

Towards DebtCon5 - Virtual session #1



Debt and fiscal challenges in Latin America

Wednesday, 4 May 2022- All times COT

Organiser: Universidad de Los Andes



Programme

Policy session

11.00 - 12:30

Debt and fiscal challenges in Latin America.

Mauricio Cárdenas (Universidad de Los Andes and Columbia University, former Finance Minister of Colombia)

Andrés Velasco (London School of Economics, former Finance Minister of Chile)

Moderated by **Marc Hofstetter**, Universidad de los Andes.

Academic session

14.00 - 14.25

External Indebtedness, Capital Controls, and Banking Instability: The Cases of Mexico and Brazil in the 1982 Debt Crisis

Sebastian Alvarez* (University of Zurich)

After the oil shock of 1973, as the petrodollar recycling process of large commercial surpluses of oil exporting countries flourished in the Euromarkets, external indebtedness of Latin American countries soared. While mainly dominated by international commercial banks from industrial countries, domestic banks from Latin American countries themselves were also taking part of the process and intermediating foreign capital with local borrowers. Brazil and Mexico were the two major international borrowers, and their banking institutions were among the largest of the developing world participating in the world capital markets. This presentation discusses the model of international banking intermediation that developed in both countries in relation with the national supervisory frameworks and capital control regimes. It examines the risks and vulnerabilities underlying their international activities and the exposure of domestic banking systems to the debt crisis of 1982

14.25 - 14.50

Sovereign debt repatriation during crises

Laura Sunder-Plassmann* (University of Copenhagen and Serkan Arslanalp (IMF))

We present a new, comprehensive data set on the sovereign debt investor base, based on an extension of Arslanalp and Tsuda (2014a; 2014b), and use it to document three novel empirical facts: (i) sovereign debt is repatriated - that is, shifted from external to domestic private investors - prior to sovereign defaults; (ii) not all crises are equal: evidence for repatriation during banking and currency crises is more limited; and (iii) the nature of debt restructuring matters: external investors do not leave during preemptive defaults. The data set we use is uniquely suited to analyzing investor base dynamics during rare crises due to its large cross-section and time series, covering 180 countries from 1989 to 2020.

14.50 - 15.15

Lessons from the Monetary and Fiscal History of Latin America

Timothy J. Kehoe* (University of Minnesota)

Carlos Esquivel (Rutgers University)

Juan Pablo Nicolini (Federal Reserve Bank of Minneapolis)

Studying the modern economic histories of eleven of the largest countries in Latin America teaches us that a lack of fiscal discipline has been at the root of most of the region's macroeconomic instability. The lack of fiscal discipline, however, takes various forms, not all of them measured in the primary deficit. Especially important have been implicit or explicit guarantees to the banking system; denomination of the debt in US dollars and short maturity of the debt; and transfers to some agents in the private sector, which are large in times of crisis and are not part of the budget approved by the national congresses. Comparing the histories of our eleven countries, we see that rather than leading to an economic contraction, fiscal stabilization generally leads to growth. On the other hand, rising commodity prices are no guarantee of economic growth, nor are falling commodity prices a guarantee of economic contraction

15.15 - 15.30 Questions from audience

* Presenting author

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