Public Finances and Pro-growth Fiscal Policy: Global Developments and Latin American Challenges

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26th Regional Seminar on Fiscal Policy
Economic Commission for Latin America and the Caribbean
January 20-21, 2014
Santiago, Chile
Overview of Presentation

• Fiscal Outlook and Challenges

• How to Address Fiscal Challenges?
Fiscal Outlook and Challenges
While the fiscal drag is waning in AE, EMEs would need to start rebuilding buffers after their accommodative fiscal policy to mitigate the impact of the global slowdown.

There is a wide variety across and within regions among EMEs in terms of fiscal vulnerabilities.
Emerging external risks that could expose fiscal vulnerabilities in EMEs, particularly in LATAM include:

- Lower demand/price for commodities
- US monetary policy (tapering)
- Growth slow down in China
Some EMEs are indeed particularly vulnerable to interest rate and growth shocks

Impact of a 4 percentage-point Combined Low Growth and Interest Rate Shock on Debt in 2018, Unchanged Policy  
(Percent of GDP)

Baseline (Latin America)
Baseline (non Latin America)

In addition to short-term vulnerabilities, EMEs also face additional long-term spending pressures, including in health and pension.

Relatively high income inequality is also adding to pressure for reforms, particularly in the most unequal regions.

Source: IMF (2014)
How to Address Fiscal Challenges?
Focus on revenue mobilization where there is scope to tax better in view of the spending pressures…
…and tax more fairly in view of the relatively high income inequality.

Ratio of Direct to Indirect Tax Revenue

- Advanced economies
- Emerging market economies
- Latin America

Emerging Market Economies: Ratio of Direct to Indirect Tax Revenue, 2010

Progressive

Malaysia
Kazakhstan
South Africa
Egypt
Indonesia
Philippines
Kenya
Thailand
Russia
Morocco
India
Peru
Pakistan
Latvia
Chile
Ukraine
Hungary
Lithuania
Romania
Poland
Colombia
Mexico
Turkey
Brazil
China
Jordan
Bulgaria
Argentina

Regressive
While there is a considerable heterogeneity across EMEs, capital spending has usually been cut during fiscal consolidation but not increased during fiscal expansion.

Selected Emerging Market Economies: Change in Expenditure Items, 2009-13

(Percent of potential GDP)
Expenditure also need to be prioritized to enhance its growth impact, reduce inefficiencies, and improve equity.

- Address the infrastructure gap to support growth
- Consolidate social assistance programs and improve targeting
- Improve access to education and health services
Thank you!