

# The macroeconomic effects of official debt restructuring: evidence from the Paris Club

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## Abstract

We study 422 episodes of official sector debt restructuring and their macroeconomic effects, using a novel data set of Paris Club treatments. We find that while official sector debt relief can significantly affect growth and external performance, the magnitude and direction of these effects critically depend on the restructuring terms offered by official creditors. Growth is 5% higher five years after a restructuring when nominal debt relief is provided. Underlying this difference in performance is an increase in investment following nominal debt relief but not Net Present Value (NPV) relief, and a reduction on the fiscal deficit after NPV debt relief not observed in the case of nominal debt relief. Our study also suggests that the official sector faces a trade-off between the objectives of stimulating growth and promoting external rebalancing when designing debt relief. Countries receiving NPV debt relief are likely to show a sustained improvement of their external balance, while those receiving nominal debt relief are not.

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**JEL:** C53 - Forecasting and Prediction Methods; Simulation Methods, F33 - International Monetary Arrangements and Institutions, F34 - International Lending and Debt Problems, H62 - Deficit; Surplus, H63 - Debt; Debt Management; Sovereign Debt

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