

SÉRIE DESAFIOS

DO DESENVOLVIMENTO:

FÓRUM FUTURO DA GOVERNANÇA FISCAL

REALIZAÇÃO:



FIBE
FÓRUM DE INTEGRAÇÃO
BRASIL EUROPA

APOIO:



Centro Científico e Cultural de Macau, I.P.
CIÊNCIA, TECNOLOGIA E ENSINO SUPERIOR

Presenter

SÉRIE DESAFIOS
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**FÓRUM FUTURO
DA GOVERNANÇA
FISCAL**



Emilio Pineda

Head of the IDB's Fiscal
Management Division

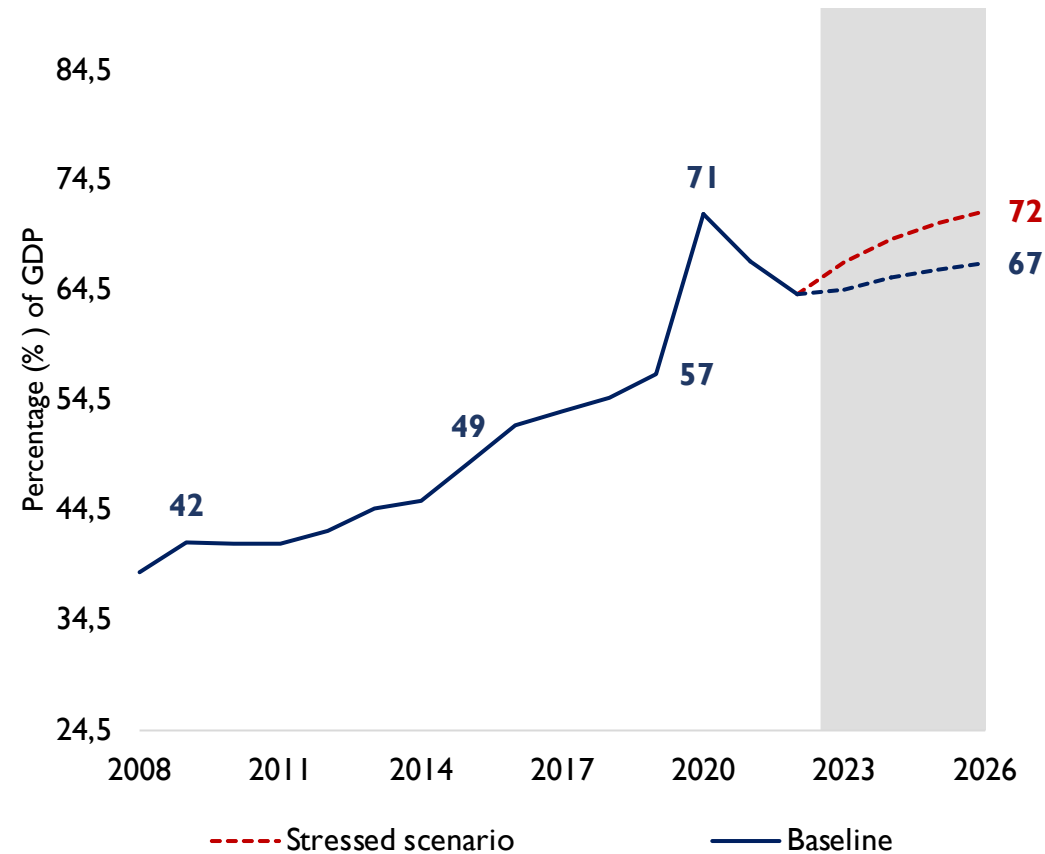
TÍTULO:

**Fiscal Management Challenges
in Latin America and the Caribbean**

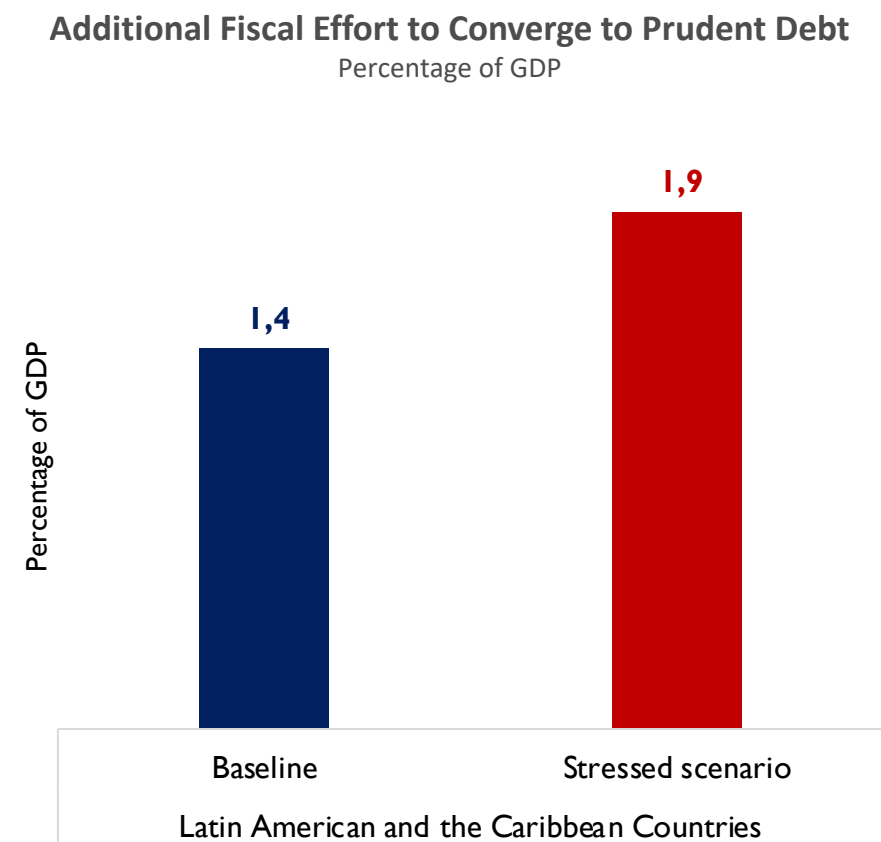
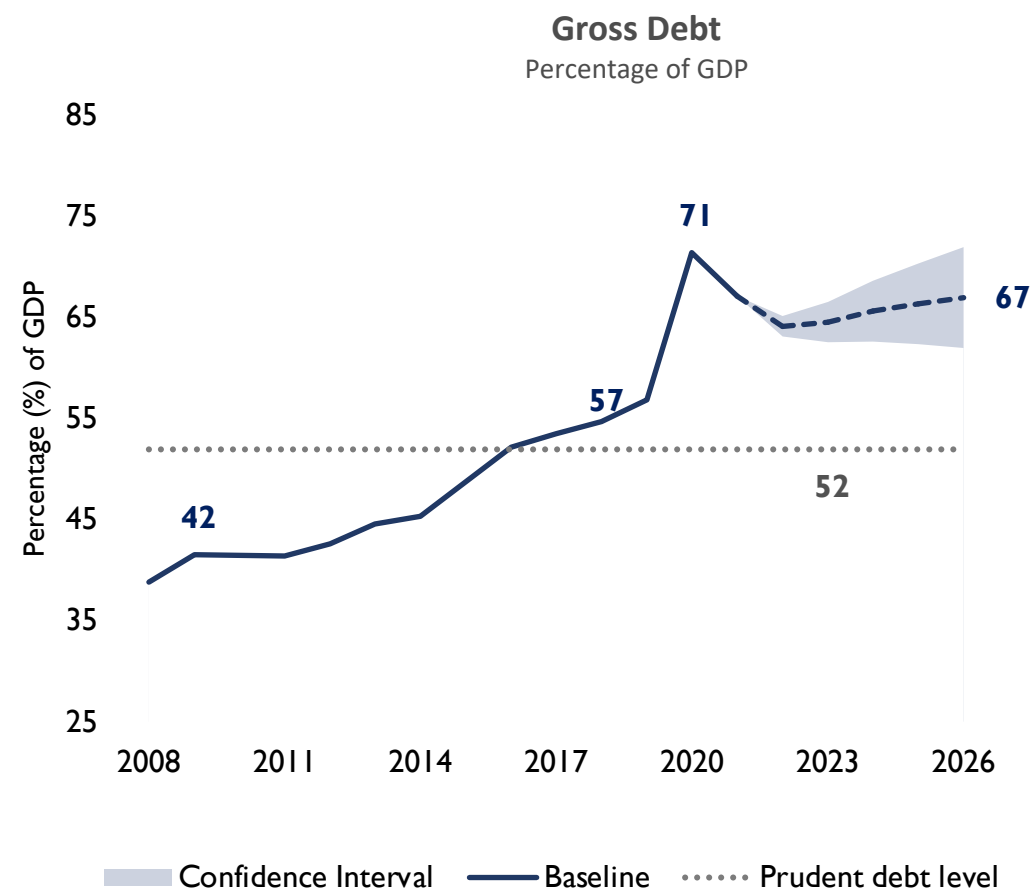
Agenda

1. Recent evolution of fiscal positions in Latin America and the Caribbean
2. How to make a fiscal consolidation that protects economic growth?
3. New Fiscal Architecture to improve equity and formality

Fiscal accounts have improved after COVID-19, ... but higher interest rates are putting pressure



Debt continues to be far from pre-pandemic and prudent levels requiring an average fiscal adjustment of 1.4pp of GDP



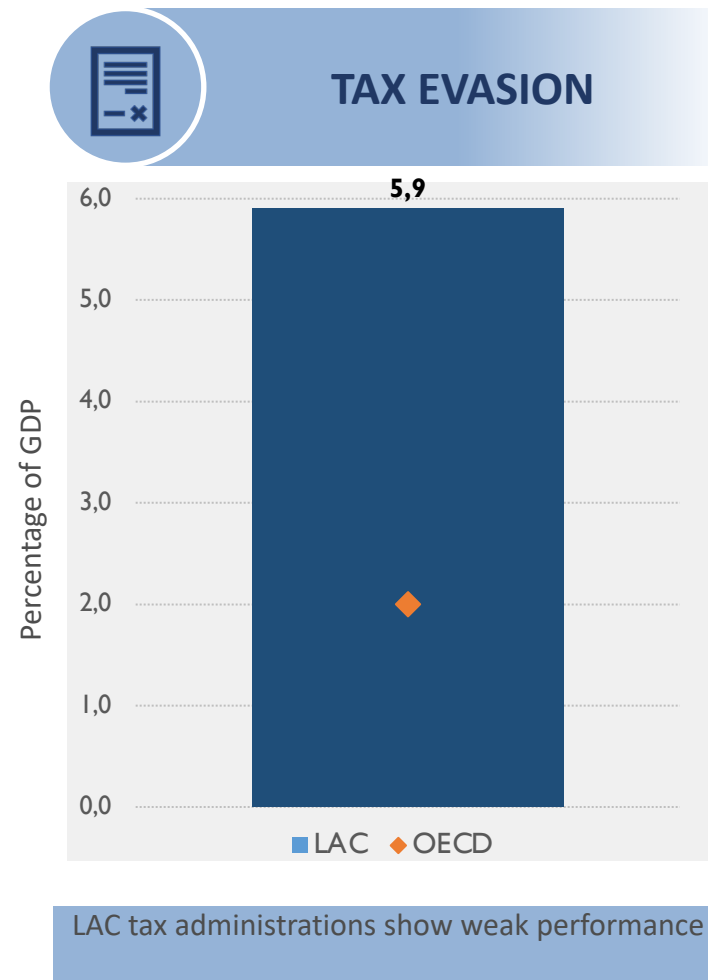
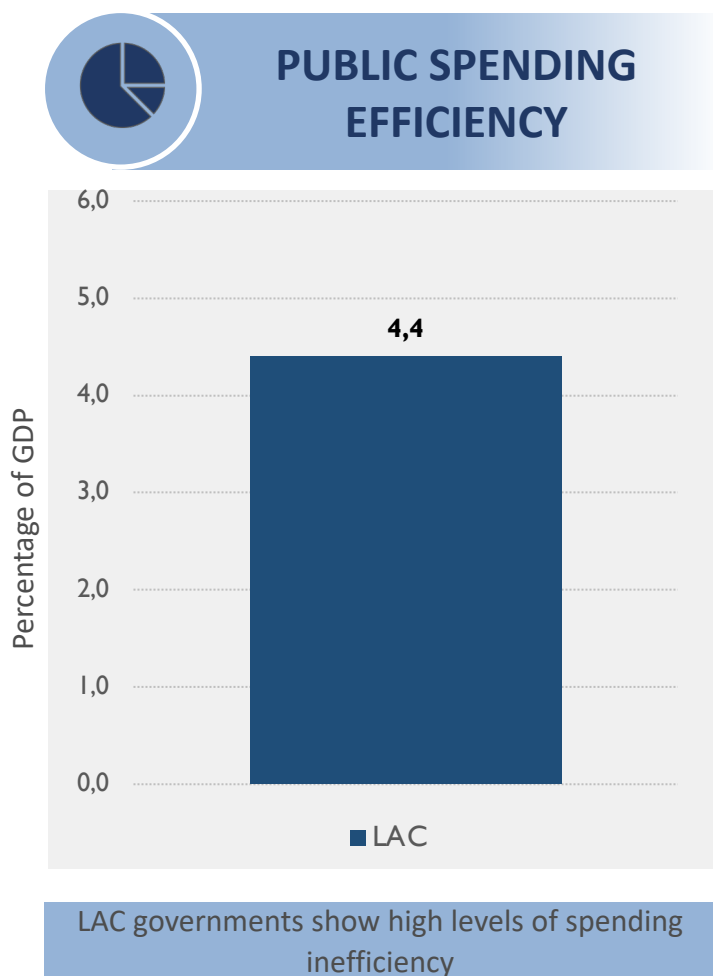
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1. Recent evolution of fiscal positions in the Latin America and the Caribbean

2. How to make a fiscal consolidation that protects economic growth?

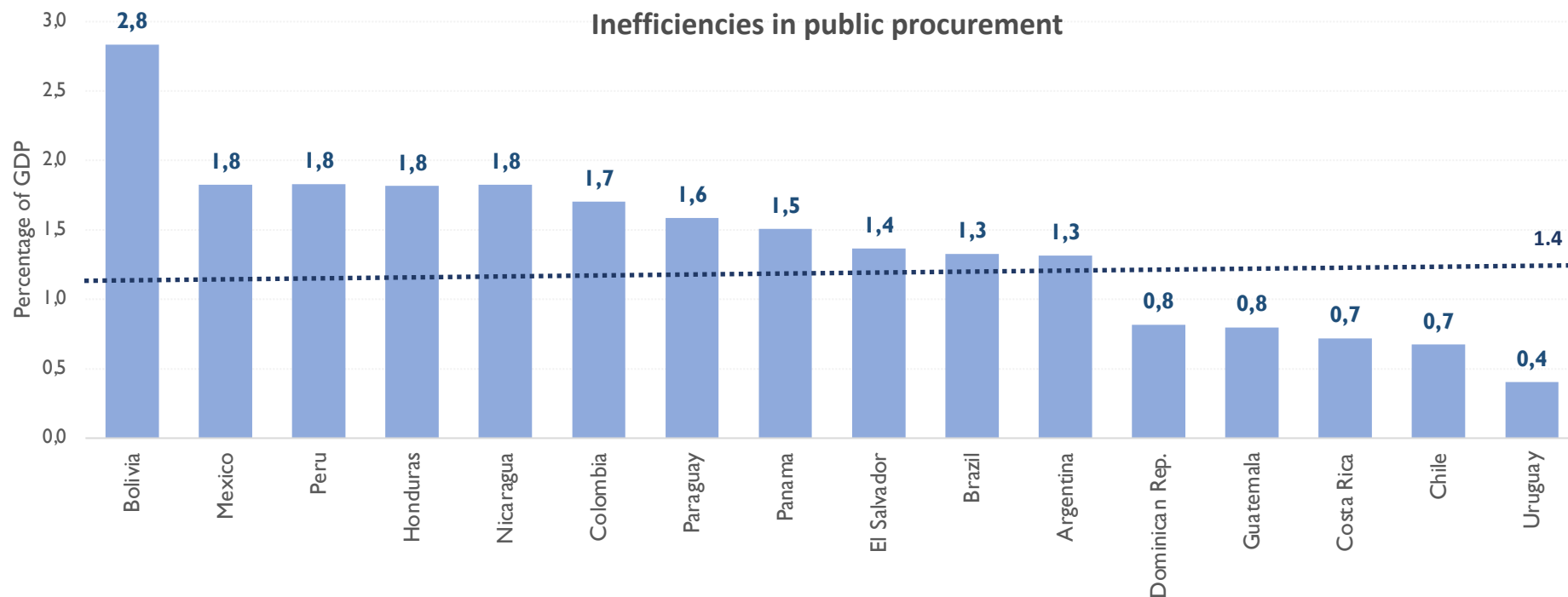
3. New Fiscal Architecture to improve equity and formality

Fiscal consolidation programs should focus on reducing spending inefficiencies and tax evasion to protect economic growth



One key pillar for increasing spending efficiency is strengthening public procurement systems

Waste in public procurement in LAC countries is about **17%**, which is equivalent to **1.4%** of GDP



Innovations in public procurement can yield important savings



Use of framework agreements led to a **10% reduction** in unit prices in comparison to other open procurement methods

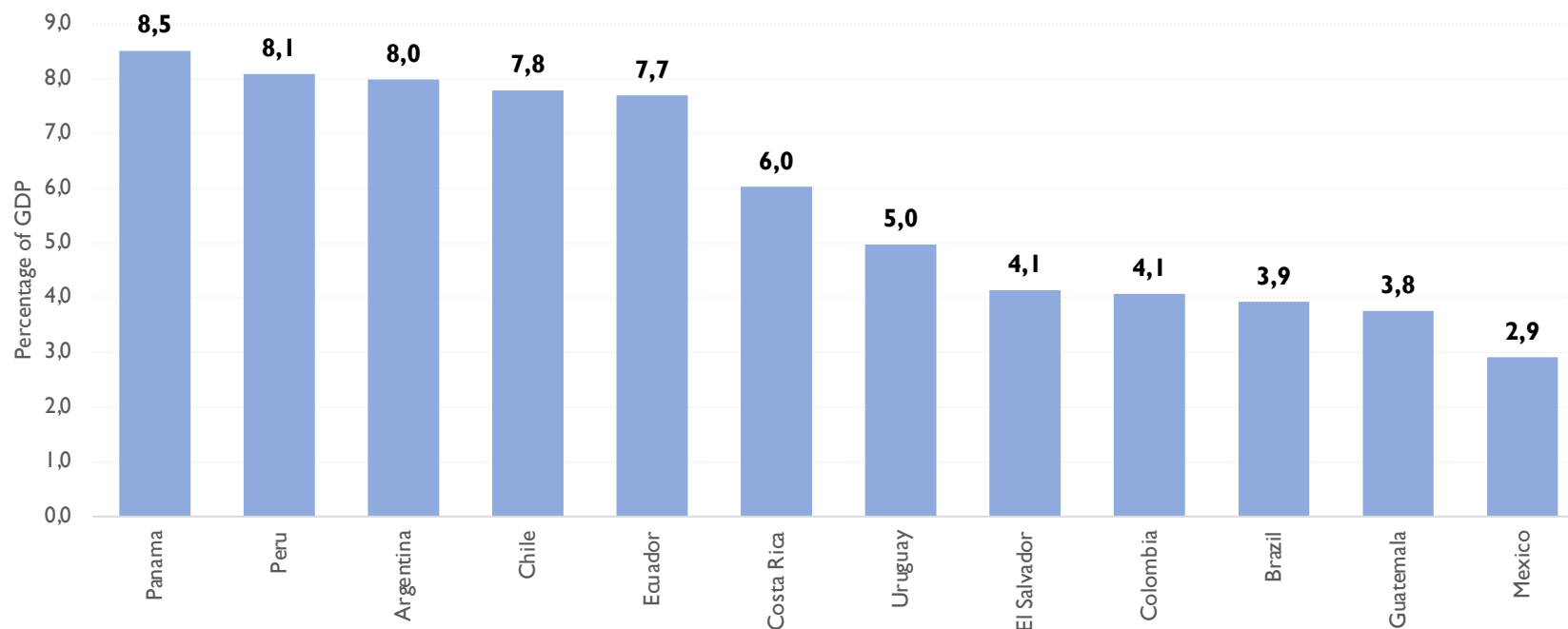


Access to reference prices based on e-invoices produced **savings of 13-18%** in most expensive medicines

Reducing tax evasion could contribute to reducing fiscal deficits and promoting fiscal consolidation

Evasion of main taxes could be as high as **5.9%** of GDP

Tax Evasion Estimates
(as % of GDP)



Innovations in tax administrations can yield important results, both in terms of increased control and compliance facilitation



11.7% increase in states' revenue collections due to modernization of tax administrations



97% of all VAT fillings are done using the draft-VAT return suggestion reducing dramatically the cost of compliance



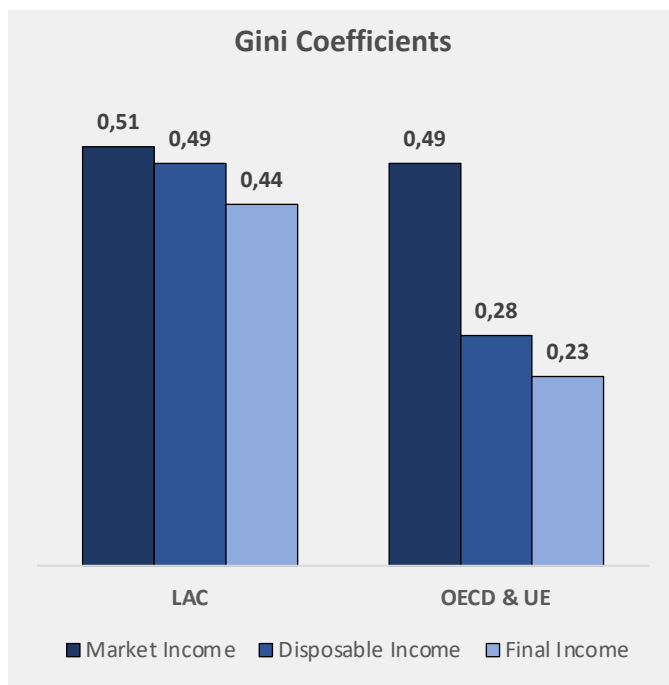
Informing taxpayers, the tax amount due increased reported revenue in **39%**

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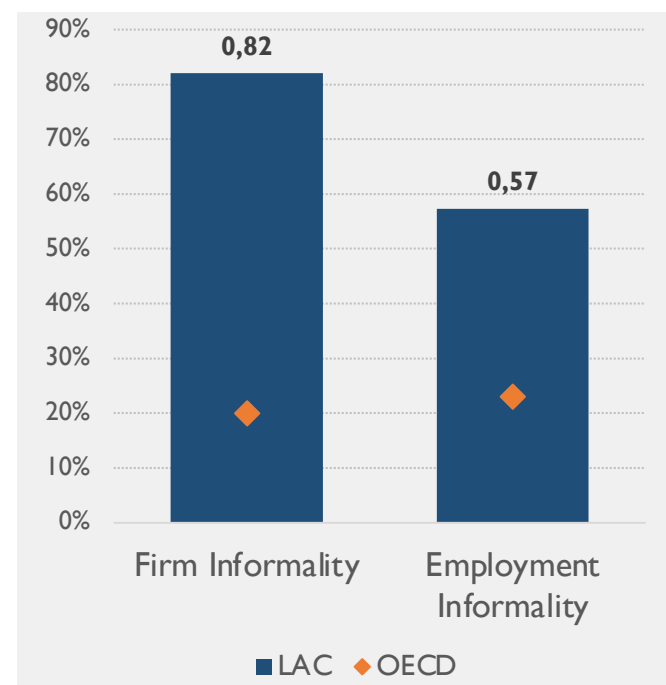
We need a new Fiscal Architecture to increase redistributive impacts of government interventions and promote formality

INEQUALITY



Fiscal policy and social programs reduce inequality very little in LAC

INFORMALITY

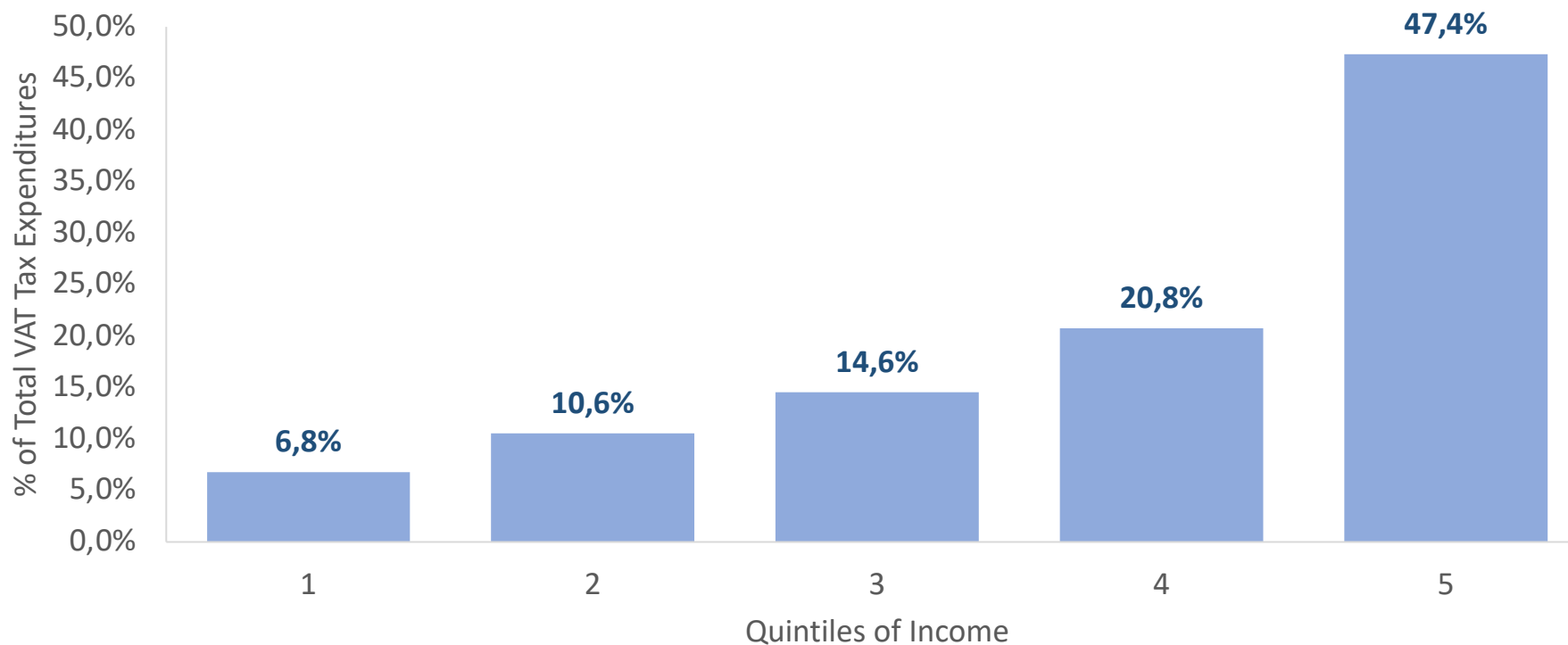


Both business and labor informality are very high

Low redistributive power of fiscal policy can be partly explained by important leakages in social programs and by tax structures

Tax expenditures due to preferential VAT treatments tend to be pro-rich

Incidence of VAT Tax Expenditures by quintiles
(as a percentage of total VAT tax expenditures)



Source: IDB-FMM (2021).

Notes: Simple average of estimates for Argentina, Bolivia, Brazil, Chile, Colombia, Honduras, Mexico; Peru, Dominican Republic and Uruguay.

Personalized VAT could reduce inequality and increase revenues



Several governments in the region are already implementing personalized VAT programs for target groups



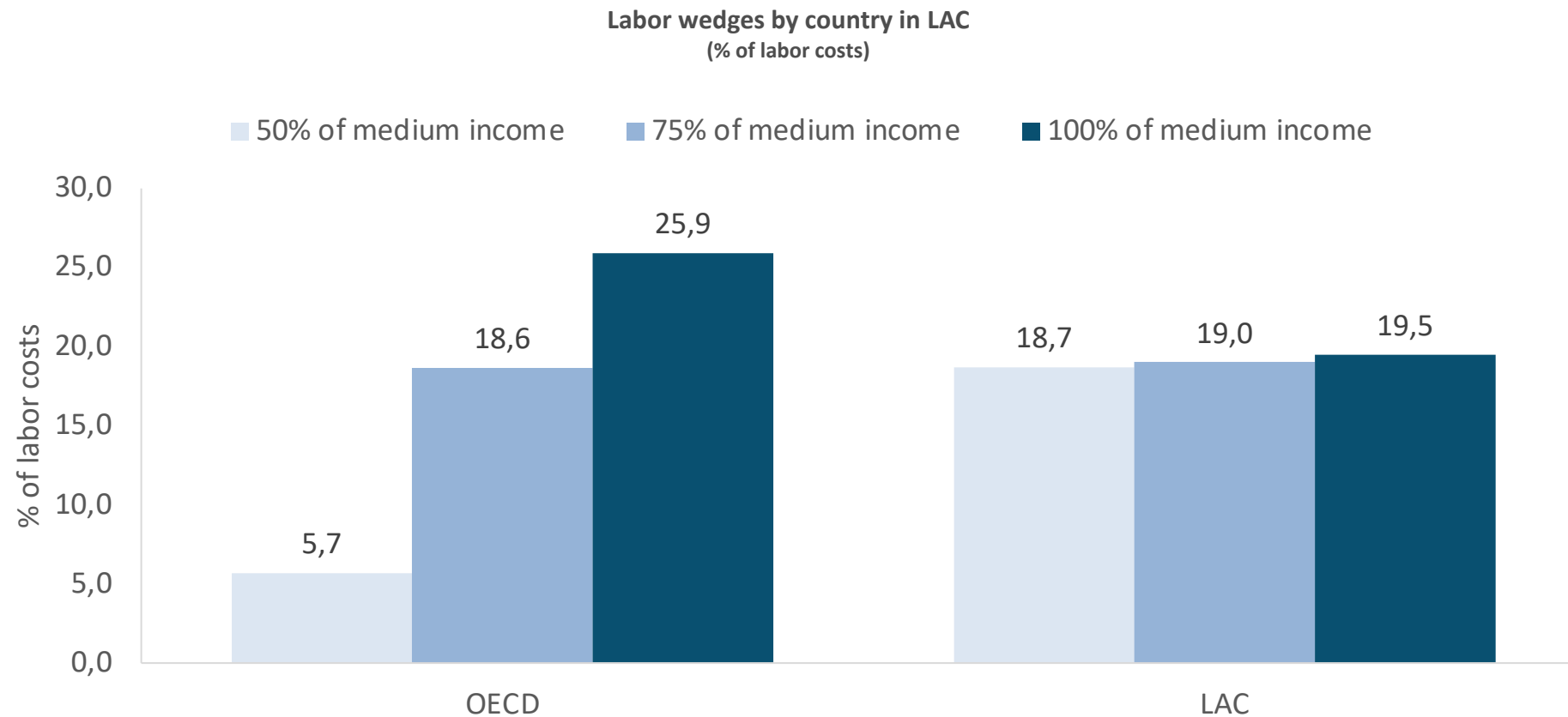
More than **175,000** beneficiaries and more than **USD 76 million** in tax reimbursements in 2021



ICMS Devolve. More than **600,000** registered households and transfers of more than **USD 45 million** in 2022

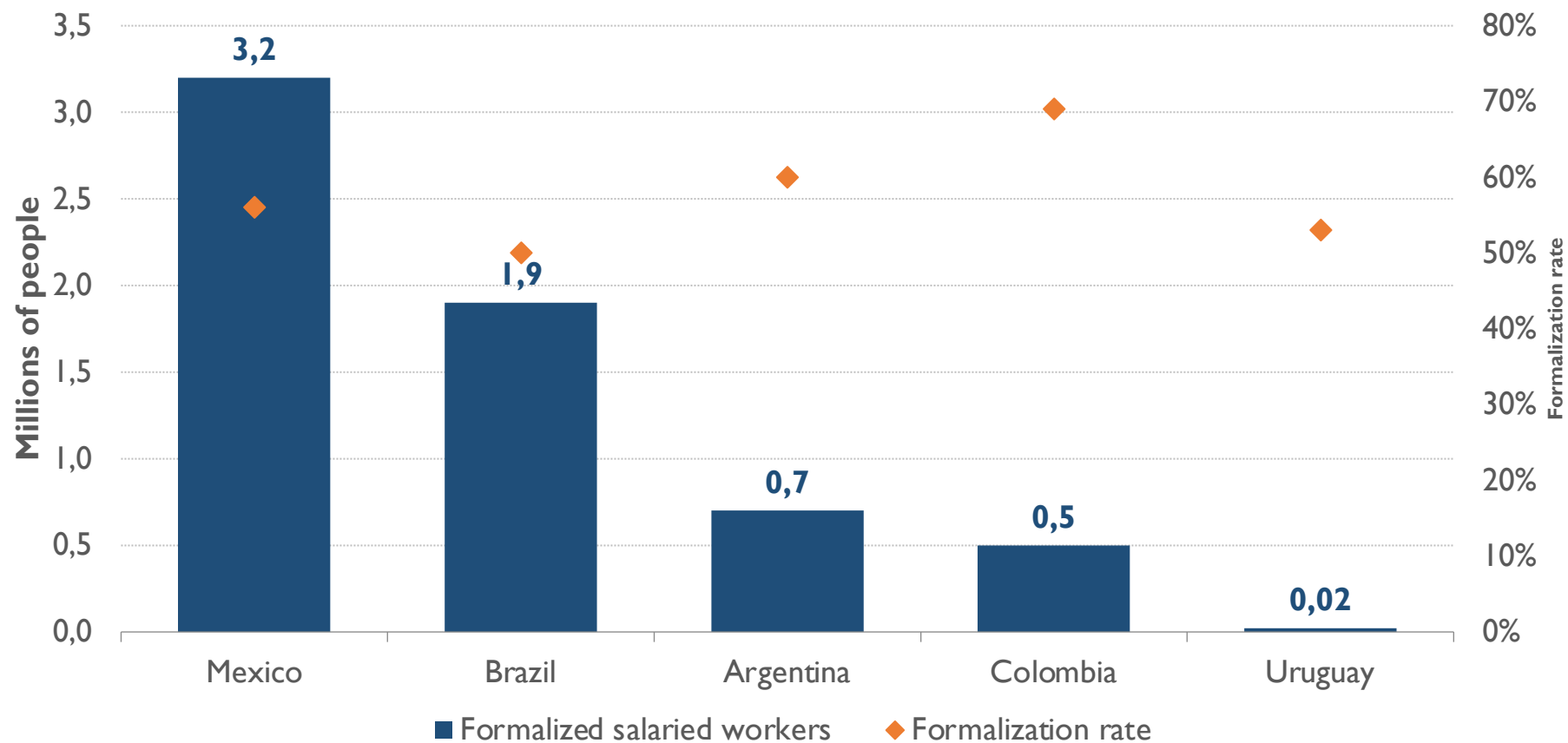
Labor informality could be reduced by lowering tax burdens on formal low-income workers

Tax burdens on wages of low-income formal workers are high

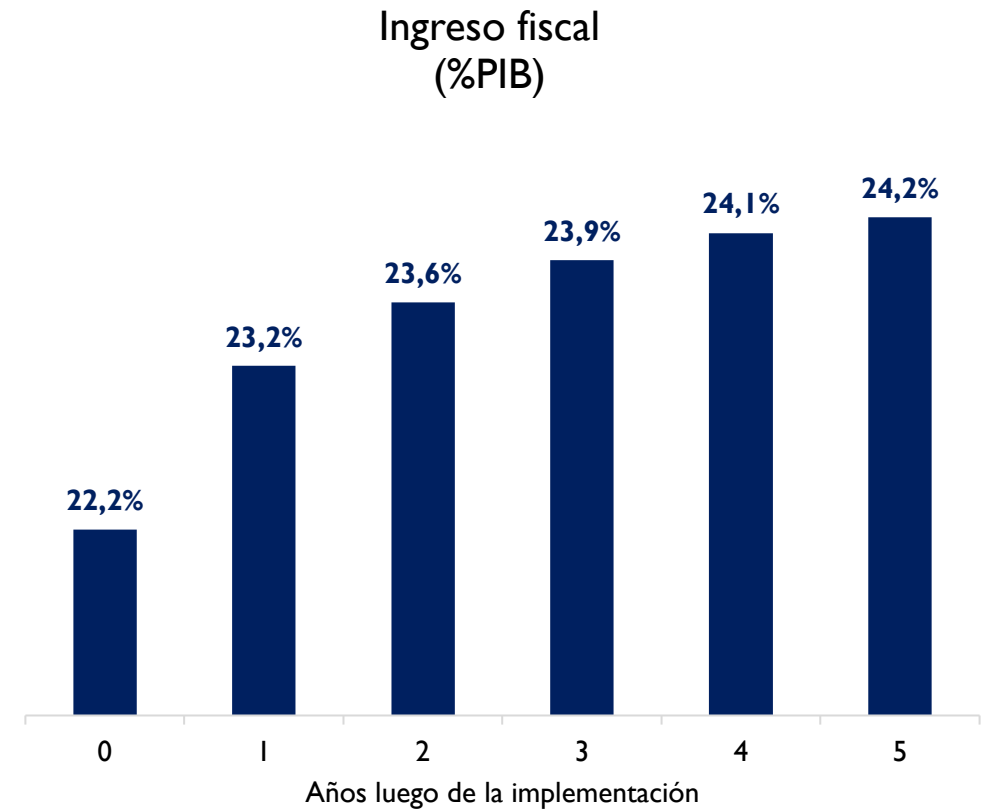
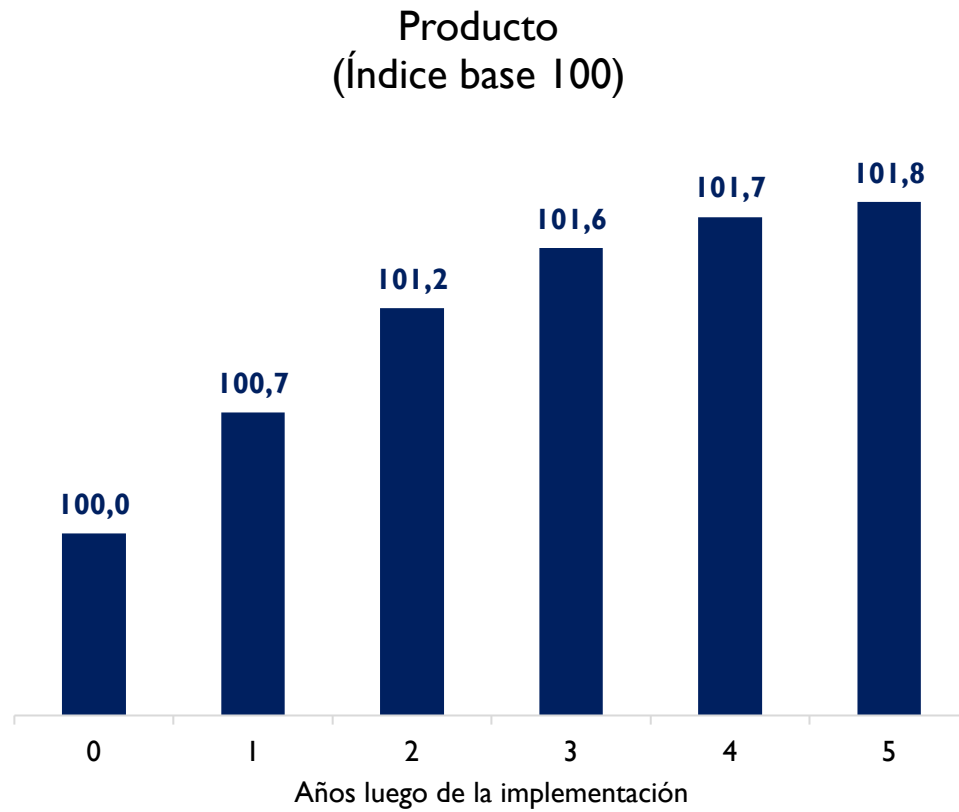


Note: Labor wedges for a married couple with two children, where only one person works and earns an average salary

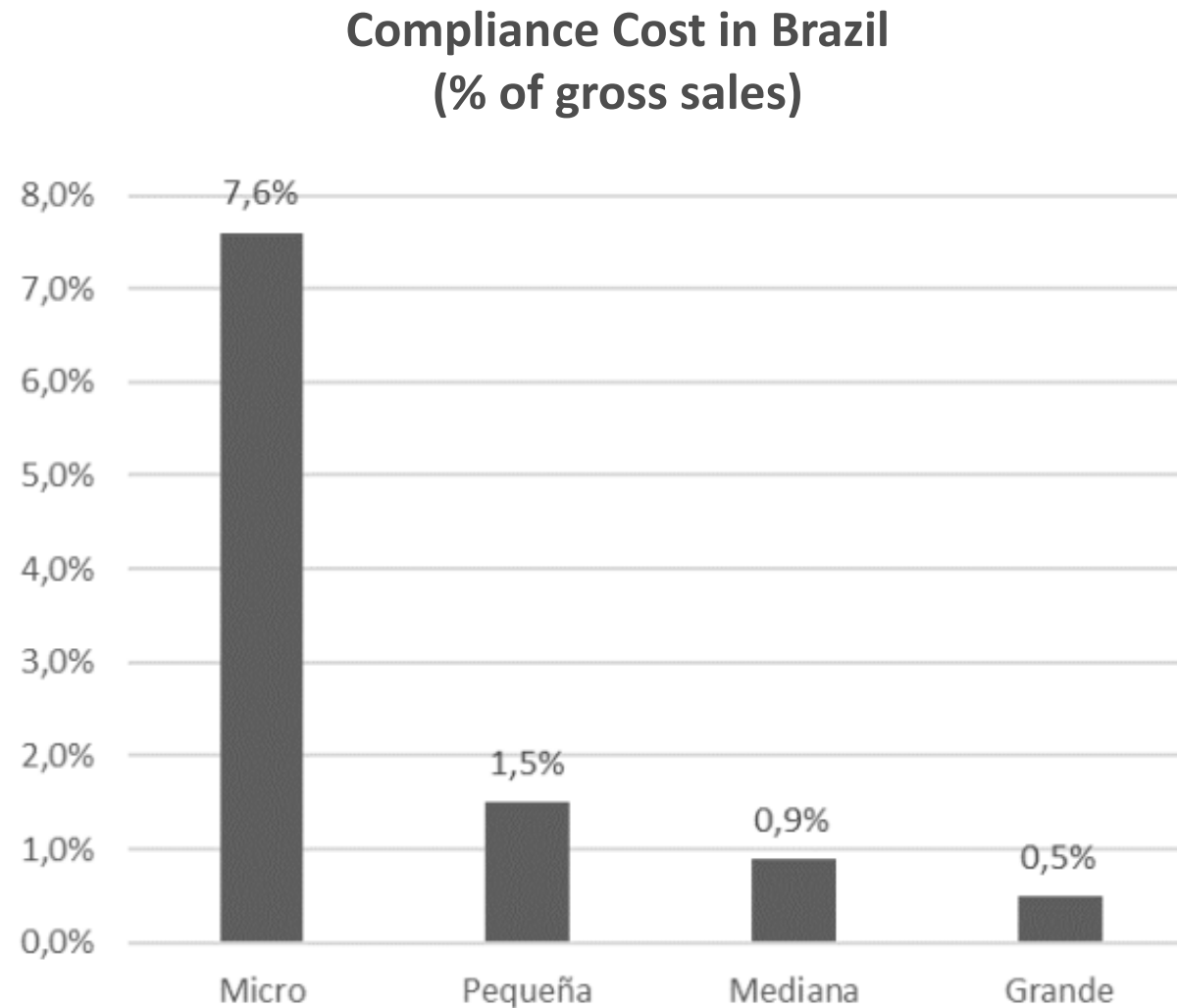
This reduction of tax burdens could be achieved through Negative Income Tax



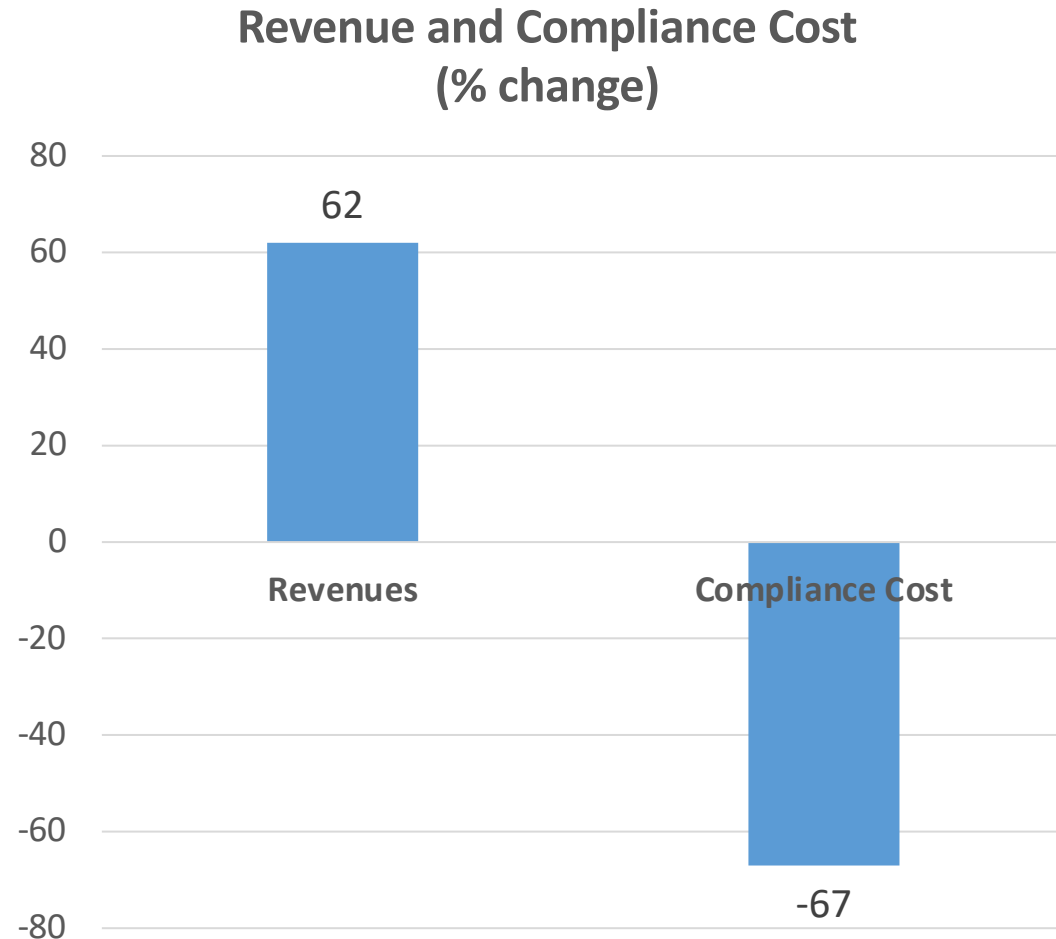
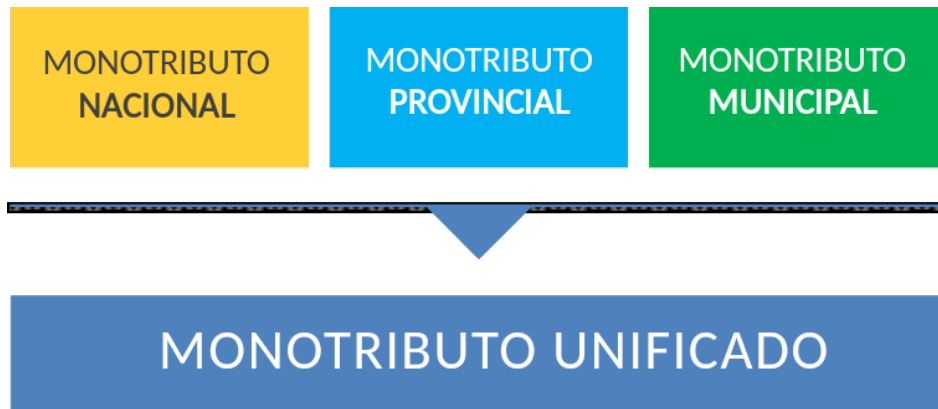
..... that increases GDP and Revenues



Compliance Costs are particularly large for small firms



Incentives for formalization could be increased by unifying federal, state, municipal tax fillings



Summing up ...

Weak fiscal stance
of most LAC countries

- Debt levels have been decreasing, but remain above prudent levels
- Increased debt services are pressuring public finances

Fiscal consolidations
must be growth friendly

- Increase the quality of public spending
- Improve resource mobilization through enhanced tax administration

LAC countries need to
promote equality
and formalization

- Strengthen redistributive impact of fiscal policies, both by policy design and management
- Encourage formality by targeted reduction of tax burdens on the poor households and strengthening STR

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23 FEVEREIRO

TRANSFORMAÇÃO DIGITAL

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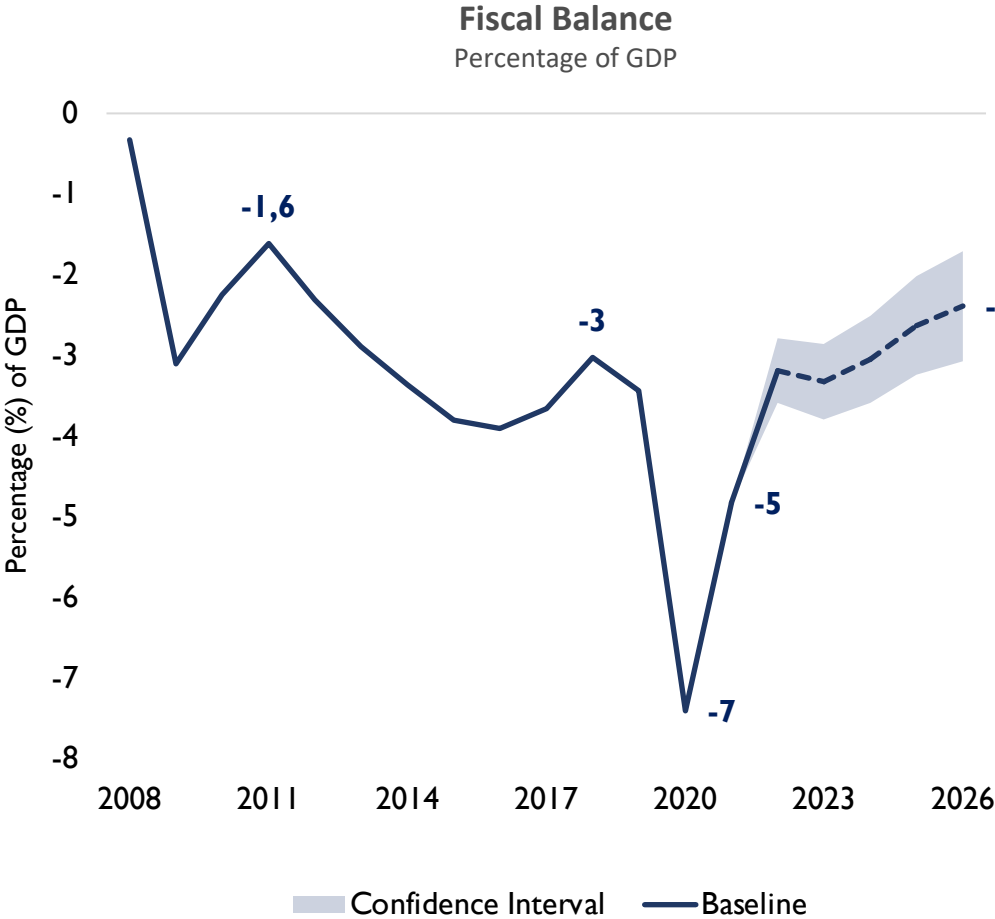
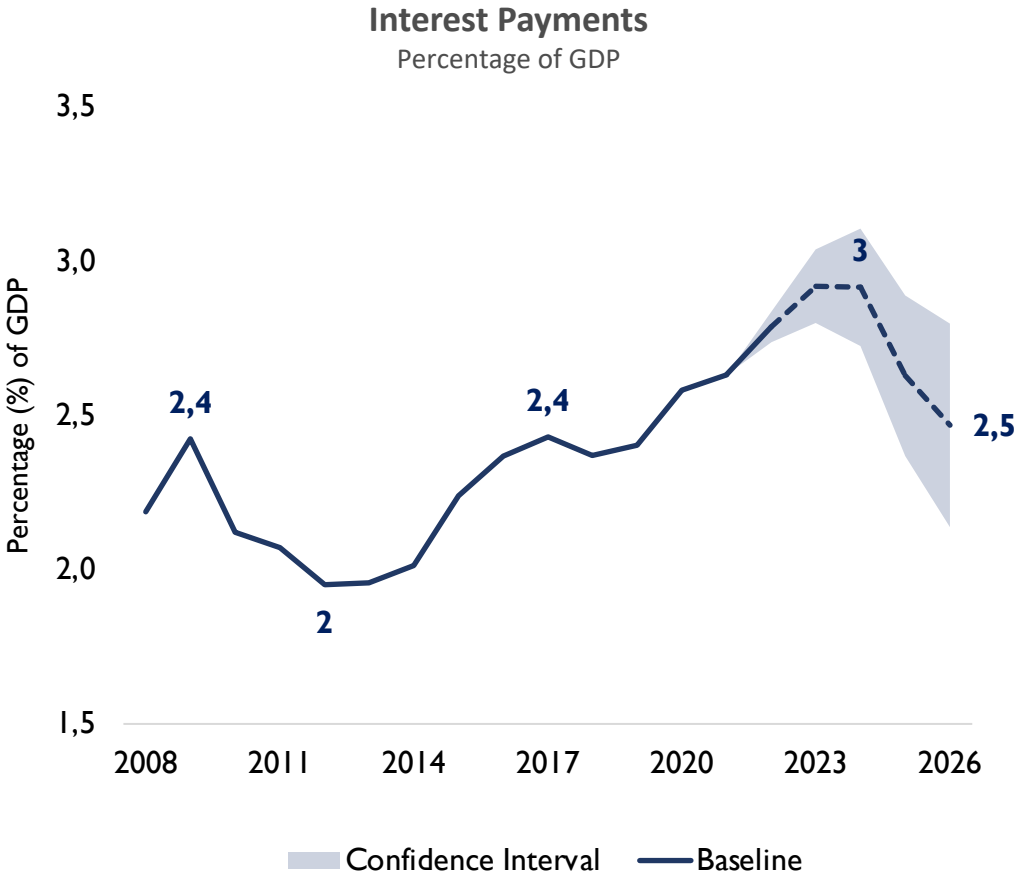


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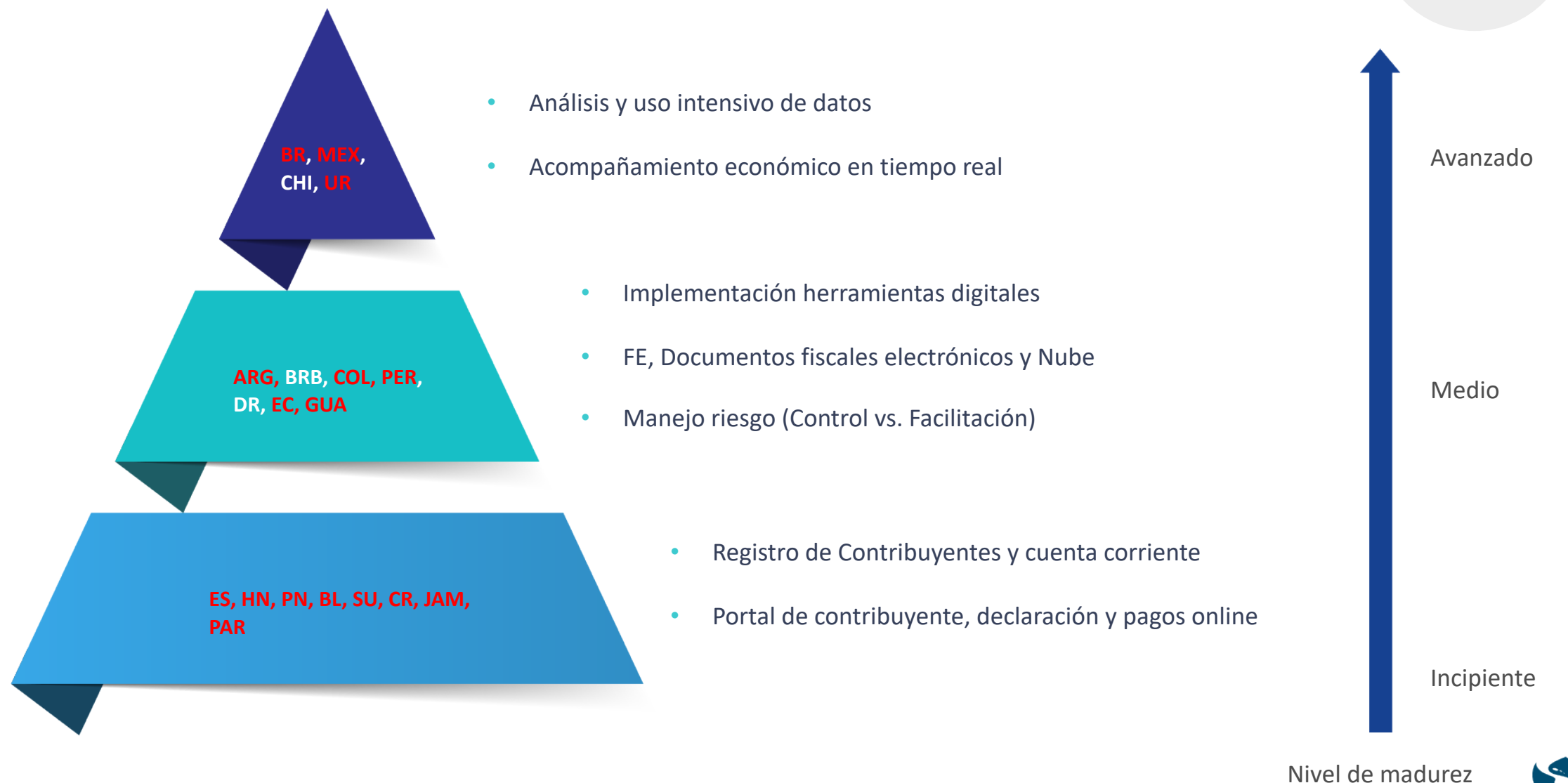


CEBRI
CENTRO BRASILEIRO DE RELAÇÕES INTERNACIONAIS

The region also faces spending pressures due to higher interest rates, increasing the need of introducing fiscal consolidation programs



Administración Tributaria Digital



Plataformas Electrónicas de Compras



Fiscal consolidation programs should protect growth and tackle structural social challenges taking advantage of digitalization

Protect
Economic Growth

Focus on:

- Increasing public spending efficiency
- Reducing tax evasion

Foster
Economic Inclusion

Focus on:

- Reducing income inequality
 - Fostering formality
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