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Haircut Size, Haircut Type and the Probability of Serial Sovereign Debt Restructurings

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Abstract

This paper complements the empirical literature on sovereign debt restructurings by analyzing potential determinants of (near-term) follow-up restructurings after a restructuring has taken place. The probability of follow-up restructurings is estimated by means of survival models using a unique dataset provided by Cruces and Trebesch (2013). I find that more comprehensive debt remissions decrease the probability of serial restructurings significantly. Moreover, reductions in net present value due to outright face value haircuts reduce the probability of serial restructurings more strongly than equally sized reductions in net present value due to maturity extensions and/or interest rate reductions. One possible explanation may be found in the timing of debt remissions: While a cut in face value provides direct and instant relief, maturity extensions and/or lower interest rates only unburden a country slowly over time.

Keywords: serial restructurings, sovereign debt restructuring, sovereign debt haircuts

JEL Classification: F34, H63, N20

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