Short- and Long-term Effects of Economic Growth on Public Debt Dynamics

Atsumasa Kondo, Shiga University

Abstract

This paper theoretically examines how public debt dynamics are influenced by slight changes in the economic growth rate. If the initial public debt level to budget surplus ratio is sufficiently low, then an improvement in the economic growth rate will reduce the public debt level in every time period. If the ratio exceeds a critical level, economic growth has opposite effects on public debt dynamics in the short-run and in the long-run; while economic growth decreases public debt level from a long-term perspective, it increases the debt level in the short-run.