

On Graduation from Default, Inflation and Banking Crises: Elusive or Illusion?

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ABSTRACT

This paper uses a data set of over two hundred years of sovereign debt, banking and inflation crises to explore the question of how long it takes a country to “graduate” from the typical pattern of serial crisis that most emerging markets experience. We find that for default and inflation crises, twenty years is a significant market, but the distribution of recidivism has extremely fat tails. In the case of banking crises, it is unclear whether countries ever graduate. We also examine the more recent phenomenon of IMF programs, which sometimes result in “near misses” but sometimes end in default even after a program is instituted. The paper raises the important theoretical question of why countries experience serial default, and how they might graduate.