

# Fiscal policy for growth, redistribution and productive transformation

Community of Latin American and Caribbean States (CELAC)  
Meeting of Ministers of Finance of Latin America and the  
Caribbean

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Executive Secretary  
ECLAC

Presentation draws on two reports:

- *Fiscal Panorama of Latin America and the Caribbean, 2023 : fiscal policy for growth, redistribution and productive transformation*
- *Public debt and development distress in Latin America and the Caribbean*

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- **The macroeconomic context**
- The fiscal situation
- Growth and development distress from public debt
- Sectors to drive growth and collaboration

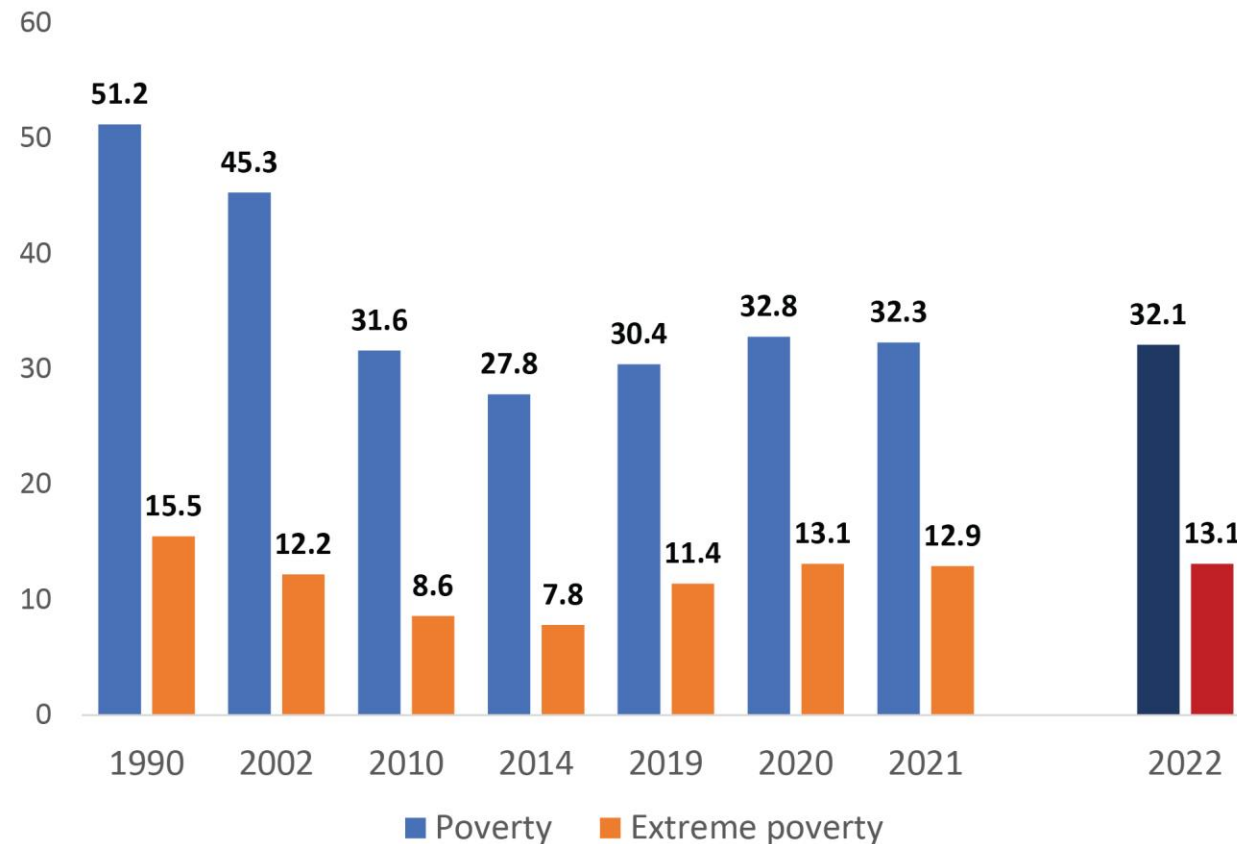
# **A complex external scenario: sluggish growth in global business and trade, high inflation and interest rates and financial volatility**

- A slowdown in global growth
  - Global GDP rose 2.8% in 2023 against 3.4% in 2022, well below the growth rate in the decade preceding the pandemic (3.7% between 2020 and 2019).
- Global trade is also slowing
  - Growth in the volume of global trade in 2023 stands at 1.7%, compared with 2.7% in 2022.
- Commodity prices are projected to be 21% lower in 2023, but are expected to remain 42% above the average prices in 2019, the year before the pandemic
- Despite the easing of inflationary pressure, inflation will remain high in 2023, well above the pre-pandemic average
  - Average global inflation in 2023 is projected to come in at 7% (compared with 8.7% in 2022 and 3.6% over the period 2010–2019).
- High interest rates are expected to persist in developed economies
  - In the United States, policy rates are expected to be lower in the second half of 2023, while remaining high, at around 4%, at year-end. Interest rates are currently between 5% and 5.25%.
  - Rate hikes will continue in the Eurozone. The current rate is 3.25% and is expected to close out the year at 4%.
- Financing costs for emerging markets, including Latin America, continue to be high
  - In addition to global interest rate hikes, the financial turbulence observed at the beginning of March exacerbated financial market uncertainty and volatility.

# Internally, the region is also facing a complex macroeconomic and social scenario

- A low growth trend continues in the region.
- The countries of the region are facing limited fiscal and monetary policy space.
- The cost of financing has risen.
- Low employment growth, while informality, poverty and inequality remain high.

**LATIN AMERICA (18 COUNTRIES): POVERTY AND EXTREME POVERTY RATES, 1990–2022**  
(Percentages)

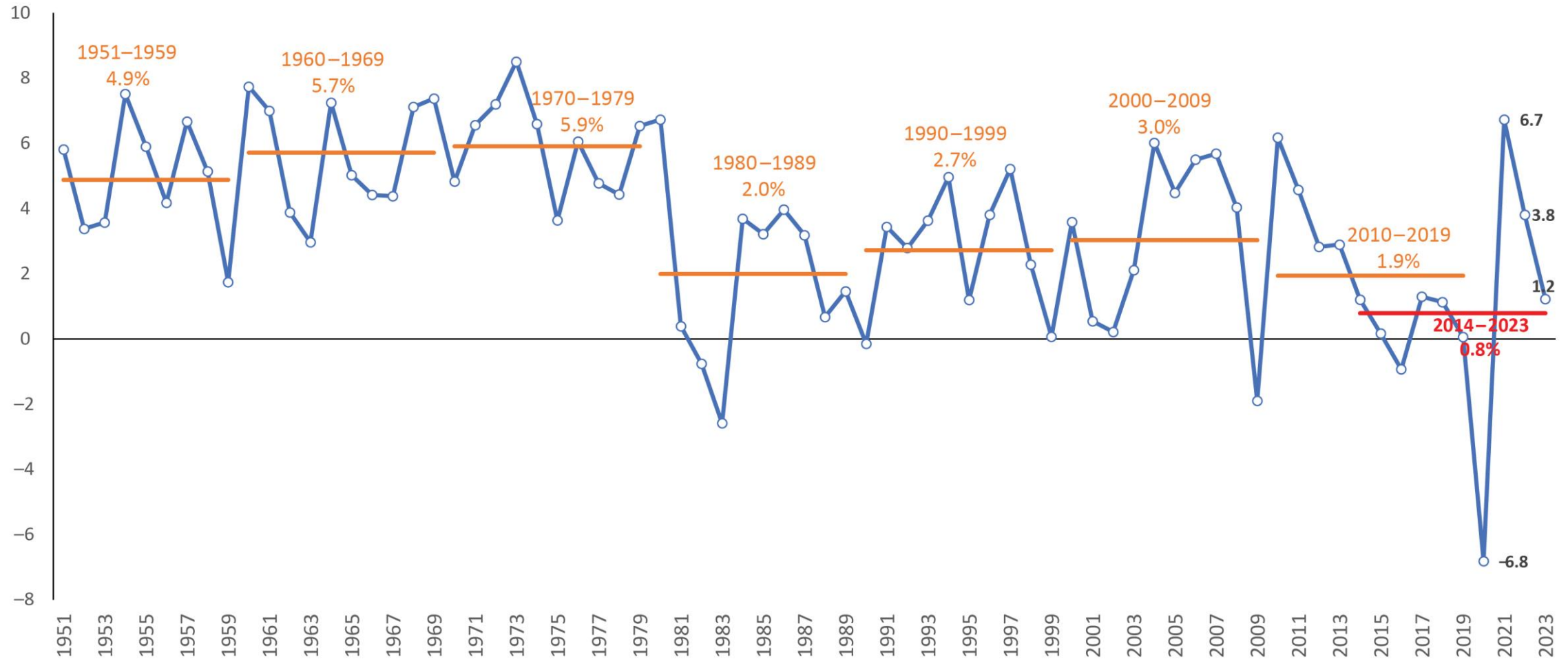


**Source:** ECLAC, *Social Panorama of Latin America and the Caribbean*, 2022 (LC/PUB.2022/15-P), Santiago, 2022.

**Note:** Figures for 2022 are projections.

# Economic growth in the decade 2014–2023 will be lower than that of the “lost decade” of the 1980s debt crisis

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATE, 1951–2023  
(Percentages)



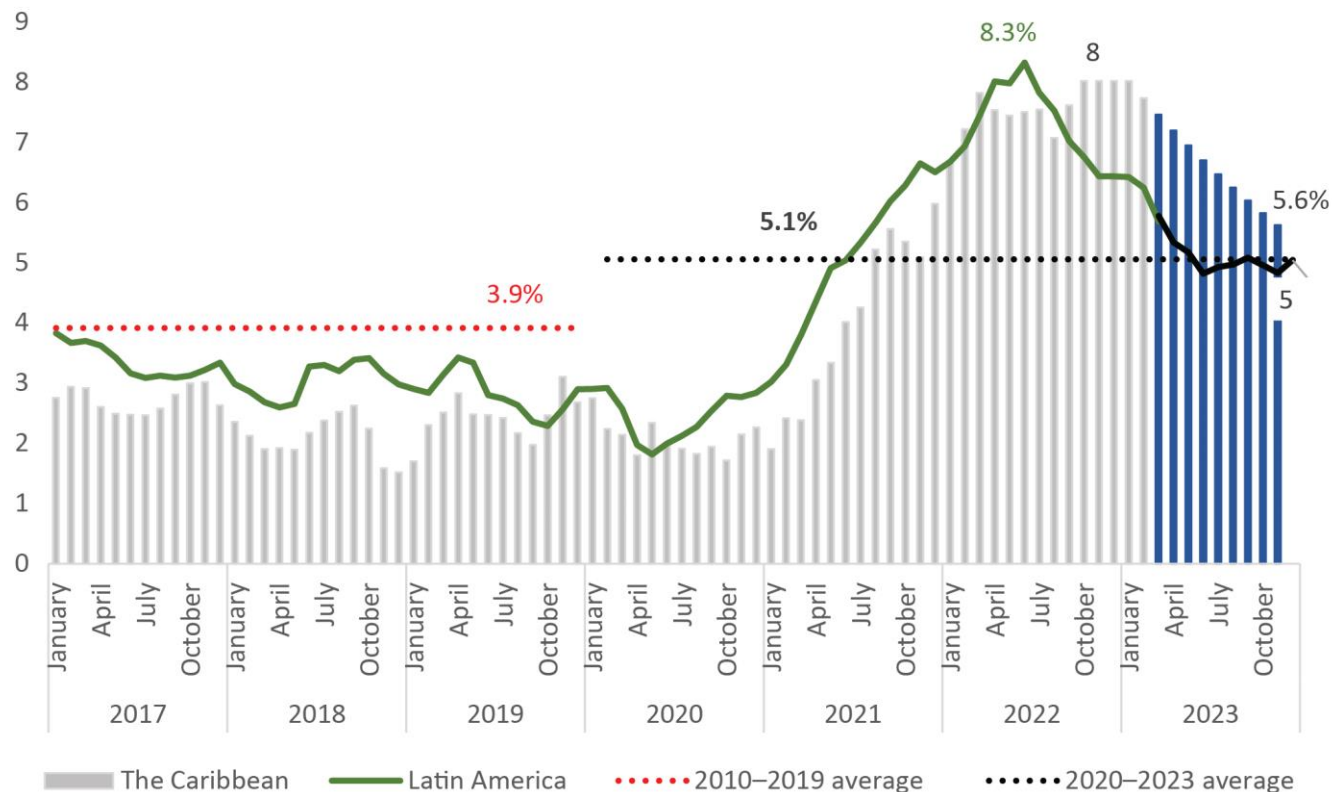
Source: ECLAC, on the basis of official figures.

Note: The figure for 2022 is an estimate and that for 2023 is a projection.

# Although inflation is expected to fall, it will remain high in 2023, as will interest rates

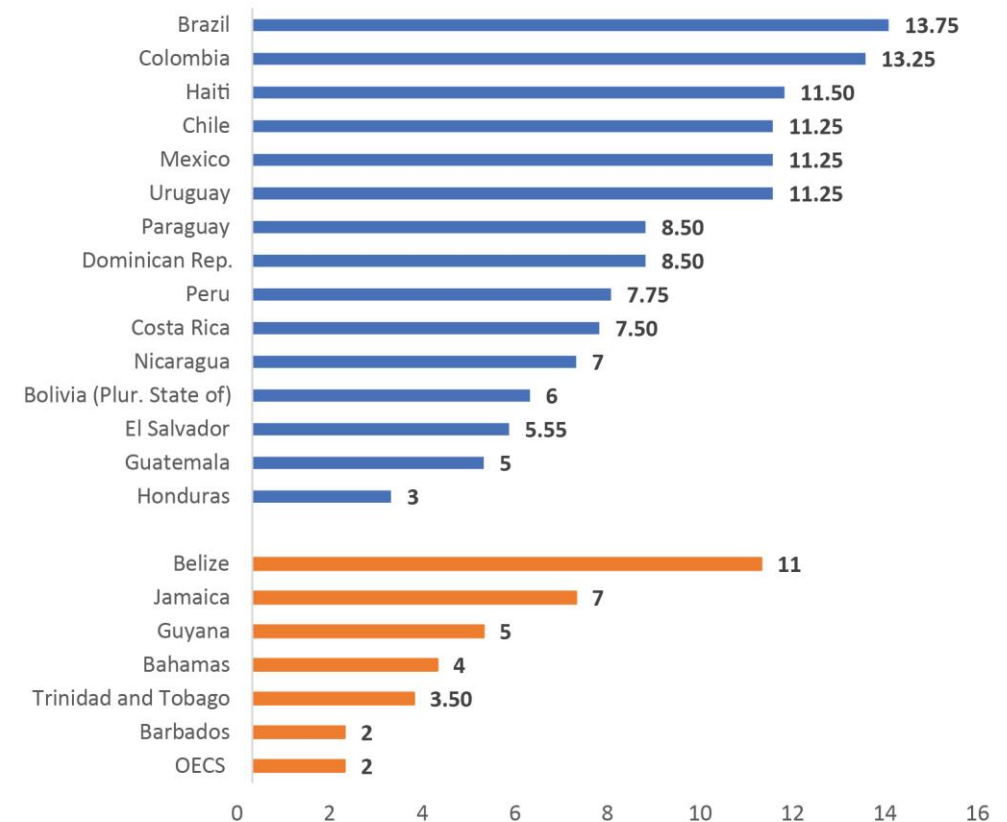
**LATIN AMERICA AND THE CARIBBEAN: 12-MONTH VARIATION IN THE CONSUMER PRICE INDEX (CPI), JANUARY 2019–FEBRUARY 2023, AND PROJECTIONS FOR MARCH–DECEMBER 2023**

(Percentages)



**LATIN AMERICA AND THE CARIBBEAN: MONETARY POLICY RATES, APRIL 2023**

(Percentages)



**Source:** ECLAC, on the basis of official figures and projections from *Latin American Consensus Forecast, 2023*; *OECD Economic Outlook, Interim Report March 2023*, *World Economic Outlook* and data from Bloomberg.

**Note:** Economies with chronic inflation (Argentina, the Bolivarian Republic of Venezuela, Cuba, Haiti and Suriname) are excluded from the averages.

**Source:** ECLAC, on the basis of official figures.

**Notes:** (i) Nominal rate as of April 2023 or latest available rate. (ii) The economies included in the Organisation of Eastern Caribbean States (OECS) group are Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

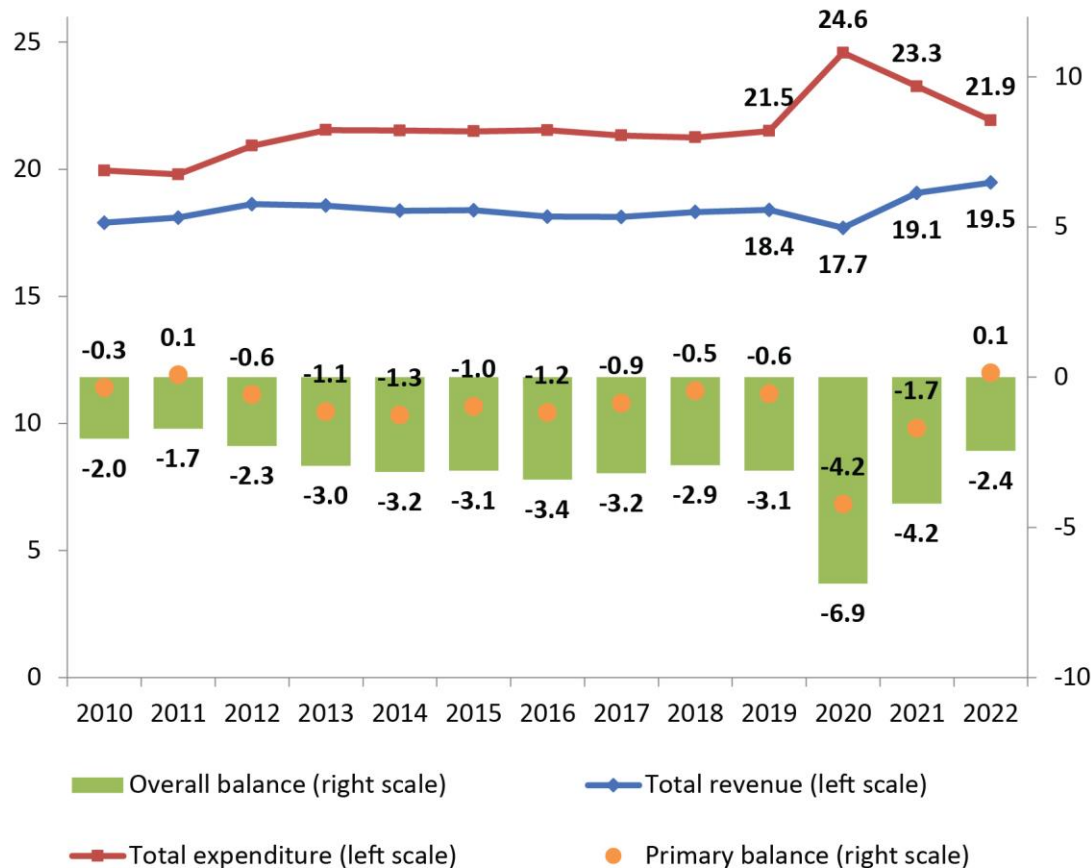
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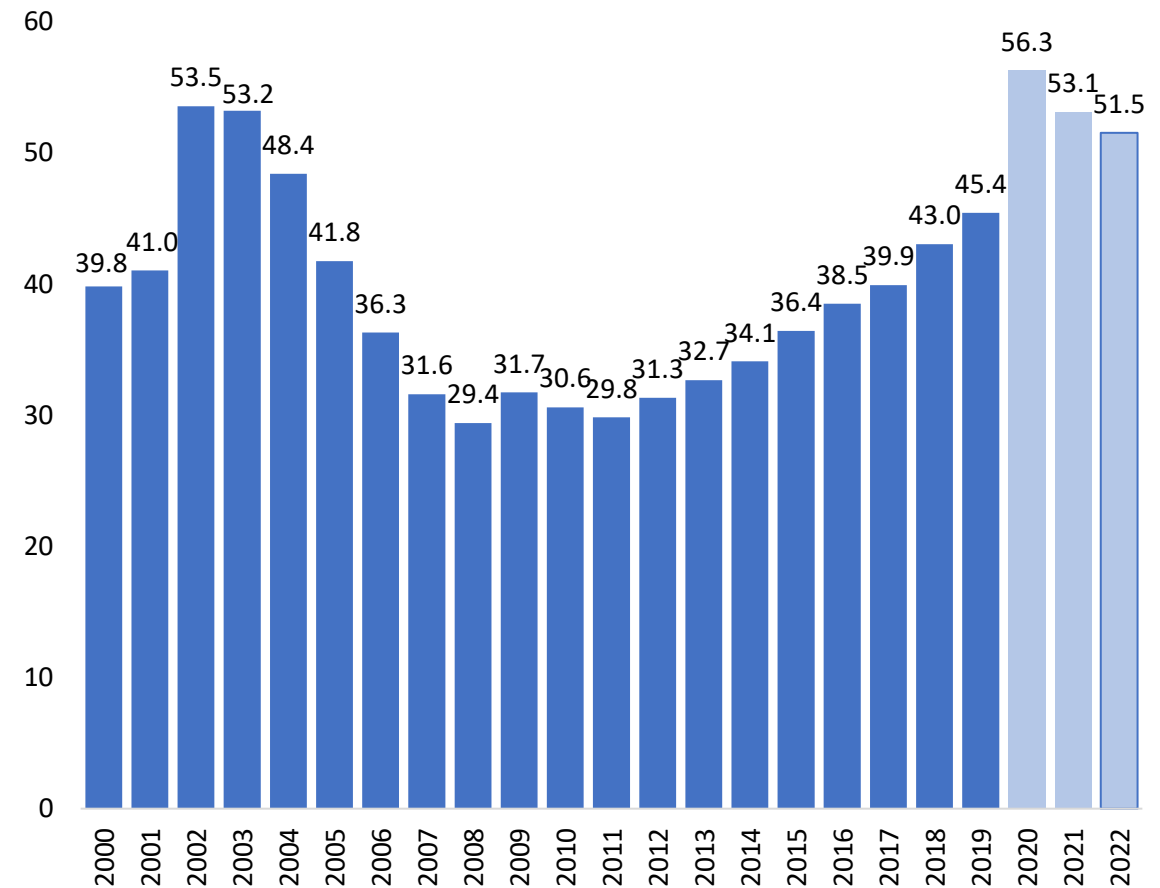


# In Latin America, lower deficits were a reflection of both higher revenues and lower spending, but public debt levels remain elevated

**LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2010–2022**  
(Percentages of GDP)



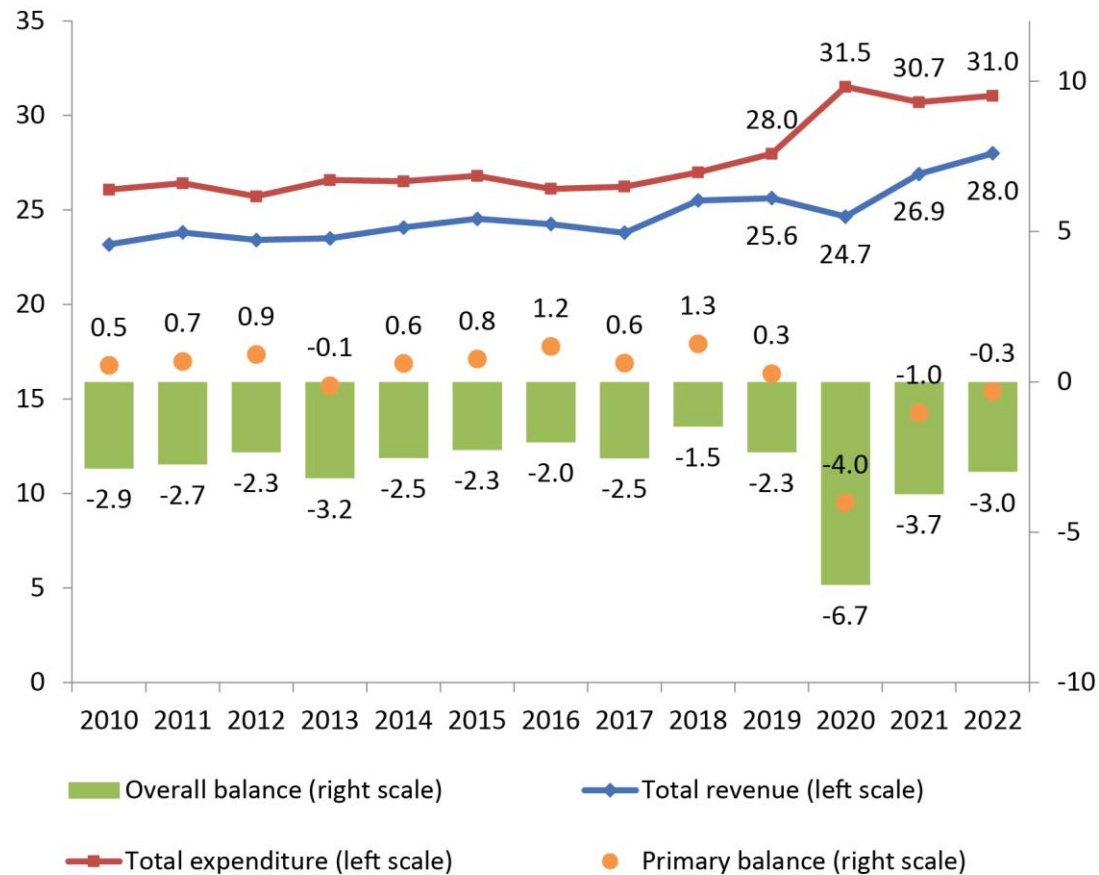
**LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2000–2022**  
(Percentages of GDP)



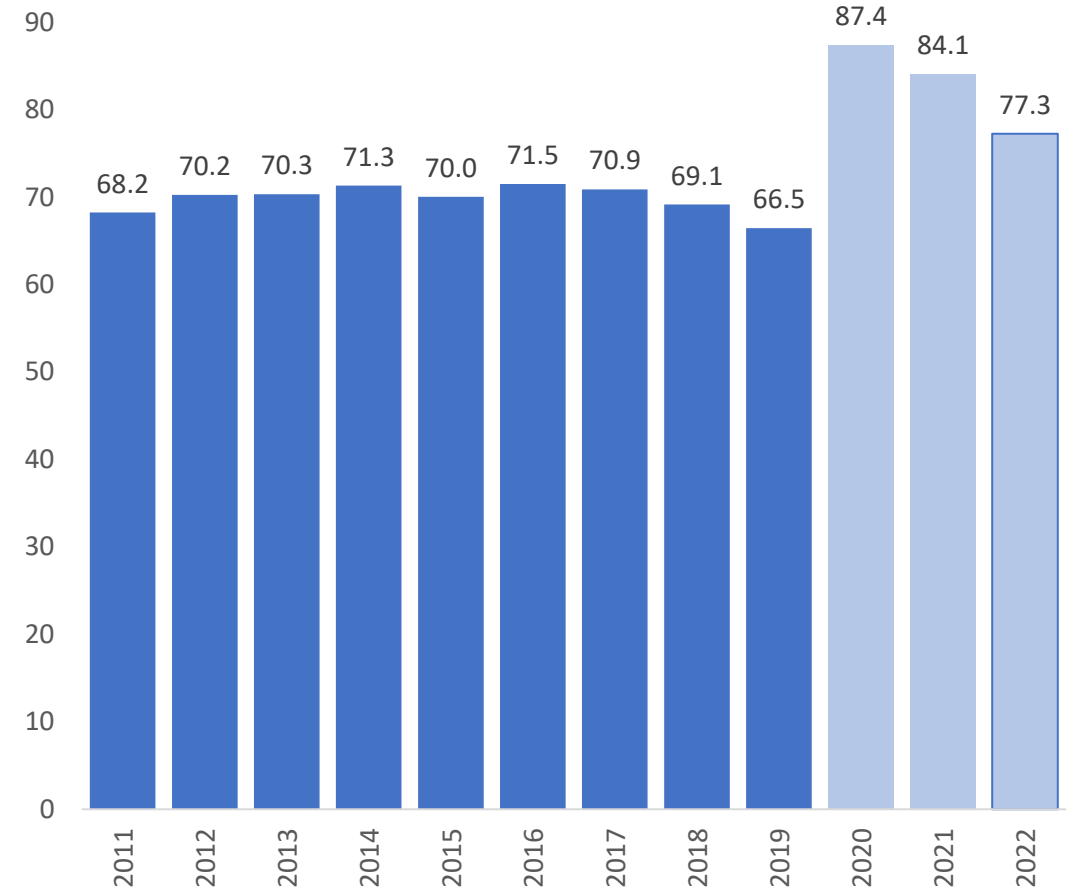
Source: ECLAC, *Fiscal Panorama of Latin America and the Caribbean, 2023* (LC/PUB.2023/5-P), Santiago, 2023, on the basis of official figures.

# In the Caribbean, deficits narrowed thanks to an upturn in revenues while debt remains on a downtrend, albeit at high levels

**THE CARIBBEAN (12 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2010–2022**  
(Percentages of GDP)



**THE CARIBBEAN (13 COUNTRIES): CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2011–2022**  
(Percentages of GDP)



**Source:** ECLAC, *Fiscal Panorama of Latin America and the Caribbean, 2023* (LC/PUB.2023/5-P), Santiago, 2023, on the basis of official figures.

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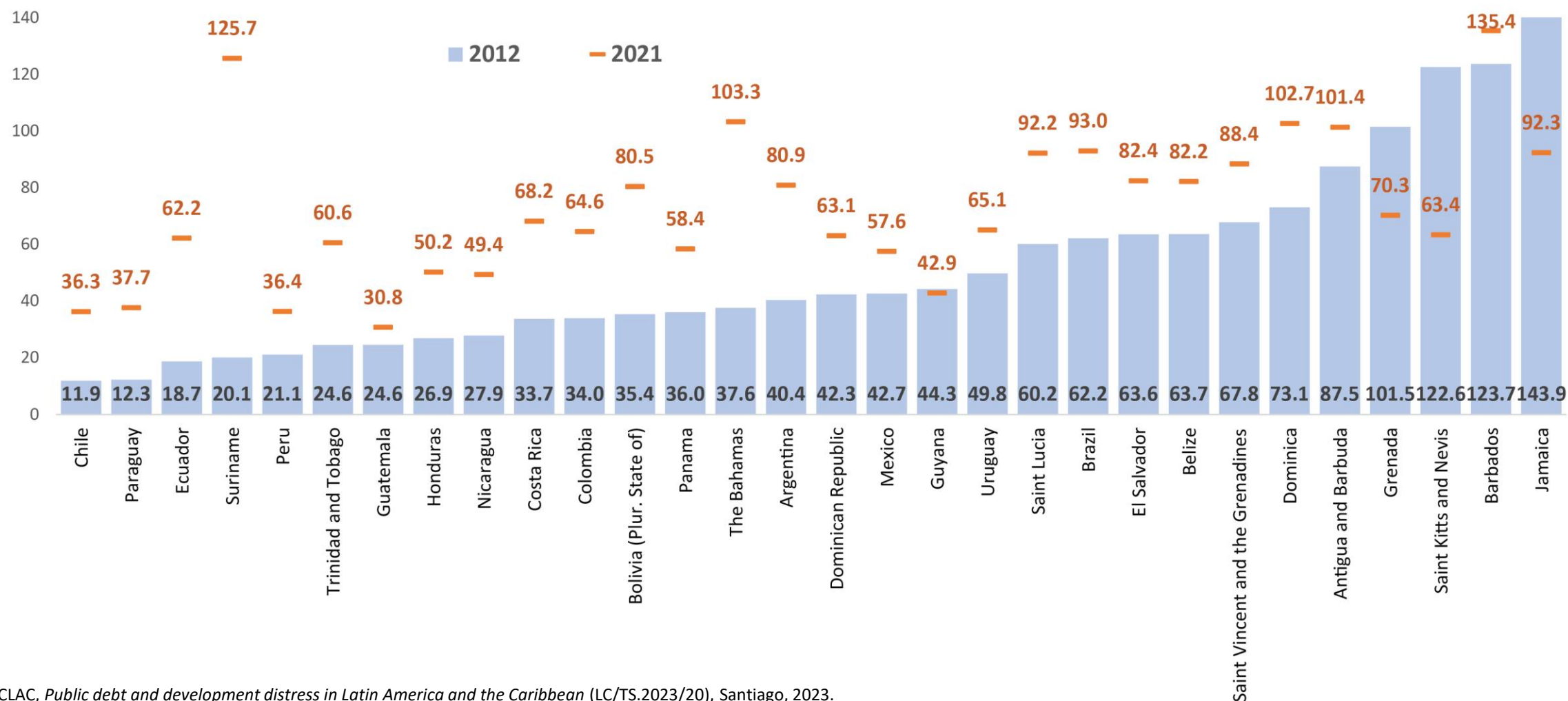
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# Growth and development distress from public debt

- Increase in debt levels between 2012 and 2021 drove up interest payments which, depending on the country, represented between 0.5% and 5.8% of GDP.
- The share of tax revenues going towards interest payments also increased, representing between 3% and 34% depending on the country.
- In Latin America and the Caribbean, the effective interest rate is higher than in other emerging economies and developing countries.
- Weaker macroeconomic conditions with slower growth could accelerate the worsening of the debt trend.
- Rising interest and debt service payments reduce the fiscal space for financing public investment and social spending to advance the SDGs and boost growth.

# Latin America and the Caribbean: public debt dynamics 2012–2021

**LATIN AMERICA AND THE CARIBBEAN (30 COUNTRIES): GENERAL GOVERNMENT GROSS PUBLIC DEBT, 2012 AND 2021**  
(Percentages of GDP)

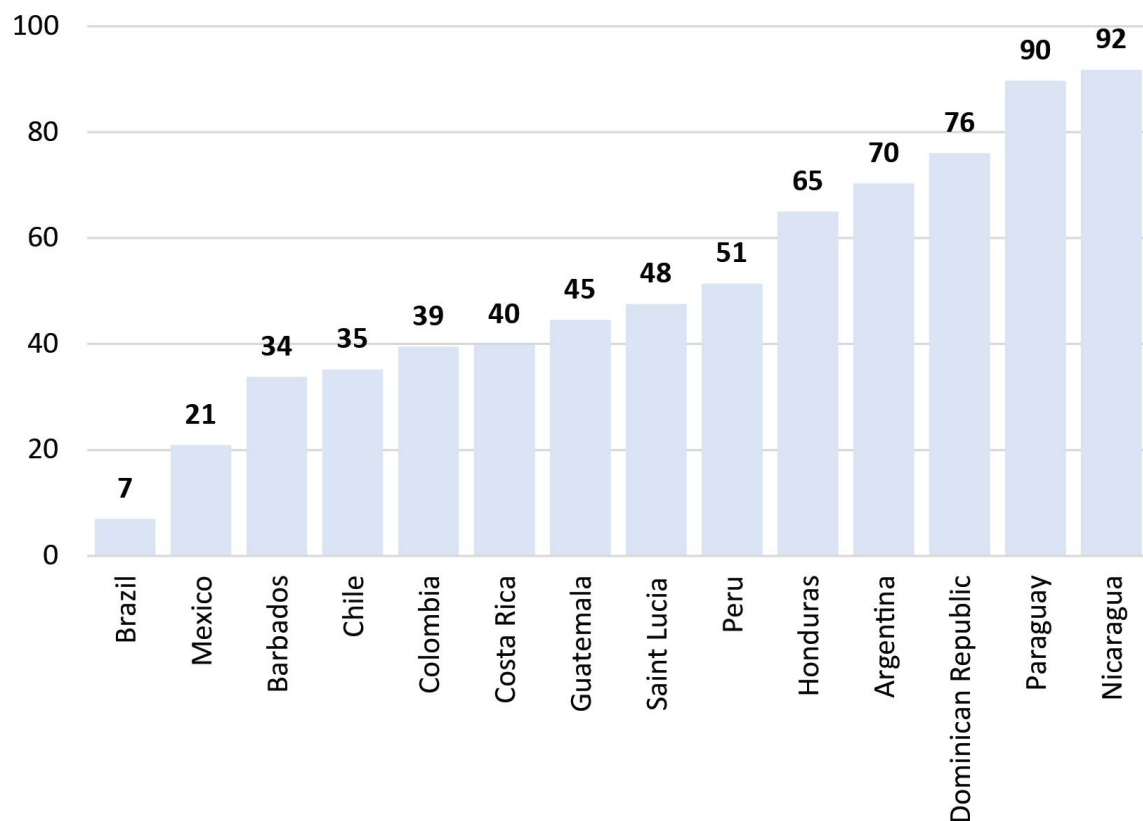


**Source:** ECLAC, *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023.

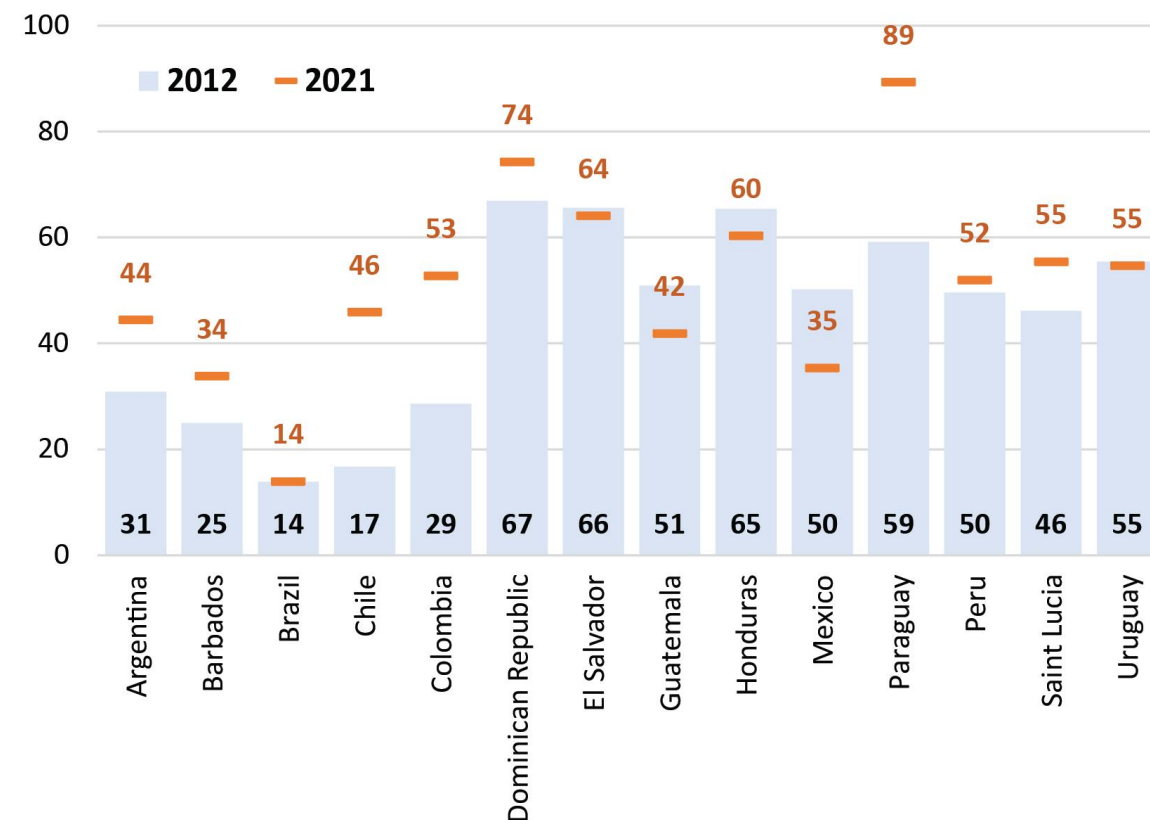
**Note:** Simple averages. Excludes Aruba and the Bolivarian Republic of Venezuela.

# The higher the proportion of foreign currency debt and holdings of non-resident creditors, the higher the vulnerability to external shock

**LATIN AMERICA AND THE CARIBBEAN (14 COUNTRIES): RATIO OF GENERAL GOVERNMENT GROSS PUBLIC DEBT IN FOREIGN CURRENCY TO TOTAL GENERAL GOVERNMENT GROSS PUBLIC DEBT, 2021**  
(Percentages)



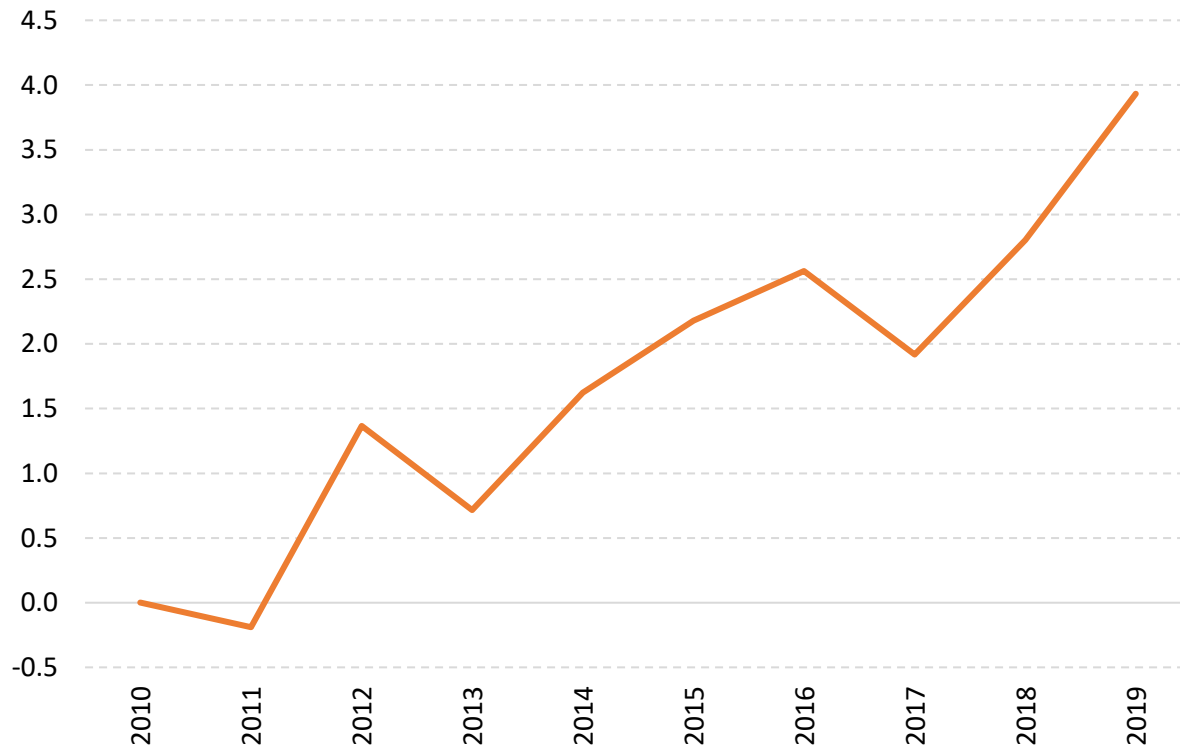
**LATIN AMERICA AND THE CARIBBEAN (14 COUNTRIES): RATIO OF NON-RESIDENT HELD GENERAL GOVERNMENT GROSS PUBLIC DEBT TO TOTAL GENERAL GOVERNMENT GROSS PUBLIC DEBT, 2012 AND 2021**  
(Percentages)



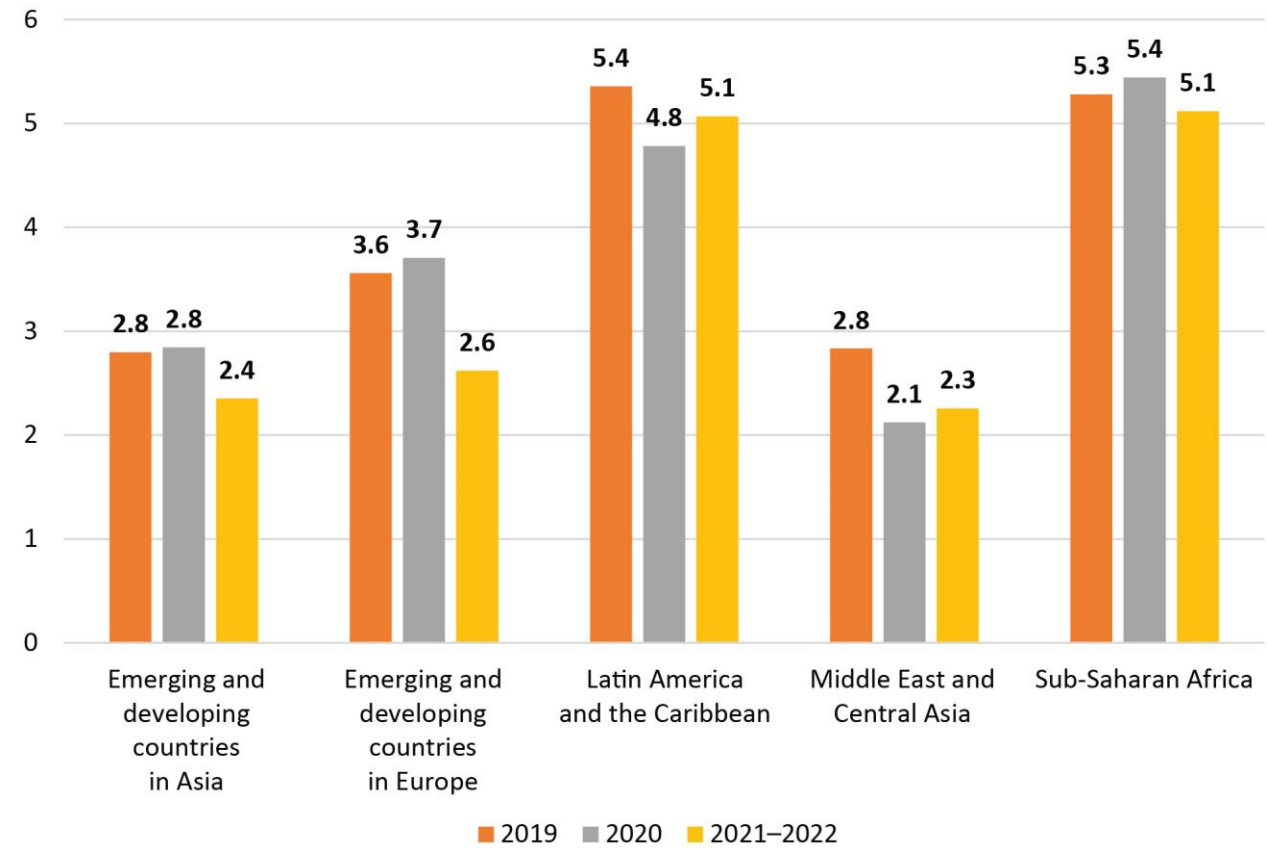
Source: ECLAC, *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023.

# The average effective interest rate in the region is higher than the average growth rate, driving up interest payments and debt levels

**LATIN AMERICA: AVERAGE EFFECTIVE INTEREST RATE AND ECONOMIC GROWTH DIFFERENTIAL, 2010–2019**  
(Percentage points)



**SELECTED REGIONS: EFFECTIVE INTEREST RATE, 2019–2022**  
(Percentage points, on the basis of weighted averages)

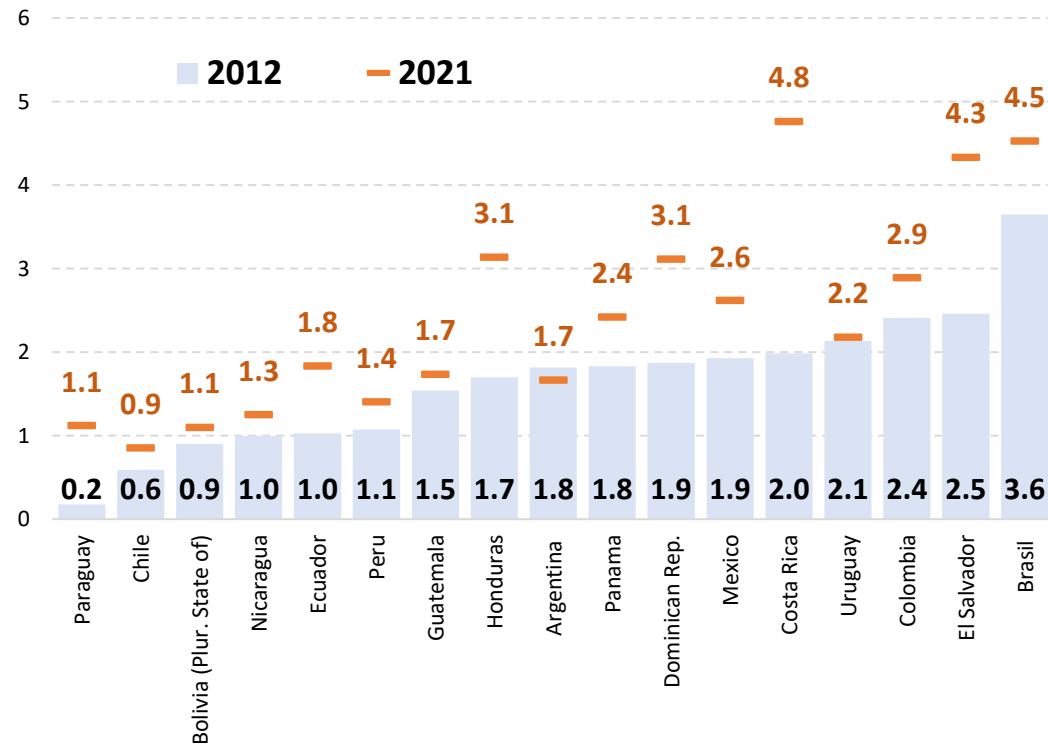


Source: ECLAC, on the basis of ECLAC, *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023.

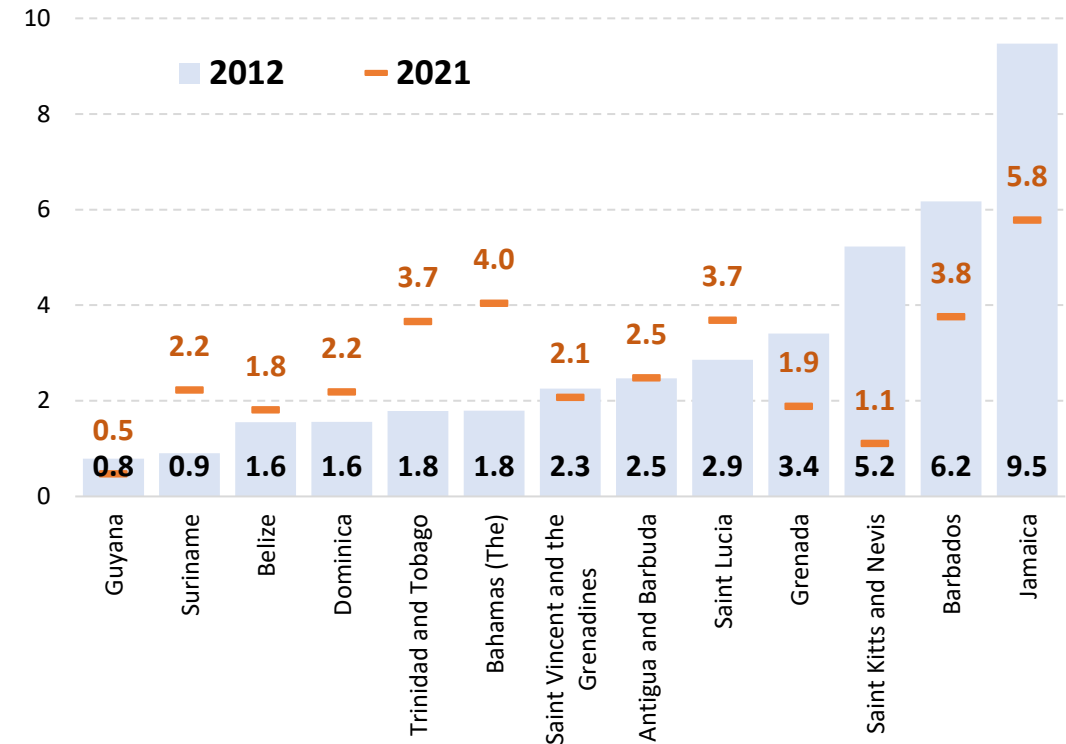
# The increase in debt has led to a rise in interest payments in the region, to different extents in each country

LATIN AMERICA AND THE CARIBBEAN (14 COUNTRIES): CENTRAL GOVERNMENT INTEREST PAYMENTS, 2012 AND 2021  
(Percentages of GDP)

A. Latin America



B. The Caribbean



Source: ECLAC, *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023.

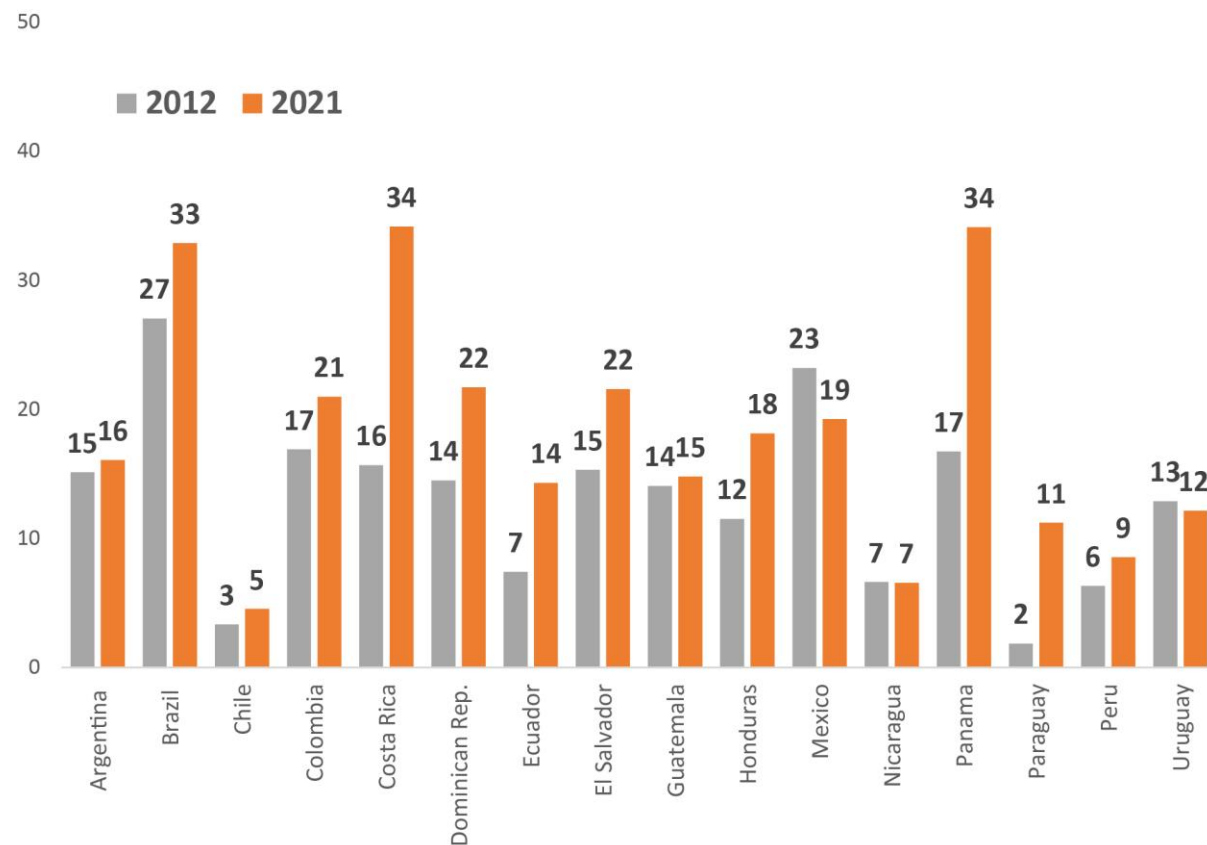


# Latin America and the Caribbean: interest payments as a share of tax revenues 2012–2021

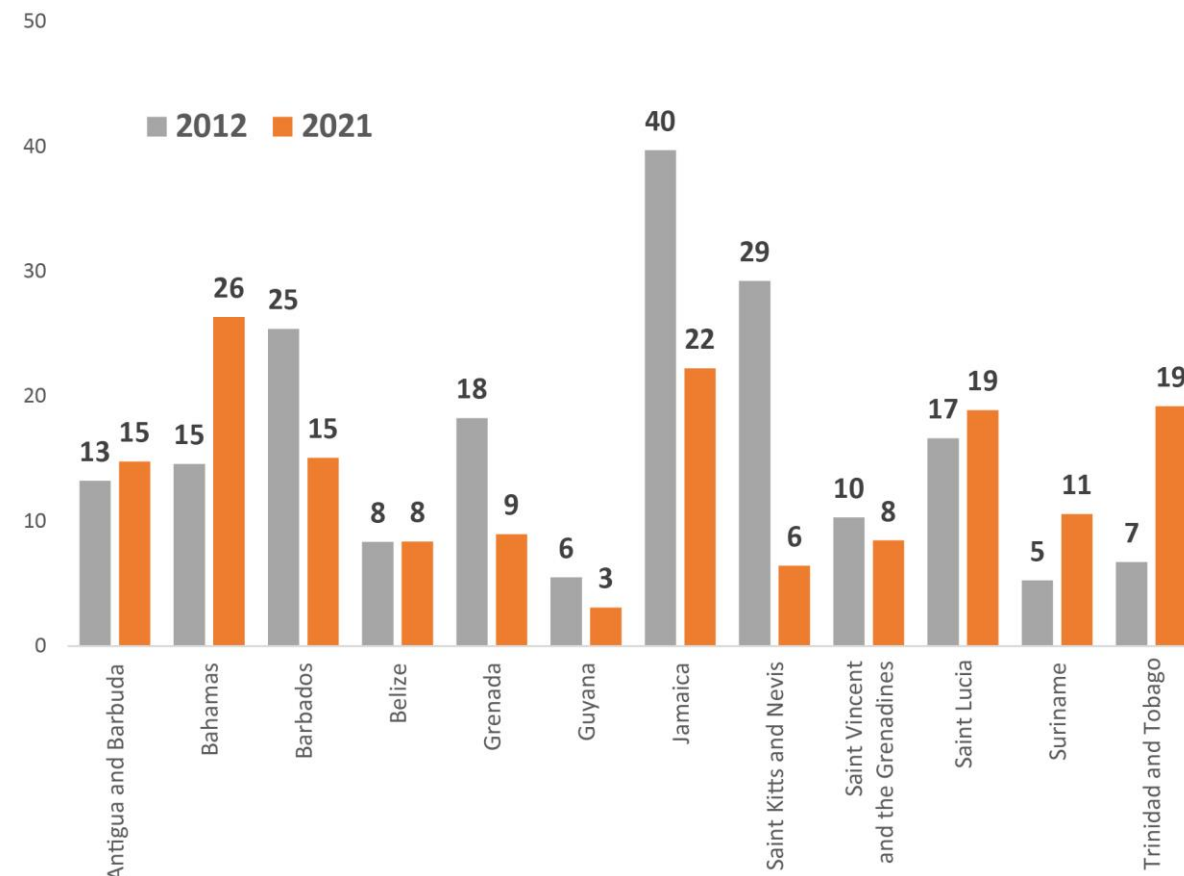
LATIN AMERICA AND THE CARIBBEAN (28 COUNTRIES): RATIO OF CENTRAL GOVERNMENT INTEREST PAYMENTS  
TO TAX REVENUES EXCLUDING SOCIAL SECURITY CONTRIBUTIONS, 2012 AND 2021

(Percentages)

A. Latin America



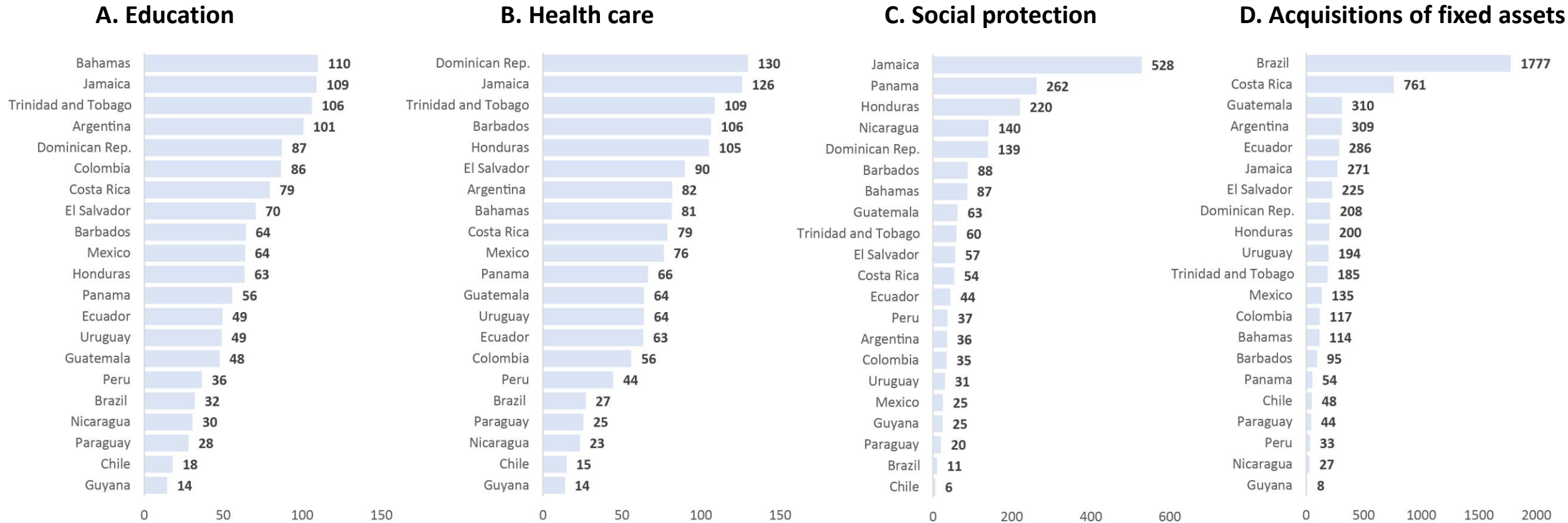
B. The Caribbean



Source: ECLAC, *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023.

# Interest payments are substantial when compared to spending on sectors that are key to inclusive and sustainable social development

**LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): RATIO OF CENTRAL GOVERNMENT INTEREST PAYMENTS TO EXPENDITURE ON EDUCATION, HEALTH CARE, SOCIAL PROTECTION AND ACQUISITIONS OF FIXED ASSETS, 2021**  
(Percentages)



**Source:** ECLAC, *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023.

**Note:** Figures for Brazil, Colombia, Costa Rica, Guatemala, Paraguay, and Peru correspond to the general government. Figures for Argentina, El Salvador, and Mexico correspond to the non-financial public sector. Figures for acquisitions of fixed assets as a share of interest payments correspond to the central government in all cases.

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# Sectors to drive growth and collaboration

**(1) Geographical rearrangement of production (global supply chain reconfiguration)**

**(2) Energy transition: renewable energies, green hydrogen and lithium**

**(3) E-mobility**

**(4) Circular economy**

**(5) The bioeconomy: sustainable agriculture, genetic resources and bio-industrialization**

**(6) Pharmaceutical and life sciences industry**

**(7) The health-care manufacturing industry**

**(8) Modern or ICT-enabled services exports**

**(9) Advanced manufacturing**

**(10) Gender equality and the care society**

**(11) Sustainable water management**

**(12) Sustainable tourism**

**(13) E-government**

# The United Nations proposes a common strategy to address finance and debt challenges

- Aim:
  - Reduce high debt costs for developing countries
  - Improve access to liquidity during difficult periods
  - Boost investment in global, regional and national public goods
  - Address high financial volatility and the lack of debt restructuring mechanisms
- Proposed reforms of the global financial architecture :
  - Improve liquidity and credit facilities (use of SDRs)
  - Lower the cost of financing and create solutions for countries with a high debt burden (create the entity in charge)
  - Massively scale up financing for development and climate (role of Development Banks)
  - Improve regulations of the international financial system
  - Create a new global economic governance (representation, quotas, votes in the IMF/WB)

# **It is important to reflect on the proposals of the United Nations to reform the international financial architecture**

- Proposals for increasing access to liquidity, productive financing and reducing the cost of financing.
- Proposals for a new institutional framework for debt restructuring and debt relief.
- Options for creating a financial safety net at the international and regional level.
- Options for improving global economic governance.