



Rebuilding the Global Economy

A series outlining policy priorities and solutions

MEMORANDUM ON

THE HEALTH, ECONOMIC, AND POLITICAL CHALLENGES FACING LATIN AMERICA

To: President of the Inter-American Development Bank (IADB)
From: Monica de Bolle
December 2020

Background: The COVID-19 pandemic struck Latin America in late February 2020. Governments in the region had time to adopt public health strategies, economic rescue plans, and policies to protect millions of informal and vulnerable workers throughout the region, but institutional weakness hampered their efforts.

As a result, the impact in Latin America has been widespread and tragic. By mid-December, the region's five largest economies combined (Brazil, Mexico, Colombia, Peru, and Argentina) registered 12 million cases of COVID-19 and hundreds of thousands of deaths—25 percent of the global death toll of 1.6 million people. Brazil alone is the second country in the world (after the United States) with the most deaths. More than 180,000 people have perished in the past 10 months. The numbers may be even greater because of underreporting, lack of testing capacity, and the absence of systematic contact tracing protocols.

The disease has devastated the region's economies, which have suffered steep declines in GDP, rampant unemployment, and a humanitarian crisis falling disproportionately on the poor, who lack minimal access to health services and economic support from local governments.

Significant challenges loom on all fronts. Some countries face a potential loss of external financing and debt constraints, compounding the failure to respond adequately to the health and economic crisis. In other, better managed countries, access to financial markets has receded but is unlikely to disappear completely over the medium term, demonstrating better performance than has been the case during some crises of the past. The fact that some of Latin America's major economies have managed fiscal constraints relatively well while allowing a humanitarian crisis to unfold uncontrollably underscores how some countries have been more preoccupied with austerity than with saving lives.

KEY PRIORITIES

- **Control the spread of the coronavirus.** No sustained economic recovery can occur in the absence of measures to control the epidemic. Action is needed to bring down the viral transmission rate, or the effective R, below the threshold of 1, meaning that one

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infected person will contaminate no more than one other person. As some countries have shown, this result can be achieved by a combination of strict social distancing measures, widespread testing, and contact tracing. Unless brought under control, the pandemic will continue to ravage the vulnerable population, exacerbating already very high inequality and poverty levels in the region.

- **Develop immunization strategies.** Most countries in the region have delayed their immunization strategies and/or have severely limited vaccine portfolios, resulting in inadequate coverage to their populations. In some countries, politicization of vaccines is hampering the ability to develop immunization strategies. For example, in Brazil, the federal government has rejected the Coronavac vaccine, one of the two currently in clinical trials in the country, because it is being developed in the state of São Paulo—the president and the governor of the state are political opponents. In all countries, vaccine shortages are likely to further exacerbate inequality, as the rich gain access to immunizations, while the poor remain at the back of the line. Advising countries on how to minimize these problems is a top priority.
- **Continue providing income support to the poor.** To address the disproportionate toll on the poor, countries should consider continuing temporary cash transfer programs to support the lower income segment of the population. These programs need to be consistent with countries' fiscal constraints, some of which are very tight. As a result, some countries in the region may only be able to launch very limited income support programs, while others may have room to be more ambitious.
- **Stem bankruptcies and unemployment among small and medium enterprises.** The small and medium enterprise (SME) segment in Latin America has not received any significant financial support from governments. As a result, bankruptcies are widespread, and unemployment will likely continue to rise. To address these problems, the Inter-American Development Bank should provide advice and technical assistance to governments, particularly on how to rely on their existing public banks for SME support.
- **Reform badly neglected government services.** Many countries in Latin America need to modernize and reform the delivery of government services, which suffered years of neglect before the pandemic. The Bank should work with governments on a realistic reform agenda that takes into account the effects of the ongoing health crisis and the need for gradual fiscal adjustment over the next several years.
- **Fund social protection programs and health systems within fiscal constraints.** The IADB should help countries enhance social protection and provide adequate financing to health systems, particularly the public health systems that several countries in the region have adopted. In view of the rigid fiscal constraints facing most countries, it may be necessary to raise tax revenues to fund these policies after the recession. The Bank should work individually with governments to find solutions that will help them navigate the current crisis without increasing the risk of a future fiscal collapse and should collaborate with other institutions assisting in the region, such as the International Monetary Fund.
- **Plan for added social protection for a future labor market that may not return to the pre-pandemic status quo.** On the social protection front, some countries may need to do more to support informal workers and those who rely solely on daily incomes. Such programs do not need to be very costly: For example, by spending about 1.5 percent of GDP per year, countries like Brazil may be able to provide as much as one

minimum wage per child between 0 and 6 years of age in low-income households. Rising unemployment, and particularly the challenge of long-term unemployment, may require broader insurance mechanisms and programs to qualify part of the affected population for different jobs, especially if labor markets do not go back to the pre-pandemic status quo.

LONG-TERM CHALLENGES

- **Political instability, corruption, and social unrest.** Latin America's economy was already fragile before the pandemic struck, leaving little room for public sector fiscal stimulus. Political systems are largely fragmented, and institutional weakness, particularly widespread corruption, is rampant throughout the region. In late 2019, protests erupted in many countries, driven by widespread discontent over income inequality and lack of social mobility. Chile and Colombia, two countries that had promoted significant reforms over past decades, did not experience a leap forward in productivity growth or social mobility, sparking civil unrest. Reforms in these countries also failed to provide political stability.
- **Corruption and misallocation of resources, particularly with influx of Chinese investment.** China's influence in Latin America will likely continue to grow as countries face the challenges of rebuilding their economies with limited access to financial markets. While Chinese investments are welcome, concerns over transparency and a pileup of new debt in a region mired by corruption will require the Bank's role in advising governments on how best to allocate resources.
- **Reviving relations with the United States.** The United States remains one of the region's main trading partners, but US foreign policy has largely ignored Latin America over the past several administrations. The United States should strengthen relations with governments in the region, particularly in the areas of trade and fighting climate change.

ACTIONABLE TO-DO LIST

The IADB can assist Latin American governments through specific actions:

- Provide governments with advice and technical assistance to help small and medium enterprises avoid bankruptcy.
- Work with governments to develop a reform agenda for badly neglected government services.
- Advise governments on how to avoid future fiscal collapse while funding social protection programs and health systems.
- Advise governments on how best to allocate resources, particularly as Chinese investment and risk of a pileup of new debt grows in the region.