Discussion: ”The Politics of Debt in the Era of Rising Rates”
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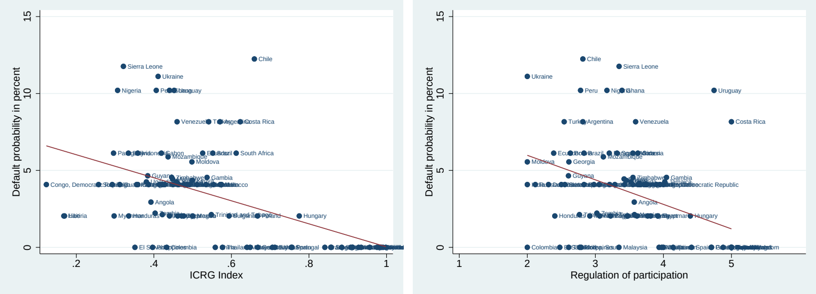
Motivation I: default probability and institutions

Qian and Roch (2024): countries default more often when they lack rules and strong institutions to curb the influence of powerful groups on government policies.



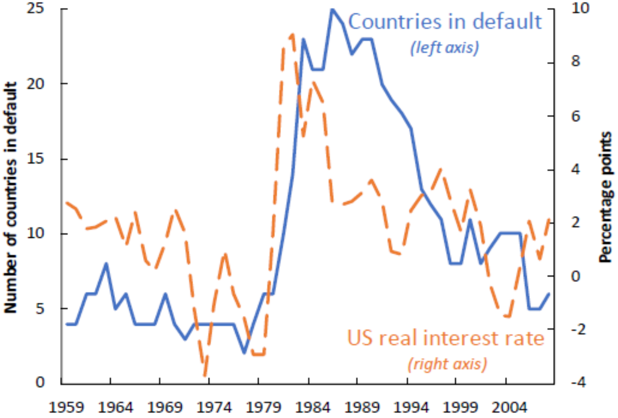
Motivation I: default probability and institutions

Dependent variable: Default probability

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
lGDPpc	-0.282	-0.671**	-1.002***	-0.308	-0.326	-0.722**	-0.709**
	(0.395)	(0.312)	(0.256)	(0.389)	(0.387)	(0.313)	(0.308)
Debt_GNI	0.000172	0.00422	0.00497	0.00205	0.00344	0.00578	0.00633
	(0.00822)	(0.00822)	(0.00831)	(0.00814)	(0.00814)	(0.00826)	(0.00812)
Default history	0.0113	0.0144	0.0241	0.00798	0.00634	0.0138	0.0128
	(0.0172)	(0.0174)	(0.0161)	(0.0169)	(0.0169)	(0.0174)	(0.0171)
ICRG	-6.276**			-6.702**	-5.143*		
	(2.642)			(2.606)	(2.811)		
parreg		-0.779*				-0.737*	-0.219
		(0.437)				(0.436)	(0.501)
polarization			**2.797**	**4.113****	**12.04****	**2.720**	**17.24****
			(2.001)	(2.063)	(5.929)	(1.983)	(7.502)
ICRG*polarization					-11.65		
					(8.171)		
parreg*polarization							**-3.774****
							(1.883)
Constant	8.937***	10.97***	10.28***	8.949***	8.138***	10.87***	8.837***
	(2.325)	(2.207)	(2.208)	(2.285)	(2.342)	(2.197)	(2.387)
Observations	90	93	94	90	90	93	93
R-squared	0.291	0.271	0.254	0.323	0.339	0.286	0.318

Motivation II: rising risk-free rates and defaults

Almeida, Esquivel, Kehoe and Nicolini (2024)



The want operator

A theory that examines

- how rising rates influence the incentives for EMs to default on their debt, with a focus on political-economy factors such the strength of institutions.
- how short-term lending programs from IFIs influence these dynamics.

This Paper

Build a political economy model of sovereign default:

- a group leader, randomly selected to make a policy proposal, requires the support of a 'minimum winning coalition' to enact policy.
- depending on the country's institutional strength, the proposer may offer costly political favors to benefit particular groups.

Quantitatively assess how shifts in the risk-free rate may affect

- governments' borrowing and default decisions
- the design of policy interventions by IFIs

Main findings:

- weak institutions result in higher debt levels and, thus, a higher default probability
- rising rates, coupled with high post-pandemic indebtedness, push default rates up to 60%
- Without proper conditionality, IFI lending can exacerbate default risk.

Comments I

- Contribution to the literature: Guimaraes (2011); Johri, Khan and Sosa-Padilla (2022) and Almeida et al (2024) already established that a rise in the risk-free rate generates higher default risk.
- Novelty: political-economy channel?
- Important to model long-term debt: introduces debt dilution and lowers impact of rising rates.
- Important to model recovery: Almeida et al (2024).
- Introduce a stochastic process for the interest rate.

Comments II

- Mapping results to data: we have not seen the wave of defaults.
- Calibrating to Argentina.
- State-contingent debt: Guimaraes (2011); Sovereign CoCos (Hatchondo, Martinez, Onder and Roch, 2024).
- With long-term debt, implications of mitigating lack of commitment (e.g., Hatchondo, Martinez and Roch, 2023).

Conclusions

- Nice paper to read! Interesting and policy relevant question.
- Contribution to the literature: Give more prominence to the interaction between political factors and rising interest rates.
- Thanks!