

**Abstract**

This paper focusses on the relation between external imbalances and domestic money and credit growth in the euro area. We compute money and credit overhang both for the euro area as a whole and for individual member countries. Our results show that both aggregate money and credit overhang have trend-like increased since the early 2000s. The increase in money overhang has been rather evenly spread over the member states but the increase in credit overhang has been unevenly spread and has mainly occurred in the GIIP countries. We apply panel analysis to detect temporal patterns between the developments in money overhang, credit overhang and external indebtedness. Looking at the groups of GIPS countries in isolation, net debt flows do play a significant role to explain money and credit overhang.