



FORUM EUROPEAN UNION (EU), LATIN AMERICA AND THE CARIBBEAN (LAC)

Fiscal policies in times of crisis volatility, social cohesion and the political economics of the reforms

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CONCLUSIONS

On occasion of the V Summit in 2008, Heads of States and Governments of LAC and EU reiterated the importance of “fiscal policies enabling a better distribution of wealth and ensuring adequate levels of social expenditure” within the framework of sustainable development.

“Forum LAC-EU on Fiscal Policies for social cohesion and the struggle against poverty” that met in Berlin in March 12-13, 2008, confirmed that the funding of public policies, and especially of fiscal policies, is a priority issue in the bi-regional dialogue.

These guidelines are reinforced by the present global economic situation. The crisis is impacting Europe, Latin America and the Caribbean in different ways, although both regions suffer its negative impacts on economic activity and employment.

Within the framework of Forum LAC EU, authorities and experts of both regions met in Montevideo, Uruguay in May 19-20 to discuss the challenges of fiscal policy to face the crisis. The Montevideo Forum discussed the following messages that will be conveyed to the VI Summit LAC-EU to be held in Spain in 2010:

1. Facing the present crisis, governments of both regions operate in conditions of great uncertainty and under great time pressure. At the same time, there are great differences in terms of the impact of the crisis and the scope for manoeuvres in each country.
2. Despite the fact that fiscal policy is more powerful in this situation, it must be accompanied by monetary policies that ensure the normal financing of the financial system.
3. The measures announced by G-20 need to be implemented as quickly as possible to increase the financing capability of international entities and enable the largest possible number of countries access to these entities with adequate amounts and conditions.
4. There was coincidence on the importance of promoting public policies to cater for the needs of sectors most severely impacted by the crisis. Likewise, there is a need to promote the sustainability of public investments in view of the medium and long-term effects of climate change.
5. We consider that the present crisis also provides opportunities to promote structural reforms. Governments should not discard the objective of strengthening the State. This implies improving the taxation structure in order to make it more robust in times of crisis, strengthen its progressive nature and collect the means needed to fulfil public tasks, minimizing non-compliance with taxation obligations (tax elusion and evasion).
6. There was coincidence on the need to coordinate fiscal policies with monetary and exchange policies, and of guaranteeing the sustainability of the debt, regardless of the strategy adopted. Likewise, international processes and institutions have to be strengthened in order to establish rules and improve the regulation of the global financial system.

It is proposed that we continue and deepen the bi-regional dialogue on fiscal policies and social cohesion.