

11.3 Expenditure structure by level of government

How services and spending responsibilities are allocated between central and subnational governments varies significantly across countries and is largely influenced by whether a country is organised as a federal or unitary state. Many government functions require collaboration and shared financing across levels of government. Subnational governments are often seen as more adept than central governments at understanding local requirements and more able to effectively customise the delivery of public services to meet peoples' needs. Accordingly, understanding the distribution of governmental expenditure at subnational levels is key to ensuring the effective execution of public policies.

In 2021, on average, central governments in Latin American and Caribbean (LAC) countries were responsible for 62.5% of total public expenditure, significantly more than the OECD average of 45.2%. This indicates greater centralisation of fiscal responsibilities in the LAC region compared to OECD countries. The most centralised LAC countries in terms of the share of expenditure by central government were Chile (89.4%), Paraguay (78.9%) and El Salvador (78.6%). In contrast, in Mexico, a country with a federal system, central government expenditure was 41.3%, closer to the OECD average, indicating a more balanced distribution of fiscal responsibilities. While there are exceptions, like Mexico, the overall trend in the LAC region is to have spending powers more focused in central governments than subnational governments, compared to OECD countries (Figure 11.5).

Between 2019 and 2021, expenditure patterns rebalanced slightly towards the centre among LAC countries. Central governments' share of expenditure increased marginally, by 0.4 percentage points (p.p.), while state governments' share decreased by 0.4 p.p. However, some countries saw substantially greater changes than this average suggests. The share of expenditure by central government grew by 4.5 p.p. in Chile, and by 4.4 p.p. in El Salvador and Colombia, indicating greater centralisation. A similar pattern was seen among OECD countries, where central government expenditures increased by 4% on average. Two LAC countries changed away from centralisation between 2019 and 2021, with the share of central government spending decreasing in Ecuador (-2.2 p.p.), and Brazil (-1.7 p.p.). In Ecuador, this rebalancing benefited social security spending (+2.5 p.p.), while in Brazil it was directed towards the state (+0.7 p.p.) and local level (+1.0 p.p.) (Figure 11.6). The observed shift towards greater centralisation in the LAC region and OECD countries could be partially

attributed to increased central government spending in response to the COVID-19 pandemic.

Methodology and definitions

Data are from the IMF Government Finance Statistics (IMF GFS) database, which applies the concepts set out in 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 the other macroeconomic statistical frameworks, such as the System of National Accounts (SNA). However, some differences exist between the GFS and the SNA frameworks in several instances, which led to the establishment, to a large extent, of correspondence criteria between the two statistical systems.

General government consists of central, state and local governments and social security funds. State government is applicable to the federal states of Brazil and Mexico and the highly decentralised countries of Colombia, Paraguay and Peru. For detailed information on the components of expenditures, see General government expenditures. Data across levels of government exclude transfers between levels of government in order to see the contribution of each sub-sector in general government total expenditures, which are at this level consolidated. For the OECD average, data are derived from the OECD National Accounts Statistics database, which is based on the SNA framework.

Further reading

OECD (2021), *Fiscal Federalism 2022: Making Decentralisation Work*, OECD Publishing, Paris,

<https://doi.org/10.1787/201c75b6-en>.

Radics, A. et al. (2023), *Outlook of Fiscal Relations among Government Levels in Latin America and the Caribbean*, Inter-American Development Bank, Washington, DC,

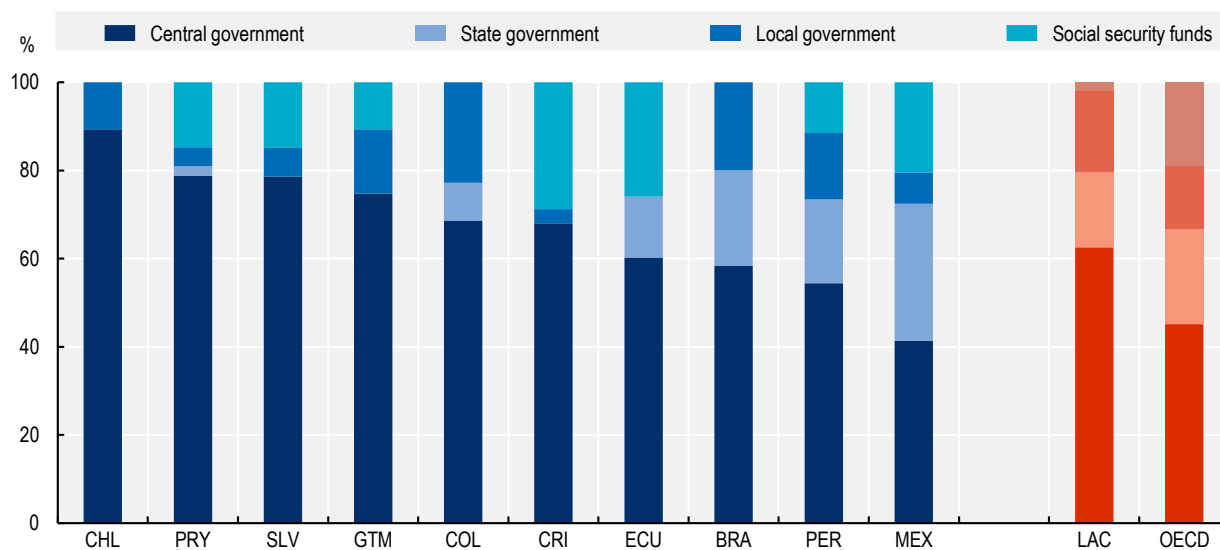
<https://doi.org/10.18235/0004708>.

Figure notes

Data for Mexico, Paraguay and Peru are recorded on a cash basis. Transfers between levels of government are excluded. Data for Mexico are not included in the LAC average.

Social security funds are included in central government for Brazil, Chile and Colombia.

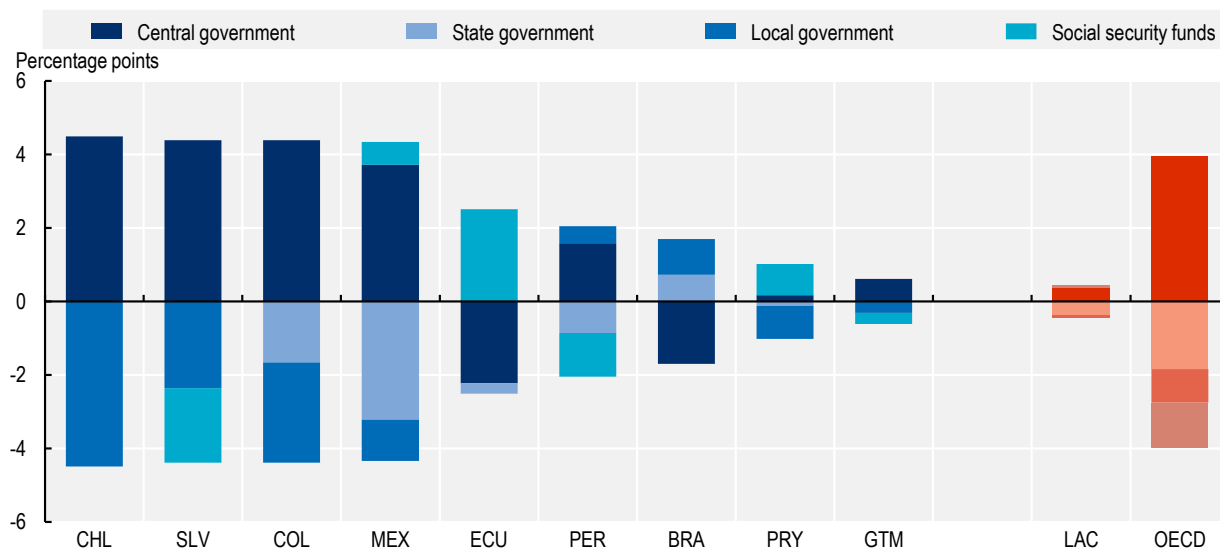
Figure 11.5. Distribution of general government expenditures across levels of government, 2021



Source: Data for the LAC countries: IMF Government Finance Statistics (IMF GFS) database; data for the OECD average: OECD National Accounts Statistics database.

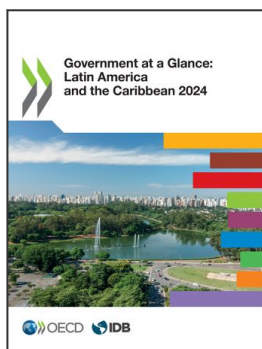
StatLink <https://stat.link/m17fni>

Figure 11.6. Change in the distribution of general government expenditures across levels of government, 2019 to 2021



Source: Data for the LAC countries: IMF Government Finance Statistics (IMF GFS) database; data for the OECD average: OECD National Accounts Statistics database.

StatLink <https://stat.link/tn7osz>



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