Fiscal policy challenges in a complex macroeconomic scenario

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We need to find new sustainable engines of growth

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

**Panel A. Potential GDP per capita growth, LAC**

**Panel B. Potential GDP per capita growth, advanced economies**

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We must protect the most vulnerable from high inflation

Year-on-year inflation selected LAC countries, 2022 (%)

- General inflation
- Inflation for the extreme poor

We must get our fiscal strategies right

Gross public debt-to-tax ratio in selected Latin American countries

Fiscal policy: Key to drive the social, green and digital transitions

Efficient and progressive taxation system

Quality public expenditure

Better public debt management
Primary fiscal balances have consistently been below the level needed to stabilize debt

Fiscal space and primary fiscal balance (% of GDP)

And GDP growth has consistently been below the implicit interest rate.
Lower economic growth and higher interest rates affect considerably debt dynamics in LAC

Debt dynamics as a % of GDP under different scenarios

Panel A. Economic growth
- Base
- Average last 10 years
- Average commodity boom

Panel B. Primary budget
- Base
- 0% of GDP, neutral
- 1% of GDP, surplus

Panel C. Interest rates
- Base
- Highest in the last 10 years
- Lowest in the last 10 years

OECD et al. (forthcoming), Latin American Economic Outlook 2023
With the need to expand social expenditure to protect the most vulnerable and respond to social discontent in LAC
Compared to the OECD average, CIT is playing a predominant role in income taxes.

Average tax structure in LAC and the OECD, % of GDP, 2021

OECD data for 2020
OECD et al. (2023), Revenue Statistics in Latin America and the Caribbean 2023, OECD Publishing, Paris
Compared to the OECD average, CIT is playing a predominant role in income taxes.
In LAC less generous capital allowances lead to relatively high EMTRs

Average tax structure in LAC and the OECD

<table>
<thead>
<tr>
<th>CIT rate (%)</th>
<th>Statutory Tax Rate</th>
<th>Effective Average Tax Rate</th>
<th>Effective Marginal Tax Rate</th>
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<tr>
<td>LAC</td>
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<td>23.9</td>
<td>13.8</td>
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<tr>
<td>OECD</td>
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<td>Other countries</td>
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</tbody>
</table>

Hanappi, T. et al. (forthcoming), Corporate Income Tax in Latin America and the Caribbean: Evidence from Forward-looking Effective Tax Rates
Providing too generous tax incentives can result in much lower ETRs and foregone revenues.

EATR under standard tax treatment (STT) and investment tax incentives in the corresponding industry.

Panel A. Textile industry
Panel B. Basic & fabricated metal
Panel C. Tourism industry

And investment levels remain low in LAC countries.
A scenario of net creation of green jobs will need sufficient levels of well-targeted public and private investment.

**Job creation in green sectors in LAC, 2020-30**

Change in employment in green sectors, under various green policies scenario, in LAC, compared to the BAU, as % of 2020 baseline employment in green industries.

**Job creation in green sectors in LAC countries**

Change in employment in green sectors under various impacts of green policies scenarios in selected LAC countries, compared to the BAU, as % of 2020 baseline employment in green industries.

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Environmental taxes are still underdeveloped across the region and can pursue multiple objectives.
The phasing out among major hydrocarbon producers will have significant negative effects on fiscal revenues.

General government fiscal revenues from non-renewable natural resources in selected LAC economies

Not only taxes, there is a need to look for new sources of investment: LAC’s GSSS bond issuances in international markets

**Total LAC GSSS bond issuance in international markets, by type of instrument, 2015-2022**

**LAC international GSSS bond issuances by type of issuer, 2022**

Fiscal policy is at the core of development, 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-operation

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