

## APPENDIX D

# Details on Fiscal Rules in Latin America and the Caribbean

The following table, provides additional details on the flexibility features of the fiscal rules described in Table 5.2.

**TABLE D.1** ► **Fiscal Rules in Latin America and the Caribbean: Flexibility Highlights**

Country	Main highlights
<b>Argentina</b>	<p><i>General Exclusions:</i> Expenditures from International Finance Institutions' loans; co-participation transfers; expenditures financed from non-automatic transfers</p> <p><i>Specific Exclusions:</i> (i) If SNG achieve primary surplus in previous year, exclude expenditures for new infrastructure (health, education, safety); (ii) if jurisdictions achieve primary deficit in previous year, exclude general exclusions and capital expenditures (present and future laws).</p>
<b>Bahamas</b>	<p><i>Escape clauses:</i> The Government may temporarily depart from the fiscal rules in the case of unexpected events arising from external shocks (e.g. economic downturn, national security, natural disasters).</p> <p><i>Other Highlights:</i> An independent Fiscal Council is to be established in July 2019.</p>
<b>Brazil</b>	<p><i>Exclusions:</i> ER excludes (i) Extraordinary credits used for urgent and unpredictable events (e.g. natural disasters, war, and civil unrest). (ii) Specific federal transfers and bailouts of non-financial SOEs. (iii) Protection of health and education spending is maintained.</p>
<b>Chile</b>	<p><i>Structural target:</i> Estimation of structural revenues according to GDP potential growth along with structural prices of copper and molybdenum. A Fiscal Council was established in 2013 to discuss methodological changes in estimating the rule.</p>
<b>Colombia</b>	<p><i>Structural target:</i> Structural revenue is adjusted for the economic cycle and the effects of the mining/energy activities. Structural expenditure is the level consistent with structural revenues.</p> <p><i>Escape clause:</i> If real GDP growth is 2pp lower than potential growth, the government can carry out countercyclical expenditure (not higher than 20% of the output gap).</p>
<b>Costa Rica</b>	<p><i>Exclusions:</i> ER excludes Disability, Old Age, and Death pension regime (IVM) , state-owned enterprises with a debt/asset ratio below 50%.</p> <p><i>Escape Clause:</i> Economic recession or growth forecasts below 1%.</p>
<b>Ecuador</b>	<p><i>Escape Clause:</i> In case of negative output gap (1%) for at least three consecutive quarters, rules temporarily suspended.</p>
<b>El Salvador</b>	<p>Current expenditure (wage bill and goods and services) cannot grow higher than nominal GDP growth.</p>
<b>Honduras</b>	<p><i>Escape clause:</i> In the event of a natural disaster or national emergency (economic damage equivalent to 1% of GDP) or in the event of economic downturn (two consecutive quarters of negative GDP growth), the government could escape the FR and achieve up to 2.5% of GDP deficit for maximum two years. Afterwards, deficit should be reduced (-0.5 pp of GDP each year) until converging to original FR (1% of GDP)</p>

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Country	Main highlights
<b>Jamaica</b>	<p><i>Escape clause:</i> The Fiscal Responsibility Framework states that the policy actions by the government that are temporary (because of cyclical fluctuations in economic activity, natural disasters, national emergency, or other severe occurrence) should be justified and quantified and indicate the process of reversal to the fiscal rule.</p> <p><i>Other Highlights:</i> (i) A target to reduce the ratio of wages paid by the government to 9% of GDP or less by end of the financial year ending on March 31, 2016. (ii) A disposition to limit loan value related to PPPs with a cumulative ceiling of 3% of GDP during an EFF arrangement with the IMF.</p>
<b>Mexico</b>	<p><i>Exclusions:</i> (i) The ER excludes direct investment and those outlays governed by automatic rules: pensions, subnational transfers (<i>participaciones</i>) and other items, representing about 50% of total public sector spending.</p>
<b>Panama</b>	<p><i>Exclusions:</i> The ER excludes expenses in health services, pensions, and retirements paid by the Social Security Fund and interest on public debt.</p> <p><i>Escape clause:</i> (i) In the case of emergency, government could finance up to 1.5% of GDP, associated with the emergency; or (ii) if real GDP growth reaches –2% or less in two consecutive quarters, other flexible FR targets.</p>
<b>Paraguay</b>	<p><i>Exclusions:</i> In the ER, primary public expenditure excludes debt interest payments.</p> <p><i>Escape clauses:</i> In case of economic emergency, deficit can reach up to 3% of GDP. (However, the measure of the “state of emergency/economic downturn” is not specified).</p>
<b>Peru</b>	<p><i>Exclusions in ER:</i> Infrastructure maintenance.</p> <p><i>Escape Clauses:</i> The application of expenditure and budget balance rules can be temporarily suspended in case of natural disasters or significant external shocks.<sup>1</sup> Such exceptions should be granted by law. Also, forecasts in the Multiannual Macroeconomic Framework must be updated and a proposed path of return to the fiscal limits must be included. In case of financial volatility, public debt ratio can temporarily exceed the limit. Such deviation cannot be higher than 4pp of GDP.</p>

Source: Author's elaboration based on National Legislation, Barreix and Corrales (2018), Lledó et al. (2017), and IMF (2017). Notes: BBR: Balanced budget rule; ER: Expenditure Rule; DR: Debt Rule; RR: Revenue Rule; CG (Central Government); GG (General Government); NFPS (Non-Financial Public Sector); SOEs (State-Owned Enterprises); SNG (Subnational Governments).

<sup>1</sup> For instance, in August 2017, the Congress declared a state of emergency due to El Niño, which allowed escape clauses for expenditure rule #3 during the period 2018–2019.

## References

- Barreix, A., and L. Corrales. 2018. "Reglas fiscales resilientes en América Latina y el Caribe." Inter-American Development Bank, Washington, DC. Unpublished.
- IMF (International Monetary Fund). 2017. "Fiscal Rules Dataset: 1985-2015." Available at <https://www.imf.org/external/datamapper/FiscalRules/map/map.htm>. Accessed February 2019.
- Lledó, V., S. Yoon, X. Fang, S. Mbaye, and Y. Kim. 2017. "Fiscal Rules at a Glance." Background note. International Monetary Fund, Washington, DC.

