An empirical analysis of the effects of external debt on growth in Tanzania

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The study empirically analyses the effects of government external debt on economic growth using the ARDL model as well as the threshold regression model. The ARDL model reveals that debt has a positive effect on economic growth in the long run. It further reveals that inflation has a negative effect on economic growth in the long run, capital and labour has a positive effect on long run economic growth, and openness has a negative effect on long run growth. The threshold model reveals that beyond a debt to GDP ratio of 40.3 percent, debt starts to negatively affect growth. This implies that government external debt should not exceed the threshold as it will be a drag to the economy. The government should further ensure that the debt funds taken are utilized in an optimal way particularly in productive investments in order to have a sustainable long run growth that is proportional to the debt level.