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# Repercussions in Latin America and the Caribbean of the war in Ukraine: how should the region face this new crisis?

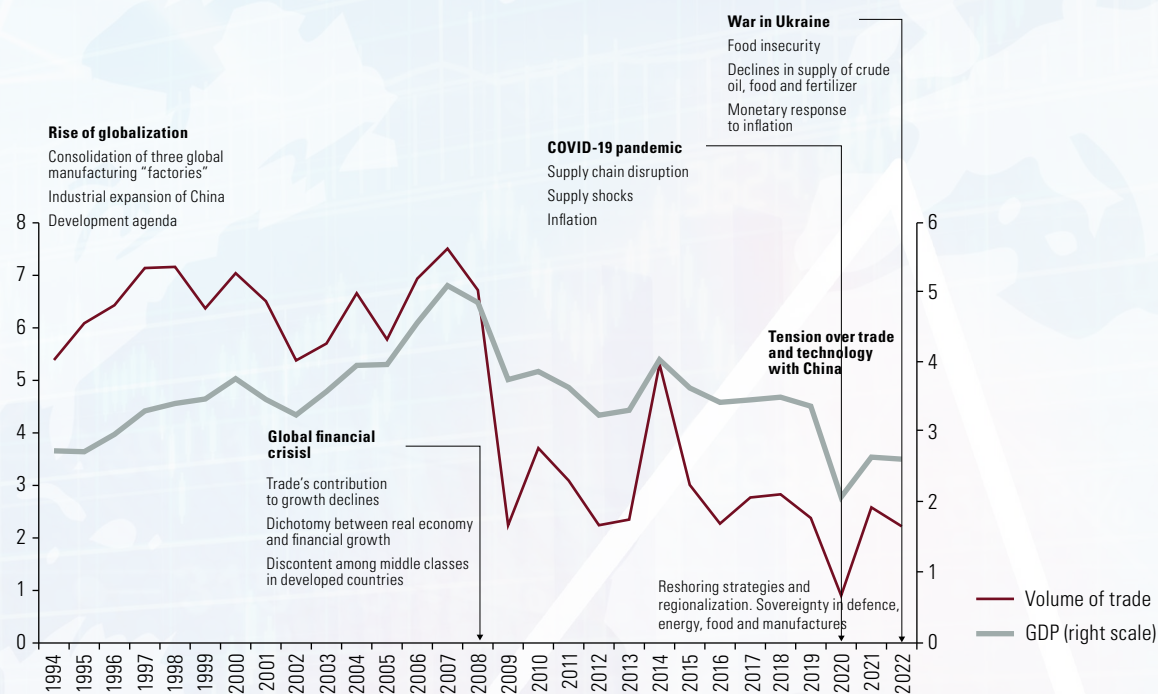
## A. Globalization is slowing: the succession of crises has weakened the world's production structure and its growth

- The war between the Russian Federation and Ukraine has created an international crisis. The effects of that crisis on Latin America and the Caribbean must be analysed considering almost two decades of external shocks that —despite different directions and intensities in each country— have worsened investment and production conditions in the region, against a backdrop of lingering and generally growing uncertainty. Major external shocks include the 2008–2009 global financial crisis, economic tensions between the United States and Europe, on one hand, and China, on the other, from 2017 onward, the coronavirus disease (COVID-19) pandemic from 2020 onward, and now the war in Ukraine.
- These shocks have triggered feedback loops of changes, have weakened globalization as an engine of growth and have led to geopolitical motivations taking precedence over efficiency (see figure 1).

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**Figure 1** The rise and downturn in globalization: annual change in world GDP and volumes of international trade, 1994–2022<sup>a</sup>  
(Percentages and five-year moving averages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>a</sup> Figures for 2022 are projections.

■ These changes include:

- The expansion of the globalization model, based on international production chains and focused on three major world "factories" (North America, East Asia and Europe), which led to a worsening of employment and income for the working classes and the middle-income strata in developed countries, thus fuelling nationalist and anti-globalization views in the United States and the countries of the European Union.
- The trade dispute between the United States and Europe, on one hand, and China, on the other, combined later with the pandemic, which led to breakdowns in various manufacturing production chains. The most prominent case of this was in microprocessors, owing to the knock-on effects on numerous activities, ranging from production of computing hardware to manufacturing of automobiles and industrial machinery. In these circumstances, questions have arisen concerning the globalization model of just-in-time production and delivery, and limited stock.
- The war in Ukraine, which is substantially amplifying the disruptions to primary production sectors (oil, gas, aluminium and grains) and industrial sectors that produce inputs widely used in agriculture, such as fertilizers.
- Maritime transport system disruptions (overstretched ports, long waiting times for ships and higher freight rates), which in such a highly integrated production system have weighed heavily on logistics chains and operating costs. Even one-off events, such as the blockage in the Suez Canal in March 2021, have revealed the structural weakness of chains and their severe vulnerability to exogenous changes.
- These factors strengthened tendencies toward regionalization, including reshoring, nearshoring and multi-shoring strategies, as well relocation to countries that are considered friendly, known as friend-shoring. These strategies, which were already being widely adopted after trade disputes erupted —between the United States and Europe on one hand, and China on the other— have been accentuated by the war, especially in Europe. Security interests (or sovereignty) relating to defence, energy, food and various areas of manufacturing have played a part in this pattern. Developed countries have therefore responded with industrial policies of large investments in high-tech sectors and renewable energy.

- A boom in financial and stock markets, driven by the monetary expansion derived from the response to the global financial crisis. This expansion, combined with widespread assistance to mitigate the economic and social effects of the pandemic, led to an upturn in demand that contributed to or enabled an acceleration of price hikes. In terms of private consumption, lockdowns and less social interaction were accompanied by more disposable income, driving up demand for goods, mainly durable products, at the expense of services. Higher demand for goods in a context of disruptions in production and transportation processes pushed up prices. The relative influence of supply and demand factors is a matter of debate, but both were important.
- The successive shocks have weakened the region's economic structure, particularly in areas related to investment and development of human and technological capabilities, leading to a situation of hysteresis, as reflected by meagre progress in labour productivity and in technological capabilities.

## B. The world in 2022: slower growth, higher inflation, interest rate hikes

- The war in Ukraine has created a new source of uncertainty for the global economy, the first impact being on activity levels: the world is expected to grow 3.3% in 2022, 1.0 percentage point less than projected before the conflict erupted.
- The GDP trends of the region's key trading partners (the United States, China and the European Union) have worsened, which will mean a decline in the region's external demand.
- In the United States, growth is expected to be 2.8%, 1.2 percentage points less than projected in December 2021 (Federal Reserve System, 2022).
- In China, the export and real estate sectors are also expected to grow more slowly. Measures adopted under the country's "zero-COVID" plan have also affected the pace of growth.
- Excluding the countries directly involved in the war, the largest cut to growth projections is for the eurozone, whose economy is highly dependent on Russian energy sources: it is now expected to grow 2.8%, 1.4 percentage points less than forecast before the war began.
- The largest forecast declines in GDP are those of the countries in the conflict. In the case of the Russian Federation, activity is expected to contract by 12%, according to Capital Economics (see Peach, 2022). Other forecasts are more pessimistic; for example, the Institute of International Finance expects a 15% drop (IIF, 2022).
- Climbing prices of energy products (and of commodities in general), sharply rising international transport costs, worsening supply problems and growing domestic demand in developed economies, as analysed later in this report, have pushed up global inflation. Rates began to climb in the second half of 2020 and reached record highs in the first four months of 2022 (see table 1).

**Table 1** Selected regions and countries: inflation rates, 2020–April 2022  
(Percentages)

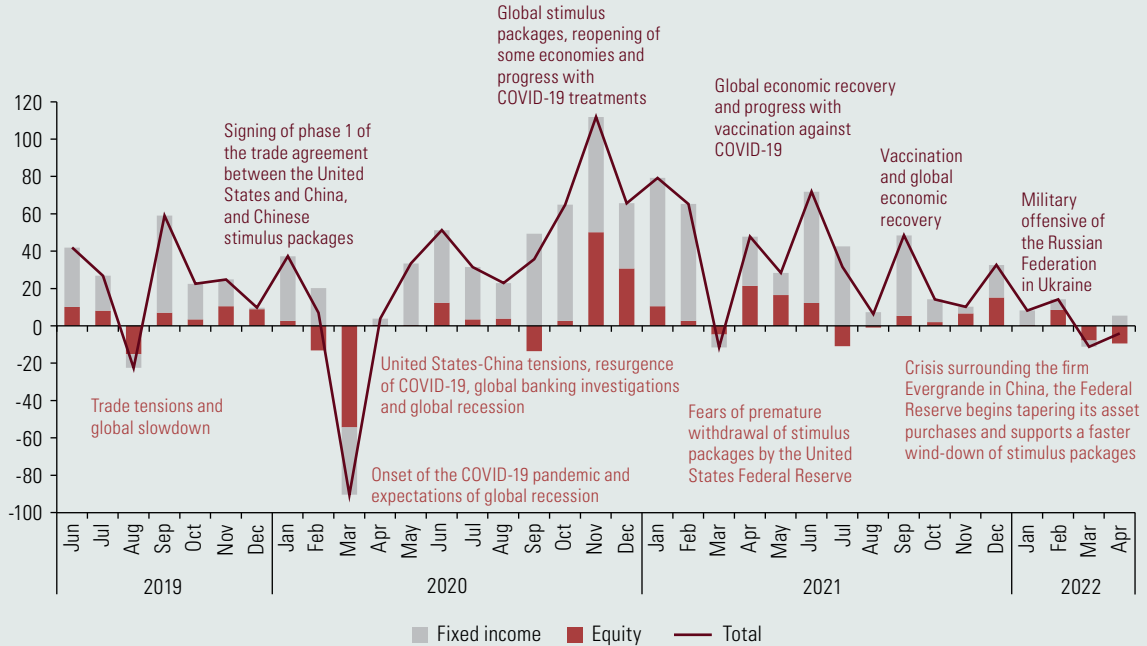
	Year-end 2020	Year-end 2021	April 2021–April 2022
United States	1.4	7.0	8.3
Eurozone	-0.3	5.0	7.4
United Kingdom	0.6	5.4	9.0
Latin America and the Caribbean	3.0	6.6	8.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

- The war has accentuated the pre-existing tightening of global financial conditions, thus increasing volatility in financial markets (see figure 2).
- Increased financial volatility and global risk aversion as a result of the war have hurt capital flows to emerging markets. This trend could become more pronounced in the coming months, if inflationary pressures continue in developed economies and their central banks intensify contractionary monetary policies, including monetary policy rate hikes and wind-downs of monetary stimulus packages (asset purchases).

**Figure 2** Non-resident portfolio capital flows to emerging markets, June 2019–April 2022

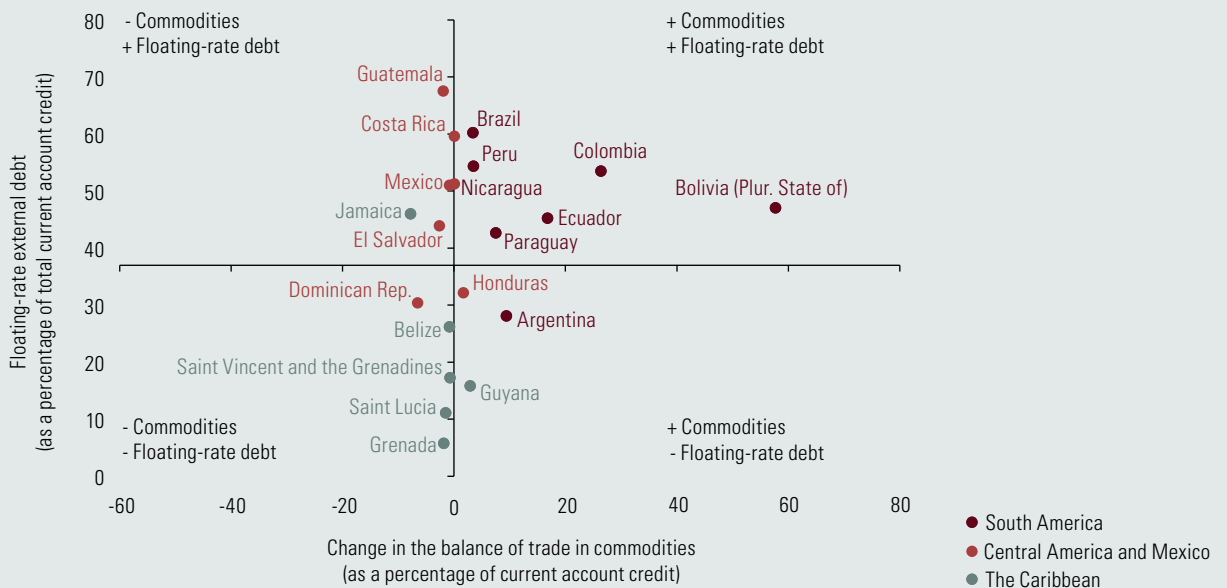
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Institute of International Finance (IIF).

- Tighter monetary policies will hurt the highly indebted countries of the region, as it will limit their access to financing to roll over previous debt or increase net borrowing.
- Rising interest rates will have a significant impact on countries with a high proportion of floating-rate debt in their total external borrowing. Many countries in the region are in this situation. In some of the countries, the positive effect on balances of trade for commodities could offset the rise in interest payments (top right quadrant of figure 3), while in others that may have trade deficits, the combination of the two forces could lead to heightened vulnerability (top left quadrant of figure 3).
- The increase in rates will also worsen the financial situation of the non-financial corporate sector, which is highly indebted in the region.

**Figure 3** Latin America and the Caribbean (20 countries): change in balance of trade for commodities relative to floating-rate external debt, 2022



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Note: Commodities include the tradable sectors of energy, agriculture, fertilizers and metals. The estimated change in the balance of trade in commodities was calculated on the basis of the estimated change in the value for each product in 2022, based on observed prices between January and March 2022 and assuming that prices remain stable at reported March 2022 values until December 2022. The figures for floating-rate debt are for 2020.

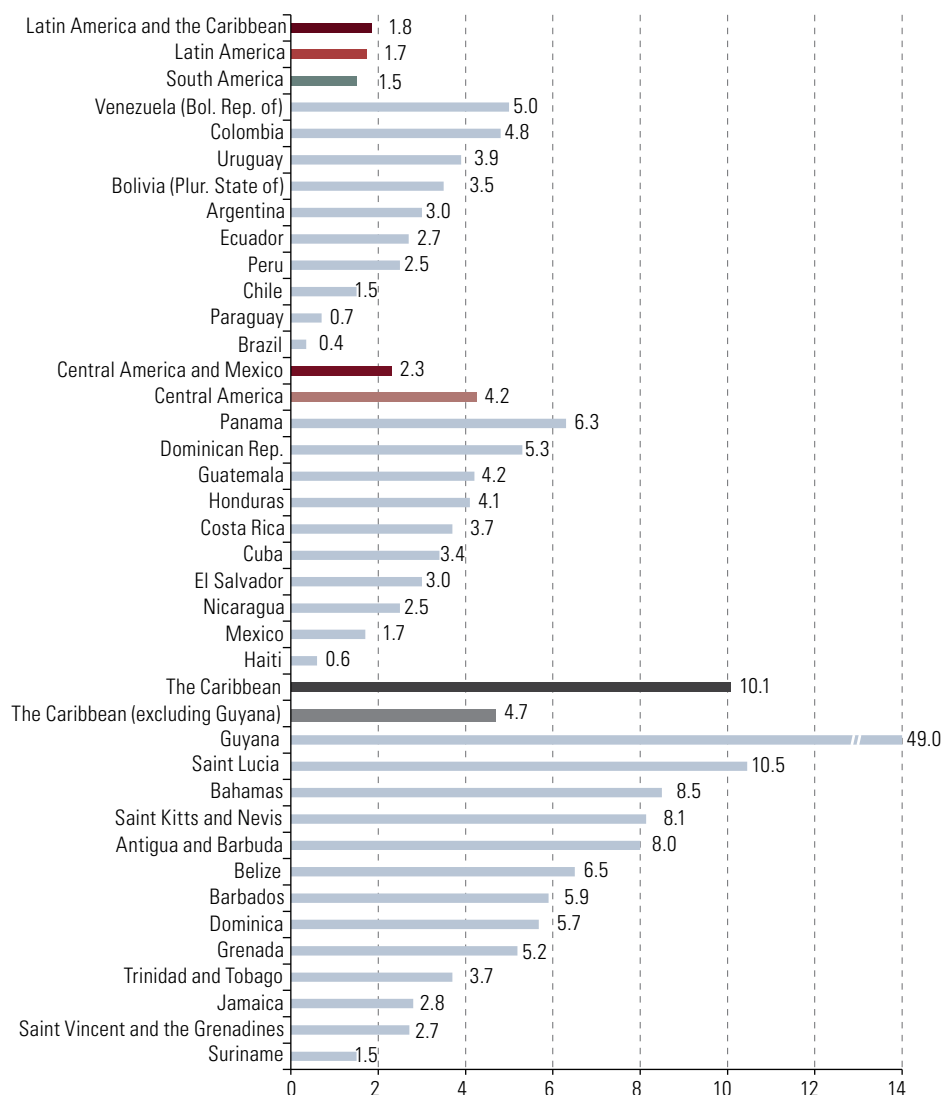
## C. Effects on the region: large differences between countries

- As in previous crises, the effects in the region will differ according to subregion and even country. There are many examples: rising food and commodity prices affect countries according to their place in the “commodity lottery” and near-shoring strategies are strongly influenced by geographic proximity.
- The economic damage is unevenly distributed: severe in some countries and industries, and practically null in others. The level of dependence of each country on oil, gas and other primary products determines the impact of supply disruptions. However, as became clear during the pandemic, disruptions, however minor in one region, can lead to major supply obstructions in far-flung locations.
- Despite this, there are shared factors, such as the increase in uncertainty and its effects on investment, at a time in the region when the post-pandemic economic recovery has lost steam and growth rates will return to their low levels of the 2014–2019 period —just 0.3% average annual growth— and a resulting fall in per capita GDP. The effects of one-off shortages and price increases, for example of gas, wheat or fertilizers, must be analysed in the context of a world that is still recovering from the economic and social repercussions of the pandemic.
- Another shared factor is the effect of hikes in benchmark interest rates in industrialized economies in response to the aforementioned rise in inflation. The capital flight (or smaller capital inflows) that this tends to cause in the countries of the region may be an additional source of financial uncertainty and may also, depending on the impact on exchange rates, drive up inflation. The paradox at this time —which sets the ongoing global price increases apart from those seen in the 2010s— is that accelerating inflation in developed countries could, on its own, become another driver of inflation in the region, owing to the impact of contractionary monetary policy on the valuations of local currencies.
- Uncertainty surrounding the duration and outcome of the conflict is determining, to a great extent, the effects of supply shocks, particularly owing to the different origins and magnitudes of the shocks. On one hand, production capacity has been destroyed in Ukraine and, on the other, economic sanctions have been imposed on the Russian Federation, whose production capacity has not been destroyed, but could deteriorate as a result. In both cases, significant effects are expected through the price increases analysed later in this report.
- The outlook for the region in 2022 is difficult. Firstly, the external context even before the war was one of slowing growth in economic activity and international trade, but it has been complicated further by the conflict, the persistence of COVID-19, and rises in energy and food prices. Secondly, situations at the domestic level are characterized by abrupt slowdowns in economic activity, rising inflation and sluggish and incomplete recoveries in labour markets, driving both poverty and inequality.

### 1. Slowing economic growth: forecasts downgraded

- Following the 6.3% growth in the regional economy in 2021, the Economic Commission for Latin America and the Caribbean (ECLAC) expected a slowdown in the region’s economic growth, to no more than 2.1% in 2022. (ECLAC, 2022). That would mark a return to the aforementioned trend of very subdued growth that prevailed from 2014 to 2019.
- However, given the fallout from the war, the expected trend has become more marked, leading to downgraded estimates. Thus, in early May 2022, average annual growth of 1.8% was forecast for the region (see figure 4).
- At the subregional levels, the South American economies are expected to grow by an average of 1.5%, the Central American economies and Mexico by 2.3%, and the Caribbean economies by 10.1% (4.7% excluding Guyana, whose projected growth rate is 49.0%).
- At the country level, estimates suggest that the fastest-growing countries in South America will be the Bolivarian Republic of Venezuela, at 5.0%, Colombia at 4.8% and Uruguay at 3.9%. In Central America, the economies with the highest forecast growth rates are Panama at 6.3%, the Dominican Republic at 5.3% and Guatemala at 4.2%. In the English- and Dutch-speaking Caribbean economies, growth is expected to be highest in Guyana (49.0% as previously mentioned), Saint Lucia (10.5%) and the Bahamas (8.5%).

**Figure 4** Latin America and the Caribbean (33 countries): projected GDP growth rates, 2022  
(Percentages)



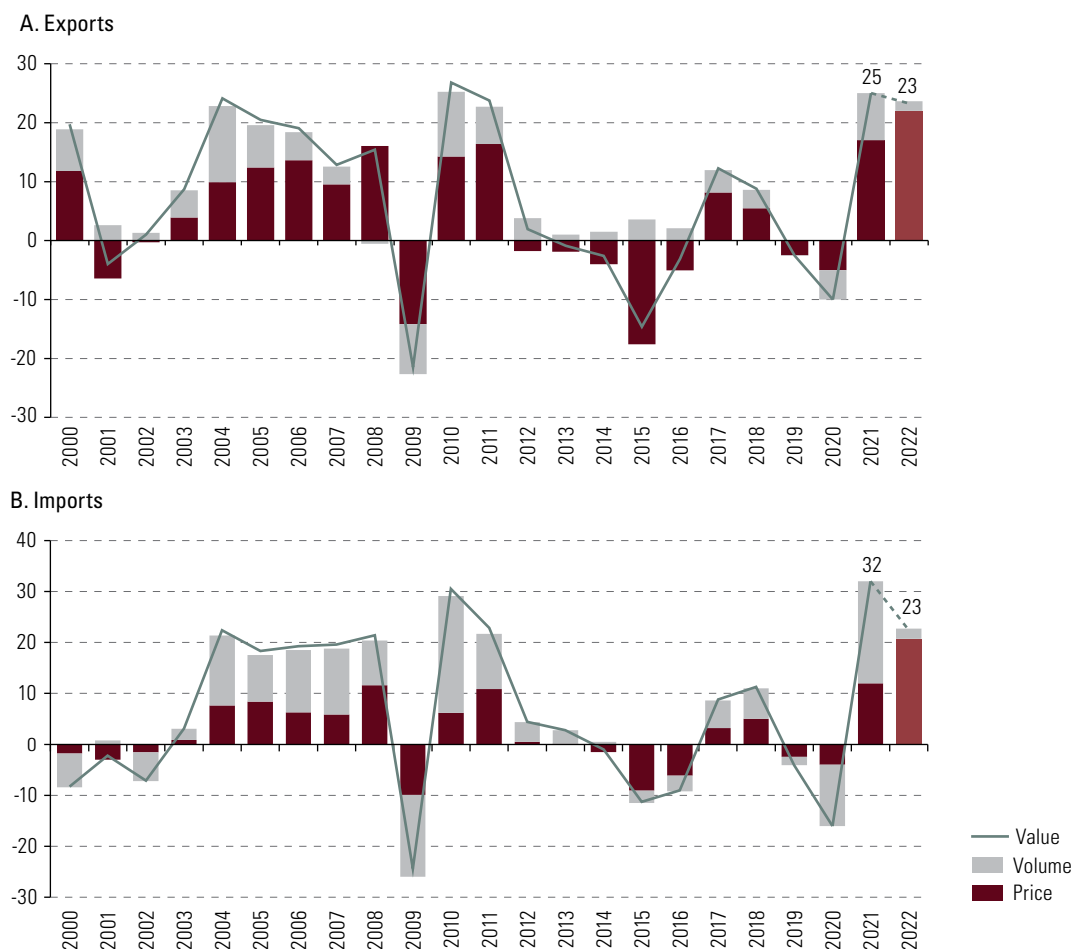
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

## 2. The impacts on international trade: Caribbean economies hit hardest

- In 2020, just 0.6% of the region's total goods exports went to the Russian Federation and Ukraine, and 0.6% of its imports came from those two countries. Three countries stand out owing to higher proportions of exports to the Russian and Ukrainian markets: Paraguay (5.6%), Jamaica (5.5%) and Ecuador (4.5%). In terms of imports, Brazil (1.8%), the Plurinational State of Bolivia (1.6%) and Paraguay (1.2%) are the countries with the highest percentages of supplies from the Russian Federation and Ukraine.
- Shipments from the region to the Russian Federation and Ukraine mainly comprise foodstuffs such as bananas, soybean, beef and salmon. Purchases from the two countries mainly consist of fertilizers and other chemical products. The region is particularly dependent on the Russian Federation for its imports of fertilizers, as analysed in section E.
- The effects of the war on trade volumes are not fully reflected in the information available in May 2022, but it can be said that the conflict has amplified trends seen since 2021: higher commodity prices and transport costs and disruptions to international supply chains. Moreover, the war has also made it necessary to divert ships from the Black Sea, thus exacerbating shipping disruption and further increasing shipping costs.

- Forecast growth in world trade has been revised downward considerably because of the conflict in Ukraine. In April 2022, the World Trade Organization (WTO, 2022) cut its projection for growth in the volume of world trade in goods in 2022 from 4.7% to 3.0%.
- In terms of trade, the main effects that the conflict has had on the region are increases in the prices of energy (oil and gas), mining outputs (coal, copper, nickel), food (wheat, corn, oils) and fertilizers, because both the Russian Federation and Ukraine play key roles in global production and trade of these products.
- This new outlook of higher prices affects projections for the region's foreign trade in 2022. Prior to the conflict, ECLAC (2021) projected a 10% increase in the value of regional goods exports and a 9% increase in the value of goods imports, against a backdrop of a sharp slowdown in economic activity. However, because the conflict has driven up the prices of several of the region's key goods exports and imports, the projections for 2022 have been increased to 23% growth in both exports and imports. In both cases, almost all of the expected rise is based on higher prices of the respective baskets, accompanied by significantly slower growth in the volume exported and imported compared to 2021 (see figure 5).

**Figure 5** Latin America and the Caribbean: annual variation in trade in goods, in value, price and volume, 2000–2021 and projection for 2022  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries of the region.

- Rising commodity prices in international markets affect countries' terms of trade, depending on what proportion those products account for in their respective export and import baskets (see figure 5). Sharp rises in oil, gas and coal prices benefit net exporters of energy products such as the Bolivarian Republic of Venezuela, Colombia, Ecuador, the Plurinational State of Bolivia and Trinidad and Tobago. However, because some of the region's hydrocarbon-exporting countries are also importers of petroleum products (such as gasoline), the net effect is not always favourable (see section F).

**Figure 6** Latin America and the Caribbean: annual rate of change in terms of trade, 2022  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries of the region.

<sup>a</sup> Bolivia (Plurinational State of), Colombia, Ecuador, Guyana, Trinidad and Tobago and Venezuela (Bolivarian Republic of).

<sup>b</sup> Chile, Jamaica and Peru.

<sup>c</sup> Paraguay and Uruguay.

- Countries that are net importers of energy will be hurt by pressure on their balances of trade, especially countries in the English- and Dutch-speaking Caribbean (excluding Trinidad and Tobago and Guyana) and Central America.
- Countries that are net exporters of minerals will also see their terms of trade deteriorate owing to the higher cost of the energy required for production.
- Similarly, some of the Southern Cone countries that are net exporters of agro-industrial products will suffer a twofold harmful effect of higher energy expenses and higher fertilizer costs, which cannot be offset by rises in the prices of their key export products.
- The impact of the conflict on food security in the region is discussed in section E.

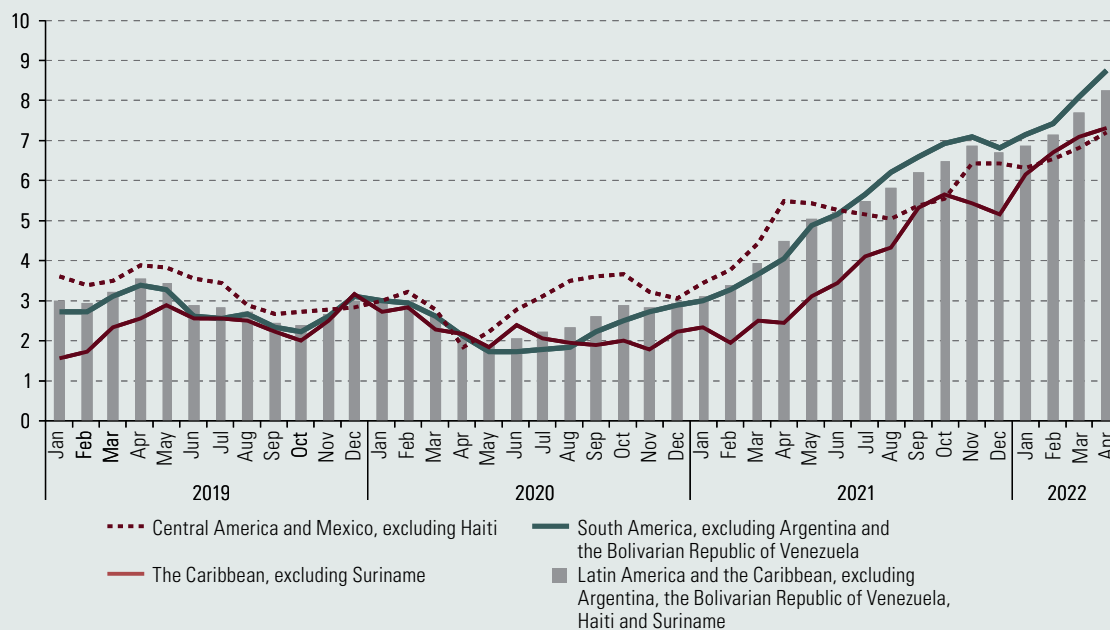
### 3. More inflationary pressure as a result of external shocks

- Inflation rates in the economies of Latin America and the Caribbean began to climb in 2021. Although regional inflation remained at historically low levels in 2020 (3.0%), it rose in the second half of the year and has continued to do so. By the end of 2021, inflation had hit 6.6% (excluding countries with chronic inflation),<sup>1</sup> the highest level since October 2008, at the time of the global financial crisis, when the rate was also 6.6%.
- In April 2022, annual inflation for the region was 8.1%, up 1.5 percentage points from the end of December (see figure 7). Many central banks expect inflation to remain high for the remainder of the year, owing to the heightened uncertainty at the international level, and especially the aforementioned external supply shocks.
- The fact that food, transport (fuels) and housing (electricity, gas and water) are key components of consumer price indices (CPI) is contributing to the pass-through of the external supply shock to domestic headline inflation. The external shock has affected domestic production costs, as reflected by the rise in the producer price index, ultimately impacting local supply. In addition, the context of high exchange rate volatility (strengthening of the dollar) magnifies the external shock, ultimately driving up prices of internationally tradable goods and services.

<sup>1</sup> The figures for Argentina, the Bolivarian Republic of Venezuela, Haiti and Suriname are excluded from the regional and subregional averages because their inflation levels are consistently much higher than those of the rest of the region's economies.



**Figure 7** Latin America and the Caribbean (29 countries): 12-month variation in consumer price indices (CPI), weighted average, January 2019–April 2022  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

#### 4. A slow and incomplete recovery in labour markets

- In 2021, the number of employed persons, total participation rate and employment rate all rose in the countries of the region, and the unemployment rate fell (see figure 8).

**Figure 8** Latin America and the Caribbean (14 countries)<sup>a</sup>: total participation rate, employment rate and unemployment rate, first quarter 2019–fourth quarter 2021  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

<sup>a</sup> Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

- Despite a substantial increase in the number of employed in 2021, with average quarter-on-quarter growth rates of 1.9%, the figure only topped the level recorded at year-end 2019 in the fourth quarter of the year.

- The regional unemployment rate fell 2.3 percentage points in the fourth quarter of 2021 to 8.0%, 0.2 percentage points above the rate at the end of 2019, meaning that around 25.2 million people were unemployed in that quarter.
- If the total participation rate recorded in 2021 had been similar to that recorded in 2019 (thus correcting for the decline in labour supply), the unemployment rate would have been 9.0% in 2021, equivalent to 28.7 million unemployed.
- The slow recovery in employment is affecting women in particular, as a greater proportion of them left the labour market during the pandemic. Rising inflation also affects women to a greater extent, as they have less disposable income and spend a greater part of it on daily consumption, thus diminishing their ability to save. Food price increases are particularly damaging for women because they spend most of their income on daily family consumption, mainly in households headed by single mothers who are breadwinners and caregivers for people of dependent age (children, adolescents and older persons).
- Job creation is expected to lose pace overall in 2022, in keeping with the anticipated slower growth. However, progress with vaccinations, fewer restrictions on movement and reopening of schools will drive a recovery in labour force participation, especially among women.
- The expected rise in inflation will affect labour markets.
  - An increase in companies' cost structures may further slow job creation in some sectors.
  - Higher inflation would lead to a further deterioration in workers' real income, thus hindering a recovery in participation, in addition to weakening purchasing power and well-being.
  - Employment trends could also be affected by monetary authorities' response to the upturn in inflation, as large hikes in interest rates could hamper the recovery in economic activity.
- The combination of higher labour force participation and sluggish job creation will drive the unemployment rate higher in 2022.

## D. Another setback in the fight against poverty and extreme poverty

- The expected subdued economic performance in 2022 and rising inflation form a detrimental situation for living conditions and people's ability to purchase basic goods and services. ECLAC forecasts that extreme poverty and poverty will both rise above the estimated levels for 2021 (see figure 9). The regional poverty headcount ratio is expected to be around 33.0% (0.9 percentage points more than projected for 2021). The ratio for extreme poverty is forecast to reach 14.5% (0.7 points higher than in 2021). These figures reflect a pattern of rises in food prices outpacing those in prices of other goods.

**Figure 9** Latin America (18 countries):<sup>a</sup> rates of poverty and extreme poverty 2014–2021 and projected rates for 2022, in two scenarios for growth and inflation (Percentages)

### A. Extreme poverty

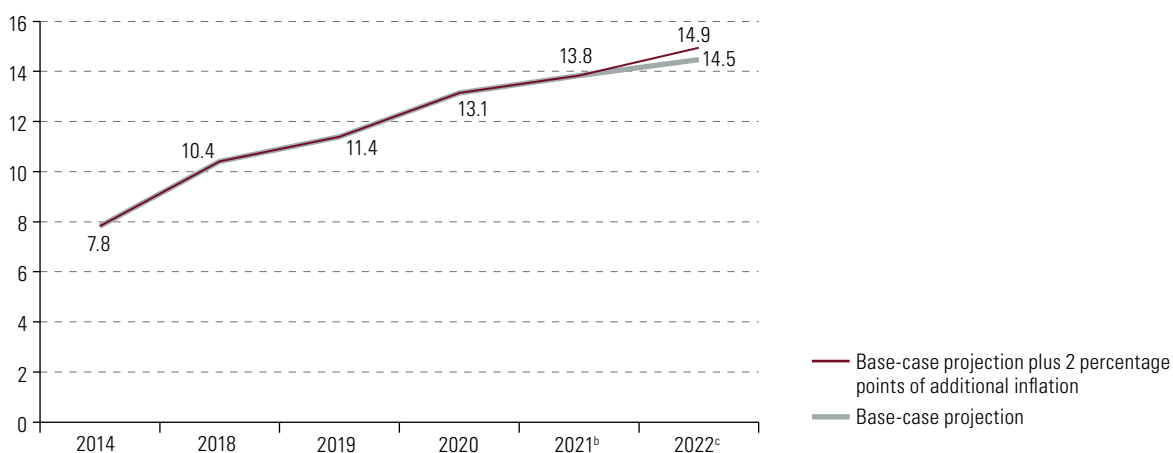
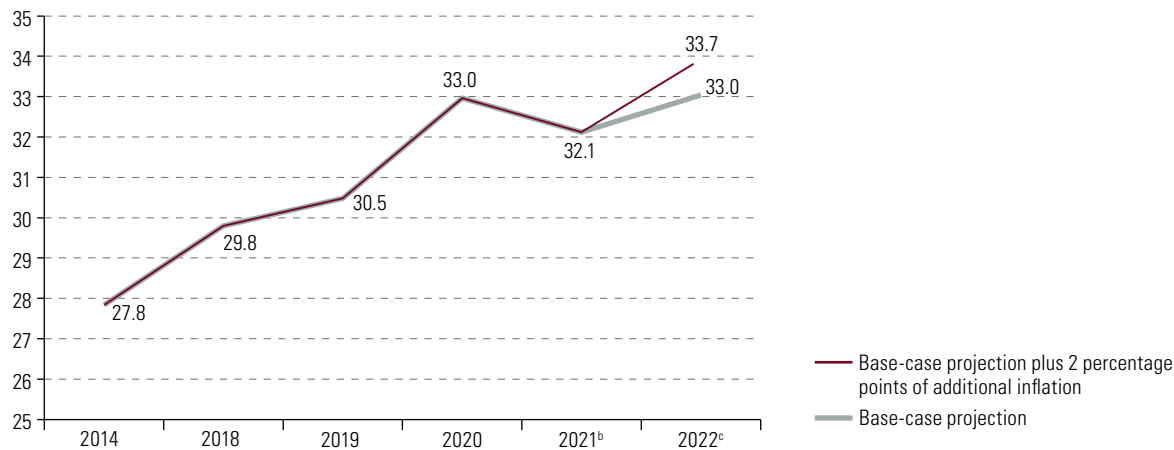


Figure 9 (concluded)

## B. Poverty



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).

<sup>a</sup> The countries included are: Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela (Bolivarian Republic of).

<sup>b</sup> Projection.

<sup>c</sup> The base-case projection uses 2022 forecast real growth in GDP, and inflation expectations as in the first quarter of 2022 plus 2 percentage points. The alternative scenario uses inflation 2 percentage points higher than the base case.

- These levels are appreciably higher than those seen before the pandemic, making a quick recovery a remote possibility. Although the poverty rate fell 0.9 percentage points in 2021 from 2020 levels, extreme poverty continued the upward trend of previous years. Consequently, the projected headcount ratios for 2022 are 2.5 percentage points and 3.1 percentage points above 2019 levels, for poverty and extreme poverty, respectively.
- A growing pace of inflation would lead to even higher levels of poverty. The base-case scenario is based on inflation 2.0 percentage points above that expected in the first quarter of 2022. If inflation were to be 2.0 percentage points higher than in the base-case projection, total poverty would rise by 1.6 percentage points and extreme poverty by 1.1 percentage points compared to estimates for 2021. In this case both extreme poverty and poverty would reach levels higher than those recorded during the first year of the pandemic.
- A 1.1 percentage point increase in extreme poverty would add 7.8 million people to the 86.4 million whose food security is already at risk.
- The impact of price rises and slowing growth will be different from country to country. In Colombia, Mexico, Paraguay and Brazil, the setbacks in the fight against poverty will be considerable (see table 2). If inflation is as forecast in the base-case scenario, total poverty will be 1.7 percentage points higher in Colombia, 1.3 points higher in Mexico, 1.2 points higher in Paraguay and 1.1 points higher in Brazil, as compared to 2021. If inflation proves to be 2.0 percentage points higher than in the base case, poverty would be 2.9 percentage points higher in Colombia, 2.3 points higher in Mexico and 1.6 points higher in Brazil and Paraguay. Conversely, in other countries (Panama and Plurinational State of Bolivia) poverty will foreseeably decline, even in the scenario of inflation 2.0 percentage points above the base case.
- The trend of food price growth outpacing headline inflation in most countries harms not only those living in extreme poverty, but also middle- and lower-middle-income households. This is because as income decreases, food accounts for a larger proportion of household consumption. If the relationship seen up to March 2022 between annual rises in prices of food and those of other goods were to continue, overall, the poorest quintile would experience inflation 1.0 percentage point higher than that felt by the richest quintile. In the case of the second and third quintiles, this difference would be 0.9 and 0.6 percentage points, respectively (medians for 17 countries in the region) (see figure 10).

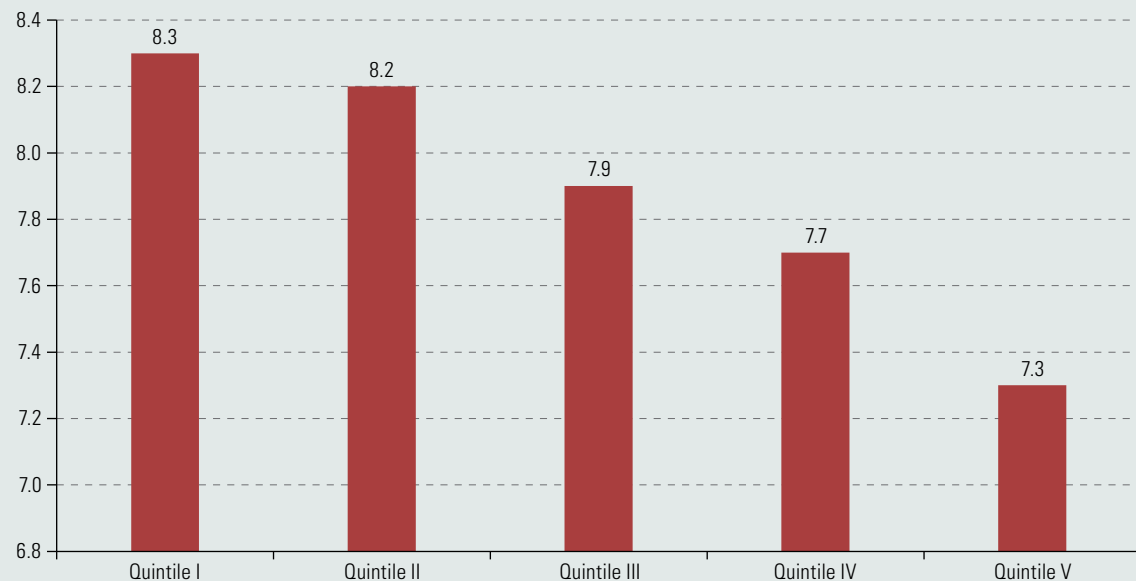
**Table 2** Latin America and the Caribbean (17 countries): projected total poverty, 2021–2022  
(Percentages)

Countries	2021	2022	
		Base case	Base case plus 2.0 percentage points of additional inflation
Argentina <sup>a</sup>	29.5	29.6	30.2
Bolivia (Plurinational State of)	31.2	30.3	30.7
Brazil	21.4	22.5	23.0
Chile	8.7	8.9	9.2
Colombia	36.3	38.0	39.2
Costa Rica	21.1	21.2	22.3
Dominican Republic	19.2	18.6	19.3
Ecuador	29.7	29.4	30.3
El Salvador	26.4	26.5	27.4
Guatemala	49.6	49.5	50.5
Honduras	56.2	56.3	57.3
Mexico	34.9	36.2	37.2
Nicaragua	45.3	46.0	46.8
Panama	21.6	20.8	21.2
Paraguay	21.8	23.0	23.4
Peru	25.1	25.5	26.1
Uruguay	4.3	4.0	4.4
Latin America	32.1	33.0	33.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG), GDP growth projections and expected inflation.

Note: The base case assumes inflation 2.0 percentage points above the rate projected in the first quarter of 2022.

<sup>a</sup> Urban area.

**Figure 10** Latin America (17 countries): projected inflation for 2022 by income quintiles<sup>a</sup>  
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information on prices and Household Survey Data Bank (BADEHOG).

<sup>a</sup> Median for 17 countries. The countries included are: Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

- Although, the differences in inflation rates among income quintiles do not seem that large, a similar price increase across different socioeconomic groups would disproportionately harm households in the lower quintiles, as they would be forced to reduce consumption of basic goods or substitute them, which would not happen for wealthier households. These effects will be more marked in the case of very poor households, whose members may be forced to eat lower quality food by even small price increases, to the detriment of the cognitive development and health of their children.

- Thus, a rise in inflation, and particularly in food prices, will affect the consumption possibilities of much of the regional population, and especially the lower-income segments, potentially fuelling sociopolitical unrest and conflict, which are already heightened in some countries of the region. Social instability can in turn affect capital markets and investment decisions, and public spending cuts to rein in inflation can spark social unrest.

## E. Food security: a priority

- Destruction of agricultural production capacity in Ukraine and the halt of much of the grain and fertilizer trade with the Russian Federation raise the prospect of a global food crisis (see box 1).

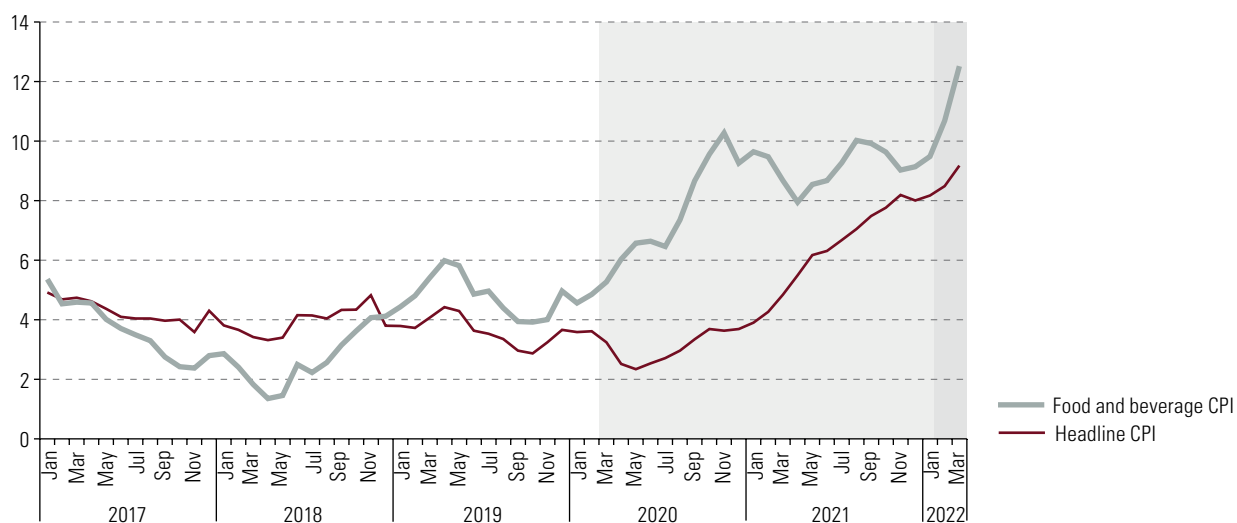
### Box 1 The Russian Federation and Ukraine in grain markets

- In 2021, the Russian Federation accounted for 1.7% of world GDP and 2.2% of global exports, while Ukraine represented 0.2% and 0.3%, respectively.
- Both countries' exports are focused on natural resources and resource-intensive manufactures. In the case of the Russian Federation, this means crude and refined oil, gas, gold, wheat, coal and fertilizers; for Ukraine, steel, coal, oil, chemicals and grains.
- In 2020, the Russian Federation and Ukraine were, together, the source of 28% of world wheat exports, 15% of corn exports and around 60% of sunflower oil exports.
- One third of crops and agricultural land in Ukraine will be unharvestable and uncultivable in 2022 (FAO, 2022). As a result, about 26.4 million tons of wheat, corn and barley could disappear from markets.
- The impact could be a drop of 19 million to 34 million tons of exports in 2022 (Peach, 2022). In 2023, the figure could be 10 million to 43 million tons. This is equivalent to the calorie intake of 60 million to 150 million people.
- All this is occurring in an oligopoly market, where six private mega-traders control 85% of the market (Wiggerthale, 2021). What is more, their share prices have risen at a similar rate to food prices.
- The Russian Federation and Ukraine are not the main suppliers of grain to the countries of the region, but the latter are affected by higher international grain prices.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), "The importance of Ukraine and the Russian Federation for global agricultural markets and the risks associated with the current conflict. 25 March 2022 Update", *Information Note*, 2022 [online] <https://www.fao.org/3/cb9236en/cb9236en.pdf>; L. Peach, "Energy embargo to deepen Russia's contraction", *Capital Economics*, 10 March 2022 [online] <https://www.capitaleconomics.com/publications/emerging-europe-economics/emerging-europe-economics-update/energy-embargo-to-deepen-russias-contraction/>; and M. Wiggerthale, "Corporate power in the food system: facts and figures on market concentration in the agri-food sector", January 2021 [online] [http://marita-wiggerthale.de/mediapool/16/163463/data/Corporate\\_power\\_food\\_system\\_Jan\\_2021\\_1\\_.pdf](http://marita-wiggerthale.de/mediapool/16/163463/data/Corporate_power_food_system_Jan_2021_1_.pdf).

- Even before the pandemic, the prevalence of undernourishment in the region was increasing (from a low of 5.4% in 2014 to 7.1% in 2019).
- The pandemic accelerated the deterioration: in 2020, the prevalence of undernourishment reached 9.1% (a level not seen in the region since 2005). In 2020, around 14 million more people in the region were affected by hunger than in 2019. Caribbean countries are particularly vulnerable: 16.1% of their inhabitants suffered from malnutrition in 2020.
- Food prices climbed in the region in the second half of 2020 owing to supply chain problems. Even before inflation became a global problem in 2021, food inflation had already accelerated and it has remained high (see figure 11).
- Food inflation in March 2022 sent alarm bells ringing about the weakness of regional food security.
- Food price growth accelerated and outpaced headline inflation in all reporting countries, with the exception of Ecuador (see table 3). Year-on-year food inflation reached double digits in Brazil, Chile, Colombia, Mexico, Paraguay and Uruguay, all countries with no recent history of chronic inflation.

**Figure 11** Latin America and the Caribbean (10 countries):<sup>a</sup> year-on-year rates of variation in the headline consumer price index (CPI) and the index for food and beverages, weighted averages, January 2017–March 2022  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CEPALSTAT and national official sources.

<sup>a</sup> Population-weighted average of data from ten countries that account for 75% of the region's population: Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

**Table 3** Latin America (11 countries): annual food and beverage and headline inflation rates, 2021 and February and March 2022  
(Percentages)

	A. Food and beverage inflation			B. Headline inflation		
	2021 average	February 2022	March 2022	2021 average	February 2022	March 2022
Colombia	9.0	21.6	23.5	3.5	8.0	8.5
Paraguay	8.2	14.5	16.2	4.8	9.3	10.1
Mexico <sup>a</sup>	6.8	11.7	12.1	5.7	7.3	7.5
Chile	4.7	8.2	12.0	4.5	7.8	9.4
Brazil	12.4	9.1	11.6	8.2	10.5	11.3
Uruguay	7.8	9.7	11.2	7.8	8.8	9.4
El Salvador	2.3	9.5	9.8	3.5	6.7	6.7
Costa Rica	2.4	7.3	9.5	1.7	4.9	5.8
Peru	4.7	7.9	9.1	4.0	6.1	6.8
Guatemala	4.9	3.2	4.9	4.3	3.0	4.2
Ecuador <sup>a</sup>	-0.8	2.7	2.2	0.1	2.7	2.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CEPALSTAT and national official sources.

<sup>a</sup> Preliminary data.

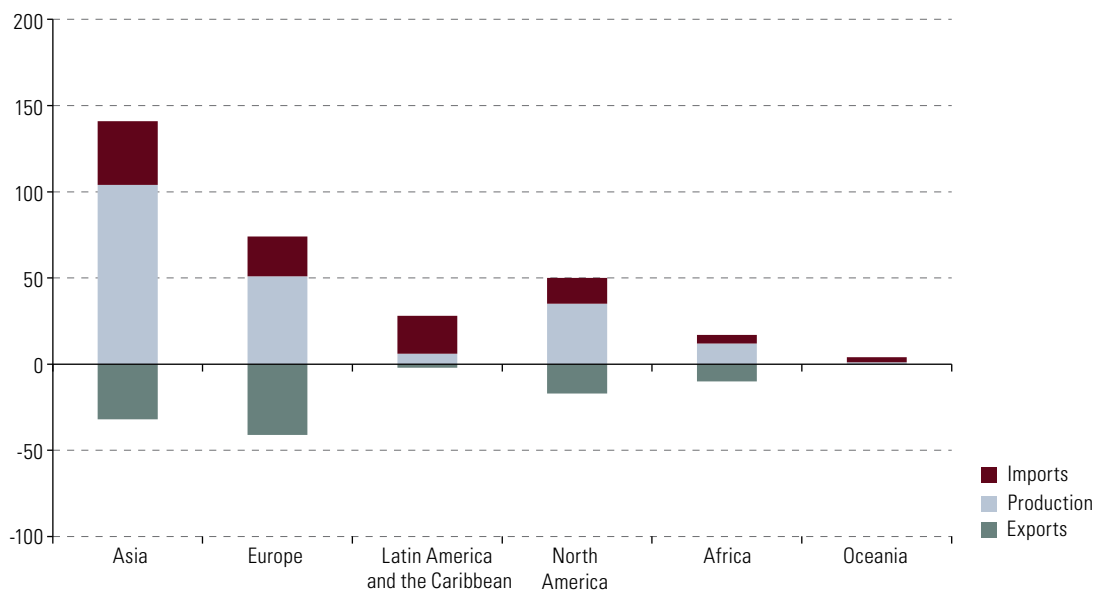
- These high figures are mainly caused by pass-through of high international prices of agricultural commodities (primarily grains and oils) and energy- and transport-related commodities.
- Although the region as a whole has a trade surplus in food, many countries have deficits, particularly the Caribbean economies (see table 4). However, a food trade surplus may not adequately reflect the situation regarding staple foods in a given country. Food trade deficits are significant because, given the nature of agricultural cycles, price rise impacts are likely to be felt for several years.
- In the medium term, if high prices of agricultural foodstuffs continue, pressure to expand land for crops and grazing will increase, with a harmful impact on forests and scrubland, as seen in 2000–2010 and 2010–2020, based on data from Globeland30.<sup>2</sup>
- In contrast to the trade surplus in food, the region has a large deficit in fertilizers: around 78% of fertilizers used in agriculture are imported.
- The region's self-sufficiency rate for fertilizer is the second lowest in the world, ahead of Oceania, a continent with less than 10% of the population of Latin America and the Caribbean (see figure 12).

<sup>2</sup> See [online] [http://www.globallandcover.com/home\\_en.html](http://www.globallandcover.com/home_en.html).

**Table 4** Latin America and the Caribbean (28 countries): food import dependence, 2019*(Percentages and millions of dollars)*

Countries	Proportion of food in total exports (percentages)	Proportion of food in total imports (percentages)	Balance of trade for food (millions of dollars)	Surplus/deficit
Argentina	57.5	6.9	34 074	Surplus
Bahamas	16.4	42.1	-608	Deficit
Barbados	20.8	21.1	-241	Deficit
Belize	79.5	20.4	-7	Deficit
Bolivia (Plurinational State of)	14.8	7.8	557	Surplus
Brazil	35.4	6.0	66 683	Surplus
Chile	27.0	10.5	11 527	Surplus
Colombia	18.5	13.1	416	Surplus
Costa Rica	40.6	13.5	2 477	Surplus
Cuba	42.3	29.7	-1 353	Deficit
Dominican Republic	23.0	15.3	-1 073	Deficit
Ecuador	52.1	12.2	9 144	Surplus
El Salvador	19.4	18.7	-1 024	Deficit
Grenada	71.7	23.5	-88	Deficit
Guatemala	50.5	15.7	2 585	Surplus
Guyana	23.6	5.7	140	Surplus
Haiti	...	42.0	-2 091	Deficit
Honduras	71.4	18.8	483	Surplus
Jamaica	21.7	18.7	-835	Deficit
Mexico	7.3	5.2	9 832	Surplus
Nicaragua	46.2	14.9	1 391	Surplus
Panama	17.8	22.9	-2 857	Deficit
Paraguay	65.0	8.6	3 928	Surplus
Peru	23.2	12.0	5 604	Surplus
Saint Lucia	38.6	27.3	-133	Deficit
Saint Kitts and Nevis	4.9	26.6	-68	Deficit
Uruguay	66.4	15.1	3 857	Surplus
Venezuela (Bolivarian Republic of)	4.2	29.1	-2 562	Deficit
<b>Latin America and the Caribbean (28 countries)</b>	<b>22.8</b>	<b>8.3</b>	<b>139 758</b>	<b>Surplus</b>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, UN Comtrade Database.

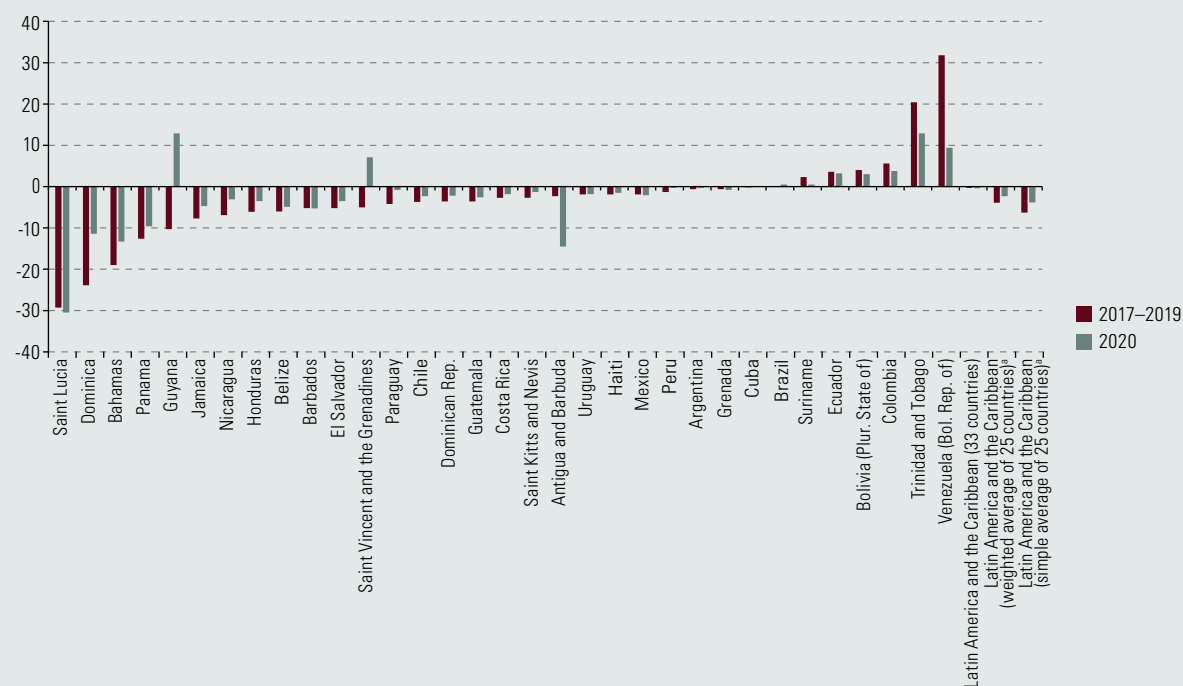
**Figure 12** Fertilizer production, imports and exports, by world region, 2019*(Millions of tons)*Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Food and Agriculture Organization of the United Nations (FAO), Corporate Database for Substantive Statistical Data (FAOSTAT) [online] <https://www.fao.org/faostat/en/#data/RFN>.

- In 2020, 88% of regional imports of nitrate- and phosphate-based fertilizers came from the Russian Federation, as did 74% of ammonium nitrate purchases. In 2021, the Russian Federation was the world's leading exporter of nitrogen-based fertilizers, the second largest exporter of potassium-based fertilizers and the third largest exporter of phosphorus-based fertilizers (FAO, 2022).
- Fertilizer supply in 2021 was affected not only by rises in commodity prices, but also by physical disruption. For example, restrictions were placed on exports to ensure sufficient supply for the domestic markets in China, the Russian Federation, Egypt and Türkiye; weather-related physical disruptions have hampered nitrogen and phosphate production in the United States and sanctions on Belarus have affected potash supplies.
- Fertilizer shortages have a considerable impact on agricultural costs (see figure 12), as they account for a percentage of total costs ranging from 20% for rice, potatoes and sugarcane to 40% in the case of yellow corn and coffee (Aldana Rosillo, 2022; Perfetti and others, 2012).
- Insufficient fertilizer use could reduce yields per hectare and even result in smaller sowed areas for certain crops, such as soybeans, next spring (around October 2022) in South America.
- In the case of Argentina, a study by the Rosario Board of Trade (2022) estimated that, in the event of a critical fertilizer shortage, yields for corn and wheat could be 19.4% and 25.9% lower, respectively (13.4% and 21.4% in a moderate scenario). This would lead to declines in export income from these crops, amounting to US\$ 3.388 billion in a moderate scenario and up to US\$ 4.576 billion in a severe scenario, equivalent to 9%–12% of the total value of expected agricultural exports in the 2021/22 season.
- In Brazil, ECLAC estimates based on the 2017 Agricultural Census suggest that energy-intensive inputs (fertilizers, pesticides, fuels and electricity) account for an average of 33.5% of the total costs of agricultural operations. This proportion is 44% in the case of farms whose crops are annual. Given the rises seen in fertilizer and energy prices, these percentages can be expected to have increased sharply.
- Higher costs of producing coffee, cocoa or bananas, or limitations on production, would negatively affect small- and medium-sized economies in the region that are highly dependent on production and exports of such goods.

## F. Fossil fuels: united the region stands, divided it falls

- The region's hydrocarbon trade deficit was with a range of 0.3%–0.4% of GDP from 2017 to 2020. However, if the largest oil producers in the region are excluded, the average hydrocarbon trade balance for 25 countries shows much larger deficits as a percentage of GDP of 3.9% for the 2017–2019 period and 2.3% in 2020 (see figure 13).

**Figure 13** Latin America and the Caribbean (33 countries): balance of trade in fossil fuels, 2017–2019 and 2020  
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, UN Comtrade Database.

<sup>a</sup> The groups of 25 countries exclude the figures for Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Ecuador, Mexico, Peru and Trinidad and Tobago.



- As in the case of food and other items, the war will affect countries in the region differently. In that regard, the countries can be divided into three groups:
  - **Group 1:** Countries that produce and are net exporters of hydrocarbons, such as Brazil, the Bolivarian Republic of Venezuela, Colombia, Ecuador and Trinidad and Tobago. This group also includes the Plurinational State of Bolivia, which exports natural gas, and Guyana and Suriname, which account for small shares of the global and regional oil markets, but have large reserves and substantial production potential. Although these countries, like others in the region, need to import refined products (such as gasoline) to meet domestic demand, they have hydrocarbon trade surpluses of more than 3% of GDP, except Brazil and Suriname. The economies of some of these countries are dependent on hydrocarbon exports, such as the Bolivarian Republic of Venezuela (highly dependent), and Trinidad and Tobago and Colombia (moderately dependent).
  - **Group 2:** Countries that produce and export hydrocarbons but have trade deficits as their output of refined products for the domestic market runs a significant deficit. This group includes Argentina, Mexico and Peru. The deficit of the two South American countries is smaller than the weighted average for the region, but Mexico's deficit is larger. Exports of goods from these countries are more diversified (but concentrated in other natural resources in the cases of Argentina and Peru), so the proportion of hydrocarbons is small.
  - **Group 3:** The remaining countries, which have very limited hydrocarbon production, mostly for refining, have long-running trade deficits for these products. Their weighted average hydrocarbon trade deficit is more than 1% of GDP.
- **Overall, the region has surplus hydrocarbon refining capacity** (see table 5), but —as in the case of oil production— the situation varies from country to country, depending on factors such as whether they are crude oil producers, whether domestic prices favour refining, whether they have invested in plant maintenance and whether they have the capacity and infrastructure needed to export. For example, Argentina, Brazil, Colombia and Ecuador have maintained capacity utilization rates above 60%, even in 2020, while the rates for Mexico and Peru have been below 50% and for the Bolivarian Republic of Venezuela below 10%.

**Table 5** Latin America and the Caribbean (8 countries): hydrocarbon refining output, capacity and capacity utilization, 2017–2019 and 2020  
(Thousands of barrels per day and percentages)

	Output		Capacity		Utilization (percentages)	
	2017–2019	2020	2017–2019	2020	2017–2019	2020
Argentina	482	417	606	580	79.6	71.9
Brazil	1 742	1769	2 287	2 290	76.2	77.2
Colombia	374	330	421	421	88.8	78.3
Ecuador	153	116	175	175	87.2	66.6
Mexico	657	591	1 554	1 558	42.3	37.9
Peru	205	105	253	253	80.9	41.6
Trinidad and Tobago	76	0	165	165	46.4	0.0
Venezuela (Bolivarian Republic of)	329	123	1 303	1 303	25.2	9.5
Other countries	446	427	981	981	45.5	43.5
Total	4 463	3 878	7 744	7 726	57.6	50.2

Source: BP, Statistical Review of World Energy 2021, 2021 [online] <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>.

- Given their output and refining capacities, group 1 countries would benefit from high fossil fuel prices because of the positive effects on their balances of trade and tax revenues. The final impact will depend on their budgetary situations and how surplus resources are spent (for instance, on consumption subsidies or fuel production). Likewise, depending on how long they are expected to last, price rises would incentivize increased hydrocarbon output through more investment in exploration and production.
- Countries in groups 2 and 3 would see their trade balances negatively affected (the effect on tax revenues from the sector would depend on whether countries are producers or not) and will have to implement very short-term policy measures to balance fossil fuel supply and demand in the domestic market, considering the needs of households and key economic activities.
  - Price trends could lead to contrasting incentives in these two groups. In group 2, they could act as an engine for the hydrocarbon industry in the short term, since the countries in the

group have reserves and installed capacity. Conversely, in group 3, prices could accelerate a transition to renewable energy sources. In both cases, public policies will be critical to signal future energy security.

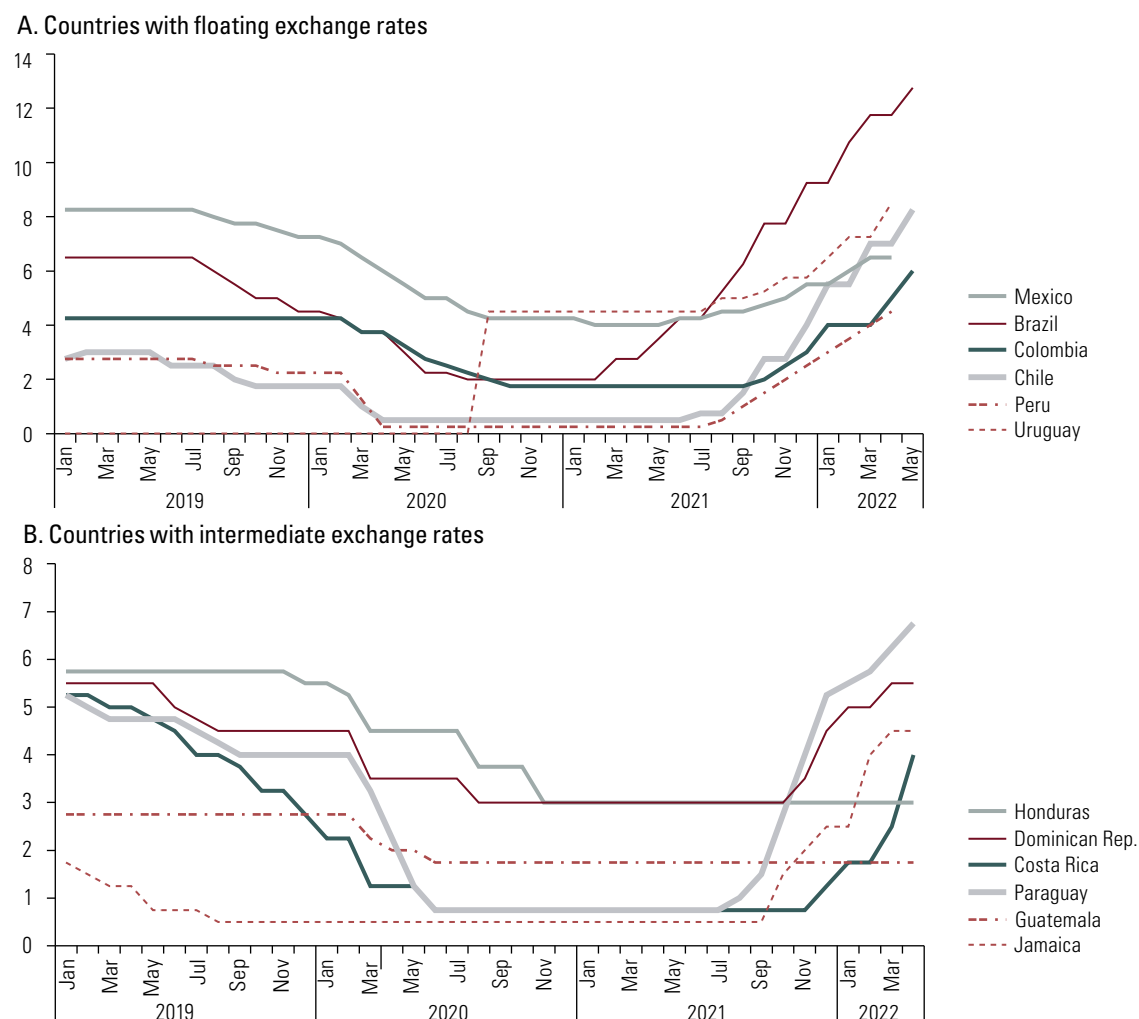
- The region’s overall production and refining capacities, if used in full, would be sufficient to supply all countries with crude oil and certain petroleum products. While this would be a technical, economic, infrastructure and institutional challenge, it also highlights the need to develop a regional energy integration agenda that encompasses these fossil fuel energy sources, in addition to renewable energies, to achieve regional energy security.

## G. Policies for the short and long term

### 1. Pro-growth and anti-inflation monetary and fiscal policy

- After monetary policy benchmark interest rates hit the lowest levels in a decade in 2020, against a backdrop of higher inflation and a tendency toward depreciation of currencies, most central banks in the region have decided to raise rates in 2021 and 2022. In response to rising inflation, monetary policy has become more restrictive.
- The monetary policy benchmark rates of most central banks in the region have approached the levels seen in 2017. The central banks of Brazil, Paraguay and Peru have raised rates most frequently, while Brazil, Chile and Paraguay have the largest cumulative rate hikes (see figure 14 and table 6).

**Figure 14** Latin America and the Caribbean (12 countries): monetary policy interest rates in countries where they are the main policy instrument, January 2019–May 2022 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.  
 Note: Countries are classified according to monetary and exchange rate systems as per the method of the International Monetary Fund (IMF), *Annual Report on Exchange Arrangements and Exchange Restrictions 2019*, Washington, D.C., 2020, p. 6.

**Table 6** Latin America and the Caribbean (countries with inflation targets): monetary policy interest rate and number of increases, February 2021–May 2022  
(Annualized percentages)

	February 2021	May 2022	Number of increases
Brazil	2.00	12.75	10
Chile	0.50	8.25	7
Colombia	1.75	6.00	6
Costa Rica	0.75	4.00	4
Dominican Republic	3.00	5.50	4
Jamaica	0.50	4.50	5
Mexico	4.00	6.50	8
Paraguay	0.75	6.75	9
Peru	0.25	4.50	9
Uruguay	4.50	8.50	6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

### (a) Current circumstances pose a significant challenge in terms of monetary and exchange rate policy

- Monetary authorities in the region are facing a dilemma, as maintaining a policy of rate hikes to curb inflationary pressures narrows the monetary policy space to support economic activity and aggregate demand, which could dampen already subdued economic growth.
- In addition, less favourable financial conditions (normalization of monetary policy and reversal of monetary stimulus in developed countries), resulting in higher exchange rate volatility, could also drive policy rate hikes. This, in turn, could lead to capital flight (such as at the beginning of the pandemic), heightened risk aversion, and appreciation of the dollar, potentially increasing the risk of macrofinancial instability and driving inflation higher in the countries of the region through the foreign exchange channel.
- Therefore, monetary authorities in the region should draw on all available policy instruments to mitigate the costly trade-offs between targets for price stability and economic growth. A policy of using interest rates to rein in inflation may prove ineffective in the face of supply shocks, with undesired effects on the recovery in activity.
- Given the intensification of macrofinancial risks, international reserves management has become more important, not only as a monetary policy tool, but also as a key part of macroprudential policy.
- The actions of central banks in the region will depend on the characteristics of each country, namely the degree of openness of the current and capital accounts, the exchange-rate regime, macroprudential regulation and the ability to access external financing. Proactive management of international reserves is an adequate policy option to respond quickly to financial shocks. In the meantime, efforts should be made to maintain complementarity with other macroprudential instruments that strengthen the resilience of international liquidity positions.

### (b) Fiscal policy must remain a core component of development policy

- Energy and food subsidies and transfers to the most vulnerable segments of the population should be used to mitigate the impact of inflation on their income and well-being and prevent a further deterioration in private consumption.
- The fiscal impulse through public spending began to slow in 2021, with a decline in outlays on subsidies and current transfers. The reduction in public spending as a percentage of GDP was largely a result of decisions to terminate and not extend cash transfer programmes. However, public spending remains above pre-pandemic levels (23.4% of GDP in 2021, up from 21.4% in 2019).
- Tax revenues rose considerably in 2021, boosting total revenues and contributing to a reduction in fiscal deficits. Revenue from the major taxes (value added tax and income tax) rebounded as a result of a revival in economic activity, rises in imports, favourable prices of non-renewable natural

resources and a baseline effect owing to the tax relief measures applied in 2020. In 2021, total revenues were equivalent to 19.2% of GDP, and in 2019 they amounted to 18.4% of GDP.

- In 2021, nominal GDP growth translated into a reduction in gross public debt as a percentage of GDP. The high nominal GDP growth more than offset the increase in public debt in absolute terms and the potential effects of currency depreciation or interest rate increases. In 2021, the gross public debt of central governments was equivalent to 53.7% of GDP, while in 2019 it stood at 45.3%, and in 2020 it was around 56.5%. Although the level reached in 2021 is an improvement on 2020, gross public debt remains high in historical terms. The level of central government debt in 2021 was 24.3 percentage points of GDP higher than the level recorded in 2008, which was 29.4% of GDP.
- In 2022, the macroeconomic context has become more complex, posing fiscal policy management challenges that will take different forms in different countries, reflecting their diverse fiscal situations. Countries that are net importers of energy and food, with high levels of debt and production structures that are highly exposed to international conditions—for instance through the tourism sector—face particularly difficult problems.
- The further slowdown in GDP growth expected in 2022 would weaken tax revenues, limiting the space to maintain active fiscal policies. The slowdown in private consumption and investment would be a drag on tax revenues. However, higher prices for energy and other commodities could boost government revenues in countries that are net exporters of such products.
- The risk a deterioration in financial conditions and lower capital flows to emerging markets would push up the cost of borrowing. The potential increase in interest rates and sovereign risk, added to the risk of currency depreciation, would also result in higher debt servicing costs. These factors could be accentuated by restrictive monetary policy in developed countries, which is to be expected, given the situation in terms of inflation. Risks of credit rating downgrades could also increase pressure to make fiscal adjustments.
- Accelerating inflation would put public spending under increased stress. Rising international prices of energy and food would amplify the harmful effects of the economic slowdown on households' purchasing power, and especially that of the most vulnerable. This would create pressure to increase subsidies to mitigate the effects of inflation. At the same time, higher agricultural input prices would create a push for support measures for agro-industry. Similarly, higher prices of energy products would lead to calls to subsidize those products.
- Although the region's macrofiscal situation has been complicated by global uncertainty and more restrictive monetary policy, fiscal policy must remain a key part of countries' development policies. The region requires fiscal policy that stimulates economic growth and investment, promotes environmental sustainability and reduces social and structural gaps, within a framework of fiscal sustainability based on the strengthening of public revenues.
- It is essential to adopt a strategic approach to public spending, to turn it into an instrument of development, prioritizing actions with high economic and social returns. To this end, public investment must be boosted to promote investments in strategic sustainable sectors with high potential to transform the production structure and create quality jobs with gender equality. It is also vital to strengthen social protection, health and education systems in order to close structural development gaps (inequality, poverty and informality, among others), which have considerable social and economic costs.
- Because fiscal space must be expanded to provide financing to cover increased spending requirements and provide sustainability to fiscal policy, strategies to strengthen public revenues are needed. In the short term, action should be taken to reduce tax evasion, which in Latin America was equivalent to around 6.1% of GDP in 2018, or US\$ 325 billion, and tax expenditures should be examined, as they account for forgone revenues equivalent to 3.7% of GDP. In the medium term, fiscal and social pacts will be required to strengthen collection of income and property taxes, to make tax systems more progressive. Taxation of the digital economy, environmental taxes and taxes related to public health problems should also be considered, in addition to reviewing and progressively updating royalties for extraction of non-renewable natural resources.
- With regard to all these efforts, international financial institutions must include more robust measures to promote financing for development in their agendas.

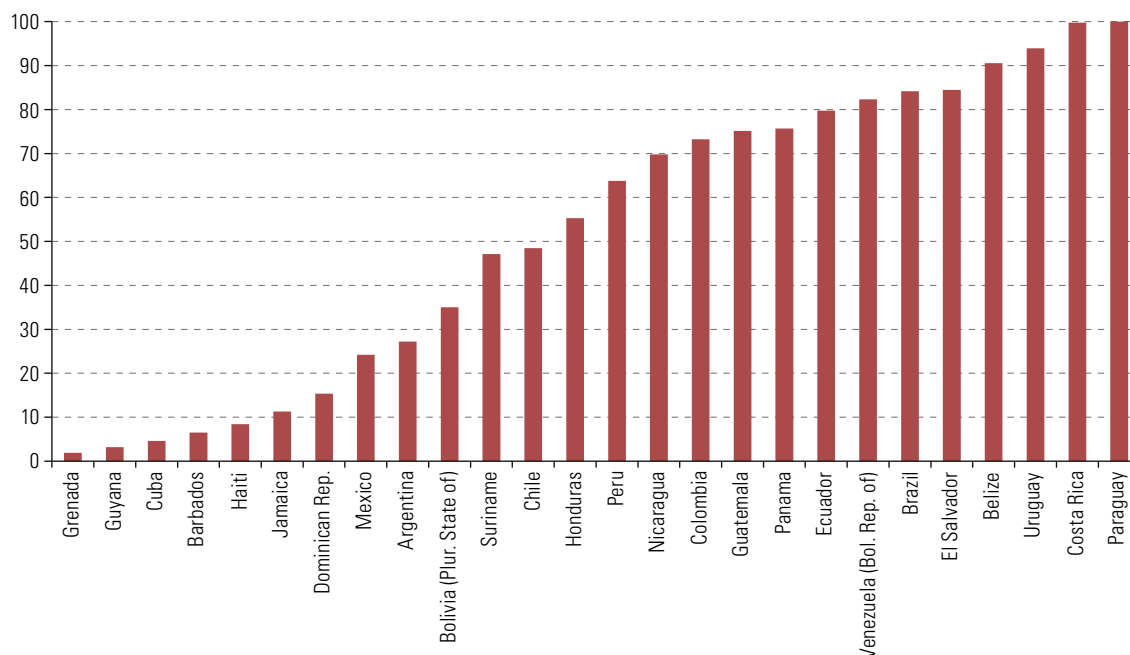
## 2. Food and fertilizer security

- History matters. The world is facing the third wave of high food prices in less than 20 years. While the specifics vary, since this is the first time this wave has been triggered by a geopolitical rather than a financial crisis, some lessons remain relevant, and are summed up below.
- Restricting the food (and fertilizer) trade can hike prices up even further and cause significant harm to vulnerable countries, such as the small island developing States of the Caribbean.
- Spikes in food prices tend to coincide with civil unrest and political instability, among other factors. High food and transport prices were what ignited the protests that flared in Peru at the end of March 2022.
- Looking forward, food and fertilizer security must be the priority in the long term. As a net food exporter, the region contributes to global food security but intraregional trade accounts for a small share of total exports. The region's position as a net food exporter is helped by its rich biodiversity and vast biological natural resources and the availability of water and arable land, particularly in the Southern Cone countries. However, the costs of the negative externalities of agricultural commodity supply chains are absorbed in the region.
- Short-term measures adopted in the region include the reduction or elimination of value added tax on food (among other goods and services), agreements with producers and marketing chains to contain prices of the basic food basket, promoting own consumption in food-producing areas and eliminating tariffs on imports of grains and other commodities, as was the case, for example, in Brazil and Mexico.
- It is crucial to reduce dependence on fossil or mineral fertilizers by improving fertilizer efficiency and developing alternative forms of fertilization. National digital soil mapping programmes can help to enhance the efficiency of fertilizer application. Creating favourable market conditions for organic agriculture inputs can foster the development of biofertilizers and soil management models for improving the availability of nitrogen or phosphate fertilizer through beneficial microorganisms. Since expanding fertilizer production requires significant investments with long timelines, industrial policies to boost production must go hand in hand with measures to reduce the fertilizer load per hectare, which can be done using digital technologies.
- While regional linkages for the production and marketing of fertilizers would yield results in the medium and long term, they can be both a product of and a driving force for integration efforts, such as those spearheaded by the Community of Latin American and Caribbean States (CELAC). The plan for self-sufficiency in health matters in Latin America and the Caribbean prepared by ECLAC at the request of CELAC, which was adopted by the latter in September 2021 and is currently being implemented, illustrates that efforts led by regional institutions are feasible.

## 3. Energy security: moving forward with renewable sources

- To accelerate the energy transition, ECLAC recommends: (i) increasing the share of renewable energies in the energy matrix; (ii) universalizing access to electricity generated by renewable sources; (iii) enhancing energy efficiency in all economic sectors, households and institutions; (iv) strengthening complementarity and energy integration among countries to leverage economies of scale; and (v) making progress towards regional energy security and energy resilience to overcome external shocks.
- The war has driven up fossil fuel prices and made renewables even more competitive, in a context where the production costs of renewable energy technologies have been on a steady downtrend. Although this presents a window of opportunity to accelerate the energy transition, this market condition is not sufficient.
- In 2020, 30% of region's primary energy supply came from renewable sources, while the world average stood at a mere 13%. The region's electricity generation matrix is even lower in carbon, as 61% of electricity was generated by renewable sources in 2020 (with hydroelectric energy accounting for 75% of those sources, and solar, wind, biomass or geothermal energy 25%). However, the situation varies greatly across the region (see figure 15). While the region as a whole is somewhat more resilient, the structural dependence on fossil fuels for economic activities makes most countries vulnerable to supply shocks, even though some fossil-fuel-rich countries will benefit from higher revenues in the short term.

**Figure 15** Latin America and the Caribbean (26 countries): share of renewable sources in electricity generation, 2020  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Latin American Energy Organization (OLADE), Energy Information System of Latin America and the Caribbean (SIELAC).

- The impact of higher fossil fuel prices on electricity prices will be lower in Latin America and the Caribbean than in other regions, owing to the greater share of renewable energies in the former's electricity matrix. As was the case in Mexico, oil-producing countries in the region will likely subsidize thermal power to avoid passing on increase in oil prices to electricity bills; some may do so for all electricity tariffs, while others may introduce targeted subsidies for the most vulnerable population groups only.
- Concern is warranted for some countries in the region that depend on oil and natural gas for electricity generation, industry and transport, as they will be affected. In addition, countries that are net importers of fossil fuels are likely to face more difficulties in keeping inflation rates, which reduce the purchasing power of the poorest quintiles, in check.
- Since the transition to renewables requires time and systemic transformation to build the requisite ecosystem for leveraging it, accelerating this transition while fossil fuel prices are high may prove difficult in the short term, particularly in oil- and gas-producing countries, which will benefit from higher revenues for some time to come.
- The conflict can either drive the energy transition, by speeding up the adoption of renewable sources, or delay it in fossil-fuel-producing countries, where higher prices could attract investment projects or generate additional revenue. This revenue could be invested in infrastructure, stimulus packages and renewable technologies. Whether the energy transition moves forward or backward will depend on: (i) the duration of the conflict; (ii) the success of initiatives to use strategic reserves, such as those of the United States, or to increase oil and natural gas production; (iii) the energy balance of each country (whether it is a net exporter or importer of hydrocarbons); and (iv) each country's production structure.
- In countries that are net importers of fossil fuels, the situation caused by the war should serve as a strong impetus for the transition to renewable energies, through public policies, investment and innovative instruments.
- ECLAC has shown that creating new green jobs and generating green income on the path towards carbon neutrality is not only necessary, but feasible if countries strengthen regional energy integration. This, in turn, would create a positive feedback loop for economic recovery and energy and food security (ECLAC, 2021b).

- Some specific proposals include:
  - Moving forward with regional energy integration
  - Channelling a larger share of the economic rent from commodities to social objectives and implementing more progressive tax regimes to ensure that windfall gains from commodities are reflected in the captured rent
  - Mechanisms for regional dialogue and coordination to share experiences in the response to the effects of the conflict, with a view to strengthening the region's strategic position at the global level
  - Fuel price stabilization mechanisms to ensure that higher international prices are not passed on to the population or to sectors that produce for the domestic market
  - Targeted and temporary subsidies to the most vulnerable population groups and to the sectors most likely to transmit the effects of price increases to the rest of the economy.

#### 4. The new geopolitical landscape

- Whether the proposals put forward can be implemented will depend largely on how international relations evolve on a spectrum ranging from limited multilateralism to different models of regionalism and even bilateralism.
- The breakdown of the globalization model may lead to various regional configurations in which many policy decisions will be based on sovereignty or security objectives in defence, energy, food and strategic industrial sectors, from the most high-tech sectors to those with widely used inputs like fertilizers.
- As new country groupings take shape, for example a “new globalization” with a renewed partnership between the United States and the European Union, or the implementation of China's Belt and Road Initiative, the region cannot afford to remain fragmented.
- Going beyond fragmentation will require, first, building confidence in national institutions (already very low in the region) and solving internal governance issues, as in the case of governments lacking the parliamentary majority needed to adopt important measures. It will also require increasing the role of regional coordination in crisis response. To break with the practice of adopting unilateral responses to global events, progress must be made in developing and implementing responses that come from the region as a whole or from its integration blocs.
- The current conflict has intensified the trend towards regionalization of trade and production seen in recent years around the world. The region must not ignore this trend of countries seeking greater strategic autonomy in the supply of key products and inputs. The current situation therefore represents a new opportunity to energize the regional integration project, with a focus on creating intraregional production chains to reduce excessive dependence on suppliers from outside the region.

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