THE WORLD BANK

Renewing with Growth

2021
SEMIANNUAL REPORT
OF THE LATIN AMERICA AND THE CARIBBEAN REGION

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Semiannual report of the Latin America and the Caribbean region

Renewing with Growth

A product of the Chief Economist office for Latin America and the Caribbean

Jointly with:

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The Development Economics Vice Presidency

The Energy and Extractives Global Practice

The Finance and Competitiveness Global Practice

The Macroeconomics, Trade and Investment Global Practice

The Poverty and Equity Global Practice

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Executive summary

Based on official figures, the death toll from Covid-19 in Latin America and the Caribbean has been higher than in all other developing regions, and similar to that experienced by advanced economies. However, officially reported Covid-19 deaths are not strictly comparable, because countries have different institutional capacities and health policies, including on testing. Excess mortality – the relative gap between all deaths during the pandemic and those observed in normal times – is a more reliable indicator. By this metric, the death toll suffered by the region is substantially higher than official figures suggest, and almost certainly the highest worldwide. But there are also important differences across countries, with Latin America and the Caribbean comprising both the least and the most impacted.

The region has also been one the most severely affected in economic and social terms. Its estimated decline in Gross Domestic Product (GDP) exceeds both that of advanced economies and that of all other developing areas. With just a couple of exceptions, outcomes on this front have been consistently negative. Some countries in the Caribbean basin are among those experiencing the largest fall in economic activity, because of their heavy reliance on tourism, the sector most directly impacted by social distancing. Unemployment rates increased, substantially in some cases. Poverty rates have also shot up, although social transfers – massive in some countries – helped cushion the social impact of the crisis.

There are some encouraging international developments, however. First, while global trade in services fell dramatically, trade in goods has held relatively well. And given the rapid recovery of East Asia – and of China in particular – most commodity prices are now higher than before the Covid-19 crisis. For countries that specialize in the production of agricultural and mining products, as many in Latin America and the Caribbean do, this is good news. Second, remittances to the region have also increased relative to the time preceding Covid-19. This is encouraging, given their oversized importance for living standards in several countries in the Caribbean basin and in Central America.

A third positive development has been the continued access to international capital markets by most countries in the region. Borrowing abroad actually increased during the pandemic, contributing to supportive economic policies despite limited fiscal space. Most countries in the region have run substantial budget deficits since the beginning of the pandemic, with the additional spending devoted to shoring health systems, providing transfers to households, and helping firms cope. The monetary policy stance has been accommodating as well. Regulatory forbearance and loan guarantees were often adopted to assist debtors and reduce the risk of financial crises. This supportive policy stance mitigated the economic and social impact of the Covid-19 crisis.

* * *

Forecasting the economic growth of Latin America and the Caribbean in 2021 is challenging, because much depends on how the pandemic will unfold in the coming months. The development of effective and safe vaccines in barely one year since the first Covid-19 outbreak is an unprecedented scientific accomplishment. But producing vaccines on the scale needed to stop the pandemic is challenging. With scarce doses and limited capacity, the rollout of the vaccine is slow across most of the region, implying that herd immunity may not be attained before the end of the calendar year at the earliest. How effective vaccines will be against new variants of the virus is unclear as well.

Meanwhile, not all the containment measures adopted by governments to slow the progress of contagion have proven effective, as shown by the disproportionate death toll faced by the region. Across countries, social transfers,

large-scale testing, active tracing, and restrictions to international travel are clearly associated with lower fatalities. Other constraining measures, less clearly so. As new variants of the virus emerge, costly new waves cannot be ruled out. All this adds uncertainty to any economic forecast. It is safe to assume that there will be an important economic recovery in the year that starts, but current forecasts imply that Latin America and the Caribbean will not wipe off the economic losses of 2020 this year.

The pandemic is a source of uncertainty in other ways too. Because the Covid-19 crisis is unprecedented in its combination of shocks to aggregate demand and to labor supply, standard macroeconomic models may not perform as well as in normal circumstances. Numerous economic analyses nowadays often use big data from electronic platforms and satellite imageries to assess economic developments in real time.

Over its last two editions, this report series has relied on emissions of Nitrogen Dioxide (NO_2), a gas generated by combustion, as an indicator of economic activity. With adequate adjustments, daily satellite imageries measuring NO_2 concentration over each location allow estimating economic growth with high frequency and granularity. This approach clearly shows that economic activity collapsed at first, worldwide. But it started recovering in East Asia toward mid-2020, and except for Europe most regions – including Latin America and the Caribbean – are back to pre-pandemic levels in early 2021.

* * *

There are strong reasons to believe that the Covid-19 crisis will have a long-lasting impact on economic activity. For most of 2020, children were out of school across the region, and some may never return. Social distancing and depressed labor demand have drastically reduced employment, with women affected disproportionally. Public debt levels have also increased, sometimes substantially, and many firms may be unable to honor their obligations with creditors and suppliers. Less learning and work experience are bound to reduce earnings in the future, while debt overhang may create stress in the financial sector and slow the recovery. For a region that was already struggling with slow growth even before the pandemic, such lasting negative impact from the Covid-19 crisis would be very bad news.

However, history offers more optimistic insights into what happens after a crisis of this magnitude. World War I led to an enormous loss of physical and human capital; it was followed by the Spanish Flu, which was even more lethal than Covid-19. And yet, what came right after was the Roaring Twenties. The destruction and the carnage were also enormous during World War II. But what followed was one of the longest and strongest growth spells ever.

While the reasons for pessimism are clear, major crises may also trigger large-scale economic restructuring. The composition of economic activity changes, with some sectors contracting and others expanding. Hospitality and personal services may durably suffer from Covid-19, while information technology, finance and logistics may gain new momentum. If the sectors that expand are more productive than those that contract, aggregate productivity should increase as the economy returns to full employment.

The biggest transformation, however, could arise from the accelerated digitization triggered by the pandemic, which could lead to greater dynamism across multiple sectors. Digitization could boost financial services – especially payment systems – an area in which the region is a laggard. Electronic platforms could create job opportunities even for the unskilled and by providing information on hours of work and earnings, they could support the formalization of employment. Finally, trading goods and services through the internet offers a chance for greater integration with the global economy.

A systematic benchmarking of the region along eight dimensions – from internet access to broadband cost to actual use – shows how uneven the readiness for digitization is across Latin America and the Caribbean. In most countries in the region, an important share of the population could miss out on the opportunities created by digitization. There is also substantial heterogeneity across countries, as revealed by the number and value of their unicorns – fast-growing technology startups. By this metric, some parts of the region are remarkably dynamic.

* * *

Technological disruption can be a driver of change in sectors where policy reforms have stalled. This is true not only of digitization but also of other innovations that may bring in greater market competition and increase economic efficiency. Electricity production, a sector undergoing a deep transformation around the world, is a case in point. Because electricity is an input to most economic activities, because it matters so much for household well-being, and because it is central to sustainable development, reducing its cost and increasing its cleanliness could be transformational.

In large part thanks to its rich endowment in hydropower, Latin America and the Caribbean has the cleanest electricity generation matrix of all developing regions. Important differences remain across countries, with small islands suffering from their dependance on diesel and fuel oil. But overall, given that the cost of generation from renewable sources is lower, the region should have the cheapest electricity in the developing world. Its advantage relative to other developing regions would even widen if a hypothetical carbon tax was applied across regions to penalize emissions.

Instead, Latin America and the Caribbean has the most expensive electricity in the developing world. This paradox is partly due to the high prevalence of energy subsidies elsewhere. But regardless of what countries in other regions do, firms and households in Latin America and the Caribbean pay substantially more for the electricity they use than it would cost to produce it based on the existing generation matrix, and this even if a hypothetical carbon tax was included in the cost.

Except in a few countries, the gap between high electricity prices and potentially low generation costs is not due to fiscal policy. The indirect taxes charged to electricity bills rarely exceed 20 percent. In most of the region, electricity tariffs are subsidized – directly in the case of consumers of modest means, and indirectly through the provision of cheap natural gas for electricity generation.

The main reason why electricity is more expensive in Latin America and the Caribbean than its generation matrix would allow is the inefficiency of many of its electricity systems. This inefficiency manifests itself in the frequency and duration of power outages, the magnitude of technical and commercial losses, the over-staffing of state-owned utilities, and the exercise of market power by private generators. However, addressing inefficiency through policy reforms may be challenging at a time when economies are barely recovering from the Covid-19 crisis and in the aftermath of a period of intense social unrest.

An alternative is to leverage technology-based solutions to increase competition in the sector, bringing electricity prices down and increasing the share generated out of renewable sources. One of these solutions is distributed generation, which allows firms and households to rely on their own power sources – typically solar panels – to sell electricity to the grid or to buy from it depending on the hour of the day. The other is cross-border electricity trade, which taps national differences in installed capacity, generation costs and the timing of peak demand to generate mutual gains. Each of these solutions has considerable potential, but only provided that the right institutional framework is in place.

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1. The first year of Covid-19

Based on official figures, the death toll from Covid-19 in Latin America and the Caribbean has been higher than in all other developing regions, and similar to that experienced by advanced economies. However, officially reported Covid-19 deaths are not strictly comparable, because countries have different institutional capacities and health policies, including on testing. Excess mortality – the relative gap between all deaths during the pandemic and those observed in normal times – is a more reliable indicator. By this metric, the death toll suffered by the region is substantially higher than official figures suggest, and almost certainly the highest worldwide. But there are also important differences across countries, with Latin America and the Caribbean comprising both the least and the most impacted.

The region has also been one the most severely affected in economic and social terms. Its estimated decline in Gross Domestic Product (GDP) exceeds both that of advanced economies and that of all other developing areas. With just a couple of exceptions, performance on this front has been consistently negative. Some countries in the Caribbean basin are among those experiencing the largest fall in economic activity, because of their heavy reliance on tourism, the sector most directly impacted by social distancing. Unemployment rates increased, substantially in some cases. Poverty rates have also shot up, although social transfers – massive in some countries – helped cushion the social impact of the crisis.

There are some encouraging international developments, however. First, while global trade in services fell dramatically, trade in goods has held relatively well. And given the rapid recovery of East Asia – and of China in particular – most commodity prices are now higher than before the Covid-19 crisis. For countries that specialize in the production of agricultural and mining products, as many in Latin America and the Caribbean do, this is good news. Second, remittances to the region have also increased relative to the time preceding Covid-19. This is encouraging, given their oversized importance for living standards in several countries in the Caribbean basin and in Central America.

A third positive development has been the continued access to international capital markets by most countries in the region. Borrowing abroad actually increased during the pandemic, contributing to supportive economic policies despite limited fiscal space. Most countries in the region have run substantial budget deficits since the beginning of the pandemic, with the additional spending devoted to shoring health systems, providing transfers to households, and helping firms cope. The monetary policy stance has been accommodating as well. Regulatory forbearance and loan guarantees were often adopted to assist debtors and reduce the risk of financial crises. This supportive policy stance mitigated the economic and social impact of the Covid-19 crisis.

An outsized death toll

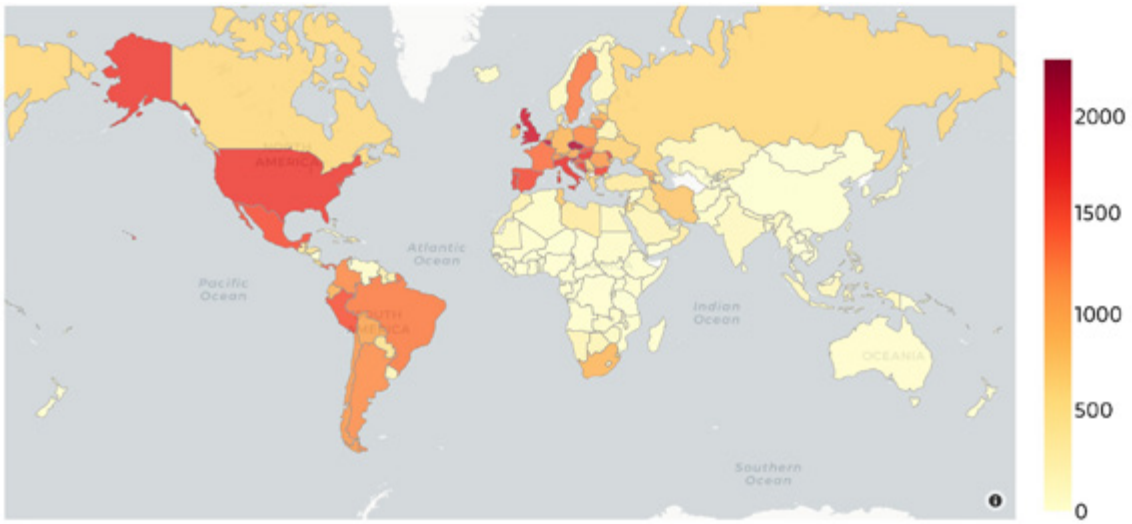
At the beginning of the Covid-19 pandemic, it was widely expected that the poorest countries would be the ones suffering the biggest loss of life (Walker et al. 2020). With precarious healthcare systems, limited access to water and sanitation, overcrowded slums and low government capacity, they seemed to be the obvious candidates for widespread contagion and disproportionally high fatality rates. And yet, one year on the heaviest death tolls have not been in the poorest countries but in advanced economies and in Latin America and the Caribbean – the wealthiest of the developing regions (map 1).

Why this was so is debatable. On the surface, it is difficult to blame the policy response to the emergency, as most countries in Latin America and the Caribbean embraced strict lockdowns from very early on. Having been hit by the pandemic several months after the first outbreak, and having witnessed its ravages in Italy and Spain, governments

in the region were ready to immediately adopt stay-at-home orders, close most non-essential activities, and even impose curfews. The region actually had some of the most protracted lockdowns. Whether these containment measures were effective can be questioned, but they were formally in place.

Map 1. Among the most affected regions in the world

Cumulative Covid-19 deaths (per million people)



Source: Johns Hopkins University CSSE for COVID-19 deaths and World Development Indicators for population.

A more compelling explanation for the heavier death toll experienced by countries in Latin America and the Caribbean is related to the characteristics of their economies and societies. Poorer countries tend to have young populations, for whom Covid-19 is much less lethal. Poorer countries are also less urbanized and those who work in agriculture and live in rural areas almost naturally practice social distancing. Latin America and the Caribbean, on the other hand, is a rapidly aging region, and it is overwhelmingly urban. Relevant co-morbidities such as obesity are also highly prevalent in the region.

Once again, this explanation alone may not be sufficient. Studies conducted at the county level in the US, where the amount of information and the quality of the data available tend to be high, are somewhat inconclusive on what drives higher mortality rates. Even with thousands of counties and dozens of indicators that could be relevant – anything from air pollution to health status to ethnic background – few statistical regularities appear to be robust (Knittel and Ozaltun 2020). Given this precedent, there is no attempt here to try to explain why the region has been so hardly hit, nor what explains the variation in death tolls across countries.

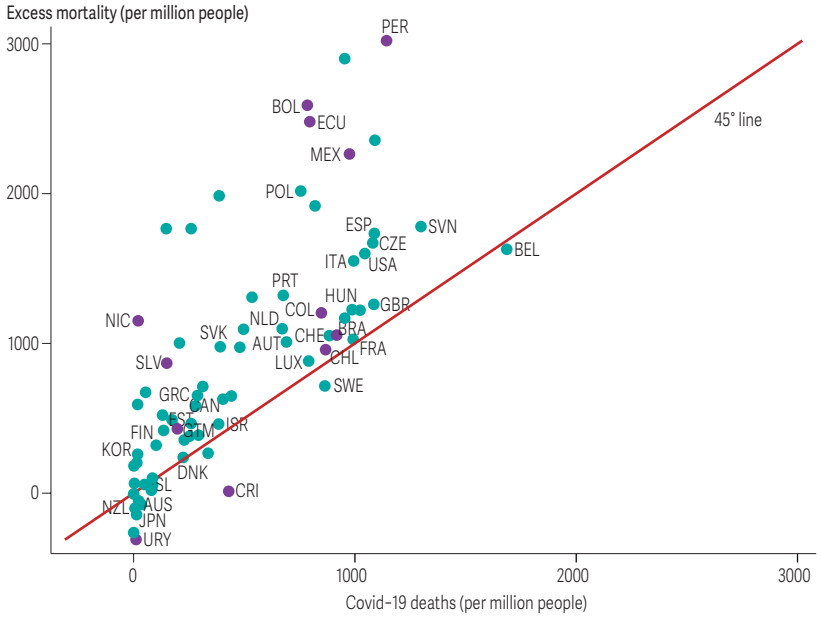
On the other hand, it is worth having an accurate assessment of how individual countries fared in the first year of the pandemic. A relevant concern in this respect is whether the reported deaths from Covid-19 accurately reflect the situation on the ground. Given the different institutional capacities of the countries, their varying commitment to testing, and the diverse ways in which the causes of mortality are classified, official death tolls may not be strictly comparable.

To address this concern, this report focuses on excess mortality, defined as the difference between the total number of deaths in 2020 and the corresponding figure in "normal" times – measured in practice as the average mortality of the previous five years. To ensure meaningful comparison, both official Covid-19 deaths and excess mortality are reported relative to the population.

In countries with limited capacity, or where governments chose to downplay the pandemic, excess mortality should substantially exceed the reported Covid-19 deaths. This is what might have happened in the poorest countries, where a large share of deaths typically occur outside the healthcare system, and information on their causes is approximate at best. On the other hand, in countries with high capacity, social distancing and other protective measures should lead to fewer deaths. Mortality from traffic accidents, work-related stress and even the seasonal flu, should be lower in their case than in a "normal" year, bringing excess mortality down.

Overall, the gap between excess mortality and reported Covid-19 deaths is higher in Latin America and the Caribbean than in other regions (figure 1). This conclusion could seem tainted by the limited availability of mortality data in the poorest countries, including most of the African continent. However, Egypt and South Africa do compile information on annual deaths, and in neither case is excess mortality substantially different from the official number of Covid-19 deaths.

Figure 1. Mortality was often higher than Covid-19 deaths suggest



Note: Figures are for 2020 or the longest fraction of the year for which data is available.
Source: Johns Hopkins University CSSE COVID-19 Data and national statistical agencies.

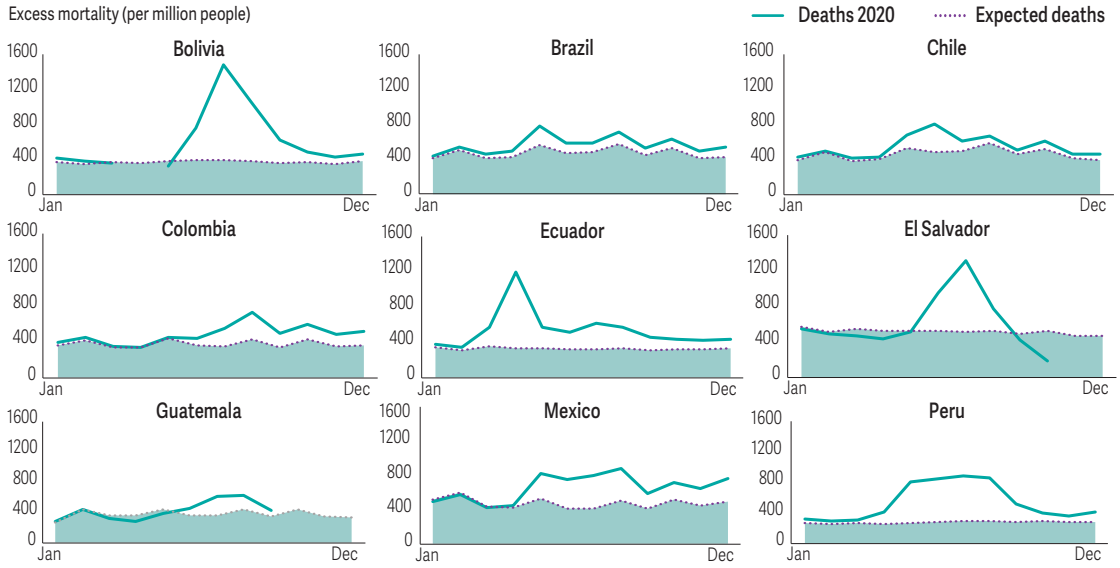
A simple regression analysis linking the excess mortality indicator to the officially reported Covid-19 deaths confirms that the death toll experienced by the region was disproportionately high. The analysis shows that across Latin America and the Caribbean one officially reported Covid-19 death is associated with 1.85 additional deaths relative to a "normal" year. This is substantially higher than the 1.27 additional deaths estimated for countries outside the region.

However, there is also considerable heterogeneity, with countries in Latin America and the Caribbean spanning the full spectrum. For example, in 2020 excess mortality was negative in Costa Rica, and substantially so in Uruguay. But it was almost thrice as high as the reported mortality from Covid-19 in the Andean subregion. In between these extremes, excess mortality was close to the official death toll from the pandemic in countries such as Brazil and Chile.

Focusing on excess mortality offers a different perspective on the impact the pandemic had across the region. Some countries may have similar death rates based on officially reported Covid-19 figures, but substantially different death tolls based on excess mortality. Overall, data on excess mortality suggests that countries in the Andean subregion were the most severely impacted by the pandemic.

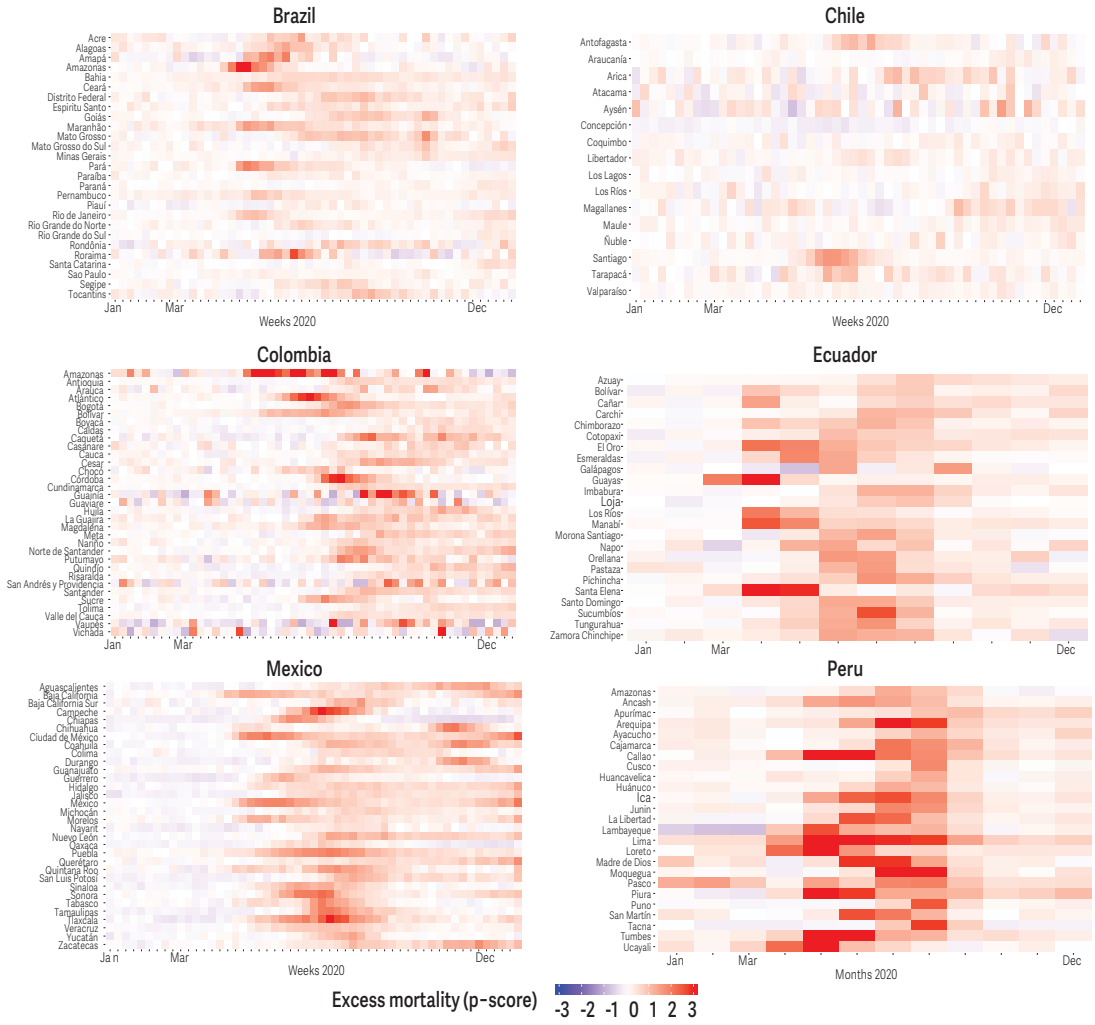
The focus on excess mortality offers valuable insights into how the Covid-19 crisis-hit countries in 2020. Some faced dramatic spikes in the number of deaths, followed by a return to almost normalcy. Others experienced more moderate but also longer-lasting increases in mortality (figure 2). There are also considerable disparities in the distribution of the death toll from Covid-19 across subnational units. In Chile, for example, the most severe impact was in highly connected localities such as Antofagasta, Arica, and Santiago. In other countries, by contrast, the increase in mortality affected a very broad number of jurisdictions (figure 3). However, these temporal and spatial patterns may have changed considerably in 2021, due to the emergence of new variants of the virus and the unfolding of new waves of contagion.

Figure 2. Highly different time profiles across countries



Source: National statistical agencies.

Figure 3. Highly different spatial impacts across countries



Note: The p-score is the ratio of excess mortality in 2020 relative to average mortality in up to five preceding years.
Source: National statistical agencies.

Dramatic economic and social costs

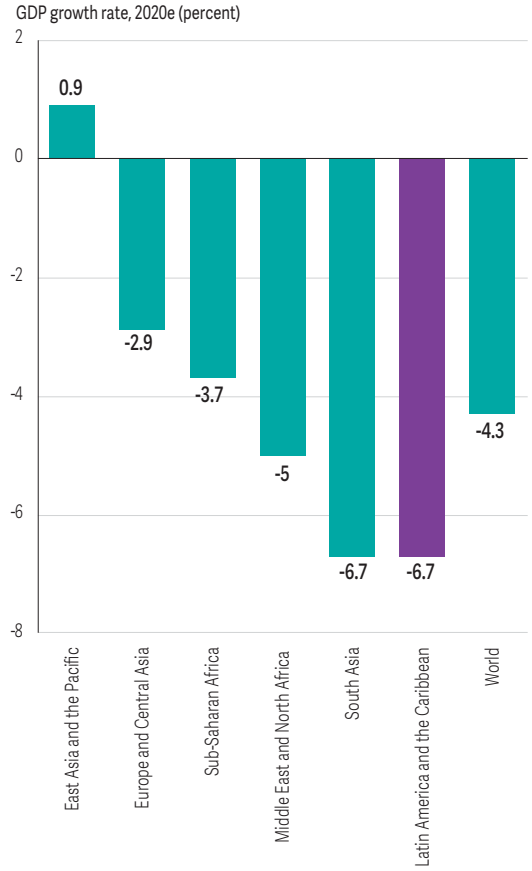
The death toll is only one of the dramatic consequences of the Covid-19 pandemic, the other being of course its impact on economic activity and social outcomes. The most visible aspect of this other impact is the fall in GDP. For the world as a whole, the drop for 2020 is estimated at 4.3 percent, much more than the 1.7 percent decline of 2009, in the aftermath of the Global Financial Crisis. The decline was also dramatic for all developing regions, with the exception of East Asia and the Pacific. In Latin America and the Caribbean, aggregate GDP is estimated to have fallen by a staggering 6.7 percent (figure 4).

Given the slow economic growth that has characterized the region since the end of the commodity prices super-cycle, this fall in GDP wipes off the equivalent of 6.7 years of progress in just one stroke. The impact rises to 9.6 years' loss if GDP per capita is considered instead. Therefore, the pandemic has amounted to one lost decade in just one massive shock.

Admittedly, there are differences across countries. Despite the Covid-19 crisis, Guyana's GDP grew by more than 40 percent in 2020, as the exploitation of very large oil discoveries started. More modestly, Paraguay's GDP emerged almost unscathed from the crisis, although this sturdy economic performance was not sufficient to prevent a new wave of social unrest.

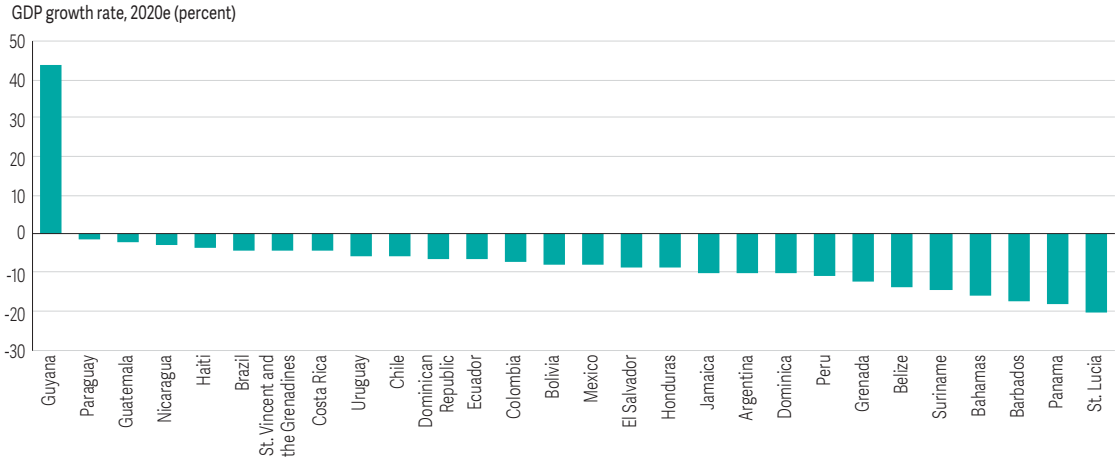
For all other countries in the region, GDP growth rates were negative in 2020, in some cases dramatically so. The worst-affected countries were those in the Caribbean, a subregion whose economic activity crucially depends on tourism. Together with hospitality and personal services, tourism has been the sector most adversely affected by the Covid-19 crisis (figure 5).

Figure 4. The worst economic performance in the developing world



Note: Figures refer to the aggregate GDP of each geographic entity.
Source: World Bank.

Figure 5. Almost uniformly negative, but worse in the Caribbean



Source: World Bank.

Assessing how much of this dismal economic performance is due to the pandemic requires knowing not only by how much GDP declined in 2020 but also by how much it would have varied in normal circumstances. A defensible indicator of this counterfactual benchmark is the GDP growth rate for 2020 that had been forecasted for each country at the beginning of the year. The difference between this growth forecast and the most recent GDP growth estimate for 2020 is used as an indicator of the economic cost of the Covid-19 crisis. Admittedly, other international and domestic factors may have affected economic performance relative to what was expected at the beginning of the year. But the Covid-19 crisis is arguably the most important determinant of the change.

Excess mortality and the decline in GDP growth rates can be combined to produce a summary indicator of the impact of the pandemic – and the measures adopted in response to it – in each country. This summary indicator shows a dramatic dispersion of outcomes around the world.

At one end, Taiwan (China) saw almost no excess mortality and experienced a decline in GDP growth of about 2 percentage points. At the other end, Peru lost about 0.3 percent of its population and its GDP growth rate declined by 13.3 percentage points. Countries in Latin America and the Caribbean span the entire range of outcomes. The countries with the worst performance on both the health and the economic fronts, globally, are those in the Andean subregion (figure 6).

Figure 6. Economic cost and death toll across countries

Note: The economic cost is defined as the difference between the GDP growth forecast for 2020 at the beginning of the year and the latest GDP growth estimate for 2020. Excess mortality is for 2020 or the largest share of the year for which data is available.
Source: IMF, national statistical agencies and World Bank.

On the surface, excess mortality is correlated with the decline in GDP, suggesting that there is no tradeoff between health costs and economic costs. Across all countries, a lower death toll is indeed associated with a smaller economic cost. However, correlation is not causation. Countries differ along a range of economic, social and institutional characteristics. Whether there is a tradeoff is more meaningfully analyzed across countries that are fundamentally similar.

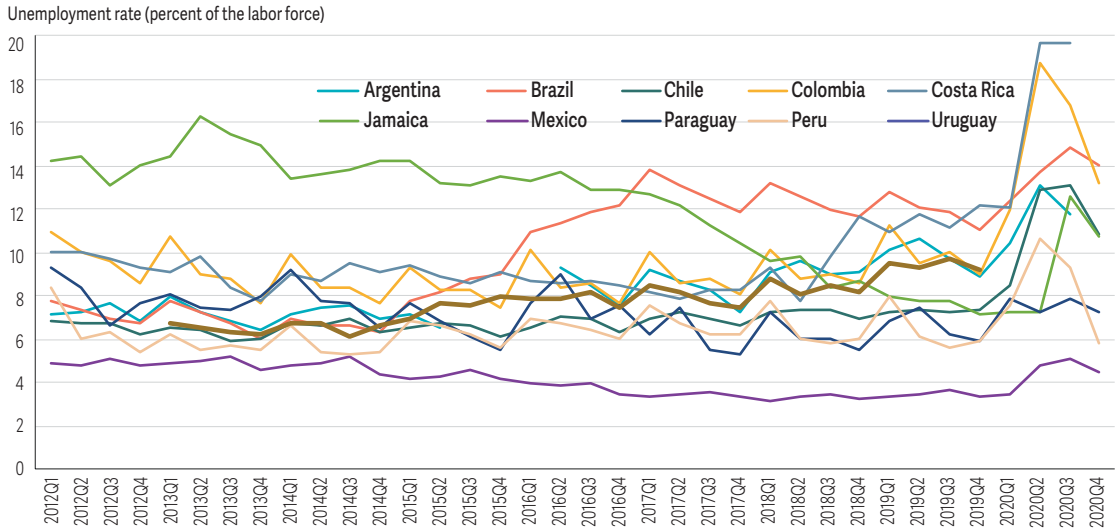
For example, it could be argued that Japan, Korea and Norway are countries with relatively high institutional capacity. Among this relatively homogeneous group, a higher excess mortality was associated with a lower decline in GDP growth. A similar pattern emerges when considering sets of countries which have more in common among themselves than with others.

These examples suggest that a tradeoff does exist, and that policy makers have been confronted with the need to strike a balance between two painful negatives. A more rigorous time-series analysis, presented in the previous edition of this report series, shows that containment measures lead in the following weeks to both a slower progress of the epidemic and a lower level of economic activity. But both impacts were also shown to be smaller, in absolute terms, in poorer countries, implying that the tradeoffs faced by policymakers are not the same around the world (Rama et al. 2021).

The decline in GDP growth rates associated with the pandemic does not give the full measure of its social cost. The unemployment rate may be a more telling measure of the hardship created by the Covid-19 outbreak, and by the policy measures adopted in response to it.

Unemployment rates were remarkably muted for many months, but this stability is potentially misleading. The decline in economic activity reduced the demand for labor, but lockdowns and stay-at-home orders also reduced labor supply. For some time, these two shifts somewhat offset each other, and unemployment rates did not move much. However, as popular support for containment measures declined and social transfers were scaled down, labor supply started bouncing back. Unemployment rates rapidly picked up across the region as a result. Encouragingly, they are now gradually returning to the levels seen before the Covid-19 crisis (figure 7).

Figure 7. A temporary but sharp increase in unemployment rates



Source: Ilostat (national indicators).

Another measure of the social impact of the Covid-19 crisis is provided by the poverty rate, which indicates the fraction of the population whose living standards fall below a certain threshold. In the case of Latin America and the Caribbean, the threshold is often set at US$ 5.50 per person per day. This figure is measured in Purchasing Power Parity (PPP) prices to account for differences in the cost of living across countries.

Poverty rates in Latin America and the Caribbean may not have increased in the way that was initially feared, in large part due to the massive social transfer programs adopted by many countries in the region, and especially in Brazil. But they have still shot up considerably in some countries (box 1).

Box 1. The impact of the Covid-19 crisis on poverty in the region

Estimating the poverty impact of an economic crisis is always challenging. Standard approaches to poverty measurement rely heavily on household surveys, and these take time to be fielded, processed, and analyzed. The uncertainty is further amplified in the case of the Covid-19 crisis, because conducting in-person interviews conflicts with social distancing. Telephone surveys are an alternative, but their results may not be directly comparable to previous poverty estimates.

The actual impact of the pandemic on living standards may also be more diverse now than in previous crises. For example, two households working in the services sector could fare very differently, depending on whether their activities are deemed essential or not. The rapidly evolving nature of the social transfer programs adopted in response to the crisis also makes it difficult to determine how much support each household may have received during the year.

A defensible way to address these measurement challenges is to conduct microsimulations. These involve using previously available household survey data and tweaking each individual observation based on aggregate or sectoral information that is relevant in its case. Once the corresponding adjustments are made, the poverty rate is estimated as the share of households whose tweaked income falls below the selected poverty line – for example, US$ 5.50 per person per day at PPP prices.

Microsimulations of this sort were conducted for Latin America and the Caribbean in the context of the Covid-19 crisis. Three channels through which individual households could be affected were considered: the probability of job loss, the change in labor earnings if employed, and the change in other earnings. The magnitude of the first two critically depends on the sector the household works in. The third one varies with the remittances received by the country, and with the eligibility of the household to benefit from the social transfer programs adopted in response to the crisis.

Based on these microsimulations, the share of households living with less than US$ 5.50 per person per day in PPP prices would have increased from 22.0 percent in 2019 to 26.5 percent in 2020, had it not been for the emergency measures adopted in response to the crisis. Taking these measures into account, in 2020 the poverty rate of the region may have fallen to 21.9 percent instead.

The flip side of this remarkable success is the expansion of the vulnerable group of households whose living standards are right above the poverty line. By the metrics used in Latin America and the Caribbean, this group comprises households whose daily income per person ranges from US$ 5.50 to US$ 13 in PPP terms. All things considered the share of the vulnerable may have increased from 36.9 percent of the population in 2019 to 38.5 percent in 2020.

Absolute numbers are more telling than percentages. In the absence of mitigation measures the Covid-19 crisis would have increased the number of poor in Latin America and the Caribbean by 28 million, relative to 2019. But all things considered, the number may have declined by 1 million. Brazil's generous social transfer program accounts for almost half of this reduction.

The conclusion from this analysis is not that the Covid-19 crisis was irrelevant from a poverty point of view, however. The apparently muted impact hides substantial heterogeneity both within and across countries. For the region, the microsimulations suggest that 20 million people may have fallen into poverty in 2020, while 21 million might have escaped from it.

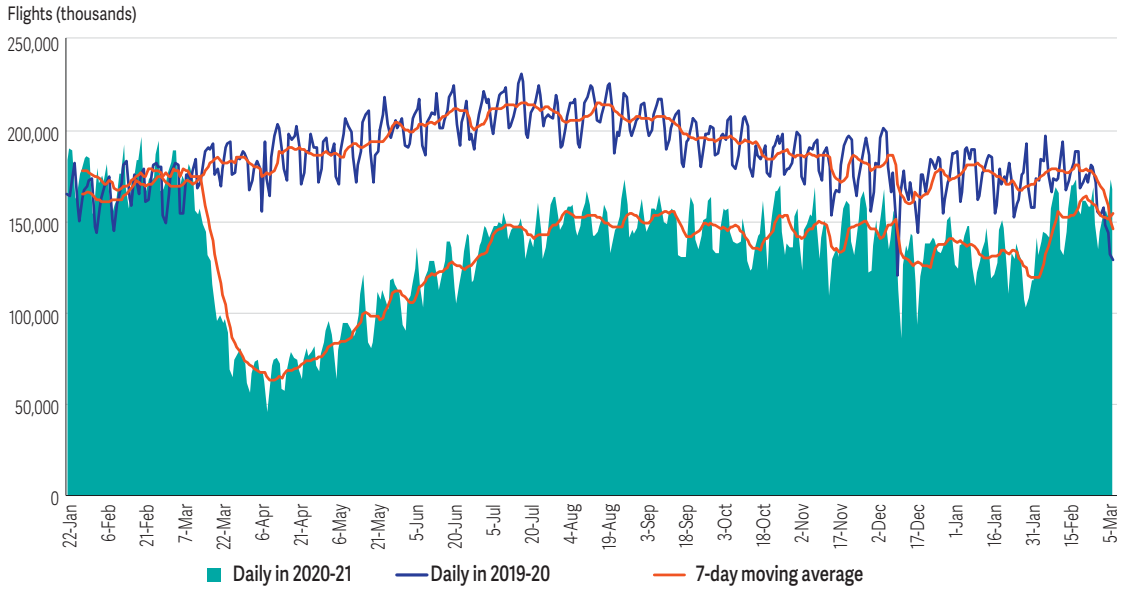
More than three quarters of those moving up are from Brazil. There was also a small decline in poverty in Chile, the Dominican Republic, and Paraguay. All other countries in the region experienced an increase. Peru, Bolivia, Honduras and Mexico were among the worst affected.

Source: World Bank (2021d).

Recent economic developments

Unlike other economic downturns, which are typically triggered by a fall in aggregate demand or a financial crunch, the Covid-19 crisis started with a supply shock. As people feared contagion, individual mobility started declining even before containment measures were officially adopted. But mobility declined even more when stay-at-home orders, business closures and even curfews were imposed (Glaeser et al. 2020, World Bank 2020b). Given that not all jobs can be performed remotely, not going out to work resulted in a sharp decline in economic activity.

Figure 8. A collapse in global air travel



Source: Flightradar24.

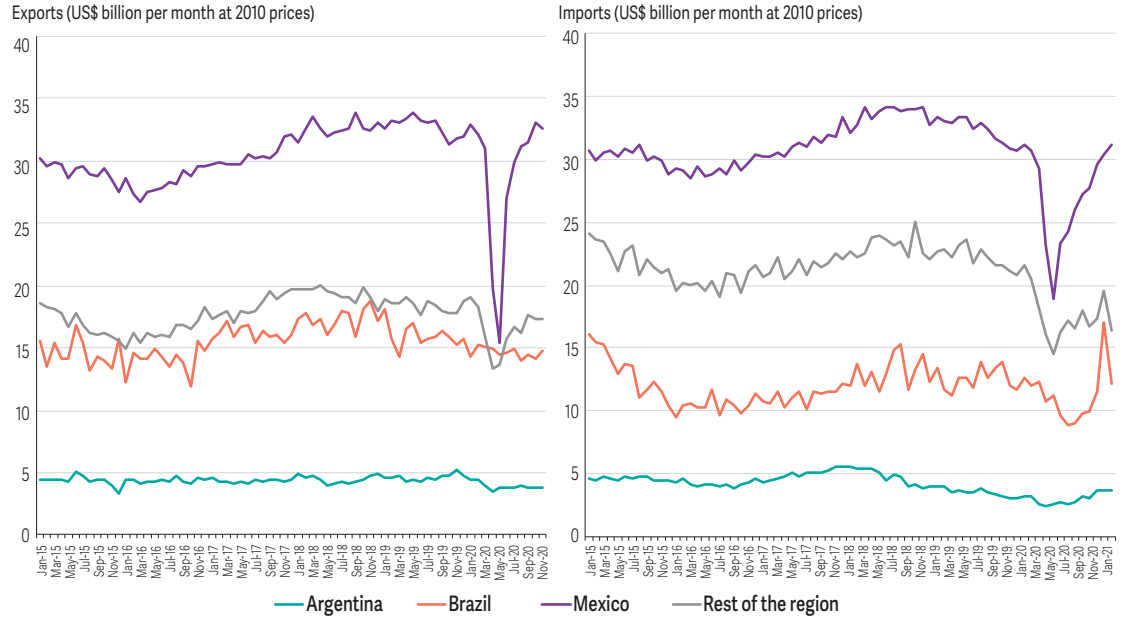
One of the most dramatic declines in mobility was related to air travel. Toward the end of March 2020, the number of daily flights collapsed, and it has never fully recovered since then (figure 8). Trade was affected, given that even commercial flights typically carry cargo. But the strongest impact was on tourism, which together with hospitality and personal services was among the most severely affected economic sectors. Several countries in the Caribbean are heavily dependent on tourism, and therefore suffered disproportionately from this shock.

While passenger travel is still depressed, trade in goods was affected to a much lesser extent. Safe protocols were quickly adopted for cross-border trucking and shipping, resulting in only a temporary disruption in international commerce.

A change in the composition of international trade is also underway. Despite the trade tensions of the last few years, China saw its share of global merchandise trade increase from 14.5 percent in December 2019 to 21.5 percent in June 2020. Its effective containment of the pandemic allowed its factories to resume work earlier than elsewhere. Meanwhile, the global demand for goods bounced back quickly, starting with masks and protective gear and rapidly expanding into office equipment, home entertainment systems and fitness gear to work, relax and exercise at home (The Wall Street Journal 2021).

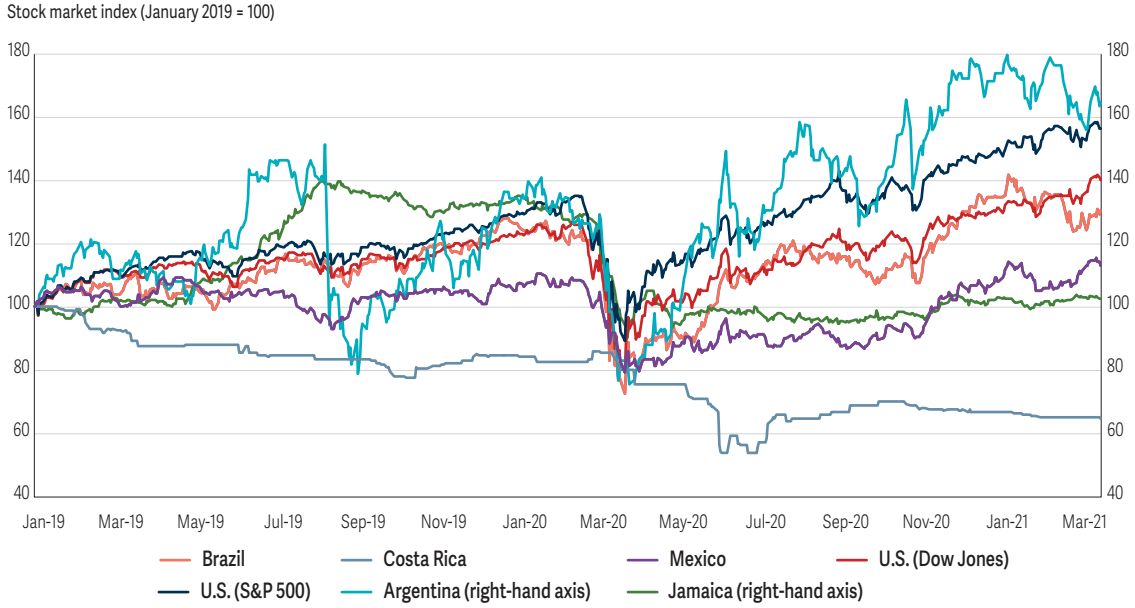
This rise of China in international trade is important for the countries in Latin America and the Caribbean that specialize in agriculture and mining. Not surprisingly, monthly exports remained relatively stable in Argentina and Brazil. They dropped substantially in Mexico, but they have by now fully recovered. Monthly imports are also picking up in the three largest economies in the region, albeit at different paces. However, international trade did decline in other countries in Latin America and the Caribbean (figure 9).

Figure 9. Trade in goods held relatively well in the largest countries



Source: Haver Analytics.

Figure 10. Stock markets have been generally upbeat



Source: International Finance Statistics.

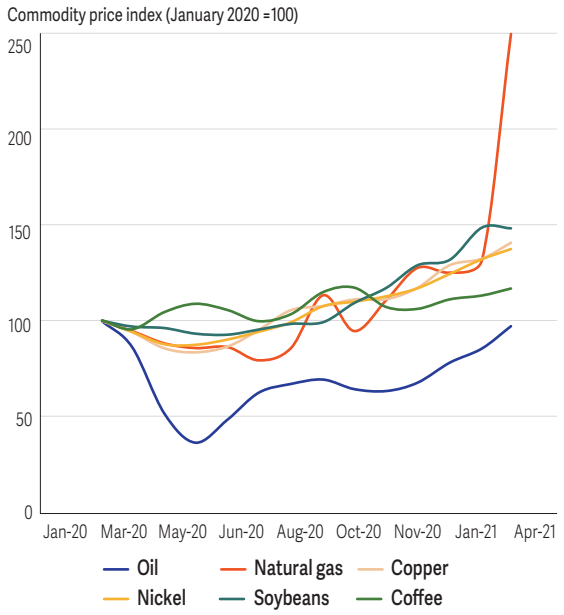
Perhaps more surprising in a crisis context is the solid performance of many stock markets in the region. After a sharp drop when the pandemic started, share prices generally recovered and by now they are often trading higher than before the beginning of the crisis. The initial sell-off was associated with dramatic capital outflows in March and April 2020, when it was feared that most developing countries would lose access to financial markets. But the abundant provision of liquidity in advanced economies and the continuation of near-zero interest rates restored a sense of confidence among investors. If anything, currently upbeat market valuations appear to be somewhat disconnected from the dismal performance of the real economy in most of the region (figure 10).

A more conducive external environment

The good standing of domestic stock markets has not been the only unexpected piece of good news for Latin American and the Caribbean. Three other international developments have somehow defied the odds and cushioned what could have been an even more severe economic crisis. These positive surprises are related to commodity prices, remittances, and financial flows.

Commodity prices fell sharply when the pandemic started, as economic activity plummeted around the world and trade logistics were disrupted. The decline was particularly strong in the case of oil and gas, which fell by 60 percent between January and April 2020. Declines were smaller but still noticeable for most agricultural products and metals. However, by now oil and gas prices have fully recovered, while other commodities are trading at higher prices than before the pandemic, in some cases by a significant margin (figure 11).

Figure 11. Commodity prices have increased substantially



Source: Haver Analytics.

This is good news for Latin America and the Caribbean, given the importance of agricultural products and minerals for several of its economies. Paraguay's sturdy economic performance, and Brazil's positive agricultural sector growth, are in large part related to higher commodity prices. Peru might have missed some of the initial gains from higher metal prices – especially gold – when it shut down its mines as part of its effort to contain the Covid-19 outbreak. However, by now all Andean countries are benefitting from the rebound in the price of metals.

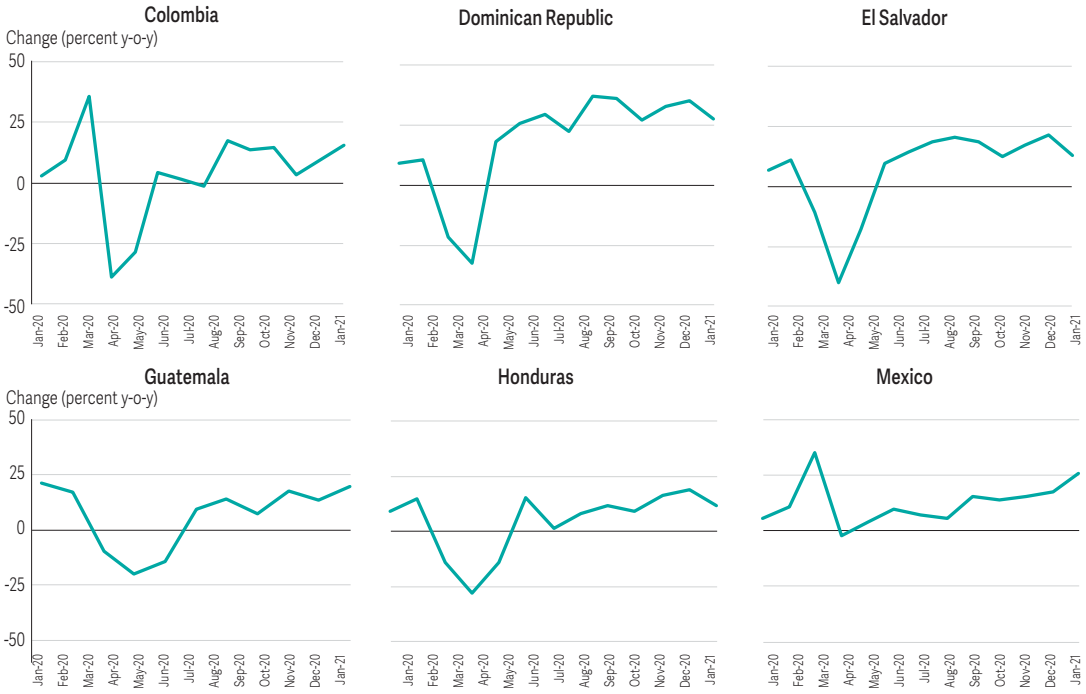
Remittances have also held much better than anticipated. At the beginning of the pandemic it was expected that they would decline by 19.3 percent in 2020, compared to the previous year (World Bank 2020a). But one year on, they have mostly increased, sometimes substantially (figure 12).

Remittances are especially important to support living standards in countries such as Haiti, Jamaica, Honduras and El Salvador, where they account for a significant share of GDP. Their good standing, together with the social transfers enacted by many countries in the region, might have contributed to cushioning the poverty impact of the crisis.

While some of the increase in remittances could reflect a greater reliance on formal channels to transfer the money due to fewer opportunities to bring the money in person, most of it is likely real. In 2020 migrants from the region may have made a disproportionate effort to support their families back home. And they had the means to do so. Many international migrants from Latin America and the Caribbean live in the US, and often work in construction and food retail. These activities were considered essential and therefore were not shut down in response to the Covid-19 pandemic. Many migrants also benefitted from the stimulus packages enacted by the US government to cushion the crisis (Chetty et al. 2020).

The prospects for 2021 remain encouraging. A large fraction of remittances to Latin America and the Caribbean originate in the US, where economic growth is expected to be unusually strong, in line with a V-shaped recovery. The new stimulus package adopted by the US government may also, once again, benefit migrants from the region. All of this bodes well for the households in the region whose living standards crucially depend on the support from their relatives abroad.

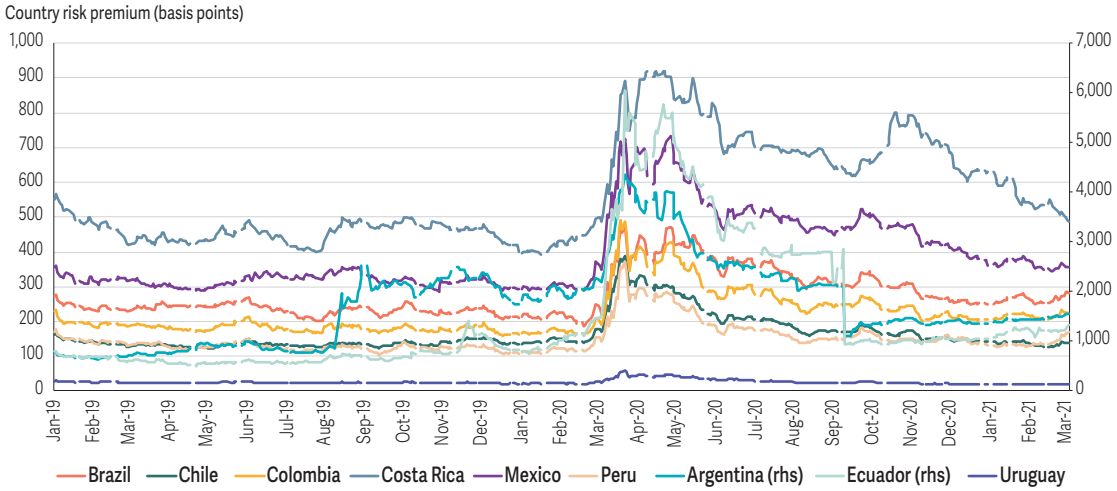
Figure 12. At odds with forecasts, remittances have mostly increased



Source: National central banks.

Last but not least, access to capital markets has been generally preserved. At the onset of the pandemic country risk premiums surged by several hundred basis points, without much differentiation across countries. But investors gradually became less concerned, and risk premiums gradually reverted back to their pre-crisis levels. Needless to say, countries such as Argentina and Ecuador remain cut off from international markets, but this is due to economic crises that predate the pandemic. The risk premiums of these two countries remain prohibitive, but they have declined in line with those of most of the region. At the other end, Peru and Chile can both issue debt at remarkably low interest rates (figure 13).

Figure 13. Access to capital markets has been preserved



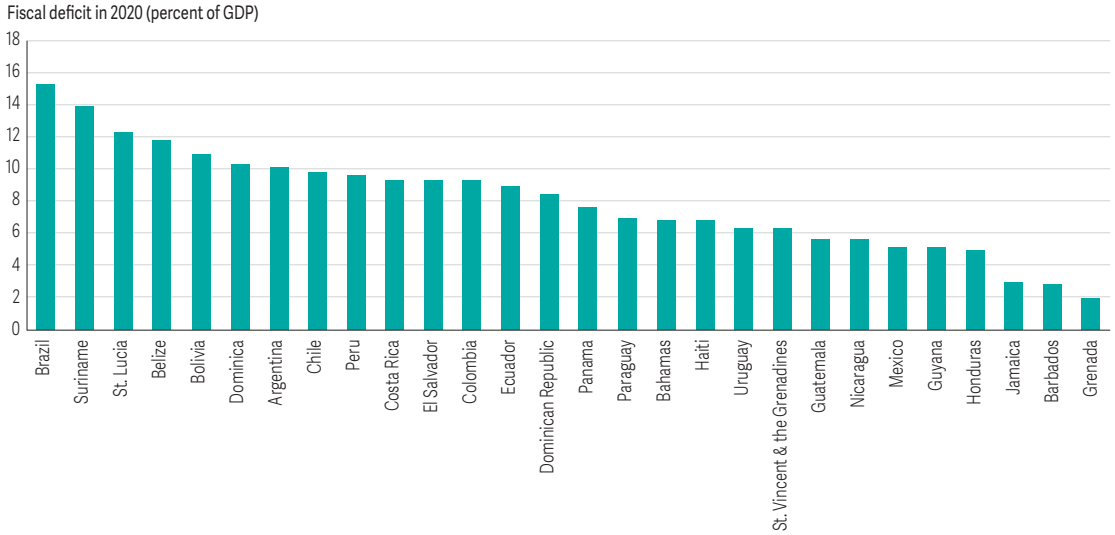
Source: JP Morgan.

Whether markets will be so lenient going forward remains to be seen. Much will depend on the continuation of loose monetary policy in advanced economies. It will also be important to watch whether markets further differentiate their perceptions of the creditworthiness of countries in the region. For now, there are no indications that access to financial markets is becoming tighter.

A supportive policy stance

Most of the countries in Latin America and the Caribbean adopted generous stimulus packages, and this despite the fact that several of them had limited fiscal space. The median fiscal deficit across the region in 2020 was above 8 percent of GDP. Brazil's deficit even reached 13.7 percent of GDP, against the general expectation of a tighter fiscal stance under the current administration. Several other countries in the Caribbean basin also reached two-digit figures. Among the region's large economies, only Mexico had a relatively restrained fiscal policy (figure 14).

Figure 14. Sizeable fiscal deficits despite limited fiscal space



Source: World Bank.

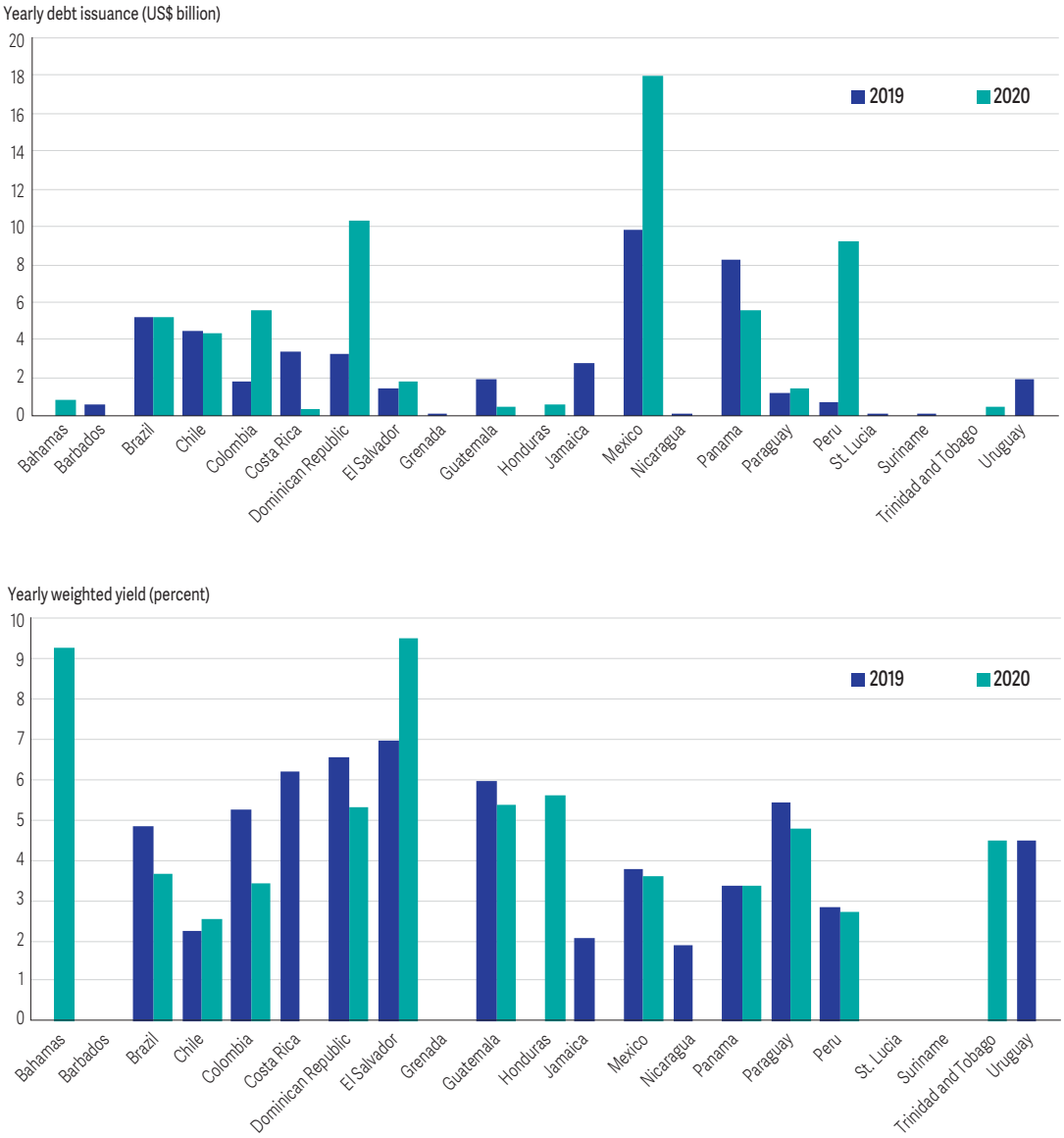
Large fiscal deficits were partly financed through the issuance of domestic debt. However, countries in Latin America and the Caribbean also took advantage of the leniency of international capital markets to issue more government bonds abroad in 2020 than they had in 2019. Contrary to expectations, the average interest rate was lower as well. Peru even issued a bond with a 100-year maturity in the middle of a political crisis that saw three presidents take office in just one week (figure 15).

Monetary policy was also loosened across the region to cushion the economic shock. Half a dozen countries in Latin America and the Caribbean have an inflation-targeting regime in place. This means that authorities adjust the key interest rate they control up or down depending on whether inflation is accelerating or decelerating. All countries in this group – except for Jamaica – reduced their key policy rate in the weeks and months that followed the Covid-19 outbreak. More recently, however, Brazil hiked its policy rate due to rising inflation expectations (figure 16).

The other countries in the region conduct their monetary policy by influencing the speed at which the monetary base increases. The size of the monetary base is closely linked to the volume of banking credit available to the economy. Such size has grown steadily in the last few months for most of the countries in this group, in sharp contrast with the unambiguous decline in economic activity during the same period. The growth of the monetary base was more subdued in Costa Rica, a country that is currently trying to stabilize its economy. It has been faster in Argentina, where the difficulties to issue public debt have pushed the government to monetize the fiscal deficit.

Other measures to support economic activity during the crisis have targeted the financial sector. Many firms are confronting a collapse in revenues and finding it difficult to service their obligations with suppliers and banks. Debt stress could in turn become a source of risk for the financial sector, and a banking crisis is the last thing needed in the middle of the current recession. To contain this risk, governments across the region have adopted a slew of supportive measures, from access to credit and loan guarantees, to regulatory forbearance and adjustments to loan classification (figure 17).

Figure 15. Large bond issuances at relatively low interest rates

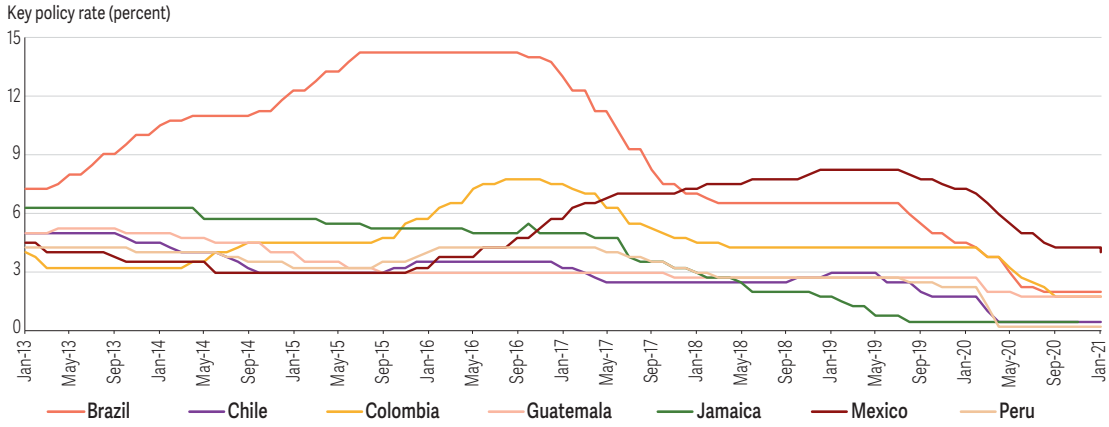


Note: The data corresponds to gross general government debt by issuer nationality for all currencies, maturities, and rate types.
Source: Bank for International Settlements.

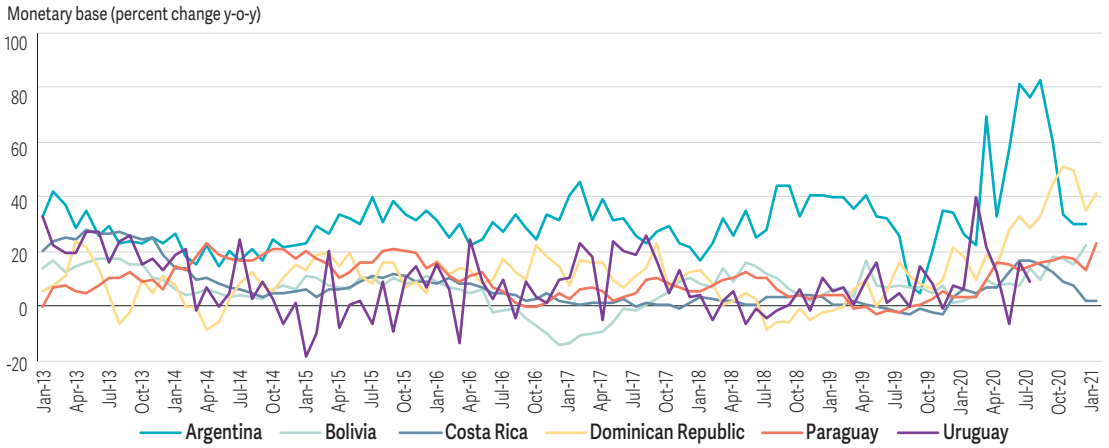
Measures of this sort allow financial institutions to improve their provisioning and to restructure non-performing loans. However, the consequences of these measures need to be watched closely, as a deteriorating quality of loan portfolios could be clouded by forbearance measures and payment moratoria. Aware of the risks, countries in the region have enhanced the monitoring of their banking systems. In Mexico, regulatory forbearance measures have already reached the end-date established in their sunset clauses, and the assessment so far is positive. But it is too early to conclude that the financial sectors of the region have emerged unscathed from the crisis (World Bank 2021b).

Figure 16. Accommodating monetary policy

Countries with inflation targeting

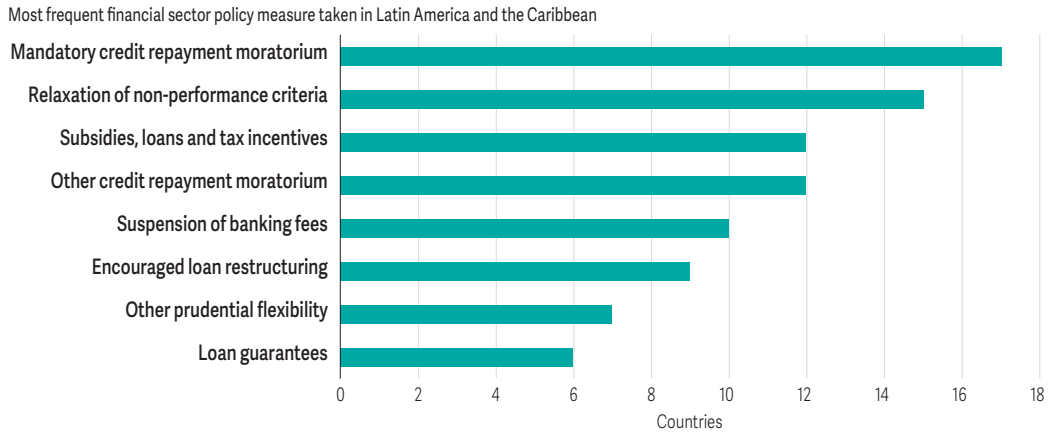


Other countries



Source: Haver Analytics for key policy rates and International Financial Statistics for monetary base.

Figure 17. Regulatory forbearance and financial sector support



Source: World Bank.

Photo: illustration based on a photograph by © Nelson Antoine/Shutterstock

2. The near-term outlook

Forecasting the economic growth of Latin America and the Caribbean in 2021 is challenging, because much depends on how the pandemic will unfold in the coming months. The development of effective and safe vaccines in barely one year since the first Covid-19 outbreak is an unprecedented scientific accomplishment. But producing vaccines on the scale needed to stop the pandemic is challenging. With scarce doses and limited capacity, the rollout of the vaccine is slow across most of the region, implying that herd immunity may not be attained before the end of the calendar year at the earliest. How effective vaccines will be against new variants of the virus is unclear as well.

Meanwhile, not all the containment measures adopted by governments to slow the progress of contagion have proven effective, as shown by the disproportionate death toll faced by the region. Across countries, social transfers, large-scale testing, active tracing, and restrictions to international travel are clearly associated with lower fatalities. Other constraining measures, less clearly so. As new variants of the virus emerge, costly new waves cannot be ruled out. All this adds uncertainty to any economic forecast. It is safe to assume that there will be an important economic recovery in the year that starts, but current forecasts imply that Latin America and the Caribbean will not wipe off the economic losses of 2020 this year.

The pandemic is a source of uncertainty in other ways too. Because the Covid-19 crisis is unprecedented in its combination of shocks to aggregate demand and to labor supply, standard macroeconomic models may not perform as well as in normal circumstances. Numerous economic analyses nowadays often use big data from electronic platforms and satellite imageries to assess economic developments in real time.

Over its last two editions, this report series has relied on emissions of Nitrogen Dioxide (NO_2), a gas generated by combustion, as an indicator of economic activity. With adequate adjustments, daily satellite imageries measuring NO_2 concentration over each location allow estimating economic growth with high frequency and granularity. This approach clearly shows that economic activity collapsed at first, worldwide. But it started recovering in East Asia toward mid-2020, and except for Europe most regions – including Latin America and the Caribbean – are back to pre-pandemic levels in early 2021.

The pandemic is not over

As governments started adopting stay-at-home orders and imposing lockdowns, many citizens wondered how many weeks it would take to return to normalcy. More than one full year has elapsed since then, and the most stringent containment measures have been generally relaxed. But full normalcy still looks quite distant. The fight against Covid-19 started in the spirit of a sprint, but it has gradually turned into a marathon whose finish line keeps being pushed away and remains stubbornly blurred.

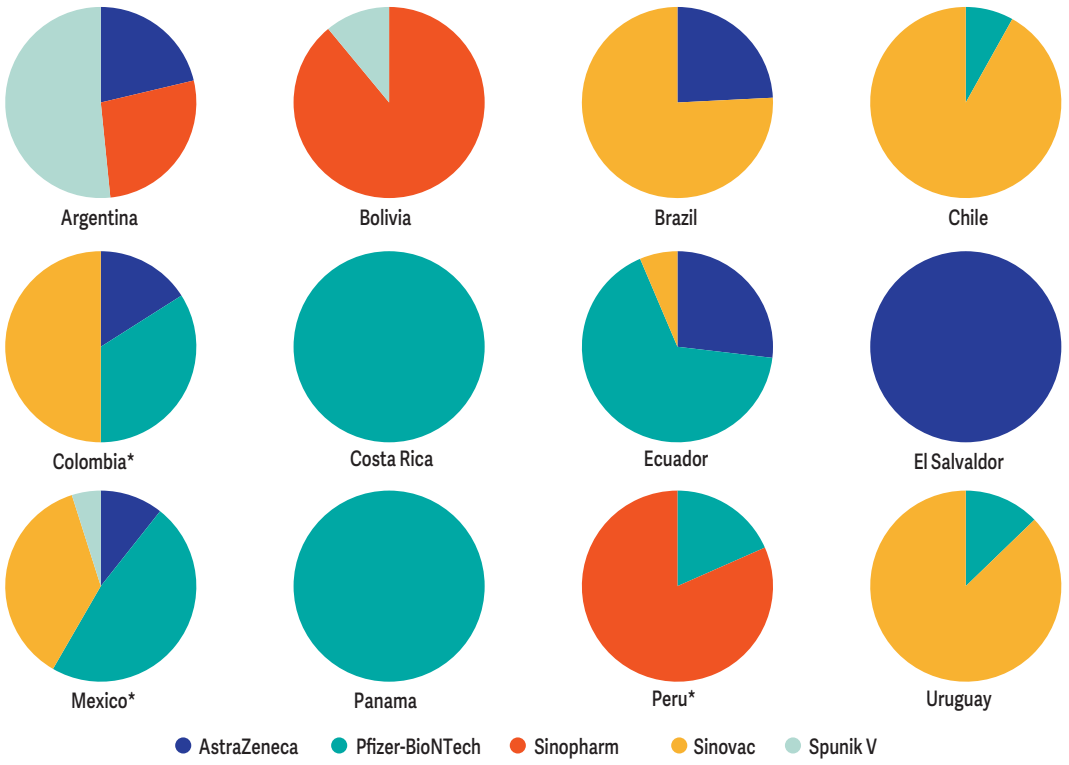
The availability of vaccines brings much hope that the end of the crisis is within reach. The development of half a dozen effective and safe vaccines in a matter of months has been one of the greatest scientific accomplishments ever. Measures to support the necessary research and boost production capacities have been the bright spot of the public policy response to the pandemic. Advance purchase commitments for vaccines by national governments, as well as by the Covax international partnership, together with public grants and logistic support for selected pharmaceutical companies, were an integral part of this extraordinary success.

Unfortunately, the deployment of vaccines has not been as remarkable as their development was. Some countries, most of them advanced economies, actively pursued deals with pharmaceutical companies even before they had

obtained regulatory approval for their vaccines, or even tested them on a sufficiently large scale. Thanks to these deals, they secured enough doses to vaccinate a large share of their population. In Latin America and the Caribbean, Chile stands out as one of the global champions of this approach. Other countries, as well as the Covax international partnership, were slower.

As a result of the haphazard vaccine deployment, most developing countries are now facing a painful shortage of doses (Horwitz and Zissis 2021). The type of vaccines being used also varies considerably across countries, with some having been approved by stringent regulatory authorities at the international level or in advanced economies, and others only by some developing countries (figure 18). Among the countries with production capacity, vaccines have become part of nationalist policies in some cases, and of active diplomacy in others.

Figure 18. Types of vaccines administered per country



Note: In percent. An asterisk denotes that the figure is based on the number of doses available.
Source: National ministries of health.

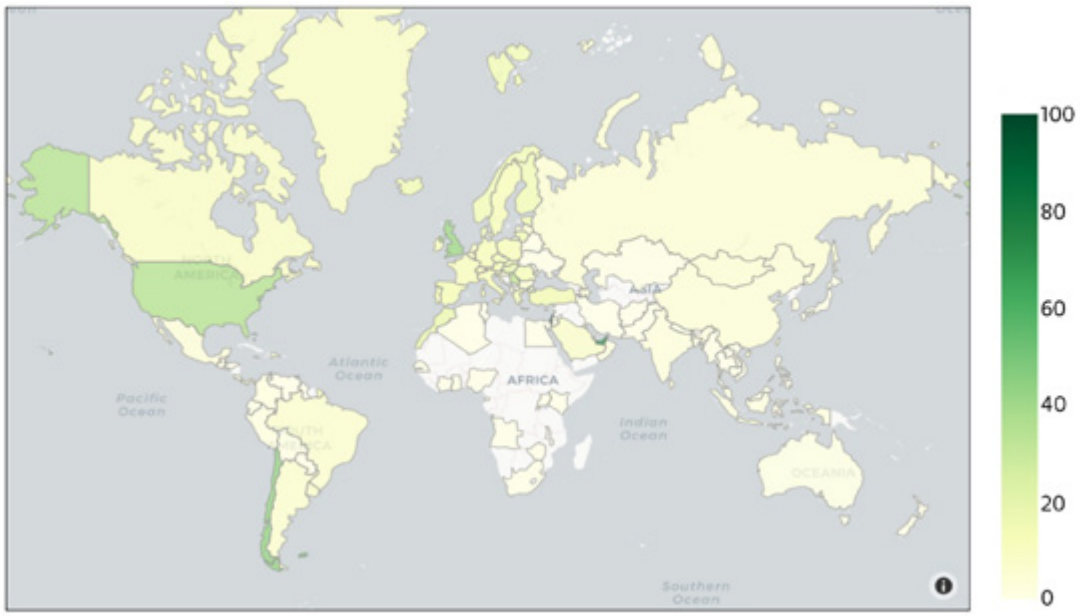
Whatever number of vaccines is available, their rollout to the population has also proved challenging. Some countries are proceeding swiftly, and once again Chile stands out in this respect (map 2). Others, including advanced economies, have faced embarrassing setbacks. In several countries in Latin America and the Caribbean, unauthorized access to vaccines by senior government officials, by their families and by other members of the local elite has surfaced. Such episodes have undermined trust in government and on occasion triggered political crises.

At the current vaccination pace, some countries could hopefully reach herd immunity by the second half of 2021. But for many others, including most of Latin America and the Caribbean, that is a prospect only for 2022, if not 2023. Of course, the pandemic could fade away on its own, as the Spanish Flu did a century ago, at a time when there were no vaccines and healthcare systems were precarious at best. However, given the emergence of new variants, a scenario in which Covid-19 becomes an endemic disease akin to the seasonal flu, requiring new vaccination campaigns every year, cannot be ruled out either. In any event, 2021 is poised to become the second year of the pandemic, and it may not be the last one.

While the economic recovery from the Covid-19 crisis may well be V-shaped, fully returning to the level of activity of 2019 will be difficult as long as health risks remain high. Even if governments did not impose new lockdown measures, some degree of voluntary social distancing would remain, affecting air travel, tourism and many other people-to-people interactions.

Map 2. Vaccines bear much promise, but their rollout is slow

Cumulative doses (per hundred people)



Source: Our World in Data.

If governments felt once again compelled to intervene to slow down the spread of the disease, it is not clear that they would be much more effective than they were during the first year of Covid-19. While there has been enormous progress in relation to vaccines, the effectiveness of non-pharmaceutical interventions is not as high as could be hoped for.

A simple correlation analysis for the year 2020 delivers a cautionary tale in this respect. The University of Oxford compiles indicators on the policy response to the Covid-19 crisis for a sizeable number of countries on a daily basis. The indicators refer to the closure of schools and workplaces, the cancellation of public events, stay-at-home orders, mandatory face coverings, travel bans and the like. The stringency of public policy responses on each of these fronts can be measured through the number of days during which they were in force in 2020. And these stringency measures can in turn be correlated with the excess mortality experienced by countries in 2020, and with their decline in GDP compared to what had been forecasted at the beginning of the year (table 1).

In interpreting these results, it is important to emphasize that a pairwise correlation by definition ignores the contribution of other relevant factors – such as population age and density – as well as any possible complementarities between containment measures. Moreover, correlation is not causation. It could well be that restrictive measures were the response to a surge in deaths in Covid-19, not a contributing factor to it. This potential reverse causality implies that the correlation coefficients overestimate the impact of containment measures. Given this possible upward bias of the estimates, the "true" blue bars could be smaller than reported, while red bars could be even more negative.

This simple analysis shows that around the world, income support measures and direct assistance to firms have been associated with lower excess mortality, a finding that is consistent with a greater ability to practice social distancing when the impact on household income is not devastating. Health-related interventions, including public information campaigns, contact tracing, and especially testing, were also associated with lower excess mortality. For countries in Latin American and the Caribbean, the correlations are relatively strong for economic policies in support of jobs and incomes, for testing and, increasingly, for vaccination.

Table 1. Containment measures have been only partially effective

	All countries		Latin America and the Caribbean	
	Excess mortality	Economic cost	Excess mortality	Economic cost
Lockdown policies				
School closing	0.30	0.22	0.24	0.07
Work place closing	0.31	0.23	0.28	0.18
Cancel public events	0.22	0.20	0.22	0.28
Restrictions on gatherings	0.33	0.21	0.44	0.32
Close public transport	0.18	0.14	0.44	-0.10
Stay at home requirements	0.34	0.30	0.42	0.19
Restrictions on internal movement	0.24	0.19	0.45	0.24
International travel controls	-0.06	0.14	-0.06	0.24
Economic policies				
Income support	-0.05	0.18	-0.09	-0.06
Debt contract relief	-0.11	0.23	-0.16	0.22
Health system policies				
Public information campaigns	-0.06	0.19	-0.01	0.25
Testing policy	-0.19	0.15	-0.27	0.24
Contact tracing	-0.14	0.09	0.06	0.13
Facial coverings	0.32	0.18	0.39	0.26
Vaccination policy	0.03	0.01	-0.10	-0.16

Note: Figures are unweighted correlation coefficients across countries.
Source: National statistical agencies for excess mortality, Hale et al. (2020) for containment measures and World Bank for economic cost.

On the other hand, measures such as closing schools and workplaces, stay-at-home mandates and restrictions on gatherings are correlated with higher excess mortality. Again, this is just a statistical association, not evidence of a causal relationship. Because of potential reverse causality, the green bars could be smaller than shown, including possibly negative.

Therefore, this simple analysis does not imply that the policy responses adopted by countries in Latin America and the Caribbean are to blame for the outsized death toll faced by the region. In advanced economies, containment measures did reduce Covid-19 mortality (Amuedo-Dorantes et al. 2020). However, compliance with those measures varies with trust and civic capital (Bargain and Aminjonov 2020, Barrios et al. 2021). And as mentioned before, there is evidence that quarantines were more effective at reducing the number of deaths in richer than in poorer countries (Rama et al. 2021).

Variation in the size of the bars across groups of countries is suggestive in this respect. For example, the positive correlation between lockdown policies and excess mortality seems to be stronger in Latin America and the Caribbean than at the global level. Whatever the true effectiveness of these measures to limit the death toll, it might have been weaker in the region than elsewhere. The size of the bars can also be compared among individual containment measures. From this point of view, restrictions on international travel are more strongly associated with declines in excess mortality.

As countries in the region enter the second year of the pandemic, their governments may want to keep in mind that income support measures, public information campaigns, testing and vaccination campaigns, and restrictions on international travel did make a difference, while other more draconian measures might have failed to do so. Given that most containment measures were associated with higher economic costs, going forward it will be important to focus on those that at least appear to have worked.

Growth prospects in the region and the world

Uncertainties regarding the way the pandemic will unfold in 2021 and beyond make any growth forecasting exercise particularly challenging. The very diverse impact of the containment measures governments may adopt in the event of new outbreaks can only amplify these uncertainties. These are especially important in the case of small Caribbean island that are highly dependent on tourism. Meanwhile, the macroeconomic models on which forecasts are based mimic the dynamics observed in "normal" times, when supply shocks like that created by social distancing were not at work. For all these reasons, assertions about the outlook – including those in this report – need to be interpreted with caution.

With this caveat in mind, the bigger picture emerging from forecasting exercises is that the fall in economic activity in 2020 was larger than previously anticipated, but the speed of the recovery in 2021 could be faster. The overall assessment remains one of a V-shaped economic trajectory but the downward section of the V is now even more pronounced than it was feared, whereas the upward section is steeper than initially anticipated.

The latest estimate for the GDP growth of Latin America and the Caribbean in 2020 is -6.7 percent, against a forecast of -4.6 percent one year ago, and -7.9 percent six months ago. On the other hand, the GDP growth forecast for the region in 2021 is 4.4 percent at present, well below the 2.6 and 4.0 percent gains foreseen one year and six months ago respectively (table 2). Based on the latest estimate, the GDP of the region will be 2.6 percent lower at the end of 2021 than it was at the end of 2019. On a per capita basis the drop is even larger, as it reaches 4.5 percent.

There is of course considerable variation across countries. While most of the region should be enjoying a strong economic rebound in 2021, Haiti and Suriname are expected to experience negative growth. At the other end, Guyana's growth rate will remain in the double digits, as the exploitation of its offshore oil gains momentum. Growth is also expected to be particularly vigorous in Panama and Peru.

The uncertainties regarding the evolution of the pandemic, the impacts of response measures by governments, and even the macroeconomic dynamics of these unusual times, call for a greater reliance on real-time monitoring of economic activity. About half of the countries in the region regularly produce quarterly growth estimates. And as this report went to press, official GDP estimates for 2020 were unavailable for only a fifth of them. The difficulties to conduct economic censuses and surveys in times of social distancing may also affect the reliability of the latest estimates.

Given these shortcomings, real-time data is needed for a more accurate assessment of the situation on the ground. New technologies make this approach possible, and various organizations and researchers have already exploited a range of newly available data sources, from mobile phone traffic to credit card transactions to satellite imageries.

Since the beginning of the Covid-19 crisis this report series has relied on NO_2 emissions as a key source of information on economic activity. The concentration of aerosol particles of NO_2 in the atmosphere over a particular location is closely related to its vehicle movements, industrial combustion and agricultural fires, among others. It has been shown that a high correlation exists between official GDP figures and NO_2 emissions as measured by satellite imageries, with the relationship between the two varying across countries (Morris et al. 2021). For example, NO_2 emissions are more responsive to GDP growth in a country with heavy industry than in one specializing in services.

The estimated relationship at the country level allows to infer changes in GDP from observed variation in the concentration of NO_2 particles over a particular area at any point in time. In particular, this can be done over the four quarters of 2020 and also for most of the first quarter of 2021, which was almost complete by the cutoff date of this report.

The results should not be taken literally. For example, the fear of Covid-19 contagion may encourage city dwellers to avoid using public transportation. If a fraction of the population shifts at least temporarily to using private cars, NO_2 emissions could increase even in a context of diminished economic activity. This shift, if it were significant, would lead to an overestimation of GDP during the pandemic. It will take time to assess whether the results are biased, because official GDP data for 2021 is not yet available.

Table 2. Real GDP growth at market prices

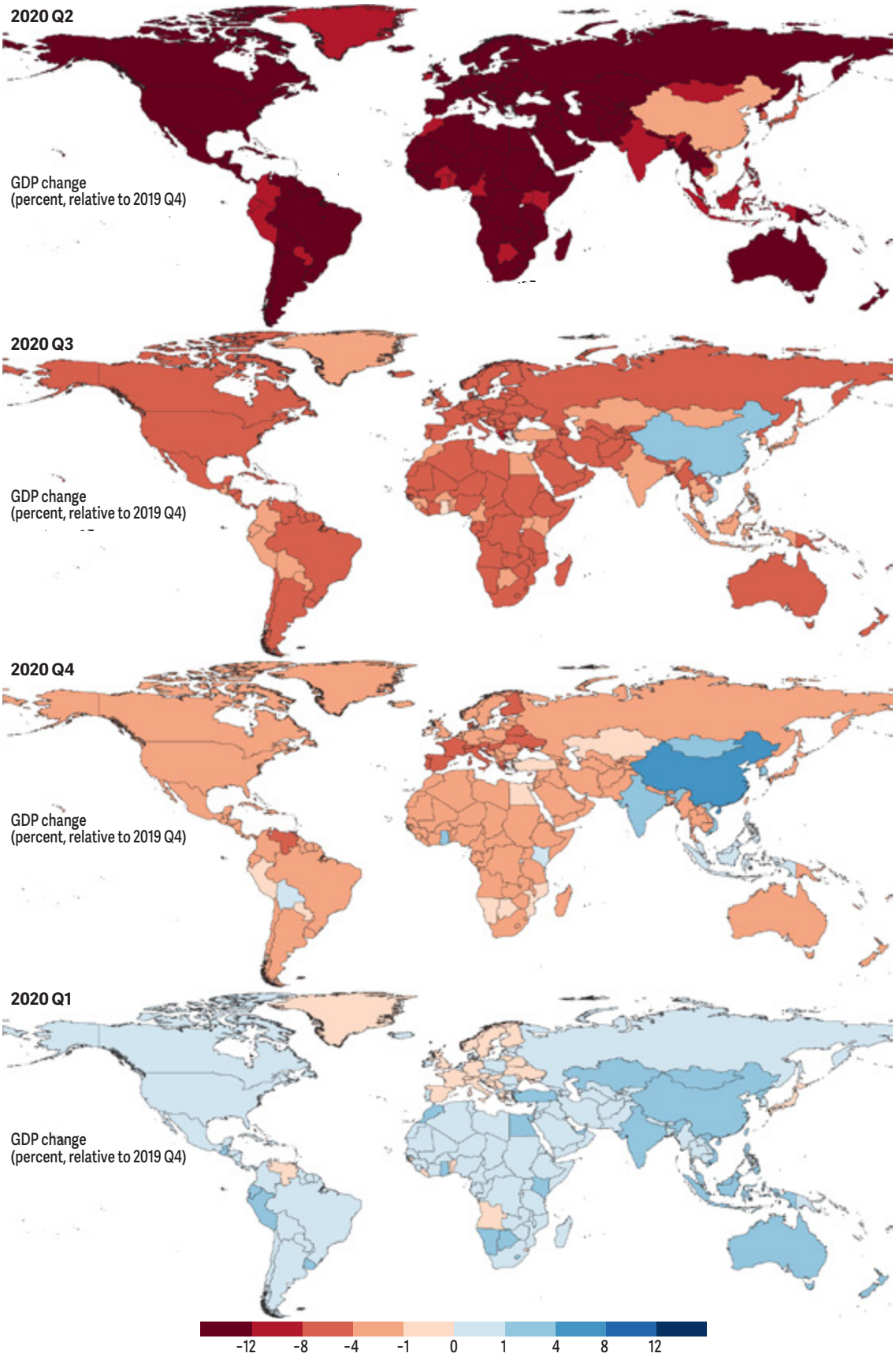
Country	2018	2019	2020e	2021f	2022f	2023f
Argentina	-2.5	-2.2	-10.0	6.4	1.7	1.9
Bahamas	3.0	1.2	-16.2	2.0	8.5	4.0
Barbados	-0.6	-0.1	-17.3	4.4	7.2	1.9
Belize	2.9	1.8	-14.1	1.9	6.4	4.2
Bolivia	4.2	2.2	-7.8	4.7	3.5	3.0
Brazil	1.8	1.4	-4.1	3.0	2.5	2.3
Chile	3.9	1.1	-6.0	5.5	3.5	2.5
Colombia	2.6	3.3	-6.8	5.0	4.3	4.2
Costa Rica	2.1	2.2	-4.6	2.6	3.3	3.1
Dominica	2.3	3.6	-10.0	1.0	3.0	2.5
Dominican Republic	7.0	5.1	-6.7	5.5	4.8	4.8
Ecuador	1.3	0.0	-6.8	3.4	1.4	1.8
El Salvador	2.4	2.4	-8.6	4.1	3.1	2.4
Grenada	4.1	1.9	-12.6	3.5	5.0	4.9
Guatemala	3.2	3.8	-1.8	3.6	4.0	3.8
Guyana	4.4	5.4	43.5	20.9	26.0	23.0
Haiti	1.7	-1.7	-3.4	-0.7	1.5	2.0
Honduras	3.7	2.7	-9.0	4.5	3.9	3.8
Jamaica	1.9	0.9	-10.0	3.0	3.8	3.2
Mexico	2.2	-0.1	-8.2	4.5	3.0	2.5
Nicaragua	-4.0	-3.9	-2.5	0.9	1.2	1.4
Panama	3.6	3.0	-17.9	9.9	7.8	4.9
Paraguay	3.2	-0.4	-1.1	3.5	4.0	3.8
Peru	4.0	2.2	-11.1	8.1	4.5	4.1
St. Lucia	2.6	1.7	-20.4	1.1	12.3	8.1
St. Vincent and the Grenadines	2.2	0.5	-4.2	0.2	5.0	3.2
Suriname	2.6	0.3	-14.5	-1.9	0.1	1.3
Uruguay	0.5	0.3	-5.8	3.4	3.1	2.5
Latin America and the Caribbean	1.7	0.8	-6.7	4.4	3.0	2.7

Source: World Bank.

Keeping this caveat in mind, NO_2 emissions reveal a striking geography of crisis and recovery (map 3). By the second quarter of 2020, the entire world was in recession. But China and Vietnam were back to positive economic growth in the third quarter, and other countries started recovering in the fourth one. And by the first quarter of 2021, most countries outside of Europe had exceeded their levels of activity of the last quarter before the pandemic.

It does not follow that the crisis is over. Based on these estimates, in a vast majority of countries current GDP levels would exceed those of the last full quarter before the pandemic by less than 1 percent. But if it were not for the pandemic, most countries would have experienced positive economic growth during this period. Economic activity may have bounced back, but it is not nearly as vibrant as it would have been if it were not for the pandemic.

Map 3. The changing geography of economic activity in the wake of Covid-19



Source: Morris et al. (2021).

Photo illustration based on a photograph by © Myriam B/Shutterstock

3. The longer-term impacts of the Covid-19 crisis

There are strong reasons to believe that the Covid-19 crisis will have a long-lasting impact on economic activity. For most of 2020, children were out of school across the region, and some may never return. Social distancing and depressed labor demand have drastically reduced employment, with women affected disproportionally. Public debt levels have also increased, sometimes substantially, and many firms may be unable to honor their obligations with creditors and suppliers. Less learning and work experience are bound to reduce earnings in the future, while debt overhang may create stress in the financial sector and slow the recovery. For a region that was already struggling with slow growth even before the pandemic, such lasting negative impact from the Covid-19 crisis would be very bad news.

However, history offers more optimistic insights into what happens after a crisis of this magnitude. World War I led to an enormous loss of physical and human capital; it was followed by the Spanish Flu, which was even more lethal than Covid-19. And yet, what came right after was the Roaring Twenties. The destruction and the carnage were also enormous during World War II. But what followed was one of the longest and strongest growth spells ever.

While the reasons for pessimism are clear, major crises may also trigger large-scale economic restructuring. The composition of economic activity changes, with some sectors contracting and others expanding. Hospitality and personal services may durably suffer from Covid-19, while information technology, finance and logistics may gain new momentum. If the sectors that expand are more productive than those that contract, aggregate productivity should increase as the economy returns to full employment.

The biggest transformation, however, could arise from the accelerated digitization triggered by the pandemic, which could lead to greater dynamism across multiple sectors. Digitization could boost financial services – especially payment systems – an area in which the region is a laggard. Electronic platforms could create job opportunities even for the unskilled and by providing information on hours of work and earnings, they could support the formalization of employment. Finally, trading goods and services through the internet offers a chance for greater integration with the global economy.

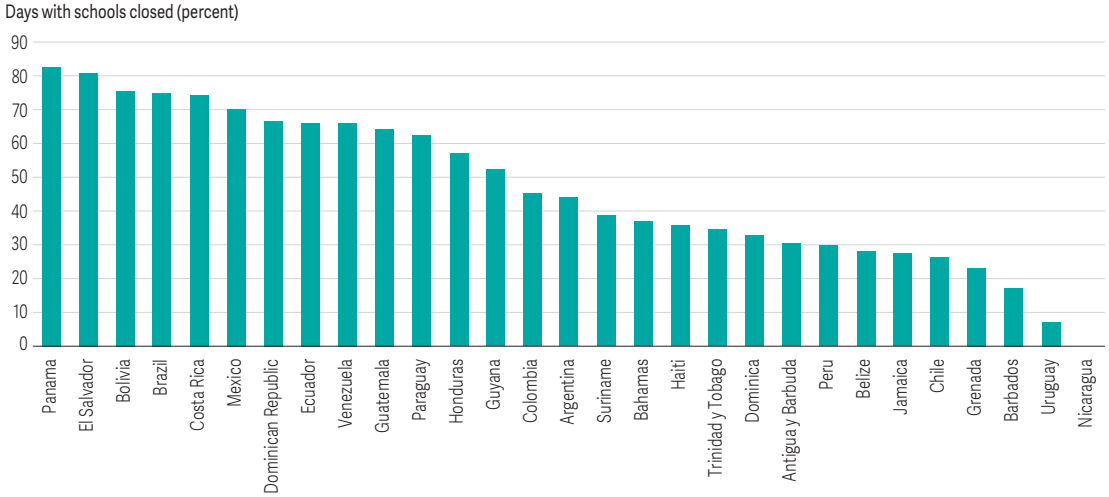
A systematic benchmarking of the region along eight dimensions – from internet access to broadband cost to actual use – shows how uneven the readiness for digitization is across Latin America and the Caribbean. In most countries in the region, an important share of the population could miss out on the opportunities created by digitization. There is also substantial heterogeneity across countries, as revealed by the number and value of their unicorns – fast-growing technology startups. By this metric, some parts of the region are remarkably dynamic.

Foregone human capital

The forcible lockdowns and stay-at-home orders that characterized the policy response to the pandemic most often included closing schools. At a time when evidence about the contagiousness and lethality of Covid-19 was still patchy, authorities around the world thought that the risks from delivering education in person outweighed the benefits and preferred to be prudent. But school closures have been maintained for months, and in some cases almost for the entire first year of the pandemic. This has been so particularly in many countries in Latin America and the Caribbean (figure 19)

An obvious implication of school closures is reduced learning (World Bank 2021a). Education systems around the world tried to compensate for it by providing remote teaching. But evidence is slowly emerging about the partial effectiveness of this approach, and the deep inequalities it creates. This evidence is consistent with what is known about remote learning in normal times.

Figure 19. Pervasive school closures undermine learning



Note: Data are for 353 days, beginning on February 16, 2020.
Source: UNESCO.

For instance, the TV program Sesame Street was shown to improve school readiness, but its impact on educational attainment and labor market outcomes was inconclusive (Kearney and Levine 2019). Other studies have assessed the impact of technology-aided instruction programs on learning outcomes in developing countries, finding moderate gains (Mularidharan et al. 2019). In the context of Latin America and the Caribbean, the experience of Uruguay is of interest, as it was the first country to ensure one laptop per child, in 2007 (Mitra and Quiroga 2012). Differences between in-person and online learning also extend to adults, as shown by the case of college education in Colombia (Cellini and Grueso 2021).

However, it has also been argued that technology should supplement teaching, rather than replace it: teachers and students cannot just switch between computer-assisted learning and traditional learning with the same result (Bettinger et al. 2020). Many moving pieces must be in place for remote learning to work, and it is not clear that they were in the hasty response to the Covid-19 crisis. Importantly, not every child in the region had access to a laptop, or even to an internet connection (Asanov et al. 2021). Whatever the actual magnitude of learning gains from remote learning, the actual accumulation of human capital across children in the region during 2020 must have been extremely unequal.

Assessments of the impact of school closures on future economic growth are bound to be tentative. However, some disturbing insights can be derived from an analysis of earnings equations across countries. Earnings equations are well-established relationships linking labor earnings in adult life to school attendance and work experience, the two main sources of human capital accumulation. Equations of this sort have been estimated for a large number of countries using a consistent methodological approach (Montenegro and Patrinos 2014).

The estimated returns to one additional year of schooling can be adjusted for the Covid-19 crisis assuming that days when schools are open lead to normal learning, while days when they are closed basically lead to no learning. Based on this simple approach, the median loss in future earnings for the children in Latin America and the Caribbean exceeds 4 percentage points. While there is considerable diversity across countries, the region could be facing the biggest losses in the developing world (figure 20).

Figure 20. The loss in future earnings could be sizeable

Note: Labor earnings from one year of schooling are from the most recent year for which data is available. For the orders of magnitude in the figure, log is roughly equivalent to percentage. The loss of labor earning is assumed to be proportional to the fraction of school days missed. Regional figures are unweighted average across countries.
Source: Montenegro and Patrinos (2014) for returns to schooling and UNESCO for school closures.

Depressed employment, especially among women

A fall in the demand for labor is a typical feature of any economic crisis. However, the current pandemic was also characterized by a collapse in labor supply. Social distancing started as a spontaneous reaction to the risk of contagion, and became widespread as stay-at-home orders were issued, and lockdowns were imposed. With both a depressed labor demand and a vastly reduced labor supply, unemployment rates often did not vary much in the short term. But employment levels collapsed across the region, with their lowest point being around the second and third quarters of 2020 (figure 21).

Across countries in the region, women were disproportionally affected. This gender bias may not be visible when looking at the absolute number of jobs lost, but they become apparent when the loss is measured relative to employment levels before the crisis. This stronger impact is consistent with a larger share of women working in retail and personal services, two sectors directly hit by social distancing. With children out of school for months, women may be shouldering an even greater share of responsibilities at home, especially in countries with more patriarchal social norms.

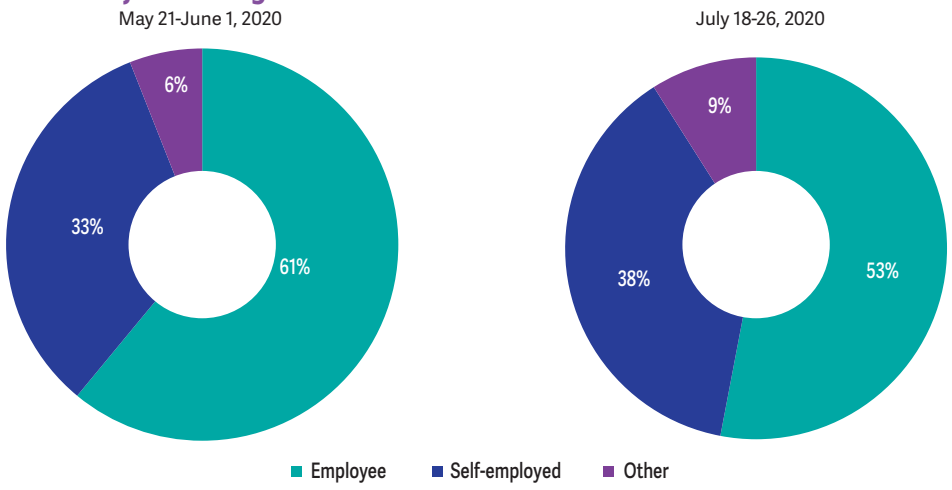
Admittedly, not all the decline in employment was associated with job losses. Furloughs, unemployment insurance and government support to firms allowed many workers to keep their jobs while being temporarily out of work. But with a large share of employment in Latin America and the Caribbean being informal, relatively few workers might have been so lucky. Many more might have simply lost their jobs or – in the case of the self-employed – their livelihoods.

The quality of jobs matters as well. Many of those who returned to work in recent months may not have landed jobs with the same kind of security, earnings, and benefits they enjoyed before the crisis. A series of rapid telephone surveys conducted by the World Bank between May and July of 2020 suggests that the average quality of jobs has deteriorated, especially in the case of women (World Bank 2021c). Comparing the first and last round of the survey, a shift away from salaried jobs into self-employment and other, non-standard forms of work, is clearly noticeable (figure 22).

Figure 21. Larger employment losses among women

Note: Several agencies modified their methodology for carrying out their household surveys during the pandemic. As such, the numbers from 2020 are not strictly comparable to 2019.
Source: National statistical agencies

Figure 22. Worse jobs among the women who are still at work



Source: World Bank.

These developments are a triple blow for the economic and social prospects of the region. Being out of work for long periods erodes skills and may undermine work habits. The lower quality of the jobs landed by many of those who regained employment may in turn be associated with lower overall productivity. And the stronger decline in female employment, in relative terms, undoes some of the progress toward gender equality that Latin America and the Caribbean had made in recent decades. None of that bodes well for the long-term prospects of the region.

Over-indebtedness and contingent liabilities

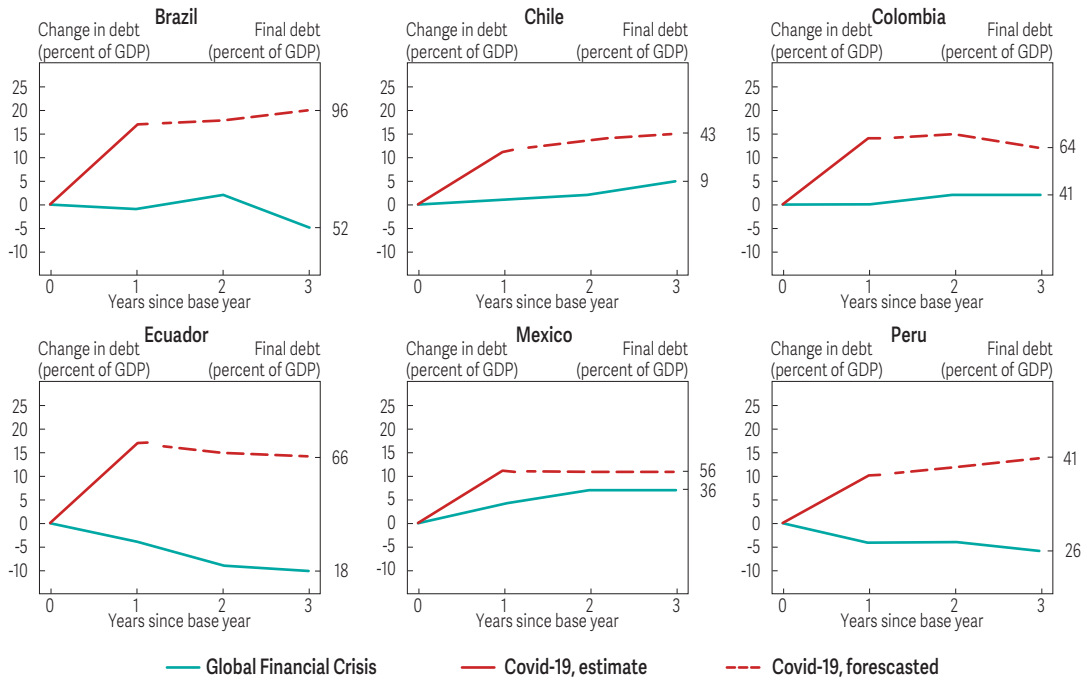
Debt levels are another mechanism through which the Covid-19 crisis could have a durable impact on the future growth of the region. Despite often limited fiscal space, countries in Latin America and the Caribbean boosted public spending to support the health sector, provide social transfers to households and assist firms in difficulties. This strong policy response cushioned the impact of the crisis, but it also led to very substantial increases in public debt, much more significant than what had been the case in response to the Global Financial Crisis. Initial levels were also higher this time around, so that several countries in the region are by now heavily indebted (figure 23).

While the monetary policy of advanced economies has kept interest rates at remarkably low levels, sooner or later this debt will have to be serviced. Either in 2021 or in the years that follow, countries in the region will have to chart a path toward fiscal consolidation, to ensure that their debts remain sustainable. Higher taxes or lower government spending will exert downward pressure on economic activity.

Firms are also facing higher levels of debt. Confronted with a decline in revenue due to the crisis, and with costs that are difficult to compress in the short term, many of them have borrowed or rolled over their liabilities. Support programs and loan guarantees by the governments of the region have allowed them to do so. However, in many cases the question is whether a liquidity crunch will eventually become a solvency problem. If that were to happen, there would be increased risks for the financial sector, and banking crises would only make the fallout from Covid-19 crisis even worse.

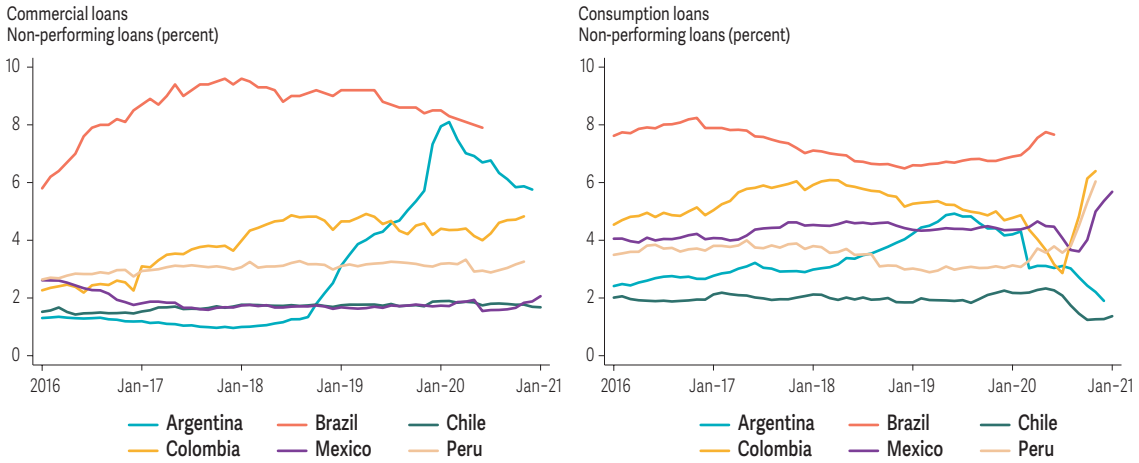
Fortunately, for now there are no signs of serious financial sector stress. The share of non-performing loans in banking portfolios has increased, but not dramatically (figure 24). Across the region supervisors have been proactive, providing forbearance and more flexible loan classification rules, but also closely monitoring lending portfolios. Banks have significantly increased provisions in anticipation of loan losses, provisioning ratios are high in almost all countries, and capital buffers remain generally sound. Bank profitability has suffered, but major crises seem unlikely.

Figure 23. Public debt grew much faster than in the Global Financial Crisis



Note: Data are for public debt, using contemporaneous GDP as the denominator. The onset is 2007 for the Global Financial Crisis and 2019 for the Covid-19 crisis.
Source: World Bank.

Figure 24. Payment arrears have increased, but not dramatically



Source: National central banks and regulatory agencies.

Another area for concern relates to the contingent liabilities from infrastructure utilities and concessions whose revenue has declined with the crisis. However, on this front the news is again relatively reassuring. While many governments took steps to defer the payment of utility bills at the beginning of the crisis, few of those measures were permanent in nature (table 3). Many public transport systems are also experiencing large losses due to social distancing, and some licenses and public-private partnerships may need to be renegotiated due to lower vehicle traffic, but the implicit liabilities may not pose systemic risk at this point.

Table 3. Measures to alleviate bill payments could impact utilities

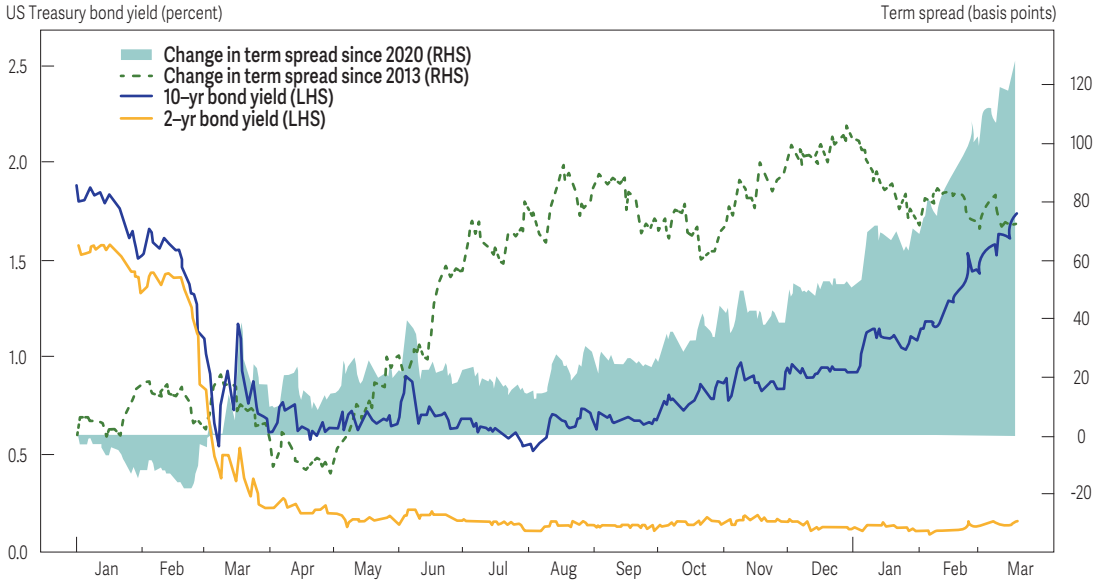
Country	Payment moratorium	Residential targeted measures	Business deferral	Price reduction	Prize freeze	Credit lines to utilities
Argentina	✓	✓				
Bolivia	✓	✓		✓		
Brazil	✓	✓			✓	✓
Chile	✓		✓			
Colombia	✓	✓	✓		✓	✓
Costa Rica	✓		✓			
Dominican Republic	✓					
Ecuador	✓	✓	✓	✓		
El Salvador	✓		✓			
Guatemala	✓		✓			
Honduras	✓		✓			
Mexico	✓	✓				
Panama	✓		✓			
Paraguay	✓	✓	✓			
Peru	✓	✓	✓			
Uruguay	✓					

Note: Moratorium related to the suspension of disconnection for non-payment during the emergency crisis; Residential targeted measures refer to targeted subsidies for the most vulnerable residential consumers; Business deferral include measures such as deferred payment with no interest rates for business consumers; Price reduction and freeze refer to more generalized reduction or non-increase in prices for a broader range of consumers and credit lines refer to emergency measures taken to support cash flow of utilities during the emergency period.
Source: Vagliasindi and Benitez (2021).

Perhaps the most significant risk going forward is related to macroeconomic policy in advanced economies. In 2013, the mere prospect that quantitative easing in the US could start being tapered triggered a sale of US Treasury bonds, hence an increase in their yield – or, equivalently, a rise in their implicit interest rate. This episode, known as the taper tantrum, led to large capital outflows and currency depreciations in emerging markets (Medvedev et al. 2019). Higher interest rates make debt refinancing more expensive and weaker currencies make debts denominated in foreign currency more burdensome. If something similar were to happen in the coming years, the impact on Latin America and the Caribbean could be significant, given the current over-indebtedness of governments and firms.

A new taper tantrum looked like a distant prospect until recently. However, the strength of the economic recovery underway in the US, combined with the large size of the stimulus package it recently approved, have raised concerns about the resurfacing of inflationary pressures (Summers 2021). If this was to happen, a tightening of US monetary policy could not be ruled out. Markets had been anticipating higher inflation even before the new stimulus package was approved, as shown by the steady increase in US Treasury bond yields in recent months, at a pace comparable to that observed in 2013 (figure 25).

Figure 25. A risk not so remote anymore: higher interest rates



Note: The taper tantrum refers to the increase in US Treasury bond yields following the Federal Reserve's announcement of the future tapering of its quantitative easing program.
Source: U.S. Department of the Treasury.

Moreover, with the size of the new stimulus package being several times the current output gap, the US will most probably be running a large current account deficit. In other words, domestic demand will exceed domestic supply, pushing US imports up. This will boost the exports of countries such as China, Mexico, and potentially others in Latin America and the Caribbean, undoubtedly a positive development for the region. But for the US to run a large current account deficit the dollar needs to appreciate, and this is a concern for countries with a large share of their debts denominated in foreign currency.

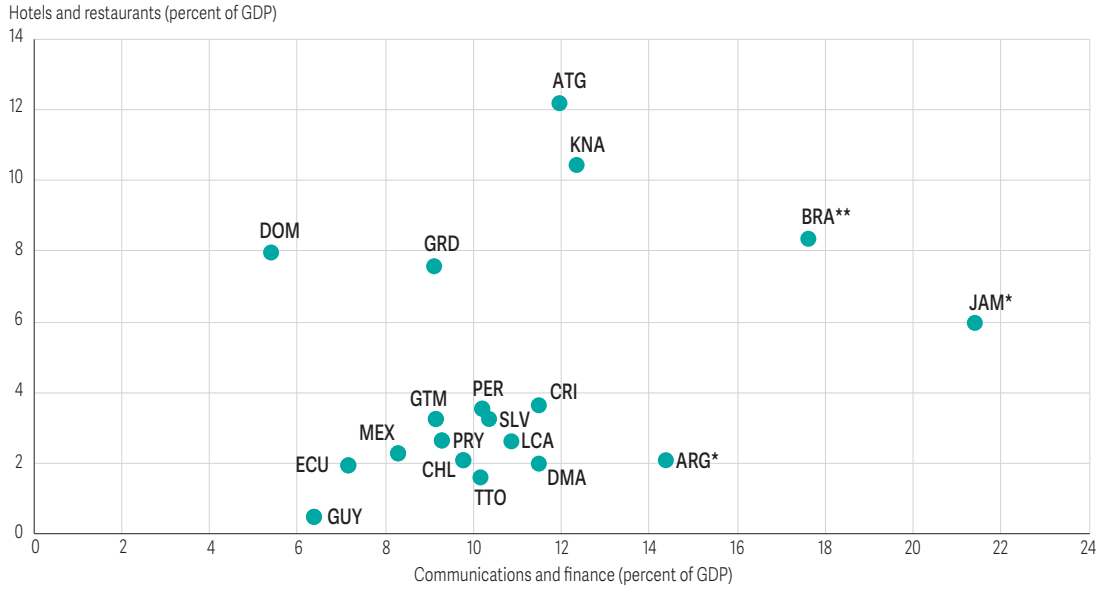
Structural transformation

While the risks discussed so far should not be taken lightly, there might also be a silver lining to the Covid-19 crisis. A shock of this magnitude does not call for a return to the previous equilibrium but may instead trigger a permanent change in the structure of the economy. One important dimension of that change is related to the sectoral composition of economic activity. In the short term, the pandemic has led to a collapse of tourism and a range of personal services, and to a boom in information technology, finance, and logistics among others. Some of this structural change may not be reverted.

The time dynamics of structural shocks of this sort are relatively straightforward. If the contracting sectors represent a large share of the domestic economy, as is the case with tourism in many Caribbean countries, the negative growth impact of the crisis can be dramatic. If neither the contracting nor the expanding sectors are large to begin with, as was probably the case in Paraguay, the impact is more muted. Finally, if the expanding sector is large to begin with, the crisis may entail reallocation costs in the short run but should eventually lead to higher output.

Countries in Latin America and the Caribbean are very differently positioned along this spectrum (figure 26). On the surface, given the dramatic declines in GDP observed across the region, no single country appears to have benefitted from the structural transformation triggered by the Covid-19 crisis. But this grim assessment could be tainted by measurement issues.

Figure 26. The share of expanding and contracting sectors varies across the region



Note: One asterisk denotes that the figure is based on transport, storage and communications, and two asterisks that it considers hotels, restaurants and wholesale and retail sectors.
Source: National accounts and national statistical agencies.

Take the case of Argentina. In 2020 its GDP may have declined by a staggering US$ 56 billion. But over the same period the market value of its three biggest technology firms – Mercado Libre, Globant and Despegar – increased by an even more sizeable US$ 66 billion. The latter are not counted as GDP, and rightly so. These notional capital gains were not all generated domestically, they have not been converted into actual incomes, and many of the beneficiaries are not residents. But it is not totally inaccurate to say that the expanding sectors of Argentina created more value than the contracting sectors lost. On the other hand, these gains and losses were very unevenly distributed across the population, with most of the gains remaining outside the reach of domestic tax authorities.

The dynamic effects just discussed are a manifestation of broader composition effects. Labor productivity varies across sectors, with the overall labor productivity of an economy being a weighted average of its sectoral productivities. Algebraically, weights are given by the shares of the sectors in total employment. Because the Covid-19 crisis

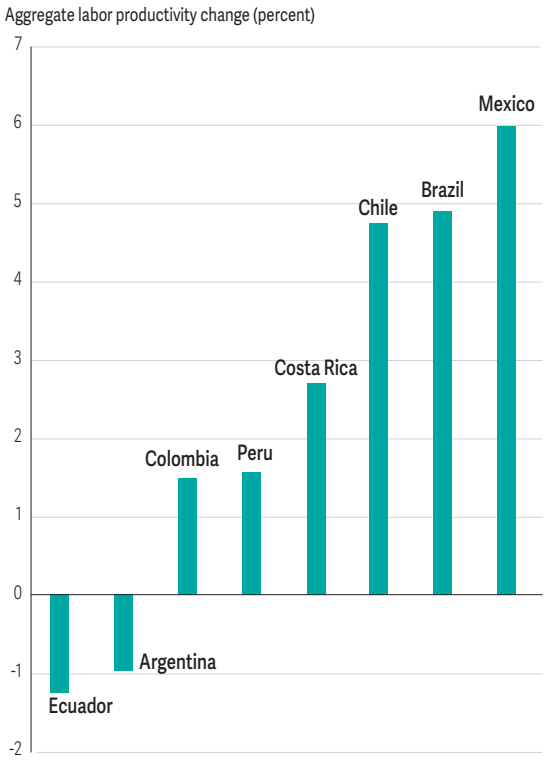
leads some sectors to contract and others to expand, the weights change, and as a result overall labor productivity may change as well.

Rigorously quantifying this possible composition effect would require a full computable general equilibrium model for each country. Short of that, a simple methodology can be used to produce an approximate estimate (McMillan and Rodrik 2011). It amounts to computing labor productivity for all sectors and generating two weighted averages, one with the sectoral shares of economic activity observed before the crisis, the other after the crisis.

This simple methodology is used here for illustrative purposes, with the change in weights estimated based on the sectoral growth rates observed in 2020. The necessary data is only available for a handful of countries. But it is interesting to note that for a majority of them the composition effect from the structural change triggered by the Covid-19 crisis is positive, and it is sizeable in some cases (figure 27).

Needless to say, these figures are tentative at best, and whatever the real size of the effects it may take time for them to materialize. But the results suggest that structural transformation is one way in which the pandemic might have boosted the long-term growth prospects of the region.

Figure 27. Expected productivity gain from the change in output structure



Source: National accounts for sector shares and Groningen Economic Transformation Database for sectoral labor productivity.

The promise of digitization

The sectors expanding as a result of the Covid-19 crisis matter not only because of their higher productivity, but also because of the impact they could have across the rest of the economy. Slow economic growth in Latin America and the Caribbean has often been attributed to limited competition and excessive insider power. Addressing the pandemic has required a much greater reliance on electronic platforms to work, trade and communicate. And these may in turn create disruption in sectors and markets where policy reforms often failed to make inroads.

Limited competition in the region is partly the result of a long history of import substitution and populist policies. The relatively small size of most of the economies in the region, the strong links between economic elites and political leaders, and the veto power of key interest groups, have undermined attempts to change the status quo. While many countries have competent technocracies, progress in moving toward more efficient economies has been patchy at best.

For example, there have been multiple efforts to modernize the financial sector in Latin America and the Caribbean, but access to finance remains dismally low (Demirguc-Kunt et al. 2017). The region has also signed an almost record number of free-trade agreements, but its ratio of international trade to GDP remains one of the lowest in the world (World Bank 2019). Despite pension system reforms and attempts to extend the coverage of social protection programs, labor markets remain deeply segmented and informality is most often the norm (Levy 2019).

Accelerated digitization is bound to impact multiple areas of the economy, and not only the three just mentioned. But in their case, it could unlock much-needed change without having to embark on politically costly discussions about further economic reforms:

- Financial innovations allow large technology firms and telecom operators to provide cheap and reliable payment solutions to households of modest means and informal sector firms. This is a market segment typically neglected by established banks, because it is too costly to service. Proper regulation can help protect the data of those who use these new services and minimize systemic risks for the financial sector. The digital and institutional architecture adopted by India, including the introduction of "payment banks", is very promising in this respect (Nachiket Mor Committee 2014).

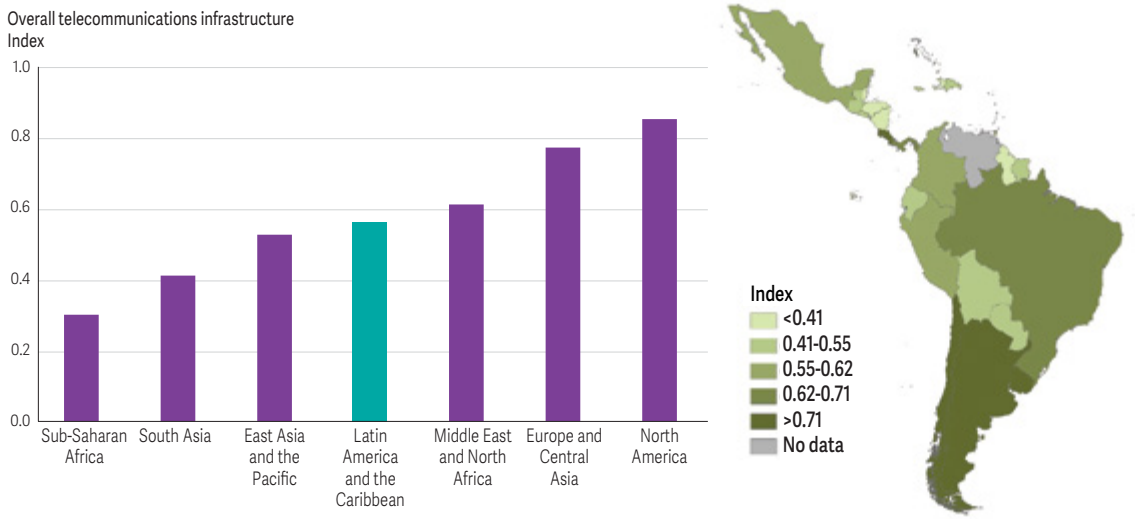
- Trading platforms connect customers and suppliers directly, allowing them to bypass intermediaries and to reduce the risk of unsolicited payments along the way. What trade facilitation reforms painstakingly try to accomplish at customs offices and border posts can instantly happen when buying and selling through the internet. Combined with proper training and financing solutions, trading platforms can be game changers even for disadvantaged rural communities, as shown by the experience of China's Taobao villages (Luo and Niu 2019).

- Logistics solutions are becoming an important source of employment for low-skill workers throughout the region. Shared-vehicle drivers and delivery personnel have become ubiquitous across cities in Latin America and the Caribbean. For now, many of these jobs are precarious and offer no benefits. But it does not need to be this way. The technology companies offering logistic solutions have full information on the number of hours worked and the earnings made by every one of their associates. With this kind of information, the formalization of employment could be vastly expanded.

A quantum jump in the penetration of digital tools is taking place globally, and the trend is unlikely to be reverted once contagion risks subside. However, Latin America and the Caribbean is not ideally positioned to seize this opportunity. Its overall ranking across developing regions varies depending on the indicator considered – from the availability of digital infrastructure to the cost of accessing the internet to the capacity of firms and governments to tap its potential. However, the region is almost consistently behind Europe and Central Asia and East Asia and the Pacific. On some of the indicators, it even lags much poorer regions (figure 28).

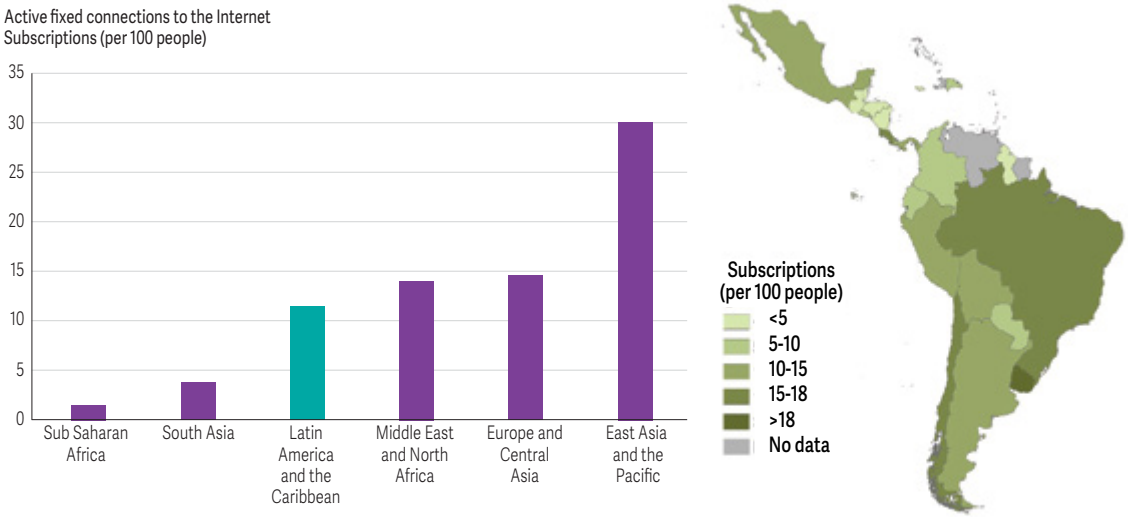
At the same time, the readiness for digitization varies dramatically across the region. In some of the countries – especially in Central America and the Andean subregion – the low availability of infrastructure and the high cost of service imply that large segments of the population are in practice excluded from the digital transformation. The assessment is more positive for countries in the Southern Cone, Brazil, Costa Rica and, to some extent Mexico. Some of them are relatively close to advanced economies on indicators such as reliance on e-government.

Figure 28. How ready is the region to embrace digitization? (Continued)

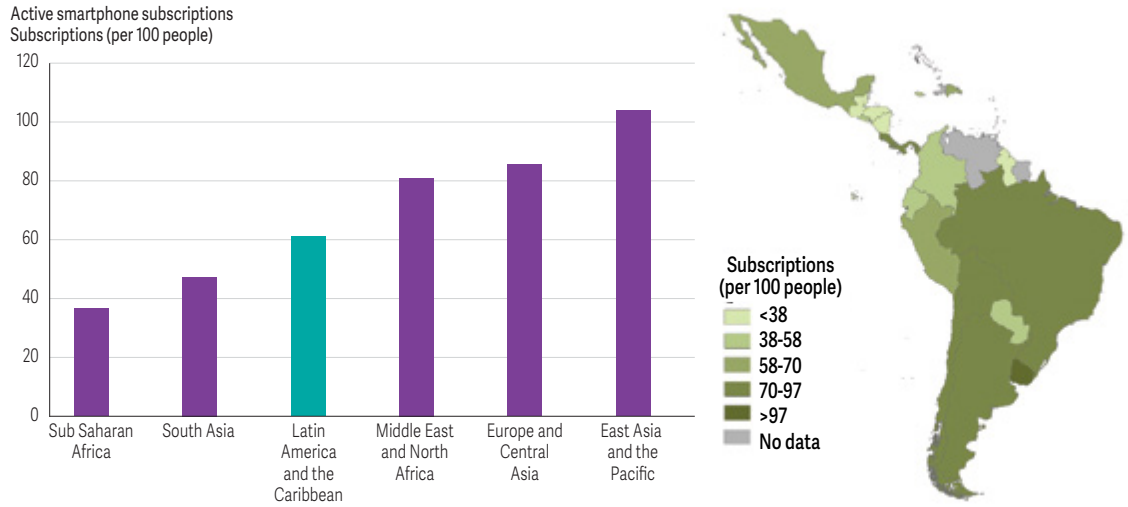


Source: United Nations e-Government index.
Note: The index refers to the infrastructure required for citizens to participate in e-government. Regional figures are unweighted averages across countries.
(Continued)

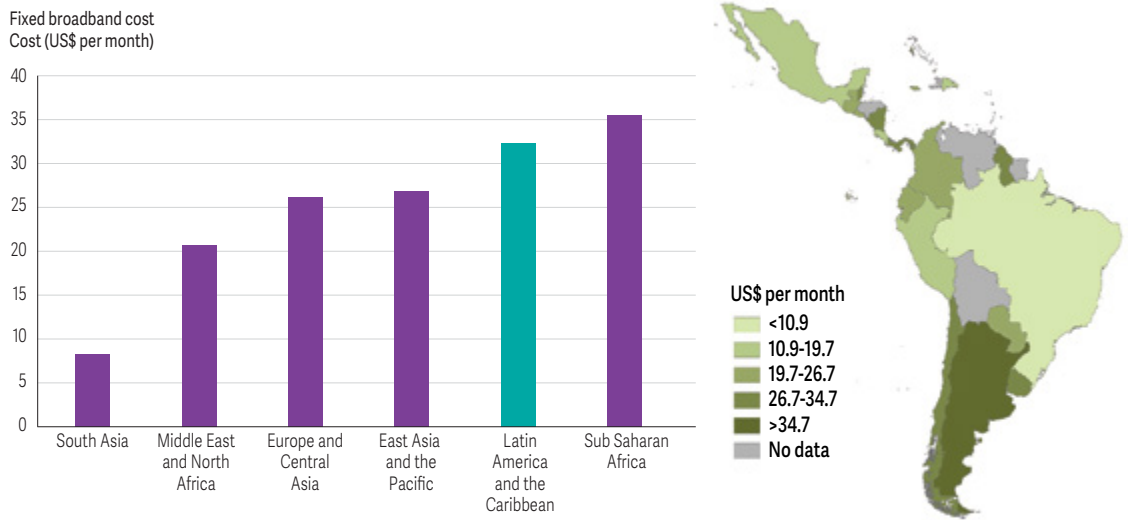
Figure 28. How ready is the region to embrace digitization? (Continued)



Source: International Telecommunications Union.
Note: Regional figures are unweighted average across countries.



Source: International Telecommunications Union.
Note: Regional figures are unweighted average across countries.

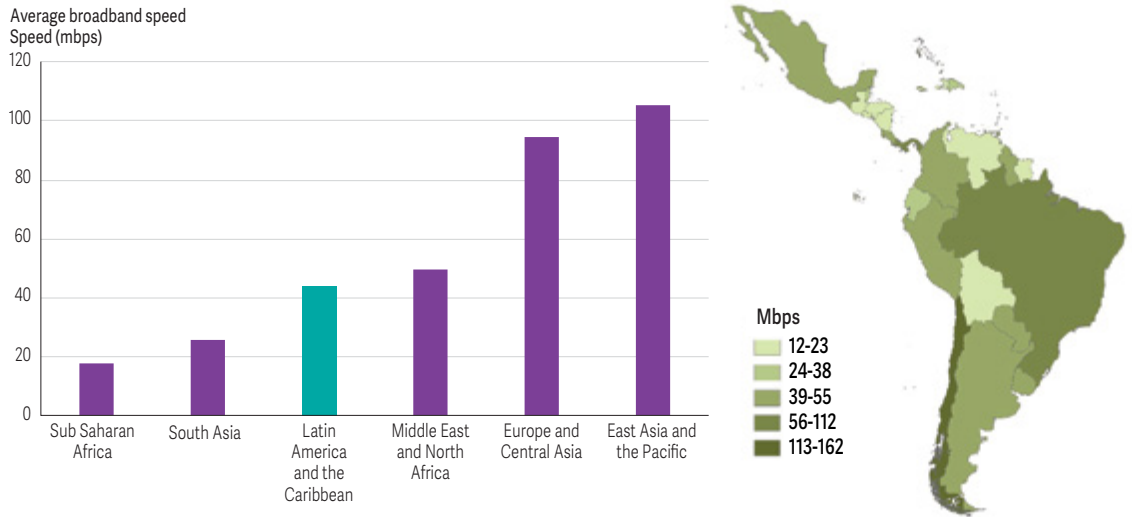


Source: International Telecommunications Union.
Note: Data refer to a package allowing a monthly data usage of at least 5 GB. Regional figures are unweighted average across countries.

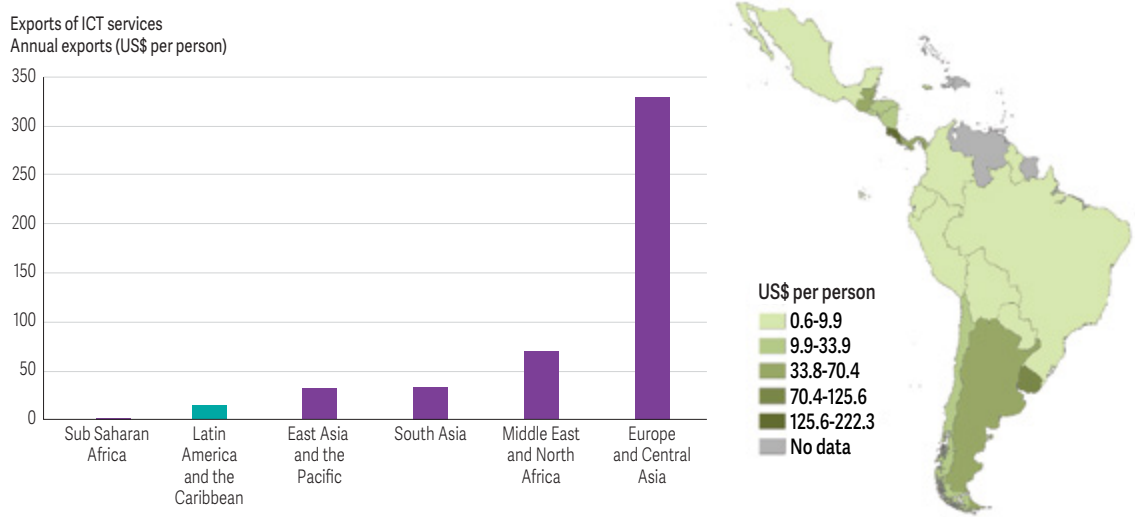
(Continued)

Figure 28. How ready is the region to embrace digitization? (Continued)

Note: Data refers to the cost of a GB of excess usage with a monthly package allowing at least 1.5 GB. Regional figures are unweighted average across countries.
Source: International Telecommunications Union.



Note: Data refers to download speed. Regional figures are unweighted average across countries.
Source: Speedtest.



Note: ICT stands for Information and Communications Technology. Regional figures are unweighted average across countries.
Source: UNCTAD.

(Continued)

Figure 28. How ready is the region to embrace digitization? (Continued)

Note: The index measures the extent to which the government provide services and communicates with citizens electronically. Regional figures are unweighted average across countries.
Source: United Nations e-Government Index.

Against the odds, half a dozen countries in the region have recently seen the emergence of local unicorns. These are privately held technological companies backed by venture funds and investors whose valuations exceed US$ 1 billion. The analysis of firm dynamics has highlighted the importance of new firms that grow very rapidly, the so-called "gazelles" (Henrekson and Johansson 2010). These firms are engines of creative destruction, generating employment in large numbers, creating considerable value, and crowding out low-productivity competitors. It can be argued that unicorns are the ultimate gazelles of economic development.

On both the number and the market value of their unicorns, Argentina, Brazil, Colombia and Uruguay stand on a par with the leading countries in technological innovation (figure 29). Together with Mexico, they account for three dozen unicorns, out of more than 500 globally. Technological companies like these can only gain from the accelerated structural transformation triggered by the Covid-19 crisis. The stories of the Latin unicorns – their founders, the sectors they operate in, their trajectories – offer valuable insights into the promise of digitization for the region (box 2).

Figure 29. Many unicorns, but very unevenly distributed across countries

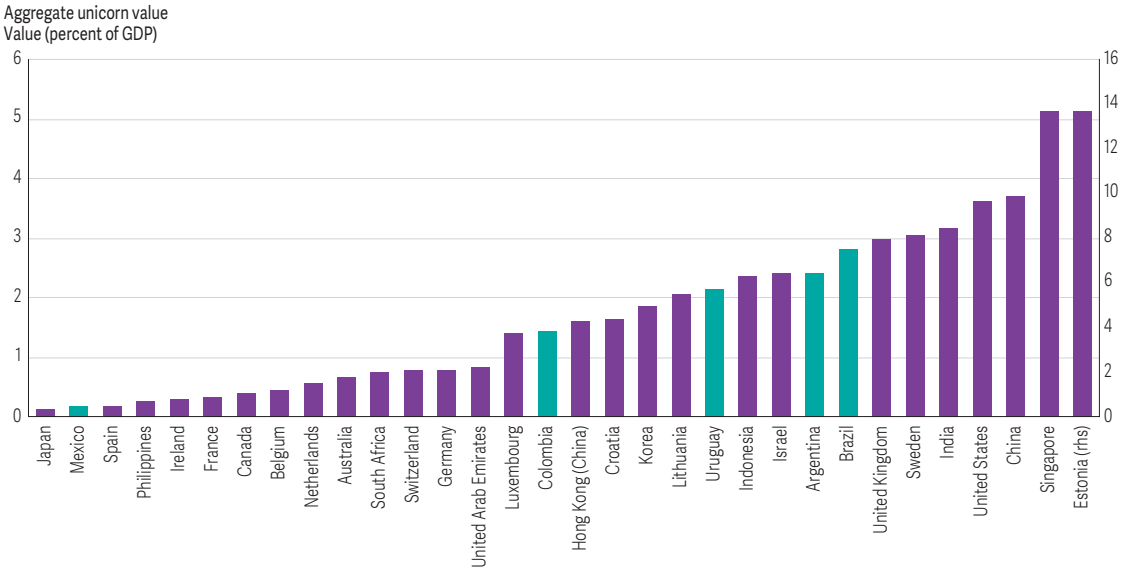
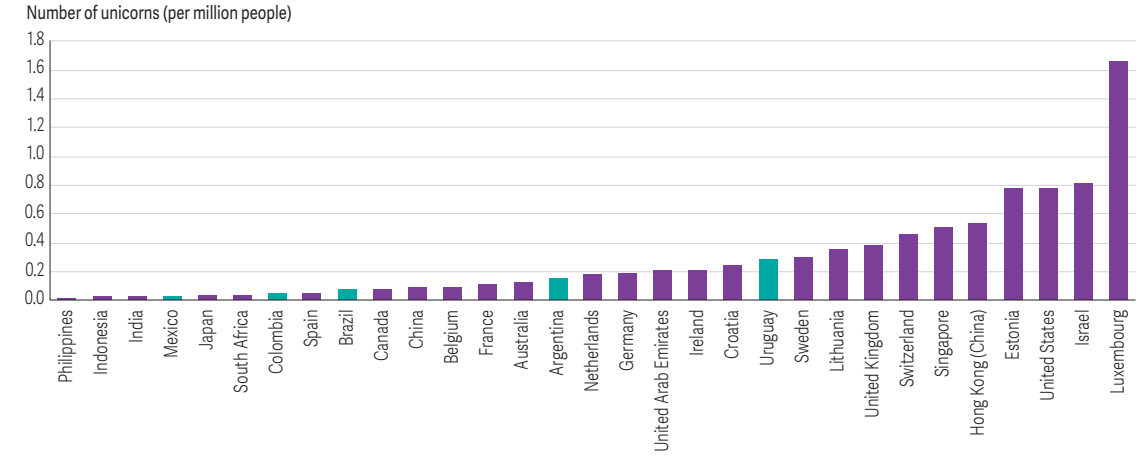


Figure 29. Many unicorns, but very unevenly distributed across countries (Continued)



Source: CB Insights and World Bank.

Box 2. The Latin unicorns

The emergence of unicorns is a recent phenomenon in the region, with the valuation of technology startups surging mainly from 2017 onward. So new and relatively unknown these emerging companies are that many of them are not visible yet in frequently cited unicorn databases. A quick check suggests that similar biases do not arise in other developing countries, where the technology sector has a longer history and is well-known. This said, any numbers need to be interpreted with caution as valuations are approximate, and they are updated only intermittently. Many of the Latin unicorns are close to the US$ 1 billion threshold, creating some uncertainty on which ones to include in the count.

The different valuation at which technology startups are listed or acquired by other companies adds some arbitrariness to cross-country comparisons. For example, Nubank of Brazil, an online-only bank, was still privately held in 2020 despite having a valuation of around US$ 10 billion. At the other end Mexican technology startups are often sold before they reach the US$ 100 million mark.

After being listed or sold, some of the technology companies from the region have become sizeable. Argentina's Mercado Libre, which operates online marketplaces, was valued at US$ 95 billion as of February 2021. The first Latin unicorn to be listed on the US Nasdaq, it is the region's most popular platform for online commerce. Globant, a software firm from Argentina, has acquired multiple technology startups. It is listed on the New York Stock Exchange, headquartered in Luxembourg, and has its main customer base in the UK and the US. Despegar, an Argentinian travel logistics company, is also listed on the New York Stock Exchange.

Since 2009, some US$ 16 billion has been invested through nearly 2,800 venture capital deals in Latin America and the Caribbean. Investors span the globe, from Goldman Sachs of the US to Tencent of China. Japan's Softbank has a US$ 5 billion fund exclusively dedicated to Latin technology startups. Despite the uncertainty brought on by the Covid-19 pandemic, 2020 marked a record year for the region, with technology companies raising a record US$ 4.2 billion in funding across more than 370 deals. This momentum has held strong in 2021.

The most well-funded Latin unicorn, by quite some margin, is Colombia's Rappi, an integrated delivery platform with over US$ 1.7 billion in total disclosed equity funding. It is followed by Brazil's Nubank – the only other unicorn from the region to have raised more than US$ 1 billion – and by Uruguay's dLocal, a payments processor for online vendors. In seven countries in the region, at least one technology startup has raised at least US$ 100 million in funding. Argentina's Ulalá, another online-only bank, may be following on Nubank's footsteps.

Latin unicorns have a stronger sectoral concentration than their counterparts in the rest of the world. Globally, around 14 percent of unicorns are in financial services, closely followed by online commerce and internet software and services (13 percent each), and by artificial intelligence (9 percent). By contrast, most unicorns in the region operate in financial services, logistics and online commerce, with each of these three sectors accounting for 27 percent of the total number.

Source: CB Insights and specialized media reports.

Photo: Illustration based on a photograph by © Nelson Antoine/Shutterstock

4. More energy for the region

Technological disruption can be a driver of change in sectors where policy reforms have stalled. This is true not only of digitization but also of other innovations that may bring in greater market competition and increase economic efficiency. Electricity production, a sector undergoing a deep transformation around the world, is a case in point. Because electricity is an input to most economic activities, because it matters so much for household well-being, and because it is central to sustainable development, reducing its cost and increasing its cleanliness could be transformational.

In large part thanks to its rich endowment in hydropower, Latin America and the Caribbean has the cleanest electricity generation matrix of all developing regions. Important differences remain across countries, with small islands suffering from their dependence on diesel and fuel oil. But overall, given that the cost of generation from renewable sources is lower, the region should have the cheapest electricity in the developing world. Its advantage relative to other developing regions would even widen if a hypothetical carbon were was applied across regions to penalize emissions.

Instead, Latin America and the Caribbean has the most expensive electricity in the developing world. This paradox is partly due to the high prevalence of energy subsidies elsewhere. But regardless of what countries in other regions do, firms and households in Latin America and the Caribbean pay substantially more for the electricity they use than it would cost to produce it based on the existing generation matrix, and this even if a hypothetical carbon tax was included in the cost.

Except in a few countries, the gap between high electricity prices and potentially low generation costs is not due to fiscal policy. The indirect taxes charged to electricity bills rarely exceed 20 percent. In most of the region, electricity tariffs are subsidized – directly in the case of consumers of modest means, and indirectly through the provision of cheap natural gas for electricity generation.

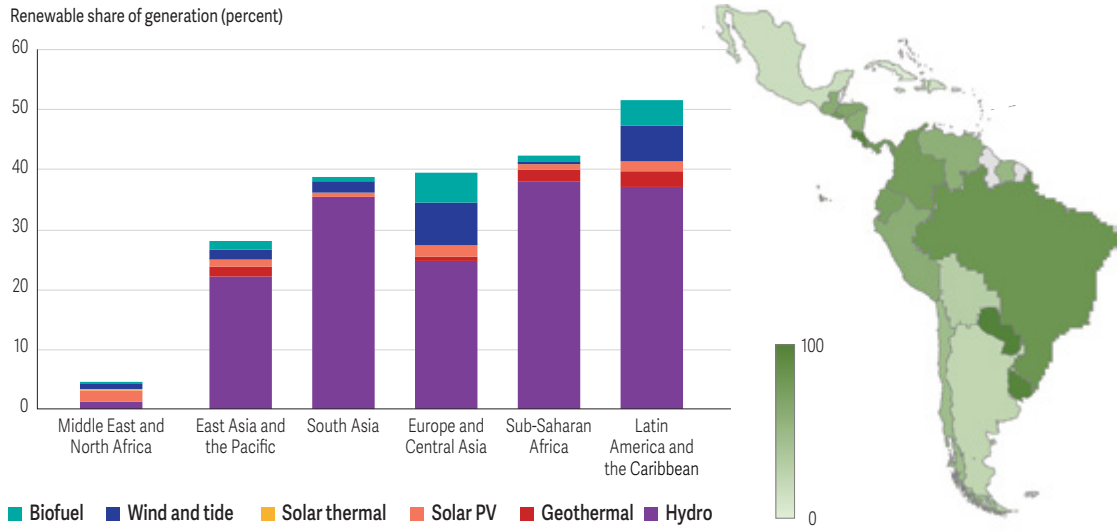
The main reason why electricity is more expensive in Latin America and the Caribbean than its generation matrix would allow is the inefficiency of many of its electricity systems. This inefficiency manifests itself in the frequency and duration of power outages, the magnitude of technical and commercial losses, the over-staffing of state-owned utilities, and the exercise of market power by private generators. However, addressing inefficiency through policy reforms may be challenging at a time when economies are barely recovering from the Covid-19 crisis and in the aftermath of a period of intense social unrest.

An alternative is to leverage technology-based solutions to increase competition in the sector, bringing electricity prices down and increasing the share generated out of renewable sources. One of these solutions is distributed generation, which allows firms and households to rely on their own power sources – typically solar panels – to sell electricity to the grid or to buy from it depending on the hour of the day. The other is cross-border electricity trade, which taps national differences in installed capacity, generation costs and the timing of peak demand to generate mutual gains. Each of these solutions has considerable potential, but only provided that the right institutional framework is in place.

Mostly clean and potentially cheap electricity

Latin America and the Caribbean is generously endowed with mountains and rivers, sun and wind, which can all be harnessed to generate abundant electricity without polluting the environment, and without emitting greenhouse gases. In fact, some of the biggest hydroelectric dams in the world are in the vast plains of its Atlantic side, while smaller barrages and run-of-the-river units sprinkle its Pacific side. As a result, Latin America and the Caribbean has the cleanest generation matrix across developing regions, producing more than half of its electricity out of renewable sources (figure 30).

Figure 30. The cleanest electricity matrix in the developing world



Note: Regional figures are unweighted averages across countries.
Source: IEA World Energy Balance and Statistics.

Hydroelectricity is not only clean, but also cheap to produce, and it does not risk destabilizing the system because river flows are highly predictable in the short term. Solar and wind power are more intermittent, as they are subject to the vagaries of the weather. Intermittency may add to the cost of generation, but electricity from these sources is becoming increasingly cheap as well.

If Latin America and the Caribbean tapped its current generation matrix efficiently, it could produce electricity at a very low cost. This can be seen by applying standard generation ratios computed in well-functioning electricity systems in advanced economies to the various energy sources available in the region (table 4). Based on this exercise, Latin America and the Caribbean could have the cheapest electricity in the developing world (figure 31a).

The relative advantage of the region would be even bigger if the price of electricity was increased to offset the greenhouse gases emitted while producing it – as it should. In practice, this can be done by adding to efficient generation costs a hypothetical carbon tax, chargeable on every ton of carbon dioxide (CO_2) released into the atmosphere. Because generation is cleaner in Latin America and the Caribbean than in other developing regions, the carbon tax addition would be smaller as well. The social cost of electricity should therefore be the lowest of all, by a substantial margin (figure 31b).

Table 4. Efficient generation cost and social cost

Source	Levelized cost (US$/MWh)	Emissions (CO_2 tons/MWh)	Social cost (US$/MWh)
Wind	45	0	45
Hydropower	47	0	47
Solar photovoltaic	50	0	50
Biomass	85	0	85
Natural gas	74	0.5	94
Geothermal	97	0	97
Solar thermal	140	0	140
Coal	102	1	142
Nuclear	148	0	148
Diesel/Oil	239	1.2	287

Note: Based on levelized cost of generation, which includes capital, operation and maintenance costs during a plant's duty cycle. Emission factors are from US power plants. The social cost of CO_2 emissions is assumed to be US$ 40 per ton.
Source: LAZARD and IRENA for levelized generation cost by fuel.

There would still be important differences across countries. Paraguay and Uruguay, where most generation is from renewable sources, should have the cheapest electricity. Small islands in the Caribbean, which rely to a much greater extent on diesel and fuel oil for generation, can be expected to have much pricier electricity.

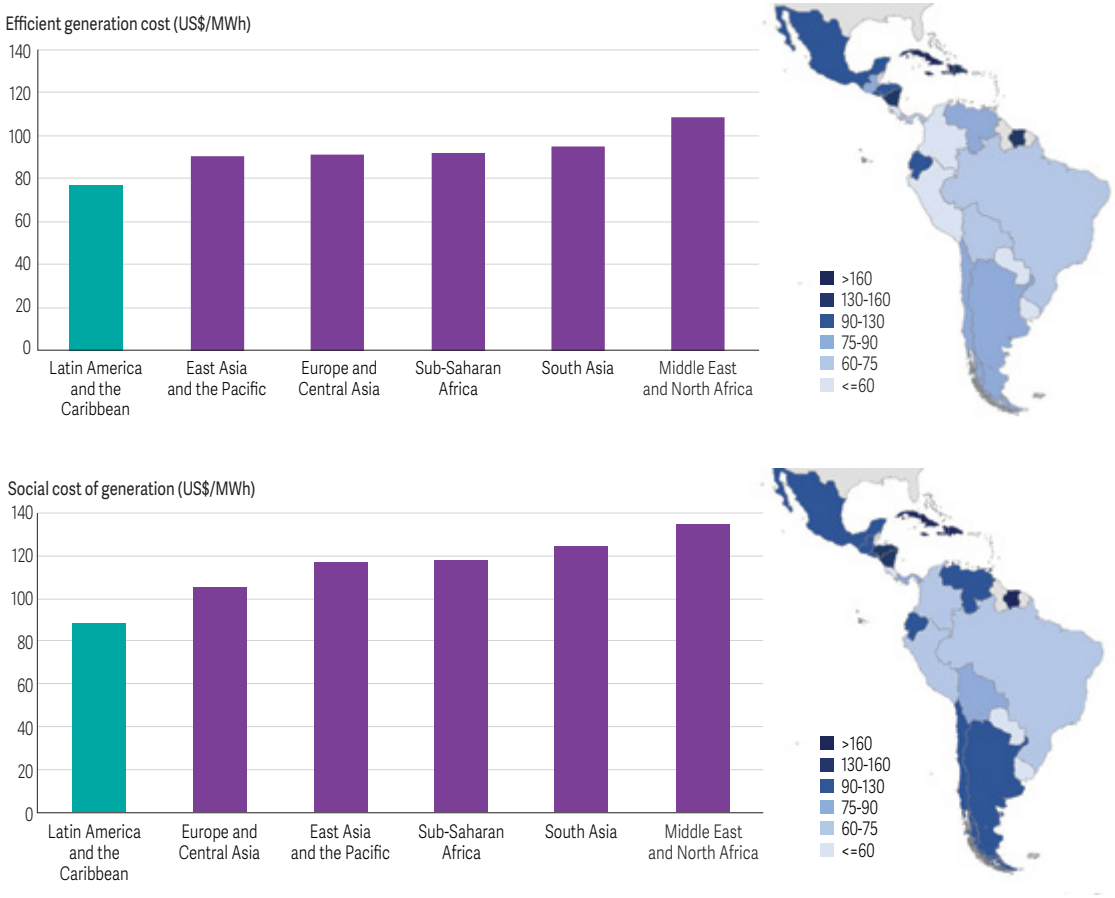
Expensive electricity in practice

Comparing actual electricity prices across countries is not as straightforward as comparing potential generation costs. Firms and households typically face different tariffs, often reflecting some amount of cross-subsidization. For each of the two groups, the price per kilowatt-hour (KWh) also varies depending on the quantity consumed, although they do so in opposite directions. Among firms, wholesale buyers face cheaper prices. Among households, block tariffs and subsidies benefit those whose consumption falls below a given threshold. The measurement challenges from this diversity of treatments are compounded by the scarcity of readily available databases of electricity price schedules.

With these caveats in mind, it seems safe to conclude that Latin America and the Caribbean has the most expensive electricity of all developing regions. The comparison requires focusing on well-defined customers that are somewhat representative. For firms, the reference consumer chosen for the analysis is a warehouse in each country's most important economic hub. For households, the focus is on a lower middle-class family, whose typical consumption is around 300 KWh per month. In both cases, the cost per KWh turns out to be the highest across regions, regardless of whether the more expensive small islands are included in the calculation (figure 32).

There are important price differences across countries in the region, however, and they do not necessarily match the relative cleanliness of their electricity matrices. For example, some of the countries relying more heavily on renewable sources for generation may also have the most expensive electricity. Among the larger countries in the region, there are also substantial differences in the price of electricity across subnational jurisdictions (map 4).

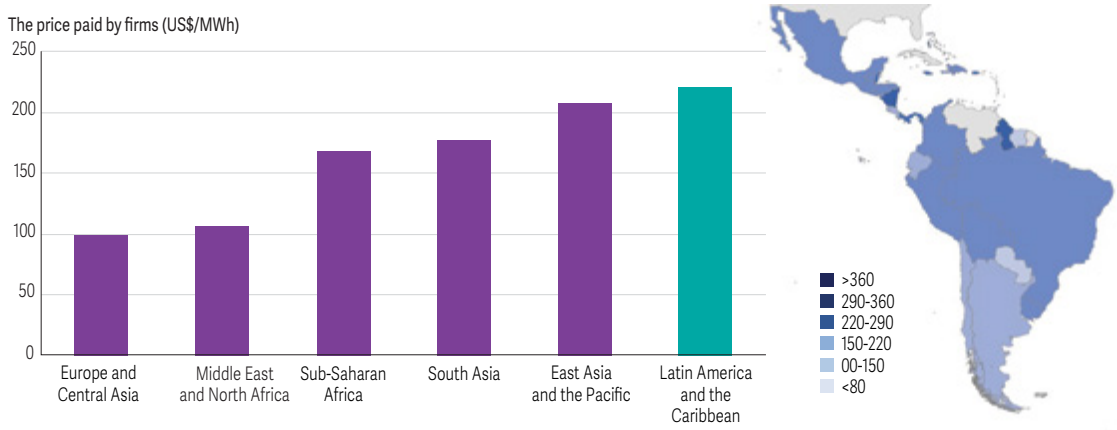
Figure 31. Efficient generation cost as a benchmark



Note: Regional figures are unweighted averages across countries.
Source: IEA World Energy Statistics and Balances for electricity generation; LAZARD and IRENA for levelized generation cost by fuel.

The reasons for these price differences across subnational jurisdictions vary across countries. In Argentina, differences are driven by the diversity of pricing rules across provinces. In Brazil, subsidies have been removed so that electricity tariffs reflect local generation and distribution costs. And in Mexico a complex residential pricing schedule that takes average temperatures into account contributes to the dispersion.

Figure 32. The price of electricity in practice

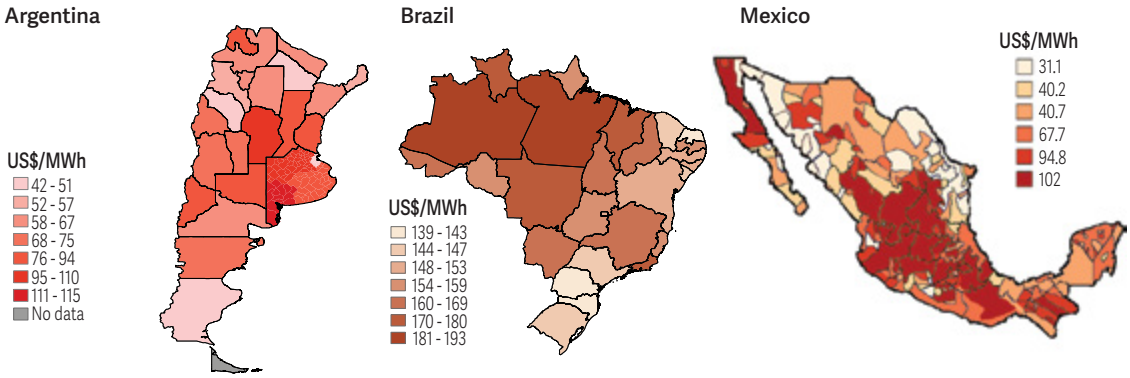


(Continue)

Figure 32. The price of electricity in practice (continued)

Note: Regional figures are unweighted averages across countries. The price paid by firms is based on a warehouse in the main business city. The price paid by households is for June 2020 based on average annual consumption; it does not take social tariffs into account.
Source: Doing Business (World Bank) for firms; Global Petrol Prices for households.

Map 4. Important price differences at the subnational level



Note: Figures are for a legal residential connection supporting an electricity consumption of 300 MWh per month.
Source: Vagliasindi (2019) and World Bank.

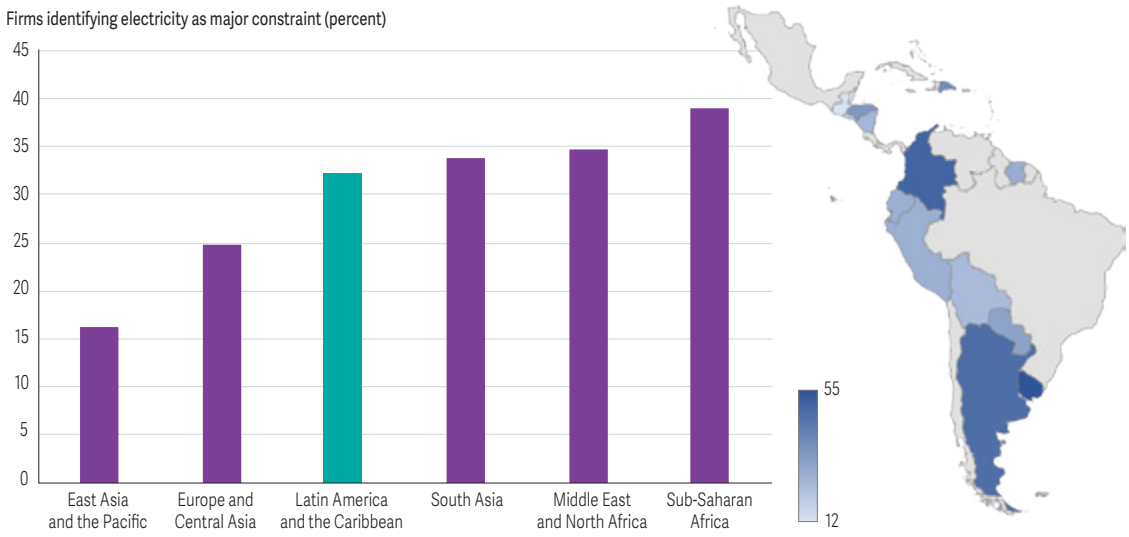
The impact on firms and households

High electricity prices affect both businesses and livelihoods. Based on the enterprise surveys regularly conducted by the World Bank, close to a third of firms in Latin America and the Caribbean identify electricity as a major constraint for their operation (figure 33). It is important to note that the responses to the surveys reflect perceptions, not necessarily facts. But the fraction of firms complaining about electricity services – presumably about their quality and cost – is higher than in Europe and Central Asia, and much higher than in East Asia and the Pacific.

As for households, it is encouraging that more than 90 percent of them have access to electricity in Latin America and the Caribbean, ahead of most other developing regions. But important coverage gaps remain in Bolivia, El Salvador, Peru and the Dominican Republic. Figures are misleading in the latter case, as many households rely on home-based diesel generators, given the unreliability of electricity supply. The most dramatic deprivation is in Haiti, where electricity access rate stands at about 40 percent.

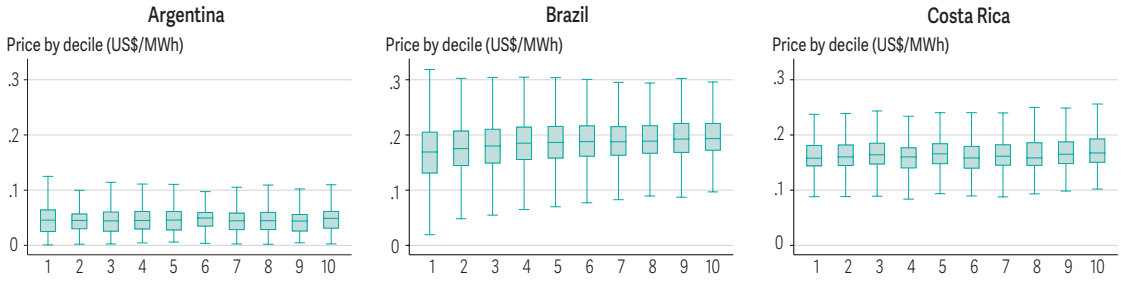
For the vast majority with access to the grid, affordability is a key issue. Across the region, block tariffs ensure a lower cost of electricity for households that do not consume much, while social tariffs subsidize specific population groups – such as pensionaries or beneficiaries of social programs. A practical way to assess the effectiveness of these measures is to compute the average price per KWh paid by respondents to household expenditure surveys, depending on their family income. The necessary information is only available for a handful of countries, but the results suggest that despite the efforts, the pricing of electricity is only mildly progressive in Latin America and the Caribbean (figure 34).

Figure 33. Electricity as a constraint perceived by firms



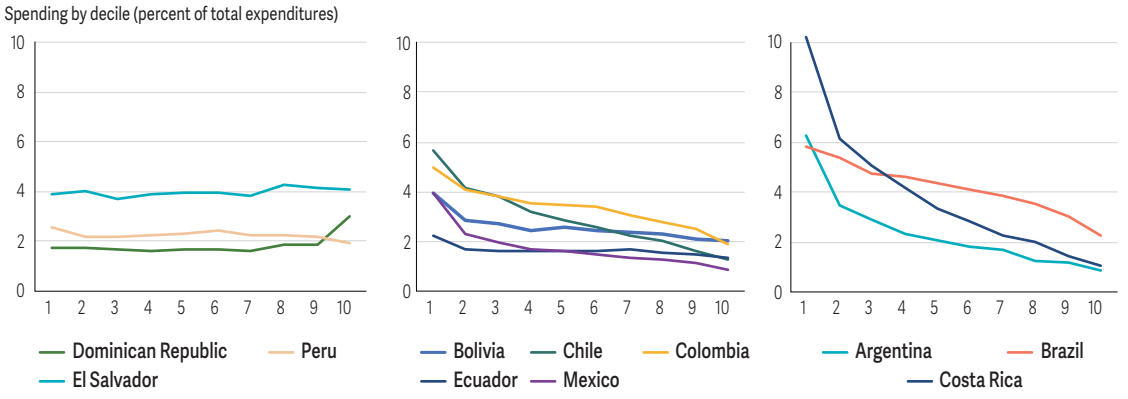
Note: Regional figures are unweighted average across countries. The sample includes surveys taken in or after 2014.
Source: Enterprise Surveys (World Bank).

Figure 34. Complex pricing formulas do not ensure progressivity



Note: Figures show the minimum, maximum and average price paid by households in each decile, with 1 being the poorest and 10 the richest. The boxes indicate the relevant price range for 95 percent of the households.
Source: National household expenditure surveys.

Figure 35. Electricity bills account for a significant share of household expenditures



Note: 1 is the poorest decile and 10 the richest.
Source: National household expenditure surveys.

The overall burden of electricity bills, in turn, is often regressive. Two forces are at play in this respect. On the one hand, richer households pay generally more per KWh consumed, as was just shown. And because they are richer, they also tend to consume more electricity. But on the other hand, the very fact that they are richer means that their incomes and expenditures are higher too. As a result, both the numerator and the denominator increase with household incomes, with the net effect of these two forces varying across countries. In the Dominican Republic, El Salvador or Peru, poorer households devote a smaller proportion of their resources to paying electricity bills. However, the overall burden of electricity bills is heavier on the poor in many countries in Latin America and the Caribbean (figure 35).

Electricity taxation and subsidization

Latin America and the Caribbean charging the most for electricity despite having potentially the lowest generation costs can be partly attributed to policy choices in other regions. One important reason why electricity is cheaper elsewhere is the different weight of energy subsidies around the world. The direct subsidization of electricity is common across swaths of Europe and Central Asia, the Middle East and North Africa, and South Asia. Even more important is the lower cost of electricity generation allowed by subsidies on upstream fuel, including coal, diesel and gas (Coady et al. 2017).

Regardless of what others do, the average electricity price paid by firms in Latin America and the Caribbean is 2.1 times the efficient generation cost, and the ratio climbs to 2.9 in the case of households. These ratios fall to 1.8 and 2.5 if the social cost of generation, including the hypothetical carbon tax, is considered instead. Admittedly, generation is only part of the cost of delivering electricity to final consumers. Taking advanced economies as the reference, perhaps an additional 60 percent should be added. But even so, a substantial gap would remain.

Policy choices have a bearing on the gap between electricity prices and costs in the region. Some of those choices are related to taxation and subsidization. Electricity sales are typically subject to Value Added Tax (VAT) and excise tax. The corresponding tax rates may be specific to the sector, but they generally apply to all customers. At the same time, some customers – especially households of more modest means – may also benefit from subsidies.

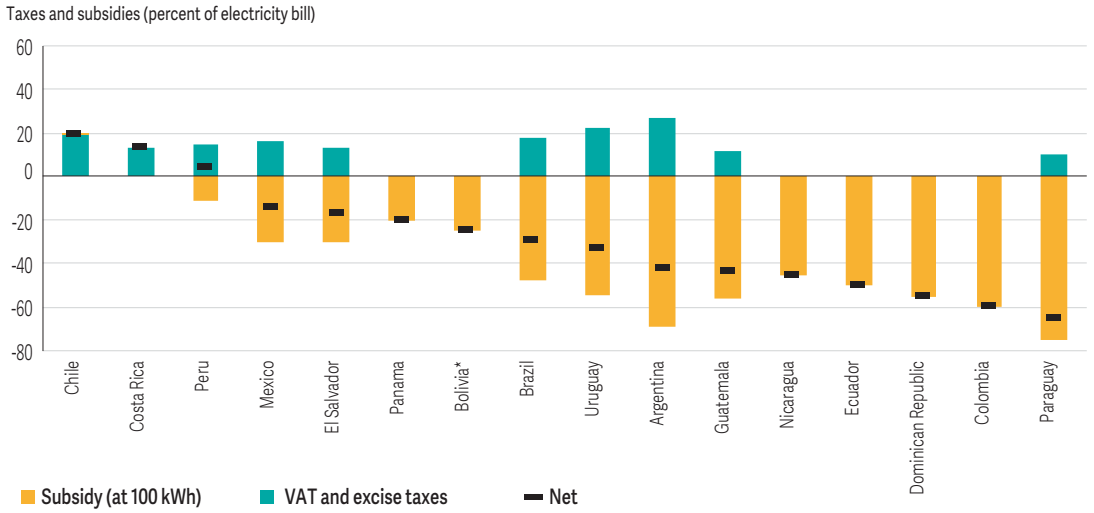
Because of this heterogeneous fiscal treatment, assessing the fiscal burden on electricity prices across countries requires focusing on a well-defined customer. A relatively low average consumption of 100 KWh per month is considered here, to better capture the significance of subsidies across the region.

For this type of consumer, the tax rates on electricity rarely exceed 20 percent and are often nil. And in most of Latin America and the Caribbean they are offset by subsidies. The net subsidy rate on electricity exceeds 20 percent in ten countries in the region, and 40 percent in five of them (figure 36).

In some countries, the additional electricity cost stemming from taxation may be even lower than the exercise above suggests. Natural gas is used as fuel for electricity generation in parts of the region, and its price is often influenced by governments – directly through regulation or indirectly through the pricing decisions of the parastatal companies involved in its exploitation. In Latin America and the Caribbean, natural gas is generally sold at a lower price for power generation than for other uses, which amounts to an additional subsidization of electricity (figure 37).

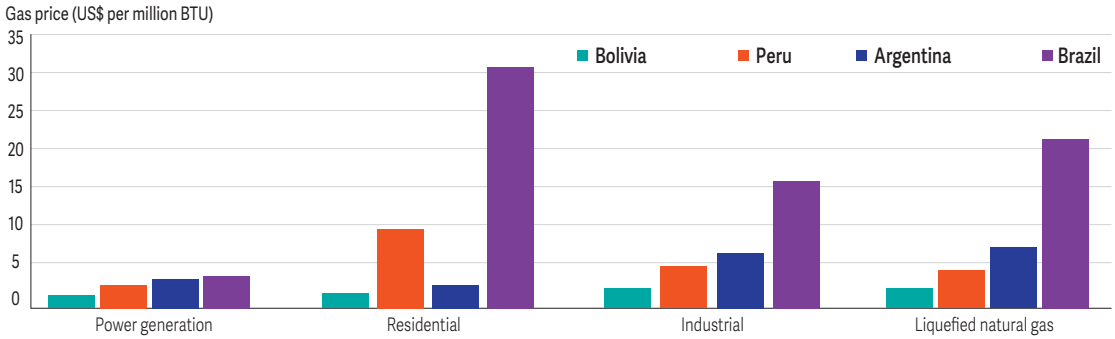
However, the net fiscal surcharge on electricity could also be higher in practice than this analysis suggests. Subsidies would have been lower if the reference customer had consumed 300 KWh per month, the benchmark chosen for the comparison of electricity prices across countries. Also, the exercise does not include municipal taxes collected through electricity bills, or sectoral levies. The net impact of these other charges is significant in Argentina and Brazil.

Figure 36. From heavy taxation to large subsidization



Note: For Bolivia the reference for the subsidy rate is 70 kWh per month. Figures for Colombia are for Estrato 1. Mexico is calculated using tariff 1 versus tariff 1F.
Source: National regulatory agencies and World Development Indicators.

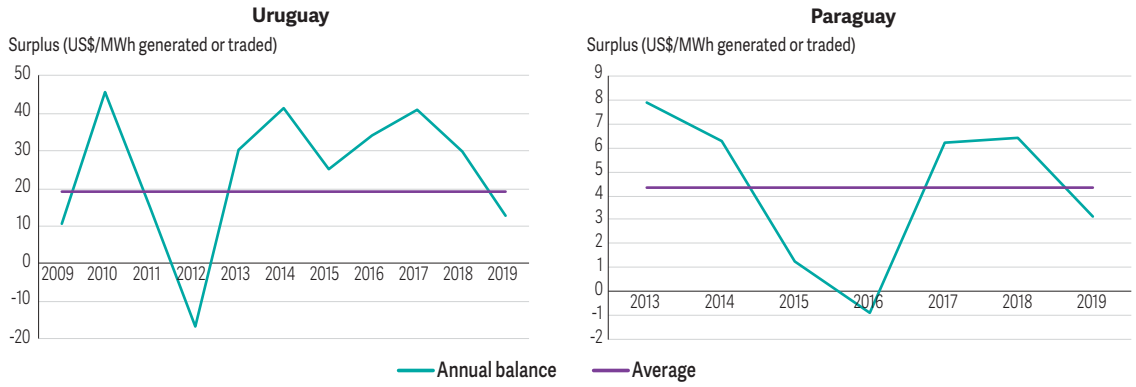
Figure 37. Gas for electricity generation is heavily subsidized



Note: BTU stands for British thermal units. Figures are for 2019.
Source: National regulatory agencies.

Other transfer mechanisms not involving explicit taxation may also be at play. When governments both set electricity tariffs and own the power utilities, they can raise the former to make the latter more profitable. Companies distributing their profits to their shareholders is good practice, but in this case it amounts to transferring the revenue from high tariffs to the government budget. In Latin America and the Caribbean, the tax rate implicit in this transfer mechanism is non-negligible in the case of Paraguay, and very substantial in Uruguay (figure 38).

Figure 38. Electricity tariffs as a source of quasi-fiscal revenue



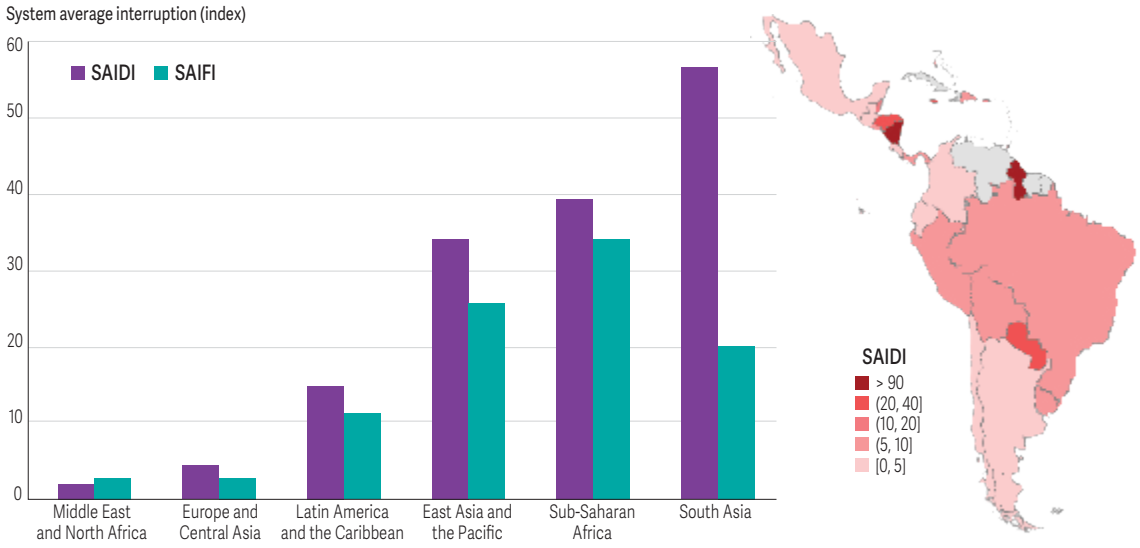
Source: ANDE annual memories for Paraguay and UTE financial statements for Uruguay.

Costs stemming from inefficiency

Fiscal and quasi-fiscal measures can account for some of the gap between efficient generation costs and actual electricity prices in Latin America and the Caribbean, and perhaps even for most of it in a few countries, but certainly not for all. In many cases, plain inefficiency is also at play. Over several decades the region made more progress in electricity sector reform than the rest of the developing world (Foster and Rana 2020). However, progress has been uneven across countries, and almost non-existent in some. It has also stalled in recent years, and in a few countries important power sector reforms have been reversed altogether.

Power outages are a straightforward indicator of inefficiency. Their frequency and duration is lower in Latin America and the Caribbean than in other developing regions, but they are still higher than in the Middle East and North Africa, and in Europe and Central Asia. Within the region, the worst performers are countries in the Caribbean basin and in Central America (figure 39).

Figure 39. The assessment of electricity reliability



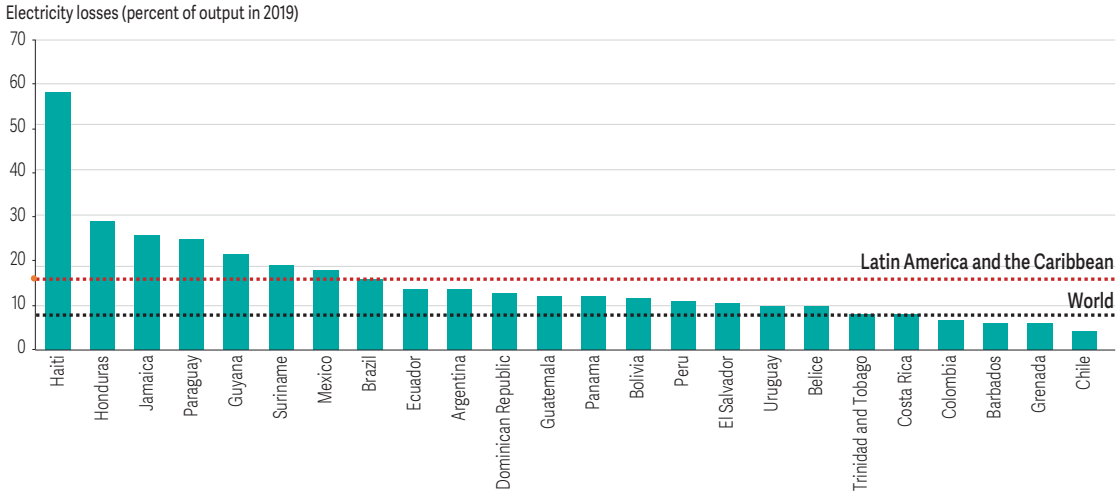
Note: SAIDI and SAIFI measure the duration and frequency of outages respectively. Data are for 2019.
Source: Doing Business (World Bank).

Another indicator of inefficiency is the share of electricity that is lost due to technical failures and to the inability or the unwillingness to collect payment from customers. Average technical and commercial losses are twice as high in Latin America and the Caribbean as in the rest of the world. They represent 8 percent or less of the total electricity output – a standard technical benchmark – in only five countries in the region. In five others, a quarter or more of the output is lost, stolen, or implicitly gifted to consumers (figure 40).

Overstaffing is yet another manifestation of inefficiency. In Latin America and the Caribbean, bloated employment is pervasive in state-owned utilities, whose jobs can more easily be turned into a tool for political patronage. The number of personnel per GWh of electricity sold varies considerably between distribution companies in the same countries (figure 41).

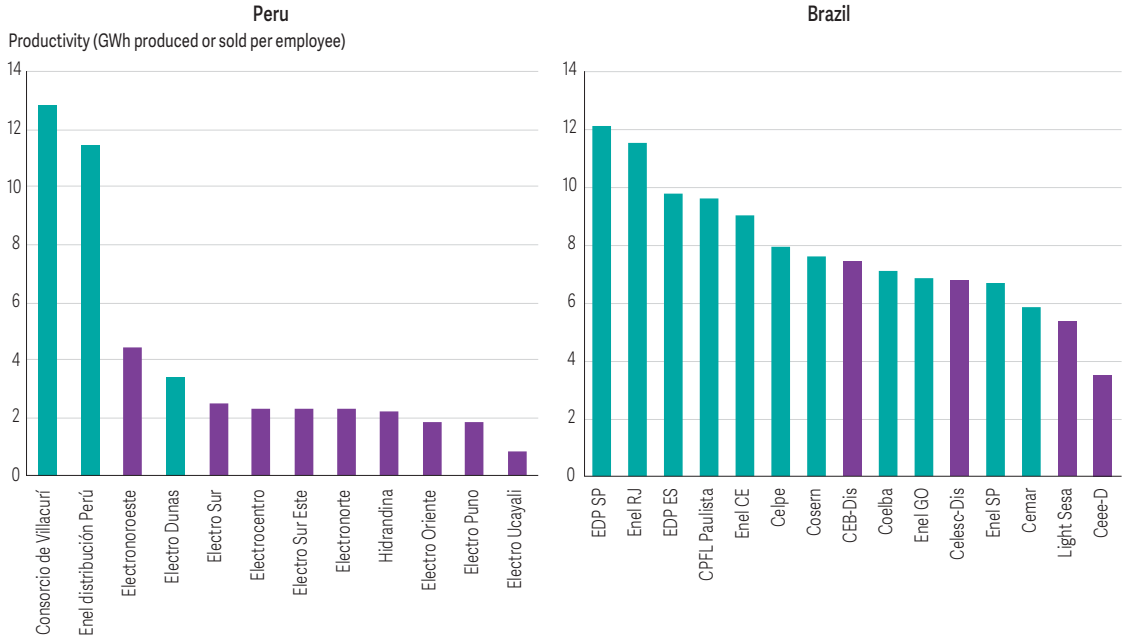
Finally, there are cases where reforms have been implemented, policies are well designed and regulators are highly capable, but key players may still wield considerable market power. Colombia is a case in point. Its reliability payment mechanism – an incentive to produce during periods of system scarcity – is often seen as a model and has been replicated in other countries. Still, power generators are able to withhold output and create a scarcity condition, leading to a higher cost of electricity (McRae and Wolak 2017).

Figure 40. High technical and commercial losses in distribution



Source: ECLAC, IEA, Latin American Energy Organization (OLADE).

Figure 41. Bloated employment in public utilities



Note: Data for 2019 in the case of Brazil and 2018 for Peru. Privately-owned distribution utilities are highlighted in green and publicly owned in purple.
Source: Vagliasindi (2021)

Making the most of distributed generation

The inefficiencies discussed above make a case for further reforming power sector systems in Latin America and the Caribbean. But doing so may be difficult with economies that are still barely emerging from the dramatic Covid-19 crisis, and in the aftermath of a period of major social unrest. An alternative to explicit policy reforms is to take advantage of technology to create disruption and bring greater competition into the electricity system. Along the way, such disruption should also substantially increase the share of renewables in total generation.

Distributed generation is one of such promising technologies. Most electricity systems comprise just a few large power generators – such as hydroelectric dams or thermal power plants. But firms such as paper pulp mills and sugar mills often generate electricity for their own use, at times beyond their own needs. And it is also increasingly feasible for households to install rooftop solar systems and consume their own electricity. But as long as large battery storage capacity is unavailable, home-based solar systems have excess generation capacity during daytime, when the sun may shine but few family members are at home.

An energy transition can therefore be envisioned, going from a few dozen large utilities to millions of smaller private units that sell electricity to the grid or buy from it depending on the hour of the day, or the month of the year. The large units may struggle with technical and commercial losses and overstaffing, and they may abuse their market power if conditions permit. But none of that should happen in the smaller private units. Therefore, as their share of total generation increases, the overall efficiency of the system should increase. Because the smaller private units typically rely on solar panels, the share of electricity produced from renewable sources would increase as well.

This is not just a hypothetical scenario, as distributed generation capacity is rapidly expanding in Latin America and the Caribbean (figure 42). However, if the policies in place for decentralized units to buy and sell electricity are not well designed, this trend may fail to make a difference or, even worse, become a source of new problems. An important issue in this respect is determining the price at which electricity should be sold to the grid and bought from it.

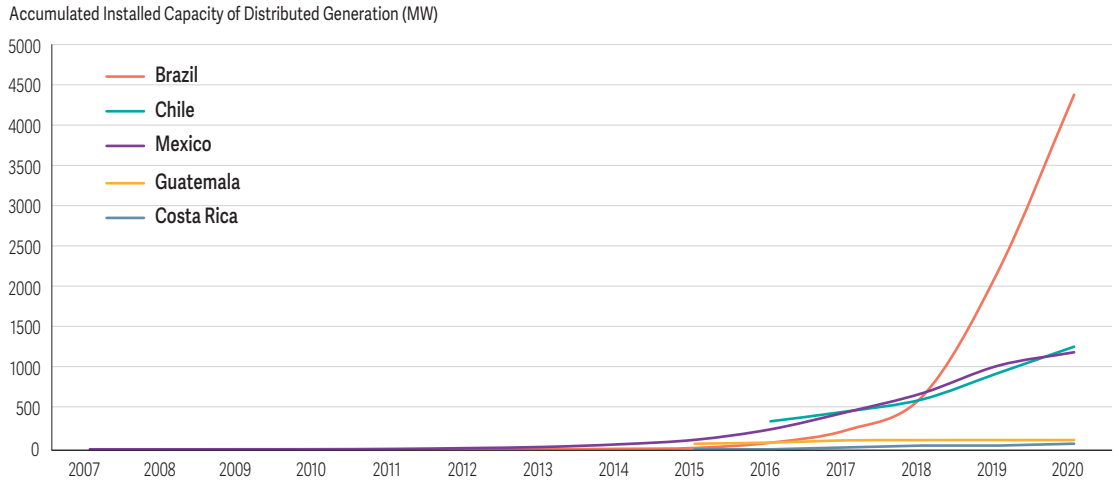
One option, known as net metering, is for firms or households to pay – or be reimbursed – for the difference between the KWh they buy and sell during the month. This option has the advantage of simplicity, as it is very easy to understand how it works. But it also has important shortcomings. Households with rooftop solar systems sell electricity to the grid during day hours, when the cost of generation is low. By doing so, they may displace established power generators such as hydroelectricity dams, whose investment costs are still being recouped. These same households typically buy from the grid in the evening, when electricity is much more expensive to produce because the baseload generation capacity is insufficient to cope with demand.

Net metering may thus amount to engineering a significant transfer of resources from electricity systems to firms and households. This may create a strong incentive for the development of renewable energy sources. But it may also be a source of financial stress for existing power utilities, which may need to be bailed out. A better way to foster firms and households to participate in clean distributed generation is to subsidize the necessary investments, at least until a critical generation capacity has been attained.

The alternative to net metering is net billing, where the price at which a KWh is sold to the grid is not necessarily the same as the price at which is it bought. The hour of the day or the month of the year matter in this respect.

While most countries in the region have set up policy frameworks for distributed generation, but not all of those that did have embraced net billing (table 5). Admittedly, setting the right price to sell electricity to the grid may not be straightforward. But the longer the region stays on net metering, the larger will be the constituency enjoying an implicit transfer of resources from the electricity system. Shifting to a more efficient net billing approach, where electricity prices are aligned with generation and transmission costs, may be politically feasible now. Reverting policies that generate rents could be more challenging once the beneficiaries have become a large interest group.

Figure 42. Distributed generation is gaining momentum in the region



Note: The 2020 figure for Mexico corresponds to June.
Source: World Bank.

The promise of electricity trade

Another mechanism to increase competition in national electricity systems is international electricity trade. Latin America and the Caribbean is the developing region with the best interconnection infrastructure across countries (map 5). Multiple transmission lines already exist in Central America, in the Andes, and in the Atlantic subregion. Several more are under construction or have been planned. Given the size of the region, a fully integrated electricity market – as in the European Union – would probably be technically inefficient. But three subregional markets can certainly be envisioned.

Cross-border electricity trade can increase efficiency for three reasons. The first one is that different countries have different excess generation capacities relative to their needs (figure 43). Those with systemic surpluses would gain if they could export their electricity, while those facing shortages would benefit from importing. Surpluses also evolve over time, in ways that are predictable. For example, electricity consumption is growing rapidly in Paraguay, reducing the surplus available for sales abroad. But electricity demand is also growing rapidly in Brazil, which creates export opportunities for neighboring Argentina, Bolivia, Chile, and Uruguay.

Table 5. Distributed generation regulations may entail implicit subsidies

Country	Net metering	Net billing
Argentina	No	Yes
Barbados	No	Yes
Brazil	Yes	No
Chile	No	Yes
Colombia	No	Yes
Costa Rica	Yes	No
Dominican Republic	Yes	No
El Salvador	Yes	No
Guatemala	Yes	Yes
Jamaica	No	Yes
Mexico	No	Yes
Nicaragua	No	Yes
Panama	No	Yes
Peru	Yes	Yes
Uruguay	No	Yes
Suriname	Yes	No

Source: World Bank.

A second potential source of mutual gains is the different costs of generation across countries. Electricity tends to be cheaper when the generation matrix is cleaner, as well as in countries where the overall efficiency of the system is higher. By supporting electricity imports from countries where it is cheaper, cross-border trade can lead to a greater overall reliance on renewable energy, thus

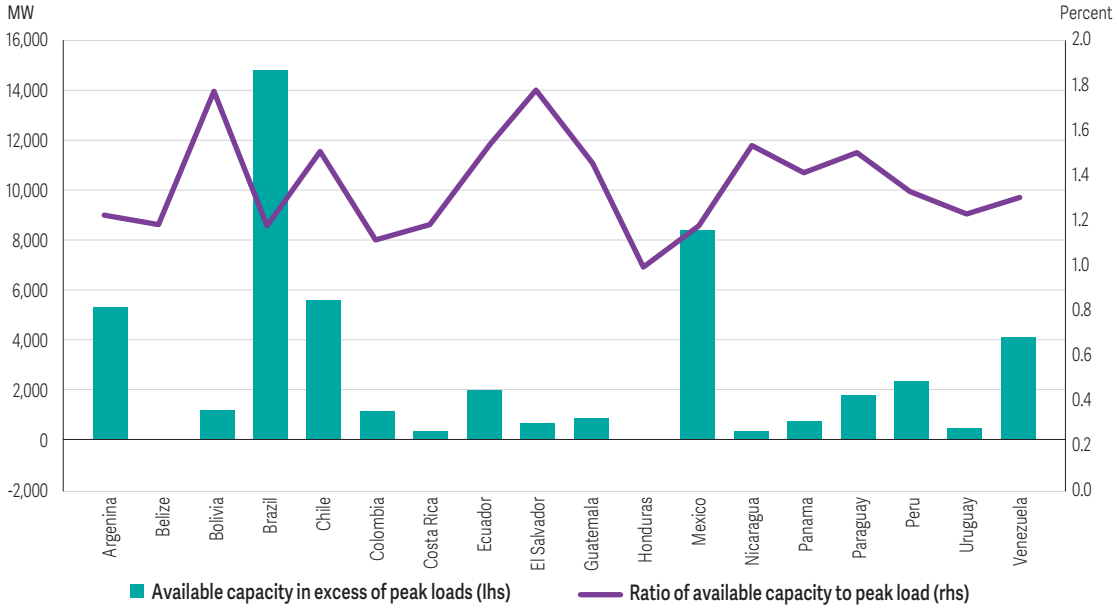
greening the recovery. It can also allow countries where the reform of the electricity system has been politically difficult to "import" efficiency from more reform-minded neighbors.

The third reason why cross-border trade can be mutually beneficial is the potentially diverse time profile of electricity consumption across countries. Economic and social characteristics, together with climate, shape the seasonality of electricity use during the year, and the distribution of demand peaks during the day (figure 44). In a geographically vast region such as Latin America and the Caribbean, time zones are an additional source of complementarity, as the sun may set several hours apart in neighboring countries. These diverse consumption profiles support mutually advantageous electricity exports in opposite directions depending on the hour of the day or the month of the year.

Map 5. The region is partially connected for cross-border electricity trade

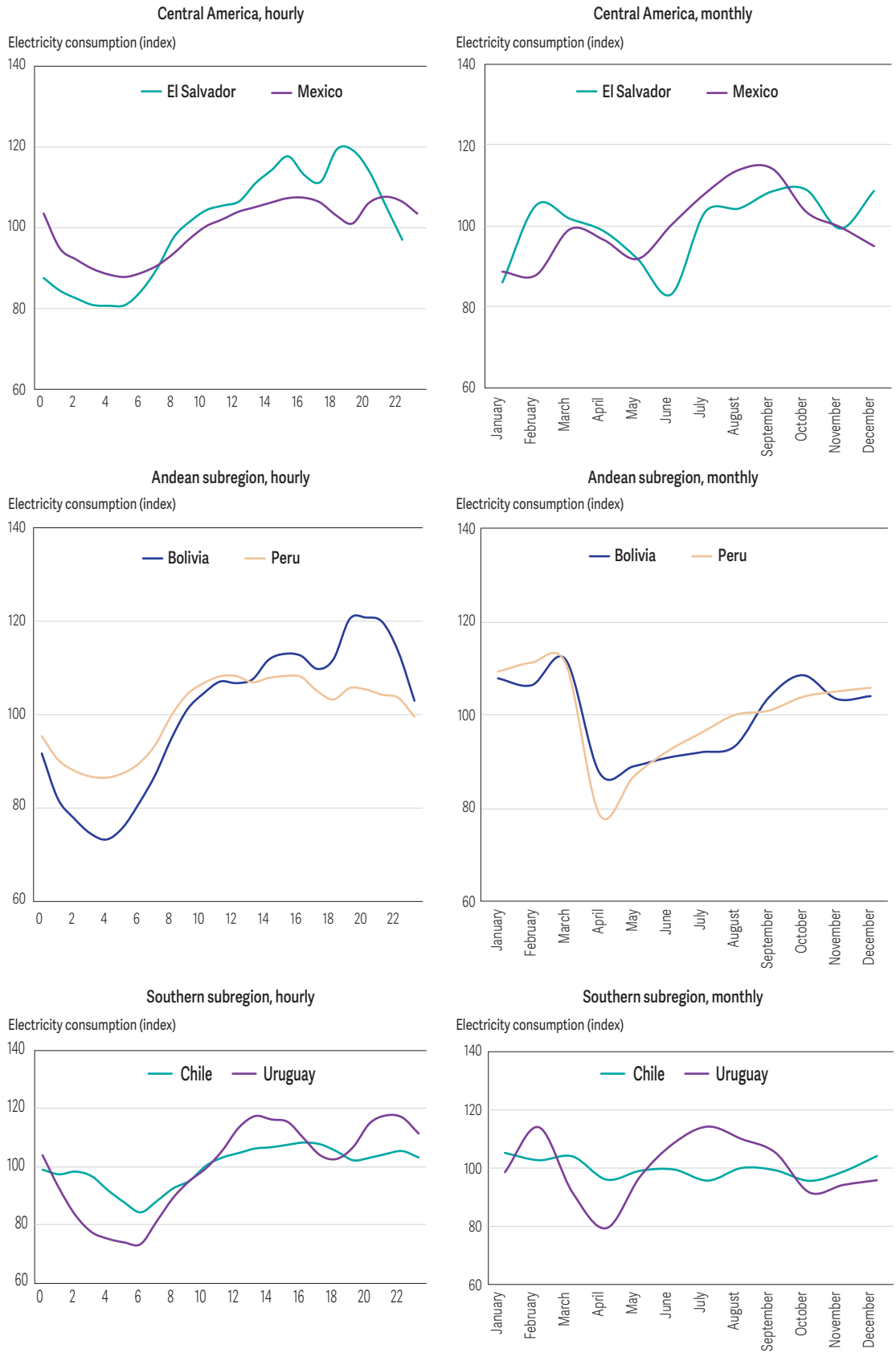
Note: Solid lines represent operational electrical interconnection networks while dotted lines are for lines under construction. The thickness of the lines indicates their transmission capacity.
Source: Comisión Regional de Interconexión Eléctrica (CRIE) for the left panel and Comisión de Integraión Energética (CIER) for the right panel.

Figure 43. The available generation capacity exceeds peak load electricity consumption



Source: Chattopadhyay and Timilsina (2021)

Figure 44. Different patterns of electricity consumption make trade mutually beneficial

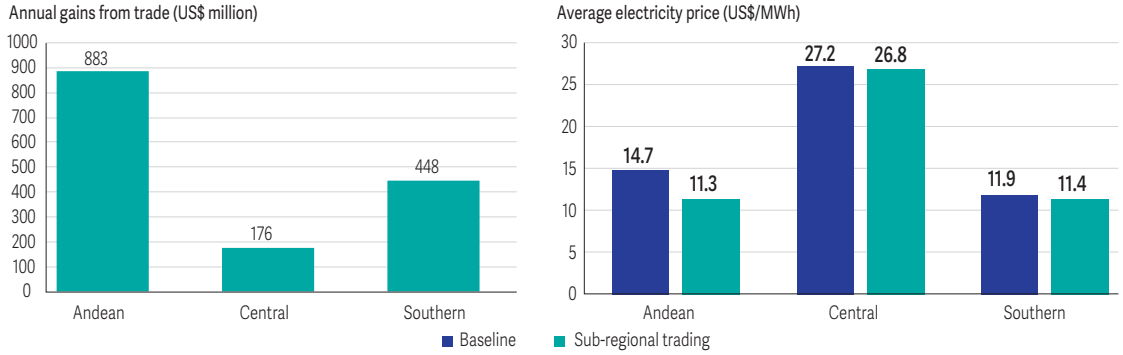


Note: Daily and monthly averages are set equal to 100.
Source: Chattopadhyay and Timilsina (2021)

Information on installed capacity, generation costs and consumption profiles across countries can be used to simulate how much could be gained from cross-border electricity trade. A background study for this report estimates the gains relative to the situation at present. The simulation assumes that transmission lines within each of the three subregions become sufficient to support any electricity trade that would be mutually advantageous (Chattopadhyay and Timilsina 2021).

The results show that gains from subregional trade could be substantial, and the price of electricity would fall in each of the three subregions (figure 45). The Andean subregion would benefit the most, with its price of electricity falling by 23.4 percent on average. Gains would be more modest in the Central subregion. For the three subregions combined, the benefits from the necessary transmission would be 6.1 times larger than the costs.

Figure 45. Gains from electricity trade under alternative scenarios



Note: Figures measure short-run average cost, excluding capital cost.
Source: Chattopadhyay and Timilsina (2021)

The capacity of international transmission lines is not the main constraint to cross-border electricity trade, however. Building the institutional arrangements that make trade possible may be more demanding. These arrangements deal with issues such as the commitment to effectively purchase electricity from a neighboring country, and the price at which transactions should occur.

Photo illustration based on a photograph by © cfalvarez/Shutterstock

5. Country briefs

Argentina

Recent developments

The economic recovery started in 2020Q4, though very heterogeneous across sectors and population groups. More than 20,000 firms closed during 2020. The negative impact of the crisis on labor market performance has been even more severe, as household income continued to fall across the distribution. Despite the rebound economic activity, unemployment rates have not significantly decreased yet among women and youth and more than 1.4 million are currently unemployed. After having decelerated to 36 percent in 2020 owing to the lockdown, inflation is accelerating alongside the economic recovery, in spite of tight price controls, which dampen the pace and strength of the recovery. Through a series of additional interventions and controls, the authorities have recently managed to stabilize the gap between official and parallel foreign exchange markets, though at high levels of around 50-60 percent, in a context of historically low Central Bank reserves. Net reserves fell US$ 8 billion during 2020 and by mid-February were estimated at US$ 4.9 billion (1.6 percent of GDP).

Outlook

GDP is projected to rebound by 6.4 percent in 2021 given the strong 2020-Q4 carry over effect (about 5.5 percent) and as ample idle capacity is progressively used. Price and capital controls risk dampening investment and the renewal of capital stock. GDP is projected to reach its end 2019 level only in 2023. Poverty rates are expected to decline modestly as the economic recovery materializes. In 2021, it is projected that 15.8 percent of the population will be considered poor under the international poverty line of $5.5 per day. A stronger labor market performance is needed to reverse recent poverty increases. High commodity prices are expected to cushion the negative impact of "La Niña" on agricultural output, leading to substantial windfall in foreign exchange, which would support a current account surplus and government revenues in 2021. The fading out of Covid-19 stimulus spending together with increases in revenue collection as the economy rebounds will also contribute to the reduction of the fiscal deficit by 2.5 p.p. of GDP in 2021. A partial Central Bank monetization of overall fiscal needs is set to continue in 2021, in the absence of access to markets, putting pressure on monetary policy, and therefore on inflation and external stability. An agreement on a new IMF program that restores fiscal sustainability and strengthens reforms for long-term growth would help renew confidence, reduce sovereign risk, facilitate a return to credit markets and incentivize investments.

Risks and challenges

The Argentine economy has struggled to grow since the end of the commodities supercycle, building up fiscal and external imbalances which led to high and volatile inflation, low investment and a progressive deterioration of labor market outcomes. The Covid-19 pandemic broke out after a two-year recession. In April 2020, GDP registered the largest contraction ever recorded, leading to a sharp employment decline and firm closures. Despite mitigating effects of increased spending in social programs, the proportion of people under the national poverty line reached over 40 percent. The emergency fiscal package and lower revenues resulted in a historically large deficit. The crisis and loss of market access led to its full monetization, exacerbating macroeconomic imbalances. As economic activity resumed, this monetary overhang led to increased volatility in exchange rates and an upsurge in inflation. Beyond overcoming the Covid-19 crisis, the implementation of a sound macroeconomic program remains a fundamental priority for bringing down inflation, restoring confidence, and putting the economy on a sustainable path. Over the medium term, the recent debt swap with private creditors – reprofiling debt service obligations and minor cuts in principal – calls for the swift implementation of reforms to ensure fiscal sustainability and regain access to capital markets.

Key macroeconomic indicators

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	-2.5	-2.2	-10.0	6.4	1.7	1.9
Current account balance (percent of GDP)	-5.3	-0.5	1.4	1.1	0.5	-0.4
Fiscal balance (percent of GDP)	-5.2	-4.4	-9.2			
Poverty rate (US$5.5 per day in 2011 PPP)	12.3	14.4	18.4	15.8	15.5	15.1

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2016-EPHC-S2 and 2018-EPHC-S2. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2016-2018) with pass-through = 0.9 based on GDP per capita in constant LCU.

Brazil

Recent developments

Brazil's economy contracted by 4.1 percent in 2020. The AE program cushioned the plunge and supported a consumption-led recovery. Industry and retail sales followed suit, exceeding pre-pandemic levels by end-2020. Meanwhile, services, that are important for job creation, remain weak as Brazil's high virus case count continues to affect face-to-face activities. Agriculture expanded considering soaring commodities prices and a weakened exchange rate. The labor market deteriorated, with unemployment climbing 2.3 p.p. reaching 13.9 percent in December, and labor force participation falling by 5.1 p.p. in 2020. The current account deficit narrowed from 2.7 percent in 2019 to 0.9 percent in 2020, and FDI flows held up. Inflation accelerated in the second half of 2020, as food prices increased by 15 percent. The fiscal expansion of 11.2 percent of GDP led the primary deficit to rise from 0.8 percent of GDP in December 2019 to 9.5 percent in 2020. Accordingly, public debt jumped to 88.6 percent in 2020. The pandemic effects on the labor market led to a fall on households' labor income that was felt across the income distribution. In contrast, the increase in social transfers led to a projected decrease in poverty to 10.9 percent (for US$ 5.5, 2011 PPP line), and 1.4 percent (or 3.2 million people) living in extreme poverty (US$ 1.90 PPP).

Outlook

In 2021, a partial GDP recovery of 3.0 percent is expected, as the carryover is high, while the resurgence of the pandemic will hinder activity in the first half of the year. Industry will lead this recovery, while the services sector's performance depends on the vaccination program. The vaccination campaign is expected to accelerate throughout the year. Mining and agriculture growth will be supported by improving external conditions. The recovery underway is expected to continue into 2022 (+2.5 percent) and 2023 (+2.3 percent). Poverty reduction is expected to be limited. Without the labor market absorbing discouraged workers and the unemployed, labor incomes will stall and the reduction in poverty is likely to remain temporary. In 2021, poverty rates (at $5.50 2011 PPP) are projected at slightly higher levels than before Covid-19 and return to 19.7 percent in 2023. Inflation is expected to surpass the official target of 3.75 percent in 2021 due to the continuation of the food prices pressures, and the Central Bank reacted with a 75bps interest rate hike in March, raising it to 2.75 percent. The recent renewal of the AE will add about 0.6 percent of GDP to the previously projected primary deficit of 2.4 percent of GDP in 2021, but will support household consumption and soften poverty increase. Total gross debt will reach 89.7 percent. The recovery in the labor market is a risk as job creation depends on a sustained demand recovery scenario and on the implementation of structural reforms.

Risk and challenges

In the last decade, the Brazilian economy grew by an average 1.4 percent per year (0.6 percent per capita). Most of the growth in the past ten years was driven by favorable demographics, while total factor productivity declined due to structural bottlenecks. Nevertheless, the country promoted important projects like the labor and pension reform, a new legal framework for sanitation, changes to the bankruptcy law and the independence of the Central Bank. The public budget was under increasing pressure from the high level of mandatory current expenditures and increasing pension obligations. The economy was still recovering from the deep recession of 2015 and 2016 when it was hit by the Covid-19 crisis, which led to higher poverty and inequality levels than those following the 2015/16 recession. The crisis aggravated Brazil's challenges in poverty reduction. The large federal fiscal response through the direct transfer program Auxilio Emergencial led to a decrease in poverty and inequality in 2020. Other needed reforms include trade liberalization, privatization of public enterprises, the tax system, flexibilization of the public expenditures and public servants' career.

Key macroeconomic indicators

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	1.8	1.4	-4.1	3.0	2.5	2.3
Current account balance (percent of GDP)	-2.2	-2.7	-0.9	-1.5	-2.1	-2.5
Fiscal balance (percent of GDP)	-7.5	-6.6	-14.2	-6.2	-6.8	-6.4
Public debt (percent of GDP)	75.3	74.3	88.6	89.7	91.1	92.5
Poverty rate (US$5.5 per day in 2011 PPP)	19.8	19.6	10.9	20.1	19.9	19.7

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2013-PNADC-E1 and 2018-PNADC-E1. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using point-to-point elasticity (2013-2018) with pass-through = 0.87 based on private consumption per capita in constant LCU. Projection for 2020 based on microsimulations to reflect emergency policy measures.

Mexico

Recent developments

GDP contracted by 8.2 percent in 2020, with a sharp drop in the first half of 2020 as demand and supply shocks stemming from the Covid-19 pandemic had economy-wide impacts. The recovery started in the second half of 2020 as mobility restrictions eased domestically and a gradual reactivation of U.S. export demand began. By December 2020, 3 million jobs were recovered, still falling short by 3.2 million jobs (-5.8 percent) compared to December 2019. A current account surplus of 2.5 percent of GDP was experienced in 2020, enabled by an import contraction larger than the decline in exports. Like in past crises, remittances also supported this dynamic with an increase compared to 2019. Monetary and financial policies played a critical role in helping the economy. With inflation at 3.4 percent for 2020 and medium-term expectations within the Central Bank's band of tolerance (3 percent ± 1 percent), the cut back in policy rates continued (from 7.25 to 4.0 percent between February 2020 and February 2021). The financial sector was supported through large liquidity and credit facilities and a regulatory forbearance program. The fiscal response was limited (below 1 percent of GDP), focused on small credits to SMEs, the informal sector, and targeted social transfers to vulnerable groups. Mexico's fiscal balance closed at -3.9 percent of GDP, driven by a moderate increase in public spending and close to constant revenues fueled by strong tax administration measures and tax settlements with large companies. Public debt as a share of GDP had a sizeable one-off increase due to the deficit, the reevaluation of debt denominated in foreign currency, and the GDP drop.

Outlook

The economy is projected to expand by 4.5 percent in 2021. In the first half of the year, this will be driven by the partial recovery at the end of 2020, a rapid reactivation of the U.S. economy fueling manufacturing exports, and the gradual rollout of the Covid-19 vaccines. In the second half of 2021, and with larger percentages of the population vaccinated, domestic consumption will start a faster recovery, while the tamed imports of late 2020 and early 2021 will also accelerate to replenish inventories. Though the large negative output gap will help contain prices and enable room to maneuver, monetary policy will need to be mindful of the U.S policy rate developments, particularly in the second half of 2021 and 2022. The government is expected to maintain conservative fiscal policies, mainly prioritizing expenditures towards health, social programs, and investment. The budget for 2021 aims to stabilize and attain a gradual decline of the public debt-to-GDP ratio over the medium term. Continued employment and labor income growth, together with social transfers, are expected to lead to a gradual reduction in monetary poverty in 2021 and 2022. The pace of vaccination will be critical to the speed of the economic recovery. Additionally, private investment can be significatively affected if proposed reforms related to private sector involvement, particularly in the energy industry, are not amended.

Risks and challenges

The recovery in 2021 relies on the speed of vaccination, U.S growth, and the recovery in the labor markets. However, to enable a better and sustained recovery over the medium term, the country will also need to deal with some of the most pressing pre-crisis challenges to growth and inclusion, that at the same time, are bottlenecks for job creation now. They include access to finance, lowering the regulatory burden, enabling resilient infrastructure, improving public services, and facilitating access to the labor market. In the short term, uncertainty about the pandemic dynamics will continue to weigh on domestic demand until a large portion of the population is vaccinated. The already gradual investment recovery could be slower if the approach towards private sector involvement in some sectors, particularly energy, is not adjusted. Eroded fiscal buffers, combined with a growing and delayed spending pressures (in public services and infrastructure) and the authorities' aim to safeguard debt sustainability, call for a tax reform to enable fiscal space. Additionally, to earn market credibility, a turnaround of PEMEX's financial situation will be needed. On the upside, Mexico has the advantages of being part of the USMCA agreement, being highly open to trade, and having a strong manufacturing base well connected to the Global Value Chains (GVCs), presenting significant opportunities.

Key macroeconomic indicators

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	2.2	-0.1	-8.2	4.5	3.0	2.5
Current account balance (percent of GDP)	-2.1	-0.3	2.5	0.6	-0.5	-1.4
Fiscal balance (percent of GDP)	-2.2	-2.3	-3.9	-3.3	-3.2	-3.1
Public debt (percent of GDP)	44.9	44.5	52.3	51.4	51.2	51.1
Poverty rate (US$5.5 per day in 2011 PPP)	22.7	20.7	24.8	22.1	21.1	20.2

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2018-ENIGHNS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Based on a microsimulation model for 2019-2020. For 2021-2022, assumes a neutral distribution with pass-through = 0.87 based on private consumption per capita.

Bahamas

GDP is estimated to have contracted by 16.2 percent in 2020 due to the impact of the Covid-19 pandemic on tourism, the country's main economic activity and source of revenue. With over 50 percent of the labor force employed in this sector, unemployment is on the rise, particularly affecting the most vulnerable. Poverty is expected to rise well above 13 percent. The pandemic interrupted the reconstruction efforts following Hurricane Dorian and the structural fiscal reforms aimed to improve and diversify revenues and to strengthen financial stability and the business environment.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	3.0	1.2	-16.2	2.0	8.5	4.0
Current account balance (percent of GDP)	-12.1	0.7	-17.4	-21.5	-14.8	-11.1
Fiscal balance (percent of GDP)	-3.4	-1.7	-6.6	-12.3	-8.9	-4.6
Public debt (percent of GDP)	62.6	61.8	69.1	89.0	88.4	86.4

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Fiscal balances are reported in fiscal years (July 1st - June 30th).

Barbados

With the quarantine measures and impact of the pandemic on tourism, Barbados's GDP is estimated to have contracted 17.3 percent in 2020. The current account deficit is expected to have increased to 7.8 percent of GDP. Poverty is expected to have increased, reflecting the job losses, business closures, and decline in remittances caused by the pandemic. The pandemic interrupted the reform efforts made in the context of the Barbados Economic Recovery and Transformation (BERT) plan to sustain primary surplus-es and reduce the debt burden.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	-0.6	-0.1	-17.3	4.4	7.2	1.9
Current account balance (percent of GDP)	-5.0	-3.1	-7.8	-11.0	-8.6	-6.1
Fiscal balance (percent of GDP)	-0.3	3.8	-4.7	-3.0	-0.4	0.6
Public debt (percent of GDP)	125.6	122.2	148.9	142.7	129.4	124.7

Source: World Bank.
Notes: e = estimate, f = forecast.

Belize

Belize entered the Covid-19 pandemic with high public debt, external vulnerabilities, and a low economic growth rate. The crisis is expected to increase poverty and unemployment. In turn, protecting the vulnerable remains a policy priority. Authorities have built up reserves and continue to provide ample liquidity. Growth will return slowly over the medium term while downside risks remain high and susceptible to natural shocks and delays in implementing vaccination.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	2.9	1.8	-14.1	1.9	6.4	4.2
Current account balance (percent of GDP)	-8.1	-9.6	-8.1	-7.7	-7.4	-7.2
Fiscal balance (percent of GDP)	-1.1	-4.7	-10.9	-10.9	-7.3	-5.1
Public debt (percent of GDP)	95.9	97.3	125.4	132.4	129.7	127.5

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Fiscal balances are reported in fiscal years (April 1st - March 31st).

Bolivia

After the pandemic-induced recession, the economy is expected to rebound in 2021 on the back of eased mobility restrictions and expansionary efforts. Growth would slow down in the medium term due to shrinking room for expansionary policies. Consequently, poverty is expected to return to pre-crisis levels only by 2023. Bolivia's medium-term prospects depend on its capacity to reduce macroeconomic imbalances, generate fiscal space to shield social expenditure and protect the vulnerable, and ignite new sources of growth and employment.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	4.2	2.2	-7.8	4.7	3.5	3.0
Current account balance (percent of GDP)	-4.5	-3.3	-0.8	-3.0	-1.4	-0.7
Fiscal balance (percent of GDP)	-8.1	-7.2	-12.0	-8.9	-6.0	-4.7
Public debt (percent of GDP)	53.3	58.8	77.2	81.1	81.3	80.5
Poverty rate (US$5.5 per day in 2011 PPP)	23.4	19.9	28.7	24.1	21.7	19.9

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2008-EH, 2011-EH, and 2018-EH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2008-2011) with pass-through = 1 based on GDP per capita in constant LCU.

Chile

Chile is expected to resume growth in 2021, as the government continues the stimulus and mobility restrictions are eased with the vaccination rollout. Chile's medium-term prospects depend on its capacity to meet demands for more equitable access to opportunities while preserving strong macroeconomic management, restoring private sector confidence, and unlocking productivity gains for a more diversified economy. The same policies would be instrumental in reducing poverty caused by the pandemic and set the ground for more inclusive growth.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	3.9	1.1	-6.0	5.5	3.5	2.5
Current account balance (percent of GDP)	-3.6	-3.9	1.5	0.7	-1.1	-1.9
Fiscal balance (percent of GDP)	-1.5	-2.7	-7.5	-3.2	-3.1	-2.2
Public debt (percent of GDP)	25.6	27.9	33.0	34.5	37.7	40.1
Poverty rate (US$5.5 per day in 2011 PPP)	3.4	3.3	3.3	2.7	2.3	2.1

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2017-CASEN. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using microsimulation model for 2020 and neutral distribution with pass-through 0.8 based on GDP per capita in constant LCU for 2021-2022.

Colombia

GDP contracted 6.8 percent in 2020 and poverty (US$ 5.5/day poverty line) is estimated to have increased over 5.5 percentage points. The decisive government response to the Covid-19 crisis supported lives and livelihoods but reduced fiscal space. If Covid-19 vaccination proceeds as planned, GDP is projected to grow 5.0 percent in 2021 and the incidence of poverty is expected to stabilize. Supporting economic activity and vulnerable household while normalizing the fiscal accounts will require a strong and credible medium-term fiscal plan.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	2.6	3.3	-6.8	5.0	4.3	4.2
Current account balance (percent of GDP)	-4.1	-4.4	-3.3	-4.6	-4.3	-4.2
Fiscal balance (percent of GDP)	-2.2	-2.6	-7.0	-8.3	-4.9	-3.7
Public debt (percent of GDP)	51.3	52.2	66.7	70.4	68.9	67.4
Poverty rate (US$5.5 per day in 2011 PPP)	28.2	29.4	34.9	32.2	29.9	30.2

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2008-GEIH and 2018-GEIH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2008-2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

Costa Rica

The Covid-19 crisis interrupted Costa Rica's incipient economic recovery and fiscal consolidation, with GDP contracting 4.6 percent in 2020. Job and income losses among the vulnerable resulted in higher poverty and inequality, despite adequate policy response. Growth is expected to recover in 2021 and 2022 led by stronger external demand, including tourism, and a rebound in investment, as structural reforms and fiscal consolidation efforts rebuild market confidence. Poverty reduction hinges on deepening the equity lens of reforms.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	2.1	2.2	-4.6	2.6	3.3	3.1
Current account balance (percent of GDP)	-3.0	-2.3	-2.5	-3.2	-3.0	-2.9
Fiscal balance (percent of GDP)	-5.7	-6.7	-8.6	-6.9	-5.7	-4.2
Public debt (percent of GDP)	51.7	56.5	67.9	72.0	75.0	76.1
Poverty rate (US$5.5 per day in 2011 PPP)	11.2	10.6	13.0	12.9	12.2	11.7

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2018-ENAHO. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projections using microsimulation model.

Dominica

Dominica's economy contracted by 10 percent in 2020 following pandemic-induced shocks and the sudden stop in tourism. Poverty is expected to have increased due to this decline in economic activity. Fiscal pressures remain acute, highlighting the need for fiscal consolidation and increased fiscal resilience. Risk of debt distress remains high. As the pandemic subsides, medium-term growth prospects appear favorable as Dominica begins its transition to a more climate-and disaster-resilient economy.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	2.3	3.6	-10.0	1.0	3.0	2.5
Current account balance (percent of GDP)	-43.5	-27.9	-30.4	-24.8	-20.1	-13.5
Fiscal balance (percent of GDP)	-19.3	-9.8	-10.2	-5.0	-3.7	-1.5
Public debt (percent of GDP)	76.9	78.8	88.1	95.6	98.3	97.7

Source: World Bank.
Notes: e = estimate, f = forecast (especially uncertain in the case of Eastern Caribbean islands).
(a) Fiscal balances are reported in fiscal years (July 1st - June 30th).

Dominican Republic

Following an economic contraction of 6.7 percent in 2020, the economy is starting to recover. While GDP growth is projected to reach 5.5 percent in 2021, a 2.9 percent output gap remains, projected to close in 2023/24. Despite an increase in social expenditures to mitigate the impact of the pandemic, poverty increased by an estimated 2.4 percentage points to 23.4 percent in 2020. The implementation of recovery policies offers an opportunity to address long-standing structural challenges such as formal sector job creation.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	7.0	5.1	-6.7	5.5	4.8	4.8
Current account balance (percent of GDP)	-1.4	-1.4	-1.8	-2.1	-2.8	-3.0
Fiscal balance (percent of GDP)	-2.6	-2.5	-7.7	-4.6	-2.6	-2.1
Public debt (percent of GDP)	37.6	40.4	56.7	56.7	54.5	52.2
Poverty rate (US$5.5 per day in 2011 PPP)	13.9	12.4	13.8	12.8	11.7	10.7

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Fiscal indicators are shown for the non-financial public sector (i.e. excluding central bank's quasi-fiscal balances and debt).
(b) Calculations based on SEDLAC harmonization, using 2018-ECNFT-Q03. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

Ecuador

After a pandemic-driven recession, the economy is expected to start a tame recovery in 2021 on the back of eased mobility restrictions. With no macroeconomic buffers and limited access to external financing, the new government is not expected to deploy a stimulus package to underpin the recovery. Therefore, to maintain confidence, set a solid ground for recovery, and stabilize public debt ratios, additional structural reforms will be needed, including improving fiscal policy efficiency and progressivity, and catalyzing private investment.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	1.3	0.0	-6.8	3.4	1.4	1.8
Current account balance (percent of GDP)	-1.2	-0.1	2.8	2.0	1.6	1.4
Fiscal balance (percent of GDP)	-3.2	-3.1	-6.5	-2.5	0.1	1.6
Public debt (percent of GDP)	46.1	51.5	64.9	65.8	64.2	61.0
Poverty rate (US$5.5 per day in 2011 PPP)	24.2	25.4	33.3	29.2	29.7	28.3

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2018-ENEMDU. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projections using microsimulation model and includes government compensation measures.

El Salvador

El Salvador succeeded in containing the worst effects of the Covid-19 crisis, but at high macroeconomic and fiscal cost, due to fiscal vulnerabilities accrued before the crisis and the generosity of the government fiscal response, which was mostly financed by debt. A large fiscal consolidation is required and the challenge will be to manage it, while also fostering economic recovery and mitigating the continued social and poverty impact of the Covid-19 pandemic.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	2.4	2.4	-8.6	4.1	3.1	2.4
Current account balance (percent of GDP)	-4.7	-2.1	-1.4	-2.1	-2.7	-3.1
Fiscal balance (percent of GDP)	-2.6	-3.0	-9.1	-5.7	-6.3	-7.4
Public debt (percent of GDP)	72.7	73.3	88.3	89.1	91.1	94.8
Poverty rate (US$5.5 per day in 2011 PPP)	26.3	22.3	26.9	25.2	23.8	23

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Calculations based on SEDLAC harmonization, using 2018-EHPM. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(d) Projection using neutral distribution (2018) with pass-through = 1 based on GDP per capita in constant LCU.

Grenada

The Covid-19 pandemic hit Grenada hard both socially and economically. The halt in tourism led to a massive economic contraction and a surge in public debt. Despite the government's support measures to the most affected, the poverty rate is expected to have increased significantly. With tourism resuming gradually over the medium term, the economy is expected to recover. However, risks to the outlook remain high depending on the pandemic's evolution and international travel restrictions.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	4.1	1.9	-12.6	3.5	5.0	4.9
Current account balance (percent of GDP)	-15.9	-15.9	-25.2	-23.6	-20.9	-13.9
Fiscal balance (percent of GDP)	4.6	5.0	0.3	1.0	2.1	3.1
Public debt (percent of GDP)	64.4	59.4	70.6	71.1	68.2	61.7

Source: World Bank.
Notes: e = estimate, f = forecast (especially uncertain in the case of Eastern Caribbean islands).

Guatemala

The Covid-19 pandemic interrupted a prolonged period of robust growth driven by domestic demand. However, resilience in remittances and exports, and fiscal stimulus packages helped alleviate the impact of the pandemic. A vaccine rollout in the second half of 2021 will support the recovery, which could be partially offset by an expected fiscal consolidation. Poverty is expected to decline incrementally amid a gradual scaling back of social programs related to the pandemic.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	3.2	3.8	-1.8	3.6	4.0	3.8
Current account balance (percent of GDP)	0.8	2.4	4.9	3.2	1.9	0.4
Fiscal balance (percent of GDP)	-1.9	-2.3	-4.9	-3.5	-2.1	-1.6
Public debt (percent of GDP)	26.2	26.6	31.4	32.9	32.6	32.0
Poverty rate (US$5.5 per day in 2011 PPP)	46.6	45.7	47	46.1	45.4	44.7

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2014-ENCOVI. Actual data: 2014. Nowcast: 2015-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2014) with pass-through = 0.7 based on GDP per capita in constant LCU.

Guyana

Guyana grew at an extraordinary rate of 43.5 percent in 2020, having completed a year of oil production. The positive spillover effects were dampened by a deep contraction in the non-oil economy, triggered by measures to contain the Covid-19 pandemic. While oil production is boosting growth, significant risks related to the management of this new wealth remain. Guyana will be challenged to transform its burgeoning oil wealth into human capital, physical capital, and financial assets for broad-based welfare increases.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	4.4	5.4	43.5	20.9	26.0	23.0
Current account balance (percent of GDP)	-57.3	-55.6	-10.5	0.8	15.0	27.3
Fiscal balance (percent of GDP)	-2.7	-2.8	-9.4	-8.6	-4.0	-2.9
Public debt (percent of GDP)	35.8	32.6	47.4	42.7	38.8	37.5

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Non-oil GDP at 2012 prices. (b) Oil at US$ 54 per barrel. (c) Gross Fixed Capital Investment includes Oil. (d) Balance of payments definition in current US$

Haiti

The Covid-19 pandemic and political turmoil took a toll on the Haitian economy, with GDP estimated to have contracted by 3.4 percent in the Haitian fiscal year (HFY) 2020. Disruption of essential health services and school closures have undermined human capital with potential long-term welfare effects. Economic recovery will require containment of the pandemic and, especially, political stability as well as transition towards a more diversified economy and greater resilience to natural hazard shocks.

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth at constant market prices	1.7	-1.7	-3.4	-0.7	1.5	2.0
Current account balance (percent of GDP)	-4.4	-1.7	5.8	-2.0	-0.5	-2.2
Fiscal balance (percent of GDP)	-2.6	-2.2	-4.1	-3.4	-2.6	-2.8
Public debt (percent of GDP)	23.2	25.7	28.8	32.3	32.1	30.8
Poverty rate (US$3.2 per day in 2011 PPP)	46.7	48.5	51	51.8	51.7	51.5

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2012-ECVMAS and fiscal year growth rates. Actual data: 2012. Nowcast: 2013-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2012) with pass-through = 1 based on household expenditure per capita in constant LCU.

Honduras

Honduras's economy is expected to contract by a record 9 percent in 2020 due to the double impact of the Covid-19 pandemic and hurricanes Eta and Iota. This led to high levels of food insecurity and increases in poverty and inequality as vulnerable households lost income. A rebound is expected in 2021, supported by a countercyclical macroeconomic policy and the restoration of trade and investment. However, a slower recovery is possible if the health crisis endures.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	3.7	2.7	-9.0	4.5	3.9	3.8
Current account balance (percent of GDP)	-5.4	-0.7	-1.2	-1.5	-1.7	-2.3
Fiscal balance (percent of GDP)	-0.9	-0.9	-5.6	-4.0	-1.0	-1.0
Public debt (percent of GDP)	42.2	43.1	53.9	55.6	55.1	54.5
Poverty rate (US$5.5 per day in 2011 PPP)	50.4	49	55.4	54.1	53.1	52.5

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Fiscal data refers to non-financial public sector. (b) Calculations based on SEDLAC harmonization, using 2018-EPHPM. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022. (c) Projection using microsimulation model (job loss based on sectoral GDP per capita in constant LCU; wage changes based on private consumption per capita in constant LCU).

Jamaica

Jamaica made important progress on macroeconomic stability and debt reduction between 2013 and 2020. However, the Covid-19 pandemic has pushed the country into its deepest recession in decades. This is affecting the welfare of households through income and job losses, thereby increasing poverty. Impacts have been uneven across the population, likely increasing inequality. Downside risks are high due to the country's susceptibility to natural disasters and uncertainties regarding the length and depth of the Covid-19 pandemic.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	1.9	0.9	-10.0	3.0	3.8	3.2
Current account balance (percent of GDP)	-1.5	-2.1	-1.9	-3.3	-4.3	-3.9
Fiscal balance (percent of GDP)	1.0	0.4	-4.0	0.3	0.3	0.3
Public debt (percent of GDP)	97.7	94.3	110.1	100.7	89.4	82.0

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Fiscal balances are reported in fiscal years (April 1st - March 31st).

Nicaragua

Sociopolitical crisis coupled with the Covid-19 outbreak resulted in a three-year economic recession in Nicaragua and a commensurate increase in poverty levels. Eroding business confidence and uncertainty over the evolution of the pandemic have paralyzed consumption and investment. The external sector has been severely affected by a halt in tourism and financing constraints. Continued heightened political uncertainty and anticipated fiscal consolidation will restrain growth over the medium term.

	2018	2019 e	2020 f	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	-4.0	-3.9	-2.5	0.9	1.2	1.4
Current account balance (percent of GDP)	-1.9	6.0	7.6	4.5	2.7	-0.2
Fiscal balance (percent of GDP)	-4.0	-1.7	-3.7	-5.4	-3.1	-0.6
Public debt (percent of GDP)	56.2	58.5	65.7	68.6	69.0	66.5
Poverty rate (US$5.5 per day in 2011 PPP)	33.2	35.8	38.2	38.3	38.3	38.2

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Fiscal and Primary Balance correspond to the non-financial public sector. (b) Debt is total public debt. (c) Calculations based on SEDLAC harmonization, using 2014-EMNV. Actual data: 2014. Nowcast: 2015-2019. Forecast are from 2020 to 2022. (d) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.

Panama

Panama experienced the highest Covid-19 case count in Latin America and a GDP contraction of 17.9 percent in 2020, as its economy relies on sectors severely affected by the pandemic such as air transportation, retail, tourism, and construction. Poverty increased by two percentage points, while public debt shot up by almost 20 percentage points of GDP. Panama is facing the challenge of reigniting growth and poverty reduction, while balancing its fiscal accounts to maintain its coveted investment grade sovereign rating.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	3.6	3.0	-17.9	9.9	7.8	4.9
Current account balance (percent of GDP)	-7.6	-5.4	-0.7	-2.2	-2.8	-3.3
Fiscal balance (percent of GDP)	-2.9	-3.5	-10.0	-8.2	-6.7	-5.3
Public debt (percent of GDP)	39.6	46.4	64.4	63.3	61.3	60.3
Poverty rate (US$5.5 per day in 2011 PPP)	12.6	12.1	14.9	13.8	12.9	12.6

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2018-EH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

Paraguay

Overall, Paraguay is withstanding the economic shock from the Covid-19 and global recession relatively well, and the country is estimated to have had the lowest economic decline in the region in 2020. However, urban poverty has increased over the pandemic period, and the increasing infections and delayed vaccination in early 2021 pose challenges not only for the health sector response, but also for social cohesion and the trajectory of economic recovery.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	3.2	-0.4	-1.1	3.5	4.0	3.8
Current account balance (percent of GDP)	-0.2	-0.6	0.3	1.1	1.0	0.8
Fiscal balance (percent of GDP)	-1.3	-2.8	-6.2	-4.0	-2.6	-2.1
Public debt (percent of GDP)	21.4	24.5	34.2	35.7	35.5	33.8
Poverty rate (US$5.5 per day in 2011 PPP)	15.6	15.4	16.5	15.7	15.1	14.4

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2013-EPH and 2018-EPH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022. (b) Projection using average elasticity (2013-2018) with pass-through = 1 based on private consumption per capita in constant LCU.

Peru

Peru´s economy is expected to rebound by around 8 percent, induced by a general recovery in domestic demand and exports. Poverty is projected to decline slightly this year, although additional monetary transfers might accelerate its reduction. These projections are conditional on the evolution of the second wave of the pandemic and the successful vaccination rollout. Overcoming structural challenges related to widespread informality, limited economic diversification and poor effectiveness of the state are critical for medium-term prospects.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	4.0	2.2	-11.1	8.1	4.5	4.1
Current account balance (percent of GDP)	-1.7	-1.5	0.5	0.3	-0.1	-0.3
Fiscal balance (percent of GDP)	-2.3	-1.6	-8.9	-5.5	-3.5	-2.5
Public debt (percent of GDP)	26.6	27.0	35.0	37.7	38.6	39.3
Poverty rate (US$5.5 per day in 2011 PPP)	22.3	20.6	26.6	25.5	22.9	20.8

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2016-ENAHO and 2018-ENAHO. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

St. Lucia

The Covid-19 pandemic caused a severe GDP contraction of 20 percent in 2020 and a sharp surge in public debt to 87 percent of GDP. The poor and most vulnerable groups have been disproportionately impacted by the crisis, compounded by potential threats from exposure to extreme climate-related events, exacerbated by climate change. It is critical for the government to balance short-term fiscal measures mitigating the impacts on the most disadvantaged with long-term structural reforms maintaining fiscal and economic sustainability.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	2.6	1.7	-20.4	1.1	12.3	8.1
Current account balance (percent of GDP)	2.2	4.6	-14.4	-13.2	-3.1	1.2
Fiscal balance (percent of GDP)	-1.0	-3.4	-11.5	-9.7	-6.3	-4.2
Public debt (percent of GDP)	60.1	60.4	86.5	96.0	93.3	92.0
Poverty rate (US$5.5 per day in 2011 PPP)	19.0	19.0	24.6	24.5	20.6	19.3

Source: World Bank.
Notes: e = estimate, f = forecast (especially uncertain in the case of Eastern Caribbean islands).
(a) Fiscal balances are reported in fiscal years (April 1st -March 31st). (b) Calculations based on 2016 SLC-HBS. Actual data: 2016. Nowcast: 2017-2019. Forecast are from 2020 to 2022. (c) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

St. Vincent and Grenadines

GDP contracted by 4.2 percent in 2020 following pandemic-induced shocks and the sudden stop in tourism. Poverty is expected to have increased due to the economic contraction and a drop in household income. After several years of minimal budget deficits and primary surpluses, the Covid-19 economic shock will exert pressure on public finances. Significant public investment, including the port and a new hospital, will pose fiscal challenges as well. Risk of debt distress remains high.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	2.2	0.5	-4.2	0.2	5.0	3.2
Current account balance (percent of GDP)	-12.0	-10.0	-18.7	-16.9	-15.4	-9.3
Fiscal balance (percent of GDP)	-0.9	-2.3	-7.2	-6.4	-6.2	-5.4
Public debt (percent of GDP)	75.6	75.2	87.9	89.7	90.8	90.8

Source: World Bank.
Notes: e = estimate, f = forecast (especially uncertain in the case of Eastern Caribbean islands).
(a) Budget balances and public debt are for the central government.

Suriname

Suriname is a small, natural resource-based economy. Over the past few years, the authorities have not adequately dealt with macroeconomic stability and commodity revenue volatility. A newly elected government has recently adopted a macroeconomic stabilization program and is in discussions with the IMF for support. The Covid-19 pandemic exacerbated existing domestic weaknesses, leading to a sharp GDP contraction and rising unemployment and poverty. The discovery of offshore oil, if adequately managed, may enable fiscal consolidation and higher growth in the medium term.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	2.6	0.3	-14.5	-1.9	0.1	1.3
Current account balance (percent of GDP)	-3.4	-12.2	6.0	9.5	8.3	8.1
Fiscal balance (percent of GDP)	-11.4	-21.4	-16.7	-12.7	-8.6	-5.3
Public debt (percent of GDP)	72.5	93.8	148.3	134.4	139.2	141.2

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Budget balances and public debt are for the central government.

Uruguay

Despite a 5.8 percent GDP contraction in 2020, Uruguay is poised for a rebound of over 3 percent in 2021 and 2022. While immediate fiscal consolidation plans were postponed, the Government's commitment to fiscal sustainability is reflected in the reduction of expenditures not related to Covid-19 and the adoption of a fiscal rule. The country's existing social safety net protected the most vulnerable from the economic downturn, but risks lie on the downside, notably from the closing of borders to foreign tourism.

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth at constant market prices	0.5	0.3	-5.8	3.4	3.1	2.5
Current account balance (percent of GDP)	0.0	0.9	-0.5	-1.4	-0.7	-0.6
Fiscal balance (percent of GDP)	-3.1	-3.9	-5.5	-4.0	-3.1	-2.4
Public debt (percent of GDP)	55.5	56.7	66.3	67.7	67.3	64.8
Poverty rate (US$5.5 per day in 2011 PPP)	3	3.2	4.2	3.5	3	2.6

Source: World Bank.
Notes: e = estimate, f = forecast.
(a) Non-Financial Public Sector. Excluding revenues associated with the "cincuentones".
(b) Calculations based on SEDLAC harmonization, using 2014-ECH and 2018-ECH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(c) Projection using point-to-point elasticity (2014-2018) with pass-through = 1 based on GDP per capita in constant LCU.

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