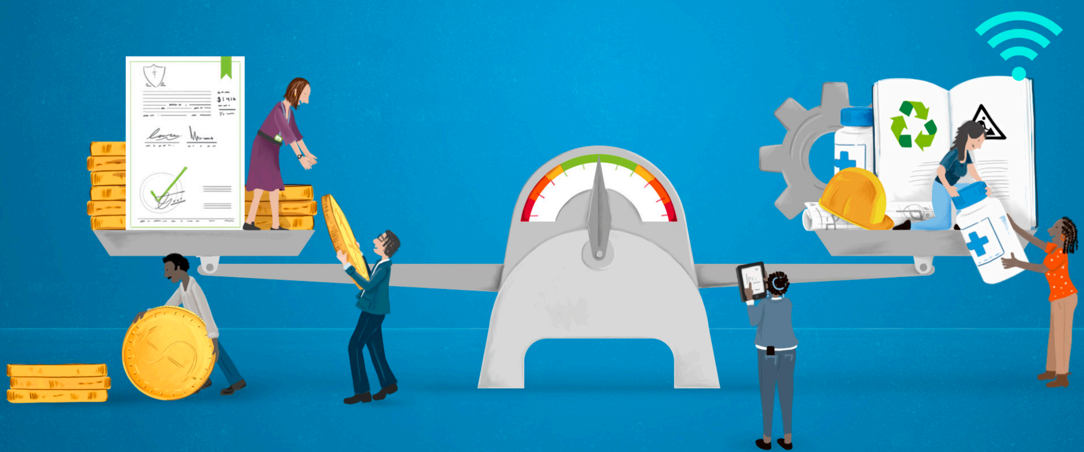
DEVELOPMENT IN THE AMERICAS

DEALING WITH DEBT

Less Risk for More Growth in Latin America and the Caribbean

EXECUTIVE SUMMARY



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IDB

Debt has risen across the world, and Latin America and the Caribbean is no exception. Total debt has grown to US$5.8 trillion, or 117 percent of GDP, for the region and as much as 140 percent of GDP for the five largest economies. Public debt soared to over 70 percent of GDP during the pandemic and corporates issued substantial amounts to survive the crisis. While the spending that led to this debt helped the region weather the pandemic, it is now weighing down the economy. This year's edition of *Development in the Americas* (DIA) examines the rise in debt in Latin America and the Caribbean and offers recommendations to policymakers to ensure debt is used wisely, avoid the harmful impacts, manage high debt levels well, and bring down debt where it is too high. It is hoped that the analyses and policy suggestions in this year's report contribute to successfully confront the challenges, lower risk, boost growth, and improve living standards across the region and beyond.

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Dealing with Debt

Debt may be good or bad. If the financing obtained is used to increase high-quality investment and provide better services, then benefits should outweigh costs. But if debt levels become too high or debt is not well managed, then the effects are negative. Interest rates rise, the cost of servicing the debt becomes burdensome, and new debt becomes expensive or impossible to issue. Ultimately, investment and growth suffer.

High debt levels also increase the risk of a crisis. If the economic or political costs of paying high public debt service become too great, investors may question governments' willingness to make the required payments and rolling over debt may become impossible. This can then prompt the need for a restructuring. In addition, high debts in foreign currency increase vulnerability to global monetary policy decisions and depreciations. High corporate debt depresses investment, increases risk, and may provoke more general economic problems. In extreme circumstances, the risk of widespread corporate default can impact the health of the banking system, threaten financial stability, and exact fiscal costs if government intervention is needed.

Given the dangers of excessive debt, the current situation in Latin America and the Caribbean is worrisome. Debt has risen to some US$5.8 trillion or 117 percent of GDP in the region and as much as 140 percent of GDP for the five largest economies. Public debt soared to 71 percent of GDP during the pandemic and corporates issued substantial amounts to survive the crisis. In 2020, the additional financing was used to counter the negative shock of the pandemic when the economy was at a standstill. Financing helped households buy food and healthcare, and allowed firms to pay wages. While justifiable, the result was a burgeoning debt. The debt conundrum is real: it helped the region weather the pandemic but is now weighing down the economy.

Dealing with Debt examines the rise in debt in Latin America and the Caribbean and discusses what should be done. It offers recommendations to policymakers to ensure debt is used wisely, avoid the harmful impacts of debt, manage high debt levels well, and bring debt down where it is too high. In order to develop the recommendations, the book reviews relevant literature and presents innovative work in a number of specific areas. The report is organized in three sections. The first section explores how the region arrived at current debt levels and discusses debt in a more general context. The second section focuses on public debt and its sustainability, public debt management, how to reduce debt, and the central role of the region in the changing nature of the global financial architecture. The third section examines private debt—particularly that of firms.

The Rise in Debt

Debt has risen across the world and Latin America and the Caribbean is no exception. Total debt has risen to US$5.8 trillion, or 117 percent of GDP for the region and as much as 140% of GDP for the five largest economies.[1]

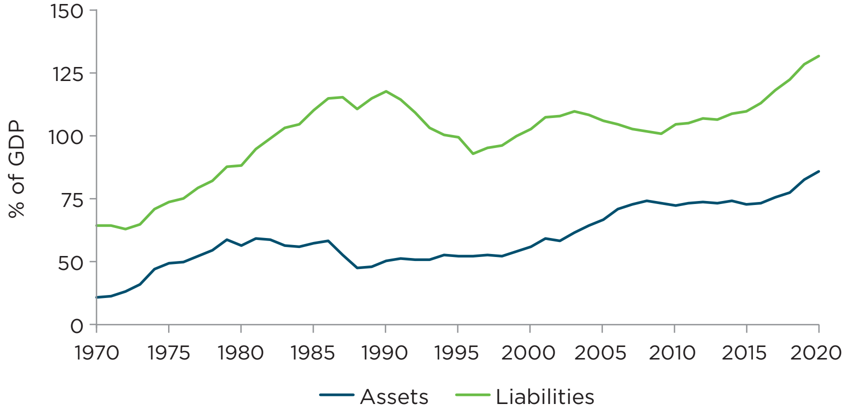
Public debt ratios in the region were on the rise before the COVID-19 crisis and jumped to over 70 percent of GDP during the pandemic, driven by the recession, lower revenues, and fiscal support packages. Debt served to finance higher spending on health, transfers, and tax breaks to households and firms, while public investment waned. Baseline projections suggest debt ratios may rise in the next year or two, given low growth rates and only gradual consolidation, before they start to decline as growth reverts to long-term trends.

1 The figure for the five largest economies is sourced from the BIS while the estimate for the region as a whole is estimated from BIS, World Bank, and IMF data.

Corporate debt also rose before the pandemic and corporates borrowed heavily during the crisis. That financing was used to build liquidity rather than for investment, which collapsed. Debt levels have subsequently fallen back close to the relatively high pre-pandemic levels, but the lack of investment has resulted in a decline in fixed (productive) assets.

Still, standard measures of liquidity rose and both sides of private and public sector balance sheets—not just liabilities—should be considered. Global financial integration has pushed both external assets and liabilities higher. While external assets for the region rose to around 75 percent of GDP, external liabilities also rose during the pandemic to over 125 percent of GDP (see Figure 1). Assets include the international reserves of central banks as well as private investment in foreign companies, bank accounts, and other financial assets. Empirical work suggests that higher levels of reserves may significantly reduce vulnerabilities, including those provoked by higher levels of debt.

Figure 1 **External Assets and Liabilities**



Source: IDB staff calculations based on Lane and Milesi-Ferretti (2018), updated in 2021.
Note: Figures scaled by trend GDP. Simple average by country in the region.

In addition to international reserves, some countries maintain fiscal reserves, commodity stabilization and sovereign wealth funds, swap lines with other country authorities, and contingent lines with the IMF and MDBs. While the book focuses primarily on debt issues across the region, a more detailed analysis of individual country risks should take into account liquid assets (at the very least) and other sources of liquidity. Contingent lines from credible counterparts may play an important role in reducing vulnerabilities and may buy time to implement policies to rectify more structural problems.

At the same time, the global economic context has become highly uncertain. Lingering impacts of the pandemic and the possibility of new COVID strains, the Russian invasion of Ukraine and its impact on global growth, the slowdown in China, inflation—particularly in energy and food prices, rising global interest rates, and stock market volatility have together created a highly challenging economic environment. *Dealing with Debt* analyzes the past, present, and future of debt in Latin America and the Caribbean. This executive summary presents some of the conclusions from that analysis and overall policy recommendations.

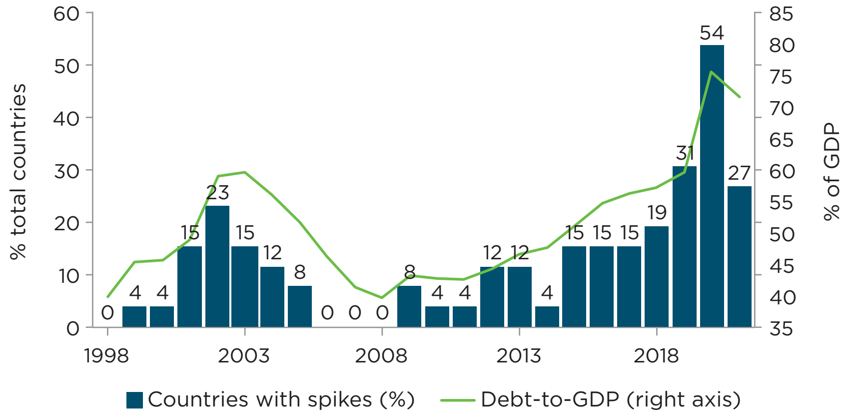
Public Debt

Public debt serves a critical role for countries to pursue public investment projects, implement countercyclical policies, and provide support to economies in the face of negative shocks. However, if public debt becomes too large or is not managed with sufficient caution, interest costs may balloon, growth prospects may suffer, and in the limit, a costly debt crisis may be provoked.

A Pattern of Debt Accelerations

Public debt surpassed 70 percent of GDP for Latin America and the Caribbean in 2020. As mentioned, public debt had risen before the pandemic, with sudden debt spikes accounting for much of the increase (see Figure 2). Spikes occurred largely during times of stress, fueled by a combination of low growth, high fiscal deficits, ballooning interest payments, currency depreciations, and significant off-budget and unfunded liabilities. Since the global financial crisis, debt has risen virtually every year irrespective of the rate of economic growth.

Figure 2 **Debt Spikes and the Rise in Public Debt in Latin America and the Caribbean**



Source: IDB staff calculations based on IMF (2022).
Note: Latin America and the Caribbean includes all IDB borrowing countries except Venezuela, Guyana, and Haiti due to data availability.

This pattern of debt increases in the region points to the need for stronger fiscal institutions to establish credible and sustainable medium-term objectives and to limit any avoidable rise in debt. Fiscal rules can help. Less than half of the countries in the region had fiscal rules in place before the pandemic. Where they did exist, rules were suspended during the health emergency and countries struggled to return to within-rule outcomes. The presence of a rule is not enough to improve fiscal performance; the quality of that rule is also important. Fundamental ingredients are solid legal foundations, credible enforcement mechanisms, an independent fiscal council, flexibility to deal with shocks, and well-defined escape clauses.

Gaps remain in designing and implementing fiscal rules to promote fiscal sustainability and mitigate macro-fiscal risks. Poorly designed fiscal rules in the region have contributed to a low compliance rate of around 57 percent. Strengthening fiscal rules is critical to achieving flexibility and proper integration with countries' medium-term fiscal frameworks. This would allow countries to provide credible fiscal guidance and promote resilient macro-fiscal strategies.

Improving fiscal institutions does not imply upfront fiscal spending or cutting benefits but can significantly boost the credibility of fiscal policy, reduce the perception of risk and, hence, lower the level of interest rates and the cost of financing. For example, strengthening independent fiscal councils would promote responsible and efficient fiscal policy and bolster fiscal policy credibility in the medium term, helping to reduce debt levels. The complementarity of fiscal institutions is also essential. More generally, a combination of reforms and improved institutions would help promote automatic stabilizers that dispel the need for hard-to-reverse increases in discretionary spending, dampen the procyclical behavior of deficits and interest rates, monitor the potential sources of unfunded liabilities to limit surprise increases in debt ratios, and promote the growth of domestic capital markets.

Debt Sustainability: A Delicate Balance

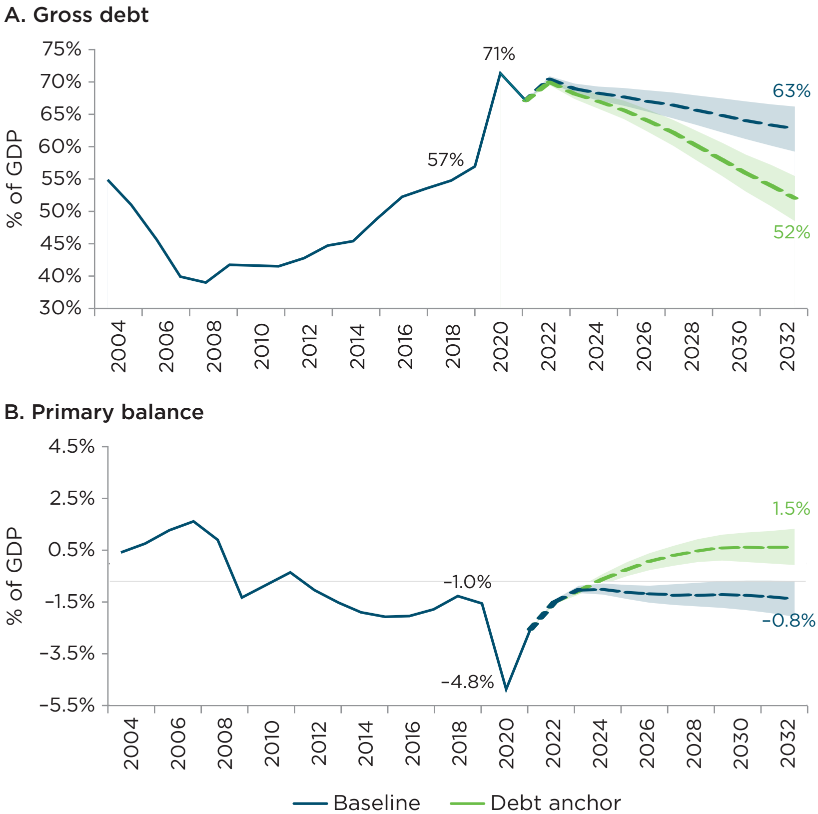
The pandemic created the need for sharply higher spending while it reduced tax revenues, thereby further increasing public debt. This response was required given the extraordinary nature of the crisis. Still, the concern is whether this debt increase will provoke problems of sustainability, a new debt crisis, and another lost decade for the region. Debt sustainability is complex; it relates to the concept of solvency but also incorporates elements of cash-flow. In addition, sustainability today depends critically on expected action in the future. Where there is confidence that countries will act to reduce deficits and run primary surpluses to bring down debt in better times, then higher debt levels can be supported. However, doubts that countries will react appropriately push up interest rates and reduce investment and growth, expanding the amount of consolidation required and ultimately, increasing risk. Such risks can push countries—even those with stronger fundamentals—into a danger zone in which a liquidity or self-fulfilling crisis might occur.

Estimates based on historical data suggest that the average fiscal response to higher debt levels across the region in the past would be sufficient to maintain sustainability, but insufficient to bring debt down to prudent levels. To reduce debt enough to lower risk more aggressively would require an additional fiscal effort (over and above that projected) of 1.4 percent of GDP per annum.

Beyond Sustainability: Prudent Debt Levels

Prudent debt levels are estimated at between 46 percent and 55 percent of GDP for the region as a whole, depending on the methodology. Individual country estimates depend on a wide set of country characteristics (see Figure 3). A prudent level of debt limits interest costs, thereby reducing the amount of consolidation required, provides space for high-quality investment, allows for greater financing if additional negative shocks arise, and reduces the risk of a debt crisis. Prudent levels depend critically on the quality of fiscal institutions. Institutions such as debt-anchored fiscal rules consistent with macro-fiscal aggregates can bolster a credible medium-term fiscal strategy and enhance confidence that higher deficits in bad times will be matched by higher surpluses when growth is strong; together these factors lead to higher sustainable debt ratios. As a result,

Figure 3 Gross Debt and Primary Balance Scenarios for Latin America and the Caribbean



Source: IDB staff calculations.

these fiscal rules can also help reduce financing costs and lessen the probability of sudden stops. Improving institutions is, therefore, just as important as reducing debt. A concerted effort to improve fiscal institutions and bring down public debt levels to more prudent levels would enhance credibility and counter the growing risks from higher interest rates, a strong dollar, and volatile commodity prices.

Public Debt Overhang: A Threat to Growth

Current high debt levels in many countries also reduce growth. Higher debt boosts growth at lower debt levels, particularly if the quality of institutions is high. However, at high debt levels, growth declines as debt rises. At higher debt levels, public investment declines, financing costs rise, and private investment dwindles. The public debt overhang tends to set in at debt levels above 60 percent of GDP on average for the region, although thresholds for individual countries depend on idiosyncratic country factors (see Figure 4). Similarly, it is not only the level that matters. Debt accelerations are negatively correlated with growth. In fact, the longer the accelerations last, the greater the cumulative effect on growth.

The book shows that the quality of institutions is essential to managing high levels of debt by decreasing the negative effect

Figure 4 **The Effect of Public Debt on Growth, Below and Above the Debt Threshold**

A. Below the debt threshold

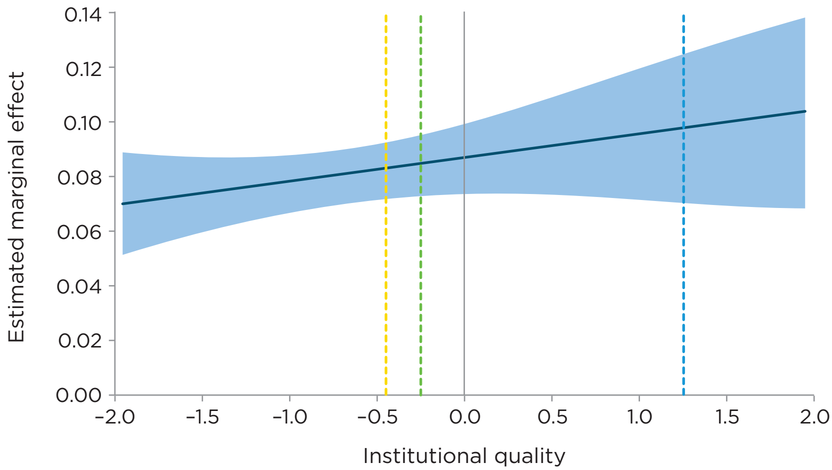


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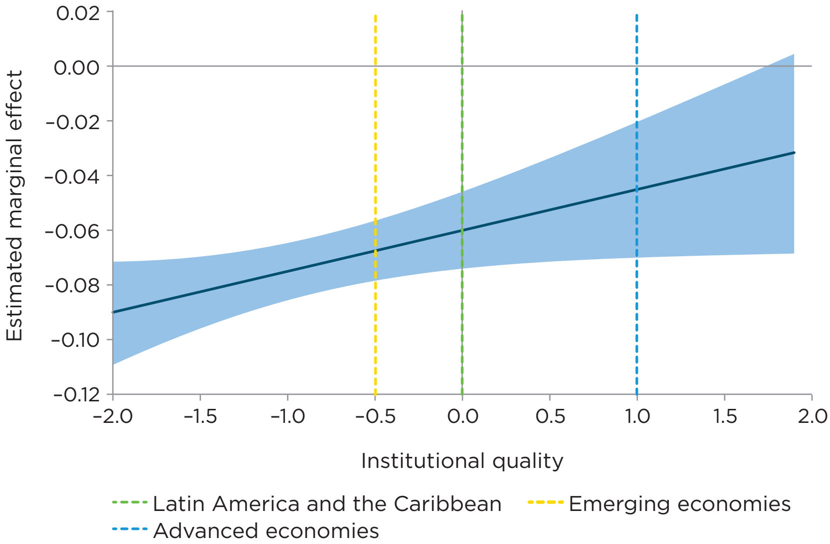
Figure 4 The Effect of Public Debt on Growth, Below and Above the Debt Threshold *(continued)*

B. Above the debt threshold



Source: IDB estimates based on data from WEO-IMF, World Bank, and Penn World Table. Estimates obtained using a panel model with threshold effects (Hansen, 1999; Seo and Shin, 2016).
Note: Instrument for public debt built in two stages: i) regress SFR on inflation, valuation effects, debt default, and debt forgiveness, and ii) predicted values are used to instrument public debt on equation (1).

on growth. Countries with relatively higher institutional quality can sustain high debt levels, attract investment, and grow. Similarly, in situations of excessive debt, institutional quality can mitigate the negative effect on growth.

Fiscal institutions play a key role. Fiscal rules help safeguard economic growth and protect public investment. Improved public investment frameworks would help increase the efficiency of public spending, boosting growth multipliers. It is not just about investing more; it is also about investing wisely. Strengthened fiscal institutions that improve the credibility of medium-term policy, lower perceived risks, and reduce interest rates, tend to raise the point at which higher debt reduces growth, and reduce the negative impact of debt on growth beyond that threshold.

Reducing Debt

There are many reasons why public debt levels should be lower than they currently are and several ways to reduce that debt. An analysis of past debt reduction episodes around the world points to countries that have reduced debt-to-GDP ratios by increasing growth and improving fiscal balances. In Latin America and the Caribbean, Brazil (2002–2013), Colombia (2002–2008), Jamaica (2010–2020), Peru (2002–2013) and Trinidad and Tobago (1993–2008) are all such examples. Still, the region has more cases in which significant debt reductions have been achieved through low real interest rates or higher inflation, although they have typically not been as smooth or resulted in as good growth performance. An exception appears to be where moderate inflation, coupled with central bank independence, kept inflation expectations in check and interest rates low.

Fiscal Policy to Reduce Debt: No One Size Fits All

The best way for a country to reduce debt levels through fiscal consolidation depends critically on each country's specific characteristics; there is no one-size-fits-all set of recommendations.

All countries should focus on improving the efficiency of both spending and tax revenue collection. In particular, the quality of public investment can be enhanced at all stages of project cycles, as can the efficiency and targeting of transfer payments. Prior to the pandemic, even at the lower levels of spending, the IDB estimated that simply improving spending efficiency could result in savings of over 4 percent of GDP. These measures are particularly important for countries where both public revenues and spending are high as a percentage of GDP. In this group of countries, raising taxes is likely to be counterproductive and additional savings probably has to come from cuts in spending.

In countries where revenues and spending are a lower percentage of national income, enhancing the tax base and increasing public sector revenues can allow for greater rates of public investment that positively impact growth. If designed well, these reforms can be progressive; poorer households benefit from better access to public services at little, if any, additional cost.

Improvements in public investment frameworks also increase growth multipliers. Even at current quality levels, public investment has a significantly higher multiplier than government consumption, yet public investment has been cut over the years. Many countries would benefit from rebalancing public expenditures in favor of investment, financed from greater efficiency and better targeting of transfers.

Labor informality remains high in many countries and after the pandemic, it is higher than ever. Reducing informality requires a set of concerted actions including reducing the tax incentives for firms to hire informal labor by shifting the financing of benefits from labor taxes to more general taxation. At the same time, new technologies to enhance monitoring and collection offer many opportunities to improve tax takes.

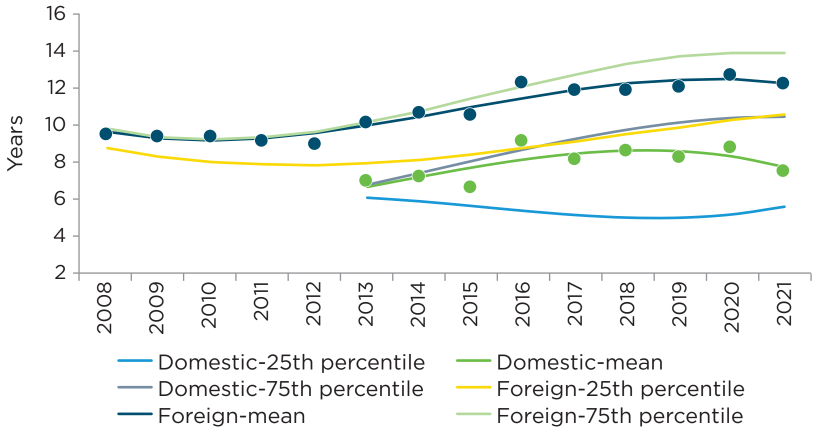
Timing is Paramount

The timing of fiscal consolidation measures is also key. Front loaded consolidation measures have the advantage of reducing debt more quickly and saving valuable resources by reducing interest payments more quickly. However, a sharp cut in spending if growth is below potential may harm growth. Arguably, under current circumstances of high inflation and potential supply constraints, this assertion may be more debatable. Fiscal policy should complement monetary policy; an expansive fiscal policy, which the monetary authority has to counter with higher policy interest rates, may be highly inefficient. Still, a more gradual approach may be appropriate given the need for continued support to poorer households or particular sectors due to the pandemic. Reform packages that incorporate efficiency gains and replace lower, poorly-targeted and inefficient real spending with greater well-targeted support and investment may have a better chance of garnering support. Improved fiscal institutions that help guarantee medium-term sustainability may also allow for a more gradual consolidation while maintaining lower interest rates.

Debt Composition Matters

The composition of debt is just as important as its level. Debt management has improved considerably in the region in recent years (see Figure 5). Many countries created dedicated debt management units with well-trained technical staff and a mea-

Figure 5 **Debt Maturity in Local and Foreign Currency**



Source: IDB Standardized Debt Database.
Notes: This graph plots maturities for domestic and foreign currency issuance. The sample includes Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru, Suriname, Trinidad and Tobago, and Uruguay. Curves are smoothed using polynomial functions.

sure of independence to pursue a medium-term debt strategy. During the 1990s and 2000s, debt composition improved; the focus was on reducing debt in dollars and extending maturities in both local and foreign currency. These trends were supported by the growth in domestic financial markets, ample liquidity in international markets, and low international interest rates.

However, following the commodity price decline after 2012 and the COVID-19 pandemic, these advances have stalled, debt dollarization has risen, and maturities have shortened. Several countries face relatively high debt servicing costs of over 5 percent of GDP and more than 15 percent of public revenues. Countries face the challenge of improving debt composition while they pursue fiscal consolidation. Countries should take full advantage of multilateral development banks and other official lenders that provide long-term financing at competitive rates. They should also pursue active liability management strategies to smooth amortizations and reduce roll-over risks.

While many countries have created dedicated debt management units, debt composition cannot be considered in isolation of current fiscal policy and future fiscal plans. Fiscal plans should take onboard the current composition of debt and the potential future costs and risks of fiscal measures. This calls for close coordination between the debt management and fiscal planning functions. Both functions are critical to develop robust fiscal plans that can deliver predictable and sustainable outcomes, are consistent with debt management strategies, and can be communicated effectively to build confidence and lower financing costs.

Debt Restructuring with a Regional Focus

International financial institutions responded to the pandemic with new resources and initiatives to assist countries, particularly those with debt distress. The IMF and MDBs boosted disbursements and a new allocation of IMF Special Drawing Rights (SDRs) provided US$650 billion to IMF members, who continue to discuss how to best reallocate those resources to developing countries. The international community focused on providing debt relief to low-income countries. The Debt Service Suspension Initiative (DSSI) offered a temporary suspension of debt payments and its successor, the Common Framework, continues to offer the potential for debt relief. Three low-income African countries are currently going through that process.

Latin America and the Caribbean has been front and center in the development of innovative debt restructuring techniques in recent years. Five countries in the region restructured since the onset of the pandemic in 2020. Innovations include bond restructurings with new generation Collective Action Clauses (CACs), debt payment suspension disaster-related clauses and debt for environment buybacks. While international efforts continue to focus on the plight of low-income countries, many challenges remain for countries in the region. Among the most salient issues are increased creditor diversity including the rise of non-Paris Club bilateral lenders and how to best link debt and climate or environmental challenges. A regional forum would be a valuable complement to the global financial architecture. The idea would not be to substitute the Common Framework or other initiatives but rather to enhance the coordination and momentum that was envisaged. The forum would not interfere with any actual negotiations between a country and its creditors. Rather, it would serve as an overarching mechanism to coordinate the many institutions involved in debt restructurings in Latin America and the Caribbean including multilateral institutions, the Paris Club and other bilateral creditors, private institutions representing creditors and industry groups, and borrowing countries. It could support the development of new approaches (for example, related to ESG financing and how to link climate and debt objectives), refine existing standards where necessary, and establish norms for defining the perimeter of restructurings and the treatment of collateralized debt, commercial lending from official players, and other current or future market innovations.

Private Sector Debt: Households and Firms

Reducing public debt levels, strengthening fiscal institutions, and improving debt management would also benefit the private sector. When the sustainability of debt is more certain, interest rates are likely to be lower, credit conditions are easier as banks and other lenders perceive risks to be lower, and private investment is likely to rise.

While the overall levels of credit to the nonfinancial private sector have grown in recent years, they remain relatively low by international standards. Credit to the nonfinancial private sector on average is over 60 percent of GDP, but there is considerable variation across countries and sectors.

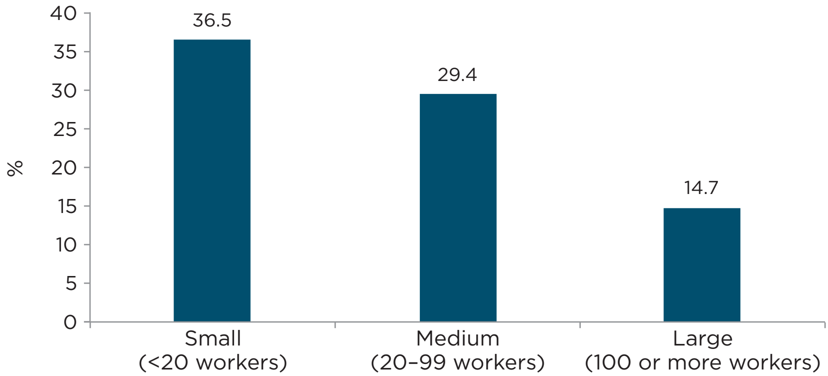
Household Debt: Growing Across the Region

Households gained greater access to credit pre-COVID and borrowed more during the pandemic. Still, the overall level of indebtedness of families in the region remains relatively low by international standards. While there may be heavily indebted households in particular countries, especially if other sources of credit from outside the formal banking system are considered, the risks to systemic financial stability from this sector appear limited at the current time.

Small Firms: Credit Access is Key

Small and medium-sized firms continue to face credit constraints, especially in Central America and the Caribbean. Despite many programs to keep credit open to firms during the pandemic, access remained a significant factor in allowing companies to survive the health crisis. Still, a considerable portion of firms reported being in arrears with lenders. In terms of access, arrears, and closures, smaller and female-led firms reported more problems than larger and male-led enterprises (see Figure 6).

Figure 6 **Proportion of Companies that Report being Overdue on Obligations**



Source: IDB staff calculations based on World Bank's Enterprise Surveys Follow-up.

Large Firms: High Liquidity Cushions but Lower Fixed Assets

Larger firms listed on stock markets in the region enjoy relatively good access to credit and in recent years borrowed, either through loans or issuing domestic or external bonds, at attractive rates of interest. Debt rose before the pandemic as corporates took advantage of the liquid global financial conditions. During

2020, corporate debt rose further, and firms issued considerable amounts on both international and domestic markets. Investment collapsed and the financing was used to build a strong cushion of liquidity to survive the crisis. This cushion, plus government support programs (direct assistance to firms and indirect support to consumers) plus financial policies (including loan moratoria and regulatory flexibility) allowed many firms to survive the pandemic. However, the lack of investment implies that firms' fixed assets (normally considered their productive capital) have declined.

After the pandemic, debt has returned to its relatively high pre-pandemic levels. Corporates in the region on average have higher leverage than in most other world regions. Corporate stock market valuations have not returned to pre-crisis levels and volatility remains relatively high. This combination implies that indicators of corporate risk (such as the distance to default) continue to suggest greater vulnerability than before the pandemic. The relatively high corporate debt levels in the region combined with relatively high volatility may have a persistent negative impact on investment. Interestingly, the empirical results indicate that debt and risk work in a complementary fashion to deter investment. In other words, at high debt levels an increase in volatility has a negative impact on investment, as does an increase in debt at higher levels of volatility.

Next Steps

Many countries implemented programs to assist firms during the crisis including loan moratoria and large-scale guarantee schemes that provided banks with incentives and liquidity to continue to lend. Few large firms failed, thanks to these policies and their access to credit at reasonable rates. Smaller and female-led firms fared worse and many closed their doors. As economies recover from the pandemic, countries have been paring back these policy measures. In this phase, more selective programs that carefully screen firms and provide equity as well as debt financing could be extremely valuable, as firms have relatively high debt levels already but fixed (productive) assets have dwindled. A private-public entity that provides a range of financing options could be considered. The key would be to ensure a strong governance structure with a robust mandate to provide financing to promising firms that have profitable plans but lack access to credit. Involving the private sector arm of MDBs (IDB Invest or the International Finance Corporation) would enhance the credibility of such entities to resist political pressure, allow them to improve corporate governance more generally, and provide upfront financial resources.

Competing Challenges

As the region emerges from the pandemic, it faces a number of challenges: a global growth slowdown, high energy and food prices, inflation, and numerous structural problems with social and political, as well as economic consequences. In addressing those issues, debt has risen substantially, and policymakers face difficult choices, in particular to manage high public debt levels, improve institutions, and bring those debt levels down. This year's edition of the DIA aims to provide useful recommendations to inform their decisions as they weigh the difficult tradeoffs inherent in dealing with debt.

Debt has risen across the world, and Latin America and the Caribbean is no exception. Total debt has grown to US$5.8 trillion, or 117 percent of GDP, for the region and as much as 140 percent of GDP for the five largest economies. Public debt soared to over 70 percent of GDP during the pandemic and corporates issued substantial amounts to survive the crisis. While the spending that led to this debt helped the region weather the pandemic, it is now weighing down the economy. This year's edition of Development in the Americas (DIA) examines the rise in debt in Latin America and the Caribbean and offers recommendations to policymakers to ensure debt is used wisely, avoid the harmful impacts, manage high debt levels well, and bring down debt where it is too high. It is hoped that the analyses and policy suggestions in this year's report contribute to successfully confront the challenges, lower risk, boost growth, and improve living standards across the region and beyond.

This book is a must read for anyone interested in the public finance challenges of Latin America and the Caribbean. The region needs to confront problems of fiscal sustainability while dealing with the scarring effects of the pandemic, a global downturn, and exacerbated social tensions. The climate crisis will be an increasing source of fiscal pressure. The study is an indispensable guide for policymakers to navigate this complex outlook and avoid past mistakes. Through comprehensive and innovative research, it lays out in detail the institutional reforms needed to achieve sustainability, and provides practical recommendations to solve the region's fiscal conundrum.

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Former Minister of Finance, Energy, and Transportation, Colombia

Debt, in and of itself, may be either good or bad, in the words of the authors of this report. What is clear is that managing inherited debts will be one of the signal challenges of the post-COVID world. The IDB leverages deep knowledge of Latin America and the Caribbean to develop recommendations tailored to the region. Policymakers will face difficult choices as they seek to enhance and restore governments' capacity to borrow, widen debt- and credit-market access for households and SMEs, and wind down fiscal support for large firms. There may be no simple solutions to this hydra-headed problem, but *Dealing with Debt* contains an excellent set of analyses to confront the dilemmas.

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George C. Pardee and Helen N. Pardee Professor of Economics and Political Science, University of Berkeley

The Inter-American Development Bank (IDB) is an international institution created in 1959 to foster economic and social development in Latin America and the Caribbean.

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