Box 3

THE COVID-19 PANDEMIC IN LATIN AMERICA AND ITS ECONOMIC EFFECTS

This early-release box was published on 8 September

The COVID-19 pandemic reached Latin America[1] somewhat later than it reached Europe and the United States and, in general, the region has still not managed to contain its spread. Indeed, since June, Latin America has become the global epicentre of the pandemic, recording almost half of all COVID-19 daily deaths worldwide (see Chart 1). In total, since the onset of the pandemic, there have been approximately 260,000 COVID-19 deaths in the region, 32% of the world total, when it accounts for just 8% of the global population.[2] And this, despite the fact that, when the number of infections was still low, several Latin American countries adopted confinement and social distancing measures similar to those implemented in other parts of the world in an endeavour to contain the spread of the virus (see Charts 2 and 3). Some of the region's structural characteristics – such as high poverty levels, lower institutional quality compared with other emerging economic areas, high informal employment rates, the relative fragility of health systems (and the difficulties the lower income groups have accessing these systems) and the high proportion of the population living in urban areas – have heightened the region's vulnerability to the pandemic.

The data on the real number of COVID-19 cases in Latin America present the usual limitations of international statistics, exacerbated in the region by the low level of testing being done in some countries.[3] Brazil and Mexico, which are the two countries with the highest population in the region, have the highest numbers of infection, verging on 3.9 million and 600,000 cases, respectively. They also have the highest number of COVID-19 deaths: over 121,000 in Brazil, second only to the United States, and over 64,000 in Mexico, behind only the United States, Brazil and India (see Charts 4 and 5). However, in per capita terms, Peru has the highest ratio worldwide with almost 87 deaths per 100,000 inhabitants, while the ratio is between 50 and 60 per 100,000 in Chile, Brazil and Mexico (see Chart 6). The situation is less negative in Colombia (around 38 deaths per 100,000 inhabitants) and especially in Argentina where the ratio is under 20, although this is still above the overall figure worldwide (11 deaths per 100,000 inhabitants).

The negative economic effects of the pandemic in the region arise through different channels,[4] the most important of which, on account of their scale, are the lockdown measures. As Chart 7 shows, economic activity began to fall sharply in March and continued to do so until April or May, according to the country considered. Peru, where activity contracted by more than 35% in April compared with February, was particularly hard hit, whereas at the other end of the scale, activity in Brazil declined by just 15% compared with February. The main reason for these differences between countries is the different level of stringency of the national lockdown measures. Indeed, Charts 8 and 9 show a high and significant negative correlation between economic activity and the lockdown indices, in terms of mobility restrictions and the stringency of the confinement measures.

The national accounts figures for 2020 H1, and especially for Q2,[5] also reflect the extent of the economic contraction in the region (see Chart 10). The main reason for this is the change in consumption and private investment, which resulted in large negative output gaps that only began to narrow very slowly from May or June as lockdown measures were eased. For LATAM-6 overall, the quarterly rate of decline of GDP in Q2 was more than 14%, higher than that observed in almost all regions worldwide, albeit as indicated above with considerable cross-country differences. Thus, for example, GDP in Peru contracted by more than 27% while in Brazil it did so by 9.7%.

This collapse in activity occurred despite the economic authorities' rapid and robust response to the pandemic, both from a fiscal and a monetary standpoint. In most cases these responses were larger than those observed during the 2008-09 financial crisis. The governments of Brazil, Chile, Colombia and Peru, for example,

1 The box focuses mainly on the sub-group of economies with the highest GDP in the region – known as LATAM-6 – comprising Brazil, Mexico, Argentina, Colombia, Chile and Peru.

2 In per capita terms, since the start of the pandemic there have been 41 COVID-19 deaths per 100,000 inhabitants in Latin America, well above the 11 per 100,000 recorded at global level.

3 In accordance with www.worldometers.info which collects data from national and international statistical sources (such as, for example, Johns Hopkins University), only Chile ranks among the 50 countries in the world that are doing the most testing per capita (125 tests per 1,000 inhabitants). The situation in Mexico is particularly delicate, where the figure is only 10 tests per 1,000 inhabitants.

4 For a detailed description of the different channels, see "Report on the Latin American Economy. First half of 2020", Analytical Articles, *Economic Bulletin* 2/2020, Banco de España..

5 All the countries analysed recorded negative quarter-on-quarter growth rates in 2020 Q1, with the exception of Chile. Activity recovered in Q1 in Chile, but this was mainly on account of the decline recorded in 2019 Q4 as a consequence of the increase in social unrest.

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THE COVID-19 PANDEMIC IN LATIN AMERICA AND ITS ECONOMIC EFFECTS (cont'd)

Chart 1
DAILY COVID-19 DEATHS

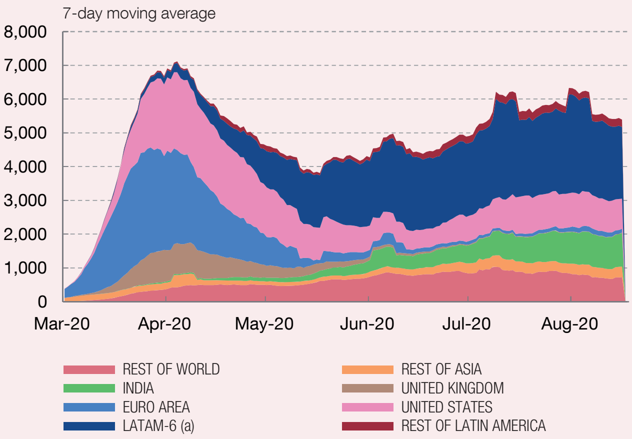


Chart 2
MOBILITY INDICATORS. CONSUMPTION (b)

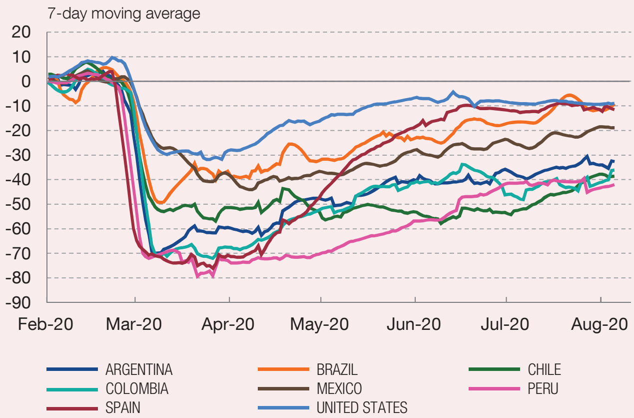


Chart 3
GOVERNMENT RESPONSE STRINGENCY INDEX (c)

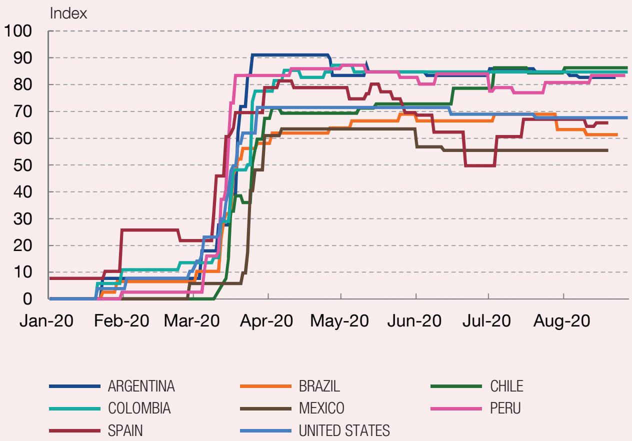


Chart 4
COVID-19 DEATHS IN LATIN AMERICA

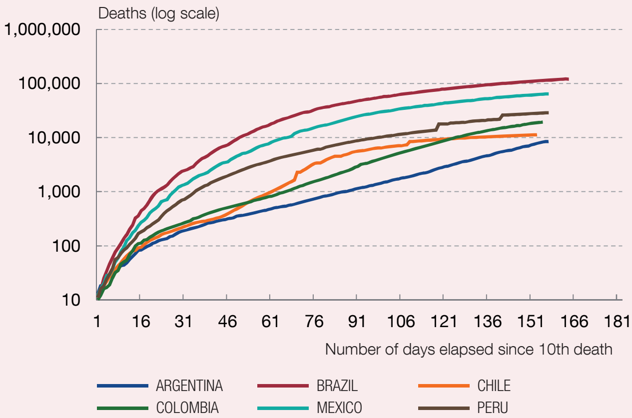


Chart 5
COVID-19 MORTALITY RATE IN LATIN AMERICA

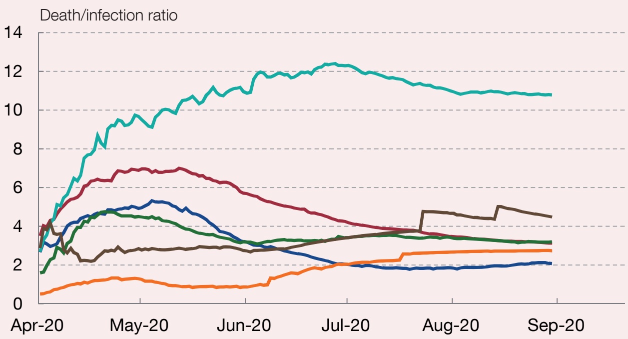
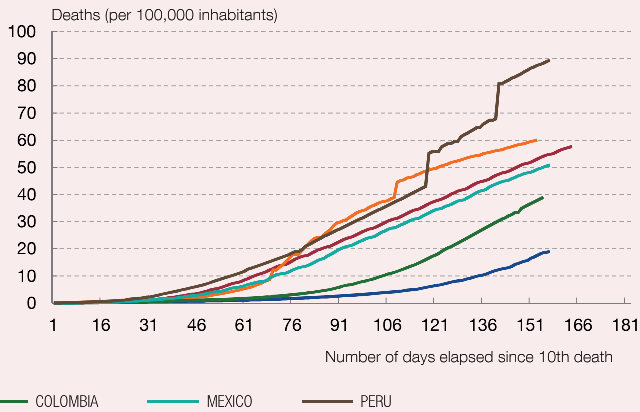


Chart 6
COVID-19 DEATHS IN LATIN AMERICA



SOURCES: Johns Hopkins University, Google (Global Mobility Report) and University of Oxford.

a LATAM-6 is a sub-group of the economies with the highest GDP in the region, comprising Brazil, Mexico, Argentina, Colombia, Chile and Peru.
b Consumption-related mobility indicators, with consumption the average of "retail and recreation" and "grocery and pharmacy".
c Synthetic index devised by the University of Oxford, which assesses the degree of stringency of the lockdown measures adopted by each country In response to the COVID-19 pandemic.

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THE COVID-19 PANDEMIC IN LATIN AMERICA AND ITS ECONOMIC EFFECTS (cont'd)

Chart 7
ECONOMIC ACTIVITY INDICES

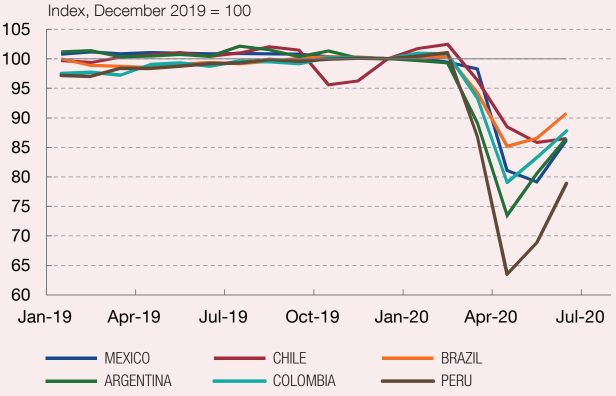


Chart 8
ECONOMIC ACTIVITY AND STRINGENCY INDEX (a)

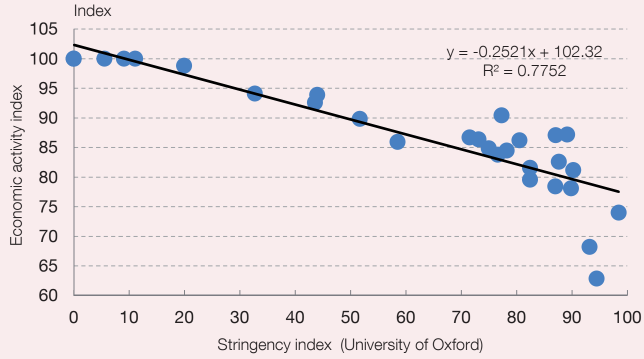


Chart 9
ECONOMIC ACTIVITY INDEX AND MOBILITY INDICATORS (a)

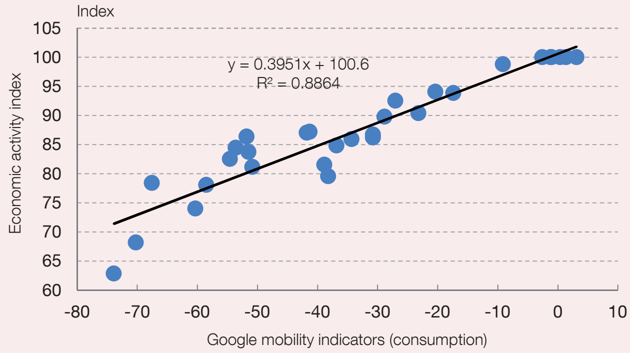


Chart 10
GDP, RATES OF CHANGE

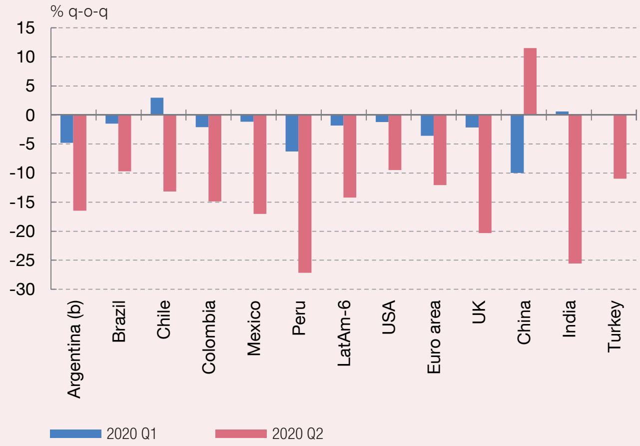


Chart 11
SIZE OF STIMULUS PACKAGES

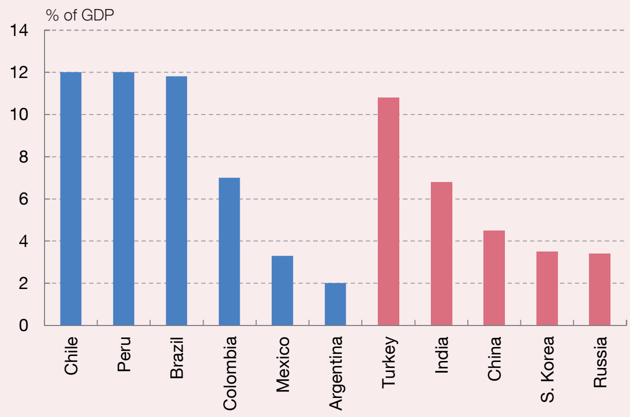
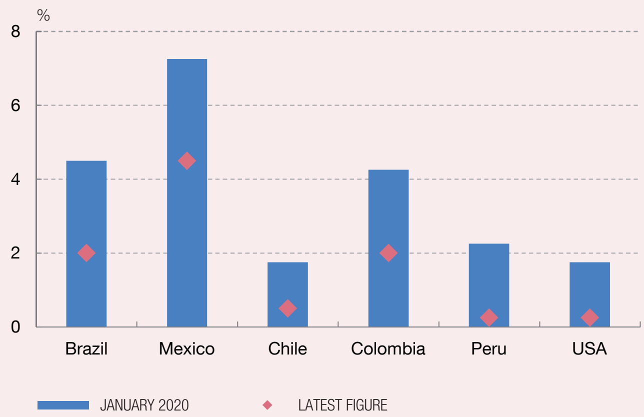


Chart 12
OFFICIAL INTEREST RATES



SOURCES: Thomson Reuters, University of Oxford, Google (Global Mobility Report), IMF and national statistics.

a Feb-June 2020 data for Argentina, Brazil, Chile, Colombia, Mexico and Peru.
b Estimated Q2 figure for Argentina drawing on monthly activity indices.

implemented fiscal measures[6] that amounted to between 7% and 12% of their GDP,[7] while Argentina and Mexico also used such measures albeit to a lesser extent (see Chart 11).[8] As regards monetary policy, the region's central banks cut interest rates to all-time lows (see Chart 12), adopted support measures for bank lending, provided local and foreign currency (dollar) liquidity and established asset purchase programmes.

Chart 13
PORTFOLIO CAPITAL FLOWS TO EMERGING MARKETS ($bn)

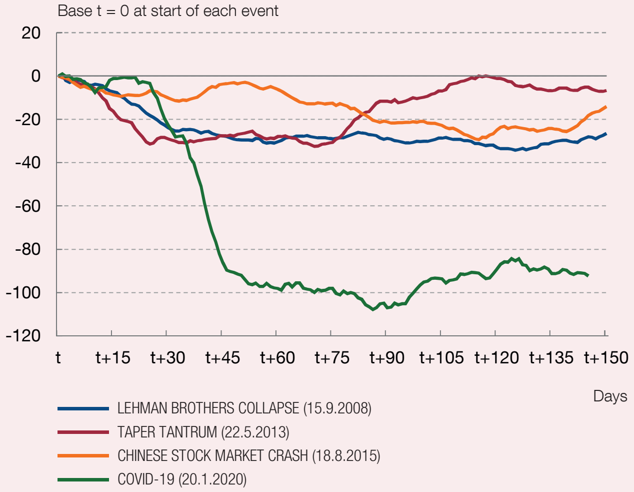


Chart 14
EXCHANGE RATES AGAINST THE DOLLAR

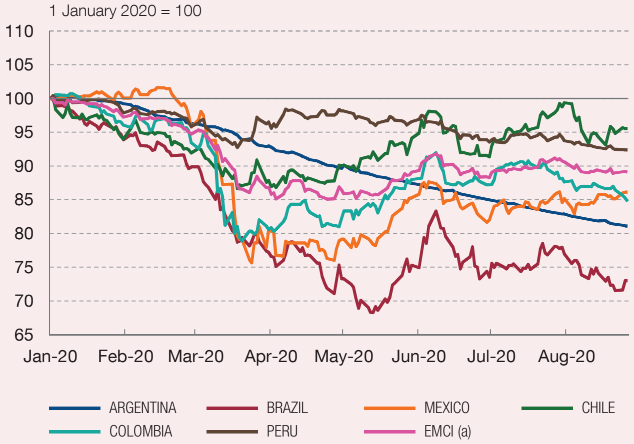


Chart 15
LATAM-6 REAL GDP GROWTH

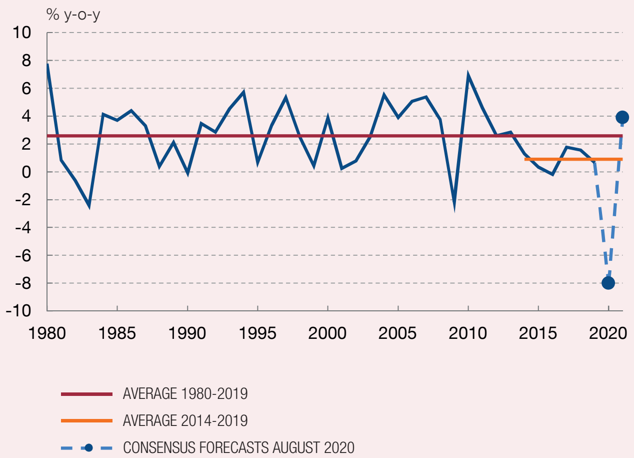
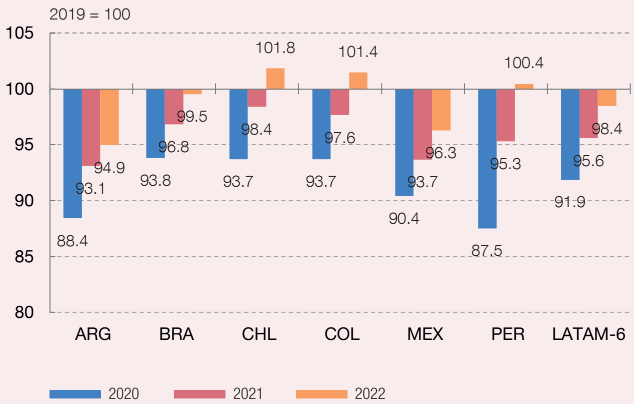


Chart 16
GDP LEVELS COMPARED WITH 2019. CONSENSUS FORECASTS AUGUST 2020



SOURCES: Thomson Reuters, IMF and Consensus Forecasts.

a Emerging Markets Currency Index, an aggregate index of exchange rates against the dollar for emerging markets devised by JP Morgan.

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6 These measures focused mainly on providing support to businesses and households, expanding healthcare capacity and issuing guarantees for credit and capitalisation.

7 Comparing different countries' fiscal stimulus programmes poses significant difficulties. This box draws on the figures supplied by the IMF (https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19).

8 In Argentina this may be due to the limited public funding options, whereas in Mexico it may be related to different economic policy priorities (for instance, maintaining a balanced budget and pre-crisis large-scale infrastructure and social policy projects).

The negative effects of the pandemic on activity were not reflected to the same extent on the financial markets. Between mid-February and mid-March, the markets recorded high capital outflows (see Chart 13), exchange rate depreciation (see Chart 14), widening sovereign spreads and stock market declines. Yet these developments subsequently reversed, albeit not completely, as governments and central banks introduced accommodative policies both in these countries and in other developed economies.[9] In consequence, in recent months, there has been a certain degree of decoupling between the region's financial markets, which have improved somewhat, and the real economy, which is still very weak.

To conclude, the COVID-19 pandemic has had an extremely negative impact on economic activity in Latin America in recent months. This has led analysts to project for 2020 the largest contraction in GDP since figures became available (see Chart 15). As the rate of spread of the pandemic appears to have steadied recently, authorities in some countries of the region have begun to ease lockdown measures. In consequence, the main Latin American economies are expected to record positive growth rates in coming quarters. However, in general, they will likely continue on a fragile and very gradual recovery path, given their structural limitations and the scant room available for adoption of further stimulus policies. Accordingly, on the most recent forecasts and for most of the region's economies, the activity levels recorded before the health crisis are not expected to be restored until 2022 (see Chart 16). In addition, these forecasts are subject to a substantial degree of uncertainty, which largely depends on the future course of the pandemic, in Latin America and in the rest of the world, and on the stringency of any lockdown measures that may have to be reintroduced in the different economies.

9 In addition, in May the IMF approved a Flexible Credit Line (FCL) arrangement for Chile and for Peru. It also renewed the FCL arrangement for Colombia. Mexico also has a two-year FCL arrangement in place following the renewal approved in November 2019.