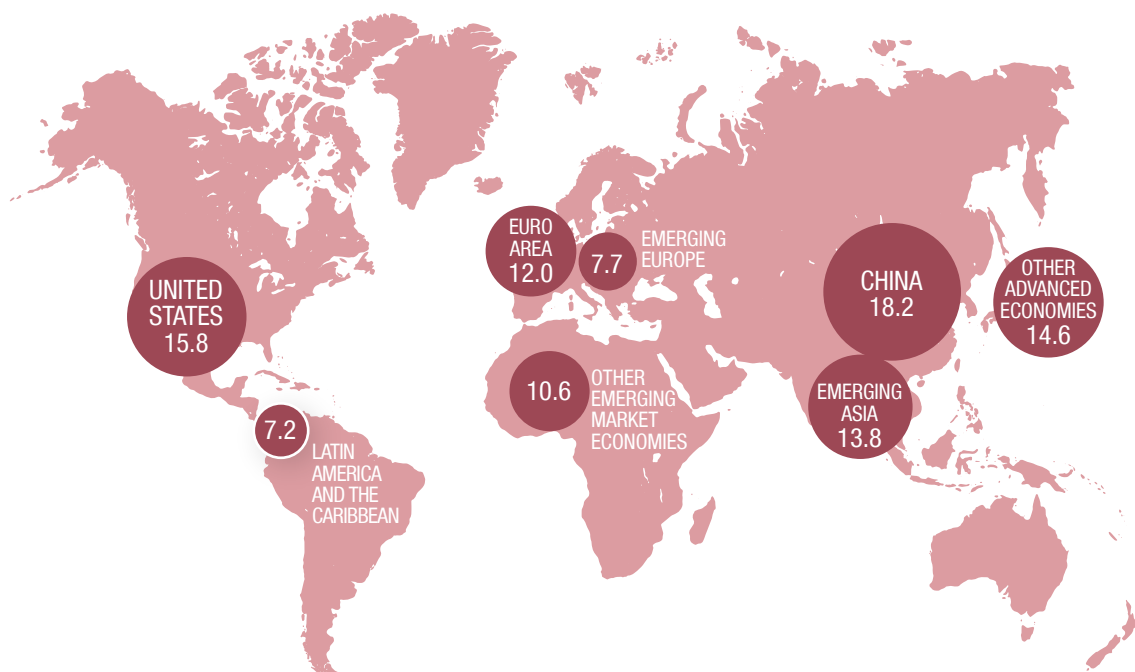


Takeaways

- 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 factors affecting economic performance are the war in Ukraine, the economic slowdown in China and the heightening of inflationary pressures in the short term, all of which affect monetary policy conduct worldwide.
- Direct exposure to Russia and Ukraine is very low in the region, but economic activity momentum could still be indirectly affected through various channels.
- In the short term, some of these channels could even work in Latin America's favour, for example if rising commodity prices have a positive impact on the region's terms of trade.
- However, recent developments are further exacerbating inflation, which was already rising faster in the region than in the rest of the world.
- Analysts continue to forecast a gradual decline in today's high inflation rates. Yet if the current inflationary episode lasts longer than expected, it could ultimately trigger significant indirect and second-round effects, especially in some Latin American economies with high levels of price indexation.
- The monetary policy response of Latin America's main central banks to the climb in inflation has been swifter and sharper than in other emerging regions and than in previous normalisation cycles. This has helped to keep long-term inflation expectations anchored.
- In any event, further monetary policy normalisation in the advanced economies – especially in the United States – could have a significant impact on the macro-financial outlook for the region.
- Specifically, an unanticipated increase in US policy rates would have significant negative effects on macro-financial conditions across Latin America.
- Despite such an uncertain backdrop, the region's financial markets have performed relatively well in recent months, while bank lending has recovered.
- The main indicators available show that the banking sector remains sound.
- The Latin American economies' external vulnerabilities are generally contained.
- By contrast, public finance vulnerability indicators have deteriorated, and this could continue in the absence of medium-term fiscal consolidation plans in most countries of the region.

- The risk of greater social and institutional unrest also continues, for instance considering that the most vulnerable households have lost purchasing power in recent quarters as a consequence of rising inflation. This could dampen the growth outlook for the region and hinder the roll-out of far-reaching economic reforms.
- In any event, a number of important safety buffers remain in place, both at the domestic and the international level. In the domestic arena, private sector savings and Latin American central banks' international reserves are, in general, close to their historical average, while at the international level, the IMF and other multilateral or regional bodies can deploy, where necessary, several instruments to provide financial support to the countries of the region.

Distribution of global GDP by region (2020) (%)



SOURCE: IMF.