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**Fiscal Crises: The Role of the Public Debt Investor Base and Domestic Financial Markets as
Aggravating and Mitigating Factors**

Prepared by: R. Bhattacharya, K. Johnson, M. Nkusu, and M. Wang*

Authorized for distribution by Carlo Sdralevich and Olaf Unteroberdoerster
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ABSTRACT: The paper evaluates the key drivers of fiscal crises in a sample of countries from all three income groups—advanced, emerging, and low-income countries, using fiscal crisis data recently developed by the IMF’s Fiscal Affairs Department. The empirical study focuses on three questions: (1) How does the composition of debtholders (domestic vs. foreign, resident vs. non-resident, or official vs. non-official) affect the probability of a fiscal crisis, after controlling for the level of public debt and other relevant variables?; (2) How does the development and size of the domestic financial sector affect the probability of a fiscal crisis?; and (3) How do changes in the debt level affect the probability of a fiscal crisis, for given compositions of the sovereign debt investor base and different levels of development and size of domestic financial markets? Our findings confirm the benefits of financial development, the danger of heavy reliance on a non-resident investor base, and also that emerging market economies have a lower debt carrying capacity compared to the full sample.

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Author’s E-Mail Address:	RBhattacharya@imf.org ; Mnkusu@imf.org ; MWang3@imf.org ; 525jacobjohnson@gmail.com ;