

# International Debt Reexamined

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## Abstract

The international debt crisis that erupted in 1982 threatened the world financial system and turned the 1980s into a lost decade for Latin America. But the crisis jolted governments throughout the region into adopting sweeping economic reforms. By the early 1990s inflation was lower, growth was reviving, the major debtors had reached "Brady Plan" workout agreements reducing bank debt in exchange for collateral, and capital was entering the region in unprecedented magnitudes. This study tries to make sense of this historic financial episode and to derive lessons for future policy. Cline first returns to his 1983 projection models that figured importantly in the debate at that time, and reruns them with the benefit of hindsight to see what went wrong (e.g., capital flight) and what went right (e.g., revival of industrial country growth). He provides a critical survey of the voluminous economics literature that emerged from the debt crisis. The study evaluates performance of the evolving international debt strategy, which eventually succeeded brilliantly in preserving international financial stability and restoring debtor access to credit markets but failed to achieve debtor country growth in the 1980s. The study reviews policy reform and

Brady plan results for major Latin American countries; provides new analysis of today's debt problems in Russia and Africa; and analyzes the degree of vulnerability of Latin Americas capital market renaissance to such factors as overvalued exchange rates and a resurgence of US interest rates. It concludes with suggestions for institutional change and policy guidelines to help avoid future crises.

## Suggested Citation

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