

# Default risks of a sovereign debt crisis model

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## Abstract

We estimate a stochastic general equilibrium sovereign debt crisis model of Arellano (2008) for Argentina via maximum likelihood estimation. Despite its focus on idiosyncratic risk, the model-implied default decisions well account for observed default events. Our novel “real-time” default probability measure does not necessarily fluctuate with output, thanks to the model features, such as the endogenous debt ceiling and the non-monotonicity of default risk and output.

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