

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

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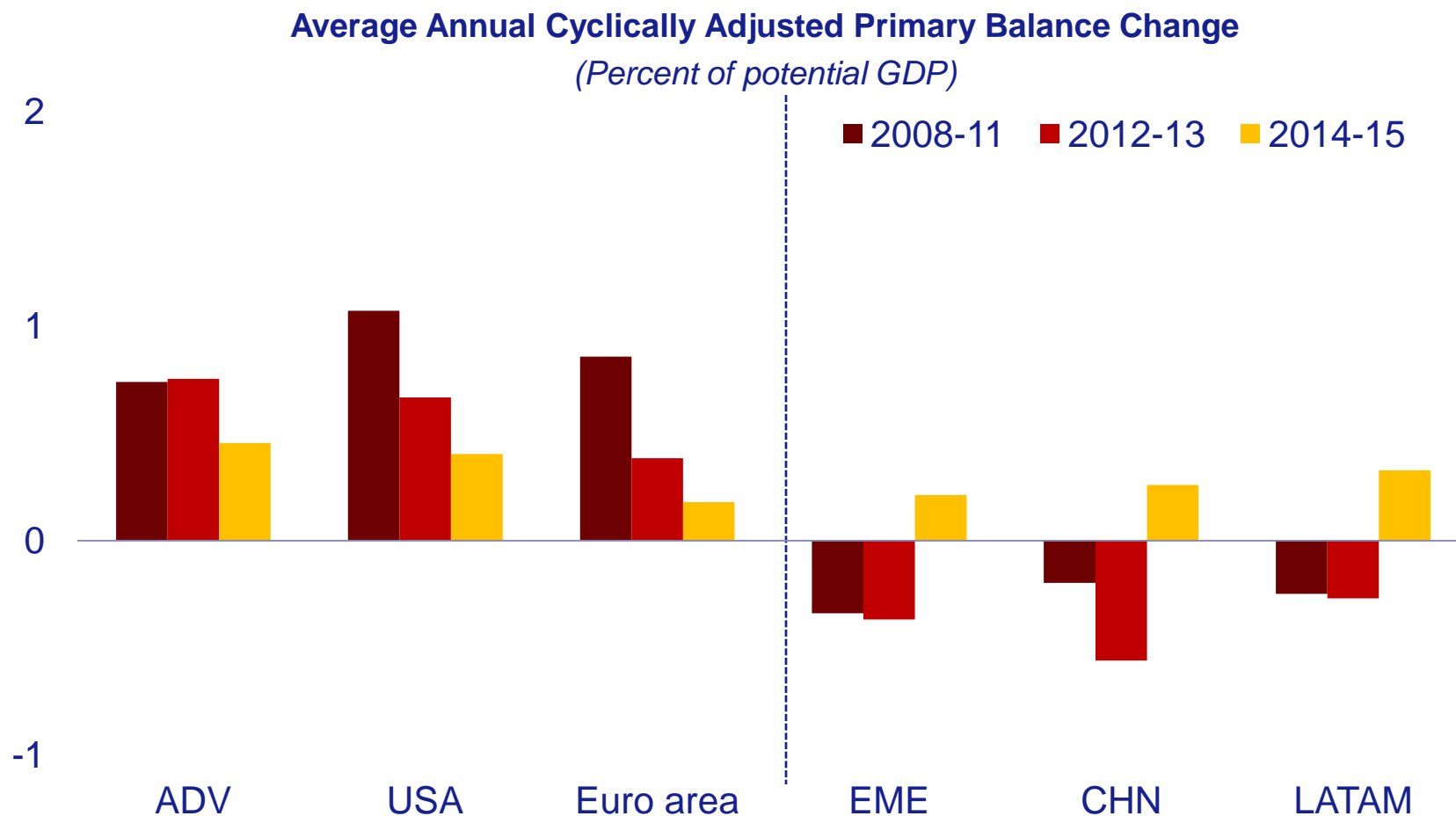
Overview of Presentation



- **Fiscal Outlook and Challenges**
- **How to Address Fiscal Challenges?**

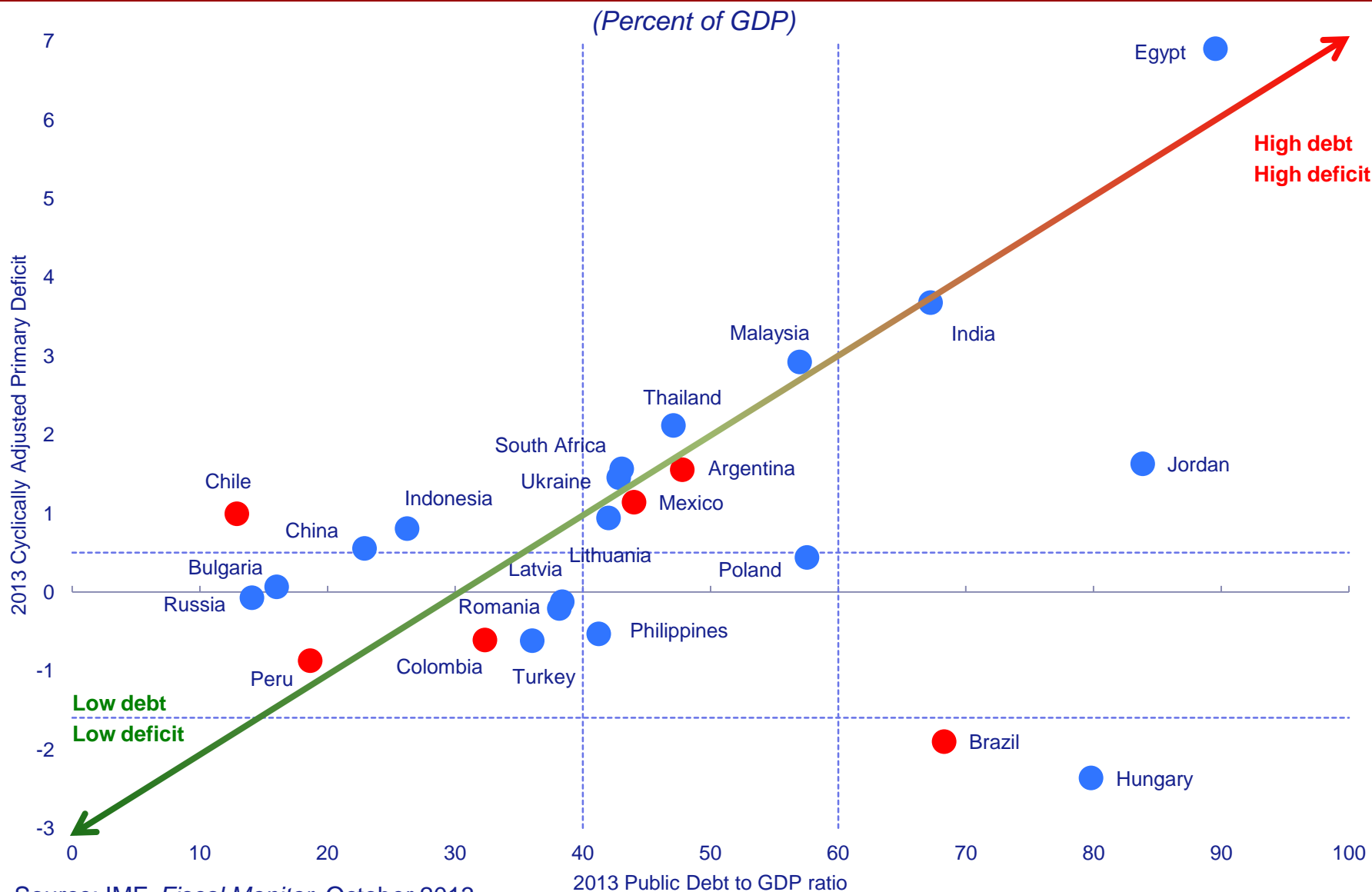
Fiscal Outlook and Challenges

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



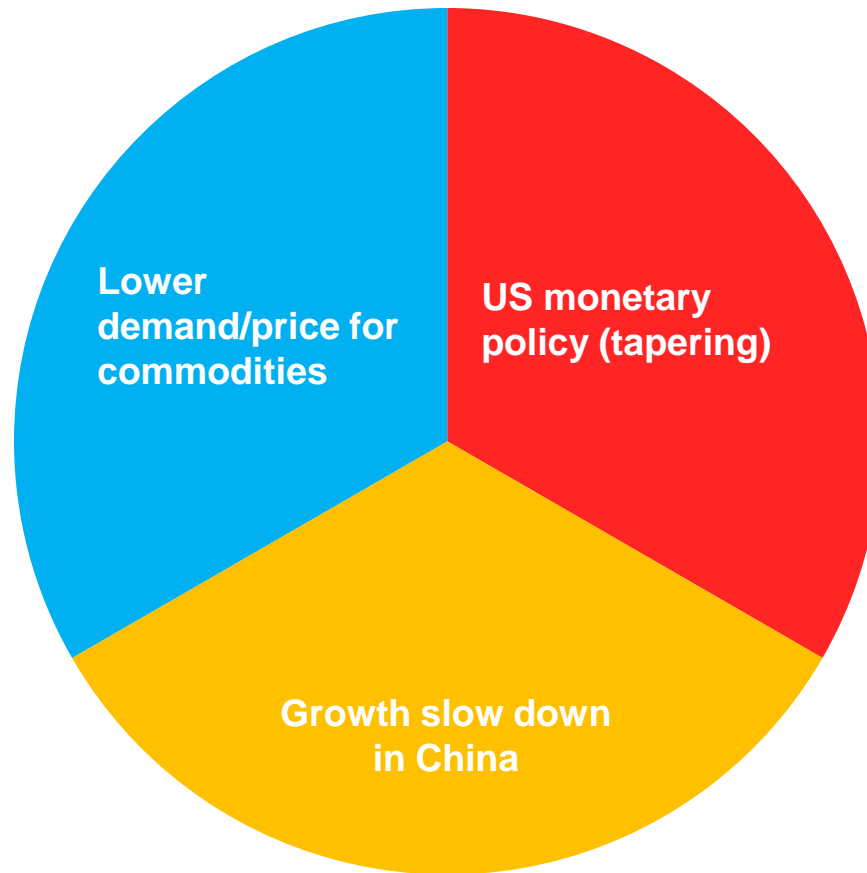
Source: IMF, *Fiscal Monitor*, October 2013.

There is a wide variety across and within regions among EMEs in terms of fiscal vulnerabilities



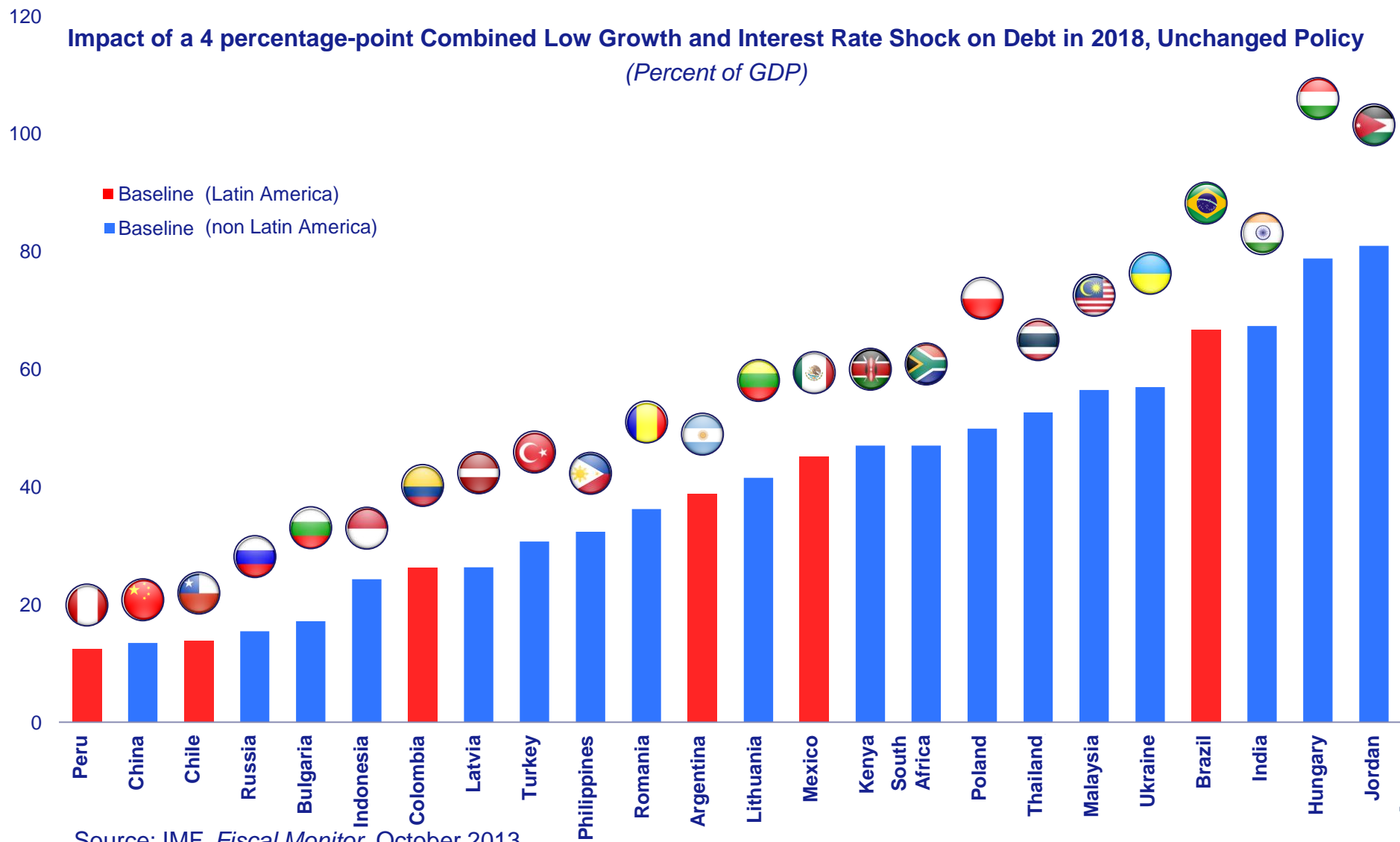
Source: IMF, *Fiscal Monitor*, October 2013.

Emerging external risks that could expose fiscal vulnerabilities in EMEs, particularly in LATAM include



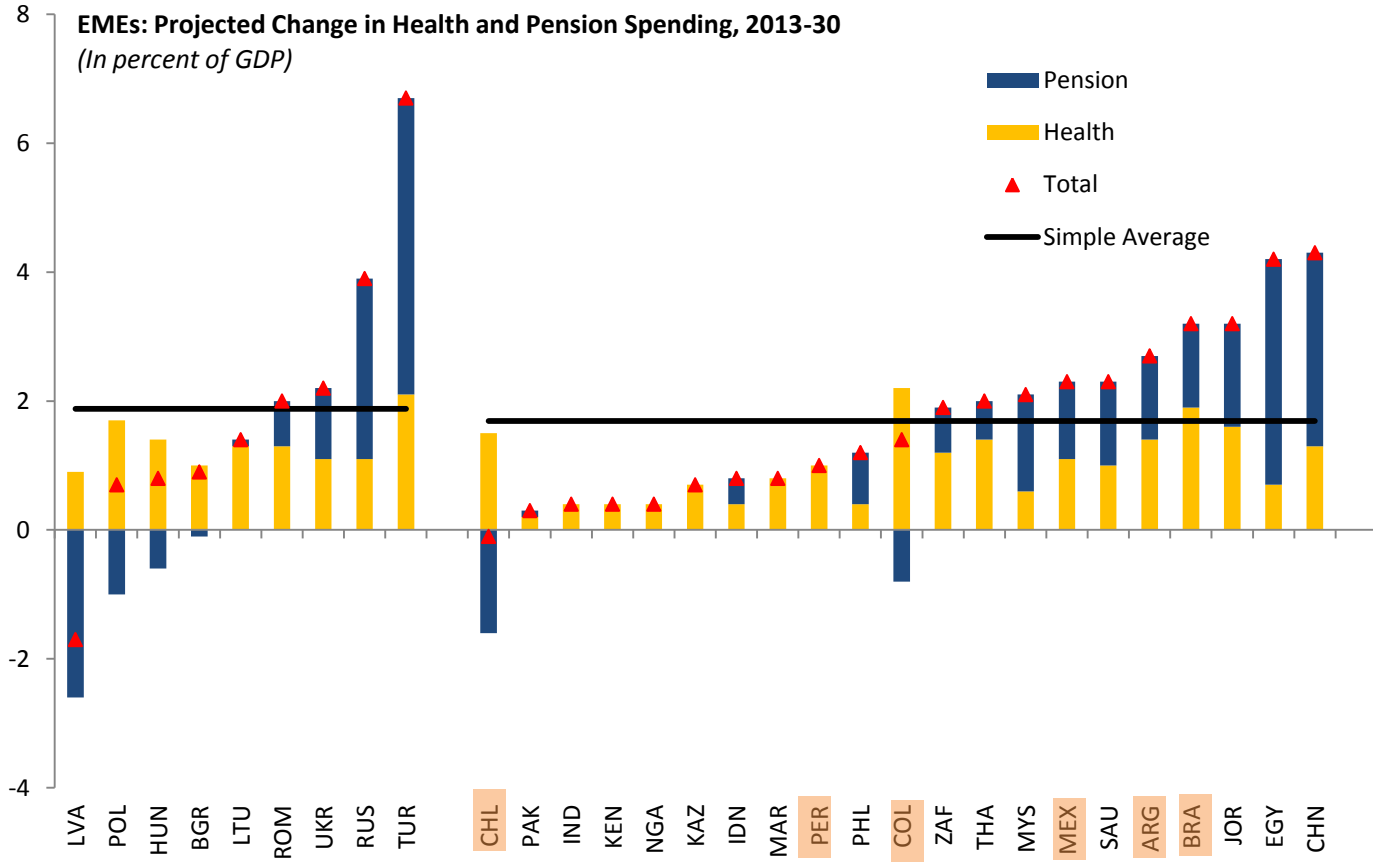
Some EMEs are indeed particularly vulnerable to interest rate and growth shocks

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



Source: IMF, *Fiscal Monitor*, October 2013.

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

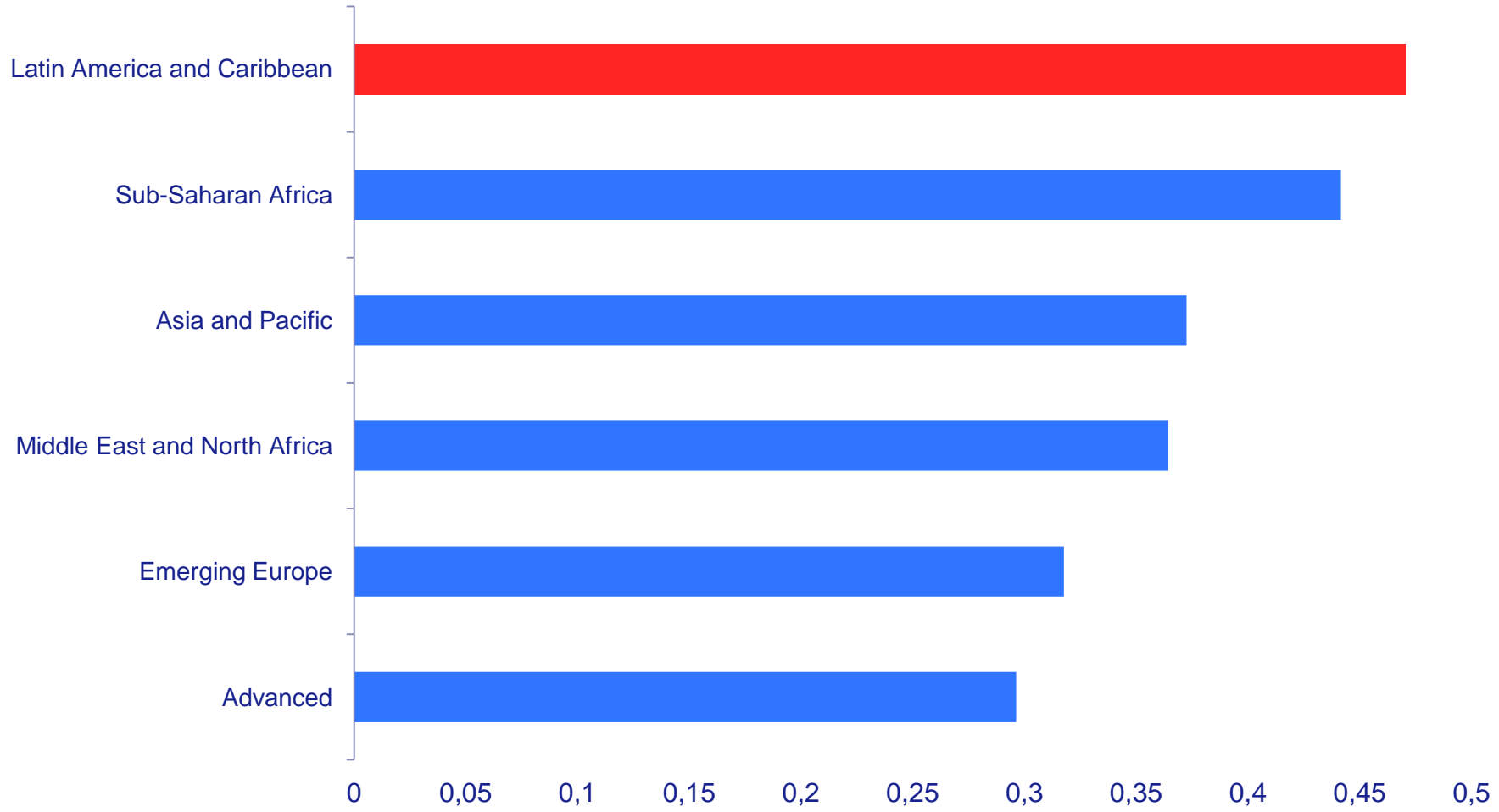


Source: IMF, *Fiscal Monitor*, October 2013.

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



Disposable Income Inequality, GINI Coefficient 2010



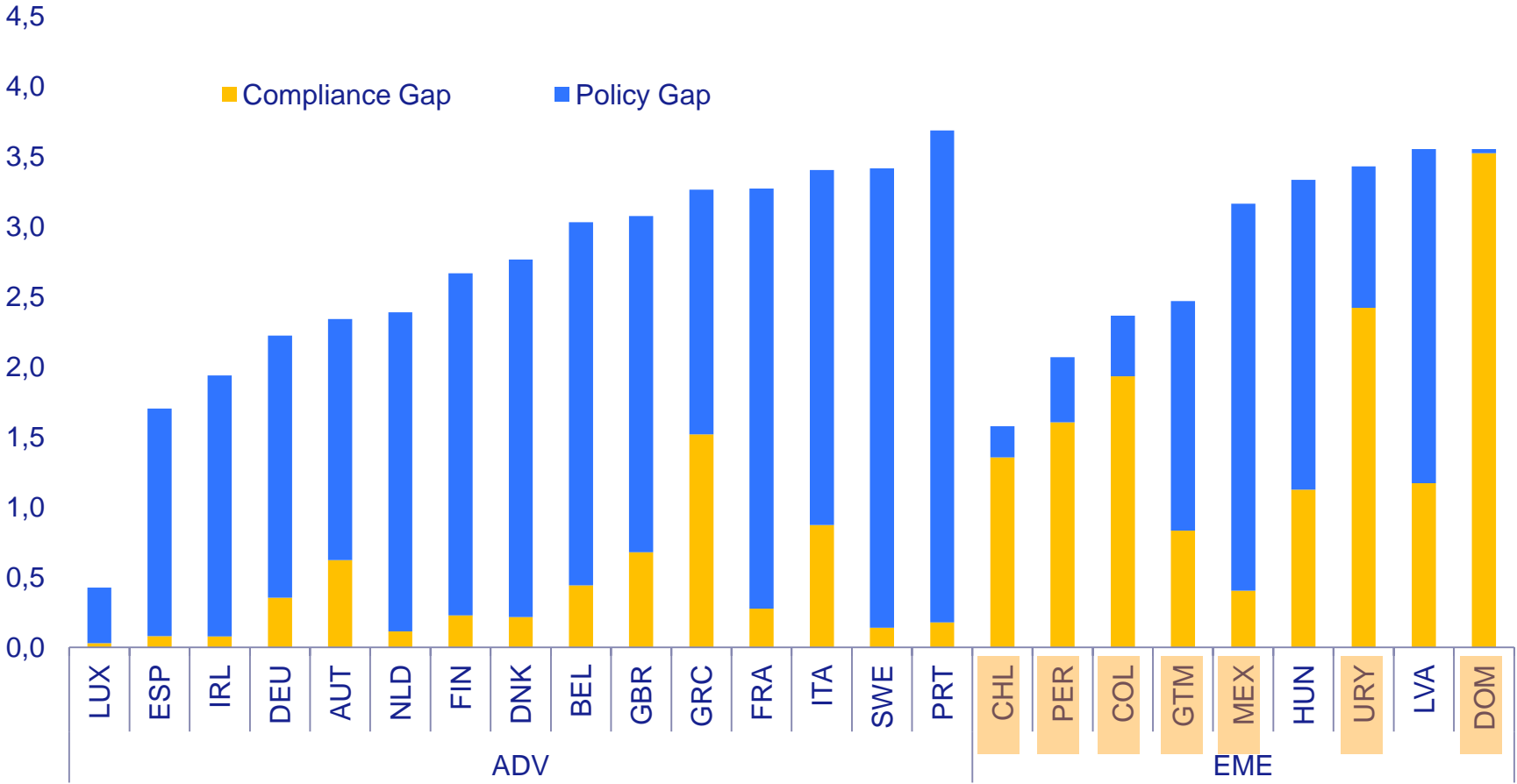
Source: IMF (2014)

How to Address Fiscal Challenges?

Focus on revenue mobilization where there is scope to tax better in view of the spending pressures...

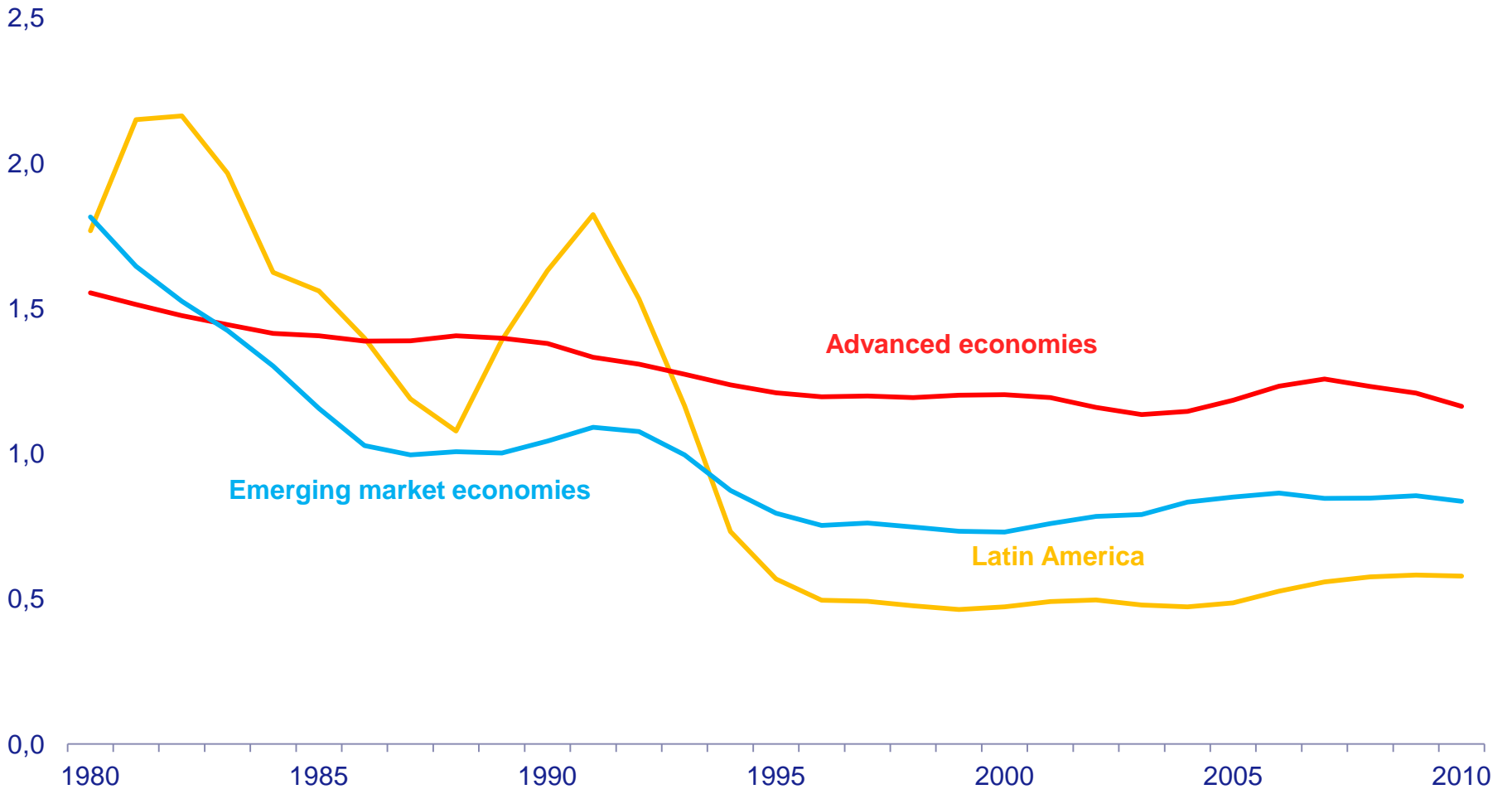


Revenue Gain from Closing Half of VAT Compliance Gap and Policy Gap
(Percent of GDP)

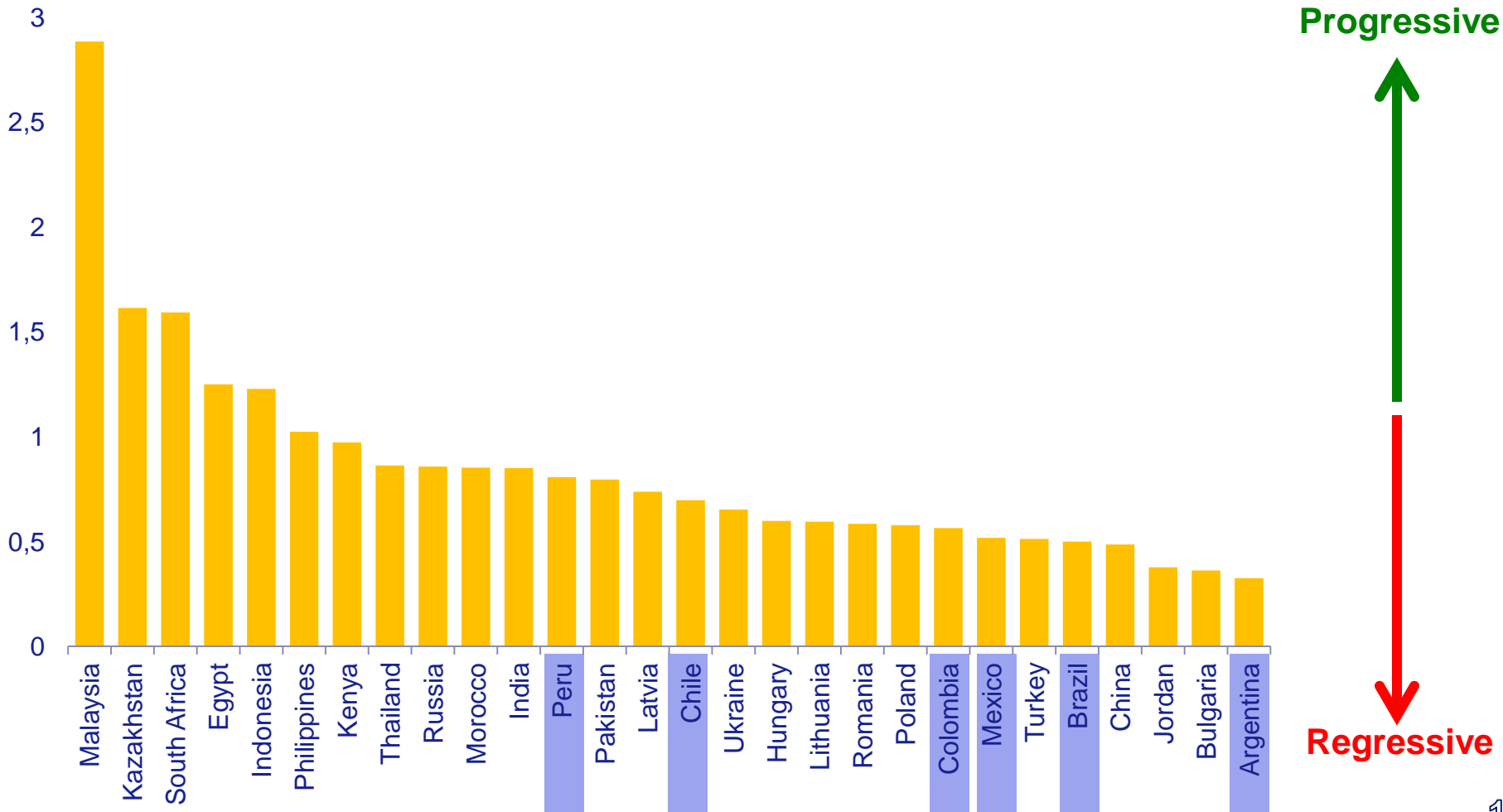


...and tax more fairly in view of the relatively high income inequality

Ratio of Direct to Indirect Tax Revenue



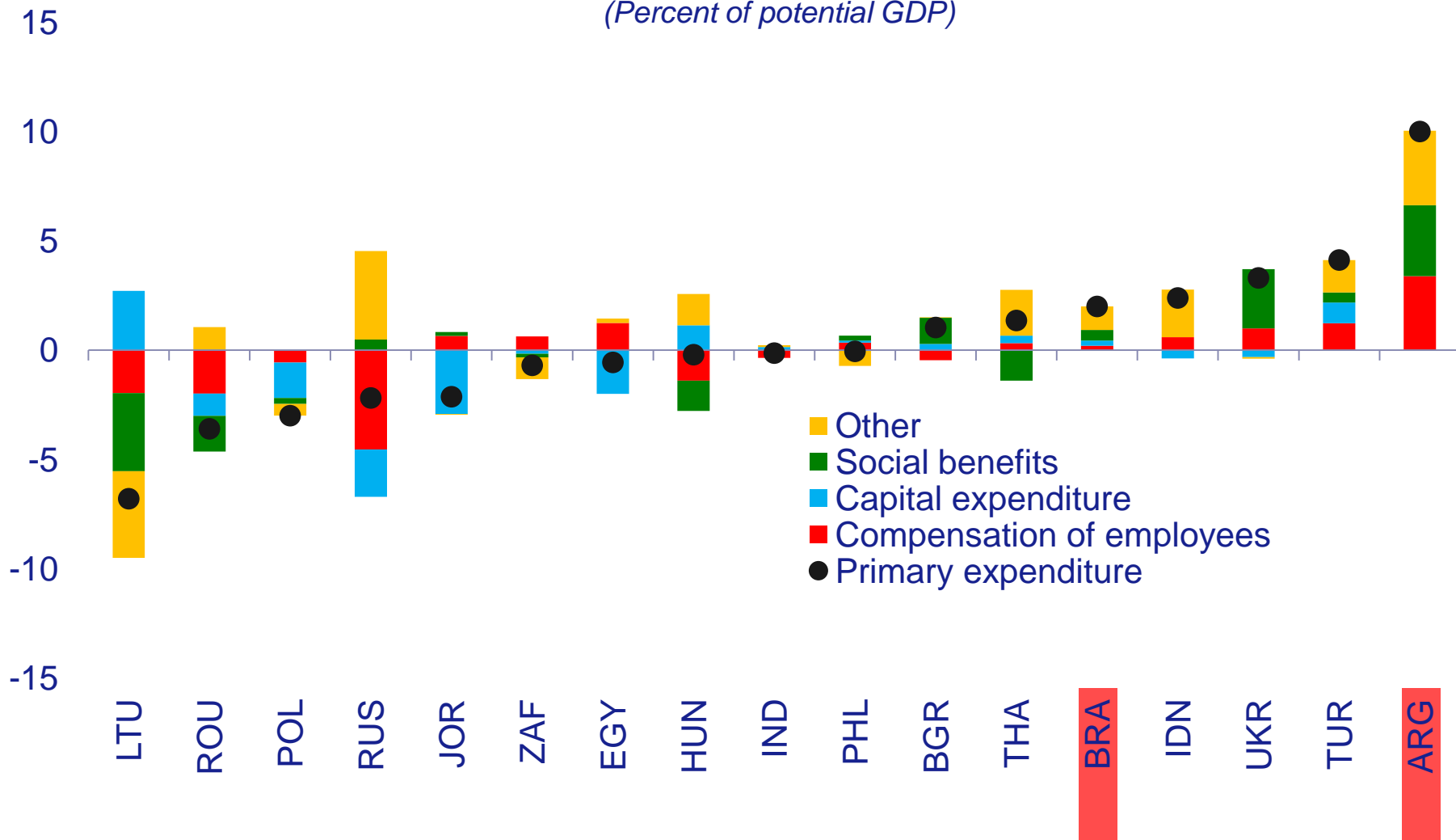
Emerging Market Economies: Ratio of Direct to Indirect Tax Revenue, 2010



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!