The Outlook for Latin American Economies

Novel coronavirus puts resilience of Latin America's social infrastructure to the test

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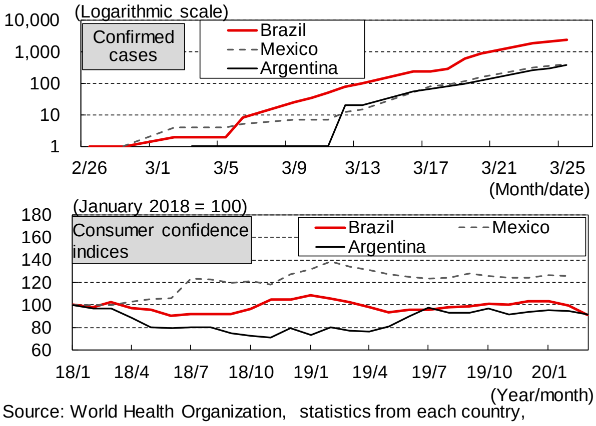
27 APRIL 2020
(ORIGINAL JAPANESE VERSION RELEASED ON 3 APRIL 2020)

The novel coronavirus has spread in Latin America slightly later than in the Northern Hemisphere. The first case in the region was reported on February 26 in Brazil, and confirmed cases have since risen steadily in all of the region's three major economies (next page Chart 1, upper part). Brazil declared a national state of emergency on March 20, and the state of Sao Paulo, where the virus has spread widely, has a stay-at-home order in effect through April 7, allowing only shopping of essential items. Argentina is mandating self-isolation of infected individuals through a presidential decree. In Mexico, local governments are taking steps such as closing schools and banning gatherings of 100 or more people. Consumer sentiment indices fell in Brazil and Argentina for the month of March (Mexico's has not been released), highlighting negative impact of the virus spread on the real economy (next page, Chart 1 lower part). In Mexico, manufacturers are likely being forced to slash production due to the country's close economic ties with the US, where clear signs of economic deterioration have surfaced.

As for monetary policy, the Central Bank of Brazil cut its policy rate by 0.5% point on March 18, and the Central Bank of Mexico did the same on March 20. The Central Bank of Argentina has also been lowering its policy rate continually. However, the central banks probably have limited room to ease monetary policy further, because of concern over currency depreciation. The currencies of the three countries had weakened considerably against the dollar since February, even before the rate cuts (next page Chart 2). On the fiscal policy front, Brazil has rolled out measures to support businesses and mitigate job losses. Although the central banks and governments are taking action to respond to the outbreak, if the virus spread accelerates, the healthcare system could collapse and the damage can become severer and long-lasting because the social infrastructure in Latin America is relatively underdeveloped.

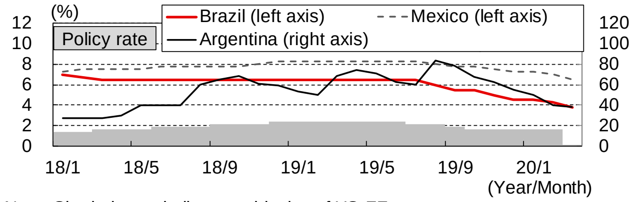
We cannot fully predict how the outbreak will unfold in Latin America, but based on the public health measures being implemented and an assumption that the virus spread will peak in the April-June quarter (as is assumed for other parts of this Outlook report), Latin American economies are expected to continue deteriorating for the time being. We project that Brazil's real GDP growth rate will come to -2.5% YoY and Mexico's to -5.0% YoY in 2020. For Argentina, hit by a currency crisis since last year, we project the 2020 real GDP growth rate at -10.0% YoY.

Chart 1: Cases of Coronavirus Infection and Consumer Confidence Indices in Latin America

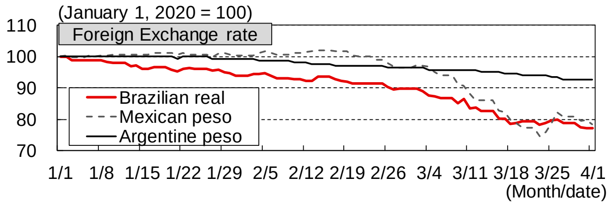


Source: World Health Organization, statistics from each country, Insitute for International Monetary Affairs

Chart 2: Latin American Countries' Central Bank Policy Rates and Foreign Exchange Rates



Note: Shaded area indicates midpoint of US FF rate target range



Source: Central banks, Bloomberg, MUFG Bank Economic Research Office

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