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The economic determinants of social crises in Latin America

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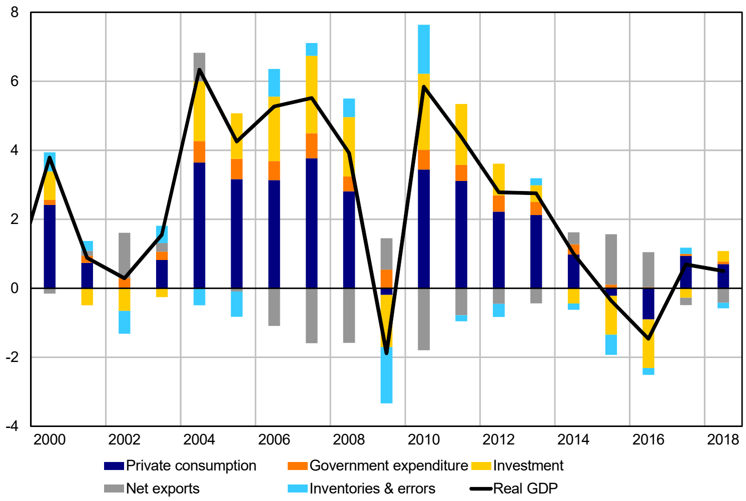
- Following a period of fast growth averaging 4.2% per year in the 2000s, Latin American and Caribbean economies have slumped back to an average of 1.3% since 2011. This slowdown derives from a structural fall in productivity, together with a series of cyclical shocks that are either country-specific or common to the region (lower commodity prices, less demand from China, etc.), and which have highlighted shortcomings in the growth model and hastened its obsolescence.

- Despite an improvement in standard of living for all sections of the population which enabled poverty to be reduced (between 2000 and 2018, 12.4% of inhabitants exited poverty and 7.8% exited extreme poverty), severe economic inequality persists. In 2018, in Latin America and the Caribbean, the first five income deciles received only 17% of all income. This means that cyclical downturns could plunge a significant proportion of the population back into poverty. There are also other manifestations of inequality, especially between urban and rural regions with regard to access to public services (energy, healthcare, education, infrastructure), which are aggravated by a marked slowdown in growth and little fiscal leeway to support the economy and reduce inequality. In 2019, this led to a number of protest movements in the region.

- The COVID-19 pandemic is having a substantial impact on Latin America and the Caribbean and is likely to further complicate matters. In addition to the adverse effects of lockdown measures on domestic supply and demand, the region's countries are experiencing lower external demand due to (i) the drop in prices and demand for commodities and agri-food products, (ii) the collapse of tourism, (iii) a strong contraction in migrant remittances, and (iv) portfolio outflows.

Contributions to real growth in Latin America and the Caribbean



Source: World Bank.

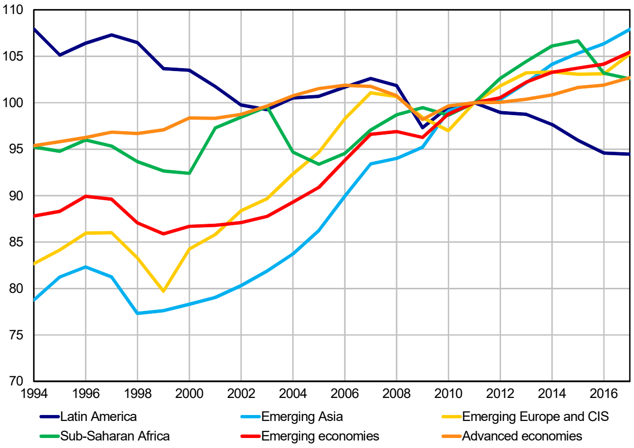
1. The Latin American growth model is running out of steam[1]

After vibrant growth averaging 4.2% per year between 2004 and 2010, the economies of Latin America and the Caribbean have been slowing down since 2011 (average growth of 1.3% per year between 2011 and 2018). The incumbent drivers of the continent's growth, which are, in terms of production, industry (in particular mining and quarrying) and services, have gradually slumped at the same time as domestic private demand (consumption and investment) has fallen off. Out of 33 countries, the pace of average growth for the last decade compared to the 2000s has slowed in 20 of them. In 2015 and 2016, there was even a contraction of economic activity, which was primarily due to the collapse of the Venezuelan economy and the recession in Brazil,[2] against the backdrop of the end of the commodities boom. The region's real GDP per capita followed the same path, falling from +2.9% between 2004 and 2010 to +0.7% between 2011 and 2018, and even strayed into negative territory between 2014 and 2016.

1.1 A structural decline in productivity

From a structural standpoint, productivity is declining in the region, in terms of both labour productivity in all sectors of activity[3] and total factor productivity. This situation is the opposite of that in other emerging regions (see Chart 1). The formal manufacturing sector is especially stricken by low labour productivity, which stood at one-third of that of the United States in 2010.[4] The reasons are essentially: (i) poor participation of Latin American economies in global value chains, particularly those of industrial sectors with high value-added; and exports relying on little-processed or unprocessed commodity sectors; (ii) lack of competition on the domestic market, in conjunction with high concentration levels; (iii) labour market inefficiencies; and (iv) insubstantial savings and investment to fund economic development.

Chart 1: Change in total factor productivity (constant prices, index base 100 = 2011)



Source: Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), "The Next Generation of the Penn World Table", American Economic Review, 105(10), 3150-3182, version 9.1 (data from 1950 to 2017), DG Trésor calculations.

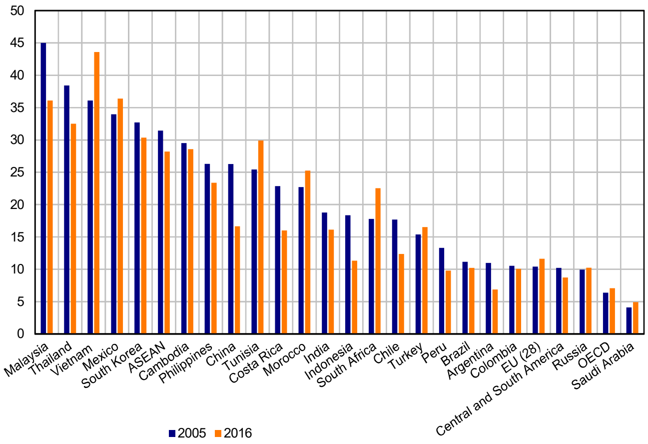
During the last two decades, the region's commodity-based export model – excluding Mexico – has scarcely shifted compared to other regions such as emerging Asia or Africa, where exports have moved upmarket as they have become integrated in global value chains. This commodity-centric productive structure has contributed to poor capital allocation and has put a drag on productivity. Commodity mining has required ever-increasing investments to extract resources that are more and more difficult to access (and have lower useful mineral content). This has led to a fall in the sector's productivity as well as the siphoning off of savings, especially when commodity prices are high.[5] In Brazil, the proportion of commodities in total exports increased from 20% in 2000 to 46.6% in 2018.

This is compounded by South America's poor participation in global value chains and its lack of regional economic integration. This is demonstrated by the low share of foreign value-added in total exports (see Chart 2) owing to high tariff and non-tariff barriers, the latter of which are partly related to lack of investment in transportation and logistics.[6] With the exception of Mexico, which is well-integrated in North

(1) This paper contains contributions from the French Treasury's Americas Bureau and all the French Economic Departments in Latin American and Caribbean countries.
(2) Brazil makes the largest contribution to the region's nominal GDP (an average of 40% for the period 2010-2018).
(3) CAF (2018), Informe RED 2018, "Instituciones para la productividad: hacia un mejor entorno empresarial", Development Bank of Latin America, Caracas, http://scioteca.caf.com/handle/123456789/1343 (accessed December 2018).
(4) OECD et al. (2019), Latin American Economic Outlook 2019: Development in Transition, OECD Publishing, Paris, https://doi.org/10.1787/g2g9ff18-en.
(5) Adler G., Duval M. R. A., Furceri D., Sinem K., Koloskova K. & M. Poplawski-Ribeiro (2017), "Gone with the Headwinds: Global Productivity", International Monetary Fund.
(6) J. S. Blyde (2014), "Synchronized Factories: Latin America and the Caribbean in the Era of Global Value Chains". Cham: Springer Open.

American production chains, local industry has not benefited either from lower input costs or from technological contributions to safeguard its competitiveness.[7]

Chart 2: Proportion of foreign value-added in total exports (%)



Source: OECD.Stat.

How to read this chart: For regional groupings, the proportion of foreign value-added in total exports does not take account of intra-regional trade.

In addition, the continent's entrepreneurial fabric comprises a large number of small informal firms with low productivity and investment capacity.[8] Unlike in EU Member States, where there are comparable proportions of small enterprises,[9] in Latin America these businesses tend to be more held back by much lower labour productivity, which represents, on average, only 23% of the productivity of large firms (as against 58% in the EU).[10] The region is also afflicted by a lack of competition in conjunction with high institutional entry costs on the markets as well as a highly concentrated internal market compared to other regions, and this puts a drag on productivity.

What is more, flaws in the labour market compound this poor productivity. The shortcomings of the education system have led to a mismatch between supply and demand for skillsets. Access to higher education is improving but the standard of qualifications is highly variable. While 41% of the population aged 15-64 begins tertiary education, on average, only 14% completes this cycle (compared to an average of 39% in OECD countries, 32% in Mexico and 60% in Chile and Turkey).[11] This problem is aggravated by the low appeal of scientific and technical disciplines[12] and vocational training that is currently underdeveloped.[13]

The high cost of labour formalisation owing to a number of factors (tax legislation, labour law, ability to enforce legislation, etc.) fosters the informal economy, which accounted for over half of all jobs in 2016.[14] This figure is far higher than in developed economies (16% in Europe and Central Asia, 18% in the United States and Canada), but is fairly low when compared to other emerging and developing economies, especially in Sub-Saharan Africa (85.8%) and Asia-Pacific (68.2%).[15] Participation in the informal labour market is higher amongst young people and lower for skilled workers. Between countries, informal employment rates vary from 84% in Bolivia to only 30% in Chile (2018). Lastly, although female labour market participation rose from 41.5% in 1990 to 51.9% in 2018, it is still much lower than the rate for men (75.3%) which hinders potential growth.

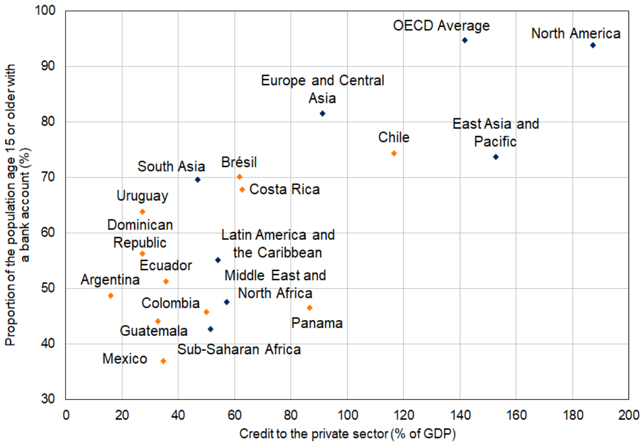
In addition, Latin American and Caribbean countries have limited capacity to finance the economy. Local financial markets are shallow and bank loans are not widely used, except in Chile, despite the expansion of banking and cooperative networks.[16] Outstanding

(7) Álvarez F., Eslava M., Sanguinetti P., Toledo M., Alves G., Daude C. & L. Allub (2019), "RED 2018: Institutions for Productivity: Towards a Better Business Environment".
(8) Micro and small enterprises account for 98% of the region's businesses and 47.1% of jobs but only 12% of total production. Large enterprises concentrate 80% of exports, 75.4% of production and 38.9% of jobs. Dini M. and G. Stumpo (co-ords.) (2018), "Mipymes en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento", Documentos de Proyectos (LC/TS.2018/75), Economic Commission for Latin America and the Caribbean, Santiago.
(9) Micro and small enterprises also account for a significant proportion of the entrepreneurial fabric as regards the number of entities and jobs in other economies such as France (99.2% and 48.5% respectively) and Germany (97.1% and 43.2%).
(10) OECD et al. (2019), Latin American Economic Outlook 2019: Development in Transition, OECD Publishing, Paris, https://doi.org/10.1787/g2g9ff18-en
(11) OECD (2019), Boosting Productivity and Inclusive Growth in Latin America, OECD Publishing, Paris, https://doi.org/10.1787/9789264269415-en
(12) Fiszbein A., Cosentino C., & B. Cumsille (2016), "The Skills Development Challenge in Latin America: Diagnosing the Problems and Identifying Public Policy Solutions". Washington, DC: *Inter-American Dialogue and Mathematica Policy Research*.
(13) Vargas Zuniga F. (2017), "The Future of Vocational Training in Latin America and the Caribbean: Overview and Strengthening Guidelines".
(14) OECD (2018), Latin American and Caribbean Competition Forum - Session I: Informal Economy in Latin America and the Caribbean: Implications for Competition Policy.
(15) The informal employment rate is 84% in Bolivia but only 30% in Chile (2018). ILO (2019) 2018 Labour Overview of Latin America and the Caribbean.
(16) Heng D., Ivanova A., Mariscal R., Ramakrishnan M. U., & J. Wong (2016), "Advancing Financial Development in Latin America and the Caribbean". International Monetary Fund.

lending to the private sector accounted for 54% of GDP in 2018 compared to an average of 142% in OECD countries. This is a reflection of the fact that only 55% of the population of Latin America and the Caribbean have bank accounts, with this rate varying according to the country (see Chart 3).

Enterprises, and especially SMEs, also have problems accessing credit due to high collateral requirements and intermediation costs.[17] This hampers the expansion of small enterprises and restricts their access to liquidity in the event of a real or financial shock.[18] Difficulty taking out bank loans heightens uncertainty and represents an additional incentive to resort to fixed-term employment contracts or undeclared workers (even in formalised companies), which are used as an adjustment variable.

Chart 3: Development of bank financing



Source: World Bank.

Lastly, the issues of insecurity and criminal activity are still significant in all the region's countries and remain a barrier faced by economic agents on a daily basis. According to the Inter-American Development Bank, violence is estimated to have cost the continent around 3.5% of its GDP in 2014, taking into account all the costs related to loss of standard of living, incarcerations, diversion of private consumption towards private security systems and government expenditure on the judicial and prison system, on managing prisons and on police departments.[19] Central America was especially affected, as it is estimated to have lost 4.2% of its GDP in 2014. Brazil is also above the regional average with the cost of insecurity standing at 3.1% of GDP whereas the Southern Cone lost only 2.5%. With a loss of only 1.9% of its GDP, Mexico recorded the lowest cost.

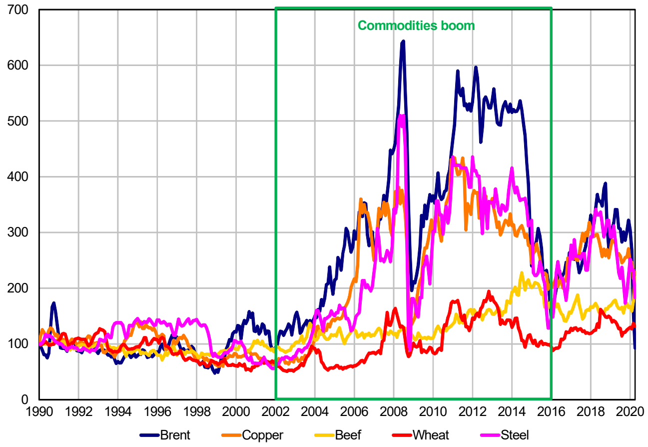
1.2 A series of adverse external shocks

Many of the region's countries have experienced two concurrent shocks affecting their exports: (i) in 2014, the end of the commodities boom, during which commodity prices had risen continually since 2002 (see Chart 4), which was partly attributable to the fast development of China and India; and (ii) a slowdown in Chinese demand.[20] Although the commodities boom enabled Latin American economies to develop rapidly,[21] it was at the expense of the diversification of their economic models and the overvaluation of exchange rates, which are symptomatic of the "Dutch disease", materialised by deindustrialisation trends.[22] When the boom ended, the reliance on commodities caused a mainstreamed economic slowdown throughout the region. Countries dependent on mining and quarrying revenue that failed to put in place fiscal cushions or countercyclical funds when prices were high found themselves in weakened positions.[23] All the region's countries are exposed to commodities trade, which account for more than 10% of their total exports (up to 85.5% in Venezuela in 2013, and 74% in Ecuador and 59% in Colombia in 2018). While Mexico gradually shook off its dependency on the oil sector, with its share of GDP falling from 9% in 2003 to 4.2% in 2017, oil still represents a significant financial godsend for the government, which derived 18% of its fiscal revenue from it in 2019. Moreover, certain countries have a large exposure to China, making them vulnerable to the structural slowdown in Chinese demand. This has happened in Chile, which sends 33%

(17) Dabla-Norris M. E., Deng Y., Ivanova A., Karpowicz M. I., Unsal D. F., VanLeemput E. & J. Wong (2015), "Financial Inclusion: Zooming in on Latin America" (No. 15-206), International Monetary Fund.
(18) Álvarez F., Eslava M., Sanguinetti P., Toledo M., Alves G., Daude C. & L. Allub (2019), "RED 2018: Institutions for Productivity: Towards a Better Business Environment".
(19) Caprirolo D., Granguillhome Ochoa R., Keefer P., Leggett T., Lewis J. A., Mejía-Guerra J. A., ... & I. Torre (2017), "The costs of crime and violence: New evidence and insights in Latin America and the Caribbean", L. Jaitman (Ed.). Washington, DC: Inter-American Development Bank.
(20) The average annual growth of Chinese imports plummeted from +21% between 2000 and 2010 to +5.1% between 2011 and 2019.
(21) Central American countries and Argentina are especially dependent on agricultural exports while the Caribbean countries are more reliant on mining and quarrying exports and tourism.
(22) Ocampo J. A. (2017), "Commodity-Led Development in Latin America", International Development Policy | Revue internationale de politique de développement, 9(9), 51-76.
(23) Mundial B. (2016), "The Commodity Cycle in Latin America: Mirages and Dilemmas", Office of the Regional Chief Economist.

of its total exports to China, Peru (28%) and Brazil (27%).

Chart 4: Change in commodity prices (index base 100 = January 1990)

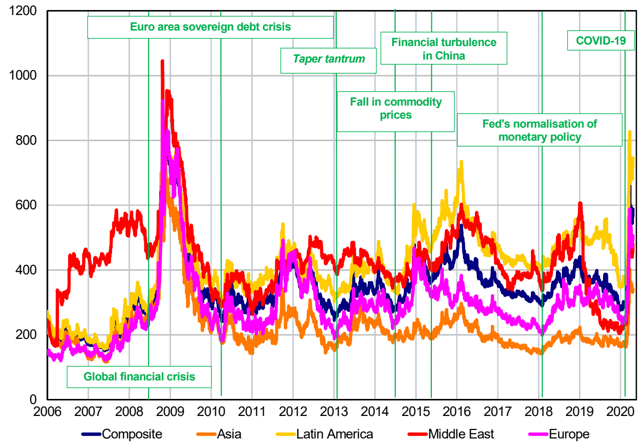


Source: DataInsight.

The continent's interdependency with the rest of the world is heightened by major migratory flows. Central America, the Caribbean and Venezuela are experiencing waves of emigration, particularly among the highest-skilled workers. In 2015, emigrants accounted for 5.3% of the region's total population and more than 20% in the Caribbean countries and 10% in Central America, as against 3.2% for emerging and developing economies as a whole. In Central America, emigrants' remittances represent 8% of their home countries' GDP[24] (12% in Guatemala), while the continent's average was 1.7% in 2018. Approximately two-thirds of emigrants from Latin America and the Caribbean and four-fifths of Mexican emigrants live in the United States.[25] This increases the region's reliance on economic conditions in the US and the impact on emigrants' home countries is heterogeneous. On one hand, the departure of a young population of working age deprives the country of part of its workforce and puts a drag on aggregate productivity but, on the other, households receive additional income from remittances and this can act as a stabiliser in the event of an adverse economic shock in the home country. Venezuela has experienced the world's strongest levels of non-war migration and has around five million emigrants (16% of the population).[26] It is thought that the short-term effect in Venezuela has been positive due to remittances and lower demand for energy and public services against a backdrop of an unstable supply. In Colombia, which hosts almost 1.8 million Venezuelan migrants, the impact is mainly fiscal in the short term and is estimated at between 0.3% and 0.5% of GDP per year (predominantly expenditure on education and healthcare). The effect could become more positive in the medium term through the contribution of a workforce and skills for technical jobs, in particular for healthcare professions.[27] Migration is also a phenomenon observed in the Caribbean, especially in the Dominican Republic, which hosts a growing number of Haitians who mainly work in agriculture, construction and the commercial sector and hold around 8% of total jobs.

The continent's countries have also experienced different financial shocks since the 2008 financial crisis, the extent of which has been variable. Like other emerging economies, these countries have suffered from a flight to quality on global markets (see Chart 5). This has undermined the external position of a number of countries by driving up their external financing costs.

Chart 5: Changes in the Emerging Markets Bond Index Global (EMBIG), representing 10-year sovereign bond yield spreads relative to the United States



Source: JP Morgan.

1.3 Idiosyncratic events

A number of countries have experienced weather-related events and natural disasters that have disrupted economic activity. In 2017, northern Peru was hit by El Niño Costero and water stress is also an issue for the country due to intensive farming in the selva. Caribbean

(24) Beaton M. K., Cerovic M. S., Galdamez M., Hadzi-Vaskov M., Loyola F., Koczan Z. & M. Y. Ustyugova (2017), "Migration and Remittances in Latin America and the Caribbean: Engines of Growth and Macroeconomic Stabilizers?", International Monetary Fund.
(25) Ibid.
(26) Plataforma de coordinacion para refugiados de Venezuela, https://r4v.info/es/situations/platform
(27) Banco Internacional de Reconstruccion y Fomento/Banco Mundial (2018), Migracion desde Venezuela a Colombia : Impactos y estrategia de repuesta en el corto y mediano plazo.

countries are often affected by cyclones and, in 2017, Hurricane Irma is estimated to have cost Cuba almost 15% of its GDP. Central American countries suffer from frequent droughts, which have worsened as tropical storms have become less frequent. This in turn has led to heightened emigration. In 2018, Argentina experienced its worst drought in 43 years and this triggered a 32% year-on-year drop in agricultural GDP during the second quarter of the year. In Colombia, low rainfall in 2018 caused a lack of water supply to the dams which generate 70% of the country's electricity. The 2019 fires in the Amazon had widespread impact in northern Brazil and Bolivia, as well as in Venezuela, where ruptured transmission lines connected to the Guri Dam led to a blackout throughout the country. In 2019, the Brumadinho dam collapse in Brazil provoked a 1.1% fall in industrial production. Also in 2019, torrential rain in the north of Chile, where the country's main copper mines are located, partly explained the decline in mining activity. In 2018 and 2019, Paraguay suffered a sequence of droughts and floods that caused an 11.6% reduction in agricultural production and a 12% drop in electricity generation during Q1 2019 year-on-year.

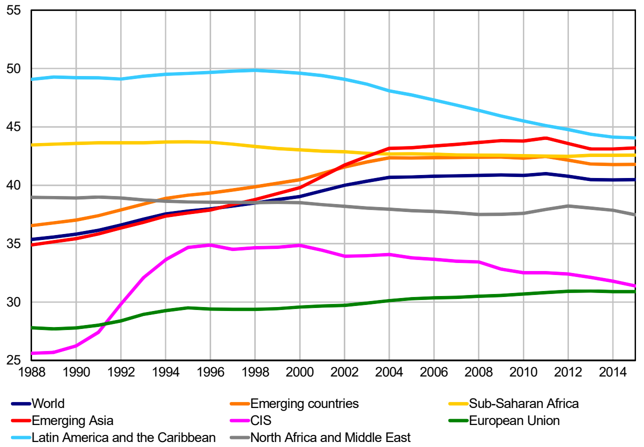
In a number of countries, economic shocks have been heightened by political instability. In Brazil, the Lava Jato probe into corruption in the construction industry caused institutional paralysis in 2015 followed by the impeachment of the incumbent president, Dilma Rousseff, in 2016. The investigation disrupted the reform programme for this period and aggravated the climate of uncertainty, as the economy was hit by the fall in commodity prices which caused a severe recession (?3.6% in 2015 and ?3.3% in 2016). The scandal had a knock-on effect in Peru, where the Odebrecht Group, which had been strongly implicated in the Brazilian affair, was the leading stakeholder for infrastructure works. The company's withdrawal from Peru disrupted a number of ongoing projects, fed into the uncertainty surrounding the outcome for many other construction companies and, more broadly, called into question the legal framework for government investment. In Argentina, the political changeover in 2019 went hand-in-hand with a sharp deterioration of international financing conditions.[28]

2. Economic models compromised by economic and social crises

2.1 Persistently high inequality despite higher standard of living

While income inequality after redistribution has fallen significantly since the 2000s in Latin America and the Caribbean, the region still has some of the highest rates of inequality within each country, as measured by the Gini coefficient (see Chart 6). In 2018, the 10th income decile in Latin America and the Caribbean accounted for 40% of total income compared to only 17% for the first five deciles[29] (in the EU, the figures are 24% and 29% respectively).

Chart 6: Change in regional Gini coefficients after taxes and transfers (weighted average of coefficients for each country)



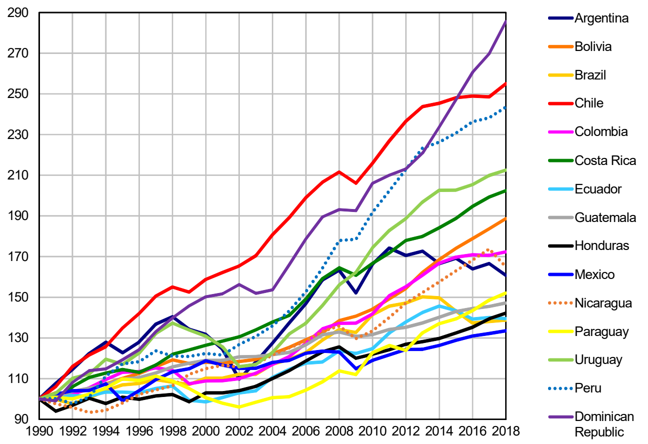
Source: Database originating from Darvas, Z. (2019). "Global Interpersonal Income Inequality Decline: The Role of China and India". World Development, 121, 16-32.
How to read this chart: The category of non-EU advanced countries comprises Australia, Canada, Hong Kong, Iceland, Israel, Japan, South Korea, New Zealand, Norway, Singapore, Switzerland, Taiwan and the United States.

(28) On the day after the primary elections, the peso lost 18.6% of its par value against the US dollar in a single day, the Buenos Aires stock exchange fell 36.9% and the US-Argentina 10-year sovereign bond yield spread increased from 595 basis points to 1,467 basis points between 8 and 12 August. Since then, this shock has not been reabsorbed by exchange rates or the sovereign yield.
(29) According to data from the World Bank's LAC Equity Lab.

The situation is different depending on the country. In 2017, in Honduras, the Gini coefficient stood at 47.4 and inequality rose again in Brazil during the 2015-2016 crisis after having fallen during the previous quarter century. The Gini coefficient has dropped in other countries, such as Uruguay, where it was only 35.9 in 2017. Unlike its neighbours, inequality has been almost continuously rising in Costa Rica over the last 30 years.

At the same time, standards of living have improved over the past two decades. The Dominican Republic has posted the largest improvement in the average standard of living in terms of GDP per capita (in purchasing power parity expressed in constant 2017 international dollars) since 1990, followed by Chile, Peru, Uruguay and Costa Rica. Conversely, countries such as Argentina, Brazil and Ecuador have witnessed a fall in their average standard of living during the past decade (see Chart 7).

Chart 7: Change in GDP per capita based on purchasing power parity (base 100 = 1990)



Source: World Bank.

For the continent as a whole, the improvement in standard of living enabled 12.4% of the population to exit poverty (people living on less than $5.5 per day (2011 PPP)) and 7.8% to exit extreme poverty (people living on less than $1.9 per day (2011 PPP)) between 2000 and 2018. This trend was especially marked between 2000 and 2008 in conjunction with the swift improvement in average standard of living and the growth of GDP during that period. This was particularly the case in Central America, where almost 16% of the population exited extreme poverty in a mere eight years, and in Chile, where the poverty rate fell from 36% to 8.6% of the population between 2000 and 2017. Nevertheless, a proportion of this reduction is cyclical and poverty could rise once more due to the COVID-19 pandemic. Out of the 18.8-percentage-point fall in monetary poverty in Latin America and the Caribbean between 2003 and 2014, 8.6 percentage points are explained by the cyclical income component, 6.6 by the redistribution component, and only 3.6 by permanent income gains.[30] The cyclical component of the reduction of poverty was more significant in commodity exporting countries.

The contribution of redistribution to increasing income and reducing poverty is also evident in the gap between the Gini coefficient calculated on the basis of income before taxes and transfers and that calculated after taxes and transfers. This gap is very wide in certain countries (Uruguay, Brazil, Chile) but is narrow in most (average of –3.2 percentage points).[31]

This situation reflects the weak redistributive aspect of tax systems and the shortcomings of income transfer policies. On an aggregate level, tax structures in Latin American and Caribbean countries are not very progressive[32] and are centred on taxes on consumption (50% of total tax revenue) rather than on earned income or capital (44.9%). Furthermore, taxation of individuals is far from mainstreamed (9.7% of tax revenue compared to an average of 23.9% in OECD countries), against a backdrop of a broadly low tax-to-GDP ratio (23.1% in 2018 compared to an average of

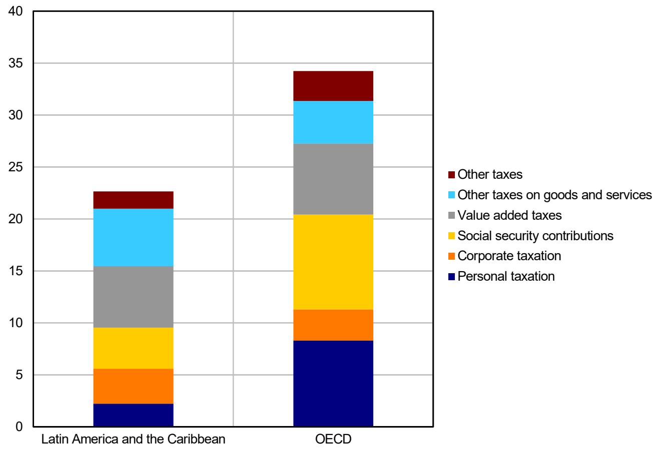
(30) Vegh C. A., Vuletin G., Riera-Crichton D., Pablo Puig J., Camarena J. A., Galeano L. & L. Venturi (2019), "Effects of the Business Cycle on Social Indicators in Latin America and the Caribbean: When Dreams Meet Reality".

(31) As a comparison, in 2017 in France, redistribution caused the Gini coefficient to fall from 48.6 before taxes and transfers to 29.5 after taxes and transfers, giving a gap of 19.1 percentage points.

(32) Gómez Sabaini J. C., Jiménez J. P., & R. Martner Fanta (2017), "Consensos y conflictos en la política tributaria de América Latina", CEPAL.

34.3% in the OECD). There are, however, significant variations between countries, with a ratio as high as 42.3% in Cuba but only 12.1% in Guatemala. Collecting tax revenue is compromised by a myriad of exemptions and widespread avoidance (which is thought to have deprived the continent of almost one-third of its public revenue[33] in 2015).[34] This has hampered the expansion of institutional capabilities and public services, as well as the reduction of inequality. The size of the informal economy (see above) also accounts for the problems in rolling out sliding scale taxation of income.

Chart 8: Structure of tax revenue in 2017 (% of GDP)



Source: OECD (2020), "Revenue Statistics in Latin America and the Caribbean 2020".

Box 1: Social and regional inequality in accessing public services

Other forms of inequality continue to follow along the same lines as income inequality, especially in terms of access to public services. The predominance of undeclared work, which primarily concerns less-skilled jobs, perpetuates inequality in access to social security benefits. According to the International Labour Organization (ILO), over half of Latin American and Caribbean workers do not contribute to social security,[a] which provides effective coverage for 61.4% of the population (proportion covered by at least one social protection benefit).[b] Southern Cone countries post the highest contribution rates (58.6% in 2015) and this allows for high levels of coverage (94.5% in Uruguay, 69.2% in Chile and 67% in Argentina). At the other end of the scale, low contribution rates in the Andean countries (31.4%) are matched by poor coverage (40.8% in Colombia and Bolivia).

Access to tertiary education still diverges significantly depending on income. This is a major barrier to upward mobility despite an improvement in intergenerational mobility[c] and the reduction of inequality. In 2016, among young people aged between 25 and 29, an average of 18.1% completed tertiary education (four years of study), but this figure was only 3.6% in the lowest income quintile compared to 41.7% in the highest.[d]

Inequality also exists between urban and rural areas. The latter, which are home to 18% of the region's population, have limited access to healthcare and basic services (electricity, drinking water and sanitation)[e] due to a lack of infrastructure. Around 56% of workers are in vulnerable employment in rural areas as compared to 27% in urban areas.[f] This means that only 37% have healthcare coverage as against 62% in towns and cities,[g] and a mere 26.5% of rural workers are covered by pension systems compared to 56.3% of urban workers.[h] This poor social security coverage helps widen the gap between the rural poverty rate (59%) and that of urban areas (15.3%).[i]

a. Presente y futuro de la protección social en América Latina y el Caribe. Lima: OIT / Oficina Regional para América Latina y el Caribe, 2018. 224 p. (Panorama Laboral Temático, 4).
b. ILO (2017), "World Social Protection Report 2017-19: Universal Social Protection to Achieve the Sustainable Development Goals".
c. World Bank (2017), Poverty and Inequality Monitoring: Latin America and the Caribbean - Intergenerational mobility.
d. ECLAC (2019), Critical Obstacles to Inclusive Social Development in Latin America and the Caribbean: Background for a Regional Agenda, third session of the Regional Conference on Social Development in Latin America and the Caribbean.
e. *Ibid.*
f. "UN report reveals stark gap between urban and rural employment in Latin America and the Caribbean", UN News (20 October 2016). https://news.un.org/en/story/2016/10/543332-un-report-reveals-stark-gap-between-urban-and-rural-employment-latin-america.
g. ILO (2017). Working in Rural Areas in the 21st Century: Reality and Prospects of Rural Employment in Latin America and the Caribbean (Thematic Labour Overview).
h. ILO (2018), "Women and Men in the Informal Economy: A Statistical Picture", International Labour Organization.
i. The proportion of the population living on less than $5.5 (2011 PPP) according to the World Bank's LAC Equity Lab.

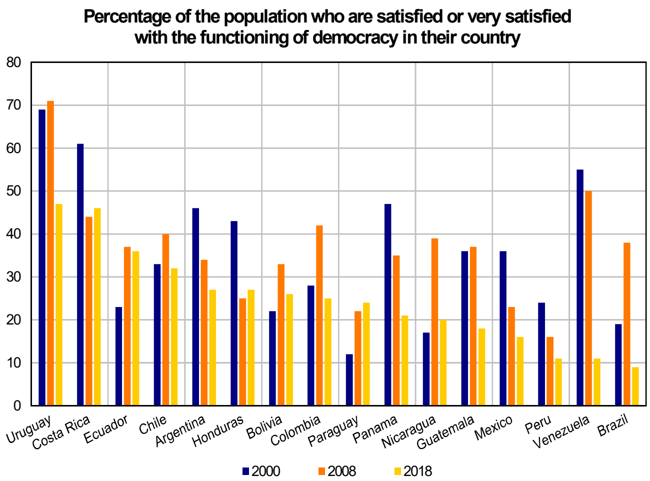
(33) 6.7 percentage points of its GDP out of total public income of 22.8% of GDP.
(34) CEPAL N. (2016), "Economic Survey of Latin America and the Caribbean 2016: The 2030 Agenda for Sustainable Development and the Challenges of Financing for Development".

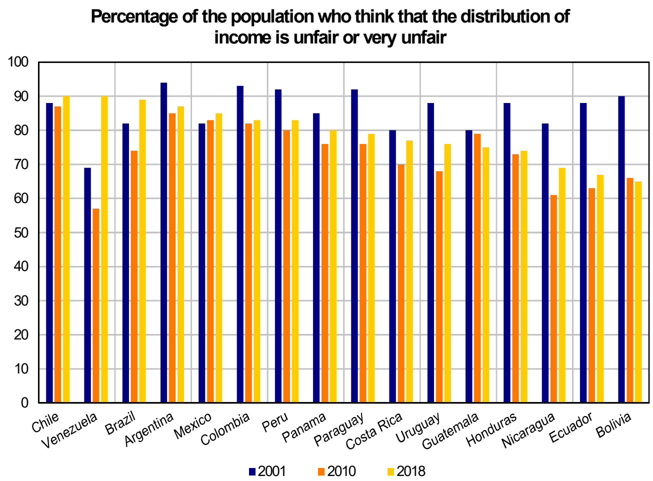
Certain sections of the population are especially vulnerable to a return to poverty due to the slump in productivity which is reducing medium-term growth potential, the economic downturn and the fact that there are scant fiscal resources for economic and social support policies.

2.2 Emergence of protests against the economic and social model

In 2019, a string of protest movements with both economic and social demands broke out in the region's countries. The movements have exposed outdated growth models and challenged the incumbent political and social order. The declining satisfaction with the functioning of democracy over the last decade is combined with higher levels of perception of inequality since 2010 – which had fallen in the 2000s (see Chart 9) – and of corruption.[35]

Chart 9: Perception of the functioning of democracy and income inequality





Source: Latinobarometro.

A number of demands are primarily economic and oppose fiscal adjustment reforms. Their roots can sometimes be traced back to the collapse of commodity prices which caused government revenue to fall as from 2014. One example is Ecuador, which had already experienced protest movements in 2015 following the introduction of new taxes, including the lowering of the inheritance tax threshold, for fiscal consolidation. In 2019, the same country's government announced the progressive phasing out of fuel subsidies as part of an IMF programme and this triggered a series of protests by hauliers and indigenous groups. In Chile, in October 2019, a 3.7% increase in the price of a Santiago metro ticket led to violent social unrest. This small price rise had followed on from substantial increases in the prices of other goods and services during 2019. These included electricity (+10.5% in May and then +9.2% in October) and motorway tolls (+6.4%), which ate into households' purchasing power. The crisis spurred the Chilean authorities to table political and structural reforms to make the tax system fairer, to improve access to public healthcare and to guarantee minimum amounts for pensions.

At the other end of the spectrum, in Bolivia, Venezuela and Peru, protests are essentially a result of severe social polarisation and primarily concern the political structure.

However, in many countries, the movements convey both political and economic demands that are sometimes compounded by heightened perception of corruption. In Central America, Nicaragua witnessed widespread protests prompted by the announcement of

(35) According to the Latinobarometro polling organisation, perception of corruption rose in 2018 compared to the previous year in the majority of countries.

pension reforms which sparked a strong political and economic opposition movement against the power and wealth held by a minority seen as being corrupt. On a smaller scale, Honduras and Costa Rica were also home to a series of protests against education and healthcare reforms aimed at facilitating privatisation in the former and carrying out fiscal adjustment in the latter. In Haiti, the combination of revelations on the use of the PetroCaribe fund[36] and an attempt to phase out fuel price subsidies led to protests, the government stepping down and the economic blockage of the country during which a third of the population faced emergency food conditions. This caused GDP to contract by 1.2%. In Colombia, the protests reflected a variety of concerns. These included demands, as from the end of 2018, for more support for public universities, unions' worries over planned fiscal adjustment, in particular as regards pensions, and frustration over delays in implementing the peace deal with the FARC. There were also broader demands concerning shortcomings in the health system, insecurity, inequality, etc.

2.3 The COVID-19 pandemic is having a major impact on economies

Among emerging and developing economies, those of Latin America are being particularly affected by the COVID-19 pandemic. Since it started, it is estimated that Latin America and the Caribbean have counted more than 1,600 cases and almost 60 deaths per 100,000 inhabitants.[37] Besides the immediate adverse effects of lockdown measures on domestic supply and demand, all the region's economies are being afflicted by external factors despite the fact that the continent is not very open to trade (23.4% of GDP in 2018), via (i) the drop in prices and demand for commodities and agri-food products, (ii) the collapse of tourism, (iii) the strong contraction in migrant remittances, which puts a drag on internal demand. This is compounded by tougher financing conditions on the international markets for emerging and developing countries, which have been posting unprecedented net capital outflows since the start of the pandemic[38] and which witnessed a depreciation of their currencies between January and late April 2020.[39] This was driven by a mainstreamed increase in risk aversion that especially endangers countries which hold foreign-denominated debt (Argentina, Ecuador, Caribbean countries). According to the IMF, Latin America is one of the continents hardest hit by the COVID-19 pandemic and the institution is now forecasting an 8.1% drop in GDP in real terms in 2020 in Latin America and the Caribbean, followed by a 3.6% recovery in 2021. Compared to other emerging economies,[40] this recovery will be weak due to governments' limited ability to support the economy in the region.

COVID-19 is slated to cause a rise in poverty and to heighten inequality, particularly in countries where households are only able to marshal limited resources (difficulty in accessing credit and low savings capacity) and are dependent on daily income. High levels of informality hinder the rollout of targeted support initiatives unless blanket measures to cover a maximum of people are introduced, as is the case in Brazil and Colombia. It is estimated that a 10% reduction in income worldwide could put 5.5 million people in extreme poverty (less than $1.9 per day (PPP)) in Latin America and the Caribbean and more than 11.5 million in poverty (less than $5.5 per day(PPP)).[41] This would eliminate much of the progress made over the last decade and could further aggravate social tensions.

(36) A Venezuelan energy alliance enabling its Caribbean partners to purchase oil from it on a concessionary basis.
(37) According to data from the European Centre for Disease Prevention and Control, between 1 January and 23 October 2020. Over the same period, Asia was thought to have had 280 cases and five deaths per 100,000 inhabitants and Africa almost 130 cases and three deaths per 100,000 inhabitants. It should be noted that the reliability of these figures varies depending on the country and its testing capacity.
(38) In Q1 2020, the Institute of International Finance estimates that over $100bn in foreign capital was withdrawn from emerging markets.
(39) Between January and the end of April, the currencies of the region's main economies experienced nominal depreciation versus the USD of –27% in Brazil, –22% in Mexico, –17% in Colombia, –10% in Chile and –10.4% in Argentina for the official exchange rate, and –34.5% in Argentina on the parallel exchange market.
(40) According to October 2020 forecasts, the recovery is expected to represent 8.0% in emerging Asia in 2021, 3.1% in Sub-Saharan Africa and 3.9% in emerging Europe.
(41) Sumner, Hoy & Ortiz-Juarez (2020), "Estimates of the Impact of COVID-19 on Global Poverty", WIDER Working Paper.

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