

# Fiscal Panorama of Latin America and the Caribbean

2019

Fiscal policy challenges in a  
low-growth environment



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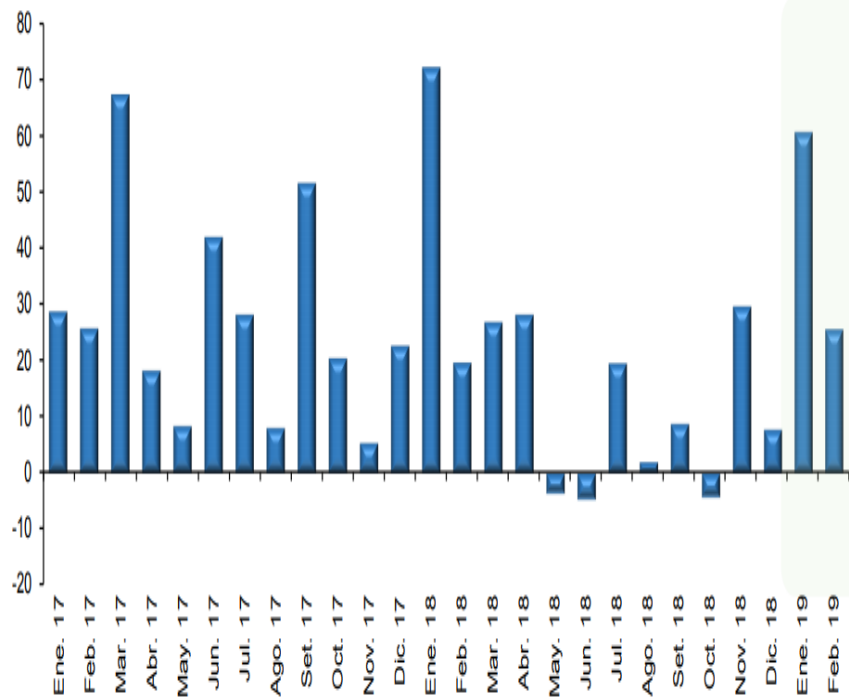
***Project LINK***

# The regional context

- Complex global economic environment, which creates significant challenges for the region
- Economic growth in LAC remains weak, with differences between countries and subregions
- Domestic demand has been the engine of growth, with private consumption being the main component
- Fiscal consolidation in the region has resulted in an improvement in the primary result, but with a smaller contribution of public spending to growth
- Public capital expenditure remains the main variable of adjustment, although pressures on social spending are increasing
- Despite fiscal adjustment, the trajectory of public debt is on the rise, with increases in 14 countries in 2018

# Increased financial volatility and lower risk appetite is reflected in falling capital flows to emerging markets (including LAC)...

**FIXED AND VARIABLE INCOME FLOW FROM NON-RESIDENTS TO EMERGING MARKETS, JANUARY 2017 – FEBRUARY 2019<sup>a</sup>**  
(In billions of dollars)



**CAPITAL FLOWS TO LATIN AMERICA (6 COUNTRIES), ACCUMULATED IN THE LAST 12 MONTHS, JANUARY 2016 - FEBRUARY 2019**  
(Proxy indicator of capital flows, base index 2016=100, 12 month rolling averages).

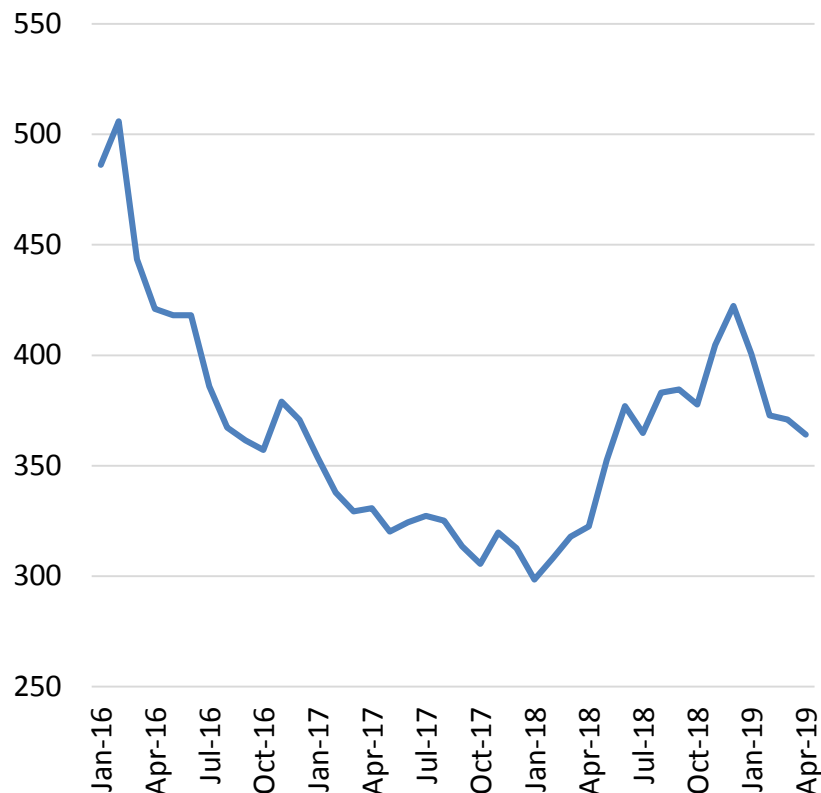


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Central Reserve Bank of Peru (Inflation Report March 2019, IIF data).

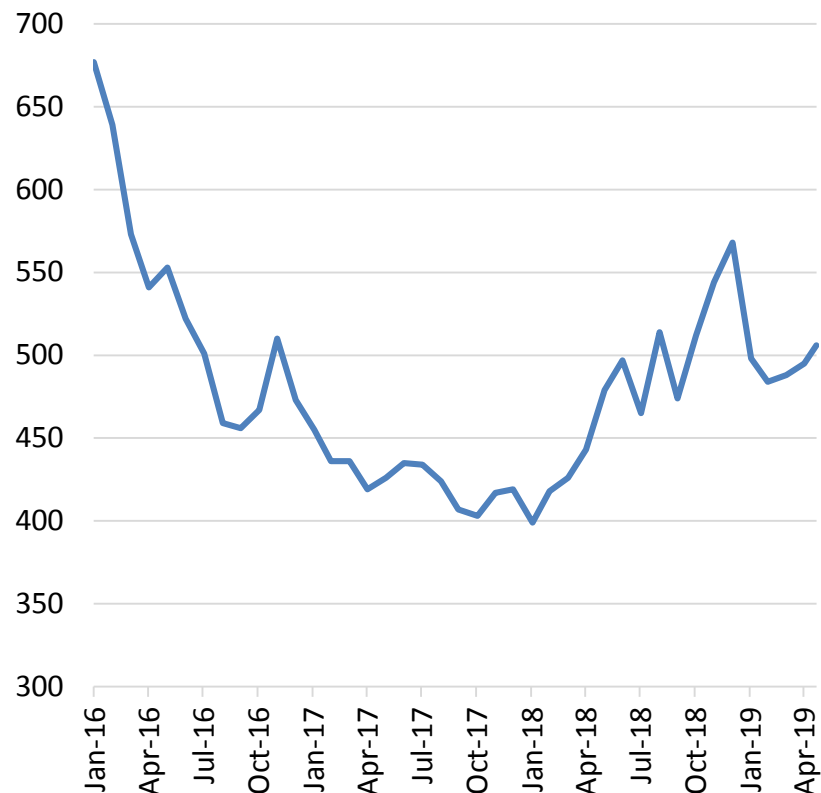
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.  
AL-6 includes Argentina, Brazil, Chile, Colombia, Mexico and Peru.

# ... and higher sovereign risk

**EMERGING ECONOMIES: SOVEREIGN RISK ACCORDING TO THE EMERGING MARKET BOND INDEX (EMBIG), JANUARY 2016 – APRIL 2019**  
(Basis points)



**LATIN AMERICA (13 COUNTRIES): SOVEREIGN RISK ACCORDING TO THE INDEX OF EMERGING MARKET BONDS (EMBIG), JANUARY 2016 – MAY 2019**  
(Basis points)

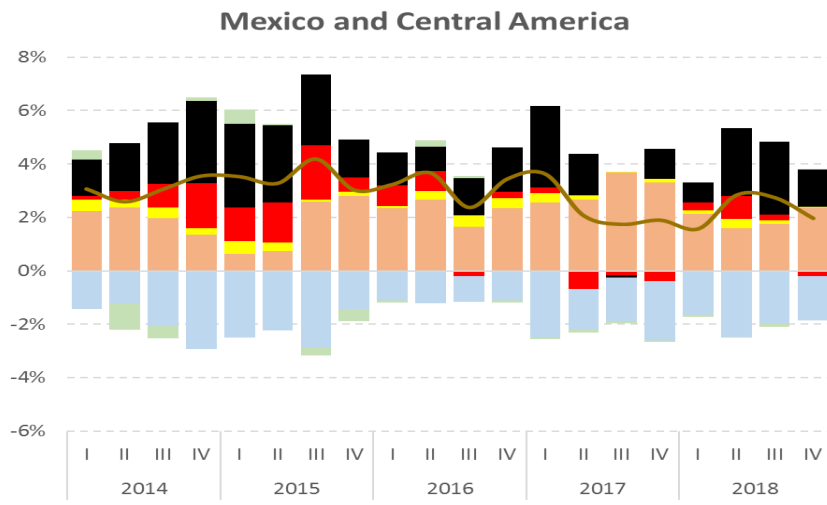
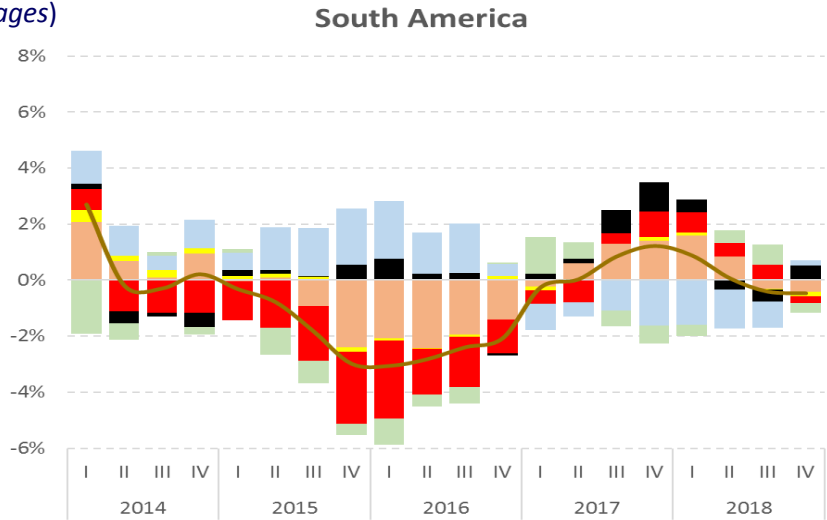
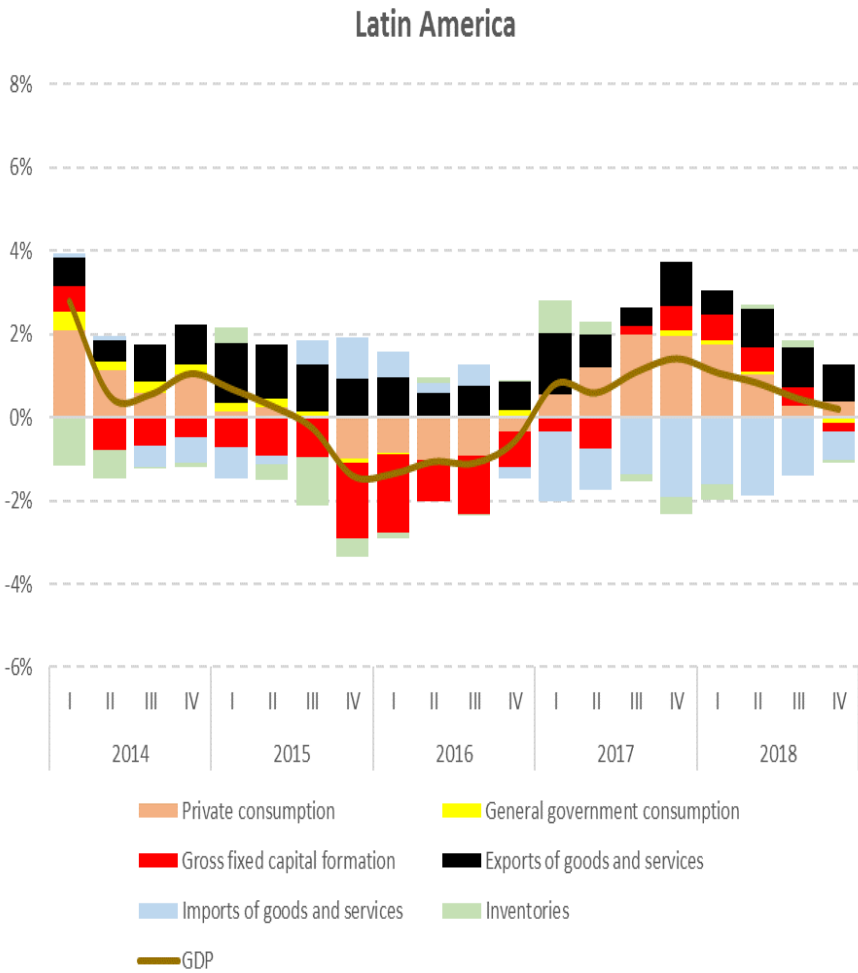


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on figures from JP Morgan and information from the Central Reserve Bank of Peru.

# Growth in 2018 was led by private consumption and the recovery in investment fades

**LATIN AMERICA: GDP GROWTH RATES AND CONTRIBUTION BY EXPENDITURE COMPONENTS TO GROWTH, FIRST QUARTER OF 2014 TO FOURTH QUARTER OF 2018**

(Percentages)



**In 2019 the region will grow around 1.3% -- a level below that needed to meet the development requirements of the region -- with differences between countries and subregions**

	2017	2018	2019
<b>Latin America and the Caribbean</b>	<b>1.1</b>	<b>1.1</b>	<b>1.3</b>
Argentina	2.7	-2.5	-1.8
Bolivia (Plurinational State of)	4.2	4.2	4.3
Brazil	1.1	1.1	1.8
Chile	1.3	4.0	3.3
Colombia	1.4	2.6	3.3
Ecuador	2.4	1.4	0.4
Paraguay	5.0	3.7	4.0
Peru	2.5	4.0	3.6
Uruguay	2.6	1.6	1.0
Venezuela (Bolivarian Republic of)	-15.7	-15.0	-16.0
<b>South America</b>	<b>0.6</b>	<b>0.5</b>	<b>1.1</b>
Costa Rica	3.4	2.7	2.8
Cuba	1.6	1.1	1.0
Dominican Republic	4.6	7.0	5.5
El Salvador	2.3	2.5	2.3
Guatemala	2.8	3.1	3.0
Haiti	1.2	1.5	1.3
Honduras	4.8	3.7	3.5
Mexico	2.1	2.0	1.7
Nicaragua	4.7	-3.8	-5.0
Panama	5.3	3.7	5.4
<b>Central America and Mexico</b>	<b>2.4</b>	<b>2.3</b>	<b>2.0</b>
<b>Central America</b>	<b>3.4</b>	<b>3.2</b>	<b>3.1</b>
<b>Latin America</b>	<b>1.1</b>	<b>1.1</b>	<b>1.3</b>
Antigua and Barbuda	3.0	4.9	5.0
Bahamas	0.1	1.6	2.2
Barbados	-0.2	-0.6	0.0
Belize	1.4	3.0	2.1
Dominica	-9.5	0.5	2.0
Grenada	5.1	4.8	3.7
Guyana	2.2	3.4	4.6
Jamaica	1.0	1.9	1.9
Saint Kitts and Nevis	1.2	3.0	3.1
Saint Vincent and the Grenadines	0.7	3.2	1.2
Saint Lucia	3.7	0.6	2.1
Suriname	1.7	-0.3	2.8
Trinidad and Tobago	-1.9	1.9	1.6
<b>The Caribbean</b>	<b>0.0</b>	<b>1.7</b>	<b>2.0</b>

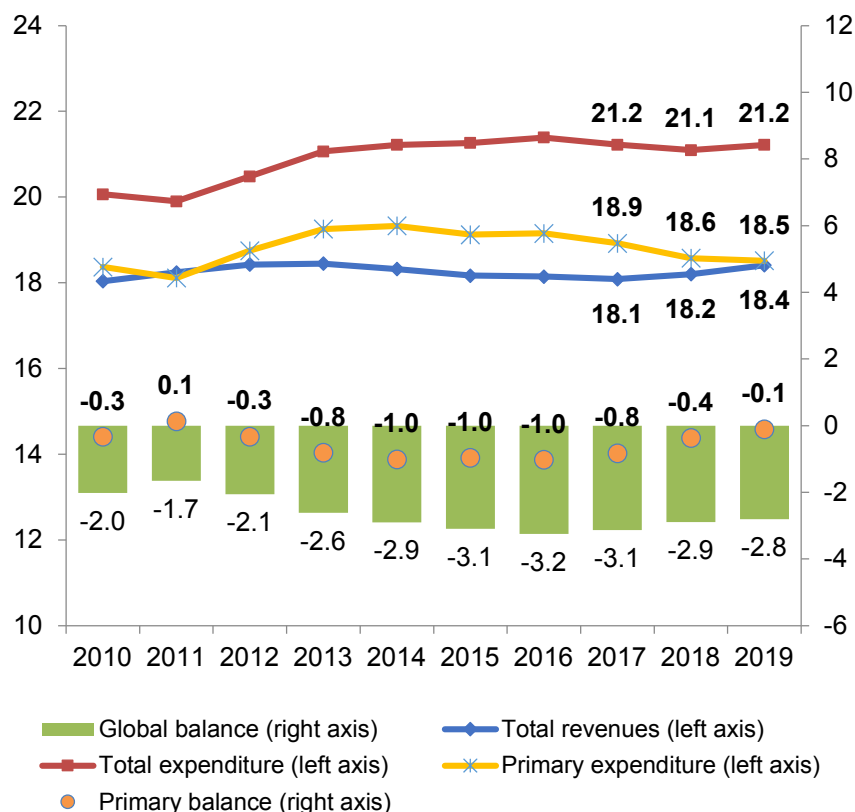
Source: ECLAC, April 2019.

Note: Central America includes Cuba, Dominican Republic and Haiti.

# Fiscal consolidation continues in the region as public debt trends upwards

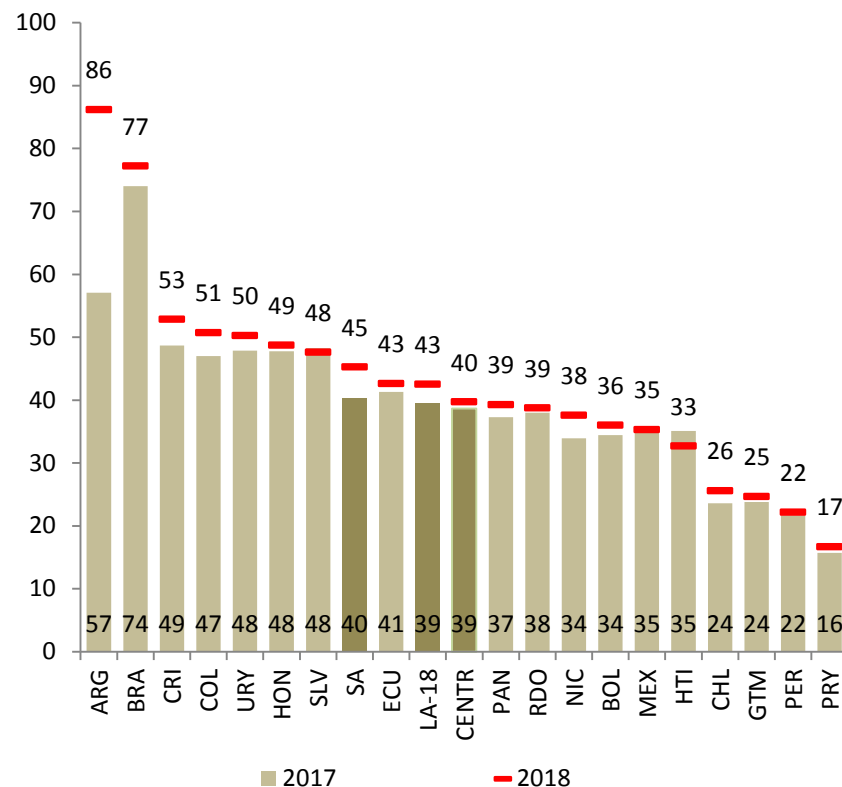
The primary balance continues to improve...

LATIN AMERICA (16 COUNTRIES): CENTRAL  
GOVERNMENT FISCAL INDICATORS, 2010-2019 <sup>a</sup>  
(Percentages of GDP)



... but, gross public debt is on the rise  
increasing in 16 countries in 2018

LATIN AMERICA (18 COUNTRIES): CENTRAL  
GOVERNMENT GROSS PUBLIC DEBT, 2017- 2018  
(Percentages of GDP)

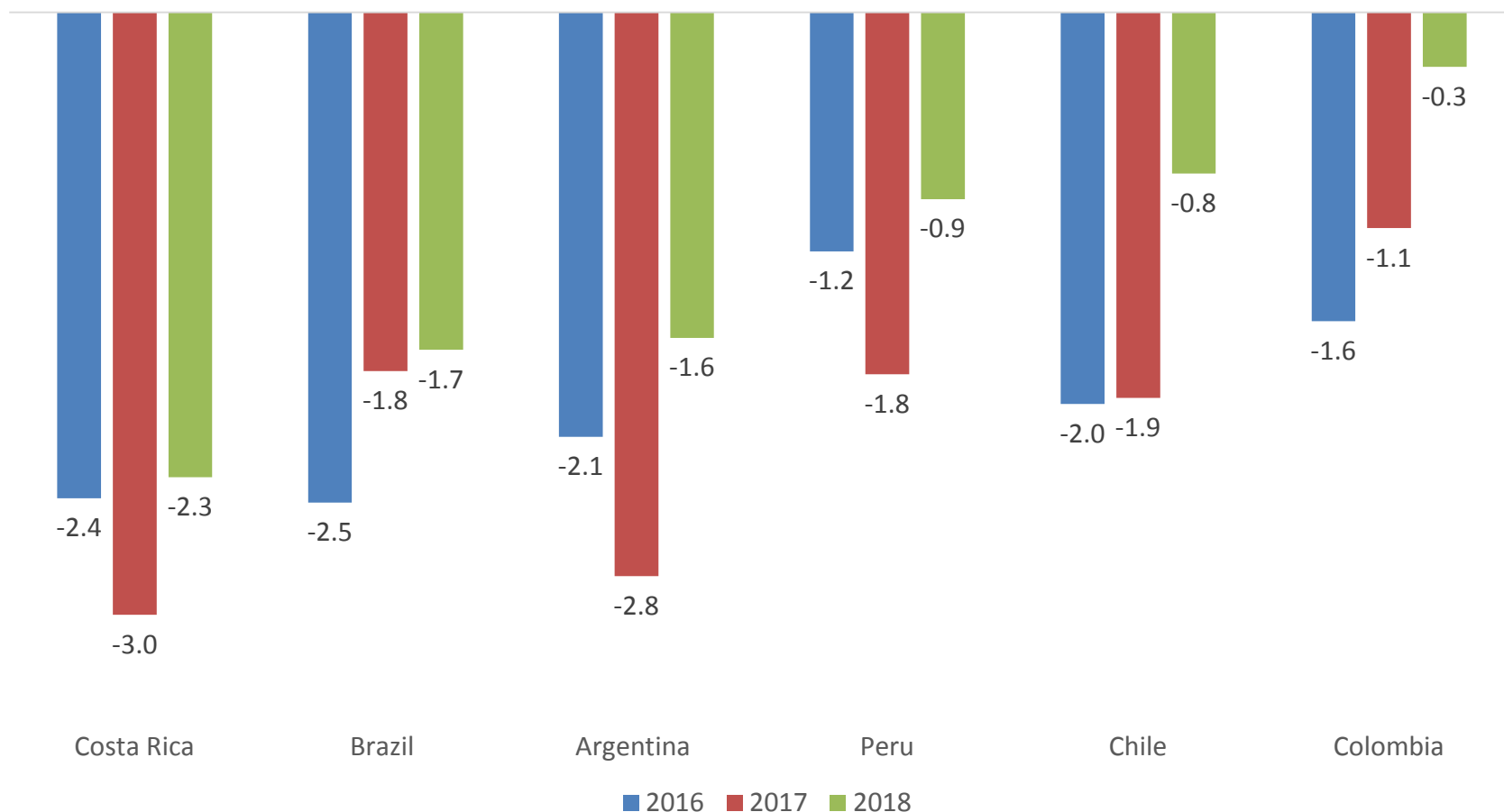


<sup>a</sup> Simple averages. Figures for 2019 correspond to budget estimates and official estimates.



# Fiscal adjustments efforts in the last three years have been intense in some countries

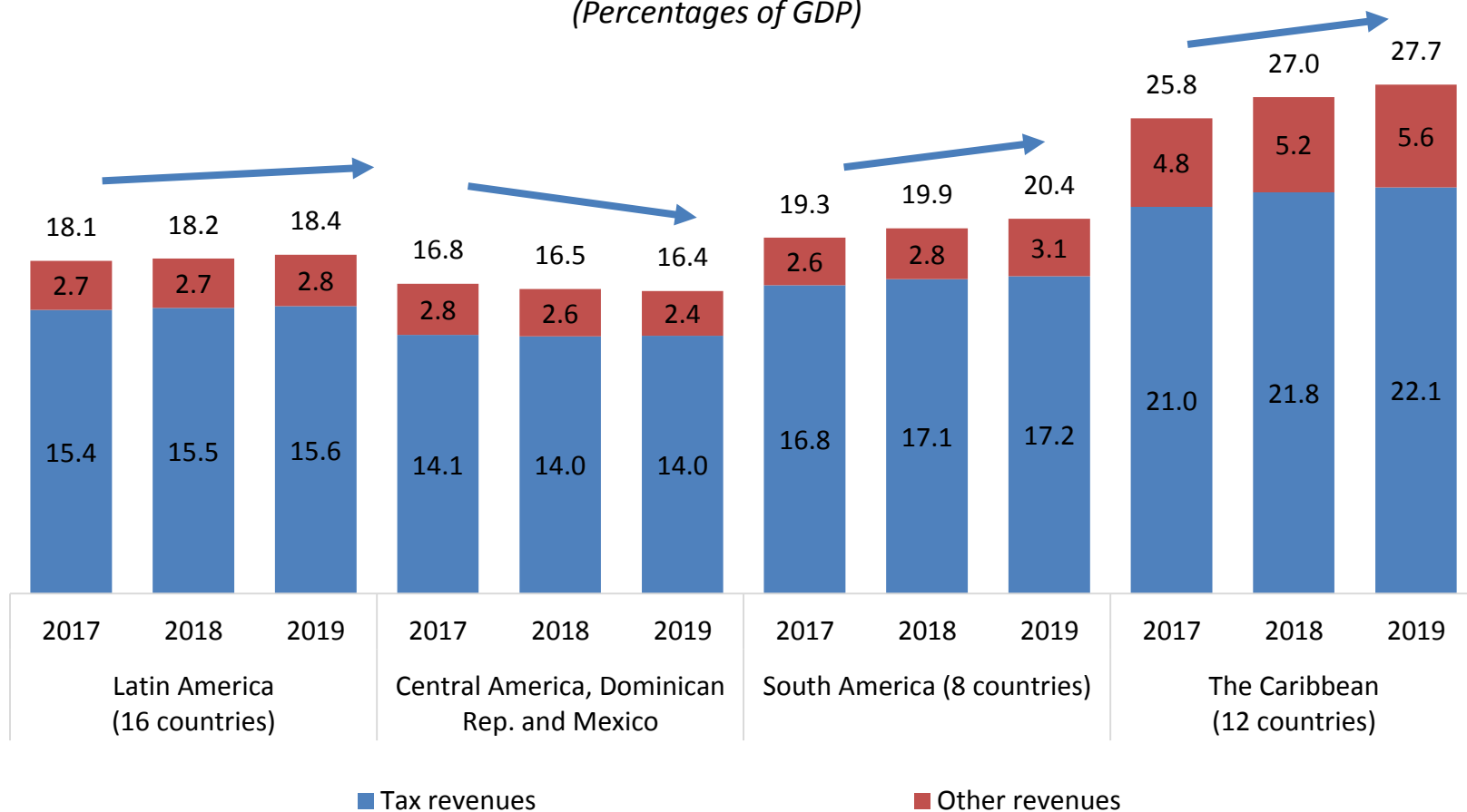
**SELECTED COUNTRIES: CENTRAL GOVERNMENT PRIMARY BALANCES, 2016-2018**  
(Percentages of GDP)





# Revenues in Latin America, on average, remain stable although with differences between subregions

**LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF CENTRAL GOVERNMENT TOTAL REVENUES, BY TYPE OF REVENUE, 2017-2019 <sup>a</sup>**  
(Percentages of GDP)

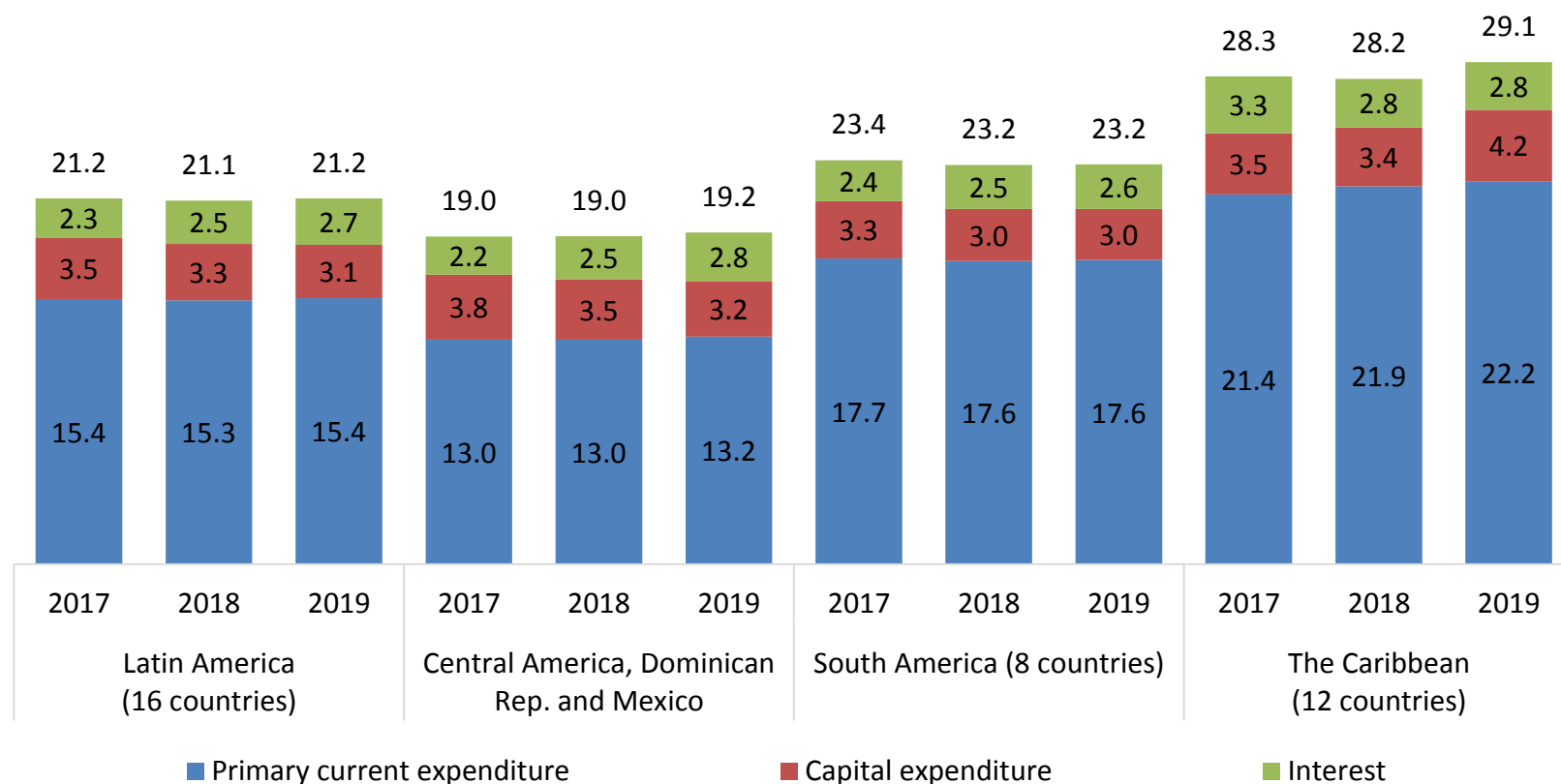


<sup>a</sup> Simple averages. Figures for 2019 correspond to budget estimates and official estimates.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

# In Latin America the relative stability of total expenditure has come at the cost of capital expenditures

**LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF CENTRAL GOVERNMENT TOTAL EXPENDITURE, BY TYPE OF EXPENDITURE, 2017-2019 <sup>a</sup>**  
(Percentages of GDP)

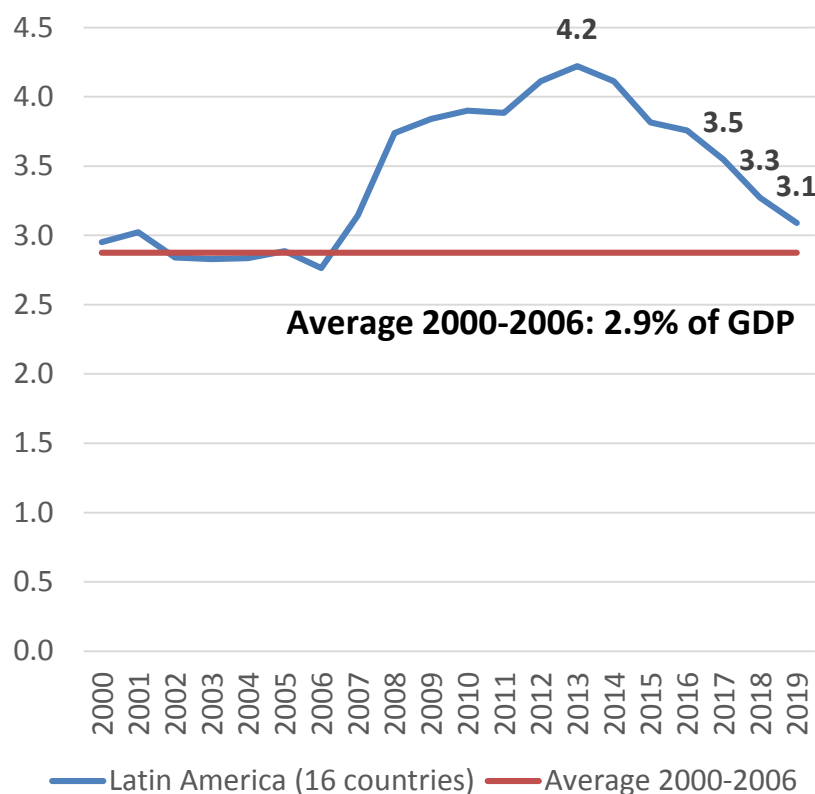


<sup>a</sup> Simple averages. Figures for 2019 correspond to budget estimates and official estimates.

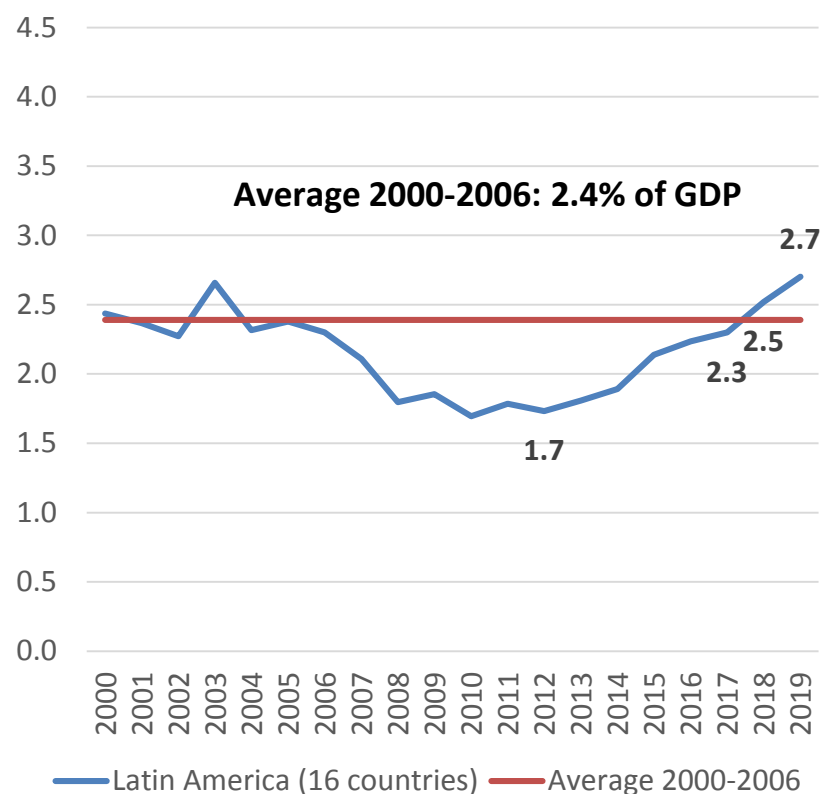
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

# Capital expenditures and interest payments exhibit worrying tendencies

**LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT CAPITAL EXPENDITURE, 2000-2019 <sup>a</sup>**  
(Percentages of GDP)



**LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT INTEREST PAYMENTS, 2000-2019 <sup>a</sup>**  
(Percentages of GDP)

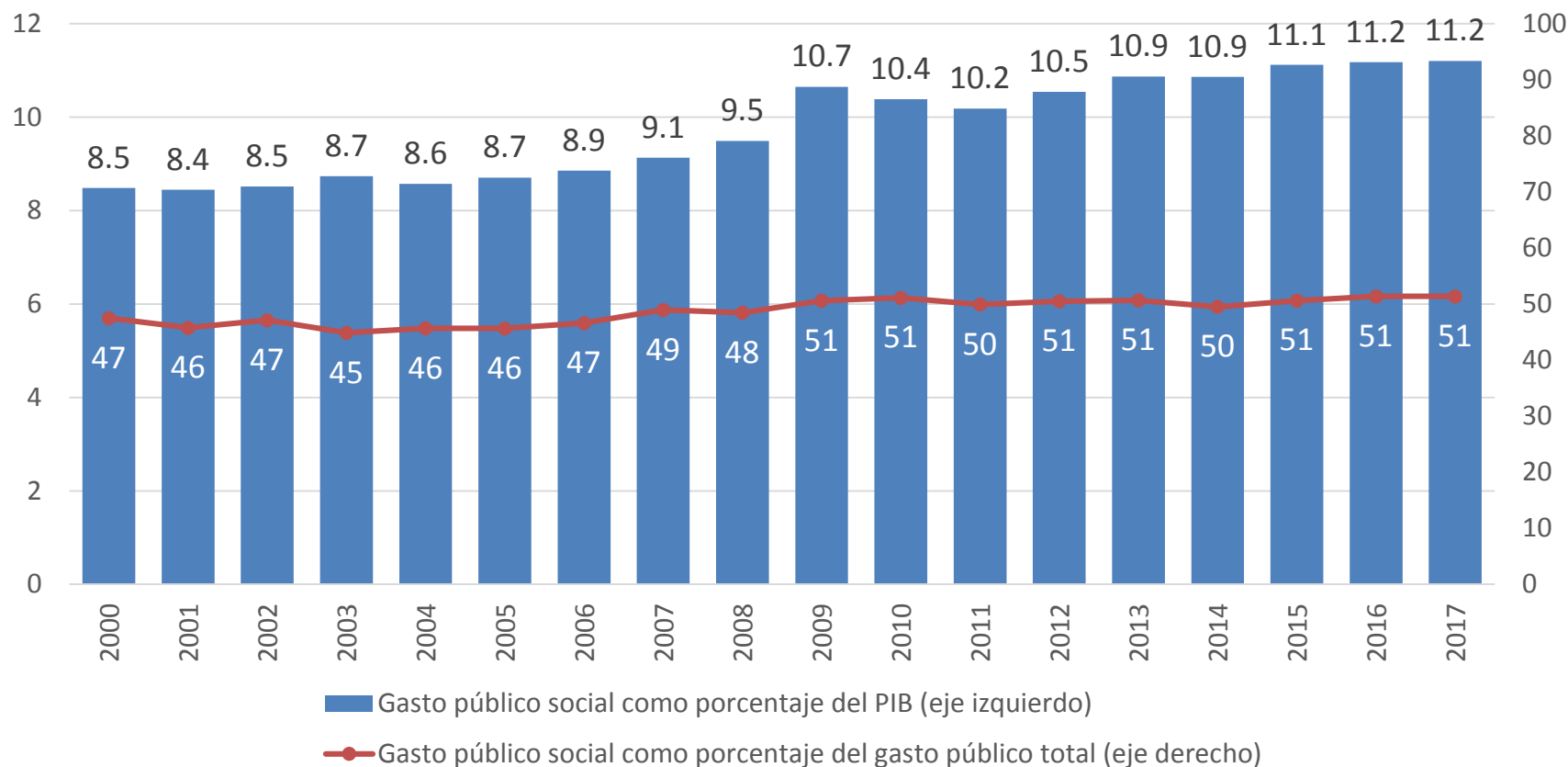


<sup>a</sup> Simple averages. Figures for 2019 correspond to budget estimates and official estimates.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

# Between 2000 and 2017 social expenditure as a share of GDP increased 32%, but only 8% as a share of total expenditure

**LATIN AMERICA (17 COUNTRIES): CENTRAL GOVERNMENT SOCIAL EXPENDITURE**  
(Percentages of GDP)

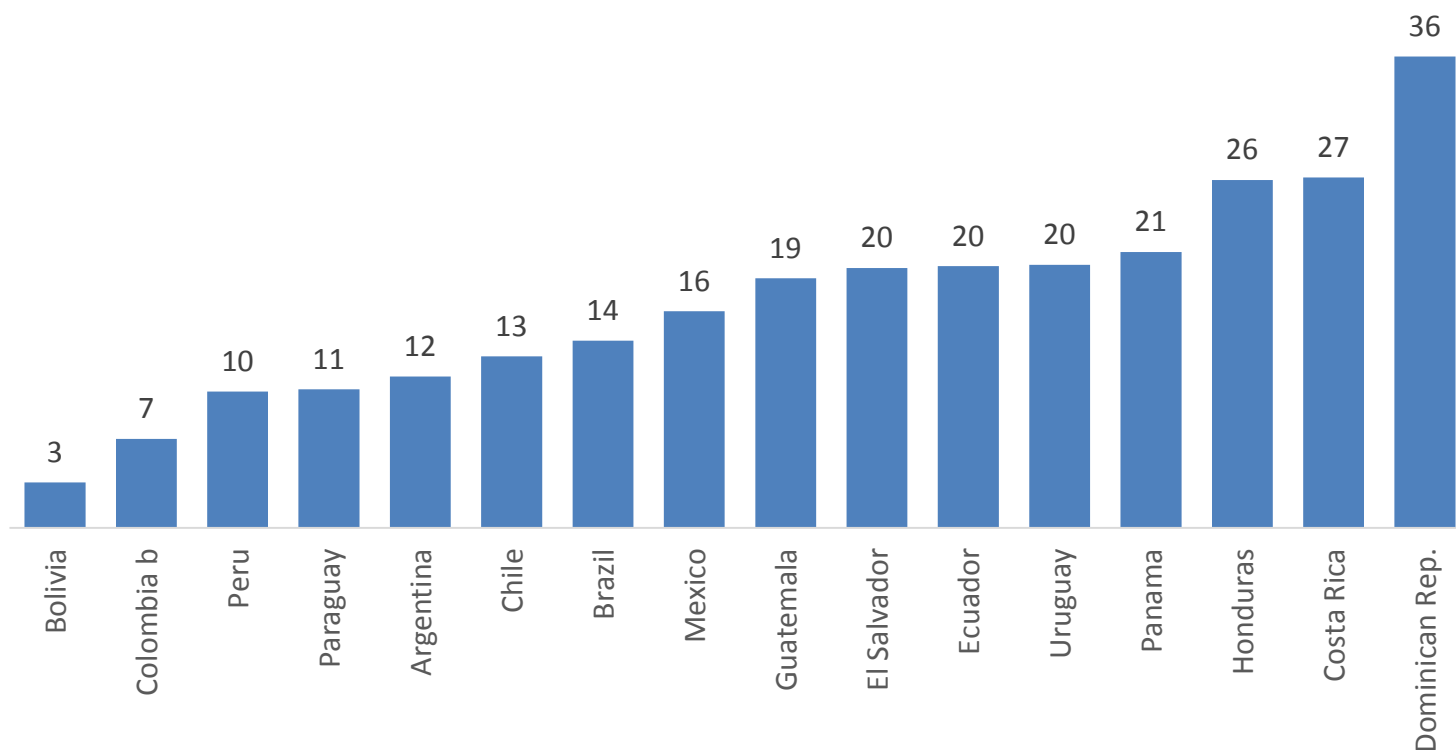


<sup>a</sup> Simple averages.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

# Tax expenditures represent 17% of budgetary expenditure on average

LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES): TAX EXPENDITURES AS A SHARE OF CENTRAL GOVERNMENT EXPENDITURES, 2017 <sup>a</sup>  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Simple averages.

<sup>b</sup> The tax expense associated with VAT is not included. It is overestimated, given that it considers exclusions that do not generate an effective collection loss, since the particularities of tax legislation do not allow VAT to be applied to certain cases. If only those goods and services that can be taxed with VAT are included, the tax expense in this tax is reduced by half.

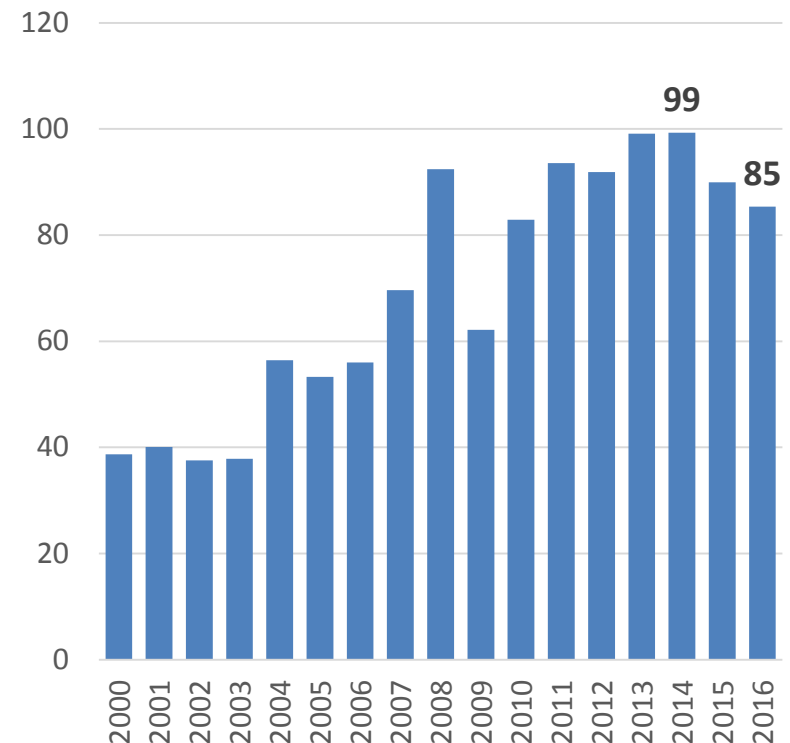
# Tax evasion and illicit financial flows limit the mobilization of domestic resources in LAC

**LATIN AMERICA: TAX NON-COMPLIANCE OF INCOME TAX AND VALUE-ADDED TAX, 2017**  
(Percentages of GDP)

**Estimated tax evasion in 2017:  
6.3% of GDP (US\$ 335 billion)**



**LATIN AMERICA AND THE CARIBBEAN: ESTIMATES OF GROSS OUTFLOWS FROM GOODS TRADE MISINVOICING, 2000-2015**  
(Billions of US dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

**Note:** the estimates of tax evasion are based on national studies on tax non-compliance with income tax and value-added tax. The figures correspond to a weighted average based on GDP at current prices in dollars. The countries included are Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and Uruguay for the ISR; and, Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay for VAT.

# Five instruments to expand fiscal space and enhance fiscal capacities:

1. Reduce tax evasion and illicit financial flows
2. Promote the adoption of taxes as applied to the digital economy and public health
3. Change incentives through environmental taxes to move towards decarbonisation of the economy and productive reconversion
4. Evaluate the use of tax expenditures
5. Strengthen personal income tax and property taxes





## Five public expenditure and investment policies that contribute to sustainable growth:

1. Protect double inclusion (labor and social) from social spending
2. Promote and reorient public investment to boost the use of innovative technologies (energy, mobility, communication and bio-economy)
3. Move towards budgetary systems that incentivize priority public investment through pro-investment accounting frameworks
4. Public-private agreements for infrastructure and renewable energy
5. Redesign of tax incentives to support industrial policies



# Regional Multilateral Space for Fiscal Analysis and Coordination

1. For the adoption of regional and global tax agreements in order to reduce tax evasion and avoidance and illicit financial flows
2. To explore joint measures to reduce harmful tax competition
3. For the revision and convergence of the use of fiscal incentives for investment
4. To analyze macro fiscal challenges and exchange information and best practices
5. To build joint positions aimed at reducing global asymmetries and expand dialogue with multinational companies