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Flooded with debt

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## Flooded with debt

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### Abstract

This study explores if natural disasters are able to trigger a sovereign debt default. Natural disasters make the debt of a country less sustainable as they worsen the public finances of a country. The main findings from our empirical analysis clearly indicate that large-scale natural disasters increase significantly the onset probability of a sovereign debt default by about three percentage-points. It turns out that particularly major earthquakes and storms raise the likelihood of a default as they create the most widespread damage reported worldwide. This will limit the debt servicing opportunities of a country in the future.

**Keywords:** Government debt, Sovereign default, Natural disasters.

**JEL Codes:** E6; F34; H6; Q54.

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