



# THE COST OF STAYING HEALTHY

SEMIANNUAL REPORT OF THE LATIN AMERICA  
AND THE CARIBBEAN REGION

OCTOBER 2020

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SEMIANNUAL REPORT OF THE LATIN  
AMERICA AND THE CARIBBEAN REGION

# THE COST OF STAYING HEALTHY

A JOINT PRODUCT OF

THE CHIEF ECONOMIST OFFICE FOR LATIN  
AMERICA AND THE CARIBBEAN  
THE MACROECONOMICS, TRADE AND  
INVESTMENT GLOBAL PRACTICE

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# Executive summary

Latin America and the Caribbean is the region hardest hit by the Covid-19 pandemic. The number of deaths per million people is as high as in advanced economies, if not more, but the resources available to counter the shock are much more constrained. The resulting economic crisis arrives on the back of several years of disappointing economic growth and limited progress on social indicators, and right after a wave of social unrest. The impact of Covid-19 has been felt through multiple channels, including lower foreign demand, increased economic uncertainty, a collapse of tourism flows and, especially, the consequences of months under lockdown to contain the spread of the disease.

On the positive side, international developments have been less unfavorable than could have been anticipated six months ago. Global trade in goods is returning to pre-crisis levels and commodity prices have held relatively well. After a sharp initial decline, remittances are generally higher than a year earlier, and few countries have lost access to international financial markets. The stimulus packages set up by several governments in the region were remarkably robust, despite the fiscal constraints, and much of the additional resources went to social transfers.

And yet, the economic and social damage is immense. Unemployment rates have increased across Latin America and the Caribbean, sometimes substantially. A series of telephone surveys conducted by the World Bank in 13 countries in the region shows that the share of households that suffered a decline in income is even higher than the share experiencing job losses. A similar survey exercise by the World Bank focusing on firms and covering five countries in the region, reveals that a large share of the respondents has fallen in payment arrears or anticipate doing so soon. The findings of these rapid response assessments, summarized in this report, suggest that the impact of the crisis is not only severe but also potentially long-lasting.

One reason to temper the most pessimistic forecasts is the remarkably large scale of the stimulus packages adopted by several governments in Latin America and the Caribbean. Five of the ten social transfer programs with the broadest population coverage in the developing world are in the region.

A first background study for this report shows that the fiscal multiplier of social transfers is much larger in the region than in advanced economies. And it is consistently large for the countries with more sizeable and better targeted social transfers. The strong response to the Covid-19 crisis could thus be remembered as one of the first examples of successful countercyclical fiscal policy across large swaths of the region.

Forecasting the depth of the recession for the rest of the year, and the timing and strength of the recovery, is very challenging given the unprecedented nature of the crisis. And it may take long before reliable growth figures for 2020 are available. Not all countries in the region produce quarterly growth statistics, and around the world there is no official growth data for the third quarter of the year, which just concluded. But data made available by new technologies – from mobile phone traffic to credit card transactions to satellite imageries – offers a chance to monitor economic developments in real time.

A second background study for this report focuses on emissions of Nitrogen Dioxide (NO<sub>2</sub>), a pollutant produced by combustion engines, factory chimneys and agricultural fires, among others. Changes in emissions cannot be automatically converted into changes in economic activity, because the sectoral structure and energy intensity of production vary across countries. But the methodology of the study allows correcting for these differences to generate economic growth estimates in real time.

The study confirms that the decline of economic activity was dramatic in the first half of 2020. However, there are signs of recovery in the third quarter. By then, China, India and other Asian economies were growing relative to the third quarter of 2019. And several countries in Latin America and the Caribbean, while still experiencing negative growth, seemed to have already touched bottom.

With the pandemic arriving in Latin America and the Caribbean relatively late, most governments in the region had a chance to learn from the experience of advanced economies and could quickly emulate their containment measures, including strict quarantines and lockdowns. This swift and strong policy response earned them praise and showed success in its early stages. But over time the death toll from Covid-19 became as high, relative to the population size, as that endured by advanced economies. And this, despite containment measures often being adopted within days of the first Covid-19 case.

Given these disproportionately high health costs it is legitimate to ask whether the dynamics of the epidemic are the same in rich and poor countries. A third background study for this report examines how the daily progression of Covid-19 deaths across 51 countries worldwide was affected by the strength and timing of containment measures, and by the specific characteristics of those countries.

The study finds that in the absence of containment measures, deaths increase more slowly in poorer countries. Part of the gap may just reflect their weaker capacity to record deceases and identify their causes. But the study shows that other things equal the progression of Covid-19 deaths is faster in countries that are more urbanized and have older populations, among other characteristics. On all these counts, Latin America and the Caribbean is more vulnerable to Covid-19 than other developing regions.

The study also shows that quarantines and lockdowns are less effective at containing deaths in poorer countries and that their economic cost, measured by the daily change in NO<sub>2</sub> emissions is smaller as well. The mechanisms underlying these different dynamics are unclear at this stage. A larger share of the population living in crowded slums, with limited access to water, may explain the partial effectiveness of lockdowns to contain the spread of the disease. The continuity of work in agriculture and mining, which account for a larger share of economic activity in poorer countries, may lie behind the more muted economic impact. Weaknesses in enforcement may matter both on the health and the economic fronts. Regardless of the underlying causes, the results of this study suggest that the tradeoffs between health costs and economic costs may be different in advanced economies and in developing countries

There is also considerable variation within each of the two country groupings. Given the uncertainty on the effectiveness of containment measures, and the important nuances in the way such measures were implemented in practice, a focus on outcomes is justified. Indeed, enough time has elapsed since the beginning of the pandemic to assess how many people have died and how much economic activity has been lost in each country.

Doing so does not involve placing a judgment on how much economic activity ought to be sacrificed in order to save lives. The exercise simply shows that some countries did better than others, as they either suffered a lower economic cost for the same health cost, or a lower health cost for the same economic cost. The experience of the countries at the “frontier” in each grouping may offer valuable insights to others at a time when Covid-19 has not yet been suppressed.

The economic cost of protecting the health of the population was amplified with the Covid-19 outbreak, when massive lockdowns were the main public health tool available to contain the spread of the disease. But even in normal times, health care costs account for a significant share of government budgets and impose a heavy burden on household finances. Out-of-pocket expenditures are especially large in the case of households facing an adverse health shock. The distribution of this burden across the population crucially depends on how health care is organized. In Latin America and the Caribbean, it is often regressive.

Pharmaceuticals account for a significant share of country imports in the region, and for the lion’s share out-of-pocket health expenditures. This makes their pricing highly relevant. A fourth background study for this report analyzes the domestic market for pharmaceuticals in Latin America and the Caribbean.

The containment of health care costs often relies on local regulatory agencies approving, encouraging and potentially imposing the use of generics. Yet, the study shows that their share in total pharmaceutical sales varies considerably across countries in Latin America and the Caribbean but is never large. The region also stands out for the large share of “similar” pharmaceutical products sold domestically. There are generics carrying a brand name by a local laboratory, which often works in association with international pharmaceutical companies.

The study shows that the stepwise increase in average prices between generics, similar products and branded drugs varies widely across countries. In some, the gradient is remarkably steep, meaning that similar products are much more expensive than generics, and branded products even more so. In light of these findings, it is not entirely surprising that in some of the recent episodes of social unrest in the region, popular anger was directed at pharmacies.

Governments are one of the main purchasers of medicines, and the way public procurement works has a significant impact on their cost. A fifth and last background study for this report analyzes how efficient governments are in this respect. It does so by matching 235 pharmaceutical products across more than half a million public procurement contracts in seven countries in the region.

The study reveals a wide dispersion in purchasing prices for the same product within a country, depending on the features of the tenders and the market concentration among suppliers. It also shows that some countries in the region manage to purchase the same products at much lower prices than others.

More than nine months into the pandemic, the hopes for a full return to normalcy are pinned on vaccines. The scale of the global effort to support cutting-edge research and to fund production capacity is unprecedented. However, it may take time for effective vaccines against Covid-19 to be developed, to be produced in sufficiently large quantities, to become available at local levels

in developing countries, and to be viewed as sufficiently safe by the population. Given these challenges, countries in Latin America and the Caribbean may face no choice but to live with the virus, perhaps for several more years.

Many countries in the region have gradually relaxed quarantines and lockdowns, either through explicit policy decisions or because stringent containment measures are becoming increasingly difficult to enforce. By now, governments may need to focus on protecting the most vulnerable while adjusting health and safety standards across all sectors and activities, so that the probability of contagion remains low while life goes on.

Schooling is among the activities that deserve most attention. Distance learning, even if feasible, is unlikely to deliver the same knowledge as face-to-face teaching. For many children in the poorest segments of society, it may simply not be an option. If lockdowns continue to affect the education sector for too long, many children may never return to school, entering their working lives earlier than anticipated. And even those who do return will have lost months or even years of education, which will undermine their future incomes and their prospects for social mobility.

By now, annualized deaths from Covid-19 compete in some countries with the most lethal illnesses – such as cancer and cardiovascular diseases – as the main cause of mortality. In others, Covid-19 is unlikely to significantly change the mortality rate in 2020. In some, the annualized toll is lower than the annual number of deaths from traffic accidents, or from homicides. In parts of Central America, *maras* – criminal gangs – may still be more lethal than Covid-19.

In all countries, however, health care systems need to be adjusted to the reality of Covid-19. In those where the pandemic is among the top causes of mortality, providing effective treatment to those affected by the virus is a priority. And in countries where the pandemic is under control, a sustained effort is needed to repeatedly contain outbreaks as soon as they happen, which requires effective testing and tracing capabilities. In all cases, there is also a need to incorporate lessons on the effective treatment of the disease, to increase the probability of survival of those who become infected.

The region has made significant progress in extending health care coverage to increasingly broader segments of the population. As governments mobilize more resources for the health sector, the Covid-19 crisis may provide an opportunity to address some of their remaining weaknesses. The crisis is also a call to rapidly expand access to critically important basic services. At a time when resources for investment in infrastructure tend to be constrained, access to water and sanitation remains an important public health priority.

Expanding effective health care coverage cannot be done in an affordable manner without paying attention to the price of pharmaceuticals. With governments being large purchasers of medicines, public procurement is particularly important in this respect. Making the public procurement of pharmaceuticals more efficient is even more important at a time when governments across the region are considering how to secure the necessary doses of Covid-19 vaccines for their populations.

Improving on tender design could reduce the cost of pharmaceuticals. A strategic adjustment of their features could reduce the cost of pharmaceuticals by 12 to 15 percent. However, better technical design alone may be insufficient to offset market power in a sector that is often oligopolistic. The Covid-19 crisis could in fact be a welcome opportunity to reconsider policies related to pharmaceuticals in Latin America and the Caribbean.

In recent years, many governments have advocated the utilization of generic medicines as a means of controlling healthcare expenditure and improving access to medicines. But doing so requires having strong regulatory agencies that are able to certify the bioequivalence of generics

and to make them the first choice for doctors. Ideally, these agencies should also have the capacity to influence the price of pharmaceuticals in a way that does not dissuade innovation, while at the same time keep the cost of medicines affordable to the population.

Some of the most important measures to address the Covid-19 crisis while living with the virus lie outside the health domain. In Latin America and the Caribbean, the impact of lockdown measures fell disproportionately on informal sector workers. Employment losses were more significant in countries where fewer workers have wage or salaried formal sector jobs. And the ability to reach informal sector workers and their families with social transfers varied depending on the coverage and quality of population registries, as well as the availability of proper individual identification.

A traditional attitude toward informality in Latin America and the Caribbean has been to accept it as a way to preserve employment in low-productivity economic units that would not survive if they had to play by the rules. But this sanguine view becomes more questionable in the current context. The Covid-19 crisis is a call to reflect on how to encourage formalization in a way that does not deter job creation while extending social protection to workers and their families. In the meantime, comprehensive population registries are needed for social transfers to reach many of those who live from hand to mouth and are disproportionately hit by quarantines and lockdowns.

Many countries in the region mobilized very sizeable stimulus packages to confront the crisis, despite having limited fiscal space. This was no doubt a sensible choice, given the circumstances. But across the region public debt will have increased by almost 10 percentage points of GDP in just four years.

Countries started the fight against the pandemic in the spirit of a sprint. But after nine months since the first Covid-19 outbreaks they seem to be gradually drifting into a marathon. Broad-based social transfers may be needed for the time being. However, going forward governments in the region may need to consider paths to fiscal consolidation.

Reorienting taxes and government expenditures in a way that supports job creation, service delivery and infrastructure development will also be needed to put the region back on a path of inclusive and sustainable growth. After many years of disappointing economic performance and one of the worst recessions ever, failure to do so could be the presage for new waves of social unrest and possibly for a return of populist policies to the region.

**That, after all, could be the biggest cost from the Covid-19 pandemic.**



1

One of the worst crises ever

Latin America and the Caribbean is the region hardest hit by the Covid-19 pandemic, a shock that arrived at the tail of several years of disappointing economic growth and limited progress on social indicators, and right after a wave of popular unrest. Countries in the region have been affected through multiple channels, from collapsing tourism to increased uncertainty, but what makes the crisis unprecedented is the parallel supply-side shock from the lockdowns adopted to contain the spread of the disease. The impact on the economies of the region was partially cushioned by trade in goods, as well as remittances, holding better than had been anticipated. And the generous social transfer programs set up by several governments in the region helped households cope and economies stay afloat. But the recession is nevertheless dramatic, and the scars potentially durable.

### *A bad shock in an already struggling region*

The number of cumulative deaths per million people in Latin America and the Caribbean is as high as in advanced economies if not greater (map 1a). The toll has not been even, ranging from modest in several Caribbean islands and in Uruguay, to extremely high in Peru.

In several countries the actual number of deaths could be higher than the official count, as testing for Covid-19 has not been systematic. The potential undercount is almost certainly bigger for cases than for deaths, given that a majority of those infected have mild symptoms or no symptoms at all, and are unlikely to be tested at a time when the necessary medical kits are scarce. For this reason, much of the discussion in this report focuses on Covid-19 mortality rather than morbidity, even if the latter entails obvious costs to households and the economy.

Cumulative deaths from Covid-19 in Latin America and the Caribbean are among the highest in the world, and the weekly addition to the toll is by far the largest (map 1b). The epidemic was quickly contained in East Asia and the Pacific, and with a few notable exceptions it did not gain much momentum in the African continent and the Middle East. In Europe and North

America, while not fully contained yet, the death toll has been on a declining trend for some time. But not in Latin America and the Caribbean, where many countries are still suffering more than two deaths per million people every day.

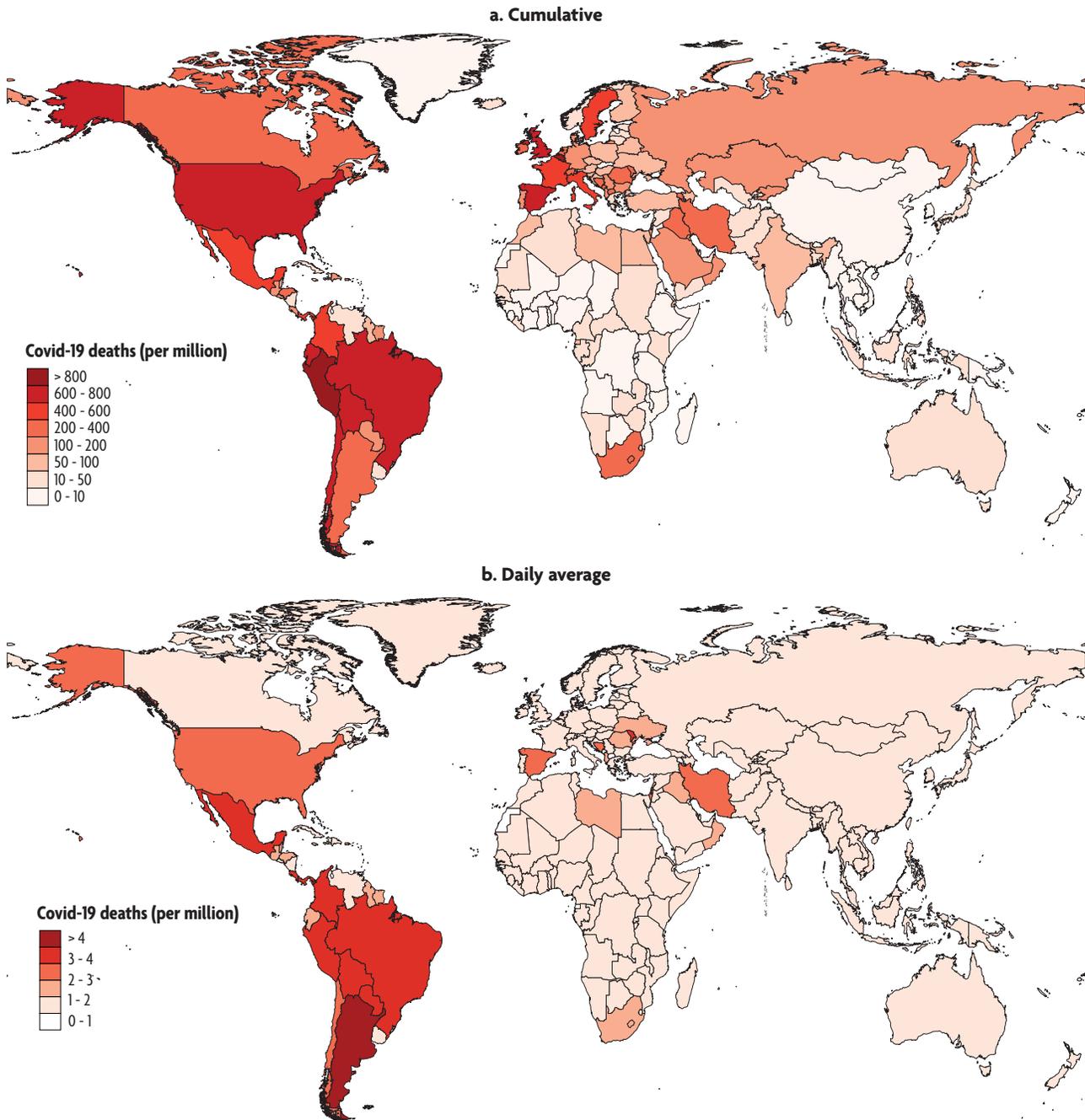
Not only did the Covid-19 epidemic lead to more deaths in Latin America and the Caribbean than elsewhere, but deaths were also more heavily concentrated among the poor. This is shown by spatially granular analyses of death rates by neighborhood. Initial impacts were typically stronger in wealthier areas, because their inhabitants tend to be more cosmopolitan, traveling abroad and interacting with foreign visitors more often. But over time, the death toll shifted to poorer areas, where overcrowding is more common, access to water is less prevalent, and health care coverage more precarious.

For example, in Lima (Peru) excess mortality relative to the same period in 2019 was significantly higher in districts with a lower Human Development Index (Hernández-Vásquez et al. 2020). A similar correlation, remarkably strong, can be found in Santiago (Chile), where Covid-19 was four times more lethal in the poorest communes than in the wealthiest ones (Fossa 2020).

The Covid-19 shock is not only particularly severe in the region: it also arrives on the back of several years of lackluster economic performance. After the “golden decade” associated with high commodity prices, the average growth rate of Latin America and the Caribbean had fallen below that of advanced economies. Countries in the Pacific and Caribbean subregions were doing better than those on the Atlantic, but growth was generally insufficient to support a continued improvement of social indicators. Several countries – especially oil exporters – were already under stress, and the wave of social unrest witnessed in many parts of the region during the year 2019 was revealing of a growing popular discontent.

Covid-19 has made the situation much worse. The impact of the epidemic has been felt through multiple channels, including lower foreign demand, increased economic uncertainty, a collapse of tourism flows and, especially, the consequences of months under lockdown. The weight of these factors has varied from

## Map 1. One of the most affected regions in the world



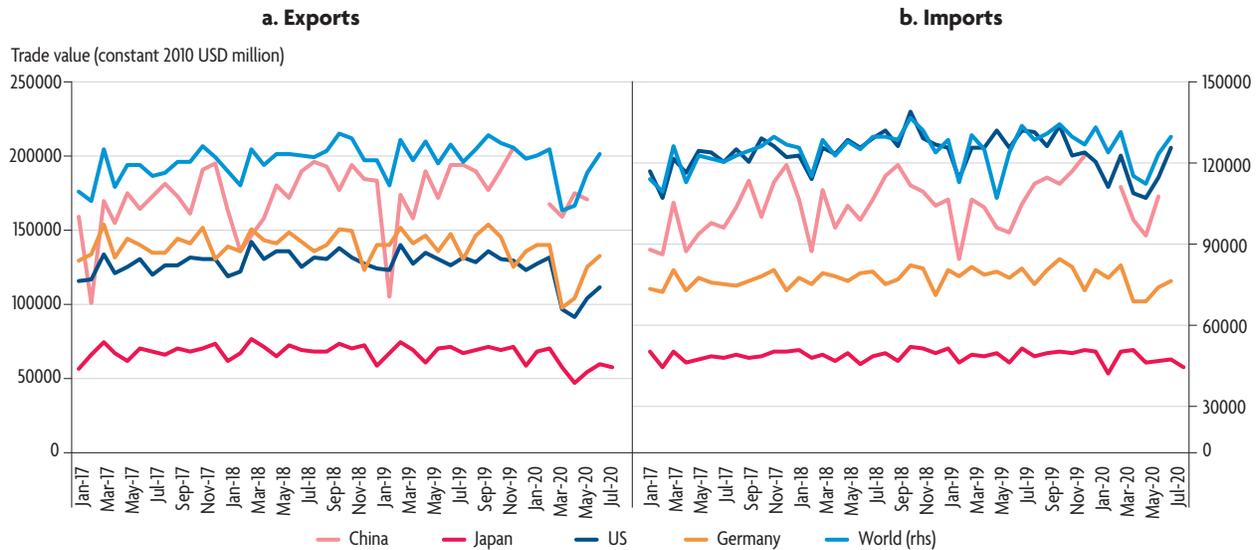
Note: Cumulative figures are up to September 24, 2020. The daily average is for the week ending on September 24, 2020.  
Source: Roser et al. (2020).

country to country. Island nations in the Caribbean have been badly hit by the collapse in international tourism, for example. The strength of containment measures has also varied substantially across countries, from very strict in Peru to mainly voluntary in Uruguay. And there are important differences even across states in a federal country like Brazil.

### *Some welcome surprises on the upside*

On the positive side, international developments have not been as negative as had been anticipated six months ago. Global trade in services has been dramatically affected by travel bans, but also by understandable reluctance to get exposed to the virus by traveling abroad. But trade in goods has been much more resilient than anticipated, and in the case of China it is almost back to pre-crisis levels (figure 1).

**Figure 1. Trade in goods is returning to pre-crisis levels**



Source: Global Economic Monitor.

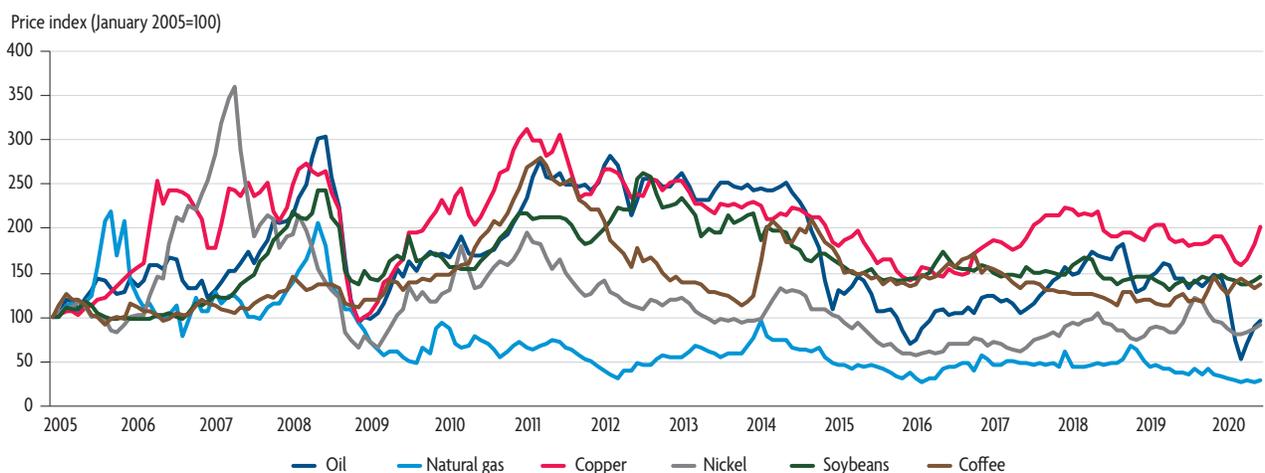
As a result, despite the trade tensions of the last few years, China’s share of the world’s trade in goods has increased substantially in 2020.

China is also positioned to be the only large economy to experience significant economic growth this year. This should be welcomed by the countries in Latin America and the Caribbean that rely heavily on China’s demand for their products. Several countries in the region have also benefitted from substitution effects. Lockdowns and Covid-19 infections affected meat exports from competing countries outside the region. Pork imports from China have also surged as a result of a sharp decline of domestic production. These developments explain why Brazil’s agricultural exports remain strong, to the point where the sector is experiencing positive growth relative to 2019.

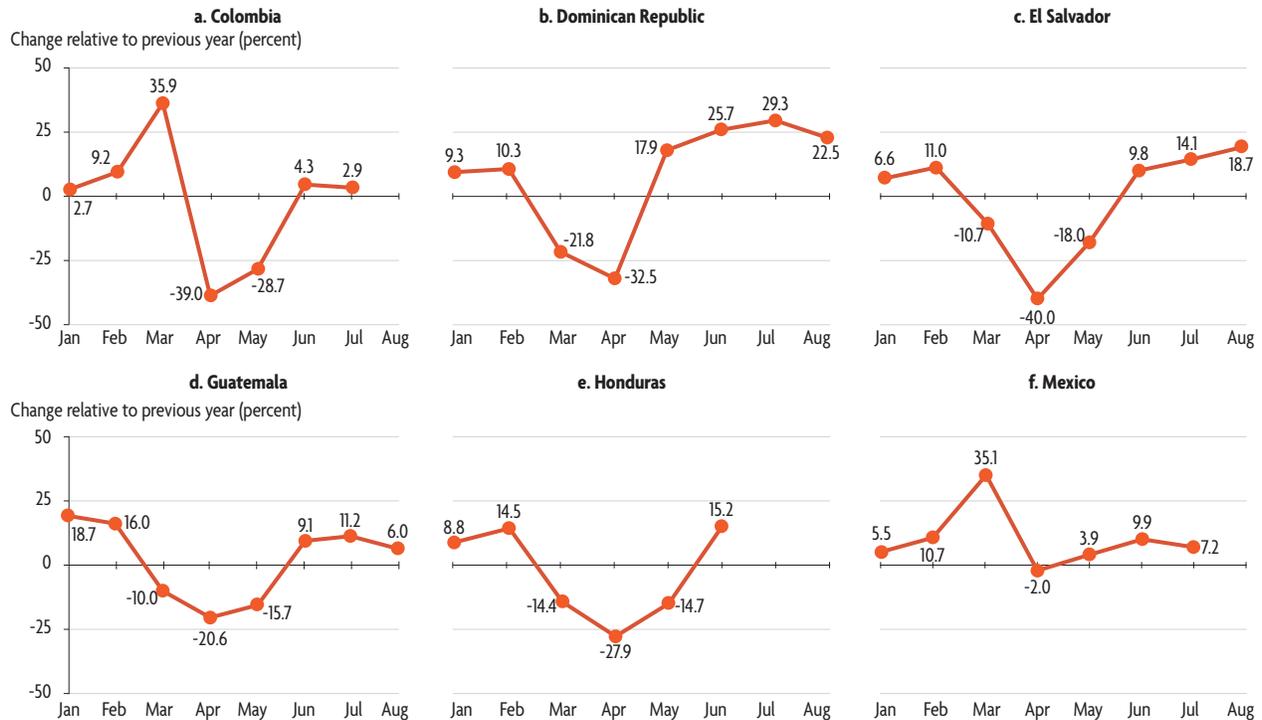
Consistent with the recovery of global trade in goods, commodity prices have declined less than initially feared, and some even increased (figure 2). This is not true for oil and gas, whose prices have suffered from the excess supply created by fracking technologies, a market imbalance that could not be offset by cartel agreements between the main global suppliers. But the prices of other key commodities are not too distant from those observed in 2019. In some cases, such as gold, prices have surged to historic records.

One of the biggest surprises has been in relation to remittances. Among countries in Latin America and the Caribbean, the volume of remittances is always largest for Mexico. In relative terms, however, it is highest for Haiti, where it accounted for 38.5 percent of GDP in 2019, followed by El Salvador (20.9 percent), Honduras

**Figure 2. Save for oil and gas, commodity prices held relatively well**



Source: Haver Analytics.

**Figure 3. After briefly declining remittances are currently increasing**

Source: Central banks.

Note: The data are for the year 2020.

(21.5 percent), Jamaica (15.6 percent) and several other Central American countries. Six months ago, global remittances were expected to experience the sharpest decline in recent history (World Bank 2020c). In the case of Latin America and the Caribbean, the average fall for 2020, relative to 2019, was predicted at 19.3 percent.

Remittances indeed dropped abruptly in the first few months after the Covid-19 outbreak. In Colombia and El Salvador, the decline was in the order of 40 percent in April, relative to the same month in 2019; in the Dominican Republic and Honduras it hovered around 30 percent (figure 3). But remittances held well in Mexico, and from June onward they have been higher than in the previous year across the region, sometimes by a considerable margin.

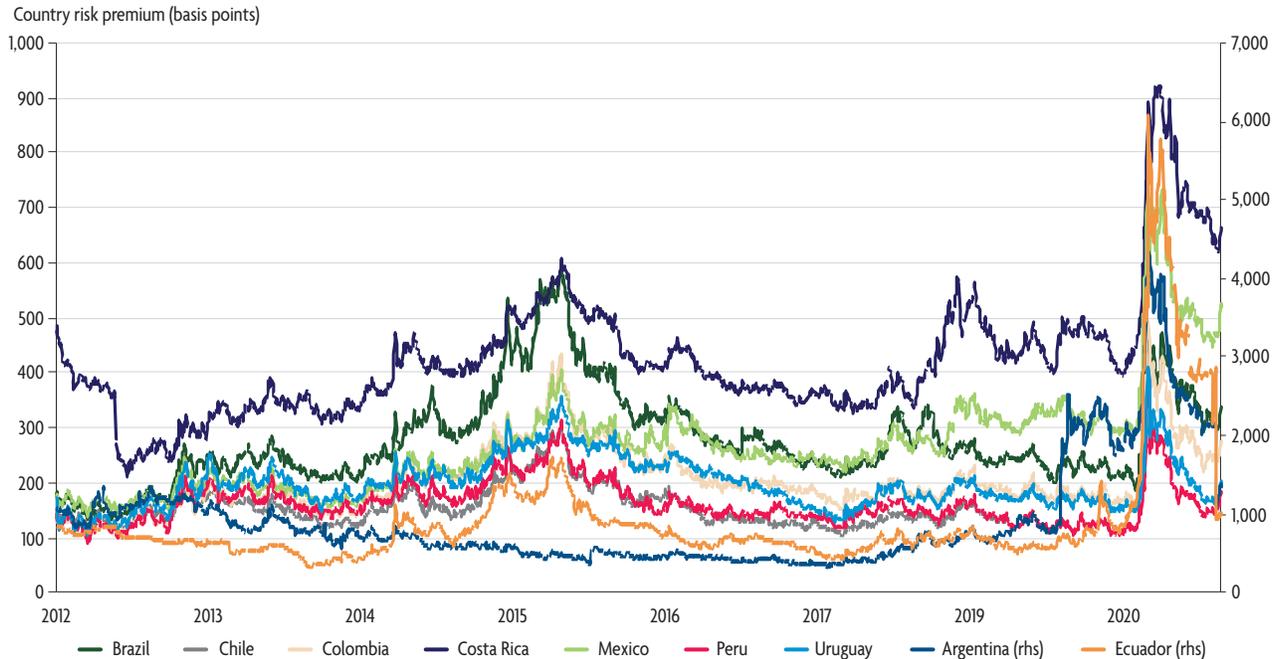
A possible explanation for this unexpected outcome is that migrants and their relatives back home make decisions collectively, sharing resources in such a way that the side of the family that is hardest hit gets more support from the side that is coping better. And this, even if both sides suffer from the crisis, is something that is difficult to capture in the standard models used to forecast remittances globally.

Most migrants from Latin America and the Caribbean live in the US, and many of them work in construction and food retail, two sectors that could continue their

activity during the lockdowns. Legal immigrants to the US also benefitted from stimulus payments to low-income households, which increased consumer spending sharply (Chetty et al. 2020). It is likely that the US side of families from Latin America and the Caribbean with migrants coped relatively well and was therefore able to provide extraordinary support to the side back home during the crisis.

One of the greatest concerns for developing countries at the onset of the Covid-19 pandemic was to face a sudden stop of financial flows. This term describes a situation in which short-term capital flies to safety while access to international markets is cut. The second quarter of 2020 seemed to confirm these dire predictions, as capital outflows from developing countries were larger than they had been at the beginning of the global financial crisis. The interest rate spreads on bonds issued by countries in Latin America increased sharply as a result (figure 4). These spreads provide a measure of the way country risk is perceived by investors.

However, the extraordinary policy responses of advanced economies, which included the provision of abundant liquidity in reserve currencies, soon assuaged the fears. Country risk premiums gradually eased, and many developing countries maintained good access to international finance. Taken collectively, they have

**Figure 4. Few countries have lost access to financial markets**

Source: JPMorgan.

managed to place about USD 100 million in bonds abroad.

Contrary to expectations, countries in Latin America and the Caribbean have issued more international bonds in 2020 than they did during the entire year 2019. The largest emissions were by Mexico, Panama, Brazil, the Dominican Republic and Peru, in that order. But several other countries in the region issued international bonds in the range of USD 2 bn each. On the other hand, Argentina, Costa Rica and Ecuador did not issue debt internationally.

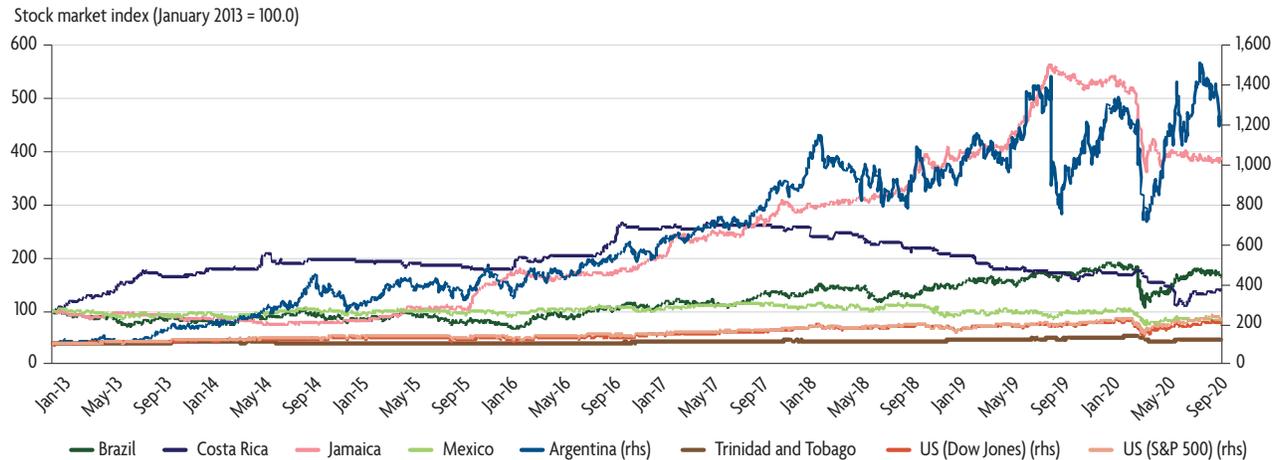
Not all countries in the region could tap international financial markets, however. In recent months Argentina and Ecuador have had to restructure their external debt with international creditors, as a result of economic crises whose origins predated Covid-19. Debt restructuring is typically a challenging undertaking, as individual creditors face a free-riding incentive to stay out of any agreement. Indeed, a viable agreement helps the debtor country restore its capacity to service foreign debt but staying out of it allows the creditor to recover its due in full. However, in both Argentina and Ecuador collective action clauses allowed reaching deals with a vast majority of creditors, creating successful precedents for other countries undergoing debt stress. These deals have created some space for governments to address the crisis, but it may take some time before Argentina and Ecuador return to capital markets.

The disconnect between the dramatic contraction in economic activity and the abundance of short-term liquidity over the last few months is also reflected in stock market performance. After a sharp decline in April, share prices have mostly recovered (figure 5). In the case of Argentina, they even reached record levels when agreement was reached on debt restructuring.

### *A strong policy response despite limited fiscal space*

Domestically, the economic impact of the Covid-19 crisis was cushioned by strong government efforts to support households and protect jobs during the lockdown period. Computing the exact size of the stimulus packages is challenging, because the fiscal cost of some of the measures cannot be quantified yet. When a government allows its citizens not to pay their water or electricity bills, there is a probability that it will need to provide financial support to the utilities. When it offers guarantees for banks to lend to firms, it is difficult to tell which share of the guarantees will need to be honored, and when.

Countries have computed these potential liabilities differently. Typically, the potential support needed by utilities has not been counted as part of stimulus packages, but some countries have reported the full value of loan guarantees as part of the total. However,

**Figure 5. Stock markets are generally upbeat**

Source: Haver Analytics.

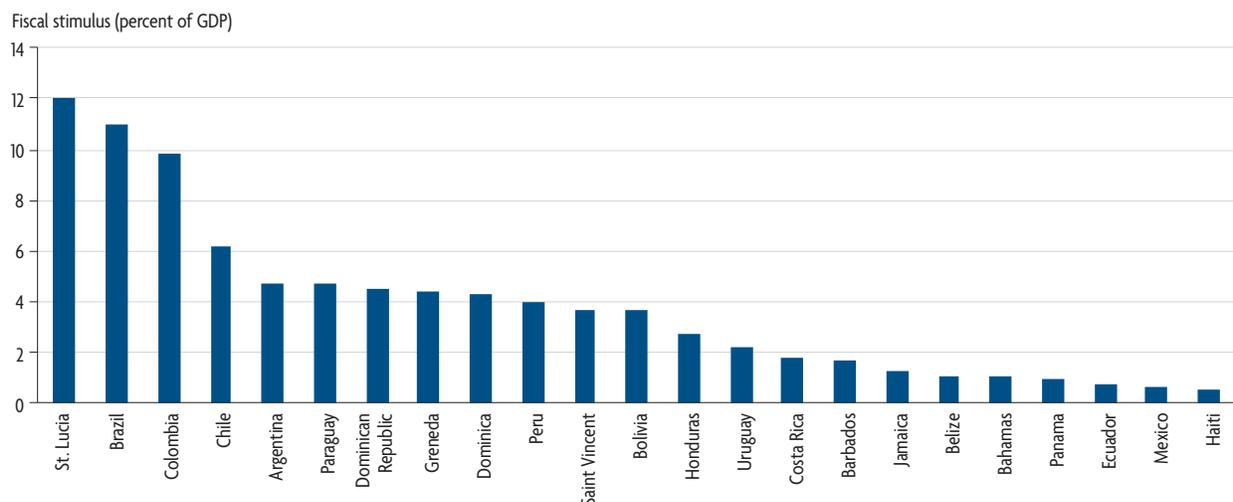
reductions in taxes and increases in public spending account for the bulk of the packages, and they can be more easily quantified in a way that is comparable across countries.

Even if this metric is partial, it reveals that some of the stimulus packages adopted in Latin America and the Caribbean have been as sizeable as those of advanced economies (figure 6). This was so despite the more limited fiscal space faced by most countries in the region, with Peru, Chile and to some extent Colombia being among the exceptions in this respect. Importantly, most of the stimulus went to support households, and in particular to the poorest segments of society.

Monetary policy was accommodating as well. Among the countries that rely on inflation targeting, only Jamaica kept its key policy rate unchanged. All other

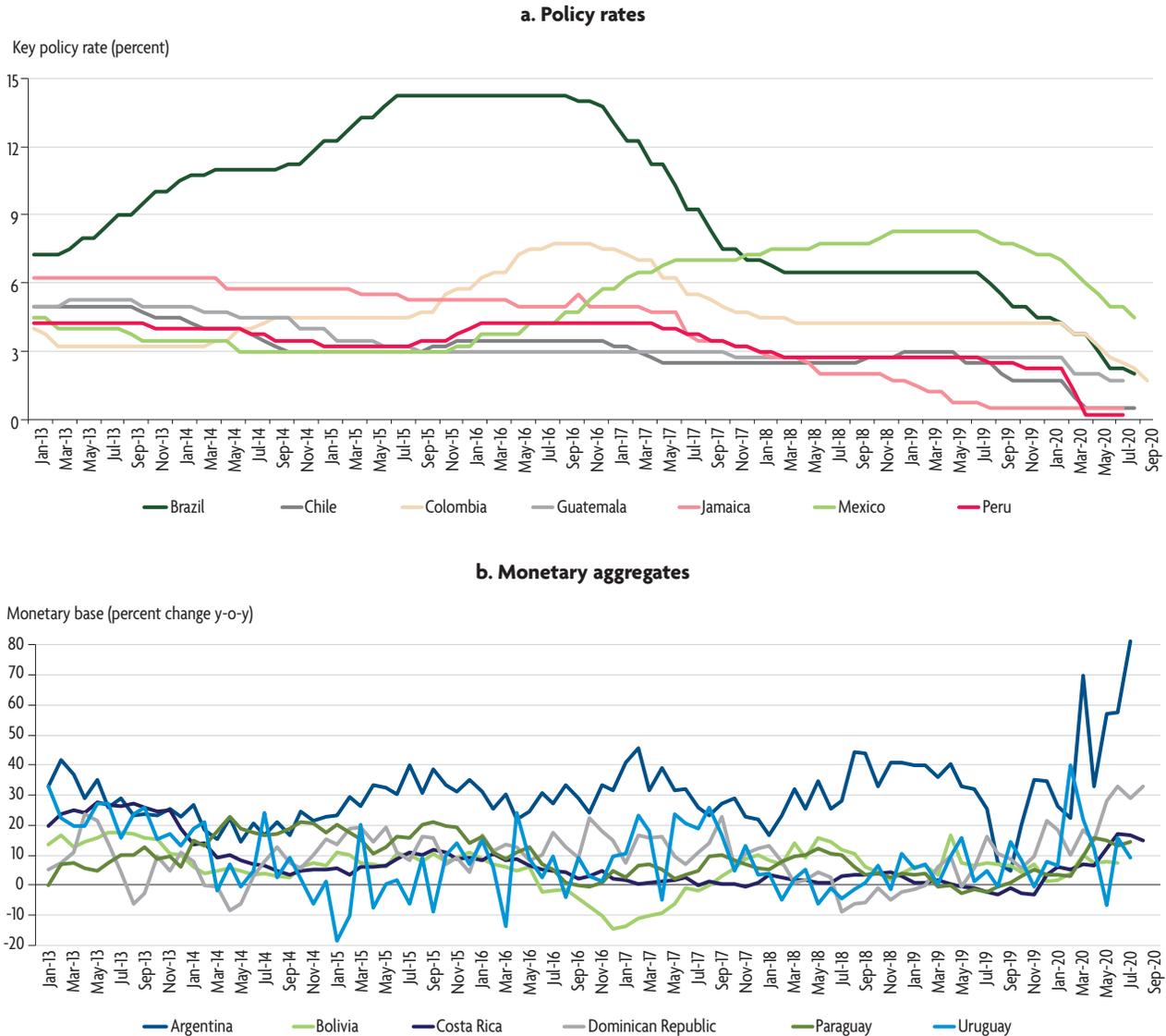
six reduced it, sometimes by several percentage points (figure 7a). Among the remaining countries in the region, with the exception of Uruguay, money supply generally remained stable or increased (figure 7b).

So far, the sharpest increase in money supply has been in Argentina. There, it reflects the severity of the fiscal constraint faced by the authorities rather than a deliberate decision to conduct a massively expansionary monetary policy experiment. With one of the most stringent lockdowns in the region, Argentina has faced a drop in tax revenue while at the same time having to provide support to large segments of the population that cannot work. Without much room to issue public debt, monetizing part of the budget deficit was arguably the only option left to the government. But this option presages an acceleration of inflation, already the highest in the region.

**Figure 6. Large fiscal stimulus despite limited fiscal space**

Source: IMF and own calculations.

Figure 7. An accommodating monetary policy stance



Source: Haver Analytics.

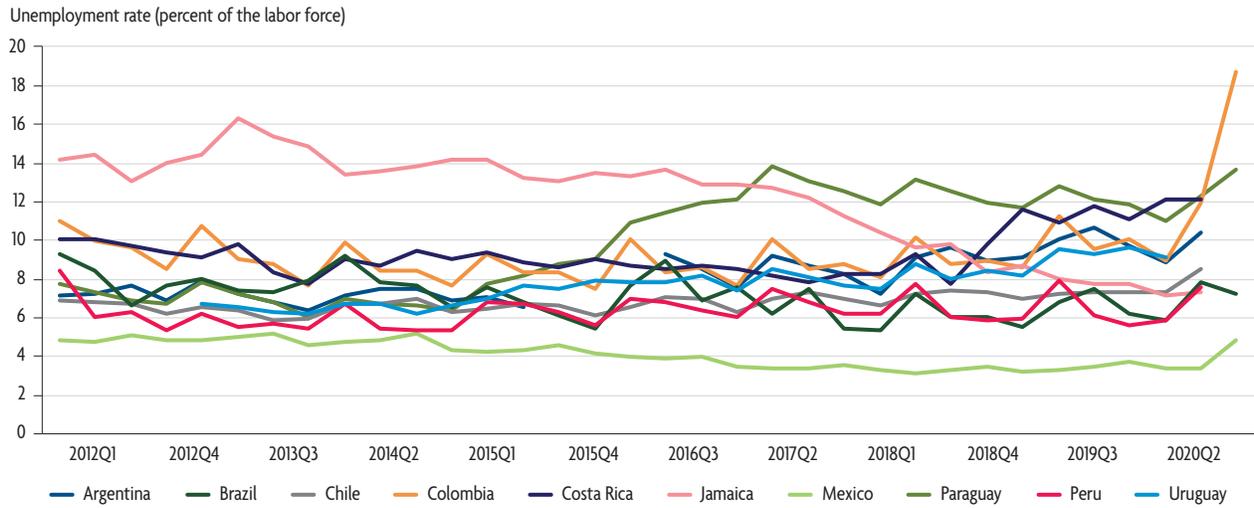
### Damaging economic and social impacts

Despite an international environment more supportive than had been anticipated, and a strong domestic policy response, the economic and social damage from the Covid-19 crisis has been immense. Unemployment rates have increased across the region, and are currently in the double digits in Brazil, Colombia, Costa Rica and Uruguay (figure 8). These figures most likely underestimate the impact of Covid-19 and the lockdowns and social distancing measures to contain the spread of the disease. Many formal sector jobs may disappear in the coming months. And many informal sector workers may continue doing some activity but earning much less than before.

A sense of these less visible social costs is provided by a series of rapid telephone surveys conducted by the World Bank (2020a). While unemployment rates refer to individuals, the telephone surveys allow to capture the situation of households. For any given share of individuals losing their jobs, the share of households affected is higher. And among those who do not lose their jobs, workers who are not on regular salaried contracts can nonetheless experience a drop in income.

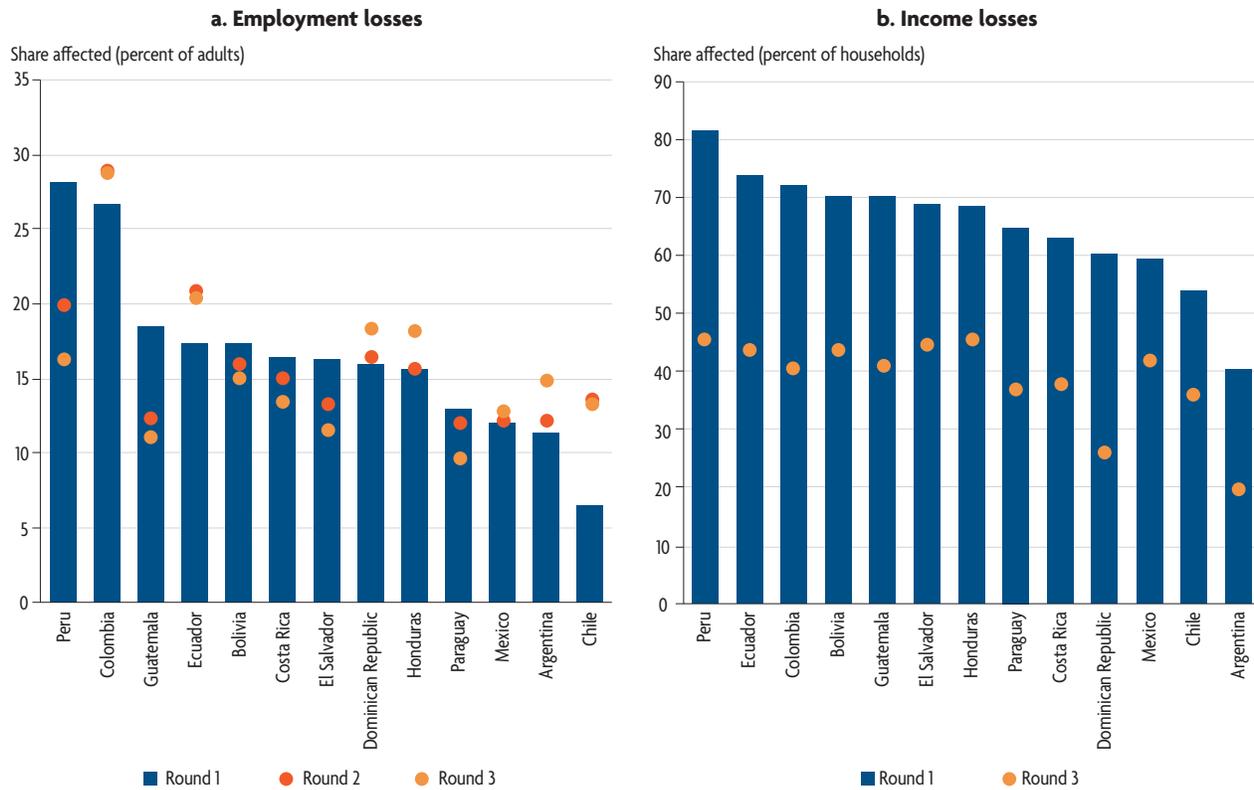
These rapid telephone surveys show that on average, across 13 countries in Latin America and the Caribbean, around 16.6 percent of adults had permanently lost their jobs by May 2020 (figure 9a). Peru, Colombia and Guatemala, in that order, were among the countries most severely affected.

Figure 8. Unemployment rates are increasing across the region.



Note: National indicators are reported.  
Source: ILOSTAT.

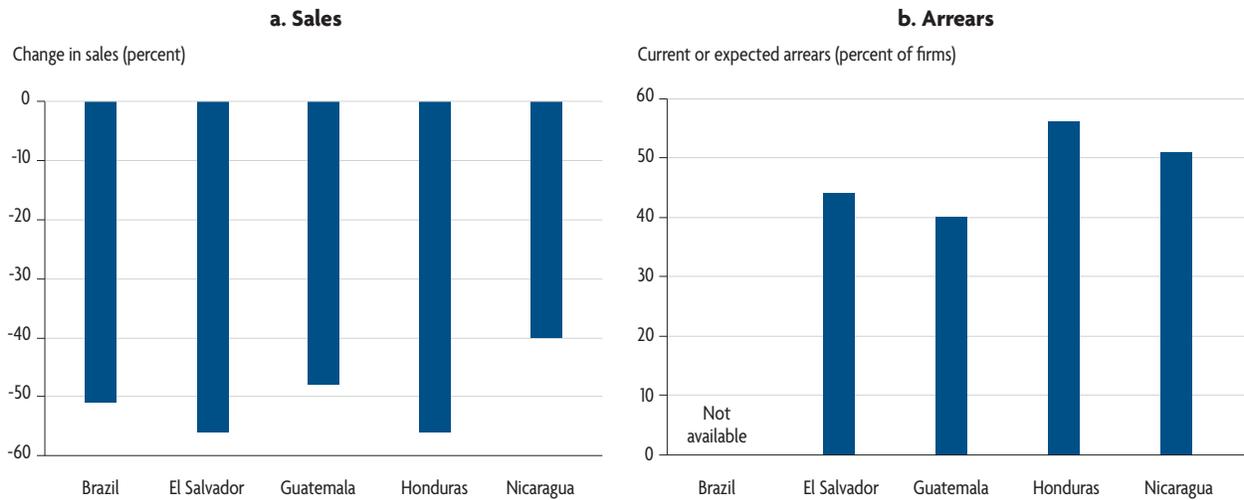
Figure 9. Income losses are even more prevalent than employment losses



Note: Based on household members 18 years old and above. Round 1 was between May 21 and June 1, round 2 between June 19 and 28, and round 3 between July 18 and 26.  
Source: World Bank (2020a).

The impact of the crisis was even greater when considering earnings losses instead (figure 9b). By May 2020, 65.0 percent of households had seen their income decline, with the share reaching 81.4 percent in Peru, and more than 70 percent in Ecuador, Colombia and Bolivia.

A similar effort to produce rapid surveys, also led by the World Bank, was undertaken to assess the impact of the Covid-19 crisis on firms (Apedo-Amah et al. 2020). The data for this exercise was collected mostly over the phone too, covering more than 100,000 businesses across 49 countries worldwide. Five of these countries are in Latin America and the Caribbean. Ensuring

**Figure 10. There may be a long-lasting impact on firms**

Note: Reported figures are unconditional means. The change in sales is relative to the pre-crisis period. Arrears include current and expected over the following six months.  
Source: Apedo-Amah et al. (2020).

representativeness is of course more difficult for firms than for households, but the results are still revealing. The average drop in sales among the countries covered by the survey was a staggering 50.2 percent (figure 10a).

Respondents also report that most of the required employment adjustment took place through leave and a reduction in hours worked, rather than layoffs.

While this finding may look encouraging from a social point of view, the survey results hint to a potentially deteriorating employment situation in the coming months. Indeed, a large share of respondents to the survey report being already in payment arrears or expecting to be in such situation in the near future (figure 10b). This suggests that the Covid-19 crisis could be not only severe, but also have long-lasting effects.



# 2

## The outlook for the region

The unprecedented nature of the Covid-19 crisis makes it difficult to forecast with precision the depth of the recession, and the timing and strength of the recovery. Trade volumes recovering, commodity prices holding relatively well, remittances increasing and access to finance not vanishing altogether may justify a slightly less pessimistic take compared to six months ago. Another silver lining comes from the large scale of the stimulus packages adopted by several governments in Latin America and the Caribbean. But overall, the outlook for the region remains grim.

### *Social transfers as a saving grace*

A vast majority of countries in Latin America and the Caribbean adopted sizeable social protection programs to cushion the impact of the Covid-19 crisis. In 30 of them additional resources were mobilized for social assistance, in seven for social insurance, and in two for labor market interventions. Taken together these new interventions expanded the reach of social transfers from 29 percent of the population to a full two-thirds of it. This puts the region on a par with East Asia and the Pacific in terms of overall population coverage of stimulus programs, ahead of all other developing regions.

The average transfer per person was generally smaller in Latin America and the Caribbean than in other middle-income regions, but the number of persons benefitting was remarkable. In Bolivia and Peru, for example, the ambition was to cover 90 percent of the population.

Around the world, implementation challenges mean that not all targeted households may be attained, and assessing actual coverage is difficult. By one estimate, some of the largest programs in practice are the Bono Familia and Bono Universal in Bolivia, which effectively reaches 54 percent of the population, the *Quédate en Casa* program in the Dominican Republic (49 percent), the *Ingreso Familiar de Emergencia* and *Bono de Emergencia* in Chile (34 percent), the *Auxilio Emergencial* in Brazil (31 percent), and the *Bono 380* in Peru (30 percent). The absolute number of beneficiaries of these emergency programs is large enough for five countries in the region – Brazil, Peru, Colombia, Argentina and Chile, in that order – to be among the largest ten in the developing world (Gentilini et al. 2020).

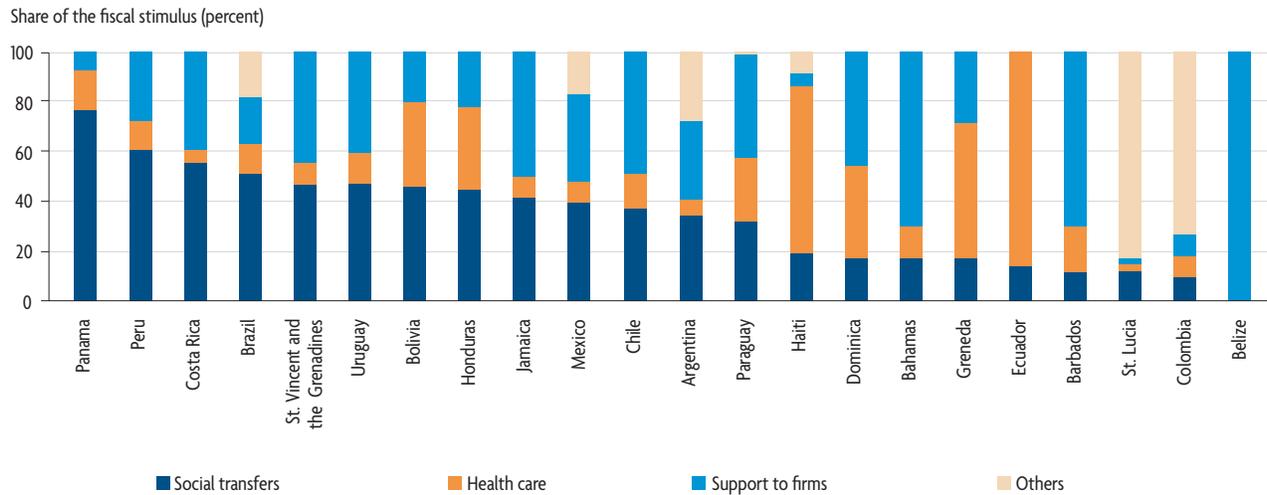
In the case of Brazil, the scale of the program was such that, despite the economic downturn, the poverty rate is estimated to have dropped below its pre-crisis level. World Bank simulations suggest that with the final expansion of the government's emergency cash transfer program (among other fiscal measures), the fraction of the population living on less than USD 5.50 per day (in Purchasing Power Parity prices of 2011) could be below 14 percent, compared to 19.7 a year earlier.

The importance of social transfers is reflected in the breakdown of public spending by category under the stimulus packages adopted in response to the crisis. Spending can be classified as funding the health care response, helping households and supporting businesses, and other efforts that are difficult to map to any single objective. In four countries in the region social transfers accounted for more than half of the package, reaching more than three quarters in the case of Panama. Five other countries devoted between 40 and 50 percent of their fiscal stimulus to assisting households (figure 11).

Such sizeable fiscal spending is relevant not only from a social perspective, but also from a macroeconomic point of view. Lower taxes and additional government expenditures can boost aggregate demand in a recession and contribute to an increase in economic activity. The size of the associated multiplier effect has been the subject of much research and controversy in economics. It is understood that fiscal multipliers ought to be larger the more depressed aggregate demand is, and the more likely that the beneficiaries will actually spend the resources they receive from the government.

The emergency social transfers adopted in response to the Covid-19 crisis targeted the poorer segments of the population, and particularly the informal workers who make a living daily and lost their income because of the lockdowns. Both groups are likely to spend most of the transfers they receive without delay. The multiplier effect of social transfers could thus be substantial.

A background study for this report estimated fiscal multipliers across countries and across types of government spending (Box 1). The results show that multipliers are much larger in Latin America and the Caribbean than in advanced economies. In the short-term, an additional unit of public spending increases

**Figure 11. Much of the fiscal stimulus went into social transfers**

Source: Own calculations.

### Box 1. Fiscal multipliers on steroids: the role of social transfers in Latin America and the Caribbean

Ever since the Global Financial Crisis, fiscal policy has regained great interest both in academic and policy circles. This renewed relevance has been recently redoubled as governments around the world evaluate the use of alternative fiscal instruments at their disposal to cope with the Covid-19 pandemic. In this context, the spending multiplier of social transfers is receiving growing attention.

Social transfers are associated with both ongoing social protection programs and emergency policy responses. Most often they involve the disbursement of public funds and they target individuals or households who meet certain eligibility criteria. Examples include pensions, unemployment benefits, family allowances, conditional cash transfers and social assistance.

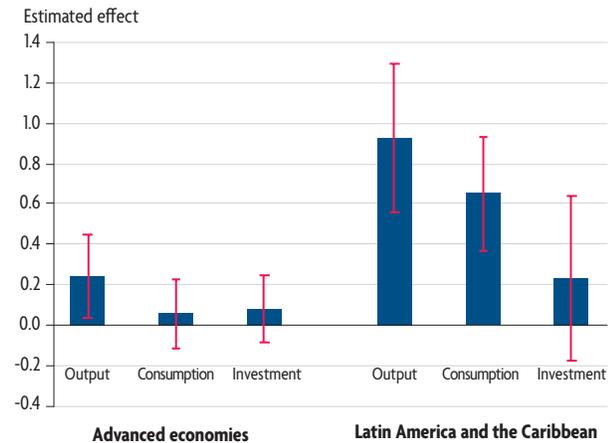
Empirical evidence on the size of social transfer multipliers is relatively recent and primarily based on data from advanced economies. These studies find that the impact of social transfers on economic activity is modest, with one additional unit of spending typically leading to an increase in aggregate output ranging from 0.2 to 0.5. Similar estimates were unavailable for developing countries until now. However, based a sample of six countries in Latin America and the Caribbean, Bracco et al. (2020) find much larger social transfer multipliers, reaching about 1.1 in the short- and medium-term.

Using a calibrated Two-Agent New Keynesian (TANK) model, the authors find that the large difference with advanced economies is explained by the larger share of households who live from hand to mouth in developing countries. These households typically lack access to finance. Therefore, they do not save or borrow much, and their propensity to consume any additional income they receive is high.

The TANK model takes into account the share of households who live from hand to mouth in a country, and the share of these households that receives social transfers. The model is calibrated with data from the region, allowing the two critical shares to vary across the six countries considered. The simulations show that a better targeting of social transfers results in a more sizeable fiscal multiplier. The impact is particularly large for the emergency responses adopted in response to the Covid-19 pandemic, which appear to be better targeted than ongoing social protection programs.

The fiscal multipliers simulated using the calibrated TANK model closely resemble those estimated with aggregate macroeconomic data. This similarity suggests that social transfers may account for much of the difference between the size of multipliers in advanced economies and in developing countries.

**Figure 12. Social transfers have a large multiplier effect in the region**



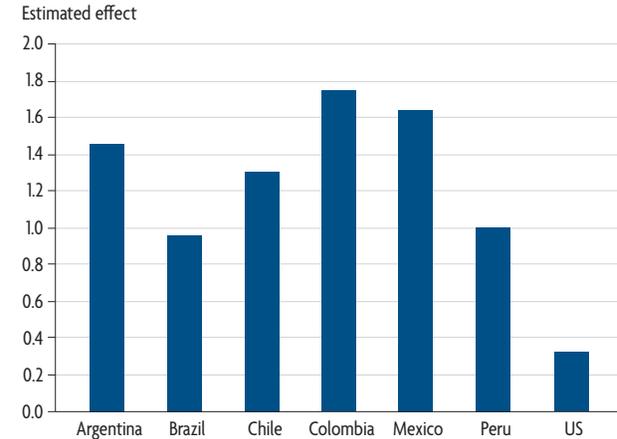
Note: Figures indicate the change in the variable of interest for an increase of one unit in spending in social transfers. Red lines represent confidence intervals.  
Source: Bracco et al. (2020).

aggregate output by 1.10 in the region, compared to 0.25 in advanced economies (figure 12). The impact is stronger after one quarter, gradually declining and eventually vanishing in both sets of countries.

An analysis of the mechanisms at play reveals that the output effect is driven by the response of consumption, more than investment. The background study calibrates a model of the economy taking into consideration both the size of the emergency social protection programs adopted in the region, and the fraction of the transfers that can be expected to reach households who make a living on a daily basis. From a data perspective, these households can be identified using financial inclusion indicators, as they typically lack access to bank accounts, credit cards and other instruments allowing them to smooth their consumption. Simulations run with this model suggest that the fiscal multipliers associated with the stimulus packages adopted in response to the Covid-19 crisis are indeed sizeable across all the countries considered (figure 13).

Countries in Latin America and the Caribbean have been known for their limited ability to adopt countercyclical policies (Végh and Vuletin 2014). In times of bonanza, when commodity prices are high, governments become profligate spenders. And then, during downturns, they have no room of maneuver left and need to cut public spending, further depressing the economy. While some countries in the region have over time “graduated” from procyclicality, the Covid-19 crisis could be one of the first examples of successful countercyclical fiscal policy across large swaths of the region.

**Figure 13. Fiscal multipliers were large in countries with sizeable and well-targeted social transfers**



Note: Figures indicate the change in output for an increase of one unit in public spending.  
Source: Bracco et al. (2020).

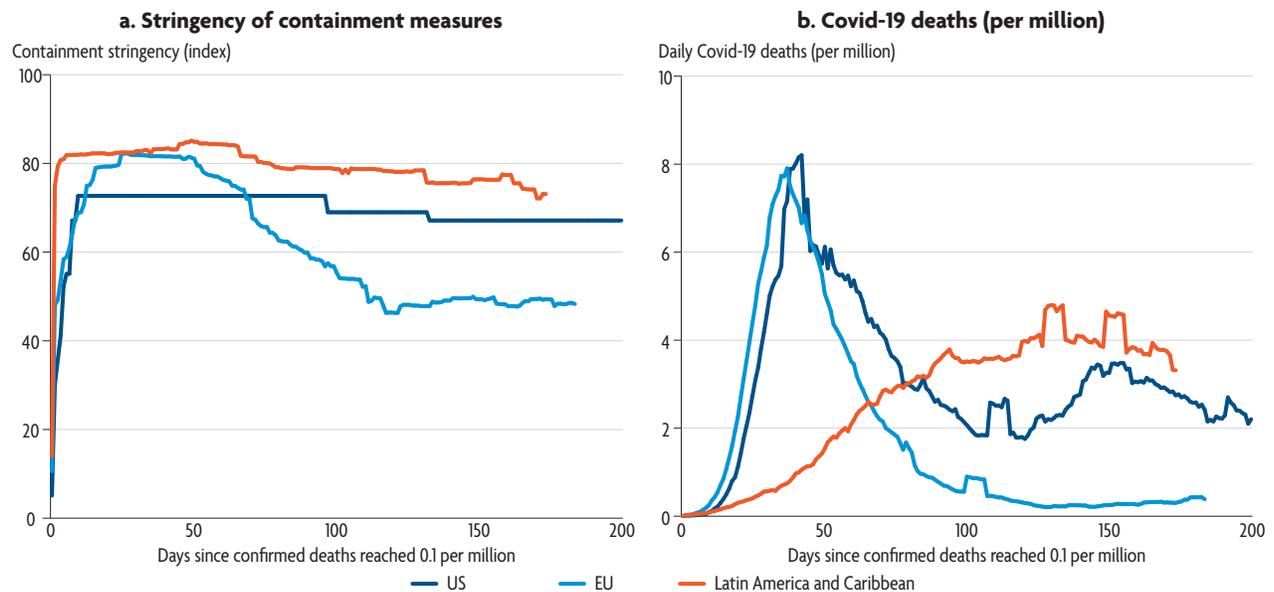
## Assessing the extent of the damage

Despite an international environment less unfavorable than anticipated, and despite the large multiplier effect of sizeable emergency social protection programs adopted in many countries, the recovery could be protracted. The liquidity constraints faced by firms as economies came to a standstill could easily evolve into solvency problems. Many businesses that had to shut down during the lockdowns may never reopen. And it may take time for job creation by new and survivor firms to offset the job destruction from the crisis. How significant this drag will be is unclear at this point.

The unprecedented nature of the crisis amplifies the uncertainties. Forecasters disagree on whether the recovery will be V-shaped or rather be U-shaped. Some argue that the impacts will be long-lasting, implying that the recovery could be L-shaped. Several years could be needed in that case before regaining the level of economic activity returns to its pre-Covid-19 level.

One reason for pessimism is that several countries in Latin America and the Caribbean have yet to emerge from their lockdown policies. While the rest of the world has gradually eased restrictions on economic activity, public events, schooling and even air travel, the stringency of containment measures remains very high in the region (figure 14a). A full-speed recovery is difficult under these circumstances.

While advanced economies were exposed to the virus earlier, and saw the number of deaths spike shortly after, the region has followed a less abrupt but not less lethal

**Figure 14. Still stringent containment measures and a heavy death toll**

Source: Hale et al. (2020) for panel a and Roser et al. (2020) for panel b.

Note: The stringency index in panel a is an average across nine metrics capturing: school closures, workplace closures, cancellation of public events, restrictions on public gatherings, closures of public transport, stay-at-home requirements, public information campaigns, and restrictions on internal movements; and international travel controls.

trajectory. With a combined population of about 655 million people, the Latin America and the Caribbean region is comparable in size to the EU (446 million) and the US (331 million). All three areas also comprise multiple countries or states, each with relatively independent public health policies. And in all three the number of deaths per million people has been on a stable or declining trend for several months. However, this relative stability takes place at very different levels, which presages high death tolls for quite some time (figure 14b). As a result, strong containment measures may be still be needed in some parts of the region.

This possibility needs to be considered when predicting GDP growth rates for the countries in the region. But given the level of uncertainty all forecasts, including those in this report, must be interpreted with caution, recognizing that they may be more approximative than in normal times (table 1).

### *Economic activity in the third quarter*

The substantive uncertainties associated with the dynamics of a new pandemic are amplified by the sparsity of real-time data on economic activity. Advanced economies produce quarterly estimates of output growth within a few weeks of the end of each quarter. And some of the statistical systems of Latin America and the Caribbean match that performance.

But in most developing countries, data production delays and subsequent revisions imply that it may take several months before an accurate assessment of economic performance can be obtained. On the day this report was released, the third quarter of the year had already elapsed, but no official growth statistics were available for it.

Because of these uncertainties and delays, much of the monitoring of the impact of the Covid-19 crisis has had to rely on data made available by new technologies – from mobile phone traffic to credit card transactions to satellite imageries. It is worth noting that all this data is generated outside traditional statistical systems, most often for private purposes.

A second background study for this report uses data on emissions of NO<sub>2</sub>, a pollutant generated by combustion engines, factory chimneys, and agricultural fires, among others. This study exploits the high correlation that exists in every country between official GDP figures and measured NO<sub>2</sub> emissions (box 2). The correlation is always positive, but the implied elasticity varies across countries. For example, a country in which heavy industry accounts for a large share of economic activity is likely to have a higher volume of emissions per unit of output than one specializing in agriculture or services. There are also differences associated with the level of development. In developing countries the amount of NO<sub>2</sub> emitted per unit of GDP tends to increase over time, where it generally decreases in advanced economies.

**Table 1. Real GDP growth at market prices**

	2017	2018	2019	2020f	2021f	2022f
Argentina	2.7	-2.5	-2.2	-12.3	5.5	1.9
Bahamas	3.1	3.0	1.2	-14.5	4.5	2.3
Barbados	0.5	-0.6	-0.1	-11.6	7.4	3.9
Belize	1.9	2.1	-2.0	-17.3	6.9	2.2
Bolivia	4.2	4.2	2.2	-7.3	4.4	3.8
Brazil	1.3	1.3	1.1	-5.4	3.0	2.5
Chile	1.2	3.9	1.1	-6.3	4.2	3.1
Colombia	1.4	2.5	3.3	-7.2	4.5	4.2
Costa Rica	3.9	2.7	2.1	-5.4	3.1	3.5
Dominica	-9.5	0.5	8.6	-7.3	3.3	3.2
Dominican Republic	4.7	7.0	5.1	-4.3	4.8	4.5
Ecuador	2.4	1.3	0.1	-11.0	4.8	1.3
El Salvador	2.2	2.4	2.4	-8.7	4.9	3.0
Grenada	4.4	4.1	2.0	-12.0	3.0	5.0
Guatemala	3.0	3.2	3.8	-3.5	4.5	3.8
Guyana	3.7	4.4	5.4	23.2	7.8	3.6
Haiti	1.2	1.5	-1.4	-3.1	1.1	2.1
Honduras	4.8	3.7	2.7	-7.1	4.9	3.9
Jamaica	1.0	1.9	-0.1	-9.0	4.0	2.0
Mexico	2.1	2.2	-0.3	-10.0	3.7	2.8
Nicaragua	4.6	-4.0	-3.9	-5.9	1.1	1.2
Panama	5.6	3.7	3.0	-8.1	5.3	3.8
Paraguay	5.0	3.4	0.0	-3.2	3.5	3.7
Peru	2.5	4.0	2.2	-12.0	7.6	4.5
St. Lucia	3.5	2.6	1.7	-18.0	8.1	5.2
St. Vincent and the Grenadines	1.0	2.2	0.4	-7.0	3.7	3.0
Suriname	1.8	2.6	0.3	-13.0	1.5	2.0
Uruguay	2.6	1.6	0.2	-4.0	4.2	3.1
Latin America and the Caribbean	1.4	1.0	-0.2	-7.9	4.0	2.8

Note: Figures are in percent. "f" stands for forecast. The regional average does not include Venezuela.  
Source: Own calculations.

The methodology of the second background study captures this diversity. The estimated country-specific elasticities are then used to generate out-of-sample forecasts of GDP growth at the country level based on NO<sub>2</sub> emissions observed in real time.

For OECD countries, which produce quarterly statistics on economic activity, the correlation between the GDP forecasts for the first half of 2020 and official numbers is 0.64, which gives reassurance of the reliability of the approach. On average for these countries, the forecasted growth rate in the first semester of 2020, relative to the

first semester of 2019, is -5.0 percent, compared to -6.3 according to national statistical offices.

Building on these encouraging results, the study generates estimates of quarterly GDP growth for almost all countries in the world up to the third quarter of 2020. The only countries excluded are those that are very small in surface or are near the Arctic, because NO<sub>2</sub> data are too noisy to be reliable in their case.

This exercise shows that in the second quarter of 2020 all countries in the world saw their GDP drop relative

## Box 2. Estimating economic activity with high frequency using satellite data

A big piece of the puzzle for policy makers attempting to address the worldwide pandemic is to gauge the economic consequences of imposing containment measures. The problem is that data on GDP, the most widely used measure of economic activity around the world, takes time to compile, especially in developing countries. Policy makers cannot afford a wait of one year or more to be able to evaluate the tradeoffs in front of them in order to decide the right policy mix for their countries.

Attempting to address this problem, Morris et al. (2020) use big data on NO<sub>2</sub> emissions from all over the world. These emissions provide a reliable high-frequency proxy for economic activity, as they typically originate in human made activity, mainly through combustion.

Importantly, NO<sub>2</sub> emissions are observable with very high frequency across most of the Earth's surface. Data are captured twice every day by the Ozone Monitoring Instrument (OMI) on-board NASA's EOS-Aura satellite. The OMI measures the density of NO<sub>2</sub> particles in a series of vertical columns at the troposphere – the area of the atmosphere nearest human activity. A column is the area where the reading occurs, which can be as fine as 13 km of latitude by 25 km of longitude.

Global NO<sub>2</sub> emissions have a clear annual cycle, but they also display a long-term trend that can be different for each country. Differences in trends appear to be related to differences in economic development across countries. At the global level, the trend over 2005-2020 is decreasing, most probably due to mitigation efforts in advanced economies. There are also clear business cycle dips in 2009, after the global financial crisis, and in 2020, during the Covid-19 crisis. This correlation between emissions and economic activity is extremely useful to assess the scale of the economic downturn

Morris et al. (2020) follow a two-step procedure to nowcast GDP fluctuations at the country level with high frequency. In the first step, they use annual data to estimate the elasticity of NO<sub>2</sub> emissions to real GDP as traditionally measured. Then, they apply the estimated elasticities to higher-frequency data on NO<sub>2</sub> emissions to generate a prediction of economic activity, say quarterly.

The data used for the first step are from 174 countries from around the world. The panel structure of the sample allows estimating country-specific elasticities. The specification includes country and time fixed effects, as well as a country-specific time trend. Time fixed effects allow capturing the mitigation observed at the global level, while country fixed effects reflect differences in the intensity of NO<sub>2</sub> emissions per unit of GDP that are possibly due to factors such as the sectoral composition of output. Finally, country-specific time trends reveal the varying strength of mitigation efforts across national boundaries. The prediction of GDP levels relies on the estimated value of these trends.

to the same period in 2019, most often dramatically (map 3a). For the first half of the year, the resulting distribution of growth rates across developing countries is very similar to the distribution of GDP growth forecasts by the World Bank and the IMF for the entire year. The overall correlation is 0.85 in the first case and 0.84 in the second, which again is reassuring.

Whether the recovery will be V-shaped, U-shaped or L-shaped depends to a large extent on what happened during the third quarter of 2020, for which no official GDP statistics are available yet. The out-of-sample forecasts from the second background study for this report indicate that economic activity remains on average depressed relative to the third quarter of 2019. But the fall in GDP is smaller than in the first half of the

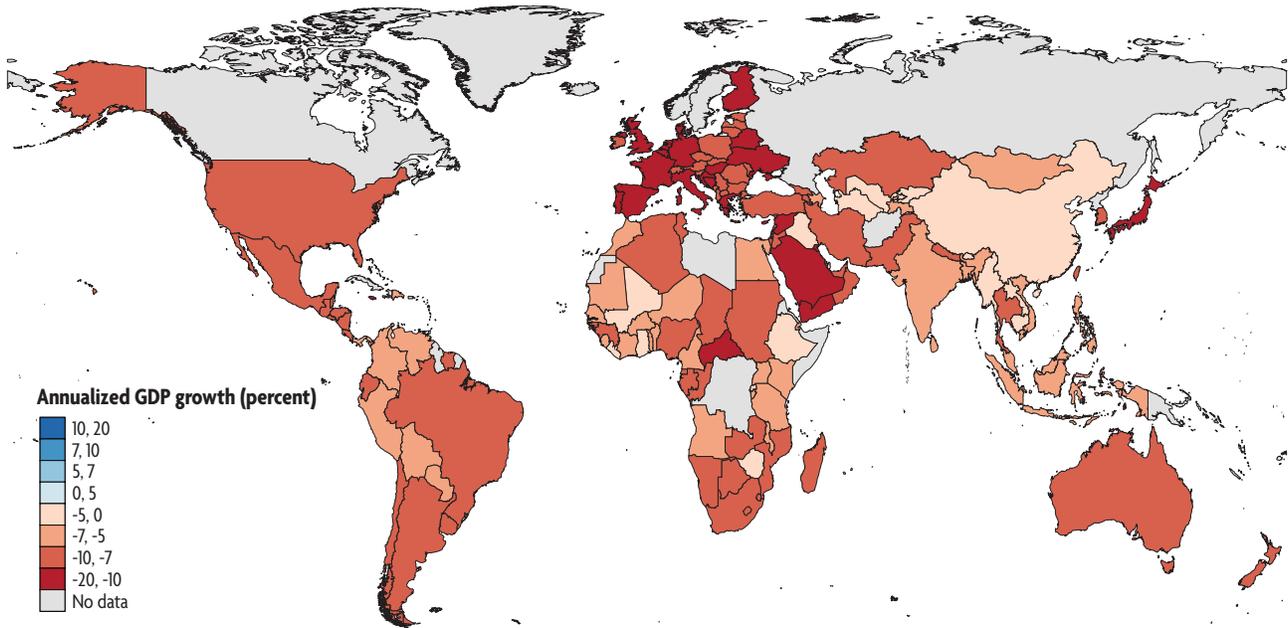
year, and 11 percent of the countries – including China and India – are already enjoying positive economic growth (map 3b).

Considering the first three quarters of 2020, the growth rate forecasted for Latin America and the Caribbean based on NO<sub>2</sub> emissions is -3.7 percent. This decline is twice as large as the one experienced by the region in the aftermath of the global financial crisis. But it is less somber than the -7.6 percent consensus forecast rate, and than the -7.9 percent growth rate projected by the World Bank for the entire year that is released in this report.

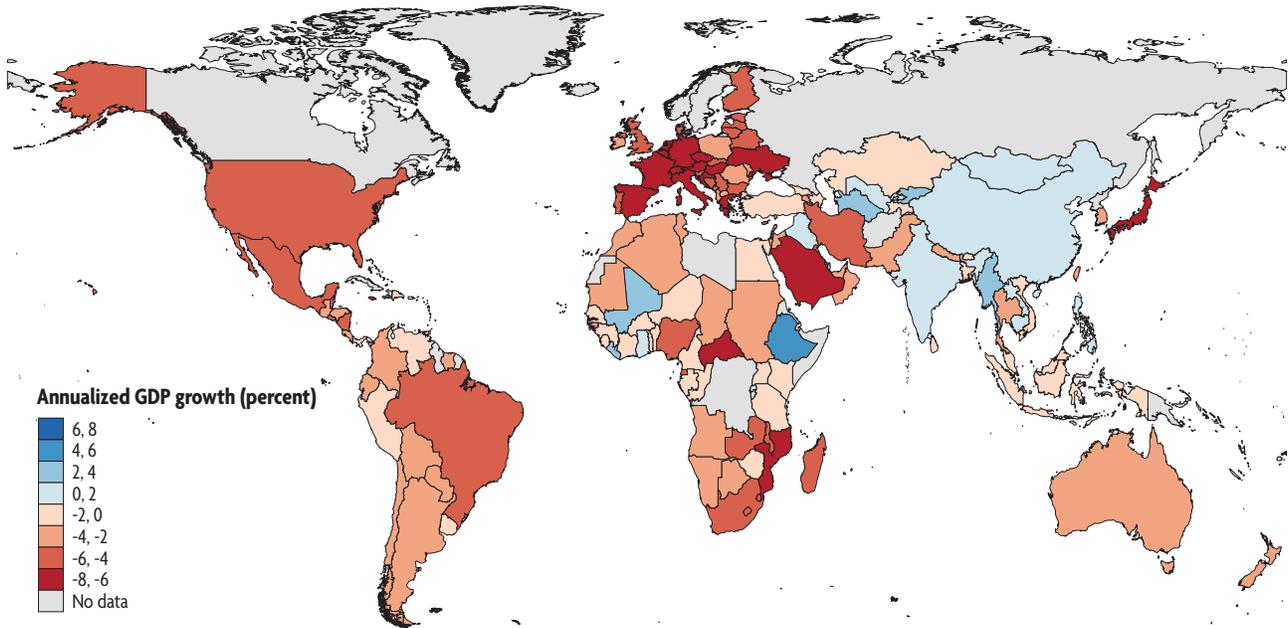
The broad-based improvement observed in the third quarter of 2020 is consistent with an apparent reversal

Map 2. Growth rates can be estimated using satellite imagery

a. Second quarter of 2020 relative to second quarter of 2019



b. Third quarter of 2020 relative to third quarter of 2019



Source: Morris et al. (2020).

of expectations. A few months ago, every new forecast seemed to be taking the worst case from the previous one as its baseline, whereas nowadays revisions are often in the opposite direction. In particular, there are grounds to believe that 2020 GDP growth in China and

the US could be several percentage points higher than anticipated. Given the size of their economies and their impact on economic growth in Latin America and the Caribbean, this would be good news for the region.



The cost of containing the pandemic

With the pandemic arriving in Latin America and the Caribbean relatively late, most countries in the region had the opportunity to learn from the experience of advanced economies and emulate their containment measures, including massive quarantines and lockdowns. This swift and strong policy response earned them praise and showed success in its early stages. But over time the death toll from Covid-19 faced by many countries in the region became as high relative to their population size as that suffered by advanced economies. The last few months have shown that the dynamics of the epidemic, the effectiveness of containment measures to contain its progression, and even the economic impacts of such measures, differ considerably depending on the characteristics of the countries. As a result, the mix of health costs and economic costs endured has varied substantially across the region.

### *Tradeoffs from the pandemic in rich and poor countries*

Given the disproportionately high health costs faced by countries that adopted the “right” containment measures early on, at times in a forceful way, it is legitimate to ask whether the dynamics of the epidemic are the same in rich and poor countries. For example, the contagiousness and lethality of the coronavirus make it plausible that highly urbanized countries, or those with an aging population, could experience a faster transmission of the disease and thus suffer a larger number of fatalities.

A practical problem is that countries differ from each other in multiple ways, not just in their urbanization rates and age structures. And a vast array of factors has been shown or hypothesized to influence the spread of epidemic. Average age and the prevalence of obesity and specific morbidities belong in the first group. Air pollution, meteorological conditions and income inequality are some among the many potential factors in the second group. The multiplicity of potential mechanisms at play makes it difficult to rigorously identify what lies behind the different health costs faced by countries that adopted similar containment measures.

In statistical terms, the reduced number of countries for which the required data exists limits the degrees of freedom available to researchers. Considering all the possible factors that influence the number of deaths from Covid-19 may be feasible when analyzing the progress of the epidemic across thousands of counties in the US (Desmet and Warziarg 2020). Doing this across a few dozen countries would be more challenging.

A third background study for this report overcomes this problem by estimating a dynamic model of the Covid-19 epidemic that includes country fixed effects. These are catch-all coefficients that quantify how many more Covid-19 fatalities a particular country reports, other things equal, relative to the remaining countries in the sample. These coefficients do not tell why there are more or fewer deaths, or why the epidemic progresses faster or more slowly in a given country, but they capture the specificity of the country in a precise way (box 3).

In the model of this third study, the daily number of Covid-19 deaths per million people in a country is a dynamic function of the strength of the containment measures and the timing of their adoption, modulated by the country fixed effect. The data are from 51 countries around the world, covering a wide range of development levels and economic structures. A similar model is applied to the daily level of NO<sub>2</sub> emissions, which provides a proxy for economic activity.

The findings are easier to interpret by simulating the fatality of the epidemic in two of the 51 countries, one of them poor and the other rich. For practical purposes, the country in the 25<sup>th</sup> percentile of the distribution of real GDP per capita is chosen as the low-income example, and the country in the 75<sup>th</sup> percentile as its high-income counterpart.

The results show that in the absence of containment measures, deaths from Covid-19 would increase more slowly in the low-income country (figure 15). But containment measures would also be less effective at reducing fatalities in the low-income country. In the simulation, a general quarantine is imposed in both countries on the 15<sup>th</sup> day after the first Covid-19 case is detected. By the second month after the first case, the high-income country in the simulation manages

### Box 3. A tale of two pandemics: policy tradeoffs in advanced economies and developing countries

General restrictions to mobility and similar measures have been an effective tool to combat the spread of Covid-19. But their effectiveness seems to have varied considerably across countries. Moreover, the economic costs associated with the implementation of such measures have also been wide-ranging. It is reasonable to suppose that these diverse benefits and costs are related to the characteristics of the countries, along a range of economic, social and environmental dimensions.

In order to statistically explore these differences in tradeoffs, Rama et al. (2020) estimate two equations on daily data across countries since the Covid-19 outbreak. One of them aims to explain health outcomes through the daily change in deaths per million people as 7-day rolling averages. The other equation focuses on economic outcomes as measured by the daily level of NO<sub>2</sub> emissions over 30-day moving averages.

The estimation is conducted on a sample of 51 countries worldwide, evenly divided between advanced economies and the rest of the world. Given the daily frequency of the data, each equations is estimated over close to 10,000 observations.

The explanatory variables for the analysis are:

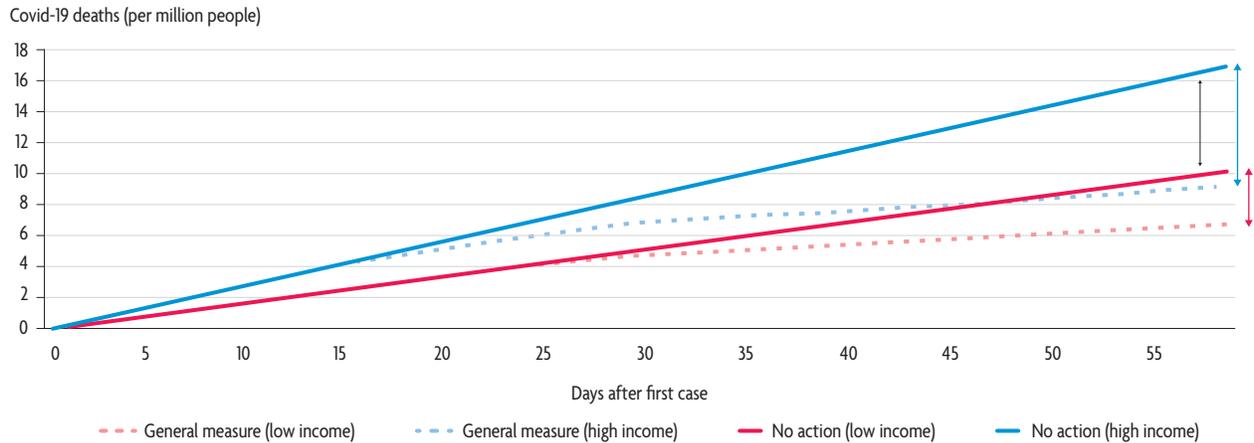
- *Stringency of containment measures.* This indicator is created in-house on the basis of policy announcements, using the same approach as in World Bank (2020b). The variable takes the form of two independent dummies indicating when the country implements partial mobility restrictions or generalized quarantines.
- *Dynamics of health and economic outcomes.* This is a variable counting the days since the first Covid-19 case in the country. This variable is also interacted with the previous one to assess whether the effectiveness of containment measures depend on how much the countries waited before implementing them.
- *Latest level of real GDP per capita.* This variable captures multiple dimensions of economic development, as it tends to be correlated with many other factors deemed relevant in explaining health and economic outcomes, including the urbanization rate, the average age of the population, the coverage and quality of health services and the like.
- *Country-specific effects.* Countries with the same real GDP per capita may still differ in important ways, some of which are not even statistically observable. Fixed effects allow capturing the impact of all these other factors on the dynamics of health and economic outcomes, but they do not allow to disentangle the contribution of each of those other factors.

The empirical strategy to explain health outcomes consists of a two-step procedure. In the first one, a fixed-effect panel regression is used to estimate the determinants of the speed at which Covid-19 related deaths increase. In the second one, the estimated country-specific effects are regressed against a number of factors potentially having an influence on the health dynamics.

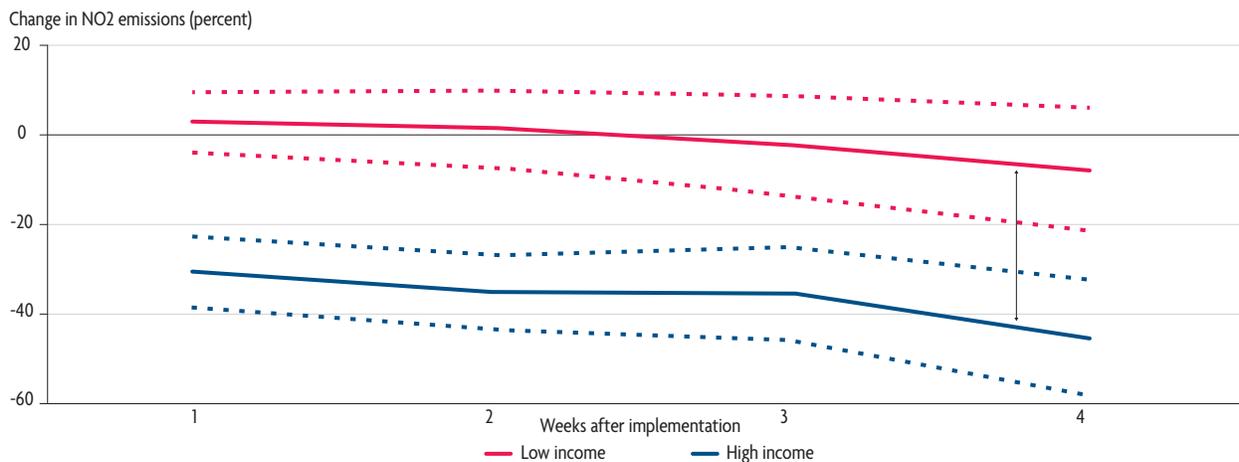
These factors are classified in three main groups. The first one represents economic correlates and includes real GDP per capita, secondary education enrollment levels and the Gini index, a measure of inequality. The second group is for demographic correlates, and includes population density, the urbanization rate and the share of population over 65. Finally, variables measuring air pollution, air quality and whether the country has a tropical climate cover the environmental dimension.

To explain economic outcomes, the level of economic activity is proxied by NO<sub>2</sub> emissions. Containment measures can be expected to have a stronger impact on economic activity the longer they remain in place. To capture the dynamics of these accumulated effects, the basic specification is expanded to include lagged values of the containment measures. This richer specification allows assessing the evolution in the accumulated change in NO<sub>2</sub> emissions over the course of four weeks.

Additionally, the effectiveness of containment measures may be different in advanced economies and developing countries. These potential differences are captured through a non-linear specification where the latest level of real GDP per capita is interacted with containment measures.

**Figure 15. Lockdowns are more effective in richer countries**

Source: Rama et al. (2020).

**Figure 16. Lockdowns have a higher economic cost in richer countries**

Source: Rama et al. (2020).

to reduce its death toll by 46 percent, compared to the absence of containment measures. The gain falls to 34 percent in the low-income country.

These gaps could simply reflect the weaker capacity of poorer countries to record decreases in general and to correctly diagnose which ones are due to Covid-19 in particular. However, there also seem to be real differences at play, and not just a measurement bias. These more substantive differences are uncovered by an analysis of the relationship between the estimated country fixed effects and three groups of country indicators summarizing their economic, social and environmental characteristics.

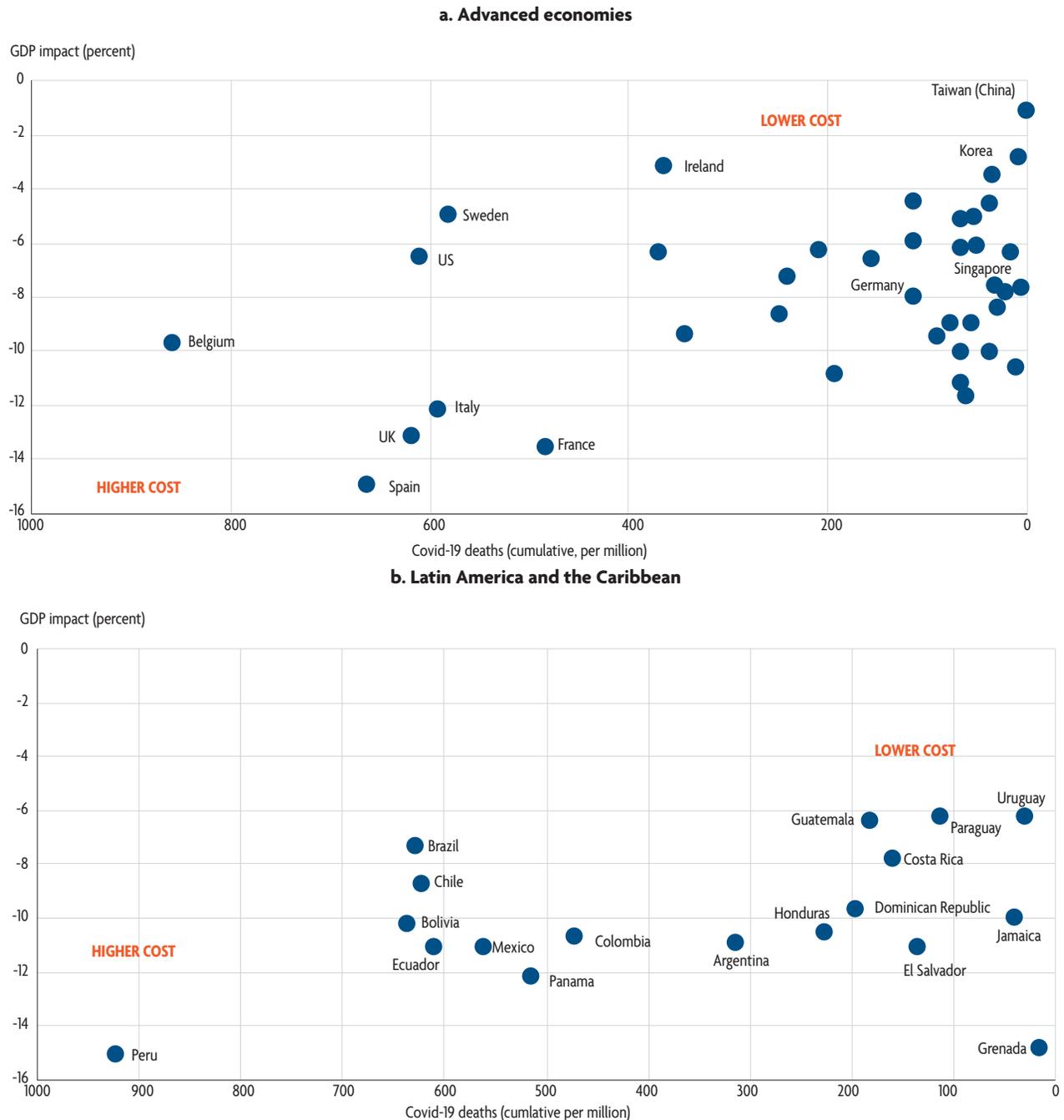
This analysis shows that the speed at which the epidemic progresses has a positive and significant correlation with the real GDP per capita of the country, with its urbanization rate, and with its population density. It also has a significant negative correlation with tropical

climate. With smaller statistical significance, the progression of the disease is also positively correlated with air pollution. Marginally significant effects are found for educational attainment and the share of the elderly, both of which accelerate the progress of the epidemic, and with income inequality, which slows it down.

Latin America and the Caribbean is among the richest developing regions. It is also the most urbanized, by a wide margin, and many of its countries have an aging population. Based on the analysis above, these factors may partially explain why the region experienced a heavier death toll, in relative terms, than the rest of the developing world.

The study also shows that quarantines and lockdowns have a different economic cost in rich and poor countries (figure 16). Four weeks after their adoption, NO2 emissions fall by about 8 percent in the

Figure 17. A diverse mix of health costs and economic costs



Note: In panel a, GDP impact is computed as the difference between actual GDP growth in the first quarter of 2020 relative to the first quarter of 2020 and the IMF growth forecast for 2020 prior to the crisis. In panel b, it is the difference between the GDP growth forecast for 2020 made by the World Bank in October and in January 2020.

Source: Roser et al. (2020) for Covid-19 deaths and Haver Analytics, IMF and own calculations for GDP impact.

low-income country, relative to a scenario without containment measures. And the effect is not highly significant. In the high-income country, by contrast, NO<sub>2</sub> emissions fall by a significant 45 percent.

The mechanisms underlying the different consequences of containment measures in rich and poor countries are unclear at this stage. A larger share of the population living in overcrowded slums, with limited access to water and sanitation, may explain the limited effectiveness of

lockdowns to slow down the spread of the epidemic. The continuity of work in agriculture and mining, which account for a larger share of economic activity in developing countries, may lie behind the more muted economic impact. Weaknesses in enforcement may matter both on the health and the economic fronts. Regardless of the underlying causes, the results of this background study suggest that the tradeoffs between health costs and economic costs may be different in advanced economies and in developing countries.

## *Health costs and economic costs so far*

With potentially different dynamics for the Covid-19 epidemic across countries, and with a different impact of containment measures on both the spread of the disease and the level of economic activity, the tradeoff between health costs and economic costs is bound to vary as well.

Moreover, not all governments in the region adopted the same policy stance. At one end of the spectrum, Argentina or Peru imposed very strict lockdowns. At the other end, Brazil chose to give more priority to economic activity, applying less stringent containment measures at the national level, with many of the relevant decisions taken at subnational levels of government. In between these two ends of the spectrum, Uruguay adopted social distancing measures but mostly on voluntary basis, invoking a “responsible freedom” principle (The Economist 2020). There might have also been important differences in the way the same policies were implemented in different country settings.

The merits of these policy choices have been the focus of much debate, with priors and conjectures often playing a more prominent role than hard evidence. Around the world, debates have also been tainted by politics. But given the differences in the dynamics of the epidemic, in the consequences of containment measures, and in the set of measures embraced by governments, a focus on outcomes – rather than policy choices – seems justified. Indeed, enough time has elapsed to assess how many people have died and how much economic activity has been lost in each country.

Doing so does not involve placing a judgment on how much economic activity ought to be sacrificed in order to save lives. The exercise simply inquires whether some countries endured a lower economic cost for the same health cost, or a lower health cost for the same economic cost. The experience of the countries at the “frontier” may offer valuable insights, especially at a time when Covid-19 has not been suppressed and the need for future containment measures cannot be ruled out.

The exercise is conducted separately for advanced economies and for countries in Latin America and the Caribbean, because the two groups could be as different as the high- and low-income countries in the simulations of the previous section.

Health costs are measured by the total number of Covid-19 deaths per million people. Haiti and Nicaragua are not included in the analysis as their counting of deceases related to the pandemic does not appear to be comparable with the rest of region.

The economic costs experienced by advanced economies are captured by the change in GDP from the first half of 2019 to the first half of 2020, as officially reported, and the IMF 2020 growth forecast for 2020 as of October 2019. Such statistic is unfortunately unavailable for most countries in Latin America and the Caribbean. In their case, economic costs are assessed based on growth projections for 2020 by the World Bank, as the difference between the forecast in January 2020 – before the pandemic – and in October 2020 – in the midst of it.

Among advanced economies, countries like Taiwan (China), or Korea, have faced the lowest overall cost so far (figure 17a). Other countries, including Japan and Singapore, faced a sizeable economic cost but a relatively low health cost. Conversely, Ireland or Sweden experienced a substantial health cost, but a more moderate economic cost. The countries most severely hit on both counts were those in Western Europe, including Belgium, Spain and the UK.

In Latin America and the Caribbean, the results point to Uruguay as the country with the lowest overall cost so far. Small island nations in the Caribbean also stand out for their low health cost, but the economic cost was substantial in their case, as their economies were very severely hit by the collapse of tourism. Conversely, Brazil has faced a substantial health cost, but a more moderate economic cost. The worst outcomes on both fronts are for countries in the Andean subregion, where the death toll has been heavy and the loss of economic activity has been very sizeable too.



# Health care costs in normal times

The economic cost of protecting the health of the population was amplified by the Covid-19 outbreak, as recessions were initially the main public health tool available to contain the spread of the epidemic. But even in normal times, health care costs account for a significant portion of government budgets and can impose a heavy burden on household finances. In Latin America and the Caribbean, a major share of out-of-pocket spending corresponds to pharmaceuticals, which also account for a significant fraction of imports. With the Covid-19 crisis calling for broadening the coverage of health care and improving its quality, keeping medicines affordable is essential. But the price of medicines crucially depends on how the pharmaceutical sector is organized domestically, and how the public procurement system works. These two issues become even more relevant as countries in the region discuss their approach to the purchase of Covid-19 vaccines.

### *The resources devoted to health care*

Much progress has been made in extending health care coverage to increasingly large segments of the population in Latin America and the Caribbean. Ensuring coverage requires a substantial mobilization of resources through a combination of interlinked vehicles, including public primary health care and hospitals, private clinics and health insurers. Typically, the richest segments of the population rely on private clinics while the poorest ones use public primary health care and hospitals to a much greater extent. The nature of health insurance arrangements also varies across countries, with some being for profit while others are not, and with most benefitting from some form of government subsidization.

The quality of the health care provided by the various segments of this often-complex system can vary substantially. Waiting times, accuracy of diagnostics and effectiveness of treatment can be different across its various segments. Typically, standards are the highest in private clinics, but so is the cost of their services. Because of these gaps in services and prices, many countries in the region have formally reached

universal health care coverage, but not yet effective coverage (OECD and The World Bank 2020).

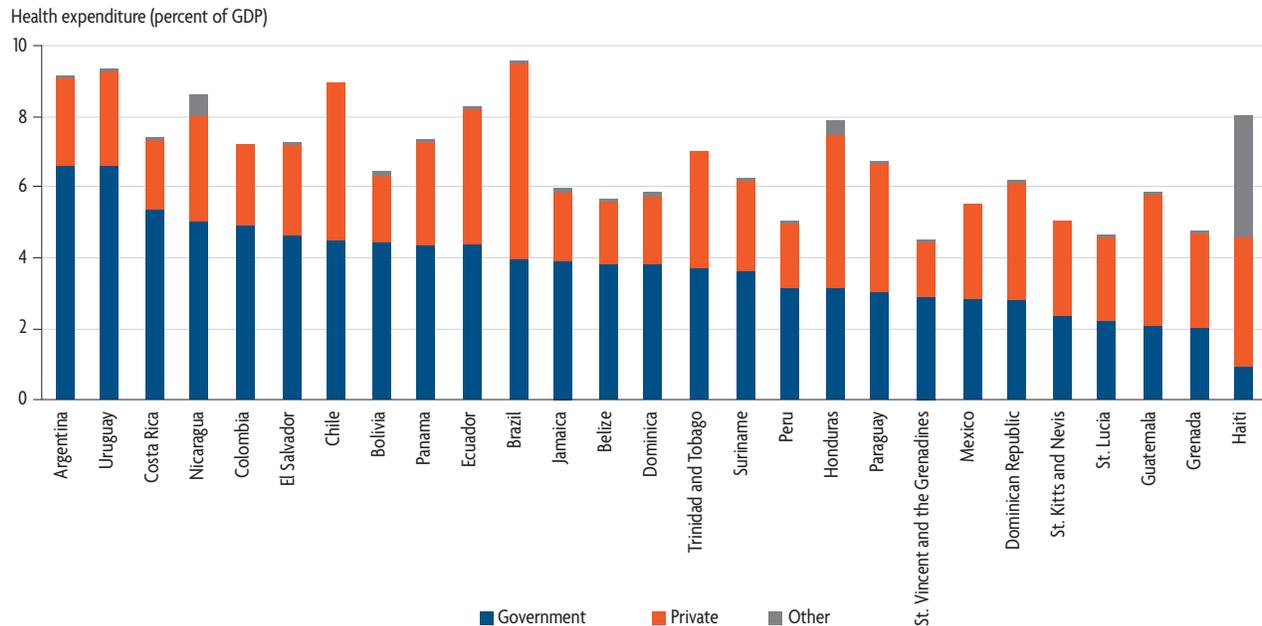
The diverse nature of institutional arrangements across countries is also associated with different levels of government spending on health care. Estimating such spending with precision is difficult, as resources may be channeled not only through central government budgets, but also through social security agencies, subnational governments and specialized organizations. Overall, health care spending by governments in the region ranges from less than 1 to almost 7 percent of GDP (figure 18). The average is about 4 percent, which is considerable, especially given the tight fiscal constraints faced by many governments in Latin America and the Caribbean.

Government spending on health care is devoted to investments such as building hospitals and to recurrent expenditures including the salaries of the medical personnel, pharmaceuticals and other medical supplies. Comparable figures for spending on each of these items across countries are sparse. Most of the indicators available refer to quantities rather than values. For example, countries report the number of hospital beds, or the number of doctors and nurses, relative to their population.

However, there is some evidence to suggest that pharmaceuticals account for a significant share of total government spending on health. In the countries in Latin America and the Caribbean for which data are available, the public sector purchases between 18 and 40 percent of all pharmaceuticals, with Chile at the low end of this range and Colombia at the high end. In absolute terms, government spending in pharmaceuticals amounts to 0.19 percent of GDP in Peru, 0.27 percent in Chile, 0.30 percent in Mexico, and a very significant 0.59 percent in Brazil and Colombia (Edson 2018, IBGE 2017, INEI 2018, Ministry of Health and Ministry of Finance 2017 and OECD 2020).

The nature of the health care arrangements in force also has an impact on how much households need to spend out of their own resources to stay healthy. Household expenditure surveys allow estimating this burden in recent years in 11 countries in the region. Doing so requires some additional work to construct

Figure 18. Health care is a major driver of government spending



Source: WHO.

#### Box 4. Estimating health care expenditures based on household surveys

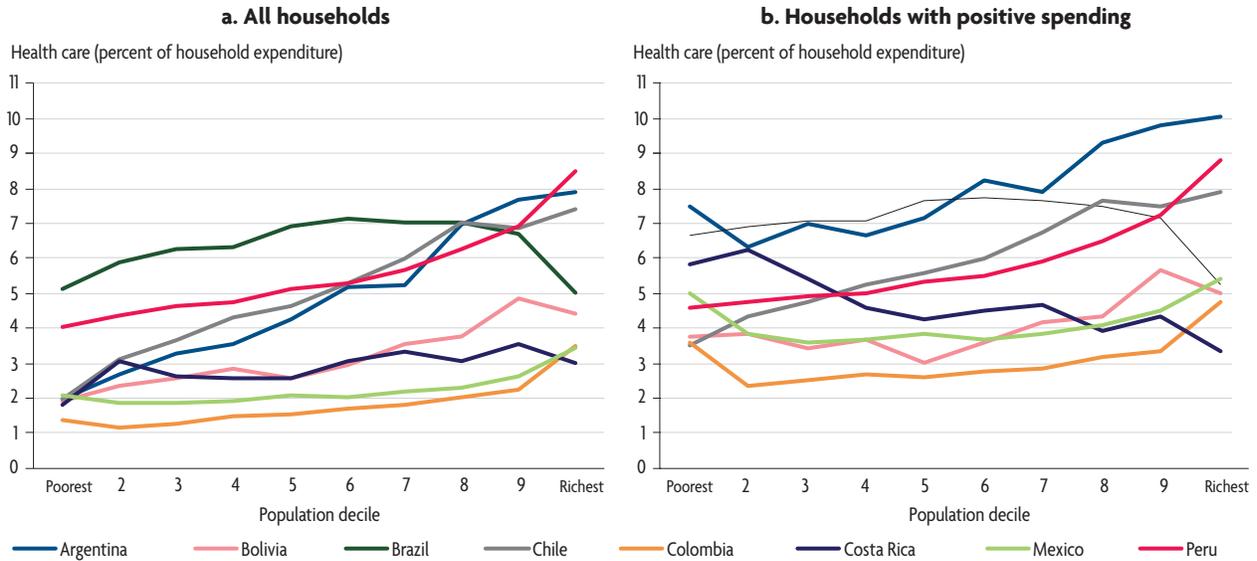
Household expenditure surveys can provide disaggregated information on spending by main categories, including health care costs and purchases of pharmaceutical products. Among recent surveys for countries in Latin America and the Caribbean, the following contain the necessary breakdown:

Country	Year	Survey
Argentina	2012-2013	Encuesta Nacional de Gastos de los Hogares
Bolivia	2015-2016	Encuesta de Presupuestos Familiares
Brazil	2017-2018	Pesquisa de Orçamentos Familiares
Chile	2016-2017	Encuesta de Presupuestos Familiares
Colombia	2016-2017	Encuesta Nacional de Presupuestos de los Hogares
Costa Rica	2012-2013	Encuesta Nacional de Ingresos y Gastos de los Hogares
Ecuador	2011-2012	Encuesta Nacional de Ingresos y Gastos de Hogares Urbanos y Rurales
Mexico	2018	Encuesta Nacional de Ingresos y Gastos de los Hogares
Nicaragua	2014	Encuesta Nacional de Hogares sobre Medición de Niveles de Vida
Peru	2018	Encuesta Nacional de Hogares
El Salvador	2017	Encuesta de Hogares de Propósitos Múltiples

Spending on health care and pharmaceuticals is computed as a share of total household expenditures which includes the purchase of durable and semi-durable goods. All expenditures were annualized to provide a consistent measure across countries. Households were sorted into expenditure deciles using total household expenditures per capita.

The health expenditures considered include both health services and health products. Among the former are copayments and out-of-pocket expenses related to medical consultations, laboratory analyses, hospitalization and medical procedures, as well as any expenses on medical insurance. The latter include the purchase or rental of any medical devices such as glasses and orthopedics, first aid products, and pharmaceuticals and medicines.

**Figure 19. Households incur large out-of-pocket health expenditures**



Note: Population deciles are defined by total expenditures per capita.  
Source: SEDLAC and own calculations.

standardized indicators out of different questionnaires (box 4).

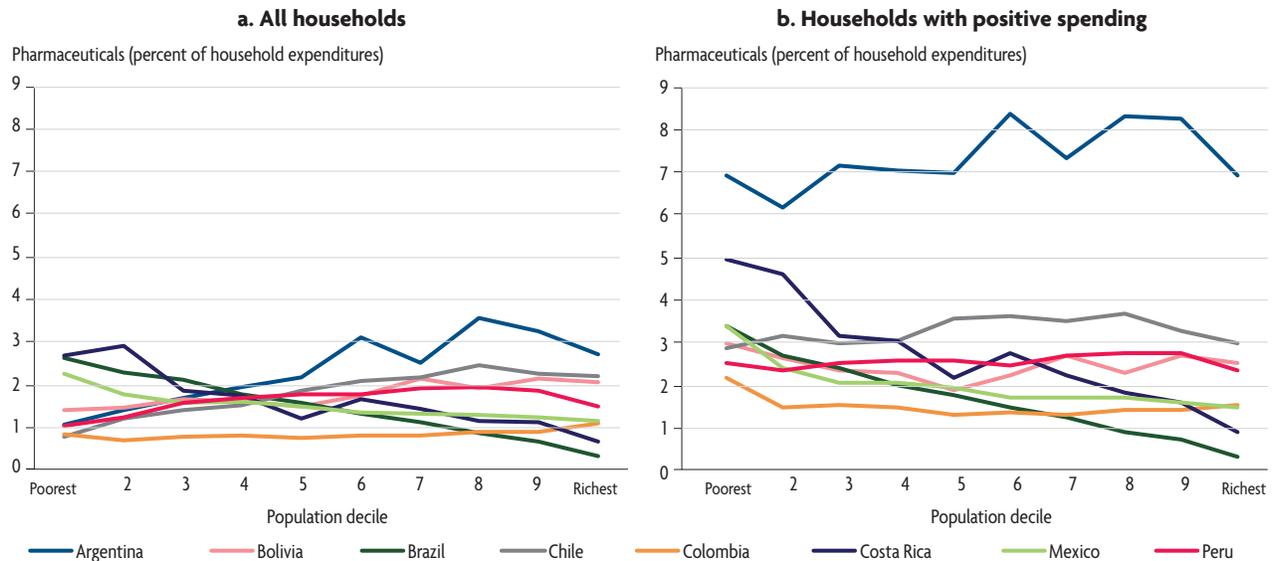
With this caveat in mind, the results show that on average households devote between 1.8 and 6.3 percent of their expenditures to health care. The lowest burden can be found in Colombia and Mexico and the highest in Peru and Brazil.

This may seem a modest amount, but averages are misleading. Most households do not incur any health-related expenses in normal times but may confront substantial costs if one of their members becomes

seriously ill. The average out-of-pocket costs faced by households that do spend on health care is much higher, ranging from 3.1 percent of total household expenditures in Colombia to 8.0 percent in Argentina.

Health-related costs also account for different shares of total expenditure across households within the same country. These costs are said to be regressive when their share is higher for the poorer segments of the population, and progressive when it is lower. This distributional incidence of out-of-pocket spending critically depends on how the health care system is organized.

**Figure 20. Spending on pharmaceuticals is generally regressive**



Note: Population deciles are defined by total expenditures per capita.  
Source: SEDLAC and own calculations.

When all households are considered, out-of-pocket expenditures are generally progressive, and strongly so in the cases of Chile and Peru (figure 19a). However, if average spending is computed only for those households among which it is strictly positive, the picture becomes more mixed. In most countries, out-of-pocket spending appears to be neither progressive nor regressive. In Costa Rica it becomes regressive, while it was roughly neutral when considering all households (figure 19b).

Across the region, the households in the poorest decile of the population that do incur positive health care spending face a significant burden. For them, out-of-pocket spending ranges from 3.5 percent of total expenditures in Chile to 7.5 percent in Argentina.

A significant portion of this out-of-pocket spending is on pharmaceuticals. For all households in a country, the share varies from 22.6 percent of total out-of-pocket expenditures in Brazil to 66.3 percent in Mexico. The share is generally higher when considering households with positive spending only. Among this population group, it even reaches 91.9 percent of total out-of-pocket spending in the case of Argentina. As a result, spending on pharmaceuticals represents a very sizeable share of total household expenditures (figures 20a and 20b)

Out-of-pocket spending on medicines is regressive in most of the countries for which data are available, especially when considering households with positive spending only.

## *The organization of the pharmaceutical sector*

Medicines account for an important share of spending by governments and households in Latin America and the Caribbean, and their cost is related to the way the pharmaceutical sector is organized in each country. Such is the topic of a fourth background study for this report (Vargas 2020). This study reviews the international partnerships and cross-border investments each country relies upon, providing along the way an assessment of the technical capacity of the sector. In doing so, it reveals that fundamentally different models of organization coexist in the region.

Pharmaceutical products and medical supplies generally account for a significant share of imports across Latin America and the Caribbean, but there is considerable variation across the region. The share

exceeds 20 percent in Costa Rica and Nicaragua, but barely reaches 2 percent in nearby Mexico (figure 21 a). The median across countries is 12.6 percent.

Medicines account for most of these imports, representing more than half of the total even in relatively self-reliant Mexico. The median value among countries for which the data are available is 11.3 percent, which provides one more hint at the importance of pharmaceuticals in health care costs. The most significant pharmaceutical imports by value correspond to medicines for therapeutic and prophylactic uses, followed by hormone drugs, antibiotics and vaccines.

Pharmaceuticals are often classified in three main categories. A “generic” drug is intended to be interchangeable with an innovator product. It is manufactured without a license from the innovator company and marketed after the expiry date of the patent or other exclusive rights (WHO 2020). A generic drug is supposed to be identical to the original in terms of safety and efficacy.

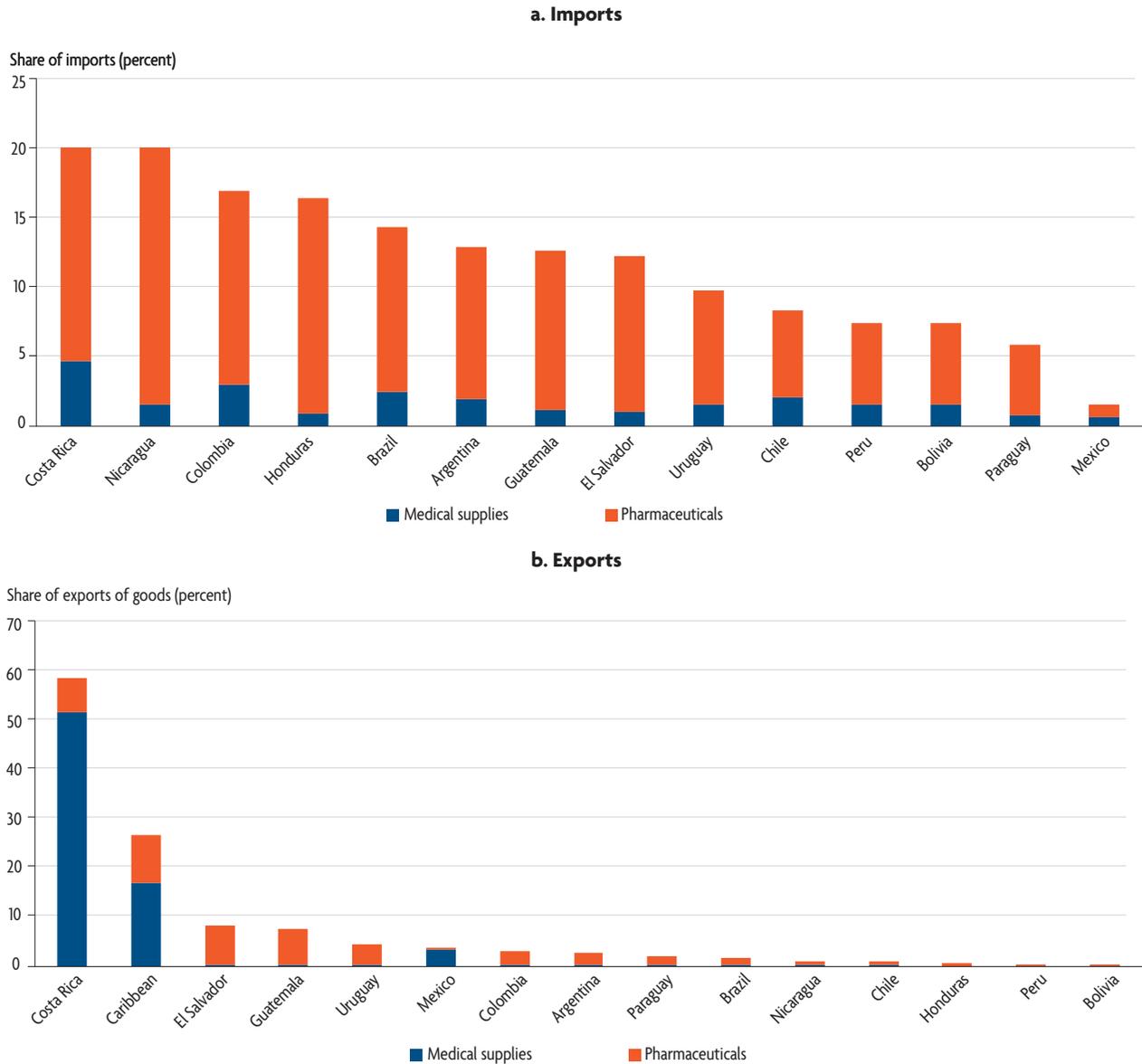
Generics are generally small-molecule drugs or synthetics – medicines with relatively simple chemical structures that can be exactly replicated and are inexpensive to manufacture. An extreme case is Sodium Chloride – the technical name for a salty water solution. More sophisticated examples include Ibuprofen – a pain killer – or Amoxicillin and Clarithromycin – both antibiotics. At present, India is the biggest global supplier of generic medicines.

At the other end are branded pharmaceutical products. These can be synthetic, or made from chemical processes, or biological - meaning they are made from a living source. Their laboratory development and clinical trials often require years of cutting-edge research and involve very high sunk costs. Their leading producers are major pharmaceutical companies in Europe and the US. An example of a branded medicine is Trastuzumab, an advanced monoclonal antibody used in the treatment of breast cancer.

Branded medicines are generally protected by patents or data exclusivities. Patents allow their holders to exclude others from manufacturing or selling them for 20 years from the date of patent filing. Data exclusivity provides similar rights for five to ten years after a new drug approval.

However, biological medicines bear some resemblance with wines, in the sense that not two of them are identical. Because they involve large, complex molecules, they

Figure 21. Pharmaceutical imports are generally significant, exports less so



Note: Notes: Caribbean comprises Jamaica, Belize and Dominican Republic. Data are averages for the available years over period 2017-2019. Source: WITS UN COMTRADE and own calculations.

cannot be exactly replicated. A domestic pharmaceutical company having the capacity to develop an analog product can sell it without paying royalties. How successfully it can do this depends on the trade agreements signed by the country, and especially on the technicalities governing the enforcement of intellectual property rights across borders. This gray area allows for a third category of pharmaceutical products known as “similar”.

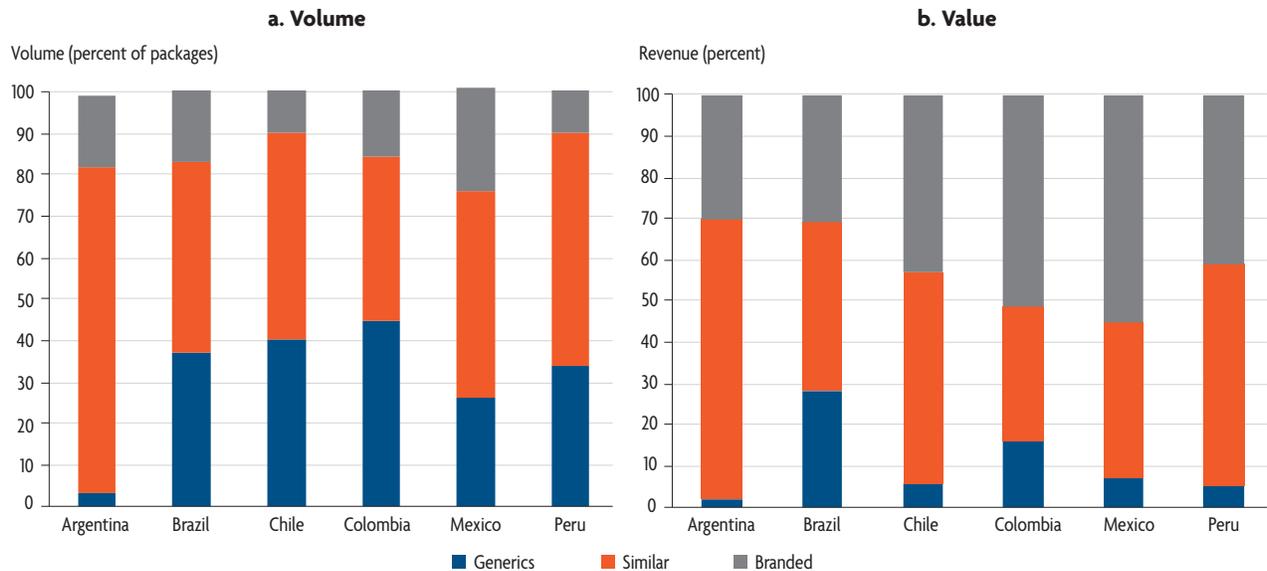
In advanced economies, the protection of intellectual property rights is strong enough to make similar medicines quite marginal. According to data from IQVIA, a multinational company specializing in health research services, generics accounted for 11.2 percent of the revenue from pharmaceutical sales in the US in 2019, and branded medicines for 80.0 percent. Only

8.8 percent of pharmaceutical revenue was generated by similar medicines.

Market shares are radically different in Latin America and the Caribbean. Across most of the countries for which data are available, similar products represent a majority of the packages sold by pharmacies (figure 22a). The exception is Colombia, where generics account for a greater share of packages. The highest share of similar products can be found in Argentina, where it reaches almost 70 percent of the total, compared to barely 3 percent for generics.

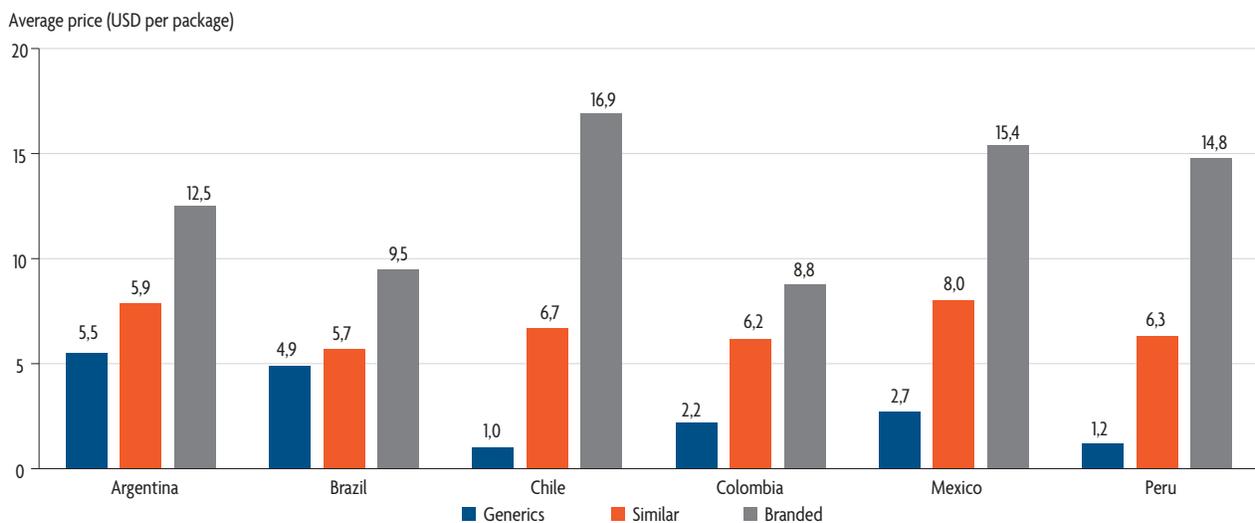
These shares shift when measured in value rather than volume. Branded products contribute more than half of the revenue from the sale of pharmaceutical

**Figure 22. A different mix of pharmaceutical products by country**



Note: Data are for 2019.  
Source: IQVIA.

**Figure 23. Different price gradients by type of pharmaceutical product**



Note: Data are for 2019, ex-factory.  
Source: IQVIA

products in Colombia and Mexico, but only around 30 percent of the total in Argentina and Brazil (figure 22b). Conversely, similar products account for 70 percent of pharmaceutical sales in Argentina, but only for 33 percent in Colombia.

The share of similar products has increased substantially over the last five years. In Argentina, Brazil and Mexico these medicines are produced by local pharmaceutical companies, whereas in Chile and Colombia, they are driven by multinationals.

The shift in the composition of pharmaceutical sales, depending on whether shares are computed in volume or in value, reflects significant differences in average prices across categories of medicines. In Chile, international trade agreements enshrine trade openness and the protection of intellectual property rights. Not surprisingly, generics are cheap – many are imported from India – while branded products are expensive (figure 23). The price gradient is also steep in Mexico, and to a lesser extent in Colombia and Peru. It is much flatter in Argentina, and especially in Brazil.

### Box 5. Insights from big data for better public procurement strategies

An empirical strategy can be used to uncover regularities linking the prices at which governments purchase goods and services to design features of the process followed to procure them. This is what Fazekas et al. (2020) do in relation to pharmaceutical products and medical supplies in nine jurisdictions in the region, seven of which are at the national level.

The analysis draws on transaction-level information directly extracted from government data warehouses. Government-run electronic procurement systems record the purchased products, the price of the transactions, the quantities acquired, and a host of other institutional and procedural variables, such as the type of auction followed.

The consolidated dataset covers different periods as data extracts take place at varying points in time and the government systems have diverse historical data coverage. The jurisdictions and periods covered are Brazil's Amazonas state (2014-18), Brazil's federal government (2014-16), Brazil's Santa Catarina state (2014-18), Costa Rica (2016-17), Ecuador (2013-17), Panama (2014-18), Paraguay (2012-16), Peru (2015), and Uruguay (2014-18).

The way in which data are recorded in each jurisdiction differs to some degree hence great care had to be applied in preparing and harmonizing all extracts. In particular, product codes had to be manually matched against each other and incommensurate categories dropped. Despite removing about 200,000 contracts to ensure consistency, about half a million contracts could be used in the analysis. To ensure comparability across countries, all unit prices were expressed in nominal national currencies which were corrected for inflation and turned into international USD using Purchasing-Power Parity (PPP) exchange rates.

The analysis took unit prices for standardized goods and suppliers as the main outcome of interest and estimated the price impact of a range of institutional, procedural, and market-level factors. For example, the impact of supplier market share on unit prices was estimated while taking into major confounding factors such as the average price on the market.

The analysis used fixed-effects linear regressions as the baseline model but also compared them to multi-level regression models as well as machine learning models such as random forests. Overall, the models built could account for 85 to 90 percent of the variation in unit prices.

## *Public procurement of medicines*

Across countries the most important buyer of medicines tends to be the government, either directly or through specialized social security or health care agencies. Governments play an especially important role in the case of branded medicines – such as those used in the treatment of cancer – that are unaffordable to most households (Vargas et al. 2019). Some of these pharmaceuticals may in the end be sold to households through pharmacies, possibly under some price regulation scheme. Therefore, the affordability of pharmaceuticals in a country depends on how public procurement works.

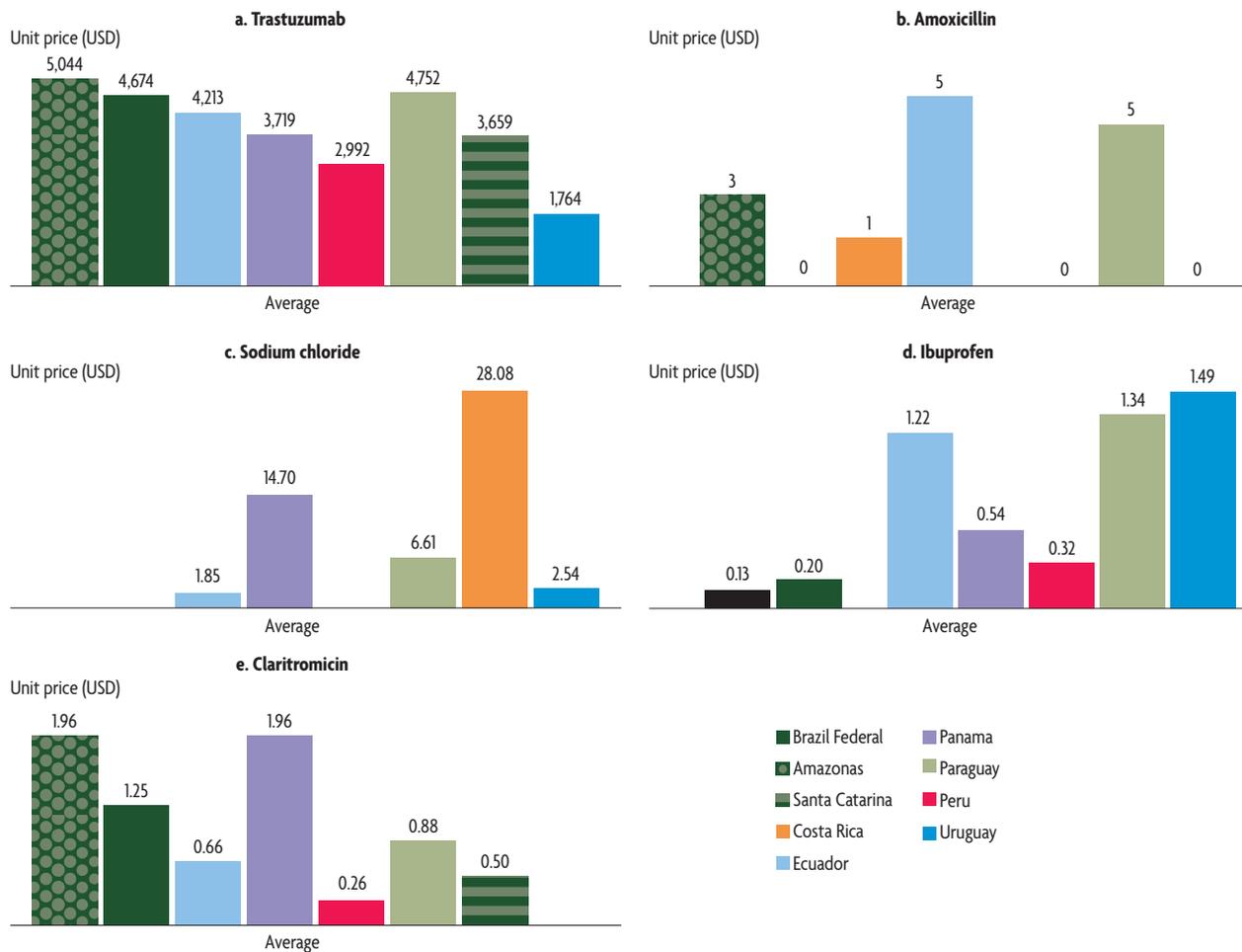
Although most countries have a decentralized procurement system, there tends to be aggregation across public hospitals, geographic areas or lists of drugs. In Brazil, for example, government purchases of medicine take place at the federal, state, and municipal levels. Mexico has established a commission that negotiates single procurement prices for patented

medicines across the public sector. And Argentina has a procurement system for its essential list of medicines.

The aggregation of government purchases can even occur above the national level. The Pan American Health Organization (PAHO) has a mechanism to centrally procure vaccines on behalf of 41 countries in the region. It also runs a strategic fund that procures medicines for both communicable and non-communicable diseases for 34 countries. Similarly, the Organization of Eastern Caribbean States (OECS) procures a list of essential medicines for its nine members.

Aggregation is justified by the expectation of significant price discounts, given the oligopolistic nature of the pharmaceutical sector. Limited competition is explained by the high fixed costs associated with the development of medicines. If pharmaceutical companies did not enjoy market power, they would not be able to recover their development costs through the sale of medicines. But limited competition may also

**Figure 24. Different price gradients by type of pharmaceutical product**



Source: Fazekas et al. (2020).

result from government policies granting protection to incumbent companies.

Because suppliers enjoy market power, they typically practice price discrimination, charging different prices to different markets. For example, multinational pharmaceutical companies tend to sell medicines at lower prices in low- and middle-income countries, relative to advanced economies. But they still apply a mark-up on costs, which aggregated government procurement often succeeds to reduce.

A fifth and last background study for this report analyzes government procurement contracts for pharmaceutical products, medical supplies and equipment across nine jurisdictions in Latin America and the Caribbean. These include seven national governments and two state governments in Brazil (box 5). The study successfully manages to match 235 health sector products purchased by these jurisdictions over up to five years. The coverage of the data varies depending on the jurisdictions, but

the database still covers more than half a million procurement contracts across the region. The total value of government purchases in this database amounts to USD 9.7 billion.

Governments procure the very same product multiple times within a fiscal year. These purchases are most often conducted through tenders that spell out the characteristics of the products of interest and the amount to be bought, leaving the offered price as the key parameter on which potential suppliers compete. Contracts are awarded to the bidders who meet the requirements and offer the lowest price.

However, tenders differ in important ways. For example, they specify the time allowed for the preparation of the bids, or for their evaluation. They may involve different quantities, or they may bundle several products in one tender. The multiplicity of transactions for the same exact medicine allows investigating how their characteristics impact the purchasing price.

The study shows that difference in prices can be very significant and, in some cases, extreme. As each agency has authority to spend its budget, and agencies have different strategies, planning and capacity to implement procurement, the result is a potential for inefficiencies in public procurement, and suppliers can take advantage of them to maximize their revenue. Often the same supplier charges a different price for the same medicine depending on the procurement process.

Total government spending is very sizeable for five of the 235 matched products in the database. Taken together, Trastuzumab, sodium chloride, amoxicillin, ibuprofen and Clarithromycin account for USD 562 million in public purchases. For each of these products, a comparison between contracts in the 25<sup>th</sup> and 75<sup>th</sup> percentile of the price distribution is revealing.

In one of the jurisdictions in the database, a purchase of Trastuzumab is 44 percent more expensive in the 75<sup>th</sup> percentile of the distribution than in the 25<sup>th</sup> percentile, and 159 percent for Clarithromycin. The price gap reaches 845 percent for sodium chloride in another jurisdiction in the sample, 925 percent for amoxicillin in a third one, and 3,156 percent for Ibuprofen in a

fourth one. These are the most extreme examples of price gaps for each of the five top-spending medicines, but the dispersion of prices is considerable for most products in all jurisdictions.

In addition to the high dispersion of procurement prices within a jurisdiction, the study also reveals significant differences in average prices across them (figure 24). These differences are due not only to the features of public procurement in each jurisdiction: they are also influenced by the varying market power of suppliers across jurisdictions and across segments of the pharmaceutical sector.

An analysis of the price across jurisdictions of paracetamol, a painkiller, is revealing in this respect. The analysis links the price at which governments procure this medicine in each jurisdiction with the degree of market concentration among suppliers. A steep relationship emerges, with prices being much higher when there are fewer suppliers. Differences in the market power of suppliers across segments of the pharmaceutical sector are consistent, with none of the nine jurisdictions being cheaper across all five top-spending products.



# 5

## The way forward

The Covid-19 pandemic has led to hefty costs in terms of human lives and the strong measures needed to slow its progression have dramatically depressed economic activity. While an effective vaccine remains the best hope to emerge from this crisis, it is by now clear that countries in Latin America and the Caribbean may have to wait for months, perhaps years, before this happens. In the meantime, prolonged lockdowns may become increasingly untenable. But strategic decisions on health policy and economic policy could help mitigate the costs. Expanding the coverage of quality health care and keeping medicines affordable should help on the health front. Encouraging formalization in a way that does not penalize employment generation, and gradually recreating fiscal space would reduce economic costs.

### *Living with the virus while waiting for the vaccine*

More than nine months into the pandemic, the hopes for a full return to normalcy are pinned on vaccines. The scale of the global effort to support cutting-edge research and to fund production capacity is unprecedented. However, it may take time for effective vaccines against Covid-19 to be developed, to be produced in sufficiently large quantities, to become available at local levels in developing countries, and to

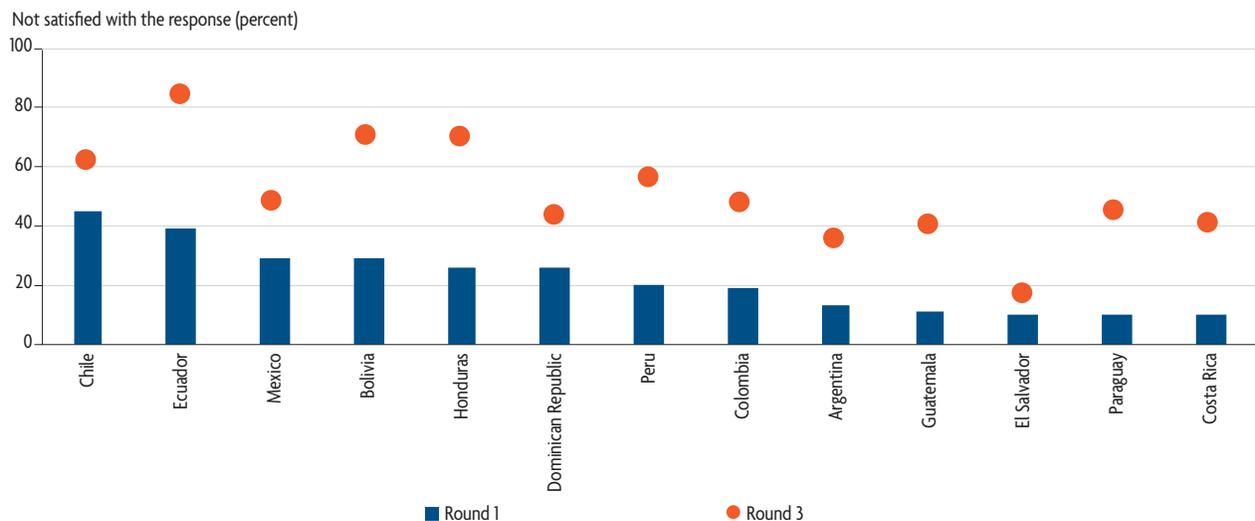
be viewed as sufficiently safe by the population. Given these challenges, countries in Latin America and the Caribbean may face no choice but to live with the virus.

Many countries in the region have gradually relaxed quarantines and lockdowns, either through explicit policy decisions or because stringent containment measures are becoming increasingly difficult to enforce. Across the 13 countries in Latin America and the Caribbean that are covered by the rapid telephone surveys conducted by the World Bank (2020a), the share of respondents not satisfied with their government's handling of the crisis increased between May and July 2020. In some of the countries, the increase was substantial (figure 25).

In this context, governments may need to focus on protecting the most vulnerable while adjusting health and safety standards across all sectors and activities, so that the probability of contagion remains low while life goes on.

Schooling is among the activities that deserves the most attention. Distance learning, even if feasible, is unlikely to deliver the same knowledge as face-to-face teaching. For many children in the poorest segments of society, it may simply not be an option. If lockdowns continue to affect the education sector for too long, many children may never return to school, entering their working lives earlier than anticipated.

**Figure 25. Support for the government's response to the pandemic is eroding**



Note: Based on household members 18 years old and above. Round 1 was between May 21 and June 1, and round 3 between July 18 and 26. Source: World Bank (2020a).

And even those who do return will have lost months or even years of education, which will undermine their future incomes and their prospects for social mobility.

## *Expanding effective health care coverage*

The relaxation of containment measures is happening at a time when the pandemic is not necessarily under control, or at least not under control in all countries. A straightforward way to assess the health situation in each of them is to annualize the deaths from Covid-19 using different reference periods.

One possible annualization involves multiplying by two the number of deaths in the six months since April 2020, when the Covid-19 outbreak started gaining momentum in the region. Another option is to multiply by six the number of Covid-19 deaths in August and September. And yet another one is to multiply by 365 the daily deaths of the last week of September. If the result increases when moving from the first to the second and third calculations, the toll from the epidemic is worsening. Conversely, if the result decreases there is some hope that the pandemic is being contained.

The simple calculation above can also be used to position the pandemic in the bigger picture of morbidity and mortality across countries. In some of them, annualized deaths from Covid-19 compete with the most lethal illnesses – such as cancer and cardiovascular diseases – as the main cause of mortality. In other countries, Covid-19 is unlikely to significantly change the mortality rate of 2020 (figure 26). In some, the annualized toll is lower than the annual number of deaths from traffic accidents, or from homicides. In parts of Central America, *maras* – criminal gangs – may still be more lethal than Covid-19.

In all countries, however, health care systems need to be adjusted to the reality of Covid-19. In those where the pandemic is among the top causes of mortality, providing effective treatment to those affected by the virus is a priority. And in countries where the pandemic is under control, a sustained effort is needed to repeatedly contain outbreaks as soon as they happen, which requires effective testing and tracing capabilities. In all cases, there is also a need to incorporate lessons on the effective treatment of the disease, to increase the probability of survival of those who become infected.

All this poses a serious challenge in a region where health care systems are often fragmented, with their different segments vastly differing in their quality of service, and sometimes in their cost to users. Countries with weaker health systems are more vulnerable to Covid-19 and may be less capable of designing and implementing effective and flexible responses. The region has made significant progress in extending health care coverage to increasingly broader segments of the population (Dmytraczenko and Almeida 2015). As governments mobilize more resources for the health sector, the Covid-19 crisis may provide an opportunity to address some of their remaining weaknesses.

The crisis is also a call to rapidly expand access to critically important basic services. One of the reasons why stringent containment measures might have been less effective than anticipated is that they locked people down in overcrowded neighborhoods with poor hygiene conditions. At a time when resources for investment in infrastructure tend to be constrained, access to water and sanitation remains an important public health priority.

## *Keeping medicines affordable*

Expanding effective health care coverage cannot be done in an affordable manner without paying attention to the price of pharmaceuticals. With governments being large purchasers of medicines, public procurement is particularly important in this respect. Making the public procurement of pharmaceuticals more efficient is even more important at a time when governments across the region are considering how to secure the necessary doses of Covid-19 vaccines for their populations.

The analysis of public procurement contracts described above shows that improving on tender design could reduce the cost of pharmaceuticals. Features such as the length of the advertisement period, the number of products bundled, the nature of the framework agreements in force, or the bid evaluation turnaround, do affect the ability of suppliers to charge higher prices. According to simulations, a strategic adjustment of these features applied across all 235 matched pharmaceuticals products could reduce their cost by 12 to 15 percent (figure 27).

However, better technical design alone may be insufficient to offset market power in a sector that is often oligopolistic. The Covid-19 crisis could in fact be

Figure 26. Covid-19 occupies a varying position among causes of mortality across the region

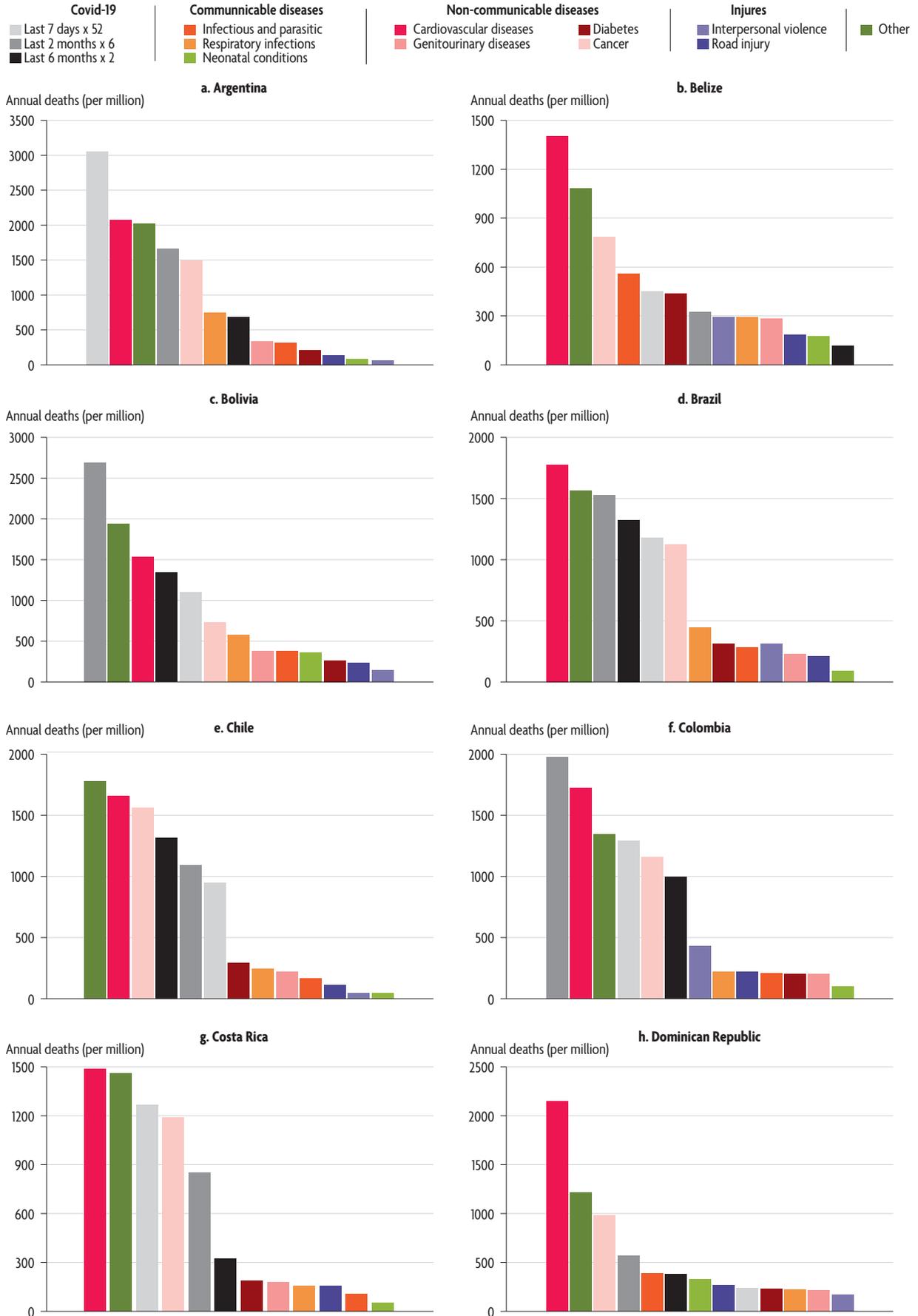


Figure 26. Covid-19 occupies a varying position among causes of mortality across the region (continued)

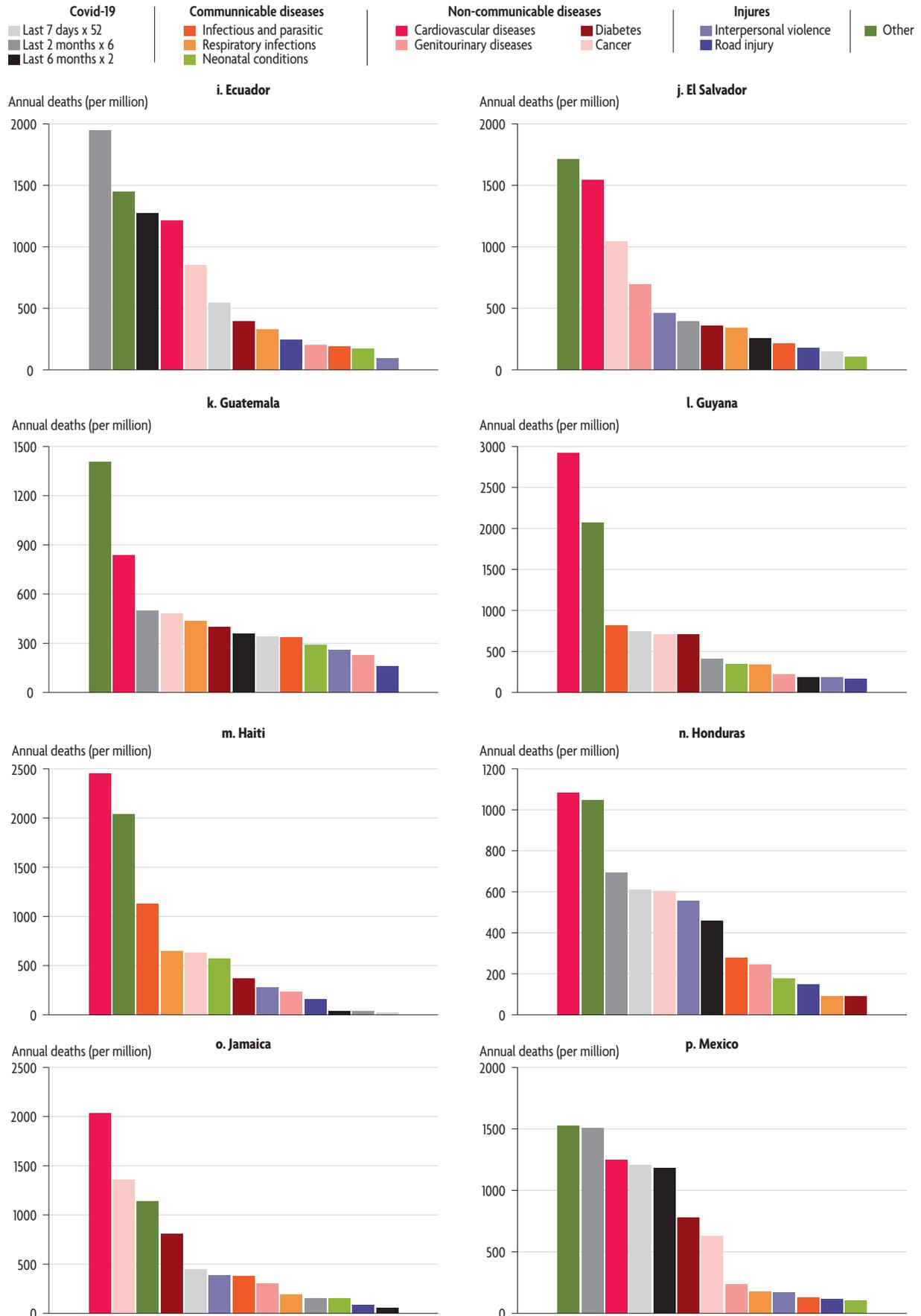
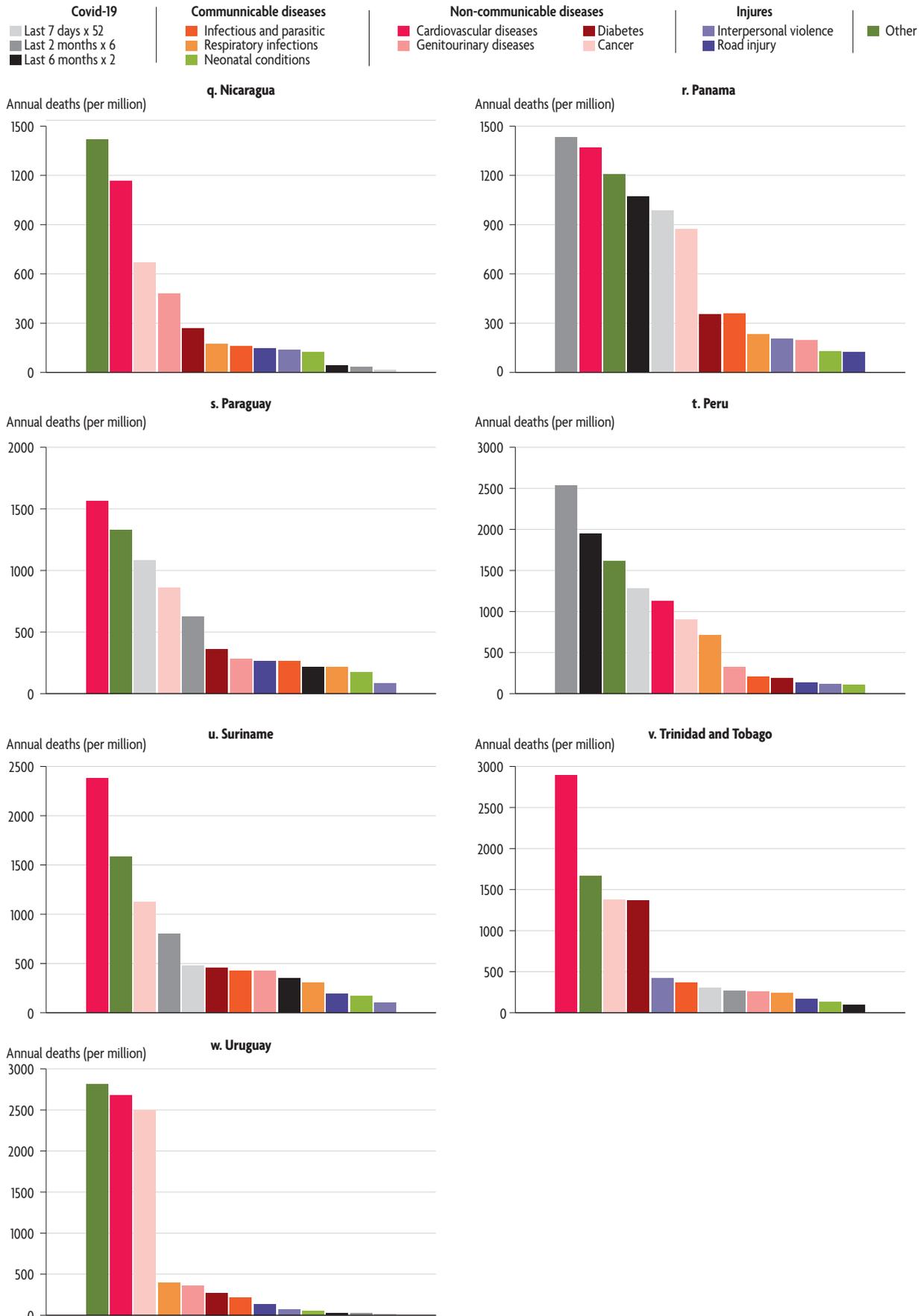
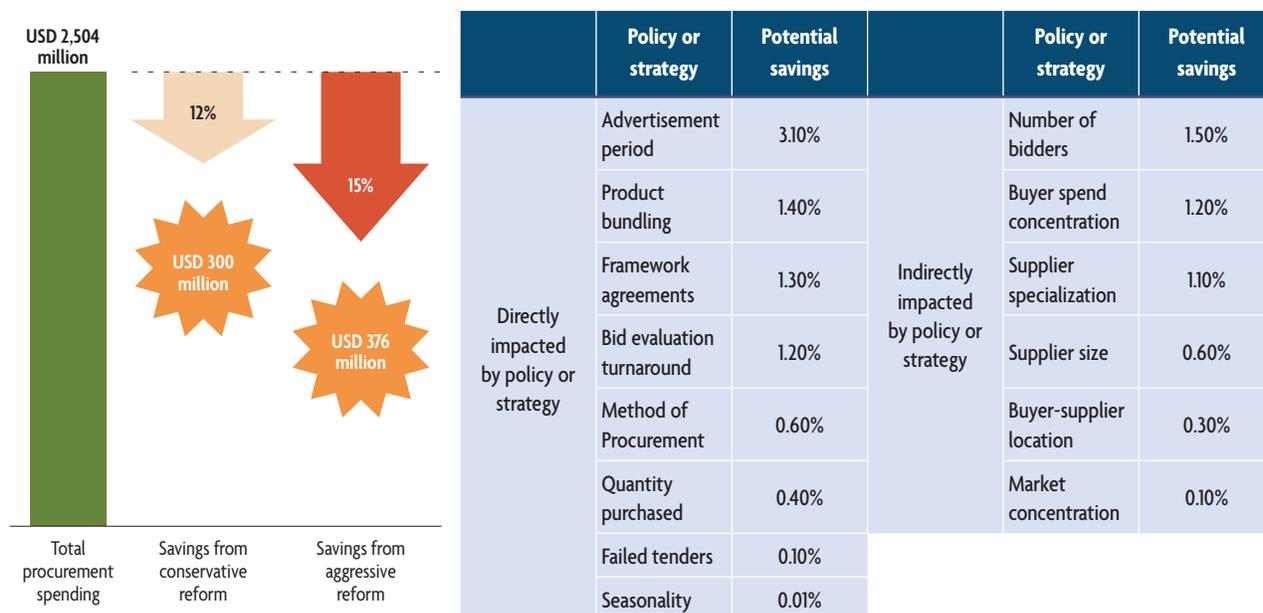


Figure 26. Covid-19 occupies a varying position among causes of mortality across the region (continued)



Note: Figures are in annual deaths per million inhabitants.  
 Source: Roser et al. (2020) for Covid-19 deaths, and WHO (2018) for other causes of mortality.

Figure 27. The procurement cost of health-related products can be reduced



Note: The simulation was conducted for the year 2015.  
Source: Fazekas et al. (2020)

a welcome opportunity to reconsider policies related to pharmaceuticals in Latin America and the Caribbean.

The industry is strong in several countries in the region, and it is making progress toward becoming more innovative in life science, including biotechnology. After decades of copying existing pharmaceuticals, some countries have begun to develop innovative products of their own. At present, there are more than 100 pharmaceutical products from Latin America and the Caribbean undergoing clinical trials. The countries with most new medicines in the pipeline are Brazil and Cuba, with 42 and 27 products respectively (Vargas et al. 2019).

However, the links between the academic and the industrial segments of the sector are often weak. The transformation of promising research into products that reach the market may take decades in the region. A notable exception is Cuba, where the pharmaceutical sector is well connected with global players and ventures internationally with a strong business orientation. But it faces no competition domestically, where it operates directly under the government.

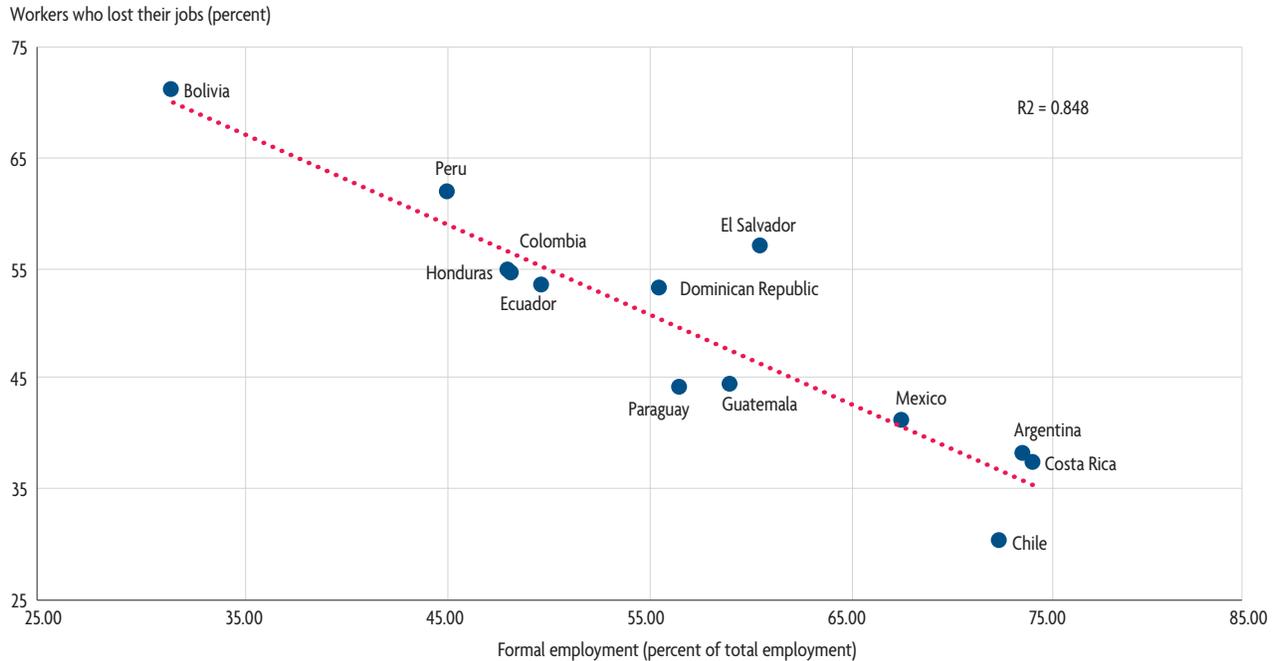
Elsewhere in the region, the arrival of high-quality and low-cost pharmaceutical products from India is changing the market. Indian companies are rapidly expanding in the region, mainly through greenfield investments. This is a promising segment as most trade agreements leave countries with discretion for facilitating the manufacturing of generic drugs.

In recent years, many governments have advocated for the utilization of generic medicines as a means of controlling healthcare expenditure and improving access to medicines. But doing so requires having strong regulatory agencies, able to certify the bioequivalence of generics and to make them the first choice for doctors. Ideally, these agencies should also have the capacity to influence the price of pharmaceuticals in a way that does not dissuade innovation, while at the same time keeping the cost of medicines affordable to the population.

## Reassessing informality

Some of the most important measures to address the Covid-19 crisis while living with the virus lie outside the health domain. In Latin America and the Caribbean, the impact of lockdown measures fell disproportionately on informal sector workers. Many of them live from hand to mouth and need to go out of their homes on a daily basis to make a living. Because they work in activities involving physical tasks and personal contact, teleworking is not an option for them. And many of them lack the necessary internet connections and technology equipment to work remotely anyway.

Across the region, the rapid telephone surveys conducted by the World Bank (2020a) show that employment losses were more significant in countries where fewer workers have wage or salaried formal sector jobs (figure

**Figure 28. The cost of informality turned out to be very high**

Note: Formal employment is defined as wage and salaried formal work; figures are for 2019. For workers who lost their jobs, both permanent and temporary losses are counted; data are for May 21 to June 1. Source: ILOSTAT for formal employment and World Bank (2020a) for job losses.

28). By May 2020, about two-thirds of respondents had suffered permanent or temporary employment losses in the most informal countries in the region, compared to a third or less in the most formal ones.

Reaching informal sector workers and their families with social transfers has proved challenging too. Traditional social protection instruments, such as unemployment benefits, can be irrelevant in their case. But even social assistance programs targeted to poor households may fail to protect them. Much depends on the coverage and quality of population registries, as well as the availability of proper individual identification. Many countries in the region adopted generous social transfer programs, but it is likely that a share of the households in the informal sector was missed out.

A traditional attitude toward informality in Latin America and the Caribbean has been to accept it almost as fact of life. Being able to avoid paying taxes and contributions, or to comply with health and safety standards, may preserve employment in low-productivity economic units that would not survive if they had to play by the rules. But this sanguine view becomes more questionable in the current context.

The Covid-19 crisis is a call to reflect on how to encourage formalization in a way that does not deter job creation while extending social protection to workers

and their families. In the meantime, comprehensive population registries are needed for social transfers to reach many of those who live from hand to mouth and are disproportionately hit by quarantines and lockdowns.

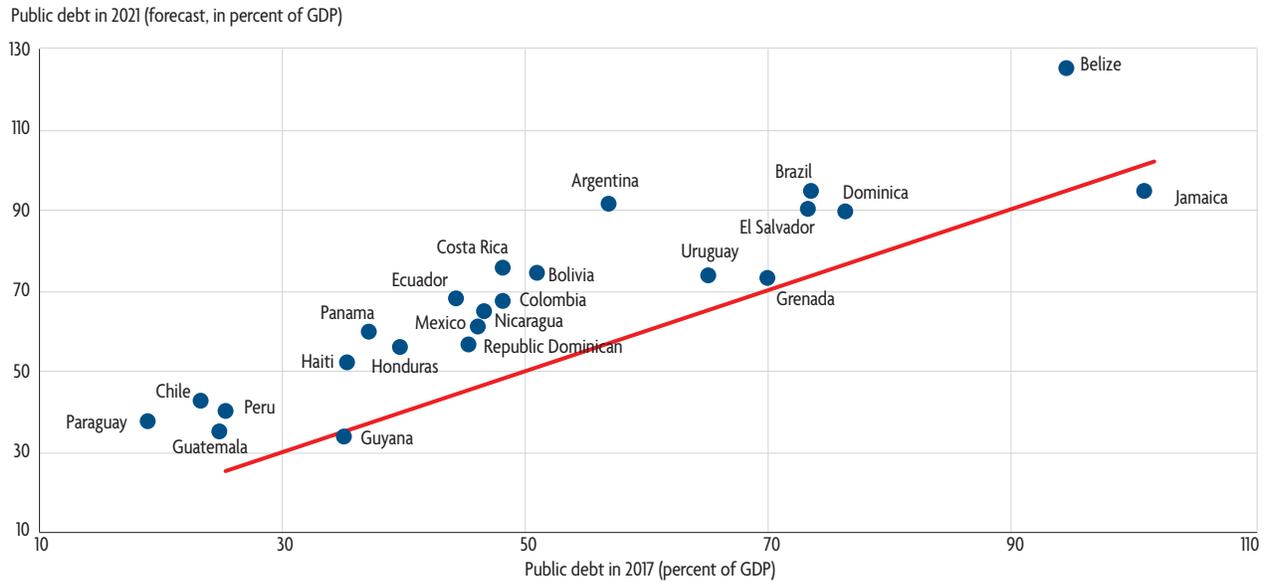
## Recreating policy space

Many countries in the region mobilized very sizeable stimulus packages to confront the crisis, despite having limited fiscal space. This extraordinary effort was made possible by the support they received from international financial institutions, but also through their issuance of government bonds. With few countries losing access to global financial markets, stimulus packages relied to a large extent on additional foreign borrowing.

This was no doubt a sensible choice, given the circumstances. But across the region public debt will have increased by almost 10 percentage points of GDP in just four years, from 2017 to the forecasted level in 2021 (figure 29). Continuing on this trajectory could create challenges for debt sustainability in several countries in Latin America and the Caribbean.

This is all the more concerning as it becomes increasingly clear that countries will have to live with the virus for

**Figure 29. Restoring fiscal balances will soon become a priority**



Source: Own calculations.

the time being. Countries started the fight against the pandemic in the spirit of a sprint. But after nine months since the first Covid-19 outbreaks they seem to be gradually drifting into a marathon. The type of fiscal effort many governments in the region made cannot be continued for several years without putting macroeconomic stability at risk.

Broad-based social transfers may be needed for the time being. However, going forward governments in the region may have to consider paths to fiscal consolidation. The greatest reassurance that governments may offer to their populations, while

living with the virus, is that they will have the means to respond and assist as needed. Reorienting taxes and government expenditures in a way that supports job creation, service delivery and infrastructure development will also be required to put the region back on a path of inclusive and sustainable growth. After many years of disappointing economic performance and one of the worst recessions ever, failure to do so could be the presage for new waves of social unrest and possibly for a return of populist policies to the region.

That, after all, could be the biggest cost from the Covid-19 pandemic.





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# Country briefs

# Argentina

## Recent developments

The strict lockdown imposed to contain the spread of the pandemic led the sharpest GDP decline ever recorded in March-April, with a severe negative impact on employment and labor income, particularly for informal workers. A gradual easing of confinement measures has been initiated, allowing economic activity to pick up at a low pace, but also triggering a rapid rise in Covid-19 cases. The fiscal stimulus package implemented by the government, equivalent to 3.5 percent of GDP, increased transfers to provinces and the abrupt decline in revenues created a central government deficit of nearly 5 percent of GDP in January-July 2020, the largest in more than 30 years. Lack of access to financial markets mandated a full monetization of the deficit, which is leading to an increasing gap between official and parallel foreign exchange rates. The Central Bank is rapidly losing reserves as it attempts to maintain the official exchange rate stable, despite the significant trade surplus and tightened currency controls. The government successfully restructured external debt, providing a debt relief of about 9 percent of GDP over the next eight years.

## Outlook

The prolonged quarantine and drop in external demand will cause GDP to contract 12.3 percent in 2020. The economic recovery will continue as lockdown measures are progressively lifted, building on the economy's ample idle capacity. However, its pace will be sluggish as high uncertainty will limit investment growth while the imperative to bring down the large fiscal deficit will strongly curtail demand stimulus. Despite a rebound in 2021, the economy will not reach 2019 GDP levels before 2023. As a consequence, informality, unemployment and poverty rates will remain elevated. It is projected that 27.1 percent of the population will fall under the international poverty line of USD 5.5 per day in 2020. However, when emergency measures are considered, the projected poverty rate declines to around 18 percent.

## Risks and challenges

Risks are substantially on the downside. An adverse evolution of the pandemic could lead to the extension and tightening of lockdown measures, curtailing consumption and disrupting supply chains, negatively impacting exports. If these risks materialize, inactivity and poverty rates will remain high, making it more difficult to scale-back the increased spending owing to Covid-19. Risks also stem from the difficult policy tradeoffs to stabilize the economy. A rapid fiscal adjustment would lower monetary expansion, reduce inflationary pressures and the widening gap between official and parallel foreign exchange rates, but could hamper the incipient recovery. Postponing fiscal consolidation would do the opposite, depleting reserves and possibly leading to both a disorderly correction of the foreign exchange rate and an inflationary spike in the medium term. Under any scenario, the implementation of a clear economic reform program with credible policy choices towards macroeconomic stabilization and recovery could facilitate a return to market access, lowering inflationary risks, restoring confidence and incentivizing investment, setting in motion a more virtuous cycle of productivity growth and poverty alleviation via robust job creation.

**Table 1. Selected key macroeconomic indicators**

	2016	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	-2.1	2.7	-2.5	-2.2	-12.3	5.5	1.9
Current account balance (percent of GDP)	-2.7	-4.9	-5.3	-0.5	0.6	-0.5	-1.2
Fiscal balance (percent of GDP)*	-6.7	-6.7	-5.2	-4.4	-10.1	-6.1	-5.2
Upper middle-income poverty rate (USD 5.5 in 2011 PPP)	11.1	9.8	12.2	14.6	27.1	19.1	17.8

Note: Fiscal balance refers to the general government, including provinces; "f" stands for forecast.  
Source: Own calculations.

# Brazil

## Recent developments

The impacts of the pandemic caused the Brazilian economy to contract by a historic 9.7 percent in the second quarter of 2020, led by sharp falls in industry and services. Informal workers were hit particularly hard, labor force participation declined, and the unemployment rate increased to 13.3 percent. Decisive monetary and fiscal policy action buffered consumption and prevented a deeper contraction. Portfolio outflows accelerated the dive of the Real which lost over a fifth of its value since February, despite foreign exchange intervention by the Central Bank. The current account deficit declined to 2 percent in July 2020, from 2.7 percent in 2019. A widening output gap translated into inflation declining to 2.4 percent in August and allowed the central bank to reduce the policy rate to a record low of 2 percent in August. The fiscal position deteriorated markedly in light of a federal government fiscal package to support the economy that amounted to 11.1 percent of GDP, using emergency rules under the government's expenditure ceiling. Gross debt of the general government increased from 75.8 percent in 2019 to 85.5 percent in June 2020.

## Outlook

Recent high frequency data supports a more benign economic scenario than previously expected and GDP is projected to contract by 5.4 percent in 2020. The main reasons for the revision include an extension of federal support to households, historically low interest rates and lifting of lockdowns and mitigation measures against Covid-19. The services sector rebound, however, is expected to be heterogenous, as activities dependent on face-to-face interactions remain limited. The economic recovery underway is expected to continue into 2021 (+3.0 percent) and 2022 (+2.5 percent). The current account deficit is likely to soften in 2020 and remain fully covered by FDI inflows. Inflation will continue to be below the target until 2022, as the output gap is expected to widen to 4 percent. The government is expected to post a 11.6 percent primary deficit in 2020 due to its emergency response, coupled with lower tax revenues from a weakened economy. Despite historically low interest rates, the pandemic aggravated the challenges to stabilize public debt, projected to reach 96 percent of GDP in 2022. Poverty is projected to decrease in 2020 due to the government support to households. Yet this drop is likely to be reversed as the emergency measures expire and the labor market is not able to fully absorb the unemployed.

## Risk and challenges

Against the backdrop of the elevated number of Covid-19 cases, economic recovery remains dependent on an improved public health situation. The prolonged pandemic can trigger renewed lockdowns in Brazil and in other parts of the world, which would affect in turn Brazil through trade channels and international capital flows. The recovery also depends on the capacity of the labor market to absorb the 10 million people that left the workforce, most of them informal workers (7.9 million). The government's fiscal room will be constrained in 2021, calling for greater efficiency in public spending. It will also be critical to ensure that fiscal emergency measures remain temporary and that medium-term public debt sustainability remains anchored in the Brazil's expenditure rule. A sustained and more inclusive Covid-19 recovery will require a well-designed education strategy to reopen schools and regain ground on lost learning outcomes, as well as structural reforms to improve productivity and rebuild back better. Sources of resilience include the exchange rate as effective shock absorber, a well-anchored monetary policy, well-capitalized banks and a solid international reserve position.

**Table. Selected key macroeconomic indicators**

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	1.3	1.3	1.1	-5.4	3.0	2.5
Current account balance (percent of GDP)	-0.7	-2.2	-2.7	-0.8	-1.3	-2.0
Fiscal balance (percent of GDP) *	-8.4	-7.6	-6.7	-15.3	-7.2	-7.3
Public debt (percent of GDP) **	73.7	76.5	75.8	93.5	93.9	96.0
Upper middle-income poverty rate (USD 5.5 in 2011 PPP)***	20.2	19.8	19.7	13.3	20.2	20.0

Note: Fiscal balance refers to the general government, including federal level, states and municipalities; public debt refers to general government gross debt; "f" stands for forecast.  
Source: Own calculations.

# Mexico

## Recent developments

The Covid-19 pandemic is taking a heavy toll on the Mexican economy as output contracted by 18.6 percent year-over-year in the second quarter of 2020, with significant increases in poverty and unemployment. At the onset of the crisis, there was a sharp increase in risk aversion that triggered capital outflows from Mexico. The Central Bank maintained its flexible exchange rate regime and enabled a swap program with the US Federal Reserve for around USD 60 billion. With inflation expectations within the band of tolerance, the policy rate was reduced to 4.25 percent by September 2020. The current account deficit narrowed significantly in the first half of 2020 as lower exports were mitigated by an even sharper import compression and strong remittances. The fiscal policy response has been very limited but targeted to social transfers and credits to MSMEs and workers. The authorities were able to maintain tax collection levels over the first half of 2020, owing to the settlement of past tax liabilities and stronger tax administration efforts. Amid worsening conditions, lower oil prices, and dragged by the financial vulnerabilities of PEMEX, the credit rating of sovereign debt was downgraded by rating agencies, but it remains investment grade.

## Outlook

The economy is projected to contract by 10 percent in 2020, with a gradual recovery in 2021 and 2022, and it may take more than three years to attain the pre-pandemic level of GDP. Inflationary pressures are expected to remain subdued due to the large negative output gap. The current account deficit is expected to be narrow in 2020-21, as slower exports will be mitigated by import compression and resilient remittances. FDI will slow significantly, but ratification of the USMCA should ease some uncertainties that limited FDI. Adherence to a tight fiscal stance is expected to continue despite the deterioration of revenue collections. For 2021, the authorities plan to return to a zero primary balance, mostly through the containment and re-prioritization of expenditures. The public debt-to-GDP ratio is expected to have a large one-off increase in 2020 due to a significant drop in GDP, the impact of exchange rate depreciation on foreign currency-denominated debt, and the larger deficit. Yet, it would stabilize after that.

## Risks and challenges

The expected gradual recovery may be slowed if policy uncertainty with respect to private investment, including in the energy sector, is not lifted. The medium term, including 2021-2022, will be challenging on the fiscal side. With a negative output gap widening, eroded fiscal buffers, and growing spending pressures, further fiscal space will be needed. This space will likely need to come from a needed tax reform. Moreover, the financial situation of PEMEX may require further relief from its tax and transfer obligations to the budget.

**Table. Selected Key Macroeconomic Indicators**

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	2.1	2.2	-0.3	-10.0	3.7	2.8
Inflation (percent change in consumer price index)	6.0	4.9	3.6	3.5	3.5	3.5
Current account balance (percent of GDP)	-1.8	-2.1	-0.4	-0.2	-0.5	-0.7
Fiscal balance (percent of GDP)	-1.1	-2.2	-2.3	-5.2	-3.7	-3.3
Public debt (percent of GDP)	45.7	44.9	44.8	56.2	56.1	55.9
International poverty rate (USD 1.9 in 2011 PPP)		1.7	1.7	2.5	2.4	2.3

Note: "f" stands for forecast.

Source: Own calculations.

## Bahamas

The Covid-19 pandemic comes on the heels of the devastation caused by hurricane Dorian in 2019. The Covid-19 shock led to an unprecedented sudden stop in tourism and a deep contraction in economic activity. While Bahamas made notable progress in pursuing fiscal consolidation, hurricane Dorian required that fiscal resources be directed towards recovery and reconstruction. Now the focus has shifted to measures for public health, and a stimulus package to protect jobs and the most vulnerable segments of the population.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	3.1	3.0	1.2	-14.5	4.5	2.3
Inflation (percent change in consumer price index)	1.5	2.3	2.5	2.3	2.3	2.3
Current account balance (percent of GDP)	-12.4	-12.1	0.7	-17.9	-14.5	-8.2
Fiscal balance (percent of GDP) <sup>a</sup>	-5.3	-3.4	-1.7	-6.8	-10.6	-5.7
Public debt (percent of GDP) <sup>a</sup>	53.8	62.6	61.8	82.3	88.5	87.0

Note: Fiscal balances are for fiscal years from July 1st to June 30th; "f" stands for forecast.

Source: Own calculations.

## Barbados

A steep decline in growth is projected for 2020 due to the Covid-19 pandemic. The fallout in the tourism sector and disruptions to local production are expected to depress growth, resulting in a third consecutive year of recession. The fiscal and external accounts are expected to deteriorate substantially. High levels of public debt limit space for countercyclical fiscal policy to lift growth and reduce poverty. Downside risks are very high considering the country's heavy tourism dependency and vulnerability to shocks from economic and natural disasters.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	0.5	-0.6	-0.1	-11.6	7.4	3.9
Inflation (percent change in consumer price index)	4.4	3.7	4.1	2.9	1.6	2.3
Current account balance (percent of GDP)	-3.8	-5.0	-3.1	-10.2	-6.0	-3.8
Fiscal balance (percent of GDP)	-4.3	-0.3	3.8	-2.7	-0.7	0.2
Public debt (percent of GDP)	158.3	125.6	122.2	133.6	124.2	117.1

Note: "f" stands for forecast.

Source: Own calculations.

## Belize

Economic growth slowed in 2019 and a sharp contraction is projected for 2020 amidst the downturn in global economic activity triggered by the Covid-19 pandemic. The fiscal and external accounts are expected to deteriorate. High public debt levels limit headroom for counter-cyclical fiscal policy to boost growth and support poverty reduction. Downside risks are very high given the country's high dependence on tourism and susceptibility to economic and natural disaster shocks.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	1.9	2.1	-2.0	-17.3	6.9	2.2
Inflation (percent change in consumer price index)	1.2	0.2	0.2	0.2	0.8	1.4
Current account balance (percent of GDP)	-7.8	-8.1	-9.6	-17.2	-11.7	-9.9
Fiscal balance (percent of GDP) <sup>a</sup>	-1.4	-1.0	-4.9	-11.8	-7.9	-5.4
Public debt (percent of GDP) <sup>a</sup>	94.7	95.5	100.0	126.9	124.6	124.3

Note: Fiscal balances are for fiscal years from April 1st to March 31st; "f" stands for forecast.

Source: Own calculations.

## Bolivia

GDP is expected to contract by 7.3 percent in 2020 due to Covid-19, limited macroeconomic buffers, and political tensions. Despite mitigating measures, poverty and inequality are expected to increase, given severe labor market shocks. Growth is projected to resume in 2021, although the need to reduce the fiscal deficit and strengthen the financial sector could limit the recovery. Addressing macroeconomic imbalances, boosting labor demand, and protecting the vulnerable is critical to preserve stability and promote inclusive growth.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	4.2	4.2	2.2	-7.3	4.4	3.8
Inflation (percent change in consumer price index)	2.8	2.3	1.8	1.8	2.5	3.0
Current account balance (percent of GDP)	-5.1	-4.5	-3.3	-0.5	-1.1	-1.2
Fiscal balance (percent of GDP)	-7.8	-8.1	-7.2	-10.9	-6.5	-4.5
Public debt (percent of GDP)	51.3	53.3	58.8	72.9	73.9	73.9
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	5.8	4.5	4.3	5.9	5.2	4.7

Note: "f" stands for forecast.

Source: Own calculations.

## Chile

Despite a massive stimulus package, the Covid-19 crisis has plunged the economy into a deep recession, increased poverty, and reduced the size of the middle class. Growth is expected to rebound strongly in 2021, conditional on containment of the pandemic, allowing for a gradual withdrawal of the stimulus. The fallout of the pandemic and the social crisis of late 2019 underscores the importance of strengthening equitable growth by boosting productivity and reducing inequality of opportunity while maintaining sound macroeconomic management.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	1.2	3.9	1.1	-6.3	4.2	3.1
Inflation (percent change in consumer price index)	2.2	2.4	2.6	2.7	2.8	3.0
Current account balance (percent of GDP)	-2.3	-3.6	-3.9	-0.6	-2.1	-2.2
Fiscal balance (percent of GDP)	-2.6	-1.5	-2.7	-9.8	-5.3	-4.6
Public debt (percent of GDP)	23.6	25.6	27.9	38.9	41.5	43.4
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	0.3	0.3	0.3	0.0	0.0	0.0

Note: "f" stands for forecast.

Source: Own calculations.

## Colombia

Covid-19 has caused an unprecedented contraction in economic activity, reversing hard-fought gains in poverty reduction. The authorities responded decisively to the crisis within their solid macroeconomic framework. In the baseline scenario GDP is estimated to contract by 7.2 percent in 2020 and poverty to increase. The depth of the crisis and the exposure to external demand and oil price shocks will weigh on the outlook. As uncertainty remains elevated, a deeper contraction in 2020 and a slower recovery cannot be excluded.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	14	2.5	3.3	-7.2	4.5	4.2
Inflation (percent change in consumer price index)	4.3	3.2	3.5	2.8	2.9	3.0
Current account balance (percent of GDP)	-3.3	-3.9	-4.2	-4.1	-4.5	-4.2
Fiscal balance (percent of GDP)	-2.3	-2.2	-2.4	-9.2	-5.2	-2.8
Public debt (percent of GDP)	48.5	51.4	52.2	66.5	66.6	64.1
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	4.0	4.2	3.7	7.9	4.3	2.5

Note: "f" stands for forecast.

Source: Own calculations.

## Costa Rica

GDP will contract in 2020 due to domestic and global response measures to Covid-19, which will hit hard Costa Rica's large tourism sector. The crisis is increasing unemployment, poverty and inequality and interrupting the government's bold fiscal consolidation efforts. As restrictions are gradually lifted, growth is expected to start recovering supported by accommodative monetary policy, stronger external demand, and structural reforms related to the OECD accession, alongside fiscal consolidation efforts. Poverty reduction hinges on deepening the equity lens of reforms.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	3.9	2.7	2.1	-5.4	3.1	3.5
Inflation (percent change in consumer price index)	1.6	2.2	1.5	0.8	0.9	2.0
Current account balance (percent of GDP)	-2.9	-3.1	-2.4	-3.7	-3.0	-2.9
Fiscal balance (percent of GDP)	-6.1	-5.8	-6.9	-9.3	-8.0	-6.2
Public debt (percent of GDP)	48.4	53.2	58.5	70.7	74.6	76.6
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	1.1	1.5	1.4	2.1	1.2	1.1

Note: "f" stands for forecast.

Source: Own calculations.

## Dominica

The Covid-19 shock has severely hit Dominica, with 2020 GDP growth projected at -7.3 percent. Fiscal pressures remain acute due to lower revenues from the Covid-19 impact and the demands of building a more climate-resilient economy. Risk of debt distress remains high. Further downside risk exists as the pandemic shows few signs of abating and tourism and travel remains seriously constrained.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	-9.5	0.5	8.6	-7.3	3.3	3.2
Inflation (percent change in consumer price index)	0.6	1.4	1.8	1.8	2.0	2.0
Current account balance (percent of GDP)	-8.8	-44.6	-28.0	-30.5	-24.8	-20.1
Fiscal balance (percent of GDP) <sup>a</sup>	1.3	-19.2	-9.9	-10.2	-6.9	-2.7
Public debt (percent of GDP) <sup>a</sup>	76.5	83.8	78.8	85.7	89.0	89.0

Note: Fiscal balances are for fiscal years from July 1st to June 30th; "f" stands for forecast.

Source: Own calculations.

## Dominican Republic

Following 25 years of sustained growth and poverty reduction, the Covid-19 pandemic triggered an economic contraction in the Dominican Republic, and the poverty rate is projected to rise. While monetary easing is expected to continue, a large debt stock limits the scope for expansionary fiscal policy. The incoming government faces both the short-term shock of the pandemic and the challenge of resuming long-term sustainable growth.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	4.7	7.0	5.1	-4.3	4.8	4.5
Inflation (percent change in consumer price index)	3.3	3.6	1.8	3.1	3.0	3.0
Current account balance (percent of GDP)	-0.2	-1.4	-1.4	-3.0	-1.7	-2.2
Fiscal balance (percent of GDP) <sup>a</sup>	-2.9	-2.4	-2.3	-8.4	-5.4	-3.1
Public debt (percent of GDP) <sup>a</sup>	46.5	47.9	50.5	58.3	59.8	61.5
International poverty rate (USD 1.9 in 2011 PPP) <sup>b,c</sup>	0.7	0.4	0.4	0.5	0.4	0.4

Note: Fiscal indicators refer to the non-financial public sector, excluding central bank, quasi-fiscal balances and debt. "f" stands for forecast.

Source: Own calculations.

## Ecuador

With the lack of macroeconomic buffers limiting the policy response to the Covid-19 crisis, the economy is expected to plunge by 11 percent leading to an increase of 7.3 percentage points in poverty. Despite the recent renegotiation of debt with bondholders and China, Ecuador still needs to complete structural reforms, reduce vulnerabilities arising from fiscal imbalances, and improve the investment climate. This process will also require measures to protect the most vulnerable and improve access to opportunities.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	2.4	1.3	0.1	-11.0	4.8	1.3
Inflation (percent change in consumer price index)	0.4	-0.2	0.3	0.0	1.0	2.3
Current account balance (percent of GDP)	-0.1	-1.2	-0.1	-2.0	-0.1	0.3
Fiscal balance (percent of GDP)	-4.5	-3.2	-3.2	-8.9	-2.9	0.6
Public debt (percent of GDP)	44.6	46.1	51.8	68.9	67.4	65.8
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	3.2	3.3	3.4	6.9	6.2	5.7

Note: "f" stands for forecast.

Source: Own calculations.

## El Salvador

El Salvador is facing three shocks: (i) the Covid-19 pandemic, (ii) a recession in the US, and (iii) two tropical storms. While the government response was adequate, the fiscal cost is high. The pandemic caught El Salvador in a weak fiscal position, which is now worsening. Poverty was declining but is expected to increase due to the shocks. Going forward, the country must implement a credible fiscal consolidation that minimizes growth impacts, while fostering new growth drivers.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	2.2	2.4	2.4	-8.7	4.9	3.0
Inflation (percent change in consumer price index)	1.0	1.1	0.1	0.1	0.6	1.1
Current account balance (percent of GDP)	-1.9	-4.7	-2.1	-1.1	-4.7	-5.0
Fiscal balance (percent of GDP) <sup>a</sup>	-2.5	-2.7	-3.1	-9.2	-6.3	-4.7
Public debt (percent of GDP) <sup>b</sup>	73.6	72.7	73.3	88.6	89.4	89.9
International poverty rate (USD 1.9 in 2011 PPP) <sup>c,d</sup>	1.9	1.5	1.4	2.2	1.8	1.6

Note: Fiscal indicators refer to the non-financial public sector; "f" stands for forecast.

Source: Own calculations.

## Grenada

The economy is projected to contract by 12 percent in 2020, owing to a standstill in tourism due to the pandemic. The fiscal accounts are expected to turn to a deficit while the downward debt trajectory should reverse for the first time since 2014. Despite mitigation measures, the poverty impact remains significant. The economy is projected to recover slowly to 2019 levels by 2023 as tourism resumes. However, the outlook remains uncertain depending on the length and severity of the crisis.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	4.4	4.1	2.0	-12.0	3.0	5.0
Inflation (percent change in consumer price index)	0.9	0.8	0.6	0.8	1.2	1.7
Current account balance (percent of GDP)	-14.4	-15.9	-15.8	-27.4	-26.7	-22.0
Fiscal balance (percent of GDP)	3.0	4.6	5.0	-1.9	1.2	2.2
Public debt (percent of GDP)	70.1	64.4	59.6	70.5	72.5	70.8

Note: "f" stands for forecast.

Source: Own calculations.

## Guatemala

Economic activity plunged in the second quarter of 2020 due to the Covid-19 crisis. However, resilient remittance inflows and supportive fiscal measures are expected to temper the adverse socioeconomic impact. Nonetheless, risks are tilted towards the downside. Further fiscal stimulus efforts will be constrained by Guatemala's persistently low domestic revenue mobilization. The new social assistance program, Bono Familia, is expected to benefit approximately 80 percent of poor households. Yet, the proportion of households living in poverty is forecasted to increase.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	3.0	3.2	3.8	-3.5	4.5	3.8
Inflation (percent change in consumer price index)	4.4	3.8	3.7	2.5	3.0	3.3
Current account balance (percent of GDP)	1.1	0.8	2.9	3.0	2.0	1.4
Fiscal balance (percent of GDP)	-1.4	-1.9	-2.3	-5.6	-4.1	-3.1
Public debt (percent of GDP)	25.3	26.2	26.7	32.5	34.1	34.6
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	8.1	7.8	7.6	8.1	7.8	7.6

Note: "f" stands for forecast.

Source: Own calculations.

## Guyana

Guyana's economy expanded in the first half of 2020, as rising oil production offset a pandemic-driven contraction in nonoil GDP. Economic ties between the oil and nonoil sectors remain limited, and while oil revenues will boost growth through public spending, this effect will take time to materialize. While oil revenues may positively transform Guyana, there are risks to sustained growth and poverty reduction, as illustrated by oil price volatility, investment costs and the Covid-19 pandemic.

	2017	2018	2019	2020 f	2021 f	2022 f
GDP growth, at market prices (percent) <sup>a,b</sup>	3.7	4.4	5.4	23.2	7.8	3.6
Inflation (percent change in consumer price index)	1.5	1.6	2.1	1.0	2.6	2.9
Current account balance (percent of GDP)	-15.4	-40.7	-60.6	-28.4	-13.3	-8.8
Fiscal balance (percent of GDP)	-3.3	-2.7	-2.8	-5.1	-3.7	-3.6
Public debt (percent of GDP)	35.3	35.8	32.6	32.5	33.1	34.5

Note: "f" stands for forecast.

Source: Own calculations.

## Haiti

The Covid-19 pandemic and Haiti's deep-rooted structural problems and political instability took a severe toll on the economy and manifested in rising poverty. Limited fiscal space – due weak revenue mobilization, ill-defined spending priorities and absence of efficient targeting mechanisms – hindered government's response capacity to support vulnerable household and firms adversely affected by the pandemic. Better targeted policies and an ease of the political tensions will be necessary to stabilize the economy and facilitate a recovery.

	2016/17	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f
Real GDP growth, at constant market prices (percent)	1.2	1.5	-1.4	-3.1	1.1	2.1
Inflation (percent change in consumer price index)	14.7	13.5	17.2	22.8	26.0	19.0
Current account balance (percent of GDP)	-1.0	-3.9	-2.0	0.3	-2.0	-3.4
Fiscal balance (percent of GDP)	-1.9	-4.3	-3.7	-6.8	-4.1	-2.5
Public debt (percent of GDP)	35.6	38.3	42.5	47.9	51.2	51.2
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	24.0	24.1	25.9	27.3	28.7	28.2

Note: "f" stands for forecast.

Source: Own calculations.

## Honduras

Honduras entered a sharp recession in 2020 due to external and domestic supply and demand shocks, exacerbated by a high degree of uncertainty amid the Covid-19 pandemic. This has led to high levels of food insecurity and increases in poverty and inequality as vulnerable households lose income. The economy is expected to rebound in 2021 supported by an accommodative macroeconomic policy stance and the restoration of trade and investment. However, a more prolonged recession is possible.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	4.8	3.7	2.7	-7.1	4.9	3.9
Inflation (percent change in consumer price index)	3.9	4.3	4.4	3.0	3.8	4.0
Current account balance (percent of GDP)	-0.8	-5.4	-0.7	-2.0	-2.6	-1.8
Fiscal balance (percent of GDP) <sup>a</sup>	-0.8	-0.9	-0.9	-5.0	-4.0	-1.0
Public debt (percent of GDP) <sup>a</sup>	40.1	42.2	43.1	52.3	54.9	54.3
International poverty rate (USD 1.9 in 2011 PPP) <sup>b,c</sup>	17.6	16.9	15.8	16.8	16.0	15.3

Note: Fiscal indicators refer to the non-financial public sector; "f" stands for forecast.

Source: Own calculations.

## Jamaica

Prior to Covid-19, Jamaica implemented a successful economic reform program from 2013 to 2019 that put the country in a strong position to deal with the external shock. Achievements include a reduction in public debt by 54 percentage points of GDP; implementation of an inflation targeting framework with a floating exchange rate; and an improvement in external buffers. However, the pandemic will have a negative impact on employment and poverty. The downside risks are high due to natural disasters and the length and depth of Covid-19.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	1.0	1.9	-0.1	-9.0	4.0	2.0
Inflation (percent change in consumer price index)	4.4	3.7	3.9	4.6	5.3	5.0
Current account balance (percent of GDP)	-2.6	-1.8	-2.0	-8.0	-5.6	-3.3
Fiscal balance (percent of GDP) <sup>a</sup>	0.4	1.2	0.9	-2.9	-0.6	-0.3
Public debt (percent of GDP) <sup>a</sup>	101.3	94.4	94.0	101.2	93.8	88.1

Note: Fiscal balances are for fiscal years from April 1st to March 31st; "f" stands for forecast.

Source: Own calculations.

## Nicaragua

The Covid-19 outbreak threatens to deepen and prolong the economic recession sparked by the sociopolitical crisis. The country faces a weakened external position despite boasting a current account surplus. Fiscal consolidation has been delayed to partially cushion the economic impact of the crisis. Large employment contractions in labor-intensive sectors threaten to continue reversing achievements in poverty reduction. The economic recovery is expected to be protracted amid modest global rebound, tight external financing conditions and policy uncertainty.

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	4.6	-4.0	-3.9	-5.9	1.1	1.2
Inflation (percent change in consumer price index)	3.9	4.9	5.4	3.9	3.1	3.0
Current account balance (percent of GDP)	-4.9	0.6	5.4	3.8	1.8	0.2
Fiscal balance (percent of GDP) <sup>a</sup>	-2.0	-4.1	-1.3	-5.6	-4.0	-1.3
Public debt (percent of GDP) <sup>b</sup>	47.1	52.9	56.7	62.9	64.1	63.6
International poverty rate (USD 1.9 in 2011 PPP) <sup>c,d</sup>	2.1	2.9	3.4	4.5	4.5	4.5

Note: Fiscal balances are for the non-financial public sector; "f" stands for forecast.

Source: Own calculations.

## Panama

Panama is one of the most affected countries by the Covid-19 pandemic, both in health and economic terms, due to its exposure to international trade and its reliance on pandemic-vulnerable growth drivers such as construction, mining, and tourism. Emergency social measures prevented a larger increase in poverty but contributed to a deterioration in fiscal accounts. Looking ahead, Panama needs to regain fiscal sustainability and increase productivity to unleash new growth drivers, while ensuring growth benefits to rural dwellers, afro-descendants, and the indigenous population.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	5.6	3.7	3.0	-8.1	5.3	3.8
Inflation (percent change in consumer price index)	0.9	0.8	-0.4	-0.9	0.5	1.5
Current account balance (percent of GDP)	-5.9	-8.2	-5.2	-1.4	-3.7	-4.4
Fiscal balance (percent of GDP)	-1.9	-2.9	-3.1	-7.7	-5.2	-3.0
Public debt (percent of GDP)	37.6	39.4	46.4	58.0	59.3	59.1
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	2.5	1.7	1.7	2.0	1.8	1.7

Note: "f" stands for forecast.

Source: Own calculations.

## Paraguay

Well-enforced policies on social distancing led to one of the lowest levels of contagion and deaths from Covid-19 in the region in the first months of the pandemic. With a track-record of prudent macroeconomic policy over the last decade, the crisis response measures are expected to be effective in absorbing a part of the Covid-19 shock and supporting economic recovery. However, poverty is expected to increase in 2020 to the levels of 2015, and slowly reverse going forward.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	5.0	3.4	0.0	-3.2	3.5	3.7
Inflation (percent change in consumer price index)	3.6	4.0	3.2	1.8	3.5	4.0
Current account balance (percent of GDP)	3.1	-0.2	-1.2	0.7	0.7	0.9
Fiscal balance (percent of GDP)	-0.5	-1.0	-2.4	-7.0	-4.0	-2.8
Public debt (percent of GDP)	19.3	21.0	24.5	35.3	37.0	36.9
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	1.0	1.4	1.4	1.6	1.6	1.5

Note: "f" stands for forecast.

Source: Own calculations.

## Peru

Peru's economic landscape has deteriorated drastically as a result of the Covid-19 pandemic, with a heavy toll on firms, workers and households. Despite large fiscal and foreign exchange buffers, the crisis response was constrained by structural weaknesses and poor implementation capacity, leading to loss of lives and livelihoods, and a steep recession. The speed and extent of recovery will depend on the timing of the availability of a vaccine as well as on the steadiness of policies in the context of upcoming elections.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	2.5	4.0	2.2	-12.0	7.6	4.5
Inflation (percent change in consumer price index)	2.8	1.3	2.1	1.5	1.8	2.0
Current account balance (percent of GDP)	-1.3	-1.7	-1.5	-1.1	-1.5	-2.2
Fiscal balance (percent of GDP)	-3.0	-2.3	-1.6	-9.6	-5.5	-4.0
Public debt (percent of GDP)	25.8	26.6	26.8	37.0	39.4	40.8
International poverty rate (USD 1.9 in 2011 PPP) <sup>a,b</sup>	3.4	2.7	2.6	4.3	2.9	2.4

Note: "f" stands for forecast.

Source: Own calculations.

## St. Lucia

GDP is expected to contract by 18 percent in 2020 due to the halted tourism from the Covid-19 crisis. Income losses are widespread, with the poor having been impacted to a larger degree. Significant revenue losses and increased expenditures have led to a surge in indebtedness. The economic outlook remains highly uncertain due to Covid-19 and the vulnerabilities to natural disasters. It is critical for the Government to implement fiscal reforms early to rebuild fiscal resilience to cushion future shocks.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	3.5	2.6	1.7	-18.0	8.1	5.2
Inflation (percent change in consumer price index)	-0.5	2.5	0.6	1.7	1.4	1.3
Current account balance (percent of GDP)	-1.0	2.2	4.6	-14.9	-8.7	-1.7
Fiscal balance (percent of GDP) <sup>a</sup>	-2.1	-1.0	-3.4	-12.2	-6.8	-4.3
Public debt (percent of GDP) <sup>a</sup>	59.5	60.1	60.4	85.3	87.7	89.4
International poverty rate (USD 1.9 in 2011 PPP) <sup>b,c</sup>	4.5	4.4	4.4	5.4	4.7	4.6

Note: Fiscal balances are for fiscal years from April 1st to March 31st; "f" stands for forecast.

Source: Own calculations.

## St. Vincent and Grenadines

GDP is expected to contract by 7.0 percent in 2020 as the Covid-19 pandemic continues. After several years of minimal budget deficits and primary surpluses, the new port investment, the Covid-19 response and the sudden stop in tourism will exert significant pressure on public finances as public expenditures increase and revenues plummet. Further downside risk exists as the pandemic shows few signs of abating and tourism and travel remains seriously constrained.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	1.0	2.2	0.4	-7.0	3.7	3.0
Inflation (percent change in consumer price index)	2.2	2.3	0.9	1.5	2.0	2.0
Current account balance (percent of GDP)	-11.6	-12.0	-10.0	-17.5	-12.1	-12.7
Fiscal balance (percent of GDP) <sup>a</sup>	-0.4	-0.9	-2.4	-6.2	-4.5	-4.5
Public debt (percent of GDP) <sup>a</sup>	73.5	75.6	75.2	85.8	85.4	85.4

Note: Fiscal balances are for the central government; "f" stands for forecast.

Source: Own calculations.

## Suriname

The economic situation deteriorated rapidly as the pandemic exacerbates existing domestic weaknesses. The government has started to put together an adjustment program to deal with large macroeconomic imbalances including a long-awaited unification of the exchange rate. The discovery of offshore oil may enable consolidation of a stable medium-term growth outlook even though higher oil production will take several years. In the near term, the ability to obtain enough external finance and fiscal consolidation are critical for macroeconomic stabilization.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	1.8	2.6	0.3	-13.0	1.5	2.0
Inflation (percent change in consumer price index)	22.0	6.9	4.5	40.0	30.0	8.0
Current account balance (percent of GDP)	1.9	-3.4	-11.2	-8.0	-6.2	-4.7
Fiscal balance (percent of GDP) <sup>a</sup>	-9.3	-11.4	-9.0	-13.9	-8.8	-6.9
Public debt (percent of GDP) <sup>a</sup>	74.7	72.5	81.4	136.5	112.9	103.3

Note: Fiscal balances are for the central government; "f" stands for forecast.

Source: Own calculations.

## Uruguay

Voluntary social distancing and extensive testing and tracing have so far been effective in controlling the pandemic, but the country could not avoid its first recession since 2002. The effects of deteriorating labor markets were mitigated by well-targeted social safety programs, coupled with emergency measures. Absent a Covid-19 flare-up or a new round of negative external developments, the economy is expected to recover swiftly, but the potential need to extend mitigation measures could clash with the ambitious fiscal consolidation targets.

	2017	2018	2019	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices (percent)	2.6	1.6	0.2	-4.0	4.2	3.1
Inflation (percent change in consumer price index)	6.2	7.6	7.9	9.5	8.0	6.9
Current account balance (percent of GDP)	0.7	0.0	0.6	-1.0	-1.5	-1.2
Fiscal balance (percent of GDP) <sup>a</sup>	-3.5	-3.7	-4.3	-6.3	-4.5	-3.4
Public debt (percent of GDP)	60.7	60.1	62.3	71.5	72.1	71.6
International poverty rate (USD 1.9 in 2011 PPP) <sup>b,c</sup>	0.1	0.1	0.1	0.1	0.0	0.0

Note: "f" stands for forecast.

Source: Own calculations.

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