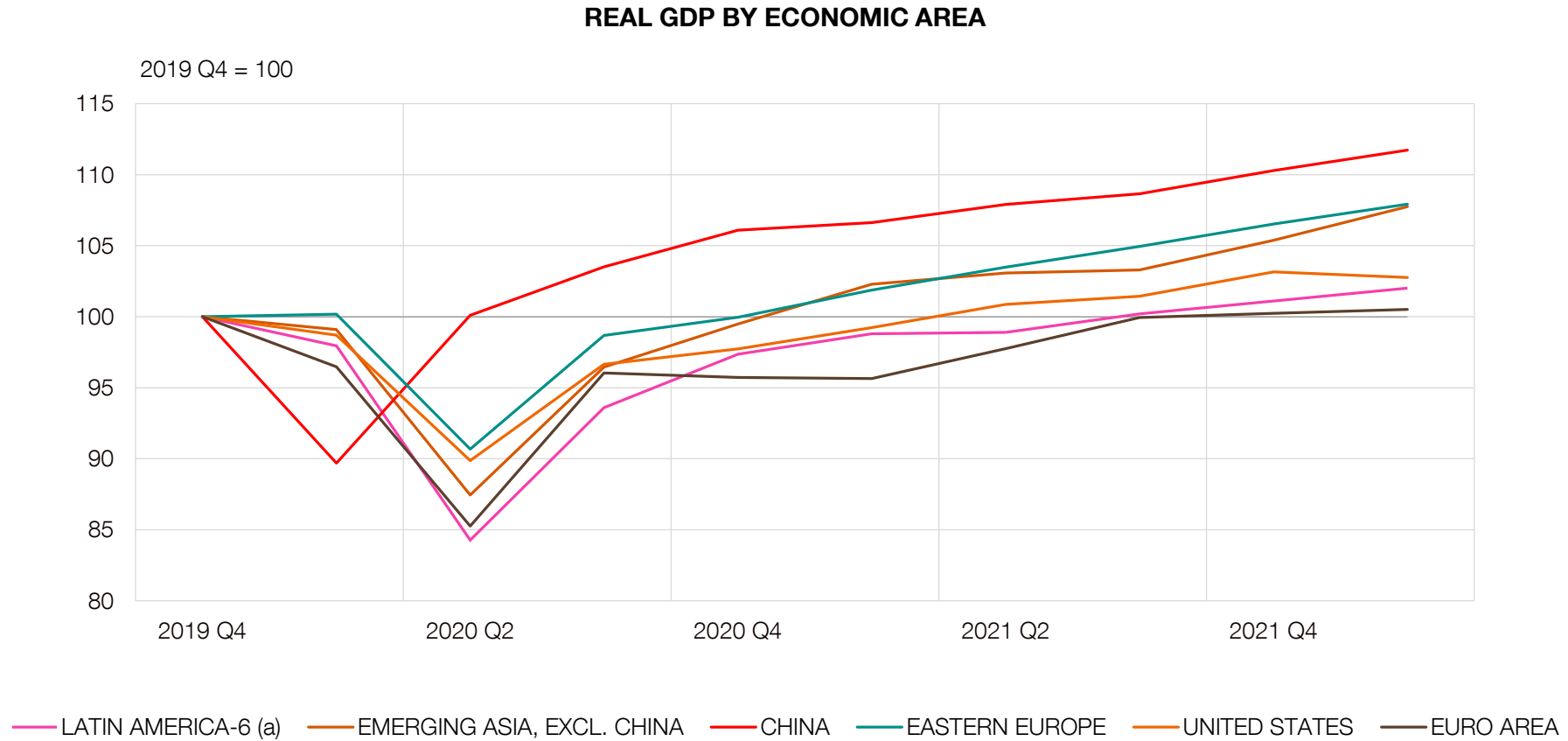


REPORT ON THE LATIN AMERICAN ECONOMY. FIRST HALF OF 2022
**INFLATIONARY RISKS AND ECONOMIC POLICY
NORMALISATION**

International Economics and Euro Area Department

13 July 2022

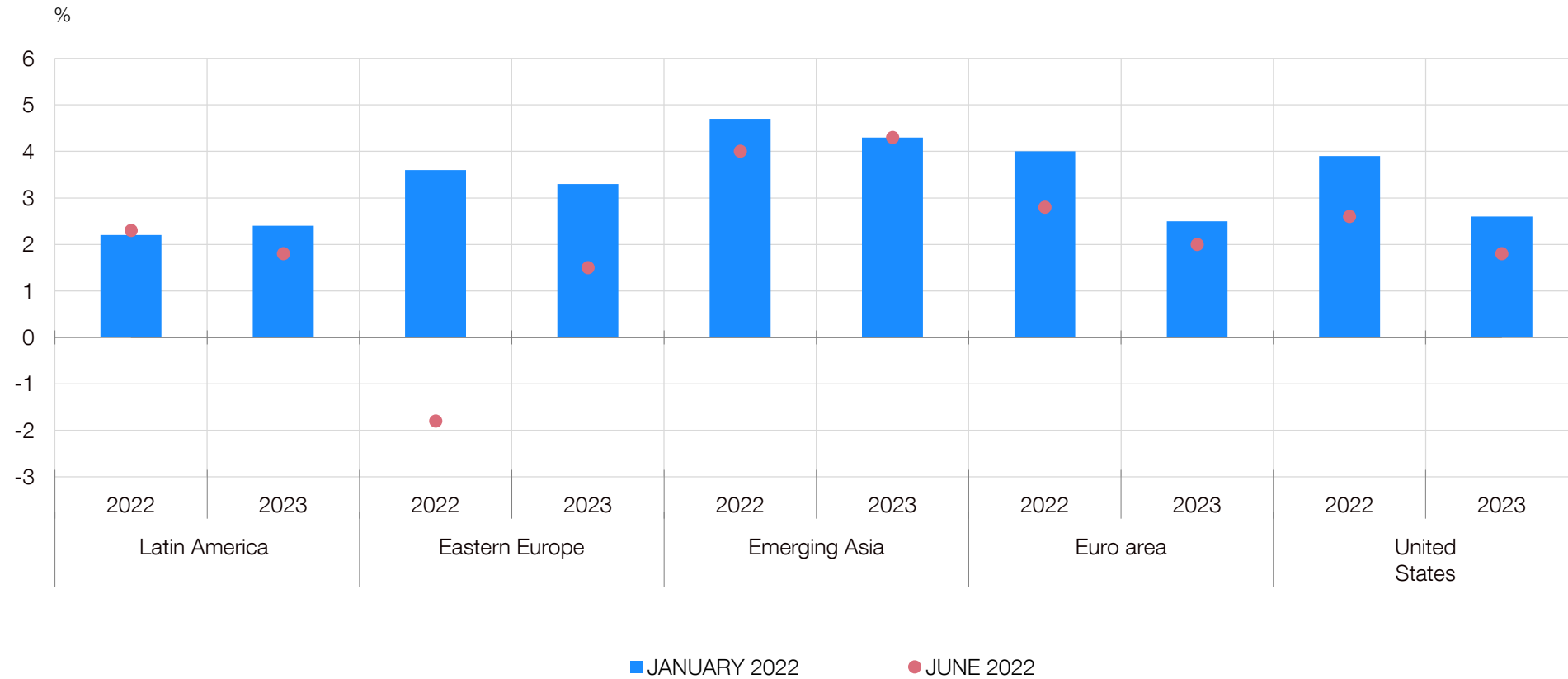




Sources: World Bank, national statistics, IMF, Refinitiv and Johns Hopkins University.

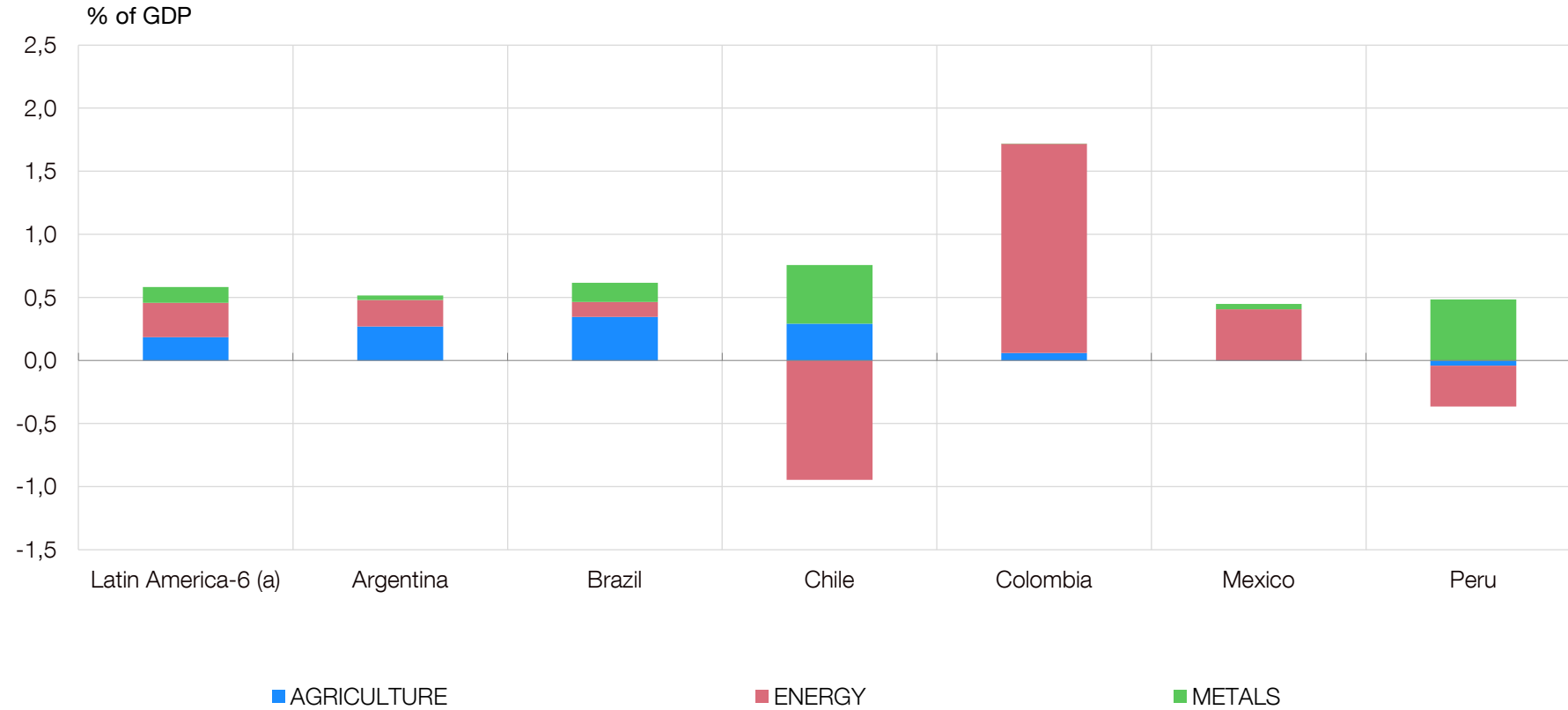
a. Argentina, Brazil, Chile, Colombia, Mexico and Peru.

GDP GROWTH PROJECTIONS



Source: Latin American Consensus Forecasts.

EFFECTS OF THE COMMODITIES SHOCK ON THE TRADE BALANCE

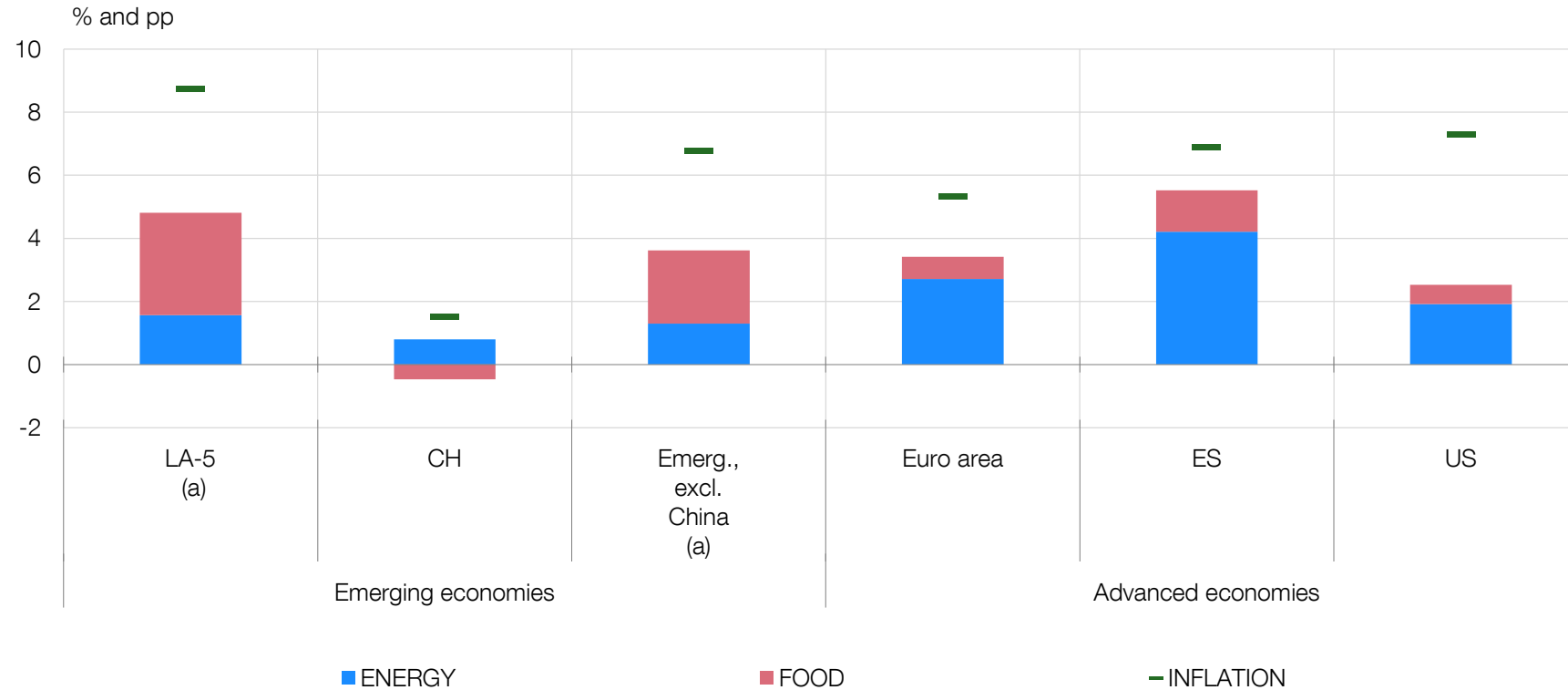


Sources: OECD, Refinitiv and Banco de España.

a. Weighted aggregate of Argentina, Brazil, Chile, Colombia, Mexico and Peru.

BUT THE INCREASE IN COMMODITY PRICES IS EXACERBATING INFLATION, WHICH WAS ALREADY RISING FASTER IN THE REGION

ENERGY AND FOOD. CONTRIBUTION TO INFLATION IN THE MOST RECENT PERIOD

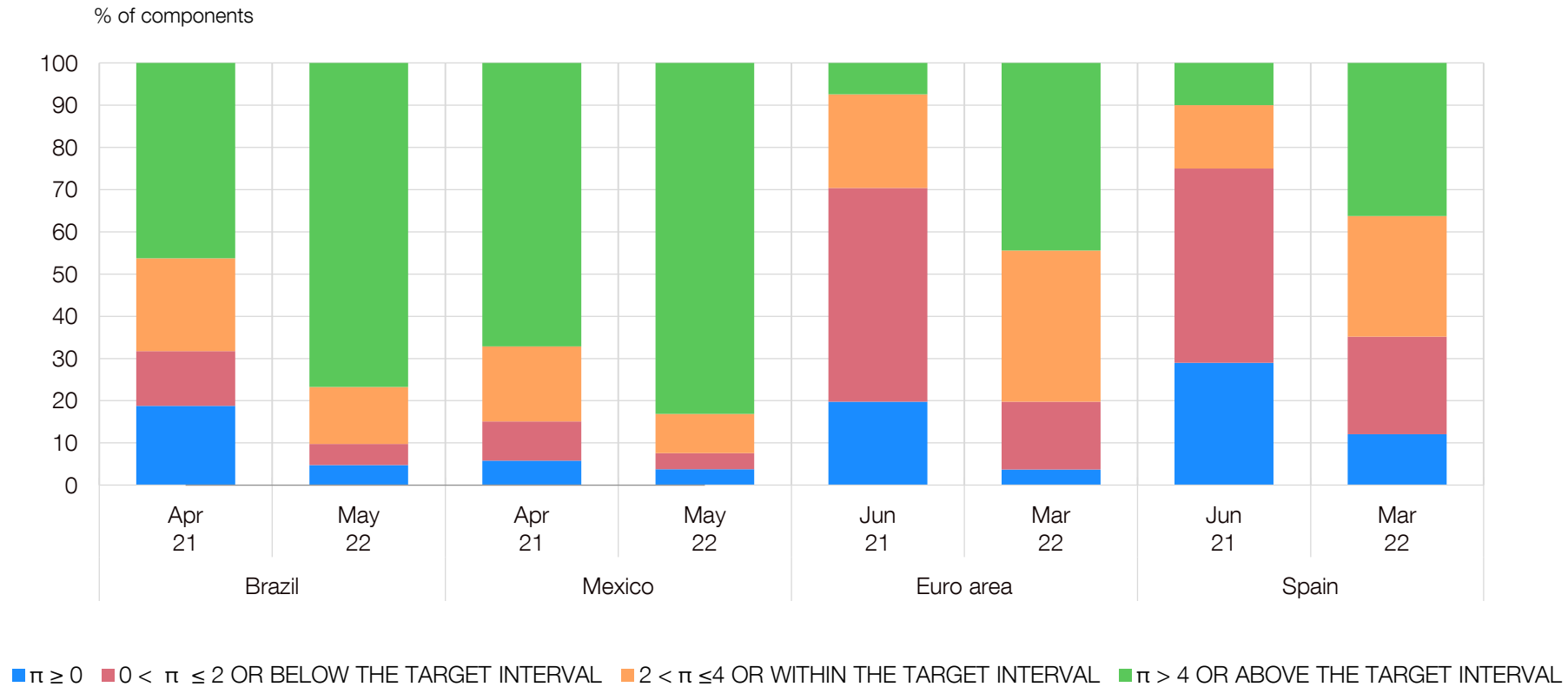


Sources: Eurostat, Banco de España and national statistics.

a. Latin America - 5: aggregate of Brazil, Chile, Colombia, Mexico and Peru. Emerging economies includes Brazil, Chile, Colombia, Mexico, Peru, Hungary, Poland, the Czech Republic, Russia, India, Indonesia, Malaysia, Thailand and Taiwan.

AND THE INFLATIONARY SURGE HAS BEEN SPREADING TO CONSUMER ITEMS BEYOND ENERGY AND FOOD

DISTRIBUTION OF CONSUMER PRICE INDEX COMPONENTS AS PER THE INTERVAL IN WHICH THEIR INFLATION RATE LIES



Sources: Eurostat, Banco de España and national statistics.

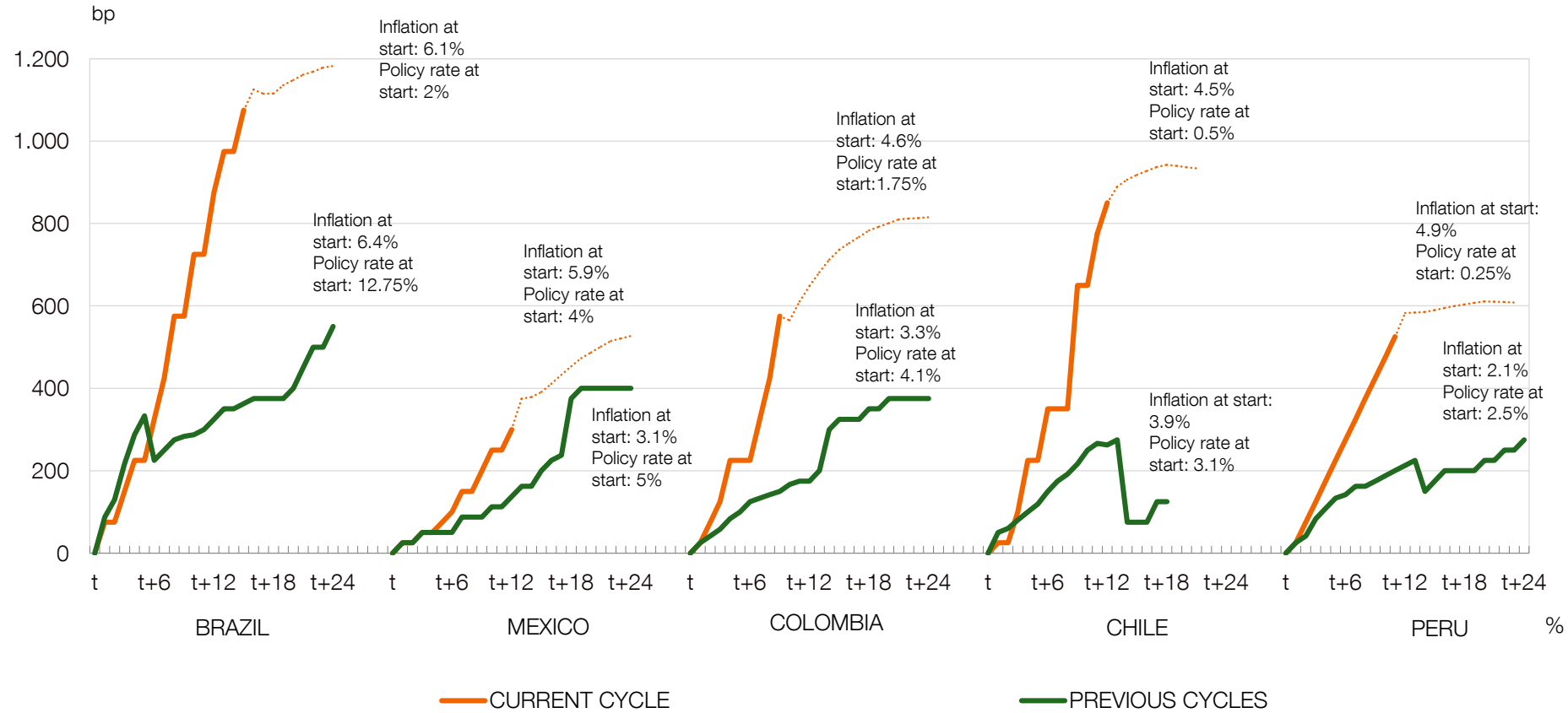
THE PROJECTIONS CONTINUE TO POINT TO A GRADUAL DECLINE IN INFLATION AND LONG-TERM INFLATION EXPECTATIONS REMAIN ANCHORED

INFLATION EXPECTATIONS (JUNE 2022)



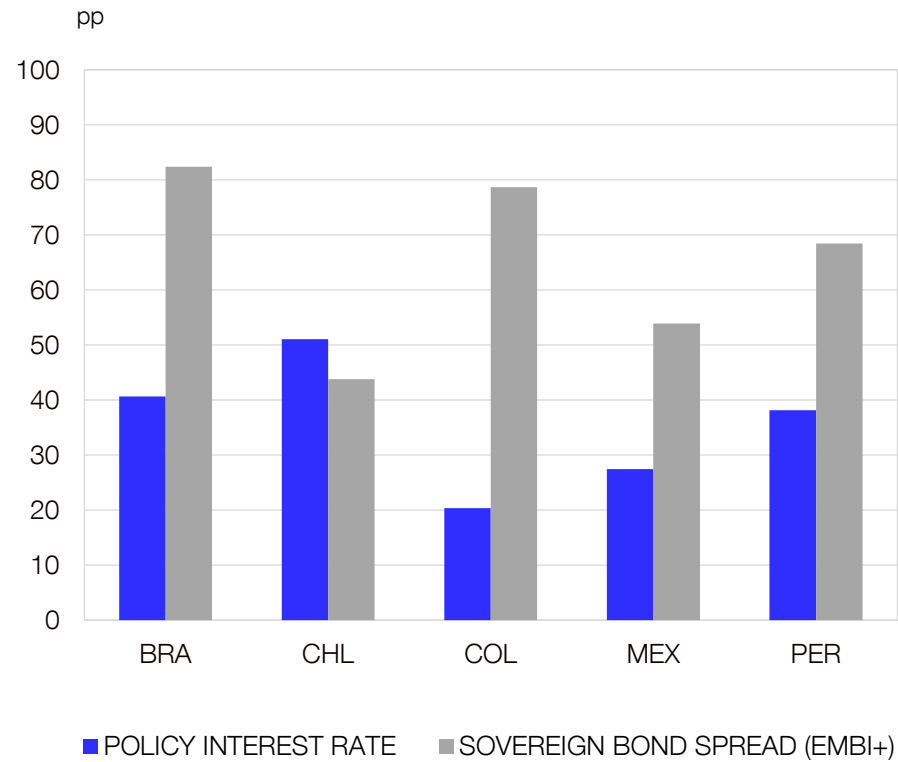
Sources: Consensus Forecasts and national statistics.

LATIN AMERICA. POLICY INTEREST RATE HIKE CYCLES

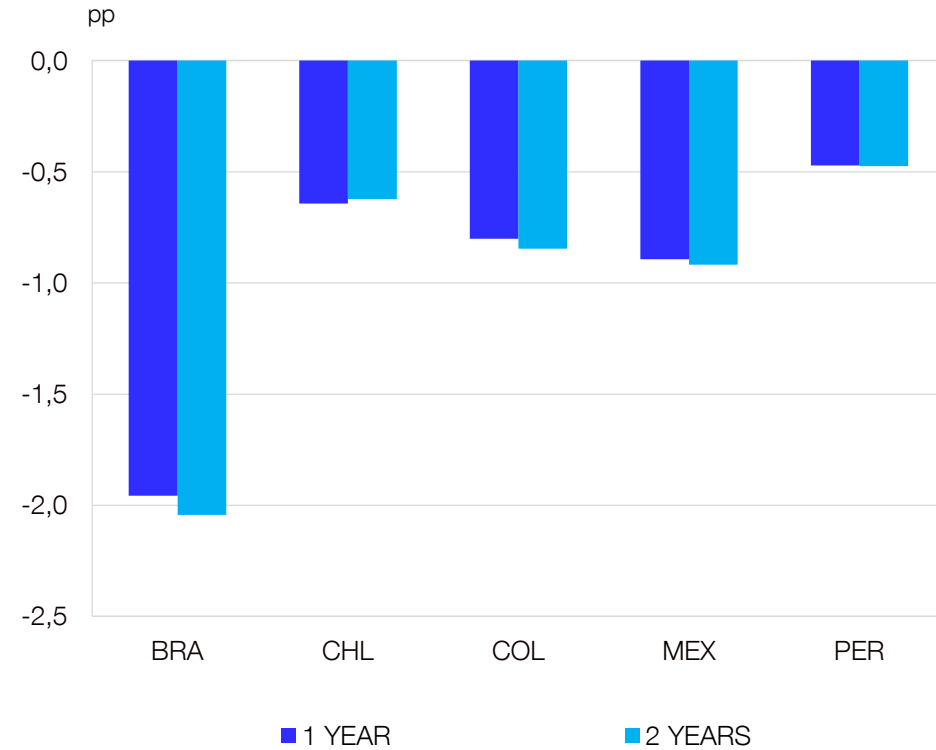


Sources: Refinitiv and national statistics.

IMPACT OF A US MONETARY POLICY SURPRISE ON INTEREST RATES AND SPREADS



CUMULATIVE GDP DEVIATION FOLLOWING A US MONETARY POLICY SURPRISE



Sources: Refinitiv and Banco de España.

Banking sector

- Bank lending has recovered even though a great many of the credit support programmes have come to an end
- The banking sector is relatively sound

External vulnerabilities

They remain in check given the current account balances, levels of reserves in line with historical averages and exchange rates that are not overvalued

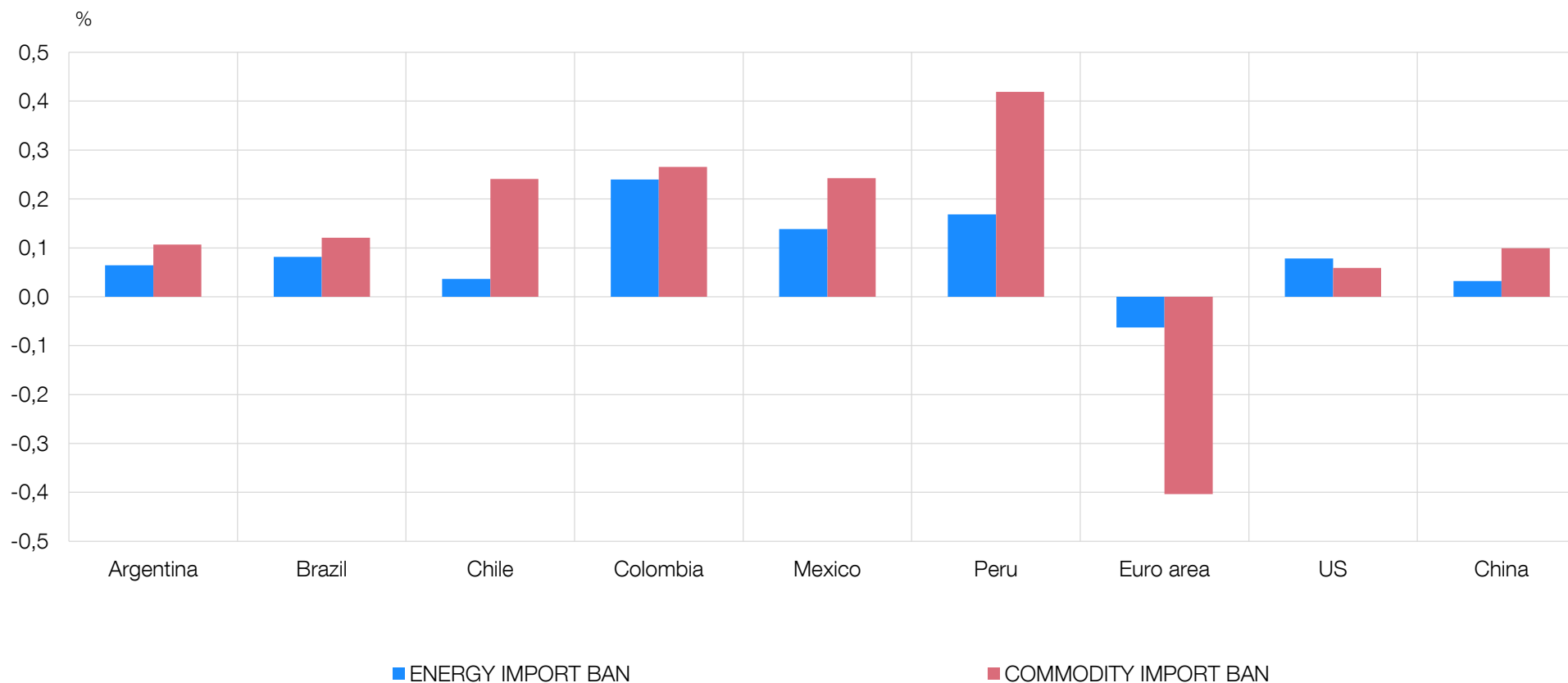
Fiscal vulnerability

- Structural deficits are not improving, medium-term fiscal consolidation plans are lacking, high public debt levels, less favourable spreads between interest rates and growth rates than in other emerging market economies and, in the short-term, upward pressure on public spending
- Box 3: Analysis of public debt sustainability

SOME FINAL CONSIDERATIONS

THE EU AND US BAN ON IMPORTS OF RUSSIAN PRODUCTS MAY BOOST ACTIVITY IN LATIN AMERICA

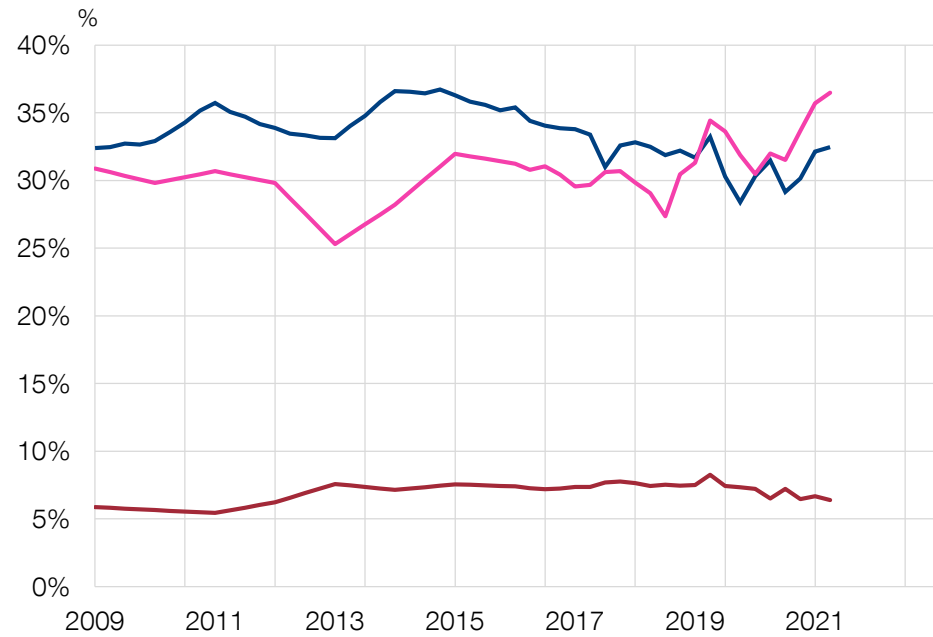
IMPACT ON GDP OF THE EU AND US BANS ON IMPORTS FROM RUSSIA



Source: Banco de España.

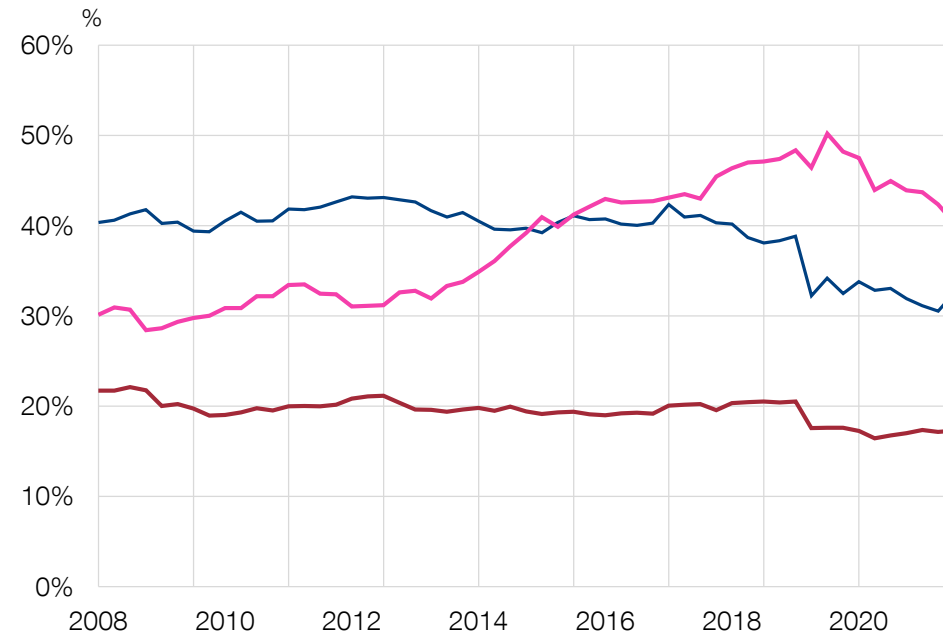
THE LATIN AMERICAN ECONOMIES REMAIN VULNERABLE TO SHARP DEPRECIATIONS OF THEIR CURRENCIES

FOREIGN CURRENCY-DENOMINATED PUBLIC DEBT



— EMERGING EUROPE — EMERGING ASIA — LATIN AMERICA

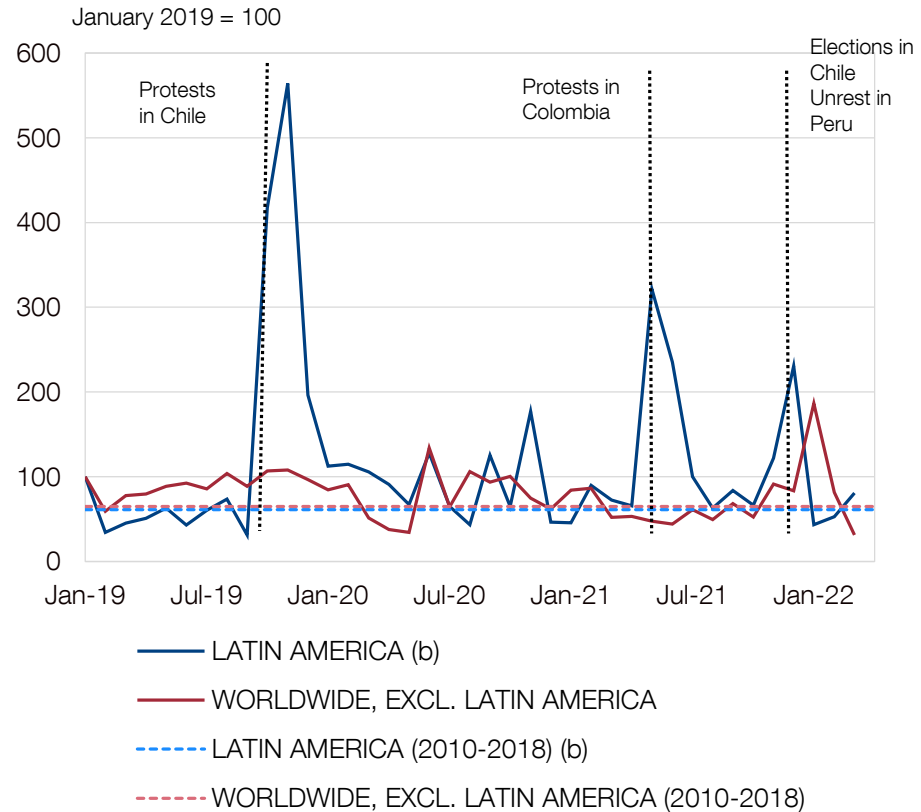
NON-FINANCIAL CORPORATIONS' FOREIGN CURRENCY-DENOMINATED DEBT



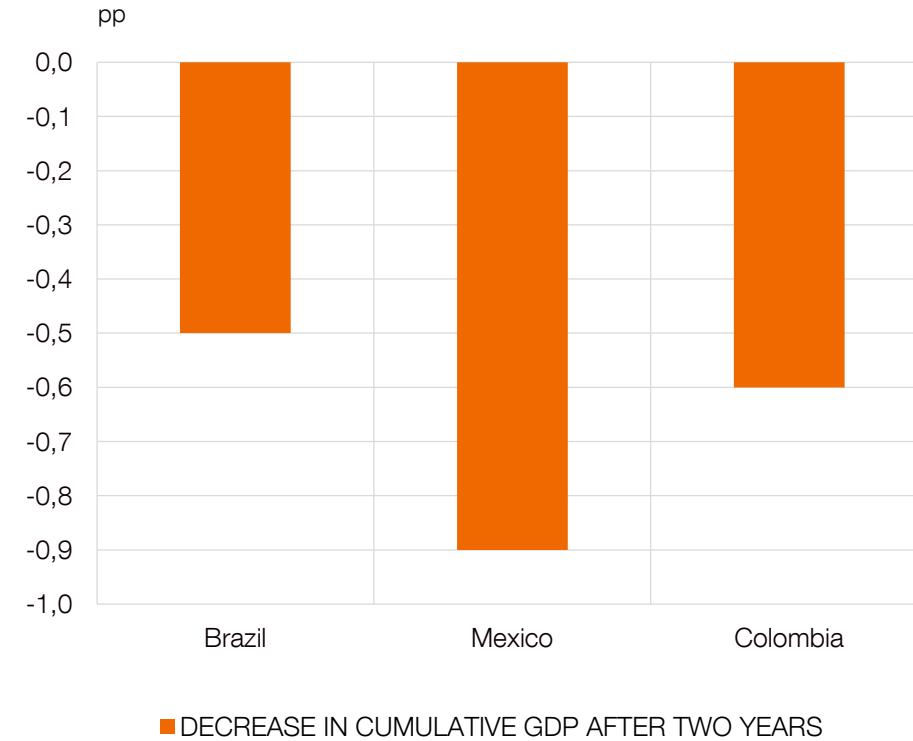
— EMERGING EUROPE — EMERGING ASIA — LATIN AMERICA

Sources: World Bank and IIF.

RSUI (REPORTED SOCIAL UNREST INDEX)



EFFECTS ON GDP GROWTH OF A SHOCK TO THE INDICATORS OF INSTITUTIONAL INSTABILITY (a)



Sources: Banco de España and Barrett *et al.* (2020).

a. Increase in two standard deviations compared with their historical average of four indicators (EPU, RSUI, GPR, Topic Conflict).