PRIVATE CONSUMPTION, THE INTERNAL ENGINE OF THE ECONOMY

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The Latin American economies are continuing their recovery towards their pre-pandemic levels thanks to external and internal demand. In some countries, both engines are warming up in coordination, while in others, the external one recovered faster. Finally, we will show how domestic demand recovers with fiscal policies in Latin America's largest economies.

Domestic demand is composed of private and public consumption and private and public investment. In particular, within the domestic market, private consumption is the most significant component. According to the OECD, consumption by firms and households is strongly affected by vaccination and monetary transfers, such as minimum income, remittances, or access to pension savings. For this reason, fiscal measures in Latin American countries have focused on providing liquidity to households and firms through tax deferrals and the creation of programmes for the payment of tax obligations. On average, 4.3% of GDP was spent in Latin America on fiscal packages to strengthen the health system and support private consumption. The following shows the recovery of domestic demand in Argentina, Brazil, Chile, Colombia, and Mexico.

Brazil's domestic demand recovered at the end of 2020, led by the investment rate, the fastest to match pre-pandemic levels. Furthermore, private consumption is back on track to regain its lost

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dynamism. There has been enormous public spending of 10.1 billion dollars (7.4% of GDP) through cash transfer programmes such as "Bolsa Familia," "Ayuda de emergencia Covid-19", plus a job retention scheme, and some temporary subsidies for electricity consumption. However, it remains below its pre-pandemic levels. The same is true for public consumption.

For Colombia and Chile, it was private consumption that enormously boosted domestic demand. As a result, the domestic engine recovered its dynamism during the first quarter of 2021. In Colombia, public consumption increased during 2020, and in Chile, it recovered in early 2021. However, investment recovered its pre-pandemic levels only in the latter.

In Colombia, the national Government spent 4.7 billion dollars (1.8% of GDP) to reactivate household consumption. The "Solidarity Income" was created, which provided cash transfers to vulnerable groups and a subsidy of 40-50% of the minimum wage per worker for companies with falling incomes, among others. In Chile, 19 billion dollars (7.7% of GDP) were spent on programmes to support domestic consumption, such as the suspension of tax payments for companies and cash transfers to families, with the "Emergency Family Income" programme.

Argentina and Mexico had the most significant contractions in domestic demand among the countries analysed. At the end of 2020, they were still below 2019 levels. They have not recovered from the effects of the Great Lockout. In Argentina, private consumption is recovering thanks slightly to cash transfers from the "Emergency Family Income" programme, assistance from community kitchens and food distribution centres, and wage subsidies, amounting to the spending of 14 billion dollars (3.7% of GDP). However, like public consumption, they remain well below pre-pandemic levels. It is investment that increases domestic demand.

On the other hand, private consumption and investment in Mexico remain well below pre–Great Lockdown levels. The fiscal package to support private consumption was 4.9 billion dollars, spread over loans for small and medium-sized enterprises, expansion of cash transfer programmes, and unemployment benefits. However, it was the smallest fiscal package as a percentage of GDP among the six largest economies in Latin America, only 0.5%. As a result, it was public and not private consumption in Mexico that boosted domestic demand.

GDP is back to its pre-pandemic levels thanks to the boost from external demand, which depends on the dynamics of the major trading partners and commodity prices. The domestic market was strongly pent up by cash transfer support during the pandemic to households and businesses. As a result, countries that sought to maintain household incomes with large fiscal expenditures coordinated with the recovery
of exports and rising commodity prices. These are primarily in South America. On the other hand, countries that did not give significant fiscal impulses see a lack of coordination with external demand in this recovery, mainly in the Caribbean Basin.

According to IMF estimates, Latin America's GDP declined 8.3% in 2020, while South America's 8% and the Caribbean Basin's 9.9% were the most brutal hit. Growth in 2021 will be higher in the southern countries than in the Basin, 3.8% and 3%, respectively. However, with the return of international trade, the speed of recovery depends on domestic demand.