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Resolving Sovereign Debt Crises: the Role of Political Risk

Christoph Trebesch

ABSTRACT

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Sovereign defaults are bad news for investors and debtor countries, in particular if a default becomes messy and protracted. Why are some debt crises resolved quickly, in a matter of months, while others take many years to settle? This paper studies the duration of sovereign debt crises based on a new dataset and case study archive on debt renegotiations between governments and foreign banks and bondholders. Using Cox proportional hazard models, I find that domestic political instability ("political risk") is a significant predictor of negotiation delays, after controlling for macroeconomic conditions. Government crises, resignations, and street protests are particularly disruptive for a quick settlement process. Overall, the evidence suggests that debtor countries often lack the political ability to resolve a debt crisis. Governments in turmoil are unlikely to exit a default quickly.

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Christoph Trebesch
Kiel Institute for the World Economy
Kiellinie 66
D-24105 Kiel, Germany
Email:
christoph.trebesch@ifw-kiel.de
www.ifw-kiel.de

'It's easy to get into a debt moratorium. It's tough to get out.'

William Rhodes, senior executive of Citibank during the 1980s[1]

1. Introduction

In the absence of an international bankruptcy regime for sovereigns, the resolution of debt crises remains a difficult challenge. Defaults can be messy, sometimes spanning up to 15 years until their final resolution. Delays are costly for investors, who may be stuck with an illiquid, defaulted bond or loan that is eventually restructured with deep losses (haircuts) (Benjamin and Wright 2009, Asonuma and Trebesch 2016, Meyer *et al*. 2018). Delays can also be costly for debtor countries, due to a loss of access to international capital markets, lower growth, and less investment during debt crisis spells (Richmond and Dias 2009, Mendoza and Yue 2012, Asonuma *et al*. 2017).

A puzzling empirical fact is the large variability in the duration of defaults and debt renegotiations. In some cases, like Uruguay 2003, Pakistan 1999, Chile 1990 or Romania 1986, restructurings occurred at record speed, i.e. in only three or four months. Other restructurings, such as Argentina after 2001, Jordan 1989-1993 or Peru 1983-1997, took many years. What explains this large variation across crises? Why are some debt workouts completed in a few months, while others span more than a decade and are plagued with frequent negotiation breakdowns?

This paper is the first broad-based empirical analysis on the duration of sovereign debt renegotiations.[2] I study delays in crisis resolution using a newly coded dataset by Trebesch (2011) and Asonuma and Trebesch (2016), which covers 179 sovereign debt restructurings with external private creditors between 1978 and 2010. The new data complement the restructuring database of Cruces and Trebesch (2013) by adding the starting point of each restructuring process, i.e. the month in which a default or debt renegotiation started. This procedural information was mostly coded from qualitative sources, including books, policy reports and thousands of press articles on the day-to-day debt negotiation process.

In analysing negotiation delays, I place a particular focus on political risk and domestic political economy problems in the defaulting country. This emphasis on debtor politics differs from much of the literature on crisis resolution and debt renegotiation, which

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[1] Cited in a Reuters article, 10th of May 1988.

[2] My approach differs from papers studying delays in re-accessing capital markets after default, i.e. the time until new loans or bonds are placed (Gelos *et al*. 2004, Richmond and Dias 2009, Cruces and Trebesch 2013). Here the focus lays on crisis resolution and, thus, on delays *during* ongoing defaults and renegotiations.

typically focuses on coordination and free-rider problems on the creditor side. Indeed, Rogoff and Zettelmeyer (2002) point to the lack of work studying bad debtor incentives as a reason for disorderly crisis resolution. They emphasise that 'negotiation delays and perhaps failures could in principle arise from debtor actions as much as creditor actions - either as a consequence of strategic behaviour, or because the debtor side exhibits collective action or political economy problems of its own' (p. 49). A recent report by Moody's (2016) also emphasises political risk as an important factor for sovereign default and debt distress. To my knowledge, however, no previous empirical paper has studied the link between political risk and the resolution of sovereign debt crises.

In the quantitative analysis, I estimate the correlates of renegotiation duration using a standard Cox proportional hazards model, which is flexible and allows for time-varying covariates, such as political risk. The main empirical challenge is the endogeneity of political risks. First, there may be unobserved confounders driving both restructuring delays and political instability. Moreover, it is possible that the debt crisis and restructuring process contributes to government crises and instability, giving rise to reverse causality bias. I address these challenges by including a wide set of macroeconomic and political control variables and conduct a robustness check using initial (pre-default) levels of political stability in each case. I also control for country credit rating, a catch-all measure of country risk, which should capture many potential confounders. Nevertheless, the results should be read as showing conditional correlations and not causal effects.

To complement the statistical analysis and address some of its limitations, I also collect narrative case study evidence on restructuring delays, building on the qualitative work in Trebesch (2011). The detailed case narratives cover 90 sovereign debt restructurings for a total of 280 country-year spells in 34 defaulting countries. The cases are shown in detail in the Appendix and summarised in Section 3.

In the regressions, political risk measures, in particular the widely used ICRG risk index, have strong predictive power for the duration of debt renegotiations. A one standard deviation increase in political risk is associated with a 34% lower probability of completing a restructuring in that year. The result is robust when adding a battery of macroeconomic and financial control variables, when using initial values of political risk, and when combining consecutive restructurings into joint crisis spells, to account for the occurrence of 'serial restructurings'. The case study evidence also points to domestic politics as a main driver of delay.

To understand *why* politics is important for crisis duration, I explore two channels. First, governments could be 'unwilling' to restructure. This could be the case, for example, when a leftist or nationalist government gains power and refuses to make any further concessions to foreign creditors. Alternatively, governments could also be 'unable' to resolve a default, for example due to a war or the collapse of the incumbent government. Major political shocks can make effective crisis management all but impossible.

I find limited evidence for the unwillingness-to-restructure channel. Only a handful of cases can be easily termed as 'political defaults', defined as cases in which governments refuse to engage with creditors or impose a unilateral debt moratorium without further resolution efforts. The few episodes that clearly fall into this category include Peru after 1984, Brazil in 1987 and 1989, the Dominican Republic 1989-1992, Ecuador 1999-2000 and 2008-2009 as well as Argentina after 2001.

Both the narratives and econometric results are more supportive of the inability-to-restructure channel. In dozens of cases, negotiations were delayed due to government crises and instability. Difficulties in forming a new government, resignations by key cabinet members, or political scandals all led to delays in restructurings - as did mass protests, anti-government demonstrations and riots on the street. In the regression analysis, the variables capturing government crises, government instability and street protests all show significant coefficients. This is not the case, however, for proxies capturing government unwillingness to pay, such as government ideology or elections. Overall, these findings are in line with recent theory work by Andreasen *et al*. (2016) showing how governments may lack the *political capacity* to repay and deal with their foreign creditors in times of domestic pressure and instability. When the executive faces severe political turmoil, it proves hard to settle defaulted debt quickly.

The paper relates to a growing body of work on sovereign defaults, debt restructurings and negotiation delays. Most contributions in the literature study delays as an outcome of creditor coordination problems. Pitchford and Wright (2007) model negotiation delays as a function of creditor behaviour and creditor composition. In their model, creditors may hold out for better settlements or they may free ride on the negotiation effort of others. Pitchford and Wright (2012) also focus on creditor induced delay. They find that a larger number of creditors and the presence of 'vulture' funds increase the likelihood of strategic holdups. Asonuma and Joo (2016) show how the business cycle in creditor countries can influence creditor risk aversion and thereby the duration of debt renegotiations with foreign governments. Also Gai *et al*. (2004), Ghosal and Miller (2003) and Haldane *et al*. (2005) highlight creditor characteristics, coordination problems or moral hazard as channels driving inefficiencies and delays in crisis resolution.

A related branch of the literature analyses the role of debt characteristics and secondary markets. Bi *et al.* (2011) conclude that larger implicit haircuts (creditor losses) increase the likelihood of delayed restructurings, which is in line with the stylised facts shown in Benjamin and Wright (2009). Bai and Zhang (2012) find that liquid secondary markets can lead to shorter restructuring duration, while Broner *et al.* (2010) show that functioning secondary markets can reduce sovereign risk. Similarly, Ghosal *et al.* (2017) find that better information on growth and debt sustainability prospects shortens delays. They also show that delays may be necessary to signal the debtor's debt sustainability situation. Compared to this body of work, there is barely any theoretical research studying political economy problems as a potential driver of delays and negotiation breakdowns. The broader literature on the link between political and sovereign risk is discussed in detail in the next section.

More generally, there are only few empirical studies on crisis resolution delays and the duration of debt renegotiations. Benjamin and Wright (2009), Reinhart and Rogoff (2009), Asonuma and Trebesch (2016) and House *et al.* (2017) all show descriptives on default duration and restructuring delay. However, none of these contributions includes a systematic econometric analysis on delays and no paper studies the role of political risk or political economy problems in depth.

The remainder of the paper is structured as follows. Section 2 discusses the potential channels linking political risk and sovereign debt restructurings. Section 3 summarises the case study evidence. Section 4 presents the dataset, new stylised facts, as well as the estimation strategy. Section 5 discusses the empirical results. Section 6 concludes.

2. The politics of debt restructurings: unwillingness or inability to settle?

The literature has long recognised that political factors influence sovereign risk and the occurrence and characteristics of sovereign debt crises. In their literature review on the politics of default, Hatchondo and Martinez (2010) build on a long tradition and distinguish between a government's ability-to-pay and its willingness-to-pay (for an early treatment see e.g. Eaton *et al.* 1986, see also Manasse and Roubini 2009).

According to Hatchondo and Martinez (2010), policymakers differ in their willingness-to-pay. A government turnover can thus give rise to a 'political default', defined as a situation in which 'a creditor-friendly government is replaced by a debtor-friendly one'. Scholl (2017) studies this possibility in a standard Arellano (2008) type model of sovereign debt with two competing government parties. She finds that sovereign default risk increases when elections are won by a party with a stronger preference for public spending. Hatchondo *et al.* (2009) also assume that two parties alternate in power, one being more patient and investor-friendly

than the other. The myopic party is more likely to default, resulting in higher sovereign risk levels in case this party enters government. These models are in line with Sturzenegger and Zettelmeyer (2006, p. 43) who claim that 'changes in the domestic political economy' can affect a 'country's willingness to make sacrifices in order to repay'.

Willingness-to-pay arguments have also been studied empirically. Stasavage (2007) shows historical evidence that yields on British bonds were lower whenever the creditor-friendly Whigs-party was politically strong. Hatchondo *et al.* (2009) show that the bond spread of Brazil increased drastically in 2002 before the electoral victory of the left-wing presidential candidate 'Lula' Da Silva, reflecting investor concerns that he could repudiate the country's debt.[3] Moreover, Manasse and Roubini (2009) find evidence for political business-cycle effects, as the probability of entering and remaining in a default increases in election years. Relatedly, Cole *et al.* (1995) study sovereign debt renegotiations prior to the 20th century. They conclude that the exit from a default via a debt settlement should be interpreted as a 'signal of fiscal probity.' More specifically, 'by settling their old loans, governments in default could show that they were willing to make sacrifices to repay lenders.' (p. 367).

To summarise, according to this view, partisan preferences and political business cycles will affect both government willingness-to-pay and the government's willingness to reach a quick and negotiated settlement with foreign creditors.

The alternative view is that a government might be willing but unable to repay debts or to credibly commit to a debt settlement with foreign creditors. One reason for inability-to-pay can be institutional weakness, affecting both the probability of default as the speed of crisis resolution and negotiations. Reinhart *et al.* (2003) show that some countries are 'debt intolerant', in the sense that they are less able to deal with high levels of debt and financial distress. According to the authors, countries characterised by debt intolerance and serial defaults have weak institutions and every new default further weakens the institutional framework, laying the seeds for the next default (see also Asonuma 2015). Acemoglu *et al.* (2003), Kohlscheen (2007) and van Rijckeghem and Weder (2009) also find that deep political institutions - such as the degree of executive constraints - matter for the probability of default and for crisis management. For example, Acemoglu *et al.* (2003, p. 51) conclude that 'countries that inherited worse (''extractive'') institutions from European colonial powers are much more likely to experience high volatility and severe economic crises.' Against this backdrop, one may expect longer defaults in countries with weak institutions, be it due to ineffective macroeconomic policies or bad crisis management.

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[3] Enderlein *et al.* (2012) test the link between partisanship and sovereign risk, but do *not* find that left-wing governments adopt more coercive actions during debt renegotiations.

One manifestation of deeper institutional problems is political instability, in the form of government crises, coups, wars, or mass protests on the street.[4] In the long view of history Sturzenegger and Zettelmeyer (2006, p. 4) find that defaults have often been 'the by-product of wars, revolutions, or civil conflicts' and in some cases 'the defaults or repudiations were sideshows compared with the political and social upheavals with which they were associated'. Indeed, if a government faces deep political turmoil and risks losing power anytime soon, the settlement of debt renegotiations with foreign creditors takes the backseat. Likewise, in the midst of a revolution or war, there is limited political room to engage in negotiations over restructuring details or to resume payments. In line with this, Cole *et al.* (1995, p. 380) conclude from 19th century case studies that 'the settlement of defaulted debts was, in many cases, associated with a higher degree of political stability'.

The relevance of political stability and political constraints is also reflected in recent theory work on sovereign default and restructurings. Andreasen *et al.* (2016) find that a government may lack the political support to repay foreign creditors and implement its fiscal policy plans. As a result, defaults can occur due to *political* inability-to-pay. Relatedly, in debt bargaining models, Ghosal *et al.* (2017) conclude that domestic politics can constrain a government in ways that result in settlement delays, while Benjamin and Wright (2009) find support for a 'strength through weakness' channel. In their model, when the economy (or politics) is fragile, the debtor government cannot credibly agree to concessions towards its creditors, resulting in longer debt negotiations.

In sum, according to the 'inability' view, weak institutions and political instability can result in a situation in which a government is effectively unable to resolve a debt crisis quickly.

Building on this discussion, the empirical analysis proceeds in two main steps. First, I will show evidence that domestic politics and political risk (in a broad sense) can hamper crisis resolution. Second, I will explore the channel at work and attempt to discriminate between (i) cases of inability to restructure and (ii) cases characterised by unwillingness to do so. Needless to say, it is challenging to distinguish between the two categories sharply. Inability and unwillingness are sometimes two sides of the same coin.[5] Nevertheless, the distinction continues to play a prominent role in the debate on sovereign debt and I will build on previous empirical attempts to classify cases (e.g. by Sturzenegger and Zettelmeyer 2006).

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[4] Several recent theory papers show how political turnover and uncertainty can result in elevated sovereign risk (Cuadra and Sapriza 2008, D'Erasmo 2010, Chatterjee and Eyigungor 2017).

[5] A government could signal its unwillingness to settle when in effect it lacks the financial resources to resume payments after the exchange. Similarly, a country could signal inability to settle for political reasons, even if it does have sufficient resources to strike a compromise with foreign creditors.

3. Case narratives: domestic politics matters for crisis resolution

How does domestic politics matter for the resolution of sovereign debt crises? In particular, what type of political events cause delays and breakdowns in ongoing negotiations? To shed light on these questions, the following paragraphs summarise stylised facts from a narrative database compiled for this paper.

The narratives build on day-to-day crisis reporting by the financial press, extracted from the Factiva news database and focusing on main international newspapers (Financial Times, New York Times, Wall Street Journal) and news agencies (Associated Press, Dow Jones Newswires, Reuters). Specifically, I build on and expand the earlier database by Enderlein *et al*. (2012) with regard to renegotiation delays. More details are described in Trebesch (2011).[6]

Due to the extensive press coverage on debt crises and restructurings it is straightforward to identify episodes of delays and negotiations breakdowns. It is more challenging to distil the reasons for delay. Accordingly, when coding the narratives for this paper, a main objective was to differentiate between delays caused by domestic political factors and those occurring due to other reasons such as holdout litigation or inter-creditor disputes. More specifically, I summarise instances of 'political delay' in case domestic politics reportedly leads to a delay or breakdown in debt negotiations of more than 3 months during any given year. I also included instances were governments refused to initiate or continue negotiations. The Appendix summarises all narratives on political delay and the underlying reasons, with detailed sources.

In total, I evaluated 280 country-year spells in default, covering 90 debt restructuring processes in 34 countries. The sample of cases includes main emerging market economies covered in JP Morgan's emerging market bond index (EMBI). However, poor countries and those with limited access to private capital markets were not included, mainly because the press coverage for these cases was usually not detailed and reliable enough to identify delays and their drivers. Moreover, for countries with little private debts, the negotiations with foreign banks are often just a sideshow to the renegotiations of official loans under the Paris Club umbrella.

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[6] The search algorithm applied in Factiva is 'countryname w/10 debt', which identifies all articles in which the respective country name appears a maximum of ten words away from the word 'debt'. Based on this search algorithm, all relevant articles were extracted into backup documents for each crisis episode. Altogether, I extracted and evaluated more than 20,000 pages of articles from the financial press.

Out of the 280 country-years covered, political delays were observable in 124 yearly cases. In other words, in almost every second crisis spell, I found that domestic political frictions added to delays in crisis resolution. All of these cases are listed in the Appendix and in many ways, they speak for themselves. When reading through the material, it becomes clear that domestic political frictions have been and continue to be a hurdle for quick debt restructurings. Moreover, it is evident that the reasons of delays were diverse.

With a view to the channel, I will group the delay narratives into cases where governments appeared unwilling to restructure and those in which governments were rather unable to settle with creditors.[7] More specifically, I will attempt such a classification, albeit in a rudimentary way, by picking cases that appear most fitting to either of these two views.

Overall, I could identify dozens of delay narratives which are consistent with the *inability*-to-restructure view. The list is too long to show in full, so I extract a few representative examples in which delays occurred due to:

- Political instability following elections, as well as coups or the death of the country's leader (e.g. Brazil 1985 and 1989, Dominican Rep. 1994 and 2004, Ecuador 1988 and 2000, Panama 1994).
- Major political scandals (e.g. in Brazil 1992 and 1993, Ecuador 1999).
- Cabinet reshuffles, in particular the resignation and/or ousting of the finance minister or chief debt negotiator (e.g. Bolivia 1984, Ecuador 1992, Mexico 1986, Nigeria 1990, Peru 1984, Poland 1988, Russia 1992-1997).
- Wars and armed conflicts (e.g. Argentina 1982, Panama 1989, Jordan 1990).
- General strikes, mass demonstrations, and riots (e.g. Bolivia 1984, Dominican Rep. 1984, Poland 1982).

In comparison, the number of narratives that clearly fit the *unwillingness*-to-restructure view was smaller. These episodes can be linked to two main types of situations:

- Cases in which governments announced a payment moratorium and at the same time refused to engage in creditor negotiations (Argentina 1988-1990 and 2002-2004, Brazil 1987 and 1989, Dominican Republic 1989-1992, Ecuador 1987-1993 and 2008-2009, Peru 1984-1993).[8]

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[7] I thank a referee for making this suggestion.
[8] It is possible that debtors refuse to negotiate or settle to allow time for signalling and information acquisition, in line with the model of Ghosal et al. (2017).

- Moreover, some governments refused to recognise debts or guarantees incurred by previous governments or cancelled debt settlements that had earlier been agreed on (Bulgaria 1990-1991, Jordan 1990, Peru 1984-85, Poland 1982, Russia 1992-1995).

To summarise, the narratives clearly illustrate the importance of domestic politics for crisis resolution. I find evidence supporting both the unwillingness and the inability channel. However, the number of delay episodes of the 'inability type' (with delays due to political instability, turmoil and shocks) clearly exceeds those of the 'unwillingness type' (with delays due to government refusals to negotiate). I will next test the relevance of political risk and the unwillingness vs. inability channel in a more rigorous way.

4. Survival analysis of restructuring duration: data and methodology

This section introduces the dataset and stylised facts on the duration of sovereign debt restructurings. I then present the methodology to estimate correlates of restructuring delays. The main explanatory variable is a widely used aggregate measure of political risk by ICRG. Moreover, I focus on proxies for a government's political unwillingness or inability to restructure. As controls, I use standard financial and macroeconomic variables, as well as characteristics of each debt restructuring.

4.1. Measuring restructuring duration

To measure the duration of sovereign debt renegotiation I use the dataset by Trebesch (2011) which was published in Asonuma and Trebesch (2016). The dataset codes the start and end dates of each of the 179 sovereign debt restructuring processes with external private creditors (foreign banks or bondholders) between 1978 and 2010 using the same set of restructurings as in the updated database of Cruces and Trebesch (2013).

The start of a restructuring process is defined as the default and/or announcement of a distressed restructuring, where distressed restructurings are those involving terms that are less favourable than the original terms of the bonds or loans (this definition follows Standard & Poor's (2006) and is also used in Cruces and Trebesch 2013). More precisely, I code the start of a restructuring whenever (i) the government misses interest or principal payments to private external creditors beyond the grace period (default month) (ii) or whenever a key member of government publicly announces a debt restructuring (announcement month). Both events indicate that the government is in severe financial distress.

The end of a restructuring is defined as the month of the final agreement and/or the implementation of the debt exchange. More precisely, I code the end month of a restructuring as the month in which either (i) an official signing ceremony took place (in the case of bank debt restructurings), or (ii) debt was exchanged on the market (in the case of bond restructurings). Thus, restructurings are defined as completed whenever the debtor comes to a final exchange agreement with the large majority of creditors.

In the robustness section, I also use an alternative definition for the end of a restructuring, by taking into account creditors that hold out and/or litigate after the main restructuring has been implemented. This applies, for example, to Argentina, where over 20 percent of creditors refused to participate in the global exchange of 2005, as well as a few additional cases in which a non-negligible share of creditors hold out, often suing for better terms (see Schumacher *et al*. 2018). To account for these cases, I extend the end date of each spell to the year in which all (or almost all) holdout creditors settled, namely Argentina to 2016 (instead of 2005), Brazil to 1996 (instead of 1994), Dominica to 2007 (instead of 2004), Ecuador to 1997 (instead of 1995), Peru to 2000 (instead of 1997) and Poland to 1995 (instead of 1994). As shown below, the results hold with this extended duration measure.

The dataset differs from existing ones by Standard & Poor's (2006) or Reinhart and Rogoff (2009) since it codes the duration of individual restructuring processes, which enables a more detailed analysis of crisis resolution processes. Specifically, S&P codes 'default' years and not the duration of negotiations and it is not possible to disentangle restructuring and renegotiation spells from spells of missed payments. Moreover, I consider individual restructurings on different types of debt as separate processes if the negotiation and debt exchange process is conducted separately (bonds or loans, or different types of bonds).

One example is the Dominican Republic, which in 2004-2005 conducted separate negotiations with its external banks and bondholders. Here, I will study both cases separately, instead of using only one default spell 2004-2005. Another example is Morocco, which restructured its debt in 1986, 1987 and 1990. I consider each renegotiation process separately (August 1983 to February 1986, October 1985 to September 1987 and February 1989 to September 1990), instead of using the S&P default spell 1983-1990. However, for robustness, I also show results when combining individual renegotiations into the same spell.

4.2. Preliminary analysis

A first insight from the dataset is the very large variation in restructuring duration. The average duration for the full sample is 52 months (4.3 years), with a standard deviation above 4 years. Particularly long renegotiations include the case of Vietnam, whose government

defaulted in 1982 and settled its defaulted debt only in 1997, a period of more than 15 years. Further lengthy restructurings were observed in Ecuador, which was in on-and-off debt negotiations from 1986 to 1995 (8.5 years) or Panama from 1987 to 1996 (9.2 years). At the other end are cases such as Brazil in early 1983, Uruguay in 2003 or Romania in 1986, who managed to restructure in a period of only 3 months.

For a preliminary assessment, I plot an empirical survival function for restructurings in countries with high vs. low political risk (using the ICRG political risk index and cutting that at the median). Specifically, I apply the non-parametric Kaplan-Meier estimator, which plots the compound probability of remaining in default/renegotiation for each year after the start of distress. It can be defined as

$$\hat{S}(t) = \prod_{j|t_j \le t} \left(\frac{n_j - d_j}{n_j} \right) \qquad (1)$$

where t_j denotes the time at which settlement (default exit) occurs for country-case j, d_j are the number of countries that settle at time t_j, and n_j is the total number that have not settled just prior to t_j.

Figure 1: Kaplan-Meier Survival Functions for Restructuring Duration
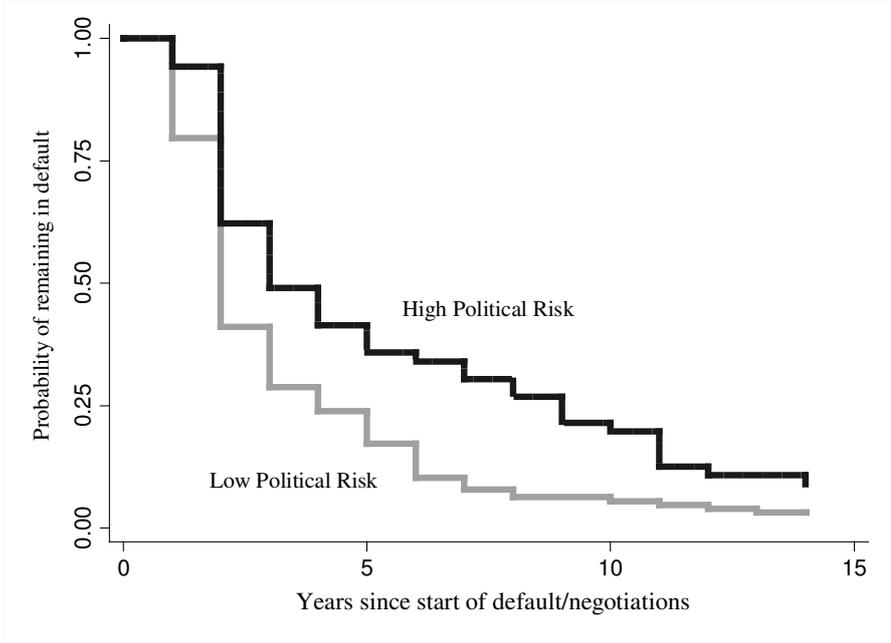
Note: This figure plots two survival functions for the duration of sovereign debt restructuring processes, differentiating by cases with high and low political risk. High-risk cases are those with above-median values in the ICRG political risk index (higher than 48 in the inverted index). Low-risk cases have risk values below the median. The sample consists of 109 restructurings for which ICRG political risk data is available. The y-axis denotes the Kaplan-Meier survival estimate for each function, which represents the unconditional, joint probability that countries remain in default/negotiations up to each year after the start of distress on the x-axis. The figure shows a positive correlation between the level of political risk and the probability of delays.

Figure 1 shows the estimated survival functions, suggesting that restructurings in an environment with high political risk are more likely to be delayed. The probability of remaining in default/negotiations is significantly higher after the second year after the start of distress (at the 0.1 level).

4.3. Estimation strategy

The univariate model shows a positive correlation between political risk and restructuring duration. However, the same factors that are causing delays are likely to also affect the level of political risk of debtor countries. To control for some of the most obvious potential confounders, I next estimate semi-parametric Cox proportional hazards models which allow including constant and time-varying covariates (such as economic fundamentals) and can deal with censored observations and multiple events. As in Figure 1 above, the model is estimated with yearly data due to data availability constraints, particularly for the 1980s.[9]

The semi-parametric Cox model can be written as follows:

$$h_i(t) = h_0(t)\exp(\beta'z), \tag{2}$$

where $h_0(t)$ is the baseline hazard function, z a set of covariates and β a vector of regression coefficients. In our setting, the hazard rate is the likelihood that a restructuring is successfully completed at time t, conditional on the fact that the renegotiation/default spell is still ongoing.

The advantage of the Cox model vis-à-vis parametric models such as the Weibull model or the log logistic model, is that it is not necessary to specify a functional form of the baseline hazard rate $h_0(t)$. Instead, the shape of $h_0(t)$ is assumed to be unknown and is left unparametrised. Accordingly, I estimate reduced form models allowing the functional form of the hazard function to be explained by the data. Generally, the model is estimated via a partial likelihood function of the following form:

$$L(\beta) = \prod_{i=1}^{n}\left(\frac{\exp(\beta'z_i)}{\sum_{j\in R(t_i)}\exp(\beta'z_j)}\right)^{\delta_i}, \tag{3}$$

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[9] The key variable of interest is thus the total duration of debt restructurings in years, i.e. from the start of debt distress until the finalization of the deal. If a restructuring is completed in less than 12 months, the duration is considered to be one year.

where $R(t_i) = (j : t_j \geq t_i)$ denotes the risk set (i.e. the number of cases i that are at risk of failure) at time t_i. The model can be extended straightforwardly once time varying covariates are included (see Lancaster 1990 for a detailed presentation). Furthermore, it is necessary to modify the likelihood function due to the problem of ties, i.e. coincident event occurrences, for which Efron's approximation method is used.

The dataset at hand contains a number of countries that experienced several restructuring processes over the period of observation. The model will thus have to allow for the prevalence of repeatable or multiple events. To avoid misleading inference, I therefore rely on the variance correction method proposed by Lin and Wei (1989). Additionally, to account for consecutive restructuring events and potential learning effects, I also include a variable on the number of years a country is in default and a variable for the number of completed restructuring deals since 1980.[10] More importantly, as explained, I will conduct a robustness check in which I combine consecutive restructurings into longer crisis spells with results being stable.

4.4. Explanatory variables

I start with the most widely used proxy for domestic political risk: the aggregate ICRG index, capturing political risk on a scale from 0 to 100 (for details see ICRG 2004). One important advantage of this variable is that it is available back to 1985 for a large number of countries. Moreover, the data rely on a proven coding approach that is comparable across time, countries and political regimes. The indicator is inverted so that higher values indicate higher risk. I expect higher levels of political risk to increase renegotiation duration.

As main control variables, I include an annual measure of real GDP deviation from trend, calculated using the Hodrick-Prescott filter with a smoothing parameter of 100. Theory predicts a positive coefficient of this variable, as positive output shocks will facilitate a quicker settlement (e.g. Bi 2008 or Benjamin and Wright 2009). Further variables include the number of previous restructurings since 1980 (to capture potential learning effects), a dummy for bond restructurings (to capture the larger creditor number and dispersion as compared to bank debt restructurings), population size (to capture country size), and GDP per capita (to capture the income level of countries). Furthermore, I include a dummy variable for poorest debtor countries, namely those that were eligible for donor support under

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[10] Before interpreting the estimation results, I verify whether crucial assumptions of the model, in particular that on proportional hazards, are violated. More specifically, I derive re-scaled Schoenfeld residuals and run Therneau and Grambsch's (2000) post-estimation test of proportionality.

the umbrella or the highly indebted poor country (HIPC) initiative and/or by the World Bank's IDA debt relief fund.

To account for additional macroeconomic and financial conditions, I build on previous empirical work on the determinants of entry into (and exit from) sovereign debt distress such as Manasse and Roubini (2009). In particular, I include the ratio of public debt to GDP as a standard measure of solvency problems and the ratio of short-term debt to reserves as a standard measure of liquidity pressure. To address the apparent endogeneity problem associated with these variables, I use initial values (choosing the year in which the default or negotiations start). I also include a measure for changes in terms of trade (to capture positive external shocks), the primary balance to GDP (to capture the government's fiscal position), annual inflation, and finally a compound measure of macroeconomic and financial risks, the country credit ratings by the Institutional Investor magazine, which range from 0 (low default risk) to 100. Table 1 shows a summary of all variables used.

With a view to Sections 2 and 3, I also attempt to disentangle why domestic politics matter for delays in crisis resolution. For this purpose, I include proxies for a country's inability to restructure and repay as well as for its potential unwillingness to do so.

To capture a country's inability to restructure I start with proxies of institutional quality, as weak institutions can undermine effective crisis management and quick resolutions. First, I include the degree of executive constraints using the Polity IV variable preferred by Acemoglu and coauthors. I also include a measure of bureaucratic quality, for which I rely on ICRG data. Furthermore, I use variables on whether a country is in an external or internal war from the Correlates of War project. Armed conflicts are likely to absorb most of a government's political capacity and activity, thus freezing any ongoing debt negotiations.

I use data on political turmoil events from the Arthur Banks data archive, in particular the yearly number of major government crises, general strikes, anti-government demonstrations and political assassinations. To reduce bias due to the high correlation of these variables, they are combined to construct a yearly measure of political disruptions based on principal component analysis, using the first principal component as index variable. Again, using the Arthur Banks data, I also include 'major government crises' as a separate variable, which is defined as 'Any rapidly developing situation that threatens to bring the downfall of the present regime - excluding situations of revolt aimed at such overthrow.' In addition, I include a broad-based measure of government instability, by inverting the ICRG sub-indicator of government stability defined by ICRG as 'an assessment of the government's ability to carry out its declared programme(s), and its ability to stay in office.'

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Table 1: Variables used in the regressions

Variable	Definition	Source
Political and Institutional Variables		
Political risk	Composite political risk index that was inverted, so that 100 indicates highest risk and 0 lowest risk.	ICRG
Bureaucratic quality	Index from 1 to 12, with high index points for countries with a strong and well-trained bureaucracy that is autonomous from political pressure.	ICRG
Executive constraints	Measures the extent of constitutional limits on the decisionmaking of the executive. Index from 0 to 7, with 7 representing strongest constraints.	Polity IV
Wars (external and internal)	Coded as '1' in years with international wars ('inter-state') and civil wars ('intra-state').	Correlates of War Project
Left-wing government	Coded '1' for communist, socialist, social democratic, or left-wing parties. Party orientation is coded with respect to economic policy.	Database of Political Institutions first coded by Beck *et al.* (2001)
Nationalist government	Coded '1' if a government party's platform is nationalist (focuses on the creation or defence of a national or ethnic identity)	Database of Political Institutions first coded by Beck *et al.* (2001)
Political disruptions	First principal components of Banks/Wilson event data: government crises, general strikes, anti-government demonstrations, assassinations.	Banks and Wilson (2014) political events database
Government instability	Indicator on the government's ability to stay in office and carry out its policy programme(s). Inverted, so that 12 is highest risk and 0 lowest.	ICRG
Major government crises	Any rapidly developing situation that threatens to bring the downfall of the present regime, excl. situations of revolt aimed at such overthrow.	Banks and Wilson (2014)
Elections	Coded '1' if there was a legislative or executive election that year.	Database of Political Institutions first coded by Beck *et al.* (2001)
Debt Renegotiation Tactics		
Moratorium declaration	Coded as '1' if a key government actor publicly proclaims a debt moratorium (akin to a 'declaration of war' to foreign creditors).	Debt Disputes Database by Enderlein *et al.* (2012)
Forced restructuring	Coded as '1' whenever the restructuring was not negotiated with creditors but unilaterally imposed by the government (no creditor consultations).	Debt Disputes Database by Enderlein *et al.* (2012)
Economic and Financial Variables		
GDP deviation from trend	Deviation from trend in %, using HP filter, smoothing parameter 100	WDI, own calculations
GDP per capita	GDP per capita, real, in logs, at start of default/restructuring	WDI, own calculations
Public debt to GDP	Ratio of public debt to GDP in %, at start of default/restructuring	GDF
Short-term debt/reserves	Ratio of short term debt to reserves in %, at start of default/restructuring	GDF
Change in terms of trade	Change in terms of trade indicator, yoy, in %	WDI
Primary balance	Ratio of primary balance to GDP in %	WDI
Inflation	Annual inflation in %, in logs	WDI
Credit rating (IIR)	Institutional Investor credit rating, from 0 (lowest) to 100 (best rating)	Institutional Investor Magazine
Further Controls		
Previous restructurings	Number of previous debt restructurings in the country, since 1970	Cruces/Trebesch (2013)
Bond restructuring	Dummy variable for restructurings of sovereign bonds	Cruces/Trebesch (2013)
Population	Population size, in million, in logs	WDI
Poorest countries	Lowest income countries eligible for IDA and HIPC debt relief funds	World Bank, own coding

To approximate government willingness to restructure I include a dummy for left-wing governments and nationalist governments as defined and coded by the Database of Political Institutions, or DPI (Beck *et al*. 2001). Both nationalist and left-leaning governments may be unwilling to make concessions to foreign creditors or resume payments to them after a successful restructuring. Moreover, to account for the fact that governments may intentionally delay negotiations before, during and after a campaign for reelection I include a dummy for years with legislative or executive elections at the national level, using DPI. All political variables are used at a yearly level and enter without a lag.

Lastly, I account for the negotiation tactics by debtor governments by drawing on the database of government coerciveness during debt negotiations by Enderlein *et al*. (2012) which covers about 60% of the restructurings in the sample here. Specifically, I use the yearly indicators on a 'moratorium declaration' and 'forced restructurings', which capture particularly coercive government actions towards foreign creditors. With regard to the former, most defaults occur silently without public announcement. In some cases, however, the government stages the decision to default publicly, often combined with theatrical, anti-creditor rhetoric, resembling a public 'declaration of war' towards foreign creditors. Similarly, the large majority of restructurings are the outcome of consultations between the sovereign and its banks and bondholders. But in some cases, governments refuse to start serious negotiations and instead unilaterally impose an exchange offer without prior talks. When governments chose either of these two coercive measures, the resulting delays can be interpreted as an outcome of a government's unwillingness to restructure in good faith.

5. Estimation results

5.1. Interpreting coefficients

In proportional hazards models such as the Cox model, higher hazard rates imply shorter duration. A positively signed coefficient therefore implies that increasing values of that covariate increase the hazard rate, i.e. the likelihood of failure in a given period. In the context of this analysis, a positive coefficient indicates that higher values of that variable are associated with shorter restructuring times. In contrast, a negative coefficient is associated with a longer duration relative to the baseline. To allow for a more intuitive interpretation, it is necessary to exponentiate the coefficients shown.

I start with a baseline specification with political risk as well as other explanatory variables that cover almost all restructurings. The idea behind this is to strike a balance between parsimony and performance of the model. Indeed, data availability is an important constraint, especially in the 1980s and for low-income and Post-Soviet countries. While the dataset

covers the full sample of 179 restructurings in 70 countries back to 1978, our main specification with ICRG data (which starts in 1985) includes only 109 restructurings in 49 countries, with a total of 438 annual observations. From this baseline model (Column 1 in Table 2), I expanded the specification stepwise to include additional variables, which often decreased the sample size further.

All models are tested following standard practice in survival analysis. The suggested link test does not provide indication of misspecification in any of the estimations, as the squared linear predictor is clearly insignificant in each case. More importantly, diagnostic tests based on Schoenfeld residuals provide comfort that the crucial assumption of proportional hazards is not violated for any of the explanatory variables.

5.2. Main results

Table 2 shows that political risk is a powerful predictor for the duration of restructurings. The coefficient of the ICRG risk indicator is large and significant throughout. The point estimate of -0.04 suggests that a one-unit increase of the political risk index lowers the likelihood of settlement (default exit) in a given year by $100*(e^{-0.04}-1) = -4\%$. Put differently, a one standard deviation increase in political risk (10 index points) is associated with a 34% lower hazard rate (here: the likelihood of concluding the restructuring) in any given year (the calculation is $100*(e^{[10,8*-0.04]}-1) = -33.9$). The results are very similar when using initial values of the political risk index, which alleviates concerns of reverse causality.

The effect in the subsample of democracies is larger (Column 3 of Table 2), which is in line with the case narratives summarised below. Political turmoil due to government turnover and democratic street protests can seriously disrupt the crisis resolution process.

No other explanatory variable in the baseline specification is robustly significant, except for the dummy for poorest countries that benefit from donor support. The latter is no surprise, since it is widely known that HIPCs often take very long to settle their debt with private external creditors. However, it is somewhat surprising that country wealth (GDP per capita), the dummy for bond restructurings, population size and the number of previous debt restructurings all show coefficients that are not statistically significant. Even output fluctuations (GDP deviation from trend) are not systematically related to negotiation delays, despite the strong theoretical priors. Once I combine restructuring spells, however, this variable turns significant, see below.

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The main result is unchanged when adding further macroeconomic and financial controls. Political risk remains highly significant when including proxies for government solvency and liquidity, i.e. the level and composition of debt (Column 4), terms of trade shocks (Column 5), the budget balance (Column 6), the level of inflation (Column 7), or country credit ratings (Column 7). These results are reassuring and indicate that the estimated coefficient for political risk is not merely picking up confounding factors such as economic volatility and crisis severity.

Table 2: Main results: political risk and restructuring delay

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	With political risk	Initial political risk	Democracies only	Solvency and liquidity	With terms of trade	With budget balance	With inflation	With credit rating
Political risk (ICRG index)	-0.04*** (0.01)		-0.06*** (0.02)	-0.05*** (0.02)	-0.04** (0.02)	-0.06*** (0.02)	-0.04*** (0.01)	-0.04** (0.02)
Political risk (initial, ICRG index)		-0.03** (0.01)						
Public debt to GDP (initial, in %)				-0.36 (0.58)				
Short-term debt to reserves (initial, in %)				-0.03 (0.03)				
Change in terms of trade					-0.01 (0.01)			
Primary balance to GDP (in %)						0.01 (0.03)		
Inflation (log)							-0.22*** (0.06)	
Credit rating (IIR)								0.02 (0.02)
GDP (deviation from trend, in %, real)	0.03 (0.03)	0.04 (0.03)	-0.01 (0.04)	-0.00 (0.04)	0.05* (0.03)	0.03 (0.04)	0.01 (0.03)	0.02 (0.03)
Bond restructuring (dummy)	0.30 (0.40)	0.20 (0.40)	0.78** (0.32)	0.31 (0.43)	0.04 (0.58)	0.13 (0.43)	-0.05 (0.40)	0.30 (0.39)
Previous restructurings (no. since 1970)	0.06 (0.08)	0.06 (0.08)	-0.06 (0.16)	0.02 (0.13)	0.01 (0.08)	0.08 (0.08)	0.09 (0.08)	0.10 (0.08)
GDP per capita (log, real, initial)	-0.18 (0.14)	-0.14 (0.15)	-0.27 (0.22)	-0.26 (0.20)	-0.16 (0.14)	-0.08 (0.17)	-0.11 (0.14)	-0.32* (0.17)
Population (log, in million)	0.26 (0.18)	0.22 (0.19)	0.25 (0.33)	0.21 (0.22)	0.27 (0.19)	0.26 (0.21)	0.25 (0.18)	0.35* (0.20)
Poorest countries (HIPC, IDA eligible)	-1.16*** (0.27)	-0.86*** (0.30)	-2.19*** (0.64)	-1.22*** (0.43)	-1.17*** (0.29)	-0.77** (0.35)	-1.22*** (0.26)	-1.09*** (0.33)
Observations	438	359	177	279	370	266	393	394
Log-Likelihood	-369.57	-320.04	-133.81	-217.70	-285.64	-202.19	-332.43	-333.22
Schwarz B.I.C.	781.72	681.27	303.85	486.08	618.59	449.06	712.65	714.25

Source: Author's calculations
Note: Survival time regressions on debt restructuring duration in years. The results are shown as coefficients, not hazard rates. Accordingly, negative coefficients indicate longer durations relative to the baseline. ***/**/* denotes significance at 1/5/10 % respectively. Standard errors in parentheses.

5.3. Robustness checks to main results

I conduct a range of robustness checks to assess the validity of the main findings. Table 3 shows a first set of results (1) when combining follow-up restructuring spells into longer 'default episodes'[11], (2) when including year fixed effects (to account for common trends and global shocks, such as interest rates or global crises in capital flows), (3) when excluding low-income countries (IDA and HIPC eligible), (4) when including region fixed effects, and (5) when estimating a parametric survival model, instead of the more flexible semi-parametric Cox model.[12] In each case political risk remains highly significant.

Table 3: Robustness checks

	(1)	(2)	(3)	(4)	(5)
	Combining restruct. into default spells	With year fixed effects	Excluding poorest countries	With region fixed effects	Weibull parametric model
Political risk (ICRG index)	-0.07*** (0.02)	-0.04*** (0.02)	-0.03** (0.01)	-0.04*** (0.01)	-0.04*** (0.01)
GDP (deviation from trend, in %, real)	0.09*** (0.03)	0.03 (0.02)	0.03 (0.03)	0.04 (0.03)	0.02 (0.02)
Bond restructuring (dummy)	0.29 (0.56)	0.05 (0.36)	0.24 (0.40)	0.31 (0.37)	0.22 (0.40)
Previous restructurings (no. since 1970)	0.31*** (0.08)	0.12 (0.08)	0.04 (0.08)	0.11 (0.08)	0.12 (0.08)
GDP per capita (log, real, initial)	-0.29* (0.17)	-0.18 (0.14)	-0.13 (0.14)	-0.17 (0.17)	-0.20 (0.14)
Population (log, in million)	0.38* (0.20)	0.20 (0.18)	0.20 (0.19)	0.21 (0.22)	0.30* (0.18)
Poorest countries (HIPC, IDA eligible)	-0.68** (0.34)	-1.44*** (0.31)		-1.07*** (0.27)	-1.33*** (0.28)
Europe Dummy				0.49 (0.47)	
Asia Dummy				0.90*** (0.35)	
Latin America Dummy				0.07 (0.37)	
Constant					0.37*** (0.07)
Observations	356	438	295	438	438
Log-Likelihood	-144.22	-355.17	-312.87	-367.23	-104.93
Schwarz B.I.C.	329.56	898.89	659.86	795.28	264.59

Source: Author's calculations
Note: Survival time regressions on debt restructuring duration in years. The results are shown as coefficients, not hazard rates. Accordingly, negative coefficients indicate longer durations relative to the baseline. ***/**/* denotes significance at 1/5/10 % respectively. Standard errors in parentheses.

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[11] Restructurings are combined into one spell if they follow each other within less than 1.5 years.
[12] Given the uncertainty which of the parametric distributions best fits the underlying process, estimations were performed for all standard parametric models (Exponential, Weibull, Log-logistic, Gompertz, Lognormal). Even though these models impose very different behavior structures to their respective hazard functions, the estimated coefficients were only little affected by model choice. To provide one example, the last column of Table 3 shows estimation results for the widely used Weibull model.

I also conduct additional checks that are not shown for the sake of brevity. Most importantly, I run a robustness check that redefines the end of a restructuring in case of large-scale post-restructuring litigation and holdouts (see Section 4.1. for details). The results remained robust to this alteration of the duration variable. I also controlled for ongoing creditor litigation cases, as well as for the size of haircuts using data by Schumacher *et al.* (2018) and Cruces and Trebesch (2013), respectively. In both cases political risk remained significant with a coefficient that was very similar to the baseline. Moreover, I checked whether outliers bias the results. Specifically, I ran the full model by excluding major individual debtor countries one by one, in particular Argentina, Brazil, Ecuador, Peru, the Philippines and Russia. I also excluded outlier cases of particular long or particular short restructurings and dropped observations from the 1980s to see whether the results hold for the more recent period only. However, neither of these steps changed the main findings.

5.4. Exploring the channel: inability vs. unwillingness to restructure

This section explores the channel behind the significant results on domestic political risk. Specifically, with reference to the above, I attempt to discriminate between the possibility that governments fail to settle quickly due to their inability to do so or, alternatively, because they show unwillingness to restructure and intentionally delay the process.

Table 4 shows the results with proxies for a government's inability to restructure. Surprisingly, I do not find that weak institutions or wars are significantly related to restructuring delay, on average. One explanation is that the baseline model already includes several variables that correlate with institutional capacity and the probability of conflicts, such as GDP per capita or the HIPC dummy. Moreover, there have been relatively few outright wars in the sample of restructurings included here (the most relevant being the Falkland war, which increased tensions between Argentina and British banks).

In contrast, I find that the variables capturing political turmoil, government instability and government crises all show large significant coefficients. For example, the occurrence of a major government crisis is associated with a decline in the probability of concluding the restructuring by 37% in any given year. Similarly, a one standard deviation increase in government instability is associated with a 33% lower probability of settlement in that year. These results are in line with the delay narratives above, which show how frequent and disruptive political instability has been for crisis resolution.

Table 4: Exploring the channel (part I): proxies for *inability* to restructure

	(1)	(2)	(3)	(4)	(5)	(6)
	Weak institutions (constraints)	Weak institutions (bureaucracy)	Wars and conflicts	Political disruptions	Government crises	Government instability
Executive constraints (PolityIV index)	0.04 (0.06)					
Bureaucratic quality (ICRG index)		0.12 (0.11)				
External war (dummy)			0.64 (0.68)			
Internal war (dummy)			0.00 (0.26)			
Political disruptions				-0.27** (0.12)		
Major government crises					-0.47** (0.22)	
Government instability (ICRG index)						-0.19*** (0.05)
GDP (deviation from trend, in %, real)	0.04* (0.02)	0.03 (0.02)	0.05** (0.02)	0.05** (0.02)	0.04* (0.02)	0.03 (0.03)
Bond restructuring (dummy)	0.55* (0.29)	0.27 (0.39)	0.37 (0.38)	0.37 (0.40)	0.48 (0.42)	-0.29 (0.42)
Previous restructurings (no. since 1970)	0.05 (0.07)	0.06 (0.07)	0.03 (0.07)	0.01 (0.08)	0.02 (0.08)	0.09 (0.07)
GDP per capita (log, real, initial)	-0.10 (0.15)	-0.04 (0.12)	0.02 (0.12)	0.11 (0.12)	0.05 (0.12)	-0.00 (0.12)
Population (log, in million)	0.22 (0.20)	0.12 (0.17)	0.07 (0.16)	0.06 (0.16)	0.09 (0.16)	0.09 (0.15)
Poorest countries (HIPC, IDA eligible)	-1.14*** (0.29)	-1.12*** (0.27)	-0.95*** (0.26)	-0.99*** (0.27)	-0.98*** (0.26)	-1.03*** (0.28)
Observations	440	439	482	479	479	438
Log-Likelihood	-377.04	-376.32	-414.48	-408.76	-410.22	-370.48
Schwarz B.I.C.	796.69	795.22	878.37	860.72	863.65	783.54

Source: Author's calculations

Note: Survival time regressions on debt restructuring duration in years. The results are shown as coefficients, not hazard rates. Accordingly, negative coefficients indicate longer durations relative to the baseline. ***/**/* denotes significance at 1/5/10 % respectively. Standard errors in parentheses.

In a final step, we move to Table 5, which includes proxies for government unwillingness to restructure. As can be seen, only few of these variables show significant coefficients. The government ideology (left-wing or nationalist) is not significantly related to restructuring duration. Also elections (and lagged elections) are not a significant predictor of delays. The only significant variables are those capturing coercive negotiation tactics by the debtor government, in particular forced restructurings, which is significant at the 0.05 level. However, in a horse race with government instability (Column 6 in Table 5), these variables are no longer significant. Moreover, the results remain stable even if we drop all countries featuring 'political defaults' in which governments declared a unilateral moratorium and

openly refused to negotiate with foreign creditors (see also Section 3).[13] The picture also remains the same when running further horse races between the proxies in Tables 4 and 5.[14]

Overall, the results thus point to the inability channel rather than the unwillingness channel. Delays more frequently occur in times of political turmoil and instability rather than as a result of intentional delay by debtor governments. This conclusion is consistent with the qualitative evidence summarised in Section 3.

Table 5: Exploring the channel (part II): proxies for *unwillingness* to restructure

	(1)	(2)	(3)	(4)	(5)	(6)
	Left-wing governm.	Nationalist governm.	With elections (in democr.)	Moratorium declaration	Forced restructurings	Horse race with gov. stability
Left-wing government (dummy)	-0.28 (0.27)					
Nationalist government (dummy)		0.16 (0.27)				
Election year			0.19 (0.27)			
Election year (lagged)			-0.47 (0.31)			
Debt moratorium publicly declared				-0.74* (0.43)		-0.56 (0.43)
Forced restructuring					-0.71** (0.29)	-0.27 (0.30)
Government instability (ICRG index)						-0.22*** (0.08)
GDP (deviation from trend, in %, real)	0.04* (0.02)	0.04 (0.03)	0.00 (0.04)	0.02 (0.02)	0.02 (0.02)	0.03 (0.03)
Bond restructuring (dummy)	0.34 (0.37)	0.31 (0.38)	0.81*** (0.31)	0.86** (0.33)	0.82** (0.33)	0.45 (0.39)
Previous restructurings (no. since 1970)	0.08 (0.08)	0.08 (0.08)	0.02 (0.15)	-0.03 (0.08)	-0.05 (0.08)	-0.05 (0.10)
GDP per capita (log, real, initial)	-0.02 (0.13)	0.01 (0.12)	-0.17 (0.19)	-0.15 (0.18)	-0.17 (0.17)	-0.05 (0.25)
Population (log, in million)	0.07 (0.16)	0.06 (0.16)	0.20 (0.27)	0.26 (0.23)	0.26 (0.22)	0.20 (0.33)
Poorest countries (HIPC, IDA eligible)	-1.08*** (0.26)	-1.05*** (0.27)	-2.01*** (0.70)	-0.67** (0.29)	-0.36 (0.32)	-0.35 (0.36)
Observations	455	455	191	257	257	218
Log-Likelihood	-381.56	-382.24	-152.84	-272.38	-272.97	-202.15
Schwarz B.I.C.	805.96	807.31	347.70	583.60	584.78	452.75

Source: Author's calculations
Note: Survival time regressions on debt restructuring duration in years. The results are shown as coefficients, not hazard rates. Accordingly, negative coefficients indicate longer durations relative to the baseline.
***/**/* denotes significance at 1/5/10 % respectively. Standard errors in parentheses.

[13] Specifically, I drop Argentina, Brazil, Dominican Republic, Ecuador and Peru.
[14] Relatedly, it is difficult to integrate the narrative evidence on inability vs unwillingness summarized in Section 3 into the econometric analysis, also because the narratives only cover a subset of the cases in the regressions. The qualitative and quantitative results can be seen as complementary pieces of evidence, both pointing in the same direction.

6. Conclusion

The resolution of sovereign debt crises is, and has always been, a difficult process. It remains a challenge to understand why some restructurings are implemented swiftly and without major hurdles, while others become messy and delayed. This paper sheds light on the issue, by using new data on the duration of debt restructurings and by focusing on domestic politics.

The results underline the importance of debtor incentives and political risk for crisis resolution. Governments facing severe political turmoil, street protests, and resignations are unlikely to exit a sovereign default quickly. The recent crises in Argentina and Greece are a case in point, illustrating how unstable politics at home can cause costly delay in crisis resolution with creditors abroad.

Looking forward, the role of political frictions for the resolution of financial crises deserves further study. In particular, future research could explore the channels at work in more depth, such as the role of elections and political turnover or the impact of political business cycles.

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Appendix: Narratives on Politically Induced Delay

This Appendix summarises narratives on politically induced delay in sovereign debt crises, as collected by Trebesch (2011).

Definition: A 'political delay' event is included in case government behaviour reportedly lead to a delay or breakdown in debt negotiations of more than 3 months during any given crisis year. Also instances where governments explicitly refused to initiate negotiations are included as political delay events. However, delays that are caused by creditor coordination failure or outright inter-creditor disputes are excluded.

Sample and Coverage: The database includes only sovereign debt restructurings with private external creditors, i.e. commercial banks or bondholders and covers 34 main emerging market economies. The period under consideration is 1980-2007. Because of a lack of reliable information, most of the poorest, least developed countries (LDCs) were excluded. These countries usually have very limited access to private financing, and debt restructuring processes are mostly dominated by Paris Club and IMF talks while commercial creditors play a less important role. The limited attention on private debt renegotiations makes it difficult to draw any meaningful conclusions about negotiations in these countries. Note also that the dataset includes only cases that were officially concluded, not preliminary or incomplete agreements.

Country	Period	Details
Albania	**1992**	Debt negotiations are delayed over much of 1992 due to the failure to come to an agreement with the IMF, a precondition for a bank debt restructuring. One reason for the delay reported by the press is political pressure due to municipal elections mid-year. In late 1992, after the election, this obstacle is removed and there is a successful agreement on an economic reform plan in coordination with the IMF. (Reuters, 10 July 1992) (Reuters, 24 April 1993)
Algeria	**1994**	There is nearly a one year delay in starting negotiations. Despite the announcement of restructuring talks as early as late 1993, despite mounting payment arrears and despite the successful IMF and Paris Club deals in May 1994, the government does not formally approach banks for rescheduling talks until Oct. of 1994. This hinders a quick restructuring. (Reuters, 3 June 1994) (Reuters, 24 Aug. 1993) (Reuters, 13 Dec. 1993) (Reuters, 18 Dec. 1993) (Reuters, 13 Jan. 1994) (Reuters, 17 April 1994) (Reuters, 11 Oct. 1994) (Reuters, 27 Sept. 1994)
Argentina	**1982**	The Falkland war and the ongoing conflict with Britain is a serious obstacle to rescheduling talks. The asset freezes and financial sanctions by both sides hinder constructive talks. Until late Sept. Argentina refuses to lift sanctions, which blocks negotiations. In mid Sept., after pressure by the US intensifies considerably, both sides come to an agreement and payments to British banks are resumed. (FT, 29 July 1982) (FT, 3 Sept. 1982) (FT, 3 Sept. 1982) (FT, 6 Sept. 1982) (FT, 14 Sept. 1982) (FT, 21 Sept. 1982)

1983	Legal problems with private sector debt, the government's sluggish response to lift sanctions towards Britain and the Oct. 1983 election lead to more than 6 months delay in the debt negotiations. (NYT, 13 Aug. 1983) (NYT 15 Dec. 1983) (FT, 16 Aug. 1983)
1984	In the first half of 1984 the newly elected government rejects to sign a new IMF program demanded by creditors and adopts a tough stance towards the IMF. An agreement can only be reached in Sept. In Jan., Central Bank President Vazquez announces that there will be a 6 month delay in debt negotiations stating that the new government needed time to determine which borrowings by the former military regime were legitimate. In April, the pressure by opposition groups and labour unions increases. As a result, a further delay in negotiations is announced by the Ministry of Finance. (FT, 12 Jan. 1984) (NYT, 27 April 1984) (WSJ, 13 June 1984) (WSJ, 26 Sept. 1984)
1985	Argentina falls out of compliance with its IMF program in March of 1985. This delays the implementation of the restructuring deal agreed in principal in Dec. 1984 until the end of Aug. Only after a new program with the IMF is signed in June of 1985, the deal with the banks could be implemented. (FT, 26 March 1985) (FT, 12 June 1985) (NYT, 27 Aug. 1985)
1988	The government under Alfonsin is not able to reach an agreement with the IMF over all of 1988 and stops making interest payments to banks from April 1988 on (complete moratorium). For these reasons, negotiations with banks start only in Sept. of 1988, despite mounting arrears and bank pressure to initiate talks. After talks are started, they remain in deadlock, a main reason being the nearing elections of May 1989. In early 1989, after it becomes obvious that no stand-by loan agreement with the IMF would be reached, the outgoing government publicly abandons its plan to reach an agreement with banks before the end of its term. (FT, 18 June 1988) (Reuters, 30 Jan. 1989) (Reuters, 24 April 1989) (WSJ, 21 Dec. 1988) (Reuters, 17 Jan. 1988) (Reuters, 5 July 1988).
1989 - 1991	After taking office, and despite several announcements to start negotiations on a Brady deal soon, the new government under Menem unilaterally delays the start of the talks from mid-1989 to 1992 and freezes payments. In late 1990 Central Bank President Fraga announces that debt restructuring talks are premature and that it was necessary to improve the economy and reach a fiscal surplus before any new debt deal is reached. Negotiations start in Jan. 1992. (Reuters, 6 Oct. 1989) (Reuters, 15 May 1989) (Reuters, 7 June 1989) (Reuters, 17 June 1989) (WSJ, 2 Oct. 1989) (Reuters, 19 April 1991) (Reuters, 7 May 1990) (Reuters, 25 Sept. 1990) (Reuters, 1 Oct. 1990) (Reuters, 8 May 1991) (Reuters, 9 Sept. 1991) (Reuters, 18 Nov. 1991) (Reuters, 30 Jan. 1992) (FT, 1 Feb. 1992)
2002	Despite several announcements and pressure by investor groups, the government does not start debt restructuring talks in 2002. There are only some minor informal contacts. Generally, Argentina rejects to negotiate with private creditors before an IMF deal is struck. Thus, the delay in coming to an IMF agreement postpones any serious restructuring efforts. (Reuters, 6 March 2002) (Reuters, 11 April 2002) (Reuters, 14 May 2002) (Reuters, 03 July 2002) (Reuters, 24 October 2002) (Reuters, 13 March 2002) (Reuters, 26 Sept. 2002)
2003	Over the entire year of 2003, Argentina refuses to engage in debt restructuring talks with creditors. In Jan. 2003, Argentine Economy Minister Roberto Lavagna announces that a restructuring will take at least two years. In July 2003 Argentina promises an offer by Sept., which is made but unilaterally and without meaningful prior consultations (Dubai proposal). The unilateral offer triggers massive protests by bondholders and a new wave of lawsuits. (Reuters, 17 Jan. 2003) (Reuters, 11 Feb. 2003) (Reuters 21 Feb. 2003) (FT, 31 July 2003) (Reuters, 7 Jan. 2004) (Reuters, 12 Jan. 2004) (Reuters, 30 Jan. 2004) (Sturzenegger and Zettelmeyer, manuscript p. 119)

Belize		Nothing reported.
Bolivia	1983	After the agreement in principle with banks in mid May 1983, the deal is not implemented due to the breakdown of negotiations with the IMF. The successful agreement of an IMF program was an explicit precondition for the finalization of the bank debt restructuring. (Stamm, 1987, p. 177) (WSJ, 25 Feb. 1983) (WSJ, 12 May 1983) (Dow Jones, 13 May 1983)
	1984	In end May 1984, the government of President Siles Zuazo, who is under severe pressure by labour unions, announces the suspension of principal and interest payments on commercial debt obligations. This move blocks any serious agreement with banks. Moreover, general strikes, a strike within the central bank and increasing political instability, including the resignation of Finance Minister Oscar Bonifaz in Oct. of 1984, lead to the postponement of talks in mid and late 1984. (FT, 31 May 1984) (WSJ, 31 May 1984) (Stamm, 1987, p. 178) (Dow Jones, 28 Nov. 1984) (Dow Jones, 1 June 1984) (WSJ, 17 Oct. 1984)
	1985-1986	The ongoing full payments suspension, increasing public deficits and the severe economic crisis are major obstacles for any serious negotiations with banks. A new round of talks starts in 1986 under the rule of a new president, Paz Estenssoro, who had won the presidential elections in late 1985. (NYT, 20 Feb. 1985) (FT, 14 June 1985) (WSJ, 12 Aug. 1985) (FT, 11 Sept. 1985) (FT, 6 June 1986) (FT, 14 July 1987) (Latin American Weekly Report, 5 Feb. 1987) (Latin American Weekly Report, 8 Jan. 1987)
Brazil	1985	The elections of Jan. 1985 and the political turmoil after the death of the newly elected President Tancredo Neves in April, leads to negotiation delays in the first half of 1985. Additionally, the failure of negotiations with the International Monetary Fund leads to a breakdown of talks with creditor banks over most of the second half of 1985. In late 1985, there are serious tensions with creditors due to the government's refusal to bail out major private Brazilian banks with considerable loans to western banks. (Stamm, 1987, p. 179) (FT, 11 July 1985) (FT, 27 Nov. 1985) (FT, 17 Dec. 1985) (Henry 1999, p. 6) (FT, 15 March 1985) (FT, 23 April 1985)
	1987	The government's unilateral debt policy results in a complete deadlock in talks with banks from Feb. to Sept. 1987. Government actions include a moratorium with a full suspension of payments, frequent threats towards creditors and a tightening of capital controls. (WSJ, 9 Jan. 1987) (FT, 23 Feb. 1987) (WSJ, 6 Nov. 1987)
	1989	In June 1989, the government returns to a confrontational stance as payments are simply suspended and any further negotiations rejected. This leads to a breakdown in negotiations with banks. Generally, outgoing President Sarney is blamed for showing no effort to reach an accord with banks but of intending to leave any further negotiations to his successor to be elected in Nov. of 1989. (Reuters, 25 July 1989) (AP, 16 Feb. 1989) (Reuters, 22 Jan. 1990) (Reuters, 5 July 1989) (Reuters, 14 July 1989) (Reuters, 20 Jan. 1989)
	1990	The new government under President Collor de Mello, which is in office since March of 1990, initiates negotiations only in October of that year. According to press reports, his administration shows little efforts to come to a quick and sustainable agreement in 1990, despite a strong increase in arrears and pressure by banks, by the US government and by the IMF. (NYT, 10 Nov. 1990) (Reuters, 16 Nov. 1990) (Reuters, 22 Jan. 1991) (Reuters, 12 Feb. 1991) (Reuters, 27 Feb. 1991) (FT, 4 April 1991)

	1992	In the second half of 1992, political turmoil due to the impeachment of President Collor de Mello delays the deal considerably. (Reuters, 30 Sept. 1992) (Reuters, 14 Dec. 1992)
	1993	The government's failure to come to an agreement with the IMF leads to month-long delays. The key issue in IMF negotiations is the government's apparent unwillingness to fix a plan to combat soaring inflation. Furthermore, legislation aimed to reduce the large budget deficit remains blocked for months due to a massive corruption scandal in congress. As a result, the conclusion of the restructuring deal is postponed four times until April of 1994. The completion was originally scheduled for June 1993. (Aggarwal, 1996, p. 511) (Reuters, 18 Sept. 1993) (Reuters, 4 Nov. 1993) (Reuters, 26 Nov. 1993). (Reuters, 20 Sept. 1993) (AP, 5 Nov. 1993) (Reuters, 4 Nov. 1993)
Bulgaria	**1990-1991**	In 1990 and 1991 the government's refusal to guarantee the debt by the Bulgarian Foreign Trade Bank blocks negotiations with banks. The Foreign Trade Bank holds most of the public debt to western commercial banks accumulated under communist rule and is owned by the National Bank. Western banks insist that the Bulgarian government should formally guarantee for these debts, but the government rejects. Additionally, the elections in Oct. reportedly lead to a delay in negotiations in the second half of 1991. (Reuters, 20 September 1991) (Reuters, 12 Nov. 1990) (FT, 17 May 1991) (Reuters, 14 June 1991) (Reuters, 12 Dec. 1991) (Reuters, 12 Nov. 1990)
Chile		Nothing reported.
Costa Rica	**1981**	Talks break down in late 1981 due to the government's failure to come to an agreement with the IMF. (NYT, 9 Dec. 1981) (NYT, 11 Dec 1981)
	1982	Talks break down again in the first half of 1982 due to the elections in Feb. and the ongoing problems of the government to reach an agreement with the IMF. (WSJ, 15 Jan. 1982) (Latin American Weekly Report, 13 March 1982) (WSJ, 19 May 1982)
	1986-1988	The government takes a hard stance towards its creditors by partially suspending debt payments in May of 1986. The increase in arrears and the failure to come to an agreement with the IMF leads to a complete deadlock with banks. In 1987 the stalemate in negotiations with banks and the IMF continues. A major stumbling block is that a crucial package on taxes and debt restructuring is blocked by opposition groups in congress. (Reuters, 14 Oct. 1987) (Latin American Mexico and NAFTA Report, 24 Sept. 1987) (Reuters, 10 Nov. 1987) (FT, 8 May 1986) (Latin American Weekly Report, 7 Aug. 1986) (FT, 27 Oct. 1986) (FT, 27 Oct. 1986) (Latin American Mexico and NAFTA Report, 15 Jan. 1987) (FT, 6 April 1988) (Latin American Weekly Report, 28 April 1988)
Dominica		Nothing reported
Dominican Republic	**1983**	The implementation of the deal is delayed for nearly one year after the IMF program, agreed on in Jan. 1983, breaks down. (Boughton, 2001, pp. 691) (Latin American Weekly Report, 8 March 1985) (NYT, 2 July 1984)

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1984   After major riots due to austerity measures in April of 1984, the government stops formal negotiations with the IMF, which leads to a breakdown in negotiations with banks over most of 1984. The deal with banks of Dec. 1983 is abandoned and never implemented. (Boughton, 2001, pp. 691) (NYT, 2 July 1984) (Latin American Weekly Report, 20 July 1984) (NYT, 12 Oct. 1984) (Latin American Weekly Report, 8 March 1985) (Latin American Caribbean and Central American Repo, 10 May 1985)

1987-1992   From 1987 on, newly elected president Balaguer refuses any relations with the IMF. This leads to a stall in relations to private and official creditors. The rejection of an IMF program continues until 1991. From 1989 to 1992 the government suspends all payments and even refuses to make symbolic interest payments to banks. This stance blocks any serious negotiations with banks until 1993. (WSJ, 20 Aug. 1987) (NYT, 24 July 1987) (Reuters, 29 Sept. 1988) (Reuters, 17 Aug. 1990) (Reuters, 2 Aug. 1991) (Dow Jones, 25 Nov. 1991) (Latin American Weekly Report, 15 Aug. 1991) (LDC Debt Report, 18 May 1992) (LDC Debt Report, 24 Aug. 1992) (LDC Debt Report, 18 May 1992)

1994   The final closing of the deal is postponed several times over a period of 9 months. A main reason was the election in May of 1994 and the political turmoil following it. Moreover, the congress delays the ratification of the deal. (LDC Debt Report, 30 May 1994) (LDC Debt Report, 20 June 1994) (Reuters, 24 June 1994) (LDC Debt Report, 11 July 1994) (LDC Debt Report, 5 Sept. 1994)

2004   Restructuring efforts start with nearly one-year delay, due to the election in May of 2004. Serious payment problems become obvious as early as Jan. 2004. However, the incumbent president opposes negotiations and a restructuring during his electoral campaign. After opposition candidate Fernandez wins in a landslide victory and takes office in Aug., a restructuring is finally announced in Oct. in 2004. Intense talks with creditor groups start in Jan. 2005. (FT, 11 Feb. 2004) (AP, 13 Feb. 2004) (NYT, 6 Aug. 2004) (AP, 28 April 2004) (Reuters, 11 Oct. 2004)

Ecuador

1987-1993   Debt restructuring talks break off after the government declares a unilateral payment standstill and suspends all payments from Jan. 1987 on. The government's refusal to resume any interest payments is the key obstacle in negotiations from 1987 to 1993. The government frequently breaks off talks unilaterally over this period. In 1988 a leadership change after the election of Rodrigo Borja in May 1988 leads to a further stall in negotiations. Negotiations are unilaterally suspended by the outgoing government In July of 88. The new government reactivates preliminary talks only in Nov. A similar situation returns in early 1992 due to the upcoming presidential elections. Finance Minister Better states that due to the elections there will be only 'explorations' and not formal negotiations.' until Aug. In July 1992 the departure of Ecuador's entire economic team leads to further delay. (Reuters, 29 Jan. 1992) (AP, 8 July 1988) (Reuters, 27 Oct. 1988) (Reuters, 29 Nov. 1988) (WSJ, 16 March 1987) (Reuters, 4 Sept. 1987) (Reuters, 18 June 1989) (Reuters, 29 May 1990) (Reuters, 23 Jan. 1991) (AP, 9 May 1991) (Reuters, 15 May 1991) (Dow Jones, 5 Aug. 1991) (Reuters, 18 March 1993) (Reuters, 19 March 1993) (LDC Debt report, 19 July 1993) (Dow Jones, 23 July 1993)

1999   The failure to come to an agreement with the IMF in 1999 delays restructuring efforts considerably. Despite severe payment problems since early 1999, the government initiates serious restructuring talks only days before the actual default occurs. Generally, very little contact with creditor groups. In end 1999 the government unilaterally cancels a meeting with a bondholder consultative group. (Reuters, 29 Sept. 1999) (Reuters, 7 Dec. 1999) (Reuters, 23 Dec. 1999) (FT, 30 Sept. 1999) (IMF, 2001, p. 7)

	2000	A new round of talks and the planned launch of the offer is delayed until mid-year after democratically-elected Jamil Mahuad is overthrown in a brief, bloodless coup in January 2000. Apart of a round of talks in May, the new administration of President Noboa rejects regular consultative meetings. In June a planned meeting to discuss the forthcoming offer is unilaterally cancelled. (Reuters, 26 March 2000) (Reuters, 20 Feb. 2000) (Reuters, 9 March 2000) (Reuters, 26 March 2000) (Reuters, 21 March 2000) (Reuters, 13 June 2000) (Reuters, 2 May 2000) (Reuters, 16 May 2000) (IMF, 2001, p. 7) (Sturzengger and Zettelmeyer, manuscript, p. 99)
Grenada		Nothing reported
Jordan	**1989**	After having reached an agreement in principal relatively quickly in Sept. of 1991, the government cancels the implementation of the bank deal unilaterally and asks for a better deal. It takes more than 3 months of intense negotiations to convince creditors to accept amended terms. (Reuters, 11 Sept. 1989) (Reuters, 29 Nov. 1989) (Reuters, 30 Nov. 1989)
	1990	In 1990 the government completely cancels the 1989 deal in a unilateral move. This, and its new demand for a generous debt reduction deal leads to long delays and a series of failed meetings. Additionally, in the second half of 1990 negotiations are again suspended unilaterally due to the Iraq war. (Reuters, 26 June 1990) (Reuters, 29 June 1990) (Reuters, 27 July 1990) (Reuters, 18 Feb. 1991)
Mexico	**1986**	Negotiations are delayed for many months as the government rejects the IMF's demand to reduce its budget deficit. Additionally, there is some delay in mid-year as Finance Minister Silvia Herzog is ousted. (WSJ, 10 June 1986) (FT, 19 June 1986)
Moldova		Nothing reported
Morocco	**1983-1985**	In 1983 negotiations are stalled due to a dispute over whether the Central Bank of Morocco should be a co-signatory on the country's rescheduling agreement and assume a guarantee on foreign exchange provision. The creditors demand a formal guarantee for the restructuring deal and wish to draw the Banque du Maroc into the agreement - either as co-signer or co-guarantor of the document - because of the fact that it holds Morocco's hard currency reserves. The US banks are particularly keen on this point, while the French banks show less concern. The dispute over the role of the Kingdom's central bank in the rescheduling remains a key stumbling block and delays the final signature. The Moroccan authorities reject any concessions on the issue. A compromise is only found in mid-1985. (FT, 14 May 1984) (FT, 29 May 1984) (FT, 15 Oct. 1984) (FT, 16 Jan. 1984) (FT, 15 Oct. 1984) (FT, 15 Oct. 1984) (FT, 18 July 1985) (FT, 18 July 1985)
	1986	The government fails to stick to its IMF program and incurs a large budget deficit. As a result, negotiations with banks were in deadlock for months. An agreement with banks is only reached in Dec. (FT, 2 Oct. 1986) (Middle East Economic Digest, 11 Oct. 1986) (FT, 16 Dec. 1986) (Dow Jones, 16 Dec. 1986)

Nigeria	**1987-1988**	After the agreement in principle in Nov. of 1986 the rescheduling deal on medium- and long-term debt is delayed for months. The reason is that Nigeria fails to make payments on the interest of rescheduled trade debt from Jan. 1987 on, and fails to reach an agreement on the considerable short-term debt arrears, which both leads to a serious impasse with banks Additionally, Nigeria has effectively been out of compliance with its IMF program over much of 1987, which is a condition to conclude the agreement. In 1988 the deadlock in IMF negotiations, mainly over raising the price of fuel, further delays the debt rescheduling negotiations. (FT, 25 March 1988) (FT, 1 July 1988) (Reuters, 1 Oct. 1987) (FT, 6 March 1987) (Reuters, 1 Oct. 1987)
	1990	The announcement in June 1990 that Nigeria would unilaterally reduce the interest rate paid on its debt and the issue of mounting arrears lead to several months of stalemate with banks. Moreover, negotiations are suspended in autumn of 1990 due to the ousting of the Finance Minister. (Reuters, 16 July 1990) (Reuters, 27 June 1990) (FT, 12 Sept. 1990) (Reuters, 25 Jan. 1991) (Reuters, 12 Feb. 1991)
	1991	There is a 6 months dispute on which collateral bonds to offer. The key issue is that Nigeria offers a triple-A Refcorp paper as a guarantee instead of an equally secure US government bond. However, this is rejected by the banks. The government refuses to back down from its offer for many months. Additionally, the considerable interest arrears remain a main hurdle in negotiations and lead to some negotiation delay in early 1991. (Reuters, 25 Jan. 1991) (Reuters, 12 Feb. 1991) (Reuters, 5 June 1991) (Reuters, 20 Dec. 1991) (Reuters, 27 Sept. 1991)
Pakistan		Nothing reported
Panama	**1987**	In mid-1987 negotiations break down after the government suspends principal and interest payments. (Washington Post, 31 July 1987) (Reuters, 26 Jan. 1988) (BBC Monitoring Service, 27 Oct. 1987)
	1988 - 1989	From late 1987 on the economy largely collapses. The US charges Norriega of drug trafficking and human rights abuses. This leads to increasing political unrest in early 1988. Over the rest of 1988 the country faces harsh US sanctions, massive capital flight, a cut off in foreign aid, general strikes and a complete shutdown of the banking system for two months. In 1989, the economic and political chaos continues. The crisis reaches its climax in Dec. 1989 when U.S. military forces invade Panama, capture Noriega, and reinstall the democratically elected Guillermo Endara as president. (Boughton 2001, pp. 799) (Reuters, 26 January 1988) (AP, 3 February 1988) (Reuters, 24 Jan. 1992)
	1990-1993	From 1990 to 1993 the new government under Endara does not show willingness to engage in serious negotiations. Over 1990 and 1991 there are no formal negotiations with banks at all, as the government announces to give priority of paying arrears to governments and international institutions This strategy is supported by the US. In Feb. 1992 Panama reaches a deal with multilateral agencies. Despite its promises to start serious restructuring talks shortly after, it postpones negotiations several times and cancels planned meetings. The stated reasons for delaying the negotiations are domestic troubles, the need for further economic recovery and high debt repayments to the IMF and debtor governments. In 1993 there are only two preliminary meetings in April and Sept. of 1993. Nevertheless, a partial (relatively minor) bond debt restructuring offer is launched in late 1993. (American Banker, 13 Feb. 1990) (Reuters, 26 June 1990) (Reuters, 14 Nov. 1990) (Reuters, 26 June 1990) (Latin American Mexico and NAFTA Report, 14 June 1990) (Reuters, 11 Oct. 1991) (Reuters, 12 May 1992) (LDC Debt Report, 25 May 1992) (Reuters, 16 Dec. 1992) (Reuters, 9 Sept. 1992) (Reuters, 15 Sept. 1993) (Reuters, 7 Dec. 1993) (Reuters, 16 Dec.

1992) (Reuters, 21 April 1993) (Reuters, 17 Aug. 1993) (Reuters, 10 Sept. 1993) (Reuters, 12 Jan. 1994)

	1994	Serious negotiations start in Feb. of 1994. However, the upcoming elections in May delay the talks. The new administration of President Balladares postpones further talks for several months to Dec. of 1994. (Reuters, 16 Feb. 1994) (Reuters, 22 March 1994) (Reuters, 29 March 1994) (Reuters, 1 Aug. 1994) (LDC Debt Report, 24 Oct. 1994) (Reuters, 14 Dec. 1994)
Paraguay	**1986-1990**	There is a three-year delay in starting restructuring negotiations. Paraguay defaults in 1986 and incurs increasing arrears. However, negotiations are initiated only after the military dictator Stroessner is ousted after 34 years in a bloodless coup in Feb. of 1989. The new government under General Andres Rodriguez immediately starts negotiations. However, it also enacts a full suspension of payments to commercial banks. Moreover, the government's initial unwillingness to negotiate an IMF standby-agreement leads to tense relations with the Paris Club member countries. As a result, negotiations with private creditors break down several times, despite the large amount of arrears. Serious negotiations start only in early 1991. (Reuters, 11 Sept. 1990) (Reuters, 29 May 1986) (Reuters, 26 Feb. 1989) (FT, 4 Feb. 1989) (Reuters, 11 Sept. 1990) (LDC Debt Report, 28 Jan. 1991)
Peru	**1984**	The restructuring deal with banks agreed on in Feb. of 1984 is never signed as Peru does not stick to its IMF guided austerity program (deal breaks down) and due to the strong increase in interest arrears. (WSJ, 21 Sept. 1984) (WSJ, 6 Aug. 1984) (FT, 3 Oct. 1984)
	1985-1989	The confrontational and fully unilateral debt policy of President Garcia from 1985 to 1990 leads to a complete breakdown of negotiations with banks. In his inaugural speech Garcia announces a unilateral ceiling on debt payments leading to a strong increase in arrears in subsequent years. In parallel there is an open dispute with the IMF. (FT, 29 July 1985) (NYT, 25 Dec. 1984) (NYT, 30 July 1985) (NYT, 5 Feb. 1985) (WSJ, 29 July 1986) (FT, 30 June 1987) (FT, 28 July 1987) (WSJ, 29 July 1985) (FT, 12 Feb. 1986) (FT, 1 Aug. 1986) (FT, 16 Aug. 1986) (FT, 20 Feb. 1987) (WSJ, 3 June 1987)
	1990-1993	Delay from 1990 to 1993 in starting negotiations. The newly elected Fujimori administration continues Garcias policy of full payment suspension and rejects to start debt restructuring negotiations, despite pressure by the banks. Until 1996 the government even refuses to make token payments. The government states repeatedly that it wants to wait with repayments and restructuring until the economy has improved. Serious debt restructuring talks are initiated only in late 1993. (WSJ, 22 Oct. 1990) (Reuters, 12 Oct. 1990) (WSJ, 24 Nov. 1992) (Reuters, 26 July 1993) (Reuters, 30 Oct. 1995) (WSJ, 22 Oct. 1990) (Reuters,7 April 1992) (Reuters, 8 Sept. 1993) (Reuters, 1 Dec. 1993) (Reuters, 20 Dec. 1993)
	1994	An investigation in Congress about a minor amount of debt is postponed several times. This leads to a stall of negotiations for more than 9 months. (Reuters, 29 June 1994) (Reuters, 26 Aug. 1994) (FT, 17 Sept. 1994)
	1996	In 1996 differences between the IMF and the government delay the finalization of the term sheet for several months. (FT, 21 May 1996)

Philippines	**1983**	The debt negotiations with banks are delayed considerably as the government fails to reach a speedy agreement with the IMF. Additionally, there is considerable uncertainty about the true level of Philippine debt and foreign exchange reserves. This leads to further delays in 1983. (FT, 17 Dec. 1983) (FT, 20 Dec. 1983) (FT, 24 Dec. 1983)
	1984	The discovery that false financial figures had been published by the government and the reluctance to adopt austerity measures leads to month-long delays in IMF negotiations. This, in turn, delays an agreement with banks. (FT, 10 Feb. 1984) (Dow Jones, 31 May 1984) (WSJ, 6 June 1984) (FT, 18 June 1984)
	1987	The deal agreed on in March 1987 is delayed for 3 months from April on as Finance Minister Ongpin insist to renegotiate terms after news had spread that Argentina got a better deal than the Philippines. In June a compromise is found. In Nov. 1987 there is a further 40-day delay as the Philippine government requests a 40-day extension on the Nov. 15 deadline for concluding the rescheduling package. (FT, 16 April 1987) (WSJ, 17 Apr 87) (Reuters, 11 June 1987) (NYT, 17 July 1987) (WSJ, 6 Nov. 1987)
	1991	In end 1991 implementation of the deal is delayed several months due to internal political problems and because the country does not fulfil the IMF program's monetary and fiscal targets. (LDC Debt Report, 20 Jan. 1992) (Reuters, 9 Jan. 1992)
Poland	**1982**	The imposition of martial law in Dec. of 1981 leads to a 4 month delay in concluding the deal, originally agreed on in Oct. of 1981. Moreover, Poland fails to pay the promised amount of interest arrears until March, which was a precondition for the signature of the agreement. This leads to further delay. (NYT, 15 Dec. 1981) (NYT, 30 Dec. 1981) (Dow Jones, 11 Feb. 1982) (NYT, 3 March 1982) (WSJ, 15 March 1982).
	1987 - 1988	From mid-1987 to 1988 there is nearly one year of delay in signing the agreement agreed in July 1987. The reason is that Poland aims to alter the terms agreed on in July and changes its negotiation team. (Reuters, 2 March 1988) (Reuters, 17 March 1988).
	1990 - 1993	The government's refusal to make any interest payments and the slow response to banker proposals leads to a deadlock in debt restructuring talks from 1990 to 1993. In 1991, the dismissal of the central bank president and the chief debt negotiator due to a scandal contributes to the delay. In 1992 the deal with the IMF breaks down further undermining the talks. Creditors frequently complain that Poland rejects to engage in serious debt restructuring talks. After Poland starts first interest payments talks break down as the government refuses to increase the payments. (FT, 10 March 1993) (FT, 22 July 1999) (Reuters, 11 Aug. 1993) (Reuters, 1 Sept. 1993) (Reuters, 9 Sept. 1993) (Reuters, 11 March 1992) (Reuters, 14 April 1992) (LDC Debt Report, 14 Sept. 1992) (Reuters, 10 Dec. 1992) (Financial Times, 12 May 1992) (Reuters, 1 March 1991) (Reuters, 9 July 1991) (Reuters, 31 Aug. 1991) (Dow Jones, 23 Aug. 1991) (Reuters, 28 Feb. 1990) (Reuters, 8 Oct. 1990) (Reuters, 5 Nov. 1990).
Romania	**1981 - 1982**	The government rejects to engage in debt negotiations in 1981 and does not admit its payment problems until 1982. Negotiations in 1982 are further delayed due to confusing proposals and a lack of information exchange. (FT, 3 March 1982) (FT, 2 April 1982) (FT, 29 March 1982) (FT, 22 May 1982) (FT, 16 June 1982) (FT, 3 July 1982).

Russia	**1992 - 1995**	From 1992 to 1995 political turmoil and strong opposition pressure block a final agreement and delay negotiations considerably. In July 1993 Russia reaches an interim deal with banks after tedious negotiations. However, the agreement in principle is not implemented as the government refuses to accept the requirement that sovereign immunity be waived. As a result, talks break down in Oct. of 1993. In 1994, Russia continues to refuse signing the 1993 deal and fails to make the promised down payment of interest arrears. Political instability and frequent changes in the government's top economic team add to the delays. By 1995 plans to conclude the 1993 deal are completely abandoned by the government. Negotiations in 1995 are postponed several times due to the parliamentary elections in Dec. and due to problems in the debt negotiations with the Paris Club. (LDC Debt Report, 14 Dec. 1992) (Reuters, 27 Nov. 1992) (GDF, 2001 p. 72) (Dow Jones, 11 Oct. 1993) (Reuters, 11 Oct. 1993) (Reuters, 3 Nov. 1993) (WSJ, 12 Oct. 1993) (Dow Jones, Feb. 1994) (Reuters, 3 Nov. 1994) (LDC Debt Report, 7 Nov. 1994) (Reuters, 1 March 1995) (Reuters, 16 June 1995) (LDC Debt Report, 5 June 1995) (Reuters, 7 June 1995) (Reuters, 15 Nov. 1995).
	1996-1997	In Nov. of 1996 Russia agrees to a new agreement in principal. However, the negotiation process had been considerably delayed due to problems in reaching agreement with the IMF and due to uncertainty due to the presidential elections in June of 1996. In 1997 the government unilaterally postpones the closure of the deal several times, despite the agreement in principal since Nov. 1996. The deal, negotiated since 1992, is finally concluded in Dec. of 1997. (Reuters, 14 July 1997) (Reuters, 1 Sept. 1997) (Reuters, 6 Oct. 1997) (Reuters, 14 July 1997) (Reuters, 1 Sept. 1997) (Reuters, 6 Oct. 1997) (Reuters, 15 Feb. 1996) (Reuters, 10 June 1996) (Reuters, 1 Sept. 1997) (Reuters, 2 Dec. 1997)
	1998	Political instability and frequent cabinet reshuffles cause significant delays. The first round of new negotiations (from July 1998 on) and an offer orchestrated by Goldman Sachs fails. The government's decision to default makes a new lengthy round of negotiations necessary. (Reuters, 28 Oct. 1998) (Reuters, 30 Oct. 1998)
	1999	Political instability remains a main hurdle for quick agreement according to the press and market observers. In the first half of 1999, talks break off after the government is blamed for its non-transparent negotiation strategy and unsatisfactory communications with creditors. (Reuters, 26 Feb. 1999) (Dow Jones, 2 March 1999) (NYT, 1 June 1999)
South Africa		Nothing reported
Trinidad and Tobago		Nothing reported
Turkey		Nothing reported
Ukraine		Nothing reported
Uruguay		Nothing reported
Venezuela	**1983**	Substantial arrears by the government and its rejection to implement an IMF guided austerity program lead to a deadlock in negotiations with banks over much of 1983. A main reason for the government's tough stance towards the IMF and private creditors was believed to be the elections in Dec. of 1983. (Stamm, 1987, p. 214) (NYT, 13 Aug. 1983) (NYT, 25 July 1983) (Dow Jones, 27 July 1983) (FT, 15 Aug. 1983) (Dow Jones, 14 Dec. 1983)

1984	Further delay due to Venezuela's reluctance to adopt an IMF program. Finally, banks agree to a debt restructuring even without a formal IMF program in mid-year. However, talks break down again in June 1984 and Oct. as Venezuela, despite its promise to do so, refuses to foster debt repayment of the private sector, which accumulated USD 1 bn. in arrears. (Dow Jones, 18 April 1984) (Dow Jones, 22 June 1984) (WSJ, 27 July 1984) (Stamm, 1987, p. 214) (FT, 25 Jan. 1985) (Dow Jones, 8 June 1984) (NYT, 25 July 1984) (FT, 5 Feb. 1985)
1986	Negotiations are delayed between Feb. and April due to a dispute over temporary interest arrears. A real breakdown of negotiations occurs in July 1986 as the Congress surprisingly passes a law that would limit payments on about $7 billion of external debt by private Venezuelan businesses. The law foresees to unilaterally exchange private sector debt to long-term bonds with annual interest payments limited to 5%, a rate below the creditor banks' cost of funds. After considerable pressure by bank creditors the law is not put into effect and is abolished in Sept. 1986. (FT, 24 July 1986) (WSJ, 16 July 1986) (Stamm, 1987, p. 214) (FT, 3.July 1986) (Stamm, 1987, p. 214).
1987	A political conflict within the government leads to month-long delays in signing the agreement, which had been agreed on in February. The opponents to the deal argue in favor of a debt moratorium or, at least, a further modification of the deal. The deal is finally signed in September. (Reuters, 3 Aug. 1987) (Dow Jones, 29 July 1987) (WSJ, 7 Aug. 1987) (FT, 7 Sept. 1987) (WSJ, 8 Sept. 1987) (AP, 18 Sept. 1987).

Vietnam

1982 - 1993	Barely any negotiations from 1982 to 1993. After the default in 1982 the government runs into increasing arrears to private and official creditors and fails to come to an agreement with the IMF. There are some negotiations with Japanese banks only and a minor restructuring deal with them in the period 1982 to 1985. Yet, the government shows no meaningful restructuring efforts regarding the commercial debt to Western commercial banks. In 1993, as the US lifts its sanctions against the country step by step, Vietnam normalises its relations to the IMF and the World Bank and repays its arrears. Additionally, a deal with the Paris Club is reached. Negotiations with banks start only in 1994. (AP, 6 April 1997) (WSJ, 22 May 1985) (FT, 8 April 1982) (FT, 12 March 1985) (Reuters, 28 Sept. 1993) (Reuters, 12 Dec. 1994) (Reuters, 12 Dec. 1994) (Reuters, 7 Aug. 1995) (LDC Debt Report, 25 March 1996).
1995-1996	Although the government announces its aim to reach a quick deal, a series of issues delay the negotiations considerably. In 1985, there are disagreements between the Ministry of Finance and the State Bank on how to lead negotiations. The eighth congress of the Vietnamese communist party in mid-1996 leads to further political tensions and delays. Moreover, there are barely any meetings with the London Club. Instead, negotiations go on mostly via fax, which hinder speedy progress. (FT, 11 Oct. 1995). (FT, 11 Oct. 1995) (LDC Debt Report, 25 March 1996) (Reuters, 12 April 1996) (Reuters, 6 May 1996) (Reuters, 20 May 1996).
1997	In 1997 technical issues delay the closure of the deal. Generally, the central bank is slow in finishing the necessary documentation and causes a series of smaller administrative delays. Additionally, in Oct. of 1997, central bank chief Cao Si Kiem is ousted, which makes it necessary to redo paperwork and repeat the signature process. (Reuters, 28 Aug. 1997) (FT, 15 Oct. 1997) (Reuters, 2 Dec. 1997) (Reuters, 16 Feb. 1998).

Yugoslavia

Nothing reported

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