Accepted Manuscript

Title: Bankruptcy reforms in the midst of the Great Recession: The Spanish experience

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PII: S0144-8188(18)30107-8
DOI: https://doi.org/10.1016/j.irle.2018.04.001
Reference: IRL 5799

To appear in: *International Review of Law and Economics*

Received date: 13-6-2017
Revised date: 26-1-2018
Accepted date: 24-4-2018

Please cite this article as: García-Posada Gómez, Miguel., & Sánchez, Raquel Vegas., Bankruptcy reforms in the midst of the Great Recession: The Spanish experience.*International Review of Law and Economics* https://doi.org/10.1016/j.irle.2018.04.001

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ACCEPTED MANUSCRIPT

BANKRUPTCY REFORMS IN THE MIDST OF THE GREAT RECESSION: THE SPANISH EXPERIENCE.

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21/01/2018

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Abstract

We make use of a unique data set of corporate insolvencies in Spain to assess the effectiveness of the four reforms to the Spanish bankruptcy code implemented during the Great Recession (2008-2013). One of the reforms decreased the average duration of insolvency procedures by increasing the appeal of private workouts as an alternative to formal bankruptcy. Two of the reforms increased the percentage of reorganisations by increasing the quality of insolvency administrators and reducing the costs of financial distress. The impact was larger in firms with lower liquidation values and higher going concern values, suggesting an increase in ex-post efficiency. By contrast, two of the reforms did not achieve their goals and failed to have any robust impact on those dimensions. Our research illustrates the important role that insolvency administrators may play in the design of an efficient bankruptcy system, as well as the need for a legal framework that supports out-of-court workouts as an alternative to formal bankruptcies. More generally, our results highlight the importance of evaluating bankruptcy reforms before assessing their impact on other dimensions such as credit, firm financing and investment.

Keywords: bankruptcy, reorganisation, liquidation, reforms, duration analysis.

JEL Classification: G33, C41, K22.

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