Effects of Intertemporal Budget Constraint and External Debt on Economic Growth in Ethiopia

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Abstract
The paper examines the effects of intertemporal budget constraint and external debt in Ethiopia during the 1990 to 2016 period by using annual data and the generalized least squares technique. Data for the study were collected from the World Bank and United Nations. One of the empirical results in the paper agrees with the findings got by Kassu et al. (2014) and Jonse (2002) that the external debt in Ethiopia during the 1990 to 2016 had positive and significant effect on real GDP in the long run.

The second empirical result is not in agreement with the finding provided by Maruta (2013) that debt service payment had positive effect on economic growth in Ethiopia during the period 2000 to 2010. In particular the paper finds that a 1 percent increase in external debt and its servicing were responsible on average for 0.07% and -0.03% annual increase respectively in economic growth in Ethiopia within the sample period.

Thirdly, the paper finds that a 1% increase in consumption growth on average an increase of 0.76% per annum to economic growth, in contrast other contributions to increase in economic growth: 0.4%, 0.05%, 0.21%, -0.19%, 0.17%, 0.07% and 0.02% could have been caused by 1 percent annual increase respectively in growth of gross domestic savings, government spending, exports, imports, investment spending, taxes and budget deficit (or deficit financing).

Fourthly, the results obtained according to the intertemporal budget constraint model reveal that a 1 percent increase in growth of government spending, external debt and external debt financing were associated with 0.78%, 0.42% and -0.31% annual increase respectively in growth of taxes in Ethiopia within the sample period.

Lastly, the paper finds that the most appropriate way to define government budget deficit (i.e. government saving) and make it most useful in conducting empirical research is to define budget deficit as tax revenues minus government spending.

References