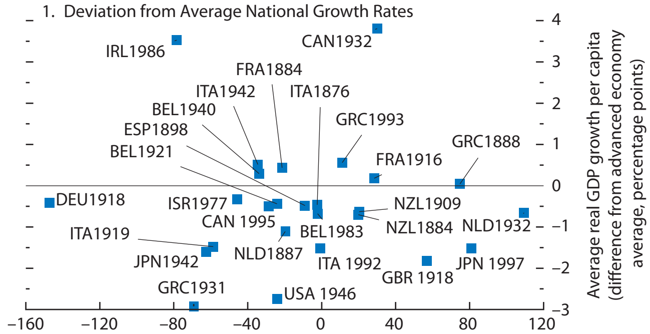
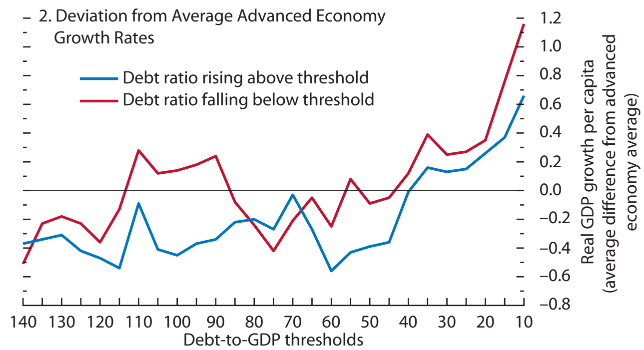
Figure 3.5. Debt and Growth Performance

Countries whose debt-to-GDP ratio rises above 100 percent tend to experience lower GDP growth than other advanced economies. However, countries with a debt level between 90 and 110 percent can actually grow faster than other advanced economies if debt is on a declining trajectory. In fact, the growth performance in countries whose debt is decreasing when crossing a given threshold is better than that in countries where it is increasing.

1. Deviation from Average National Growth Rates



2. Deviation from Average Advanced Economy Growth Rates



Sources: Abbas and others (2010); Maddison (2003); and IMF staff calculations.
Note: The change in debt ratio and average growth rates are computed over the 15 years after the debt ratio crosses the specified threshold. The blue line in panel 2 shows the difference in average growth for economies whose debt ratio rises above the threshold specified on the horizontal axis with respect to the average growth among all advanced economies over the same periods. The red line denotes the growth rate differential when the debt ratio falls below each given threshold. BEL: Belgium; CAN: Canada; DEU: Germany; ESP: Spain; FRA: France; GBR: United Kingdom; GRC: Greece; IRL: Ireland; ISR: Israel; ITA: Italy; JPN: Japan;