

THE IMPACT OF COVID-19 ON THE ECONOMIES OF LATIN AMERICA

**Forum on Macroeconomics
and Macroeconomic Policies
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THE INTERNATIONAL CONTEXT AND ITS EFFECTS ON LATIN AMERICA

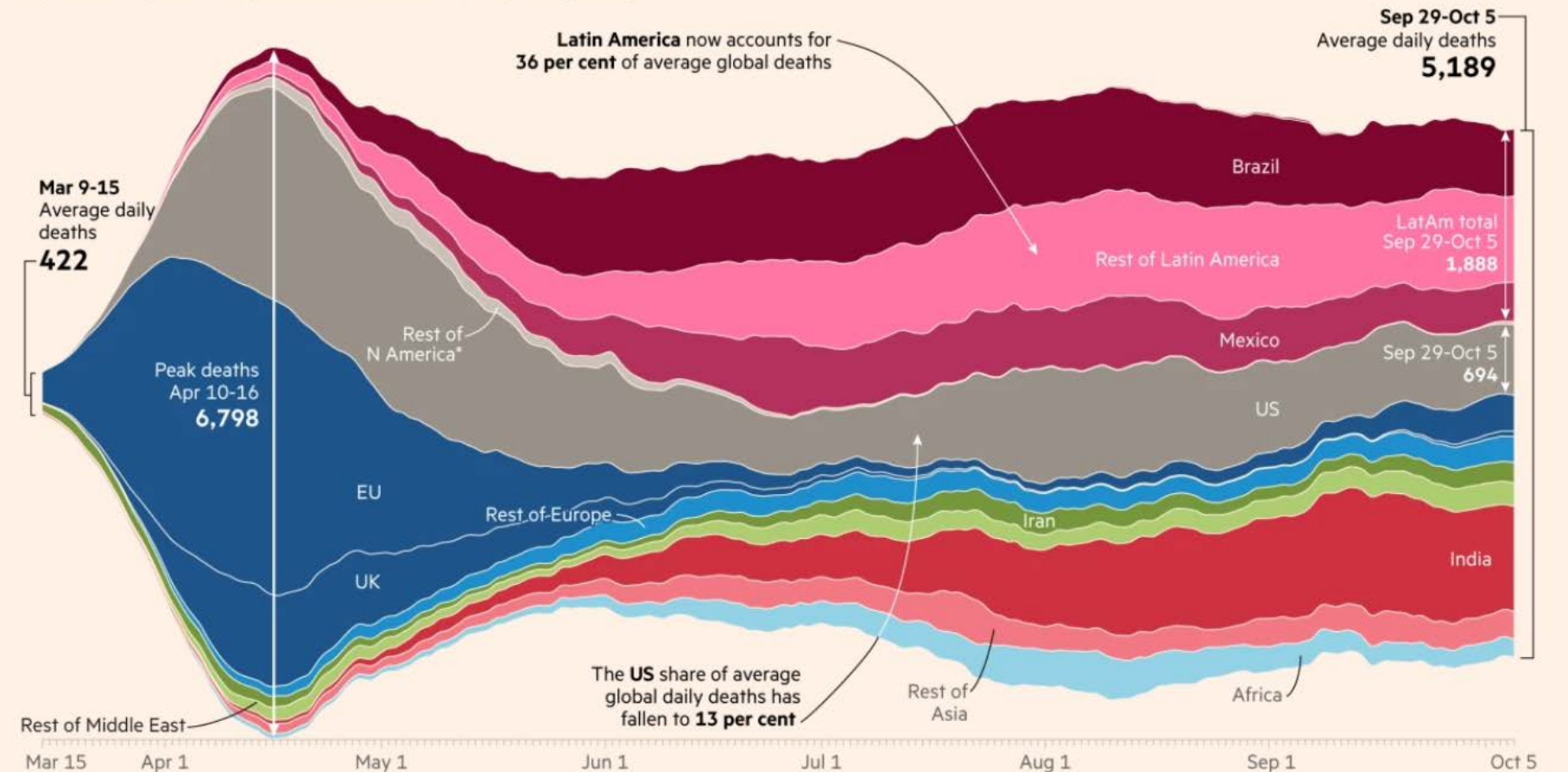
THE INTERNATIONAL SHOCKS GENERATED BY THE COVID-19 CRISIS (1)

- ❖ Latin America became the epicenter of the pandemic in June-August.
- ❖ Worst global crisis since the Great Depression: -4.7% (IMF).
- ❖ Contraction of international trade: expected to be -13% according to WTO, but the worst was in May (-18.8%), and was followed by a fast recovery.
- ❖ Collapse of some services: tourism, air travel.
- ❖ Strong fall of energy prices, but not of other commodity prices.
- ❖ Remittances were expected to decline, but they have not done so in Latin America (only -3.8% excluding Mexico, +2,6% including Mexico).

THE SPREAD OF THE PANDEMIC...

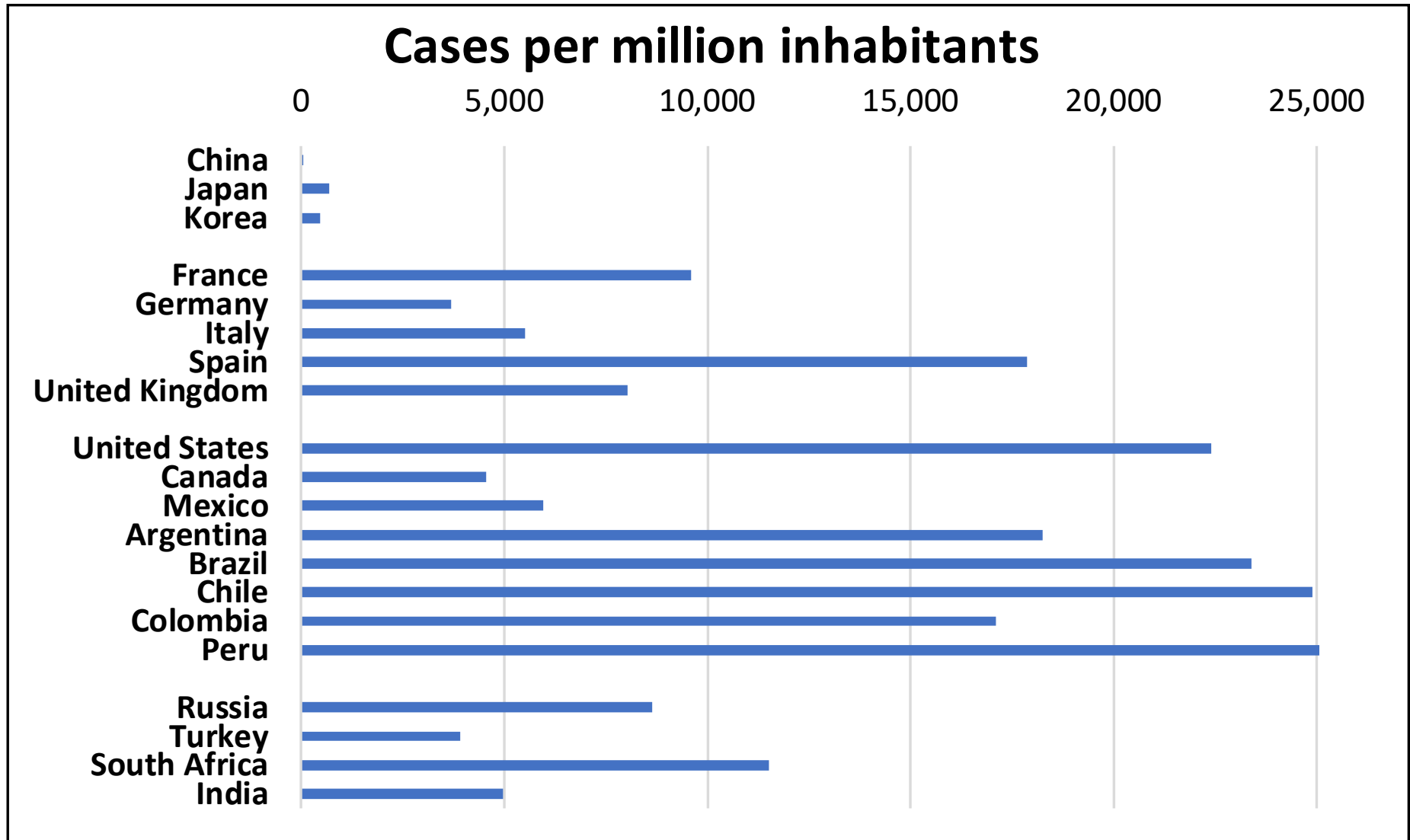
India's death toll surges as the Americas continue to struggle with Covid-19

Daily deaths of patients diagnosed with coronavirus (7-day rolling average)



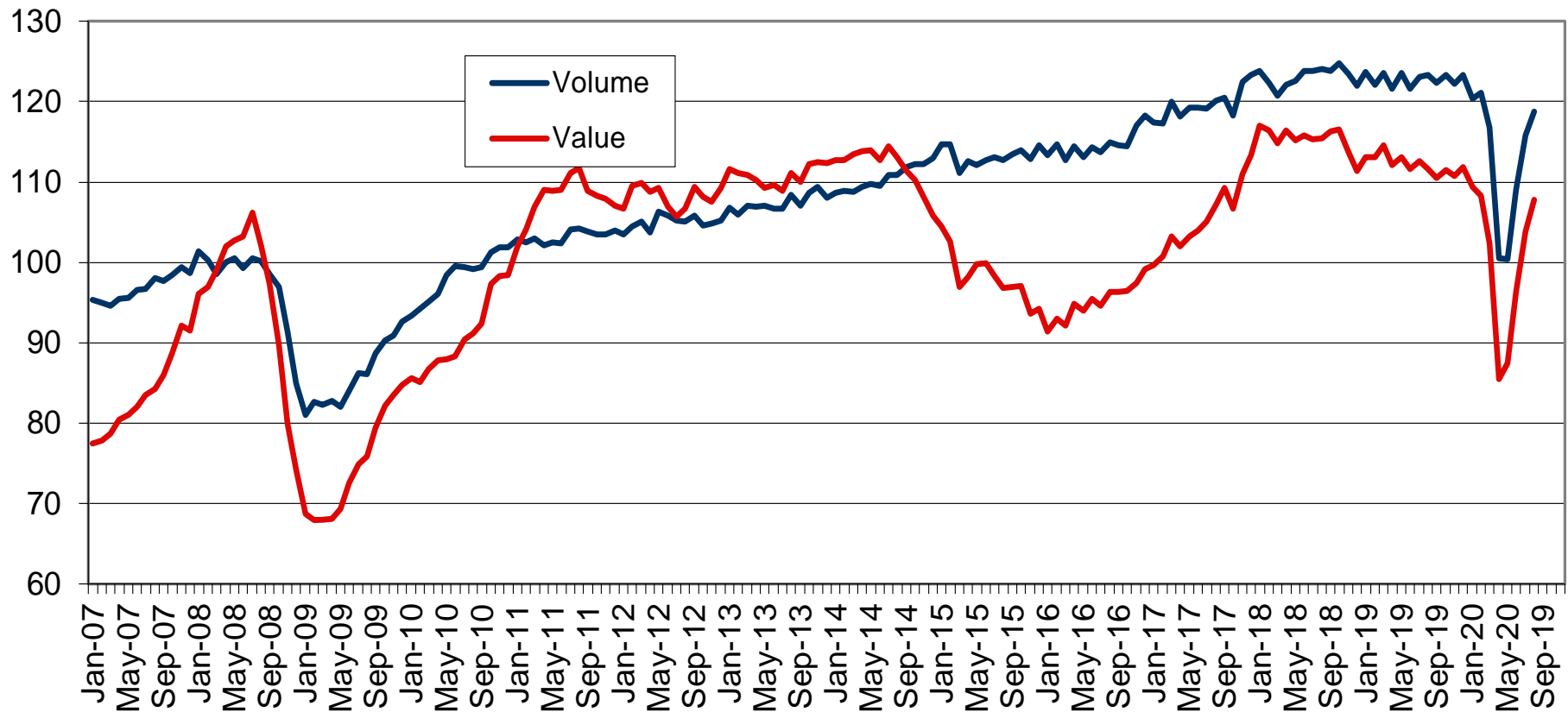
* Canada, Bermuda, Greenland and St Pierre and Miquelon

... AND ITS IMPACT ON LATIN AMERICA

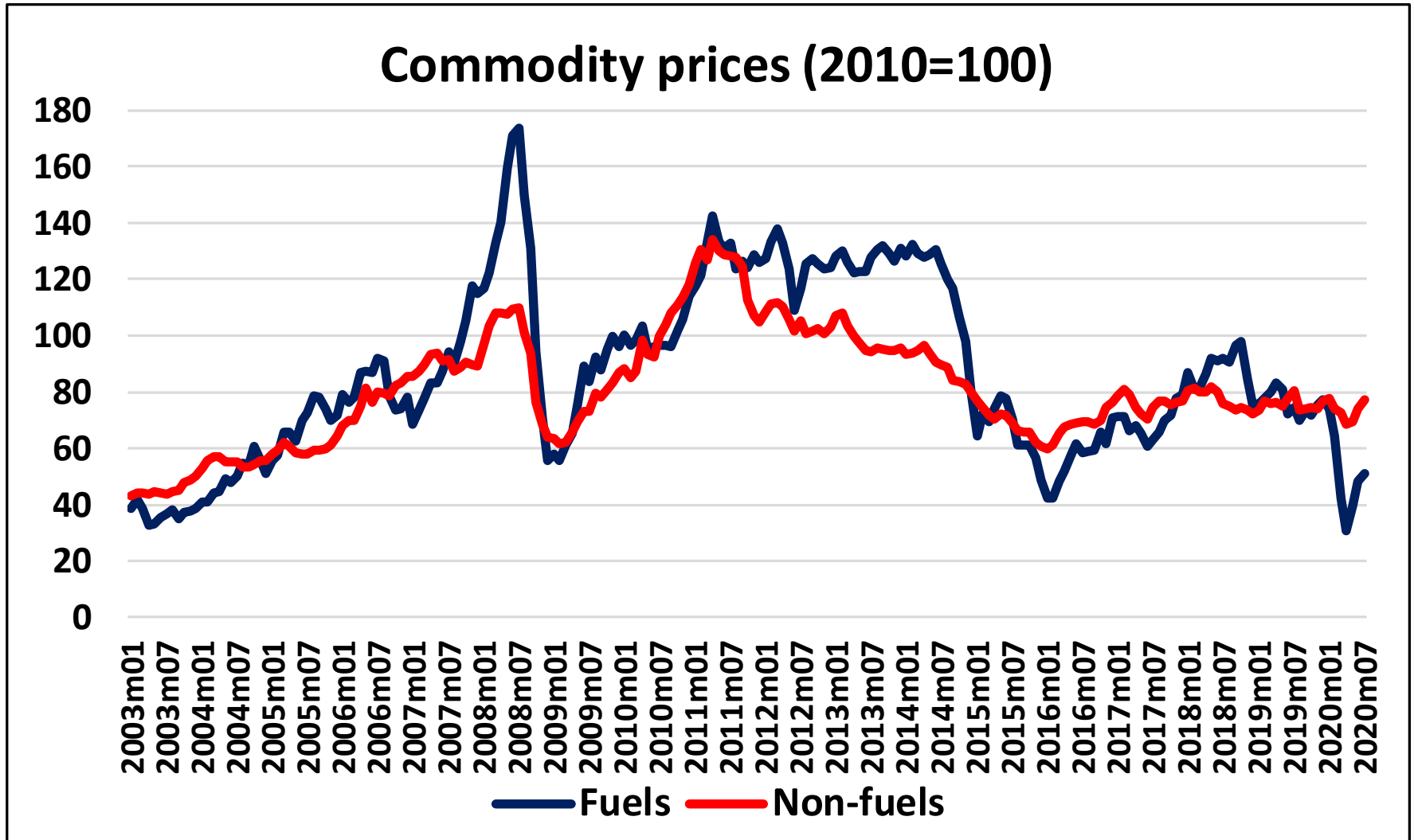


THE RECOVERY OF WORLD TRADE HAS BEEN FASTER THAN IN 2010-11

World exports (1st semester 2008=100)
(CPB Netherlands Bureau)



COMMODITY PRICES: ONLY FUELS ARE AFFECTED

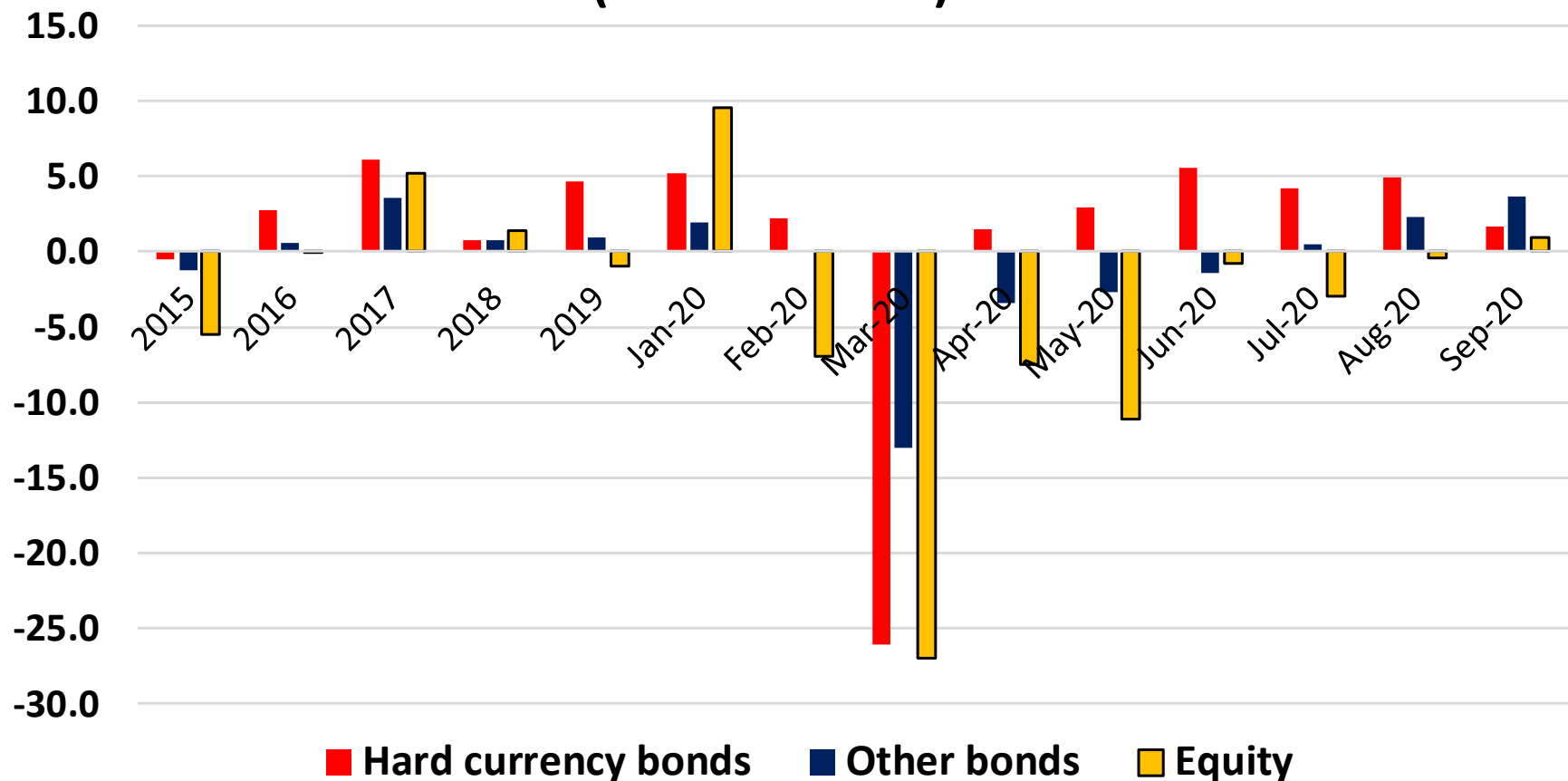


THE INTERNATIONAL SHOCKS GENERATED BY THE COVID-19 CRISIS (2)

- ❖ After a large outflow of portfolio capital in the early phase of the crisis, bond financing returned since mid-April, and bond yields have fallen significantly.
- ❖ Twelve Latin American countries have issued bonds (\$27.5 billion until September). Also several state-owned enterprises, and subregional banks.
- ❖ In contrast, limited multilateral financial support:
 - Most important from IMF: flexible credit lines and emergency financing, but limited amounts.
 - World Bank is lending less to Latin America than in 2009-10, and the two major development banks (IADB and CAF) serving LA need additional capital.
- ❖ Good renegotiations of Argentina's and Ecuador's debts.

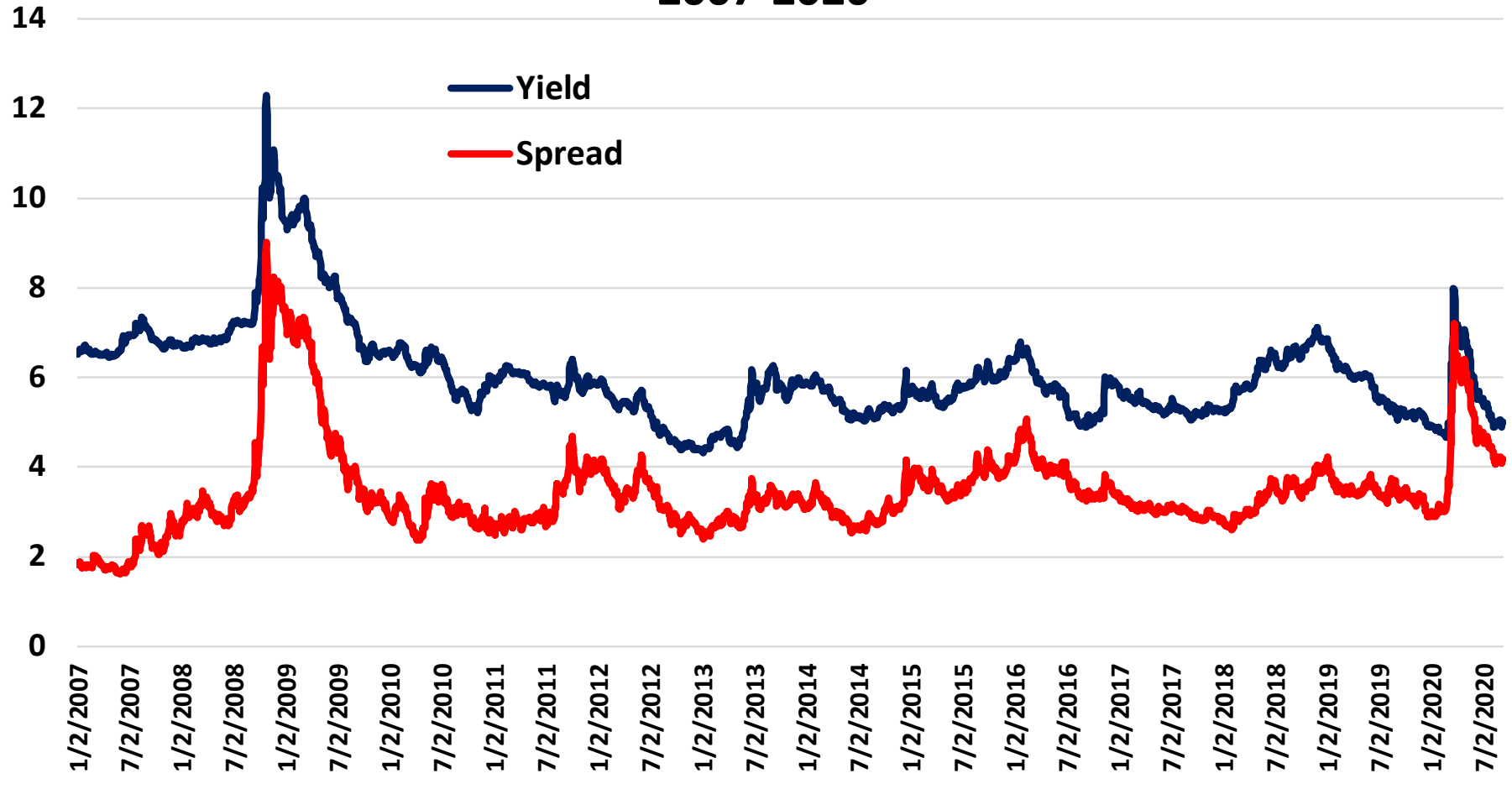
RAPID RECOVERY OF ACCESS TO EXTERNAL FINANCING...

Capital flows toward emerging economies
(billion dollars)



... AND OF COSTS OF FINANCING

Spreads and Yields of Emerging Market Bonds (EMBI).
2007-2020

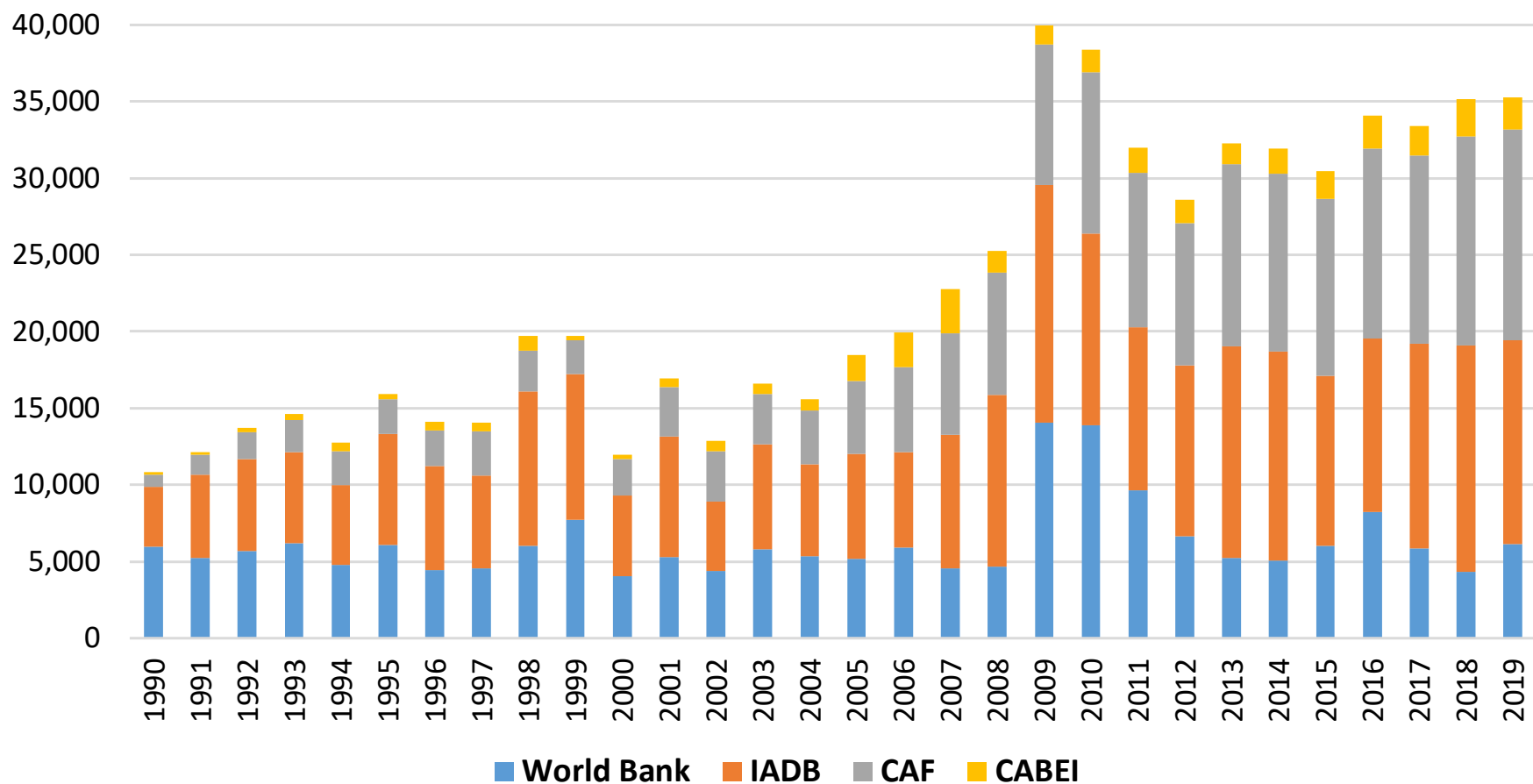


LIMITED USE OF IMF CREDIT LINES

IMF credit requests approved (March-September, million dollars)		
IMF Department	Number of countries	Million dollars
Africa	39	15,741
Asia Pacific	8	1,844
Europe	7	6,091
Middle East and Central Asia	17	13,917
Western Hemisphere	18	11,673
Subtotal	89	49,266
Flexible credit lines *	3	41,066
Total	92	90,332
* Excludes renewal of FCL for Colombia		

MDB FINANCING DEPENDS HEAVILY ON IADB AND CAF, THAT NEED MORE CAPITAL

Loans from multilateral development banks to Latin America
(Million dollars)



REMAINING UNCERTAINTIES

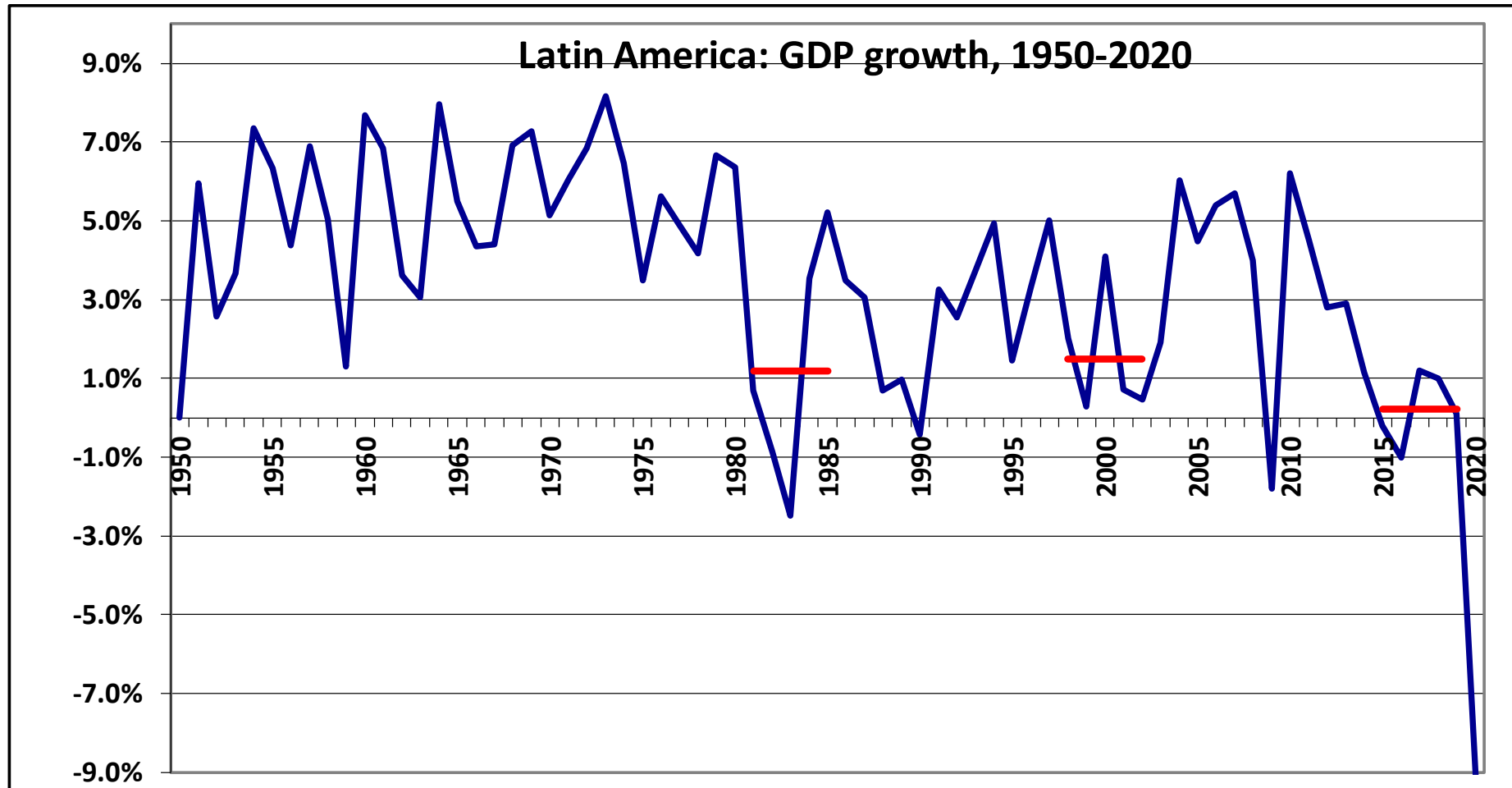
- ❖ Effects of a second wave of the pandemic.
- ❖ Delay in the development of a vaccine, and on how effective it would be.
- ❖ In economic terms, the major issue are fiscal deficits and rising public sector debts.
- ❖ Will this lead to austerity policies? It depends on access to financing.
- ❖ A broader debt initiative may be required.
- ❖ Will there be a restructuring of value chains?
- ❖ In any case, major structural changes are under way.
- ❖ And, very importantly: how would the results of the U.S. election affect international cooperation?

EXPECTED PERFORMANCE OF LATIN AMERICA

EXPECTED PERFORMANCE OF LATIN AMERICA (1)

- ❖ Latin America reached the crisis after the worst quinquenium since WWII (a “lost half decade”), in the midst of several political crises and transitions.
- ❖ The second quarter was terrible in a large number of economies. Speed of recovery is uncertain.
- ❖ The region will experience the worst recession in history, with uneven performance among countries.
- ❖ Latin America competes with Western Europe and India as the worst performing regions of the world.
- ❖ Given the poor quinquenium prior to the crisis, and the weak expected recovery, new lost decade of 2015-2024.

THE COVID-19 CRISIS WILL LEAD TO THE WORST RECESSION IN HISTORY

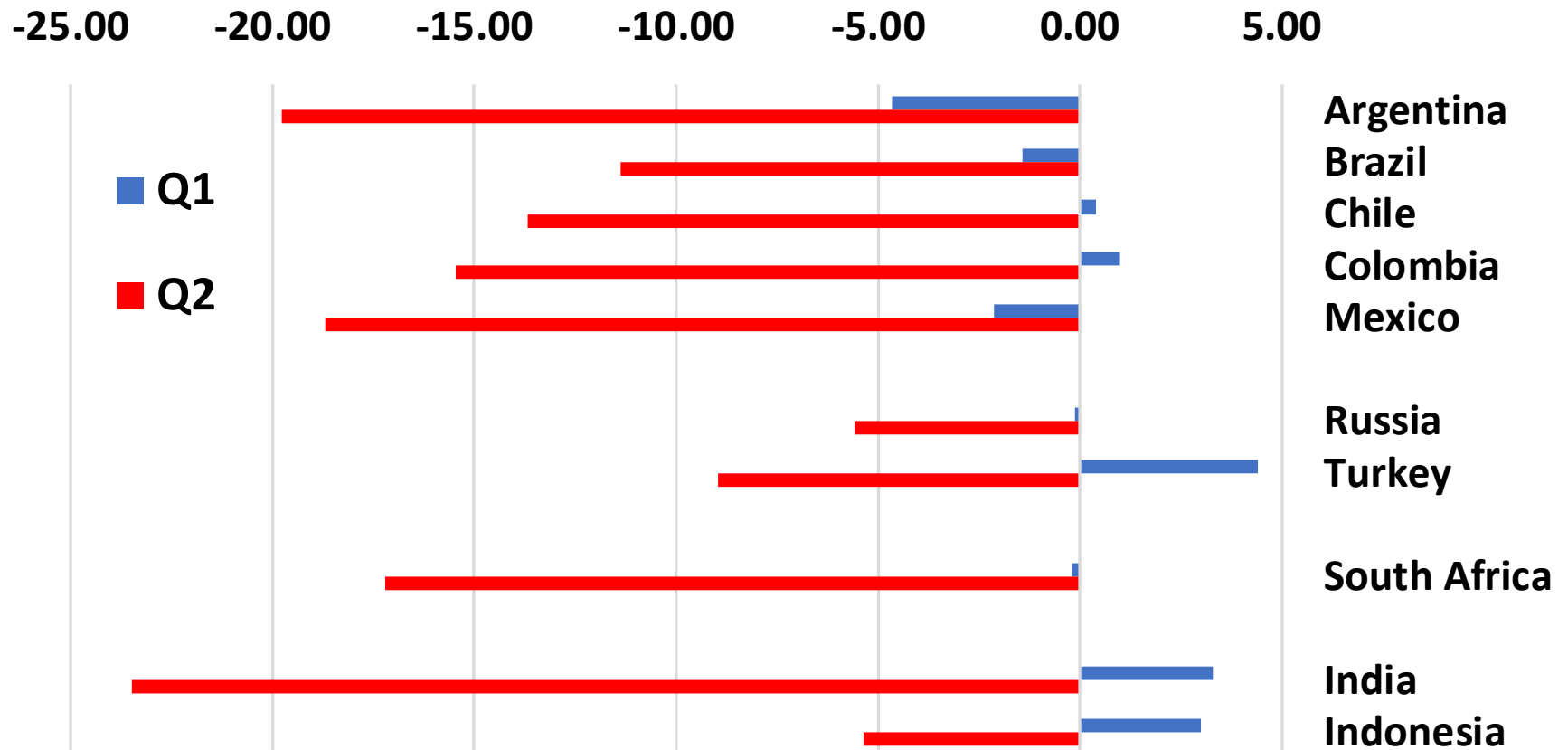


UNEVEN PERFORMANCE AMONG COUNTRIES

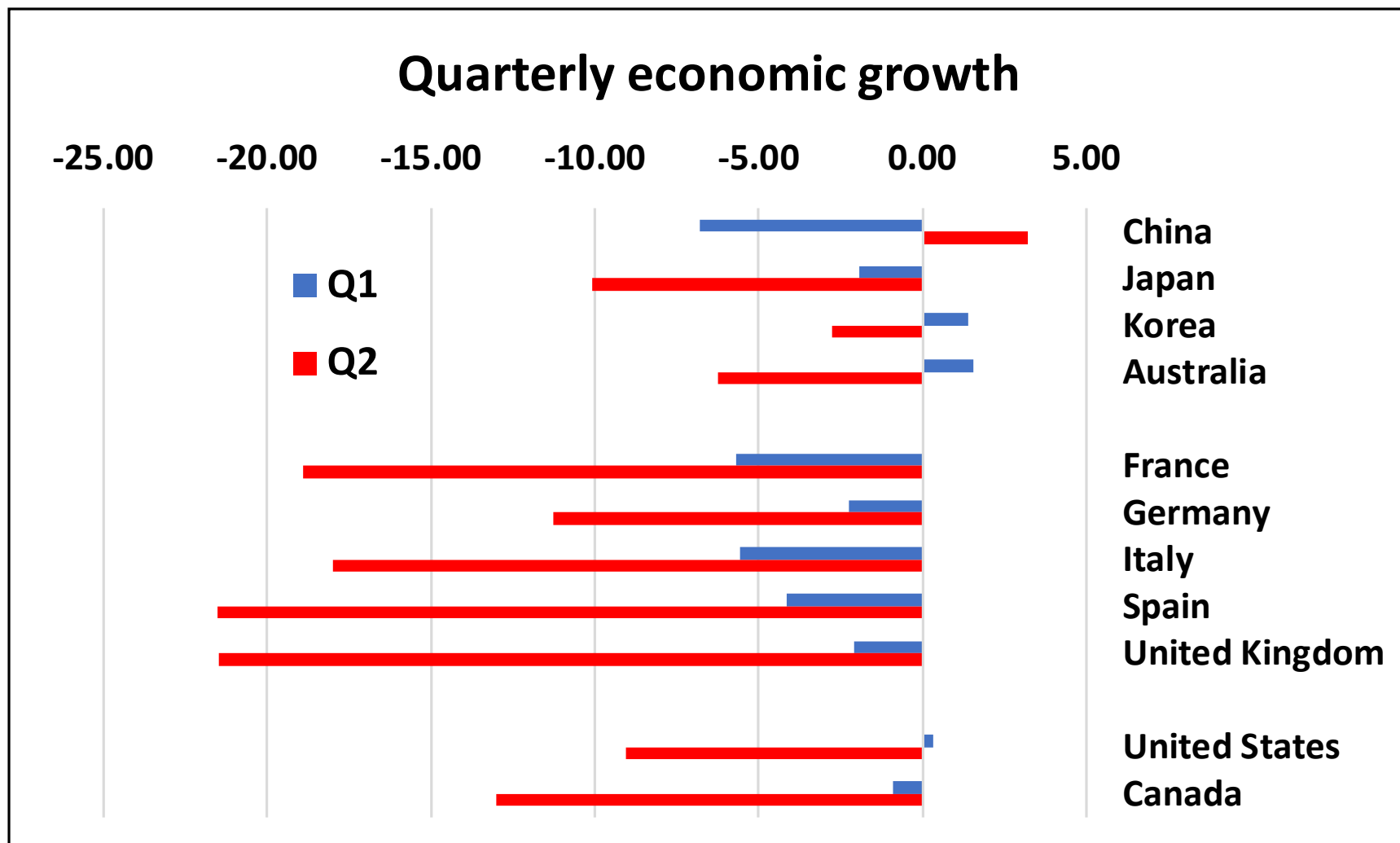
Expected GDP growht 2020					
	CEPAL/ECLAC			IMF	
	2019	2020		2020	2021
Argentina	-2.2	-10.5		-11.8	4.9
Brazil	1.1	-9.2		-5.8	2.8
Colombia	3.3	-5.6		-8.2	4.0
Chile	1.1	-7.9		-6.0	4.5
Ecuador	0.1	-9.0		-11.0	4.8
Mexico	-0.1	-9.0		-9.0	3.5
Peru	2.2	-13.0		-13.9	7.3
Venezuela	-25.5	-26.0		-25.0	10.0
Latin America	0.1	-9.1		-8.1	3.4

VERY WEAK SECOND QUARTER (1)

Quarterly economic growth

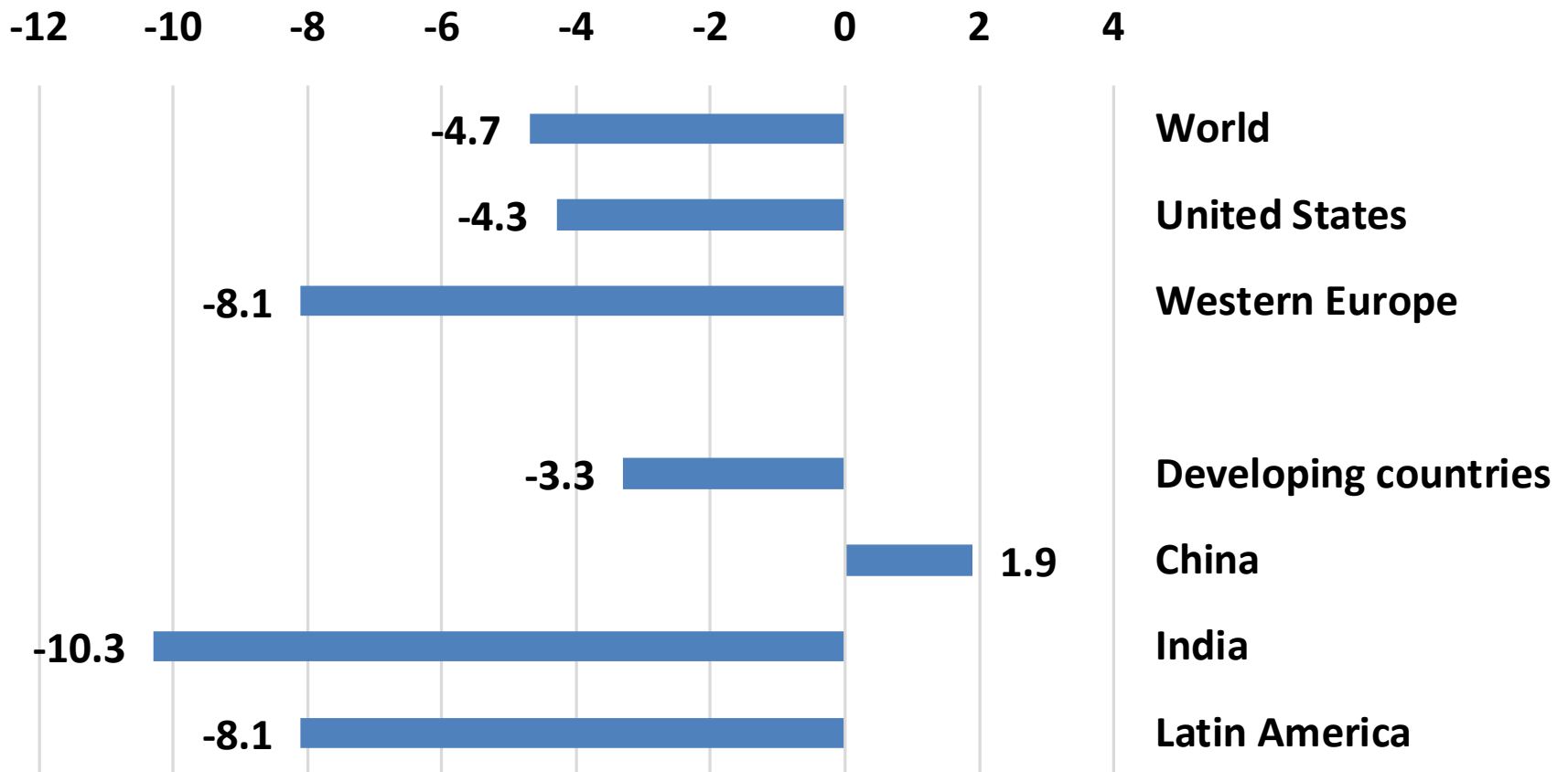


VERY WEAK SECOND QUARTER (2)



LATIN AMERICA IS AMONG THE WORST REGIONS IN THE WORLD

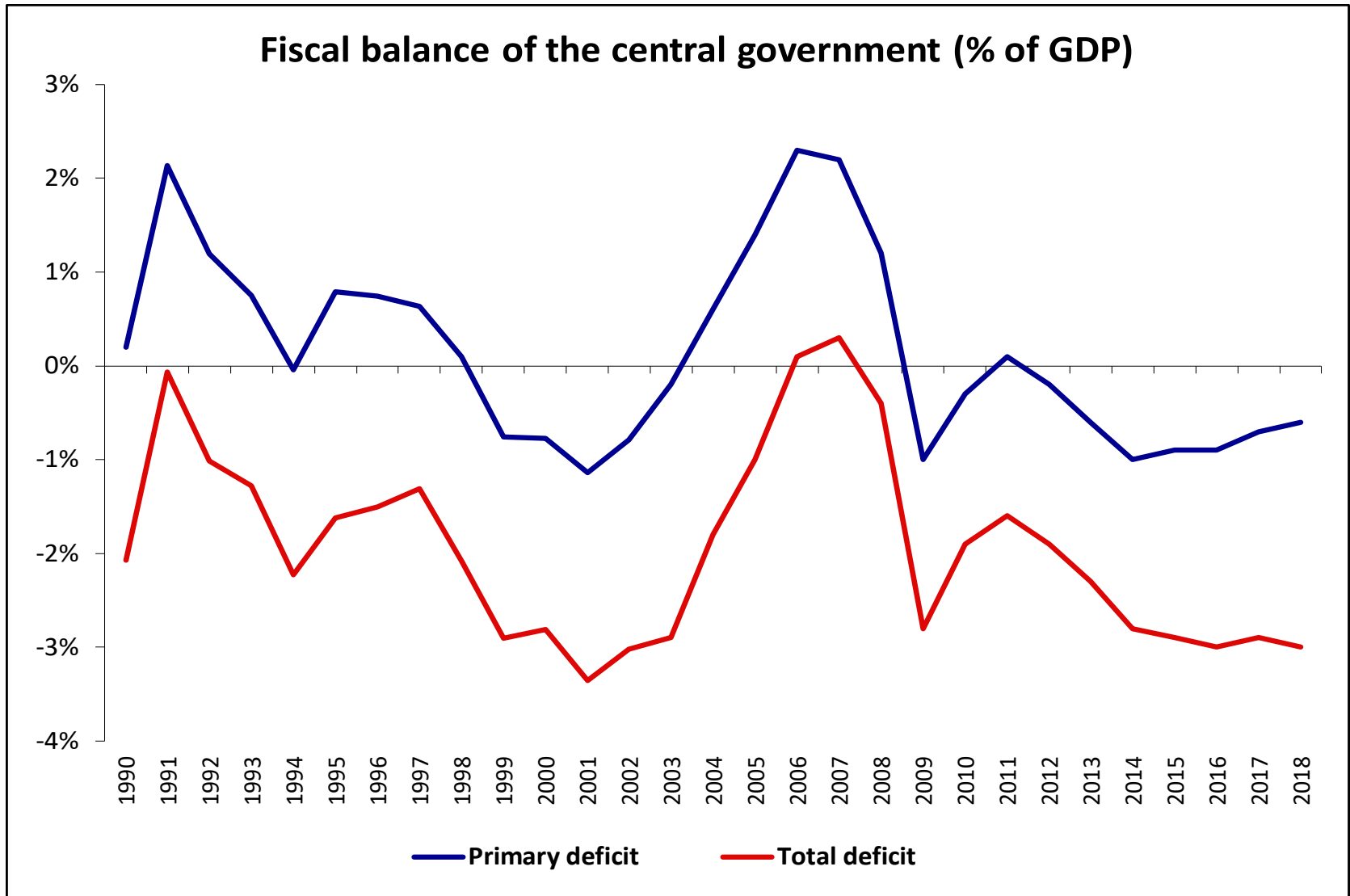
World economic growth, 2020 (IMF)



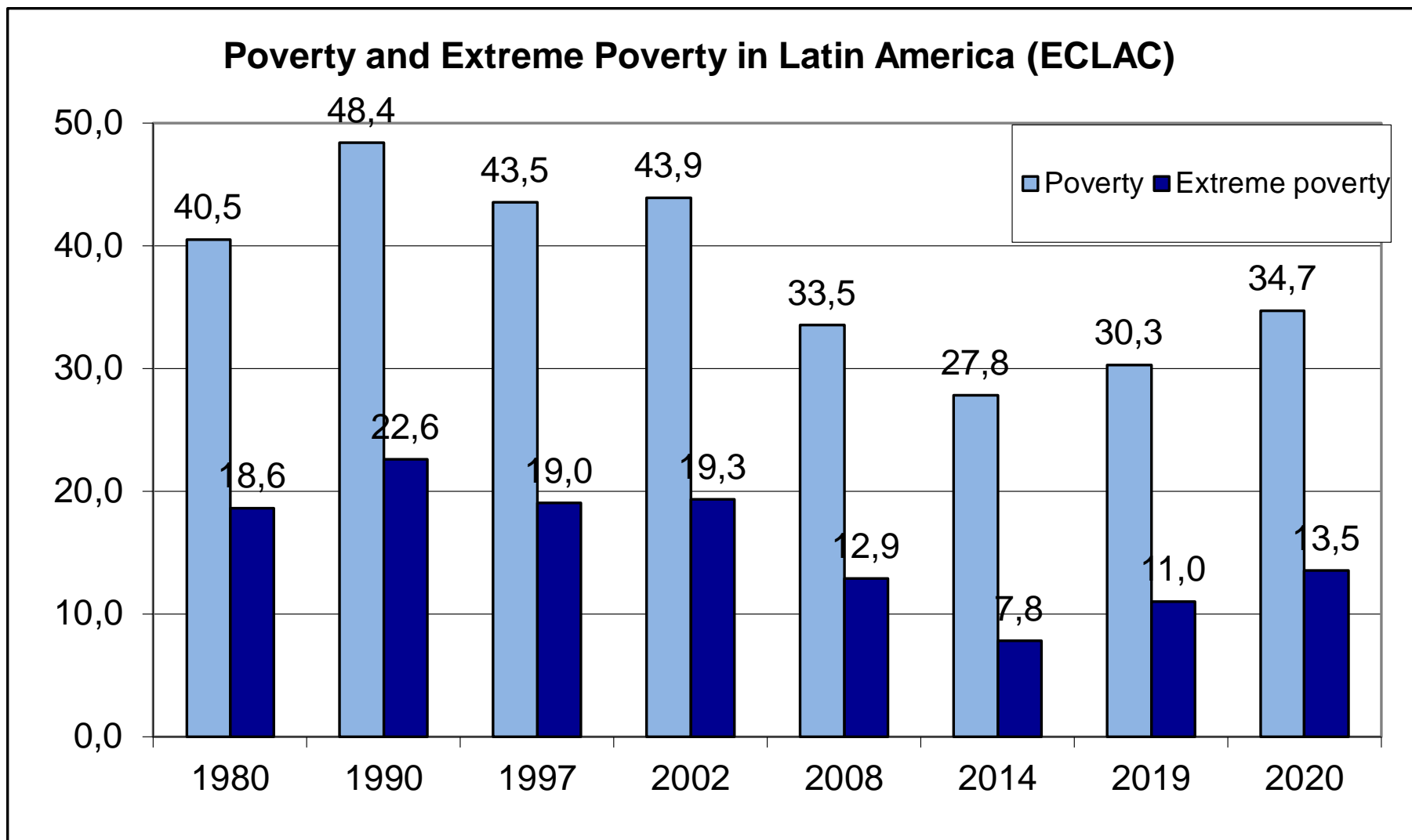
EXPECTED PERFORMANCE OF LATIN AMERICA (2)

- ❖ Fiscal space was also very limited: the region reached the 2008 crisis with a primary surplus and a large central government debt (62%).
- ❖ Public sector spending varies significantly: strong increase in Brazil, Chile and Peru, intermediate in Argentina and Colombia, very low in Mexico.
- ❖ The most important: health spending, support for poor and vulnerable households, some employment subsidies.
- ❖ Credit lines and guarantees in some countries.
- ❖ Terrible social outcomes: poor urban households are strongly affected, large effects on employment, and 15-year reversal in poverty levels.

LATIN AMERICA REACHED THE CURRENT CRISIS WITH WEAK FISCAL SPACE



THE DETERIORATION OF SOCIAL INDICATORS SINCE 2014 WILL WORSEN SIGNIFICANTLY IN 2020



AN INTERPRETATION OF LATIN AMERICA'S PERFORMANCE

- ❖ The international shocks have been severe...
- ❖ ... but actually not worse than in previous crises.
- ❖ Weak international cooperation...
- ❖ ... but relatively good performance of private financing, trade and remittances.
- ❖ The poor domestic economic performance of Latin American countries is remarkable by itself...
- ❖ ... and comes on top of one of the worst quinquenniums in history.
- ❖ So, the major concern are the effects of national issues rather than the international shock.

TIME TO MOVE FROM THE WASHINGTON TO THE LATIN AMERICAN CONSENSUS 2020

- ❖ The most important issue is very active social policies, especially after the COVID-19 reversal: employment, poverty, inequality.
- ❖ Diversification of the production structure to accelerate economic growth, with a strong science and technology policy at the center.
- ❖ Counter-cyclical macroeconomic policies + progressive tax reforms to contribute to redistribution, and to fund social policy.
- ❖ Advance international commitments: SDGs, global environmental agreements, big push and de-politization of regional integration.
- ❖ Strong commitment to democratic institutions.

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