

INFLATION? DEFINITELY A REALITY IN LATIN AMERICA

(ENGLISH VERSION)

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(22/04/2022) In the last two years, the countries of Latin America and the Caribbean have been affected by the COVID19 pandemic and its repercussions, which is no secret to anyone. Health systems have shown their weakness by not being able to respond to the health emergency due to lack of physical infrastructure, training of medical personnel, access to supplies and medicines and access to vaccines, among others; but not only the health sector was weak, but also the education sector due to cuts in class attendance, the decline in education levels, the lack of knowledge of virtual education in the short term, the lack of teacher training and little access to technological tools, among others.

On the other hand, the productive sector, which includes agriculture, livestock and manufacturing, has suffered the repercussions of the pandemic due to the lack of access to markets and the encapsulation measures applied in several countries, which at the same time has decreased the capacity of productive generation and therefore of income. Many small businesses have closed and others have reinvented themselves to current needs. It has been common to see in the streets of our countries, family businesses selling handmade masks, natural medicines, containers for disinfectants, biosafety clothing and others. According to studies carried out by the Andean Development Corporation (CAF), small and medium-sized companies represent more than 99,5% of the companies in the Latin American and Caribbean Region, which generate 60% of formal productive employment; they are critical engines for growth and social inclusion at the regional level, as well as a key priority for public policy makers.

However, Latin American SMEs face competition from a large informal sector and a significant productivity gap with large companies. According to UN data, during the first year of the pandemic, around 19% of companies could have closed, generating in the same way an 8% increase in unemployment in the region¹. However, micro, small and medium-sized enterprises continue to be one of the fundamental pillars in the post-pandemic restructuring process.

The economic restructuring processes have begun to be implemented since the 2021 administration in most countries, after more than a year of pause in economic activity. Some policies implemented by governments combine the generation of new jobs, access to credit with low interest rates, deferral of debt payments, provision of equipment and machinery, among some of the most important.

However, it is imminent that macroeconomic variables, such as unemployment and inflation, will be affected by these changes, affecting all sectors of the economy. When growth slows, inflation rises and a strong cycle of monetary policy tightening is underway. The Economic Commission for Latin America (ECLAC) calculated an inflation rate of 7,2% in the Region, as of December 2021, without counting the countries with more unstable economies such as Venezuela, Argentina, Haiti and Suriname, which were classified as economies with chronic inflation².

In Venezuela, due to the political crisis that it has been going through for more than 15 years, the pandemic has increased the inflation rate even more, reaching 2.355,15%, well above Argentina, Suriname and Haiti, who represent the highest rates in Latin America, above 20%. The lowest rates are found in Bolivia, Costa Rica, Guyana, Trinidad and Tobago, Belize and the Bahamas, according to 2021 data.

Added to this situation is the current war between Ukraine and Russia, which has reached our region through direct and indirect bilateral trade relations.

One of the products that both countries supply to the entire world is wheat flour, a basic input for the production of bread, which constitutes the basic basket of all countries. But there is also the effect that the conflict can have on the prices of commodities worldwide, such as oil, fuel and electricity.

With Ukraine and Russia accounting for more than a quarter of the world's annual wheat sales, the

"The pandemic has inflicted lasting damage on the growth of economies in much of the region, which is aggravated by the structural problems that our region has had since before the crisis, these problems of low investment, low productivity and informality" (Alicia Bárcena — ECLAC).

1.- <https://www.cepal.org/es/euromipyme/mipymes-covid-19>
2.- <https://statistics.cepal.org/portal/cepalstat/index.html?lang=es>

war has caused a significant rise in food prices: not only for wheat, but also for barley, corn and oil, among other exported products. Local and global food prices were already near record highs before the war, and a huge question mark hangs over upcoming seasons' harvests around the world due to sharply rising fertilizer prices. (ECLAC). What for some could be speculation, is not far from being a reality in the coming months, if the appropriate public policies are not assumed.

In recent weeks, several governments in the region have spoken about some measures that they can implement to avoid an unsustainable inflationary crisis that is coming:

- **Price and trust policies, negotiations with bakeries to maintain or lower the price, expansion of the Food Card (Argentina).**
- **Common pots and beneficiaries of social programs, included in the Petroleum Derived Fuel Price Stabilization Fund (FEPC) for gasoline, as well as diesel, which are the most used by the lower income sectors and the cargo and passenger transport (Peru).**
- **21 measures to generate employment and stop inflation, support for access to credit for SMEs, freezing of transportation rates and increase of the national minimum wage (Chile).**
- **Expansion of the agricultural frontier for the cultivation of maize and the importation of maize to cover the internal market (Bolivia).**
- **Reduction in import tariffs, new credit liquidity instruments and implementation of the Solidarity Income Program (Colombia).**
- **Exemption from payment of value added tax for agricultural inputs, semi-annual subsidy for the purchase of fertilizers and agricultural inputs, the productive and commercial sector will stop paying 10 percent of its electricity consumption, approval of a decree to exempt from payment income tax to importers of agrochemicals (Ecuador).**

However, public policies are mainly aimed at supplying the consumer market and the input for the production of basic goods, leaving aside the supply of other sectors that are part of the production chain of corn, wheat, etc, such as the beekeeping and livestock sector, which require the input for the food of the birds or the livestock. If these collateral sectors are not taken into account, increases in meat prices may also be generated.

It is inevitable that all sectors will be affected in some way and that, despite the measures that are adopted, in the coming months, it will face increases in inflation rates and concerns about market shortages. Inflation is definitely a reality in the Latin American and Caribbean Region by 2022.

The Economic Commission for Latin America and the Caribbean states that world stocks of rice, wheat and corn remain historically high. In the case of wheat, the commodity most affected by the war, stocks remain well above levels during the 2007-2008 food price crisis. Estimates also indicate that about three quarters of Russian and Ukrainian wheat exports had already been delivered before the start of the war.

In Latin America and the Caribbean, an accelerated expansion of the harvested area has been observed over the last 50 years, highlighting the increase in the harvested area destined for soybeans, which during the last ten years has increased by more than 14 million hectares.(ECLAC) However, the question is whether the current stocks are sufficient to supply the production chain of these products and for at least 6 to 8 months, minimum time for the implementation of the aforementioned government measures.

Wheat is the fourth most important product produced in the Region, which could guarantee supply for some time. However, in 2019, intra-regional exports from the Caribbean represented 12% of its total exports, of which 60% went to the Caribbean countries themselves, 26% to South America, and 13% to Central America, which reveals a strong dependence on the external market of our countries.

Russia and Ukraine are major exporters of basic raw materials, from wheat and grain to oil, natural gas and coal, gold and other precious metals. In terms of production, the two countries represent about 14% of world wheat production and almost 60% of sunflower oil production. Together represent almost 5% of world corn production, as can be seen in the following tables:

**PRODUCTION OF WHEAT,
CORN AND SUNFLOWER OIL (RUSSIA AND UKRAINE) AND DESTINATIONS
(IN PERCENTAGES)**

	Rusia		Ucrania		Total
	Destino	% Partic.	Destino	% Partic.	
	Trigo	9,7%	4,2%		14,0%
	Maíz	1,2%	3,5%		4,7%
	Aceite de Girasol	26,5%	33,0%		59,5%
	Irán	33,5	China	17,2	
	Turquía	19,2	Países Bajos	12,3	
	Rep. de Corea	11,1	España	11,5	
	Viet Nam	9,8	Egipto	11,4	
	Libano	3,1	Turquía	5,6	
	Letonia	2,2	Italia	5,4	
	Georgia	1,9	Irán	4,5	
	Japón	1,6	Israel	3,8	
	Italia	1,5	Portugal	2,9	
	Bielorrusia	1,4	Alemania	2,7	
	RDM	14,7	RDM	22,6	

Likewise, the top ten corn export destinations of both countries, where it can be seen that Iran represents more than 30%, on average, of Russia's exports, and the main destination for Ukraine is China, with a share of less than 20%. The rest of the countries of the world, including Latin America and the Caribbean, represent a smaller percentage, which is equally worrying and the application of governmental prevention measures is necessary.

The World Bank proposes some measures to follow as countries:

- **Maintain food trade and keep markets open**
- **Support vulnerable consumers and households through social safety nets, for access to food, especially in low and middle income countries**
- **Support farmers, protecting next season's crops and work on the transformation of food systems, to make them more resilient to change and achieve food security**
- **Support from cooperation agencies is vital in this process, mainly for agricultural and social protection initiatives, according to their own data**

On the other hand, a better targeting of public spending, the mobilization of private financing and investment in innovation and research will be key to "doing more with less", that is, producing more diverse and nutritious food for a growing population, with less water and fertilizers, while limiting land-use change and greenhouse gas emissions. (ECLAC)

To these measures are added those linked to the productive chain and the sectors linked to this production. Likewise, the implementation of productive support programs and access to credit, considering that even the smallest productive sector is in the post-pandemic recovery stage, and the active participation of these sectors in the design of public policies.

Finally, highlight the important role played by civil society organizations in strengthening the productive sector, as well as the follow-up and monitoring in the implementation of government programs, under a participatory democratic approach.