

Special Issue on Debt and Sustainability: Introduction

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This special issue of *Economics and Business Letters* contains four articles that address some of arguably the most important issues in macroeconomics since the outbreak of the global financial crisis, i.e. the sustainability of sovereign debt and the implications of debt for economic growth.

The start of the global financial crisis is often associated with the bankruptcy of Lehman Brothers in September 2008. The crisis in the financial sector spread to the real economy and resulted in output declines and rapidly increasing unemployment. Several governments in Europe faced debt financing problems of the sort often seen after financial crises (Reinhart and Rogoff, 2011). The debt crises first affected countries in Eastern Europe but subsequently spread to many countries in Western Europe. Greece faced financing problems from the end of 2009 and received external support from the IMF, the ECB and the EU in May 2010. Other countries like Ireland, Portugal, Spain and Cyprus similarly experienced debt financing problems at various stages, compelling them to seek external support. In spite of some stabilisation, many European countries are still in a fragile situation at the end of 2015 with stretched public finances, anaemic growth and high unemployment.

The European debt crises and the accompanying recessions have brought the topic of fiscal solvency and the consequences of high levels of public debt to the forefront of policy debates and economic research. Many European countries have pursued *austerity* measures aimed at reducing fiscal deficits in order to reduce the sovereign risk and the burden imposed on future generations. Baldi and Staehr (forthcoming) show that the fiscal stance has indeed generally become more responsive to the debt stock after the crisis than it was before. It is however still unclear whether the austerity measures have had positive or negative effects on unemployment and economic growth (Monacelli et al. 2010). There is also some controversy about the effects of fiscal consolidation measures on the evolution of debt stocks in Europe (Cuestas et al., 2014).

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This special issue of *Economics and Business Letters* has been conceived in recognition of the need to provide more empirical evidence on the factors of fiscal sustainability, the role of fiscal consolidation and the implications of public debt for economic growth. The four short contributions which we have selected provide important insights using state-of-the-art empirical methodologies

In the first paper, “Old wine in a new bottle: public debt sustainability – evidence from a number of EU countries under fiscal consolidation”, Nicholas Apergis applies nonlinear techniques to examine the effects of austerity measures on debt sustainability for five EU countries. Interestingly, Apergis shows that things worsened in the case of Greece in terms of debt accumulation after the introduction of fiscal austerity.

In the second paper, “On the relation between public debt and economic growth: an empirical investigation”, Bettina Fincke and Alfred Greiner analyse the relationship between public debt and economic growth using panel data estimations for seven developed economies. Fincke and Greiner find a clear negative relationship between debt and growth.

The third paper, entitled “What happens to the relationship between public debt and economic growth in European countries?” by Rebeca Jimenez-Rodriguez and Araceli Rodriguez-Lopez, extends the analysis of public debt and economic growth for a group of economies in the periphery of Europe. Their findings are in line with the results of the paper by Fincke and Greiner, insofar as high levels of debt to GDP tend to have a detrimental effect on growth. Jimenez-Rodriguez and Rodriguez-Lopez also show that economic growth can help in reducing debt levels.

In the last of our selected papers “A new look at fiscal sustainability: an attempt to reveal the relationship between the sustainability of external debt and inequality”, Yasunori Fujita considers an often overlooked issue in the analysis of fiscal sustainability, i.e. distributional concerns. Fujita shows that more income equality within a country is an important factor for the sustainability of public debt accumulation.

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