

Heterogeneous Sovereign Debt Crisis Costs*

Preliminary and Incomplete

Tamon Asonuma,[†] Hyungseok Joo[‡] and Dilek Sevinc[§]

November 21, 2025

Abstract

Sovereign debt crisis costs vary across restructurings. We compile data on corporate borrowing from sovereigns' (governments') foreign creditor countries in 1977–2020. We find that prior to preemptive restructurings, corporates have higher external borrowing, and during preemptive restructurings, both corporate external borrowing and output decline modestly. We build sovereign debt model with endogenous sovereign's choice of preemptive and default/post-default restructurings, corporate external borrowing, and output. We quantitatively show that sovereign's preemptive restructuring choice moderately reduces the foreign creditor's net worth and corporate external borrowing, which in turn, results in a moderate output decline—"external financing channel". Data support theoretical predictions.

JEL Classification Codes: F34, F41, H63

Key words: Sovereign Debt Crisis; Corporate Debt; Output Cost; Sovereign Debt; Sovereign Default; Debt Restructuring; GDP growth;

* The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its management. The authors thank Philippe Bacchetta, Pierpaolo Benigno, Harold Cole, Giancarlo Corsetti, Russel Cooper, Alessandro Dovis, Wenxin Du, Ana Fostel, Simon Gilchrist, Mikhail Golosov, Grey Gordon, Takatoshi Ito, Anastasios Karantounias, Nobuyuki Kiyotaki, Julian Kozlowski, Eric Leeper, Karen Lewis, Francesco Lippi, Hanno Lustig, Guido Lorenzoni, Fernando Martin, Leonardo Martinez, Xavier Mateos-Planas, Enrique Mendoza, Claudio Michelacci, Matias Moretti, Dirk Niepelt, Ricardo Nunes, Yasin Kürşat Önder, Ugo Panizza, Facundo Pigullem, Vincenzo Quadrini, Juan Sanchez, Stephanie Schmitt-Grohé, Cesar Sosa-Padilla, Cedric Tille, Christoph Trebesch, Martin Uribe, Mark Wright, Vivian Yue, Jeromin Zettlemeyer, Jing Zhang, as well as participants at Athens University of Economics and Business, Banca d'Italia, Central Bank of Ireland, Deuche Bundesbank, EIEF, Erasmus University Rotterdam, European Stability Mechanism, European University Institute, Federal Reserve Bank of St. Louis, Ghent Univ., 4th International Macro/Finance and Sovereign Debt Workshop (Sogang/Univ. of Surrey), Kyoto Univ., Queen Mary University of London, Sciences Po, II Workshop, on Sovereign Debt (Milan), XXIII Banca d'Italia Public Finance Workshop, Univ. of Konstanz, Univ. of Surrey, Univ. of Virginia, Univ. of Warwick, WESEAMS 2025 (Univ. of Tokyo) for comments and suggestions.

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

[‡] Korea University, 145 Anam-Ro, Seongbuk-gu, Seoul, 02841, Korea Email: hsjo0214@korea.ac.kr

[§] Paris School of Economics, 48 Bd Jourdan, 75014, Paris, France. Email: dileksevinc1565@gmail.com