Special features

Fiscal Policy Responses to the COVID-19 crisis in Latin America

Fiscal revenues from non-renewable natural resources in Latin America and the Caribbean

Revenue Statistics in Latin America and the Caribbean 2021
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Fiscal policy proved to be a potent tool to tackle the crisis in LAC

Countries made use of all fiscal policy instruments at their disposal:

- **Tax policy**: tax relief measures for families and firms
- **Spending policies**: substantial increases in subsidies and current transfers
- **Liquidity measures and State-backed credit guarantees**
Tax policy measures were widely and rapidly adopted as part of the response to the crisis

• Emphasis on tax measures to reduce the cost of **medical supplies**, especially imported products of which the region is dependent
  – Exemptions or zero-rating taxes on imports, VAT on imports and domestic sales
• Tax deferrals and advanced refunds to provide **short-term** liquidity support to families (PIT) and firms (CIT, VAT, SSC)
• Reduced rates for social security contributions, taxes on financial transactions
• Administrative measures to facilitate the repayment of accumulated prior tax liabilities
The impact of tax relief measures was limited by the particularities of the region and the extent of the crisis

• Relief provided by tax measures was not spread equally throughout the economy
  – Principal beneficiaries were formal sector firms and employees (limited universe of CIT/PIT tax payers, out-sized informal economies)

• Tax relief was temporary, principally based on deferrals
  – Liquidity concerns for firms, especially SMEs, continued through the year
  – Some countries resorted to rolling extensions of tax measures
Expenditure measures accounted for the bulk of the response to the crisis

- Countries adopted unprecedented fiscal packages to respond to the crisis (4.6% of GDP on average in Latin America)
- Fiscal policy was therefore exceptionally expansionary, with year-on-year increases in real primary expenditure above 10% and in some cases exceeding 20%
- Subsidies and transfers were the principal mechanism for channelling resources to families and firms
  - Creation of new programmes
  - Extension of existing programmes (number of beneficiaries, size of benefit)
- Public spending was also accompanied by below-the-line financing measures (policy lending, capitalizations) and State-backed credit guarantees
The road ahead: fiscal policy in LAC to achieve sustainable development

• A transformative recovery in LAC is predicated on an expansionary fiscal policy
  – Austerity in the short-term will choke incipient growth
  – Public spending cuts in the medium-term will derail efforts to close development gaps and achieve the SDGs

• Expanding fiscal and policy space requires a fiscal sustainability framework
  – Short-term support through financing for development efforts and international cooperation (especially in the area of debt)
  – Fundamental restructuring of tax systems in the medium-term: bolstering progressive taxation, closing spaces for evasion and avoidance, tackling the challenges of the digital and implementing corrective taxations to support public health and environmental concerns
Fiscal revenues from non-renewable natural resources in Latin America and the Caribbean
Hydrocarbon revenues rose in 2019, despite a fall in crude oil prices, due in part to large one-off revenues.

LAC (9 countries): general government fiscal revenues from exploration and production of crude oil and natural gas, 2018-2019

(Percentages of GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on data from ECLAC’s Fiscal Revenues from Non-Renewable Natural Resources in Latin America and the Caribbean database.
Weak prices of minerals and metals dragged mining revenues lower in 2019

LAC (11 countries): general government fiscal revenues from mining, 2018-2019
(Percentages of GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on data from ECLAC’s Fiscal Revenues from Non-Renewable Natural Resources in Latin America and the Caribbean database.