



# **The Forgotten Multiplier:**

**Fiscal Efficiency as the Anchor for Fiscal Sustainability**

**XXXVII Regional Seminar on Fiscal Policy- ECLAC, Santiago de Chile**

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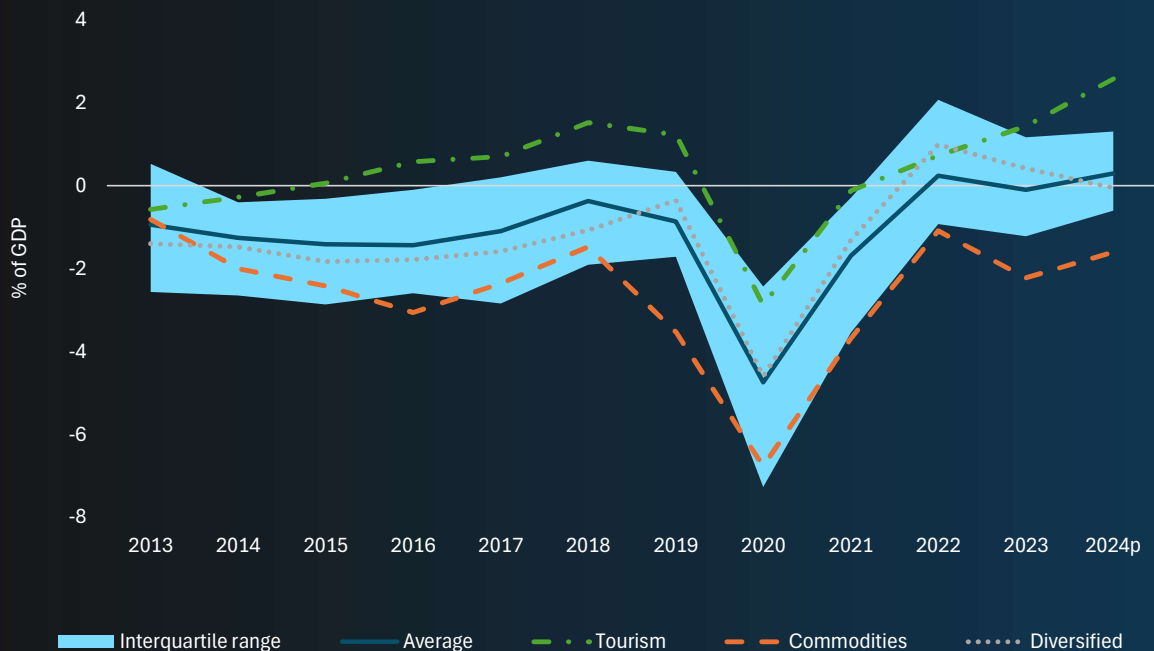
Inter-American Development Bank

May, 2025

# 1 The Mirage of Fiscal Adjustment

*LAC experienced a post-pandemic fiscal correction — but it was short-lived and shallow*

Primary balance as % of GDP, LAC



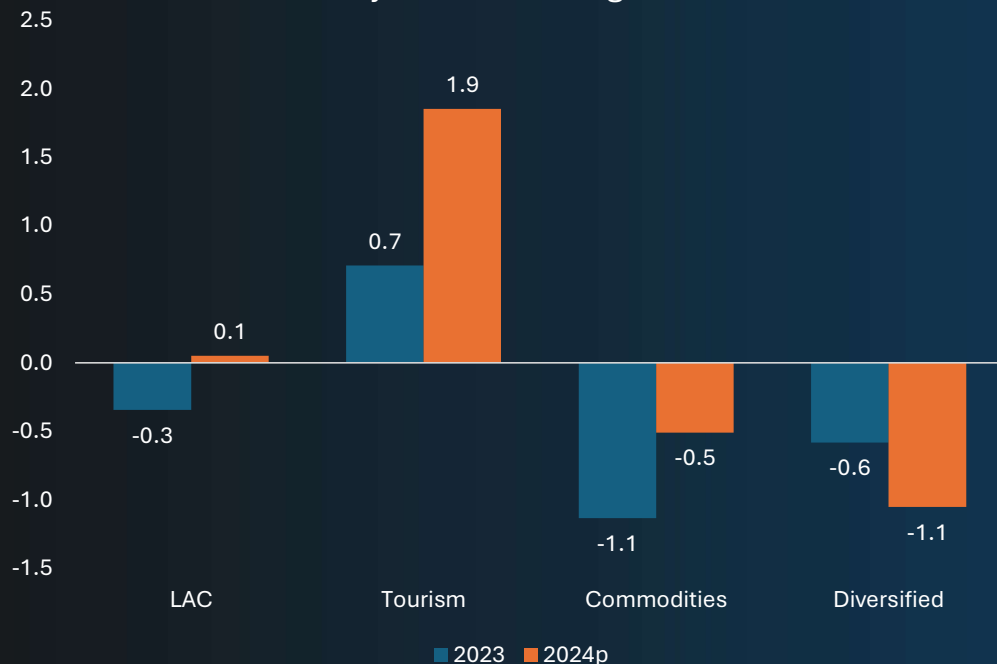
Decomposition of Primary Balance  
Change % GDP  
2024-2023



# 1 The Mirage of Fiscal Adjustment

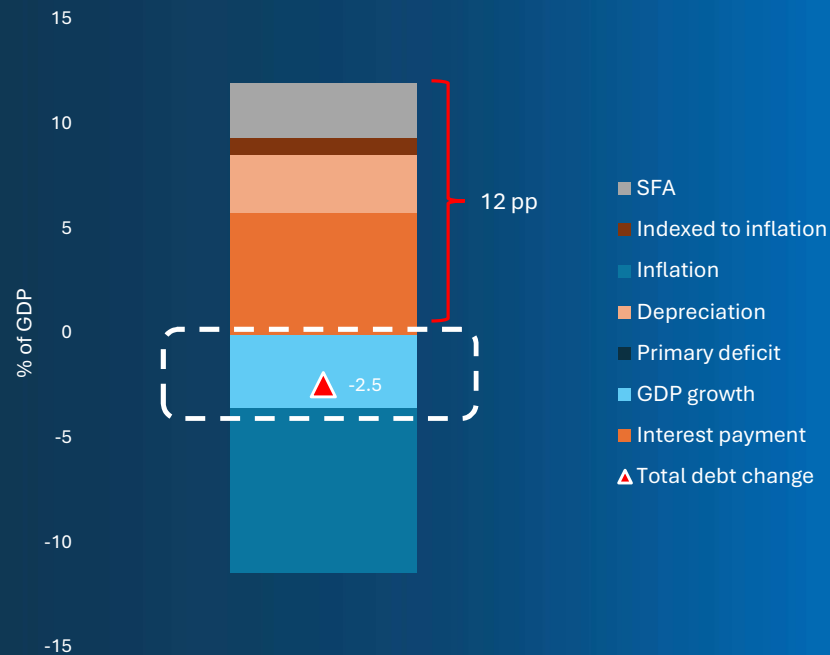
*Fiscal space remains constrained, and buffers are increasingly fragile*

Primary Balance Change vs 2022



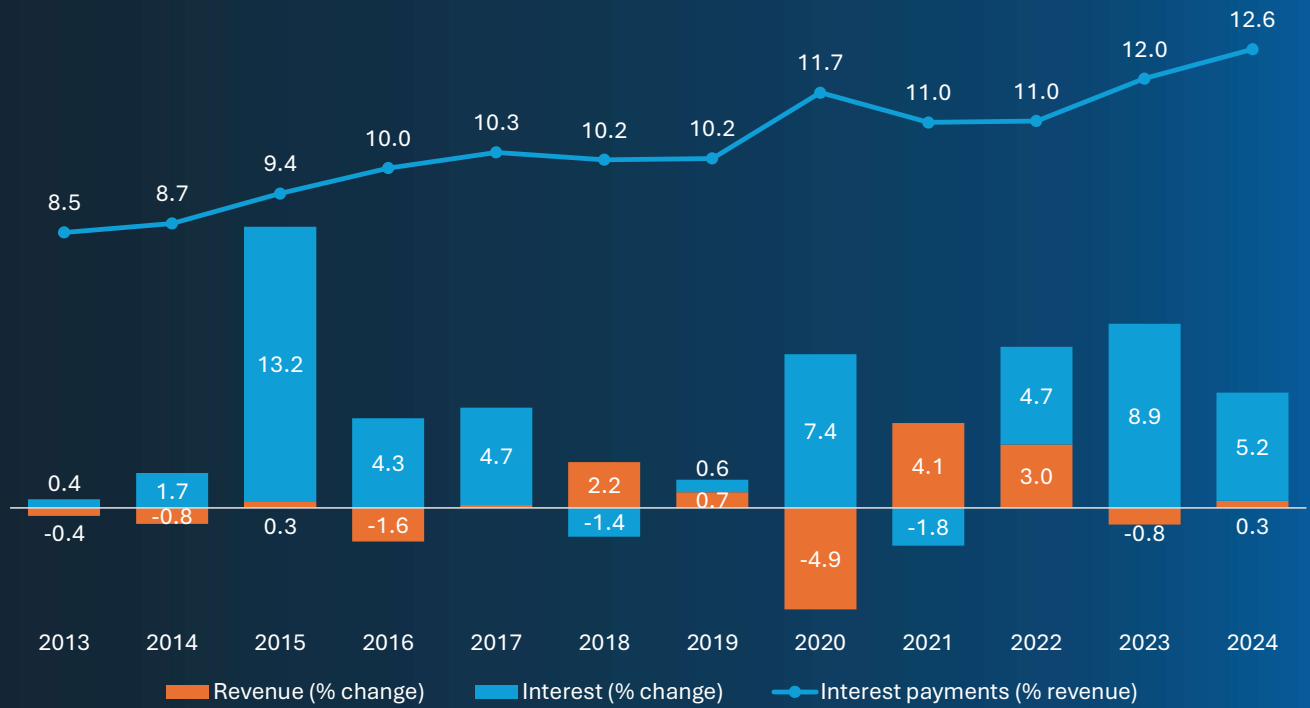
Debt Change Decomposition, % GDP

2024 vs 2022



# The affordability of public debt has even deteriorated in post-pandemic

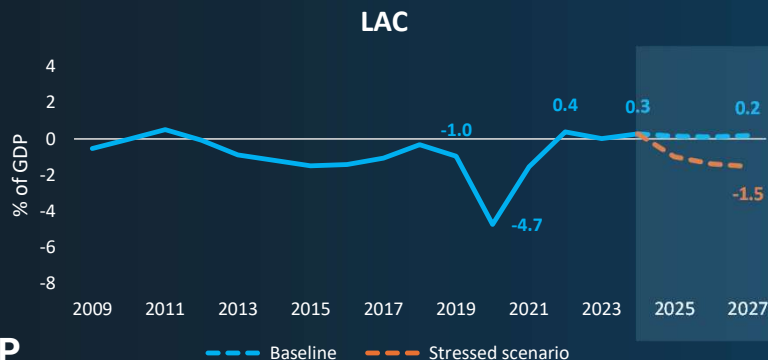
**Debt Affordability**  
(Interest Payment % Revenues)



## 2 A Narrower Path: Shrinking Countercyclical Space

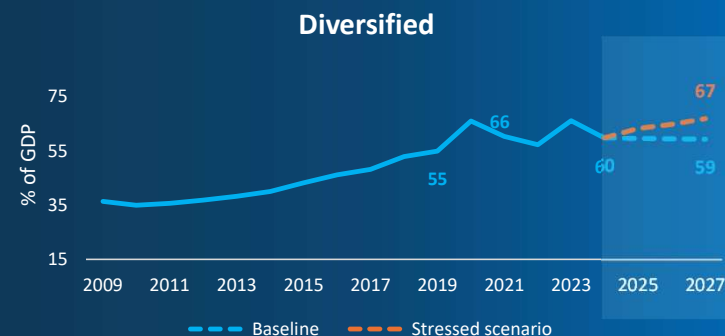
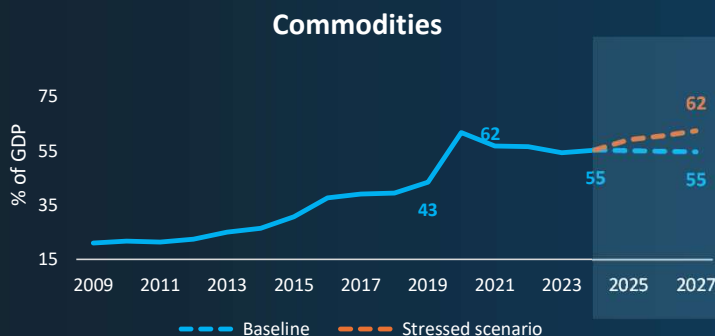
*The region is entering a new cycle with limited fiscal space and no external growth engine*

### Primary Balance % GDP Forecast



# *With external risk on the rise and low fiscal consolidation, debt levels in LAC are on an upward path*

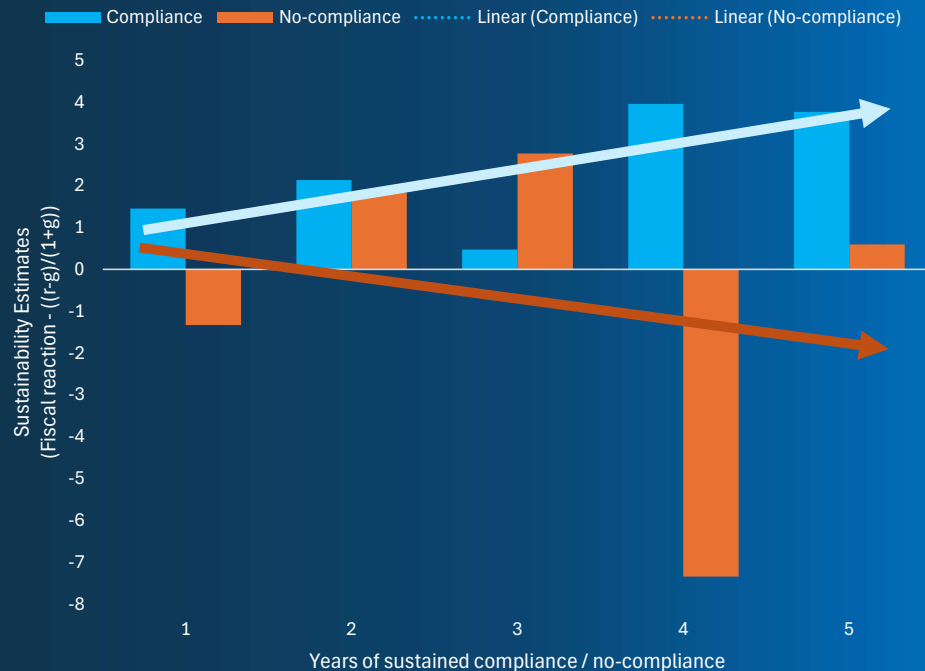
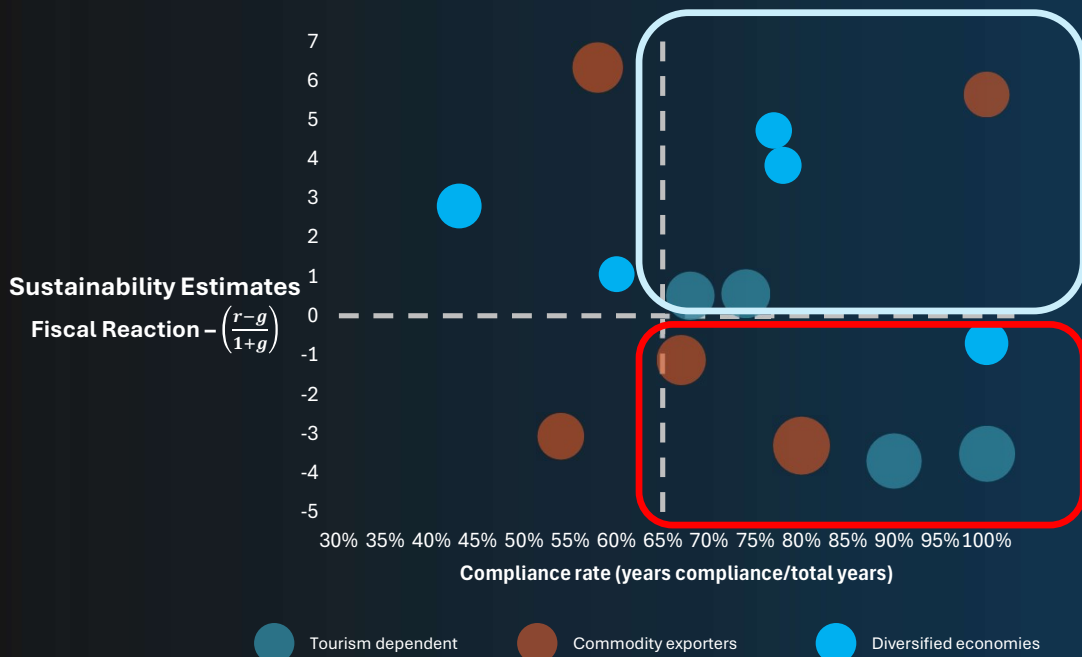
## Gross Debt % GDP Forecast



### ③ Weak Rules, Resilient Debt

*Lac adopted fiscal rules, but often doesn't follow them — even when it does, debt isn't always sustainable*

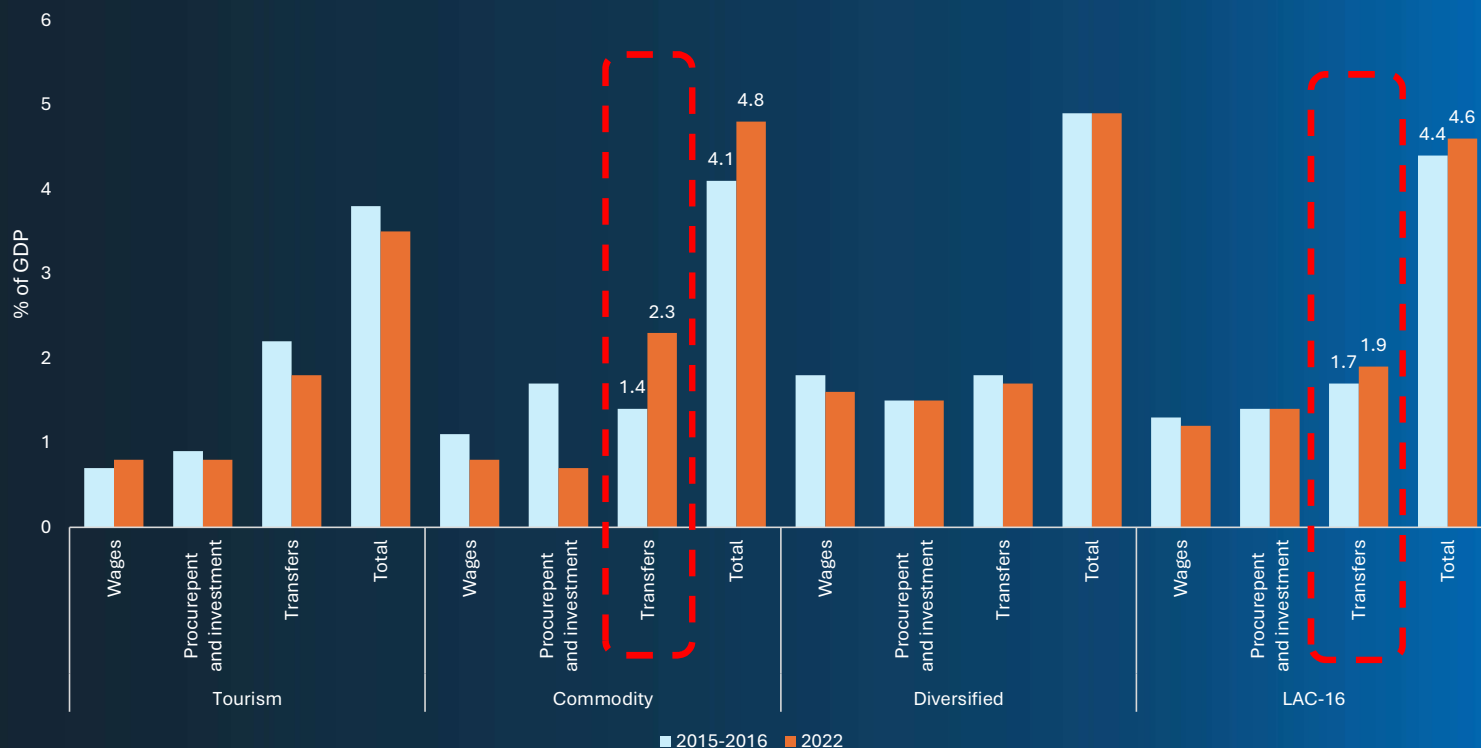
Sustainability and Compliance by Country Groups  
2000-2023



Note: Valencia, Ulloa-Suarez, Guerra, Sánchez (2025). FMM-IDB staff estimations and calculations with data from IMF-WEO. Bubble size represents average debt % of GDP. Fiscal reaction estimated following:  $pb_t = \beta_1 debt_{t-1} + \beta_2 debt_{t-1}^2 + \Gamma X_{t-1} + \varepsilon_t$

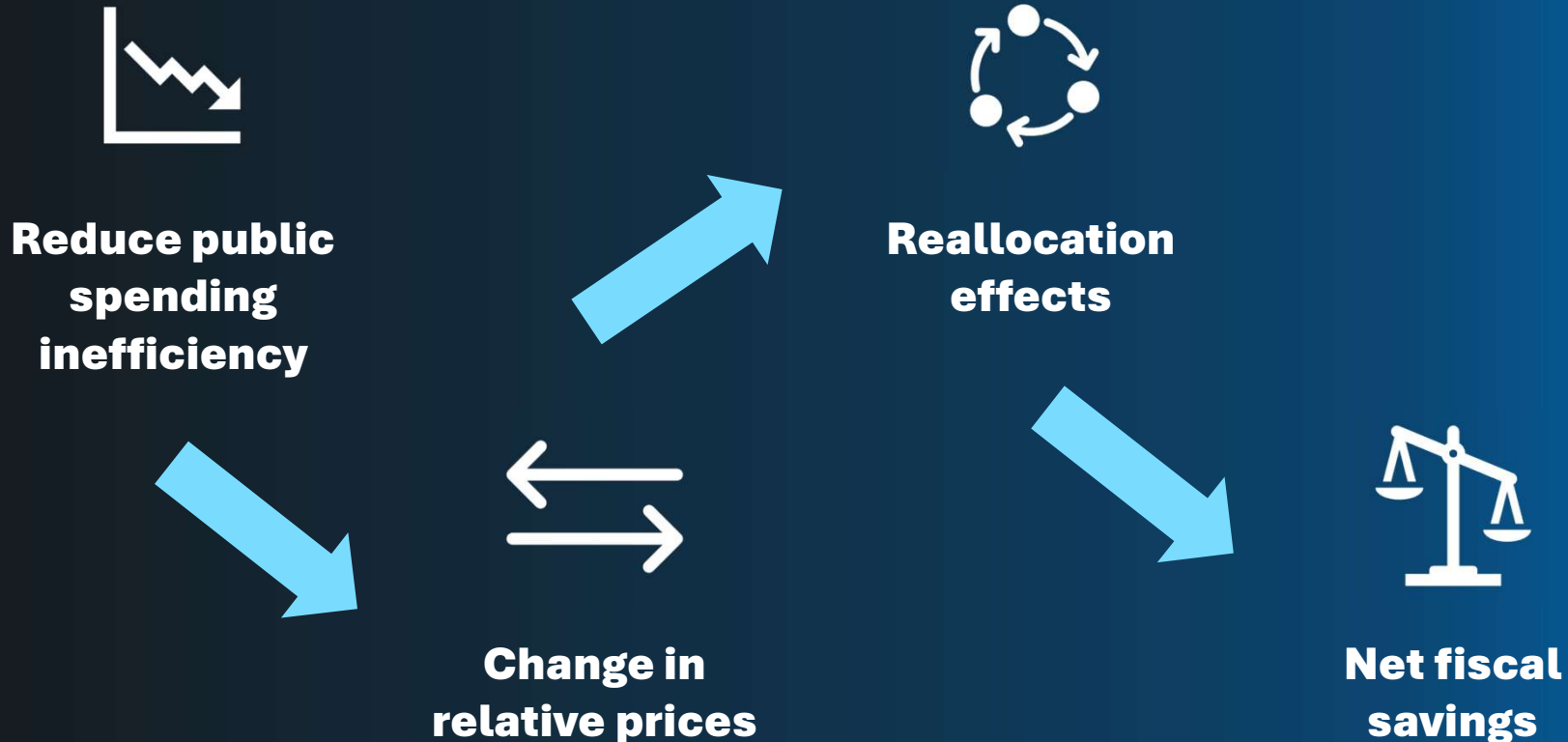
# Efficiency reforms in public spending are a potential strategy to achieve sustained fiscal consolidation.

## Inefficiencies in Public Spending (% of GDP)





## Reducing inefficiencies triggers macroeconomic effects that impact fiscal adjustment.



## 4 The Forgotten Multiplier: Efficiency as Policy Anchor

*In a world with no room for fiscal stimulus, efficiency protects growth without sacrificing stability*

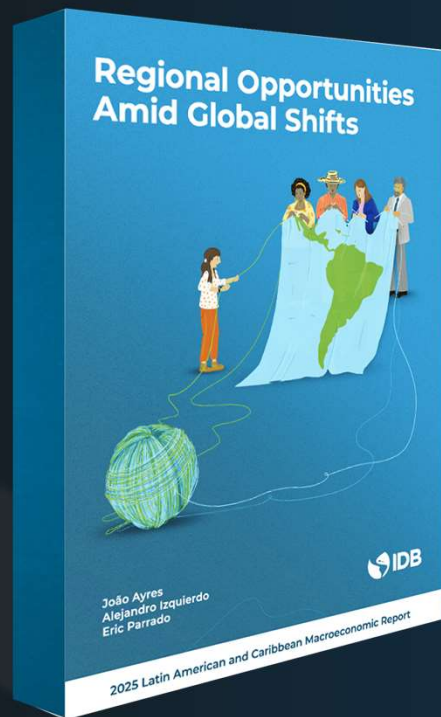
### Macroeconomic and Fiscal Gains from Reducing Inefficiencies in LAC (% of GDP)



# 5 Efficiency vs Budget Rigidity: Reform is Hard but Possible

*Reforming public spending is not easy but is possible... and more urgent than ever*

Expenditure	Inefficiency / Rigidity	How?	Savings pp of GDP
Procurement	Contractual obligations, inefficient processes, and funding of projects with low returns	Digitalization (e-GP), joint purchasing, multiyear budgets and contracts, more competitive tenders, and generic healthcare products (e.g.)	2.9 – 3.3
Wages	Overstaffing, excessive allowances, a lack of performance-based incentives, and political-economy pressures	Real wage freezing or indexation to productivity, elimination of "ghost workers", institutional reorganization, alignment with private wages, "single pay spine" (eliminating allowances), voluntary retirement	0.5 – 3.5
Transfers	Legal basis set at constitutional or statutory levels, poor targeting benefits higher-income households	Performance incentives, targeting subsidies to low-income households, and promoting energy efficiency (e.g.)	0.1 – 2.1
Investment	Long periods of implementation, funding of projects with low returns and bad planning	Better planning and project selection process, limiting overruns, timely implementation and disbursements, performance-based contracts	0.1 – 0.7



## **Chapter 4**

Efficient Spending, Resilient Outcomes:  
Fiscal Pathways for Latin America and the Caribbean

# Efficiency is the forgotten multiplier ...

The real question isn't how much more we can spend

**It's how much more value we can create.**



**Thank you!**