

The relationship between Government External debt and Economic growth in South Africa

Thabiso Serakwana

Department of Economics, University of Limpopo

Stephen Zhanje

Department of Economics, University of Limpopo

Abstract

This study analysed the relationship between public external debt and economic growth in South African for the period 1985 to 2015. Several econometrics techniques including the Augmented Dickey Fuller and Phillips Perron tests were employed to test the variables for stationarity. In order to estimate the long run relationship between the variables, the Johansen Cointegration technique was employed which revealed that a significant long run relationship exists between public external debt and economic growth. Furthermore, the study found that external debt and economic growth have a positive relationship as well as debt service ratio and investment while, on the contrary, consumption has a negative impact on economic growth. The study recommend that government should put in place policies to regulate the use of borrowed funds to ensure that they are used to finance productive investments that enhance economic growth.

Keywords: Economic growth, External debt, gross fixed capital formation.

JEL codes: F21; F36; F43; O41

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