



**WESTERN HEMISPHERE
DEPARTMENT**

The Great Lockdown and Its Impact on LAC

APRIL 2020

Alejandro Werner
Director

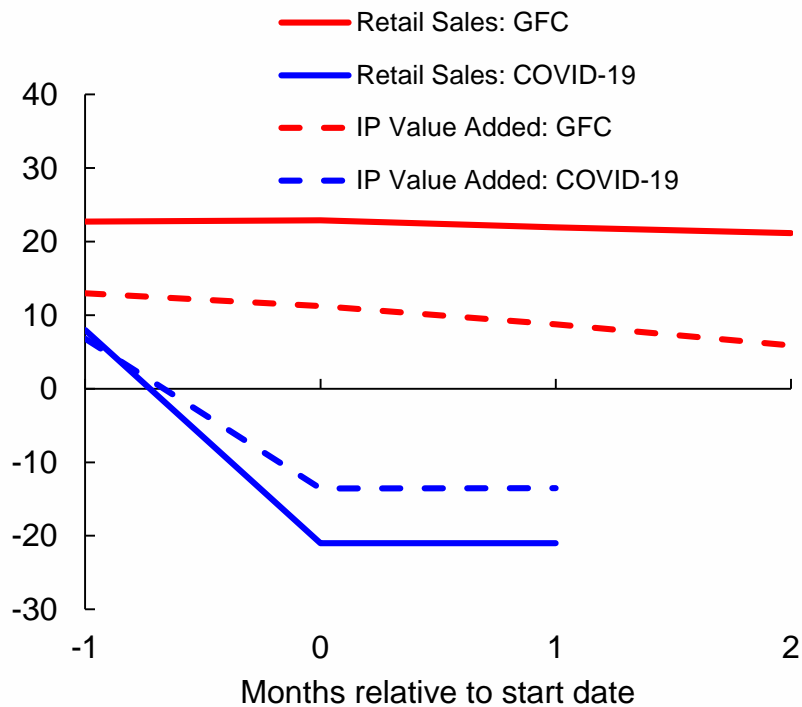


RESEARCH

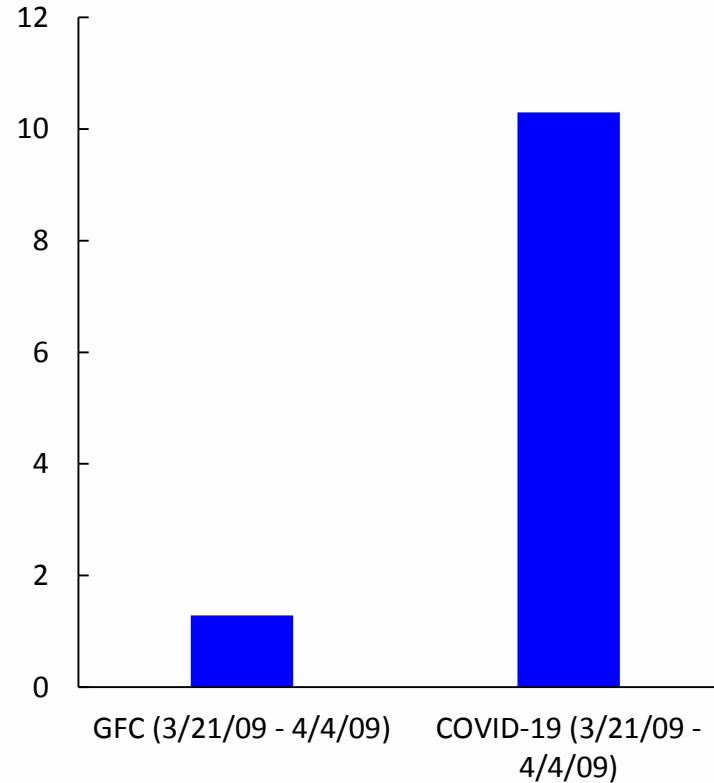
Global Outlook

High-frequency indicators point to severe economic fallout from Covid-19 pandemic

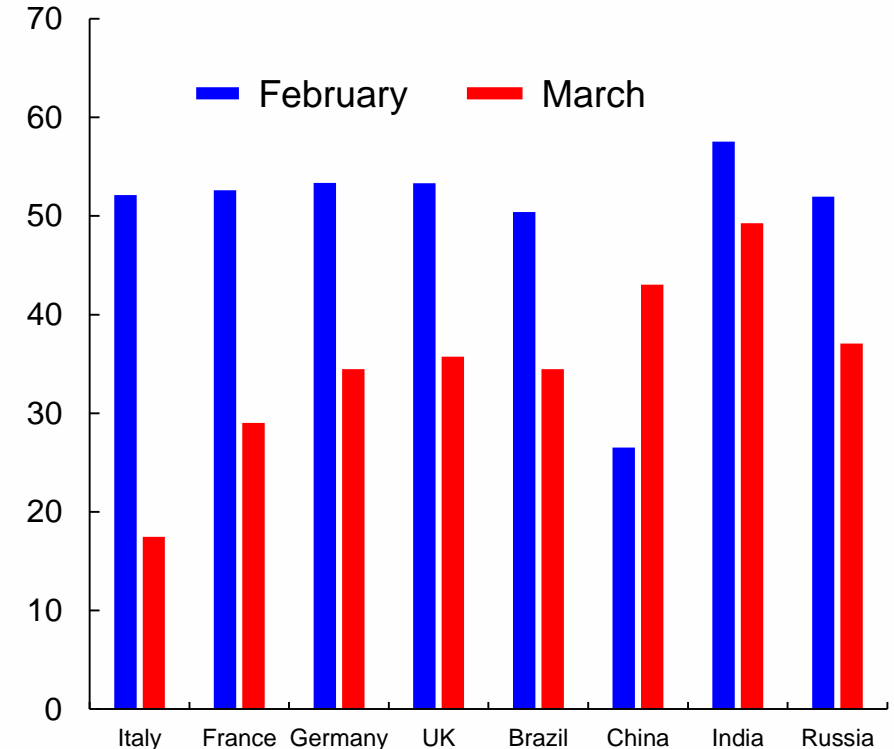
In China, industrial production and retail sales have contracted sharply
(seasonally adjusted percent change year over year)



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)



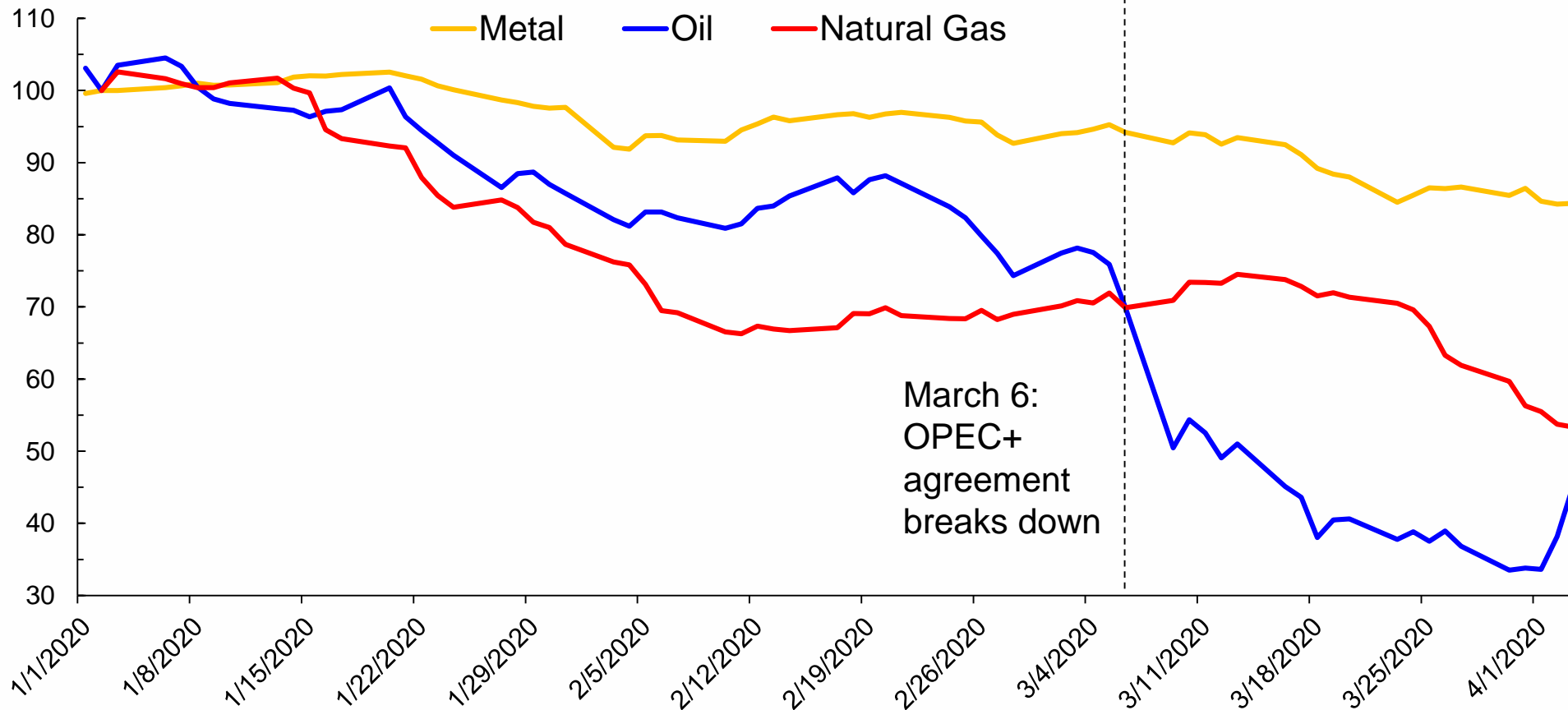
Source: Haver Analytics; and IMF staff calculations
INTERNATIONAL MONETARY FUND

Source: Federal Reserve Economic Data

Source: Haver Analytics

A drastic decline in commodities prices

Commodity prices (January 2, 2020 = 100)



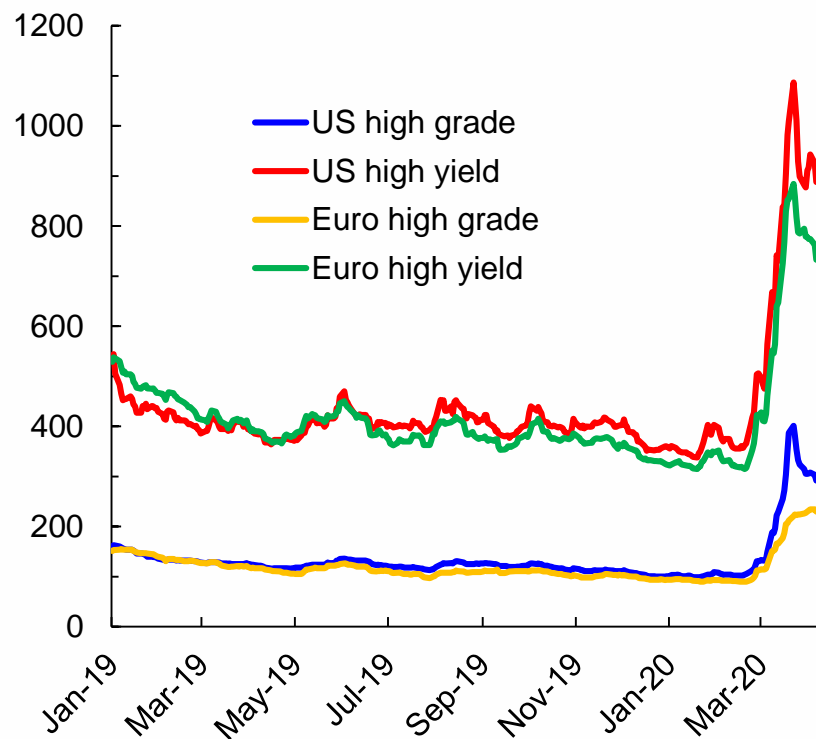
Sources: IMF, Primary Commodity Price System; and IMF staff calculations

Note: OPEC+ = Organization of the Petroleum Exporting Countries, including Russia

Credit spreads have widened significantly

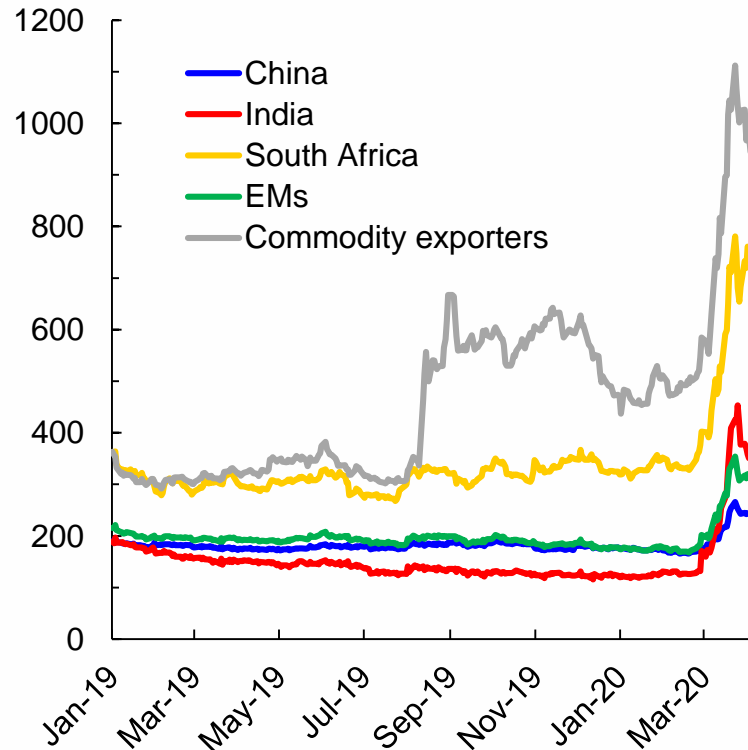
Corporate spreads in advanced economies

Basis points

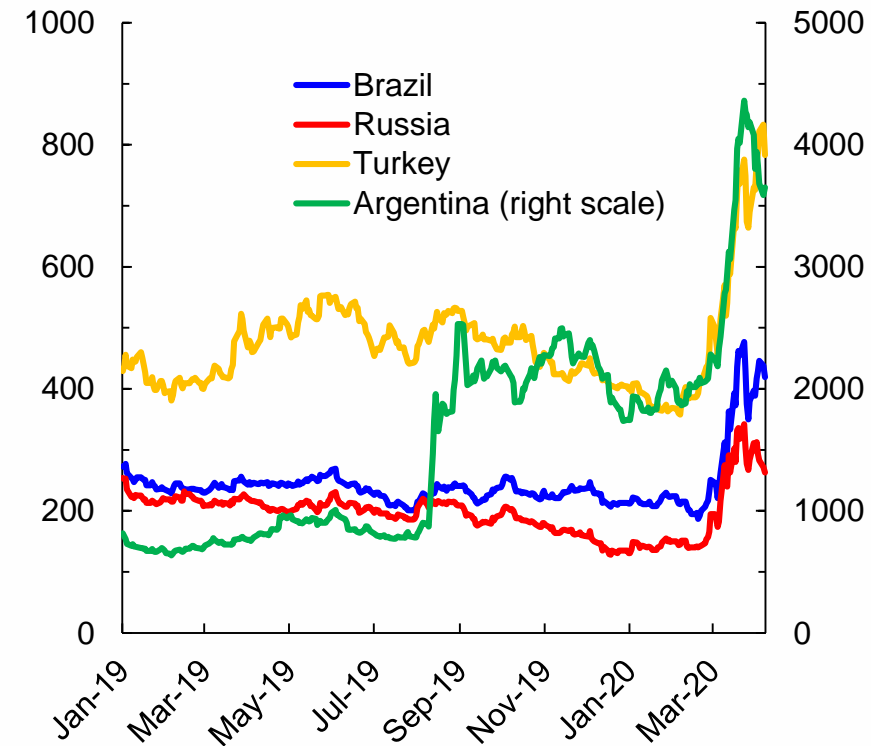


EMBI sovereign spreads in emerging markets

Basis points



Basis points



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)



World



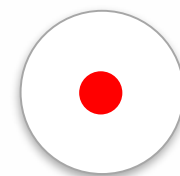
Advanced Economies



U.S.



U.K.



Japan



Euro Area



Canada



Korea



Other
Advanced
Asia

	World	Advanced Economies	U.S.	U.K.	Japan	Euro Area	Canada	Korea	Other Advanced Asia
2019	2.9	1.7	2.3	1.4	0.7	1.2	1.6	2.0	1.6
2020	-3.0	-6.1	-5.9	-6.5	-5.2	-7.5	-6.2	-1.2	-5.1
Revision from Oct. 2019	-6.4	-7.8	-8.0	-7.9	-5.7	-8.9	-8.0	-3.4	-7.0
2021	5.8	4.5	4.7	4.0	3.0	4.7	4.2	3.4	4.5
Revision from Oct. 2019	2.2	2.9	3.0	2.5	2.5	3.3	2.4	0.7	2.2

Growth Projections: Emerging Markets and LIDCs

(Percent change from a year earlier)



World



Emerging Market and Developing Economies



China



India



Brazil



Russia



Commodity Exporting Economies



Low Income Developing Countries

2019

2.9

3.7

6.1

4.2

1.1

1.3

1.3

5.1

2020

-3.0

-1.0

1.2

1.9

-5.3

-5.5

-3.4

0.4

Revision from Oct. 2019

-6.4

-5.6

-4.6

-5.1

-7.3

-7.4

-6.1

-4.7

2021

5.8

6.6

9.2

7.4

2.9

3.5

4.7

5.6

Revision from Oct. 2019

2.2

1.8

3.3

0.0

0.5

1.5

1.7

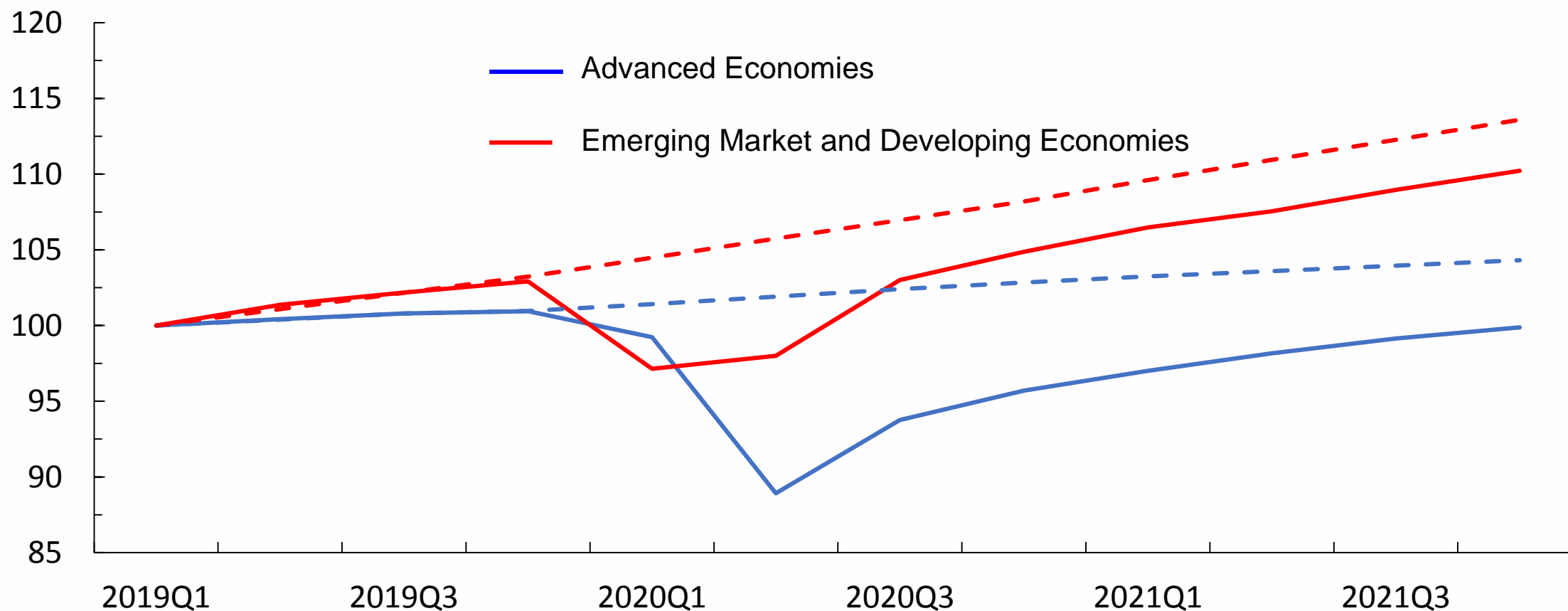
0.4

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

Quarterly World GDP

(2019:Q1 = 100; dashed lines indicate estimates from January 2020 WEO Update)

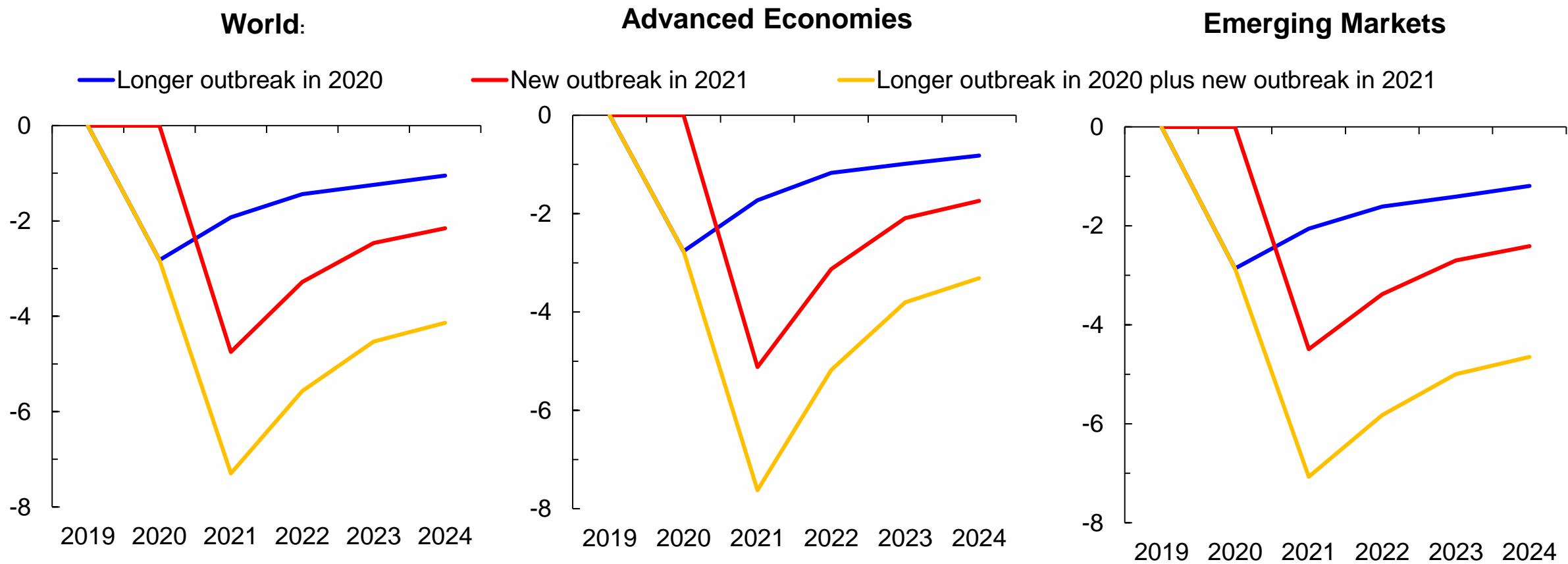


Source: IMF staff estimates

Note: WEO = World Economic Outlook

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)



Source: IMF, G-20 Model Simulations.

Policy strategy: Combating Covid-19, Limiting Economic Fallout, Facilitating Recovery

- **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.



**WESTERN HEMISPHERE
DEPARTMENT**

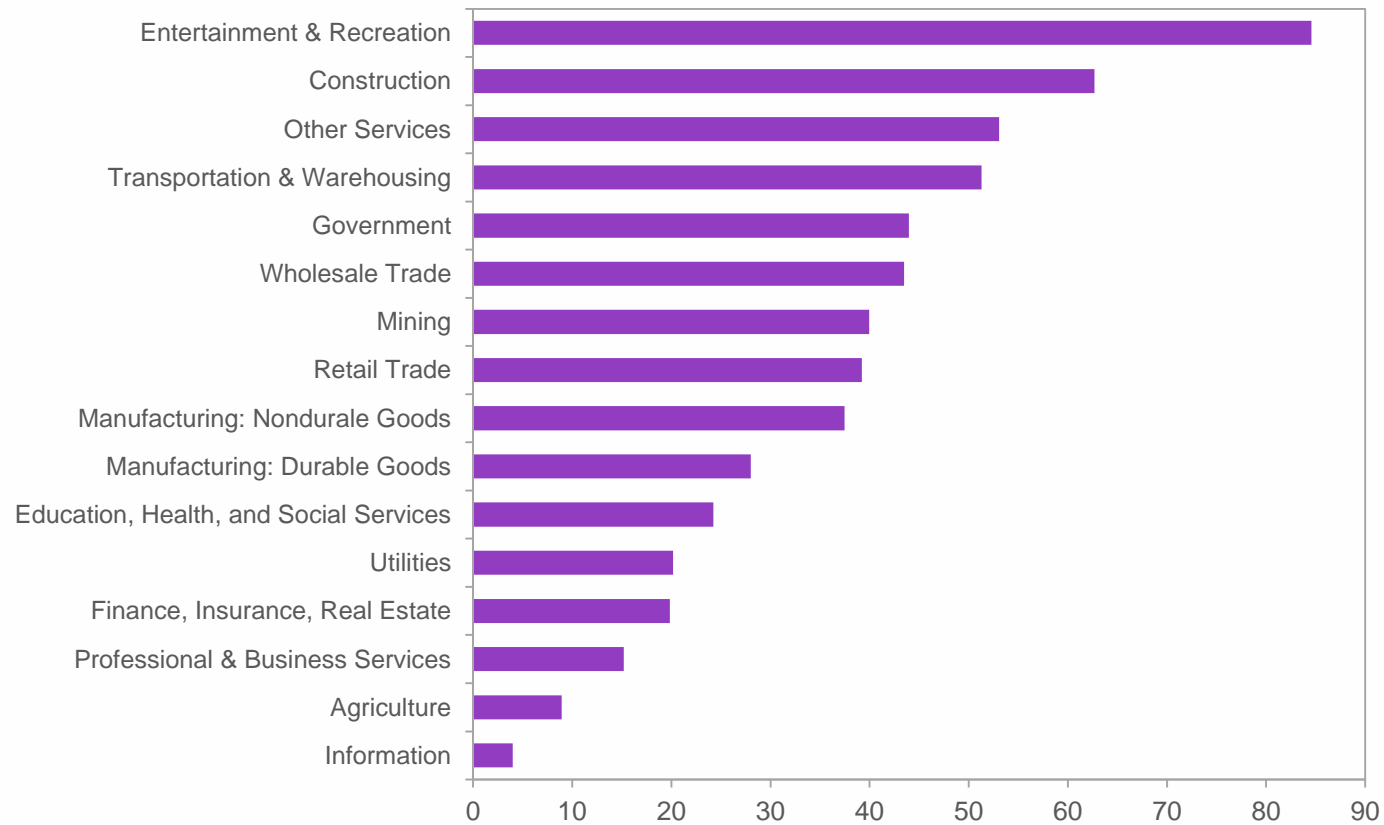
United States Outlook

Western Hemisphere Department



Assumed Sectoral Losses During the Lockdown

Estimated Sectoral Output Loss Relative to a 'Regular' Week
(percent deviation)



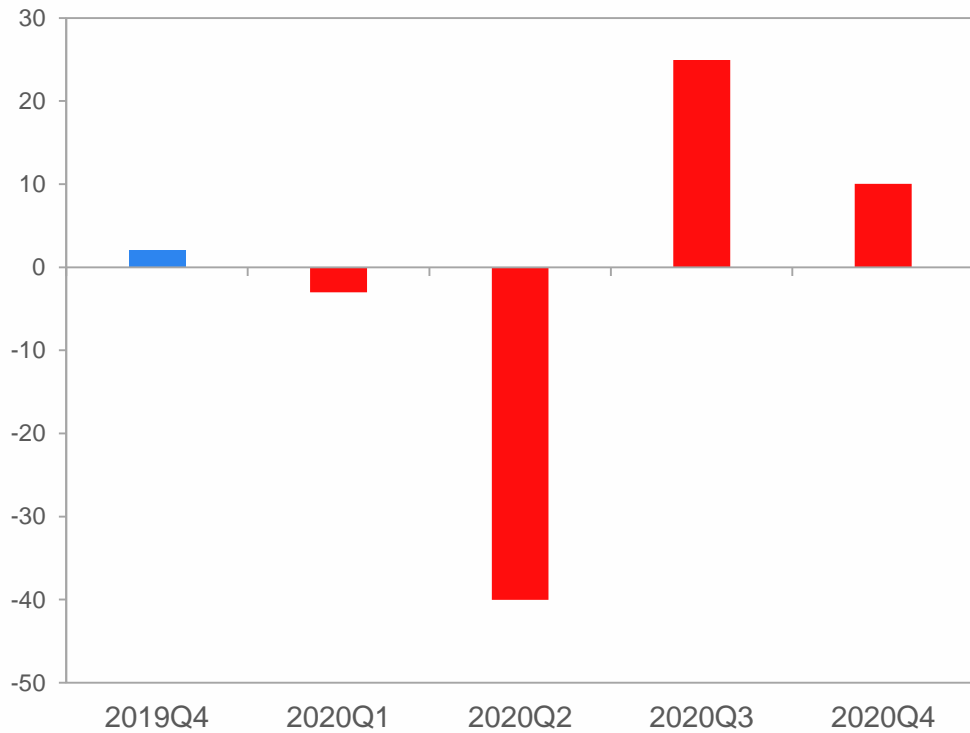
Sources: Bureau of Economic Analysis; Haver Analytics; and IMF staff calculations.



Implied GDP Path

Real GDP Growth

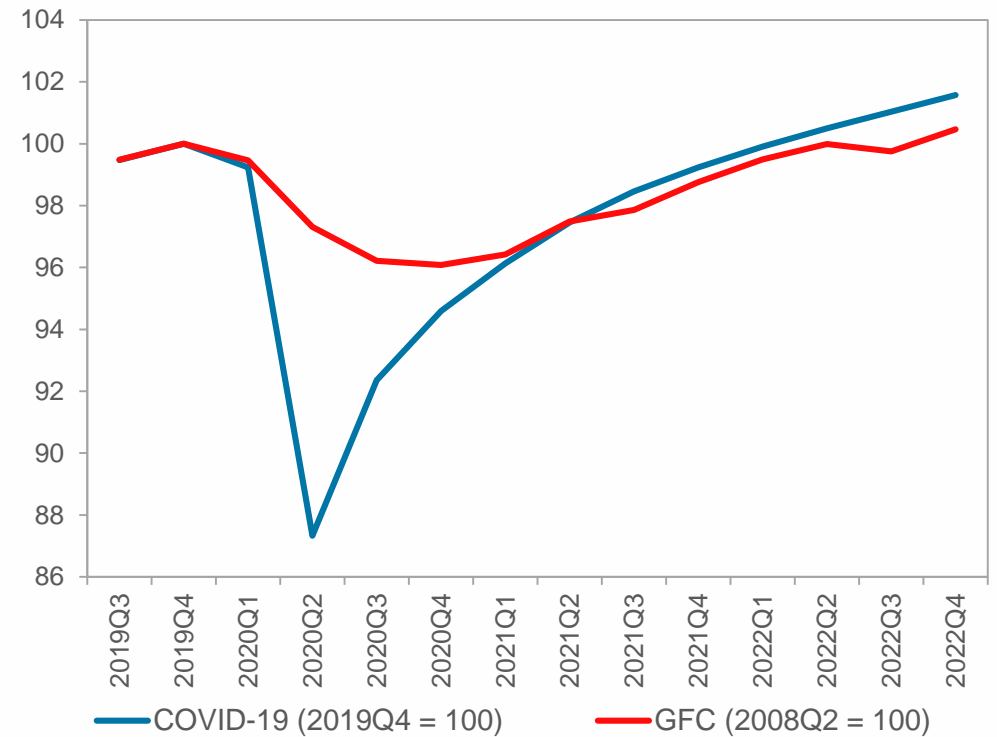
(Percent change, quarter-on-quarter annualized)



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

Real GDP Levels:

Current Projections Vs. Global Financial Crisis

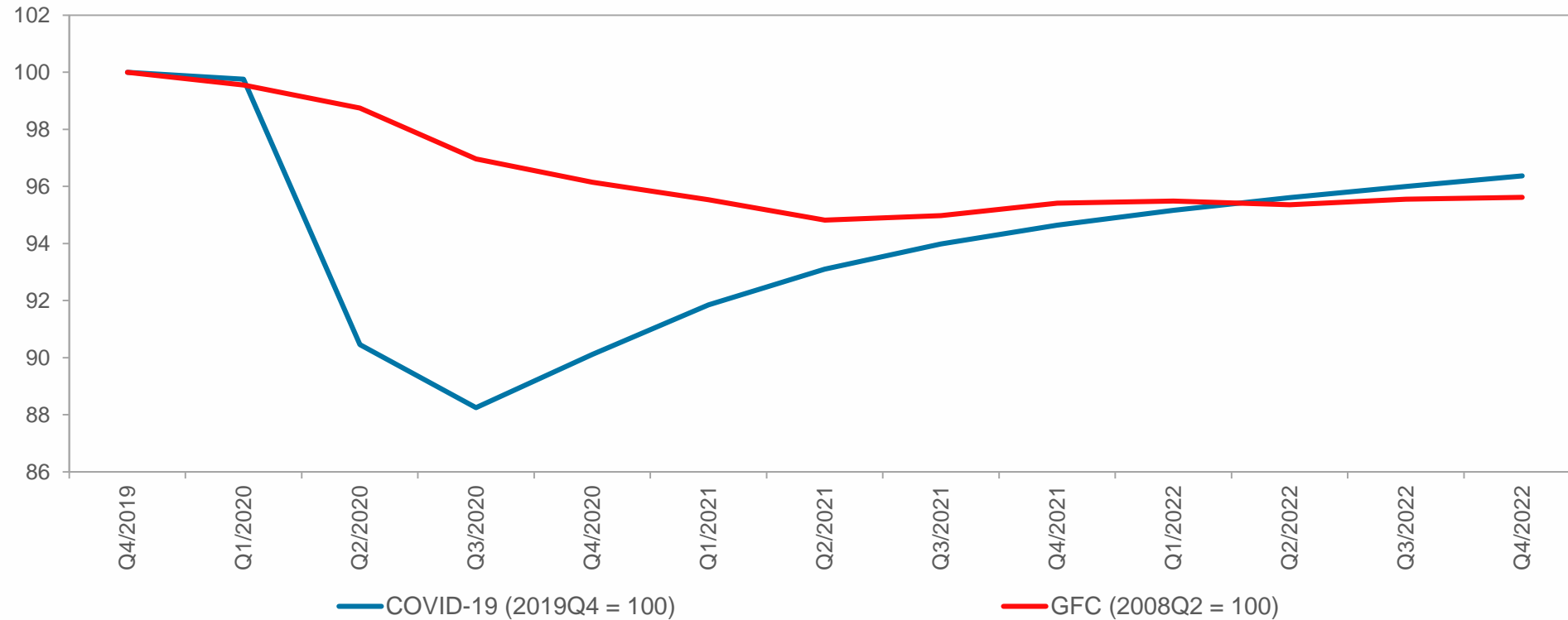


Sources: Bureau of Economic Analysis; Haver Analytics; and IMF staff calculations.



Labor Markets

Employment Levels:
Current Projections Vs. Global Financial Crisis

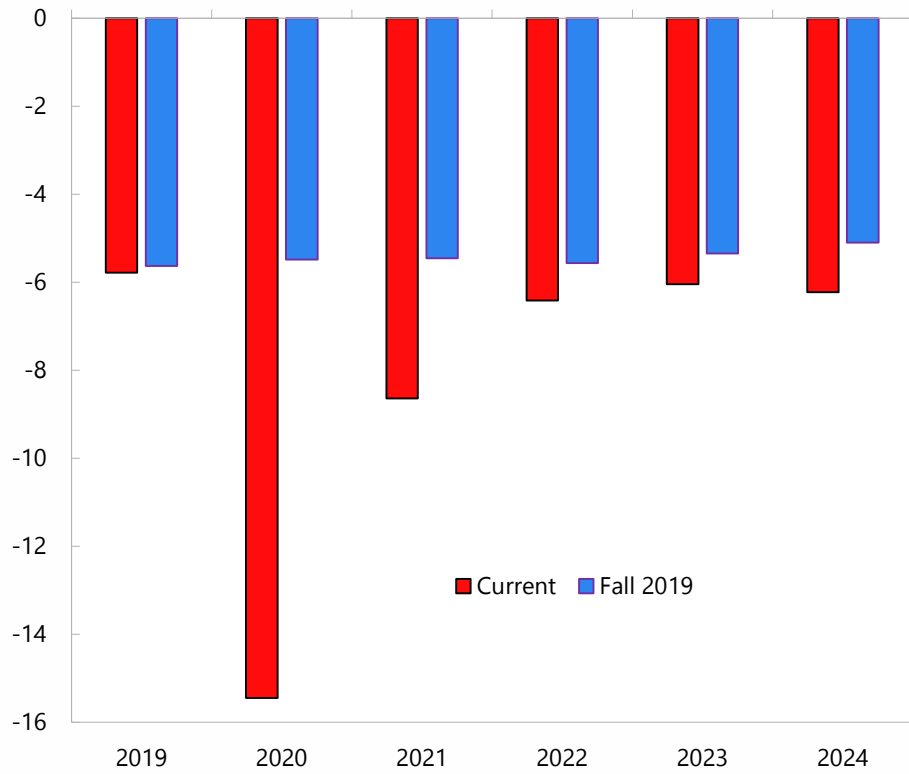


Sources: Bureau of Labor Statistics; Haver Analytics; and IMF staff calculations.



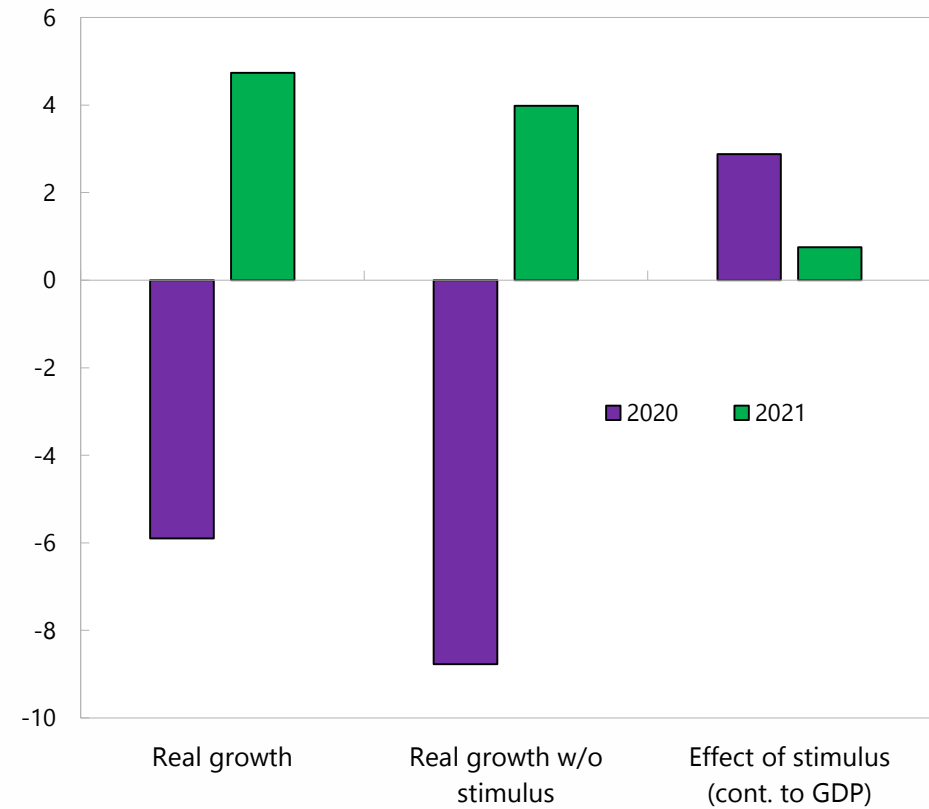
Fiscal Implications

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.



**WESTERN HEMISPHERE
DEPARTMENT**

COVID-19: The Impact in LAC

APRIL 2020

Alejandro Werner
Director

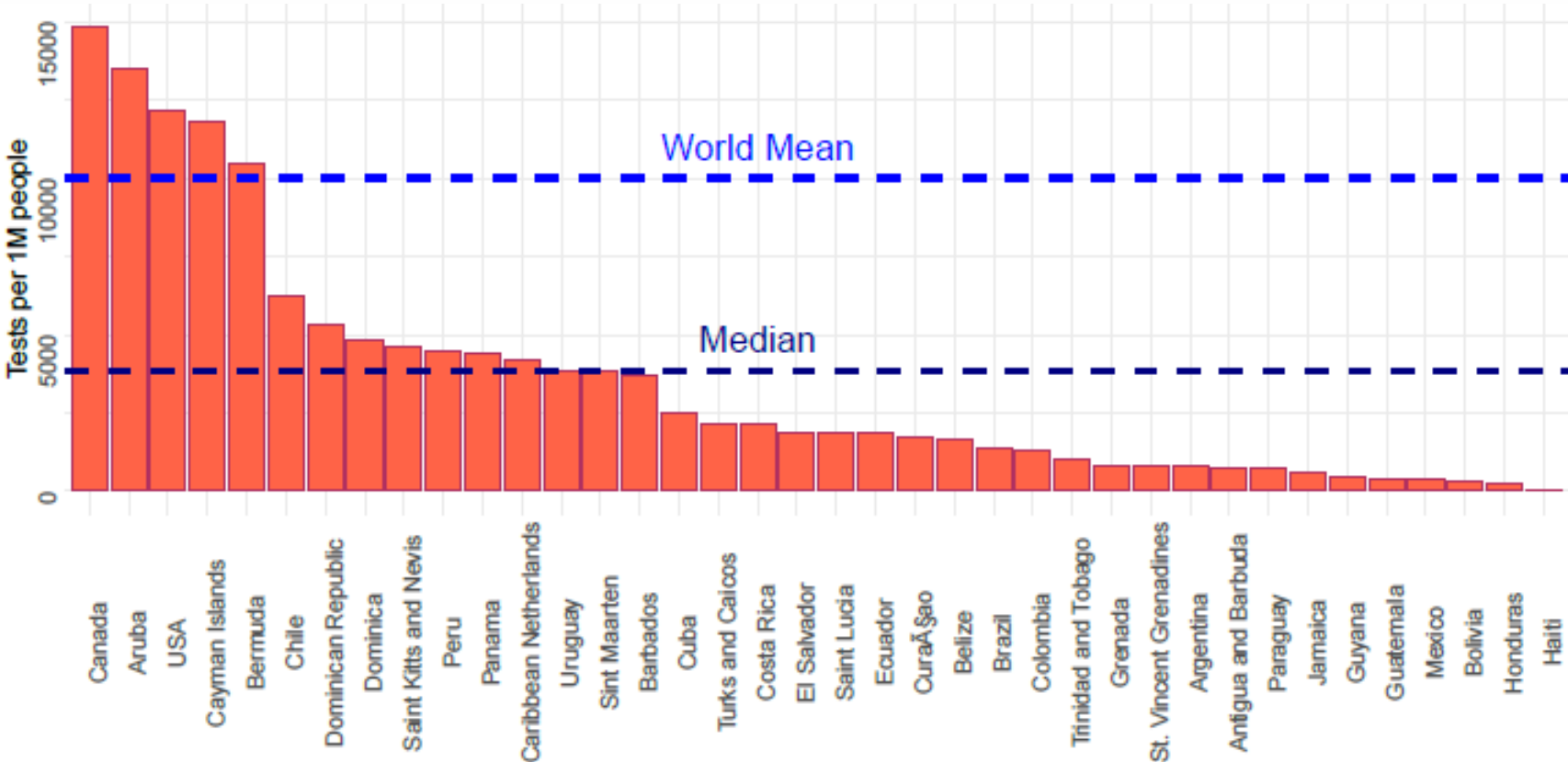
LAC: The spread of the virus has accelerated in the region...

(Data as of April 28, 2020)

Country	Confirmed	Confirmed/ 1,000,000	Deaths	Death Rate	Country	Confirmed	Confirmed/ 1,000,000	Deaths	Death Rate
BRA	73,235	350	5,083	6.9	JAM	364	124	7	1.9
PER	31,190	975	854	2.7	SLV	345	54	8	2.3
ECU	24,258	1420	871	3.6	VEN	329	11	10	3.0
MEX	16,752	133	1,569	9.4	PRY	239	34	9	3.8
CHL	14,365	767	207	1.4	TTO	116	83	8	6.9
DOM	6,416	604	286	4.5	BRB	80	279	6	7.5
PAN	6,021	1442	167	2.8	HTI	76	7	6	7.9
COL	5,949	120	269	4.5	GUY	74	95	8	10.8
ARG	4,127	93	207	5.0	ATG	24	249	3	12.5
CUB	1,437	127	58	4.0	GRD	19	170	0	0.0
BOL	1,014	89	53	5.2	BLZ	18	47	2	11.1
CRI	705	141	6	0.9	LCA	15	82	0	0.0
HND	702	73	64	9.1	VCT	15	136	0	0.0
URY	625	181	15	2.4	NIC	13	2	3	23.1
GTM	530	31	15	2.8	SUR	10	17	1	10.0
					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...

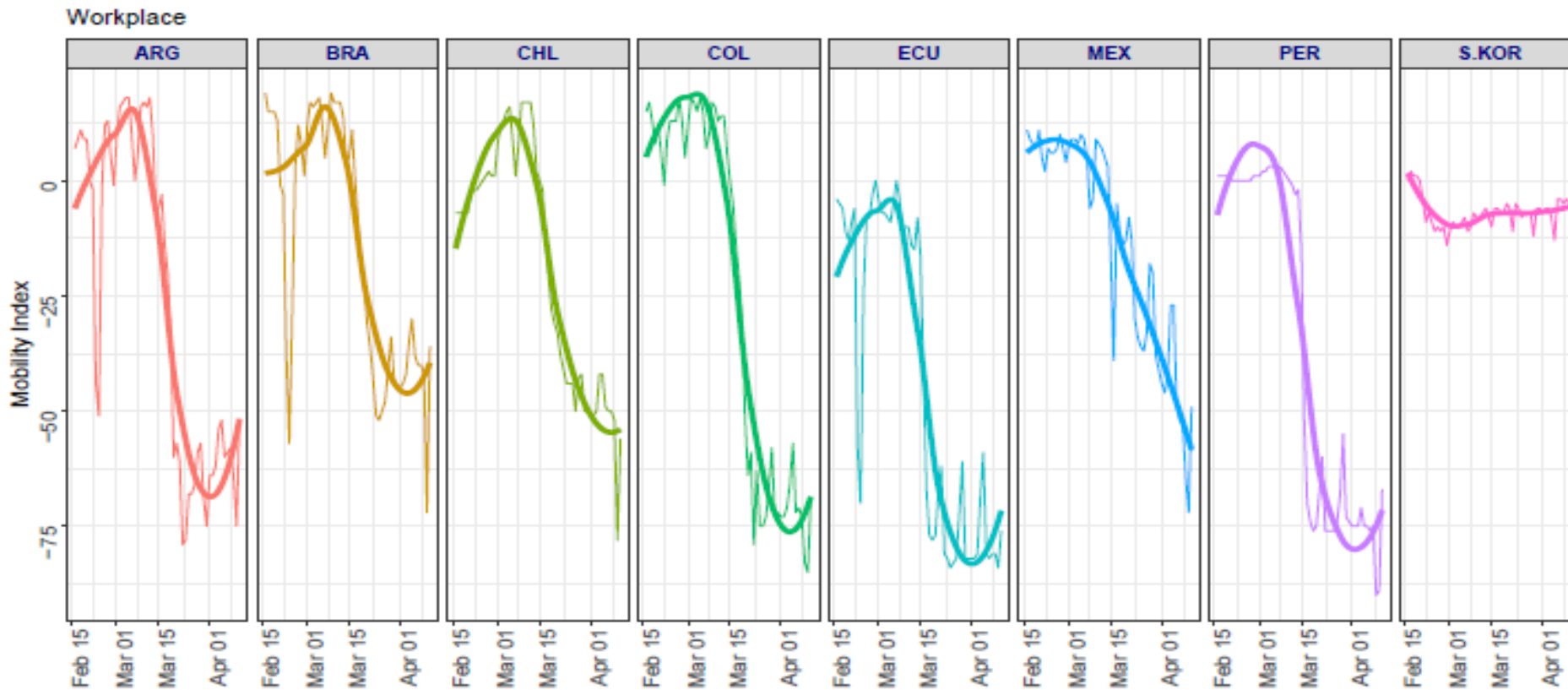
Testing Capacity in the Region
(Tests per 1 million people)



Source: Worldometer.

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

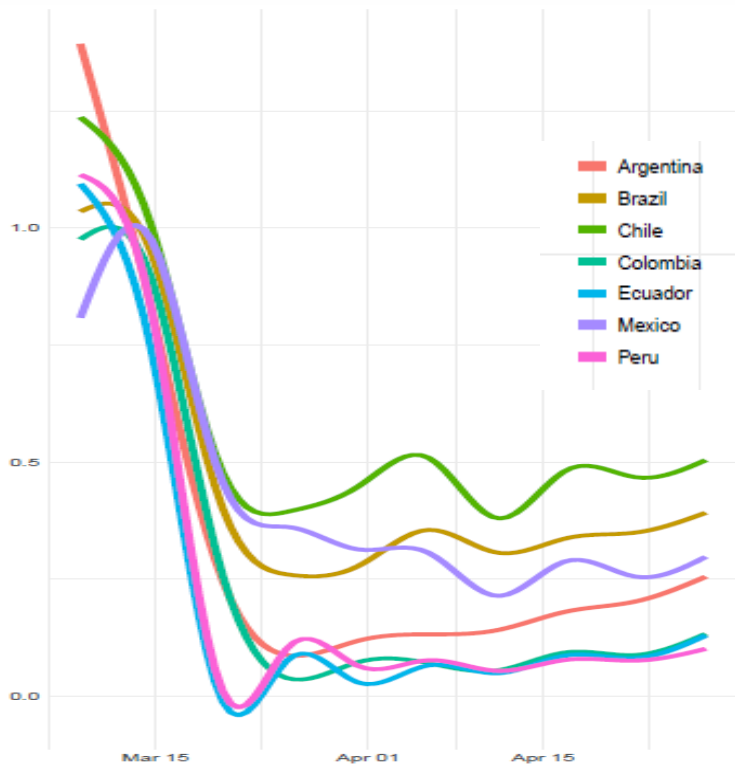
Mobility Indicator
(Agglomeration index)



Source: Google Mobility Reports.

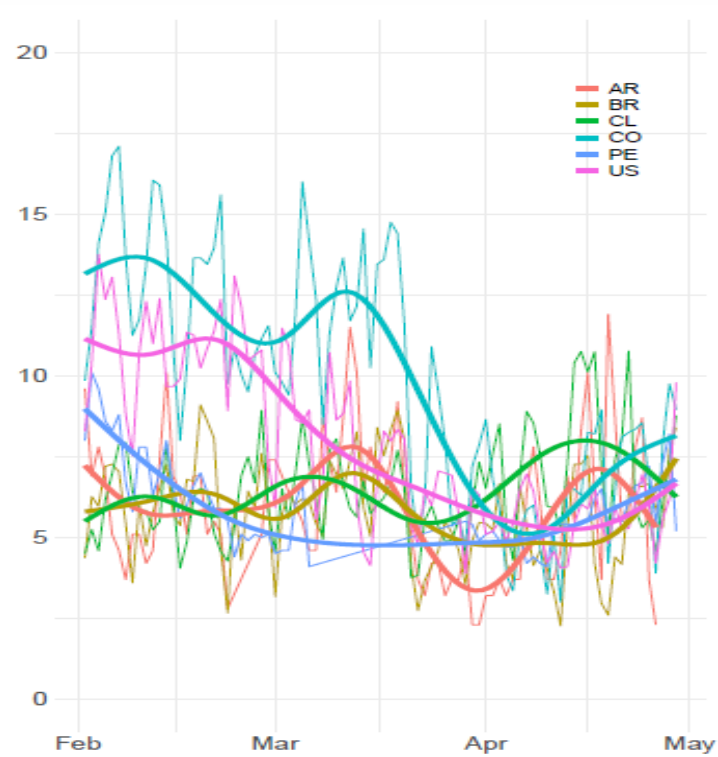
The sharp impact on activity is becoming apparent in high frequency indicators...

Traffic Congestion Index



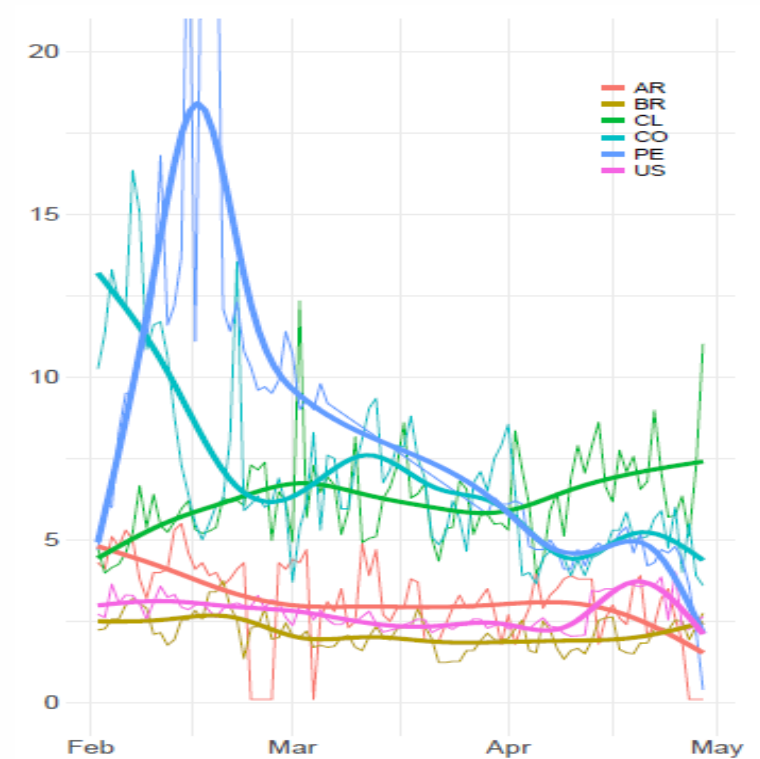
Source: Waze.

Pollution: NO2 Emissions



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

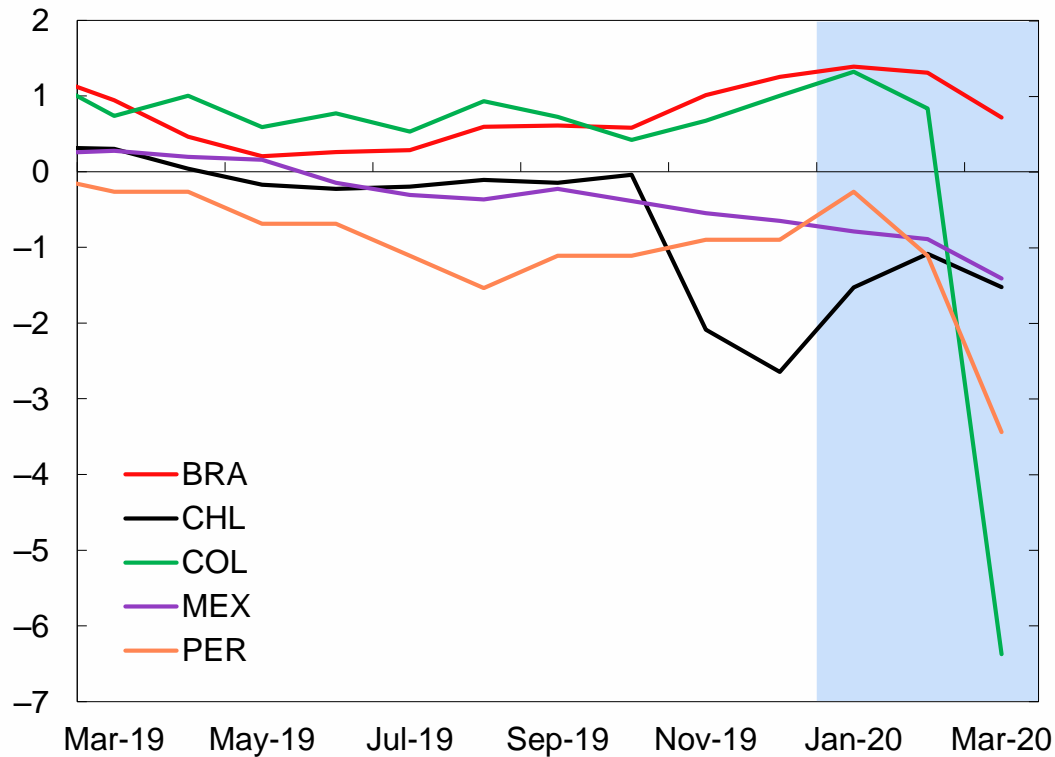
Pollution: Co Emissions



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

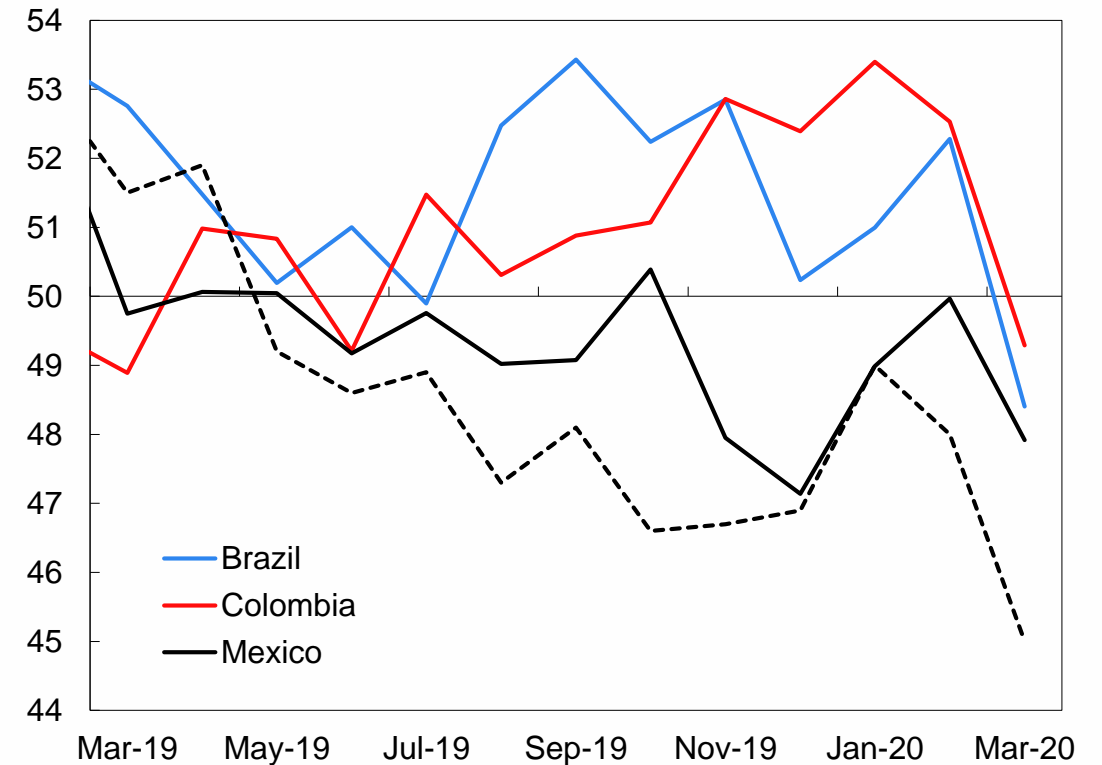
... with declines in business confidence and manufacturing activities

Business Confidence
(Normalized)



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

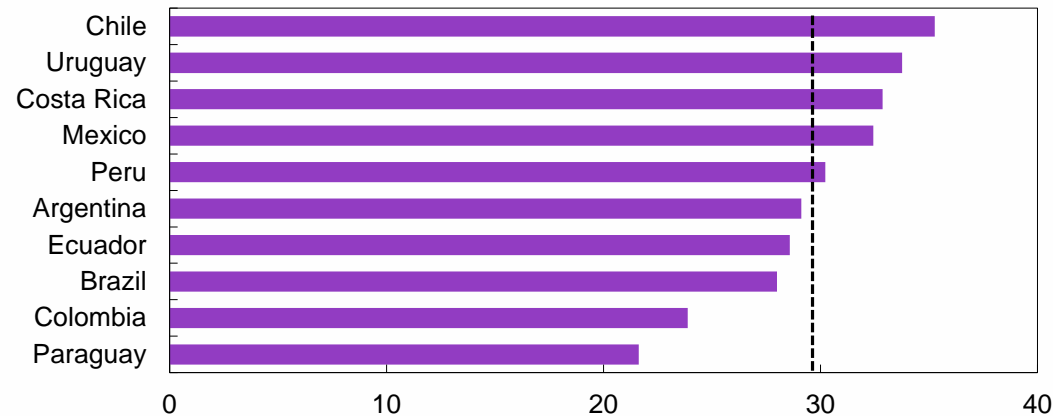
Manufacturing PMI: Overall
(Seasonally adjusted; 50+ = expansion)



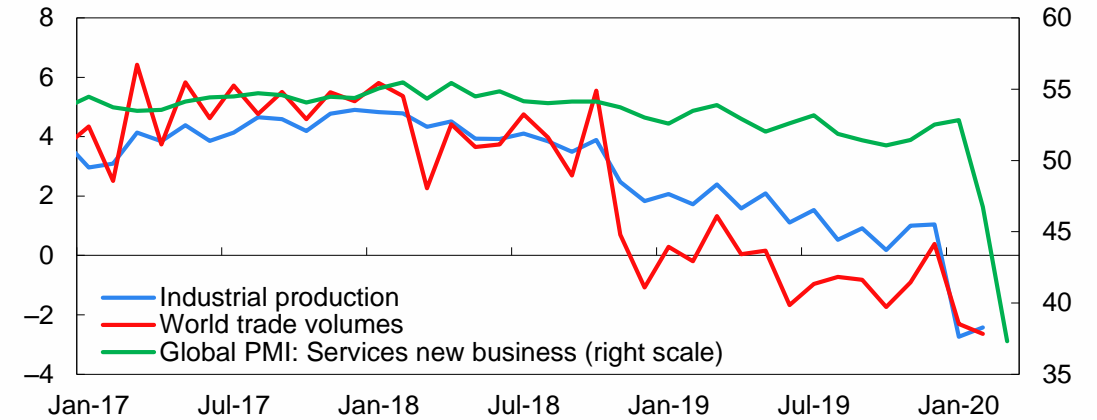
Sources: Haver Analytics; IHS Markit; and Instituto Mexicano de Ejecutivos en Finanzas (IMEF).
Note: Dashed line for Mexico refers to IMEF business climate index. PMI = purchasing managers' index.

The confluence of domestic (lockdown) and external shocks is “a crisis like no other”

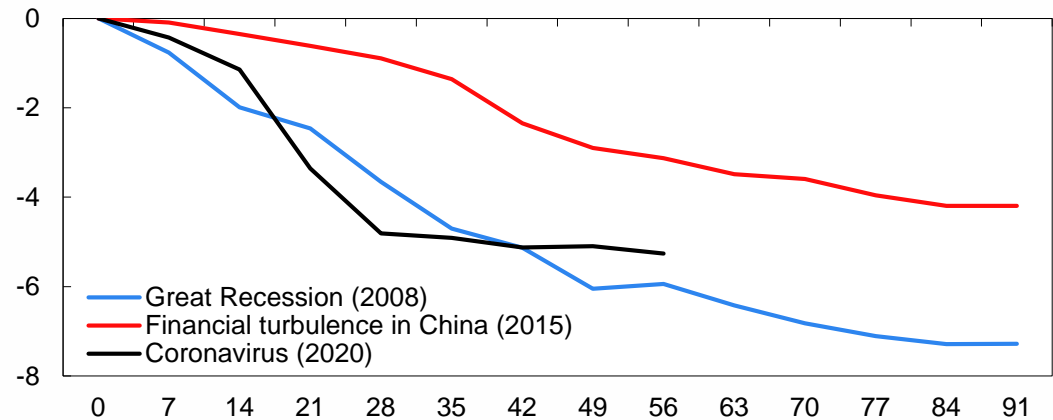
Share of Sectors Most Affected by COVID-19¹
(Percent)



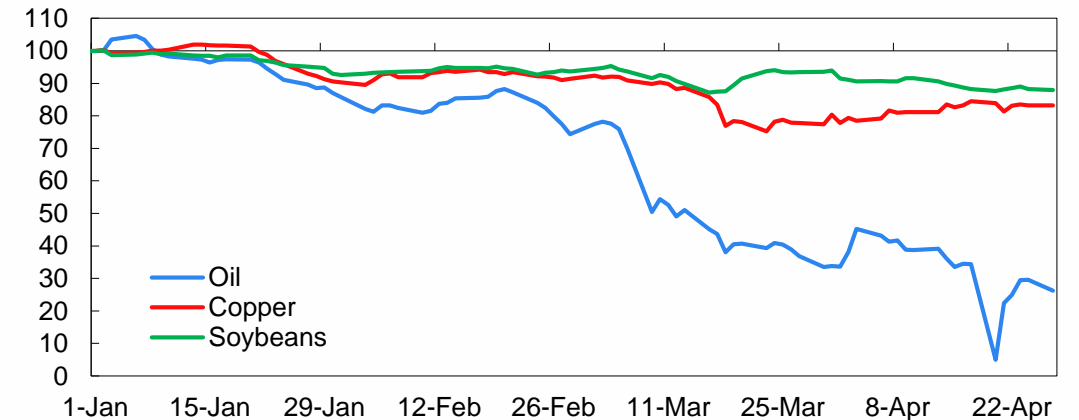
World Trade, Industrial Production, and Global PMI²
(Year-over-year percent change)



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



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.

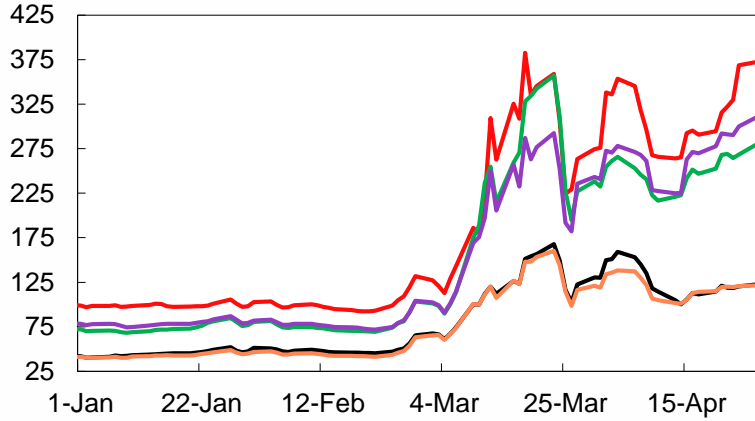
²Global PMI is seasonally adjusted (50+ = expansion).

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).

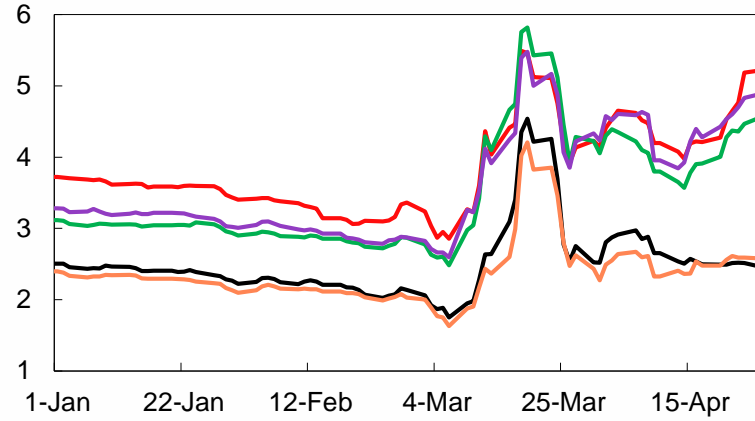
The global epidemic and associated shocks has led to a sharp tightening of financial conditions

— BRA — CHL — COL — MEX — PER

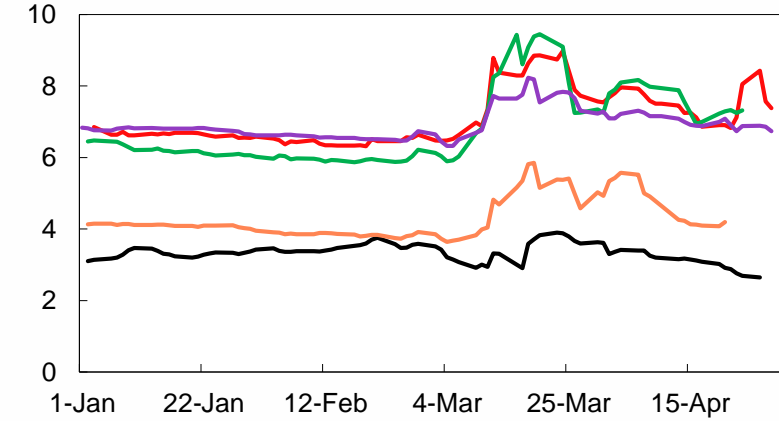
CDS Spreads
(5-year; basis points)



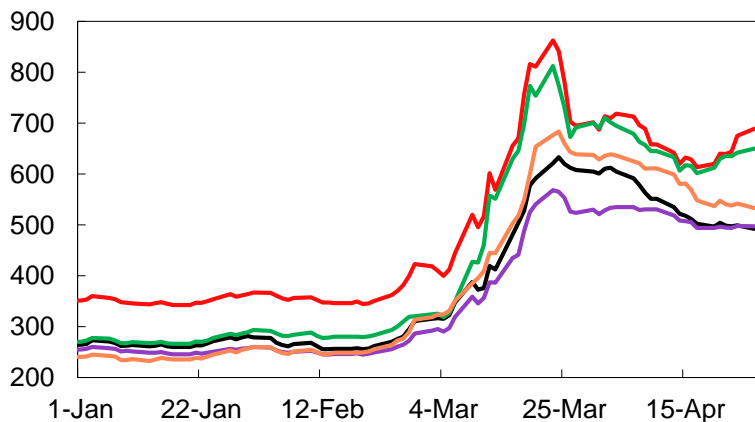
10-Year Government Bond Yield
(Percent; US dollar denominated)



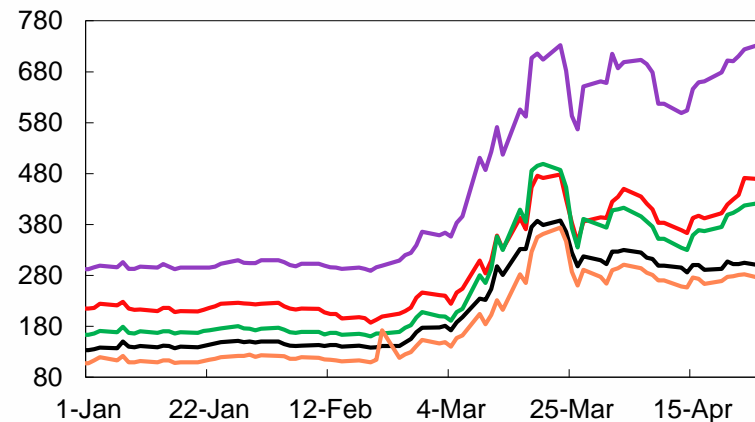
10-Year Government Bond Yield
(Percent; local currency denominated)



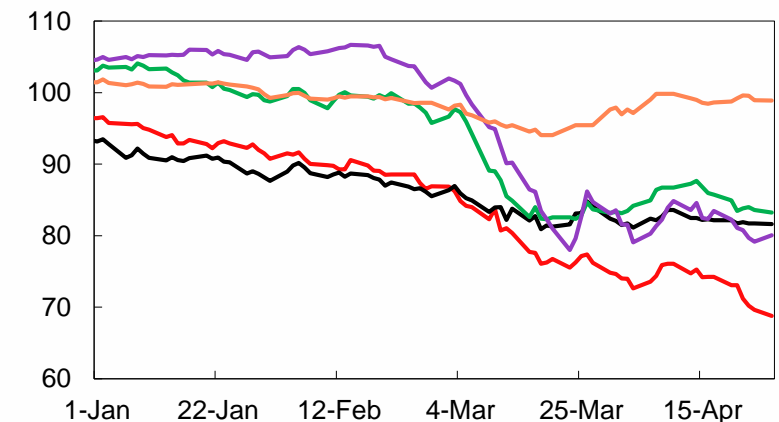
Corporate Spreads
(CEMBI; basis points)



Sovereign Spreads
(EMBIG; basis points)



Exchange Rates Against the US dollar
(Index: 6/3/2019 = 100; increase = appreciation)



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

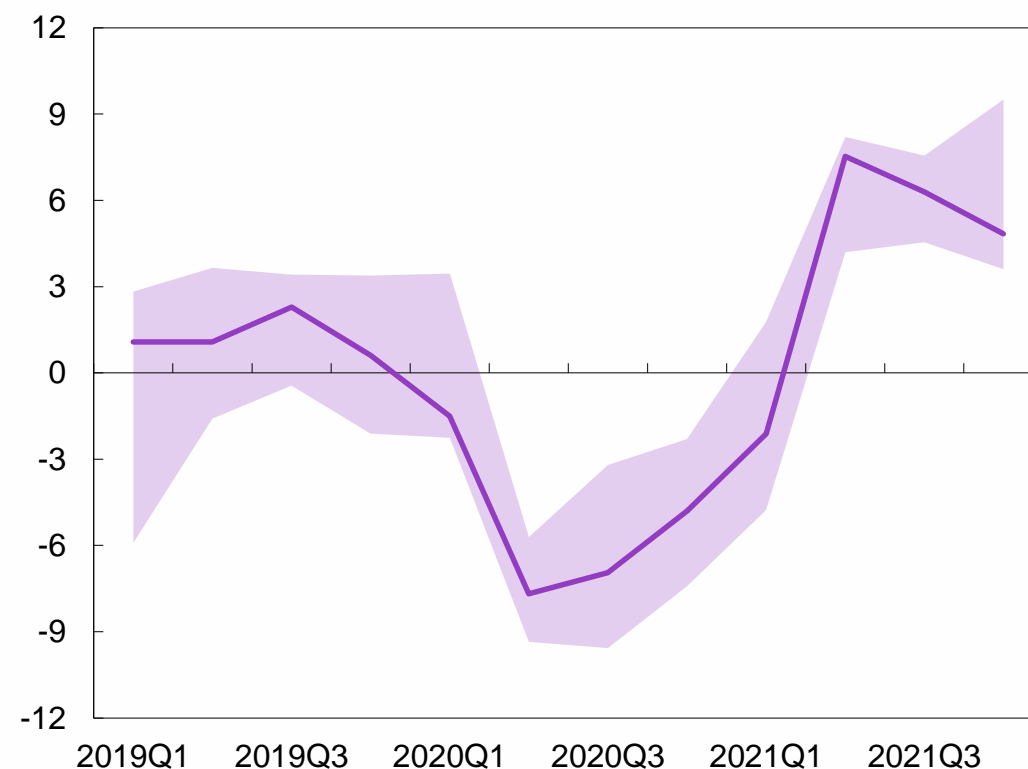
Latin America and the Caribbean: Real GDP Growth
(Year-over-year percent change)

	2017	2018	2019	Projections		
				2020	2021	Avg. 2022–25
LAC	1.3	1.1	0.1	-5.2	3.4	2.7
LAC excl. Venezuela	2.0	1.7	0.8	-5.0	3.5	2.7
South America	0.7	0.4	-0.1	-5.1	3.4	2.6
Argentina	2.7	-2.5	-2.2	-5.7	4.4	2.5
Brazil	1.3	1.3	1.1	-5.3	2.9	2.4
Chile	1.2	3.9	1.1	-4.5	5.3	2.7
Colombia	1.4	2.5	3.3	-2.4	3.7	3.9
Peru	2.5	4.0	2.2	-4.5	5.2	3.9
Mexico	2.1	2.1	-0.1	-6.6	3.0	2.3
CAPDR	4.2	3.8	3.2	-2.4	4.0	4.1
Caribbean						
Tourism dependent	0.9	1.9	1.4	-7.5	5.8	2.2
Commodity exporters	-1.2	0.7	0.9	-4.6	3.6	5.1

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

Note: PPP GDP-weighted average. South America excludes Guyana and Suriname. Green/red denotes upward/downward revision compared with the October 2019 *World Economic Outlook* forecasts. Growth for commodity exporters in 2020 excludes Guyana.

Real GDP Growth
(Year-over-year percent change; median)

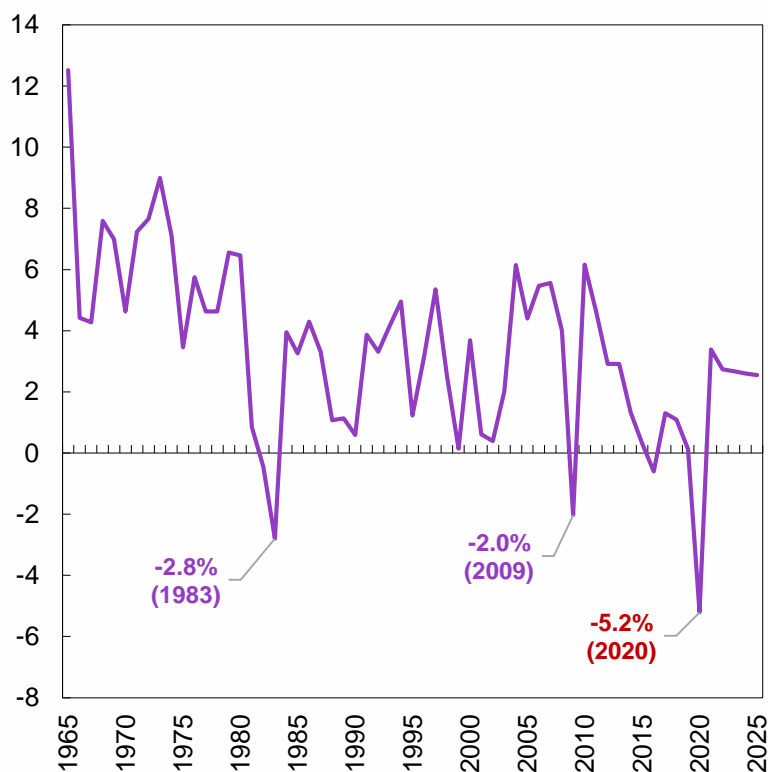


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

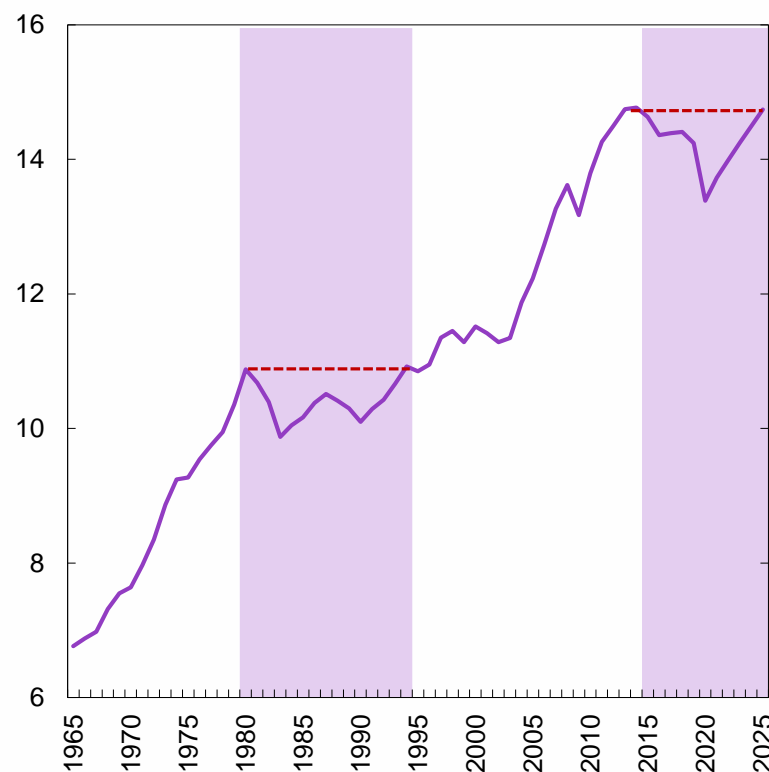
The projected recession in 2020 is the deepest in more than 50 years, rising the specter of another lost decade (2015–25)

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



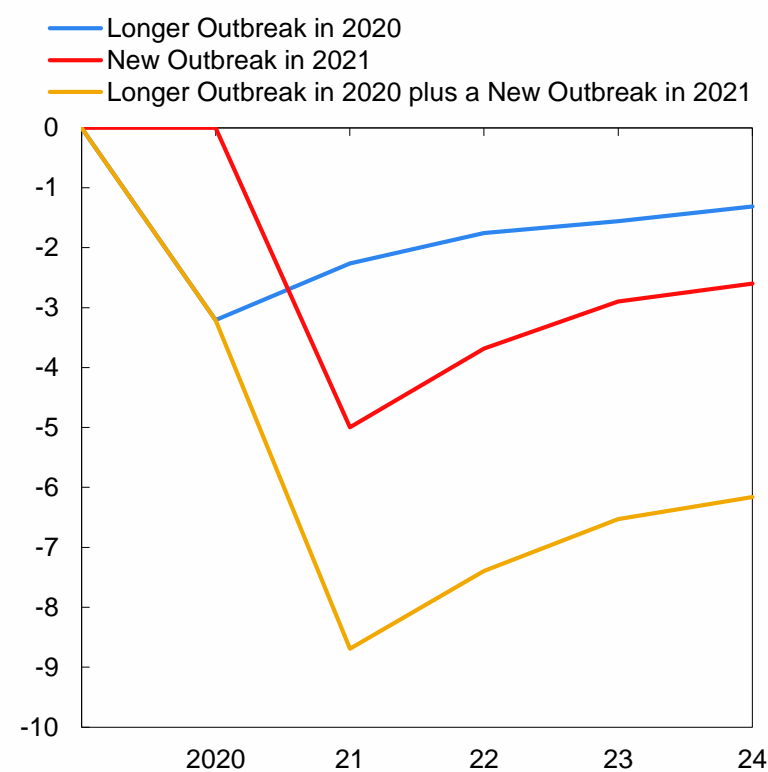
Source: IMF, World Economic Outlook database.

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



Source: IMF, World Economic Outlook database.

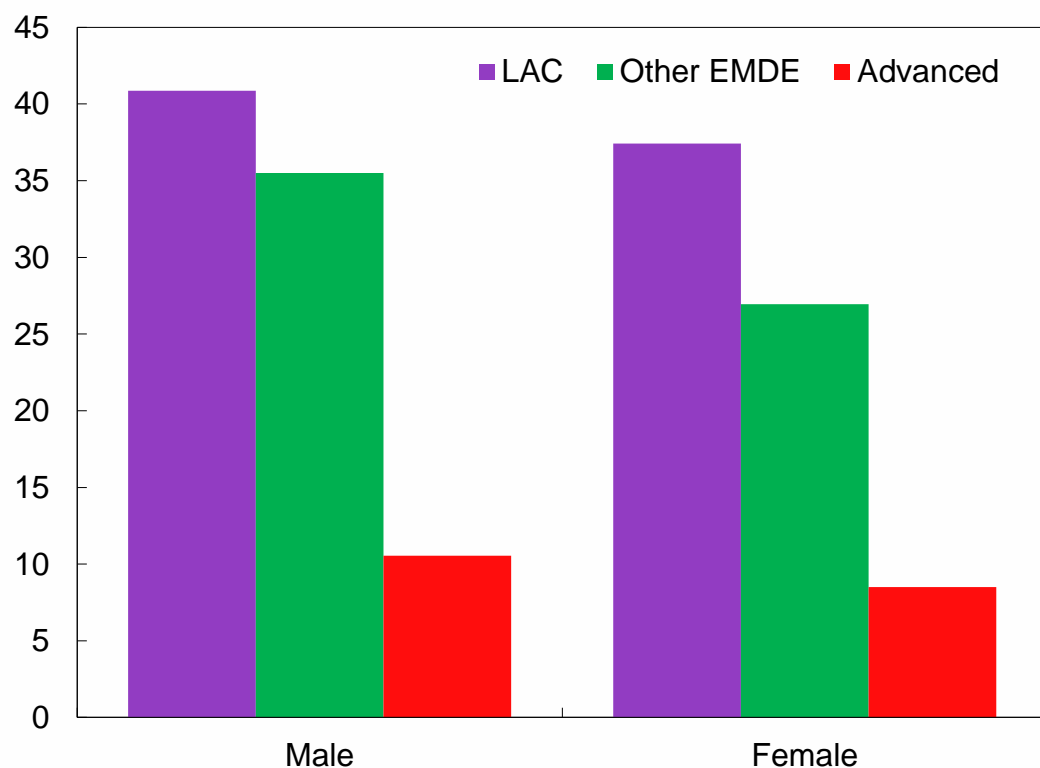
LA6: Real GDP Level
(Percentage points; deviation from baseline)



Source: G-20 model simulations.
Note: PPP-weighted average of Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

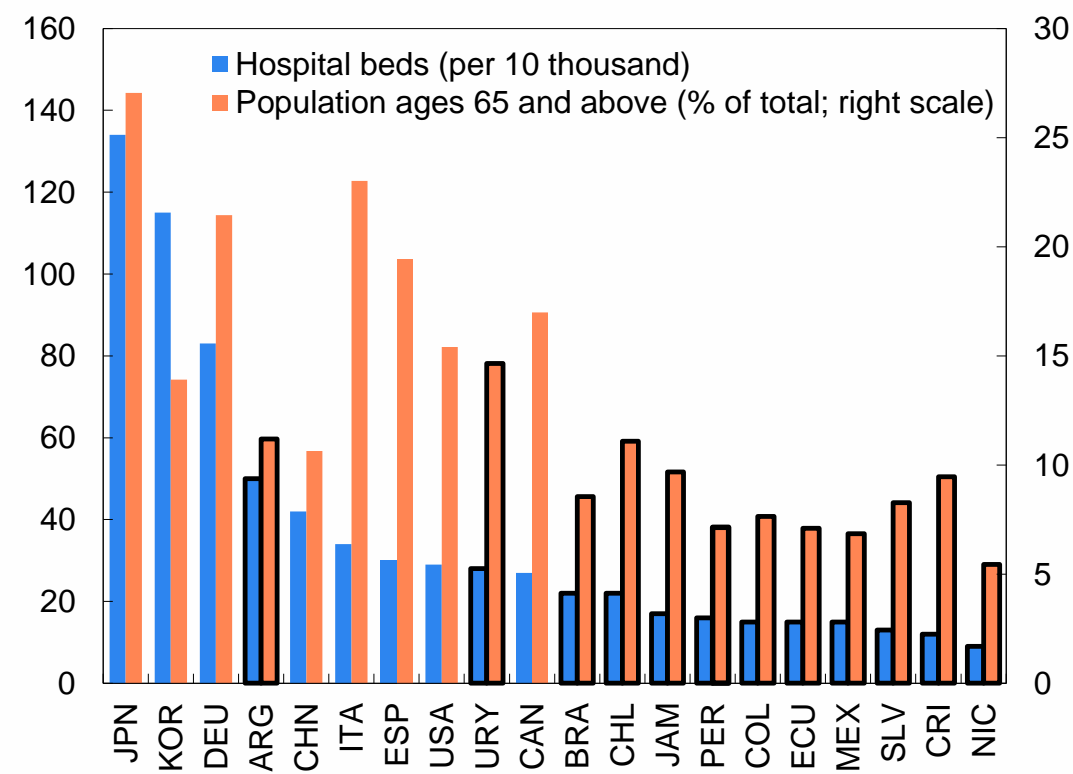
The large informal economy makes Latin America more vulnerable to this pandemic

Informality Rate, 2016
(Percent)



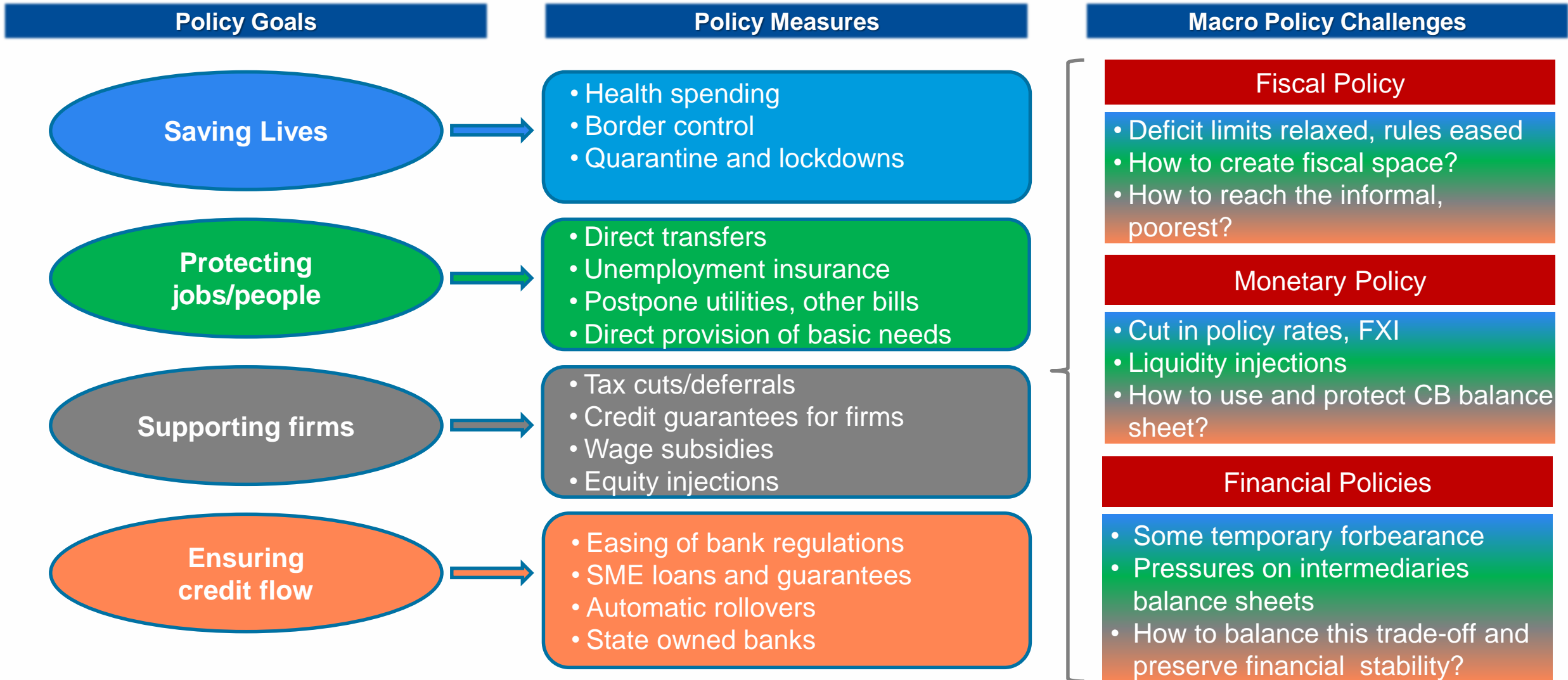
Sources: International Labour Organization (ILOSTAT) database; and IMF staff calculations.
Note: Share of non-agricultural informal employment in non-agriculture.

Hospital Beds and Population Ages 65 and Above



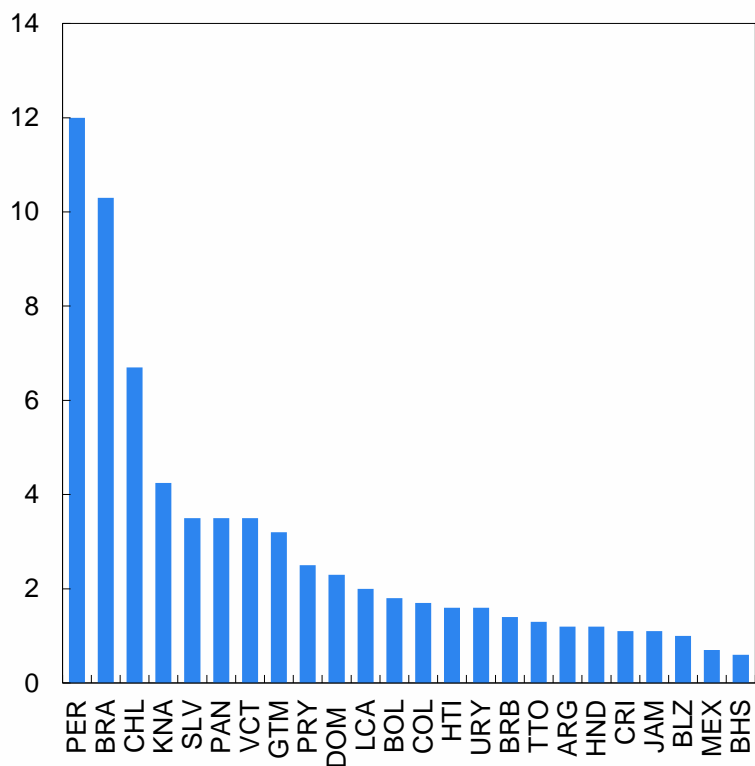
Sources: World Bank, World Development Indicators database; and World Health Organization database.

Policy goals, measures and challenges

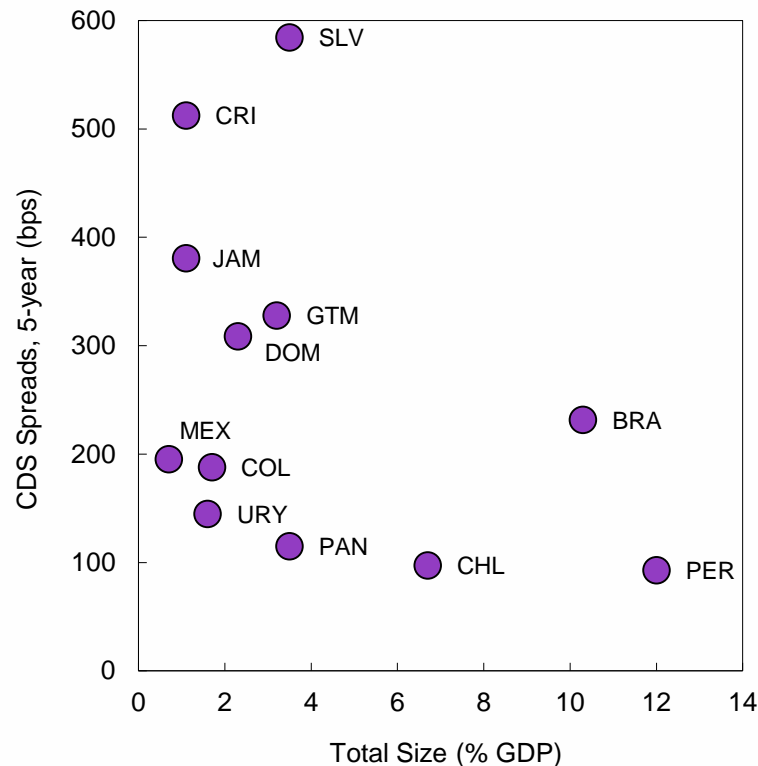


... but governments in LAC are implementing measures to support business and households even with low fiscal space...

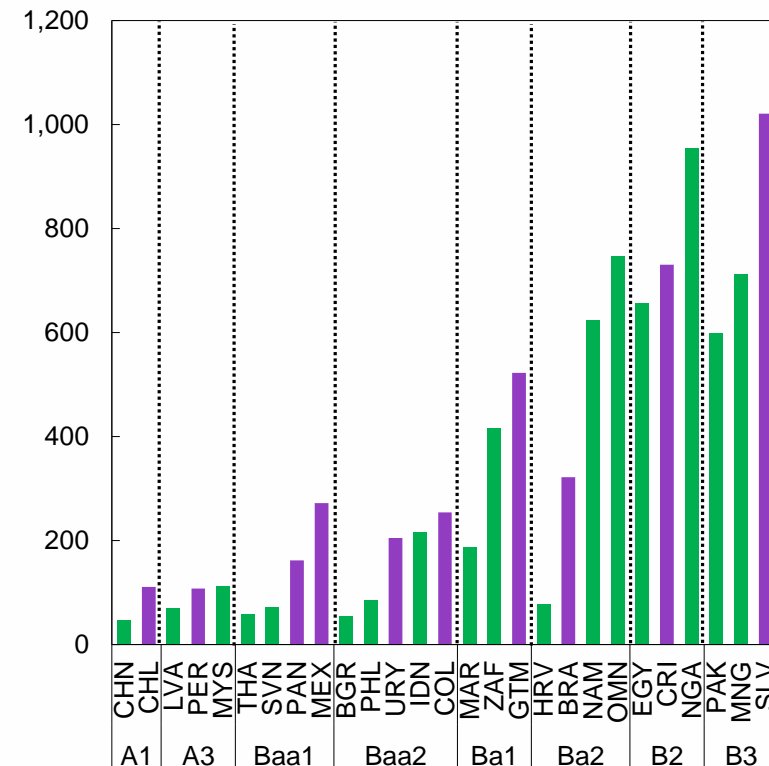
Announced Packages
(Percent of GDP)



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.

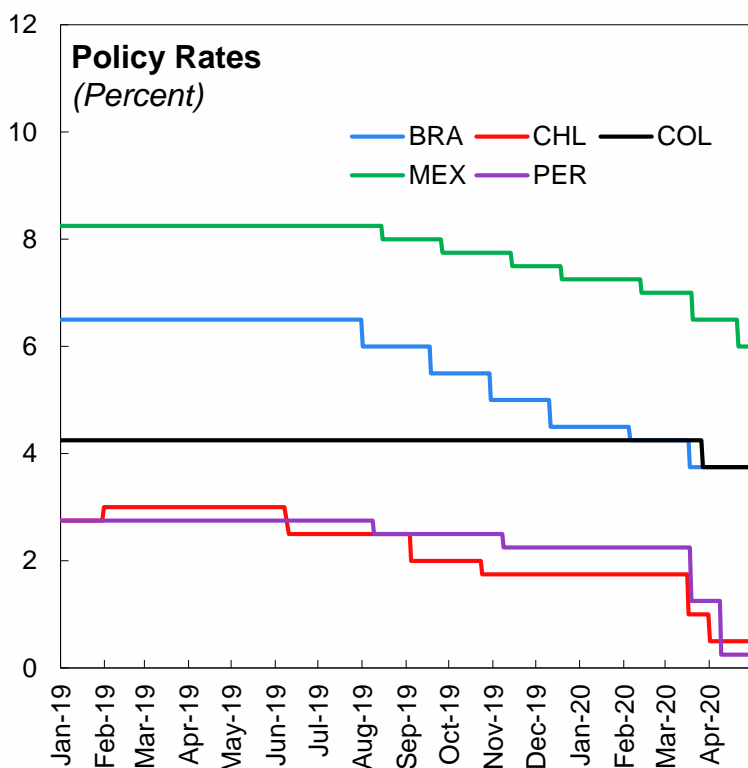
Note: Includes on budget and off budget measures. Estimates for Colombia and Mexico are announcements of resource availability rather than commitment to spend.

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



Sources: Haver Analytics; and national authorities.

Countries have been using FXI to reduce volatility in disorderly 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.)

Source: IMF Policy Tracker.

Central Banks have also provided liquidity in bond and credit markets

- ❖ 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

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)

	LAC	Caribbean	CAPDR	Other	Approved
Total Requests	22	11	7	4	10
RFI	13	5	5	3	6
RCF	6	5	1		4
Augmentation/rephasing and other programs	3	1	1	1	

THANK YOU