

Fiscal Panorama of Latin America and the Caribbean

2019



Alicia Bárcena
Executive Secretary
Economic Commission for Latin
America and the Caribbean

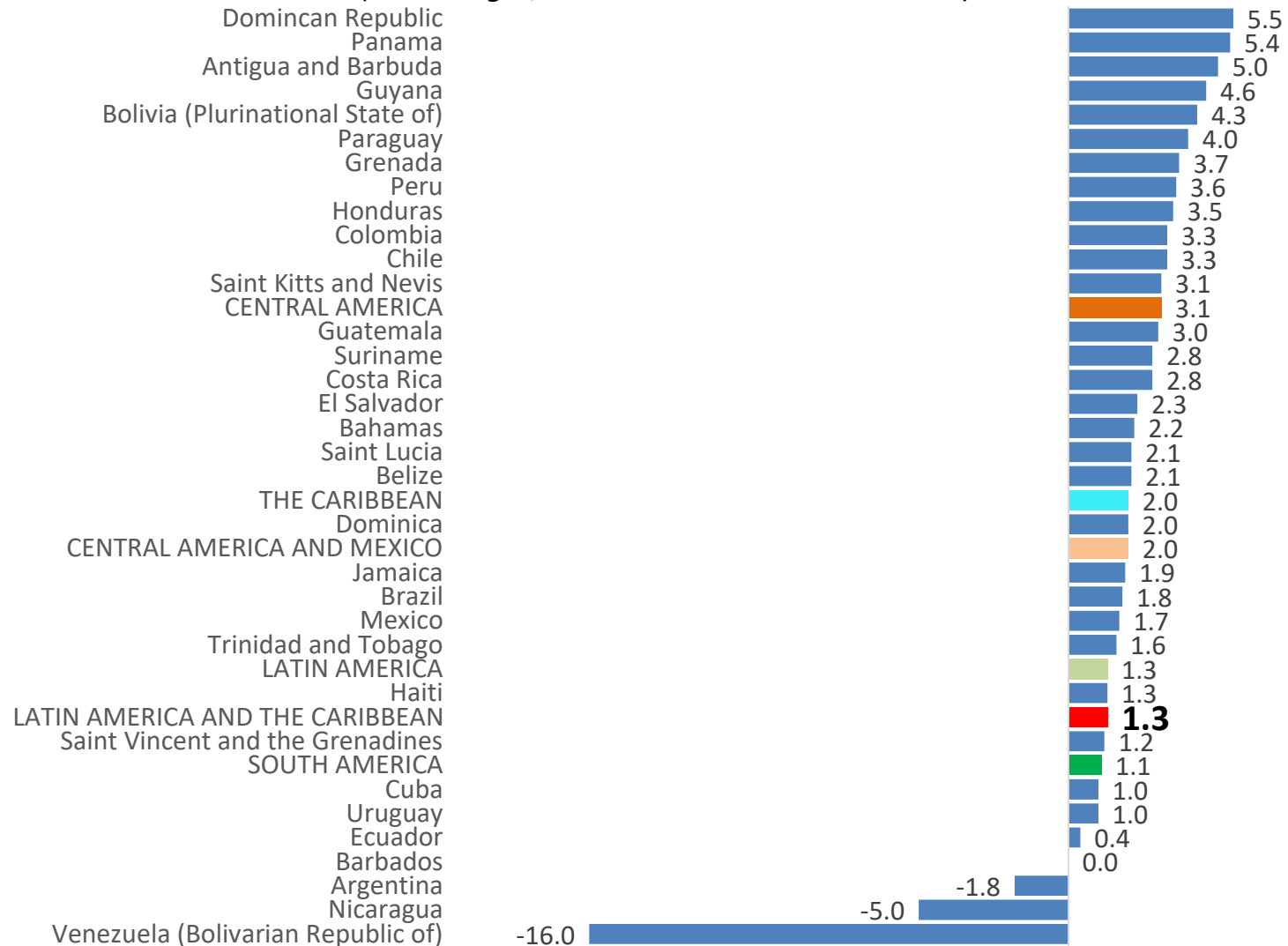
The regional context

- Complex global economic context which creates significant challenges for the region
- Economic growth in LAC remains weak, with differences between countries and subregions, driven by private consumption
- Fiscal consolidation has resulted in improvements in the primary balance, but with less contribution of public spending to growth
- Public investment remains the main variable of adjustment, and pressures on social spending are increasing
- Despite fiscal adjustment, the trajectory of public debt is on the rise, with increases in 14 countries in 2018

Growth forecast in early April resulted at 1.3% for 2019

LATIN AMERICA AND THE CARIBBEAN: GDP FORECAST GROWTH RATE, 2019

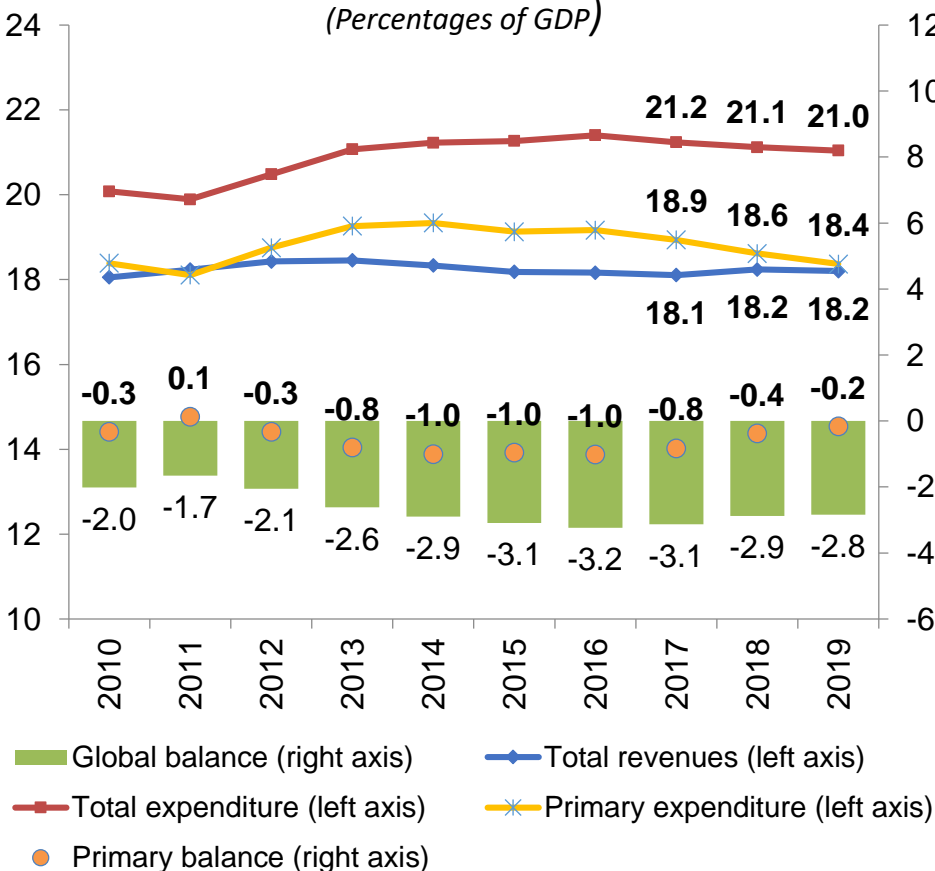
(Percentages, based on constant 2010 dollars)



Fiscal consolidation continues in Latin America, with major adjustment efforts in the Caribbean

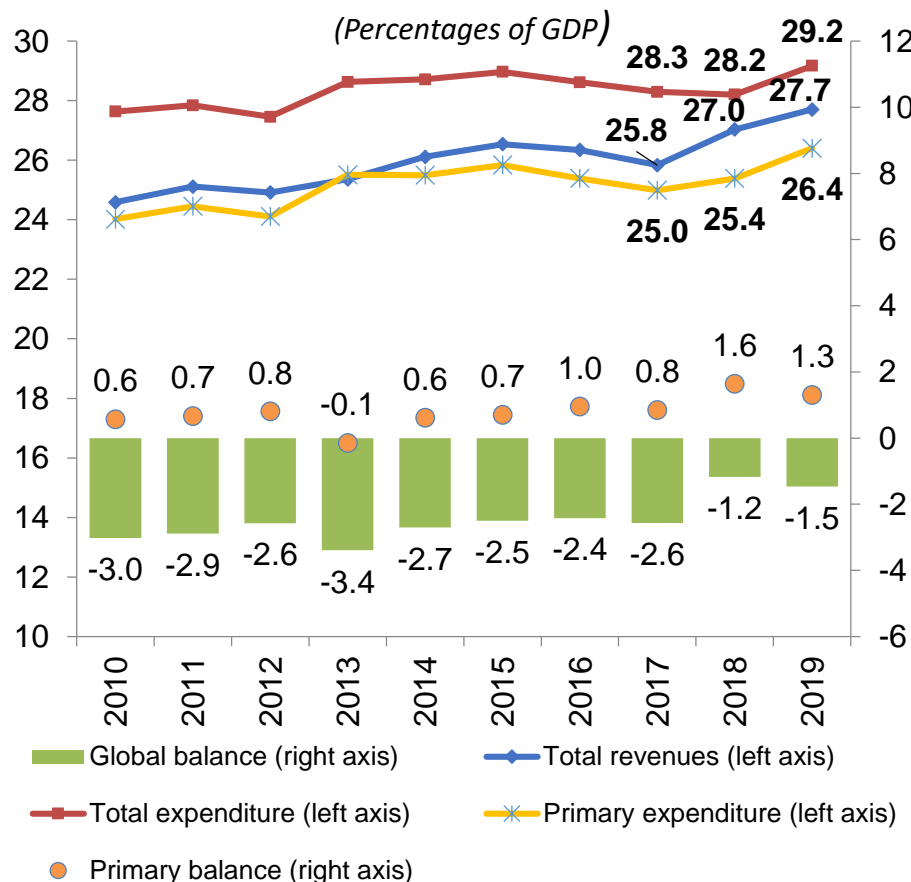
LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2010-2019 ^a

(Percentages of GDP)



THE CARIBBEAN (12 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2010-2019 ^a

(Percentages of GDP)

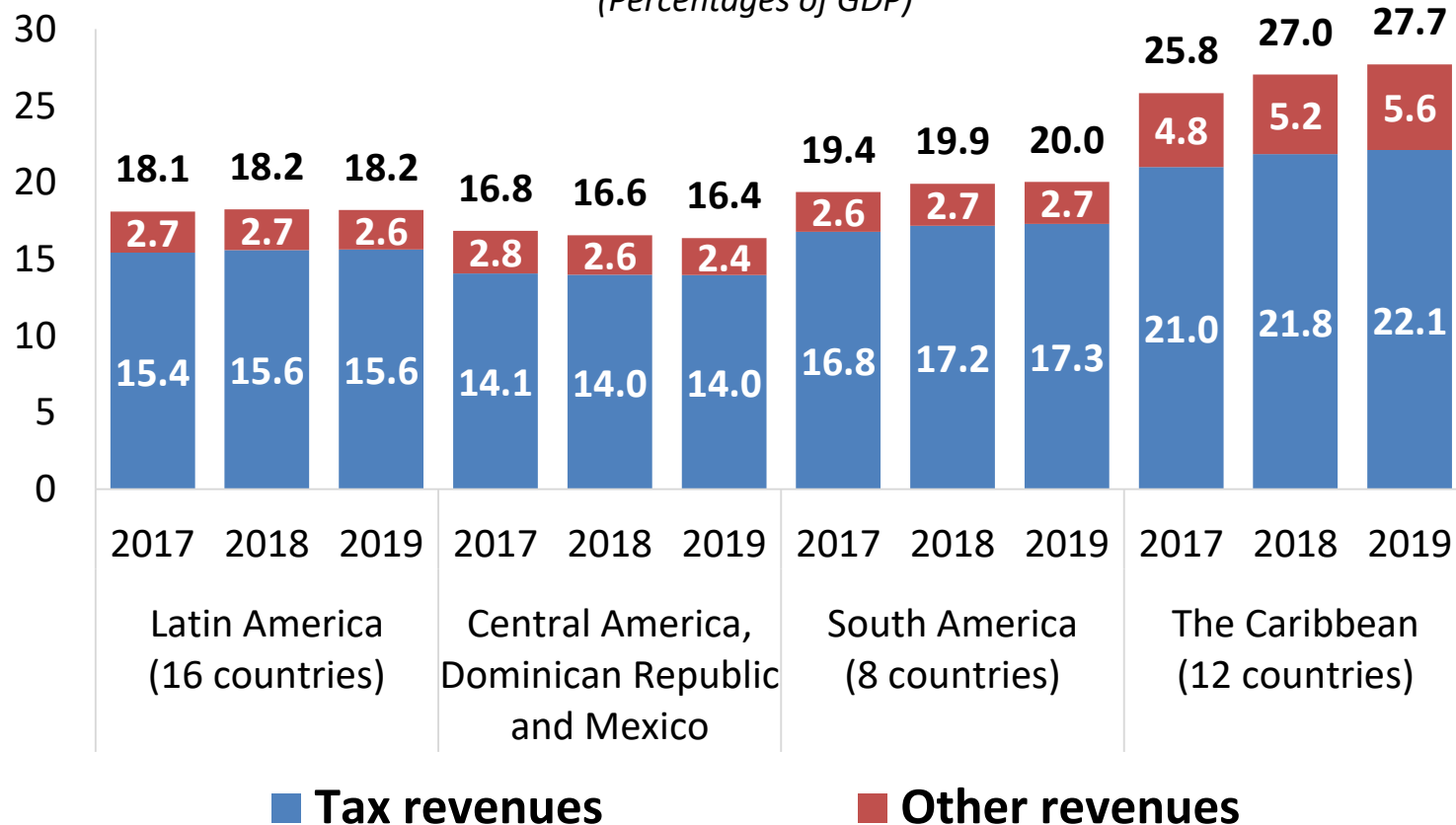


^a Simple averages. Figures for 2019 correspond to budget estimates and official estimates.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Public revenues remained stable, but insufficient to meet development requirements

LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF CENTRAL GOVERNMENT TOTAL REVENUES, BY TYPE OF REVENUE, 2017-2019 ^a
(Percentages of GDP)



^a Simple averages. Figures for 2019 correspond to budget estimates and official estimates.

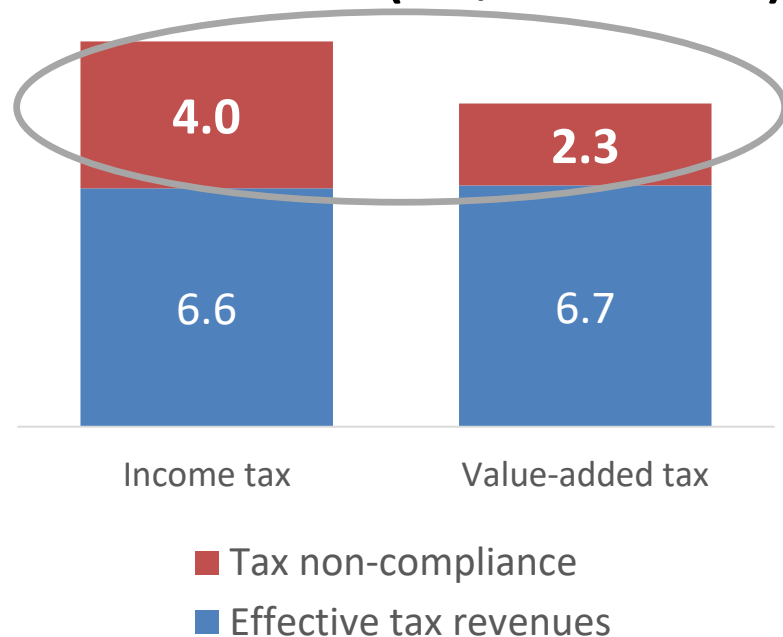
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Tax evasion and illicit financial flows significantly limit fiscal revenues

LATIN AMERICA: TAX NON-COMPLIANCE OF INCOME TAX AND VALUE-ADDED TAX, 2017

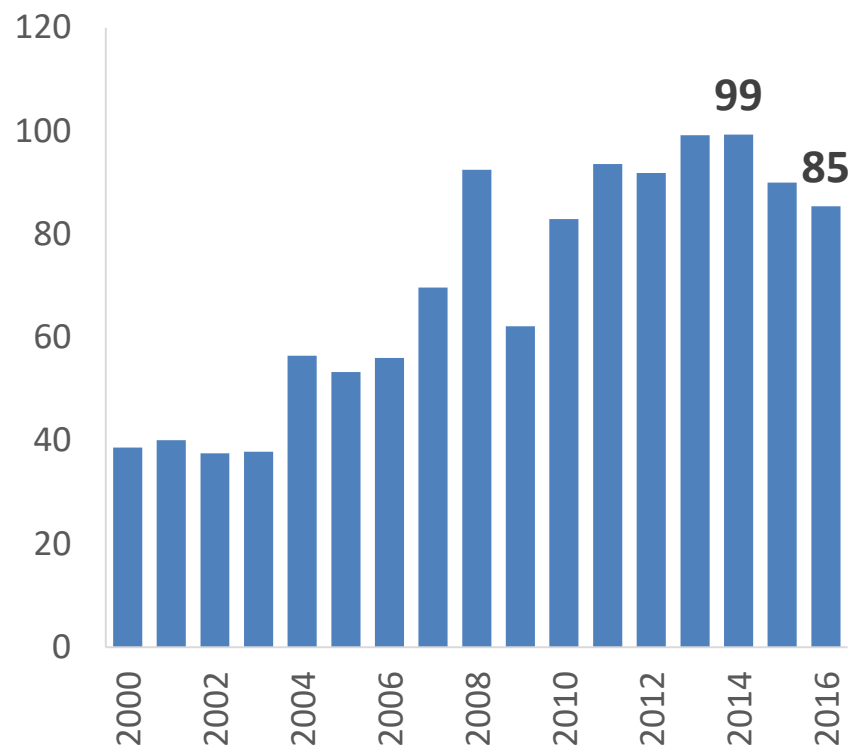
(Percentages of GDP)

**Estimated tax evasion in 2017:
6.3% of GDP (US\$ 335 billion)**



LATIN AMERICA AND THE CARIBBEAN: ESTIMATES OF GROSS OUTFLOWS FROM GOODS TRADE MISINVOICING, 2000-2015

(Billions of US dollars)

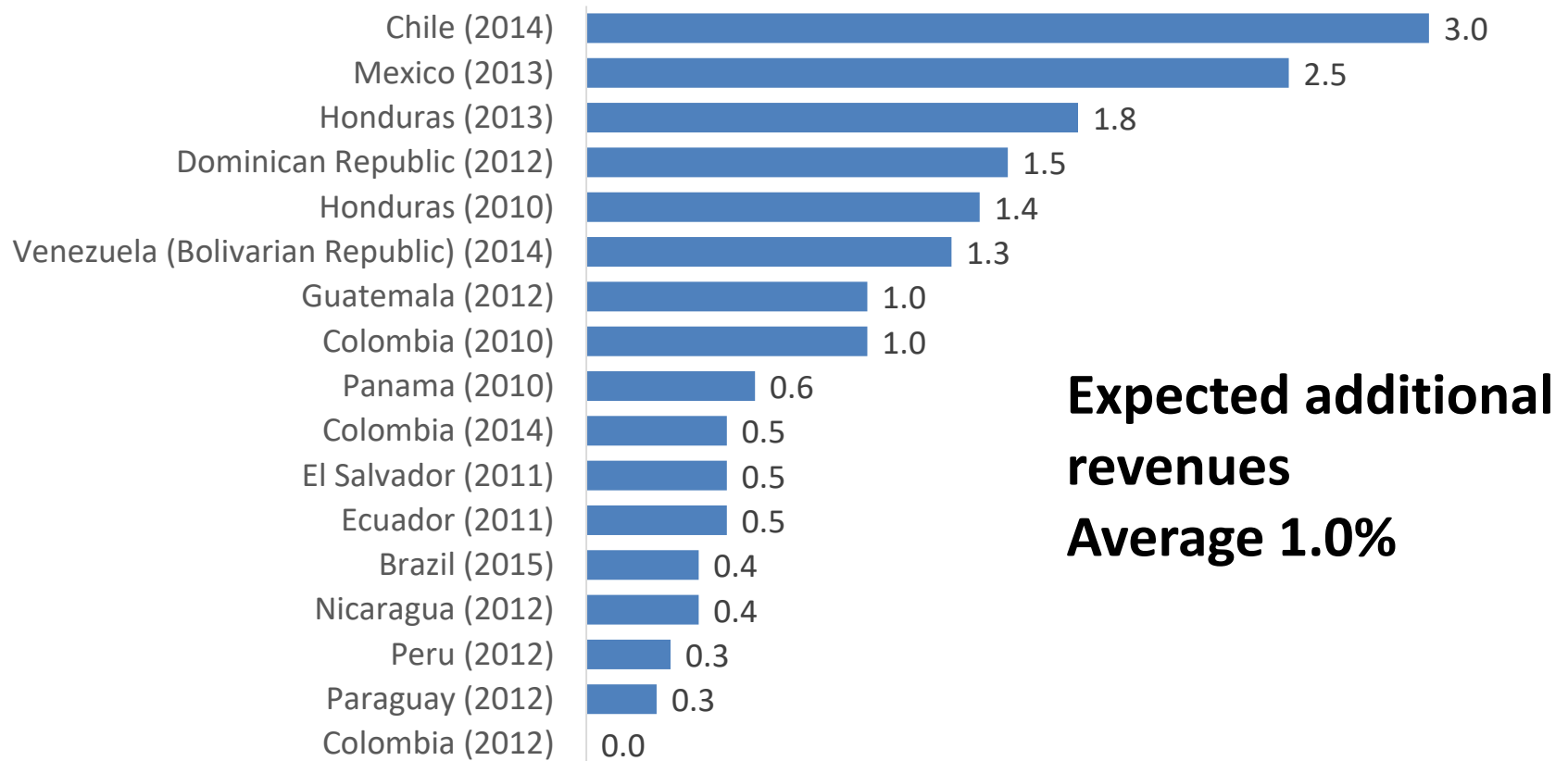


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: the estimates of tax evasion are based on national studies on tax non-compliance with income tax and value-added tax. The figures correspond to a weighted average based on GDP at current prices in dollars. The countries included are Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and Uruguay for the ISR; and, Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay for VAT.

Projected revenues from recent tax reforms do not offset losses arising from evasion

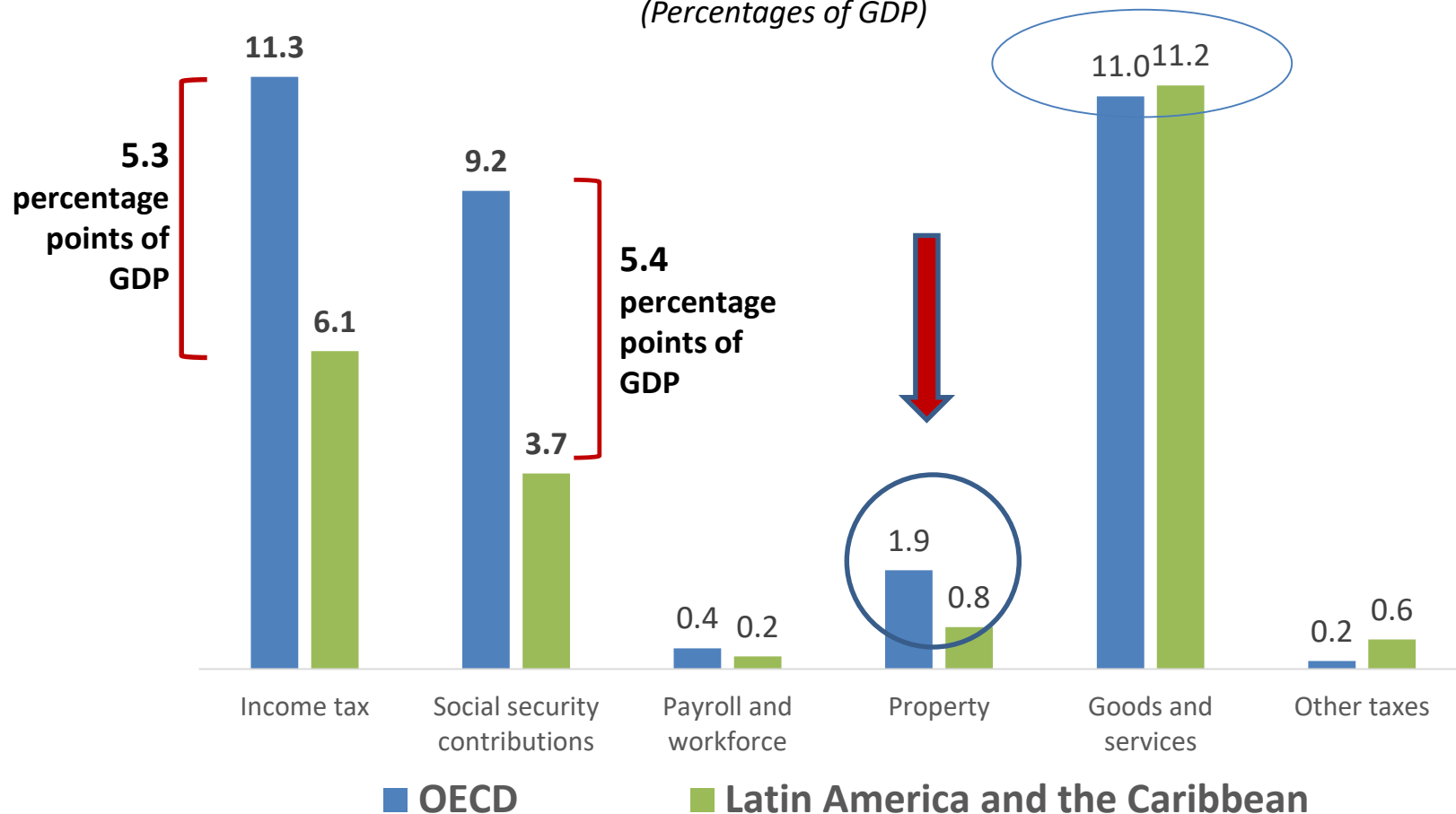
LATIN AMERICA: ESTIMATED FISCAL EFFECT OF 17 TAX REFORMS UNDERTAKEN BETWEEN 2010 AND 2015
(Percentages of GDP)



Source: ECLAC, based on data from *Sostenibilidad fiscal y reformas tributarios en América Latina* (Arenas de Mesa, 2016)

The region needs to improve its tax structure to make it more progressive

LATIN AMERICA AND THE CARIBBEAN AND OECD: GENERAL GOVERNMENT TAX REVENUES, AROUND 2017
(Percentages of GDP)



Source: ECLAC, based on data from the Global Revenue Statistics Database (OECD.stat).

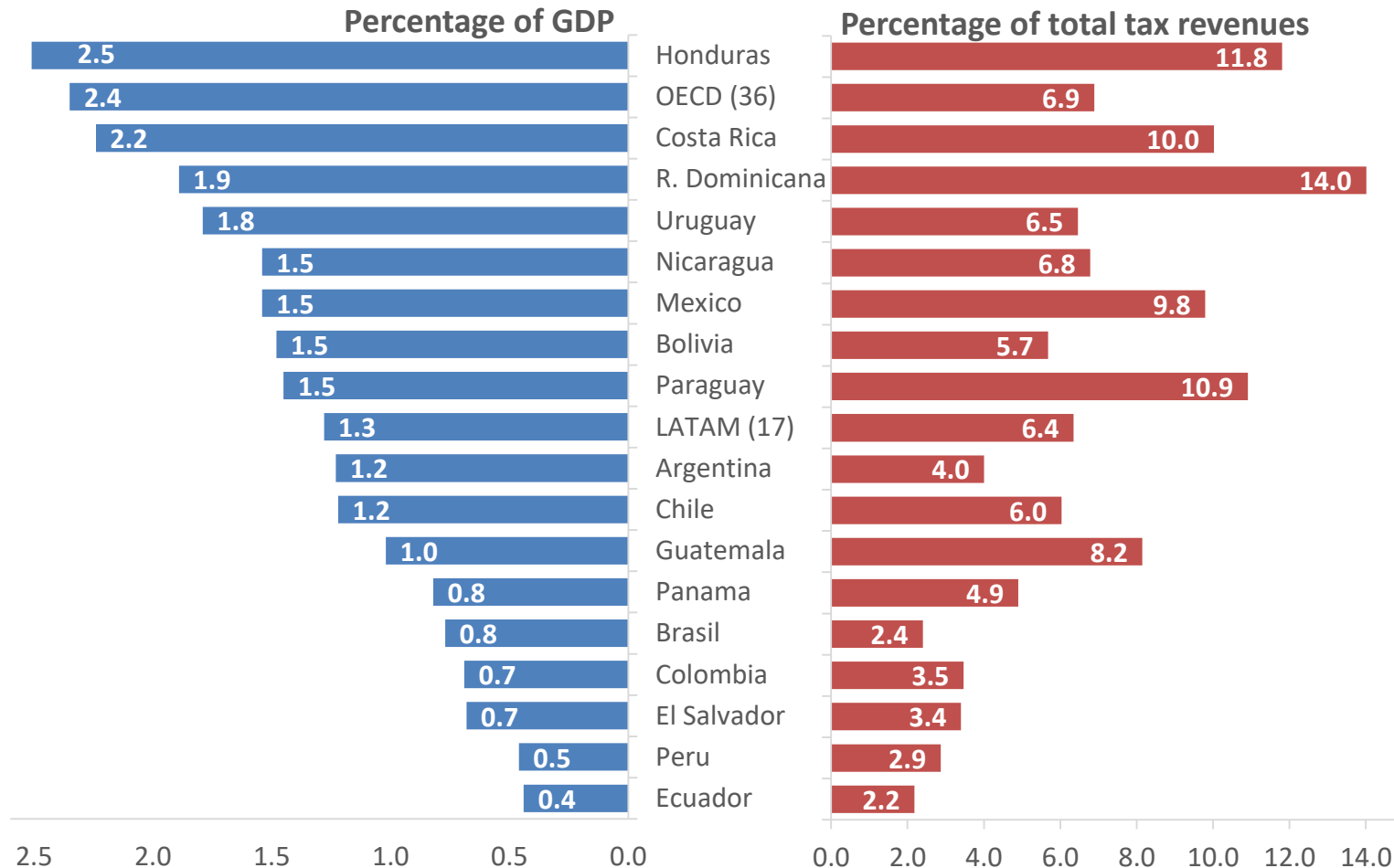
Challenges and opportunities of other sources of taxing: the case of digital economy

- Current tax systems are hampered by weaknesses that favour the erosion of tax revenues from the digital economy
- Eight countries have taken some initiatives in the field of taxation of digital services
 - Peru had already approved legislation since 2003
 - Recent legal changes: Argentina, Colombia, Costa Rica and Uruguay
 - Implementing administrative measures: Chile, Mexico and Paraguay
- These are not uniform, with differences on how taxes are collected:
 - Tax measures have generally focused on modifications to the value-added tax, targeting consumers or intermediaries
 - Chile and Mexico are considering a Tax on Digital Services (a tax on gross revenues) targeting companies

***Is urgent to improve the tax system
for a growing digital economy***

The case of environmental taxation: fossils fuels, waste and environmental services

LATIN AMERICA AND OECD: ENVIRONMENTAL TAX REVENUES, 2016

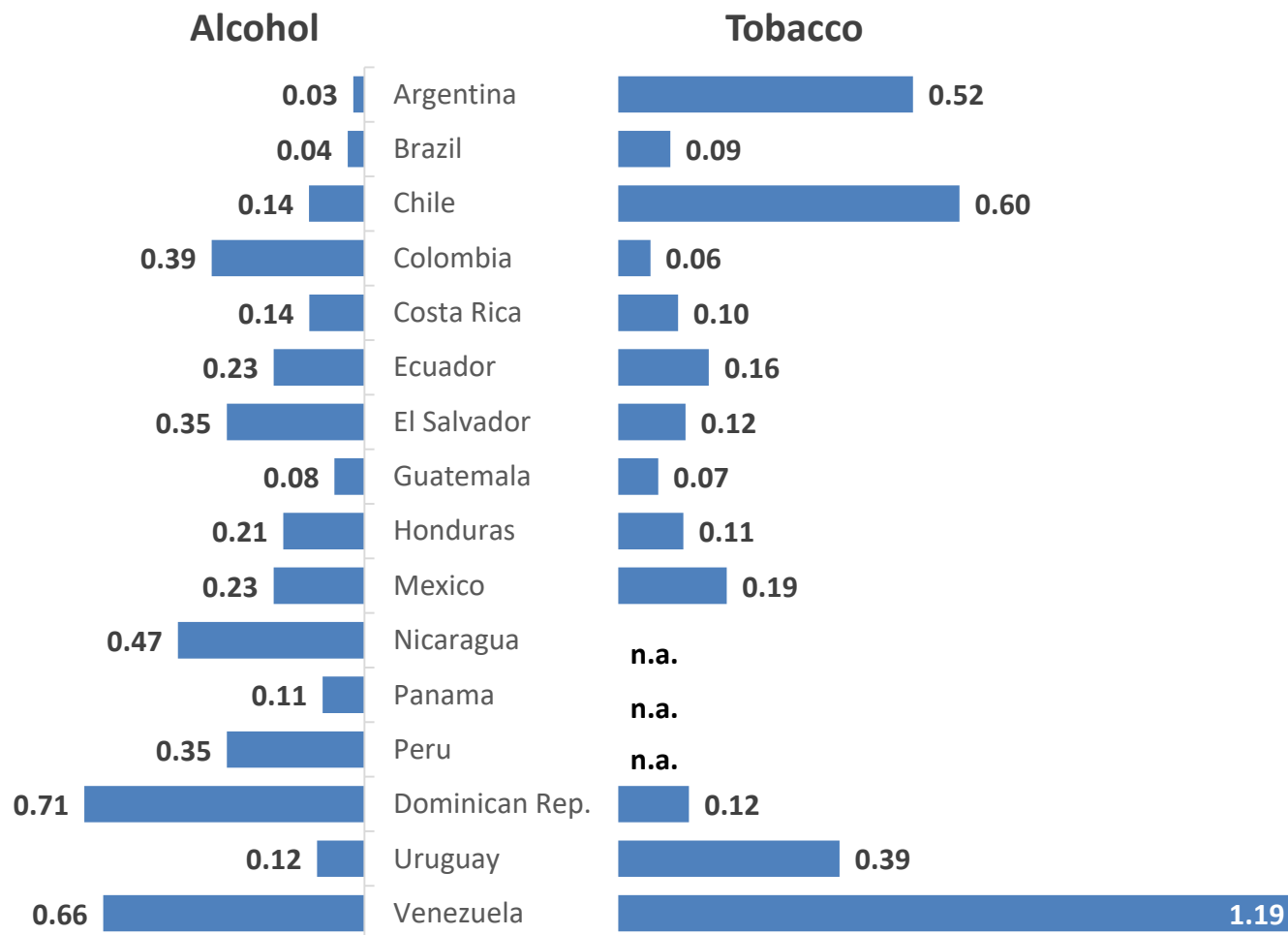


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The case of taxes to address public health concerns

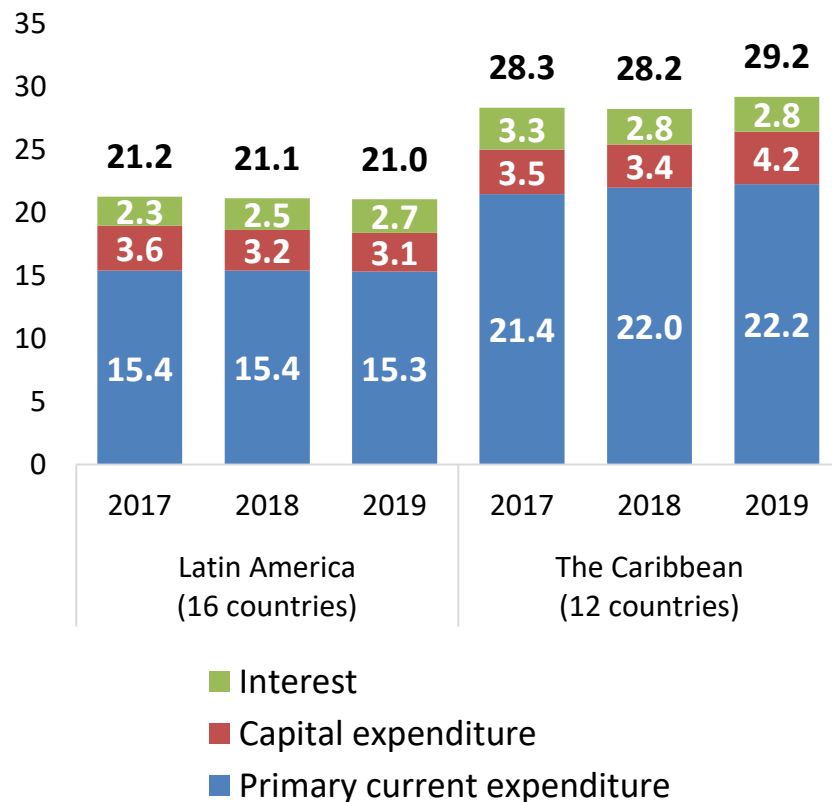
LATIN AMERICA: REVENUES FROM TAXES ON ALCOHOL AND TOBACCO, 2016

(In percentages of GDP)

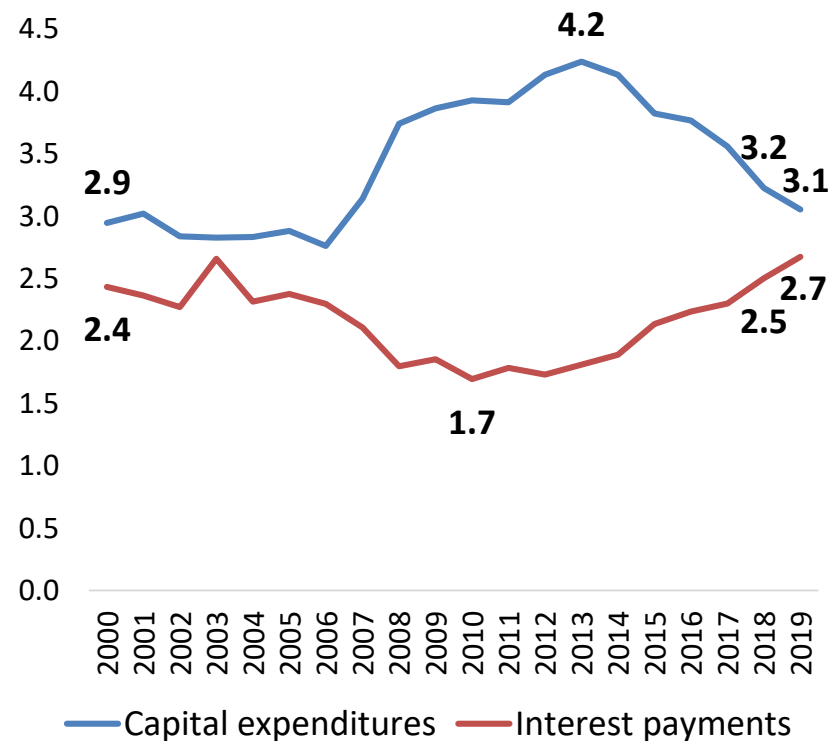


On the expenditure side, the relative stability of total spending has come at the cost of public investment

LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF CENTRAL GOVERNMENT TOTAL EXPENDITURE, BY TYPE OF EXPENDITURE, 2017-2019 ^a
(Percentages of GDP)



LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT CAPITAL EXPENDITURES AND INTEREST PAYMENTS, 2000-2019 ^a
(Percentages of GDP)

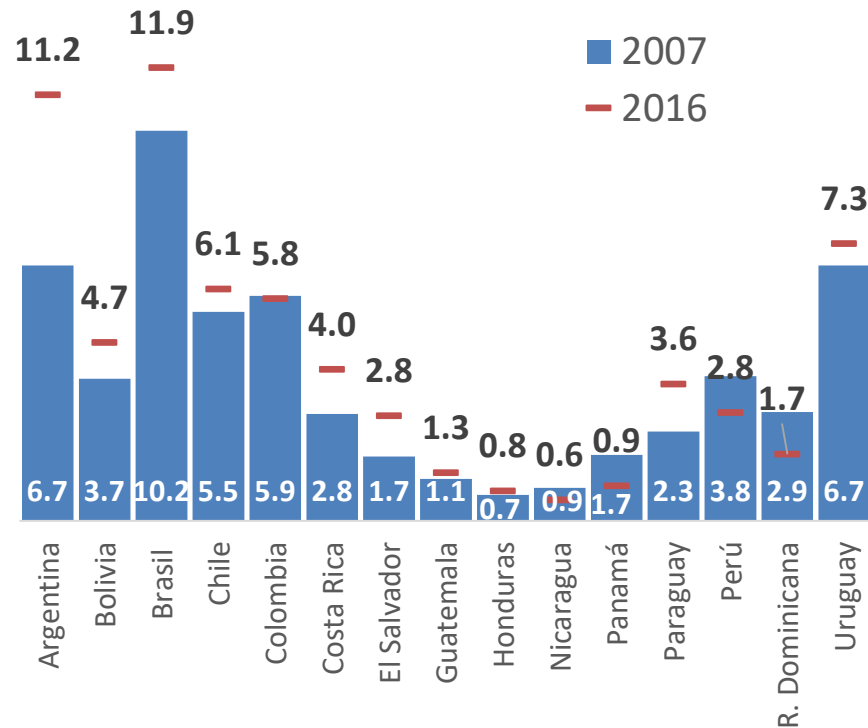


^a Simple averages. Figures for 2019 correspond to budget estimates and official estimates.

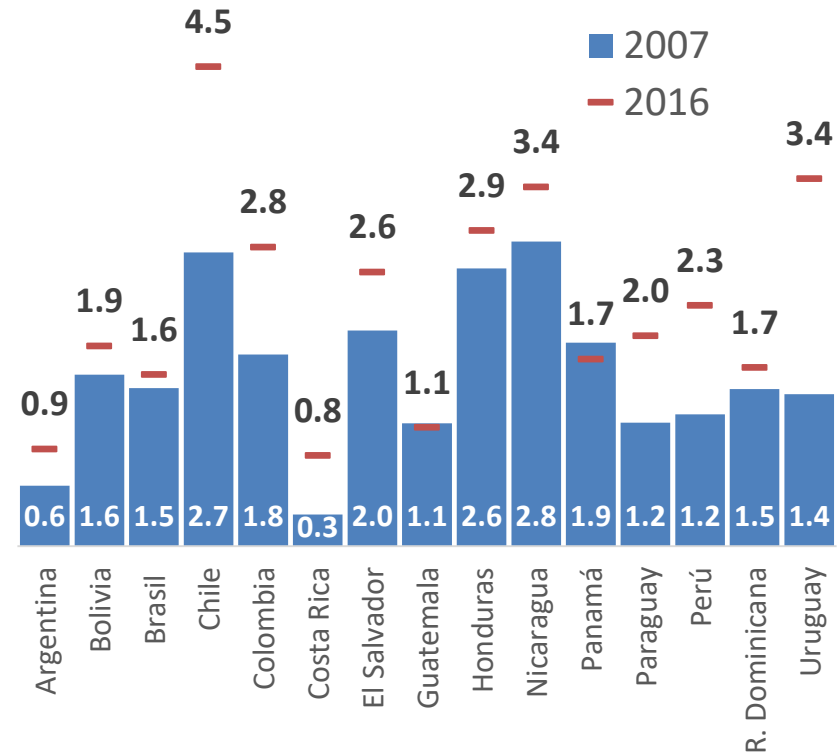
Source: ECLAC, on the basis of official figures.

Cost of social protection due to demographic transition will put increasing pressure on expenditure

**LATIN AMERICA (15 COUNTRIES): SOCIAL PROTECTION
SPENDING BY CENTRAL GOVERNMENTS, 2007 AND 2016**
(Percentages of GDP)



**LATIN AMERICA (15 COUNTRIES): HEALTH SPENDING BY
CENTRAL GOVERNMENTS, 2007 AND 2016**
(Percentages of GDP)



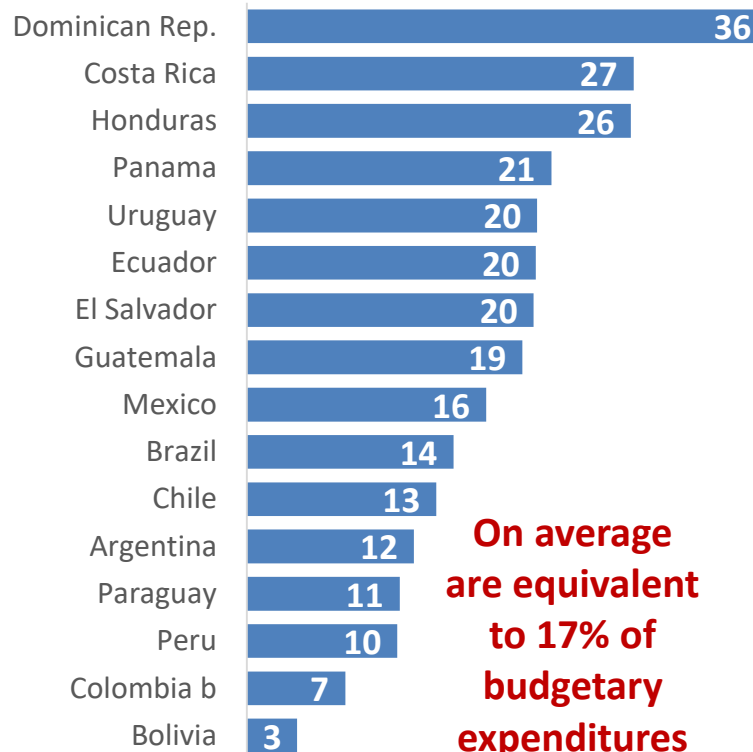
^a Simple averages.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

There is a need to evaluate preferential tax treatments (foregone revenue)

LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES): TAX EXPENDITURES AS A SHARE OF CENTRAL GOVERNMENT

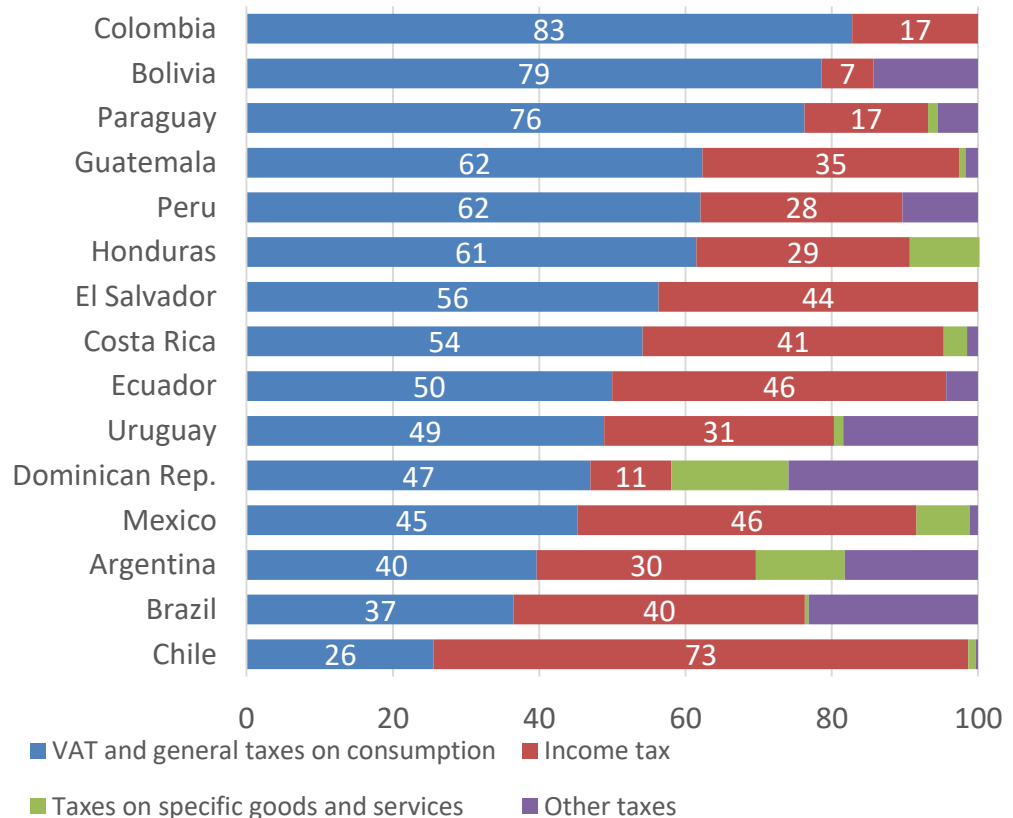
EXPENDITURES, 2017 ^a
(Percentages)



**On average
are equivalent
to 17% of
budgetary
expenditures**

LATIN AMERICA (14 COUNTRIES): COMPOSITION OF TAX EXPENDITURES, AROUND 2018

(Percentages)






Source: ECLAC, on the basis of official figures.

^a Simple averages.

^b The tax expense associated with VAT is not included. It is overestimated, given that it considers exclusions that do not generate an effective collection loss, since the particularities of tax legislation do not allow VAT to be applied to certain cases. If only those goods and services that can be taxed with VAT are included, the tax expense in this tax is reduced by half.

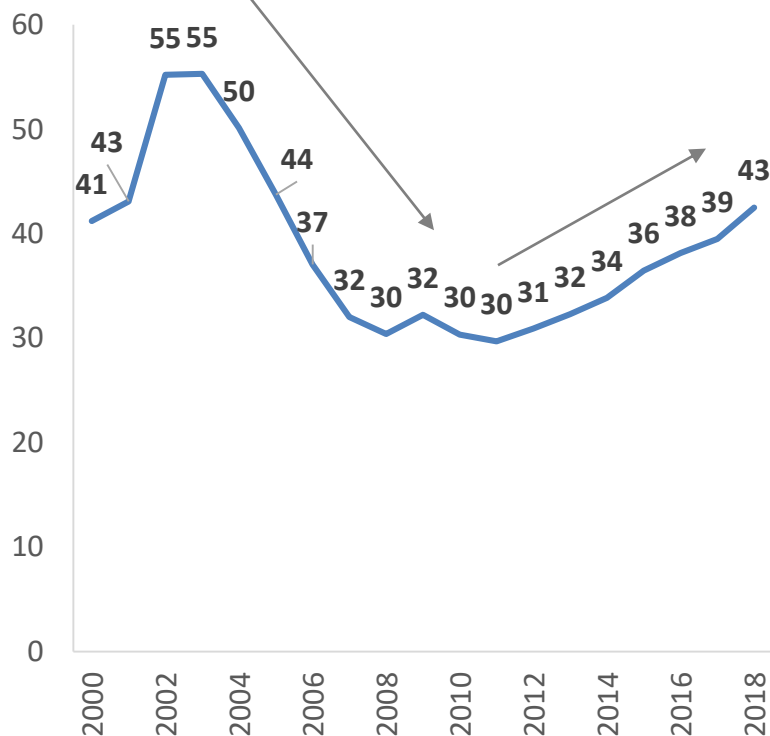
Reorient tax expenditures as incentives to achieve the Sustainable Development Goals

SDG	Examples of tax benefit or incentive policies
 <p>7 ENERGÍA ASEQUIBLE Y NO CONTAMINANTE</p>	<ul style="list-style-type: none"> • Incentives that reduce the cost of investment for the generation of renewable energy (accelerated depreciation, deductions or tax credits) or promote their use (Argentina, Chile, Colombia, Ecuador, Mexico, Panama, Peru, Dominican Republic and Uruguay)
 <p>12 PRODUCCIÓN Y CONSUMO RESPONSABLES</p>	<ul style="list-style-type: none"> • Deductions or credits for investments in clean production (Colombia, Ecuador and Uruguay) • Incentives for investments in forest plantations (Argentina, Chile, Colombia, Ecuador, Nicaragua, Panama and Uruguay) • Gradual elimination of tax incentives for fossil fuels
 <p>13 ACCIÓN POR EL CLIMA</p>	<ul style="list-style-type: none"> • Incentives for low-carbon consumer goods, such as electric vehicles, led lighting or solar panels, among others (Chile, Mexico, Paraguay and Uruguay) • Tax incentives for the adoption of clean technologies (Colombia, Ecuador, Uruguay)

Debt has trended upwards in Latin America in spite of consolidation efforts

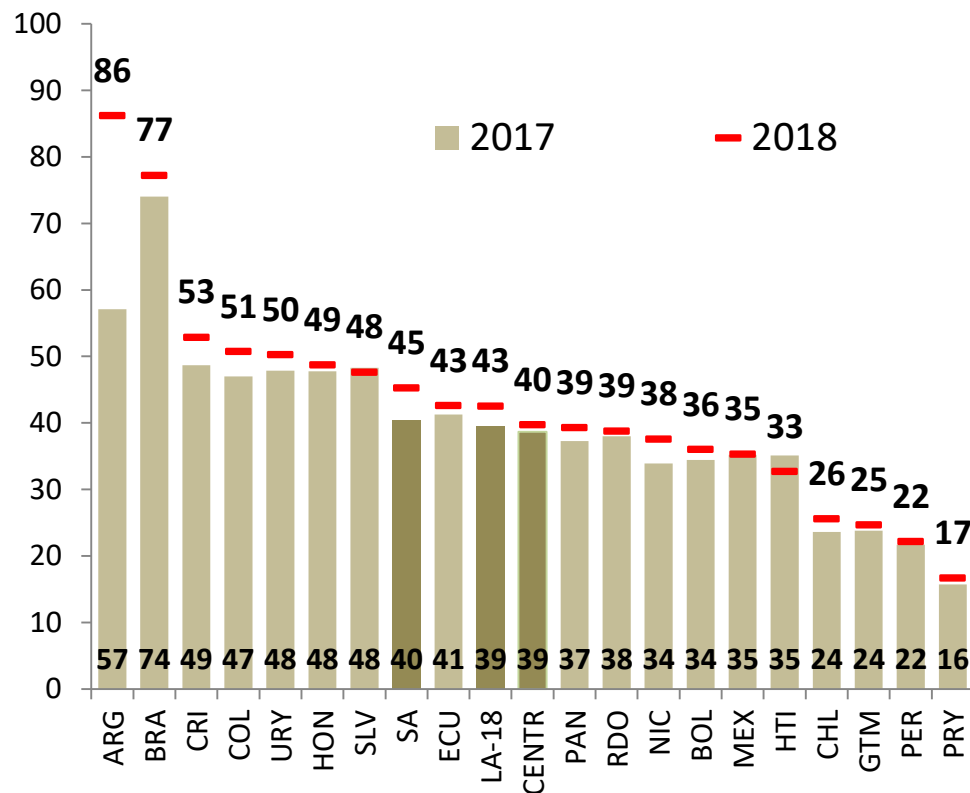
LATIN AMERICA (18 COUNTRIES): GROSS CENTRAL GOVERNMENT DEBT, 2000-2018

(Percentages of GDP)



LATIN AMERICA (18 COUNTRIES): CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2017- 2018

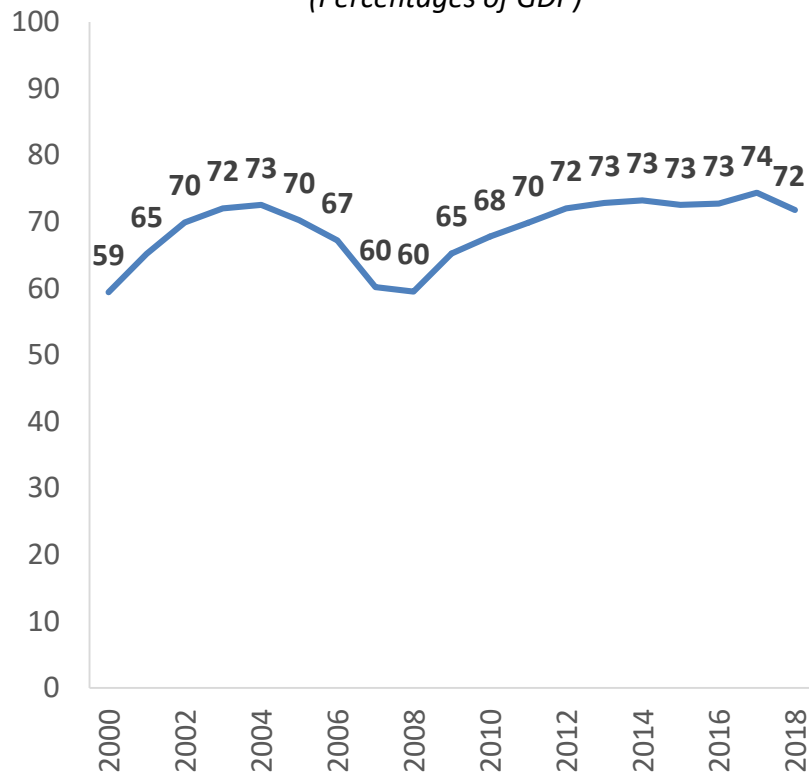
(Percentages of GDP)



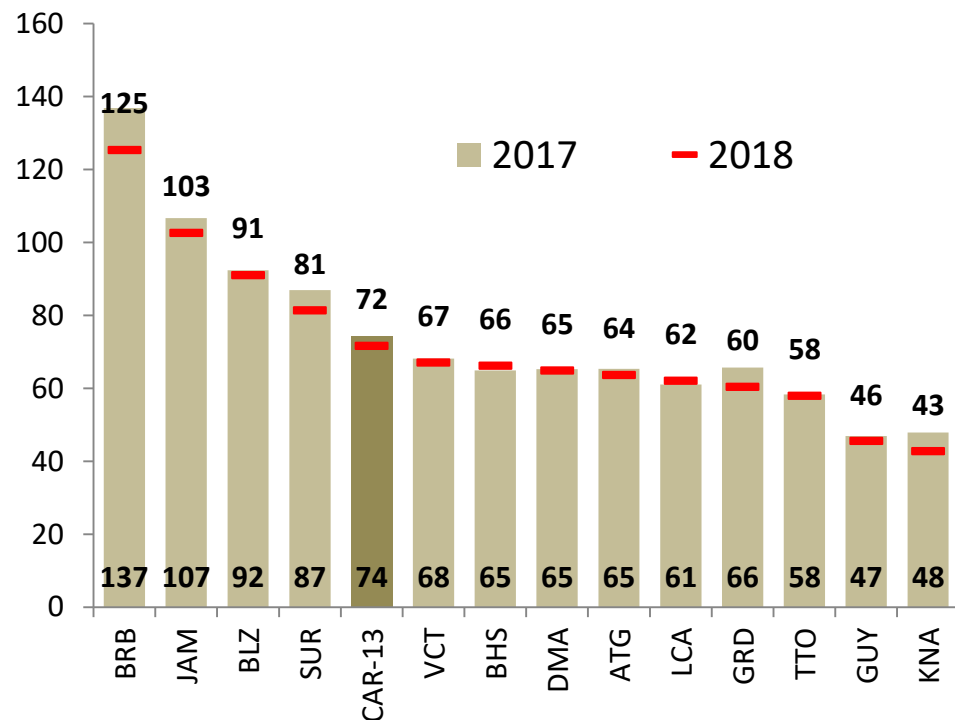
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In contrast, consolidation measures in the Caribbean have resulted in a reduction in gross public debt

**THE CARIBBEAN (13 COUNTRIES): CENTRAL GOVERNMENT
GROSS PUBLIC DEBT, 2000- 2018**
(Percentages of GDP)

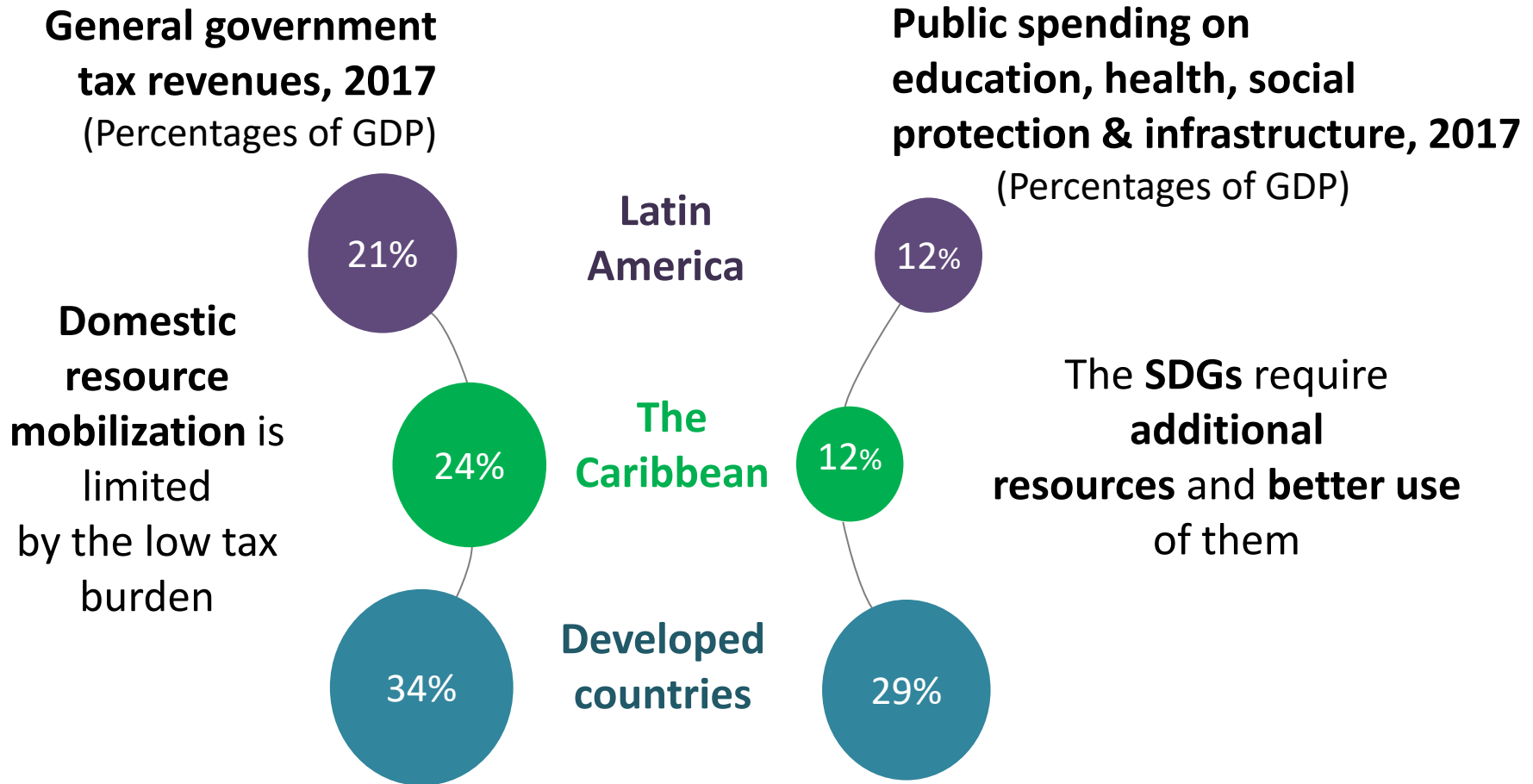


**THE CARIBBEAN (13 COUNTRIES): CENTRAL GOVERNMENT
GROSS PUBLIC DEBT, 2017- 2018**
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The region (MICs) needs active fiscal policies to finance the 2030 Agenda



Source: Economic Commission for Latin America and the Caribbean (ECLAC), OECD.stat, WB WDI and IMF.

Implementing the 2030 Agenda calls for active fiscal policies that enhance the mobilization of fiscal resources and promote their better use

Four tools to broaden the fiscal space

- ✓ Reduce tax evasion and illicit financial flows
- ✓ Adopt environmental and health taxes on the digital economy
- ✓ Rethink tax expenditures to aligning them with investment results
- ✓ Strengthen taxation of personal income and property

Four policies on public spending and investment

- ✓ Protect dual (social and labor) inclusion on the basis of social spending
- ✓ Orient public investment towards innovative technologies based on natural resources
- ✓ Foster public-private agreements to boost infrastructure and renewable energy
- ✓ Redesign fiscal incentives for industrial policies

Regional multilateral space to close policy asymmetries

- ✓ Forge regional and global agreements to reduce evasion, avoidance and illicit flows
- ✓ Reduce harmful tax competition
- ✓ Review and align tax incentives for investment
- ✓ Reduce global asymmetries and strengthen dialogue with transnational companies



Follow us on:



<https://www.cepal.org/es>



https://twitter.com/cepal_onu



<https://www.facebook.com/cepal.onu>



<https://www.youtube.com/user/CEPALONU>



<https://www.flickr.com/photos/cepal>