

Creating Fiscal Space for Investment in Health: Macro-Fiscal Perspective

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Outline

I. Fiscal Challenges in Latin America and the Caribbean

II. Trends in Health Spending

III. Mobilizing Domestic Revenues for Fiscal Space

IV. Expenditure Policy Reforms to Unlock Fiscal Space

V. Summary of Policy Options to Unlock Fiscal Space

I. Fiscal Challenges in Latin America and the Caribbean

Latin America and the Caribbean face a challenging outlook for growth

Latin America and the Caribbean (LAC): Real GDP Growth (In percent)

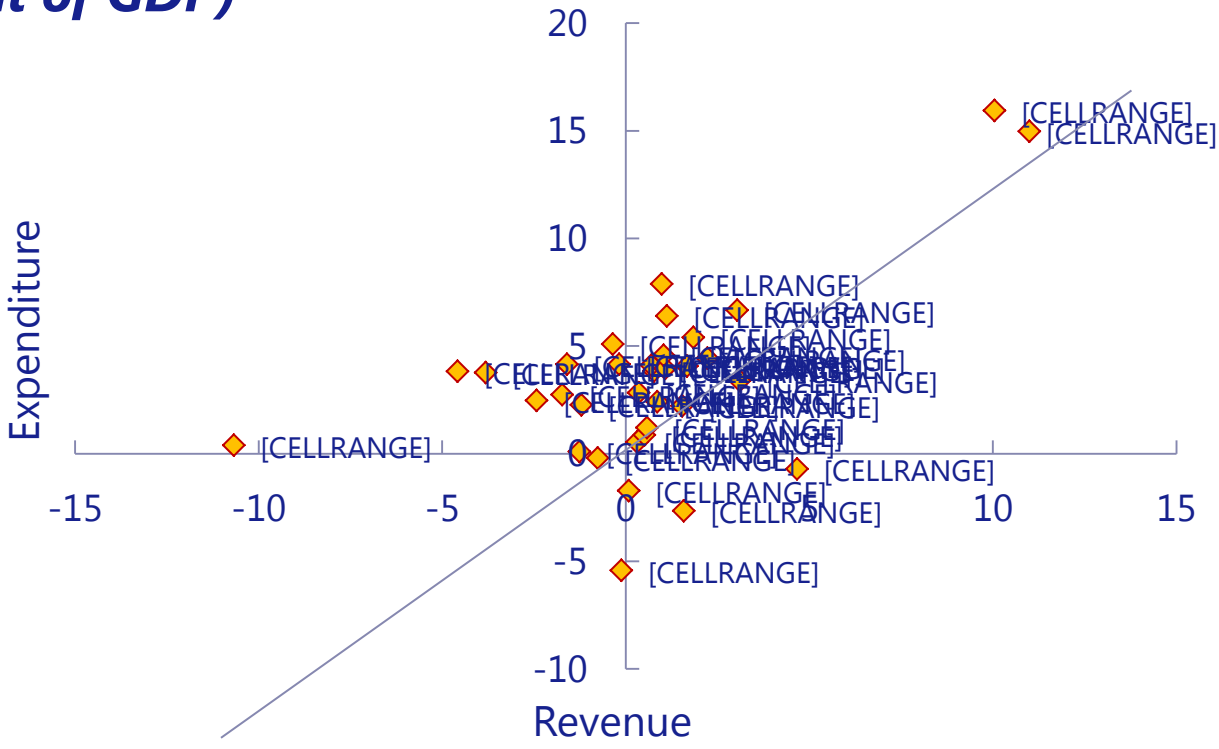
	2013	2014	Projections	
			2015	2016
LAC	2.9	1.3	-0.3	0.8
Financially integrated economies (LA6)	4.0	2.4	1.5	2.1
Other commodity exporters	6.0	2.0	-0.6	0.1
Central America	4.2	4.4	4.0	4.1
Caribbean				
Tourism-dependent	1.5	2.4	2.3	2.3
Commodity exporters	2.8	2.5	2.0	2.5
Memorandum items:				
Brazil	2.7	0.1	-3.0	-1.0
Mexico	1.4	2.1	2.3	2.8

Source: IMF, World Economic Outlook database; and IMF staff calculations and projections.

Note: LA6=Brazil, Chile, Colombia, Mexico, Peru and Uruguay; Other Commodity Exporters=Argentina, Bolivia, Ecuador, Paraguay and Venezuela; Central America=Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama; Caribbean=The Bahamas, Barbados, Jamaica, ECCU States, Belize, Guyana, Suriname, Trinidad and Tobago, Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

Revenue mobilization has lagged behind expenditure growth in the region

Change in Expenditure and Revenue, 2014 versus 2006-08 average (in percent of GDP)

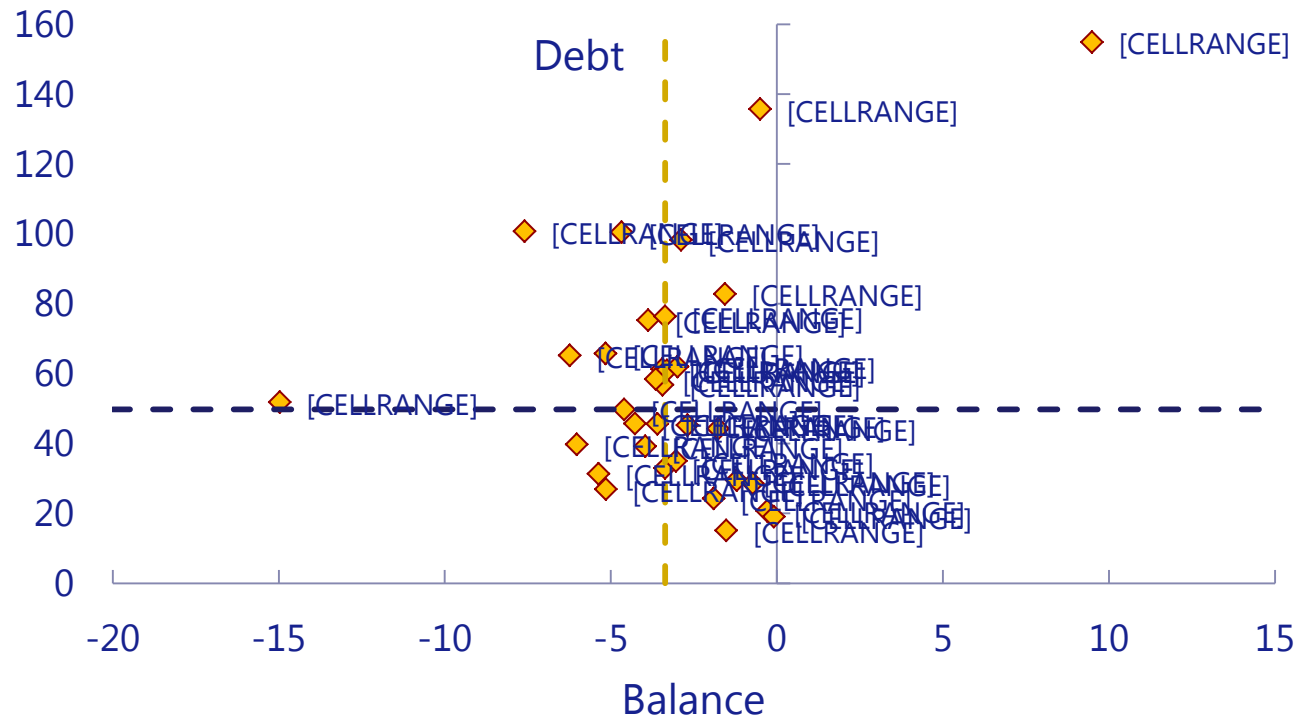


Source: IMF staff estimates; *World Economic Outlook* October 2015.

Countries included: AIA=Anguilla; ATG=Antigua and Barbuda; ARG=Argentina; BRB=Barbados; BLZ=Belize; BOL=Bolivia; CHL=Chile; COL=Colombia; CRI=Costa Rica; DMA=Dominica; DOM=Dominican Republic; ECCU=ECCU States; ECU=Ecuador; SLV=El Salvador; GRD=Grenada; GTM=Guatemala; GUY=Guyana; HND=Honduras; JAM=Jamaica; MEX=Mexico; MSR=Montserrat; NIC=Nicaragua; PAN=Panama; PRY=Paraguay; PER=Peru; KNA=St. Kitts and Nevis; LCA=St. Lucia; VCT=St. Vincent and the Grenadines; SUR=Suriname; BHS=The Bahamas; TTO=Trinidad and Tobago; URY=Uruguay; VEN=Venezuela.

High fiscal deficits and public debt are a source of vulnerability in some countries

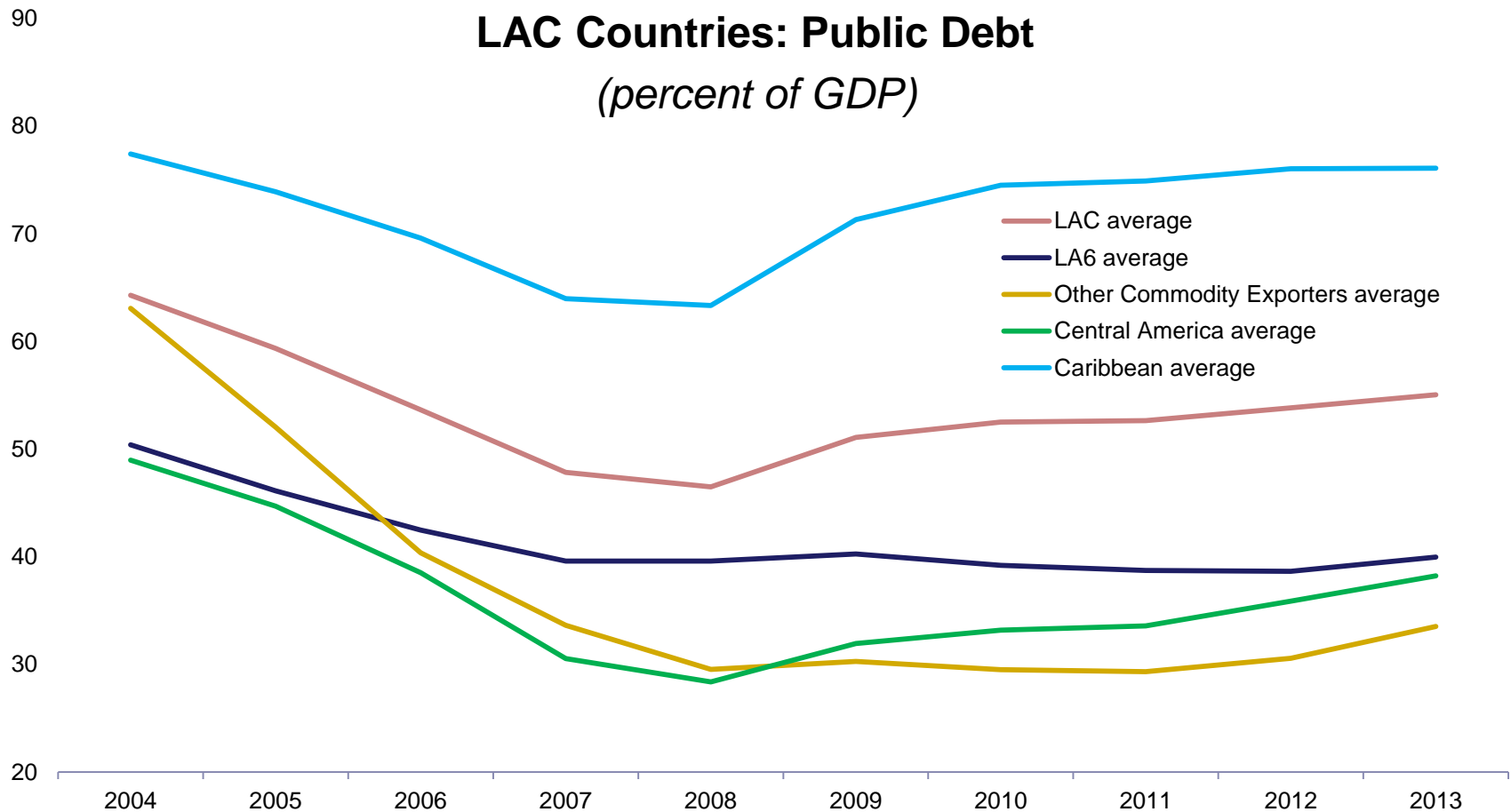
Public Debt and Fiscal Deficits in LAC Countries, 2014 (in percent of GDP)



Source: IMF staff estimates; *World Economic Outlook* October 2015.

Countries included: AIA=Anguilla; ATG=Antigua and Barbuda; ARG=Argentina; BRB=Barbados; BLZ=Belize; BOL=Bolivia; CHL=Chile; COL=Colombia; CRI=Costa Rica; DMA=Dominica; DOM=Dominican Republic; ECCU=ECCU States; ECU=Ecuador; SLV=El Salvador; GRD=Grenada; GTM=Guatemala; GUY=Guyana; HND=Honduras; JAM=Jamaica; MEX=Mexico; NIC=Nicaragua; PAN=Panama; PRY=Paraguay; PER=Peru; KNA=St. Kitts and Nevis; LCA=St. Lucia; VCT=St. Vincent and the Grenadines; SUR=Suriname; BHS=The Bahamas; TTO=Trinidad and Tobago; URY=Uruguay; VEN=Venezuela.

Public debt to GDP ratio in the region has been relatively stable over recent years

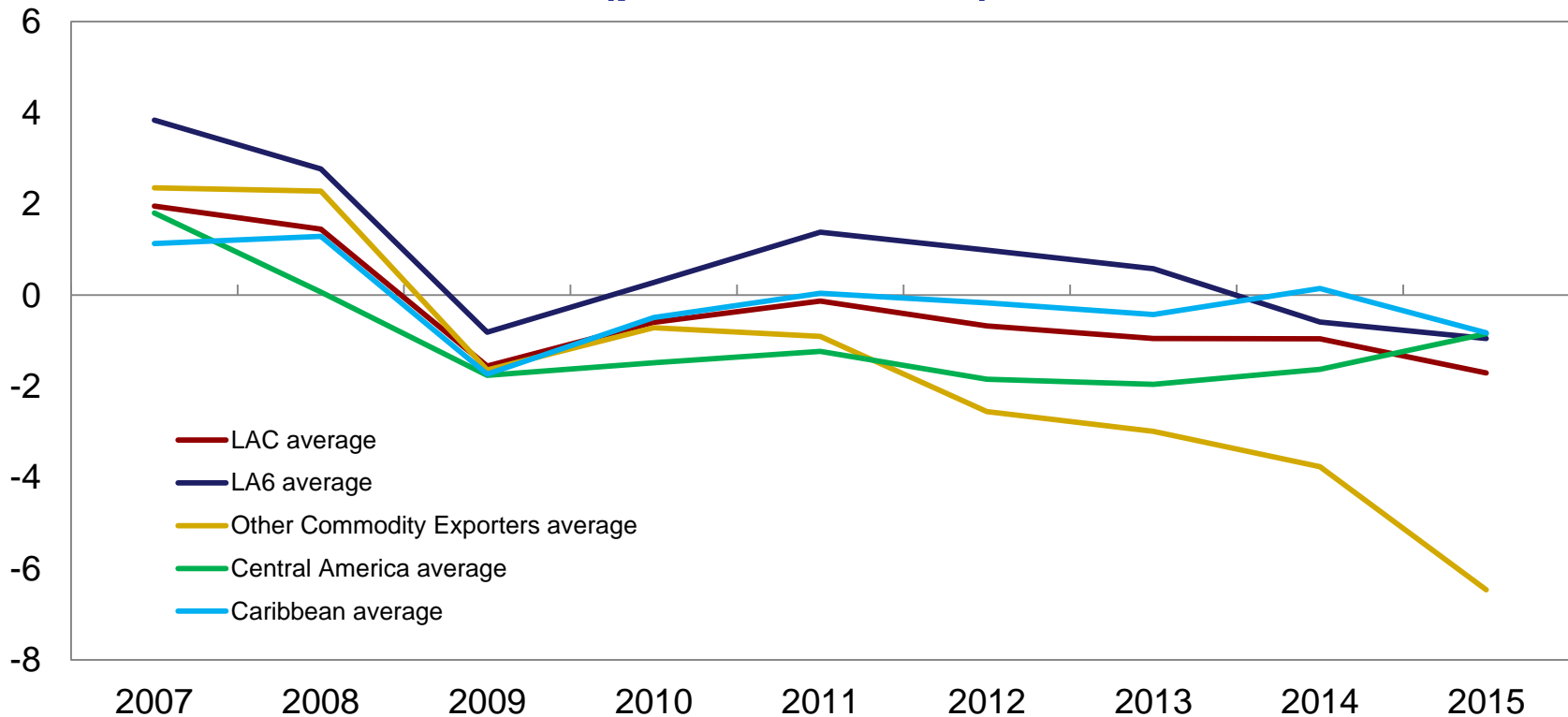


Source: IMF staff estimates; *World Economic Outlook* October 2015.

Note: LA6=Brazil, Chile, Colombia, Mexico, Peru and Uruguay; Other Commodity Exporters=Argentina, Bolivia, Ecuador, Paraguay and Venezuela; Central America=Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama; Caribbean=The Bahamas, Barbados, Jamaica, ECCU States, Belize, Guyana, Suriname, Trinidad and Tobago, Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

But fiscal balance has been worsening in commodity exporters

Average Primary Balance in LAC Countries, 2007-15 (percent of GDP)



Source: IMF staff estimates; *World Economic Outlook* October 2015.

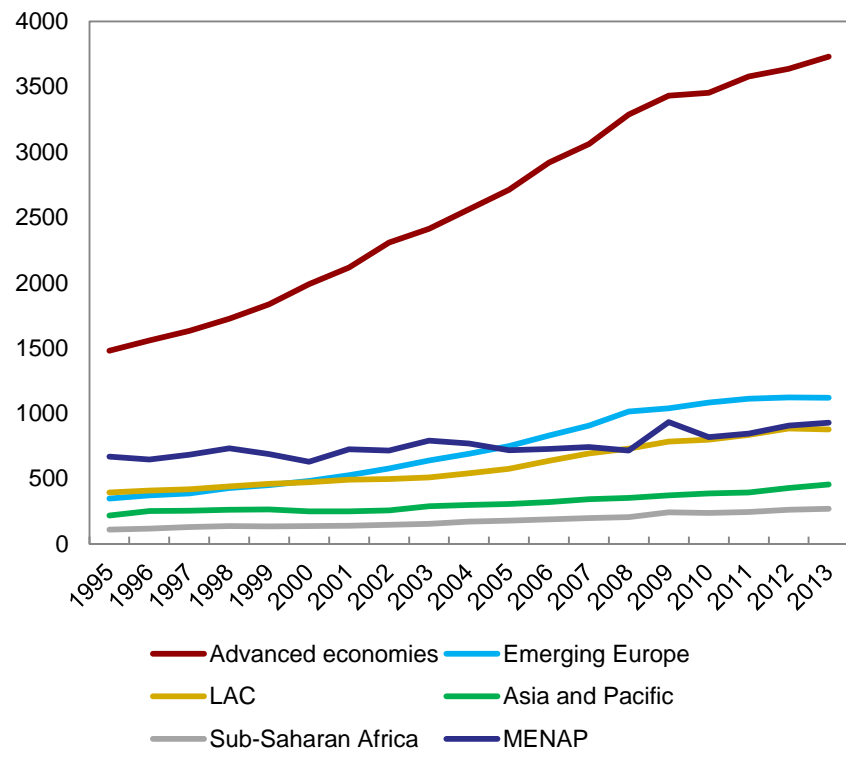
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II. Trends in Health Spending

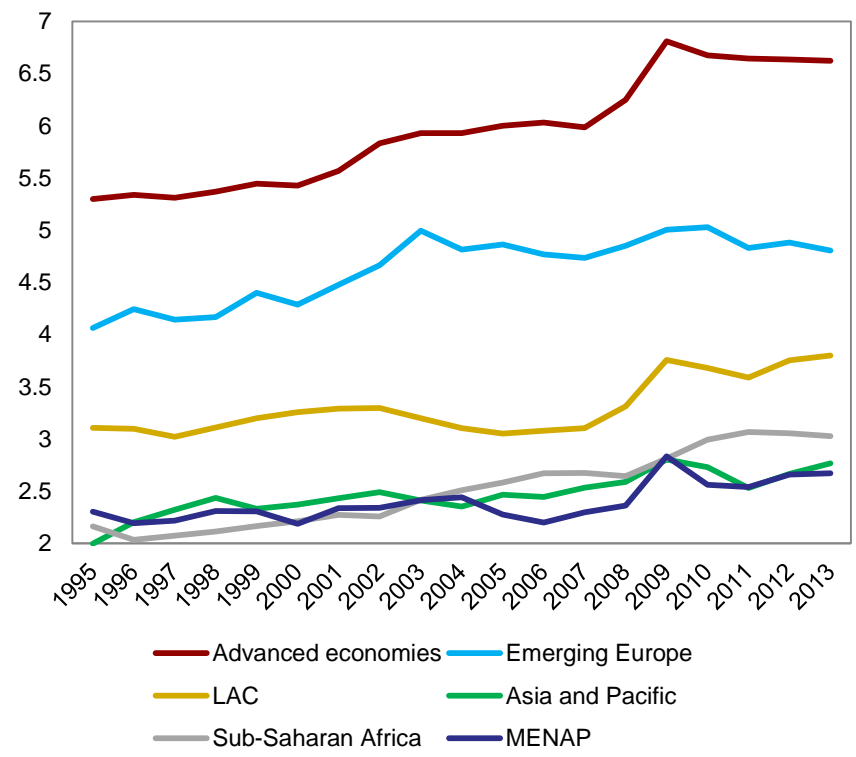


Health spending has gradually rising in Latin America and the Caribbean

Health Expenditure per capita by Region, 1995-2013 (constant 2011 international dollars)



Public Health Expenditure by Region, 1995-2013 (as a share of GDP)

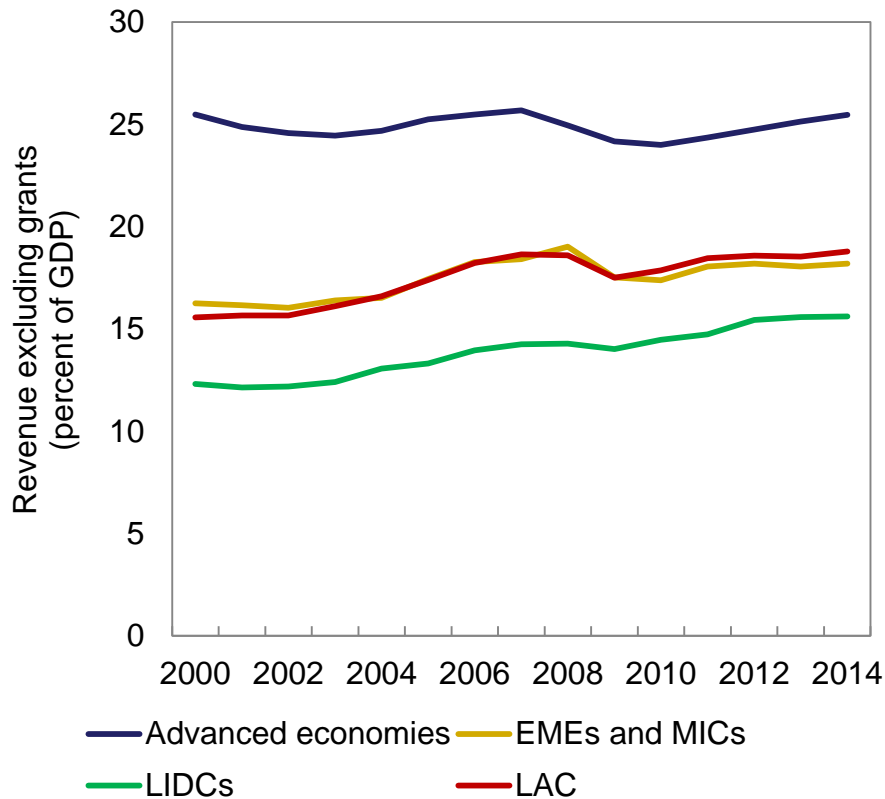


Source: World Development Indicators

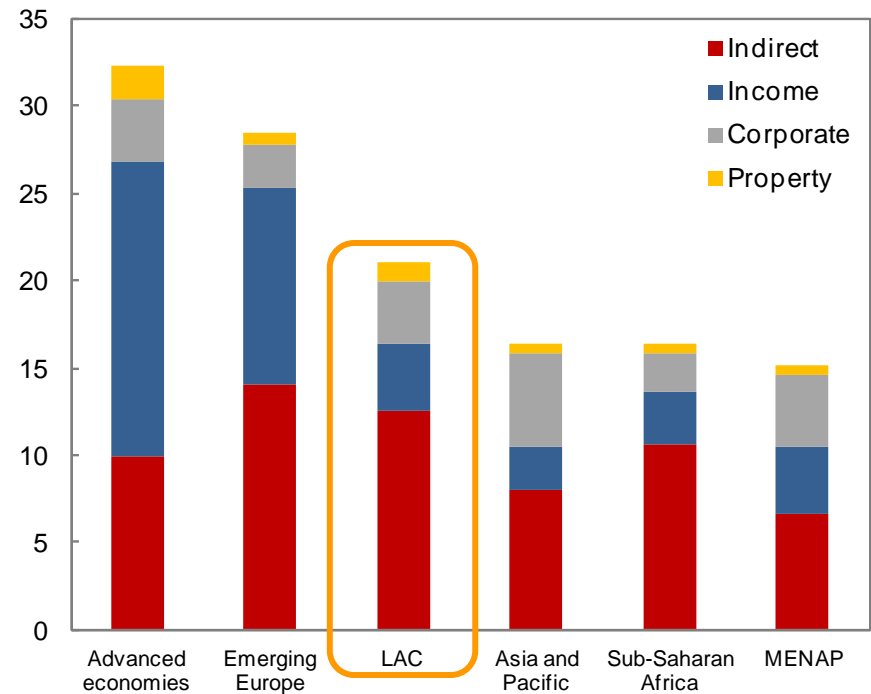
III. Mobilizing Domestic Revenues for Fiscal Space

Tax to GDP ratio is relatively high in Latin America and the Caribbean

Tax Revenues by Region, 2000-14 (as a share of GDP)



Tax Breakdown by Region, 2011 (as a share of GDP)



Source: Fiscal Monitor (April 2014 and October 2013); IMF staff estimates; and *World Economic Outlook* October 2015.

Priorities for tax reform

**Implementing
a broad based
VAT**

**Eliminating
tax
exemptions**

**Credible
extractive
industry tax
regime**

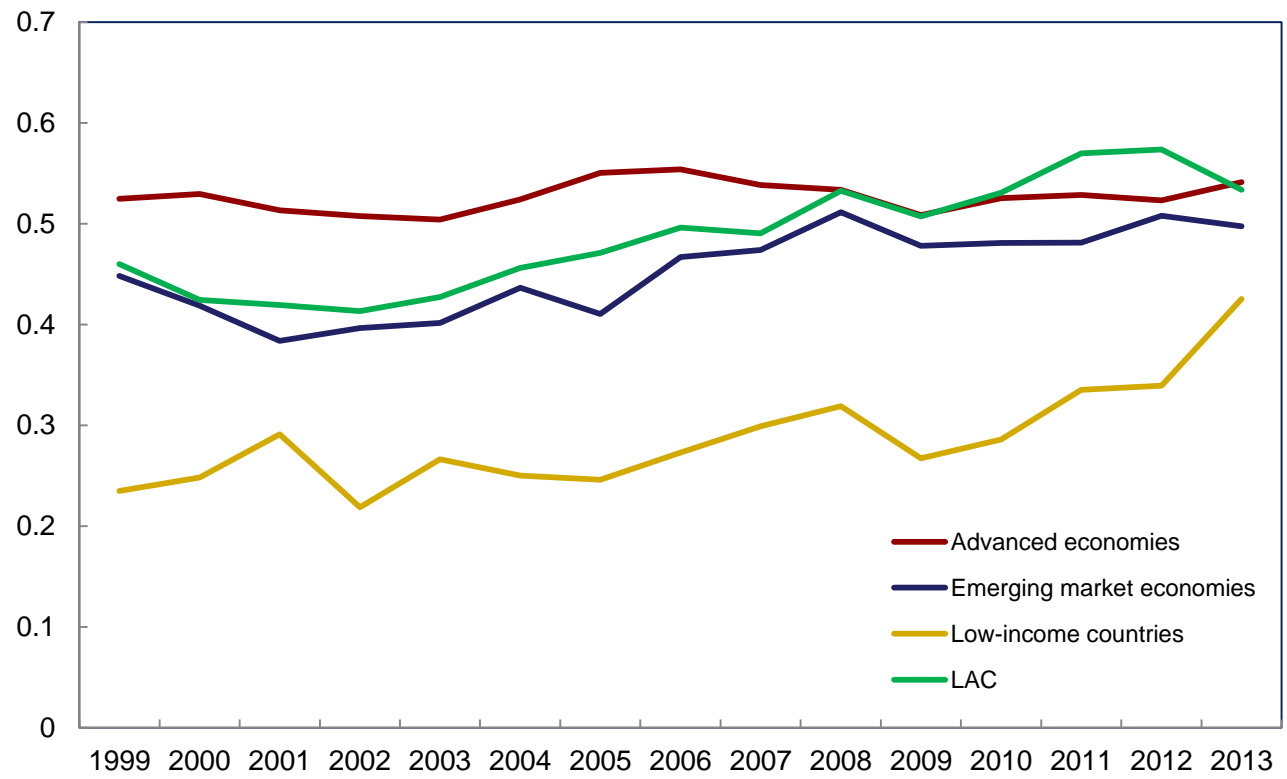
**Broad-based
corporate &
personal
income tax**

**Target
excises to
address
externalities**

Property tax

Enhancing revenue administration can mobilize additional domestic revenues

VAT Consumption Efficiency, 1999-2013 (revenue as a percent of consumption per VAT tax point)



Sources: IMF, Revenue Mobilization database and IMF staff estimates.

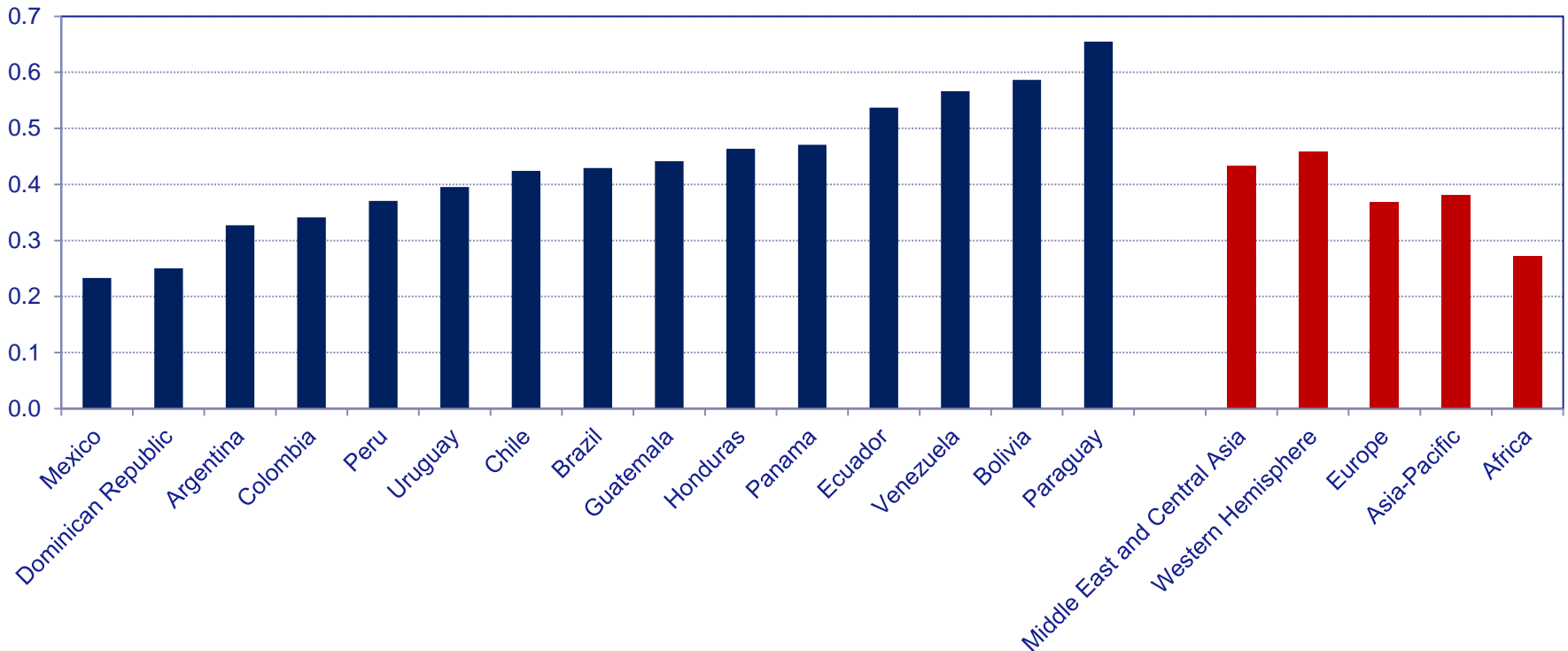
Note: The C-efficiency ratio is defined as value-added tax (VAT) revenue divided by the product of the standard VAT rate and the VAT base (proxied by final consumption).

VAT revenue efficiency differs significantly across countries in the region

Low VAT revenue efficiency in some countries suggests significant potential to raise revenue

VAT Revenue Efficiency, 2012

(revenue divided by the product of the VAT rate and tax base)

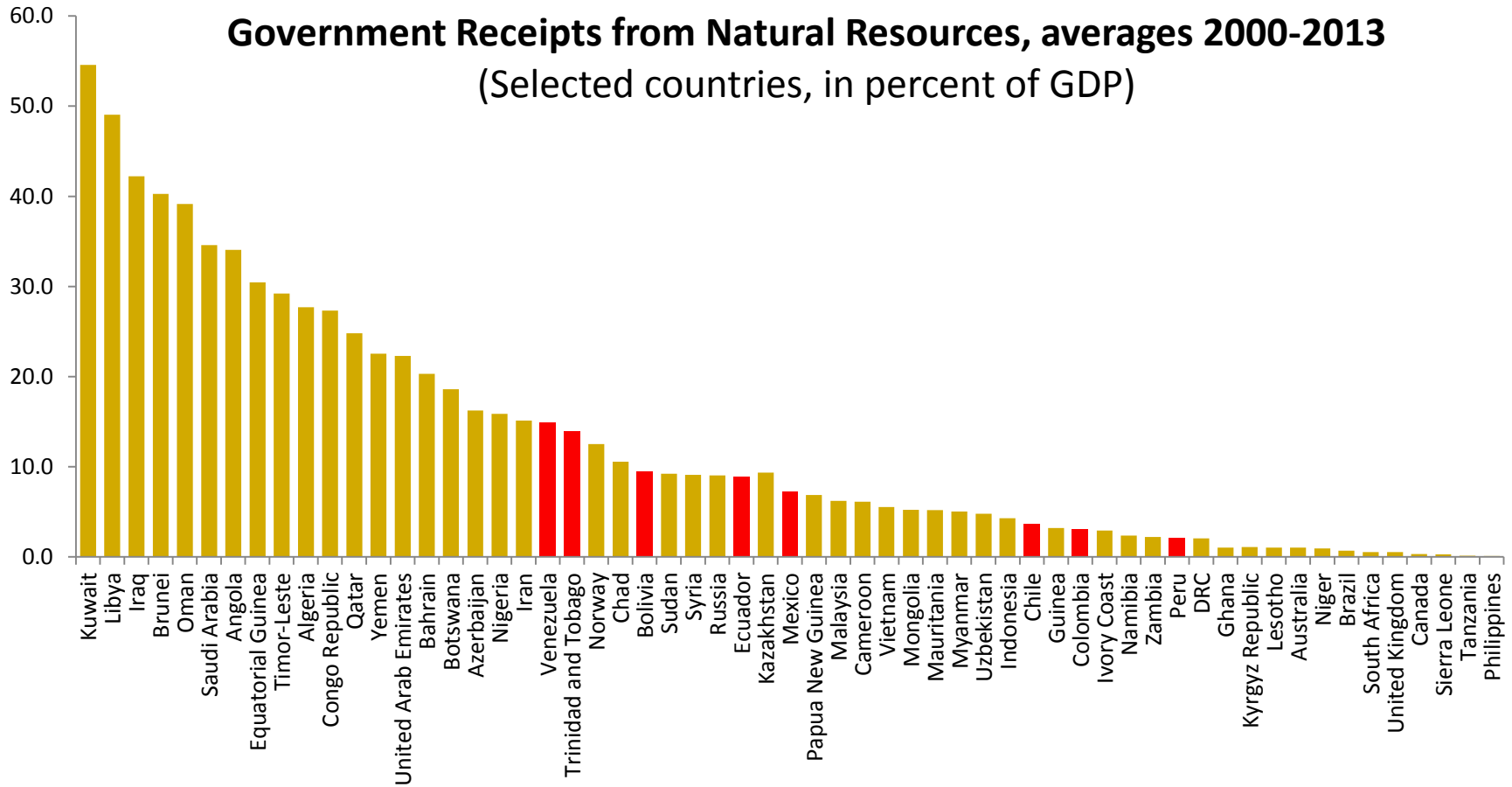


Eliminating costly exemptions can generate fiscal space

- Exemptions in the VAT and personal income taxes are common across the region, leading to large leakages
 - ➔ Base broadening and improved compliance can raise VAT by average of 2 percentage points of GDP
 - ➔ PIT exemptions are often not quantified, but can be large (i.e., exemption of pension income)

- Tax holidays create leakages from corporate income taxes
 - ➔ Exemptions that forgo revenue to little useful end can often cost several percentage points of GDP

Natural resource revenues are important for several countries in LAC: building flexible and credible extractive industry tax regimes is important



Corporate and personal taxes

- **Profit-shifting**
 - BEPS especially important for developing countries
- **Build personal income taxes**
 - to promote equity objectives and raise revenue efficiently

Excises

- **Excises are attractive for revenue and addressing externalities, but seem to be in trend decline**
 - Significant potential in cigarettes, fuel
 - Mobile phones—role for excises if licenses not auctioned?
- **Challenges:**
 - Coordination is needed to address cross-border issues (e.g., smuggling)

Property taxes

- **Revenue potential modest in absolute terms, but:**
 - Could be transformative for local governments
 - A relatively easy source of some progressivity?
- **Challenges:**
 - Mainly administrative: developing cadasters and valuation methods

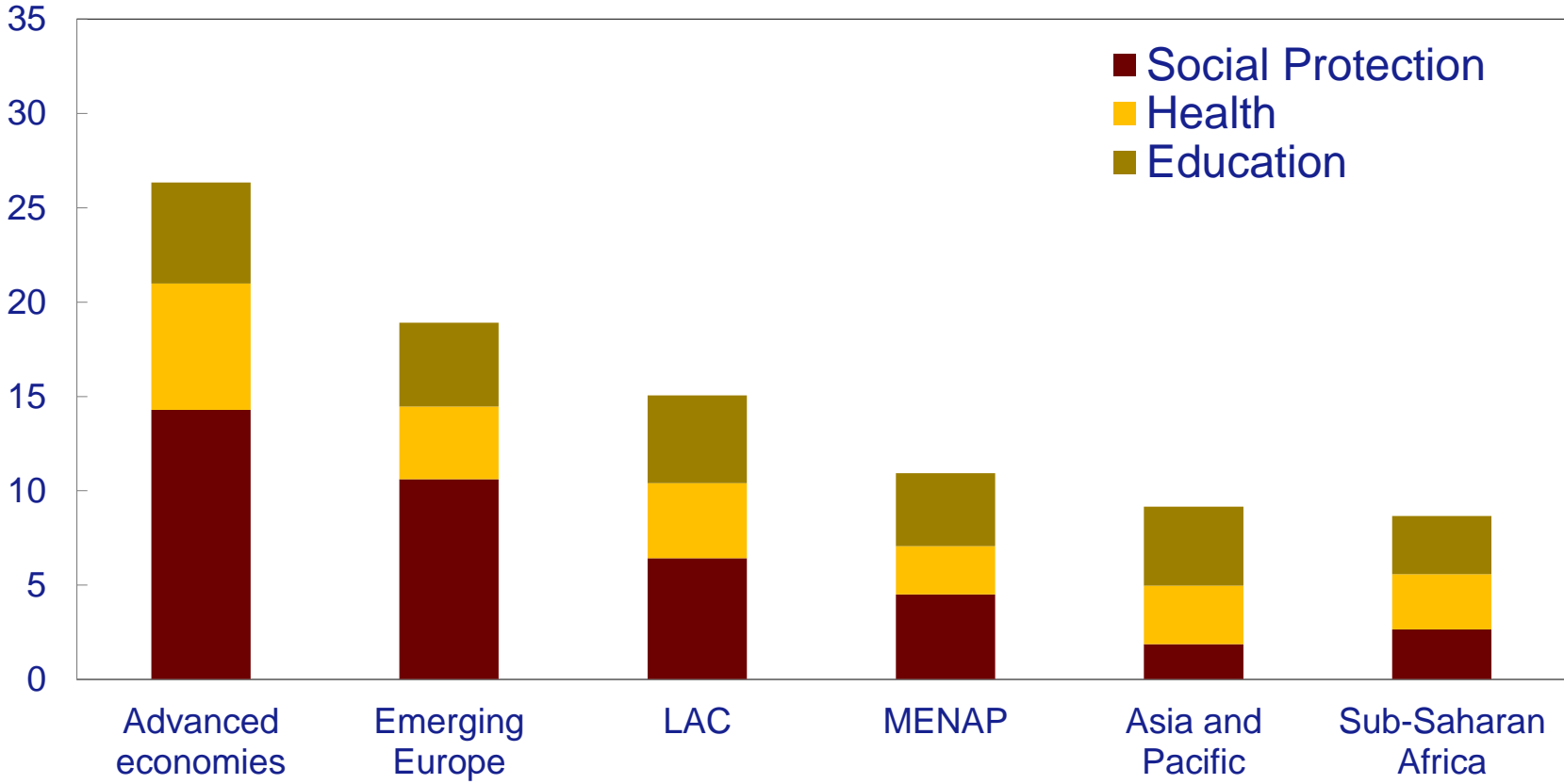
IV. Expenditure Policy Reforms to Unlock Fiscal Space

Strengthening the efficiency of public expenditures can generate fiscal space

- Efficiency of public investment management and growth
- Strengthening the efficiency of social spending can unlock fiscal space to support more inclusive long-run growth
 - ➔ Improving health and education efficiency
 - ➔ Eliminating poorly targeted energy subsidies
 - ➔ Targeting social transfers to lower income households
- Containing growth in the wage bill as a share of spending

Enhancing efficiency can generate fiscal space to boost social spending

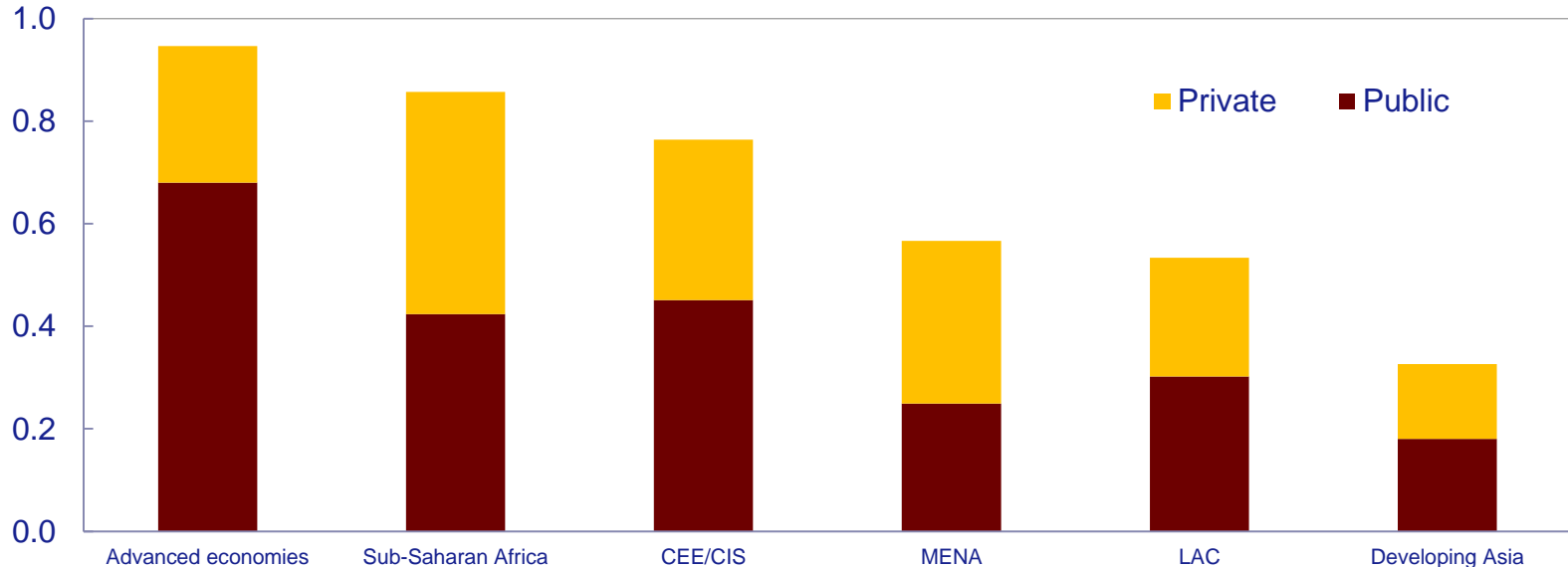
**Public Spending on Education, Health, and Social Protection
(in percent of GDP)**



Source: Fiscal Monitor (April 2014) and IMF staff estimates

More efficient social spending can translate into improved outcomes

Increase in Health Spending Equivalent to Reducing Inefficiencies by 10 Percent (in percent of GDP)

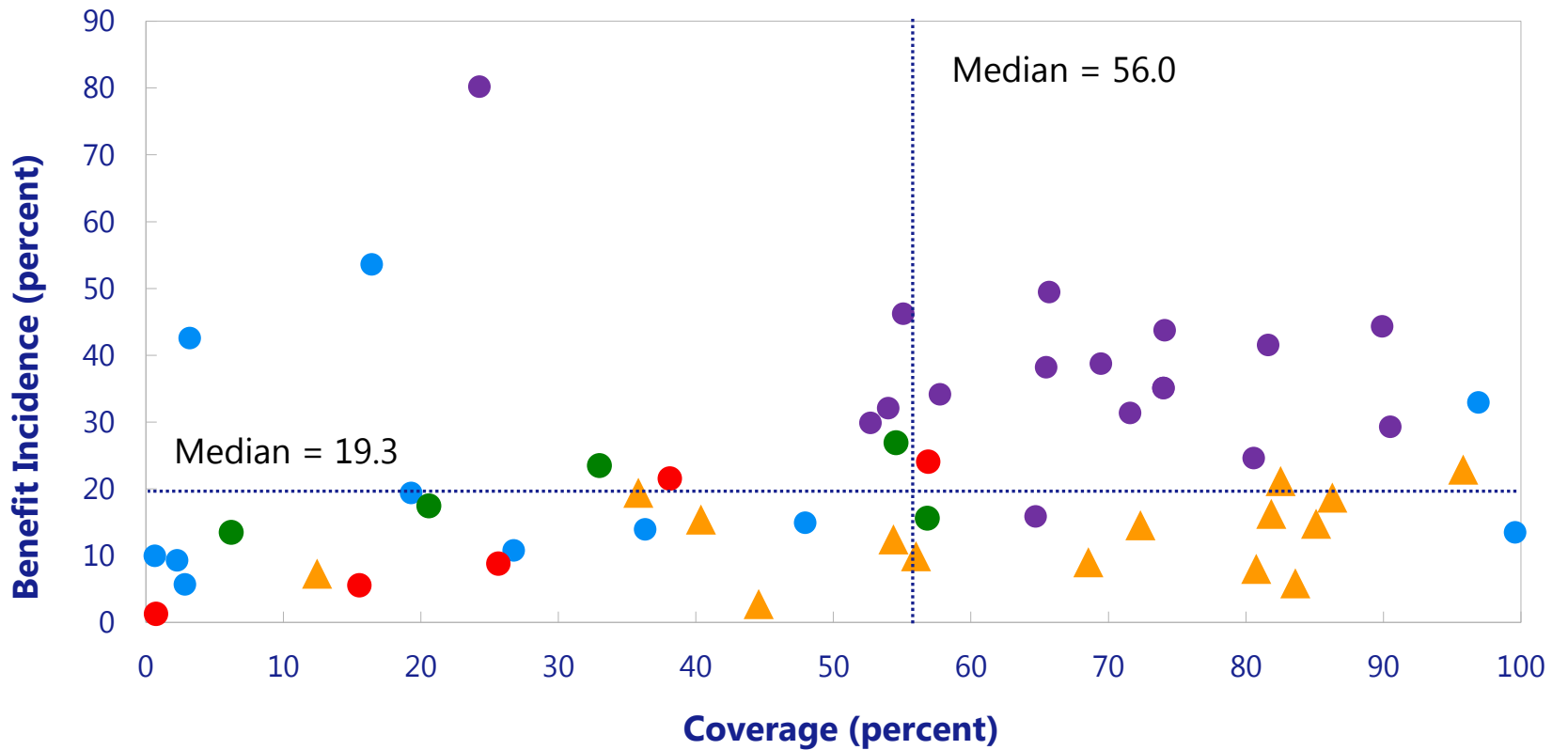


Source: Fiscal Monitor (April 2014), IMF staff estimates.

Note: The analysis uses a similar approach to Grigoli and Kapsoli (2013); please refer to it for a detailed discussion of methodology and model specification. It should be noted that the efficiency estimates from this methodology only capture the extent to which health inputs contribute to health outcomes as measured by health-adjusted life expectancy (HALE) data. The population may also benefit from health inputs in dimensions that are valued by patients and their families, but are not captured by HALE. CEE/CIS = Central and Eastern Europe and the Commonwealth of Independent States; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa.

Social Protection in Latin America and the Caribbean has relatively high coverage and targeting accuracy

Social Protection Coverage and Benefit Share of Poorest 40 percent

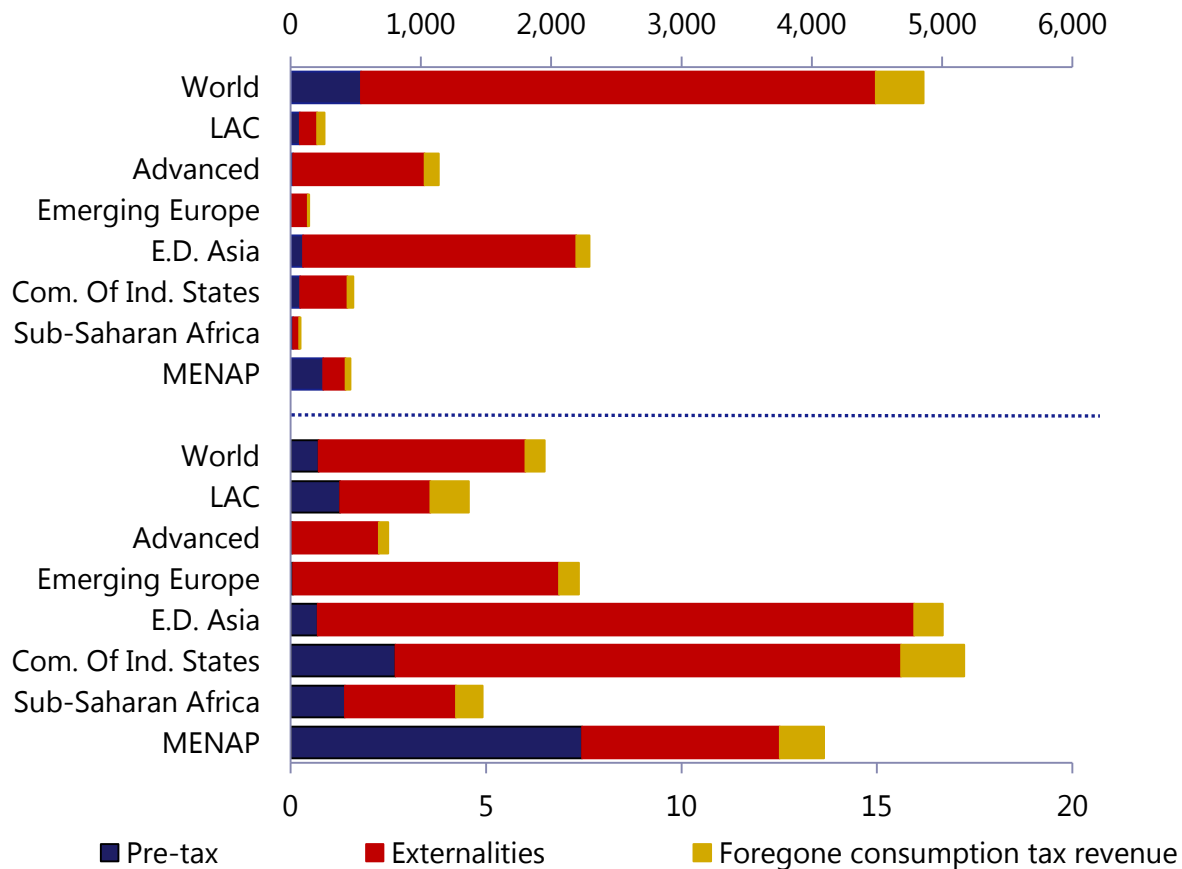


● Asia and Pacific ● Emerging Europe ▲ Latin America and Caribbean ● MENA ● Sub-Saharan Africa

Social protection includes pensions and social assistance transfers

Latin America and the Caribbean spend substantial fiscal resources on energy subsidies

Energy Subsidies by Region and Subsidy Component, 2013 (US\$ billions on top axis; percent regional GDP on bottom axis)

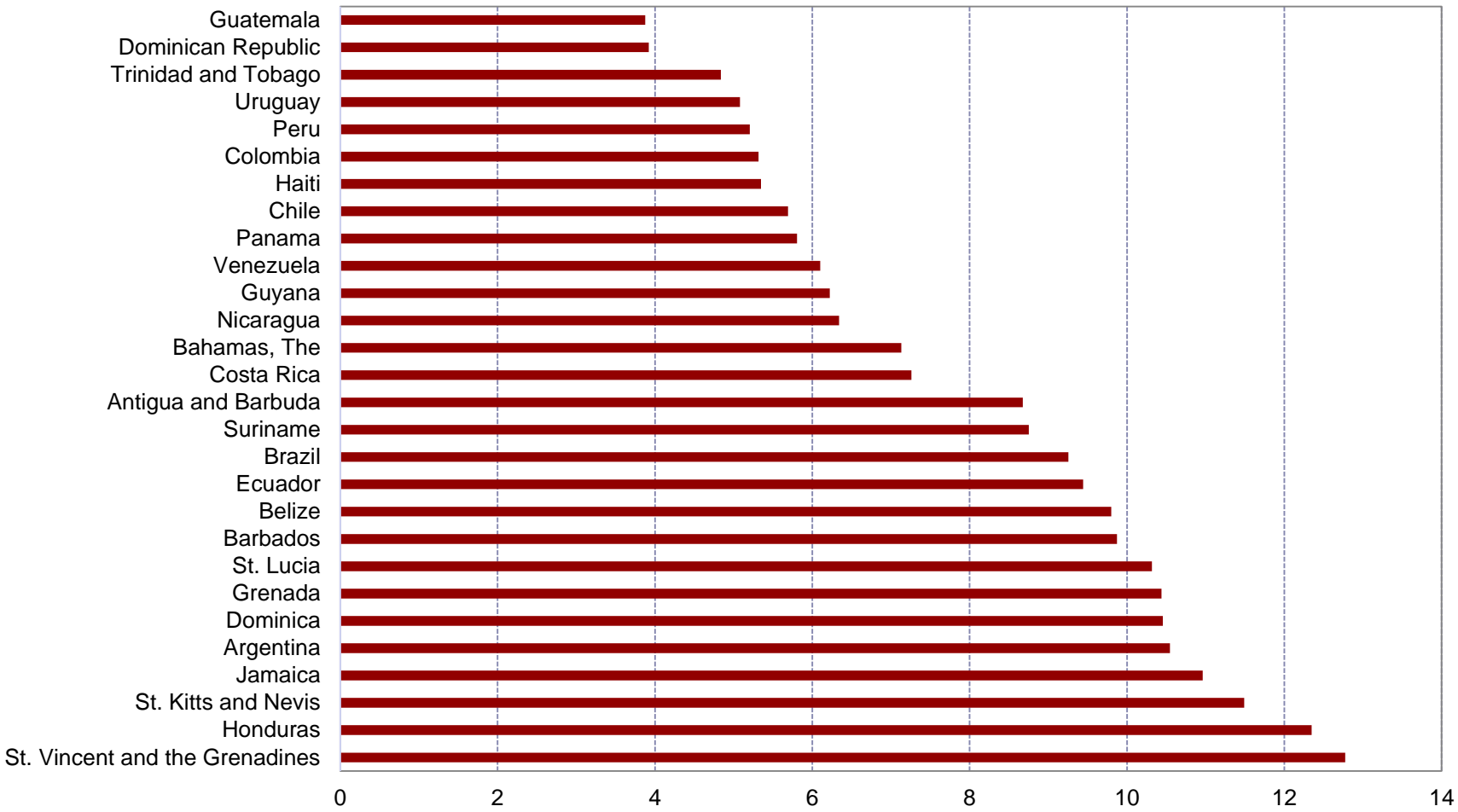


Source: IMF staff estimates.

Note: CIS=Commonwealth of Independent States; ED Asia=Emerging and Developing Asia; LAC=Latin America and the Caribbean; MENAP=Middle East, North Africa, Afghanistan and Pakistan.

Wage bills are high in many countries in the region

General Government Wage Bill, 2010-14 (as a share of GDP)



Source: IMF staff estimates.

V. Summary of Policy Options to Unlock Fiscal Space

Summary

- ❑ Fiscal space remains under pressure in many countries in the region:
 - ❑ Domestic revenues have not kept pace with expenditures.
 - ❑ Public debt is high in particular for the Caribbean countries.
 - ❑ Resource-rich countries need to build buffers to smooth the impact of falling commodity prices on revenues.
- ❑ Tax reforms and strengthening revenue administration can increase revenue yields and lower the cost of collection.
- ❑ Expenditure reforms should focus on:
 - ❑ Enhancing the efficiency of health spending to enhance outcomes.
 - ❑ Rationalizing energy subsidies and containing the wage bill.



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