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Macro Roundup Article

Headline: Corporate Debt, Boom-Bust Cycles, and Financial Crises

Article Link: https://www.nber.org/papers/w32225

Author(s)	Victoria Ivashina, □ebnem Kalemli-Özcan, Luc Laeven and Karsten Müller
Publication	National Bureau of Economic Research
Publication Date	March 14, 2024

Tweet: Corporate debt plays a key role in amplifying boom-bust cycles; expansions in non-financial corporate credit, particularly when backed by real estate, are associated with a higher probability of a future financial crisis. @skalemliozcan @KarstenMueller

Summary: Using a new dataset on sectoral credit exposure for 115 economies over the period 1940–2014, we document that (i) corporate debt accounts for two-thirds of the aggregate credit expansion before crises and three-quarters of total nonperforming loans during the bust; (ii) expansions in corporate debt predict crises similarly to household debt; (iii) a measure of imbalance in credit growth flowing disproportionately to some sectors, such as construction and non-bank financial intermediation, is associated with crises; and (iv) the recovery from financial crises is slower after a boom in corporate debt. Given the usual focus on household debt, our findings underscore the importance of monitoring firm credit for financial stability purposes.

Related Articles: The Corporate Debt Maturity Wall: Implications for Capex and Employment and Rates Are Up. We're Just Starting to Feel the Heat and Credit Allocation and Macroeconomic Fluctuations

Primary Topic: Business Cycle

Topics: Academic paper, Business Cycle, Financial Markets, GDP

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