Hurricanes help deliver triple blow to Central America

by Andrew Thompson

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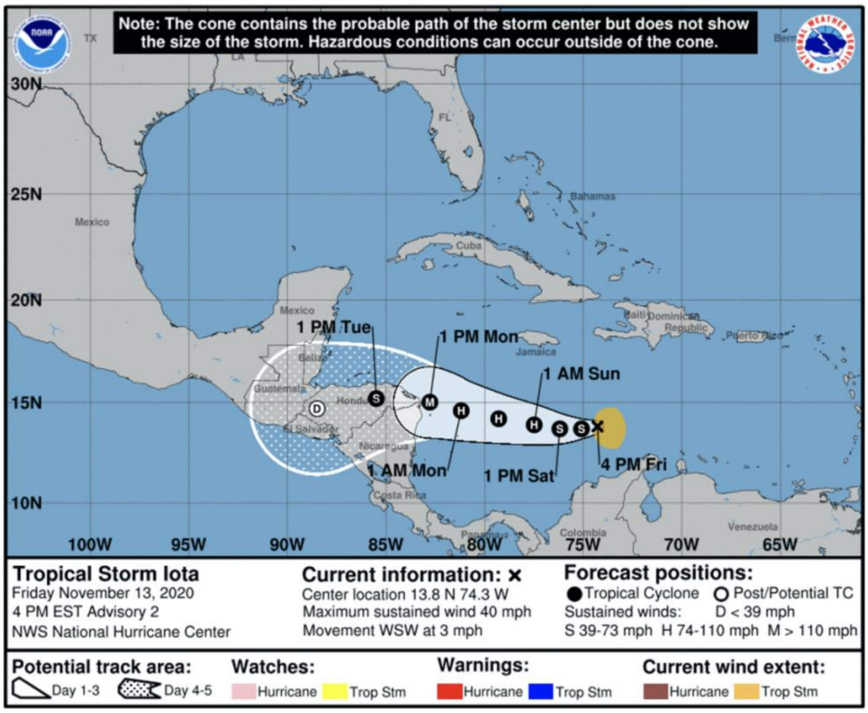
What happened?

The 2020 Atlantic hurricane season has made a destructive start with storm/hurricanes Eta and Iota cris-crossing the Caribbean and Central America.

What does it mean?

Starting at the beginning of November, Eta hit 13 countries, causing over 180 deaths, and triggering economic losses of over US$6bn. In Honduras as many as 1.7mn people were affected, followed in severity by Nicaragua and Guatemala. Only days later came Iota, which hit Nicaragua hardest, but also caused floods and landslides in Colombia, Panama, and Honduras. Casualty and economic impact data is still being compiled. At least 14 people, seven in Colombia and six in Nicaragua, have been reported dead.



Source: USA Today

A key point is that Central American countries are suffering from what could be called a "triple punch" caused by the COVID-19 pandemic, followed by Eta, followed by Iota. This comes at a time when their defences are already weak. The pandemic has been particularly damaging for a series of structural reasons: these countries have high levels of poverty, multi-generation housing occupancy, weak public health systems, and high proportions of informal employment, all of which make it difficult to control the virus. In fact, it looks as if instead of 'waves' of COVID-19 they are witnessing a stable and high "plateau" of infection. The two hurricanes are making things worse and creating conditions for the virus to spread further. On 8 November Honduran president Juan Orlando Hernández said the combination of the pandemic and hurricane damage had created his country's "worst crisis".

A further aggravating factor is that many of the governments in the region lack democratic accountability, so there will be little scrutiny of how well emergency funds are spent. There are already many claims of corruption in COVID-19 spending in the region. One potential knock-on-effect is that there is likely to be an upsurge in illegal migration to the United States in the first half of next year "pushed" by economic collapse and crime, and likely to present an early challenge to the incoming US administration of Joe Biden, who has already outlined plans to support reform in the region.

There will also need to be a major re-think of financial support and possible debt forgiveness for the region. In theory, governments should have some "fiscal space" – budget resources or a credit rating that allows them to borrow on international capital markets – to deal with pandemics or natural disasters. In practice however, many have little or no space for manoeuvre left. Their fiscal deficits are already ballooning out of control. Icefi, a Central American think tank, highlights that El Salvador's foreign debt is already around 92% of GDP. Alicia Bárcena of the UN's Economic Commission for Latin America and the Caribbean (ECLAC) has pointed out that while rich countries can borrow money at close to zero percent interest rates, those in the Caribbean and Central America must pay high "risk premiums". ECLAC's five-point crisis plan for the region, along with emergency basic income payments, support for small enterprises, greater broadband connectivity, and social and tax reforms=, includes improved access to concessional funding for both Central America and the Caribbean. Without it, the poorer economies in the two sub-regions may be condemned to another "lost decade".

About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC's Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.

These stories are also available on Andrew's blog site, La Rambla Research.