

# Recovery from the Pandemic in LAC: Balancing Short-term and Long-term Concerns

**Eric Parrado (@eric\_parrado)**

**Chief Economist**

**General Manager**

**Research Department**

**IDB**

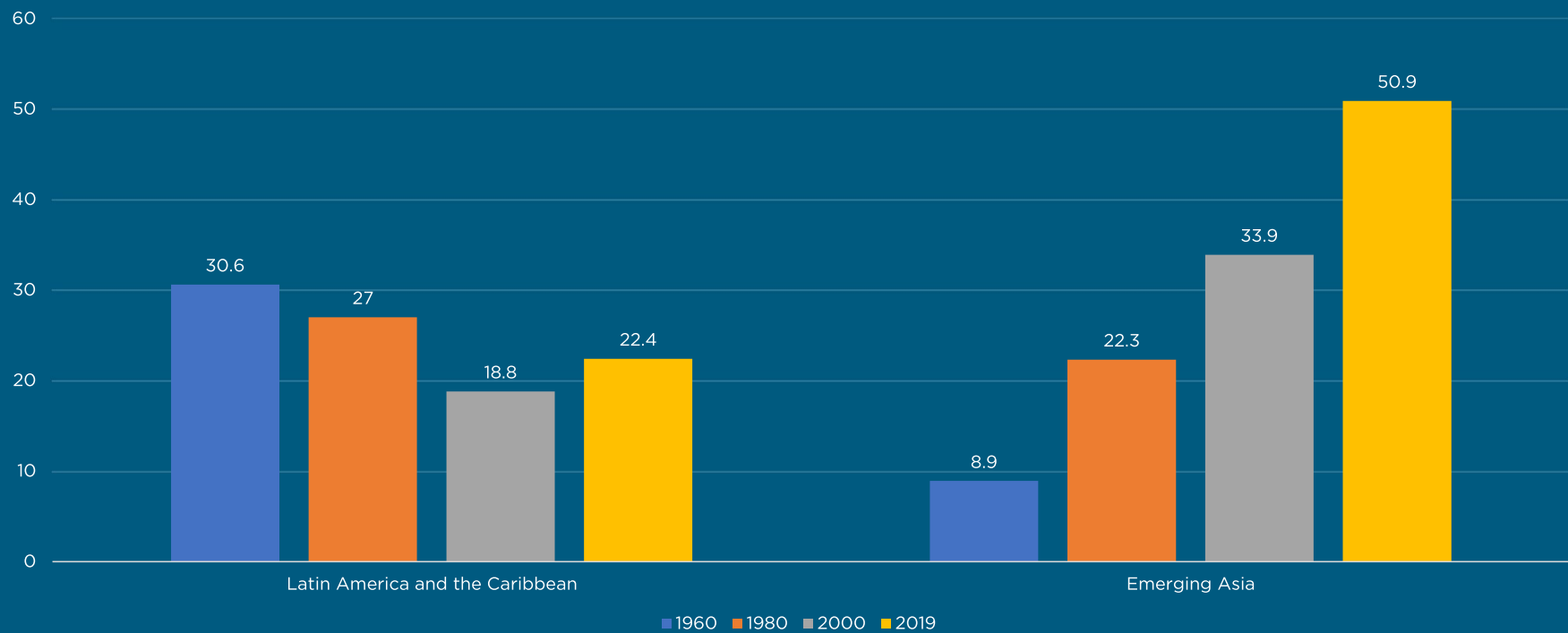
## Summary

- LAC entered the pandemic with multiple preexisting problems, including low productivity, political polarization and social problems
- And now it is suffering of a “Triple Sudden Stop” as a result of the pandemic with an extreme economic impact
- Today LAC is the global epicenter of the crisis both in the health and economic spheres
- And LAC does not have the resources of its own to face the crisis. Both debt and its costs will rise sharply
- Reforms will be necessary for macroeconomic sustainability
- The role of multilaterals will be key to supporting the recovery

# Pre-existing Problems

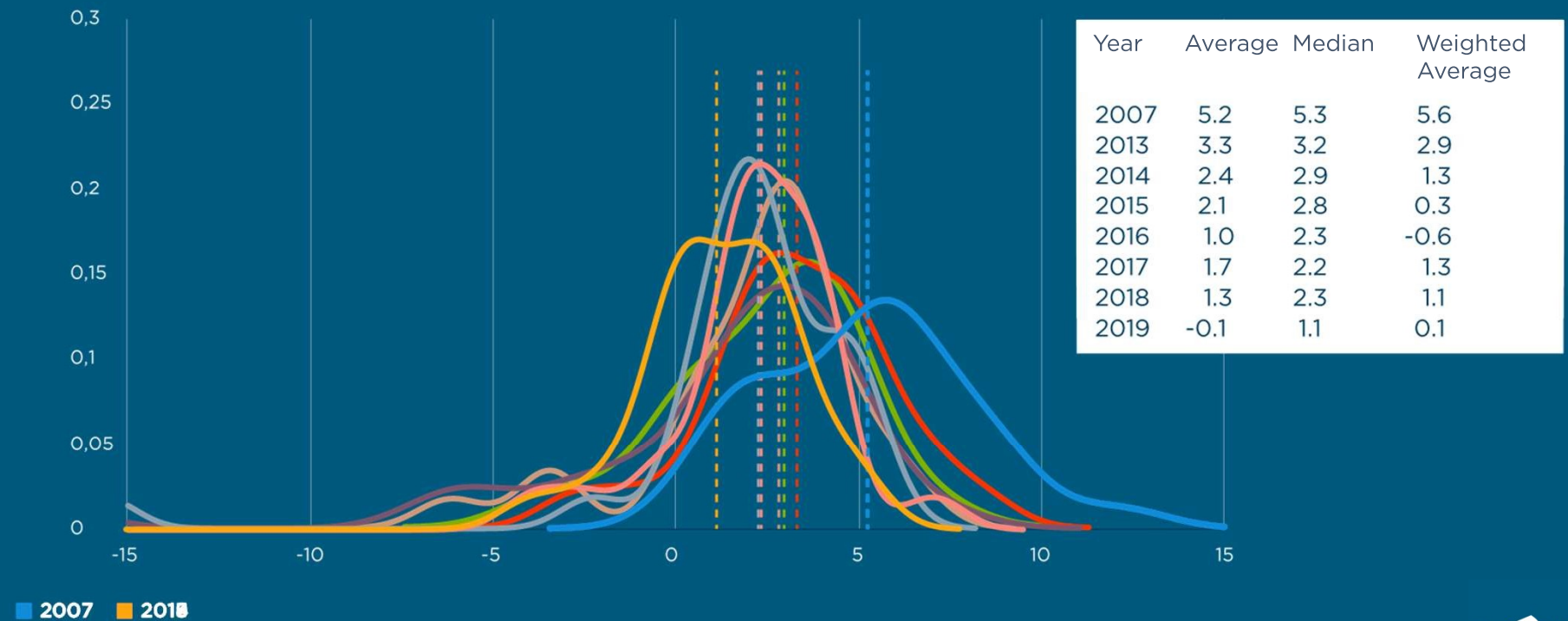
# LAC went into this crisis with pre-existing conditions

Per Capita Income Relative to the US (%)



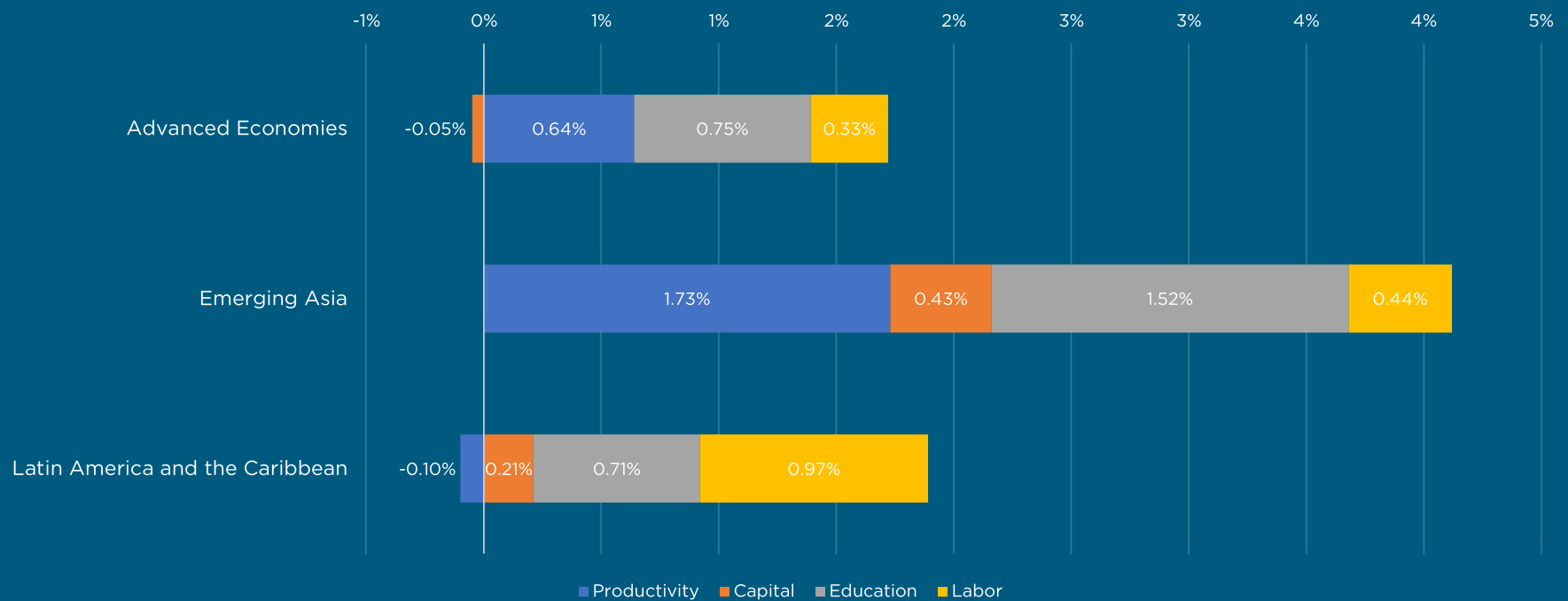
# Growth in the region has decelerated over the last decade

Growth 2007 vs 2013-9, LAC average



# The lack of productivity growth is holding LAC back

Per capita GDP growth and contributions to growth - 1990-2019



# The Triple Sudden Stop

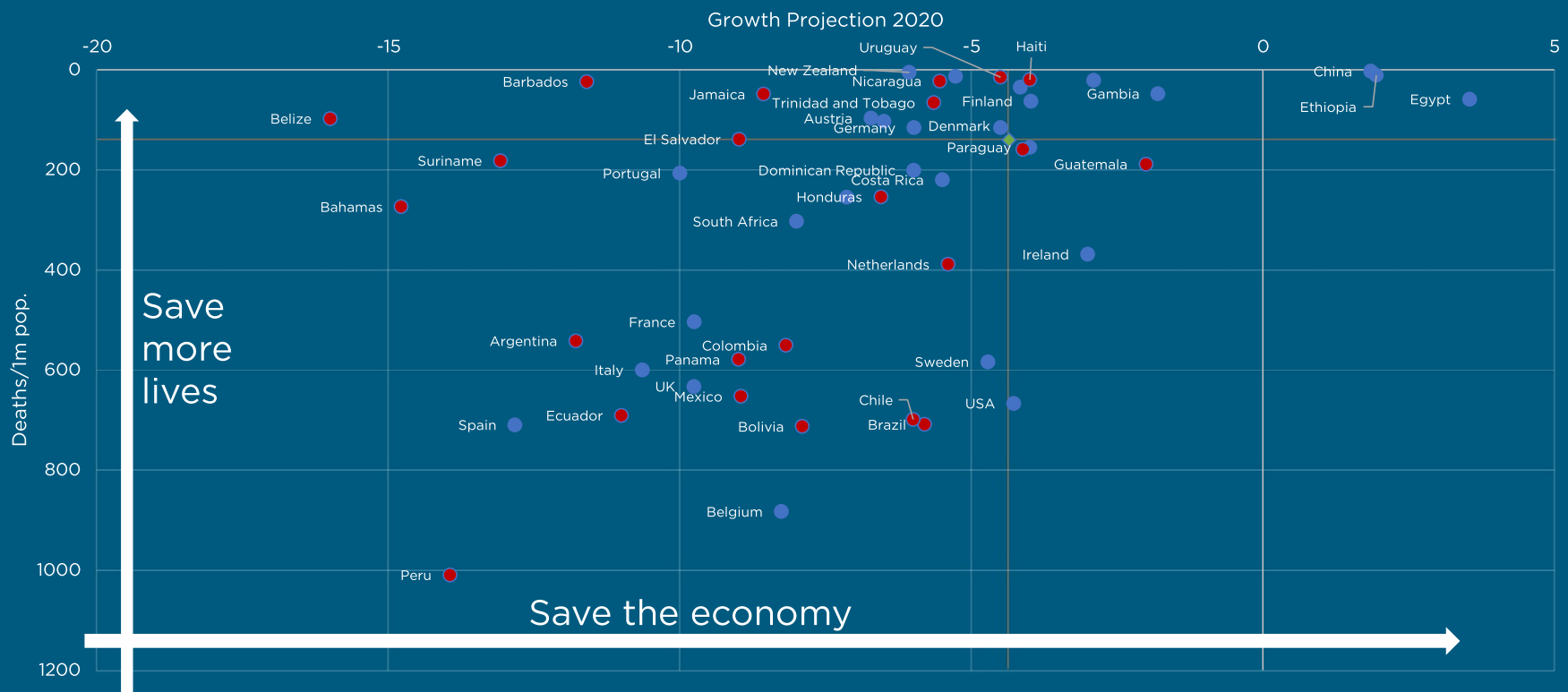
# The region has been affected through several transmission channels

- Triple Sudden Stop
  - Human mobility (lockdowns, travel restrictions)
  - Trade (volumes, prices)
  - Financial flows (portfolio investments, remittances)





# LAC suffers both in the management of public health and the economy

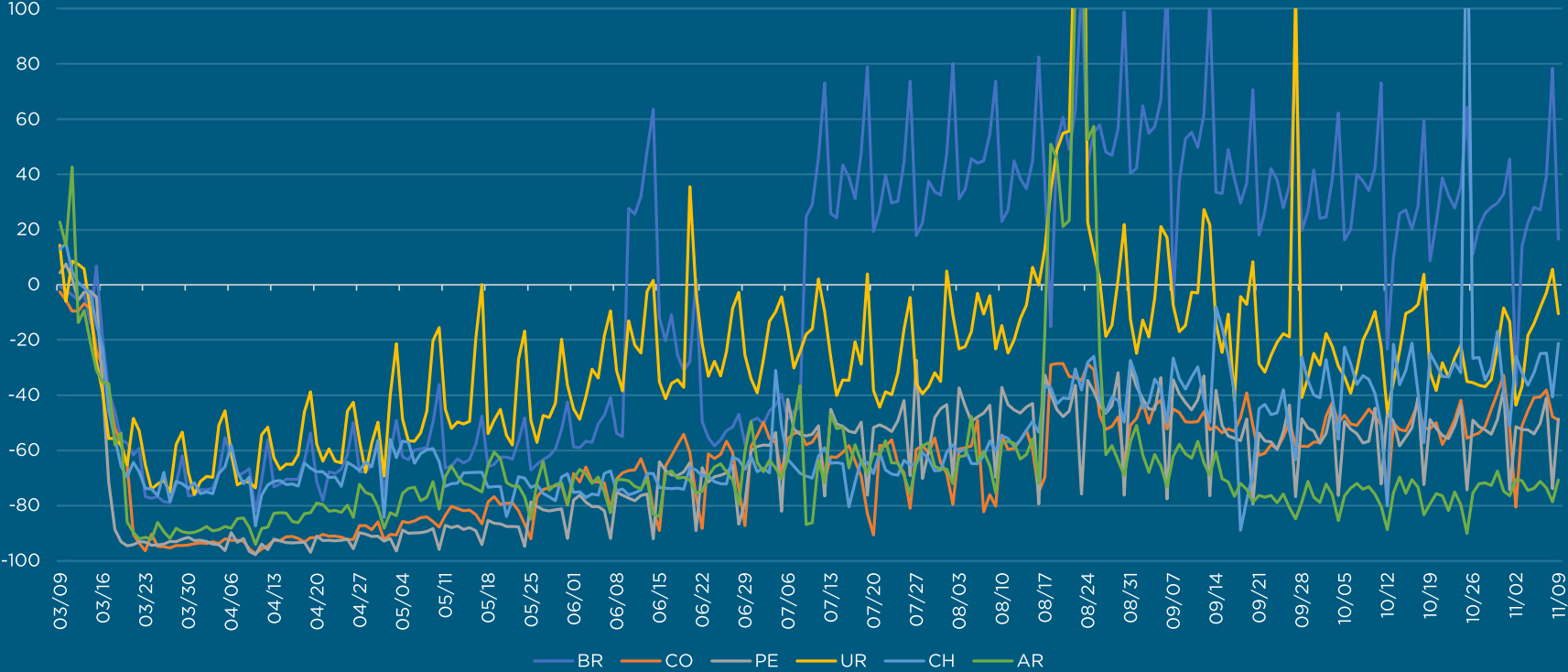


Source: Johns Hopkins University and WEO October 2020, IMF



# Containment measures have proved effective at reducing mobility

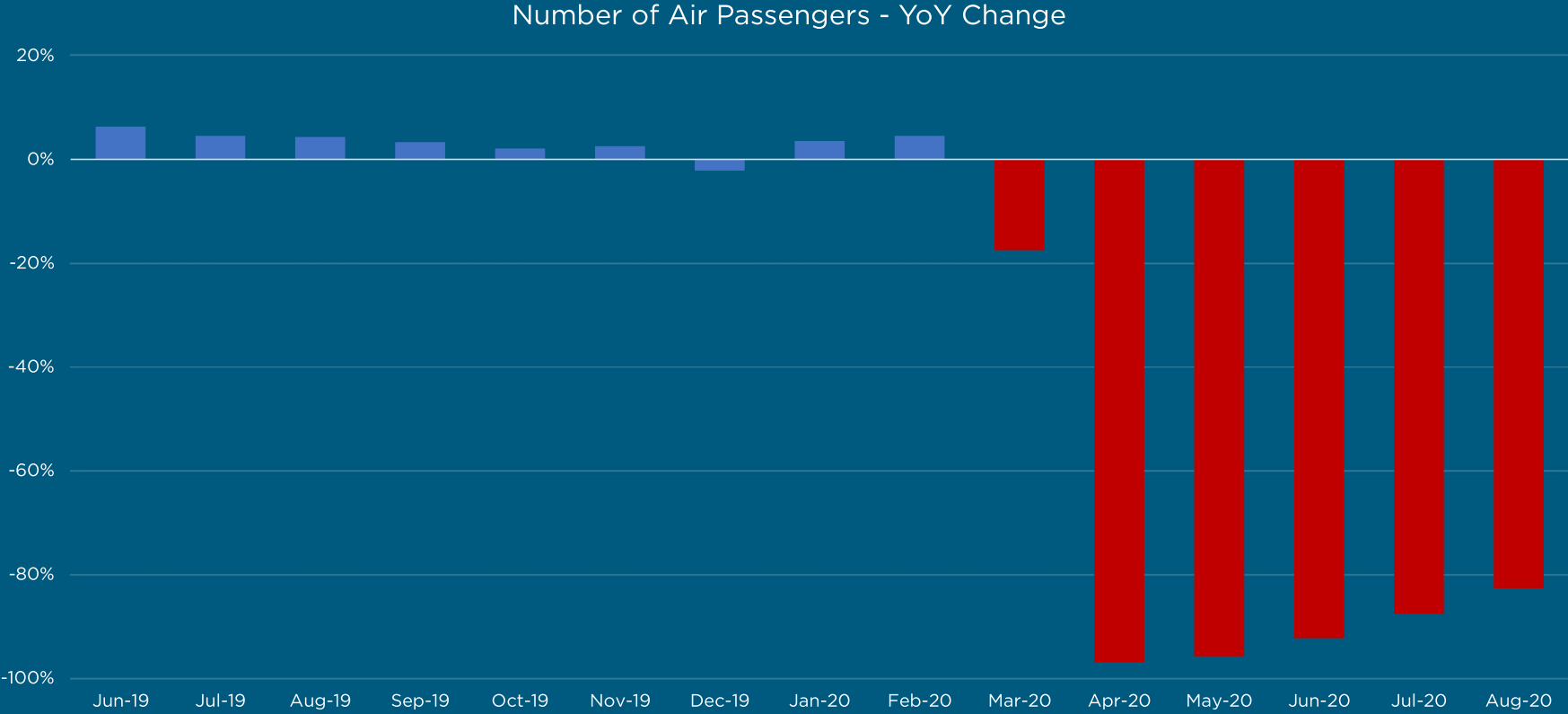
Daily % difference in traffic congestion with respect to the first week of March



Source: Waze and IDB



# The fall in human mobility is also evident in air passengers data

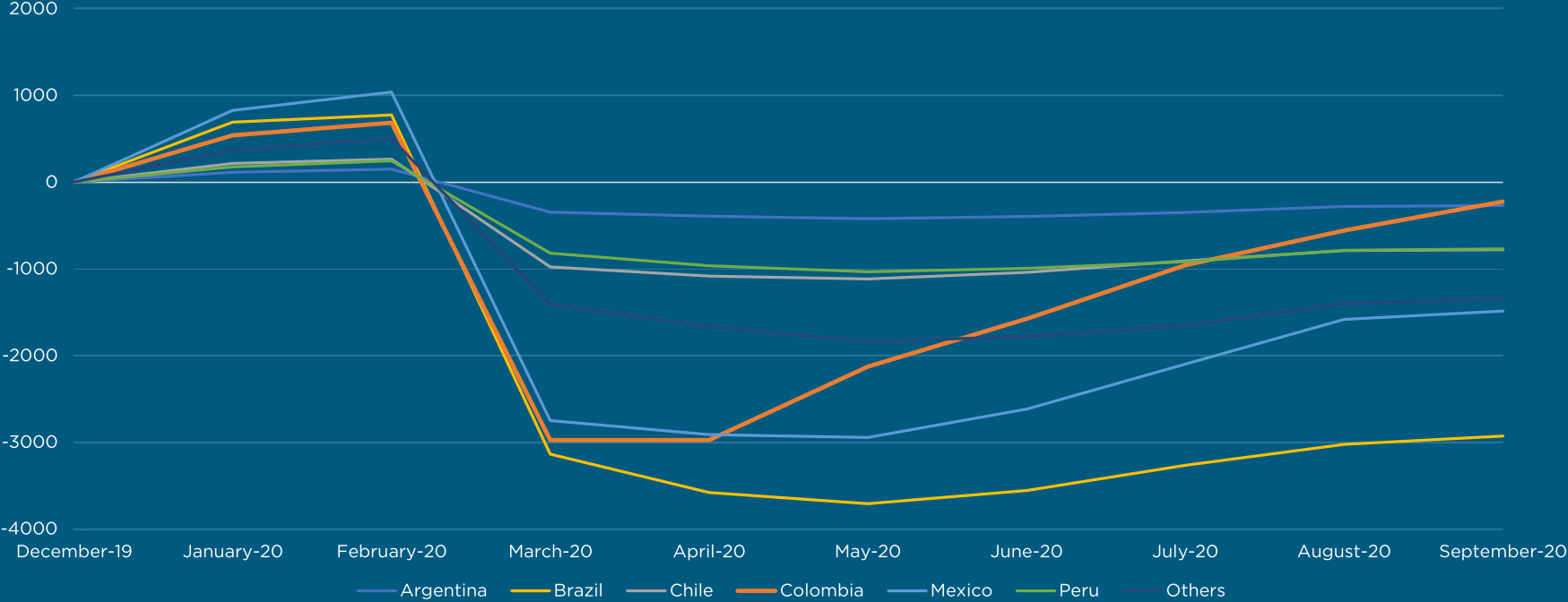


Source: Latin American & Caribbean Air Transport Association



# The “sudden stop” resulting from the covid-19 crisis in LAC

Cumulative net bond flows since the beginning of the pandemic



Source: IDB staff calculations based on data from EPFR Fund Flows and Haver Analytics.  
Note: “Others” refers to the sum of net flows from: Bolivia, Costa Rica, Republica Dominicana, Ecuador, El Salvador, Honduras, Jamaica, Panamá, Paraguay y Uruguay.



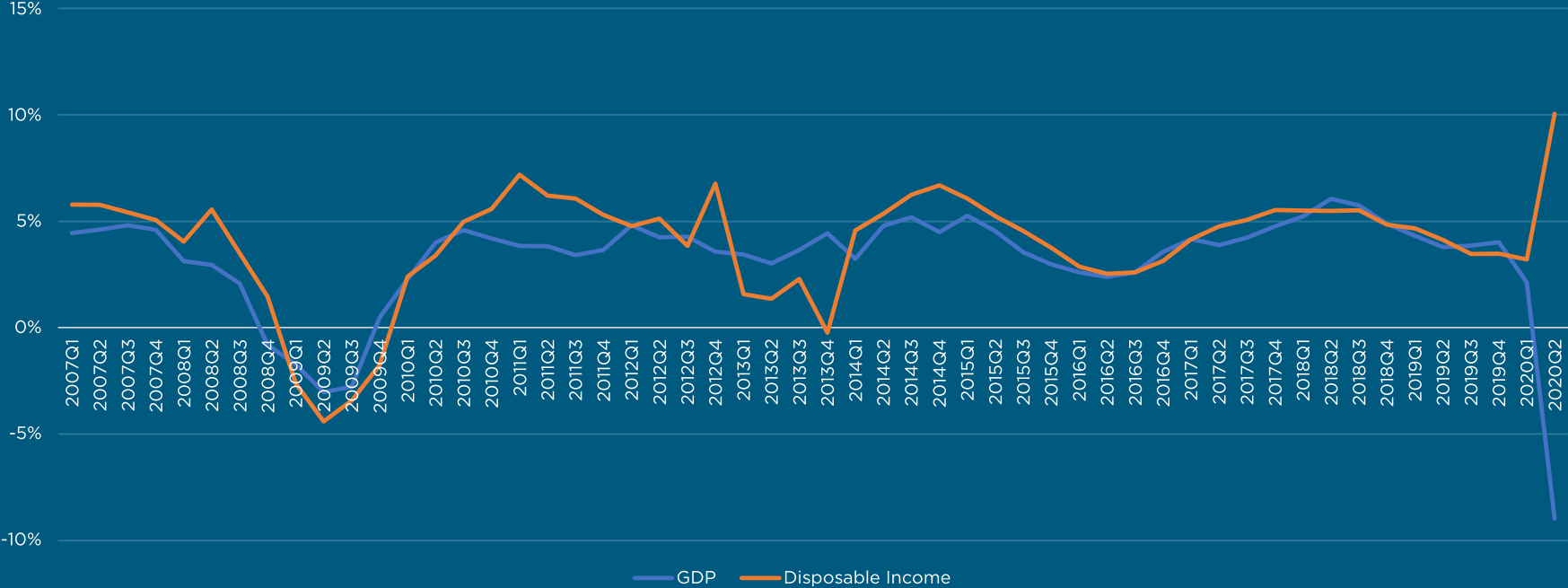
## We anticipate significant falls in remittances to the region

	Remesas en % del PIB en 2019	Cambio % año acumulado a agosto	Proyecciones de cambio en 2020		
			Escenario optimista	Escenario Base	Escenario pesimista
Haiti	37.10%	N/A	4.58%	-0.28%	-8.88%
Honduras	22.00%	-1.77%	2.06%	-1.99%	-13.05%
El Salvador	21.00%	-1.69%	-3.09%	-6.49%	-16.73%
Jamaica	16.40%	N/A	2.24%	-1.01%	-9.53%
Nicaragua	13.20%	8.98%	-5.37%	-8.68%	-16.94%
Guatemala	13.10%	2.24%	6.73%	3.18%	-15.49%
Mexico	3.0%	9.35%	9.9%	7.1%	-6.7%
LAC			-2.0%	-4.9%	-15.3%

Source: IDB staff calculations based on data from the World Bank, the UN and the BEA, and growth and unemployment projections from the IDB and the IMF.

# The unprecedented US fiscal policy expansion has had a positive spillover effect on LAC

YoY Change of GDP and Disposable Income in the US

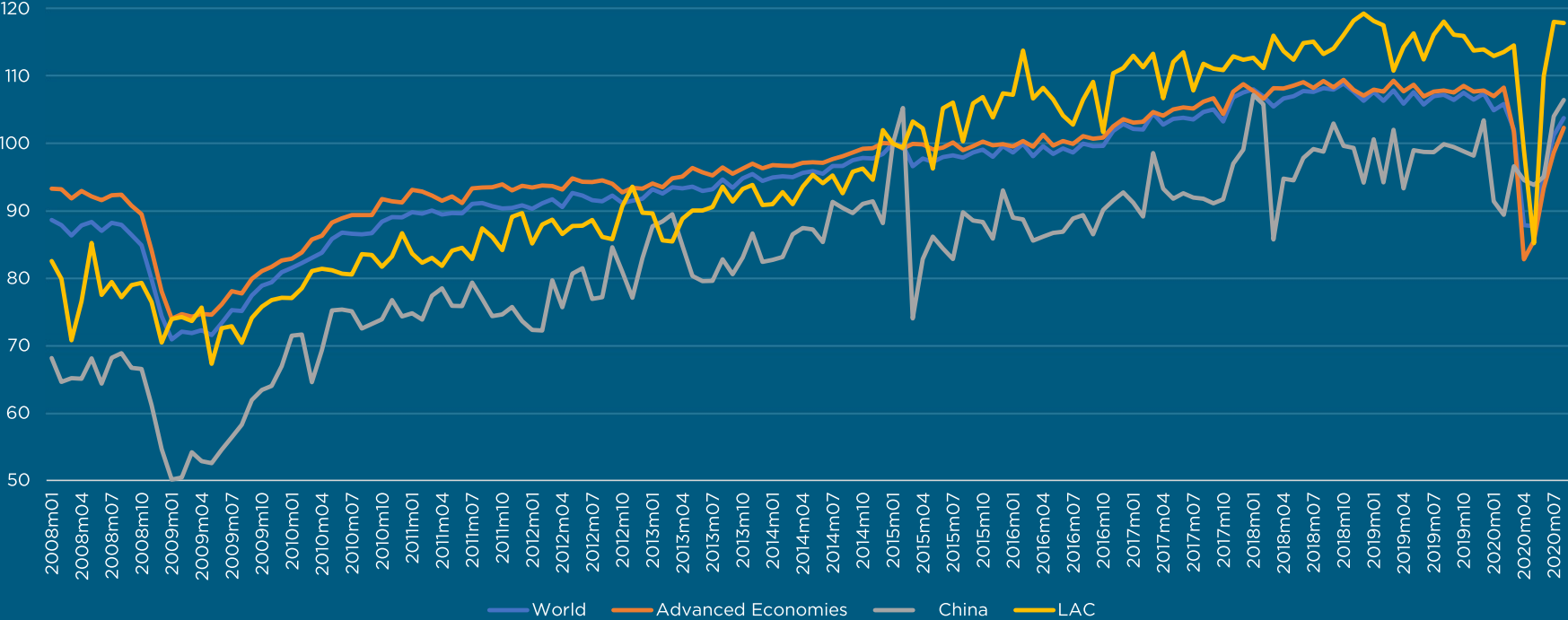


Source: Bureau of Economic Analysis



# International Trade has suffered significant contractions, but the region shows a recovery

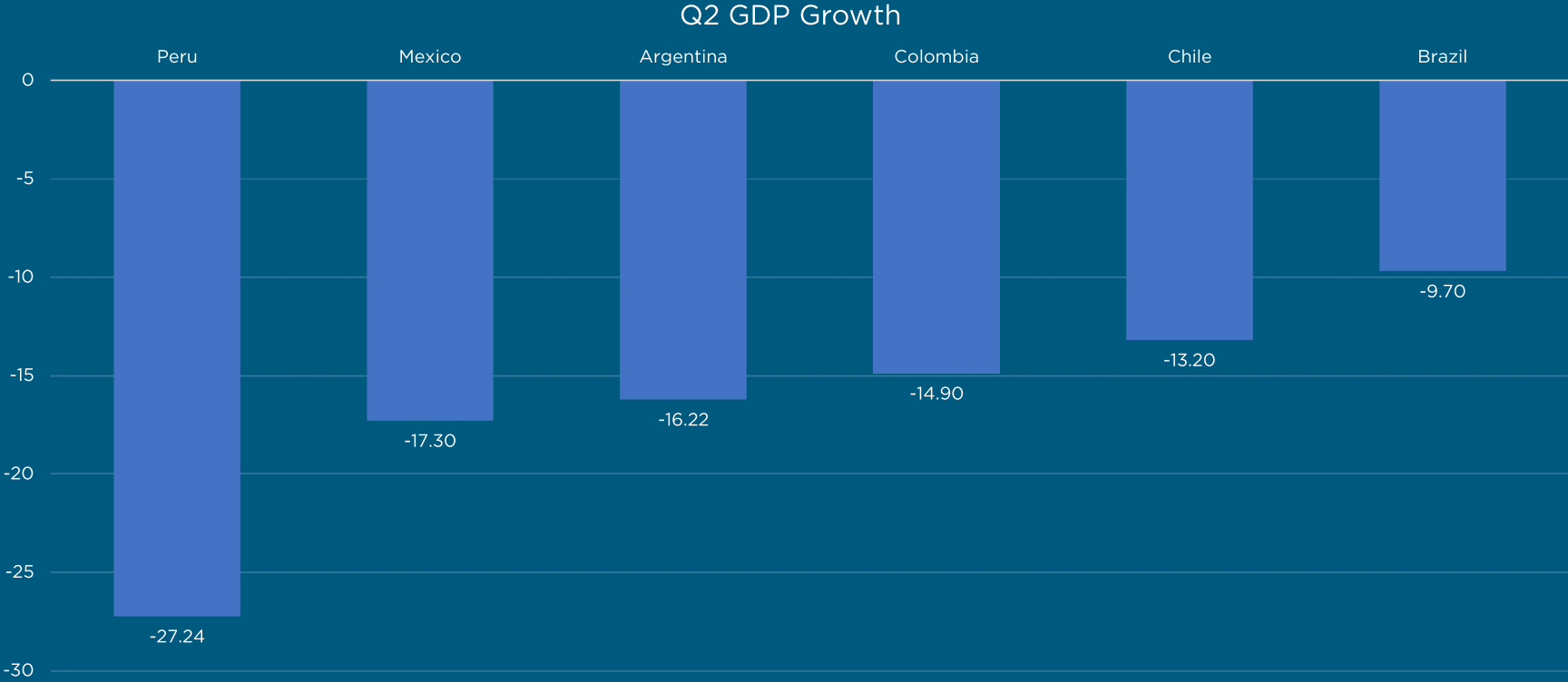
Export Volume Index (January 2015 = 100)



Source: CPB – Netherlands Bureau of Economic Policy Analysis



# The impact of the crisis was made evident by the Q2 growth figures

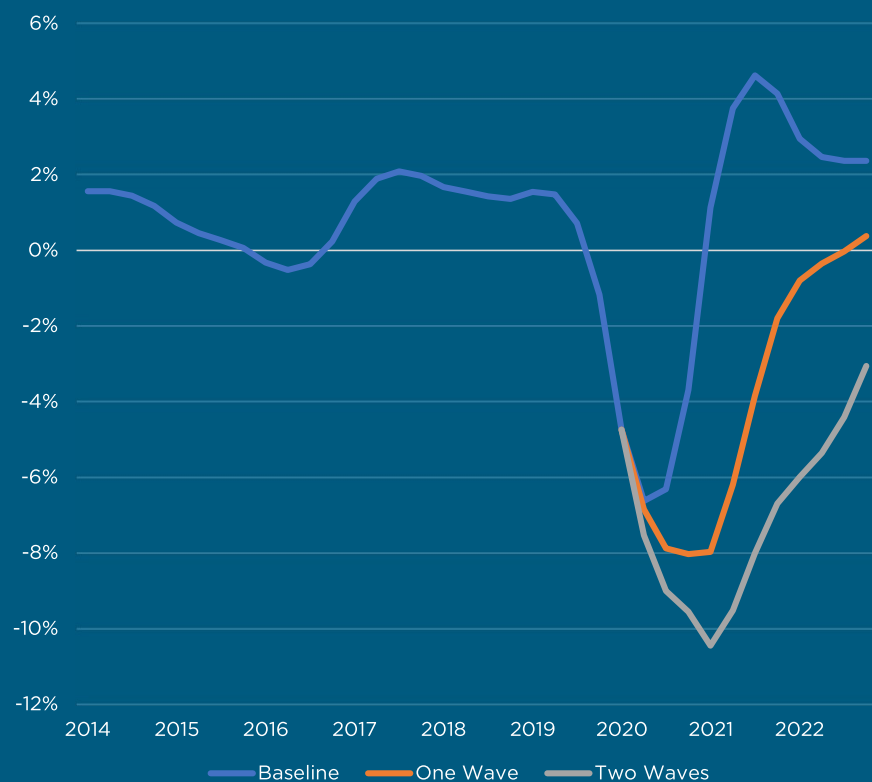


Source: Refinitiv





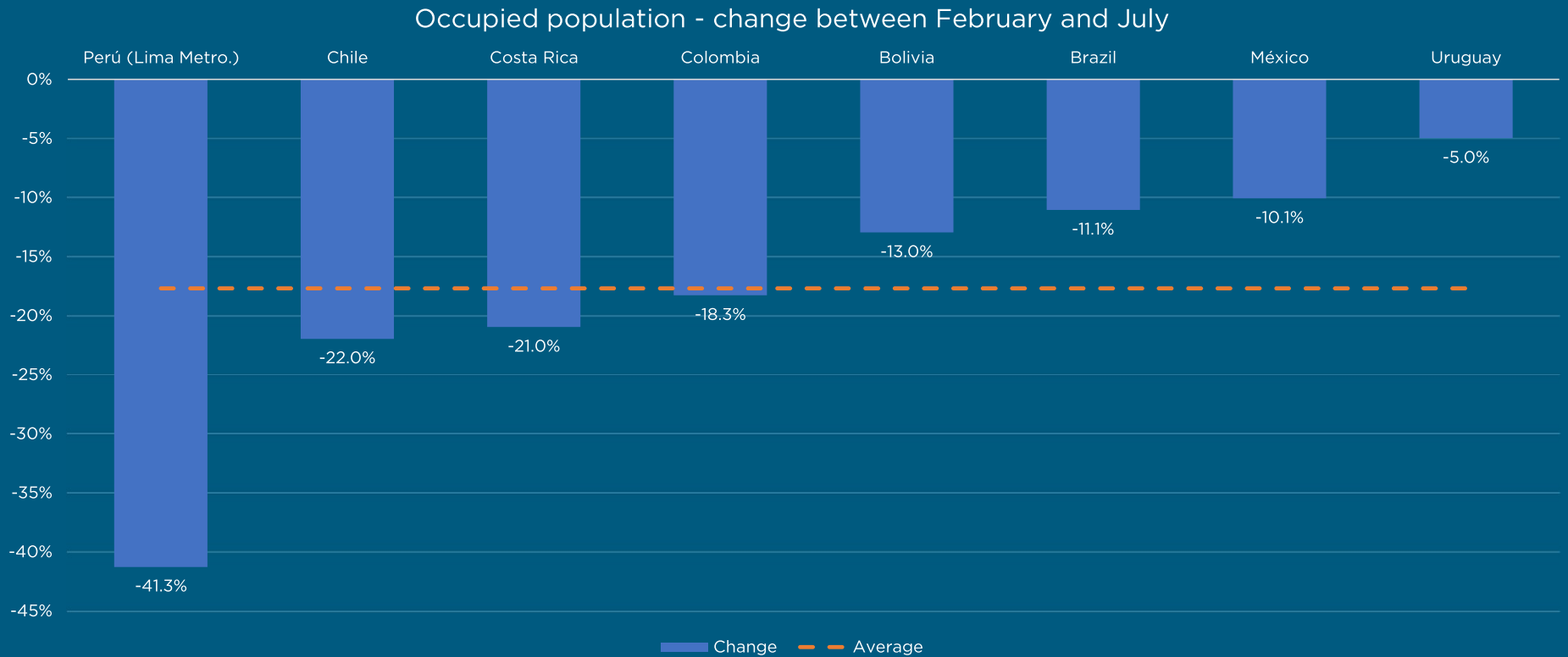
## Growth scenarios, from June 2020...



- LAC could have a recession of between -8% y -10% this year
- The first and second wave scenarios use the OECD's projections for the global economy
- Our model suggests a U rather than a V-shaped recovery
- The good news is that more recent data (especially on Brazil) suggest regional growth perhaps more in the -6% to -7% range
- Still, this is a very serious recession for many countries

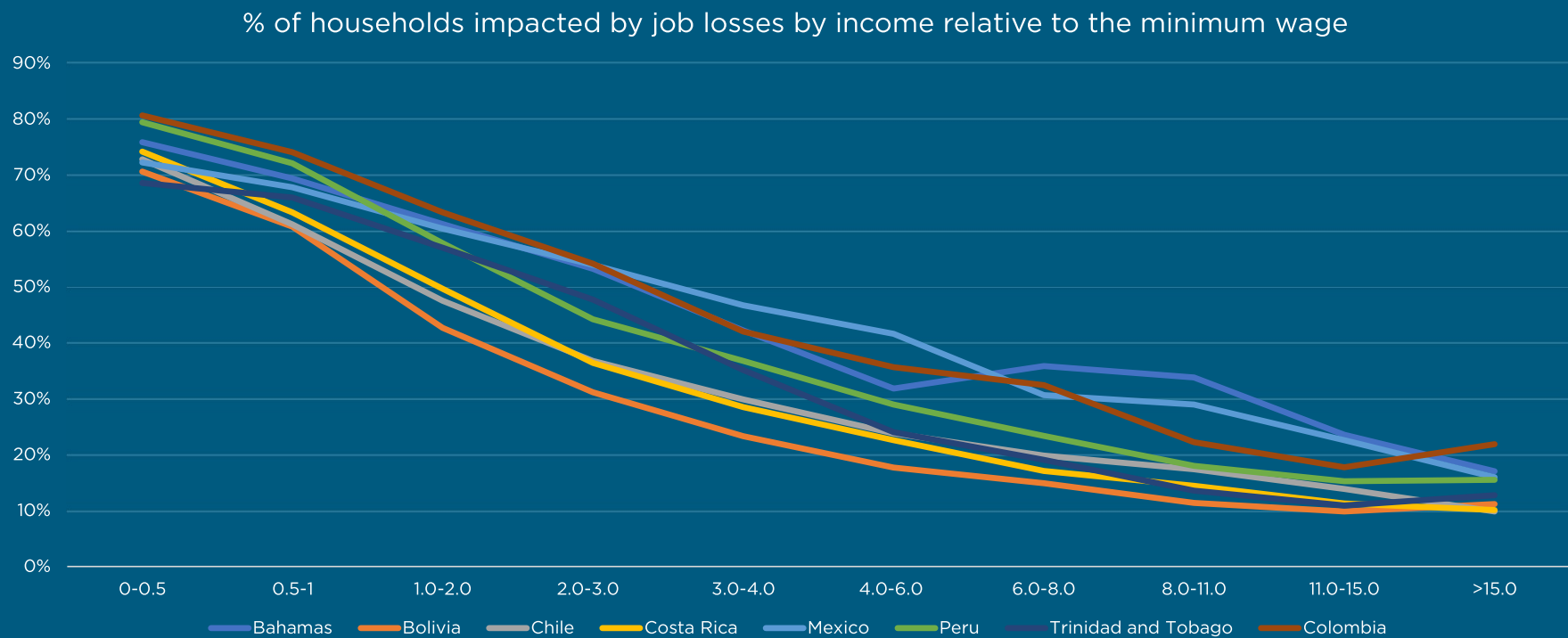
Source: IDB staff estimates. The baseline is close to the IMF's April WEO and the scenarios are generated employing a G-VAR model of the global economy - see Powell (2012, 2020) and Cesa Bianchi et al. (2012).

# The measures to control the pandemic have implied a record loss in employment, some 24 million jobs



Source: Observatorio Laboral Covid-19, IDB

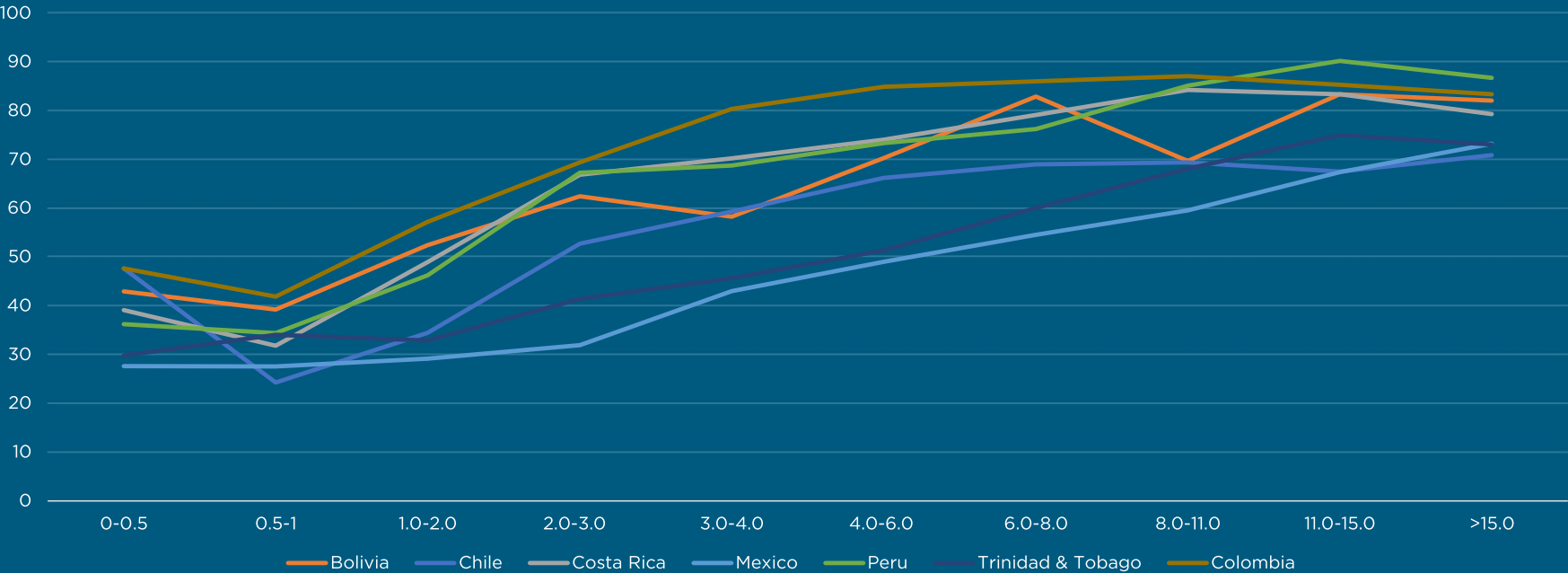
# Job losses have particularly affected poorer households



Source: Bottan, N., Hoffmann, Bridget and Vera-Cossio, Diego. "The unequal burden of the Coronavirus pandemic: Evidence from Latin America and the Caribbean". Mimeo (2020).

# New developments in the labor market risk leaving behind the poorer households

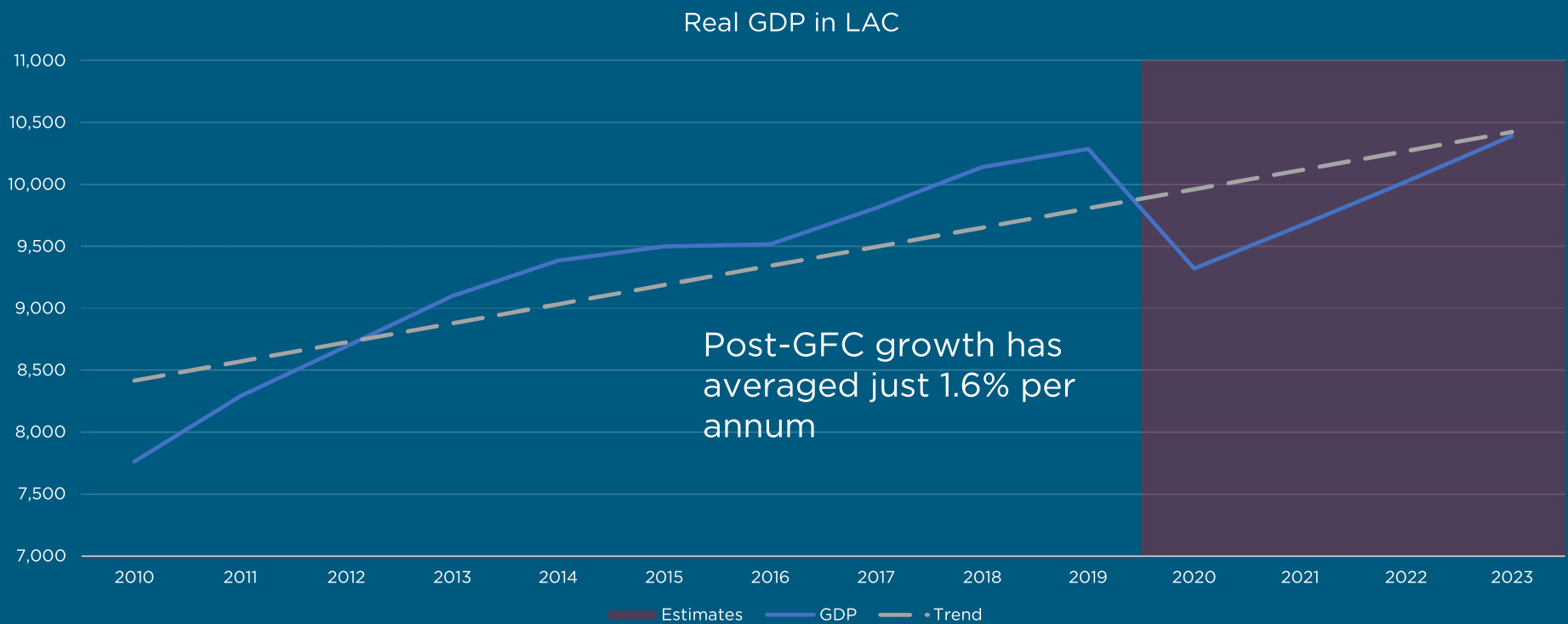
% of households where at least one member worked from home over the last two weeks of march, by income relative to the minimum wage



Source: Bottan, N., Hoffmann, Bridget and Vera-Cossio, Diego. "The unequal burden of the Coronavirus pandemic: Evidence from Latin America and the Caribbean". Mimeo (2020).



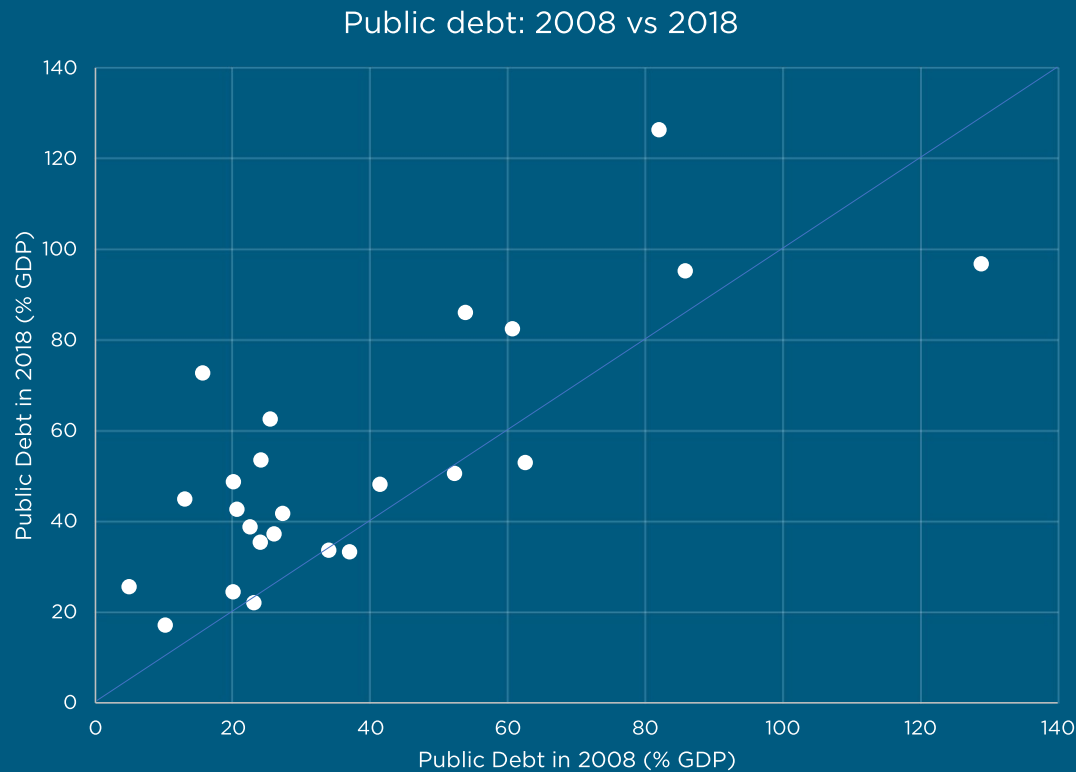
# It will take 3 or 4 years to get back to pre crisis income per capita, the region needs to find ways to boost growth from the pre crisis trend



Source: World Economic Outlook, June 2020, IMF

# Fiscal Space

# Debt levels were already higher as this crisis hit

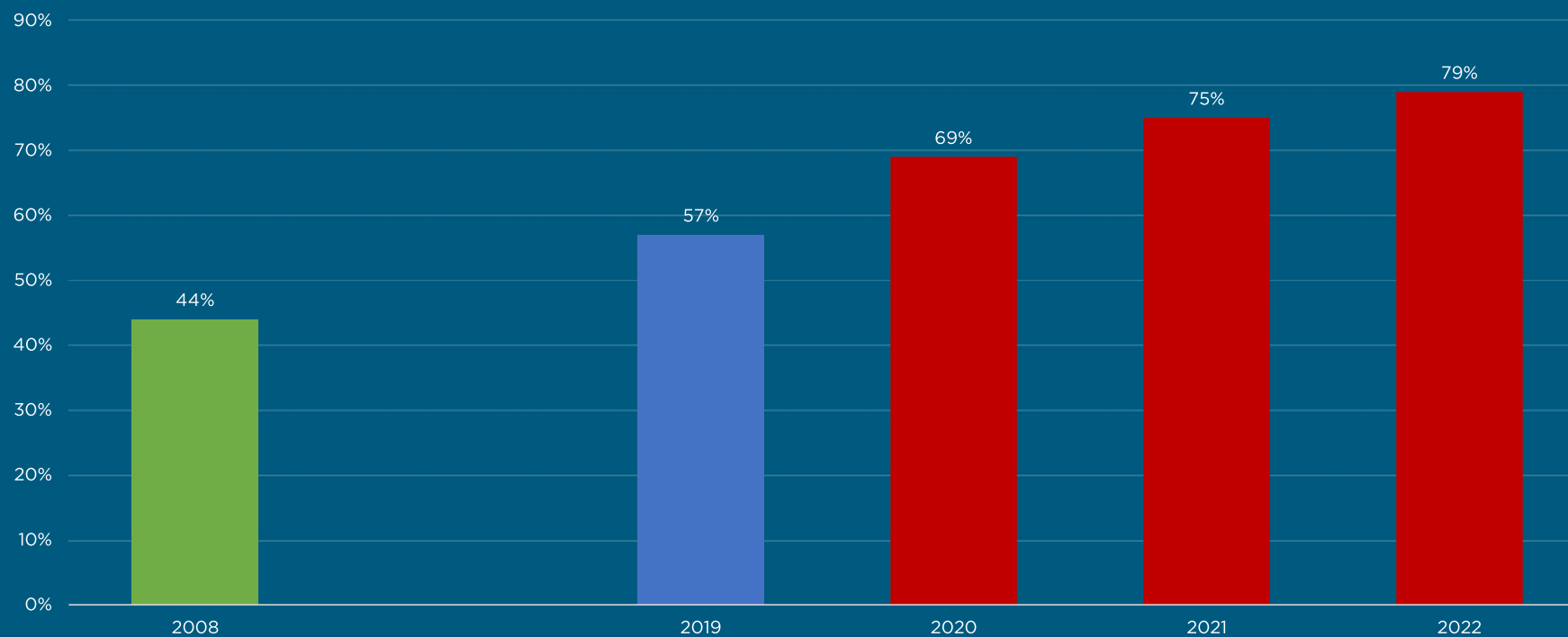


- On average debt to GDP was about 57% in 2019, excluding Venezuela.
- This figure will rise very sharply given Covid related fiscal packages and the fall in revenues.

Source: IDB Staff calculations based on the IMF's World Economic Outlook

# Debt ratios will be rising for the following years depending critically on growth

Gross Public Debt (% del PIB)



Source: IDB staff estimates.



**EMERGING FROM THE  
PANDEMIC TUNNEL  
with Faster Growth  
and Greater Equity:**

A Strategy for a New Social  
Compact in Latin America and  
the Caribbean

**COVID-19**

Alejandro Izquierdo  
Philip Keefer  
Allen Blackman  
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Julián Messina  
Mauricio Morelra  
Carlos Scartascini  
Norbert Schady  
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# A Strategy for the Short Term & the Long Term



# The Pandemic Tunnel Dilemma

The dilemma LAC is facing: transiting the pandemic tunnel... while tackling problems the region was already facing

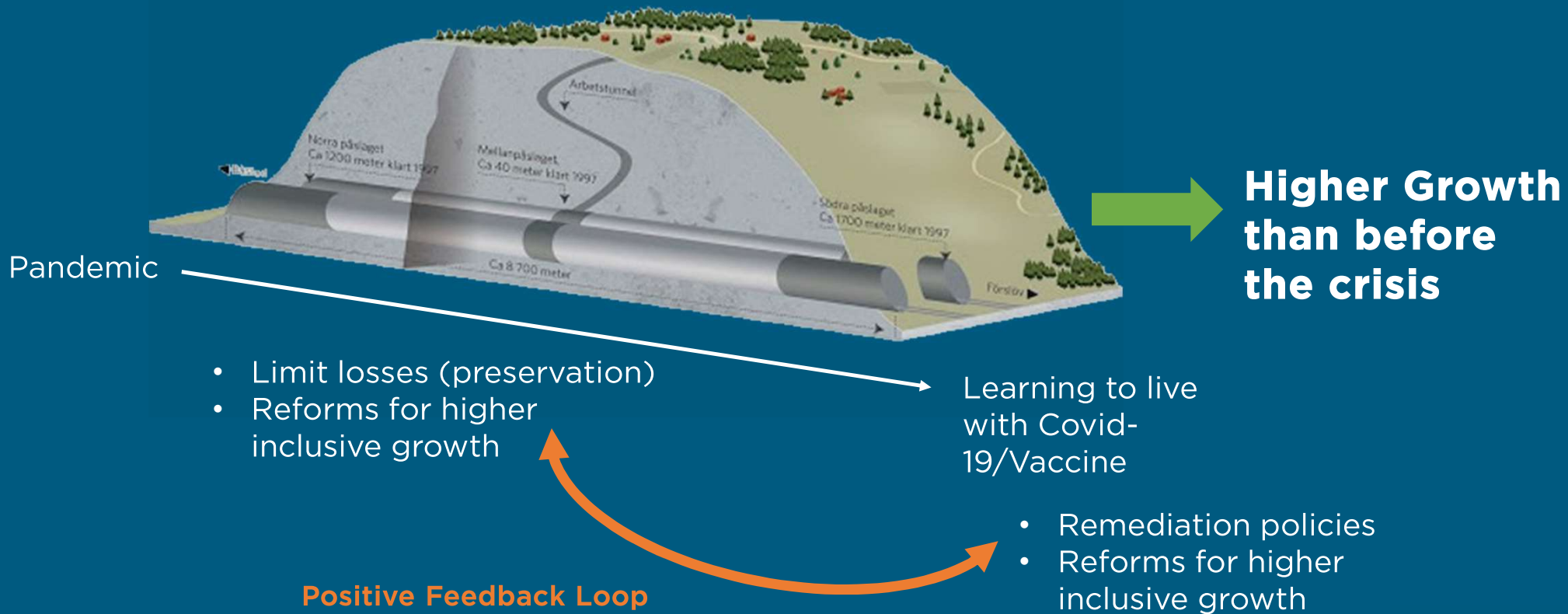
## Uncertainties:

- How long is the tunnel?
- What will the World look like when exiting the tunnel?

## Certainties. The region will become:

- More indebted
- Poorer
- More unequal
- Going back to pre-crisis policies will not be enough

# Transiting the Pandemic Tunnel: Strategy



# A Virtuous Cycle: Medium-Term Reforms for Better Access & Better Preservation Today

Sanitary and preservation measures

Sustainable reforms for inclusive growth



Access to credit markets

# Priorities

- Preservation policies:
  - Health preservation inside the tunnel
  - Economic preservation
    - Help households who have lost their income
    - Help firms so that they can keep their workforce (formal firms)
    - Help the financial system through liquidity
    - Fiscal stability
- Preservation measures, on their own, will not be enough

# Priorities

- Reforms for growth: a new social contract with a long-term view:
  - More opportunity:
    - Once the pandemic is under control, focus first on **infrastructure and new job creation**
    - **Do away with the regulation and tax policies that hinder productive job creation and productive firm growth**
    - **Efficient public spending**, geared towards growth and inclusion
    - Generate **incentives for sustainable activities** (ESG)
  - More equity in public policy:
    - **Transfers that reach vulnerable populations**
    - **Insurance against cyclical shocks** (unemployment insurance)
    - **More and better services** (health, education) for low income groups

# Public expenditure reallocation will be key

## Agility for Reallocation

- Ability to massively reallocate fiscal expenditure (allocation and expenditure quality agencies)
  - towards health and loss limitation policies inside the tunnel
  - towards stimulus and equitable growth outside the tunnel

## Efficiency for Fiscal Space

- Ability to generate fiscal space for inclusive growth policies
- Inefficiencies in public expenditure in the order of 4.4% of GDP (transfers, wages, procurement)
- Full digital adoption

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