

REGIONAL ECONOMIC OUTLOOK

WESTERN HEMISPHERE



WESTERN HEMISPHERE
DEPARTMENT

Securing Low Inflation and Nurturing Potential Growth

DECEMBER 2023

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Presentation Outline

- I. Recent developments in the United States
- II. Recent Developments in LAC
- III. Outlook and Risks for LAC
- IV. Policy Priorities for LAC

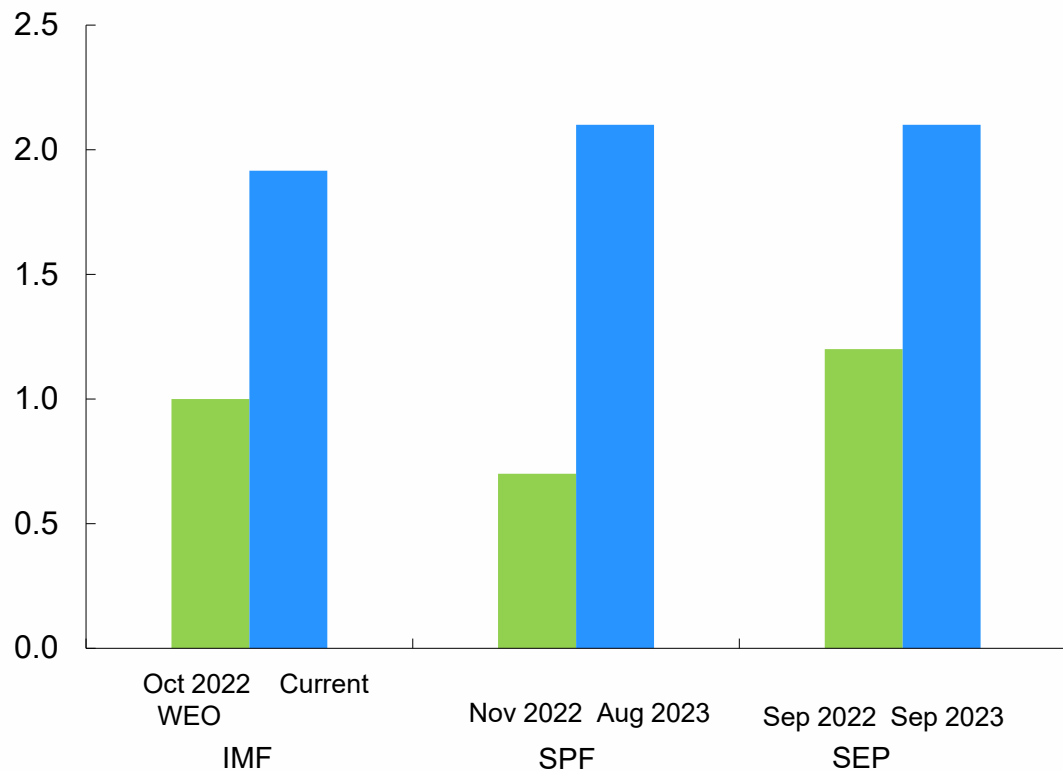
Recent Developments in the United States



Resilient demand and strong but softening labor market

Demand is proving far more resilient than expected.

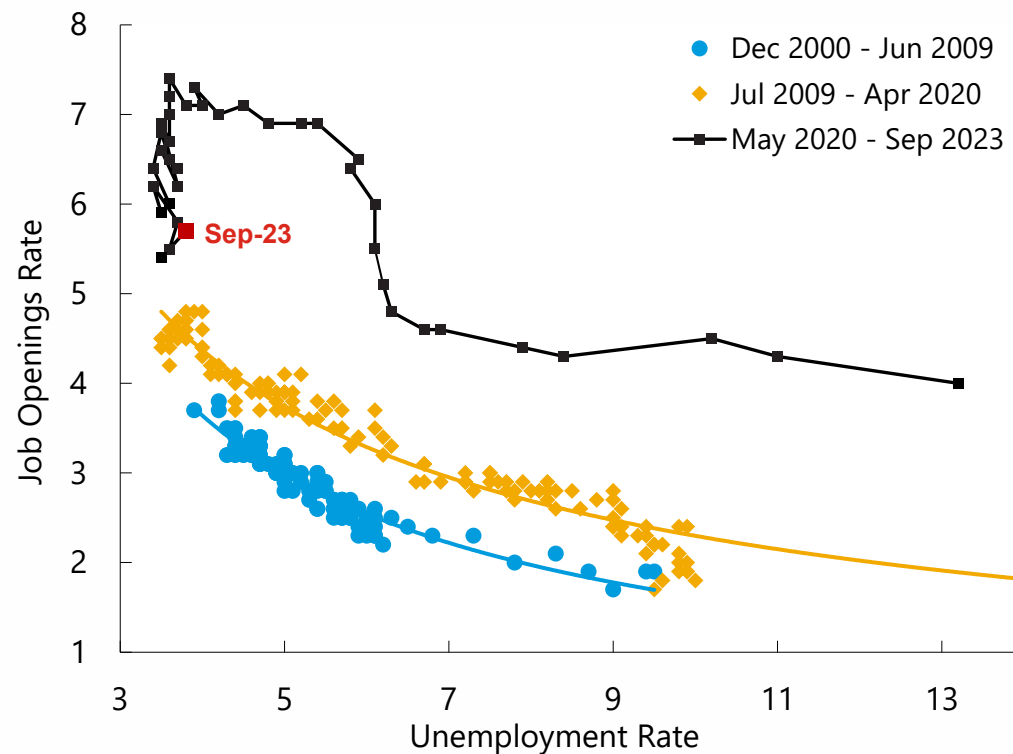
Real GDP Forecast, 2023 (Quarter-over-quarter percent change)



Sources: Federal Reserve Bank of Philadelphia; and IMF staff calculations.
Note: SEP = Summary of Economic Projections (from the Fed every other FOMC meeting); SPF = Survey of Professional Forecaster (published by Philadelphia Fed).

Labor market remain strong though emerging signs of softening.

The Beveridge Curve (Percent)



Source: Bureau of Labor Statistics.

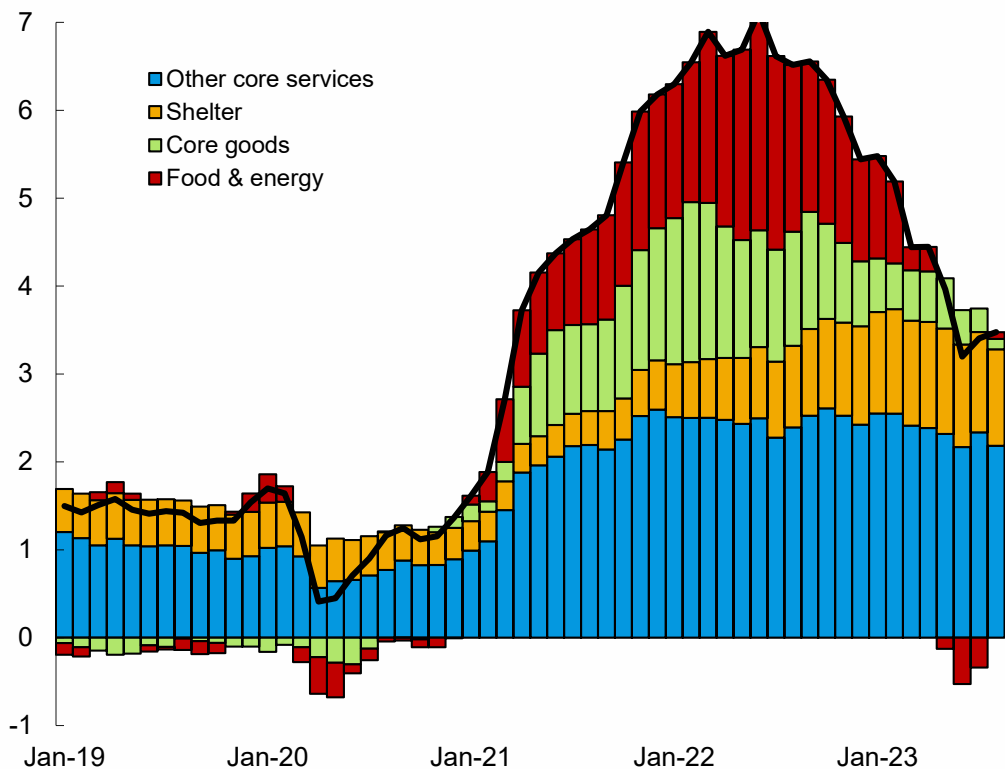


Inflationary pressures are dissipating amid tightening monetary conditions

Underlying inflationary pressures are dissipating though slowly amid tightening monetary policy,...

... and the accompanying sharp rise of long-term interest rates

Contributions to PCE Inflation (Year-over-year percent change)



Sources: BEA, Haver Analytics, and IMF staff calculations.

10-year Treasury Yield (Percent)



Sources: Federal Reserve Bank of San Francisco.

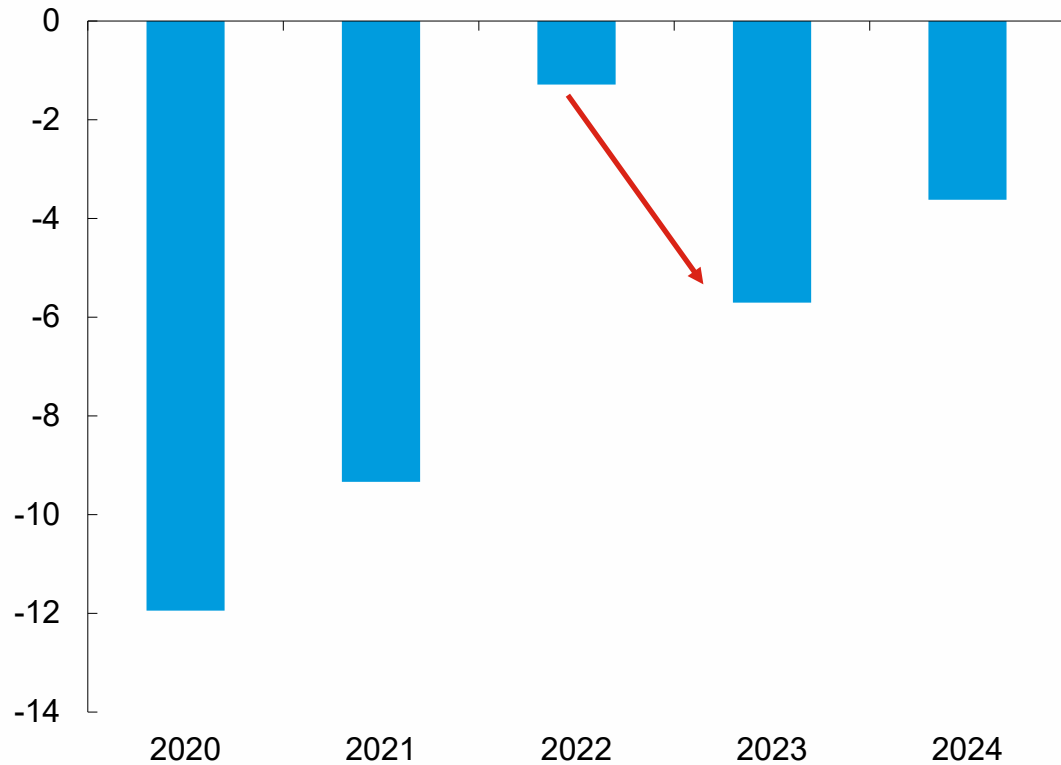


Significant increase in fiscal deficit in 2023, leading to rapidly rising public debt

A significant fiscal expansion this year with uncertainty about 2024...

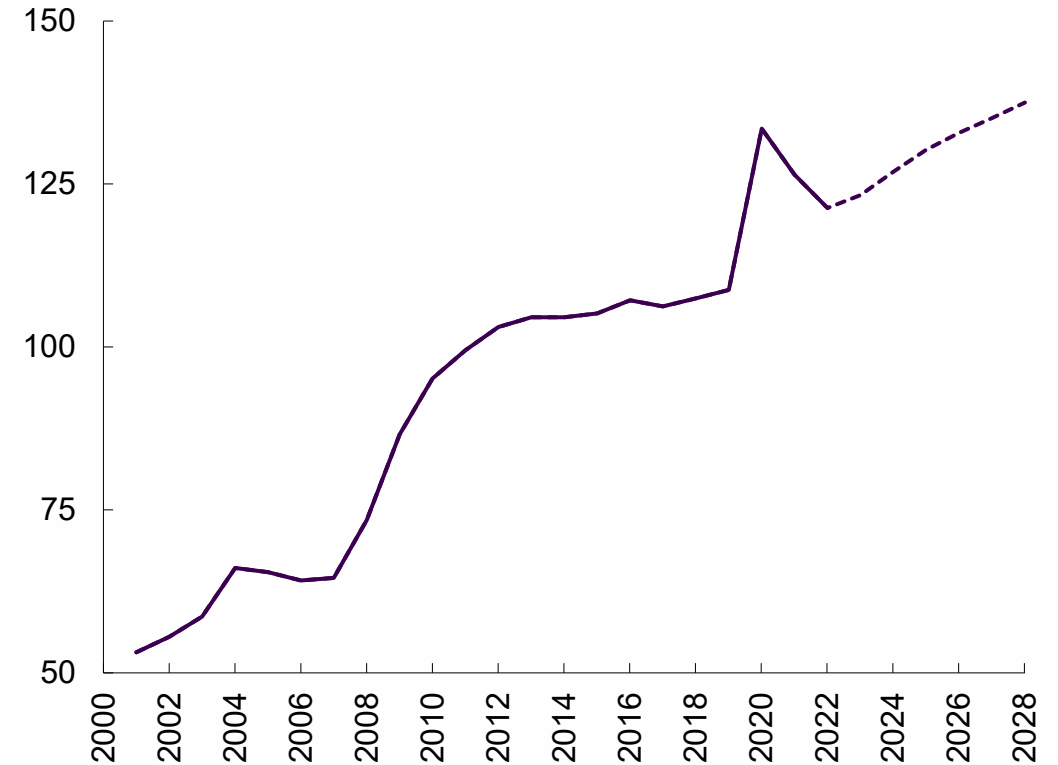
...is adding to rapidly rising public debt.

General Government Primary Deficit (Percent of GDP)



Sources: Congressional Budget Office; and IMF staff calculations.

US Government Gross Debt (Percent of fiscal year GDP)



Sources: Congressional Budget Office; Department of Treasury; and IMF staff calculations.

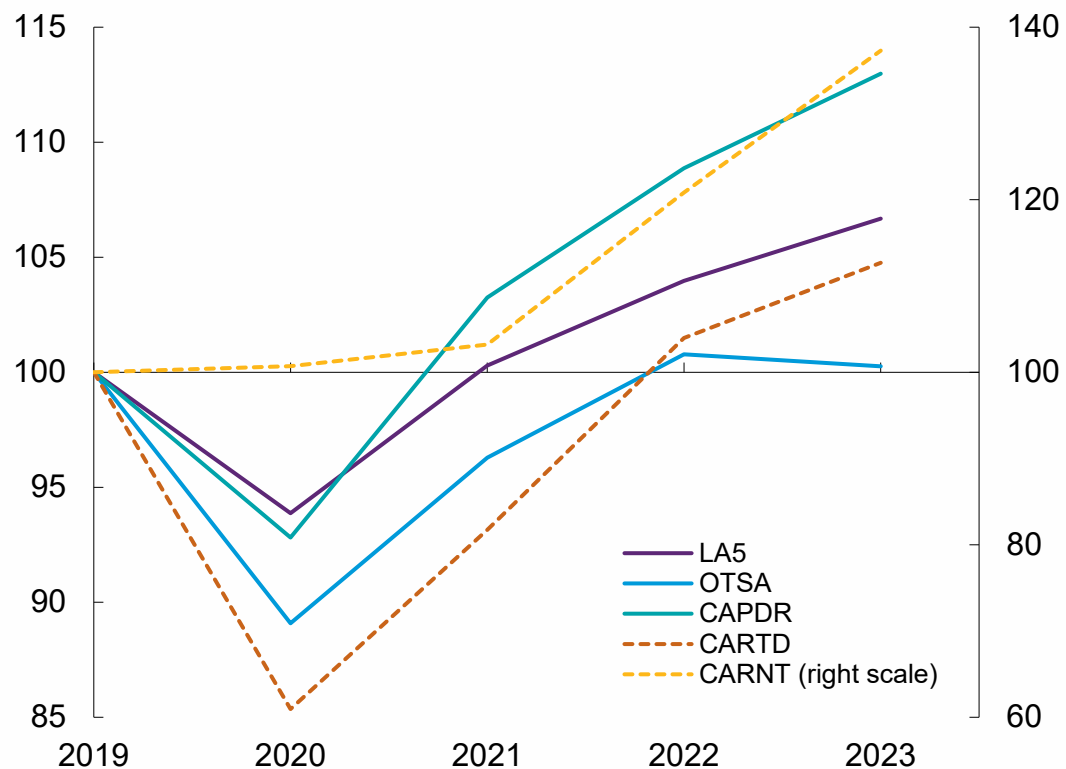
Recent Developments in LAC

After a strong rebound, output growth is decelerating

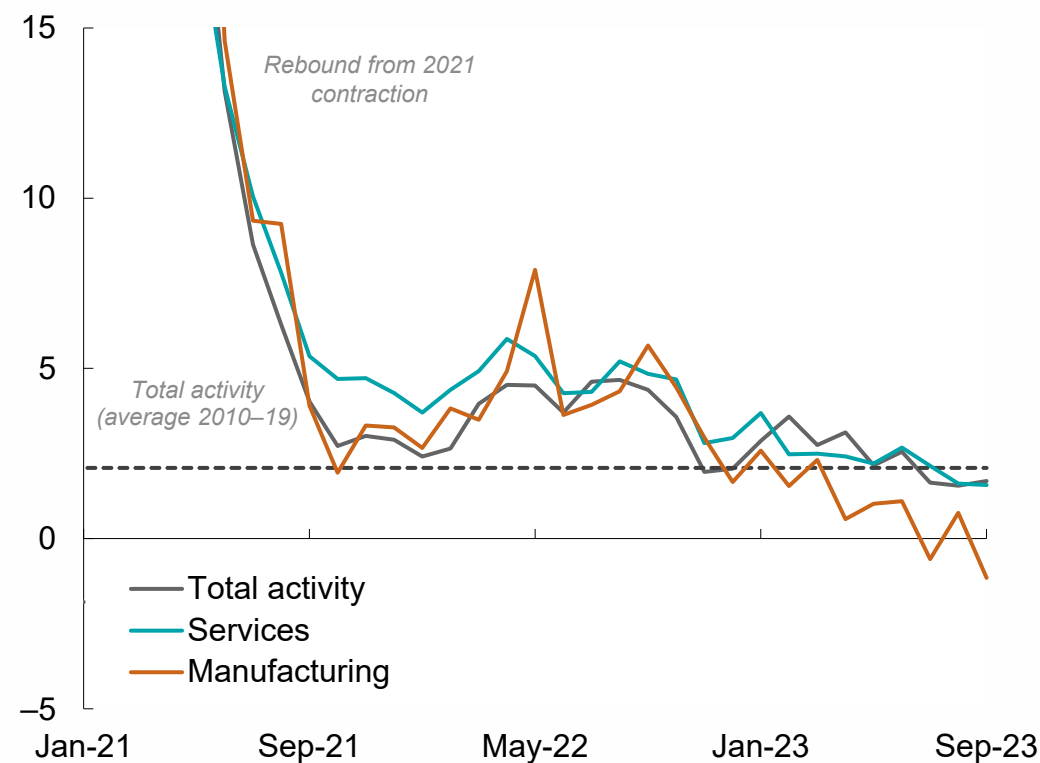
LAC's growth is decelerating after a strong recovery from the pandemic...

... driven mainly by a weakening in manufacturing

LAC: Real GDP
(Index 2019 = 100)



LA5: Economic Activity Indicator
(Index)



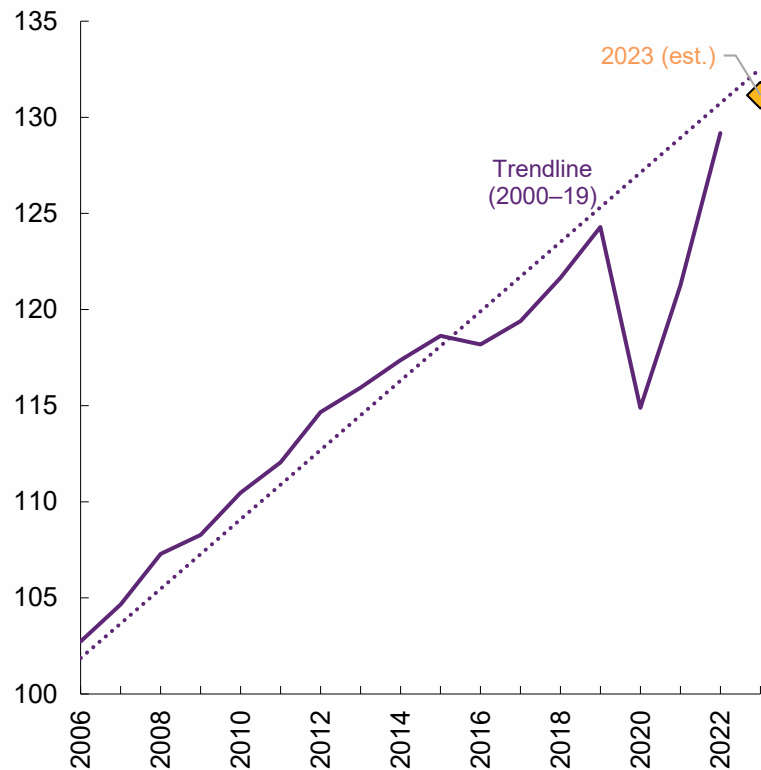
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. CAPDR = Central America, Panama, and the Dominican Republic; CARNT = Caribbean: non-tourism dependent; CARTD = Caribbean: tourism dependent; LA5 = Brazil, Chile, Colombia, Mexico, Peru; Other SA = other South America.

Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages.

Labor markets in the region are strong

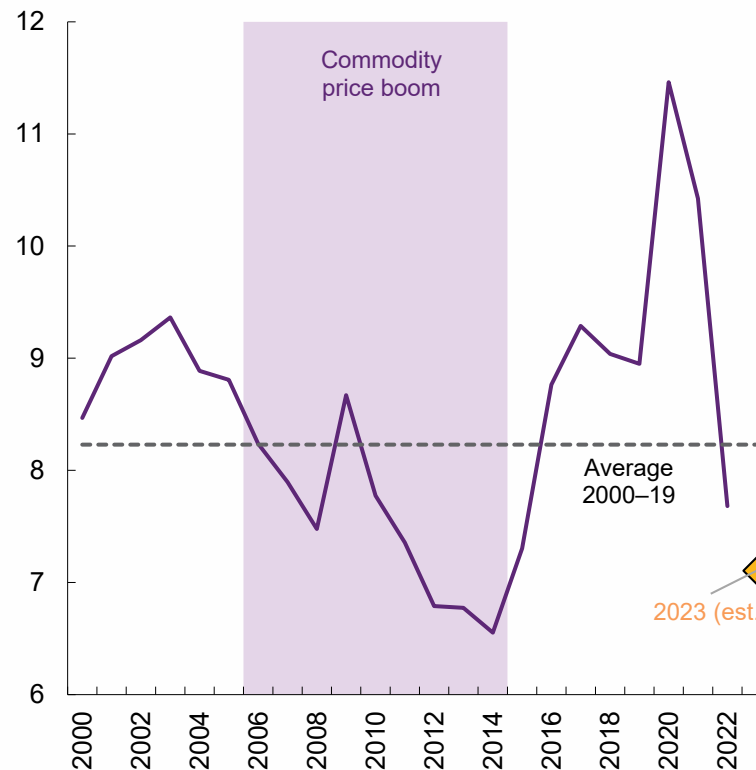
Employment has returned close to the pre-pandemic trend...

LA5: Employment
(Index: 2005 = 100)



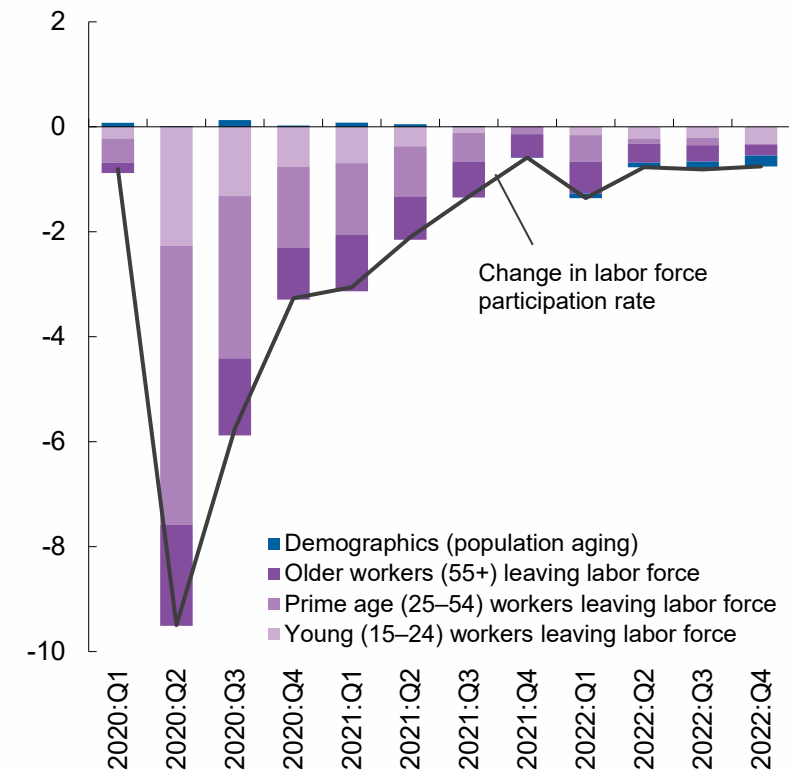
... and unemployment has fallen sharply...

LA5: Unemployment Rate
(Percent)



... as labor force participation has plateaued at a lower level

LA5: Decomposition of Participation Rate
(Percentage points change since 2019)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Labor force-weighted average. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

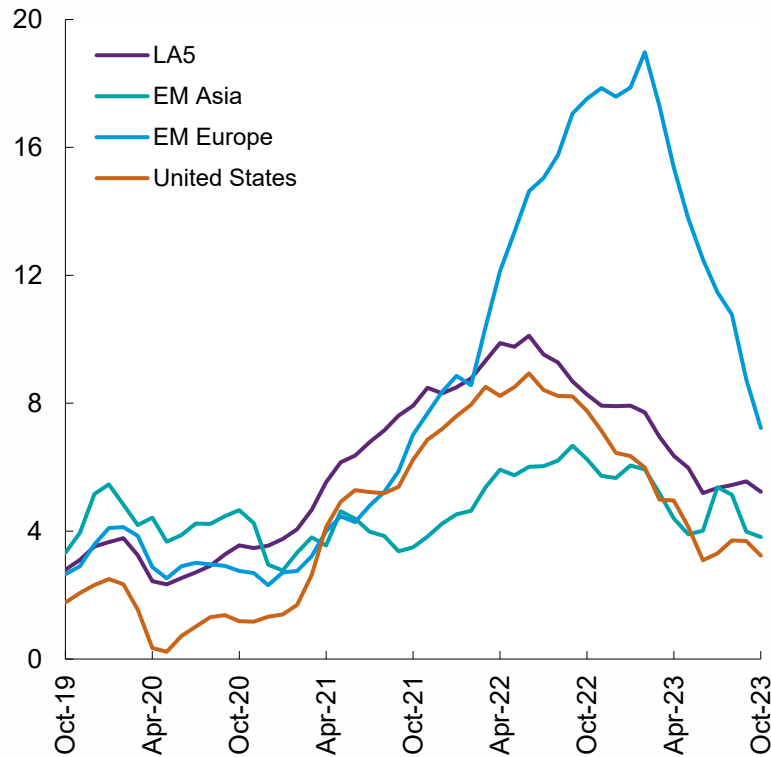
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Labor force-weighted average. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

Sources: International Labour Organization (ILOSTAT); and IMF staff calculations.
Note: Aggregates are sums. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

Inflation is declining...

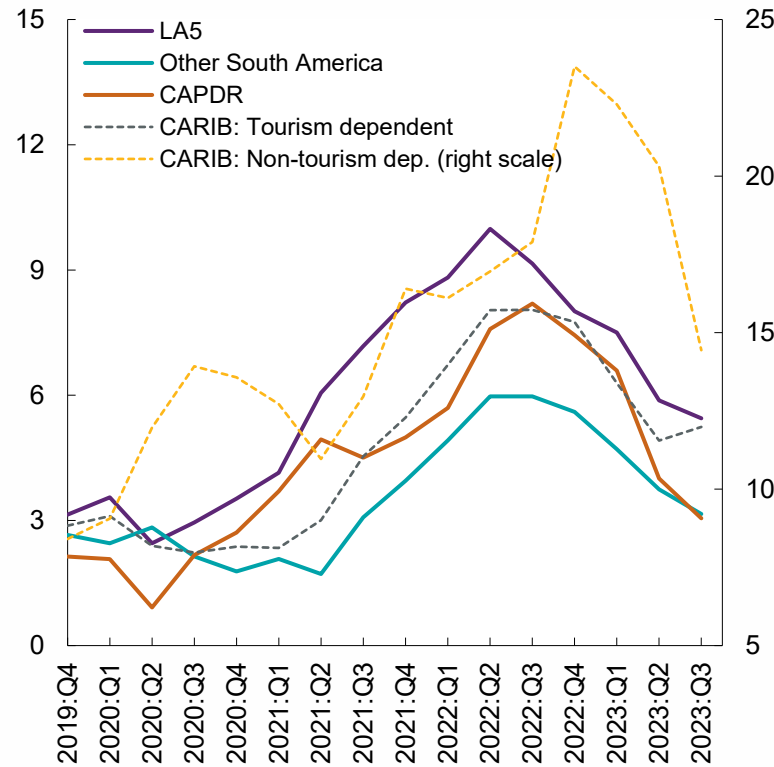
Headline inflation has fallen globally...

**LA5 and Peer Groups:
Headline Consumer Price Inflation**
(Year-over-year percent change)



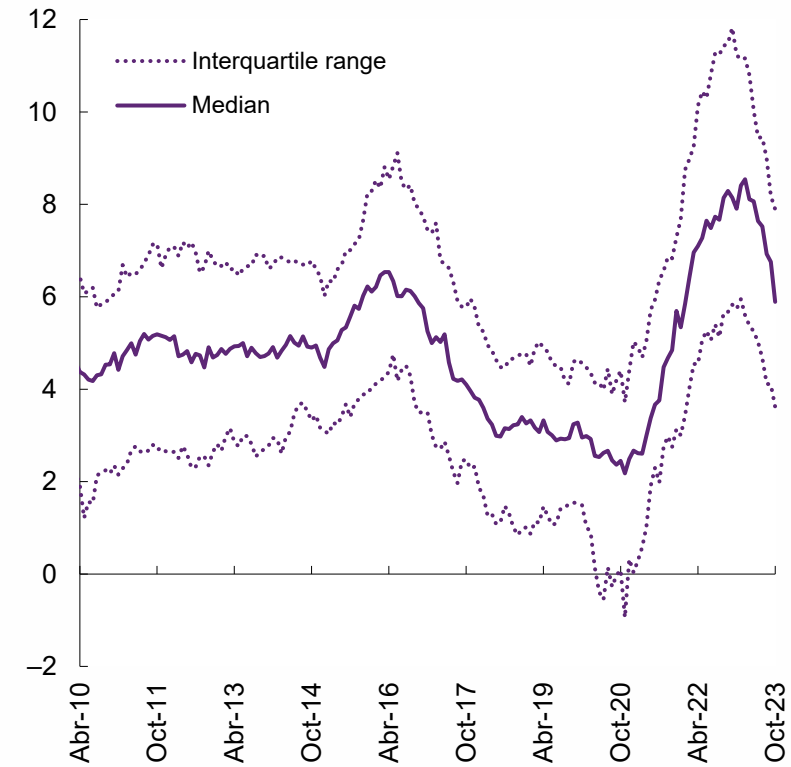
... including across the LAC region

LAC: Headline Consumer Price Inflation
(Quarterly average; year-over-year percent change)



Core price pressures are also receding

**Selected LA5 Economies:
Core Inflation Distribution**
(Year-over-year percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. EM Asia = emerging markets Asia (India, Indonesia, Malaysia, Philippines, Thailand, Vietnam); EM Europe = emerging markets Europe (Hungary, Poland, Romania, Serbia); LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru)

Sources: Haver Analytics; IMF, International Financial Statistics database; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LA5 = BRA, CHL, COL, MEX, PER; Other SA = Other South America (excl. ARG and VEN).

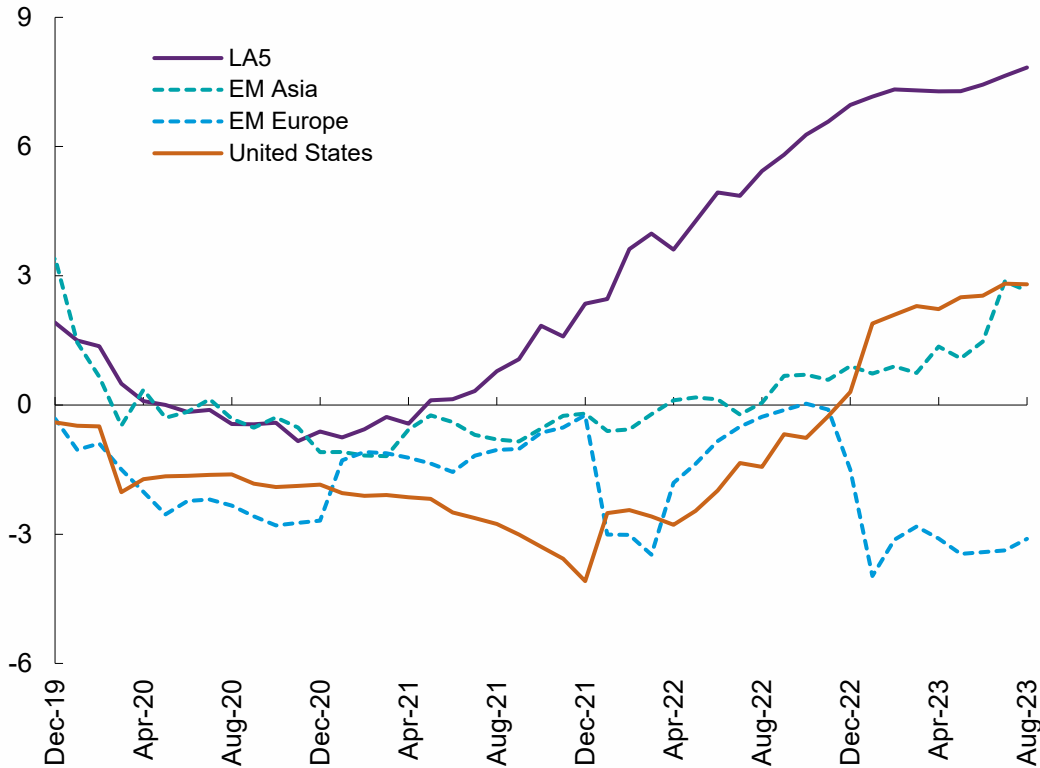
Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Core goods exclude food, transport, and housing items. Core services exclude transport and housing items. Interquartile range refers to item-level annual inflation. Includes Brazil, Chile, Colombia, and Mexico.

... on the back of decisive monetary policy action and easing global price pressures

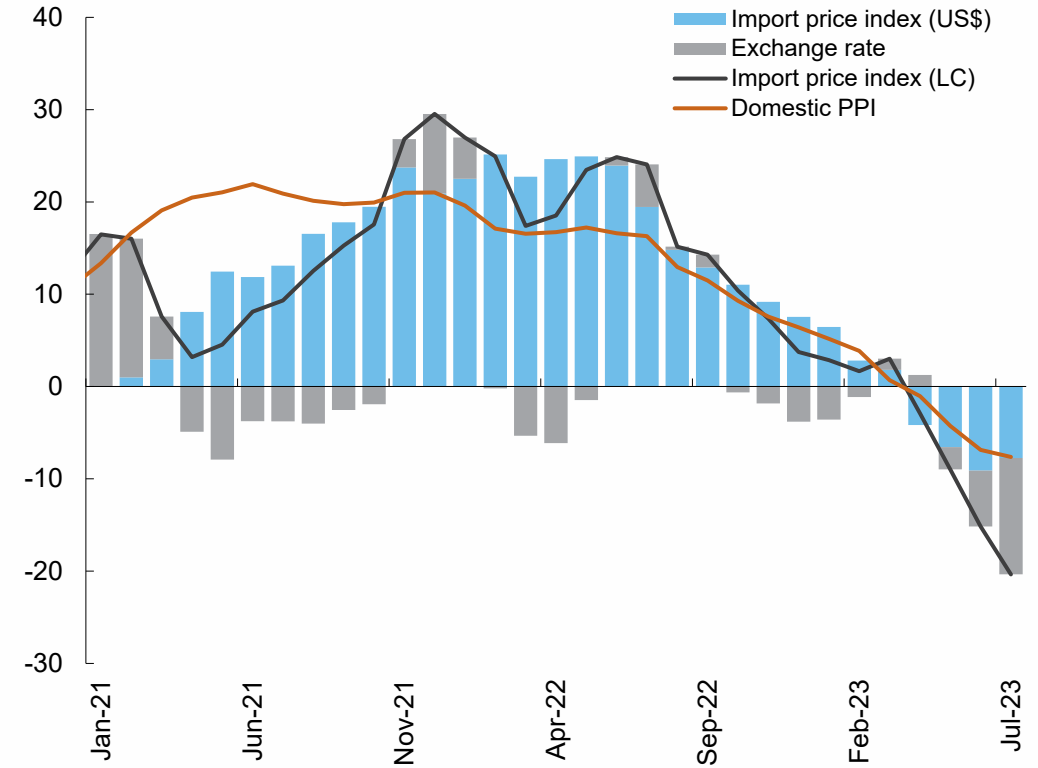
Real policy rates have risen sharply, including relative to other economies, commensurate with the magnitude of the inflation shock

Falling import prices and currency appreciation have also contributed to inflation decline

LA5 and Peer Economies: Real Monetary Policy Rates (Percent)



Selected LA5 Economies: Imported Inflation (Year-over-year percent change)



Sources: Consensus Economics; Haver Analytics; national authorities; and IMF staff calculations.
 Note: Ex ante real policy rate (the difference between nominal policy rate and one-year ahead inflation expectations) are reported. Aggregates are PPP GDP-weighted averages. EM Asia = IND, IDN, MYS, PHL, THA, VNM; EM Europe = HUN, POL, ROU, SRB; LA5 = BRA, CHL, COL, MEX, PER.

Sources: Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
 Note: Aggregates are purchasing-power-parity GDP-weighted average. Includes Brazil, Colombia, Mexico, and Peru. Excludes Chile due to data availability.



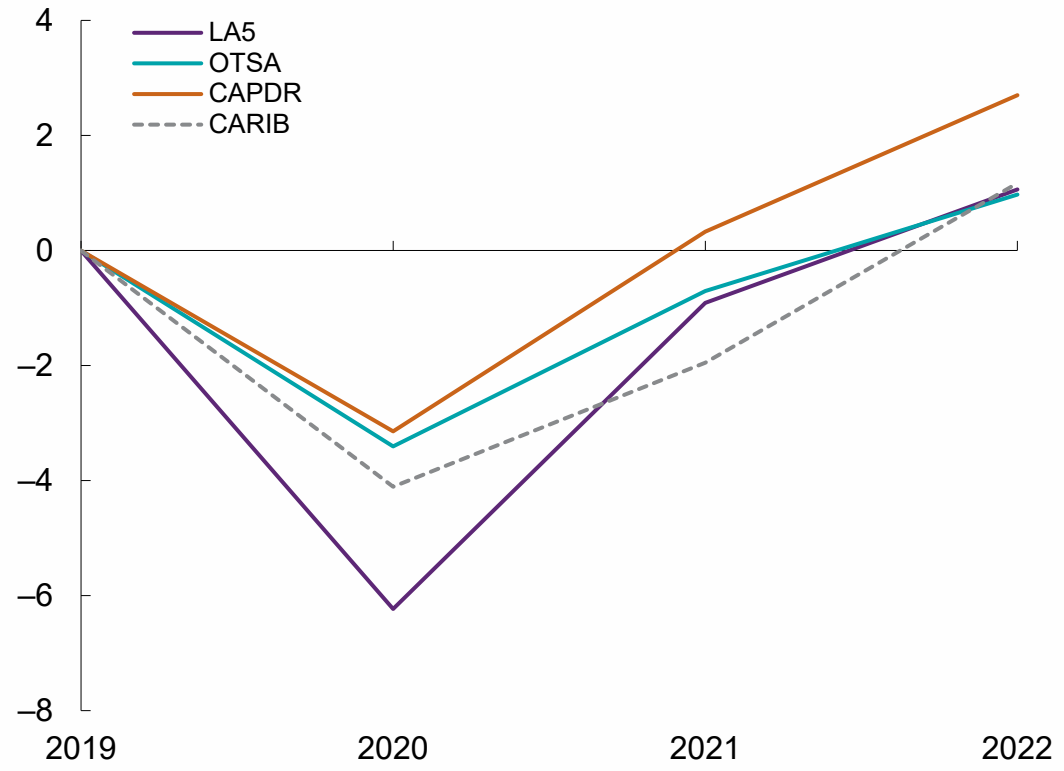
Timely fiscal withdrawal also helped contain price pressures

LAC's pandemic-related fiscal stimulus has been unwound...

... faster than in other EMs and AEs

LAC Subregions: General Government Primary Balance

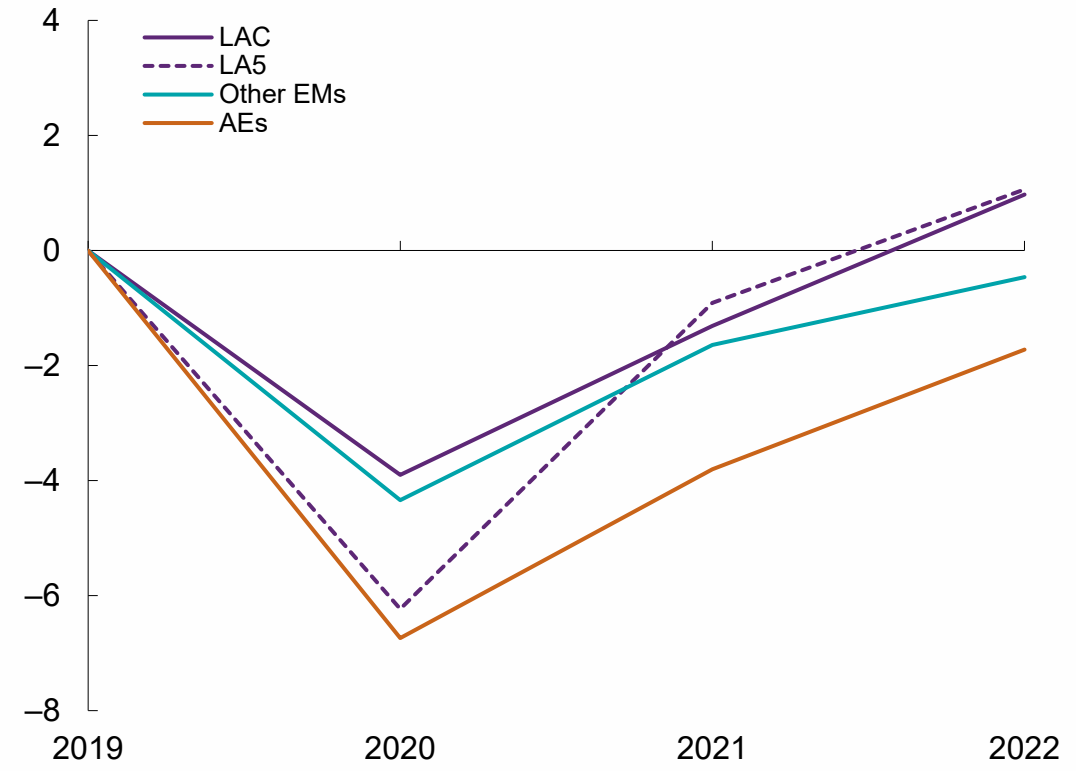
(Cumulative changes; percentage points of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
 Note: Aggregates are medians. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LAC = Latin America and the Caribbean; LA5 = Brazil, Chile, Colombia, Mexico, Peru; OTSA = other South America (Bolivia, Ecuador, Paraguay, Uruguay).

LAC and Other Economies: General Government Primary Balance

(Cumulative changes; percentage points of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
 Note: Aggregates are medians. AEs = advanced economies; LAC = Latin America and the Caribbean (excl. Argentina/Venezuela); LA5 = Brazil, Chile, Colombia, Mexico, Peru; Other EMs = emerging markets (excl. LAC/China).

Outlook and Risks for LAC

Slowing growth, declining inflation

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

	Real GDP Growth				Headline Inflation, end of period			
	2021	2022	Projections		2021	2022	Projections	
			2023	2024			2023	2024
United States	5.9	2.1	2.1	1.5	7.4	6.4	3.0	2.6
Canada	5.0	3.4	1.3	1.6	4.7	6.6	2.7	2.1
Latin America and the Caribbean (LAC)	7.3	4.1	2.3	2.3	11.5	14.6	13.6	8.8
LAC excluding Argentina and Venezuela	7.1	4.0	2.8	2.2	7.8	7.8	5.0	3.6
South America	7.5	3.8	1.6	2.0	14.1	18.3	19.1	11.9
CAPDR	11.2	5.4	3.8	3.9	5.1	7.3	3.4	3.5
Caribbean								
Tourism Dependent	9.1	9.0	3.2	2.3	5.2	7.4	4.1	3.5
Non-Tourism Dependent	2.5	17.1	13.6	11.6	11.8	20.4	13.0	7.4
Of which: Commodity Exporters	4.8	25.4	19.3	15.0	11.1	13.0	7.2	5.6
<i>Memorandum items:</i>								
LA5	6.8	3.7	2.6	1.9	8.3	7.8	5.1	3.6
Brazil	5.0	2.9	3.1	1.5	10.1	5.8	4.9	3.9
Chile	11.7	2.4	-0.5	1.6	7.1	12.8	4.5	3.0
Colombia	11.0	7.3	1.4	2.0	5.6	13.1	8.8	4.5
Mexico	5.8	3.9	3.2	2.1	7.4	7.8	4.5	3.2
Peru	13.3	2.7	1.1	2.7	6.4	8.5	4.2	2.2

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 April 2023 WEO forecasts. For **inflation**, red/green denotes upward/downward revision compared with the April 2023 WEO forecasts. All inflation aggregates exclude Venezuela. WEO data as of September 26, 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.

Risks are more balanced but still tilted to the downside

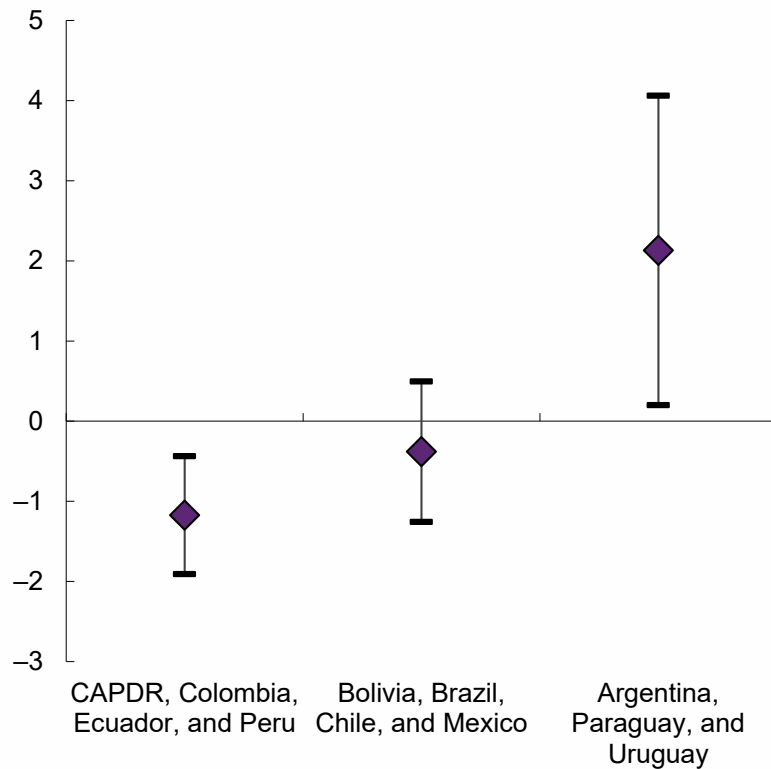
- Lower growth in key trading partners
- **Greater commodity price volatility**
- New bouts of global inflationary pressures
- **Renewed financial market turbulence**
- **Climate-related shocks**
- Monetary and fiscal policy slippages
- **Increased crime and social tensions**

- A more benign global environment
- Inflation declines faster than anticipated
- Lower scarring from recent shocks
- Abundance of “green metals”

Climate-related shocks pose notable risks

In the short run, El Niño could negatively affect economic activity in some countries

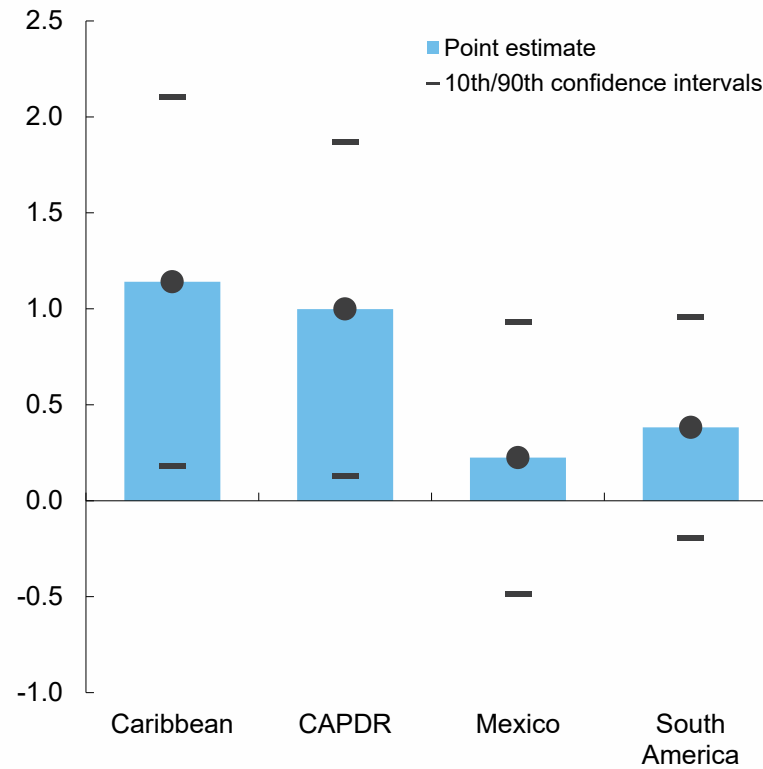
Impact of El Niño on Output
(Percent; cumulative impact; Quarter 6)



Source: IMF staff calculations.
Note: Shows the estimated impact of El Niño events on GDP using the local projection method in a cross-country panel. 10th/90th percentile confidence intervals shown.

In the medium-term, climate-related shocks pose risks through the impact on migration, ...

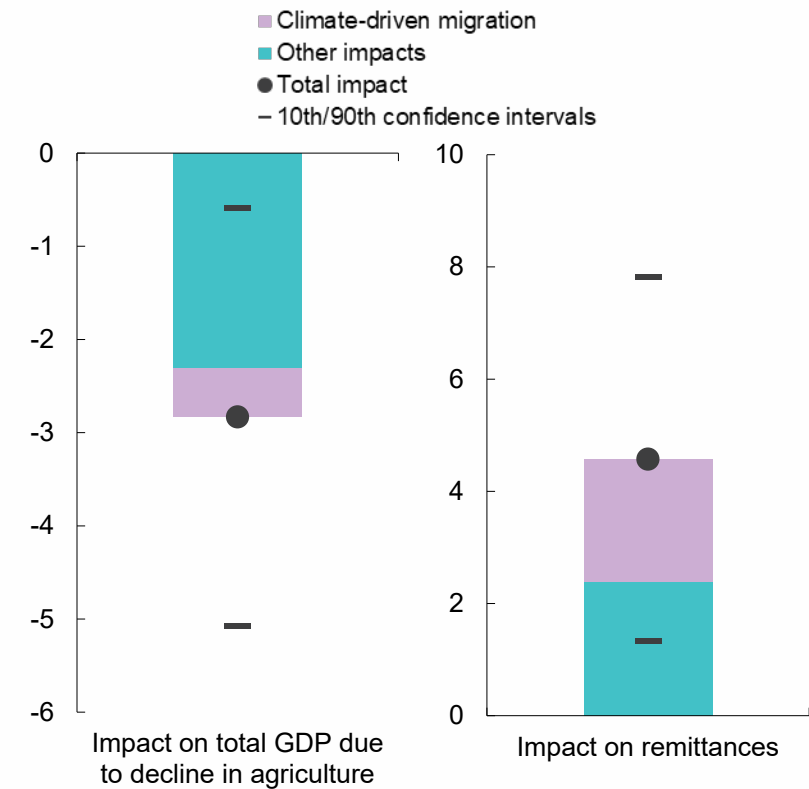
Impact of Climate Disasters on Migration
(Impact of one-standard deviation in frequency of climate disasters; percent of initial population)



Sources: EM-DAT International Disaster database; United Nations Population Division Global Migration database; World Bank, World Development Indicators database; and IMF staff calculations.
Note: This figure presents results from specifications regressing the identified origin factors of migration outflows on natural disasters. Origin factors are estimated using the method proposed in Amity and Weinstein (2018) and measured as percent of the initial population.

... which can lead to reduced agricultural output that could be partially offset by the increase in remittances

Impact of Climate on Economic Outcomes
(Percent of total GDP)



Sources: EM-DAT International Disaster database; United Nations Population Division Global Migration database; World Bank, World Development Indicators database; and IMF staff calculations.
Note: This figure depicts the impact of natural disasters on selected macroeconomic variables for CAPDR and the Caribbean. The dependent variables are agricultural GDP and remittances measured as percent of total GDP.

Policy Priorities for LAC

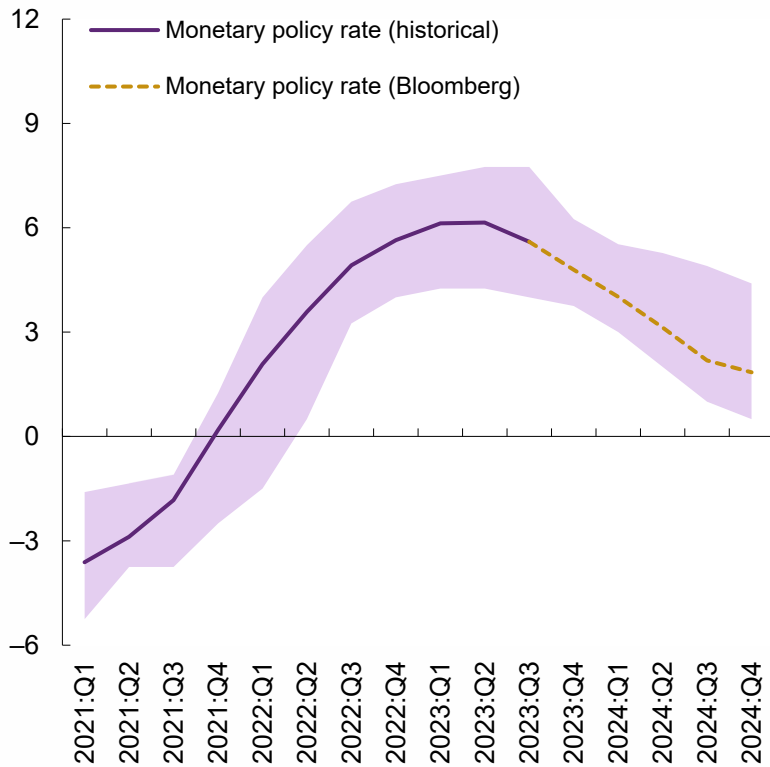
Monetary easing should proceed, mindful of risks

Absent new shocks, monetary easing is expected to proceed at a gradual pace, ...

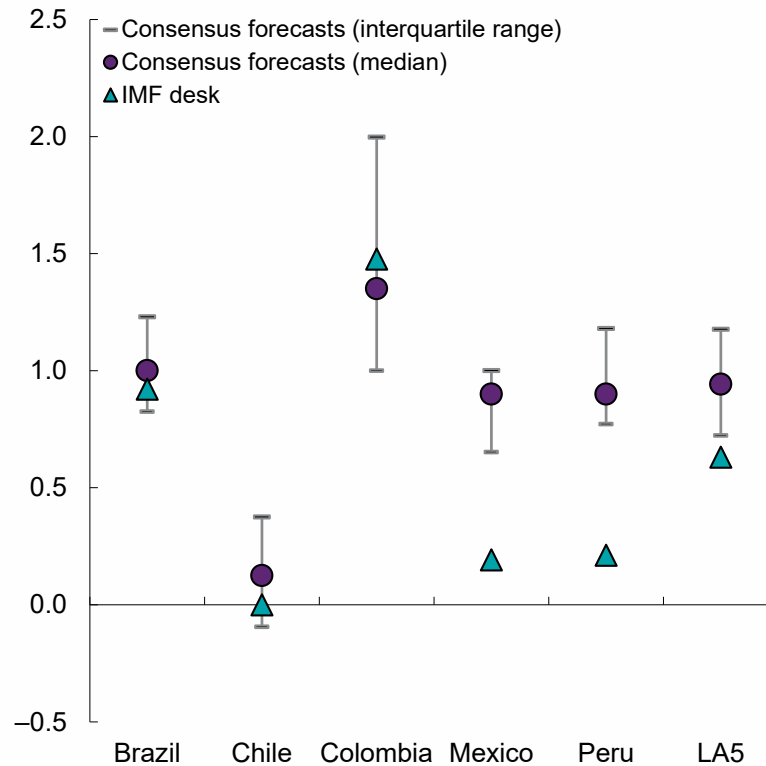
... as near-term inflation expectations remain elevated...

... and most economies are operating above potential

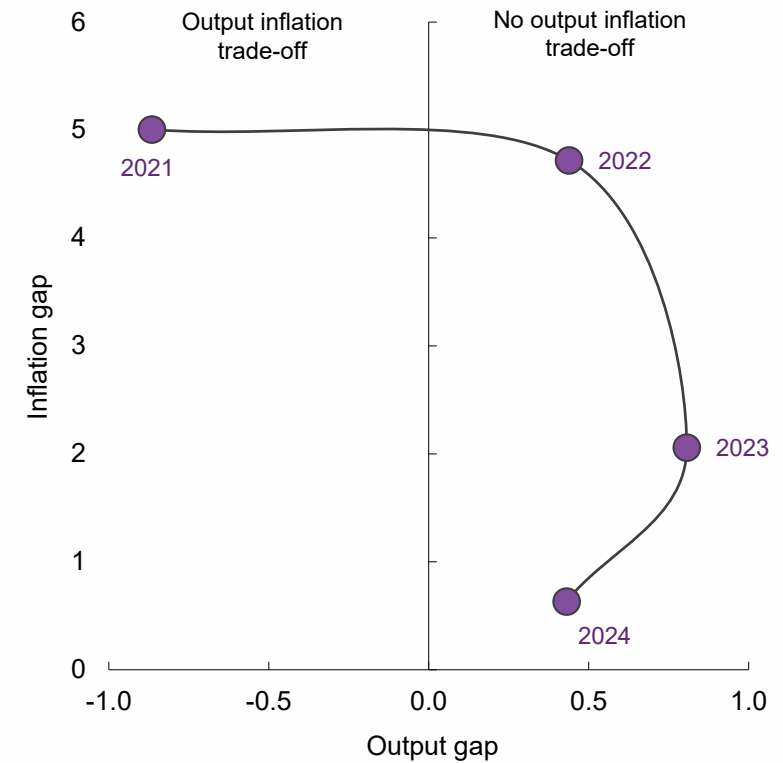
LA5: Monetary Policy Rate and Inflation
(Percentage points; deviation from neutral rate and inflation target)



Distribution of Headline Inflation Expectation, 2024
(Deviation from inflation target; percentage points)



LA5: Inflation Gap and Output Gap
(Percent)



Sources: Bloomberg Finance L.P.; Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted average. Monetary policy rates are in deviation from neutral. Inflation is in deviation from target. Shaded area refers to the min-max range. LA5 = Brazil, Chile, Colombia, Mexico, Peru

Sources: Consensus Economics; and IMF staff calculations.
Note: LA5 is purchasing-power-parity GDP-weighted average. Projections for end-2024. Consensus forecasts taken from the August 2023 survey. IMF desk projections from October 2023 WEO.

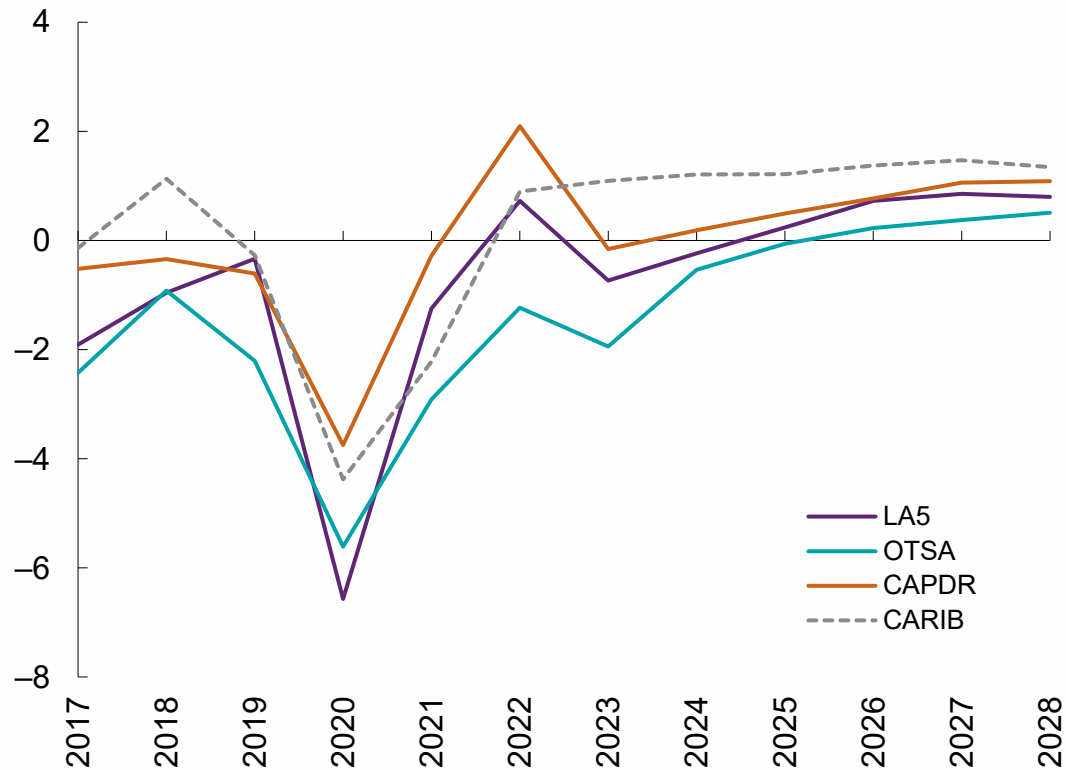
Source: IMF staff calculations.
Note: Inflation gap is the deviation of end-of period inflation from the inflation target.

Despite ambitious fiscal consolidation plans...

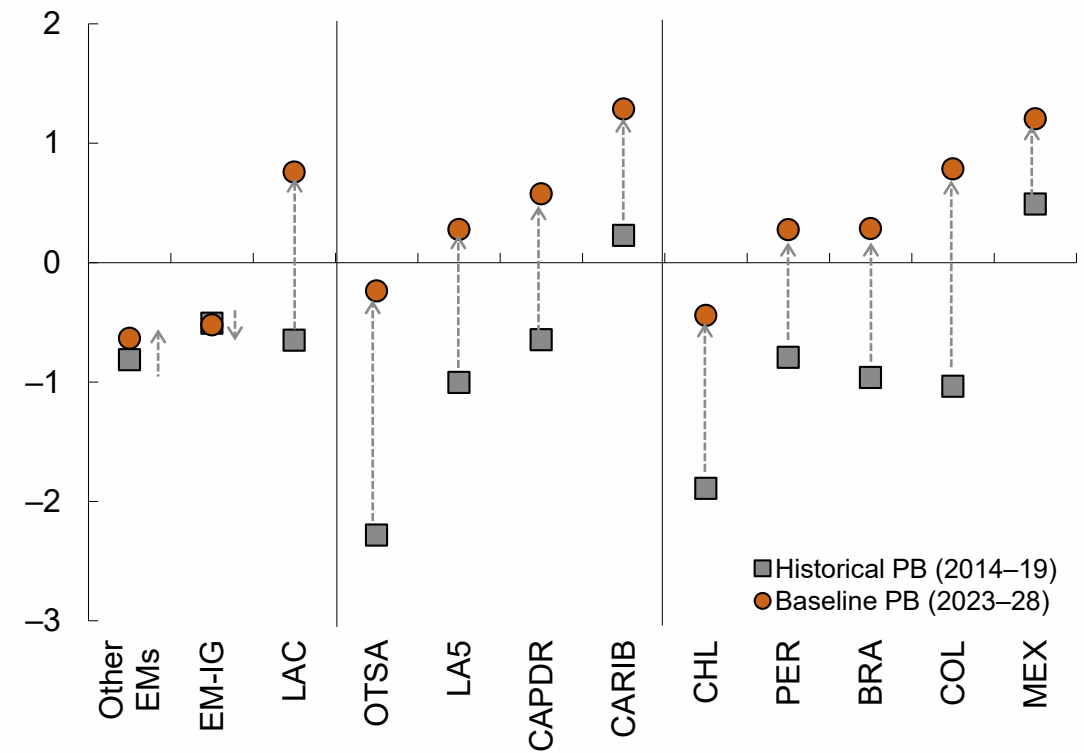
Envisaged fiscal paths ...

... are ambitious by historical standards

LAC Subregions: Primary Balance (Percent of GDP)



General Government Primary Balance (Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Aggregates are medians. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LAC = Latin America and the Caribbean (excl. ARG/VEN); LA5 = BRA, CHL, COL, MEX, PER; Other EMs = emerging markets (excl. LAC/China); OTSA = other South America (Bolivia, Ecuador, Paraguay, Uruguay).

Sources: IMF, World Economic Outlook database; and IMF staff calculations.

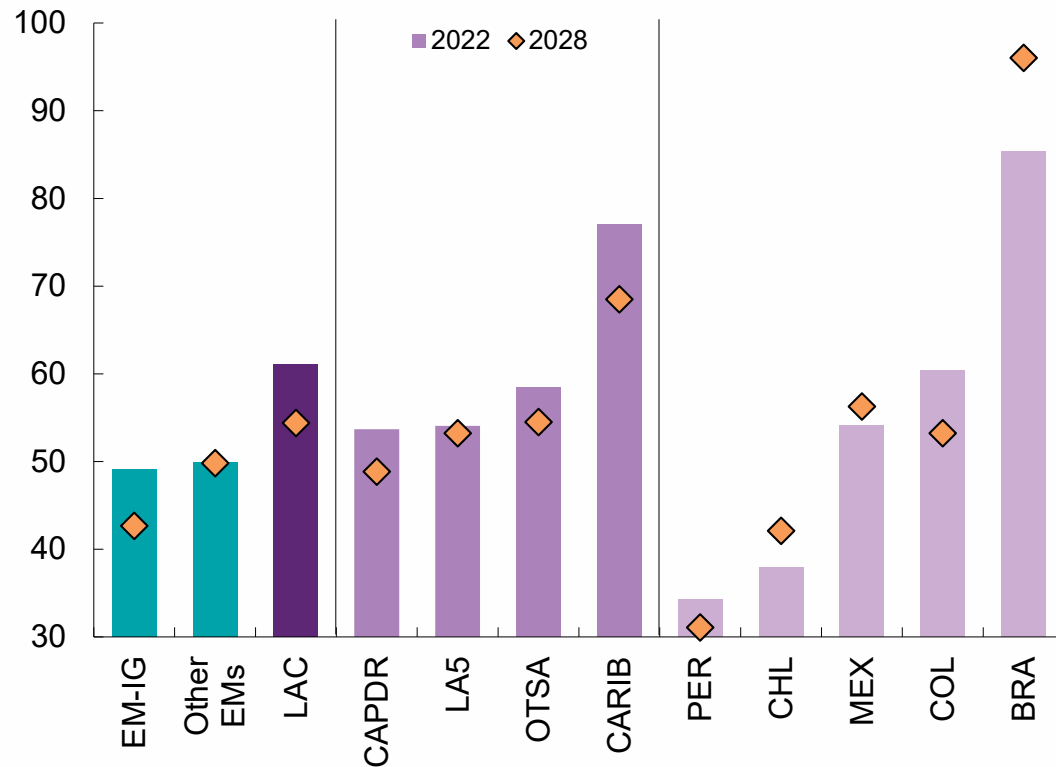
Note: Aggregates are medians. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; LA5 = BRA, CHL, COL, MEX, PER; OTSA = other South America (Bolivia, Ecuador, Paraguay, Uruguay).

... public debt is expected to remain elevated

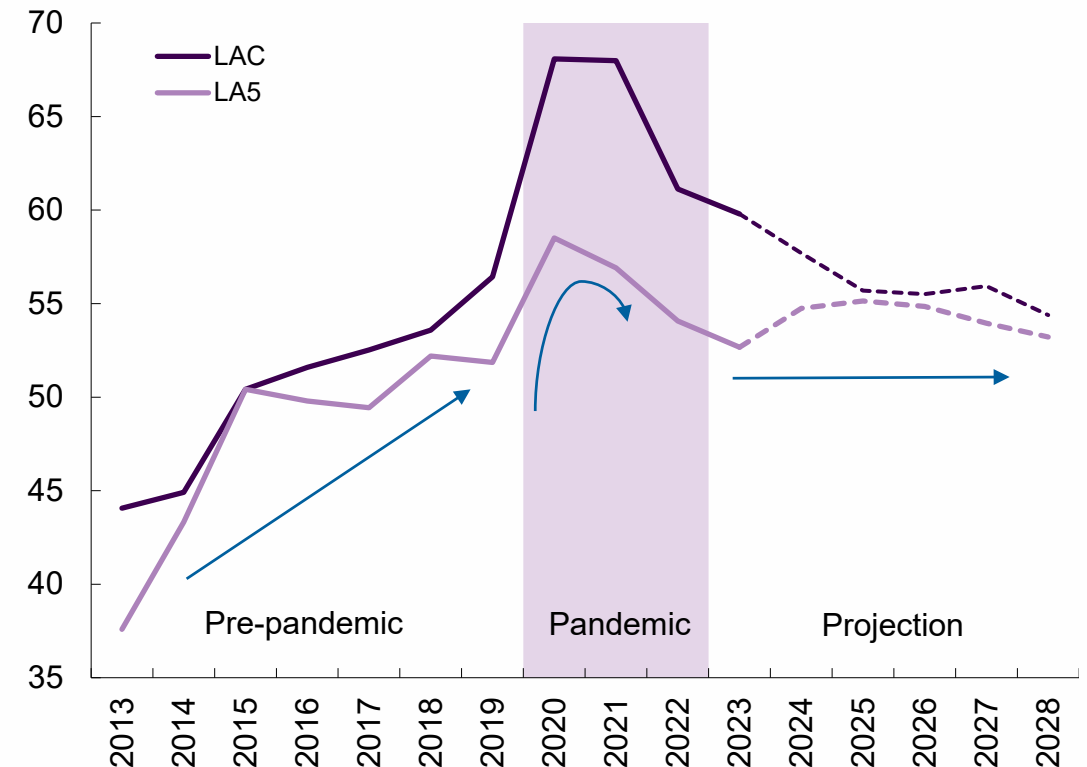
Public debt is high relative to peer economies...

... and is projected to decline only gradually

**General Government Gross Debt
(Percent of GDP)**



**LAC and LA5: General Government Gross Debt
(Percent of GDP)**



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Aggregates are medians. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; EM-IG = emerging markets investment grade; LAC = Latin America and the Caribbean (excl. ARG/VEN); LA5 = BRA, CHL, COL, MEX, PER; Other EMs = emerging markets (excl. LAC/China); OTSA = other South America (Bolivia, Ecuador, Paraguay, Uruguay).

Sources: IMF, World Economic Outlook database; and IMF staff calculations.

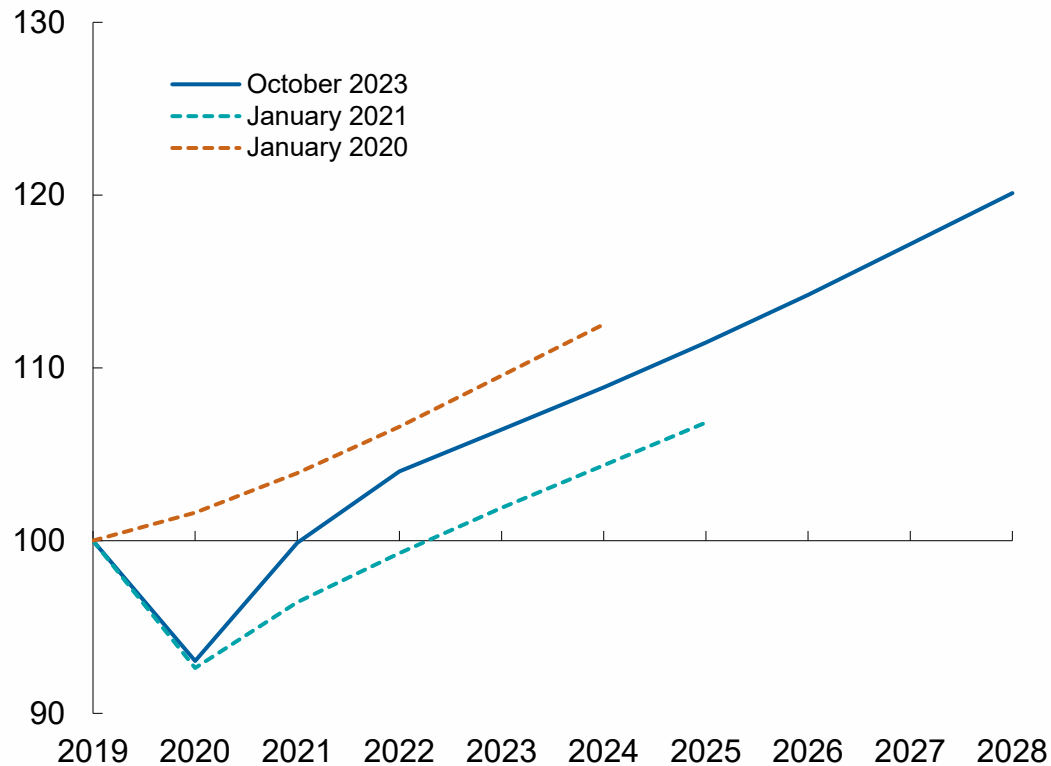
Note: Aggregates are medians. LAC = Latin America and the Caribbean (excl. ARG/VEN); LA5 = Brazil, Chile, Colombia, Mexico, Peru.

Subdued MT growth prospects call for structural reforms

While pandemic scarring has been smaller than originally expected...

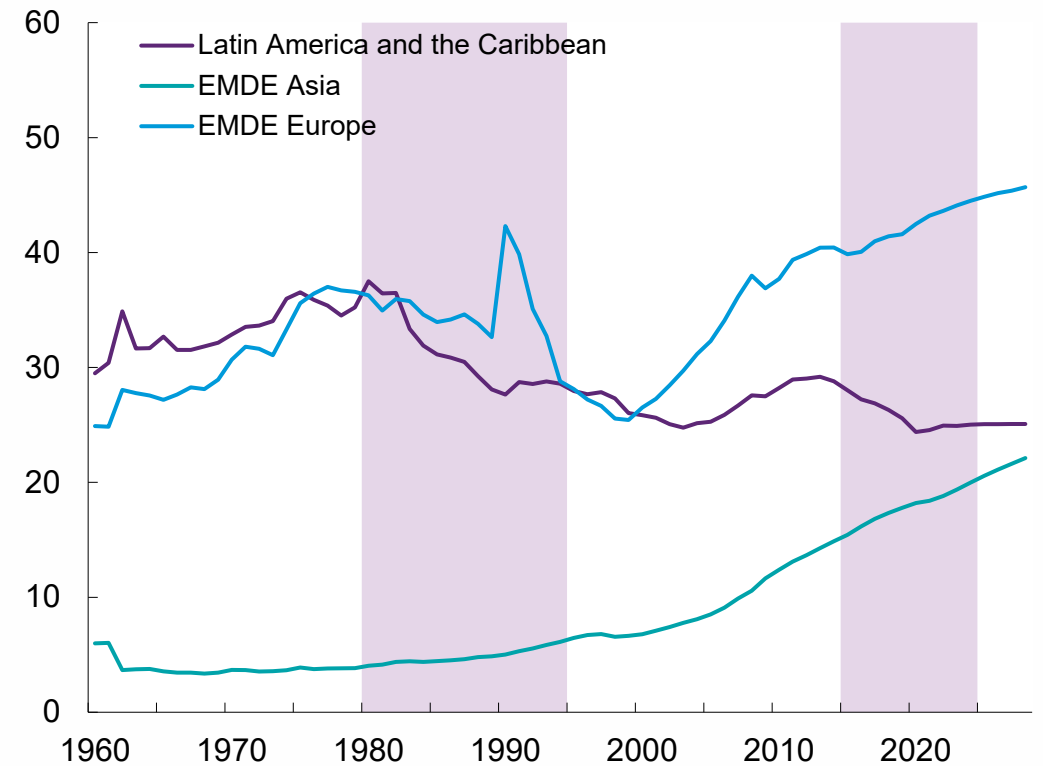
... growth prospects remain subdued and income convergence elusive

LAC: Real GDP by WEO Vintage
(Index: 2019 = 100)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: LAC is purchasing-power-parity GDP-weighted average. LAC = Latin America and the Caribbean.

Real Gross Domestic Product per Capita
(Percent of Real GDP of the US)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: The real GDP per capita is measured in thousands of PPP 2017 international dollars. Shaded areas (1980–94, 2015–24) refer to Latin America and the Caribbean's lost decades. EMDE = emerging market and developing economies; PPP = purchasing power parity.

LAC countries face multiple structural challenges

- **Long-standing structural challenges**
 - *Lackluster productivity and low investment*
 - *Low international trade, including intra regional*
 - *Labor market rigidities and high informality*
 - *High poverty and inequality*

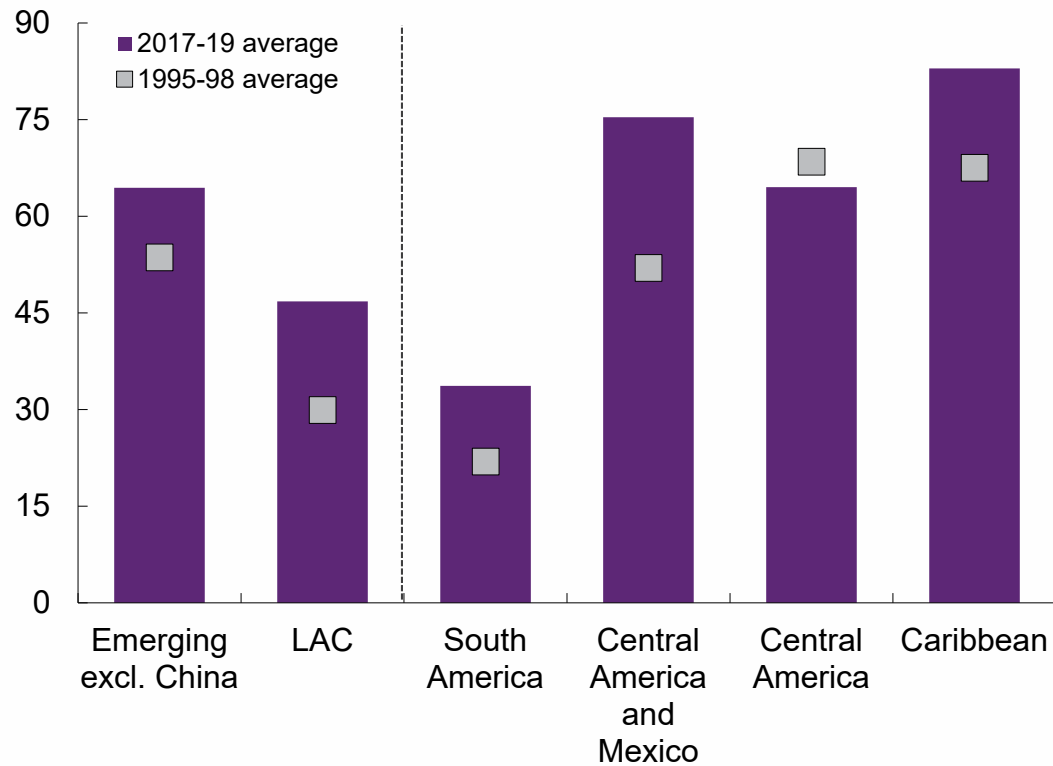
- **New challenges**
 - *Climate change*
 - *Impact of new digital technologies*

The region can boost output by fostering trade...

LAC's trade openness lags that of peer regions

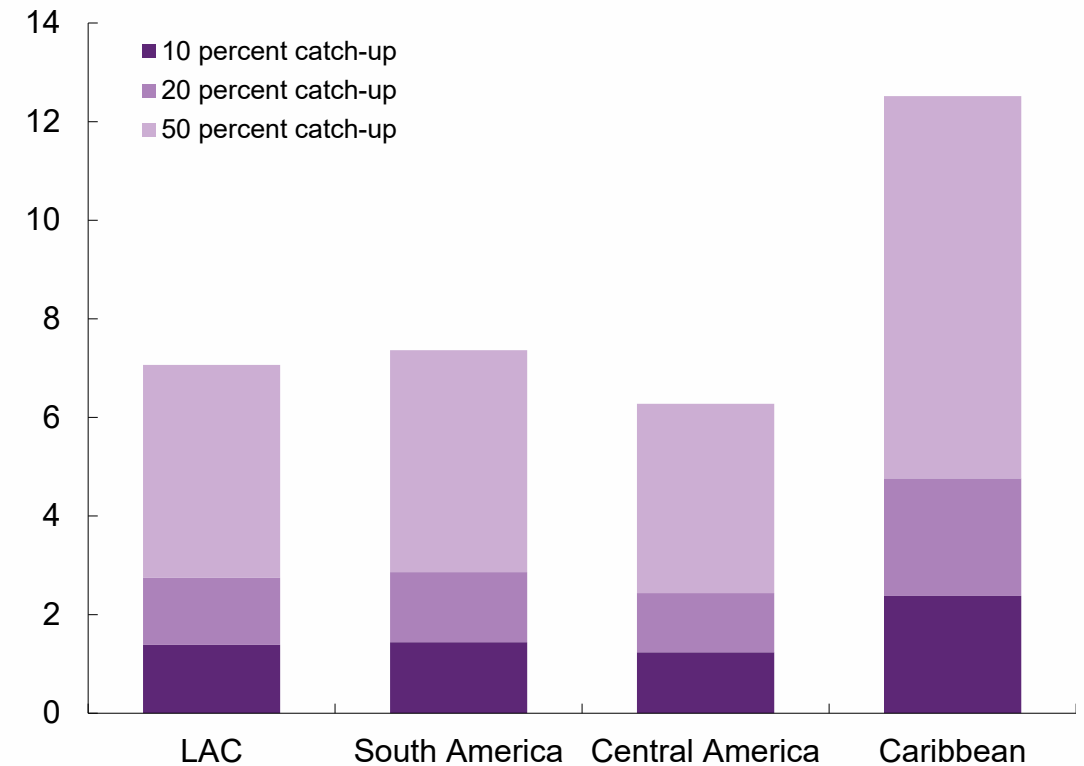
Closing infrastructure gaps would boost trade and growth

Trade Integration
(Total trade of goods and services; percent of GDP)



Sources: IMF, Balance of Payments Statistics database; and IMF staff calculations.
Note: Includes intraregional trade.

Output Gains from Closing Infrastructure Gap
(Percent increase in output relative to baseline)



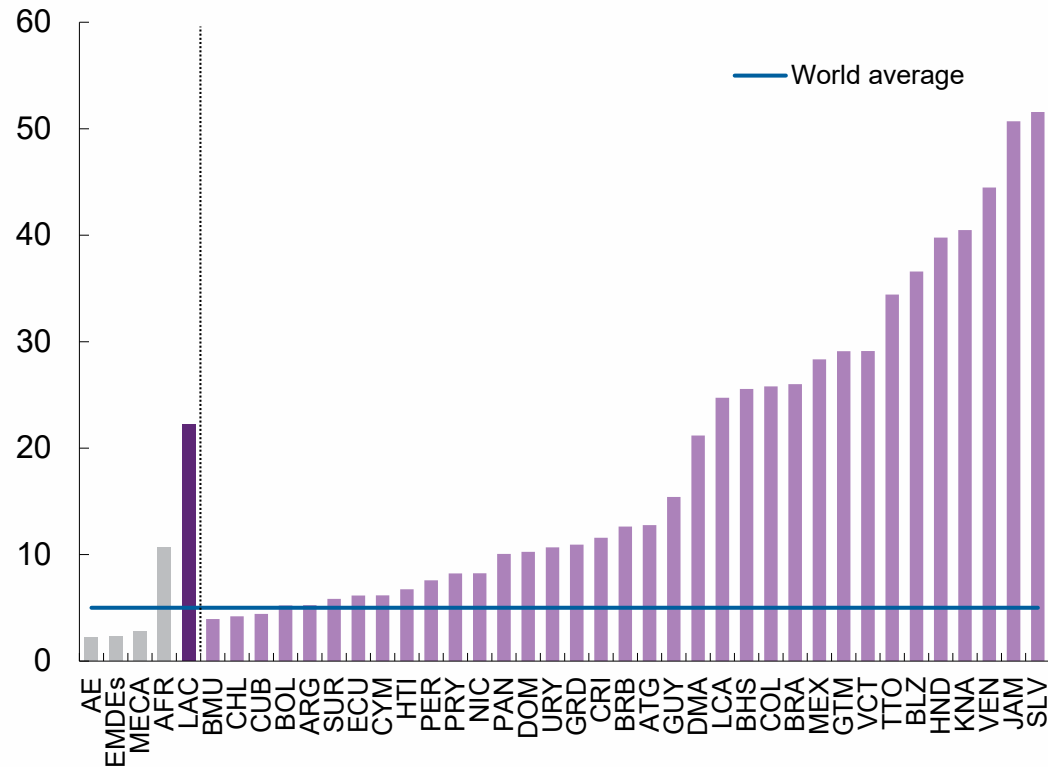
Source: IMF staff calculations.
Note: Results based on a general equilibrium Armington trade model where infrastructure improvements reduce trade costs, increasing trade and output relative to baseline. Central America includes Mexico; LAC = Latin America and the Caribbean.

... and tackling insecurity...

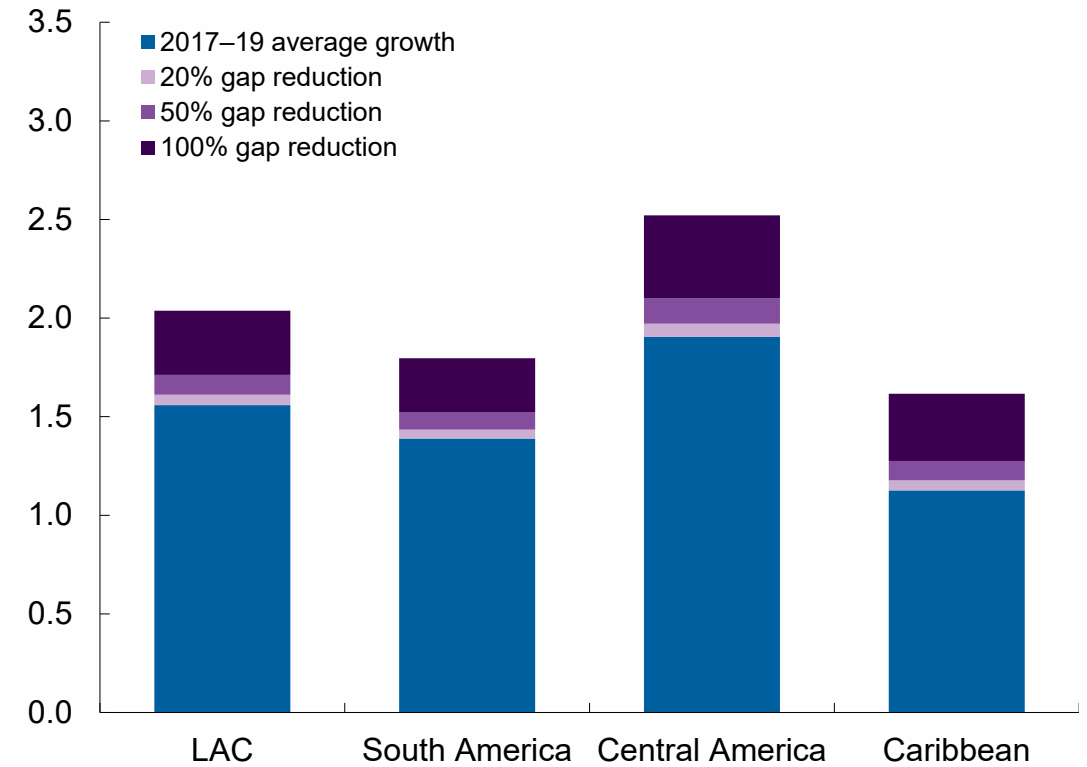
Crime and insecurity have become widespread in LAC...

... and are detrimental to growth

Crime across Regions/Countries
(Homicide rate per 100,000 people; 2017–19 average)



Gains from Closing the Region's Security Gaps
Relative to the World Average
(Percentage points of GDP growth)



Sources: United Nations Office on Drugs and Crime; World Bank, World Development Indicators; and IMF staff calculations.

Note: LAC = Latin America and the Caribbean; AE = advanced economies, AFR = North and Sub-Saharan Africa; EMDEs = Asian and European emerging markets and developing economies, MECA = Middle East and

Source: IMF staff calculations.

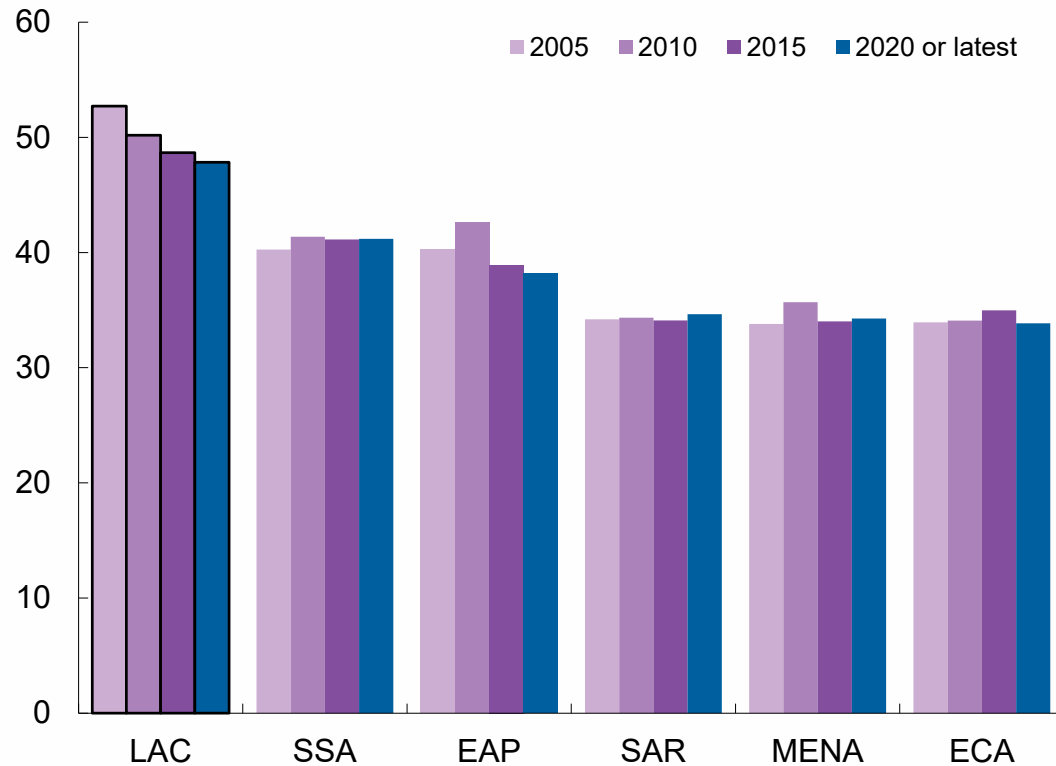
Note: Estimates of the impact on GDP growth from reducing the gap in crime rates relative to the world (by 20, 50 and 100 percent) are reported. A 20 percent gap reduction means that the distance between each country's 2017–19 average homicide rate and the world average is reduced by 20 percent.

... while addressing social needs

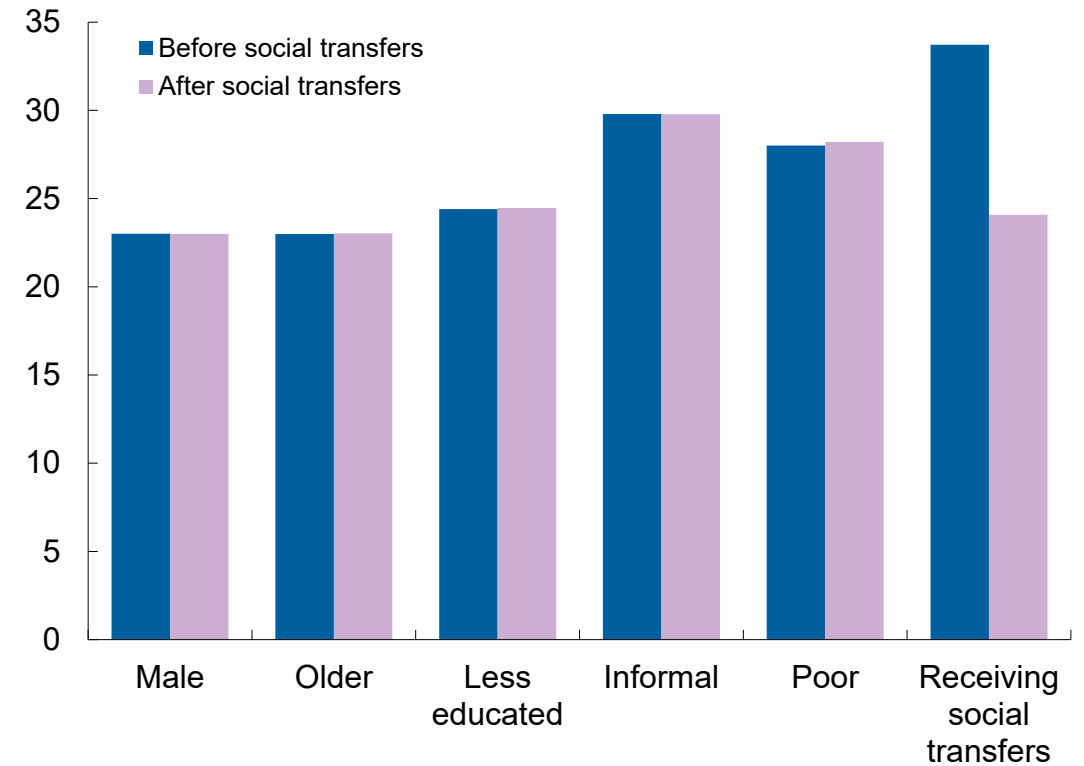
Inequality has fallen, but remains high relative to other regions

Individual income volatility is high and generally not mitigated by social transfers for those in the LF

Gini Index
(Population-weighted average)



Fraction of Each Group with Large Income Losses
(Percent)



Sources: IMF, World Economic Outlook database; World Bank, World Development Indicators database; and IMF staff calculations.

Note: EAP = East Asia Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SAR = South Asia; SSA = sub-Saharan Africa.

Sources: National authorities (labor market surveys); and IMF staff calculations.

Note: Large income changes are defined as changes in real income greater than 25 percent in absolute value. Values are purchasing-power-parity GDP-weighted averages of Argentina, Brazil, Chile, and Peru.

Main messages

- ❑ After a strong rebound from the pandemic, LAC's **growth is slowing**
- ❑ The slowdown reflects **tighter policies** to contain inflation and **weakening external conditions**
- ❑ **Inflation is easing** and projected to converge gradually to central banks' targets
- ❑ **Monetary easing** should proceed, mindful of risks
- ❑ **Fiscal consolidation** plans are ambitious—as needed and in line with Fund advice
- ❑ Boosting growth requires addressing **long-standing structural challenges**, adapting to **new ones**, and enhancing **social cohesion**
 - Boosting **trade**, including intra-regional
 - Strengthening domestic **security**
 - Developing frameworks to foster **investment** in green minerals
 - Enhancing the quality of **education**
 - Strengthening **social protection** mechanisms



Thank You

INTERNATIONAL MONETARY FUND

REGIONAL ECONOMIC OUTLOOK

WESTERN HEMISPHERE

Securing Low Inflation and
Nurturing Potential Growth

2023
OCT



<https://www.imf.org/en/Publications/REO/WH/Issues/2023/10/13/regional-economic-outlook-western-hemisphere-october-2023>