

Expenditure Consolidation and Sovereign Debt Restructurings: Front- or Back-loaded*

Preliminary and Incomplete

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Abstract

Sovereigns implement expenditure consolidation prior to debt crisis—“front-loaded”. We compile data on strategies of expenditure consolidation and restructurings in 1975–2020. We find that (i) expenditure consolidation precedes—front-loaded—preemptive restructuring, while occurs upon post-default restructurings—back-loaded—; and (ii) public investment and restructuring duration differ between preemptive and post-default restructurings. We construct a theoretical sovereign debt model that embeds endogenous choice of preemptive and post-default renegotiations, public capital accumulation, and expenditure composition. The model quantitatively shows the sovereign’s choice of front-loaded expenditure consolidation and preemptive restructuring results in quick debt settlement and public investment recovery. Data support theoretical predictions.

JEL Classification Codes: F34, F41, H63

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