A Global Shock with Idiosyncratic Pains: State-Dependent Debt Limits for LATAM during the COVID-19 pandemic

Download Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Moreno-Arias, Nicolás Méndez-Vizcaíno, Juan C.
The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date: Tuesday, 12 of October 2021 Abstract
Fiscal sustainability in five of the largest Latin American economies is examined before and after the COVID-19 pandemic. For this purpose, the DSGE model in Bi (2012) and Hürtgen (2020) is used to estimate the Fiscal Limits and Fiscal Spaces for Peru, Chile, Mexico, Colombia, and Brazil. These estimates advance the empirical literature for Latin America on fiscal sustainability by offering new calculations stemming from a structural framework with alluring novel features: government default on the intensive margin; dynamic Laffer curves; utility-based stochastic discount factor; and a Markov-Switching process for public transfers with an explosive regime. The most notable additions to the existing literature for Latin America are the estimations of entire distributions of public debt limits for various default probabilities and that said limits critically hinge on both current and future states. Results obtained indicate notorious contractions of Fiscal Spaces among all countries during the pandemic, but the sizes of these were very heterogeneous. Countries that in 2019 had positive spaces and got closer to negative spaces in 2020, have since seen deterioration of their sovereign debt ratings or outlooks. Colombia was the only country to lose its positive Fiscal Space and investment grade, thereby joining Brazil, the previously sole member of both groups.

Fuente: https://www.banrep.gov.co/en/global-shock-idiosyncratic-pains-state-dependent-debt-limits-latam-during-covid-19-pandemic