DEBT SERVICES, CAPITAL INFLOWS AND ECONOMIC GROWTH IN NORTH AFRICAN COUNTRIES

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DEBT SERVICES, CAPITAL INFLOWS AND ECONOMIC GROWTH IN NORTH AFRICAN COUNTRIES

By

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ABSTRACT

The North African countries namely Algeria, Egypt, Mauritania, Morocco and Tunisia rely heavily on external funds for financing its development. Such external funding usually takes the form of external loans. This study advances the argument that the real problem that impedes the process of economic growth is the challenge of inadequate real resources for capital formation, due to high external debt servicing. The mounting debt stocks have discouraged the inflow of foreign capital in the form of Foreign Direct Investment (FDI) for fear of macroeconomic distortions. It is scarcely surprising that high debt-service obligation has not only made North African economies to perform poorly but also to rely heavily on foreign sources of budgetary support, thereby creating an unending cycle of economic crisis. In a nutshell, this study used a simultaneous equations model to test the process of interaction between FDI inflows, external debt service and economic growth. The analysis uses the Three Stage Least Square and panel cointegration test to investigate the relationship between debt service, FDI inflow and other determinants and economic growth. The results showed a negative sign and significant relation between debt service and economic growth. The results also show that FDI inflows play an important role and increased the economic growth. The interaction variables between debt crisis with FDI inflows, debt crisis and domestic saving show a negative effect on economic growth in some countries and a positive effect on economic growth in others. In terms of policy, the governments should promote rational and proper utilization of resources, while trying to get more concession on newly acquired debt inflows. It also indicates that policymakers should act early when choosing to lean against credit booms, before the debt service reaches critical levels.

Keywords: debt service, capital inflows, multi-simultaneous equation, panel cointegration, economic growth

Kata kunci: khidmat hutang, aliran masuk modal, persamaan serentak berbilang, kointegrasi panel, pertumbuhan ekonomi
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<td>3SLS</td>
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<tr>
<td>ADF</td>
<td>Augmented Dickey-Fuller</td>
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<td>BOP</td>
<td>Balance of Payment</td>
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<td>GDP</td>
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<td>Generalized Method of Moments</td>
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<td>LDC</td>
<td>Less-Developed Country</td>
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<td>LR</td>
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<td>Ordinary Least Squares</td>
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<td>WAMZ</td>
<td>West African Monetary Zone</td>
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CHAPTER ONE

INTRODUCTION

This chapter outlines the introduction of the thesis. In this context, the rationale of the study is presented in the form of a problem statement, research questions and research objectives. The importance and scope of the study are also outlined in this chapter. The chapter closes with the research organization.

1.1 Background of the Study

At the global scene, external debt and foreign direct investment (FDI) have been considered as major sources of capital financing. FDI is the main form of capital inflow to many countries, while nations experiencing account deficit are advised to borrow funds, external debt, from the international community to boost their economic growth (Malik, Hayat and Hayat, 2010). Unfortunately, external debt and its repayment have become a hindrance to several developing North African countries’ economic growth like in Algeria, Egypt, Mauritania, Morocco and Tunisia. As noted by Malik et al., (2010), in the past thirty years, it has been seen that foreign debt had been the major culprit in the decline in investment and growth performance of many countries. International debt can be likened to unnecessary tax paid by future generations on wasted services; in addition, the rise of debt servicing ratio can adversely affect economic growth of any country (Chowdhury, 1994).
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REFERENCES


OECD Development Centre


