

## Brief introductions to sessions and questions for guidance

<b>Day one, 19 May 2009</b>	
<b>Opening session</b>	
<b>First session</b>	<b>Fiscal policy in times of crisis: the challenge of countercyclical policies in Europe and Latin America and the Caribbean</b>
Brief introduction	<p>In 2009, the countries of Latin America and the Caribbean will be facing the global consequences of the current financial crisis. These will be reflected mainly in: (i) falls in external demand and export prices; (ii) difficulties with access to resources from the international financial system; (iii) pressure from capital outflows; and (iv) high levels of uncertainty, both internal and external.</p> <p>Consequently, the countries of the region will experience: (i) pressure on their balance of payments resulting from possible capital outflows and projected current account deficits; (ii) falling levels of internal activity owing to lower export demand, suspension or postponement of associated investment projects, and reductions in investment oriented towards the internal market because of the impact of uncertainty; and (iii) lower internal demand (public and private) caused by losses in real disposable income which, in many cases, will be due to worsening terms of trade.</p> <p>While the countries of the European Union are also facing an external environment which is not very conducive to growth, the impact of the present crisis in those countries differs considerably from that in Latin America and the Caribbean? First, the situation there is worsened by the fact that many European countries are facing banking or financial crises of their own, caused by factors similar to those in the United States, and some of their banking systems are significantly exposed to risks from the high levels of indebtedness of some members of the Union, including the relatively less developed ones. Second, a moderating or aggravating factor depending on each country's inflation status and adjustment needs, the operation of a single currency under the authority of the European Central Bank will impose difficult challenges for the different countries' fiscal policies. One factor which will tend to moderate the trend towards capital outflows is that the European Union countries generally enjoy lower risk perceptions in comparison with those of Latin America and the Caribbean.</p> <p>In principle, these effects may be partly moderated if the countries are in a position to implement countercyclical fiscal measures. The countries' response capacity will depend on their status in four critical areas: (i) the availability of fiscal resources (or the sustainability of public finances); (ii) inflation under control, so that monetary policy can support fiscal policy; (iii) an existing balance-of-payments situation which is in relative equilibrium, with moderate financial demands in the short and medium terms; and (iv) a well-capitalized financial system which has sufficient provisions to deal with the looming situation of increased risk.</p>
Questions for guidance	<ul style="list-style-type: none"> <li>• What fiscal resources are available to implement countercyclical policies? Will potential increases in indebtedness allow public finances to remain sustainable? Are there major inflexibilities which will prevent emphasis being placed on policies to compensate for the social impacts of the crisis?</li> <li>• What challenges in coordination, both within and between the countries, will be facing a countercyclical fiscal policy?</li> <li>• Does the external balance situation, in terms of international reserves, access to external financing and levels of indebtedness, permit a sustainable increase in the deficit?</li> <li>• How important are the “automatic stabilizers” (sensitivity of receipts to changing levels of economic activity, employment insurance and other social protection networks)?</li> <li>• Can spending be increased, or is it preferable to (temporarily) reduce taxes?</li> </ul>
<b>Second session</b>	<b>Financing anti-crisis policies</b>
Brief introduction	<p>At times of crisis, fiscal revenue fall significantly as a result of reduced economic activity and, in the case of Latin America, falling commodity prices. At the same time, there are increases in calls on public finances to fund spending programmes and social protection measures to alleviate the impact of the crisis among lower-income groups. This results in a</p>

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	<p>potential gap between fiscal revenue and public spending.</p> <p>The financial crisis also brings about a fall in the supply of international financing. Lending to emerging markets fell considerably between 2007 and 2008 and an even greater drop is projected for 2009. In the short term, international bodies such as the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) can help to bridge that gap, but major changes are needed in their modus operandi if they are to include the countries excluded from the recently-announced low-conditionality programmes. In the long term, current taxation systems need to be restructured and strengthened. .</p>
Questions for guidance	<ul style="list-style-type: none"> <li>• How should fiscal-revenue policies respond to the crisis? Have recent tax reforms made taxation structures better able to deal with the crisis? Causes and level of vulnerability to the structural crisis of fiscal revenue.</li> <li>• Is the internal capital market a viable alternative for funding possible increases in the deficit?</li> <li>• IMF has recently adopted low-conditionality external support programmes, but only a few countries are eligible. What forms of support could be offered to the remaining countries? Could the Brady experience of sovereign bonds guaranteed by the Treasury or another government agency of global significance, such as mechanisms to tackle the uncertainties affecting international capital markets? How significant is the proposal to increase Special Drawing Rights as a form of financing?</li> </ul>
<b>End of day one</b>	

<b>Day two: 20 May 2009</b>	
<b>Third session</b>	<b>Public spending and the crisis: the role of fiscal stimulus</b>
Brief introduction	<p>At times of crisis, fiscal policy needs to make available increased fiscal resources and refocus instruments of intervention in order to maximize the efficiency of policies.</p> <p>The first measure is to assess, with the same priority-driven logic, current programmes involving spending, subsidies and exemptions, considering them as different ways of using public funds. There are usually mechanisms which do not distinguish according to the income level of the beneficiary and which have regressive effects, such as blanket tax exemptions for housing construction with no limit on their value, implicit subsidies on food and fuel through prices which are artificially held down, but the resulting losses are absorbed by the State. Although it involves political difficulties, the authorities should review such programmes and adopt, subject to the limitations of available institutional resources, more efficient and less regressive ways of achieving their original objectives.</p> <p>Second, while avoiding to the extent possible any falls in the level and rate of growth of programmes designed to remove factors of poverty and inequity in the long term (for example, in education, housing support policies and pension system reforms), dealing with the crisis requires prioritizing programmes in relation to the most immediate determining factors in living conditions, such as support for employment, unemployment benefits, targeted subsidies on food, energy, water and transport, emergency health care and medicines, school meals and transfers to poor families.</p> <p>Third, to promote the greatest impact in terms of “value for money”, the countries should attempt, to the extent possible, to use instruments involving less screening and programmes focused on those people who are most likely to make the most effective use of the resources they receive. Experience shows that tax cuts and untargeted income transfers have a high level of screening towards saving, to the extent that they are perceived as temporary measures, so their impact on consumption and levels of activity are low. In contrast, transfers to those who have lost their source of income or whose access to credit is low (such as the unemployed, pensioners in the lowest income groups small and micro-entrepreneurs) have a direct impact on the levels of spending of such people.</p> <p>Of course, the operation of targeted programmes tends to be more demanding in terms of institutional capacities, and in times of crisis governments may have recourse to other types of instruments which can be implemented rapidly.</p> <p>Lastly, at the level of public investment there are problems similar to those described in the area of current spending. In the past, the scarcity of fiscal resources in times of crisis was reflected in sharp drops in public investment, which in the long term led to reduced growth. Only a few countries in Latin America show significant fiscal surpluses; thus, it can be expected that investment will also be subject to restrictions resulting from the needs of current spending in order to deal with the emergency caused by the social impact of the</p>

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Questions for guidance	crisis. <ul style="list-style-type: none"><li>• How to ensure that the fiscal response does not lead to a regressive bias in terms of income distribution?</li><li>• What type of instruments should be chosen? Targeting, or incentives and blanket spending increases? How long should such changes last in terms of public incentives?</li><li>• How can countries ensure that policy measures reach the informal sectors which are often outside social protection systems?</li><li>• How can sustained falls in public investment be avoided, and what type of projects should be preferred?</li></ul>
<b>Fourth session</b>	<b>Round table: Closing remarks</b>