

## Does Rising Debt Undermine Future Growth? Evidence from the EU\*

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### Abstract

**Aim/Purpose** – The main purpose of the paper is to understand the nature of the relationship between rising public debt and future economic growth. Moreover, the article aims at determining whether the character of this relationship is the same or different when considering “new” and “old” members of the European Union.

**Design/methodology/approach** – The abovementioned issues are analysed using two approaches: the introductory comparative analysis (Reinhart-Rogoff approach) and econometric methods (pooled regression, between estimator, cross-country regression and fixed-effects regression). The sample considered consists of EU countries (as of 1<sup>st</sup> January 2020) and various economic, demographic and societal data coming from the period 1995-2019.

**Findings** – The findings show that public debt expansion may have some positive effects on economic growth, but only up to a certain limit. Having reached this limit, the negative outcomes start outweighing positive ones, and as a result, the growing public debt diminishes subsequent economic growth, leading possibly to a debt trap. It is also confirmed that this limit is lower for the “new” EU members when compared to the “old” ones.

**Research implications/limitations** – This article may be treated as a warning against excessive debt expansion as it undermines future economic development.

**Originality/value/contribution** – The paper is relevant as it shows a nonlinear impact of rising public debt on future growth. It may serve as a guide proving that fiscal deficit and debt-driven economic development is not a sustainable one, especially if considering countries trying to eliminate the economic development gap between them and the leaders.

**Keywords:** public debt, growth, nonlinear relationship, European Union

**JEL Classification:** E62, H63

*A national debt if it is not excessive will be to us a national blessing.*  
A. Hamilton, Letter to R. Morris, 30 Apr. 1781 (Epstein, 2006)