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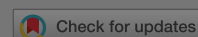
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# Time for a haircut: political regimes and sovereign debt restructurings

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## ABSTRACT

Conventional wisdom claims that reputation leads sovereign states to full debt repayment. However, defaults are recurrent, some debtor countries take a lot of time to end them, and some extract costly concessions from investors. This article argues that these differences are largely explained by the political regimes in the borrowing countries. While previous research examines whether democracies make more credible commitments to investors after a default, this article shows that political uncertainty and hard budget constraints lead to different debt restructuring outcomes. A hurdle regression analysis shows that democracies obtain larger creditor losses.

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Q KEYWORDS: IPE debt international regimes democracy duration analysis

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number of debtor states with democratic regimes that reached a restructuring settlement (74).

<sup>4</sup> In a log-normal model, the dependent variable is understood as the log of the time elapsed until a failure occurs.

<sup>5</sup> We also incorporate the haircuts of Antigua and Barbuda (2010), Argentina (2010), Ukraine (2015), and Belize (2017). Data availability reduces the number of cases compared to those used in the duration analysis.

<sup>6</sup> As DiGiuseppe and Shea ([2019](#), 15) note, the model is also convenient in that it does not require an exclusion restriction in the first hurdle equation.

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