10.4 General government gross debt

Governments accumulate debt to fund expenditures that exceed their revenues. Government debt can be used to finance both current expenditure and investments. However, debt comes at a cost in the form of interest payments. Therefore, it should be based on an objective assessment of economic capacity gaps, infrastructural development needs, sectoral and social priorities, and a careful evaluation of costs and benefits. The cost of debt, access to capital markets and levels of debt-carrying capacities vary significantly across countries making the impact of debt highly context dependent.

In 2022, government debt in Latin America and the Caribbean (LAC) averaged 66% of gross domestic product (GDP). This is slightly higher than in 2019 (64%) but considerably lower than the OECD average (109.8%). Barbados (123%) and Suriname (120%) have the highest debt ratios, followed by Brazil (85%) and Argentina (85%) (Figure 10.8). Between 2019 and 2020, average debt ratios relative to GDP increased by 9.7 percentage points (p.p.) in LAC countries due to the combination of increased borrowing during the COVID-19 pandemic and shrinking economies. They then fell over the next two years and by 2022 were approaching pre-pandemic levels. This was driven by an economic rebound and rising inflation, despite ongoing fiscal deficits. Over the longer term, however, the debt burden in LAC countries has increased significantly. Having remained relatively stable at around 46% of GDP between 2007 and 2013, the debt ratio has steadily increased since then (Figure 10.9).

Per capita debt in LAC countries averages USD 12 963 PPP, one-fifth of the average in OECD countries (USD 65 858 PPP). In nominal terms, it rose by an average of USD 1 997 PPP between 2019 and 2022 (Figure 10.10). Almost all LAC countries saw per capita government debt increase during this period. Levels of debt significantly in Bolivia (USD 2 541 PPP) and Suriname (USD 4 677 PPP) where post-pandemic fiscal imbalances remain high (IMF, 2022). Guyana had the highest growth of real government debt per capita (67.8%) between 2019 and 2020. However, since the country was simultaneously experiencing record-breaking economic growth driven by a nascent and rapidly expanding oil production, debt as a share of GDP fell by 18 p.p. during the same period. Paraguay (40.1%) and Suriname (45.6%) also experienced significant increases of real government debt per capita due to sharp declines in government revenue and increased spending during the pandemic. Across the LAC region, average real government debt per capita increased by 6.4% during 2019 to 2022, falling by around 1% per year in 2021 and 2022 amid limited funding options and rising external borrowing costs (Online Figure F.7.2). Structural challenges and stagnant economic growth mean debt levels and the cost of debt are expected to remain high in LAC over the coming years (OECD, 2022).

Methodology and definitions

Data are from the IMF World Economic Outlook (WEO) database (October 2023), 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 other macroeconomic statistical frameworks, such as the System of National Accounts (SNA). To increase harmonisation, correspondence criteria have been established between GFSM and the SNA framework.

Debt is generally defined as all liabilities requiring payment of interest or principal by the debtor to the creditor at a date(s) in the future. Thus, all debt instruments are liabilities, but some liabilities (e.g. shares, equity and financial derivatives) are not debt. The treatment of government liabilities in respect of their employee pension plans varies across countries, making international comparability difficult. Under the GFSM framework, unfunded government sponsored retirement schemes are included in the debt components. In the 1993 SNA, only the funded component of the government employee pension plans is reflected in its liabilities. However, the 2008 SNA recognises the importance of the liabilities of employers' pension schemes, regardless of whether they are funded or unfunded. For pensions provided by the government to its employees, some flexibility is allowed in the recording of unfunded liabilities in the core accounts. For information on the calculation of government debt per capita, see General government revenues. For the OECD average, data are from the OECD National Accounts Statistics database, which is based on the SNA framework.

Further reading

IDB et al. (2023), *Dealing with Debt: Less Risk for More Growth in Latin America and the Caribbean*, Inter-American Development Bank Publishing, Washington, DC, http://dx.doi.org/10.18235/0004707.

IMF (2022), "Bolivia: 2022 Article IV Consultation—Press Release; Staff Report; and Statement by the Bolivian Authorities," International Monetary Fund, IMF Country Report No. 22/333, https://www.imf.org/-/media/Files/Publications/CR/2022/English/1BOLEA2022001.ashx.

OECD et al. (2022), *Latin American Economic Outlook 2022: Towards a Green and Just Transition*, OECD Publishing, Paris, https://doi.org/10.1787/3d5554fc-en.
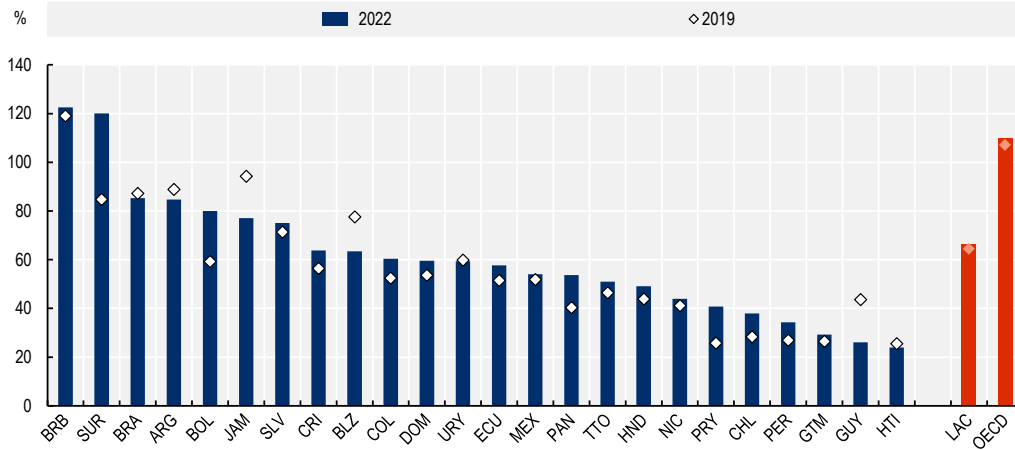
Figure notes

Data for 2022 for Guyana and Suriname refer to forecasts.

F.7.2 (Annual growth rate of real government gross debt per capita, 2019-20, 2020-21 and 2021-22) is available online in Annex F.
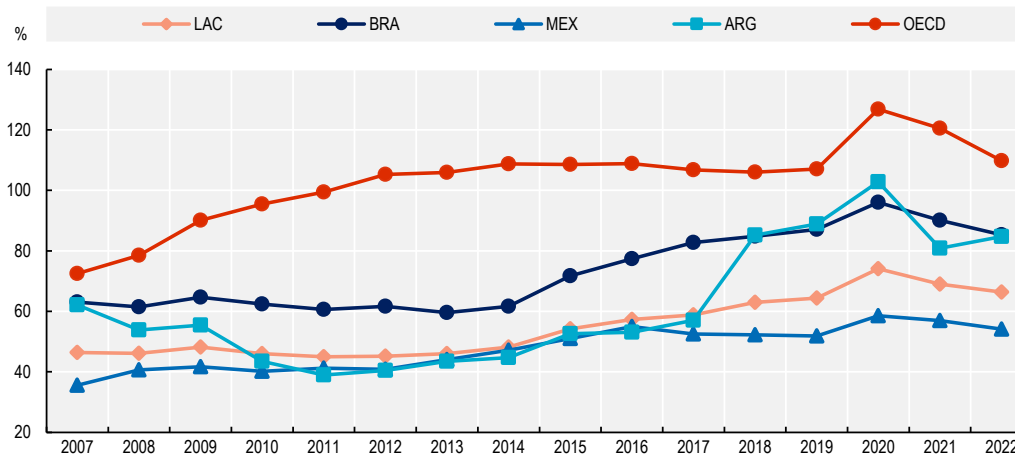
Figure 10.8. General government gross debt as a percentage of GDP, 2019 and 2022

Source: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (October 2023); data for the OECD average: OECD National Accounts Statistics (database).
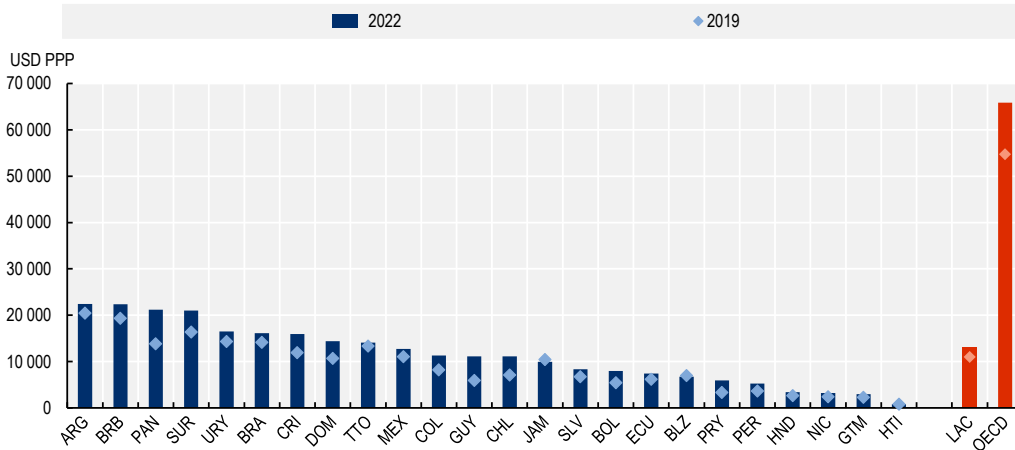
StatLink 📊 https://stat.link/hs7qci

Figure 10.9. General government gross debt as a percentage of GDP; LAC, OECD and largest LAC economies, 2007 to 2022

Source: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (October 2023); data for the OECD average: OECD National Accounts Statistics (database).

StatLink 📊 https://stat.link/bakl9e

Figure 10.10. General government gross debt per capita, 2019 and 2022

Source: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (October 2023); data for the OECD average: OECD National Accounts Statistics (database).

StatLink 📊 https://stat.link/ewrzq0