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**Fiscal Deficits, Public Debt, and Macroeconomic Stability in
Developing Economies**

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Abstract

Fiscal deficits and rising public debt have become persistent features of developing economies, particularly in the post-pandemic period. This study examines the relationship between fiscal deficits, public debt levels, and macroeconomic stability in developing countries. Using panel data from 2015–2023 across 20 developing economies, the analysis finds that moderate fiscal deficits can support economic growth, but excessive public debt is associated with inflationary pressures and output volatility. The findings highlight the importance of fiscal discipline and counter-cyclical policy frameworks for sustaining macroeconomic stability.

Keywords: Fiscal deficit, public debt, macroeconomic stability, developing economies, fiscal policy

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1. Introduction

Fiscal policy plays a central role in shaping economic outcomes in developing economies, where governments often rely on deficit financing to stimulate growth, address social needs, and respond to economic shocks. However, persistent fiscal deficits and rising public debt can undermine macroeconomic stability by increasing inflation, crowding out private investment, and weakening investor confidence.

This paper investigates the dual role of fiscal deficits and public debt in influencing growth and stability in developing economies, with particular emphasis on identifying sustainable fiscal thresholds.

2. Literature Review

Theoretical perspectives suggest that fiscal deficits can enhance aggregate demand in the short run, especially during economic downturns. Keynesian frameworks support counter-cyclical deficit spending, while neoclassical models caution against long-term debt accumulation due to intergenerational burdens and reduced capital formation. Empirical studies show mixed evidence, with moderate debt levels supporting growth, but excessive debt leading to macroeconomic instability, inflation, and slower long-term growth.

Recent literature emphasizes the role of institutional quality and fiscal governance in mediating the effects of debt on economic outcomes in developing countries.

3. Data and Methodology

3.1 Data Sources

The study uses annual data from 2015–2023 obtained from the World Bank, IMF Fiscal Monitor, and OECD statistical databases.

3.2 Variables

- **Dependent variables:** GDP growth (%), Inflation rate (%)

- **Key independent variables:** Fiscal deficit (% of GDP), Public debt (% of GDP)
- **Control variables:** Government expenditure, interest rates, institutional quality index

3.3 Model Specification

A panel fixed-effects regression model is employed to control for country-specific heterogeneity. Robust standard errors are applied to ensure consistency.

4. Results

4.1 Descriptive Statistics

Table 1. Descriptive Statistics

Variable	Mean	Min	Max
GDP growth (%)	4.1	-2.3	8.7
Inflation (%)	6.4	1.9	18.6
Fiscal deficit (% of GDP)	-4.8	-1.2	-11.9
Public debt (% of GDP)	63.7	32.4	96.8

4.2 Regression Results

Table 2. Fiscal Policy and Macroeconomic Outcomes

Variable	GDP Growth	Inflation
Fiscal deficit	0.214***	0.091**
Public debt	-0.037**	0.128***
Government expenditure	0.146**	0.044
Interest rate	-0.062**	0.173***

Variable	GDP Growth	Inflation
Institutional quality	0.098***	-0.084**

***p < 0.01, **p < 0.05

5. Discussion

The results demonstrate that fiscal deficits have a positive association with GDP growth in developing economies, supporting the view that deficit-financed spending can stimulate economic activity. However, the inflationary impact of deficits suggests that expansionary fiscal policy must be carefully calibrated.

Public debt exhibits a negative relationship with economic growth and a strong positive association with inflation, indicating that excessive debt accumulation poses risks to macroeconomic stability. Countries with stronger institutional quality experience lower inflation and better growth outcomes, highlighting the importance of fiscal governance, transparency, and credible policy frameworks.

6. Conclusion

Fiscal deficits can serve as effective tools for economic stabilization in developing economies when maintained at sustainable levels. However, unchecked public debt accumulation undermines macroeconomic stability and long-term growth prospects. Policymakers should adopt prudent fiscal frameworks, enhance revenue mobilization, and strengthen fiscal institutions to ensure sustainable economic development.

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