

ABSTRACT

Over the past few years, Public debt has been a significant threat to economic growth in developed countries. In order to determine the impact of public debt on economic growth in developed countries, an empirical investigation has been made in this study. The panel data set consists of 27 cross sections taken over the time span, 1995-2012. This study has applied fixed effect estimation technique to quantify the relationship between economic growth and Public debt. Results show that there exist a significant positive relationship between Public debt and economic growth. The channels through which public debt is found to have an impact on economic growth are: population growth rate, square of public debt, capital formation and growth rate of gdp/cap. From a policy prospective, the results provide additional arguments for debt reduction to support longer term economic growth prospects.

KEYWORDS: Public debt, Economic growth, population growth rate, capital formation, fixed effect estimation.