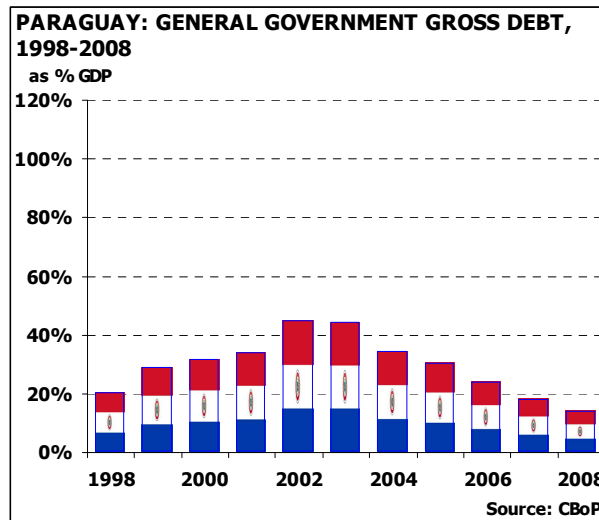
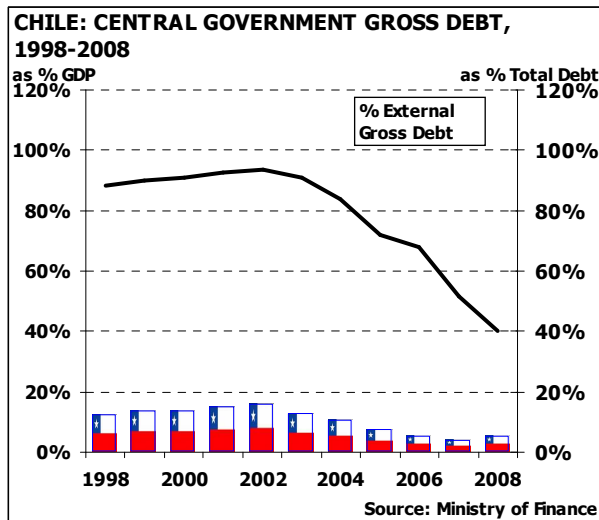
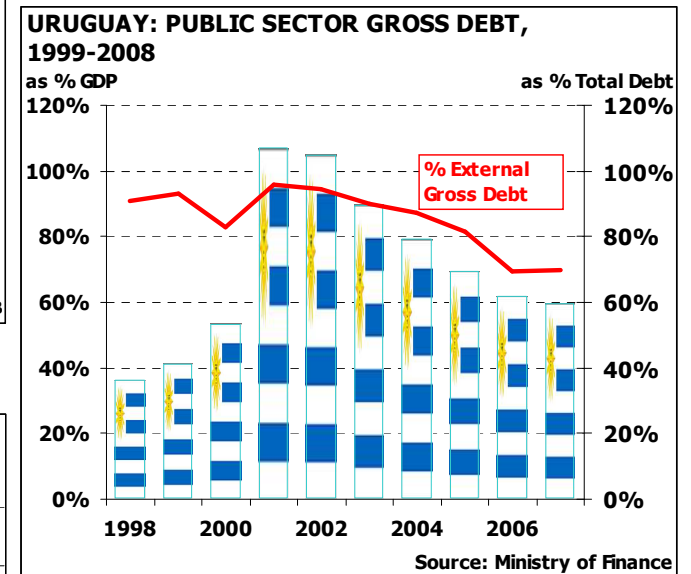
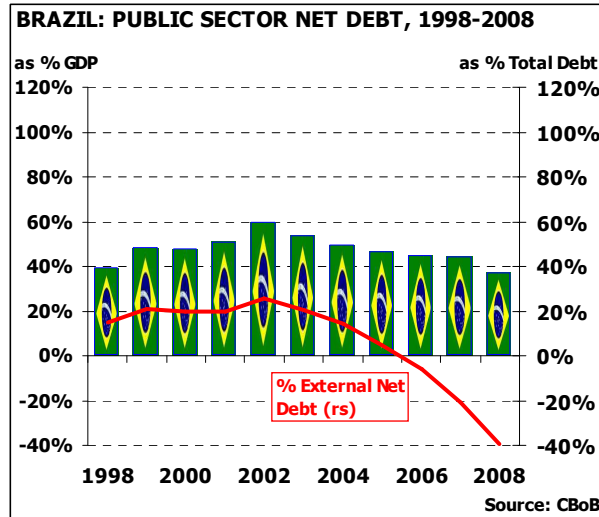
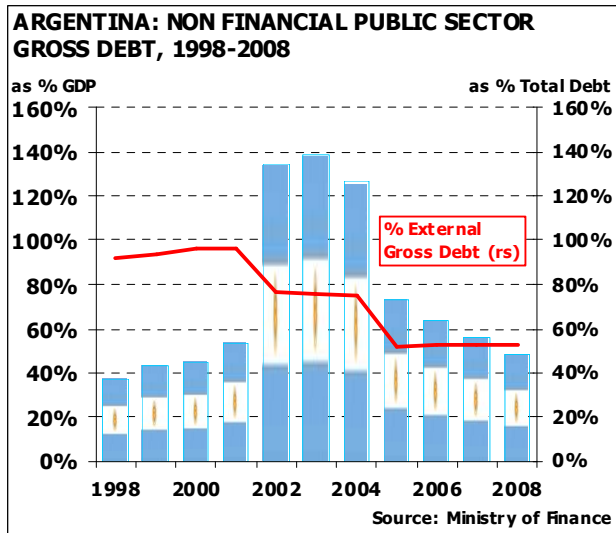


# **Impact of the Crisis on Debt Sustainability in the Southern Cone Countries**







**Eduardo Borensztein**  
**Country Southern Cone Department**  
**Inter-American Development Bank**

# Debt Picture in CSC Region was Fairly Sound before the Financial Crisis



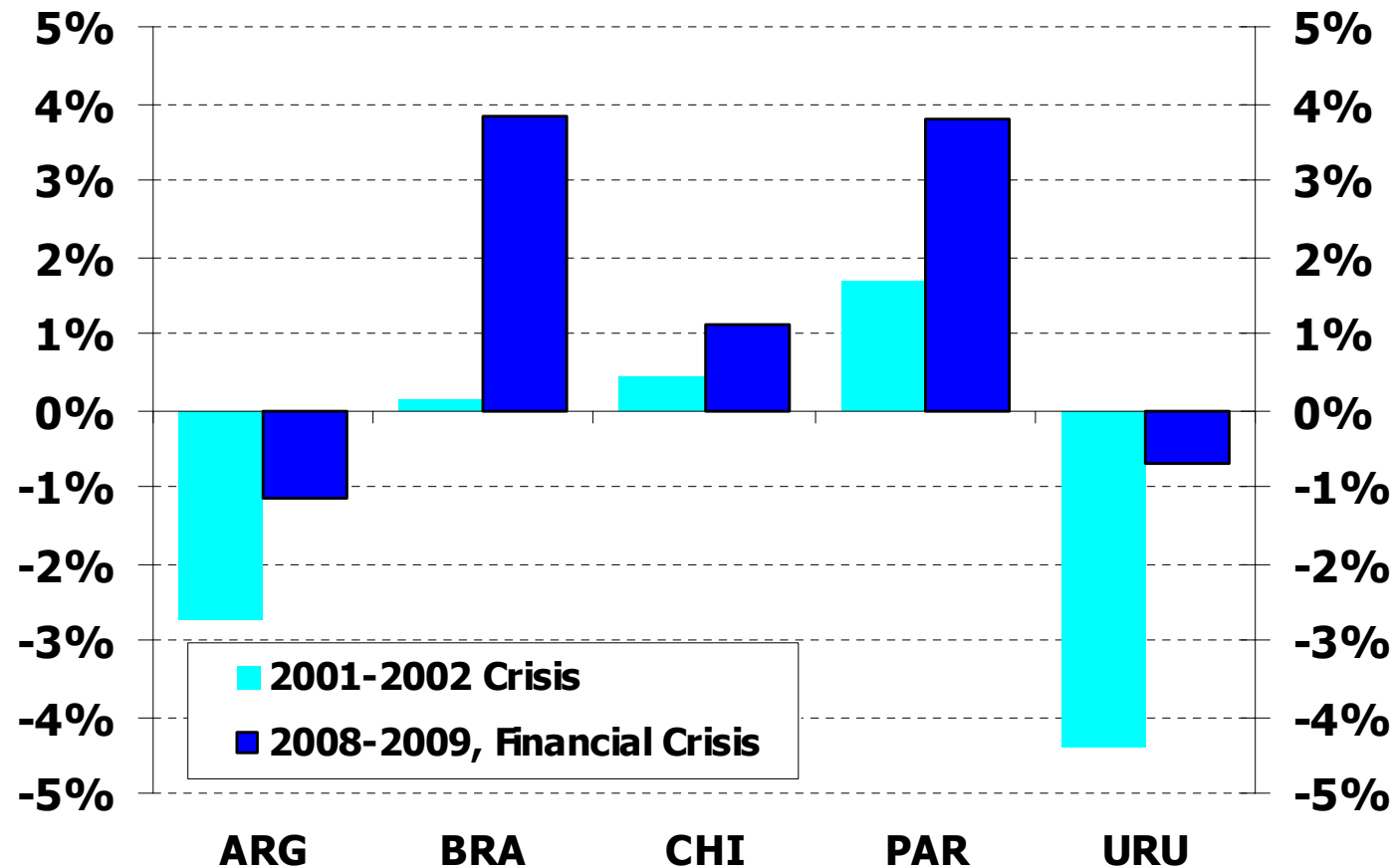
# How did the Driving Factors of Public Debt Behave?

- Fiscal balance (primary) 
- Exchange rate 
- Interest rates:
  - Domestic 
  - External 
- GDP growth 

# Fiscal Impulse

## FISCAL IMPULSE IN CSC REGION

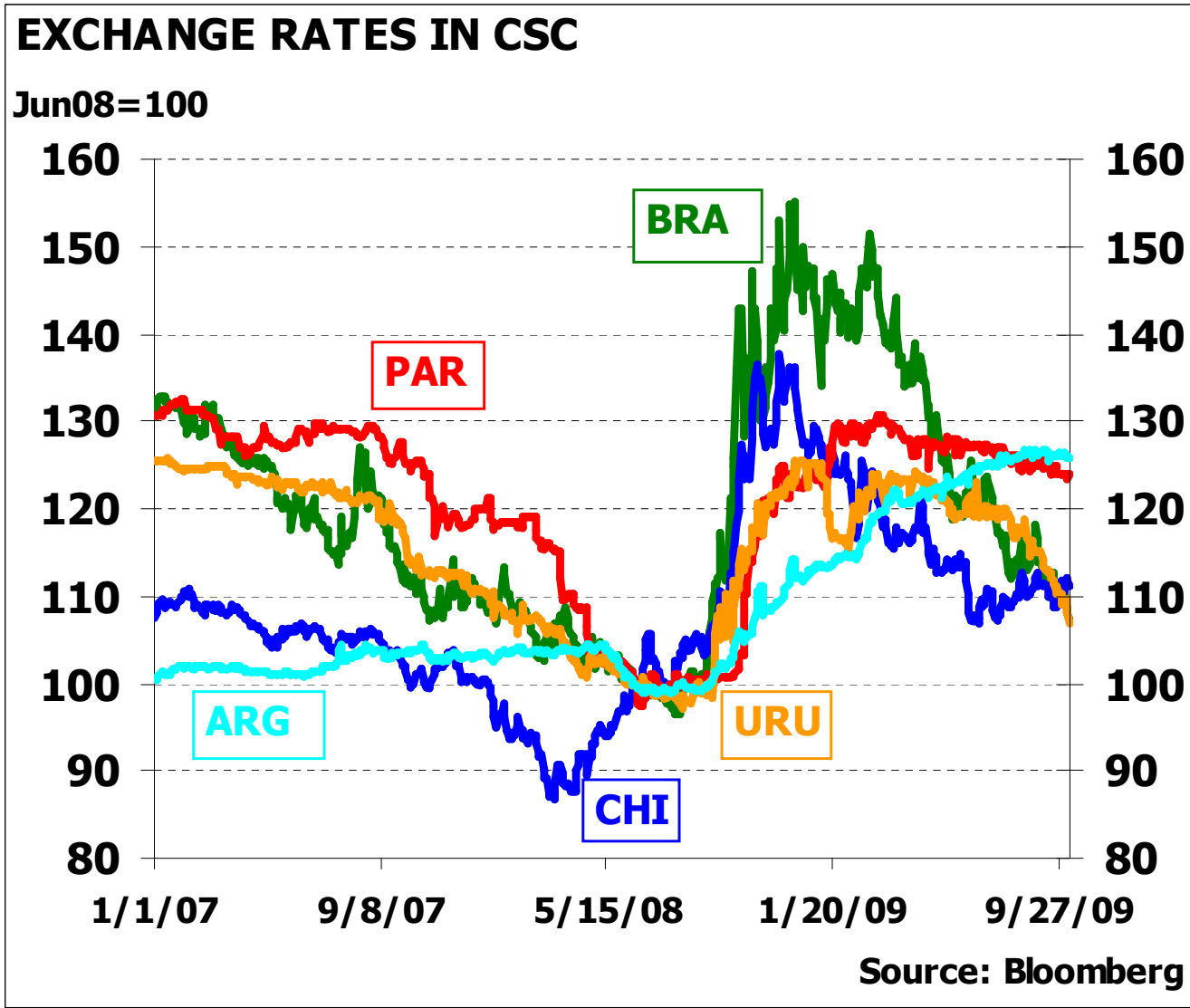
Change in structural deficit, as % GDP



Source: CSC calculations



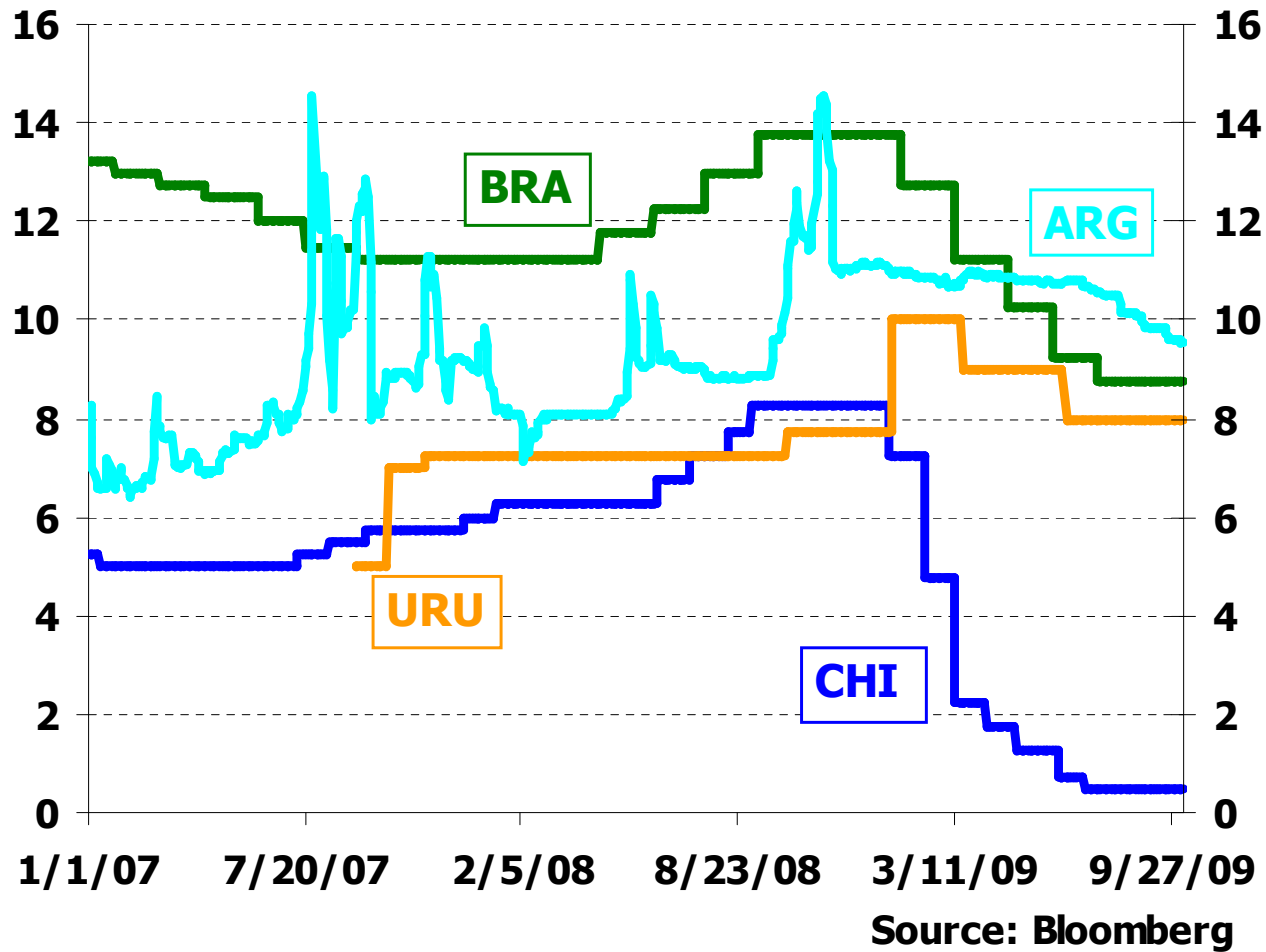
# Exchange Rates



# Domestic Interest Rates

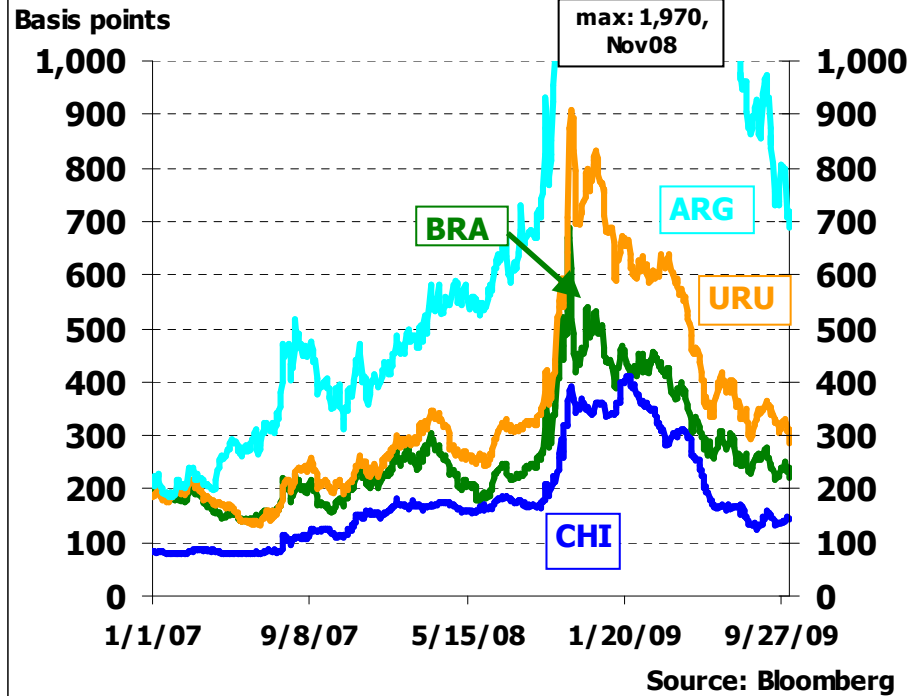
## MONETARY POLICY RATES IN CSC

Annual %

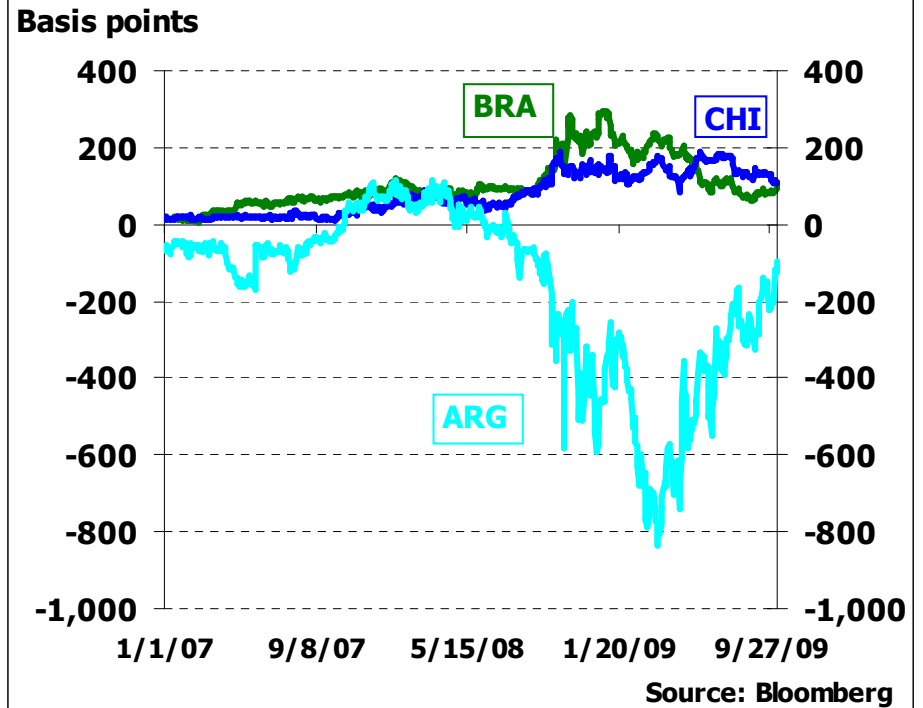


# External Interest Rates

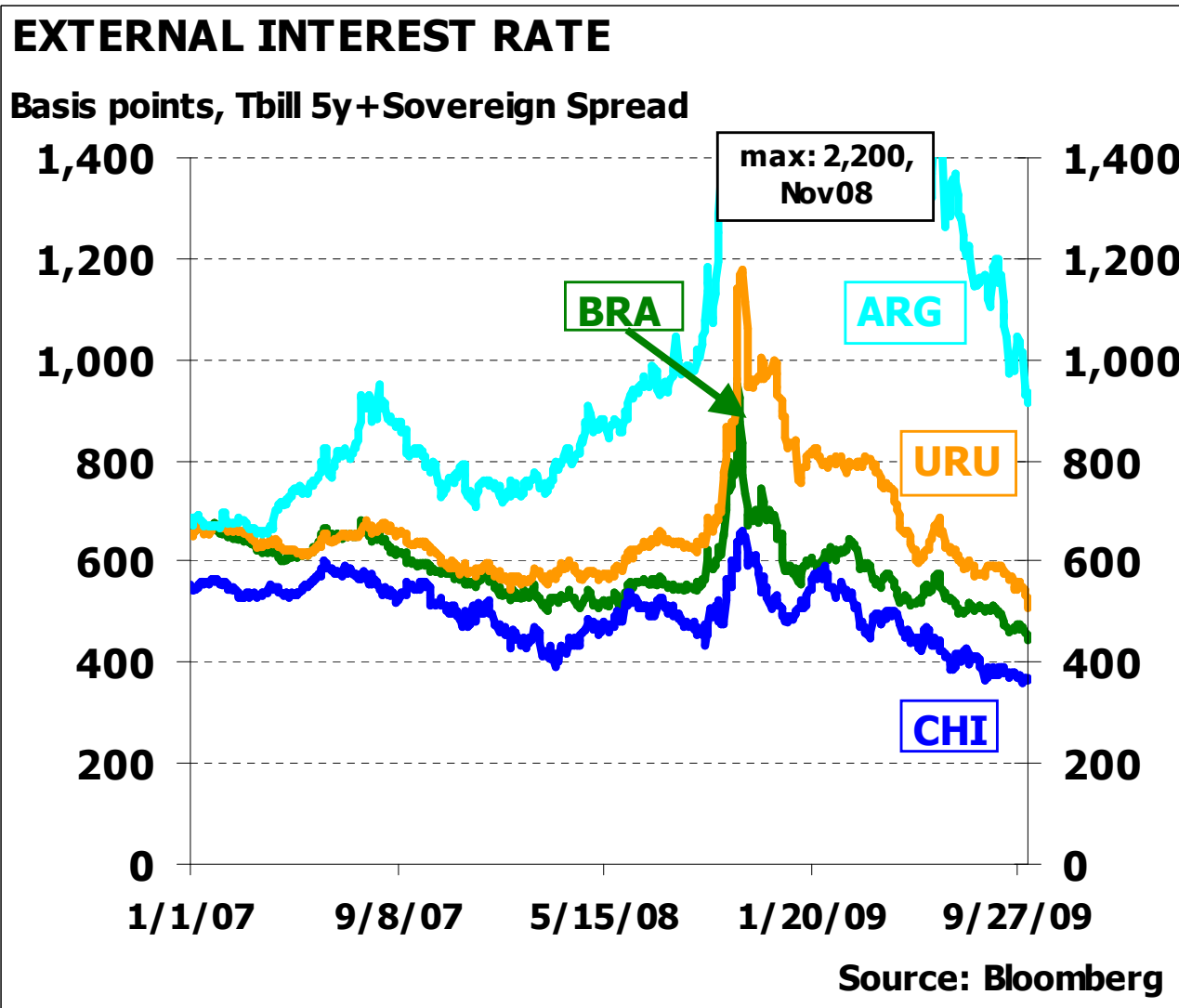
**SOVEREIGN SPREAD FOR CSC**



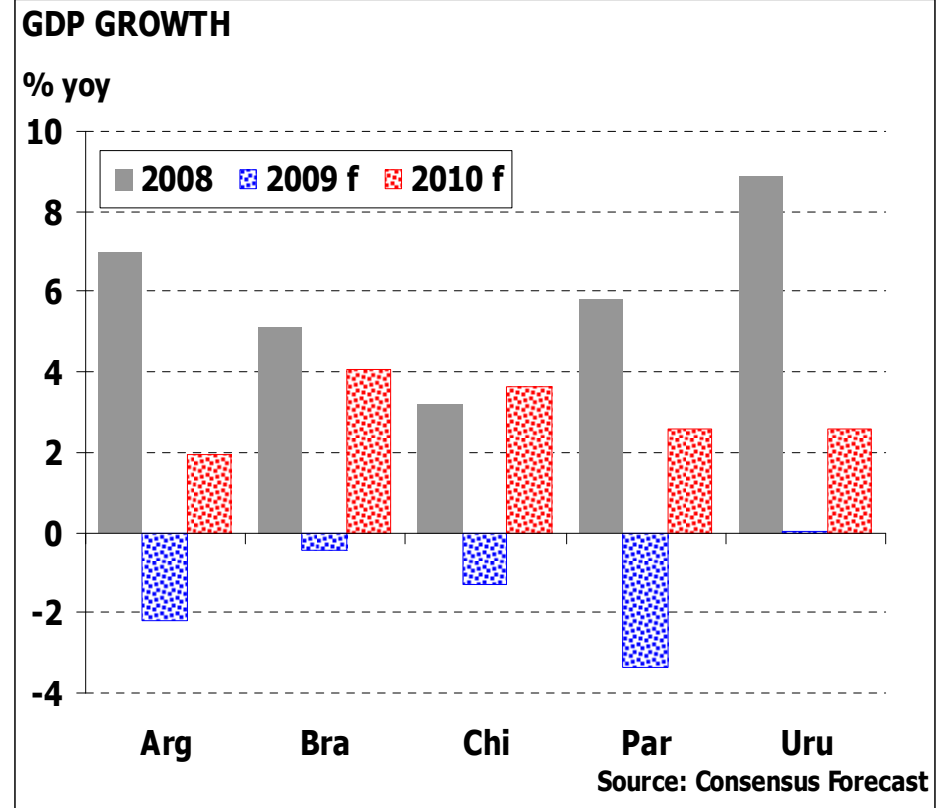
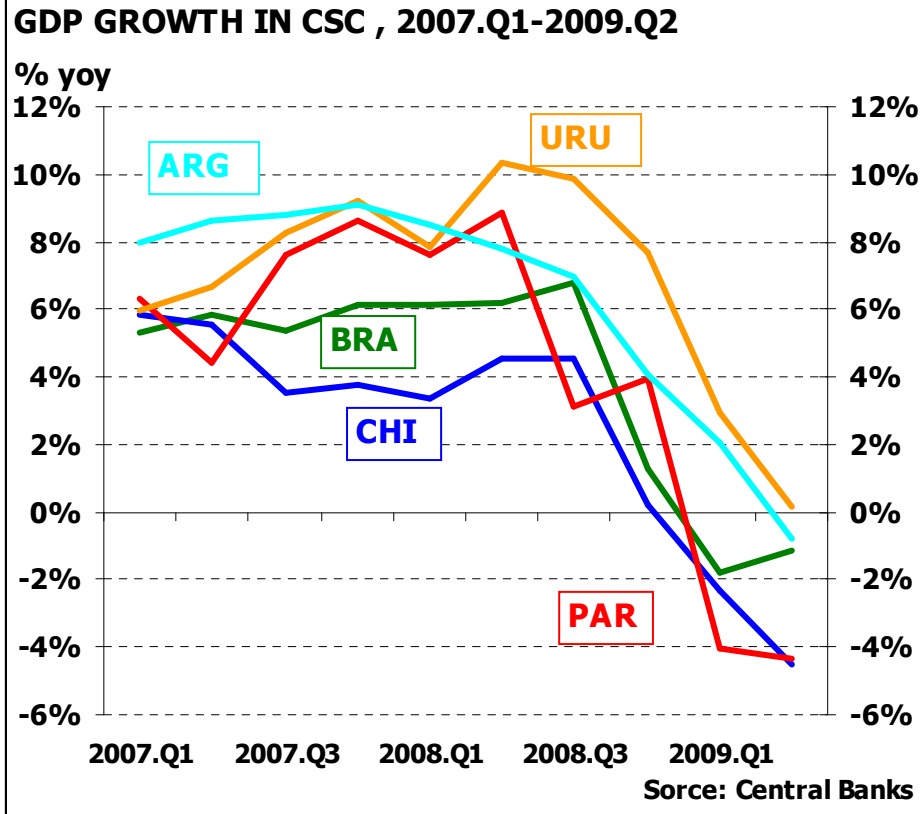
**CORPORATE MINUS SOVEREIGN SPREAD**



# External Interest Rates



# GDP Growth



# In a Baseline Scenario, Gross Debt is Comfortably Sustainable

	<b>ARG</b>	<b>BRA</b>	<b>CHI</b>	<b>PAR</b>	<b>URU</b>
<b>Gross Debt Level, as % GDP</b>	49%	66.1%	5.2%	14.0%	59.7%
<b>Required primary fiscal balance, as % GDP</b>	1.1%	1.5%	0.3%	0.3%	0.9%
<b>Primary fiscal balance, as % GDP**</b>	2.7%	3.2%	4.0%	2.0%	3.2%

**\*\* Average 2004-2008.**

# Main Risks to the Baseline Scenario

## Risk Analysis for DSA

	Arg	BRA	CHI	PAR	URU
<b>Debt Level</b>	Yellow	Yellow	Green	Green	Red
<b>Direct effects</b>					
<b>Primary fiscal balance</b>	Red	Yellow	Green	Yellow	Yellow
<b>Exchange rate</b>	Yellow	Green	Green	Red	Red
<b>Domestic interest rate</b>	Yellow	Red	Green	Green	Yellow
<b>External interest rate</b>	Red	Green	Green	Yellow	Yellow
<b>Indirect effects</b>					
<b>GDP growth</b>	Red	Yellow	Yellow	Yellow	Yellow
<b>Commodity prices</b>	Yellow	Yellow	Red	Yellow	Yellow
<b>Inflation</b>	Yellow	Red	Green	Green	Yellow

# **Impact of the Crisis on Debt Sustainability in the Southern Cone Countries**



**Eduardo Borensztein**  
**Country Southern Cone Department**  
**Inter-American Development Bank**