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Impactos da pandemia de covid-19 na conjuntura econômica dos países latino-americanos.

Impacts of the covid-19 pandemic on the economic conjuncture of latin american countries

Impactos de la pandemia de covid-19 en la conjuntura económica de los países latinoamericanos.

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Resumo: Este estudo analisa a pandemia de COVID-19, que desencadeou uma crise econômica sem precedentes na América Latina, expondo as vulnerabilidades estruturais da região e profundas desigualdades sociais. Os governos responderam com uma combinação de políticas monetárias expansionistas, como reduções nas taxas de juros e expansão da liquidez, e políticas fiscais anticíclicas envolvendo aumento dos gastos públicos e programas de transferência de renda. Embora necessárias, essas medidas resultaram em altos níveis de dívida pública. Os impactos econômicos foram severos, com recessões, aumento do desemprego e pressão inflacionária. A recuperação tem sido desigual, exigindo esforços contínuos para promover a estabilidade macroeconômica e o crescimento sustentável. Recomendações incluem fortalecer os sistemas de saúde, diversificar as economias, investir em infraestrutura, implementar reformas estruturais, adotar uma abordagem integrada de gerenciamento de riscos e fortalecer a cooperação regional.

Palavras-chave: Pandemia de COVID-19; América Latina; Situação Econômica; Políticas Macroeconômicas.

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Abstract: This study analyses the COVID-19 pandemic, which triggered an unprecedented economic crisis in Latin America, exposing the region's structural vulnerabilities and deep social inequalities. Governments responded with a combination of expansionary monetary policies, such as reductions in interest rates and liquidity expansion, and countercyclical fiscal policies involving increased public spending and income transfer programs. Although necessary, these measures resulted in high levels of public debt. The economic impacts were severe, with recessions, rising unemployment, and inflationary pressure. Recovery has been uneven, requiring continued efforts to promote macroeconomic stability and sustainable growth. Recommendations include strengthening health systems, diversifying economies, investing in infrastructure, implementing structural reforms, adopting an integrated risk-management approach, and strengthening regional cooperation.

Keywords: COVID-19 pandemic; Latin America; Economic Situation; Macroeconomic Policies.

Resumen: Este estudio analiza la pandemia de COVID-19, la cual desencadenó una crisis económica sin precedentes en América Latina, exponiendo las vulnerabilidades estructurales y profundas desigualdades sociales de la región. Los gobiernos respondieron con una combinación de políticas monetarias expansivas, como reducciones en las tasas de interés y expansión de liquidez, y políticas fiscales anticíclicas que implicaron un aumento del gasto público y programas de transferencia de ingresos. Aunque necesarias, estas medidas resultaron en altos niveles de deuda pública. Los impactos económicos fueron severos, con recesiones, aumento del desempleo y presión inflacionaria. La recuperación ha sido desigual, requiriendo esfuerzos continuos para promover la estabilidad macroeconómica y el crecimiento sostenible. Las recomendaciones incluyen fortalecer los sistemas de salud, diversificar las economías, invertir en infraestructura, implementar reformas estructurales, adoptar un enfoque integrado de gestión de riesgos y fortalecer la cooperación regional.

Palabras clave: Pandemia de COVID-19; América Latina; Situación Económica; Políticas Macroeconómicas.

Introduction

The COVID-19 pandemic, caused by the new coronavirus, SARS-CoV-2, has emerged as one of the greatest public health challenges in recent history, quickly becoming a global crisis that has affected virtually every aspect of human life. The disease was initially detected in the city of Wuhan, China, at the end of 2019, after which it spread to other parts of the world, culminating in the declaration of a pandemic by the World Health Organization (WHO) in March 2020.

In Latin America, the pandemic arrived in mid-March 2020, with the first confirmed case in Brazil. Since then, the virus has spread rapidly and the region soon became a global epicentre of the disease, with countries such as Brazil, Peru, Chile, and Mexico recording a high number of cases and deaths. The response of Latin American nations to COVID-19 has varied considerably, from strict lockdown measures to more lenient restrictions, with each government adapting its strategies according to the evolution of the pandemic and pressure on healthcare systems.

The severity of the health crisis was exacerbated by the socioeconomic vulnerability of many countries in the region, where lack of resources, poor health infrastructure, and deep social inequalities made it difficult to control the disease. In addition to the public health consequences, the pandemic triggered an unprecedented economic crisis, affecting production, trade, employment, and income and placing additional pressure on the already fragile economies of Latin America.

Given this scenario, this article seeks to contextualize the COVID-19 pandemic and its spread in Latin America, exploring the economic and social dimensions of the crisis and the political responses implemented by governments to face them. The objective is to contribute to a better understanding of the challenges faced by countries in the region during this difficult period and to offer a point of reflection on the lessons learned and future risk prevention and mitigation strategies. Furthermore, we seek to understand how macroeconomic policies affect the economic performance of these countries.

This study focuses on the economic context of Latin American countries during the COVID-19 pandemic, with special attention to the responses given by six countries in the region: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Analyzing these economies offers a rich and complex overview of economic dynamics and responses to the pandemic in Latin America, as each country presents unique characteristics that contribute to a valuable comparative study.

By examining these countries, it is possible to extract valuable lessons about macroeconomic policies, crisis management, and the interaction between public health and the economy, thereby offering a theoretical and practical framework for understanding and developing strategies to respond to future crises. An analysis of these responses will provide a rich and multifaceted picture of the impact of the pandemic in Latin America, allowing for generalizations and lessons that can be applied to other economies in the region.

This article contains, in addition to this introduction, a brief literature review of the impacts of crises on economies, from a post-Keynesian perspective, and the impacts of the health crisis caused by the COVID-19 pandemic. The methodology used to analyse macroeconomic data is presented below, which is an exploratory analysis of data from the most important countries in Latin America. Subsequently, we present the main macroeconomic policies adopted and the behaviour of the macroeconomic variables. Next, the impacts of these policies on inflation, gross domestic product, and unemployment levels are analysed. Finally, this article provides a brief conclusion about the impact of the pandemic on Latin American economies.

2. 2. Keynesian literature on economic crises and their impacts on economies and their parallels with the impacts of the pandemic.

The Keynesian perspective is both vast and diverse. Crises, such as the 2008 financial crisis and the COVID-19 pandemic, have not only affected society and its various social aspects, but also have the potential to cause significant impacts on economies, both in the short and long term. It is not the scope of this article to discuss the post-Keynesian literature on the crises of the capitalist system in depth, but a brief exposition on the topic will be made.

Crises in the capitalist system are closely linked to Economic Cycles, in which the economy operates alternating periods of decline with periods of economic expansion, directly affecting the main macroeconomic variables, such as income, investment, and employment levels (Keynes, 2017)

Given this context, Mattei and Silva (2018) propose, according to Keynesian and post-Keynesian perspectives, that state intervention and regulatory policies face economic crises, emphasizing the need to restore trust between economic agents and reduce levels of uncertainty. They advocate the adoption of macroeconomic policies that stimulate aggregate demand to recover the levels of production, employment, and household consumption. Furthermore, the authors point to the role of public banks in implementing countercyclical policies to fill the gaps left by private institutions regarding the demand for credit in various economic sectors and geographic areas. The central bank's role as a lender of last resort is crucial to maintaining the stability of financial asset prices according to post-Keynesian perspectives. This involves the central bank purchasing or accepting collateral assets considered unsafe and not easily tradable. Overall, Keynesian and post-Keynesian approaches propose a combination of fiscal stimuli, regulatory reforms, and strategic central bank interventions to mitigate the impacts of economic crises and promote recovery.

Along the same lines, Farhi et al. (2009) point out that to overcome an economic crisis it is necessary to adopt an expansionary monetary policy together with aggressive fiscal spending, particularly in infrastructure, which can mitigate the impacts of the crisis by stimulating economic activity.

Vernengo and Nabar-Bhaduri (2020) argue that the economic impact of pandemics emphasizes the unique challenges posed by COVID-19 in the context of large private debt networks in industrialized economies. The authors argue that while pandemics have historically caused economic disruptions, the COVID-19 health crisis has exacerbated geopolitical changes and provoked an increase in countercyclical fiscal policies, requiring reassessment of the conduct of macroeconomic policies. The authors also discuss the demand and supply dimensions of the COVID-19 crisis, the expected role of fiscal and monetary interventions, and the evolving role of the state and Federal Reserve in managing the economy. They also highlight the importance of fiscal and monetary policy interventions in mitigating the effects of the crisis, while simultaneously recognizing the political challenges to be faced in the long term.

3. Methodology

The data collection methodology for studying the economic repercussions of the COVID-19 pandemic in Latin American countries involves a diversified approach. A variety of official databases were used to collect information on macroeconomic indicators such as Gross Domestic Product (GDP), unemployment rates, inflation, exchange rate, foreign exchange reserves, public debt, and interest rates. Sources include the World Bank, the International Monetary Fund (IMF), and national statistical institutions such as the Brazilian Institute of Geography and Statistics (IBGE) and the National Statistics Institute (INE) of Chile.

All the sources used were chosen for their reputation for reliability and accuracy, ensuring that the data collected were robust and suitable for carrying out a comprehensive, high-quality economic analysis. Data were collected between July 2019 and December 2023, covering the pre-pandemic period to the economic recovery stage.

The countries analysed to examine economic responses to the COVID-19 pandemic were selected based on criteria that ensured adequate geographic and demographic representation, as well as economic relevance and data availability.

Argentina, with its history of economic instability and high inflation rates, is a case study of economic resilience and the difficulties faced by countries with fragile economies before the pandemic. Brazil, with its robust and multifaceted economy, is a laboratory for understanding large-scale crisis management and the impact of the pandemic on one of the world’s largest emerging economies. Chile, recognized for its economic and political stability, provides a model for responding to the pandemic with a balanced approach between public health measures and economic support. Colombia, with its diversified Andean economy, but still dependent on international trade, exemplifies the challenges of maintaining economic growth in the face of public health restrictions.

Mexico, an important US trading partner with a diversified economy, offers insights into economic interdependence and policies to respond to health crises. Peru presents an interesting scenario because of its dependence on commodities trade and tourism. Peru's response to the pandemic was marked by challenges related to its economic vulnerability and the need to guarantee its health security. Furthermore, the country had to manage the economic consequences of border closures and reduced tourism, while also dealing with the public health crisis.

This choice allowed for a more comprehensive analysis, considering both economic and public health dimensions, and provided a representative picture of the responses to the pandemic in Latin America.

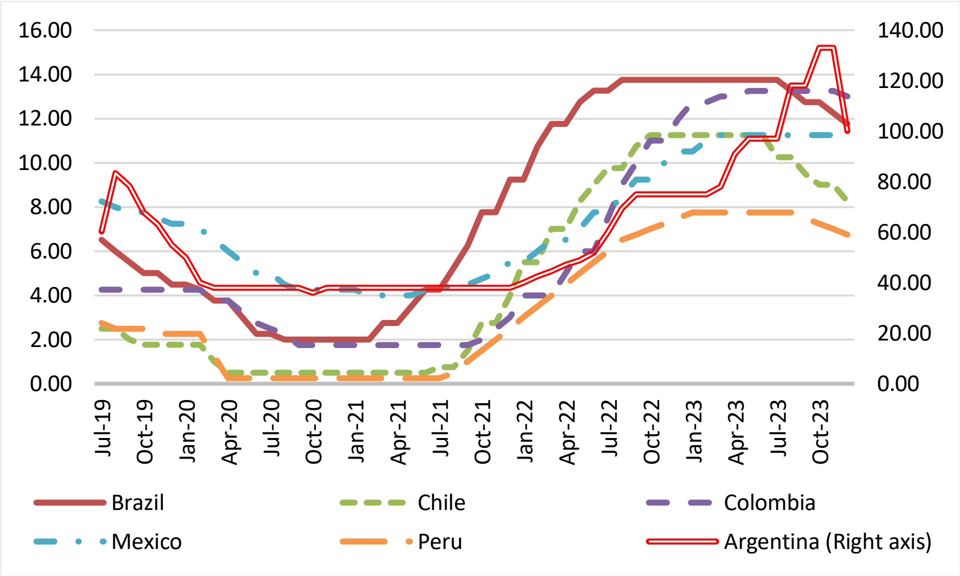
4. Analysis of macroeconomic policies in Latin America

4.1. Monetary policy

The analysis of monetary policies adopted in response to the COVID-19 pandemic is central to understanding how economic authorities sought to mitigate the effects of the crisis. This section examines the main monetary policy tools used by the central banks of the selected countries, including interest rate adjustments, liquidity expansion, and other extraordinary measures.

Interest rates are a fundamental tool in monetary policy and their manipulation during the pandemic was intended to stimulate the economy. The following figure shows the behavior of interest rates in the selected countries during the period analyzed.

Figure 1 - Interest rate behavior (%) in selected Latin American countries.



Source: International Monetary Fund (2024).

Based on the graph presented, it is possible to analyses the behavior of interest rates in the main economies of Latin America during the COVID-19 pandemic. In general, a sharp increase in interest rates has been observed in most countries from mid-2022 onwards. This movement suggests that central banks have adopted a more restrictive stance in implementing their monetary policies, probably seeking to contain inflationary pressures resulting from the economic impacts of the pandemic.

In Brazil, the rates peaked close to 14% in mid-2023, reflecting significant monetary tightening. Chile also recorded a significant increase, with rates reaching above 10% during the same period. Colombia and Mexico exhibited similar trajectories, with gradual increases from 2022 onwards, reaching levels of approximately 10% and 8%, respectively, at the end of the period analysed.

On the other hand, Peru maintained relatively stable and low rates throughout the period, suggesting a more lenient monetary policy compared to other countries. Argentina stands out with a different behaviour, showing an abrupt increase in rates from the end of 2022, reaching a peak close to 140% at the beginning of 2023, indicating difficulties in controlling inflation and economic instability.

In summary, the graph illustrates the different monetary policy responses adopted by central banks in the face of inflationary challenges arising from the COVID-19 pandemic, with most countries opting for significant monetary tightening from 2022 onwards, except for Peru, which maintained lower and stable rates.

Liquidity expansion is a common feature of monetary policies in the region. Central banks have adopted measures to increase money supply, facilitate credit, and stimulate the economy. This includes open market operations, where the Central Bank buys government bonds and injects money into the financial system. Mexico, for example, implemented a significant expansion of liquidity, to support companies and consumers affected by the crisis (Central Bank of Mexico, 2024)

In addition to interest rate changes and liquidity expansion, other extraordinary measures were taken, such as easing capital and liquidity rules for financial institutions, which allowed banks to lend more and support the real economy. Chile, for example, introduced incentives to stimulate financial innovation and support micro and small businesses (Central Bank of Chile, 2024)

By comparing the monetary policies of different countries, it is possible to identify patterns and variations in the responses to the crisis. While some countries opted for a more aggressive monetary policy with significant reductions in interest rates and expansion of liquidity, others were more cautious because of concerns about price stability and other economic policy objectives.

Assessing the impact of these policies is complex, but it is generally recognized that quick and decisive action by central banks helps mitigate the severity of the economic crisis (Long et al., 2022). However, there are also concerns about public debt and the sustainability of the implemented policies.

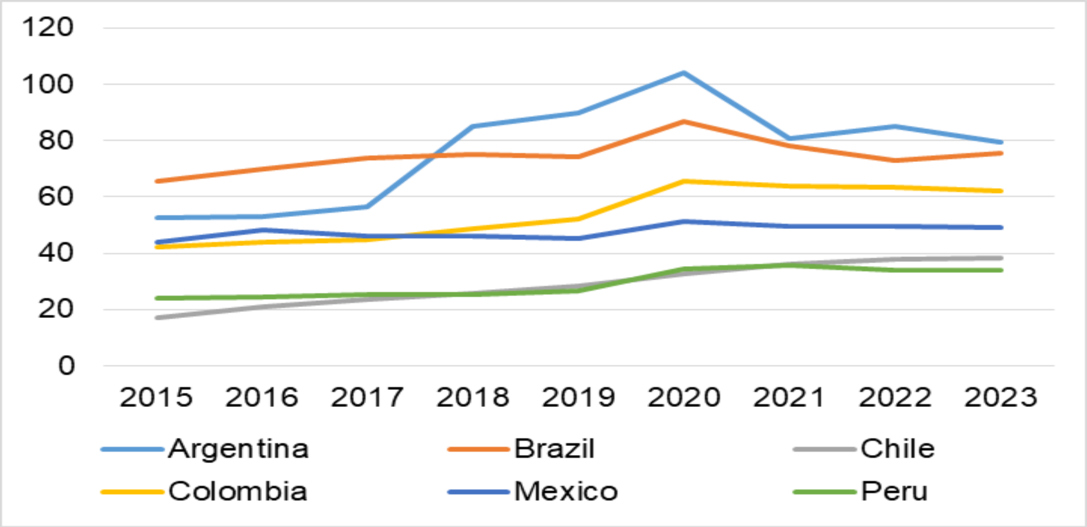
Next, we analyse the effects of fiscal policies on the main Latin American economies.

4.2.Tax Policy

Assessing fiscal policies implemented in response to the COVID-19 pandemic is crucial for understanding how governments sought to support their economies and protect their citizens during an unprecedented crisis. This section examines the main fiscal policies adopted by the selected countries, including public spending, income transfer programs, and other support measures.

Public spending increased significantly across the region during the pandemic, with governments allocating more resources to public health, basic infrastructure, and most importantly, social support. The following figure shows the behavior of the public debt levels of the selected countries during the analyzed period.

Figure 2 - Behavior of the level of public debt (% of GDP) in selected Latin American countries.



Source: Central Banks of each country in the sample (2024).

The graph shows the evolution of public sector gross debt in terms of GDP for Latin America’s main economies between 2015 and 2023. By analyzing different countries, distinct trends can be observed.

Argentina exhibits the highest levels of public debt, reaching a peak of approximately 100% of GDP in 2020, before beginning a gradual reduction trajectory. This extremely high level of debt suggests potential fiscal and debt sustainability challenges.

Brazil also has significant levels of public debt, with a sharp increase from 2019 onwards, reaching approximately 90% of the GDP in 2023. Debt growth may be related to fiscal measures to combat the crisis caused by the pandemic.

Colombia and Mexico show similar trajectories, with moderate increases in public debt reaching levels close to 60% of GDP by 2023. This level of debt, although higher than in previous years, can be considered manageable depending on the economic growth capacity and revenue generation of these countries.

Chile and Peru had the lowest levels of public debt concerning GDP, remaining below 40% throughout the analyzed period. This more comfortable position is because there are more austere fiscal policies with strong social impacts.

It is important to highlight that high levels of public debt can pose a challenge to countries’ fiscal sustainability and macroeconomic stability, especially in periods of low economic growth or adverse shocks. On the other hand, moderate public debt can provide scope for productive investments and countercyclical policies in times of recessions.

In Brazil, for example, the federal government increased spending to combat the pandemic, including the creation of the National Immunization Program and the implementation of support measures for companies and workers (Ministry of Finance, 2024)

Income transfer programs have been expanded or created to support individuals and families affected by the crisis. Chile implemented the " Ingreso Familiar de Emergencia,” a temporary income transfer program to support low-income families during the pandemic (Banco Central de Chile, 2024). In Argentina, the government also expanded existing cash transfer programs to ensure citizens had access to basic resources during the crisis (IDEC, 2024)

In addition to public spending and income transfer programs, other fiscal measures were taken to support the economy, including the suspension of taxes, creation of tax incentives for companies, and facilitating access to credit. Mexico, for example, has implemented a series of fiscal measures designed to ease the tax burden on companies and promote investment (Central Bank of Mexico, 2024)

By comparing the fiscal policies of different countries, it is possible to identify both similarities and differences in the responses to the crisis. While some countries opted for a more interventionist approach with significant spending and cash transfer programs, others were more restrictive due to budget constraints or concerns about public debt.

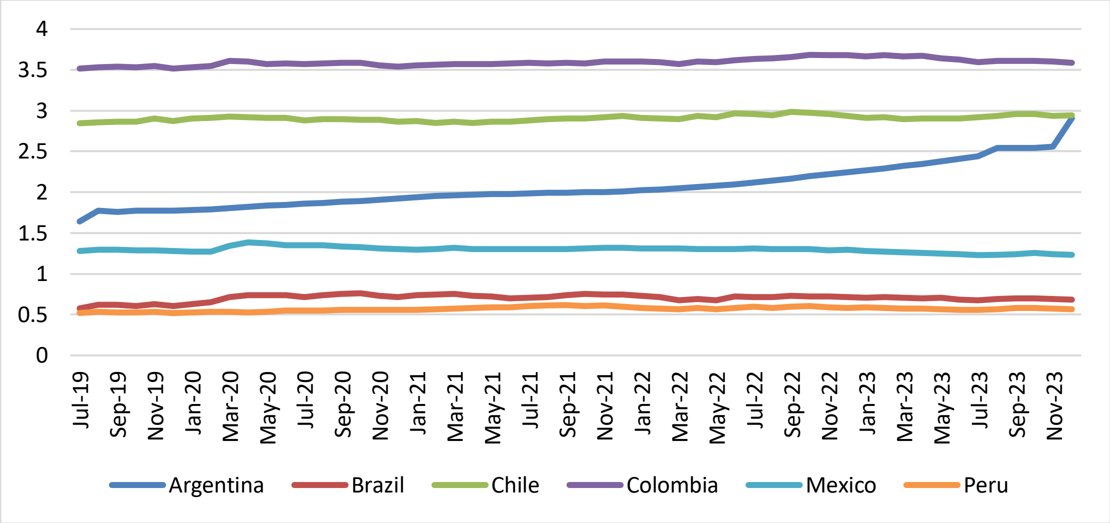
Assessing the impact of these policies is complex and depends on factors such as the efficiency in implementation, coverage, and duration of the measures adopted. However, it is generally recognized that the fiscal policies implemented helped mitigate the severity of the economic crisis and protect the most vulnerable (Resende, 2021; Solorza, 2021).

A detailed assessment of the fiscal policies adopted by the countries studied reveals the importance of quick and decisive action by governments to support their economies during the crisis, and the need for a balanced approach to ensure long-term fiscal sustainability. The dynamics of exchange rate policy in this period are presented below.

4.3. Exchange Policy

Examining the exchange rate policies adopted by Latin American countries during the COVID-19 pandemic is crucial for understanding how economies reacted to external shocks and changes in exchange rates. In this section, the exchange rate policies implemented by the selected countries and their impact on the economies are analysed. The following figure shows the exchange rate behaviour of the selected countries during the analysed period.

Figure 3 - Behavior of exchange rates in national currencies compared to the dollar (in logarithm) in selected Latin American countries.



Source: International Monetary Fund (2024).

Logarithmized exchange rates of the main Latin American economies concerning the US dollar over a specific period. This logarithmic transformation allows rates to be viewed on the same scale, thus facilitating comparisons between countries.

When analysing the different behaviours, the upward and accentuated trajectory of the Argentine exchange rate stands out, presenting the highest levels throughout the analysed interval. This movement suggests a constant devaluation of Argentine currency concerning the reference, reflecting the possible macroeconomic challenges and instabilities faced by the country.

On the other hand, economies such as Chile and Peru exhibit relatively low and stable exchange rates, indicating more valued and stronger currencies than others. These trajectories may reflect solid economic fundamentals such as controlled inflation, efficient monetary policies, and favourable growth prospects. Brazil presents moderate fluctuations around an intermediate level, suggesting relative exchange rate stability during the period analysed. Colombia is experiencing gradual devaluation of its currency, albeit at a moderate level.

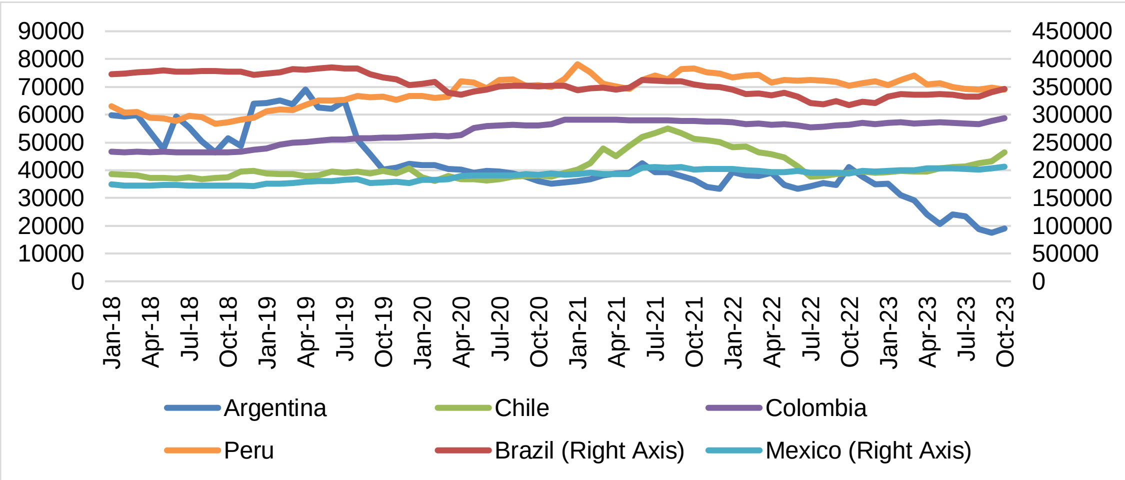
A different behaviour is observed in Mexico, which starts with a relatively low exchange rate but suffers a sharp devaluation from mid-2022 onwards. This movement may be related to the specific factors that influenced the Mexican economy during this period.

Importantly, exchange rates are influenced by a range of economic factors including inflation differentials, monetary policies, capital flows, terms of trade, economic growth prospects, and investor confidence. Therefore, the differences observed between countries may reflect their underlying macroeconomic conditions, as well as the challenges and opportunities faced by each economy during the period analysed.

Exchange rate policies have varying impacts on various economies. Generally, policies that promote exchange rate stability are associated with lower economic volatility and faster recovery. However, capital controls can have negative side effects such as a reduction in the supply of capital and an increase in transaction costs.

Exchange rate policies played an important role in responding to the COVID-19 pandemic, with impacts varying according to the specificities of each country. The choice among capital controls, fixed exchange rate policy, and exchange rate flexibility is a complex decision that must consider economic needs and vulnerability to external shocks. The following figure shows the behavior of the level of foreign exchange reserves of the selected countries during the analyzed period.

Figure 4 - Behaviour of the level of foreign exchange reserves (in billions of dollars) in selected Latin American countries.



Source: International Monetary Fund (2024).

The graph above shows the evolution of foreign exchange reserves in billions of dollars for the main economies in Latin America, from 2018 to the end of 2023, covering the period of the COVID-19 pandemic. It is important to note that Brazil and Mexico have their values plotted on the secondary axis on the right, due to the higher amounts compared to other countries.

When analysing the behaviour of foreign exchange reserves, distinct trends can be observed. Argentina presented a relatively low and stable trajectory, with levels close to $ 40 billion throughout the analysed period. More recently, by 2023, Argentina showed a significant drop in foreign exchange reserves, reaching values close to $ 10 billion. Chile and Colombia exhibit moderate fluctuations, peaking around 2020 but remaining predominantly between 30 and 40 billion dollars, while Colombia fluctuates within a relatively narrow range, generally between 50 and 60 billion dollars. Peru, in turn, presents a more stable pattern, with foreign exchange reserves fluctuating around 70 billion dollars during most of this period.

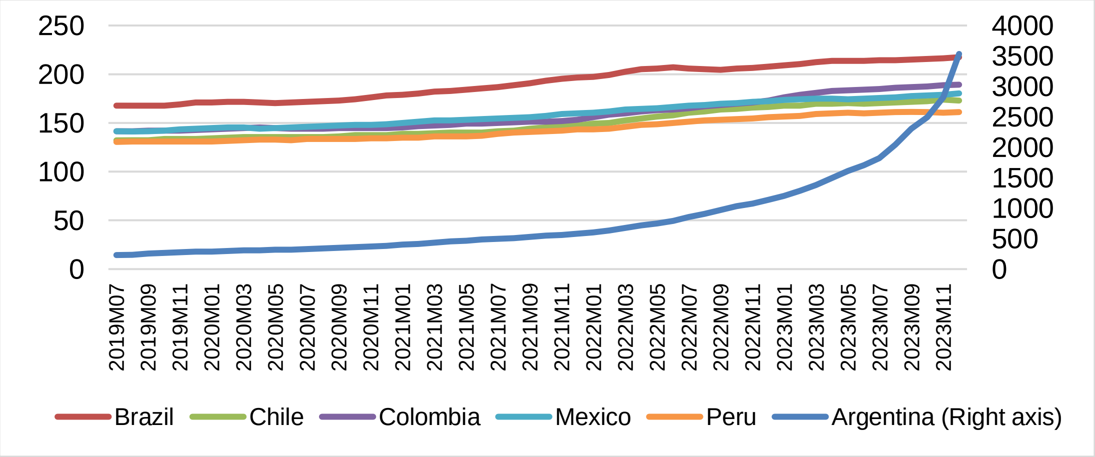
Brazil, plotted on the secondary axis, stands out with the highest levels of foreign exchange reserves among the countries analyzed, although with a declining trend from 2019 onwards, going from approximately 380 billion to approximately 350 billion dollars in 2023. Mexico also plotted on the secondary axis, displaying a more volatile trajectory, with peaks close to $ 200 billion in 2019 and 2023, interspersed with sharp drops at other times.

It is important to highlight that foreign exchange reserves play a fundamental role in countries' economic policies, provide resources to balance external accounts, intervene in the foreign exchange market, and provide credibility to national currencies. Higher levels of reserves indicate greater resilience to external shocks and the ability to face temporary imbalances (De Paula, 2021).

5. Analysis of results and discussion about the impact of the pandemic and government responses in the main economies of Latin America

An international comparison of the impact of the Covid-19 pandemic and government responses is essential to understand how different countries have dealt with the crisis and what the results of these approaches were. In this section, we examine how the pandemic affected selected economies in Latin America and how governments responded to economic policies in terms of inflation, income, and unemployment rates. The following figure shows the inflation index behavior of the selected countries during the analyzed period.

Figure 5 - Behaviour of the level of public debt (index for each country) in the selected countries in Latin America.



Source: International Monetary Fund (2024).

The graph shows the evolution of inflation, represented by an index, for the main Latin American economies during the COVID-19 pandemic. When analysing different countries, different trends can be observed.

Argentina stands out with a blue line plotted on the secondary axis, showing an exponential increase in inflation, reaching extremely high levels compared with other countries, especially in the most recent period. This trajectory indicates a serious inflationary crisis in the country during the period analysed, possibly related to macroeconomic imbalances and adverse shocks. It is important to highlight that the country showed a more pronounced inflationary acceleration after its economic recovery in 2022, which may indicate that the economic policies adopted in Argentina had a strong impact on inflation. Brazil, in turn, presents a gradual acceleration of inflation above that observed in other Latin American economies. This increase is related to the economic impact of the pandemic and demand pressures resulting from fiscal and monetary stimuli.

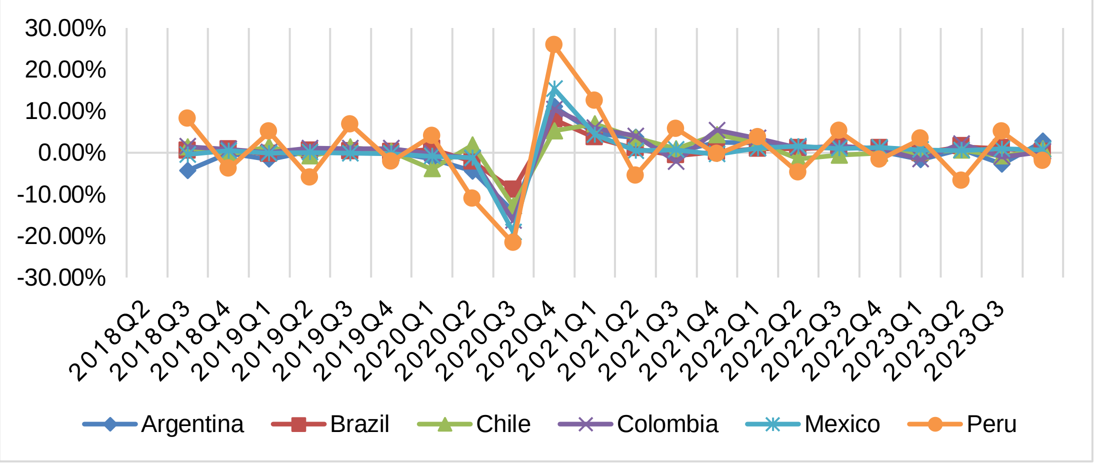
Economies such as Chile, Mexico, and Peru have exhibited more effective control of inflationary pressure during the crisis. Chile and Peru maintained a relatively stable index close to 150, while Mexico fluctuated around this level, suggesting an efficient monetary policy containing inflation. Colombia showed a moderate increase in inflation, with the index reaching levels close to 180 at the end of the analysed period, indicating greater pressure on prices compared to its regional peers.

It is important to highlight that inflation is a complex phenomenon influenced by several factors such as monetary policies, supply and demand shocks, and inflationary expectations. High levels of inflation can have a significant impact on the purchasing power of a country’s population, investments, and economic growth. For instance, Feijó et al. (2022) During the pandemic, Brazil experienced inflationary pressures originating primarily from cost-push factors rather than demand-pull factors, challenging the effectiveness of traditional monetary policy tools, such as interest rate adjustments. According to the authors, despite the Central Bank's efforts to manage inflation through the SELIC rate, empirical tests showed that managed price inflation did not respond to changes in interest rates, while price inflation in the free market was significantly influenced by cost shocks, such as commodity price indices and exchange rates.

Similarly, Cottani (2020) and Romashkina et al. (2023) argue that the rise in inflation in Latin America during the COVID-19 pandemic was mainly driven by the persistence of inflation dynamics and rising inflation expectations. According to the authors, this period saw a notable shift in inflationary trends, with increased volatility in advanced economies, followed by a pronounced initial decline in 2020 and a sharper inflationary rise in 2021 and 2022, affecting the main components, food, and energy from the Consumer Price Index (IPC). They argue that the spread of inflationary shocks was more intense in Latin America, especially when global inflation or inflation expectations were high. Furthermore, Latin American monetary policy reaction was significantly influenced by inflation expectations and US monetary policy, leading to a more aggressive and rapid increase in the monetary policy rate during 2021-2022.

This highlights the importance of carefully analyzing monetary policies. Next, we analyze the impact of the pandemic on the economic growth of countries. The following figure shows the GDP growth rates of the selected countries during the analyzed period.

Figure 6 - Behaviour of GDP growth level (%) in selected Latin American countries.



Source: International Monetary Fund (2024).

The graph presents the GDP growth rate as a percentage for the main economies in Latin America during the COVID-19 pandemic. It is possible to observe that, at the beginning of 2020, all economies suffered a sharp contraction in their growth, with negative rates, reflecting the adverse effects of social isolation measures and interruption of economic activities imposed by the global health crisis.

From the end of 2020, there was a gradual recovery in growth rates, although uneven between countries. While some showed a more robust recovery, others faced difficulties in reaching levels close to those in the pre-pandemic periods. The chart displays considerable volatility in growth rates with frequent swings between periods of expansion and contraction, suggesting persistent economic instability and uncertainty during this turbulent period.

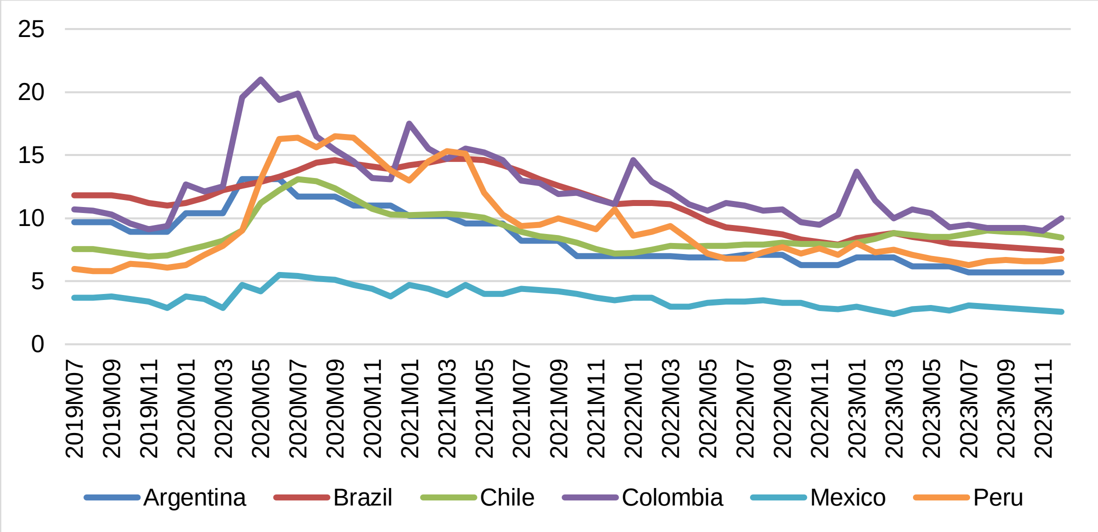
By analysing countries individually, it is possible to identify those that performed relatively better. Peru and Chile appear to have presented the most consistent and least volatile growth rates during the period analysed, suggesting a more effective resilience and recovery capacity in the face of pandemic shocks. On the other hand, Argentina and Mexico exhibited more volatile growth rates and prolonged periods of contraction, indicating greater difficulties in dealing with the economic impacts of the health crisis.

It is important to highlight that economic growth is influenced by several factors such as fiscal and monetary policies, international trade, investments, productivity, and the confidence of economic agents. The response capacity and implementation of appropriate measures by governments and economic authorities were crucial for mitigating the effects of the pandemic and boosting recovery in each country. Rosenthal et al. (2021), The COVID-19 pandemic has significantly impacted global economic growth, with the World Bank projecting a global contraction of 5.2% in gross domestic product (GDP) in 2020, pushing millions into extreme poverty. This economic slowdown is attributed to containment measures, including lockdowns, travel restrictions, and the closure of non-essential businesses, which have directly affected economies worldwide. Particularly, emerging economies, heavily dependent on tourism, international trade, and exports of national products, faced greater challenges due to high rates of informal employment, urban overcrowding, and fragile health systems, a situation in all the economies analysed here.

Klagges et al. (2021), The COVID-19 pandemic has significantly affected the economic development of Latin America, exacerbating existing vulnerabilities and introducing new challenges. The region has seen a considerable contraction in international trade, with a notable drop in the first half of 2020, deepening further due to a 23% drop in international trade to Latin America and the Caribbean, with tourism being the most affected sector–a very specific case in Peru. This contraction led to a loss of domestic production in all countries, resulting in rising unemployment rates across the region. Furthermore, the pandemic has forced economies to reinforce the neo-extractivist model to deal with fiscal deficits, unemployment, and economic inactivity despite long-term social, environmental, and economic disadvantages.

Next, data relating to the level of unemployment in Latin America during the pandemic are presented. The following figure shows the behaviour of the unemployment rate in the selected countries during the analysed period.

Figure 7 - Behavior of the unemployment rate level (%) in selected Latin American countries.



Source: World Bank (2024).

The graph shows the evolution of unemployment rates as percentages for the main economies in Latin America over a specific period. By analysing different countries, some interesting trends can be observed.

Argentina has relatively high unemployment rates compared with other countries, with peaks approaching 20% at certain times. However, it is possible to notice a gradual downward trend in recent years, suggesting an improvement in the Argentine labour market. Brazil has moderate unemployment rates, fluctuating around 10% for most of the period analysed, with a sharp peak around 2017. Chile stands out with considerably low unemployment rates, generally below 10%, except for a peak around 2020, which is likely related to the economic impact of the COVID-19 pandemic. Colombia exhibits a similar behaviour to Brazil, with rates close to 10%, but with some higher peaks at certain times. Mexico maintained a relatively stable trajectory, with unemployment rates fluctuating between 5 and 10%, which can be considered moderate. Peru, in turn, had the lowest unemployment rate among the countries analysed, remaining below 5% for most of the period.

It is important to highlight that unemployment rates are influenced by several factors, including economic performance, employment policies, productive structure, labour qualifications, and the demographic dynamics of each country. High levels of unemployment represent a significant socioeconomic challenge with negative impacts on household income, aggregate demand, and economic growth potential. Conversely, lower rates indicate a healthier job market and better workforce absorption.

The Covid-19 pandemic has caused an unprecedented global public health crisis and an economic recession across the world. In Latin America, the impact is significant, with a sharp reduction in economic growth and an increase in unemployment rates. However, the impact varied depending on economic conditions and the effectiveness of government response.

Governments in the region have adopted a variety of responses, from public health policies such as lockdowns and mask-wearing to economic policies such as programs to support businesses and workers. Brazil, for example, implemented a broad emergency aid program, whereas Chile focused on income transfer and employment support policies.

Mattei and Heinen (2020) show that the COVID-19 crisis had a significant impact on the Brazilian labour market, including a notable shift towards informal employment and a decrease in formal employment rates. The formalization rate decreased by 3.1 points from 2014 to 2020, indicating a shift towards more informal work arrangements. Furthermore, it is expected that the implementation of the Provisional Measure (MP) 936, which allows the suspension of contracts and the reduction of working hours and salaries, will result in a substantial reduction in the overall wage bill by R$10.7 billion, which is equivalent to a 5% reduction in the country's total wage bill. This measure disproportionately affects low-income workers, with those earning between one and three minimum wages experiencing significant income reduction. These findings highlight the profound and multifaceted effects of the pandemic on employment and income in Brazil and highlight the urgent need for targeted policy interventions to mitigate these impacts.

Similarly, Castro and Moreira (2021) demonstrate that there are significant inequalities in participation in remote work during the pandemic in Brazil, with lower rates among the poorest, men, rural residents, non-whites, the youngest without higher education, self-employed workers, and informal sector workers, in contrast to higher rates among those with completed higher education and public sector employees. Remote work percentages declined from May to August 2020, with a notable disparity in the ability to work remotely across different occupations, significantly favouring those in education and higher education professions. The authors also highlight a counterintuitive finding that formal private sector workers are slightly less likely to work remotely compared to their informal counterparts, suggesting a composition effect related to the nature of tasks in informal employment. Additionally, the study found that sectoral and occupational compositions significantly influence the likelihood of remote work, with public-sector jobs showing a notably higher propensity for remote work due to task composition.

In contrast, La Vega and Gasparini (2023) demonstrated that teleworking significantly mitigated the economic impacts of the COVID-19 pandemic on the labor market in Argentina, with the potential of teleworking being a crucial factor in reducing exposure to job losses and income during the crisis. Specifically, an increase in teleworking potential was associated with a greater likelihood of unemployment and an increase in earned income. The effects varied across the different quarters of 2020, reflecting the changing intensity of pandemic-related restrictions. Furthermore, they found that the positive impacts of teleworking were more pronounced for individuals in occupations with greater potential for teleworking. The analysis also highlighted the importance of considering individual characteristics, such as gender and educational level, which showed the heterogeneous effects of teleworking on labour market outcomes.

All of these aspects demonstrate that the COVID-19 pandemic and government responses in Latin America have shown that the effectiveness of policies depends on a combination of factors, including the responsiveness of the health system, pre-crisis economic stability, and coordination between different levels of government. International comparisons reveal lessons learned and best practices to address future public health and economic crises.

Conclusion

The COVID-19 pandemic has brought unprecedented economic challenges to Latin American countries, exposing their structural vulnerabilities and exacerbating existing imbalances. Governments responded with a combination of expansionary monetary and fiscal policies, seeking to mitigate adverse impacts on economic activity, employment, and the well-being of the population.

Monetary policies involve significant reductions in interest rates and the expansion of liquidity through open-market operations and other unconventional measures. However, the effectiveness of these policies varies across countries, reflecting the different initial conditions and institutional constraints. In the fiscal sphere, public spending has increased substantially, directed towards areas such as health, infrastructure, and income transfer programs. Although these measures were necessary to mitigate the effects of the crisis, they resulted in a significant increase in public debt levels in several countries, thus raising concerns about fiscal sustainability.

Despite the efforts undertaken, the economic impact of the pandemic was severe, with deep recessions, rising unemployment, and growing inflationary pressures. Economic recovery has been uneven and still faces challenges that require continued efforts to promote macroeconomic stability and sustainable growth. Based on these findings, some recommendations for future policies and risk mitigation actions could be: i) strengthening health and social protection systems to improve resilience in the face of future health crises and ensure the economic security of the population vulnerable; ii) promoting economic diversification and reducing excessive dependence on specific sectors, such as commodity trading, to increase resilience to external shocks; iii) investing in productive infrastructure and the promotion of innovation and technological development to boost the productivity and competitiveness of Latin American economies; iv) implementing structural and institutional reforms that improve the business environment, facilitate entrepreneurship, and attract productive investments, promoting more sustainable and inclusive economic growth; v) adopting a macroeconomic risk management approach that incorporates stress scenarios and assesses the resilience of fiscal and monetary policies in the face of adverse shocks; and vi) strengthening regional cooperation and economic integration to facilitate policy coordination and the construction of joint response mechanisms to future crises.

In summary, the COVID-19 pandemic has highlighted the importance of effective economic policies, the need to build resilience in the face of external shocks, and the relevance of coordinated regional efforts to address common challenges. By learning from the lessons of this crisis, Latin American countries can be better prepared to promote sustainable and inclusive economic development in the future.

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