



BIS Bulletin

No 133

High public debt in the Americas:
non-linear implications for risk premia
and inflation expectations

Eduardo Amaral, Rafael Guerra, Alejandrina Salcedo,
Pablo Tomasini and Christian Upper

19 August 2026

BIS Bulletins are written by staff members of the Bank for International Settlements, and from time to time by other economists, and are published by the Bank. The papers are on subjects of topical interest and are technical in character. The views expressed in this publication are those of the authors and do not necessarily reflect the views of the BIS or its member central banks. The authors are grateful to Alexandre Tombini, Pablo Hernández de Cos, Benoit Mojon, Daniel Rees, Ilhyock Shim, Frank Smets and Fabrizio Zapolli and to Nicola Faessler for administrative support.

The editors of the BIS Bulletin series are Gaston Gelos and Frank Smets.

This publication is available on the BIS website (www.bis.org).

© *Bank for International Settlements 2026. All rights reserved. Brief excerpts may be reproduced or translated provided the source is stated.*

ISSN: 2708-0420 (online)

ISBN: 978-92-9259-976-8 (online)

High public debt in the Americas: non-linear implications for risk premia and inflation expectations

Key takeaways

- *Public debt has reached multi-decade highs in the Americas. Additionally, public interest costs have generally increased over the past decade.*
- *High public debt and interest costs increase the sensitivity of risk premia to fiscal deficits – regardless of the exchange rate regime – and amplify the sensitivity of short-term inflation expectations to fluctuations in risk premia.*
- *Our analysis underscores the relevance of disciplined fiscal policies, which assume heightened significance in the context of current debt dynamics. On the monetary side, safeguarding central bank independence is crucial for ensuring macroeconomic stability.*

Public debt stands at multi-decade highs across many economies in the Americas, with the interest rate burden also rising significantly. In emerging market and developing economies in the region, elevated debt levels amplify the sensitivity of sovereign risk premia to fiscal deficits and, in turn, increase the impact of risk premia changes on inflation expectations. These non-linear relationships add considerable complexity to macroeconomic management. In the current environment, characterised by high energy prices and mounting pressures on governments to provide fiscal support to households, the non-linear relationships underscore the challenges facing fiscal and financial stability and highlight the importance of credible fiscal consolidation strategies and central bank independence.

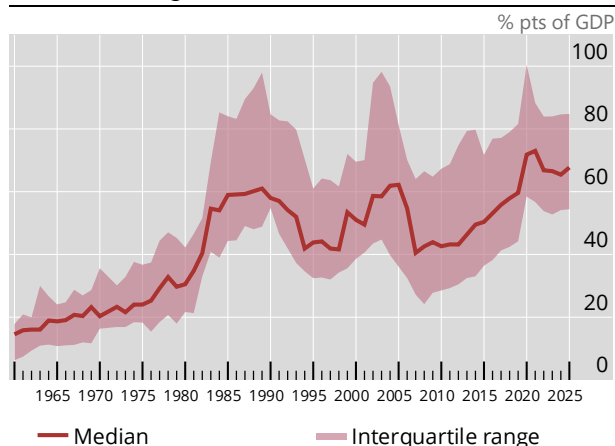
High public debt and interest costs in the Americas

Public debt levels in the Americas have risen significantly over the past few decades, driven by responses to adverse shocks and limited fiscal consolidation efforts. For example, during the “lost decade” of the 1980s – a period of severe economic stagnation and crises across Latin America (Kehoe and Nicolini (2021)) – public debt increased significantly in all countries in the region. During this time, the median ratio of public debt to GDP rose twofold (Graph 1.A). After receding in the mid-1990s, the median figure rebounded to around 60% of GDP by 2005, following a period of rising debt driven by economic crises and adverse spillovers that led to currency depreciations and slower growth. Most recently, the Covid-19 pandemic pushed public debt in most countries in the region to its highest levels since 1960. Today, higher energy prices due to the Middle East conflict exacerbate fiscal challenges, as authorities face mounting pressures to shield households and firms from rising costs.

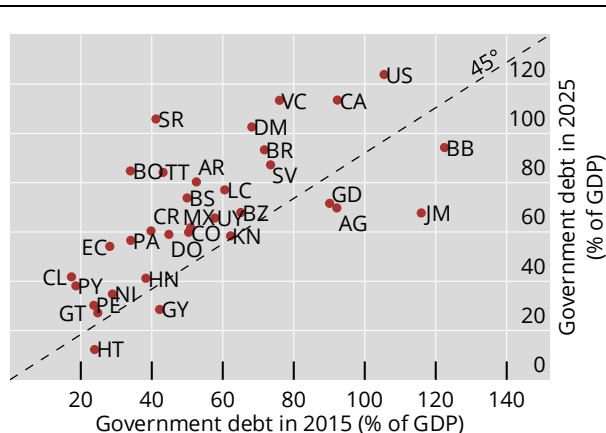
Public debt levels in the Americas have risen significantly over the past few decades¹

Graph 1

A. Evolution of government debt in the Americas



B. Government debt in 2015 vs 2025



¹ Graph constructed using 33 economies in the Americas (see country codes at the end of the document). ² For EC, the data comparison is between 2014 and 2024.

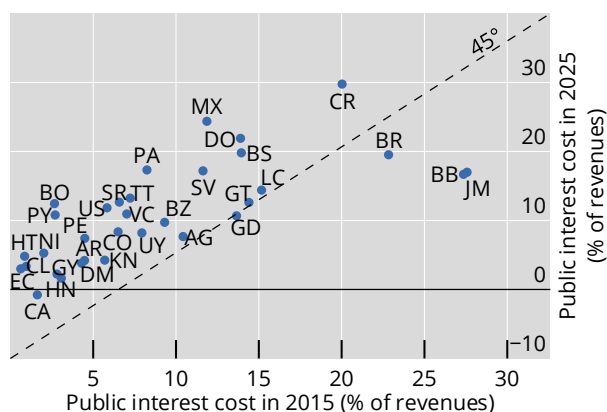
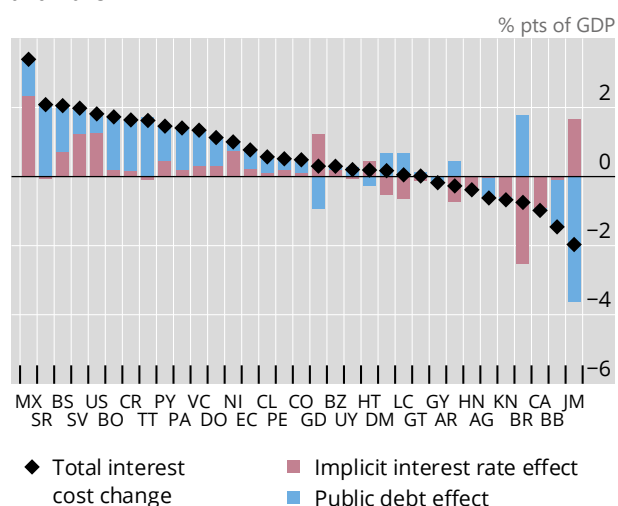
Sources: IMF; authors' calculations.

Despite some broad commonalities, the debt increase has differed across countries. Over the past 10 years, the government debt-to-GDP ratio has increased in 27 out of 33 economies in the Americas (Graph 1.B). Around 40% of these economies have experienced increases in the ratio of more than 20 percentage points, while almost a third have experienced a debt increase of between 10 and 20 percentage points. One notable exception to this trend is Jamaica, which successfully reduced its debt from a peak of 148% of GDP in 2012 to 68% in 2025. This achievement has been attributed to the implementation of well-designed fiscal rules and a collaborative approach that ensured the costs of adjustment were shared widely and fairly (Arslanalp et al (2024)).¹

While public debt provides a useful measure to assess stock-related concerns in fiscal sustainability, public debt interest costs offer a flow-based perspective for evaluating fiscal space and provide additional insights into the obligations a government must manage.² The two do not necessarily move in lockstep and therefore convey different information (Eichengreen et al (2026)). For example, rising inflation, exchange rate depreciation or increases in the policy rate can push up interest costs even if debt levels remain stable. Interest costs associated with public debt have increased across the region over the last decade, generally outpacing fiscal revenues (Graph 2.A). While higher public debt can account for part of the rise, in several countries changes in the cost of servicing debt – driven by factors such as those mentioned above – play a significant role (Graph 2.B).

¹ While the debt reduction in Jamaica started with two debt exchanges, the bulk of it came from primary surpluses of 7 to 8% of GDP (Arslanalp et al (2024); Schmid (2016)).

² Markets continually reassess fiscal space – the capacity to absorb further debt without triggering a disorderly repricing of sovereign risk – in relation to the credibility of the adjustment path of fiscal policy. Apart from the level of debt and interest payments, this path reflects the relationship between growth and interest rates, the primary balance, expenditure rigidity, the composition of debt and the health and risk-bearing capacity of financial intermediaries. All these conditions can vary across economies and over time.

A. Public debt interest costs in the Americas¹B. Change in public debt interest costs between 2015 and 2025²

¹ Public debt interest costs are calculated as the difference between the overall balance and the primary balance. For EC, 2024 data are used. ² The 2015–25 change in public debt interest cost ($Interest_{t=2025}/GDP_{t=2025} - Interest_{t=2015}/GDP_{t=2015}$) can be expressed as $\Delta r \times D_{t=2025} + \Delta D \times r_{t=2015}$, where r is the implicit interest rate, D is public debt (as % of GDP) and Δ denotes the difference over 2015–25. The implicit interest rate effect is estimated as $\Delta r \times D_{t=2025}$ and the public debt effect as $\Delta D \times r_{t=2015}$.

Sources: IMF; authors' calculations.

The amplification effects of high debt levels

Fiscal expansions under elevated debt levels can trigger a repricing of fiscal risk, particularly in emerging market economies (Aguilar et al (2023)). This repricing amplifies concerns about fiscal sustainability, which may in turn push up inflation expectations.³

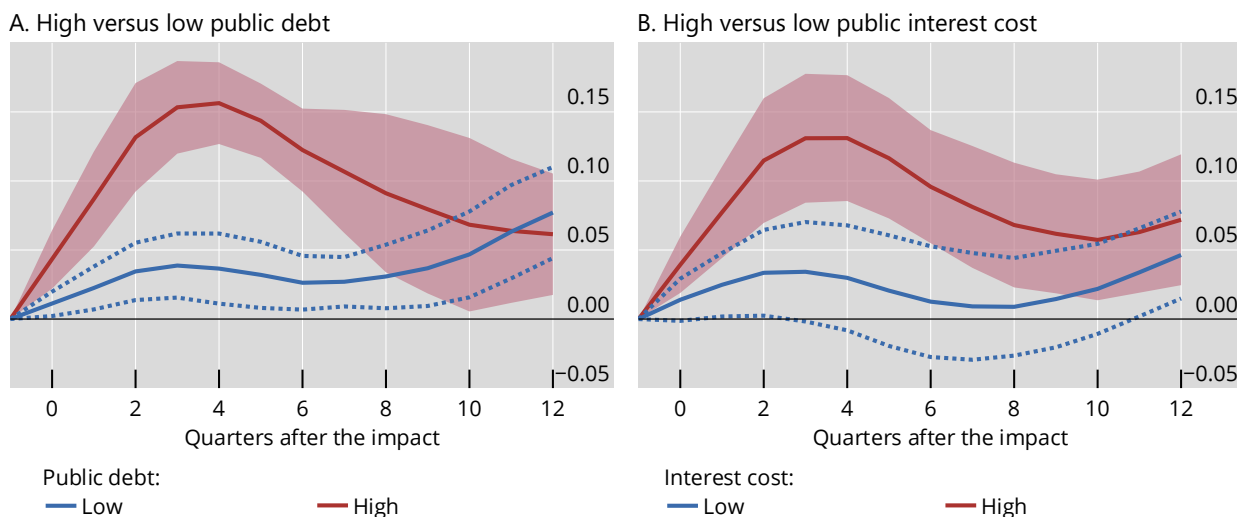
Evidence for emerging market and developing economies in the Americas shows not only that fiscal expansions can trigger a repricing of sovereign risk, but also that the resulting increase in sovereign spreads is non-linear in the level of debt and interest costs. Emerging Markets Bond Index (EMBI) spreads for a large set of economies in the region – a measure of sovereign risk premia – increase almost three times as much in economies with high public debt compared with economies with low public debt (Graph 3.A).^{4, 5} The effects of fiscal expansions on risk premia are also larger and more persistent when

³ BIS (2026) discusses different channels through which high debt levels affect central banks: consequences of the fiscal risk repricing, implications on monetary policy transmission channels and the possibility of having to intervene in sovereign bond markets more often in the face of volatility.

⁴ We estimate the impact of fiscal deficit increases on risk premia following the methodology of Aguilar et al (2023) but allow for non-linearities. Instead of identifying a specific threshold, we classify debt and interest burdens as high if they exceed their within-quarter median. We consider a sample of 21 economies from the Americas (AR, BB, BO, BR, BZ, CL, CO, CR, DO, EC, GT, HN, JM, MX, PA, PE, PY, SR, SV, TT and UY) with quarterly data from Q1 2015 to Q4 2025. Controls include four lags of the dependent variable, real GDP growth, annual inflation, the US dollar exchange rate, a dummy variable for non-floating exchange rates and country and time fixed effects.

⁵ While the analysis was conducted using EMBI spreads, the non-linear effects remain when considering five-year credit default swap spreads as the risk premia indicator for BR, CL, CO, MX and PE, where such data are available. A natural extension is to examine local currency sovereign credit spreads to verify that fiscal sustainability concerns are priced directly into credit risk (beyond possible effects on foreign exchange premia in hard currency markets). This would require further research, especially due to the challenges that identifying local currency sovereign spreads entails. However, an illustrative check for the same five countries using the Du and Schreger (2016) estimates suggests a positive association between fiscal expansion and risk premia, with non-linearities showing up only at longer horizons.

Impact of a 1% of GDP fiscal deficit increase on risk premia (in standard deviations)



¹ Estimates based on panel local projections (Jordà (2005)) for 21 countries in the Americas, with 90% confidence intervals. EMBI spreads are considered a measure of risk premia. For each country in each quarter, debt and interest costs are classified as high if above the within-quarter median across countries.

Source: Authors' calculations.

interest payment burdens are high (Graph 3.B).⁶ Notably, both results hold for countries with floating and non-floating exchange rates.⁷

Higher risk premia signal greater perceived fiscal and macroeconomic risk, which can lift inflation expectations through several channels. Three could be particularly relevant. First, higher sovereign risk premia tend to weaken the currency. Even in economies with non-floating exchange rate arrangements, they raise the perceived risk of a discrete devaluation and can require the use of foreign exchange reserves or tighter domestic financial conditions to defend the exchange rate objective. Actual or expected depreciation increases the local currency price of imports, pushing up near-term inflation and, in turn, expected inflation.⁸ Second, in a financing cost channel, as sovereign risk premia rise, bank funding costs, corporate borrowing rates and working capital spreads increase – even if policy rates are unchanged. For firms reliant on credit, this raises marginal costs. That said, the effect on inflation expectations could be mitigated by the accompanying contractionary effects of tighter financial conditions on aggregate demand. Third, when debt is already large, rising premia heighten concerns that fiscal strains could ultimately be eased, at least in part, via higher inflation, whether through more accommodative policy or constraints on central bank independence. Households and firms then build higher inflation into price and wage setting. These effects are typically stronger when policy credibility is weaker, debt burdens are higher, and exchange rate pass-through is larger.

⁶ In robustness checks, we verify that the non-linear effects on interest payments arise independently of debt levels by controlling for them, and vice versa.

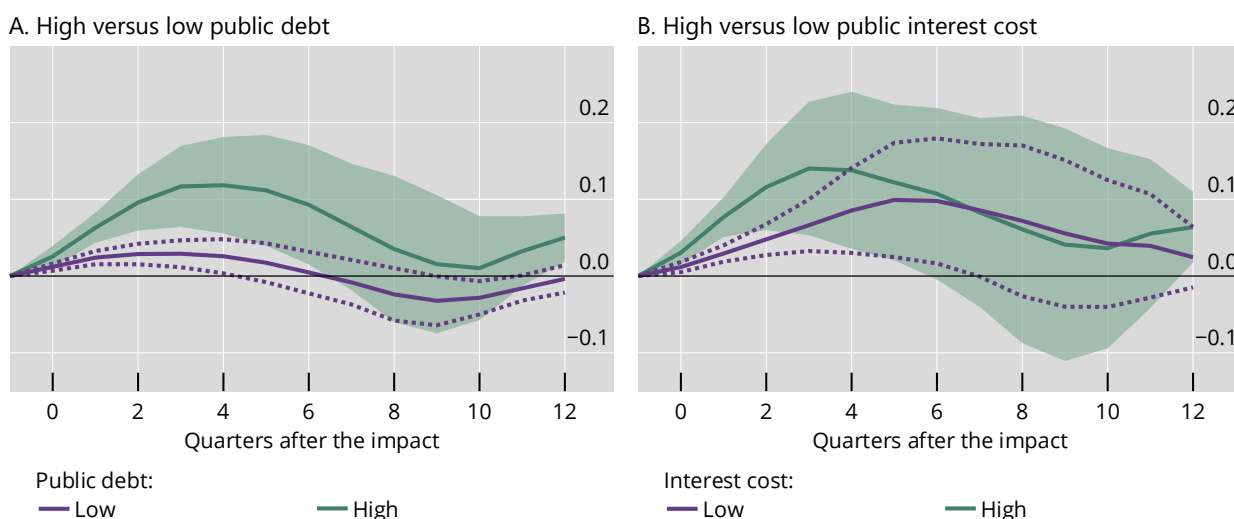
⁷ Floating exchange rate regimes include those economies that have free-floating or floating exchange rate arrangements, according to the classification of exchange rate arrangements proposed by IMF (2024). Non-floating exchange rate regimes include economies with crawling peg, conventional peg, dollarised and other managed exchange arrangements.

⁸ A growing literature, including Norimasa et al (2021) and Aguilar et al (2023), shows that fiscal expansions can result in capital outflows and exchange rate depreciation. High foreign currency liabilities may amplify both the depreciation and its inflationary impact.

Fiscal stress amplifies the impact of risk premia on short-term inflation expectations¹

Graph 4

Impact of a 100 basis point increase in risk premia on short-term inflation expectations (in standard deviations)



¹ Estimates based on panel local projections (Jordà (2005)) for 16 countries in the Americas, with 90% confidence intervals. EMBI spreads are considered a measure of risk premia. Inflation expectations from professional forecasters (Consensus Economics). For each country in each quarter, debt and interest costs are classified as high if above the within-quarter median across countries.

Source: Authors' calculations.

While our analysis does not identify the precise channels, our estimations for the Americas indicate that inflation expectations become significantly more sensitive to changes in risk premia if public debt is high (Graph 4.A). This holds for both floating and non-floating exchange rate regimes. By contrast, we do not find lasting significant differences between countries with high and low interest burdens (Graph 4.B).⁹

Policy considerations

The analysis presented in this Bulletin implies that today's unusually high debt levels materially heighten the macro-financial risks associated with fiscal loosening, underscoring the premium on disciplined fiscal policy.¹⁰ When debt is elevated or public interest costs are high, markets can react more forcefully to fiscal news, and risk premia feed through into inflation expectations more rapidly. These adverse non-linearities raise the cost of delayed action and reinforce the case for credible, sustainable consolidation by fiscal authorities. Moreover, even where primary surpluses are in place, subdued growth rates call for greater efforts to ensure debt sustainability.

Fiscal consolidation should be designed to safeguard long-term growth potential. That implies prioritising the quality and composition of adjustment, protecting productive public investment and essential services, and complementing consolidation with structural reforms that raise potential output (Hernández de Cos (2025); BIS (2026)). Durable consolidation rests on strong institutions – clear,

⁹ The previous specification outlined in footnote 4 is modified to use one-year-ahead inflation expectations as the dependent variable and risk premia as the key independent variable. We further add the fiscal deficit to control for its direct effect. These estimations are restricted to the 16 economies in the Americas for which data on short-term inflation expectations and EMBI spreads are available (AR, BO, BR, CL, CO, CR, DO, EC, GT, HN, MX, PA, PE, PY, SV and UY).

¹⁰ For a deeper discussion on the macro-financial risks of high public debt, see BIS (2026).

rule-based fiscal frameworks, transparent reporting and credible enforcement mechanisms. Institutions are a necessary condition, but they are effective only if they operate in practice rather than on paper.

For monetary policy, preserving credibility by focusing firmly on the price stability mandate remains paramount. Central bank independence is essential to maintain that credibility and to insulate policy from political pressures that may intensify when debt is high.

References

Aguilar, A, C Cantú and R Guerra (2023): "Fiscal and monetary policy in emerging market economies: what are the risks and policy trade-offs?", *BIS Bulletin*, no 71.

Arslanalp, S, B Eichengreen and P B Henry (2024): "Sustained debt reductions: the Jamaica exception", *NBER Working Papers*, no 32465.

Bank for International Settlements (BIS) (2026): "High public debt and shifting financial markets: challenges for central banks", *Annual Economic Report 2026*, chapter II.

Du, W and J Schreger (2016): "Local currency sovereign risk", *Journal of Finance*, vol 71, no 3.

Eichengreen, B, M Menuet and G Donnat (2026): "From stocks to flows: debt service and fiscal sustainability", *CEPR Discussion Papers*, no 21723.

Hernández de Cos, P (2025): "Fiscal threats in a changing global financial system", speech at the London School of Economics, London, 27 November.

International Monetary Fund (IMF) (2024): *Annual report on exchange arrangements and exchange restrictions 2023*.

Jordà, Ò (2005): "Estimation and inference of impulse responses by local projections", *American Economic Review*, vol 95, no 1.

Kehoe, T and J P Nicolini (2021): *A monetary and fiscal history of Latin America, 1960-2017*, University of Minnesota Press.

Norimasa, Y, K Ueda and T Watanabe (2021): "Emerging economies' vulnerability to changes in capital flows: the role of global and local factors", *Bank of Japan Working Papers Series*, no 21-E-5.

Schmid, J P (2016): "Addressing debt overhangs: experiences from two debt operations in Jamaica", Inter-American Development Bank, *Policy Brief*, no IDB-PB-259.

Country codes:

AG: Antigua and Barbuda; AR: Argentina; BB: Barbados; BO: Bolivia; BR: Brazil; BS: The Bahamas; BZ: Belize; CA: Canada; CL: Chile; CO: Colombia; CR: Costa Rica; DM: Dominica; DO: Dominican Republic; EC: Ecuador; GD: Grenada; GT: Guatemala; GY: Guyana; HN: Honduras; HT: Haiti; JM: Jamaica; KN: St Kitts and Nevis; LC: St Lucia; MX: Mexico; NI: Nicaragua; PA: Panama; PE: Peru; PY: Paraguay; SR: Suriname; SV: El Salvador; TT: Trinidad and Tobago; US: United States; UY: Uruguay; VC: St Vincent and the Grenadines.