

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, which can contribute in spreading new tools and knowledge for increasing productivity and creating jobs in sectors adding high value to the economy.

In 2017, government investment represented, on average, 4.6% of total government expenditure in LAC countries with available data. This figure is smaller than in OECD countries where it was 7.7% in the same year. Government investment in the LAC region is extremely heterogeneous. On the high end, investment as a percentage of government spending is 18.5% in Peru and 15.8% in Paraguay. Between 2007 and 2017, these are the two countries where investment increased the most, 3.4 and 3.2 p.p. respectively. As part of its national development strategy (i.e. the “Bicentenary Plan: Peru 2021”) issued in 2010 the Peruvian government set ambitious targets in terms of public investment, particularly in the transport sector as means of closing gaps with other countries in the region, improving people’s well-being and fostering economic growth. Similarly, Paraguay began an accelerated process of infrastructure improvement in 2013, to update and improve its road network and to complete hydraulic installations that will improve water quality and sanitation.

Investment as a share of GDP in LAC countries reached 1.6% in 2017 below the OECD average of 3.1%. While investment decreased for both groups of countries, it did on average at a faster pace in LAC countries (-0.7 p.p.) compared to the OECD (-0.5 p.p.). Colombia (-1.8 p.p.) and Brazil (-1 p.p.) are the LAC countries where government investment spending decreased the most. In Colombia, this trend could be explained by the large oil price shock in 2015-16 that affected government revenues as well as by adjustments to the budget for complying with fiscal targets often taking place through reduced investment. In the case of Brazil, the rising public deficit has led to reductions in public investment.

Investment can have higher economic returns in regions with a relatively lower level of development. Investment spending across levels of government is crucial for securing long-term growth and reducing inequality. For LAC countries with available information, 35.2% of government investment spending took place at the local level in 2017 compared to 29% in OECD countries. For LAC countries, this represents an increase of 5.4 p.p. since 2007, notably in Colombia and Peru local governments carried out over 40% of total investment in 2017.

Methodology and definitions

Data are 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, differences exist between the GFSM 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 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, data are derived from the OECD National Accounts Statistics database, which is based on the SNA framework. Data on these indicators are available for a limited set of LAC countries.

Further reading

IDB (2019), *Building Opportunities for Growth in a Challenging World*, Inter-American Development Bank, Washington, DC, <https://flagships.iadb.org/en/MacroReport2019/Building-Opportunities-to-Grow-in-a-Challenging-World>.

OECD (2019), *OECD Economic Surveys: Colombia 2019*, OECD Publishing, Paris, <https://doi.org/10.1787/e4c64889-en>.

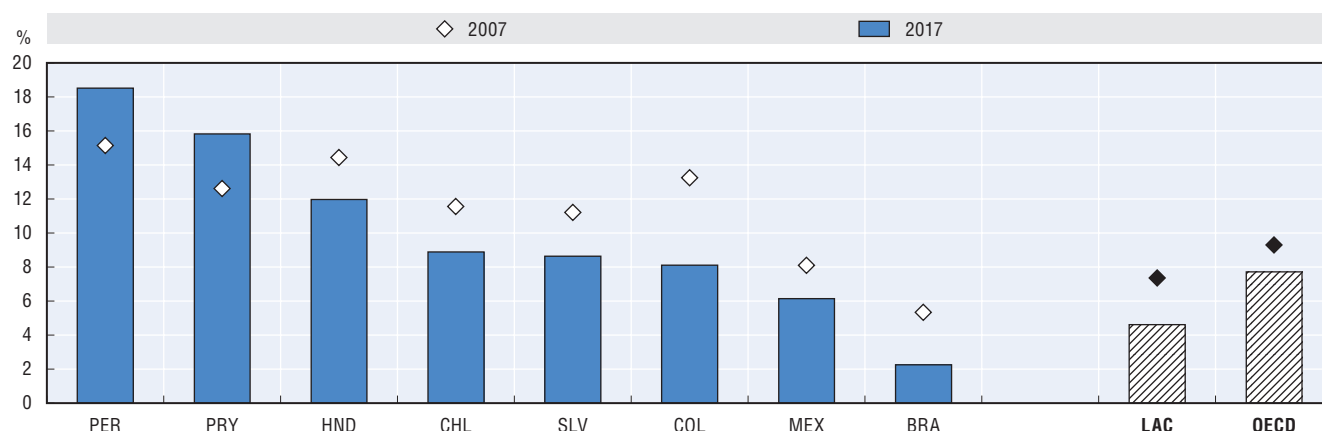
OECD (2016), *OECD Public Governance Reviews Peru: Integrated Governance for Inclusive Growth*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264265172-en>.

Figure notes

Data for Mexico, Peru and Paraguay are recorded on a cash basis. Data for Honduras refer to 2015 rather than 2017. Data for Colombia and Mexico refer to 2008 rather than 2007. LAC and OECD averages are weighted.

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

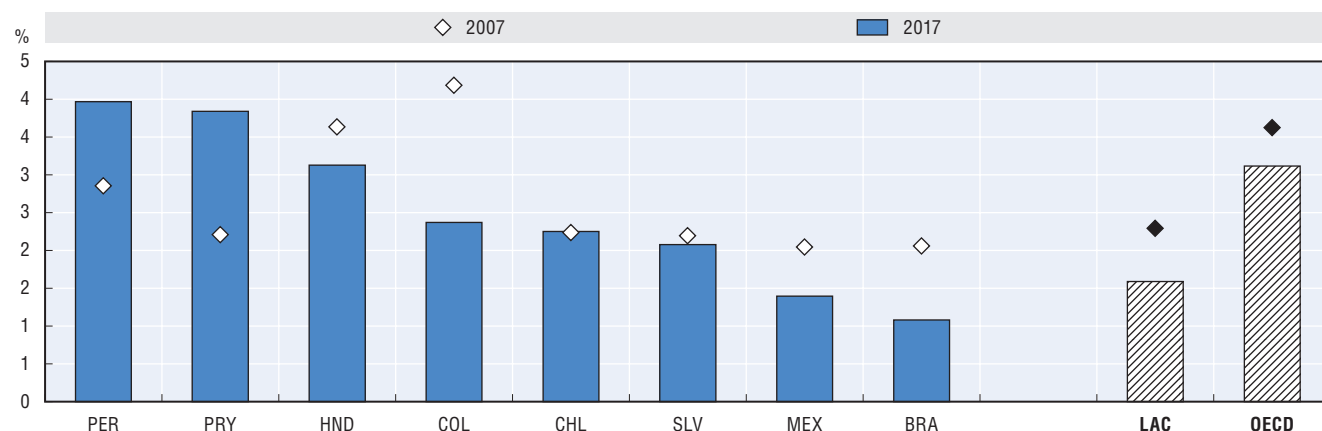
2.20. Government investment as a percentage of total government expenditures, 2007 and 2017



Source: Data for the LAC countries: IMF Government Finance Statistics (IMF GFS) database. Data for the OECD average: OECD National Accounts Statistics (database).

StatLink <https://doi.org/10.1787/888934091486>

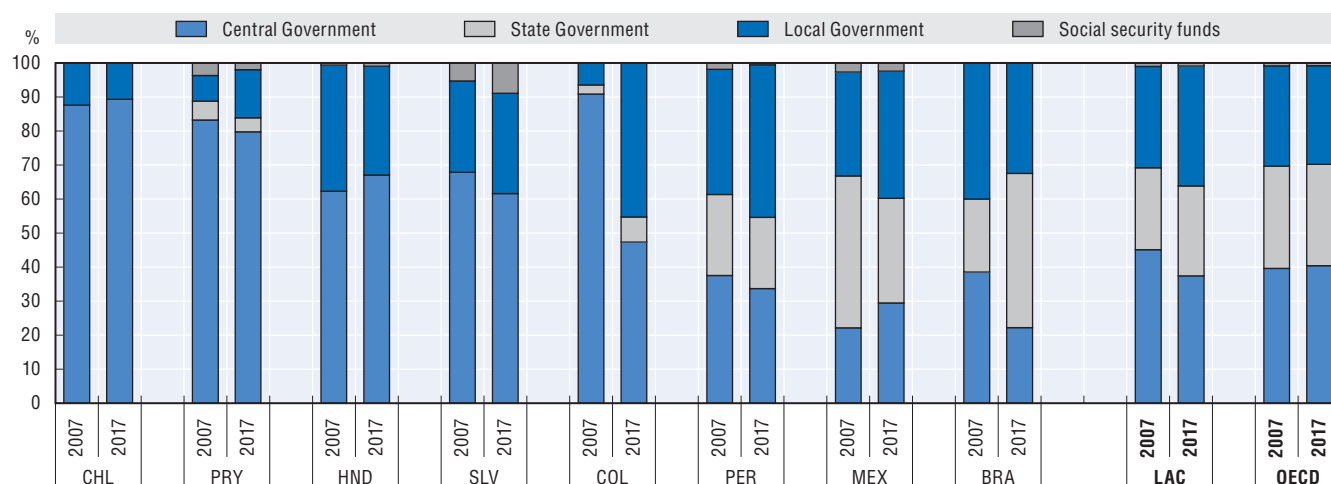
2.21. Government investment as a percentage of GDP, 2007 and 2017



Source: Data for the LAC countries: IMF Government Finance Statistics (IMF GFS) database. Data for the OECD average: OECD National Accounts Statistics (database).

StatLink <https://doi.org/10.1787/888934091505>

2.22. Distribution of investment spending across levels of government, 2007 and 2017



Source: Data for the LAC countries: IMF Government Finance Statistics (IMF GFS) database. Data for the OECD average: OECD National Accounts Statistics (database).

StatLink <https://doi.org/10.1787/888934091524>



From:

Government at a Glance: Latin America and the Caribbean 2020

Access the complete publication at:

<https://doi.org/10.1787/13130fbb-en>

Please cite this chapter as:

OECD (2020), "Government investment spending", in *Government at a Glance: Latin America and the Caribbean 2020*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/89e6ee95-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.