Committee: General Assembly Economic and Financial (GA2)

Issue: Combating the Hyperinflation in Latin America

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Position: Co-Chair

PERSONAL INTRODUCTION

Dear delegates,

My name is Aria Dapi and I attend the 11th grade at the German School of Thessaloniki (DST). In this year's DSTMUN it is an honor to have been provided the opportunity to serve as a Co-chair in the Economic and Financial Committee (GA2).

As an active member of the MUN community, I recognize that MUN conferences not only offer the chance to replicate real-life diplomatic scenarios, but to also hone skills such as leadership, communication, and English. Yet, most importantly, indulging in MUN means making new friends and having fun. Hence, you deserve many congratulations for participating in the 7th DSTMUN!

This study guide focuses on the heated topic of combating hyperinflation in Latin America. Its purpose is to introduce you to the issue, provide some background information, and act as a stepping stone for the resolutions you will be asked to prepare. I recommend that you thoroughly read the information provided herein but only use it as a means to facilitate your personal research. During debating time, you should be ready to defend your country's position adequately and be as active as possible.

I am most grateful to have been allocated the position of Co-chair in this compelling Committee and am really excited to meet you all in person! I am sure that we will manage a fruitful debate and reach some feasible resolutions in our conference.

If you come up with any questions on the topic, this study guide, or the rules of procedure, please do not hesitate to contact me at ariadapi@gmail.com. I will be more than happy to offer clarifications.

See you soon!

Kind regards,

Aria Dapi

TOPIC INTRODUCTION

On account of the diverse economic conditions, policies, and development stages that vary from country to country, reaching economic stability all around the world simultaneously seems to be unachievable. The genesis of inflation in Latin America can be traced to several economic missteps and adverse conditions that perpetuated the existing inflation into a more severe crisis.

In the early 1980s, many Latin American countries faced what is known as the Latin American debt crisis. Initially, international creditors loaned the developing countries sums of money until the debt to US commercial banks accumulated at an incremental figure of $327 billion[1]. Their governments finally owed tremendous quantities and lost purchasing power. Monetary expansion and fiscal deficit are interconnected and constitute the root cause of the pending inflation. Moreover, political instability and frequently changing governing systems undermine economic dubiousness and promote inflation.

Inflation can trigger social and political unrest in the form of strikes and protests or regime changes, but also economic instability and money devaluation. The inflation in Latin America affected multiple countries in a semi-similar way. Some intriguing records comprise Venezuela's highest documented hyperinflationary rate of 1,000,000% in 2018, which resulted in both financial and social hardships.[2]

Solving the problem of inflation in Latin America is crucial in order to raise living standards for the citizens and strengthen their purchasing power. We live in global interconnectedness, which means everyone is affected and might suffer in the aftermath of the crisis.

DEFINITION OF KEY TERMS

Commodity booms

"Commodity booms refer to periods of significant increase in the prices and demand for primary commodities, such as oil, gold, or agricultural products. These booms

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[1] Sims, Jocelyn, and Jessie Romero. "Latin American Debt Crisis of the 1980s." *Federal Reserve History*, Federal Reserve Bank of Chicago and Federal Reserve Bank of Richmond, 22 Nov. 2013, www.federalreservehistory.org/essays/latin-american-debt-crisis.

[2] Sutherland, Manuel. "Venezuela y la Crisis Más Fuerte en la Historia de América Latina." *February 2021*, p. 291. *ResearchGate*, https://www.researchgate.net/publication/349565687_VENEZUELA_Y_LA_CRISIS_MAS_FUERTE_EN_LA_HISTORIA_DE_AMERICA_LATINA.

often result from global economic factors or specific events that drive up commodity prices." [3]

Fiscal deficit

"A fiscal deficit refers to the shortfall in a government's revenue compared to its spending during a certain period. When a country runs a fiscal deficit, it means the government spends beyond its means. Fiscal deficits are calculated either as a percentage of a country's gross domestic product (GDP) or by determining the amount of spending over revenue."[4]

GDP

"Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced and rendered in a specific time period by a country or countries. GDP is often used to measure the economic health of a country or region."[5]

Hyperinflation

Hyperinflation describes a period of economic crisis, characterized by the depreciation of the local currency and unstable prices usually triggered by economic shocks. The inflation rate skyrockets and there are both financial and social repercussions.

Monetary expansion

The process of monetary expansion involves increasing the amount of money in circulation, often achieved by central banks lowering interest rates or purchasing government securities to encourage more borrowing, spending, and investment in the economy.

Recession

"A period, usually at least six months, of low economic activity,
when investments lose value, businesses fail, and unemployment rises."[6]

BACKGROUND INFORMATION

Inflation - An economic phenomenon

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[3] Fiveable Inc. "Commodity Booms." *2024*, https://library.fiveable.me/key-terms/ap-comp-gov/commodity-booms.

[4] Hayes, Adam, "Fiscal Deficit: Definition and History in the U.S.," *Investopedia*, updated August 14, 2024, Government Spending & Debt Government Spending, https://www.investopedia.com/terms/f/fiscaldeficit.asp.

[5] "Gross Domestic Product." *Wikipedia, The Free Encyclopedia*, 18 July 2024, https://en.wikipedia.org/wiki/Gross_domestic_product.

[6] "Meaning of Recession in English." *Cambridge Business English Dictionary*, Cambridge University Press, https://dictionary.cambridge.org/dictionary/english/recession#google_vignette.

Former Federal Reserve chair Ben Bernanke affirms in his macroeconomics textbook written with Andrew Abel: “Inflation occurs when the aggregate quantity of goods demanded at any particular price level is rising more quickly than the aggregate quantity of goods supplied at that price level.”[7] In simple terms, inflation results from a high rate of demand in reference to supply, a situation in which prices across an economy rise dramatically.

Inflation is driven by three causes. On one hand, lay supply shocks – notable upsets to key economic inputs, such as energy. For instance, when the oil industry can no longer produce commodities as a result of war, the cost of energy, and of goods that need its input, increases.

A compatible example is Venezuela. Despite its enormous reliance on the oil industry, the country did not have the import power for this basic good. Low supply combined with the unchanged demand for oil were the key indicators of inflation.[8]

On the other hand, a heightened money supply, the amount of money a person owns, can also trigger inflation. If the money supply outpaces an economy’s output, the greater demand for the same amount of goods will put upward pressure on prices. And lastly, societal expectations may catalyze a self-fulfilling prophecy. When a central bank plans an amplification of money supply, the public intuits that demand and prices will rise due to the bigger money flow. In response, they call for higher wages. Increased wages and prices feed into each other and perpetuate the cycle of inflation.

America

As mentioned beforehand, inflation can lead to currency depreciation and decreased purchasing power, which means that consumers can buy less with the same amount of money. Unpredictable inflation can also cause uncertainty and pose difficulties in financial strategy planning for businesses. Hence investments might decrease and the economic growth is stalled. A fitting example is the Weimar Republic during the early 1920s, where unpredictable hyperinflation was caused by a treaty requiring payment of reparations by the Germans for the damage caused to the victorious countries by the war. The extreme and rapid devaluation of the currency, attributable to excessive money printing, created difficulties in financial strategy planning . The value of money changed daily, making it nearly impossible for businesses to budget, price their goods, or plan for future

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[7] Frick, Walter. “What Causes Inflation.” *Harvard Business Review*, 23 Dec. 2022, hbr.org/2022/12/what-causes-inflation.

[8] Statistics Research Department. “Chronic Inflation and Hyperinflation in Latin America - Statistics & Facts.” *Statista*, 3 July 2024, www.statista.com/topics/11891/chronic-inflation-and-hyperinflation-in-latin-america/#topFacts.

investments. This economic uncertainty led to a sharp decline in business investments and the economic environment became characterized by stagnation and volatility.[9] Unfair income redistribution is an additional impact of inflation. By way of illustration, borrowers who have taken out loans can repay their debt with money of less value. Lenders receive a reimbursement of lesser purchasing power in return.[10]

Hyperinflation in Latin America

The Lost Decade

The 1970s marked the beginning of a financial crisis in Latin America. After two great shocks in oil prices (triggered by the the Yom-Kippur War of 1973 and the Iranian Revolution of 1979)[11], current accounts in developing countries faced severe deficits. Simultaneously, oil-exporting countries gained profits, which were stored in safe, liquid US banks, and were later lent as funds to the needy countries of Latin America. The debt level continued to rise, as more and more funds were borrowed from commercial banks and other creditors, reaching $327 billion in 1982.[12] The crisis did not commence until August 1982 when Jesús Silva Herzog, the Mexican Finance Minister, notified the US Treasury secretary, the Federal Reserve chairman, and the International Monetary Fund (IMF) managing director that Mexico could no longer reach its debt obligations, which at the time amounted to $80 billion.[13] More Latin American countries followed in Mexico's footsteps to reschedule their debts. Due to the immense, unsustainable debt burdens, international banks halted transpacific lending.[14]

A crisis erupted in Mexico, driven by the sharp devaluation of the Mexican peso. In cases like these, commercial banks, the International Monetary Fund (IMF), and other agencies support the countries in meeting some expenses. In turn Less Developed Countries (LEDCs) agree to economic reforms and

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[9] The Investopedia Team. "Hyperinflation Throughout History: Examples and Impact." *Investopedia*, updated September 23, 2023, https://www.investopedia.com/ask/answers/061515/what-are-some-historic-examples-hyperinflation.asp.

[10] "Map of Latin America." *Wikimedia Commons*, 8 May 2009, File .svg, commons.wikimedia.org/wiki/File .svg.

[11] "Oil Crisis of the 1970s." *Energy Education*, University of Calgary, https://energyeducation.ca/encyclopedia/Oil_crisis_of_the_1970s.

[12] Sims, Jocelyn, and Jessie Romero. "Latin American Debt Crisis of the 1980s." *Federal Reserve History*, Federal Reserve Bank of Chicago and Federal Reserve Bank of Richmond, 22 Nov. 2013, www.federalreservehistory.org/essays/latin-american-debt-crisis.

[13] Sims, Jocelyn, and Jessie Romero. "Latin American Debt Crisis of the 1980s." *Federal Reserve History*, Federal Reserve Bank of Chicago and Federal Reserve Bank of Richmond, 22 Nov. 2013, www.federalreservehistory.org/essays/latin-american-debt-crisis.

[14] Sims, Jocelyn, and Jessie Romero. "Latin American Debt Crisis of the 1980s." Federal Reserve History, Federal Reserve Bank of Chicago and Federal Reserve Bank of Richmond, 22 Nov. 2013, www.federalreservehistory.org/essays/latin-american-debt-crisis.

eliminate budget deficits, aiming to stabilize their economies in order to pay out the initial debt. As the Mexican crisis spread, Structural Adjustment Programs (SAPs), ranging from tax reforms to monetary tightening[15], promoted by the IMF and the World Bank at the time, did not only perpetuate the Latin American countries' fiscal challenges but also pronounced social influences. Living standards plunged, and income inequality and unemployment rates increased, worsening poverty. In summary, short-sighted financial decisions aggravated the burdens of Latin American countries during the 1980s, which were hence characterized as the Lost Decade.

Commodities Boom and the Pink Tide

In the late 1990s**,** China experienced rapid economic growth. Hence, global demands for raw materials increased driving commodity prices up. Other emerging economies were also in need of commodities such as natural gas, agricultural products, and oil.[16] Resource-rich Latin American countries profited from export, which enabled center-left governments to implement their moderately redistributive policies while minimizing resistance from the business elite. As a result, more left-wing governments rose to power in Latin America, a political movement characterized as the "Pink Tide",e.g. Hugo Chávez in Venezuela and Evo Morales in Bolivia. Their focus lied on narrowing the gap of inequality by increasing wages, enhancing social spending and appeasing the aftermath of the neoliberal economic measures.[17] Nevertheless, the Pink Tide's social and economic agenda's overreliance on primary product exports left economies exposed to changes in global prices. This induced economic troubles when demands later declined.

The Great Recession

In 2008 the Great Recession emerged in the United States. The crush of the housing bubble – a rapid increase in home prices, manifested by high demand - did not harmonize with the set high-risk mortgages (loans provided to households with poor credit or unstable income). The bank could no longer make investments of the same value with the repaid money, known as mortgage-backed securities. Banks faced financial losses and became reluctant to loans and credits. Slower economic activity, increased

[15] "Structural Adjustment and the Spreading Crisis in Latin America." *The Development GAP*, The Development Group for Alternative Policies, October 1995, dgap@igc.apc.org, https://cs.uwaterloo.ca/~alopez-o/politics/structural.html.
[16] Selfa, Lance. "The Rise and Fall of the 'Pink Tide.'" *International Socialist Review*, no. 106, www.isreview.org/issue/106/rise-and-fall-pink-tide/index.html.
[17] Selfa, Lance. "The Rise and Fall of the 'Pink Tide.'" *International Socialist Review*, no. 106, www.isreview.org/issue/106/rise-and-fall-pink-tide/index.html.

unemployment and a widespread economic recession were the aftermath of consumers reducing their investments and spending, due to diminished access to credit and a descent of economic confidence. As the financial crisis unfolded, it led to a severe contraction in global economic activity, affecting economies worldwide, especially countries of the western Europe, where major banks had invested in American mortgage-backed securities. Economic growth in emerging economies declined. The PIGS (Portugal, Italy, Greece and Spain) were also notably affected, facing a sovereign debt crisis, on account of excessive public expenditure, slow economic growth and the global credit crunch.[18]

Repercussions for Latin America

This economic downturn had global repercussions, affecting Latin America likewise. First of all, recession in pioneering economies, primarily the US, caused a reduced demand for Latin American exports, thus experiencing a contraction in their GDP. This brought about a rapid decline in commodity prices and export revenues experienced significant drops. The number of remittances sent back home from Latin American citizens working abroad also decreased as a result of lower incomes and unemployment. Furthermore, the US credit crunch exacerbated the access Latin American countries and businesses had to international credit.[19] All these challenges had a social impact on the vulnerable populations, increasing income inequality, dismissal, and poverty. In some countries, social unrest and protests followed as living conditions worsened over time. For instance, in 2019, Chileans began demonstrating against heightened transport fares, but the frustration of the protestors extends to more domains, like the poor public health system, the low wages and pensions. Their demand for reform plans was considered by the former president, Sebastian Pinera, who in turn initiated a constitutional reform. [20]

In response, many countries introduced stimulus packages – economic policies and programs formed to foster economic growth – varying from infrastructure work to financial support for families.[21] Central banks reduced interest rates, making accessing credits and loans easier and thereby facilitating economic recovery. Some negative effects of this procedure

[18] Duignan, Brian. "Great Recession." *Encyclopedia Britannica*, 5 Aug. 2024, https://www.britannica.com/money/great-recession.
[19] Cárdenas, Mauricio. "Latin America, the Global Financial Crisis and the Velocity of Business." *Brookings*, 11 Feb. 2009, www.brookings.edu/articles/latin-america-the-global-financial-crisis-and-the-velocity-of-business/.
[20] McGowan, Charis. "Chile Protests: What Prompted the Unrest?" *Al Jazeera*, 30 Oct. 2019, https://www.aljazeera.com/news/2019/10/30/chile-protests-what-prompted-the-unrest.
[21] Duignan, Brian. "Great Recession." *Encyclopedia Britannica*, 5 Aug. 2024, https://www.britannica.com/money/great-recession.

however, involved lessened bank profitability and debt accumulation. Additionally, some governments pursued financial aid from international organizations, such as the IMF to resume economic activity.[22] Ultimately, Latin American economies benefited from their effort to reform their strategies and to minimize their dependency on commodity export**.**

Latin America amidst current global disruptions

Today, Latin America is still grappling with situations that threaten economic stability. Among these are the ongoing war in Ukraine, the Covid-19 pandemic, and Latin America's re-orientation and increasing trading reliance on China. More inflation results from increasing energy and food prices attributed to the invasion of Ukraine; on the supply side, the pandemic has caused shipping delays and workforce shortages. The unexpected spike in lots of goods has caused significant increase in production costs for countries with considerable manufacturing industries, like Brazil or Mexico.[23]

Moreover the Covid-19 pandemic issued political challenges for Latin American countries with unsteady democracies. Governments with strong presidential systems, like Brazil, put in place emergency measures that confined civil liberties. Essentially, leaders had the chance to expand their executive power by misusing their position.[24]

Lastly, Chinese investments and rising interest in Latin America's commodities and raw materials, greatly impact the region's economic growth. Hence, Latin America is susceptible to fluctuations in China's trade policies, making countries vulnerable and dependent.

Conclusion

In conclusion, the examination of hyperinflation in Latin America underscores the complex interplay of economic mismanagement, political instability and external shocks. While there has been notable development in the economies of Latin America countries over the years, struggles like economic inequality, political instability and external vulnerabilities hinder sustainable economic growth. The regions' experience with hyperinflation highlights the importance of sound fiscal policies, robust monetary frameworks, and resilient institutions. Addressing the root causes of hyperinflation is crucial in building a more secure and prosperous future for

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[22] Duignan, Brian. "Great Recession." *Encyclopedia Britannica*, 5 Aug. 2024, https://www.britannica.com/money/great-recession.

[23] Hammad, Salim. "Latin America: The Mechanisms of Inflation." *Economic Research*, BNP Paribas, 15 Sept. 2022, economic-research.bnpparibas.com/Media-Library/en-US/Latin-America-mechanisms-inflation-9/15/2022,c38565.

[24] Amy Erica Smith, "Covid vs. Democracy: Brazil's Populist Playbook," *Journal of Democracy*, vol. 31, no. 4, Oct. 2020, pp. 76-90. *Journal of Democracy*, https://www.journalofdemocracy.org/articles/covid-vs-democracy-brazils-populist-playbook/.

the region. There is still a long way to go to ensure fiscal stability, but for now the outlook to long-term prosperity and just democratic governance in Latin America remain at risk.

MAJOR COUNTRIES AND ORGANIZATIONS INVOLVED

Venezuela

In Venezuela the presidential position has gathered great power, as the United Socialist Party of Venezuela (PSUV) party has, over the past two decades, gained control of key institutions, including much of the judiciary, the electoral council, and the Supreme Court, thus weakening the accountability structure.[25] After 2013, oil revenue-dependent Venezuela went into a recession which lasted 7 years, due to plummeted oil prices. Between 2014 and 2017 political uprisings broke out, causing the emigration of millions of Venezuelans. The country's highest documented hyperinflationary rate of 1,000,000% was marked in 2018.[26] Although poverty rates remain high and financial stability has not been ensured nowadays, after the moderation of elder foreign currency regulations, shortages have been easing and the economy has been growing.[27]

[25] Buschschlütter, Vanessa. "Venezuela Crises in Brief." *BBC News*, 25 July 2024, www.bbc.com/news/world-latin-america-48121148.

[26] Sutherland, Manuel. "Venezuela y la Crisis Más Fuerte en la Historia de América Latina." *February 2021*, p. 291. *ResearchGate*, https://www.researchgate.net/publication/349565687_VENEZUELA_Y_LA_CRISIS_MAS_FUERTE_EN_LA_HISTORIA_DE_AMERICA_LATINA.

[27] "Venezuela Crises in Brief."

Figure 2: Venezuela Inflation Rate 1995-2024

[28]

Argentina

[28] "Venezuela Inflation Rate 1960-2024." *Macrotrends*, www.macrotrends.net/global-metrics/countries/VEN/venezuela/inflation-rate-cpi.

Chronic inflation is a struggle in Argentina too. Between 1944 and 2023 the inflation rate amounted to 190%. The government has been breaching debt obligations, defaulting on their sovereign debt nine times.[29] Policy responses in the past comprised price controls, assistance from the IMF but also fiscal reforms, which were not always profitable. The country's minister of Finance has promised a fiscal adjustment equivalent to 5% of GDP to achieve a balanced budget by 2025. In addition, the local currency is set to undergo a 100% devaluation, which shall be followed by a monthly 2% depreciation.[30] The initial phase of the adjustment program is causing prices to rise sharply due to changes in regulated prices and currency devaluation. A severe recession is expected as budget cuts lower household incomes, reduce spending, and make businesses wary of investing. The plan relies too much on inflation to cut the value of entitlements. However, the resulting recession, exchange rate changes, budget cuts, and a good harvest should create a significant current account surplus, which, with help from international institutions, should help Argentina meet its foreign currency needs and increase its reserves. For now, economic instability and social unrest persist and challenge the resolution of inflation.

United States of America

The US economy is one of the most prosperous and influential ones, due to its dominant financial markets, which make countries worldwide subordinate. The USA has played a crucial role in increasing trade in some areas of Latin America. For instance, through the establishment of the North American Free Trade Agreement (NAFTA) in 1992 a free-trade zone was established between the USA, Canada, and Mexico.[31] This led to increased trade and investment, thus boosting Mexico's economy by increasing exports and creating jobs. U.S. economic policies and financial aid are crucial factors that shape Latin American countries' economic stability and growth. The United States accounts approximately for 31% of the Latin American region's commodity imports and 45% of its commodity exports.[32] It is worth noting that, although the USA provides governments with access to larger markets, investment, and support, economies in Latin America are highly vulnerable to North American fluctuations and policy changes. For instance, fluctuations in the U.S. dollar's value impact the cost of imports for Latin American countries, often leading to higher inflation. Additionally, U.S. monetary policy, such as changes in

[29] Garcia, Fernando, and Lucila Venturi. "Argentina Under a New Government: What Are the Big Economic Challenges?" *Economics Observatory*, 8 May 2024, www.economicsobservatory.com/what-economic-challenges-does-argentina-face-today.

[30] Werner, Alejandro. "Milei's 'Shock Therapy' Faces an Uphill Battle in Argentina." *Peterson Institute for International Economics*, 5 Jan. 2024, www.piie.com/blogs/realtime-economics/2024/mileis-shock-therapy-faces-uphill-battle-argentina.

[31] Kenton, Will. "What Was the North American Free Trade Agreement (NAFTA)?" *Investopedia*, 26 June 2024, www.investopedia.com/terms/n/nafta.asp.

[32] Villarreal, M. Angeles, and Andres B. Schwarzenberg. "U.S.-Latin America Trade and Investment." *Congressional Research Service*, 15 Mar. 2024, crsreports.congress.gov/product/pdf/IF/IF12614#:~=U.S.%2DLAC%20Trade,2023%20(see%20Figure%201).

interest rates by the Federal Reserve, can attract investment away from Latin America, causing currency depreciation and worsening inflation in the region. Ultimately, it is crucial to note that hyperinflation in Latin America is due to international factors.

International Monetary Fund (IMF)

Since 1945, through emergency loans and technical support, the International Monetary Fund has aimed to support lower-income countries in implementing austerity measures, fiscal reforms, and policies. The IMF was established after a period of great economic recession, after the devastations of WWII. The Fund's goal is to curb inflation and foster economic growth. Since 1980 the IMF has provided support programs to many Latin American countries, honing economic and social stability.[33] While they can offer short-term steadiness, they often require economic modifications in turn, which may impact political balance instead. Thus, reactions among affected countries on the implementation of such reforms in return for temporary financial assistance are controversial.

The World Bank

The World Bank, is a multinational financial entity established in 1944 that offers economic and technical support for initiatives aiming at combating economic hardships in developing countries. Contributions made by member countries, capital acquired through issuing bonds, and revenue generated from its financial activities, are some sources for the World Bank's finances.[34] Unlike the IMF which deals with immediate financial stabilization, the World Bank focuses on long-term development and poverty reduction. Its loans target infrastructure, education, and healthcare projects. The goal is to build resilient economic systems and improve living conditions in emerging nations.

BLOCS EXPECTED

The bloc supporting the implementation of austere economic reforms and restructured financial support

This potential bloc comprises developed economies that emphasize that stable monetary policies, discipline, and international liaison are crucial to solving the issue of hyperinflation in Latin America. Their advocations might include tight debt relief projects and the adoption of fiscal reforms. Ultimately, the countries of this bloc support efforts to stabilize economies while ensuring that economic policies are aligned with international standards. Germany, the UK and the USA are some exemplary members of this bloc.

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[33] "About the IMF," *International Monetary Fund*, https://www.imf.org/en/About.

[34] *World Bank Group*. "Getting to Know the World Bank." 26 July 2012, https://www.worldbank.org/en/news/feature/2012/07/26/getting_to_know_theworldbank.

The bloc calling for increased and flexible international support

The second possible bloc focuses on the necessity of adjustable resolutions tailored to the countries' economic and social perspectives of hyperinflationary countries. They may endorse amplified international support and negotiate debt relief but also suggest the embedment of social programs to aid at-risk populations, suffering from the aftermath of hyperinflation. Some member countries include Venezuela, Bolivia and Argentina.

TIMELINE OF EVENTS

Date	Description of event
December 27th, 1945	The International Monetary Fund (IMF) was founded after the ruinous WWII to enhance economic cohesion and stability.
August 1982	Jesús Silva Herzog, the Mexican Finance Minister, declared that Mexico could not reach its debt repayment, which at the time amounted to $80 billion, marking the beginning of the Lost Decade.
1980s	The Lost Decade of the 1980s was characterized by inflation, debt crisis and economic standstill in Latin America.
December 1989	Economic mismanagement led to hyperinflation in Argentina.
April 1st, 1991	Argentinian President Carlos Menem and Economy Minister Domingo Cavallo introduced the Convertibility Program, establishing a 1:1 exchange rate between the peso and the US dollar
January 1st, 1994	The North American Free Trade Agreement (NAFTA) was ratified, enabling trade among the US, Canada and Mexico.
December 1994	A spreading debt crisis was unleashed, when the Mexican peso was immensely depreciated.
2008	The Great Recession commenced in the U.S. with the crush of the housing bubble.
September 25th, 2015	The UN Resolution 70/1 known as "Transforming our world: the 2030

	Agenda for Sustainable Development" was established. The agenda presents sustainability goals and target points.
2018	Inflation rates in Venezuela's vulnerable economy surpassed 1,000,000%.

RELEVANT RESOLUTIONS, TREATIES AND EVENTS

United Nations Economic Commission for Latin America and the Caribbean (ECLAC)[35]

The Economic Commission for Latin America and the Caribbean (ECLAC), established in 1948, was founded by the United Nations to achieve economic and social growth sustainably. Members include *33 countries* from Latin America and the Caribbean and two non-regional states, the United States and Canada. ECLAC primarily conducts research and assists in policy reforms and technical matters. It does not provide loans, but rather prioritizes analysis and consultation services, cultivating the regions' development frameworks. The Commission is also centered on Damage and Loss Assessments (DaLA), standing ready to cooperate with countries in analyzing the fiscal effects of disaster and in informing the restoration procedure. ECLAC estimates a development outlook of 2.1% regional growth (referring to GDP) in 2024, "with South America growing by 1.6%, Central America and Mexico by 2.7%, and the Caribbean (excluding Guyana) by 2.8%".[36] On the other hand, varying political and economic conditions among Latin American countries may affect the realization of ECLAC's initiatives.

UN Resolution 70/1 Transforming our world: the 2030 Agenda for Sustainable Development[37]

Resolution 70/1 designated as "Transforming our world: the 2030 Agenda for Sustainable Development" was adopted on September 25th, 2015 by all 193 member

[35] "Economic Commission for Latin America and the Caribbean (ECLAC)." *United Nations Sustainable Development Goals*, United Nations, https://sdgs.un.org/un-system-sdg-implementation/economic-commission-latin-america-and-caribbean-eclac-34574.

[36] "Latin American and Caribbean Economies Will Grow 2.1% in 2024, in a Context of Global Uncertainty." *Press Release*, 9 May 2024, www.cepal.org/en/pressreleases/latin-american-and-caribbean-economies-will-grow-21-2024-context-global-uncertainty.

[37] *The General Assembly*. "Resolution Adopted by the General Assembly on 25 September 2015; 70/1. Transforming Our World: The 2030 Agenda for Sustainable Development." 21 Oct. 2015, www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_70_1_E.pdf

states of the United Nations General Assembly. Although it does not directly refer to combating hyperinflation in Latin America, it provides a 2023 Agenda for Sustainable Development, and entails objectives related to economic stabilization and sustainable progress that can implicitly influence inflation direction in the region. The framework outlines 17 Sustainable Development Goals (SDGs) and 169 target points aiming at addressing various global matters, spanning from inequality and climate change to economic equilibrium. Regarding economic affairs all countries' leaders have pledged to work toward adopting "policies which increase productive capacities, productivity and productive employment; financial inclusion; sustainable agriculture, pastoralist and fisheries development; sustainable industrial development; universal access to affordable, reliable, sustainable and modern energy services; sustainable transport systems; and quality and resilient infrastructure"[38]. Another point of the agenda was the introduction of policies on fiscal, wage, and social protection to reduce inequality and refine emerging economies. Although Resolution 70/1 provides a comprehensive and effective framework for sustainable international growth, the opportunities it provides are mitigated by obstacles in execution, data gathering, and international disparities. To achieve the goals outlined in the agenda, continued efforts, flexibility, and support are crucial.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Argentina's Convertibility Plan of 1991

Economic mismanagement led to the eruption of hyperinflation in December 1989 in Argentina, which reached a monthly rate of 95% in March 1990.[39] Stabilizing prices, preserving reserves and trading became a hardship, and in response, the Argentinian President Carlos Menem and Economy Minister Domingo Cavallo passed the Convertibility Program. This initiative introduced a one-to-one peg between the Argentine peso and the U.S. dollar. The practice of adjusting prices and wages on the strength of inflation (a phenomenon called indexing) was prohibited. Furthermore, the program required that Argentina's central Bank hold several international reserves comparable to that of two-thirds of the country's monetary resources in an effort to credibly back the peso with real assets. By linking the vulnerable with the stable currency, central banks were limited in excessive money printing, hence curbing inflation and increasing confidence in the peso. More economic reforms, such as deregulation and the opening up of the country's economy to international

[38] *The General Assembly*. "Resolution Adopted by the General Assembly on 25 September 2015; 70/1. Transforming Our World: The 2030 Agenda for Sustainable Development." 21 Oct. 2015, www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_70_1_E.pdf

[39] "Argentina's Convertibility Program." *Policy Credibility Case Summary*, www.galbithink.org/topics/cred/argcb.htm.

trade and investment, affected short-term success in disciplining monetary and fiscal policies and establishing economic stability. The monthly inflation rate fell in 1991 to 1.5%.[40] By January 2002 Argentina had to abandon the Convertibility Plan amid severe economic crises and multiple native and global challenges including the ripple effects of the spreading Mexican economic crises of December 1994; the lessened competition in export, resulting from the fixed exchange rate, which made the adjustment to external economic shocks tougher; the increasing public debt, that led to economic pressure; etc. All this culminated in a critical financial and political crisis in 2002, forcing Argentina to implement restrictive policies and an urgent debt relief plan to combat the crisis. The Convertibility Plan is observed as a case where strict monetary policies stabilize an economy temporarily, while simultaneously imperiling it if not operated with agility.

North American Free Trade Agreement (NAFTA)

Canada, Mexico, and the United States signed the North American Free Trade Agreement (NAFTA) in 1992, establishing an open-trade zone. The agreement was set in motion on January 1st, 1994, empowering economic transactions between North America's three eminent economic powers (Mexico, Canada, and the U.S.), essentially lowering tariffs. Trade barriers in sectors including agriculture, automotive, and the textile industries, were reduced and global trade expanded. The emerging economy of Mexico is considered to have been boosted by the other two more advanced financial systems. To simplify cross-border trade, NAFTA included a system for handling disputes between investors, businesses, and governments. However, it faced criticism because it appeared to allow large corporations to bypass local regulations. On November 30th, 2018 NAFTA was succeeded by the United States-Mexico-Canada Agreement (USMCA).[41]

Figure 3: NAFTA trade route

Latin American Free Trade Association (ALADI)

The Latin American Integration Association's (ALADI) flexibility and less pressuring timetable in promoting regional cooperation and trade agreements have been adequate for the region's economies. An agreement was signed in 2001 with the Andean Community to promote unification, and a further one with Mercosur – a

[40] Ibid.
[41] Kenton, Will. "What Was the North American Free Trade Agreement (NAFTA)?" *Investopedia*, 26 June 2024, www.investopedia.com/terms/n/nafta.asp#:~:text=Key%20Takeaways%3A,a%20huge%20free%2Dtrade%20zone.

trade association comprising Paraguay, Brazil, Argentina, and Uruguay – which also strived for trade arrangements with ALADI.[42] Some of ALADI's notable successes include fostering intra-regional trade, thus reducing trade restrictions, accelerating delivery duration, and developing infrastructure in the form of transport networks or energy convergence. Although the association has increased regional economic collaboration, economic and political disparities in the region impede the thorough implementation of trade agreements.

POSSIBLE SOLUTIONS

Reduction of Tax Evasion

The average tax evasion rate in Latin America and the Caribbean amounts to 5.6% GDP[43]. If tax evasion were reduced, the government's income would increase without the need to further heighten taxation. A robust tax system would promote reduced borrowing and money printing but also foster equality and transparency if all entities contributed their share. Modernizing and digitizing tax administrations has already proved to be effective upon implementation in some developing countries, as tax collection rates have increased. By adopting digital platforms, governments can automate the submission and processing of tax returns, minimizing chances for evasion and mistakes. These systems allow for real-time data collection, enhancing the tracking of transactions and spotting of discrepancies. Additionally, digitalization makes it easier for both authorities and taxpayers to access tax records, thereby boosting compliance and enforcement.

Sector Development

Diversification is key to establishing a balanced economic environment. If sectors such as technology, manufacturing, and agriculture received more investment and support to grow, the region would not be as dependent on fluctuating commodities like minerals and oils. Also, to reduce vulnerability from supply shocks, such as dependency on fossil fuels, Latin American countries could turn towards renewable energy sources, an example being solar energy. This practice would simultaneously encourage environmental sustainability.

Debt Restructuring

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[42] Britannica, The Editors of Encyclopaedia. "Latin American Integration Association." *Encyclopaedia Britannica*, 28 Apr. 2009, www.britannica.com/topic/Latin-American-Integration-Association.

[43] Lopez, Benigno. "Three Ways to Fix Latin America's Public Finances." *Economic Policy*, *Americas Quarterly*, 14 Sept. 2022, www.americasquarterly.org/article/three-ways-to-fix-latin-americas-public-finances/.

Debt restructuring is a form in which an economy, through negotiations with creditors, finds a solution to alter the debt terms that are already existing in order to ease the financial pressure. It can be done either by adding onto the period taken to fully pay the debt or decreasing the rates or perhaps even decreasing the total amount through partial forgiveness. These are meant to reduce the immediate imposition on the fisc, buy time for economic stabilization, and create the improvement needed to enhance fiscal sustainability. Efficient debt restructuring would involve seeking the help of international financial institutions (like the IMF and the World Bank) and for revamping the restructuring programs in tandem with more general economic reforms.

Dollarization

To combat hyperinflation, local currency depreciation must halt. Dollarization means the adoption of a foreign currency, such as the U.S. dollar, that will replace the devalued one. This is a stepstone to restoring the monetary system's power and reducing loaning. A stable foreign currency may also recover reliability on the monetary framework among entities and restore economic confidence which will encourage investment. Moreover, international trade is eased when a more broadly acknowledged currency is used, provided that transaction fees fall away and the exchange rate remains in parity. In order to prevent the loss of control over a country's monetary policy, interest rates, and money supply must be adjusted adequately, or else economic disruptions might occur. Hence, it is vital that dollarization is managed with flexibility, taking into account potential challenges. However not all countries are open to dollarization, as it conveys the loss of control over the nation's monetary policy. The deprivation of autonomy limits the country's flexibility in responding to domestic economic challenges, not to mention the complexity of the transition and the resistance it may face from the citizens.

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Figure 1

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