

Sovereign Debt Restructurings: Delays in Renegotiations and Risk Averse Creditors*

Tamon Asonuma[†] and Hyungseok Joo[‡]

June 25, 2016

Abstract

Foreign creditors' business cycles influence both the process and outcome of sovereign debt restructurings. We compile two new datasets on creditor committees and on creditors' business cycles during debt restructurings and find that when creditors experience high GDP growth, restructurings are protracted and settled with smaller haircuts. To explain these stylized facts, we develop a theoretical model of sovereign debt that embeds multi-round negotiations between a risk-averse debtor and a risk-averse creditor. The quantitative analysis shows that high creditor income results in both longer delays in restructurings and smaller haircuts. Our theoretical findings are also confirmed through an empirical analysis.

JEL Classification Codes: F34, F41, H63

Key words: Sovereign Debt; Sovereign Default; Sovereign Debt Restructuring; Delays in Negotiations; Risk Averse Creditor;

* The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its management.

[†] International Monetary Fund, 700 19th Street, N.W. Washington D.C. USA 20431 tasonuma@imf.org

[‡] Wayne State University, 656 W Kirby Street, FAB 2133, Detroit, MI USA 48202 hsjoo214@wayne.edu