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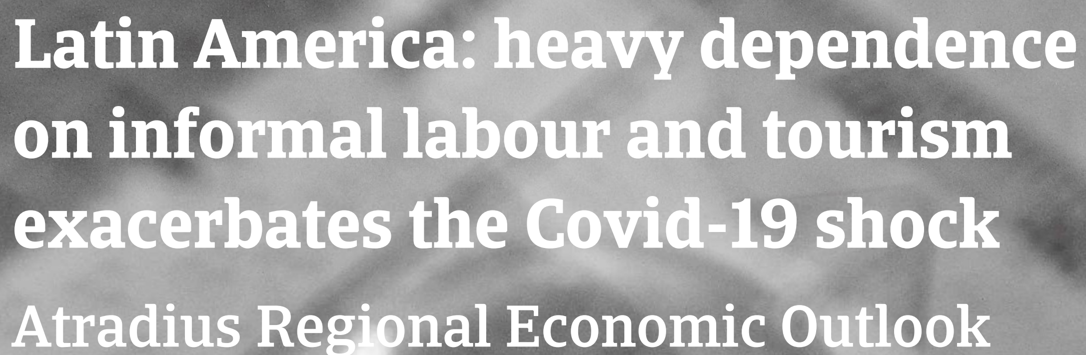

Latin America: heavy dependence on informal labour and tourism exacerbates the Covid-19 shock

Atradius Regional Economic Outlook

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Executive summary

Of all emerging market regions, Latin America and the Caribbean (Latam) has been most affected by the Covid-19 pandemic, both in terms of infection and death rates, and regarding the impact on its economy. The outlook is highly uncertain and weighted down by growing fears of a new wave of infections. Rising prospects of multiple Covid-19 vaccines are definitively hopeful. However, the vaccine rollout is expected to move more slowly in the Latam region compared to advanced markets due to smaller vaccine orders so far relative to population and more logistical challenges. Therefore the economic benefits from the vaccine are expected to manifest first through the improving external environment as rollout across advanced markets boosts trade, commodity prices and external financing flows.

Key points

- The pandemic has revealed structural weaknesses, which has made the region particularly vulnerable to the measures to contain the spread of Covid-19: border closures, travel bans, lockdowns and social distancing.

- Hardest hit have been countries with a large informal economy, a high dependence on contact-intensive sectors such as tourism, and a low ability of working remotely.

- More developed and diversified economies, particularly those that quickly restored access to international capital markets and had room for government stimulus packages, are more resilient.

- Still, most countries in the region, including the more developed ones, needed emergency liquidity support and credit lines from multilateral agencies to deal with higher financing needs resulting from rising expenditures and falling fiscal and external revenues due to the Covid-19 crisis. One of the region’s long-term problem children, Brazil, stands out positively in this respect.

- Latam’s economic recovery from the Covid-19 pandemic will be partial and uneven. It will be stronger in countries that have ample fiscal space to support their economies, as well as in those that have good institutional quality to help an effective rollout of vaccines. Meanwhile, recovery will be lagging in the tourist-dependent countries.

Latin America: heavy dependence on informal labour market and tourism exacerbates the Covid-19 shock

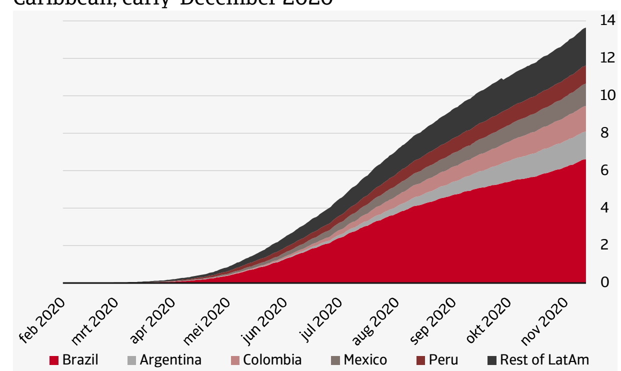
A severe health crisis

Of all emerging market regions, Latin America and the Caribbean (Latam) has been most affected by the Covid-19 pandemic. When Covid-19 reached Latam's shore end of February 2020, starting in Brazil, countries closed their borders, implemented lockdowns, and employed social distancing measures to limit its spreading and prevent overloading their relatively weak healthcare systems. The strength of these containment measures varied substantially across countries, from very strict in Argentina and Peru, to less stringent on the national level in Brazil and Mexico, and mainly voluntary in Uruguay. Whereas these lockdowns initially reduced the spreading of the disease, they became less effective once mobility increased and social distancing measures appeared to be difficult to maintain, causing the virus to spread like a pet fire in many Latam countries since June. Weak social safety nets, high informality – on average roughly half of the region's non-agricultural labour force, according to the IMF – and high population density in urban areas, particularly in the slums, were important factors behind the resurgence of the spreading of the disease.

By early-December, the Latam region recorded 13.7 million confirmed cases and over 460,000 deaths (note that the actual numbers could be higher, as testing for Covid-19 has not been systematic). This represents a fifth of the total global cases and nearly a third of the total global deaths, while the region accounts for less than 10% of the global population. Five Latam countries belong to the top 15 of countries worldwide with regard to the number of confirmed cases: Brazil, Argentina, Colombia, Mexico and Peru. That said, in terms of the size of its population, confirmed cases in Mexico were at some 9,300 per one million inhabitants by early-December – still much below those of the other four countries (between some 27,000 and 33,000 per one million inhabitants).

In terms of infection rates, Aruba, Chile, Costa Rica and Panama can be added to the list of the world's hardest hit countries by Covid-19, with confirmed cases per one million inhabitants between some 29,000 and 47,000 by early-December. Meanwhile, for the most part the virus is still not well controlled, and recent developments show that the general trend of a decline in daily-confirmed cases since August has ended. The number of daily-confirmed cases is rising again at an alarming rate since mid-in a number of countries, including in some which so far had succeeded in containing the spreading of the virus. The most notable of these are Uruguay and some Caribbean islands. This raises concerns about the development of infection rates going forward, particularly ahead of the December festivities. This uncertainty will cloud the region's economic outlook.

1.1 Total Covid-19 confirmed cases in Latin America and the Caribbean, early-December 2020



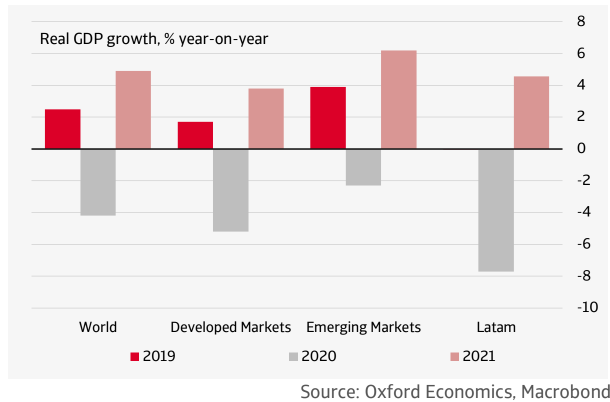
Source: WHO, Macrobond

Structural features explain the crisis' severity and cloud the region's outlook

The Covid-19 crisis and its associated lockdown and social distancing measures, decreases in global demand for goods and services, as well as lower commodity prices and

limited access to finance, all have had a devastating impact on Latam economies. The estimated economic contraction of 7.7% in 2020 is much above the Emerging Market Economies' (EME) average of 2.3% and the deepest among all regions, and follows a period of sluggish or no growth. The subsequent recovery in 2021 is estimated at 4.6% – relatively mild and below the 6.2% EME average. This is partly due to generally stricter lockdowns and other restrictive measures compared to most other regions. It is also the result of a more gradual approach towards easing in the wake of generally weaker healthcare systems.

1.2 Latin America's economy underperforms and is hit hard by the Covid-19 crisis



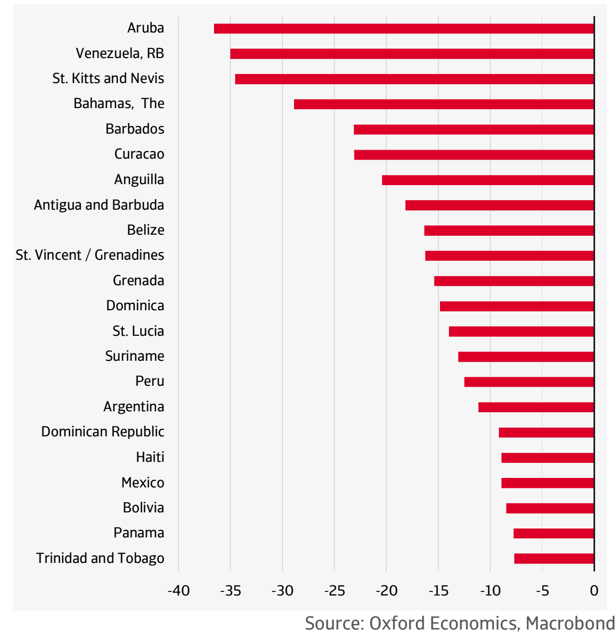
Source: Oxford Economics, Macrobond

But the severe economic contraction and modest rebound particularly reflects structural characteristics of Latam's labour market, which make the economies highly vulnerable to a pandemic and its associated measures to contain the spreading of a virus: border closures, travel restrictions, lockdowns and social distancing. High informality of the economy, for instance, makes it more challenging to provide financial support to firms and households. This informality reduces the effectiveness of measures, such as tax relief or wage subsidies, pushing many people working in the informal sector deeper into poverty. Rather than starving, many people take the risk of getting infected by Covid-19 in their daily search for some income, thereby amplifying the health crisis as noted above. High informality is particularly prevalent in Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Paraguay and Peru, ranging from 60%-80% of their non-agricultural labour force.

Next to the high share of informality, two other characteristics of Latam's labour market stand out: a relatively large share of workers in contact-intensive sectors (such as hospitality and entertainment), and a relatively low share of workers able to work remotely. According to a recent IMF report, the region's average share of workers in contact-intensive sectors is above 40% – notably higher than the EME average of some 31%. Unsurprisingly, this is particularly true for the tourism-intensive Caribbean, but also for some Central American countries, such as Costa Rica and El Salvador, and Argentina.

At the same time, a recently developed indicator by the IMF shows that Latam's share of occupations that can be done remotely is at some 20% – markedly below the EME average of some 26%. Many Central American countries, as well as for Peru, Bolivia and Ecuador, stand out in this respect.

1.3 LaTam countries with above-average GDP contractions in 2020



Source: Oxford Economics, Macrobond

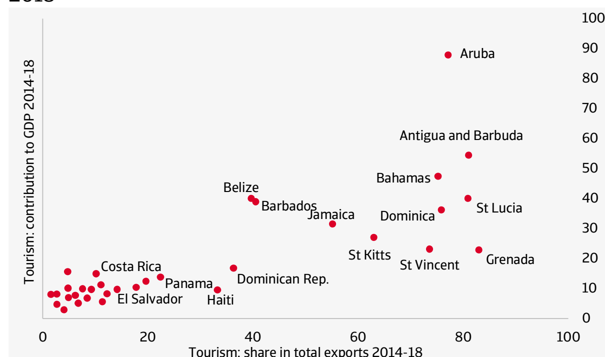
Meanwhile, the more diversified economies whose share of remotely workable occupations is close to the EME average. This is true for countries such as Panama, Brazil, Chile and Uruguay, which show higher resilience to the Covid-19 shock. That said, their economies are also shrinking as never before seen in recent history. Of all Latam economies, Guyana is the only one showing growth this year. The economy of this small country will expand by a third following the start of oil production from recently discovered fields, making it the fastest growing in the world.

Caribbean hit hard by collapse in tourism

The Covid-19 pandemic, the strict measures to contain the spreading of the virus, and the strong increase in online events and conferences caused a collapse in global tourism. This has dealt a blow to the small island economies of the Caribbean, which are among the most dependent in the world on tourism. Nearly a dozen of them feature in the top 20 on a recently developed Tourism Dependency Index of the Inter-American development Bank (out of 166 countries for which data are available). This index provides a broad picture of a country's dependence on the tourism sector by measuring its contribution to export receipts, GDP (directly and indirectly) and employment. The most tourism-dependent in the world based on this measure is Aruba, whose

average annual tourism receipts accounted for 77% of total exports in 2014-18, and almost 90% of its GDP and employment (see chart 1.4). The members of the Eastern Caribbean Currency Union, Antigua & Barbuda, St. Lucia, Dominica, Grenada, St. Vincent & Grenadines, and St. Kitts & Nevis, are all ranked in the top 20. Included on the list are also the Bahamas, Barbados, Jamaica and Belize. Not ranked in the Tourism Dependency Index, but vulnerable as well, are Curaçao and St. Maarten. It is therefore no surprise that all those countries are experiencing the steepest economic contractions in the Latam region, ranging between 14% for St. Lucia and a record 37% for Aruba.

1.4 Dependency on tourism receipts of LaTam, average 2014-2018



Source: Inter-American Development Bank, Tourism Dependency Index

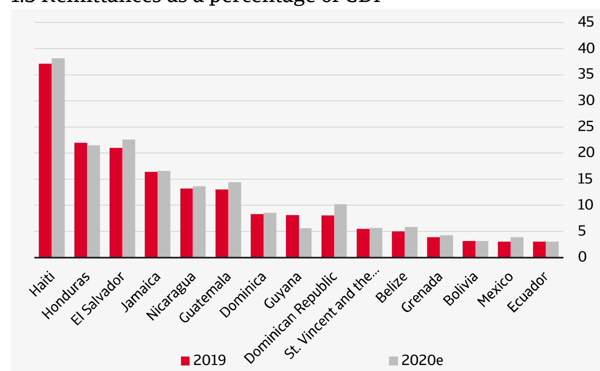
One of the exceptions is Jamaica, where an increase in remittances and a recovery in the countries' mining industry (which generates some 50% of export revenues and 7% of GDP), cushioned the impact of the shock in its tourism industry (real GDP expected to contract 6.3% in 2020). As such, it performs even better than the economy of the Dominican Republic (real GDP expected to contract 9.2% in 2020), which is more diversified than the other Caribbean islands. This higher diversification is due to membership of DR-CAFTA, the free trade agreement between the US, the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

Meanwhile, the gradual reopening of the Caribbean economies since last summer has proven to be challenging. Despite strict health and safety measures, including the requirement of proof of a negative Covid-19 test by most countries on entry, some have experienced a surge in imported Covid-19 cases, while in most cases tourist arrivals remain low. This clouds the outlook for the high season, which has just started and will run through February. Until a vaccine or treatment for the disease is widely available, the tourism sector will remain depressed.

Remittances quite resilient so far, but not for most of the Caribbean

Remittances to low and middle-income countries (LMICs) worldwide reached a record high of USD 548 billion in 2019. They became the main non-debt creating financing flow of this group of countries, being larger than foreign direct investment flows (USD 534 billion) and overseas development assistance (about USD 166 billion). For the Latam region, remittances amounted USD 99 billion in 2019, serving as an important source of income and financing of the current account. This is particularly true for Central-American countries and some Caribbean islands, ranging from almost 40% of GDP in Haiti, to 5% of GDP in Belize.

1.5 Remittances as a percentage of GDP



Source: World Bank

Right after the start of the Covid-19 pandemic, the World Bank projected that remittances to LMICs would fall dramatically, by some 20% in 2020. Migrant workers, particularly those who are undocumented or on temporary working permits, often lack access to social safety nets and are more susceptible to infection by Covid-19. This is due to the fact that they generally work in poor conditions, live in more crowded places and have limited access to healthcare.

However, although remittances did initially drop in the first few months after the Covid-19 outbreak, the flow of money sent home by foreign overseas workers has so far been surprisingly resilient. The World Bank now estimates remittances to LMICs to decrease by 7.2% this year, still more than the 5% recorded during the global financial crisis in 2009, but less than initially feared.

The Latam region stands out positively compared to other LMICs on this particular aspect, as remittances are expected to remain on balance unchanged compared to last year. An explanation could be the proximity to the US, which performed relatively better than many other migrant worker destinations, and where migrants often work in essential sectors.

In some Latam countries, remittances flows even increased compared to last year. In absolute amounts the most for Mexico, which is by far the largest recipient in Latam, accounting for over 40% of total remittances to the region (but which represents only 3%-4% of Mexico's GDP). Some of the countries which are more dependent on remittances saw migrant flows increasing in USD terms, most notably in the Dominican Republic (up 7%), Jamaica (up 5%) and Guatemala (up 1%). In some other highly dependent countries remittances rose relative to GDP, but this is due to a shrinking economic output this year.

Unfortunately, in USD terms, remittances actually fell this year for the already hard hit Caribbean economies Dominica (down 4%), St. Vincent (down 6%) and Belize (down 4%), dealing a further blow to their economies and balance of payments. The exception was Aruba, whose foreign overseas workers raised the money sent home by 71% (representing 2% of GDP).

Underperformance of Latam remittances next year will impact the recovery

The reasons for this year's surprisingly better than expected performance of remittances are not reassuring for future flows. This is because these reasons include that migrants drew on their savings, shifted from informal (unrecorded) to formal (recorded) money transfer channels and were unexpectedly better able to access income support offered by their host countries. As drawing down on savings cannot last forever, and income support programs will be gradually unwound, the World Bank is meanwhile more pessimistic on the outlook for remittances. Rather than expecting a recovery of migrant flows in 2021, the agency now forecasts a further decline of 7.5% for LMICs. This is also due to a more gradual than previously expected economic recovery in the host countries.

For the Latam region the World Bank expects remittances to decrease by 8%. A weak employment situation in the US will weigh negatively on migrant flows to Mexico, while concerns about the economies of Spain and Italy are clouding the outlook for remittances to Argentina, Bolivia, Ecuador, Colombia, Paraguay, Peru and Uruguay.

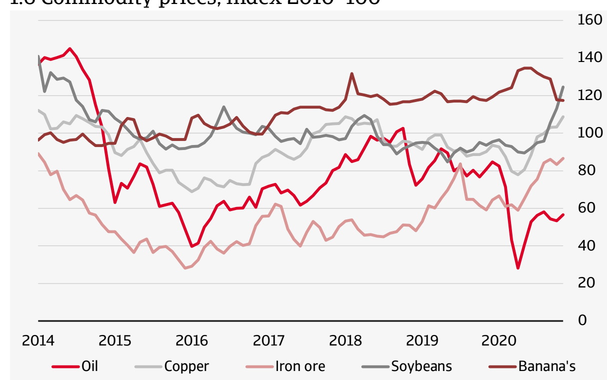
Recovery in commodity prices helpful for South-America, but will not last

After deteriorating last spring due to the Covid-19 pandemic, commodity prices have generally recovered to pre-Covid-19 levels. This happened on the back of a rebound in global trade in goods in the course of the year, led by China. In November base metal prices, led by copper, were 14% higher than their pre-Covid peak, while agricultural commodity prices were up 7%. This is particularly good news for South-America, which is home to the world's largest producers of copper (Chile and Peru), soybeans (Brazil and Argentina) and iron ore (Brazil as the second largest) and the world's largest banana exporter (Ecuador). However, looking ahead developments in commodity prices are expected to be less supportive than in the past months. In its latest Commodity Markets outlook, the World Bank projects only modest gains for metal and agricultural prices of 2% and 1% in 2021.

Meanwhile, oil prices are still one-third below pre-pandemic levels, despite a doubling from their April lows following supply cuts by OPEC. They are projected to recover very gradually and to stay low in 2021, averaging some USD 44 per barrel in 2021, as an easing in supply restrictions will counterbalance the impact of a slow recovery in demand.

The only partial recovery in oil prices continues to weigh negatively on oil dependent Bolivia, Colombia, Ecuador, Trinidad & Tobago and Venezuela. On the other hand, it is a welcome helping factor for oil-importing countries in Central America and the Caribbean.

1.6 Commodity prices, index 2010=100



Source: World Bank

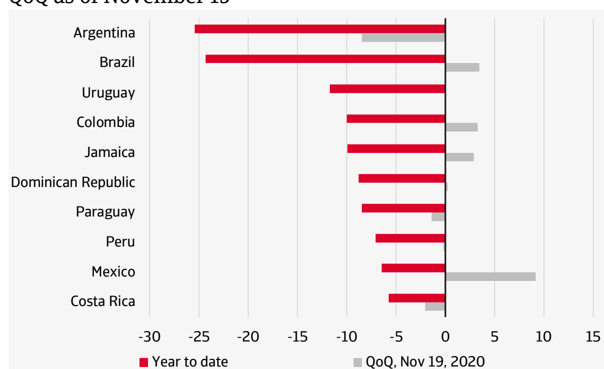
Multilaterals to the rescue

Despite the fall in exports of goods and services, particularly tourism, the current account deficit for the whole of the Latam region will improve significantly this year, from USD 87 billion (1.7 percent of GDP) in 2019 to USD 15 billion (some 0.5 percent of GDP), on the back of import compression due to falling domestic demand. Flexible exchange rates in some countries have facilitated this improvement as well, proving their role as a shock absorber. However, this masks huge differences within the region. Almost all countries in South America and some in Central America see their current accounts improving in USD terms, except of the relative tourism dependent countries Belize, Costa Rica, El Salvador and Uruguay. It is therefore no surprise that all Caribbean islands will see a deterioration in their current accounts in USD terms this year. Many of the most vulnerable show deficits of more than 20% of their GDP.

Meanwhile, the drop in foreign currency receipts resulted in pressure on the currency and reserves in countries with fixed exchange rate regimes (mostly in the Caribbean) and large exchange rate depreciations in countries with more flexible exchange rates. Not only a sharp fall in export receipts contributed to this, but also declining foreign direct investment flows. These are expected to remain subdued for the Latam region as a whole, as the pandemic-induced global recession has resulted in lower profits and project reassessments by multinational companies. On top of that, more financially integrated countries such as Brazil, Chile, Colombia and Mexico experienced record-high portfolio outflows of about USD 30 billion in March

by non-residents, following a flight to safety by investors in response to the outbreak of the Covid-19 pandemic.

1.7 Exchange rate, largest depreciations vis-à-vis the USD and QoQ as of November 19th



Source: Macrobond (Venezuela (-93 percent YTD) and Suriname (-47 percent YTD) excluded)

In order to avoid an imminent balance of payments crisis and a deeper economic shock stemming from the sharp fall in export receipts and capital outflows, 21 of the 33 Latam countries that are members of the IMF have received emergency liquidity support from the Fund. This support amounts to some USD 5.4 billion. The lower income countries in the region received support through the unconditional Rapid Credit Facility (Dominica, Grenada, Haiti, St. Lucia and St. Vincent), and most of the others through the unconditional Rapid Financing Instrument (the Bahamas, Bolivia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Nicaragua [also RCF], Panama and Paraguay). Furthermore, existing IMF programmes for Barbados and Honduras were augmented.

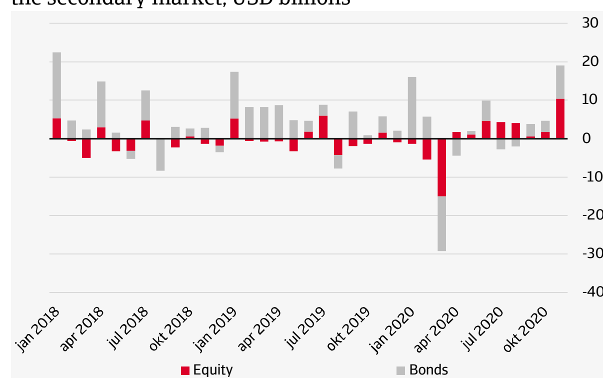
Chile and Peru qualified for an IMF Flexible Credit Line (FCL), which is an unconditional renewable credit line only provided to countries with sound policy frameworks. Colombia and Mexico already had an FCL, which in the case of Colombia was augmented.

Next to the IMF, also the World Bank and the region's multilateral development banks – Inter American Development Bank, Central American Bank for Economic Integration, Caribbean Development Bank and the Development Bank of Latin America – provided credit lines to most of the region's governments. The lower income countries Dominica, Grenada and St Lucia also benefitted from the G20 Debt Service Suspension Initiative. This comprises of a suspension of debt service payments to official bilateral creditors and provides room to increase health spending.

Remarkably solid access to international bond markets supports the recovery

After a record-high portfolio outflow by non-residents in March, portfolio flows to EMEs recovered, and the Latam region was no exception. This was driven by the search for yield that followed massive monetary stimulus programmes in the advanced economies to address the Covid-19 shock. International bond markets took the lead, with equity markets lagging. These flows rebounded in November upon positive vaccine news and Joe Biden's win in the US presidential election. However, the recovery of non-resident portfolio flows in the secondary market is still uneven, incomplete and highly susceptible to shifts in market sentiment.

1.8 Non-resident portfolio flows to main LaTam countries on the secondary market, USD billions



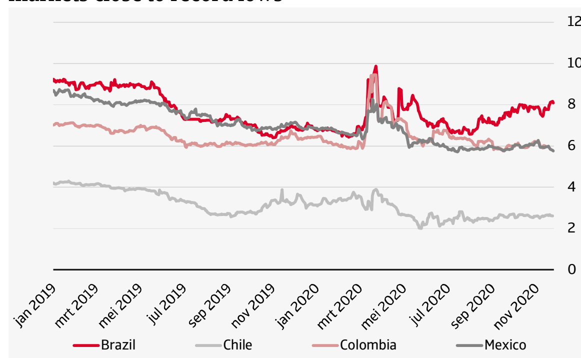
Sources: IIF, data refer to Brazil, Chile, Colombia and Mexico

Quite remarkably, considering the severity of the health and economic crisis, Latam countries regained solid access to primary international bond markets during 2020. According to Fitch Ratings, by the end of September Latam's sovereigns had issued USD 42.5 billion in international bonds, significantly above the USD 34.5 billion issued during the entire year of 2019 and also exceeding the 2015-2019 annual average of about USD 30 billion (excluding Argentina).

Nearly three-quarters was accounted for by investment grade sovereigns, with Mexico being the largest issuer, followed by Chile, Panama, Peru and Uruguay. In November Peru even joined a select group of countries that have issued century bonds. Sub-investment grade sovereigns were able to tap international bond markets, most notably Brazil, the Dominican Republic, El Salvador, Guatemala, Honduras, Paraguay and Trinidad & Tobago. Additionally, corporate issuance on the international bond market was strong as well. External issuance was generally at longer maturities and lower costs, with sovereign bond yields in some of Latam's largest economies close to historic lows. This indicates that many Latam countries also benefit from the benign international financing conditions, which will be supportive for growth going forward. That said, for some sovereigns, the cost of

funding remained quite high. For instance, El Salvador paid a 9.5% coupon on its 32-year international bond.

1.9 10-Year sovereign bond yields in some of LaTam's larger markets close to record lows



Source: Macrobond

Finally, international debt markets remained closed for some Latam countries, due to problems originating before the Covid-19 crisis. The sovereigns of two smaller markets, Belize and Suriname, had to defer payments on their international bond obligations to create some fiscal space, while Suriname is aiming for a debt restructuring. The sovereigns of Argentina and Ecuador have both finalised the restructuring of their external debt with international private creditors. They did so in a relatively short amount of time of some five months, very different from earlier restructurings, despite the complexity of particularly Argentina's debt restructuring (35 foreign-law bonds in multiple currencies and with different conditions). So-called collective action clauses facilitated the process, which bodes well for other countries that have such clauses and are in debt-distress. These clauses allow a qualified majority of bondholders to agree to a debt restructuring that is legally binding on all holders of the bond, including those who vote against the restructuring. As such, they prevent free riding and litigation. Although these clauses help the process of debt restructuring, more is needed for rebuilding trust and restoring healthy economic growth. A full-fledged IMF programme with conditions would help. Ecuador received this last September, while Argentina is still negotiating.

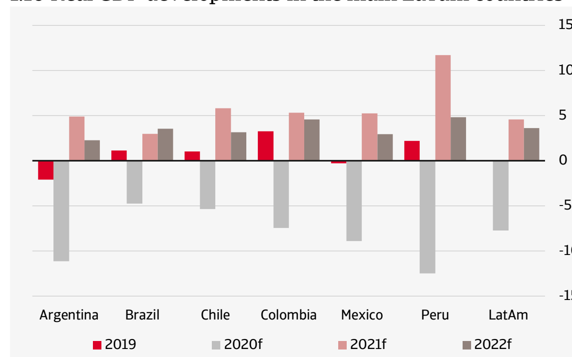
External financing enabled governments to support their economies despite limited fiscal space

Support from the IMF and the regional multilateral development banks, as well as sound access to international bond markets, enabled Latam countries to support their economies and healthcare systems with stimulus packages, despite limited fiscal space in most countries in the region. Chile and Peru are the main exceptions in this respect, with government debt ratios at 28% respectively 27% of GDP in 2019, substantially below the region's average of 69% in 2019, fiscal buffers and a strong revenue base (Guatemala and Paraguay also have low government debt ratios, but a much narrower tax base).

These fiscal stimulus packages typically consisted of tax reductions and increased spending, mostly to support poorer households. They have ranged between less than 1% of GDP in debt-distressed Ecuador, to over 14% in St. Lucia. However, they were for most of the region at 4% or below. Additionally, central banks of the region's more advanced economies cut interest rates, but unfortunately, those in the hard hit Caribbean islands were less capable of doing so, given their fixed exchange rate regimes.

Larger markets in the spotlight: sound policies make a difference

1.10 Real GDP developments in the main LaTam countries



Source: Oxford Economics, Atradius

In Latam's largest markets, **Brazil** and **Mexico**, the diverging economic impact of the Covid-19 crisis stands out. Both countries have a well-diversified, service-based economy and are modest oil exporters. They both have populist presidents who took less stringent measures on a national level to contain the spread of the disease, compared to most other countries in the region. However, Mexico's GDP contraction in 2020 is estimated 8.9%, significantly deeper than 4.8% forecast for Brazil. Aside from Mexico's economy being much more open than that of Brazil (and as such more susceptible to external shocks), the difference in policy response is an important explanatory factor.

In Brazil the size of fiscal support has been at 12% of GDP, while that of Mexico has amounted just 1% of GDP. Mexico's president gives priority to adhering to the fiscal rules, even though government debt was at 47% of GDP in 2019, much below that of Brazil (76%). Mexico's monetary policy has also been more cautious than that of Brazil, where interest rates have been cut to 2%, compared to 4.25% in Mexico. Meanwhile, both had similar inflation rates at 4% last October (within the target range for both countries, although at the upper end for Mexico).

As a result, business confidence and retail sales in Brazil have strongly rebounded, with both the manufacturing and services sector PMI moving into expansionary territory. In contrast, business confidence and retail sales

in Mexico have remained sluggish, and its manufacturing PMI is still moving in contractionary territory. The latter also reflects the negative impact on business confidence and investments of policy uncertainty and concerns about contract enforcement and rule of law under the current government. As a result, Mexico's economy is currently expected to return to its pre-Covid-19 level only in 2024, a year later than Brazil.

While the highly expansionary fiscal policy in Brazil has cushioned the economic fall-out of the pandemic, it comes at a cost: government debt will jump close to 100% of GDP this year and is forecast to trend around this level for the foreseeable future. Positively, debt affordability has improved, with the average costs of borrowing having decreased to 6.1% from almost 8% at the start of the year. Most of the debt is financed domestically (88%) in local currency (95%), and the government is a net-external creditor. Although the shortening of maturities to an average of 5 years (from over 6 years pre-Covid-19) has raised some concerns, these positive factors mitigate currency, refinancing and sovereign default risks, and enabled Brazil to pursue a very expansionary fiscal policy. Moreover, high official reserves meant that Brazil did not need emergency liquidity support from the IMF.

Argentina's and **Peru's** double-digit economic contractions of respectively 11.1% and 12.5% in 2020 are even steeper than Mexico's. Both countries imposed amongst the worlds' most stringent lockdowns, with negative impact on the economy. In the case of Peru this is amplified by a large informal sector (60% of total non-agricultural employment) and limited abilities for working remotely (at 17% below the region's average).

Even here, economic policies differ strongly. While Argentina returned to heterodox business unfriendly policies under the current administration, Peru has for a long time a strong, business friendly orthodox policy framework, allowing it to qualify for an IMF Flexible Credit Line and to access international capital markets to finance its government stimulus measures. This will support economic growth going forward and enable a strong economic recovery. Peru's recent political crises is not expected to impact its sound economic policy. The recent issue of a USD 1 billion century bond at decent rates (coupon 3.23%) supports this view.

Argentina, on the other hand, had lost access to international capital markets, following several confidence crises starting in 2018. Although it successfully restructured its debt to commercial creditors, restoring access to international capital markets will take a long time, and is conditional on a credible economic plan supported by the IMF. Corresponding negotiations have started, but are not expected to be completed any time soon. In the meantime, the Argentinian government has turned to money printing to finance its fiscal stimulus package, equivalent to some 3.5% of GDP. The country is running down on already tight foreign currency reserves, despite stringent currency controls. This policy weighs down on Argentina's economic outlook, as it lifts inflationary pressures, reduces spending power, increases the gap between the official and parallel exchange rate and worsens the business environment. Argentina's economy will therefore be the last country in the entire region to return to its pre-Covid-19 levels (in 2025), except for debt-distressed Venezuela and Antigua and Barbuda.

Of the region's two other large economies, **Chile** and **Colombia**, Chile is best positioned to return to pre-Covid levels, which is expected to happen in 2022, one year before most other countries in the region. Both Chile and Colombia have launched robust fiscal support packages of about 10% of GDP, aimed at boosting public and private investment. Additionally both have cut interest rates to very low levels (0.5% in Chile and 1.75% in Colombia). However, whereas Chile's economy benefits from the recovery in copper prices, Colombia's economy is still being negatively impacted by the incomplete recovery of oil prices. Meanwhile, the passing of legislation allowing for pension withdrawals is positive for household demand in Chile. Underlining the countries' robust fundamentals despite the Covid-19 shock, foreign direct investments have remained a key financing flow for these countries.

Living between hope for a vaccine and fear of a new wave

Latam's economic recovery will be partial and uneven, and it will be stronger in countries that have ample fiscal space to support it, such as Chile and Peru, while lagging in tourist dependent countries. The outlook strongly depends on global and national developments of the Covid-19 infection rates, as well as on the rollout of a vaccine and its effectiveness. Increasing Covid-19 cases in the larger markets of Brazil, Colombia and Mexico fuel fears of a new wave. Rising prospects of multiple Covid-19 vaccines are definitively hopeful, but the economic benefits for Latam's economies will most likely manifest first through an improving external environment. Vaccine rollout will start in the advanced markets, with the Pfizer/BionTech and Moderna vaccines, which are currently being authorized. The rollout will move more slowly in the Latam region, which is waiting for other vaccines, such as that of AstraZeneca/Oxford, which is cheaper and easier to transport and store, and therefore pre-ordered by them. Moreover, vaccine orders are smaller so far relative to population compared to advanced markets. Additionally, the success of a vaccine rollout in the Latam region much depends on the quality of a country's institutions and its organisational strength. Higher income countries with sound institutions (Chile, Uruguay and Costa Rica) are better positioned in this respect than most of their Latam peers, which have rather weak institutions, with the poorer countries (Nicaragua, El Salvador, Bolivia and Haiti) being on the opposite end of the spectrum.

To end on a more positive note, relations with the US will most likely improve under a Biden presidency. He is expected to restore financial aid to and supply chains with the region, which would benefit Mexico, Colombia and

Central America the most. It is generally expected that Mr Biden will follow up on the 'Alliance of Prosperity' plan set up under the Obama presidency to address Central America´s violence and high poverty rates, which are major causes for emigration to the US. Under the plan, the countries receive financial support in exchange for strengthening their institutional quality. Also beneficial are the two free-trade agreements that Chile has secured with Brazil (its largest regional trade partner) and Ecuador last August. This is encouraging, as it shows that despite the challenges created by the Covid-19 pandemic, some of the region's largest markets have managed to focus on matters that would benefit their economies in the longer term.

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