

DEVELOPMENT IN TRANSITION

Dialogues to chart new paths for
LATIN AMERICA AND THE CARIBBEAN



Fiscal policies to mitigate the effects of the pandemic and foster investment for a sustainable recovery

13 JULY 2021

14h30  | 7h30  | 8h30  | 9h30 

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ABOUT THE EVENT

Latin America and the Caribbean (LAC) is the region hardest hit by COVID-19 across a number of dimensions. The crisis caused an economic contraction of 6,8% during 2020 and led to rising unemployment, poverty and inequality, widening regional structural gaps. Growth is expected to be sluggish in the coming years, complicating efforts to reverse these increases. In this context, fiscal policy has been central to the response to the ongoing crisis and will play a key role in determining how inclusive and strong an eventual recovery will be.

The crisis has aggravated fiscal challenges in the region. In 2020, the average overall deficit of central governments in Latin America reached 6.9% of GDP and central government gross public debt increased by 10.7 percentage points to 56.3% of GDP. According to Revenue Statistics in Latin America and the Caribbean 2021, the average tax-to-GDP ratio in the LAC region was 22.9% in 2019, considerably below the OECD average of 33.8%. Furthermore, tax revenues are heavily weighted towards indirect taxes, which tend to be regressive, while revenues from personal income tax and social security contributions are particularly low relative to advanced economies. Social spending in Latin America, equivalent to 11.5% of GDP in 2019, is constrained by low public revenues, leading to underdeveloped social protection systems and low-quality public services.

Going forward, fiscal policy must continue to be used to mitigate the effects of the pandemic. At the same time, it will be essential to lay the foundations for a strong, sustainable and inclusive recovery, prioritizing the universalization of social protection systems and strategic investments that link short-term efforts to address the emergency with medium-term efforts to develop strategic sectors that reduce the environmental footprint of economic activity and create productive and quality employment. Careful sequencing of actions and a broad social consensus are essential to navigate the complex political economy of fiscal policy.

To assure the sustainability of this expansionary expenditure policy requires that countries increase their fiscal space by strengthening public revenues and the redistributive capacity of tax policy. In the short-run, measures should be targeted at eliminating tax evasion and reorienting tax expenditures. While in the medium-term, it will be essential to boost tax collection in a progressive manner. In addition, international cooperation will be essential for middle-income countries with limited fiscal space that need to maintain an active fiscal policy in the coming years. The issuance of special drawing rights (SDRs) and the voluntary reallocation of unused ones, along with the creation of multilateral funds and the



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institutional reform of the international debt architecture, including the global coordination of debt management, would allow countries in the region to access international liquidity and sustain their fiscal capacity in the short and medium term.

This webinar provides a space for a regional dialogue among country authorities, international organizations and fiscal experts to discuss domestic resource mobilization and public spending issues to reduce structural gaps, as well as to explore policy options to expand fiscal space to mitigate the effects of the pandemic and boost investments for a sustainable and inclusive recovery.

PROGRAMME

8:30 - 8:40: Introduction

- Federico Bonaglia, Deputy Director, Development Centre, OECD

8:40 - 9:50: Interventions by panelists (10 minutes per speaker)

- Grace Perez-Navarro, Deputy Director, Centre for Tax Policy and Administration, OECD
- Martín Zapata Sánchez, Vice Minister of Tax Policy, Ministry of Finance, Dominican Republic, tbc
- Daniel Titelman, Director of the Economic Development Division, ECLAC
- Juan Daniel Oviedo, General Director, DANE, Colombia, tbc
- José Antonio Ocampo, Professor of Professional Practice in International and Public Affairs, Columbia University, tbc
- Homi Kharas, Senior Fellow, Brookings Institution, tbc

9:50 - 10:05: Q&A

10:05-10:15: Closing remarks

- Jorge de la Caballeria, Head of Unit for Latin America and the Caribbean, International Partnerships, European Union

