The Great Lockdown and Its Impact on LAC

APRIL 2020

Alejandro Werner
Director
Global Outlook
High-frequency indicators point to severe economic fallout from Covid-19 pandemic

In China, industrial production and retail sales have contracted sharply (seasonally adjusted percent change year over year)

In the US, unemployment claims have soared (percent of labor force at peak level)

In Europe and in emerging markets, service PMI indexes point to a severe contraction (>50 = expansion, seasonally adjusted)

Source: Haver Analytics; and IMF staff calculations

Source: Federal Reserve Economic Data

Source: Haver Analytics
A drastic decline in commodities prices

Commodity prices
(January 2, 2020 = 100)

March 6: OPEC+ agreement breaks down

Sources: IMF, Primary Commodity Price System; and IMF staff calculations
Note: OPEC+ = Organization of the Petroleum Exporting Countries, including Russia
Credit spreads have widened significantly

Corporate spreads in advanced economies

EMBI sovereign spreads in emerging markets

Sources: Bloomberg Finance L.P; Haver Analytics; Thomas Reuters Datastream; and IMF Staff calculations.

Notes: Ems = emerging markets. Data are through April 7, 2020.
### Growth Projections: Advanced Economies

(Percent change from a year earlier)

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Advanced Economies</th>
<th>U.S.</th>
<th>U.K.</th>
<th>Japan</th>
<th>Euro Area</th>
<th>Canada</th>
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<tr>
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<td>2.4</td>
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</table>

Source: IMF World Economic Outlook April 2020, October 2019
## Growth Projections: Emerging Markets and LIDCs
(Percent change from a year earlier)

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Emerging Market and Developing Economies</th>
<th>China</th>
<th>India</th>
<th>Brazil</th>
<th>Russia</th>
<th>Commodity Exporting Economies</th>
<th>Low Income Developing Countries</th>
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<td>2019</td>
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<td>2021</td>
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<td>1.5</td>
<td>1.7</td>
<td>0.4</td>
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</tbody>
</table>

Source: IMF World Economic Outlook April 2020, October 2019
Uncertain, partial recovery in 2021: assumes pandemic fades in the second half of 2020, and policy support facilitates gradual pickup
The growth outlook is subject to considerable downside risks

Alternative real GDP scenarios in the fight against Covid-19

(GDP deviation from baseline in percent)

World:

- Longer outbreak in 2020
- New outbreak in 2021
- Longer outbreak in 2020 plus new outbreak in 2021

Advanced Economies

Emerging Markets

Source: IMF, G-20 Model Simulations.

- **Secure adequate resources for the health system**
  - Expand testing, hire medical professionals, purchase PPE and ventilators, and expand isolation wards in hospitals

- **Limit the amplification of the health shock to economic activity**
  - Deploy substantial targeted fiscal, monetary, and financial market measures

- **Ensure multilateral cooperation**
  - Avoid trade restrictions on medical supplies and provide assistance to financially constrained countries
  - IMF role: financing through various lending facilities, rapid disbursing emergency financing, temporary relief on debt service to IMF, technical assistance

- **Support the recovery**
  - Once containment measures are lifted, provide broad monetary and fiscal stimulus (where space permits) and repair balance sheets.
United States Outlook

Western Hemisphere Department
Assumed Sectoral Losses During the Lockdown

Estimated Sectoral Output Loss Relative to a ‘Regular’ Week

(percent deviation)

Sources: Bureau of Economic Analysis; Haver Analytics; and IMF staff calculations.
Implied GDP Path

Real GDP Growth
(Percent change, quarter-on-quarter annualized)

Real GDP Levels:
Current Projections Vs. Global Financial Crisis

Sources: Bureau of Economic Analysis; Haver Analytics; and IMF staff calculations.
Labor Markets

Employment Levels:
Current Projections Vs. Global Financial Crisis

Sources: Bureau of Labor Statistics; Haver Analytics; and IMF staff calculations.
**Fiscal Implications**

**Increase in Deficits Relative to Previous Forecasts**

*(general gov. deficit, percent of GDP)*

Sources: Congressional Budget Office, Joint Committee on Taxation, and IMF staff calculations.

**Impact of Fiscal Stimulus on GDP Growth**

*(percent change)*

Sources: Congressional Budget Office, Joint Committee on Taxation, and IMF staff calculations.
COVID-19: The Impact in LAC
APRIL 2020

Alejandro Werner
Director
## LAC: The spread of the virus has accelerated in the region...

*(Data as of April 28, 2020)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Confirmed</th>
<th>Confirmed/1,000,000</th>
<th>Deaths</th>
<th>Death Rate</th>
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<tr>
<th>Country</th>
<th>Confirmed</th>
<th>Confirmed/1,000,000</th>
<th>Deaths</th>
<th>Death Rate</th>
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<td>GUY</td>
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<td>95</td>
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<td>VCT</td>
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<td>SUR</td>
<td>10</td>
<td>17</td>
<td>1</td>
<td>10.0</td>
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</tbody>
</table>

LAC: 189,063  297  9,795  5.2

% change from 4/16: 127.1  127.3  152.5  0.5
... and countries have started to expand testing capacity...

Testing Capacity in the Region
(Tests per 1 million people)

Source: Worldometer.
... while social distancing measures are having an economic impact in contact-intensive activities

Mobility Indicator
(Agglomeration index)

Source: Google Mobility Reports.
The sharp impact on activity is becoming apparent in high frequency indicators...

Traffic Congestion Index

Pollution: NO2 Emissions

Pollution: Co Emissions

Source: Waze.

Source: World's Air Pollution: Real time Air Quality Index.

Source: World's Air Pollution: Real time Air Quality Index.
... with declines in business confidence and manufacturing activities

**Business Confidence**
*Normalized*

**Manufacturing PMI: Overall**
*Seasonally adjusted; 50+ = expansion*

Sources: Haver Analytics; and national authorities.
Note: Shaded area refers to the period after January 2020.

Sources: Haver Analytics; IHS Markit; and Instituto Mexicano de Ejecutivos en Finanzas (IMEF).
Note: Dashed line for Mexico refers to IMEF business climate index. PMI = purchasing managers' index.
The confluence of domestic (lockdown) and external shocks is “a crisis like no other”

Share of Sectors Most Affected by COVID-19¹
(Percent)

- Chile
- Uruguay
- Costa Rica
- Mexico
- Peru
- Argentina
- Ecuador
- Brazil
- Colombia
- Paraguay

Cumulative EPFR Flows to Latin America³
(Percent of initial allocation)

World Trade, Industrial Production, and Global PMI²
(Year-over-year percent change)

Commodity Prices
(Index: 12/31/2019 = 100)

Sources: Bloomberg Finance L.P.; Emerging Portfolio Fund Research (EPFR) database; Haver Analytics; IHS Markit; IMF, Global Data Source database; and IMF staff calculations.

¹Includes education, commerce, transportation, restaurant and hotels, and other personal services sectors or similarly defined sectors. Judgment used as there is heterogeneity in the classification of industries.

²Global PMI is seasonally adjusted (50+ = expansion).

³The start dates used for the shock events are September 10, 2008 (Great Recession); July 15, 2015 (financial turbulence in China); and February 26, 2020 (coronavirus outbreak).
The global epidemic and associated shocks has led to a sharp tightening of financial conditions.

Sources: Bloomberg Finance L.P.; Haver Analytics; and IMF staff calculations.
The outlook has worsened sharply, with a sharp contraction expected in 2020:Q2 and a gradual recovery from 2020:Q3

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

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<tbody>
<tr>
<td>LAC</td>
<td>1.3</td>
<td>1.1</td>
<td>0.1</td>
<td>−5.2</td>
<td>3.4</td>
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<tr>
<td>LAC excl. Venezuela</td>
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<td>0.8</td>
<td>−5.0</td>
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<tr>
<td>South America</td>
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<td>−2.2</td>
<td>−5.7</td>
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<td>Brazil</td>
<td>1.3</td>
<td>1.3</td>
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<td>−5.3</td>
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<td>−4.5</td>
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<td>Colombia</td>
<td>1.4</td>
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<td>0.9</td>
<td>−4.6</td>
<td>3.6</td>
<td>5.1</td>
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</tbody>
</table>

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

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
The projected recession in 2020 is the deepest in more than 50 years, rising the specter of another lost decade (2015–25)

LAC: Real GDP Growth
(Year-over-year percent change)

LAC: Real GDP per Capita
(Thousands of PPP 2011 international dollars)

LA6: Real GDP Level
(Percentage points; deviation from baseline)

Source: IMF, World Economic Outlook database.

Source: IMF, World Economic Outlook database.

Note: PPP-weighted average of Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

Longer Outbreak in 2020
New Outbreak in 2021
Longer Outbreak in 2020 plus a New Outbreak in 2021

Source: G-20 model simulations.
The large informal economy makes Latin America more vulnerable to this pandemic

Informality Rate, 2016
(Percent)

Sources: International Labour Organization (ILOSTAT) database; and IMF staff calculations.
Note: Share of non-agricultural informal employment in non-agriculture.

Hospital Beds and Population Ages 65 and Above

Sources: World Bank, World Development Indicators database; and World Health Organization database.
### Policy goals, measures and challenges

#### Saving Lives
- Health spending
- Border control
- Quarantine and lockdowns

#### Protecting jobs/people
- Direct transfers
- Unemployment insurance
- Postpone utilities, other bills
- Direct provision of basic needs

#### Supporting firms
- Tax cuts/deferrals
- Credit guarantees for firms
- Wage subsidies
- Equity injections

#### Ensuring credit flow
- Easing of bank regulations
- SME loans and guarantees
- Automatic rollovers
- State owned banks

#### Fiscal Policy
- Deficit limits relaxed, rules eased
- How to create fiscal space?
- How to reach the informal, poorest?

#### Monetary Policy
- Cut in policy rates, FXI
- Liquidity injections
- How to use and protect CB balance sheet?

#### Financial Policies
- Some temporary forbearance
- Pressures on intermediaries balance sheets
- How to balance this trade-off and preserve financial stability?
... but governments in LAC are implementing measures to support business and households even with low fiscal space...

Announced Packages
(Percent of GDP)

Announced Measures and CDS
(Percent of GDP; Basis points)

Sovereign Credit Ratings and CDS Spreads
(5-year; basis points; latest available)

Source: IMF staff calculations.
Note: Includes on budget and off budget measures. Estimates for Colombia and Mexico are announcements of resource availability rather than commitment to spend.

Source: Bloomberg Finance L.P.
Note: Sovereign credit ratings are based on Moody’s rating scale.
Central Banks reduced rates and increased liquidity and funding support...

Policy rates were reduced in line with the Fed

Countries have been using FXI to reduce volatility in disorderly markets

Central Banks have also provided liquidity in bond and credit markets

- Brazil intervened in spot and swap markets (US$ 42 billion or 2.3%GDP since Feb.)
- Mexico and Colombia used swaps and expanded NDF programs
- Peru intervened in spot market (approx. US$ 2 billion or 0.9%GDP since Feb.)

- Many broadened the eligible collateral and counterparties for repos
- Some established corporate securities repo facilities (Mex, Chile)
- Chile introduced funding facility for banks conditional on lending to corporates
- Several reduced reserve requirements

Sources: Haver Analytics; and national authorities.

Source: IMF Policy Tracker.
... while the authorities have taken also a number of financial policy measures

- Measures to facilitate the flow of credit
  - Public banks’ extension of credit to SME or to firms in sectors directly affected by containment measures (airlines, tourism)
  - Provision of government credit guarantees (Brazil, Chile, Colombia, Peru)
  - Credit and lending facilities for SMEs and micro-credits in both formal and informal sectors (Mexico)

- Temporary regulatory flexibility or forbearance
  - Temporary relaxation of provisioning and/or accounting/classification rules (Brazil, Chile, Colombia, Mexico, Peru)
  - Reduction of capital conservation buffers (Brazil)
  - Release of countercyclical provisions (Colombia)
The IMF has expanded its facilities and received a number of requests for programs

- Existing facilities were expanded (RCF, RFI, CCRF) and a new one was created (SLL)

- Expediting processes to deploy funds rapidly:

![Emergency and Precautionary Financing Requests](As of April 29, 2020)

<table>
<thead>
<tr>
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<th>LAC</th>
<th>Caribbean</th>
<th>CAPDR</th>
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THANK YOU