Research seminar on sovereign debts (Fourgeaud seminar series)

co-organised by the Banque de France-PSE chair on International macroeconomics and the French Treasury

The "International Macroeconomics" Banque de France - PSE Chair and the French Treasury are delighted to invite you to the joint workshop on **sovereign debts** which will take place in person and in English **from 10 a.m. to 12 at PSE, 48 boulevard Jourdan, room 2-21, on March 3, 2022.**

*Two papers will be presented during this seminar which will be chaired by **Agnès Bénassy-Quéré** (Chief economist of the French Treasury and Professor at PSE).*

***Charles Serfaty** (Banque de France) will present a study entitled "**Sovereign Default and International Trade**".*

***Professor Ugo Panizza** (The Graduate Institute, Geneva & CEPR) will present the main findings of a study carried out with **Francesca Caselli** (International Monetary Fund), **Matilde Faralli** (Imperial College London) and **Paolo Manasse** (University of Bologna) entitled "**On the Benefits of Repaying**".*

*The discussion will be introduced by **Schwan Badirou Gafari** (Secretary General of the Paris Club).*

Summary of the presentations:

''Sovereign Default and International Trade'' by Charles Serfaty (Banque de France).

Evidence suggests that sovereign defaults disrupt international trade. As a consequence, countries that are more open have more to lose from a sovereign default and are less inclined to renege on their debt. In turn, lenders should trust more open countries and charge them lower interest rate. In most cases, the country should also borrow more debt the more open it is. This paper formalizes this idea in a simple sovereign debt model à la Eaton and Gersovitz (1981). It also provides evidence using gravitational instrumental variables from Frankel and Romer (1999) and Feyrer (2019) as a source for exogenous variation for trade openness.

‘‘On the Benefits of Repaying’’ by Francesca Caselli (International Monetary Fund), Matilde Faralli (Imperial College London), Paolo Manasse (University of Bologna) and Ugo Panizza (The Graduate Institute, Geneva & CEPR)

This paper studies whether countries benefit from servicing their debts during times of widespread sovereign defaults. Colombia is typically regarded as the only large Latin American country that did not default in the 1980s. Using archival research and formal econometric estimates of Colombia’s probability of default, we show that in the early 1980s Colombia’s fundamentals were not significantly different from those of the Latin American countries that defaulted on their debts. We also document that the different path chosen by Colombia was due to the authorities’ belief that maintaining a good reputation in the international capital market would have substantial long-term payoffs. We show that the case of Colombia is more complex than what it is commonly assumed. Although Colombia had to re-profile its debts, high-level political support from the US allowed Colombia to do so outside the standard framework of an IMF program. Our counterfactual analysis shows that in the short to medium run, Colombia benefited from avoiding an explicit default. Specifically, we find that GDP growth in the 1980s was higher than that of a counterfactual in which Colombia behaved like its neighboring countries. We also test whether Colombia’s behavior in the 1980s led to long-term reputational benefits. Using an event study based on a large sudden stop, we find no evidence for such long-lasting reputational gains.

Timing Presentation 30 minutes per paper, discussion 30 minutes, open discussion 30 minutes

Venue PSE **-** Paris School of Economics
48 boulevard Jourdan, room 2-21
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Registration http://seminairefourgeaud-mars2022.dg-tresor.fr