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HISTORICAL CYCLES OF SOVEREIGN DEBT CRISES AND THEIR IMPACT ON THE ECONOMIES OF DEVELOPING COUNTRIES

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Abstract: This article analyzes the historical development cycles of sovereign debt crises and their impact on the economies of developing countries. Based on historical data, the causes of debt crises, their recurring characteristics, and their negative impact on macroeconomic indicators are studied. The results of the research show that developing countries often face crises due to excessive reliance on external debt, institutional weaknesses, and global economic shocks. Based on historical experiences, this article provides practical recommendations for developing effective debt policy.
Keywords: Sovereign debt, debt crisis, economic stability, developing countries, fiscal policy, external debt, financial management, crisis cycles.

Introduction. Sovereign debt is an important component of modern economic policy. Many countries use public debt to develop infrastructure, support social sectors, or ensure economic stability. However, history shows that the excessive increase or mismanagement of public debt has often led to financial crises, economic recessions, and social instability. In particular, developing countries are more exposed to risks when relying on external debt, as their institutional capacity is weak, fiscal discipline is low, and economic diversification is insufficient.

The purpose of this article is to study the historically recurring cycles of sovereign debt crises and to determine how these crises have affected the economic development of developing countries. The study also examines the key factors necessary to implement effective debt policy today, based on historical experiences.

Research methodology. The research applies historical-analytical, statistical, and comparative methods. Through a historical approach, major sovereign debt crises that occurred between 1820 and 2020 (for example, the experiences of countries in Latin America, Southeast Asia, and Africa) were studied. Based on reputable sources such as the World Bank, the International Monetary Fund (IMF), and Reinhart & Rogoff (2009), the recurring characteristics of debt crises were analyzed. In addition, macroeconomic indicators (GDP growth, fiscal deficit, inflation, external debt level) of 10 developing countries over the last 30 years were statistically analyzed. The goal is to identify the causes of crises and empirically demonstrate their impact on the economy.

Analysis and results. Historical analysis shows that sovereign debt crises follow specific recurring cycles, which generally occur in the following stages:

Increase in debt dependence: Developing countries take on external debt from international financial institutions and investors to finance economic growth, build infrastructure, or cover budget deficits.

External shocks or internal political instability: A sharp decline in oil prices, global economic crises, or political instability weakens countries' ability to service their debt.

Currency devaluation and inflation: Since a large portion of external debt is denominated in foreign currencies, the depreciation of the local currency further increases the debt burden.

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Default or debt restructuring: As a result, the state is unable to repay its debt on time and falls into default.

These processes have been repeated throughout history. For example:

- The Latin American debt crisis of the 1980s – caused by changes in oil prices and rising interest rates in the US;
- The 1997–1998 Asian financial crisis – associated with currency speculation and excessive short-term external debt;
- The 2001 Argentina crisis – resulted from high external debt and weak fiscal discipline;
- The post-2008 European debt crisis – emerged from the interconnection between sovereign debt and the banking sector.

These cases show that debt crises are a long-standing historical issue and are repeated due to weaknesses in financial management.

Developing countries are the group most affected by sovereign debt crises. The experiences of the 10 analyzed countries (including Argentina, Ghana, Kenya, Pakistan, Egypt, Sri Lanka, and others) demonstrate the following major economic consequences:

- **Macroeconomic instability:** In the pre-crisis period, GDP growth rates were around 4–6%, but after the crisis, they fell to 0% or negative.
- **Sharp increase in inflation** (for example, Argentina experienced 40% inflation in 2002).
- **Exchange rate volatility:** The local currency typically depreciates by 30–70%. This leads to increased import prices and a decline in purchasing power.
- **Decline in investment flows:** Foreign investors lose confidence, and foreign direct investment decreases. Capital outflows intensify.
- **Socio-economic impacts:** Due to reduced government spending, allocations to healthcare, education, and social assistance systems decrease. Poverty and unemployment levels rise.
- **Increased debt service burden:** Developing countries are forced to allocate up to 20–30% of their budget to debt repayments.

Results:

Sovereign debt crises historically occur in recurring cycles. Excessive public debt and poor financial management lead to periodic crises. Major debt crises have occurred globally every 30–40 years.

Developing countries are significantly more vulnerable to debt crises. They have weak institutional capacity, limited economic diversification, and high dependence on external financial inflows. This quickly leads to macroeconomic instability during crises.

Sovereign debt crises lead to a sharp decline in GDP growth rates. In the analyzed countries, the average growth rate of 4–5% before the crisis dropped to 0% or negative during the crisis years. This indicates a significant slowdown in economic activity.

Inflation and exchange rate volatility are among the most frequent consequences of debt crises. In crisis situations, national currencies depreciate by 30–70%, leading to sharp price increases. This reduces the population’s purchasing power and increases social unrest.

Debt servicing costs reduce the ability to finance social sectors. A large portion of the budget is spent on external debt payments, negatively affecting the healthcare, education, and social protection systems.

The flow of foreign investment sharply decreases or stops. Countries facing debt crises lose long-term investments due to credit rating downgrades and loss of investor confidence.

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The country's reputation and creditworthiness in the international financial system decline. After default, countries fall into a high-risk zone for international financial markets, which significantly limits their future borrowing opportunities.

Conclusions and recommendations. The results of the study show that sovereign debt crises are historically recurring processes and have deep and long-term economic impacts, especially in developing countries. The main causes of debt crises include:

- Weak fiscal discipline;
- Vulnerability to external economic shocks;
- High share of debt in foreign currency;
- Uncoordinated macroeconomic policies;
- Underdeveloped institutional financial management systems.

In order to prevent sovereign debt crises and ensure financial stability, the following recommendations are proposed:

1. **Develop a national debt management strategy:**

Developing countries should base their debt policy on a clear, transparent, and effective strategy. The strategy should align with national development plans.

2. **Strengthen fiscal discipline:**

Maintaining a balance between government expenditures and revenues and keeping the budget deficit under control can reduce the need for borrowing.

3. **Diversify the debt portfolio:**

Debt acquisition should not rely on a single source. The debt portfolio should be formed by taking into account interest rates, maturities, and currency risks.

4. **Develop domestic financial markets:**

Expanding opportunities to rely on internal financial resources rather than external debt plays an important role in creating a more resilient financial system.

5. **Enhance cooperation with international financial institutions:**

Regular cooperation with organizations such as the World Bank and the International Monetary Fund is necessary for technical assistance, financial monitoring, and debt risk assessment.

6. **Ensure transparency and accountability:**

All information about sovereign debt should be made public, and regular reports should be published regarding its formation, usage, and servicing costs.

7. **Establish crisis-buffer "sovereign wealth funds":**

For countries rich in natural resources, saving budget surpluses in reserve funds during high-income years and using them to address future financial difficulties can be an effective solution.

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