

EFFECT OF EXTERNAL PUBLIC DEBT ON ECONOMIC GROWTH IN KENYA

JONATHAN OMOLO & KENNETH KIGUNDU MACHARIA

Department of Business, Chuka University, Kenya

ABSTRACT

The purpose of this study was to assess the effect of external public debt on economic growth in Kenya. The specific objectives were to determine the effect of external public debt stock on the economic growth and to establish the effect of debt service payment on economic growth. The study will adopted a causal research design. The study targeted a population data of 53 years for the period 1963 - 2014. Ordinary Least Squares approach was used to analyze data retrieved from the World Bank and Kenya National Bureau of Statistics from 1980 to 2014. An Error Correction Model that flexibly combines the short run and long run dynamic models in a single system was adopted by the study. Inferential statistics were obtained by applying the PcGive Ox-metrics and E-views while prior tests on unit root, co integration and granger causality were done before estimation. Vector Autoregression Diagnostics and tests were applied in the lag order selection, detection of autocorrelation in the residuals and to test for the normality of the residuals.

KEYWORDS: Public Debt, External and Domestic Debt