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Statement By
Alicia Bárcena
Executive Secretary
to the Ministerial Meeting of the Group of 24
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The global economy has been hit by a health, human and economic crisis without precedent in the last century. To contain the health effects of the coronavirus disease 2019 (COVID-19) pandemic, economic activities have shut down, economies are partly paralyzed, and societies are in quarantine to varying degrees, measures that are only comparable to those in wartime situations. While it is not known how long the crisis will last or what form the recovery might take, the faster and more robust the response, the fewer negative effects there will be.

Latin America and the Caribbean is facing the pandemic from a weaker position than the rest of the world. Before the pandemic, ECLAC had projected that the region would grow by a maximum of 1.3% in 2020. However, as the pandemic evolves and projections are reassessed, the likelihood of an economic contraction in the region of between 3% and 4%, or even more, cannot be ruled out. The final economic impact will depend on the duration of the epidemic and the actions taken at the national, regional and global levels.

COVID-19 is affecting the region through external and internal channels. From the external side, six transmission channels are operating: (i) The decline in the economic activity of the region's main trading partners and its effects on demand for the region's exports. It is estimated that the value of the region's exports will fall by at least 10.7% by 2020. (ii) The drop in commodity prices and the deterioration in the terms of trade will have a strong negative impact on the income levels of the Latin American economies that depend on those exports, although with significant differences among them. (iii) The interruption and dismembering of global value chains, which would mainly affect Mexico and Brazil, whose manufacturing sectors are the largest in the region, as well as countries with an important maquila sector. (iv) Lower demand for tourism services, which is severely affecting Caribbean Small Island Developing States (SIDS) and other countries in the subregion in particular. (v) The reduction in capital inflows, particularly remittances, which are fundamental for Central American countries, among others. (vi) Greater risk aversion and worsening global financial conditions leading to lower demand for the region's financial assets and a significant depreciation of its countries' currencies.

From the internal side, preventive measures and the contraction of demand are inevitably having effects on the economy. The sectors most affected by social distancing and quarantine measures are the service sectors, which are largely dependent on interpersonal contact. In the region, the sectors that could suffer the greatest contractions —trade, transport, business services and social services— provide 64% of formal employment. In addition, a substantial proportion of employment in the region is in informal activities, which will be severely affected as they rely on interpersonal contact to a large extent.

Given the region's economic and social inequalities, the strong unemployment effects will disproportionately impact the poor and vulnerable middle-income strata. The crisis is likely to lead to an increase in informal employment as a survival strategy. As a result of the direct and indirect effects of the pandemic, it is highly likely that the current rates of extreme poverty (11.0%) and poverty (30.3%) will increase even more in the short term. If the effects of COVID-19 lead the economically active population to lose 5% of their income, poverty could increase by 3.5 percentage points, while extreme poverty is expected to rise by 2.3 percentage points. Sharper drops in income will mean even greater increases in poverty rates.

Governments in the region are taking significant measures to try to contain the virus and counteract the negative socioeconomic effects of the pandemic. These range from sanitary steps to reduce and prevent contagion, to social containment measures that seek to protect the most vulnerable groups. Governments are also taking economic, fiscal and monetary measures that involve increasing social spending, lowering interest rates, intervening in foreign exchange markets, suspending bank credit fees, providing lines of credit for the payment of company payrolls, freezing the reconnection fee for households that fail to pay their water bills, and actions to avoid depleted stocks of basic goods, among others.

A commensurate fiscal stimulus is needed to support health services, protect economic activities, and guarantee incomes and jobs. Although some countries have limited fiscal space, health spending is now a priority, especially in countries with weak and fragmented health-care systems. Universal access to testing and care must be ensured for all who need it. In addition, social protection systems need to be strengthened to support vulnerable populations and non-contributory programmes should be expanded. Immediate support should be provided to workers in small and medium enterprises, low-income workers and those in the informal sector. Mortgage and rent payment deferrals and other exemptions are crucial to avoiding a housing crisis and business foreclosures. Measures such as deferring payment of water, electricity and Internet bills for low-income people for the duration of the pandemic should be considered.

Protecting the most vulnerable groups from the crisis, particularly the elderly, lower income sectors and the poor is key. Special attention must be paid to women for their dual role as workers and caretakers.

Central banks must ensure firms' liquidity to guarantee their operations can be carried out and maintain the stability of the financial system. Expansive monetary policies will not be enough; central banks should intervene directly to provide the liquidity needed by the financial and non-financial private sectors, in particular to ensure full liquidity in the overnight bank lending market and to avoid disruption of payment chains.

Governments are assuming the central role to suppress COVID-19 and manage the risks that have hit the economy and social cohesion, spurring a rethinking of the relation between the State and the Market. The enhanced role of the government is a key consequence of the pandemic and will require greater flexibility in terms of what is considered a stable debt threshold and in financing mechanisms. Responding to a much wider set of objectives requires ample policy space and using planning as a key tool to allocate resources.

However, no country will be able to fight this pandemic without global and regional coordination. Beggar-thy-neighbor policies must be avoided and the uninterrupted supply of essential goods, in particular pharmaceuticals, medical equipment, food and energy, must be guaranteed to all countries. Sanctions on countries that are subject to them need to be lifted so they can have access to food, medical assistance and supplies, and COVID-19 tests. This is a time for solidarity, not exclusion.

Multilateral organizations should design new technical and financial instruments to support countries facing fiscal pressures. Heavily indebted countries may have problems servicing, restructuring or increasing their debts because of the strains in financial markets, which would undermine the much-needed public spending on health, social protection and economic stimulus. This requires emphasizing the urgency of debt relief mechanisms and outright debt forgiveness. Many middle-income countries, including SIDS, are in a particularly difficult position as they lack access to concessionary financing yet still face large gaps in their capacity to respond to the crisis, especially in the context of the inequalities that characterize their economic and social structures. Graduation eligibility criteria should be softened and cooperation resources should be allocated according to countries' needs and independently of their level of income. Developed countries should help recapitalize multilateral institutions whose lending firepower is simply insufficient to meet the current needs of developing countries.

The COVID-19 outbreak came at a time when the global economy was already slowing down. Debt levels were historically high, and wages and productivity had stagnated in many developing and developed countries. The health crisis has exposed the fragility of the globalized system and the underlying development model. After this crisis, the global community will have to face the fact that globalization in trade and finance needs to be reformed extensively. The inequalities among countries and among social groups that have increased the fragility of the global system must be addressed once and for all.

Ultimately, the only sustainable solution to the socioeconomic challenges arising from the COVID-19 pandemic will be the coordinated containment of the virus. The scale, speed and extent of its spread requires greater multilateral policy coordination. This pandemic has the potential to reshape the geopolitics of globalization, and it is also an opportunity to recall the benefits of multilateral action and to start much-needed action on a sustainable and inclusive development model.