

**564(XXVII) ARUBA RESOLUTION ON THE FISCAL COVENANT:  
STRENGTHS, WEAKNESSES, CHALLENGES**

The Economic Commission for Latin America and the Caribbean,

Bearing in mind resolution 552(XXVI) as adopted by the Commission at its twenty-sixth session, in which the secretariat is asked to deepen its analysis of fiscal reforms that will tend to strengthen the structural stability of public finances, increase incentives to saving and investment, and improve social equity,

Noting that the reorientation of regional development has led to a significant modification of the role assigned to the State and of institutional mechanisms for interaction among the State, social and economic actors, and society as a whole,

Recognizing that in order for economic reforms aimed at consolidating stability in a context of openness and growth to be successful, the public sector must be flexible and efficient, must complement the private sector, must be effective and competent in discharging the responsibilities assigned to it by society and, first and foremost, must have its finances in order,

Considering that the scale of the fiscal adjustment that has been accomplished in the region in such a brief period of time, which has included a major reduction in the deficit and a form of deficit and public debt management that is more in keeping with international standards of budgetary discipline, constitutes a pivotal factor in the current scenario of macroeconomic stability and renewed growth,

Appreciating that developments in connection with public revenues have included an increase, albeit a modest one, in tax receipts; the streamlining of the tax system and the modernization of its management; greater technical autonomy for tax bureaus and customs services; and the consolidation of various sources of revenue,

Recognizing also that, in terms of public expenditure, the most notable advances to be observed are in the recovery of public investment and social expenditure, particularly in Latin America, in conjunction with improvements in the targeting of social expenditure on the neediest sectors; more efficient management of public enterprises' rate structures; decentralized management of public expenditure, especially in the social arena; and the design of mechanisms to promote participation by private agents in areas which have traditionally been the preserve of the State,

Noting that, along with these promising achievements, the region's public finances still exhibit a significant degree of fragility which is periodically brought to light by external financial turbulence or domestic shocks,

Observing that, as a percentage of GDP, the level of tax receipts is too low, particularly in the case of direct taxes; that public revenues continue to be overly sensitive to the economic cycle; and that levels of tax evasion and avoidance remain high,

Noting also that efforts to increase the efficiency and effectiveness of public expenditure have proven to be insufficient, that the transparency of decision-making with respect to expenditures could be

greatly increased, that quasi-fiscal practices could be limited considerably and that there is still room for substantial improvement in the targeting of social expenditure,

1. Welcomes the document prepared by the secretariat entitled *The Fiscal Covenant: Strengths, Weaknesses, Challenges*, deeming it a significant contribution to the study of recent trends in public finance and public sector management in Latin America and the Caribbean, in view of the wealth of information it provides and the relevance, timeliness and scope of the analysis;

2. Emphasizes above all the unifying concept of the “fiscal covenant” in the consideration of those trends, concurring with the secretariat as to the relevance to such a covenant of the challenges of consolidating the fiscal adjustment now in progress, increasing the productivity of public management, enhancing the transparency of fiscal actions, promoting the goal of equity in public revenue and expenditure, and encouraging the development of democratic institutions;

3. Requests the secretariat to distribute this document widely and promote its consideration in:

- (a) Economic, academic, political, business and social spheres throughout the region, stimulating national dialogue regarding the main components of the fiscal covenant in the light of each country’s specific circumstances;
- (b) International organizations dealing with economic development, in particular the Organisation for Economic Co-operation and Development, and the Asian countries in order to stimulate further comparative analysis with countries outside the region;

4. Requests the Executive Secretary to organize, before the ministerial stage of the next session, an international seminar of high-level experts and policy-makers, with participation by persons from outside the region, as well as from international financial institutions, with a view to giving further consideration to the issues analysed in the report and exchanging relevant experiences;

5. Urges the secretariat to develop the following topics in greater depth:

- (a) The evolution of fiscal adjustment processes, looking closely at their contribution to growth, stability, equity and competitiveness;
- (b) Comparative analysis and diffusion of experiences and best practices in fields of special interest to the Governments: public social expenditure, social security, decentralization, infrastructure, privatization, regulation, management of quasi-fiscal practices and mechanisms for improving public management, increasing its transparency and strengthening the link between fiscal policy and democratic institutions;
- (c) Ongoing review of the degree of consistency among fiscal, monetary and exchange-rate policies and between those policies and the prudential regulation and supervision of the financial system under different macroeconomic regimes in open economies taking part in a process of accelerated globalization with volatile financial flows;
- (d) The consolidation of the fiscal adjustment, giving priority to the study of how it may be affected by processes of fiscal decentralization, economic integration, quasi-fiscal operations

associated with banking crises, social security reform and the link between public finances and the economic cycle, in each case examining institutional and economic policy proposals that might facilitate a sustainable fiscal adjustment;

- (e) Access to stable levels of public revenues sufficient to meet effectively the most pressing needs of the population, particularly with respect to education, health care, public safety and infrastructure;
- (f) Fiscal mechanisms that foster greater equity in the collection of revenue and the allocation and management of expenditure without endangering the sustainability of public finances;
- (g) The best institutional practices and policies for utilizing the advantages of the market and private management in the delivery of social services, with adequate regulatory mechanisms to ensure the quality and coverage of services and user protection, and with altruistic mechanisms built into the formation of these quasi-markets;
- (h) Combined use of both direct and indirect taxation with a view to improving distribution;

6. Also urges the secretariat, as part of an integrated analysis of the economic, social and environmental aspects of development, to persevere in its study of the modernization of the public sector and the role of the State in the democratic process of changing production patterns with social equity.