Towards a sustainable, strong and inclusive recovery in LAC: the role of fiscal policy

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UN-ECLAC, 13 June 2022
LAC has faced the COVID-19 crisis and the conflict with low fiscal space

OECD et al. (forthcoming), *Latin American Economic Outlook 2022*
Low and decreasing potential growth in LAC affects debt sustainability

Potential growth in LAC and World, estimated since 1980 under different methods

OECD et al. (forthcoming), *Latin American Economic Outlook 2022*
Policy responses to address high inflation might increase the cost of debt in LAC

**Panel A. Inflation and inflation target**

- Average inflation 2022
- Inflation target (upper bound)

**Panel B. Policy rate**

- Brazil
- Chile
- Colombia
- Guatemala
- Peru
- Mexico
- Uruguay
- Dom Rep

OECD et al. (forthcoming), Latin American Economic Outlook 2022 data up to April 2022
Policy responses in the world economy to address high inflation might increase the cost of debt in LAC

Selected advanced economies

Panel A. CPI, %, y/y

Panel B. Policy Interest Rates

OECD et al. (forthcoming), Latin American Economic Outlook 2022
Commodity prices: good/bad news for net commodity exporters/importers

Commodity prices (December 2019 Index = 100)

OECD et al. (forthcoming), *Latin American Economic Outlook 2022*
Good news: for the moment no shock of confidence with the risk premia relatively stable
Good news: for the moment no shock of confidence and exchange rates have appreciated

OECD et al. (forthcoming), Latin American Economic Outlook
The region needs more and better infrastructure, fully leveraging digital transformation and prioritising the environment.

Public Investment in Economic Infrastructure, 2019 (% of GDP)

Ensuring both private and public investment are aligned with development goals

OECD FDI Qualities Indicators for selected Latin American countries
(Foreign firms perform better than domestic firms if value > 0)

Panel A. Labour productivity

Panel B. Share of skilled workers

The region needs to rethink social assistance programmes adopted during the Covid-19 crisis: incentives to formalisation / coordination across programmes / lessons learned in case of exogenous shocks

Workers without labour-based social insurance and main social assistance schemes (%)
It is predominant to study all social assistance and protection programmes by taking households as a unit of analysis.

Distribution of overall population, by degree of Informality of Households, 2019 or latest

OECD et al. (forthcoming), Latin American Economic Outlook 2022, based on OECD Key Indicators of Informality based on Individuals and their Households (KIIbIH) database
High heterogeneity across countries in terms of fiscal revenues

Tax-to-GDP ratios in the LAC region, 2020 (percentage of GDP)

It remains predominant to improve the structure of the taxation system to increase progressivity and promote growth.

Across all tax components it is fundamental to evaluate the fiscal and socio-economic consequences of tax incentives.

EATR under standard tax treatment and investment tax incentives in the corresponding industry

Panel A. Textile industry

Panel B. Basic & fabricated metal

Panel C. Tourism industry

Note: STT = standard tax treatment
OECD et al. (forthcoming), Latin American Economic Outlook 2022 and Celani, Dressler and Hanappi (2022, forthcoming)
The region could mobilise more resources by further exploiting environmental taxes on emissions: compensating the most vulnerable population is key.

Environmentally related tax revenue in LAC countries by the main tax base, 2020

OECD et al. (forthcoming), Latin American Economic Outlook 2022
New and innovative tools of debt can be potential mechanisms to mobilise further resources.

Green bonds cumulative issuance (2014-21) (billions of USD)

OECD et al. (forthcoming), Latin American Economic Outlook 2022, Climate Bonds Initiative, 2021
So far, most revenues raised by LAC countries were allocated to the energy, transport, and buildings sectors.

Green bond issuance by issuer type and use of proceeds (billions of USD)

Panel A. Green bonds by issuer type

Panel B. Green bonds use of proceeds

OECD et al. (forthcoming), Latin American Economic Outlook 2022, based on Climate Bonds Initiative, 2021
Fiscal policy is at the core of the recovery, and the political economy is more important than ever

Take into account the current context and the Americas Latinas

Sequencing

Backed by a broad consensus

Effective communication

International co-ordination

Nieto-Parra et al. (2021), Fiscal policy to drive the recovery in Latin America: the “when” and “how” are key, http://vox.lacea.org/?q=blog/fiscal_policy_latam
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Thank you!

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https://www.oecd.org/dev/americas/