

June 2020

**Recent developments:** Economic conditions in Latin America and the Caribbean have worsened dramatically as the effects of the COVID-19 pandemic have rippled through the region. Outbreaks in the region have recently spread rapidly, and the economic impacts of nationwide business closures and mobility restrictions have been sudden and severe.

The sharp fall in global commodity prices has been a headwind for much of the region, particularly for oil and gas producers. Financial conditions have deteriorated, with large economies experiencing sharp capital outflows and risk premia in sovereign bond markets higher across the region than in early 2020. The abrupt economic slowdown in the United States and China has disrupted supply chains for Mexico and Brazil and caused a sharp drop in exports from commodity producing economies such as Chile and Peru. The severe contraction in the U.S. economy is adversely affecting Central America through trade and remittance channels. The plunge in tourism, on which Caribbean countries and Mexico depend heavily, has likewise had negative impacts.

The monetary policy response has included provision of liquidity, loosening of reserve requirements for banks, interest rate reductions, establishment of U.S. dollar swap lines, foreign exchange market intervention, and asset purchasing programs. Numerous countries have announced fiscal stimulus packages. These have included social assistance, support for small businesses, additional health sector spending, postponement of tax deadlines, and suspension of loan and utility payments.

**Outlook:** The multiple domestic and external shocks deriving from the pandemic will cause regional economic activity to contract by 7.2% in 2020. This will be a far deeper recession than the ones that occurred during the global financial crisis in 2008-2009 and the 1980s Latin America debt crisis. The outlook assumes economic activity will fall to its lowest ebb in the second quarter of the year, when mitigation measures are at their highest levels. Under this scenario, a normalization of domestic and global conditions would enable regional growth to recover to 2.8% in 2021.

Brazil's economy is projected to shrink by 8% this year due to lockdowns, plunging investment, and soft global commodity prices. Mexico's economy, hit by tighter financing conditions, the plunge in oil prices, the halt in tourism, and mobility restrictions, is on track to contract by 7.5%. Economic activity in Argentina is forecast to decline by 7.3% in 2020, reflecting stringent pandemic mitigation measures, lower external demand, and the impacts of uncertainty related to ongoing debt negotiations.

Central America's economy is projected to shrink by 3.6% this year, held back by mobility restrictions, a drying up of remittances and tourism, and lower agricultural prices. The Caribbean is anticipated to contract by 1.8% in 2020, and by 3.1% excluding Guyana, where the offshore oil industry is developing rapidly. The subregion will be hurt by falling tourism and remittance inflows.

**Risks:** Risks to the outlook for the region are firmly weighted to the downside. Intensification of the outbreak would stress health systems and be devastating to countries with modest health care capacity. Outbreaks of the virus in large economies of the region could have spillover effects, and second wave of the pandemic in advanced economies would reverberate negatively in the region.

Widespread informality will limit the reach of social assistance efforts to soften the economic impact of the pandemic. The region's recent progress in alleviating poverty and inequality could be at risk. Negative income shocks could reignite last year's wave of social unrest. Rising government debt levels in 2020 will heighten vulnerability to financial sector stress and could result in debt servicing challenges as interest rates rise in a

recovery, while weakened cashflows may strain corporate balance sheets materially. Consumer demand for tourism, personal services and entertainment may be slow to recover fully even after the pandemic fades.

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### Latin America and the Caribbean Country Forecasts

(Annual percent change unless indicated otherwise)

	2017	2018	2019e	2020f	2021f
GDP at market prices (2010 US\$)					
<b>Argentina</b>	2.7	-2.5	-2.2	-7.3	2.1
<b>Belize</b>	1.9	2.1	0.3	-13.5	6.7
<b>Bolivia</b>	4.2	4.2	2.7	-5.9	2.2
<b>Brazil</b>	1.3	1.3	1.1	-8.0	2.2
<b>Chile</b>	1.2	3.9	1.1	-4.3	3.1
<b>Colombia</b>	1.4	2.5	3.3	-4.9	3.6
<b>Costa Rica</b>	3.9	2.7	2.1	-3.3	3.0
<b>Dominica</b>	-9.5	0.5	9.6	-4.0	4.0
<b>Dominican Republic</b>	4.7	7.0	5.1	-0.8	2.5
<b>Ecuador</b>	2.4	1.3	0.1	-7.4	4.1
<b>El Salvador</b>	2.3	2.4	2.4	-5.4	3.8
<b>Grenada</b>	4.4	4.2	3.1	-9.6	6.5
<b>Guatemala</b>	3.0	3.1	3.6	-3.0	4.1
<b>Guyana</b>	2.1	4.1	4.7	51.1	8.1
<b>Haiti<sup>a</sup></b>	1.2	1.5	-0.9	-3.5	1.0
<b>Honduras</b>	4.8	3.7	2.7	-5.8	3.7
<b>Jamaica</b>	1.0	1.9	0.7	-6.2	2.7
<b>Mexico</b>	2.1	2.2	-0.3	-7.5	3.0
<b>Nicaragua</b>	4.6	-4.0	-3.9	-6.3	0.7
<b>Panama</b>	5.6	3.7	3.0	-2.0	4.2
<b>Paraguay</b>	5.0	3.4	0.0	-2.8	4.2
<b>Peru</b>	2.5	4.0	2.2	-12.0	7.0
<b>St. Lucia</b>	2.2	1.4	1.4	-8.8	8.3
<b>St. Vincent and the Grenadines</b>	1.0	2.0	0.4	-5.5	4.0
<b>Suriname</b>	1.8	2.6	2.3	-5.0	3.0
<b>Uruguay</b>	2.6	1.6	0.2	-3.7	4.6

Source: World Bank.

Notes: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time. Due to lack of reliable data of adequate quality, the World Bank is currently not publishing economic output, income, or growth data for Venezuela, and Venezuela is excluded from cross-country macroeconomic aggregates.

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## **World Bank Group COVID-19 Response**

“The [World Bank Group](#), one of the largest sources of funding and knowledge for developing countries, is taking [broad, fast action](#) to help developing countries strengthen their pandemic response. We are supporting public health interventions, working to ensure the flow of critical supplies and equipment, and helping the private sector continue to operate and sustain jobs. We will be deploying up to \$160 billion in financial support over 15 months to help more than 100 countries protect the poor and vulnerable, support businesses, and bolster economic recovery. This includes \$50 billion of new IDA resources through grants and highly concessional loans.”