How Will Latin America Weather the Covid-19 Storm?

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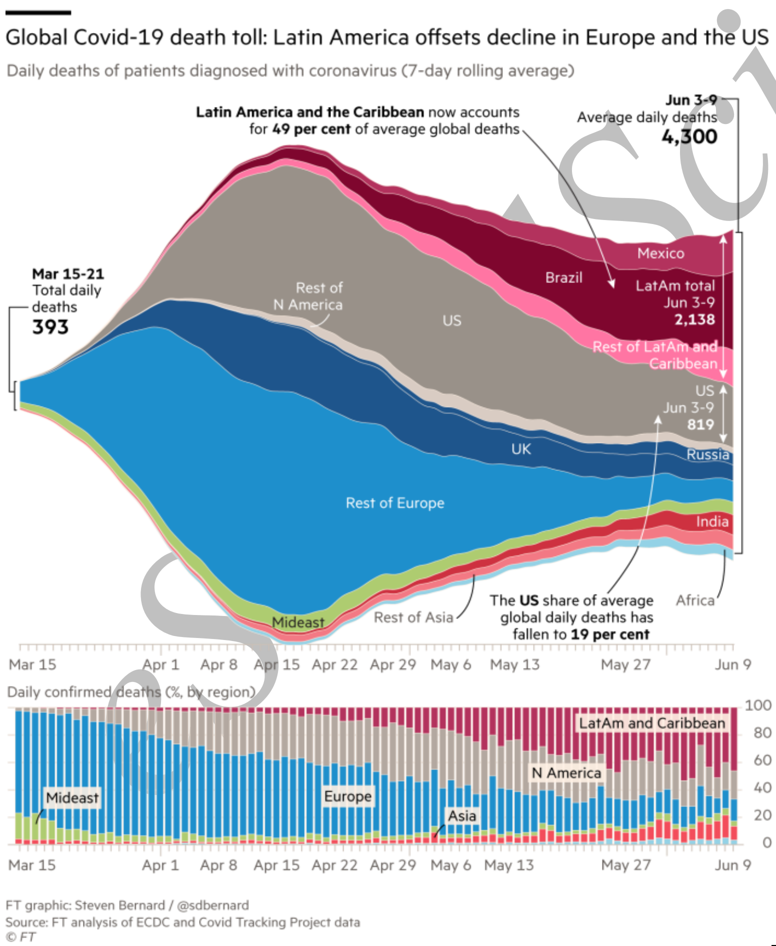
With most of their fiscal firepower spent and with their political capital draining away, most Latin American governments are grappling with the challenge of gradually opening up their economies even before the epidemiological curve has peaked.

In late May the World Health Organization declared Latin America as a new epicentre for the coronavirus (Covid-19) pandemic. Five countries in the region—Brazil, Chile, Ecuador, Mexico, and Peru—now account for almost 17 per cent of the total confirmed cases globally, even though they make up just about 5 per cent of the world's population. The data are all the more concerning given the low rates of testing within the region.



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Bringing the virus under control is essential to get the region's economies back on their feet. However, this is something that governments in the region have struggled with. With the notable exceptions of Brazil and Mexico, most Latin American countries were quick to close their borders and impose nationwide lockdowns, so as to contain the spread of the epidemic. However, by and large, governments were unable to use the time bought with the lockdowns to adequately test, trace and isolate the infected populations. Now with most of their fiscal firepower spent and with their political capital draining away, governments are grappling with the challenge of gradually opening up their economies even before the epidemiological curve has peaked.

That said, the region is quite diverse and public health and economic outcomes will vary considerably from one country to another. In Latin America, Uruguay is the country that seems best positioned to come out of this crisis with the least damage. The Uruguayan government of Luis Lacalle Pou did not impose the strict quarantine measures that many of its neighbours did in the face of the pandemic. Yet, it has one of the lowest rates of infections per capita in the entire region, and is the only major economy to have brought the effective reproduction rate of the virus to below 1. (i.e. each infectious individual infects less than one other individual). What is even more noteworthy is the fact that Uruguay's low detection rate is not a result of inadequate testing; it is in fact among the top 5 testers in all of Latin America.

Uruguay's success owes to a multitude of factors. For one, it has one of the strongest welfare states in the country. It has the lowest poverty rate in the region, and it has all but eradicated extreme poverty. It also has one of the region's most equitable healthcare systems, according to the World Health Organization's "Universal Health Coverage Index". Beyond that, Uruguay has strong state institutions which have, over the years, fostered confidence in government policy. Therefore, even though social distancing measures were voluntary, the rate of compliance among the population was extremely high. Lastly, from a purely epidemiological standpoint, Uruguay has one of the more favourable population density rates in the region, which helps reduce community spread of the virus. It is in this context that Uruguay is likely to experience one of the smallest economic contractions in 2020, and has the best chances for a "V-shaped recovery in 2021".

Another country which will come out of the economic crisis in relatively good shape is Chile. As in Uruguay, Chile imposed relatively few restrictions on economic activity. Although the "state of catastrophe" declared by Chilean president, Sebastián Piñera, closed the country's borders and put a curfew in place across the nation, the president refrained from putting a full-fledged lockdown in place. As a result, Chile has seen only minimal disruption to economic activity. That said, Chile has also suffered one of the worst outbreaks of the epidemic in the region, which will weigh heavily on consumer and business confidence going forward. However, downside risks will be at least partly offset by Chile's strong economic institutions and its abundant fiscal firepower.

Other countries that did impose stricter lockdowns to bring the virus under control will take more of a hit in the immediate term. Stringent restrictions on activity, by design, generate sharp

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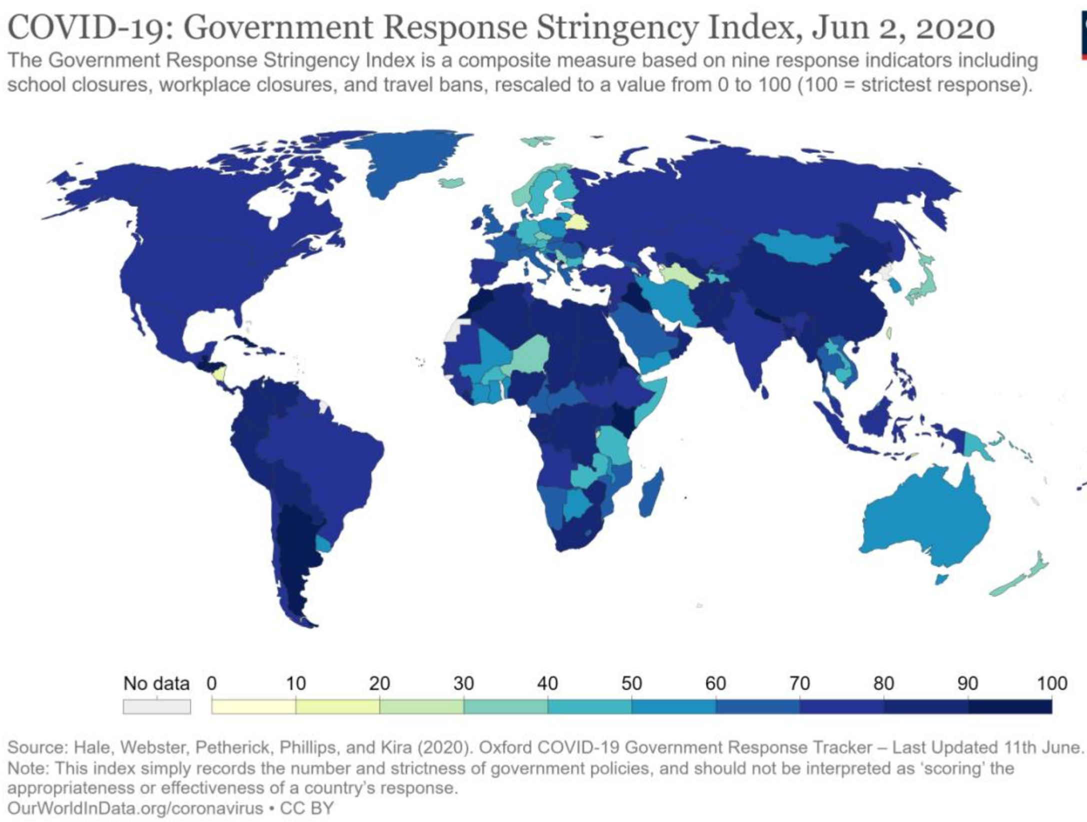
negative shocks to the economy in the short term. However, to the extent that the lockdowns helped contain the Covid-19 outbreak, these countries are better positioned to safely reopen their economies and recover in the medium term. Colombia imposed extremely strict quarantine measures, but was able to use this time to effectively



test, trace and isolate the infected population. Argentina's story is similar to that of Colombia; the epidemic has been suppressed in most of the country, and an economic reopening is already underway. That said, Colombia's recovery from the pandemic-induced recession is likely to be smoother than Argentina's, not least because of the latter's weak macroeconomic situation going into the public health crisis. Argentina was already two years into a deep recession and struggling with a sovereign debt crisis when the pandemic struck.

Elsewhere in the region, the governments of Ecuador and Peru also imposed stringent nationwide lockdowns. However, they were not able to replicate the success of their Argentinian and Colombian counterparts. This owes in large part to the fact that Ecuador and Peru have much weaker healthcare systems. The governments of the two countries have also faced greater challenges in enforcing the lockdowns given the dependence of workers on large informal sectors. That said, Peru is likely positioned for a stronger recovery in the medium term than Ecuador. The Peruvian government has brought out its big spending guns, deploying a stimulus package equivalent to 17 per cent of the country's GDP, to support the economy. By contrast, the

Ecuadorian government has been forced to undertake pro-cyclical cuts to public expenditure, as low oil prices—Ecuador is a net exporter—have hit the government's fiscal accounts hard.

TABLE 2.3.2 Latin America and the Caribbean country forecasts[1]

(Real GDP growth at market prices in percent, unless indicated otherwise)

						Percentage point differences from January 2020 projections	
	2017	2018	2019e	2020f	2021f	2020f	2021f
Argentina	2.7	-2.5	-2.2	-7.3	2.1	-6.0	0.7
Belize	1.9	2.1	0.3	-13.5	6.7	-15.6	4.9
Bolivia	4.2	4.2	2.7	-5.9	2.2	-8.9	-1.0
Brazil	1.3	1.3	1.1	-8.0	2.2	-10.0	-0.3
Chile	1.2	3.9	1.1	-4.3	3.1	-6.8	0.1
Colombia	1.4	2.5	3.3	-4.9	3.6	-8.5	-0.3
Costa Rica	3.9	2.7	2.1	-3.3	3.0	-5.8	0.0
Dominica[2]	-9.5	0.5	9.6	-4.0	4.0	-8.9	-0.1
Dominican Republic	4.7	7.0	5.1	-0.8	2.5	-5.8	-2.5
Ecuador	2.4	1.3	0.1	-7.4	4.1	-7.6	3.3
El Salvador	2.3	2.4	2.4	-5.4	3.8	-7.9	1.3
Grenada	4.4	4.2	3.1	-9.6	6.5	-12.5	3.6
Guatemala	3.0	3.1	3.6	-3.0	4.1	-6.0	0.9
Guyana	2.1	4.1	4.7	51.1	8.1	-35.6	-2.4
Haiti[3]	1.2	1.5	-0.9	-3.5	1.0	-2.1	1.5
Honduras	4.8	3.7	2.7	-5.8	3.7	-9.3	0.2
Jamaica	1.0	1.9	0.7	-6.2	2.7	-7.3	1.5
Mexico	2.1	2.2	-0.3	-7.5	3.0	-8.7	1.2
Nicaragua	4.6	-4.0	-3.9	-6.3	0.7	-5.8	0.1
Panama	5.6	3.7	3.0	-2.0	4.2	-6.2	-0.4
Paraguay	5.0	3.4	0.0	-2.8	4.2	-5.9	0.3
Peru	2.5	4.0	2.2	-12.0	7.0	-15.2	3.5
St. Lucia	2.2	1.4	1.4	-8.8	8.3	-12.0	5.3
St. Vincent and the Grenadines	1.0	2.0	0.4	-5.5	4.0	-7.8	1.7
Suriname	1.8	2.6	2.3	-5.0	3.0	-7.5	0.9
Uruguay	2.6	1.6	0.2	-3.7	4.6	-6.2	1.1

Risks to the economic outlook are arguably the highest in the region's two largest economies—Brazil and Mexico. In theory, the two countries should have fared much better in the face of the crisis than they are doing. Both countries have relatively robust health systems, and they benefit from firm macroeconomic fundamentals. However, a failure of political leadership has meant that the virus has been left uncontained. The populist presidents of these two countries have been the most prominent coronavirus deniers in the region, clashing frequently with mayors and governors in their respective countries over the imposition of mandatory quarantine measures. Their haphazard pandemic responses led to the rapid spread of the virus in both countries, pushing their comparatively robust health systems to the brink. Despite this, neither leader appears to have changed tack. In late May the Mexican president, Andrés Manuel López Obrador, began a cross-country tour, even as his own health officials reiterated the need for continued social distancing. Meanwhile, in Brazil, the administration of Jair Bolsonaro has doubled down on its virus denialism, and in early June went as far as to suspend the publication of Covid-19 statistics altogether. Critics viewed the move as an attempt to hide the true toll of the disease in Brazil, and the suspension was later reversed by the country's Supreme Court. All of these factors have contributed to extremely weak consumer and business confidence in government policy, and will act as major impediments to any eventual recovery.

Looking ahead to the medium term, one can expect a great deal of heterogeneity in how Latin America's economies emerge from what is turning out to be the region's deepest economic crisis since the Great Depression of the 1930s. Virtually no country's economy will rebound to 2019 levels until at least 2022 (or in some cases even 2023 or 2024). Yet, some will do better than others. Among the major economies, Chile, Peru and Colombia face less of a risk of debt overhang weighing on the recovery. Longstanding traditions of economic orthodoxy and trade liberalisation could also create opportunities for these countries to benefit from changing global patterns, such as the regionalization of supply chains. By contrast, the three largest economies—Brazil, Mexico and Argentina—will find themselves much more vulnerable, forced to tighten fiscal policy for years to come to put public debt on sustainable footing. These economies will therefore be reliant on the private sector to drive growth. However, all three economies suffer from cumbersome regulations and weak business environments, which bode poorly for the private investment o take what we can get.

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