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Public Debt and Growth: An Empirical Investigation

Duygu C. ¹

1 Atılım University/Department of Economics

duygu.canbek@atilim.edu.tr

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Canbek, D.

Abstract

In this research, the relationship between public debt and growth for a panel sample of 128 countries including 26 advanced, 40 emerging and 62 developing economies for a period of 1960-2011 is investigated. To this end, not only the conventional fixed effects procedure but also the recently developed cross sectionally augmented distributed lag (CS-DL) mean group (MG) procedure is considered. Also, it is investigated whether the relationship is robust to different country groupings such as advanced, emerging and developing economies and to different debt levels such as suggested. In the study, bivariate equations for debt and growth and conventional growth equations augmented with debt threshold variables are estimated. The results suggest that the negative impact of the public debt on growth appears to be more severe in emerging market countries than both advanced and developing countries. The results also lend a support to the view that the growth is invariant to different public debt levels in advanced countries. Moreover, according to the results, not only the debt growth but also the acceleration of the debt negatively affects economic growth. Emerging economies suffer most from the debt whilst the advanced economies suffer the least. Also a rising debt structure lead to a remarkable slowdown the growth for emerging and developing economies rather than the advanced ones.

Keywords: Public Debt, Growth, Threshold Value, Panel Data, Emerging Economies, Cross-Section dependence.

JEL classification: Q5, C23, O57.