

World Economic and Financial Surveys

Regional Economic Outlook

Western Hemisphere

Pandemic Persistence Clouds the Recovery



Oct 20

©2020 International Monetary Fund

Cataloging-in-Publication Data

Names: International Monetary Fund, publisher.

Title: Regional economic outlook. Western Hemisphere : pandemic persistence clouds the recovery.

Other titles: Western Hemisphere : pandemic persistence clouds the recovery. | World economic and financial surveys.

Description: Washington, DC : International Monetary Fund, 2020. | World economic and financial surveys. | Oct. 20. | Includes bibliographical references.

Identifiers: ISBN 9781513558264 (English Paper)

9781513558288 (English ePub)

9781513558295 (English Web PDF)

9781513558301 (Spanish Paper)

9781513558332 (Spanish ePub)

9781513558356 (Spanish Web PDF)

9781513558370 (Portuguese Paper)

9781513558394 (Portuguese ePub)

9781513558400 (Portuguese Web PDF)

Subjects: LCSH: Economic forecasting—Western Hemisphere. | Economic development—Western Hemisphere. | Western Hemisphere—Economic conditions.

Classification: LCC HC95.A1 R445 2020

The *Regional Economic Outlook: Western Hemisphere* is published to review developments in Latin America and the Caribbean. Both projections and policy considerations are those of the IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF Management.

Please send orders to:

International Monetary Fund, Publication Services

P.O. Box 92780, Washington, DC 20090, U.S.A.

Tel.: (202) 623-7430 Fax: (202) 623-7201

publications@imf.org

www.imfbookstore.org

www.elibrary.imf.org

Contents

Preface	v
An Unparalleled Health Crisis	1
A Historic Economic Contraction	2
High Economic Vulnerability to Lockdowns	2
A Global Shock	3
A Historic Collapse in Activity	6
Bold Policy Actions to Cope with an Unprecedented Shock	8
Regional Outlook: A Partial and Uneven Recovery	10
Subdued External Conditions	12
Weak Domestic Demand, Low Inflation, and Subdued Potential Growth	13
Risks to the Outlook	16
External Risks	16
Regional and Domestic Risks	16
Regional Policy Focus	18
Box 1. Sovereign Debt Restructuring in Argentina and Ecuador	21
Annex 1. COVID-19 in Latin America and the Caribbean	23
Annex 2. Latin American Labor Markets during COVID-19	25
Annex 3. Fiscal Policy at the Time of a Pandemic: How Has Latin America and the Caribbean Fared?	26
Annex 4. Assessing the Impact of the COVID-19 Pandemic on the Corporate and Banking Sectors in Latin America	28
Annex 5. Disclaimer	30
Appendix Table 1. Western Hemisphere: Main Economic Indicators	31
Appendix Table 2. Western Hemisphere: Main Fiscal Indicators	32
References	33
Country Groups and Country Abbreviations	35

Preface

The October 2020 *Regional Economic Outlook: Western Hemisphere* was prepared by Samuel Pienknagura with contributions from Jaime Guajardo and Anna Ivanova, under the guidance of Jorge Roldós and the overall direction of Alejandro Werner and Krishna Srinivasan. Ali Alichí, Joe Chensavadijai, Ding Ding, Bert van Selm, Jeff Danforth, and Atsushi Oshima provided input for Caribbean countries. Javier Arze del Granado and Esther Perez Ruiz provided input for Central American countries, Panama, and the Dominican Republic. Genevieve Lindow and Adam Siddiq provided excellent research assistance. The report reflects the contents of a set of background papers (IMF 2020a, 2020b, 2020c, and 2020d), which are available online at <http://www.imf.org>. The background papers were prepared by the following contributors: Ali Alichí, Bas Bakker, Pablo Bejar, Pelin Berkmen, Farid Boumediene, Serhan Cevik, Antonio David, Hamid Faruqee, Carlos Gonçalves, Jaime Guajardo, Metodij Hadzi-Vaskov, Keiko Honjo, Kotaro Ishi, Salma Khalid, Takuji Komatsuzaki, Cheng Hoon Lim, Fedor Miryugin, Roberto Perrelli, Samuel Pienknagura, Carlo Pizzinelli, Mehdi Raissi, Pedro Rodríguez, Jorge Roldós, Frederik Toscani, Mauricio Vargas, and Dmitry Vasilyev. Astrid Baigorria provided outstanding production support. Cheryl Toksoz of the Communications Department coordinated editing and production. Virginia Masoller and Carlos Viel led the translation and editing team in the production of the Spanish edition, and Solange dos Santos led the translation of the Portuguese edition. This report reflects developments and IMF staff projections through the end of September 2020.

Outlook for Latin America and the Caribbean: Pandemic Persistence Clouds the Recovery

The pandemic continues to spread in Latin America and the Caribbean (LAC), but economic activity is picking up. After a deep contraction in April, activity started recovering in May, as lockdowns were gradually eased, consumers and firms adapted to social distancing, some countries introduced sizable policy support, and global activity strengthened. Real GDP is projected to contract by 8.1 percent in 2020, followed by a mild recovery in 2021 reflecting persistent spread of the virus and associated social distancing and scarring. Risks to the outlook remain tilted to the downside, and uncertainty about the pandemic's evolution is a key source of risk. Containing the spread of the virus and addressing the health crisis remain the key policy priorities. In countries where lockdowns still hamper activity, policies should focus on ensuring that firms have sufficient liquidity, and on protecting employment and income, while developing medium-term fiscal consolidation plans to safeguard debt sustainability. In countries that are easing lockdowns, efforts should focus on supporting the recovery, including through structural reforms. Once the pandemic is under control, and the recovery is on a strong footing, fiscal policy will need to focus on rebuilding buffers. Monetary policy should remain accommodative as long as inflation stays within the target range and inflation expectations are well anchored.

An Unparalleled Health Crisis

The coronavirus disease (COVID-19) pandemic has hit LAC hard. With only 8.2 percent of the world population (640 million people), the region had 28 percent of all cases (9.3 million) and 34 percent of all deaths (341,000) by the end of September. The number of new cases continues to rise in some countries (Argentina, Costa Rica, Paraguay), while it has stabilized in others, though at relatively high levels (Brazil, Peru). The largest economies in the region (Brazil, Chile, Mexico, Peru) have some of the highest numbers of deaths

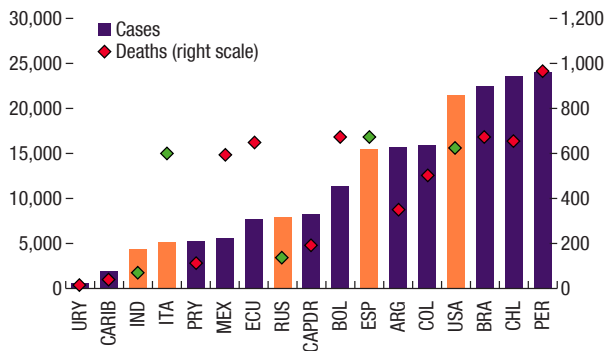
per capita worldwide (Figure 1, panel 1), and official reports likely underestimate the tally. The pandemic's spread in the region has been uneven: in contrast to the largest economies, some Caribbean nations and Uruguay have been able to contain the outbreaks, and, within countries, large urban centers were hit harder than other areas (IMF 2020a).

LAC countries implemented strict lockdown measures early in the pandemic—when cases were still low (Figure 1, panels 2 and 3). The lockdowns initially slowed the epidemic as mobility plummeted (Annex 1). However, they were not able to contain the spread of the disease effectively as mobility started to rise. In fact, the pandemic evolved as a “slow burn”—a prolonged period of steady increase in new cases and deaths resulting in a high total death toll despite a notable initial decline in mobility. The prevalence of poverty, informality in labor markets, and the inability to practice social distancing in densely populated urban areas and crowded low-income neighborhoods contributed to the rising death toll. In addition, weak state capacity and the lack of fiscal buffers in many LAC countries hindered containment and mitigation efforts, including through the failure to strengthen testing and tracing capacities (Figure 1, panel 4). As outbreaks became more widespread, poorly prepared health systems in the region came under pressure and failed to contain the human costs (Figure 1, panel 4).

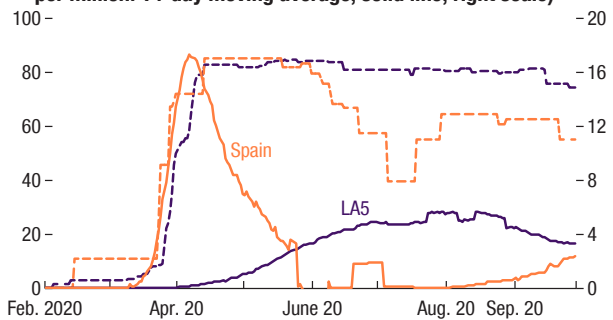
The slow-burn dynamics in the region means still high marginal contagion and death rates which persist even today and calls for a slow reopening process, because concerns over weak government capacity and the resilience of health systems persist. Many countries in LAC started easing restrictions later than other regions did and adopted a more gradual approach, keeping in place containment measures that are relatively stringent by international standards to date (Figure 1,

Figure 1. Recent Developments in the COVID-19 Pandemic

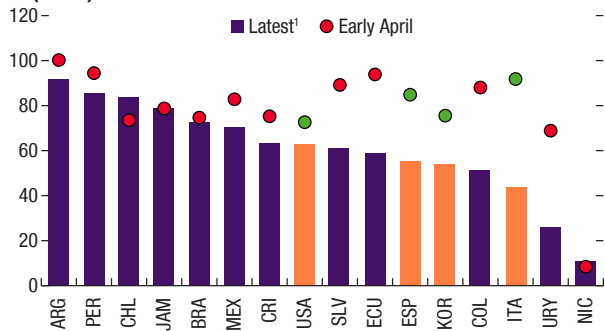
1. COVID-19 Confirmed Cases and Deaths (Per million people)



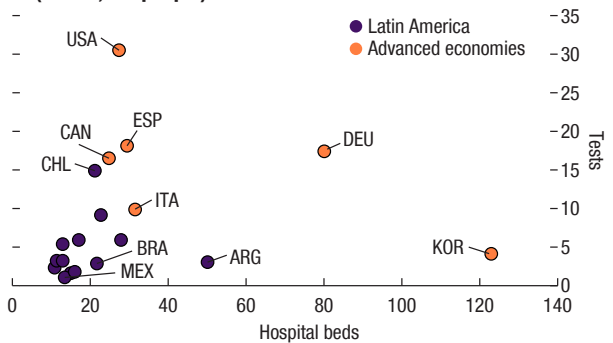
2. COVID-19 Deaths and Containment Stringency Index (Stringency index: 14-day lagged, dashed line; new deaths per million: 14-day moving average, solid line, right scale)



3. Containment Stringency (Index)



4. Hospital Beds and Tests² (Per 10,000 people)



Sources: Hale and others (2020); Oxford University COVID-19 Government Response Tracker; Johns Hopkins University; Our World in Data database; and IMF staff calculations.

Note: Data are as of September 28, 2020. Data labels use International Organization for Standardization (ISO) country codes. For country group composition, see page 35. CAPDR = Central America, Panama, and the Dominican Republic; CARIB = Caribbean; COVID-19 = coronavirus disease; LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru).

¹Latest available data as of September 28, 2020.

²The series on hospital beds refers to latest available data as of September 28, 2020. The series on tests refers to the September 2020 average.

panel 2). However, measures of de facto mobility suggest that compliance with containment measures has weakened over time (Annex 1). In Brazil, for example, mobility has now reached European levels. Consequently, the pandemic witnessed a resurgence in many LAC countries starting around June.

A Historic Economic Contraction

The pandemic's global and synchronized nature led to national lockdowns, border closings, a collapse in economic activity and global trade, and a sharp tightening of financial conditions. Financial conditions have eased because of the prompt

and forceful reaction of economic authorities in advanced economies, but the global contraction in trade took longer to revert.

High Economic Vulnerability to Lockdowns

Structural features of LAC economies made them particularly vulnerable to this unprecedented shock, more so than those outside the region. Border closings, regional lockdowns, and social distancing—essential to containing the virus—curtailed activity in contact-intensive sectors (such as hospitality, entertainment, and tourism; IMF 2020b). The share of workers employed

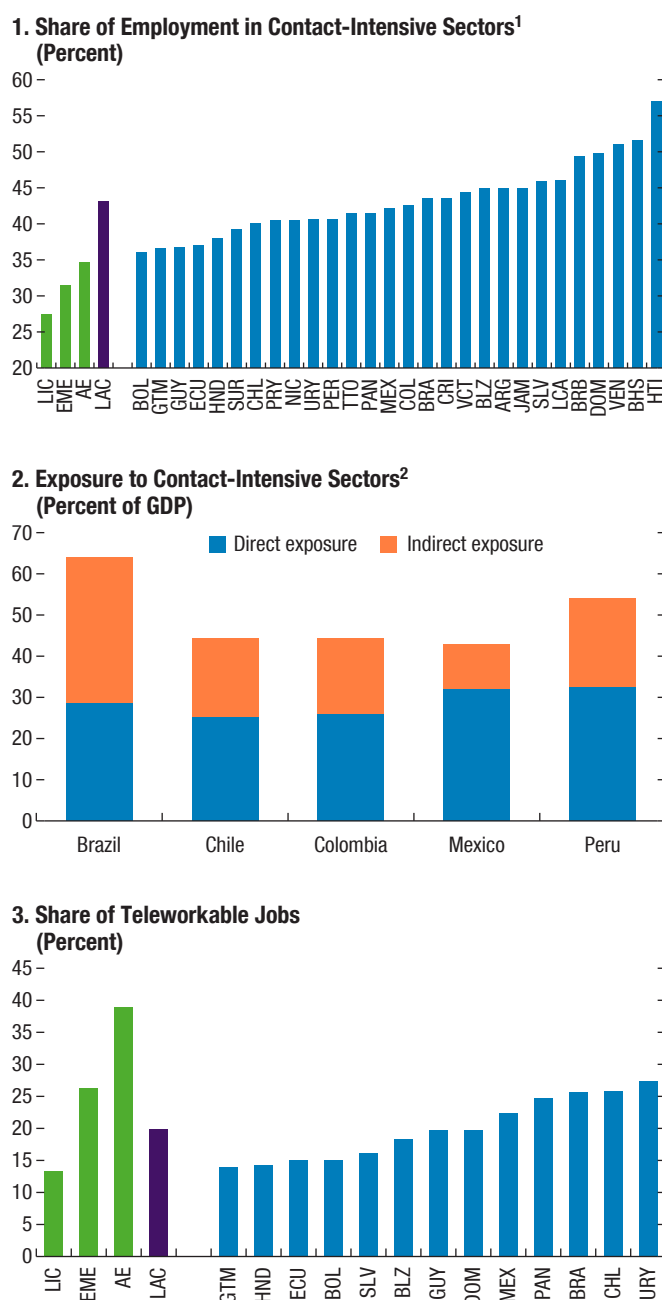
in contact-intensive sectors was larger in the Caribbean islands and some Central American countries (Costa Rica, El Salvador) than elsewhere in the region, suggesting higher exposure, but all LAC countries were more exposed than the average advanced, emerging market, and low-income economies (Figure 2, panel 1). Furthermore, direct exposures to contact-intensive sectors were magnified through input-output links, leading to a significantly larger fraction of LAC economies being affected by the pandemic (Figure 2, panel 2). Beyond contact intensity, labor markets in LAC were vulnerable to the COVID-19 shock because of the low share of workers employed in occupations for which remote work is feasible (teleworkable occupations, Figure 2, panel 3).

A Global Shock

The strong decline in global economic activity compounded the pandemic’s domestic impact. Sharp contractions among LAC’s trading partners contributed to a sudden decline in merchandise exports, which in most countries started to reverse gradually in July (Figure 3, panel 1). An enduring collapse in tourism affected several countries in the region severely, notably in the Caribbean (Figure 3, panels 2 and 3). However, remittances, which were expected to remain depressed for the year, have shown a surprising rebound in recent months in several countries, providing them with a respite (Figure 3, panel 4). Except for oil prices, commodity prices recovered to pre-COVID-19 levels after falling in March (Figure 3, panel 5). The stability of key agricultural and metal prices, coupled with a recovery of the Chinese economy in the second quarter, buffered the contraction in exports in the first half of 2020 (Figure 3, panel 6).

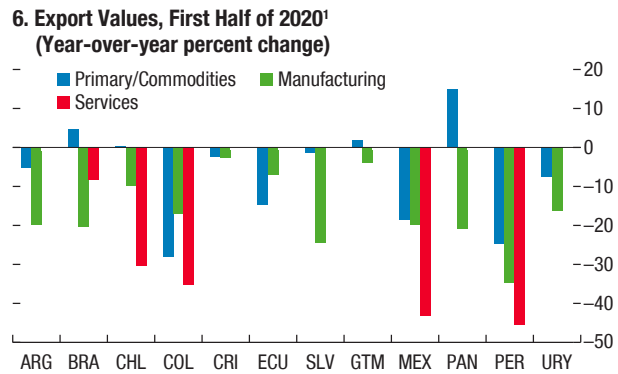
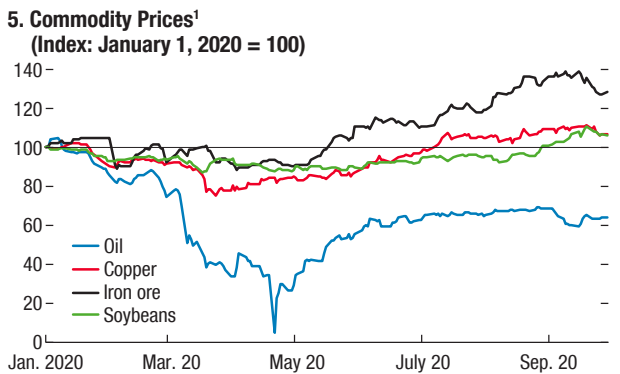
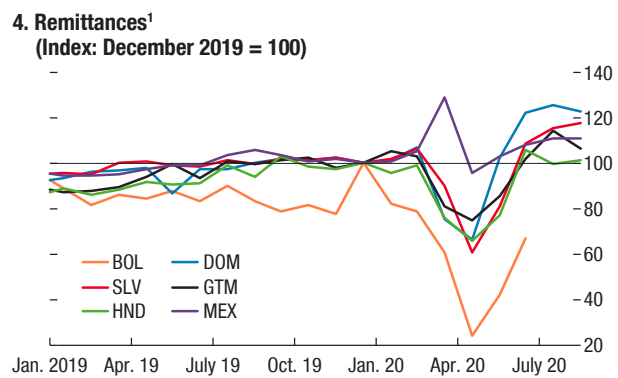
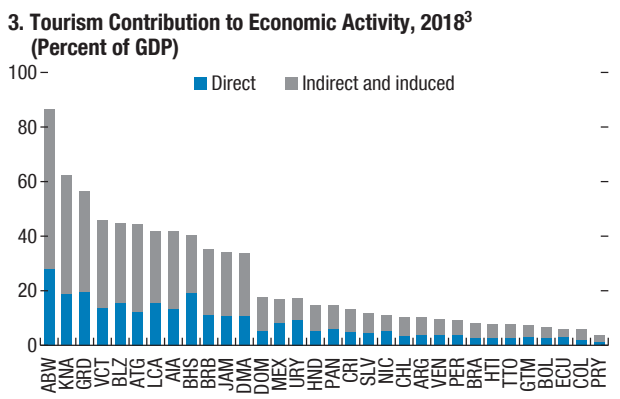
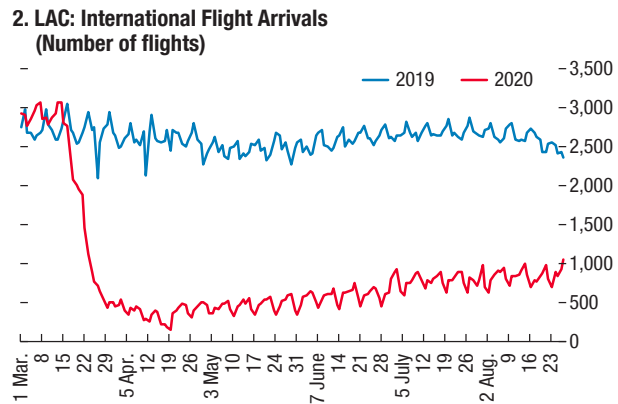
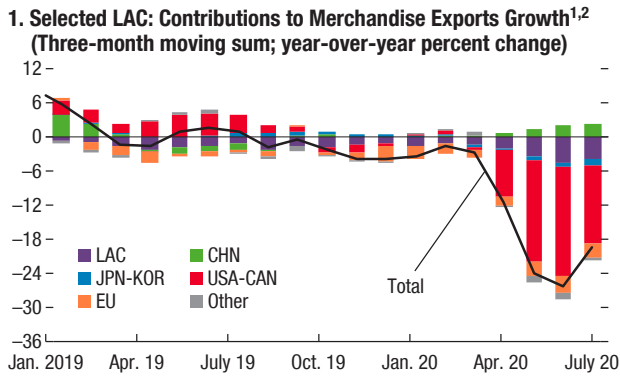
Financial conditions in LAC have eased recently but remain tight in some countries and segments (Figure 4). A global increase in risk aversion from mid-February to late March led to portfolio reallocations that are larger than in previous episodes of financial stress, with an abrupt increase in spreads and a steep fall in currencies and

Figure 2. Contact Intensity and Remote Work



Sources: Dingel and Neiman (2020); International Labour Organization ILOSTAT database; and IMF staff calculations.
 Note: Data labels use International Organization for Standardization (ISO) country codes. AE = advanced economies; EME = emerging market economies; LAC = Latin America and the Caribbean; LIC = low-income countries.
¹Regional aggregates are simple averages.
²Contact-intensive sectors include wholesale and retail trade, transportation and storage, accommodation and food services, education, arts and entertainment, and domestic employment.

Figure 3. Global Economic Conditions



Sources: Bloomberg Finance L.P.; Caribbean Tourism Organization; Flightradar24; Haver Analytics; IMF, Balance of Payments Statistics database; national authorities; World Travel and Tourism Council database; and IMF staff calculations.

Note: Data labels use International Organization for Standardization (ISO) country codes. EU = European Union; LAC = Latin America and the Caribbean.

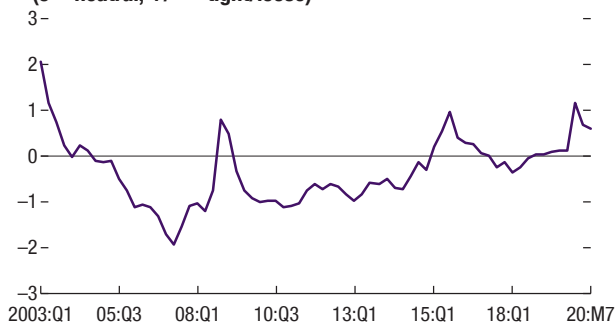
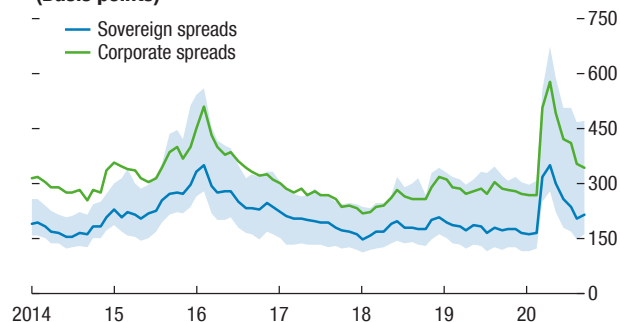
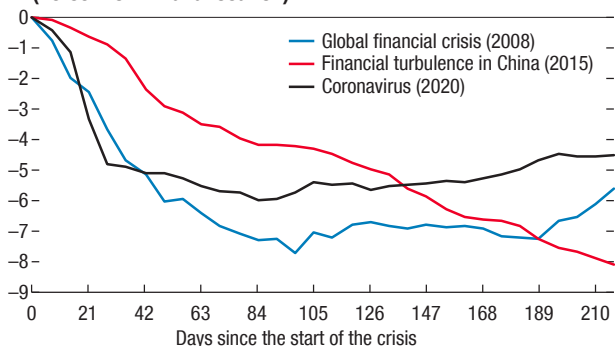
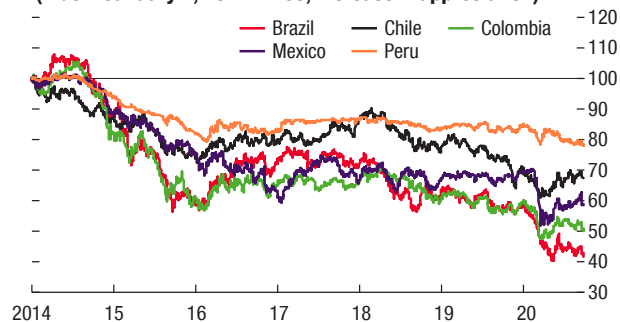
¹Values in US dollars.

²Includes Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay.

³Direct contribution includes direct GDP impact of the most relevant sectors (catering, accommodation, entertainment, recreation, transportation, and other services related to travel and tourism). Indirect and induced contribution includes supply chain impact to the other sectors and the impacts of incomes earned directly and indirectly because they are spent in the local economy.

equity prices. Financial conditions stabilized and capital outflows moderated in April after the large monetary and fiscal support packages in advanced

economies (October 2020 *Global Financial Stability Report* [GFSR]). Capital flows have stabilized, currencies have appreciated, and spreads

Figure 4. Financial Conditions and Capital Flows
1. Latin America: Financial Conditions Index¹
 (0 = neutral; +/- = tight/loose)

2. Sovereign and Corporate Spreads²
 (Basis points)

3. Latin America: Cumulative EPFR Flows³
 (Percent of initial allocation)

4. Exchange Rates against the US Dollar
 (Index: January 1, 2014 = 100; increase = appreciation)


Sources: Bloomberg Finance L.P.; Emerging Portfolio Fund Research (EPFR) database; Haver Analytics; national authorities; and IMF staff calculations.

Note: Data labels use International Organization for Standardization (ISO) country codes. LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru); LA6 = Latin America 6 (Brazil, Chile, Colombia, Mexico, Peru, Uruguay).

¹For methodology and variables included in the financial conditions index, refer to the online annex of the October 2018 *Global Financial Stability Report*.

²Sovereign spreads refer to the median of LA6 JP Morgan Emerging Market Bond Index Global spread, US-dollar-denominated sovereign bonds. Corporate spreads refer to the median of LA5 JP Morgan Corporate Emerging Market Bond Index spread, US-dollar-denominated corporate bonds. Shaded area refers to the minimum-maximum range of LA6 sovereign spreads.

³The start dates used for the shock events are September 10, 2008 (global financial crisis); July 15, 2015 (financial turbulence in China); and February 26, 2020 (coronavirus outbreak).

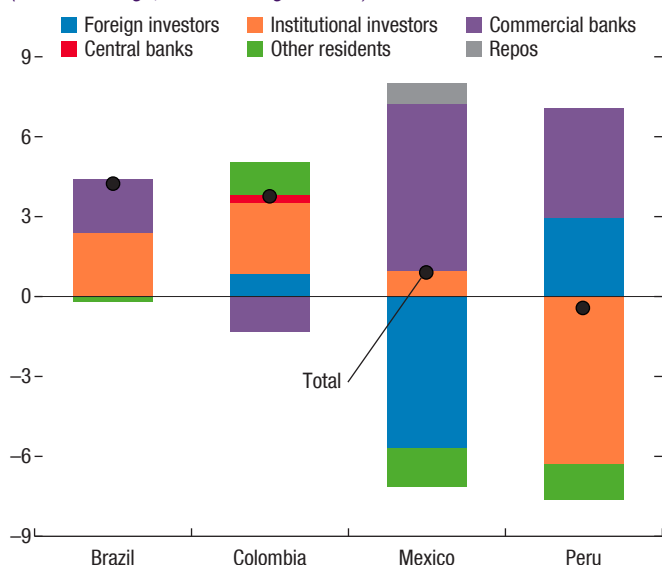
have decreased since May amid rising global risk appetite. However, valuations have generally not yet recovered to pre-COVID-19 levels. Financial conditions have loosened relative to April, particularly in selected segments of financial markets. Sovereign yields in the five largest economies in Latin America (LA5: Brazil, Chile, Colombia, Mexico, Peru) are close to historic lows. Also, the marked decline in interest rates in the United States has reduced financial stress in all countries. Financial conditions, however, remain tight on average (Figure 4, panel 1).

Capital outflows hit local currency bond markets particularly hard, prompting central banks to act and governments to modify their debt

management strategies. Although domestic banks and institutional investors, to a lesser extent, bought the bonds that foreign investors sold (Figure 5), central banks intervened in bond and foreign exchange markets to prevent disorderly market conditions. Interventions peaked in March and were scaled back as volatility subsided. Sovereign issuances in local currency were reduced, and the duration was shortened (Brazil, Mexico). In turn, investment grade sovereigns in LAC (Colombia, Chile, Mexico, Panama, Peru, Trinidad and Tobago, Uruguay) issued hard currency debt in international markets, showing their ability to maintain access

Figure 5. Changes in Holders of Public Debt Denominated in Local Currency

(Percent change; March to August 2020)



Sources: Bloomberg Finance L.P.; Haver Analytics; national authorities; and IMF staff calculations.

at reasonable yields.¹ Other countries² took advantage of improved global financial conditions and increased risk appetite and also issued in hard currency, while Argentina and Ecuador, which faced economic challenges before the pandemic, concluded debt restructurings of their external public debt (Box 1).

A Historic Collapse in Activity

The pandemic, lockdowns, and external forces contributed to a historic collapse in activity in the second quarter of 2020. The LA5 countries experienced larger quarterly GDP contractions than in any recession on record (Figure 6, panel 1). Monthly activity indicators show a similar picture for a broader set of countries (Figure 6, panel 2).

Lockdowns' disproportionate impact on contact-intensive sectors (mostly in services), coupled with a decline in demand in these sectors

¹Uruguay also issued local currency global bonds (indexed to inflation).

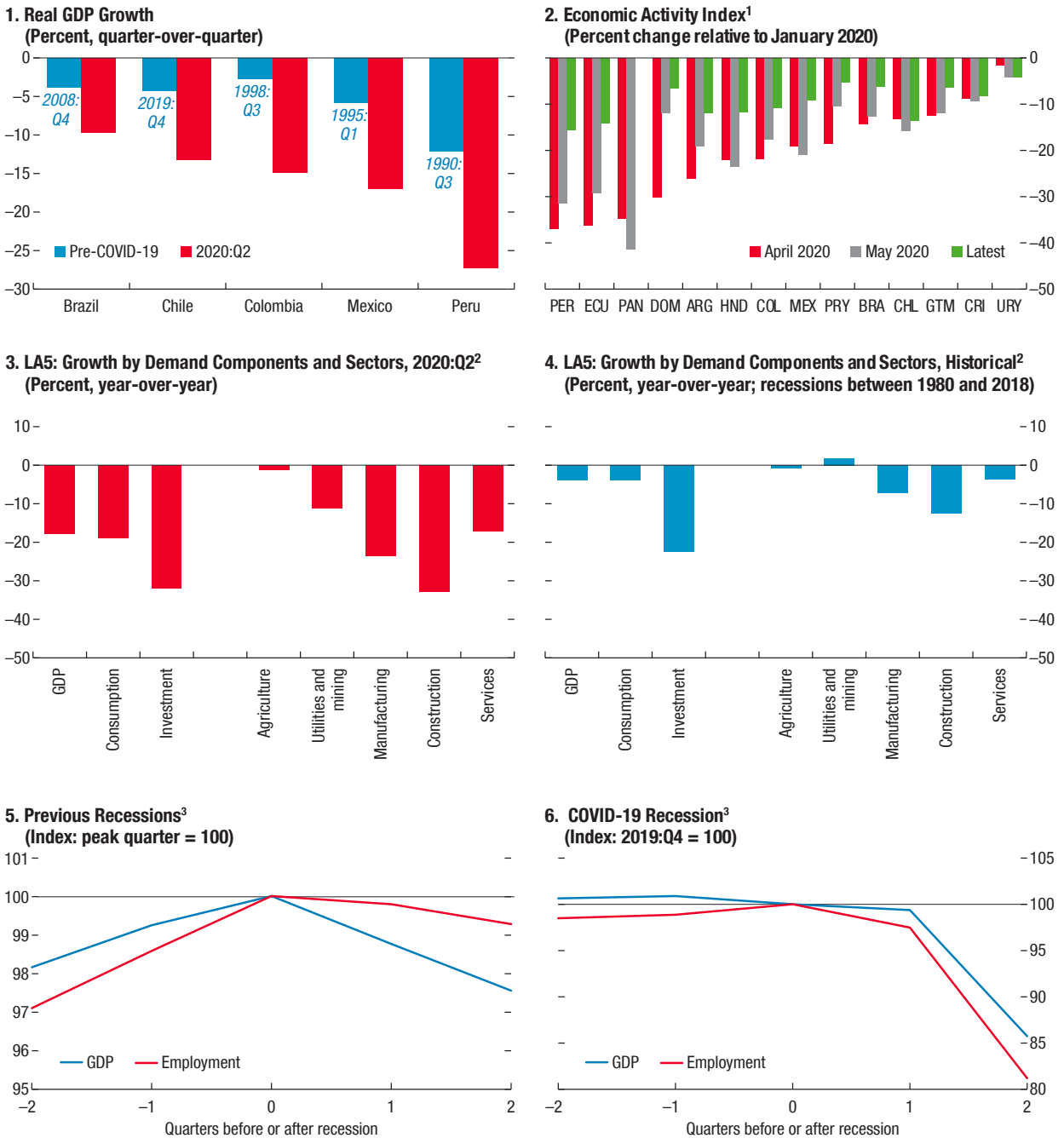
²Brazil, the Dominican Republic, El Salvador, Guatemala, Honduras, and Paraguay have issued since April.

caused by fears of health risks, resulted in an abrupt fall in services value added in the LA5 in the second quarter (Figure 6, panels 3 and 4). Other sectors were also hit, but contractions were more in line with past recessions. On the demand side, private consumption—a relatively stable and resilient component—had an atypically large contraction compared with investment.

The COVID-19 crisis also stands out for its large impact on employment and uneven impacts across different types of workers. In previous recessions, employment in LAC barely fell as GDP contracted (Figure 6, panel 5). This time the decline in employment in the second quarter was larger than the decline in GDP (Figure 6, panel 6). Features of LAC labor markets, such as informality, concentration in small and medium enterprises (SMEs), and low ability to work from home, put a large fraction of LAC's employment at risk and are exacerbating the shock's impact. In fact, the COVID-19 shock severely affected informal employment, which in previous recessions acted as a buffer during downturns (October 2019 *Regional Economic Outlook: Western Hemisphere*). Women, young, and low-skilled workers (who were ex ante vulnerable) experienced relatively large employment losses (IMF 2020b; Annex 2). Moreover, the shock's large impact on low-skilled workers, who typically come from low-income households, highlights its regressive nature.

High-frequency indicators point to an uneven recovery in economic activity since May. Monthly activity indicators and retail sales improved in most LAC countries after a sharp contraction in April (Figure 6, panel 2 and Figure 7, panel 1). Purchasing managers' indices and business confidence indicators also improved, with some countries already in expansionary territory (Figure 7, panels 2 and 3). However, economic activity remains depressed relative to pre-COVID-19 levels throughout the region, and there are clear differences across countries in the recovery's speed. Brazil, Costa Rica, and Uruguay experienced less pronounced collapses at the height of the crisis, and by July had a smaller gap in economic activity relative to January than

Figure 6. An Unusual Recession



Sources: Haver Analytics; national authorities; United Nations Statistics Division database; and IMF staff calculations.

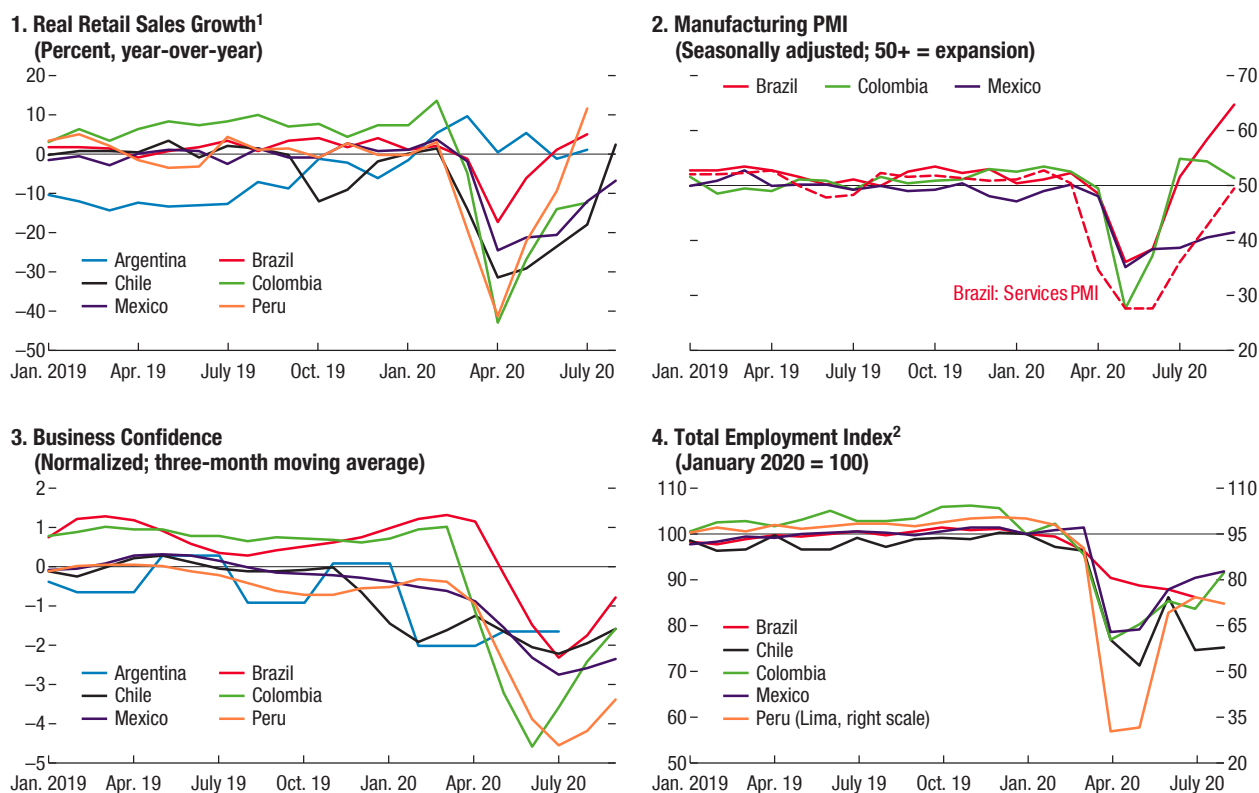
Note: Data labels use International Organization for Standardization (ISO) country codes. COVID-19 = coronavirus disease; LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru).

¹Latest refers to July 2020, except for the Dominican Republic and Paraguay, which show June 2020 data.

²Simple average of LA5 countries.

³Simple average of Brazil, Chile, Colombia, and Mexico.

Figure 7. An Uneven Recovery since May



Sources: Haver Analytics; IHS Markit Ltd.; Asociación Nacional de Tiendas de Autoservicio y Departamentales (ANTAD, Mexico); national authorities; and IMF staff calculations.

Note: PMI = purchasing managers' index.

¹Argentina refers to total supermarket sales. Mexico refers to total same-store sales from ANTAD.

²Data for Brazil, Chile, and Peru (Lima) are transformed to reflect monthly employment rather than three-month moving averages.

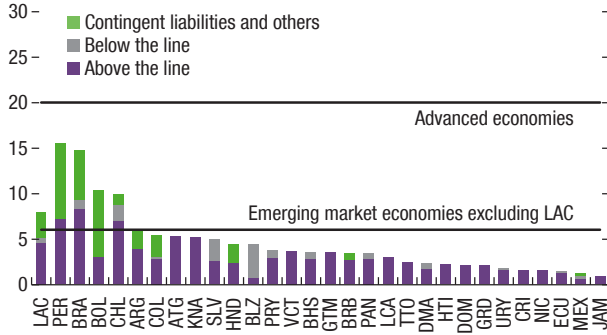
others did. By contrast, Ecuador and Peru suffered large contractions, and activity remained relatively subdued in July. Similarly, retail sales and business confidence in Brazil bounced back and reached pre-COVID-19 levels in June, but in Mexico, they recovered less strongly and remain depressed. Moreover, the recovery is subject to considerable uncertainty and possible setbacks. For example, after seeing labor market improvements in May and June, some countries experienced further reductions in employment in July that were associated with new outbreaks and containment measures (Figure 7, panel 4).

Bold Policy Actions to Cope with an Unprecedented Shock

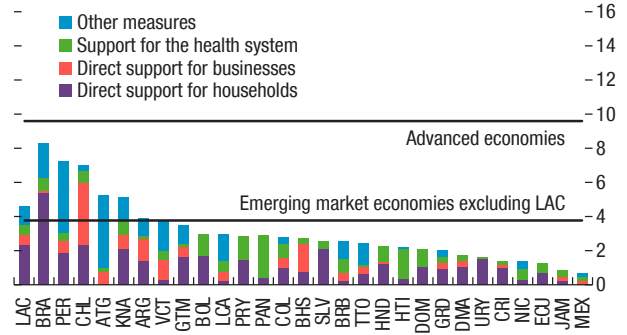
Countries in LAC deployed a multipronged policy response to mitigate the immediate health and socioeconomic fallout of COVID-19. They announced fiscal support amounting to about 8 percent of GDP on average, which included a combination of above-the-line measures (additional expenditure and forgone revenue) and below-the-line and off-budget actions (including loans and guarantees) aimed at improving health care systems, supporting the incomes of households and firms, and avoiding a credit crunch (Figure 8, panel 1). Nonetheless, there has been significant variation in the size and composition of support packages across

Figure 8. Fiscal and Monetary Developments

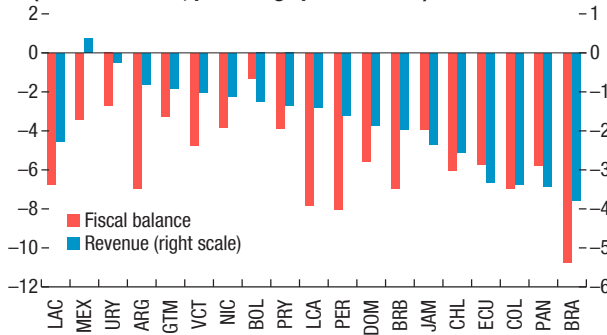
1. Discretionary Fiscal Measures^{1,2}
(Percent of GDP)



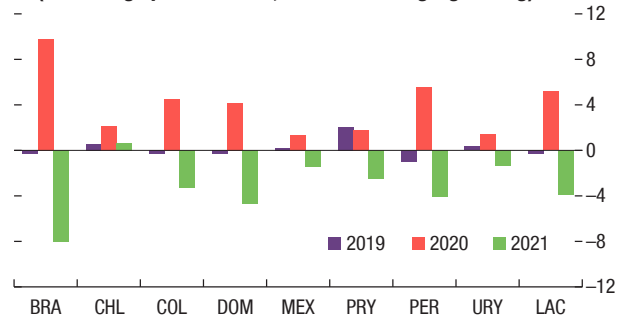
2. Above-the-Line Discretionary Fiscal Measures^{1,3}
(Percent of GDP)



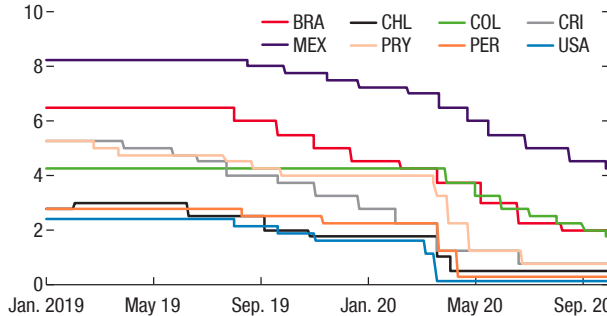
3. Change in Fiscal Balance and Revenue, 2020⁴
(Relative to 2019; percentage points of GDP)



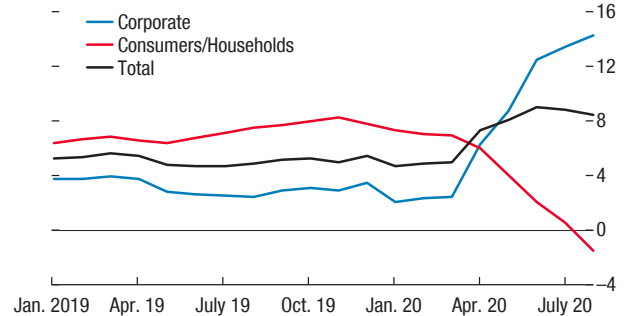
4. General Government Fiscal Impulse^{4,5}
(Percentage points of GDP; +/- = loosening/tightening)



5. Policy Rates
(Percent)



6. LA5: Real Credit Growth⁶
(Percent, year-over-year)



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

Note: Data labels use International Organization for Standardization (ISO) country codes. LAC = Latin America and the Caribbean; LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru).

¹Advanced 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. Does not include tax deferrals and anticipation of benefits, which typically have small effects on an annual basis.

²For most countries, the loan guarantees include the total potential amount of loans covered by the guarantees; for Chile and Colombia, the amount corresponds to the capital committed for such purposes.

³In Peru, other measures include mostly capital spending; in Brazil, they mostly include support to local governments.

⁴LAC is fiscal year US dollar nominal GDP-weighted average.

⁵Defined as the change in structural primary balance. Chile refers to the change in structural non-mining primary balance. Colombia refers to the consolidated public sector's change in structural non-oil primary balance.

⁶Simple average of LA5. Nonfinancial corporations/commercial and household/consumer loans.

Table 1. Central Bank Actions Aimed at Easing Stress in Funding and Securities Markets

Objective	Action	Countries
Easing stress in longer-term funding markets	Funding for lending	ARG, BRA, CHL, MEX, PER, PRY
Easing stress in securities markets	Private security purchase programs	BRA, CHL, COL
	Government bond purchase programs	COL, CRI, GTM, JAM

Sources: IMF, COVID-19 Central Bank Intervention Database; and IMF, COVID-19 Policy Tracker.

Note: Data labels use International Organization for Standardization (ISO) country codes.

countries in the region, reflecting in part fiscal space constraints. About half of above-the-line measures in LAC (approximately 2.5 percent of GDP) corresponds to increases in support for households, and the rest is split evenly between support to firms, support to the health system, and other measures. (Figure 8, panel 2). Most of the measures aimed at supporting households and firms have been fully implemented.³ Amid sizable fiscal support and a sharp reduction in government revenue caused by the recession, fiscal deficits are expected to increase across the region in 2020 (Figure 8, panel 3).

These exceptional measures are playing a key role in supporting economic activity to avoid even more severe economic downturns and a larger social impact. IMF staff estimates suggest that the macroeconomic effect of the fiscal measures, if fully implemented, would be sizable, raising the region's level of real GDP by about 6–7 percent within a year compared with a counterfactual scenario with no fiscal measures (IMF 2020c; Annex 3). This is in line with the large fiscal impulse projected for 2020 (Figure 8, panel 4). Support measures have also mitigated the social impact of the crisis. In Brazil, for example, IMF staff estimates suggest that without the emergency aid program, the poverty headcount ratio would have increased from about 6.7 percent to 14.6 percent (per the national poverty line of 178 reais of per capita household income). However, once the emergency aid is taken into account, the poverty headcount ratio fell to 5.4 percent.

In addition to fiscal packages, countries also implemented other measures to boost activity and support households. Some countries, notably Chile and Peru, passed legislation that

allowed withdrawals from individual pension fund accounts, and a large share of the eligible population has accessed these funds. Although such policies are achieving their objectives of alleviating individual liquidity constraints, they also created short-term pressures on pension funds to mobilize liquid assets and could generate fiscal liabilities over the medium to long term because governments may need to complement insufficient pensions in the future.

Most central banks in the region eased monetary policy and provided liquidity support to lower market stress and preserve credit flows to the economy. Policy rates were cut across the region, with Brazil, Colombia, Costa Rica, Mexico, and Peru cutting rates by more than 200 basis points. Chile and Peru are at the effective lower bound (Figure 8, panel 5). Liquidity support measures amount, in some cases (such as Brazil and Peru), to significant shares of GDP (about 16 and 8 percent, respectively). These measures, together with quasi-fiscal operations and financial policies to mitigate bank balance sheet stress (including using existing or enhanced flexibility of the regulatory framework to restructure loans, limits on dividend payouts, reduction in countercyclical or conservational capital buffers, and government guarantees), have contributed to corporate credit growth (Figure 8, panel 6). Some countries used asset purchase programs to improve bond market functioning (Colombia), attend to pressing social needs (Guatemala), and ease overall financial conditions (Chile, October 2020 GFSR and Table 1). These programs have been shown to reduce government bond yields and to gradually reduce market stress (October 2020 GFSR, Chapter 2).

³Some countries have experienced delays in the implementation of investment plans and in health expenditure.

Table 2. Real GDP Growth
(Percent, year-over-year)

	2018	2019	Projections	
			2020	2021
Latin America and the Caribbean	1.1	0.0	-8.1	3.6
LAC excluding Venezuela	1.7	0.8	-7.8	3.8
South America	0.3	-0.2	-8.1	3.6
CAPDR	3.8	3.2	-5.9	3.6
Caribbean				
Tourism-dependent	2.0	0.5	-9.9	4.0
Commodity exporters	1.1	1.0	0.6	3.8
Memorandum items				
LA6	2.1	0.9	-7.6	3.6
Brazil	1.3	1.1	-5.8	2.8
Mexico	2.2	-0.3	-9.0	3.5

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

Note: Regional aggregates are purchasing-power-parity GDP-weighted averages. For country group composition, see page 35. CAPDR = Central America, Panama, and the Dominican Republic; LAC = Latin America and the Caribbean; LA6 = Latin America 6 (Brazil, Chile, Colombia, Mexico, Peru, Uruguay).

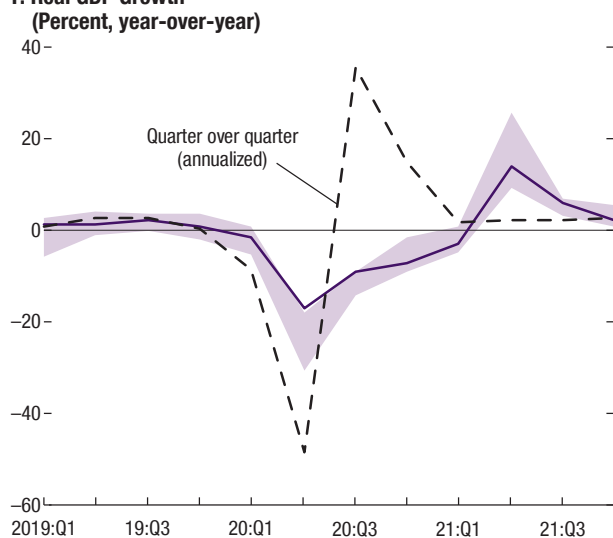
Regional Outlook: A Partial and Uneven Recovery

Real GDP is expected to contract sharply in 2020, followed by a partial recovery in 2021. Reflecting deep recessions across the region, growth in LAC is projected at -8.1 percent in 2020 and

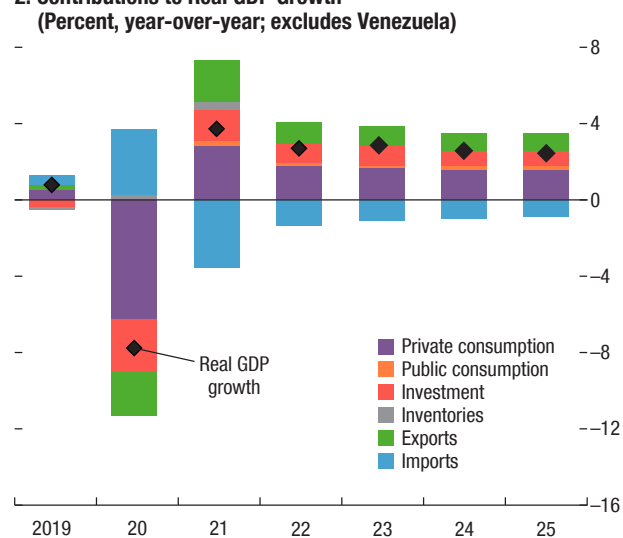
3.6 percent in 2021 (Table 2). The strong recovery in remittances and exports, together with low oil prices, will contribute to a milder contraction in Central America, Panama, and the Dominican Republic, while tourism-dependent Caribbean countries will experience more severe recessions because of the sharp and long-lasting decline in tourism. After a steep and broad-based collapse

Figure 9. Real GDP Growth Projections

1. Real GDP Growth¹



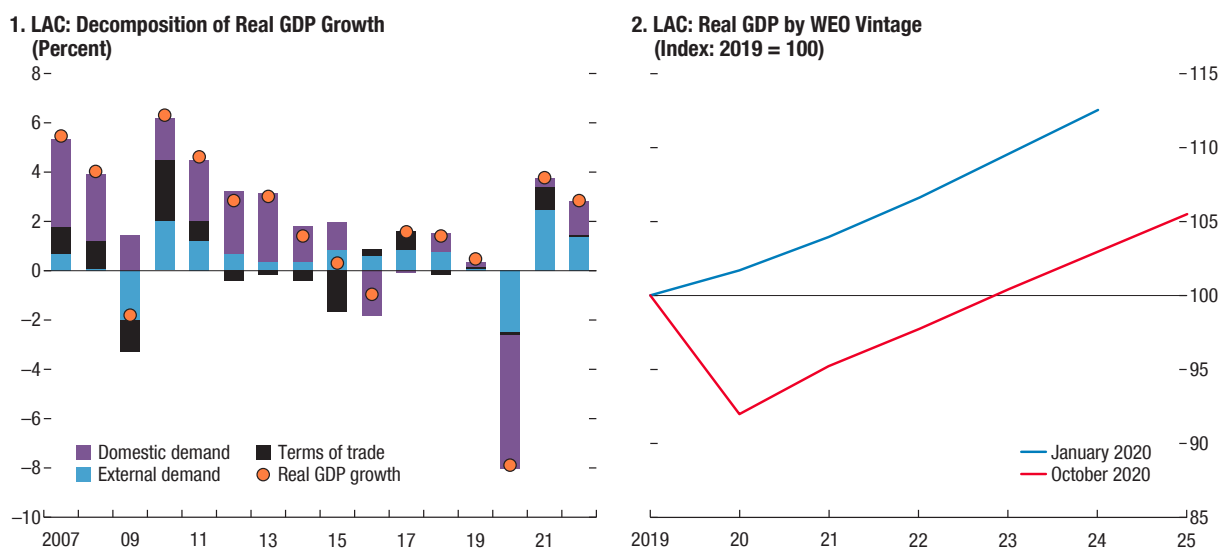
2. Contributions to Real GDP Growth²



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

¹Includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

²Purchasing-power-parity GDP-weighted average. Also excludes Aruba, Barbados, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago because of data limitations. Inventories include statistical discrepancies.

Figure 10. Drivers of Growth and GDP Losses

Sources: IMF, World Economic Outlook (WEO) database; and IMF staff calculations.
Note: LAC = Latin America and the Caribbean.

in activity in the second quarter, regional GDP is expected to rebound in the second half of 2020 and continue a gradual recovery (Figure 9, panel 1). Consumption, investment, and trade flows are also expected to fall in 2020 and partially recover in 2021 (Figure 9, panel 2). The 2020 growth projection is 1.3 percentage points higher than in the June 2020 *World Economic Outlook (WEO) Update*. Revisions to trading partners' growth and a better-than-expected second quarter outturn in Brazil improved the forecast. However, the baseline outlook is subject to an unusually high degree of uncertainty (October 2020 WEO).

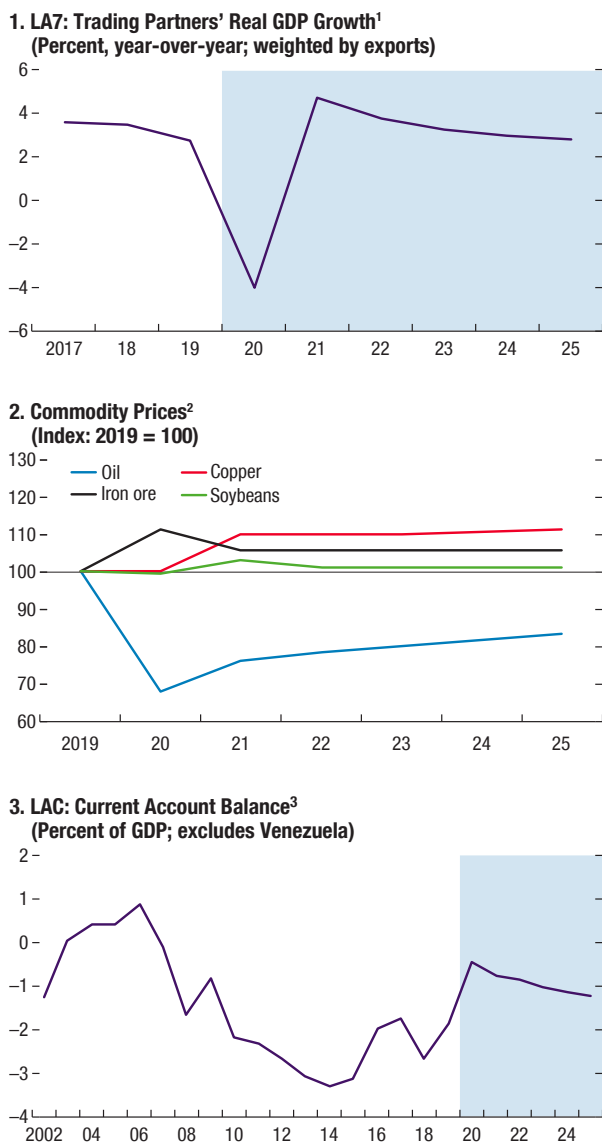
LAC's short- and medium-term outlook will be shaped by factors affecting external and domestic demand and how the scars from the pandemic lower potential output. In contrast to the global financial crisis (when domestic factors buffered the negative impact of external factors, and a sharp rebound in the terms of trade boosted the recovery), domestic and external factors this time will move in tandem, and the terms of trade are expected to remain neutral through the recovery (Figure 10, panel 1). The medium-term outlook points to a protracted recovery, reflecting long-lasting economic costs, and most countries

will not go back to pre-pandemic GDP levels until 2023 (Figure 10, panel 2).

Subdued External Conditions

The global economy is projected to experience a deep downturn in 2020 and a sluggish recovery afterward, dimming the outlook for LAC's exports. After falling to -4 percent in 2020, trading partner growth is expected to recover in 2021 (Figure 11, panel 1). The outlook is less promising for tourism—international travel restrictions and consumers' fear of health risks will continue to affect tourism until the pandemic is under control (October 2020 WEO). Oil prices are expected to remain subdued, while the prices of metals and, to a lesser extent, soybeans are projected to firm up over the medium term (Figure 11, panel 2). The impact of these factors on growth will vary within the region. In countries such as the Dominican Republic, El Salvador, Paraguay, and Uruguay, and in most of the Caribbean, a positive terms-of-trade shock will partly compensate for the large negative external demand shock. In Bolivia, Colombia, and Ecuador, a negative terms-of-trade shock will add a further drag to growth. Despite weak

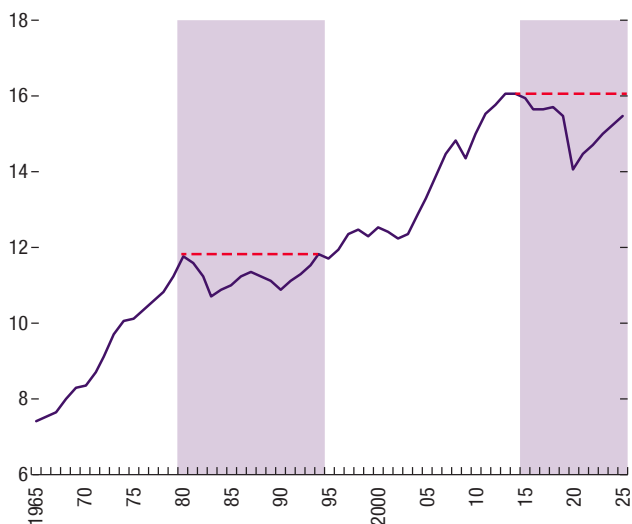
Figure 11. External Sector Developments



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
 Note: LAC = Latin America and the Caribbean; LA7 = Latin America 7 (Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay).
¹Based on data for non-LAC partner countries that together account for 100 percent of trade of reporting country.
²Values in US dollars.
³Current account balance is US dollar nominal GDP-weighted average.

export growth and low commodity prices, current account deficits are expected to remain contained (Figure 11, panel 3).

Figure 12. A Decade Lost? LAC Real GDP per Capita
(Thousands of PPP 2017 international dollars)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
 Note: LAC = Latin America and the Caribbean; PPP = purchasing power parity.

Weak Domestic Demand, Low Inflation, and Subdued Potential Growth

Near- and medium-term forces will keep domestic demand constrained. Fear of contagion is expected to weigh on consumption of contact-intensive goods and services until the virus is controlled. An erosion in income levels and precautionary saving that will persist even after the pandemic fades will likely accentuate this situation. In fact, LAC's real income per capita, is expected to remain below pre-COVID-19 levels until 2025 (Figure 12), which means that LAC faces the prospect of another lost decade, as in the 1980s.

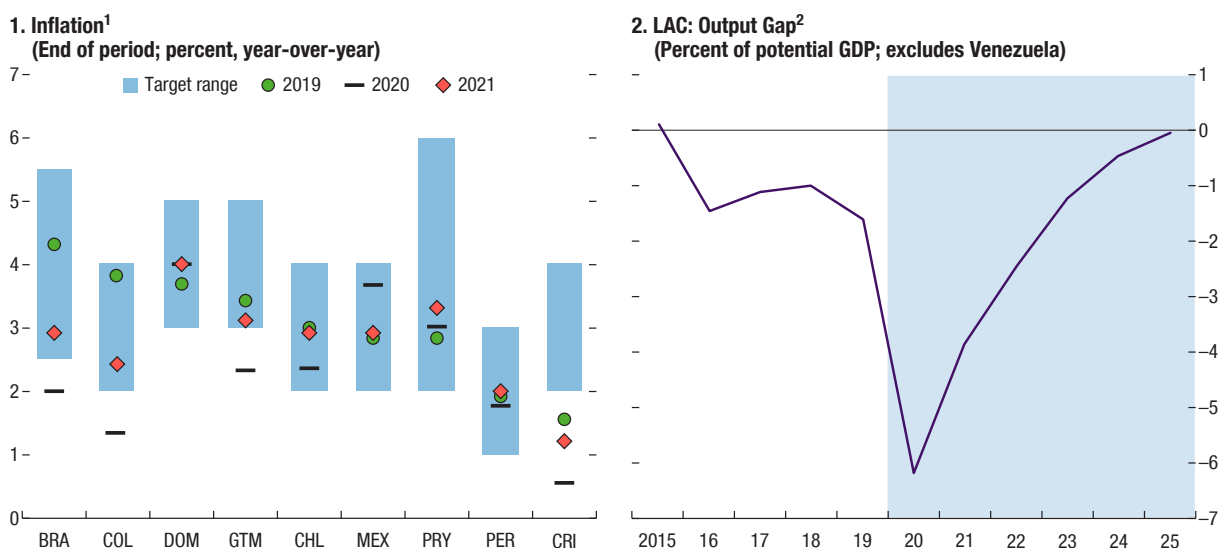
Moreover, the COVID-19 shock is expected to have a large impact on jobs and erase some of the region's social progress made until 2015. In the second quarter of 2020 employment in LA5 countries fell by more than 30 million people, affecting especially workers with low educational attainment (Annex 2). Although many jobs will be recovered as activity resumes, current estimates point to lasting income losses, with poverty projected to increase significantly in 2020 (Table 3). The shock is also expected to exacerbate

Table 3. Estimated Impact of COVID-19 on Poverty
(Millions)

Source	Change in Extreme Poverty Headcount (below US\$1.90 per capita per day)	Change in Poverty Headcount (below US\$5.50 per capita per day)								
		Argentina		Brazil		Colombia		Mexico		
		LAC	COVID-19	COVID-19 + Assistance	COVID-19	COVID-19 + Assistance	COVID-19	COVID-19 + Assistance	COVID-19	COVID-19 + Assistance
October 2020 <i>Fiscal Monitor</i>	14.7									
World Bank (June 2020)		18–35	1.48		6.86		2.66		9.21	
ECLAC (July 2020)		44								
Lustig and others (2020)			1.4–2.0	0.5–1.7	9.3–13.9	(0.4)–5.3	2.5–2.9	2.2–2.7	10.1–11.2	n.a.

Sources: ECLAC (2020); Lustig and others (2020); and World Bank (2020).

Note: Each estimate reflects different assumptions about baseline growth rates and the incidence of the crisis along the income distribution. Moreover, estimates are subject to a large degree of uncertainty, depending on pandemic developments, designated poverty thresholds, the growth outlook, and fiscal policy responses. World Bank LAC estimates are relative to the counterfactual poverty headcount without a pandemic. World Bank country-specific differences are relative to the 2019 poverty headcount. COVID-19 = coronavirus disease; LAC = Latin America and the Caribbean; n.a. = not available.

Figure 13. Inflation Forecasts

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

Note: Data labels use International Organization for Standardization (ISO) country codes. LAC = Latin America and the Caribbean.

¹Includes countries with an inflation-targeting framework.

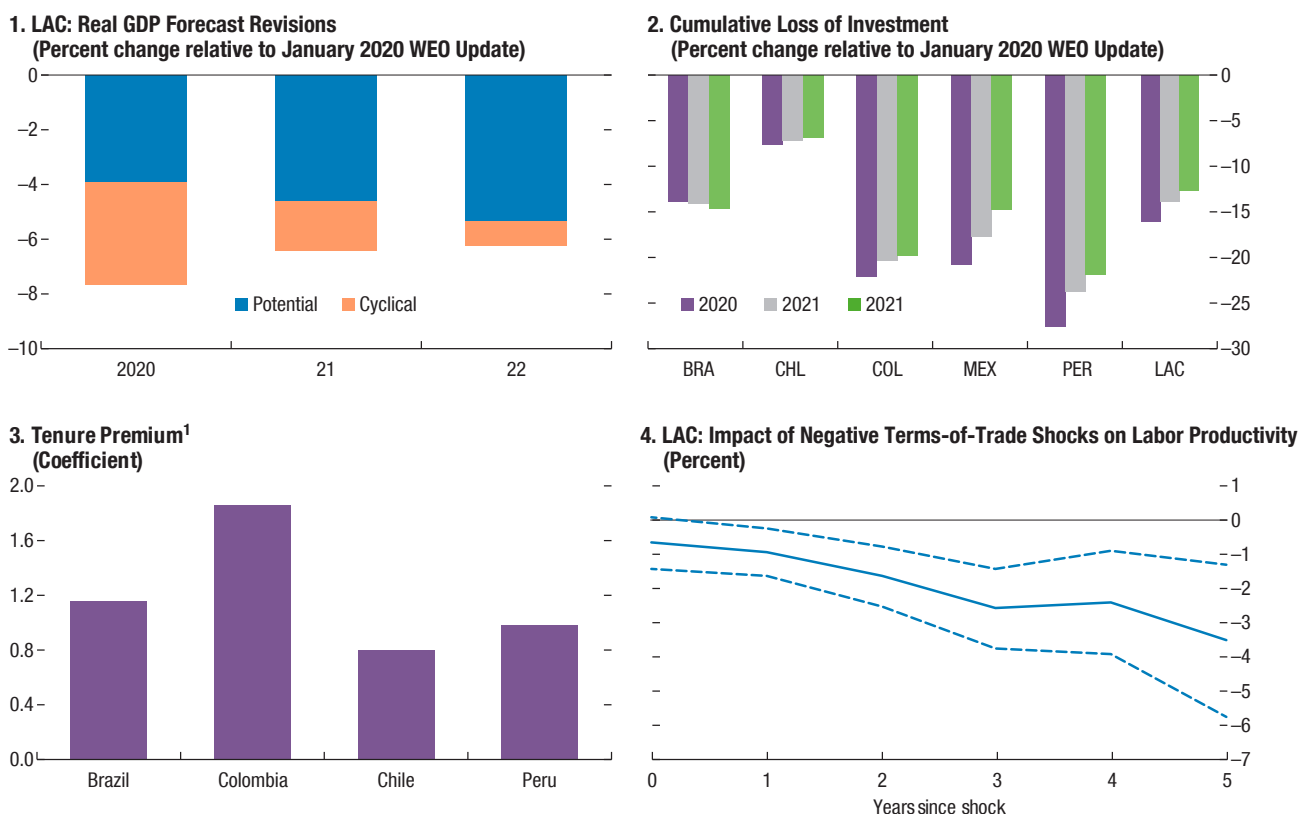
²Purchasing-power-parity GDP-weighted average.

LAC's income inequality, which was among the highest in the world before the pandemic (ECLAC 2020). Emergency assistance programs are expected to mitigate the shock's social impact.

Amid economic slack, inflation is projected to decline and fall below its target range in many countries in 2020. This reflects the larger impact of deflationary forces associated with depressed activity and subdued commodity prices relative to

the inflationary pressure of the supply shock and of currency depreciations (Figure 13, panel 1). Inflation is expected to rise gradually starting in 2021 but remain contained, amid persistently weak aggregate demand and negative output gaps (Figure 13, panel 2).

Fiscal measures are expected to provide short-term support to demand in 2020 (Figure 8, panel 4; Annex 3). However, under current plans, this

Figure 14. Scarring


Sources: IMF, World Economic Outlook (WEO) database; Inter-American Development Bank Harmonized Surveys database; and IMF staff calculations.

Note: Data labels use International Organization for Standardization (ISO) country codes. LAC = Latin America and the Caribbean.

¹Bars are the coefficients for log years of tenure from a Mincer regression of log hourly wages. Additional controls include education, gender, age, and sector fixed effects.

effect is expected to reverse in 2021 as support is unwound, with a negative impulse of about 3 percent of GDP. Moderate current account deficits and large fiscal deficits in 2020 and 2021 point to a strong crowding out of private domestic demand—in particular, investment will remain subdued as uncertainty about the pandemic’s path persists.

The COVID-19 crisis is expected to leave lasting scars on potential GDP, especially in countries where policy support has been limited. Although the pandemic’s impact on cyclical and potential output is quantitatively similar in 2020, the latter becomes more prominent as the recovery takes hold (Figure 14, panel 1). Several factors contribute to the long-lasting damage to potential GDP. The necessary support to the corporate

sector, mostly to SMEs and some large firms in affected sectors, will exacerbate their high leverage and increase the prevalence of “zombie” firms (GFSR online annex). Bankruptcies, firm closures, and the postponement of business plans because of weak demand and uncertainty will keep investment depressed over the medium term (Figure 14, panel 2). The crisis will also lead to the destruction of organizational capital and relationship-specific capital between input suppliers and final goods producers, which is likely to amplify the effects of the crisis. Similarly, many workers with on-the-job experience—an attribute that adds to productivity and that firms value (Figure 14, panel 3)—are expected to be laid off, destroying firm-specific human capital. Past economic shocks in LAC have resulted in lasting adverse effects on productivity (Figure 14,

panel 4; World Bank 2020), and the expected long episodes of unemployment and informality could lead to further skill losses, making the effects of the shock more acute (IMF 2020b).

Finally, total factor productivity is expected to suffer because some degree of misallocation is likely in a recovery that will be uneven across sectors and during which economies will be adapting and operating in ways compatible with social distancing (October 2020 WEO). An accelerated process of structural transformation is expected to arise because installed capital may need to be repurposed, and growing sectors will have to absorb displaced workers, which could result in high adjustment costs. The region's stringent labor market regulations and bankruptcy laws could also hamper this process (October 2019 *Regional Economic Outlook: Western Hemisphere*). Some of these factors will likely be mitigated in countries with strong economic support programs, especially those aimed at preserving formal employment and viable firms. By contrast, countries where support has been limited by fiscal space and lack of market access will likely suffer a larger impact on potential GDP. Still, too much preservation of existing jobs and firms through fiscal support to sectors that will remain depressed during the recovery might hinder the structural transformations that dynamic economies need, making the trade-offs of policy interventions very hard to assess (Blanchard, Philippon, and Pisani-Ferry 2020).

Risks to the Outlook

Risks to the outlook remain skewed to the downside. Uncertainty about the pandemic's evolution is a key source of risk. The gradual recovery of economic activity envisioned in the baseline scenario could be disrupted by new outbreaks that lead to a stiffening of containment measures or further depress demand for contact-intensive sectors. Also, intensification of the pandemic is likely to be associated with a tightening of financial conditions that would amplify the negative impact on activity in an

adverse scenario (October 2020 WEO, Box 1.1). Improvements in treatment and early development of a vaccine could improve the outlook in a more *benign scenario*. Other external and domestic risks are discussed below.

External Risks

Lackluster global growth and a slowdown in global trade could weaken LAC's recovery. This risk could materialize if countries tighten their policy stance too quickly or turn toward protectionist policies (October 2020 WEO). An escalation of geopolitical tensions could also lower global growth and increase commodity price volatility. These factors may erode global risk appetite and reduce capital flows to the region.

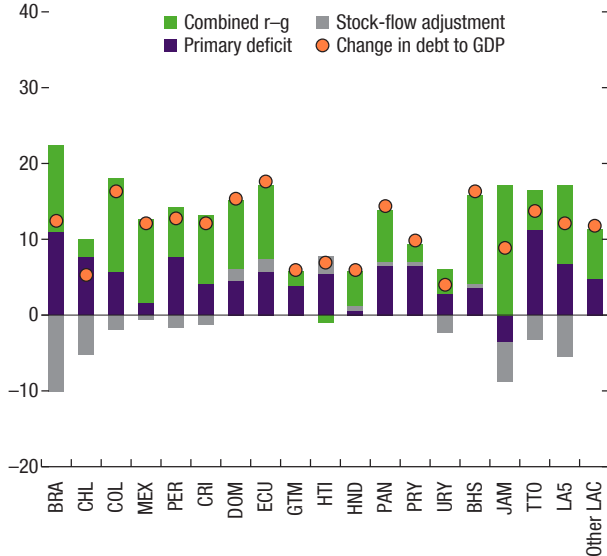
Regional and Domestic Risks

A longer-lasting decline in activity could further tighten financial conditions and exacerbate debt and funding issues in the region's corporate and sovereign sectors. Vulnerabilities are rising in these sectors, and liquidity pressures may morph into insolvencies, especially if the recovery is delayed (October 2020 GFSR).

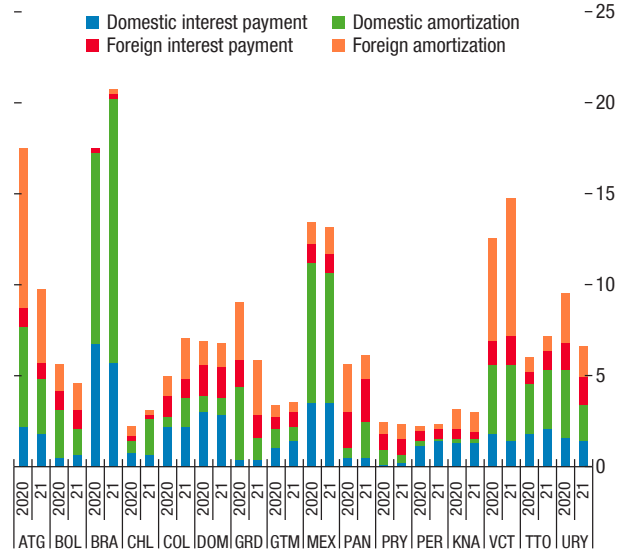
High sovereign debt levels could lead to a deterioration in sovereign credit ratings and reignite pressure in local bond markets. Large fiscal deficits and sharp contractions in GDP will lead to spikes in debt-to-GDP ratios (Figure 15, panel 1). Although debt is expected to stabilize in the baseline as growth resumes in 2021, concerns about fiscal sustainability among market participants could worsen in an adverse scenario, leading to rating downgrades and increases in funding costs. These could also dim interest by foreign participants, constraining governments' ability to meet financing needs. If that happens, domestic investors and banks would buy government bonds at the expense of corporate issuances. As shown in Figure 15, panel 2, debt service pressures are likely to be larger in domestic markets than in external markets in non-Caribbean countries.

Figure 15. Debt Outlook

1. Drivers of Change in Public Debt, 2020¹
(Percent of GDP)



2. Public Debt Service
(Percent of GDP)



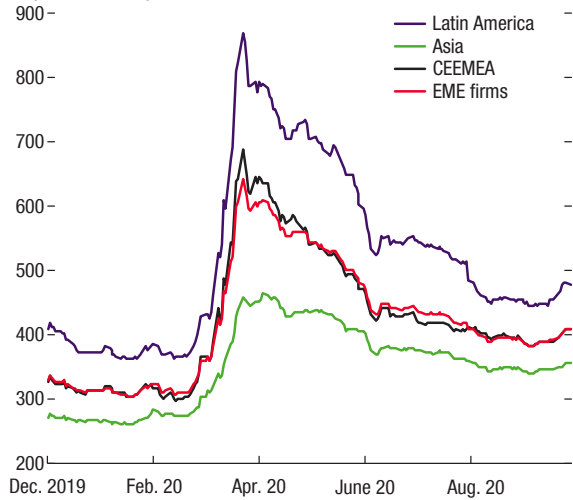
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Data labels use International Organization for Standardization (ISO) country codes. LAC = Latin America and the Caribbean; LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru).

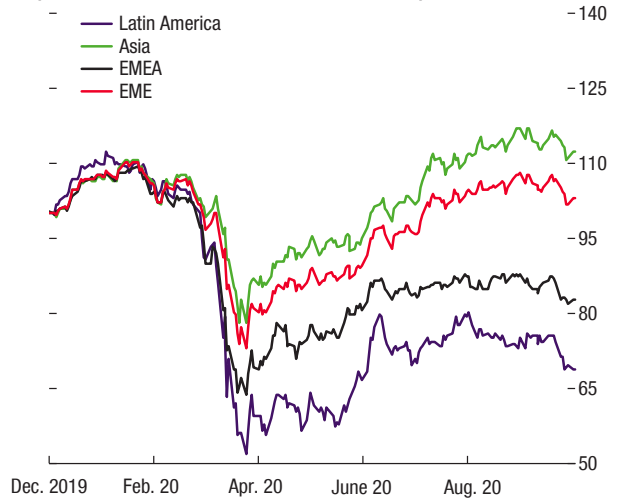
¹Real interest rate-growth (r-g) differential, adjusted for exchange rate changes. Stock-flow adjustments are a residual category that typically captures one-off factors. For example, in Brazil's case, they capture in part the use of cash reserves to reduce the need for new debt issuance. Aggregates are fiscal year US dollar nominal GDP-weighted averages. "Other LAC" comprises non-LA5 countries shown in the chart.

Figure 16. Financial and Corporate Developments

1. CEMBI Spreads in Emerging Market Economies
(Basis points)



2. MSCI Emerging Market Economies
(US dollars; index: December 2, 2019 = 100)



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

Note: CEEMEA = Central and Eastern Europe, Middle East, and Africa; CEMBI = Corporate Emerging Markets Bond Index; EME = emerging market economies; EMEA = Europe, Middle East, and Africa; MSCI = Morgan Stanley Capital International.

Corporate and financial stress is another source of risk in LAC. The COVID-19 shock negatively affected many large corporations in LAC more than those in other regions (Figure 16). However, SMEs are expected to feel the largest effect. In Brazil, firm surveys through August 2020 show that a higher fraction of small firms have reported declining sales than large firms. IMF (2020d) shows that nonfinancial corporate debt at risk has risen sharply in 2020 and could increase further in 2021 in an adverse scenario. On the financial side, LAC's banking sector entered the crisis in a strong position, limiting concerns about systemic risk. However, if downside risks to the outlook materialize, rising bankruptcies and nonperforming loans may create pockets of vulnerability that could lead to capital shortfalls in some banks.

A further deterioration in overall activity could lead to additional layoffs and permanent closures, especially among small and young firms (IMF 2020d). These factors, if not tackled properly, could deepen scarring and amplify existing inequities in the region further, raising the prospects of renewed bouts of social unrest.

Beyond pandemic-related risks, natural disasters and extreme weather events continue to be significant sources of risk in the region. These include hurricanes in the Caribbean and Central America and earthquakes in the countries located in the “ring of fire,” where many earthquakes and volcanic eruptions occur

Regional Policy Focus

Policies will have to manage difficult trade-offs amid the health emergency, dire socioeconomic prospects, significant downside risks, and mounting fiscal imbalances. Containing the spread of the virus and addressing the health crisis remain the priorities. Short-term policies must remain focused on the recovery. The gradual reopening process could be facilitated by measures aimed at making workplace arrangements safer and improving access to digital technologies.

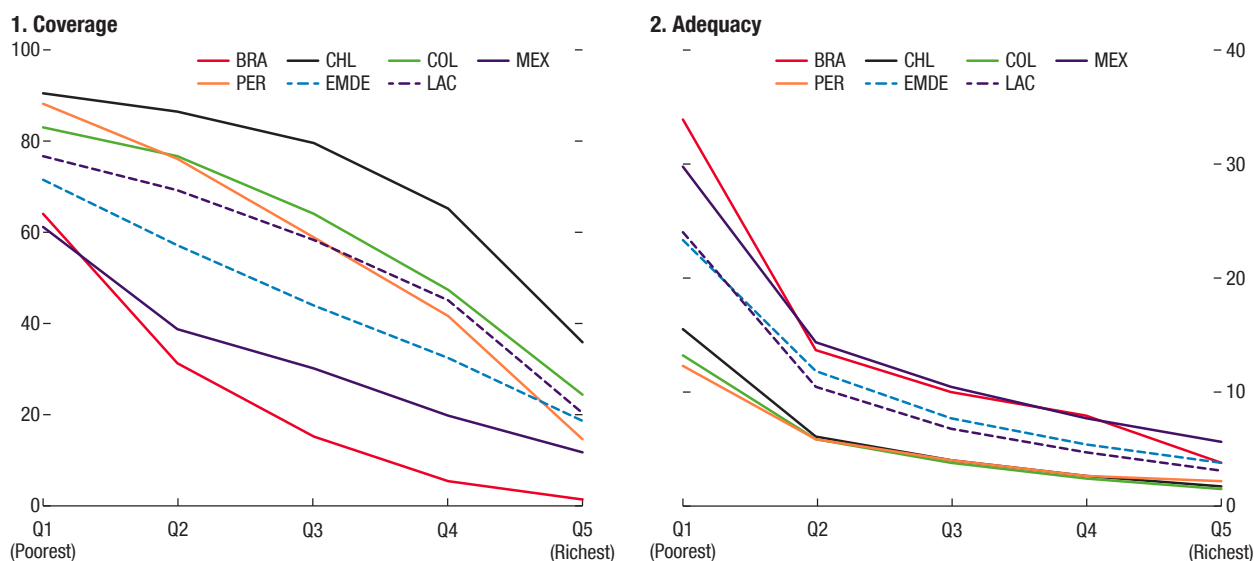
Fiscal support should be maintained in the short term to safeguard the incipient economic recovery (IMF 2020c). However, such support should be accompanied by explicit and clearly communicated commitments to consolidate and rebuild buffers over the medium term. In that context, fiscal rules will play an important role. Countries where fiscal rules were suspended due to the crisis should clearly communicate commitments to restore rules conditional on the state of the recovery. To provide credibility for medium-term plans and create fiscal space, countries could also consider passing legislation, such as preapproval of future tax reforms, to ensure that gradual adjustment occurs once the recovery is well underway.

In countries where activity is picking up and lockdowns are being loosened, emergency lifelines should be gradually unwound, avoiding sudden declines in income, especially among the vulnerable. Where fiscal space is available, governments could provide broad-based stimulus by, for example, enacting carefully designed temporary payroll tax cuts (covering existing employees and new hires) to incentivize firms to hire, and boosting public investment. Nonetheless, in countries with more limited fiscal space, as governments unwind emergency support, the priority would be to preserve measures with the largest social impact and increase the efficiency of spending, along with revenue mobilization.

Moreover, countries can foster market-based reallocations arising from the crisis by tackling existing burdensome regulations. Revisions to existing laws could provide further support to the recovery. For example, relaxing entry barriers (which favor incumbents at the expense of potential new firms) and labor market rigidities (which deter firms from hiring) could boost the recovery.

Monetary policy can help mitigate the impact of fiscal unwinding, both with traditional and unconventional instruments. Stable inflation expectations and persistent negative output gaps suggest that monetary policy in LAC should remain accommodative. Low policy

Figure 17. Social Safety Net Programs
(Percent)



Source: IMF staff calculations.

Note: Coverage measures the percentage of the quintile that receives a social safety net benefit. Adequacy of benefits measures the total transfer amount received by all beneficiaries in the quintile as a percentage of the pre-transfer total income and expenditure of beneficiaries (in that quintile). Calculations are based on pre-COVID-19 information. Years are as follows: BRA, CHL (2015); COL, MEX, PER (2014); EMDE, LAC (around 2015). Dashed lines for EMDE and LAC refer to the median. Data labels use International Organization for Standardization (ISO) country codes. COVID-19 = coronavirus disease; EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean.

rates may need to be combined with bond and foreign exchange market interventions if financial conditions tighten. Asset purchase programs could help countries hitting the effective lower bound ease financial conditions by lowering term premiums and flattening the yield curve. However, they should be combined with a clear communication strategy to avoid undermining credibility and should not hamper the development of local capital markets and the growth of a stable and diversified local investor base. Moreover, asset purchase programs should be temporary and have clear exit strategies, should be designed in a way that focuses on high quality tradable assets, and should be consistent with central banks' objectives.

Policy priorities will change once pharmaceutical interventions or medical treatments (or both) are widely available, the pandemic is under control, and the recovery is well underway. Fiscal policy will then need to address legacy effects of the COVID-19 crisis and credibly rebuild space.

This would require a further strengthening of medium-term anchors and fiscal structural reforms—with an eye toward enhancing automatic stabilizers, preserving public investment (while improving public investment management), tax progressivity, and fairness of the composition and quality of fiscal adjustments. For example, countries in the region have room to improve targeting of social safety nets by strengthening social registries, which could allow better identification of vulnerable households and could lead to savings without hurting vulnerable groups (Figure 17).

Financial regulation will need to address the legacy of the crisis. As activity recovers, banks need to rebuild capital buffers to ensure medium-term financial stability. Countries will need to tackle corporate debt overhang and distinguish between viable firms in the new domestic and global context and those that are not. For the former, debt restructuring may be critical to rebuild balance sheets. Standard restructuring

solutions and incentives could help expedite this process. Out-of-court frameworks may be needed to deal with high case volume. For unviable firms, efficient and equitable bankruptcy frameworks that distribute losses among investors, creditors, owners, workers, and the government will be needed.

Increasing long-term growth and employment has become more pressing since the COVID-19 crisis. LAC entered the pandemic with clear gaps in infrastructure and productivity. Investments in green infrastructure and technologies could help close these gaps as part of a reprioritization of government expenditure (October 2020 WEO). However, these efforts should be complemented with a comprehensive structural reform agenda that tackles regulations in product and labor markets to facilitate cross-sectoral reallocation of resources from polluting sectors to green ones.

Policies that protect the income and employment of the vulnerable should accompany pro-growth structural reforms, especially at a time when inequality and poverty are expected to rise. Stronger safety nets, which focus on poverty alleviation and incentives for human capital improvements, should continue to play a buffering role. But countries now have an opportunity to embark on a broader strategy for addressing social objectives. A new generation of social safety nets and programs ensuring better access to basic utilities, education, health care, and formal markets could strengthen social cohesion and help prepare the region for ongoing changes in the global economy (such as automation and the use of artificial intelligence in productive processes). Addressing social objectives in this way could make LAC's social progress more resilient to economic shocks—including those associated with climate change (IMF 2020b, 2020c).

Box 1. Sovereign Debt Restructuring in Argentina and Ecuador¹

Argentina and Ecuador undertook successful debt restructurings in 2020, amid mounting debt sustainability concerns and financing pressures.

Argentina: After presenting debt restructuring offers in April and July, Argentina reached an agreement with its key external creditors in August. The complex restructuring of \$65 billion in foreign-law bonds, which included 35 different bonds issued under two different indentures (with old and enhanced collective action clauses [CACs]) and in multiple currencies, was completed by September 4 with 99 percent creditor participation after CACs (94.6 percent tendered the exchange). In parallel, \$15.2 billion of domestic law foreign exchange-denominated bonds were restructured by September 21, with 99.4 percent bondholder participation and under similar terms and conditions. The debt restructurings took place outside of an IMF-supported program.

Ecuador: Amid the COVID-19 crisis, Ecuador launched a market-friendly restructuring of its \$17.4 billion international bonds, which was finalized on August 31 with 100 percent creditor participation facilitated by CACs (98 percent tendered the exchange). An IMF staff-level agreement on an IMF program—a precondition for the debt exchange—was reached on August 28.

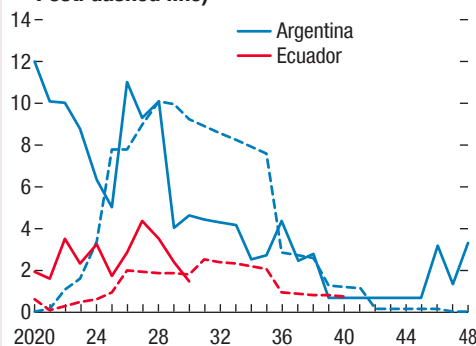
The debt deals feature: (1) a small nominal principal reduction of \$1.6 billion in Argentina and \$1.5 billion in Ecuador; (2) an increase in the weighted-average maturity from 7.9 years to 11 years in Argentina and from 6.1 years to 12.7 years in Ecuador; (3) a reduction in the weighted-average coupon rate from 6.5 to 3.2 percent in Argentina and from 9.2 to 5.3 percent in Ecuador; (4) a weighted-average grace period of 6.9 years in Argentina and 6 years in Ecuador; as well as (5) very low annual interest payments between 2021 and 2024, averaging 0.25 percent of GDP in Argentina and 0.35 percent of GDP in Ecuador; and (6) long-term past-due-interest bonds of \$3.5 billion in Argentina and \$1 billion with nominal haircut in Ecuador. Both restructurings include legal innovations aimed at encouraging bondholder participation, such as clauses to limit the possibility of voting abuses (IMF 2020e).

This box was prepared by Matteo Ghilardi and Michael Perks.

¹The government of Argentina announced its intention to launch the debt restructuring process in December 2019 while the government of Ecuador did it in April 2020.

Box Figure 1.1. Debt Restructuring

1. Pre- and Post-Restructuring Debt Service (Billions of US dollars; Pre: solid line; Post: dashed line)



2. Bond Prices¹



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

¹Debt restructuring dates are as follows: Argentina (September 4, 2020) and Ecuador (September 1, 2020).

Box 1 (continued)

The debt restructurings provide significant liquidity relief over the next decade (\$33.3 billion to Argentina and \$16.4 billion to Ecuador) and are expected to reduce public-debt-to-GDP ratios to 40 percent in Argentina and 45 percent in Ecuador. Bond prices recovered in the run-up to the restructuring but have declined since, reflecting, in part, domestic policy uncertainty.

Box Table 1.1. Selected Debt Restructuring Operations*(Billions of US dollars; unless indicated otherwise)*

	Argentina	Ecuador
Public Debt (end-2019) ¹	206.5	55.7
Public Debt (end-2019; percent of GDP) ¹	56.2	51.8
Debt Subject to Restructuring	80.2	17.4
Foreign Law	65.0	17.4
Domestic Law ²	15.2	...
Cash Flow Relief, 2020–30	33.3	16.4
Recovery Value (percent; 10 percent discount rate)	55.1	55.0
Restructured Bonds		
Rating ³	CCC+	B–
Price ⁴	45–52	49–74
Yields (weighted average)	11–12	9.6

Sources: National authorities; and IMF staff calculations.

¹For Argentina, excludes debt held by other public sector entities.²For Argentina, excludes US\$3 billion in foreign currency debt converted to local currency.³Standard & Poor's.⁴Includes past-due interest (PDI) bonds. In the case of Ecuador, the amount of PDI is as of September 1 and is after the nominal haircut. For Argentina, PDI is as of September 4, 2020.

Annex 1. COVID-19 in Latin America and the Caribbean¹

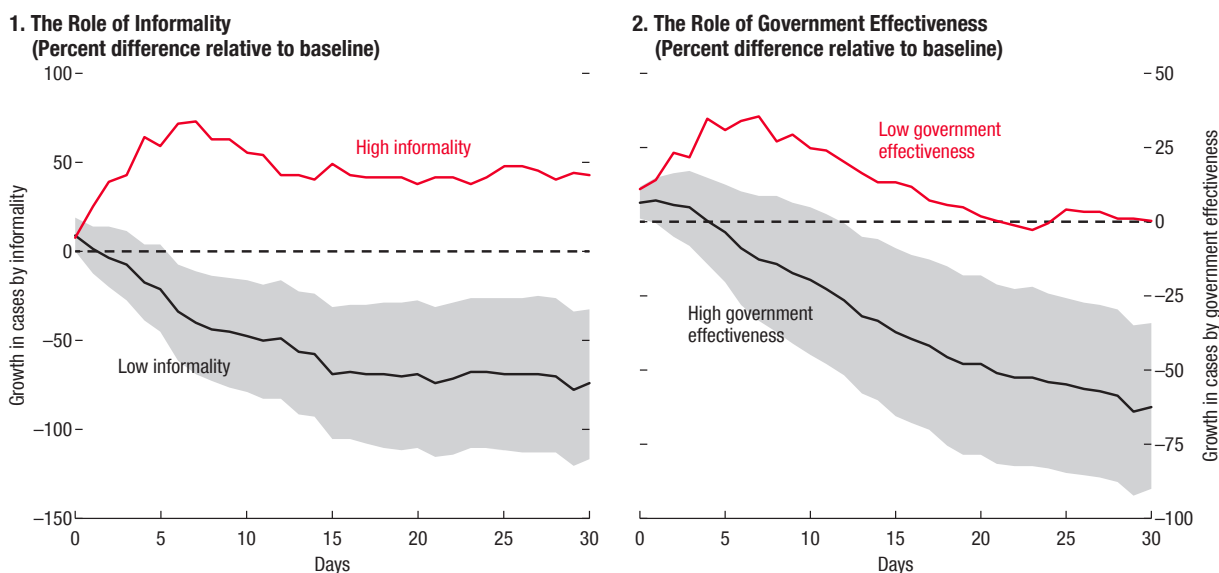
Latin America locked down early, when total cases were still low. Lockdowns were stringent, and mobility plummeted for a while. However, the lockdowns in Latin America were not fully effective, and mobility started rising even before the relaxation of the mobility restrictions and when new cases and deaths were still on the rise. With that, the number of deaths gradually increased, resulting in a slow-burn pattern, in contrast to a rapid explosion of infections that occurred in Europe. Structural factors, including a high degree of poverty and informality, urban agglomeration, weak state capacity and lack of fiscal resources, weak health systems, and lack of tests and tracing, have contributed to the region's difficulties in containing the pandemic and continue to represent challenges for reopening. For example, local projection estimates show that in countries with low informality/high government

effectiveness, the increase in total cases 30 days after the introduction of containment measures was about 75/65 percent lower compared with similar countries that did not introduce such measures (Annex Figure 1.1). By contrast, countries with high informality/low government effectiveness that imposed containment measures experienced an increase/no change in total cases relative to comparators.

IMF staff analysis also suggests that the high total death toll in Latin America can be linked to weak hospital capacity, high population density, and in some cases, large populations more generally and the geographic location, while relatively favorable demographics and BCG vaccination (against tuberculosis) have helped reduce total death toll in the region (Annex Table 1.1, IMF 2020a).

The prolonged period of depressed mobility led to an important adverse impact on economic activity. The drop in mobility and the associated decline in economic activity were not just the result of

Annex Figure 1.1. Determinants of the Effectiveness of Containment Measures



Source: IMF staff calculations.

Note: Shaded area refers to the 90 percent confidence interval. Dashed line refers to the baseline. COVID-19 = coronavirus disease.

¹This annex is based on IMF (2020a), prepared by Bas Bakker (co-lead), Carlos Gonçalves (co-lead), Carlo Pizzinelli, Pedro Rodríguez, Mauricio Vargas, and Dmitry Vasilyev.

policy-mandated lockdowns, but also of the change in behavior in reaction to the pandemic. However, quantitative analysis suggests that the impact of both the lockdowns and self-imposed quarantines induced by a rapid spread of the disease has diminished over time (IMF 2020a).

Annex Table 1.1. Correlates of Total Deaths
(Dependent variable: total deaths per million)

	May 30	Aug. 30
Population over 70 Years Old	14.8*** (2.93)	15.7*** (4.73)
BCG Dummy	-117*** (30.9)	-107*** (47.6)
Hospital Beds per 10,000 People	-12.5 (5.14)	-14.3 (7.10)
Log (total population)	10.20* (2.68)	20.05** (8.90)
LAC Dummy	n.s.	153.2***
Constant	Y	Y
R ²	0.35	0.27
Number of Countries	152	124
Number of Countries in LAC	22	17

Source: IMF staff calculations.

Note: Population density is not significant at the country level but is significant at the municipal level. Geographic latitude, which is difficult to control for at the country level, is significant at the municipal level (IMF 2020a). Standard errors are in parentheses. BCG = Bacillus Calmette–Guérin; LAC = Latin America and the Caribbean; Y = yes.

* $p = 0.1$; ** $p = 0.05$; *** $p = 0.01$.

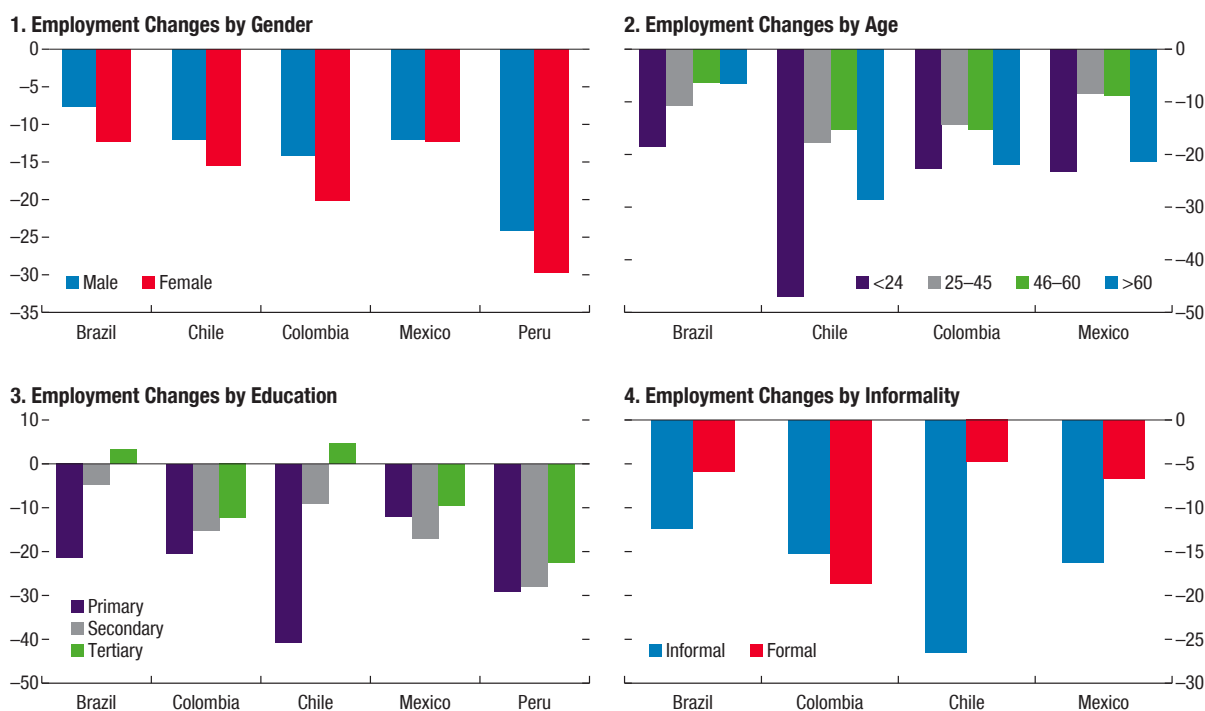
Annex 2. Latin American Labor Markets during COVID-19¹

The coronavirus pandemic has severely affected labor markets, and employment losses have been distributed unevenly across the population of LAC (IMF 2020b). Employment fell more steeply for women, especially in Brazil, Colombia, and Peru (Annex Figure 2.1, panel 1). Young and older workers were affected more than those between 25 and 60 years of age (Annex Figure 2.1, panel 2). Similarly, workers with tertiary education suffered smaller reductions in employment, and in Brazil and Chile, employment levels for this group were back to pre-pandemic levels by June (Annex Figure 2.1, panel 3). The large decline in

informal employment is related to this pattern—except in Colombia, informal employment fell at a higher rate than formal employment (Annex Figure 2.1, panel 4).

The shock’s uneven impact relates to differences in exposure across types of workers and highlights the pandemic’s distributional consequences. Contact-intensive occupations are more common among women and informal workers, and the ability to work remotely is more prevalent among formal workers and high-skilled workers. The link between job losses and educational attainment and informality highlights the shock’s regressive nature, because low educational attainment and informality are more pervasive among poor and vulnerable households.

Annex Figure 2.1. Employment Changes by Workers’ Characteristics
(Percent; February to June 2020)



Sources: National statistics agencies; and IMF staff calculations.

Note: For Mexico, changes are for June relative to the first quarter of 2020. For Brazil, age groups are as follows: younger than age 24, 25–40, 41–60, and older than age 60. Data for Peru are for Lima; no data are available for informality.

¹This annex is based on IMF (2020b), prepared by Takuji Komatsuzaki, Carlo Pizzinelli, Samuel Pienknagura (co-lead), Jorge Roldós (co-lead), and Frederik Toscani.

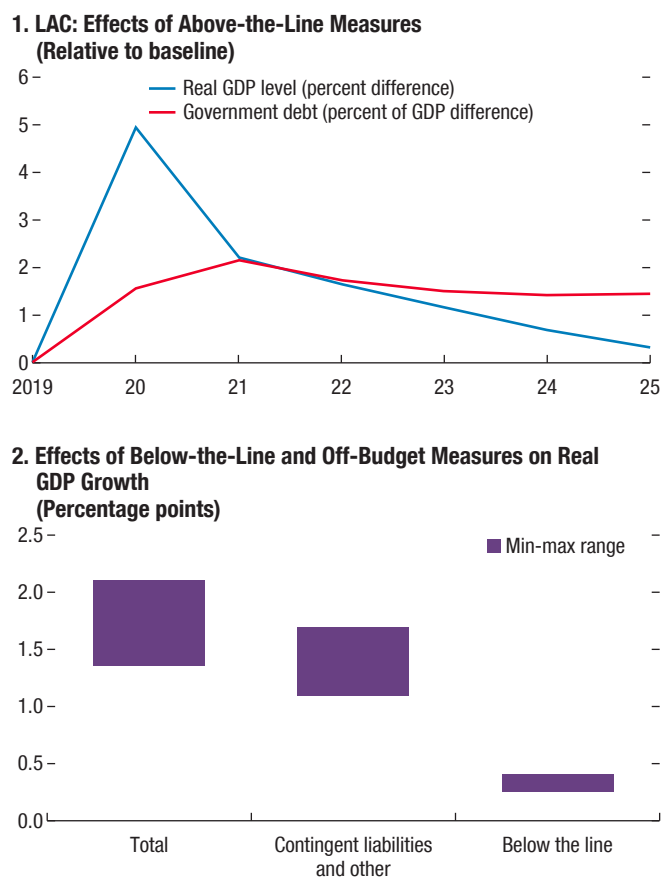
Annex 3. Fiscal Policy at the Time of a Pandemic: How Has Latin America and the Caribbean Fared?¹

Governments in the Latin America and the Caribbean (LAC) region have announced packages of fiscal support in the wake of the pandemic, amounting to 8 percent of GDP on average. This includes above-the-line and below-the-line and off budget measures. Simulations based on a structural model (IMF 2020c) show that these exceptional measures are playing a key role in mitigating the effects of the pandemic (Annex Figure 3.1). The simulations distinguish between various components of the fiscal packages and their multipliers. Although evidence suggests that multipliers tend to be higher during crises relative to “normal” times, the coronavirus pandemic is a unique shock. There are indications of large output gaps, which would point to more potent fiscal policy effects. However, the pandemic also entailed disruptions on the supply side, which would suggest a more muted impact for fiscal policy. This is because sectoral shutdowns dampen some of the traditional effects of fiscal policy as a result of a lower average propensity to consume and a lack of second-round effects.

Considering these caveats, the simulations show that the effects of the above-the-line fiscal measures on real GDP are sizable, amounting to an increase of about 5 percent relative to the baseline without fiscal support. The debt-to-GDP ratio increases by about 2 percentage points relative to baseline within a year. Effects dissipate in the medium term because economies are expected to unwind stimulus and embark on partial consolidations. The initial boost to activity materializes through a jump in consumption as a result of the increase in transfers and income support measures, while the fiscal packages—supported by monetary accommodation—provide

¹This annex is based on IMF (2020c), prepared by Ali Alich (lead), Antonio David, Metodij Hadzi-Vaskov, Keiko Honjo, Roberto Perrelli, and Mehdi Raissi, under the guidance of Hamid Faruquee.

Annex Figure 3.1. Effects of COVID-19 Measures



Sources: IMF (2020c); national authorities; and IMF staff calculations. Note: Based on model simulations and IMF staff estimates. LAC = Latin America and the Caribbean.

a considerable stimulus through investment over the outer years.

Estimates also suggest that below-the-line and off-budget measures could add between 1 and 2 percentage points to real GDP levels. The combined effect of above- and below-the-line measures, if implemented fully, would be sizable, raising Latin America and the Caribbean’s real GDP by about 6 to 7 percent within a year relative to the counterfactual.

IMF (2020c) discusses in detail fiscal policy recommendations to address challenges across the different stages of the pandemic. As lockdowns are gradually lifted, under uncertainty about the pandemic’s course, fiscal actions could focus on gradually scaling down lifelines. At this stage,

broad-based fiscal stimulus could support the recovery when there is fiscal space, but any additional support should be done under a clear commitment to adjustment over the medium term to restore sustainability. In that context, fiscal rules will play an important role. Moreover, the

passing of legislation to ensure fiscal consolidation over the medium term (such as preapproval of tax reforms) would also help as a commitment device. Enhancements to automatic stabilizers and safety nets would strengthen a more inclusive recovery.

Annex 4. Assessing the Impact of the COVID-19 Pandemic on the Corporate and Banking Sectors in Latin America¹

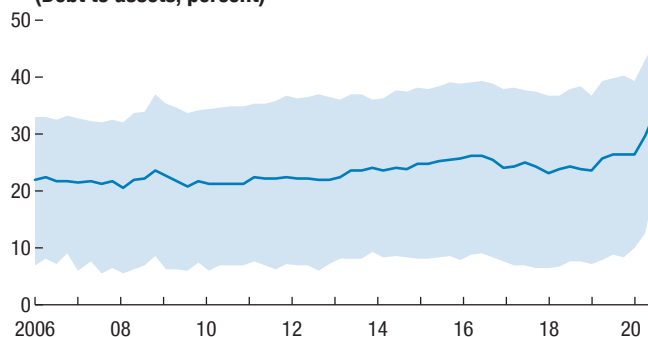
The COVID-19 pandemic is having large negative effects in the nonfinancial corporate sector in Latin America and the Caribbean (LAC). Corporate performance had already weakened in the period before the pandemic, with falling profitability and increasing leverage (Annex Figure 4.1, panel 1). Performance worsened further in the second quarter of 2020 and is expected to remain weak in the rest of 2020 and in 2021 (IMF 2020d). The share of corporate debt at risk, defined as debt of firms with earnings before taxes and interest lower than interest expense, has doubled from 14 percent in December 2019 to 29 percent in June 2020, and could rise further to near 50 percent in 2021 in an adverse scenario, in which corporate earnings do not grow and interest expenses increase in line with the rise in corporate debt (IMF 2020d).

The pandemic's adverse impact on nonfinancial corporations, together with the deep economic recession and large employment losses, is expected to exert pressure on banking systems. LAC banks entered the pandemic on a relatively strong footing, with ample capital and liquidity buffers and low nonperforming loans (Annex Figure 4.1, panel 2). Although financial soundness indicators worsened somewhat in the first half of 2020, the impact has been moderate so far, also reflecting the impact of financial sector policies that mitigate bank balance sheet stress. To assess the potential impact of the pandemic on the banking system, IMF (2020d) performs a simple forward-looking top-down solvency stress tests, for both the *World Economic Outlook* (WEO)

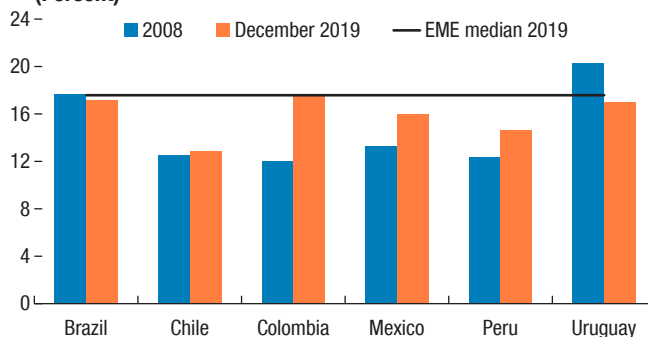
¹This annex is based on IMF (2020d), prepared by two teams: one comprising Pablo Bejar, Pelin Berkmen (co-lead), Farid Boumediene, Kotaro Ishi, Salma Khalid, Takuji Komatsuzaki, Cheng Hoon Lim (co-lead), and Dmitry Vasilyev, the other comprising Serhan Cevik (co-lead), Jaime Guajardo (co-lead), and Fedor Miryugin.

Annex Figure 4.1. Corporate and Financial Vulnerabilities

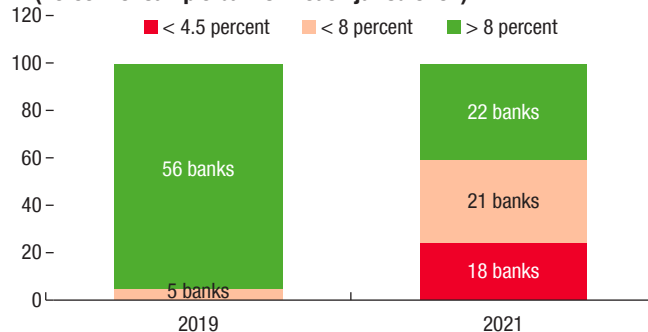
1. Corporate Leverage in Latin America¹ (Debt to assets; percent)



2. Capital Adequacy Ratio (Percent)



3. Distribution of Bank Assets by CET1 Ratio under Adverse Scenario (Percent of sample banks in each jurisdiction)



Sources: Bloomberg Finance L.P.; IMF, Financial Soundness Indicators database; national authorities; and IMF staff calculations.

Note: CET1 = common equity Tier 1; EME = emerging market economies.

¹Median of the nonfinancial corporations of Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Shaded area refers to the 25th to 75th percentile range.

baseline and adverse scenarios, using publicly available data for a sample of 61 major banks in the six largest economies in LAC, covering over 75 percent of bank assets in each jurisdiction.

The results from the stress test exercise indicate that under the WEO baseline scenario, most LAC banks would be able to maintain their capital ratios well above regulatory minimums, even under higher responsiveness of nonperforming loans and profitability than their historical standards. However, in the WEO adverse scenario

weaker banks with high nonperforming loans and low profitability at the onset of the pandemic crisis would face a significant deterioration in their capital positions, and some of them could experience capital shortfalls without a policy response (Annex Figure 4.1, panel 3).

Annex 5. Disclaimer

For *Argentina*, fiscal and inflation variables are excluded from publication for 2021–25 and 2020–25, respectively, as these are to a large extent linked to still pending program negotiations. The official national consumer price index (CPI) for Argentina starts in December 2016. For earlier periods, CPI data for Argentina reflect the Greater Buenos Aires Area CPI (prior to December 2013), the national CPI (IPC_{Nu})—(December 2013–October 2015), the City of Buenos Aires CPI (November 2015–April 2016), and the Greater Buenos Aires Area CPI (May–December 2016). Given limited comparability of these series on account of differences in geographic coverage, weights, sampling, and methodology, the average CPI inflation for 2014–16 and end-of-period inflation for 2015–16 are not reported in the October 2020 *World Economic Outlook* (WEO). Also, Argentina discontinued the publication of labor market data in December 2015, and new series became available starting in the second quarter of 2016.

The fiscal series for the *Dominican Republic* have the following coverage: public debt, debt service, and the cyclically adjusted/structural balances are for the consolidated public sector (which includes central government, the rest of the nonfinancial public sector, and the central bank); the remaining fiscal series are for the central government.

The fiscal data for *Ecuador* reflect net lending/borrowing for the nonfinancial public sector. The Ecuadorean authorities, with technical support from the IMF, are undertaking revisions of the historical fiscal data for the net lending/borrowing of the nonfinancial public sector over the period 2012–17, with a view to correcting recently identified statistical errors in data compilation at the subnational level and the consistency between above-the-line and financing data by subsectors.

Starting in October 2018 *Uruguay's* public pension system began receiving transfers in the context of a new law that compensates persons affected by the creation of the mixed pension system. These funds are recorded as revenues, consistent with the IMF's methodology, and also

affect net lending/borrowing series. Therefore, data and projections for 2018–21 are affected by these transfers, which amounted to 1.3 percent of GDP in 2018 and 1.2 percent of GDP in 2019 and are projected to be 0.8 percent of GDP in 2020, 0.2 percent of GDP in 2021, and zero thereafter. See IMF Country Report 19/64.

The coverage of the fiscal data for *Uruguay* was changed from consolidated public sector to nonfinancial public sector (NFPS) with the October 2019 WEO. In Uruguay, NFPS coverage includes central government, local government, social security funds, nonfinancial public corporations, and Banco de Seguros del Estado. Historical data were also revised accordingly. Under this narrower fiscal perimeter—which excludes the central bank—assets and liabilities held by the NFPS where the counterpart is the central bank are not netted out in debt figures. In this context, capitalization bonds issued in the past by the government to the central bank are now part of the NFPS debt.

Projecting the economic outlook in *Venezuela*, including assessing past and current economic developments as the basis for the projections, is complicated by the lack of discussions with the authorities (the latest Article IV consultation took place in 2004), incomplete understanding of the reported data, and difficulties in interpreting certain reported economic indicators given economic developments. The fiscal accounts include the budgetary central government; social security; FOGADE (insurance deposit institution); and a sample of public enterprises, including *Petróleos de Venezuela, S.A. (PDVSA)*; data for 2018–19 are IMF staff estimates. The effects of hyperinflation and the paucity of reported data mean that the IMF staff's projected macroeconomic indicators need to be interpreted with caution. For example, nominal GDP is estimated assuming the GDP deflator rises in line with the IMF staff's projection of average inflation. Public external debt in relation to GDP is projected using the IMF staff's estimate of the average exchange rate for the year. Wide uncertainty surrounds these projections. *Venezuela's* consumer prices are excluded from all WEO group composites.

Appendix Table 1. Western Hemisphere: Main Economic Indicators¹

	Real GDP Growth (Percent, year-over-year)					Inflation ² (End of period; percent)					External Current Account Balance (Percent of GDP)				
	2017	2018	2019	Projections		2017	2018	2019	Projections		2017	2018	2019	Projections	
				2020	2021				2020	2021				2020	2021
North America	2.3	2.8	1.9	-4.9	3.3	2.6	2.2	2.1	2.1	2.2	-1.9	-2.2	-2.1	-2.0	-2.0
Canada	3.2	2.0	1.7	-7.1	5.2	1.8	2.1	2.1	0.3	1.4	-2.8	-2.5	-2.0	-2.0	-2.4
Mexico	2.1	2.2	-0.3	-9.0	3.5	6.8	4.8	2.8	3.7	2.9	-1.8	-2.1	-0.3	1.2	-0.1
United States	2.3	3.0	2.2	-4.3	3.1	2.2	1.9	2.1	2.1	2.2	-1.9	-2.2	-2.2	-2.1	-2.1
Puerto Rico ³	-2.7	-4.9	2.0	-7.5	1.5	1.2	0.6	0.5	-1.6	0.6	...	...	...	...	...
South America	0.8	0.3	-0.2	-8.1	3.6	6.3	9.6	10.5	6.7	8.9	-1.5	-2.5	-2.3	-0.6	-0.7
Argentina ⁴	2.8	-2.6	-2.1	-11.8	4.9	24.8	47.6	53.8	...	...	-4.8	-5.2	-0.9	0.7	1.2
Bolivia	4.2	4.2	2.2	-7.9	5.6	2.7	1.5	1.5	3.3	3.8	-4.8	-4.6	-3.3	-2.6	-3.5
Brazil	1.3	1.3	1.1	-5.8	2.8	2.9	3.7	4.3	2.0	2.9	-0.7	-2.2	-2.8	0.3	0.0
Chile	1.2	4.0	1.1	-6.0	4.5	2.3	2.1	3.0	2.4	2.9	-2.3	-3.6	-3.8	-1.6	-2.9
Colombia	1.4	2.5	3.3	-8.2	4.0	4.1	3.2	3.8	1.4	2.4	-3.3	-3.9	-4.2	-4.0	-3.9
Ecuador	2.4	1.3	0.1	-11.0	4.8	-0.2	0.3	-0.1	-0.3	2.0	-0.1	-1.2	-0.1	-2.0	-0.1
Paraguay	5.0	3.4	0.0	-4.0	5.5	4.5	3.2	2.8	3.0	3.3	3.1	0.0	-1.0	-0.7	0.0
Peru	2.5	4.0	2.2	-13.9	7.3	1.4	2.2	1.9	1.8	2.0	-1.3	-1.7	-1.4	-1.1	-0.3
Uruguay	2.6	1.6	0.2	-4.5	4.3	6.6	8.0	8.8	9.5	7.5	0.7	0.0	0.6	-1.7	-3.3
Venezuela ⁴	-15.7	-19.6	-35.0	-25.0	-10.0	863	130,060	9,585	6,500	6,500	6.1	8.8	8.4	-4.1	-4.1
CAPDR	4.2	3.8	3.2	-5.9	3.6	3.5	1.6	2.5	2.0	2.6	-2.0	-3.1	-1.2	-3.1	-2.9
Costa Rica	3.9	2.7	2.1	-5.5	2.3	2.6	2.0	1.5	0.5	1.2	-3.3	-3.3	-2.4	-4.5	-4.1
Dominican Republic	4.7	7.0	5.1	-6.0	4.0	4.2	1.2	3.7	4.0	4.0	-0.2	-1.4	-1.4	-6.0	-4.5
El Salvador	2.3	2.4	2.4	-9.0	4.0	2.0	0.4	0.0	0.7	1.5	-1.9	-4.7	-2.1	-4.9	-4.5
Guatemala	3.0	3.2	3.8	-2.0	4.0	5.7	2.3	3.4	2.3	3.1	1.1	0.8	2.4	3.8	2.3
Honduras	4.8	3.7	2.7	-6.6	4.9	4.7	4.2	4.1	3.2	4.2	-0.8	-5.4	-1.4	-2.2	-2.8
Nicaragua	4.6	-4.0	-3.9	-5.5	-0.5	5.7	3.9	6.1	4.0	3.5	-7.2	-1.9	6.0	0.5	-0.2
Panama ⁵	5.6	3.7	3.0	-9.0	4.0	0.5	0.2	-0.1	-0.5	0.5	-5.9	-8.2	-5.2	-7.0	-6.2
Caribbean: Tourism-Dependent	1.4	2.0	0.5	-9.9	4.0	6.2	4.6	7.5	7.5	7.9	-5.5	-5.8	-2.0	-11.3	-10.4
Antigua and Barbuda	3.1	7.0	3.4	-17.3	4.7	2.4	1.7	1.5	0.7	1.3	-7.8	-13.7	-6.5	-22.0	-24.7
Aruba	2.3	1.2	0.4	-19.7	9.0	-0.5	4.5	5.2	-1.1	3.3	1.1	-0.7	2.1	-20.8	-17.2
The Bahamas	3.1	3.0	1.2	-14.8	4.6	1.6	2.0	1.8	1.7	2.5	-12.1	-11.4	0.6	-17.5	-15.9
Barbados	0.5	-0.6	-0.1	-11.6	7.4	6.6	0.6	7.2	-0.8	2.4	-3.8	-4.0	-3.1	-11.1	-6.8
Belize	1.9	2.1	-2.0	-16.0	8.0	1.0	-0.1	0.2	1.1	1.3	-8.6	-8.1	-9.6	-15.3	-11.4
Dominica	-9.5	0.5	8.4	-8.8	3.3	1.4	1.4	1.8	1.8	2.0	-8.8	-44.6	-27.2	-27.8	-26.3
Grenada	4.4	4.1	3.0	-11.8	3.0	0.5	1.4	0.1	-0.8	1.2	-14.4	-15.9	-15.8	-25.3	-24.9
Haiti ⁶	1.2	1.5	-1.2	-4.0	1.2	15.4	13.3	19.7	25.0	22.0	-1.0	-3.9	-1.4	-2.5	-0.4
Jamaica	0.7	1.9	0.9	-8.6	3.6	5.2	2.4	6.2	4.1	5.7	-2.7	-1.6	-2.0	-5.2	-7.2
St. Kitts and Nevis	-2.0	2.9	2.8	-18.7	8.0	0.8	-0.7	0.4	1.0	1.3	-11.2	-5.7	-2.1	-21.0	-20.0
St. Lucia	3.5	2.6	1.7	-16.9	7.2	2.0	2.2	0.9	1.5	2.1	-1.0	2.2	5.3	-16.8	-9.3
St. Vincent and the Grenadines	1.0	2.2	0.4	-7.0	3.7	3.4	1.4	0.5	1.5	2.0	-11.6	-12.0	-10.0	-18.7	-16.9
Caribbean: Commodity Exporters	-0.6	1.1	1.0	0.6	3.8	2.7	1.9	1.3	11.7	4.2	3.4	-0.4	-3.0	-7.6	-3.2
Guyana	3.7	4.4	5.4	26.2	8.1	1.5	1.6	2.1	1.3	2.9	-4.9	-29.2	-33.9	-22.0	-16.2
Suriname	1.8	2.6	0.3	-13.1	1.5	9.3	5.4	4.2	104.9	20.9	1.9	-3.4	-11.1	-8.0	-6.2
Trinidad and Tobago ⁴	-2.3	-0.2	0.0	-5.6	2.6	1.3	1.0	0.4	0.0	1.0	5.3	5.8	4.8	-3.3	1.5
<i>Memorandum</i>															
Latin America and the Caribbean	1.4	1.1	0.0	-8.1	3.6	6.2	7.6	7.7	5.6	6.8	-1.6	-2.5	-1.7	-0.5	-0.8
LAC excluding Venezuela	2.0	1.7	0.8	-7.8	3.8	6.2	7.6	7.7	5.6	6.8	-1.8	-2.7	-1.9	-0.5	-0.8
Eastern Caribbean Currency Union ⁷	1.2	3.8	2.8	-15.1	5.8	1.7	1.3	0.8	0.9	1.7	-7.5	-11.9	-7.7	-21.0	-20.5

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

Note: CAPDR = Central America, Panama, and the Dominican Republic; LAC = Latin America and the Caribbean.

¹Regional output growth aggregates are purchasing-power-parity GDP-weighted averages. Consumer price index (CPI) inflation aggregates exclude Venezuela, but include Argentina starting in 2017, and are geometric averages. Current account aggregates are US dollar nominal GDP-weighted averages. Consistent with the IMF *World Economic Outlook*, the cutoff date for the data and projections in this table is September 28, 2020.

²These figures will generally differ from period average inflation reported in the IMF *World Economic Outlook*, although both are based on the same underlying series.

³Puerto Rico is classified as an advanced economy. It is a territory of the United States, but its statistical data are maintained on a separate and independent basis.

⁴See Annex 5 for details on the data.

⁵Ratios to GDP are based on the 2007-base GDP series.

⁶Fiscal year data.

⁷Eastern Caribbean Currency Union comprises Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as Anguilla and Montserrat, which are not IMF members.

Appendix Table 2. Western Hemisphere: Main Fiscal Indicators¹

	General Government Primary Expenditure (Percent of GDP)					General Government Primary Balance (Percent of GDP)					General Government Gross Debt (Percent of GDP)				
	2017	2018	2019	Projections		2017	2018	2019	Projections		2017	2018	2019	Projections	
				2020	2021				2020	2021				2020	2021
North America	32.5	32.4	32.8	44.4	35.1	-2.1	-3.1	-3.6	-16.2	-6.6	101.7	102.7	104.2	126.9	129.1
Canada	37.7	38.2	38.3	54.5	43.0	0.0	-0.2	-0.2	-19.8	-8.2	90.5	89.7	88.6	114.6	115.0
Mexico ²	21.7	21.5	22.4	25.9	22.4	2.6	1.6	1.3	-2.0	0.2	54.0	53.6	53.7	65.5	65.6
United States ³	32.8	32.6	33.0	44.7	35.2	-2.6	-3.6	-4.1	-16.7	-6.9	105.7	106.9	108.7	131.2	133.6
Puerto Rico ⁴	19.5	22.0	22.2	23.7	21.0	0.2	-0.2	-0.4	-1.4	0.0	51.6	55.3	56.2	64.8	65.3
South America	30.9	31.0	29.8	35.7	31.1	-2.9	-2.5	-1.1	-9.6	-3.3	64.6	74.8	76.9	87.3	86.3
Argentina ⁵	38.7	36.2	34.3	41.6	...	-4.2	-2.3	-0.4	-8.5	...	57.0	86.4	90.4	96.7	...
Bolivia ⁶	37.5	35.9	34.7	34.5	32.5	-6.7	-7.0	-5.8	-7.0	-5.4	51.3	53.8	59.0	69.4	68.3
Brazil ⁷	30.6	30.8	30.9	38.9	31.4	-1.8	-1.7	-1.0	-12.0	-3.1	83.7	87.1	89.5	101.4	102.8
Chile	24.6	24.5	24.9	28.3	29.0	-2.3	-1.1	-2.3	-8.1	-3.7	23.6	25.6	27.9	32.8	37.5
Colombia ⁸	26.2	31.7	28.7	31.8	29.1	-0.5	-2.5	0.0	-6.2	-2.9	49.4	53.7	52.3	68.2	68.1
Ecuador ⁹	34.4	36.0	33.9	35.9	33.0	-2.3	-0.7	-0.5	-5.8	-1.3	44.6	46.1	51.8	68.9	67.4
Paraguay	18.5	19.4	22.0	24.3	22.0	0.1	-0.6	-2.6	-6.3	-3.2	19.8	22.2	26.1	35.5	35.7
Peru	20.1	20.2	20.0	26.1	22.7	-1.9	-0.9	-0.2	-7.9	-2.6	25.4	26.2	27.1	39.5	39.1
Uruguay ¹⁰	29.9	30.6	31.5	33.6	31.6	-0.1	0.6	-0.6	-2.9	-1.2	61.0	63.4	65.9	69.5	69.0
Venezuela ¹¹	37.7	48.4	21.3	...	...	-23.0	-31.0	-10.0	...	...	26.0	180.8	232.8	...	...
CAPDR	17.0	16.8	16.7	19.2	17.8	-0.7	-0.6	-0.6	-4.8	-2.1	41.2	43.5	46.2	57.3	59.9
Costa Rica ¹²	16.7	16.0	17.0	17.3	16.1	-3.0	-2.3	-2.8	-4.2	-2.0	48.3	53.1	58.4	70.1	74.8
Dominican Republic ¹³	14.6	13.7	13.8	17.1	13.7	-0.5	0.4	0.6	-4.6	0.2	49.2	50.7	53.8	68.8	68.2
El Salvador ¹³	21.8	21.6	21.6	29.1	24.6	0.7	1.0	0.6	-8.8	-3.5	67.2	68.0	69.4	89.0	92.5
Guatemala ¹²	11.3	11.7	11.9	14.1	12.7	0.1	-0.3	-0.6	-3.8	-1.8	25.1	26.5	26.6	32.2	33.9
Honduras	24.7	24.0	23.6	26.0	26.6	0.2	0.8	0.8	-2.5	-1.7	38.9	40.1	40.3	46.0	50.4
Nicaragua ¹³	26.0	26.4	26.3	29.0	28.6	-0.7	-1.9	0.8	-3.0	-2.1	34.1	37.5	42.1	48.3	50.3
Panama ¹⁴	20.4	21.1	19.6	21.5	22.5	-0.5	-1.5	-1.5	-6.8	-4.9	34.8	36.8	41.0	55.0	60.1
Caribbean: Tourism-Dependent	21.7	21.9	21.2	24.9	24.1	2.1	2.3	2.8	-2.4	-0.5	80.6	76.5	77.0	89.0	89.1
Antigua and Barbuda ¹⁵	20.9	20.5	20.2	27.2	24.3	-0.1	-0.7	-1.2	-9.3	-2.1	92.3	90.7	84.5	113.7	112.7
Aruba	23.7	23.8	22.6	41.9	26.9	1.7	1.9	4.8	-18.4	-0.5	86.7	83.4	81.3	127.1	120.3
The Bahamas ¹²	19.8	16.8	17.3	20.1	22.5	-3.1	-0.8	0.8	-3.3	-6.6	53.0	61.0	58.8	68.7	82.0
Barbados ¹⁶	25.3	25.8	24.9	28.2	27.4	3.3	3.5	6.3	1.0	3.5	158.3	125.6	122.2	134.1	124.5
Belize ^{12,17}	31.1	29.9	32.2	36.9	33.9	-1.2	1.3	-0.5	-5.6	-4.2	104.4	101.5	105.1	134.6	132.3
Dominica ¹⁵	52.9	64.0	43.3	34.4	32.4	2.4	-17.7	-6.4	-1.5	1.5	83.8	78.8	85.7	90.8	89.0
Grenada ¹⁵	19.9	20.3	19.7	24.3	22.4	5.7	6.6	6.8	0.5	3.6	70.1	64.4	59.1	71.5	73.5
Haiti ¹²	17.4	18.7	14.0	19.4	21.5	0.3	-1.4	-1.8	-5.6	-4.3	38.0	39.7	47.7	54.4	52.4
Jamaica ¹⁵	21.6	23.2	23.4	24.6	22.8	7.5	7.5	7.1	3.5	5.4	101.3	94.4	93.9	101.3	92.4
St. Kitts and Nevis ¹⁵	27.2	36.7	38.6	42.0	33.6	2.1	2.6	0.2	-7.6	-4.7	59.4	57.2	56.2	69.1	63.9
St. Lucia ¹⁵	20.1	20.1	21.9	27.9	23.8	0.8	1.9	-0.5	-7.9	-2.4	59.9	60.0	61.3	85.1	87.7
St. Vincent and the Grenadines ¹⁵	27.9	27.6	29.7	33.3	34.2	1.5	1.2	-0.4	-4.9	-4.0	73.5	75.6	75.2	87.9	89.7
Caribbean: Commodity Exporters	28.8	27.5	28.0	29.4	27.4	-7.0	-2.9	-1.9	-9.5	-3.4	45.7	46.0	48.5	60.0	61.4
Guyana ¹²	25.6	26.9	27.6	22.9	20.7	-2.5	-1.9	-1.8	-5.2	-2.1	38.9	43.1	39.8	37.0	34.8
Suriname ¹⁸	26.5	27.0	32.1	30.2	28.1	-5.3	-3.9	-6.5	-7.4	-1.4	78.0	75.6	82.3	145.3	107.7
Trinidad and Tobago ¹²	29.9	27.7	27.5	31.2	29.6	-8.2	-3.0	-1.3	-11.1	-4.2	42.5	42.2	45.1	57.5	64.3
<i>Memorandum</i>															
Latin America and the Caribbean	28.0	27.8	27.0	31.8	27.8	-1.6	-1.4	-0.4	-7.3	-2.3	60.9	67.7	68.9	79.3	79.0
LAC excluding Venezuela	27.7	27.4	27.0	32.0	27.9	-1.0	-0.8	-0.3	-7.3	-2.3	61.9	65.5	66.8	76.7	76.5
Eastern Caribbean Currency Union ^{15,19}	25.2	27.2	26.4	30.9	27.5	1.8	0.6	0.2	-5.7	-1.9	71.0	69.4	67.2	85.7	85.2

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

Note: CAPDR = Central America, Panama, and the Dominican Republic; LAC = Latin America and the Caribbean.

¹Definitions of government vary across countries, depending on country-specific institutional differences, including on what constitutes the appropriate coverage from a fiscal policy perspective, as defined by IMF staff. All indicators are reported on a fiscal year basis. Regional aggregates are fiscal year US dollar nominal GDP-weighted averages. Consistent with the IMF *World Economic Outlook*, the cutoff date for the data and projections in this table is September 28, 2020.²Includes central government, social security system funds, nonfinancial public corporations, and nonmonetary public financial corporations.³For cross-country comparability, expenditure and fiscal balances of the United States exclude the items related to the accrual basis accounting of government employees' defined-benefit pension plans, which are counted as expenditure under the 2008 System of National Accounts (2008 SNA) adopted by the United States, but not for countries that have not yet adopted the 2008 SNA. Data for the United States in this table may thus differ from data published by the US Bureau of Economic Analysis.⁴Puerto Rico is classified as an advanced economy. It is a territory of the United States, but its statistical data are maintained on a separate and independent basis.⁵Primary expenditure and primary balance include the federal government, provinces, and social security funds. Gross debt is for the federal government only.⁶Nonfinancial public sector, excluding the operations of nationalized mixed-ownership companies in the hydrocarbon and electricity sectors.⁷Nonfinancial public sector, excluding Petrobras and Eletrobras, and consolidated with the sovereign wealth fund. The definition includes Treasury securities on the central bank's balance sheet, including those not used under repurchase agreements (repos). The national definition of general government gross debt includes the stock of Treasury securities used for monetary policy purposes by the central bank (those pledged as security in reverse repo operations). It excludes the rest of the government securities held by the central bank.⁸Nonfinancial public sector reported for primary balances (excluding statistical discrepancies); combined public sector including Ecopetrol and excluding Banco de la República's outstanding external debt reported for gross public debt.⁹See Annex 5 for details on Ecuador's data. Public sector gross debt includes liabilities under advance oil sales, which are not treated as public debt in the authorities' definition. In late 2016, the authorities changed the definition of debt to a consolidated basis; both the historical and projection numbers are now presented on a consolidated basis.¹⁰See Annex 5 for details on Uruguay's data. The coverage of the fiscal data was changed from consolidated public sector to nonfinancial public sector with the October 2019 *World Economic Outlook*. Historical data were revised accordingly.¹¹See Annex 5 for details on Venezuela's data.¹²Central government only.¹³Central government for primary expenditure and primary balance; gross debt is presented on a consolidated basis.¹⁴Ratios to GDP are based on the 2007-base GDP series. Fiscal data cover the nonfinancial public sector excluding the Panama Canal Authority.¹⁵Central government for primary expenditure and primary balance; public sector for gross debt. For Jamaica, the public debt includes central government, guaranteed, and PetroCaribe debt.¹⁶Overall and primary balances cover budgetary central government. Gross debt covers central government debt, central government guaranteed debt, and arrears.¹⁷For 2017, primary balance includes a one-off capital transfer of 2.5 percent of GDP. Excluding this one-off capital transfer, a primary surplus of 1.3 percent of GDP is estimated.¹⁸Primary expenditures for Suriname exclude net lending.¹⁹Eastern Caribbean Currency Union comprises Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as Anguilla and Montserrat, which are not IMF members.

References

- Blanchard, O., T. Philippon, J. Pisani-Ferry. 2020. "A New Policy Toolkit Is Needed as Countries Exit COVID-19 Lockdowns." Peterson Institute for International Economics, Policy Brief 20–8. Washington, DC.
- Dingel, J., and B. Neiman. 2020. "How Many Jobs Can Be Done at Home?" NBER Working Paper 26948, National Bureau of Economic Research, Cambridge, MA.
- Economic Commission for Latin America and the Caribbean (ECLAC). 2020. "Addressing the Growing Impact of COVID-19 with a View to Reactivation with Equality: New Projections." Special Report Covid-19 No. 5, United Nations, New York.
- Hale, T., S. Webster, A. Petherick, T. Phillips, and B. Kira. 2020. University of Oxford Coronavirus Government Response Tracker, Blavatnik School of Government. <https://www.bsg.ox.ac.uk/research/researchprojects/coronavirusgovernmentresponsetracker>.
- International Monetary Fund (IMF). 2020a. "COVID-19 in Latin America and the Caribbean." *Regional Economic Outlook: Western Hemisphere* Background Paper 1, Washington, DC, October.
- International Monetary Fund (IMF). 2020b. "Latin American Labor Markets During COVID-19." *Regional Economic Outlook: Western Hemisphere* Background Paper 2, Washington, DC, October.
- International Monetary Fund (IMF). 2020c. "Fiscal Policy at the Time of a Pandemic: How Has Latin America and the Caribbean Fared?" *Regional Economic Outlook: Western Hemisphere* Background Paper 3, Washington, DC, October.
- International Monetary Fund (IMF). 2020d. "Assessing the Impact of the COVID-19 Pandemic on the Corporate and Banking Sectors in Latin America." *Regional Economic Outlook: Western Hemisphere* Background Paper 4, Washington, DC, October.
- International Monetary Fund (IMF). 2020e. "The International Architecture for Resolving Sovereign Debt Involving Private-Sector Creditors: Recent Developments, Challenges, and Reform Options." IMF Policy Paper 2020/043, Washington, DC.
- Lustig, N., V. Martinez Pabon, F. Sanz, and S. Younger. 2020. "The Impact of COVID-19 Lockdowns and Social Assistance on Inequality, Poverty and Mobility in Argentina, Brazil, Colombia, and Mexico." CEQ Institute Working Paper 92, Commitment to Equity Institute, Tulane University, New Orleans.
- World Bank. 2020. *Global Economic Prospects*. Washington, DC: World Bank.

Country Groups and Country Abbreviations

Country Groups

Caribbean: Commodity Exporters	Caribbean: Tourism- Dependent	Central America, Panama, and the Dominican Republic (CAPDR)	Eastern Caribbean Currency Union (ECCU)	LA5	LA6	South America
Guyana Suriname Trinidad and Tobago	Antigua and Barbuda Aruba The Bahamas Barbados Belize Dominica Grenada Haiti Jamaica St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines	Costa Rica Dominican Republic El Salvador Guatemala Honduras Nicaragua Panama	Anguilla Antigua and Barbuda Dominica Grenada Montserrat St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines	Brazil Chile Colombia Mexico Peru	Brazil Chile Colombia Mexico Peru Uruguay	Argentina Bolivia Brazil Chile Colombia Ecuador Paraguay Peru Uruguay Venezuela

List of Country Abbreviations

Antigua and Barbuda	ATG	Guyana	GUY
Argentina	ARG	Haiti	HTI
Aruba	ABW	Honduras	HND
The Bahamas	BHS	Jamaica	JAM
Barbados	BRB	Mexico	MEX
Belize	BLZ	Nicaragua	NIC
Bolivia	BOL	Panama	PAN
Brazil	BRA	Paraguay	PRY
Canada	CAN	Peru	PER
Chile	CHL	Puerto Rico	PRI
Colombia	COL	St. Kitts and Nevis	KNA
Costa Rica	CRI	St. Lucia	LCA
Dominica	DMA	St. Vincent and the Grenadines	VCT
Dominican Republic	DOM	Suriname	SUR
Ecuador	ECU	Trinidad and Tobago	TTO
El Salvador	SLV	United States	USA
Grenada	GRD	Uruguay	URY
Guatemala	GTM	Venezuela	VEN

