

Government investment creates public infrastructure essential for long-term economic growth and societal well-being. For instance, public investment supports the provision of public services (e.g. schools). Further, governments invest in transport infrastructure, and other large-scale projects to improve productivity and competitiveness. Finally, governments can also invest in research and development to promote new technologies or products.

In 2014, government investment represented, on average, 7.3% of total government expenditures in LAC countries. This figure is slightly below the OECD average that reached 7.7% in the same year. Between 2007 and 2009 public investment in the LAC region increased by 2.2 p.p. driven mainly by investment expenditures to counterbalance the effects of the global financial and economic crisis. However, this increase was outpaced by the variation that occurred between 2009 and 2014 when public investment decreased by an average of 2.5 p.p.

Investment spending in the LAC region has been historically low, particularly for a region in development. For instance, in 2014 government investment as a percentage of GDP reached 3.2% in OECD countries compared to 2.6% in the LAC region. Peru (5.5%), Paraguay (3.4%) and Colombia (3.1%) are the only LAC countries where public investment was above 3% of GDP in 2014. Peru stands out as the country with the largest investment resulting from a sustained programme of public investment in infrastructure, initially implemented as counter-cyclical fiscal policy.

Regions with low levels of development can obtain comparatively high economic returns from public investment. Furthermore, investment in poorer regions can play a crucial role in reducing inequalities. On average, 29.1% of investment spending by LAC governments was carried out by the local level in 2014; similar to OECD countries where it reached 30.6%. Nonetheless, there is great variation across LAC countries. In Paraguay only 9.7% of total investment was carried out by the local level, whereas it reached 44% in Peru. For the same year, investment at the state level was highest in Mexico and Brazil, both federal countries, reaching 50.2% and 43.0% of total public investment, respectively. Between 2007 and 2014, the share of total investment carried out by the state level increased by 8.5 p.p. reflecting efforts in many LAC countries to further decentralise.

Methodology and definitions

Data are drawn from the IMF Government Finance Statistics 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). However, some differences exist between the GFS and the SNA frameworks in several occurrences which led to the establishment, to a large extent, of correspondence criteria between the two statistical systems. The GFS and SNA frameworks have been recently revised and several statistical standards were implemented by the countries.

General government investment includes gross capital formation and acquisitions, less disposals of non-produced, non-financial assets. Gross fixed capital formation (also named fixed investment) is the main component of government investment, consisting mainly of transport infrastructure but also including infrastructure such as office buildings, housing, schools, hospitals, etc. Government investment is recorded on a gross basis (i.e. measured gross of consumption of fixed capital, unless otherwise stated). General government consists of central, state and local governments and social security funds. State government is applicable to the federal states of Brazil and Mexico and the highly decentralised countries of Colombia, Paraguay and Peru. 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

OECD (2014), "Recommendation on Effective Public Investment Across Levels of Government", OECD, Paris, www.oecd.org/regional/regional-policy/Principles-Public-Investment.pdf.

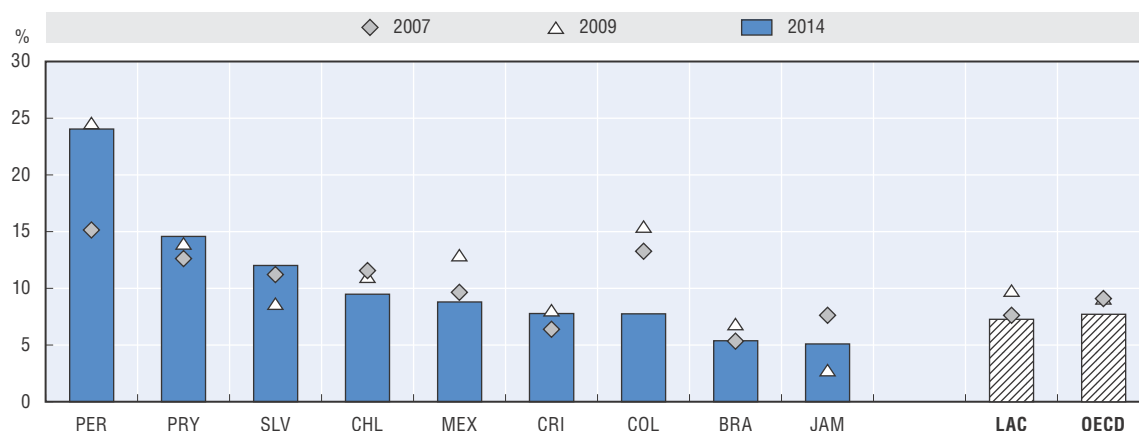
IMF (2015), "Making public investment more efficient", International Monetary Fund, Washington, DC., www.imf.org/external/np/pp/eng/2015/061115.pdf.

Figure notes

2.21, 2.22 and 2.23: Data for Peru and Paraguay are recorded on a cash basis. Data for Costa Rica, El Salvador and Mexico are for 2013 rather than 2014. Data for Colombia are for 2008 rather than 2007. Data for Costa Rica and Jamaica for investment do not include consumption of fixed capital.

2.23: Social security funds are included in central government for Brazil, Chile and Colombia.

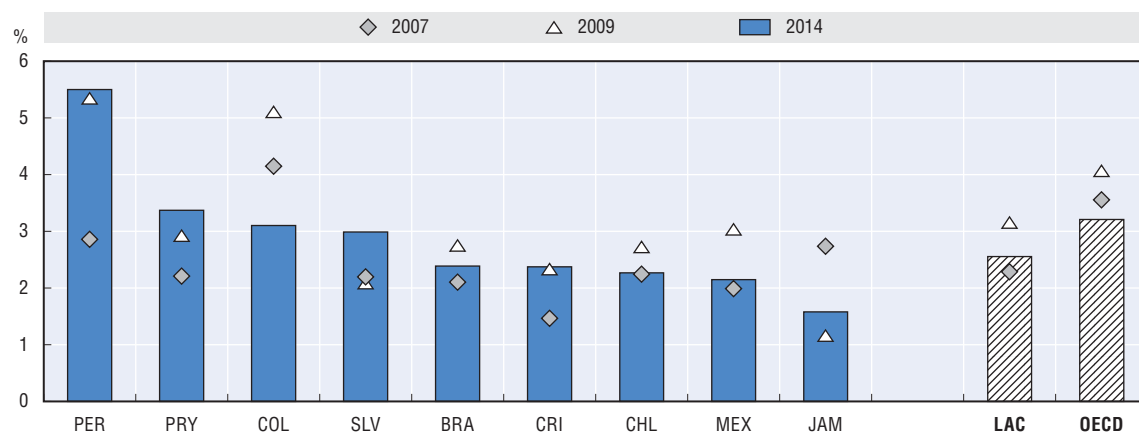
2.21. Government investment as a percentage of total government expenditures, 2007, 2009 and 2014



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/10.1787/888933431055>

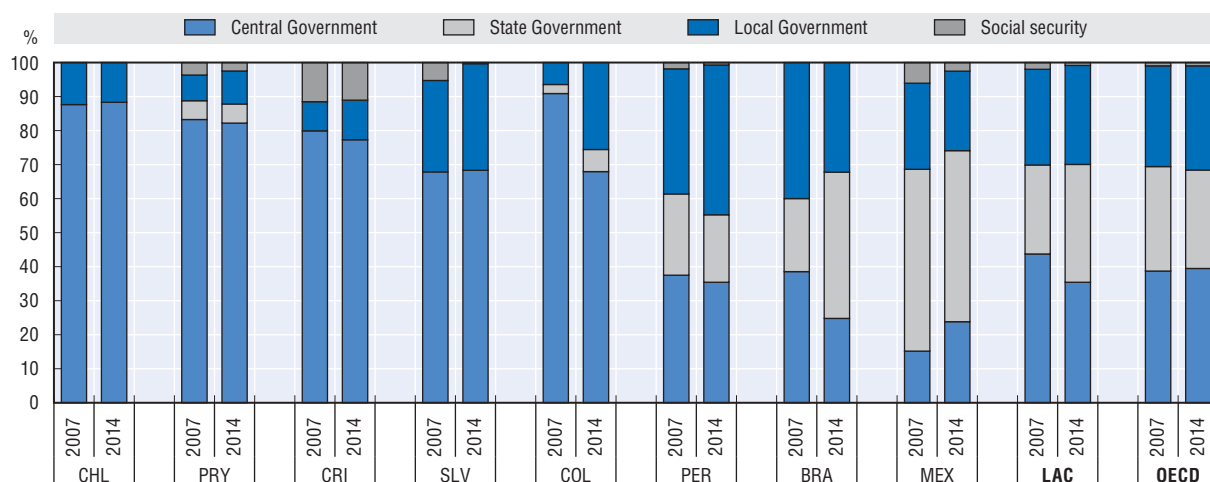
2.22. Government investment as a percentage of GDP, 2007, 2009 and 2014



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

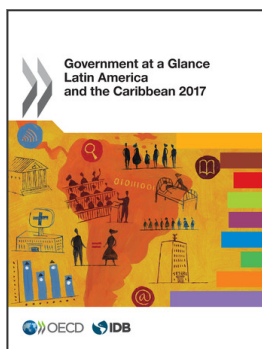
StatLink <http://dx.doi.org/10.1787/888933431065>

2.23. Distribution of investment spending across levels of government, 2007 and 2014



Source: 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/10.1787/888933431075>



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