

Hierarchy and Sovereign Debt: Crises and Consequences in International Capital Markets

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Poor Countries Face a Debt Crisis 'Unlike Anything We Have Seen'

Dozens of countries that borrowed from private investors have debt payments coming due as their economies have crashed because of the coronavirus.

Covid-19 and sovereign debt questions

- How will states address debt distress?

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- What will be the consequences of debt outcomes?

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- Exclusion from market
- Higher borrowing costs
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- Empirically: consequences are uneven and not as harsh as expected

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- Not all defaults are the same (Cruces and Trebesch 2012)

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- What about states' relationships with creditors?

Argument 1

Argument 2

Empirical Analysis

- Developing countries, 1970-2018

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- Four main tests:
 1. Pr(Debt Crisis Onset)
 2. Size of Crisis
 3. Cost consequence
 4. Market consequence

Defining debt crisis

- Lots of measures of default
- Focus on debt restructuring events
 - Well-defined start/end dates
 - Well-defined outcomes: haircuts
 - 202 events since 1970 (Cruces and Trebesch)

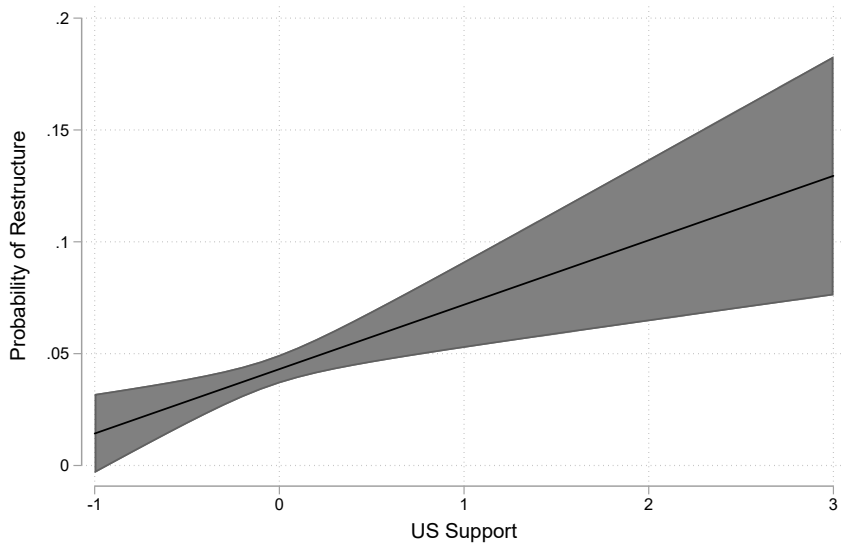
US Support

- McManus and Nieman's (2019) Bayesian latent measure

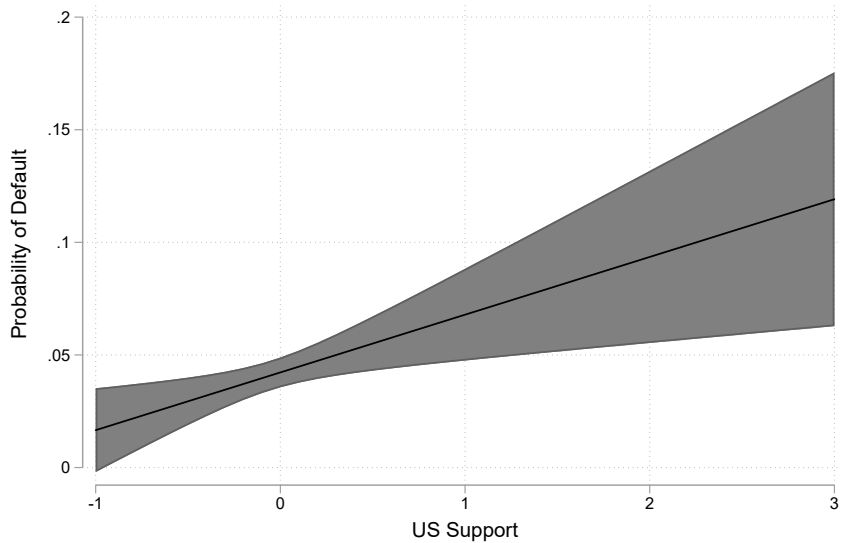
US Support

- McManus and Nieman's (2019) Bayesian latent measure
- Control variables:
 - GDP, GDP per cap, oil rents, trade, institutions

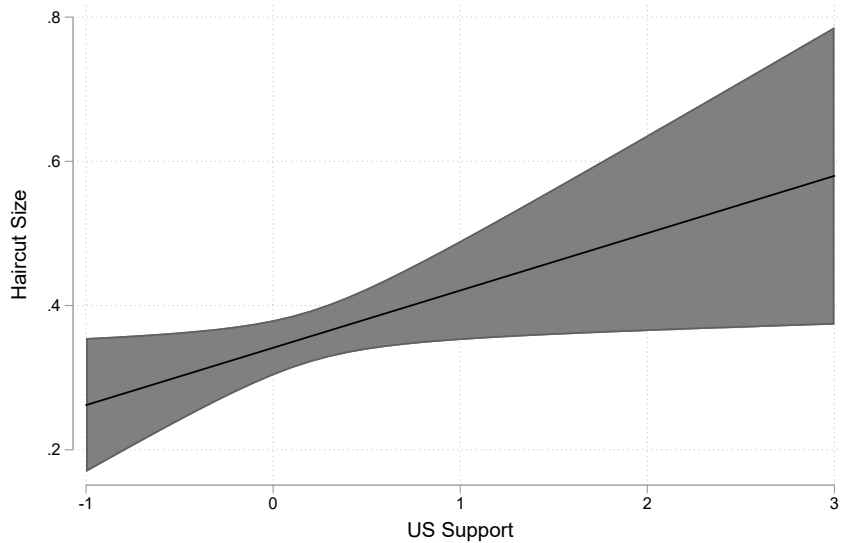
Test 1



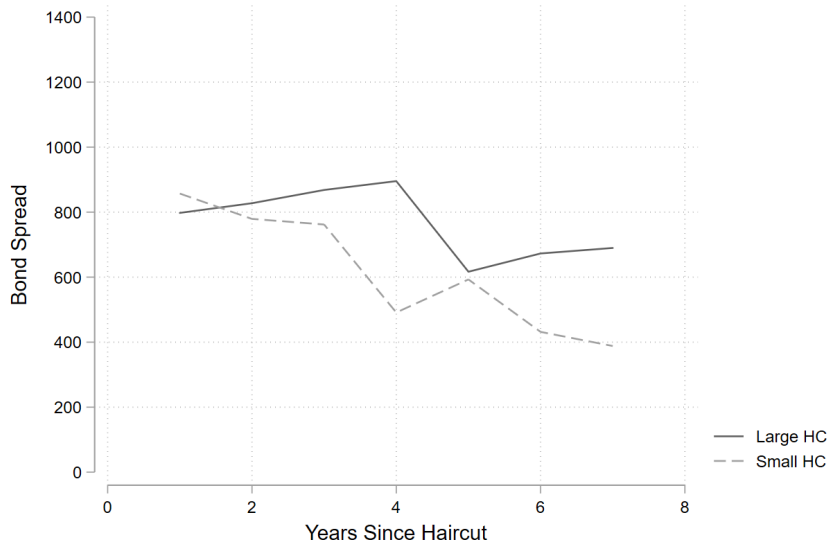
Test 1a



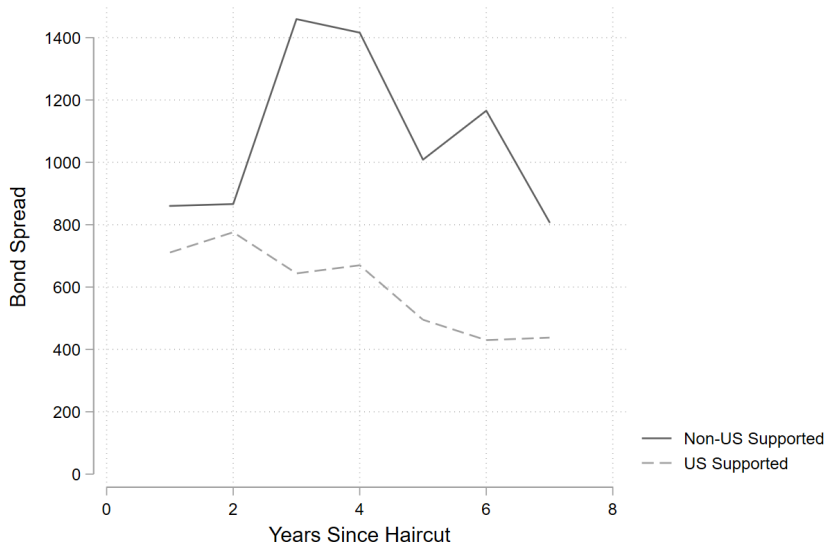
Test 2



Test 3



Test 3: Bond spreads post-crisis



Test 3

Table: US Support and Bond Spreads

	Full Sample (1)	Post Restructure (2)	Post Restructure (1-7 yrs) (3)
US Support	-142.886* (59.479)	-201.136* (36.412)	-194.300* (56.977)

Test 4: Re-entry in bond market post-crisis (BMW data)

Table: US Support and Re-entry into Bond Market, Cox Model

	(1)	(2)
US Support	2.569*	2.621*
	(1.071)	(1.128)

Further tests

- Bilateral bailout? No*
- Multilateral bailouts? Yes
- Stabilization of currency

Discussion

- Bondholders stand to lose
- U.S. support aimed at currency stability
- Post-crisis focus on maintaining, increasing investment