Public investment shocks have a statistically significant and long-lasting effect on output. They also typically reduce the debt-to-GDP ratio, though the decline in debt is statistically significant only in the short term. The level of private investment rises in tandem with GDP.

Figure 3.5. Effect of Public Investment in Advanced Economies
(Years on x-axis)

Source: IMF staff calculations.
Note: $t = 0$ is the year of the shock; dashed lines denote 90 percent confidence bands. Shock represents an exogenous 1 percentage point of GDP increase in public investment spending.