External Debt and Economic Growth in Sub-Saharan African Countries : An Econometric Study

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This econometric study takes a simulation approach to investigate the impact of external debt on economic growth in sub-saharan African countries using a small macroeconomic model estimated for 1970-1994. An important finding was the significance of debt overhang variables in the investment equation, suggesting that mounting external debt depresses investment through both a "disincentive" effect and a "crowding out" effect.

Policy simulation was undertaken to investigate the impact of alternative debt stock reduction scenarios (debt reduction packages of 5%, 10%, 20% and 50%), effective in 1986, on investment and economic growth in the subsequent years. It was found that debt stock reduction would have significantly increased investment and growth performance. A 20% debt stock reduction would, on average, have increased investment by 18% and increased GDP growth by 1% during the 1987-1994 period.

Thus, the results demonstrate that debt forgiveness could provide a much needed stimulus to investment recovery and economic growth in Sub-Saharan Africa.

Descriptors : Economic Development, Economic Growth, External Debt, Econometric Analysis, Simulations, Sub-Saharan African Countries.

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