

## *The Threshold Effect of Government Debt on Private Sector Consumption in Iran*

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### **Abstract**

Governmental debts have impression on household disposable income that influence on their consumption. This impact, in some cases has expansion positive effects and in some other cases, reduces consumption, investment and economic growth. The main aim of this paper is to study the linear and non-linear relations between consumption of private sector and government debts in Iran. For this purpose, the period between 1358-1395 years was considered and after confirmation of non-linear relation, government debt threshold was achieved by soft transfer regression method. Results show that in the considered time period, the average government debt to GDP was around 60%, but threshold was estimated 46%. In other words, passing threshold causes by increasing government debts and probability of government inability to debts repayment, consumption of private sector will be reduced indirectly.

**Keywords:** Private consumption, Government Debt, Nonlinear Effects, Threshold model.

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