PUBLIC DEBT AND ITS IMPACT ON ECONOMIC GROWTH IN EMERGING ECONOMIES

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Abstract. Public debt has become an important instrument of fiscal policy in emerging economies, where governments frequently rely on borrowing to finance infrastructure, social programs, and economic development. This article examines the impact of public debt on economic growth in emerging economies, with particular attention to the conditions under which government borrowing can promote or constrain long-term economic development. The analysis indicates that the relationship between public debt and economic growth is complex and often nonlinear. Moderate and efficiently managed public debt can stimulate economic activity by financing productive investment and supporting aggregate demand. However, excessive debt accumulation may negatively affect economic growth through higher debt-servicing costs, reduced fiscal space, crowding-out of private investment, and increased macroeconomic vulnerability. Empirical research also suggests that emerging economies may be more sensitive to high debt levels because of relatively limited fiscal capacity, external financing risks, and institutional constraints. The article concludes that the growth effects of public debt depend not only on its size but also on its structure, sustainability, institutional quality, and the efficiency with which borrowed resources are allocated.

Keywords: public debt, economic growth, emerging economies, debt sustainability, fiscal policy, government borrowing, fiscal space.

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Аннотация. Государственный долг является важным инструментом бюджетно-налоговой политики в странах с формирующейся рыночной экономикой, где государственные заимствования широко используются для финансирования инфраструктуры, социальных программ и экономического развития. В статье исследуется влияние государственного долга на экономический рост в развивающихся рыночных экономиках, а также рассматриваются условия, при которых государственные заимствования могут стимулировать либо ограничивать долгосрочное экономическое развитие. Анализ показывает, что взаимосвязь между государственным долгом и экономическим ростом носит сложный и зачастую нелинейный характер. Умеренный и эффективно управляемый государственный долг способен способствовать экономическому росту посредством финансирования производительных инвестиций и поддержки совокупного спроса. В то же время чрезмерное накопление долговых обязательств может замедлять экономический рост вследствие увеличения расходов на обслуживание долга, сокращения бюджетного пространства, вытеснения частных инвестиций и усиления макроэкономических рисков. Исследования также показывают, что страны с формирующейся рыночной экономикой могут быть более чувствительны к высоким уровням задолженности. Сделан вывод о том, что влияние государственного долга на экономический рост определяется не только его объемом, но и структурой, устойчивостью, качеством институтов и эффективностью использования заемных средств.

Ключевые слова: государственный долг, экономический рост, страны с формирующейся рыночной экономикой, долговая устойчивость, фискальная политика, государственные заимствования, бюджетное пространство.

Annotatsiya. Davlat qarzi rivojlanayotgan bozor iqtisodiyotiga ega mamlakatlarda fiskal siyosatning muhim vositalaridan biri bo‘lib, hukumatlar undan infratuzilma loyihalari, ijtimoiy dasturlar va iqtisodiy rivojlanishni moliyalashtirish

maqsadida keng foydalanadilar. Ushbu maqolada davlat qarzining rivojlanayotgan bozor iqtisodiyotiga ega mamlakatlarda iqtisodiy o‘sishga ta’siri hamda davlat qarzlari uzoq muddatli iqtisodiy rivojlanishni rag‘batlantirishi yoki cheklashi mumkin bo‘lgan shart-sharoitlar tahlil qilinadi. Tadqiqotlar davlat qarzi va iqtisodiy o‘sish o‘rtasidagi bog‘liqlik murakkab va ko‘pincha nochiziqli ekanligini ko‘rsatadi. Mo‘tadil va samarali boshqariladigan davlat qarzi ishlab chiqarish investitsiyalarini moliyalashtirish hamda yalpi talabni qo‘llab-quvvatlash orqali iqtisodiy faollikni rag‘batlantirishi mumkin. Biroq qarz majburiyatlarining haddan tashqari ortishi qarzga xizmat ko‘rsatish xarajatlarining ko‘payishi, fiskal imkoniyatlarning qisqarishi, xususiy investitsiyalarning siqib chiqarilishi va makroiqtisodiy xatarlarning kuchayishi orqali iqtisodiy o‘sishga salbiy ta’sir ko‘rsatishi mumkin. Empirik tadqiqotlar rivojlanayotgan bozor iqtisodiyotlari yuqori qarzdorlik darajasiga nisbatan sezgirroq bo‘lishi mumkinligini ham ko‘rsatadi. Maqolada davlat qarzining iqtisodiy o‘sishga ta’siri nafaqat uning hajmiga, balki qarz tarkibi, barqarorligi, institutsional sifat va jalb qilingan mablag‘lardan samarali foydalanishga ham bog‘liq degan xulosaga kelinadi.

Kalit so‘zlar: davlat qarzi, iqtisodiy o‘sish, rivojlanayotgan bozor iqtisodiyotlari, qarz barqarorligi, fiskal siyosat, davlat qarzlari, fiskal imkoniyatlar.

Introduction

Public debt has become an increasingly important component of economic policy in emerging economies. Governments often rely on domestic and external borrowing to finance budget deficits, infrastructure projects, social programs, and other development priorities. When public borrowing is effectively managed and directed toward productive sectors, it can contribute to economic growth by increasing investment, improving infrastructure, creating employment, and supporting aggregate demand. However, a continuous increase in public debt may also create significant challenges for macroeconomic stability and long-term economic development.

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The relationship between public debt and economic growth is particularly important for emerging economies. Unlike advanced economies, many emerging countries face limited domestic financial resources, relatively narrow tax bases, dependence on external financing, exchange-rate volatility, and greater exposure to global economic shocks. These characteristics may increase the risks associated with excessive government borrowing. A growing debt burden can lead to higher debt-servicing costs, reduce the resources available for public investment and social expenditures, and limit the government's ability to respond effectively to future economic crises.

At the same time, public debt should not necessarily be considered harmful to economic growth. Government borrowing can play a positive role when borrowed resources are invested in projects that increase the productive capacity of the economy. Investments in transport infrastructure, energy, education, healthcare, digitalization, and other strategic sectors can generate long-term economic benefits that exceed the cost of borrowing. Therefore, the economic consequences of public debt depend not only on the size of the debt but also on its structure, maturity, currency composition, cost, and the efficiency with which borrowed funds are utilized.

Another important issue is debt sustainability. Rapid debt accumulation can increase fiscal vulnerability, especially when government revenues grow more slowly than debt-servicing obligations. High levels of external debt may create additional risks because currency depreciation can significantly increase the domestic cost of servicing foreign-currency obligations. Moreover, excessive government borrowing from domestic financial markets may reduce the availability of credit for private businesses and increase interest rates, potentially weakening private investment and economic activity.

In recent years, the issue of public debt has gained greater importance due to global economic uncertainty, external shocks, rising financing needs, and increased public expenditure. Emerging economies must therefore find an appropriate balance between using debt as an instrument for economic development and maintaining fiscal

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and macroeconomic stability. Effective debt management requires governments to consider not only how much they borrow but also how borrowed resources are allocated and whether the resulting economic benefits are sufficient to meet future repayment obligations.

The purpose of this article is to examine the impact of public debt on economic growth in emerging economies and to identify the main channels through which government borrowing can influence economic performance. Particular attention is given to the potential benefits and risks of public debt, debt sustainability, the crowding-out effect, and the importance of efficient allocation of borrowed resources. The article also aims to highlight the importance of responsible fiscal policy and effective public debt management in achieving sustainable long-term economic growth.

Public debt plays a dual role in emerging economies. On the one hand, government borrowing provides additional financial resources that can be used to support infrastructure development, education, healthcare, energy projects, and other productive sectors. On the other hand, excessive accumulation of debt increases debt-servicing costs and may reduce the government's ability to finance development priorities. Therefore, the effect of public debt on economic growth largely depends on the level of indebtedness, the structure of debt, the cost of borrowing, and the efficiency of public expenditure.

Empirical studies demonstrate that the relationship between public debt and economic growth is not necessarily linear. At relatively low or moderate levels, additional borrowing may positively affect economic activity, particularly when the funds are directed toward productive public investment. However, after debt reaches a certain level, its marginal contribution to economic growth may decline and eventually become negative.

One influential empirical analysis covering advanced and emerging economies over almost four decades found that a 10-percentage-point increase in the initial public debt-to-GDP ratio was associated, on average, with approximately a 0.2-percentage-point reduction in annual real GDP per capita growth. The negative effect was largely connected with weaker labor productivity, lower investment, and slower capital accumulation. Importantly, the negative relationship was found to become stronger at higher levels of indebtedness.

At the same time, research focusing specifically on emerging market economies does not always find a purely negative relationship. Panel-data evidence indicates that public debt can be positively associated with subsequent per capita GDP growth when borrowed resources are used efficiently. Investment is another important factor positively associated with economic growth. This suggests that the economic consequences of borrowing cannot be evaluated solely by looking at the nominal amount of government debt.

One of the most important findings in the empirical literature is the existence of possible debt thresholds. The basic idea is that public debt may support economic activity below a certain level but negatively influence economic growth once debt exceeds the economy's capacity to manage and service it.

For example, an empirical analysis covering 36 countries estimated significantly different turning points for developed and emerging economies. For developed economies, the estimated public debt turning point was approximately 90–94% of GDP, whereas for emerging economies it was substantially lower, at approximately 44–45% of GDP. Below these estimated levels, additional public borrowing could have a positive effect on economic growth, while above them the relationship became negative.

However, the threshold should not be interpreted as a universal debt limit. Country-specific research produces considerably different results. For example, research on Mexico covering the period 1994–2016 identified an inverted U-shaped relationship and estimated a public debt threshold of approximately 27% of GDP. Research on Nepal using annual observations from 1976 to 2019 estimated a growth-maximizing public debt-to-GDP ratio of approximately 33%.

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Other developing economies demonstrate higher estimated levels. Evidence from Sub-Saharan African economies indicates that economic growth may remain sustainable around a public debt level of approximately 52% of GDP. A study focusing on Pakistan estimated an optimal public debt level of approximately 60% of GDP.

These findings can be summarized as follows:

Empirical evidence	**Period/sample**	**Estimated debt level**	**Main result**
Emerging economies	1995–2010	44–45% of GDP	Above the turning point, the growth effect becomes negative
Mexico	1994–2016	27% of GDP	Inverted U-shaped debt-growth relationship
Nepal	1976–2019	33% of GDP	Estimated growth-maximizing debt level
Sub-Saharan Africa	Developing economies	Around 52% of GDP	Growth sustainability associated with debt around this level
Pakistan	Time-series analysis	60% of GDP	Estimated optimal debt level for economic growth

The substantial variation between approximately 27% and 60% of GDP in these studies demonstrates why a single universal debt threshold should not be applied mechanically to all emerging economies. Differences in institutional quality,

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government revenues, financial-market development, economic structure, borrowing costs, exchange-rate regimes, and the composition of public debt can change a country's capacity to sustain government borrowing.

The first major channel is public investment. Government borrowing can generate positive economic effects when it finances infrastructure and productive capital. Investments in roads, railways, electricity generation, digital infrastructure, education, and healthcare can improve productivity and create conditions for private-sector development. In this case, the return generated by debt-financed investment may partially compensate for the future cost of debt servicing.

The second channel is the crowding-out effect. When governments borrow extensively from domestic financial markets, they compete with private companies for available financial resources. This may increase borrowing costs and reduce the availability of credit to the private sector. Consequently, businesses may postpone investment projects, reducing capital accumulation and future economic growth.

Evidence from developing and emerging economies illustrates this mechanism. Research covering 93 low-income countries and emerging markets during 1975–2004 found that moderate levels of non-inflationary domestic public debt could positively affect economic growth. However, there was evidence that domestic debt began to undermine growth when it exceeded approximately 35% of bank deposits. The study associated this result with crowding-out and banking-sector efficiency concerns.

The third channel is debt servicing and fiscal space. A government must allocate part of its annual revenue to interest and principal payments. As these payments increase, fewer resources remain available for education, healthcare, infrastructure, social protection, and other productive expenditures. High debt servicing therefore creates an opportunity cost for economic development.

The fourth channel is macroeconomic uncertainty. Rising public debt may increase concerns about future taxation, inflation, exchange-rate depreciation, or fiscal consolidation. Such uncertainty can influence household consumption and business investment. Evidence from 10 emerging European economies over 2000–2015 found a significant negative relationship between public debt uncertainty and GDP growth, with particularly pronounced effects during the global financial crisis that began in 2008.

The impact of public debt can be particularly important for emerging economies because these countries frequently face structural and financial constraints that are less severe in advanced economies. Their governments may have narrower tax bases, less-developed domestic capital markets, higher borrowing costs, and greater dependence on foreign-currency financing.

External debt creates an additional source of vulnerability. If a significant proportion of government liabilities is denominated in foreign currencies, depreciation of the national currency automatically increases the domestic-currency value of debt and debt-service payments. Even if the government does not borrow additional funds, its effective debt burden may therefore rise following a significant exchange-rate shock.

Emerging economies may also experience changes in international capital flows when global interest rates increase or investor risk perceptions deteriorate. Higher borrowing costs can make refinancing existing debt more expensive. Governments facing substantial refinancing needs may consequently be forced to reduce expenditure, increase taxes, or obtain new loans under less favorable conditions.

Another important factor is institutional quality. The same amount of public borrowing can produce substantially different economic outcomes depending on how effectively the government selects, implements, and monitors investment projects. Debt used for projects with high economic returns can expand productive capacity. In contrast, inefficient expenditure financed through borrowing increases future repayment obligations without generating sufficient additional output or government revenue.

The concept of debt sustainability is therefore more important than the debt-to-GDP ratio considered in isolation. A country with a relatively high debt ratio may remain financially stable if it has strong economic growth, reliable government

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revenues, moderate interest costs, long debt maturities, and effective fiscal institutions. Conversely, a country with a lower debt-to-GDP ratio may experience difficulties if a large proportion of its debt is short-term, denominated in foreign currency, or subject to high interest rates.

This distinction has important implications for fiscal policy in emerging economies. Governments should not focus exclusively on minimizing public debt. In many cases, excessive restrictions on borrowing may prevent economically beneficial investment. Instead, fiscal authorities should aim to maintain debt at a sustainable level while improving the productivity of debt-financed expenditures.

Public debt management should consequently include several priorities: extending the average maturity of government debt, reducing excessive exposure to foreign-currency liabilities, developing domestic financial markets, improving transparency, strengthening fiscal institutions, and directing borrowed funds toward projects capable of generating long-term economic returns.

The empirical evidence therefore supports a balanced interpretation of the debt-growth relationship. Public debt is neither automatically beneficial nor inherently harmful. Its economic effect changes according to the level and composition of debt, macroeconomic conditions, institutional quality, and the productivity of government expenditure. The considerable differences in estimated debt thresholds across emerging economies further demonstrate that fiscal sustainability should be assessed on a country-specific basis rather than through a single universal numerical limit.

Conclusion and Recommendations

Public debt is an important instrument for financing economic development in emerging economies, but its impact on economic growth depends on the level, structure, and efficiency of its use. Moderate and well-managed borrowing can stimulate growth by financing infrastructure, education, energy, and other productive investments. However, excessive debt may increase debt-servicing costs, reduce fiscal space, crowd out private investment, and increase macroeconomic vulnerability. Therefore, there is no universal optimal debt-to-GDP ratio, as debt sustainability varies

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according to each country’s economic conditions, institutional quality, and fiscal capacity.

Emerging economies should maintain sustainable debt levels, improve fiscal discipline and transparency, and prioritize borrowing for projects that generate long-term economic returns. Governments should also reduce excessive dependence on foreign-currency debt, strengthen domestic financial markets, improve public investment management, and create fiscal buffers during periods of strong economic growth. Overall, effective debt management and the productive use of borrowed resources are essential for ensuring that public debt supports sustainable economic growth rather than becoming a source of financial instability.

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