BEYOND STABILIZATION: EFFECTIVENESS OF MACROECONOMIC POLICIES IN THE LABOR MARKET OF LATIN AMERICA AND THE CARIBBEAN - A PANEL ARDL APPROACH

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Abstract

This study analyzes the effectiveness of fiscal and monetary policy in relation to unemployment and underemployment in Latin America and the Caribbean, both before and after the COVID-19 pandemic. Using a panel ARDL model with quarterly data from ten countries between 2003 and 2024, short- and long-term relationships are evaluated. The results show that fiscal policy, measured as public expenditure, has a negative and significant relationship with unemployment—especially in the post-pandemic period and over the long term. In contrast, monetary policy exhibits a structural shift. In the pre-pandemic period, increases in the interest rate raised unemployment. After COVID-19, this relationship reversed, possibly due to central banks' focus on inflation control. In the long run, this policy appears more effective, contradicting Keynesian theory. Regarding underemployment, policies lose effectiveness during the crisis due to the inability of the informal market to adjust. This weakening of the "traditional mechanism" reveals the structural fragility of labor market adjustment in the region. The study concludes that, to address future shocks, it is essential to adopt long-term countercyclical macroeconomic policies that prioritize formal employment, strengthen human capital, and reduce structural underemployment. Considering also, the improvement in monetary policy with the independence of the central banks.

Keywords: *Fiscal policy, Monetary policy, Unemployment, Underemployment, ARDL model, Latin America and the Caribbean, COVID-19, Macroeconomic shocks.*

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1. Introduction

As in the rest of the world, the COVID-19 pandemic inflicted considerable economic and social damage in Latin America and the Caribbean (LAC). The region experienced one of the most severe global contractions—close to 7%—leading to poverty and inequality rising to exorbitant levels (Arreaza et al., 2021). Unlike other economies, LAC was already facing unfavorable structural conditions, including low potential growth (0.3%) and growing social discontent (CEPAL, 2021b). From 2014 to 2019, the region underwent its weakest period of growth in decades, driven by the decline in commodity prices (CEPAL, 2015). This, combined with the repercussions of the pandemic, resulted in the closure of approximately 2 million small and medium-sized companies. The drastic downturn had a particularly strong impact on employment: nearly 26 million people in the region lost their jobs, and working hours fell by 16.2% in 2020 compared to 2019 (Maurizio et al., 2021). Both formal and informal employment experienced severe contractions, although the latter—representing around 60% of total workers—was the most affected, thereby weakening what the Economic Commission for Latin America and the Caribbean has identified as the region's "traditional adjustment mechanism."

In response, LAC governments implemented short-term expansionary economic policies. Fiscal policy was predominantly procyclical—8.7% of GDP lower than in developed economies—and current expenditures were largely financed through public debt (CEPAL, 2020b). On the monetary side, the initial strategy was to lower the interest rate to stimulate the economy, which encouraged private investors to seek higher returns in developing countries (Cavallo & Fernández-Arias, 2023; Ocampo, 2009).

The crisis revealed the region's structural limitations in effectively responding to external shocks. Limited fiscal capacity and the fragility of labor markets—with high levels of informality and unemployment—raise questions about the effectiveness of traditional economic policies in mitigating the impact, particularly on employment. Therefore, this study analyzes the influence of fiscal and monetary policy on unemployment and underemployment in LAC, beyond their impact on economic activity, before and after the pandemic, from both a short- and long-term perspective. This responds to the transversal influence of the labor market in all economic crises in the region.

The research is organized into seven sections. Section two presents the theoretical framework, outlining the conceptual foundations of fiscal and monetary policy and their connection to labor market dynamics. Section three analyzes the structural context of LAC in the face of external shocks, with an emphasis on the specific impact of the pandemic. Section four

describes the methodology and econometric approach, based on a panel ARDL model with an error correction mechanism (ECM), applied to ten countries in the region between 2003 and 2024. Section five presents the estimated relationships of both policies with unemployment and underemployment, distinguishing between pre- and post-pandemic periods. Section six discusses and contrasts these findings with the empirical literature. The final section provides the conclusions, summarizing the study's main contributions and reflecting on the lessons of macroeconomic policy as a mechanism in times of crisis.

2. Theoretical Framework

Economic policy (EP) is defined as the formulation of socioeconomic actions by public institutions aimed at primarily economic objectives (Lampert, 1970). With this, Macroeconomic policies, according to Cuadrado et al. (2010), aim to preserve and enhance economic well-being by managing macroeconomic variables. The main instruments are monetary policy (MP) and fiscal policy (FP). MP, implemented by central banks, seeks to stabilize inflation and output by adjusting money supply, and can affect short-term activity when prices and wages are rigid (Keynes, 1936; Mathai, 2009). FP, from a Keynesian view, stimulates aggregate consumption and GDP through government expenditure (Félix Sanz-Sanz & Labrador, 2013).

Macroeconomic policies are crucial during expansions and recessions, requiring sound planning. While their purpose is to improve economic conditions by targeting variables (Jaroslava et al., 2016), external shocks often undermine their effectiveness. These are reflected in economic policy uncertainty (EPU), which rises during recessions when policymakers lack full economic information, face implementation barriers, or encounter unpredictable agent responses (Álvarez, 2023; Udeaja et al., 2024).

However, global crises do not affect all economies equally. LAC has been especially vulnerable to shocks from price fluctuations, interest rate shifts, and trade volumes (Cavallo & Fernández-Arias, 2023; Ocampo, 2009), generating volatility in key indicators like GDP (Birdsall & Lozada, 1998). In this region, policies have often exacerbated rather than mitigated downturns due to their procyclical nature (Klemm, 2014). A clear example is the 2008 crisis where reforms and the commodity boom allowed for fiscal stability, but maintaining procyclicality post-crisis led to adverse outcomes (Celasun et al., 2015; Jemio et al., 2018).

A key characteristic of Latin American crises is that, as noted by the IMF (2019), informality plays a crucial role in labor market dynamics when these markets adjust to external shocks, as its response to GDP cycles is greater than that of formal employment. Maurizio et al. (2021)

emphasize that informality serves as the traditional adjustment mechanism in Latin American economic crises.

During COVID-19, the region's fiscal fragility exceeded that of 2008. Already facing low potential growth and rising social discontent (Jose René, 2020) , LAC countries lacked the fiscal space of developed economies, which raised public debt by 10% of GDP (Blackman et al., 2020). Still, they implemented labor policies like cash transfers and unemployment insurance to support both formal and informal workers (CEPAL & OIT, 2021).

Latin America's pandemic response involved expanded health spending, transfers, and wage subsidies, amounting to 8% of GDP—above 2008 levels (CEPAL, 2020b; IMF, 2020). These measures prevented deeper recession and added 6.5% to GDP, per IMF estimates.

Central banks also eased monetary conditions as lockdowns began. The drop-in activity reduced inflation, enabling rate cuts to stimulate the economy (CEPAL, 2020a). Over ten countries lowered interest rates and intervened in foreign exchange markets (Batini & Levy-Yeyati, 2023); Brazil, Chile, Colombia, and Peru injected liquidity through swaps and asset purchases. While monetary policy stabilized financial systems, success depended on prior economic strength (OECD, 2020).

Recent studies show that public spending in developing countries has a significantly inverse relationship with unemployment, particularly over the long term (Hammad et al., 2023). Foon & Abosedra (2023) acknowledge that policy initiatives to combat COVID-19 were critical in addressing unemployment. Deb et al. (2021) highlighted that the effect of fiscal policy also depends on the type of measure and the specific characteristics of each country.

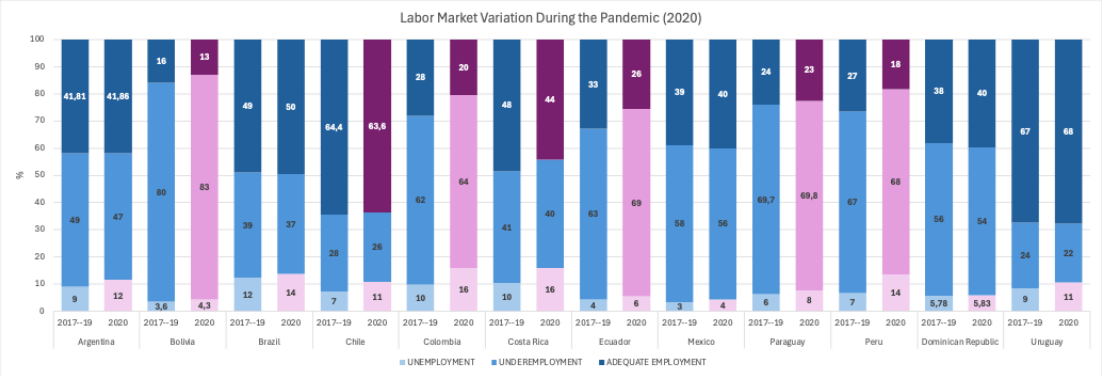
Similarly, Ball et al. (2011) link unemployment surges to demand contractions caused by tight monetary policy. Rathnayaka et al. (2024), on the other hand, found that there was a greater tendency toward low-interest rate policies during the pandemic; however, this exacerbated unemployment rates. Finally, Gomes et al. (2024) investigated the influence of monetary policy in developing countries such as Brazil, where informality is a widespread phenomenon, and found that contractionary monetary policies increase the persistence of informality and unemployment.

3. Context

A key characteristic during an economic crisis in LAC is that most countries adjust by shifting economically active individuals into higher levels of underemployment (CEPAL, 2021a). Labor

market adjustment typically occurs in three stages: first, working hours are reduced; then, if the crisis persists and further reductions in hours are no longer feasible, workers are laid off; and finally, wages are lowered for those who remain employed (Tokman, 2010). At the end, this process primarily affects underemployment, as in the second stage, unemployed individuals seek a quick way to generate income—often through informal ways.

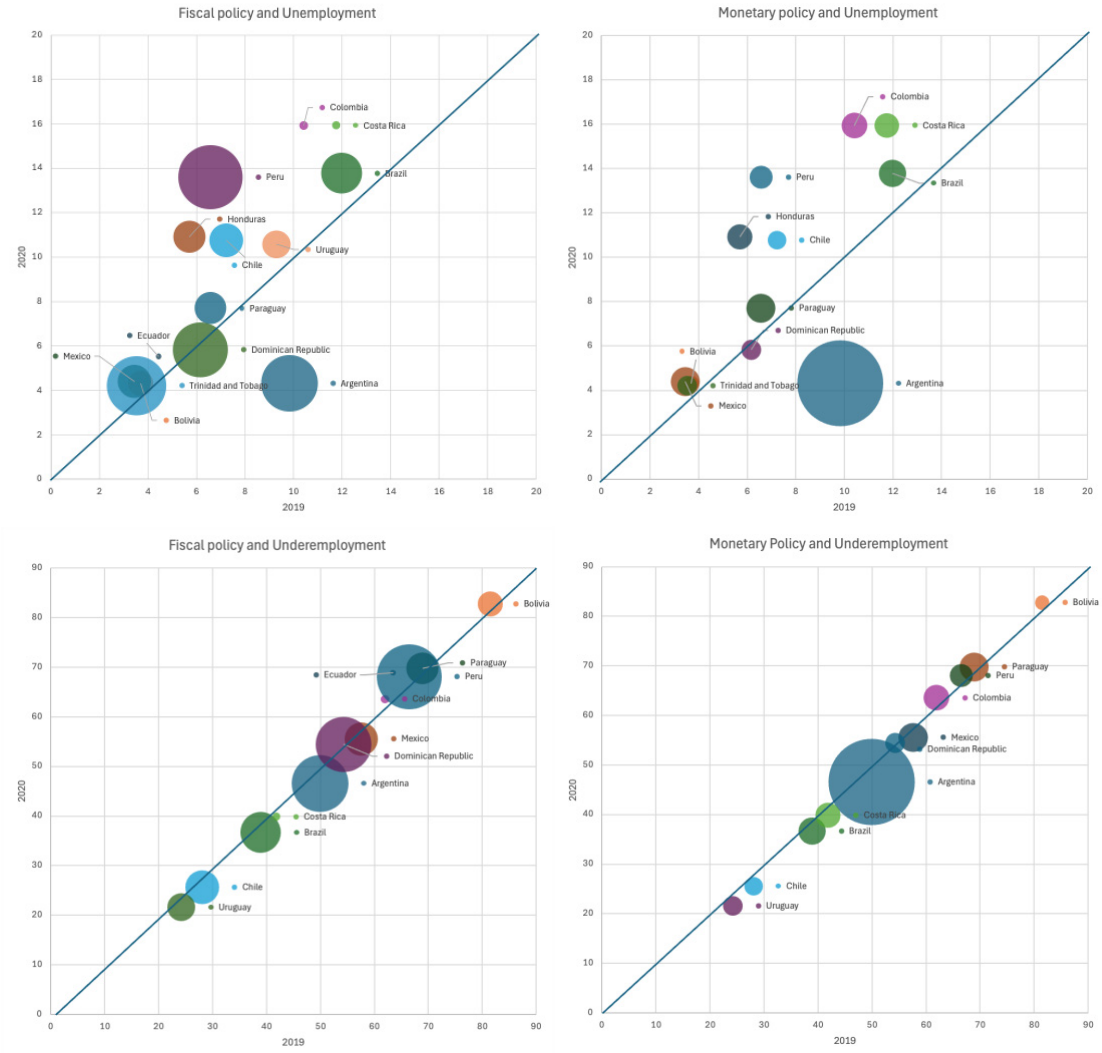
Figure 1. Labor Market Variation between the 2017–2019 average and 2020



Source: SIE. Author's own elaboration

The COVID-19 pandemic represents an atypical case. As shown in Figure 1, the average unemployment rate increased by 2.7%. This breaks the trend observed during previous crises, as in the second stage of adjustment, individuals were unable to seek informal employment due to isolation measures—reflected in the decline in underemployment by - 0.3%.

Figure 2. Fiscal Policy, Monetary Policy, and Labor Market in LAC (2019–2020)[1]



Source: IMF, SIE, CEPALSTAT. Author's own elaboration.

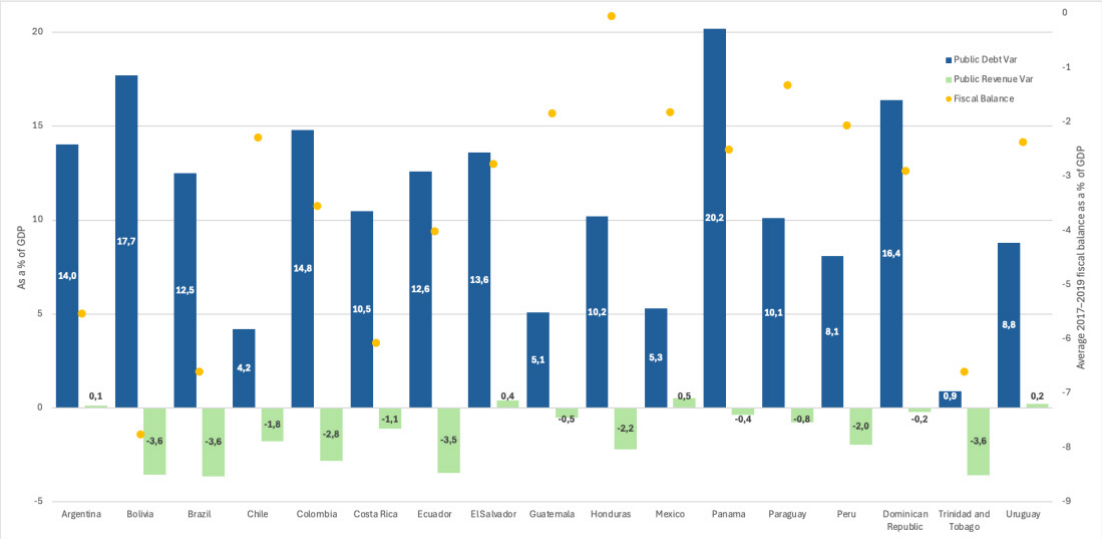
Figure 2 illustrates the point made by Hammad et al. (2023): public expenditure has a negative effect on the unemployment rate. The biggest bubbles—such as Trinidad and Tobago, Argentina, and the Dominican Republic—represent countries with the greatest increases in public expenditure and the lowest post-pandemic unemployment rates. A similar, though less evident, pattern can be observed with monetary policy. Argentina, which had the largest reduction in its monetary policy rate (MPR), achieved a 5% decrease in unemployment, in line with the Phillips

[1] The size of the bubbles represents the variation in public expenditure or the MPR. The axes correspond to unemployment or underemployment in 2019 and 2020, depending on the graph.

Curve, which suggests an inverse relationship between inflation and unemployment (Brue & Grant, 2013).

The decrease in underemployment did not reflect an improvement in labor conditions, but rather a sharp contraction in total employment, particularly in the informal sector. Many people exited the labor market, artificially lowering informality (Maurizio et al., 2021). In this context, and according to the underemployment figures, fiscal and monetary policies had limited effectiveness. The proximity of the bubbles to the line—where only 5 out of 12 countries saw a decrease in 2020—suggests lower labor force participation, which restricted the impact of these policies on the informal sector. Notable cases include Argentina, with a decrease of 3.32%, and Ecuador, which experienced an increase in its rate by 5%.

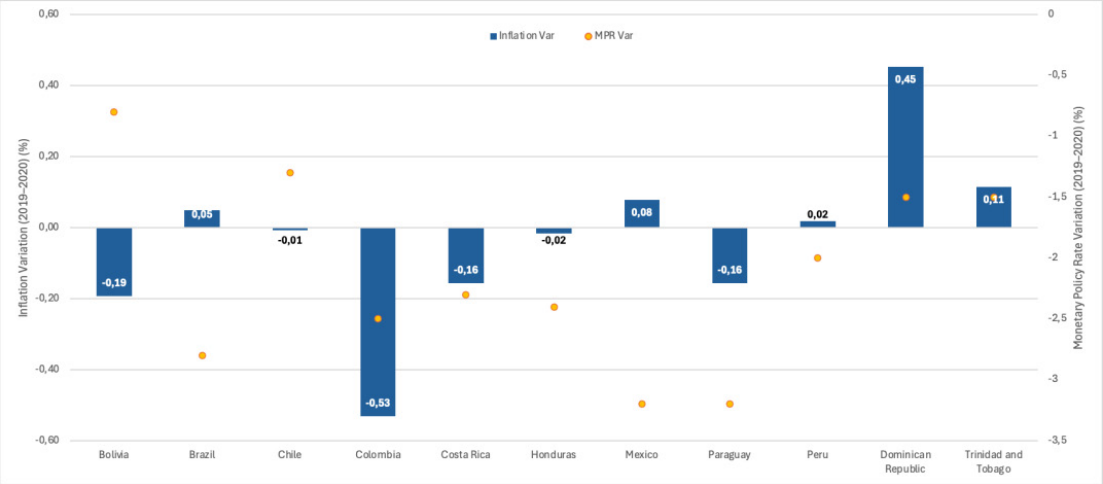
Figure 3. Public Debt and Revenue (2019–2020) and Fiscal Deficit (2017–2019) in LAC



Source: IMF. Author's own elaboration.

Figure 3 illustrates the situation faced by each country, as the pandemic caused a negative regional average variation in income in 2020. This led to an increase in public debt to finance expenditures, which is reflected in their average fiscal balance, showing a significant deficit. Panama and Bolivia stand out for recording the largest increases in debt, at 20.2% and 17.7% respectively. Likewise, Trinidad and Tobago managed to contain its debt due to a reduction in public revenue of only 0.9%.

Figure 4. Variation in Inflation and Monetary Policy Rate in LAC (2019–2020)



Source: *CEPALSTAT. Author's own elaboration.*

In response to the crisis, Figure 4 shows how most Latin American countries reduced their interest rates to stimulate the economy, with Mexico standing out for the largest reduction in 2020[2]. Colombia and Costa Rica experienced significant drops in inflation, reflecting the collapse in demand (Ahumada & Hernández, 2025). In contrast, the Dominican Republic saw an inflation increase of 0.45%, associated with the effectiveness of its monetary policy implementation.

4. Methodology

Data and Methodology

This research employs econometric regression to explore the short- and long-term relationship between fiscal and monetary policy and the labor market, which typically adjusts during economic crises (Tokman, 2010). By integrating time series with cross-sectional data, the panel data approach enables the examination of dynamic interactions and accounts for unobservable heterogeneity among units, producing more robust results (Chizema et al., 2025).

The sample consists of a panel of 10 LAC countries, selected for their representativeness as a percentage of global GDP in 2024[3] and based on data availability. The period analyzed spans

[2] Argentina was excluded due to atypical behavior, which could bias the results.

[3] Brazil (2.4%), Mexico (1.7%), Argentina (0.7%), Colombia (0.6%), Chile (0.3%), Peru (0.3%), Costa Rica (0.08%), Bolivia (0.07%), Paraguay (0.06%), Uruguay (0.06%) – Gross Domestic Product based on (PPP) as a share of total global GDP. Source: IMF.

from 2003 to 2024, with quarterly frequency. All variables are based on the prior literature review. The unemployment rate (UN_{it}) and underemployment rate (UE_{it}) were obtained from the Economic Information System (SIE) of FLAR and the International Labour Organization database (ILOSTAT). The variables used to calculate the variation in real public expenditure (PE_{it}), real GDP growth (GDP_{it}), inflation (INF_{it}), and the monetary policy rate (MPR_{it}) were sourced from the statistics of the Economic Commission for Latin America and the Caribbean (CEPALSTAT). The World Uncertainty Index (WUI_{it}) was retrieved from its official website. All real variables were adjusted according to the latest base year for each country.

Model Specification

This study follows Essi & Etuk (2022) and Chizema et al. (2025), employing the ARDL approach developed by Pesaran & Shin (1995), in which the Auto-Regressive Distributed Lag model is applied in a panel setting[4]. Four models were estimated in this study, divided into pre-pandemic (2003Q1–2019Q4) and post-pandemic (2020Q1–2024Q2) periods, both for unemployment and underemployment, to identify the effectiveness of the policies in each context.

The research models for this study are as follows[5]:

Unemployment Model (Pre- and Post-Pandemic)[6]:

$$UN_{it} = \alpha_i + \sum_{j=1}^{4} \beta_j UN_{i,t-j} + \gamma_0 PE_{it} + \gamma_1 PE_{i,t-1} + \delta_0 MPR_{it} + \delta_1 MPR_{i,t-1} + \theta_0 GDP_{it} + \theta_1 GDP_{i,t-1} + \lambda_0 INF_{it} + \lambda_1 INF_{i,t-1} + \omega_0 WUI_{it} + \omega_1 WUI_{i,t-1} + \varepsilon_{it}$$

Underemployment Model (Pre- and Post-Pandemic):

$$UE_{it} = \alpha_i + \sum_{j=1}^{4} \beta_j UE_{i,t-j} + \gamma_0 PE_{it} + \gamma_1 PE_{i,t-1} + \delta_0 MPR_{it} + \delta_1 MPR_{i,t-1} + \theta_0 GDP_{it} + \theta_1 GDP_{i,t-1} + \lambda_0 INF_{it} + \lambda_1 INF_{i,t-1} + \omega_0 WUI_{it} + \omega_1 WUI_{i,t-1} + \varepsilon_{it}$$

$$i = 1, \dots, 10 \ \ (country) \quad t = 2003Q1, \dots, 2024Q2 \ \ (quarter)$$

[4] The validity of the panel ARDL approach is confirmed by meeting key requirements: the variables are integrated of order I(0) and I(1), but not I(2), and cointegration is present, as evidenced by negative ECM coefficients. This allows interpretations of long-term relationships.

[5] Observations with missing data in the model variables were excluded to avoid bias. The filtering was applied consistently across the four subsamples.

[6] The selection of lags was based on the AIC and BIC criteria, determining an ARDL (4,1) structure for all pre-pandemic models, which ensures a balance between goodness of fit and parsimony.

The dependent variables UN_{it} and UE_{it} represent the unemployment rate and underemployment rate (quarterly %) for country i at time t, respectively. These variables are explained by PE_{it} and MPR_{it}, which correspond to the variation in real public expenditure and the monetary policy rate (quarterly %) for country i at time t, respectively. The control variables are GDP_{it}, representing the variation in real per capita GDP; INF_{it}, the inflation rate (quarterly %); and the World Uncertainty Index, WUI_{it}, all for country i at time t. Finally, α_i represents country fixed effects, which capture unobserved heterogeneity, and ε_{it} is the idiosyncratic error term.

Error Correction Representation (ECM)

In the case of a long-term relationship, ARDL models can be rewritten as an error correction representation (ECM) in the following form:

$$\Delta y_t = \phi(y_{it-1} - \beta_{1t}X) + \sum_{j=1}^{p-1} \lambda_{it}\, \Delta y_{it-j} + \sum_{j=0}^{q-1} \beta_{it}\, \Delta X_{it-j} + \alpha_i + \varepsilon_{it}$$

Where y represents the dependent variables and X the independent variables. Applying this transformation to the specific variables for the unemployment model (and analogously for the underemployment model)[7]:

$$\begin{aligned}\Delta UN_{it} = \alpha_i + \phi(&UN_{it-1} - \theta_1 PE_{it-1} - \theta_2 MPR_{it-1} - \theta_3 GDP_{it-1} - \theta_4 INF_{it-1} \\ &- \theta_5 WUI_{it-1}) + \sum_{j=1}^{p-1} \lambda_j\, \Delta UN_{it-j} + \sum_{j=0}^{q-1} \gamma_j\, \Delta PE_{it-j} \\ &+ \sum_{j=0}^{q-1} \delta_j\, \Delta MPR_{it-j} + \sum_{j=0}^{q-1} \pi_j\, \Delta GDP_{it-j} + \sum_{j=0}^{q-1} \rho_j\, \Delta INF_{it-j} \\ &+ \sum_{j=0}^{q-1} \omega_j\, \Delta WUI_{it-j} + \alpha_i + \varepsilon_{it}\end{aligned}$$

Where ϕ represents the speed of adjustment toward equilibrium (negative for cointegration to exist), $(\theta_1, \theta_2, \dots, \theta_5)$ are the long-term coefficients, and $\gamma_{it}, \delta_{it}, \pi_{it}, \rho_{it}, \omega_{it}$ are the short-term coefficients for lag j. The expression in parentheses is the error correction term, which represents the deviation from the long-term equilibrium.

[7] Regarding the post-pandemic period, the unemployment model maintains $p = 3$, $q = 3$ for public expenditure, and $q = 2$ for the monetary policy rate. For the underemployment model, $p = 4$. In both models, the remaining explanatory variables are set at $q = 1$.

Control of Heteroskedasticity and Autocorrelation

To control for heteroskedasticity and autocorrelation, robust standard errors with clustering by entity (country) are used. Heteroskedasticity-Consistent (HC) standard errors adjust the variance-covariance matrix to correct for heteroskedasticity. Under clustering, errors are grouped by country, allowing for any pattern of correlation within each group.

5. Results

Short-Term Panel ARDL Results

Table 1. Short-Term Panel ARDL Estimates

Independent V.	Dependent V.	Pre-Pandemic	Sig.	Post-Pandemic	Sig.	Pct. Change
Fiscal Policy	Unemployment	-1,5806	***	-3,8167	***	-141,47
Monetary Policy	Unemployment	0,0647	***	-0,0644	**	-199,54
Fiscal Policy	Underemployment	2,2011	***	-0,4173		-118,96
Monetary Policy	Underemployment	-0,1353	*	0,0068		105,06

Standard errors in parentheses. *** p < 0.01, ** p < 0.05, * p < 0.1.

The results from the ARDL approach using the dynamic fixed effect (DFE) estimator are presented in Table 1. In the short term, a 10% increase in public expenditure is associated with a 0.158 percentage point reduction in the pre-pandemic unemployment rate, in the post-pandemic period, a 10% increase in fiscal policy results in a 0.382 percentage point decrease in the unemployment rate. Regarding monetary policy, prior to the pandemic, a 1 percentage point increase in the monetary policy rate (MPR) increases unemployment by 0.0647%; post-pandemic, a 1% increase in the MPR reduces unemployment by 0.0644 percentage points.

As for underemployment, fiscal policy shows that a 10% increase leads to a 0.220 percentage point rise in underemployment. In the post-pandemic period, the effect turns negative but is not statistically significant. Similarly, a 1 percentage point increase in the MPR reduces underemployment by 0.1353%, although this is only marginally significant in the pre-pandemic period; in the post-pandemic period, the effect is no longer significant.

Long-Term Panel ARDL Results

Table 2. Long-Term Panel ARDL Estimates

Independent V.	Dependent V.	Pre-Pandemic	Sig.	Post-Pandemic	Sig.	Pct. Change
Fiscal Policy	Unemployment	-9,3896		-30,395	***	-223,71
Monetary Policy	Unemployment	0,0252	***	-0,160	**	-732,94
Fiscal Policy	Underemployment	4,6376	***	0,305		-93,43
Monetary Policy	Underemployment	-0,0562		-0,006		88,97

Standard errors in parentheses. *** p < 0.01, ** p < 0.05, * p < 0.1.

In the long term, fiscal policy is not significant in the pre-pandemic period; however, in the post-pandemic period, a 10% increase in public expenditure reduces unemployment by 3.040 percentage points. Similarly, in the pre-pandemic period, a 1% increase in the monetary policy rate (MPR) raises the unemployment rate by 0.0252 percentage points; post-pandemic, a 1 percentage point increase in the rate reduces unemployment by 0.1595 percentage points, although this effect is less significant.

When analyzing the relationship with underemployment, in the pre-pandemic period, a 10% increase in public expenditure increases underemployment by 0.464 percentage points; however, in the post-pandemic period, this effect is no longer significant. In the case of monetary policy, both before and after the pandemic, the variable is not statistically significant in relation to underemployment.

Error Correction Coefficients (ECM)

For pre-pandemic unemployment, approximately 18.6% of any deviation from the long-term equilibrium is corrected in each period. In the post-pandemic period, the adjustment speed increases to about 41.6% per period. Likewise, underemployment before the pandemic adjusts more rapidly than unemployment, correcting around 60.4% of deviations each period. Finally, after the pandemic, the adjustment speed for underemployment rises dramatically to nearly 97.5% per period.

6. Discussion

A 10% increase in public expenditure shows a notable correlation with unemployment, especially in the post-pandemic period, as its coefficient becomes more negative. This is consistent with Rend Ahl (2016), who notes that a temporary increase in spending raises output and reduces

unemployment, with the expectation that this reduction will persist over time. The long-term result aligns with this view, as fiscal policy becomes significant and its coefficient increases in magnitude, indicating greater influence—consistent with Hammad et al. (2023) who confirm an inverse cointegration relationship between public expenditure and unemployment.

Moreover, the results reveal a paradigm shift in the relationship between monetary policy and unemployment after the pandemic. In the pre-pandemic period, interest rate reductions lowered unemployment, consistent with Ball et al. (2011), who associate large increases in unemployment with contractions in aggregate demand resulting from disinflationary monetary policy. However, the post-pandemic shift is due to the monetary policy rate also being used to control inflation while unemployment continued to fall, producing this inverse relationship. This reflects the primary objective of central banks in the region: inflation control, in line with the Taylor Rule (IMF, 2021; Kamin et al., 2022). These findings support the claims of Ball et al. (2011), who challenge Keynesian theory by suggesting that monetary policy can be more effective in the long run, rather than only in the short term.

Regarding underemployment, in the pre-pandemic period, policies reflect the typical behavior of an economic cycle. However, during a global crisis such as COVID-19, Urdaneta-Montiel et al. (2022) argue that economic fluctuations emerge in the short term as a result of inflationary measures. These effects reduce the long-term effectiveness of macroeconomic policies. In addition, Maurizio et al. (2021) indicate that both formal and informal employment experienced contractions, weakening what has been called “the traditional adjustment mechanism in LAC” and highlighting the inefficiency of macroeconomic policies in a variable—underemployment—that, rather than increasing, declined in the long run.

7. Conclusions and Recommendations

Conclusions

This study confirms the central role of macroeconomic policies in shaping the labor market dynamics of Latin America and the Caribbean, especially during the COVID-19 pandemic. The econometric analysis revealed that fiscal policy—through public expenditure—played a crucial role in reducing unemployment, particularly in the post-pandemic period. In both timeframes, public expenditure showed a negative and significant relationship with the unemployment rate, reinforcing the Keynesian perspective on the importance of stimulating aggregate demand during recessions.

The results for monetary policy revealed a structural shift in the post-pandemic period: before the crisis, interest rate hikes increased unemployment; afterward, this relationship reversed. This reflects the strategy of central banks to use monetary policy both as a tool for inflation control and as a mechanism to support economic recovery.

The analysis of the "traditional adjustment mechanism" in LAC exposed the limitations of these policies amid widespread informality. As shown by the empirical evidence, results revealed a weak or statistically insignificant relationship, in both the short and long term. The pandemic paralyzed informal employment due to lockdown restrictions and highlighted the fragility of this adjustment mechanism in the region.

Recommendations

Given the severe impact of the pandemic on the labor market in LAC, it is essential to articulate fiscal and monetary policies that prioritize formal employment and reduce structural underemployment. Blackman et al. (2020) acknowledge that increased public debt was crucial in developed economies thanks to fiscal space; however, in LAC, its absence deepened the recession (IMF, 2020). The region could have used the Commodity Supercycle better and established stabilization funds. Therefore, a key recommendation is to implement such strategies during periods of negative shocks to avoid excessive reliance on public debt. A key recommendation is to implement such strategies during shocks to avoid excessive reliance on debt. A strategic advice by not viewing informality as a secondary, but as a cause of a deeper recession, is to prioritize investment in human capital (education), implement unemployment insurance systems, or enhance labor market flexibility through fiscal expenditure. These policies would help ensure that in future crises, informality is no longer an uncontrollable issue, allowing resources to be allocated more efficiently (Foon & Abosedra, 2023; OECD, 2020; Tokman, 2010)

Regarding monetary policy, it is advisable to move toward greater independence of central banks in LAC to improve efficiency and strengthening their crisis response. This autonomy would allow for more focused institutional objectives, enabling short-term expansionary policies to reduce unemployment, while ensuring long-term inflation control (J. Ocampo et al., 2023). Such a strategy would provide more room for maneuver during recessions—as in the U.S. during the pandemic (Ihrig & Waller, 2024) —and help ensure that decisions are based on technical criteria, free from political pressures, increasing institutional credibility and macroeconomic stability. The most important lesson from macroeconomic policies during COVID-19 is that they must be well-planned, countercyclical, and developed with the most influential sectors—particularly unemployment and underemployment.

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