

## INFLATIONARY RISKS AND ECONOMIC POLICY NORMALISATION



### Editorial

Economic recovery in Latin America continues, now that the most acute phase of the pandemic has passed, albeit in a highly uncertain environment. The main uncertainties relate to the war in Ukraine, the slowdown in the Chinese economy and the heightening of inflationary pressures in the short term, all of which affect monetary policy conduct worldwide.

Against this backdrop, the growth outlook for the region has been revised down in recent months, albeit only slightly and less than for other economic areas. This is partly because the increase in certain commodity prices in recent quarters, which has intensified since the start of the war in Ukraine, is a positive shock for some Latin American countries' terms of trade.

This Report analyses the main recent developments in the region in economic activity, prices, financial conditions, banking systems and economic policy, and also the key factors that may shape their future course. In this respect, several analytical exercises are included, which examine the sensitivity of the Latin American economies to various shocks – for example, as regards US monetary policy developments or domestic social unrest – and identify the region's main external and fiscal vulnerabilities and its banking sector's vulnerabilities.

The Report includes three boxes. Box 1 analyses how a possible ban by the European Union and the United States on imports of Russian energy products and other commodities might affect the GDP of the main Latin American economies. Box 2 takes a closer look at developments in Latin American public and corporate sectors' foreign currency indebtedness, which in the past has influenced the impact of external shocks. Lastly, Box 3 illustrates how public finance sustainability risks have increased in some of the main Latin American economies, as government debt has climbed in recent years as a result of the health crisis.

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**SOURCES:** World Bank and IMF.