Governments raise revenues (through taxes, royalties, custom duties, etc.) to finance the provision of goods and services and to redistribute income (e.g. social benefits and subsidies). The amount of revenues collected depends on multiple factors such as government fiscal policies and type of development model, the endowment of natural resources, political institutions, the stage of economic and social development, and internal and external macroeconomic conditions.

In LAC countries, general government revenues on average accounted for 26.9% of GDP in 2018 below by 1.3 p.p. the 2007 value. The GDP has increased at a faster pace than government revenues (which have increased in absolute and per-capita terms) explaining why the overall revenue to GDP ratio decreased for the period under study. This trend is in stark contrast to the OECD where general government revenues reached 37.5% of GDP in 2018 and increased by 0.2 p.p. since 2007. LAC countries with the highest percent of revenues per GDP are Ecuador (35.8%), Argentina (33.6%) and Brazil (31.2%). In the other end of the spectrum, the Dominican Republic (14.1%), Costa Rica (13.6%) and Guatemala (10.6 %) collect the least revenues.

Between 2007 and 2018 the largest increase, in general government revenues as a percentage of GDP occurred in Ecuador (9.13 p.p.). The explanation for this increase is manifold, including the effect of a recent rebound in the price of hydrocarbons but also structural factors such as reforms to the tax system, which included higher rates on income and inheritances in 2008 and the introduction of some new taxes (e.g. the exit currency tax). Efforts to modernise the tax administration and reduce evasion have also led to significant increase in the number of taxpayers in Ecuador. General government revenues decreased the most in Panama (6.1 p.p.) which may be explained by the existence of numerous tax exemptions and incentives, and underperformance in tax collection, which could reflect structural weaknesses in customs and the tax administration (IMF, 2019).

An alternative way of looking at the importance of the government in the economy in terms of financial resources is to measure government revenues per capita. On average revenue per capita in LAC countries reached USD 4 437 PPP in 2018 significantly below the OECD average of USD 17 865 PPP. Among the countries with the highest revenue per capita are English speaking Caribbean islands (Barbados and Trinidad and Tobago) alongside countries in the southern cone (Argentina, Chile and Uruguay). On average, revenues per capita increased at an annual rate of 0.6% in the LAC region compared to 0.8% in the OECD. Still, the GDP has increased at a faster pace than government revenues explaining why the overall revenue to GDP ratio decreased for the period under study. The highest negative annual average growth rate in government revenues (-1.9%) occurred in Trinidad and Tobago explained by several years of weak or negative growth and strong dependency on hydrocarbons and the consequent recent negative fluctuations in prices and production (OECD 2019).

Methodology and definitions

Data are from the IMF World Economic Outlook (WEO) database (October 2019), 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 the other macroeconomic statistical frameworks, such as the overarching 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 systems. The GFSM and SNA frameworks have been recently revised and several statistical standards were implemented by the countries.

General government consists of central government, state government, local government and social security funds. Revenues encompass taxes, net social contributions, and grants and other revenues. Government revenues per capita were calculated by converting total revenues to USD using the implied IMF purchasing power parities (PPP) conversion rates and dividing it by population. PPP is the number of units of country B's currency needed to purchase the same quantity of goods and services in country A. Gross domestic product (GDP) is the standard measure of the value of the goods and services produced by a country during a period. For the OECD average, data are derived from the OECD National Accounts Statistics database, which is based on the SNA framework.

Further Reading

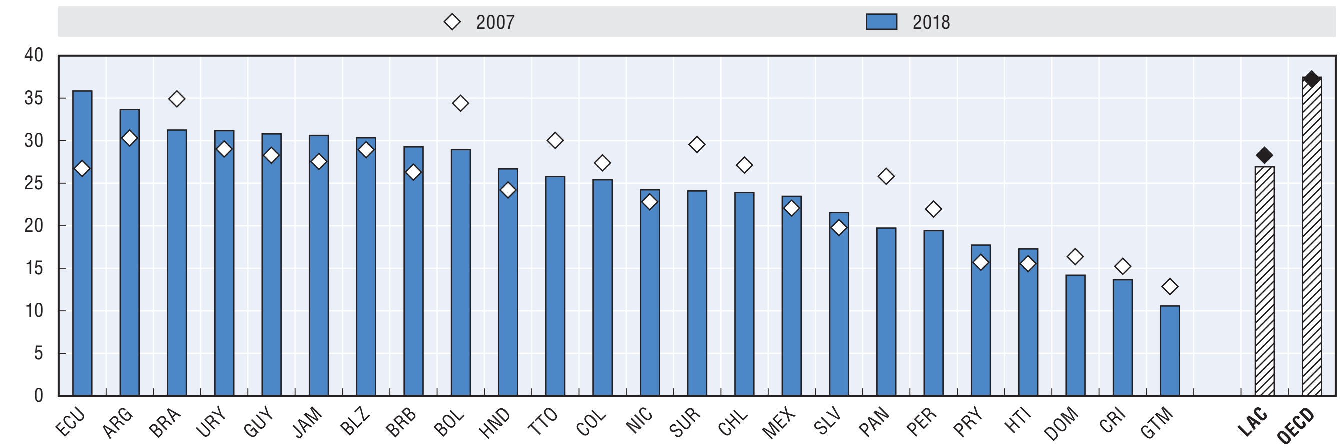
IMF (2019), "Staff report for the 2019 Article IV consultation", *IMF Country Report*, No. 19/11, IMF Publishing, Washington, DC, *https://www.imf.org/en/Publications/CR/Issues/2019/01/17/Panama-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-46528*.

OECD et al. (2019), *Revenue Statistics in Latin America and the Caribbean 2019*, OECD Publishing, Paris, *https://doi.org/10.1787/25666b8d-en-es*.

Figure notes

Data for 2018 for Bolivia and Suriname refer to forecasts. LAC and OECD averages are weighted. For more information on country specific notes (e.g. coverage of general government) see *https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index*.

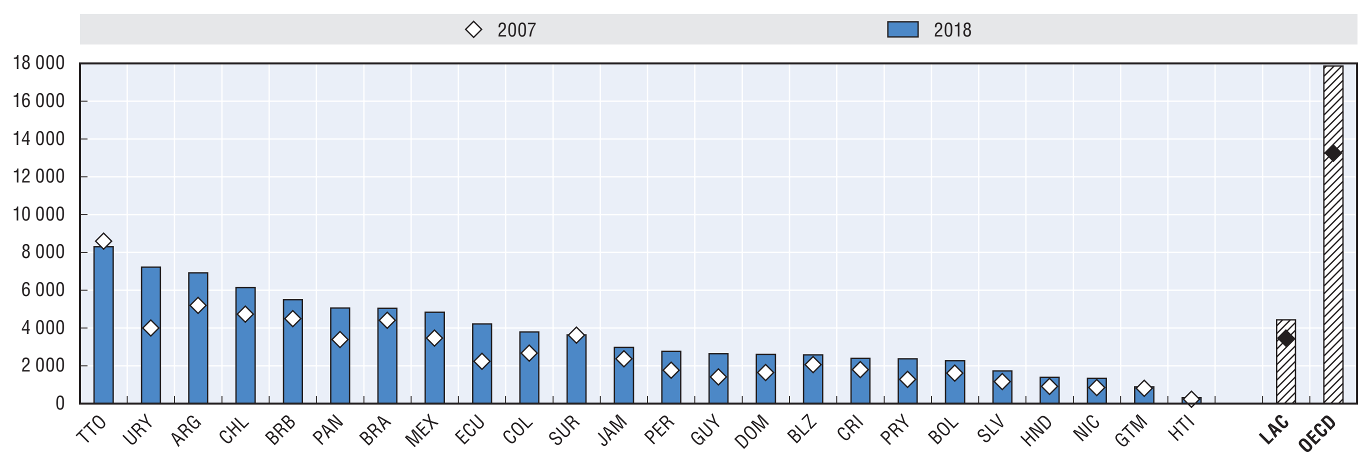
2.8. General government revenues as a percentage of GDP, 2007 and 2018



Source: Sources: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (October 2019). Data for the OECD average: *OECD National Accounts Statistics Database*

StatLink https://doi.org/10.1787/888934091258

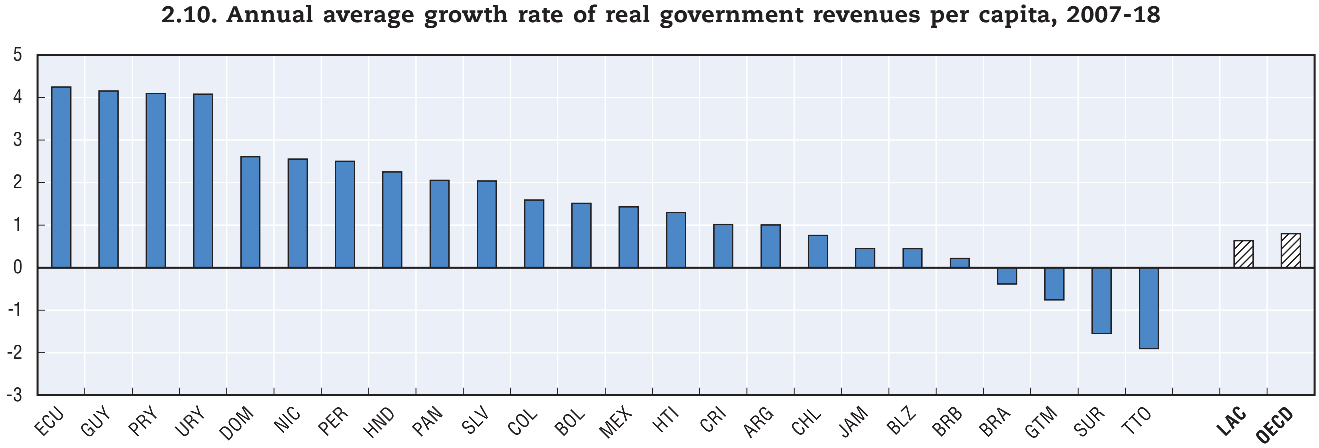
2.9. General government revenues per capita, 2007 and 2018



Source: Sources: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (October 2019). Data for the OECD average: *OECD National Accounts Statistics Database*

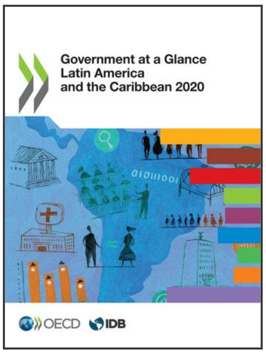
StatLink https://doi.org/10.1787/888934091277

2.10. Annual average growth rate of real government revenues per capita, 2007-18



Source: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (October 2019). Data for the OECD average: *OECD National Accounts Statistics (database)*.

StatLink https://doi.org/10.1787/888934091296



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