

Debt Overhang and Economic Growth: The Asian and the Latin American Experiences

John Smith
Department of Economics
Brandeis University
Waltham, MA 02454
jsmith@brandeis.edu

April 2006

Abstract: Debt overhang may impede a country's investment and growth. Accordingly, the World Bank initiated debt relief programs. However, doubts have been raised regarding the empirical validity of the debt overhang hypothesis. We employ panel data for testing the existence of debt overhang for Latin American and Asian borrowers. A variety of dynamic panel data econometric estimations as well as dynamic and system GMM estimations are conducted. Our results indicate that debt overhang impeded growth in Latin American economies severely and the impact was moderately negative in the Asian region

Keywords: Debt overhang hypothesis, Asian and Latin American debt, Dynamic panel

JEL Classifications: P52, F34, G20, C33

