# LAC POST COVID-19

## CHALLENGES AND OPPORTUNITIES

**CAN** COUNTRY DEPARTMENT ANDEAN GROUP


VICE PRESIDENCY FOR COUNTRIES

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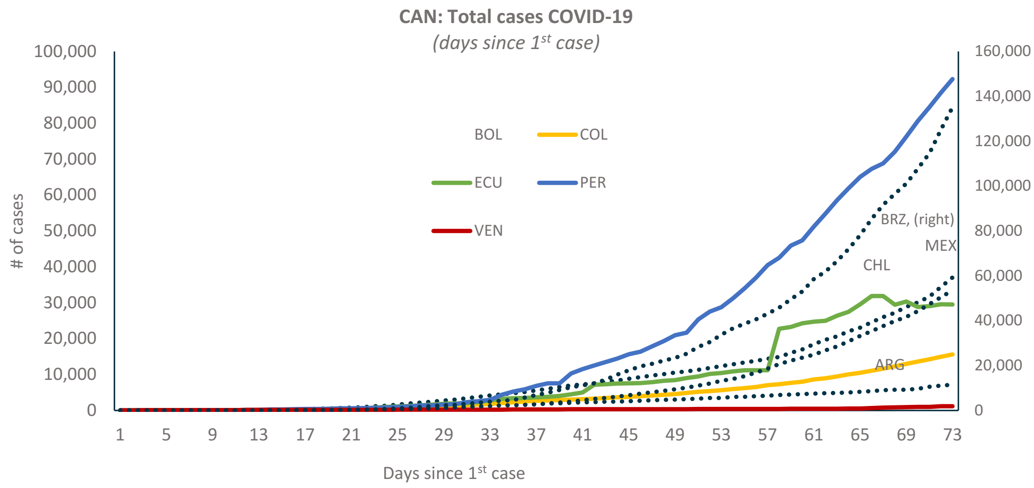
# POST COVID-19 CHALLENGES IN THE ANDEAN REGION

OSMEL MANZANO AND JOSE LUIS SABOIN

## CONTEXT

In March, the COVID-19 pandemic reached the Andean Region (Bolivia, Colombia, Ecuador, Peru and Venezuela). However, as shown in Figure 1, it has rapidly evolved, especially in Ecuador and Peru where cases have multiplied significantly. In fact, when looking at per capita number of cases, Peru has the highest levels in Latin America, similar to France and Portugal, and Ecuador ranks fourth highest, similar to Austria and Denmark. Bolivia and Colombia have fewer recorded cases, and the number of tests per inhabitant is still relatively low. Finally, the oil crisis in Venezuela appears to have contributed to low population mobility which has contained the spread of the pandemic.

**FIGURE 1. CAN: TOTAL COVID-19 CASES (DAYS SINCE 1ST CASE)**
(NUMBER OF CASES; DAYS SINCE 1ST CASE)




Source: Our world in data, Oxford University. Last update: July 3rd, 2020 05:30pm

This pandemic is going to have major impacts in the Region on two fronts: the consequences of the global slowdown and its impact on commodity prices[1]. The Region is characterized by its high exposure to these prices. This is why on average the external shock would already lead the Region into recession[2]. However, the effects of the quarantine may trigger a deeper crisis, as shown in Table 1.

The Andean Region receives COVID-19 with different starting points. In general, two levels of vulnerability are observed: (i) the least vulnerable group of countries, which includes Colombia and Peru, with a high exposure to the global economy, but low sanitary and domestic exposures. This group receives the pandemic with superior macroeconomic, sanitary and domestic conditions. For these countries, the key will be implementing public policies and managing external exposure; (ii) the most vulnerable group of countries, which includes Bolivia, Ecuador and Venezuela, has less

1 Saboin and Manzano (2020)
2 Banerjee et al. (2020)

exposure to the global economy, but higher sanitary and domestic exposure. At the same time, this group has inferior macroeconomic, sanitary and domestic conditions. Therefore, this group of countries faces challenges on all fronts. Nevertheless, emphasis should be placed on tackling domestic and sanitary weaknesses since they exacerbate the crisis[3].

In the face of this crisis, the Region has applied the recommended social distancing and sanitary management measures. Furthermore, the Region implemented a series of similar compensation measures: assistance programs for affected individuals, business assistance programs, expansionary monetary policy, etc. What has varied is the size of the aid package, which depends on the buffers countries already had before the crisis[4].

**TABLE 1: EXPECTED GROWTH FOR THE ANDEAN REGION**

| | Bolivia | Colombia | Ecuador | Peru | Venezuela |
|---|---|---|---|---|---|
| January 2020 Growth Projections | 3.8 | 3.0 | 0.2 | 3.5 | -10 |
| Scenario with External Shock Only | 0.8 | 1.7 | -6.0 | -0.5 | -30 |
| Scenario with Impact of Quarantine | -0.4 | -13.2 | -11.4 | -14.1 | -37 |

Source: IMF (2020), Carrillo-Maldonado and Díaz-Cassou (2020) and Banerjee et al. (2020)

# TRANSITION OF SOCIAL DISTANCING POLICIES

**All countries have started a transition out of social distancing. Yet, at different speeds.** Peru has adopted a sectoral strategy for lifting the quarantine. Colombia and Ecuador are implementing a mixture between sectors and geographical locations, although the initial phase is mainly sector-based. Finally, Bolivia has a geography-based strategy. Venezuela has renewed the lockdown for at least another month (at the time this report was written).

**However, not all countries have managed to "flatten" the curve.** As discussed in the introduction, Ecuador and Peru continue to witness a significant growth in COVID-19 cases. In Bolivia the number of tests is very low, hence the flattening of the curve cannot be confirmed. In Venezuela it is not known what would happen if there were greater mobility and finally, Colombia records a low number of cases and a high number of tests, but the curve of new cases has not stabilized.

**The issue of lifting the quarantine has become a complex political topic in all countries.** In 3 countries there are upcoming elections within the next 12 months, making the handling and lifting of the quarantine an issue of political debate. However, in Colombia, where there are no elections, a debate has also been generated between local and state governments.

3 Manzano and Saboin (2020)
4 Abuelafia et al. (2020)

# MEDIUM- AND LONG-TERM RECOVERY

Once the lockdown has passed, the Region will face important challenges, which will be added to the structural challenges it was already facing. In particular, COVID-19 will leave challenges in three areas: macroeconomic, social and productive.

## MACROECONOMIC CHALLENGES

Prior to the crisis, De la Cruz et al. (2020) estimated that Colombia, Ecuador and Peru had a balanced fiscal position. However, Ecuador was in the midst of an adjustment program with the International Monetary Fund (IMF). Therefore, while it had a fiscal surplus it entered the crisis without any buffers. Bolivia and Venezuela, for their part, did show the need to perform a fiscal adjustment in order to maintain their debt at current levels.

Andrian et al. (2020) consider that, given the fiscal impacts of the crisis, the financing needs of Colombia and Peru for 2020 could increase by 5% of GDP. In Bolivia and Ecuador, these needs could increase by 6.5% of GDP. However, Bolivia and Ecuador would also be at risk of suffering a sudden stop in capital flows. Colombia and Peru have been able to execute debt operations since the onset of the crisis. This would add additional financing requirements of 3.5% of GDP. Hence, the Region will end up with greater debt and poorer fiscal outcomes.

In this context, De la Cruz et al. (2020) estimated that, before the crisis, countries had an additional fiscal space of up to 14% of GDP, through higher revenue and expenditure savings. The challenge is to design a strategy for the recovery of that space which does not affect recovery. Andrian et al. (2020) suggest that for transitioning between the exit of the emergency and entry into recovery, countries should consider a modified version of these measures, and other new ones, which allow certain fiscal relief to continue addressing the needs of the most vulnerable groups and populations. For example, temporary solidarity surcharges, seizing the moment to rationalize tax expenditures and generalized energy subsidies, reducing exemptions used by high income groups, among others.

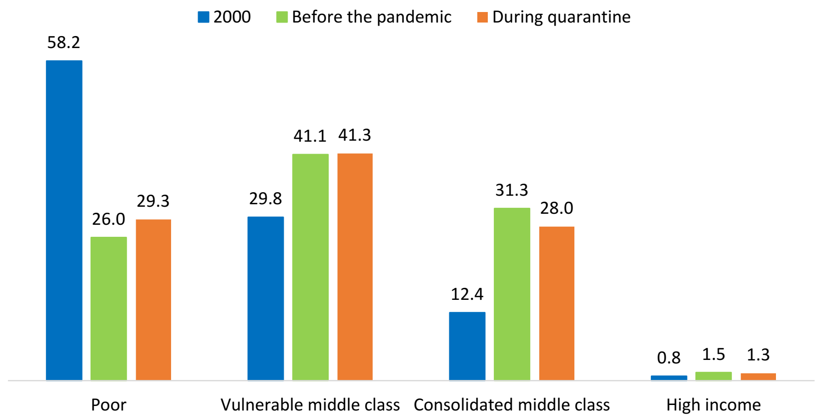
## SOCIAL CHALLENGES

Castilleja-Vargas (2020) documents that for the tier of the working poor, 78% do not have a contract, half of them work under the category of self-employed competing for the same jobs, and half of them also work in the informal market, 90% work for small businesses and only 6% have a permanent contract, and therefore the vast majority lack employment stability. In turn, close to half of the vulnerable working middle class do not have a contract either, over 40% are self-employed, over 70% work for small businesses, and only one fifth have a permanent contract. It is worth noting that the levels of informality here are similar to those for the poorest strata reaching close to half of the population. While in the case of the consolidated middle class, a smaller portion does not have a contract and is self-employed, over half works for small businesses and only 40% has the protection of a permanent contract.

All countries have announced assistance programs for affected populations. However, they seem to be insufficient. As a consequence of widespread containment during the period of quarantines adopted in the Andean countries in response to the pandemic, a setback is observed –temporary up until now– in the social gains achieved during the last twenty years in terms of social mobility, as shown in Figure 2. It should be noted that rather than pinpointing to the exact magnitude with which each social stratum has deteriorated in this situation, the purpose of the analysis is to highlight the challenge that Andean countries will face upon the impact of widespread lockdowns, at the moment prior to resuming economic activities under free movement, with the purpose of warning policy makers of the challenges that may arise.

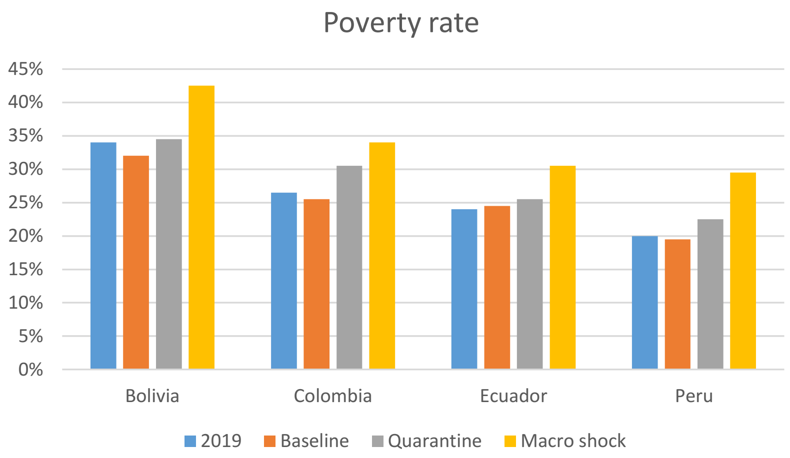
This does not include the impacts of the crisis on economic activity and therefore on employment. As shown in Figure 3, the impact of the macroeconomic shock on growth is added to the impact of the quarantine and could generate an increase in poverty of up to 30%.

**FIGURE 2**
**SOCIOECONOMIC GROUPS (% OF TOTAL POPULATION) IN ANDEAN COUNTRIES PRIOR TO THE PANDEMIC AND DURING WIDESPREAD LOCKDOWN UNDER TWO POSSIBLE SCENARIOS (A/ AND B/)**




Source: Castilleja-Vargas (2020)

**FIGURE 3**




Source: Castilleja-Vargas (2020) and Banerjee, O. et al. (2020)

Additionally, as documented by Abuelafia (2020), the pandemic has raised awareness about a problem that has generally not been considered in public policy discussions. Approximately 1.5 million illegal migrants live in the Region today. This has substantive implications for the impact of COVID-19 on their quality of life, in seeking medical attention and the possibility of being assisted by the measures designed to mitigate the impact of COVID-19. This differs with respect to other massive migration events, since in many cases migrants have a refugee status which facilitates their access to services and protection networks.

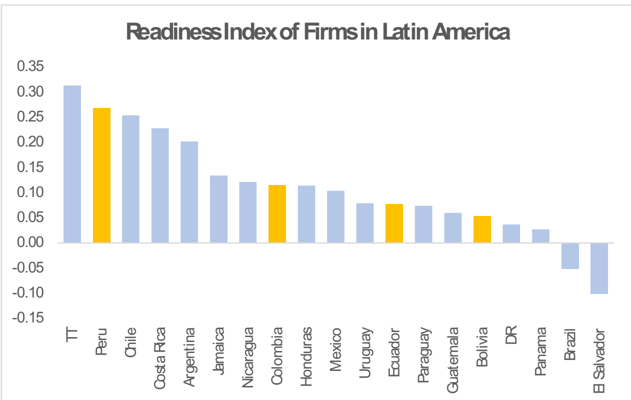
Although the age profile of migrants living in the Region (mostly between the ages of 18 and 45) leads one to believe that the impact of infection complications will be lower than for other groups or populations, the lack of adequate housing[5], concentration in cities, and the limited access to health services[6], along with the need to generate income to provide for their families[7], makes this population highly susceptible to infection and to COVID-19-related complications.

## PRODUCTIVE SECTOR

The Region´s productive sectors are going to suffer diverse impacts derived from the crisis. It will have international trade implications, given the impacts on commodity prices and on value chains. The crisis will have financial impacts, due to confinement policies and their impact on cash flows. In addition, the crisis reveals the structural challenges that have become evident: the need to become less dependent of extractive industries, as well as the digital gap, and new challenges: the impact on sectors that have been more affected by the lockdown such as tourism and recreation, as well as the repositioning of value chains. We have grouped these challenges into business challenges and sector challenges.

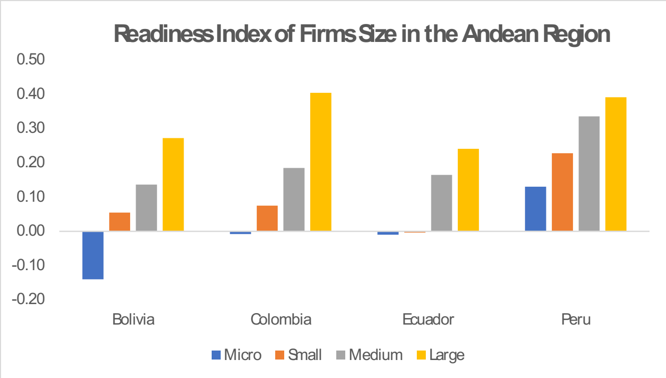
Beverinotti and Deza (2020) have created a company readiness index to face adverse shocks in supply such as COVID-19. It is observed that, within the Andean Region, Peru compares favorably, Colombia is in the median for Latin America, while Ecuador and Bolivia lag behind. In general, the weakness of Andean companies, regardless of their size, lies in the financing of suppliers and clients and the weight of imported raw materials. When it comes to business size, the micro-enterprises in every country are less prepared to address production disruptions. In terms of components, the biggest strength of large companies is their Internet capacity, access to credit and work productivity. For their part, small- and micro-enterprises in general do not belong to a production chain but produce for end-consumers, but their weaknesses, in addition to those mentioned above, lie in the weight of essential costs and the fact they do not own their premises.

**FIGURE 4. READINESS INDEX OF FIRMS IN ANDEAN COUNTRIES UPON COVID-19, AGGREGATE AND BY COMPANY SIZE**



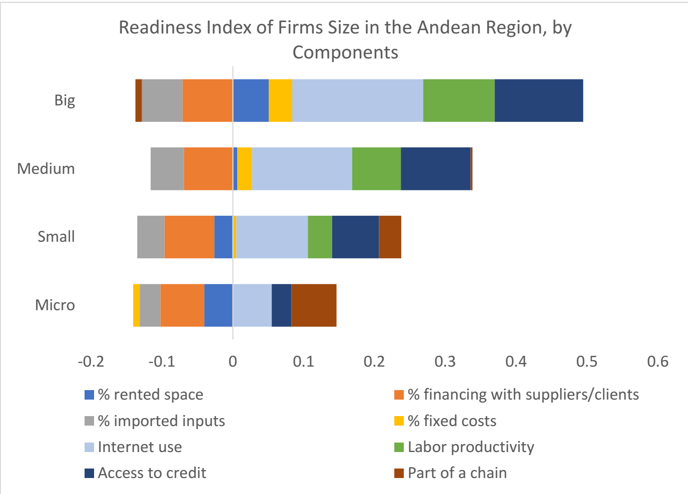

Source: Beverinotti and Deza (2020)

5 32% of migrants in Colombia do not have access to housing.
6 Only 8% of Venezuelan migrants have health insurance.
7 60% of the migrant population in Ecuador only has enough income to cover the cost of food for two days.




Source: Beverinotti and Deza (2020)

**FIGURE 5. BREAKDOWN OF ANDEAN COUNTRY COMPANY READINESS INDEX, BY COMPANY SIZE**




Source: Beverinotti and Deza (2020)

A fundamental post-COVID goal should be to promote increased innovation. This is so because innovation is the most important factor for explaining company resilience and aggregate productivity growth. Among the obstacles that companies encounter when deciding whether or not to invest are innovation costs, the risks implicit to making the investment and the ease with which the product or process can be copied, so as to find partners and the ability to find funding resources that are internal and external to the firm, among others. Harmonized data for Peru and Bolivia shows that these countries have companies that report major obstacles such as the ease with which products and processes are copied, in which, at times, large amounts of money are invested. For example, for this indicator, 76% of companies report a major obstacle for deciding to make an investment. This is relevant in the sense that the new normal could return with higher levels of risk aversion and greater difficulties to obtain financing for innovation. In this sense, the companies already indicated that obtaining external or internal financing was an obstacle.

With respect to the liquidity buffer, it was found that the average Peruvian company has liquidity reserves for 38 days for the payment of running costs, and 25% of companies have reserves for only 30 days for the payment of their costs. By economic sector, it is observed that the sectors with lower liquidity adequacy indexes include agroindustry, construction, manufacturing and restaurants with an average of 25, 28, 33 and 36 days, respectively. However, in most sectors, one fourth of Peruvian companies have sufficient liquidity for 20 days or less, such as manufacturing, construction, hotels and restaurants. With respect to Ecuador, it was found that Ecuadorian companies could resist an average of 28 days with the liquidity they have to meet their obligations, whereas one fourth of companies have liquidity for 8 days or less. As expected, liquidity reserves increase with the size of the company: the average amount of daily liquidity available of a large company is 37 days, while that of a micro-enterprise is 30 days. Interestingly, we found that companies that introduce best management practices are also those that show more solid liquidity positions to address adverse shocks.

In relation to digital topics, this crisis shed light on the disparities in the Region. As documented by De la Cruz et al. (2020), Andean countries lag behind in comparison with the Region´s average on digital issues, mainly those related to broadband connections and access to technology. The number of fixed broadband subscriptions with a minimum speed between 256 Kbit/s and 2 Mbit/s per every 100 inhabitants in Colombia was less than half than those in Asia and almost a quarter of those in OECD countries. Even when Colombia is the country with most access. Furthermore, the digital economy demands not only broadband access but also access to quality. For example, clean energy and transportation applications require a broadband of 2 to 3 Mbit/s, and advanced manufacturing or technology applications require 38 to 74 Mbit/s. This may explain why in Colombia, for example, the level of adoption of advanced technologies by the productive sector is still low: 17% of companies are taking advantage of cloud computing, 9% has implemented Internet of Things, and only 3% and 2% use Big Data an Artificial Intelligence, respectively. The requirements exceed the Region´s installed capacity. Furthermore, demand for connection speed will continue to grow.

**TABLE 2. ACTIONS TAKEN BY ANDEAN REGION COUNTRIES IN SUPPORT OF COMPANIES**

| | Labor-related | | | | Fiscal | | | | Financial | | | | | Structural Policies | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Country** | Payroll Subsidies | Support for the Self-Employed | Leaves of Absence/Job Freeze | Income Tax Deferment/Reprogramming | Exoneration of Social Security Contributions | Tax Debt Forgiveness | Sales Tax | Tax Fractioning | Credit Lines | Loan Guarantees | Direct Loans to SME´s | Subsidies/financial support | Deferment of Interest Payments/Depreciation. | Connectivity/Telework Support | Innovation | Job Training | Search for New Markets |
| **BOL** | | | | X | | | | | | | | | X | | | | |
| **COL** | | | | | | | | | X | X | | | X | | | | |
| **ECU** | | | X | X | | | | | | | | | | | | | |
| **PER** | X | X | X | | X | | | | X | | | | X | | | | |
| **VEN** | | | X | | | | | | | | | | | | | | |

Source: Beverinotti and Deza (2020)

The analysis presented in this document suggests that, while the severe economic recession will affect large businesses as much as it will micro-, small-, and medium-sized enterprises (MSMEs), the small- and micro-businesses in the Andean Region were already structurally less prepared for facing adverse shocks, and even more so shocks of the current magnitude which impact both supply and demand. All of this together with the importance that small businesses have in creating employment and for the rhythm of economic activity. Table 2 summarizes the main measures that have been implemented by countries in this sense.

The share of commodities in exports for the Region represents over 15% of GDP and is greater than the average for Latin America and developing countries[8]. The crisis is recent, hence the lack of an extensive literature on the subject[9]. In terms of natural resource issues, impacts are both short-term and long-term. The Region is clearly affected by the fall in prices of commodities due to the global slowdown. This not only impacts export earnings and fiscal revenues. This price plunge has impacts on profitability and therefore on investments in the sector[10]. In the long term, while a fall in consumption can "broaden the window of opportunity" (while renewable energy projects are less profitable in the case of oil and gas, and by reducing the use of water in the case of mining), there are other long-term effects that could accelerate transitions. In terms of hydrocarbons, the energy consumption[11] patterns are expected to change. In terms of mining, water management has become a critical issue.[12]

Furthermore, as documented by Beverinotti et al. (2020), certain Andean countries are exposed to disruptions due to the relatively high concentration of its import and export trade. By destination country, Andean country exports are relatively concentrated, even while said concentration has decreased between 2007 and 2018. In 2007, in all cases, one or two countries accounted for more than half of total Andean exports, while in 2018, according to the Herfindhal-Hirschmann (HH) concentration index, greater diversification is observed mainly in Bolivia, Colombia and Ecuador, demonstrating that all countries except Peru increased the number of recipient countries of their exports. Nonetheless, Bolivia and Venezuela are the most concentrated countries in the Region. The same pattern is replicated in the concentration of exports by product. In contrast to what occurs with exports, the concentration of imports by product is showing a greater diversification of imported products.

As shown in Table 3, by sector, estimations suggest that specific sectors including agricultural, livestock, fisheries, and certain industries (chemicals), will be less affected and in some cases may even grow. Some of these sectors, particularly those related to agriculture, are low-productivity sectors. However, as De la Cruz et al. (2020) argue, these sectors could have significant productivity gains if they invest in rural infrastructure. Hence, they could be subject to a post-COVID growth strategy.

8 Manzano and Saboin (2020)
9 See Baldwin, R and B. Weder di Mauro, 2020.
10 https://www.thedialogue.org/blogs/2020/03/pandemic-and-price-collapse-impacts-for-energy-in-latin-america/
11 https://www.iea.org/topics/covid-19
12https://apps.who.int/iris/bitstream/handle/10665/331305/WHO-2019-NcOV-IPC_WASH-2020.1-eng.pdf y https://www.icmm.com/en-gb/health-and-safety/covid-19

**TABLE 3. SECTORAL TRANSFORMATION OF THE ECONOMY IN THE ANDEAN REGION**

| | Bolivia | Colombia | Ecuador | Peru |
|---|---|---|---|---|
| **Sectors that can grow** | • Machinery and Equipment<br>• Base Metals<br>• Textile and Leather<br>• Agriculture<br>• Food and Beverages Production | • Other Grains<br>• Food and Beverages Production<br>• Textile and Leather | • Agriculture | • Agriculture<br>• Textile and Leather<br>• Food and Beverages Production |
| **Sectors that could increase their share in added value** | • Livestock<br>• Chemicals | • Coffee<br>• Chemicals<br>• Livestock<br>• Forestry and Fisheries<br>• Rubber and Plastics | • Food and Beverages Production<br>• Fisheries<br>• Livestock<br>• Textile and Leather<br>• Rubber and Plastics<br>• Chemicals | • Livestock<br>• Other Manufacturing<br>• Chemicals<br>• Fisheries<br>• Rubber and Plastics<br>• Forestry |

Source: Beverinotti et al. (2020)

Finally, the Region has scarcely been inserted in the global supply chains. One of the consequences deriving from the COVID-19 pandemic crisis is the rethinking of global value chains. For example, in response to COVID-19 the trend to reduce the dependency on China is expected to continue, motivated by increased salaries in this country and the trade war with the United States[13]. This opens new opportunities for the Region to capture some of the productive linkage chains that are moving out of China. The Region shall have to: i) explore which sectors are experimenting more restructurings in their value chains with Asia; ii) identify the countries and sectors in the Andean Region that may have greater competitive advantages to capture those opportunities; and iii) identify specific additional requirements by sector-country which would be needed to increase the probability of achieving the integration of the value chains identified in the two previous points.

13 See, for example, BoA Global Research, 2020, "Tectonic shifts in global supply chains".

# BOLIVIA

**LILIANA CASTILLEJA-VARGAS**

## CONTEXT

The first case was recorded on March 11th 2020 and by May 14th the country broke the barrier of 3,000 cases with 3,372 confirmed cases, 2,864 active cases, 152 deaths and 356 recovered patients[14]. The departments with the highest numbers of coronavirus infections are Santa Cruz, Beni and La Paz. According to WHO standards, Bolivia has a deficit in hospital beds, doctors and specialists[15]. To date, the country´s hospitals do not have enough respirators, biosafety equipment and uniforms for medical personnel, intensive care unit beds or laboratory tests. According to the Oxford Economics/Haver Analytics COVID-19 economic and social vulnerability index, Bolivia is the most vulnerable country from a list of 31 emerging countries due to the limited capacity of its health care system, a weakened fiscal situation, and the economic cycle´s high commodity dependence[16].

In 2018, Bolivia grew 4.2%, one of the highest rates among the region´s countries, but in 2019 the economy slowed and grew only 2.2%[17]. Faced with the shock of the COVID-19 pandemic and falling oil prices, 2020-2021 growth projections for Bolivia point to an economic downturn followed by a V-shaped recovery. In the case of the World Bank, economic activity is anticipated to fall by -3.4% this year followed by a recovery of 3.7% in 2021[18]. For its part, the IMF projects a fall of -2.9% with a rebound in economic activity of 2.8%, respectively[19]. To date there are no other official forecasts available.

Prior to the pandemic, macro-economic and political risks had influenced the public debt rating. The ratings of the three major credit risk ratings began to adjust the ratings of sovereign debt downwards. On 21 November, Fitch lowered the credit rating of Bolivia´s foreign currency denominated long-term debt from BB- to B+ maintaining a negative outlook[20]. On 10 March, Moody´s lowered the sovereign debt rating from B1 to Ba3[21]. For its part, on 17 April, S&P revised the country´s BB- credit rating, with a negative Outlook to B+ with a stable outlook[22].

Before the imminent risk of the pandemic, authorities have had an anticipated and rapid response by adopting a series of measures to contain the spread of the virus, to reduce the economic impact of the sanitary crisis and the widespread containment of economic actors, so as to maintain the macroeconomic stability of the country. For additional information see Table A.1. in the Annex.

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14 https://www.covidvisualizer.com/

15 Bolivia has 16 doctors per every 10 thousand inhabitants. (Data for 2018 retrieved from: https://www.who.int/gho/health_workforce/physicians_density/en/); 3.9 specialist physicians per 10 thousand inhabitants (Data for 2012 retrieved from: https://data.worldbank.org/indicator/SH.MED.SAOP.P5), and only 11 beds per every 10 thousand inhabitants (Data for 2014 retrieved from: https://apps.who.int/gho/data/node.country.country-BOL?lang=en). To face the pandemic, Bolivia has a deficit of beds in the Intensive Care Unit (ICU) and of ICU artificial ventilators, retrieved from: https://www.la-razon.com/sociedad/2020/03/31/hospitales-camas-terapia-intensiva/ and https://www.paginasiete.bo/sociedad/2020/4/4/bolivia-tiene-190-intensivistas-430-uti-38-de-lo-minimo-requerido-251726.html

16 Oxford Economics (2020), Research Briefing | Global. EM Coronavirus rankings – bad for all, awful for some. The index ranges from 1 to 10, where 1 indicates a lower risk and 10 indicates a higher risk. Bolivia obtains a score higher than 7.

17 The National Institute of Statistics of Bolivia.

18 The World Bank Group (2020), The Economy in the Time of Covid-19, Washington, D.C., April.

19 IMF (2020), World Economic Outlook, April, Washington, D.C.

20 Fitch Ratings based this decision on the macroeconomic risks that would have intensified with the escalation of political and social instability in the country following the October 2019 elections.

21 The Moody´s risk assessment firm based this decision on the country´s scarcity of fiscal reserves and currency in recent years.

22 Standard & Poor´s pointed to an erosion of external shock absorbers as a consequence of the pandemic and the reduction of international commodity prices.

In terms of the policies adopted to contain the health crisis, these were gradually and progressively initiated as of March 12th when the suspension of academic activities at all levels was declared. Eventually March 17th a public health emergency, partial quarantine and the complete closure of borders was declared. On March 21st a total quarantine was declared through to April 4th and was extended on March 26th through to April 15h. As of May 1st through to May 31st, a dynamic and conditioned quarantine plan was set forth on the basis of a report on three risk categories, namely, high, medium or moderate, which each municipality must present following a weekly assessment in charge of the Ministry of Health[23]. Furthermore, land, air and maritime borders remained closed, national and international flights were discontinued, classes were temporarily suspended, and public and sport events such as gyms, religious or cultural events where people agglomerate were suspended.

The Government has also adopted extraordinary fiscal measures to mitigate the impact of the health crisis and widespread containment, in particular to alleviate liquidity constraints of families though compensation programs to provide income support and ease stay at home orders, as well as of companies, to support them so that they continue to operate and pay salaries. Resources channeled amount to $700 million, at the time of preparation of this report. The measures include higher spending in health, assistance packages for families to provide them with short-term liquidity through social bonds and other monetary transfers, discounts and waivers in the payment of basic services, moratorium on bank loans, among many others. In addition to save time in increasing the capacity of the health system, these measures seek to maintain economic activity, prevent potential solvency problems on the part of economic agents, and maintain the macroeconomic stability of the country.

Furthermore, monetary policy measures have been adopted with emphasis placed on the injection of liquidity on the part of the Central Bank of Bolivia (BCB, acronym in Spanish) into the financial system amounting to Bolivianos 3,476 Billion (US$ 500 million) to guarantee its stability in the context of the pandemic. The BCB purchased Pension Fund Administration (AFP) bonds, which, in turn, will deposit these resources into different financial institutions, to grant credits to citizens, especially to micro-, small-, and medium-sized enterprises (MSMEs), to keep the economy moving despite the full lockdown. Similarly, measures to support businesses have been adopted so that they may continue to operate and create jobs and continue to pay salaries. Monetary and financial measures for support during the pandemic amount to almost US$1,500 million.

## PARTIAL REOPENING

The conditioned and dynamic national quarantine between May 1st and May 10th was extended based on the classification of high risk until the issuance of the first report on the risk categories for every municipality and/or department[24]. In the first infection risk report it was established that

23 According to the Departmental Health Services (SEDES, acronym in Spanish) assessment of 7 May, a risk report of municipalities will be presented every week so that they are classified under 3 categories (moderate, medium and high risk) which will establish the new confinement period (dynamic quarantine). The municipalities classified under moderate risk can resume work in the public and private sectors for 8 hours, public and private transportation, outings on Saturdays and Sundays, along with a reduced restriction on circulation from 7:00 P.M. to 5:00 A.M. The municipalities classified under a medium risk will be regulated under the same rules, although with a working day lasting 6 hours, vehicle transport for the movement of workers and a circulation schedule that is less flexible from 5:00 P.M. to 5:00 A.M.

24 Departmental Health Services (SEDES) oversee developing and delivering to the to the Ministry of Health COVID-related information on the conditions in which each territorial entity finds itself in.

as of May 11st, 20% of all municipalities will continue a strict quarantine, while the remaining 80% will ease restriction measures[25], based on their levels of infection[26].

Since 1 May, the mining, trade and non-professional services delivery sectors resumed their activities and joined the 4 markets which continued to develop their economic activities during the strict quarantine: industry, manufacturing, agriculture and food deliveries. In all of those cases, economic activities resume under their own working hours, while complying with the required biosafety measures. For its part, the construction sector resumed activities as of May 10th. The transportation service will mobilize personnel of these sectors, in addition to police, armed forces and health, while the supply services will provide services without interruption. On its part, public administration extends its hours from 7:00 A.M. to 3:00 P.M. as of May 4th[27].

The National Reactivation Council is enacted, whose main function is to execute the National Employment Reactivation Program, which promises to create 600 thousand jobs in the current context of reduced productive activities[28]. Furthermore, telework legislation was approved as a special modality for the provision of services, in the public administration as well as the private sector, without altering worker´s wages, characterized by the use of Information and Communication Technologies (ICTs) in the public and private sectors; applicable to employment relationships or services delivery that are developed in the public and private sectors[29].

On March 9th, the Ministry of Health prepared the "Guide for COVID-19 Management", which contains guidelines, guidance and recommendations for the diagnosis, clinical approach and management of patients that have been affected by this virus[30]. The guide is continuously updated and is targeted at technical, administrative, and operational staff of the entire National Health System. For its part, the Ministry of Work, Employment and Social Security developed a Manual for Biosecurity to slow the spread of the virus while resuming work activities that this Ministry performs[31]. Moreover, in line with the resumption of mining[32] and construction[33] activities, the regulations for the development of these activities[34] were approved in early May. These regulations set the biosafety guidelines, obligations, and responsibilities for employers as much as for workers, among other pertinent information[35]. The Chamber of Industry, Commerce, Services and Tourism of Santa Cruz (CAINCO) prepared a comprehensive compilation of COVID-19 standards[36].

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25 Out of the 339 municipalities in Bolivia, 68 (29%) were classified by authorities with a high COVID-19 infection risk, and must therefore keep the strict quarantine in force. On their part, of the remaining 271 municipalities (80%), 152 were classified as middle risk, while 119 were moderate risk; both of these types of municipalities will have a more flexible quarantine. It must be emphasized that the backbone departments (La Paz, Cochabamba and Santa Cruz) are those that concentrate 52 out of the 68 high risk municipalities; this batch of municipalities includes the capital cities of each department, along with the city of El Alto.
26 Of the 339 municipalities of Bolivia, the second report issued by the Ministry of Health on May 15th, ruled that 62 (18%) were classified by authorities as having a high COVID-19 infection risk so that they shall have to keep the strict quarantine in effect. For their part, of the remaining 277 municipalities (82%), 160 were considered middle risk, while 117 are moderate risk; both of these types of municipalities will have a more flexible quarantine. The backbone departments (La Paz, Cochabamba and Santa Cruz) now concentrate 51 out of the 62 high risk municipalities which include the capital cities of each department, along with the city of El Alto. https://www.minsalud.gob.bo/component/jdownloads/send/29-indice-riesgo-covid19/428-riesgo-municipal-covid-epid19
27 S.D. No. 4229 of 29 April 2020.
28 S.D. No. 4234 of 8 May 2020.
29 S.D. No. 4218 of 14 April 2020.
30 https://www.minsalud.gob.bo/images/Descarga/covid19/GUIA_COVID-19_COMPLETA_MAYO.pdf
31 This manual contemplates aspects on how to proceed with the cleaning of Ministry facilities, the provision and use of personal protection equipment, the behavior and hygiene of public servants, the use of public transportation, as well as public attention and entry, among its most important provisions.
32 http://www.mineria.gob.bo/juridica/20200501-15-18-42.pdf
33https://www.mintrabajo.gob.bo/index.php/comunicacion/27-destacados/1295-reglamento-para-sector-de-construcci%C3%B3n-y-resoluci%C3%B3n-multiministerial-01-20.html
34 S.D. No. 4229 of 29 April 2020 incorporates during the dynamic quarantine phase only four sectors: Mining, Construction, Trade Services and the provision of nonprofessional services. For the last two sectors, common standards apply for the use of face masks, gloves, handwashing, social distancing, etc. for which there are no specific regulations.
35 Within the framework of S.D. No. 4229 of 29 April 2020.
36
http://www.caincoempresarial.com/envio/covers/legal/05_4_2020%20%20%20%20Comp_COVID_19.pdf?fbclid=IwAR10oSI0bTrVkZ0FT6LE0F0uvgnX2IFC96M0A3pXOdbQYeEVrXLPA96V40Q

The Center for Global Infectious Disease Analysis performs short-term forecasts of the number of COVID-19 deaths in multiple countries. In the case of Bolivia, according to estimates to date, the tendency is unclear[37], with a projection of total reported deaths in the week ending on 10 May 2020 that is relatively low with under 100 cases. It is worth mentioning that these forecasts are based on a constant rate of reporting of deaths[38]. There are several initiatives for COVID-19 monitoring and forecasting in the world that include data for Bolivia[39]. For its part, an article on the dynamics of the expansion of the COVID-19 pandemic in Bolivia[40], which considers the three weeks before and after the declaration of the national quarantine, concludes that the measures applied managed to slow down the rate of infection from a R of 6 to an R of 2.4[41]. This entailed slowing the infection curve by close to 100 days and delaying the date of saturation of the health system by almost one month. In this new scenario, it is expected that the peak of the curve of infections will be reached on September 1st, 2020, with 12% of the Bolivian population becoming infected[42].

In terms of the considerations that should be addressed for the reopening stage of productive activities and its sequencing, it may be useful to look at the experience of those countries that have already initiated this stage, while, evidently, always considering the differences in the realities of each country[43]. There is consensus that under the current context of high uncertainty, reopening should be carried out in a gradual and orderly manner.

# MID-TERM RECOVERY

## MACROECONOMIC CHALLENGES

As of 2014, with the end of a period of growth, the Government adopted a countercyclical strategy based on greater public investment. Since that year, public policy has maintained an expansive bias. Greater public investment was associated to an increase in capital imports, in such a way that the current account balance also incurred a deficit. Thus, as of 2015 twin deficits are observed, which have continuously expanded reaching a fiscal deficit of 8.1% of the GDP [44] in 2018, and 4.7% of GDP in the current account in 2018[45].

In 2019, while a fiscal deficit was incurred for the sixth consecutive year, authorities managed to reduce it to 7.2% of the GDP, lowering the unnecessary and nonproductive current expenditure in the last months of the year. It is worth noting that, in turn, the IMF´s projections also aim at reducing the fiscal deficit as of 2019 to 5.3% of the GDP by 2024. This will result from the Government´s plans to reduce public investment (Art. VI, IMF, December 2018). Notwithstanding, in the face of the COVID-19 pandemic, the Government is adopting measures to contain the public health crisis,

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37 This is the case of countries where 2.5th percentile of Ro (COVID-19 infection rate) is less than 1 and the 97.5th percentile of Ro is greater than 2.
38 https://mrc-ide.github.io/covid19-short-term-forecasts/index.html#objectives-and-caveats
39 For a list see https://ddi.sutd.edu.sg/
40 Birbuet, Juan and López, Rafael. 2020. COVID-19 expansion dynamics in Bolivia during the first 6 weeks or *Dinámica de expansión del COVID-19 en Bolivia durante las primeras 6 semanas*. *América Económica* magazine.
41 The Ro number is the effective reproduction number defined as the number of cases that an infected person will generate in a population that is prone to contracting the disease. If Ro remained constant at 6 during the complete cycle of the epidemic, the curve would have reached its peak by day 87, that is, on 26 May 2020, with 28% of the population infected.
42 This is on day 185 following the first COVID-19 case in the country.
43 For detailed information about the lessons learned in countries of Central Asia and Europe see https://publications.iadb.org/es/del-confinamiento-a-la-reapertura-consideraciones-estrategicas-para-el-reinicio-de-las-actividades-en-america-latina-y-el-caribe-en-el-marco-de-la-covid-19
44 In 2018, in addition to heavy government investment, the payment of a second bonus that was announced in the month of October created pressure on the fiscal balance since it is estimated that it would have represented approximately 0.6 additional percentage points of the deficit (CAINCO, 2017).
45 This type of deficit situation in fiscal balance and current accounts is referred to as twin deficits. These deficits have been accentuated by a decrease in natural exports to Argentina and Brazil, as well as by a decline in mineral and soybean prices.

and to mitigate the impact it will have on the economy, as well as to save time to increase the capacity of the health system. Measures include greater spending in health as well as temporary assistance packages to families and companies to provide them with liquidity during the period of the mandatory and strict quarantine (see Table A.1 in the Annex for further details).

On the other hand, the IMF (WEO, April 2020) projects a gradual reduction of the deficit to 7.3% of the GDP in 2020 to converge up to 3.9% by 2025. The foregoing on the basis of some moderation in the levels of public investment associated to public companies and the reduction of nonpriority spending.

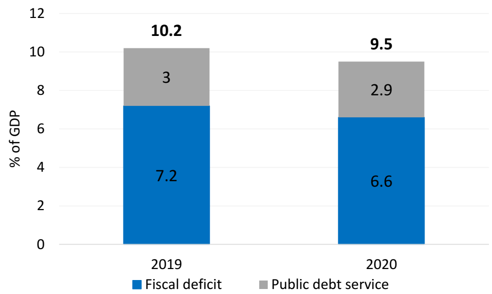
In terms of the public debt, in recent years there has been an upwards trend going from 33.6% of the GDP to 56.1% in 2019. At that date, 27.4% of the GDP is external debt, 15.7% internal debt and 13.1% represents the credits that the BCD grants to public-sector companies[46]. The country´s main multilateral creditor is the IDB with 29.7% of the total of external debt, while China is the main bilateral financer with 9.3%. It is worth noting that the public debt until now is diversified, the debt terms are extended, and rates are moderate.

The projected financing requirements for 2020 without COVID-19 were in the order of 9.5% of the GDP. It is expected that the adoption of extraordinary measures to address the public health and economic crises would increase financing needs. In this respect, an analysis of the potential impact that the COVID-19 shock can have on the debt and the financing needs of Bolivia (depreciations and global balance) considering different growth and deficit scenarios, as well as scenarios for the sudden stop of capital flows, show that the impact on public finances would be considerable[47].

To date, the fiscal conditions that each country had before the pandemic have determined the magnitude of the response to this shock[48]. In the case of Bolivia, the economy entered the pandemic with a limited fiscal space. The policy measures for mitigating this shock currently reach approximately 3% of the GDP[49]. Given the magnitude of the crisis, greater fiscal space will be required, which could stem from greater indebtedness and through reallocation of expenditures.
To this effect, the IMF (WEO, April 2020) projects an increase of the debt in 2020 to a level of 64.9% of the GDP, which will be gradually reduced all the way to 65.2% of the GDP by 2025[50]. Furthermore, if the resources available were used fiscal space could be created to address the extraordinary funding needs derived from the public health crisis by 35% of the GDP (see Table 1).

46 Sources: INE, BCB, MEFP, UDAPE
47 In the case of Bolivia, in a benevolent scenario (growth of 0.9% and deficit of 5.5% of the GDP) gross financing needs would be in the order of 8% of the GDP and would reach 12.5 in the most adverse scenario. For its part, the debt could increase between 4.2% and 15.4% of the GDP with respect to the levels in 2019. In turn, in the case of a sudden stop the gross financing needs could reach, in the worst scenario, 16 percentage points of the GDP. This is because of balance sheet effect that real depreciation of the domestic currency has over the debt, the higher interest burden and the repayments in foreign currency. See details in Andrian, L. et al (2020), Public Finances and the COVID-19 crisis in Andean countries or *Las Finanzas Públicas y la crisis del COVID-19 en los países andinos*, CAN, IDB Discussion Paper Series, to be published.
48 See https://blogs.iadb.org/gestion-fiscal/es/politica-y-gestion-fiscal-durante-la-pandemia-y-la-post-pandemia-en-america-latina-y-el-caribe/
49 This figure does not represent the increase in expenditure or fiscal cost of measures but the reassigned and new resources announced for fighting the pandemic. Since this figure is based on the announcements made in the country until the indicated date (15 April 2020) a sub-or over-valuation is possible. See details in https://blogs.iadb.org/gestion-fiscal/es/politica-y-gestion-fiscal-durante-la-pandemia-y-la-post-pandemia-en-america-latina-y-el-caribe/
50 Includes BCB loans to the Non-Financial Public Sector (SPNF, Spanish acronym) which corresponds to the General Government (also includes the TGN and the Central Government) + strategic National Public Companies (EPNES, Spanish acronym) + Other public companies.

**FIGURE 1 FINANCING NEEDS (% OF GDP)**




*Source: Prepared by the author based on data from the BCB and the MEFP.*

**TABLE 1: POSSIBLE SOURCES OF FISCAL SPACE ($ MILLION AND % OF GDP)**

| Source | $ MM | % GDP |
|---|---|---|
| NFPS Deposits in the Financial Sector | 5,544 | 12.70% |
| Net International Reserves | 5,921 | 13.56% |
| Monetary Liabilities | 2,313 | 5.30% |
| Potential Issuance of Sovereign Bonds | 1,500 | 3.4% |
| **TOTAL** | **15,278** | **35.00%** |

*Source: Prepared by the author based on data from the BCB and the MEFP.*

Low levels of inflation and de-dollarization of the economy have allowed to maintain an expansive monetary policy through the injection of liquidity and low interest rates to bolster credit and economic activity. Inflation remains narrow and at levels below the target set by the Central Bank of Bolivia (BCB, Spanish acronym) of 3.5%, closing at 1.5% in 2019. These low inflation levels are due in part to the absence of supply shocks (ex. droughts) but also that the fixed exchange rate policy that was adopted since November 2011 has had the effects of imported inflation, but at the expense of the real appreciation of the local currency. In this respect, the 2020 Financial Plan established an inflation target of 3.4%. In light of the COVID-19 public health crisis, the BCB has taken extraordinary measures to inject liquidity with 50% of resources for US$500 million and granted an emergency loan to the Executive Power for US$1 Billion to face the crisis.

With regards to a medium-term macro-fiscal agenda, once the initial shock triggered by the COVID-19 pandemic has been controlled, Bolivia could start a fiscal consolidation plan that considers the current fiscal conditions and allows it to cope adequately with the process of economic recovery by creating certain space for maneuver once the health emergency has been overcome. To achieve this, revenue increasing and non-priority expenditure rationalizing[51] measures can be included. There is ample space to improve the efficiency of public spending by, for example, gradually reducing non-priority current expenditures, as well as improving their allocation without decreasing productive capital expenditure[52]. Furthermore, there are important improvement opportunities by reducing the technical inefficiencies in public expenditure, such as those deriving from leakages in social funds, or higher salaries in the public sector when compared to the private sector, and inefficiencies in government procurement[53]. At the same time, the strengthening of fiscal institutions at the macro level (ex. Tax administrations) and micro level (ex. Public expenditure management mechanisms) are crucial for guaranteeing that the fiscal consolidation pattern is credible and sustainable.[54.]

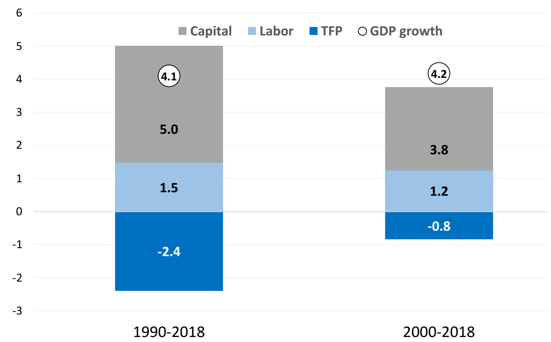
## PRODUCTIVE SECTOR

51 https://blogs.iadb.org/gestion-fiscal/es/politica-y-gestion-fiscal-durante-la-pandemia-y-la-post-pandemia-en-america-latina-y-el-caribe/?j=372803&sfmc_sub=10181566&l=295_HTML&u=7580730&mid=100028582&jb=45
52 Proof of this was that in the last months of 2019 a reduction of the current expenditure was achieved through superfluous disbursements and considered as non-productive. The authorities managed to narrow these items through the review of spreadsheets eliminating those without technical support, reducing the superfluous outlays as well as those for communication and advertising, but they prioritized salary payments.
53 Izquierdo, Pessino and Vuletin (2018), Better Spending for Better Lives, Washington, DC.
54 For a list of fiscal policy options during the Covid-19 transition and recovery phase see Andrian, L. et al (2020), Public Finances and the Covid-19 crisis in Andean countries, CAN, IDB Discussion Paper Series, to be published.

Bolivia is a small and open economy, whose economic cycle has a high correlation with the price of oil due to its limited diversification of exports, since it is concentrated on commodities (hydrocarbons and minerals) and weakly integrated in the intermediary links of the global value chains[55]. Given the above, Bolivia is extremely exposed to the effects that the COVID-19 shock could have on international trade. The main transmission channels are the international trade of raw materials and the sharp drop in prices and volumes of commodities in which the export basket is concentrated. At the same time, this external shock could derive in difficulties to cover the country´s financing requirements. When the pandemic broke out, the credit rating of Bolivia´s sovereign debt, which reflects its capacity to access markets, had already been downgraded to a speculative grade according to the three leading rating agencies. Furthermore, the sovereign spread measured by Bolivia´s EMBI has gradually increased since then.

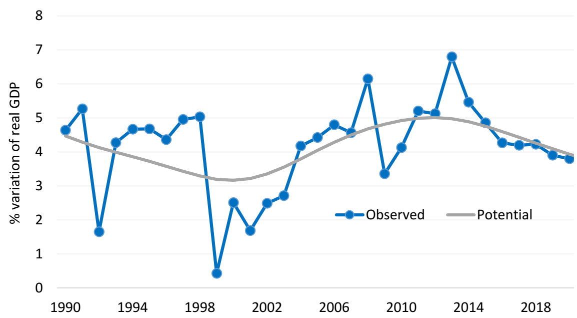
The absorption capacity of these external shocks depends on macroeconomic policy frameworks and the magnitude of external liquidity cushions[56]. In the case of Bolivia, since it maintains a fixed exchange rate regime, which impedes it from being used as an external fluctuations absorption mechanism, the BCB hardly has space to adopt an accommodating position[57]. It is not surprising that activity may be more affected by changes in global conditions. Added to this is the limited fiscal space that authorities have to finance the response to this emergency and to stimulate aggregate demand[58]. As far as external liquidity buffers, Bolivia has progressively reduced its stock of international reserves from a peak of approximately 50% of the GDP in 2014 down to 15% of the GDP at present.

**FIGURE 2 BREAKDOWN OF GROWTH IN BOLIVIA 1990-2018 (PERCENTAGE POINTS)**




*Source: Prepared by the Authors with data from the World Penn Table V. 9.0.*

**FIGURE 3 OBSERVED AND TREND GROWTH IN BOLIVIA 1990-2021 (PERCENTAGE)**




*Source: Own estimates with data from the NSI and IMF (WEO, Oct. 2019). Note: The trend is calculated using the HP filter (with lambda=100, which is used in annual series).*

Bolivia has been delaying the challenge of increasing the contribution of productivity to growth. Bolivia´s trend growth was estimated at 3.7% and 4% before the pandemic[59], below the levels

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55 To date, 82% of the total value of exports corresponds to commodities, specifically six products: natural gas, zinc, gold, soy, silver and tin.
56 Diaz-Cassou, Javier et al. (2020), COVID-19: The Impact of External Shocks on the Economies of the Andean Region, CAN, IDB Discussion Paper Series, to be published.
57 Unlike countries with floating exchange rates which have more room for maneuver.
58 Carrillo-Maldonado, P. and Díaz-Cassou, J (2019). An anatomy of external shocks in the Andean Region. Inter-American Development Bank, Working paper IDB-WP-01042.
59 The trend GDP was measured by applying a Hodrick-Prescott filter to the GDP series observed at constant prices between 1989 and 2018 and the IMF projections between 2019 and 2021, using a lambda equal to 100, which is recommended for annual data.

achieved during the commodities boom when a peak of 5% was reached. Historically, the total factor productivity (TFP) contribution, that is, the efficiency with which production factors (capital and labor) are used has had a negative contribution. For example, in the 1990-2018 period, the growth rate averaged 4.1% and the TFP negatively contributed to this growth with up to 2.4 percentage points. More recently, in the 2000-2018 period, the TFP continues to have a negative contribution.

Based on a more recent calculation, Bolivia has over 890 thousand micro-businesses and 72 thousand Small and Medium-Sized Businesses (SMEs), which together constitute 99.5% of the country´s business demographics[60]. Micro- and small businesses employ the vast majority of individuals with over 70% of workers[61]. Despite their economic and social relevance, these companies face a series of challenges which range from access to credit and low productivity to aspects such as low Internet access and not belonging to a value chain.

A post-COVID-19 mid-term agenda shall have to consider the reconfiguration of the global value chains. In the post-Covid-19 new normal it is very possible that companies end up diversifying their range of suppliers among domestic and external ones to mitigate risks. In this new scenario, public policy must ensure that smaller companies be integrated into the value chains of larger companies, whose resilience capacity to address adverse shocks is relatively larger. This can be achieved principally through business formalization and the improvement of production and organization standards in smaller companies so that they may position themselves as reliable suppliers of large companies. Similarly, emphasis must be placed on facilitating all companies, regardless of their size, with aspects that are crucial for adapting to new business models based on innovation, the intensive use of ICT´s and technology adoption including mass access to high speed Internet connectivity[62].

## SOCIAL SECTOR

Between 2000 and 2018, the percentage of Bolivia´s population in poverty (with a per capita income below US$ 5 a day in 2011 PPP) fell from 59.1% to 25.8% and the middle class increased from 39.8% to 73.6%[63]. It is worth noting that, to date, 41% of the population belongs to a vulnerable middle class, in the sense that it is relatively more prone to falling into poverty. This phenomenon provides an account of an unprecedented socioeconomic transformation, considering that, currently, the poor segment is no longer the one with greater relative weight, giving way to the predominance of the vulnerable middle class. All this, in turn, has implied considerable gains in the access to basic services, improvements in the quality of life and human capital accumulation.

Income distribution, measured by the Gini coefficient, has also improved in recent years. This indicator went from 61.6% in 2000 to 42.2% in 2018[64]. This is a significant reduction of over 19 percentage points (PP). This improvement in income distribution for the Bolivian population is associated to a further proportional increase in income derived from non-qualified work which also coincides with the lowest deciles of income distribution[65]. At the same time, the returns of higher

60 The Bolivian Ministry of Productive Development and Plural Economy (MDPYEP, Spanish acronym): "Current Enterprise Database History of Bolivia´s Trade Registry", https://siip.produccion.gob.bo/repSIIP2/formFundempresa.php.
61 Ruiz-Arranz, M. and M.C. Deza (2018): "Productive Growth: An Agenda for the Andean Region", Washington, D.C.: BID.
62 See details in Beverinotti, J. et al. (2020), A survey of the situation of companies in the Andean Region coping with COVID-19, CAN, IDB Discussion Paper Series, to be published.
63 Defining the middle class as the population that obtains income between US$5 and US$ 62 (in 2011 PPP) daily per capita. This population, in turn, can be divided into two categories: a vulnerable middle class, with a daily per capita income between US$5 and US$12.4 (in 2011 PPP), and a consolidated middle class with a daily per capita income between US$12.4 and US$ 62 (in 2011 PPP).
64 Source: WDI, World Bank.
65 This trend in reduced inequality observed in Bolivia coincides with what has occurred in the Region in the last 20 years. In this regard, the findings of Messina and Silva (2019) confirm a widespread increase in wages in Latin America, which was more apparent at the lower end of income distribution in each country, especially in Bolivia, Paraguay and Peru.

education fell in all social strata, especially among the poor and vulnerable middle class, contributing to reduce inequality across socioeconomic strata[66]. Moreover, inequality in Bolivia remains higher in rural areas and in specific departments, especially those which also present the highest rates of moderate and extreme poverty[67].

Despite these social achievements, the situation prior to the COVID-19 pandemic reveals high vulnerability in employment especially in the poor socioeconomic segment and the vulnerable middle class. The fragile situation in employment conditions, with high levels of informality (understood as the lack of social benefits) and job instability become, in the face of current events, a risk for sustaining social achievements. During the period of widespread containment due to the pandemic, in addition to the poor and the vulnerable, middle class households are among the most affected with the abrupt and unexpected interruption in their regular monthly employment income, whose negative impact can make them fall into a temporary situation of poverty[68].

Indeed, Bolivia has one of the highest informality rates in the Region, understood as the lack of social benefits. It is estimated that 8 out of every 10 workers are informal and 2 out of every 10 work without compensation. At the same time, the economic sectors which are most informal include agriculture, trade, transportation, manufacturing, and construction. These sectors are also known as employing a large portion of the workforce and those that pay the lowest wages[69]. On this regard, there is consensus on the protectionist nature of the Bolivian labor regulations, which would reinforce the high levels of informality since it establishes high non-labor costs making Bolivia one of the most burdensome countries in the Region in terms of employer contributions, annual bonus, vacations and severance costs. The foregoing adds up to the high labor costs in relation to the country´s productivity level. Nevertheless, the high levels of informality in Bolivia are associated to labor market rigidities and inadequate employment training[70].

Bolivia´s social security system is linked to the formal labor market, which, due to high levels of informality, ends up suffering low coverage and hence offers limited protection to the working population[71]. While Bolivia has policies in place to fight poverty whose approach is to raise the income levels of the population to overcome the minimum thresholds, the country does not have policies to mitigate the risks in face of transitory shocks, such as the case of the COVID-19 pandemic, and which protect households that are not poor and are therefore not beneficiaries of traditional poverty reduction programs, but who are at risk of falling into poverty with a negative temporary shock to their income.

The mid-term agenda shall have to consider effective policies for reducing informality and the degree of precariousness of employment. This requires intervention in several aspects, ranging from the easing of labor policies, developing efficient labor intermediation systems which allow access to better quality jobs, a workplace training system, all the way to aspects such as the revision of labor costs adjusted to productivity so as to avoid that this continue to be an obstacle to formalization. Of the possible options for this last point, one could consist of transferring some

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Messina, J. and Silva J. (2019). “Twenty years of wage inequality in Latin America”. IDB Working Paper Series No. IDB-WP-1041.
66 Using household surveys, between 2000 and 2017. Bolivian National Institute of Statistics (INE, acronym in Spanish).
67 In 2018 the Gini index for rural areas was 0.49 while in urban areas it was only 0.38. At the departmental level, sharp differences are observed, with the Potosí (Gini 0,60), Chuquisaca (0,52) and Cochabamba (0,47) departments with the highest levels of inequality, which in turn coincide with a high incidence of poverty. Source: INE, 2019.
68 Liliana Castilleja-Vargas (2020), The Andean Middle Class in the face of the COVID-19 Shock, CAN, IDB Discussion Paper Series, IDB-DP-00774, Inter-American Development Bank, Washington, DC
69 Calculations based on figures from the 2018 INE Households Survey.
70 Ruiz-Arranz, Marta, and María Cecilia Deza, (eds.). Productive Growth: An Agenda for the Andean Region. IDB, 2018.
71 This type of social security model is usually called Bismarckian since the first social security system for old age was created in the XIX century by Otto von Bismarck in Germany. Under this framework, benefits (unemployment, pensions and health, among others) are financed by mandatory contributions to social security of the employer as well as the employee, which are periodically discounted from the payroll. For further information about the restrictions that these types of social security models have in economies with high levels of informality see Pagés, C., J. Rigolini and D. Robalino. 2013. Social Insurance, Informality and Labor Markets: How to Protect Workers While Creating Good Jobs. Discussion Paper Series of the Institute of Labor Economics (IZA) DP No. 7879. Berlín: IZA.

of the social security costs to general taxes or indirect taxes while simultaneously simplifying regulations. Moreover, the COVID-19 pandemic has revealed the importance of restructuring social security, while faced with the need of having universal access to quality health services independently of the employment status of individuals. The agenda for the post-COVID-19 economic transition and recovery period shall have to prioritize the adoption of an effective social protection scheme suited to the reality of Bolivia, including insurance instruments for the vulnerable population[72] to face transitory shocks.

# ANNEX

### SPREAD OF THE VIRUS AND CAPACITY OF THE PUBLIC HEALTH-CARE SYSTEM

| Variable | 2020 | Source |
|---|---|---|
| Growth rate of daily new infections | 14.6 | Our World in Data |
| Case fatality rate | 4.5 | Our World in Data |
| COVID infection rate per sick people (*) | 1.6 | Centre for Global Infectious Disease Analysis |
| Epidemic stage | 3 | Ministry of Health |
| Expected epidemic peak | 6 August 2020 | Ministry of Health |
| Geographic extension of the virus | N/A | |
| Current tests / 1M population | 16 | Our World in Data |
| Total tests / 1M population | 791 | Our World in Data |
| Test capacity | N/A | |
| Laboratory capacity | N/A | |
| Tracking system / apps | No | Ministry of Health |
| Share of population 65+ | 7.3 | World Bank, WDI |
| ICU beds | N/A | |
| ICU occupancy ratio to date | N/A | |
| Hospital beds / 1K population | 1.1 | Our World in Data |
| Task force in place | N/A | |
| Opinion on government's response to COVID-19 | N/A | |
| Government approval rate | N/A | |

*(*): The virus reproductive ratio corresponds to the estimate reported on 15/05/2020.*

### MACROECONOMIC STABILITY

| Variable | 2020 | Source |
|---|---|---|
| Expected growth 2020 | -2.9 | International Monetary Fund, WEO Apr-2020 |
| Expected growth 2020 (pre-COVID-19) | 3.8 | International Monetary Fund, WEO Oct-2019 |
| Daily cost of quarantine | N/A | |
| Expected fiscal deficit 2020 post-COVID | -7.3 | International Monetary Fund, WEO Apr-2020 |
| Expected fiscal deficit 2020 pre-COVID | -7.5 | International Monetary Fund, WEO Oct-2019 |
| Change in exports / GDP between 2019 - 2020 (*) | -1pp | International Monetary Fund, WEO Apr-2020 |
| Commodity exports / Total exports 2019q1 (*) | 75 | National Institute of Statistics |
| Change in imports / GDP between 2019 - 2020 (*) | 0.4pp | International Monetary Fund, WEO Apr-2020 |
| Debt / GDP | 57.5 | Central Bank of Bolivia |
| Share of foreign denominated debt | 27.4 | International Monetary Fund, WEO Apr-2020 |
| Exchange rate depreciation | 0 | Central Bank of Bolivia |

72 Liliana Castilleja-Vargas (2020), The Andean Middle Class in the face of the COVID-19 Shock, CAN, IDB Discussion Paper Series, IDB-DP-00774, Inter-American Development Bank, Washington, DC.

| | | |
|---|---|---|
| Inflation rate (period average) | 1.8 | Central Bank of Bolivia |
| Inflation expectation anchored | N/A | |
| FX reserves (in months of imports of goods and services) | 6 | Central Bank of Bolivia |
| FDI / GDP | 0.5 | Central Bank of Bolivia |
| EMBI (difference between 12/31/2019 and 5/13/2020) | 4.62pp | Central Bank of the Dominican Republic |
| Size and composition of assets and liabilities of CB | N/A | |

(*): The 3 indicators were calculated on the basis of data from the stated source.

**REAL SECTOR**

| | 2019 | Source |
|---|---|---|
| Unemployment rate | 4.8 | National Institute of Statistics |
| PMI change between 2019q4 - 2020q3 | N/A | |
| Drop in construction activity between 2019q4 - 2020q3 | N/A | |
| Drop in services activity between 2019q4 - 2020q3 | N/A | |
| Drop in agriculture activity between 2019q4 - 2020q3 | N/A | |
| Credit access to SMEs (% GDP) (*) | 7.8 | Financial System Supervisory Authority |
| Share of works that can be done online | N/A | |
| Share of workers in tradable sectors | N/A | |

(*): The SMEs credit access datum corresponds to 2018.

**SOCIAL SECTOR**

| | 2019 | Source |
|---|---|---|
| Poverty rate | 23.1 | World Bank |
| Income inequality (*) | 42.2 | World Bank |
| Unemployment rate (*) | 4.8 | National Institute of Statistics |
| Share of informal workers | N/A | |
| Share of self-employed | 68.1 | World Bank |
| Public vs private sector employment | N/A | |
| Share employment in manufacturing sector | 19.4 | World Bank |
| Share employment in tourism | N/A | |
| Productivity growth | N/A | |
| Social security coverage heatmap indicator | N/A | |
| Claims for unemployment insurance since COVID outbreak | N/A | |
| Share of p | N/A | |
| Inclusion and exclusion errors in main social programs | N/A | |

(*): The poverty rate and the income inequality indicator correspond to 2018.

**POLICY RESPONSES**

## TABLE A.1
## POLICY RESPONSES IN FACE OF THE COVID-19 HEALTH CRISIS

### MEASURES TO CONTAIN THE CRISIS

• (March, 12) Cancellation of educational activities at all levels until 31 March. Subsequently, the measure was extended until the present date.

• (March, 17) Through Supreme Decree No. 4196 a state of health emergency is declared, partial quarantine and total closure of borders.

• (March, 21) Through Supreme Decree No. 4199 total quarantine is declared until 4 April 2020.

• (March, 26) Through Supreme Decree No. 4200 the total quarantine is extended until 15 April. Furthermore, this decree establishes the following:

• (May, 1) Through Supreme Decree No. 4229 establishes that the quarantine be extended through to 31 May 2020 moving to a new phase called dynamic quarantine, which dictates the easing of pandemic quarantine measures based on the level of infection risk (high, medium, low) presented by each municipality following a weekly assessment by the Ministry of Health. Additionally, air, land and fluvial borders remain closed, domestic and international flights are suspended, classes and public events are temporarily suspended, such as sports events, including gymnasiums, religious or cultural venues that agglomerate people.

### FISCAL (CLOSE TO US$700 MILLION)

#### SOCIAL BONDS AND OTHER MONETARY TRANSFERS

• (March, 18) Family Bonus. Payments of Bs 500 (US$72) are granted per child in pre-kinder, kindergarden, primary and secondary school. Investment Bs 1,600 Million **(US$230 Million).**

• (March, 25) Family Food Basket (Bs 400) (US$57) for older adults who only received the Dignity Income, mothers who receive the Juana Azurduy voucher and people with disabilities. Investment of Bs 480 Million **(US$70 Million).**

• (April, 14**) Universal Bonus.** Payments of Bs400 (US$57) for all individuals who do not receive the approved bonuses above, nor any public or private wage. Investment of Bs 2,000 Million **(US$290 Million).**

#### MORATORIUM ON FINANCIAL AND TAX OBLIGATIONS

• (March, 12) Reduction of interest and penalties by 90% for legal persons audited by the SENASIR – National Pensions System.

• (March, 15) The elimination of tariffs on the importation of medicines and devices for measuring temperature and on donations which help to detect coronavirus.

• (March, 19) For business leaders, the Corporate Income Tax (IUE, Spanish acronym) which is usually paid in April of each year was postponed until May with the possibility of paying in installments.

• (March, 28) Deferral of the filing and payment of tax obligations. This includes taxes such as the VAT, IT, RC-VAT and for independent taxpayers.

• (March, 21) Supreme Decree No. 4199. Reduction of electricity charges, prohibition of cutting-off gas and water supplies, as well as Internet while the quarantine lasts. A 50% reduction in monthly billing of basic services of household water, electricity and gas while the declared state of emergency lasts, granting a 3-month deferral after the lockdown is lifted to catch up on respective payments. In the case of electricity, the Government is going to cover 100% of tariffs that do not exceed Bs 120 and for other categories, according to electricity consumption, discounts of 50%, 40%, 30% and 20% are being contemplated.

• (March, 25) Supreme Decree No. 4200. 50% waiver in potable water bills during the months of April, May and June, which will benefit 2 million Bolivians. The non-cancellation of electricity bills for a maximum consumption of Bs 120 during the first three months, which will benefit over 2 million consumers.

• (April, 1) Temporary payment relief of basic services. Law No. 1294. Exceptional deferral of payment of credits and temporary reduction of the payment of basic services. With an investment of Bs 780 million (US$62 Million). While the COVID-19 pandemic emergency declaration lasts, the payment of services of users must be deferred without penalties or sanctions, and services must not be cut off for lack of payment. All public, private and cooperative companies providing basic services must guarantee the continuity of their services.

### MONETARY AND FINANCIAL (CLOSE TO US$1,500 MILLION)

• **Liquidity Injections** by the Central Bank of Bolivia (BCB) to the financial system for Bs. 3,476 million **(US$500 Million),** through the purchase of public paper from AFP Pension Funds.

• (April, 1) **Credit payment deferrals in the financial system (capital and interest).** Law No. 1294 Exceptional law on the deferment of credit payments and temporary reduction of the payment of basic services. It grants a relief of **US$432 Million.** The financial intermediation entities that operate in the country must carry out the automatic deferral of the payment of the amortizations of credit to capital and interests, and other types of charges of the national credit system, for the duration of the declaration of the COVID-19 pandemic emergency and granting a maximum period of up to 6 months after the lifting of the emergency declaration. Within 6 months after the last deferral, borrowers will have to agree with banks on the terms for the payment of deferred installments.

• Financial Relief Program with credits for companies to continue operating. Up to Bs 1,500 Million **(US$216 Million)** in credits for Micro, Small and Medium-sized companies in the services, production and trade sectors, granted for a five (5) year term, with a one (1) year grace period and the interest rate will be established by the Ministry of Economy and Public Finance, through regulations.

• **Plan for Employment Support** through soft and easy loans to support companies in the payment of wages. It is an emergency plan to support the employment of legally constituted companies, whose workers are registered in the Integral Pension System in order to allow support in the payment of wages given the national health emergency and the total quarantine. Resources for Bs 2 billion **(US$288 Million)** will be committed for credit loans.

### STRENGTHENING THE HEALTH CARE SYSTEM

• Provision has been made to enable public infrastructure, in the city of Santa Cruz and gradually all other capital cities plus El Alto, which meets the conditions for the immediate attention of confirmed coronavirus cases. The assembly of two mobile hospitals has been commissioned on the part of the Bolivian Armed Forces in the department of Oruro in order to face the crisis.

• (April, 1) Supreme Decree No. 4205. It establishes that all health establishments, clinics and hospitals, including private ones, must provide medical attention to COVID-19 patients to attend, control and treat Coronavirus (COVID-19) immediately and without any other consideration.

• The Government announced that it would make the biggest investment in the health sector in history with the purchase of 500 intensive care unit beds and over 1,000 regular hospital beds. In addition to 500 ventilators, 300 thousand COVID-19 molecular-based tests and the hiring of new medical personnel.

•Price speculation and increase of medical supplies that the population needs is forbidden. Municipal governments, within the framework of their competence, will control price speculation.

• (April, 8) Supreme Decree No. 4217. It establishes that an annual collective insurance with an amount of indemnification of Bs. 100.000 for health professionals and workers in the case of death or disability caused by an infection of COVID-19.

. Beneficiaries will include "all professionals and workers of public and private sector health centers, clinics and other short-term social security entities of the National Health System.

### LABOR MARKET

• Special Licenses. Exceptionally, the Ministry of Labor will regulate the granting of special licenses at work, with benefits, in order to protect the health of people with underlying diseases; elderly people age 60 or older; pregnant individuals and persons under the age of five (5) (with fathers or mothers or tutors being beneficiaries of a special license).

• (April, 21) Bill 595/2019-2020 is being evaluated which is "a Law that helps regulate the COVID-19 emergency" to avoid layoffs and the removal of public and private employees. Since it is a labor law, the measure is retroactive and is therefore applied to the start of the quarantine. It has already been approved by the Chamber of Deputies and is now in the Senate.

Source: Own preparation based on official information from the BCB and MEFP.

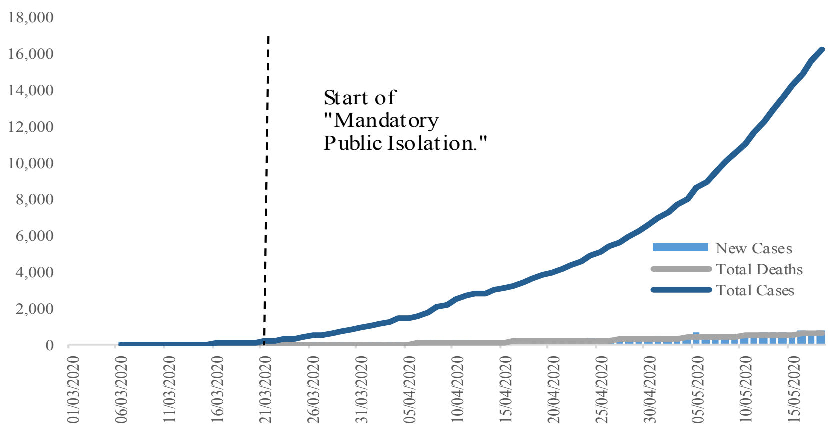
# COLOMBIA

**LEANDRO ANDRIÁN AND JORGE HIRS**

## CONTEXT

On 6 March 2020 Colombia reported its first COVID-19 case. To control the spread of the virus in the country, during the first phase the Government issued the closing of border crossings and restricted the arrival of international flights. Subsequently, because of an increase in cases of infection, on 17 March the Government declared a “State of Economic, Social and Ecological Emergency” in the country[73]. Following this announcement, on 22 March a “Mandatory Public Isolation[74]” decree was issued with the aim of stopping the spread of the virus. Although initially the mandatory isolation measure was established from 25 March to 13 April, the national quarantine was extended on three later occasions[75]; so that to date the mandatory isolation measure is effective until 31 May in most parts of the country[76]. At the time this report was written the country had over 16,000 confirmed cases, 500 deaths and 3,900 recovered COVID-19 patients (see Figure 1).

Figure 1. Cases and deaths directly related to COVID-19.




Source: Ministry of Health.

73 Declaration of State of Emergency: According to the Constitution, the Head of State may forcefully issue decrees with the state of emergency without having to pass them through the Congress of the Republic as projects. This measure is effective for thirty days.
74 During the mandatory public isolation certain sectors of the economy which are considered strategic such as those related to the food supply chain are authorized to operate.
75 Initially, the “Mandatory Public Isolation” was extended to 11 May, and later to 25 May and then to 31 May.
76 Some municipalities across the country that did not have any COVID-19 cases were authorized to resume activities while following strict safety protocols and gradual reopening as of 11 May. Furthermore, certain sectors of the economy such as construction and manufacturing have been authorized to resume their operations, taking into account safety protocols and directives from local and regional leaders. The last mandatory isolation extension was accompanied by a new declaration of a State of Economic and Social Emergency for the whole country.

The sanitary containment and social distancing measures adopted in Colombia to reduce the spread of COVID-19 have caused a significant reduction in economic activity[77]. Although, so far, official figures on the growth of the country´s different sectors are not known, the latest statistics for the labor market show that between February and March 2020 the number of people employed in the country dropped by 1.6 million[78] and the unemployment rate was at 12.6%[79], showing an increase of 1.8 percentage points in comparison with the previous year. At the same time, the numbers for traffic congestion and public transportation use have dropped close to 90% during the quarantine[80] and the demand for energy in April dropped 10.7% year on year[81]. It must be underscored that given the unprecedented characteristics of the shock caused by COVID-19 and the elevated uncertainty associated to the pandemic, growth projections have a high level of variability and are subject to permanent changes. Hence, the latest projections made by the International Monetary Fund[82] forecast that the Colombian economy will shrink by -2.4% in 2020 and could grow 3.7% in 2021. Furthermore, our own estimations project a growth that ranges between an annual 1.7%[83] and -13.23%[84]. The impacts depend, to a great extent, on the assumptions about the dimension of the work stoppage and the fall of oil prices throughout 2020. Locally, the Ministry of Finance and Public Credit, in its last projection, estimated a fall of -5.5% of the GDP for 2020[85]. While the forecasts of the Fedesarrollo[86] predict a contraction of Colombian economic activity that ranges from -2.7% to -7.9% in 2020; being the tertiary sector of the economy the most affected by the crisis. Lastly, in sectoral terms, the combination of the external shock (fall in oil prices and lower external demand for Colombian products) and the shock to labor supply (due to the lockdown measures) would be prejudicial to all economic activities. Among the sectors that would be impacted the most are extractive activities, trade, services and construction[87].

Taking into consideration the high impact that containment measures have had on economic activity, the Colombian Government has issued over 70 decrees with different economic and social measures to respond to the crisis[88]. Among these measures are the strengthening of social programs operating in the country (*Más Familias en Acción*, *Jóvenes en Acción*, *Colombia Mayor*) through conditional cash transfers. Additionally, during the crisis new social programs have begun to operate, such as the VAT refunds program for low-income families called "solidarity income", which aims to deliver cash transfers to approximately 3 million Colombian households in poverty and vulnerability which did not belong to any government social program before the pandemic. With regards to the productive sector, the national government has announced measures to support companies which include credit guarantee programs, wage subsidies to formal businesses equivalent to 40% of the minimum wage and deferral of tax payments of certain taxes, such as, for example, income tax. Furthermore, at the monetary/financial level, the *Banco de la República* has announced several measures, including continual increased liquidity, reduction of

77 Notably, the Colombian economy has also been affected by increased risk aversion in international markets and falling international oil prices.
78 It is worth highlighting that this measurement captures a reduced portion of the quarantine´s impact since the mandatory preventive isolation started at the end of March.
79 This figure overlooks the effect of the pandemic on the labor market since approximately 1.8 million people went from being employed to becoming inactive and therefore are not considered unemployed.
80 https://www.iadb.org/en/topics-effectiveness-improving-lives/coronavirus-impact-dashboard
81 https://www.xm.com.co/Paginas/Indicadores/Demanda/Indicador-demanda-crecimiento-demanda.aspx
82 IMF. World Economic Outlook, April 2020.
83 Díaz-Cassou, Carrillo-Maldonado and Moreno (2020). "COVID-19: The Impact of External Shocks on the Economies of the Andean Region", IDB. Unpublished.
84 Banerjee, Cicowiez, Andrian, Manzano and Murguia (2020). "The Economic Impacts of COVID-19 in Andean Countries: An application of the Integrated Economic-Environmental Model (IEEM)". IDB. Unpublished.
85 See the Fiscal Rule Advisory Committee Official Statement. 4 May 2020.
86 See Press Release "Fedesarrollo foresees a contraction of economic activity in the range of -2,7% to -7,9% in 2020". April 2020.
87 Banerjee, Cicowiez, Andrian, Manzano and Murguia (2020). "The Economic Impacts of COVID-19 in Andean Countries: An application of the Integrated Economic-Environmental Model (IEEM)". IDB. Unpublished.
88 In order to respond to the economic emergency, the National Government created the Emergency Mitigation Fund (FOME, Spanish acronym) with initial funds close to COP 15 Trillion (1.3% of GDP). To this fund were added ressources from Solidarity Bonds (aproximately 0.9% of GDP) created by the Colombian Government as a mandatory investment for financial institutions (see Decree 562 of 2020).

the reference rate, intervention in the foreign exchange market with the aim of ensuring the adequate operation of the payment systems and financial stability of the country[89].

## PARTIAL REOPENING

Although it is complex to estimate the economic cost that the quarantine has on the economic activity of the country due to the high uncertainty generated by the COVID-19 shock, studies such as those developed by Fedesarrollo[90] show that in a scenario with a reduction of 37% to 49% of operations in different economic sectors, one month of quarantine would imply an economic cost to the country of 4.5% to 6.1% of the GDP[91]. While, in the same document, Fedesarrollo estimates that the economic valuation of the cost in public health arising from the pandemic could range from 1.6% of GDP to 36.9% of GDP[92]. Moreover, calculations developed by the *Universidad de los Andes* estimate that for every month that containment measures and the epidemic remain in the country there will be an annual 1.25% decline in the GDP[93]. These figures show how important it is for authorities to achieve an adequate balance between containment measures and the return to productive life.

In Colombia, as estimated by the National Institute of Health, the effective reproduction number of the COVID-19 virus (Rt), which is the average number of persons who become infected by an infectious person, has witnessed a reduction: moving from 2.4 at the onset of the pandemic (March) to 1.3 during the first week of May[94]. While the COVID-19 total fatality rate in the country is 7.4%[95]. These results would be reflecting that the measures adopted by authorities have managed to reduce the transmissibility of the virus. It is worth noting that independent surveys show that most Colombians support President Ivan Duque´s administration when it comes to his handling of the crisis[96].

In terms of economic reactivation and the gradual easing of isolation measures in the country, the central Government has announced a series of measures geared at gradually loosening the mandatory isolation by economic activities as well as by locality. In fact, during the announcement of the extension of the Preventive Mandatory Isolation in the country until 25 May, the National Government indicated the need for "recovering the spaces of productive life in the country"[97]. In this manner, it was decreed that as of 11 May various economic sectors could gradually begin to operate and under strict safety protocols[98]. In addition, the opening of the economy was authorized in municipalities that do not have COVID-19 cases. It is worth noting that the gradual recovery of sectors of the economy in different parts of the country will depend on the strict compliance of safety protocols to prevent the spread of the virus and the provisions set forth by the Governors and Mayors in diverse Colombian municipalities. In this way, the local authorities have the authority to decide on what pace of gradual economic recovery to apply. As an illustration, among the measures put forward by local leaders in the context of economic recovery, in Bogotá D.C. limits to the maximum capacity in public transportation have been established, differential services for workers to travel to their jobs, as well as the constant monitoring of the degree to which intensive care units are being occupied in the city, among other measures[99].

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89 See https://www.banrep.gov.co/es/medidas-banrep-covid-19
90 COVID-19: economic costs in health and containment measures in Colombia. Luis Fernando Mejida.
91 Furthermore, a 2-month quarantine would have an economic cost of between 8.9% and 11.8% of the GDP.
92 The estimated costs depend on the different scenarios for social distancing, infected people and deaths. See: COVID-19: economic costs in health and containment measures in Colombia. Luis Fernando Mejida.
93 Macroeconomic Note No. 14. In an emergency we all cotnribute: considerations on state stimulus funding. Faculty of Economics, Univesity of Los Andes (2020).
94 In addition, average confirmed daily cases between 6 march and 5 May totalled 154.
95 See Decree No. 636 of 2020.
96 Invamer Poll.
97 https://id.presidencia.gov.co/Paginas/prensa/2020/Gobierno-amplia-Aislamiento-Preventivo-Obligatorio-25-mayo-apertura-economica-municipios-sin-covid-19-200505.aspx
98 See Decree No. 636 of 2020. It is worth noting that as of 26 April the National Government allowed the reactivation of the construction and manufacturing sectors that fulfilled the respective safety protocols.
99 See *Alcaldía Mayor de Bogotá*, Decree No. 126 of 10 May 2020.

# MID-TERM RECOVERY

## MACROECONOMIC CHALLENGES

The Colombian economic policy framework stands out as one of the most solid ones in the Andean Region. This is due to the following factors: (i) exchange rate flexibility in a context of a credible inflation target; (ii) effective financial supervision and regulation; (iii) a responsible fiscal policy guided by a fiscal rule. Thus, prior to the COVID-19 pandemic, the Colombian economy stood out for its resilience and dynamic growth amid a weak global environment[100]. Nevertheless, the country still has macroeconomic imbalances in its external and fiscal accounts,

Therefore, at the end of 2019 the country´s current account deficit was at -4.3% of GDP[101]; which occurred mainly due to an unfavorable behavior of the trade balance; was due to the falling oil prices, the weak growth of trading partners and a sharp expansion of domestic demand. At the fiscal level and in relation to tax revenues, the country has a low collection rate when compared to LAC and OECD countries; which can principally be explained by: (i) a tax structure with deductions and exemptions that permeate the tax base, (ii) shortfalls in the tax administration, and (iii) a high level of informality in the economy. At the same time, as regards expenditures the country still has significant room for improvement[102].

Colombia has conducted frequent tax reforms during recent years. Nonetheless, the reforms carried out have not generated the conditions for a definite tax consolidation. An example of this, the 2018 and 2019[103] reforms would have only guaranteed resources for the fulfillment of short-term fiscal goals. This lack of fiscal consolidation has hampered a significant reduction of the public debt/GDP ratio, which increases the vulnerability of the economy in the face of external shocks[104].

Although, until now, the National Government has not adjusted its official projections related to the expected deficit, as a consequence of the shock inflicted by COVID-19; the Fiscal Rule Advisory Committee[105] announced that, in recognition of the current economic and social emergency, it unanimously supports the Government´s initiative to make use of the countercyclical spending clause[106]. Thereby, the fiscal deficit consistent with the projections of economic growth would be – 6.1% of the GDP, which represents a deficit that is larger by 3.9 percentage points with respect to the Government´s forecast prior to the crisis (-2,2% of the GDP). In more adverse scenarios, where the pandemic has more drastic effects on growth, public spending and revenues, gross funding requirements (debt service and primary deficit) could reach 12% of the GDP[107].

100 See IMF Country Report No. 20/148 Colombia.
101 It is worth noting that the increase in the country´s external deficit has been highlighted by international rating agencies as one of the major vulnerabilities of the Colombian economy. See "Fitch Downgrades Colombia's Rating to 'BBB-'; Outlook Remains Negative" and "S&P Global Ratings revised its outlook on Colombia to negative from stable, due to greater risks in external liquidity, debt and growth; rating confirms".
102 See Andrian, Deza and Hirs (2020). "The Impact of COVID-19 on the Public Finances of Andean Countries". IDB, unpublished.
103 The 2019 tax reform results from the law passed in 2018 which was declared unconstitutional by the Constitutional Court, and therefore a new law had to be enacted with changes, including: i) VAT refund for low income individuals belonging to the 1st and 2nd deciles; ii) reduced pension health contributions for retirees with a minimum salary of 12% to 8% in 2020 and 2021, and of 4% from 2022 onwards; iii) three days without VAT, and iv) 120% deduction on the labor cost of youth between 18 to 28 years old hired in their first job.
104 See Andrian, Deza and Hirs (2020). "The Impact of COVID-19 on the Public Finances of Andean Countries". IDB, unpublished and y Díaz-Cassou, Carrillo-Maldonado and Moreno (2020). "COVID-19: The Impact of External Shocks on the Economies of the Andean Region", IDB. Unpublished.
105 In Colombia there is a Fiscal Rule Advisory Committee (CCRF, Spanish acronym) which functions as an independent and technical institution, constituted by scholars and former officials with expertise in fiscal policy, to monitor the compliance of rules, to comment on any modifications and to determine the annual fiscal deficit target.
106 Contained in Article 6 of the Fiscal Rule Law (Law No. 1473 of 2011).
107 This would take place in a context of a 13% annual drop in the GDP and a deficit of 10% of the GDP. Andrian, Deza and Hirs (2020). "The Impact of COVID-19 on the Public Finances of Andean Countries". IDB, unpublished.

Once the crisis triggered by COVID-19 is overcome, the country should seek greater productive diversification externally to reduce its vulnerability from movements in the international oil market. At the fiscal level, to increase revenues, the country should seek tax consolidation through: a review of the incentives that permeate the tax base, the improved efficiency of the tax administration and reforms that allow increasing the formality of the economy. With respect to public spending, the leakages and inefficiencies which arise, for example, in the pensions system, subsidies for services and government procurement[108] should be reviewed. Furthermore, the establishment of a central unit for the quality of public expenditure shall be fundamental to achieve greater technical and distributive efficiency in the country´s public spending, allowing to maximize the impact of public policies developed by the Government, both in the short and long term[109].

## PRODUCTIVE SECTOR

The real sector in Colombia is characterized for having a high number of small businesses. As an example of this, micro-businesses represent approximately 93% of all companies in the country[110]. In terms of sectoral share, micro-businesses are distributed in a relatively homogeneous manner in the sectors for trade (95.6%), construction (84.1%), industry (91.8%) and services (92%). These small establishments are significantly less productive than large ones, which is reflected in part in the low aggregate productivity of the Colombian economy[111]. In sectoral terms, mining and oil activities display the highest levels of productivity in the country. While the agricultural sector stands out as being one of the least productive sectors due to the geographical characteristics of the country. In addition, Colombia has a weak integration in global supply chains, in which it mainly participates in both of its ends, acting as an offeror of commodities and as a buyer of finished products, and rarely engages in intermediate links[112]. The low levels of business productivity in the country are explained by several factors, which include informality, worker training, low innovation levels, regulations, and the tax system, as well as deficiencies in infrastructure and logistics for exports.

The high levels of informality are one of the biggest obstacles for Colombia´s productive sector. The business sector in Colombia represents 59% of all companies, employs roughly 37% of the workforce and produces 33% of the GDP (Fernández, 2018)[113]. These high levels of informality create important costs for those members of society who are not incorporated into firms and affects the development of the formal sector, by means of, for example, unfair competition and corruption. In addition, the high levels of informality in the country proves to be harmful in terms of work satisfaction and quality employment, tax revenues, regulatory compliance and economic productivity. In this context, it is not surprising that the formal business sector considers informality as one of the most relevant obstacles for conducting business[114].

A recent analysis[115] shows that, while the severe economic recession will affect companies across the board despite their size, micro and small businesses in the country, which were already structurally less prepared to face the adverse shocks, will be most affected by the COVID-19 shock. Furthermore, the indicators for business resiliency reveal that the survival period of micro-

108 See Andrian and Hirs coords. (2020). "How to Accelerate Economic Growth and Strengthen the Middle Class in Colombia". Monograph No. 762, IDB.

109 See Izquierdo A., C. Pessino and G. Vuletin (eds.). 2018. Better Spending for Better lives: How Latin America and the Caribbean can do More with Less. Development in the Americas Series. Washington D.C. IDB.

110 Confederation of Chambers of Commerce and Industry (*Confecámaras*, acronym in Spanish). 2018. New Findings of the Survival and Growth of Businesses in Colombia. *Cuadernos de análisis económico* Nº 17. Bogotá D.C.

111 In Colombia, the GDP per worker is 25% of the value in the United States and almost half of that of Chile. Calculations based on data from The Conference Board 2019.

112 Imported components in goods exported by Colombia is only 10%. See OECD Economic Surveys: Colombia 2019. OECD. In addition, Colombia ranks 53rd in the MIT´s economic complexity index.

113 Fernández, C. 2018. Business Informality in Colombia. Working Paper No. 76. Bogotá: Fedesarrollo.

114 Followed by factors such as tax rates and corruption. World Bank Enterprise Survey (WBES), World Bank 2017.

115 See Beverinotti and Deza (2020). "Productive Sectors in the Andean Region. A diagnosis before COVID-19". IDB. Unpublished.

businesses is smaller than that of larger businesses, even when these may have been solvent prior to the shock. These results reflect the importance of public policies that promote business formalization and growth based on public policies that bear in mind the differences in productivity and growth potential of firms. It will also be necessary to reduce the "cost of formality" as well as to improve infrastructure and logistic development, which would allow increasing the global competitiveness of Colombian businesses. Moreover, the crisis triggered by COVID-19 brings opportunities to boost transformative agendas and new business models in companies, emphasizing the importance that science, technology and innovation have for the economic growth of Colombia[116].

## SOCIAL SECTOR

Even though the country has historically had low levels of social mobility, during recent years important progress has been made in reducing poverty. In fact, Colombia went from having an incidence of monetary poverty of 49.7% in 2002 to 27% in 2018 (DANE, 2020). This poverty reduction was largely the result of the experienced high levels of economic growth and translated into major improvements in the quality of life of the population, also allowing better access to social services and human capital accumulation on the part of Colombians. Poverty alleviation was expressed through the increase of the country´s middle class. In fact, the middle class went from representing 40% of the Colombian population in 2000 to 68% of the population in 2018[117].
Yet, 38% of the population corresponds to the vulnerable middle-class segment, while 30% of the population belongs to the consolidated middle class[118]. As shown in recent studies[119], many middle-class households in Colombia had a high probability of returning to poverty; even prior to the shock caused by the COVID-19 pandemic[120]. Thus, in the current context, the widespread containment of the pandemic, which can entail high costs in terms of production, employment, income and social well-being, could increase the risk that the country experiences a setback in the social gains obtained during recent years. Similarly, while considering the group of economic impacts, internal as well as external, triggered by the COVID-19 pandemic[121], the simulations[122] performed predict that poverty in Colombia can increase by up to 7.5 percentage points as a consequence of the different shocks caused by the pandemic.

It is worth highlighting that during recent years Colombia has received an important migration flow from Venezuela[123], most of which are irregular migrants. Hence, of a total of 1.8 million migrants who have entered the country, approximately 1 million are in an illegal situation[124] (57%). The foregoing has important implications on the impact that the pandemic can have on the quality of life of these Venezuelan migrants, the search for medical care and the possibility that this population has to benefit from any of the social policies announced by the Government to mitigate the impact of the COVID-19 emergency. Thus, while the age profile of migrants that have arrived in the country is relatively young (mainly 18 to 45 years old) and therefore they do not belong to the age range of high-risk groups with infection complications, factors such as adequate housing[125], geographical concentration of migration, limited access to health services and the

116 See IDB 2020. "Responding to COVID-19 with Science, Innovation and Productive Development".
117 IDB Sociometer (2000-2018).
118 Idem.
119 See Andrian and Hirs coords. (2020). "How to Accelerate Economic Growth and Strengthen the Middle Class in Colombia". Monograph No. 762, IDB.
120 See Country Note.
121 A computable general equilibrium model is used with scenarios to capture the economic impacts (individual and in groups) of a fall in external tourism demand, a fall in oil prices, a reduction in exports and a reduction in effective labor supply simulated as a fall in labor productivity.
122 Banerjee, Cicowiez, Andrian, Manzano and Murguia (2020). "The Economic Impacts of COVID-19 in Andean Countries: An application of the Integrated Economic-Environmental Model (IEEM)". IDB. Unpublished.
123 See Abuelafia (2020). "Migration in the Andean Region: Impact of the Crisis and Medium-term Forecasts". Unpublished, IDB.
124 Ministry of Foreign Relations – Migration Colombia (2020). Venezuelans in Colombia. Cutoff date on 31 December 2019. https://www.migracioncolombia.gov.co/infografias/259-infografias-2020/total-de-venezolanos-en-colombia-corte-a-31-de-diciembre-de-2019
125 32% of migrants in Colombia do not have access to housing.

Imperative need of migrants to generate income, makes this population highly susceptible to becoming infected and having complications caused by COVID-19[126]. It is worth highlighting that 47% of Venezuelan migrants work in the services sector; in jobs mainly related to businesses, hotels and restaurants[127]; that is, those economic sectors that have been gravely affected by the pandemic. In addition, Venezuelan workers do not have social security contributions[128] and 45% are self-employed. These characteristics make the Venezuelan population highly vulnerable to the shocks in the labor market initiated by COVID-19[129].

Informality is not an exclusive problem to the country´s migrant population, since it is also one of the main factors of vulnerability in the middle class and the poor in Colombia. Hence, when measuring informality as a criterium of social security contributions in pensions, 61% of workers in Colombia are informal[130]. These elevated levels of informality show that current insurance policies are inadequate; since they are based in a "Bismarckian" model in which benefits are financed by mandatory contributions to paid employment[131]. This trait of the social security system results in a severe problem in terms of coverage in the country. As a reflection of this, most senior adults in the country do not have longevity risk coverage under their social security[132]. Furthermore, in the case of protection against unemployment, coverage is also very low. Hence, in Colombia, only 17% of workers belonging to the vulnerable middle class have a permanent contract[133], while in the case of the consolidated middle class 35% have a permanent contract. The above reflects in part how highly unprotected the country´s middle class is when experiencing a negative shock on their work and the important challenges they have in the current situation.

In this way, the policies set forth by authorities in terms of transfers and social security policies will be critical to avoid the setback of social gains achieved in the country[134]. The social insurance system must also be reconsidered. Since the current system fails in an economy where a large part of workers, including those from the middle class, are self-employed or employees of informal businesses with low levels of productivity. For this reason, the reforms that being advanced should include a design that allows the adequate insurance of the population from the risks of unemployment, longevity and illness[135]. Additionally, reforms are needed to allow reducing the high levels of informality in the economy.

## ANNEX

#### VIRUS SPREAD AND PUBLIC HEALTH SYSTEM READINESS

126 Venezuelan Migration Observatory
127 https://www.dane.gov.co/index.php/estadisticas-por-tema/mercado-laboral/geih-modulo-de-migracion
128 Venezuelan Migration Observatory
129 Recent estimates show that the diminishing economic activity in the country could reduce the number of Venezuelans that are employed as much as by 93%, depending on different scenarios on the sectoral economic impact and the dynamics of layoffs in Colombia. See Abuelafia (2020). "Migration in the Andean Region: Impact of the Crisis and Medium-term Forecasts". Unpublished, IDB.
130 IDB (2019). Labor Markets and Social Security Information Systems (SIMS, Spanish acronym).
131 This type of social security model is usually called Bismarckian in reference to the first social security system for old age was created in XIX century Germany by Otto von Bismarck. For further information about the restrictions that it has in economies with high levels of informality see Pagés, C., J. Rigolini and D. Robalino. 2013. Social Insurance, Informality and Labor Markets: How to Protect Workers While Creating Good Jobs. Discussion Paper Series of the Institute of Labor Economics (IZA) DP No. 7879. Available at: http://ftp.iza.org/dp7879.pdf.
132 In Colombia only 27.5% of adults above 65 have a contributory pension. IDB (2019). Labor Markets and Social Security Information Systems (SIMS, Spanish acronym).
133 While there are no explicit indicators for unemployment benefits in Colombia, a good proxy for this indicator is the percentage of workers with a permanent contract. Since these are principally those individuals eligible for termination and insurance indemnities.
134 It is worth noting that the National Government has strengthened its social programs in response to the current crisis and has even implemented a new program called "Solidarity Income" aimed at delivering cash transfers to approximately 3 million households across the country which did not belong to any monetary transfer programs before the pandemic.
135 See Andrian and Hirs coords. (2020). "How to Accelerate Economic Growth and Strengthen the Middle Class in Colombia". Monograph No. 762, IDB.

| |
|---|
| Growth rate of daily new infections:  11% during May |
| COVID infection rate per sick people |
| Epidemic stage:  mitigation. |
| Expected epidemic peak: end of June (unofficial statement of the Ministry of Health to the press) |
| Geographic extension of the virus: 22% of the country´s municipalities. |
| Current tests / 1M pop: 0,17 approximately |
| Test capacity: 12.083 daily tests |
| Lab capacity: 53 laboratories in the country |
| Tracking system / apps in place?  "Coronapp" |
| Share of population 65+: 9,1% (DANE) |
| ICU beds: 6263 (Ministry of Health) |
| ICU occupancy ratio to date: Less than 50% |
| Task force in place? |
| Opinion on government's response to COVID-19: most of the population supports the President´s administration. Independent Survey (Invamer) |
| Government approval rate: 52% for the President of the Republic. Independent Survey (INVAMER) |

**MACROECONOMIC STABILITY**

| |
|---|
| Expected growth 2020: -2,4% (WEO April 2020) |
| Expected growth 2020 (pre-COVID-19): 3,6% WEO Oct 2019 |
| Monthly cost of quarantine: 4,5% - 6,1% of the GDP (Fedesarrollo) |
| Expected fiscal deficit 2020 post-COVID: - 6,1% of the GDP |
| Expected fiscal deficit 2020 pre-COVID: -2,2% of the GDP |
| Change in exports / GDP 2019 vs 2020: -21,6%. LatinFocus Consensus Forecast April 2020. |
| Commodity exports / total exports: 62% (DANE) |
| Change in imports / GDP 2019 vs 2020: -13,1% LatinFocus Consensus Forecast April 2020. |
| Public Debt (GNC) / GDP: 47,2% (2019) Minhacienda |
| Share of foreign denominated public debt (GNC): 33% (Minhacienda) |
| Exchange rate depreciation March versus May: 11% |
| Inflation rate: 3,51% |
| Inflation expectation anchored? Yes |
| FX reserves (maybe as % of 3m impos or other proxy): 16% of the GDP in 2019 (Latinfocus) |
| FDI: 4,48% of the GDP in 2019 (Banrep) |
| EMBI (or difference between pre and post COVID): + 166 basis points on average. |
| Size and composition of assets and liabilities of CB: By the end of 2019 the assets of the *Banco de la República* were COP 212.416 billion. Composition of Assets: Gross International Reserves: 82%; contributions in international bodies and institutions: 4,4%; Investments: 7,2%; Other Assets: 6,3%. By the end of 2019 the balance for liabilities was COP 135.888 billion. Composition of liabilities: Monetary Base 82%; National Treasury Directorate: 9%; Liabilities with International Organizations 8%; others 1%. |

**REAL SECTOR**

| |
|---|
| Unemployment rate: 12,6% |
| Credit access to SMEs (% GDP): 12,4% (microloan portfolio) |
| Share of workers in tradable sectors: 27% of the employed work for the trade, hotel and restaurant sectors. |

**SOCIAL SECTOR**

| |
|---|
| Poverty rate: 27% |
| Income inequality: GINI 0,52 |
| Unemployment rate: 12,6% |
| Share of informal workers: 46,7% DANE |
| Share of self-employed: 42% (DANE) |
| Public vs private sector employment: 4% of the employed work for the Government. (DANE) |
| Share employment in manufacturing sector :12% |
| Share employment in tourism: 8% (DANE) |

## POLICY RESPONSE

### PUBLIC HEALTH

Preventive mandatory isolation from 25 March to 25 May, although the gradual reopening has been allowed of certain productive sectors and municiplities that do not have COVID-19 cases.

### FISCAL

- Creation of the National Emergency Mitigation Fund (FOME, Spanish acronym) aimed at guaranteeing the ressources necessary to attend the needs generated by COVID-19, making the requirements of the health sector a priority. This Fund was created with an initial budget worth around 1.5% of the GDP, and has received additional resources for approximately 1.3% of GDP from bond issue proceeds and other budgetary resources.

- The Fiscal Rule Advisory Committee encouraged the use of the countercyclical spending clause which is part of the fiscal rule and announced that, taking itno account the country´s economic growth forecasts, the fiscal deficit in 2020 could reach -6.1% of GDP.

- Capitalization of National Guarantee Fund and provision of credit guarantees (of up to 90%) to back businesses with loan credits.

- Wage subsidies to businesses (40% of minimum salary per worker) for formal businesses with a fall that is equal or greater to 20% of their income during the crisis.

- Deferral of payment of taxes

- Reduced social security contributions, for the duration of two months, made by employees and employers.

- Extraordinary transfers to vulnerable populations as a part of social programs (*Familias en Acción*, *Jóvenes en acción*, *Colombia mayor*).

- The launching of new social programs in the middle of the crisis: VAT rebates for the poorest families and "solidarity income".

**Monetary – Financial**

- The Central Bank has reduced the interest rate by 100 percentage points and has applied various measures to increase liquidity in the financial market as well as the exchange market. These measures include, among others: i) Reduced requirements in bank reserves; ii) enlargement of facilities for overnight liquidity and term liquidity, in terms of amounts, applicable values and eligible counterparties; iii) a 10 trillion COP program for the purchase of securities issued by credit institutions; iv) buy TES in secondary markets and, v) introduce new hedging instruments.

- The Financial Superintendence of Colombia ("Superfinanciera") has allowed that financial entities reprogram all loans with arrears of less than 30 days on 29 February. These new provisions can include grace periods or extended deadlines and do not affect the credit history of borrowers.

- Access to the FIMA Repo Facility of the United States Federal Reserve given to the *Banco de la República*. This allows the Central Bank of Colombia to temporarily exchange (through repo operations) its U.S. *Treasury Securities* owned by the Federal Reserve for dollars, that can later be used in Colombia to increase foreign currency liquidity in the country.

- Renewal of the IMF Flexible Credit Line (approximately USD 10.800 million) for two more years.

# ECUADOR

**JAVIER BEVERINOTTI**

## CONTEXT

The first COVID-19 case in Ecuador was announced on February 29th. A 70-year-old woman contracted the virus in Spain and arrived in Guayaquil on February 14th without presenting any symptoms. That week the first epidemiological fence was set up of 80 people who did not present any symptoms either.

Due to the rapid increase of infections, the government managed to expand its capacity to assist confirmed and suspected COVID-19 infection cases, by adding hospital beds within intensive care units and in other facilities such as hospitals and convention centers[136]. In turn, the Health Minister was able to expand sample processing capability starting on the week of April 13th, increasing its capacity by 1,400 tests per day, which were added to the 400 tests that were being processed up to that moment.

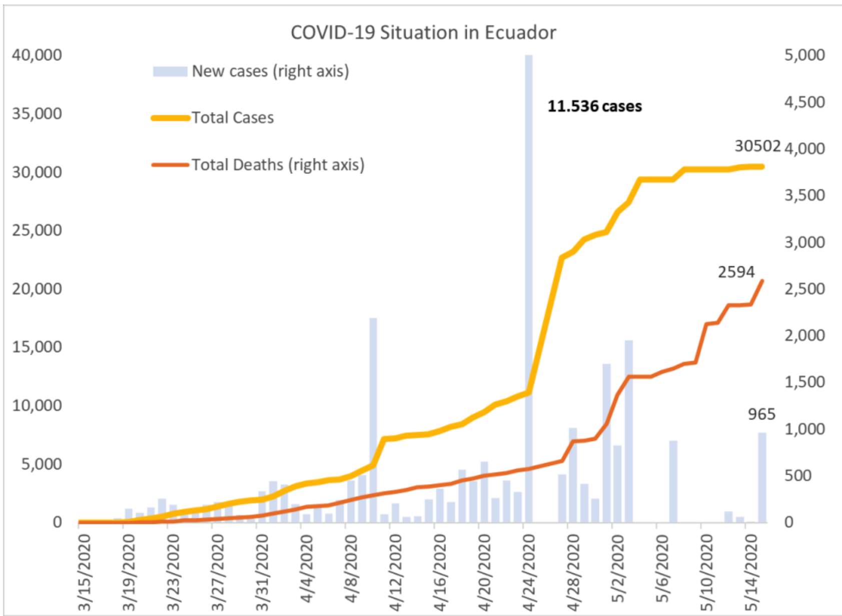
The pandemic has introduced drastic changes to the country´s economic perspectives for 2020. According to official data, the economic growth of 0,2% that was projected for 2020 has been modified to -6,3% by the IMF in its April report. For their part, investment banks such as Goldman Sachs indicated that there would be a contraction of 5.7%.

In response to the possible propagation of the virus, the Government decided to initiate a remote-work policy, workday changes, and the closure of educational institutions, among others, since the week of March 16th. At the same time, to attend the most in need, a US$60 benefit was created for 400,000 family households as of April, which was extended to an additional 550,000 family households as of May.

## PARTIAL REOPENING

Until May 15th, the country had a total of 31,467 positive cases and 2,594 deaths directly related to COVID-19 (Figure 1). At the same time, there are 1,613 additional deaths that are most likely related to the virus. The percentage of positive cases is among the highest in Latin America and the Caribbean (LAC), provided that 89,817 tests have been conducted and 35% of them were positive. In this sense, the country has one of the highest levels of positive tests relative to tests performed with established results in South America.

136 https://www.extra.ec/actualidad/emeregencia-sanitaria-quito-inversion-2-millones-coronavirus-actualidad-EK3419776




*Source: National Emergency Operations Committee*

According to estimates made by the Institute of Health Metrics and Evaluation (IHME), the country would have entered into a sustained reduction phase in the number of daily deaths and into a period where the quantity of beds in intensive care units would be sufficient to care for those in need. [137]. This institution estimates that restrictions will gradually be reduced until eventually they are completely lifted around the month of August.

The country entered a new phase on May 4th, moving from Isolation to Social Distancing. Economic activities will be allowed in this phase under biosafety guidelines. Furthermore, this will be up to the decision of local mayors and will not include all workers, which, upon their return to work, will have different work schedules. For the resumption of activities, the National Emergency Operations Committee (COE-N, Spanish acronym) indicated that it will introduce traffic signals in provinces and cities to ensure citizen security, health management, risks management, traffic and mobility, and municipal response. For example, the country's President announced on May 12th that 50 out of the total 221 municipalities will have yellow lights starting on the week of May 18th. In these municipalities, the curfew will start at 6:00 p.m. instead of 2:00 p.m., institutions will have their capacity limited to 50% and vehicles will be authorized to circulate according to the license plate number twice a week instead of only once. This is how the de-escalation of the mandatory quarantine in which the country found itself since the middle of March started.

# MID-TERM RECOVERY

## MACROECONOMIC CHALLENGES

Prior to the arrival of COVID-19, the country was in a fiscal consolidation process. In this sense, the non-financial public sector (NFPS) fiscal balance had dropped during the last three years from -8,2% in 2016 to -2,8% in 2019. A surplus was expected as of 2020 given the agreement signed with the IMF and the subsequent approval of the December 2019 tax reform. Furthermore, the debt level was expected to start falling in 2021 and would drop below the legal limit of 40% as of 2024.

137 https://covid19.healthdata.org/ecuador

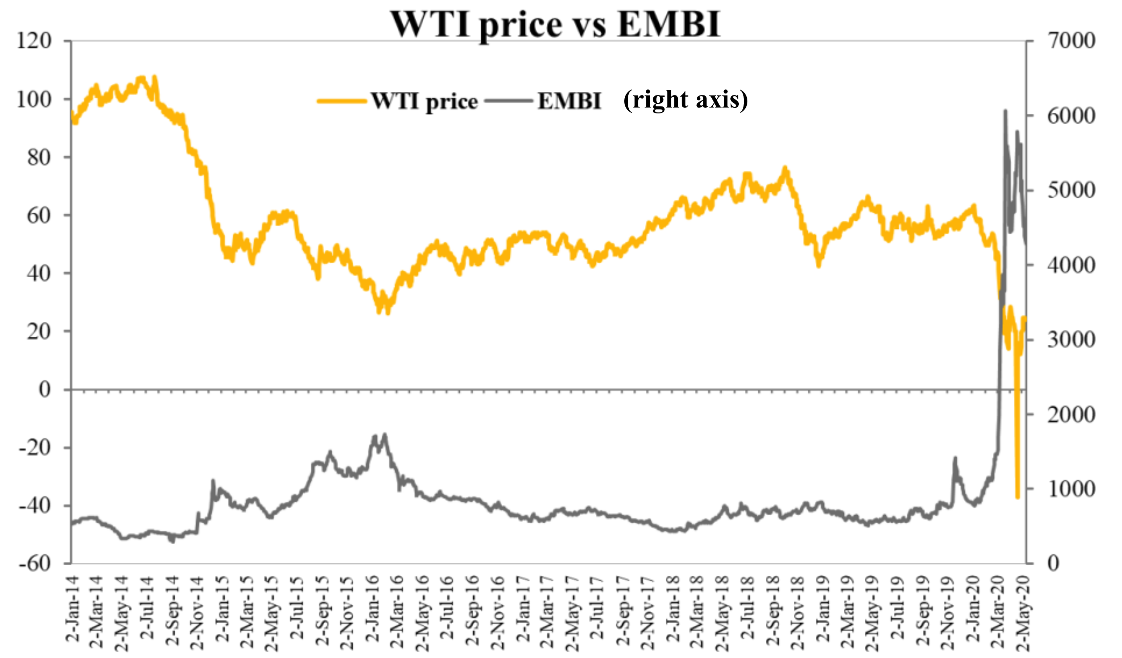
The spread of the pandemic has produced substantial changes in the country's fiscal perspectives for the next few years. For example, the Government had to redirect spending and generate new expenditures within a context of falling oil prices from US$61 in January to US$25 in May and negative prices in the last few weeks. In addition, economic inactivity and the potential increase of unemployment, could bring a reduction in tax revenue.

After the emergence of the pandemic, the country has new financing needs estimated at US$13 billion for 2020, a fiscal deficit of approximately 7% of the GDP, and a fall of US$ 4 billion in oil revenues.

What is more, the country has difficulties to access financing after the country's risk indicator (EMBI) jumped up to more than 3.500 to 4.300 basis points between the end of January and 12 May. This increase was mainly the result of the fall of oil prices and the spread of the virus throughout the world (Figure 2). In turn, after the Government's request on April 8th to defer the payment of external debt bonds until after August 15th the Fitch Ratings risk qualification passed from C to CC and S&P's to selective default (SD), and both agencies reduced the credit rating again during the week of April 20th to restricted default and D, respectively.

Figure 2: Price of Oil versus EMBI

WTI price EMBI (right axis)




*Source: JP Morgan and FED stats*

During this period, the Government was forced to implement budget cuts that could reach US$ 5 billion[138] (16.3% of the original amount). Of these cuts, a part will occur automatically because it is earmarked for universities and Decentralized Autonomous Governments (GAD, Spanish acronym) that depend on tax revenues and permanent and non-permanent incomes. In this sense, oil export revenues are expected to fall about US$ 2.9 billion and tax revenues by US$ 1,862 million approximately.

138 https://www.primicias.ec/noticias/economia/finanzas-recorte-presupuestario-2020-ascendera-5000-millones/

For the medium term, the country is negotiating a new agreement with the IMF with new quantitative targets; the Fund expects a public debt level above 60% of GDP in 2020 and a fiscal deficit above 4% for 2021. According to Government estimations, the country could improve its fiscal performance with subsidies reductions or other fiscal measures related to tax increases. A consolidation process and fiscal pact would be very important in order not to jeopardize the social transformation achieved during the last decade.

## PRODUCTIVE SECTOR

Before the pandemic, the business climate, the labor market and institutionalism were already creating difficulties for the sustainable growth of the private sector (Díaz-Cassou and Ruiz-Arranz, 2019). In the last years, there have been constant regulatory modifications that have led companies, in some cases, to perceive the difficulty of increasing their investment in the country and increasing their potential capacity. On their part, companies point to the considerable time it takes to start a business and to pay taxes in comparison to companies in other countries of the Region[139]. Additionally, companies mention elevated labor costs, both in terms of salary levels and other obligations as an obstacle to developing business in the country (social security, severance payments, etc.).

The confinement policy is triggering a supply impact in the productive system. According to the Ecuadorian authorities, 70% of the productive apparatus is paralyzed due to the health crisis and, in the first month of the confinement, an estimated loss of US$7 billion was observed. The Chamber of Industries and Production (CIP, Spanish acronym) also estimated that the economy could lose up to 30% of sales and reach an increase of 750,000 unemployed people. Such has been the urgency of entrepreneurs that some companies have used the Act of God clause contemplated in the Labor Code to justify firing employees and thus weather the present crisis at the price of potential labor suits. In addition, the Deloitte consulting company conducted a labor dynamics survey of 129 companies, out of which 37% declared they will reduce their payroll after the quarantine is over, most of them between 2 and 15% of their personnel[140].

Ecuadorian companies have a limited adaptation capacity to the present situation. For example, based on their financial balances, it has been estimated that companies could resist up to 33 days[141]. The most affected productive sectors include manufacturing, electricity and water, and services (Carrillo-Maldonado, Camino-Mogro, Beverinotti and Deza, 2020). In that regard, the production shutdown would create a liquidity decrease of most companies. To this one should add the difficulties of dealing with problems in the production chains, since there are national and international companies that are paralyzed.

The growth process of the last years allowed for an increase of capital stock and employment, although it did not result in higher levels of productivity. Thus, it is very important that private and public investment in infrastructure be based on more innovation and adoption of new technologies. This will also mean better skills and competences training of human capital in the country. This process should be accompanied with public policies promoting competitiveness, commercial openness, and flexibility of certain markets, within a framework of respect for established property rights.

## SOCIAL SECTOR

139 Enterprise Survey, World Bank.
140 https://www.expreso.ec/actualidad/economia/37-empresas-pais-ajustara-plantilla-trabajadores-deloitte-9888.html
141 This calculation is made with data provided by the Superintendence of Companies, Values and Insurance until 2018 and does not take into account the mitigation measures carried out by the Government and the financial system regarding the pandemic.

Inequality and poverty increased after the oil shock at the end of 2014. The income Gini coefficient increased from 0.467 in December 2014 to 0.473 in December 2019. For its part, the incidence of poverty and extreme poverty showed an increase in their rates, with 22.5% poverty in 2014 to 25% in 2019 and 7.7% to 8.9% extreme poverty for the same period.

The confinement measures taken by the Government on the week of March 16th produced the paralysis of an important part of the country´s productive activities. Entrepreneurs in various sectors have looked for ways to maintain employment, although the Ministry of Labor and the Ecuadorian Social Security Institute have reported that, after nine weeks of confinement, about 66,000 and 111,000 people were severed. This situation will provoke an increase in the unemployment rate or the abandonment of confinement while searching for earnings in the informal economy, which was close to 50% by the end of 2019[142].

Prior to the arrival of the pandemic, the reduction of poverty observed during the last decade had come together with an increase of the middle class. According to the IDB's Labor Markets and Social Security Information System (SIMS, Spanish acronym), the middle class (per capita income between USD 12.4-62 per day, 2011 PPP) went from representing 23,8% of the population in 2007 to 31.5% in 2014, while the percentage of the vulnerable population (per capita income between USD 5-12.4 per day, 2011 PPP) represented 35.8% in 2007 and 43% in 2014. Despite the oil shock, this structure remained stable without any important modifications, with the middle class occupying 30.4% in 2018 and the vulnerable population remaining at 43%. Even without major changes in the middle and vulnerable classes in the last years, this phenomenon occurred at the expense of the decrease in adequate employment, a reduced percentage of workers with social security, and an increase in informality, all of which would be affected by the arrival of the pandemic.

One of the responses of the Government to COVID-19 was granting a US$60 bonus to informal workers during the months of April, May and June, given the difficulties that this part of the population experienced to work during the mandatory quarantine. The bonus was initially granted to 400,000 beneficiaries in April and extended to another 500,000 beneficiaries in May and June. This assistance was added to the Human Development Grant (BHD, Spanish acronym) received by 925,000 people.

The present crisis endangers the social transformation that the country achieved. Furthermore, the growth of the middle class and the reduction of poverty levels pose new development challenges and public policy definitions in the country. This new middle class that has come out of poverty will face difficulties in the consolidation of its social stratum. Accordingly, social policy could be reoriented towards insurance mechanisms with larger coverage levels and unemployment insurance, among others, although they could be affected by the country´s current fiscal situation.

142 According to the National Institute of Statistics and Censuses, the informal sector, which is constituted by companies and natural persons without fiscal registration, represented 47% of all companies and natural persons in 2019.

# ANNEX

### VIRUS PROPAGATION AND PUBLIC HEALTH SYSTEM PREPAREDNESS

| Variable | Data (Year) | Source |
|---|---|---|
| Daily Growth Rate of New Infections | 7.9 (4-May) | Official Data |
| Epidemic Phase | Passing Phase 1 | |
| Predicted Epidemic Peak | They are expected to come out of it soon | IHME |
| Geographic Spread of the Virus | The entire country, with a prevalence in larger cities such as Guayaquil and Quito | |
| Current Tests / 1 M pop | 5040 | https://www.worldometers.info/coronavirus/#countries |
| Testing Capacity | Approx. 2000 daily tests | |
| Laboratory Capacity | 29 | |
| ICU Beds | 330 | https://COVID19.healthdata.org/ecuador |
| ICU Occupancy Rate to Date | 67 | https://COVID19.healthdata.org/ecuador |
| Working Group in Place? | COE-N | |
| Current Tests / 1M pop | 5040 | https://www.worldometers.info/coronavirus/#countries |
| Testing Capacity | Approx. 2000 daily tests | |

### MACROECONOMIC STABILITY

| Variable | Data (Year) | Source |
|---|---|---|
| Projected Growth for 2020 | -6.3 | IMF |
| Projected Growth for 2020 (prior to COVID-19) | 0.2 | IMF |
| Projected Fiscal Deficit for 2020 after the pandemic | -7.0 | IMF |
| Projected Fiscal Deficit for 2020 prior to the pandemic | 0.7 | IMF |
| Export Variations / 2019 vs 2018 GDP | 0.5 | CBE |
| Commodity Exports / Total Exports | 39 (2019) | CBE |
| Import Variations / 2019 vs 2018 GDP | -0.7 (2019) | CBE |
| Debt / GDP | 52.5 (2019) | MEF |
| Percentage of Foreign Currency Denominated Debt | 72.4 (2019) | MEF |
| Depreciation of Exchange Rate 2019 vs 2018 | -1.2 | CBE |
| Inflation Rate | 0.6 (2019) | INEC |
| Inflation Outlook? | 0.9 (2020) | IMF |
| Reserves (ARA METRIC) | 23 (2019) | IMF |
| FDI/GDP | 0.9 (2020) | IMF |
| EMBI (or pre and post COVID difference) | 4215 points (January versus April) | Bloomberg |

### MACROECONOMIC STABILITY

| Variable | Data (Year) | Source |
|---|---|---|
| Unemployment Rate | 4.3 (2019) | INEC |
| Drop in Construction Activity between 2018 and 2019 | -5.2 | CBE |
| Change in Services Activity between 2018 and 2019 | 0.2 | CBE |
| Change in Agricultural Activity between 2018 and 2019 | 1.8 | CBE |

### SOCIAL SECTOR

| Variable | Data (Year) | Fuente |
|---|---|---|
| Poverty Rate | 25% (2019) | INEC |
| Income Inequality (Gini) | 0.473 (2019) | INEC |
| Unemployment Rate | 4.3% (2019) | INEC |
| Share of Informal Sector Workers (Informal Sector) | 46.6% (2019) | INEC |
| Percentage of self-employed workers | 44% (2019) | INEC |
| Public versus Private Sector Employment | 7.7% vs 92.3% (2019) | INEC |
| Share of Employment in Manufacturing Sector | 10.3% (2019) | INEC |
| 2019 Labor Productivity Growth | -0.7 | CBE-INEC |
| Variable in the social security coverage heat map | 29.4 (2019) | INEC |

# PERU

**JAVIER DIAZ-CASSOU**

## CONTEXT

**There is reason to believe that the social distancing measures adopted by the government are managing to flatten the curve of infections.** While the number of confirmed cases continues to grow rapidly (73,036 as of 15 May) in part due to the high number of tests that are being performed (approximately 16.8 per thousand inhabitants), the University of Washington Institute for Health Metrics and Evaluation (IHME) estimates that daily cases have started to drop. According to those estimates, the trend towards a remission of the virus will gain force in the next weeks, although the total number of deaths could reach 6,400 in August (2,169 as of 14 May). For its part, the Government estimates that the R reproduction number has fallen to levels close to 1, which also suggests that the pandemic is being successfully controlled. Of the 1,002 Intensive Care Units (ICU) that Peru has, 806 are occupied by COVID-19 patients.

**The COVID-19 crisis is having a strong economic impact.** While official data on post-COVID growth have not been published yet, several high-frequency indicators suggest that activity has collapsed during the lockdown, with falls in electricity demand of 29.1% a/a, especially in certain sectors such as construction (-79.2% a/a), industries (-40.2% a/a) and mining (-37.7% a/a). The COVID-19 crisis has also caused a significant deterioration in the trade balance, which in March reported a deficit of US$ 252 million after 16 months of consecutive surpluses. In this context, the business confidence indices that the Central Bank develops from surveys have experienced unprecedented falls, and a strong contraction of the GDP is foreseen for this year, which some analysts place above the two digits.

**The government has implemented a package of measures that could reach 17% of GDP.** Peru is one of the countries that reacted most rapidly to the crisis, enforcing nationwide mandatory isolation as of 16 March. In complementarity, a package of measures to mitigate the impacts of confinement was implemented with the following pillars: (i) the mobilization of fiscal resources to cope with the sanitary emergency; (ii) the distribution of financial support for Peruvian families to mitigate the impact of containment on their ability to generate income, which have been progressively extended to the entire population with the exception of those households that have kept their formal employment; (iii) support to companies through payroll subsidies and guaranteed credits aimed at preventing that the lack of liquidity they are currently experiencing culminate in a wave of bankruptcies and the collapse of the payment system; (iv) an expansive monetary policy with a reduction of 200 basis points in the reference rate up to 0.25%, at a historical low.

## EASE OF RESTRICTIONS ON MOVEMENT

**The Government has initiated a reopening plan of the economy organized in four stages which will approximately last one month per stage.** Even though the lockdown has been extended until Sunday, May 24th, the authorities are starting to implement a plan to achieve an increase of the GDP, which is operating with certain normalcy, from an estimated 45% at present up to approximately 95% in August. The plan includes the definition of a process of approval of sectoral protocols with biosafety standards designed to minimize the risk that new outbreaks of the virus occur as the economy opens. Furthermore, the plan establishes that the transition from one stage to another will not be automatic but will be dependent on the control of the pandemic. For this purpose, a situation report will be prepared at the end of each stage, which will be reviewed by competent authorities to authorize a transition into the next stage.

The first stage will attempt to normalize economic activity in a group of sectors that represent approximately 25% of GDP. Among the most relevant sectors in terms of their share in GDP and employment, those that stand out are large open pit mining, a first set of public infrastructure projects and restaurants authorized to provide home delivery services. Among other sectors that will resume during this first stage and also worth mentioning are industrial fishing, specific industries (glass, forestry, metal-mechanic, basic chemical, paper and cardboard, among others), select prioritized real estate projects, services related to agriculture and telecommunications, electronic commerce of household goods and related items. In the second stage large underground mining would start operating, several additional transportation and sanitation projects, shopping malls with limited capacity, among other sectors. During a third stage, reopening will extend to medium scale mining and exploration, to all other wholesale and retail businesses, and the international airspace would also open. Finally, during the fourth stage, all the remaining services would be reactivated, including domestic and international tourism, as well as entertainment.

Reactivating the economy without gaining control of the pandemic poses substantial risks. As mentioned, the number of confirmed infections has continued to increase, and although the size of the package of measures to mitigate the crisis is among the largest in the Region, the amount of resources allocated to reinforce hospital capacity that the State has been able to execute is relatively low: around US$250 million. This level of health expenditure is due, principally, to the institutional weaknesses in the sector and, more generally, to the Peruvian State´s insufficient capacity of public services provision. In this context, the number of ICU´s available for COVID-19 patients is still reduced and in the event that reopening of the economy cause an outbreak of new infections, the mortality caused by the pandemic could increase significantly.

However, there is reason to believe that the lockdown strategy is wearing out. On the one hand, epidemiological data suggest that the curve has been flattened, which means the confinement strategy would have reached the main objectives it pursued and it could be the right moment for the economy´s reactivation to gain importance in the definition of public policies. On the other hand, there is evidence to suggest that a growing portion of the population is no longer following the confinement rules, which reduces the effectiveness of the measure. In fact, as shown in data published in the IDB Coronavirus Impact Dashboard, while the quarantine has not been lifted yet, a significant increase in traffic intensity and human mobility can be observed in practically every city in the country, added to a trend in growing incidents of social disobedience and unrest. A demonstration of this increasing difficulty to enforce social distancing rules are the precarious return of an important number of internal migrants to their Provinces of origin.

The implementation of the strategy to reopen the economy should not be an impediment for the Government to redouble their efforts to strengthen its testing and hospitalization capacity. Less than 20% of ICU´s are currently available for new COVID-19 patients, whereby the capacity of the health system to cope with another outbreak is very limited. In this context, the Government has announced that it is working to add 4,886 hospital beds and 232 ICU´s in the next coming weeks. This would bring the number of ICU´s above the required levels that the Institute for Health Metrics and Evaluation (IHME) considers necessary given its infection forecast, although with a limited scope for reaction.[143] It is therefore important to strengthen the authorities´ efforts to increase the country´s hospital capacity, whereby it is necessary to overcome bottlenecks which have hampered the execution of public spending in health.

143 The IHME´s forecast of ICU bed´s needed are less than those currently needed as of mid-May, and during the entire projection period. However, at the upper limit of the confidence interval of these estimations, the number of ICUs needed could exceed 3,000, against the 1,250 that the Government is trying to converge towards.

# MID-TERM RECOVERY

## MACROECONOMIC CHALLENGES

**Peru entered the COVID-19 shock during a slowdown in the economy.** After growing 4% in 2018, it closed 2019 with a growth of barely 2.2%. The slowdown in activity was due to primary-sector transitory supply shocks, as well as a slower pace in the execution of public investment, due in part to the coming into power of new subnational authorities (in Peru, subnational governments are responsible for approximately two thirds of public investment). In addition, the worsening international scene had a negative impact on the volumes and prices of the country´s main export products.

However, owing to is solid macroeconomic policies framework, Peru has had a margin of maneuver which is superior to that of other countries of the Region to respond to the shock. These initial strengths manifest themselves in: (i) reduced public debt levels (gross debt: 26.8% of GDP; net debt: 12.9%); (ii) high amounts of State financial assets 13.9% of GDP, including FEF (2.4% of GDP) and the Contingency Reserves (0.5% of GDP): (iii) high international reserve levels (29.7% of GDP); (iv) and a Central Bank with high credibility and firmly anchored inflation expectations. In this context, Peru has been able to confirm a highly ambitious package of mitigation measures, whose relative size (around 17 product points) even rivals with those that have been implemented by some advanced economies.

Although the public deficit will rise to the highest level seen in decades, Peru maintains ample access to capital markets. Falling incomes resulting from the economic contraction combined with the spending needs generated by the sanitary crisis will lead to a total deficit that could exceed 5 % of the GDP in 2020. Despite the deteriorated fiscal situation that is taking place, Peru´s country risk has increased much less than that of other countries in the Region, and is currently around 230 bp, even below that of Chile. In this context, on April 16th Peru became one of the first emerging markets to issue a sovereign bond since the beginning of the crisis for an amount of US$3 billion. This issuance was a success not only for its reduced coupon rate (2.392% in its five-year tranche and 2.783% in its ten-year tranche), but because it also created a demand for over US$ 25 billion.

In a mid-term horizon, Peru will need to increase its tax revenues and it may have to review its fiscal rules. In recent years, tax revenues were close to 15% of GDP, an amount that unfavorably compares to most of the other countries in the Region. That level of tax revenues is insufficient to correct the under-provision of goods and public services that the current crisis has highlighted and to drive investments in infrastructure as a new vector for economic growth. Similarly, authorities must address the issue of how to return to the path of compliance of its demanding fiscal responsibility framework, and in itself, given the severity of this crisis, it would be advisable to ease the rules in force. In this process, the country should avoid eroding the high fiscal credibility it has achieved, which is allowing the Government to access international finance markets in generous conditions.

## PRODUCTIVE SECTOR

**Peruvian companies have a limited cushion to continue coping with the decrease in their earnings that the lockdown measures have caused.** On the basis of data taken from the Annual Economic Survey (EEA, Spanish acronym) it is inferred that the median number of days that companies would require to cover their normal expenses even when they do not generate income and using their financial reserves is 38, while the quarantine period imposed by authorities exceeds this number. This resiliency indicator is very heterogeneous and tends to be substantially lower (around 20 days) for small and medium sized companies, which are most vulnerable to the shock.

**While Peru has implemented an ambitious plan to support businesses to avoid that a wave of bankruptcies take place, smaller companies could be receiving insufficient levels of support.** As far as the Reactiva Perú Program, on May 13th, auctions had taken place where 54,606 million Soles (US$ 15,803 million) were placed, amount that could climb to 60 billion Soles (US$ 17,360 billion). From this amount only 0.53% will be allocated to loans under 10 thousand Soles, and a 1.49% extra to loans between 10 and 30 thousand Soles (both with a 98% state guarantee). This indicates that most funds mobilized by Reactiva Perú will go to larger companies. To make up for that shortcoming, the FAE-MYPE program has been designed for smaller companies. However, the aggregate amount of that initiative (S/800 million or US$ 231 million) only reaches 3.4% of placements achieved by Reactiva Perú. In other words, even though the liquidity cushion of small businesses is more limited than those of larger businesses, the loan guarantee programs disposed by the authorities are being allocated to the latter.

**The high incidence of informality limits the reach of Government assistance programs.** Peru´s National Institute of Statistics and Informatics (INEI, Spanish acronym) estimates that there are over 7 million productive units in Peru that are informal, which employ close to three fourths of the economically active population. Inevitably, these businesses are having limited access to the guarantee programs described above even though their bankruptcy could have a marked social impact given their role as income producers for poor and vulnerable middle-class populations. In the recent past, the Government´s strategy to combat informality has centered on reducing the costs of formality (for example, the MYPE Law), which has had moderate impacts. The current situation is a window of opportunity for reviewing this strategy, addressing the benefits perceived from formality at a time when the State has become central to the survival of numerous companies. Based on this premise, the Government should explore options to promote the registration of more informal productive units.

**The COVID-19 crisis will force companies to undertake an adjustment effort that the public sector must support.** For example, institutions must reinforce their business digitalization support programs, which have gained importance as a success factor in the current context of social distancing. Furthermore, the efficient use of the innovation system can help companies to benefit from the comparative advantages that the new post-COVID reality is creating and so that those companies that are more exposed to the shock develop new products and services which allow them to compete.

## SOCIAL SECTOR

**The current economic crisis is so large that it jeopardizes the social advances that have been achieved in Peru in recent years.** Between 2000 and 2017, the percentage of the population living in poverty (households with daily incomes lower than US$5 in PPA) fell from 50% to 24%, at par with the growth of the middle class, becoming the largest demographic group. This reduction of poverty was driven, principally, by an increase in labor wages, which are currently being affected by the consequences of the pandemic. The recession that Peru is experiencing will lead to spiking poverty which is still difficult to measure.

**The Government has granted temporary quasi-universal assistance to Peruvian families to mitigate the effects that confinement measure shave on their income.** Initially, a transfer was arranged in the amount of 380 Soles for 2.7 million families in poverty and extreme poverty, which was later extended to 800 thousand independent workers with wages under 1200 Soles and to 1.1 million rural families. Finally, the creation of a Universal Bonus for 760 Soles for 6.8 million families, which excluded only those households that have one member with a compensation of S/3000 (US$868). While the Peruvian state has faced significant difficulties (occasionally, logistic in nature) for the assistance to reach the intended recipients, there is no doubt that an enormous effort is being made to lessen the social impact of the crisis.

**Looking forward, the Government will have to target assistance and reinforce its social protection programs.** The bonuses that have been distributed in the past weeks are temporary although the impacts of the crisis on the income of families will distend over time. In this context, authorities should find a way so that assistance flows towards those individuals that need it the most, for which it needs to build on social programs that have been operating in recent years (for example, the conditional cash transfer program called "JUNTOS", the "Qali Warma" school feeding program, or the "Cuna Más" program, which offers day-care services to poor families where there are children under the age of three (3).

**Peru also must strengthen its social security programs in response to income shocks, which has been brought to light with the current crisis.** In fact, Peru does not have an unemployment insurance, the social security system has a serious coverage problem and there is still an important percentage of the population that does not have any health care insurance coverage. As the experience of advanced economies shows, having a social security system would have facilitated the management of the crisis. For this reason, it is not surprising that the crisis is giving way to the development of proposals for change, among which stands out the reform to the pensions system that the Government is promoting.

# ANNEX

## KEY COVID-19 CRISIS INDICATORS

### SPREAD OF THE VIRUS AND CAPACITY OF THE PUBLIC HEALTH-CARE SYSTEM

| Indicator | Value |
|---|---|
| Growth rate of daily new infections | 17.7% |
| COVID infection rate per sick people | 1.31 |
| Expected epidemic peak | 1,553,375 infections and 6,426 deaths |
| Tests per thousand people | 16.8 |
| Testing capacity | 587,292 tests performed by 14/05. Average of 19,896 daily tests performed in the past week. |
| Are there tracking systems or apps? | Yes. The Government made an application and website portal available to monitor the geographic progress of COVID-19. Currently it is implementing the individual tracking of suspicious cases via GPS on telephones. |
| Share of population 65+ | 7.33% of total population.<br>13.6% of infected are older than 60. |
| Total ICU beds | 1 031 |
| ICU occupancy ratio | 81.7% by 14/05 |
| Opinion on government's response to COVID-19 | In April: 79% approval and 20% disapproval. |
| Government approval rate | In Abril: 83% approval and 16% disapproval. |

### MACROECONOMIC STABILITY

| Indicator | Value |
|---|---|
| Expected Rate of Growth | IMF: -4.5%. Market: -6.8% |
| Expected Rate of Growth (pre-COVID-19) | MEF: 4.0%. BCRP: 3.8% |
| Cost of Quarantine | By 13/05: US$ 32,130 million (14.4% of GDP) |
| Expected fiscal deficit 2020 (post-COVID-19) | Between 5% and 6% of GDP. |
| Expected fiscal deficit 2020 (pre-COVID-19) | 2% of GDP |
| Change in Exports (March 2020 vs March 2019, as a percentage of 2019 GDP) | -0.6 |
| Commodity Exports<br>(% of total exports) | 2019: 70.8 |
| Change in Imports (March 2020 vs March 2019 as a percentage of 2019 GDP) | -0.3 |
| Public Debt (% of GDP) | 26.8 |
| External Public Debt (% of public debt) | 31.7 |
| Exchange Variation (31/12/2019 vs 13/05/2020) | 3.7% |
| Inflation Rate | April 2020: 1.72% a/a |
| Are inflation expectations anchored? | Yes. The current target rate is of 2% ±1 p.p. |
| Net International Reserves (% of GDP) | On 07/05: 32% |
| Foreign Direct Investment (% del PIB) | 3.2 |
| EMBIG (pre-COVID-19 vs post-COVID-19) | +175 bp |

**REAL SECTOR**

| Indicator | Value |
|---|---|
| Unemployment Rate | 2019: 3.9% |
| Credit access to micro, small and medium enterprises (% GDP) | 2019: 11.5 |
| Share of workers in tradable sectors (% of total workers) | 41.4 |

**SOCIAL SECTOR**

| Indicator | Value |
|---|---|
| Poverty Rate (%) | 2018: 20.5 |
| Income Inequality (Gini Index) | 2019: 0.441 |
| Unemployment Rate | 2019: 3.9% |
| Labor Informality (% of total workers) | 2018: 73 |
| Self-employment (% of total workers) | April 2020 for Metropolitan Lima: 30.3 |
| Employment in manufacturing sector (% of total workers) | 8.9 |
| Employment in services sector (% of total workers) | 40.5 |
| Productivity Growth | 2018: 0.1% |

## ADOPTED MEASURES

### MEASURES TO PREVENT THE SPREAD OF THE VIRUS

- **(11-03)** Mandatory isolation for 14 days for passengers coming from risk areas.
- **(11-03)** Cancellation of school classes and higher education until 30 March.
- **(12-03)** Public events with over 300 participants are banned.
- Incoming flights from Europe and Asia are suspended as well as outgoing flights from Peru to those destinations, for a 30-day period as of 16/03.
- **(16-03)** State of emergency for 15 days as of 16-03, with mandatory isolation, closing of borders, cancellation of the domestic transportation of individuals to the interior of the country (only the transportation of cargo and goods is allowed) and restricted mobility of persons to specific sectors.
- **(18-03)** Implementation of a curfew from 8:00 P.M. to 5:00 A.M. of the following day.
- **(26-03)** Quarantine extended and additional 13 days (until Sunday April 12th). To enforce quarantine measures, the Army reserves are called upon (approximately 10,000 reservists) and a registry of offenders was created which will be reported once the crisis is over.
- **(26-03)** Intensification of control of fulfillment of mandatory isolation in those regions with the highest levels of non-compliance and with the biggest increase in detected COVID-19 cases.

- School classes will be resume on April 6th remotely.
- **(30-03)** Extension of curfew between 6:00 P.M. and 5:00 A.M. the next day nationwide, and between 4:00 P.M and 5:00 A.M the next day in regions with a greater increase in infections.
- **(30-03)** Implementation of work permits that allow the mobility of essential workers.
- (02-04) Restriction of public movement by gender: men can circulate on Mondays, Wednesdays and Fridays; women can circulate on Tuesdays, Thursdays and Saturdays; no one can leave their home on Sundays. Furthermore, wearing masks becomes mandatory for circulating in public spaces.
- **(04-04)** Reinforce control and security at the border with Ecuador to prevent illegal immigration.
- **(06-04)** On Thursday April 9th and Friday April 10th, nobody will be allowed to circulate all day at the national level.
- **(08-04)** Extension of mandatory isolation period for 14 additional days (until Sunday April 26th).
- **(13-04)** Establishment of fines for those individuals who violate the social isolation and distancing measures.
- **(13-04)** Softening the early release from prison of child support debtors to reduce the prison superpopulation and avoid the spread of COVID-19 in penitentiaries.
- **(23-04)** Extension of mandatory isolation period for an additional 14 days (until Sunday May 10th).
- **(23-04)** Indefinite cancellation of entrance exams at public universities.
- **(09-05)** Extension of State of Emergency for 14 days until Sunday May 24th:
    - **The curfew is modified:** from 8:00 p.m. to 4:00 a.m. on the following day nationwide; except for Tumbes, Lambayeque, Piura, La Libertad and Loreto, where it will be 4:00 p.m. to 4:00 a.m. on the following day. The use of private vehicles will be regulated that will only be used in emergencies, and urban transportation which shall not exceed 50% seating capacity.
    - **Customer service is regulated at financial entities, markets, supermarkets and commercial establishments.** Capacity is limited to 50% and previous disinfection will be required upon entrance and the use of masks and gloves, as well as a minimum social distance of 2 meters.
    - **The circulation of youth under the age of 14 outside their home is authorized, and they will have to be accompanied by an adult.** The maximum length of time is 30 minutes and within a radius of less than 500 meters from their home with a minimum social distance of 2 meters. Only youth under 14 can leave their home, as long as they are not in quarantine or display high-risk symptoms.
    - **Persons at risk** (over the age of 65 with underlying medical illnesses) can leave their home if: (i) they require urgent medical attention, (ii) they do not have someone to help them with purchasing food, (iii) they receive any sort of

voucher from the State, (iv) they need to collect their pension, or (v) to conduct any procedure that is strictly in-person.

- **If an at-risk person should have to work, remote work should be prioritized.** Should they choose to go to work at an authorized activity, they will have to sign an "affidavit of voluntary assumption of responsibility". The person cannot be forced to sign this document nor can it be placed as a condition for the continuity of the employment relationship.

- **(09-05)** Creation of the Single Labor Certificate for Adult Persons – CERTIADULTO in order to facilitate the mobility of people so that they may reenter the labor market.
- **(09-05)** Measures to safeguard the good social-labor conditions during the COVID-19 crisis.

## MACRO FISCAL MEASURES

- The Government has announced the mobilization of resources in the amount of 12% of GDP to face the crisis and mitigate its impact.
- Several tax reliefs measures for legal persons and micro-, small-, and medium-sized enterprises (MSMEs).
- Elimination of tariffs on medicines and medical products.
- **(26-03)** Authorization for workers to use up to S/ 2 400 of the balance of their Compensation for Time of Service (CTS), which is a personal fund that serves as compensation for the loss of employment and that workers contribute on a monthly basis.
- **(27-03)** Subsidy to companies in which the State finances 35% of worker salaries that receive a compensation of up to S/ 1 500.
- **(11-04)** Cancellation of fiscal rules for the non-financial public sector for 2020 and 2021.
- **(13-04)** Benefits for workers with perfect suspension of work: (i) EsSalud coverage; (ii) availability of their CTS funds of at least 1 monthly remuneration for every month of work stoppage; (iii) if they have CTS funds they may request an advancement of their CTS for May and/or July bonus; (iv) subsidy of S/ 760, if their monthly compensation is under S/ 2 400; (v) withdrawal of up to S/ 2 000 from the Pension Funds Administration (AFP, Spanish acronym); and (vi) subsidy from contributions to the government-sponsored pension fund (ONP).
- **(13-04)** Employers may defer the CTS deposit for May until November 2020, unless the employee's salary is less than or equal to S/ 2 400 or that he/she be under perfect labor suspension.
- **(16-04)** Issuance of 2 Global Bonds for a total of US$3 billion: BG 2026 (2.39%) and BG 2031 (2.78%). These resources will be allocated to finance the COVID-19 contention plan and reactivation of the economy.
- Several measures to initiate the resumption of economic activities in different sectors.

- **(30-04)** The following is authorized: (i) issuance of sovereign bonds for up to US$ 4 billion, (ii) use of the Fiscal Stabilization Fund for up to US$ 5,472 million and (iii) use of contingent credit lines.

- **(02-05)** Use of S/ 2 500 million to drive craftwork activities.

- **(02-05)** The Economic Activities Resumption Plan is issued, which will consist of 4 phases whereby activities will reinitiate operations. The criteria for the resumption will consist of the effective compliance with sanitary protocols determined by each sector.

- Several measures to facilitate public investment and the continuity of paralyzed public works, and to propel private investment.

- Measures to reactivate the operations of the foreign trade logistics chain.

- **(10-05)** Creation of a program called "*Turismo Emprende*" that promotes the recovery and promotion of tourism activities and craftworks.

- **(11-05)** Creation of Accelerated Bankruptcy Refinancing Procedure for companies to allow qualified companies to reschedule unpaid obligations, loss of business and sources of employment to ensure the recovery of credits and continuity in the payment chain.

## MONETARY, FOREIGN EXCHANGE AN FINANCIAL POLICY MEASURES

- Measures taken by the Central Reserve Bank of Peru (BCRP): (i) reduced reference interest rate from 2.25% to 1.25% (19-03) and later from 1.25% to 0.25% (09-04); (ii) reduced the legal reserve in local currency from 5% to 4 % and in foreign currency with foreign financial institutions from 50% to 9%, reduced the current account in local currency minimum requirement and cancelled the additional reserve requirement in foreign currency for the rest of 2020 (26-03); (iii) has made liquidity injections through repo operations (one-day, 6-month, 1-year and 2-year repos), new loan portfolio with state guarantee.

- BCRP exchange interventions to moderate the depreciation of the Peruvian Sol.

- The restructuring of contract loans is facilitated so as to not affect the credit history of borrowers.

- Creation of the Business Support Fund for micro and small companies (MYPE), which provides guaranteed working capital loans for MYPE as well as for restructuring and refinancing their debts.

- **(27-03)** Cancellation of AFP pension fund contributions for the month of April.

- **(01-04)** The withdrawal of AFP pension funds is authorized for an amount of up to S/ 2 000 for those individuals who did make contributions for, at least, the last 6 months.

- **(03-04)** Creation of the program called "*Reactiva Perú*" which will allocate S/ 30 000 million to grant credit guarantees to companies. It is estimated that it will benefit 350 thousand companies, of which 314 thousand are micro, small and medium enterprises (MIPYME).

- Use of S/ 17 million (US$ 4.9 million) to finance the granting of working capital loans to artisanal fishermen and fish farmers nationwide.

- **(13-04)** The withdrawal of up to S/ 2 000 from AFP pension funds is authorized for those individuals who did not make contributions during, at least, the last month and/or that perceive a monthly salary under S/2 400.
- **(26-04)** Transfer to the Business Support Fund for micro and small enterprises (FAE-MYPE) in the amount of S/ 500 million (US$ 148.4 million), through financial institutions, in order for the MYPE (including informal ones) be able to access working capital credits.
- **(29-04)** It was announced that AFP pension fund affiliates can withdraw up to S/ 3 000 (US$ 890) in addition to the withdrawals allowed by previous measures.
- **(30-04)** A law was passed that allows individuals to withdraw up to 25% of their savings in AFP pension funds with a maximum withdrawal of S/ 12,900 (US$ 3,828) of up to 2 portions.
- **(07-05)** The Central Bank of Peru (BCRP) will temporarily purchase certificates of deposit and treasury bills to private companies in the pension system, so they may have greater liquidity and not have to auction their financial assets to fulfill with the stipulated refunds.
- **(09-05)** Expanded coverage of the *Reactiva Peru* program (from S/ 30 billion to S/ 60 billion).
- **(10-05)** Creation of the National Government Guarantee program for the credit portfolio of companies belonging to the finance sector. The total coverage of the program is S/ 7 billion.

## MEDICAL–SANITARY MEASURES

- Declaration of a nationwide sanitary emergency for a period of 90 days as of 11 March.
- Equip schools and universities with hygiene kits.
- Massive cleaning and disinfection of public transportation vehicles in Lima and El Callao.
- Establish at-home medical visits to evaluate suspicions of infection.
- Coordination among governments to share information related to COVID-19, develop a single list of medical equipment and medication requirements to reduce costs and delivery times and share information about border closure.
- Hospital designated for the exclusive attention to patients with COVID-19 and who require being hospitalized.
- Purchase of 1.6 million tests for Coronavirus.
- Use of temporary housing units to broaden healthcare coverage in the attention of COVID-19 patients.
- Launching of the application called "*Perú en tus Manos*", which allows a preliminary diagnosis of COVID-19 symptoms, accessing geolocalization data about registered infections, and seeking help in the case of being infected, among others.
- Acquisition and distribution of face masks for the vulnerable population.

- Formation of working teams centered on providing a quick response and clinical follow-up in regional governments.
- Financing of burial services (cremation and/or burial) of deceased suspected of having or diagnosed with COVID-19.
- Extend work shifts at health care centers.
- Measures for the implementation of telehealth services.
- Adequacy of measures for the treatment of solid wastes.
- Adequacy of measures for funeral and burial services.
- **(11-05)** Measures for the availability of specialized doctors and human resources for the care of COVID-19 patients.
- Acquisition of more medical equipment.
- **(13-05)** Increase of the services offered by health service providers. For this purpose, S/ 47.6 million will be used.

## DIRECT SUPPORT FOR PEOPLE AND BUSINESSES

- Bonuses for S/ 380 (US$ 107) for the loss of labor income to close to 3 million vulnerable families (for a total cost of US$491.6 million).
- Bonuses for S/ 760 (US$ 214) to households in rural areas of the country. Approximately 1 million families will be beneficiaries.
- Universal family bonus for S/ 760 (US$ 214) for households that do not receive formal income during the State of Emergency. It is planned to benefit approximately 6.8 million families (75% of all households nationwide). Resources amounting to S/ 5 168 million (US$ 1,520 million) will be used.
- Bonuses to employees of health-care centers (grants S/ 118.4 million - US$ 33.4 million).
- Bonuses to employees at juvenile correctional facilities, penitentiaries, the police and the military (grants S/ 720 – US$ 188 per person).
- Labor flexibility to ensure the employment continuity of workers, as well as their earnings.
- Subsidies for temporary work incapacity to COVID-19 infected workers and who receive a monthly income below or equal to S/ 2 400 (grants S/ 200 million - US$ 56.3 million).
- A support network for older adults who are at risk and for people with severe disabilities.
- Facilities for a 12-month redistribution without interests for paying electrical, water, Internet and telephone bills corresponding to the month of March.
- Support to vulnerable people abandoned on the street (S/ 3.4 million – US$ 1 million).
- Assistance and repatriation of fellow nationals that are abroad and need to return to Peru (S/ 12.9 million – US$ 3.6 million).

- Transfer to municipalities so that they can provide food to vulnerable families (S/ 200 million – US$ 57.1 million).
- Provision of public infrastructure to assist the vulnerable population.
- Extension of life insurance for medical personnel.
- Transfer, temporary accommodation due to the quarantine and complete daily meals for those individuals who have not been able to return to their homes because of the State of Emergency (S/ 35 million – US$ 10.3 million).
- Protection of vulnerable people abandoned on the street.
- Provision of housing to the rural population in a vulnerable economic situation.
- Measures to protect indigenous or native populations.

# VENEZUELA

**EMMANUEL ABUELAFIA AND JOSE LUIS SABOIN**

## CONTEXT

The pandemic finds the country in the middle of a political and economic crisis without precedent. The country is under the rule of the Government of Nicolás Maduro, although there have been attempts by the interim Government, which has been recognized by over 60 countries of the international community, to achieve free and transparent presidential elections and start a democratic transition that leads towards a path of growth. From an economic perspective, the GDP in 2019 barely represented 30% of values observed in 2013. Inflation for the month of April was 80% according to National Assembly estimates. The living conditions of the population have deteriorated at par with economic collapse. The provision of public services is decaying: 4 out of every 10 households report daily power outages and there are areas of the country that only receive 12 hours of electricity a day.

The collapse of the provision of health services is evident. The public health infrastructure is in a precarious condition. Around half of all hospitals do not have basic equipment (in 2019). The health of the general population is poor and makes them more vulnerable to the COVID-19 outbreak. 25% of children are malnourished (2018) and 64% of adults have lost weight due to the crisis (ENCOVI 2016). More so, the Regime has been incapable of controlling the propagation of diseases such as tuberculosis and the measles, which –being diseases that have already been eradicated– have witnessed a major surge[144]. By 2019, these illnesses have affected 400,000 people.

The Government of Maduro, since March 13th, has established a quarantine scheme for the whole country, including restrictions to internal mobility as well as economic measures, the implementation and effectiveness of which are limited due to the economic and fiscal crisis that the country finds itself in. The quarantine has been modified since 12 June 2020 with a scheme of 7 days of isolation and 7 days of activity. However, according to reports dated 28 June, there were 5,300 reported cases and 44 deaths due to this disease, with an important increase during the second half of June. Meanwhile, the Venezuelan Academy of Science reports that the level of daily testing is way below regional comparators.[145]

The impact of the pandemic on the already delicate economic situation of the country is fundamentally reflected through two variables: the decline of oil prices, main export and source of public funds, and the decline in economic activity caused by the social distancing measures. To this we must add the reported fuel shortage, affecting even more economic activity. The IMF estimations for April 2020 expected a GDP reduction of 15% for that year. This value could be greater depending on the duration and impact that the pandemic has on the country.

144 https://www.voanoticias.com/a/se-duplican-casos-tuberculosis-venezuela/5258929.html
145 The Venezuelan Academy of Physical, Mathematical and Natural Sciences. Current status of COVID-19 epidemic in Venezuela and its potential pathways. Documents of the Academy of Physical, Mathematical and Natural Sciences, Caracas, Venezuela.

# MEASURES ADOPTED DUE TO THE PANDEMIC AND QUARANTINE REMOVAL PLANS

The epidemiological projections in the country are not unanimous. On one hand, there is the view that the economic crisis, the fuel shortage, and the resulting limited internal mobility as well as the scant international traffic in the country (which could have produced a high level of infections), would make the pandemic behave differently than in other countries of the Region, without the spikes that have been observed.[146] On the other, there is the view that between 1,000 and 4,000 daily cases could be expected between June and September this year, which would exceed the capacity of the country´s health system.[147]

The effectiveness of measures adopted by the Government of Maduro are expected to be very limited. Economic activity was already in collapse prior to the pandemic and the lack of fiscal resources to implement some of the measures, such as transfers to households, could remain pending or if the decision to finance them through monetary emission were made, this would entail greater inflationary pressure on the country[148]. The Government of Maduro has adopted an iron fist approach to control the country´s lockdown. According to media reports, corporal punishment has been reported on individuals who have violated the quarantine in different parts of the country.[149] According to the Venezuelan NGO POVEA 34 arbitrary detentions have taken place within the context of the quarantine between 4 March and 7 April.[150]

On May 12th the quarantine was extended for an additional month, while the number of people infected between March 13th and the end of May did not show a substantive increase. As of June 1st, Venezuela, initiated a new phase of quarantine easing. The 7x7 model is being implemented which consists of 7 days of organized easing and 7 days of quarantine. In the first stage, there were nine sectors that were reactivated, although with restrictions: banking, medical practices, construction, hardware stores, hairdressers, apparel and footwear, repair workshops and auto-parts, refrigeration and plumbing and public transportation. The food and health sector will continue working according to the rules already established. The measure does not apply to municipalities bordering with Brazil and Colombia due to the risk of coronavirus outbreaks. Older adults and individuals with chronic diseases should remain sheltered. Due to a rise in cases during the week between 19 to 26 June[151], the Government of Maduro announced it will execute special measures in 10 states across the country. In some states all municipalities will be included, in others only a few. In the case of Caracas this epidemiological barrier will be applied in the Libertador municipality, which houses the key positions and offices of public authorities.

Quarantine lifting scenarios in the country will make visible other challenges that the country faces now, such as the lack of fuel and of enough income to obtain food.[152,153]

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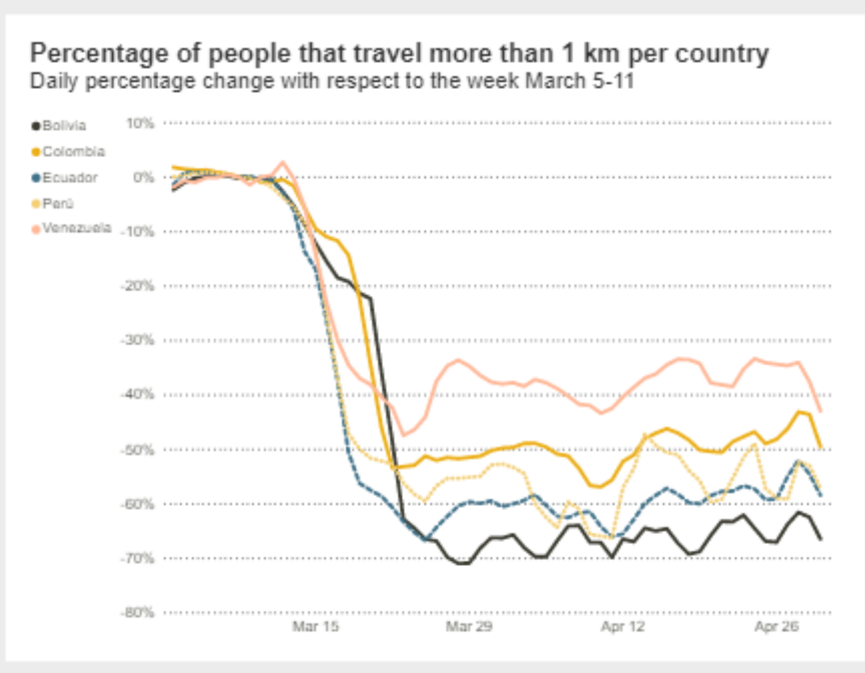
146 https://prodavinci.com/covid-19-las-epidemias-y-su-cinetica/
147 The Academy of Physical, Mathematical and Natural Sciences. 2020. The current state of the COVID-19 epidemic in Venezuela and its potential pathways. Documents of the Academy of Physical, Mathematical and Natural Sciences, Caracas, Venezuela.
*148* In fact, the drop in monetary liquidity growth in Venezuela, from monthly rates of around 100% in 2017-18 to lower monthly rates of 50% in 2019-2020, is an indicator that there is a contraction of current fiscal spending.
149 https://elpais.com/internacional/2020-04-29/castigos-de-cuartel-por-violar-la-cuarentena-en-venezuela.html
150https://www.derechos.org.ve/actualidad/primer-mes-estado-de-alarma-furia-bolivariana-pone-en-cuarentena-derechos-civiles-y-politicos-de-los-venezolanos
151 From a moving average of 7 days of 99 daily cases in the first half of June to one of 176 daily cases between 19 and 26 June.
152 https://www.bbc.com/mundo/noticias-america-latina-52145210
153 https://news.un.org/es/story/2020/02/1470101

Based on information gathered by the Human Mobility Map[154] developed by the IDB, there has been a decrease in urban mobility (of over 1 kilometer) of 50% since the enforcement of the quarantine. This reduction is lower than in other countries in the Andean Region.[155] Unfortunately, there is insufficient information to analyze the scales, since the economic crisis could have already caused the mobility in Venezuela to be inferior to that of other countries in the region.




# MID-TERM SCENARIOS

## MACROECONOMIC CHALLENGES

The collapse of the Venezuelan economy is unprecedented in the Region. The GDP in 2019 was 30% of the value observed in 2013, and the production of oil, the greatest source of income for the country has reached historic lows. Following a period of hyperinflation where prices multiplied every week, inflation was brought down to a monthly 30% towards the end of 2019. However, in February 2020, inflation had picked up to 60%. Before the crisis triggered by the pandemic, there were press reports that referred to a sensation that the country´s economic situation was returning to normal.156. The government of Maduro had eased price controls and import restrictions. These measures along with an increase in the dollarization of transactions had created a feeling of normalization in certain areas of the country –especially in the capital, Caracas– due to the increase of basic goods in supermarkets and the greater availability of imported products. However, scarcity in the country was ongoing. Food consumption in December 2019 was 16% lower than the same period in 2018, having an impact, to a greater extent, on the poorest. The Local Committee for Supply and Production (CLAP, Spanish acronym for *Comité Local de Abastecimiento y Producción*) program (the Government of Maduro´s biggest social program) reached 25% less

154 https://www.iadb.org/en/topics-effectiveness-improving-lives/coronavirus-impact-dashboard
155 These results are in line with those obtained from analyzing the information gathered by Google in its page on mobility. https://www.google.com/covid19/mobility/
156 https://www.nytimes.com/2020/02/01/world/americas/Venezuela-economy-dollars.html

families on 2019 compared with 2018 and its contents were 30% less according to several surveys made to beneficiaries. In addition, as of February 2020 gas shortages started to be reported.
From a fiscal perspective, the country was already in default and the main source of fiscal revenues, oil exports, were at their lowest historical levels. During 2017 and 2018 the Government of Maduro had used the monetary funding of the deficit, which had triggered a hyperinflation process, leading as well to the collapse of non-oil tax revenue.

The macroeconomic situation could be expected to deteriorate even more so after the pandemic. The international environment makes the price that Venezuela currently receives for oil exports be close to its cost of production. This price drop means that the country will have very limited resources for the financing of public spending as well as the currencies required to pay for imports, which, given the collapse of national productive activities, are the basis of consumption, of the transfer system and even the operation itself of the oil sector. The risks posed after the crisis include: i) upsurge of inflationary pressures due to monetary financing of deficit, ii) a greater deterioration of the economic activities in the country, including greater scarcity of fuels and basic goods, mainly imports, iii) a lack of investment in the oil sector which implies a greater decline in economic activity, and iv) an increase in migration caused by the deteriorated quality of life of the population and the sharp decline in economic activity. This increased pressure towards migration, together with increased border control, could cause the emergence of human trafficking networks that facilitate illegal border crossings.[157]

## PRODUCTIVE SECTOR

The lack of legal security, along with the high levels of state interventionism and the systemic failure in the provision of public goods makes the business environment in the country unattractive to private sector activity. Private activity is at its lowest historic levels. Similarly, its GDP share has declined. The private sector, according to official statistics, represented 63% of GDP in 2006, while it was estimated that in 2018 it would drop to 47%. The use of installed capacity of the manufacturing sector was at 20% towards the end of 2019, compared with a limited 60% in 2012.[158]
The private sector´s expectations were already very pessimistic prior to the crisis triggered by COVID-19. According to information collected by CONINDUSTRIA already by end of 2019, almost 43% of the interviewed companies recognized that they could survive for less than a year within the reigning economic context. Moreover, identified among the main problems for company performance were low sales levels (25%) followed by difficulties to obtain funding (17%).

Private investment is almost non-existent in the country. The State not only increased its presence in the economy, but it has also increased the regulation and intervention of private activities. As this occurred, private investment fell substantially, going from 15.9% of GDP in 1998 to an estimated 2.1% in 2018.

The worsening business environment is reflected in the Doing Business indicators. Venezuela ranks 188th among 190 countries included in the Doing Business 2019 ranking. The country is among the worst rankings for establishing a business, obtaining an electrical connection, the payment of taxes and international trade.

The banking system is limited to transaction facilitations. The banking system is dominated by the public sector, representing over two third of assets. The financial system portfolio is highly exposed to sovereign risk (62% of the portfolio), especially public banks.

Credit has collapsed. Since its peak in 2014, a steady and severe reduction of bank lending relative to GDP (from 29% to 0.4% in 2020) is observed. This has occurred in response to limitations placed on credit growth (heritage restrictions first, then bank liquidity constraints), high inflation, and more

157 Abuelafia (2020)
158 According to the most recent CONINDUSTRIA survey. http://www.conindustria.org/

recently, dollarization and contraction of the economy. Consumer credit has dropped from 20% to 7% (associated to difficulties with increasing credit card limits consistent with inflation).
The potential recovery of the private sector following the pandemic will depend on how certain variables, which are not necessarily related to the sector, behave. First, the recovery of the private sector will depend in part of the availability of inputs for production and sale, starting with fuel for last mile logistic activities. Moreover, the quality in the provision of public services, especially electricity, represents a challenge for the recovery of private sector activity. Conversely, given the scarcity of currencies, the availability of imported goods could represent a challenge to the country´s production and trade. Greater availability of bank financing for company operations would facilitate a prompt recovery of economic activity. However, as mentioned, the financial system is very limited and some of the measures aimed at mitigating the impact of the pandemic would make it more difficult for the private sector to possibly obtain financing. Lastly, the recent imposition of new price controls as a response to the increase of food products could reduce even more the availability of goods in the country and further discourage private sector activity in general.

## SOCIAL SECTOR

The collapse of the economy is reflected in the deteriorated quality of life of the population. On one hand, poverty and unemployment have increased, and on the other hand, health indicators have worsened considerably, and the provision of basic services has collapsed. Poverty measured by income level reaches 94%[159] of the population, although the information that this measurement offers is limited due to the country´s inflationary context. The current economic situation has prompted households to not have the money to cover for their dietary needs. 92% of the population reports that they did not have sufficient money to receive food in 2018. This compares to 80.5% in 2015.

Multidimensional poverty increased by more than 20% between 2015 and 2018. Poverty measured in a multidimensional manner has increased from 41% in 2015 to 51% in 2018, according to ENCOVI. This increase can mostly be explained by an increase in deprivations related to the standard of living, a reflection of the deteriorated purchasing power of households. In 2016, 19% of this indicator could be explained by reasons relating to the quality of the home, while in 2018 only 15% is owed to this issue. With the calculations for 2018, Venezuela is among those countries with the highest multidimensional poverty in the Region, surpassed only by Nicaragua, Guatemala and Honduras.

Inequality in the distribution of income has also substantially deteriorated. The improvements in income distribution observed in previous years were reverted in recent years. The Gini coefficient started to increase in 2015, turning back the gains achieved in the last 20 years. In 2018, the Gini coefficient estimated by ENCOVI reached 0.79.

The minimum salary has lost purchasing power. Although successive increases in the minimum wage have been made in recent years, these have been insufficient to protect the purchasing power of workers. According to estimations made by Barrios (2019), the minimum salary is not enough for buying food that is required to cover a basic intake of 2,000 daily calories. In terms of dollars in the parallel market, the comprehensive minimum wage represents around US$ 4.2 in mid-May 2020, having recorded an increase of 66% on May 1st, 2020.

The post-COVID-19 scenario in the social sector is not encouraging. Households are expected to receive less income. On the one hand, household labor revenues are expected to drop because of the slump in economic activity in general. Furthermore, according to estimations made by Abuelafia (2020), it could be expected that remittances from Colombia drop by around 30% due to the country´s economic crisis. On the other hand, given the Government´s weak fiscal capacity, it could be expected that the coverage and number of social programs be reduced, in particular the

159 According to ENCOVI.

CLAP program, which entails importing basic necessity goods. This weak fiscal capacity also places at risk the provision of basic services such as water and electricity, which are vital to the social development of the population.

**Annexes**

Tables

Spread of the virus and preparation of the public health-care system

| Indicator | Value | Source |
|---|---|---|
| Growth rate of daily new infections (on 18 May) | 4.3% | Our World in data |
| Fatality Rate | 1.8% | Our World in data |
| COVID infection rate per sick people | n.a. | |
| Epidemic stage | n.a. | |
| Expected epidemic peak | n.a. | |
| Testing per every million people | n.a. | |
| Geographic extension of the virus | All 23 states | Ministry of Health |
| Test capacity | n.a. | |
| Laboratory capacity | n.a. | |
| Tracking systems or telephone apps | n.a. | |
| Share of population 65+ | 7.3% | World Bank |
| Total ICU beds | n.a. | |
| ICU occupation ratio | n.a. | |
| Task force in place | UN, human rights | UN |
| Opinion on Government's response to COVID-19 | n.a. | |
| Government approval rate | n.a. | |

Macroeconomic Stability

| Indicator | Value | Source |
|---|---|---|
| Expected rate of growth of GDP in 2020, a/a | -30.7% | IDB Estimates |
| Expected rate of growth of GDP (pre-COVID-19), a/a | -11.4% | IDB Estimates |
| Daily cost of quarantine | n.a. | |
| Expected fiscal deficit 2020 (% of GDP) post-COVID-19 | -14.8% | IDB Estimates |
| Expected fiscal deficit 2020 (% of GDP) pre-COVID-19 | -8.3% | IDB Estimates |
| Change in Exports (% GDP) 2020 vs 2019 | -11.4 GDP points | IDB Estimates |
| Commodity Exports (% of total exports) | 98% | IDB Estimates |
| Change in Imports (% PIB) 2020 vs 2019 | -5.7 GDP points | IDB Estimates |

| | | |
|---|---|---|
| Public Debt (% of GDP) | 282.3% | IDB Estimates |
| Share of External Debt (% of total) | 98.0% | IDB Estimates |
| Exchange rate depreciation May 14 vs Mar 15 (1st case) | 145.0% | IDB Estimates |
| Expected Inflation for 2020 (end of period, %) | 53,390% | IDB Estimates |
| Are inflation expectations anchored? | Hyperinflation | |
| International Reserves (months of imports) | 8 months | IDB Estimates |
| Foreign Direct Investment | n.a. | |
| EMBIG (pre-COVID-19 vs post-COVID-19) | +300 bp | Bloomberg |
| Size and composition of assets and liabilities of CB | Mostly gold | VCBC |

Real Sector

| Indicator | Value | Source |
|---|---|---|
| Change in oil production between February and April | -18% | OPEP |
| Downturn in construction activity between February and April | n.a. | |
| Drop in services activity between February and April | n.a. | |
| Drop in agriculture activity between February and April | n.a. | |
| Credit access to SMEs (% GDP) | n.a. | |
| Share of jobs that can be done online | n.a. | |
| Share of workers in tradable sectors | n.a. | |

Social Sector

| Indicator | Value | Source |
|---|---|---|
| Poverty rate | 83.4% | Encovi 2019 |
| Income inequality | 0.63 | Encovi 2019 |
| Unemployment rate | 35.5% (2018) | IMF, WEO. Apr-2020 |
| Share of informal workers | 64% | Encovi 2018 |
| Share of self-employment | 38.2% (2018) | INE |
| Public vs private sector employment | 26% public sector | Encovi 2019 |
| Share employment in manufacturing sector | n.a. | |
| Share employment in tourism | n.a. | |
| Productivity Growth | n.a. | |

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