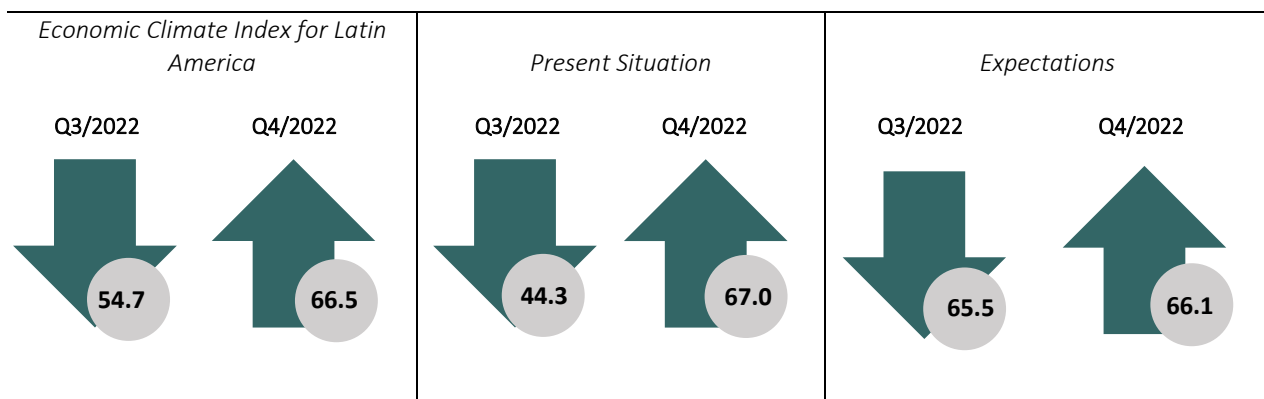


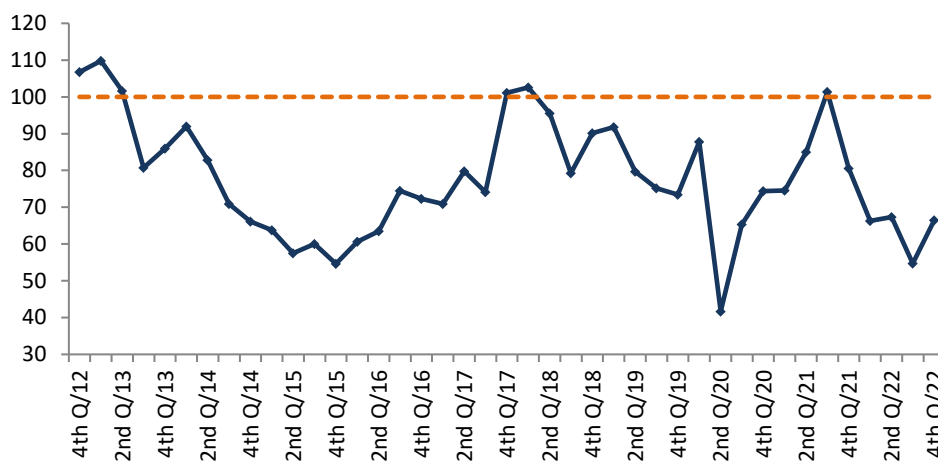
## The Economic Climate for Latin America improves, but remains adverse

The Economic Climate Index (ECI) for Latin America rises between the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2022, influenced by improved perceptions regarding the present moment. Brazil recorded an increase of 30 points on the ECI, of 49.4 points on the PSI and 10.2 points on the EI. The less expressive rise in the EI in relation to the PSI, and its decrease in certain countries indicates that the economic growth scenario for the next six months is likely to slow down in the region. Forecasts of lower GDP growth rates for 2023 in relation to 2022 corroborate the specialists' caution regarding the coming months.



The Economic Climate Index (ECI) for Latin America rose 11.8 points between the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2022. Despite the favorable marginal result, the index remains at 66.5 points, a level considered adverse. As shown in Graph 1, the ECI has remained at a low level since the 3<sup>rd</sup> quarter of 2013, with the exceptions of the 4<sup>th</sup> quarter of 2017, the 1<sup>st</sup> quarter of 2018, and the 3<sup>rd</sup> quarter of 2021. In all these quarters, the index was close to 100 points, which marks the limit between the favorable and adverse zones.

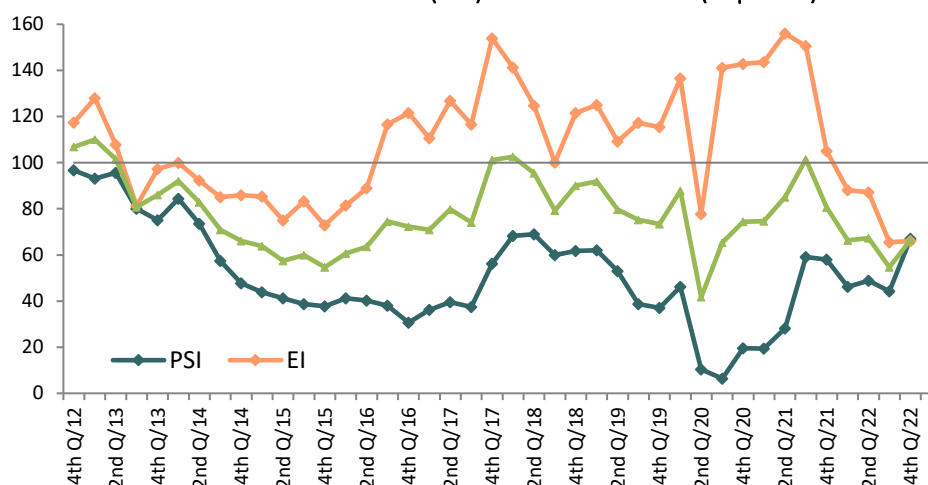
Graph 1: Economic Climate Index for Latin America



Source: FGV IBRE

The increase in the ECI is associated with the behavior of the Present Situation Index (PSI), which rose 22.7 points between the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2022, to 67.0 points. The Expectations Index (EI) recorded 66.1 points, a variation of only +0.6 point, indicating stability. The two indexes are now very close to each other and remain in the adverse zone of the economic cycle. This is also the first time since 2012 that the PSI has risen (slightly) above the EI.

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



Source: FGV IBRE

In the table below, the results for the 4<sup>th</sup> quarter of 2022 were compared to those for the same period in previous years. The EI and ECI for 2022 show a decrease in comparison with 2019 and 2020, the greatest difference being in the EI (-76.7 points) in relation to the 4<sup>th</sup> quarter of 2020. In the case of the PSI, the difference favors the result of the 4<sup>th</sup> quarter of 2022, especially in relation to the 4<sup>th</sup> quarter of 2020. What do these results demonstrate?

At the end of 2020, when the pandemic was not yet under control, there were expectations of improvement (the EI was 142.8 points). At that moment, the present situation was considered extremely adverse, and the PSI was only 19.6 points. Now, the present situation is improving, but the expectations point to a less favorable scenario for the next 6 months.

**Table 1: Difference in the indicators for Latin America in relation to the same period in previous years**

	PSI	EI	ECI
2019	30.0	-49.4	-6.9
2020	47.4	-76.7	-7.9
2021	9.0	-39.0	-14.1

Obs.: The results show the difference in points in the indicators in relation to the results of the 4<sup>th</sup> quarter of 2022.

## Economic climate: Results by country

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

Brazil leads the improvement in the region, recording increases of 30 points on the ECI, 49.4 points on the PSI, and 10.2 points on the EI between the 3rd and 4th quarters. In addition, the evaluation of the PSI (92.3 points) exceeded expectations (76.9 points). Brazil recorded the third highest ECI, PSI, and EI on the ranking for the 4<sup>th</sup> quarter of 2022, as shown in graphs 3, 4, and 5. Despite the improvement, all the indices remain in the adverse zone.

Five countries improved their position on the ECI, but only Paraguay and Uruguay are in the favorable zone. On the PSI, six countries improved their position, but only Colombia and Uruguay are in the favorable zone. On the evaluation of expectations, four countries improved their position, but only Paraguay is in the favorable zone, while Uruguay is in the neutral zone. It can be observed that both Paraguay and Uruguay recorded falls in the EI, while Brazil, Peru, Chile, and Colombia were the countries that gained points on the EI.

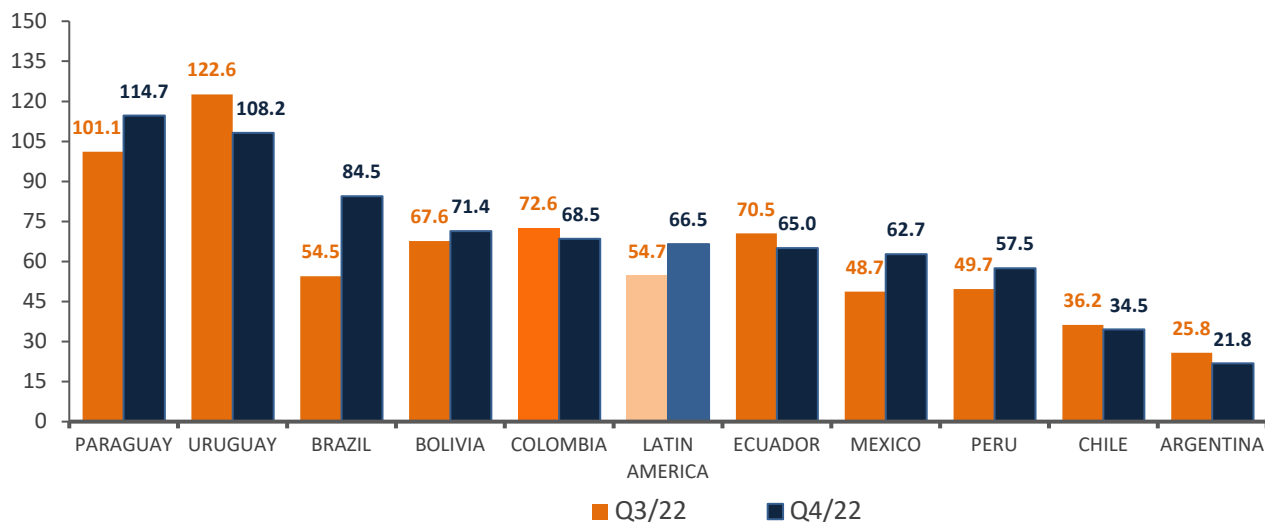
In summary, in the 4th quarter of 2022, there was an improvement in the present situation driven by the largest economies in the region, but expectations gained little or decreased.

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

Country	ECI		PSI		EI	
	Variation in number of points between Q3 and Q4 2022	Index in Q4	Variation in number of points between Q3 and Q4 2022	Index in Q4	Variation in number of points between Q3 and Q4 2022	Index in Q4
Brazil	30.0	84.5	49.4	92.3	10.2	76.9
Mexico	14.0	62.7	30.6	55.6	-5.0	70.0
Paraguay	13.6	114.7	26.7	66.7	-6.4	171.4
Latin America	11.8	66.5	22.7	67.0	0.6	66.1
Peru	7.8	57.5	7.0	45.5	8.5	70.0
Bolivia	3.8	71.4	21.5	78.6	-14.3	64.3
Chile	-1.7	34.5	-7.3	20.0	4.5	50.0
Argentina	-4.0	21.8	-0.8	5.9	-7.8	38.9
Colombia	-4.1	68.5	-20.3	115.4	7.2	28.6
Ecuador	-5.5	65.0	1.7	60.0	-13.3	70.0
Uruguay	-14.4	108.2	-11.9	116.7	-16.7	100.0

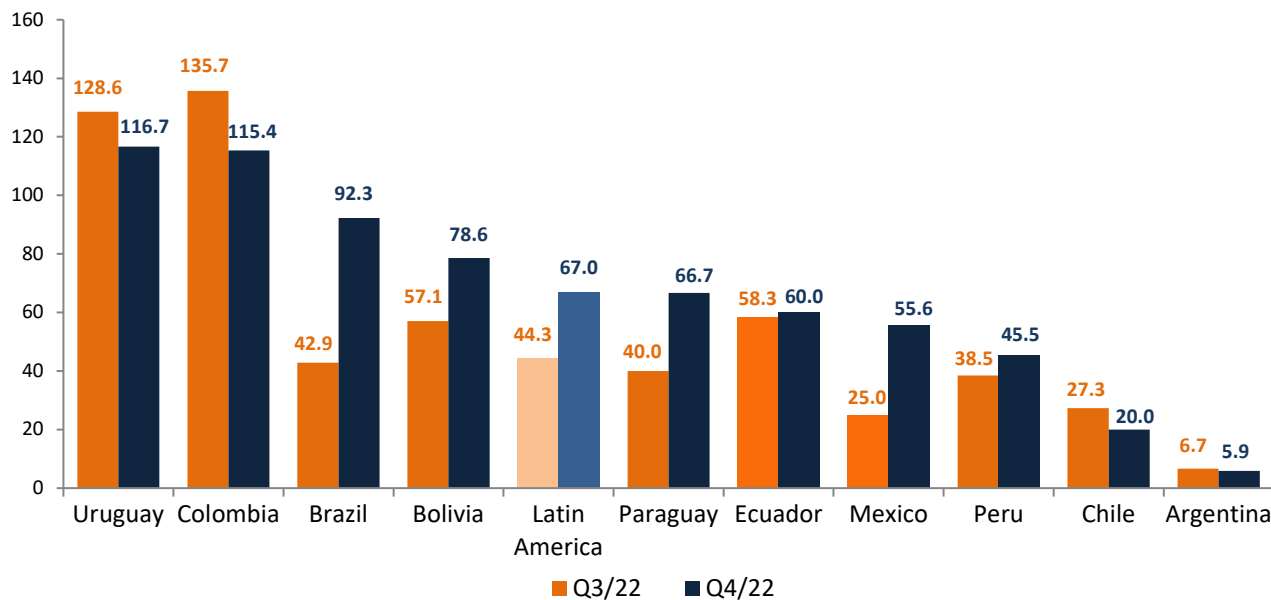
Source: FGV IBRE

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



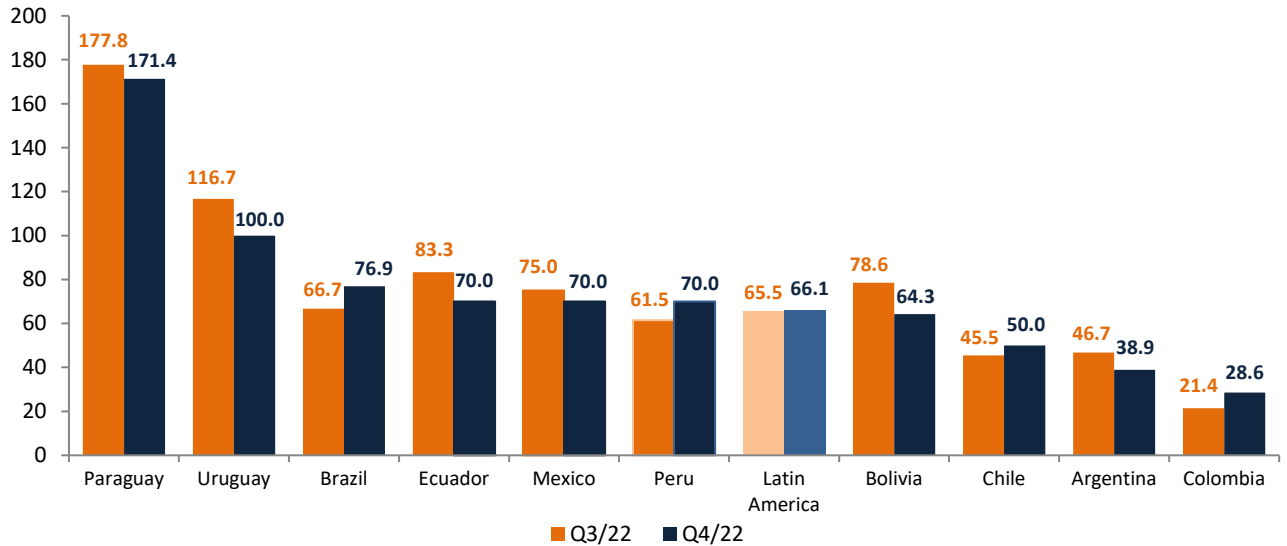
Source: FGV IBRE

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



Source: FGV IBRE

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

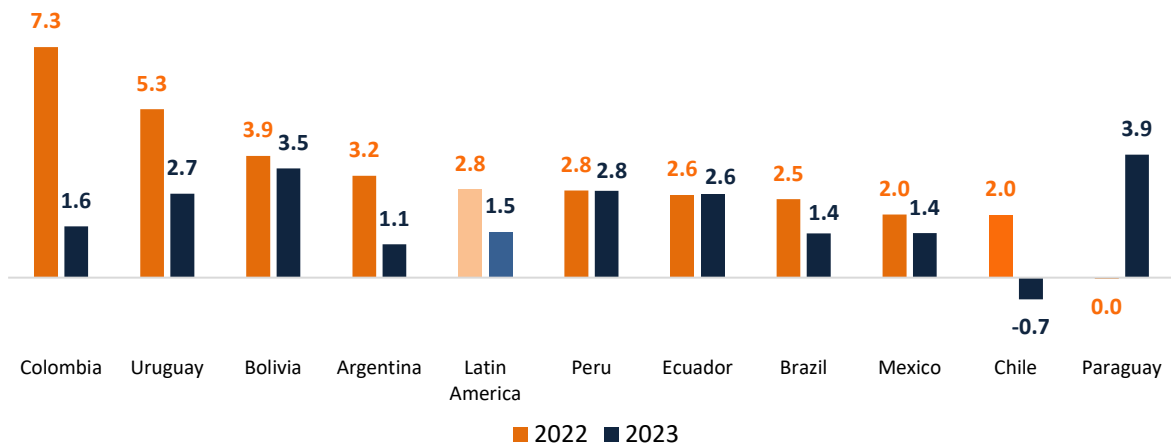


Source: FGV IBRE

## GDP growth forecasts for 2022 and 2023

The EI in the adverse zone despite the improved perception of the present situation helps explaining the GDP growth forecasts for 2023 (Graph 6). Only in Paraguay is the forecast for 2023 greater than that for 2022. In this case, the severe drought observed in 2022 that led to a forecast of zero growth for 2022 explains the improvement.

Graph 6: GDP growth forecasts for 2022 and 2023 of selected countries



Source: FGV IBRE

## Main problems in selected countries

Table 3 shows the importance the specialists attribute to selected issues presented as barriers to the economic growth of the countries. Scores vary from 0 to 100 points. Scores above 50 points indicate that the issue is relevant, and the higher the score, the greater its importance. If the score is below 50 points, the theme is not relevant, and the lower the score, the lesser the relevance. The table is ordered according to the importance of the problems for the Latin America group. The main problems that recorded scores above 50 points, in decreasing order, were lack of innovation, inadequate infrastructure, lack of confidence in the government's economic policy; lack of international competitiveness, corruption, widening income inequality; unfavorable climate for foreign investors, political instability, legal and administrative barriers for investors, lack of qualified labor, difficulty in the supply of inputs, and lack of capital. Of the 17 problems listed, 12 score above 50 points.

Lack of innovation received the highest score in Latin America, being above 50 points in all the countries, reaching 100 points in Brazil. Inadequate infrastructure is second with scores greater than or equal to 50 in all the countries, Brazil again scoring 100. Third is lack of confidence in the government's economic policy, with all the countries above 50 points and Brazil scoring 79.6 points. Lack of international competitiveness is fourth, whereby only Chile does not consider this issue relevant and Brazil scores 92.3 points. The fifth is corruption, which is not a relevant question in Uruguay, while Brazil scores 76.9 points. Widening income inequality is sixth, the issue not being relevant in Bolivia or Paraguay, whereas Brazil reaches 92.3 points.

The seventh is unfavorable climate for foreign investors, an issue which is not relevant in Paraguay or Uruguay. In Brazil, the score was 69.2 points. In the Survey of the 2nd quarter of 2022, the same item scored only 20.0 points, there has been, however, a shift in the perception of the specialists, who now consider the climate for foreign investors a relevant barrier at the present time. The eighth problem is political instability with a score of 69.8 for Latin America and 76.9 points for Brazil, an increase of 6.9 points in relation to the 2<sup>nd</sup> quarter survey. The ninth item is legal and administrative barriers for investors, which is not relevant for Chile, Paraguay, or Uruguay, but scored 61.5 points in Brazil. Lack of qualified labor received 67.6 points in Latin America and 92.3 points in Brazil. Difficulty in the supply of raw materials had a similar score for Brazil (61.5 points) and Latin America (63.0 points). Lack of capital is not a relevant issue for Brazil.

The five biggest barriers in Brazil, all of which received scores above 90 points were lack of innovation, inadequate infrastructure, lack of international competitiveness, widening income inequality, and lack of qualified labor. For Latin America, among the 5 main problems, only lack of innovation scored above 90 points, while widening income inequality and lack of qualified labor are not among the 5 biggest issues.

**Table 3 – Main problems of selected countries**

Problems	Latin America	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay
Lack of innovation	92.6	72.2	85.7	100.0	77.8	100.0	80.0	100.0	88.9	100.0	83.3
Inadequate infrastructure	88.1	83.3	64.3	100.0	50.0	92.3	50.0	90.0	77.8	100.0	60.0
Lack of confidence in the government's economic policy	78.6	100.0	100.0	76.9	70.0	85.7	80.0	80.0	55.6	90.9	33.3
Lack of international competitiveness	76.9	88.9	92.3	92.3	33.3	92.9	90.0	60.0	77.8	72.7	100.0
Corruption	76.7	66.7	100.0	76.9	10.0	92.3	100.0	88.9	100	100.0	16.7
Widening income inequality	75.9	70.6	38.5	92.3	80.0	71.4	80.0	66.7	44.4	63.6	83.3
Unfavorable climate for foreign investors	71.2	88.2	92.9	69.2	60.0	61.5	80.0	80.0	22.2	90.9	0.0
Political instability	69.8	61.1	71.4	76.9	100.0	21.4	70.0	80.0	50	100.0	0.0
Legal and administrative barriers for business	68.8	88.9	100.0	61.5	40.0	78.6	80.0	80.0	33.3	72.7	0.0
Lack of skilled labor	67.6	47.1	84.6	92.3	70.0	64.3	40.0	50.0	55.6	72.7	100.0
Difficulty in the supply of inputs and/or raw materials	63.0	82.4	42.9	61.5	66.7	64.3	80.0	70.0	77.8	40.0	16.7
Capital shortage	53.1	88.9	78.6	30.8	60.0	64.3	80.0	70.0	55.6	27.3	0.0
Reduction of exports due to the external economic slowdown	49.3	44.4	35.7	50.0	80.0	35.7	50.0	55.6	44.4	27.3	50.0
Insufficient demand	49.0	64.7	38.5	33.3	70.0	14.3	70.0	70.0	66.7	54.5	66.7
Inefficient debt management	34.0	61.1	71.4	46.2	40.0	35.7	60.0	10.0	22.2	9.1	0.0
Trade barriers to exports	25.4	88.9	64.3	16.7	20.0	21.4	30.0	20.0	22.2	0.0	33.3
Lack of credible central bank policy	12.3	88.9	71.4	0.0	0.0	0.0	40.0	0.0	11.1	0.0	50.0

Source: FGV IBRE

Further relevant information extracted from this Survey is the percentage of specialists that selected the main problems in their given country. In Brazil, 46.2% selected lack of confidence in the government's economic policy, and the percentage was the same for political instability. In second place, with a percentage of 38.5%, were inadequate infrastructure and widening income inequality. It can be observed that lack of confidence in the government's economic policy and political instability recorded high percentages in all the countries, with the exception of Uruguay, where it is not cited.



Table 4: The three main problems facing the country (in %)

Countries	Main problem	%	Second main problem	%	Third main problem	%
Argentina	Lack of confidence in the government's economic policy	88.9	Legal and administrative barriers for business Trade barriers to exports Political instability Lack of credible central bank policy	27.8	--	
Bolivia	Corruption	64.3	Lack of confidence in the government's economic policy Political instability	42.9	--	
Brazil	Lack of confidence in the government's economic policy Political instability	46.2	Inadequate infrastructure Widening income inequality	38.5	--	
Chile	Lack of confidence in the government's economic policy Insufficient demand	60.0	Political instability Unfavorable climate for foreign investors	40.0	--	
Colombia	Lack of confidence in the government's economic policy	71.4	Inadequate infrastructure Unfavorable climate for foreign investors Lack of international competitiveness	28.6	--	
Ecuador	Political instability	70.0	Lack of confidence in the government's economic policy Unfavorable climate for foreign investors	40.0	--	
Mexico	Lack of confidence in the government's economic policy Corruption	50.0	Inadequate infrastructure Lack of innovation Legal and administrative barriers for business	30.0	--	
Paraguay	Lack of innovation	62.5	Corruption	50.0	Lack of confidence in the government's economic policy Inadequate infrastructure	37.5
Peru	Political instability	81.8	Lack of confidence in the government's economic policy	72.7	Corruption	54.5
Uruguay	Lack of international competitiveness	66.7	Widening income inequality	50.0	Inadequate infrastructure Lack of innovation Lack of skilled labor Insufficient demand	33.3
Latin America	Lack of confidence in the government's economic policy	53.5	Political instability	32.7	Inadequate infrastructure	27.4

Source: FGV IBRE



## APPENDICES

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

<i>Country</i>	<i>Q3/22</i>	<i>Q4/22</i>
Argentina	36.1	32.3
Bolivia	71.2	67.3
Brazil	59.7	65.0
Chile	51.7	40.3
Colombia	101.3	84.1
Ecuador	84.3	71.1
Mexico	67.3	61.6
Paraguay	104.6	100.0
Peru	62.9	56.9
Uruguay	132.8	130.0
<b>Latin America</b>	<b>67.2</b>	<b>63.7</b>

Source: FGV IBRE

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

### PRESENT SITUATION INDEX

PSI	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22	10-year mean
Argentina	8.3	9.1	16.7	25.0	12.5	18.7	15.8	6.7	5.9	37.2
Bolivia	0.0	33.3	44.4	50.0	90.0	70.0	75.0	57.1	78.6	104.3
Brazil	13.3	25.0	17.6	69.2	54.5	22.2	30.0	42.9	92.3	32.4
Chile	10.0	33.3	41.7	87.5	100.0	44.4	53.8	27.3	20.0	69.5
Colombia	0.0	5.6	33.3	47.1	100.0	118.2	120.0	135.7	115.4	93.8
Ecuador	0.0	10.0	0.0	20.0	80.0	55.6	54.5	58.3	60.0	53.3
Mexico	0.0	20.0	33.3	57.1	46.2	50.0	44.4	25.0	55.6	59.1
Paraguay	14.3	77.8	77.8	90.0	133.3	50.0	54.5	40.0	66.7	107.8
Peru	7.7	6.7	36.4	80.0	64.3	42.9	54.5	38.5	45.5	82.6
Uruguay	10.0	12.5	0.0	11.1	66.7	120.0	133.3	128.6	116.7	88.1
Latin America	19.6	19.4	28.2	59.1	58.0	46.2	48.8	44.3	67.0	50.9

Source: FGV IBRE

### EXPECTATIONS INDEX

EI	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22	10-year mean
Argentina	133.3	150.0	92.3	105.6	64.7	68.7	65.0	46.7	38.9	111.0
Bolivia	150.0	77.8	100.0	100.0	84.6	58.3	57.1	78.6	64.3	75.4
Brazil	146.7	137.5	182.4	176.9	72.7	100.0	100.0	66.7	76.9	123.4
Chile	160.0	187.5	166.7	122.2	61.5	44.4	38.5	45.5	50.0	106.8
Colombia	194.1	172.2	176.5	175.0	180.0	81.8	73.3	21.4	28.6	113.5
Ecuador	114.3	90.0	130.0	163.6	160.0	100.0	90.9	83.3	70.0	76.2
Mexico	125.0	140.0	146.7	135.7	130.8	88.9	90.0	75.0	70.0	96.6
Paraguay	200.0	177.8	125.0	166.7	133.3	142.9	133.3	177.8	171.4	132.7
Peru	169.2	142.9	140.0	126.7	100.0	71.4	72.7	61.5	70.0	127.5
Uruguay	190.0	162.5	157.1	188.9	183.3	160.0	166.7	116.7	100.0	109.0
Latin America	142.8	143.6	156.0	150.6	105.1	88.1	87.2	65.5	66.1	108.3

Source: FGV IBRE

### ECONOMIC CLIMATE INDEX

ECI	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22	10-year mean
Argentina	63.5	70.5	51.7	62.2	37.2	42.4	39.1	25.8	21.8	70.8
Bolivia	64.6	54.6	70.8	73.9	87.3	64.1	65.9	67.6	71.4	88.3
Brazil	71.9	75.6	88.5	118.5	63.4	58.2	62.7	54.5	84.5	73.0
Chile	75.0	100.7	97.7	104.4	80.1	44.4	46.0	36.2	34.5	85.0
Colombia	80.7	76.6	96.4	104.4	137.6	99.4	95.7	72.6	68.5	100.8
Ecuador	50.7	46.8	56.9	82.8	117.5	76.9	72.1	70.5	65.0	62.4
Mexico	55.0	73.5	84.4	93.8	85.4	68.7	66.2	48.7	62.7	76.6
Paraguay	92.8	124.0	100.5	126.1	133.3	92.8	91.2	101.1	114.7	118.5
Peru	76.9	66.2	83.5	102.4	81.6	56.8	63.4	49.7	57.5	103.0
Uruguay	86.2	77.5	67.2	86.5	119.7	139.4	149.6	122.6	108.2	96.2
Latin America	74.4	74.6	85.0	101.4	80.6	66.3	67.3	54.7	66.5	77.6

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:

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

$[option]_+$  = Favorable option;

$[option]_-$  = 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 4<sup>th</sup> quarter of 2022, 138 economics specialists in 15 countries of Latin America were consulted.

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