

# CHART OF THE WEEK

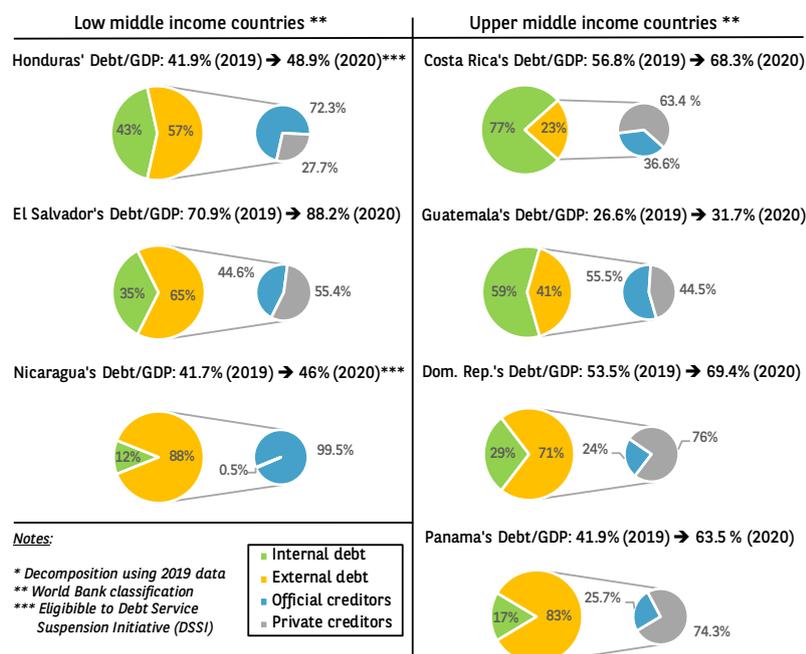


7 July 2021

## CENTRAL AMERICA'S PUBLIC DEBT PROFILE: A HIGH DEPENDENCE ON EXTERNAL CREDITORS

Salim Hammad

### Central America : Public Debt Structure (internal vs external)\*



Source: World Bank, IMF, CABEL, BNP Paribas

Close to 2/3 of public debt in Central America\* is owed to non-residents. Costa Rica is the least dependent on external funding. Nicaragua and Panama are the most dependent – however with diametrically opposed creditor profiles. The former's external commitments are due to official creditors (e.g. multilaterals or bilateral creditors such as Taiwan) while ¾ of the latter's are owed to private creditors (primary bondholders) – a share comparable to Latin America's third largest sovereign bond issuer in 2020 – the Dominican Republic.

In a context of increasing debt burdens (+12 percentage points across the region in 2020), a high dependence on external funding is a source of financial vulnerability – especially for those countries whose external debt is mostly held by private creditors (e.g. El Salvador, Costa Rica, Dominican Republic, Panama). Unfortunately, for many economies, structural factors will continue to constrain the development of local public debt markets: small investor base, shortfalls in the institutional and legal setting, lack of financial infrastructure, fragility of macroeconomic policies. High levels of financial dollarization and large current account deficits also force many countries to durably rely on foreign-currency debt flows to close external financing gaps.

\* We include the Dominican Republic (DR). Although a formal part of the Caribbean, the DR is also a member of the Central American Integration System (SICA).

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