

The fiscal balance is the difference between government revenues and spending. This balance could be negative, resulting in a deficit, or positive, resulting in a surplus. Consecutive large fiscal deficits are strongly detrimental to the sustainability of public finances. When the level of outstanding debt is high, the cost of servicing that debt (interest payments) can push a country further into deficit, thereby hindering fiscal sustainability. Conversely, improvements in the fiscal balance over time signal good fiscal health. Improvements result from a combination of the following factors: political commitment to fiscal discipline, sound institutional arrangements for budgeting and/or favourable performance of the economy.

In 2014, LAC countries reported deficits reaching on average 4.5% of GDP. The largest deficits occurred in Barbados (8.0%), Brazil (6.0%), Costa Rica (6.0%), Ecuador (5.3%), Mexico (4.6%) and Argentina (4.1%). No LAC country ran a fiscal surplus in 2014 reflecting, in many cases, the overall change in economic conditions that resulted from the volatility of commodities prices. For the same year, OECD countries experienced lower deficits, reaching on average 3.7% of GDP. Between 2007 and 2014, the most prominent change in the fiscal balance was observed in Chile: in 2007 Chile experienced a large surplus of 7.9% of GDP and in 2014 a deficit of 1.5%.

The structural balance aims to capture structural trends in order to assess fiscal performance. Eliminating fluctuations in the economy enables policy makers and the general public to identify the underlying trend of fiscal policies that are associated with the sustainability of public finances in the long run.

The structural fiscal balance for LAC countries reached an average deficit of 5.31% as a share of potential GDP in 2014 and increased to an average of 6.04% in 2015. Average deficits as a share of potential GDP have increased on average for the LAC region since 2007. This is different from OECD countries where the average deficit as a share of GDP was 6.3% in 2009 (post crisis), then it decreased to 2.8% in 2014 and became fairly stable in 2015 (2.6%). The fact that in 2014 the average structural fiscal deficit was on average higher than the current deficit signals a worrisome situation for the LAC region indicating that available recordings are still reflecting the positive phase of the business cycle. In this context, it is expected that many countries in the region will need to undertake additional efforts to increase revenues in the coming years.

The projections of the structural balance as a share of GDP in the LAC region indicate average deficits of 4.4% and 4.1% of potential GDP in 2017 and 2018 respectively. These projections are framed by the expectation of modest economic growth in the region for the coming years.

### Methodology and definitions

Data are drawn from the IMF World Economic Outlook (WEO) database (April 2016), which is based on the *Government Finance Statistics Manual* (GFSM). The GFSM provides a comprehensive conceptual and accounting framework suitable for analysing and evaluating fiscal policy. It is harmonised with other macroeconomic statistical frameworks, such as the System of National Accounts (SNA). However, some differences exist between the GFSM and the SNA frameworks in several instances, which led to the establishment, to a large extent, of correspondence criteria between the two statistical systems. The GFSM and SNA frameworks have been recently revised and several statistical standards were implemented by the countries.

Fiscal balance signals if general government is either putting financial resources at the disposal of other sectors, or utilising the financial resources generated by other sectors. The structural fiscal balance represents the fiscal balance as reported in the SNA framework adjusted for: the state of the economic cycle (as measured by the output gap) and non-structural elements beyond the economic cycle (e.g. one-off fiscal operations). The output gap measures the difference between actual and potential GDP, the latter being an estimate of the level of GDP that would prevail if the economy was working at full capacity (potential GDP is not directly observable). For the OECD average, data are from the OECD National Accounts Statistics database, which is based on the SNA framework.

### Further reading

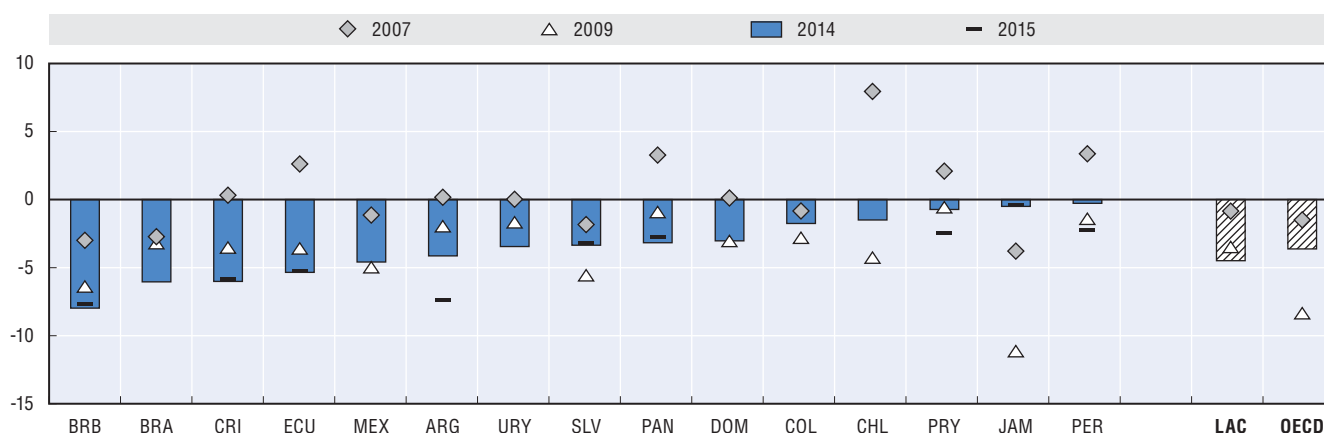
Ardanaz, M., et al. (2015), "Structural Fiscal Balances in Latin America and the Caribbean", *IDB Working Paper Series No. IDB-WP-579*, Washington, DC.

Klemm, A. (2014), "Fiscal Policy in Latin America over the Cycle", *IMF Working Paper 14/59*, Washington, DC.

### Figure notes

2.2: Data for 2015 in some countries refer to forecasts.

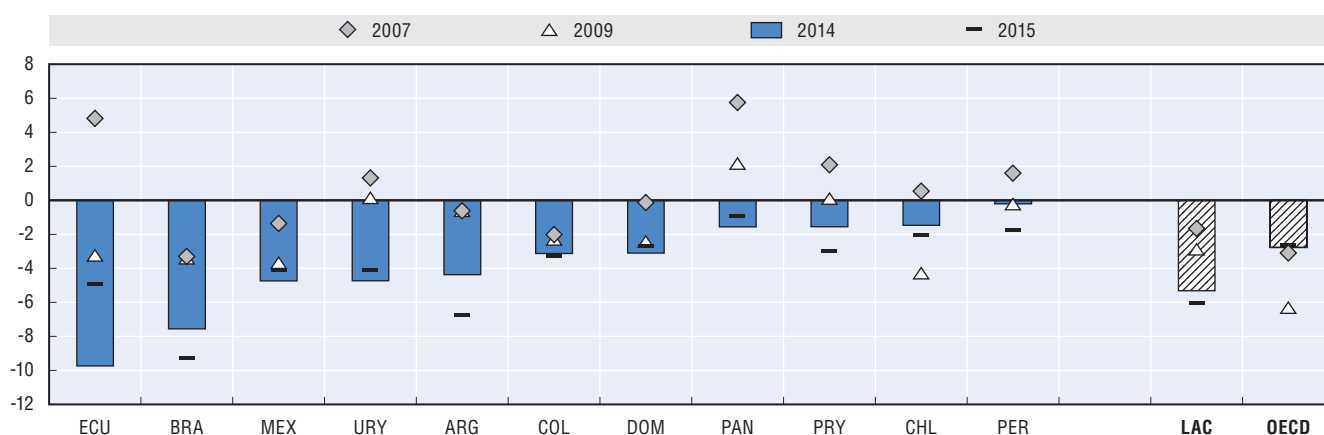
## 2.1. General government fiscal balance as a percentage of GDP, 2007, 2009, 2014 and 2015



Sources: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (April 2016). Data for the OECD average: OECD National Accounts Statistics (database).

StatLink <http://dx.doi.org/10.1787/888933430887>

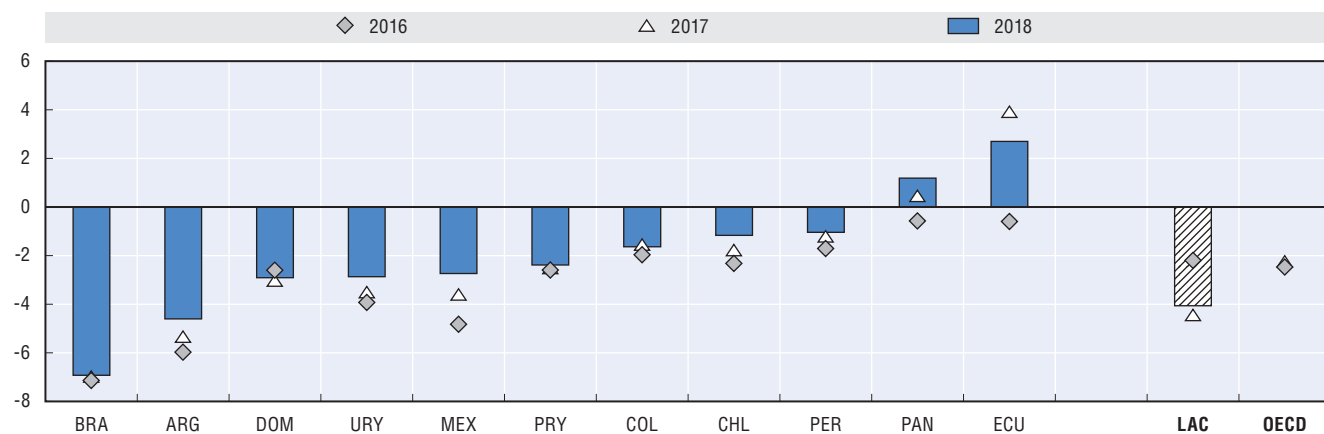
## 2.2. General government structural balance as a percentage of potential GDP, 2007, 2009, 2014 and 2015



Sources: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (April 2016). Data for the OECD average: OECD National Accounts Statistics (database).

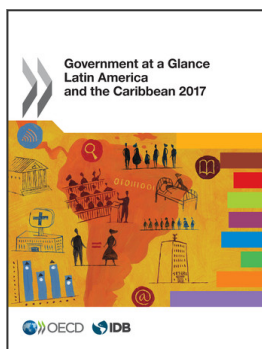
StatLink <http://dx.doi.org/10.1787/888933430899>

## 2.3. General government projected structural balance as a percentage of potential GDP, 2016, 2017 and 2018



Sources: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (April 2016). Data for the OECD average: OECD Economic Outlook N. 98 (database).

StatLink <http://dx.doi.org/10.1787/888933430905>



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