
The Impact of Public Debt on Economic Growth of ASEAN + 3 Countries

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Abstract:

Purpose: The study applied the threshold regression method proposed by Hansen (1999) with panel data (Panel Threshold Regression-PTR) to determine the existence of threshold effects and threshold values of public debt affecting the economic growth of ASEAN+3 countries.

Design/Methodology/Approach: The model of the impact of public debt on economic growth was developed by the authors based on the study by Égert (2015) and conducted by the authors using three samples, including all countries, high-income countries, and middle-income countries for the period 2004-2015.

Findings: The study results showed that, with the sample of all ASEAN + 3 countries, two public debt thresholds on GDP were 26.96% and 72.53%. With a sample of high-income countries, one public debt threshold on GDP was 65.80%. For the sample of middle-income countries, two public debt thresholds on GDP were 26.96% and 72.53%. More specifically, for middle-income countries, at public debt levels below 26.96% of GDP and from 72.53% of GDP, public debt will have a negative and statistically significant impact on economic growth. At public debt levels ranging from 26.96% of GDP to 72.53% of GDP, public debt does not affect economic growth, but these levels promote public expenditure that positively affects economic growth.

Practical implications: Based on the research results, policymakers can use these thresholds in managing national public debt.

Originality/Value: Although this study organically builds upon recent studies about public debt and economic growth, it provides a new method to determine the effect of public debt on economic growth using the threshold regression method proposed by Hansen (1999) with panel data (Panel Threshold Regression-PTR).

Keywords: Public Debt Threshold, PTR Method, Bootstrap.

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