



SOVEREIGN DEBT, OTC DERIVATIVES AND (THE LACK OF) GROWTH IN THE G7

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Abstract and motivation

Average G7 countries gross sovereign debt reached 119% in 2015 (IMF, 2016); debt sustainability depends on growth. Reduced macroeconomic policy coordination, regulatory arbitrage and *beggar thy neighbour* policies with growing public debt and sluggish economic conditions undermine debt's sustainability, especially for countries with a debt over GDP ratio greater than 100%, like Italy, Japan and the US. After 1990 many countries managed outstanding debt with OTC contracts; gains and losses are difficult to evaluate. At the present supranational rules on sovereign debt restructuring do not eliminate moral hazard. What matters are markets' expectations, and public debt management rules. Do economic fundamentals reflect in the sovereign risk? Among G7, Italy, Germany and France share common public debt policies (and the euro); are these rules effective to guarantee debt sustainability (and favour growth)?

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