



SOVEREIGN DEBT WORKSHOP

“Making Sovereign Debt Safe with a Financial Stability Fund” Tuesday, November 15, 2022 – 12:00–1:00 PM

Presenter: Ramon Marimon (Universitat Pompeu Fabra)

Chair: Marcos Chamon (SPR)

Abstract: We develop an optimal design of a Financial Stability Fund that coexists with the international debt market. The sovereign can borrow long-term defaultable bonds on the private international market, while having with the Fund a long-term contingent contract subject to limited enforcement constraints. There is a contract that minimizes the debt absorbed by the Fund, guaranteeing full debt stabilization. In equilibrium, the seniority of the Fund contract, with respect to the privately held debt, is irrelevant. We calibrate our model to the Italian economy and show it would have had a more efficient path of debt accumulation with the Fund.

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