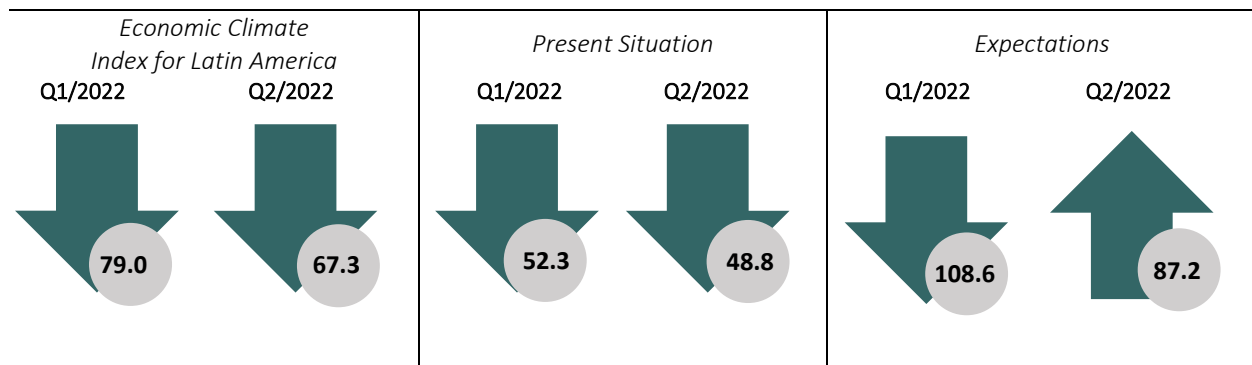


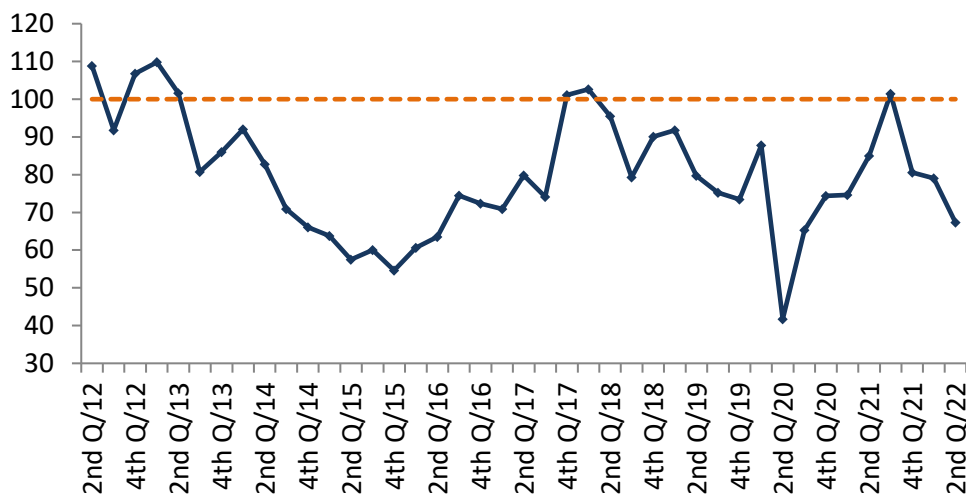
## The Economic climate in Latin America worsens with more pessimistic expectations for the coming months

The Economic Climate Index (ECI) for Latin America decreases in the second quarter of 2022 in relation to the previous quarter and to the same period in 2021. The region's economy is doing better than at the peak of the pandemic but has not managed to recover the levels of 2019. The impact of the war in Ukraine was evaluated in a special survey. In short, only one country considers the war's impact to be favorable for GDP growth, four countries evaluate the influence on GDP negatively, and in four countries the perception is that the effect could be neutral.



The ECI decreased 11.7 points between the first and second quarter of 2022. In the same period in 2020, the ECI fell 46.1 points when the pandemic became the priority issue on the agenda of all countries, but it then began an upward trajectory, despite remaining in the adverse zone of the economic cycle. In the third quarter of 2021, the index reached the neutral level of 100 points, but returned to recording decreases in the following quarters, suggesting that the result is not explained only by the impacts of the pandemic.

Graph 1: Economic Climate Index for Latin America (in points)

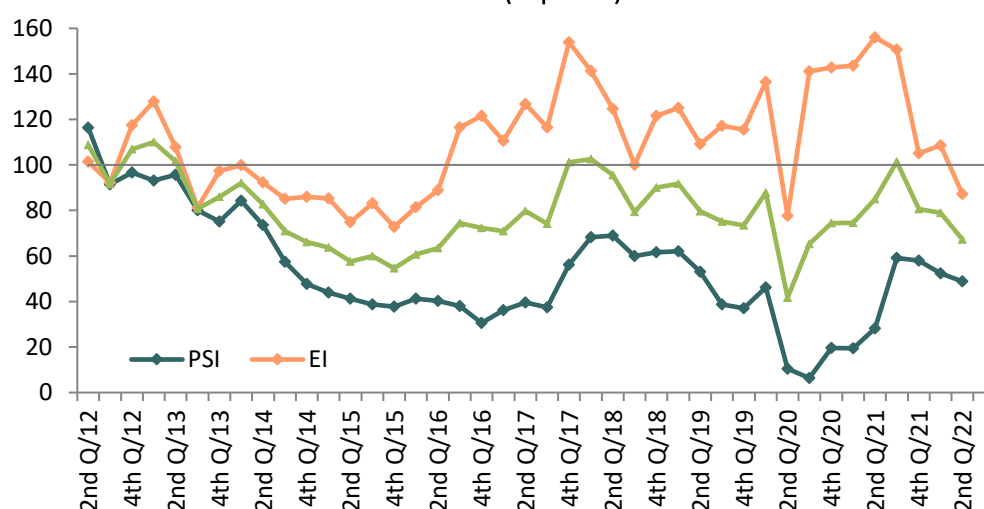


Source: FGV IBRE

The fall in the ECI in the second quarter of 2022 was influenced by the result of the Expectations Index (EI), which records a difference of 21.4 points in relation to the previous quarter. The EI had been on a downward trajectory since the 2<sup>nd</sup> quarter of 2021 and enters the adverse zone in the 2<sup>nd</sup> quarter of 2022.

In the case of the Present Situation Index (PSI), the fall was of 3.5 points between the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2022. The indicator has remained in the adverse zone since the 2<sup>nd</sup> quarter of 2012.

**Graph 2: Present Situation Index (PSI), Expectations Index (EI), and Economic Climate Index (ECI) for Latin America (in points)**



Source: FGV IBRE

In the comparative analysis below, the results for the 2nd quarter of 2022 were compared to those of the same period in 2019, 2020, and 2021. The 2022 indicators show a decrease in comparison with 2019 – the largest difference being in the EI (-22 points) – and an improvement in relation to 2020. In the comparison with 2021, however, there is an improvement in the current conditions, reflected in the PSI but a significant worsening in expectations captured by the EI, which fell 68.8 points in the period, suggesting a scenario of uncertainties associated with the possible impact of the war in Ukraine, in addition to specific domestic factors in each country.

**Table 1: Difference in the 2<sup>nd</sup> quarter indicators for Latin America in relation to the same period in previous years**

	PSI	EI	ECI
2019	-4.2	-22.0	-12.4
2020	38.4	9.5	25.6
2021	20.6	-68.8	-17.7

**Obs.:** The results show the difference in points between the results for the 2nd quarter of 2022 in relation to the indicators of each year

Source: FGV IBRE

## Economic climate: Results by country

Table 2 summarizes the Economic Climate results for the largest economies in the region monitored by FGV IBRE.

**Table 2: Economic climate index and its components in the selected countries**

Country	ICE		ISA		IE	
	Variation in number of points between Q1/2022 and Q2/2022	Index in Q2	Variation in number of points between Q1/2022 and Q2/2022	Index in Q2	Variation in number of points between Q1/2022 and Q2/2022	Index in Q2
Uruguay	14.2	149.6	33.3	133.3	-8.3	166.7
Brazil	2.1	62.7	14.6	30.0	-15.4	100.0
Bolivia	-5.5	65.9	3.6	75.0	-14.3	57.1
Latin America	-11.7	67.3	-3.5	48.8	-21.4	87.2
Colombia	-13.7	95.7	7.5	120.0	-33.0	73.3
Peru	-15.0	63.4	-3.8	54.5	-27.3	72.7
Mexico	-15.1	66.2	-12.7	44.4	-17.7	90.0
Ecuador	-21.6	72.1	-9.1	54.5	-36.4	90.9
Paraguay	-22.4	91.2	-63.7	54.5	24.2	133.3
Chile	-25.7	46.0	-77.0	53.8	15.4	38.5
Argentina	-27.9	39.1	-14.2	15.8	-45.0	65.0

Source: FGV IBRE

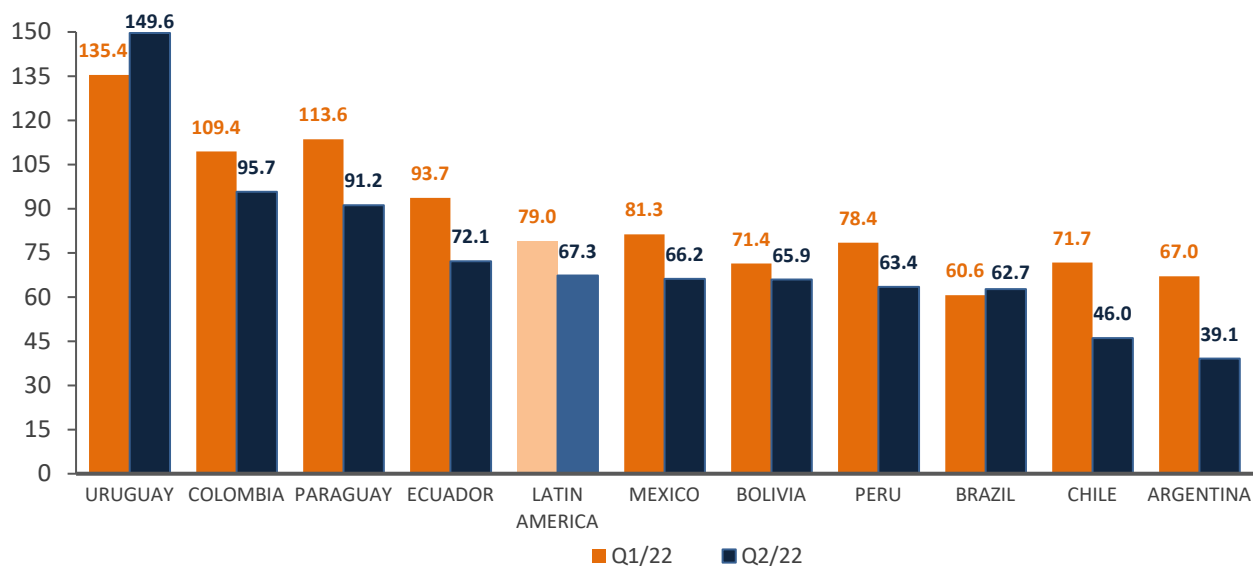
In Table 1, the countries are ordered from the highest to the lowest variation in the number of points for the Economic Climate Index between the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2022. The ECI only increased in two countries during this period, Uruguay (14.2 points) and Brazil (2.1 points). The improvement in Brazil is associated with an improved evaluation of the present situation, given that the EI decreased. All the countries, except Uruguay, recorded an adverse economic climate. In the ECI ranking for the 2nd quarter of 2022, Brazil is in 9<sup>th</sup> place.

In the evaluation of the present situation, four countries recorded an improvement (Brazil, Colombia, Uruguay, and Bolivia) but only two can be found in the favorable zone of the cycle, Colombia and Uruguay. Brazil is placed tenth on the PSI list, with 30 points. Brazil's improvement in the ECI is due to the PSI, however, the indicator climbed from only 15.4 points to 30 points, a result which remains extremely far from the favorable zone defined as being above 100 points.

The Expectations Index advanced in Chile (15.4 points) and Paraguay (24.2 points), but the result failed to compensate for the worsening in the evaluation of the present situation in these countries. Uruguay and Paraguay are in the favorable zone of expectations. On the EI ranking, Brazil is in 3<sup>rd</sup> place with 100 points, behind Uruguay (166.7 points) and Paraguay (133.3 points).

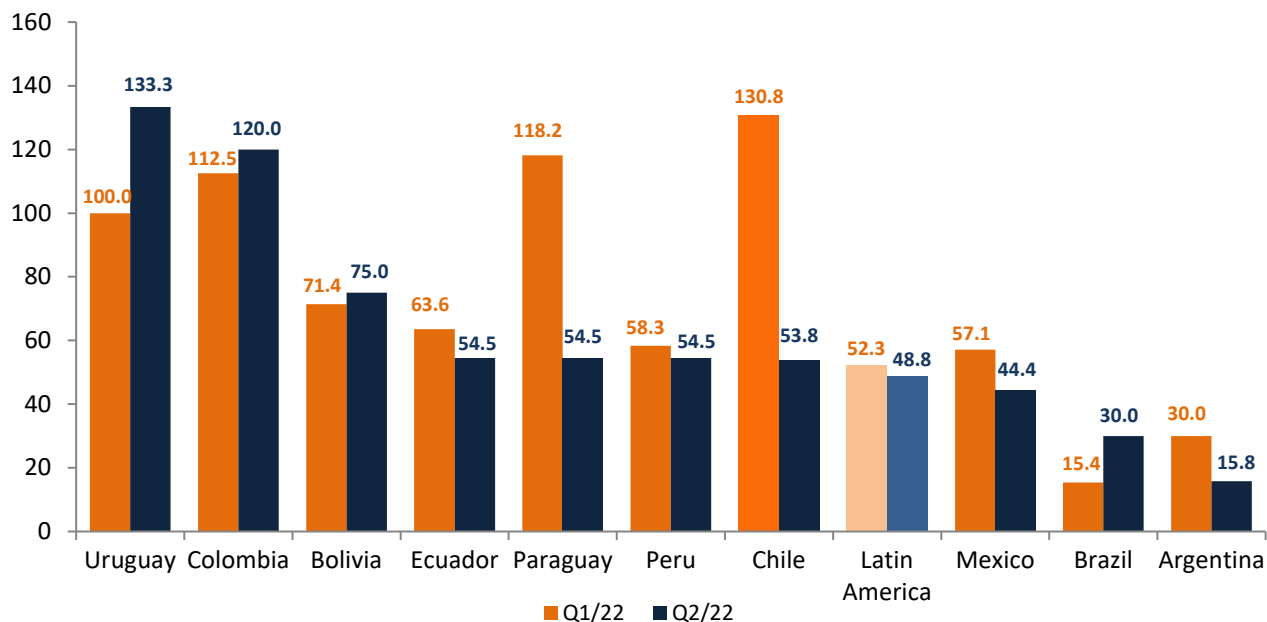
In summary, the worsening in the evaluation of expectations dominates the results of the economic climate in the selected countries.

Graph 3: Economic Climate Index of selected countries (in points)



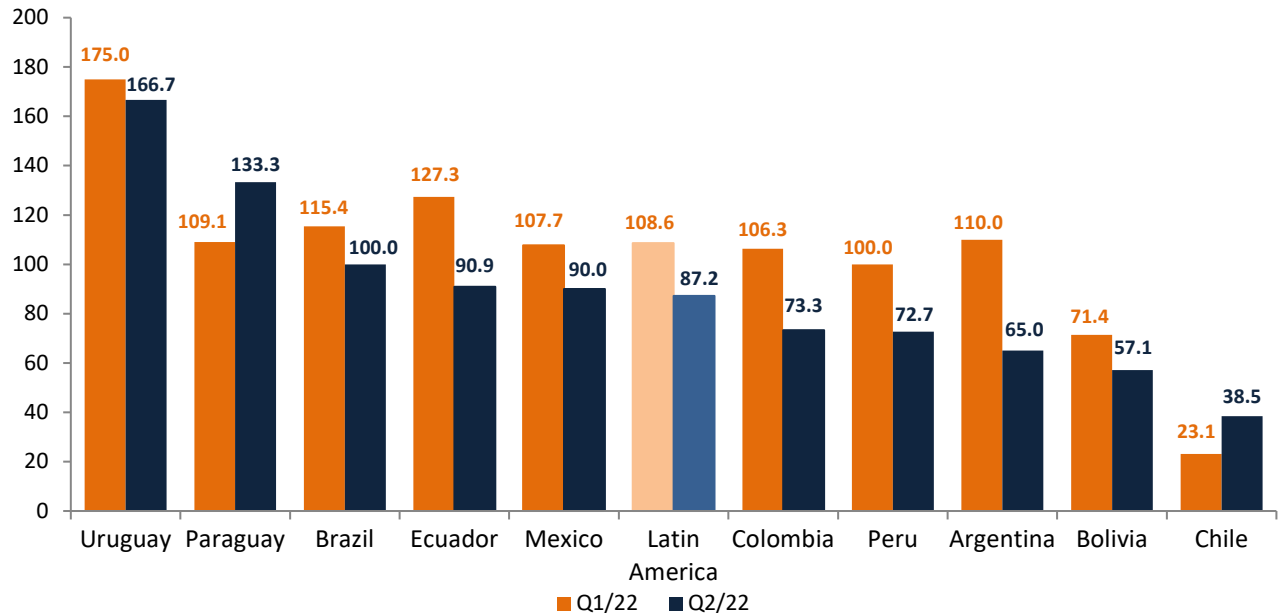
Source: FGV IBRE

Graph 4: Present Situation Index of selected countries (in points)



Source: FGV IBRE

Graph 5: Expectations Index of selected countries (in points)



Source: FGV IBRE

The table below shows the comparison of the ECI for selected countries in the second quarters of 2019, 2020, and 2021 with that of 2022.

Table 3:

Difference in number of points of the ECI for the 2<sup>nd</sup> quarter of 2022 with the same period in 2019, 2020, and 2021

Country	2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2020	2 <sup>nd</sup> quarter 2021
Argentina	-10.5	6.1	-12.6
Bolivia	-19.4	34.7	-4.9
Brazil	-20.4	21.9	-25.8
Chile	-59.0	-13.4	-51.7
Colombia	-20.8	39.9	-0.7
Ecuador	12.3	72.1	15.2
Mexico	9.7	27.4	-18.2
Paraguay	-18.6	61.4	-9.3
Peru	-72.4	20.3	-20.1
Uruguay	75.7	94.6	82.4

Source: FGV IBRE

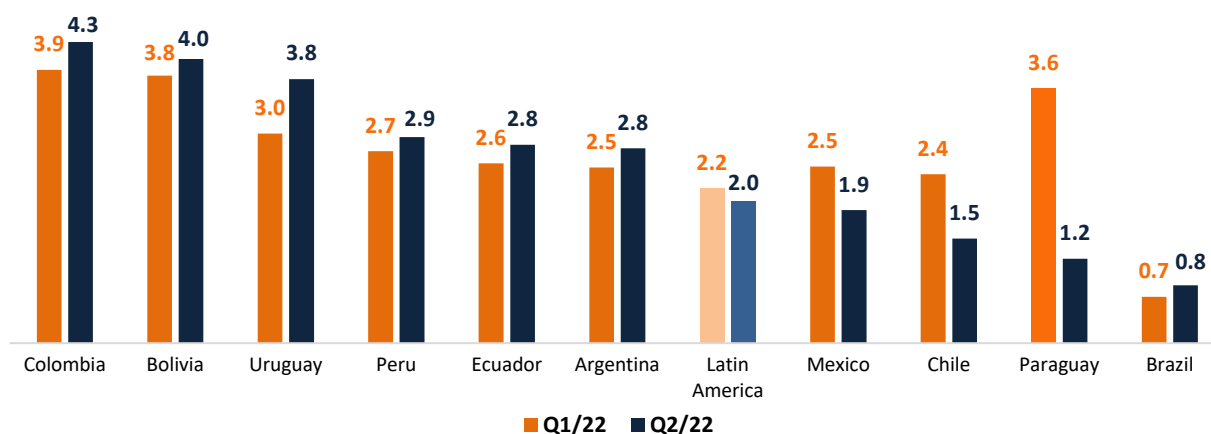
Apart from Mexico, Ecuador, and Uruguay, in the 2<sup>nd</sup> quarter of 2022, all the countries experienced a worsening of the economic climate in relation to the same period in 2019. In comparison with the 2<sup>nd</sup> quarter of 2020, all the countries consider the present economic climate as better, except Chile. This was the period at the beginning of the pandemic without vaccines. Compared with the 2<sup>nd</sup> quarter of 2021, the ECI worsened

for all the countries except Ecuador and Uruguay. Brazil recorded the second largest fall, after Chile. When analyzing the components of the ECI, the decrease is mainly explained by expectations. In the case of Brazil, the difference in the EI between the 2<sup>nd</sup> quarter of 2022 and the 2<sup>nd</sup> quarter of 2021 is a negative 82.4 points.

## GDP growth forecasts for 2022

Graph 6 shows the specialists' GDP growth forecasts for 2022 made in the 1<sup>st</sup> quarter of 2022 and the 2<sup>nd</sup> quarter of 2022. In this survey, growth in 2022 was revised downwards in Mexico, Chile, and Paraguay with differences of 0.6, 0.9, and 2.4 percentage points, respectively, which is compatible with the worsening economic climate. The upwards revision for the GDP in Uruguay (0.8 percentage points) and Brazil (0.1 percentage points) coincides with the improved ECI between the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2022. In the other cases, the economic climate worsened between the first two quarters of the year. It can be observed, however, that the upwards revisions do not reach one percentage point. After Uruguay, the largest variation was in Colombia with 0.4 percentage points.

Graph 6: GDP growth forecasts for 2022 of the selected countries (in %).



Source: FGV IBRE

The survey highlighted the war in Ukraine, evaluating its impact on the economy of the evaluated countries. Table 4 presents the results of the survey. In relation to the effect of the war on the GDP growth forecast, the only country where the percentage of responses indicating an improvement predominated was Colombia (53.3%). The increase in the price of oil had a positive influence on exchange terms and the analysts indicated that exports would improve and, as such, there is a favorable perspective in the country's GDP forecast.

In all the countries, the analysts emphasized the impact of the war on the increased inflation rate. In this case, the adoption of restrictive monetary policies may have influenced the downward revision of GDP in certain countries, although other factors can be highlighted in the case of countries with a percentage of responses above 50% regarding the worsening in GDP. These countries are Paraguay (90%), Chile (76.9%), Mexico (70%), and Peru (63.6%). Among these countries, only Paraguay signaled a worsening of exports, which would be associated with the interruption of meat exports to Russia with its exclusion from the SWIFT system. It can be observed that Russia accounts for 20% of the meat exports from Paraguay. In addition, drought has harmed

soy exports from the country. No other country in this group highlighted a worsening in exports or percentages above 50% in relation to increased imports.

The countries with percentages above 50% on the “about the same” item (no alteration in the GDP forecast) were Argentina, Bolivia, Brazil, and Uruguay. The second highest percentage for Argentina, Bolivia, and Brazil is a negative impact on GDP. In Uruguay, the second largest impact would be positive.

In summary, one country considers the impact of the war favorable for an increase in GDP, four countries identified a worsening in GDP, and a neutral effect predominates in the other four, but with 3 of these countries placing a negative effect in second place. Only Ecuador failed to record a percentage above 50% in any of the options presented. The aggregate result shows a percentage of 40.5% for the response of about the same and 47% for a worsening in GDP.

Could the war be favorable to exports? Argentina, Brazil, Colombia, Mexico, and Uruguay responded with percentages greater than or equal to 50%. For the Mercosul countries, the increased prices of agricultural commodities and increased sales with the reduced supply from Russia and Ukraine explain the positive effect. In aggregate terms, exports improve.

For the trade balance result, a neutral effect predominates in the region. In the case of Brazil, 60% of the analysts consider that the war will have a positive impact on the balance.

## After the outbreak of the war between Russia and Ukraine how have the expectations for your country's economic performance changed for this year?

Country	GDP (%)			Inflation (%)			Exports (%)			Imports (%)			Trade Balance (%)		
	Higher	About the same	Lower	Higher	About the same	Lower	Higher	About the same	Lower	Higher	About the same	Lower	Higher	About the same	Lower
Argentina	9.5	61.9	28.6	76.2	23.8	0.0	66.7	28.6	4.8	57.1	38.1	4.8	9.5	61.9	28.6
Bolivia	14.3	57.1	28.6	57.1	42.9	0.0	35.7	64.3	0.0	38.5	53.8	7.7	21.4	64.3	14.3
Brazil	10.0	60.0	30.0	90.0	10.0	0.0	60.0	40.0	0.0	30.0	50.0	20.0	60.0	40.0	0.0
Chile	0.0	23.1	76.9	92.3	7.7	0.0	7.7	69.2	23.1	8.3	50.0	41.7	38.5	30.8	30.8
Colombia	53.3	26.7	20.0	93.3	6.7	0.0	73.3	20.0	6.7	33.3	33.3	33.3	53.3	20.0	26.7
Ecuador	18.2	45.5	36.4	81.8	18.2	0.0	9.1	9.1	81.8	18.2	45.5	36.4	10.0	50.0	40.0
Mexico	10.0	20.0	70.0	80.0	20.0	0.0	55.6	33.3	11.1	10.0	60.0	30.0	30.0	60.0	10.0
Paraguay	0.0	10.0	90.0	60.0	20.0	20.0	0.0	11.1	88.9	20.0	60.0	20.0	0.0	20.0	80.0
Peru	9.1	27.3	63.6	81.8	9.1	9.1	27.3	54.5	18.2	18.2	54.5	27.3	27.3	45.5	27.3
Uruguay	16.7	83.3	0.0	100.0	0.0	0.0	50.0	50.0	0.0	50.0	50.0	0.0	33.3	50.0	16.7
Latin América	12.5	40.5	47.0	85.5	13.9	0.6	51.7	39.5	8.8	28.3	48.9	22.8	38.5	45.8	15.7

Source: FGV IBRE

## Main situational and structural problems

Table 5 shows the importance attributed to selected themes for the economic growth of the countries. If the result is above 50 points, the theme is relevant, and the higher the score, the greater its importance. Below 50 points, the theme is less relevant, and the lower the score, the lower the importance as a barrier to economic growth.

**Table 5 – Economic problems in the selected countries**

Problem	Latin America	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay
Lack of innovation	90.1	66.7	92.9	90.0	76.9	92.9	100.0	100.0	63.6	100.0	66.7
Lack of confidence in the government's economic policy	83.9	95.2	85.7	90.0	84.6	57.1	81.8	90.0	54.5	90.9	16.7
Corruption	82.6	80.0	92.9	80.0	33.3	86.7	100.0	90.0	90	100.0	0.0
Inadequate infrastructure	82.4	70.0	78.6	90.0	53.8	100.0	72.7	80.0	100	100.0	66.7
Widening income inequality	79.5	80.0	57.1	90.0	38.5	80.0	90.9	70.0	40	100.0	66.7
Lack of international competitiveness	75.3	73.7	92.9	90.0	30.8	93.3	100.0	60.0	54.5	54.5	66.7
Legal and administrative barriers for investors	70.6	95.0	100.0	60.0	41.7	73.3	72.7	90.0	36.4	63.6	0.0
Political instability	64.9	66.7	42.9	70.0	100.0	53.3	72.7	60.0	27.3	100.0	0.0
Lack of qualified labor	64.5	30.0	85.7	70.0	76.9	73.3	54.5	55.6	81.8	90.9	83.3
Lack of capital	58.7	95.0	85.7	44.4	53.8	66.7	100.0	60.0	40	45.5	16.7
Unfavorable climate for foreign investors	54.7	90.0	100.0	20.0	53.8	46.7	63.6	90.0	9.1	72.7	0.0
Insufficient demand	54.5	50.0	57.1	70.0	30.8	13.3	72.7	60.0	45.5	45.5	33.3
COVID-19 pandemic	32.3	21.1	35.7	11.1	30.8	14.3	36.4	70.0	36.4	45.5	16.7
Trade barriers to exports	25.5	66.7	64.3	20.0	15.4	40.0	36.4	20.0	0	0.0	33.3
Inefficient debt management	20.7	57.9	64.3	20.0	23.1	20.0	54.5	0.0	30	27.3	0.0
Lack of confidence in the central bank's policy	14.8	90.0	42.9	0.0	0.0	0.0	36.4	10.0	20	18.2	16.7

Source: FGV IBRE

For the analysis of the results, the questions can be divided into two groups. The first group refers to questions of a structural character, as they demand investment and changes in the medium to long term. The following components can be highlighted in this group.

The main problem in Latin America is lack of innovation, with a score above 50 points in all the selected countries. The third most important issue is corruption, except for in Chile (33.3 points) and Uruguay (0 points). Inadequate infrastructure is the fourth main problem with a score above 50 points in all the countries. The fifth problem is widening income inequality, except for in Chile and Paraguay, with scores below 50 points. The sixth problem is a lack of international competitiveness, again with Chile as the only exception. The lack of qualified labor, which is associated with the level of education in the population, is the ninth problem in the region, except in Argentina. The tenth barrier to growth is lack of capital, except in Brazil (44.4 points), Paraguay (40 points), Peru (45.5 points), and Uruguay (16.7 points).



The second group includes issues that depend on the economic policy guidelines of the governments in the execution of their functions. The second most important barrier to economic growth is the lack of confidence in the government's economic policy, the only exception being Uruguay (16.7 points). The seventh problem is the legal and administrative barriers for investors, except for Chile (41.7 points), Paraguay (36.4 points), and Uruguay (0 points). The eighth problem is political instability, except for Bolivia, Paraguay, and Uruguay. The tenth problem is the unfavorable climate for foreign investors, except for in Brazil (20 points), Colombia (46.7 points), Paraguay (9.1 points), and Uruguay (0 points). Insufficient demand is the twelfth problem, with the exception of Chile, Colombia, Paraguay, Peru, and Uruguay.

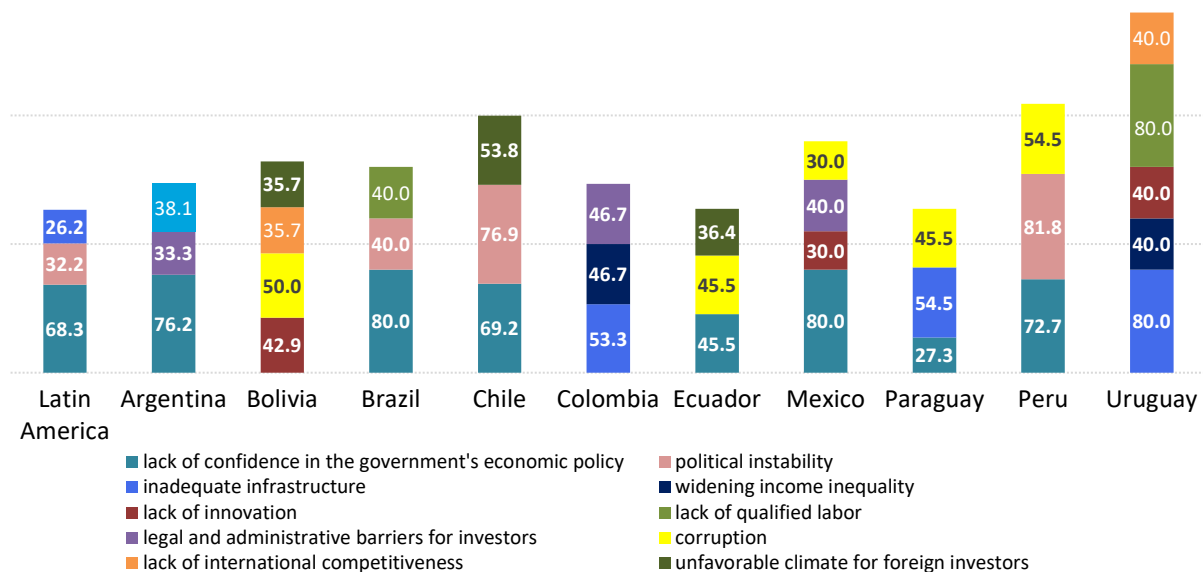
The COVID-19 pandemic is no longer a relevant issue, except in Mexico (70 points). Trade barriers to exports have a score of 25.5 in the region but are particularly relevant in Argentina and Bolivia. Inefficient debt management and lack of confidence in the central bank's policy are relevant themes for Argentina but not for the region.

Uruguay stands out, given that of the 16 analyzed items, only 5 received a score above 50 points. In the group of situational themes, the attribution of 16.7 points to lack of confidence in the government's economic policy and zero for political instability demonstrate a high approval rating for the government, which explains the favorable economic climate in the country.

In Brazil, the items with a score below 50 points are lack of capital, an unfavorable climate for foreign investors, the pandemic, trade barriers to exports, inefficient debt management, and lack of confidence in the central bank's policy.

Graph 7 describes the three main problems faced by each country.

**Graph 7: The three main problems facing selected countries**



Source: FGV IBRE

## APPENDICES

### Appendix 1 – Mean ECI of the selected countries for the last four quarters

<i>Country</i>	<i>Q1/22</i>	<i>Q2/22</i>
Paraguay	118.4	116.1
Colombia	112.0	111.8
Uruguay	102.2	122.8
Chile	88.5	75.6
Ecuador	87.7	91.5
Peru	86.5	81.5
Mexico	86.2	81.7
Brazil	82.8	76.3
Bolivia	75.9	74.6
Argentina	54.5	51.4
<b>Latin America</b>	<b>86.5</b>	<b>82.1</b>

Source: FGV IBRE

## Appendix 2 – Historical series of the indicators of the selected countries

### PRESENT SITUATION INDEX

PSI	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	10-year mean
Argentina	22.2	9.1	8.3	9.1	16.7	25.0	12.5	30.0	15.8	40.8
Bolivia	25.0	14.3	0.0	33.3	44.4	50.0	90.0	71.4	75.0	105.9
Brazil	9.1	0.0	13.3	25.0	17.6	69.2	54.5	15.4	30.0	33.9
Chile	0.0	0.0	10.0	33.3	41.7	87.5	100.0	130.8	53.8	77.9
Colombia	13.3	6.7	0.0	5.6	33.3	47.1	100.0	112.5	120.0	94.6
Ecuador	0.0	0.0	0.0	10.0	0.0	20.0	80.0	63.6	54.5	58.1
Mexico	9.1	0.0	0.0	20.0	33.3	57.1	46.2	57.1	44.4	62.5
Paraguay	20.0	0.0	14.3	77.8	77.8	90.0	133.3	118.2	54.5	109.5
Peru	7.7	0.0	7.7	6.7	36.4	80.0	64.3	58.3	54.5	88.7
Uruguay	0.0	11.1	10.0	12.5	0.0	11.1	66.7	100.0	133.3	89.7
<b>Latin America</b>	<b>10.4</b>	<b>6.4</b>	<b>19.6</b>	<b>19.4</b>	<b>28.2</b>	<b>59.1</b>	<b>58.0</b>	<b>52.3</b>	<b>48.8</b>	<b>53.4</b>

Source: FGV IBRE

### EXPECTATIONS INDEX

EI	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	10-year mean
Argentina	44.4	172.7	133.3	150.0	92.3	105.6	64.7	110.0	65.0	111.1
Bolivia	37.5	71.4	150.0	77.8	100.0	100.0	84.6	71.4	57.1	77.5
Brazil	77.3	182.4	146.7	137.5	182.4	176.9	72.7	115.4	100.0	126.7
Chile	136.4	170.0	160.0	187.5	166.7	122.2	61.5	23.1	38.5	108.2
Colombia	106.7	153.3	194.1	172.2	176.5	175.0	180.0	106.3	73.3	116.1
Ecuador	0.0	12.5	114.3	90.0	130.0	163.6	160.0	127.3	90.9	77.5
Mexico	72.7	81.8	125.0	140.0	146.7	135.7	130.8	107.7	90.0	97.7
Paraguay	40.0	150.0	200.0	177.8	125.0	166.7	133.3	109.1	133.3	128.1
Peru	84.6	162.5	169.2	142.9	140.0	126.7	100.0	100.0	72.7	130.7
Uruguay	125.0	145.5	190.0	162.5	157.1	188.9	183.3	175.0	166.7	109.0
<b>Latin America</b>	<b>77.7</b>	<b>141.1</b>	<b>142.8</b>	<b>143.6</b>	<b>156.0</b>	<b>150.6</b>	<b>105.1</b>	<b>108.6</b>	<b>87.2</b>	<b>110.4</b>

Source: FGV IBRE

### ECONOMIC CLIMATE INDEX

ECI	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	10-year mean
Argentina	33.0	79.2	63.5	70.5	51.7	62.2	37.2	67.0	39.1	72.5
Bolivia	31.2	41.2	64.6	54.6	70.8	73.9	87.3	71.4	65.9	90.2
Brazil	40.8	76.6	71.9	75.6	88.5	118.5	63.4	60.6	62.7	75.4
Chile	59.4	72.0	75.0	100.7	97.7	104.4	80.1	71.7	46.0	89.7
Colombia	55.8	70.2	80.7	76.6	96.4	104.4	137.6	109.4	95.7	102.7
Ecuador	0.0	6.2	50.7	46.8	56.9	82.8	117.5	93.7	72.1	65.3
Mexico	38.8	37.4	55.0	73.5	84.4	93.8	85.4	81.3	66.2	78.8
Paraguay	29.8	64.6	92.8	124.0	100.5	126.1	133.3	113.6	91.2	117.3
Peru	43.1	69.3	76.9	66.2	83.5	102.4	81.6	78.4	63.4	107.6
Uruguay	55.0	70.1	86.2	77.5	67.2	86.5	119.7	135.4	149.6	96.8
<b>Latin America</b>	<b>41.7</b>	<b>65.3</b>	<b>74.4</b>	<b>74.6</b>	<b>85.0</b>	<b>101.4</b>	<b>80.6</b>	<b>79.0</b>	<b>67.3</b>	<b>79.9</b>

Source: FGV IBRE

## METHODOLOGICAL ASPECTS OF THE SURVEY

The Latin America Economic Survey aims to monitor and forecast economic trends, based on quarterly information supplied by specialists in the economy of their respective countries. The survey is simultaneously applied with the same methodology in all the countries in the region, which is a method that enables the construction of an agile and comprehensive picture of the economic situation in countries and economic blocks. In the 1<sup>st</sup> quarter of 2021, 146 economy specialists were consulted in 15 Latin American countries.

The survey generates information of both a qualitative and a quantitative nature. The Economic Climate Index (ECI), is the synthesis indicator, comprised of two items of a qualitative nature, the Present Situation Index (PSI) and the Expectations Index (EI), which deal, respectively, with the general economic situation in the country at the moment and for the upcoming six months.

Beginning with the edition for the 1<sup>st</sup> quarter of 2021, the Present Situation (PSI) and Expectations (EI) indexes for each country are expressed as a balance of responses of the respective qualitative items plus 100 (+100), as per the formula presented below:

$$\text{PSI or EI} = \frac{([\text{option}]_+ - [\text{option}]_-) * 100}{n} + 100$$

$[\text{option}]_+$  = Favorable option;

$[\text{option}]_-$  = Unfavorable option; and

$n$  = number of specialists who answered this question

The Economic Climate Index is constructed as the geometric mean of the PSI and the EI, as per the formula described below:

$$ECI = \sqrt{(PSI + 200) * (EI + 200)} - 200,$$

ECI = Economic Climate Index.

As such, the index scale varies from 0 (zero) to 200. One hundred (100) is the point of inflection.

To reach the figures of any cluster of countries, such as the total for Latin America, the indexes are aggregated by GDP corrected for Purchasing Power Parity (GDP, PPP, according to IMF data). The weights are modified annually.

In the 2<sup>nd</sup> quarter of 2022, 145 economics specialists in 15 Latin American countries were consulted.