Who pays the bill for COVID-19 in Latin America and the Caribbean?

THE SHADOW OF AUSTERITY
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I. Executive summary

Now, more than ever, governments in Latin America and the Caribbean (LAC) need to abandon all forms of austerity and significantly increase public resources to invest in impactful social policies for their population, especially the poorest and most vulnerable, which have been disproportionately affected by the structural inequalities in the region.

COVID-19 made the social chasm much deeper. Already at the end of the first year of the pandemic (2020), LAC was experiencing its greatest increase in inequality in two decades, registering similar surges in extreme poverty levels as a result. Even worse, at the end of 2021, an immensely privileged minority representing 10% of the population captured 77% of total household wealth, whereas the poorest 50% of the population accounted for a mere 1% of wealth. To further illustrate this: between 2020 and 2022 (at the height of the pandemic), 27 new billionaires emerged in LAC, whose wealth has grown at a rate of USD 5 million per hour and USD 124 million per day. In LAC, 97 billionaires have more wealth than the 392 million people living in region (60% of the region's population). The two richest men in LAC alone (Carlos Slim and Germán Larrea, both from Mexico) have more wealth (USD 100 billion) than half of the entire LAC population together (USD 91 billion).

Proposals of progressive fiscal policies aimed at settling the social debt in the region must include measures to make those who have more contribute more by imposing permanent, solidarity taxes on the wealthy of the ultra-rich and excess corporate profits.

However, as if that were not enough, even before the region could recover from the deep scars of the COVID-19 pandemic (between 2020 and 2021), it suddenly had to deal with the adverse external impacts on supply chains caused by war in Ukraine in March 2022. Thus, yesterday's waves of infection were followed by today's waves of inflation. Due to the weight of food, transport (fuel), and housing (electricity, gas and water) in the consumer price index (CPI), the war’s impact on supply caused domestic headline inflation in the countries in the region to soar. This had major social impacts, as it reduced the population's purchasing power. A combined-shock in oil and food prices of 10 percentage points raised inflation by 1.1 percentage point. The current increase in inflation is regressive, and low-income households are the ones affected the most by the rising cost of living.

In the face of such adversity, one would expect governments to make significant and sustainable fiscal efforts to protect their populations. However, recent Oxfam research have shown how a major obstacle is standing in the way of effective guarantees of rights in the region, at a time when they are needed the most: austerity. This prescription is not new for the region, but in the current context, it takes on a special importance. The report shows that the COVID-19 pandemic caught LAC “off guard”, with limited capacity to defend the region from the harmful social and economic consequences of the health crisis. As a result, most countries ended up knocking on the door of the International Monetary Fund (IMF) for assistance.

Oxfam tracked IMF COVID-19 loans during the first two years of the pandemic (15 March 2020 to 15 March 2022) and has found enough evidence to show that regressive fiscal consolidation measures were being directly or indirectly promoted in several countries. These measures mark a shift towards austerity plans that limit or cut public spending; tax reforms leaning mostly towards indirect taxes, namely value-added taxes (VATs), which tax consumption, and not wealth or income; or measures aiming to contain or reduce the public wage bill, which affect working people. Oxfam's research showed that as of March 15, 2021, i.e. in the first year of the pandemic, 85% of IMF emergency loans surprisingly advocated for austerity during the recovery phase. This is despite numerous research, including the from the IMF, indicating that these measures would have devastating effects on inequality, which had already been exacerbated by the health and economic crisis. During the second year of the pandemic, the IMF shifted from recommending austerity measures towards requiring them. Oxfam also found that between March 16, 2021 and March 15, 2022, 87% of the IMF loan programs signed with low- and middle-income countries include austerity or fiscal consolidation conditionalities.

Between April 1, 2020 and May 31, 2022, the IMF has established at least twenty-one financing agreements with fourteen LAC countries.
for a combined total of 129.5289 billion in Special Drawing Rights (SDRs), equivalent to approximately USD 172.3 billion. For the sake of illustration, this amount is greater than the estimated nominal gross domestic product (GDP) for 2022 of Costa Rica, El Salvador and Panama combined. As we will see later, the terms of these agreements vary from explicit conditionalities that impose deficit reduction or target, and targeting of spending for the country in question, to flexible agreements without any apparent requirements. Yet, even in the latter case, one can clearly see the IMF’s influence in shaping part of governments’ fiscal policy agenda.

In this briefing, Oxfam identifies and describes the main austerity measures that several LAC countries initially adopted based on the explicit recommendations of the IMF or under its influence on the fiscal policy agenda in the region. The report warns that these measures risk of exacerbating inequalities, deteriorating the living conditions of millions of people in the region, limiting rights, and eroding the social contract, thereby creating fertile ground for social unrest and its harmful consequences.

It is important for governments in the region to pursue a fiscal policy model that actively promotes sustainable and equitable economic development as a way to reduce the burden of the public debt on the economy as a whole. To do so, they should use public spending to invest in advancing the social and care infrastructure in order to guarantee rights and social justice, as well as investing in climate transition.

The report also shows that another path is possible if governments commit to expanding social protection policies and enacting progressive tax reforms that tax the wealth of the richest people in the region. At the same time, the IMF should abandon promoting austerity in LAC neither through certain policy recommendations nor through direct conditionalities. It is fundamental that all IMF financing whether through loans or SDRs be used to continue fighting inequality that was supercharged by the pandemic and to mitigate the impact the inflation crisis ravaging the region.
II. The regional context from a historical perspective: one crisis after the other

Before the COVID-19 pandemic hit LAC and the economic consequences of the war in Ukraine began to take its toll on the region, LAC had been suffering from chronic inequality for decades, which has historically contributed to undermining the foundations of its development. With the exception of the temporary interlude that the commodities boom generated for the region in the early 21st century, the fact is that LAC has an important, long-standing social divide that has inhibited countries from effectively guaranteeing the rights of all of its people.

While it is true that overall, during the 2001-2019 period, the share of population living in monetary poverty in the region fell from 44.1% to 30.5%, it should be noted that most of this was achieved during the first decade. In fact, the year before the pandemic (2019), the level of monetary poverty in all countries in the region was the same as it was in 2011. From 2001 to 2014, which marked the end of the bullish cycle of commodity prices, monetary poverty had been decreasing at a cumulative annual rate of -3.5 percentage points, whereas between 2015 and 2019, the same indicator rose by 1.2 percentage points. What is worse, extreme poverty or indigence was on the rise during the five years prior to COVID-19. For Oxfam, to sustainably reduce poverty and inequality, governments must directly intervene to mitigate the already high concentration of income and wealth.

With regard to inequality, measured by the Gini coefficient, there is evidence of a prolonged period of stagnation going from 2015 to 2019. As if that were not enough, in the three years before the pandemic (2017-2019), the region had already been showing signs of setbacks in all three dimensions of its gender equality index: reproductive health, empowerment, and the labor market.

To put the social impacts of the aforementioned end of cycle in 2014 into context, it is worth pausing for a moment to review the downturn in GDP growth in the region and how it contributed to the subsequent decrease in tax revenues, leading many LAC countries to increasingly rely on acquiring more debt to sustain public spending.
II.1. Economic stagnation in LAC

After the global financial crisis of 2008 and before the onset of the pandemic in 2020, LAC was attempting to consolidate a path to economic recovery, despite the international context being much less favorable than it was during the boom in commodity prices. In the 2008-2019 period, LAC grew at a cumulative average annual rate of 1.5%, measured in constant GDP (see figure 1).

However, the COVID-19 hit the region hard. In 2020, LAC was the region with the largest decrease in economic activity in the world. It went into a historical recession, as economies contracted by 6.8%, representing the greatest decline on record in the region in at least four decades\textsuperscript{14}. The countries with the biggest recession were Venezuela (-30 %), Panama (-17.9 %), Peru (-11 %), Argentina (-9.9 %), Mexico (-8.2 %), El Salvador (-7.9 %), Ecuador (-7.8 %), Colombia (-7.1 %), Chile (-6.1 %), and Brazil (-3.8 %)\textsuperscript{15}.

In 2021, LAC returned to the path of economic growth, but this was mainly due to the rebound effect from the relaxation of confinement measures and the resumption of economic activities. That said, for the 2022-2027 period, the IMF predicts that among the emerging economies and developing countries, LAC will have the second lowest economic growth rate, which it estimates at 2.4%\textsuperscript{16}.
Economic growth has been strongly affected by the war in the Ukraine, which, as the IMF itself warns, is causing turmoil in the global economy and raising uncertainty about the outlook for LAC. Even before the war, the region’s recovery from the pandemic was losing momentum, and growth is returning to the pre-pandemic trend rate of approximately 2.5% for 2022\(^7\) (see the table below).

### Table 1. Economic growth outlook by region of the world (percent in constant GDP)

<table>
<thead>
<tr>
<th>Name of the group of countries</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.9</td>
<td>-3.1</td>
<td>6.1</td>
<td>3.6</td>
<td>3.4</td>
<td>3.4</td>
<td>3.3</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>Advanced economies</td>
<td>1.7</td>
<td>-4.5</td>
<td>5.2</td>
<td>3.3</td>
<td>2.4</td>
<td>1.7</td>
<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Eurozona</td>
<td>1.6</td>
<td>-6.4</td>
<td>5.3</td>
<td>2.8</td>
<td>2.3</td>
<td>1.8</td>
<td>1.6</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Main adv. economies (G7)</td>
<td>1.6</td>
<td>-4.9</td>
<td>5.1</td>
<td>3.2</td>
<td>2.2</td>
<td>1.4</td>
<td>1.5</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Other adv. economies</td>
<td>2.0</td>
<td>-1.8</td>
<td>5.0</td>
<td>3.1</td>
<td>3.0</td>
<td>2.5</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>European Union</td>
<td>2.0</td>
<td>-5.9</td>
<td>5.4</td>
<td>2.9</td>
<td>2.5</td>
<td>2.1</td>
<td>1.9</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Emerging market and developing economies</td>
<td>3.7</td>
<td>-2.0</td>
<td>6.8</td>
<td>3.8</td>
<td>4.4</td>
<td>4.6</td>
<td>4.5</td>
<td>4.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Emerging and developing Asia</td>
<td>5.3</td>
<td>-0.8</td>
<td>7.3</td>
<td>5.4</td>
<td>5.6</td>
<td>5.6</td>
<td>5.5</td>
<td>5.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Emerging and developing Europe</td>
<td>2.5</td>
<td>-1.8</td>
<td>6.7</td>
<td>-2.9</td>
<td>1.3</td>
<td>2.8</td>
<td>2.5</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>0.1</td>
<td>-7.0</td>
<td>6.8</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Middle East and Asia</td>
<td>2.2</td>
<td>-2.9</td>
<td>5.7</td>
<td>4.6</td>
<td>3.7</td>
<td>3.5</td>
<td>3.7</td>
<td>3.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>3.1</td>
<td>-1.7</td>
<td>4.5</td>
<td>3.8</td>
<td>4.0</td>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, World Economic Outlook Database, April 2022.

The economic recession caused by the pandemic, currently exacerbated by the external inflationary shock generated by the Ukraine war, has eroded the capacity of different states to use their own resources to address unprecedented health and social protection challenges in the region. As we will examine in detail below, to face this scenario, most countries have had to resort to lending.
II.2. Indebtedness as a lifeline

The pandemic ended up confirming LAC's place as the region with the highest level of foreign debt among emerging and developing economies, as it was the one that borrowed the most to combat the economic and health impacts of COVID-19. By late 2020, the need for financing had grown so much that suddenly, from one year to the next, the region as a whole saw its public debt to GDP ratio increase by more than 15 percentage points. The annual average increase for 2012-2019 had been only 1.2 percentage points. In other words, in LAC, the public debt to GDP ratio in the non-financial public sector of around 58.4% in 2019 jumped to 73.7% in 2020. At the central government level, it went from 45.3% to 56.5% of GDP.

Brazil is one of the most striking cases. The country saw its public debt to GDP ratio rise by 14.5 percentage points, going from 74.3% in 2019 to 88.8% in 2020. It is followed by Colombia, which went from 57.3% to 71.5%; then, El Salvador, from 52.6% to 66.6%, with Ecuador close behind, going from 52.3% to 63.1%. Other noteworthy cases are Panama, whose public debt increased by 23.4 percentage points (from 46.4% to 69.8%), and the Dominican Republic, where it went form 40.4% to 58.5%.

In 2021, public debt to GDP decreased, mainly as a result of economic recovery in the region. At the central government level, a denominator effect was observed, which led to a slight reduction, by almost 3 percentage points, in gross debt as a percentage of GDP in the region (see figure 2). Nonetheless, this indicator remains at its highest level in the past two decades.

Source: ECLAC, Fiscal Panorama of Latin America and the Caribbean.

Figure 2. Latin America and the Caribbean. Central government gross public debt
As a percentage of GDP / 2000-2021

Source: ECLAC, Fiscal Panorama of Latin America and the Caribbean.
Governments in the region should adopt a fiscal policy model that fairly and actively promotes progressive economic development as a way of reducing the weight of the public debt on the economy. To do so, they should use the following as a lever: public investment; support for economic activities that have a higher aggregated value and promote social missions (public expenditures guided by social goals); a progressive tax system, and social spending to guarantee rights, and investing in climate transition.

II.3. Tax revenues in step with stagnation

Before the pandemic, LAC governments did not do their homework. For years, governments had been postponing the political agenda on progressive and comprehensive tax reforms designed to guarantee the social contract and rights protections. Soaring debt was the result of the states' limited capacity to fight the health and economic upheaval brought by COVID-19 with their own resources. In 2020, in LAC, the pandemic pushed total tax revenues as a share of GDP back to the levels of 2017

In 2020, in sixteen LAC countries, total revenues as a share of GDP fell by 0.7 percentage points; the sharpest decrease was in South American countries (-0.9 percentage points). However, already in 2021, with the end of lockdowns and the resumption of economic activity, revenue levels started to recover, increasing 1.5 percentage points on average in the region. According to the Economic Commission for Latin America and the Caribbean (ECLAC), in some cases, the increases in tax revenues was the result of the discontinuation of tax relief measures adopted in 2020, as well as certain extraordinary revenues collected in 2021.

Figure 3. Latin America and the Caribbean. Evolution of total central government revenues As a percentage of GDP / 2019-2021

Source: ECLAC, Fiscal Panorama of Latin America and the Caribbean 2022.
It is important to note that during the pandemic, in almost all LAC countries, tax revenues decreased more than GDP, which explains the widespread decline in the respective tax-to-GDP ratios. Between 2019 and 2020, as a result of the impacts of the pandemic, tax revenues as a percentage of GDP fell in at least twenty of the twenty-six monitored countries.\(^{25}\)

When we examine these figures in more depth, we find that the decline was particularly acute in countries that are dependent on economic activities in the service sector and those linked to energy resources. Between 2019 and 2020, the three countries that experienced the greatest decreases in tax revenues as a percentage of GDP rely on tourism (Belize and Cuba) or on oil and gas activities (Trinidad and Tobago).\(^{26}\)

In light of the COVID-19 induced recession, aggravated by the inflationary effects of the war in Ukraine, it would seem reasonable to say, “now is not the time for tax reform”. Oxfam argues, however, that now is precisely the time to implement these reforms, which governments have been putting off, in order to prevent irreversible increases in the inequality gap and poverty, as mentioned in the introduction.

That said, because of the recession, these reforms are unlikely to be sufficient to offset the sharp decline in tax revenues. Nor will they be enough to meet the growing pressure to maintain current levels of public spending in a context marked by greater social emergencies left in the wake of the pandemic and inflation. Hence, the importance of advancing on the taxation of wealth, in particular. The growth of the wealth of billionaires in the region, precisely in this period of recession, confirms the importance of imposing more taxes on those who have benefitted the most from this situation.
With economic stagnation and its negative impacts on tax revenues looming in the background, it was to be expected that pressure on public spending would grow, forcing governments to increasingly rely on external financing to sustain them. Cuts in public spending in several LAC countries during the pre-pandemic period made it more difficult for them to respond to the initial phase of the pandemic. Here are a few examples:

Brazil is one of the most emblematic cases of the dismantlement of public spending prior to the pandemic. In 2016, the government passed a constitutional amendment that established a cap on public spending. Between 2018 and 2020, the government slashed the equivalent of USD 4.07 billion from the health budget. Similarly, between 2014 and 2019, spending on social programs was reduced by 28.9%. While social spending increased at a cumulative average rate of 9.6% between 2010 and 2018, by 2019, it was down by 17.2%, compared to 2018.

In the case of Ecuador, in March 2019, a year before the pandemic, the country signed a historical loan agreement for USD 4.2 billion with the IMF in exchange for the implementation of fiscal austerity measures and structural reforms, including the targeting of subsidies, the redefinition of the priorities of capital spending, caps on public sector wages, tax reform, and labor reform. One element of note is Executive Order no. 883 of October 2019 issued by the Moreno administration to eliminate fuel subsidies, implemented in the country since the 1970s. After twelve days of protests, the president revoked the decree and decided to cancel the loan in 2020. It later requested another IMF supported program.

El Salvador was the country that made the most significant fiscal effort during the pandemic. For six consecutive years, from 2013 to 2019, it had reduced its social spending from 10.2% to 8.3%.

As for Colombia, social spending went from 14.2% in 2015 to 13.1% in 2019.

Therefore, when COVID-19 hit, many governments had to significantly step up their efforts to ensure they had sufficient resources to respond. It is worth presenting here a brief assessment of the fiscal efforts of several governments in the region to sustain additional spending on public health, social protection programs, and direct economic support for families and companies.

First, it is important to highlight the historic increase in social spending in LAC, which went from an average of 11.1% of GDP in the 2015-2019 period to 13.6% of GDP in 2020 (see figure 4). As for total public expenditure, it increased by more than 3 percentage points, rising to 55.4% of GDP in the said year.

![Figure 4. Latin America (17 countries): social expenditure of the central government, 2000-2020](Source: Cepalstat, Demographic and Social / Social / Social public expenditure / As a % of GDP. Latest update: October 12, 2021, 12:08 p.m.)
Regarding the evolution of the social expenditure as a percentage of GDP, the annual average growth rate during the 2010-2019 period was 4.4% for the region. In 2020, though, the social expenditure as a percentage of GDP jumped to 15.0%, the strongest increase being in the Central American subregion, at around 17.0%, and South America, approximately 14.0%. The situation was similar in the five Caribbean countries analyzed, where average growth rates were 2.0% between 2010 and 2019, and 10.0% in 2020.

When we examine data on spending by government function, they clearly show that most of the increase in social spending is due to the implementation of social protection packages. Together, these programs represented nearly three-quarters (74.0%) of the increase in social spending in 2020, bringing social protection spending up to around 5.9% of GDP. Similarly, though to a lesser degree, spending on public health rose from 2.3% of to 2.7% GDP (see figure 5).

In relation to social protection, in particular, it is important to note that this item includes disbursements for services and transfers to people and families for reasons of illness or disability, old age, survivors, family and children, unemployment, etc. It also includes spending on policies and programs designed to cover the risk of loss of income or an increase in expenses that could affect a part of the population, or to facilitate the inclusion and protect the population from the consequences of poverty and inequality.

A more detailed analysis shows that in 2020, Brazil was the country with the biggest hike in social protection spending as a percentage of GDP, up by 4.76 percentage points from 2019. That said, as mentioned earlier, Brazil had been implementing severe austerity policies in the years leading up to the pandemic, mainly after approving the spending cap amendment in late 2016, which limited the growth of public spending for the next twenty years. It should be noted that, back then, the IMF had explicitly expressed its support for this measure: then-Managing Director of the IMF declared, “Approving them [the spending ceiling and the planned social security reform] in a reasonable timeframe would help strengthen the credibility of the macroeconomic policy framework, bolster confidence in the economy, and anchor a return to strong, inclusive and sustainable growth in Brazil.” After experiencing a significant increase in the previous decade, from 2016 to 2019, social spending as a percentage of GDP stagnated at around 17.3%, while the specific budget item for social protection stalled at 12.6% of GDP.
In such a limited initial budget and with the pandemic spreading out of control, such a large augmentation in spending on social protection in this country was to be expected. This increase was also influenced by the major advocacy efforts of civil society organizations to get a minimum income program approved during the pandemic. The tax incentives adopted by both the Brazilian government and other LAC countries during the pandemic will be analyzed in detail in the section below.

Other countries that experienced significant increases in social protection spending relative to GDP were El Salvador (4.26 percentage points, or p.p.), Argentina (3.52 p.p.), Dominican Republic (3.37 p.p.), Plurinational State of Bolivia (3.00 p.p.), Chile (2.01 p.p.), Colombia (1.90 p.p.), Guatemala (1.60 p.p.), Paraguay (1.31 p.p.), Peru (1.22 p.p.), and Ecuador (1.14 p.p.). ECLAC also highlights specific cases where governments adopted very large nominal increases, such as, for example, the Dominican Republic where it rose by almost 2.5 times (244%); El Salvador (194%), where it nearly doubled, and finally, Guatemala (115%)\textsuperscript{38}. 

\textsuperscript{38} Source: Cepalstat, Demographics and social / Social public expenditure / As a % of GDP. Latest update: October 12, 2021, 12:08 p.m.
III. An early return to fiscal consolidation

Faced with the arrival and rapid spread of the pandemic throughout the region, governments of various LAC countries allocated a significant and unprecedented amount of funds to the implementation of social protection programs for families, economic support for companies, or measures to strengthen their already deteriorated public health systems. To cover a large portion of the cost of these efforts, several LAC countries turned to the IMF.

LAC was the recipient of nearly 70% of IMF emergency financing during the pandemic. Eight countries in the region had gone for over a decade without knocking on the door of this international lender of last resort. The case of Chile is quite remarkable in this sense, as its last loan agreement with the IMF dated to 1989. Since the beginning of the pandemic, Oxfam has been tracking loan agreements between 85 developing countries and the IMF exhaustively to identify the main characteristics of the fiscal policies that the IMF recommended when financially supporting the countries.

The findings reveal that in most cases, the IMF explicitly recommended the adoption of some form of fiscal consolidation – i.e., fiscal austerity – measures, including plans to cut public spending. Of the 107 loans, as of March 15 2021, identified during the first year of the pandemic, Oxfam showed that 85% of them were designed to introduce or resume the implementation of austerity measures during the economic recovery period, especially in Africa and Latin America.

These measures were in the form of public wage bill freezes or cuts, increases to or the introduction of VATs (an indirect or regressive tax) or expanding its coverage, as well as cuts in public spending in general, including the reduction or elimination of subsidies.

During the second year of the pandemic, from March 16 2021 to March 15 2022, 87% of approved loan programs required fiscal consolidation measures in the form of conditionality. It is important to note that some countries had begun to rollback their COVID-19 social protection measures in 2021, largely due to their constrained fiscal space leading countries to phase out COVID-19 support measures and prioritizing deficit reduction targets. This happened at a time when the pandemic was still ongoing and the crisis was becoming worse due to historic increases in food and energy prices, exacerbated by the war in Ukraine. It is highly likely that the austerity measures in the new IMF loan programs turn a devastating situation into an unbearable one.

Nonetheless, it is worth examining what happened in Latin American countries in more detail, which is what the next two subsections will do. First, the general scope of LAC countries’ agreements with the IMF between 2020 and 2022 will be analyzed while identifying both general and specific aspects in the arrangements signed by a sample of countries. Then, the measures implemented by the countries in the region will be explored, while highlighting common elements and evidence of the fact that they have begun dismantling them prematurely.

III.1. A Map of the IMF’s presence and recommendations in LAC

Between April 1, 2020 and May 31, 2022, the IMF established twenty-one loan agreements with fourteen LAC countries. These commitments enabled the region to access 129.529 billion in SDRs, the equivalent of around USD 172.259 billion, throughout the pandemic. To put this into perspective, this amount is greater than the projected nominal GDP for 2022 of Costa Rica, El Salvador, and Panama combined.

It is important to highlight that not all LAC countries accessed IMF funds under the same conditions and conditionalities vary considerably from one country
to the other, noting that not all IMF loans to LAC included conditionalities. Table 2 summarizes the initial sample of cases, which are also systematized in the tables in annexes 1 and 2 of this document. It is interesting to note that the IMF acknowledges the negative reputation it earned because of its classic structural adjustment policies of the past. That is why in 2019, it embarked on process of reforming its lending mechanisms, whose ultimate goal was – in its own words – to “reduce the perceived stigma of borrowing from the IMF”46. The main characteristics of the types of loan that LAC countries have taken out in the two years of the pandemic are broadly outlined below:

**Group A:** SDR 88.94 billion, which is 68.7% of the total amount agreed on with LAC countries during the pandemic. These countries have a better track record in terms of “strong economic fundamentals” as the IMF puts it – that is, they have scored better on indicators of economic performance – and also have what the institution considers solid policy frameworks. Countries in this group include Colombia, Chile, Peru, and Mexico, which obtained access to Flexible Credit Lines, Short-term Liquidity Lines (Chile) or, to a lesser extent, the Precautionary and Liquidity Line (Panama) during the pandemic. Since they have taken on board some of the IMF’s main fiscal policy recommendations in the past, such as fiscal rules on the debt-to-GDP ratio or limits on primary deficits, among others, regardless of whether or not they have signed loan agreements in the meantime, no explicit references to conditionalities have been included in their agreements. These resources are freely available to be withdrawn or used over time by the countries in question. As of May 31, 2022, only Colombia had drawn SDR 3.75 billion of the SDR 7.1557 billion available47 through its flexible credit line. The overall level of use among the countries in question is only 4.2%.

**Group B:** SDR 2.8224 billion, which is 2.2% of the total agreed on with LAC during the pandemic. This group is mostly composed of countries to which the Fund offers emergency funding to respond to the pandemic. The main instruments available to them are the IMF’s Rapid Financing Instrument (RFI) and Rapid Credit Facility (RCF). The RCF offers concessional financing – i.e., at zero interest – to low-income countries. In the case of the RFI, on the other hand, countries must pay interest. There are no conditionalities on both instruments, and they are meant to provide emergency financing. Most of the loans to countries in Central America and the Caribbean, such as El Salvador, Guatemala, Costa Rica, Panama, Nicaragua, and the Dominican Republic, plus the smaller economies in South America, such as Paraguay and Ecuador, are granted through the RFI. These are disbursed immediately to countries without requiring any reviews. As of May 31, 2022, the countries in this group had the highest level of use or withdrawal of funds, given their obvious need for resources to cope with COVID-19.

**Group C:** SDR 37.7665 billion, which is 29.2% of the total amount agreed on with LAC during the pandemic. The countries in this group are under the IMF’s traditional loan programs. They are classified as emerging market or advanced economies in crisis, to which the IMF offers traditional stand-by arrangements or the extended facility type loans, which were designed to provide medium-term support to countries with protracted balance of payment problems. This financial support is conditioned on the implementation of certain adjustment measures, such as, for example, deficit reduction targets, which vary from case to case. Failure to comply with these conditions may result in the suspension of the disbursement of the funds to the country in question. For countries such as Argentina, Ecuador, or Costa Rica, the so-called extended fund facility is the most common option.
Regarding the last group, given the adverse conditions of the current context, it is important to highlight the stringent restrictions that the adoption of some of these conditionalities would impose on countries. One noteworthy case, for example, is Argentina, one of the most indebted countries in the world to the IMF, which is to gradually reduce its primary expenditures to 20.5% of GDP in 2023 and lower its public debt to GDP ratio from 80.6% in 2021 to 74.3% in 2023\(^48\). More specifically, the IMF recommends that Argentina adopt stricter targets for its subsidies and social programs and prudent management of wages and pensions. However, on a more positive note, the agreement’s stated goal is to address high inflation, boost the country’s reserves, reduce social inequalities and gaps in infrastructure in the country, and promote inclusive growth.

Another noteworthy case is Ecuador, a country that included in its Código Orgánico de Planificación y Finanzas Públicas (Organic Planning and Public Finances Code) the goal of reducing its public debt to GDP ratio to no more than 57%, when it is currently at 63.1% of GDP because of the pandemic. The IMF has publicly endorsed this fiscal sustainability plan\(^50\), which also contains measures to control public spending and improve the targeting of social protection programs. To honor its commitments, the Government of Ecuador has established in its four-year budget plan for 2022-2025\(^51\) that it will cut public spending from 21.5% of GDP in 2022 to 19.3% in 2025. At the same time, it has committed to reduce the fiscal deficit from -3.5% in 2022 to -1.4% in 2025. As for the case of Costa Rica, the country plans to lower central government spending from 19.2% of GDP in 2022 to 16.9% of GDP in 2027\(^52\).

Finally, it is also worth highlighting that for countries with flexible credit lines, even though there is no explicit mention of conditionalities in the agreements, the IMF takes into account their respective multi-year expenditure estimates when evaluating their level of robustness. In Peru, which has a flexible credit arrangement (with no conditionalities) with the IMF, the government plans to reduce primary expenditures by almost three percentage points of GDP between 2022 and 2024, even though the pandemic will be ongoing during this period\(^53\).

In the case of Colombia, although the formal agreement does not contain explicit conditionality, since the country ended up opting for a flexible credit line, in practice, the IMF’s influence has affected the country’s fiscal policy. This can be seen, for example, in its adoption of a fiscal law or low expenditure ceiling, which is austerity in the form of a law. In February 2021, the IMF recommended a “gradual fiscal consolidation led by fiscal reforms” – a demand that the executive branch took very seriously. The IMF proposed that the government implement the reform gradually and at least two percentage points of GDP, including eliminating
some VAT exemptions. For the IMF, “a gradual fiscal consolidation led by fiscal reforms should ensure a return to the fiscal anchor over the next five years”\textsuperscript{54}. Thus, in the medium-term fiscal plan in effect in 2021\textsuperscript{55}, for example, the central government sought to achieve primary surpluses and allocate more resources to debt servicing, and reduce public spending continuously from 24.8\% of GDP in 2021 to 19.6\% of GDP by the end of the decade. For 2022, the government is to lower spending by 1.6 percentage points of GDP, in keeping with the “return to the fiscal anchor” demanded by the IMF. Similarly, social investment is to be reduced from 0.5\% of GDP in 2022 to 0.1\% in 2032. More details on the Colombian case can be found in section V of this report, in the box focused specifically on the country.

El Salvador, for its part, entered into an initial emergency loan agreement with the IMF through the rapid financing instrument for USD 389 million. Regarding this assistance, the IMF recognized that the country would have to widen the fiscal deficit temporarily to preserve public health and contain the economic impacts of the pandemic, and recommended a gradual fiscal adjustment starting in 2021. It also stated that the adjustment should target a primary fiscal balance of 3.5\% of GDP at the end of 2024 and put public debt firmly on a declining path to reach 60\% of GDP by 2030\textsuperscript{56}. More details on the case of El Salvador can be found in a specific box on the country in section V of this report.

These public spending cuts – whether due to conditionalities or some form of influence on the fiscal policy agenda – come at a time when the region should be taking advantage of this opportunity to lay the foundations for universal social protection policies that put an end to existing structural inequality. On the contrary, several measures promoted by the IMF indicate that targeted social policies are an essential part of the solution.

It is striking that even amid an international scenario thrown into turmoil by the economic impacts of the war in the Ukraine, governments have been slow to take immediate action and did not abandon at the start the path of cutbacks to public spending and to social protection programs, in particular.

The IMF itself is aware of the economic slowdown in the region and the potential negative effects of rising energy and staple food prices. The increasing inflation is regressive, and low-income households are the ones to be affected the most by the increase in the cost of living\textsuperscript{57}. The\textbf{ insistent call for fiscal prudence – fiscal austerity – and the emphasis on targeting only highly vulnerable households is clearly inadequate and is a mere band-aid that limits rights to not only social protection in general, but also to food security in the region.}
The region has not yet fully recovered from the health, social, and economic consequences of the COVID-19 pandemic, and a war has broken out. Countries cannot fight the inflationary effect of both crises on basic necessities simply by redirecting public spending from one budgetary item to another, just to throw a life jacket (subsidize) to the ones who are drowning (extreme poverty). Instead, and without denying that countries should start by protecting the most vulnerable population, we believe that the time is ripe for reaching a broad fiscal consensus for the region and for each country.

Table 2. LAC (six countries): IMF agreements and medium-term expenditure estimates

<table>
<thead>
<tr>
<th>Country</th>
<th>Agreement Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Extended fund facility arrangement: US$44 billion. Conditionalities in the agreement: improvements to structure of spending, reduction of “costly” and untargeted energy subsidies. Well-targeted social assistance programs and prudent management of wages and pensions. Public debt: from 80.6% of GDP in 2021 to 74.3% of GDP in 2023.</td>
</tr>
<tr>
<td>Brazil</td>
<td>Flexible credit line agreement: US$9.8 billion. No conditionalities in the agreement.</td>
</tr>
<tr>
<td>Chile</td>
<td>Extended fund facility arrangement: US$6.5 billion. Conditionalities in the agreement: emphasis of the IMF on fiscal sustainability and public debt ceiling of 57.0% of GDP. Includes tax reform and control of public spending. Four-year budget plan for 2022-2025: reduction of debt from 57.0% of GDP by 2025. In relation to expenditures, two scenarios are proposed: (1) a scenario that does not include new programs. Total spending from 21.5% of GDP in 2022 to 19.6% of GDP in 2022. Social investment will be reduced by 0.4 p.p. of GDP, from 0.5% of GDP in 2022 to 0.1% of GDP in 2023.</td>
</tr>
<tr>
<td>Colombia</td>
<td>Flexible credit line agreement: US$23.93 billion. No conditionalities in the agreement.</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Extended fund facility arrangement: US$1.778 billion. Conditionalities in the agreement: (i) fiscal reforms, sustainability of the debt; (ii) monetary and financial stability, strengthening the operational autonomy and the governance of the central bank; and (iii) structural reforms. Medium-term fiscal framework 2022-2027: Central government spending is to be reduced from 19.2% to 16.9% between 2022 and 2027. Both scenarios aim to achieve a primary surplus of more than 1% in 2023.</td>
</tr>
<tr>
<td>Mexico</td>
<td>Flexible credit line agreement: US$ 50.0 billion. No conditionalities in the agreement.</td>
</tr>
</tbody>
</table>

III.2. Fiscal stimulus packages in LAC and the risk of setbacks

By the end of 2021, the unprecedented fiscal stimulus packages, emergency measures, and direct cash transfers to the population implemented by governments in the region to mitigate the economic and social impacts of the pandemic on the population had already been effectively cut in half.

From March to December 2020, the emergency transfers announced by Latin American countries to mitigate the impact of the crisis cost around US$89.7 billion, whereas spending on such mitigation measures from January to October 2021 amounted to only US$ 45.3 billion

This cut in social spending represents a setback for the rights agenda, as it hinders building a new social contract. Governments should abandon this austerity path, if they want to move ahead instead of backwards, maintain social cohesion, and avoid uprisings such as the ones seen in recent years in the region. This scenario becomes all the more complex due to the deleterious economic effects of the Ukraine war on the cost of food, transport, and housing.

At times of new uncertainties like the ones we face today, we should review and learn from the lessons on good practices left by the record deployment of resources and social programs by the governments of the region to confront the pandemic.

If there is one thing that COVID-19 has shown, it is that the capacity to expand public services efficiently and with social equity exists in the region and governments are able to do it. A significant share of the resources acquired by governments in the region, from both the IMF and various financial instruments, were channeled into non-contributory social protection programs. In practice, this took on the form of direct, in-kind and cash transfers to families and individuals in situations of poverty and vulnerability. By late 2021, the governments of thirty-one countries in LAC had implemented some 378 non-contributory measures, which are summarized and classified in table 3 below.

Table 3. LAC: non-contributory emergency social protection measures and other forms of support for the poor and vulnerable population, 2020 and 2021

<table>
<thead>
<tr>
<th>Cash transfers</th>
<th>In-kind transfers</th>
<th>Guarantees and facilitation of access to basic services</th>
<th>Containment and reduction of household expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• New cash transfers: 157 measures in 32 countries (34% of the total).</td>
<td>• Delivery of food, medicines, and educational materials (computers, tablets, and cell phones)</td>
<td>• Water, energy, telephone, and Internet.</td>
<td>• Tax relief (exemption from fines, postponement of tax payments).</td>
</tr>
<tr>
<td>• Increase in the amount of existing monetary transfers: 29 measures in 12 countries (6% of the total).</td>
<td>• Support for inclusion in employment and production, such as online training scholarships or training and inputs for entrepreneurship.</td>
<td>• Suspension of cuts of utility services, mandating the restoration of service cuts due to non-payment, and postponement of or agreement on bill payments.</td>
<td>• Measures to set and control prices of basic goods and rent.</td>
</tr>
<tr>
<td>• Increase in the population coverage of existing transfers: 9 measures in 8 countries (2% of the total).</td>
<td>• Advance payment of benefits of existing transfer programs: 12 measures in 9 countries (3% of the total).</td>
<td>• Measures to facilitate payment (deferment of loan and mortgage repayments, loan rescheduling, waivers of payments, or suspension of fines and interest on arrears).</td>
<td></td>
</tr>
</tbody>
</table>

Most of the measures above (almost 86%) were implemented in 2020. However, many were later modified in 2021. Regarding specific cases, a preliminary sample of four LAC countries follows below:

**Colombia.** On April 15, 2020, the government injected approximately USD 2.4 billion in additional resources to the national general budget for the Fondo de Mitigación de Emergencias (FOME, or Emergency Mitigation Fund)\(^60\), as well as other measures, and requested financial support from the IMF. The main measures included the distribution of a VAT refund to one million low-income households; the Programa de Apoyo al Empleo Formal (PAEF, or the Formal Employment Support Program), which granted state support for payroll payments (Executive Order 639 of 2020); the Programa de Ingreso Solidario\(^51\) (or the Solidarity Income Program), which grants subsidies of USD 43 per month to low-income households, benefitting nearly 700,000 people per year (Executive Order 518); a series of decrees to extend the deadlines for filing and paying income and complementary tax returns, as well as other measures that introduced changes to the VAT, income taxes, and some tariffs on imports.

**El Salvador.** This is the country in the region that made the biggest fiscal effort to fund measures for COVID-19, allocating close to 11.1% of GDP to this, when the average in LAC was 3.9% of GDP. At that time, the legislative assembly authorized the executive branch to acquire up to USD 2 billion in debt to cover the costs of the health crisis\(^62\). The government increased the health budget by 2%. It passed tax deferrals: it extended the deadline for income tax payments and, once the final deadline had passed, it gave the option of making the payment in eight instalments; it exonerated all taxes on donations received to respond to COVID-19 emergencies, and authorized tax exemptions for entrepreneurs in the tourism sector. In addition, it passed the Temporary Law to Facilitate Voluntary Compliance with Tax Obligations during the National Emergency Caused by the COVID-19 Pandemic\(^53\) and Executive Order No 12, establishing that people who (1) are not registered employees, (2) do not have regular income, and (3) are affected economically by the COVID-19 would receive a cash transfer of USD 300 per family during home quarantine. One and a half million families benefitted from this measure\(^64\). In the first two months of the pandemic, the government delivered one million basic food baskets to 262 municipalities to provide relief from the crisis\(^65\). It also suspended the payment of bills for basic utilities such as water, electricity, telephone, cable, and Internet for three months, as well as rent, credit card, and loan payments.

**Ecuador.** Contrary to El Salvador, Ecuador was one of the countries that increased social spending the least during the pandemic. While the average in South America was around 16% of GDP, in Ecuador, it was only 11.7% of GDP\(^56\). During the health crisis, the government implemented targeted social protection measures to reduce the impacts of mandatory quarantine on the vulnerable population. It is worth noting that the social assistance programs of 2020 only covered 37% of the households in the bottom quintile\(^57\). During the first few months of the pandemic, cash transfers were made to those who earned less than USD 400 per month: approximately 400,000 families. The Social Security Institute deferred payments to the social security system for ninety days. In-kind transfers were also made: food was delivered to families who requested it at the national level and the deliveries were authorized by the Ministry of Agriculture and Livestock. The government also took measures to guarantee access to basic services: from the moment the state of emergency came into effect until one year later, it prohibited increasing the amounts or tariffs charged for basic services, including telecommunications and Internet, regardless of whether they were provided by public or private institutions directly or through outsourcing firms. It also cancelled special temporary taxes: it eliminated the contribution of workers and companies of the Humanitarian Law submitted in April 2020 to the Congress\(^58\).
Brazil. Despite the restrictions of the spending cap in effect in this South American country, during the pandemic, emergency aid was provided to over 67 million people, which represented a public investment of BRL 322.0 billion (USD 58.4 million), or around 4% of the country's GDP. This aid helped push the poverty rate in Brazil from 11% in late 2019 down to 4.5% in August 2020. However, when emergency aid benefits stopped in early 2021, the poverty rate climbed back up to 12.8%, returning to its 2011 level. Of the specific social protection measures adopted, Lei 13.982 stands out, which created an emergency aid (auxílio emergencial) transfer of BRL 600 per month (roughly USD 110, based on the April 2020 exchange rate) per person, for three months, to support adults who have no formal employment ties, but who work in the informal sector or as individual microentrepreneurs (MEI, for the acronym in Portuguese) or contribute to the social security regime. The government also passed Provisional Measure 927, which ordered the yearly bonus (an existing benefit worth one month of benefits paid to social security beneficiaries every year) to be paid out earlier in the year. Finally, another key decision was the adoption of Provisional Measure 946, which allowed workers to withdraw cash from the federal government worker's severance fund (Fundo de Garantia do Tempo de Serviço, or FGTS in Portuguese), for up to a maximum BRL 35.0 billion for all beneficiaries together. The measure also moved the payment of the first (already planned for before the pandemic) and the second (due to COVID-19) installment of the 13th salary to retirees and pensioners who receive benefits from the Instituto Nacional do Seguro Social (INSS, or the National Institute of Social Security) up to April and May, respectively.

In general, of all the emergency measures adopted by governments in the region, there is enough information on at least 221 of them to estimate the total expenditure per measure. There are notable differences among subregions. For example, in 2021, of the USD 45.271 billion spent in total in LAC on emergency cash and in-kind transfers:

- Approximately USD 40.603 billion (89.7% of the regional total) correspond to fund transfers made in South America, primarily in Brazil and Chile, which together account for over three-fourths of the subregion's spending (77%).

- Another USD 4.522 million (10% of the total) went to emergency programs implemented in Central America, Mexico, and the Dominican Republic.

- The remaining USD 145 million (0.3% of the total) correspond to the other Caribbean countries, of which The Bahamas and Jamaica contributed over 40%.

The rollback of cash and in-kind transfer programs in 2021 can also be seen in the changes in the average monthly spending as a percentage of GDP, by period and by subregion. For instance, for the region as a whole, between March and August 2020, the average monthly expenditure as a percentage of GDP climbed to 1.6% of GDP, but in September-December of the same year, it fell to only 1.2% of GDP. In 2021, between January and April, the fiscal effort of the region as a whole was around 1.0% of GDP, but it rapidly dropped to 0.89% of GDP between May and August, and to 0.70% of GDP in the September-December 2021 interval.

The decline was more pronounced in some regions than in others. For example, in South America, the fiscal effort to implement the cash and in-kind transfers offered in the final quarter of 2021 (September-December) still represented 91% of the amount paid the year before (September-December 2020).

In Central America, on the other hand, especially in Mexico, Haiti, and the Dominican Republic, the same indicator stood at only 47.7% in the September-December 2021 period. The situation was even worse for the rest of the Caribbean island states, which maintained only 33.1% of the fiscal effort made one year earlier (see figure 6).
A priori, one could argue that as the COVID-19 health crisis subsides in the region and economic activities resumes in general as a result, it is only normal to expect the programs implemented during the pandemic to be eventually deactivated because of their temporary nature in the first place. However, what it is questionable here is precisely the exceptional nature of social protection in most countries of the region. It took a pandemic for governments in the region to adopt comprehensive social protection measures, particularly for the most vulnerable and excluded social groups.

The fact that the biggest increase in social spending in at least a decade and a half happened during COVID-19 is a clear indication of how far behind the construction of an equitable social contract is in LAC. Instead of being slowly scaled back to pre-pandemic levels, the social protection programs put into place during the health crisis in the region should be used to spearhead the reorganization and expansion of universal social policies that directly attack poverty and inequality in the region.

This need becomes even greater in an international environment marked by constant volatility and uncertainty, including the rapid escalation of food and energy prices fueled by the war between the Russian Federation and the Ukraine.

IV. The Alternative

In a context rife with uncertainty and given the economic crisis that we are in, **LAC must abandon the dogmatic path of austerity immediately**. Contrary to the voices that call for caution and argue that now is not the time to push for tax reforms, there is a need for region-wide and country-level debates on the urgent need for a comprehensive fiscal reform that tackles the roots of structural inequality in LAC – the region with the greatest disparities in income distribution in the world. Even so, it is important to recognize that debates on this matter may drag on for a long time due to the complexity of achieving the social consensus required to move forward – time that millions of people in LAC affected by the social divisions left by the pandemic and the economic consequences of the Ukraine war do not have to wait.
Therefore, there is an urgent need for concrete tax reforms that, on one hand, immediately increase governments’ capacity to raise revenues and, on the other, do so based on rigorous principles of tax justice. On May 23, 2022, at the World Economic Forum annual meeting in Davos, Oxfam called for urgent one-off, solidarity wealth tax on the world’s biggest fortunes. The ultra-rich have seen their fortunes grow exponentially during the COVID-19 pandemic\textsuperscript{79}. We will come back to this matter at the end of this briefing in the specific proposals for LAC.

It is time for the super wealthy to contribute, considering their greater capacity, by paying a fair and equitable amount of taxes commensurate with their wealth so that these resources can be redirected towards guaranteeing the rights of the rest of society, particularly those who have the least. Yet, instead of leaving these actions in the hands of philanthropists or the altruism of a few, they should be an active item on the political agenda of the governments of the region.

Even the IMF itself, at the time, supported – albeit with less zeal – the adoption of “solidarity” taxes on the winners of the pandemic and the rich. To raise the necessary resources, it proposed increasing the progressivity of income taxation and the use of inheritance/gift taxes and property taxation, which could be considered taxes on “excess” corporate profits. It suggested considering the adoption of wealth taxes if the previous measures prove insufficient. More recently, the IMF even endorsed the idea of applying taxes to “excess corporate profits” on a permanent basis “because of their impact on social cohesion” – an initiative also advocated by Oxfam\textsuperscript{80}.

The IMF has also supported the adoption of a minimum tax of 15% on the revenues of multinational corporations under the OECD-G20 framework agreement. Its initial purpose is to reduce the incentives for companies to shift profits across countries and to establish a floor on tax competition. At the same time, it has emphasized the importance of building the capacity of units specialized in data analytics and tax administrations, especially in low-income countries. It also recommends adjusting tax policy, as cooperation improves, especially in relation to those at the top of the income distribution ladder\textsuperscript{81}.

This brief review demonstrates that fiscal responsibility also lies on the tax collection side, and not just with public spending. It would be wrong to favor fiscal consolidation measures that result in cuts in social spending that would be detrimental to the most vulnerable, when there is a wide range of ways to mobilize resources from the ones who have profited the most during the pandemic. In LAC, a specific agreement on wealth taxation is needed so that these resources can be used for fighting the more structural inequalities in the region.

Oxfam’s proposals point precisely in the same direction. The most recent annual Forbes billionaires list\textsuperscript{82}, published in March 2022, shows how the concentration of wealth in LAC has increased during the pandemic:

\begin{itemize}
\item \textbf{01} Between 2020 and 2022, twenty-seven new billionaires emerged in LAC – almost one every four weeks.
\item \textbf{02} Between 2020 and 2022, the wealth of the billionaires in the region grew by over USD 5 million per hour: USD 124 million per day.
\item \textbf{03} Seventy-seven of the 103 billionaires in 2022 have increased their wealth since 2020 (before the pandemic) – that is, around 75%, or three out of four.
\item \textbf{04} Fifteen billionaires augmented their wealth by more than 50% between 2020 (before the pandemic) and 2022.
\item \textbf{05} The wealth of three billionaires grew by more than 100% in 2022 in comparison to 2020 (in other words, their wealth more than doubled during this period).
\end{itemize}
In its *Profiting from Pain* briefing\(^8^3\), Oxfam proposes that a progressive wealth tax with marginal rates be imposed on large fortunes. The rates could be, for example, 2% on wealth worth over USD 5 million; 3% for assets worth more than USD 50 million, and 5% for a net wealth of more than USD 1 billion. According to this proposal, if the referred taxes were to be imposed on the net worth of the region's billionaires respective fortunes in 2022, together, the governments of at least eleven LAC countries would have USD 20.21 billion at their disposal. Table 4 summarizes this proposal.

With the funds raised by this kind of tax, countries like Colombia would be able to add USD 1.125 billion to state coffers in 2022, which would allow it to reduce the steepness of the downward path proposed in its *Marco Fiscal de Mediano Plazo* (Mid-term Fiscal Framework), which aims to cut national government spending by 2.3% of GDP between 2022 and 2024 alone\(^8^4\). In the Colombian case, the new government is currently revising these spending estimates. It should be noted that not all of the total value mentioned would be additional funding since the country already has a wealth tax in place.

Similarly, for Peru, an additional USD 330 million could be used to reinforce primary expenditures, instead of the cuts planned between 2022 and 2024. In concrete terms, the country could double the amounts allocated for 2022 to the two main programs of “poverty alleviation actions”: Haku Wiñay – the Strategy to improve the access of rural households engaged in subsistence farming to local markets, with a current budget of only USD 64.6 million for 33,000 beneficiaries, and the National Program of Direct Support to the Poorest (JUNTOS), with only USD 242.6 million for 676,000 households\(^8^5\).

Furthermore, in addition to the financing schemes for the countries, it is worth recalling that Oxfam has already proposed the immediate adoption of the following measures:

**01** The immediate suspension of all conditionality in the IMF’s ongoing lending programs, especially for countries feeling the brunt of the impact of the war in the Ukraine.

**02** Adopting conditionality-free emergency financing again as the IMF’s dominant mode of financing, like it did at the onset of the pandemic in 2020.

**03** The imposition of a tax on excess corporate profits in times of crisis: a levy on excess earnings – that is, a temporary or permanent rate applied to revenues or profits that exceed what is considered a normal rate; for example, average profit of the last four years in comparison to the average of the year of the crisis.

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**Table 4. Summary of the evolution of billionaires’ wealth in LAC during the pandemic (numbers in millions of real USD / 2020-2022)**

<table>
<thead>
<tr>
<th>Countries</th>
<th>Number of billionaires in 2022</th>
<th>Δ 2022-2020</th>
<th>Wealth accumulated in 2022</th>
<th>Δ in wealth since 2020</th>
<th>Potential revenues from progressive tax on net worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>6</td>
<td>2</td>
<td>11,000.0</td>
<td>1198.0</td>
<td>580</td>
</tr>
<tr>
<td>Barbados</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>65</td>
</tr>
<tr>
<td>Belize</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>160</td>
</tr>
<tr>
<td>Brazil</td>
<td>62</td>
<td>17</td>
<td>143,700.0</td>
<td>29,863.5</td>
<td>8095</td>
</tr>
<tr>
<td>Chile</td>
<td>7</td>
<td>0</td>
<td>35,300.0</td>
<td>13,357.0</td>
<td>1790</td>
</tr>
<tr>
<td>Colombia</td>
<td>4</td>
<td>1</td>
<td>14,100.0</td>
<td>288.1</td>
<td>1125</td>
</tr>
<tr>
<td>Mexico</td>
<td>15</td>
<td>3</td>
<td>143,000.0</td>
<td>44,980.3</td>
<td>7745</td>
</tr>
<tr>
<td>Peru</td>
<td>3</td>
<td>1</td>
<td>6700.0</td>
<td>907.9</td>
<td>330</td>
</tr>
<tr>
<td>St Kitts</td>
<td>1</td>
<td>-1</td>
<td>-100.0</td>
<td>274.8</td>
<td>55</td>
</tr>
<tr>
<td>Uruguay</td>
<td>2</td>
<td>2</td>
<td>1500.0</td>
<td>(287.1)</td>
<td>110</td>
</tr>
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<td>0</td>
<td>3500.0</td>
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V. Case studies: Colombia, El Salvador, Ecuador, and Brazil

Colombia

The Colombian government underestimated the impacts of the COVID-19 pandemic and failed to ensure sufficient fiscal spending to address the economic and social situation it generated. As a result, poverty climbed from 35.7% to 42.5% in 2020, and inequality, as measured by the Gini index, went up by 10 points during this period, despite a series of executive orders and the creation of the Fondo de Mitigación de Emergencias (FOME, Emergency Mitigation Fund) to provide resources to households and social security institutions during the lockdowns.

On March 17, 2020, by means of Executive Order 417 of 2020, the government declared a state of economic, social, and ecological emergency, which it extended on May 6, 2020\(^87\). The state of emergency enabled the national government to bypass congress and establish measures with the force of law. Some of the adopted measures were:

- The distribution of a VAT refund to low-income households through bimonthly payments of approximately USD 20 each. One million households benefitted from this measure, for an annual cost of USD 108 million in 2020\(^88\).

- Executive Order 639 of 2020 created the Programa de Apoyo al Empleo Formal (PAEF, or the Formal Employment Support Program), which offered financial support for payroll. Only 400,000 benefitted from the PAEF, who represent 16.4% of jobs lost in 2020 and 35% of the newly unemployed. It distributed funds to 3.1% of all companies that renewed their business registration in 2020. The estimated cost of this program for 2022 is USD 298 million.

- Executive Order 518 of 2020 created the Programa de Ingreso Solidario\(^89\) (or the Solidarity Income Program), which grants a monthly subsidy of USD 43 to low-income households. Despite this, 3,552,000 people were pushed into poverty in 2020. The program provides benefits to nearly 700,000 people per year. In 2021, it cost USD 568 million, and in 2022, it will cost around USD 1.787 billion.

- Executive Orders 435, 438, 463, 520, 523 and 655 of 2020: the national government issued these orders to extend the deadlines for filing and paying income and complementary tax returns, as well as other measures that introduced changes to the VAT, income taxes, and some tariffs on imports.

The results show that the government could have taken much more forceful action, but it chose the path of austerity instead, believing that the market would fix the economic collapse. In April 2020, the IMF urged governments of the world to “spend all they can, but keep the receipts”; however, they were sent the collection notices right away. In February 2021, the Fund called for a “gradual fiscal consolidation led by fiscal reforms” in Colombia – a demand that the executive branch took very seriously.

In fiscal terms, Colombia spent less than its neighbors Brazil, Chile, and Peru. Furthermore, Colombia made a deliberate decision to spend less because even though COP\(^90\) 43.9 billion (USD 11.886 billion\(^91\)) in funding had been approved for the FOME program, representing 4% of GDP, only COP 18.6 billion (USD 5.036 billion) were paid out in 2020 and COP 16.3 billion (USD 4.413 billion) in 2021. In other words, according to the latest official government report\(^92\), in the eighteen months and more since the beginning of the COVID-19 pandemic, the Colombian government had only disbursed 80% of the funds approved for use in the first seven months of the crisis.

The dynamics of public spending in Colombia beyond 2020 were similar. To plan public expenditures for 2021, the government used projections of economic growth rate that were far below the consensus among national and international analysts. The Colombian government budget planned its expenditures using an estimated growth rate of 5% of GDP, which ended up being much lower than the 10% actually observed, leading it to artificially restrict social spending because it underestimated the resources that would be available. Similarly, in
its financial planning for the next few years, it has envisioned a path of fiscal adjustment, which has been incorporated into the Colombian Ministry of Finance's Marco Fiscal de Mediano Plazo (MFMP, or Medium-Term Fiscal Framework). According to this plan, in 2022, central government’s spending is to be reduced by 1.6% of GDP and public investment, by 0.6% of GDP.

In February 2021, the IMF mission to Colombia emphasized the need for a tax reform that would generate a lasting increase in tax revenues. The IMF proposed that the reform be gradual and raise revenues by at least two percentage points of GDP by expanding the personal income tax base among the 10% of individuals with the highest incomes in the country and reducing VAT exemptions. According to the IMF, “a gradual fiscal consolidation led by fiscal reforms should ensure a return to the fiscal anchor over the next five years” to the IMF also urged the Government to execute the funds for FOME93.

However, in practice, during the pandemic, the government’s reaction was late and insufficient, which only made the social and economic crisis worse. Three months after the onset of the pandemic, it maintained the fiscal rule, with the backing of the IMF that gave a positive assessment of this practice on the occasion of the approval of its first flexible line of credit for Colombia, in May 202094. When the government finally lifted it, though, unemployment and poverty were already at staggering levels. The IMF, for its part, did not make any more suggestions, but it is important to keep in mind that Colombia did not request a traditional loan program during the pandemic. Instead, it used its existing flexible credit line, for which recommendations on austerity had already been made. The main variable in the new fiscal rule for 2022 is the debt, not the deficit.

To achieve primary surpluses and allocate more resources to debt servicing, the government plans to reduce public spending continuously from 24.8% of GDP in 2021 to 19.6% of GDP by the end of the decade. For 2022, the government aims to lower spending by 1.6 percentage points of GDP, in keeping with the “return to the fiscal anchor” requested by the IMF. In fact, between 2019 and 2021, the budget allocated to servicing the debt as a percentage of GDP grew from 4.8% to 6.1% of GDP (1.3 percentage points), whereas the increase in the health budget was lower: it went from 2.8% to 3.7% of GDP (0.9 percentage points).
Despite the critical economic and social situation in the country, the tax reform approved in 2021 only introduced a few minor changes that do not rectify the highly regressive structure. It merely modified corporate income tax rules, leaving an extremely unequal and regressive tax structure in place for individuals.

Specifically, the majority of tax benefits go to people with higher incomes, who are also precisely those who pay significantly lower tax rates on their income. This is because in Colombia, taxes on capital or non-capital income are too low. The fiscal cost of these benefits is approximately COP 6.5 trillion a year (USD 1.76 billion). As if that were not enough, the government has recently approved a new tax amnesty program for high-income tax evaders who do not declare all of their assets, which reduces the fine from 200% to 17% if they take advantage of the program to declare everything.

Women are affected the most by this situation due to their exclusion from the labor market and the consequences of the lack of income for the increase in poverty. In 2020, 595,000 more women became unemployed, 1.4 million fewer became employed, and 1.1 million became inactive. Regarding the latter, 62.9% of economically inactive women were engaged in unpaid household work, and 62.1% of them, over the age of 29, had no income. As a result, 43.4% of women in country were living in poverty – a situation that is particularly serious in departments such as La Guajira, where poverty affects 67.2% of women.

Furthermore, due to the lack of Internet access and educational and budgetary support for education, school dropout rates intensified. According to data from the Departamento Administrativo Nacional de Estadística (DANE, the National Administrative Department of Statistics), the indicator for school absenteeism showed an increase of 13.7 percentage points (at the national level), jumping from 2.7% in 2019 to 16.4% in 2020. The increase in absenteeism was particularly pronounced in departments such as Vaupés, Amazonas, Vichada, Chocó, and La Guajira. According to the Ministry of Education, as of August 2020, 102,880 children had been withdrawn from schools in Colombia.

No funds from the health sector’s budget were earmarked for vaccination against COVID-19. Instead, the vaccination campaigns have been paid for with funds budgeted for the presidency and managed through the Disaster Risk Management Unit. As of December 14, 2021, 61 million doses had been administered. Of the people who have been fully vaccinated by gender, 53.56% are women, and 46.19% are men. In total, 26.5 million people have been fully vaccinated, which corresponds to 56% of the Colombian population. A budget of COP 3.8 trillion (USD 1.015 billion) was assigned to the acquisition of 76.3 million vaccines in 2021. This amount would be enough to complete coverage with the second and third doses, but not for a fourth dose, if necessary, which some countries are already offering.

In the midst of a scenario of austerity, expressed in the IMF's recommendation to maintain adequate fiscal space to pay the debt, even if it means sacrificing public spending, economic growth rates are predicted to fall, which means that tax revenues will too. After a 9.7% growth rate in 2021 and 5% in 2022, growth is projected to slow substantially, to an average 3.4% between 2023 and 2032. Between 2020 and 2021, this led to a 5.1% decrease in tax revenues on average, which will force the country to accelerate the fiscal adjustment process.

The consequences are obvious. With an economy that is still very weak and high unemployment levels, domestic and foreign private investment are below 2019 levels. If the state plans to decrease spending, it will be very difficult to solve structural problems with less resources and without reforms to tackle pending tasks, such as the diversification of production, training for workers, gender equality in the labor market, persistent trade deficits, and the efficiency of public spending.

More public investment is needed to encourage companies to spend more on capital formation to increase formal employment. The worst decision the government could make would be to continue on the path to austerity, which could lead to another lost decade such as the one experienced in LAC in the 1980s due to the debt crisis.
In 2020, in the context of the COVID-19 pandemic, El Salvador received financial support from the IMF to respond to the health crisis and deal with its severe economic impacts. Even though the support served to prevent an even greater economic downturn, the measures were not enough to guarantee the basic rights of the most excluded sectors. In 2021, faced with the need for greater financial stability, the Government of El Salvador initiated talks on a new loans program with the IMF, which could involve austerity measures, increases in consumption taxes, and cutbacks in social investment. In a context of a protracted crisis due to COVID-19, these measures would widen inequality gaps and impact mainly the most vulnerable sectors.

In recent decades, El Salvador's economy has been marked by sluggish growth, which was also affected by the pandemic. According to the World Bank, annual GDP growth exceeded 3% only twice in the 2000-2020 period and has averaged around 2.3% in recent years. The pandemic interrupted this trend: the country's economy ended 2020 with a contraction in GDP of 8.7%, according to data from the Central Reserve Bank of El Salvador (BCR for its acronym in Spanish). The BCR reported that at the end of 2021, the country's GDP had grown 10.17% as a result of the rebound effect, yielding a net effect of only 2.1% in relation to the situation prior to the pandemic. The BCR affirms that the increase in remittances and exports is sustaining the country's economic recovery. For 2022, the IMF predicts that El Salvador's economy will grow 3.0%.

The state's response to the impacts of the crisis. Public spending in El Salvador increased significantly: by year-end 2020, public expenditures had grown by 7.3 percentage points to 31.8% of GDP. This was largely due to the rise in current expenditures, which went from 21.3% of GDP in 2019 to 27.2% in 2020. However, it is not possible to come to a definite conclusion on the quality and efficiency of public spending. Evidence suggests that while El Salvador is the LAC country that made the biggest fiscal effort to combat COVID-19, dedicating 11.1% of GDP (much higher than the Latin American average of 3.9% of GDP) to these measures, at the time of the publication of the ECLAC report (2020), there were no new plans for economic recovery in the works. Civil society organizations are warning of setbacks in transparency and access to public information related to the management of the pandemic, as well as the effectiveness and the quality of the assistance provided. The debt to GDP ratio was 92.1% at the end of 2020 and 84.8% in 2021.

In terms of its response to COVID-19, El Salvador stands out for having advanced rapidly in the race to secure vaccines to immunize the population. In December 2021, 62.7% of the population had received both doses, placing the country in eighth place in LAC in terms of the percentage of population vaccinated. In September 2021, the Government of El Salvador announced the distribution of the third dose, and in March 2022, the fourth dose to boost immunity. Despite the positive vaccination efforts, the pandemic exposed inequalities in access to healthcare services for the entire population and caused hospital networks to collapse, as they grappled with fluctuating infection levels, deficiencies in care, and shortages of medicines for patients with other illnesses. For instance, some national hospitals ran out of medicines for chronic diseases such as cancer. As of December 2020, 3,809 deaths from COVID-19 had been reported in El Salvador.

Slow and unequal recovery

The economic forecasts for 2020, according to the IMF, pointed to modest economic recovery in El Salvador. ECLAC, for its part, estimated that in the post-COVID-19 context, poverty and extreme poverty would increase from 35.4% to 37.3% and from 8.5% to 9.6%, respectively. Income inequality, measured by the Gini coefficient, was also projected to increase in comparison to 2019, by between 1.5% and 2.9%, reaching a rate that will oscillate between 36.5 and 37.9.

The economic and health crisis caused by COVID-19 are expected to affect the labor market in terms of the number of jobs available, the quality of employment, and the impacts on specific vulnerable groups. Job losses in El Salvador are estimated at 1.5 million, which represents 51.4% of total employment. The economic sectors affected the most are commerce, hotel and restaurants, manufacturing, and households as employers – sectors where the feminization of the labor force prevails, thus aggravating gender inequality.
The IMF’s recommendations for El Salvador in the COVID-19 context

El Salvador has stood out for its rapid progress in the race to secure COVID-19 vaccines for its population, its diligent management of the doses, and the construction of a vaccination mega-center. It was one of the first countries in LAC to adopt very strict travel restrictions to prevent the spread of the virus, which was accompanied by measures to provide relief to the population such as cash transfers and the delivery of basic food baskets. The suspension of economic activities due to lockdown and the costs of handling the pandemic required El Salvador to take additional financial measures.

In April 2020, the IMF approved a rapid financing instrument arrangement for El Salvador to address the COVID-19 pandemic for the amount of USD 389 million to support economic recovery and the authorities’ response to the crisis and to finance an increase in healthcare spending. According to the IMF, the assistance aimed to help the country meet its urgent balance of payments need stemming from the pandemic and rapidly channel funds to affected sectors, namely the healthcare system. This emergency financial assistance was the first IMF loan to El Salvador in over three decades under a lending arrangement. In this context, the IMF declared that it would be necessary for the country to temporarily widen the budget deficit to preserve public health and contain the economic impact of the pandemic and recommended a gradual fiscal adjustment starting in 2021. The adjustment should target a primary fiscal balance of 3.5% of GDP by late 2024 and put public debt on a firmly declining path to reach 60% of GDP by 2030.

In addition, since 2021, El Salvador has been negotiating an extended fund facility (EFF) arrangement with the IMF for the amount of USD 1.3 billion, which would provide it with liquidity to stabilize its financial situation in the short term. EFFs between governments and the IMF are used by countries facing balance of payment problems and sluggish growth. This type of agreement requires countries to commit to addressing their imbalances by adopting structural measures that seek to meet measurable targets monitored by the IMF continuously. In the case of El Salvador, the economy contracted 8.17% in 2020 due to the impacts of the pandemic. Furthermore, public sector debt grew rapidly by almost USD 3 billion in 2020, to 92.1% of GDP and 77.4% of the national disposable income, which generated a level of debt that greatly exceeded the country’s financial capacity.

The conditions of the EFF arrangement may include the implementation of a fiscal adjustment – i.e., austerity – of approximately 4% of GDP. The program would include measures such as an increase in consumption taxes – including the VAT – and cuts in important areas of the national budget, as well as targeted subsidies, public wage bill reduction, and administrative reforms, such as the adoption of a mono-tax, among other adjustment measures. If the IMF and El Salvador eventually reach an agreement on a loan, the government may have to apply fiscal consolidation measures over the next three years, leading it to adopt austerity measures that have disproportional impacts on the poor and the vulnerable, especially women, children, the elderly, people living with disabilities, and people with diverse sexual orientations and gender identities, who already live with the burden of other inequalities. For example, the VAT has a gender bias, meaning...
that it affects women more: a 2% increase in the tax rate would mean a 2.2% increase of poverty among men and 2.9% among women109.

There is concern that El Salvador will adopt yet other austerity measures in view of the negotiations of the EFF, especially considering its track record in social spending cuts in previous years. For example, it made systematic cuts to women’s rights programs and the budget of the Attorney General of the Republic’s Office, the Human Rights Ombudsman’s Office, and the Ministry of Environment and Natural Resources, among others. One example of major cuts made since 2019 or plannings in the draft budget for 2022 is the USD 5.1 million-reduction in the allocation for the Programa de Ciudad Mujer (Women City Program), which works on women’s rights and dignity. The government has also sliced USD 13.5 million from the budget for primary healthcare, which covers territorial and community access to health, and another USD 16.7 million from the budget for cash transfer programs with conditionalities to promote education and health. The implementation of austerity measures could involve more cuts in the budget for the protection of rights and the quality of life of the population of El Salvador, especially of those who rely more on public services.

Issues have emerged in the negotiations of the EFF which could affect progress and that go well beyond fiscal adjustment and economic agreements. El Salvador is showing signs of the weakening of democracy and the capture of public institutions. These warnings have had immediate economic effects, such as the collapse in bond prices and the increase in the country’s risk rating. Furthermore, elements such as the pension reform under discussion and the approval of legal frameworks that affect the rule of law and the rules of democracy are other factors that could influence the talks. At the end of 2021, the Government of El Salvador proposed a Foreign Agents Bill, which would impose a tax of almost 40% on international cooperations funds and affect social and human rights organizations. This news obviously caused alarm among national and international cooperation workers and organizations. Moreover, in relation to the decision to make bitcoin legal tender in El Salvador, the IMF has classified gaps in the regulation and supervision of the crypto currency as high-risk. The institution’s spokespersons stated that the country should reevaluate some of its economic policies to reach an agreement on the EFF.

A more just and progressive fiscal policy for post-pandemic recovery

The EFF negotiations offer an opportunity to ensure that the conditions of the agreement do not lead to restrictions on, or the loss of, rights or make the lives of the Salvadorian population worse. It is important to prevent fiscal consolidation policies from resulting in cuts in social investment, which will directly affect the people’s quality of life. To do so, it will be necessary to consider changes to tax regimes to make them more progressive, ensure rights-based social investment, use public debt for investments in production, establish mechanisms of transparency and citizen control of public management, and strengthen the country’s institutions and democracy.

Economic recovery must be inclusive and take action to reduce poverty and inequality. Increases in taxes, such as the VAT, tend to have regressive effects that disproportionately affect the economies of the most vulnerable families. Instead, wealth taxes could be promoted – as the IMF itself proposed in its Fiscal Monitor in 2021 – and unjustified tax expenditures could be eliminated. Furthermore, it is important to increase spending on guaranteeing human rights such as access to health, education, water, and gender justice. Along the same lines, and in view of the setbacks in women’s rights, directing more resources to gender-labelled budget items should be prioritized, and the monitoring and assessment systems for gender-sensitive public spending should be reinforced. Public finances and, therefore, the conditionalities in the agreement, should promote mechanisms for the participation of citizens to ensure that policies are fairer and more inclusive.
The COVID-19 pandemic dealt a severe blow to the people and the economy of Ecuador, thus aggravating existing structural problems. In a context of a high indebtedness, scarce monetary policy instruments (due to the dollarization of the economy), and the fall in oil prices, the Government of Ecuador and the IMF signed loan agreements so the country could obtain financing. This subsection presents a brief overview of the relationship between Ecuador and the IMF before the COVID-19 pandemic and since its arrival in the country, the advances in the agreements with the Fund, and, finally, long-term considerations for an inclusive and sustainable recovery in this context.

The pre-pandemic relationship between Ecuador and the IMF: context and urgent needs

In the history of agreements signed with the IMF, in March 2019, Ecuador signed an arrangement for USD 4.2 billion, in which it made a commitment to implement fiscal austerity measures and structural reforms, such as the realignment of the public sector wage bill, the gradual optimization of the fuel subsidy system, the reprioritization of public spending on capital and goods and services, tax reforms, and labor reforms to authorize new forms of hiring, among others. According to the IMF, the savings generated by these measures would enable the country to increase spending on social assistance.

In this context, the Moreno administration issued Executive Order 883, in October 2019, to eliminate fuel subsidies in effect in the country since the 1970s. It did so, however, without adopting any policies to minimize the impact on the population. The measure was met by strong opposition, which led to nation-wide protests that left many dead, injured, and detained, as well as a 0.13% drop in the GDP forecast at constant prices for 2019. After twelve days of mobilizations, the president rescinded the executive order.

In addition, between 2018 and 2019, the government reduced the budget for social sectors; allocations for education and health, in particular, were cut by 1.7 percentage points and 2.3 percentage points, respectively. It is vital to note that 58% of the population of Ecuador does not have health
insurance, and out-of-pocket (private) spending on health as a proportion of all spending is high (39.8% in 2018). In 2019, job conditions deteriorated: the formal employment rate was only 38.8% and underemployment, 17.8%. In addition, income poverty went up 4 percentage points, while inequality, as measured by the Gini coefficient, moved up from 0.459 to 0.473 between 2017 and 2019.

The arrival of COVID-19 in Ecuador: efforts, challenges, and a new agreement with the IMF

COVID-19 spread to Ecuador in March 2020. At first, the country had the highest death per capita rate in the world. The government’s efforts to fight the pandemic and control its impacts included, for example, the adoption of the Humanitarian Support Law, which established fixed-term employment contracts, reduced the working day, and lowered the costs of firing workers, among other measures.

In addition, during the health crisis, targeted social protection measures were implemented to reduce the effects of the mandatory quarantines on the vulnerable population. However, Ecuador was one of the Latin American countries that offered the least support to the said groups, in terms of both the share of the population that was able to receive benefits and spending on specific programs. It should be noted that the social assistance programs of 2020 only covered 37% of households in the bottom quintile.

Two months after the virus arrived, in May 2020, the Government of Ecuador decided to cancel the agreement signed with the IMF in 2019 because of the significant change in economic indicators due to the exacerbation of the crisis by the pandemic. It negotiated a new agreement to address the situation in the country, marked by the emergence of even more urgent social needs.

In September 2020, the IMF approved a new EFF for USD 6.5 billion for Ecuador, with an average interest rate of 2.9% for a ten-year term, which made USD 2 billion immediately available to the country. Ecuador’s promises include commitments to achieving fiscal goals, strengthening public finances, and expanding the coverage of social protection. The state was to work on the following, among other things:

Advances in the EFF framework in effect: new disbursements, the current situation, and expectations

The report from the first IMF review of the EFF in December 2020 acknowledges the success of the efforts of Ecuadorian authorities in expanding social assistance coverage. More than 270,000 low income families had been integrated into the social protection network since July, ahead of its December target, which would help mitigate the impact of the crisis on the most vulnerable groups. It also declared that it is crucial for the government to continue expanding social assistance programs to help vulnerable families during and after the pandemic. Moreover, it mentions that the government should redirect spending from subsidies to social assistance to move towards more progressive spending policies.

Annex I of the report from the first IMF EEF review contains information on the distributional impact of fiscal consolidation and social assistance. It emphasizes that together, the three percentage point-increase in the VAT, an income tax reform – which lowered deductions and included middle income families – and an increase of cash transfers would...
make the tax system more progressive and reduce income inequality. More specifically, it points out that this reform package would lead to a 24-34% increase in the post-fiscal income for families in the bottom income deciles, at the expense of a small reduction of approximately 5 to 6% of the post-fiscal income of those in the top income deciles in 2021, when compared to no reform at all in 2021 (IMF, 2020b). Annex 1 also mentions that reductions in capital expenditure and the wage bill, while continuing to substantially expand social assistance programs at the same time, would help reduce inequality. However, on this last point, it highlighted that determining the precise impact and distributional quantification of these fiscal consolidation measures is difficult due to the lack of disaggregated data.

By late 2020, Ecuador’s GDP had contracted by 7.8%, accompanied by a substantial drop in tax revenues, resulting in an overall deficit of USD 5.211 billion, 78% higher than the year before. Furthermore, between March and December of the same year, 532,359 jobs were lost, which represented 6.6% of the EAP in December 2020. Poverty, for its part, climbed from 25% in 2019 to 32.4% in 2020.

In 2021, one of the main achievements of the new government was in relation to vaccination: by year-end, 79.9% of the population had been fully vaccinated. However, even though GDP was up 4.2% from 2020 and sales, tax revenues, and oil prices were recovering, the country’s social indicators were, and continue to be, a motive for concern, which confirms the need for specific policies to improve them. In December, adequate employment stood at around 33.9%. Poverty remained high, rising to 27.7%, and extreme poverty, 10.5%, with a greater incidence in rural areas, where 42.4% of the population lives in poverty and 20.3% in extreme poverty: this, in a context where inequality remains high, increasing to 0.474 in 2021.

In late August 2021, Ecuador received around USD 950 million worth of SDRs, as part of the IMF’s allocation of SDRs to all its member countries. These funds, which come at a minimal financial cost to the country and are free of conditionalities, were used to boost the foreign reserves of the Central Bank of Ecuador (BCE for its acronym in Spanish) and for public spending related to social assistance, according to statements from both the IMF and the Ministry of Economy and Finances (MEF).

On September 30, 2021, the IMF approved the technical report of the second and third review of the EFF signed one year earlier. It then authorized a disbursement of USD 800 million, which, according to the government, would be used to finance the national budget. The MEF stated that it expected to access more financing from multilateral organizations under favorable conditions to “guarantee support for social protection programs for the vulnerable population.” It should also be noted that at the end of 2021, aggregate debt had risen to 59.18% of GDP. Similar to other Latin American countries, Ecuador is an upper middle-income country, which limits its financing options, as it is not eligible for humanitarian aid programs, financing, or loans from official development aid funds.

In June 2022, the IMF concluded the combined fourth and fifth reviews of the EFF for Ecuador, allowing for an immediate disbursement of approximately USD 1 billion. Ecuadorian authorities announced that they planned to use the disbursement proceeds for budget support. According to the IMF report, the Fund approved the government's request for a waiver of non-observance of the end of December 2021 performance criterion on the overall balance of the central government's budget and the oil derivatives financing account (CFDD, for its acronym in Spanish) based on the corrective actions the authorities had already taken and the ones they committed to adopt.

In July 2022, yet another national strike was staged in the country. This time, it lasted for eighteen days, during which roads were blocked, domestic trade was disrupted, and the result was USD 1 billion in losses, at least six deaths, and around five hundred wounded. The main demands were lower gasoline and diesel prices, limits on the expansion of extractive activities, and longer terms to repay debt to banks, among others. After the negotiations between the national government and indigenous organizations, on June 30, the government announced an increase of USD 0.15 in the extra, ecopaís, and diesel fuel subsidies. In its most recent report, the IMF acknowledged the suspension of the fuel subsidies reform in Ecuador, but affirms that the authorities maintain their commitment to improve fiscal sustainability with equity.

The country has also been affected by the current war in the Ukraine, which, together with the global logistics crisis and other factors, has caused prices in the country to rise, especially for energy, fertilizers, food, and raw materials. As several analysts around the world have mentioned, the increase in food prices poses a serious threat to economic recovery and
enhanced the risk of more severe negative impacts on the population's living conditions. However, the IMF argues that higher oil prices are improving Ecuador’s external and fiscal balances.

In addition, the IMF highlights that Ecuador has improved social assistance to low-income families, which helps cushion the adverse impact of rising inflation on the most vulnerable. Currently, eight in ten low-income families receive government support, which is up from three in ten only two years ago.

**Long-term considerations for the pursuit of inclusive and sustainable recovery under IMF agreements**

The renegotiation of the agreement between the IMF and the Government of Ecuador enabled the country to obtain financing and required it to commit to complying with measures that, as mentioned earlier, mostly relate to fiscal austerity. It is vital that decision-making on the implementation of such measures be well-informed, carefully handled, and evidence-based to adequately determine which sectors need to be rethought, while taking into account the possibility of these changes being met with popular unrest, as they did in 2019 and again in 2022.

**Further spending cuts could trigger significant layoffs of public sector employees and weaken the state's constitutional duties, such as education and health.** Indeed, in Proforma 2022, education was cut by 10%, and the health sector experienced a paltry increase of 0.8% in relation to 2019, the year before the pandemic.

One aspect worth highlighting is that the IMF continues to emphasize the need to expand social assistance to low-income households, even though the country has already made significant progress on this in 2022. While it is crucial to recognize that cash transfers for the vulnerable population provide much-needed relief for priority groups, they are not enough to deal with widespread crises such as the one caused by COVID-19. Therefore, governments need to guarantee universal social protection programs that are appropriately designed and adequately implemented so as to allow the vulnerable population to cope with the crisis, reduce inequalities, and improve productivity in the country in general. It is also important to consider that in Ecuador, 61.9% of households are engaged in the informal sector and have unstable incomes and complex working conditions, which often lead to job precarity.

Finally, Ecuador faces major challenges in relation to progressive tax policies. According to the Organization for Economic Co-operation and Development (OECD), the income of the richest 20% is 11.2 times higher than that of the poorest 20%. It should also be noted that tax evasion is estimated at approximately USD 7.6 billion per year. In the final quarter of 2021, a progressive tax law was passed, a milestone in the improvement of fiscal sustainability with equity in the country. However, the country still needs a just and efficient taxation system to strengthen systematic distribution policies and sustain policies aimed at improving the well-being of the population.
The economic crisis affecting Brazil since the final quarter of 2014 interrupted the gradual decline in income inequality in the country. In 2018, for the first time since the early 2000s, Brazil witnessed the progress in income distribution come to a halt. In the years that followed, the economic crisis persisted, and fiscal austerity policies were adopted, with the endorsement of the IMF, which entailed reducing investment in social policies. As a result, the situation deteriorated due to growing unemployment and the discontinuation of social policies, such as the one mandating real increases of minimum wage.

According to the United Nations Development Program (UNDP), based on data from 2018, Brazil was the eighth most unequal country in the world, and the most unequal one outside the African continent. Data from the same year reveal that income inequality in Brazil had reached its highest level since 2012. The income of the richest 10% in the country was thirteen times greater than that of the poorest 40%. Also in 2018, the concentration of income, as measured by the Brazilian Institute of Geography and Statistics (IBGE), began to climb again in Brazil, after many years of decline. Black women and men, who are the majority of people at the bottom of the Brazilian social pyramid, continue to be the most disadvantaged.

This situation was aggravated by the fiscal adjustment policies prioritized by governments since 2016. The pinnacle of this policy in Brazil was Constitutional Amendment no. 95, approved in 2016 and known as the “spending ceiling amendment”, which prohibits real growth in primary public spending for twenty years. Considered the strictest austerity measure in the world, this amendment, which constitutionalizes a deliberately regressive vision, eliminated the ability of elected governments in the future to redefine the scope of social investments. Only a government with an absolute majority in the Congress can revoke it and reestablish human rights and the environment as priorities.

In October 2016, Brazil was immersed in an intense debate over the spending cap. Several experts in the country identified the perverse effects it could have on funding for social and environmental rights, while others supported the measure; this generated heated debate in the Congress. No consensus was reached in the country, nor there was enough time taken to discuss such a drastic constitutional change. Regardless, at the IMF annual meetings, the then-managing director of the IMF, Christine Lagarde, defended the approval of the spending cap measure after a meeting with then-Finance Minister, Henrique Meirelles. In a press release, Lagarde argued that the approval of the spending cap...
and the pension reform “would help enhance the credibility of the macroeconomic policy framework, boost confidence in the economy, and support the return to solid growth”. This IMF press release had an impact on the vote on the spending cap, as policymakers even quoted the IMF to justify their vote in favor of the measure. This demonstrates that even though Brazil does not have any loan agreements with the IMF, its economic decisions that generate socioeconomic and environmental impacts are strongly influenced by the Fund.

Poverty and extreme poverty levels continued to climb for the sixth year in a row, a situation that got much worse during the crisis of the COVID-19 pandemic. A survey conducted between November 2021 and April 2022 indicated that 55% of the Brazilian population were facing food insecurity (125,200,000 people), and 15.5% were facing hunger (33,100,000 people). This represents a major setback in relation to the levels observed in 1992, which is why Brazil has been put back on the United Nations Hunger Map, after it had left in 2014.

Brazil surpassed the horrendous mark of 600,000 deaths due to COVID-19 in October 2021. This grave reality paints a grim picture of the federal government’s management of the pandemic, which was based on indulgence and denial, in which austerity policies strongly inspired in the vision defended by the IMF until today appear in the background.

In October 2020, in its 2020 Fiscal Monitor, the IMF continued to defend the spending ceiling in Brazil, claiming that “it plays an important role in the long-term sustainability of Brazil’s public debt” and that the “spending ceiling has an important role to play as a long-term fiscal anchor”\(^{143}\). Once again, the IMF voiced its defense of the cap in the midst of major debate on its feasibility. This happened because the pandemic and the need to sustain fundamental social spending to offer a basic income to the most vulnerable population meant that the ceiling had to be either revoke or exceed. The IMF document gave the government and its base of support in the National Congress leverage to maintain the cap and look for other alternatives to fund social policy, such as making extraordinary funding available in the second year of the pandemic, when the government should no longer be using this kind of measure\(^{144}\).

Furthermore, thanks to an increase of the referendary amendment amendment to the budget law\(^{145}\), the National Congress proceeded to use a “secret budget” for which there has been neither transparency nor participation in the decisions on what is actually funded. Contrary to the promise that the spending ceiling would foster more public debate and more reasonable use of the budget, the opposite
happened: social participation was reduced, fiscal transparency was lost, and financing for rights was not prioritized. It is worth highlighting that, amid the budgetary chaos, the military used BRL 130 million of extraordinary resources allocated to combatting COVID-19 to have barbecues.

It did not take long for the impacts to appear. It is estimated that between 2018 and 2020, the government cut around BRL 22,500,000 (equivalent of USD 4,070,000) from the health budget. Between 2014 and 2019, discretionary spending on social programs in Brazil was reduced by 28.9%, decreasing by 8.6% in the 2018-2019 period alone, thereby exacerbating the historical and troubling shortage of funding for the unified public healthcare system of Brazil, the SUS (Sistema Único de Salud de Brasil). Between 2014 and 2019, discretionary social investments were cut in areas such as education (-51.27 %), labor (-41.06 %), housing (-69.33 %), sanitation (-49.65 %), and social assistance (-45.39 %), putting Brazil in an even more fragile situation just before the COVID-19 pandemic hit.

As for the other austerity measures adopted since 2015, such as the labor reform of 2017 and the social security reform of 2019, not only did they fail to achieve the objectives conceived on the basis of a neoliberal vision, but they also contributed to the precariousness of work in Brazil and reduced social protection and assistance mechanisms, which increased poverty.

The emergency measures deployed during the pandemic to circumvent the budgetary restraints of the spending cap, in effect in 2020, provided emergency aid payments to more than sixty-seven million people, at a cost of BRL 322,000,000 (USD 58,400,000) or close to 4% of Brazil’s GDP. This helped bring the poverty rate down from 11% at the end of 2019 to 4.5% in August 2020. However, when the emergency aid was suspended in early 2021, the poverty rate climbed to 12.8%, returning to the 2011 level. Even though the government began offering emergency aid again in April 2022, its coverage was reduced to one-third of those who had been beneficiaries before, and the value was lowered, on average, to half of the original amount.

Other actions to respond to the pandemic were adopted with the goal of preserving jobs and incomes and providing support to small and medium-sized companies experiencing difficulties during the health crisis. However, the budgetary allocations for them and, as a result, their results were below expectations.

Data from July 2021 show that 14,100,000 Brazilians were unemployed and 7,700,000 people were underemployed, which indicates that the jobs created were of low quality. Furthermore, almost 600,000 companies closed during the pandemic, which made it more difficult to resume job creation in the country. The government then proceeded to implement programs designed to preserve employment contracts that offer precarious working conditions to youth and people in situations of social vulnerability by eliminating a series of labor rights.

In 2021, with the termination of the implementation of the special budgetary model to address COVID-19 and the late renewal of the emergency aid program with lower benefits and more limited coverage, the discourse in favor of economic austerity returned in full force. This happened at a time when the pandemic was at its worst in the country due to the federal government’s disastrous management of the crisis and the delays in vaccinating the population. As a result, maintaining the spending ceiling (and the impossibility of discussing it again) continues to obstruct all attempts to increase social investment. It also serves as a justification to prevent the adoption of social policies that are fundamental to respond to the crisis in the country, such as free internet access for public school teachers and students and the expansion and reinforcement of income transfer programs.

Even though the IMF continuously reiterated its support for the spending cap, it also warned that Brazil should not be too quick to eliminate social spending, especially on health and social protection, because the pandemic and its impacts continue. This, together with Paulo Guedes’ disgruntlement with the IMF low economic growth projections for the country, led the government to invite the IMF to close its offices and leave the country in 2022, which it did in July of this year.
Austerity is not the solution. LAC is one of the regions in the world that has been hit the hardest by the COVID-19 pandemic. This is compounded by increasing inflation that the war in Ukraine has contributed to, wreaking havoc on the prices of food, fuel, and basic household services.

Now, more than ever, what the region needs is strong governmental actions that implement inclusive and comprehensive social policies for the benefit of the population with the goal of reducing inequality and, with it, poverty and indigence. The social gaps have widened once again. A highly privileged minority of the richest 10% captures 77% of the total wealth of all households, while the poorest 50% barely have 1% of wealth. In a predictable scenario of a slowdown in growth, rising prices of basic necessities, and austerity measures that restrict public spending, the ground for social uprisings is more than fertile.

The main appeal is to the governments of the region: they must halt all attempts to dismantle social programs, transfers to vulnerable homes, or job protection measures, especially the ones for women, girls, or the elderly. Governments should adopt budgetary amendments in 2022 to reverse all regressive trends in this area. They should also do the same for the budgets of the different countries of the region for the 2023 fiscal year.

The IMF exerts undeniable influence on the economic agenda of LAC governments through its lines of credit, supervisory frameworks, publications, and the technical assistance it offers countries. Many experts have documented the role of the IMF in deepening austerity in post-crisis contexts in LAC in the past. The question is what role does the IMF want to play in this new COVID-19 context 19, and to what extent will its contributions revive a new wave of austerity in LAC?

The IMF should stop recommending austerity measures and should include flexibility clauses in its lending programs to give countries room to enact the policies that are needed to reduce inequality. This means, then, that the IMF would have to be less strict in relation to deficit and inflation targets.

The IMF should also revoke austerity conditionalities from the agreements it signed with fourteen countries in the region during the two years of the pandemic. Now is not the time to apply fiscal consolidation measures that obstruct the expansion of public services that guarantee human rights and reduce inequality. These conditionalities are more evident in the extended fund facility arrangements of countries such as Argentina, Ecuador, and Costa Rica. Austerity advice is also present in the medium-term fiscal horizon of countries such as Colombia or Peru, which have flexible credit lines arrangements with the Fund. Moreover, the IMF influences other countries of the region through, for example, its surveillance activity through the Article IV consultations.

Oxfam also calls for the reallocation of at least USD 100 billion in SDRs163. It is disappointing to see how rich countries failed to channel 20% of their SDRs to developing countries, and reallocation should not be delayed any longer. However, this does not mean that a new issuance is not necessary. Many countries allocated part or all of their SDRs to social spending. Thus, a new issuance is now needed to avoid a disaster, once again, and significantly reduce inequality.

Time for tax reforms that tax wealth. The governments of the region have another historical responsibility of utmost importance in relation to income redistribution: make the richest – especially the billionaires in the region that profited during the pandemic – the ones who pay for the comprehensive fiscal reform that the region needs. This briefing has demonstrated the enormous revenue-raising potential of applying a 2% tax on assets worth more than USD 5 million; 3% on assets of over USD 50 million, and 5% on a net wealth of more than USD 1 billion in eleven LAC countries. Examples abound, but we have limited ourselves to pointing out how beneficial this measure would be for countries...
such as Colombia, Argentina, and Peru.

The commendable work of deploying economic and human resources to serve the population in different countries has illustrated the enormous potential, management capacity, and resilience of the region, and proved that it is possible to expand rights and protect those most in need. It is now time to move on from a temporary and exceptional moment in that laudable effort to lay the foundations for an effective social contract that will eliminate the structural inequalities in the region once and for all.
NOTES:


2 Incomes are measured after pension and unemployment contributions and benefits paid and received by individuals but before income taxes and other transfers. See Wid.world (2021), World Inequality Report 2022, Summary (p. 11). https://bit.ly/WidWorld2022

3 Calculations performed by Oxfam based on data from Forbes (March 2022), used for the Profiting from Pain media briefing (May 23, 2022) and updated for this report in September 2022: https://www.oxfam.org/en/research/profiting-pain

4 ECLAC (2022), Repercussions in Latin America and the Caribbean of the war in Ukraine: how should the region face this new crisis? (p.10). https://bit.ly/ECLAC_War_Ukr


7 Calculated using the value of Special Drawing Rights (SDR) in U.S. dollars (USD). As of July 1, 2022, SDR 1 equals USD 1.329890. Data on SDR valuation can be consulted directly at: https://www.imf.org/external/np/fi/sdr.aspx

8 Current price estimates of GDP until April 2022 in billions of USD: for these three countries, the total amounts to USD 166.526 billion (Panama USD 70.492 billion, Costa Rica USD 65.314 billion, and El Salvador USD 30.720 billion).

9 Peters H. (2016). Fin del ciclo: el neo-extractivismo en Suramérica frente a la caída de los precios de las materias primas. Un análisis desde una perspectiva de la teoría rentista (p. 23). En H. Burchardt, R. Domínguez, C. Larrea y S. Peters, Nada dura para siempre: perspectivas del Neoextractivismo tras el boom de las materias primas (pp. 21-53). Quito: Ediciones Abya-Yala. https://www.academia.edu/42382127/Fin_del_ciclo_el_neo_extractivismo_en_Suram%C3%A9rica_frente_a_la_ca%C3%A1da_de_los_precios_de_las_materias_primas_un_an%C3%A1lisis_desde_una_perspectiva_de_la_teor%C3%ADa_rentista_V%C3%A9ase_tamb%C3%ADn_WID.world_(2021,_p._5):_foreword. https://bit.ly/3lsjseM

10 ECLAC (2022), Population living in extreme poverty and poverty by geographical area, 2001-2020. These figures refer to the percentage of the total population whose average per capita income is below the extreme poverty and poverty line.

11 Ibid. In 2014, the percentage of the population whose average per capital income was below the extreme poverty line was 7.8%, which increased to 11.4% by 2019. Online version available from https://bit.ly/3Pbf4DS

12 Ibid. Gini coefficient, 2000-2020. The Gini is an index whose values range from 0 to 1, where zero corresponds to perfect equality and one to perfect inequality. It stood at around 0.464 during the 2015-2019 period. Economic Commission for Latin America and the Caribbean (ECLAC) / Based on the countries’ household surveys. Banco de Datos de Encuestas de Hogares (BADEHOG, or Database of Household Surveys). https://bit.ly/3KS8y16

13 UNDP (2020), Índice de Desigualdad de Género (IGI). Online version available from https://www.undp.org/es/costa-rica/publicaciones/indice-de-desigualdad-de-genero-igd-d. In 2017, it was 0.389; in 2018, 0.383, and in 2019, it went back up to 0.389. The closer to one, the better the result. Also see the technical note available from https://hdr.undp.org/sites/default/files/hdr2020_technical_notes.pdf.

14 To find the most recent precedent, one has to go back to 1982, at the height of the debt crisis in the region, when GDP contracted by 2.8%. See (IMF, 2022), World Economic Outlook database, April 2022.

15 IMF (2022), Regional Economic Outlook for the Western Hemisphere, April 2022.

16 FMI (2022), World Economic Outlook, april 2022.

17 Ibid.

18 Ibid. Also see: External debt, total debt service as a percentage of GDP 2019 and 2020. World Economic Outlook database, April 2022.


20 21 Cepalstat, Tax revenues by type of taxes as a percentage of GDP (Latin America and the Caribbean). Latest update: October 12, 2021. At year-end 2020, total tax revenues (including social security contributions) stood at 20.47% of the GDP, down 0.55 percentage points from 2019. This figure is slightly higher than 2017 levels, when it stood at 20.26% of GDP.


25 Ibid. (p. 73).


30 BBC News Mundo (October 14, 2019). Crisis en Ecuador: el gobierno de Lenín Moreno deroga el decreto que eliminaba el subsidio a los combustibles y se anuncia el fin de las protestas. https://bbc.in/30y0D0v


32 Ibid.

33 The upward trend in social spending was not only due to stagnation or the decline in economic activity, as indicated by the social spending/GDP ratio. It also occurred in absolute terms, in local currencies, in the large majority of countries in the region. Cepalstat’s data reveal that in at least sixteen out of eighteen countries in the region, average social spending in local currency increased by around 26.6% at the central government level. Argentina (79.6%), Dominican Republic (56.7%), Brazil (56.2%), and El Salvador (49.2%) experienced the greatest increases, in national currency, at current prices. Latest update: July 5, 2022.


35 Ibid.


39 Before signing the agreement for the flexible credit line on May 29, 2020, Chile’s most recent agreement dates to 1989 and was a standby arrangement. See IMF (n. d.), Chile: history of lending commitments as of April 30, 2022. https://bit.ly/3yO0fpQ. See also El País (September 3, 1989), Chile acuerda con el FMI un crédito de 95 millones de dólares. https://bit.ly/3wHe745

40 Oxfam International (2022), Behind the numbers: a dataset exploring key financing and fiscal policies in the IMF’s COVID-19 loans. https://bit.ly/3OEvFEG. In this publication, there are two sets of data and their respective cut-off dates are: (i) the first year: from March 23, 2020 to March 15, 2021, a period in which the IMF approved 107 loans for 85 countries; and (ii) second year: from March 16, 2021 to March 15, 2022, period in which the IMF approved another 23 loans for 22 countries.


43 Calculation based of the value of the special drawing rights (SDR) in US dollars (USD). As of July 1, 2022, SDR 1 is equal to USD 1.329890. To consult SDR valuation directly, see: https://www.imf.org/external/pr/fin/data/rms_sdrv.aspx.


46 IMF (April 2022): On April 29, 2022, the IMF approved a new Flexible Credit Line arrangement for Colombia, for the amount of SDR 7,155 billion (USD 9.8 billion). The new arrangement replaced the previous one for SDR 12,267 billion, agreed on in May 2020, under which the country opted for disbursements of SDR 3.750 billion. https://www.imf.org/en/News/Articles/2022/04/29/pr22135-imf-executive-board-approves-two-year-us-billion-flexible-credit-arrangement-for-colombia


55 Ministerio de Hacienda y Crédito Público de Colombia (XXX), Marco Fiscal de Mediano Plazo 2021

56 IMF (April 14, 2020), IMF Executive Board Approves a US$389 Million Disbursement to El Salvador to Address the COVID-19 Pandemic. Press release N.º 20/155. https://bit.ly/3BUzdDM El Salvador has been discussing the possibility of a loan program with the IMF; but they have not gotten very far in these talks largely because of the IMF’s concerns about the bitcoin law.


60 The amount in the local currency was 9,811,300,000,000 Colombian pesos. Conversion from Colombian pesos (COP) to USD based on April 2020 exchanged rate informed on the INFOREURO website: https://bit.ly/3NgfEDj. See Presidencia de la República de Colombia, decretos y normativas, April 15, 2020: https://bit.ly/3yGslY3


70 BRL is the ISO 4217 international code for the Brazilian real.


75 Ibid. Also, ECLAC has created a Social Development and COVID-19 in Latin America and the Caribbean website (https://dds.cepal.org/observatorio/socialcovid19/en), as well as the COVID-19 Observatory in Latin America and the Caribbean website (https://www.cepal.org/en/subtopics/covid-19), which are the source of most data presented in this section.

76 Ibid.


81 IMF (April 2022), Fiscal policy from pandemic to war. Fiscal Monitor, Executive Summary (p. 4). https://bit.ly/3C1gQ8


84 Ministerio de Hacienda y Crédito Público de Colombia, Marco Fiscal de Mediano Plazo 2021 (p. 248).


89 https://www.minhacienda.gov.co/webcenter/ShowProperty?nodeId=%2FConexionContent%2FWCC_CLUSTER-167757%2F%2FidcPrimaryFile&revision=latestreleased

90 COP is the ISO 4217 international code for the Colombian peso.

91 Conversion based on a representative average market rate for 2020 of 1 USD = COP 3693.


93 The IMF’s statement about the mission is available from: https://bit.ly/3ChuPJY


96 https://www.eltiempo.com/politica/gobierno/vacunacion-balance-a-los-10-meses-de-iniciada-639176


100 In El Salvador, public spending plays a central role in both the pursuit of economic policy in response to the cyclical dynamic and the development of sectoral and social policies. However, it should be efficient and focused on fundamental problems.

101 The average increase in current expenditures between 2009 and 2019 was 4.4%; in 2020, it increased to 18.5% or $1.064 billion (BCR, 2021).


104 https://datosmacro.expansion.com/otros/coronavirus/el-salvador


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108 Ibid.

109 ICFI (2017), Implicaciones del aumento de la tasa del IVA/ISV sobre la pobreza, la igualdad y el bienestar: una microsimulación para Guatemala, El Salvador y Honduras.

110 FMI (2019), Ecuador: Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Ecuador.


113 Global Burden of Disease Health Financing Collaborator Network


115 Ibid.


117 Grupo FARO y Fundación ARU (2021), Post-Covid-19 Socioeconomic recovery policies and South-South Cooperation Opportunities in the Andean region (documento en proceso).

118 FMI (2020), Ecuador: Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; Staff Supplement; and Statement by the Executive Director for Ecuador.


120 FMI (2020b), First review under the extended arrangement under the extended fund facility and request for modification of quantitative performance criteria— Press release; Staff report; and Statement by the executive director for Ecuador.

121 Ibid.


123 BCE (2021), Evaluación impacto macroeconómico del covid-19 en la economía ecuatoriana. Quito.

124 Ibid.


127 Ibid.

128 MEF (September 31, 2021a), Directorio del FMI aprueba acuerdo técnico con Ecuador y desembolsará USD 800 millones. Quito

129 Ibid.


131 FMI (2022), Ecuador: Fourth and Fifth Reviews under the Extended Arrangement under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing of Access, and Financing Assurances Review-Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Ecuador.


133 Grupo FARO (2021a), Presupuesto General del Estado para 2022: Un vistazo a la proforma presentada por el Gobierno.


141 https://bit.ly/3iLBB0l


143 https://bit.ly/3n1097Q

144 https://bit.ly/3eUXixY

145 https://bit.ly/3n0L9GV


148 Ibid., p. 45.

149 https://bit.ly/3AokKXv


151 https://bit.ly/3FqjS8q

152 https://bit.ly/3mCqYy8


54 https://bit.ly/3ApbM3t


58 https:// glo.bo/2YxxNIF


60 https://bit.ly/3HEDiGQ


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### Annex 1. Latin America and the Caribbean (14 countries): modalities of the agreements signed during the pandemic (in millions of SDRs / April 2020 – May 2022)

<table>
<thead>
<tr>
<th>Modality</th>
<th>Details</th>
<th>Country</th>
<th>Date of the agreement</th>
<th>Agreed amount (SDRs)</th>
<th>Amount withdrawn (SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Extended Fund Facility</strong></td>
<td>Countries that, according to the IMF, have serious medium-term balance of payment problems because of structural weaknesses that take time to address. Engagement in the program and repayment periods are longer. Focus on structural adjustment, including specific conditions: centered on structural reforms to address institutional and economic weaknesses, as well as policies that maintain macroeconomic stability.</td>
<td>Argentina</td>
<td>25/3/2022</td>
<td>31,914</td>
<td>7000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ecuador</td>
<td>30/9/2020</td>
<td>4615</td>
<td>3408</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Costa Rica</td>
<td>1/3/2021</td>
<td>1237</td>
<td>413</td>
</tr>
<tr>
<td><strong>Rapid Financing Instrument</strong></td>
<td>Rapid financial assistance and access are limited to member countries facing urgent balance of payment needs, without the need to have a full-blended program in place. Can provide support for a broad range of circumstances, including crises, natural disasters, and emergencies resulting from fragility. In response to large and urgent Covid-19-related financing needs, access limits under these windows were increased. Access to financing is determined on a case-by-case basis, while taking into account the robustness of the country's macroeconomic policy, its repayment capacity, outstanding credit, and its track record.</td>
<td>El Salvador</td>
<td>14/4/2020</td>
<td>287</td>
<td>287</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ecuador</td>
<td>1/5/2020</td>
<td>470</td>
<td>470</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Guatemala</td>
<td>10/6/2020</td>
<td>429</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Costa Rica</td>
<td>25/4/2020</td>
<td>369</td>
<td>369</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dominican</td>
<td>29/4/2020</td>
<td>477</td>
<td>477</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Republic</td>
<td>29/4/2020</td>
<td>477</td>
<td>477</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nicaragua</td>
<td>20/12/2020</td>
<td>87</td>
<td>87</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Panama</td>
<td>15/5/2020</td>
<td>377</td>
<td>377</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Paraguay</td>
<td>21/5/2021</td>
<td>201</td>
<td>-</td>
</tr>
<tr>
<td><strong>Rapid Credit Facility</strong></td>
<td>Offers rapid concessional financial assistance to low-income countries facing an urgent balance of payment need. Fund support under the RCF is provided with no ex post program-based conditionality or reviews, although prior actions are sometimes applied. Zero interest rate, a grace period of 5 years, and a final maturity of 10 years.</td>
<td>Haiti</td>
<td>17/4/2020</td>
<td>82</td>
<td>82</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nicaragua</td>
<td>20/11/2020</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td><strong>Flexible Credit Line (FCL)</strong></td>
<td>Crisis-prevention and crisis- mitigation lending for countries with very strong policy frameworks and track records, such as sound public finances, including a sustainable public debt position. Advantages: flexibility to respond to countries’ needs: credit line available at any time, large and up-front access to IMF resources with no ongoing conditions; there is no cap on access to IMF resources.</td>
<td>Colombia</td>
<td>29/4/2022</td>
<td>7156</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Colombia</td>
<td>1/5/2020</td>
<td>12,267</td>
<td>3750</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chile</td>
<td>29/5/2020</td>
<td>17,443</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mexico</td>
<td>19/11/2021</td>
<td>35,651</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Peru</td>
<td>27/5/2022</td>
<td>4004</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Peru</td>
<td>28/5/2020</td>
<td>8007</td>
<td>-</td>
</tr>
<tr>
<td><strong>Short-term Liquidity Line</strong></td>
<td>Designed to be a liquidity backstop for members with very strong policy frameworks and fundamentals, who face potential, moderate, short-term liquidity needs because of external shocks that generate balance of payment difficulties. Maximum period: twelve months.</td>
<td>Chile</td>
<td>20/5/2022</td>
<td>2529</td>
<td>-</td>
</tr>
<tr>
<td><strong>Precautionary and Liquidity Line</strong></td>
<td>Financial assistance provided under the same conditions as the rapid financing instruments. Flexibility meets the liquidity needs of countries with sound economic fundamentals but with some vulnerabilities that preclude them from using the Flexible Credit Line.</td>
<td>Panama</td>
<td>19/1/2021</td>
<td>1884</td>
<td>-</td>
</tr>
</tbody>
</table>

| Total                        |                                                                       |           | 129,529               | 16,763                |

<table>
<thead>
<tr>
<th>Country</th>
<th>Details</th>
<th>Agreement date</th>
<th>End date</th>
<th>Agreed amount</th>
<th>Amount withdrawn</th>
<th>Outstanding amount</th>
<th>Amount in US$ millions</th>
<th>Links</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Extended Fund Facility</td>
<td>3/21/20</td>
<td>9/24/24</td>
<td>31,954,000</td>
<td>7,693,000</td>
<td>24,261,000</td>
<td>44,000</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Ext">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Ext</a> Fund Facility)</td>
</tr>
<tr>
<td>Colombia</td>
<td>Flexible Credit Line (FC)</td>
<td>4/29/20</td>
<td>4/29/20</td>
<td>7,335,700</td>
<td></td>
<td>7,335,700</td>
<td>8,800</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC</a> Line)</td>
</tr>
<tr>
<td>Colombia</td>
<td>Flexible Credit Line (FC)</td>
<td>5/1/20</td>
<td>4/28/22</td>
<td>12,267,000</td>
<td>3,755,000</td>
<td>8,512,000</td>
<td>10,000</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC</a> Line)</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Extended Fund Facility</td>
<td>3/30/20</td>
<td>11/27/22</td>
<td>4,615,000</td>
<td>3,408,000</td>
<td>1,207,000</td>
<td>5,040</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Ext">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Ext</a> Fund Facility)</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Extended Fund Facility</td>
<td>3/5/21</td>
<td>7/30/24</td>
<td>1,397,400</td>
<td>422,570</td>
<td>974,830</td>
<td>1,778</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Ext">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Ext</a> Fund Facility)</td>
</tr>
<tr>
<td>Chile</td>
<td>Short-term Liquidity Line</td>
<td>5/20/22</td>
<td>5/18/23</td>
<td>2,529,000</td>
<td></td>
<td>2,529,000</td>
<td>5,560</td>
<td><a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/SLF">Source</a></td>
</tr>
<tr>
<td>Chile</td>
<td>Flexible Credit Line (FC)</td>
<td>1/29/20</td>
<td>5/28/22</td>
<td>17,443,000</td>
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<td>17,443,000</td>
<td>23,930</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC</a> Line)</td>
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<tr>
<td>Haiti</td>
<td>Rapid Credit Facility</td>
<td>4/1/20</td>
<td>4/21/20</td>
<td>81,300</td>
<td>81,300</td>
<td>81,300</td>
<td>112</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Rapid">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Rapid</a> Credit Facility)</td>
</tr>
<tr>
<td>Panama</td>
<td>Precautionary and Liquidity Line</td>
<td>1/5/21</td>
<td>1/18/21</td>
<td>1,884,000</td>
<td></td>
<td>1,884,000</td>
<td>2,780</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Precautionary">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Precautionary</a> and Liquidity Line)</td>
</tr>
<tr>
<td>Panama</td>
<td>Rapid Financing Instrument</td>
<td>4/15/20</td>
<td>5/15/20</td>
<td>376,800</td>
<td>376,800</td>
<td>376,800</td>
<td>515</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Rapid">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/Rapid</a> Financing)</td>
</tr>
<tr>
<td>Peru</td>
<td>Flexible Credit Line (FC)</td>
<td>3/20/20</td>
<td>3/26/24</td>
<td>4,280,000</td>
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<td>4,280,000</td>
<td>5,680</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC</a> Line)</td>
</tr>
<tr>
<td>Peru</td>
<td>Flexible Credit Line (FC)</td>
<td>1/26/20</td>
<td>1/27/22</td>
<td>8,687,002</td>
<td></td>
<td>8,687,002</td>
<td>11,060</td>
<td>[Source](<a href="https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC">https://www.imf.org/en/Topics/Region/Latin-America-and-West-Indies/FC</a> Line)</td>
</tr>
</tbody>
</table>

Subtotal: 129,538,000 in 14,762,870 in 173,276 in
