

# 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

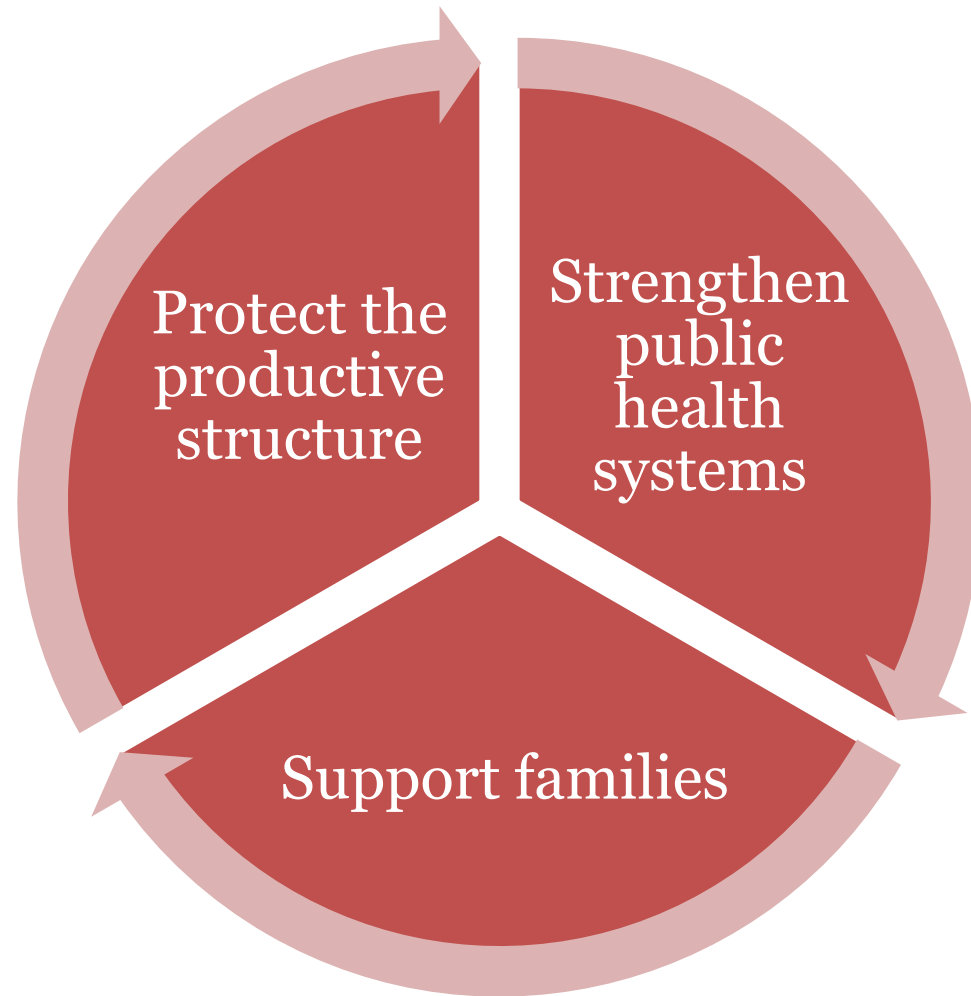
*Revenue Statistics in Latin America and the Caribbean 2021*

Daniel Titelman, Director, Economic Development Division, ECLAC

April 22, 2021




# 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

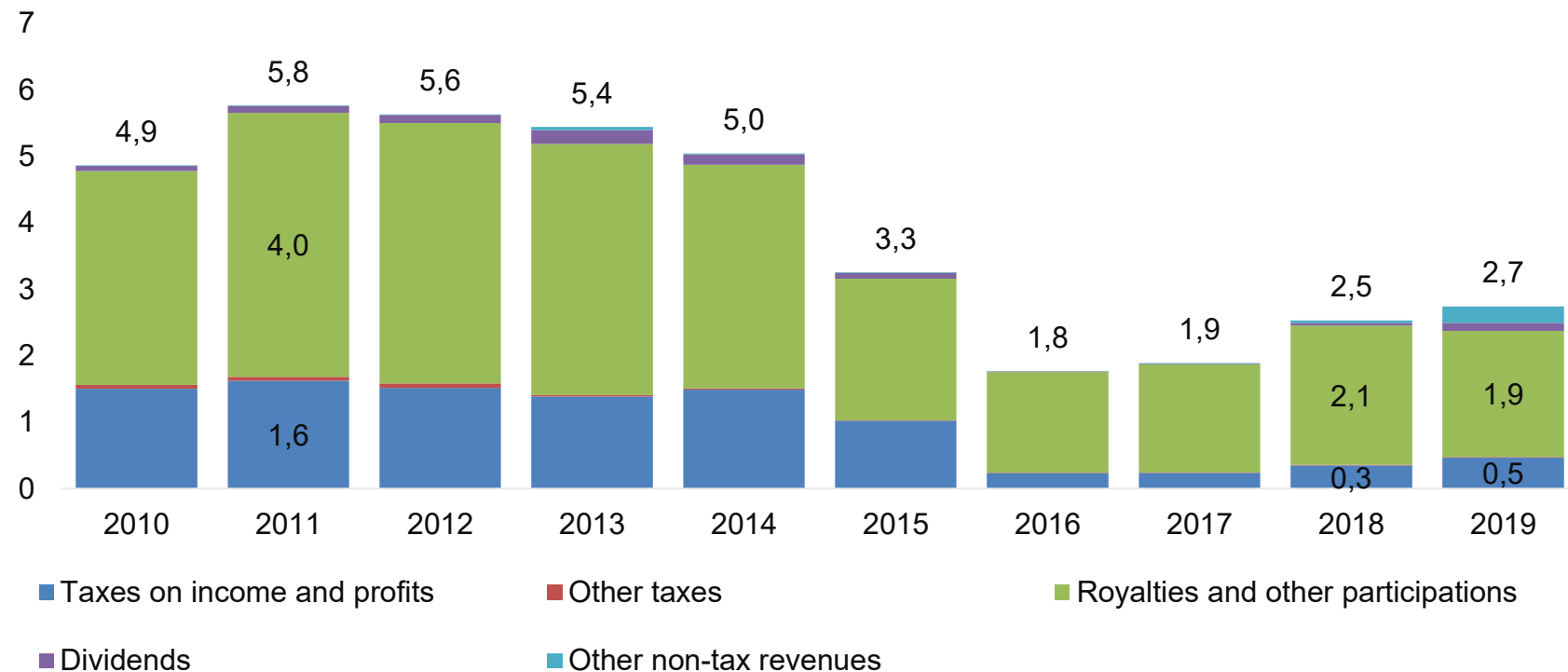
- A transformative recovery in LAC is predicated on an expansionary fiscal policy
  - Austerity in the short-term will choke incipient growth
  - Public spending cuts in the medium-term will derail efforts to close development gaps and achieve the SDGs
- Expanding fiscal and policy space requires a fiscal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

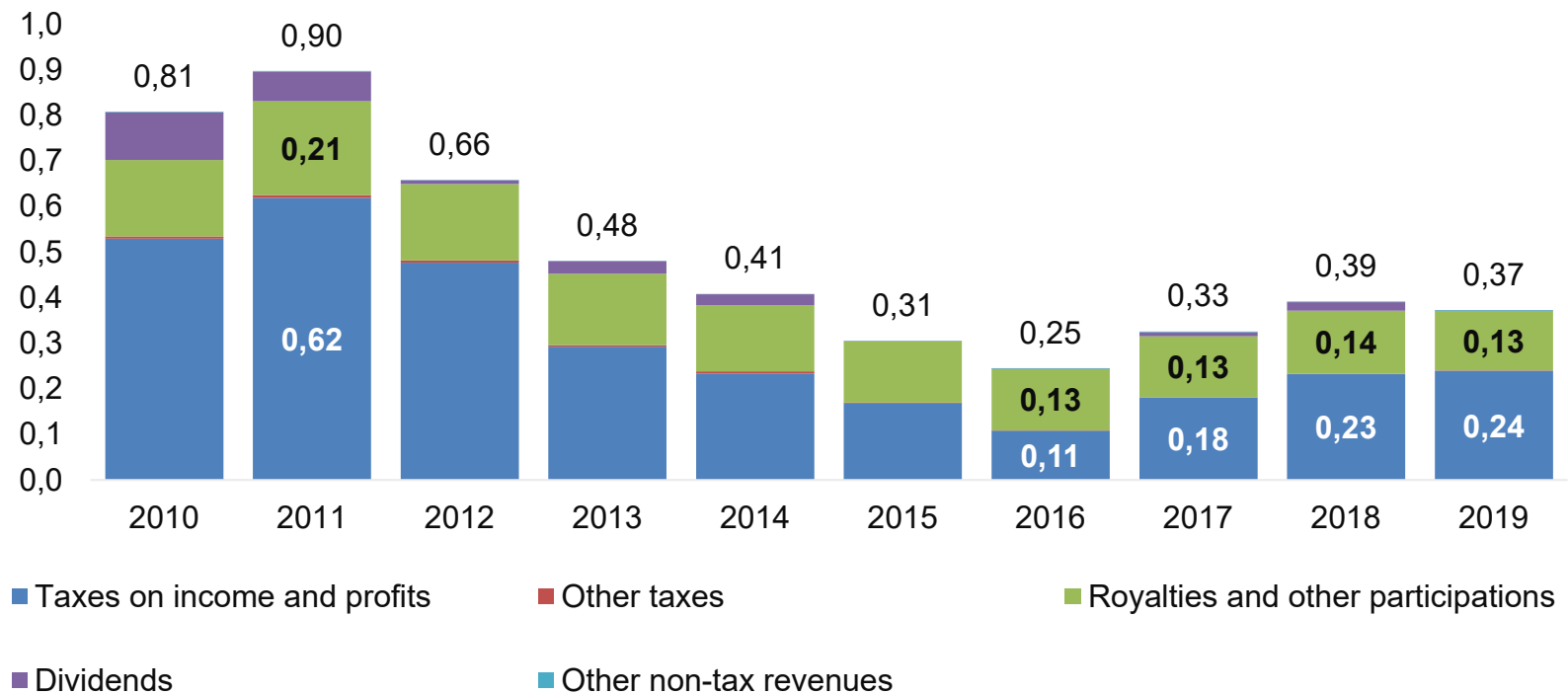


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on data from ECLAC's *Fiscal Revenues from Non-Renewable Natural Resources in Latin America and the Caribbean* database.



# 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.