

EXTERNAL DEBT-GDP NEXUS IN GHANA: AN APPLICATION OF THE AUTOREGRESSIVE DISTRIBUTED LAG (ARDL) MODEL

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ABSTRACT

This paper examines empirically the impact of External debt on the Economic growth in Ghana using annual time series spanning 1970 to 2014 and by using the newly developed approach to co-integration by Pesaran et al (2001) that performs well with small data and regardless of the order of integration. First, the order of integration was tested using Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) unit root tests. The ADF and PP unit root tests revealed that while some of the variables were stationary at level, others were after first differencing justifying the use of Autoregressive Distributed Lag (ARDL) Model postulated by Pesaran et al (2001). The second stage involved testing for the existence of long-run equilibrium relationship among the variables using bounds-test and this revealed the existence of long-run relationship among the variables when normalizing on the GDP. The study revealed significant positive impact of External debt on the Economic growth in Ghana while Total debt service has significant negative impact. The study further revealed the existence of Debt overhang and Crowding-out effects due to increasing External debt accumulation and its service.

Keywords: External debt, Co-integration, ARDL, Economic Growth, Debt overhang.