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Latin America needs to improve quality and flexibility in public spending, OECD reports

Latin America's biggest economies have made considerable progress in putting their public finances in order but much still needs to be done to increase the flexibility and improve the quality of government spending, according to a new OECD report.

Challenges to Fiscal Adjustment in Latin America says although levels of public debt and government spending, measured as percentages of GDP, vary widely between Argentina, Brazil, Chile and Mexico, all four countries face common pressures. Major challenges include the need to keep public indebtedness at sustainable levels and to improve the cost-effectiveness of government spending, including social safety nets for the poor and vulnerable. Another is to ensure that public investment in infrastructure building is both maintained at a high level and is responsive to changing needs.

Based on a recent OECD seminar on fiscal adjustment in Latin America, the report adds that widespread tax reform is needed in the region. Tax administration should be improved in many countries and the tax base broadened so that more sectors of the economy contribute to government revenue.

Introducing the papers making up the report, OECD economists Luiz de Mello and Nanno Mulder argue that in adjusting their tax and expenditure policies, Argentina and Brazil in particular have tended to boost revenue and squeeze public investment rather than question current spending commitments. Such an imbalance, together with continuing high levels of debt, make public finances vulnerable over the longer term, they say.

Papers by economists from a range of institutions are presented. Several criticise the keeping or "earmarking" of certain tax receipts for specific areas of spending, a policy banned in Chile. Another rigidity which, according to the report, often undermines targeted and effective spending policies, is the automatic transfer to regional governments of certain central tax receipts.

Mexico has been a member of the OECD since 1994, while Argentina, Brazil and Chile, though not members of the OECD, cooperate with the OECD in a number of areas. The OECD has produced several studies on the region, including regular reports on Mexico in the context of its membership and economic surveys of Brazil in 2001 and 2005 and of Chile in 2003 and 2005.

To receive a copy of **Challenges to Fiscal Adjustment in Latin America**, journalists are invited to contact the OECD Media Division (tel: + 33 1 4524 9700 or <mailto:news.contact@oecd.org>). For further information about the report, journalists should contact Luiz de Mello of the OECD's Economics Department (tel: + 33 1 4524 8752; or <mailto:luizdemello@oecd.org>) or the Media Division.

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