Adrien Wicht

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Research Interests

Dynamic Macroeconomics, International Macroeconomics, Sovereign Debt and Defaults, Optimal Contracts.

References

Ramon Marimon	Alexander Monge-Naranjo	Dirk Krueger
European University Institute	European University Institute	University of Pennsylvania
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Education

- **European University Institute** — Florence, IT
  PhD in Economics — *08.19– Current*
  Advisors: Ramon Marimon (1st) and Alexander Monge-Naranjo (2nd).
- **University of Basel** — Basel, CH
  Researcher — *11.23– Current*
  Chair: Andreas Müller.
- **University of Pennsylvania** — Philadelphia, US
  Visiting Scholar — *09.21 – 02.22*
  Sponsor: Dirk Krueger.
- **European University Institute** — Florence, IT
  MRes in Economics — *08.18 – 07.19*
- **University of Zurich** — Zurich, CH
  MA in Economics — *09.15 – 07.17*
- **University of Fribourg** — Fribourg, CH
  BA in Economics — *09.11 – 06.14*
- **Collège Sainte-Croix** — Fribourg, CH
  Maturity with Major in Law and Economics — *08.07 – 07.11*

Research Advisory and Assistance

- **European Stability Mechanism** — Remote
  Head of unit: Giovanni Callegari. — *04.23 – 10.23*
  - Support members of staff in developing models under the IDEA Project.
  - Software programming and calibration.
- **Robert Schuman Center of Advance Studies, European University Institute** — Florence, IT
  Advisor: Ramon Marimon. — *09.20 – 08.21*
  - Development and computation of dynamic macroeconomic models.
  - Data gathering, software programming and calibration.
- **International Policy Analysis Unit, Swiss National Bank** — Zurich, CH
  Head of unit: Alain Gabler. — *07.17 – 07.18*
  - Database management, data processing and analysis.
  - Involvement in policy-relevant research.

Teaching Assistance

- **European University Institute** Florence, IT
  Instructor: Ramon Marimon. *09.22 – 10.22*
  - **Beliefs & Learning and Dynamic Contracts & Mechanism Design**: PhD elective course
- **European University Institute** Florence, IT
  Instructor: Alexander Monge-Naranjo. *04.23 – 05.23*
  - **Macroeconomics III – Part. 2: Incomplete Markets**: PhD core course
- **European University Institute** Florence, IT
  Instructor: Ramon Marimon. *09.22 – 10.22*
  - **Advanced Macro Introduction**: PhD elective course
- **European University Institute** Florence, IT
  Instructor: Ramon Marimon. *04.20 – 06.20*
  - **Macro-Finance and Policy Design**: PhD elective course
- **European University Institute** Florence, IT
  Instructor: Jesús Bueren. *01.20 – 03.20*
  - **Macroeconomics II**: PhD core course

Job Market Paper

- **Efficient Sovereign Debt Management in Emerging Economies, 2023**: This paper assesses the efficiency of the sovereign debt management in emerging economies. I consider a market economy in which a sovereign borrower trades non-contingent bonds of different maturities with two foreign lenders. The borrower is impatient and lacks commitment. I show that the market economy cannot implement the Planner's constrained efficient allocation through defaults but instead by costly debt buybacks. Moreover, as the lenders must enforce those buybacks, the implementation generally requires history-dependent strategies. Nevertheless, interpreting the borrower's impatience as a form of bounded memory, small perturbations in the payoff of the market participants rule out any other strategies than Markov ones. In this case, the Planner's allocation can only be approximated by Markov strategies. I show that emerging economies such as Argentina and Brazil present evidence of such approximation albeit with different outcomes. The multiplicity in outcome comes from the strategic interaction between the two lenders. I find that Brazil has a more efficient sovereign debt management than Argentina.

Current Work and Working Papers

- **Seniority and Sovereign Default: The Role of Official Multilateral Lenders, 2023**: Sovereign countries do not necessarily repay all its creditors. There is a clear pecking order in which official multilateral lenders – i.e. mainly the International Monetary Fund and the World Bank – are given priority in repayment. Yet, this preferred status is a market practice and is not legally binding. This paper documents the source and the consequences of the *de facto* seniority of official multilateral lenders. Empirically, I present evidence that defaults involving such lenders are infrequent, last relatively longer and are associated with greater private creditors' losses. To rationalize those findings, I build a model of endogenous defaults and renegotiations with heterogenous lenders. I find that the key component behind the *de facto* seniority is the typical policy of non-toleration of arrears adopted by official multilateral lenders. Combined with the default penalty, this policy rationalizes the aforementioned empirical facts, generates important spillovers on other creditors and is a source of fiscal discipline. The borrower values the use of official multilateral debt and would not necessarily prefer other seniority regimes.
- **Commitment in the Canonical Sovereign Default Model (joint with Xavier Mateos-Planas, Sean McCrary and Jose-Victor Rios-Rull), 2023**: We study the role of lack commitment in shaping the allocations of the canonical incomplete-markets sovereign default model of Eaton and Gersovitz (1981). We show how the equilibrium with commitment to the circumstances under which default can be undertaken involves a very different set of functional equations than in the equilibrium without commitment. It turns out that, in practice, under commitment default does not exist in all but very extreme quantitative environments. We document how the standard specification of Arellano (2008) displays no default if there is commitment, even in the absence of both utility cost and exclusion from borrowing. While less standard specifications can produce some default under commitment, we provide examples that demonstrate how rare default is. We interpret default as a recourse of last resort.

- **The Generalized Euler Equation and the Bankruptcy-Sovereign Default Problem (joint with Xavier Mateos-Planas, Sean McCrary and Jose-Victor Rios-Rull), 2023**: We characterize the equilibrium of the standard sovereign default model where a risk-averse borrower issues long-term non-contigent bonds but cannot commit its future selves to repay. We show existence and uniqueness of the Markov equilibrium of the dynamic game with successive borrowers that is associated to this environment. We show that the price and policy functions exhibit jumps and kinks in various places. A suitable choice of arbitrary small noise yields price and policy functions that are differentiable almost everywhere which allows us to characterize the equilibrium using only decision rules of the agents by means of a set of functional equations. Further, we describe the equilibrium objects via an Euler equation with derivatives on future actions —i.e. a generalized Euler equation (GEE) where the effects due to default and those to dilution can be disentangled. Computational strategies using these functional equations allow for solving the model with continuous functions using policy iterations. A sufficient variance of the noise allows for concavity and hence unique solution of the GEE which eases computation.
- **Debt and Risk-Sharing with Moral Hazard (joint with Ramon Marimon and Luca Zavalloni), 2023**: We study the optimal design of a Financial Stability Fund. The Fund contract is based on a risk-assessment of the country and it is subject to limited enforcement (LE) and moral hazard (MH) constraints, therefore risk-sharing is limited. We analyse this tradeoff and its interaction with the LE constraints, as well as the role that the sovereign's impatience plays. Our benchmark is a Fund contract where the incentive compatibility (IC) rewards & punishments take place every period. Then we proceed with two inquires: *i*) what are the losses of having IC contracts with long spans of consumption smoothing, where the IC rewards & punishments take place at the end of the span?, can the long-span contract be designed to achieve the effort and the welfare of the benchmark contract?; *ii*) we introduce conditionality. We show that unobservable (non-contractable) effort not only has an effect on the final distribution of the observable outcome (e.g. government liabilities), but also can help to fulfil an observable (and contractable) condition informative of the improvement of the risk profile of the country. We use this framework to assess the underlying rules of the New Stability and Growth Pact.

Published Work

- **Making Sovereign Debt Safe with a Financial Stability Fund (joint with Yan Liu and Ramon Marimon), 2023, Journal of International Economics, Forthcoming**: We develop an optimal design of a Financial Stability Fund that coexists with the international debt market. The sovereign can borrow defaultable bonds on the private international market, while having with the Fund a long-term contingent contract subject to limited enforcement constraints. The Fund contract does not have *ex ante* conditionality, but requires an accurate country-specific risk-assessment (DSA), accounting for the Fund contract. The Fund periodically announces the level of liabilities the country can sustain to achieve the constrained efficient allocation. The Fund is only required *minimal absorption* of the sovereign debt, but it must provide insurance (Arrow-securities) to the country. Furthermore, with the Fund *all sovereign debt is safe independently of the seniority structure*; however, for the Fund, seniority may require a greater *minimal absorption* than a *pari passu* regime. We calibrate our model to the Italian economy and show it would have had a more efficient path of debt accumulation with the Fund.
- **On a Lender of Last Resort with a Central Bank and a Stability Fund (joint with Giovanni Callegari, Ramon Marimon and Luca Zavalloni), 2023, Review of Economic Dynamics, Vol. 50, pp. 106-130**: We explore the complementarity between a central bank and a financial stability Fund in stabilizing sovereign debt markets. The central bank pursuing its mandate can intervene with public sector purchasing programs, buying sovereign debt in the secondary market, provided that the debt is safe. The sovereign sells its debt to private lenders, through market auctions. Furthermore, it has access to a long-term state-contingent contract with a Fund: a country-specific debt-and-insurance contract that accounts for no-default and no-over-lending constraints. The Fund needs to guarantee gross-financial-needs and no-over-lending. We show that these constraints endogenously determine the 'optimal debt maturity' structure that minimizes the Required Fund Capacity (RFC) to make all sovereign debt safe. However, the Fund may have limited absorption capacity and fall short of its RFC. The central bank may be able to cover the difference, in which case there is perfect complementarity and the joint institutions act as an effective 'lender of last resort'. We calibrate our model to the Italian economy and find that with a Fund contract its 'optimal debt maturity' is 2.9 years with an RFC of 90% of GDP, which is above what the European Stability Mechanism (ESM) could reasonably absorb, but may be feasible with an ECB *Transmission Protection Instrument* (TPI) intervention. In contrast, the average maturity of Italian sovereign debt has been circa 6.2 years, with a needed absorption capacity of around 105% of GDP, which may call for a maturity restructuring to ease the activation of TPI.
- **Demographics and the Current Account (joint with Joschka Gerigk and Miriam Rinawi), 2018, Aussenwirtschaft, Vol. 69(1), pp. 45-76**: This paper investigates the relationship between demographics and the current account. We analyze the impact of recent demographic changes and provide a forecast of its future impact. Overall, we find a strong and robust, non-linear demographic effect. In particular, we find a positive association between the current account and the share of a population's prime-age individuals and a negative association with the share of the elderly.

Our forecast suggests that, given the dramatically aging population in most industrialized countries, demographics will likely decrease the current account balance in the near future in those countries.

Policy Papers

- **Euro Area fiscal policies and capacity in post-pandemic times (joint with Ramon Marimon), 2021**: The main legacy of the post-Covid-19-crisis euro area fiscal framework should be the development of a unique integrated fiscal policy and of a permanent and independent Fiscal Fund to implement it. To arrive at this conclusion, we analyse the challenges and build on current research on the optimal design of a fiscal fund. We characterise the fiscal policy, and the development of the Fund, together with the role and form that the Stability and Growth Pact can take in the new fiscal framework.

Conferences, Seminars and Workshops

- **Joint Banque de France and EUI Conference**: Paris, 11.09.23
- **European Economic Association**: Barcelona, 28.08-01.09.23
- **XXVI Workshop on Dynamic Macroeconomics**: Vigo, 11-13.07.23
- **Society of Economic Dynamics (SED) annual Meeting**: Universidad de los Andes, 29.06-01.07.23
- **A Dynamic Economic and Monetary Union (ADEMU) Workshop**: BSE Summer Forum, 14-15.06.23
- **5th QMUL Economics and Finance Workshop**: Queen Mary University of London, 25-26.05.23
- **Second PhD Workshop in Money and Finance**: Sveriges Riksbank, 15.05.23
- **17th End-of-Year Conference of Swiss Economists Abroad**: University of Basel, 22.12.22
- **Society of Economic Dynamics (SED) annual Meeting**: University of Madison-Wisconsin, 28-30.06.22
- **A Dynamic Economic and Monetary Union (ADEMU) Workshop**: BSE Summer Forum, 15-16.06.22
- **5th Interdisciplinary Sovereign Debt Research and Management Conference (DebtCon5)**: EUI, Georgetown University, The Graduate Institute of Geneva, Sovereign Debt Forum, 25-26.05.22
- **21st Doctoral Meeting in International Trade, International Macroeconomics and Urban Economics**: Sciences Po Paris, 28-29.04.22
- **Macro Student Talk**: University of Pennsylvania, 17.02.22.
- **Philadelphia Fed Seminar**: Federal Reserve Bank of Philadelphia, 16.02.22.
- **Macro Lunch Seminar**: University of Pennsylvania, 22.10.21.
- **A Dynamic Economic and Monetary Union (ADEMU) Workshop**: European Stability Mechanism, EUI and University of Luxembourg, 08-09.10.20

Additional Coursework

- **Florence School of Banking and Finance** — Florence, IT
  Sovereign Debt Risks — *23.05.22 – 25.05.22*
  Instructor: Lee Buchheit, Mitu Gulati and Ugo Panizza.
- **Study Center Gerzensee** — Gerzensee, CH
  An Introduction to Macro-Finance — *02.05.22 – 06.05.22*
  Instructor: Atif Mian.
- **University of Pennsylvania** — Philadelphia, US
  International Macroeconomics with Financial Frictions — *08.21 – 12.21*
  Instructor: Enrique Mendoza.
- **University of Pennsylvania** — Philadelphia, US
  Topics in Macroeconomic Theory — *08.21 – 12.21*
  Instructor: Alessandro Dovis.
- **Euro Area Business Cycle Network** — Online
  Continuous Time Methods in Macroeconomics — *28.09.20 – 30.09.20*
  Instructor: Jesús Fernández-Villaverde and Galo Nuño.

Refereeing

- Journal of Economic Dynamics and Control.

Awards and Grants

- Doc Mobility Grant, Swiss National Science Foundation, 09.21-02.22.
- EUI PhD Grant, Swiss Grant-awarding Authority, 2018-2022.
- The Ernst & Young Award, University of Fribourg, Best Bachelor of Arts in Economics, 2014.
- Prix de la Banque Cantonale de Fribourg, Collège Sainte-Croix, Best GPA in Law and Economics section, 2011.
- Prix du Fonds Tesch, Collège Sainte-Croix, Best GPA in the French-speaking section, 2011.

Skills Summary

- **Languages**: French (native), German (fluent), Swiss German (fluent), English (fluent), Italian (intermediate).
- **Text editors**: Latex, MS Office and Apple applications.
- **Software**: Excel VBA, Fortran, Julia, Matlab, MySQL, OpenMP, QGIS, R, Stata.