

The Macroeconomic Effects of Official Debt Restructuring: Evidence from the Paris Club

This paper finds that official-sector creditors face policy trade-offs for debt relief provision between growth, fiscal prudence and market access



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Abstract

This paper presents new empirical results on the macroeconomic impact of sovereign debt restructurings with official-sector creditors. Using a novel dataset on Paris Club restructurings and Local Projection methods, we find that Paris Club treatments can have a significant impact on economic growth -- 2% higher GDP growth two years after the restructuring -- when a nominal haircut is provided. At the same time, the countries that had received nominal debt relief tend to be less prudent in conducting their fiscal policy than those benefiting from a restructuring in NPV terms. Furthermore, as regards the external sector adjustment after debt restructuring, we observe an improvement in the net foreign asset position, due to the combination of less external debt and higher foreign reserves. Our study suggests that the official sector faces some short-term trade-offs between the objectives of stimulating economic growth, promoting fiscal prudence and improving a country's position in international capital markets when designing a debt restructuring.

Keywords: Official Creditors, Sovereign Debt Restructuring, Growth, Fiscal Stance, External Sector Adjustment, Local Projections

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