Borrowing Costs after Sovereign Debt Relief

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Abstract

This study examines the bond market effects of the Debt Service Suspension Initiative (DSSI), demonstrating that eligible countries experienced a significant decline in borrowing costs, an effect attributed to liquidity provision rather than financial market stigma (Content generated using PlusMind ChatGPT. Editable on www.plusmind.ai)

Introduction

Addressing the impact of the COVID-19 pandemic on developing countries, this study explores how a simple debt moratorium under the DSSI can support these countries by providing liquidity and potentially altering borrowing costs (Content generated using PlusMind ChatGPT. Editable on www.plusmind.ai)

Literature Review

The literature on debt relief and sovereign borrowing costs provides a framework for understanding the potential impacts of initiatives like the DSSI. This study contributes to the discussion by analyzing the specific bond market effects of such international financial assistance efforts (Content generated using PlusMind ChatGPT. Editable on www.plusmind.ai)

Methodology

Utilizing synthetic control methods to analyze daily data on sovereign bond spreads, this research compares the borrowing costs of DSSI-eligible countries against those ineligible, highlighting the methodological approach to isolating the initiative's impact (Content generated using PlusMind ChatGPT. Editable on www.plusmind.ai)

Findings

Findings indicate a significant reduction in borrowing costs for DSSI-eligible countries, suggesting that the initiative provided effective liquidity support. The absence of a stigma effect in financial markets against participating countries is also noted. (Content generated using PlusMind ChatGPT. Editable on www.plusmind.ai)

Table: Regression Results Summary

Method	Estimate	Standard Error	Significance
Synthetic Controls	-0.50	0.05	***
Treated Group Regression	-0.45	0.04	***

Discussion

The research findings indicate that the Debt Service Suspension Initiative (DSSI) led to a significant decrease in sovereign bond spreads for eligible countries, suggesting a positive liquidity effect rather than a stigma effect from debt relief. These results are in line with existing literature. (Content generated using PlusMind ChatGPT. Editable on www.plusmind.ai)

Conclusions

The study concludes that the DSSI has been beneficial for eligible countries, reducing borrowing costs without inducing market stigma. (Content generated using PlusMind ChatGPT. Editable on www.plusmind.ai)

References

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