



# **Outlook for Latin America and the Caribbean**

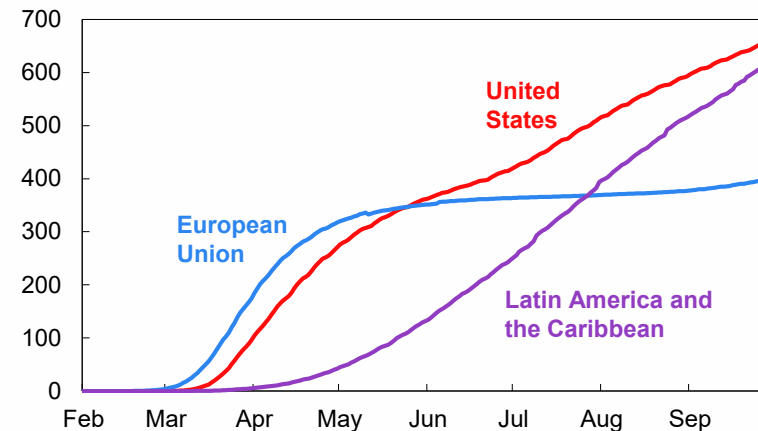
**OCTOBER 2020**

Western Hemisphere Department

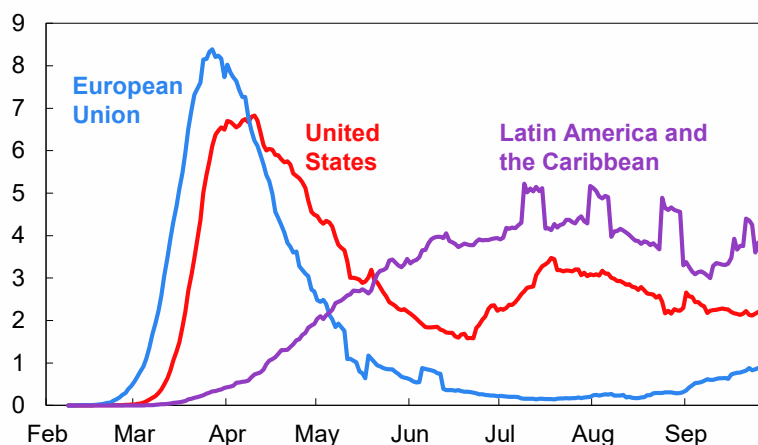
# “A Crisis Like No Other”

COVID-19 pandemic hit LAC hard...

**Total COVID-19 Deaths**  
(Per million)

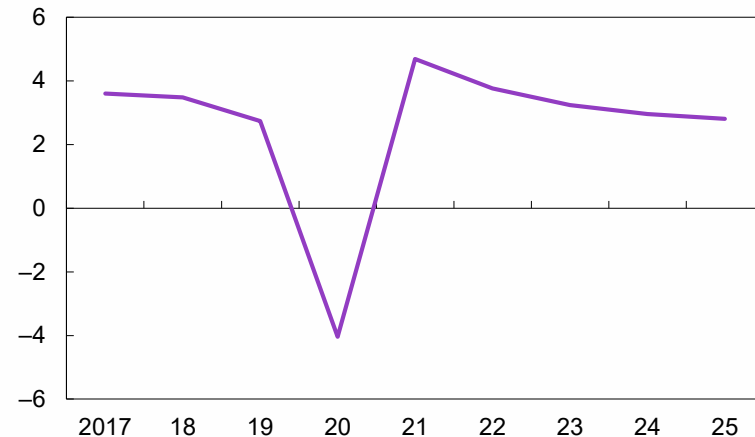


**New COVID-19 Deaths**  
(Per million; 7-day moving average)

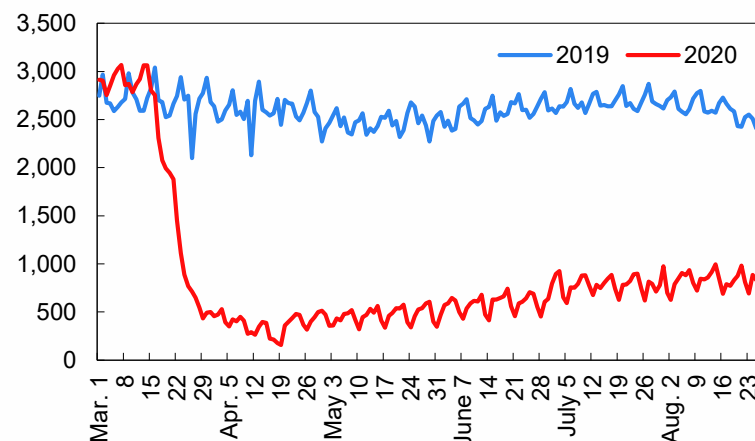


... together with strong external shock...

**LA7: Trading Partners Real GDP Growth**  
(Year-over-year percent change; weighted by exports)

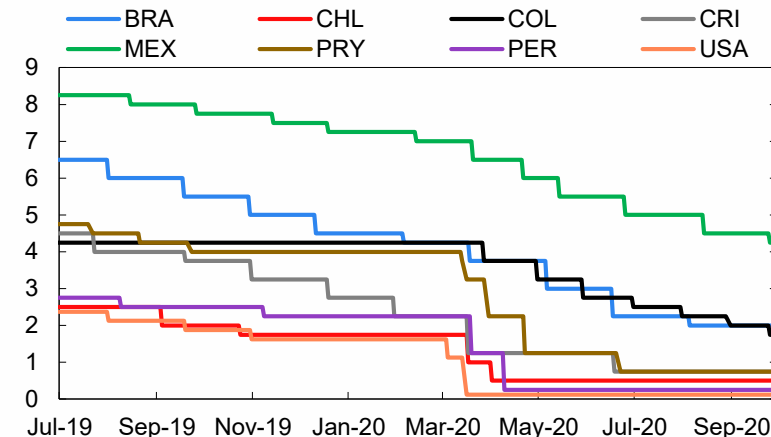


**LAC: International Flight Arrivals**  
(Number of flights)

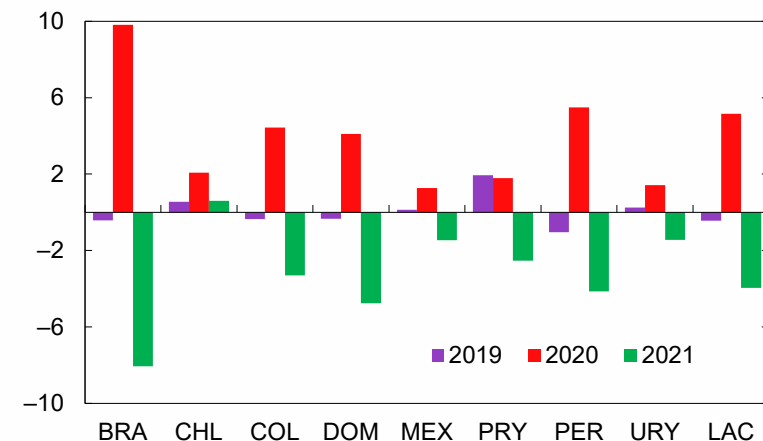


... leads to policy response “like no other”

**Policy Rates**  
(Percent)



**General Government Fiscal Impulse**  
(Percentage points of GDP; +/- loosening/tightening)



Sources: Johns Hopkins University; and IMF staff calculations.  
Note: Regional aggregates are weighted averages. Latest data are as of October 9, 2020.

Sources: IMF, World Economic Outlook database; Flightradar24; and IMF staff calculations.

Sources: Haver Analytics; IMF, World Economic Outlook database; and national authorities.

# Recovery from historic economic contraction in 2020 is expected to be partial and uneven

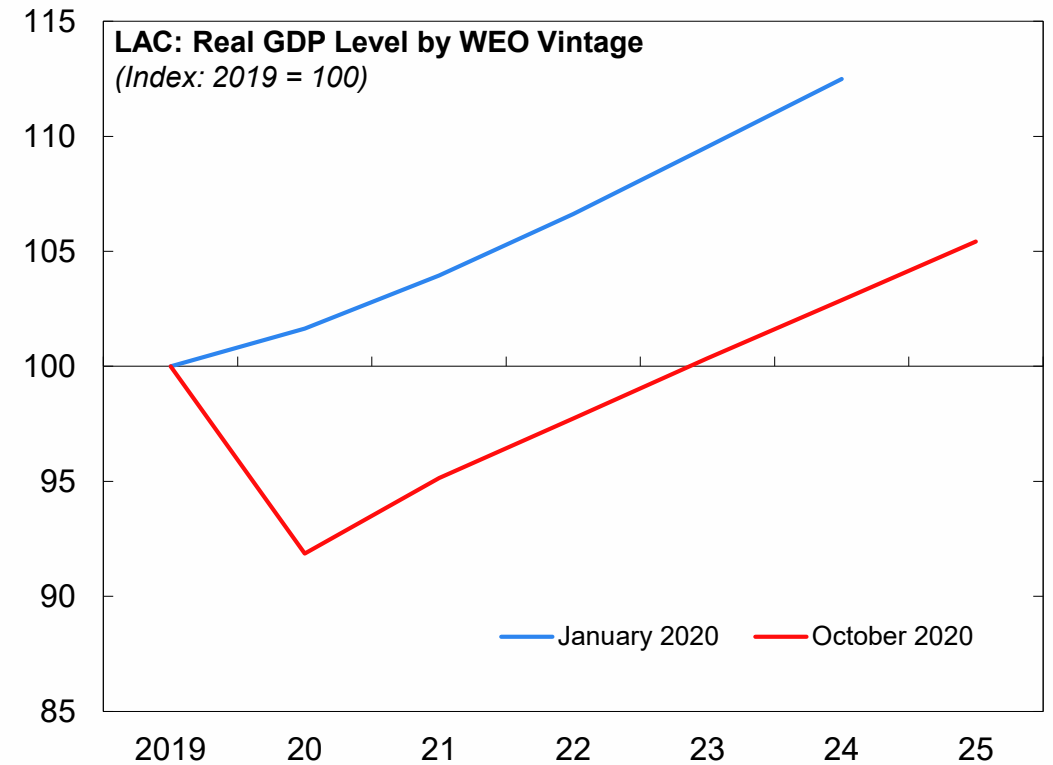
Latin America and the Caribbean: Real GDP Growth  
(Percent, year-over-year)

	2017	2018	2019	Projections		Avg. 2022– 25
				2020	2021	
<b>Latin America and the Caribbean</b>	1.4	1.1	0.0	-8.1	3.6	2.6
LAC excl. Venezuela	2.0	1.7	0.8	-7.8	3.8	2.7
South America	0.8	0.3	-0.2	-8.1	3.6	2.6
Argentina	2.8	-2.6	-2.1	-11.8	4.9	2.5
Brazil	1.3	1.3	1.1	-5.8	2.8	2.2
Chile	1.2	4.0	1.1	-6.0	4.5	2.8
Colombia	1.4	2.5	3.3	-8.2	4.0	3.8
Peru	2.5	4.0	2.2	-13.9	7.3	4.4
Mexico	2.1	2.2	-0.3	-9.0	3.5	2.2
CAPDR	4.2	3.8	3.2	-5.9	3.6	4.0
Caribbean						
Tourism dependent	1.4	2.0	0.5	-9.9	4.0	2.7
Commodity exporters	-0.6	1.1	1.0	0.6	3.8	5.8

Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: PPP GDP-weighted average. South America excludes Guyana and Suriname. Green/red denotes upward/downward revision compared with the April 2020 World Economic Outlook forecasts.

GDP not expected to reach pre-crisis levels until 2023, due to withdrawal of support and scarring



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

# Risks and Policy Challenges

## ❖ “Pandemic persistence clouds the recovery”, high uncertainty

- Testing and tracing
- Pandemic fatigue

## ❖ Higher public debt:

- Space to extend support
- Sustainability? Financing pressures?

## ❖ Higher corporate leverage:

- Who’s viable, solvent?
- Scarring
- Financial Stability

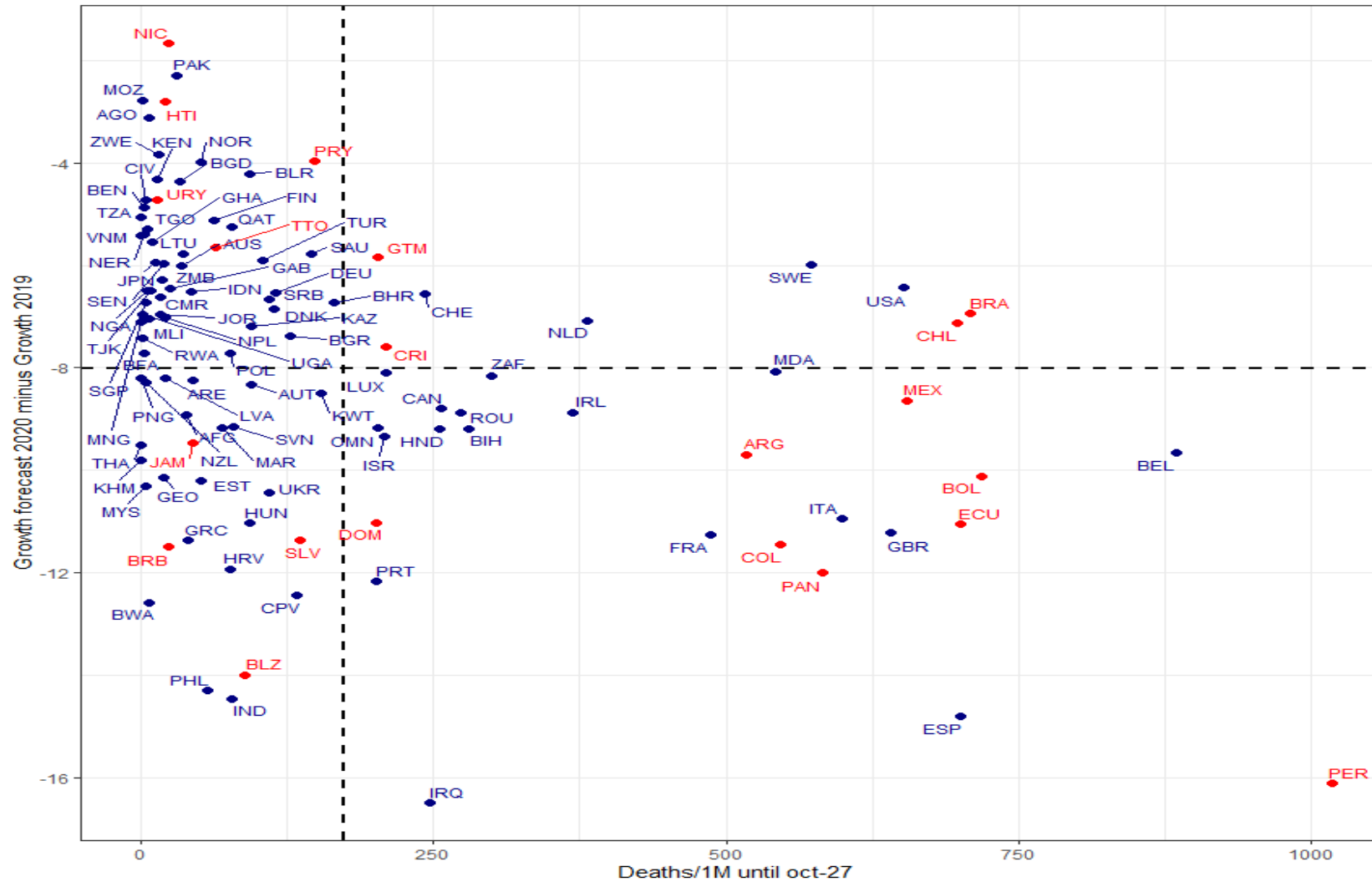
# **COVID-19 in Latin America and the Caribbean**

## **A High Toll on Lives and Livelihoods**

# Key Questions

- ❖ Has the evolution of the COVID-19 pandemic been different in LAC compared to other regions?
- ❖ What factors contributed to the partial ineffectiveness of lockdowns in LAC?
- ❖ What impact has the pandemic had on growth?

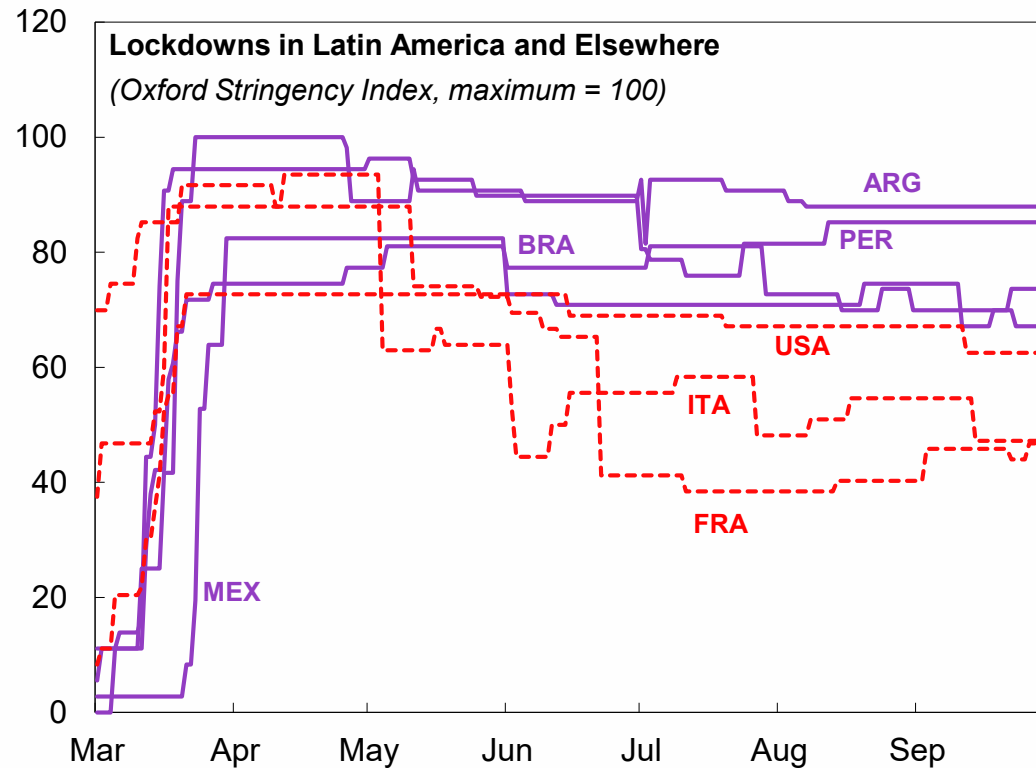
# High toll on lives and livelihoods in LAC



Sources: IMF, World Economic Outlook database; Johns Hopkins University; and IMF staff calculations.

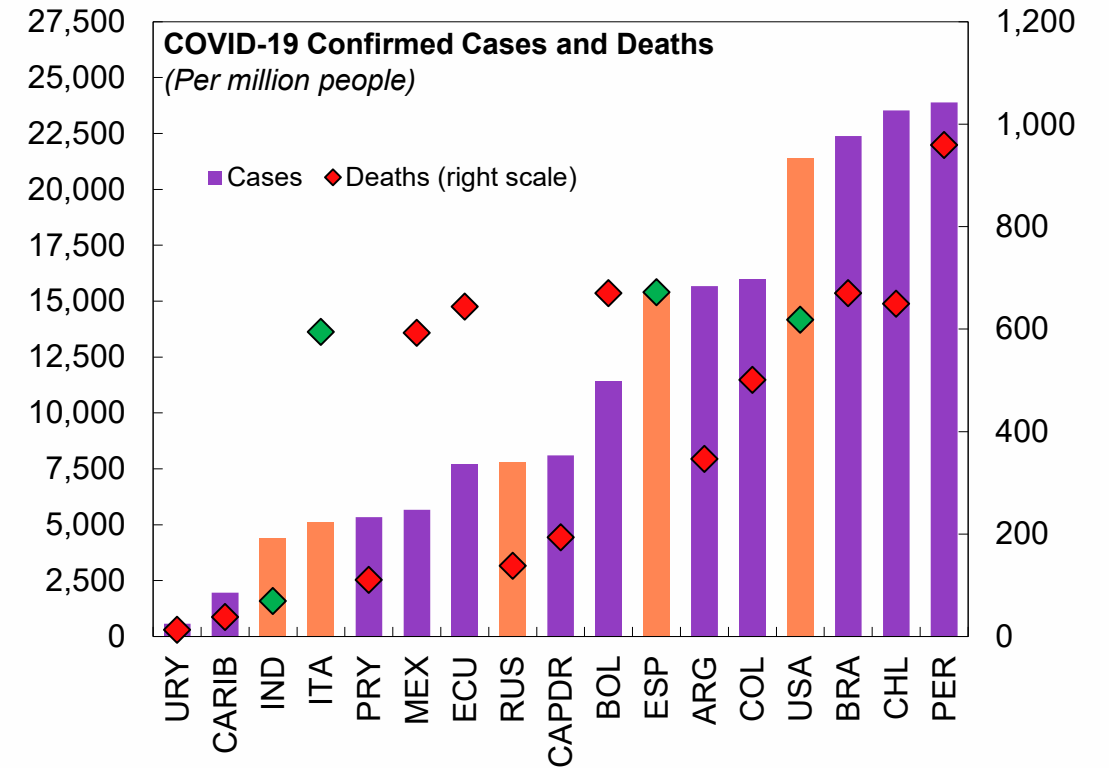
# Despite *early* and *stringent* lockdowns, LAC countries have some of the highest case and death counts in the world

The lockdowns in LAC were implemented early in the pandemic and have been more stringent than elsewhere



Source: Our World in Data database.  
Note: Data are as of September 28, 2020.

Nonetheless, LAC countries have some of the highest case and death counts to date in the world

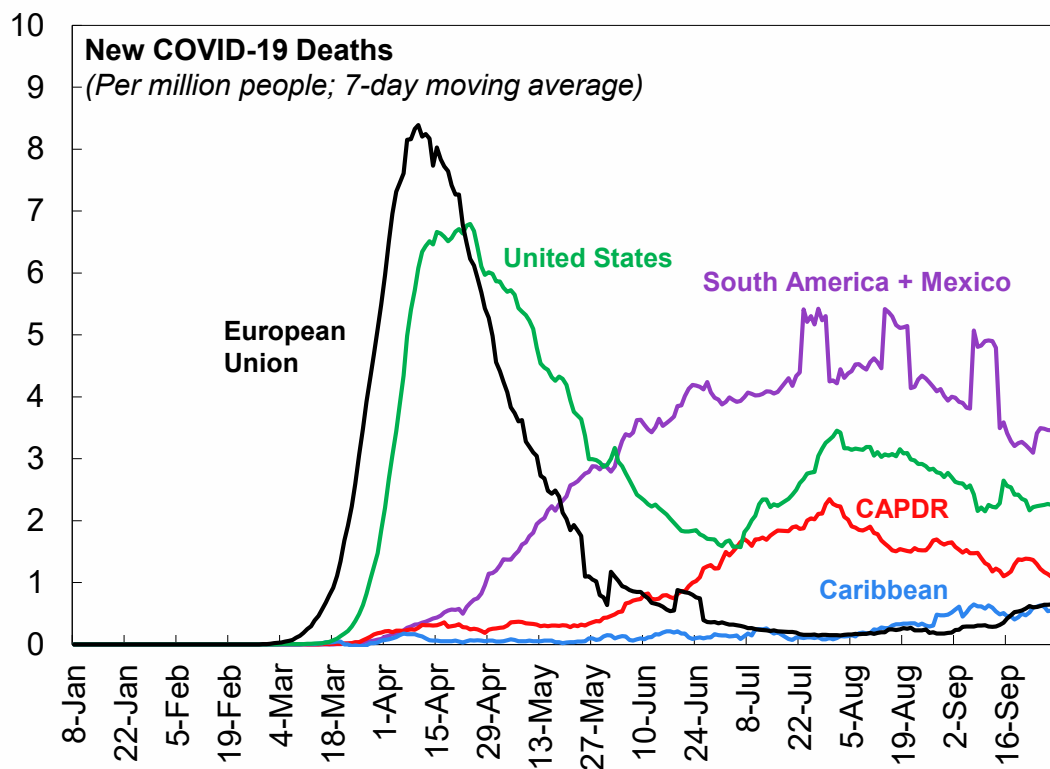


Sources: Johns Hopkins University; and IMF staff calculations.  
Note: Data are as of September 28, 2020.



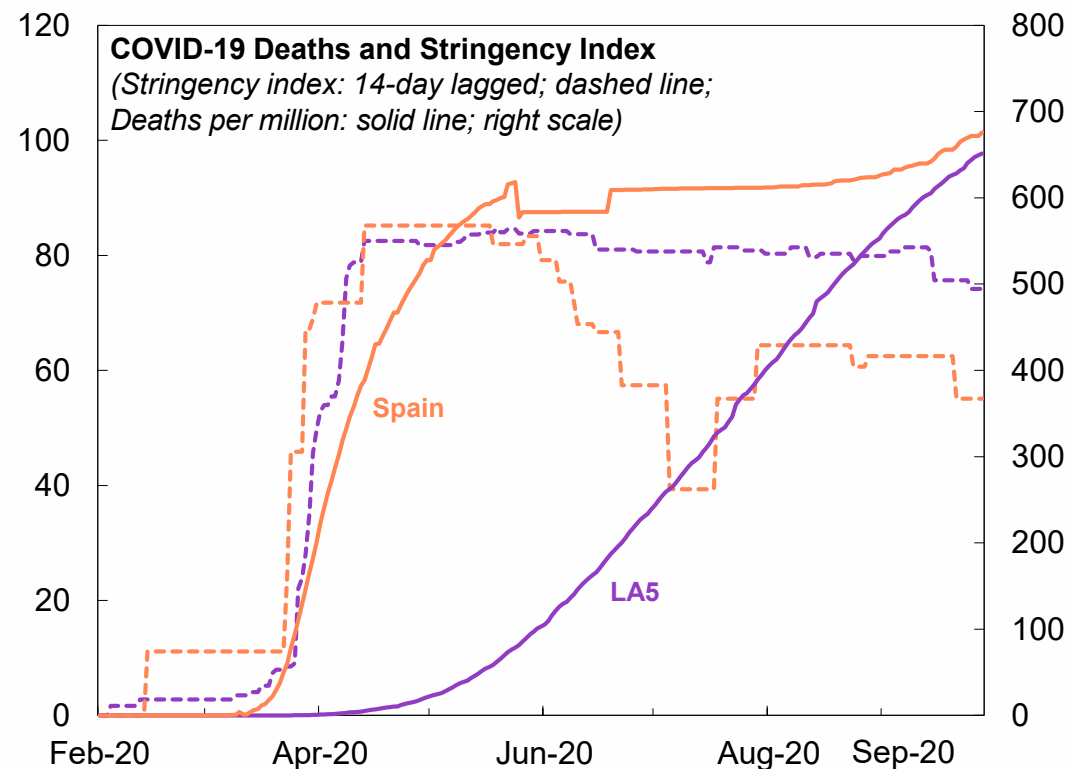
# Early lockdowns in LAC helped prevent “forest fires” but COVID-19-related deaths were nevertheless very high

The early and stringent lockdowns in LAC were successful in preventing an explosion of daily cases and deaths...



Sources: Sources: Johns Hopkins University; and IMF staff calculations.  
Note: Data as of September 28, 2020.

... but not fully effective in containing the total number of cases and deaths, resulting in a “slow burn”

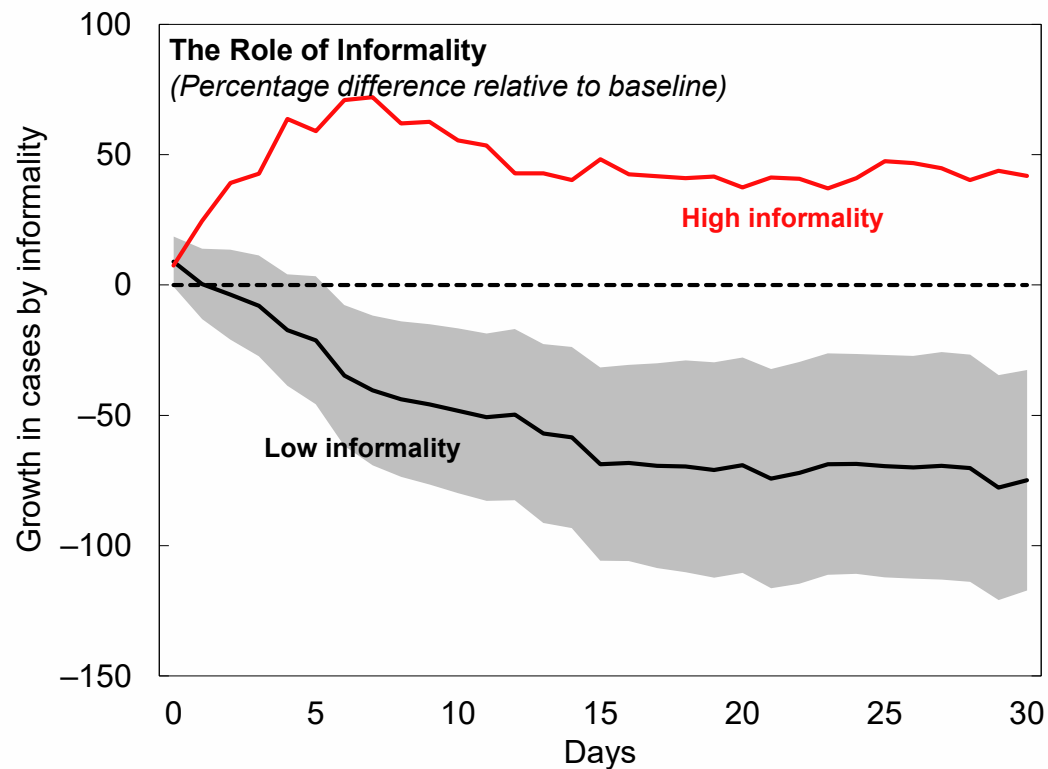


Source: Sources: Johns Hopkins University; Our World in Data database; and IMF staff calculations.  
Note: Data as of September 28, 2020. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

# Labor market structure, government effectiveness and “confinement fatigue” help explain the high death toll

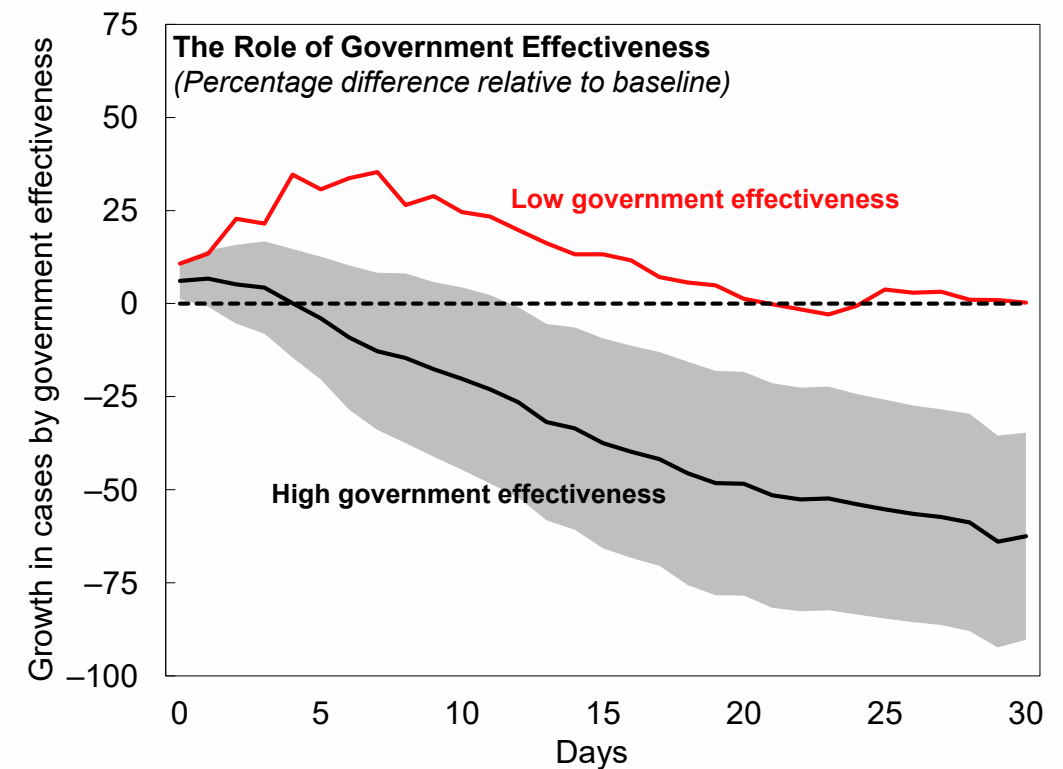
These charts plot the response in cases growth to a shock in the Oxford stringency index for separate subsets of the sample

High degree of informality...



Source: IMF staff calculations.  
Note: Shaded area refers to the 90 percent confidence interval. Dashed line refers to the baseline.

... and low government effectiveness



Source: IMF staff calculations.  
Note: Shaded area refers to the 90 percent confidence interval. Dashed line refers to the baseline.

# Both the lockdowns and the fear of contagion contributed to a significant economic contraction (but the importance of these factors has diminished over time)

## Growth and Pandemics

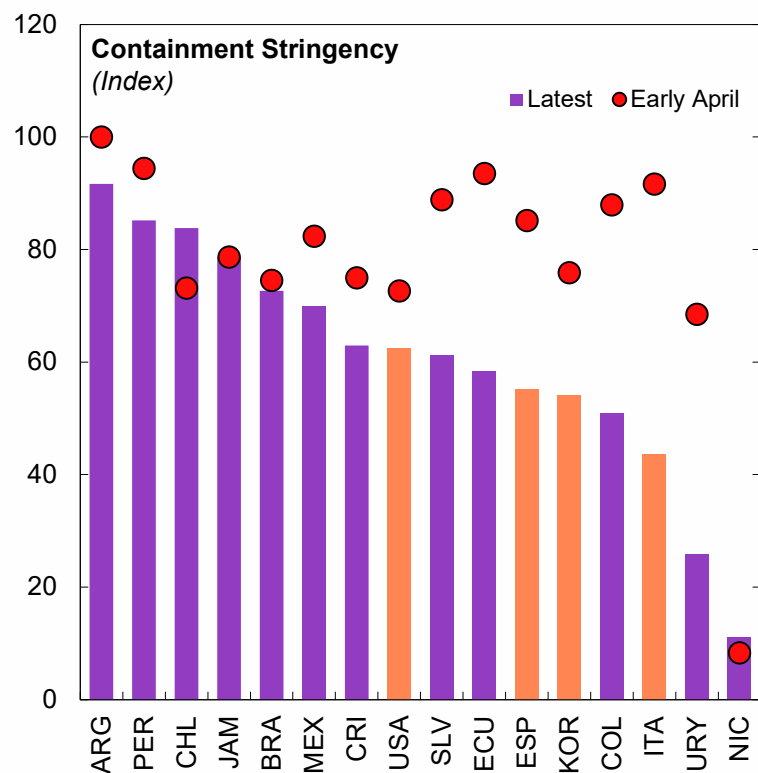
(Dependent variable is year-over-year growth rate of monthly activity in the first six months of 2020)

	(1)	(2)	(3)	(4)
Stringency	-0.264***	-0.231***	-0.348***	-0.336***
	-0.026	-0.032	-0.057	-0.065
New Deaths		-18.881***	-16.586***	-16.884***
		-4.5	-4.349	-4.46
New Deaths*T		3.291***	2.791***	2.835***
		0.752	0.739	0.755
Stringency*T			0.023**	0.023**
			0.009	0.01
Stringency*Tourism				-0.001
				-0.002
Observations	61	57	57	57
R <sup>2</sup>	0.701	0.779	0.809	0.809
Adjusted R <sup>2</sup>	0.592	0.674	0.710	0.704

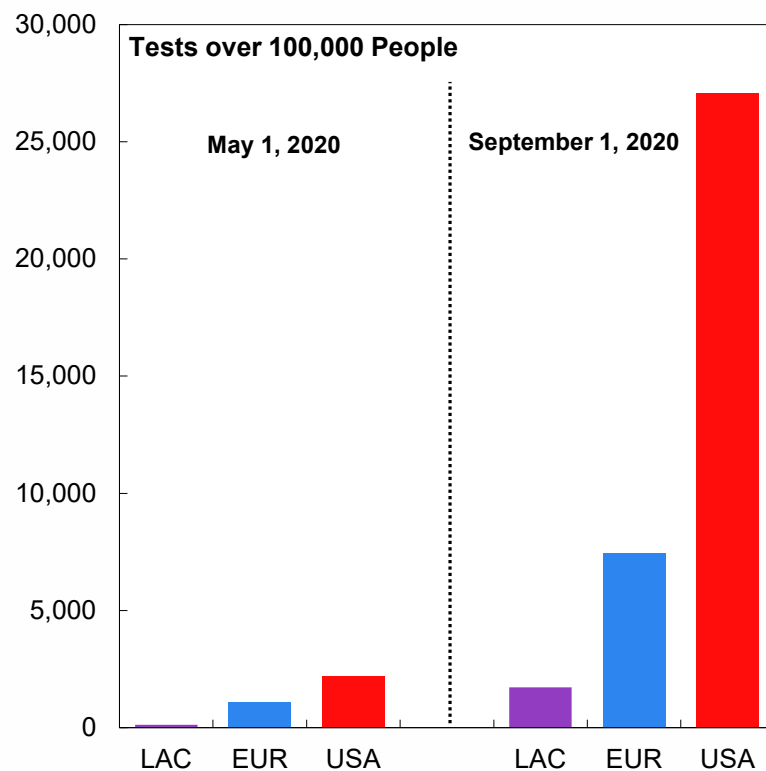
Source: IMF staff calculations. Sample: ARG, BRA, CHL, COL, CRI, DOM, ECU, SLV, GTM, HND, MEX, NIC, PAN, PRY, PER, URY.  
Note: Includes data for 17 countries in the region. \*p < 0.1; \*\*p < 0.05; \*\*\*p < 0.01

# Reopening remains risky given low preparedness (few and scattered improvements in testing)

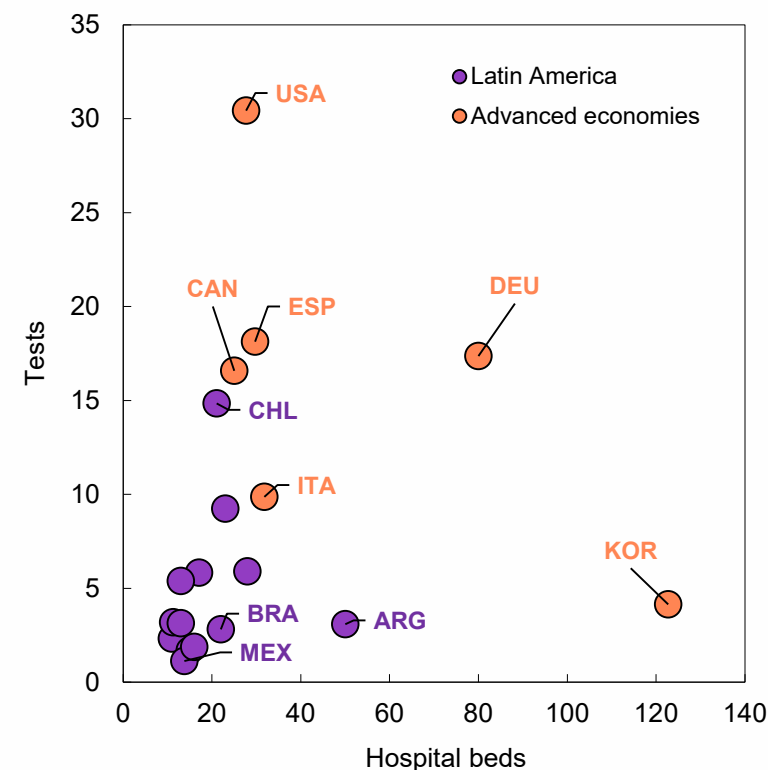
Containment measures are being eased gradually



However, expanding testing capacity in LAC has proven challenging



Reopening remains risky given low hospital and weak testing capacity



Source: Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

Sources: Johns Hopkins University; Our World in Data database; and IMF staff calculations.  
Note: Data as of September 28, 2020.

Source: Our World in Data database.  
Note: Hospital beds refer to latest available data. Tests refer to the September 2020 average as of September 28, 2020.

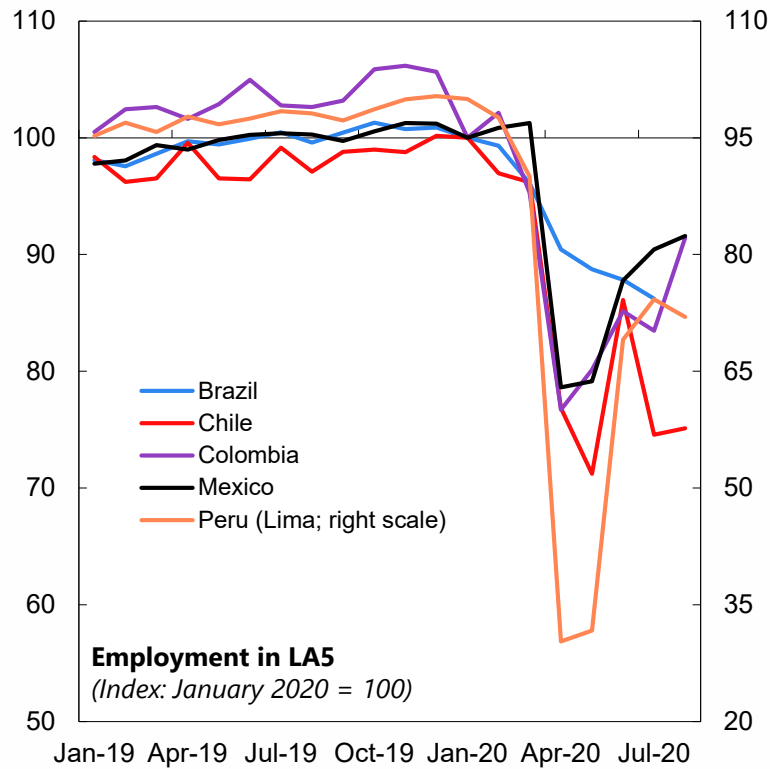
# **Latin American Labor Markets during COVID-19**

# Key Questions

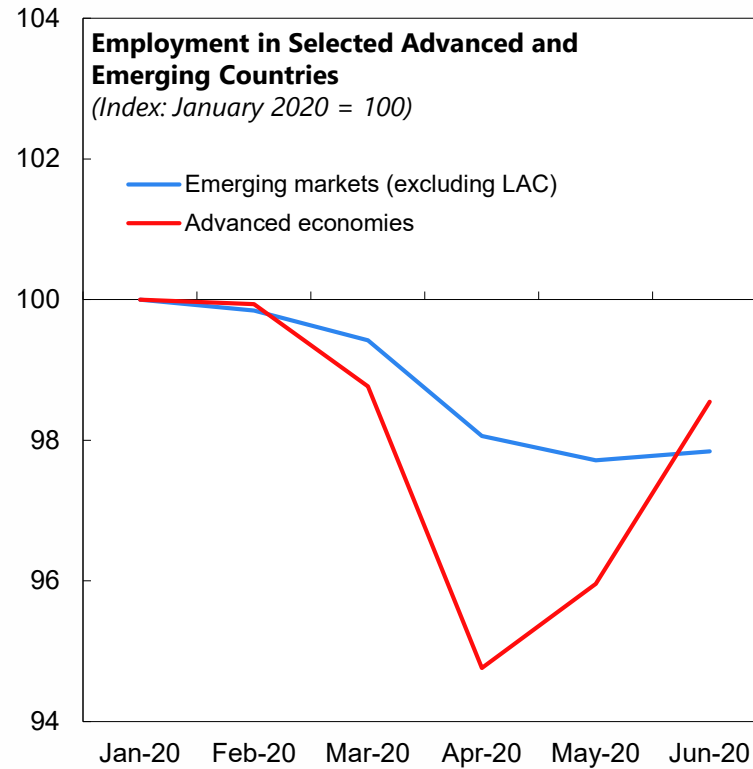
- ❖ How did labor markets in LAC fare compared to other countries?
- ❖ Who suffered most from LAC's labor market adjustments?
- ❖ How many Latin Americans were at risk due to the pandemic?

# LAC employment fell more steeply than in AEs, other EMs

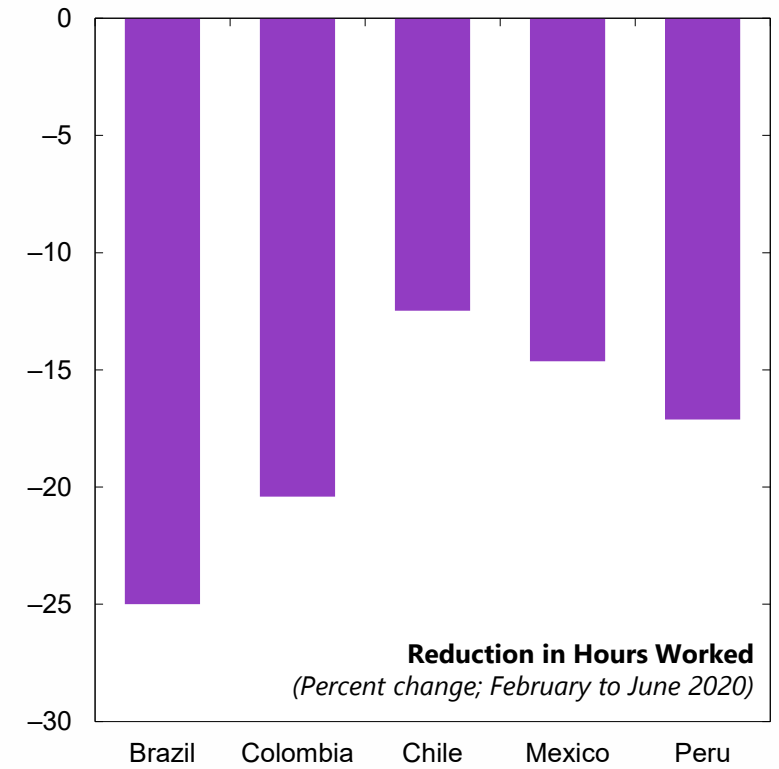
*Employment declined sharply in April, and started recovering in June*



*LAC's employment decline was larger than the one observed in AEs and in other EMs*



*Those who remained employed experienced large contractions in effective hours worked*



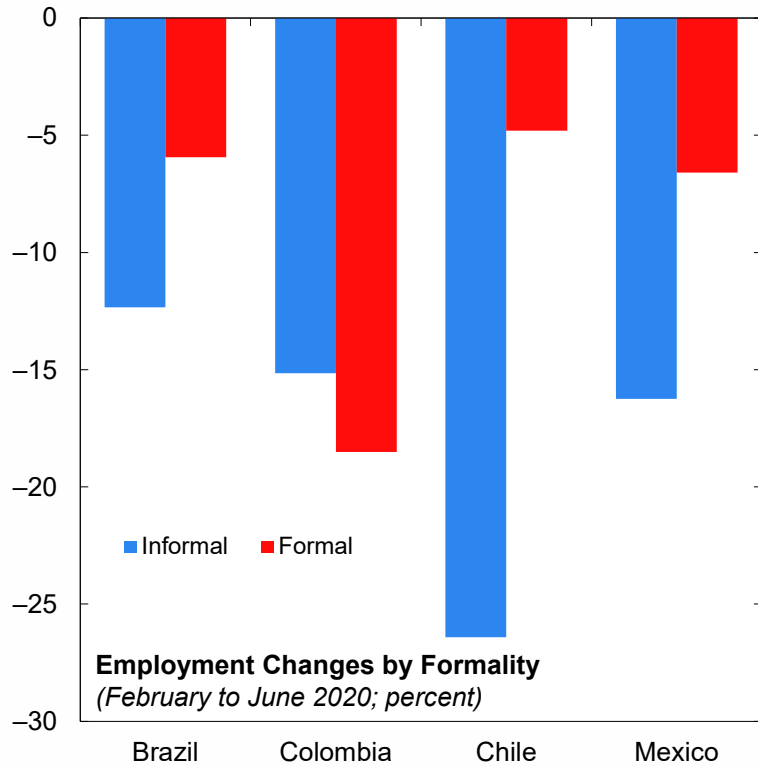
Source: Haver Analytics; national authorities; and IMF staff calculations. Note: Data for Brazil, Chile, and Peru (Lima) have been transformed to reflect monthly employment.

Sources: Haver Analytics; national authorities; and IMF staff calculations.

Sources: National statistics agencies; and IMF staff calculations.

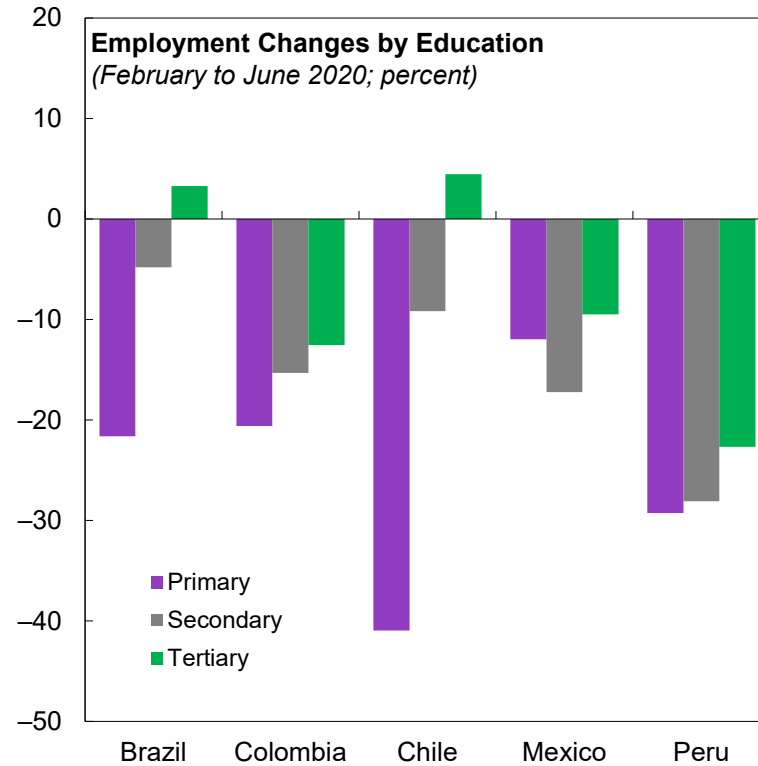
# The burden of COVID-19 fell disproportionately on specific groups of workers

*Employment losses were larger among informal workers...*



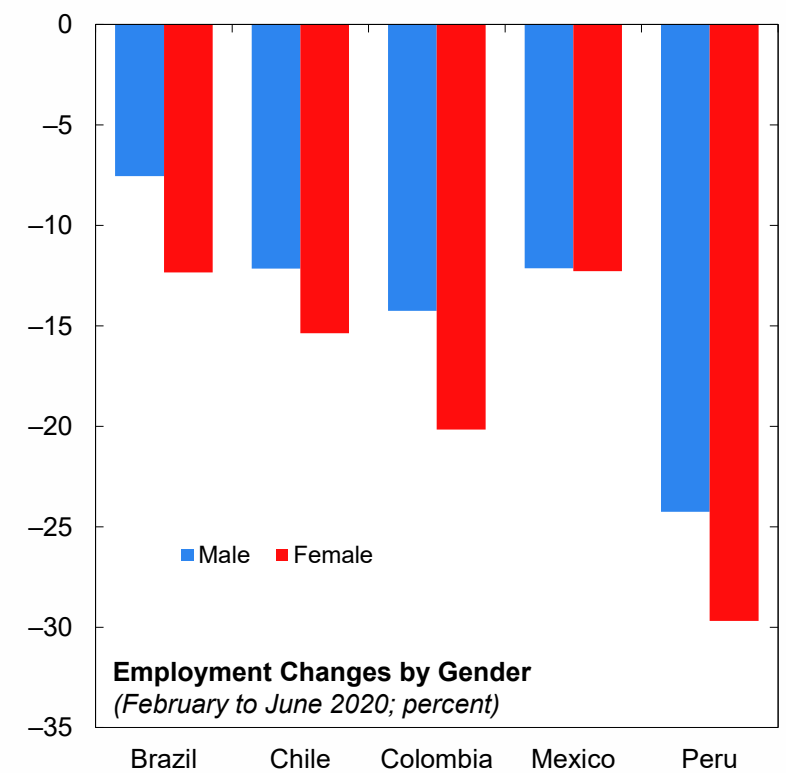
Sources: National authorities; and IMF staff calculations.

*... workers with low educational attainment...*



Sources: National authorities; and IMF staff calculations.

*... and women*

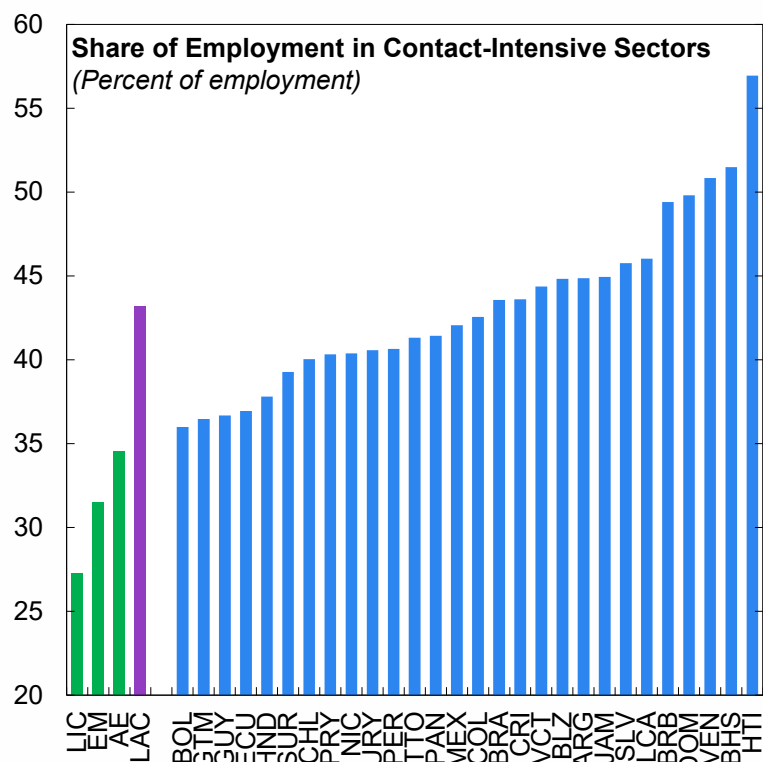


Sources: National authorities; and IMF staff calculations.

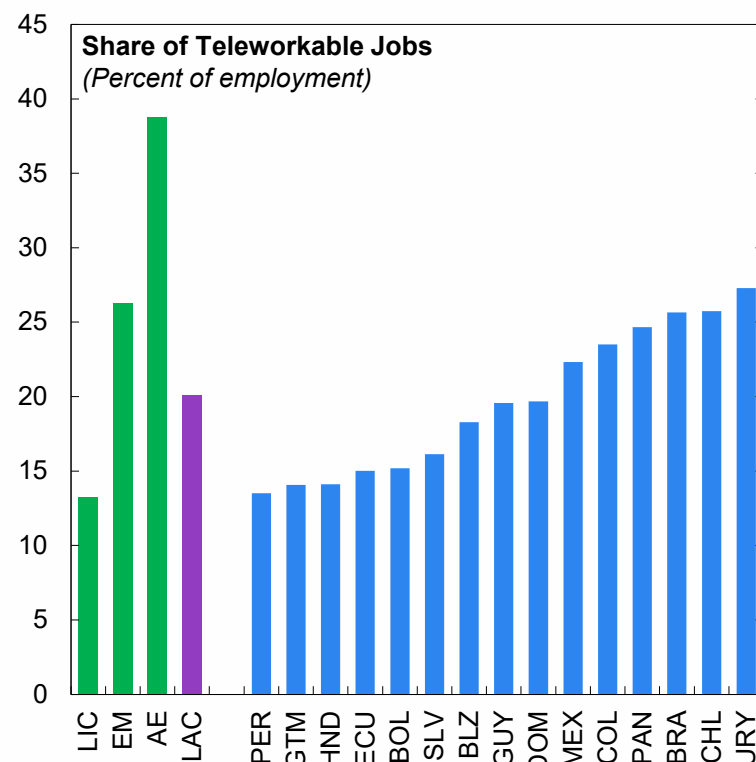


# Structural factors made LAC labor markets ex-ante vulnerable to the COVID-19 shock

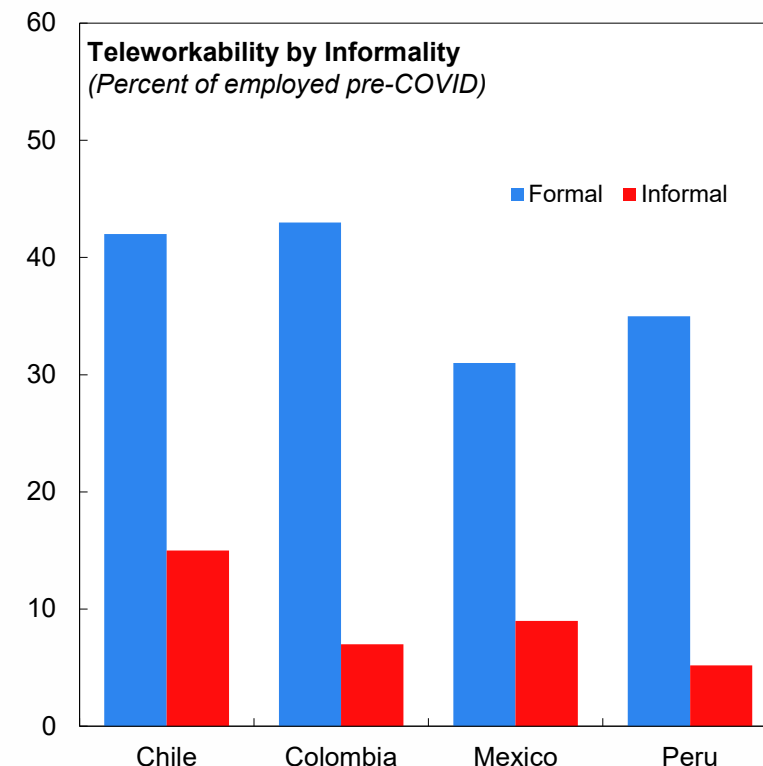
Share of contact-intensive sectors is larger in LAC than ROW...



... while share of teleworkable jobs is smaller than AE and other EM



Informal workers were substantially more exposed to potential lockdowns



Sources: Dingel and Neimann (2020) except for Peru and Colombia; International Labour Organization (ILOSTAT) database; National Labor Surveys and IMF staff calculations.

Note: Data labels use International Organization for Standardization (ISO) country codes. AE = advanced economies; EM = emerging markets; LAC = Latin America and the Caribbean; LIC = low income countries.

Sources: Dingel and Neimann (2020); International Labour Organization (ILOSTAT) database; and IMF staff calculations.

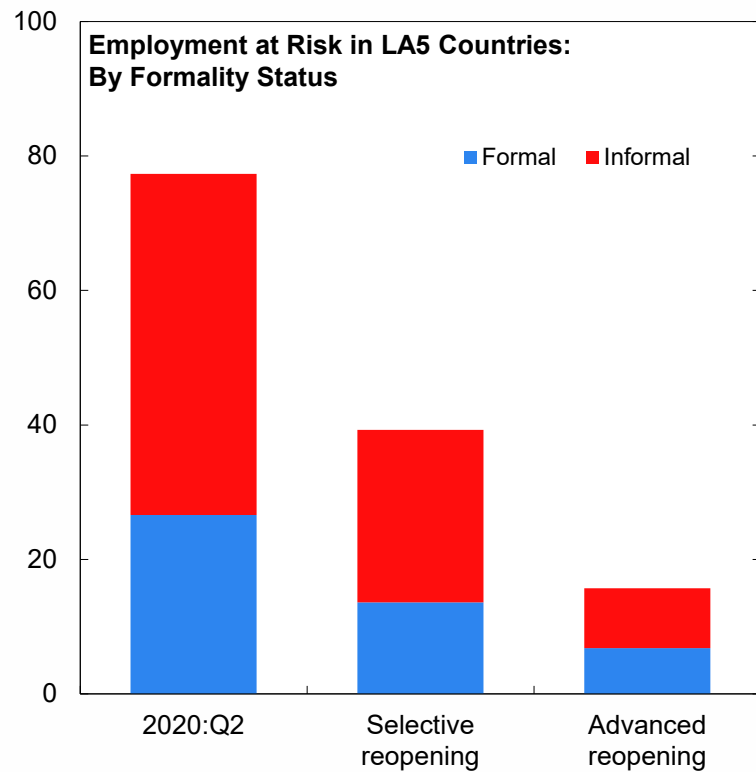
Note: Teleworkability is based on Dingel and Neiman (2020)

# Combining these factors to compute employment at risk: fundamental equations of the accounting framework

- ❖ Follow an adapted version of the framework proposed by Alfaro et al. 2020, which combines sectoral, occupational, and firm characteristics to compute employment at risk.
- ❖ Probability that worker  $i$  loses her job:  $\pi_{it} = \min\{1, (SShock_{it} + DShock_s) * AD\}$
- ❖ Supply shock:  $SShock_{it} = S_{it} * \min\{1, (1 - T_i) * Highcontact_i\} * \min\{1, Lock_s + Lup_s + Ldown_s\}$
- ❖ Demand shock:  $Dshock_s = Dloss_s * \frac{finalsales_s}{grossout_s} + \sum_{j \neq s} Dloss_j * \frac{purchases_{j:from:s}}{grossout_s}$
- ❖ Aggregate demand shock:  $AD = \frac{1}{1 - MPC}$

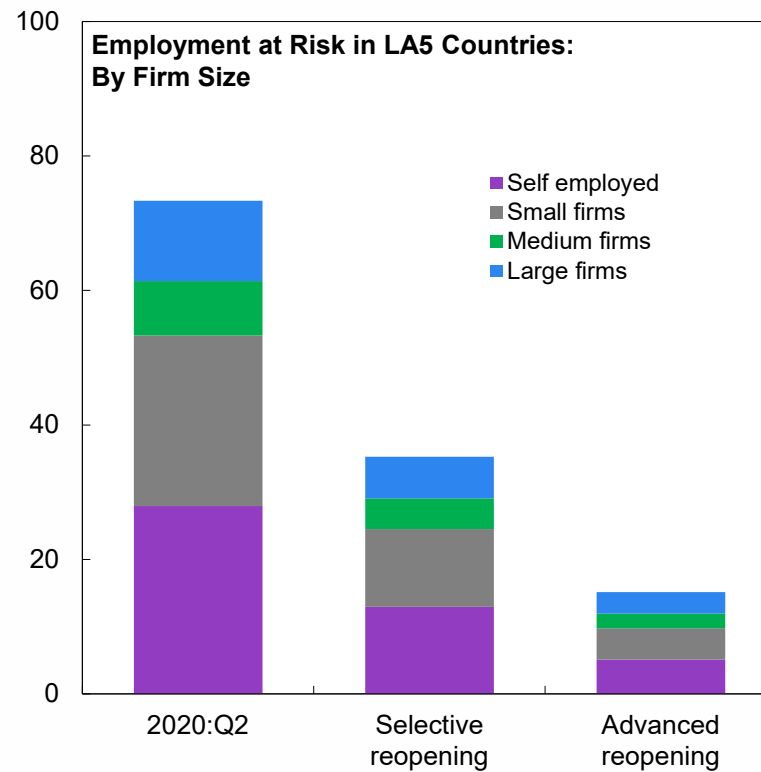
# A large number of Latin American jobs were at risk due to the pandemic...

*Employment at risk in LA5 during the lockdown was close to 75 million, mostly informal workers*



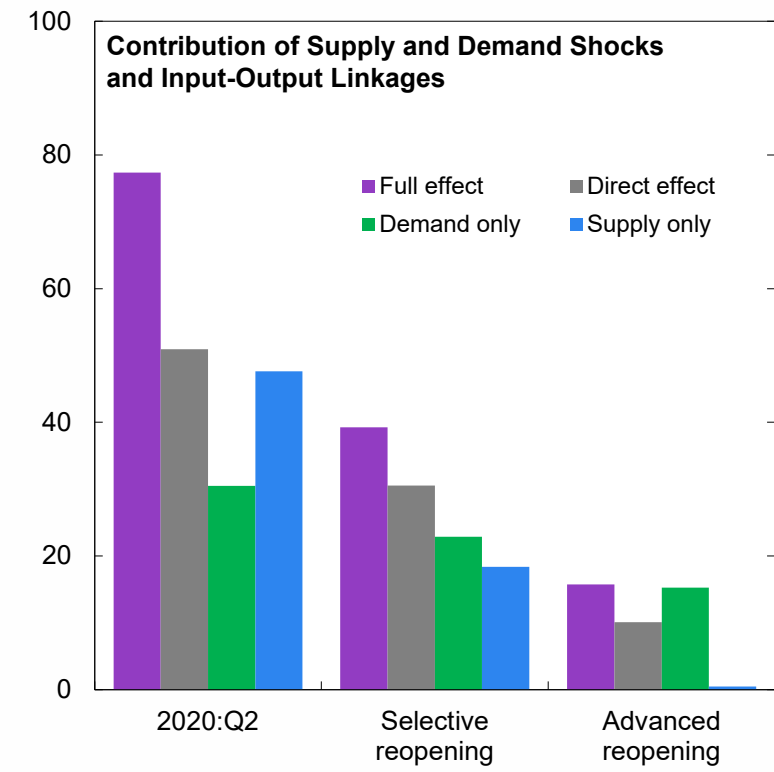
Source: IMF staff calculations.  
Note: LA5 = Brazil, Chile, Colombia, Mexico, Peru.

*Small firms are most vulnerable to the shock, but medium-sized firms take longer to recover*



Source: IMF staff calculations.  
Note: LA5 = Brazil, Chile, Colombia, Mexico, Peru.

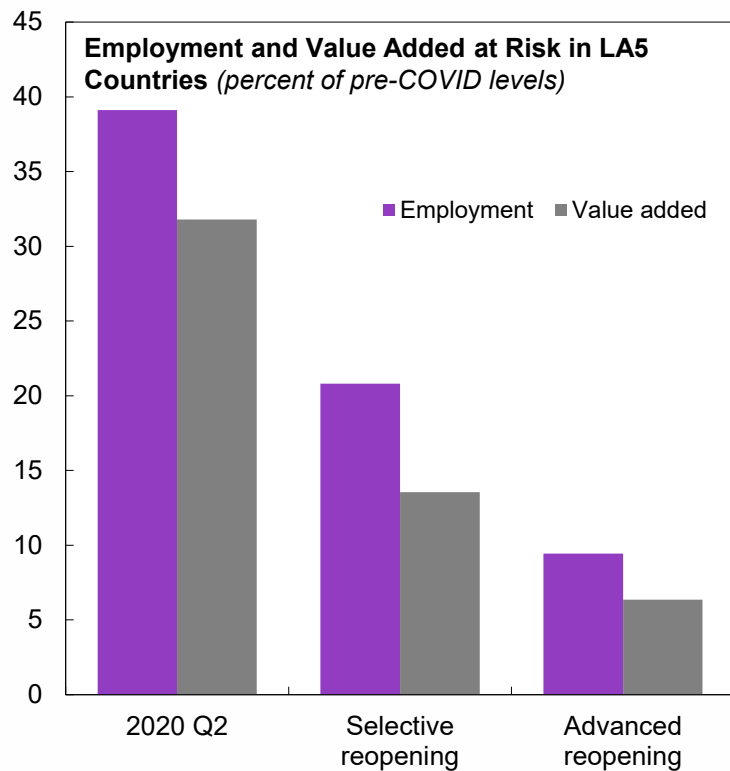
*Inter-sectoral links play an important role, especially during the lockdown phase*



Source: IMF staff calculations.  
Note: LA5 = Brazil, Chile, Colombia, Mexico, Peru.

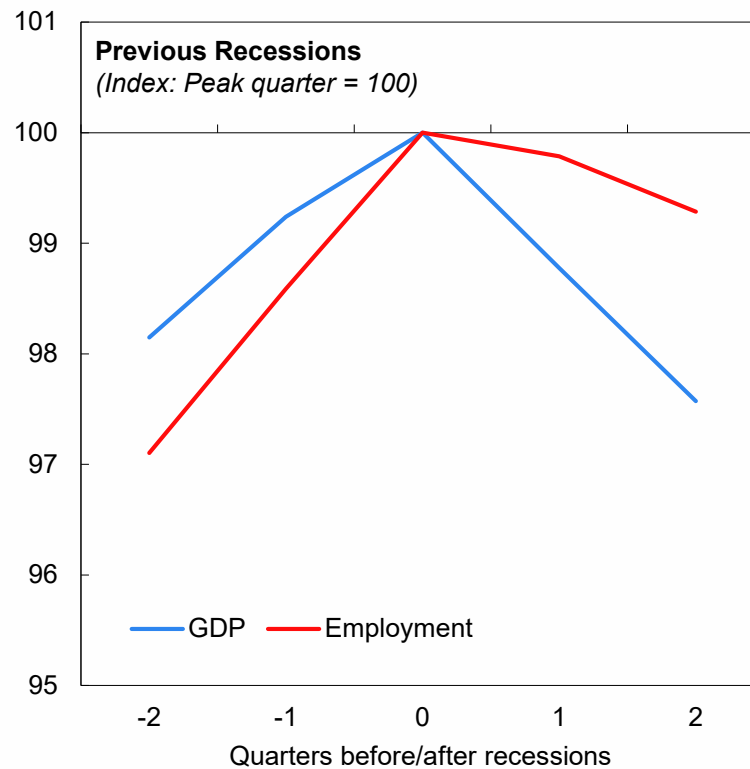
# ... more so than value added, a fact that is consistent with 2020:Q2 data

*Employment at risk is larger than value added at risk, especially in the early phases*

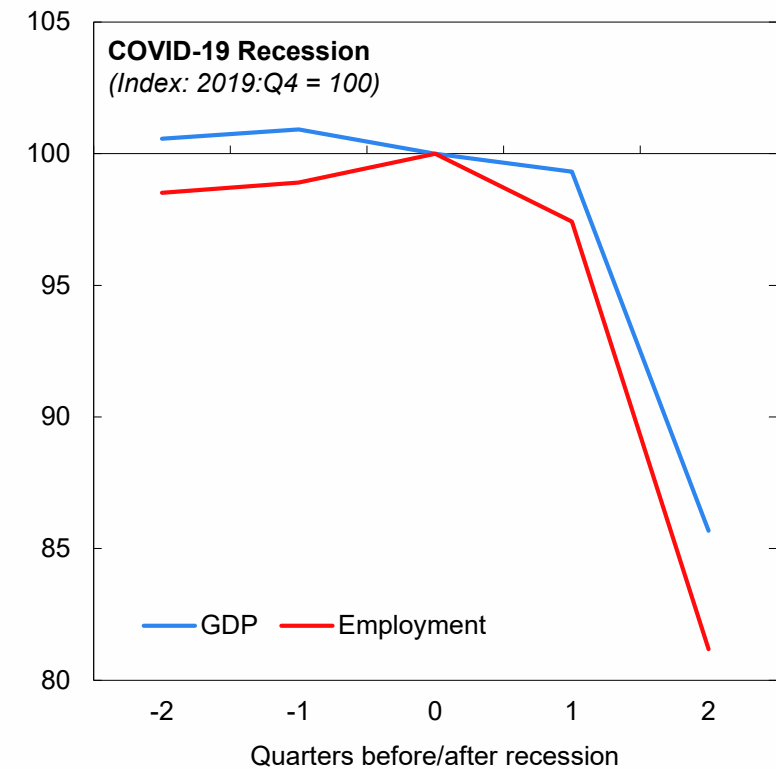


Sources: Haver Analytics;  
Note: Simple average of LA5 (Brazil, Chile, Colombia, Mexico, Peru).

*Employment fell more steeply than GDP, another break from the past*



Sources: Haver Analytics; national authorities; and IMF staff calculations.



Sources: Haver Analytics; national authorities; and IMF staff calculations.

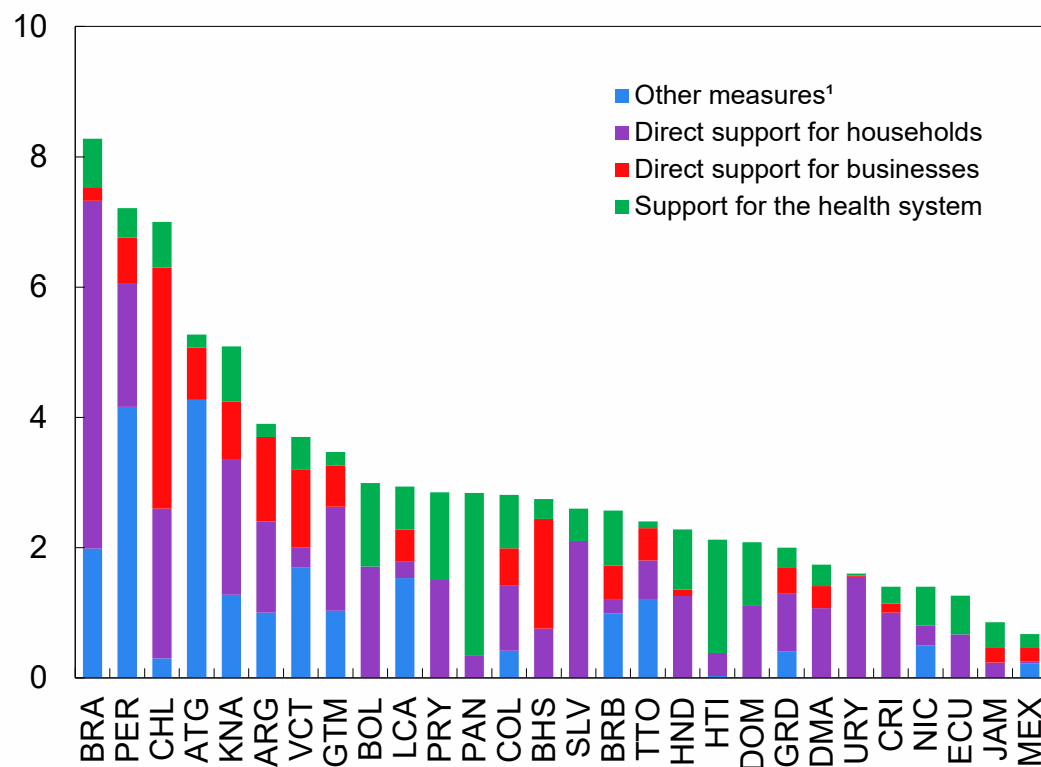
# **Fiscal Policy during COVID-19**

# Key Questions

- ❖ What was the size and composition of announced fiscal policy packages to respond to COVID-19 in Latin America and the Caribbean?
- ❖ What were the implications of these policy packages for growth and public finances?
- ❖ What are the appropriate fiscal strategies to follow as economies partially reopen and over the medium-term?

# Fiscal support included a broad range of measures, which varied in size and composition across countries

**Announced Above-the-line Discretionary Fiscal Measures**  
(Percent of GDP)

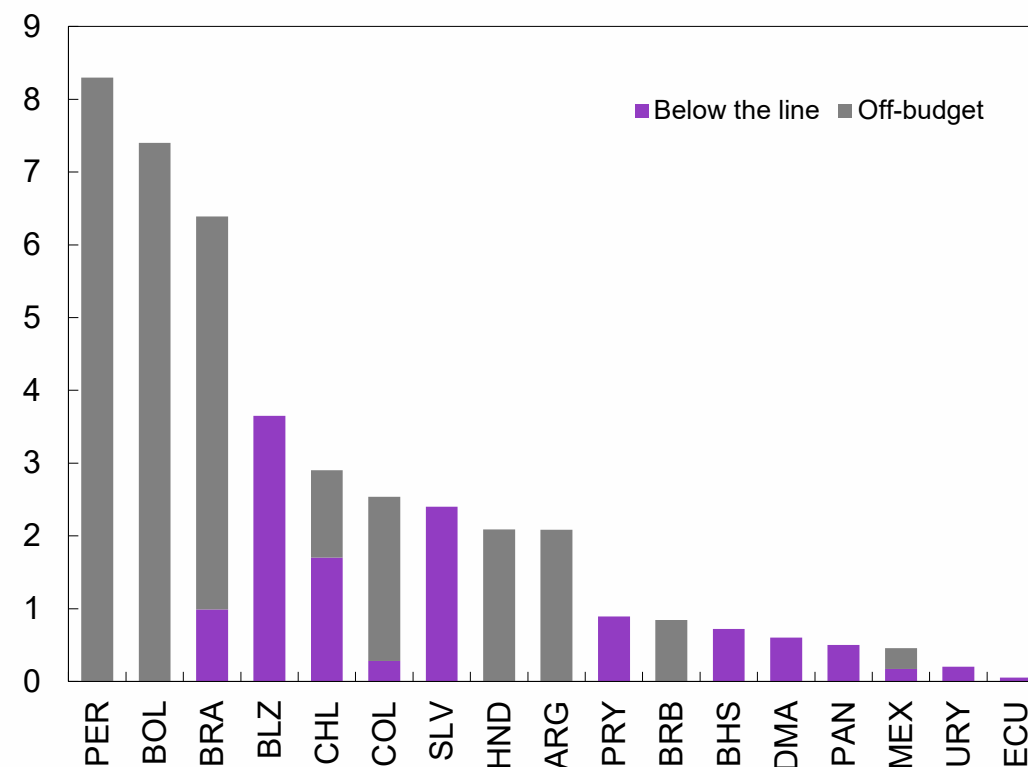


Sources: National authorities; and IMF staff calculations.

Note: Does not include tax deferrals and anticipation of benefits, which typically have small effects on an annual basis.

<sup>1</sup>In Peru, this includes mostly capital spending, while in Brazil it mostly includes support to local governments.

**Announced Below-the-line and Off-Budget Discretionary Measures**  
(Percent of GDP)

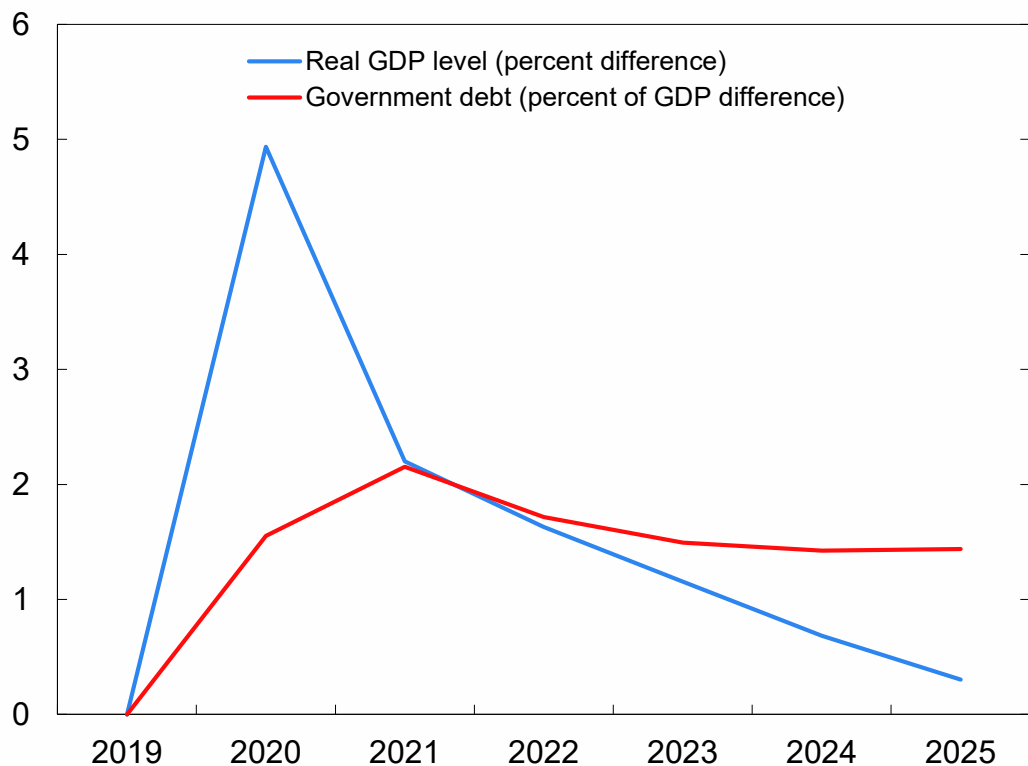


Sources: National authorities; and IMF staff calculations.

Note: Below-the-line measures include loans, equity injections, asset purchases or debt assumptions. Off-budget measures refer to the incurrence of contingent liabilities including guarantees and quasi-fiscal operations. For most countries, the loan guarantees include the total potential amount of loans covered by the guarantees; for Chile and Colombia, the amount corresponds to the capital committed for such purposes.

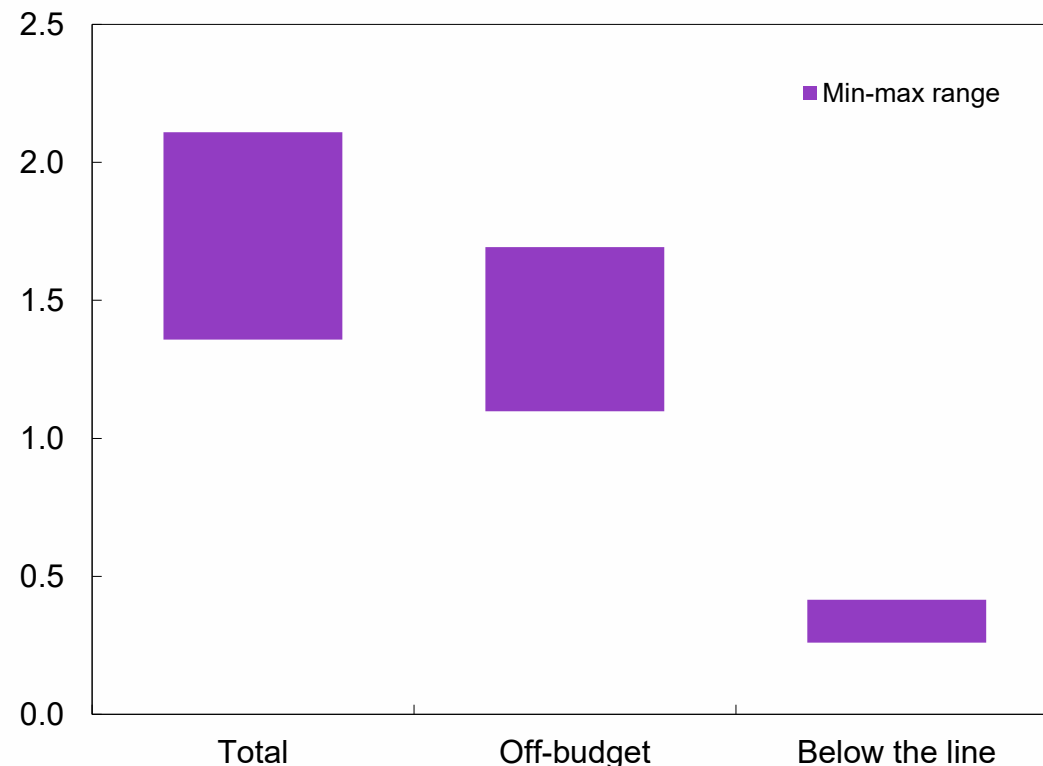
# Announced measures are estimated to have prevented a more severe downturn

**WHDMOD Model Simulations of Above-the-line Measures**  
(Percent deviation from baseline)



Sources: IMF, World Economic Outlook database and IMF staff calculations.  
Note: Includes Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Guatemala, Jamaica, Mexico, Peru, Uruguay.

**Effects of Below-the-line and Off-budget Measures on Real GDP**  
(Percent deviation from baseline)

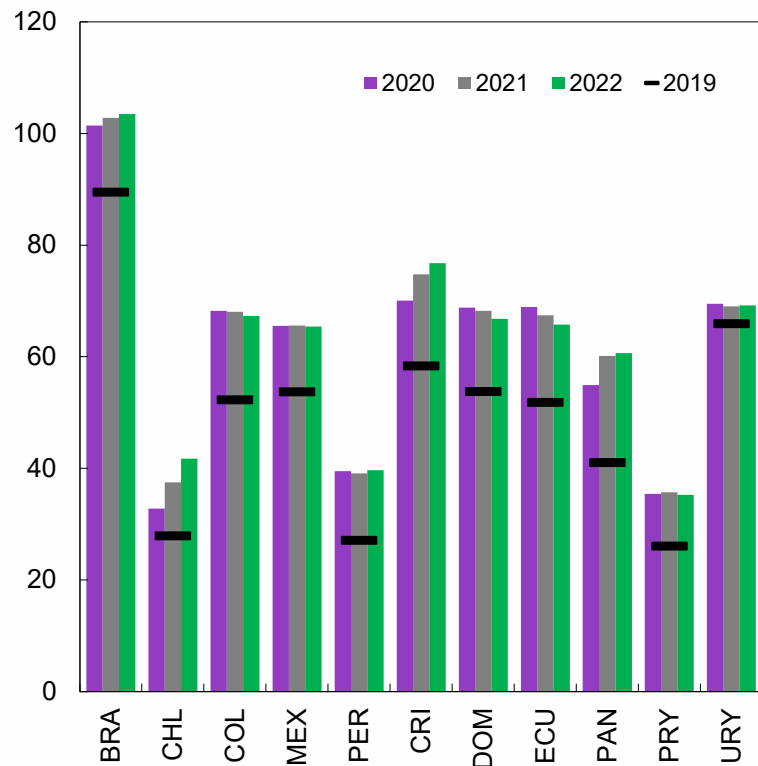


Sources: National authorities; and IMF staff calculations.  
Note: Below-the-line measures include loans, equity injections, asset purchases or debt assumptions. Off-budget measures refer to the incurrence of contingent liabilities including guarantees and quasi-fiscal operations.



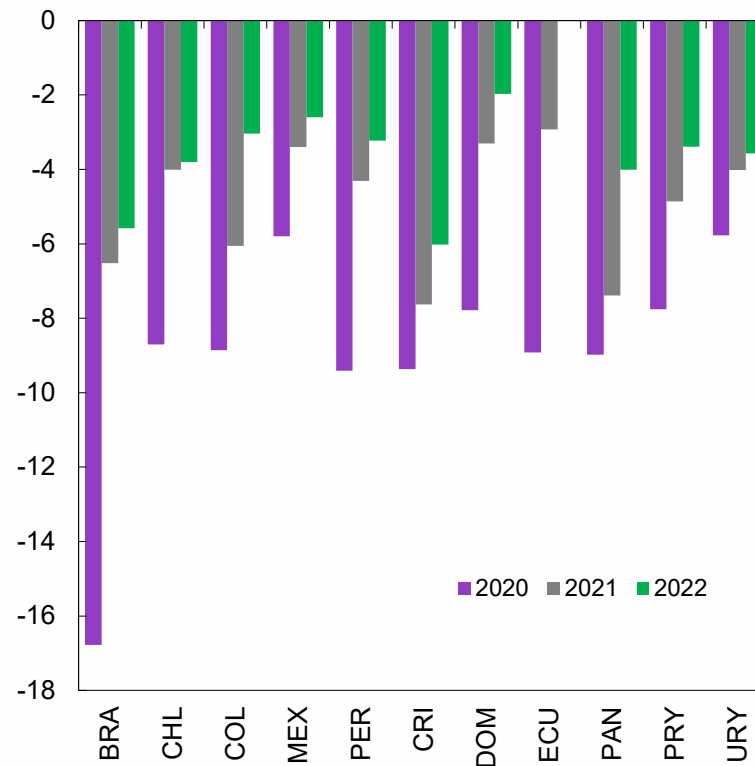
# Legacies of the pandemic: high debt levels as a result of large deficits and growth collapse

**General Government Debt**  
(Percent of GDP)



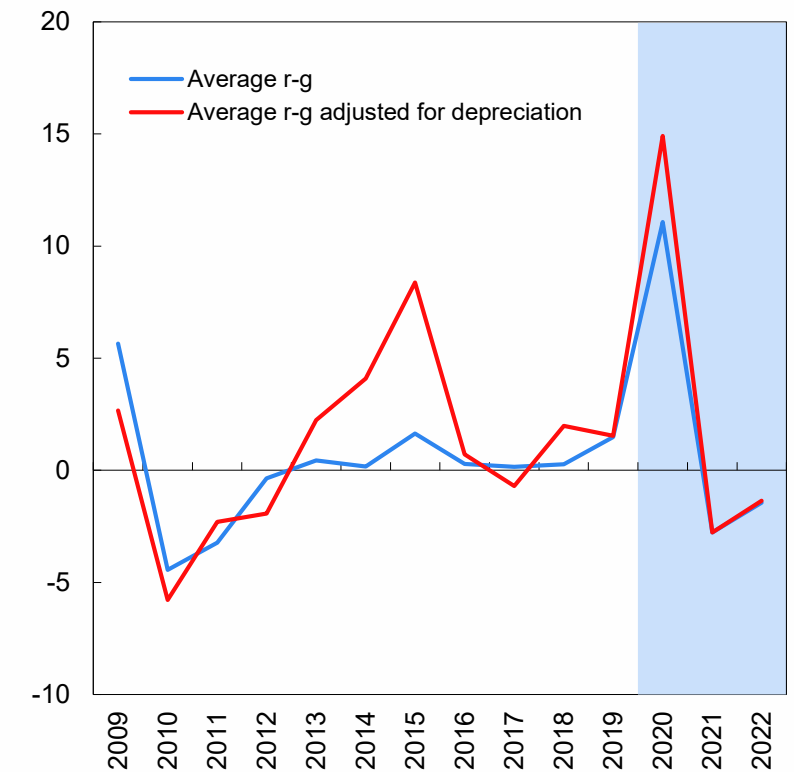
Source: IMF, World Economic Outlook database.

**General Government Fiscal Balance**  
(Percent of GDP)



Source: IMF, World Economic Outlook database.

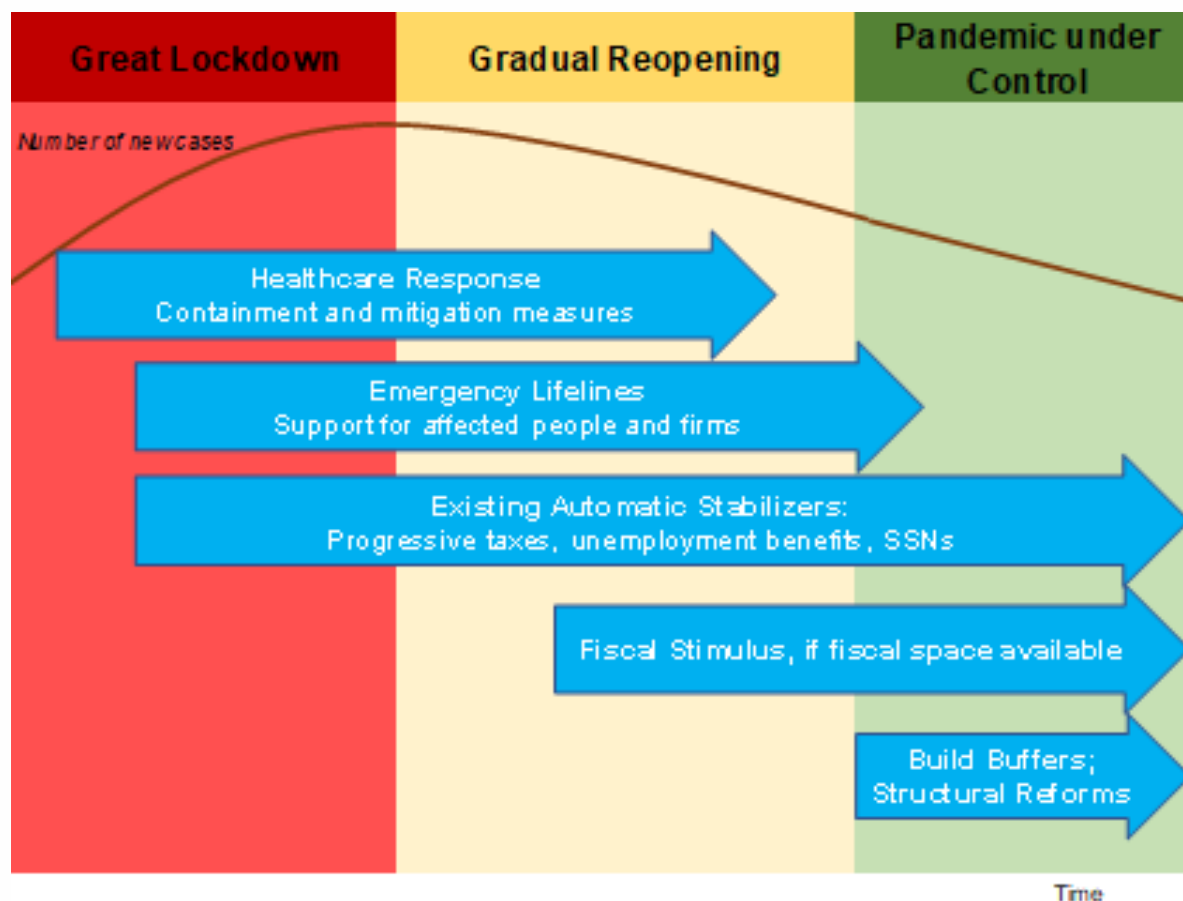
**LA5: Interest Rate-GDP Growth Differentials**  
(Percent)



Source: IMF, World Economic Outlook database and IMF staff calculations.  
Note: Simple average of Brazil, Chile, Colombia, Mexico, Peru.

# Fiscal policy after the “Great Lockdown” will hinge on available fiscal space

Fiscal Policy at Different Stages of the Pandemic



Sources: October 2020 *Fiscal Monitor*; and IMF staff calculations.

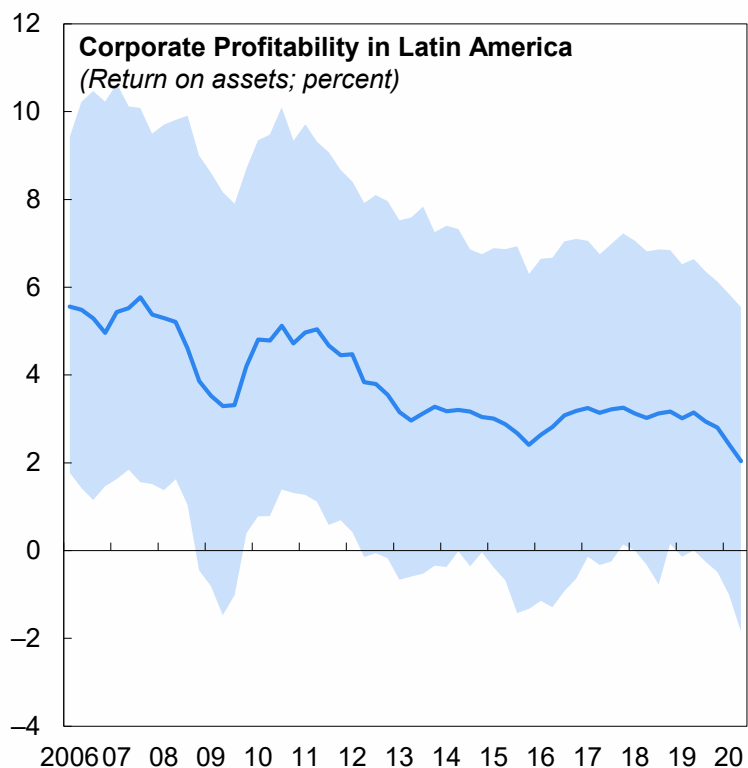
# Corporate and Financial Risks

# Key Questions

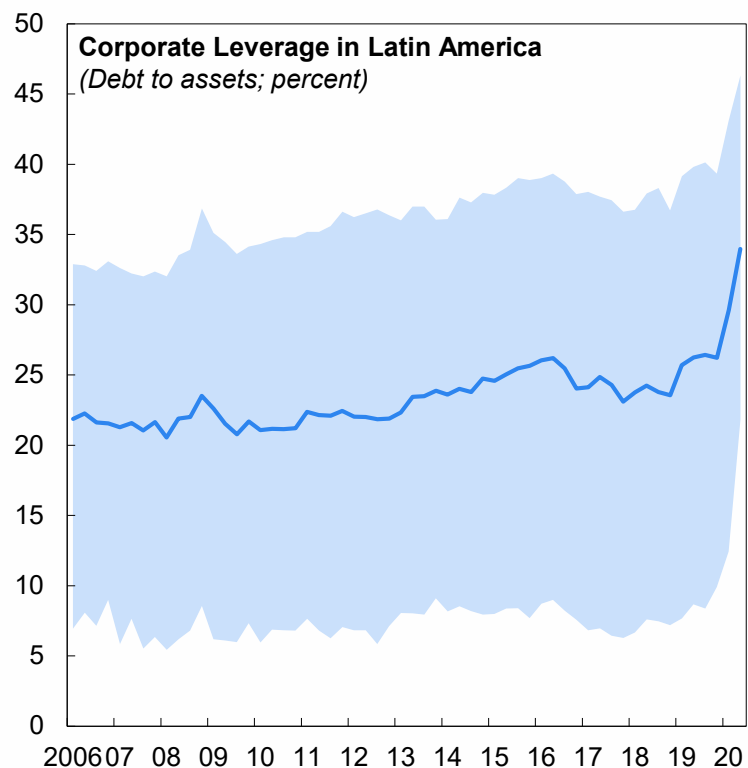
- ❖ How has the performance of nonfinancial corporations in Latin America been affected so far?
- ❖ What could happen to corporate *debt-at-risk* in an adverse scenario?
- ❖ What is the expected impact on the capital positions of the major banks in Latin America under the WEO baseline scenario... *adverse*?

# Corporate performance has weakened, especially in 2020Q2, and could worsen further in 2021 in an *adverse scenario*

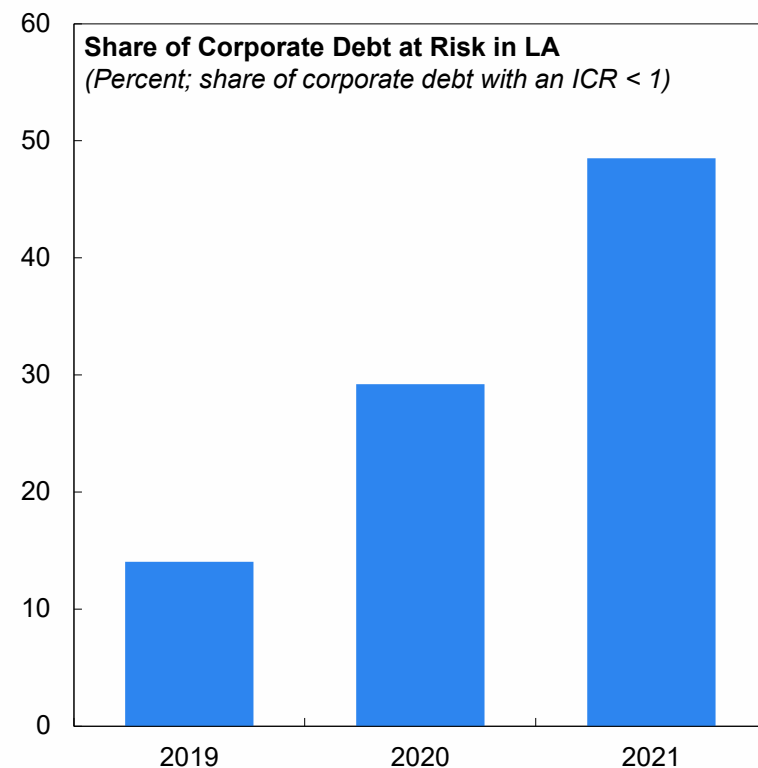
Profitability has continued to decline...



... while corporate leverage has increased



The share of debt at risk has doubled in 2020, and could increase further in 2021



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

Note: Median of the nonfinancial corporations of Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Shaded area refers to the 25th/75th percentile range.

Sources: Bloomberg Finance L.P.; and IMF staff calculations.

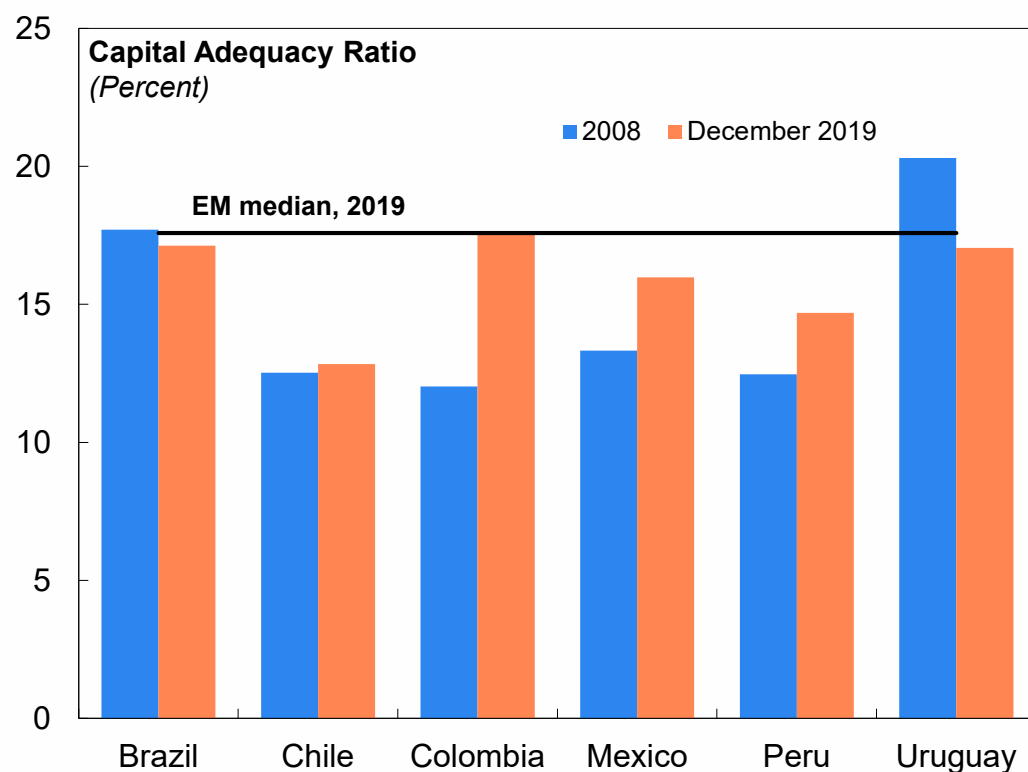
Note: Median of the nonfinancial corporations of Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Shaded area refers to the 25th/75th percentile range.

Source: IMF staff calculations.

Note: 2021 refers to the adverse scenario. ICR = interest coverage ratio.

# Despite these trends, banks remain resilient as they entered the pandemic in a relatively strong footing

Banks' capital levels were adequate at end-2019...



Sources: IMF, Financial Soundness Indicators database; national authorities; and IMF staff calculations.

Note: Total regulatory capital to risk-weighted assets.

... and have remained adequate in 2020:H1, but provisioning has increased, while profitability has declined

**Financial Soundness Indicators (Percent)**

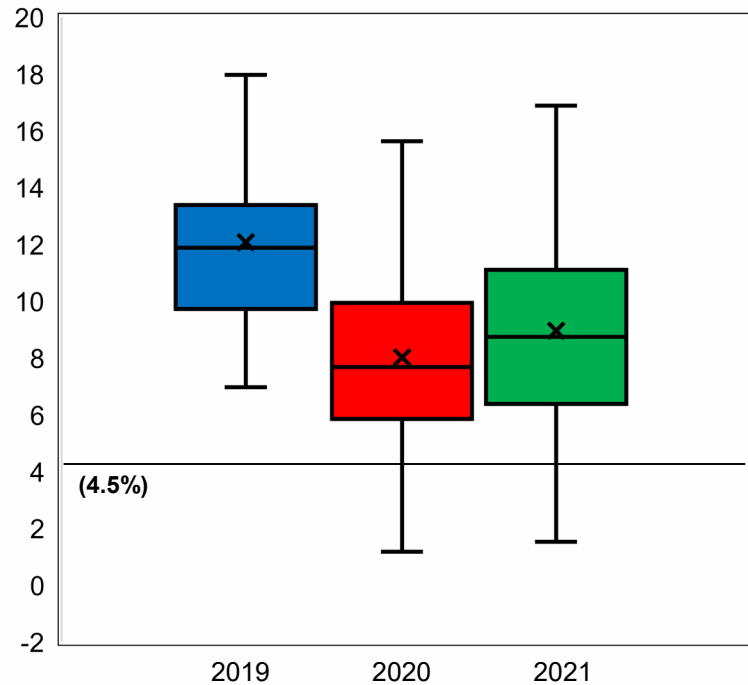
	<b>Capitalization</b> <i>Regulatory capital to risk-weighted assets</i>		<b>Loan Loss</b> <i>Loan loss provision to non-performing loan ratio</i>		<b>Profitability</b> <i>Return on equity</i>	
	Latest	Percentage point change since December 2019 (decrease = red)	Latest	Percentage point change since December 2019 (decrease = red)	Latest	Percentage point change since December 2019 (decrease = red)
	Brazil	16.3	-0.8	205.1	26.3	14.7
Chile	13.4	0.6			9.4	-6.8
Colombia	16.6	-1.0	152.9	10.5	15.3	-2.0
Mexico	16.5	0.5	164.7	17.7	12.8	-7.8
Peru	15.5	0.9	184.5	35.4	10.8	-7.0
Uruguay	18.6	1.5	64.7	4.6	26	3.1

Sources: IMF Financial Soundness Indicators; national authorities

# Banks' capital positions would deteriorate under adverse scenario, with heterogeneous effects

*Under the WEO baseline scenario, bank capital ratios would decline but remain above regulatory minima*

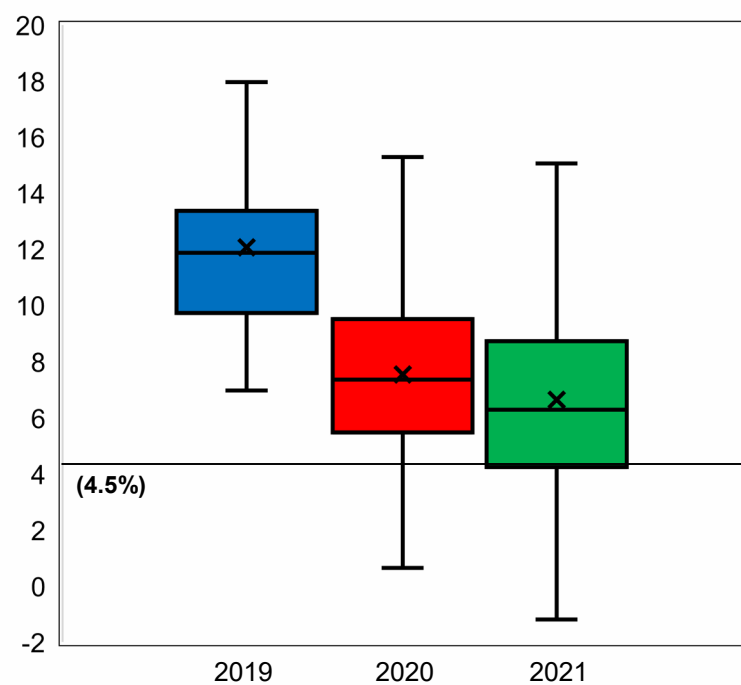
**CET1 Capital Ratio (ROA Model, Baseline Scenario)**  
(Percent)



Source: IMF staff calculations.  
Note: Excludes outliers. CET1 = common equity tier one; ROA = return on assets.

*In an adverse scenario, banks' capital positions deteriorate significantly...*

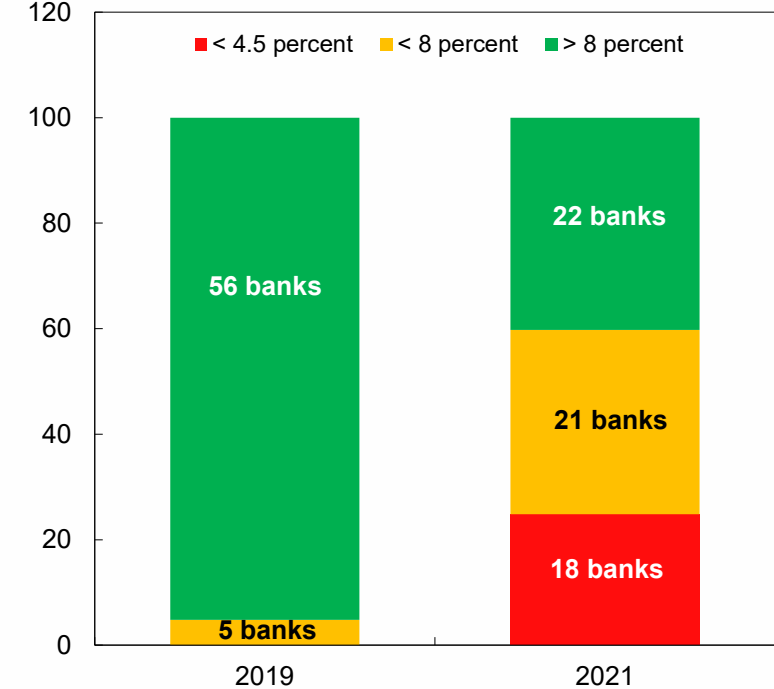
**CET1 Capital Ratio (ROA Model, Adverse Scenario)**  
(Percent)



Source: IMF staff calculations.  
Note: Excludes outliers. CET1 = common equity tier one; ROA = return on assets.

*... but about 75 percent of banks (by assets) would be able to maintain the CET1 ratio above 4.5 percent*

**Distribution of Bank Assets by CET1 Ratio under the Adverse Scenario**  
(Percentage share of sample banks in each jurisdiction)



Sources: IMF staff calculations.  
Note: CET1 = common equity tier one.

# Thank You

**<https://www.imf.org/en/Publications/REO/WH/Issues/2020/10/13/regional-economic-outlook-western-hemisphere>**