

The composition of government expenditures by transaction provides an indication of policy priorities, the type of service delivery model (e.g. focus on direct provision or focus on outsourcing) and the size of financial commitments resulting from public debt, among others. In addition, the expenditures breakdown reveals information on the importance of the government's role in redistributing income compared to simply guaranteeing that public services are provided.

In 2014, the compensation of government employees was the highest expenditure category across LAC countries reaching on average 29.1% of total government expenditures, compared to an OECD average of 23.1%. Paraguay (49.5%) and Costa Rica (44.2%) spent the most on compensation of employees, while Peru (27.3%) and Colombia (12.1%) spent the least. For the same year, the share of expenditures on intermediate consumption (purchase of goods and services) was similar in OECD (14.3%) and LAC (14.6%) countries. In terms of total expenditures, LAC countries devoted slightly less than OECD countries to investment, 7.3% and 7.7% respectively in 2014.

As a general trend LAC governments spend fewer resources on welfare, represented by social benefits, than OECD countries. In OECD countries, social benefits are the highest transaction, amounting to 40.5% of total expenditures; while in the LAC region they reach only 24.6%. Brazil is the LAC country with the highest expenditure on social benefits, reaching 31.3% of total expenditures. On the other end, El Salvador, Mexico, Peru and Jamaica devoted only around 9% of their budgets to social benefits.

Between 2007 and 2014, the LAC region experienced an increase in social expenditures of 3.8 p.p. that is similar to the increase that occurred in OECD countries (3.7 p.p.). In both groups, the increase is partially the result of counter-cyclical expenditure to balance the negative effects of the global financial crisis. The persistent difference between OECD and LAC countries regarding the amount of resources devoted to social benefits could be explained by the absence of certain universal programmes, such as unemployment insurance, in many LAC countries. Furthermore, because the informal sector is still relatively big in many LAC countries, important segments of the population do not have access to available benefits.

The breakdown of expenditures by transaction as a percentage of GDP provides an additional angle to understand the relative importance of spending categories. For LAC countries with available information, public expenditures represent on average 35.1% of GDP compared

to 41.6% in OECD countries. However, within the LAC region there is significant variation. For instance, on average LAC countries spent 4.6% of GDP on property income including the public debt interests payments. Jamaica (8.3%) and Brazil (7.9%) reported the highest figures for this component, while on the other end Paraguay (0.4%) and Chile (0.5%) spent significantly less on this transaction.

Methodology and definitions

Data are drawn 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).

Expenditures encompass intermediate consumption, compensation of employees, subsidies, property income (including interest spending), social benefits (consisting of social benefits other than social transfers in kind and of social transfers in kind provided to households via market producers), grants and other expenses (mainly current and capital transfers but also other minor expenditures as other taxes on production, current taxes on income and wealth etc. and the adjustment for the change in pension entitlements) and investments. All these transactions at the level of general government are recorded on a consolidated basis (i.e. transactions between levels of government are netted out).

For the OECD average and Mexico, data are derived from the OECD National Accounts Statistics database, which is based on the SNA framework.

Further reading

Marcel, M., M. Guzmán and M. Sanguinés (2014), "Presupuesto para el Desarrollo en América Latina", Inter-American Development Bank, Washington, DC.

Figure notes

2.19 and 2.20: Data for Peru and Paraguay are recorded on a cash basis. Data for Costa Rica and Jamaica for investment do not include consumption of fixed capital. Data for El Salvador and Mexico are for 2013 rather than 2014. Data for Colombia are for 2008 rather than 2007.

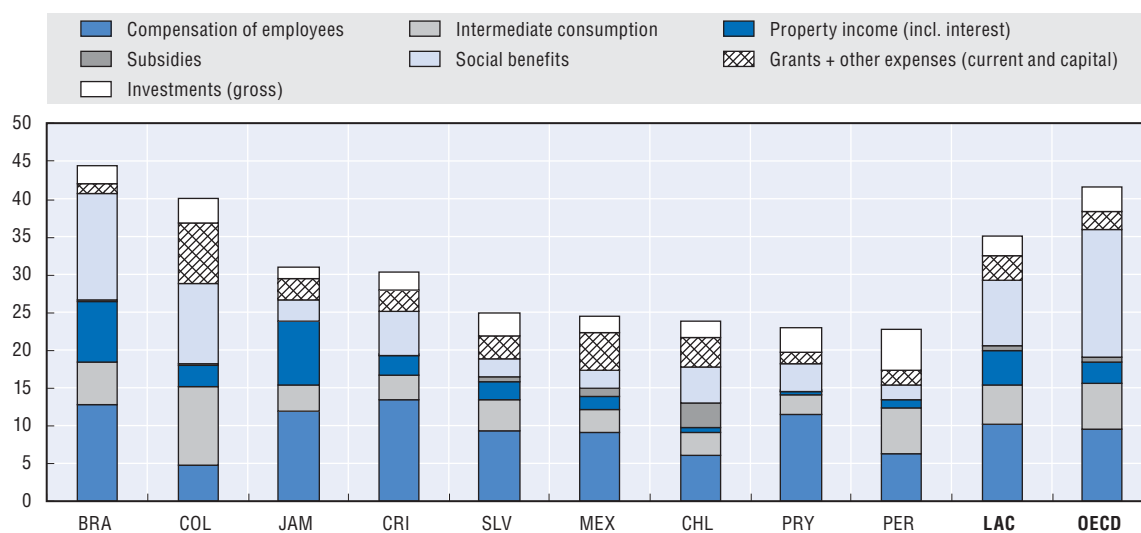
2.19. Structure of general government expenditures by economic transaction, 2014 and change 2007 to 2014

	Compensation of employees		Intermediate consumption		Subsidies		Property income (incl. interest)		Social benefits		Grants + Other expenses (current and capital)		Investments (gross)	
	2014	Change 200-14	2014	Change 2007-14	2014	Change 2007-14	2014	Change 2007-14	2014	Change 2007-14	2014	2007-14	2014	Change 2007-14
Brazil	28.9	-1.7	12.8	-3.5	0.8	-0.1	17.7	-0.6	31.3	4.8	3.1	1.2	5.4	0.0
Chile	25.8	1.8	12.8	-0.1	13.9	-8.3	2.3	-0.7	20.1	-0.4	15.7	9.8	9.5	-2.1
Colombia	12.1	-9.2	26.1	8.5	0.6	-0.6	6.6	-3.8	26.6	7.0	20.2	3.5	7.7	-5.5
Costa Rica	44.2	3.4	10.4	-1.9	0.0	-1.9	8.6	-4.9	19.4	-1.2	9.1	4.7	7.8	1.4
El Salvador	37.8	-0.4	16.5	0.7	3.0	0.2	9.3	-1.8	9.5	-1.0	11.8	1.5	12.0	0.8
Jamaica	38.4	..	11.6	4.4	0.0	0.0	26.7	-5.3	9.2	3.6	9.2	..	5.1	-2.5
Mexico	37.6	2.0	12.2	0.8	4.5	0.1	7.3	-2.6	9.3	-0.4	20.4	-1.9	8.8	2.0
Paraguay	49.5	-2.1	12.0	2.2	0.1	0.0	1.7	-5.2	15.9	-5.1	6.2	1.3	14.6	8.9
Peru	27.3	-1.4	26.7	0.0	0.0	0.7	4.6	-0.4	9.3	1.7	8.1	0.2	24.1	-0.8
LAC	29.1	-2.5	14.6	-1.0	2.0	-0.3	13.0	-1.2	24.6	3.8	9.4	1.5	7.3	-0.3
OECD	23.1	-1.2	14.3	-0.6	2.0	0.1	6.7	-0.7	40.5	3.7	5.7	0.2	7.7	-1.4

Sources: IMF Government Finance Statistics (IMF GFS) database. Data for Mexico and the OECD average are based on the OECD National Accounts Statistics database.

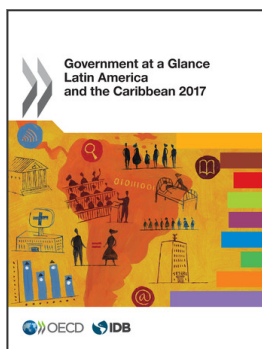
StatLink  <http://dx.doi.org/10.1787/888933431596>

2.20. Government expenditures by economic transaction as a percentage of GDP, 2014



Sources: IMF Government Finance Statistics (IMF GFS) database. Data for Mexico and the OECD average are based on the OECD National Accounts Statistics database.

StatLink  <http://dx.doi.org/10.1787/888933431042>



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