



Are Fiscal Revenues Resilient to Shocks in Latin America and the Caribbean?

XXXVII Regional Seminar on Fiscal Policy- ECLAC, Santiago de Chile

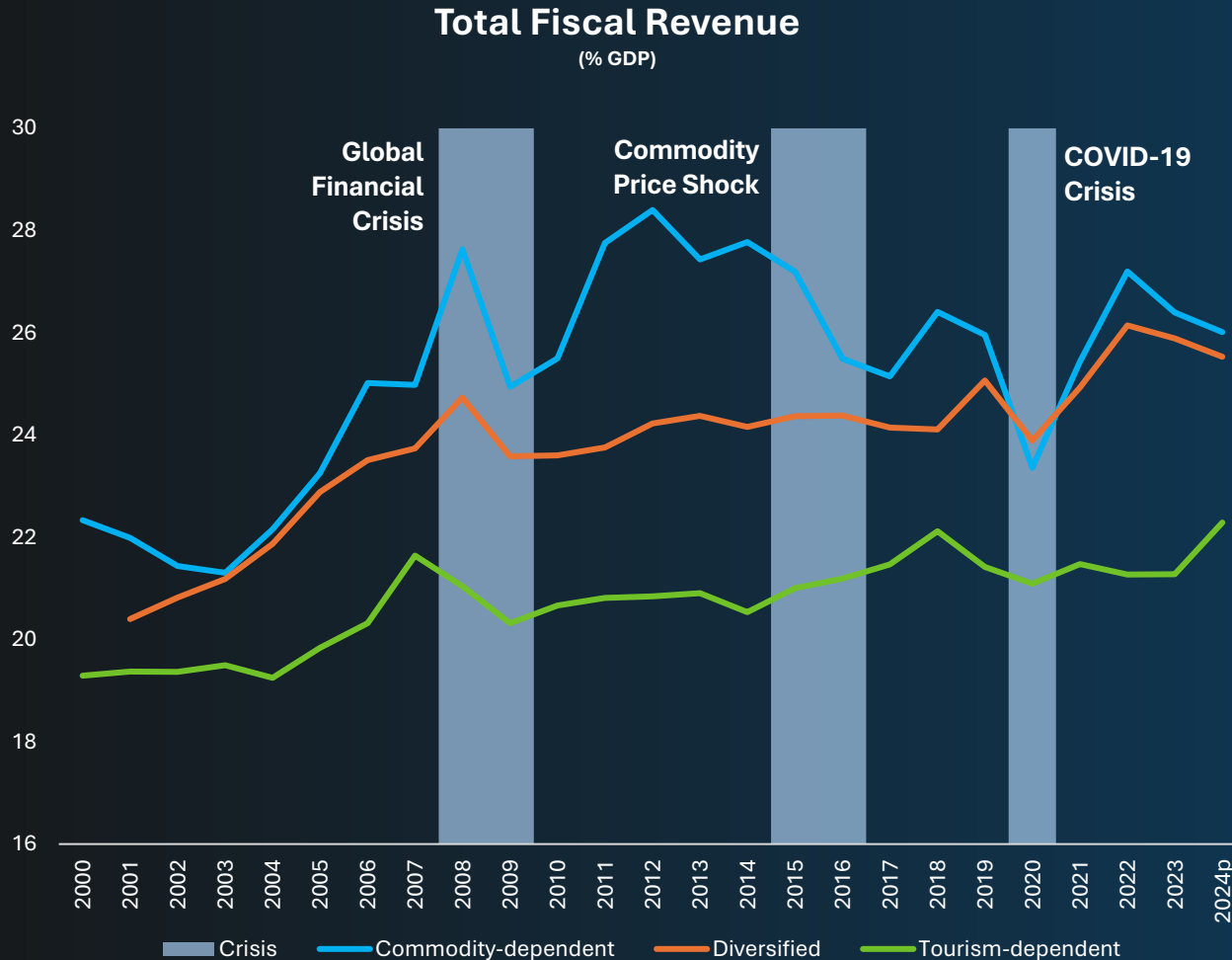
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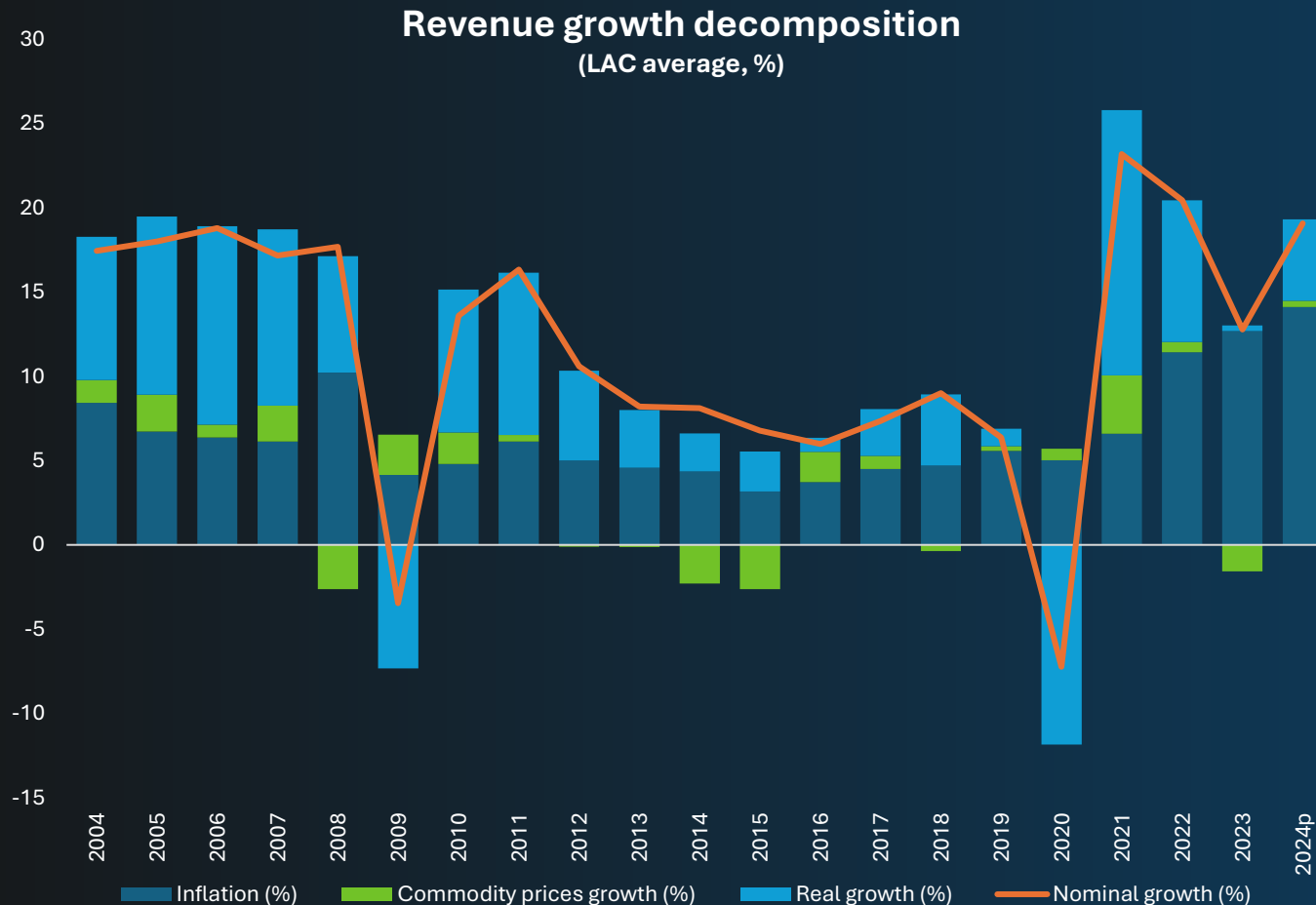
The Post-COVID Rebound was Different



- On average, commodity-dependent economies take about 2 years to recover following a crisis.
 - However, after the COVID-19 shock, revenue levels rebounded to pre-crisis levels within just one year (by 2021).
- Diversified economies took approximately 4 years to fully recover from the GFC, but **only one year to bounce back after the COVID-19 shock**.
- Tourism-dependent countries experience more persistent effects from economic shocks, with revenue trends typically taking 5 to six 6 years to show a sustained upward shift after a crisis.

How Much Did Inflation Help?

Part of the recent rebound is explained by a nominal inflation effect, not by structural changes.



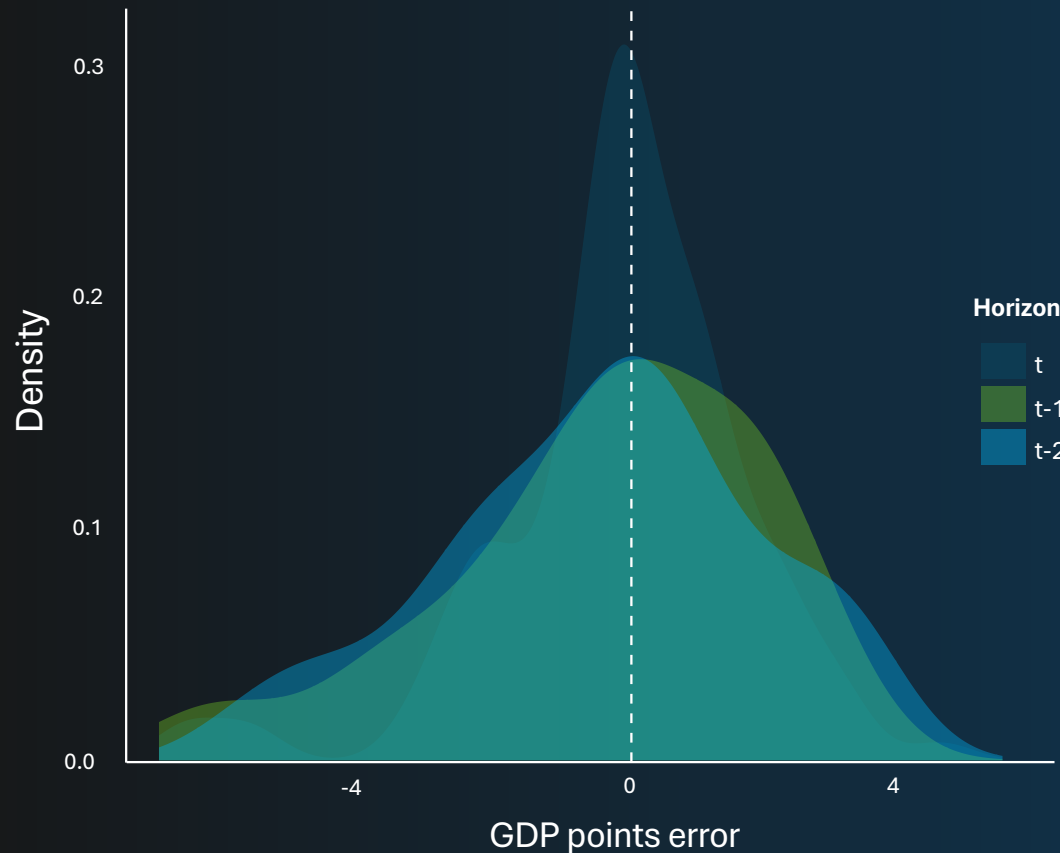
- Real revenue fell by about -9.6% on average in the years following the 2009 and 2020 shocks.
- In the first year of full recovery (2010-2021), revenue growth averaged $+18.1\%$, primarily driven by real growth ($+12\%$).
- Before the hit of the pandemic, **inflation used to contribute 5% on average** to nominal revenue growth.
- In Post-COVID **inflation contributes around 11%**, underscoring a price-level effect rather than structural resilience.

Recent Fiscal Surprises

*There have been significant revenue surprises, even in recent years on the downside.
This raises questions about structural resilience.*

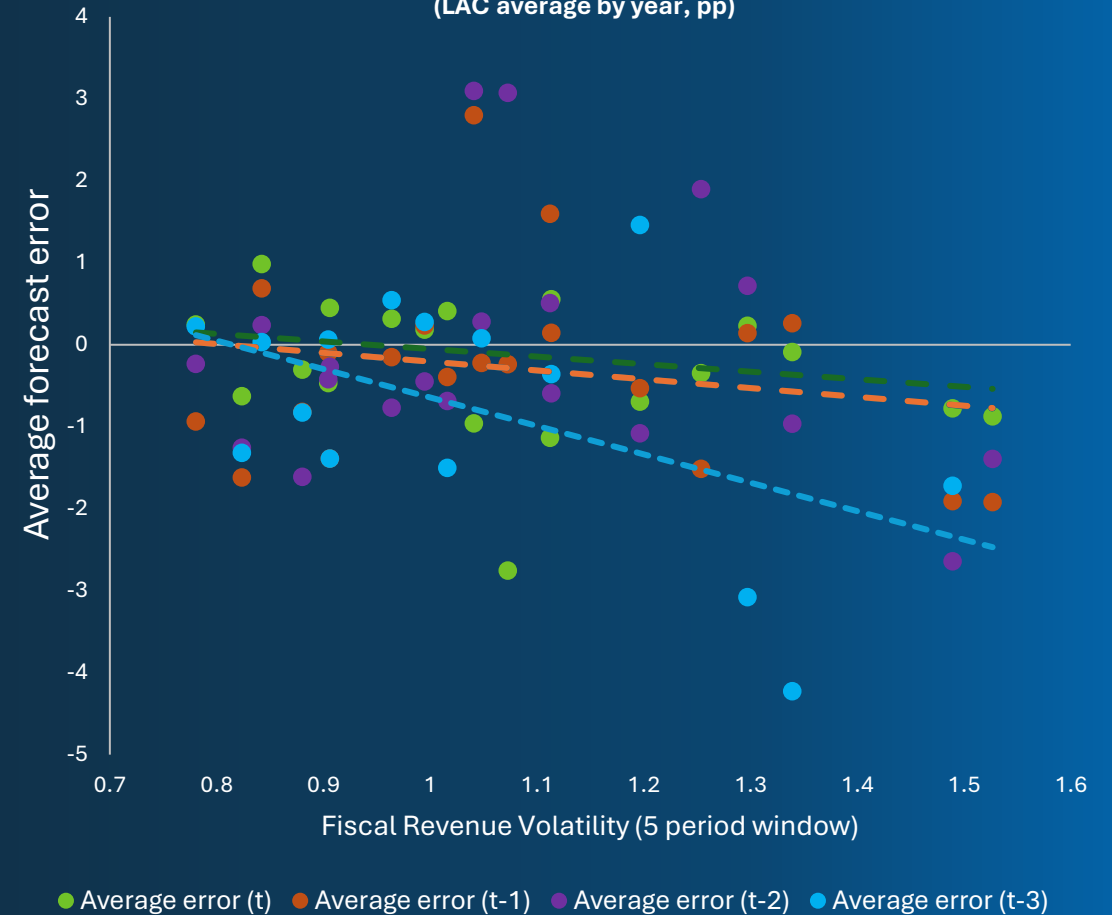
Forecast error of fiscal revenues

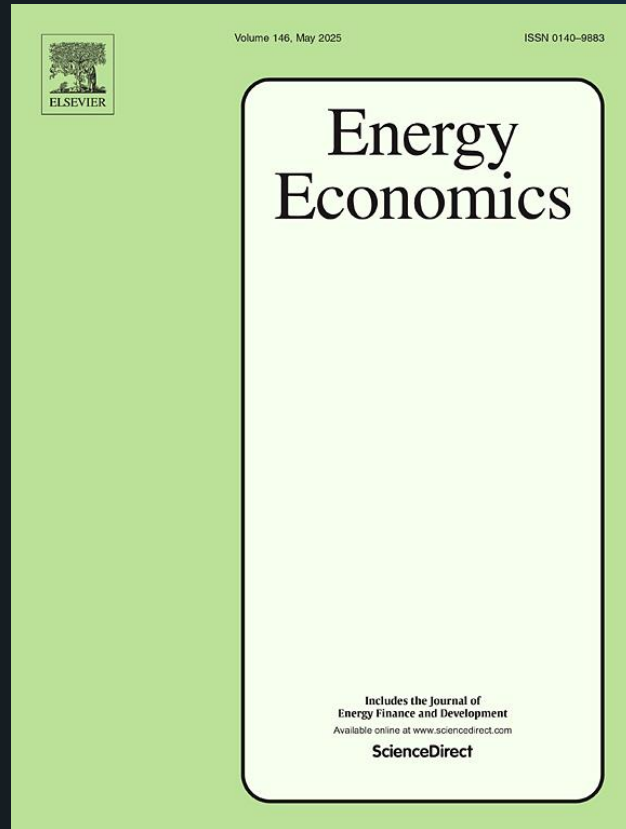
(LAC, pp)



Forecast error of fiscal revenues and its volatility

(LAC average by year, pp)





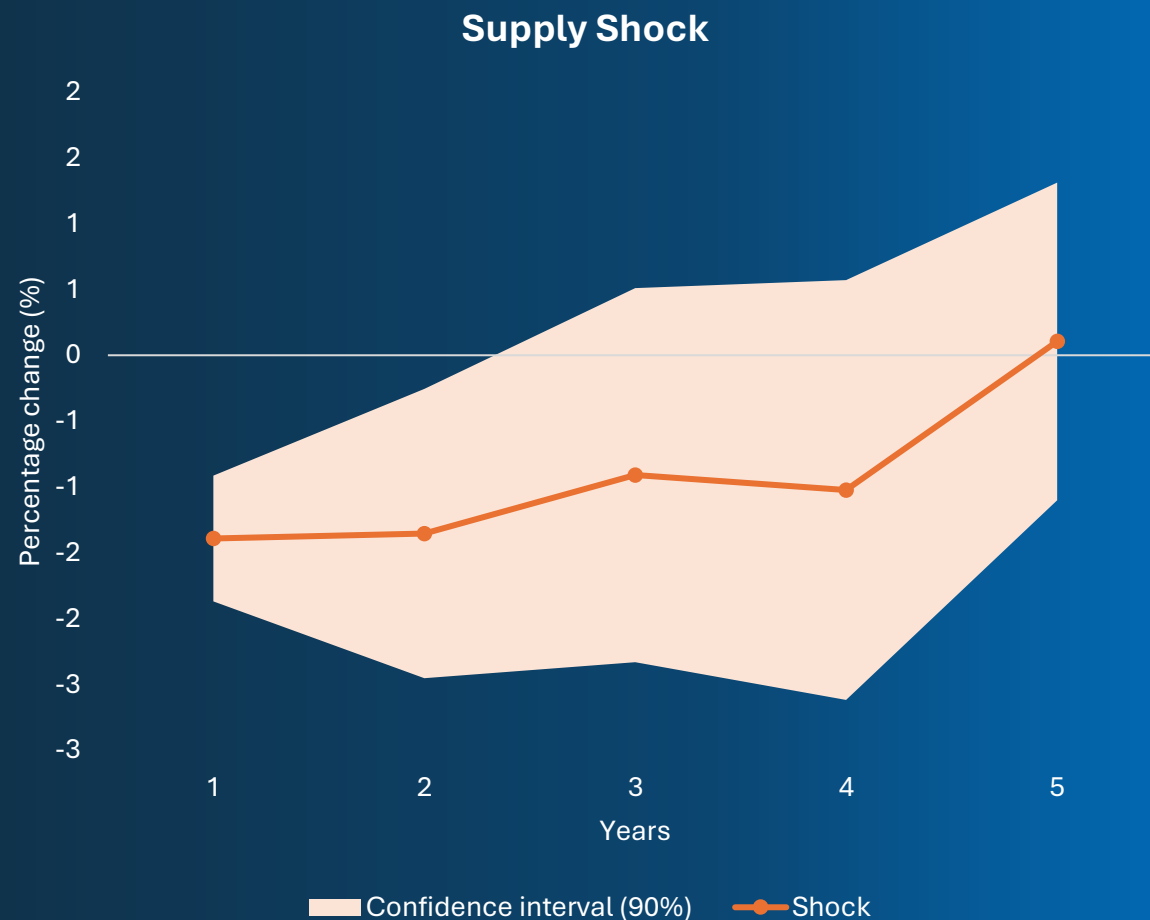
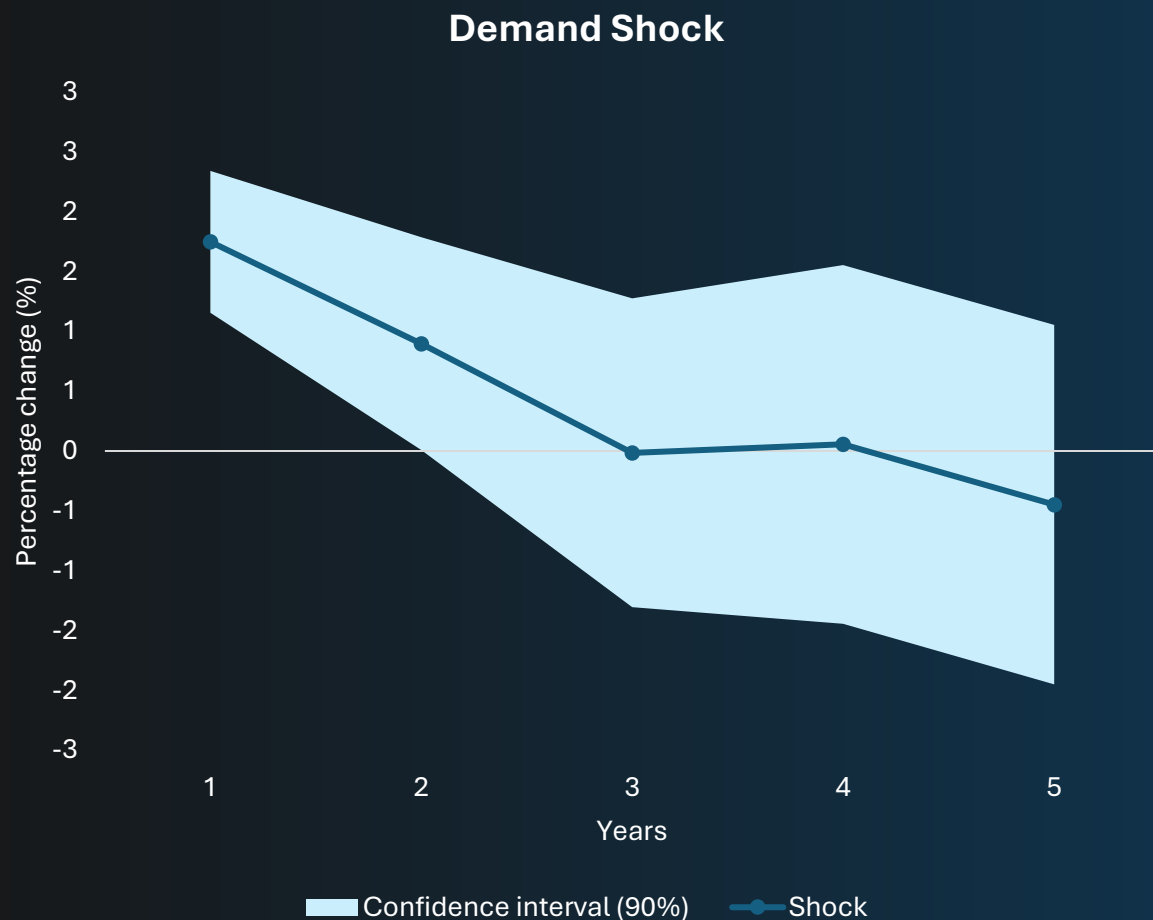
Valencia, Gamboa-Arbeláez, Sánchez (2025)
Fiscal Adjustments and the asymmetric effect of oil shocks



Valencia, Gamboa-Arbeláez, Sánchez (2024)
Debt erosion: Asymmetric response to demand and supply shocks

Revenue Response to Inflationary Shocks

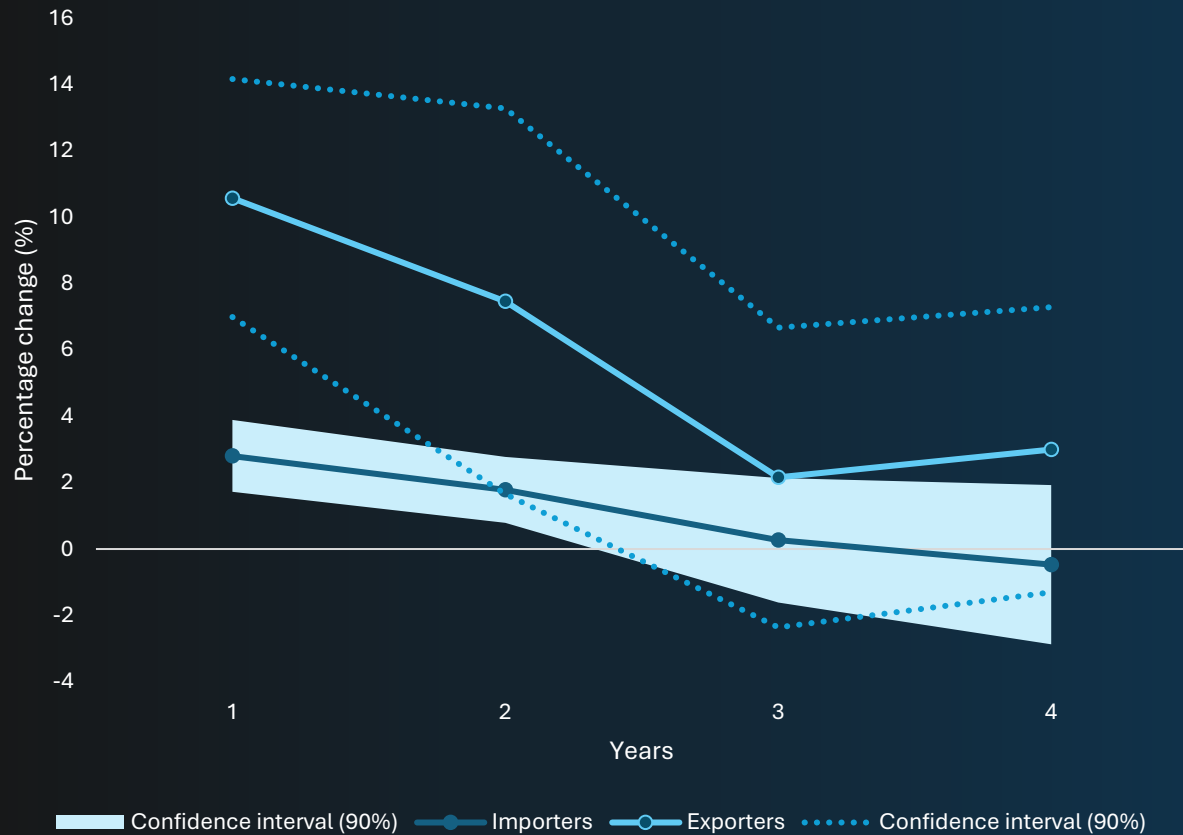
Income responds positively only to demand shocks... The origin of inflation matters



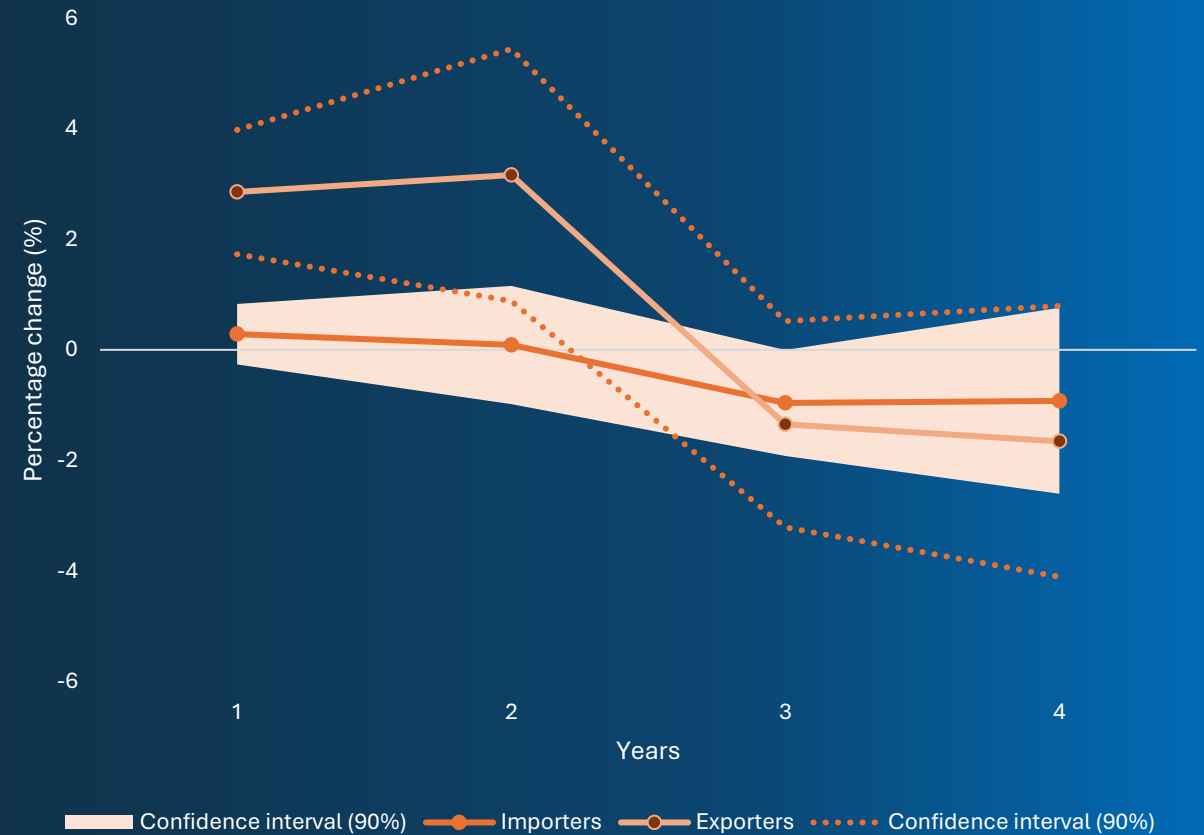
Oil Shocks: Blessing or Curse

Oil price shocks have asymmetric effects and depend on whether the country is a net importer/exporter.

Demand Shock

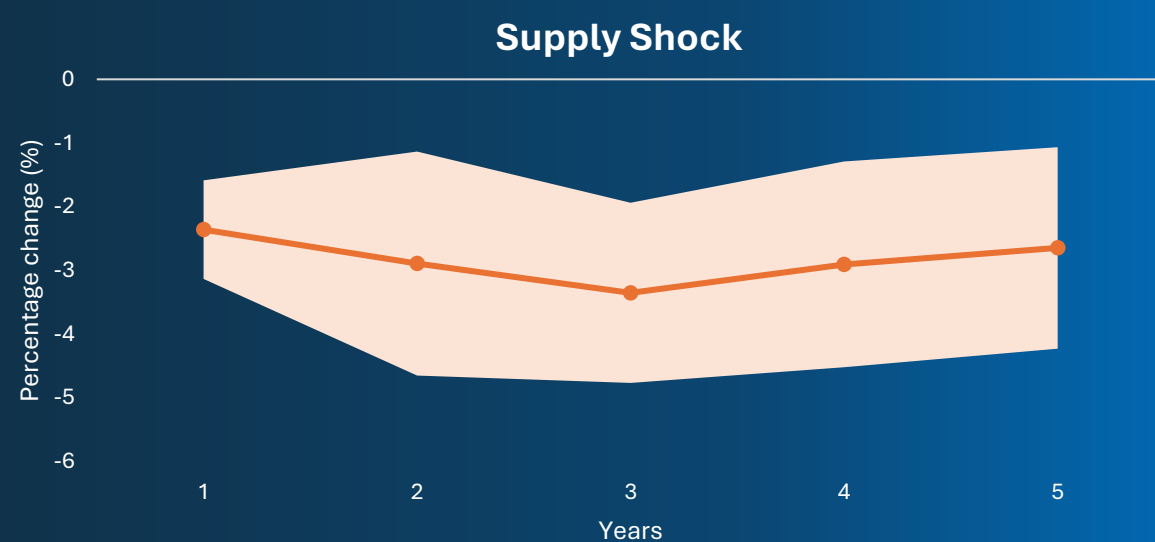
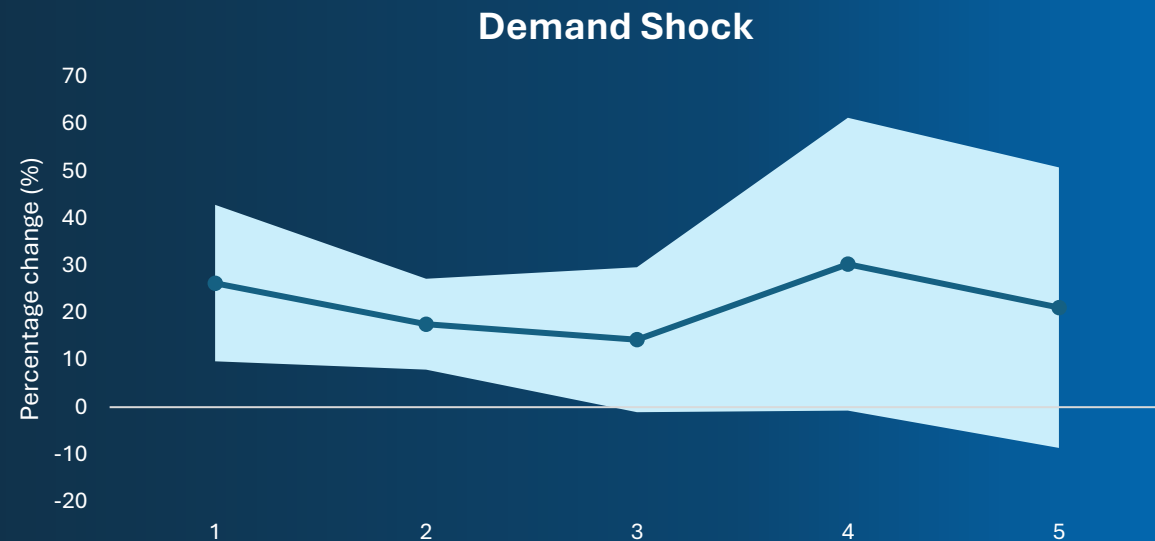
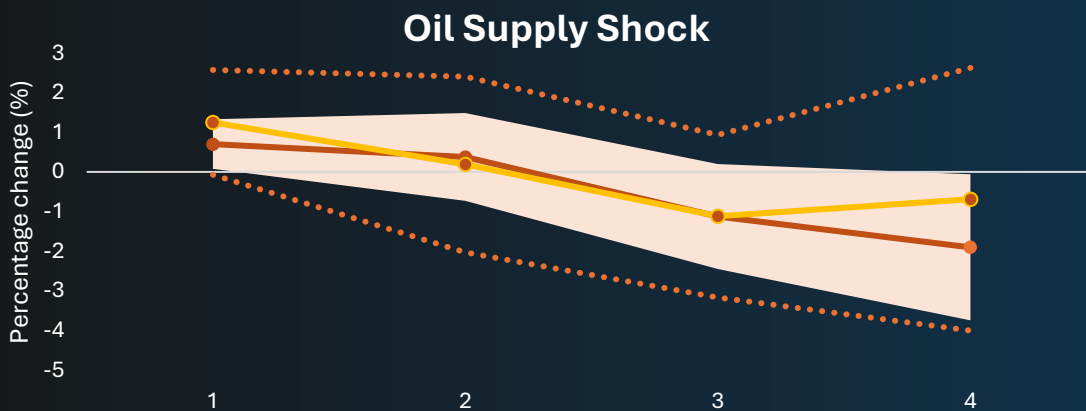
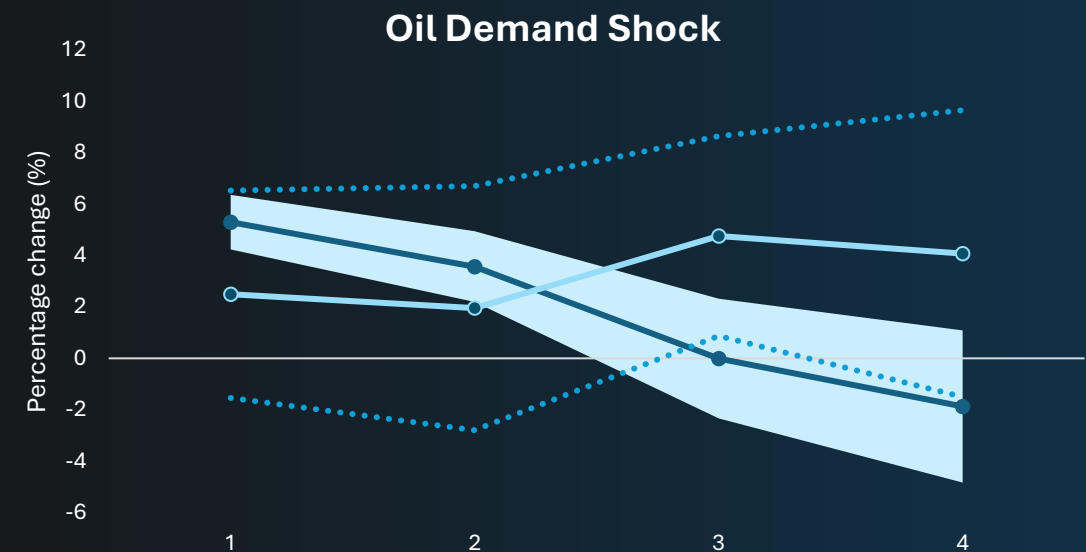


Supply Shock



Do Tax Reforms Help?

Understanding the context is key to obtain good results from tax rate increases

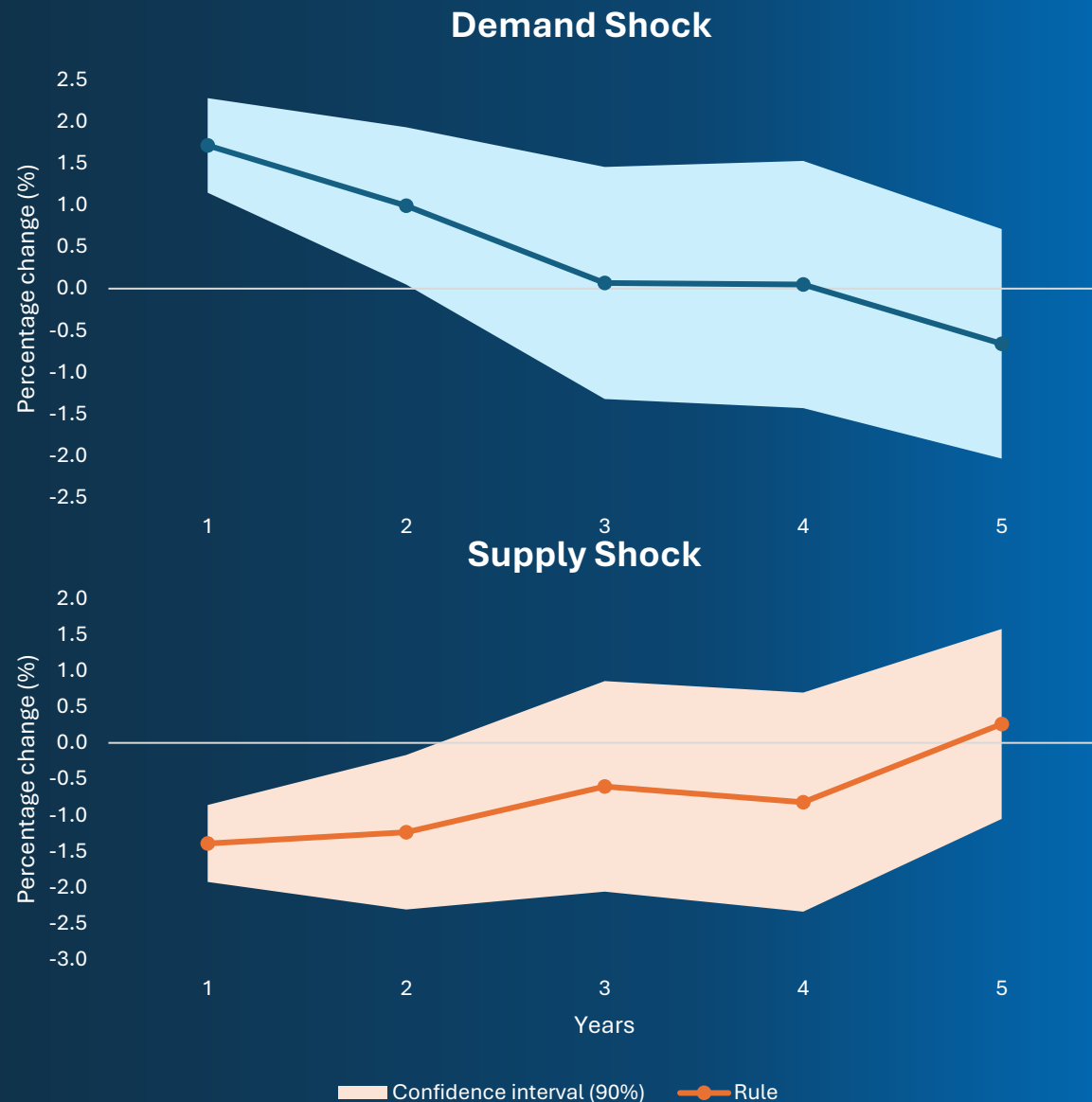
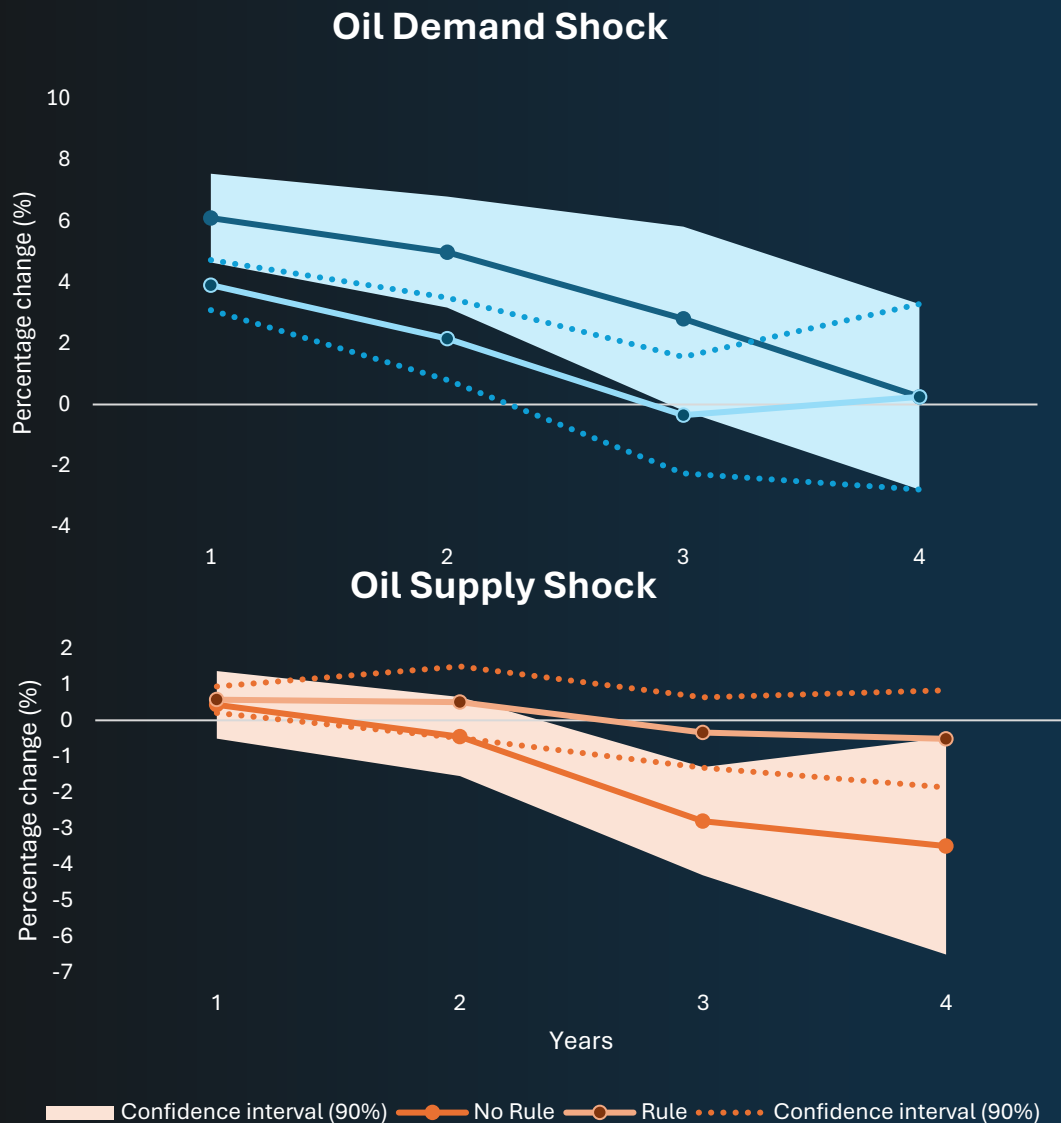


Confidence interval (90%)
 No Reform
 Reform
 Confidence interval (90%)

Confidence interval (90%)
 Reform

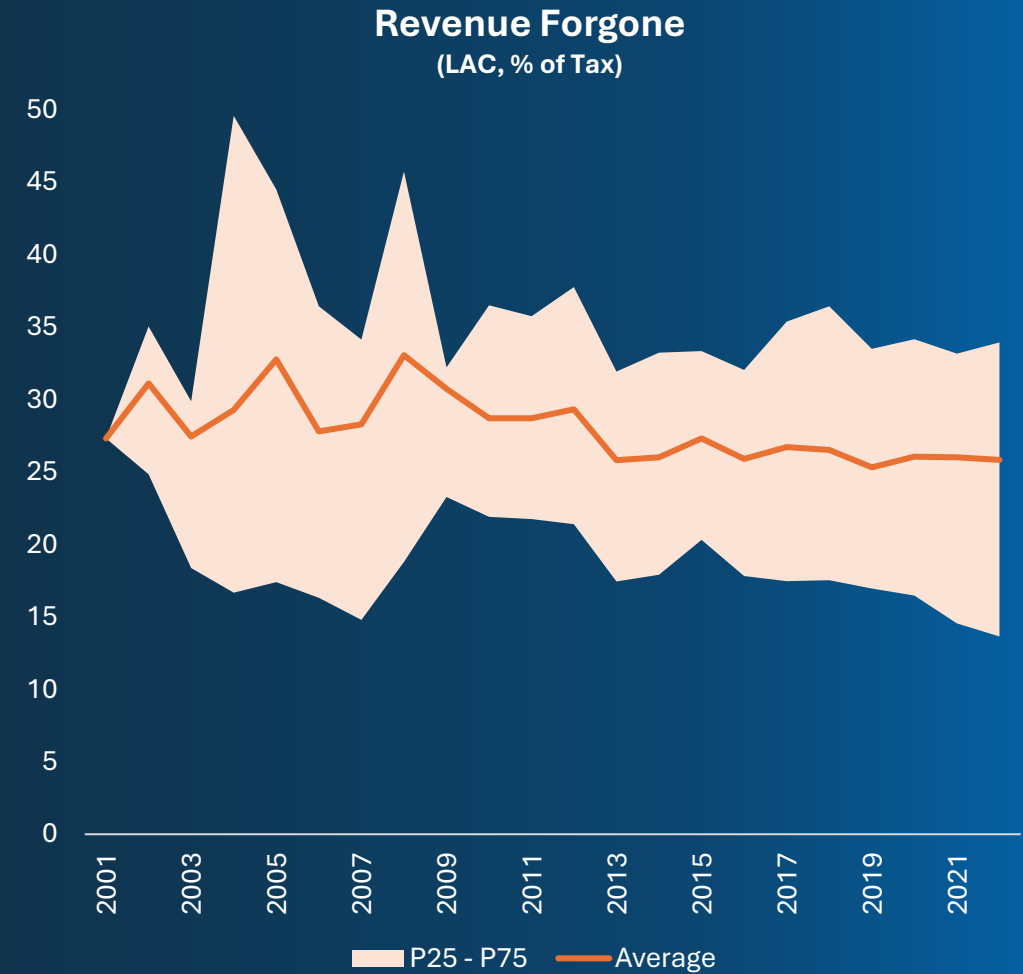
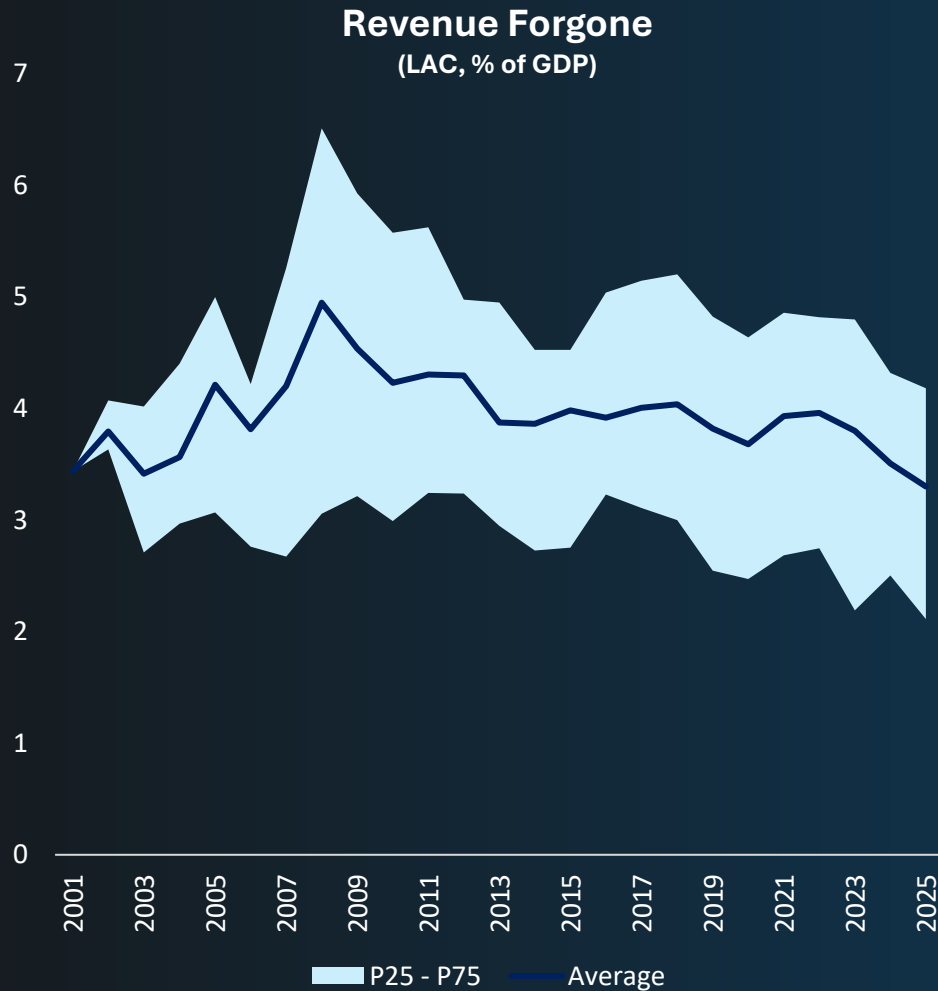
Does Fiscal Rule Matter?

Fiscal rules always matters ... It helps to mitigate negative effects and amplify positive ones



What Role Do Tax Expenditure Play?

High levels of tax expenditure erode the tax base and amplify vulnerabilities to shocks.



Resilient fiscal revenues don't happen by accident... They are built on robust institutions, rules, and fiscal strategies

1

The region has structural weaknesses in revenue, reflected in part in the response to shocks, excessive tax spending, and challenges in fiscal management.

2

Revenue responds asymmetrically to shocks. Demand shocks increase revenues but for just about two years, while demand shocks are recessionary, and amplified under economy distortions.

3

Oil shocks boost revenues in exporting economies, but only demand shocks contribute to revenues in importing economies.

4

It's important to understand the shock nature that the economy is facing to increase tax rates, under supply shocks the reform could impact negatively.

5

Fiscal rules are key to mitigate negative effects and taking advantage of revenue-generating economic growth and external shocks.

6

High and badly focalized tax expenditure can be a heavy burden for fiscal revenues.



Thank you!