Good morning to you all. I wish I could see you in person.

I’ve participated in many Washington Conferences on the Americas over the years, including last in 2020, but I don’t think any has occurred in the face of such severe crises. Latin America and the Caribbean face significant losses from COVID-19, inflation, Russia’s war on Ukraine, interest rate hikes, the debt buildup, and sudden price spikes for necessities.

At the World Bank, we forecast that Latin America and the Caribbean will grow by only 2.3 percent in 2022. That’s not enough to make progress on poverty reduction or social discontent. Inequality has deepened, sewing distrust in governments. Energy, food, and fertilizer prices are rising at a pace not seen in many years, hitting the region’s poor particularly hard.

Advanced economies have slowed markedly, with U.S. GDP shrinking in the first quarter. China has already faced a sharp slowdown going into 2022, and now the intense Shanghai lockdown is extending to more cities. In combination, the global deceleration will hit Latin America’s exports and investment inflows.

The commodity price boom will benefit natural resource exporters and government revenue. But many countries in the region are net oil importers.

One key unfolding crisis is the rise of inflation in advanced economies. As they hike interest rates, many Latin and Caribbean countries are facing pressure on their currencies and a surge in imported inflation that is forcing interest rate hikes. Capital outflows from the region have accelerated. This in combination with the appreciation of the dollar is adding to already-heavy debt burdens.

On the positive side, the risk premium on bonds emitted by the larger countries in the region remains relatively low, and access to capital markets has generally been preserved. Banking systems of the region are reasonably sound and reported non-performing loan ratios that have risen far less than during the global financial crisis. Of course, the buildup of non-performing loans often occurs well after the peak of the crisis, so monitoring and caution are in order given the severity of the global slowdown.

Looking beyond this year’s crises, Latin America and the Caribbean have many paths available for achieving faster growth. Spending restraint by governments and SOEs, along with proactive debt management, should be high priorities to build confidence and help attract new investment and jobs.
The enabling environment for entrepreneurship and innovation needs to be strengthened. Importantly, the region remains inward looking. It needs to allow more competition at home and increase its engagement in foreign markets.

Deep free-trade agreements have been signed by countries in the region in recent years – notably between the U.S., Mexico, and Canada. But some areas – for example the Mercosur countries – are still entangled in the trade policies of the import-substitution era.

By dealing with behind-the-border issues – from market competition to public procurement and labor standards – deep free-trade agreements offer a chance to rekindle economic dynamism in the region. The COVID-19 crisis first, and now geopolitical tensions, have created a demand for nearshoring, and Latin America and the Caribbean is well-positioned to embrace this opportunity.

Latin America and the Caribbean is home to some of the most unequal societies in the world. This is particularly true in education. The COVID-19 pandemic amplified inequality, with the educated being able to telework and cope, while informal workers faced greater health risks and worse employment prospects.

To compete in a technologically more sophisticated world, human capital at all levels requires upgrading. Educational attainment scores remain low in the region, and only one-third of students meet the minimum standards for science.

At the primary and secondary levels, the learning losses from the COVID-19 lockdown policies need to be urgently addressed. This is vital for both competitiveness and growth, but also for social cohesion. Pervasive social unrest before the COVID-19 pandemic, and election outcomes in its aftermath, remind us of the urgency of social progress.

In this, greater public sector efficiency will be vital, especially given constrained government budgets. At the World Bank we estimate that on average 4.4 percent of GDP is lost each year in badly targeted transfers, weak procurement practices, and inefficient human resource policies.

At the same time, the region is home to one of the most vibrant tech scenes in the developing world. The accelerated adoption of digital solutions triggered by the COVID-19 crisis could radically expand access to finance. Embracing e-procurement should also reduce the cost of delivering services and increase transparency. We see two key prerequisites. Ensuring broader and more affordable access to the internet; and rapidly moving into e-government solutions.

Let me turn to climate change. Our Climate Change Action Plan seeks to integrate climate and development in order to apply large new financial resources from the global community to country and regional projects that have the most impact in terms of adaptation and mitigation. To sustain growth and poverty reduction, the region needs to make significant efforts in both mitigation and adaptation, and would gain from a visible commitment to measures such as environmental certification of exports and the attraction of green finance.
Given massive hydropower generation, electricity should be affordable in Latin America and the Caribbean. But it is the most expensive region in the world due to cascading distortions – from a dominance of the sector by inefficient public utilities to the reliance on electricity tariffs as a source of quasi-fiscal revenue.

Poorly targeted energy subsidies try to offset the high cost of energy to households and firms, but instead they lead to more distortions. With surging oil prices, removing these subsidies is proving increasingly difficult. The priority here should be to reduce the inefficiencies of the power sector as a key step in gaining competitiveness.

This is also the time to boost electricity trade within broader areas in the region. Some countries have an abundance of cheap, clean energy – including natural gas, an important transition source. Others, like Brazil, are facing a growing demand for electricity at a time when droughts constrain hydropower generation.

As the leaders from the region gather for the Summit of the Americas in Los Angeles next month, it provides an opportunity to be strategic in addressing the challenges ahead. With some of you here today, I participated in the precursor summit in Antigua Guatemala in June 1990 where the discussion, then as now, was on building a stronger hemisphere. This is a time for determined action, focused on the key areas that may help the region navigate the overlapping crises we are facing, and support a stronger, more inclusive, and more sustainable economic growth in the years and decades ahead.