

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



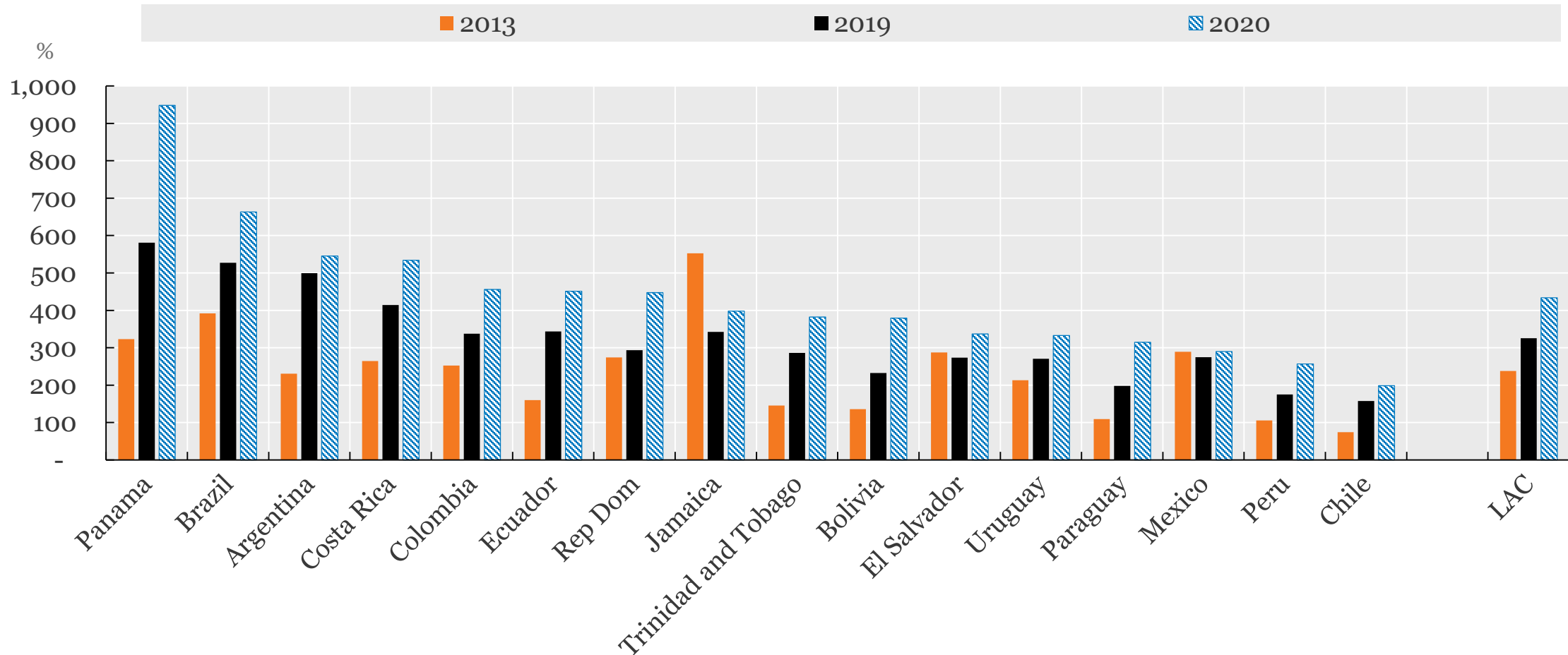
Sebastián Nieto Parra  
Head of Latin America and the Caribbean  
OECD Development Centre

UN-ECLAC, 13 June 2022



# LAC has faced the COVID-19 crisis and the conflict with low fiscal space

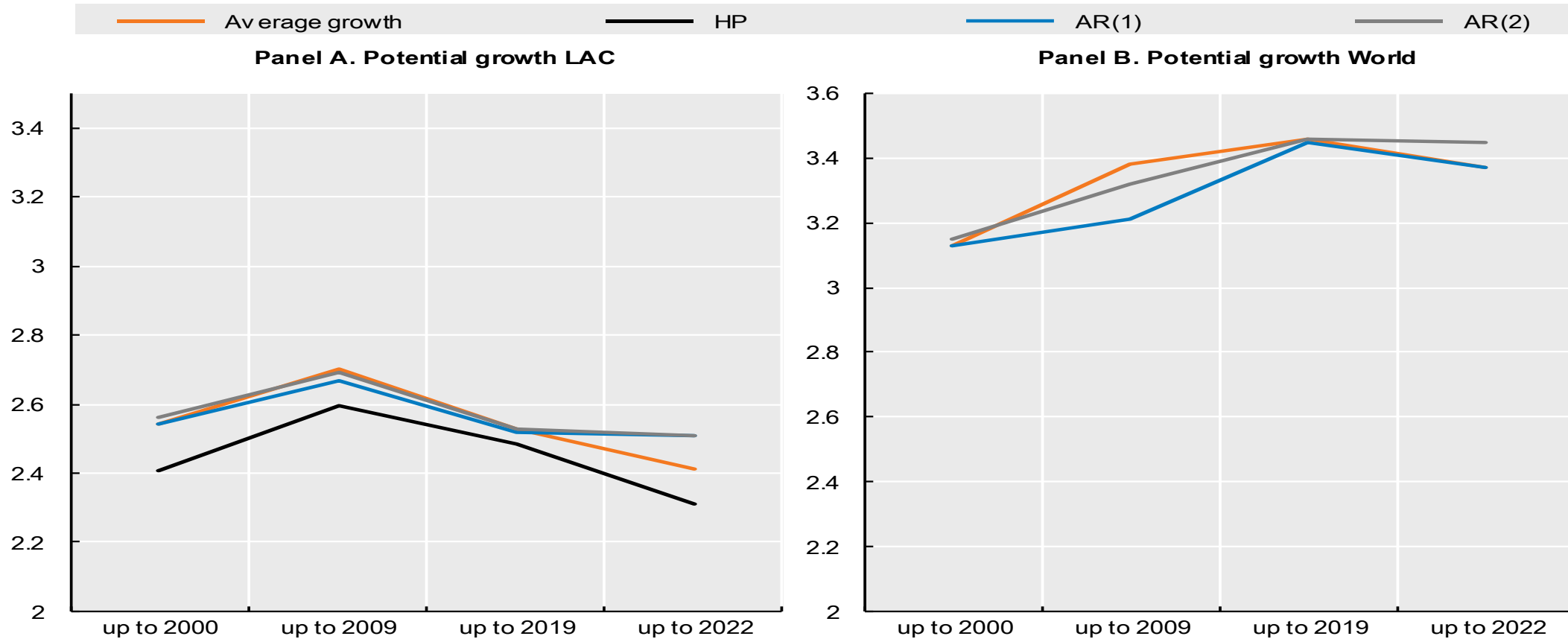
## Public debt relative to tax revenue





# Low and decreasing potential growth in LAC affects debt sustainability

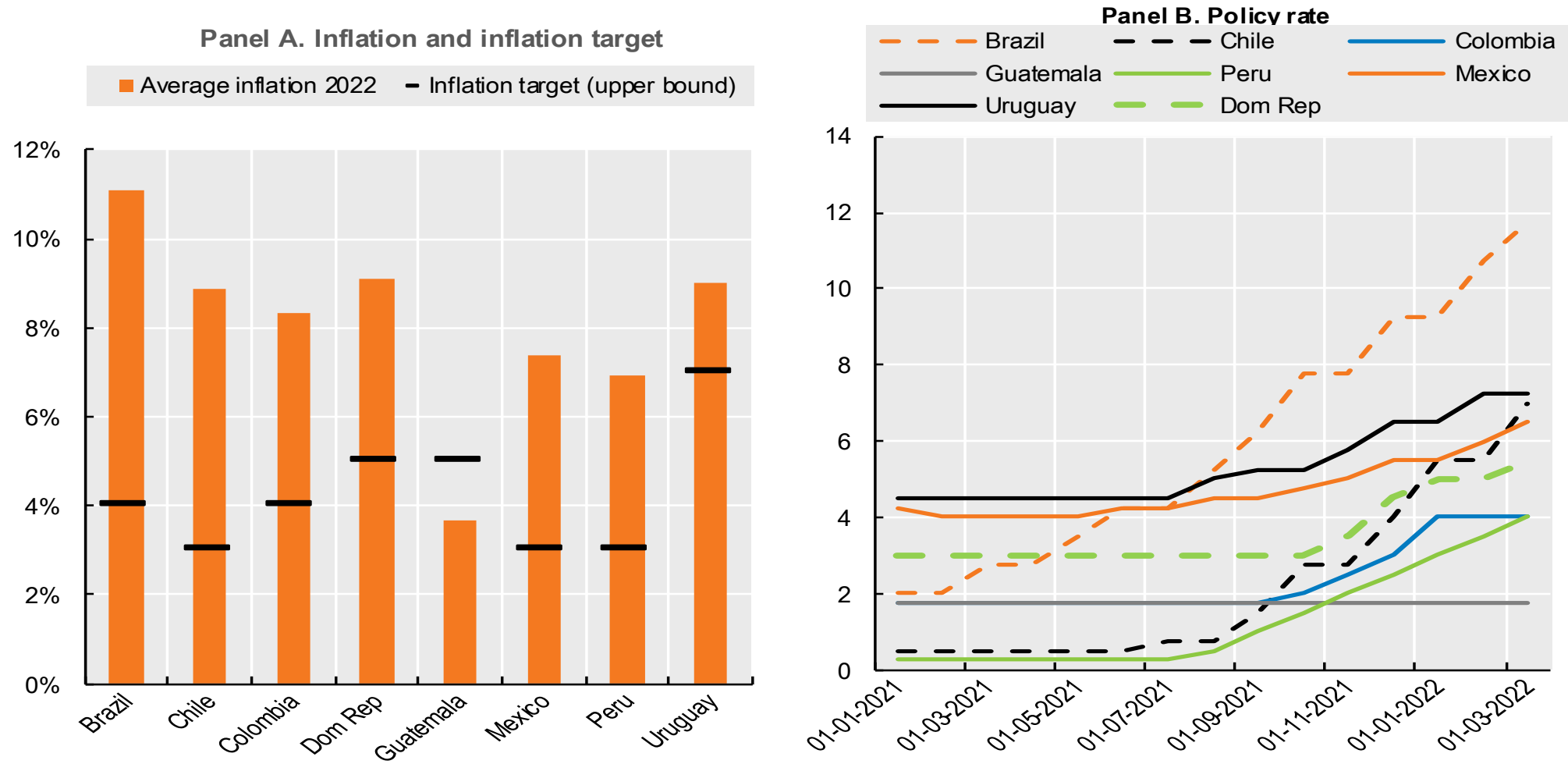
Potential growth in LAC and World, estimated since 1980 under different methods





# Policy responses to address high inflation might increase the cost of debt in LAC

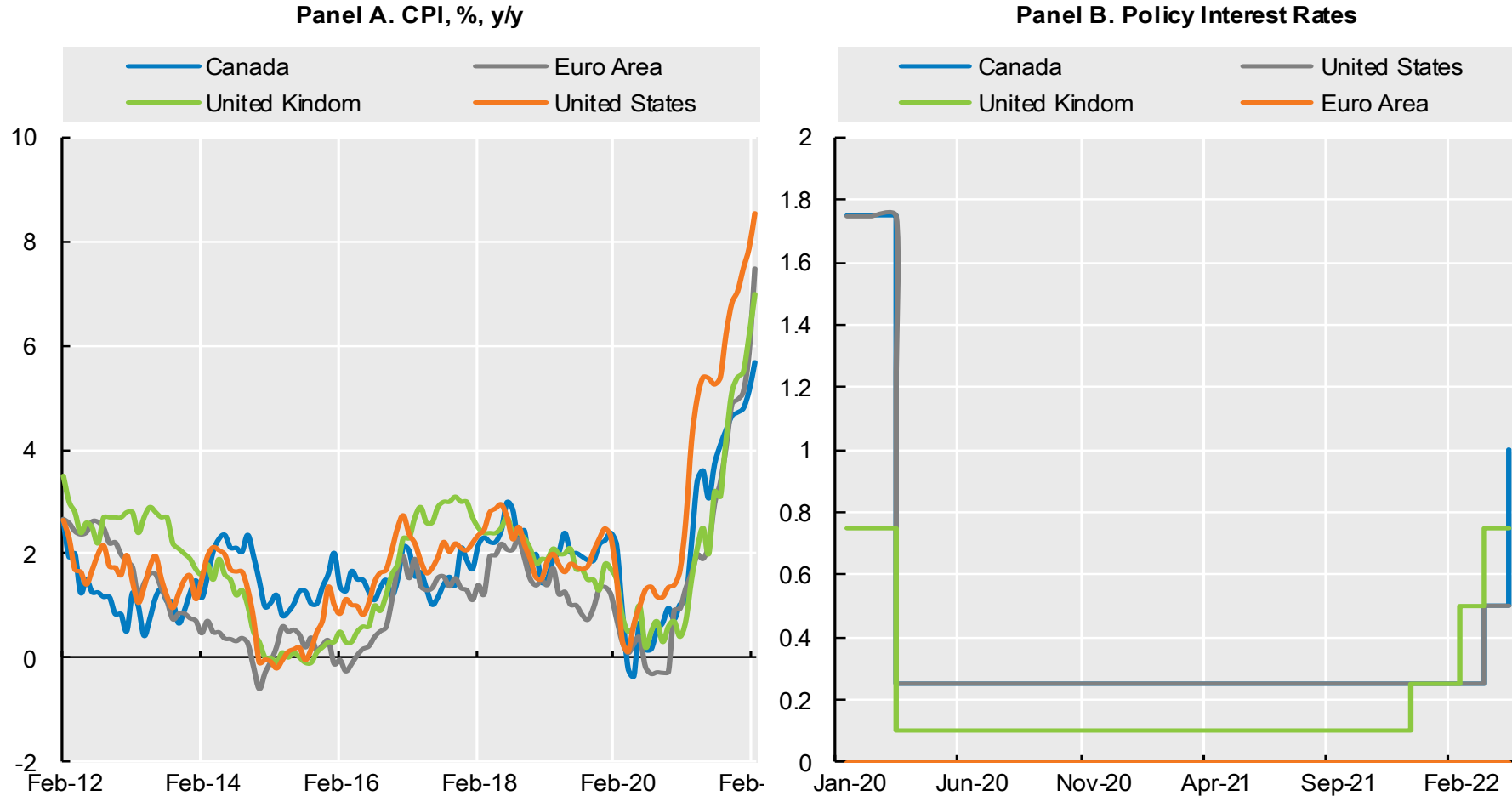
## Selected LAC economies





# Policy responses in the world economy to address high inflation might increase the cost of debt in LAC

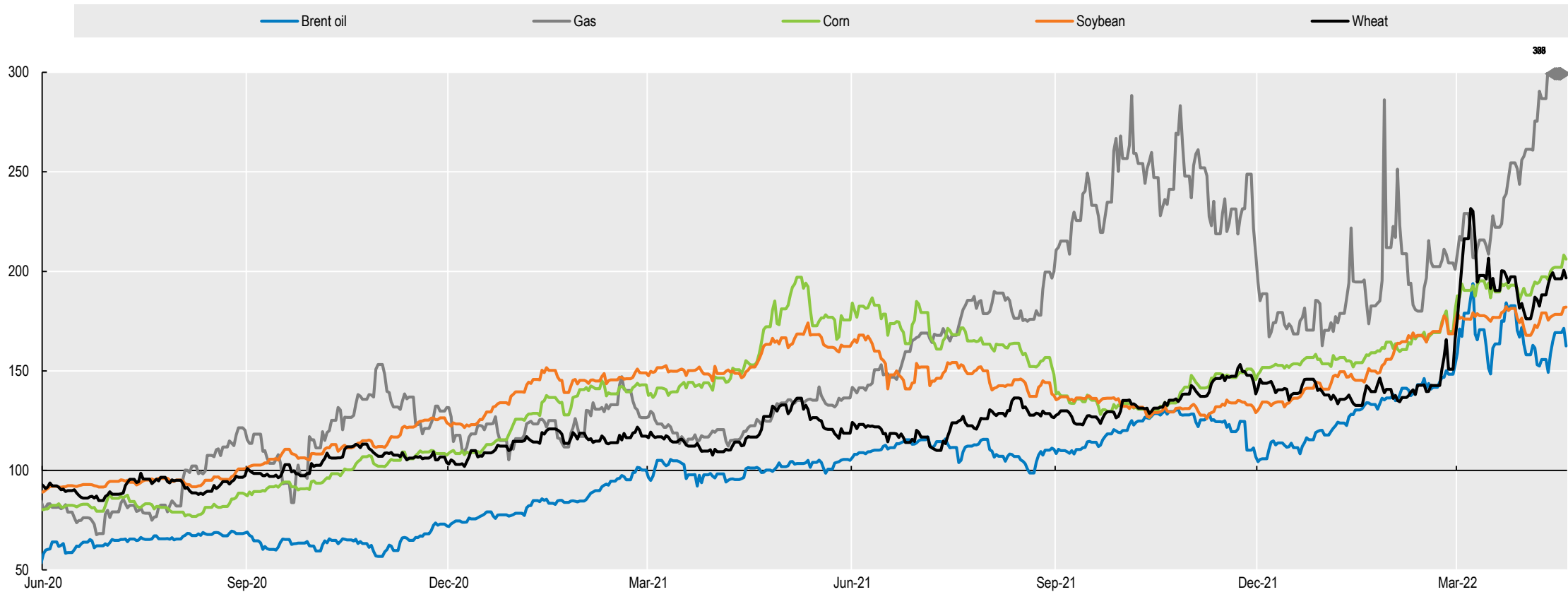
## Selected advanced economies





# Commodity prices: good/bad news for net commodity exporters/importers

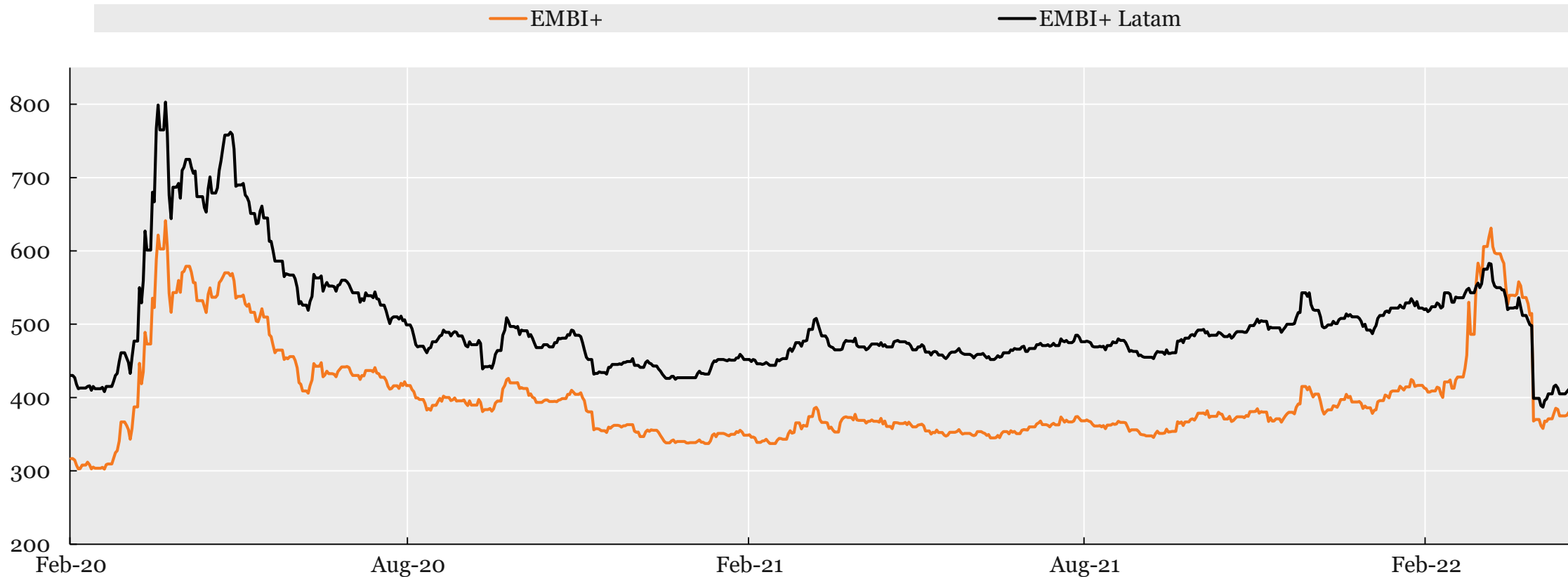
Commodity prices (December 2019 Index = 100)





## Good news: for the moment no shock of confidence with the risk premia relatively stable

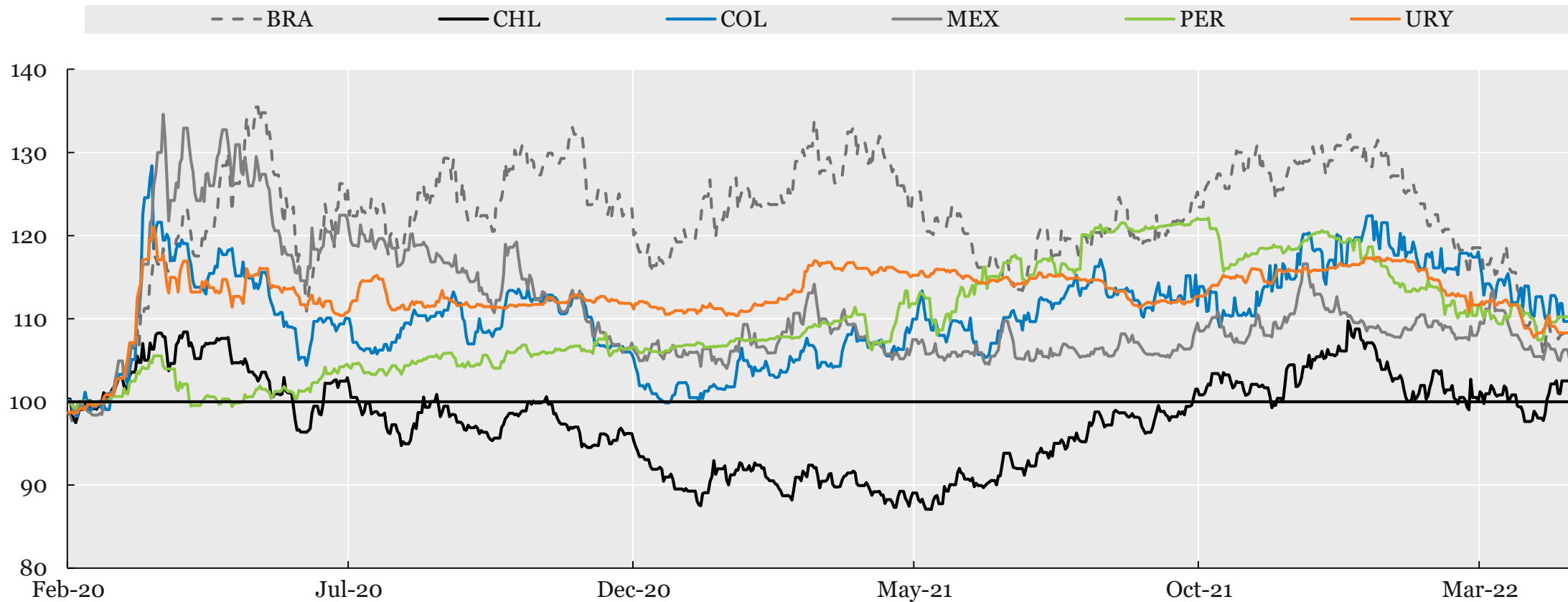
Sovereign risk spreads (JP Morgan EMBI+, basis points)





## Good news: for the moment no shock of confidence and exchange rates have appreciated

Nominal Effective Exchange Rate (Index Feb-2020=100)

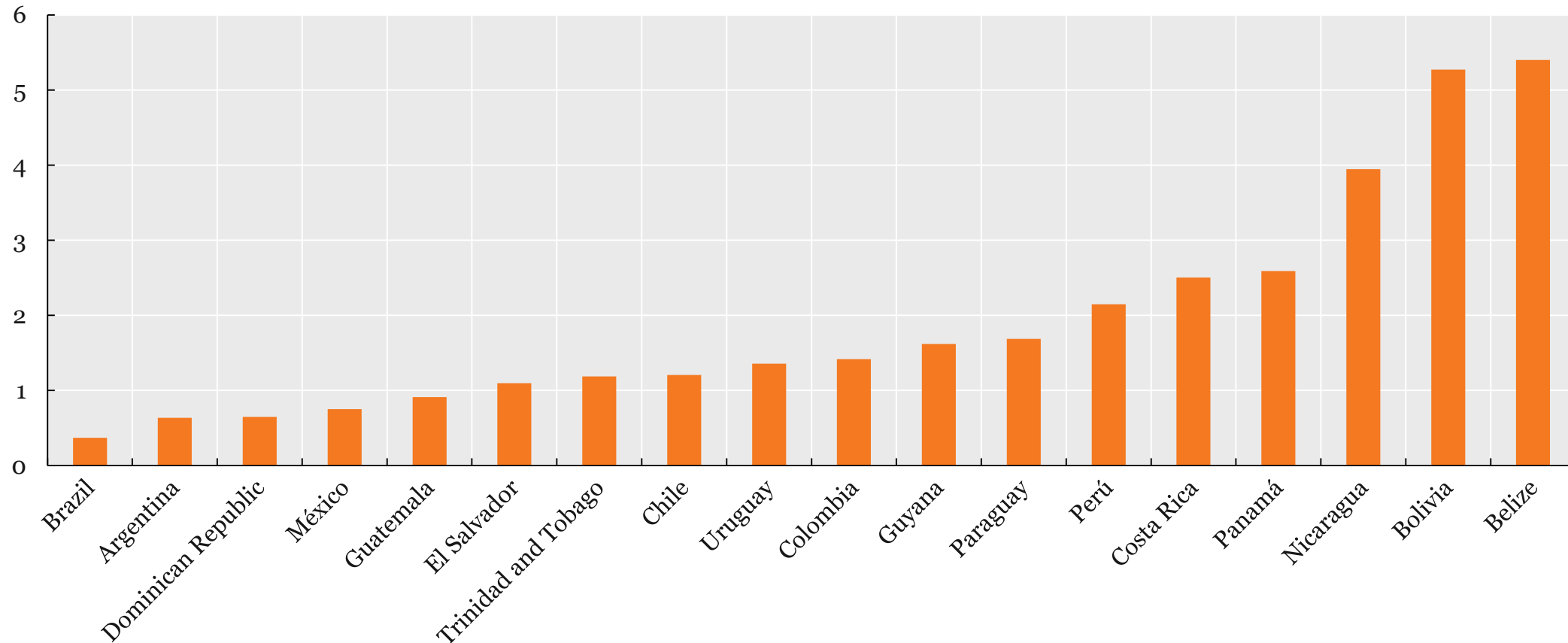






# The region needs more and better infrastructure, fully leveraging digital transformation and prioritising the environment

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

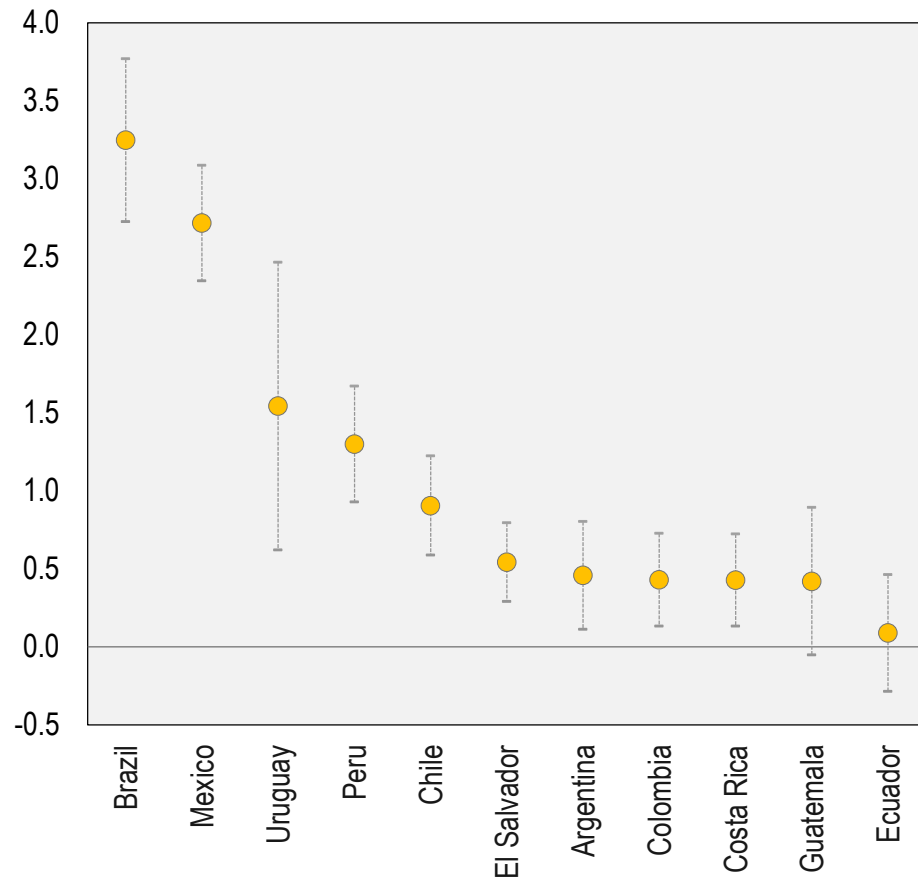




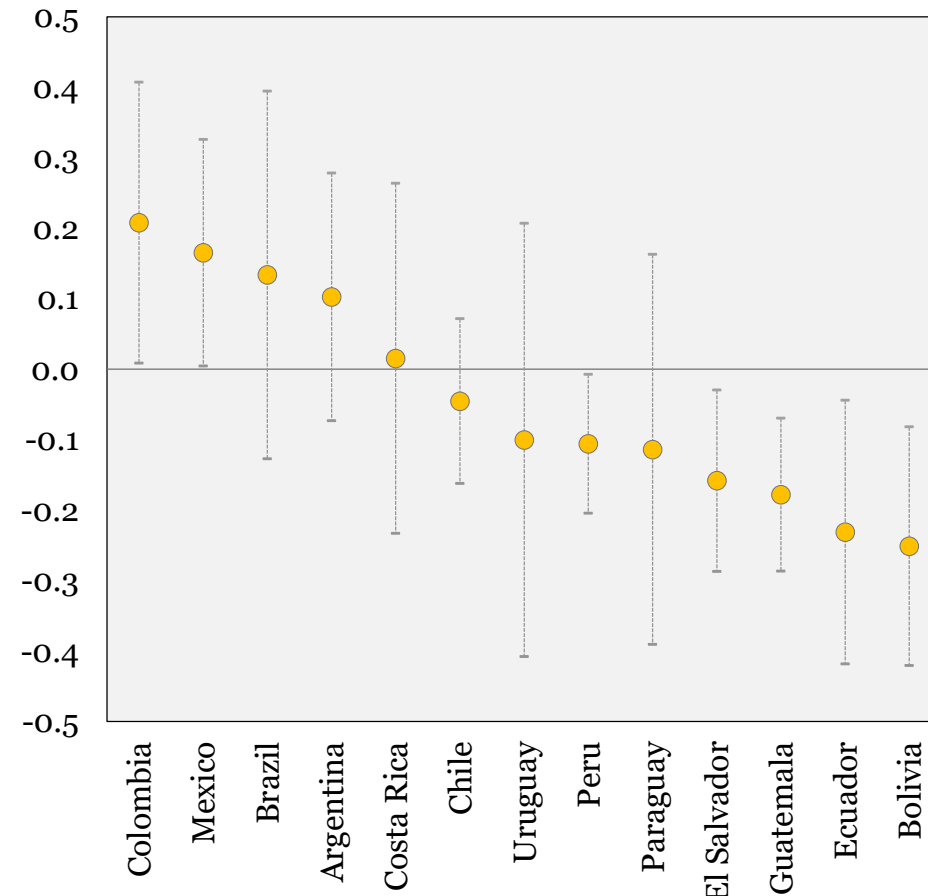
# Ensuring both private and public investment are aligned with development goals

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

Panel A. Labour productivity



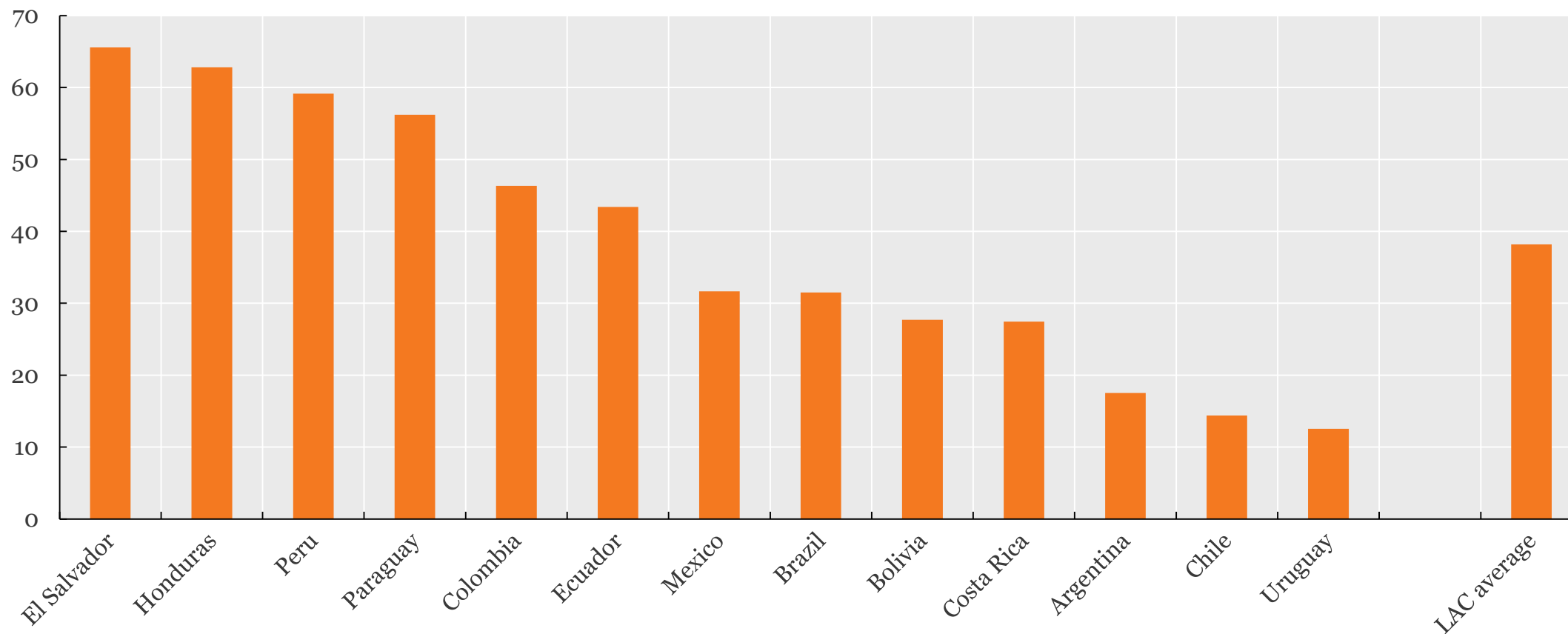
Panel B. Share of skilled workers





# 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

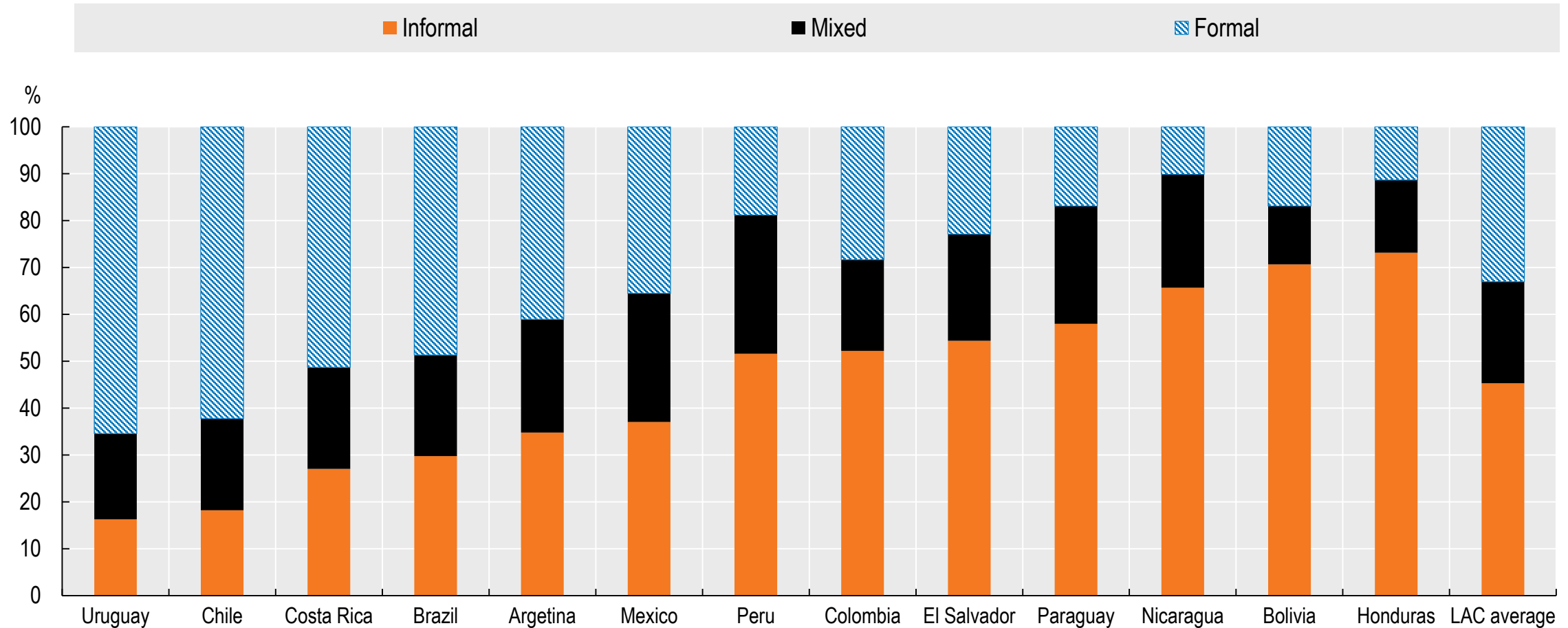
Workers without labour-based social insurance and main social assistance schemes (%)





# It is predominant to study all social assistance and protection programmes by taking households as a unit of analysis

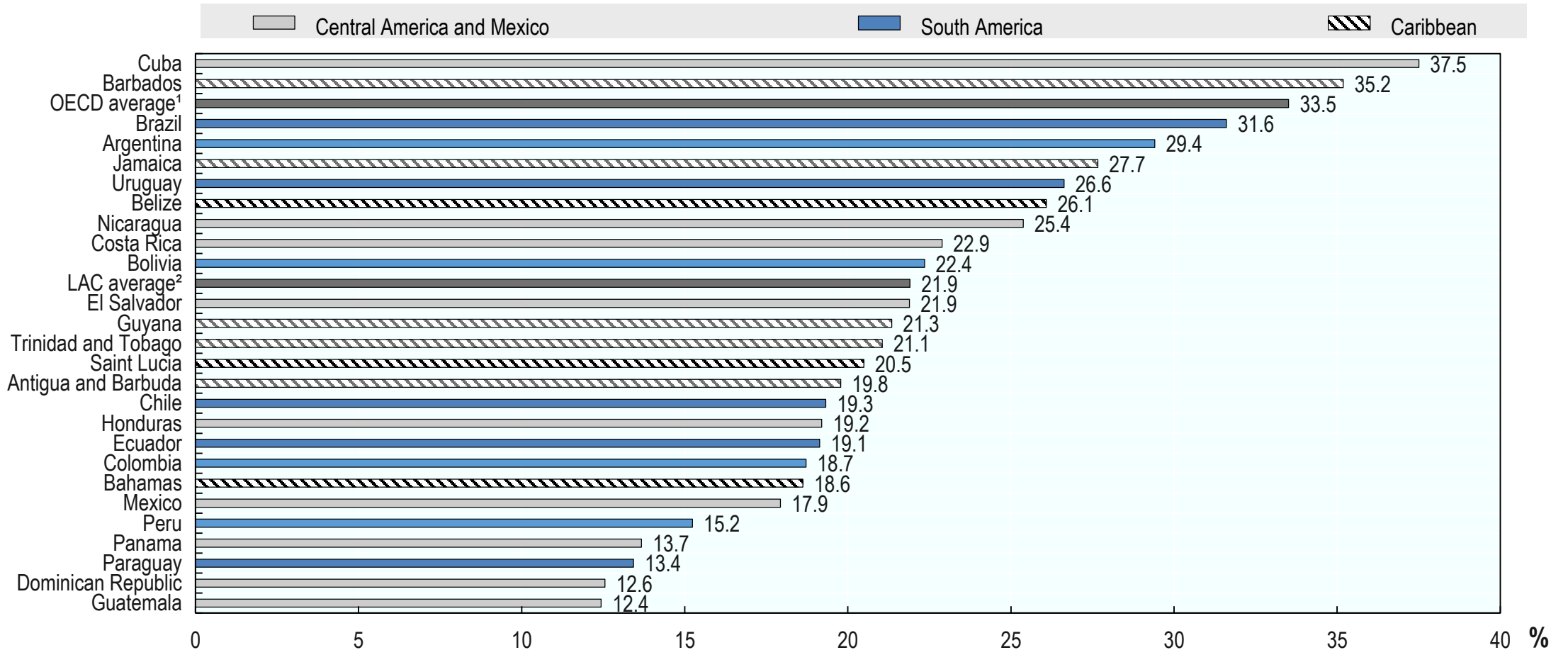
Distribution of overall population, by degree of Informality of Households, 2019 or latest





# High heterogeneity across countries in terms of fiscal revenues

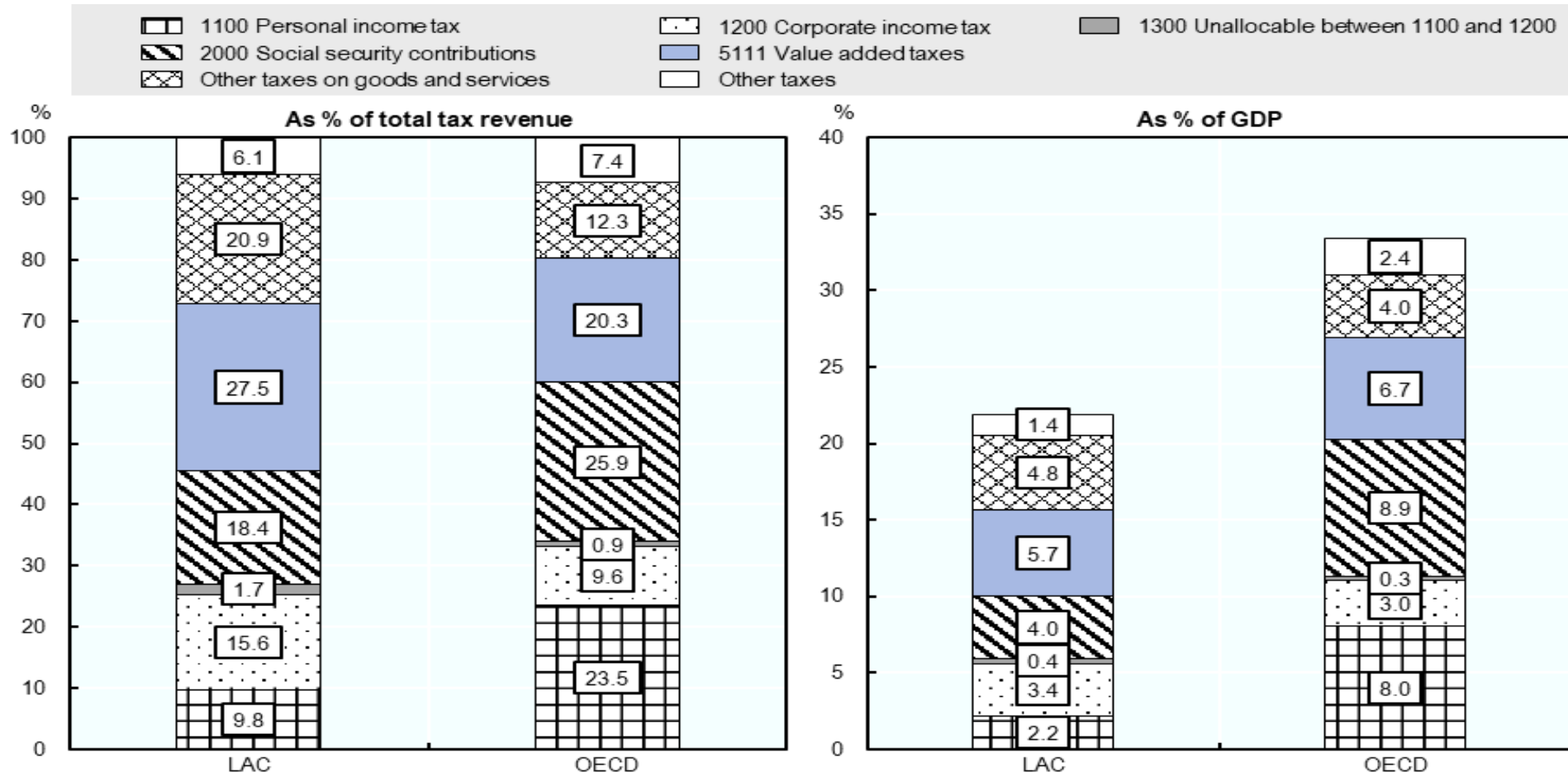
Tax-to-GDP ratios in the LAC region, 2020 (percentage of GDP)





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

## Tax structure LAC vs OECD, 2020



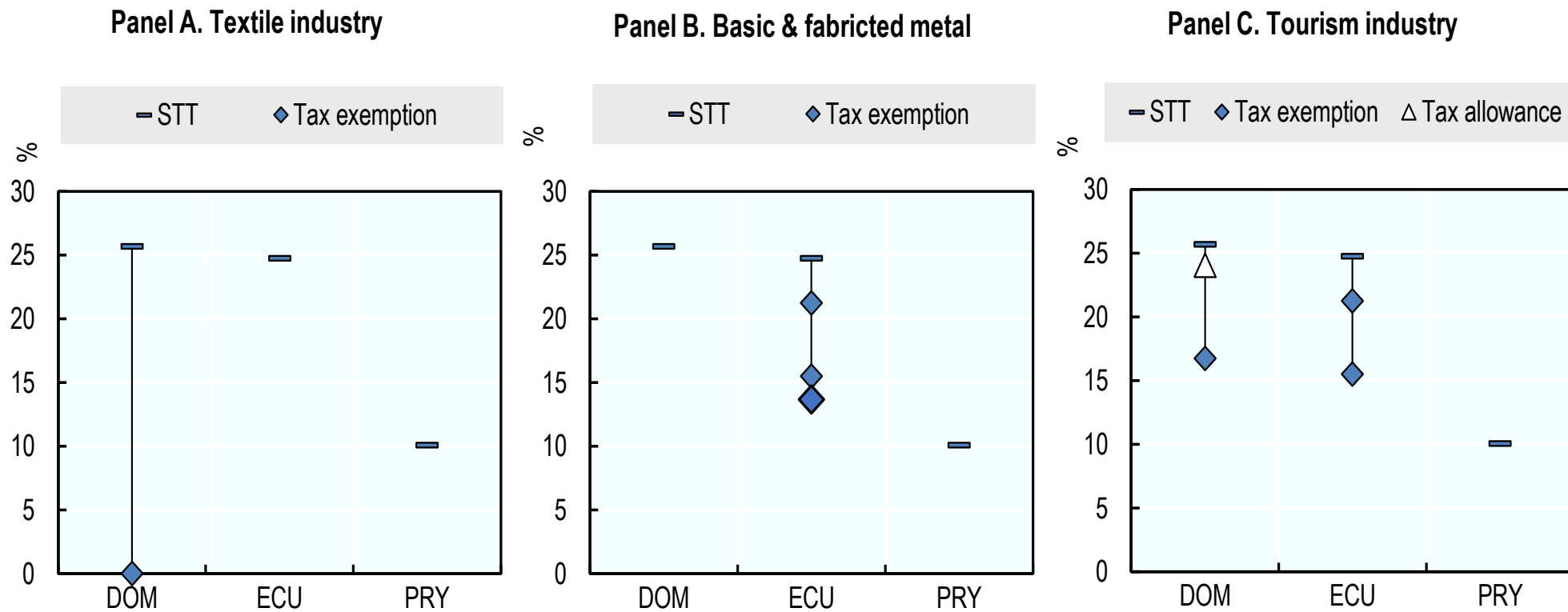
Note: for OECD data is 2019.

OECD et al. (2022), Revenue Statistics in Latin America and the Caribbean 2022, OECD Publishing, Paris, <https://doi.org/10.1787/58a2dc35-en-es>.



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

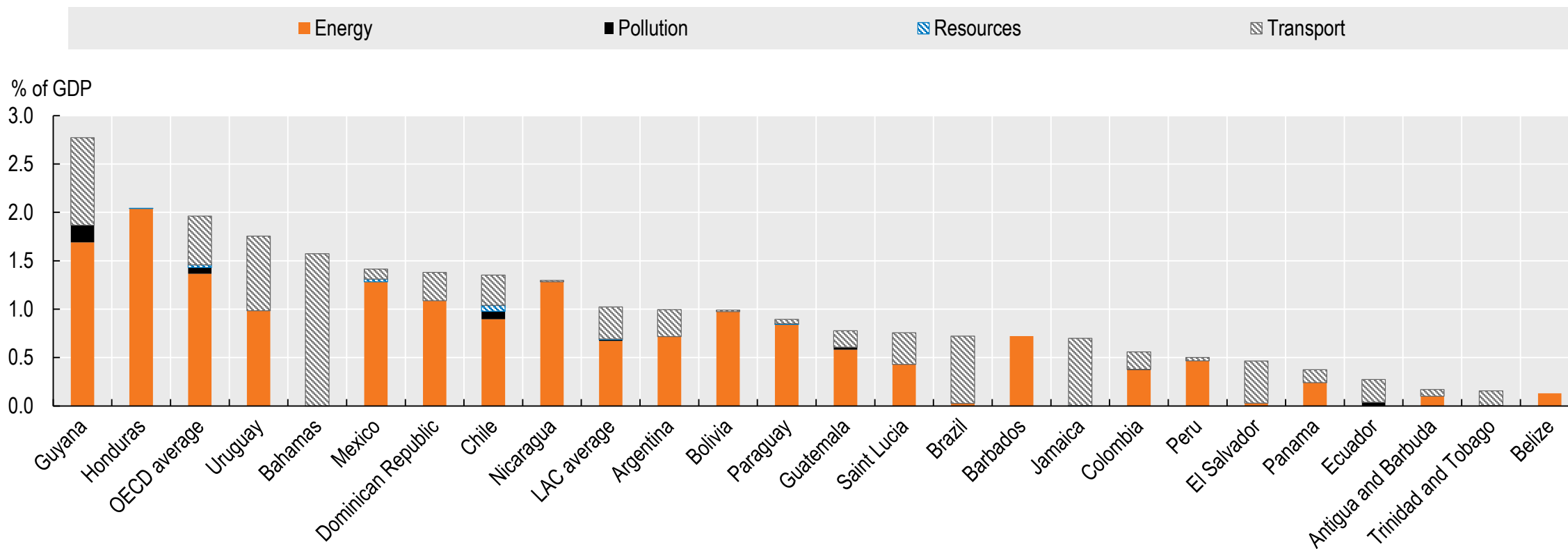
EATR under standard tax treatment and investment tax incentives in the corresponding industry





# 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

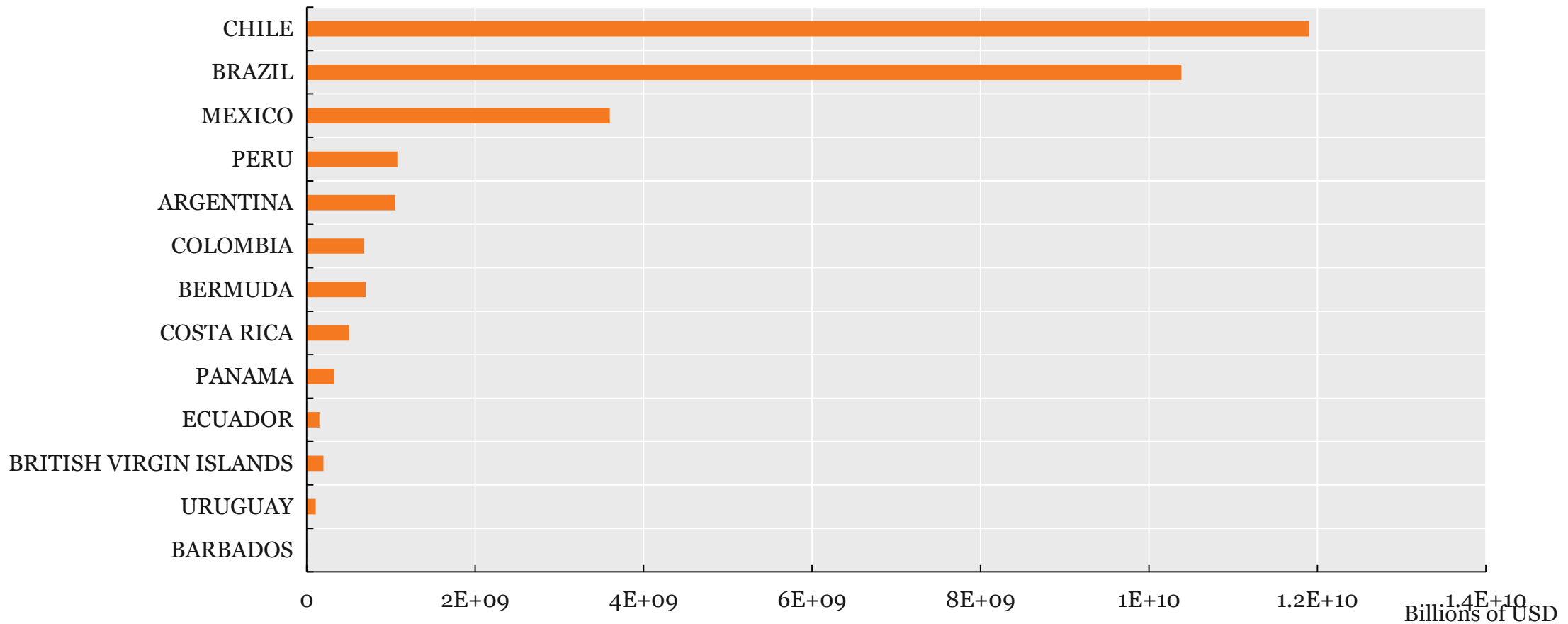






# New and innovative tools of debt can be potential mechanisms to mobilise further resources

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

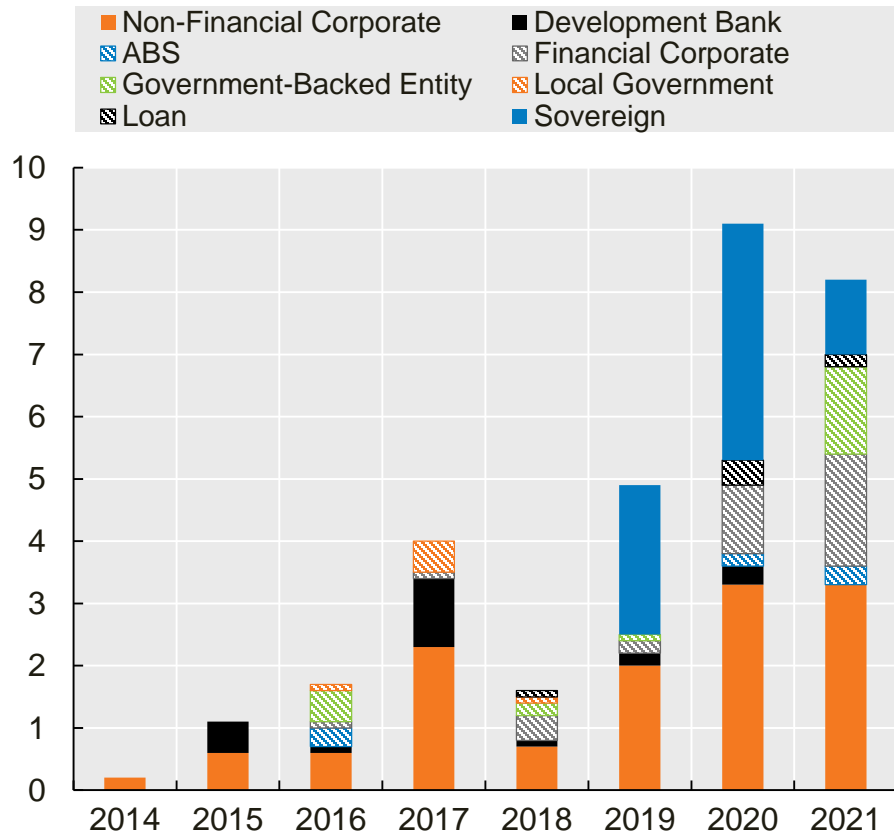




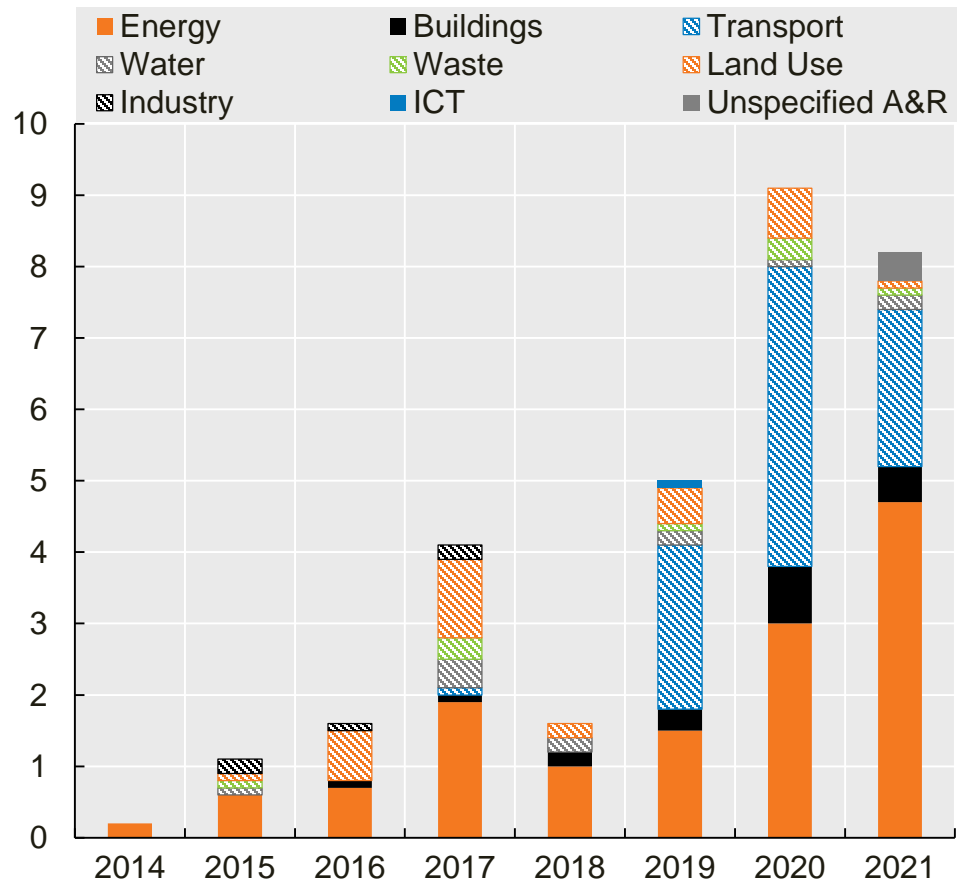
# So far, most revenues raised by LAC countries were allocated to the energy, transport, and buildings sectors

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**





# 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

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

## Thank you!

Contact:

Sebastián Nieto Parra, Head of Latin America and the  
Caribbean

OECD Development Centre

@snietoparra



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