

**Macroeconomic Imbalances and the Eurozone Crisis:  
*The Impact of Credit Expansion on Asset Prices***

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The economic crisis of the Eurozone emerged after the subprime mortgage crisis of the U.S. and since then fiscal profligacy of some member countries primarily Greece at the outset, were seen as the root of the crisis. However, alternative approaches pointed to the current account imbalances within the Eurozone; the flaws in the architecture of the Eurozone system. In this study, we aim to analyze these structural problems behind the macroeconomic imbalances and trace their consequences in terms of credit expansion and asset price speculation. More specifically we examine the impacts of credit expansion (the change in new loans relative to GDP) on asset prices using dynamic panel estimations for 11 countries in the Eurozone over the period 1990-2011. We provide the estimates for the pooled sample and for the subsample countries separately regrouped based on Hein (2013) as: i) *the debt-led consumption* (Greece, Ireland and Spain); ii) *export-led mercantilist* (Austria, Belgium, Finland, Germany and Netherlands) and iii) *domestic demand-led* countries (France, Italy and Portugal). We find that the credit expansion and asset prices are closely associated in the first and third group of countries whereas no significant correlation is observed in the second group. In addition we also provide evidence on the relationship between the growth of GDP and credit expansion supporting previous findings in the literature.

**Keywords:** Credit expansion; Asset prices; Eurozone crisis; Macroeconomic imbalances

**JEL Classifications:** E42, E65, F36, F34