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"Sovereign Debt Default, Debt Restructuring and Growth: Concepts and Stylized Facts"

Abstract

The paper investigates GDP growth and public debt dynamics before, during and after public debt crisis, separating sovereign debt default and debt restructuring episodes over the period 1970-2010. We find that sovereign debt restructuring does not contribute to explain the typical post-default economy recovery. More generally, debt restructuring episodes are poorly correlated with GDP growth. Only debt restructurings involving face value cuts (which usually occur many years after the initial default) reduce the debt to GDP ratio and are associated with better economic performance. However, a case study analysis over individual restructuring episodes involving face value cuts suggests that the causation more likely runs from growth to restructurings, and not viceversa.