3.7
Brazil	5.0	2.9	0.9	1.5	10.1	5.8	5.4	4.1
Chile	11.7	2.4	–1.0	1.9	7.1	12.8	5.0	3.0
Colombia	11.0	7.5	1.0	1.9	5.6	13.1	8.4	3.5
Mexico	4.7	3.1	1.8	1.6	7.4	7.8	5.0	3.5
Peru	13.6	2.7	2.4	3.0	6.4	8.5	3.0	2.3

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are PPP GDP-weighted averages. For **growth**, green/red denotes upward/downward revision compared with the October 2022 WEO forecasts. For **inflation**, red/green denotes upward/downward revision compared with the October 2022 WEO forecasts. All inflation aggregates exclude Venezuela. WEO data are as of March 28, 2023. CAPR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Caribbean: Tourism Dependent encompasses the rest of the Caribbean countries not included in the Caribbean: Non-Tourism Dependent group, which includes Commodity Exporters (Guyana, Suriname, Trinidad and Tobago) and Haiti. LA5 includes Brazil, Chile, Colombia, Mexico, and Peru.

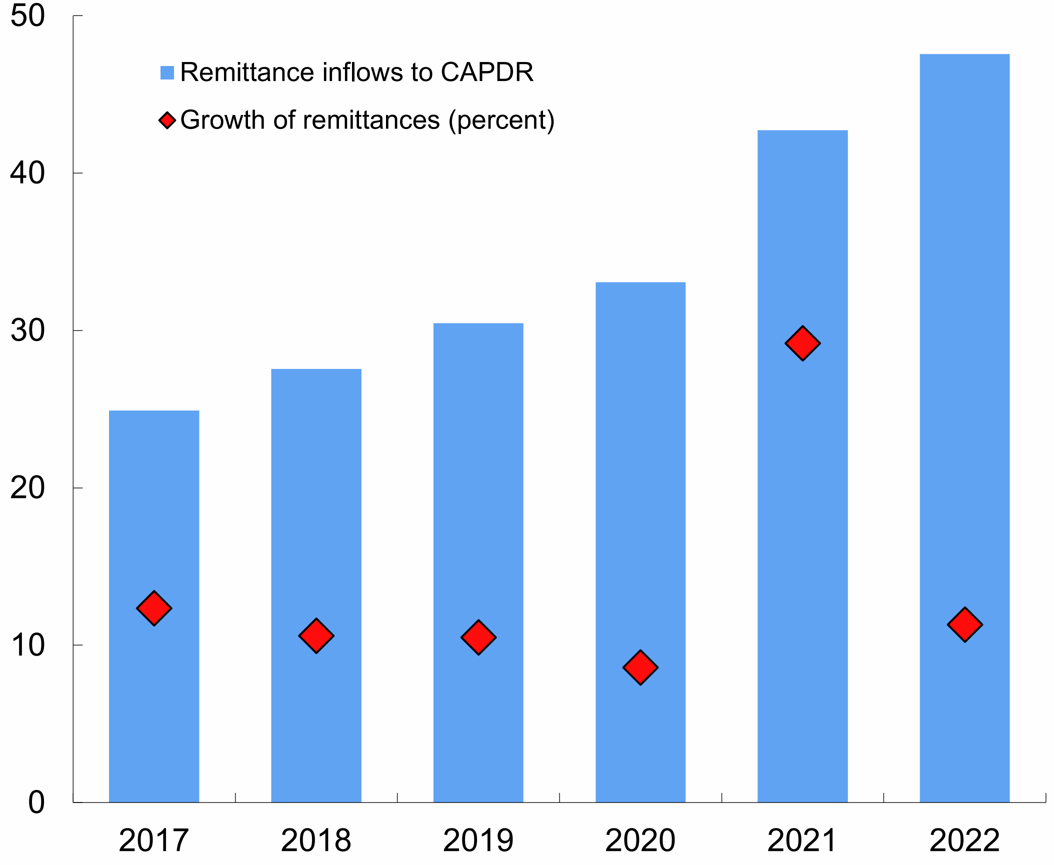
CAPDR: A solid recovery but waning support from remittances

Economic Activity
(Year-over-year percent change; 3-month moving average)



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

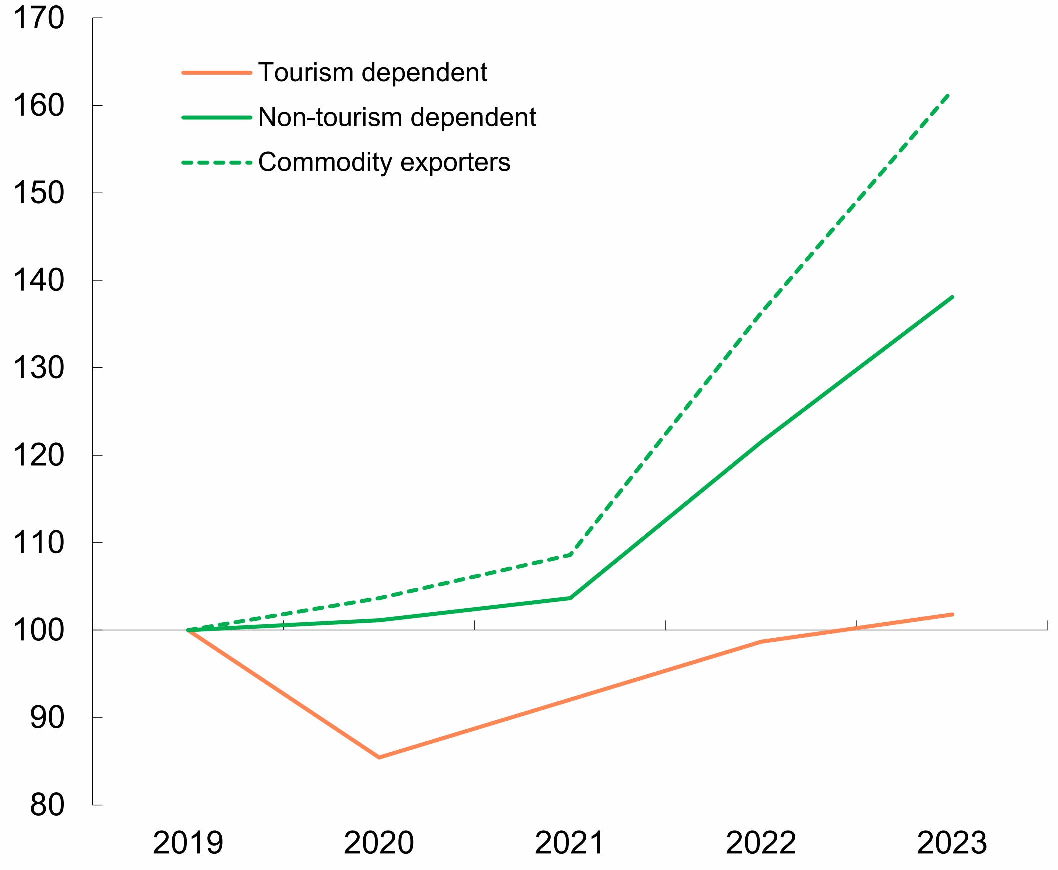
Remittance Inflows
(Billions of US dollars, unless otherwise indicated)



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

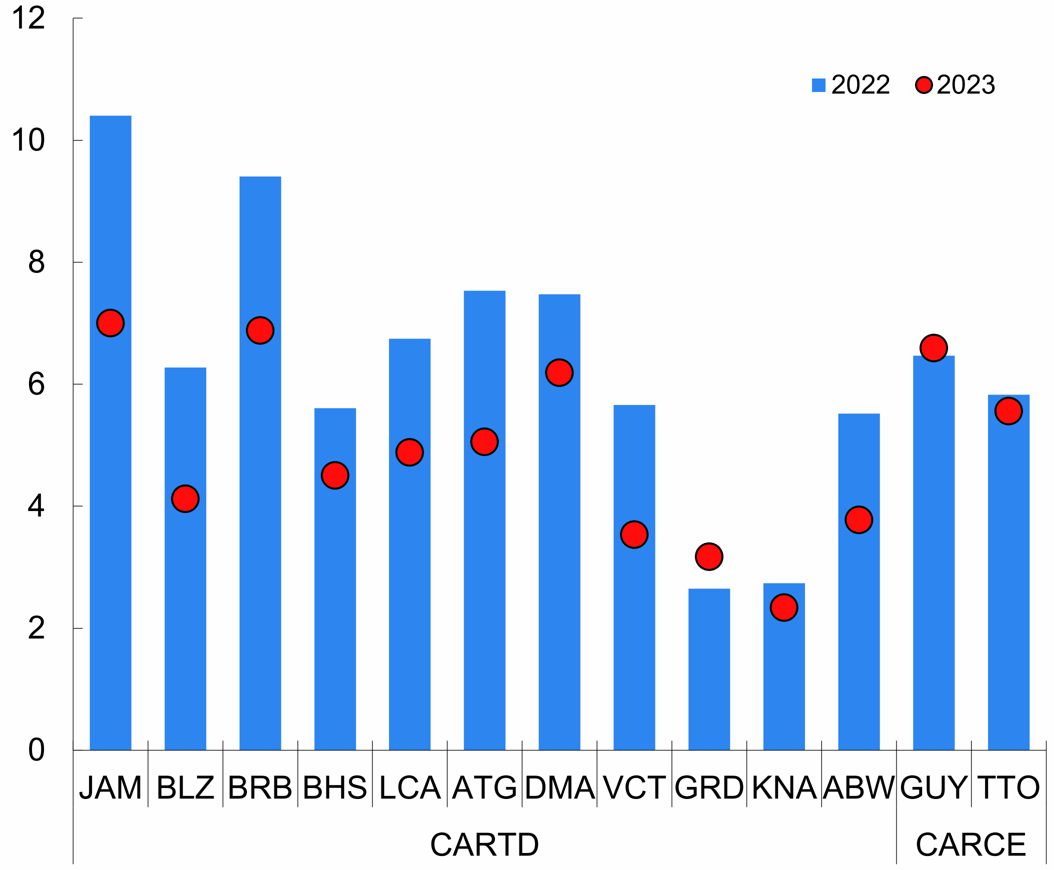
Caribbean: A recovery of output amid persistent inflation

Real GDP Level
(Index: 2019 = 100)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Tourism Dependent encompasses the rest of the Caribbean countries not included in the Non-tourism Dependent group, which includes Commodity Exporters (Guyana, Suriname, Trinidad and Tobago) and Haiti.

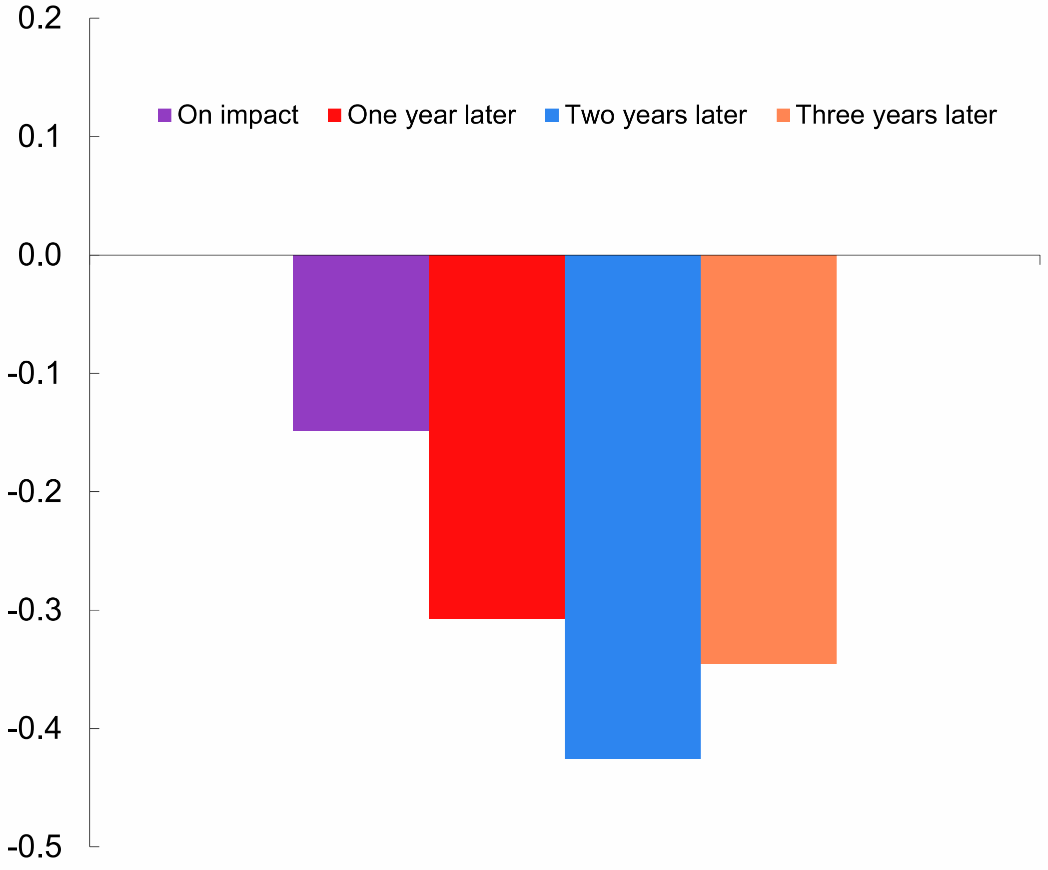
Consumer Price Inflation
(Period average; year-over-year percent change)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: CARCE = Caribbean; Commodity exporters; CARTD = Caribbean: Tourism dependent.

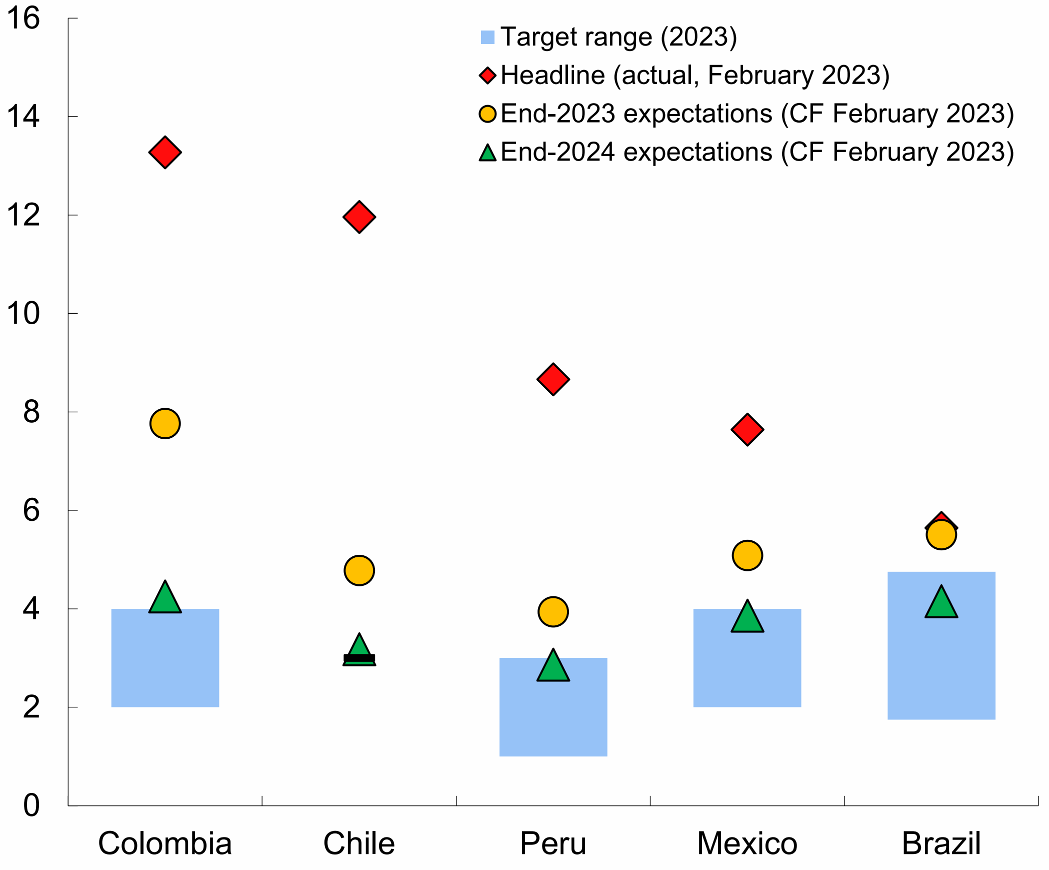
Risk 1: More persistent inflation

Year-over-year Inflation: Response to a 1pp Monetary Policy Shock
(Percentage points)



Sources: IMF staff calculations.
Note: Impact of a 1p.p. shock to the policy rate estimated through a panel local projection method. Controls include lagged inflation, inflation expectations, lagged output gap, changes in the exchange rate, lagged values of the shock, and external variables. See Brandao-Marques et al. 2020 for more details

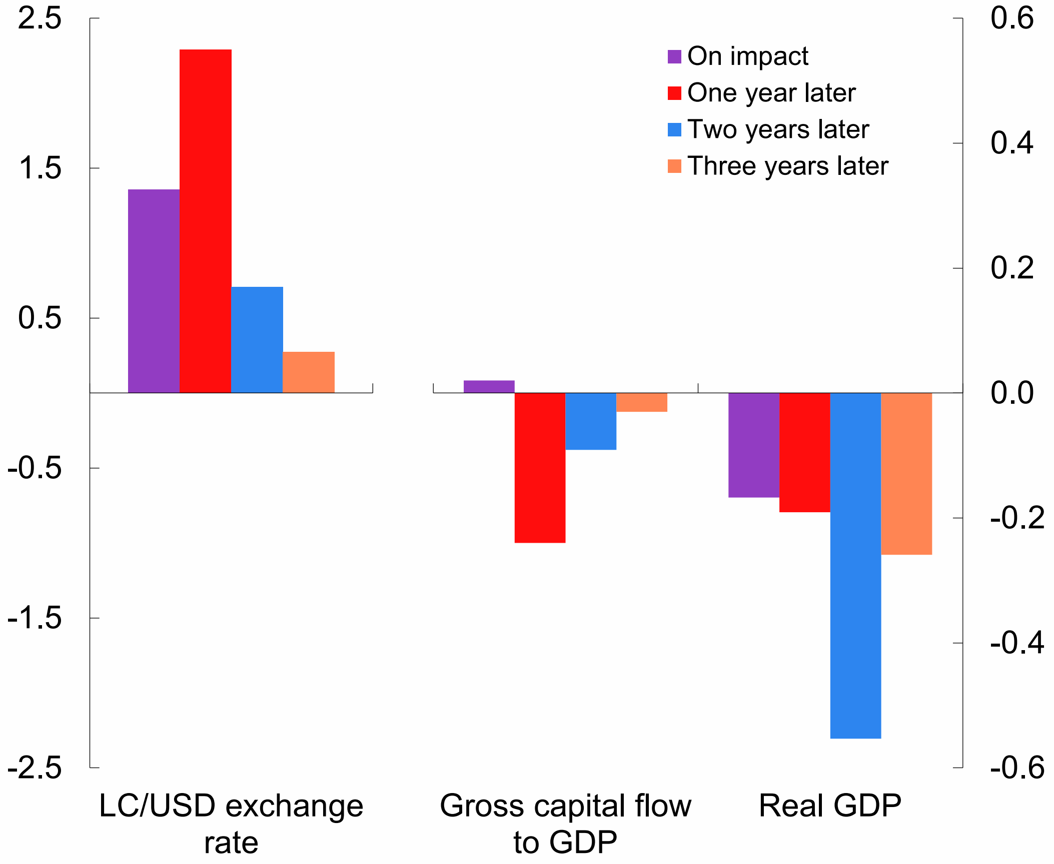
Headline Inflation and Consensus Forecasts
(Percent)



Sources: Consensus Economics; Haver Analytics; and national authorities.
Note: Brazil inflation target is set to decline over time from 3.25 percent in 2023 to 3 percent in 2025. Chile does not have tolerance bands; midpoint target is shown.

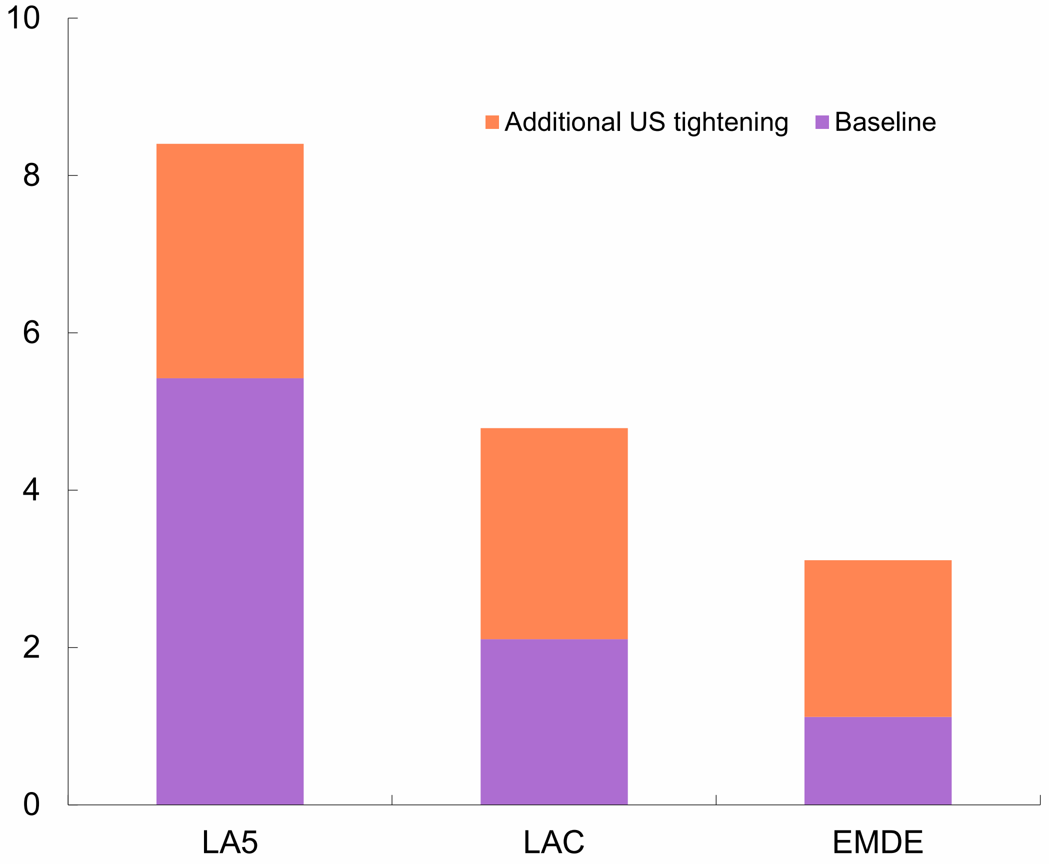
Risk 2: Tighter global financial conditions

Impact of a 1 Percent Increase in US 2y Rates
(Percent)



Source: IMF staff calculations.
Note: Impulse response one year later and largest impact within the first three years, based on local projection estimation for LA5. Size of the shock is one percentage point increase in US 2-year bond yield. In Changes in gross capital flow to GDP ratio is measured in percent of GDP. LA5 = Brazil, Chile, Colombia, Mexico, and Peru.

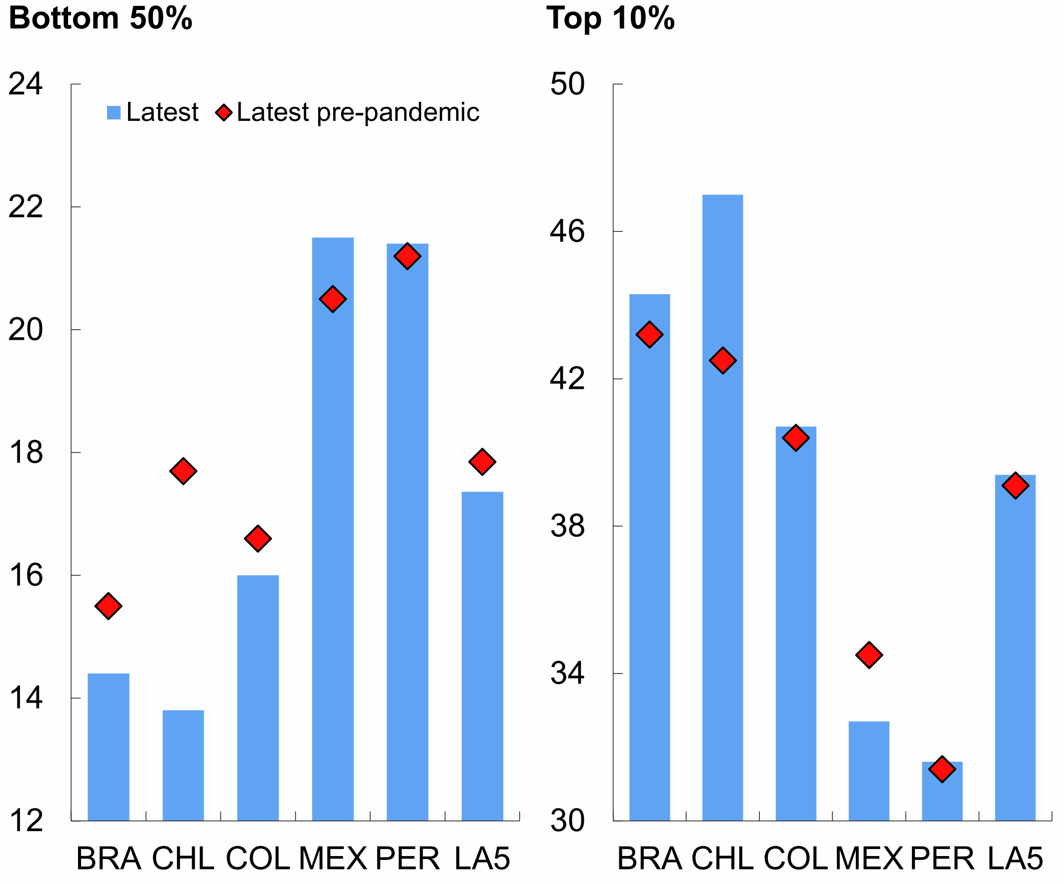
Increase in Public Debt-to-GDP 2022–28: From a Larger Fed Tightening
(Percentage points)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: In the additional US tightening scenario, the interest rate for new domestic and foreign currency denominated debt increases by the additional Fed tightening of 85 basis points on average (2024-2027) 50 basis points risk premium (2024-2025). EMDE = emerging market and developing economies, excluding China, Latin America and the Caribbean; LA5 = Brazil, Chile, Colombia, Mexico, Peru.

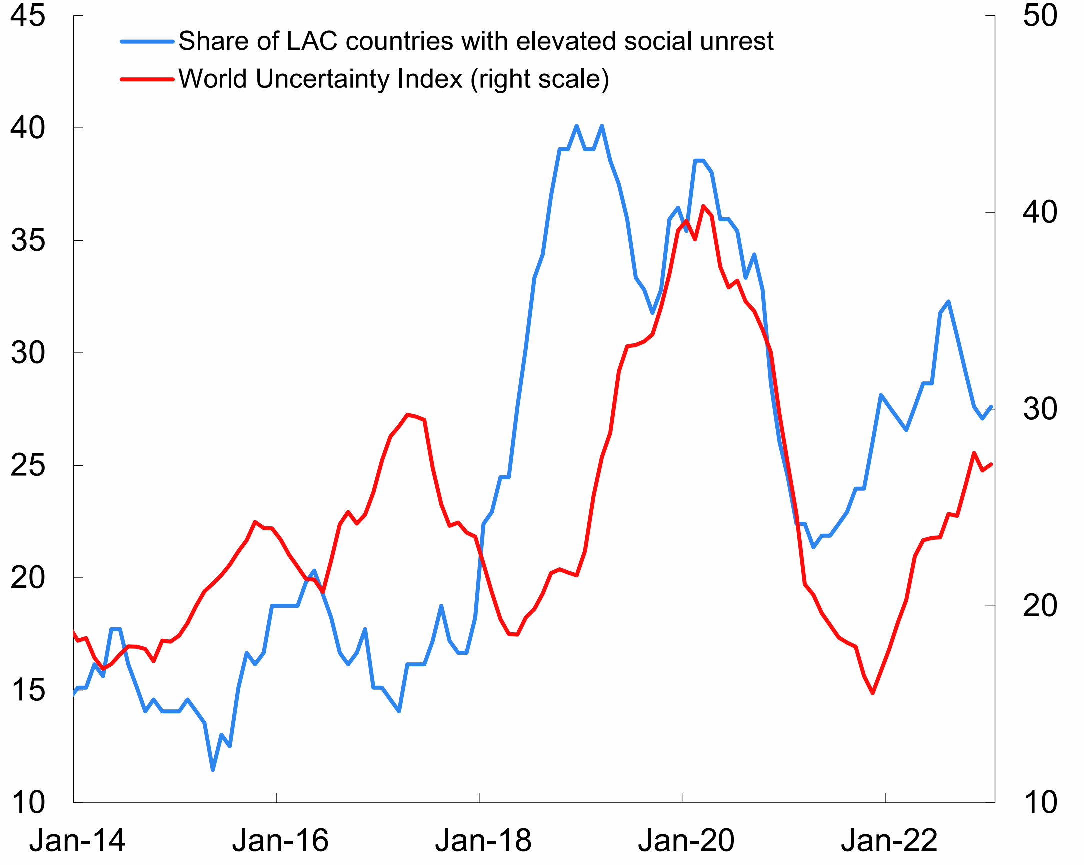
Risk 3: Social tensions

Employed Labor Income by Income Decile
(Percent)



Sources: CEPALSTAT; and IMF staff calculations.
Note: LA5 is purchasing-power-parity GDP-weighted average. Latest available for BRA, COL, and MEX is 2021, and for MEX and CHL 2020. Latest pre-pandemic for BRA, COL, and PER is 2019, for CHL is 2017, and for MEX 2018. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

Fraction of Countries with Elevated Social Unrest and Global Uncertainty
(12-month moving average)

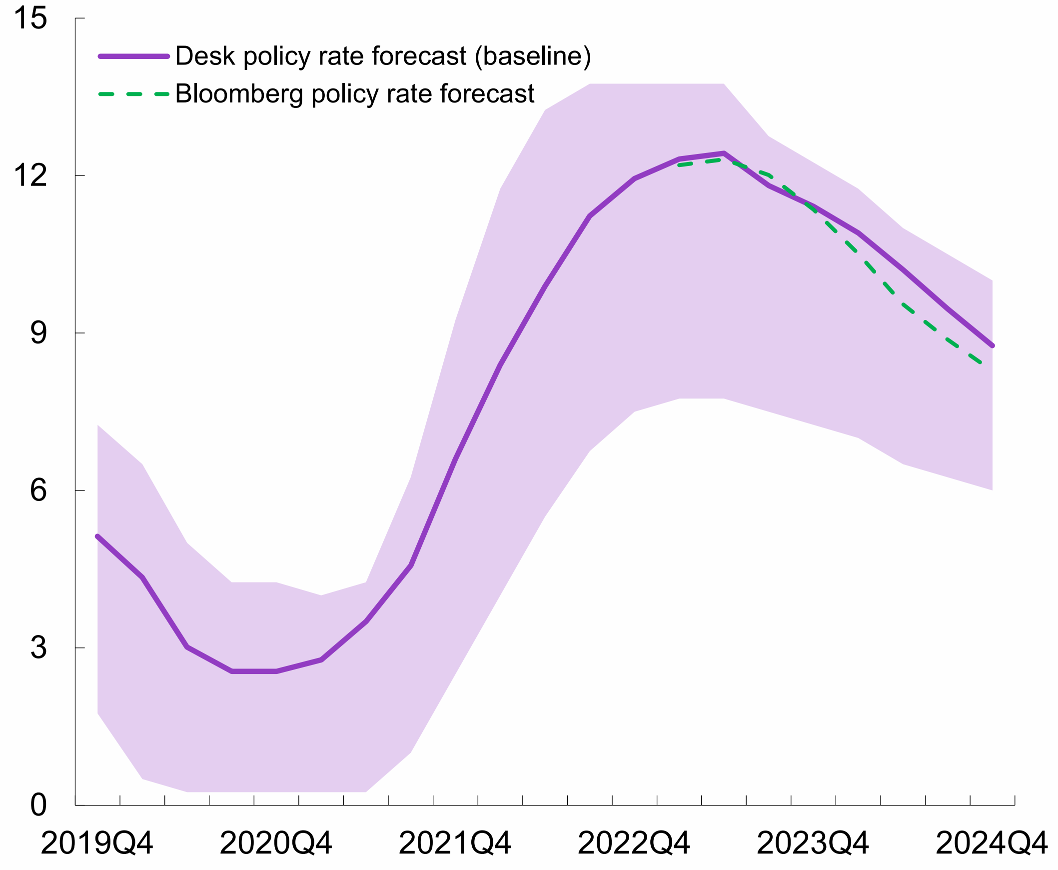


Sources: Barrett et al (2022) for unrest, Ahir et al (2020) for World Uncertainty Index and IMF staff calculations.
Note: Share of countries with reported social unrest index above the within-country 75th percentile for the index in the period between January 2010 and January 2023. 12-mma = 12-month moving average. LA4 = Brazil, Chile, Colombia, Mexico.

Policy Priorities

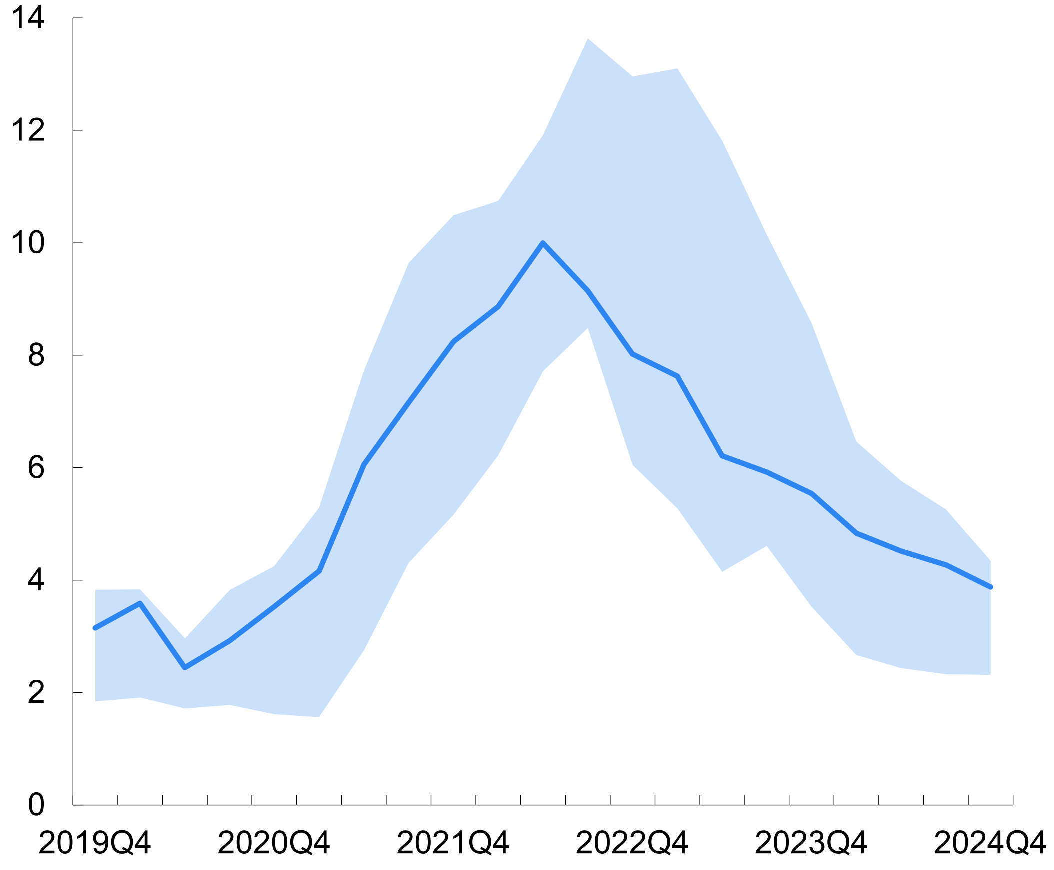
Maintaining tight monetary policy is needed to lower inflation

LA5: Policy Rate
(Nominal; percent; PPP-weighted average)



Sources: Bloomberg Finance L.P. (for forecasts); Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: LA5 is purchasing-power-parity GDP-weighted average. Shaded area shows min-max range of LA5 countries. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

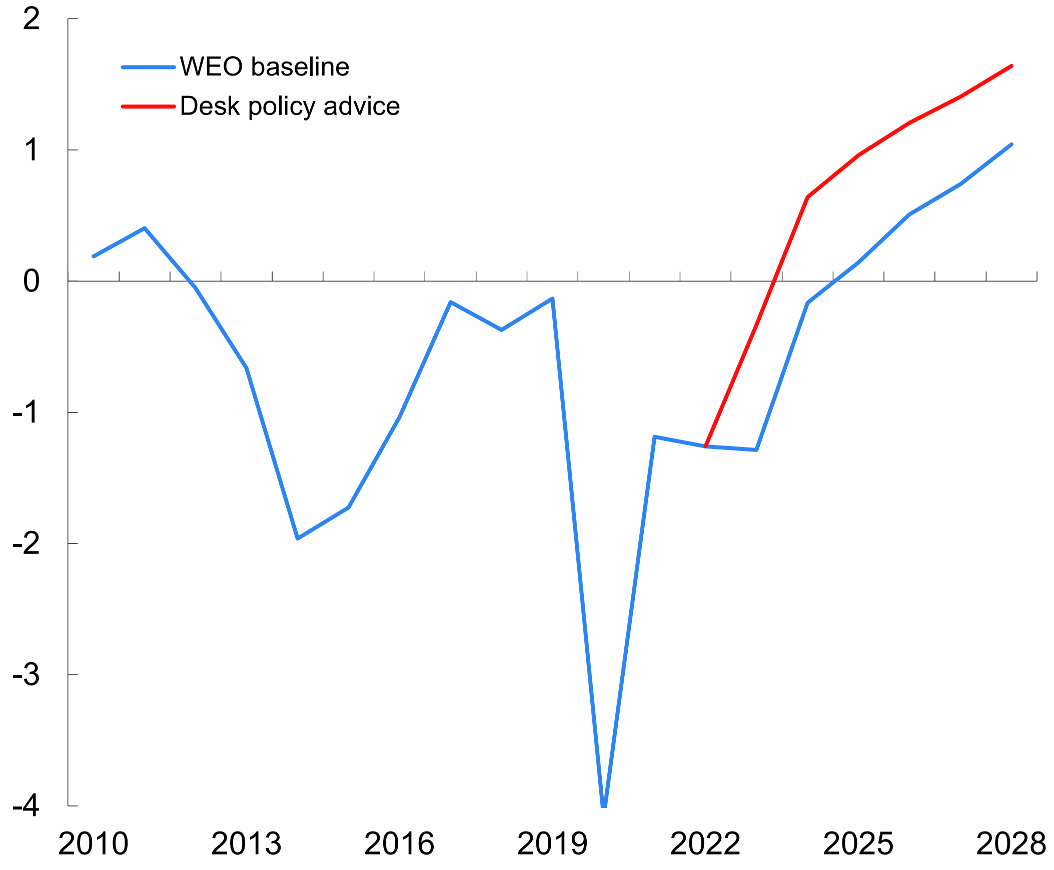
LA5: Inflation, period average
(Year-over-year percent change; PPP-weighted average)



Sources: Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: LA5 is purchasing-power-parity GDP-weighted average. Shaded area shows min-max range of LA5 countries. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

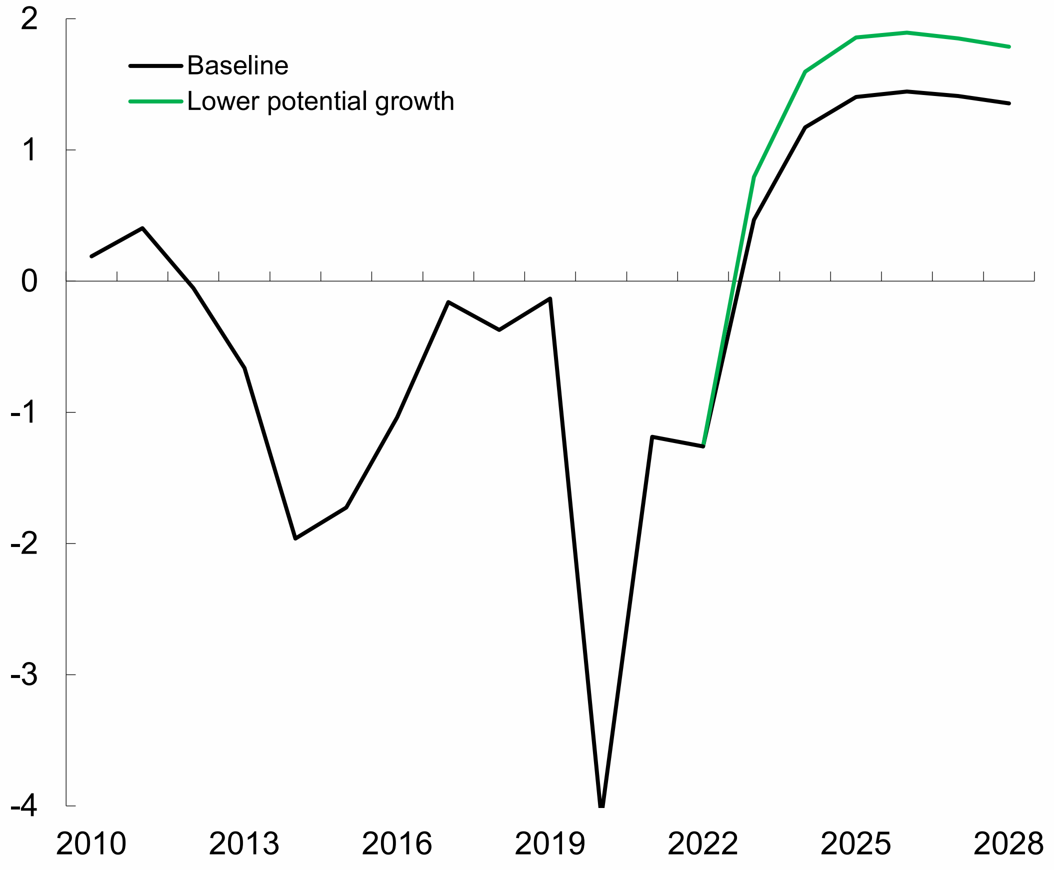
More fiscal effort is needed to rebuild buffers and support disinflationary efforts

LA5: Structural Primary Balance
(Percent of potential GDP)



Sources: Fournier, J.M., 2019, “A Buffer-Stock Model for the Government: Balancing Stability and Sustainability ,” IMF Working Paper No. 19/159; IMF, World Economic Outlook database; and IMF staff calculations.
Note: LA5 is US dollar fiscal year nominal GDP-weighted average. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

LA5: Structural Primary Balance, Model Estimates
(Percent of potential GDP)



Sources: Fournier, J.M., 2019, “A Buffer-Stock Model for the Government: Balancing Stability and Sustainability ,” IMF Working Paper No. 19/159; IMF, World Economic Outlook database; and IMF staff calculations.
Note: The scenario with lower potential growth assumes potential growth 0.5 percentage points lower than in the WEO. LA5 is US dollar fiscal year nominal GDP-weighted average. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

Main Messages

- The region's growth has held up better-than-expected in 2022
- Growth will slow in 2023, but not a recession
- Despite early action by the region's central banks, inflation is proving a stubborn foe
- Policy challenges:
  - **Near term:** Reducing inflation will require a sustained, restrictive policy stance. Fiscal policy needs to carry more of the burden. This may prove difficult in the face of continuing social strains.
  - **Medium term:** Need to restore the pre-pandemic fiscal position in a way that is progressive (on both tax and spending), addresses long-standing supply constraints, and responds to pressing social demands.

Thank You