Various empirical approaches suggest that public investment shocks in emerging market and developing economies have a positive effect on output, albeit with a much wider variation in responses than in advanced economies.

Figure 3.8. Effect of Public Investment on Output in Emerging Market and Developing Economies

-1 0 1 2 3 4 5 6
-1 0 1 2 3 4

Figure 3.9. Model Simulations: Effect of Public Investment in Advanced Economies in the Current Scenario

1. Output
   (percent deviation from baseline)

2. Debt
   (percentage-point-of-GDP deviation from baseline)

3. Private Investment
   (percent deviation from baseline)

When monetary policy in advanced economies is accommodative, public investment shocks have a substantial short-term effect on output, bringing about a decline in the public-debt-to-GDP ratio.

Source: IMF staff estimates.

Note: Shock represents an exogenous 1 percentage point of GDP increase in public investment spending.