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Government Debt Impact on Economic Growth: Dynamic Panel Evidence

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Abstract: This paper investigates the impact of central government debt on economic growth of developed and emerging market nations. The paper uses a sample of twenty nations from 1994 to 2023 and applies the Least Squares Dummy Variable (LSDVC) Dynamic Regression Method (Bias Corrected) as the main estimation method. The results reveal that central government debt lowers economic growth. As a robustness check, the central government debt reduces economic growth using the LSDVC (with bootstrapped standard error). Additional robustness checks show that central government debt lowers economic growth using the Difference Generalized Method of Moments. The results suggest that effective debt management strategies are required to reduce its negative consequences on economic growth.

Keywords: Government Debt, Economic Growth, Crowding-out Hypothesis, Panel Data, Dynamic Analysis

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