Effect of External Debt on Economic Growth of Sudan: Empirical Analysis (1969-2015)

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Abstract

This study examines the effect of external debt on economic growth of Sudan. The model built uses gross domestic product as the dependent variable to measure economic growth as a function of the ratio of external debt to exports, exchange rate and foreign direct investments as the explanatory variables using annual time series for the period 1969-2015. Empirically, the study employs the econometric techniques of the Augmented Dickey-Fuller (ADF) unit root test for stationarity, the Johansen cointegration method and the Vector Error Correction Method (VECM). The cointegration test shows that a long-run equilibrium relationship exists among the variables of the study. Findings from the VECM show that external debt proxied by the external debt to exports ratio has contributed positively to the Sudan economy, while exchange rate and foreign direct investment have negative effects on GDP growth which is consistent with findings of most empirical studies at the macroeconomic level. The study recommends that the government should ensure macroeconomic and price stability and maintaining access to foreign loans so that to supplement low the levels of domestic savings in order to enable long term economic growth. Exchange rate needs to be stabilized and perceived effect of foreign direct investments on economic growth needs be reinvestigated with enhancement of human capital and institutions.

Keywords: External Debt, Economic Growth, Gross Domestic Product, VECM, Sudan.

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