Fiscal policy and development: A comprehensive approach is needed

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While the financing needs are considerable to close development gaps, primary fiscal balances have consistently been below the level needed to stabilize public debt.
Debt service has increased, constraining fiscal space for government spending and investment.
And GDP growth has been below the implicit interest rate affecting public debt sustainability

OECD et al. (forthcoming), Latin American Economic Outlook 2024
This is in particular evident regarding external public debt

Sovereign bond spreads and interest rate - growth differential in LAC, 2007/24 (basis points)

Note: Interest rate-growth differential refers to FED rate + EMBIG spread – domestic GDP growth rate.
OECD et al. (forthcoming), Latin American Economic Outlook 2024
We need to find new sustainable engines of growth

Potential GDP per capita growth in LAC and advanced economies, estimated since 1980 under different methods (%)
In terms of labor productivity, the gap is increasing compared to the OECD average.

Relative labor productivity as a percentage of the OECD

OECD et al. (forthcoming), *Latin American Economic Outlook 2024*
Strategic sectors to boost production transformation

**Transición verde**
- Transición energética
- Economía circular
- Gestión sostenible del agua
- Electromovilidad
- Turismo sostenible

**Salud y economía del cuidado**
- Industria farmaceútica y de dispositivos médicos
- Sociedad del cuidado

**Transformación digital**
- Economía digital
- Exportación de servicios modernos
- Manufactura avanzada

**Sistemas sostenibles de agricultura y producción de alimentos**
- Bioeconomía
- Producción sostenible de alimentos

Investing in the green transition (+3 p.p. per year) can generate higher quality jobs and boost the economy.

Green sectors with the greatest potential for job creation in LAC towards 2030 (under the context that investments in these sectors increase by 3 p.p. yearly):

- Sustainable food manufacturing: +18.8%
- Sustainable construction: +14.3%
- Sustainable commerce: +14.1%
- Sustainable transport: +14.1%
- Public administration: 14.6%
Government expenditure in LAC is relatively low, heterogeneous, and tends to follow the economic cycle.
To promote investment in key public services and increase investments in different transport modes

Public investment in infrastructure in LAC as a percentage of total investment, 2019

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Addressing the financing gap for sustainable development in LAC is a critical task that demands coordinated action.

Private vs. public investment as a share of total investment in LAC and OECD, 2019

OECD et al. (forthcoming), *Latin American Economic Outlook 2024*,
Further private sources of investment are needed to increase R&D in LAC (it only represents 2.3% of the world total)

Towards a more effective investment in public services: the case of education

Average government expenditure per student, primary and secondary, 2001-2016 (% of GDP per capita) vs PISA score (Maths) in 2022

OECD et al. (forthcoming), Latin American Economic Outlook 2024,
Tax morale in LAC has been fluctuating over the last decade but appears to be deteriorating.

% of LAC population that justifies not paying taxes, 2008 - 2023

OECD et al. (forthcoming), Latin American Economic Outlook 2024.
Effective corporate tax rates remain relatively high while there are sector-specific tax incentives mechanisms in LAC.

Corporate effective tax rates and sector-specific investment tax incentives

Panel A. Corporate effective tax rates in LAC, 2021

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<th>CIT rate (%)</th>
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Panel B. EATRs under standard tax treatment (STT) and investment tax incentives in the corresponding sector

Textile industry

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Basic & fabricated metal

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Tourism industry

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OECD et al. (forthcoming), *Latin American Economic Outlook 2024,*
High heterogeneity in terms of debt’s creditors in LAC: There is no unique solution

External public debt stock by creditor (public and private) in selected Latin American and Caribbean countries, 2022

OECD et al. (forthcoming), *Latin American Economic Outlook 2024*,
GSSS bonds can mobilize direct investment to sustainable dev.

External public debt stock by creditor (public and private) in selected Latin American and Caribbean countries, 2022

OECD et al. (forthcoming), *Latin American Economic Outlook 2024*,
Enhanced regulation and oversight are essential to ensure the effectiveness of these instruments and mitigate risks.

Overview of sustainable finance frameworks for GSSS bonds

Panel A. Overview of GSS Bond Sustainable Finance Framework

- Green bonds
  - International level
    - ICMA Green Bond Principles
  - Regional level
    - ASEAN Green Bond Standards
    - EU green bond standard
  - National level
    - National frameworks
      - National taxonomies
      - Monitoring and verification mechanisms

- Sustainability bonds
  - ICMA Sustainability Bond Guidelines

- Social bonds
  - International level
    - ICMA Social Bond Principles
  - Regional level
    - ASEAN Social Bond Standards
    - EU SURE Social Bond Framework
  - National level
    - National frameworks
      - National taxonomies
      - Monitoring and verification mechanisms

Panel B. Overview of Sustainability-linked Bond Finance Framework

- Sustainability-linked bonds
  - International level
    - ICMA Sustainability-linked Bond Principles
  - Regional level
  - National level
  - Issuer level
    - Key performance indicators (KPIs)
    - Sustainability performance targets (SPTs)
    - Monitoring and verification mechanisms

OECD et al. (forthcoming), Latin American Economic Outlook 2024,
National Development Banks are fundamental to achieve the development agenda.

Access finance through different mechanisms: credits, factoring, leasing, guarantees, etc.

National and subnational DFIs can help MSMEs:
- AGRICULTURE, HUNTING and FORESTRY (30%)
- ELECTRICITY, GAS and WATER SUPPLY (14%)
- TRANSPORT, STORAGE and COMMUNICATIONS (7%)
- MANUFACTURING (13%)

Contribute to investments in strategic sectors

Contribute to green, digital and gender goals
