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Abstract

In this paper, we analyse the effects of all sources of nonfinancial debt (household, corporate as well as government) accumulation on economic growth in ten euro-area countries during the 1980-2015 period. To this end, we make use of three models (a baseline, an asymmetric and a threshold model) based on the empirical growth literature augmented by debt. By exploring the time series dimension in order to properly account for the historical experience of each country in the sample, we aim to detect potential heterogeneities in the relationship across euro-area economies. Our findings suggest that while public debt thresholds are higher in peripheral than in central countries, private debt thresholds are higher in core euro-area countries. Moreover, while a reduction in nonfinancial corporations' and public debt has a negligible effect on growth, the response is very relevant in the case of households but clearly differs across countries (the average impact being higher in peripheral than in central countries). Therefore, according to our results, peripheral countries especially should be aware of the adverse consequences of private debt accumulation and a reduction in households' debt in those countries may be crucial to stimulate consumption and growth.

Keywords: Public debt, household debt, nonfinancial corporate debt, economic growth, heterogeneity, euro area, peripheral euro -area countries, central euro-area countries.

JEL Classification Codes: C22, D12, F33, H63, O16, O40, O52

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