



Outlook for Latin America and the Caribbean

APRIL 2021

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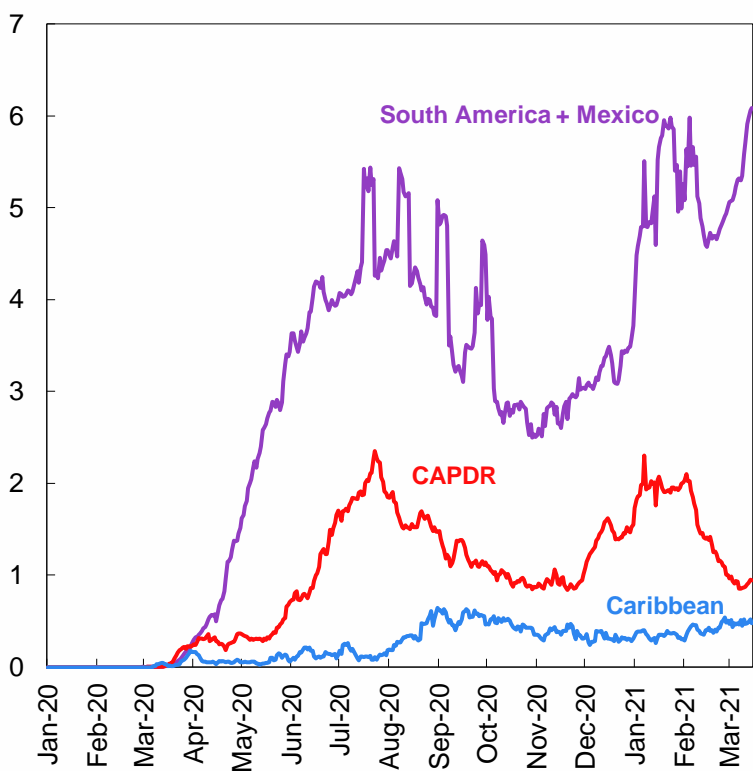
Presentation Outline

- I. COVID-19 Update
- II. Recent Economic Developments
- III. Regional Outlook and Risks
- IV. Policy Recommendations

COVID-19 Update

Pandemic yet to be controlled in South America; vaccine deployment slow except in Chile

COVID-19 New Deaths
(Per million people; 7-day moving average)



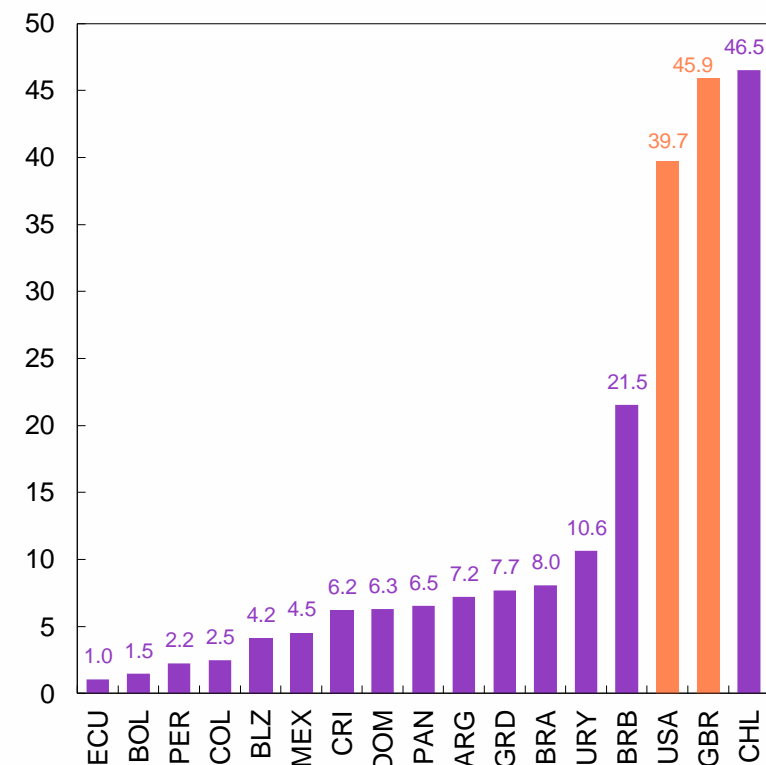
Sources: Johns Hopkins University; and IMF staff calculations.
Note: Data as of March 22, 2021.

COVID-19 Deaths
(Per million people)

	Cumulative Deaths		New Deaths (7-day moving average)	
	Latest	Peak	Latest	
United States	1,638	12.1	3.0	
Advanced Europe	1,356	10.0	3.5	
Emerging Europe	759	5.6	4.0	
LAC	1,172	5.4	5.4	
Argentina	1,205	17.4	2.6	
Brazil	1,397	10.9	10.9	
Chile	1,149	12.4	4.3	
Colombia	1,222	7.9	2.5	
Ecuador	941	34.1	1.9	
Mexico	1,551	11.2	3.7	
Paraguay	520	5.0	5.0	
Peru	1,499	22.3	5.1	
Uruguay	230	3.8	3.8	
CAPDR	421	2.3	0.9	
Caribbean	109	0.6	0.5	

Sources: Johns Hopkins University; and IMF staff calculations.
Note: Data as of March 22, 2021.

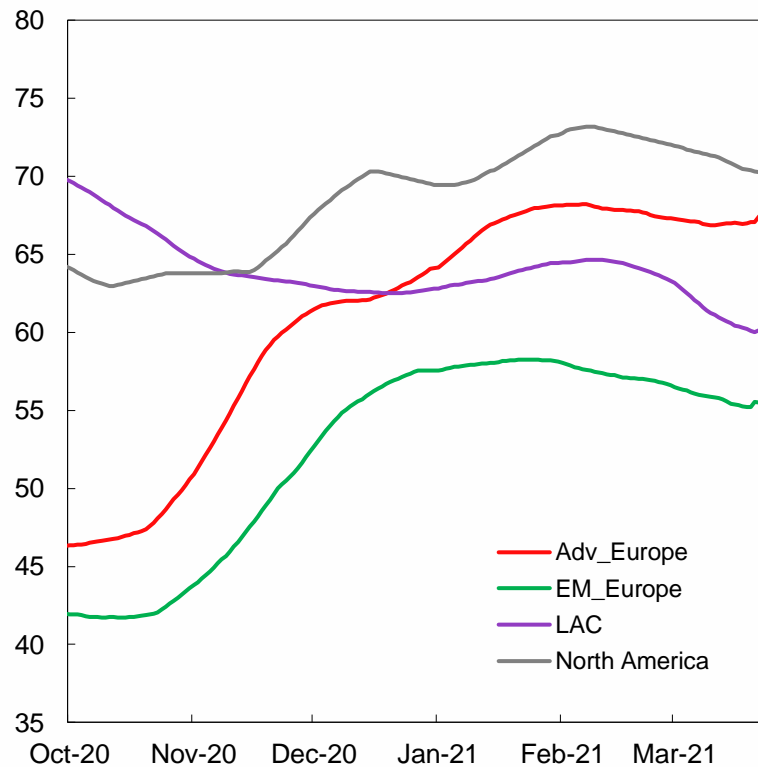
Cumulative COVID-19 Vaccination Doses Administered per 100 People



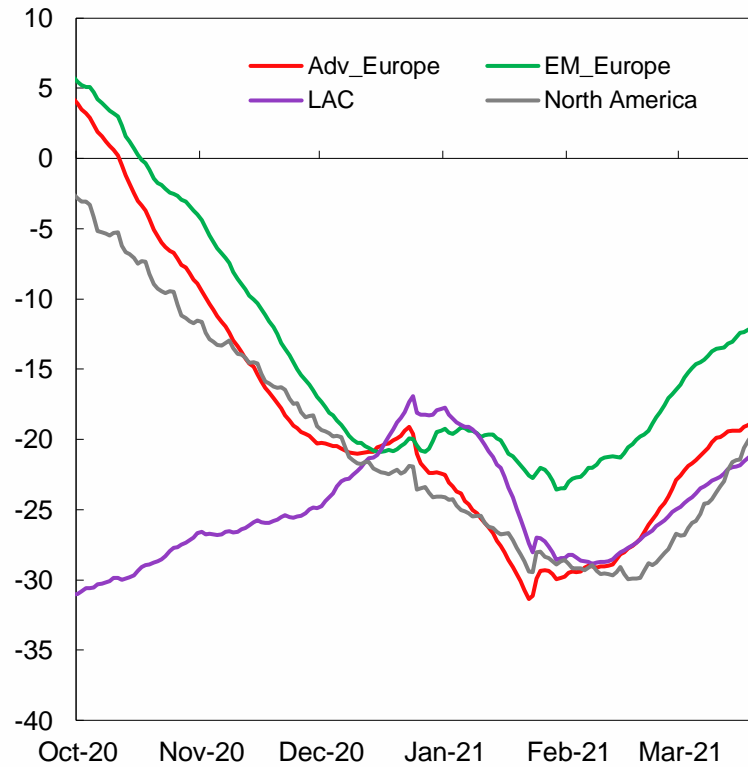
Sources: Bloomberg Finance L.P.; Johns Hopkins University; and IMF staff calculations.
Note: Data as of March 23, 2021.

Tighter containment measures amid virus resurgence halted mobility recovery but the impact on activity is uncertain

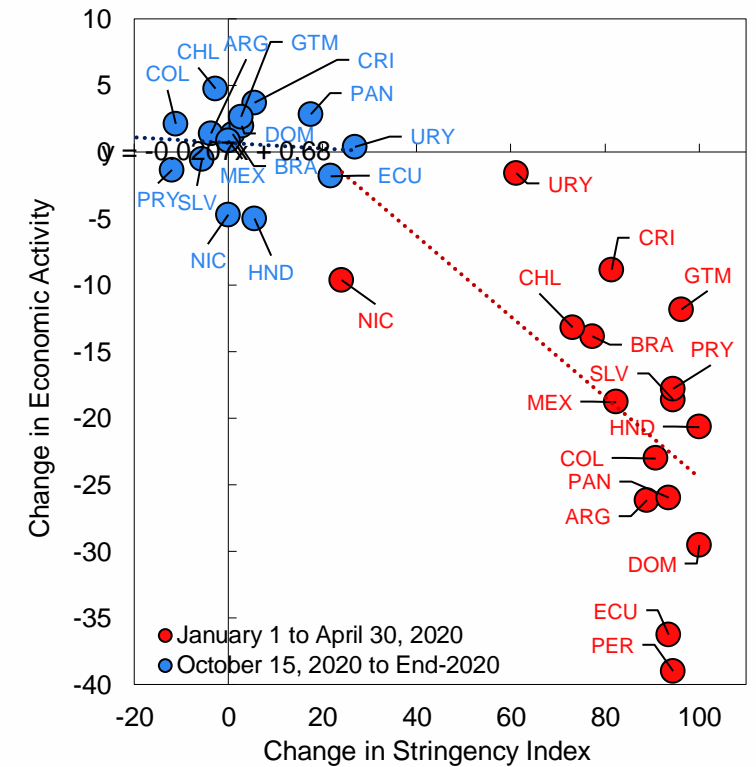
Stringency
(30-day moving average)



Mobility¹
(30-day moving average)



Correlation of Lockdowns and Activity: Beginning vs. End, 2020
(x-axis: index; y-axis: percent change)



Sources: Google Mobility; Johns Hopkins University; Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government; Our World in Data database; and IMF staff calculations.

Note: North America includes USA and Canada. ADV = advanced; EM = emerging market economies; LAC = Latin America and the Caribbean.

¹Average of retail and recreation, grocery and pharmacy, parks, transit stations, and workplaces.

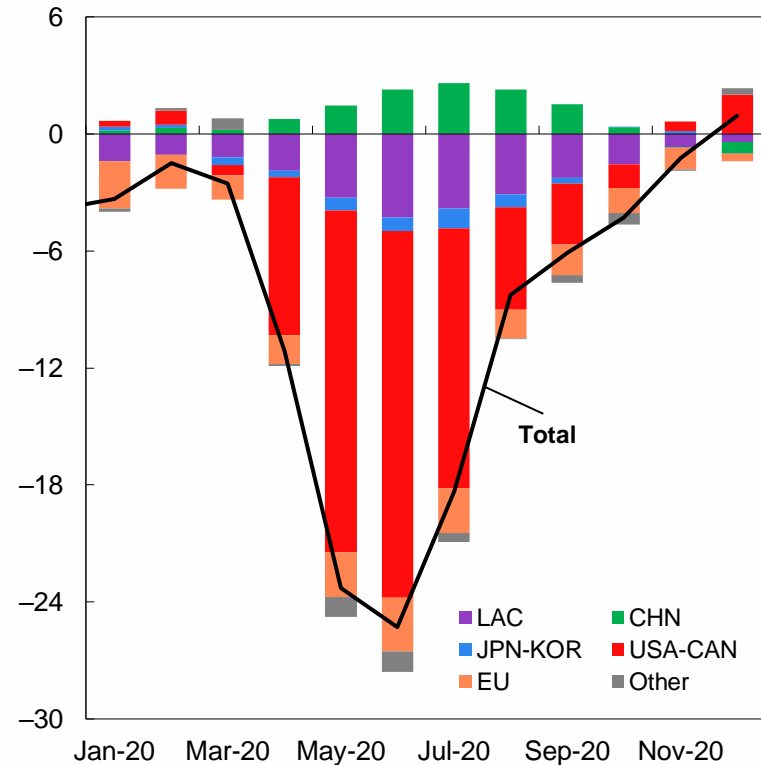
Sources: Haver Analytics; national authorities; Oxford COVID-19 Government Response Tracker; and IMF staff calculations.

Note: Positive change in stringency index (0–100) denotes stronger measures and positive change in economic activity index denotes relative expansion.

Recent Economic Developments

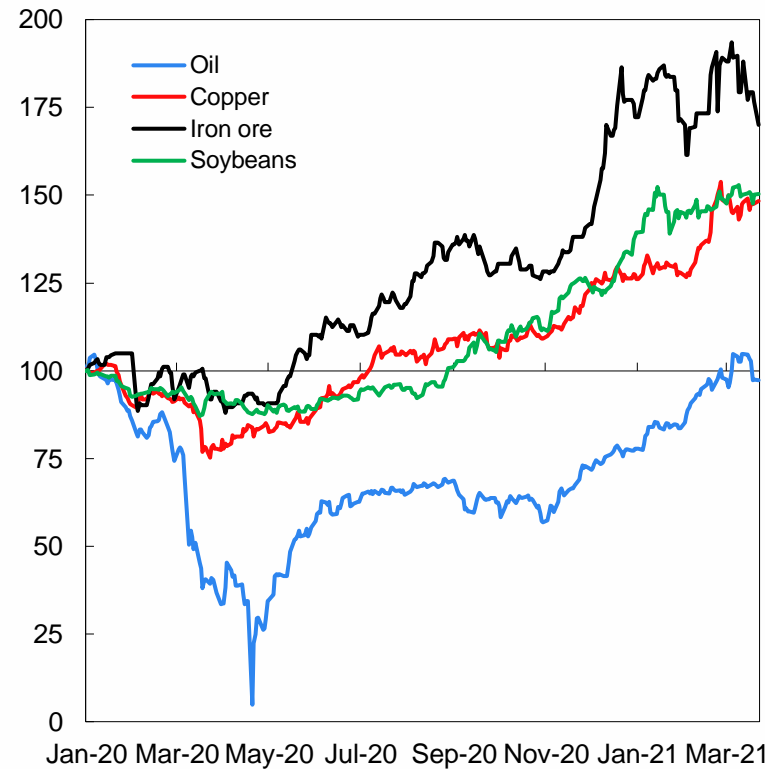
Economic recovery supported by favorable external environment: trading partner growth, commodity prices, financing conditions...

Contributions to Merchandise Export Growth
(3m moving sum; year-over-year percent change in export values)



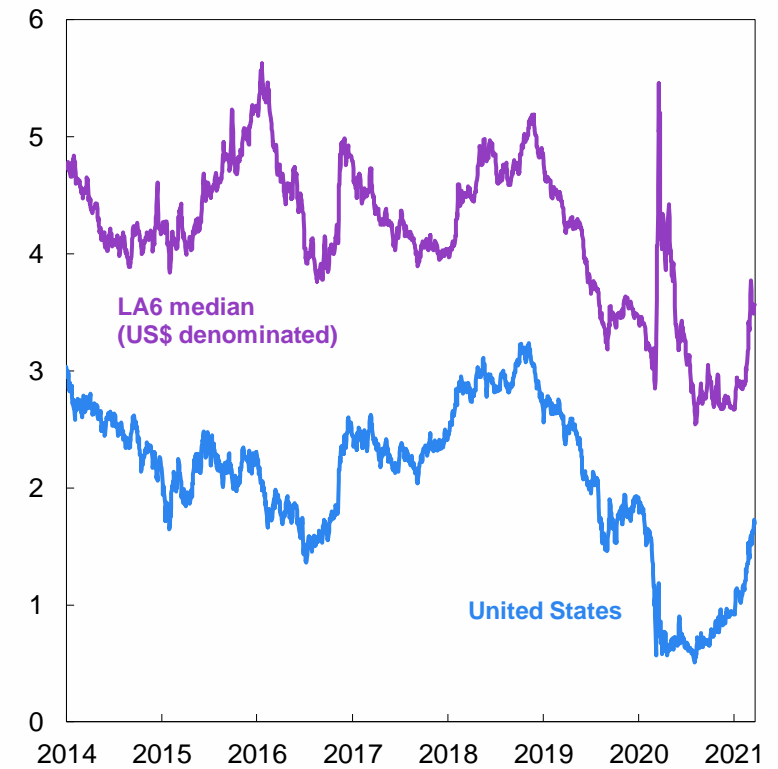
Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Includes Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay.

Commodity Prices
(Index: January 1, 2020 = 100)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

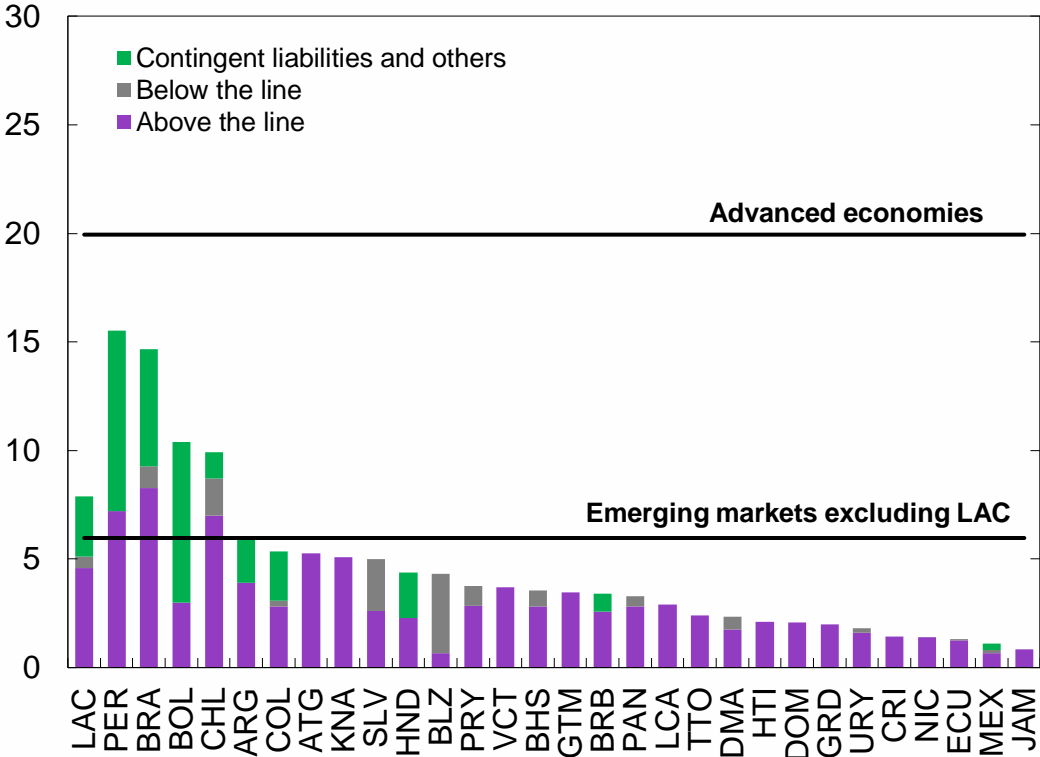
10-Year Government Bond Yields
(Percent)



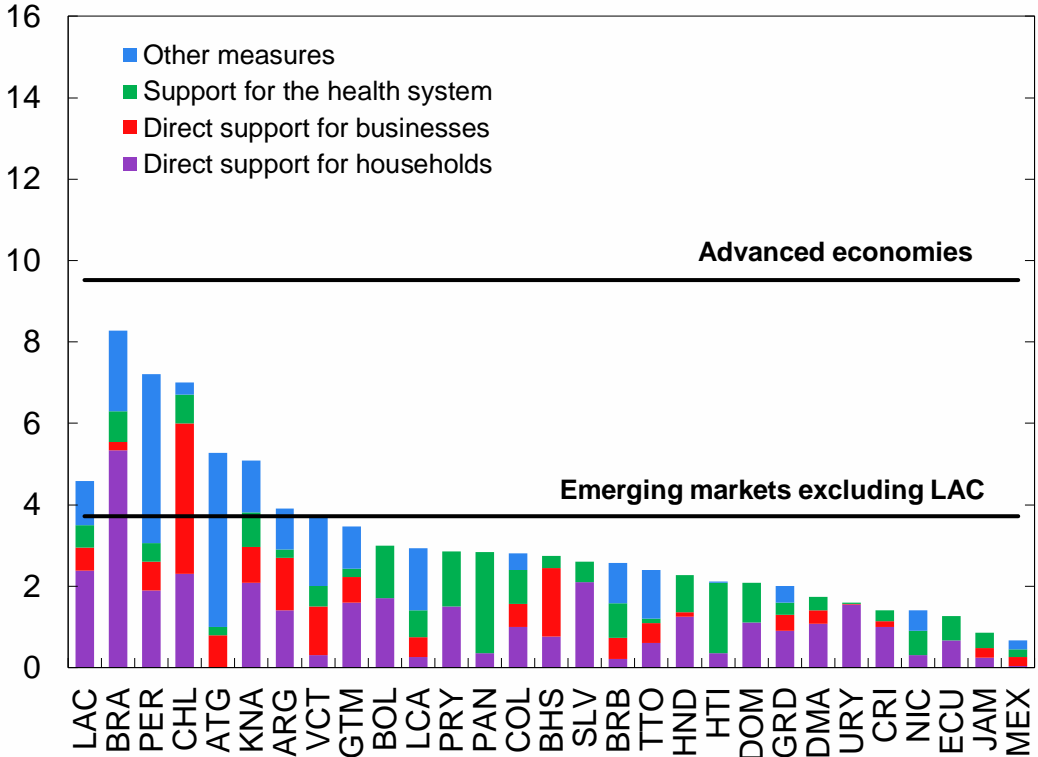
Source: Haver Analytics.
Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, Uruguay.

Announced Fiscal Response in Line with other EMs...

Discretionary Fiscal Measures
(Percent of GDP)



Above-the-Line Discretionary Fiscal Measures
(Percent of GDP)



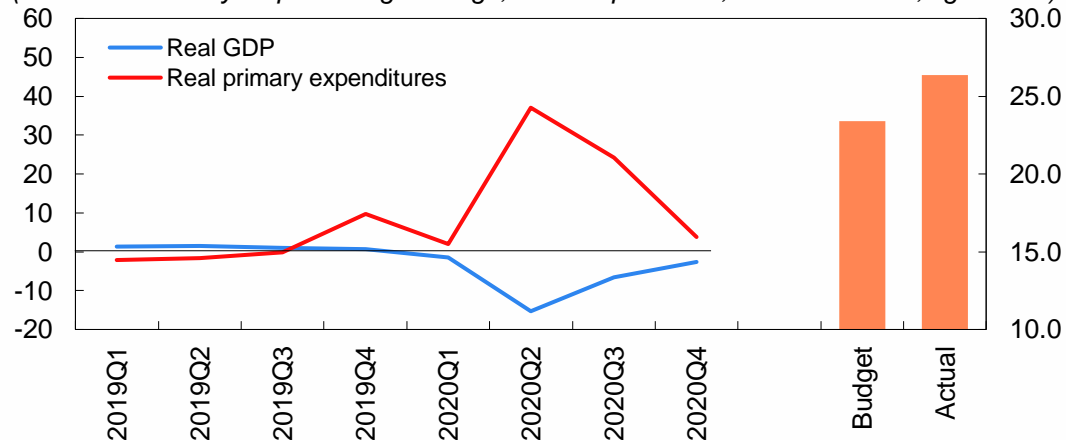
Sources: National authorities; and IMF staff calculations.
Note: Advanced economies, emerging market economies excluding LAC, and LAC aggregates are fiscal year US dollar nominal GDP-weighted averages. LAC includes countries shown in the chart.

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Note: Advanced economies, emerging market economies excluding LAC, and LAC aggregates are fiscal year US dollar nominal GDP-weighted averages. LAC includes countries shown in the chart.

...though Lockdowns Constrained the Actual Impulse

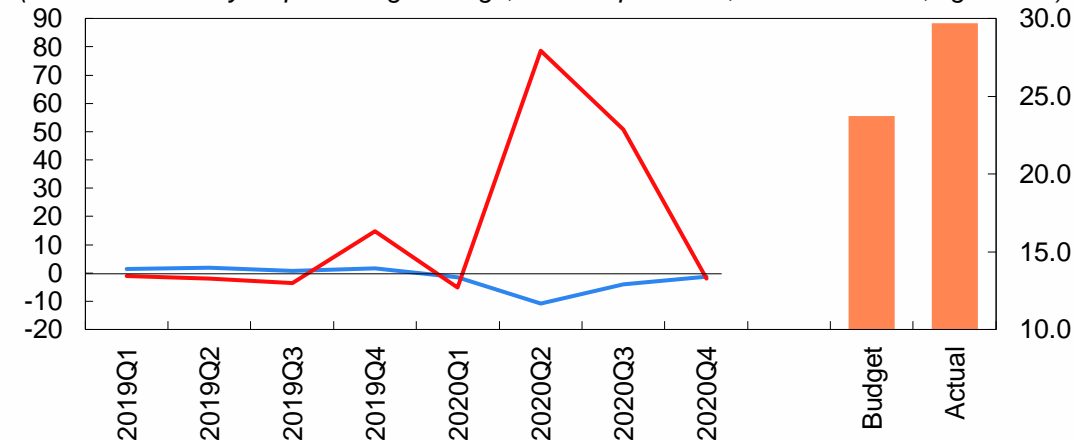
LA5: Real GDP and Primary Expenditures

(Lines: Year-over-year percentage change; Bars: Expenditure; Percent of GDP; right scale)



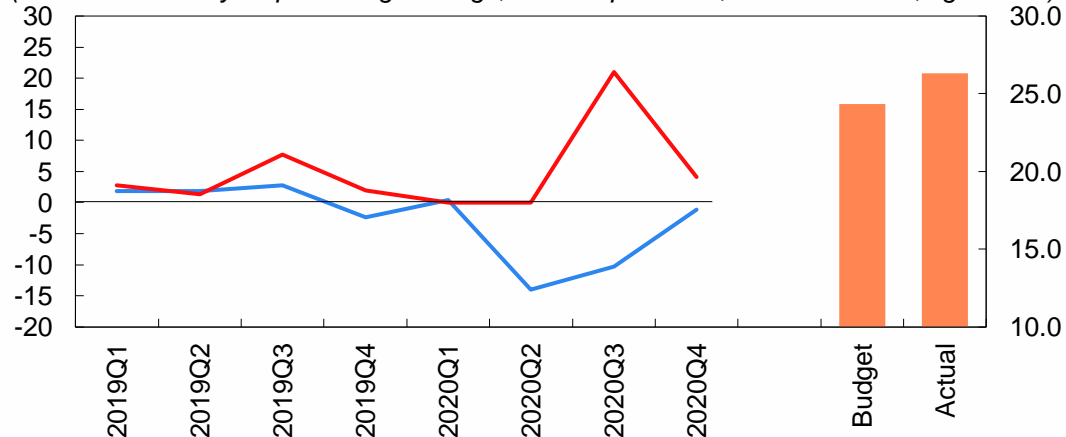
Brazil: Real GDP and Primary Expenditures

(Lines: Year-over-year percentage change; Bars: Expenditure; Percent of GDP; right scale)



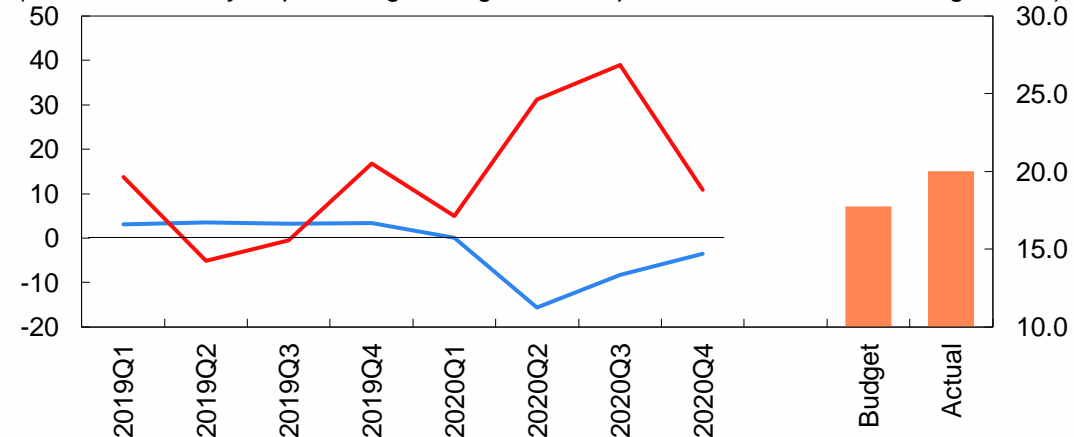
Chile: Real GDP and Primary Expenditures

(Lines: Year-over-year percentage change; Bars: Expenditure; Percent of GDP; right scale)



Colombia: Real GDP and Primary Expenditures¹

(Lines: Year-over-year percentage change; Bars: Expenditure; Percent of GDP; right scale)



Sources: Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.

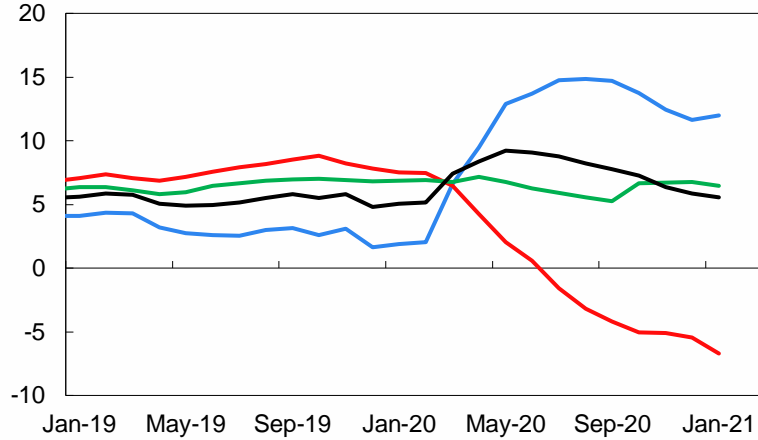
Note: LA5 is the weighted average of Brazil, Chile, Colombia, Mexico, and Peru. "Budget" refers to the pre-COVID (budget) primary expenditures for 2020. "Actual" refers to the 2020 actual primary expenditures.

¹Colombia's primary expenditure for 2020Q4 is a preliminary estimate.

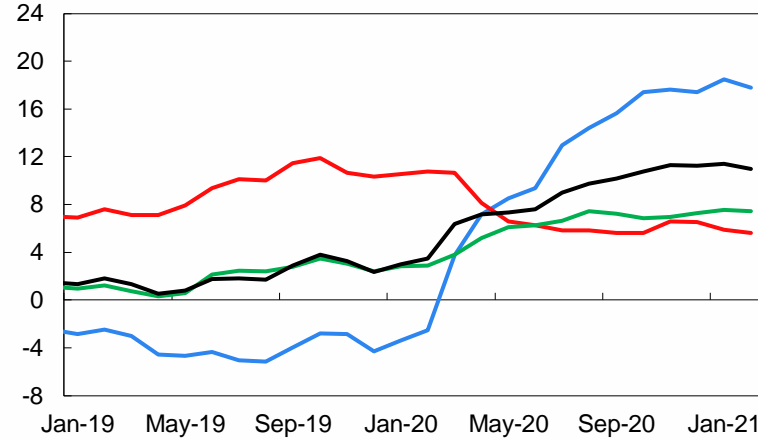
Below-the-line credit measures provided ample support

— Corporate — Consumer/Households — Mortgage — Total

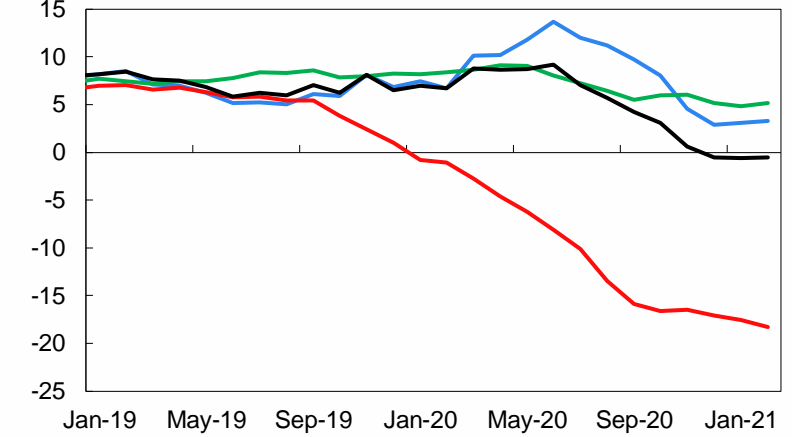
LA5: Real Credit Growth
(Year-over-year percent change)



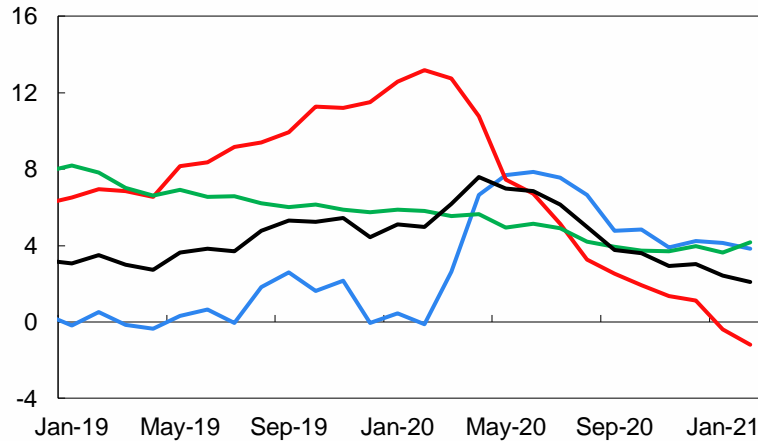
Brazil: Real Credit Growth
(Year-over-year percent change)



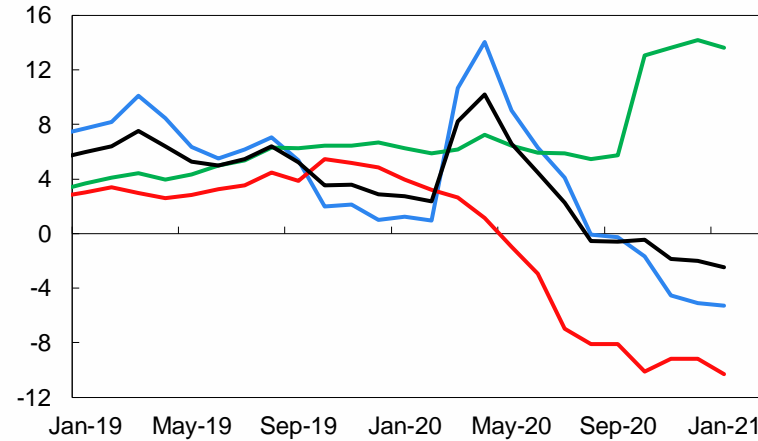
Chile: Real Credit Growth
(Year-over-year percent change)



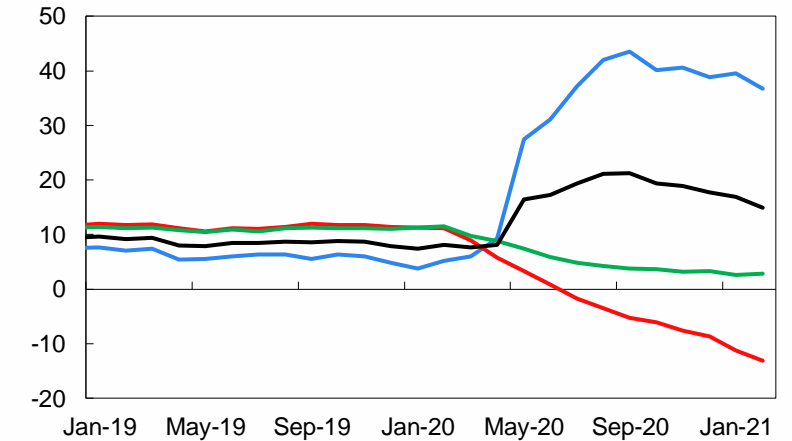
Colombia: Real Credit Growth
(Year-over-year percent change)



Mexico: Real Credit Growth
(Year-over-year percent change)



Peru: Real Credit Growth
(Year-over-year percent change)

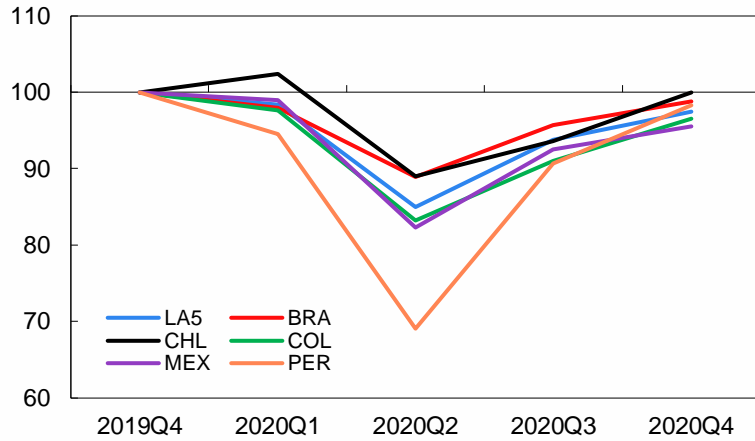


Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: LA5 is the simple average of Brazil, Chile, Colombia, Mexico, and Peru.

The recovery remains incomplete and uneven

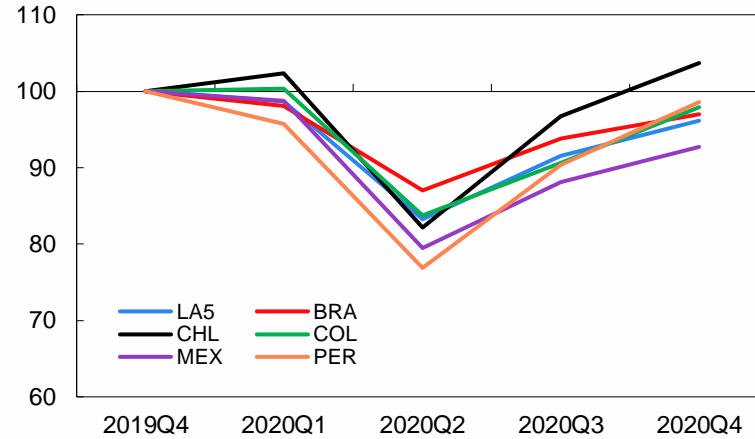
Real GDP

(Index: 2019Q4 = 100)



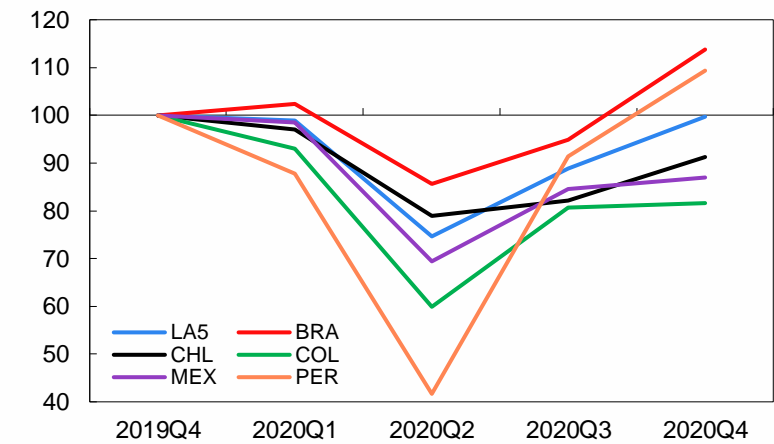
Private Consumption

(Index: 2019Q4 = 100)



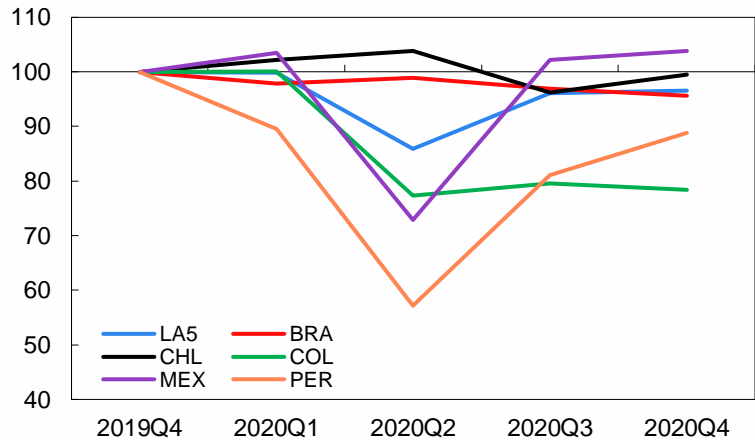
Gross Fixed Capital Formation

(Index: 2019Q4 = 100)



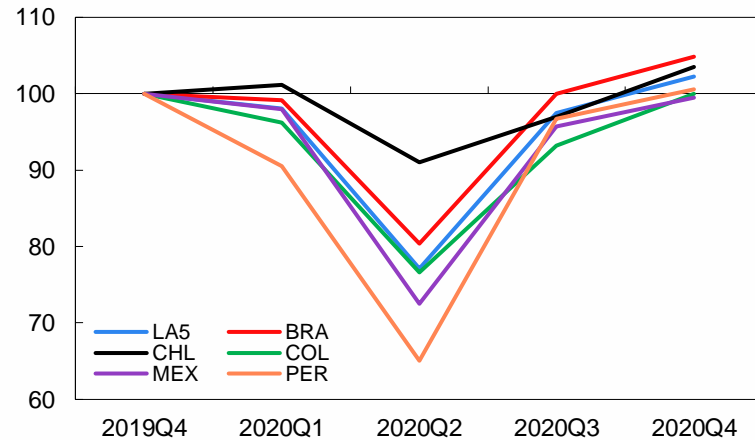
Exports

(Index: 2019Q4 = 100)



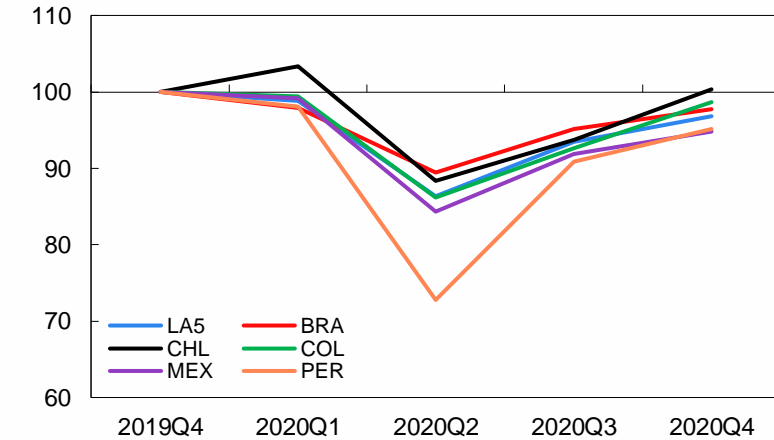
Manufacturing

(Index: 2019Q4 = 100)



Services

(Index: 2019Q4 = 100)



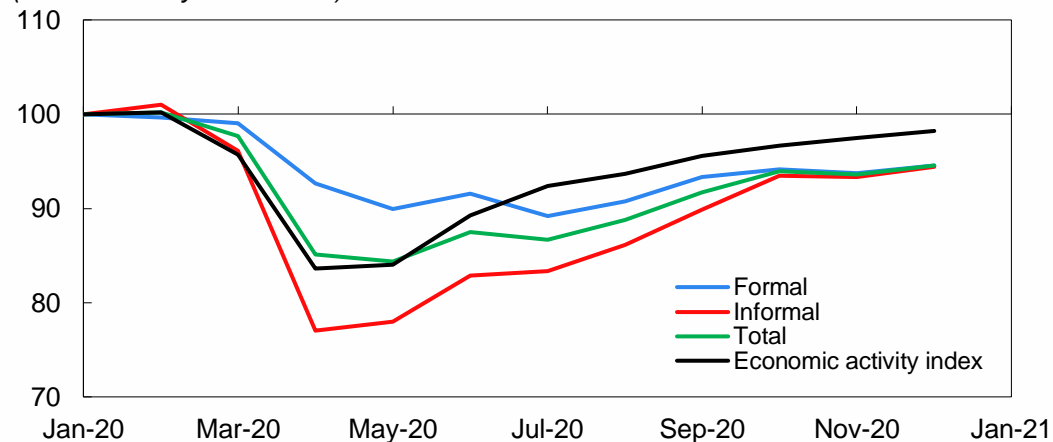
Sources: Haver Analytics; national authorities; and IMF staff calculations.

Note: LA5 is purchasing-power-parity GDP-weighted average of Brazil, Chile, Colombia, Mexico, and Peru.

The recovery in employment is lagging that in activity

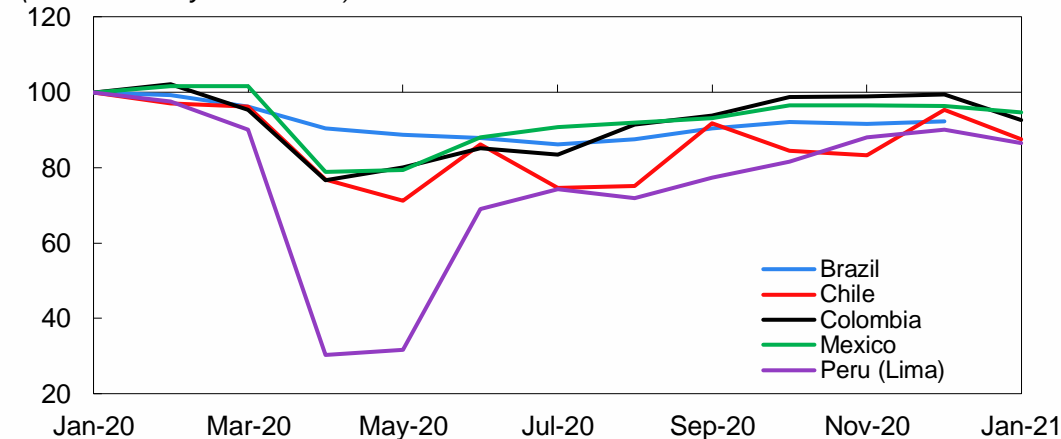
LA4: Employment and Economic Activity Index

(Index: January 2020 = 100)



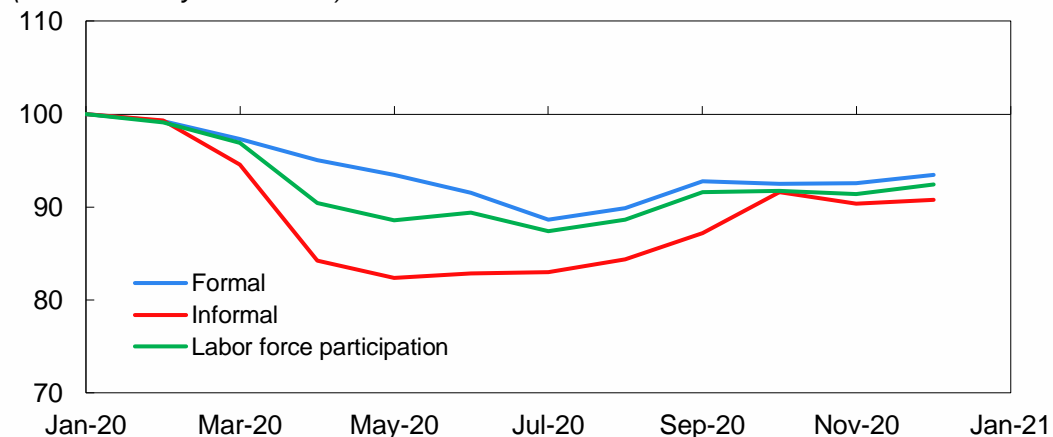
Total Employment Index

(Index: January 2020 = 100)



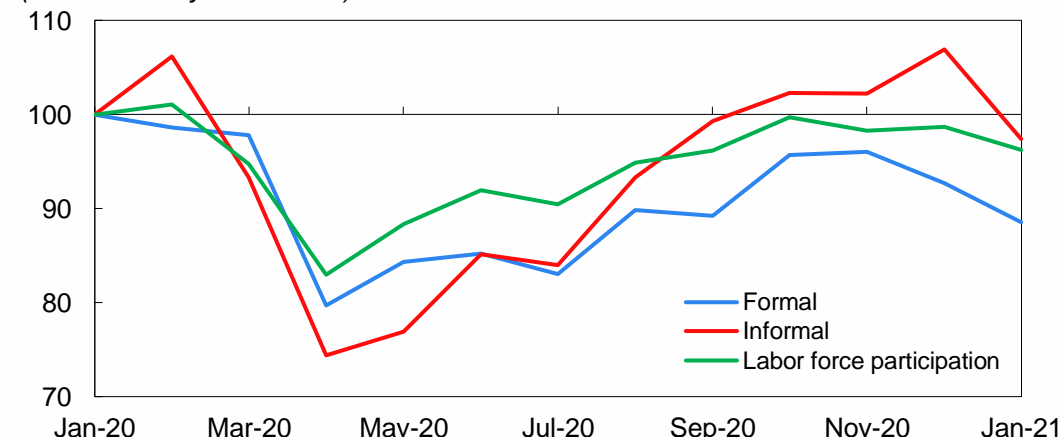
Brazil: Formal/Informal Employment and Labor Force Participation

(Index: January 2020 = 100)



Colombia: Formal/Informal Employment and Labor Force Participation

(Index: January 2020 = 100)

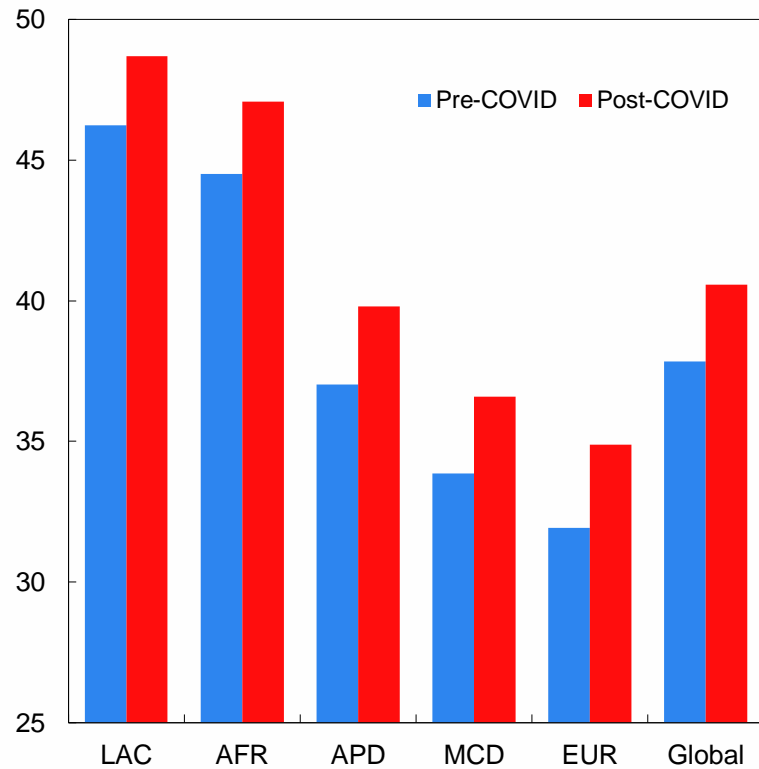


Sources: Haver Analytics; national authorities; and IMF staff calculations.

Note: LA4 = Brazil, Chile, Colombia, Mexico. Data for Brazil, Chile, and Peru (Lima) are transformed to reflect month-on-month employment changes.

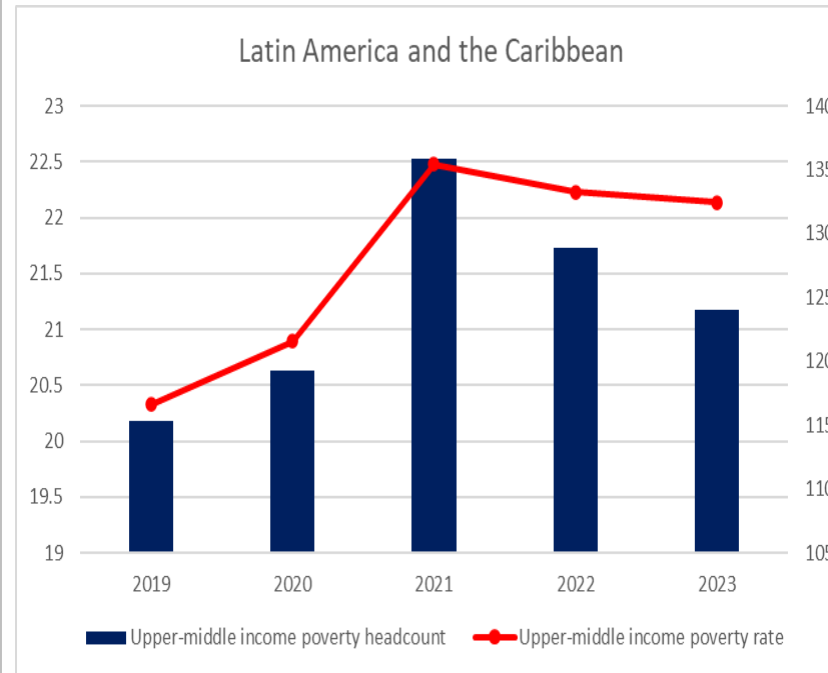
Overall social indicators worsened despite fiscal support facilitated by pre-existing robust social safety nets

Projected Inequality by Region
(Gini coefficient; 0–100 scale)



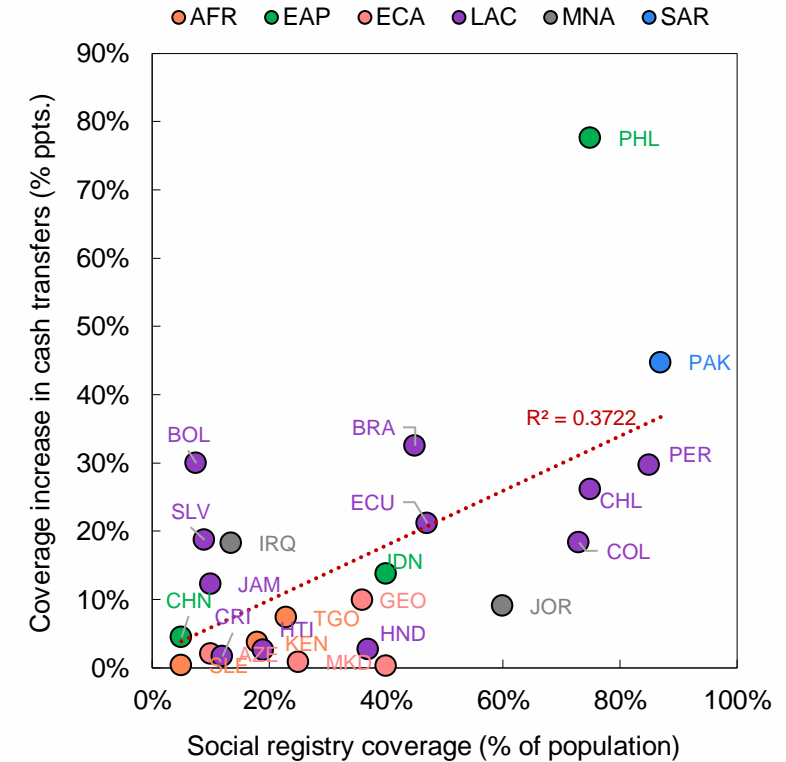
Source: Futoshi Narita and Gaby Cugat, <https://blogs.imf.org/2020/10/29/how-covid-19-will-increase-inequality-in-emerging-markets-and-developing-economies/>;

Poverty Rate
(Percent of population; upper middle-income, \$5.5 in 2011 PPP)



Source: World Bank, Latin America and the Caribbean Macro Poverty Outlook (Annual Meeting 2020).

Scaling up in Coverage Facilitated by Existing Safety Nets



Source: Gentilini, Almenfi, and Dale, “Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures.”
Note: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia.

Regional Outlook and Risks

A partial recovery is expected in 2021; it would take up to 2023 to return to the pre-pandemic level of output

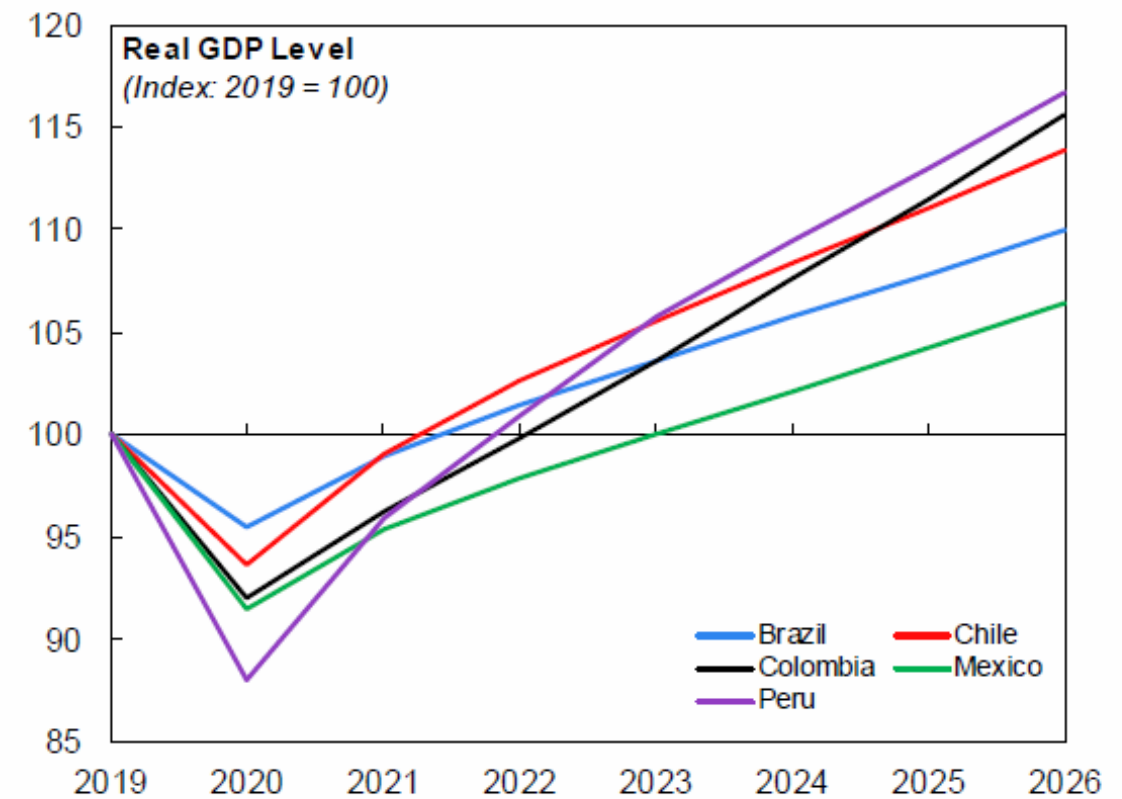
After deep recessions in 2020, LAC countries are projected to recover at varying speeds

Latin America and the Caribbean: Real GDP Growth
(Year-over-year percent change)

	2017	2018	2019	Projections		Avg. 2022– 25
				2020	2021	
Latin America and the Caribbean	1.4	1.2	0.2	-7.4	4.1	2.6
LAC excl. Venezuela	2.0	1.9	0.9	-7.1	4.3	2.7
South America	0.8	0.5	-0.1	-7.1	4.1	2.5
Argentina	2.8	-2.6	-2.1	-10.4	4.5	2.7
Brazil	1.3	1.8	1.4	-4.5	3.6	2.2
Chile	1.2	4.0	1.1	-6.3	5.8	2.9
Colombia	1.4	2.5	3.3	-7.9	4.6	3.8
Peru	2.5	4.0	2.2	-12.0	9.0	4.2
Mexico	2.1	2.2	-0.1	-8.5	4.3	2.2
CAPDR	4.2	3.8	3.2	-6.0	3.5	4.0
Caribbean						
Tourism dependent	1.7	2.0	0.2	-9.8	2.4	2.9
Commodity exporters	-1.0	1.3	0.2	-0.2	4.0	5.8

Sources: IMF, World Economic Outlook (January 2021 Update) database; and IMF staff calculations.
Note: PPP GDP-weighted average. Green/red denotes upward/downward revision compared with the October 2020 World Economic Outlook forecasts.

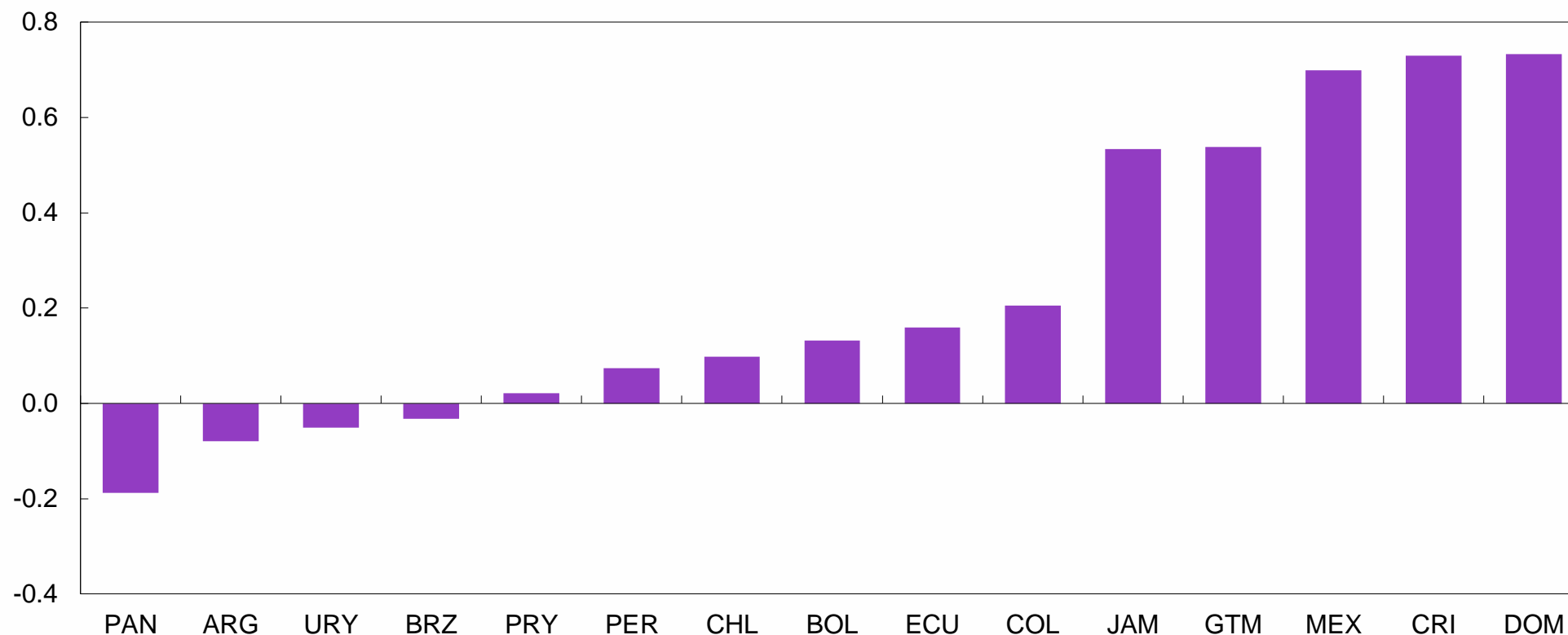
Brazil, Chile, and Peru are projected to return to the pre-pandemic real GDP level in 2022, Colombia and Mexico in 2023



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Most LAC countries with strong trade ties to the US benefit from American Rescue Plan

The Impact of US ARP (\$1.9 Trillion) and Increase in Term Premia on LAC Countries' Real GDP
(2021; percent difference; deviations from baseline)



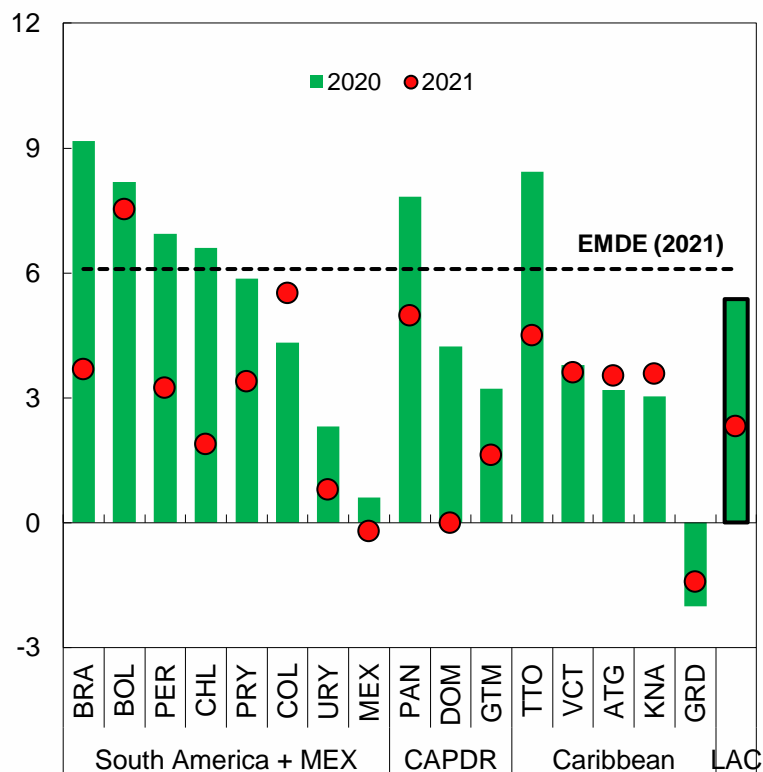
Source: RES WHDMOD simulations.

Note: The increase in US long-term interest rates is transmitted to long-term interest rates in emerging economies based on the historical correlation coefficients, and in addition to the endogenous increase in US long-term interest rates driven by the expectations theory, there is an exogenous 25-basis-point increase in the US term premium. The scenario assumes full accommodation by monetary authorities everywhere.

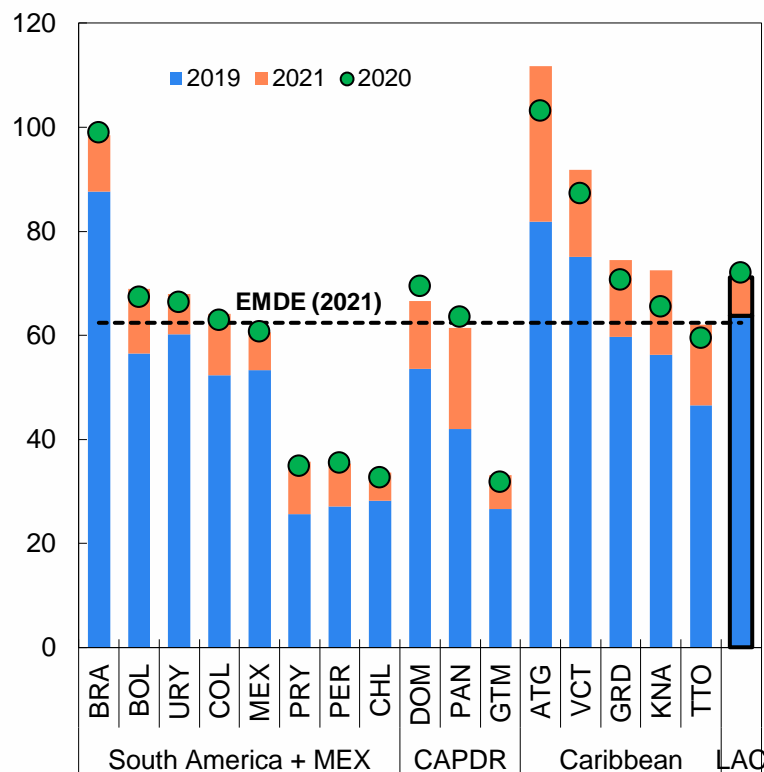
Policy Recommendations

Given elevated debt ratios, fiscal support in LAC is expected to be withdrawn faster than in other EMs in 2021

Primary Fiscal Deficit
(Percent of GDP)



Gross Debt
(Percent of GDP)



Selected Fiscal Indicators
(Percent of GDP)

	2019	2020	2021	2022 -25
Latin America and the Caribbean				
Primary balance	-0.3	-5.4	-2.3	-0.4
Primary expenditure	26.0	29.7	26.6	25.2
Total revenues	26.7	25.3	25.0	25.5
Emerging markets and developing economies				
Primary balance	-3.3	-8.0	-6.1	-4.2
Primary expenditure	29.3	32.1	30.6	29.2
Total revenues	26.1	24.2	24.7	25.2

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Latin America and the Caribbean (LAC) excludes Argentina and Venezuela. Emerging markets and developing economies excludes LAC countries. Aggregates are fiscal year US dollar nominal GDP-weighted averages.

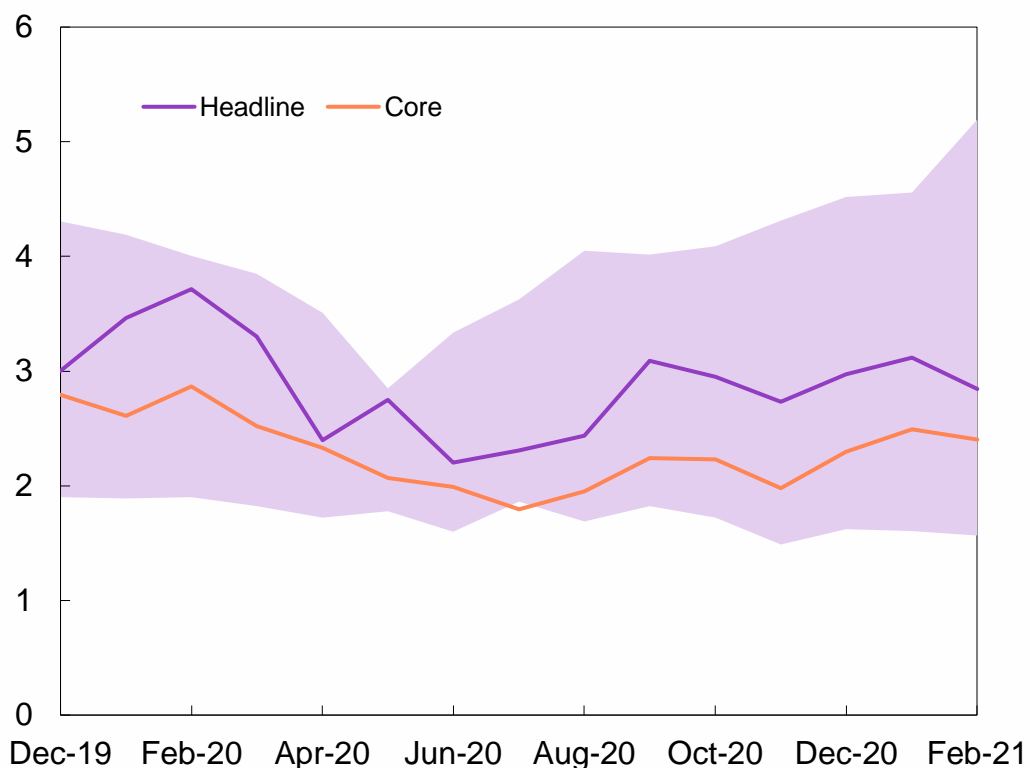
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
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Note: Latin America and the Caribbean (LAC) excludes Argentina and Venezuela. Emerging markets and developing economies excludes LAC countries. Aggregates are fiscal year US dollar nominal GDP-weighted averages.

Monetary policy should remain accommodative as long as expectations remain well-anchored

CPI Inflation

(Median; year-over-year percent change)

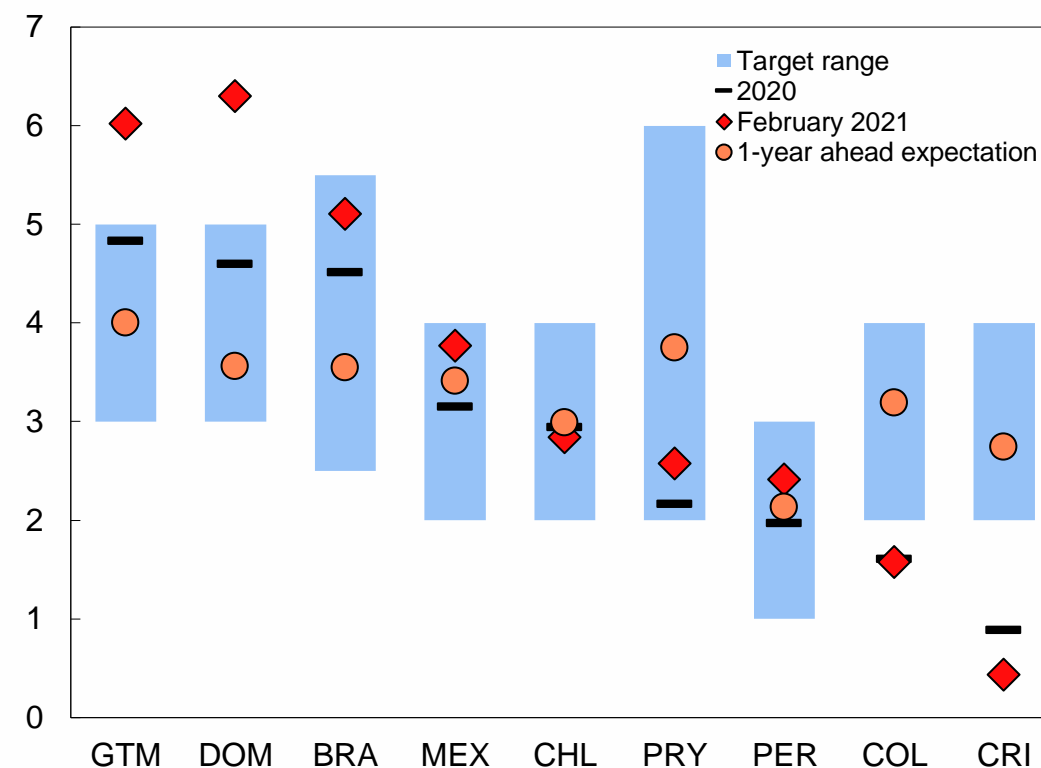


Sources: Haver Analytics; and national authorities.

Note: Shaded region refers to the min-max range of headline inflation. LA5 = Brazil, Chile, Colombia, Mexico, Peru.

Inflation

(End of period; year-over-year percent change)



Sources: Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and national authorities.

Note: One-year ahead inflation expectations are based on consensus forecasts. For DOM, 12-month inflation based on new benchmark CPI basket (base: Oct. 2019–Sep. 2020 = 100).

New Programs and Emergency Financing

(As of March 29, 2021)

	Number of Arrangements	Amount (US\$ million)
World	85 countries	107,531
Latin America and the Caribbean	21 countries <i>(26 arrangements)</i>	68,286
Total emergency financing		5,434
Rapid Financing Instrument (RFI)	10	4,672
Rapid Credit Facility (RCF)	5	193
Blended RFI/RCF	1	185
Augmentation/Rephasing	3	383
Other new arrangements		62,852
Flexible Credit Line (FCL)	4	51,866
Extended Fund Facility (EFF)	2	8,274
Precautionary and Liquidity Line (PLL)	1	2,713