

EXTERNAL DEBT AS A CONTROL OF ETHIOPIAN ECONOMIC PROGRESS: A TIME SERIES ANALYSIS FROM 1991/92-2018/19

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ABSTRACT

This paper analyzes the impact of public external on Ethiopian economic growth from 1991/92 to 2018/19 using ARDL model. The result reveal that debt service payment and debt service export earnings ratio has adverse effect though it is trivial in Ethiopian economic growth while the total public external debt stock to real GDP has a negative and substantial consequence on real GDP. ADF test result shows that all the variable are non-stationary at levels or I(0) but at first difference I(1). Johansen co-integration test result indicates that there is long-term relationship between external debt and GDP. On the other hand, the Granger causality test indicates there is causation between the total stock of external debt as percentage of GDP (TEDTGDP) and GDP. The economic analysis result confirms that the ratio external debt to GDP has a negative impact on GDP both in the short and long run time period at 5% and 1% significance level. While debt service, total external debt stock and debt service export ratio has insignificant effect on GDP. The study concludes that huge accrual of external debt slowdown economic progress of the country and existence of debt over hang problem in Ethiopian economy 1991/92-2018.

KEYWORDS: External Debt, Economic Growth, Error Correction Model

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