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Debt Risk Research Topic

Research on Debt Development and Risk in Latin America* — Analysis based on the “history-structure” framework

Zhang Yong

Abstract: The debt problem has become an important obstacle restricting the sustainable development of emerging economies. This article is based on the "history-structure" analytical framework and takes the debt wave experienced by emerging economies in the past 50 years as a background to elaborate on the accumulation and risks of debt in Latin America. , the characteristic facts of the crisis and its treatment, explore the historical roots of the debt problem, and then study the relationship between debt risk and fiscal sustainability. The study found that the Latin American debt crisis is a "structural development" caused by the region's long-term import substitution industrialization model. It is not only caused by structural defects in the internal development of Latin American countries, but is also deeply affected by complex and unfavorable external factors. Currently, in order to cope with the impact of the epidemic and the risk of economic downturn, the continued expansion of fiscal expenditures in Latin American countries has aggravated the rise in debt. At the same time, the Federal Reserve’s aggressive interest rate hike cycle has pushed up global financing costs, which may trigger the risk of debt defaults in Latin American countries. In addition, debt sustainability and public finance sustainability are interdependent. In view of this, for developing countries and emerging economies, ÿ It is of great significance to promote the transformation of economic development models, improve macroeconomic policies, prevent major financial risks, focus on improving debt

management and deepening domestic financial markets, and actively participate in international debt governance

reforms. Keywords: Debt crisis "history-structure" Analysis of debt management Introduction to the author of Strategic Latin

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Currently, China is accelerating the construction of a new development pattern to promote high-quality development. The key to building a new development pattern lies in the unimpeded economic cycle. This means that persisting in deepening supply-side structural reform is the fundamental guarantee for promoting the domestic general cycle, and it is also the unimpeded economic cycle. The driving force of international circulation, and higher-quality international circulation will in turn improve the efficiency of market-oriented allocation of domestic resources and factors. As a financing tool, debt management is an important link between domestic and foreign markets, and is also the key to promoting dual circulation. Internally, the domestic cycle needs debt financing to support it. Externally, the financing gap can be made up by the liquidity provided by the international financial market in the international cycle. However, the debt crisis, currency crisis and financial crisis caused by debt defaults The crisis cannot be ignored. The report of the 20th National Congress of the Communist Party of China pointed out that "strengthen and improve modern financial supervision, strengthen the financial stability guarantee system, bring all types of financial activities into supervision in accordance with the law, and maintain the bottom line of no systemic risks." ÿ This is a new It provides fundamental compliance and important guidance to prevent and deal with major financial risks and maintain national financial security in this era. Therefore, summarizing the experience and lessons of debt problems in developing countries and emerging markets will help China better build a new development pattern and prevent major financial risks.

Historical experience shows that debt problems have always been a problem that plagues the long-term development of emerging economies, especially in Latin America. The World Bank report believes that in the past 50 years, emerging and developing countries have experienced a total of 1970-1989 and 1990-2001. There have been four debt waves in 2002, 2002-2009, and 2010 to the present. The first three ended with many developing countries falling into economic crisis, while the fourth debt wave is the largest, fastest-growing, and most widespread. Therefore, the risk of a new global debt crisis has emerged. ÿ In the fourth debt wave, the impact of the epidemic in 2020 has intensified the trend of rising debt in all developing regions since the global financial crisis of 2008-2009. Data shows that from 2019 to 2020 During the year, Latin America's foreign debt as a share of GDP increased from 47.9% to 56.3%. Middle East and Central Asia

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Region increased from 46 8% to 53 9% ÿ Africa increased from 39 3% to 43 7% ÿ And the outbreak in 2022 The spillover effects of the Ukraine crisis have further aggravated the rising trend of debt. In view of

this, this article will focus on the accumulation and risk issues of Latin American debt, and explore the historical roots and characteristic facts. The structure of this article is as follows: review relevant literature research, and construct a "history" -structure"

ÿ See Xi Jinping: «Hold high the great banner of socialism with Chinese characteristics and unite and strive to comprehensively build a modern socialist country - Report at the 20th National Congress of the Communist Party of China», October 16, 2022, http:// baijiahao baidu com/ s? id = 1747666696ÿÿ337407608& wfr = spider&for = pc [2023-03-27] See M Ayhan Koseÿ Pete r Nagleÿ Franziska Ohnsorgeÿ and Naotaka Suga WaraÿGlobal Waves of

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Debt: Causes and Consequencesÿ Advantage Editi on, Washington, DC: World Bank, 2020 Unless otherwise specified, the focus of this article is

ÿ mainly on government debt, with a slight touch on private debt.

Analytical framework, expounds the historical roots and crisis management of the Latin American debt crisis, analyzes the evolution and risks of Latin American debt under the impact of the epidemic, explores the relationship between debt sustainability and the fiscal framework, and summarizes preliminary conclusions and policy implications.

A study of relevant literature

There is a large body of literature that explores debt development issues in developing countries and emerging markets. It is relevant to the topic of this article. Relevant research mainly focuses on two types of literature: thematic and regional country studies. The former refers to research on debt topics, and the latter refers to research on the Latin American debt crisis and debt risks. As far as debt development itself is concerned, relevant research mainly includes but not Limited to the following issues:

The first is about the role of debt. Ayhan Kose et al pointed out that debt accumulation has both benefits and costs. The benefits depend to a large extent on the efficiency of debt use, the cyclical status of the economy and the financial situation. The degree of development of the market. The cost of debt includes interest payments, the possibility of falling into debt distress, the limitations that debt may impose on policy space and effectiveness, and the possible crowding-out effect on private sector investment. ÿ Abbas and Piankov Abbas and Pienkowski believe that the motivation for sovereign debt comes from two aspects. The first is "tax smoothing" (tax), that is, when tax revenues decline (such as during an economic recession), the government will borrow money to cash out ÿÿÿÿÿÿÿ There is capital (such as expenditure commitmentÿ The second is investing in the future, that is, in addition to investment in tangible physical infrastructure), the government also invests in human capital (such as education and health), whose long-term benefits exceed the cost of borrowing.ÿ

The second is about the optimal debt level. Most literature believes that it is affected by a variety of factors. Blanchard believes that the dynamic change of the debt ratio depends on the evolution of three variables: basic budget revenue and expenditure (that is, in addition to Expenditures other than interest payments minus income), real interest rates (nominal interest rates minus the inflation rate) and real economic growth. However, Blanchard pointed out that the critical point at which debt levels are unsafe will not be a universal The "magic number" that is universally applicable will not be a combination of two magic numbers (debt level and deficit level), because simple rules are too simplistic. ÿFall et al .

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a) pointed out that the basis of prudent debt targets should be based on the analysis of the impact of debt on the economy. Assessments of the impact of debt on economic activity show that above a debt threshold, government debt will undermine economic activity and the ability to stabilize the economy. ÿ Gauss et al. pointed out that , Optimal debt levels are difficult to predict. Empirical evidence suggests that optimal debt levels depend on a wide range of trade-offs and borrower characteristics. This partly reflects broader theoretical challenges in the literature. A fundamental theoretical point is that governments Increases in debt tend to increase output in the short term, but reduce output in the long term. Debt-financed fiscal expansion may be helpful in the short term to limit recessions and smooth out macroeconomic fluctuations. When borrowing is used to finance high yields It may also be beneficial in the long term when investing in the cost of debt. However, rising debt levels can lead to sustainability challenges, increase vulnerability to crises, weaken the scale and effectiveness of fiscal expansion, and affect investment and Growthÿÿ

The third is about debt management. The World Bank and the International Monetary Fund (IMF) pointed out that a framework should be developed to enable government debt managers to weigh the costs and risks in the debt portfolio. The important role of debt managers is to identify these risks, as long as It may be possible to assess their size and develop a preferred strategy that weighs the expected costs and risks of managing them. To assess risks, they should conduct regular stress tests of their debt portfolios based on the economic and financial shocks the government is likely to face, including an assessment of the government's inability to roll over and be risk of forced default, as the costs in such a scenario affect more than just the government's budget. In addition, debt managers should consider the interplay between public sector fiscal conditions and the financial and non-financial sector financial conditions during periods of stress to ensure that the government's Debt management activities will not exacerbate private sector risks. 3 In terms of managing external debt and liquidity risks in emerging economies, Hawkins and Turner pointed out that in principle, the private sector should manage its own liquidity risks rather than rely on The public sector provides liquidity in emergencies. First, the supervisory system should ensure that banks not only limit direct foreign currency maturity mismatches on their own balance sheets, but also avoid excessive exposure of borrowers to potential risks arising from exchange rate movements. Second, Domestic bond market development should be further promoted by removing tax and legal barriers to reduce corporate dependence on foreign borrowing. Finally, incentives that encourage excessive borrowing by the private sector should be avoided.

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Policy distortions (such as implicit or explicit guarantees, exchange rate pegs, etc.). The public sector should resist the temptation to reduce direct financing costs through short-term foreign currency borrowing when managing its debt. However, a more controversial issue is that The extent to which the government's management of its own foreign liquidity position should consider the allocation of private sector assets and liabilities.

As far as regional and country studies are concerned, research on Latin American debt crises and risks mostly focuses on root causes and policy implications. Some scholars, including Sachs and Williamson (Sachs and Banuri) and vulnerabilities, such Lustig and Ross (Lustig and Ros) ÿWilliamson), the region has suffered severe crises due to internal as hasty liberalization, over-reliance on commodity exports and inconsistent macroeconomic policies. However, Others suggest that root causes The reason lies in the region's inability to control the scale of international shocks. Herrero believes that the crisis in Latin America stems from fundamental and regulatory deficiencies as well as "bad luck" in the international environment. Ocampo points out that in the 20th century The Latin American debt crisis in the 1980s was related to the more complex financial architecture of international institutions. The latter was not conducive to the region because it forced Latin America to repay foreign debt beyond its capabilities and forced it to adopt excessively tight macroeconomic policies, thereby delaying It takes time for the Latin American debt crisis to be resolved. The main lesson learned from it is not that there is no need for an institutional structure, but that an international debt resolution mechanism needs to be established. And most importantly, international financial institutions should never be used to support the interests of creditor countries. ÿ Simplified In short, the above-

mentioned existing relevant literature focuses on studying debt development and risks in stages or specific periods, and research on Latin American debt crises and risks rarely uses a method that combines historical perspective and structural evolution. The possible contribution of this article The purpose is to integrate the accumulation, risks and crises of Latin American debt into a unified "historical-structural" analytical framework, aiming to provide policy inspiration for developing countries and emerging market economies to promote debt and fiscal sustainability.

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2. “History-Structure” Analysis Framework

Although financial crises are generally triggered by external shocks (such as sudden increases in global interest rates), domestic vulnerabilities during the rapid accumulation of debt often increase the possibility of crises and amplify the adverse effects of crises. Most Countries that have experienced crises have suffered from the impact of unsustainable fiscal, monetary or financial policy combinations. In countries with large external debts (especially short-term external debts) and low levels of international reserves, crises are more likely to occur and the economic distress they cause It is also more serious. This article attempts to construct an analytical framework for the debt problems of developing countries. By describing the evolution process of debt accumulation, debt risks and debt crises, it explains the impact of debt accumulation, the root causes of debt risks and debt response strategies in Latin America. the logical relationship between them (see Figure 1).

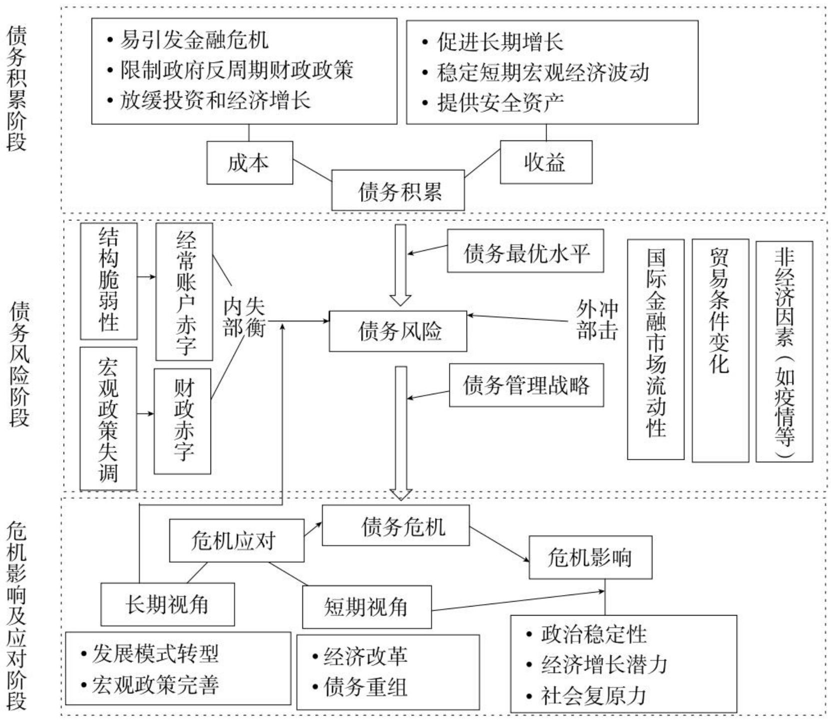

Figure 1 Analysis framework and logical relationships of Latin American debt problems

Source: Made by the authorÿ

(1) Debt accumulation stage: The driving force comes from the cost-benefit

comparison. In the debt accumulation stage, the cost-benefit comparison provides the original driving forceÿ. In terms of income, it is mainly reflected in three aspects. First, the government invests in physical capital and human capital. (such as infrastructure, health care and education, etc.), laying the foundation for promoting long-term economic growth. Second, temporary debt accumulation can play an important role in helping to reduce and reverse short-term economic recession. During an economic recession, government spending financed by debt Or tax cuts can provide stimulus, supporting demand and economic activity. Third, as a substitute for private debt that is more likely to default, sovereign debt is a relatively safe asset for investors. Since safe assets are private borrowing costs benchmark, and can be used as collateral, so government debt can play an important role in financial deepening. In addition, the availability of government debt instruments is also a prerequisite for monetary policy operations (safe asset repurchase agreements or open market operations).

In terms of cost, it is mainly reflected in three aspects. First, it destroys the sustainability of debt and easily triggers a financial crisis. The sudden rise in international interest rates will bring additional pressure to highly indebted countries. Therefore, the ratio of debt to GDP continues to rise. They may undermine investor confidence. If investors worry that the accumulation of government debt is no longer sustainable, these pressures may eventually lead to a debt crisis. If investors worry about the ability to repay foreign currency-denominated debt, it will induce a reaction to fixed or pegged exchange rates. The rapid accumulation of debt will lead to a currency crisis. If the fragility of the private sector's balance sheet triggers a panic in the banking industry, it will lead to a banking crisis. The second is to limit the government's countercyclical fiscal policy. On the one hand, high debt This limits the government's ability to respond to the economic downturn with counter-cyclical fiscal policies. On the other hand, high government debt will reduce the effectiveness of fiscal policy. The third is to slow down investment and economic growth. Higher debt usually brings higher economic growth. Debt servicing pressure, and higher debt servicing expenditures need to be financed through measures such as increasing borrowing and taxation and reducing government spending. If government public investment is cut, it will be detrimental to long-term economic growth. In addition, high and rising government debt may Pushing up long-term interest rates, higher interest rates and uncertainty will tend to crowd out private investment that helps boost productivity, thereby dragging down output growth.

Based on the comparison of costs and benefits, the optimal level of debt accumulation in developing countries depends on a variety of factors.

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ÿ Specifically, high government debt can reduce the fiscal multiplier effect through two channels. The first is the "Ricardian channel". When a government with high debt implements fiscal stimulus, consumers are more likely to be motivated by fiscal stimulus than when debt is low. It may be expected that the government will increase taxes soon. This expectation will lead consumers to cut consumption and increase savings. The second is the investor sentiment channel. Countries with high sovereign debt are more likely to need to pay a risk premium to borrow. When debt is higher, Fiscal stimulus will increase creditors' concerns about sovereign credit risk, which will raise sovereign bond yields, thereby raising borrowing costs for the entire economy. Higher risk premiums (especially during periods of sovereign financial stress) will lead to reduced corporate borrowing, which in turn will In the future, it will crowd out private investment and consumption, reducing the fiscal multiplier.

It mainly includes national characteristics, financial market conditions, government and private sector behavior, and the various functions of debt.

(2) Debt risk stage: The joint effect of external shocks and internal imbalances In the debt risk

stage, internal and external factors jointly constitute risk sources. Latin American debt risk is mainly the result of the joint action of internal and external factors (external shocks and internal imbalances). From In terms of external shocks, they are mainly reflected in three aspects. First, the rise in international market interest rates triggered by the Federal Reserve's interest rate hikes will increase the debt costs of highly indebted countries. On the other hand, it will cause the outflow of short-term speculative capital from Latin American countries, causing currency damage. The second is that commodity price fluctuations will affect changes in the terms of trade. When the terms of trade deteriorate, the current account deficit will intensify, which will lead to large-scale inflows of short-term speculative capital in the capital account, thereby increasing the risk of capital flight. The third is the impact of non-economic factors. Economic downturns and recessions, such as natural disasters, epidemic impacts, and geopolitical conflicts, have brought great uncertainty to the region, thereby expanding Latin American countries' debt risk exposure.

From the perspective of internal imbalances, it is mainly reflected in two aspects. First, the structural fragility of the Latin American region. The structural fragility of the Latin American region is not only the source of restricting high-quality economic development, but also the reason why the economy is more damaged than other regions when encountering external shocks. The biggest reason is that in terms of heterogeneity of production structure, primary product specialization, deindustrialization and economic informalization have increased vulnerability to external shocks. In terms of connections with the world economy, limited participation in global value chains The seriousness of dependence on the U.S. dollar for sex and external financing has further aggravated the external imbalances of Latin America. In terms of social structure, informal employment, poverty and the instability of the middle class have reacted on the economy, weakening the resilience of the Latin American economy. Second, macro policies Procyclical fiscal policy will increase the amplitude of economic fluctuations, and fiscal policy itself also has flaws, such as a weak tax system, widespread tax evasion, indexation of public sector wages and pensions, monetary financing of fiscal deficits, and a large number of The use of energy and food subsidies, etc. For another example, due to the rigid exchange rate system, currencies are often overvalued during periods of rapid economic growth, debt accumulation and capital inflows, which may eventually cause the currencies of Latin American countries to suffer speculative attacks. In addition, there is insufficient supervision of the financial sector. It will lead to balance

sheet mismatches and excessive corporate risk-taking. In short, structural fragility manifests itself as a current account deficit in external relations, and macro policy imbalances can easily lead to fiscal deficits. If the twin deficit situation worsens and continues, this will undoubtedly intensify Debt risk. In view of this, debt management strategies are very necessary for Latin American countries. Debt management strategies are not static and rigid, but need to be dynamically adjusted as the internal and external environment changes. The main content of debt management strategies is Including: formulating reasonable debt management policies and maintaining debt transparency based on debt maturity, currency, creditor type and other factors.

(3) Crisis response and reflection stage: Policy implications from short-term and long-term

perspectives. In the crisis response and reflection stage, short-term and long-term perspectives bring different policy implications. If the debt management strategy fails, debt risks will eventually evolve under the combined action of internal and external factors. If it becomes a debt crisis, it will have a serious impact on political stability, economic growth potential and social resilience. Therefore, developing countries need to respond from a short-term and long-term perspective.

In the short term, the magnitude of the debt crisis shock will be reduced primarily by implementing economic reforms and international debt restructuring. Government responses are aimed not only at resolving the crisis and dealing with its impact, but also at building resilience to future crises (e.g. Increase international reserves, implement inflation targeting and a flexible exchange rate system, strengthen bank supervision, corporate bankruptcy laws and fiscal frameworks). At the same time, we must actively use the international debt resolution mechanism to negotiate with creditors, and seek support from the International Monetary Fund and the World Bank. Support from banks and regional multilateral financial institutions.

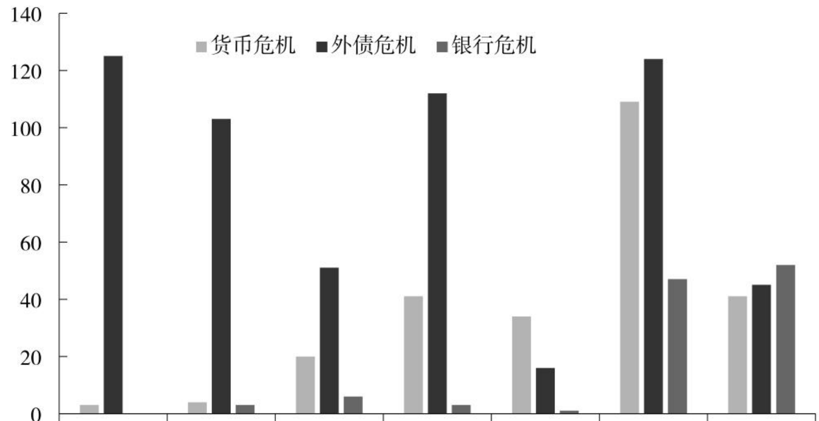
In the long term, the main thing is to promote the transformation of the development model and improve macroeconomic policies to solve the root cause of debt risks - internal imbalances. In terms of promoting the transformation of the development model, the new development model must focus on improving productivity in order to integrate into the world. The economy is the new driving force, with the goal of promoting inclusive social development, and improving government governance capabilities as a means to promote high-quality economic development. In terms of improving macroeconomic policies, it mainly focuses on building a coordinated fiscal, monetary, exchange rate policy and macro-prudential policy Framework. For example, strong financial sector regulation and supervision can help prevent the accumulation of risks. Deepening of financial markets can help mobilize domestic savings, which may provide a more stable source of funding than capital inflows.

Based on the above analytical framework, we can roughly analyze the four debt waves experienced by emerging markets and developing countries in the past 50 years (1970-1989, 1990-2001, 2002-2009 and 2010 to the present). In the debt accumulation stage, Each of these four debt waves was driven by a combination of long-term low real interest rates and financial innovations and financial market changes that encouraged borrowing. For example, in the first debt wave, the driving factors included low real interest rates for much of the 1970s. and rapidly growing syndicated loans

Market. In the debt risk stage, the transmission channels of the crisis triggered by the previous three debt surges all stemmed from the internal structural imbalance of the debtor country and the sharp increase in external risk premium or borrowing costs, which in turn led to a sudden stop of capital inflows. And whether the fourth debt wave will trigger The debt crisis remains to be tested by time. In the debt response and reflection stage, the first three crises have triggered the exploration of reforms to reduce financial vulnerabilities and strengthen policy frameworks. Some emerging economies have begun to seek inflation targeting and greater exchange rate flexibility. policy mix, as well as fiscal rules, and strengthened supervision of the financial sector.

3. Causes, Consequences and Responses to the Latin American Debt Crisis

In the history of Latin American economic development, foreign debt crises, balance of payments crises, banking crises, or economic crises in the form of a mixture of the three often occurred. As shown in Figure 2, debt crises were the most common problems faced by Latin America throughout the 19th century. Since the 20th century Since the 1930s, most crises have been of a "double" nature (a combination of a debt crisis and a balance of payments crisis). Since the 1980s, many crises have been of a "triple" nature (the above two crises plus a banking crisis). superposition of



	1828—1837	1876—1885	1914—1923	1930—1939	1957—1966	1981—1990	1994—2003
货币危机	3	4	20	41	34	109	41
外债危机	125	103	51	112	16	124	45
银行危机	0	3	6	3	1	47	52

Figure 2 Frequency of economic crises in Latin America (1820-2008)

Note: According to the definition of crisis by Reinhart and Rogoff, a currency crisis refers to an annual depreciation rate relative to the US dollar (or related currencies) greater than (or equal to) 15%. A foreign debt crisis refers to a A direct default on a debt, including principal or interest payments. A banking crisis is a bank run that results in the closure, merger, or public takeover of one or more financial institutions. If there is no run, it is a crisis that affects an important financial institution (or an important financial institution). The closure, merger, takeover or large-scale government assistance of a group of financial institutions marked the beginning of a series of similar results for other financial institutions.

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Latin America's debt crisis began in 1982, when Mexico announced that it would be unable to repay its debts. The crisis quickly spread to other Latin American countries and also to emerging market economies outside the region, including Algeria, Nigeria, and Niger. Moreover, Latin America Regional exchange rate arrangements have exacerbated this

Crisisÿÿ Based on the above-mentioned “historical-structural” framework analysis, this debt crisis sweeping Latin America It is a manifestation of the "structural development crisis" caused by the region's long-term implementation of the import substitution industrialization model. This formula not only stems from structural defects in the internal development of Latin American countries, but is also deeply affected by complex

and unfavorable external factors. As shown in Figure 3, the economic growth trend of Latin America in the past 70 years (1951-2022) shows that Two major characteristics. First, from a long-term historical perspective, Latin America not only shows a “pendulum” development model, but also has significant economic volatility. From 1951 to 1980, Latin American countries happened to be in the stage of import substitution industrialization. After 30 years of sustained and relatively high growth, the average annual growth rate reached 51% in the 1950s, 1960s and 1970s 5.5% and 5.9% respectively. However, the debt growth strategy of Latin America in the 1970s laid hidden dangers for the outbreak of the debt crisis. Secondly, both endogenous crises and external shocks may cause the Latin American economy to be marginalized by the world. For In terms of endogenous crises, the debt crisis in the 1980s caused Latin America's share of the world economy to drop from 81% in 1981 to 48% in 1988. As for external shocks, affected by the impact of the COVID-19 epidemic, Latin America The region's share of the world economy will drop from 81% in 2011 to 52% in 2022. Therefore, in order to enhance their status in the world economy, Latin American countries must transform their economic development models to avoid endogenous and exogenous shocks. Or reduce the extent of its impact.

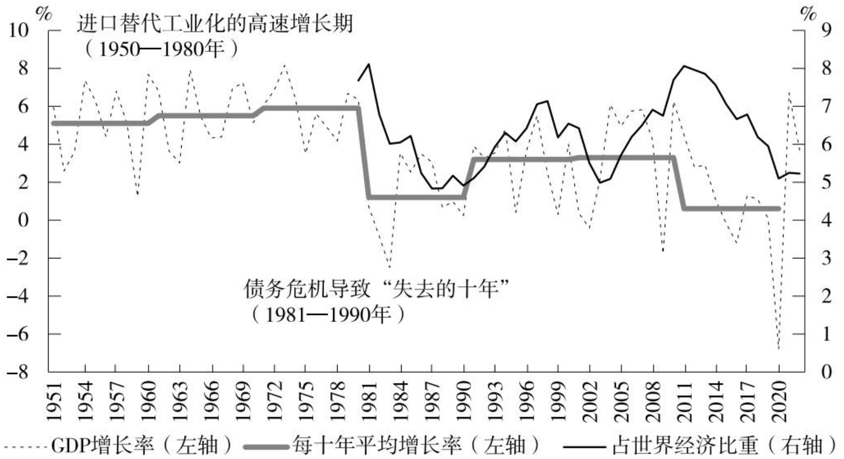

Figure 3 Economic growth trend and share of Latin America in the world economy (1951-2022) Data source: Drawn based on data from the United Nations Economic Commission for Latin America and the Caribbean http://www.cepal.org/en [2023-0 3-27]

ÿ As countries maintain their peg to the appreciating U.S. dollar in order to control inflation, the currencies of Latin American countries are seriously overvalued. This is This overestimation led to massive capital flight.

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(1) Roots of the Debt Crisis The roots

of the Latin American debt crisis come from both internal and external aspects. Internal factors determine the nature of the crisis and are the basis for change, while external factors are the conditions for change and can accelerate the process of transforming debt risks into debt

crises. Specifically Specifically speaking, the surge in debt in Latin America occurred in the 1970s. From the perspective of external factors, the two oil crises that broke out in 1973 and 1979 caused oil prices to skyrocket, flooding the international market with excess "petrodollars" and a large number of low interest rates. Loans flowed into Latin American countries. Therefore, the 1970s was a period of "debt growth" in Latin American countries. Data show that from 1970 to 1981, Latin America's foreign debt accounted for GDP. The increased to 348% to 97% (see Figure 4). However, , proportion of short-term foreign debt in GDP increased from 3.2% to 20.8%. % as the then Federal Reserve Chairman Paul Volcker adopted a tough interest rate hike policy to solve the domestic stagflation problem, the real interest rate level in the U.S. capital market continued to rise. A large amount of capital has returned, and the debt repayment risk of Latin American countries has increased. At the same time, the trade price ratio in the international market has deteriorated, and the decline in commodity prices has further weakened the debt repayment ability of Latin American countries.

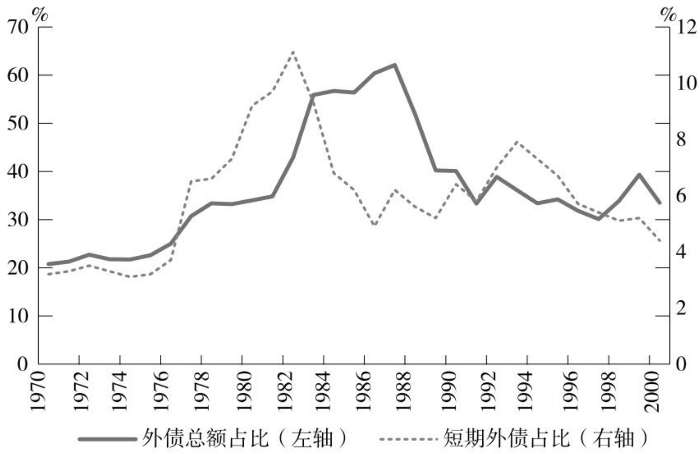

Figure 4 Latin America's total foreign debt and short-term foreign debt as a share of GDP (1970-2000)

Source: M Ayhan Koseÿ Peter Nagleÿ Franziska Ohnsor geÿ and Naotaka Sugawaraÿ Global Waves ÿÿ ÿÿÿÿ: ÿÿÿÿÿÿ ÿÿÿ ÿÿÿÿÿÿÿÿÿÿÿÿÿ ÿÿÿÿÿÿÿ ÿÿÿÿÿÿÿÿ ÿÿÿÿÿÿÿÿÿÿÿ ÿÿ: ÿÿÿÿÿ ÿÿÿÿÿ ÿÿÿÿÿ ÿ ÿÿ

From the perspective of internal factors, the 1970s was the late stage of the import substitution industrialization model. Generally speaking, the import substitution model ran relatively smoothly in the early stages of industrialization. However, as time went by, various structural imbalances gradually appeared. This model The longer it lasts, the structural imbalance will continue to intensify and even lead to a structural development crisis. In Latin American countries, it is reflected in the interweaving of four crises: loss of export vitality and rigid import structure, lurking balance of payments crisis, neglect of agriculture and overdraft. industrial capability

Triggering an industrial structure crisis. Excessive expansion of state agencies hides a fiscal deficit crisis. Unemployment and unfair income distribution exacerbate social governance crises. Data show that in 1981, the median current account deficit of Latin American countries as a percentage of GDP reached 7%. Fiscal deficits were the most serious. The country is Mexico. From 1972 to 1982, its fiscal deficit increased from 3.1% to 16.3% of GDP. ÿ The current account deficit requires a capital account surplus to balance, which will trigger short-term speculative capital cross-border flows, which will intensify once the direction is reversed. The international balance of payments crisis, and long-term fiscal account deficits will seriously damage the credit of sovereign debt. Therefore, the long-term "twin deficit" state in Latin America increases the probability of debt risks transforming into debt crises. In short, Latin American countries

in the 1960s In the 1970s, there was no decisive change in the mode of economic growth. On the one hand, it was due to the "path dependence" formed by institutional inertia, which caused the "hesitancy" to change the mode of economic growth. This was an internal factor. On the other hand, the abundant flow formed by the external environment This is due to external factors. The combined effect of internal and external factors has delayed the transformation of the economic development model of Latin American countries, and ultimately laid a huge hidden danger for the debt crisis.

(2) Response to the debt crisis This

protracted debt crisis resolution process has roughly gone through three stages. The first stage was the emergency adjustment under the supervision of the IMF (1982-1984). Initially, the Paris Club believed that Latin America's debt distress was a Liquidity problems, rather than solvency problems. Therefore, its policy response is mainly to reschedule debt payments (subject to IMF-supported policy programs) and try to encourage commercial banks to provide new loans. The core of emergency adjustments is Latin American countries are required to maximize their foreign trade surpluses to repay their debts. However, this response policy failed to improve the debt repayment capacity of Latin American countries. Instead, it dragged the economies of debtor countries into the abyss of recession. Therefore, the policy was not successful.

The second stage emphasized "equal emphasis on maintaining growth and structural adjustment" (1985-1988). This period experienced two versions of the "Baker Plan", which was proposed by former U.S. Treasury Secretary James Baker at the World Bank and International Conference on October 9, 1985. It was named after it was proposed at the Seoul Annual Meeting of the IMF. The Baker Plan in 1985 once again emphasized new loans, conditional on market-oriented reforms, aiming to restore the country to growth. In 1987, Western countries launched a modified version of the Baker Plan. An important new addition is the proposal of a "market option", such as allowing the conversion of debt into discounted bonds and the conversion of debt into equity. However, the so-called "market option" is purely a voluntary act. Although in the There were debt swap operations between 1987 and 1988, but the number was very limited. Therefore, the Baker Plan also failed, not only because it could not

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Encouraging additional loans from the private sector, and because it failed to recognize that Latin American countries were actually unable to repay.

The third phase is the "Brady Plan" and debt relief (1989-1994). In 1989, the U.S. government launched the Brady Plan, which aimed to provide debt relief by securitizing and restructuring existing loans into bonds. In order to finally solve the debt crisis in Latin America, in March 1989, then US Treasury Secretary Brady proposed the "Brady Plan". As of October 1990, the Philippines, Mexico, Costa Rica, and Venezuela had reached an agreement with their respective creditor bank steering committees to alleviate debt. The agreement and implementation began. The plan reflects a shift in the U.S. debt treatment strategy, that is, from the previous emphasis that debtors should pay what they owe to the recognition that debtors should pay what they can afford.

Mexico was

the first country to agree to the Brady Plan. In February 1990, the Mexico Agreement was officially signed, involving debts owed to commercial banks of US$48.9 billion (the total debt owed to banks was approximately US$68 billion). The agreement provided creditors with three types of options (see Table 1). In addition, the agreement also stipulates that if the oil price exceeds US$14/barrel after 1996 (adjusted by the US price deflator), Mexico shall pay 30% of the increase in revenue due to the increase in oil prices. As compensation for debt relief, commercial banks participating in debt relief will also have the right to participate in a "debt-for-equity swap" with a total value of US$3.5 billion in face value bonds. This debt-for-equity swap will be in conjunction with Mexico's "debt-for-equity swap." "privatization" combination

Table 1 “Menu Plan” for Agreement between Mexico and Creditor Banks

plan	Option One	Option II	third solution
Main points	Mexico issued a new 30-year US dollar bond (debt reduction bond), exchanging the old debt at a discount of 65% of the face value. The interest rate is slightly higher than the London Interbank Offered Rate (i.e. 6-month US dollar LIBOR + 0 81%).	Mexico issued another new 30-year U.S. dollar bond (parity bond), exchanging the old debt at face value, with the interest rate fixed at 6.25% (commercial interest rates in 1989 were over 9%).	Commercial banks provide new loans based on 25% of their existing claims in four years, 40% in the first year, and the remaining 60%, and 10% every six months. ÿ loan The conditions were set at a spread of 0.81% above LIBOR and a period of 15 years (i.e. a grace period of 7 years).

Note: The new US dollar bonds mentioned in Plan 1 and Plan 2 are provided by the IMF, the World Bank, and Japan respectively at US$1.697 billion, US$201 billion, and US$205.0 billion. Mexico will use US$1.243 billion from its reserves to establish a bond. A fund with a total of US$7 billion will purchase 30-year coupon-free bonds from the U.S. Treasury Department as a guarantee for the repayment of principal, and the interest guarantee will be repaid for at least 18 months.

Data source: Compiled and drawn by the author. Mainly see Yang Jiusheng: «Reduction and Rearrangement of International Debt in 1990», published in «World Economy», April 30, 1992, M Ayhan Koseÿ Pete r Nagleÿ Franziska Ohnsorgeÿ and Naotaka Suga WaraÿGlobal Waves of Debt) ashingtonÿ DC: World Bankÿ 2020ÿ pp 67-70

Among the approximately 500 creditor banks in Mexico, 49% of the banks chose the first option of direct debt relief, 41% of the banks chose the second option, and 10% of the banks chose the third option.

The plan is to provide new loans. Overall, the Brady Plan provided Mexico with about 30% of its debt relief. Mexico's debt restructuring created conditions for other countries' Brady Plan negotiations. Among them, the biggest beneficiary was Brazil ((involving US$50 billion in eligible debt), Argentina (involving US$29 billion), and Venezuela (involving US$19 billion). By 1994, 18 Latin American countries had reached similar Brady Plans, involving approximately US$190 billion in debt. It resulted in a debt forgiveness of US$60 billion, with an impairment ratio of about 1/3. In exchange, the 18 Latin American countries that signed the Brady Plan agreed to carry out domestic economic reforms to enable them to repay the remaining debt. (3) The impact of the debt crisis is in view of the The crisis management cycle was delayed, and Latin America's economic and social development suffered serious setbacks, which meant that it fell into the "lost decade" in the history of development (see Figure 3). Data from the Economic Commission for Latin America

and the Caribbean showed that between

1980 and 1990, the average annual economic growth rate in the region was only 1 2%, while in 1970-1980 these two indicators were 55% and 3% respectively. From 1980-1990, the average annual growth rate of the manufacturing industry in the region was only 04%, which was much lower than the 56% level in 1970-1980. The phenomenon of "deindustrialization" has become prominent. Latin American countries generally rely on additional currency issuance to make up for fiscal deficits, triggering hyperinflation. In 1990, the average inflation rate in the region reached 1185.2%. The regional poverty situation is serious. The regional poverty rate has increased from 405% in 1980. rose to 48.3% in 1990 The average annual growth rate of GDP per capita is -09%

A record high in history.

At the same time, the handling of the Latin American debt crisis also reflects two changes in the international debt restructuring strategy. The first is the shift from "resolving short-term liquidity" to "promoting debt repayment through development." The essence of emergency adjustments under the supervision of the IMF The first step is to curb domestic demand and improve the current account deficit to repay the loan in full. However, it turns out that these austerity measures have further worsened the development prospects of Latin American countries. Instead of canceling subsidies to state-owned enterprises, many countries have cut infrastructure, health and education spending, and froze wages or laid off state employees. The result was a surge in unemployment, a sharp decline in per capita income, and economic stagnation or negative growth. The second time was the transition from the Baker Plan to the Brady Plan. The Baker Plan called on debtor countries to Structural reform, which emphasized three aspects: trade liberalization, investment liberalization and privatization. However, due to the voluntary nature of fundraising and the negative attitude of lending banks towards debt rollover, the plan ended in failure. However, this plan failed. The positive aspect of the plan is that it makes the United States realize that for developing countries, growth is more important than austerity policies. It is more sustainable to support the economic development of heavily indebted countries to restore their debt solvency. Therefore, it is market-oriented. The Brady Plan of "promoting development through debt reduction" finally solved the Latin American debt crisisÿ. However, the Brady Plan still has limitations in debt management.

ÿThe main feature of the Brady Plan is to support debt relief by providing unprecedented official commitments to debtor countries, thereby stimulating policy reform and economic growth in debtor countries that are overburdened with commercial bank debt.

Mainly manifested in aspects such as insufficient funds and insufficient coordination.

Latin American debt risks and characteristics under the impact of the four epidemics

Currently, Latin America is experiencing new debt surges and rising risks in the midst of the fourth debt wave in emerging markets and developing countries that began in 2010. What is different from the previous three is that this round of debt accumulation is the largest and fastest growing. , the widest scope. Moreover, repeated global epidemics and the Ukraine crisis have exacerbated the debt burden, and the radical interest rate hike cycle led by developed economies has made emerging economies directly face the risk of debt default brought by rising global interest rates. The impact of the epidemic began The public health crisis evolved from a direct impact on the public health system and the implementation of strict physical isolation policies into a socioeconomic crisis.

In addition to shrinking global demand, the impact will also have an unexpected impact on global value chains, supply chains, and production organization methods in the long term. So far, the impact of the epidemic has not triggered regional systemic financial risks and comprehensive economic crises. However, a few Latin American countries have A certain degree of financial turmoil and a limited-scale social crisis have indeed occurred in countries or local regions. Against this background, the development of debt in Latin America has taken on new characteristics.

(1) The continued expansion of fiscal expenditures has intensified the pressure on

rising debt. Before the outbreak of the epidemic, the fiscal situation in Latin America had already deteriorated. The regional primary fiscal surplus shrank and the proportion of central government debt to GDP increased. In 2019, the central government debt of 18 countries in Latin America accounted for GDP proportion is 44 8% ÿ An increase of 29 percentage points from 2018 and an increase of 15 percentage points from 2011.

Point: ÿ After the outbreak of the epidemic, in order to alleviate the impact of the epidemic, Latin American countries generally adopted active fiscal policies. The main measures focused on providing financial support and expanding government spending, involving public investment, preferential tax policies, financing and other fields. These fiscal relief measures It is bound to increase government debt. Even if the growth rate of fiscal expenditure slows down in the post-epidemic recovery stage, it will bring continued upward pressure on debt. ECLAC data shows that as of March 2022, the proportion of central government public debt in GDP in Latin Americaÿ Although the level is slightly lower than 2021 (53.4%) by 13 percentage points, it is still 6.7 percentage

ÿÿ ÿÿ ÿ points higher than that in 2019 (45.4%). ÿ As of March 2022, the proportion of central government public debt in GDP in Argentina and Brazil remains As high as 80 1% and 78 5% ÿ Caribbean Central Government Public

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The Caribbean region is not

included here. ECLAC data show that the central government's public debt as a share of GDP in Latin America has been increasing since 2011. Between 2011 and 2019, this proportion increased from 29.8% to 45.4% ÿ

The ratio of debt to GDP is even as high as 84 1% and 131 2%, ÿ Among them, Barbados and Suriname accounted for 131.4% and 13.14% respectively. ranking among the top two.ÿ

(2) There are large differences in debt structures. Higher public

debt levels will erode the medium-term sustainability of public finances. The main reason is that higher debt service costs will lead to a deterioration of the region's fiscal accounts. In view of the tightening of monetary policies in the region , an overall increase in interest rates and the tightening of U.S. monetary policy, the cost of debt financing in Latin America will inevitably rise from 2022 to 2023. Fiscal sustainability depends on a reasonable debt structure, and there are large differences in the public debt structures of Latin American countries. Classification by debt currency type Most of the public debt stocks of countries in Latin America

are denominated in US dollars. As of March 2022, about 80% of the total public debt of Argentina, Dominica, Ecuador, Panama and Paraguay is denominated in foreign currencies, of which the US dollar accounts for a large proportion. Countries with public debt mainly denominated in local currencies include Chile, Colombia and Costa Rica. The share of debt in these countries is less than 40% denominated in US dollars. The vast majority of public debt in Brazil is denominated in local currencies, while Ecuador, El Salvador and Panama have US dollar-denominated debt. National financing depends 100% on other economies. ÿ ÿ

Broken down by creditor location, although on average the region maintains a balanced structure between domestic and foreign creditors, the situation varies significantly across countries. As of March 2022, in Nicaragua and Paraguay, external creditors accounted for central government public debt. The proportion of total public debt is about 90%, which highlights the potential vulnerability of these two countries to international financial market conditions. Relatively speaking, countries such as Brazil, Costa Rica and Mexico have a higher proportion of domestic financing (accounting for more than 70% of total public debt). ÿ Relative to external vulnerabilities, they are more affected by changes in local interest rates, economic growth rates and other domestic economic challenges. (3) The trend of obtaining international financing through bond issuance has strengthened. In view of the uncertainties in the strength of global economic recovery and the epidemic

itself, Certainty, issuers usually take advantage of the time window of low global interest rates

to increase cross-border financing from the international financial market. Before the Federal Reserve raises interest rates in 2022, benefiting from global low interest rates and borrowing costs, Latin America has a strong presence in the international financial market. The scale of bond issuance has reached a new high. Issuers in Latin America issued a total of US$149 billion in bonds in 2021, an increase of 28% over 2020 (see Figure 5).

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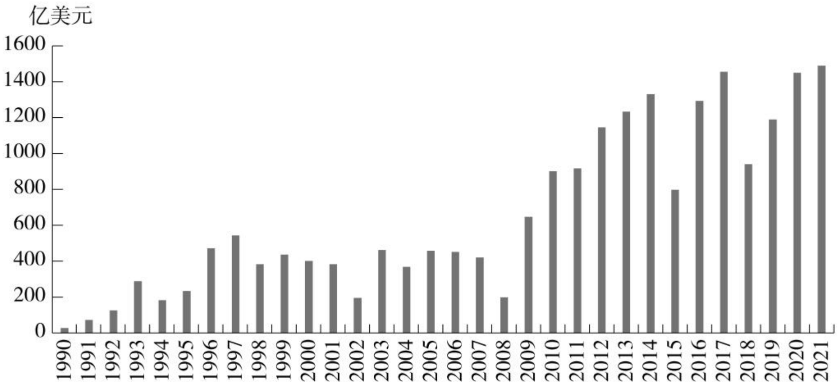

Figure 5 Bond issuance in Latin America in the international financial market (1990-2021)

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In terms of the type of issuers, since 2012 Latin American sovereign bonds have accounted for the largest share of total bond issuance in the The proportion of sovereign debt has continued to rise. From 2012 to 2016, the proportion of sovereign debt increased from ÿ following five years. 15.2% to 48.9% (2017-2021), basically maintaining an average level of about 40%. Relatively speaking, the proportion of corporate bonds increased from about 20.0% in 2012 to 48.9% in 2017. The peak value of 85% has declined, and has basically remained at an average level of about 61% from 2017 to 2021 (see Figure 6).

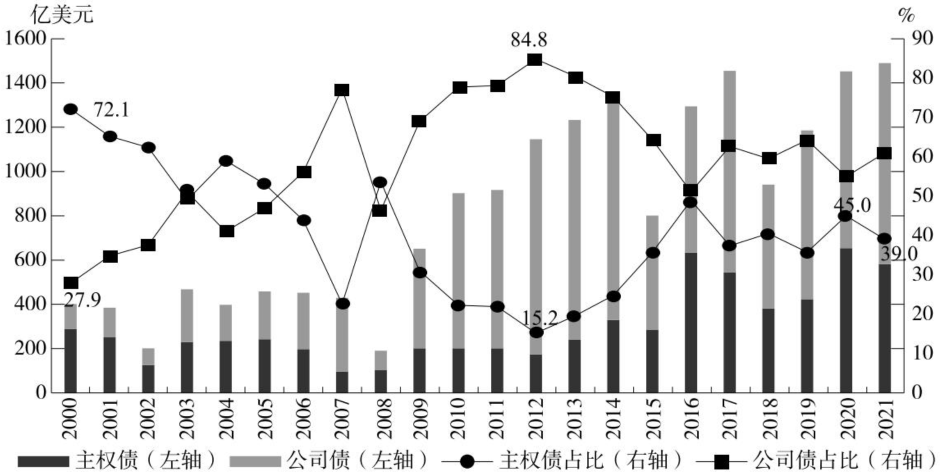

Figure 6 Issuance status and proportion of sovereign bonds and corporate bonds in Latin America (2000-2021)

Note: Corporate bonds include bonds issued by companies, banks, quasi-sovereign countries and supranational institutions as issuers. Source: CEPAL Capital flows to Latin Am erica and the Caribbean: 2019 Year - in - review PAL - Washington Officeÿ February 2020ÿ p 23. The data for 2020 and 2021 come from the updated data of the annual report.

According to the JP Morgan Latin American Emerging Markets Corporate Bond Index (CEMBI), Latin American corporate bond spreads widened 70 basis points in the first eight months of 2022. At the end of August 2022, the Latin American Emerging Markets Corporate Bond Index The Emerging Market Sovereign Bond Index (EMBIG) is 106 basis points lower. ÿ This means that although the proportion of sovereign debt in Latin America is lower than that of corporate bonds, the risk of the former is significantly higher than that of the latter. (4) Debt risks

have increased due to the deterioration of the internal and external

environment. Significant increase The International Monetary Fund pointed out that the debt of countries around the world has reached the highest level in many years. More than 30% of emerging markets and developing countries are in or about to fall into debt distress, and the proportion of low-income countries has reached 60%. ; Entering July 2022, Sri Lanka declared "national bankruptcy" and Bangladesh sought emergency assistance from the International Monetary Fund, which triggered the international community's concerns about collective debt defaults in emerging economies. The factors that exacerbate Latin American debt risks are mainly reflected in

the following. From an internal perspective, this is mainly reflected in the fact that in this debt wave, both government and private debt have shifted to riskier sources of funding. Government debt is not used to finance human or physical capital investments that can promote potential growth rates; Recurrent expenditures that are less efficient and less productive, etc. From an external perspective, this is mainly reflected in two aspects. On the one hand, global and regional stagflation has significantly increased the risk of debt default. The current trend of global stagflation is intensifying, especially The supply chain disruption caused by the epidemic and the impact of the Ukraine crisis on global energy prices are similar to the oil shocks in 1973 and 1979-1980. On the other hand, the Federal Reserve's aggressive interest rate hike cycle has pushed up global financing costs, which may trigger a crisis in emerging economies. Debt Crisis. From March 2022 to February 2023, the Federal Reserve raised interest rates 8 times in rapid succession, with a cumulative increase of 450 basis points, bringing the federal funds rate to a range of 45% to 475%. This round of rapid and substantial interest rate hikes It is extremely rare in the history of the Federal Reserve and will definitely have huge negative spillover effects around the world.

Of course, after experiencing the baptism of the first three debt waves, Latin American countries have learned lessons and gradually made improvements to their macro policy frameworks and financial supervision. In terms of policy frameworks, they include adopting greater exchange rate flexibility, strengthening monetary policy frameworks and Central bank transparency, consolidating fiscal rules and adopting macro-prudential tools, etc. In terms of financial supervision, including promoting global financial regulatory reform through the G20 to improve the resilience of the international financial system and actively building a regional financial safety net, etc. ÿThese measures are all positive factors to deal with the current surge in debt and resolve debt risks. However, if all

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If the global financing environment continues to tighten, the exchange rate depreciation cycle is extended, and global stagflation expectations intensify, the risk of debt defaults in Latin American countries will increase significantly.

5. Debt Management and Fiscal Sustainability in Latin America

For Latin American countries, compared with monetary policy and exchange rate policy, it is more challenging to build a sustainable fiscal policy framework. The history of debt development in Latin America has shown that high government debt not only brings huge economic risks, but also limits The space and effectiveness of fiscal stimulus during recessions can inhibit long-term growth by affecting private investment. In particular, the structural fragility of Latin America often puts high fiscal deficits and debt into a vicious cycle. In view of this, Latin American governments need to Target a reasonable debt level while building a sustainable fiscal framework to reduce debt to a prudent level. The debt target can serve as an anchor for fiscal policy, ensuring the sustainability of fiscal policy and ensuring that there is sufficient policy space to respond. adverse impact

ECLAC believes that a paradigm shift in fiscal policy in Latin America requires strengthening public revenue management to create the necessary fiscal space for recurrent expenditures for transformational recovery and sustainable and inclusive development. ÿ Public revenue has historically been difficult to meet the needs of public expenditures, so debt Financing and promoting the sustainability of public finances are inevitable. Therefore, for Latin American countries, the focus of building a sustainable fiscal policy framework comes from at least

three aspects. (1) Strengthening the

sustainability of tax revenue management fiscal policies should focus on Strengthen tax revenue management and make the tax system more progressive. The new fiscal framework must take into account the need for administrative and tax management measures to increase revenue in the short term, and the need for political and social agreement to reform the tax system in the medium term to make it Be more progressive and increase recurring revenue. In the post-pandemic era, Latin American countries are committed to gradually increasing taxes and making public spending more sustainable. This means increasing income taxes, broadening the scope of property and wealth taxes, and gradually reviewing and updating royalties from the extraction of non-renewable resources, and consider taxes on the digital economy and on goods and services that harm the environment or public health. However, most countries in the region still have structural weaknesses in the area of public revenues, which hinder This reduces the role of public revenue as the basis of national finance and distorts its potential economic impact.

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The challenges facing fiscal revenue are mainly reflected in four aspects. First, the fiscal revenue level of most countries is lower than its potential, not only because of weaknesses in tax design and management, but also mainly because of high domestic and international evasion rates. As well as the existence of a large number of tax expenditures (general exemptions, deductions, deferrals and reduced tax rates, etc.). ECLAC estimates that the amount of value-added tax evasion in 2015 was equivalent to 24% of the region's GDP. ÿ Total income tax evasion accounts for 43% of GDP ÿ

The total tax losses in that year were approximately US$340 billion. Second, the ability to redistribute taxes is limited, and the tax structure is dominated by regressive indirect taxes. Although the redistribution of taxes has made progress in the past decade, Latin America is still The most unequal region in the world. Third, fiscal revenue is highly dependent on non-renewable natural resources. This fiscal revenue is highly susceptible to commodity price fluctuations. Fourth, tax revenue distribution between the central and local governments is unbalanced. Tax distribution in most Latin American countries is heavily biased towards the central government, and local governments are increasingly dependent on the central government because they enjoy the transfer payment plan. (2) Improve the

effectiveness of fiscal expenditures In terms of public

expenditures, the effectiveness of fiscal expenditures must be improved, and Based on the principle of high economic, social and environmental returns, from a historical perspective, the fiscal expenditures of Latin American countries show two major characteristics. On the one hand, the focus of fiscal expenditures in different economic cycles is different. During the debt crisis in the 1980s, the government faced serious problems. financing restrictions and high inflation, the main focus of fiscal policy at that time was crisis management. The 1990s was a period of structural reform under the guidance of neoliberalism. The main reform measures during this period were the privatization of state-owned enterprises, market deregulation and As the state withdraws from its dominant areas (such as the pension system), the primary goal of fiscal expenditure policy reform is to improve efficiency. In the early 21st century, thanks to the favorable international environment, commodity boom and abundant capital liquidity, fiscal expenditure policy shifted to focus on equity. and distribution. Since the outbreak of the new crown epidemic in 2020, fiscal expenditure policies have been committed to achieving inclusive growth goals. On the other hand, the structure of fiscal expenditures has changed: First, as the role of the state has changed from the neoliberal period (1990s) (from the minimization of the 1990s) to the moderate recovery in the neostructuralist period (since the beginning of the 21st century), the proportion of capital expenditures has experienced a change of first declining and then rising. Secondly, as the debt crisis is gradually eliminated, the proportion of interest payments in fiscal expenditures has The share of fiscal expenditures is getting smaller and smaller, which is offset by the growth of transfer payments and subsidies in current expendituresÿ. Thirdly, according to government functions, since the 21st century, fiscal expenditures have paid more attention to education, economy, medical and health and other fields (see Figure 7)ÿ

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ÿ Recurrent expenditures in fiscal expenditures include "subsidy and other current transfers", "wages and salaries" and "purchase of goods and services".

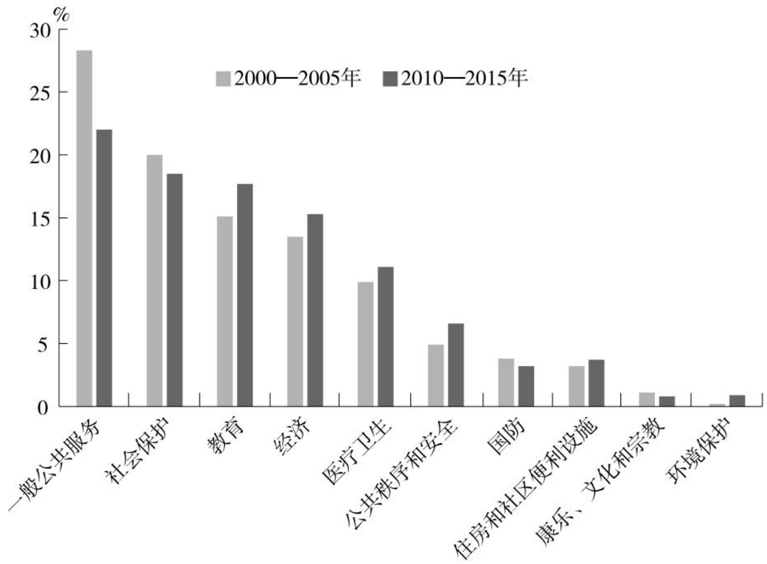

Figure 7 Public expenditure structure in Latin America divided by government functions

Source: CEPAL, Fiscal Panorama of Latin America and the Caribbean 2018 (LC/ PUB 2018 / 4 - ÿ)ÿ ÿÿÿÿÿÿÿÿÿ ÿÿÿÿÿ ÿ ÿÿ

However, fiscal expenditures in Latin American countries also face many challenges. First, improve the education system and improve quality. As the main channel for human capital investment, education plays an important role in long-term economic growth. However, the education system in Latin America is not very inclusive. There are still serious deficiencies in quality and performance. In particular, the problem of educational segregation by socioeconomic status, geography, gender and race is still very prominent. The second is to reduce the fragmentation of the health care system to achieve universal coverage. OECD (The OECD) report pointed out that although medical and health expenditures in Latin America have increased, they are still far below the level of OECD countries and are more dependent on private expenditures. At the same time, the uneven distribution of medical and health expenditures has led to the realization of universal health insurance in the region. The process has slowed down or even stagnated. ÿ The impact of this epidemic has exposed the low level of security, inefficiency and institutional fragmentation of the medical and health systems in Latin America. The third is to ensure that the minimum level of social protection and social protection are provided for the elderly in the context of demographic transition. Sustainable contributory pension system. Although raising the retirement age and delaying retirement are conducive to restoring the financial sustainability of the pension system, the government also needs to provide individuals with professional personal retirement (pension and delayed retirement plans) guidance and Plan, and also prepare in advance for the new gap between rich and poor that may be caused by delayed retirement.

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(3) Sound public debt management Sound

debt management and improved debt transparency will help reduce borrowing costs, enhance debt sustainability, and curb fiscal risks. Specifically, strengthen the institutional framework for public debt through active debt management. Thereby improving the debt profile and structure (such as currency, interest rate, tenor and creditor type). Furthermore, governments should review debt instruments and take steps to establish restructuring mechanisms to reduce the uncertainty faced by creditors. In addition, in the Caribbean and other highly vulnerable countries, In countries affected by climate change, governments should also expand the use of natural disaster provisions to make public debt sustainable when economies and fiscal accounts are hit by external shocks.

Six preliminary conclusions and policy implications

The debt problem has become an important obstacle restricting the sustainable development of emerging economies. Based on the background of the four debt waves experienced by emerging economies in the past 50 years, this article constructs a "historical-structural" analytical framework, focusing on the study of debt accumulation and risks in Latin America. With the origin and characteristics of the crisis evolution process, we will explore its internal and external transmission and linkage mechanisms, and then explore the path of debt management and building a fiscal sustainability framework. The preliminary conclusions and policy implications of this article are as follows.

First, promoting the transformation of the economic development model is the fundamental solution to the debt problem. The Latin American debt crisis in the 1980s was a manifestation of the "structural development crisis" caused by the long-term import substitution industrialization model in the region. It not only originated from Latin American countries Structural defects in internal development, and are deeply affected by complex and unfavorable external factors. Although Latin American countries achieved high growth rates through the "debt growth" strategy in the 1970s, they laid hidden dangers for the outbreak of the crisis. ÿ When the power of a growth model is about to run out, there will often be signs of structural imbalance. At this time, we should "prepare for a rainy day" and change the economic development model in a timely manner. Don't wait until a crisis breaks out before making a "painful" recession. Adjustment, otherwise the cost to society will be high.

Second, it is equally important to improve debt management and deepen the domestic financial market. The former includes formulating reasonable debt management policies and maintaining debt transparency by comprehensively considering debt maturity, currency, creditor type and other factors. This will help reduce borrowing costs and enhance debt sustainability and contain fiscal risks. At the same time, in an adverse environment where the international financial market is threatened by the hegemony of the US dollar, deepening the domestic financial market is particularly important for emerging economies, because the deepening of the financial market can help mobilize domestic savings. ÿ Thus providing a more stable source of financing than foreign borrowing.

Third, it is imperative to improve macroeconomic policies and prevent major financial risks. Macroeconomic policies play an important role in preventing debt risks or mitigating the impact of crises. For example, a sound monetary policy

The framework can provide a suitable monetary and financial environment for high-quality economic development. A flexible exchange rate system can prevent the accumulation of large-scale currency mismatches. Fiscal rules can help consolidate the fiscal position and control and manage risks caused by contingent liabilities. Therefore, Improving the monetary, exchange rate and fiscal policy framework can help emerging economies maintain resilience in a fragile global economic environment. At the same time, proactive financial sector supervision should be strengthened to identify and respond to potential risks, and the business environment and systems should be improved. To promote financing to be truly used for productive investment that can improve productivity.

Fourth, improve global debt governance by optimizing the international debt restructuring mechanism. The transition from the Baker Plan's "development to promote debt repayment" to the Brady Plan's "debt reduction to promote development" vividly reflects the evolution of the international debt restructuring mechanism. Debt restructuring and relief have become an urgent need for emerging economies in deep debt crisis. In view of this, developing countries and emerging economies should work closely to increase representation and voice, through the G20 and BRICS cooperation mechanisms. and other platforms to actively participate in and improve global debt governance.

(Editor Gao Han)