From Infection to Inflation: GLOBAL CRISSES HIT HARD POOR AND VULNERABLE HOUSEHOLDS IN LATIN AMERICA AND THE CARIBBEAN
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LAC Team for Statistical Development:
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Poverty & Equity Global Practice
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The numbers presented in this brief are based on two regional data harmonization efforts known as the Socio-Economic Database for Latin America and the Caribbean (SEDLAC) and the Labor Database for Latin America and the Caribbean (LABLAC), joint efforts of the World Bank and the Center of Distributive, Labor and Social Studies (CEDLAS) at the National University of La Plata in Argentina. They increase the cross-country comparability of selected findings from official household and labor surveys. For that reason, the numbers discussed here may be different from official statistics reported by governments and national offices of statistics. Such differences should not be interpreted in any way as a claim of methodological superiority because both sets of numbers serve the same important objectives: regional comparability and the best possible representation of the facts of individual countries. The welfare aggregate used in this study is income based.
ABOUT THE POVERTY REPORTS IN LAC

The Poverty and Labor Brief (PLB) and Poverty and Inequality Monitoring (PIM) series present the latest trends in poverty, inequality, and shared prosperity in Latin America and the Caribbean (LAC) using comparable regional household and labor force surveys (SEDLAC and LABLAC, respectively). The reports are produced by the Latin America and Caribbean Team for Statistical Development (LAC TSD) in the Poverty and Equity Global Practice.

PLBs and PIMs are designed to inform fact-based decision-making and discussion by providing readers with detailed and comparable statistics related to the World Bank’s twin goals of eradicating extreme poverty and boosting shared prosperity. PLBs offer a deeper explanation of the labor market as well as other issues related to poverty dynamics. PIMs, on the other hand, tend to be shorter and more specific. Along with the previous reports, many of the indicators reported in the series are available at the country level in the LAC Equity Lab website at www.worldbank.org/equitylab.

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EXECUTIVE SUMMARY

Latin America and the Caribbean (LAC) have faced extraordinary challenges over the last three years that reverted the social gains of the previous two decades. The Covid-19 pandemic, sluggish economic growth, fiscal constraints and increased debt stress, inflationary pressures, and the collateral effects of the Russian invasion of Ukraine have taken a toll on the region. These shocks have hit poor and vulnerable populations the most, increasing poverty and inequality; and moving millions out of the middle class. Yet, the region has been relatively resilient in recovering from these crises, albeit in uneven fashion. By the end of 2022, the labor markets had improved, poverty had receded, and the middle class had recovered, despite economic growth fluctuations and political instability across the region. Still, the LAC region has not completely regained its pre-pandemic socio-economic conditions in many countries and a closer look at the distributional impacts over these years could help identify opportunities.

The COVID-19 pandemic resulted in severe health impacts and a reversal in many of its socio-economic gains. The region’s gross domestic product (GDP) contracted by 6.4 percent in 2020, causing hardships for all but the richest households and increasing inequality. The socio-economic impact of the pandemic came on the back of several years of sluggish economic growth, which had weakened the capacity of the region’s governments to react. Low-skilled workers, women, and those working in the informal economy were most affected by the economic shock of COVID-19; almost one in ten (8.3%) working adults lost their jobs. During the pandemic, around 19 million people fell back into poverty, mostly in urban areas. The living conditions of poor populations also deteriorated, with Peru posting a particularly sharp widening of its poverty gap. The rise in poverty came despite impressive government efforts to cushion COVID-19’s negative impacts on people’s livelihoods. The one notable exception in this regard is Brazil, where a successful cash transfer program compensated for almost all the income losses experienced by poor households. A rare upside of the pandemic was the increase in internet use, which was seen most strongly in respect of digital banking. This shift in behavior helped foster financial inclusion, although internet access remains far from universal or evenly spread.

The unprecedented disruption to education and health during the COVID-19 pandemic will leave lasting scars on human capital accumulation and the welfare of an entire LAC generation. During the pandemic, children across the region encountered severe disruptions to their learning, with more than 75 percent of their total instruction time lost due to school closures. Parents and governments both tried to provide alternative schooling opportunities, but learning losses remained severe, especially for children in poor households. In addition, a rise in food shortages impacted many children’s physical and cognitive development, with levels of child stunting expected to rise as a result. The combined effect of these twin educational and health shocks is likely to be a reduction in future labor incomes for today’s school-age cohort. In 2045, they are projected to be earning 6.4 percent less than they would have earned were it not for the pandemic only due to learning losses. This income reduction will result in an estimated increase in poverty rates of around 1.7 percentage points, equivalent to five million more people falling into poverty than would otherwise be the case.

A year after the onset of COVID-19, the region is bouncing back, yet not sufficiently fast to put the worst effects of the pandemic behind it. A combination of uneven access to vaccines, sporadic containment measures, and an enfeebled labor market has stopped welfare standards from returning to their pre-pandemic levels. By 2021, a proportion of the nine million jobs lost during the pandemic had
been regained, but employment levels remain 3.1 percentage points below the immediate pre-pandemic period. Furthermore, many of these regained jobs are of a lower quality than before. Most notably, levels of self-employment and informality have grown, while formal labor has seen a shift away from secure employment in large firms to insecure work in small firms. In the long term, this may well result in negative effects on the region’s productivity, as well as on labor demand. More immediately, households are experiencing an ongoing deterioration of their welfare standards. Fiscal constraints have reduced ‘governments’ capacity for public transfers (which helped mitigate some of the pandemic’s worst effects, especially in Brazil), while private remittances have also fallen. As a result, many poor households are struggling to meet their basic needs. Even though poverty was reduced in 2021, around ten million additional people remained impoverished. Moreover, the pandemic eroded their financial assets, leaving them less able to cope with shocks in the future. This situation contrasts with the experience of the richest quintile, who have bounced back quickly, enlarging the region’s already sizeable economic divide.

The knock-on effects of global events have stymied LAC’s recovery in the early stages of the post-pandemic period. Russia’s invasion of Ukraine in early 2022 and its impact on international fuel and food prices have caused average inflation in the region to reach 8.9 percent (excluding Argentina). This sharp rise in prices is hampering households’ purchasing power and causing employment quality (but not quantity) to remain below previously projected levels. Poor households are especially vulnerable in light of their experience of food insecurity and reduced savings during the pandemic. While some benefit has come to net food-producer households from higher commodity prices, this has been offset (in part or in total) by higher input costs, notably fertilizers. At the same time, LAC countries have limited fiscal room for additional social programs. Poverty levels are subsequently forecast to hit 31.0 percent in 2022 (excluding Brazil), a rise of 1.3 percentage points on 2019 levels (equivalent to around eight million individuals). Inequality is also expected to grow, with a projected half-point rise in the Gini coefficient compared to the period prior to the Ukraine conflict.

The weak economic outlook for 2023 will slightly improve employment and labor incomes, but poverty will remain above pre-pandemic levels. On average, employment in LAC is likely to be 0.9 percent above total employment in 2019, representing a creation of about 1.5 million jobs across the region. This job creation will be accompanied by lower quality, leaving many workers exposed to higher levels of vulnerability and income shocks. Moreover, average labor income would increase slightly (0.3 percent), which is not enough to reach pre-pandemic levels (i.e., 3 percent below its pre-pandemic levels). Excluding Brazil, poverty rates at US$6.85 a day (2017 PPP) are expected to reduce 0.2 percentage points, lifting 300,000 individuals out of poverty in 2023. Considering Brazil, poverty rates are also expected to decline from 28.6 percent in 2022 to 28.3 percent in 2023. Yet, poverty levels will remain above pre-pandemic levels (1.1 percentage points excluding Brazil and 0.1 percentage points including Brazil). A slight recovery in the middle class is also expected in 2023, but total numbers still below pre-pandemic levels. Excluding Brazil, the middle class will mildly increase from 34.3 percent in 2022 to 34.5 in 2023, 1.5 percentage points below pre-pandemic levels. Yet, including Brazil, the middle class is expected to decrease by 0.1 percentage points from 37.1 percent in 2022 to 37.0 percent in 2023, with about one million people falling out of this population segment.

Despite the challenges ahead, the LAC region has the potential to overcome them in its traditional areas of comparative advantage and the opportunities arising from resilient green growth. As shown in the report *The Promise of Integration: Opportunities in a Changing Global Economy*, the region needs to complement long-term structural reforms to reduce systemic risk, raise the level and
quality of education, invest in infrastructure, and ensure well-functioning financial markets with a comprehensive approach to integrate the region into the global economy, particularly the US and European markets. In addition, it needs to take advantage of its comparative advantage in the green economy. The transition to the green economy could be an opportunity to improve well-being in the region by creating new quality jobs, enhancing labor incomes, and contributing to poverty reduction. However, this transition will demand a significant change to labor markets in LAC countries. This change will create new jobs but at the same time it could potentially destroy jobs and displace workers in many sectors. This process will require investment in human capital for the training and reskilling of workers. It will also demand well-designed social programs to protect the most vulnerable during the transition (e.g., active labor market programs), as well as incentives for informal workers to shift to new productive firms involved in green technologies.
A Global Pandemic: Impacts on Poor, Vulnerable, and Middle-Class Households
A Global Pandemic:
IMPACTS ON POOR, VULNERABLE, AND MIDDLE-CLASS HOUSEHOLDS

Latin America and the Caribbean (LAC) has been one of the regions in the world most severely affected by the COVID-19 pandemic since the first case was identified in Brazil in February 2020. As of December 31, 2022, almost 80 million positive COVID-19 cases were reported. Of these, 1.7 million resulted in deaths. This makes LAC the third most affected region with the highest numbers behind Europe and the Western Pacific. Official tracking data show that Brazil, Argentina, Mexico, and Colombia represent 75 percent of the region’s reported cases. The two largest countries in the region – Brazil and Mexico – have seen the highest death numbers, with more than 693,734 and 331,450, respectively. With approximately 36 million infections, Brazil is the sixth-worst affected country worldwide, after the United States, China, India, France, and Germany. Also, countries in the region have been disproportionally affected by excess mortality rates (i.e., the number of deaths above what is usually expected at that time of year) due to COVID-19. Peru, Mexico, Bolivia, and Ecuador have suffered peaks in mortality that are more than triple the size of those usually experienced across the pandemic period. Brazil and Uruguay, meanwhile, were hit much harder in 2021 than in 2020. Within countries, there are also substantial differences in respect of the disease’s impact. For example, urban centers registered higher numbers of identified COVID-19 cases than rural areas.

FIGURE I-1: LATIN AMERICA WAS SEVERELY AFFECTED BY COVID-19

Panel A. Confirmed cases
Panel B. Confirmed deaths

Source: WHO COVID-19 Dashboard
Note: Confirmed cases of COVID-19 in these maps are as of December 31, 2022.

The region’s economic growth plummeted due to the health crisis with significant socioeconomic impacts. The combination of several years of sluggish economic growth, limited progress in poverty reduction, and an unstable social environment meant that the region was ill-prepared to deal with such a global crisis. Economic activity slowed down due to government-imposed national lockdowns, travel restrictions, school closures, social-distancing measures, risk aversion among households and firms, and spillovers from a shrinking global economy. As a result, LAC’s gross domestic product (GDP) contracted by 6.4 percent in 2020, the deepest among the six emerging markets (China, South Africa, Brazil, Mexico, India, and Russia) and developing economies. However, there were significant differences across countries in the region. Brazil’s economy declined by almost 4 percent, while the economies of Mexico and Argentina shrank by 8.0 percent and almost 10 percent, respectively. For its part, Central America saw a contraction in its overall GDP of 7.6 percent (World Bank, 2021a).

**BOX I-1: POVERTY LEVELS FOR LAC COUNTRIES, WITH DATA COLLECTED AT MULTIPLE POINTS DURING THE PANDEMIC**

Generally, poverty is monitored with indexes estimated as the annual average, given that significant changes are not expected over a short period after accounting for seasonal variation. For instance, in 2018 and 2019, poverty rates presented a small quarterly variation or were on par with or slightly below annual poverty rates in four LAC countries with continuous surveys – namely, Argentina, Colombia, the Dominican Republic, and Peru. However, this stable behavior throughout the year only holds in 2020. Following the onset of the pandemic, poverty rates showed staggering increases in the second and third quarters of 2020.

In 2020, countries’ continuous surveys revealed significant income variability resulting from both the peak of the pandemic and the progressive lifting of restrictions on movement and economic activity. For instance, most countries suffered a drastic increase in poverty rates in the second quarter of 2020 before declining gradually in the third quarter. This behavior reflected containment measures that constrained economic activity and resulted in significant job and income loss, thereby increasing the size of the bottom quintile of the income distribution. Overall, the COVID-19 pandemic considerably increased poverty in each of the four countries, with surveys at the quarterly and annual levels.

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2 The last quarter of 2019 shocked the LAC region with an outbreak of strikes, protests, and riots, resulting in considerable violence on the streets of Chile, Colombia, Ecuador, and other countries. Protesters had many demands, mostly related to economic policies and better opportunities, while others were clearly political in nature. However, levels of violence were high across the board, leading to large numbers of dead and injured as well as significant material damage (World Bank, 2020a).


4 The decline in GDP growth in the region was more severe than during the Debt Crisis of the 1980s and the 2009 global financial crisis when the economy contracted by 2.5 and 1.9 percent, respectively (World Bank, 2021b; World Bank, 2021c).

5 GDP growth for this report version corresponds to estimates for March 23, 2023.
The second-quarter poverty levels rose by 20 percentage points above the annual average using the $6.85 line/day (2017 Purchasing Power Parity [PPP]). More specifically, poverty reached up to 62.6 percent in Peru (compared to an annual rate of 43.0 percent), 52 percent in Colombia (with a 42.2 percent annual rate), 16.4 percent in Argentina (14.1 percent annual rate), and 26.3 percent in the Dominican Republic (23.2 percent annual rate). Comparatively, however, increases in Argentina and the Dominican Republic were not as stark as in Peru and Colombia, where annual poverty rates were more than 10 percentage points above their 2019 levels (Figure B.I-1 – Panel A).

The increase in poverty rates also affected the extremely poor population, exacerbating existing inequalities. The second-quarter poverty levels, which are calculated using the $2.15 line/day (2017 PPP), increased up to 9 percentage points above the annual average. Although poverty rates also rose in Argentina (0.7 percentage points) and the Dominican Republic (0.8 percentage points), the increases were not as pronounced as in Peru (8.6 percentage points) and Colombia (7.1 percentage points) (Figure B.I – Panel B).

In most LAC countries, surveys are collected during the second half of the year. For instance, Bolivia, Costa Rica, and Ecuador implement household surveys every year in October, July, and December. This information allows for a year-on-year comparison of welfare and poverty indicators. In the specific case of COVID-19, however, this approach might mean that the peak of the pandemic is not fully captured.
The COVID-19 pandemic rapidly eroded most poverty reduction gains of the recent past. In the early 2000s, the region made significant progress in the fight against poverty, with the poorest households benefitting the most from sustained economic growth up until 2014. Since then, poverty reduction in the region has been modest, with a gradual increase in the size of the middle class. This trend was abruptly interrupted by the pandemic when poverty rose for the first time in decades. Excluding Brazil, regional poverty rates measured at $6.85 a day (2017 PPP) increased from 29.4 percent in 2019 to 34.4 percent in 2020, with approximately 19 million people falling into poverty (Figure I-2 – Panel A). This sharp increase is heavily influenced by a rise in poverty of 14.2 percentage points in Peru during 2020. The rise was the highest in the region, doubling the increase seen in Colombia (7.4 percentage points) and Costa Rica (6.2 percentage points) (Figure I-2 – Panel B). As a result, poverty rates in many LAC countries have been set back by seven years or more.\(^6\) However, when Brazil is included, there are no significant changes in poverty in the region between 2019 and 2020. The effectiveness of

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\(^6\) For instance, poverty rates in Argentina reverted to the levels in 2008, Costa Rica to levels in 2008-09, and Peru to levels in 2009-10.
the fiscal package that provided direct cash transfers targeted to informal or own-account workers and low-income families, benefiting 67 million individuals prevented Brazil from joining the rest of the LAC region in observing their poverty levels increase (World Bank, 2022).\footnote{Despite being one of the countries hit the hardest by COVID-19, Brazil introduced a social protection program (Auxílio Emergencial) that stood out for its generosity, speed, and coverage, as well as for its innovative design. The program reached 55.6 percent of the population and was targeted mainly at informal and own-account workers. It employed a registration process that combines administrative records and registration using a website or an app. For benefits payments, digital bank accounts were created without cost for beneficiaries at the federal savings bank, CAIXA. This new bank account included possibilities for digital banking operations without needing physical cards or digital transactions, thus avoiding agglomerations in the payment process. The initiative was originally designed to act as a temporary unconditional cash transfer program. In the end, however, it was extended through three waves between April 2020 and October 2021 (World Bank, 2021d).}

\section*{FIGURE I-2:}
\textbf{THE PANDEMIC REVERTED THE GAINS IN POVERTY REDUCTION AND MIDDLE-CLASS GROWTH IN LAC}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure.png}
\caption{Panel A. Poverty headcount at $6.85 per day (2017 PPP), with and without Brazil}
\caption{Panel B. Changes in socioeconomic classes by country (2020 vs. 2019)}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart.png}
\caption{Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank). Note: Since the numbers presented here are based on Socio-Economic Database for Latin America and The Caribbean (SEDLAC), which is a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. The LAC aggregate is based on 18 countries in the region for which microdata are available. In cases where data are unavailable, values have been interpolated or extrapolated using data from the World Bank Development Indicators (WDI) and then pooled to create regional estimates (2014 backward) and microsimulations (from 2015 onwards). Due to important methodological changes in Mexico’s official household survey in 2016 that created a break in the poverty series, we have created a break in the LAC-18 aggregate.} 
\end{figure}
The middle class was not excluded from this massive shock and reduced its size in most LAC countries. The COVID-19 pandemic reversed the gradual rise in the size of LAC’s middle class (see BOX I-2). By 2019, 36 percent of the population in Latin America was considered middle class (excluding Brazil), amounting to approximately 132 million people. Yet, this number contracted by 4 percentage points in 2020 due to the COVID-19 crisis, resulting in a net loss of 13.2 million people from the middle class. The decline was less severe in Paraguay, Uruguay, and Bolivia. Contrary to the rest of the region, the middle-class size in Brazil increased by 2.1 percent points. This is explained by the generous emergency transfer program implemented by the government, which not only protected low-income families but also reached broader segments of the population, including middle-class workers lifting many people from falling into the income distribution (World Bank, 2021d). While most governments in LAC countries also provided direct cash transfers as a buffer for income loss, its effectiveness was not like Brazil because they were implemented for a short period of time with inefficiencies in targeting mechanisms that were often unable to reach people in the middle of the income distribution or urban areas. Also, most government responses relied on introducing new programs that combine different identification mechanisms such as open registration, social registries, tax databases, and others (Gentilini, 2022). In Peru, for instance, the government was forced to rapidly update its household registry because its social protection system failed to identify vulnerable and poor urban households and suffered from leakages at the top of the income distribution, which limited its effectiveness despite having one of the largest mitigation packages in the region (World Bank, Forthcoming).

**BOX I-2:**
NEW POVERTY, PLUS VULNERABLE AND MIDDLE-CLASS LINES

**Poverty lines**

International poverty lines (IPLs) are based on Purchasing Parity Power (PPP) exchange rates. This allows for the IPLs to be converted into a common currency while at the same time accounting for differences in relative prices across countries. The World Bank released an updated version of the PPP exchange rates in May 2020, which triggered the update of the IPLs in September 2022.

Poverty data are now expressed in 2017 PPP rates versus 2011 PPP rates, as in previous editions. As price levels across the world evolve, IPLs must be periodically updated to reflect the increase in the value of the lines in nominal terms. The new extreme poverty line of $2.15 per person per day, which replaces the $1.90 poverty line, is based on 2017 PPP rates. The higher poverty lines typically used to measure poverty in lower middle-income countries (LMICs) and upper middle-income countries (UMICs) are also updated from $3.20 (2011 PPP) to $3.65 (2017 PPP) and from $5.50 (2011 PPP) to $6.85 (2017 PPP), respectively.

In addition to reflecting updates in nominal terms, upper-middle-income countries raised the standards by which they determine people to be poor from 2011 to 2017. Hence, the increase in the upper line is larger, while the population that does not meet the new standard is also higher in most countries than it was with the 2011 PPP rate. See [https://pip.worldbank.org/home](https://pip.worldbank.org/home).
At the regional level, the change from 2011 to the 2017 PPP rates induces a relatively small change in extreme poverty and poverty at $3.20 or $3.65 a day in the 2011 PPP or 2017 PPP. The 2017 PPP slightly increased historical estimates by less than 0.3 percentage points at $2.15 in 2011 and 0.9 percentage points at $3.65 in 2017. These shifts represent 1.9 and 4.8 million additional people in extreme poverty and poverty, respectively. However, poverty downward trends are similar for both 2011 and 2017 PPP rates, irrespective of the threshold.

While there are no significant changes in poverty levels at both $2.15 and $3.65 a-day lines (2017 PPP), poverty increases markedly in the LAC region when using the $6.85 line (2017 PPP) relative to the $5.5 line (2011 PPP).* In 2017, regional poverty changed by 5 percentage points, or 27 million more poor people, with the 2017 PPP.

**Vulnerability and middle-class lines**

Monitoring poverty is not enough to describe the evolution of living conditions in LAC. It is important not only to lift poor households above the minimum income threshold (poverty line) but also to protect vulnerable households (those close to the poverty line) from falling back into poverty. Moreover, as countries grow and move toward middle-class income status (which characterizes most LAC countries today), it becomes imperative to analyze the transitions into the middle class over time. Thus, at any point in time, an individual can be classified as being poor (based on the IPL for LMICs and/or UMICs), as being vulnerable, or as being in the middle class.

Following the new international poverty lines, Fernandez, Olivieri, and Sanchez (2022) proposed a two-step methodology for updating vulnerability and middle-class lines in LAC, expressed in 2017 PPP rates. Findings indicate that updating the $13 line in 2011 PPP to 2017 PPP results in a $14 per person per day vulnerability line (lower bound). The study also estimates a middle-class line (upper bound) of $81 per person per day in 2017 PPP, compared with $70 per person per day in 2011 PPP.

Overall, the vulnerable population (share of the population living between $5.5 and $13 a day, or $6.85 and $14 a day expressed in 2011 PPP or 2017 PPP, respectively) decreases 5.4 percentage points with the 2017 PPP. This represents 31 million fewer vulnerable people in the region for 2017. This decrease in vulnerability when comparing the 2011 and 2017 PPP lines is mainly explained by the almost equivalent increase in the poverty rate below the $6.85 poverty line.

On the other hand, the middle class has slightly increased in the region and remains the largest socioeconomic group in the LAC region since 2010. This group is measured as the share of the total population between $13 and $70 a day or $14 and $81 a day expressed in 2011 PPP or 2017 PPP, respectively. While the middle class has experienced considerable growth, changes in vulnerable populations have been relatively small between 2010 and 2019. In 2020, during the first year of the pandemic, vulnerability increased by 1.8 percentage points while the middle class decreased by 1.8 percentage points (2017 PPP), down to 2015-2016 middle-class levels.

*Jolliffe, et al. (2022) point out that the change in PPP rates only accounts for the increase between $5.5 and $6.32, quite far from the final $6.85 line. The relatively high increase in the upper-middle-income line is partially driven by real upward shifts in the national poverty lines of upper-middle-income countries. Part of this can be explained by some of these countries now being high-income countries. (For further details, see Jolliffe, et al. 2022).
More importantly, the COVID-19 crisis significantly deteriorated the living conditions of poor households. Despite no changes in the average poverty gap in Latin America, the poverty gap increased significantly in the Andean and Central American countries during the pandemic. In Andean countries, the poverty gap widened by nearly five percentage points from 11.6 percent in 2019 to 16.5 percent in 2020. However, this level is still three percentage points lower than in Central American countries and four times higher than the countries in the Southern Cone in 2020 (Figure I-3). After the health shock, Peru went from being ranked fifth in 2019 to second in 2020 as the country with the largest poverty gap, only behind Colombia and surpassing Ecuador. This reappraisal marked a reverse of decades of progress for Peru in improving living conditions.

**FIGURE I-3:**
POOR POPULATIONS ALSO SUFFERED A DETERIORATION IN LIVING CONDITIONS

Households living in urban areas were more likely to experience increases in poverty due to the health crisis. While rural poverty rates are still higher than those in urban areas, the share of urban poor in cities exceeds those in rural areas. It has increased significantly across LAC countries due to the COVID-19 pandemic. Stringent health containment measures brought a large share of economic activity to a halt in urban areas, leaving many urban poor and vulnerable without means of subsistence almost overnight. Also, the prevalence of informality and their lower digital inclusion worsened the shock among the urban poor.

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).

Note: Since the numbers presented here are based on Socio-Economic Database for Latin America and The Caribbean (SEDLAC), which is a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. The LAC aggregate is based on 18 countries in the region for which microdata are available. In cases where data are unavailable, values have been interpolated or extrapolated using data from the World Bank Development Indicators (WDI) and then pooled to create regional estimates (2014 backward) and microsimulations (from 2015 onwards). Due to important methodological changes in Mexico’s official household survey in 2016 that created a break in the poverty series, we have created a break in the LAC-18 aggregate. Brazil and Mexico are not part of the aggregate of subregions. The Andean region is the aggregate of Bolivia, Colombia, Ecuador and Peru. The Central America Region is the aggregate of Costa Rica, Guatemala, Honduras, Nicaragua, Panama, El Salvador, and the Dominican Republic and Southern Cone Region is the aggregate of Argentina, Chile, Paraguay and Uruguay.
From Infection to Inflation: Global crises hit hard poor and vulnerable households in Latin America and the Caribbean

(Talierico O’Brien & Ñopo, 2022). Excluding Brazil, urban poverty rates measured at $6.85 a day (2017 PPP) increased by six percentage points from 22 percent in 2019 to 28 percent in 2020, representing about two third of the total poor under $6.85 a day (2017 PPP) poverty line in the region (Figure 1– Panel A). However, when Brazil is included, urban poverty rates only increased by one percentage point across region between 2019 and 2020 (Figure 1– Panel B). This slight increase is explained by the effectiveness of the emergency package implemented in Brazil in targeting low-income families, informal workers, and the self-employed in urban areas (World Bank, 2022).

**FIGURE I-4: POVERTY INCREASED SIGNIFICANTLY FOR HOUSEHOLDS IN LIVING IN URBAN AREAS**

Panel A. LAC with Brazil

Panel B. LAC excluding Brazil

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).

Note: The LAC aggregate is based on 18 countries in the region for which microdata are available. In cases where data are unavailable, values have been interpolated or extrapolated using WDI data and then pooled to create regional estimates (2014 backward) and microsimulations (from 2015 onwards). Due to important methodological changes in Mexico’s official household survey in 2016 that created a break in the poverty series, we have created a break in the LAC-18 aggregate.
The increase in urban poverty and the decline in the middle classes changed the profile of poor populations during the pandemic. For instance, the poor during COVID-19 are more likely to have higher levels of education than those living below the poverty line before the pandemic. Excluding Brazil, the poor with at least some secondary education or more increased from 43.4 percent in 2019 to 49.7 percent in 2020 (Table I-1). Yet, those with higher education levels are expected to be better suited to benefit from any future recovery in jobs and opportunities as the region recovers from the pandemic. Also, the profile shows that the new poor are more likely to be working-age adults and unemployed than the existing poor. They are also less likely to work as salary workers or self-employed compared to pre-pandemic levels. In addition, the poverty profile profiles suggest that the new poor are more likely to work outside agriculture and in the services sectors.

TABLE I-1: CHANGES IN THE PROFILE OF POOR AND MIDDLE CLASS IN LAC DURING THE PANDEMIC

<table>
<thead>
<tr>
<th>Age Groups</th>
<th>LAC with Brazil</th>
<th></th>
<th>LAC excluding Brazil</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Poor</td>
<td>Middle Class</td>
<td>Poor</td>
<td>Middle Class</td>
<td></td>
</tr>
<tr>
<td>0-14</td>
<td>36.3</td>
<td>13.3</td>
<td>36.3</td>
<td>14.0</td>
</tr>
<tr>
<td></td>
<td>35.8</td>
<td>15.2</td>
<td>38.2</td>
<td>16.0</td>
</tr>
<tr>
<td>15-24</td>
<td>18.3</td>
<td>13.7</td>
<td>18.5</td>
<td>14.1</td>
</tr>
<tr>
<td></td>
<td>18.0</td>
<td>15.0</td>
<td>17.1</td>
<td>15.4</td>
</tr>
<tr>
<td>25-40</td>
<td>22.8</td>
<td>25.0</td>
<td>23.0</td>
<td>25.4</td>
</tr>
<tr>
<td></td>
<td>21.4</td>
<td>23.8</td>
<td>20.3</td>
<td>24.1</td>
</tr>
<tr>
<td>41-64</td>
<td>18.4</td>
<td>33.1</td>
<td>18.3</td>
<td>32.1</td>
</tr>
<tr>
<td></td>
<td>19.4</td>
<td>31.3</td>
<td>18.1</td>
<td>30.7</td>
</tr>
<tr>
<td>65+</td>
<td>4.2</td>
<td>14.9</td>
<td>4.0</td>
<td>14.3</td>
</tr>
<tr>
<td></td>
<td>5.5</td>
<td>14.8</td>
<td>6.3</td>
<td>13.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education</th>
<th>LAC with Brazil</th>
<th></th>
<th>LAC excluding Brazil</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Average Years of Education</td>
<td>5.9</td>
<td>9.3</td>
<td>5.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Never attended</td>
<td>14.3</td>
<td>7.6</td>
<td>16.3</td>
<td>7.5</td>
</tr>
<tr>
<td>Incomplete Primary</td>
<td>35.4</td>
<td>22.1</td>
<td>40.6</td>
<td>21.0</td>
</tr>
<tr>
<td>Complete Primary</td>
<td>8.9</td>
<td>7.3</td>
<td>8.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Incomplete Secondary</td>
<td>17.7</td>
<td>9.3</td>
<td>15.7</td>
<td>10.4</td>
</tr>
<tr>
<td>Complete Secondary</td>
<td>17.4</td>
<td>23.3</td>
<td>14.9</td>
<td>23.2</td>
</tr>
<tr>
<td>Incomplete Tertiary</td>
<td>4.1</td>
<td>11.9</td>
<td>2.8</td>
<td>12.5</td>
</tr>
<tr>
<td>Complete Tertiary</td>
<td>2.3</td>
<td>18.5</td>
<td>1.2</td>
<td>17.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Informality</th>
<th>LAC with Brazil</th>
<th></th>
<th>LAC excluding Brazil</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2019</td>
<td>2020</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Informal Workers</td>
<td>79.0</td>
<td>32.9</td>
<td>79.8</td>
<td>33.2</td>
</tr>
<tr>
<td>Employer</td>
<td>0.8</td>
<td>4.5</td>
<td>0.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Not salaried</td>
<td>11.7</td>
<td>1.9</td>
<td>9.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Salaried worker</td>
<td>28.2</td>
<td>63.6</td>
<td>35.0</td>
<td>65.4</td>
</tr>
<tr>
<td>Self-employed</td>
<td>33.7</td>
<td>23.3</td>
<td>33.0</td>
<td>22.8</td>
</tr>
<tr>
<td>Unemployed</td>
<td>25.5</td>
<td>6.6</td>
<td>21.7</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).
Note: The LAC aggregate is based on Argentina, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, Paraguay, and Uruguay for which microdata are available for both 2019 and 2020.
The COVID-19 pandemic also pushed back gains in regional shared prosperity.\(^8\) Prior to the economic slowdown, shared prosperity in LAC was relatively high. Between 2016 and 2019, income growth for the bottom 40 percent increased by 1.6 percent, 0.5 percentage points higher than the income growth for the total population of 1.1 percent (Figure I-5 – Panel A). During this period, the top five performers were Bolivia, El Salvador, the Dominican Republic, Paraguay, and Panama, with an average rate of total growth income of about 3.4 percent, compared to 5.5 percent for the bottom 40. This gain reversed for most countries after the COVID-19 outbreak. Between 2019 and 2020, the region reported a negative shared prosperity premium and growth in total income of -0.7 percent and -5.9 percent, respectively.\(^9\) For Argentina, Ecuador, Costa Rica, Colombia, and Peru, which were the worst five performers during this period, growth in the income of the bottom 40 declined between 11.8 percent and 26.3 percent (Figure I-5 – Panel B).

**FIGURE I-5:**
The pandemic also pushed back gains in regional shared prosperity

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\(^8\) Shared prosperity measures the extent to which economic growth is inclusive by focusing on household consumption or income growth among the poorest population rather than on total growth.

\(^9\) The shared prosperity premium is the difference between the income growth rate of the poorest 40 percent of the population and the annualized growth rate for the whole population.
Inequality increases during the pandemic despite substantial government efforts to cushion the impact of the health crisis in most countries. The Gini coefficient (excluding Brazil) increased by 0.5 points during the pandemic, from a 2019 value of 48.9 to 49.4 in 2020. But the opposite occurs when including Brazil. With Brazil, the increase in inequality fades and even declines, indicating the effectiveness of the mitigation program implemented by the Brazilian government to cope with the adverse effects of the pandemic (Figure I-6 – Panel A). The increase in inequality (excluding Brazil) is also reflected by the growth incidence curve, which plots growth rates at each quantile of per capita income. Between 2015 and 2019, except for the bottom decile (which already had a decline in income growth of 0.4 percent), there was a moderate average increase in income growth across the income distribution of 1 percent. This indicates that countries in the region experienced stagnation in income growth. By contrast, most percentiles registered income losses between 2019 and 2020 when excluding Brazil. Losses during this period for wealthier households were nearly half those for the bottom percentile. This amounts to a reversal of regional inequality trends that worsened during the COVID-19 pandemic. When Brazil is included, however, the bottom of the distribution experienced relative income increases due to government transfers that mitigated the impact of the crisis (Figure I-6 – Panel B).

**FIGURE I-6:** Labor incomes of households at the bottom of the income distribution were severely affected, which increased inequality

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).

Note: Since the numbers presented here are based on Socio-Economic Database for Latin America and The Caribbean (SEDLAC), which is a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. The LAC aggregate is based on 18 countries in the region for which microdata are available. In cases where data are unavailable, values have been interpolated or extrapolated using WDI data and then pooled to create regional estimates (2014 backward) and microsimulations (from 2015 onwards). Due to important methodological changes in Mexico’s official household survey in 2016 that created a break in the poverty series, we have created a break in the LAC-18 aggregate.
What were the underpinning factors that contributed most to these changes in poverty and inequality?

**Lockdown and safe-distancing measures extensively contributed to saving lives.** Between April and September 2020, LAC registered a sustained decrease in new COVID-19 cases and deaths because of containment and closure policies, such as school shutdowns and movement restrictions (Figure I-7). As these policies became stronger (reflected in a higher stringency index), countries were able to flatten the curve and decongest their emergency health services. The result was a demonstrable decline in the spread and mortality of the disease.

**FIGURE I-7:**
**LOCKDOWN AND SAFE-DISTANCING MEASURES IMPLEMENTED BY GOVERNMENTS HELPED TO SAVE LIVES**

COVID-19 & stringency in Latin America and the Caribbean, April – September, 2020

Despite the positive effects on public health, non-pharmaceutical interventions also led to dramatic declines in employment and working hours in Latin American countries. In 2020, about 14 million jobs were lost in the region, more than two thirds of which occurred in Brazil, Colombia, and Peru. Job losses in each of these three countries numbered more than two million (Figure I-8 – Panel A). However, Costa Rica registered the highest job losses relative to total employment, with a drop of 14.2 percent in 2019. Next were Peru and Colombia, with a decline of 12.7 percent and 11 percent of total employment in 2019, respectively. In Brazil, Panama, and El Salvador, the drop in employment relative to total employment in 2019 was in line with the LAC average of 8.3 percent (Figure I-8 – Panel B).

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10 The pandemic’s impact on Latin American labor markets has been profound and long-lasting. The pandemic is an unusual economic shock that affected both labor supply and demand (Baqaee & Farhi). On the supply side, lockdowns and mobility restrictions in the region limited the ability of people to supply work. At the same time, these interventions combined with firms’ supply chain problems to limit consumer demand. Consequently, the demand for labor fell significantly worldwide (Chetty, Friedman, Hendren, Stepner, & others, 2020).
Job losses had a significantly negative impact on vulnerable groups in the region. The workers hit the hardest by the COVID-19 crisis were the youth, low-educated individuals, and those in informal employment and the bottom-40. Employment losses represented about 15 percent of the total employment of these groups in 2019. Employment losses for women represented 10.7 percent of total employment in 2019, which is about 4.3 percentage points higher than the figure for men (Figure I-9). This difference in job losses is explained by the fact that women in the region were more likely to work in face-to-face occupations, such as tourism, and in occupations that were unlikely to be undertaken from home, such as personal care services (Del Carpio & Romero Haaker, 2021). In 2020, the gap in job losses was the highest by education level. Job losses for workers with primary education or less were
about 11 percentage points higher than for workers with tertiary education. However, loss rates were similar for youth, informal workers and the bottom-40 – at about 14 percent of the total employment of these groups in 2019.

**FIGURE I-9:**
WOMEN, YOUTH, LOW-EDUCATED, AND INFORMAL WORKERS WERE HIT HARD BY JOB LOSSES

Job losses, 2020-19

<table>
<thead>
<tr>
<th>Gender</th>
<th>Age</th>
<th>Education</th>
<th>Sector</th>
<th>Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>-10.7%</td>
<td>-6.5%</td>
<td>-12%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Male</td>
<td>-15.9%</td>
<td>-9.9%</td>
<td>-13.4%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Young</td>
<td>-14.8%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Prime age</td>
<td>-6.9%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Senior</td>
<td>-11.5%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Less than primary</td>
<td>-12%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Primary complete</td>
<td>-6.2%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Secondary complete</td>
<td>-2.3%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Tertiary complete</td>
<td>-11.5%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Formal</td>
<td>-8.2%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Informal</td>
<td>-8.2%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Bottom 40</td>
<td>-15.9%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Top 60</td>
<td>-15.9%</td>
<td>-9.9%</td>
<td>-14.8%</td>
<td>-6.3%</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).

Note: The LAC aggregate is based on 12 countries for which microdata are available in both 2019 and 2020. Job losses refer to changes in total employment.

Loss of employment had an immediate impact on working hours and labor income across countries. Between 2019 and 2020, working hours in LAC decreased by 3.3 hours per week. Some countries in the region were more affected than others. In Argentina, Costa Rica, Peru, and Ecuador, for instance, the decline in working hours in 2020 ranged from 7.1 percent to 10.8 percent. (Figure I-10 – Panel A). Also, most countries showed a drop in labor incomes due to the COVID-19 crisis. Peru and Ecuador had the highest reduction in labor income, with rates exceeding 15 percent between 2019 and 2020 – more than double the LAC average (Figure I-10 – Panel B). Excluding the case of Brazil, these reductions in employment and labor income, respectively contributed 4.5 and 3.6 percentage points to the region’s total increase in poverty (i.e., 6.7 percentage points) (Figure I-11 – Panel A). Contrary to the rest of the region, labor income in Brazil increased by 3.5 percent between 2019 and 2020. One factor contributing to this rise is the fact that most workers who kept their jobs had higher incomes than those who lost their jobs or left the labor market. This is reflected in the contribution of labor income to the movement in poverty, which fell from 4.5 to 2.3 percentage points. Given the importance of labor income to alleviating poverty in LAC – especially over the last twenty years – the labor income plunge in most countries represents a risk to the region’s longer-term recovery and its poverty reduction.

11 The plunge in working hours was above the LAC average for workers with secondary complete or less, seniors, self-employed, and those in the bottom 40, ranging from 4.1 percent to 4.9 percent between 2020 and 2019.
Mitigation policies and private transfers partially offset labor income losses in most countries. Governments throughout the region implemented large-scale mitigating policies to protect the most vulnerable populations. Examples include the expansion of cash transfers, changes to social insurance plans, and the extensive use of employee furlough programs (Gentilini, Almenfi, Orton, & Dale, 2020). Public transfers have been particularly important, representing 4.7 of total per capita income in 2020, which is an
increase of 3.4 percentage points from the 2016-19 period. Excluding Brazil, these transfers drove regional poverty rates down by 2.3 percentage points during the pandemic. This proportion more than doubles when Brazil is included (Figure I-11). Public transfers contributed the most to pushing poverty down in Peru, the Dominican Republic, and Brazil in 2020 (3, 5.7, and 9.1 percent, respectively).

**FIGURE I-11:**
**INCREASE IN PUBLIC TRANSFER PARTIALLY OFFSET LABOR INCOME LOSSES IN LAC**

Shapley decomposition of income source to changes in poverty rate

**International remittances also helped households cope with the adverse effects of the pandemic, particularly in Central America.** After a drop in the inflow of remittances in the first few months after the health outbreak, remittance flows remained resilient in Latin America, increasing by 6.5 percent in 2020 (Ratha, Ju Kim, Plaza, & Seshan, 2021f). The Dominican Republic and Mexico registered a significant increase in 2020 of 14.3 and 10.4 percent (5.5 and 1.2 percentage points higher than the 2015-19 average), respectively. El Salvador, Guatemala, Nicaragua, and Jamaica also increased inflows of remittances in 2020, ranging from 3.5 percent to 17.7 percent (World Bank, 2021a).^{14}

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^{14} Remittances inflows are calculated as year-to-year percent change, using the sum of January-November inflows for the Dominican Republic, El Salvador, and Guatemala; January-October inflows for Bolivia, Colombia, Honduras, Mexico, Nicaragua, and Paraguay; January-September inflows for Jamaica; and January-June for Ecuador (World Bank, 2021a).
The increase in remittances is plausibly explained by improvements in the employment situation in the United States in the second semester of 2020 (although still short of pre-pandemic levels) and the large share of LAC adults working in the United States (particularly from Central American countries). Also of potential importance was the shift in flows from informal to formal channels in 2020.\(^{15}\)

**In sum, employment losses and labor income reductions contributed the most to severely depleting peoples’ livelihoods in 2020.** Despite significant efforts by governments to mitigate the adverse effects of the pandemic, 4.5 and 3.6 percent of the increase in poverty was driven by employment and labor income, respectively (Figure I-12 – Panel A). Public transfers buffered the impact by contributing to the reduction in poverty by 2.3 percentage points. However, when including Brazil, the overall contribution of public transfers nearly compensates for the significant reduction in the household labor component (Figure I-12 – Panel B). Moreover, across the income distribution, public transfers alone compensated for the decline in income growth due to the loss of employment and labor income to the bottom four deciles of the income distribution in the region, including Brazil (Figure I-12 – Panel A).\(^{16}\) When excluding Brazil, however, public transfers are shown to have only partially coped with the significant drop driven by labor income and employment along the income distribution (Figure I-12 – Panel B).

**FIGURE I-12:** EMPLOYMENT AND LABOR INCOME LOSSES WERE THE MAIN DRIVERS OF THE RISE IN POVERTY

Growth Incidence Curves

Panel A.

LAC, with Brazil, 2019-20

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15 In the case of Mexico, Dinarte, et al. (2021) found that the increase in the volume of remittances from formal channels was larger among municipalities that were previously more reliant on informal channels (for example, near a border crossing). The travel ban made it impossible to physically transport cash or assets from the United States to Mexico. Consequently, the financial system became the only option to send and receive international transfers, which also increased the number of bank accounts opened since the beginning of COVID-19.

16 Between June and September 2020, government transfers in Brazil accounted, on average, for about half of the income of those in the poorest quintile and a third of the income among those in the second quintile. Government transfers were also significant for those in the middle of the distribution, representing about 20 percent of their overall income between May and September 2020 (World Bank, 2022).
Despite the high socioeconomic costs of the health crisis, the pandemic accelerated internet access and financial inclusion, as well as the use of digital technologies for working, learning, accessing basic services, and communicating. Since the onset of the pandemic, uptake of the internet has increased significantly worldwide, with approximately 800 million people going online for the first time (ITU, 2021). In LAC, many activities and services shifted online shortly after mobility restrictions came into effect, including the implementation and improvement of teleworking practices by firms that were able to adapt. A boost in e-commerce and e-services was also evident throughout the region as several supermarkets and restaurants shifted to online delivery services and as people increasingly began to use digital services to make utility payments or receive digital payments via cash transfer programs (e.g., in the case of Brazil). On average, 15 percent of adults in the region made a utility payment from an account for the first time after the outbreak of COVID-19 – double the average for developing economies. That said, important differences were evident across countries. In Bolivia, for instance, nearly one in four (23 percent) adults fell into this category for first users. This group represented about 80 percent of Bolivians who reported making utility payments using an account. In Colombia, Ecuador, Honduras, and Peru, on the other hand, the proportion making digital payments for the first time was about 15 percent, accounting for about two-thirds of those who use an account to make a utility payment. In Brazil, 18 percent of adults made such payments for the first time, almost doubling the share of adults making utility payments digitally from an account (Demirguc-Kunt, Klapper, Singer, & Ansar, 2022).

Yet, uneven access to digital technologies has undermined vulnerable households’ ability to benefit from digitalization. For instance, households with lower internet connectivity experienced higher job loss rates, higher income losses, and lower access to high-quality remote learning, which could increase inequality in the long run (Ballon, Mejía-Mantilla, Olivieri, Lara-Ibarra, & Romero, 2021).

17 In the LAC region, the COVID-19 crisis has caused a structural shift of demand toward digital e-commerce that is likely to continue in the years to come. In the early weeks after the onset of the crisis, for example, MercadoLibre registered a year-on-year increase in demand of 100 percent for essential goods and pharmacy products. The pandemic also created opportunities for second-generation “niche” platforms operating in specific market segments that have traditionally been excluded from large e-commerce platforms. For instance, the Brazilian platform Compre Local introduced a new initiative that allows customers to locate and buy items from small businesses in their neighborhoods using a simplified payment solution (World Bank, 2020b).

18 Despite a growth in internet coverage and financial inclusion during the pandemic, LAC still faces many challenges when it comes to reducing the digital gap across the region. Hurdles include the high cost of internet provision, low coverage in rural areas, and poor quality of internet connections (Srinivasan, Comini, Koltsov, & Gelvarovska-Garcia, 2022).
Footprints of the pandemic
(LONG-TERM COVID-19 IMPACTS)
Footprints of the pandemic  
(LONG-TERM COVID-19 IMPACTS)

The COVID-19 pandemic was an unprecedented shock that negatively impacted the well-being of individuals in LAC countries. Its effects spread beyond the immediate aftermath, affecting future well-being in the medium and long term. The immediate impact of non-pharmaceutical interventions was a significant decline in welfare with significant job losses, a drop in labor incomes, and an increase in poverty and inequality across LAC countries. Yet, the pandemic also affected other dimensions of well-being, such as the decline in mental health and its negative consequences, including depression and anxiety (Banks, et al., 2021; Kovacevic, et al., 2022). A spike in domestic violence was also witnessed following the implementation of lockdowns (World Bank, 2022; UN Women, 2020a). Further, the delivery of essential health services was disrupted as healthcare systems directed most of their efforts to treating individuals with confirmed cases of COVID-19 (UN Women, 2020b). In the long term, the high toll on human capital accumulation due to school closures can affect not just an individual’s future earnings and well-being but also overall economic growth in the region. This may have long-term negative consequences on poverty and equity.

The unprecedented disruption to education and health due to the COVID-19 pandemic will leave lasting scars on human capital accumulation and the welfare of an entire generation in the LAC region. The pandemic is likely to have a long-term adverse impact on the learning process and future earnings of those children who experienced a disruption in their education at the peak of the health crisis. About 170 million students in LAC countries were deprived of in-person education for roughly half the effective school days, which could lead to this entire generation experiencing a 12-percent decrease in their lifetime earnings (World Bank & UNESCO, 2022). Also, school closures increased the childcare responsibilities of parents at home, with most of the burden falling on women (BOX II-1). Furthermore, school closures not only deprived children of opportunities for social interaction that promote growth, well-being, self-esteem, and learning; they also led to the loss of access to critical services, such as meal delivery and routine immunizations (World Bank & UNESCO, 2022). Before the pandemic, approximately 85 million children in the LAC region used to receive meals from school feeding programs. In addition, the decline in labor incomes across the region due to the pandemic has exposed households to an alarming increase in food insecurity levels. For instance, at least 40 percent of households in Bolivia, Colombia, Ecuador, Guatemala, Honduras, Peru, and the Dominican Republic reported running out of food during the lockdown (Ballon, Cuesta, Olivieri, & Rivadeneira, 2020). Higher rates of child stunting are expected as a result, the knock-on effects of which hamper physical and

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19 In LAC countries, people of all ages experienced significant disruptions in healthcare services that could have significant long-lasting impacts, including preventative and treatment care for children who missed out on key primary care services, vaccinations, and nutrition programs, through to adults in need of diabetes and cardiovascular care, and older adults who experienced decreases in chronic disease care (Herrera, et al., 2022).

20 In LAC countries, schools play an important role in the direct provision of health and nutrition services. Before the pandemic, approximately 85 million children in the LAC region used to receive meals from school feeding programs. For 11 percent of these children (most of whom come from vulnerable households), this meal represented their primary daily source of food that provided balanced nutrition (World Bank & UNESCO, 2022).
cognitive development. In turn, this negatively affects schooling performance and, in the long term, harms income and productivity.

**LAC countries suffered one of the most prolonged spells of school closures due to the pandemic, deepening structural challenges in the region related to low levels of learning.** LAC, along with South Asia, is the region that experienced the longest school closures worldwide. Schools in these two regions were fully or partially closed for an average of 387 and 429 days, respectively. These lost days represented more than 75 percent of total instruction time during the pandemic period (Muñoz-Najar, et al., 2021). This is triple the duration of school closures in Western Europe (World Bank, UNICEF and UNESCO, 2021). While nearly every government made efforts to mitigate learning losses by offering remote learning opportunities for students, these were typically a poor substitute for in-person learning. Learning losses are expected to be particularly severe for poor students who had limited access to the internet.

Despite efforts to provide alternative modes of learning, recent World Bank estimates of school closures in LAC suggest that learning poverty (i.e., the share of children who are not able to read proficiently when reaching late primary schooling) increased from 51 percent before the pandemic to 62.5 percent afterwards. This is equivalent to an increase of 7.6 million learners from poor households (World Bank, 2021). It is calculated that almost two in every three primary school students in the region, on average, are likely to be unable to read or understand a simple age-adequate text. Further, estimates suggest that 10 months of school closures in the region could have caused an average loss of 1.3 years of schooling and could increase the school dropout rate in LAC by 15 percent. This will increase the learning gap in the region and, in turn, affect the region’s long-term productivity and economic growth (World Bank, 2021).

**BOX II-1:**
**SCHOOL CLOSURES ARE EXPECTED TO NEGATIVELY AFFECT WOMEN’S JOB PROSPECTS IN THE LONG RUN**

School closures significantly increased the childcare needs of parents, impacting women the most. Not only did women suffer more significant job losses than men during the pandemic, but they were also more likely to have jobs incompatible with remote work, which increased the probability of job losses, particularly for women with children.* For instance, in households with children, women with jobs incompatible with remote work were almost

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21 Stunting is associated with chronic undernutrition during the critical period of early childhood development, which can have long-lasting effects on brain development and cognitive functioning (Grantham-McGregor, 1995). Empirical evidence has shown that stunted children have deficits in cognition and school achievement from early childhood to late adolescence. Stunted children have also shown lower self-esteem, more anxiety, depressive symptoms, and anti-social behavior (Chang, et al., 2002; Walker, et al, 2007).

22 Skills formation is developed over time. Early periods in a child’s life cycle are crucial to developing cognitive, linguistic, social, and emotional competencies that strongly affect learning at later stages of life and productivity in the long term (Cunha, et al., 2006; Heckman, 2006).

23 Countries in the region made valiant efforts in a short period of time to set up strategies to cope with the education crisis. Limited internet connectivity led to the implementation of increasingly multi-modal solutions, where traditional means of communication (such as TV, radio, and printed materials) complemented Internet-based solutions, and where teachers and parents were supported to make remote learning more inclusive (World Bank, 2021). Results from the High-Frequency Population Survey show that school closures in LAC appear to be associated with attendance rates 10 percent lower than enrollment rates for the given year and 12 percent lower than pre-pandemic attendance rates. Also, the results from the survey indicate that 25 percent of students attending educational activities of any kind were not engaged in the educational process while at home. The surveys also demonstrated that inequities in both attendance and engagement rates disproportionally affected specific groups, usually the most vulnerable populations (World Bank, 2022).
14 percentage points more likely to lose their jobs than men with similar characteristics and whose jobs were also incompatible with remote work. In households without children, the difference is 9 percentage points lower. However, women were only 2.8 percentage points more likely than men to lose their jobs during the pandemic in jobs compatible with remote work (Berniell, et al., 2021). This implies that having a job compatible with remote work was more important for women than for men in respect of avoiding job losses.

The adverse effects for women due to the increasing childcare burden when schools closed during the pandemic could be dire as they faced lost earnings and difficulties finding a job after spells of unemployment. For instance, time out of the workforce for women could reduce their accumulation of experience and training, lowering their career progression and wages in the future (Albrecht, et al., 1999). Further, women are now more likely to rethink their career decisions in light of the pandemic. This could mean that the crisis will lead to a future drop in women’s labor supply, reducing households’ ability to self-insure against income shocks (Bluedorn, et al., 2021). However, the legacy of the COVID-19 pandemic is also likely to lead to positive changes in the labor market, such as increased access to telecommuting and other work flexibilities. Over time, these might reduce gender inequality in the labor market (Alon, et al., 2022).

Gender differences in job losses are also explained by the fact that women were also more likely to work in sectors more affected by the pandemic and in occupations incompatible with remote work, such as trade, personal services, education, and hospitality (Cucagna, Haaker, & Javier, 2021).

How would an increase in stunting impact future incomes?

The rise in food insecurity could have a potentially negative effect on child nutrition and long-term human capital formation. A substantial share of households in the region experienced food insecurity. In May 2020, at the height of the first wave of the virus, Honduras registered the highest incidence, with more than half of households (53 percent) reporting running out of food due to a lack of money or resources. Lower rates of food insecurity followed the relaxation of lockdown measures. However, there was still a considerably large percentage of households without enough resources to buy food in August 2020, with approximately one-third of households in Honduras and the Dominican Republic still facing food insecurity (Ballon, Mejía-Mantilla, Olivieri, Ibarra, & Romero, 2021). This certainly would negatively affect early childhood nutrition in the region, with inevitable long-term consequences for the development of affected children’s cognitive skills and future incomes. This is particularly true in countries where the prevalence of stunting is larger than the LAC average, such as Nicaragua (14.1 percent), Honduras (19.9 percent), Haiti (20.4 percent), Ecuador (23.1 percent), and Guatemala (42.8 percent) (Figure II-1).

Children from vulnerable households are more susceptible to higher stunting that could affect the development of their cognitive skills because they face higher levels of poverty, including limited access to quality health care and affordable nutrition (Currie & Almond, 2011).

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24 Stunting refers to a failure to grow to the proper height for a child’s age, mainly due to poor nutrition in pregnant women, babies, and toddlers. Stunting has been shown to result in life-long health problems, lower schooling attainment, and lower wage earnings in adulthood (Shekar, et al., 2017).

25 The long-lasting effects of stunning could also increase the risks of overweight/obesity and diet-related non-communicable diseases later in life. They also trigger the intergenerational transmission of malnutrition (Osendarp, et al., 2021).
Future income losses in LAC countries are expected due to increased stunting for the generation of children affected by the COVID-19 pandemic, with the most significant impacts felt by households at the bottom of the income distribution. On average, annual per capita income in LAC countries is predicted to decline by 0.65 percent in future incomes due to stunting in the pre-pandemic situation. However, the additional drop attributable to COVID-19 is minimal, at about 0.012 percent. This assumes an estimated increase of 2 percent in the number of stunted children in LAC due to COVID-19 from available estimates (Gasparini and Laguinge, 2022), which explains the very small effects of future incomes of new cases driven by the pandemic. (Figure II-2 – Panel A). More significant drops in per capita incomes are projected for countries with stunting rates higher than the LAC average. For instance, the decline in average income in Guatemala is considerable; at around 2.53 percent in the pre-pandemic situation and 0.056 percent for the additional cases due to the pandemic. Further, a fall in per capita income above the LAC average is projected for Bolivia, Ecuador, Nicaragua, and Honduras. Also, the impact of stunting on future income is unevenly distributed across households. The predicted decline in future incomes due to stunting in the pre-pandemic situation and due to additional stunning cases attributable to the pandemic is concentrated in households in the bottom deciles of the income distribution. In contrast, no changes are expected in the top deciles. This phenomenon could increase poverty and inequality in the long run (Figure II-2 – Panel B).

26 Estimates of the adverse effects of stunting due to the COVID-19 pandemic correspond to a recent study by Gasparini and Laguinge (2022).
FIGURE II-2: EXPECTED FUTURE INCOME LOSSES DUE TO STUNNING DISPROPORTIONALLY AFFECT CHILDREN IN POOR HOUSEHOLDS

Estimated fall in future incomes in LAC (0-5 years old)

How would education losses due to the COVID-19 pandemic affect poverty and inequality in the long term?

Education losses across LAC countries affected countries differently, but in all cases the impacts were more severe for households at the bottom of the income distribution. On average, the estimated education losses due to pandemic-related school closures in LAC countries amounted to 59 percent of a school year missed (Figure II-3 – Panel A). Ecuador, Bolivia, Mexico, and Paraguay had the largest education losses in LAC, ranging from 76 to 85 percent of the school year. In contrast, Chile and Uruguay were the least affected countries in the region, with education losses nearly half the LAC average. Across the board, however, students from poorer households evidenced a greater likelihood of suffering from education losses during the pandemic. Notably, estimated education losses for students

Panel A. By country

Panel B. By household per capita income deciles

Source: Gasparini and Laguinge (2022).

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Results presented in this section correspond to a recent study on the impacts of COVID-19 on education in LAC by Bracco, et al. (2022).
in the bottom decile of the income distribution amounted to 81 percent of the school year, which is 3.7 times higher than average education losses for students in the top decile (Figure II-3 – Panel B). This difference is explained by a decline of about two percentage points in enrolment rates of children and young people (6-24 years old), indicating that a large share of students dropped out of school (or did not enroll in the higher track) due to the pandemic in 2020.

**FIGURE II-3:**
CHILDREN IN HOUSEHOLDS AT THE BOTTOM OF THE INCOME DISTRIBUTION HAVE BEEN MORE AFFECTED BY EDUCATION LOSSES

Predicted education losses

![Graph showing education losses by country and household per capita income deciles.](source)

**Panel A. By country**

**Panel B. By household per capita income deciles**

Note: Estimates of education losses are based on the methodology developed by Neidhofer, et al. (2021) and microdata from national available surveys.

Learning losses across LAC countries will likely harm the future earnings of children affected by the COVID-19 pandemic. The projected impact of the health crisis on labor incomes is a decline of about 6.4 percent in 2045, resulting in a 4.3-percent decline in average household per capita income
(Figure II-4). Yet, assuming mitigation measures implemented by the government or parental reactions to the loss of days of school during the pandemic (such as online learning or parents investing time to assist their children with their schoolwork), the projected negative impact of school closures on labor income and household per capita effects reduces by more than half. The negative impact on higher earning for cohorts directly affected by the pandemic at their prime age in the labor market worsened for the group of school dropouts. For cohorts directly affected by the pandemic, when they reach their prime age (i.e., 30-45 years old), labor income is projected to decline by 15 percent and household per capita income by 10.5 percent. This is a consequence of many children and young adults affected by the pandemic entering the labor market with fewer skills than they would otherwise have had. Consequently, they will have lower expected lifetime earnings. The negative effect is expected to fade away as the generation affected by the pandemic grows older and leaves the labor market.

**FIGURE II-4:** EDUCATION LOSSES ARE EXPECTED TO AFFECT HOUSEHOLD PER CAPITA INCOME OVER TIME

Patterns of household per capita income

The projected decline in households’ per capita income for the cohorts hit by education losses due to the pandemic would also imply a substantial increase in income poverty and a slight change in inequality in the future. In 2045, the projected impact in poverty rates measured at $6.85 a day (2017 PPP) would be an increase of 1.7 percentage points (Figure II-5 – Panel A). For the

28 The impact of the shock on education during the pandemic is projected to grow as the directly affected cohort enters the labor market, reaching its peak in 2045.
cohort directly affected by education losses during the pandemic at their prime age in the labor market, almost five million people are projected to fall into poverty – assuming no mitigation measures were implemented by governments, parents, or both. The projected increase in poverty would still be about 0.7 percent even in the most positive scenario (i.e., when mitigation steps were fully implemented). However, the impact is projected to be more severe for those who dropped out of school – with an estimated increase in poverty of more than 10 percentage points at their prime age. Moreover, as with the income dynamics, the adverse impact of education losses on poverty is projected to last for a very long period and is expected to only be absorbed when the affected cohorts leave the labor market. The dynamics in the case of inequality are rather different, with slight shifts in the Gini coefficient over time (Figure II-5 – Panel B). As the effects of the shock are felt most by workers who are young and poor, the projected impact is a small increase in inequality. However, inequality is projected to narrowly decrease as the cohort affected by education losses gets older and wealthier. In any case, changes are small and become even smaller when mitigation measures by governments and parents are considered.

**FIGURE II-5:**
POVERTY AND INEQUALITY ARE EXPECTED TO INCREASE OVER THE LIFE CYCLE OF CHILDREN AFFECTED BY COVID-19’S SHOCK ON EDUCATION

Panel A. Poverty headcount at $6.85 per day (2017 PPP)
Panel B. Gini coefficient

Source: Bracco, et al. (2022)

Note 1: No adjustment: values assuming no government or parental reactions to loss of days of school during the pandemic. Full adjustment: values assuming both government and parental reactions to loss of days of school during the pandemic.

Note 2: Poverty line of $6.85 a day at 2017 PPP.

Note 3: Unweighted mean of the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Mexico, Peru, Paraguay, and Uruguay.
Addressing the adverse long-term effects caused by the COVID-19 pandemic on education requires a cohesive, evidence-based learning recovery program, supported by strategies that help students to an accelerated learning recovery. The RAPID Framework for Learning Recovery and Acceleration offers five policy actions to support the education system not only in implementing an equitable recovery (including monitoring and planning) but also in supporting more effective teaching, learning, and students’ psychosocial well-being. Doing so requires a coordinated effort involving teachers, school leaders, parents, and policymakers. This can help students return to their pre-pandemic learning trajectories. These policy actions focus on five strategies:

**Reach every child and keep them in school.** This policy involves reopening schools safely, implementing campaigns to promote students to return to the classroom by involving families in children’s education and removing fees, offering school meals, and providing families with cash transfers. It also includes early warning systems to identify students at risk of dropping out. These systems should monitor enrollment and help educators to better understand the various reasons forcing students to drop out.

**Assess learning levels.** This strategy involves assessing the impact of the pandemic on the education system to identify learning gaps and areas of weakness among students. It requires establishing pre-pandemic learning goals and levels, assessing learning levels nationally and sub-nationally, and producing disaggregated data to measure students’ learning performance. In this way, educators can make more informed decisions on where and how to mobilize resources at a system level so as to prevent learning loss and drop-out, particularly among the most vulnerable students.

**Prioritize teaching the fundamentals.** This policy involves focusing on learning recovery efforts on key foundational concepts and skills/competencies in order to progress to more complex topics for future learning, including literacy, numeracy, and socioemotional skills. This not only requires changing teaching methods to meet students’ learning needs but also adjusting the curricula and learning materials to focus on core skills and knowledge at respective grades.

**Increase the efficiency of instruction, including through catch-up learning.** This policy involves helping students recover from learning loss at school by supporting initiatives that increase the amount of learning within the classroom. These initiatives include the regular training of teachers and employing learner-focused recovery strategies such as individualized self-learning programs, tutoring and coaching, accelerated learning programs, and catch-up programs for dropouts. Also, technology can play a crucial role in closing learning gaps, recovering learning losses, and enhancing education to enhance education delivery.

**Develop psychosocial health and well-being.** This policy involves assuring access to critical mental health and psychosocial support. Addressing the mental health and psychosocial needs of children and youth, as well as supporting their well-being, is essential in and of itself, but it is also critical to ensuring that they can learn.

New day, new dawn?

Advent of vaccines, ease of containment measures, and economic recovery
New day, new dawn?

ADVENT OF VACCINES, EASE OF CONTAINMENT MEASURES, AND ECONOMIC RECOVERY

In 2021, LAC countries started to recover unevenly with the advent of vaccines and the relaxation of non-pharmaceutical measures. Average GDP growth in the region recovered, growing by 7 percent in 2021. This was due to better external conditions, the relaxation of mobility restrictions, vaccination campaigns, and the expansion of domestic credit. However, these improvements were still insufficient to return the GDP rate to its pre-pandemic level (World Bank, 2022a). Moreover, second-wave mobility restrictions in the first quarter of 2021 (due to the appearance of the highly virulent Omicron variant), coupled with uneven access to vaccines, undermined the speed of recovery. Across the region, vaccine rollout was slow in the first semester of 2021, with about 30 percent of the population vaccinated. Two notable exceptions are Chile and Uruguay, where successful vaccination campaigns reached more than half of their respective populations (Figure III-1 – Panel A). In addition, significant gaps occurred in vaccination rates across groups. On average, vaccination rates across the region for college graduates and formal workers were about seven percentage points higher than for non-college graduates and informal workers. For wealthy individuals (defined as those with a high number of assets), vaccination rates were three percentage points higher than those with fewer assets (Olivieri, Ortega, & Rivadeneira, 2022). Vaccine rollout accelerated in the second semester of 2021 after initial distribution problems were solved and vaccine availability increased. This was particularly true in Ecuador, Argentina, Colombia, Panama, Costa Rica, Peru, and Brazil. By the end of 2021, vaccination rates across the region averaged almost 70 percent, excluding Haiti (Figure III-1 – Panel B).29

FIGURE III-1:
VACCINATION RATES SPEEDED UP IN THE SECOND HALF OF 2021

Panel A. As of May 31, 2021

29 Vaccine rollout for the Caribbean and Central America showed little progress by the end of 2021, with a vaccination rate of about 30 percent, due to low vaccine acceptance undermining the recovery in those countries (Margolies, et al., 2022).
Despite the recovery, there are concerns about how this process affects households’ welfare. The pandemic significantly impacted households’ welfare through employment losses and the plunge in labor income, partially cushioned by public transfers (Chapter 1). Thus, during the recovery phase, attention should initially focus on the feasibility of job retention or the creation of enough new jobs for employment to return to pre-pandemic levels, plus the nature of these jobs. A second area of focus should be the fiscal sustainability of maintaining public transfers as in 2020 or the likelihood of domestic or international transfers being sustained through private efforts.

Has the recovery process been sufficient to return labor incomes to pre-pandemic levels?

Labor market indicators show recovery signs, with employment rates improving slowly, unevenly, and still below pre-pandemic levels in most countries. After an 8.3-percent drop in employment in 2020 relative to 2019, approximately nine million jobs were regained across the region in 2021. Yet, one year after the onset of the pandemic, employment in LAC was still 3.1 percentage points below total employment in 2019. In 2021, employment was above pre-pandemic levels in only four countries: Argentina, Bolivia, Ecuador, and Paraguay. The improvement was significant for Ecuador and Argentina, with new jobs representing 6.8 percent and 5.2 percent of total employment in 2019. High vaccination rates partly explain this in both countries at the end of 2021, as well as a large share of workers entering the labor market (particularly in Ecuador). Employment recovery in the region also benefitted from the boost given to economic activity by the relaxation of mobility restrictions, on the one hand, and by increases in vaccination rates among trading partner countries, on the other. In contrast, employment recovery has been slow in Brazil, El Salvador, and Panama, with no significant improvements in total employment compared to pre-pandemic levels. As a result, these countries are lagging behind the region’s average recovery rate (Figure III-2 – Panel A).

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Panel B.

As of December 31, 2021

Source: Our World in Data, at https://ourworldindata.org/

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30 Deb, et al. (2022) find evidence of significant spillover effects of vaccination rates across borders on economic activity measured by increases in NO2 emissions. An increase of one standard deviation in COVID-19 vaccination rates in main trading partner countries led to a 0.13 standard deviation increase in NO2 emissions. These authors also find that economic gains are lower if strict containment measures are in place as such measures constrain economic activity even with a high vaccination rollout.
The sluggish regional employment recovery is influenced by the poor performance of the construction and services sectors, which are typically big employers of unskilled workers. Between them, these two sectors employ about half the region’s workforce. Yet, they were also the hardest-hit sectors during COVID-19 as well as being the least able to transition to telework modalities. Unlike other economic sectors, the unskilled services and construction sectors were alone in failing to surpass or at least return to their pre-pandemic employment levels in 2021. Total employment remained 1.2 percentage points below where it was in 2019 (Figure III-2 – Panel B). More positively, the outbreak of the health crisis was met with a surge in jobs linked to agriculture and skilled services. In the case of agriculture, this indicates that jobs in the region have been reallocated to low-productivity sectors. This is especially true in Peru, Ecuador, and Brazil, which have witnessed increases of 4.1, 2.8, and 0.8 percentage points, respectively. At the same time, the rise in employment in skilled services suggests that some workers have adapted to the challenges of the pandemic by working remotely or on digital platforms. Others have developed e-commerce businesses or other technological innovations in the skilled services sector. This shift could feasibly change labor demand and supply trends in the region.

FIGURE III-2: THE RECOVERY HAS SLIGHTLY BENEFITTED UNSKILLED WORKERS

Change in total employment relative to 2019

Panel A. By country

31 Unskilled services include commerce and trade, hotels and restaurants, and transport and storage.

32 The COVID-19 pandemic will most likely accelerate the transformation process of jobs, which could contribute to increasing regional inequality. Despite the rapid adaptation of firms and workers to technological innovations, challenges surround the region’s capacity to benefit from further technology development and adoption in the future. For instance, training in relevant skills will be key to adapting and taking advantage of the new opportunities in the post-pandemic world, particularly for low-skilled, mid-career, and informal workers that lack the skills for the transformation process taking place in the labor market (Beylis, Jaef, Sinha, & Morris, 2020).
Young people, low-educated workers, and women have been experiencing a slow employment recovery. While employment for workers with tertiary education rebounded fast in 2021 and increased by five percentage points relative to 2019, employment for workers with primary education emerged from the pandemic six percentage points below pre-COVID-19 levels. This is despite this section of the workforce recovering about half of all job losses by 2021. Meanwhile, no signs of recovery were seen for workers with less than primary education since the start of the pandemic. As for women’s employment levels, these remain five percentage points below where they were prior to the pandemic. This gap between pre- and post-pandemic is three times higher than that for men, despite both women and men experiencing similar recovery rates. In addition, employment has recovered faster for prime-age and senior workers, although neither has reached levels seen before the pandemic. For young workers, the recovery still has a long way to go; employment figures were still

For females with children, re-entering the labor market has been particularly hard. For instance, throughout the pandemic, the likelihood of mothers with small children (0-5 years old) working was consistently lower than the average for women overall. Furthermore, a large share of mothers in this category was not able to find a job (43 percent compared to 37 percent among all females). The constraints to work relate to increases in unpaid housework, such as cleaning, cooking, and childcare, as well as to time spent helping children with schoolwork. On average, women were more likely than men to report increases in the time spent on domestic work (32 versus 25 percent), childcare (43 versus 33 percent), and support for children’s education (50 versus 37 percent) (See del Carpio, et al., 2022; Mejía-Mantilla, et al., 2022).
8.3 percentage points below pre-pandemic levels in 2021 (Figure III-3). An obstacle undermining employment recovery in the region was the uneven access to vaccination of vulnerable groups. For instance, vaccinated individuals in LAC had a probability of employment 3.5 percentage points higher than unvaccinated individuals during the first semester of 2021. Vaccination also increased the likelihood of employment for females and college graduates by about four percentage points and for workers ages 18 to 35 by six percentage points (Olivieri, Ortega, & Rivadeneira, 2023).

**FIGURE III-3:**
THE RECOVERY HAS BEEN SLOW FOR YOUTH, LOW-EDUCATED WORKERS, AND WOMEN

Total employment by socio-economic groups relative to 2019

Despite the recovery in regional employment levels, the quality of jobs has deteriorated. In 2021, formal employment in the region fell 1.4 percent on average compared with pre-pandemic levels. Ecuador, Dominican Republic, Panama, and Peru experienced the most significant drops in formal employment, ranging from 2.3 percent to 6 percent. By contrast, self-employment in LAC has grown by 1.5 percentage points on average since the onset of the pandemic, with larger increases in Colombia, Panama, Bolivia, and Costa Rica (Figure III-4). This indicates that workers are coping with the crisis by becoming

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34 Youth workers entering the labor market during a crisis face a worse start to their careers than historically expected and experience difficulties in recovering from this setback (Silva, Sousa, Packard, & Robertson, 2021). For instance, Von Wachter (2020) shows that young people entering the labor market in a typical recession experience a rise of 3-4 percentage points in unemployment rates and a decline in income of about 10-15 percent. Genda, et al. (2010) show that the effect of high unemployment at graduation is more negative and persistent for high school graduates than for college graduates in Japan. In Ecuador, an increase of 1 percentage point in the unemployment rate at entry reduces the likelihood of employment by 1-1.7 percentage points over the next 12 years. This negative effect is persistent for young female workers for the 10 years following their entry into the labor market (Gachet, 2021).
self-employed rather than entering unemployment (See Box II-1). This trend is worrisome in a region with a disproportionate share of self-employed and informal workers before the pandemic (i.e., 85 percent of self-employed workers were in informal jobs in 2019). Consequently, informality may function as a buffer for employment in the aftermath of the health crisis in the region due to lower entry costs, particularly for workers for whom unemployment is not an option (Silva, Sousa, Packard, & Robertson, 2021). In Argentina, the increase in formal employment in 2021 is explained by public sector employment growth in urban areas. In Brazil, the increase in formal employment could be explained by the different compositions of the labor force. First, in 2021 the unemployment rate was still higher than in the pre-pandemic period. In such a weak labor market, individuals typically working in the informal sector were more likely to be unemployed. In addition, overall labor force participation rates were also below pre-pandemic levels, partially reflecting the government’s support to cushion the economic shock and keep informal workers out of the labor force.

**FIGURE III-4:**
**WHILE EMPLOYMENT RECOVERED, JOB QUALITY DETERIORATED ACROSS THE REGION IN 2021**

Change in formal employment and self-employment, 2021-19

![Diagram showing change in formal employment and self-employment for different countries in 2021-19](image)

Since the numbers presented here are based on Socio-Economic Database for Latin America and The Caribbean (SEDLAC), which is a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. The LAC figure is the average of the 12 countries shown in the figure. Uruguay 2021 refers to the second semester and is not comparable with previous rounds.

35 Also, women were more likely to take up caregiver or unpaid working roles, particularly given COVID-19-induced school closures and confinement measures, thereby leading to their possible permanent exit from the labor market (Torres, et al., 2021). For instance, according to High-Frequency Phone Surveys (HFPS), women workers were 44 percent more likely than male workers to lose their jobs at the onset of the COVID-19 health crisis (Cucagna, et al., 2021).
From Infection to Inflation: Global crises hit hard poor and vulnerable households in Latin America and the Caribbean

BOX III-1: QUALITY OF JOBS IN LAC

As employment recovers in LAC countries from the onset of the COVID-19 pandemic, there is a persistent deterioration in the quality of employment. The Job Quality Index (JQI) combines four dimensions that characterize a good job (Brummund, Mann, & Rodríguez-Castelan, 2018); namely, income, benefits, security, and satisfaction. In the case of LAC, the JQI has reverted on average for more than a decade (2009 levels). There is a negative correlation between employment recovery and the JQI in LAC countries after 2020. Although employment levels return to the pre-pandemic situation, job quality does not (Figure B.III-1 – Panel A). Ecuador, Paraguay, and Bolivia exhibited employment levels above pre-pandemic levels but poorer quality. The decline in job quality is also shown in countries with employment levels just below pre-pandemic levels, such as Uruguay, Costa Rica, Dominican Republic, and Peru. Argentina shows an increase in employment and the JQI, which could be explained by an increase in public employment concentrated in urban areas and historically low levels of job quality in 2019.

Lower benefits and job security levels than in pre-pandemic have driven the deterioration in the JQI across LAC countries. Peru, Bolivia, Colombia, and Panama have the most significant decline in the JQI due to a worsening in benefits and job security (Figure B.III-1 – Panel B). This implies that workers in these countries face higher levels of vulnerability and are more exposed to shocks. A cut in benefits is also present in Ecuador, Dominican Republic, and Paraguay. Income has a smaller contribution to the drop in the index than the other two dimensions across countries, with the largest declines in Ecuador, Panama, and Peru.

FIGURE B.III-1. DESPITE THE ONGOING RECOVERY IN EMPLOYMENT TO PRE-PANDEMIC LEVELS, THE QUALITY OF JOBS HAS STILL DETERIORATED
Workers have also reallocated from large firms to small firms. On average, the share of workers in large firms has declined by two percentage points across the region, while employment in small firms has increased. Reallocation of workers to small firms has been the highest in the Dominican Republic, Peru, and Paraguay, with increases of 4.4, 4.2, and 3.5 percentage points, respectively. Large firms in the Dominican Republic, Panama, and Bolivia had the most significant decline in employment. Contrary to the general trend in the region, Argentina witnessed a drop in employment in small firms of 1.4 percentage points, double the decline in large firms (Figure III-5). This suggests that employment

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36 Firms with five workers or fewer are defined as ‘small firms’ and those with more than five workers as ‘large firms.’

37 Since the pandemic started, the region has seen a reallocation of workers from large and medium-sized firms to small firms. (See Mejía-Mantilla, et al., 2022; World Bank, 2022c).
in large firms is more cyclical than in small firms. This is an undesirable outcome for the recovery in the region, given that small firms are associated with higher informality, lower labor incomes, and lower productivity, which, in turn, lead to higher inequality and lower economic growth. An additional problem of higher informality in the region is that most informal, self-employed workers do not pay taxes on their earnings. Similarly, they typically do not contribute to social security or receive employment benefits (Perry, et al., 2007).

**FIGURE III-5:**
**WORKERS REALLOCATED TO SMALL AND LESS PRODUCTIVE FIRMS IN 2021**

Change in the share of employment by firm size, 2021-19

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).

Note: Since the numbers presented here are based on Socio-Economic Database for Latin America and The Caribbean (SEDLAC), which is a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. The LAC figure is the average of the 11 countries shown in the figure for which data are available for both 2019 and 2021. Uruguay 2021 refers to the second semester and is not comparable with previous rounds.

The worsening of the quality of jobs was more severe in countries where labor market conditions were already challenging. Employment reallocation to small firms is lower in countries with higher pre-pandemic formality rates, like Uruguay and Costa Rica. In contrast, countries with lower pre-pandemic formality rates, such as Bolivia, Peru, and Paraguay, have experienced a higher reallocation of workers to small firms (Figure III-6 – Panel A). Also, pre-pandemic formality rates do not appear to have prevented employment shifts towards self-employment during the pandemic—notably, workers in countries with lower pre-pandemic levels of formality experience higher reallocation of workers toward self-employment. (Figure III-6 – Panel B).
FIGURE III-6: THE DETERIORATION OF JOB QUALITY WAS MORE PRONOUNCED IN COUNTRIES EXPERIENCING TIGHT LABOR MARKET CONDITIONS BEFORE THE PANDEMIC

Pre-pandemic formality rates, size of the firm, and self-employment

Panel A. Size of the firm

Panel B. Self-employment

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank). Note: Since the numbers presented here are based on Socio-Economic Database for Latin America and The Caribbean (SEDLAC), which is a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. The LAC figure is based on data from 11 countries (Panel A) and 12 countries (Panel B) for which data are available for both 2019 and 2021. Uruguay 2021 refers to the second semester and is not comparable with previous rounds.
Vulnerable groups have not only suffered from sluggish employment recovery but have also experienced a rapid deterioration in job quality. This dynamic could lead to increasing inequality in the long run. By 2021, transitions to self-employed had been higher for women than men (a 1.8 vs. 1.2 change in percentage points, respectively). Yet, female formality rates have decreased less than those for men. This is encouraging given that women in several LAC countries face higher informality rates than men when entering the labor market (Figure III-7). Formal employment has decreased by 2.7 percentage points for youth relative to pre-pandemic levels, with only two-thirds of young workers transitioning to self-employment.\(^{38}\) Although the self-employment reallocation has been similar across education levels, the decline in formality rates for workers with secondary education was nearly double that of those with primary and tertiary education.

**FIGURE III-7:**

**VULNERABLE GROUPS EXPERIENCED A MORE SEVERE DETERIORATION IN JOB QUALITY**

Change in formal employment and self-employment by socio-economic groups in LAC

<table>
<thead>
<tr>
<th>% change 2021-19</th>
<th>Female</th>
<th>Male</th>
<th>Youth (15-24)</th>
<th>Prime age (25-54)</th>
<th>Senior (55-65)</th>
<th>Less than primary</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary</th>
<th>Poor</th>
<th>Vulnerable</th>
<th>Middle class</th>
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<tr>
<td>Total</td>
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<td>1.0%</td>
<td>1.8%</td>
<td>1.2%</td>
<td>1.6%</td>
<td>1.5%</td>
<td>1.3%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>-1.9%</td>
<td>1.9%</td>
<td>1.5%</td>
</tr>
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<td>Gender</td>
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</tr>
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<td>1.6%</td>
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<td>1.5%</td>
</tr>
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<td>1.5%</td>
<td>1.3%</td>
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<td>2.2%</td>
<td>1.9%</td>
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<tr>
<td>Youth (15-24)</td>
<td>-1.4%</td>
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<td>2.2%</td>
<td>-1.9%</td>
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<td>Prime age (25-54)</td>
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<td>1.2%</td>
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<td>1.5%</td>
<td>1.3%</td>
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<td>1.9%</td>
<td>1.0%</td>
<td>-0.4%</td>
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</tr>
<tr>
<td>Senior (55-65)</td>
<td>1.4%</td>
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<td>1.9%</td>
<td>1.0%</td>
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<td>Less than primary</td>
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<td>Primary</td>
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<tr>
<td>Tertiary</td>
<td>-1.4%</td>
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<td>2.2%</td>
<td>-1.9%</td>
<td>1.9%</td>
<td>1.5%</td>
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<tr>
<td>Poor</td>
<td>1.0%</td>
<td>-1.4%</td>
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<td>-0.4%</td>
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<tr>
<td>Vulnerable</td>
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<tr>
<td>Middle class</td>
<td>-1.4%</td>
<td>1.0%</td>
<td>1.8%</td>
<td>1.2%</td>
<td>1.6%</td>
<td>1.5%</td>
<td>1.3%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>-1.9%</td>
<td>1.9%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations based on SEDLAC (CEILAS and the World Bank)

Note: Since the numbers presented here are based on Socio-Economic Database for Latin America and The Caribbean (SEDLAC), which is a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. The LAC aggregate is based on data from 12 countries for which data are available for both 2019 and 2021.

\(^{38}\) The large decline in formality and the increase in self-employment among younger workers could reflect lower levels of job security related to tenure among such workers. Young workers are disproportionally likely to be hired on temporary contracts, which leaves them without access to many benefits and protections against dismissal (Gatti, et al. (2014); Kuddo, Robalino, and Weber (2015)).
**BOX III-2: LABOR MARKET TRANSITIONS**

Labor transitions reflect poor employment conditions since the onset of the COVID-19 pandemic as many previously employed people remain unemployed, have not returned to work, or have moved to informality. Results from the High-Frequency Population Survey (HFPS) show that transition flows of workers into unemployment and inactivity between February 2020 and mid-2021 come either from those previously employed in a formal job or from inactive workers who entered the labor market after the pandemic started (Figure B.III-2 – Panel A). Also, transition flows show a relatively low probability of re-entering the formal labor market after the transition to informality, unemployment, or inactivity during the pandemic.

**In addition, labor transitions show persistent gender gaps during the pandemic.** Despite a slightly lower share of women than men (13 percent vs. 16 percent) transitioning from formal to informal employment, the share of women employed in the formal sector before the pandemic who then transitioned to unemployment is four percentage points higher than the equivalent for men. The share doubles for women transitioning from formal employment to inactivity. The gaps are even higher for women working in the informal sector. About two-thirds of women working in the informal sector before the pandemic transitioned to inactivity in 2021, which is 2.6 times higher than the rate for men. Family care responsibilities could be an explanatory factor here as roles traditionally assigned to women may have influenced their decision as to whether to work, be unemployed, or stay out of the labor force altogether (del Carpio, et al., 2022).

**FIGURE B III-2: WORKERS TRANSITION TO INFORMALITY DURING THE RECOVERY**

Transitions between employment, unemployment, and inactivity

Panel A. All workers

Panel B. Men

Panel C. Women

The region exhibited a deterioration in good-quality jobs, reflecting a slow recovery in working hours, albeit too quiet to return to the pre-pandemic situation. Despite a significant recovery in 2021, average hours worked in the region are still 1.2 percent below their pre-pandemic levels, with an uneven recovery across countries. For instance, working hours in El Salvador, Uruguay, Paraguay, and the Dominican Republic have recovered or surpassed pre-pandemic levels. In contrast, working-hour rates in Peru, Costa Rica, Ecuador, and Panama remain below the LAC average (Figure III-8 – Panel A). The reduction was particularly high in Ecuador and Panama, where working hours are still 5.9 and 7.1 percentage points lower than pre-pandemic levels, respectively. In Ecuador, this is explained by regulatory changes that allowed firms to reduce hours and wages to protect jobs but sacrificed their quality. In Panama, on the other hand, it is simply evidence of a major decline in the employment situation.

This decline in hours worked could result from an optimal labor supply decision if hourly labor was to rise. In this case, the income effect would dominate the substitution effect, and people would willingly choose to work fewer hours. However, this is not presently the case.

The recovery in hours worked has been uneven across socio-economic groups. By 2021, total working hours recovered faster for women than for men. The rate for women was also higher than the LAC average, albeit 0.8 percent below the pre-pandemic level. Yet, the gap between men and women in worked hours remains the same as before the pandemic. For their part, youth workers experienced a decline in hours worked of 0.7 percent in 2020. However, the situation bounced back in 2021, pushing their working hours 0.4 percent above pre-pandemic levels. Meanwhile, the total number of hours worked by less educated and senior workers recovered at a slower rate in 2021 (Figure III-8 – Panel B).

FIGURE III-8:
COUNTRIES FACED A SLOW AND UNEVEN RECOVERY IN WORKING HOURS

Working hours relative to 2019

Panel A. By country

39 In Ecuador, the Humanitarian Law, approved in 2020, introduced a set of policies designed to mitigate the pandemic’s negative effects. These included renegotiation of labor contracts by mutual agreement, a fixed-term emergency contract that allowed part-time for one year and renewed for up to one more year, and a reduction of the workday and wages.

40 The decline in hours seems to be driven by demand. The decline in hours worked is an equilibrium result in the sense that it comes about from the interaction of labor supply and labor demand. Brinca, et al. (2021) argue that negative labor supply shocks are related to the pandemic’s public health effects and public health responses, while labor demand shocks reflect economic forces that may persist beyond the public health crisis. If hours worked and labor move in the same direction, these movements are more likely to be caused by a demand shock. However, if hours and hourly wages move in opposite directions, a supply shock is more likely. For the case of the United States, Brinca, et al. (2021) find that around two-thirds of the decline in the growth rate of hours at the onset of the pandemic was due to a supply shock, with significant heterogeneity across sectors.
Despite household members’ efforts in the labor market, labor incomes were significantly behind pre-pandemic levels. Moreover, labor income has recovered at a lower rate than hours worked. In 2021, labor income in the region increased by an average of 2.3 percent. Two notable exceptions are Argentina and El Salvador, where labor income recovered at higher rates than the regional averages (7.9 percent and 8.7 percent, respectively). Brazil witnessed a decrease of 2.9 percent in labor income between 2021 and 2019, after posting an increase between 2020 and 2019 of 3.5 percent (Figure III-9 – Panel A).

Labor income losses were still affecting most groups in 2021. On average, labor income is about 7 percent lower than its pre-pandemic levels for workers at all education levels, except those with less than primary education (for whom income is 0.5 percent higher). For prime-age workers, labor income recovered by three percentage points compared with 2020 but is still 5 percent below pre-pandemic levels. Despite a significant recovery, the labor income of men in 2021 remained 7 percent below its pre-pandemic levels, triple the income losses of women (Figure III-9 – Panel B).
FIGURE III-9:
THE MILD RECOVERY OF LABOR INCOME IN 2021 DID NOT OFFSET INCOME LOSSES AND REMAINED FAR BEHIND PRE-PANDEMIC LEVELS

Labor income relative to 2019

Panel A. By country

Panel B. By socioeconomic group

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).
Note: Since the numbers presented here are based on Socio-Economic Database for Latin America and The Caribbean (SEDLAC), which is a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. The LAC figure is the average of the 12 countries shown in the figure for which data are available for 2019 and 2021. Uruguay 2021 refers to the second semester and is not comparable with previous rounds. Data for El Salvador, Panama and Uruguay were unavailable for 2020, so working hours were simulated using the LAC average.

What happened to public aid one year after the pandemic’s onset?

In 2021, public transfers declined in most countries, given fiscal constraints across LAC countries. After increasing by 3.5 percentage points between 2019 and 2020, fiscal transfers declined by 2.0 percentage points in 2021 compared to 2020. However, they are still 1.5 percentage points above pre-pandemic levels. Peru, Argentina, Brazil, and the Dominican Republic had the highest drop in fiscal transfers, ranging from 2.4 percentage points to 6.7 percentage points in 2021 (Figure III-10). The decline in fiscal transfers is mostly explained by the limited fiscal space available to most governments in the region (World Bank, 2022b). In Brazil, the decline in public transfers is also explained by the discontinuation of the emergency transfer program (Auxílio Emergencial) in 2021, which provided a lifeline for many households at the onset of the pandemic (World Bank, 2022d).
FIGURE III-10: PUBLIC TRANSFERS PLUNGE IN 2021 IN LAC

Change in public transfer relative to 2019

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).

Since the numbers presented here are based on Socio-Economic Database for Latin America and The Caribbean (SEDLAC), which is a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. The LAC figure is the average of the 12 countries shown in the figure for which data are available for 2019 and 2021. Uruguay 2021 refers to the second semester and is not comparable with previous rounds. Data for El Salvador and Panama were unavailable for 2020, so changes in transfers were simulated using the LAC average.

The region’s slow yet uneven post-pandemic recovery saw poverty levels decline in 2021, although they remain above their pre-pandemic levels. Taking a poverty line of below $6.85 per day (2017 PPP), the poverty rate in LAC (excluding Brazil) during 2021 stood at 31.4 percent. This poverty level is three percentage points lower than in 2020 but two percentage points higher than in 2019 (Figure III-11). Around ten million people have fallen into poverty since the onset of the COVID-19 pandemic. When Brazil is included in the calculation, however, poverty rates are shown to increase by two percentage points during this period – from 28.2 percent in 2019 to 30.3 percent in 2021 (Figure III-11). This is explained by a gradual reduction of Brazil’s emergency transfer and a labor market that had not fully recovered in 2021.

The recovery helped increase the size of the middle class but not enough to reach pre-pandemic levels. The total population in the region (minus Brazil) who registered as middle class recovered from 32.0 percent in 2020 to 34.5 in 2021, yet this remains 1.5 percentage points below pre-pandemic levels (Figure III-11). When Brazil is included, the loss in the region’s middle class nearly doubles, with about 12 million people falling out of this socioeconomic segment in the two years following the start of the pandemic. Losses of labor income and a deterioration in the quality of employment across the region have driven this shrinking of the middle class and the increase in poverty. Thus, the improvement in labor market conditions is the region’s main challenge in the aftermath of the COVID-19 pandemic.

41 Despite contributing to poverty reduction in Brazil, government transfers were reduced substantially in September 2020 and discontinued in December. This resulted in a sharp drop in real per capita income of the bottom 40 percent and left vulnerable populations much more susceptible to the socioeconomic shocks induced by the pandemic, such as job losses and increases in prices (World Bank, 2022d).
Households living in urban areas, working-age adults, those with higher levels of education, and salary workers were more likely to experience increased poverty and downward mobility in 2021. Including Brazil, the ‘new poor’ living in urban areas increased from 70.5 percent in 2020 to 72.3 percent in 2021. Poverty also increased for those with incomplete primary education by 1.4 percentage points, from 35.4 percent in 2020 to 36.8 percent in 2021. They almost reached the poverty levels of those with incomplete primary. Interestingly, the profile shows that most households who fell into poverty are more likely to be salary workers and unemployed in the industry and services sectors in 2021. When excluding Brazil, however, poverty in urban areas decreases by 1.4 percentage points. Yet, the decline in urban poverty did not reach all groups. Those who did not benefit from the recovery include youth, salaried workers, the self-employed, and individuals with incomplete secondary education or more, (Table II-1).
**TABLE I I-1:**  
THE ’NEW POOR’ IN LAC ARE MORE LIKELY TO BE HIGH-SKILLED, WORK INFORMALLY, AND LIVE IN URBAN AREAS

Poverty profile, 2021-20

<table>
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<tr>
<th>Age Groups</th>
<th>LAC with Brazil</th>
<th></th>
<th>LAC excluding Brazil</th>
<th></th>
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<tr>
<td></td>
<td>2021 Poor</td>
<td>Middle Class</td>
<td>2020 Poor</td>
<td>Middle Class</td>
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<td>25.5</td>
<td>6.6</td>
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</table>

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).  
Note: The LAC aggregate is based on Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, Paraguay, and Uruguay, for which microdata are available.
Contrary to 2020, the main drivers of poverty reduction in 2021 have been the recovery in employment and labor income. For LAC (excluding Brazil), 2.0 and 2.3 percent of the poverty reduction was driven by improved labor income and employment, respectively. This improvement compensated for the negative impact on poverty resulting from lower public transfers and remittances (Figure III-12 – Panel A). Yet, when Brazil is included, the recovery of labor income and employment only offset half of the negative contribution to the increase in poverty of lower public transfers (Figure III-12 – Panel B). This result indicates that the dynamics of poverty reduction in 2021 were reverted when compared to 2020.

**FIGURE III-12:** EMPLOYMENT AND LABOR INCOME WERE THE DRIVERS OF POVERTY REDUCTION IN 2021

Shapley decomposition of income source to changes in poverty rate

In 2021, inequality reverted to pre-pandemic levels due to a faster recovery in bottom percentiles. The Gini coefficient (excluding Brazil) decreased by 1.1 points during the pandemic, from 49.4 to 48.3.
for 2020 and 2021, respectively (Figure III-13 – Panel A). This decline is explained by a faster increase in the bottom income deciles (16.6 percent annual growth) than the top income deciles. When including Brazil, however, the Gini coefficient increased by 0.5 points, from 49.8 in 2020 to 50.3 in 2021. This increase indicates the decline in the mitigation measures implemented by the Brazilian government. Thus, most percentiles registered income losses when Brazil is included. The exception is the upper deciles, who experienced a slight increase in their average incomes in 2021 (Figure III-13 – Panel B).

**FIGURE III-13:**
INCOMES OF THE BOTTOM INCOME DECILES INCREASED SIGNIFICANTLY, AND INEQUALITY DECLINED IN 2021

Despite a recovery in their welfare, households are still struggling to access food and face greater vulnerability to future shocks due to the erosion of their savings during the pandemic. Nearly twice as many households now suffer from food insecurity compared to before the onset of the pandemic. Thus, 24 percent of households across LAC report running out of food due to the lack of money or other resources, as opposed to 13 percent before the start of the pandemic.
From Infection to Inflation:  
Global crises hit hard poor and vulnerable households in Latin America and the Caribbean

(Figure III-14 – Panel A). By 2021, most countries appear to be worse off after the pandemic. Welfare household levels are low in Andean and Caribbean countries, with some (e.g., Jamaica, Ecuador, Belize, and Haiti) experiencing levels nearly half the LAC average. As a result, the most prevalent coping mechanism reported to cover basic needs in the region was the use of savings (67 percent). In Haiti, Ecuador, Peru, and Colombia, about 8 out of ten households used their savings to cope with the financial stress caused by the pandemic (Figure III-14 – Panel B). Even if incomes and employment were to have bounced back to pre-pandemic levels, households would still be worse off. The compulsion to cover their basic needs during the pandemic compelled them to reduce their financial assets. This reduction in household assets also limits their ability to cope with future crises, compromising both their welfare and the region’s poverty reduction in the short term.

**FIGURE III-14:**  
MANY HOUSEHOLDS FACED FOOD INSECURITY AND COVERED BASIC NEEDS BY USING THEIR SAVINGS

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42 Other coping mechanisms include the entry into the labor force of non-working household members – notably, inactive adults and children (42.5 and 10.3 percent, respectively) – and the halting of rent payments or debt installments (40.3 percent) (Mejía-Mantilla, et al., 2021).
A war and a hike in inflation together weakened the region’s recovery from the pandemic.
A war and a hike in inflation

**TOGETHER WEAKENED THE REGION’S RECOVERY FROM THE PANDEMIC**

As the COVID-19 pandemic fades, inflation has emerged in LAC, jeopardizing the region’s economic recovery and threatening the weakest prospects for poverty reduction since 2020. Although the surge in inflation started in 2021, it has accelerated since February 2022, hitting its highest level in 14 years and becoming increasingly generalized in many LAC countries. By October 2022, annual headline inflation in the region, excluding Argentina, reached 8.3 percent. This price increase nearly doubled the inflation rate in October 2021 and was three times higher than in October 2020. Such trends exceed regional central bank targets but align with those of OECD countries (Figure IV1). Inflation poses a significant additional challenge for many households who have suffered from food insecurity and depleted savings due to the pandemic. Higher inflation erodes the already deteriorated value of wages and savings. This new shock affects vulnerable households the most as they cannot easily preserve their purchasing power and smooth their consumption, thus increasing their risk of falling into poverty. However, net food producer households may have benefited from higher commodity prices. This is the case for regional exporter countries such as Argentina, Brazil, Chile, Colombia, Ecuador, and Peru. At the same time, the war in Ukraine raises food and fuel prices as well as production costs for agricultural products, which are highly dependent on fertilizer imports (World Bank, 2022a). This potentially mitigates the benefits accrued by net food producer households. In addition, LAC countries face tighter financial conditions with limited fiscal policy space. All this while the world faces many evolving risks, from a recession in the global economy and a rise in interest rates by the United States to disruptions in global supply bottlenecks and significant political and social instability (World Bank, 2022b).

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43 All countries have seen a surge in inflation but at different rates as of October 2022, ranging from less than 5 percent in Bolivia, Panama and Ecuador through to little more than 10 percent in Honduras, Nicaragua, Colombia, and Chile. Argentina is an outlier, with rates up to 88 percent as of October 2022.

44 Poorer households tend to be less able than wealthier households to protect their income and assets from an unexpected increase in inflation. This is because poor households are more reliant on labor income, have less access to financial instruments, and are unlikely to have assets other than cash. Also, poor households are more exposed to unexpected increases in food prices because they spend a larger share of their income on food (Ha, M. Ayhan Kose, & Ohnsorge, 2019).

45 For poor households working in agriculture, higher food prices can be a source of income growth from producing food on their farms (World Bank, 2022f). However, benefits from higher prices are most likely offset by sharp increases in input prices, especially for fertilizer and fuel.

46 In 2022, the average GDP growth in LAC is estimated to slow down to 3.8 percent after a rebound of 7 percent in 2021. Among the largest economies, GDP growth is expected to be below the LAC average in Brazil, Chile, and Mexico, but above the LAC average in Argentina and Colombia. Contrary to large regional economies, most countries in LAC are expected to grow above the regional average in 2022, with larger growth rates in the Dominican Republic, Colombia, Panama, and most Caribbean countries.
**FIGURE IV-1:**
**SINCE 2020, INFLATION HAS INCREASED SYSTEMATICALLY IN LAC**

Headline inflation, 2021-22

![Figure IV-1: Headline inflation, 2021-22](image)

Source: World Bank staff calculations based on World Bank and OECD data.

Note: Inflation represents the annualized percent change in the headline consumer price index for the year in October.

**The sharp rises in food and fuel prices may hurt poor households in particular.** Food prices, measured by the Food and Agriculture Organization’s Food Prices Index, are at their highest level for three decades and have risen systematically since 2021 (Figure IV-2 – Panel A). Guatemala, Jamaica, Chile, and Colombia have experienced the fastest growth in relative food prices, while Honduras, Panama, Ecuador, and Costa Rica registered the lowest growth (World Bank, 2022c). Fuel prices, measured by international oil prices, have also increased in the last two years, affecting the cost of agricultural inputs. The rise in food and energy prices has negatively affected poor households in the region as they spend a larger share of their income on food and fuel. The average budget share of food spending in the consumption basket of households in the bottom 40 in LAC is 41 percent. This is 12 percentage points higher than households in the top 60 (Figure IV-2 – Panel A). Households in the bottom 40 in Bolivia, Nicaragua, Guatemala, Paraguay, and Brazil have the largest share of food spending in the consumption basket in the region, ranging from 50 percent to almost 70 percent. However, the net effect of increases in food and fuel prices on poor households’ purchasing power will depend on whether households are food producers or consumers (See Box IV-1). For most net food consumer households, price increases result in welfare losses, while welfare gains should be expected for net food producers (Cuesta, Duryea, Jaramillo, & Robles, 2010).

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Footnote: In LAC, food and energy were the main contributors to inflation in 2021. They accounted for more than 90 percent of inflation in Costa Rica, 75 percent in Paraguay, 66 percent in Brazil, and almost 60 percent in Colombia (Jaramillo & Tallerico O’Brien, 2022).
FIGURE IV-2:
POOR HOUSEHOLDS MAY BE PARTICULARLY AFFECTED BY THE RISE OF FOOD AND FUEL PRICES

Panel A. Global Real Food Price Index and Oil Price

Panel B. Food share in the consumption basket

Source: Food and Agricultural Organization (FAO) and World Bank estimates based on available surveys.

BOX IV-1:
EFFECTS OF FUEL AND FERTILIZER PRICE ON POOR HOUSEHOLDS

Agricultural producers in LAC countries depend highly on fertilizer imports as the region has a limited production capacity. The rising price of fertilizers and other energy-intensive products is expected to inflate the cost of agricultural inputs, causing an increase in production costs and, eventually, in food prices. The increase in fertilizer prices could lead to lower input use levels, thus reducing crop production (particularly for small farmers who tend to use less fertilizer) and profitability because yields are more sensitive to these increases (World Bank, 2022d). At the same time, food consumers, particularly low-income households, may be unable to afford the higher food prices caused by inflation, leading to food insecurity and further exacerbating poverty. Nevertheless, focusing exclusively on the impacts of inflation on purchasing power would overestimate the negative
effects of the crisis, mainly on poor populations. Agricultural-producing households might benefit from higher food prices, but only to the extent that their food sales exceed their consumption (i.e., if they are net food producers). However, such households would also face additional production costs, which could reduce or even offset the potential additional gains from higher food prices. FIGURE B.IV-1 shows these dynamics for the case of Ecuador by plotting changes in growth incidence curves, considering the effect of inflation on purchasing power, the average effects of including net producing households' benefits, and the net effect when including additional production costs (e.g., fertilizers). Income losses at the bottom of the income distribution are slightly lower when accounting for the additional income of net producers, but the inclusion of higher production costs reduces their potential benefits.

FIGURE B.IV-1:
INCOME LOSSES DECLINE WHEN ADDITIONAL INCOME OF NET PRODUCES IS TAKEN INTO ACCOUNT

Incidence curve of inflation changes in per capita income, Ecuador

How has high inflation affected the recovery path in poverty reduction?

Despite a slip in economic activity and inflationary pressures, most LAC countries are expected to continue recovering from severe employment losses with a deterioration in their quality. On average, employment would have grown 0.5 percent above total employment in 2019, representing a creation of about one million jobs across the region. Yet, significant differences exist across countries. Employment levels would have recovered quickly and expanded beyond pre-pandemic levels in Argentina, Ecuador, Bolivia, and Paraguay, ranging from 3.3 percent to 6.8 percent.
It would also be slightly above pre-pandemic levels in Colombia, Peru, the Dominican Republic, and Costa Rica (Figure IV-3 – Panel A). By contrast, employment would have yet to recover to pre-pandemic levels in Uruguay, Brazil, El Salvador, and Panama (0.4, 1.7, 4.5, and 4.8.6 percent below total employment in 2019, respectively). Despite employment recovery levels, as discussed in Chapter 3, the quality of jobs has deteriorated since the onset of the pandemic. As such, no significant improvement in labor market outcomes (e.g., informality and self-employed) is expected in 2022.48 Faced with greater vulnerabilities, most of the region’s poor households consequently lack adequate coping mechanisms against inflationary pressures due to the erosion of their savings during the pandemic.

Employment levels would reach pre-pandemic levels, but labor income recovery would still lag while fiscal aid remains depleted, increasing the risk that millions will fall into poverty.

Average labor income would increase by 2.5 percent between 2021 and 2022, but it is still expected to be 3.3 percent below its pre-pandemic levels (Figure IV-3 – Panel B). This gap is projected to be significantly below average in Argentina (-10.5 percent), the Dominican Republic (-8.1 percent), Uruguay (-5.5 percent), and Ecuador (-5.2 percent). The expected outcome in Brazil is different, with labor income set to increase by an estimated 1.7 percent between 2021 and 2022 but still 1.2 percent below its pre-pandemic level. Panama, El Salvador, and Bolivia post the best scenario, with labor incomes expected to exceed pre-pandemic levels. The slow recovery of labor income generally leaves many households vulnerable to price increases, leading to loss of purchasing power and food insecurity.49 Countercyclical fiscal policies helped households cope with the adverse effects of the pandemic but eroded governments’ fiscal space, which was already limited. This restriction in fiscal space has led to high deficits and increased government debt (World Bank, 2022a; World Bank, 2022e). A further decline in public transfers is therefore expected in most countries in 2022, increasing the exposure of poor households to the rise in food and fuel prices. Between 2021 and 2022, the most significant decline in the share of public transfers in total income is expected in Chile (14 percentage points), Peru (2.2 percentage points), and Panama (2.1 percentage points). Uruguay, Costa Rica, Nicaragua, and Guatemala are projecting slower rates of reduction in public transfers.

48 Quarterly data from available surveys across the region show that informality increased or remained the same in 2022. Between Q2-2021 and Q2-2022, informality increased by 3.3 percentage points (p.p.) in Argentina, 1.2 p.p. in Chile, 0.5 p.p. in Ecuador, 0.3 p.p. in Costa Rica, and 0.1 p.p. in Brazil. In these countries, informality increased at higher rates for females than men. For instance, in Chile, while informality for females increased by 2.3 p.p. in Q2-2022, informality for males only increased by 0.4 p.p. During the same period, informality only declined in Colombia and Paraguay, by 4.1 p.p. and 1.5 p.p., respectively.

49 In LAC, food insecurity is expected to deteriorate in 2022 as rising fuel and food prices have also undermined household purchasing power. This is especially the case for poor households, who spend a larger share of their income on food and transportation. For instance, severe food insecurity in Brazil is estimated to have increased by 15.5 percent in 2022. This is 6.5 percentage points higher than in 2020, with the result that approximately 14 million more Brazilians are facing hunger (Rede PENSSAN, 2022). In Guatemala, Honduras, El Salvador, and Haiti, one of two negative scenarios are expected for about 10.8 million people: either (i) experiencing food consumption gaps, reflected by high or above-usual acute malnutrition; or (ii) marginally able to meet minimum food needs but only by depleting essential livelihood assets or through crisis-coping strategies (FSIN & GNAFC, 2022). Moreover, the number of undernourished people in LAC is projected to increase by 0.52-1.13 percent in 2022, slightly lower than the projection for Asia and the Pacific, at 0.93-1.14 percent, respectively (FAO, IFAD, UNICEF, WFP, & WHO, 2022). The negative impact of inflation on food security, as discussed in Chapter 2, may have implications for malnutrition levels and may eventually lead to worsening economic outcomes (Heltberg, 2009).
Poverty reduction is expected to stall, and poverty levels are projected to remain above their pre-pandemic rate in 2022. Excluding Brazil, poverty rates measured at $6.85 a day (2017 PPP) are expected to be 31.0 percent in 2022. This is 0.4 percentage points lower than in 2021 but 1.6 percentage points higher than in 2019, equivalent to approximately seven million more poor individuals across the region in 2022 than in 2019. When Brazil is included, poverty rates are expected to increase slightly, by 0.4 percentage points (from 28.2 percent in 2019 to 28.6 percent in 2022). The result is a net ten million people falling into poverty (Figure IV-4). A substantial recovery in the middle class is also expected in 2022, but total numbers will still remain below pre-pandemic levels. Including Brazil, the middle class is expected to increase by 0.5 percentage points, from 36.6 percent in 2020 to 37.1 in 2022. This is 1.3 percentage points below pre-pandemic levels, resulting in a net gain of four million people into the middle class compared to 2019.
FIGURE IV-4:  
DESPITE A MILD RECOVERY, POVERTY LEVELS AND THE SIZE OF THE MIDDLE CLASS ARE STILL NOT EXPECTED TO REACH PRE-PANDEMIC LEVELS IN 2022

Headcount projections

How has the speed-up of food and energy prices impacted households?

An additional 13 million people are expected to face downward social mobility due to inflationary pressures in 2022. On average, the additional inflation in the LAC countries would have caused an increase of 1.3 percentage points in the poverty incidence or 6.9 million more poor people, holding constant the macroeconomic assumptions prior to the inflationary crisis and without considering adjustments in the household consumption basket. Mexico, Brazil, and Colombia account for most of this change, adding almost five million poor people in 2022. However, the higher impacts on poverty incidence due to the inflation crisis happen in Nicaragua, Colombia, and Paraguay, where the projected increase in their headcount comes to 3.1, 2.6, and 2.2 percentage points, respectively (Figure IV-5). Estimates also indicate that an additional 5.9 million people will have fallen out of the middle class in 2022 due to the inflation crisis. The Dominican Republic, Chile, Nicaragua, Paraguay, and Costa Rica are expected to have the most considerable middle-class losses due to the inflation crisis, ranging from 1.7 to 2.5 percentage points. In the largest economies, additional middle-class losses due to the crisis with a projected increase of 1.4 and 0.4 percentage points in Mexico and Brazil, respectively.

Note: The LAC aggregate is based on 18 countries in the region for which microdata are available and then pooled to create regional estimates. In cases where data are unavailable, values have been projected using microsimulations.

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).

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Note: The LAC aggregate is based on 18 countries in the region for which microdata are available and then pooled to create regional estimates. In cases where data are unavailable, values have been projected using microsimulations.

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Note: The LAC aggregate is based on 18 countries in the region for which microdata are available and then pooled to create regional estimates. In cases where data are unavailable, values have been projected using microsimulations.

Source: World Bank staff calculations based on SEDLAC (CEDLAS and the World Bank).
FIGURE IV-5:
ADDITIONAL INFLATION WOULD PUSH MANY PEOPLE INTO POVERTY AND OUT OF THE MIDDLE CLASS IN LAC

Expected 2022 headcount variations (p.p.)

Source: World Bank staff calculations. 2022 projections are based on 2021-2022 SEDLAC (CEDLAS-WB) microdata and macroeconomic projections from the MTI Global Practice. The LAC aggregate is based on 16 countries in the region for which microdata are available and then pooled to create regional estimates. Version: March 30, 2023.

More importantly, the surge in inflation contributes to the deterioration of the living conditions of poor households. On average, the poverty gap in LAC countries is projected to be an additional 0.6 percentage points higher than pre-inflation crisis estimates. The poverty gap due to the inflation crisis is expected to increase the most in the Andean and Central American countries (Figure IV-6). For instance, the poverty gap in Nicaragua and Colombia is projected to widen by 1.5 and 1.6 percentage points, respectively, compared to pre-inflation crisis estimates. At the same time, a similar increase in the poverty gap is estimated in Mexico, Peru, Guatemala, and Paraguay, at about 0.8 percentage points compared to pre-inflation crisis estimates. The welfare of poor households is projected to deteriorate the least in Bolivia, Uruguay, and Panama.

51 In Colombia, the severe deterioration of the living conditions caused by inflation was driven by different factors, including strong demand, inflation inertia, currency depreciation, indexation of rents, and crop losses due to heavy rains caused by the La Niña phenomenon (World Bank, 2023).
FIGURE IV-6:
LIVING CONDITIONS OF POOR HOUSEHOLDS ARE EXPECTED TO DETERIORATE DUE TO ADDITIONAL INFLATIONS IN LAC

Expected poverty gap variations (2022 With vs. Without inflation crisis)

Source: World Bank staff calculations. 2022 projections are based on 2021-2022 SEDLAC (CEDLAS-WB) microdata and macroeconomic projections from the MTI Global Practice. The LAC aggregate is based on 16 countries in the region for which microdata are available and then pooled to create regional estimates. Version: March 30, 2023.

Households living in urban areas and high-skilled adults are projected to be more likely to face downward mobility due to the inflation crisis. An estimated 5.2 million people in LAC are expected to fall into poverty, while about 400,000 people are projected to lose middle-class status in urban areas and have lower household dependency ratios. Also, the share of newly poor households with high skills is estimated to increase significantly, from 25.5 percent pre-crisis to 32.3 percent due to the inflation crisis. Furthermore, these newly poor households are expected to work less in informality and are more likely to work in services. The surge in inflation is expected to see the vulnerable population – i.e., those with a high probability of falling into poverty – also increase significantly, rising to 5.9 million people across the LAC region. However, the rate of this increase is projected to be slower than that for newly poor households across most characteristics (Table III-1).
### TABLE III-1: HIGH-SKILLED URBAN WORKERS IN INFORMAL EMPLOYMENT ARE EXPECTED TO FACE DOWNWARD MOBILITY DUE TO ADDITIONAL INFLATION IN LAC

Poverty profile (2022, With vs. Without inflation crisis)

<table>
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<th>Poor households</th>
<th>Vulnerable households</th>
<th>Middle-Class households</th>
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</thead>
<tbody>
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<td></td>
<td>New</td>
<td>Old</td>
<td>New</td>
</tr>
<tr>
<td><strong>Population</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Million</td>
<td>6.8</td>
<td>157.0</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Household Characteristics</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>76.8</td>
<td>65.3</td>
<td>82.7</td>
</tr>
<tr>
<td>Household size</td>
<td>4.8</td>
<td>5.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Dependency</td>
<td>38.0</td>
<td>40.6</td>
<td>29.8</td>
</tr>
<tr>
<td><strong>Household head</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age (mean)</td>
<td>47.0</td>
<td>44.8</td>
<td>50.7</td>
</tr>
<tr>
<td>Male (%)</td>
<td>61.7</td>
<td>59.9</td>
<td>62.6</td>
</tr>
<tr>
<td><strong>Education level (%)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Skilled</td>
<td>67.7</td>
<td>74.5</td>
<td>58.2</td>
</tr>
<tr>
<td>High Skilled</td>
<td>32.3</td>
<td>25.5</td>
<td>41.8</td>
</tr>
<tr>
<td><strong>Sector</strong></td>
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<td>Agriculture</td>
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<tr>
<td>Informality</td>
<td>64.9</td>
<td>77.5</td>
<td>44.9</td>
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</table>

Source: World Bank staff calculations. 2022 projections are based on 2021-2022 SEDLAC (CEDLAS-WB) microdata and macroeconomic projections from the MTI Global Practice. The LAC aggregate is based on 16 countries in the region for which microdata are available and then pooled to create regional estimates. Version: March 30, 2023.

The rise in food and fuel prices mainly affects households towards the bottom of the income distribution rather than those towards the top. While net food producers (who are typically from lower socio-economic backgrounds) may see some benefit from higher food prices, the overall impact on those at the bottom 40 is still negative. Higher fuel and fertilizer prices offset the potential gains from higher food prices for net food producers at the bottom income distribution in LAC countries. This heterogeneous effect of the inflation crisis on inequality in LAC countries is also reflected by the impact curve, which plots growth rates at each quintile of per capita income. For instance, in Colombia, Nicaragua, El Salvador, and Paraguay, the average per capita income of the lowest quintile is projected to have reduced by more than double that of their wealthiest counterparts (Figure IV-7).
FIGURE IV-7: 
THE RISE OF FOOD AND FUEL PRICES IS PROJECTED TO HAVE A DISPROPORTIONAL IMPACT ON HOUSEHOLDS AT THE BOTTOM OF THE INCOME DISTRIBUTION

Incidence curve of inflation changes in per capita income (2022 With vs. Without inflation crisis)


Note: Income variation corresponds to household per capita income variation with respect to baseline scenario.

The inflationary pressures have not only slowed down the region’s poverty reduction efforts but also increased inequality. The Gini coefficient is projected to increase by an additional 0.2 points compared to pre-inflation crisis estimates. This is explained by the deterioration of household purchasing power, compounded mainly by food, transport, and increases in energy prices (Figure IV-8). Yet, significant differences exist across LAC countries. The increase in the Gini coefficient in Paraguay, Nicaragua, and Colombia, for instance, is triple that of the LAC average (0.51, 0.55, and 0.69 additional points, respectively). On the other hand, Brazil and Uruguay’s expected increase in the Gini coefficient is very low, at 0.06 points. Meanwhile, Costa Rica is expected to align closely with the LAC average.
The main drivers of poverty reduction due to the surge in inflation are expected to be changes to household consumption patterns, government measures to cope with inflation, and shifts in households’ expectations. It was previously predicted that additional inflation in the region would have caused an increase of one percentage point in the poverty rate. However, this calculation did not consider the effects of higher economic growth, employment creation, government mitigation programs, or changes in household behavior. With these mitigating factors in mind, the impact on poverty is expected to be a reduction of 0.64 percentage points compared to pre-inflation crisis projections. For LAC, 84 percent of the projected poverty reduction is driven by labor income, with the remaining 16 percent driven by non-labor income (Figure IV9). The slow recovery of both income types explains the low contribution to poverty reduction from labor and non-labor incomes. Labor incomes are still below pre-pandemic levels, while government transfers in support of poor households have reduced due to limited fiscal space in most countries in the region. In addition, low-income households and poor individuals have adapted to the initial impact of higher food and fuel prices by changing their consumption patterns to overcome a deterioration in their purchasing power. Estimations suggest that household adjustments have effectively counteracted the initial impact of additional inflation. On the other hand, governments are responding to the surge in...
inflation by controlling prices directly (e.g., limiting food exports or keeping fuel prices at lower levels than in global markets) or by introducing tax incentives, with an estimated average fiscal cost equal to 0.3 percent of GDP for 2022 (Acosta-Ormaechea, Goldfajn, & Roldós, 2022).

**FIGURE IV-9:**
POVERTY REDUCTION IS EXPECTED TO BE DRIVEN BY LABOR INCOME

Shapley decomposition of additional inflation and income sources

Source: World Bank staff calculations. 2022 projections are based on 2021-2022 SEDLAC (CEDLAS-WB) microdata and macroeconomic projections from the MTI Global Practice. The LAC aggregate is based on 16 countries in the region for which microdata are available and then pooled to create regional estimates. Version: March 30, 2023.
Looking ahead
Looking ahead

Over the last three years, Latin America and the Caribbean have faced extraordinary challenges that reverted the social gains of the previous decades. The combination of the COVID-19 pandemic, sluggish economic growth, fiscal constraints and increased debt stress, inflationary pressures, and the collateral effects of the Russian invasion of Ukraine has taken a toll on the region. These shocks have hit poor and vulnerable populations the most, increasing poverty and inequality. They have also moved millions of people out of the middle class. Yet, LAC countries have been relatively resilient in recovering from these crises, albeit in an uneven fashion. By the end of 2022, the labor markets had improved, poverty had receded, and the middle class had recovered, despite economic growth fluctuations and political instability across the region. Even so, the region still faces challenges posed by low exports and commodity prices due to weak global demand, persistent and rising interest rates in advanced countries, uncertainty as China recovers from the recent COVID-19 lockdown, and significant geopolitical uncertainty from the war in Ukraine. As a result, LAC’s gross domestic product (GDP) is expected to slow to a meager 1.3 percent in 2023, which is 2.5 percentage points below GDP growth in 2022 (World Bank, 2023). The insufficient economic growth expected for 2023 will constrain the efforts to reduce poverty and inequality, to promote inclusion, and to defuse social tensions in the region.

Despite the weak economic outlook for 2023, employment and labor incomes across LAC countries are expected to increase slightly. On average, employment in LAC is likely to be 0.9 percent above total employment in 2019, representing a creation of about 1.5 million jobs across the region. Still, employment levels in El Salvador, Paraguay, Panama, and Brazil during 2023 are projected to remain below pre-pandemic levels. More importantly, the quality of employment is not expected to improve, leaving many workers exposed to higher levels of vulnerability and income shocks. Moreover, average labor income is expected to increase slightly by 0.3 percent between 2022 and 2023, thus falling short of pre-pandemic levels (i.e., 3 percent below its pre-pandemic levels). This gap with pre-pandemic levels will be more significant in Colombia, Ecuador, Uruguay, the Dominican Republic, Costa Rica, and Argentina, ranging from 3.5 percent to 12.7 percent. The labor income’s importance in alleviating poverty over the last two decades and its recent slow recovery in most countries in LAC creates a risk to the region’s longer-term recovery and continuous progress in poverty reduction.

Poverty reduction will almost halt with poverty levels above pre-pandemic in 2023. Excluding Brazil, poverty rates at $6.85 a day (2017 PPP) are expected to be 30.8 percent in 2023. This poverty level is 0.2 percentage points lower than in 2022, equivalent to 300,000 individuals across the region lifted out of poverty in 2023. Considering Brazil, poverty rates are also expected to decline slightly by 0.3 percentage points from 28.6 percent in 2022 to 28.3 percent in 2023. Yet, poverty level will remain above pre-pandemic levels (1.1 percentage points excluding Brazil and 0.1 percentage points including Brazil). A slight recovery in the middle class is also expected in 2023, but total numbers will remain below pre-pandemic levels. Excluding Brazil, the middle class will mildly increase by 0.2 percentage points, from 34.3 percent in 2022 to 34.5 in 2023; this is 1.5 percentage points below pre-pandemic levels. Yet, including Brazil, the middle class is expected to decrease by 0.1 percentage points, from 37.1 percent in 2022 to 37.0 percent in 2023; this will see about one million people falling out of this population segment.
Despite the challenges ahead, LAC has the potential to overcome them in its traditional areas of comparative advantage and the opportunities arising from resilient green growth. As shown in the report *The Promise of Integration: Opportunities in a Changing Global Economy*, LAC needs to complement long-term structural reforms to reduce systemic risk, raise the level and quality of education, invest in infrastructure, and ensure well-functioning financial markets with a comprehensive approach to integrate the region into the global economy (particularly, the US and European markets), and take advantage of its comparative advantage in the green economy. In particular, the transition to the green economy could be an opportunity to improve well-being in the region by creating new quality jobs, enhancing labor incomes, and contributing to poverty reduction. However, this transition will demand a significant change to labor markets in LAC countries, as it will create new jobs while at the same time potentially destroying jobs and displacing workers in many sectors. This process will require investment in human capital for the training and reskilling of workers. It will also demand well-designed social programs to protect the most vulnerable during the transition (e.g., active labor market programs), as well as incentives for informal workers to shift to new productive firms involved in green technologies (OECD, et al., 2022).

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52 See Maloney, et al. (2023).

53 An estimated 7 million new skilled and unskilled jobs could be created in the region by 2030 due to investment in renewable energy based on deploying solar and wind power and biomass technologies (OECD, et al., 2022; ECLAC, 2020).

54 A recent study by Di Maro, et al. (forthcoming) for LAC shows that upskilling workers in non-green occupations for green jobs working in green sectors could be facilitated by already being a part of green sectors. However, a large share of workers in non-green jobs within non-green sectors (e.g., low-educated and informal workers) in LAC are less likely to reconvert to green jobs and are therefore at a higher risk of displacement. Protecting this group of workers and helping the transition must be a priority during the shift to a green economy.
References

CHAPTER I


CHAPTER II


From Infection to Inflation:  
Global crises hit hard poor and vulnerable households in Latin America and the Caribbean


CHAPTER III


From Infection to Inflation: 
Global crises hit hard poor and vulnerable households in Latin America and the Caribbean


CHAPTER IV


CHAPTER V


Annex 1:
2020 SURVEYS FOR COUNTRIES IN LATIN AMERICA

The COVID-19 pandemic affected both the data collection methodology and, in some cases, the survey questionnaire for Latin American and Caribbean countries with data in 2020. This box summarizes the main methodological changes to the construction of welfare aggregates (see Figure 1A-1).

**FIGURE 1A-1:**
METHODOLOGICAL CHANGES TO HOUSEHOLD SURVEYS IN LATIN AMERICA AND THE CARIBBEAN, 2019/2020

<table>
<thead>
<tr>
<th>Data collection Dates</th>
<th>Data collection Mode</th>
<th>Changes in Questionnaire</th>
<th>Geographic Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina</strong></td>
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<td><strong>Bolivia</strong></td>
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<td><strong>Brazil</strong></td>
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<td><strong>Ecuador</strong></td>
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<tr>
<td><strong>El Salvador</strong></td>
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<td></td>
<td>Data collection was suspended during April-July</td>
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<td>It is only representative at the national, urban/rural levels</td>
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<tr>
<td><strong>Uruguay</strong></td>
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</table>

Note: F2F refers to “face-to-face” data collection.

**ARGENTINA**

In the second quarter of 2020, the survey was collected through phone interviews. The survey is designed as a rotating panel; 25 percent of the sample are “new” households interviewed for the first time each quarter. As a consequence, no previous contact was available to the Argentinian National Statistics Institute (INDEC) for these households (i.e., INDEC did not have their phone numbers). INDEC solved this problem of non-response using a propensity score model to reweight the sample, based on the probability of non-response according to household characteristics. (For details, see p. 11 in INDEC, 2020).

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An evaluation of the comparability of data gathered during 2020 by INDEC is ongoing. After completing its evaluation, INDEC will issue further recommendations on the comparability with previous estimates.

**BOLIVIA**

Users of the poverty and inequality estimates for Bolivia 2020 should be mindful of the period in which the surveys were collected, especially when analyzing the impacts of the COVID-19 pandemic. In the case of Bolivia, the survey was conducted every year from October-November. As mentioned in Box 1, this may not capture the peak of the pandemic.

The modules of the survey questionnaire were reduced. In particular, the dwelling module was shorter and did not contain the homeownership status or amount of housing rent. These are the variables that are used by SEDLAC for imputing the rent for owners. To make 2020 comparable with the historical series, the POV LAC team developed and tested an imputation model for homeowner distribution and their implicit rent using observed parameters from 2019 data. This methodology is already being used for imputing expected rent throughout the income distribution in Brazil’s National Continuous Household Sample Survey (PNADC) 2012-2015. (For more details, see Atamanov, et al., 2020).

**BRAZIL**

The PNADC data provide the main source of information for poverty monitoring in Brazil. The latest annual release included the 2020 data, published by the National Statistics Office (IBGE) in November 2021 and included in this update.

The PNADC 2020 was collected throughout 2020, closely following the data collection methodology adopted in previous years. However, due to the health restrictions caused by the COVID-19 pandemic, IBGE had to adapt its data collection strategy from face-to-face interviews to phone interviews. While the questionnaire itself was not changed, alterations in the data-gathering methodology affected non-response rates.

The PNADC follows a rotating panel design. There are five groups of households in the sample, each of which is interviewed five times. A different questionnaire is used each time and interviews are conducted throughout the year. Since 2012, the World Bank has used the first interview. However, for 2020, the fifth interview is used instead because the IBGE has published the social indicators and microdata for the fifth interview only. (See Annex 1 of Lara Ibarra and Vale (2022) for more details).

Both the first and fifth interviews are conducted throughout the year. The main difference between the first and fifth interviews is that the latter does not include the dwelling module; thus, it does not contain the homeownership status or amount of housing rent (variables needed for imputing the rent of owner-occupiers for the SEDLAC datasets). To make 2020 comparable with the historical series, housing ownership and implicit rent are imputed using the 2019 distribution. This is analogous to the approach used in Brazil during 2012-2015 and Bolivia in 2020 (see description of 2020 Bolivia data).
In 2020, there is also evidence of significant under-coverage of the Auxilio Emergencia (AE) program in the survey. AE is a cash-transfer program that was introduced in 2020. According to administrative data, there were over 68 million AE recipients. In the survey, only about 20 million are observed. AE provided monthly transfers that could add up to a maximum of R$4,200 during 2020. For a household in the bottom quintile in 2019, this is equivalent to a 50-percent increase in their income per capita. Given the magnitude of this transfer and in order to better capture the evolution of income and poverty in Brazil, Lara Ibarra and Vale (2022) imputed AE beneficiary status in the data. This allowed complementing the observed AE status as reported in the survey. Incorporating eligibility criteria from the AE (demographic, employment, and income), the method reached a combined AE population of 42.2 million individuals. This lead to a number of program recipients becoming more in line with the administrative records. The imputed AE status is used to construct the household annual income aggregate that underlies the poverty and inequality estimates for 2020 in Brazil that are included in this update. Additional details on the imputation exercise and the comparability of these estimates with previous rounds of the PNADC are discussed in Lara Ibarra and Vale (2022).

**CHILE**

Changes in the data collection methodology limit comparability between the National Socioeconomic Characterization Survey (CASEN) 2020 (using phone interviews) and previous survey rounds (using face-to-face). Compared to face-to-face interviews, phone surveys present additional challenges that could bias the estimates. While the Ministry of Social Development and Family of Chile (MDSF) adopted several strategies to minimize such bias, the income and poverty measures are unlikely to be fully comparable between 2020 and the historical series. Therefore, caution must be taken when comparing with previous years.

**COLOMBIA**

In 2020, the data collection was split into two parts. The first part was collected through phone interviews from March until July and the questionnaire was reduced. Moreover, the Colombian National Statistics Institute (DANE) imputed social programs using administrative data to identify program recipients to allocate public transfers.

Between August and December, the second part of the survey was collected using both methods: phone and face-to-face. The first one was implemented in urban areas and the latter in rural areas. (For more details, see Castaneda, et al., 2022).

**COSTA RICA**

Due to COVID-19, data collection changed from face-to-face to phone: 45.2 percent of households in the sample were visited in person, while 54.8 percent were contacted by telephone. The survey weights

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*It should be noted that the survey did not explicitly ask for the receipt of AE. The survey only contains a generic question about other transfers. AE recipient status can be inferred from the amounts reported.*
were calibrated using logistic regressions to minimize bias and ensure that the results for 2020 are comparable with those of 2019. (For details, see p.27 in INEC, 2020).

**ECUADOR**

This survey was collected in December through face-to-face interviews and is representative at a national, urban, and rural level. Before 2020, the survey was representative at the regional level.

**MEXICO**

The main effects of the pandemic on poverty and inequality were experienced during the second quarter of 2020 when the lockdown measures led to a significant amount of job losses. The household survey collects information between August and November. Therefore, the previously used harmonization approach (which constructed the welfare aggregate by using information about the income received in the last month) may not correctly capture the peak of the pandemic. The new methodology constructs the welfare aggregate by using the average of the income from the last six months. This includes data from the second and third quarters of 2020 and, to some extent, reflects more accurately what happened to poverty and inequality in Mexico during 2020. Earlier years were also revised.

**PERU**

From mid-March to end-September 2020, the household survey was collected through phone interviews and using a reduced questionnaire. In 2020, Peru had extensive cash transfer programs, covering a large part of the population due to the COVID-19 shock. However, there is evidence of significant under-coverage of the recipients of these transfers in the survey. The National Statistical Office (INEI) carried out an imputation exercise using administrative records. In the SEDLAC data, a portion of the second wave of one of the cash transfers (Bono Universal), which was erroneously excluded, is imputed in addition.

**URUGUAY**

Due to the COVID-19 restrictions, the 2020 data used two methodologies for sampling and data collection. Results are not strictly comparable with previous versions of the survey.
Annex 2: METHODOLOGICAL APPROACH

The methodology for measuring the distributional impacts of additional inflation comprises three steps: preparing the necessary microdata and inputs, conducting microsimulations, and evaluating the impact on welfare. Specifically, the first step involves organizing and preparing the necessary data on individual and household characteristics and consumption patterns. The second step involves using this data to simulate the effects of additional inflation on different groups within the population. Finally, the third step involves assessing the overall impact of these changes on the welfare of the affected households.

PREPARING THE MICRODATA AND INPUTS

The first step involves preparing and using the most recent individual and household information to estimate consumption of food and non-food items, and to determine which households are net food producers or consumers. It also prepares food inflation inputs and calculates parameters for production costs. This section depicts a brief description of these fundamental steps.

Mapping consumption and its components for 2022

The projected per capita income distribution for 2022 sets the foundations for measuring the distributional impact of inflation. This is based on a macro-microsimulation methodology (i.e., top-down approach), which accounts for adjustments in the labor market through employment and earnings, and non-labor income like public transfers, international remittances, and others, working at the individual and household levels. The microsimulation mimics pre-war macroeconomic projections for sectoral and total real Gross Domestic Product (GDP), employment structure and labor income, non-labor income, and total inflation. Spring Meetings 2022 macroeconomic projections were considered as the pre-war scenario. The SEDLAC 2021 harmonized household surveys were the microdata used for most countries. The result of this process is a simulated distribution of the per capita household income in 2017 Purchasing Power Parities (PPP).

To estimate the 2022 consumption patterns at the household level, the projected real per capita household income ($y_{pc22}$) is expressed in 2022 nominal terms ($y_{pc22}$) using the 2017 PPPs and 2017 and 2022 Consumer Price Indices (CPI) for each country. Then, households are ordered from the lowest to the highest 2022 nominal per capita income and divided into 20 groups with equally number of households or ventiles ($y_{pc22}$). The income-consumption ratio per ventile of per capita income ($r_{pc22}$) is estimated based on the last available household budget survey and the total per capita consumption for each ventile is mapped.

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58 The SEDLAC 2022 pre-harmonized household surveys were the microdata used for Costa Rica, Ecuador, and Paraguay.

59 Note that when survey data are available for income and consumption, ratios are estimated using the same source of information and ventiles are defined by per capita income.
The total consumption is divided between food and non-food components using the reported shares by ventile of per capita income: \( C_{pc_{22}} \) and \( C_{pcnf_{22}} \).

**Classifying households as net food producers or consumers**

To identify net food producer households, the agricultural per capita household income is calculated by adding up the labor income from agricultural self-employed household members and expressing it in per capita terms (i.e., \( Y_{agr_{pc_{22}}} \)) based on the 2022 projected per capita income. Then the household \( H_i \) is classified as a net food producer if the agricultural per capita income exceeds the per capita food consumption at the household level; otherwise, it is a net food consumer. Formally,

\[
H_i = \begin{cases} 
    \text{net food producer} & \text{if } Y_{agr_{pc_{22}}} - C_{pc_{22}} > 0 \\
    \text{net food consumer} & \text{otherwise}
\end{cases}
\]  

(2)

Note that if the estimated percentage of households that would be net food producers under this identification strategy is higher than the value reported for each country (See Table A2-1) at the ventile level, households are randomly selected to meet the target size within each ventile from the set of households previously identified as potential net food producers; otherwise, the identification strategy holds.

**Deriving the expected additional food inflation**

To calculate the expected additional inflation in 2022, the Spring Meetings 2022 Consumer Prices Index (\( CPI_h \)) projected for 2022 (before the conflict in Ukraine) is benchmarked. To estimate food inflation under Spring Meetings 2022 assumptions, the average pre-war ratio between food CPI and headline CPI is used:

\[
\tilde{r}_f = \frac{1}{|T_1|} \sum_{t \in T_1} \frac{CPI_{ft}}{CPI_{ht}}.
\]

(3)

where \( T_1 \) contains all months between January 2021 and January 2022. Then, this ratio estimates the food CPI for 2022 (\( CPI_f \)) under Spring Meetings 2022 (SM2022) assumptions:

\[
CPI_f = \tilde{r}_f * CPI_h.
\]

(4)

Using each country’s CPI basket weights, the non-food CPI (\( CPI_{nf} \)) for 2022 is calculated under SM2022:

\[
CPI_{nf} = \frac{CPI_h - \alpha CPI_f}{1 - \alpha}.
\]

(5)

where \( \alpha \) is the CPI basket weight for food and non-alcoholic beverages.

On the other hand, the updated projection of the headline CPI (\( CPI_h \)) was obtained from Spring Meetings 2023 projections. Neither projection disaggregates by food and non-food items. Nevertheless, inflation projections under Spring Meetings 2023 are broadly the same as those observed in the CPI changes of individual countries. Therefore, in this scenario, actual food inflation was taken and
non-food inflation was obtained by difference. Using the same CPI basket weights, the non-food CPI \( \bar{CPI}_{nf} \) for 2022 under SM2023 is estimated:

\[
\bar{CPI}_{nf} = \frac{\bar{CPI}_h - \alpha CPI_f}{1 - \alpha}.
\]

**Accounting for production costs**

The impact of food inflation on net food producer households must account not only for changes in benefits due to output price changes but also for changes in costs as input prices alter. The first set of movements is captured by food inflation, while the latter is estimated using the Input-Output matrix and the cost-push model. Thus, the following parameters are estimated based on the last available information in the country:

\( \theta \) is the average ratio between production costs and sales in agricultural-producing households;

\( \delta_1 \) is the percentage change in production costs in response to a percentage change point in international oil price; and

\( \delta_2 \) is the percentage change in production costs in response to a percentage change point in international fertilizer prices.

**ESTIMATING THE DISTRIBUTIONAL IMPACT OF ADDITIONAL INFLATION**

Let \( I_f \) and \( I_{nf} \) be the food and non-food inflations in the benchmark scenario (using \( \bar{CPI}_f \) and \( \bar{CPI}_{nf} \)). Let \( I_{f22} \) and \( I_{nf22} \) be the food and non-food inflations for 2022 in the SM2023 scenario (using \( \bar{CPI}_f \) and \( \bar{CPI}_{nf} \)). The expected additional inflation for food and non-food is calculated as the difference between the projected inflation for 2022 and the benchmark inflation:

\[
I_{f22} = I_{f22} - I_f
\]

\[
I_{nf22} = I_{nf22} - I_{nf}
\]

Each household’s consumption is adjusted using the projected additional inflation:

\[
\hat{c}_{pcf22} = c_{pcf22} \times (1 + I_{f22});
\]

\[
\hat{c}_{pncnf22} = c_{pncnf22} \times (1 + I_{nf22});
\]

\[
\hat{c}_{pc22} = \hat{c}_{pcf22} + \hat{c}_{pncnf22}
\]

Then the loss of purchasing power due to higher inflation in income terms is:

\[
\Delta \bar{y}_{pc1} = (\hat{c}_{pc22} - c_{pc22}) \times R_{v/c}
\]
he additional per capita income (only for net food producing households) corresponding to higher food sales prices and adjust it for higher agricultural input costs results as:

\[ \Delta Y_{pc2} = (Y_{agr, pc2} - C_{pc2}) \times (I_{f2} - \theta (\lambda_1 \delta_1 + \lambda_2 \delta_2)) \]  (12)

where \( \theta, \delta_1, \) and \( \delta_2 \) are defined as above and, \( \lambda_1 \) is the percentage increase in the international oil price between the two reference periods, and \( \lambda_2 \) is the percentage increase in fertilizers prices between the two reference periods.

A new simulated per capita income is estimated, which accounts for the loss of purchasing power and additional incomes and costs in net food producing households:

\[ \hat{Y}_{pc2} = Y_{pc2} - \Delta Y_{pc1} + \Delta Y_{pc2} \]  (13)

**ASSESSING THE DISTRIBUTIONAL IMPACT OF ADDITIONAL INFLATION**

Finally, the new simulated per capita income (\( \hat{Y}_{pc2} \)) is expressed into 2017 PPP (\( \hat{Y}_{pc2} \)) to calculate various poverty and distributional measures (inequality, vulnerability, middle-class, profiles, etc.) and to compare them to baseline projections to get estimations of additional poverty, vulnerability, or inequality for 2022 due to additional inflation.
Limitations and assumptions

It is important to mention the limitations and assumptions associated with this methodology.

First, the quality of projections from the methodology depends on the nature and accuracy of the data underpinning the exercise. While inflation projections are available for the total Consumer Price Index (CPI), the lack of disaggregated projections for food and non-food components of the CPI demands additional assumptions for identification purposes (i.e., the average pre-war and current ratio between food and nonfood).

Second, the approach relies on past data that reflect pre-war household consumption (i.e., for food and non-food items) and income patterns. These structural relationships (i.e., consumption to income ratio, shares of food and non-food items per ventile of per capita income) are assumed to remain constant over the period for which the projections are made, without allowing for any changes over time or between scenarios. The older the consumption data are, the more questionable these assumptions are likely to be. This caveat relates back to the constraints imposed by the availability of data. In most countries in the LAC region, consumption data are collected every five to ten years, except for a few countries like Peru and Mexico.

Third, the methodology assigns the same consumption pattern between food and nonfood items to all households within the same ventile of income per capita. More variability could be reached by increasing cut-off numbers in the income distribution (i.e., percentiles instead of ventiles or per household using survey-to-survey imputation). For instance, the 2012 consumption patterns in Ecuador were mapped to the 2022 percentile of per capita income by considering the 2022 income brackets. Results mildly varied while the computation time increased significantly.

Fourth, the impact on the net income of net food producing households depends on the magnitude of the increase in their production costs. This, in turn, depends on the specific production structure of these households. Since this information is often not available, input-output tables are used to estimate the percentage change in production costs that would result from a percentage change in oil and fertilizer prices. However, the aggregate production structure of the agricultural sector in national accounts may differ significantly from the actual structure of small-scale producer households.

Finally, all ex-ante approaches raise concerns related to the validation of the central hypothesis, of which this model is no exception. In this case, the only effective validation or test would be to combine ex-ante and ex-post analysis (see Bourguignon and Ferreira, 2003). This may be partially possible with newly available sources of data.
Data

Multiple sources of information were implemented for this exercise: those for predicting per capita income in 2022 for a pre-war scenario; those for forecasting food and non-food inflation; and oil and fertilizers prices. To project the per capita income, Spring Meetings 2022 macroeconomic projections for sectorial and total GDP for 2022 were considered the pre-war scenario. The SEDLAC 2021 harmonized household surveys were used to predict the 2022 labor market structure, average labor income, and labor pseudo-productivity. This process results in a simulated distribution of the per capita household income \(\overline{y_{pc22}}\) in 2017 PPPs. It is important to note that formality (informality) has been defined as contributing (not contributing) to work-related retirement insurance for most countries. Table A2-1 presents the countries considered, the baseline year used for each country, the simulated years, and the informality definition used. All inputs are in real terms in 2017 USD PPP, so they already account for inflation changes.

Input-output matrices and cost-push models are fundamental for estimating key parameters for net food producer households. This information was implemented by country when available and regional averages were used otherwise (see Table A2-1). Evolution and predictions for oil and fertilizer prices from ten countries were considered in the analysis. For the remaining countries, the average of similar countries was used.

### Table A2-1: Consumption, Income, Informality and Parameters by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Consumption Survey</th>
<th>Income Survey</th>
<th>Informality Definition</th>
<th>Input-Output matrix &amp; cost-push model (\theta, \lambda, \alpha, \beta_1, \beta_2, \text{ and } \gamma)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia</td>
<td></td>
<td>2021</td>
<td>Workers who do not receive a work-related pension insurance.</td>
<td>2014</td>
</tr>
<tr>
<td>Chile</td>
<td>Encuesta de Presupuestos Familiares 2017</td>
<td>2021</td>
<td>Workers who do not receive a work-related pension insurance.</td>
<td>NO IO Matrix available. Impulation based on the average of the other LAC countries</td>
</tr>
</tbody>
</table>

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60 These projections are from the Macro Poverty Outlook Spring Meetings 2022 produced by the Macroeconomics, Trade and Investment Global Practice (MTI). Available at https://mtimodelling.worldbank.org/livempodata/mpodata.html

61 SEDLAC is a database of harmonized socio-economic statistics constructed from Latin American and Caribbean (LAC) household surveys. The SEDLAC database and project were jointly developed and are jointly maintained by CEDLAS (Universidad Nacional de La Plata) and the World Bank’s LAC Team for Statistical Development (LAC TSD) in the Poverty and Equity Global Practice. SEDLAC includes information from over 300 household surveys carried out primarily in 18 LAC countries for which a comparable income aggregate (for welfare analysis) can be created: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay.

62 The analysis used the World Bank Commodity Price Data (The Pink Sheet) for all available countries (Argentina, Brazil, Colombia, Ecuador, Guatemala, Honduras, Mexico, Peru, and the Dominican Republic). For those countries without data, the price index of a similar country in the region was assigned considering the registered shipments or imports of fertilizers. For instance, the price index of Peru was assigned to Bolivia, Argentina’s to Chile, Guatemala’s to El Salvador, Nicaragua’s to Panama and Costa Rica, and Brazil’s to Paraguay and Uruguay.
<table>
<thead>
<tr>
<th>Country</th>
<th>Survey Description</th>
<th>Year</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>Encuesta Nacional de Presupuestos de los Hogares 2016-2017</td>
<td>2021</td>
<td>2010</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>Encuesta Nacional de Ingresos y Gastos de los Hogares 2018</td>
<td>2021</td>
<td>2012-2013</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Encuesta Nacional de Ingresos y Gastos de los Hogares Urbanos y Rurales 2012</td>
<td>2022</td>
<td>2019</td>
</tr>
<tr>
<td>El Salvador</td>
<td>Encuesta de Hogares de Propósitos Múltiples 2019</td>
<td>2021</td>
<td>NO IO Matrix available. Imputation based on the average of the other LAC countries</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Encuesta Nacional de Condiciones de Vida 2014</td>
<td>2014</td>
<td>NO IO Matrix available. Imputation based on the average of the other LAC countries</td>
</tr>
<tr>
<td>Mexico</td>
<td>Encuesta Nacional de Ingresos y Gastos de los Hogares 2020</td>
<td>2020</td>
<td>NO IO Matrix available. Imputation based on the average of the other LAC countries</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Encuesta de Consumo MTI 2021</td>
<td>2014</td>
<td>NO IO Matrix available. Imputation based on the average of the other LAC countries</td>
</tr>
<tr>
<td>Panama</td>
<td>Encuesta de Ingresos y Gastos de los Hogares 2018</td>
<td>2021</td>
<td>NO IO Matrix available. Imputation based on the average of the other LAC countries</td>
</tr>
<tr>
<td>Paraguay</td>
<td>Encuesta de Ingresos y Gastos 2011-2012</td>
<td>2022</td>
<td>2014</td>
</tr>
<tr>
<td>Peru</td>
<td>Encuesta Nacional de Hogares 2019</td>
<td>2021</td>
<td>2019</td>
</tr>
<tr>
<td>Uruguay</td>
<td>Expenditure Survey 2017</td>
<td>2019</td>
<td>NO IO Matrix available. Imputation based on the average of the other LAC countries</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on SEDLAC
From Infection to Inflation: Global crises hit hard poor and vulnerable households in Latin America and the Caribbean