



# Department SEMINARS

Are Bad Governments a Threat  
to Sovereign Defaults?  
The Effects of Political Risk on  
Debt Sustainability

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**2:00 PM**

Seminar Room Bruguier Pacini, DEM



## A B S T R A C T

We show that political risk is a significant determinant of bond yields and economic growth in both developed and emerging markets and develop a debt sustainability analysis model with both channels using a country rating proxy of political risk. Political risk can render debt unsustainable, triggered by changes in the rating level, volatility, or both. Conversely, sustainability can be restored through reforms that can be as effective as large-scale quantitative easing programs.

The political effects on debt are especially large for high-debt countries during periods of high interest rates and impact debt management through the choice of optimal financing maturities.

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