Better Spending for Better Lives:
Lessons for Managing the Next Downturn

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The Changing Nature and Geography of Global Finance
Cusco, Peru
July 18th, 2019
Public Spending across the Region’s Largest Economies

8.2% of GDP

Better Spending for Better Lives - How Latin America and the Caribbean Can Do More with Less
Some Spend Above Their Level of Development, Others Below
Greater Appetite for Expenditure, Greater Vulnerability

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Overall deficits remain high. There has been some improvement, but only gradual.

**Better Spending for Better Lives**

**How Latin America and the Caribbean Can Do More with Less**

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**Overall Fiscal Balances**

Source: IDB staff calculations based on national sources and IMF (2018).
In many countries, large fiscal adjustments are still required to stabilize Debt-to-GDP ratios.
Indicators of resilience to "sudden stops" today are weaker than before the global crisis, particularly on the fiscal side.

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Balance (% of GDP)</th>
<th>Current Account</th>
<th>Liability Dollarization</th>
<th>Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>LAC 6</td>
<td>1.0</td>
<td>-3.9</td>
<td>0.7</td>
<td>-2.2</td>
</tr>
<tr>
<td>Central America</td>
<td>0.0</td>
<td>-3.1</td>
<td>-8.8</td>
<td>-3.0</td>
</tr>
<tr>
<td>Caribbean</td>
<td>-4.3</td>
<td>-0.7</td>
<td>-10.4</td>
<td>-3.3</td>
</tr>
<tr>
<td>South America</td>
<td>1.4</td>
<td>-4.1</td>
<td>2.7</td>
<td>-2.2</td>
</tr>
<tr>
<td>Avg. LAC</td>
<td>0.4</td>
<td>-3.4</td>
<td>-2.3</td>
<td>-2.5</td>
</tr>
</tbody>
</table>

*Note:* LAC 6 includes Argentina, Brazil, Chile, Colombia, Mexico and Peru.
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Transfers, Procurement, and Wages: Large Potential Gains

4.4
Even more gains if excess transfers to pensioners are considered

- 1.6% for Brazil
- 1.3% for Argentina
- 8.5% for the ALC

Graph showing % of GDP for various countries with different colored bars representing different categories of spending.
Shortchanging the Future: Current vs. Capital Expenditure

Developing Economies

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The Power of Multipliers

Capital expenditure multiplier
- up to 2

Current expenditure multiplier
- up to 0.2
Promote fiscal rules that protect investment
Young vs. Old

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Early vs. Tertiary Education

Well-off children vs. Disadvantaged children

Rate of return to investment in human capital (%)

Prenatal programs
Preschool programs
Programs targeted toward the earliest years
Schooling
Job training

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What favors growth?

- Capital expenditures
- Quality human capital

- Excessive transfers
- Large expenditure without good management
Strengthen Institutions for Allocative Efficiency

Priority strategies

Fiscal and expenditure quality councils

Cost-Benefit Analysis

Smart spending reviews

Results-based budgeting

Medium-term expenditure frameworks

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Reducing Inequality through Transfers and Direct Taxes

4.7% in Latin America

8x

38% in OECD and EU