Government debt represents governments' outstanding liabilities stemming from the need to finance deficits through borrowing. Fluctuations of the exchange and interest rates can have a strong effect on government debt when it has a relevant foreign currency component, creating external vulnerability. Historically, LAC countries have been sensitive to fluctuations in external conditions resulting in high volatility of public finances. Thus, many countries have experienced low credibility about their fiscal policy, affecting their ability to obtain long-term credit at low premiums. However, in recent years some countries such as Chile, Colombia and Mexico established fiscal rules and stabilisation funds, which together with a recomposition from external to internal debt and prudent fiscal policy resulted in enhanced conditions to access debt markets.

In 2014, the average debt level in LAC countries reached 50.4% of GDP. Between 2007 and 2014, debt increased on average by 4.1 p.p. across LAC countries. That is relatively low when compared to an increase of 36.8 p.p. in OECD countries. In Panama (12.9 p.p.), Peru (11.2 p.p.), Uruguay (6.82 p.p.) and Brazil (0.43 p.p.), debt levels decreased over the eight-year period. Conversely, the highest increases during that period occurred in Barbados (47.0 p.p.), Jamaica (21.1 p.p.), El Salvador (18.8 p.p.), the Dominican Republic (16.9 p.p.) and Chile (11.2 p.p.). The steep increase in Barbados' debt could be explained by the effects of the global crisis that diminished revenues from tourism, one of the main sources of revenue for the country. In response, the government resorted to debt for financing public expenditure and granted tax waivers to the population.

Between 2009 and 2014, the annual average growth rate of real government debt per capita in LAC countries was 3.0%, reaching an average of $8.204 PPP per capita in 2014. During the six-year period Chile strongly increased its debt per capita; however, it still remains among the three LAC countries with the lowest levels. On the other end of the spectrum, Jamaica is under an IMF programme for fiscal recovery and maintained debt per capita at relatively steady levels over the same period. It is expected that debt in the LAC region will continue to increase in the near future to partially compensate for fewer revenues resulting from, among others, slower economic growth.

Methodology and definitions

Data are drawn from the IMF World Economic Outlook (WEO) database (April 2016), which is based on the *Government Finance Statistics Manual* (GFSM). The GFSM provides a comprehensive framework suitable for analysing fiscal policy. It is harmonised with the other statistical frameworks, such as the 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 statistical systems. The GFS and SNA frameworks have been recently revised and several statistical standards were implemented by the countries.

Debt is generally defined as all liabilities requiring payment(s) 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 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 their 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 the "Methodology and definitions" section of the "General government revenues". For the OECD average, data are derived from the OECD National Accounts Statistics database, which is based on the SNA framework.

Further reading

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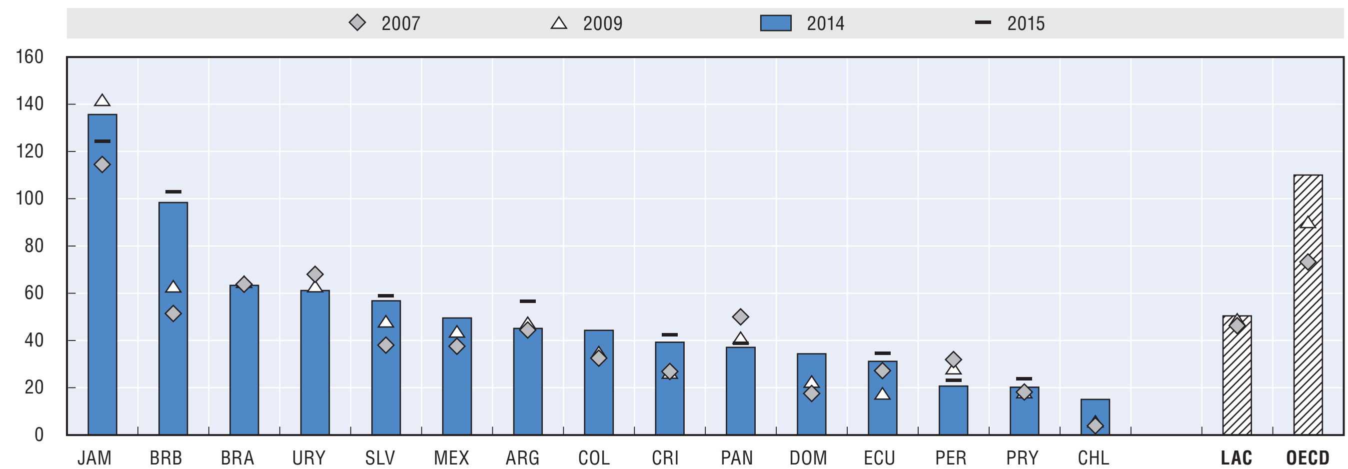
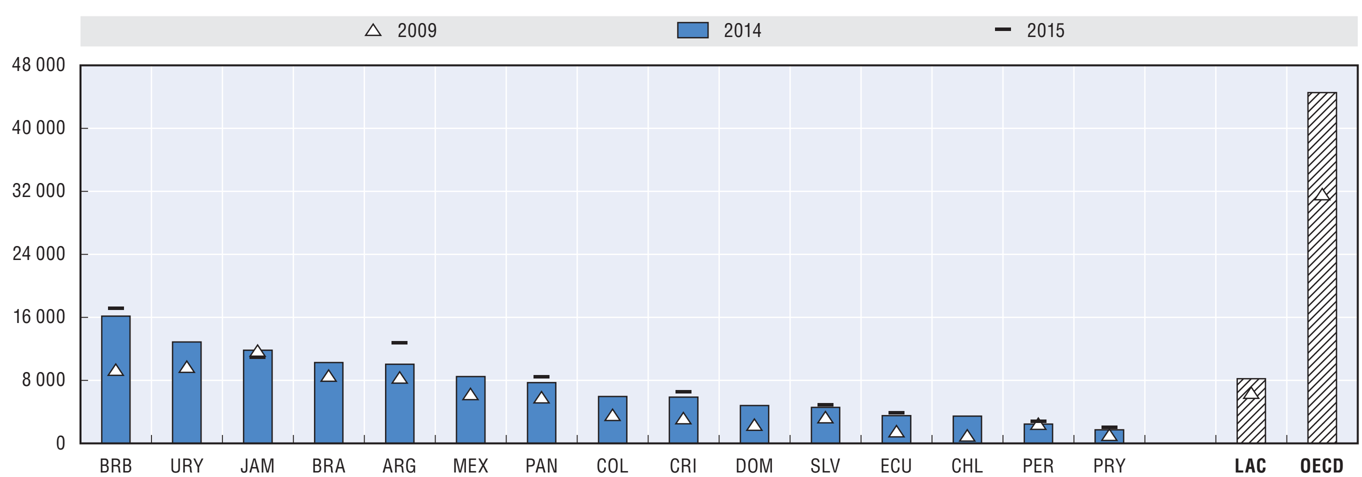
2.4. General government gross debt as a percentage of GDP, 2007, 2009, 2014 and 2015



Sources: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (April 2016). Data for the OECD average: OECD National Accounts Statistics (database).

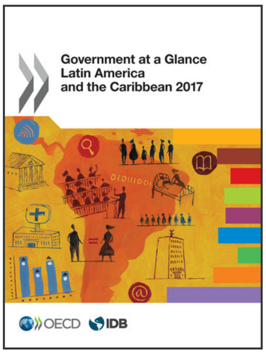
StatLink http://dx.doi.org/10.1787/888933430914

2.5. General government gross debt per capita, 2009, 2014 and 2015



Sources: Data for the LAC countries: IMF, World Economic Outlook database (IMF WEO) (April 2016). Data for the OECD average: OECD National Accounts Statistics (database).

StatLink http://dx.doi.org/10.1787/888933430922



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