# ROLE OF FISCAL POLICIES IN A GREEN COVID-19 RECOVERY:

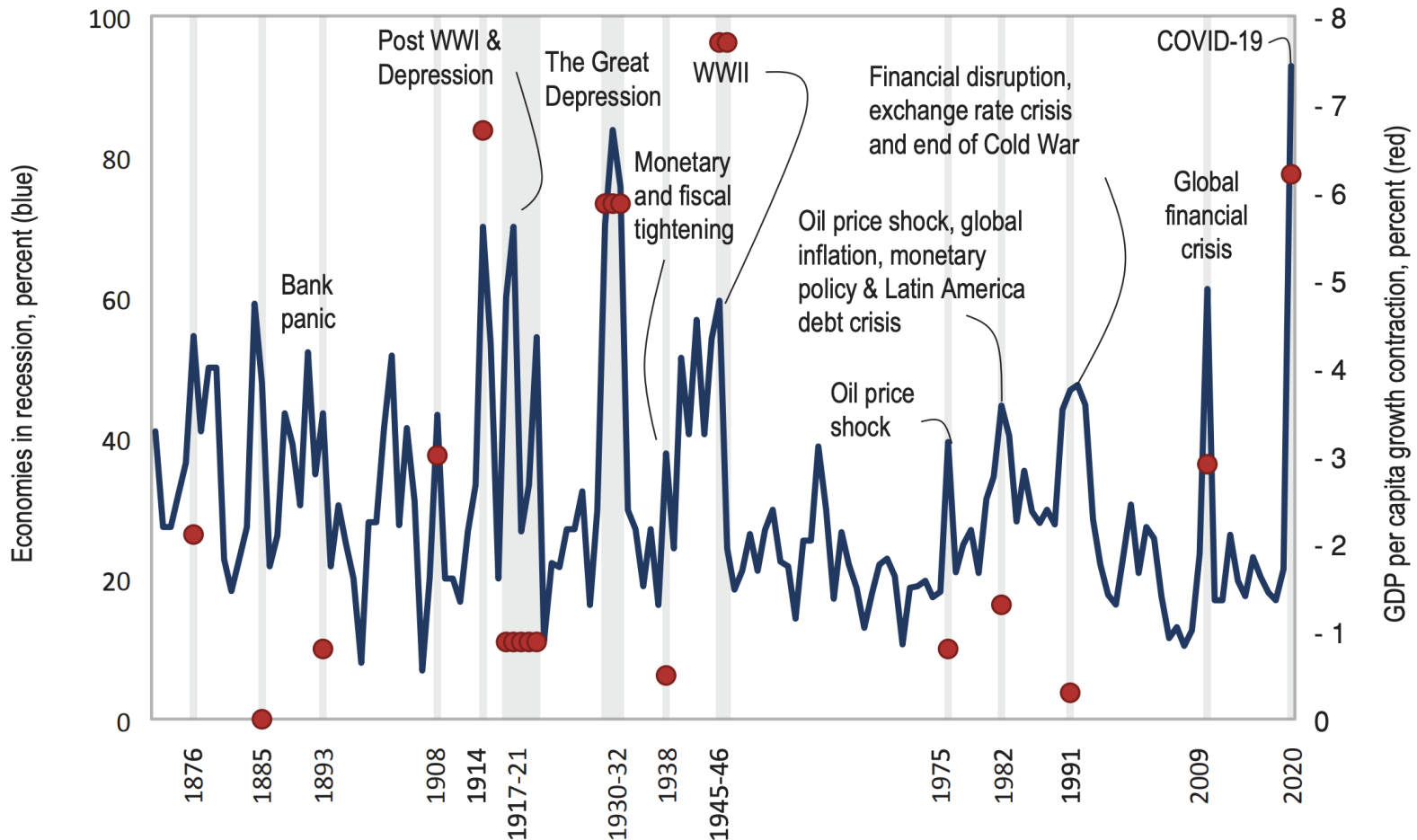## Experience, Best Practice And Next Steps In Latin America And The Caribbean

Technical Workshop – Green Fiscal Policy Network and UN ECLAC
October 13 and 14, 2020

**Steven Stone, Chief, Resource and Markets Branch, UNEP**

UN
environment
programme

# A shock to the system
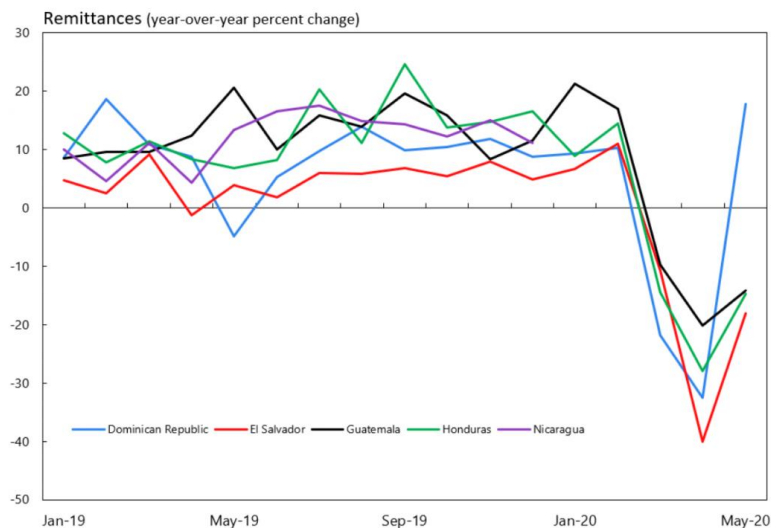
## Crisis Severity and Growth Contractions, 1871–2020



Source – World Bank

## No help from abroad

Remittances and tourism arrivals fell sharply.

**Remittances** (year-over-year percent change)



Sources: FlightRadar24 database; and IMF staff calculations.

Sources: Haver Analytics and national authorities.

Number of flights arriving in the Caribbean
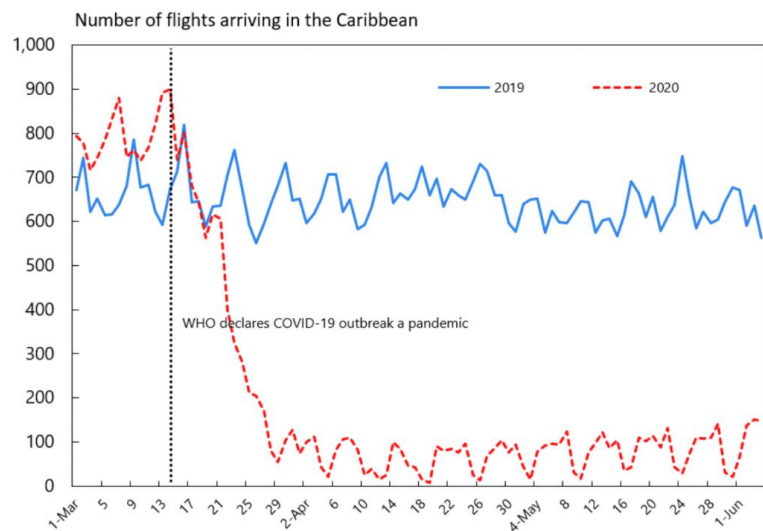


## Strong slowdown

IMF forecasts recession in most of Latin American and Caribbean.

(Real GDP growth; percent)

| | 2018 | 2019 | Projections 2020 | 2021 | Difference from April 2020 WEO Projections 2020 | 2021 |
|---|---|---|---|---|---|---|
| Latin America and the Caribbean | 1.1 | 0.1 | -9.4 | 3.7 | -4.2 | 0.3 |
| Excluding Venezuela | 1.8 | 0.8 | -9.2 | 3.9 | -4.2 | 0.4 |
| | | | | | | |
| South America² | 0.4 | -0.1 | -9.5 | 3.9 | -4.4 | 0.5 |
| Excluding Venezuela | 1.4 | 1.0 | -9.2 | 4.2 | -4.4 | 0.6 |
| CAPDR¹ | 3.9 | 3.2 | -5.9 | 3.2 | -3.5 | -0.8 |
| Caribbean | | | | | | |
| Tourism dependent³ | 1.9 | 1.2 | -10.3 | 4.8 | -2.8 | -1.0 |
| Commodity exporters⁴ | 0.7 | 0.9 | 3.5 | 3.2 | -1.9 | -0.4 |
| | | | | | | |
| Latin America | | | | | | |
| Argentina | -2.5 | -2.2 | -9.9 | 3.9 | -4.2 | -0.5 |
| Brazil | 1.3 | 1.1 | -9.1 | 3.6 | -3.8 | 0.7 |
| Chile | 3.9 | 1.1 | -7.5 | 5.0 | -3.0 | -0.3 |
| Colombia | 2.5 | 3.3 | -7.8 | 4.0 | -5.4 | 0.3 |
| Mexico | 2.2 | -0.3 | -10.5 | 3.3 | -3.9 | 0.3 |
| Peru | 4.0 | 2.2 | -13.9 | 6.5 | -9.4 | 1.3 |

Sources: IMF World Economic Outlook database and staff calculations.
¹CAPDR = Central America, Panama, and the Dominican Republic.
2Excludes Guyana and Suriname.
3Includes Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
4Includes Guyana, Suriname, and Trinidad and Tobago.

# A shock to the system – Employment

**Collapse in the number of hours people work**



The impact on jobs has been 10 times bigger than that of the global financial crisis
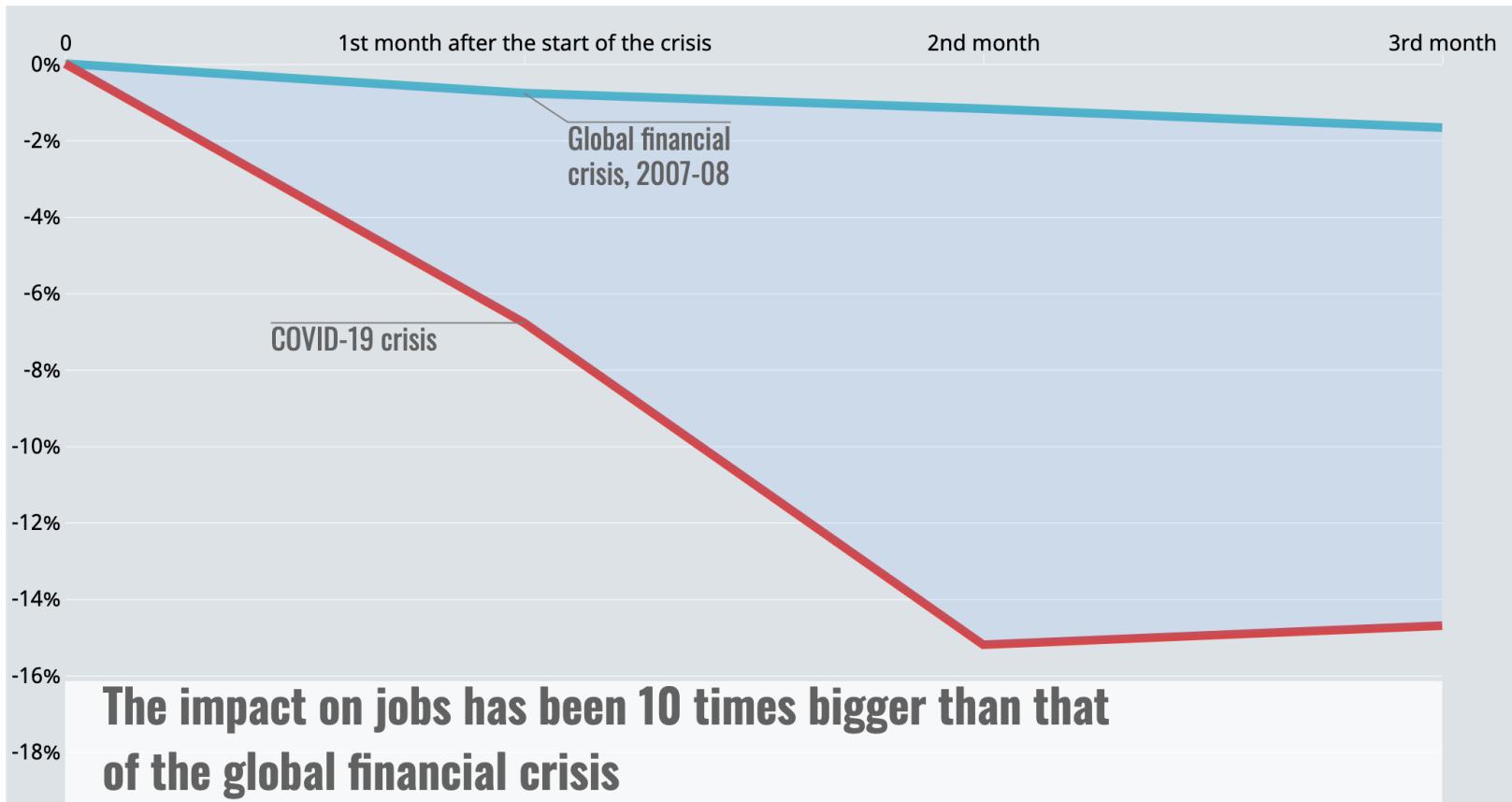
Source: OECD (2020), OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis, OECD Publishing, Paris.
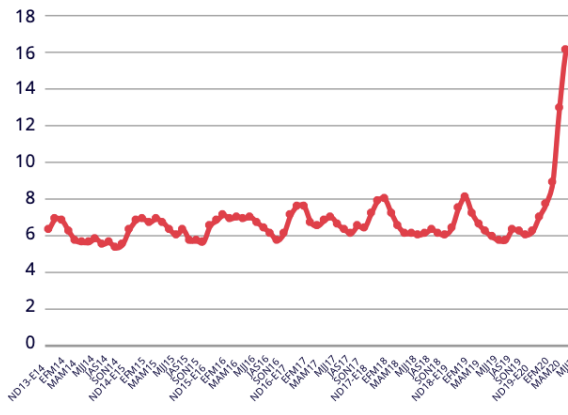Note: Average of selected countries: Australia, Canada, Japan, Korea, Sweden, US.
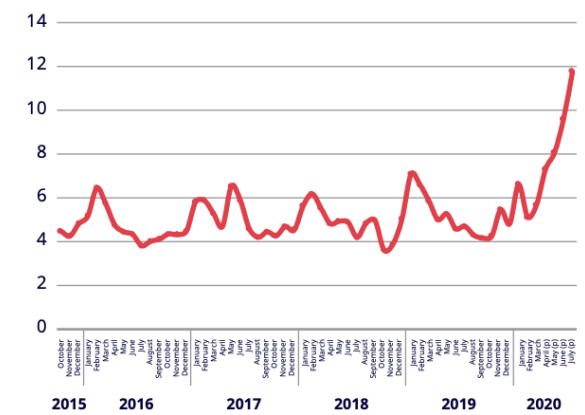
# Unemployment in select LAT AM (%)

## Chile, 2010-2020
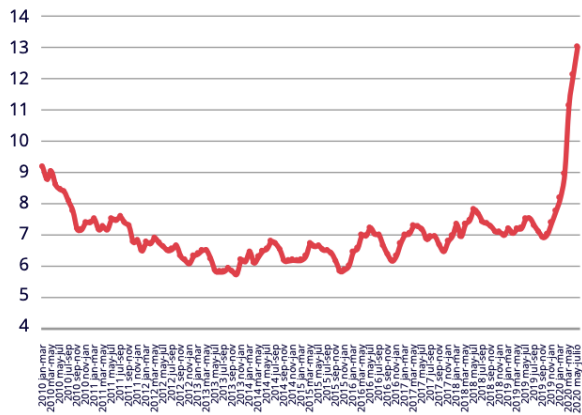


Source: National Employment Survey (INE, Chile).
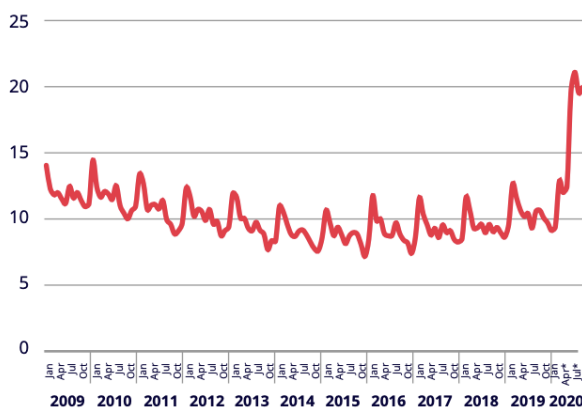
## Lima Metropolitana, 2013-2020



Source: Permanent Employment Survey (INEI, Peru).

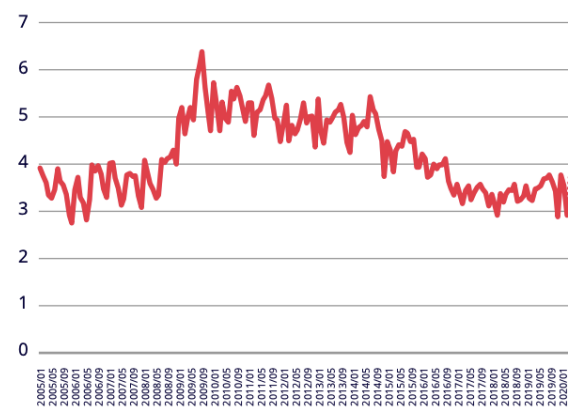## Plurinational State of Bolivia, 2015-2020



Source: Continuous Employment Survey (INE, Bolivia).
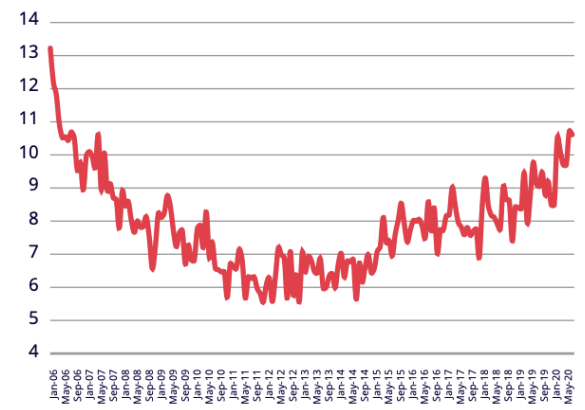
## Colombia, 2010-2020



Source: Large Integrated Household Survey (DANE, Colombia).

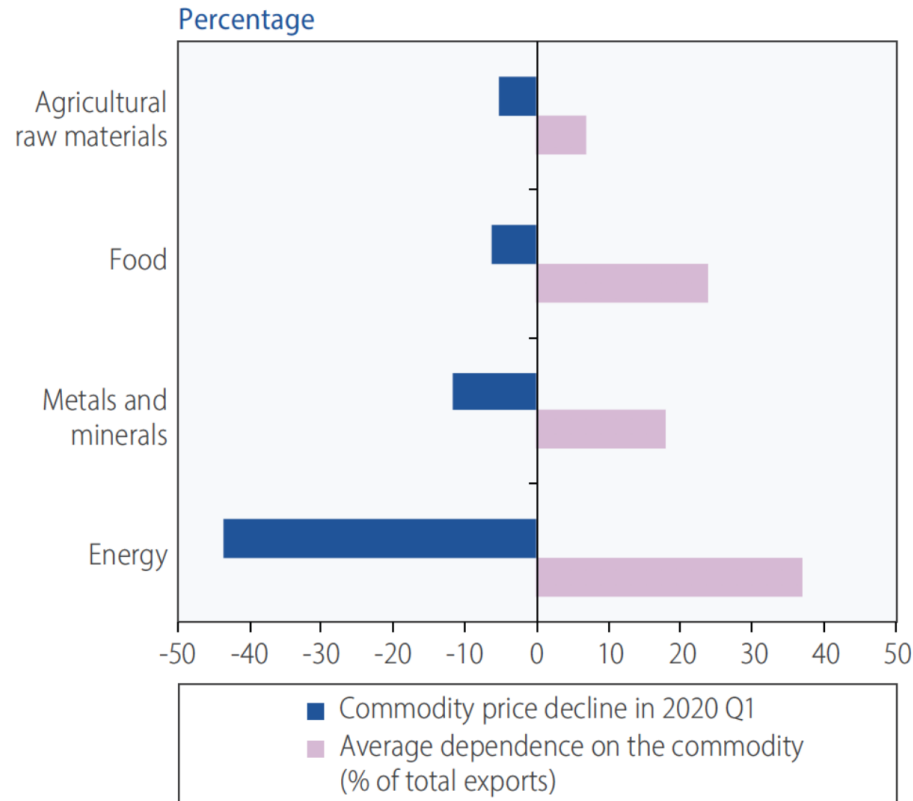## Mexico, 2005-2020



Source: ENOE/ETOE (INEGI, Mexico).

## Uruguay, 2006-2020



Source: Continuous Household Survey (INE, Uruguay).

# A shock to the system – Commodity Prices

**Across-the-board decline in commodity prices in the first quarter of 2020**



Percentage

Legend:
- Commodity price decline in 2020 Q1
- Average dependence on the commodity (% of total exports)

**Source:** World Bank Commodities Price Data.
**Note:** Average dependence is calculated based on data of countries where commodity exports account for more than 60 per cent of total exports.
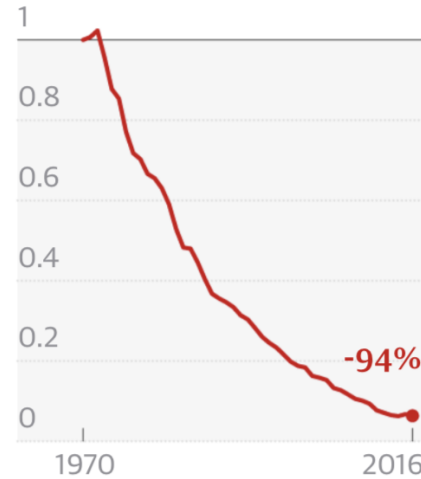
HOW DID WE GET HERE?

# Nature in distress – fire sale?



**Wildlife populations are declining across the globe but falling especially steeply in tropical regions**

Index of biodiversity, 1970 = 1

Latin America and the Caribbean: -94%
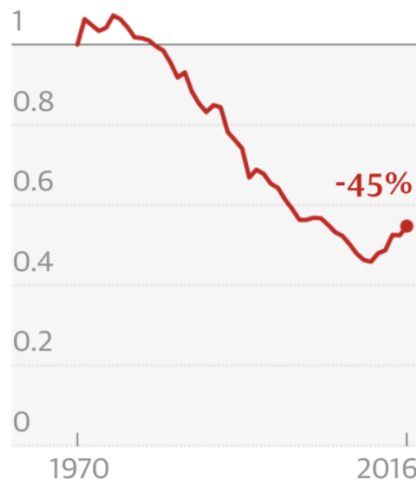
Africa: -65%
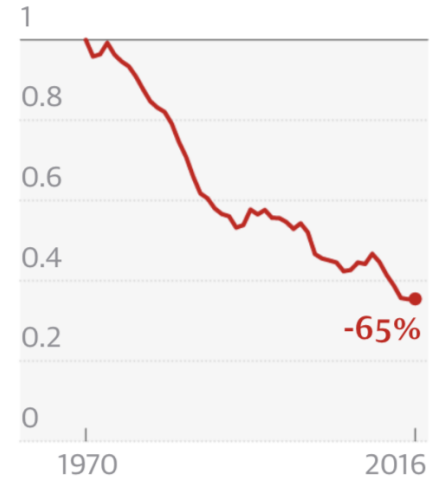
Asia-Pacific: -45%
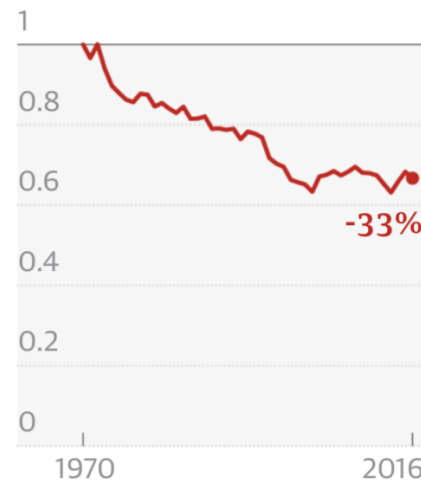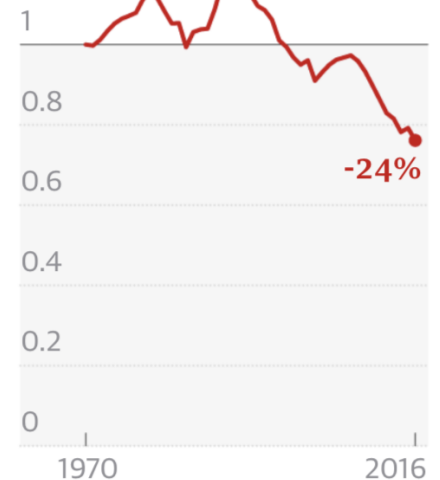
North America: -33%

Europe and central Asia: -24%

Guardian graphic. Source: WWF

# LIQUIDATING NATURAL WEALTH

Trend in per capita inclusive wealth (global) for 1992—2014



Legend:
- Gross Domestic Product per capita
- Population
- Produced Capital per capita
- Natural Capital per capita
- Human Capital per capita
- Inclusive Wealth
- Inclusive Wealth per capita
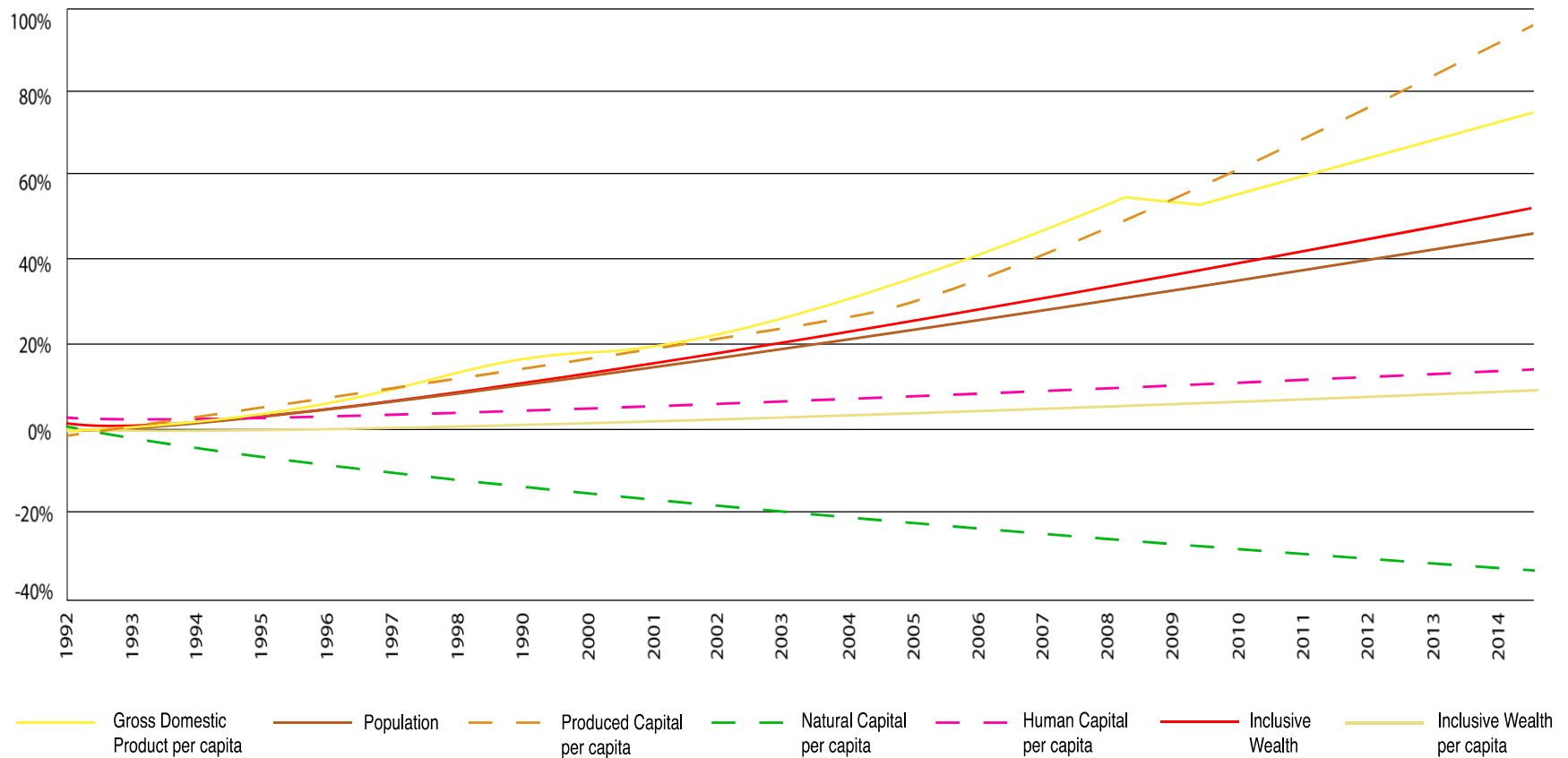
# …AND DECLINING PUBLIC WEALTH

The rise of private capital and the fall of public capital in rich countries 1970 — 2016



Source: World Inequality Report, 2018.
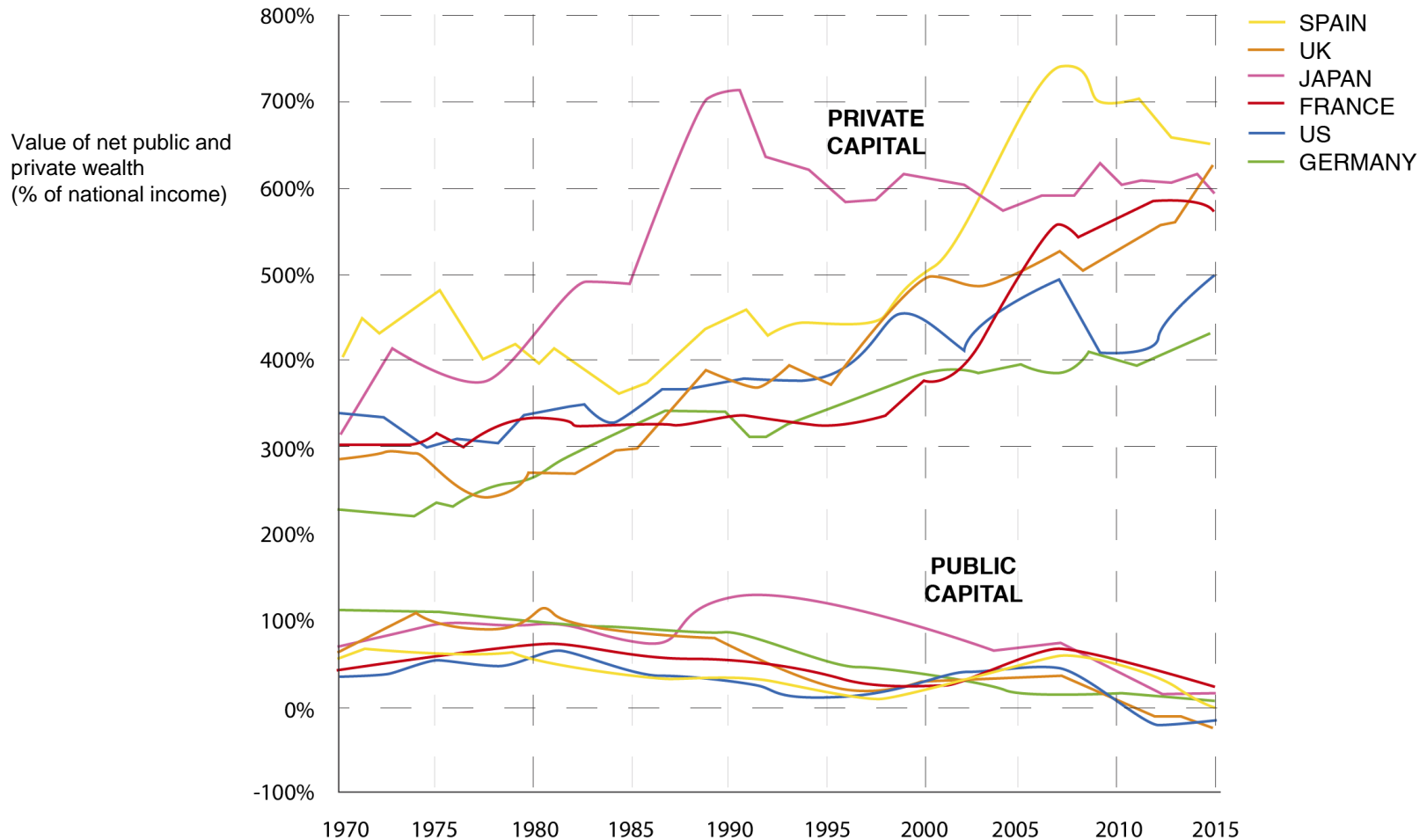
# Ballooning debt, deflated fiscal space



**Ballooning debt (1970–2019)**
During the past decade, total debt in emerging market and developing economies rose to a historic peak.
(percent of GDP)
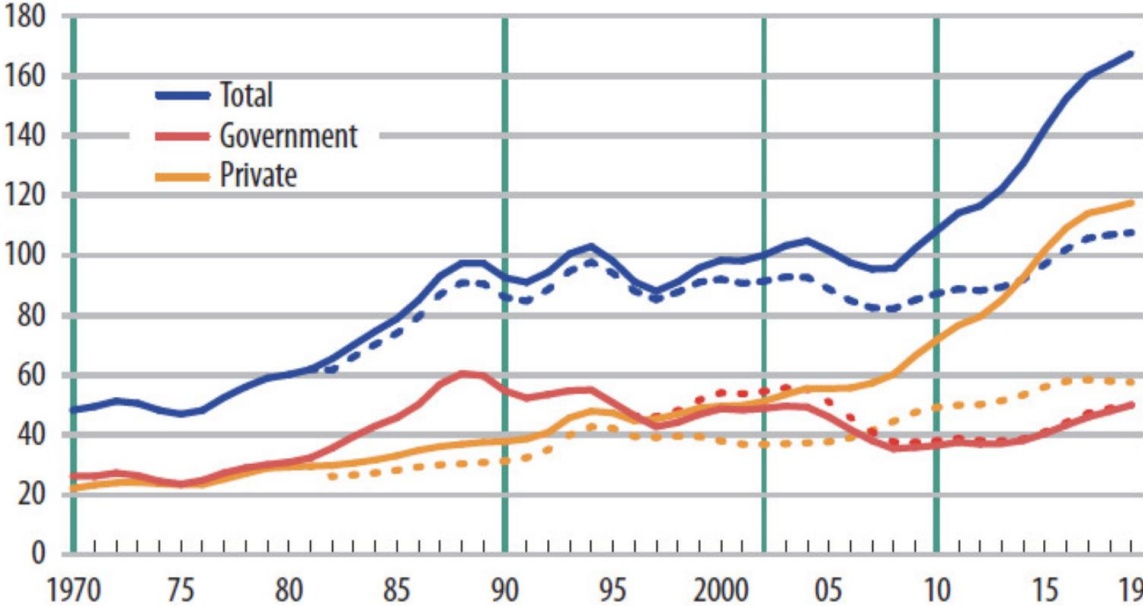
**Sources:** International Monetary Fund; Kose and others (2020); and World Bank.
**Note:** Aggregates are calculated using current US dollar GDP weight and are shown as a three-year moving average. Dashed lines show debt, excluding China. The vertical lines represent the beginning of debt waves in 1970, 1990, 2002, and 2010.

# WHERE DO WE GO FROM HERE?
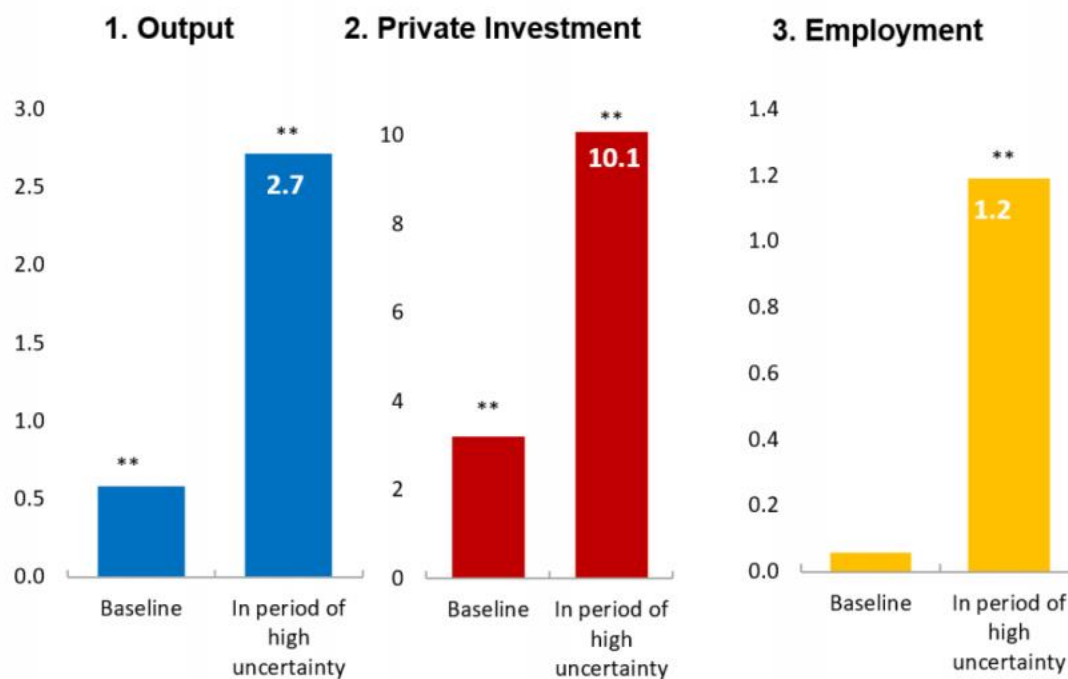
# Higher public investment needed

## The amplifying effects of public investment

In periods of high uncertainty, increasing investment by 1 percent of GDP boosts growth by 2.7 percent, private investment by 10 percent, and employment by 1.2 percent after 2 years.

(impact, in percent deviation from baseline, of a 1 percent of GDP increase in public investment)

**1. Output**     **2. Private Investment**     **3. Employment**
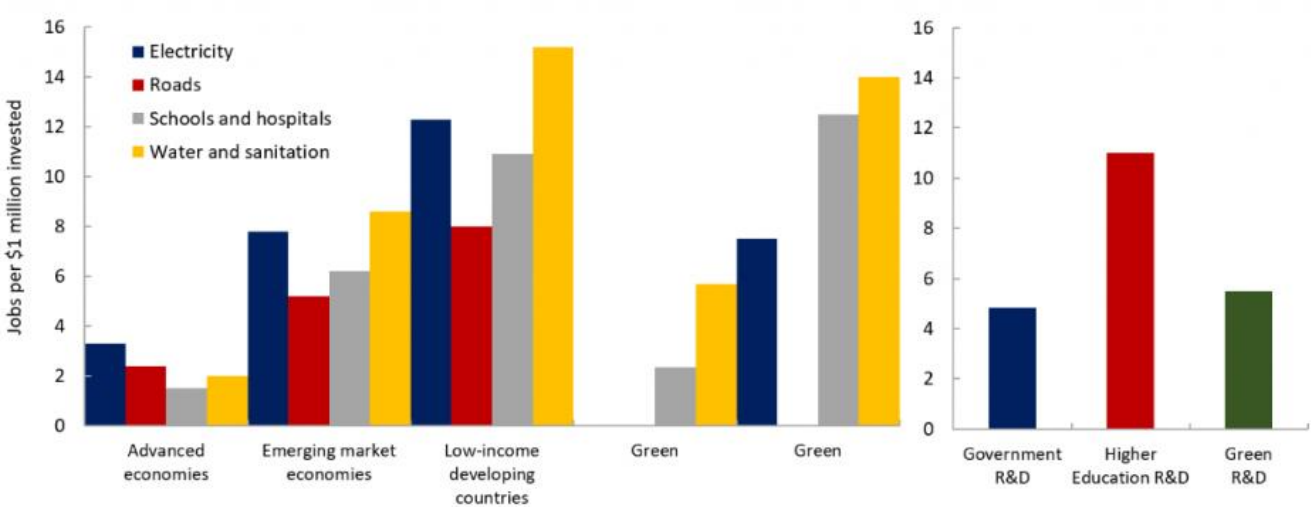


Source: IMF staff estimates.

Note ** denotes statistically significant coefficients at the two standard deviation confidence interval.

# Smarter public investment needed

**Boosting jobs**

Public investment could generate between 2 and 8 jobs for every $1 million spent on traditional infrastructure and between 5 and 14 jobs for every $1 million spent on R&D, green electricity, and efficient buildings.

(jobs created directly, per $1 million spent)



Sources: ORBIS; Compustat; and IMF staff estimates.

# How are we doing? Green stimulus index
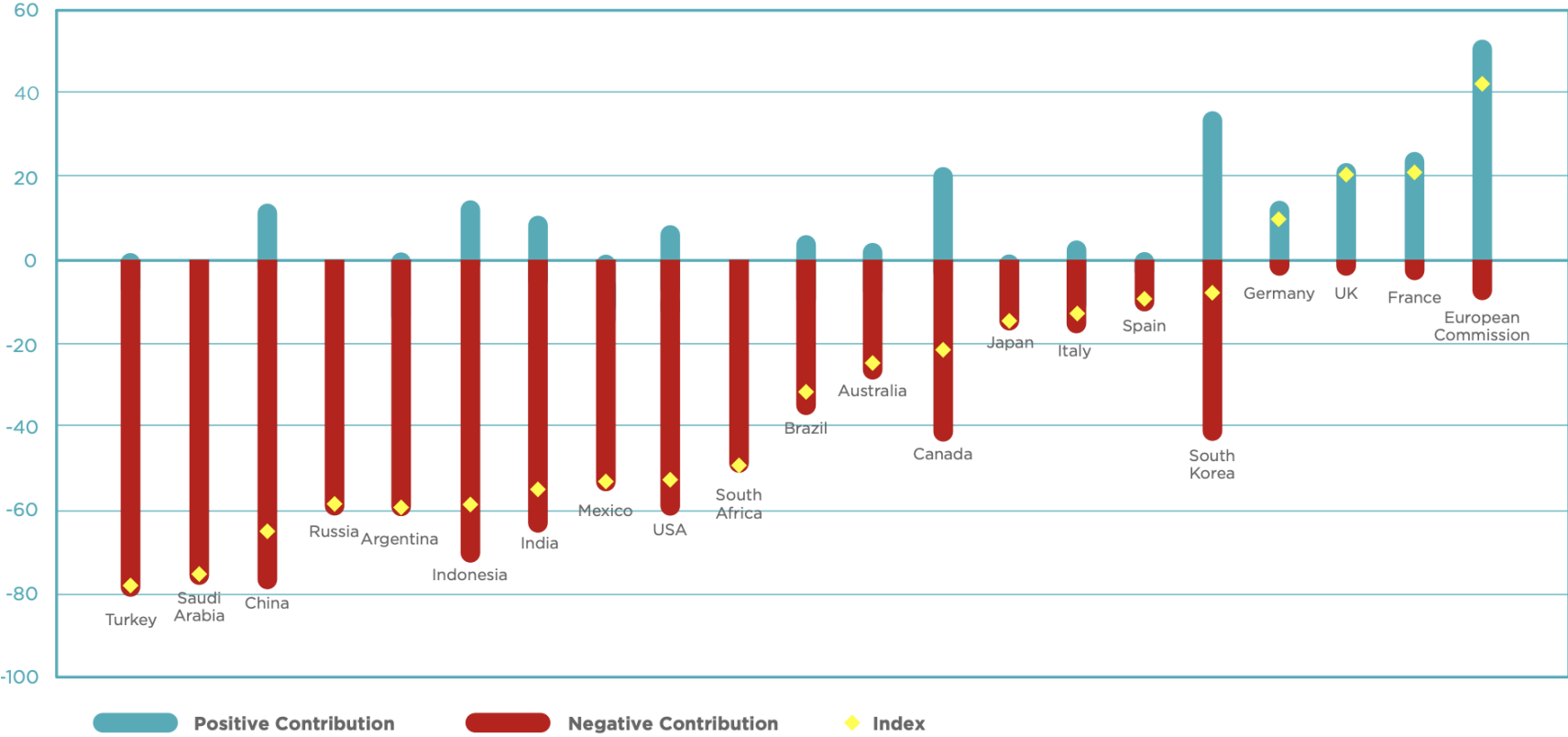


**Source:** Vivid Economics using a variety of sources, consult Annex II for the entire list of sources
**Note:** Updated on August 28, 2020.

# The opportunity

- Green fiscal policy reform indispensable for most low and middle-income country contexts – high debt burdens, falling private investment and public tax receipts reduce fiscal space for financing green recovery.

- Shift taxes - from employment towards pollution.  Example: 2.4% of EU GDP and 6.0% of total EU government revenue from taxes and social contributions in 2018 came for ENV taxation. (EC)

- Repurposing $478 billion/year in fossil fuel subsidies is a massive opportunity (OECD/IEA). Same could be said for massive ag subsidies.

- Another is to join 77 countries, states or cities now applying a price on carbon, covering about 20% of global emissions (WRI)

# The opportunity

**BUILDING A GREENER RECOVERY:**

LESSONS FROM THE GREAT RECESSION

Covid-19 Green Recovery Working Paper Series

Calls on governments to commit to a 5-10-year strategy of public investment + pricing reforms to catalyse the green structural transformation needed for a sustained economic recovery.

# The opportunity – key considerations

✓ Carefully design tax base to target pollution

✓ Gradually increase tax rates through pre-announced 'escalators'

✓ Keep in mind administration and compliance costs

✓ Identify impacts on social groups and introduce targeted compensatory measures

✓ Carefully consider revenue use options

✓ Stakeholder consultation and clear communications

✓ Implement complementary policies and nudging to stimulate needed systemic and behaviour changes

**THANK YOU**

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