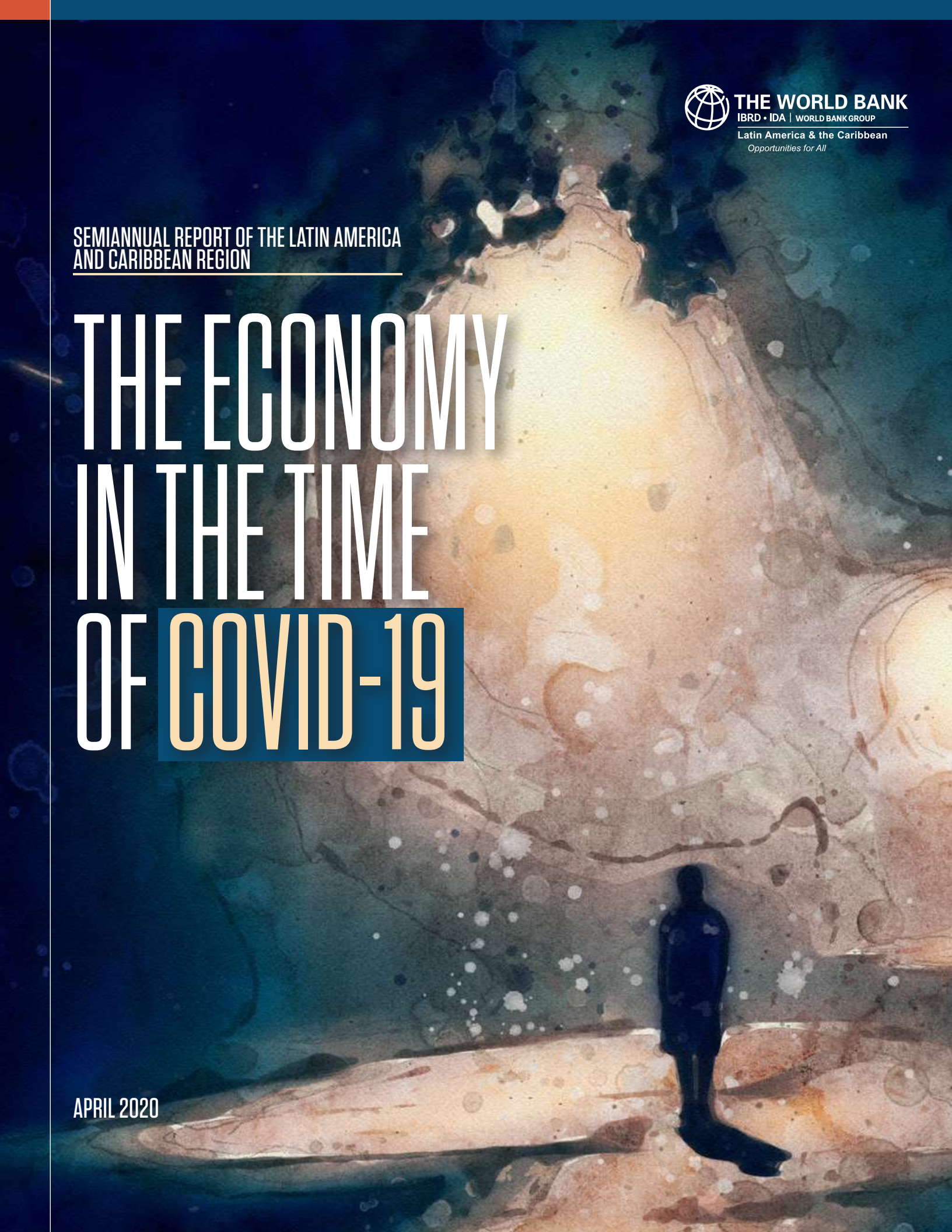
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SEMIANNUAL REPORT OF THE LATIN AMERICA AND CARIBBEAN REGION
THE ECONOMY IN THE TIME OF COVID-19
APRIL 2020

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SEMIANNUAL REPORT OF THE LATIN AMERICA AND CARIBBEAN REGION

The Economy in the Time of Covid-19

A JOINT PRODUCT OF

THE CHIEF ECONOMIST OFFICE FOR LATIN AMERICA AND THE CARIBBEAN

THE MACROECONOMICS, TRADE AND INVESTMENT GLOBAL PRACTICE

WORLD BANK — APRIL 12, 2020

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Executive summary

For the last five years the economic performance of Latin America and the Caribbean has been disappointing, with growth rates being barely positive on average. Supporting the trends in social spending made possible by unusually high commodity prices was becoming increasingly difficult, which confronted many countries with painful adjustments. Over 2019, social unrest erupted across the region, reflecting a widening gap between popular expectations and economic and social realities. And then, in early 2020, international oil prices collapsed. This is also when the Covid-19 outbreak unfolded.

Countries in Latin America and the Caribbean have a rich history of severe adverse shocks, including precipitous falls in commodity prices, dramatic tightening of financial conditions, and major natural disasters. The current external environment of the region bears similarities with this history, which implies that previous experience will be very valuable. But the Covid-19 epidemic brings in a new dimension, as the measures needed to contain the outbreak of the epidemic also result in a major supply shock.

The channels through which the adverse external shocks will affect domestic economies vary from country to county. Demand from China and G7 countries will fall dramatically, but potentially to different extents, with diverse implications for commodity exporters in South America and for exporters of manufactured goods and services in Central America and the Caribbean. The decline of oil prices will have deleterious consequences for countries whose exports earnings and budget resources critically depend on oil, but it will bring relief to net oil importers. Air traffic has fallen to a trickle as flights have been massively cancelled to prevent the spread of the virus. The resulting collapse in tourism will severely impact countries in the Caribbean basin, but others less so.

As for the supply shock, Latin America and the Caribbean is only in the initial stages of epidemic. While all the G7 economies saw their first cases by the end of January 2020, the first deaths in the region happened almost two months later, in mid-March. The onset of a pandemic is characterized by deep uncertainty, especially as the virus is new and its contagiousness and lethality are not well known. Because of this uncertainty, most governments have sensibly chosen to err in the direction of saving lives, "at any cost" if needed. But several months after the outbreak of the epidemic, the growing availability of epidemiological and economic data allows assessing the impact of the measures adopted. For latecomers to the epidemic, this time lag provides an opportunity to adjust the policy response.

Countries across the region have been trying to manage the tradeoff between health costs and economic costs. Getting that balance "right" requires assessing both the health impact and the economic impact of the measures that may be adopted to contain the spread of the epidemic. These measures range from national-level quarantines and population lockdowns to social distancing initiatives targeted to vulnerable population groups, such as the elderly, or to specific locations.

An estimation of the impact of general and targeted measures on the number of Covid-19 cases was conducted for this report, building on daily data from 25 countries. The results show that general containment measures always result in fewer Covid-19 cases over time than targeted measures. But both are considerably

more effective if they are implemented shortly after the first case is registered. For example, targeted containment measures adopted 15 days after the outbreak of the epidemic do more to slow down its progress than general measures adopted after 30 days.

Assessing the economic cost of containment measures on economic activity requires high-frequency data on economic activity. Examples include nighttime light data from satellite imageries, electricity consumption, or the number of daily commutes as assessed by shared ridership applications. For this report, the selected high-frequency indicator was the volume of nitrogen dioxide, as measured through satellite imageries. These emissions are highly correlated with active combustion by vehicles and other machinery. The results confirm that general measures to contain the Covid-19 epidemic led to dramatic declines in economic activity.

In responding to the crisis, countries in Latin America and the Caribbean do not have the fiscal space enjoyed by advanced countries. Some were facing crises even before the Covid-19 outbreak. Economies in the region are also characterized by higher levels of informality, which makes many of their firms and households much more difficult to reach through instruments such as tax deferrals and wage subsidies. With limited resources and constrained instruments, a proper design of the policy response becomes crucially important.

The hardship from the crisis will be enormous for large segments of the population. Many households live from hand to mouth and they do not have the resources to cope with the lockdowns and quarantines needed to contain the spread of the epidemic. Many workers are self-employed, and informality is common even among wage earners. Reaching these workers through transfers, is more challenging than in formalized economies. Many households also depend on remittances, which are collapsing as activity shuts down in host countries, with migrant workers among the most affected.

The policy response needs to squarely tackle this social dimension of the crisis. The first line of response includes existing social protection and social assistance programs that can rapidly be scaled up and whose coverage can be extended. Such programs might be supplemented though mobile or digital payment channels. Food distribution programs may be considered while strong social distancing measures are in place.

The standard advice in the presence of adverse shocks is to protect workers, not jobs. This advice is predicated on the grounds that most shocks affect specific firms, sectors, or locations, and allowing sectoral or spatial restructuring is bound to increase efficiency. However, the standard advice does not hold when an economic shock affects the entire economy. Employer-employee matches that took a long time to build and would remain profitable when the economy goes back to normal may be permanently dissolved due to this temporary shock. Job-specific human capital may be lost and ramping up production later may become more difficult.

A dual approach to protecting jobs is worth considering. Strategically important firms and sectors may get explicit support, in exchange to a commitment to keeping their workers. Smaller firms can be reached and triaged by banks or other intermediaries. These financial institutions may be incentivized through risk sharing and guarantees, so that they ensure the availability of liquidity in a context of mounting working capital needs.

In past crises, when the financial sector experienced solvency problems, job losses were much more important, and the subsequent recovery was severely hampered. Unfortunately, the risk of a financial crisis cannot be ruled out in the current context. The financial sector is generally in a relatively strong position. But the magnitude of the shocks is extraordinary. At the international level, the region is seeing larger portfolio outflows than at the time of the Global Financial Crisis. At the domestic level, many debtors will be unable to service their obligations and call for renegotiations, or simply default.

Protecting payment systems is essential in this context. But even with a well-functioning market infrastructure, governments have an important role to play as coordinators. Upfront blanket guarantees for bank deposits may help maintain the confidence of the public. Out-of-court debt restructuring may need to be simplified, guidance on regulatory relief measures be provided, and bank resolution be strengthened. More

radical coordination measures, such as moratoria or payment deferral schedules, may be considered as well, depending on the severity of the crisis.

A key question is who in the end should bear the losses. From an economic point of view, the answer is simple: the losses should be centralized with the government to the extent possible. Confronted with an uninsurable shock like the Covid-19 epidemic, only governments can serve as an insurer of last resort. But given the resource constraint, it is important to clearly communicate how the losses will be managed. A statement of this sort would coordinate expectations and help economic agents adjust to the new environment, serving as a social compact on how to manage the crisis. But the statement should also be realistic on what is feasible, spelling out clear priorities.

To support jobs and firms, governments may need to take ownership stakes in strategically important firms. To avert a financial crisis, they may need to recapitalize banks and absorb non-performing assets. If not adequately managed, these moves could open the door to rent seeking and political patronage. The process of acquiring and managing assets needs to be perceived as transparent and professional to maintain confidence in the government. This may also allow decision makers to take urgently needed measures without fearing prosecution in the future.

Strong arrangements need to be put in place to ensure that the acquisition and management of assets is conducted at arms' length from politicians, building on the best examples of sovereign wealth funds and asset management companies in countries at similar development levels.

A forward-looking response to the crisis should ideally go beyond addressing immediate needs and draw out the path towards a vigorous and sustainable recovery. Well-designed emergency measures are a step in that direction. Protecting strategic sources of employment, avoiding a financial crisis and managing assets professionally will help kickstart the economy. However, despite the urgent challenges, a long-term vision is needed. Countries should seek to reclaim their long-term development agenda, with jobs and economic transformation at the center of it.

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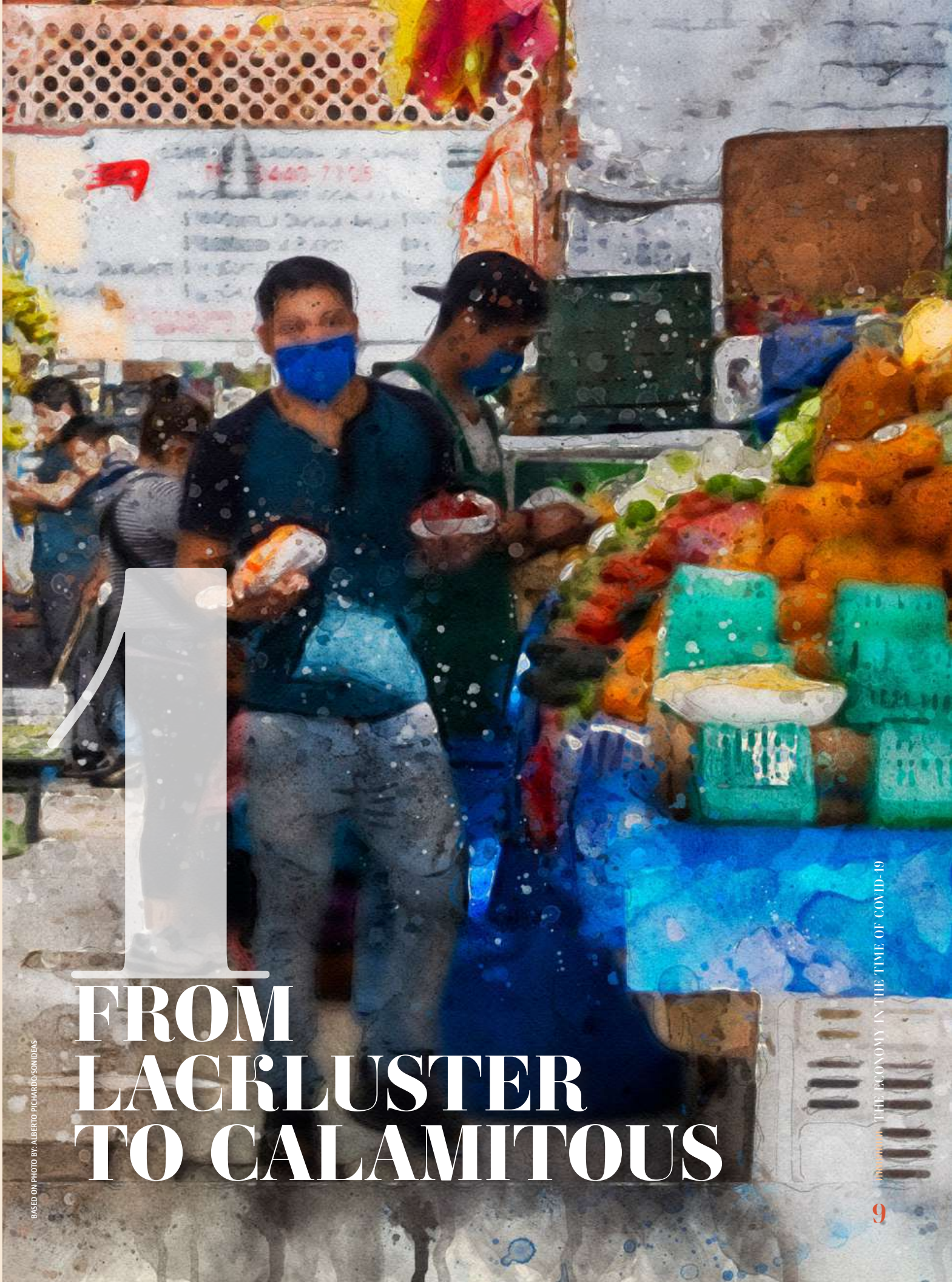


1 FROM LACKLUSTER TO CALAMITOUS

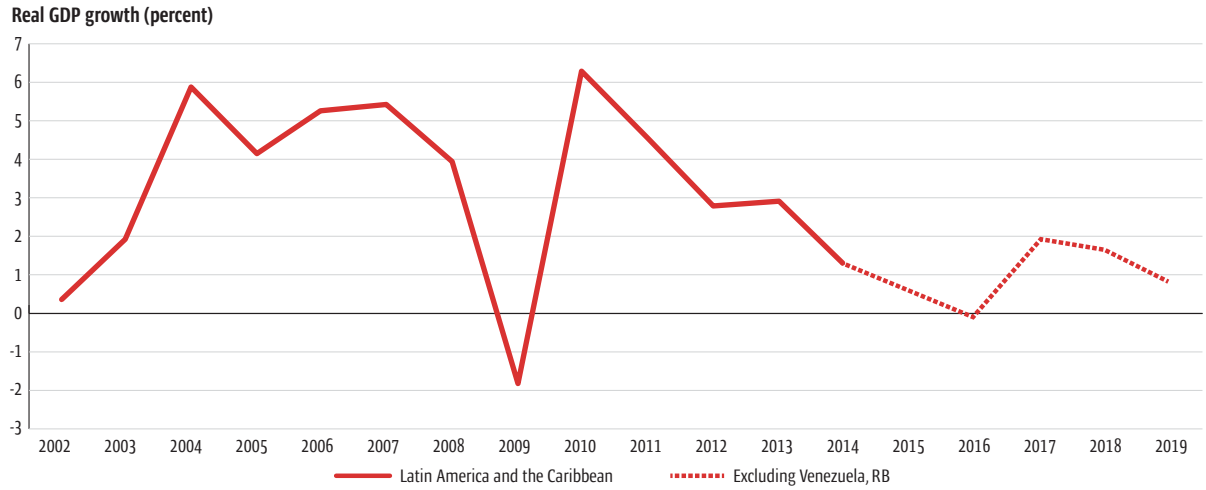
BASED ON PHOTO BY: ALBERTO PICHARDO/SONIDEAS

For the last five years the economic performance of Latin America and the Caribbean has been disappointing, with growth rates being barely positive on average. Supporting the trends in social spending made possible by unusually high commodity prices was becoming increasingly difficult, which confronted many countries with painful adjustments. Over 2019, social unrest erupted across the region, reflecting a widening gap between popular expectations and economic and social realities. And then, in early 2020, international oil prices collapsed, which is a boon for several countries in the region but creates enormous stress for oil exporters. This is when the Covid-19 outbreak started.

Decelerating economic growth

The Golden Decade of rapid economic growth and steady progress on social indicators is increasingly looking like a distant past. During that stellar phase, the region's economic growth was strong enough to support a gradual catch-up in living standards with advanced economies. Greater public spending on education, health and the provision of services allowed for an improvement of social indicators. Higher labor earnings and grater social spending brought poverty rates down across the region.

Figure 1. Sluggish economic growth after the end of the Golden Decade



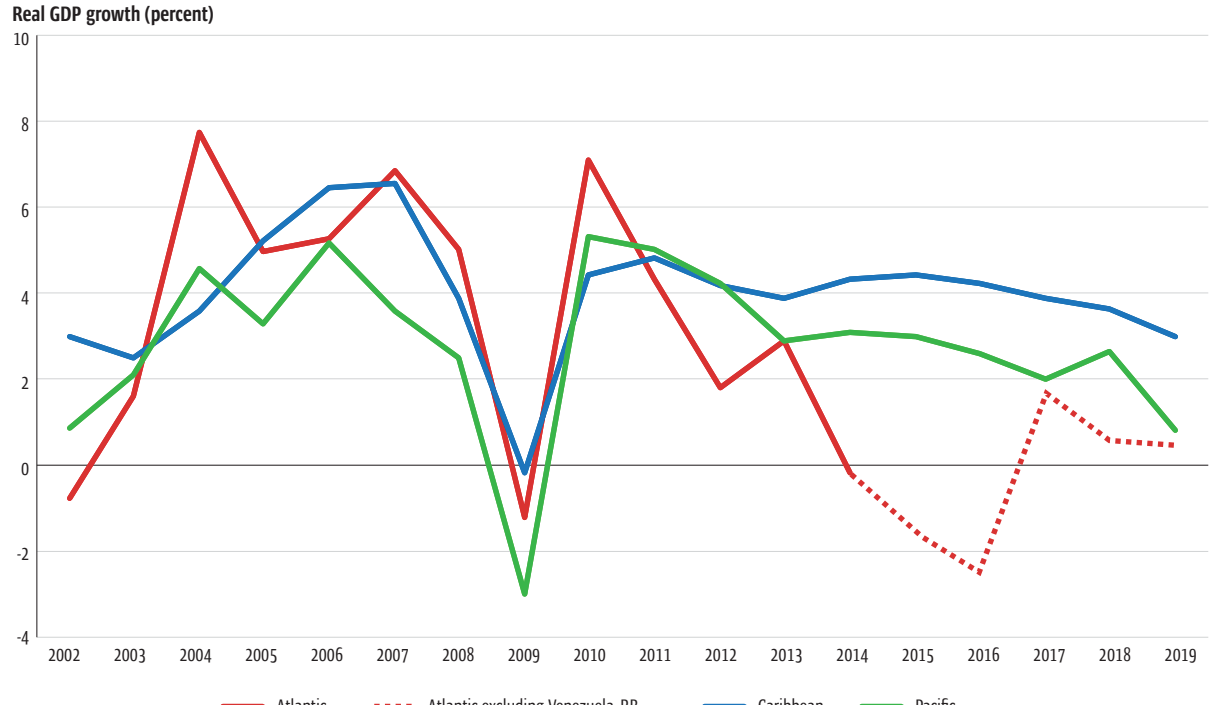
Source: World Development Indicators.

It was tempting to believe that this bonanza had come to stay. But in the absence of deep economic transformation, economic growth rates returned to their previous, rather uninspiring levels as the commodity price super-cycle came to an end (figure 1). Since then, the average economic growth of countries in Latin America and the Caribbean has been similar, or even slower, than that of the much richer advanced economies, slashing any hopes of long-term convergence.

There are of course important differences across countries, with the most extreme economic meltdown being that of Venezuela. Even setting this dramatic outlier aside, it appears that some countries in the region have done better than others. Overall, countries in the Caribbean subregion held better, with their economic gradually decelerating, but not collapsing. At the other end, the worst performance was associated with countries in the Atlantic subregion, with both Argentina and Brazil experiencing recessions over the last few years. Countries in the Pacific subregion (the rest, including Mexico and the Andean countries of South America) had a somewhat intermediate performance. However, the last couple of years have been characterized by a steady slowdown, across all subregions (figure 2).

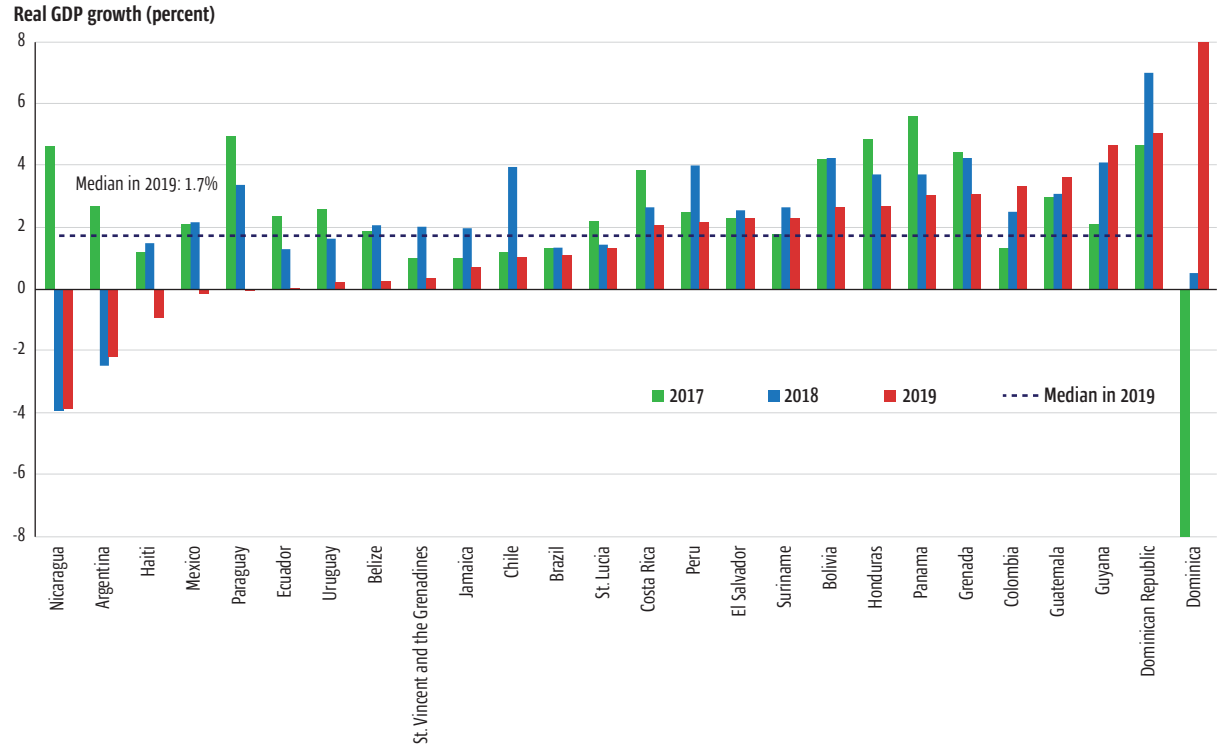
The growth rate of the region is heavily influenced by the three largest economies, namely Brazil, Mexico and Argentina. In recent years, all three went through recessions or slowdowns. From this perspective, it may be more meaningful to consider the median growth rate (the one splitting the countries in two), rather than the average growth rate. But even by this metric, Latin America and the Caribbean grew by a disappointing 1.7 percent in 2019 (figure 3).

Figure 2. Growth had slowed down across all subregions



Source: World Development Indicators.

Figure 3. Only a handful of countries with strong growth rates



Source: World Development Indicators.

Only three countries in the region – Dominica, Dominican Republic and Guyana – had growth rates in excess of 4 percent. Other traditionally strong performers are Panama and Colombia, which were once again among the countries with highest growth rates. But decelerations were common across the region, and many countries ended 2019 without any growth. Haiti, Argentina and Nicaragua experienced outright declines in economic activity.

Emerging social unrest

While slow growth had been one of the features of the region for several years, the emergence of social unrest was new. During 2019 a dozen countries in Latin America and the Caribbean saw the outburst of strikes, demonstrations and riots resulting in considerable violence. The proximate causes varied substantially across countries (box 1). Some were directly related to economic developments, while others were clearly political in nature. But violence levels were high across the board, leading to large numbers of dead and injured, together with significant material damage.

These almost simultaneous but essentially uncoordinated outbursts of social unrest have been interpreted as manifestations of common, latent problems that affect most countries in Latin America and the Caribbean at present. At the risk of caricaturing, three main explanations have been proposed, each one emphasizing a different dimension.

In the economic explanation, years of slow economic growth and the need for painful fiscal adjustments are straining the capacity of the population to cope. This interpretation calls for focusing on reviving economic growth and mitigating the adverse social impacts of fiscal adjustment.

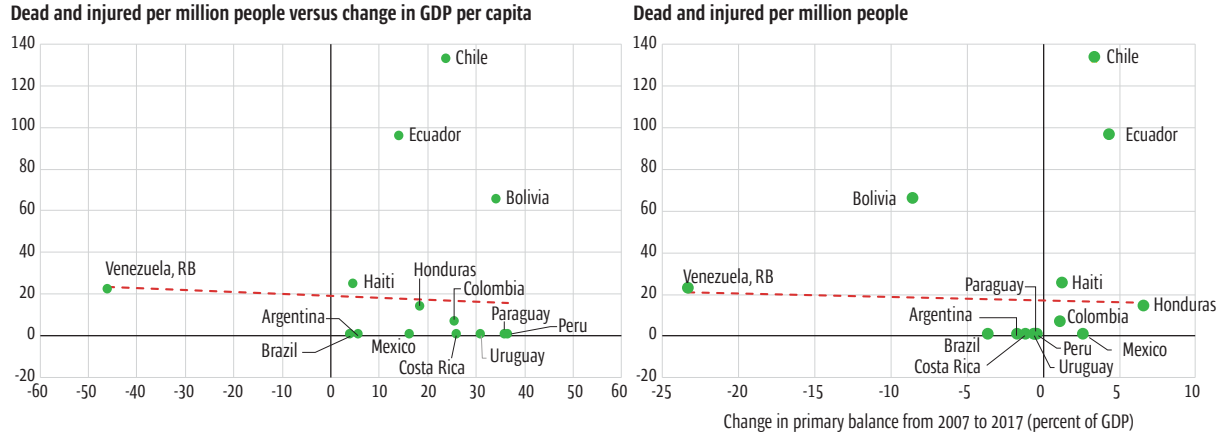
In the social explanation, Latin America and the Caribbean is the region with the highest levels of inequality, with wide gaps in living standards breeding frustration. In this case the response is to aim for better economic opportunities for the worse-off, with a determined focus on service delivery and social protection.

Finally, in the institutional explanation, the ultimate cause of the unrest is the discontent with weak institutions unable to provide voice to the people and ensure the control of corruption. In this view, the region needs to focus on transparency and accountability, strengthening public financial management and especially public procurement.

Box 1. Main episodes of social unrest in Latin America and the Caribbean in 2019

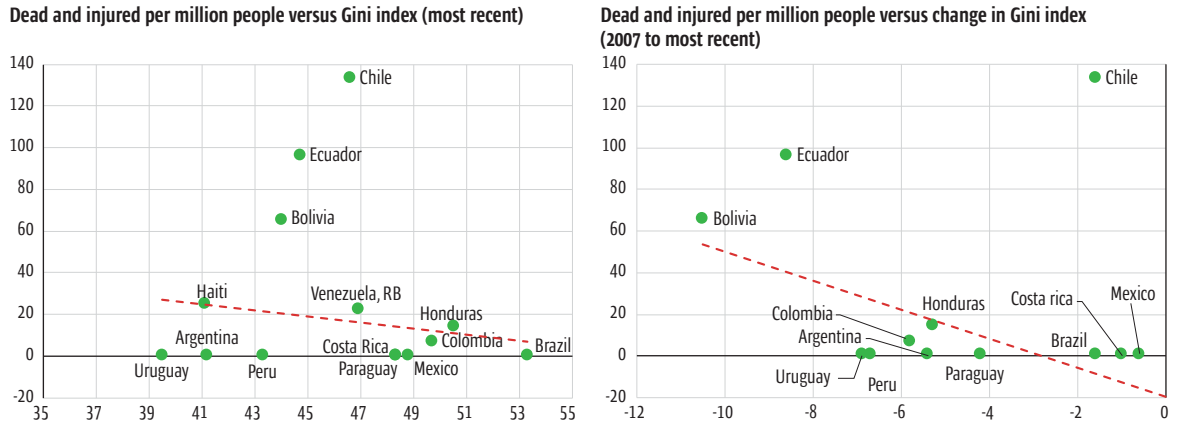
- **Bolivia.** The first indigenous president of the country, who had favored populist redistribution, ousted after massive demonstrations against election irregularities.
- **Chile.** A students' revolt against a modest increase in metro fares escalating into mass demonstrations on a broad list of grievances, together with riots and violent repression.
- **Colombia.** Repeated student protests against proposed policy legislation, including episodes of street violence and a major national strike.
- **Costa Rica.** A protracted strike by public sector unions in the education and health sectors, together with fishermen and other social groups, in reaction to fiscal adjustment policies.
- **Ecuador.** Massive demonstrations, especially by indigenous groups, against the removal of a fuel subsidy in the context on a fiscal adjustment program.
- **Haiti.** Massive demonstrations and riots seeking the removal of the president over allegations that corruption and mismanagement had led to increases in fuel prices and high inflation.
- **Honduras.** Protests against elections irregularities, followed by protests by teachers and health workers against proposed reforms in their sectors.
- **Paraguay.** Massive protests following non-disclosed discussion on hydropower sales to Brazil, contributing to a cabinet reshuffle.
- **Peru.** A Congress with little popular legitimacy dissolved by the president, while most other recent presidents are in jail or awaiting trial on corruption charges.
- **Nicaragua.** Violent showdown between the government and a broad coalition including civil society, the church and the private sector.
- **Venezuela.** Months of demonstrations against an increasingly authoritarian government, amidst an economic meltdown that pushed 4.6 million people to leave the country.

Figure 4. The intensity of social unrest versus economic performance



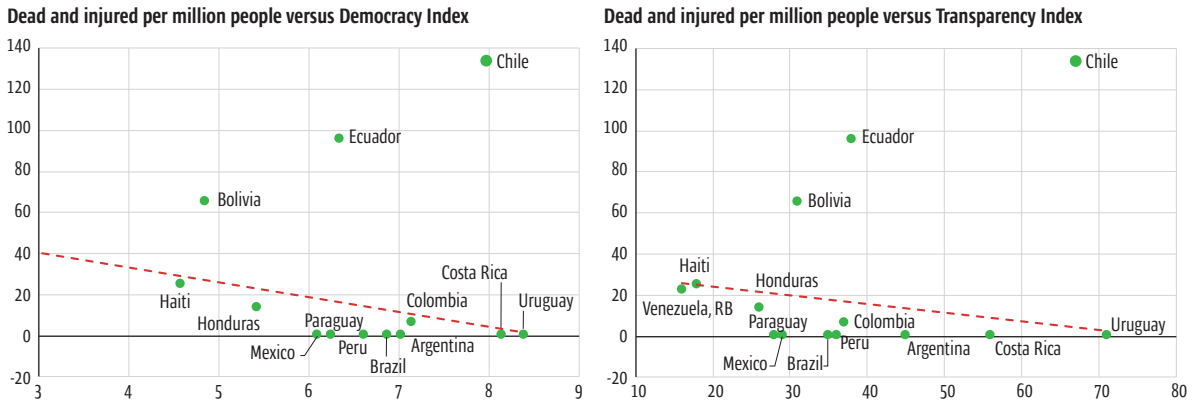
Note: Nicaragua is off the chart because of its large number of dead and injured. The primary balance is the fiscal balance net of interest payments. GDP per capita from 2007 to 2017 (percent)
Source: Own estimates for dead and injured and World Development Indicators for economic growth and primary balance.

Figure 5. The intensity of social unrest versus income inequality



Note: Nicaragua is off the chart because of its large number of dead and injured. A higher Gini index is associated with greater inequality.
Source: Own estimates for dead and injured and Povcalnet for income inequality.

Figure 6. The intensity of social unrest versus institutional strength



Note: Nicaragua is off the chart because of its large number of dead and injured.
Source: Own estimates for dead and injured, Economist Intelligence Unit for democracy and Transparency International for corruption.

All three explanations sound plausible, and they are not mutually exclusive. But they are not necessarily supported by the available evidence. One way to assess the relative merit of the three explanations is to analyze the correlation between the intensity of the social unrest and a set of economic, social and institutional indicators across countries. Following the usual approach in the empirical analysis of conflict, the intensity

of unrest can be measured through the number of people dead or injured as a direct consequence of the turmoil, relative to the population. For completeness, the empirical analysis includes countries that did not experience social unrest.

On the economic interpretation, there is no correlation between the intensity of social unrest and the growth of income per capita over the last decade, and the same holds true for the magnitude of fiscal adjustment over the same period (figure 4). On the social front, there has been more social unrest in countries with lower income inequality, and especially in countries that saw a more dramatic reduction in income inequality (figure 5). And from an institutional point of view, social unrest was not significantly correlated with stronger democratic institutions or better control of corruption (figure 6).

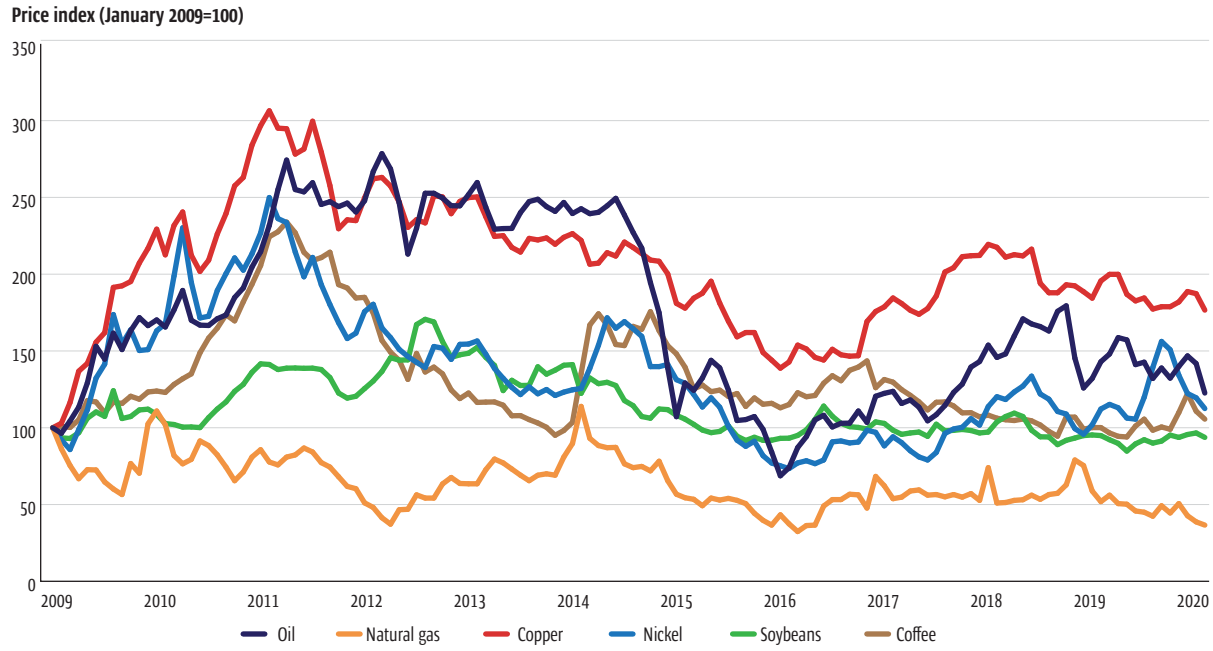
These simple correlations call for caution in attributing social unrest to single causes across the region. Country-specific circumstances may matter more than the three simple narratives discussed above would suggest. The fact that unrest was stronger in countries where inequality fell the most, or where institutions are stronger, may reflect higher aspirations, rather than failure to deliver. But regardless of the causes, the intensity of the social unrest that shook the region in 2019 reveals an important fragility, all the more worrisome as the performance of the region is bound to deteriorate further.

A new oil shock

Commodity prices play a disproportionately important role in Latin America and the Caribbean, given how dependent the region is on natural resources. As of late, commodity prices had stabilized, and some of them had even experienced mild recoveries (figure 7). The terms of trade had even improved for a few of the countries of the region (figure 8). International demand for products such as soybeans or beef had even increased. The commodity price super-cycle was clearly over, but at least a "new normal" seemed to have settled in.

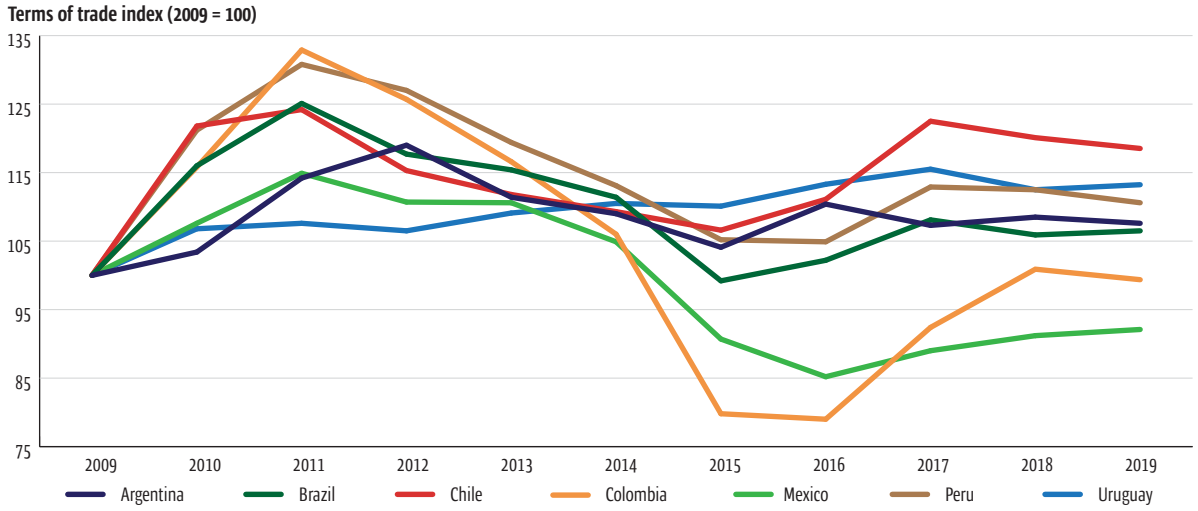
This relative stability was shattered in early March 2020, when members of the Organization of Petroleum Exporting Countries (OPEC) and Russia failed to reach agreement on cutting oil supplies. Over the last few years, advancements in shale oil recovery had resulted in skyrocketing production, especially by the US, which became the world's leading petroleum-producing country by 2015. Meanwhile the gradual slowdown of economic growth in China and the freeze in economic activity from its Covid-19 outbreak, led to a dramatic decline in demand.

Figure 7. Commodity prices were holding relatively well…



Source: Haver Analytics.

Figure 8. . . . and so were the terms of trade



Source: Haver Analytics.

Sustaining high oil prices was bound to be difficult under such circumstances, but the lack of agreement between OPEC and Russia led to a precipitous decline (figure 9). At current price levels, oil extraction remains profitable in Saudi Arabia, Iran and Iraq, and is still marginally profitable in Russia, Indonesia, the US and Norway, bit it becomes economically unviable mostly everywhere else, including in Latin America and the Caribbean.

Figure 9. A dramatic drop in oil prices

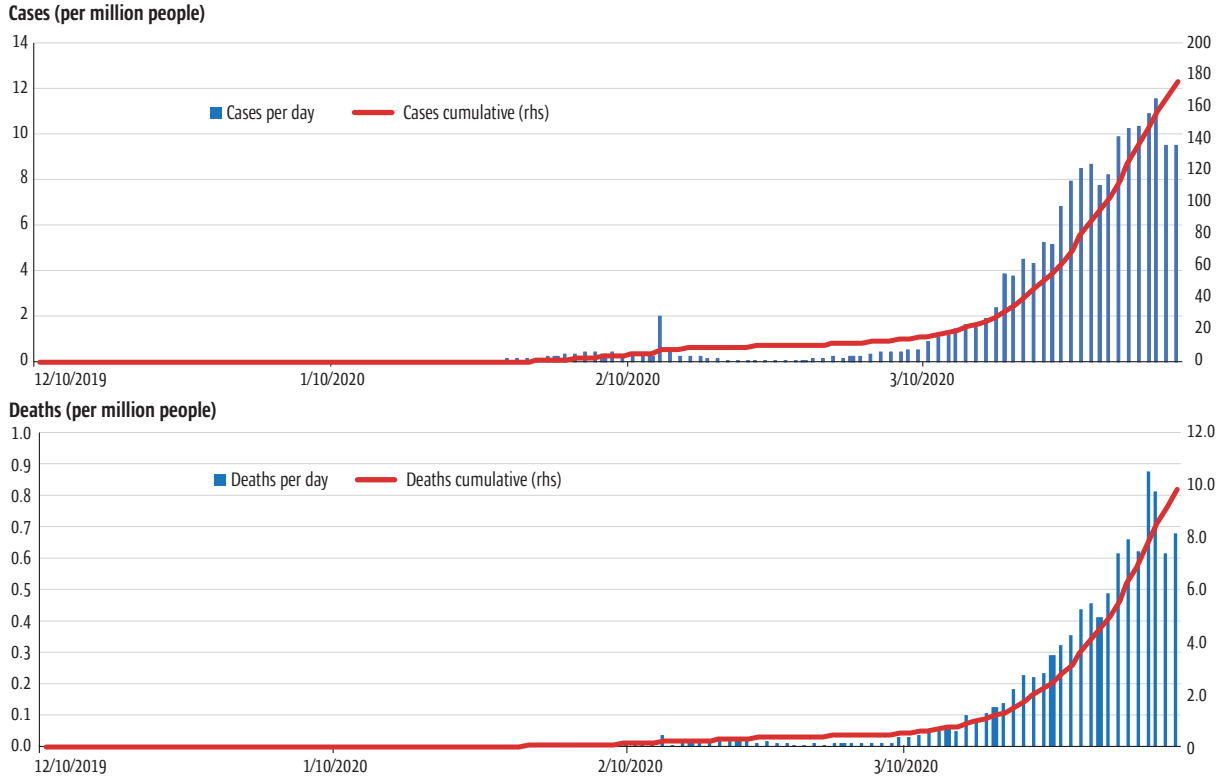
Source: Yahoo Finance.

The Covid-19 outbreak

The first Covid-19 case was diagnosed in China on December 10, 2019, and the first death was recorded one month later, on January 9, 2020. Since then, the number of registered cases has exceeded one million, and the number of global deaths is increasing exponentially. As of April 7, 2020, xx,xxx people had died from the disease (figure 10).

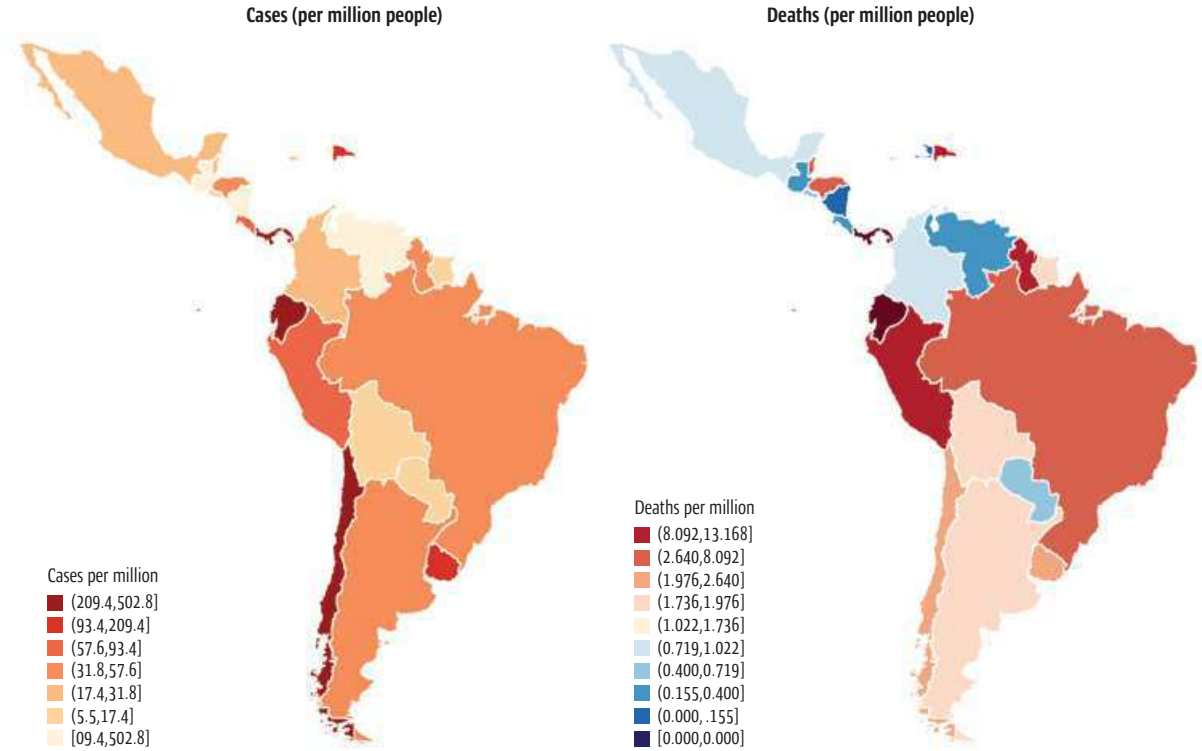
Latin America and the Caribbean is only in the initial stages of epidemic. While all the G7 economies saw their first cases by the end of January 2020, the first deaths in the region happened almost two months later, in mid-March. Many advanced economies are already in advanced phases of the epidemic, and several of them have already managed to flatten the curve. By contrast, no country in Latin America and the Caribbean had suffered more than 300 deaths as of April 7, 2020. By then, the median number of deaths across countries in the region was three (map 1).

Figure 10. Covid-19 cases and deaths at the global level



Source: European Center for Disease Control.

Map 1. Covid-19 cases and deaths in Latin America and the Caribbean



Source: European Center for Disease Control.

It is still too early to tell how large the health costs will be for countries in the region. But there is little doubt that the economic impact will be considerable. Buera et al. (2020) argue that developing countries will be affected through three main channels. First is the direct effect of containment measures on the output of many industries such as travel and entertainment, and restrictions on social contact force some people to work from home or to not work at all. Second is a terms of trade effect, as many commodity producers will experience a sharp fall in the price of their exports. And third, there will be a global liquidity shock as portfolios will be restructured from riskier assets to safer, liquid assets. For developing countries this implies capital outflows, an increase in their cost of funding, and a drop in the value of their currencies

These direct and indirect effects of the Covid-19 epidemic could trigger severe recessions. In a social distancing environment, many firms have negative value added as the cost of inputs exceeds gross production. Firms are unable to sell their goods and services, but they still have to pay the wage-bill, service their debts, pay rents, and pay taxes. Many of them could go out of business and layoff their workers, which in turn will reduce aggregate demand. Meanwhile, the fall in commodity prices could strain public finances, as natural resource exports tend to be an important source of government revenue (Buera et al. 2020).

The growth performance of the region had become lackluster after the end of the Golden Decade, and the year 2019 had not been an exception in this respect. But after months of social unrest in many of the countries and a new oil shock, the Covid-19 epidemic and its impact on the world economy raise the prospect of a calamitous year for 2020.

2 THE OUTLOOK FOR THE REGION

Countries in Latin America and the Caribbean have a rich history of severe adverse shocks, including precipitous falls in commodity prices, dramatic tightening of financial conditions, and major natural disasters. . The current external environment of the region bears similarities with this history, which implies that previous experience with the impact of these shocks on domestic economies can be very valuable. But the Covid-19 epidemic brings in a new dimension, as the measures needed to contain the outbreak of the epidemic also result in a major supply shock.

Put differently, economic activity is disrupted not only because of development abroad, but also because people stop working and trading to reduce the risk of contagion. This combination of a demand shock, a financial shock and a supply shock is unprecedented. And it makes it very difficult to forecast the exact magnitude of the downturn ahead.

There is also a time dimension to the uncertainty. While a quick rebound cannot be ruled out, the magnitude of the disruptions created by the Covid-19 epidemic is such that effects could also be long-lasting. It may be tempting to think of containment measures as a forced, unpaid vacation of several weeks, with activity going back to normal once they are lifted. But in the meantime, many firms will become insolvent as they continue facing costs (rent, insurance, taxes, interest payments and the like) while their revenues collapse.

Once a chain of bankruptcies is unleashed, the economic consequences can be amplified. Financial institutions may be at risk as the servicing of debts falters, households may lose confidence and increase their precautionary savings, even solvable firms may put their investments on hold. A temporary freeze of the economy to slow down the spread of the Covid-19 epidemic could thus become a permanent shock, and instead of a quick rebound a protracted recession may settle in.

Growth forecasts by investment banks and consultancy firms across the region reflect both the growing pessimism about economic performance in 2020, but also the increasing uncertainty as to how large the impacts will be. Across the countries in Latin America and the Caribbean for which a sufficiently large number of forecasts is available, forecasts have been revised down by several percentage points over barely a few weeks. Only in the case of Argentina did the downward revision start much earlier, reflecting uncertainty over the debt renegotiation process and its impact on the macroeconomic outlook. The dispersion of forecasts has also widened substantially over the last few weeks (figure 11). These two trends are likely to continue as the lockdown, at home and abroad, is extended and possibly strengthened.

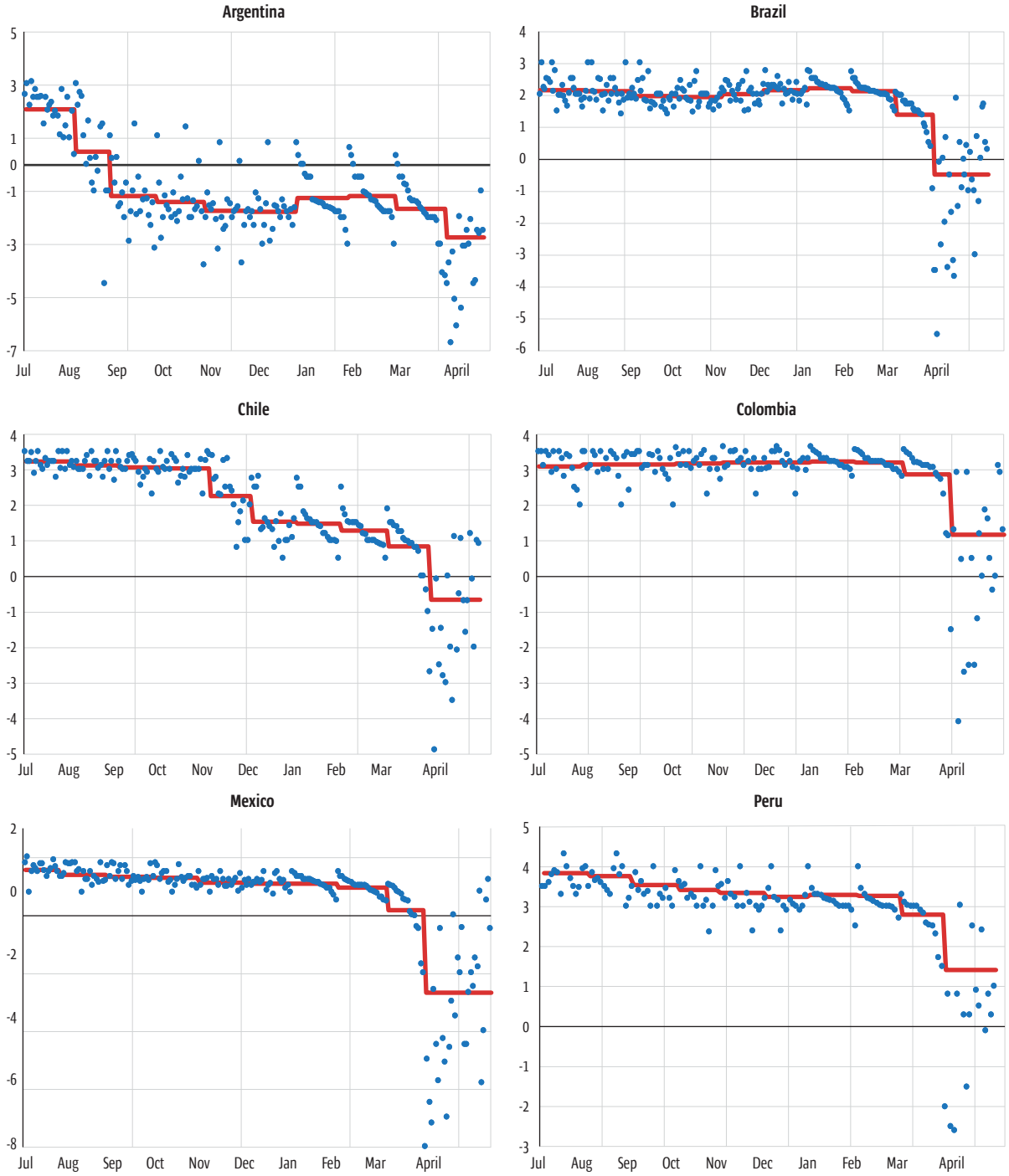
The channels through which adverse external shocks will affect domestic economies vary from country to country. The containment measures taken to slow down the spread of the epidemic have resulted in a sharp deceleration of economic growth in China and among the G7 countries, two economic powerhouses whose performance have a very direct impact on growth in Latin America and the Caribbean. But some countries in the region are more dependent on China while others are more affected by the G7 economies

Commodity prices can also be expected to decline sharply, with deleterious consequences for a region whose exports depend heavily on natural resources. But some countries are oil exporters while others are importers, and for them the collapse in oil prices may bring welcome relief. Air traffic has fallen to a trickle as flights have been massively cancelled to prevent the spread of the virus. Tourism has collapsed as a result. This is bound to have an adverse impact on countries in the Caribbean basin, less so on others.

One way to assess how these multiple external shocks will affect the economies of Latin America and the Caribbean is to compute the partial elasticities of economic growth in each country with respect to indicators such as the growth of China and the G7 economies, commodity prices, energy prices, financing conditions and air travel. Partial elasticities indicate by how many percentage points the domestic growth rate changes in response to a one-percent change of each of these indicators. The exercise shows that the relative weight of the various channels through which the economies of the region will be affected vary substantially from country to country (table 1).

A more comprehensive forecasting effort requires integrating all these mechanisms into a model of the economy, and to link the country-level forecasts into a coherent model of the global economy. Again, there is considerable uncertainty in an exercise of this sort, as the relationship between key variables may not be the same as before in the aftermath of the Covid-19 crisis. The numbers coming up from this more comprehensive effort must therefore be interpreted with great caution. With this caveat in mind, the overall picture for the Latin America and Caribbean region is sobering (table 2).

Figure 11. Growth forecasts are declining rapidly and their dispersion is increasing



Note: All observations refer to growth forecasts made for the year 2020. Each point corresponds to the prediction of a forecaster.
Source: Consensus forecasts

Table 1. Key transmission channels for external shocks by country

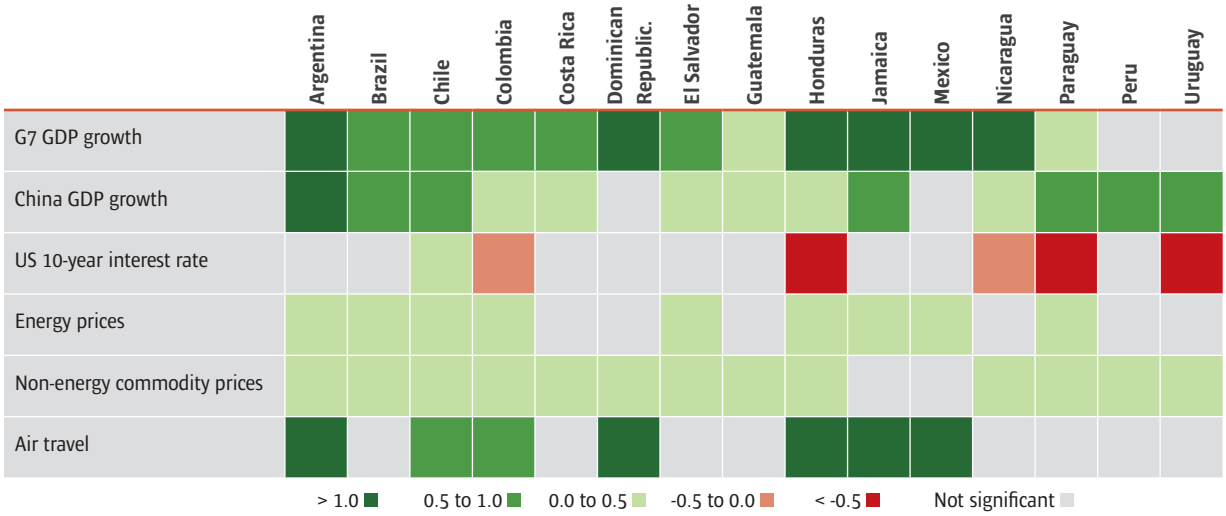


Table 2. Real GDP growth at market prices

	2017	2018	2019	2020f	2021f	2022f
Argentina	2.7	-2.5	-2.2	-5.2	2.2	2.3
Belize	1.9	2.1	0.3	-3.9	1.0	1.5
Bolivia	4.2	4.2	2.7	-3.4	3.7	3.4
Brazil	1.3	1.3	1.1	-5.0	1.5	2.3
Chile	1.2	3.9	1.1	-3.0	4.8	2.8
Colombia	1.4	2.5	3.3	-2.0	3.4	3.9
Costa Rica	3.9	2.7	2.1	-3.3	4.5	3.5
Dominica	-9.5	0.5	9.6	-3.0	4.0	5.0
Dominican Republic	4.7	7.0	5.1	0.0	2.5	4.0
Ecuador	2.4	1.3	0.1	-6.0	3.2	1.5
El Salvador	2.3	2.5	2.3	-4.3	4.8	3.0
Grenada	4.4	4.2	3.1	-7.3	6.1	4.4
Guatemala	3.0	3.1	3.6	-1.8	4.4	3.1
Guyana	2.1	4.1	4.7	51.7	8.7	2.6
Haiti	1.2	1.5	-0.9	-3.5	1.0	1.3
Honduras	4.8	3.7	2.7	-2.3	3.9	3.8
Jamaica	1.0	1.9	0.7	-2.9	1.0	2.0
Mexico	2.1	2.1	-0.1	-6.0	2.5	2.5
Nicaragua	4.6	-4.0	-3.9	-4.3	1.9	0.7
Panama	5.6	3.7	3.0	-2.0	4.2	4.0
Paraguay	5.0	3.4	0.0	-1.2	5.6	3.9
Peru	2.5	4.0	2.2	-4.7	6.6	3.5
St. Lucia	2.2	1.4	1.4	-7.2	5.8	3.7
St. Vincent and the Grenadines	1.0	2.0	0.4	-4.0	2.0	3.0
Suriname	1.8	2.6	2.3	-0.7	1.3	2.0
Uruguay	2.6	1.6	0.2	-2.7	5.5	3.0
Latin America and the Caribbean	1.4	1.0	-0.1	-4.6	2.6	2.6

Note: Figures are in percent. "f" stands for forecast. The regional average does not include Venezuela.
Source: World Bank.

3 ASSESSING THE SITUATION IN THE SHORT RUN

Given the unprecedented nature of the Covid-19 epidemic, forecasts of economic performance in 2020 need to be interpreted with great caution. However, the types of policy responses needed to rekindle economic activity are very different in a sharp but temporary downturn and in a major and lasting recession. Correctly assessing the situation is fundamental to operate under common assumptions about the breadth and the depth of the crisis, to inform policy decisions, and to build consensus about them among public opinion and key stakeholders. Unfortunately, at this point there is enormous uncertainty as to how severe the global decline in output will be, and how domestic economies will be affected.

Regardless of what the year as a whole brings in, a very relevant question for policy makers refers to what is happening on the ground now. Typically, the impacts of economic fluctuations on firms and households are assessed using surveys and other traditional statistical instruments. But these take time to be implemented, processed and interpreted. The unprecedented depth and characteristics of the current crisis call for a much more immediate assessment.

Big data can be of help in this respect. At a time when the Earth is circled by huge numbers of satellites, and everybody seems to be on their cell phones all the time, it should be possible to get indirect indications on the level of economic activity through the traces people leave, knowingly or unknowingly, in cyberspace.

For example, numerous mobile phone users allow their locations to be known by Google, a technology company. Based on this information, it is possible to generate aggregated, anonymized sets of data showing the number of visits to categorized locations, such as shops, workplaces or parks. Visits to shops provide a measure of aggregate consumption spending, especially in countries where Internet-based retail is not widely prevalent. Similarly, visits to workplaces give a indication of aggregate labor utilization, especially in countries where only a fraction of the labor force teleworks.

By these two measures, the decline in economic activity in Latin America and the Caribbean was very substantial by the end of the first quarter of 2020, when many countries in the region already had stringent social distancing policies in place (map 2). This said, the results need to be interpreted with caution. Not everybody has a cell phone allowing location tracing. And among those who do, not everybody allows Google to know their locations.

Despite potential biases of this sort, attempts to capture short-term changes in economic activity through the use of big data are becoming increasingly common. Some rely on the ridership of Internet-based mobility service providers and others the information systems of public transport networks. Nighttime light data from satellite imagery and seismographic information are other potentially informative data sources. Technically creative solutions are being found in many cases to retrieve and process the data, which is encouraging. But the main challenge remains how to interpret it or, put differently, how to convert big data on human activity into estimates of changes in GDP.

In an attempt to answer this question, big data on nitrogen dioxide (NO2) from all over the world was analyzed for this report. Such emissions are measured by instruments aboard satellites in the form of tropospheric vertical column densities of particles. The troposphere is the area of the atmosphere nearest human activity—below 10 km, which is about the maximum cruising altitude of commercial aircraft. A column is the area where the reading occurs, which can be as fine as 13 km of latitude by 25 km of longitude. The unit of measurement is 1e15 molecules of NO2 per square cm.

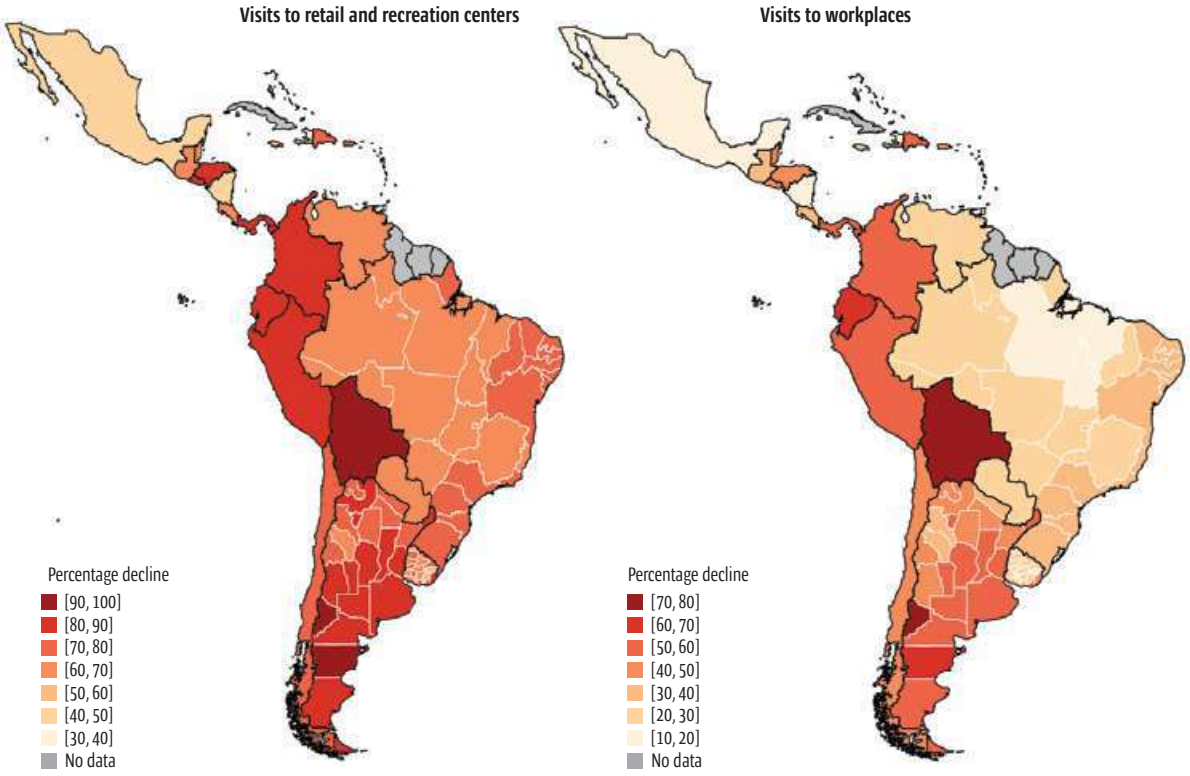
The measurements used for this report come from two sources. The first one is the Global Ozone Monitoring Experiment (GOME) instrument on-board the European Space Agency's ERS-2 satellite. The second source is the Ozone Monitoring Instrument (OMI) on-board NASA's EOS-Aura satellite. In comparison, OMI offers higher resolution images than GOME, but the readings are similar.

NO_2 emissions have two properties that make them particularly relevant for the measurement of economic activity in real time. First, they are produced by human-made sources, mainly through combustion. They come mainly from vehicle exhausts and industrial chimneys, so that they are directly related to commuting

and production. And second, observations on NO2 emissions are publicly available in real time for most of the Earth's habitable surface. The main exception is the sunless arctic in the winter, when spectrometers become useless.

Several academic studies have analyzed the correlation between NO2 emissions and economic activity. For example, Lin and McElroy (2011) showed that readings of NO2 over China resembled GDP estimates during and after the Global Financial Crisis. Morris and Zhang (2019) exploited this finding to assess the reliability of China's GDP estimates at different points in time and created combined measures of economic growth based on both reported GDP and NO2 emissions.

Map 2. A large decline in the number of visits to shops and workplaces



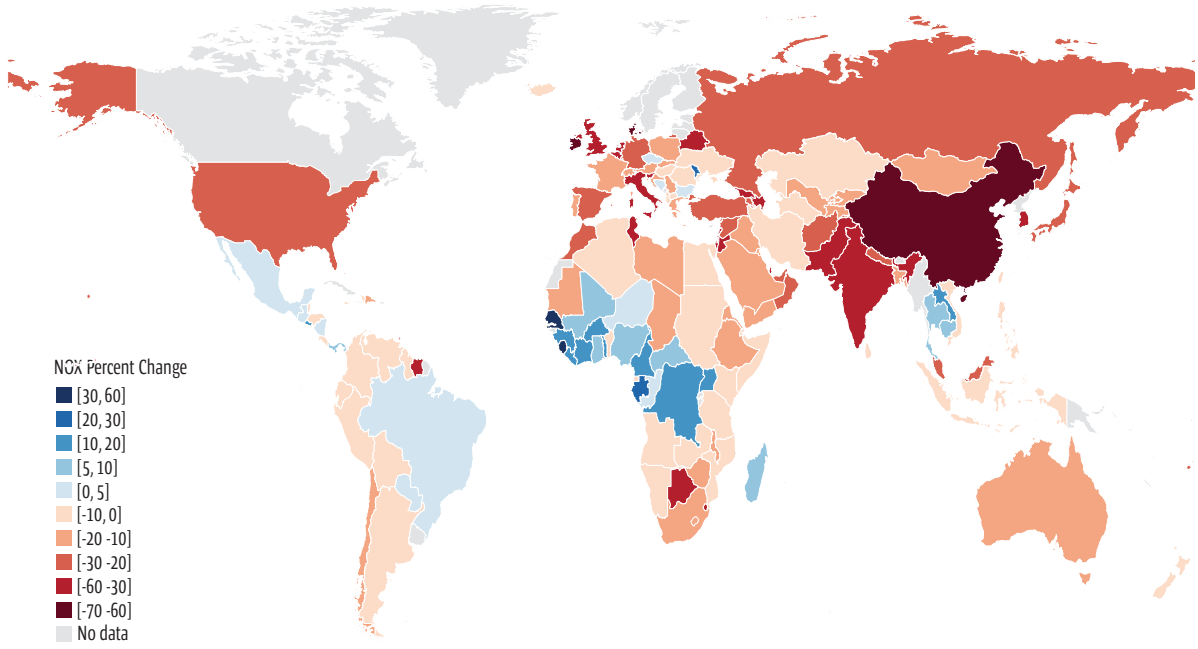
Note: Based on number of visits to popular places by users who opted-in to Location History for their Google Account. The figures are for end-March 2020 relative to the five-week period from January 3 to February 6, 2020.
Source: Google.

Because data on NO2 emission is available with high frequency, it can be used to assess short-term fluctuations in economic activity more often and much faster than official statistics allow. However, the daily data is noisy, in the sense that it fluctuates considerably, especially at high levels of spatial disaggregation. For this report data on NO2 emissions was processed under the form of 30-days moving averages at the country level.

A crude assessment of the change in economic activity triggered by the Covid-19 epidemics is provided by a comparison between NO2 emissions in the month preceding the closing date for this report and the average emissions in the same month over the two previous years. The period of reference is advanced in the case of China and Korea, because these two countries stated their containment of the Covid-19 epidemic earlier than the rest of the world. The results of this exercise are telling and match well anecdotal evidence across countries (map 3).

A change in NO2 emissions cannot be mechanically converted into a change in GDP, however. The relationship between the two variables is bound to be different in countries with different economic structures. For example, other things equal more urban countries, or countries with a larger manufacturing sector, may generate more NO2 emissions than more rural or agricultural countries. The relationship between NO2 emissions and GDP can therefore be expected to vary across countries, and even at sub-national levels within countries.

Map 3. Change in emissions of nitrogen dioxide at the end of the first quarter of 2020



Note: The figures are percentage changes in NO2 emissions for the period from March 7 to April 6, 2020, relative to the same period in 2019. Given their earlier implementation of containment measures, figures for China and Korea are for the period from February 1 to March 1, 2020.
Source: Own estimates based on real-time NO2 data from www.temis.nl.

This said, a crude approximation can be used to give a sense of what the observed changes in NO2 emissions imply for the magnitude of the current economic downturn. A useful precedent in this respect is a methodology developed to assess the relationship between nighttime light data from satellite imageries and the GDP of developing countries (Henderson et al. 2012).

Applying the same methodology to NO2 emissions, instead of nighttime light data, yields informative results. On average, NO2 emissions across countries increase by about 0.7 percent when GDP increases by 1 percent. The inference from inverting this elasticity is that GDP might have increased by about 1.4 or 1.5 percent, when a 1 percent increase in NO2 emissions is observed. The same logic can be applied to observed declines in NO2 emissions.

Producing more refined estimates of this elasticity at the country level is a priority at this point in time. Because of the he unusual depth and unprecedented characteristics of the ongoing economic crisis, real-time measures of economic activity are needed. Simulation exercises based on economic patterns observed in "normal" times could be misleading at this point. Big data could support a more reliable and more frequent assessment of the impact of the Covid-19 epidemic on economic activity. And data on NO2 emissions seems particularly promising in this respect.

In addition to assessing trends in overall economic activity, three other areas may help understand and address the shock. First, identifying the most urgent social challenges is essential to design policy responses that protect the most vulnerable. Second are financial sector vulnerabilities. This is the time to ramp up supervision capacity and get a clear sense of the risks faced by banks, non-bank financial institutions, micro-credit providers and the like. And third, special attention should be devoted to assessing the health of strategically important firms and sectors of activity. Understanding the difficulties faced by firms whose behavior and performance can ripple through the economy is key to protecting jobs.

4 HEALTH COSTS AND ECONOMIC COSTS

BASED ON PHOTO BY: ALBERTO PICHARDO/SONIDEAS

The onset of a pandemic is characterized by deep uncertainty, especially as the virus is new and its contagiousness and lethality are not well known. Governments understand the need to take drastic measures to contain the disease, while they also realize that those measures are bound to have economic costs. In the presence of deep uncertainty, most governments have sensibly chosen to err in the direction of saving lives, "at any cost" if needed. But several months after the outbreak of the epidemic, the increasing availability of epidemiological and economic data allows to review the impact of the measures adopted and, potentially, to adjust the policy response.

How to think about the tradeoffs?

Trying to strike the "right balance" between health costs and economic costs may seem morally unacceptable. Many would question that a human cost could ever be compared to a material cost. But the reality is that health costs and economic costs are both human costs, as they both affect people and families. There is a tragic human loss when a dear relative or a friend dies, but there is also a severe human loss when people end up without jobs, livelihoods are shattered, children have to cut their studies short, or youth have to start their work careers in depressed labor markets.

The real question is not whether the economic costs of containing the Covid-19 epidemic should be considered: they certainly should. The question is whether better policy choices could lead to a lower overall cost to societies, under the form of a less damaging mix of health costs and economic costs.

The initial response to this question was shaped by epidemiologists, who helped forecast how fast the virus could spread and how many deaths it would cause. An influential study by the Imperial College in London used a microsimulation model to predict the outcome of two possible policy responses to the Covid-19 outbreak: suppression and mitigation. Suppression relies on measures such as quarantines and mandatory social distancing to reduce the number of secondary cases each Covid-19 case generates. Mitigation relies on similar measures targeted to the most vulnerable population groups (such as the elderly or those with pre-existing conditions) but does not aim to interrupt transmission completely, supporting instead a gradual buildup of population immunity.

The Imperial College study found that in the absence of containment measures the Covid-19 epidemic could result in more than 0.5 million deaths in the UK and 2.2 million in the US. It also concluded that with mitigation alone the healthcare systems of the UK and the US would be overwhelmed by the number of Covid-19 cases to handle. According to the simulations, in both countries the demand for general ward beds and intensive care beds would exceed the available capacity by a factor of eight or more. The study concluded that suppression was the only viable strategy until a vaccine becomes available, which may not happen for another 12-18 months or more. The economic cost of such a prolonged suppression was not considered by the study, although there was recognition that it would "be high and may be disproportionately so in lower income settings" (Walker et al. 2020).

The follow-up response by economists was to find ways to limit the economic cost of the suppression strategy. In the words of an influential report by the Centre for Economic Policy Research in London "the recession, so to speak, is a necessary public health measure. Keeping workers away from work and consumers away from consumption both reduce economic activity. [...] The size of the economic damage is still very uncertain, but it is certain that it will be large. Governments now need to focus on mitigating that damage. This is the time to bring out the big artillery; this is not a time to be timid, but to do whatever it takes, fast" (Baldwin and Weber di Mauro 2020).

The logic behind this proposed policy response was inspired by Mario Draghi's famous statement that the European Central Bank would do "whatever it takes" to save the Euro. Since people believed this statement, expectations were recalibrated back to a world where the Euro area would not fly apart. The switch in expectations, in turn, became self-fulfilling. The argument by economists was that this is what economic policy makers should be aiming for in response to the massive recession needed to contain the Covid-19 epidemic.

With the passing of days, a more nuanced approach is emerging. It involves dynamically managing a tradeoff between health costs and economic costs. This is conceptually different from first choosing the policies that minimize the health cost and then, conditional on the answer, choosing the policies that minimize the economic cost. The tradeoff between containing health cost and economic cost was intuitively discussed in a much-quoted analysis by Gourrinchas (2020). A more structured illustration of this dynamic optimization approach is provided by a recent paper by Eichenbaum et al. (2020). In this paper, the epidemiological model is embedded in a general equilibrium model for the economy, and decisions affect simultaneously the spread of the epidemic and the level of economic activity.

In this broader epidemiological and economic model, individuals reduce their probability of becoming infected by working and consuming less. But their decisions are not socially optimal, because individuals do not internalize the consequences of their work and consumption choices on the spread of the virus. The result is a number of deaths that remains excessively large, which is why the optimal policy response in this model is for the government to forcibly curtail economic activity.

In the socially optimal solution, the severity of the containment measures by the government roughly parallels the dynamics of the infection rate itself. The basic intuition is as follows. At the beginning of the epidemic, when very few people are infected, a high containment rate would have high economic costs, for relatively little gain in health costs. But as the infection rate rises, contagion from work and consumption increases, necessitating a stronger containment effort.

Multiple variants of this basic model are being developed at present. Some are richer on the health side, while others further develop the economic side. Among the former, Glover et al. (2020) analyze how the gains and losses from measures aimed at slowing the spread of the epidemic affect different population groups. For example, older individuals have most to gain from containment measures while younger workers in sectors that are shuttered have the most to lose. On the latter, Buera et al. (2020) consider how suppression measures affect economic activity depending on the efficiency of financial sectors. More distorted economies are bound to suffer bigger economic costs, because the consequences of measures suppressing economic activity are amplified in their case.

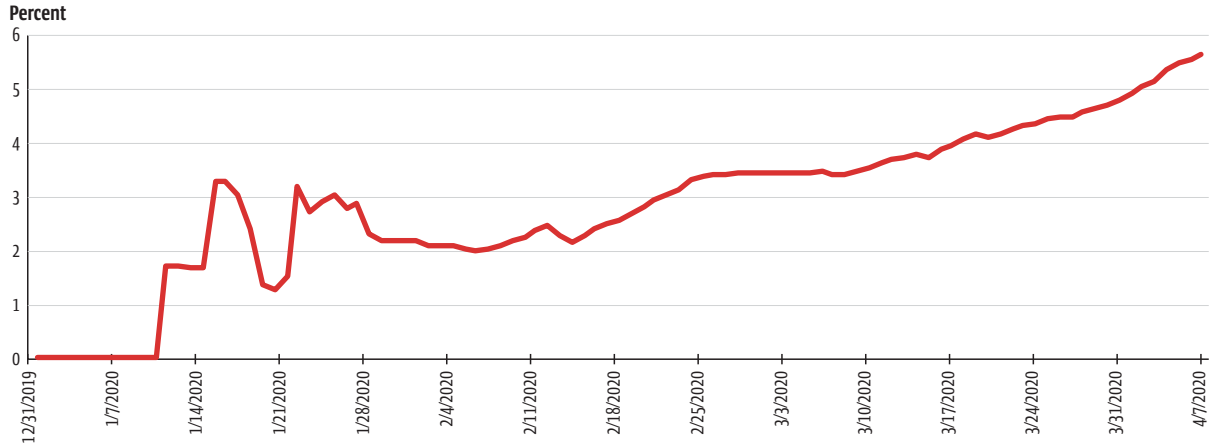
How large can the health cost be?

Managing the tradeoff between health costs and economic costs requires a robust assessment of the lethality of the epidemic. A standard measure in this respect is the case fatality rate (CFR), which indicates which percentage of infections end up in death. Obtaining reliable estimates of the overall CFR is critically important during the early phases of the epidemic. When plugged into the simulation models used to guide policy decisions, these estimates help anticipate the morbidity and mortality due to the spread of the virus. With a large CFR, the absolute priority is to contain the health costs, while a more modest CFR is consistent with greater attention to economic costs.

A naïve measure of the CFR is provided by the ratio of reported deaths due to Covid-19 to the number of known Covid-19 cases. By that measure, as of April 7, 2020 (when this report was going to print) there had been 1.24 million cases and 69 thousand deaths at the world level, which corresponds to a CFR of 5.6 percent. Ominously, this measure has been increasing quite steadily over time (figure 12).

However, the naïve CFR is a potentially biased measure of the true lethality of the disease, for two reasons. First, at any point in the time the outcome of the infection (recovery or death) is not yet known for all cases. In statistical terms, the distribution of health outcomes is right-censored. As some of the current cases will eventually turn out into deaths, the CFR is thus underestimated. But second, the number of deaths is known with more accuracy than the number of cases. Many of the infected people may not develop any symptoms or may experience mild symptoms only. As a result, they may not seek medical treatment, and their cases may go unnoticed. This second bias implies that the actual CFR could be lower than the naïve estimate.

Figure 12. The naive case fatality rate is increasing over time



Source: Own estimates based on data from the European Center for Disease Control.

Attempts to statistically correct these biases have yielded a wide range of estimates, most of them in the low single-digit percentages (Riou et al. 2020, Verity et al. 2020). At this level of lethality, the right-censoring of outcomes becomes a less significant source of bias than the partial testing of the population. Three months into the Covid-19 outbreak no country has reliable data on the prevalence of the virus in a representative random sample of the general population. In most cases, limited testing availability has led to restricting screening to patients with more severe conditions and to those more susceptible to serious complications. The increase in the naïve CFR observed over time suggests that estimation biases may be worsening as the epidemic progresses faster than testing capacity.

By now, many of the epidemiological simulations are based on figures from South Korea, where more systematic testing reduced the risk of missing asymptomatic cases, or cases with mild symptoms. For example, the analysis by Eichenbaum et al. (2020) mentioned above builds on the South Korean example to justify using a CFR of 1 percent.

The actual CFR could be lower. The one situation where an entire, closed population was tested was the Diamond Princess cruise ship and its quarantined passengers. The naïve CFR there was 1.0 percent, but this was among a largely elderly population, in which the death rate from Covid-19 is much higher. Projecting the Diamond Princess mortality rate onto the age structure of the US population, the death rate among people infected with the virus would be 0.125 percent. Further adjusting for right-censoring and for the different frequency of chronic diseases among these cruise passengers yields a range of estimates around 0.3 percent (Ioannides 2020).

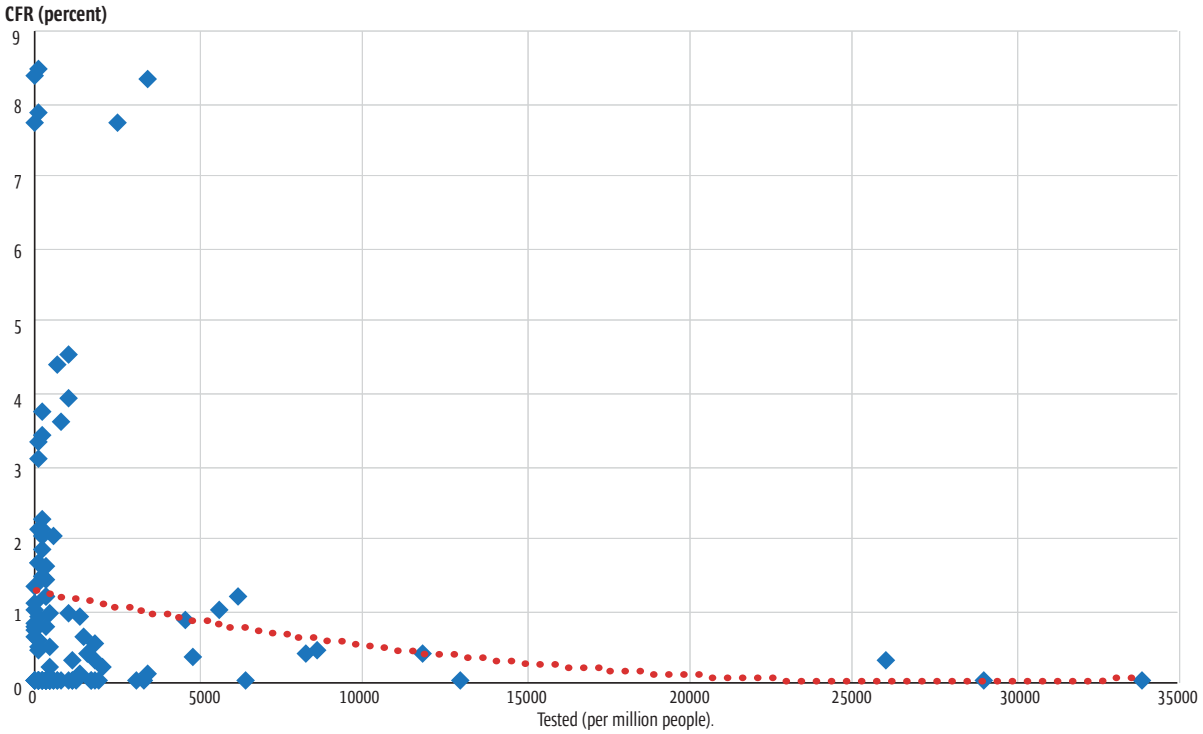
A simple but telling way to assess the potential bias from limited testing is to compute the naïve CFR for all countries and to plot the resulting estimates against the fraction of the population that was tested in each case. Reliable information on testing is sparser than information on cases and deaths, which is by now available on a daily basis. This results in less frequent data points per country. But even with this partial information, a clear pattern emerges: the larger the fraction of the population that was tested, the lower the naive CFR (figure 13).

Considering only countries where at least 5,000 people per million were tested, the average CFR is 0.36 percent. If the threshold is raised to 10,000 people tested per million population, the average CFR further drops to 0.135 percent. These figures are close to the adjusted estimates from the Diamond Princess cruise ship. But they are one order of magnitude lower than the estimates used for the epidemiological simulations which are informing policy decisions at present.

When making policy decisions, governments in developing countries may not have the luxury of reviewing epidemiological simulations calibrated to the demographic and health status of their own populations. As they decide how drastic their containment strategies should be, they need some rough estimate of how many lives are at risk, hence how much economic activity could be sacrificed to reduce the health cost.

In the absence of better information, the discussion above suggests that a ballpark estimate of the potential health cost could help coordinate decisions between those in charge of health policy and of economic policy. For example, if the true CFR was indeed close to 0.3 percent, and about half of the population was to become infected in the absence of containment measures, then about 0.15 percent of the population could die because of Covid-19.

Figure 13. The observed case fatality rate is lower when a large fraction of the population is tested



Note: Each dot represents a country at a point in time when reliable information on the extent of testing is available for such country.
Source: Own estimates based on data from the European Center for Disease Control.

However, the countries that have tested massively are also countries with higher capacity, and most probably better health systems. The virus could be more lethal in developing countries. Also, the share of the population infected could be higher than 50 percent, especially in dense and overcrowded urban environments with deficient access to water and sanitation. For these reasons, it may be prudent to consider a substantially higher estimate of the death toll for any ballpark calculation of the potential health cost of the epidemic.

How effective are containment measures?

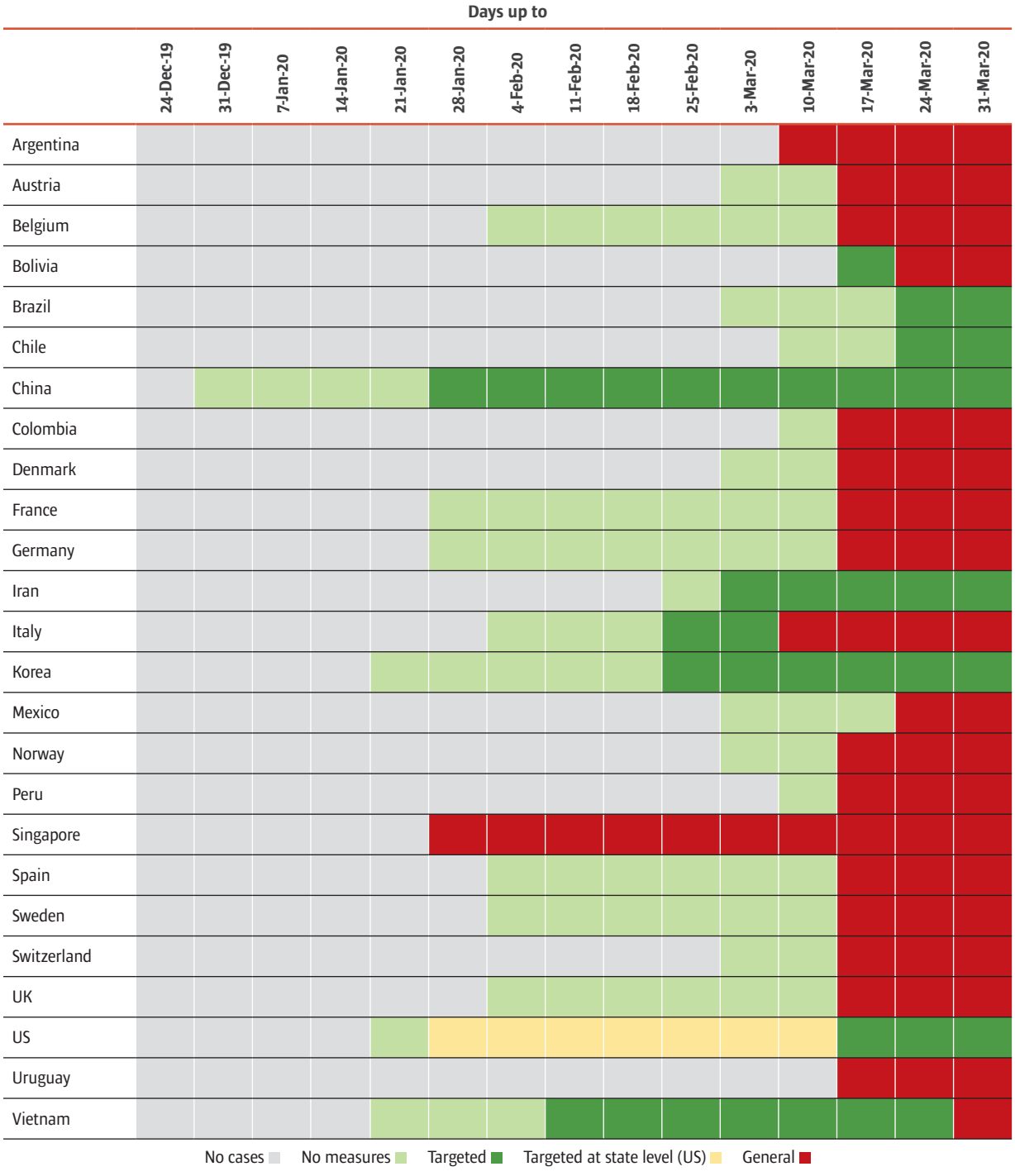
Over the last few months, governments around the world have adopted a wide range of containment measures to slow down the spread of the epidemic. These measures range from general population lockdowns to social distancing initiatives targeted to vulnerable population groups, such as the elderly. They include the suspension of classes and the shutdown of non-essential businesses. Some governments have closed airports, cancelled flights and imposed other restrictions to individual mobility. Compliance with the containment measures has been entrusted to socially responsible behavior in some cases; in others it has been enforced through active policing and tough sanctions. Initiatives are diverse enough to span from love rallies against the virus in Nicaragua to curfews in El Salvador and Guatemala.

This diversity of policy responses allows assessing which measures have been more effective at slowing down the spread of the epidemic. In the initial stages, comparisons across containment measures could only be carried out through simulations. This is how the influential study by the Imperial College in London concluded that suppression was the only viable approach to avoid overwhelming the capacity of health systems,

something that mitigation alone could not accomplish (Walker et al. 2020). Data on the way the Covid-19 epidemic has unfolded across countries allow revisiting this assessment.

An analysis conducted for this report involves daily data on the number of Covid-19 cases from 25 advanced economies and middle-income countries. For each of these countries, the measures adopted to increase social distancing are classified into two main groups: targeted and general. The former includes quarantines and restrictions that apply only to specific population categories or localities. The latter group captures national-level quarantines and lockdowns. An initial date is identified for each group of measures, in each of the countries. This initial date is counted from the day of the first diagnosed case in the corresponding country (table 3).

Table 3. The timing of containment measures in selected countries



Source: Own estimates based on multiple Internet sources.

Box 3. Modeling the effect of containment measures of the speed of the epidemic

The speed of infection *H* in country *i* on date *t* is defined as:

$$H_{i,t} = [Ln(C_{i,t+7}) - Ln(C_{i,t})]/7$$

where *C* is the cumulative number of Covid-19 cases. With this definition, the speed *H* captures the average daily growth rate in the number of cases in the following week.

Containment measures are summarized through dummy variables *T* and *G*, for targeted and general social distancing initiatives respectively. These variables have value 0 before the measures are adopted, and 1 subsequently. How soon or late these containment measures are adopted is captured through timing variables *ZT* and *ZG*. Both are measured in number of days from the first case reported up to the date where the policy is enacted.

The basic specification used for the econometric analysis is:

$$H_{i,t} = \alpha_i + \beta_{T1}T_{i,t} + \beta_{T2}T_{i,t-7} + \beta_{T3}T_{i,t-14} + \beta_{G1}G_{i,t} + \beta_{G2}G_{i,t-7} + \beta_{G3}G_{i,t-14} + \varepsilon_{i.t}$$

In this equation, the coefficients β_{tj} measure the impact of targeted containment measures on the speed of the epidemic *j* weeks after their adoption. The interpretation is analogous for the coefficients β_{Gj} in the case of general containment measures.

An augmented specification includes interactions with the timing variables *ZT* and *ZG*:

$$H_{i,t} = \alpha_i + (\beta_{T1} + \gamma_{T1}ZT_i)T_{i,t} + (\beta_{T2} + \gamma_{T2}ZT_i)T_{i,t-7} + (\beta_{T3} + \gamma_{T3}ZT_i)T_{i,t-14}$$
$$+(\beta_{G1} + \gamma_{G1}ZG_i)G_{i,t} + (\beta_{G2} + \gamma_{G2}ZG_i)G_{i,t-7} + (\beta_{G3} + \gamma_{G3}ZG_i)G_{i,t-14} + \varepsilon_{i.t}$$

Given the federal nature of the US, the robustness of the analysis is assessed by replicating it with the timing of measures defined at the state level, rather than at the federal level. The estimated coefficients do not change much as a result.

The data and results of the estimations are available on request.

In this analysis, the speed at which the infection progresses is measured by the growth rate of the number of cases. The growth in the number of deaths could have been used instead, as deaths tend to be more reliably estimated than cases. However, proceeding this way would have substantially reduced the number of observations available for the empirical analysis, because of the relatively long time that typically elapses between the first case and the first death.

The growth rate in the number of cases is computed on a daily basis, so that it captures a rolling week over time. The specification chosen for the data analysis allows identifying how the introduction of targeted or general containment measures affects the speed at which the number of cases progresses in each of the three weeks following their adoption. The empirical specification is such that the effectiveness of the containment measures also depends on how soon they are adopted, relative to the date of the first documented case in the corresponding country (box 3).

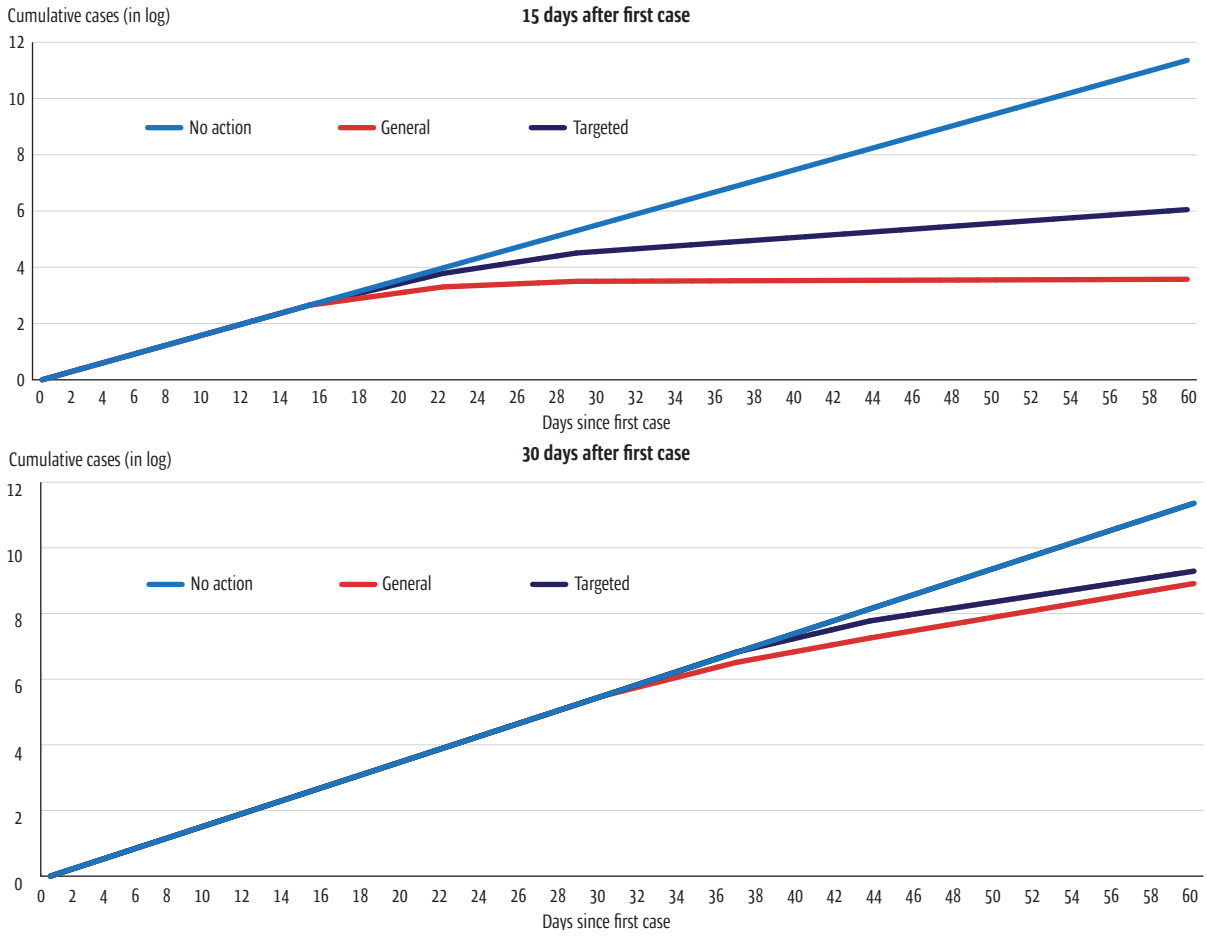
The results of the empirical analysis show that general containment measures always result in fewer cases over time than targeted measures. But both are considerably more effective if they are implemented shortly after the first Covid-19 case is registered. For example, targeted containment measures adopted 15 days after the outbreak of the epidemic do much more to slow down its progress than general measures adopted 30 days after the first case is registered (figure 14).

The health impact of containment measures may also vary across countries depending on their development level. The analysis above refers to advanced economies and middle-income countries, which typically can assess the progress of the epidemic and treat their infected populations. Low-income countries may not always have the same capacity.

Analyses based on epidemiological simulations suggested that health systems would be more quickly overwhelmed in low-income countries. In the study by the Imperial College the peak demand for critical care beds in a typical low-income setting outstrips availability by a factor of 25 under a mitigation strategy, in contrast to a typical high-income setting where this factor is seven. As a result, the study anticipated that the true burden from Covid-19 would be much higher in low-income countries (Walker et al. 2020).

Differences with more advanced countries are the compounded outcome of multiple disadvantages. In low-income countries many among those who fall sick never seek treatment, and even in normal times a vast number of deaths occur outside the health system. Among those who do visit medical facilities, many are incorrectly diagnosed, and very few are tested. Social distancing measures may also be ineffective at reducing contagion when many people live in slums, in crowded housing and without access to clean water or sanitation facilities.

Figure 14. The effectiveness of containment measures depends on the phase of the epidemic



Sources: Own estimates based on data from the European Center for Disease Control.

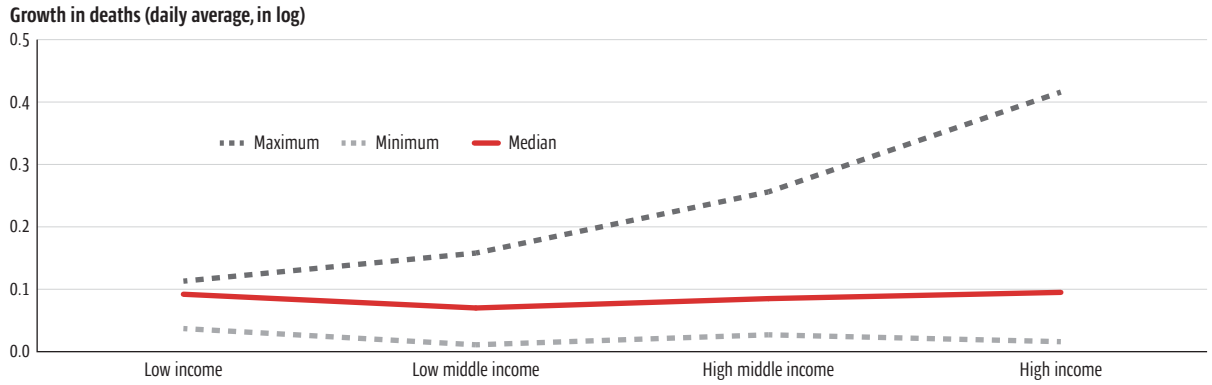
Because of these differences, comparisons involving countries at substantially different levels of development may be more meaningful if they focus on the number of deaths than on the number of cases. While both indicators are bound to suffer from measurement error, the speed at which the number of deaths increases may be more comparable across countries. Also, the comparison is restricted to countries that have already faced a Covid-19 outbreak, to account for the possibility that poorer countries may be infected later, due to their lower integration into the global economy.

Based on this metric, the median speed at which the epidemic progresses is quite similar across countries, regardless of their income level (figure 15). While the number of deaths doubles every seven days in the median high-income country, it does so every eight days in the median low-income country, and every ten days in the median low middle-income country. (The number of days it takes for deaths to double can be computed as Ln(2) divided by the daily speed at which the epidemic progresses).

On the other hand, the dispersion in speeds is much larger among richer countries than among poorer ones. In low-income countries, the days it takes for the number of deaths to double ranges from a minimum of six to a maximum of 19. Among high-income countries, the gap between minimum and maximum ranges from two days to 44.

This observation raises a disturbing dilemma. If the ability of governments to substantially affect the speed at which the epidemic progresses is indeed more limited in low-income countries, the adoption of containment measures that could dramatically affect economic activity would be more questionable.

Figure 15. The observed progress of the epidemic is slower in low-income countries



Source: Own estimates based on data from the European Center for Disease Control.

What is the economic impact of containment measures?

General and targeted measures to contain the spread of the epidemic may not have the same economic cost. Geographically localized quarantines and social distancing for vulnerable groups still allow the rest of the population to continue working. National-level lockdowns, on the other hand, take a bigger toll on production and consumption.

A crude measure of the impact of containment measures on economic activity is provided by NO2 emissions. As discussed above, these emissions originate in human activity, and come mainly from vehicle exhausts and factory chimneys. Two of the most dramatic Covid-19 outbreaks took place in China and in Italy. The daily level of NO2 emissions in these two countries can be assessed over time, as containment measures are put in place. In both cases, containment measures are concomitant with substantive declines in emissions, hence probably in economic activity (figure 16). The data also suggest that spontaneous social distancing might have preceded the adoption of containment measures by a few days.

A more rigorous analysis of the relationship between NO2 emissions and containment measures to slowdown the spread of the Covid-19 epidemic was conducted for this report. The analysis relied on data from the same 25 countries mentioned above, for which the timing of containment measures is well understood, excluding Sweden and Uruguay due to the lack of reliable NO2 data in their case. The empirical assessment used a dynamic specification in which the level of NO2 emissions at any point in time depends on both current and past containment measures (box 4).

The results of this analysis show that general containment measures are associated with strong and statistically significant declines in NO2 emissions, and their impact becomes stronger four weeks after their implementation. Targeted measures also have a negative impact on economic activity, as measured by NO2 emissions. But their impact is smaller in absolute terms, it becomes less significant a couple of weeks after their adoption, and eventually becomes statistically insignificant (figure 17).

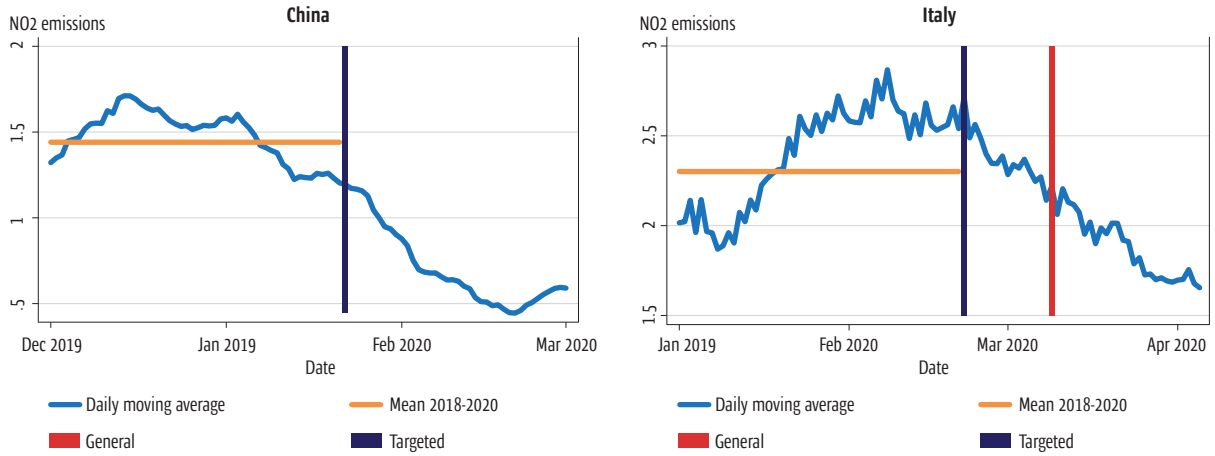
These estimates should be interpreted with the greatest caution. It could well be that general measures are more likely to be adopted than targeted measures when the spread of the epidemic is taking dramatic proportions. And in that case the decline in NO2 emissions could be linked to the overall health situation, rather than to the containment measures themselves. Therefore, the results do not necessarily imply a causal relationship between measures and economic activity.

Keeping this important caveat in mind, when putting together the estimated impact of containment measures on the number of Covid-19 cases and on NO2 emissions, it appears that targeted measures adopted early on could be a preferable strategy to contain the spread of the Covid-19 epidemic while minimizing economic costs.

How large may the overall economic cost be?

The overall economic cost of the measures being adopted to slowdown the spread of the Covid-19 epidemic is still unknown. But it will undoubtedly be very large. The decline in US stock market prices in recent months is comparable to that observed during the Global Financial Crisis, and even to that of the Great Depression (figure 18). This is despite the massive stimulus package adopted by the US government on March 25, 2020. There is also an expectation that the impact on the economy will be protracted, as a result of bankruptcies, disruptions in supply chains and high unemployment.

Figure 16. Emissions of nitrogen dioxide decline following containment measures



Note: NO2 emissions are measured in 1e15 molecules per square cm.
Source: Own estimates based on real-time NO2 data from www.temis.nl.

Box 4. Modeling the effect of containment measures on economic activity

The impact on economic activity of containment measures adopted to slowdown the spread of the Covid-19 epidemic can be estimated using a simple econometric model. With *Y* representing economic activity, and using the same notation as before to capture general and targeted containment measures, the basic specification is:

$$Y_{it} = \alpha_i + \beta_T T_{it} + \beta_G G_{it} + m_t + \varepsilon_{it}$$

In this expression i represents the country ant t the date, α_i are country fixed effects and m_t are monthly fixed effects. The dummy variables T_{it} and G_{it} capture whether targeted or general containment measures are in force in a specific county on a specific date.

This equation is estimated using a panel of 22 countries over three years, at daily frequency. The countries in the panel are those for which the timing of containment measures is well understood and data on nitrogen dioxide emissions is reliable. The dependent variable Y is measured as the 30-day moving average of NO2 densities for the entire country.

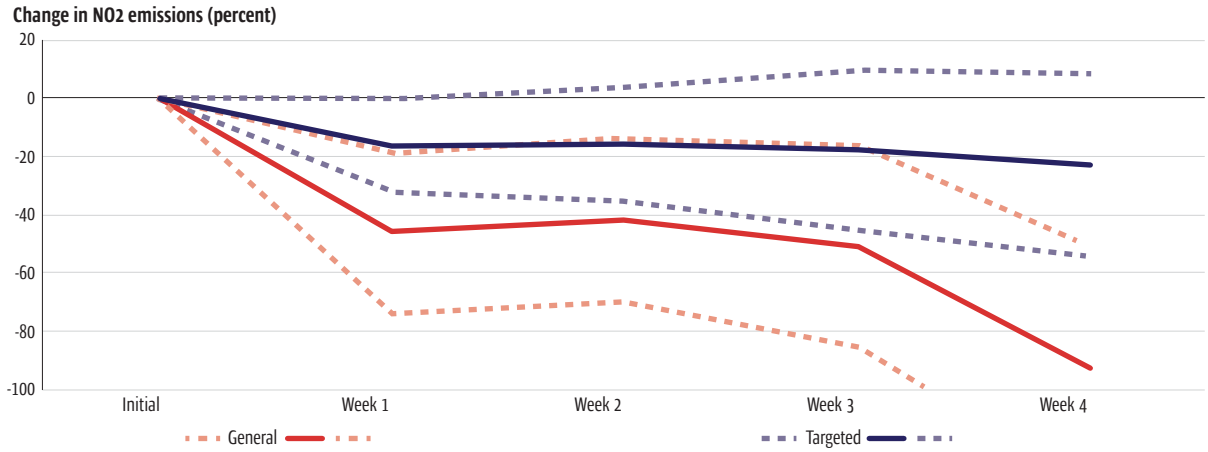
Containment measures can be expected to have a stronger impact on economic activity the longer they remain in place. To capture the dynamics of these accumulated effects, the basic specification can be expanded to include lagged values of the containment measures:

$$Y_{it} = \alpha_i + \sum_{j=0}^{3} \beta_T^j T_{i,t-7j} + \sum_{j=0}^{3} \beta_G^j G_{i.t-7j} + m_t + \varepsilon_{it}$$

This richer specification allows assessing the evolution in the accumulated change in NO2 emissions over the course of four weeks. For example, two weeks after introducing targeted containment measures, the cumulative impact on economic activity would be given by $\beta_T^0+\beta_T^1$.

A measure of the expected economic cost of the Covid-19 epidemic is provided by consensus forecasts. Large numbers of analysts predict, on a regular basis, economic growth in the following months and years. A daily average of these predictions can be produced for all major countries since the outbreak of the epidemic. The difference between the resulting growth forecast for 2020 and the corresponding forecast at the end of 2019 provides a crude but informative indication of the expected economic cost from the Covid-19 outbreak.

Figure 17. General measures have a larger economic impact than targeted measures



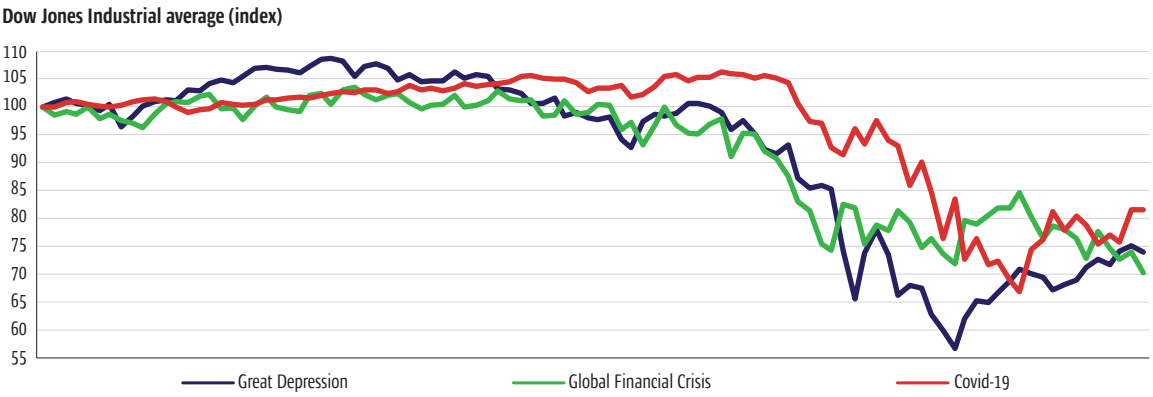
Note: The dotted lines indicate confidence intervals at the 95 percent level.
Source: Own estimates based on real-time NO2 data from www.temis.nl and data from the European Center for Disease Control.

For example, in late December 2019 analysts were on average expecting economic growth in the US to reach 1.8 percent in 2020. As of end-March 2020 the consensus forecast had dropped to -2.6 percent. Given the size of the US economy, a 4.4 percentage point decline in GDP growth for the year amounts to about USD 962 billion lost. And this is assuming that the economy bounces back and economic performance in 2021 is not affected by the Covid-19 outbreak, which is clearly optimistic.

The same calculation can be done for the Eurozone and for China, the other two major economic powerhouses of the world (figure 17). The numbers are staggering. Based on consensus forecasts as of end-March, the Eurozone and the US would experience an economic cost in the order of USD 1 trillion, while China would suffer a loss of about USD 600 billion.

This economic cost is the price paid for by societies in order to avoid a massive loss of life. From a policy perspective, it is worth asking how high the cost per life saved has been, and how it compares to the benchmarks typically used to guide other policy decisions involving a tradeoff between health cost and economic cost. Such benchmarks are part of the toolkit of agencies in charge of developing transport infrastructure, developing health and safety standards or setting environmental policy.

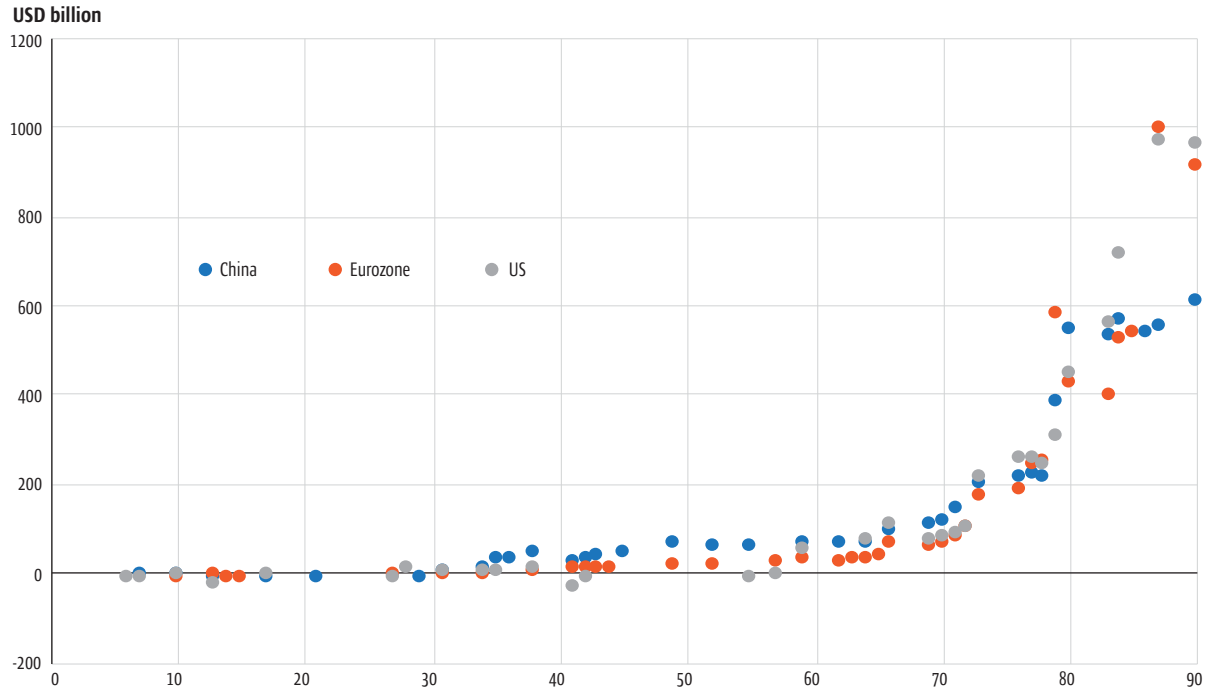
Figure 18. The Great Depression, the Global Financial Crisis and Covid-19



Note: Figures are represented from two months before the beginning of each crisis, which corresponds to August 1929, June 2008 and November 2019 respectively.
Source: www.macrotrends.net, S&P Dow Jones Indices, and Yahoo Finance.

A variety of methods are used to assess what such benchmarks should be. One approach is to estimate how much more compensation people demand in order to take jobs that entail greater health and life risks. Another approach is to compute the present value of the earnings foregone if a person was to die today. Yet another possibility is to ask people how much they would be willing to pay to reduce their likelihood of dying in any specific year. And some assessments focus of the subjective value of just one more "good year", as measured by quality-adjusted life expectancy.

Figure 19. Economic costs over time as seen by forecasters



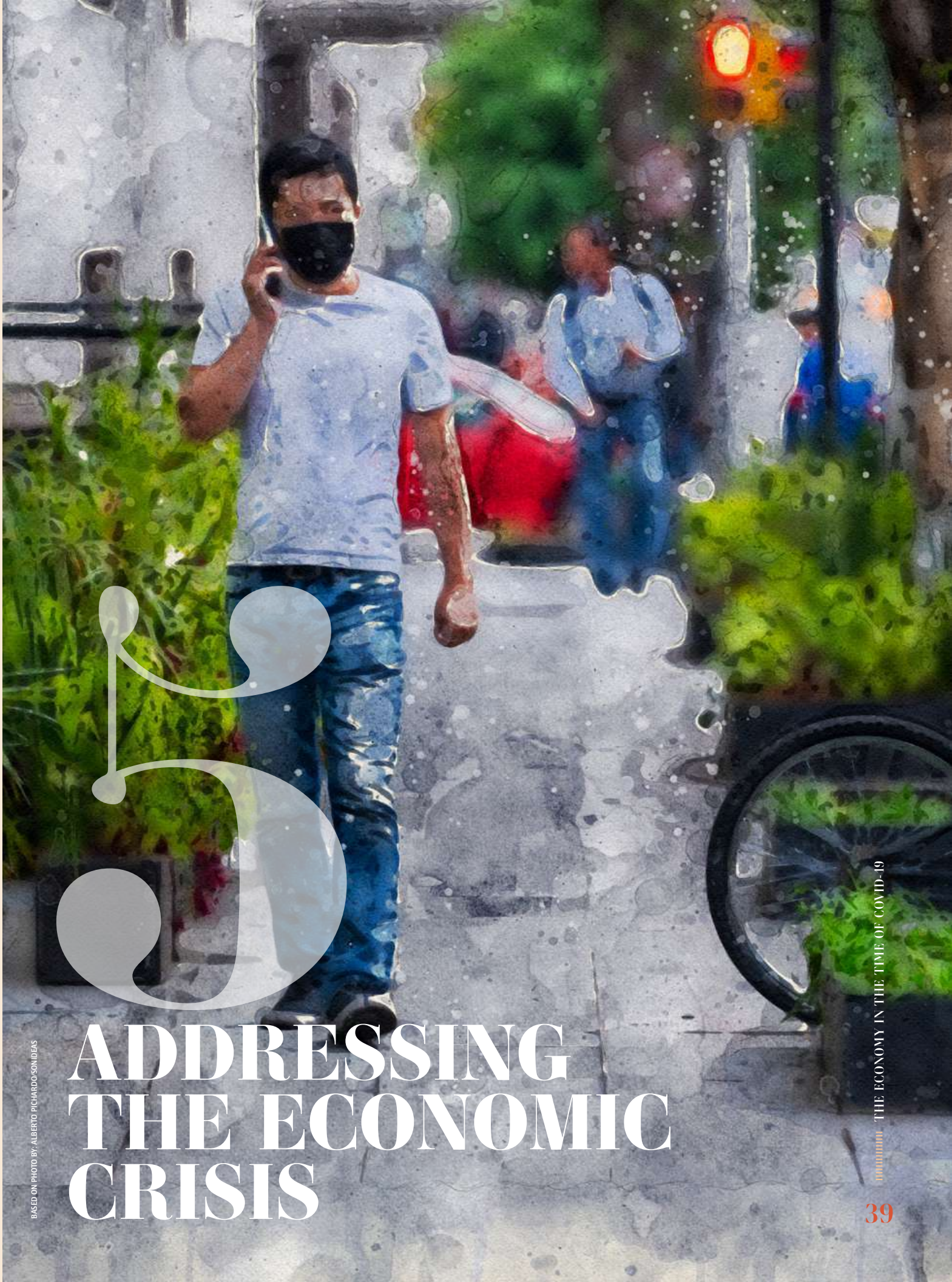
Source: Own estimates based on consensus forecasts and World Development Indicators.

All these approaches have methodological shortcomings. But their results are not widely different. For example, in the US many of the estimates of the value of a statistical life fall in a range of USD 6-9 million (New York Times 2011). It also appears that the statistical value of a life increases with the development level of the country considered.

These results refer to an average person, while it is clear that the virus affects different population groups differently, with those most likely at risk being older persons and those with preexisting medical conditions. From this perspective, the measures needed to contain the spread of the epidemic do not save an average life. Whether governments may want to assign different statistical values of life to people with different characteristics is debatable. Some may attach a higher value to the lives of young people, others to that of the most vulnerable citizens, and still others be neutral.

Assessing the economic cost per life saved requires an estimate of the death toll Covid-19 would have imposed in the absence of containment measures. For example, the influential epidemiological study by the Imperial College in London mentioned above predicted 2.2 million deaths in the US in the absence of decisive action to contain the epidemic. If 2 million deaths could be avoided thanks to containment measures, the economic cost would amount to less than USD 0.5 million per life saved (this is USD 1 trillion divided by 2 million). Given that the estimates for the statistical value of a life in the US fall in the range of USD 6-9 million, the cost of the containment measures adopted is totally justified.

Governments in developing countries could use similar back-of-the-envelope calculations to get a sense of the economic cost that could be justified in their case to contain the Covid-19 epidemic. The calculation would involve two key figures: the assessment of the number of deaths the epidemic would cause if left uncontained, and the value of statistical life used by agencies in charge of developing transport infrastructure, developing health and safety standards or setting environmental policy.



5 ADDRESSING THE ECONOMIC CRISIS

BASED ON PHOTO BY: ALBERTO PICHARDO/SOMIDEAS

The dramatic social distancing measures that were needed to contain the Covid-19 outbreak and save lives have resulted in a major economic crisis. The magnitude of the global decline in output will almost certainly be larger than that triggered by the Global Financial Crisis, if not by the Great Depression. But the very nature of the crisis is unprecedented. As in previous major downturns, developing countries are facing a decline in foreign demand and a drop of commodity prices. They are also being locked out from global financial markets, suffering capital outflows and experiencing a fall of remittances. But in addition to the demand shortfall and the financial stress, this new crisis involves a major supply shock. The response to such large and unprecedented crisis requires a substantial mobilization of resources, and short-term liquidity will be essential to keep basic services running, to buffer economic activity, and to protect human capital investments. But financial resources alone will not be enough. Clarity on which policy responses to adopt will be equally important.

The policy responses so far

A downturn of this magnitude and nature is not going to be reverted quickly. Even once the crisis bottoms out, widespread bankruptcies, increased unemployment and underemployment, and a depressed investment climate will make its effects persist. Moreover, developing countries are confronting this crisis from a weaker position compared to the Global Financial Crisis.

Current vulnerabilities can be highlighted through a simple comparison across countries and over time. A series of key indicators can be used to assess the room for maneuver faced by governments in the fiscal, monetary, financial and external areas. The global distribution of these indicators in 2007, as the Global Financial Crisis was unfolding, can be used to benchmark where countries in the region stood back then, and how that compares to their situation in 2019, right before the Covid-19 epidemic.

In such comparison, a key indicator flashes green when it is in the top global quartile of the distribution, with the cutoff points for the quartiles assessed in 2007. Similarly, it flashes red when it belongs in the bottom quartile, with yellow and orange in the mid-range. A key indicator that moves from green to red deteriorates dramatically, whereas there is a substantial improvement when it moves from red to green. Seen this way, the fiscal, monetary, external and financial position of countries in Latin America and the Caribbean is generally more challenging now than it was at the time of the Global Financial Crisis (Table 4). The only noticeable exception refers to inflation levels.

Countries in the region have adopted a range of policy decisions in response to the Covid-19 outbreak. The packages often include fiscal and monetary measures, such as increasing public spending, allowing tax deferrals or lowering policy rates. Regulations have also been eased, in a way that supports business continuity despite the social distancing measures in force. The packages adopted have also included social measures to help those most in need. And relatively unconventional measures have been adopted as well, such as temporarily allowing households and firms not to pay utility bills.

On the fiscal front, additional spending aims to protect the most vulnerable segments of the population, including those who cannot work or lost their jobs as a result of containment measures. Resources are transferred to workers and households by increasing unemployment insurance coverage and benefits, and by providing direct cash transfers. Other measures focus on supporting businesses, helping them cope with the downfall in revenue and encouraging them to keep their workers on their payroll. A typical measure in this respect is the postponement of tax payments and social security contributions.The size of some of the fiscal stimulus packages being adopted in the Latin America and the Caribbean region is substantial in some cases (figure 20). Relative to the sizes of their economies, the packages of countries such as Brazil, Chile and Peru are comparable in size to the packages adopted by advance economies.

The size of the fiscal stimulus packages being adopted in the Latin America and the Caribbean region is substantial in some cases (figure 20). Relative to the sizes of their economies, the packages of countries such as Brazil, Chile and Peru are comparable to those adopted by advanced economies.

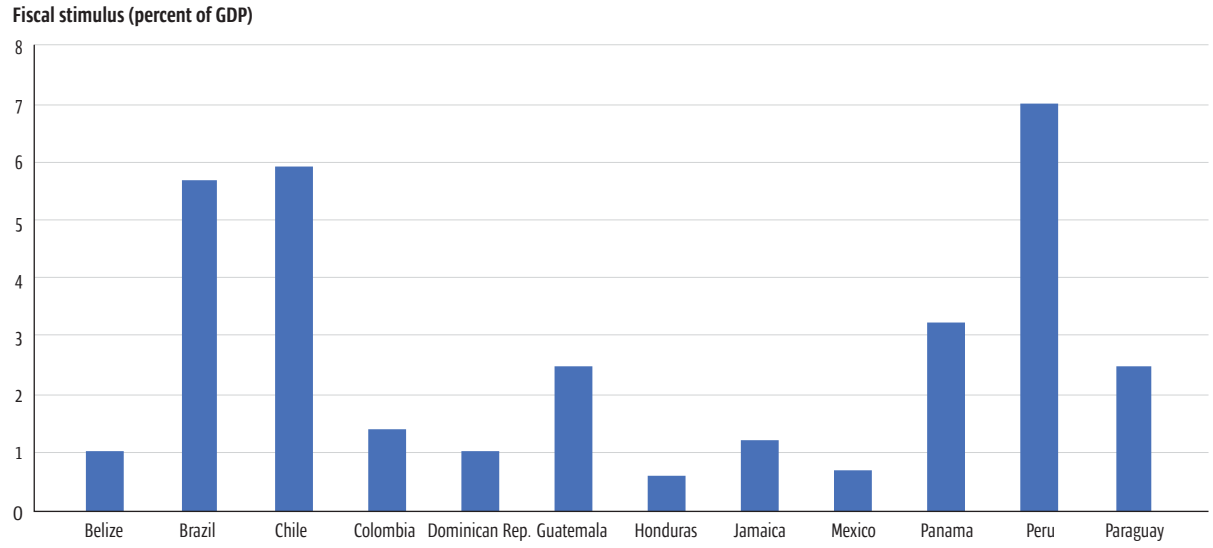
Table 4. Country preparedness at the onset of the Global Financial Crisis and today

Country	Fiscal						Monetary					
	Fiscal balance (percent of GDP)		Government foreign debt (percent of GDP)		Government interest payments (percent of expenditures		International reserves (percent of GDP)		Inflation (percent)		Bank credit to central government (percent of GDP)	
	2007	2019	2007	2019	2007	2019	2007	2019	2007	2019	2007	2018
Antigua and Barbuda												
Argentina												
Aruba												
Bahamas												
Barbados												
Belize												
Bolivia												
Brazil												
Chile												
Colombia												
Costa Rica												
Dominica												
Dominican Republic												
Ecuador												
El Salvador												
Grenada												
Guatemala												
Guyana												
Haiti												
Honduras												
Jamaica												
Mexico												
Nicaragua												
Panama												
Paraguay												
Peru												
St. Kitts and Nevis												
St. Lucia												
St. Vincent & Grens.												
Suriname												
Trinidad and Tobago												
Uruguay												

Table 4. Country preparedness at the onset of the Global Financial Crisis and today (continued)

Country	Financial						External					
	Bank liquidity (percent of bank assets)		Domestic credit to private sector (percent of GDP)		Non-performing loans to total gross loans (percent)		Current account balance (percent of GDP)		Short-term international investment position (percent of GDP)		Financial account balance (percent of GDP)	
	2007	2018	2007	2018	2007	2018	2007	2019	2007	2018	2007	2019
Antigua and Barbuda												
Argentina												
Aruba												
Bahamas												
Barbados												
Belize												
Bolivia												
Brazil												
Chile												
Colombia												
Costa Rica												
Dominica												
Dominican Republic												
Ecuador												
El Salvador												
Grenada												
Guatemala												
Guyana												
Haiti												
Honduras												
Jamaica												
Mexico												
Nicaragua												
Panama												
Paraguay												
Peru												
St. Kitts and Nevis												
St. Lucia												
St. Vincent & Grens.												
Suriname												
Trinidad and Tobago												
Uruguay												

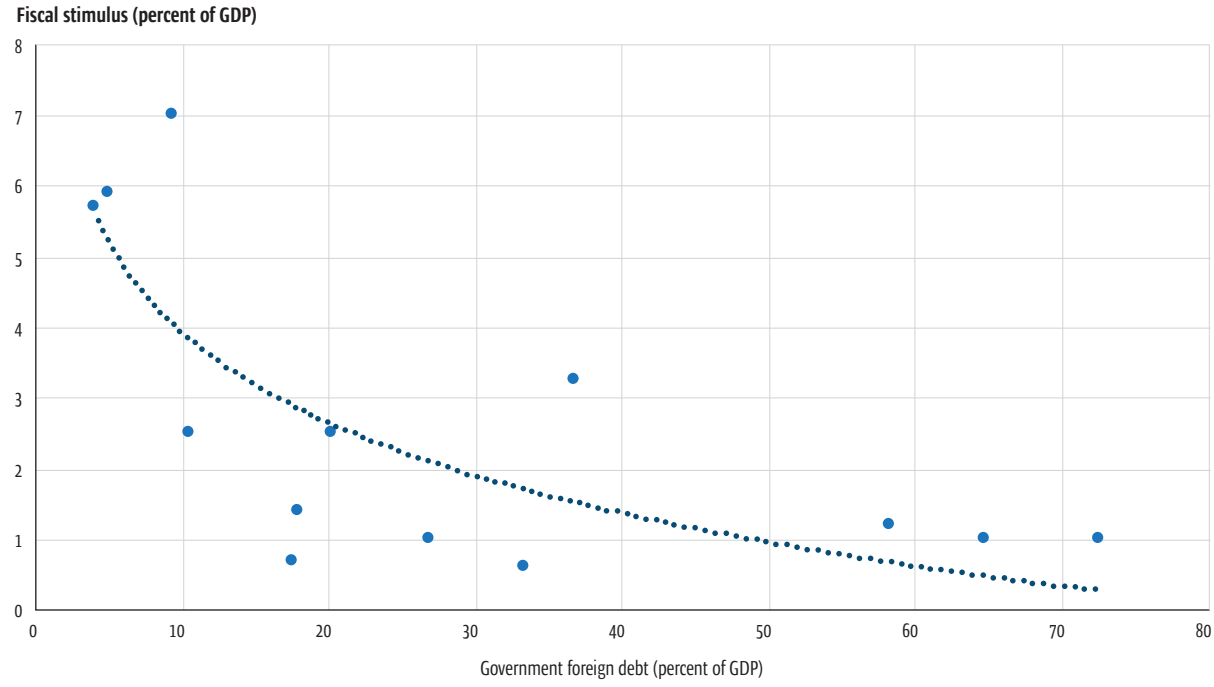
Figure 20. Several countries in the region have adopted sizeable stimulus packages



Source: International Monetary Fund and own estimates.

However, setting up sizeable fiscal support stimulus is something that only countries with fiscal space can envision. One crude measure of fiscal space is the level of the government's foreign debt, relative to GDP. The level of foreign debt is informative because defaulting on it can be particularly costly. Domestic creditors can be pushed to a renegotiation of their debt terms but doing so is more difficult with international bondholders and investment funds. Overall, it appears that countries whose government foreign debt is relatively low are implementing more sizeable fiscal stimulus programs (figure 21)..

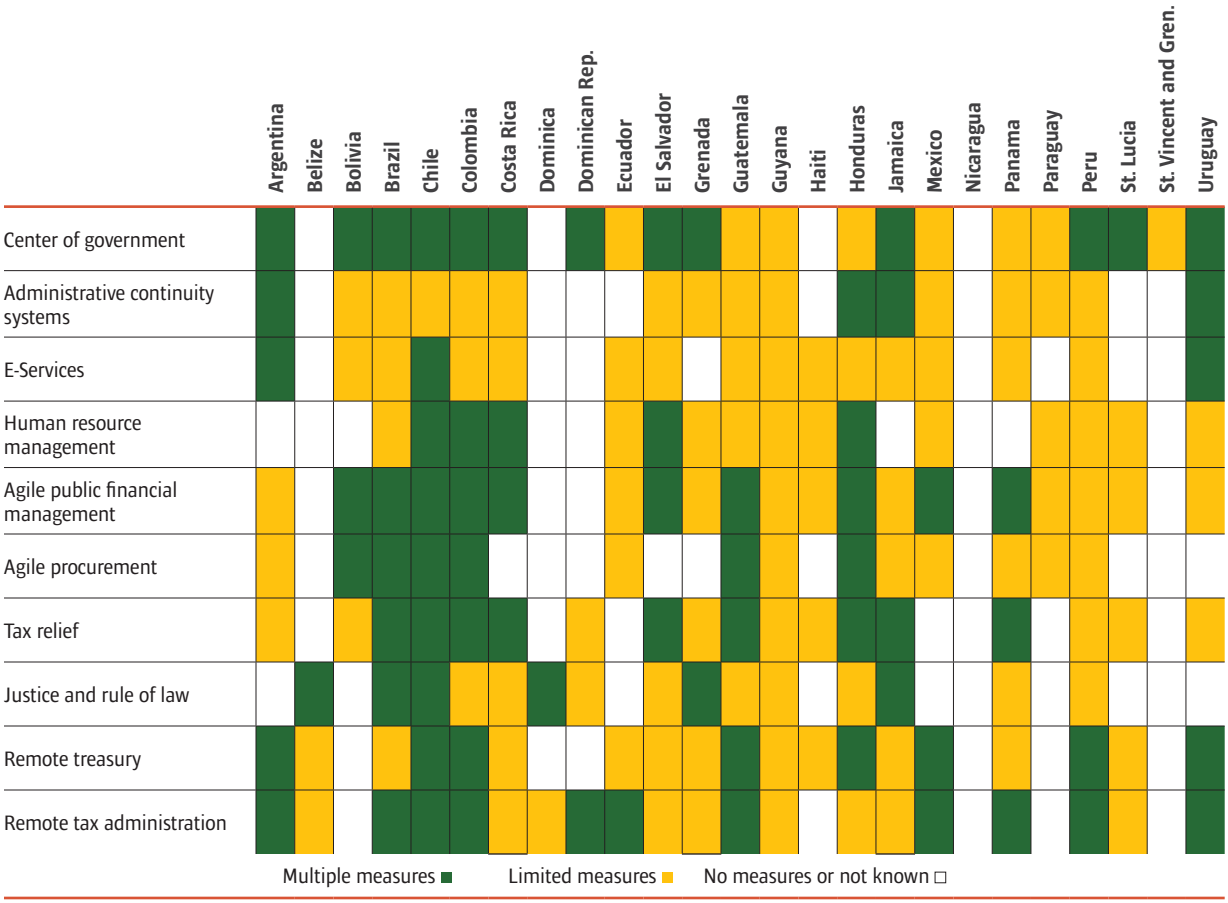
Figure 21. Stimulus packages are larger in countries with more fiscal space



Source: International Monetary Fund and own estimates.

Important measures have also been taken to facilitate the conduct of business during the social distancing period. Administrative processes such as procurement and the payment of taxes have bene simplified in several cases. Some governments have expanded e-government in a way that is bound to increase transparency and efficiency over time (table 5). All these initiatives are definitely welcome. They may not significantly boost economic activity in the short term, but they may limit the downfall.

Table 5. A variety of initiatives taken so far across the region



Source: Own estimates.

Protecting jobs and firms

The hardship from the crisis will be enormous for large segments of the population. Many households live from hand to mouth and they do not have the resources to cope with the lockdowns and quarantines needed to contain the spread of the epidemic. Many depend on farming or are self-employed, and informality is common even among wage earners. Protecting their earnings, and reaching them through transfers, is considerably more challenging than in more formalized economies. Many also depend on remittances, which are collapsing as economic activity shuts down in host countries, with migrant workers among the most affected.

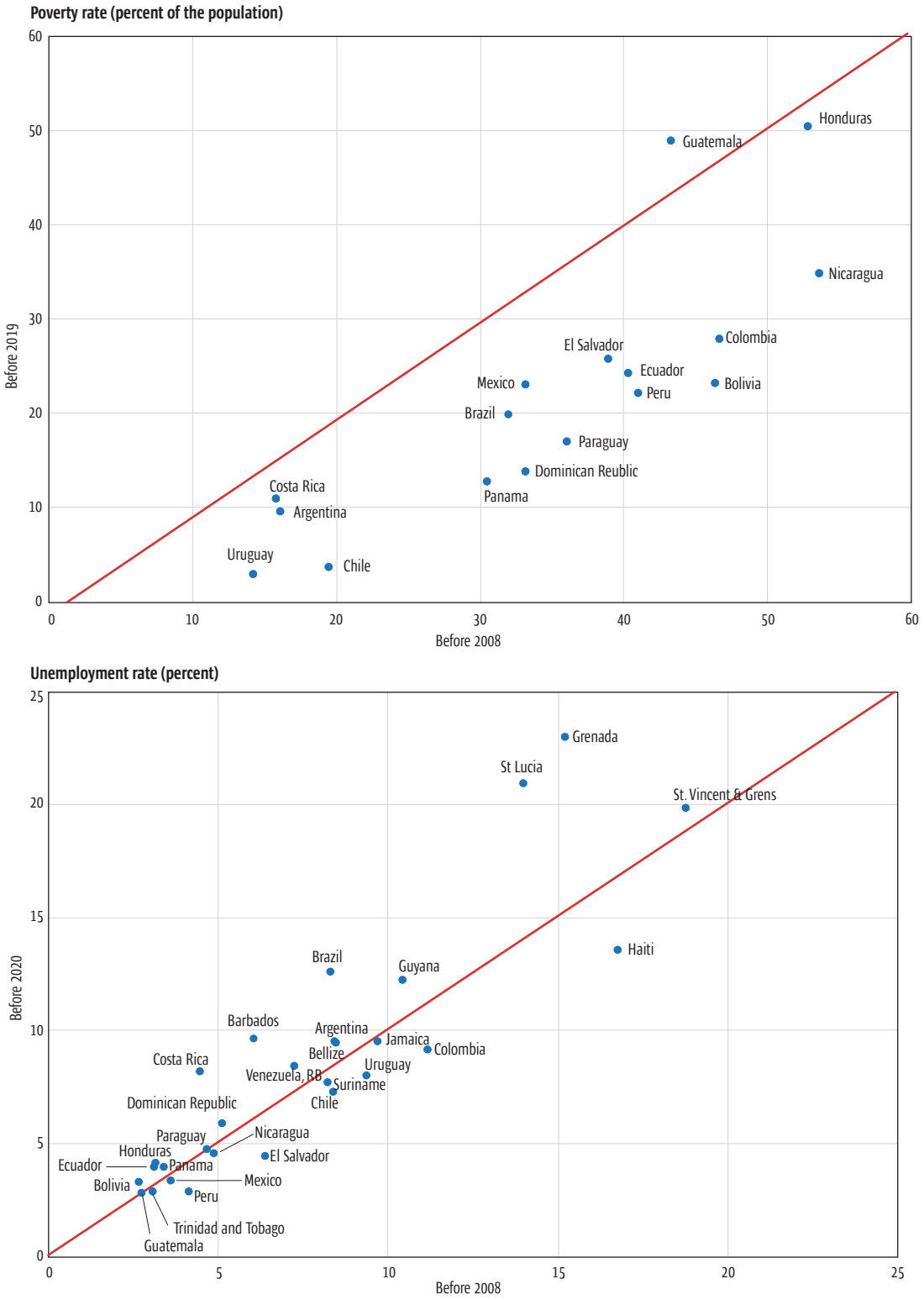
Human capital is also at risk in the current crisis. Falling incomes and disrupted supply chains raise the prospect of food insecurity. Many children depend on school meals, which become unavailable as education systems shut down. Malnutrition is a concern at every age, but in the early years of life it affects learning ability and becomes a permanent handicap.

The policy response needs to squarely tackle this social dimension of the crisis, a dimension that programs to help formal sector firms and workers cannot address. In doing so there is no real distinction between supporting micro-firms, supporting households and supporting communities.

The first line of response includes existing social protection and social assistance programs that can be rapidly scaled up and whose coverage can be extended. Many developing countries have tried and tested schemes, such as cash transfers and public works programs, that can be reinforced for this purpose. Such programs might be supplemented through mobile or digital payment channels where such platforms have sufficient coverage, identity can be established, and beneficiaries have accounts. Food distribution initiatives, especially while social distancing measures are in place, and community-driven development can also be part of the response package.

Protecting jobs is particularly important in Latin America and the Caribbean. Strong economic growth and inclusive social spending had substantially reduced poverty rates during the Golden Decade. But many of those who escaped poverty are still vulnerable to falling back into it. And in the meantime, rapid economic growth did much less to reduce unemployment levels (figure 22).

Figure 22. Lower poverty but higher unemployment than before the Global Financial Crisis



Source: Povcalnet and International Labour Organisation.

The standard advice in the presence of adverse shocks is to protect workers, not jobs. This advice is predicated on the grounds that most shocks affect specific firms, sectors, or locations, and allowing sectoral or spatial restructuring is bound to increase efficiency. In normal circumstances, protecting jobs slows down firm entry and exit and results in slower productivity growth. Protecting jobs through transfers may also operate as invitation for rent seeking and further undermine economic dynamism.

However, the standard advice does not hold when an economic shock affects mostly everybody at once. In addition to social considerations, employer-employee matches that would remain profitable when the economy goes back to normal may be permanently dissolved due to this temporary shock. Job-specific human capital may be lost, which will make the ramping up of production more difficult later on, as the crisis recedes.

Support to jobs and firms will have to be based on a dual approach. A first track should be geared to important employers or exporters, those with significant backward and forward linkages or those in sectors such as logistics and utilities that enable other economic activities. Due consideration should also be given to those firms that employ a larger share of women and socially disadvantaged groups.

Support for this first group of firms should be targeted to their circumstances. Instruments may include fiscal measures, such wage bill subsidies and the deferral of taxes and social security contributions. Access to subsidized loans, partial credit guarantees, and the provision of equity or quasi-equity could be effective as well.

The second track would focus on smaller firms that cannot be efficiently reached through tailored approaches. For firms in this group, the goal would be to ensure the availability of finance in a context of mounting working capital needs. Support would be triaged by commercial banks, microfinance institutions, digital lending platforms, corporate supply chains or other intermediaries.

An important question is whether support should be conditional on specific measures or behaviors by the beneficiaries. In some advanced economies support is linked to commitments to keep workers on the payroll and to caps on dividends and executive compensation. Compliance with such conditions would be more difficult to enforce in developing countries with low capacity. But it should be possible in the case of strategically important firms and sectors. And this kind of conditionality would contribute to the political viability of the support program.

Averting a financial crisis

Across Latin America and the Caribbean, the financial sector reaches the current crisis from a position of relative strength. At the onset of the current crisis, banks in the region were generally solvent and profitable. Most of them enjoyed considerable liquidity, and few were exposed to high foreign exchange risk (table 5).

However, risks are currently amplified, as the Latin America and Caribbean region is facing a strong short-term capital outflow (figure 23). Such kind of "sudden stop" is not new for the region. It happened in several opportunities during the last few years, starting with the Global Financial Crisis, followed by the global oil glut that started in 2014, and then with the reversal of US monetary policy from quantitative easing to quantitative tightening. But the capital outflows were never as large as in the current crisis. This sudden stop raises risks both for the financial sector and for foreign exchange markets.

Domestically, many debtors will be unable to service their obligations because of the crisis, and as a result they may call for renegotiations, or simply default. Lenders may become uncertain about the financial health of their customers. Information asymmetries may thus worsen and moral hazard may become more prevalent, amplifying the consequences of the initial economic shock.

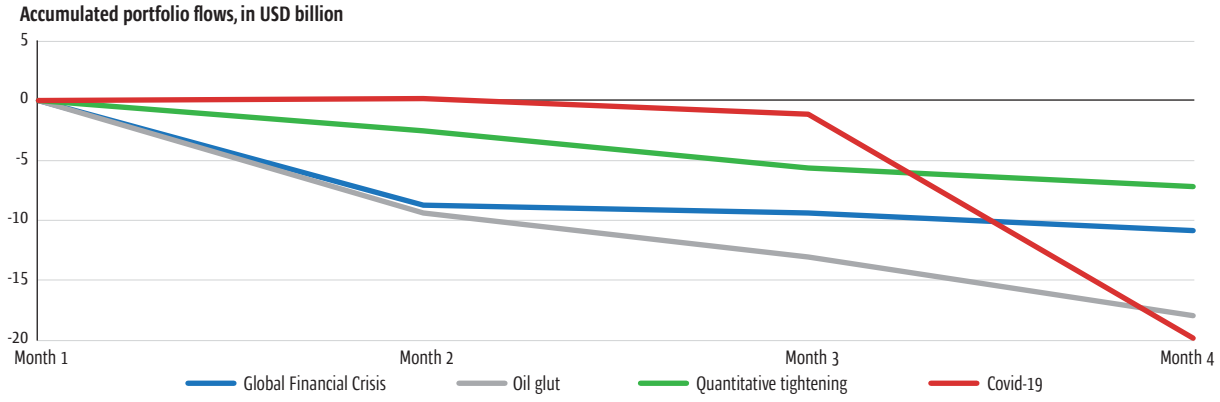
Averting a financial crisis should be a policy priority, given the international and domestic risks. In past economic downturns, when the financial sector experienced serious difficulties job losses deepened and the subsequent recovery was severely hampered. In financial crises both market infrastructures and the set of contracts that underpin the conduct of business need to be protected.

Table 6. Banking systems in the region are in a generally strong position

	Solvency		Liquidity		Profitability		Foreign exchange risk	
	Regulatory capital (percent of risk-weighted assets)	Tier 1 capital (percent of risk-weighted assets)	Private credit (percent of deposits)	Liquid assets (percent of short-term liabilities)	Return on assets (percent)	Return on equity (percent)	Foreign currency loans (percent of total loans)	Foreign currency liabilities (percent of total liabilities)
Argentina	17.5	15.5	169.2	65.5	6.1	53.2	23.2	28.3
Bolivia	13.0	10.6	98.7	42.8	1.5	20.2	1.2	12.9
Brazil	17.7	14.8	90.6	238.1	1.8	16.5	16.6	19.4
Chile	13.0	10.3	153.0		1.4	17.5	19.3	27.2
Colombia	17.6	12.2	229.8	40.0	2.9	17.3	5.0	11.4
Costa Rica	17.6	13.7	203.1	153.5	1.0	6.7		
Dominican Republic	17.7	14.8	116.5	398.0	1.8	14.9	23.3	28.8
Ecuador	16.7	15.0	105.4	28.2	1.8	12.3		
El Salvador	16.0	13.0	96.8	34.2	1.1	9.1	100.0	100.0
Guatemala	16.4	11.8	74.7	24.2	1.6	17.1	36.3	27.5
Honduras	14.1	8.7	112.7	38.6	2.1	19.6	30.4	29.8
Mexico	16.0	14.4	88.4	40.8	2.2	20.6	12.9	13.4
Nicaragua	19.5	11.5	92.6	69.2	1.4	8.8	92.2	72.3
Panama	16.5	17.8	129.0	33.8	1.4	12.1		
Paraguay	17.2	13.5	162.4	17.7	2.4	20.3	46.1	47.8
Peru	14.9	11.7	101.9	36.4	2.2	17.8	27.6	38.8
Uruguay	19.4	18.2		49.4	2.2	19.9	56.0	69.3

Source: International Monetary Fund.

Figure 23. Capital outflows have been larger than in any of the recent crises



Note: September 2007 is chosen as the initial month for the Global Financial Crisis, May 2014 the oil glut, January 2018 for Quantitative Tightening, and December 2019 for the Covid-19 crisis.
Source: EPFR Global.

In these circumstances, governments have an important coordinating role to play. As multiple obligations are bound to fall into arrears, processing debt renegotiations on a case-by-case basis will slow down the recovery and their resolution may create perceptions of unfairness. To address this risk, out-of-court debt restructuring may need to be simplified, guidance on regulatory relief measures provided, and bank resolution frameworks strengthened. Upfront blanket guarantees for bank deposits may help maintain the confidence of the public. Forbearance may also be needed; however, it should be used with utmost caution given the risks it entails.

More radical coordination measures may be considered as well, depending on the severity of the crisis. The stimulus packages introduced by advanced economies include debt moratoria. Another precedent worth considering are the administrative adjustments to debt repayment schedules introduced as part of the Latin American stabilization plans of the 1980s. Back then, a radical deceleration of inflation had made most debt obligations unaffordable, as their nominal interest rates incorporated the expectation of high inflation rates. These stabilization plans thus offered an automatic conversion of all debt payments in domestic currency to a much lower interest rate.

Finally, central banks and ministries of finance should get prepared to stabilize financial markets in the event of major disruption. This involves preparing crisis resolution frameworks that identify the measures needed to mitigate volatility and to handle disorderly market functioning. Advance clarity on how to preserve international reserves will be particularly important in this context.

How (not) to socialize the losses

The longer the crisis lasts, the more likely that liquidity constraints will become a solvency problem. In many contexts there will be a real loss of economic value, and a key question is who should bear the losses. From an economic point of view, the answer is simple: the losses should be centralized with the government to the extent possible.

There are two main justifications for this answer. First, a shock like the Covid-19 epidemic was essentially uninsurable, and it will affect individual firms and households in radically different ways. In this context, only the government can serve as an insurer of last resort. But second, the process to absorb the shock and distribute its cost needs to be perceived as socially fair for countries to maintain social cohesion. Ensuring that the socialization of the losses is seen as legitimate require active coordination and communication.

Confronted with this problem, governments in advanced economies have chosen to offer blanket guarantees and broad support to firms and households. This is an ideal solution as it ensures all economic agents that their unanticipated losses will be socialized and spread out over time. However, this ideal solution requires deep pockets, a luxury the many governments in Latin America and the Caribbean do not enjoy. The question is thus how to socialize losses, at least partially, when the blanket solution is out of reach.

Some ways to address this challenge may be expeditious but could eventually make things worse. For instance, households may be authorized to skip utility payments and to withdraw retirement savings. These responses certainly help in the short term, but they risk making infrastructure utilities and pension funds insolvent. Decades of policy reform efforts across the region have gradually allowed better cost recovery for many utilities and greater financial sustainability for old-age support systems. Losing these hard-won gains through stroke-of-the-pen measures is questionable.

Governments should rather make a clear policy statement on how they intend to manage the real losses of economic value that are bound to happen. Such statement would coordinate expectations and help economic agents adjust to the new situation, serving as the equivalent to a social compact on how to manage the crisis. Ideally, the statement should entail a commitment to helping the poorest and most vulnerable, to ensuring the stability of the financial sector, to protecting the financial viability of pension funds and infrastructure utilities, and to supporting strategically important sources of employment.

A social compact on how to socialize the losses also needs to be realistic on what is financially feasible in the short term. Lacking the deep pockets of advanced economies, governments in Latin America and the Caribbean may have to spell out clear priorities, and the sequence in which the commitments to socializing the losses will be honored, when resources allow to do it.

To cushion the economic shock governments may need to transfer downside risk and losses, where significant, to public balance sheets. Socializing the losses may require taking ownership stakes in financial sector institutions, through recapitalization and the absorption of non-performing portfolios, and in strategically

important employers. But there is a risk that instead of a policy of triage, diagnosis-based resolution, and early asset restructuring, a muddling-through approach prevails.

These moves may be necessary to prevent a financial crisis, to protect jobs and to revitalize private investment, but they will entail a change in the relationship between the public and the private sector, leading to a greater role of the state for possibly quite some time.

The prospect of an implicit nationalization of parts of the economy is worrisome, for two reasons. First, in countries with weak institutions sizeable state ownership opens the door to political patronage, to the distribution of favors, and potentially to corruption. And second, total or partial state ownership of important segments of the economy may undermine competition and erode dynamism over time.

The process of acquiring and managing assets needs to be perceived as transparent and professional to maintain confidence in the government. This may also allow decision makers to take urgently needed measures without fearing prosecution in the future.

Arrangements will need to be put in place to manage the newly acquired assets at arms' length from politicians. These arrangements need to ensure transparency and accountability, perhaps under the form of sovereign wealth funds or asset management companies that build on the best examples available for countries at similar development levels. Management skills from the private sector will need to be brought in, with reputable international partners contributing to the integrity of decisions.

In the medium term, the priority has to be the divestiture of state assets to the private sector. Individual cases will need to be reviewed, and balance sheet repair solutions be designed. Benchmark-linked sales of government shares in companies will have to be arranged. While this is not an immediate priority, government should communicate clearly on the direction of travel, establishing a timeline and setting up sunset clauses wherever appropriate.

COUNTRY BRIEFS

BASED ON PHOTO BY: MARIEL-RODRIGUEZ/UNSPLASH

Argentina

Recent developments

Argentina's economy is bracing for a large impact of the Covid-19 outbreak after having experienced a recession for the second consecutive year. GDP contracted by 2.2 percent in 2019 and informality and poverty rates increased while unemployment remained elevated. Inflation accelerated to 53.8 percent but has abated in early-2020, driven by tariff freezes and a stable exchange rate supported by currency controls. However, the peso continued to depreciate in alternative foreign exchange markets, against a backdrop of a more expansionary monetary policy. Budget cuts brought down the central government primary deficit to 0.4 percent of GDP in 2019, despite an increase in interest payments from 2.7 to 3.3 percent of GDP. The new government enacted fiscal measures to increase revenues and step-up redistribution to lower income groups, which have been reinforced as a response to the Covid-19 outbreak. Financial market turmoil brought by Covid-19 has increased country risk to its highest level in 15 years. Additional consolidation is not achievable in the current juncture. Facing liquidity constraints and interest payments evolving very rapidly compared with revenues, the government-imposed maturity extensions on some domestic bonds, initiated a debt-renegotiation process and has engaged with the IMF to discuss the terms of a potential future program.

Outlook

The severe impact of Covid-19 and containment measures will deepen the economic contraction and delay the recovery. Limited fiscal space is curbing the prospects for stimulus, which includes cash-transfers, wage subsidies to firms to avoid lay-offs and additional transfers to provinces and capital spending. GDP growth is projected to further contract in 2020 at -5.2 percent while unemployment, informality and poverty will continue to increase. Contingent upon a successful debt renegotiation and a short-lived fallout from COVID-19, economic activity is projected to slightly rebound in the fourth quarter of the year and continue the recovery in 2021-2022.

Risks and challenges

Substantial risks are on the downside. External risks stem from the commodity price shock and the impact of the COVID-19 outbreak, which depends on its duration, the severity of the transmission through different channels and their second-round effects. Domestic risks stem from an unfavorable outcome of the debt renegotiations. The impact of COVID-19 on output growth and financial market volatility adds to already high uncertainties on the amount of debt relief necessary to restore debt sustainability. An unsuccessful renegotiation could result in another sell-off round of Argentine assets, leading to pressure on official and alternative exchange rates, erosion of international reserves, acceleration of inflation, deepening and extending the recession, and increase unemployment and poverty.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.7	-2.5	-2.2	-5.2	2.2	2.3
Current account balance (percent of GDP)	-4.9	-5.3	-0.5	0.6	0.1	-0.4
Fiscal balance (percent of GDP)	-6.7	-5.2	-4.4	..	..	..
Debt (percent of GDP)	57.1	94.8	100.1	..	..	..
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	1.0	1.7	3.8	2.7	1.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2016-EPHC-S2 and 2017-EPHC-S2. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
"(b) Projection using average elasticity (2016-2017) with pass-through = 1 based on private consumption per capita in constant LCU. "

Brazil

Recent developments

Growth in Brazil remained weak at 1.1 percent in 2019, supported mainly by services and agriculture. Industry slowed due to weak iron ore production following a dam collapse, while manufacturing was held back by weak external demand, including from Argentina; exports faltered. Benign inflation, an uptick in the credit cycle, and a modest recovery in the labor market supported private consumption, while investment remained soft. Imports increased in line with the modest strengthening domestic demand and net exports contracted overall. As a result, the current account deficit widened, financed by FDI. In early 2020, portfolio outflows accelerated with the global spread of Covid-10 and an oil supply shock. The Brazilian central bank used some of its ample reserve in March to stabilize the exchange rate, nevertheless the currency lost about one-fifth of its value. With inflation expectations well anchored, the central bank countered the economic shock with further policy rate cuts. The government, having previously continued its fiscal consolidation path, confronted the Covid-19 crisis with a stimulus package in 2020, resulting in a significant increase in the primary deficit and higher levels of public debt.

Outlook

Brazil is expected to contract by 5.0 percent in 2020, facing three shocks: weak external demand, oil prices (Brazil is a net oil exporter), and the economic disruption from virus-containment. These shocks will reduce private consumption and may impact labor productivity, while unemployment is expected to rise. The global and domestic demand shock prompts a significant drop in investment. To counter the crisis, the government may require putting in place additional measures, not least to support struggling states. Some further monetary loosening is expected, although the policy rate is already significantly below the neutral rate. Assuming that the external and domestic shocks remain transitory, the economy is expected to rebound by the end of 2020 and in 2021, resulting in a growth rate of 1.5 percent in 2021 and 2.3 percent in 2022—still low overall, limiting room to accelerate poverty reduction.

Risks and challenges

Downside risks are significant, and will depend on the severity, duration, and effectiveness of containment measures, both globally and in Brazil. Deeper or longer health crisis could deepen and prolong the economic crisis. A deeper recession would also imply a softer rebound, as the disruption causes longer-term damage to firm and household balance sheets and the labor market. Inadequate implementation of the policy responses to the crisis may fail to mitigate impact on poverty or inequality, potentially fueling social discontent. Striking the right balance between effective relief and fiscal sustainability remains important. Sources of resilience include well-capitalized banks and a strong reserve position, mitigating the risks of financial contagion and sudden stops. Small and medium-sized businesses are particularly at risk and will require further support. Challenges to poverty reduction increased due to the economic downturn.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.3	1.3	1.1	-5.0	1.5	2.3
Inflation (Consumer Price Index)	3.4	3.7	3.7	3.4	2.9	3.2
Current account balance (percent of GDP)	-0.7	-2.2	-2.7	-1.4	-1.6	-2.1
Fiscal balance (percent of GDP)	-8.0	-8.1	-6.5	-8.9	-6.0	-7.0
Debt (percent of GDP)	73.7	76.5	75.8	85.9	87.5	89.8
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	4.4	4.4	4.4	7.0	6.5	6.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2015-PNADC-E1, 2017-PNADC-E1, and 2018-PNADC-E1.
(b) For 2020, projection using point-to-point elasticity (2015-2017) with pass-through = 0.87 based on private consumption per capita in constant LCU. For 2019, 2021, and 2022, projections use neutral distribution (2018) with pass-through = 0.87 based on private consumption per capita in constant LCU.
(c) Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

Mexico

Recent developments

Economic growth halted in 2019 as the expansion of economic activity turned into a marginal contraction of -0.1 percent. Private consumption growth dipped, whereas a change in public sector priorities and programs led to a slowdown of government consumption and a fall of public investment. Uncertainty around the trajectory of some sectoral policies, particularly in the energy sector, slowed private investment. The current account deficit narrowed significantly in 2019 due to import compression and strong remittances. Inflation pressures remained subdued as headline consumer price inflation converged to the Central Bank's 3.0 percent target by late-2019. With price growth slowing, the Central Bank reduced the policy rate from 8.25 percent to 6.50 percent from August 2019 to March 2020. Fiscal consolidation between 2017-19 enabled public debt stabilization. Despite the economic stagnation, both labor income growth and job creation increased in 2019, which along with generous social transfers, helped to reduce poverty in 2019.

Outlook

A significant contraction of the economy is expected for 2020 as a result of the COVID-19 global epidemic. Key components of aggregate demand will suffer significant declines. Slower exports will only be mitigated in 2020 by an even sharper import compression. A recovery in 2021 and 2022 in Mexico is predicated on the assumption of a rapid rebound in the U.S. economy. Adherence to overall fiscal prudence is expected to continue, even though a deterioration of revenue performance is projected in 2020. Overall revenues are expected to decline while a marginal increase is expected on the spending side. A re-prioritization of spending is expected to attend the health needs and to funnel social assistance to vulnerable groups. Public debt is expected to have a one-off increase due to the larger overall deficit in 2020 and the exchange rate depreciation effect on foreign currency debt. The slowdown in economic activity is expected to lead to an increase in monetary poverty in 2020. Employment is expected to decline in the formal sector forcing many into inactivity or informality, whereas labor incomes in the informal sector are also likely to decline.

Risks and challenges

The impact of the economic crisis on employment and labor incomes could further undermine the economy through lower consumption, hampering the recovery. Measures to support poor and vulnerable households as well as workers in the formal and informal sectors will require significant fiscal resources, while measures to support liquidity in the system and that of MSMEs will also be critical. Looking toward 2021, the recovery may be slowed if some residual sectoral policy uncertainty affecting private investment is not lifted. A steeper-than-anticipated deceleration in global and U.S. growth represents a significant downside risk to the outlook of a gradual recovery of growth and financial stability.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.1	2.1	-0.1	-6.0	2.5	2.5
Inflation (Consumer Price Index)	6.0	4.9	3.9	4.0	4.0	3.8
Current account balance (percent of GDP)	-1.7	-2.0	-0.2	-0.7	-0.7	-0.7
Fiscal balance (percent of GDP)	-1.1	-2.2	-2.3	-4.5	-4.0	-3.7
Debt (percent of GDP)	45.7	44.7	44.9	54.0	54.6	55.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	..	1.7	1.8	2.2	2.1	2.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2018-ENIGH. Actual data: 2018. Nowcast: 2019 - 2017. Forecast are from 2018 to 2021
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on private consumption per capita in constant LCU.

Barbados

A steep decline in growth is projected for 2020 due to the Covid-19 epidemic. The fallout to the tourism sector and disruptions to local production are expected to depress growth by some 8 percentage points, resulting in the third consecutive year of recession. The Government has requested an augmentation of US$ 100 million under the existing IMF program for emergency response to the crisis. Impacts on poverty will depend on the length and severity of the crisis. Strong rebound in growth is expected for 2021-2022, provided that the crisis is short-lived.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	0.5	-0.6	-0.1	-7.7	4.9	2.5
Inflation (Consumer Price Index)	4.4	3.7	4.0	3.8	4.0	4.0
Current account balance (percent of GDP)	-3.8	-3.7	-3.7	-5.9	-5.2	-4.9
Fiscal balance (percent of GDP)	-4.3	-0.3	2.5	-0.5	-0.1	0.2
Debt (percent of GDP)	158.3	125.6	115.9	123.0	115.1	107.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

Belize

Economic growth slowed in 2019, and a sharp contraction is projected for 2020 amidst the downturn in global economic activity triggered by the Covid-19 epidemic. The fiscal and external accounts are expected to worsen. High public debt levels will limit headroom for counter-cyclical fiscal policy to boost growth and support poverty reduction. Downside risks are very high given the country's high dependence on tourism and susceptibility to economic and natural disaster shocks.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.9	2.1	0.3	-3.9	1.0	1.5
Inflation (Consumer Price Index)	1.2	0.2	0.4	0.7	1.7	1.8
Current account balance (percent of GDP)	-7.8	-8.1	-10.0	-11.4	-6.3	-4.8
Fiscal balance (percent of GDP)[a]	-1.5	-1.0	-1.8	-4.0	-2.7	-1.2
Debt (percent of GDP)[a]	94.6	93.8	94.3	100.6	97.9	95.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Figures reflect fiscal years (FY) going from April to March.

Bolivia

Economic growth slowed in 2019, and GDP is expected to contract in 2020 due to impacts from Covid-19 and low oil prices, increasing poverty and inequality. Cushioning the effects of the crisis through short-term relief measures is paramount, but room for policy stimulus is limited. After the health emergency, Bolivia needs to improve the quality of expenditure for a quality fiscal consolidation and implement reforms to reignite private investment, create quality, formal jobs, and sustainably protect vulnerable segments of the population.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	4.2	4.2	2.7	-3.4	3.7	3.4
Inflation (Consumer Price Index)	2.8	2.3	1.8	1.7	2.1	3.0
Current account balance (percent of GDP)	-4.8	-4.7	-3.3	-5.3	-3.5	-3.2
Fiscal balance (percent of GDP)	-7.8	-8.1	-7.2	-8.0	-5.6	-3.6
Debt (percent of GDP)	51.2	52.8	57.4	69.2	70.1	69.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	5.8	4.5	4.3	5.1	4.9	4.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2011-EH and 2017-EH. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using annualized elasticity (2011-2017) with pass-through = 1 based on private consumption per capita in constant LCU.

Chile

Following a strong performance in 2018, growth decelerated sharply in 2019 due to prolonged civil unrest. Growth will turn negative in 2020, following the impact of Covid-19 and low copper prices, which added to the uncertainties around constitutional changes. Chile's massive counter-cyclical response will help cushion the crisis in 2020, and economic activity is expected to recover in the medium-term as the health crisis fades, and political consensus restores private confidence and contributes to a more equitable society.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.2	3.9	1.1	-3.0	4.8	2.8
Inflation (Consumer Price Index)	2.2	2.4	2.6	3.7	3.3	3.0
Current account balance (percent of GDP)	-2.3	-3.6	-3.9	-3.8	-4.2	-4.5
Fiscal balance (percent of GDP)	-2.6	-1.5	-2.7	-9.4	-5.7	-4.2
Debt (percent of GDP)	23.6	25.6	27.9	33.0	36.4	38.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.3	0.3	0.3	0.3	0.3	0.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2017-CASEN. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

Colombia

After strong growth in 2019, GDP is expected to decline in 2020, due to the Covid-19 epidemic, falling oil prices, and domestic containment measures. Countercyclical fiscal policies are expected to help reduce the adverse impact on consumption in part. The modest reduction in poverty in 2019 will likely be reversed in 2020. The depth and duration of the Covid-19 epidemic and economic recession are uncertain.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.4	2.5	3.3	-2.0	3.4	3.9
Inflation (Consumer Price Index)	4.3	3.2	3.5	3.4	3.5	3.5
Current account balance (percent of GDP)	-3.3	-3.9	-4.3	-5.3	-4.7	-4.7
Fiscal balance (percent of GDP)	-2.3	-2.2	-2.0	-1.5	-1.2	-1.1
Debt (percent of GDP)	49.1	52.2	50.9	53.1	51.9	49.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.9	4.1	4.0	4.3	4.3	4.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2017-GEIH. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using neutral distribution (2017) with pass-through = 1 based on GDP per capita in constant LCU.

Costa Rica

GDP will dip due to domestic and global measures taken in response to Covid-19, raising unemployment, poverty and inequality and putting on hold the Government's bold fiscal consolidation efforts. As restrictions are lifted, growth is expected to recover supported by accommodative monetary policy, stronger external demand and continuing structural reforms after completing OECD accession, along-side full-fledged fiscal consolidation efforts. Poverty and inequality improvements hinge on bracing labor demand among the less well-off and deepening the equity lens to fiscal consolidation.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	3.9	2.7	2.1	-3.3	4.5	3.5
Inflation (Consumer Price Index)	1.6	2.2	1.5	1.5	3.0	3.0
Current account balance (percent of GDP)	-2.9	-3.1	-2.4	-2.0	-2.2	-2.7
Fiscal balance (percent of GDP)	-6.1	-5.8	-7.0	-7.4	-6.5	-5.4
Debt (percent of GDP)	48.3	53.2	58.5	67.5	69.2	70.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.0	1.4	1.0	1.7	1.6	1.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2010-ENAHO and 2017-ENAHO. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using point-to-point elasticity (2010-2017) with pass-through = 1 based on GDP per capita in constant LCU.

Dominica

Dominica continued its recovery post Hurricane Maria, registering 9.6 percent real GDP growth in 2019. However, the Covid-19 shock will depress growth significantly in the short term. Medium-term growth prospects appear favorable as Dominica begins its transition to a fully climate and disaster resilient economy. Fiscal pressures will remain acute due to Covid-19 demands, ongoing recovery and reconstruction spending, and the demands of building a more climate-resilient economy.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	-9.5	0.5	9.6	-3.0	4.0	5.0
Inflation (Consumer Price Index)	1.4	1.4	1.8	1.8	2.0	2.0
Current account balance (percent of GDP)	-8.8	-44.8	-28.6	-24.8	-23.3	-18.1
Fiscal balance (percent of GDP)[a]	0.3	-19.7	-11.9	-7.1	-5.2	-3.5
Debt (percent of GDP)[a]	76.9	78.4	80.9	86.1	87.6	88.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal indicators are shown for the non-financial public sector (i.e. excluding central bank's quasi-Fiscal balances and debt).
(b) Calculations based on SEDLAC harmonization, using 2016-ENFT. Actual data: 2016. Nowcast: 2017-2018. Forecast are from 2019 to 2021.
(c) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

Dominican Republic

Following a period of sustained economic growth in the Dominican Republic, the Covid-19 is projected to trigger a slowdown and disrupt fiscal consolidation. The financial sector is well capitalized, and the current account deficit is projected to narrow as sharp contraction in imports offsets falls in remittances, tourism and other exports. Poverty is projected to increase in the wake of declining tourism and remittances. The main short-term risk is a sustained slowdown while long-term climate change risks remain.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	4.7	7.0	5.1	0.0	2.5	4.0
Inflation (Consumer Price Index)	3.3	3.6	1.8	3.0	3.0	3.0
Current account balance (percent of GDP)	-0.2	-1.4	-1.4	-0.7	-1.1	-1.6
Fiscal balance (percent of GDP)[a]	-2.9	-2.4	-2.3	-4.7	-3.4	-2.0
Debt (percent of GDP)[a]	36.9	37.6	40.4	45.3	48.2	50.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal indicators are shown for the non-financial public sector (i.e. excluding central bank's quasi-Fiscal balances and debt).
(b) Calculations based on SEDLAC harmonization, using 2016-ENFT. Actual data: 2016. Nowcast: 2017-2018. Forecast are from 2019 to 2021.
(c) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

Ecuador

Economic growth approached zero in 2019, affected by fiscal consolidation and social unrest. Growth will drop further in 2020, following the impact of Covid-19 and lower oil prices. While the government responded quickly to the first signs of the crisis, large fiscal imbalances and limited access to financing have con-strained the size and scope of response measures. As the crisis fades out, growth is expected to accelerate and return to a moderate, but increasing trend helped by investment-promoting reforms.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.4	1.3	0.1	-6.0	3.2	1.5
Inflation (Consumer Price Index)	0.4	-0.2	0.2	0.0	0.6	0.7
Current account balance (percent of GDP)	-0.1	-1.2	-0.1	-2.3	-1.0	-1.2
Fiscal balance (percent of GDP)	-4.5	-3.1	-2.8	-6.7	-3.5	-2.2
Debt (percent of GDP)	44.6	46.1	49.6	60.2	60.7	61.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.2	3.3	3.8	6.3	5.5	5.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2011-ENEMDU and 2017-ENEMDU. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using point-to-point elasticity (2011-2017) with pass-through = 1 based on GDP per capita in constant LCU.

El Salvador

The Covid-19 epidemic is negatively impacting growth and poverty reduction in El Salvador through the exports and remittances from US, but also due to local containment measures. As a result, GDP is expected to shrink by 4.3 percent and poverty is projected to increase by 4 percentage points. The country doesn't have sufficient buffers to face the crisis due to high public debt and large twin deficits. The epidemic risks weakening macroeconomic fundamentals further and impairing long-term growth and poverty reduction.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.3	2.5	2.3	-4.3	4.8	3.0
Inflation (Consumer Price Index)	1.0	1.1	0.1	0.0	0.6	0.8
Current account balance (percent of GDP)	-1.9	-4.8	-4.0	-1.4	-3.0	-3.7
Fiscal balance (percent of GDP)[a]	-2.5	-2.7	-2.7	-6.0	-4.5	-3.3
Debt (percent of GDP)[b]	73.7	72.8	73.5	80.7	81.2	81.3
International poverty rate ($1.9 in 2011 PPP)[c,d]	1.9	1.5	1.4	1.9	1.7	1.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Calculations based on SEDLAC harmonization, using 2017-EHPM. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(d) Projection using neutral distribution (2017) with pass-through = 1 based on GDP per capita in constant LCU.

Grenada

Negative growth is projected in 2020 due to the Covid-19 epidemic. Emergency response policies are expected to cushion the impact on businesses and provide unemployment benefits to workers. An overall fiscal deficit is anticipated for 2020 and missed debt target, which had been on track to reach 55 percent of GDP in 2020. The poverty impact will depend on the length and severity of the crisis. Strong rebound in growth is expected for 2021- 2022, provided that the crisis is short-lived.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	4.4	4.2	3.1	-7.3	6.1	4.4
Inflation (Consumer Price Index)	0.9	1.0	1.0	0.8	0.9	0.9
Current account balance (percent of GDP)	-12.0	-11.2	-11.4	-16.4	-14.5	-11.8
Fiscal balance (percent of GDP)	3.0	4.5	3.9	-0.8	1.8	1.8
Debt (percent of GDP)	70.1	63.5	59.6	60.0	55.6	52.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

Guatemala

The Covid-19 epidemic is negatively affecting the economy and output is expected to decline 1.8 percent in 2020. As economic activity in the US slows, remittances are expected to decline, weakening consumption and pushing households deeper into poverty. Social distancing measures introduced will also contribute to reducing activity and increasing poverty. However, the pace of the decline is paired with large downside risks steaming from the uncertain duration of social distancing measures affecting activity and the shape of the recovery.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	3.0	3.1	3.6	-1.8	4.4	3.1
Inflation (Consumer Price Index)	4.4	3.8	3.7	3.0	3.5	3.8
Current account balance (percent of GDP)	1.1	0.7	2.3	1.3	1.1	0.8
Fiscal balance (percent of GDP)	-1.4	-1.9	-2.3	-4.2	-3.8	-3.4
Debt (percent of GDP)	25.3	26.3	26.7	30.5	31.9	32.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2014-ENCOVI. Actual data: 2014. Nowcast: 2015-2018. Forecast are from 2019 to 2021.
(b) Projection using neutral distribution (2014) with pass-through = 0.7 based on GDP per capita in constant LCU.

Guyana

Guyana's economy expanded by 4.7 percent in 2019, with anticipated oil revenues spurring an expansion in non-traded sectors. Oil production is projected to boost GDP growth to unprecedented levels in 2020. While this could transform Guyana, there are risks, as illustrated by a still incomplete election outcome, and compounded by falling oil prices and the Covid-19 epidemic. Weak public service delivery and monitoring systems constrain the development of policies to reduce poverty and protect the vulnerable.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.1	4.1	4.7	51.7	8.7	2.6
Inflation (Consumption Price Index)	1.5	1.6	2.2	2.3	2.3	2.3
Current account balance (percent of GDP)	-43.9	-59.3	-67.3	-6.4	2.2	-0.2
Fiscal balance (percent of GDP)	-4.5	-3.4	-4.7	-3.6	-2.6	-0.7
Debt (percent of GDP)	51.4	55.0	54.3	45.6	41.4	39.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

Haiti

GDP is estimated to have contracted by 0.9 percent during Haitian fiscal year (HFY) 2019, amid political turmoil, social dis-content and protests against corruption. The economic slump coupled with a weak capability of revenue administration brought revenue down. Nonetheless, the fiscal deficit was contained due to severe cuts in capital investment and social programs, with attendant negative consequences on growth prospects and poverty reduction. The outlook is fraught with downside risks amid an unresolved political crisis and the Covid-19 epidemic.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.2	1.5	-0.9	-3.5	1.0	1.3
Inflation (Consumer Price Index)	14.7	13.5	17.2	20.0	18.0	17.0
Current account balance (percent of GDP)	-1.0	-3.6	-0.4	-6.1	-1.3	-2.7
Fiscal balance (percent of GDP)[a]	-1.9	-4.3	-4.0	-6.7	-4.6	-2.5
Debt (percent of GDP)[a]	35.6	38.3	43.3	49.7	53.0	54.1
Poverty rate (Moderate poverty terms)[b,c]	25.2	25.2	25.8	27.2	27.5	27.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Figures reflect fiscal years (FY) going from October to September.
(b) Calculations based on 2012 Enquete sur les Conditions de Vie des Menages Apres le Seisme (ECVMAS 2012). Actual data: 2012. Nowcast: 2013 - 2017. Forecast are from 2018 to 2021
(c) Projection using neutral distribution (2012) with pass-through = 1 based on private consumption in constant LCU.

Honduras

Growth decelerated in 2019 amid intensified social tensions, lower investment, weaker terms of trade, and severe droughts. Yet, high remittances fueled private consumption and likely improved 2019 poverty indicators. Honduras is expected to enter into recession in 2020 amid the Covid-19 epidemic, which will lead to increases in poverty and inequality as remittances decline and the most vulnerable lose income. The economy is expected to rebound in 2021 supported by a strong fiscal impulse, restoration of trade and investor confidence.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	4.8	3.7	2.7	-2.3	3.9	3.8
Inflation (Consumer Price Index)	3.9	4.3	4.4	3.5	3.8	4.0
Current account balance (percent of GDP)	-0.8	-5.3	-0.7	-0.3	0.6	0.4
Fiscal balance (percent of GDP)[a]	-0.8	-0.9	-0.9	-2.9	-2.6	-1.0
Debt (percent of GDP)[a]	40.2	42.3	43.4	48.1	50.5	51.2
International poverty rate ($1.9 in 2011 PPP)[b,c]	17.2	16.5	15.7	18.8	17.5	16.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal data refers to non-financial public sector.
(b) Calculations based on SEDLAC harmonization, using 2017-EPHPM. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(c) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

Jamaica

Jamaica's successful fiscal consolidation since 2013, which resulted in public debt declining by 54 percentage points of GDP, could be undermined by the ongoing economic impact of the Covid-19 epidemic. Real GDP is expected to contract in 2020 and the fiscal and external positions could worsen with the near closure of tourism and related activities. Poverty is also expected to increase. Downside risks remain very high.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.0	1.9	0.7	-2.9	1.0	2.0
Inflation (Consumer Price Index)	4.4	3.7	3.9	3.2	4.5	5.0
Current account balance (percent of GDP)	-2.6	-1.9	-2.4	-3.1	-2.6	-2.0
Fiscal balance (percent of GDP)[a]	0.5	1.2	0.0	-3.2	-1.9	0.4
Debt (percent of GDP)[a]	101.3	94.4	91.5	94.7	92.0	88.2
Poverty rate ($5.5 / day PPP2011 terms)[b]	19.3	18.8	18.5	19.3	19.0	18.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

Nicaragua

The past two years have been marked by a deep recession amid sociopolitical crisis. Investment and consumption fell sharply due to fiscal consolidation, credit crunch, and eroded confidence. The downturn is projected to deepen in 2020 due to the Covid-19 outbreak, further halting progress achieved in poverty reduction since 2005 on account of large employment contractions in labor-intensive sectors and stagnating wages. A slow recovery is expected amid the global rebound, constrained by tight financial condition and policy uncertainty.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	4.6	-4.0	-3.9	-4.3	1.9	0.7
Inflation (Consumer Price Index)	3.9	4.9	5.4	3.3	3.1	2.9
Current account balance (percent of GDP)	-4.9	0.6	1.8	2.9	1.9	0.8
Fiscal balance (percent of GDP)[a]	-2.0	-4.1	-1.8	-3.8	-3.5	-2.7
Debt (percent of GDP)[b]	34.5	38.0	40.1	43.8	44.7	45.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.
(d) Calculations based on SEDLAC harmonization, using 2014-EMNV.

Panama

Despite sound fundamentals, the economy will likely see negative growth in 2020 due to the impacts of Covid-19 as Panama has significant linkages with the global economy with major employment sectors such as services and construction impacted. Some positive contributions are expected from public expenditure though this will increase the fiscal deficit above 2019 relatively high levels. Poverty has only marginally decreased in 2019 and will expectedly increase in 2020 as a result of the Covid-19 outbreak, wiping out the gains in poverty reductions since 2017.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	5.6	3.7	3.0	-2.0	4.2	4.0
Inflation (Consumer Price Index)	0.9	0.8	0.0	1.8	1.9	2.0
Current account balance (percent of GDP)	-5.9	-8.2	-7.1	-5.4	-6.1	-6.7
Fiscal balance (percent of GDP)	-1.9	-2.9	-3.1	-4.3	-3.7	-3.0
Debt (percent of GDP)	37.6	39.4	46.4	49.3	48.2	47.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.5	1.7	1.7	1.7	1.7	1.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2011-EH and 2017-EH. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using annualized elasticity (2011-2017) with pass-through = 1 based on GDP per capita in constant LCU.

Paraguay

The Covid-19 epidemic hit Paraguay just as the country was embarking on a strong recovery path after growth had stalled in 2019. The global recession is likely to lead to a GDP decline of 1.2 percent in 2020. Thereafter, growth is expected to return to 4 percent, as the world economy recovers. This is subject to the downside risk of a slower than expected normalization of global markets. In turn, poverty is expected to increase in 2020, and income inequality to remain high.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	5.0	3.4	0.0	-1.2	5.6	3.9
Inflation (Consumer Price Index)	3.6	4.0	3.2	2.8	4.0	4.0
Current account balance (percent of GDP)	3.1	-0.2	-1.2	1.6	1.7	1.6
Fiscal balance (percent of GDP)	-0.5	-1.0	-2.4	-4.0	-2.4	-1.8
Debt (percent of GDP)	19.3	21.0	24.5	29.0	29.7	30.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.2	1.6	1.6	1.8	1.6	1.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2011-EPH and 2017-EPH. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using annualized elasticity (2011-2017) with pass-through = 1 based on private consumption per capita in constant LCU.

Peru

Following slow performance in 2019, the economy is expected to slide into recession in 2020 due to the Covid-19 epidemic. The slump in economic activity, bearing disproportionately on the lower-skilled and the vulnerable urban population, is expected to push poverty and inequality upwards. Given the likely temporary nature of the shock, growth is projected to rebound strongly in 2021. Peru's prudent macroeconomic management gives the country ample fiscal, monetary and external buffers to mitigate the impact of the shock.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.5	4.0	2.2	-4.7	6.6	3.5
Inflation (Consumer Price Index)	2.8	1.3	2.1	2.8	2.3	2.3
Current account balance (percent of GDP)	-1.3	-1.7	-1.5	-0.9	-2.0	-2.3
Fiscal balance (percent of GDP)	-3.0	-2.3	-1.6	-5.0	-3.0	-2.5
Debt (percent of GDP)	25.8	26.6	26.8	32.3	32.7	33.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.4	2.6	2.5	3.2	2.4	2.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2017-ENAHO. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(b) Projection using neutral distribution (2017) with pass-through = 1 based on GDP per capita in constant LCU.

St. Lucia

Economic growth is estimated at 1.4 percent in 2019, supported by strong performance in tourism. However, 2020 is expected to witness a recession with -7.2 percent growth, amid the outbreak of Covid-19, global recession and the potential delays of large infrastructure projects. The already limited fiscal space will be significantly narrowed after the crisis. Before Covid-19 the government was taking steps to prioritize public expenditure and implement a fiscal responsibility framework to anchor debt sustainability. Downside risks remain high.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.2	1.4	1.4	-7.2	5.8	3.7
Inflation (Consumer Price Index)	0.1	2.6	0.8	2.2	1.6	1.5
Current account balance (percent of GDP)	1.5	3.0	2.3	-5.7	0.6	0.9
Fiscal balance (percent of GDP)	-2.1	-1.5	-2.5	-6.1	-4.3	-3.8
Debt (percent of GDP)	64.6	63.7	65.5	80.6	81.8	81.0
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	4.7	4.7	4.6	5.0	4.7	4.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2016-SLC-HBS.
(b) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

St. Vincent and the Grenadines

GDP grew 0.4 percent in 2019 and growth in 2020 is projected to be negative due to the impact of the Covid-19 epidemic. After several years of minimal budget deficits and primary surpluses, the new port investment and the Covid-19 response will exert pressure on public finances. Prudent fiscal management will be required over the short to medium term to maintain fiscal and debt sustainability. An extreme weather shock combined with the impact of Covid-19 adds to the downside risk and could increase poverty.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.0	2.0	0.4	-4.0	2.0	3.0
Inflation (Consumer Price Index)	3.0	1.4	2.0	2.0	2.0	2.0
Current account balance (percent of GDP)	-17.2	-15.8	-16.1	-20.7	-19.2	-18.8
Fiscal balance (percent of GDP)[a]	-0.5	-0.9	-2.4	-5.1	-3.4	-2.5
Debt (percent of GDP)[a]	76.4	73.1	76.8	81.4	81.7	82.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Budget balances and public debt are for the central government.

Suriname

Growth in 2019 was estimated at 2.3 percent and is expected to turn negative in 2020 due to the Covid-19 epidemic. Increasing public sector, current account deficits, public debt coupled with the shortage of external financing raise the risk of exchange rate depreciation and inflationary pressures. Fiscal pressures will increase due to Covid-19 expenditure. Although the recently proposed limits on monetary financing of the fiscal deficit, and the potential upsides from the discovery of offshore could, despite the fall in oil prices, enable consolidation in the medium term.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	1.8	2.6	2.3	-0.7	1.3	2.0
Inflation (Consumer Price Index)	22.0	6.9	4.5	5.8	4.7	10.2
Current account balance (percent of GDP)	1.9	-3.0	-6.1	-7.6	-6.2	-4.1
Fiscal balance (percent of GDP)[a]	-8.8	-7.1	-8.6	-9.7	-8.8	-6.5
Debt (percent of GDP)[a]	74.7	72.4	72.0	75.1	79.4	79.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Budget balances and public debt are for the central government.

Uruguay

The economy is expected to enter recession due to the Covid-19 shock causing a blow on exports, consumption and employment. Fiscal deficits will surge, due to automatic stabilizers, and inflation will rise, due to exchange rate depreciation. As restrictions are lifted, rising domestic and external demand and large infrastructure investment, will boost growth in late- 2020 and 2021. When growth recovers, the Government is expected to implement an already-announced fiscal consolidation plan, avoiding negative effects on poor and vulnerable families.

Selected key macroeconomic indicators

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	2.6	1.6	0.2	-2.7	5.5	3.0
Inflation (Consumer Price Index)	6.2	7.6	8.2	10.0	8.0	7.5
Current account balance (percent of GDP)	0.8	-0.6	-0.4	-1.0	-1.2	-0.7
Fiscal balance (percent of GDP)[a]	-3.5	-3.7	-4.2	-6.1	-4.5	-3.7
Debt (percent of GDP)	65.3	67.6	68.9	71.6	72.8	73.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.1	0.1	0.1	0.1	0.0	0.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Excluding revenues associated with the "cincuentones".
(b) Calculations based on SEDLAC harmonization, using 2012-ECH and 2017-ECH. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.
(c) Projection using point-to-point elasticity (2012-2017) with pass-through = 1 based on private consumption per capita in constant LCU.

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