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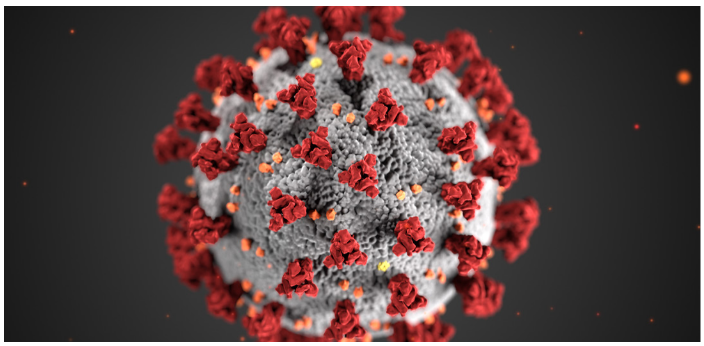
FEATURED Q&A

How Much Damage Are Latin American Economies Facing?



The coronavirus pandemic, which has caused more than 24,000 deaths worldwide, is also expected to result in widespread economic damage, including in Latin America and the Caribbean. // Image: U.S. Centers for Disease Control and Prevention.

Q **Countries all over the world, including in Latin America and the Caribbean, are grappling with the economic consequences of the Covid-19 pandemic, which has upended markets, disrupted supply chains and forced the temporary closure of businesses, large and small alike, as workers and consumers stay home. What do the best-case and worst-case economic scenarios look like for Latin America and the Caribbean, and will the region suffer a U-shaped recession or a V-shaped one? How deep will the recession be, and which countries face the most economic pain? With already high debt-to-GDP ratios, who will countries borrow from to fund their deficit spending, and how can they target economic packages to most effectively preserve jobs?**

A **Alicia Bárcena, executive secretary of the U.N. Economic Commission for Latin America and the Caribbean (ECLAC):** "Latin America and the Caribbean was already vulnerable before the virus struck. After seven years of disappointing growth and stalled progress in reducing poverty and inequality, the recent social turmoil that affected the region in the last quarter of 2019 exposed the institutional fragility of the region's economies and social systems. The additional burden of the current crisis will test the limits of its ability to respond. ECLAC is now projecting an economic contraction of at least 1.8 percent for 2020, with a large downside risk. The depth, duration and recovery of the recession will depend on the health, economic and social decisions that governments make, and the role that international and regional cooperation plays. Fighting the pandemic will require tools

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S&P Downgrades Sovereign Credit Rating for Mexico

Standard & Poor's downgraded its sovereign credit rating for Mexico to BBB from BBB+, citing the plunge in oil prices and the economic hit from the coronavirus pandemic.

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Bolivia's electoral tribunal said it was proposing new dates between June 7 and Sept. 6 for the country's rescheduled election.

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U.S. Authorities Charge Maduro With Drug Trafficking

U.S. federal prosecutors unsealed indictments accusing Venezuelan President Nicolás Maduro and several other top Venezuelan officials of drug trafficking and conspiring with the Revolutionary Armed Forces of Colombia rebels.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

U.S. Authorities Charge Maduro With Drug Trafficking

In a series of criminal cases, U.S. authorities on Thursday charged Venezuelan President Nicolás Maduro and several other top officials in the Andean nation of drug trafficking and conspiring with the Revolutionary Armed Forces of Colombia, or FARC, rebel group and offered multimillion-dollar rewards for information leading to their arrests or convictions. "The Venezuelan regime, once led by Nicolás Maduro Moros, remains plagued by criminality and corruption," U.S. Attorney General William Barr said in a statement. "For more than 20 years, Maduro and a number of high-ranking colleagues allegedly conspired with the FARC, causing tons of cocaine to enter and devastate American communities. Today's announcement is focused on rooting out the extensive corruption within the Venezuelan government—a system constructed and controlled to enrich those at the highest levels of the government." The statement refers to Maduro as Venezuela's former president as the U.S. government, along with dozens of others, recognizes opposition leader Juan Guaidó as the country's legitimate president. Maduro and his top lieutenants ran "a narcoterrorism partnership with the FARC for the past 20 years," Geoffrey S. Berman, the U.S. attorney for the Southern District of New York, alleged in a statement. "The scope and magnitude of the drug trafficking alleged was made possible only because Maduro and others corrupted the institutions of Venezuela and provided political and military protection for the rampant narco-terrorism crimes described in our charges." The cases, unsealed in federal courts in New York, Florida and Washington, allege that Maduro and the other defendants "expressly intended to flood the United States with cocaine in order to undermine the health and wellbeing of our nation," said Berman. "Maduro very deliberately deployed cocaine as a weapon." He also alleged that Maduro and the others accused "betrayed the Venezuelan people and corrupted Venezuelan institutions to line their pockets with drug money." U.S. authorities also accused top Venezuelan officials of using U.S. banks for laundering illicit proceeds. In addition to Maduro, the indictment also names Venezuelan National Assembly leader Diosdado Cabello, former military intelligence director Hugo Armando Carvajal Barrios, former armed forces General Clíver Antonio Alcalá Cordones, FARC Secretariat member Luciano Marín Arango, also known as Iván Márquez, and FARC Central High Command member Seuxis Paucis Hernández Solarte, also known as Jesús Santrich. U.S. officials also announced that they were offering rewards of as much as $15 million for information leading to Maduro's arrest and/or conviction, $10 million for Cabello, Carvajal and Alcalá, and $5 million for Marín. In a televised speech Thursday, Maduro blasted U.S. officials over the indictments. "This is an extravagantly extremist, vulgar and miserable act," he said, The Wall Street Journal reported. "A collection of dirty, false accusations—and as if they were cowboys from the Old West, they put a price on the head of revolutionaries who are ready to combat them everywhere and keep on beating them. You are a miserable person, Donald Trump." Maduro is unlikely to ever actually face charges in the United States or be in U.S. custody, but officials in the United States say the indictments and detailing the accusations could undermine his support both in Venezuela and abroad, the newspaper reported.

ECONOMIC NEWS

S&P Downgrades Mexico's Sovereign Credit Rating

Credit ratings agency S&P on Thursday downgraded Mexico's sovereign rating to BBB from BBB+, with a negative outlook, citing an expected economic hit from the Covid-19 pandemic and a plunge in oil prices, Reuters reported. Mexico's economy fell into recession last year, and the coronavirus pandemic has

NEWS BRIEFS

Bolivia's Electoral Panel Proposes Three-Month Window for New Vote

Bolivia's electoral tribunal on Thursday said it was proposing new dates between June 7 and Sept. 6 for the country's presidential election, Reuters reported. The vote is a re-do of last October's election, in which longtime President Evo Morales was declared the winner of the vote that was marred by allegations of corruption. The vote had originally been rescheduled for May 3, but the government last week postponed the election, citing the coronavirus pandemic. [Editor's note: See related **Q&A** in Thursday's Advisor.]

Mexican Protesters Block Border Crossing From U.S. Fearing Covid-19 Spread

Mexican protesters on Thursday shut a border crossing between Mexico's Sonora state and Arizona, blocking traffic into the Latin American country for a second consecutive day amid fears that U.S. travelers will bring coronavirus into Mexico, BBC News reported. Mexico has fewer than 600 confirmed Covid-19 cases, while the United States has recorded more than 85,000, the highest in the world. The border is supposed to be closed to "nonessential" business, but protesters say there has been little enforcement.

Salvadoran Lawmakers OK as Much as $2 Bn in Debt to Fight Coronavirus

El Salvador's Legislative Assembly on Thursday said it has authorized the government to take on debt, either bank loans or debt issuance, of as much as $2 billion to confront the Covid-19 pandemic, Reuters reported. The Central American country has so far recorded 13 confirmed cases of coronavirus, and the country is under a mandated quarantine of 30 days, El Diario de Hoy reported.

sparked concerns of an even sharper downturn this year. The downgrade, although widely expected, put pressure on the peso, pushing it down by 2 percent against the U.S. dollar. The ratings agency said potential increases in "contingent liabilities from the energy sector could worsen the sovereign's debt burden and lead to a downgrade," adding that state oil company Pemex's financial profile had significantly weakened over the past five years, Reuters reported. More downgrades in coming months could prompt Pemex's bonds to full into junk territory, possibly bringing a selloff by major investors whose mandates require them to hold investment grade assets. Mexico's finance ministry did not immediately reply to Reuters' request for comment. Analysts on average expect Mexico's economy to contract 3 percent this year, though some estimate a fall of more than 5 percent, El Financiero reported.

BUSINESS NEWS

Sweden's Saab Begins Producing Gripen F Fighters for Brazil

Swedish manufacturer Saab has begun producing the Gripen F two-seater fighter aircraft for Brazil's air force, Airforce Technology reported today. "This milestone is important for the Gripen project because it demonstrates that the development phase is proceeding properly," said Renato Leite, the head colonel of the Brazilian Air Force Monitoring and Control Group. The new aircraft has one more seat than previous models, as well as more displays and controls. It can also operate on a training mode with one crew member and another in which both crew members share the workload. The manufacturing program of the Gripen F aircraft also involves Brazilian partner companies Embraer, AEL Sistemas, Akaer and Atech. The Swedish company was contracted to deliver eight Gripen F fighter jets to Brazil starting in 2023, as well as 28 Gripen E fighters with deliveries scheduled to begin next year.

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necessary for a war economy. It demands precise and decisive government planning, including scaling up production of essential goods and supplies, and the rapid construction of health infrastructure. The time is ripe for uncompromising fiscal policy to support income, jobs and the productive sector, in particular SMEs. The focus needs to be on higher social spending, especially in health and social protection for the most vulnerable groups, SMEs, low-income workers and the informal sector. Monetary actions can play a supportive role by maintaining exchange-rate stability and providing liquidity to bolster the solvency of the real economy. Enabling lenders to grant greater repayment flexibility to borrowers will be crucial to ensure payment flows are not disrupted. To create room for additional expenditure, high debt burdens and reduced fiscal space must be overcome. Also, countries must be allowed a greater space for indebtedness and not be penalized. This requires not only national governments' efforts but also the involvement of multilateral and regional development banks through concessional funding, debt relief, deferral and, in some cases, forgiveness, particularly in Caribbean countries, Argentina, Ecuador and other highly indebted countries. Additionally, global coordination of fiscal policies will be important."

A **Shelly Shetty, member of the Advisor board and co-head of Americas sovereign ratings at Fitch Ratings:** "Fitch expects growth in Latin America to be seriously challenged in 2020, following years of persistently weak growth. The region is being buffeted by multiple shocks, including the spread of coronavirus, the fall in commodity prices (especially oil), tightening external funding conditions and the rapid weakening and high volatility of domestic financial asset prices. Sovereigns in the Caribbean and Central America face additional growth challenges from an adverse shock to tourism. Economic growth projections are likely to be revised more frequently this time around as the scale of the damage from the pandemic is uncertain and the extent and duration of lockdowns in countries remain unclear. Fiscal space is limited across the region in light of increased government debt burdens in recent years. However, fiscal support packages are being rolled out in some countries, involving temporary tax relief and/or increased spending. Countries with low to moderate debt burdens and those with fiscal buffers and deeper local capital markets would have more flexibility to implement fiscal measures. Effective implementation and timely withdrawal of the stimulus would limit the fiscal damage and help preserve fiscal credibility. Slower growth and implementation of support packages will lead to fiscal deterioration and/or delay previous consolidation plans. This, coupled with widescale depreciation of regional currencies, will result in rising government indebtedness across the region. While monetary easing is cushioning the economic shock in some countries, the room for significant rate cuts may be curtailed by ongoing foreign-exchange pressures. Political and social tensions already evident in much of the region may increase if the authorities' response to the coronavirus is perceived as ineffective or if the economic fallout is especially severe."

A **Claudio Loser, former head of the Western Hemisphere Department at the International Monetary Fund and founder and CEO of Centennial Latin America:** "The short answer is: It will be bad, but we cannot know for sure the magnitude of the economic consequences of Covid-19. After experiencing virtually no growth in 2019, ECLAC is estimating a contraction of 1.8 percent in regional gross domestic product, with a sharp increase in unemployment and a rise in poverty levels to maybe 35 percent of total population, from an estimated 31 percent last year, and as low as 28 percent in 2014-15. The projected decline may be low, given

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the spiraling effects of the pandemic, even if difficult to quantify. However, two points are certain: First, while on an annual basis the decline may be moderate, in the range of 2 percent to 5 percent, the intensity of the decline in the short run, and the consequent disruption, will be enormous. Country after country in the region is closing down for medical reasons; commodity prices, particularly oil and metals, have plummeted; tourism is at a standstill; private sector financing has stopped; and so on. Second, even if the pandemic abates soon, the regional recovery will take time—an open V-shape—as purchasing power and confidence are restored slowly. Fiscal and monetary actions are needed and will certainly happen. And, as is usually the case, countries will seek the help of the IMF, consistently considered a most-hated friend, even though it has consistently come to the rescue in times of need."

> **"The intensity of the decline in the short run, and the consequent disruption, will be enormous."**
> **— Claudio Loser**

A Eric Parrado, chief economist and general manager of the research department at the Inter-American Development Bank: "Coronavirus has imposed severe human and economic costs on China and is now having severe impacts on Europe and the United States. Latin America and the Caribbean are no exception. The number of confirmed cases in the region is growing. Countries are rightly taking strong actions to slow its spread and save lives, but this will inevitably have significant additional economic effects on growth and on fiscal budgets. It is very difficult to predict if the virus will be contained and the world's economies can function in something that resembles normalcy in the coming months, let alone consider a strong rebound as we experienced in the global crisis of 2008-09. Obviously, the region must first attempt to stop the spread of the virus to limit the loss of life and to prevent health systems from becoming overwhelmed. On the economic front, this is not a normal shock. Typical anticyclical demand management policies may not be appropriate. We need to think of specific policies that will help under these circumstances. These could include well-targeted transfers to those who lose their income (formal and informal), assistance to firms to incentivize and help employees work from home and to firms (especially SMEs) in critical sectors. Central banks should lower policy rates if inflation is relatively well anchored and ensure banks do not cut liquidity to firms, perhaps through a mix of providing liquidity, reducing reserve and liquidity requirements and other types of regulatory tolerance. Any such policies should be carefully monitored. In some countries, public banks may also be harnessed to help firms with liquidity problems. Today, our economies are vulnerable to abrupt drops in economic activity, lower commodity prices, lower remittances and higher risk premiums reflecting the sudden stops in capital flows. In this context, in a global scenario that combines reductions in the growth of the main economic powers together with reductions in world asset prices, this would lead to a recession deeper than the fall in growth in 2009. A V-shaped recovery should be in our efforts and actions, but it will be extremely challenging."

Editor's note: See the Advisor's interview with former Colombian Finance Minister Mauricio Cárdenas on the pandemic's potential economic impact on the region.

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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