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Short-term Shot and Long-term Healing for Latin America and the Caribbean

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Español, Português

Growth in Latin America and the Caribbean recovered briskly in the second half of 2020, yet still more slowly than the global economy and other emerging markets. That's despite unprecedented policy support, strong

of the health crisis in many countries casts a shadow on the near-term outlook. People and economies continue to require a short-term shot to exit from the COVID-19 crisis, while the aggravation of several underlying structural fragilities poses significant long-term challenges.

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The region's contraction of 7 percent in 2020 was the sharpest in the world, by far exceeding the global slowdown of 3.3 percent. Growth for 2021 is projected at 4.6 percent, below the 5.8 percent estimated for emerging markets excluding China. Income per capita will not catch up with its pre-pandemic level until 2024, resulting in a 30 percent cumulative loss relative to the pre-pandemic trend.

Slow and divergent recovery

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continues. On the upside, faster control of the pandemic globally as well as stronger-than-anticipated domestic policy support would boost growth. Fast vaccination and significant policy support are giving Chile a short-term boost. The country is expected to bounce back already this year to its pre-pandemic GDP level.

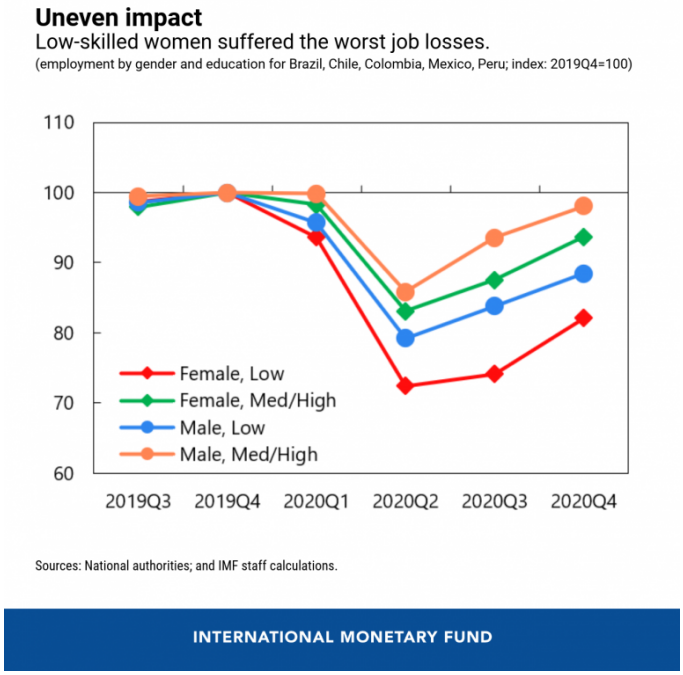
On the downside, the recent resurgence of the virus in Brazil, Chile, Paraguay, Peru, and Uruguay, combined with slow vaccine rollouts (except in Chile) cast a shadow on the near-term outlook—though new lockdowns are likely to be less damaging than at the start of the pandemic as economies have learned to adjust. Brazil is projected to recover by 2022 due to the withdrawal of fiscal and monetary policy support and slow vaccine rollout. Mexico will only return to its pre-pandemic GDP level by 2023, despite impulse from the large US fiscal policy plan, due to the absence of significant domestic fiscal support and anticipated continued weakness in investment. The American Rescue Plan will boost growth in some Central American countries through trade and remittances, helping these countries to rebound by 2022. Caribbean tourism-dependent economies will be the last to recover (only in 2024) due to the slow resumption in tourism.

The increase in US long-term yields so far has had a somewhat muted impact on asset prices and capital flows in the region. But a continued increase in long-term interest rates represents a risk.

Unequal effects

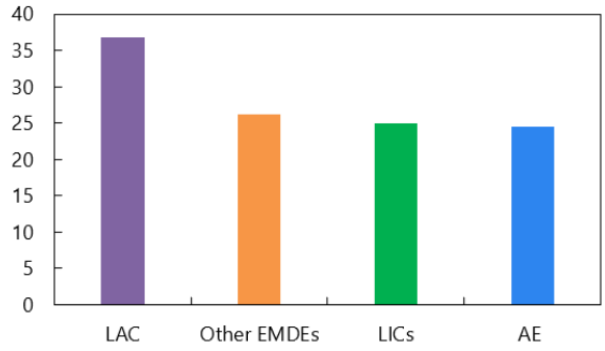
The recovery has also been heterogeneous within countries. Manufacturing has rebounded faster than contact-intensive services, aided by exports in some cases, particularly in Mexico. However, labor markets remain fragile—only two-thirds of those who lost jobs at the beginning of the pandemic in Brazil, Chile, Colombia, Mexico, and Peru were employed again by the end of

Average labor income fell since the beginning of the pandemic, with pronounced divergences in labor market outcomes across countries, sectors, and demographic groups. Countries that implemented employment retention schemes (for example, Brazil) had a less dramatic fall in employment but the recovery has also been slower. However, even in the case of a relatively quick recovery in Mexico, those who have been reemployed have had larger earning losses than those whose employment remained uninterrupted during the crisis. Women and low-educated workers have struggled the most. Low-skilled female workers in particular lost more jobs or had to cut back on working hours even when able to retain employment, suffering the largest income losses.



Long-lasting consequences

Poverty is estimated to have increased by 19 million people, and inequality, as measured by the Gini coefficient, increased by 5 percent compared to pre-crisis levels. The pandemic will also leave long-lasting damage to human capital from school closures, which were longer than in other regions.



Sources: UNESCO Total Duration of School Closures as of March 29, 2021; and IMF staff calculations.
Note: Excludes pre-primary education group. LAC = Latin America and Caribbean; AE = Advanced Economies; Other EMDEs = Emerging Market and Developing Economies excluding Latin America and Caribbean; LICs = Low Income Countries.

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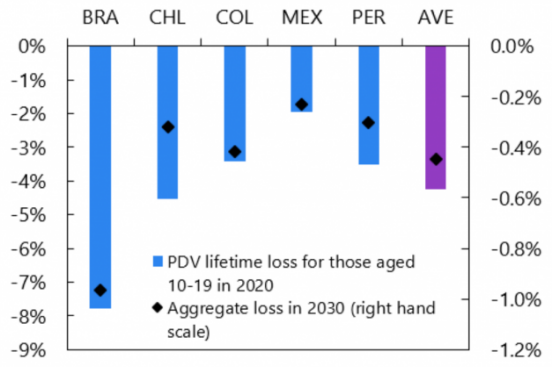
While the precise learning losses are difficult to estimate, IMF staff analysis suggests that students aged 10 to 19 might expect a 4 percent lower income on average over their lifetimes if the lost days of schooling in 2020 are not compensated.

The income losses differ among countries, depending on how much the pandemic reduces the chance of completing secondary education and on the size of the skill premium for higher education. The losses will be greatest for students whose families are less able to support out-of-school learning, exacerbating already high income inequality and low levels of educational attainment.



Sources: Niedhoefer et al. (2021), labor force surveys from national statistical offices; and IMF Staff calculations.
Notes: BRA=Brazil; CHL=Chile; COL=Colombia; MEX=Mexico; PER=Peru; AVE=average; PDV=present discounted value. Black diamonds represent estimated fall in earnings for the total labor force in 2030. Estimation computes projected shares of workers with different education levels under a "Baseline" scenario and a "COVID-19" scenario where the likelihood of obtaining a secondary school degree is impacted by school closures (see Niedhoefer et al. 2021).

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The most urgent task continues to be controlling the pandemic, by ensuring that healthcare systems are adequately resourced, and everybody can be vaccinated. Fiscal and monetary policies should remain supportive in countries where there is sufficient policy space—a short-term shot for their economies—while countries with tight budgets should reprioritize spending towards healthcare and support for households, and work to create additional fiscal space. Given the continued heavy toll on low-income workers, targeted support to facilitate job creation and retraining may be warranted.

Healing longer-term scars will be more challenging and will require accelerating structural reforms, expanding access to high-quality education and health, broadening social safety nets, and improving the business climate. A deeper structural transformation that could be facilitated by a broad fiscal pact is needed to reverse years of slow growth.

	2019	2020	2021	2022
Latin America and the Caribbean	0.2	-7.0	4.6	3.1
South America[1]	-0.1	-6.6	4.4	2.8
CAPDR	3.2	-7.2	5.6	4.1
Caribbean				
Tourism dependent[2]	0.2	-10.1	1.4	5.1
Commodity exporters[3]	0.2	4.7	6.0	19.2
Latin America				
Argentina	-2.1	-10.0	5.8	2.5
Brazil	1.4	-4.1	3.7	2.6
Chile	1.0	-5.8	6.2	3.8
Colombia	3.3	-6.8	5.1	3.6
Mexico	-0.1	-8.2	5.0	3.0
Peru	2.2	-11.1	8.5	5.2

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Regional aggregates are purchasing-power-parity GDP-weighted averages. CAPDR = Central America, Panama, and the Dominican Republic.
[1]Excludes Guyana and Suriname.
[2]Includes Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Dominica, Grenada, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
[3]Includes Guyana, Suriname, and Trinidad and Tobago.

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