

**RELATIONSHIP BETWEEN EXTERNAL DEBT AND ECONOMIC  
GROWTH OF KENYA**

**BY**

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## **DECLARATION**

### **Declaration by the Student**

I, the undersigned that this dissertation is my original work and have not been submitted to institutions or universities apart from KCA University for examination consideration.

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## **DEDICATION**

This work is dedicated to all my friends, family members and work mates at KCAU. They have always inspired, guided and supported me in my entire career journey. They stood by my side when I needed them most. They encouraged me during my low moments. They have been my all-life pillar. I too extend my gratitude to my beloved parents, sisters and brothers for their support. More important, I thank my supervisor Dr. Michael Njogo for his endless and tireless effort in supervising, encouraging and guiding me throughout my work. God bless you abundantly.

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## ABSTRACT

External debt is crucial for national development as it uses resources to redress budget deficits, implement infrastructure development, and accelerate long-term and long-term economic growth. Kenya's economic growth has slowed for years. This is due to the depreciation of public finance projects using external debt. The purpose of this study was to determine the impact of external debt on Kenya's economic growth. Thus, the study evaluated the relationship between external debt and economic growth in Kenya in terms of Multilateral debts, Bilateral debts and debt servicing in Kenya. Specifically, the study examined the relationship between multilateral debt, bilateral debt and debt servicing on economic growth in Kenya. The study was based on Keynesian model, debt overhang theory and Buchanan theory. Correlation research design was adopted. The study was based on a research program that described and used secondary data from the National Treasury and the World Bank for the 45 years from 1988 to 2019. Descriptive statistics, multiple regression and time series analysis were used to analyse the data. Analyzed data are presented using tables, figures and diagrams. The study found that multilateral debt had an inverse relationship on the country's economic growth with statistically significant results. Bilateral debt and debt servicing have positive and not significant relationship with economic growth. It can be concluded that the fact that bilateral debt is under the management of the national government increases prudence in its usage due to the transparency and monitoring by the tax payers who push for effective and effective use. The negative relationship between debt servicing can be well explained from the detrimental effect in the local commercial sector as a result of the fiscal actions. The government should collaborate and work closely with the multilateral organizations while at the same time providing conducive environment so that they can be able to deliver on the development agenda which will on the long run increase the economic growth of the country.

**Key words:** Multilateral debts, bilateral debts, debt servicing, Economic growth in Kenya.

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## **LIST OF ABBREVIATIONS**

<b>CBK</b>	Central Bank of Kenya
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>HIPC</b>	Heavily Indebted Poor Countries
<b>IMF</b>	International Monetary Fund
<b>LDC</b>	Less Developing Countries
<b>ToT</b>	Terms of Trade
<b>OLS</b>	Ordinary Least Square

## DEFINITION OF KEY TERMS

<b>Bilateral Debt</b>	Ratio of bilateral debt to gross domestic product (Moki, 2012).
<b>Economic Growth</b>	Percentage change in gross domestic product ((Anwar, 2012)
<b>Debt Servicing</b>	Ratio of debt servicing to gross domestic product (Saungweme & Mufandaedza, 2013).
<b>Multilateral Debt</b>	Ratio of multilateral debt to gross domestic product (Kumar, 2010).

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Public borrowing is an important way in which any government in the world can meet the budget deficit in its further economic development plan. Business development projects like roads, highways, health, education, housing, among others, require as much resources as possible to create a home and foreign loan (Borensztein, 2018). More importantly, borrowing government money can also enable economic investment to take on the role of resisting economic means. No country can stand on its own two feet when it comes to foreign debt and economic growth. Thus, borrowing can be a financial or non-financial condition of development from one country to another. The level of debt and especially external debt should be measured because it does not impede or reduce growth and development in the current debt situation (Eberhardt & Presbitero, 2015).

The impact of external lending on public finances is a field of domestic and international dialogue (World Bank, 2013). Osewe (2013), defines debt as a way to remove court benefits from value standards. Taxes are always a future mortgage loan. Governments to a large extent borrow from the security of the domestic and foreign markets. The best way is to have very large economic systems that specialize in private and private investment to promote wealth, economic growth, manufacturing, and employment in the world, reduce inflation, and provide basic services (Saungweme & Mufandaedza, 2013).

According to Hawke (2015), The national budget relies on domestic and foreign loans to finance the economic system and increase productivity through existing Forex shares. The 2008 global economic crisis was a major blow to the national economy with rising economic levels and debt levels. For example, in 2007 the debt gap in the UK increased by 40% of GDP in 2011 this increased to 84% of GDP. In the United States it has increased from 60% to 100% of GDP and in Japan it has exceeded 50% of GDP (Checherita & Rother, 2010). The high level of inflation in these developing countries is due to the loss of revenue due to the global economic downturn (Checherita & Rother, 2010).

This could be an example of the rate of personal payments for BB- and BBB cards in developing countries compared to developed countries on the AA + International Monetary Fund (IMF, 2013). Obviously, Latin America, Eastern Europe and Asia show that lenders are very small when they consider being in developed countries, but this does not mean that public debt is not always a problem in the country. Language development (Muhanji, 2010). The most important thing to plan with the government or business before taking on any external debt is the amount you owe (Gyimahbrempong, 2002).

Depending on the expansion, the country may need to increase foreign exchange rights for these main reasons; First, through wall work aimed at protecting its currency from changes in the foreign market (Khattak, 2008). Second, borrowing from Euromarkets can be more expensive compared to borrowing from domestic markets, this is because businesses can take exemptions from monetary control and other taxes imposed in many regions. The third factor is because of the negative factors that ensure that the country has adequate

foreign exchange reserves and does not allow you to make any foreign investment that may exist (Gordon, 2007)

### **1.1.1 External Debt**

This refers to debt that comes from foreign countries and institutions and is repaid in foreign currency (Kumar, 2010). An independent authority may place the responsibility of the case or at its own expense to finance its work, provide possible foreign exchange debt and exchange exchanges. You are in a good position to get rid of debt at the expense of rust itself, if the problem backs up the contract when it grows, insurance can really add a lot of money but this is not very important and will not have a significant impact. This is because publishing large amounts of money increases or increases the cost and distribution of large taxes in the system without negligence and often increases the level of inflation (Buchanan, 2008).

For members of the international family financial group, offline loans can be interpreted as loan negotiations between the two countries and open laws that are accepted with the help of two parts of the world. Currently international offices are the so-called developed / developed countries in the world, a high-tech industry. Examples of countries such as: America America, Europe, China and Japan. The following countries are the third largest countries in the world, in economic growth and development and many of their services have been developed. They have found countries in Asia, Latin America and Africa. In general, foreign loans should be made for growth, expenditure, corporate development

rather than financial costs. The special law of such loans has long been used to create a citizen liability for any imposed property (Moki, 2012).

Because of the broader definition of the economy, external debt for years has become one of the most difficult areas between producers and researchers. The impact of global borrowing on economic resources has been extensively studied in various regions through research. According to Cavallo (2002) in comparative research, there is a model that finds that external debt has a positive effect on inflation leading to the integration of the housing system. The tools of foreign lending tools for forex include international banks, international financial markets such as capital markets and euros, World Bank, IMF (Doka & Anyingang, 2010). The main components of external debt in this study are foreign debt, African loan, foreign debt and foreign currency loan.

Debt is a debt of developing countries by the World Bank and the International Monetary Fund (IMF), known as the Bretton Woods Institute (BWI). Over the past decade these companies have become major lenders in the developing world. Countries that are heavily depleted in developing countries are embroiled in a debt consolidation process that forces them to borrow new loans to repay old or risk compensation and economic damage. . Sub-Saharan Africa, for example, paid off more debt between 1990 and 1993 than in health and education. They are still looking at their debt burden twice (Fosu, 2019). As southern and small governments are under pressure to generate foreign exchange to pay off growing debt, poverty and environmental degradation are rampant. The situation is becoming increasingly unreliable, economically, socially and environmentally.

Between 1980 and 1994, national debt increased from \$ 61.6 billion. It is. In 1980 to 313 billion US dollars. It is. Dollar in 1994. The increase stems from the fact that IMF loans imposed by the country are not responsible for ensuring that the commercial bank loan is used. A large portion of the IMF and the World Bank were used to pay off the remaining interest rates on commercial property loans. For example, from 1983 to 1989, \$ 32.7 billion was borrowed from world sources to repay commercial bank debt, which represented 17 percent of total loan operations on time (Davis, 2012).

Debt is a simple loan system between a lender and a lender. These types of loans are called "pairs" because there are only two parties to the loan, each representing the other: one will pay a certain amount under the terms of the loan agreement, the other will repay the same amount as in the same agreement (Fosu, 2016). Debt is not widely used because one person calls it "debt." Personal and commercial debt is twofold: you borrow money from one group, and you pay only one party. An alternative to the two loans is a loan union, where the loan is provided by a group of lenders, and the borrower has a separate agreement for each borrower. Regular loans are often provided by credit unions for large projects (Elbadawi, Ndulu, & Ndung'u, 2016).

External debt is a loan system between governments and foreign lenders such as banks. It is often used to cover high financial costs and / or to cover operating costs that a company may lack. High forward costs and legal barriers often prevent small businesses from entering directly into securities and investment markets (Greene and Khan, 2009). This means that, unlike other clients, small businesses have to rely on other loan markets, such as loan lines, unsecured loans or long-term loans. External loans are allowed on a number of

commercial grounds, often assisted by short-term requirements for project costs or procurement equipment to carry out such work.

In other words, external debt can be added to help meet the basic needs of basic services, such as the use or equipment of procurement of production and manufacturing processes (Borensztein, 2009). In these loans, government subsidies often need to cooperate, often with environmental conditions, plant or vehicle that the bank may cause the borrower in case of stroke or accident. Sometimes cash flows from our future accounts are used as a loan. Real estate lending is a way of external debt (Claessens, Detragiache, Kanbur & Wickham, 2016).

In India, foreign loans (ECB) borrowed from India are made by non-residential lenders from Indian lenders. They are widely used in India to facilitate foreign exchange with Indian companies and PSU (built in the public sector). ECB includes cash bank loan, consumer loans, brokerage loans, security such as float notes and fixed payments etc., loans from external loan institutions and external loans from financial countries such as sector funds private, AD, Washington, Washington (AFIC) (AFC), etc. The ECB cannot be used for investment in the stock market or speculation in the stock markets. DEA (Department of Economy), Ministry of Finance, Government of India and Bank of India, oversees and regulates ECB policies and procedures (Charemza & Deadman, 2012).

Most foreign loans are issued by foreign commercial banks and other companies. In 2012, ECB funding secured between 20-30 percent of total capital coming to India. A large number of Indians and PSU corporations have used the ECB as sources of investment (GoK,

1997). For Greenfield infrastructure and operations, approximately 50% (for ECB) has been approved. According to a report in Hindustan in January 2013, western-western India raised the ECB to non-financial institutions (NBFCs) designated as infrastructure financial institutions (IFCs) ... from 50% to 75% of the money Which is to be considered, with less than the ECB. E popular in the telecommunications industry, up to 50% of ECBs are allowed.

The Indian government has recently approved a Chinese loan. Previously, the business sector could have raised \$ 750 million, while the service sector and non-governmental organizations could have raised \$ 200 million. It is. \$ 750 million or equivalent for the financial year under the foundation (Claessens, 2009). Claimants can use 25 percent of the ECB to repay the rupee debt and the remaining 75 percent should be used for new projects. The borrower cannot repay all your existing loan through the ECB. The recommended ECB rate is cheaper for credit prices around America. It is. And Europe, and Indian companies can repay several expensive loans from this (Cohen, 2013).

The global credit union position is a set of IMF policies or conditions that require changes in the sources of monetary policy. The IMF needs international cooperation on credit but also needs a government that needs help to address major economic inequalities through policy reform. If conditions do not meet, we reduce consumption. The status quo was demonstrated by a 1952 Court decision and later incorporated into the provisions of the Convention (Degefe, 2012). The situation is accompanied by an economic idea and a way of implementing it. Essentially from Jacques Polak's work, the government's basic support is "payment equality" (Gulamhussein, 2007).

To help low-income countries cope with the devastating effects of the global financial crisis, the IMF shifted its loans to make it easier to meet the growing demand for financial aid in the country. Develop. The change begins in May 2010. Once inflation and financial sources increase, these changes will improve the sources of revenue in income countries to \$ 17 billion in 2014. The International Monetary Fund (IMF) approved an additional \$ 2.7 billion from reserves the remaining gold. As part of the lending program in low-income countries (AJ, 2010).

Three types of loans were introduced under the new Poverty Reduction and Growth Pledge Trust (PRGT) as part of this broader program: Extended Credit Unit, Credit Unit, Credit Unit (Alph, 2006).). Extra Transfer Funding (ECF) provides financial assistance to countries with outstanding payment problems. ECF has been successful in poverty reduction and poverty reduction (PRGF) as an important tool for creating LICs in a timely manner of support, increasing rates, increased opportunities, flexible structural features and more programs and an environment conducive to sii (Eaton, 2013).

The Credit Unit (RCF) provides emergency financial assistance with limited resources to low-income countries (LICs) that meet emergency payment requirements. The RCF addresses the emergency assistance of the Fund, provides high collection levels, can be easily used in many situations and emphasize the areas of global reduction and growth (Eaton, 2013). The Credit Union (eSIMB) provides financial assistance to low-income countries (LIS) with a short-term balance of payment requirements. It provides support under many conditions, allows high survival, low interest rates, can be used intelligently and emphasizes on poverty reduction and international growth.

Few low-income countries have made significant progress in recent years of economic recovery and no longer need IMF financial assistance. However, most of these countries also seek IMF advice and oversight and approval from their economic policies. To help these countries, the IMF has developed a policy and signature support system, called the Policy Support Application (Eaton, 2013).

### **1.1.2 Economic Growth**

According to Anwar (2012), economic growth is the increase in the number of goods and services provided by the economy. Economic growth has been fueled by an increase in the quantity and quality of production, as well as land, capital, labor and trade. The global economy is booming because of GDP growth per capita. Economic growth has created higher incomes, helped reduce government debt, contributed to lower GDP debt levels and reduced the need to spend money for unemployment benefits. Positive growth rates increase national income and improve living standards, while poor growth reduces quality of life (Anwar, 2012).

In this study, economic growth is measured as a percentage of modern home construction.  $\text{Gross Domestic Product (GDP)} = \text{Personal Expenses} + \text{Financial Expenditure} + \text{Investment} + \text{Estimated} - \text{Estimated}$ . Real GDP is an additional level of inflation that changes the value of all goods and services produced by the economy in one year (Cervellati, 2009).

### **1.1.3 External Debt and Economic Growth**

Negotiations on the role of foreign credit in financial systems have led to many bans in developing countries. A study by Reinhart and Rogoff (2010) found a correlation between risk growth and external debt. Chemicals et al. (2003) found that significant reductions in external debt led to further inflation. Gelos (2010) finds that developed countries have more access to larger credit facilities than developed countries. According to Musembi (2012), a simple economic establishment in Africa is a good economic system that works especially in the private and public sectors to promote wealth, promote economic growth, national profits and employment, reduce inflation and provide public transportation (Saungweme & Mufandaedza, 2013).

Many African countries cannot get enough sales to support the national budget. They rely on confidence in domestic and foreign debt to support the development of the financial system and economic growth (Koo, 2010). The full extent of the impact of global debt has not been established. In his research on the impact of public debt on domestic products in all developing countries (Ndambiri, 2012) he found that the relationship between public debt and inflation is growing worldwide. Some governments have instituted a system that regulates the use of borrowed money and has resulted in better use of financial resources. This is comparable to other countries that spend a basic budget debt that by catastrophe is not as property.

Odhiambo (2010) notes that the negative impact of external debt on the emergence of the financial system is explained by the formation of regions compared to developed

countries. Developed countries spend their financial resources on foreign and foreign debt growing over several years. The World Bank (2012) indicates that Kenya is America. It is. Foreign exchange. 470.53 billion in 1970, which increased to \$ 40 million in 2010. With the inclusion of external debt is approximately 1/2 of the total debt. Public debt increased to KES on a quarterly basis (Financial Review and Budget Review, 2013), and public debt prepared by KES. 1,633 Trillion (May 2012) to KES. 1.894 Trillion (May 2013).

In December 2014 the debt for public and private equity doubled to KES 1.17 trillion from 1.886 trillion (May 2014). This includes growth KES.84.8 billion. The same report states that the external debt generated by the USD increased from May 2014 to December 2014 from 40% to 45.10% respectively. The euro debt decreased from 29.90 percent to 26.90% even though Japan's debt fell from 12.10% to 10,10% over the period. This is in line with CBK's monthly estimate in December 2014. The file also showed that Kenya spent KES 9 (Ndambiri, 2012)

Three billion to repay foreign debt in 2014. This book was developed from KES 6.6 as a hobby and two billion as the next product. Kenya also raised \$ 1 billion in 2014 through the Eurobond that floated on the Irish stock market to participate in KES '\$ 3 billion in losses nationwide. The total debt of Kenya is KES.2. Three billion dollars in domestic and international interest as it happened in December 2014. Statistics show that Kenya's debt and foreign exchange are increasing because even that debt is necessary, the government is advised to borrow and make money. There is no wisdom (Beka, 2009).

## 1.2 Statement of the Problem

External debt plays a major role in the country's development because it provides the resources needed to meet the budget gap, utilize infrastructure development and accelerate economic growth. Kenya's economic growth has been fluctuating over the years due to several factors such as fluctuations in external debt financing. External debt is essential to the growth of the national financial system and to the appreciation of many sectors of the economy designed to grow the economy. However, external debt is only suitable as an economic stimulus if it does not lead to a debt overhang (Hussein, 2018). We need to understand how changes in external debt affects national economic development.

Atique and Malik (2012) examined the impact of external debt on GDP by looking at the reforms of Pakistan's past and present policies. The study noted that better utilization of external debt can boost the economic growth of a country. Shaber (2013) examined the relationship between external debt and inflation in developing countries. He found out that rising foreign debt impedes the country's ability to meet rising debt repayment obligations, leading to negative consequences on economic growth. Baba (2020) study on foreign debt and economic growth in Kenya 1965-2018 raised serious concerns in policy formulation in developing countries that share their budgets through public debt. The results of this study show that debt use and economic growth are closely linked. He noted that the Kenyan government spends much of its revenue in repaying foreign debts and makes external debt as part of development project budget.

The research gaps arose from conceptual, methodological and contextual. Contextually, empirical evidence has been documented in developed economies thus their

findings may not be generalized in Kenya. Conceptually, external debt financing has been operationalized differently as compared to this study with multilateral debt, bilateral debt and debt servicing on economic growth. Methodologically, studies have fitted regression models in time series data without consideration of diagnostic tests. This study sought to determine the relationship between multilateral debts, bilateral debts, debt servicing and economic growth of Kenya.

### **1.3 Research Objectives**

#### **1.3.1 General Objective**

To establish the relationship between external debt and economic growth of Kenya.

#### **1.3.2 Specific Objectives**

- i. To determine the relationship between multilateral debt and economic growth of Kenya
- ii. To examine the relationship between bilateral debt and economic growth of Kenya
- iii. To assess the relationship between debt servicing and economic growth of Kenya

### **1.4 Research Hypotheses**

H01: There is no significant relationship between multilateral debt and economic growth of Kenya

H02: There is no significant relationship between bilateral debt and economic growth of Kenya

H03: There is no significant relationship between debt servicing and economic growth of Kenya

### **1.5 Significance of the Study**

There is a need to understand how the increase in foreign debt and other general debt affects economic growth and development of the country. Nord, Harris and Giugale (2013) have pointed out that there is controversy among politicians that uncontrolled growth in external debt can have a negative impact on the nation, especially when debt growth is inconsistent with economic growth. The study will help the government promote monetary policy, financial planning and debt management in foreign currency.

This research is also important for researchers and scholars because it will be a good guide for future researchers who are interested in such research. It can also help investors who may want to lend to the Kenyan government in foreign currency. The study could help establish a debt balance for the Kenyan government.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will lead to a literature review by explaining on the basis of scientific and technical principles for the purpose of knowing it. Preliminary studies will be necessary to examine external debt issues and economic development through appropriate measures. The study will begin with a review of the Keynesian model, debt integration and Buchanan technology.

#### **2.2 Theoretical Review**

Educational technology is the main concept of promotion that is widely used to define a situation related to a particular ability. Mugenda (2012) argues that this goal is called a policy created by common agreement to define several areas related to audio equipment and which are widely used. The study will be integrated into the Keynesian model, debt management and the Bukanani science process. This is shown below.

##### **2.2.1 Keynesian Model**

Keynes (1936) model proves external debt is more valuable compared to domestic debt because this can be attributed to long-term revenue services and compensation warnings to government agencies. In addition, home loans are repayable and we have not contributed to the scope of national services. On the other hand, external debt is different because it

provides financial support and this should be repaid in the short term. The long-term payment period provides ample time for the government to run itself, make investments and reap investment benefits. We can use that opportunity to repay the debt after the deadline.

Keynes (1936) inspired a concept that became the basis of the Keynesian economy in his major work, the *General Theory of Employment, Interest and Money* (1936). This was recorded during the Great Depression, when unemployment increased to 25% in the United States and 33% in other countries. Almost complete, embedded in a few satire passages and social comments. This book has had a profound effect on economic thinking, and has so far published much debate on its interpretation (Markwell, Donald, John, Maynard, Keynes and International Relations, 2006).

Keynes introduced the General Assembly and the collection of high-quality employment documents, which he incorporated into the Science Law formula as the law states "disclosure creates what you need". Under the first concept, the level of income is determined by the quality of the product, and many employers want to work at that level. Unemployment can occur because of conflict or it can be "voluntary", in the sense that it stems from refusing to accept employment on the basis of "social laws or regulations ... or simplifying human sanctions", but "... Classics of broadcasters do not recognize the existence of a third class, described by Keynes as a hypocrite (Stein & Jerome, 1982).

Keynes gives two arguments for the old notion that "legal fees define real income". The first is the fact that "workers claim (by limits) taxes instead of actually paying". Second, the old ad goes: "Real income depends on the income of workers and businessmen," and, "If

the salary changes, one would expect the old school to change if half that actual wage has dropped by the same unemployment rates as before." Keynes he considers his second argument to be the most important, but other views focus on the first: it has been shown that financial history protects the old school from the end of Keynes' hopes (McCann & Charles, 1998).

Savings are part of the infinite value, and consumption is part of the immeasurable investment, for example, on real estate (Hansen & Alvin, 1953). Thus, savings include savings (collecting as money) and the purchase of suitable products. The presence of moisture stiffness, or the need for a license, has not been confirmed by the popular liquid localization model of the Great Spy (Stein & Jerome, 1982). Rejecting the basic information that unemployment is caused by high wages, Keynes suggested another approach based on the relationship between savings and investment. In his view, unemployment comes at a time when investors are investing and not continuing with public tolerance to save (unity is one of the key indicators of the term "we"). Investment rates and rates are similar, and assets are brought down when the final demand is greater than the investment incentive (Gordon & Robert, 1990).

Encourage investment from a link between productive status and spiritual aspirations for future opportunities; But if they give a reason the reason is free of wages and depends on the interest rate. Keynes described its value as work as "the establishment of the dream work of the capital" (Hick & John, 1967). Changes in treatment behaviors are very different (Hazlitt and Henry, 2015). Savings are a portion of money that is not taxed, and: the growing legal system seems to be that as revenue accumulates, costs will increase but in some way.

Keynes adds that "this law of meditation is very important in the structure of my soul" (Keynes, John & Maynard, 1973).

Keynes sees money transfer as one of the key indicators of a real economy. The importance he showed to her is one of the creativity of his work, and he contributed to the school of political hatred (Khan & Richard, 1984). Funding begins to work through the affluence-loving work, which is a demand service associated with funding. This describes the amount of money one would like to bring depending on the state of the economy. In the first Keynesian (and simplified) account - of section 13 - the option to withdraw money is determined only by the interest of  $r$  - which is considered an excuse for the acquisition of water assets: (Dimand & Robert, 1988) Liquid options ( $r$ ) and immediately become equal to  $M$  out.

The savings, savings and investment terms are put together to determine the cost as shown in the diagram, where the maximum indicates the cash flow (in a vertical position) against the interest rate. Decide your decision to be interested in your preferred collection activity. The interest rate determines the level of investment in performance, which looks like a blue eye for a small size. The red dots in the diagram show what savings are for a different game of  $y$ ; And the revenue associated with the equity condition must be such that the savings rate specified in the interest rate set is equal to  $\hat{I}$ .

Keynes suggests a more complex way to increase income demand based on income and interest rate and analysis is more complex. Keynes did not confuse his second base of financial ruin with other technologies, leaving it to John Hick: see the IS-LM example below

(Keynes, John & Maynard, 2007). Keynes rejected the original definition of unemployment based on wage earnings, but it is unclear how the wage rate will affect inequality in his ideology. It covers the salaries of all employees according to the average employee set, and selects its qualifications so that the standard stands alone in your communication. We are in the absolute number focusing on salary units, while none of them are defined on financial terms. Therefore, it is difficult to see that income outcomes are different in different income levels, and it is not clear what you think about the case (Ambrosi & Michael, 2003).

The model is similar to this study because it will determine whether foreign debt contributes to Kenya's economic growth. Using relevant tools and analyzes from reliable sources, research will ensure that the challenges in this category are minimal for Kenya (Lensink & White, 2019).

### **2.2.2 Debt Overhang Theory**

The idea was first discussed by Myers (1977) in his book on corporate identity and debt. It examines why companies do not take on work without debt, even if there is less revenue due to declining loan rates. He explains, the reality is that this is a huge debt, or debt itself, meaning companies that make better investment options in the future. Debt transfer where current accounting services are not operational due to future revenue generation on services going to borrowers through promised payments (Lensink and White, 2019).

Krugman (1988) described “pre-employment” as a condition in which the repayment of external debt is due to a decrease in government spending. Government spending tends to be more than revenue and that is why there is a problem in repaying external debt. Cohens

(1993) noted that external debt allows for investment meeting, which is an indicator of return. Chemicals et al. (2003) Retirees support Cohens by suggesting that foreign debt could play a role in the economic development of any nation. But at the same time he declared that debt had a good job until it could bring the country "responsibility" (a heavy debt burden that the government could not take more debt to pay for future services) status (Lensink and White, 2019).

Debt arises when a company has a new investment portfolio with the current interest rate (NPV), but cannot use that investment because of the current debt situation. Therefore, equity owners will be reluctant to invest in this project because most of the benefits will be provided by debt management. Also, lenders will not use corporate funds if the company cannot convince lenders that the service will not fail. The situation arises when existing company teachers do not expect to spend (part) of the money for the new project, and this provides NPV for the project (where it is done by the company) (Presbitero), 2012).

We guarantee the result is that any profits from new investment services are distributed on the part of existing providers. Debt repayment cannot provide a new debt because it is likely to occur directly. In addition, more debt will make your debt problems worse. In addition, shareholders in the company are reluctant to issue new shares, as this forces shareholders to bear other losses that would have been caused by smaller countries. Therefore, the company wants to finance projects with good NPV. This text was first discussed by Myers (1977).

The said debt may affect companies or banks that are already in debt, but are under control, indicating that the value of their assets exceeds the value of their debt. Debts that have also

prevented legitimate companies, assets with less collateral than loans to recover their problems. The debt, which can be found back in section fourteen, can be replaced by the banking system. A good debt consolidation plan allows corporations to reduce their debt levels and allows current shareholders to live up to the identified benefits of a new investment that will follow the new function and the expected value now. (Manundu, 2004).

The idea of borrowing has been applied to private governments, especially in developing countries (Krugman, 1988). It describes a situation in which a country's debt exceeds the level of future repayment. The old debt in developing countries lies in the pipeline of a successful jubilee campaign. The debt crisis has served as a reason for the government to invest in banks around the world following the merger of the Lohman Brothers in September 2008 and the second merger of the global stock market. However, many governments in the 2007-2008 financial crisis, including the United States, bought the main stock market. A reputable product is like a debt because it pays off in advance of a normal stock; And pay the same interest rates.

Expansion of the TARP Criticism Program (TARP CPP) in the United States could do little to address the debt problems of major banks in the United States. Financial research showed that if the government buys common or toxic equipment from troubled banks, the debt relief problem will be much better. However, if the bank does not pay a lot of money, the subsidy will need to be very large to replicate operational problems and unsecured debt and expired shares may lose something. An interview with a number of bank employees found that many banks refused to increase loans immediately after receiving TARP loans. The DRM Review Committee, set up to monitor TARP, concluded on January 9, 2009 that "even if half of the

money has not been received by the bank, hundreds of billions of dollars have been put on the market. Without significant impact on rent." Romeu, McFarlane, Robinson & Morgan, 2006).

This occurs when there is a payment gap or lack of a system, which is closely identified in debt creation, and creates a debt crisis. On the other hand, you may be tempted to go into debt for a long time. Private lenders (banks) often work boldly: whether they are borrowing money from developing countries such as the 1970s, covered with a supply of quality coupons, or a large number of their people covered with high-quality paper, is the same story basic. In the latter case (because in the latter case, the weakness), the managed debt is managed by placing a public debt on a personal debt (bailout), and - continues to grow (Grandfather, Kiprop, Kalio & Gisore, 2015).

This view is important in this study because it raises the issue that debt can be as good as insurance, which outweighs how tax differences and government sales can go to support such debt. This could reduce further investment in the future. The government must set policies and procedures that govern whether it should take out external debt and how much. This will ensure the utilization of credit and thus high utilization.

### **2.2.3 Buchanan Theory**

This view was developed by Buchanan (1958). Buchanan's writings state that the burden of debt has been passed down every generation. The present tense enjoys the beauty of credit, but the time allotted by the total payment to say the end because of this the burden has been lifted (Giger, 1990). The burden falls when the government fails to raise enough money to

cover its debt. As a result, the government may plan to increase the national tax rate, in order to increase the required amount of debt repayment and interest they receive. In this example, citizens carry the burden and in most cases it can be seen now, but future generations must first bear the burden (Geiger, 1990).

The situation is real and very simple in external debt as well as in domestic debt. As long as the current generation will not be in the range of borrowing, today's technology can continue with incomplete borrowing without future support. It is not uncommon for future generations to plan how the country continues to allow foreign exchange to become its debt (Cohen, 1993). In general, this is a violation of the applicable law of the future democracy, because the debt of cutting is placed on their shoulders, but they are not profitable.

Buchanan concluded that the burden of modern taxation is to eliminate debt. In this case, the tax burden is reduced because the government has a source of refund to finance its activities. Globally, Buchanan's policies on public debt are the first step in changing the level of public debt for the next generation. The completeness of Buchanan presented above as high technology as a clear and unbalanced organization. The information that Buchanan borrowed in many cases where he incurred foreign debt and purchased military equipment for the use of World War II of 1943. so Buchanan found that the debt to the public was superior and supported the move. Another unique business where modern technology lends a loan and transfers the debt burden to the technology debt through higher legal taxes. This knowledge is helpful because looking can also contribute to the revelation that the debt burden has been on every generation. This will be reflected in the prediction of the results of the next cash flow.

Opinions are important for research because they are fascinated by political genetic research. In political science, it is a good political strategy that educates interested parties (voters, politicians, MPs) and their parties, which can be represented in many ways - using (for example) regular garbage disposal, game process or ideas . Public opinion analysis is rooted in good analysis ("what") but is often used for general purposes ("what it should be") to find a problem or to promote the development of legal laws (e.g. the legal economy). The idea of social selection is closely related to the concept of social selection, a mathematical way of combining human desires, acceptance or voting. A large part of the old work is located in both fields, and all these variants use software tools and technical programs. Since the role of voters affects the performance of public officials, the doctrine of general elections often uses results from the concept of social selection. General treatment of social selection can also be placed under public policy.

## **2.3 Empirical Review**

Research-related reviews include the results of previous research on areas of external debt and economic development. Generally, power reviews will include published research copies, journals, online sources, journals among others. The title will describe visual learning decisions that support the findings and recommendations of the resulting theory.

### **2.3.1 Multilateral Debt and Economic Growth**

Senadza et al. (2018) studied the impact of debt consolidation on economic growth in sub-Saharan Africa used annual data from 39 SSA countries 1990-2003 and used the Human Rights Declaration (GMM) approach. The paper found that recurrent debt has a significant

impact on SSA economic growth. Land redistribution depends on business revenue, but does not affect the Nexus debt level, and there is no linear relationship between high debt and economic growth. Limitations / Limitations of this study: finding a negative relationship between debt and development does not mean that SSA countries have to reduce foreign borrowing in order to grow. Instead, when large banks are disbursed, SSA governments need to do more to ensure that foreign loans are invested in projects that can repay enough to repay loans. The current paper not only collects new information, but also uses one of the economies of this method - the GMM method - to open a global debt growth center for the SSA. The results show that economic growth and growth are among the most emerging markets in the world; What are the sources of promotion from different sources including foreign loans to invest in better development projects.

Sustainable economic growth is a major concern for all countries, especially emerging economies are facing severe debt shortages through high debt levels, especially working with debt and current account debt. (Reinhart et al., 2012). According to Atique and Malik (2012), credit card debt accounts for a large part of the public debt system in developing countries. Reliance on external borrowing is not understood simply because debt has led to financial instability and accumulation outside the private sector (Panizza et al., 2010), but even more so, as in the case of Todaro and Smith (2006), developing countries in their development first. Eastern Macedonia and the Monitoring Technology Company needed to borrow abroad because it was not invested in real estate.

The SSA movement has been on the rise for the past two decades, raising concerns among analysts and policymakers about the growing debt crisis in the region. Although the

current debt crisis in Africa is already under control, rapid growth in many countries is a concern (UNCTAD, 2016). From the heights of America. It is. At \$ 176.36 billion in 1990, the total SSA debt increased to \$ 1 billion. It is. \$ 235.94 billion in 1995, showing an increase from 58.2 percent of GDP to 72.0 percent. During the academic years (1990 to 3), an average of 78.2 percent were recorded in 1994. It is. 213.44 United States. In 2010, debt debt increased by \$ 55.63 billion. It is. End of 2010. \$ 269.8 billion arrived in the United States. It is. The two-year withdrawal was evidence of rapid growth in the next 3 years for America. It is. \$ 367.51 billion in 2013 (World Bank, 2015).

Despite the harsh conditions of the dual loan agreement and multiple loans, sub-Saharan African countries continue to rely on external fidelity to financial stability to accelerate economic growth. The result of the 1980 economic downturn in economic development, as well as the debt crisis, is that the 1980s is referred to as the "lost decade" in Africa (Iyoha, 1999). It is controlled behind the post-global economic growth in the 1980s, which declined sharply in the SSA in the first half of the 1990s due to high pressure, and thus the domestic growth rate achieved half of 0.8 percent among 1990 and 1995. Many countries in the region have experienced improper growth. Growth has grown in the following years, growing by 3.4 percent in 2000 and increasing to 5.3 percent by the end of 2010 (World Bank, 2015) and domestic, debt losses, and institutional and policy constraints.

Although society as a whole shows a growing trend, Figure 1 shows us that the SSA growth rate is much lower between 1990 and 2000 compared to the next decade. Slow growth between 1990 and 2000 is compounded by the inclusion of huge debt to GDP. Economic growth appears to have grown in the SSA over the past decade as GDP debt has

declined over time. Furthermore, the sharp decline in GDP shares that started in 2001 is in the record that many SSA countries have contributed to debt reduction under the Human Resource Index (HIPC). The growth rate following the reduction in debt losses can be read as an indication of the extraction of inflation sources by reducing loan service contracts to promote growth.

The literature of national theories on debt and economic development has been written, but with great attention to developed countries (Geiger 1990; Reinhart and Rogoff, 2010). Studies on emerging economies have been developed specifically in Latin America and / or selected African countries (Cohen, 1993; Warner, 1992; Afxentiou and Serletis, 1996; Desphane, 1997; and Butts, 2009). SSA literature has a large population, and recent research is by Fosu (1996; 1999) and Iyoha (1999). Fosu (1999), the recipient of the Late Law Enforcement, calculated increased productivity and found a negative relationship between debt repayment and growth in the SSA. Similarly, Iyoha (1999) also considers the negative impact of debt on economic growth.

While the lessons shown above SSA have only emerged in recent days, not only has the current paper expanded and gained more information, but we have used one of the key economics - the GMM program - to explain the diversity of growth strategies in the SSA. Another section was added to our book, which states that former studies in the SSA failed to find leading international teams based on tax revenue. There is no combined information and / or clinical information on the Nexus development case. Many of these suggestions and results, however, indicate a negative relationship. The Harrow-Domar development model provides a direct link between sustainability and economic growth. As an example, financing

in the form of deposits is essential for growth. Foreign leasing is then seen as big money to help fill the box of developing countries to accelerate economic growth (Eaton, 1993).

Conversely, literature identifies five ways in which debt can have a negative impact on growth. The first is the term overhang (DOH); Krugman (1988) describes the debt crisis as "a situation in which repayment of foreign debt is lacking in the terms of the agreement", Woreles Borensztein (1990) argues that selling more in a debt-ridden country benefits little by much in return for additional investment because of debt service agreement. DoH has two divisions, namely, rare (traditional) and broad sides. The bottom line is that debt relief occurs when investors anticipate tax increases when they return to headquarters for debt service, thereby reducing their investment rates to prevent tax cuts. top (Krugman, 1988; Sachs, 1989; Anyanwu, 1994). The unused forms show that interest rate tax on a Debt Loan reduces the income available to individuals and thus reduces the amount of deposits paid by taxpayers. The broad overhang of debt overhang claims that there is investment treatment when investors lose interest, inflation and other economic pressures as a means of repayment. Equitable payment agreements when you go abroad are worth the investment because they increase confusion in the business community (Claessens et al., 1996).

Why the role of the majority without debt. The burden on government spending reduces public spending, as well as spending on social investment such as education and health which is essential for economic growth. In addition, the debt burden means that short-term government should be used to finance the debt, thus attracting investors to the economy (Serieux and Yiagadeesen, 2001). Decreased public investment can lead to a decrease in private investment because some parts of private and public investment are dependent (Diaz-

Alejandro, 1981; Taylor, 1983). The effects of the development of excessive pressure consumption through the use of payment accounts are referred to as LCH indicators or import interventions. Countries with high debt requirements need several exchanges to provide loans, especially when the country's currency is not trading in foreign markets. In a situation where the country is overseas with large financial resources and limited resources, credit service becomes a problem. The country may then reduce / reduce and / or restrict the establishment of a foreign exchange program (Serieux and Yiagadeseen, 2001). Serieux and Yiagadeesen (2001), Ndulu et al., (1997) and Taylor (1983) argue that competition leads to the state in which goods are imported, as well as export and quantity items. can lead to slow growth.

The channel development approach can be tailored directly to the Desentralization Capacity Effects (DEDH) as estimated by Fosu (1996). Thus, debt repayment, travel results and costs, reflect the direct impact of debt relief on economic growth by lowering investment rates. However, Fosu (1996) argues that even if the debt does not have a saving function and is suitable for investment, it can still influence growth because of its impact on material production and investment in general. While attracting investment can slow economic growth, debt repayment can hinder product production and thus growth (Fosu 1999). Pattillo et al. (2004) argue that high densization of the load creates stability and thus enables them to invest short-term investments in long-term investment risk. Investors will be reluctant to invest in long-term projects because of the volatile nature of the situation. Finally, Laffer Curve technology compares the negative relationship between debt and growth on the assumption that higher debt levels promote growth. Outside of this area debt collection

continues to hinder growth. Cohen (1993) notes that Debt Combination can be used to define the relationship between equal debt repayment and investment, because the definition states that as debt levels rise to the threshold, debt strength begins to decline. . In other words, when a country trades to finance its deficit, it allows investment resources to help it grow. However, overpopulation creates a combination of debt and loan service challenges, and can hinder economic growth (Pattillo et al, 2002) .....

Strong clauses of debt growth relationships that stimulate imagination. The works of Warner (1992) and Jayaraman et al. (2008) had a positive impact on debt on growth. However, Giger (1990), Gerald (1994) and Deshpande (1997) found that debt continued to grow. Along with the hybrid production project, Fosu (1996) developed a non-existent relationship between debt and SSA growth, thereby approving the debt runner's certificate. Fosu (1999) also introduced the negative impact of debt consolidation on SSA development, the results of which have also been confirmed by Jenaha (1999).

(2001), Hameed and Chaudhary (2008) ruled in Kenya and Pakistan, ruled, and found that debt debt is associated with growth. Reinhart and Rogoff (2010) work on the analysis of a panel of 20 developed countries and found that in GDP with debt less than 90 percent, the relationship between debt and growth is meaningless when estimates are more than 90 percent debt. by one percent and more with growing growth. These findings are consistent with Kumar and Woo (2010), who also found that high multifor debt has slowed economic growth in developed countries.

Muzibu (2012) found that the debt of the Great Powers could not promote economic growth in HIPC studies in South Africa (SADC). Several studies, including Ch Chshury (1994), Afxentiou and Serletis (1996), Cohen (1993), Frimpong and Oteng-Abaye (2003), do not find a clear link between debt and growth. In the result of the division between debt and economic growth, it is clear, although the balance is lost. In sub-Saharan Africa, saved by studies by Fosu (1996; 1999) and Iyoha (1999), there is a high risk of examining the impact of brain debt on economic growth. This paper adds to the growing complexity of loan debt using data from 39 SSA 1990-1993 countries. Unlike previous studies in the SSA, the paper process based on the income level of each country in the sample is also used by the GMM payment system.

The results of this study show that significant financial debt has an impact on SSA economic growth. The distribution of sample land for low income and commodity markets has no significant impact on debt growth relationships. In other words, being a low-income country does not have a significant impact on debt over growth compared to low-income countries in the model. The book does not confirm the linear relationship between Listening and Growth. Je! Finding a bad relationship between debt and growth that SSA countries should reduce foreign borrowing from other forces to promote growth? This could be a difficult policy decision for many governments in the region. Given the huge banking gap in SSA countries, these strategic plans will continue to rely on foreign investment for medium-term development programs. Instead of what the government should do it is the SSA to ensure that foreign loans are invested in projects that may end up being efficient enough to repay those loans. Improving domestic construction will also go a long way in reducing

dependence on many foreign exchange assets. In this context, the need to establish effective investment strategies by sharing tax bases, taking different steps to increase illicit shares in the tax base and look at revenue streams to increase revenue collection revenue.

### **2.3.2 Bilateral debt and Economic growth**

Cohen and Sachs (1986) created a model of cultural growth from which debt can be eliminated. Starting without two debtors, the economy will have two debt sectors. First, apart from the external loan limit, it is characterized by a doubling of the debt rate in the market and a growth rate of the market, but which continues to decline. The second category, in addition to leasing, is represented by an average of two debtors in production and economic growth slower than the growth of the first category. The model relates to the production system of a dependent economy. External debt can have unintended consequences for economic development. Thus, at lower debt levels, an increase in the external debt ratio in GDP may encourage economic growth; However, at high debt levels, rising interest rates can hurt economic growth. This article examines the unconventional link between external debt and economic growth through global growth.

Krugman (1989) argued that the debt system is a U-shaped model, in which the amount corresponds to the national debt and the actual payments associated. At the peak of the media, debt and expected payments increase because the common risk is low; Rejected, the debt level increases but the expected payment begins to decline because the risk of default is high. He explained that while the world is in a state of flux, the world is suffering from debt. In the case of past debt, foreign debt agreements acted as a levy on investment.

Cohen (1993) expands on the current development model of Cohen and Sachs (1986) promoting the relationship between external debt and investment. In doing so, Cohen elevated us and compared the three economic conditions. Otherwise, free access to the international stock market and the level of investment (and production) is higher than the stock market. In the latter case, the loan limit is flexible, and the investment guarantee is below the interest rate free rate but is higher than the base currency. Third, there is a credit limit and return on orders, and the level of investment is lower than in financial terms. Thus, the level of investment increased to the first level, before falling to second and third place. Thus, the relationship between debt equity and investment (and growth) is not online. In addition, Cohen decided that the third condition would be in line with the concept of equity, in which both debt is sold as an investment in investment, thereby accelerating system development.

Santa-Paul (1992) provides an example of the growth of previous generations, where the increase in external debt slowed down the rate of economic growth. Adam and Bevan (2005) developed a model for natural development by people living in two periods. They teach many ways to fund social deficits. Debt growth is a slowdown in growth, while an increase in external debt, which has a modest but moderate contribution to growth. Aizenman, Kletzer and Pinto (2007) exemplify physical growth and the limitations of external income and debt. In general, they feel that the higher the debt, the lower the debt. Finally, Checherita-Westphal, Hallett and Rother (2014) present an example of financial and debt growth in general, where social deficit is based on public investment. In their example, the relationship between debt and growth is not linear. Thus, in this case, the debt from the

GDP can determine where the growth is most. To learn about the relationship between external debt and economic growth, the article gives an example of small-scale economic growth.

The economy produces two products, one for sale (one for production) and one for sale (one for production). The business sector has developed domestic technology through feasibility theory (Romer, 1989). This information applies to the real estate industry. So, in this example there are two things to learn. The government pays housing with high taxes, deductions on consumer goods and payments for their debt, and the difference between payments and income tax is covered by external debt. Foreign lenders see the risk in the country based on the overall level of foreign debt. In addition, the government collects taxes by using additional taxes to cover the purchase of goods it can sell. Shares spend a small portion of their income, and they all have some form of capital. They can borrow abroad, based on foreign debt. In this copy, the national risk is fully transferred to the private sector. 4 Therefore, the equitable rate of national risk equity is estimated, and as a result, the interest rate on the two types of capital, external debt and domestic debt is equal to the international rate and global risk payments.

A study of how the economy responds in a sustainable environment to an increase in external GDP shares and the author finds a negative relationship between external debt levels in GDP and growth rate. That is, my results show a U-type gap between double debt and economic growth. The reason for this force is the result of two conflicting effects on economic growth as part of external debt and increased GDP. The actual results are as follows: when the share of external debt to GDP increases, the cost of positive energy

decreases. Trade is declining and boosts economic growth. The negative effects are as follows: as the level of external debt and GDP increased, the national level of risk increased and interest rates increased with each debt. As a result, revenue falls, GDP deposits decrease and profits decrease, and so does economic growth.

In large-scale external debt forecasts above the GDP level, economic growth is driven by low exchange rates and sources of attraction in non-cash-generated areas, contributed by external sources (due to a double repayment loan), and reduce the following In GDP savings. The study of how the economy responds to a stable environment and the increase in external GDP distribution by the author finds a negative correlation between external debt levels in GDP and growth rate. That is, my results highlight the U-gap between the increased debt and economic growth. The reason for these results is the negative impact of economic growth as part of external debt and GDP growth. The specific effect is as follows: when the share of external debt to GDP increases, positive energy costs decrease. Trade is slowing down and slowing down the growth of this system. The negative consequences are as follows: as the level of external debt and GDP increases, the national rate increases and interest rates increase with each debt. As a result, revenue decreases, GDP deposits decrease and profits decrease, and this is a growth rate.

Estimates of foreign borrowing greater than GDP, economic growth driven by low exchange rates and attractive resources in non-financial areas, provided by external sources (on a two-day loan repayment) and a general decline in GDP savings. The results of this paper are related to Cohen (1993) and Checherita-Westphal, Hallett and Rother (2014), in which the negative relationship between debt and growth is reflected, although in their

examples, the two debtors are affected by different economic development issues. stations. As shown here. The result is that public spending on non-commercial organizations leads to a decrease in the level of real exchanges, reviving the market to sell, merging, internally, with Korinek and Serven (2010). They ensure that the accumulation of overseas savings (increased foreign credit for the purchase of goods) leads to a decrease in the exchange rate, the testing of the business sector and the expected results of research.

The traditional growth model has two manufacturing components, where the retail industry is the only one that offers technological development. Data generated in the retail area is used in the non-financial sector. The commercial and non-commercial sector can make more money. The government spends money on the sale and pays interest on its outstanding debt. Its use is based on income tax on domestic and foreign debt. Governments also spend money on contracts, which are funded by high taxes. The author assumes that national risk payments are increasing by the level of public debt, and that companies are borrowing abroad with face-to-face restrictions on foreign debt.

This is evidenced by the analysis that an increase in external debt in the GDP shares has a positive effect on the retail sector by reducing non-commercial value. As a result, with a decrease in the actual exchange rate, the number of employees employed in the retail area increased and the share of non-financial assets decreased. The relationship between external debt and economic growth has been a U-shaped cycle. The real result is that as external debt increases, non-commodity value decreases, so retail attracts sources, and as the retail community dominates in technology, inflation benefits increase. The negative impact is that, as external debt increases, national risk increases and interest rates on personal equity and

public loans increase. As a result, domestic energy and savings have reduced GDP levels and sources of revenue collection have declined; As a result, the growth rate is poor. Thus, it has been shown that at lower debt levels, a double increase in debt to GDP growth could encourage growth; however, with high debt levels, a significant increase in debt to GDP levels could hurt economic growth. The cognitive effect is similar to certain stimulus effects that have shown an unequal relationship between debt and growth. The U-shaped relationship between global debt and economic growth reflects a world of deep debt to two continents, which politicians should avoid accessing, gaining conditions such as Latin America for thousands and the fringes of Europe in recent years.

### **2.3.3 Debt Servicing and Economic Growth**

Choplehury (2017) Eighth External Debt and Economic Development, Future Business Court. The purpose of this study is to look at whether there is a link between economic growth and external debt. For this purpose, the World Bank and Oman Central Bank series data for the period 1990 ~ 2015 are used. The study is encouraged by the fact that none of the previous studies examined the link between foreign borrowing and economic development in Oman. In addition, training time is essential to Oman's significant use of external debt to finance the annual budget. In recent years, Oman's external debt has increased because of declining government revenues while oil prices fall. Therefore, it is important for politicians, financial institutions and individuals in Oman to understand the relationship between external debt and economic growth (Awoderu, Ochasiye & Obekpa, 2017). Thus, the study was conducted to support and understand the relationship with the results.

At the end of 2016, Oman's total exports were still \$ 18.5 billion, up 29% of the country's GDP. Government debt is expected to increase to 40% of GDP by 2018 as oil prices continue to remain in the current market rankings. Some member states of the Gulf Cooperation Council (GCC) set a debt list of 15 ~ 30% of GDP; Including Bahrain and Qatar, which are 70% and 50% of GDP. Oman's oil price is currently between \$ 45 and \$ 55 per barrel. The government faces major challenges in balancing its budget. In November 2017, the international S&P stock reduced Oman's long-term debt to the end of J.B. At the BB level. Therefore, managing external debt will be difficult and costly. Recently, Oman borrowed \$ 5 billion from the international market and electricity contributions to barrels for 5 years and 30 years. Its budget deficits are \$ 78.4 billion according to the International Monetary Fund (IMF) (Claessens, Detragiache, Kanbur, & Wickham, 2016).

In addition, Moody, the loan office, estimates that Oman's account deficit is 20.1% of GDP, much higher than the same level in Qatar, 0.5% of GDP, and Saudi Arabia and Bahrain all 3.3% of GDP Nation. Further progress in borrowing Oman is the reason for this book. Some experts suggest that rising foreign debt could lead to economic collapse and thus financial instability in the country. In addition, some evidence suggests that external debt of any kind is dangerous if not used properly. Jayaraman et al. (2009) identified six Pacific Islands, including Tonga, Samoa, Fiji, Solomon Island, Vanuatu and Papua New Guinea. The study found that there is a positive relationship between external debt and real GDP; And the relationship between major financial deficits and GDP growth (Claessens, Detragiache, Kanbur, & Wickham, 2016). However, Bordo and Christopher (2006) have examined the relationship between external debt and three-year financial crisis; It found that access to

external debt could not always create a financial crisis. They found that exposure to external debt could not lead to significant financial risks. This includes sound financial policies, expenditure and expenditure policies, and a sound management system and system.

Chenery and Strout (1966) argued that the main reason why developing countries with debt is foreign debt is a lack of savings and investment. Countries that do not have enough money will approach the market or market loan area to borrow more money and save economic growth. In addition to lower government revenue, lower investment rates and lower budget deficits are additional factors in why developing countries are approaching the loan market (Gohar et al. 2012). Foreign government debt is a debt owed by the owners of public security such as insurance bills, stock notes and electricity bills. The government lends by issuing loans, notes, contracts and security. The following are two main reasons for government borrowing: (1) spending on expected expenses and (2) repayment of government debt (Babu et al. 2015).

Foreign government leasing can have a negative and positive impact on economic growth. Presbitero (2012) found that developed countries are better than developing countries using debt through manufacturing. As a result, developed countries are better able to cope with the negative effects of large debt, such as (1) the effects of debt, (2) the nature of investment, (3) marketing and policy stability, and (4) inflation due to financial constraints. External debt has a negative impact on inequality in developing countries, and the negative impact can be seen as undermining the benefits of using credit for other manufacturing projects that will boost the economy. In addition, Presbitero (2012) found that public debt has

a negative impact on economic growth when debt exceeds 90% of GDP. Its training is based on the model of 114 developing countries in 1980 ~ 2004.

A study by Calderón and Fuentes (2013) in Latin America highlighted the negative impact of foreign debt on economic growth in the period 1970 ~ 2010. Tchereni et al. (2013) found a negative but not statistically significant correlation between economic growth and foreign debt in Malawi in the years 1975 ~ 2003 using seasonal analysis. Therefore, they suggested that the government should provide more security for local producers to help them compete in local and foreign markets instead of relying on remittances to grow their economy. Moreover, another study in Jamaica showed a negative relationship between public debt and market growth. The study concludes that government outcomes have a negative impact on metabolic development (Panth et al. 2006). In addition, Iyoha (1996) found a different relationship between foreign debt and economic growth in sub-Saharan Africa due to the same production effect. Akram (2011) and Ronald and Anwar (2012) also reached the same goal as Pakistan in 1972 ~ 2009 and 1972 ~ 2010, respectively. As a result, huge public debt has led to social and economic crisis. Thirty (2010) and Chikuba (2003) obtained similar results for Nigeria and Zambia, respectively. Umaru et al. (2013) and Mbah et al. (2016) also support this position based on the results of their studies in Nigeria, to find the negative effects of debt on the economic performance of the periods 1970 ~ 2011 and 1970 ~ 2013 respectively.

Based on these remarkable findings, it can be concluded that poor governance can lead developing countries to unravel and suffer the consequences of the relationship between cryptocurrency and economic growth. Therefore, it is important to maintain a normal level of

external debt and the use of savings, investments and savings. The International Monetary Fund (IMF) was established in 1944 with the aim of promoting stability and monetary policy and promoting global economic growth. Since then, the IMF has provided financial assistance to many developing countries and, more recently, some European countries such as Hungary, Greece and Portugal. The economic consequences of IMF assistance have been the subject of ongoing discussions and high controversy. The findings are even more disappointing: a recent study to the category is that the development trend is not diminished and probably negative. On the one hand, the IMF launch should promote direct and indirect policy development, for several reasons. First, the IMF provides policy advice in times of crisis. Following this advice should help improve the economic situation and therefore increase growth in the future (Brauninger, 2005).

IMF loans often have strict conditions attached to them, such as a change in fiscal policy or the use of financial services. The IMF refund occurs only if the host country complies with the conditions. Following the recommendation of IMF and freezing the situation should have the same effect: A developed policy, if adopted, is seen by consumers as a model of lower tax spending and higher future growth, they should increase their spending, thus encouraging growth. In conclusion, grants help to assess the tax challenges that countries are facing and should boost their economies. Essence, as the recent EMU crisis clearly demonstrates, in the absence of external financial assistance, troubled countries will prefer higher interest rates (Awoderu, Ochali & Obekpa, 2017).

The literature also identifies channels that can be immediately identified: behavioral risk (Vaubel, 1983) and Dutch Disease (Paldam, 1997; Doucouliagos and Paldam, 2009).

Behavioral claims based on the assumption that the opportunity to apply for assistance from the IMF (and other similar institutions) are the same as the Recommendation. This could give countries with pressure that is affected by risky or negative policies. The Dutch epidemic also explains that countries that import large amounts of foreign exchange may find pressure on their currencies, which limits the competitiveness of their manufacturing companies in foreign markets. Therefore, while direct channels do have a positive IMF aid effect, indirect channels are associated with negative effects.

Another issue is limited: countries seeking IMF assistance may already experience economic hardship during the application period. On the other hand, in countries that provide financial assistance to the IMF, recipients are more likely to be in a poor financial situation than those who have not or have not already received assistance. . The negative or irrelevant relationship between IMF assistance and economic growth may therefore be due to such a prediction of endogeneity (source, age). Beyond consolidation, another problem with many analyzes of IMF participation and the outcome is that it just look like such impact has affected the economic performance that was at the time. If the IMF promotes growth, the positive impact of its assistance can only be from lagging behind (Clemens et al., 2012)

In this paper, the study also looks at the role of borrowing from the IMF in view of the contempt above of previous publications: tolerance for delays and delays between IMF aid and its economic impact. In response to endogeneity, the use of research tools works learning tools, however difficult. Essentially, these tools need to be a comprehensive description when it comes to defining the possibility (or extent) of IMF assistance without a link to growth itself to allow the examiner to place them outside the first limit (second

phase). Individual indicators of economic distress, such as international debt or interest rates on loans, can predict the likelihood that they will seek IMF assistance. However, similar economic crises may be responsible for the slow economic growth that countries are experiencing at the time of receiving IMF assistance, or they will soon be faced. Therefore, the study relies on economic capabilities. In essence, this study uses the standards of democracy and the UN. Security Council (UNSC) which are not valid. The answer to the possibility that the results of IFI assistance may not be short-lived, but that is a delay, a study that allowed IMF loans to have a significant impact on growth. In the next section, the study briefly discusses the economic consequences of IMF assistance (Awoderu, Ochasiye & Obekpa, 2017).

The frequent access to available documents is that receiving support from the IMF and other international financial institutions will not promote the economic development of the host country. Przeworski and Vreeland (2000) found that national participation in the program had a negative impact on growth rates as countries were under their control. They also find that once they quit the program, their growth grows faster compared to the time set under the program, but it does not grow as quickly as possible if they do not participate at all. Dreher (2006) argues that a factor that causes standards to abandon the growth of host countries may be an alternative to these programs. Przeworski and Vreelands want to address this issue. They cite countries facing such crises and financial problems, external challenges or domestic conflicts, some participating in the IMF program and others not. They found that IMF recipients increased by 2.35 percent more than those who did not, despite introducing similar policy conditions before participating.

Barro and Lee (2003) are trying to address this issue of IMF programs. They pointed out that the IMF is a "ruling party and a political party", so that the countries that have the most influence on it have better access to credit, and those loans can be bigger compared to countries that have no influence on the organization. Thus, responding to the IMF's credit world, using force exchanges undermines international relations with the recipient of the country (such as political relations with the United States and major European countries, relations with the United States and Europe), which include indicators of economy, such as savings, growth rate and individual GDP. Dreher (2006) follows a similar approach, combining economic and political power. Both the results of the paper show the negative impact of IMF program participation on monetary policy development, and without possible analysis. Alongside all the analysis is that their resources include economic indicators that can be attributed to significant economic growth, a left-wing group differentiated in second-rate recovery. The study was discussed below while the study seeks to prevent this weakness.

Dreher, Sturm and Vreeland (2009) examine the relationship between a group of members in the UNSC and participation in the IMF program. They found that there was a strong and important connection between the UNSC transition team and participation in such programs and that the UNSC team was translated into a few continuations related to the program. This suggests that loans from the IMF can be stimulated by political considerations: UNSC countries enjoy lack and influence and the IMF (or its major sectors) use IMF loans to protect the support of UNSC members.

Several previous studies have attempted to respond recently to IMF programs using simple variables. However, this often depends on the use of economic factors such as metal

materials. The study recommends instead using policies and institutional areas that have little to do with economic activity (real or tangible) before applying for IMF support. As Barro and Lee (2003) and Dreher, Sturm and Vreeland (2009) see, political analysts are the main predictors to participate in IMF loan programs. In fact, such considerations should be accompanied by a lack of IMF funding for aid. The study covered 213 countries and 38 years (1971-2009). The council is not small because it is not our international identity and age. Details, among other things, were provided in the World Bank (WDI) Business Development Index in April 2012. Descriptive values on all components, as well as equipment (see below) are stated in this study.

The analysis is based on an analysis of the cost model of the model derived from Solov's version (see Mankiw, Romer and Weil, 1992). A credible difference is the rate of GDP growth per capita. Research and population growth and investment (writing a more robust GDP structure) as interesting details, as well as the IMF loan status, are significant differences. The IMF dummy was built in a way that took exactly 1 year when the country received a loan and so on. The study examines three IMF programs: Sustainable Development (SBA), Extensive Applications (EEF) and Poverty Reduction and Development (PRGF). There are differences in the length of the payment period, the interest rate and the selection process. Stand receives 1 amount if the program is active for at least 5 months a year. Source is Axel Dreher's website and his 2006 book.

Good reason that the old letters have had a negative impact on IMF borrowing in economic growth at the end of IMF aid: countries are looking for IMF aid, in particular, when they are in line with past economic crises. Or we may have been in a similar situation

for some time. Thus, a positive reconciliation can be found between the depressing power of the IMF contribution and the growth rate (Degefe, 2012). It is always difficult to find the right equipment. Applications should not be the same as an error; This can be tested by Sargan's statistical calculations: the most common results show that devices can be isolated from real comparisons. In addition, this study seeks to ensure that resources do not interfere with the economic crisis that countries face when applying for IMF assistance. For example, a debt to GDP or another debt allotment could certainly be a strong predictor of participation in IMF programs. However, this is the type of selection based on the complexity of the econ which research suggests may have a negative impact with existing research to eliminate it (Checherita-Westphal, Hallett and Rother, 2014).

Therefore, this study focuses on organizational structure and / or policy indicator tools and not policy issues. The study chose democracy and the UN. The UN Security Council (UNSC) as a non-member (finally, Dreher, Sturm and Vreeland, 2009, temporarily allows UNSC to predict international participation in IMF programs). A non-UNK member becomes 1st position when a country is a member and 0 when not. Differences set between 10 and 10, the most prominent number representing the independence and inclusion of democracy, the ruler (Cline, 2016).

Finally, loans repaid for one year may affect the economy in that year or the next year or year (see Clemens et al., 2012). Results may be delayed for a number of reasons. Some loans can be issued a year later and can therefore have a significant impact on the results for the year. In addition, it may take some time for the results of such loans (and / or related conditions) to be applied to the economy. It is possible that borrowing conditions and in

particular are related to the role of J-te: results that will not be affected by drastic measures, but the economy will be restructured successfully, because lending and restructuring have a positive impact on growth. To explore this possibility, the study included offshore marine in daily research registers and was reduced to three years. Report OLS results. The first paragraph describes the effects of the IMF differences at the current level: this crisis confirms the overall results which show that the impact of the IMF's contribution to economic growth is not significant. One obvious difference is that it is important at the 1% rate, with the investment having a positive but positive growth rate. To assess how the growth rate has performed over time in relation to IMF support, the study reduced the IMF deficit between one and three years (columns 2-4). It therefore leads to a rapid change of outcome: an issue that is as important as a percentage in all three ways. However, the results appear to be declining: participation in the IMF program increases annual growth by between 0.68 and 0.82 percent. The results of the two described variables change (GoK, 1997).

As the research outlines above, the OLS results are optional because of limited IMF support. If so, the growth rate could fall freely without participation in the IMF. To address this, the study used the modified materials described in the previous section: Democracy (preferably Article IV) and 2SLS report on time in the implementation of Study 3, again with strategic role with the remaining IMF BOC for three years. The first level of F remains above 10, indicating that the study of the two bodies describing the differences is involved in the IMF process. While the first phase brings the lower part of the disclosure study, good democracy and significant power related to participation in the IMF process: Democracy is very important to get the support of the IMF and non-democratic countries. Contrary to the

expectations of this study, the UNSC non-compliant group will be short. The news you can see is that the role of democracy is one of the members of the UNSC. Sargan's analysis is incorrect, except to register with the second IMF grant: to provide research materials in this case in three cases, the study is convinced that research materials are essential (Boboye & Ojo, 2010).

The effects of the IMF, when tested daily, are not significant. While research raises the price of IMF oil, this remains optimistic. In addition, the magnitude of the results has increased compared to the OLS results, which indicates that the OLS has given us a lower price. The impact increased as the numbers used and the impact of participation in the IMF showed magnitude: growth increased, on average, by 4 to 7 percent per year. After correcting the chronic outlook and acknowledging the decline in the impact of the IMF loan, the study found that participation in IMF programs actually had a positive impact and facilitated economic growth (Dimand & Robert, 1988).

As Study 1 shows, read data include low-resolution recognition and high growth rates. This is especially important for war-affected countries (low growth) or recovery from war (high growth). To ensure that learning outcomes were not reported by service providers, the study reviewed 2SLS analysis regardless of where the growth rate was outside the range [10,10]. This results in the observation of 186 growth rates below 10 percent and compliance with 2173 growth rates above 10 percent. The results of 2SLS, however, are similar to those in Study 3. of the IMF, from 2.42 on the results of the review (important at the rate of 10%) to 5.21 3a. Results are requested.

Global financial institutions, such as the IMF and the World Bank, pay huge sums of money to countries that need them. The tangible evidence of the effectiveness of aid, in terms of promoting economic growth or investment, is disappointing. As a recent review by Doucouliagos and Paldam (2008, 2009), the beneficial effect on growth is very high. The performance of the IMF is even worse, as many reviewers reviewed in section 2 of the paper conclude that countries that received IMF assistance are worse off than those that are not.

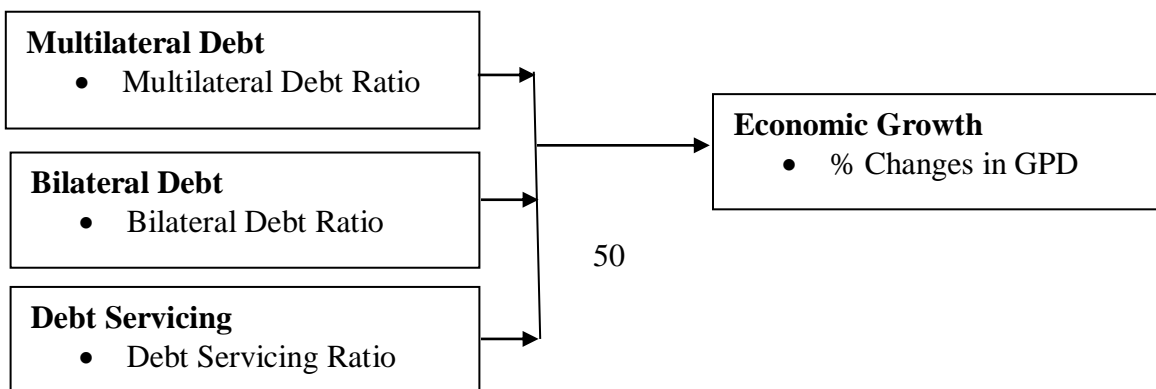
In this paper, this study looks at the second role of IMF aid for economic development. The study shows that the negative or negative results obtained by other studies are due to two facts: (1) the result of IMF assistance comes sooner rather than later, and (2) countries choose to seek IMF assistance, hence the relationship between IMF contribution and Economic growth may be subject to endless recognition. This determined the study pattern (and outcomes) in line with that of Clemens et al. (2012). The study allows the IMF to help drive growth not only temporarily but with a debt of up to three years and strong variables have been used to eliminate positive bias. In addition, the study favors politics rather than economic resources - a symbol of democracy and the provision of UN membership. Security Council - to reduce the likelihood that such resources will reflect the economic situation of countries.

The results of the study analysis add to the recent literature which gives a better picture than previous ones (Jackson, 2014, and Galiani et al., 2014). The study found that the IMF's help to affect latency development is enough to have a positive impact on growth, even if you only use OLS. In addition, a long-term large size has a positive effect. Accounting for the reliability of the assistance of the IMF, in addition, increases the balance

of the outcome. With these two academic changes, the study found that IMF assistance increases the growth rate of host countries between four years (one-year deficit) and 7 percent (3 years).

## 2.4 Conceptual Framework

The conceptual framework is an analytical tool and differs from most cases (Akram, 2011). It can be used in a variety of work situations where you need a complete picture. It is used to distinguish between concepts and affirm concepts. The dynamic cognitive process captures the real thing and acts in a way that is easy to remember and use (Hoffman and Reisen, 1991). In this study, the most reliable criteria for Kenya's economic growth during independence are international debt, debt, foreign currency loan and IMF loans. Friendships between independent research holders are reflected in the consulting system.



Researcher (2020)

### **Figure 2.1 Conceptual Framework**

### **2.5 Summary of Literature Review**

There are many different theories that explain the role of external debt examined in this chapter. Such views include Keynesian law, debt repayment policy and Buchanan technology theory. These technologies vary widely. An increase in external debt could have a significant impact on financial growth if the community thereafter shows a negative impact (says Debtor). Debts change the tax burden on future generations (Buchanan Plan). Further studies on increasing debt and economic growth have been presented as an alternative to (Putonoi & Mutuku, 2012). From this analysis, it is clear that part of the external debt is an increase in financial over time, but then it follows the path to a long-term solution available. The books show many completed studies on the relationship between foreign debt and key economic factors as well as GDP, inflation, interest rates, legal business issues among others. The strength of the study focused on the relationship between external debt and GDP could not increase due to time differences and changes in financial planning and spending.

## 2.6 Operationalization of the Variables

**Table 2.1 Operationalization of the variable**

Variable	Nature	Indicator	Measure
Economic Growth	Y (Dependent variable)	% change in GDP	% Change in GDP
Multilateral debt	X <sub>1</sub> (Independent variable)	Multilateral debt ratio	$\frac{\text{Multilateral Debt}}{GDP} \times 100$
Bilateral Debt	X <sub>2</sub> (Independent variable)	Bilateral debt ratio	$\frac{\text{Bilateral Debt}}{GDP} \times 100$
Debt Servicing	X <sub>3</sub> (Independent variable)	Debt Servicing ratio	$\frac{\text{Debt Servicing}}{GDP} \times 100$

Source: Author 2020

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Chapter three of the study will present a detailed overview of research methodology by including fieldwork procedures in a subtopic approach. The concept will capture; research design, study population, data collection and data analysis.

#### **3.2 Research Design**

This study adopted descriptive research design. Research design is a structured research framework that captures research objectives by incorporating specific characteristics that can be summarized in meaningful information (Mugenda, 2012). The main purpose of having a research structure is to help develop a clear road that makes the prediction of the required information possible (Zikmund, Babin & Griffin, 2010). The study adopted correlation research design since it sought to evaluate the relationship between external debt and economic growth in Kenya.

#### **3.3 Target Population**

The target audience is defined as a set of items, events, people, objects, households or other characters who are being investigated and are called to have similar identities in the decision-making process (Paul, Parthasarathy & Gupta, 2017). Details of the number of experts on Kenya's external debt and economic growth will be available from the Kenya Bureau of

Statistics (CNBS), the Central Bank of Kenya (CBK) and the World Bank Kenya. Research standards will be GDP growth rate, international debt ratio, bilateral debt ratio, foreign trade borrowing ratio and international financial loan balance. Details on subject changes will be revised over a period of 45 years from 1975 to 2019. This time period is sufficient to capture major changes in state government, international policy shifts, changes in international trade and volunteer governance.

### **3.4 Data Collection**

Sreejesh, Mohapatra, and Anusree (2014) described data collection as a means by which information was obtained from reliable observational studies. There are many methods to be used when collecting data. Secondary series data on study sticks will be collected from the World Bank, Central Bank of Kenya and the Kenya Bureau of Statistics (KNBS). In particular, data on the growth rate of GDP, GDP, international debt, bilateral debt, foreign trade borrowing and the International Monetary Fund loan will be collected over a period of 45 years (1975 to 2019).

### **3.5 Data Analysis**

According to Marshall and Rossman (2014), data analysis involves re-evaluating collected data for research to find relevant information for interpretation and decisions. The data collected will be analyzed using time series analytical method. Stata 12 software will aid in the analysis of the findings. An example of a time series model was mentioned as follows:

$$EG_t = \beta_0 + \beta_1 MD_t + \beta_2 BD_t + \beta_3 DSR_t + \epsilon_t \text{ where;}$$

EG<sub>t</sub> = Economic growth= GDP growth rate

$$MD_t = \text{Multilateral debt ratio} = \frac{\text{Multilateral Debt}}{GDP} \times 100$$

$$BD_t = \text{Bilateral debt ratio} = \frac{\text{Bilateral Debt}}{GDP} \times 100$$

$$ECB_t = \text{Debt Servicing Ratio} = \frac{\text{Debt Servicing}}{GDP} \times 100$$

ε<sub>t</sub> = Error term at time (t)

t = time in years

Time series model fitted in the study was VECM since there was one cointegration.

### 3.6 Diagnostic Tests

Performing several cognitive tests is an important step in the timely model. Literature, there is an identity test designed to test the dependence (and coordination) of the game of time. If the timeline cannot be defined sequentially, no input line function can be defined by the current version. If the timeline is the first set of order, no function, line or line-of-difference, of the imported items may indicate the character of the current differences. In the serial entertainment column, there is no connection between the present and the past. Comprehension in the data column thus provides information on how the model can be averaged.

### **3.6.1 Stationarity Test/ Unit Root Test**

Since the data will also be having time series characteristics, there is need to determine whether the variables in question are stationary or non-stationary. Stationary series have finite variance, transitory innovations from the mean and a tendency to return to its mean value as opposed to non-stationary series (Baltangi, 2005). Therefore, there is need to ensure that the variables to be estimated have constant mean and variance over time or the data is stationary. Any regression analysis carried out on non-stationary data leads to spurious and inconsistent regression modelling. Fitting of spurious regression may lead to rejecting of null hypotheses which ought not to have been rejected. In the current Augmented Dickey Fuller was applied for stationarity analysis (Baltangi, 2005).

### **3.6.2 Autocorrelation Test**

Serial correlation is the situation the current period variables are related to those in the past. Serial autocorrelation was tested using Wooldridge test. If p value is less than 0.05, then the data was serially correlated and to correct it FGLS can be fitted instead of ordinary least squares regression.

### **3.6.3 Heteroscedasticity Test**

Regression model assumes that the error term is homoscedastic, that is, it has a constant variance. If this is violated, then there is heteroscedasticity in the data. The problem was tested using white test and if p value is less than 0.05, then it indicates presence of

heteroskedasticity. To overcome this problem feasible generalized least squares (FGLS) may be adopted.

### **3.6.4 Normality Test**

A normal distribution is a bell-shaped frequency distribution curve. Most of the data values in a normal distribution tend to cluster around the mean. The further a data point is from the mean, the less likely it is to occur. There is need for the error term to be normally distributed. Normality will be tested using Jarque Berra test. If the data is not be normally distributed then transformation is applied to make the data normal (Wooldridge, 2012).

### **3.6.5 Multicollinearity Test**

This is a situation whereby independent variables are highly correlated with each other. It will be checked using variance inflation factors and tolerance limits. Whenever variance inflation factors are greater than 10 or tolerance limits is less than 0.1 then independent variables are highly correlated. If there is collinearity highly correlated variables then there is need for model respecification (Baltagi, 2005).

### **3.6.6 Linearity Test**

Independent and dependent variable must be linearly related. To test for linearity scatter plots showing the relationship between each independent variable and dependent variable was drawn.

### **3.6.7 Granger Causality Test**

Granger causality test to assess the reverse effect of the relationship between external debt and economic growth at 5% level of significance was carried out.

## **CHAPTER FOUR**

### **FINDINGS AND INTERPRETATION**

#### **4.1 Introduction**

This chapter presents findings and interpretations. Data was analyzed using descriptive statistics and inferential statistics. Study findings are presented in figures and tables.

#### **4.2 Descriptive Statistics**

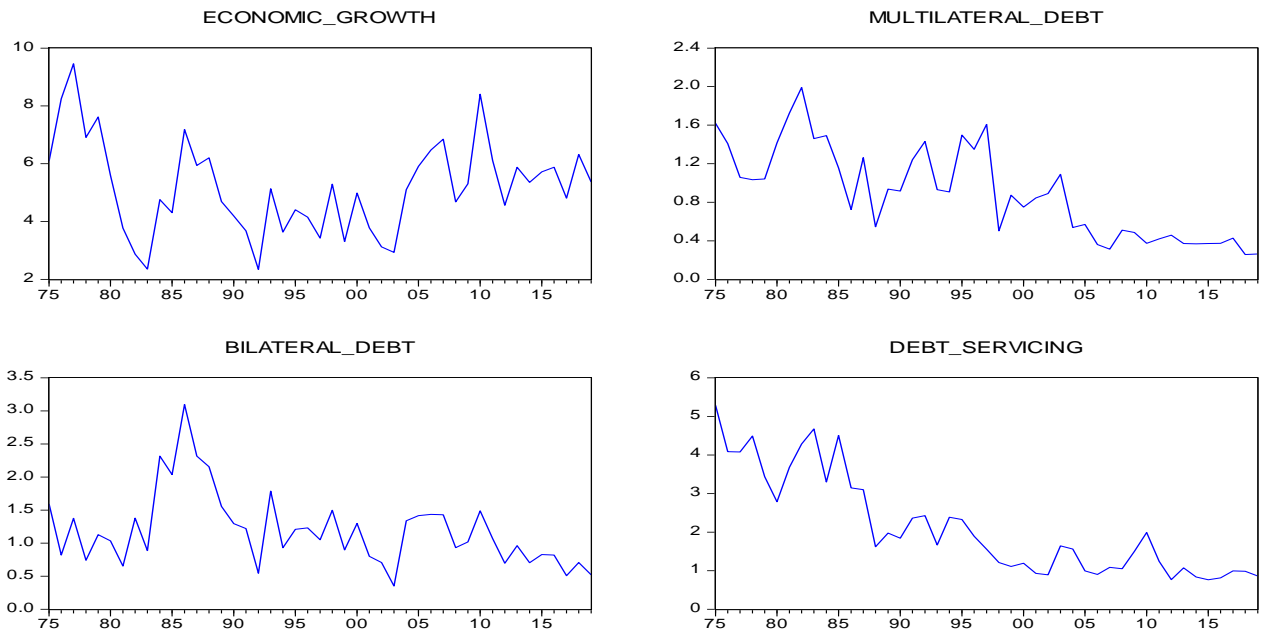
Findings in Table 4.1 indicates that the average economic growth rate is 5.18%, with a minimum of 2.34% and maximum of 9.45%. Economic growth rate and multilateral debt were normally distributed since their Jarque-Berra coefficient p values were greater than 0.05. The average multilateral debt was 0.89% per annum, with maximum of 2%. The mean bilateral debt was 1.19% with maximum of 3.09%. The average debt servicing rate was 2.12% with a maximum of 5.29%. Debt serving and bilateral debt were not normally distributed since the p value for Jarque-Berra was less than 0.05.

**Table 4.1 Descriptive Statistics**

	<b>Economic Growth</b>	<b>Multilateral Debt</b>	<b>Bilateral Debt</b>	<b>Debt Servicing</b>
Mean	5.18	0.89	1.19	2.12
Median	5.13	0.89	1.07	1.64
Maximum	9.45	1.99	3.09	5.29
Minimum	2.34	0.26	0.35	0.76
Std. Dev.	1.60	0.47	0.55	1.30
Skewness	0.42	0.39	1.23	0.87
Kurtosis	3.02	2.04	4.83	2.51
Jarque-Bera	1.32	2.90	17.63	6.10
Probability	0.52	0.23	0.00	0.05
Sum	233.06	40.15	53.75	95.26
Sum Sq. Dev.	112.59	9.74	13.42	74.02
Observations	45	45	45	45

#### **4.2.1 Trend Analysis**

Trend analysis of economic growth in Figure 4.1 indicates that there was spiral growth rate that had downward and upward trends within the period under consideration. The highest rate of economic growth was reported in 1970s and the least was between 1995 and 2005. There was a downward trend of multilateral debt though the trend recorded faster decline in earlier years as compared to the recent periods. Bilateral growth rate has recorded spiral growth rate with the highest trend recoded in 1980s. The rate of change of debt servicing has recorded downward trend though the decline was sharp in 1980s.



**Figure 4.1 Trend Analysis**

### 4.3 Correlation Analysis

Product moment correlation coefficient evaluated the relationship between external debt and economic growth in Kenya. Findings in Table 4.2 indicates that multilateral debt has inverse relationship on economic growth ( $\rho = -0.38$ ,  $p \text{ value} < 0.05$ ). Multilateral debt has positive relationship on economic growth ( $\rho = 0.30$ ,  $p \text{ value} < 0.05$ ). Debt servicing has positive relationship with economic growth in Kenya ( $\rho = 0.010$ ,  $p \text{ value} < 0.05$ ).

**Table 4.2 Correlation Analysis**

	<b>Economic Growth</b>	<b>Multilateral Debt</b>	<b>Bilateral Debt</b>	<b>Debt Servicing</b>
Economic Growth	1			
Multilateral Debt	-0.38	1		
	0.01	-----		
Bilateral Debt	0.30	0.11	1	
	0.04	0.47	-----	
Debt Servicing	0.10	0.74	0.30	1
	0.50	0.00	0.05	-----

**4.4 Regression Analysis**

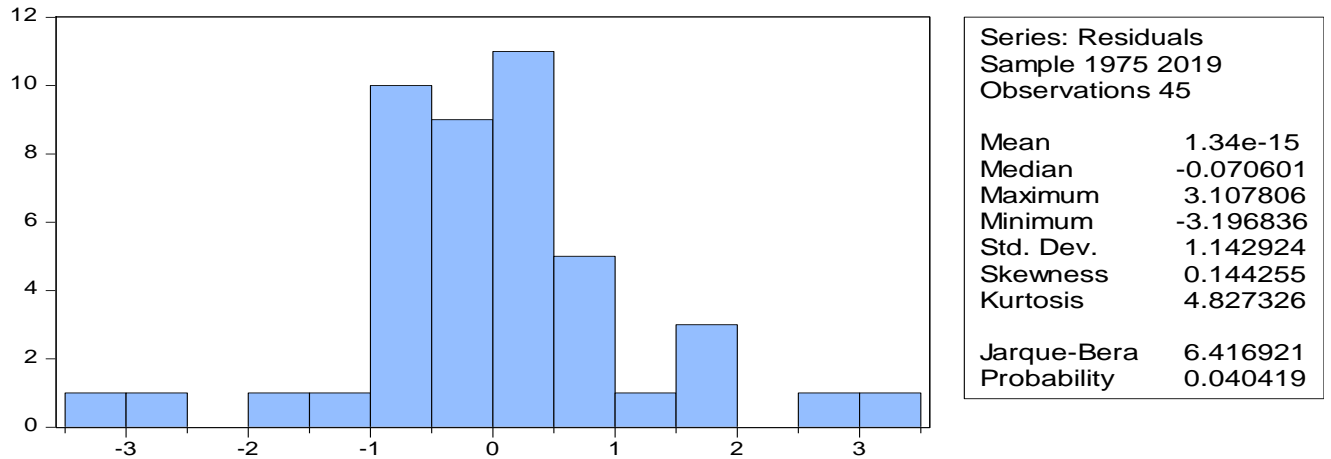
Multiple regression analysis in Table 4.3 has an R squared of 49% that shows that multilateral debt, bilateral debt and debt servicing accounts for 49% of changes in economic growth in Kenya. Multilateral debt has inverse and significant relationship with economic growth ( $\beta = -3.24$ , p value < 0.05). Bilateral debt has positive and not significant relationship with economic growth in Kenya ( $\beta = 0.52$ , p value > 0.05). Debt servicing has positive and significant relationship with economic growth ( $\beta = 0.93$ , p value < 0.05).

**Table 4.3 Regression Analysis**

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
C	5.48	0.52	10.50	0.00
Multilateral Debt	-3.24	0.57	-5.66	0.00
Bilateral Debt	0.52	0.34	1.52	0.14
Debt Servicing	0.93	0.22	4.29	0.00
R-squared	0.49	Mean dependent var		5.18
Adjusted R-squared	0.45	S.D. dependent var		1.60
S.E. of regression	1.18	Akaike info criterion		3.26
Sum squared residuals	57.48	Schwarz criterion		3.42
Log likelihood	-69.36	Hannan-Quinn criterion.		3.32
F-statistic	13.11	Durbin-Watson stat		1.34
Prob(F-statistic)	0.00			

#### 4.4.1 Normality Test

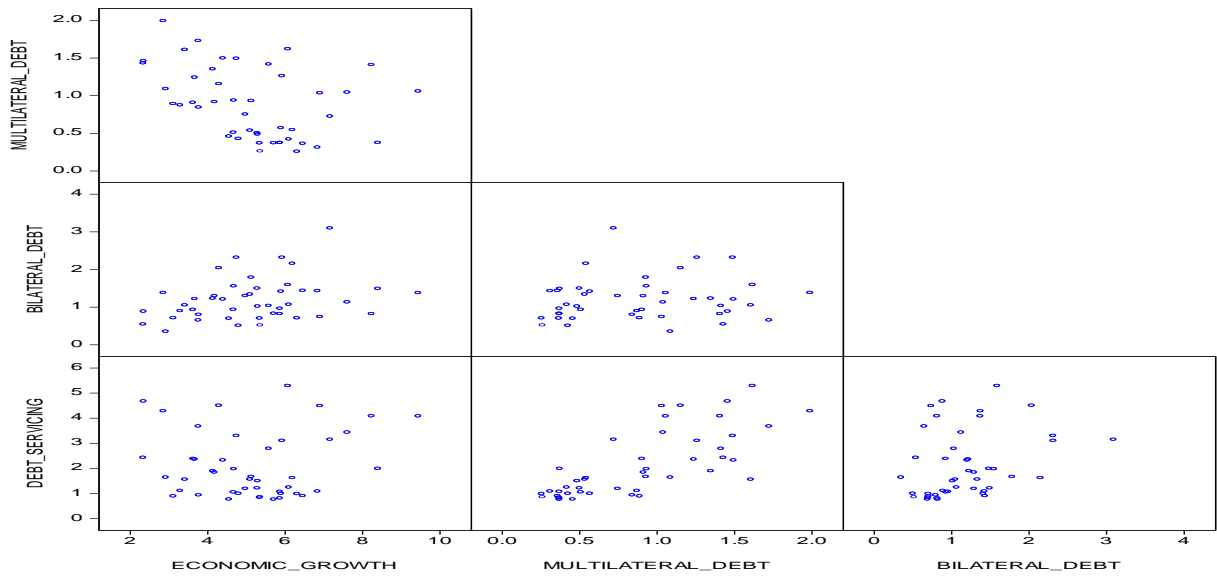
Regression assumptions were tested and findings presented. Normality was examined using histogram and findings in Figure 4.2 shows that the data was not normally distributed since p value for Jarque-Berra was less than 0.05.



**Figure 4.2 Normality Test**

#### 4.4.2 Linearity Test

Linearity was evaluated using scatter plots as shown in Figure 4.3. Study findings indicates that there was weak relationship between multilateral debt, bilateral debt, debt servicing and economic growth in Kenya.



**Figure 4.3 Linearity Test**

#### 4.4.3 Serial Correlation Test

Breusch Godfrey serial correlation test was used for examination of first order serial correlation. Findings in Table 4.4, indicates that there was first order serial correlation. Thus, ordinary least squares model was not the appropriate model to fit while examining relationship between debt and economic growth in Kenya.

**Table 4.4 Serial Correlation Test**

F-statistic	4.076	Prob. F(2,39)	0.02
Obs*R-squared	7.780	Prob. Chi-Square(2)	0.02

#### 4.4.4 Heteroscedasticity Test

Heteroscedasticity was examined using White test. Results in Table 4.5 indicates that there was uniform variance across the error term since p value was less 0.05.

**Table 4.5 Heteroscedasticity Test**

F-statistic	3.55	Prob. F(9,35)	0.00
Obs*R-squared	21.48	Prob. Chi-Square(9)	0.01
Scaled explained SS	34.12	Prob. Chi-Square(9)	0.00

#### 4.4.5 Multicollinearity Test

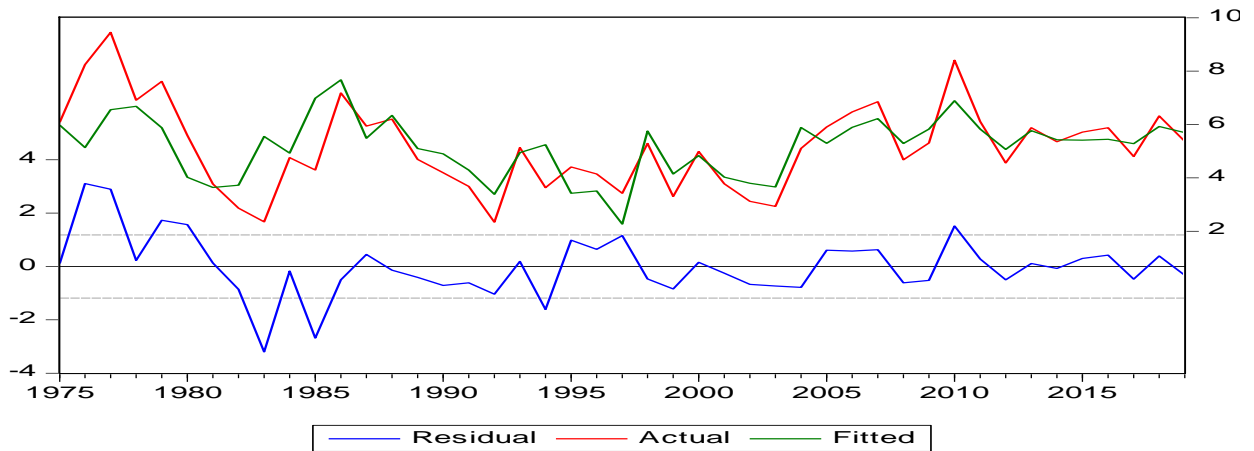
Multicollinearity was evaluated using variance inflation factors and tolerance limits. Results in Table 4.6 indicates that there was no multicollinearity since none of tolerance limits was less than 0.1 and all VIFs were less than 10.

**Table 4.6 Multicollinearity Test**

<b>Variable</b>	<b>VIF</b>	<b>Tolerance limits</b>
Multilateral Debt	2.27	0.44
Bilateral Debt	1.13	0.88
Debt Servicing	2.46	0.41

#### 4.4.6 Randomness of Error Term

The randomness of error test indicates that the error term was not random as shown in Figure 4.4.



**Figure 4.4 Randomness of Error Term**

## 4.5 Time Series Analysis

Due to violations of classical regression modelling assumptions time series analysis was adopted for data analysis.

### 4.5.1 Stationarity Test

Results in Table 4.7 indicates that economic growth, multilateral debt, bilateral debt and debt servicing were not stationary at level hence there was need for differentiating them prior to modelling.

**Table 4.7 Stationarity Test at Level**

<b>Variable</b>		<b>T statistics</b>	<b>Critical Value at 5 %</b>	<b>P value</b>
Economic growth	Constant	-3.50	-2.94	0.013
	Constant and value	-3.45	-3.52	0.057
Multilateral debt	Constant	-1.68	-2.94	0.436
	Constant and value	-4.48	-3.52	0.004
Bilateral debt	Constant	-1.78	-2.94	0.385
	Constant and value	-3.65	-3.52	0.037
Debt servicing	Constant	-1.76	-2.94	0.392
	Constant and value	-3.81	-3.52	0.025

After the first difference results in Table 4.8 indicates that economic, multilateral debt, bilateral debt and debt servicing were stationary when integrated by order one I(1).

**Table 4.8 Stationarity Test at First Difference**

<b>Variable</b>		<b>T statistics</b>	<b>Critical Value at 5 %</b>	<b>P value</b>
Economic growth	Constant	-9.01	-2.94	0.00
	Constant and value	-8.98	-3.52	0.00
Multilateral debt	Constant	-9.51	-2.94	0.00
	Constant and value	9.39	-3.52	0.00
Bilateral debt	Constant	-12.17	-2.94	0.00
	Constant and value	-12.09	-3.52	0.00
Debt servicing	Constant	-8.99	-2.94	0.00
	Constant and value	-8.95	-3.52	0.00

### 4.5.2 Lag Selection

Study findings in Table 4.9 on lag selection criterion indicates that the optimal number of lags were two.

**Table 4.9 Lag Selection**

<b>Lag</b>	<b>LogL</b>	<b>LR</b>	<b>FPE</b>	<b>AIC</b>	<b>SC</b>	<b>HQ</b>
0	-164.01	NA	0.04	8.00	8.17	8.06
1	-78.50	150.65	0.00	4.69	5.52*	4.99*
2	-58.18	31.93*	0.001*	4.48*	5.97	5.03
3	-48.83	12.92	0.00	4.80	6.95	5.59

\* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

### 4.5.3 Granger Causality

Granger Causality findings in Table 4.10 indicates that there is no causality between economic growth and multilateral debt. There is bidirectional causality between economic growth and bilateral debt. There is no causality between debt servicing and economic growth. There is unidirectional causality from multilateral debt and bilateral debt. There is no causality between debt servicing and multilateral debt. There is unidirectional causality between bilateral debt and debt servicing.

**Table 4.10 Granger Causality**

<b>Null Hypothesis:</b>	<b>F-Statistic</b>	<b>Prob.</b>
Multilateral debt does not Granger Cause economic growth	0.11	0.90
Economic growth does not Granger Cause multilateral debt	0.71	0.50
Bilateral debt does not Granger Cause economic growth	5.05	0.01
Economic growth does not Granger Cause bilateral debt	4.84	0.01
Debt servicing does not Granger Cause economic growth	0.69	0.51
Economic growth does not Granger Cause debt servicing	0.33	0.72
Bilateral debt does not Granger Cause multilateral debt	0.01	0.99
Multilateral debt does not Granger Cause bilateral debt	4.49	0.02
Debt servicing does not Granger Cause multilateral debt	0.43	0.65
Multilateral debt does not Granger Cause debt servicing	1.40	0.26
Debt servicing does not Granger Cause bilateral debt	5.35	0.01
Bilateral debt does not Granger Cause debt servicing	2.87	0.07

**4.5.4 Cointegration Test**

Cointegration results in Table 4.11 indicates that there were two cointegrating equations. This indicates that there is a long run relationship between multilateral debt, bilateral debt, debt servicing and economic growth in Kenya. Moreover, the most appropriate to be fitted to evaluate the relationship between external debt and economic growth in Kenya.

**Table 4.11 Cointegration Test**

<b>Hypothesized No. of CE(s)</b>	<b>Eigenvalue</b>	<b>Trace Statistic</b>	<b>0.05 Critical Value</b>	<b>Prob.**</b>
None *	0.57	72.06	47.86	0.00
At most 1 *	0.42	35.66	29.80	0.01
At most 2	0.18	12.08	15.49	0.15
At most 3	0.07	3.32	3.84	0.07

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

#### 4.5.5 Vector Error Correction Model

VECM findings in Table 4.12 indicates that 39% of changes in economic growth in Kenya can be accounted for by past economic growth lagged two periods and current as well as external debt lagged two periods. Further, the findings indicate that with exception of bilateral lending all the other attributes have negative and not significant relationship with economic growth. The resultant equation is of the form:

$$D(\text{Economic Growth}) = C(1) * (\text{Economic Growth}(-1) + 3.29 * \text{Multilateral Debt}(-1) - 7.94 * \text{Bilateral Debt}(-1) + 3.97 * \text{Debt Servicing}(-1) - 6.39) + C(2) * D(\text{Economic Growth}(-1)) + C(3) * D(\text{Economic Growth}(-2)) + C(4) * D(\text{Multilateral Debt}(-1)) + C(5) * D(\text{Multilateral Debt}(-2)) + C(6) * D(\text{Bilateral Debt}(-1)) + C(7) * D(\text{Bilateral Debt}(-2)) + C(8) * D(\text{Debt Servicing}(-2)) + C(9) * D(\text{Debt Servicing}(-1)) + C(10)$$

**Table 4.12 Vector Error Correction Model**

	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
C(1)	-0.03	0.04	-0.70	0.48
C(2)	-0.17	0.32	-0.52	0.61
C(3)	-0.53	0.24	-2.17	0.03
C(4)	-0.39	0.88	-0.44	0.66
C(5)	-0.94	0.87	-1.08	0.28
C(6)	-0.55	0.87	-0.64	0.53
C(7)	1.39	0.69	2.02	0.05
C(8)	0.69	0.47	1.46	0.15
C(9)	0.45	0.39	1.14	0.26
C(10)	-0.03	0.22	-0.12	0.90
C(11)	0.00	0.01	0.03	0.97
C(12)	-0.02	0.08	-0.24	0.81
C(13)	-0.01	0.06	-0.09	0.93
C(14)	-0.49	0.22	-2.21	0.03
C(15)	-0.08	0.22	-0.37	0.71
C(16)	-0.13	0.22	-0.60	0.55

C(17)	-0.12	0.17	-0.71	0.48
C(18)	-0.07	0.12	-0.56	0.58
C(19)	0.04	0.10	0.36	0.72
C(20)	-0.04	0.05	-0.74	0.46
C(21)	0.03	0.01	2.27	0.03
C(22)	0.08	0.09	0.91	0.36
C(23)	-0.18	0.07	-2.54	0.01
C(24)	-0.11	0.25	-0.43	0.67
C(25)	-0.15	0.25	-0.62	0.53
C(26)	-0.60	0.25	-2.43	0.02
C(27)	0.51	0.20	2.58	0.01
C(28)	0.10	0.13	0.74	0.46
C(29)	0.16	0.11	1.38	0.17
C(30)	0.01	0.06	0.09	0.93
C(31)	-0.03	0.02	-2.27	0.02
C(32)	-0.36	0.11	-3.20	0.00
C(33)	-0.02	0.08	-0.22	0.82
C(34)	-0.02	0.30	-0.05	0.96
C(35)	-0.09	0.30	-0.30	0.76
C(36)	0.95	0.30	3.16	0.00
C(37)	-0.48	0.24	-2.02	0.05
C(38)	0.02	0.16	0.12	0.91
C(39)	-0.21	0.14	-1.58	0.12
C(40)	-0.13	0.07	-1.70	0.09
$D(\text{ECONOMIC\_GROWTH}) = C(1) * (\text{ECONOMIC\_GROWTH}(-1) + 3.29795904588 * \text{MULTILATERAL\_DEBT}(-1) - 7.94621789975 * \text{BILATERAL\_DEBT}(-1) + 3.9654314531 * \text{DEBT\_SERVICING}(-1) - 6.3884337869) + C(2) * D(\text{ECONOMIC\_GROWTH}(-1)) + C(3) * D(\text{ECONOMIC\_GROWTH}(-2)) + C(4) * D(\text{MULTILATERAL\_DEBT}(-1)) + C(5) * D(\text{MULTILATERAL\_DEBT}(-2)) + C(6) * D(\text{BILATERAL\_DEBT}(-1)) + C(7) * D(\text{BILATERAL\_DEBT}(-2)) + *D(\text{DEBT\_SERVICING}(-2)) + C(10)C(8) * D(\text{DEBT\_SERVICING}(-1)) + C(9)$				
R-squared	0.39	Mean dependent var		-0.10
Adjusted R-squared	0.21	S.D. dependent var		1.51
S.E. of regression	1.34	Sum squared resid		57.41
Durbin-Watson stat	2.15			
$D(\text{MULTILATERAL\_DEBT}) = C(11) * (\text{ECONOMIC\_GROWTH}(-1) + 3.29795904588 * \text{MULTILATERAL\_DEBT}(-1) - 7.94621789975 * \text{BILATERAL\_DEBT}(-1) + 3.9654314531 * \text{DEBT\_SERVICING}(-1) - 6.3884337869) + C(12) * D(\text{ECONOMIC\_GROWTH}(-1)) + C(13) * D(\text{ECONOMIC\_GROWTH}(-2)) + C(14) * D(\text{MULTILATERAL\_DEBT}(-1)) + C(15) * D(\text{MULTILATERAL\_DEBT}(-2)) + C(16) * D(\text{BILATERAL\_DEBT}(-1)) + C(17) * D(\text{BILATERAL\_DEBT}(-2)) + C(19) * D(\text{DEBT\_SERVICING}(-2)) + C(20)C(18) * D(\text{DEBT\_SERVICING}(-1)) +$				
R-squared	0.21	Mean dependent var		-0.02
Adjusted R-squared	-0.01	S.D. dependent var		0.33

S.E. of regression	0.33	Sum squared resid	3.57
Durbin-Watson stat	2.06		
$D(\text{BILATERAL\_DEBT}) = C(21) * (\text{ECONOMIC\_GROWTH}(-1) + 3.29795904588 * \text{MULTILATERAL\_DEBT}(-1) - 7.94621789975 * \text{BILATERAL\_DEBT}(-1) + 3.9654314531 * \text{DEBT\_SERVICING}(-1) - 6.3884337869) + C(22) * D(\text{ECONOMIC\_GROWTH}(-1)) + C(23) * D(\text{ECONOMIC\_GROWTH}(-2)) + C(24) * D(\text{MULTILATERAL\_DEBT}(-1)) + C(25) * D(\text{MULTILATERAL\_DEBT}(-2)) + C(26) * D(\text{BILATERAL\_DEBT}(-1)) + C(27) * D(\text{BILATERAL\_DEBT}(-2)) + C(29) * D(\text{DEBT\_SERVICING}(-2)) + C(30) * C(28) * D(\text{DEBT\_SERVICING}(-1)) +$			
R-squared	0.61	Mean dependent var	-0.02
Adjusted R-squared	0.50	S.D. dependent var	0.54
S.E. of regression	0.38	Sum squared resid	4.64
Durbin-Watson stat	2.20		
$D(\text{DEBT\_SERVICING}) = C(31) * (\text{ECONOMIC\_GROWTH}(-1) + 3.29 * \text{MULTILATERAL\_DEBT}(-1) - 7.95 * \text{BILATERAL\_DEBT}(-1) + 3.97 * \text{DEBT\_SERVICING}(-1) - 6.3884337869) + C(32) * D(\text{ECONOMIC\_GROWTH}(-1)) + C(33) * D(\text{ECONOMIC\_GROWTH}(-2)) + C(34) * D(\text{MULTILATERAL\_DEBT}(-1)) + C(35) * D(\text{MULTILATERAL\_DEBT}(-2)) + C(36) * D(\text{BILATERAL\_DEBT}(-1)) + C(37) * D(\text{BILATERAL\_DEBT}(-2)) + C(38) * D(\text{DEBT\_SERVICING}(-1)) + C(39) * D(\text{DEBT\_SERVICING}(-2)) + C(40)$			
R-squared	0.53	Mean dependent var	-0.08
Adjusted R-squared	0.40	S.D. dependent var	0.60
S.E. of regression	0.46	Sum squared resid	6.81
Durbin-Watson stat	2.27		

#### 4.5.6 Roots Characteristics Polynomial

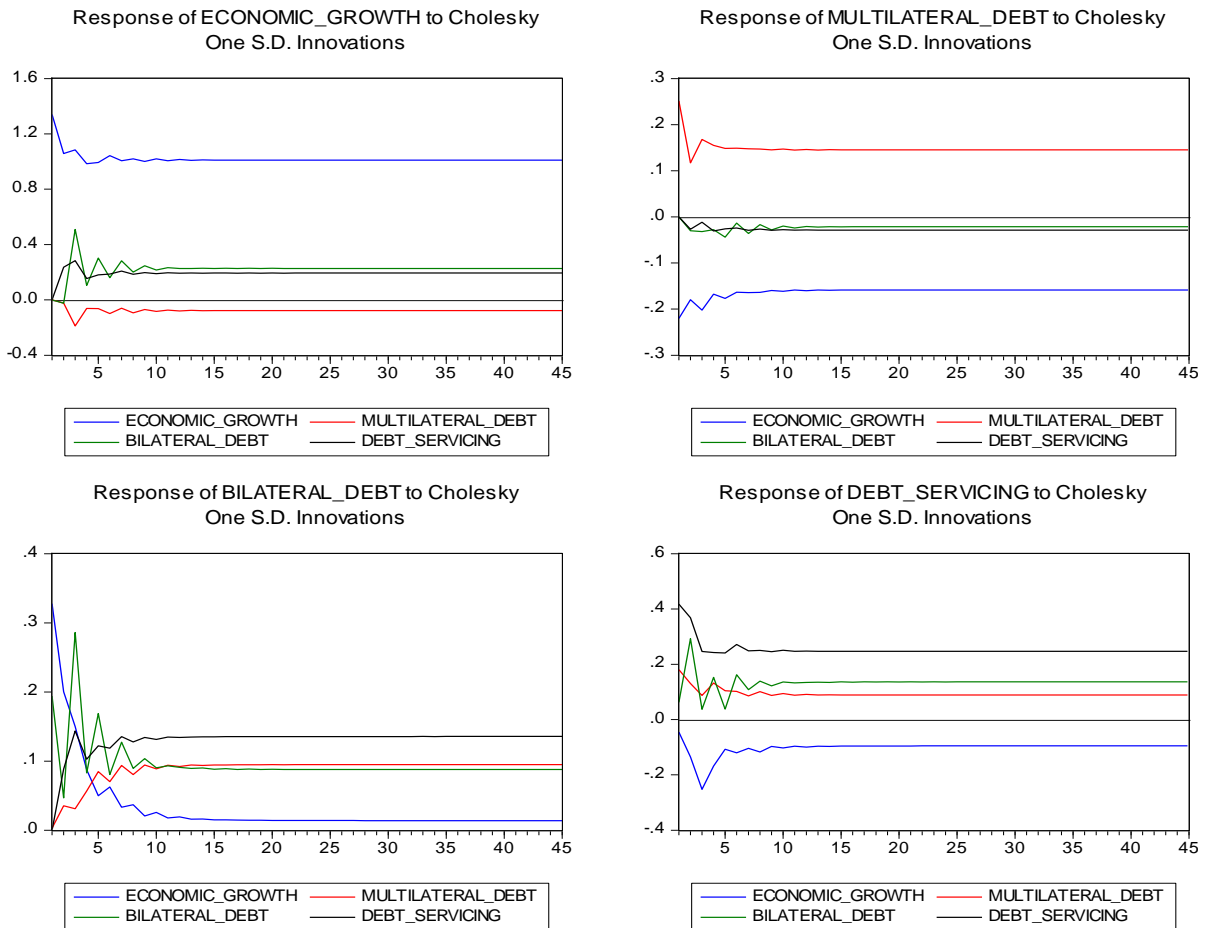
Stability test results in Table 4.13 indicates that roots characteristics polynomial was stable since the modulus for all roots were unit.

**Table 4.13 Roots Characteristics Polynomial**

<b>Root</b>	<b>Modulus</b>
1	1
1	1
1	1
0.695877	0.695877
-0.659930 - 0.161689i	0.679449
-0.659930 + 0.161689i	0.679449
-0.345515 - 0.451896i	0.56885
-0.345515 + 0.451896i	0.56885
0.072202 - 0.556088i	0.560756
0.072202 + 0.556088i	0.560756
0.271477 - 0.195824i	0.334733
0.271477 + 0.195824i	0.334733

#### **4.5.7 Impulse Response**

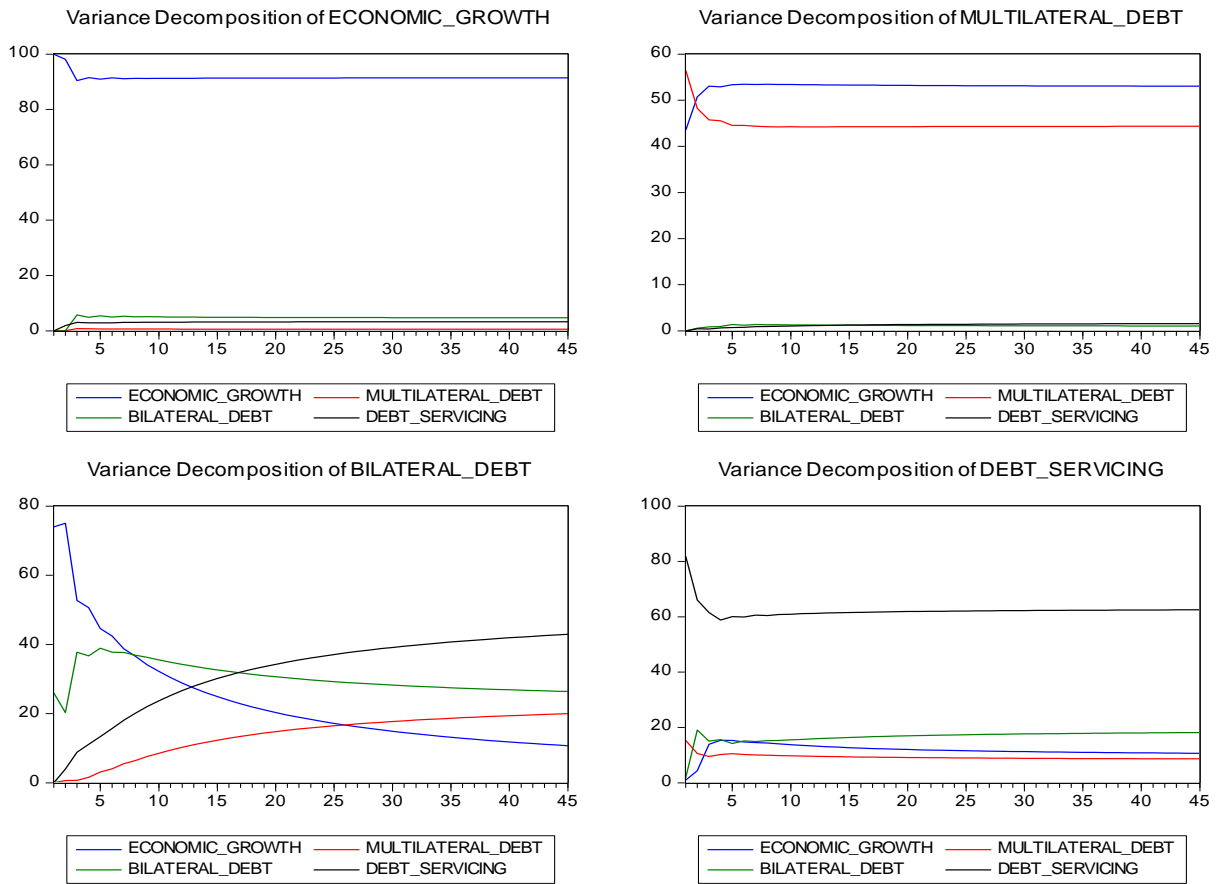
Impulse response findings in Figure 4.5 indicates that economic growth responded to shocks due multilateral debt, bilateral debt and debt servicing. There was positive shocks response due to bilateral debt and debt servicing on economic growth in Kenya. Further, there was negative shock response on economic growth due to multilateral debt.



**Figure 4.5 Impulse Response**

### 4.5.8 Variance Decomposition

The findings indicate that variance was initially 100% and it decreased in response to shocks on multilateral debt, bilateral debt and debt servicing from 1975 to 2019.



**Figure 4.6 Variance Decomposition**

## **CHAPTER FIVE**

### **SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents summary, discussion that link the current study findings with past studies, conclusion and recommendations. The purpose of these conclusions was to answer the research questions and recommend ways in which the external debt can be aligned to economic growth and development of the country. Recommendations for further research as well as limitations of the study are also presented.

#### **5.2 Summary**

##### **5.2.1 Multilateral Debt and Economic Growth**

The first objective of the study evaluated the relationship between multilateral loan and economic growth in Kenya. The results show that economic growth has inverse relationship with multilateral debt. Multilateral debt is not statistically significant.

##### **5.2.2 Bilateral Debt and Economic Growth**

The second objective examined relationship between bilateral debt and economic growth in Kenya. Study findings indicates that there was an inverse and not significant relationship between bilateral debt and economic growth in Kenya.

### **5.2.3 Debt Servicing and Economic Growth**

The third objective examined relationship between debt servicing and economic growth in Kenya. Study findings indicates that there was positive relationship between debt servicing in Kenya.

### **5.3 Discussion**

The study findings on the inverse relationship between multilateral debt and economic growth. These results are in conformity with arguments by Harrow-Domar<sup>1</sup> that has become a cultural symbol for development scientists in the field of information lending in foreign currency to bridge the banking gap in developing countries. Krugman (1988) argues that debt consolidation slows down economic growth and thus hinders investment and economic growth. Eaton (1993), on the other hand, argued that debt is a family investment and investment, and as a result promotes growth. Various recommendations have been made for the negative impact of debt consolidation on the development of developing countries. This is a well-known plan to change debt, the effect of dependence, liquidity theory theory and the debt owed by the runner guarantees the debt rush theory. While other studies (Reinhart and Rogoff, 2010; Butts, 2009; Hameed and Chaudhary, 2008; were; 2001; Iyoha, 1999; Fosu, 1999; Deshpand, 1997; Elbadawi et al., 1996) establish a negative relationship between multilateral debt and economic growth, several of which confirm positive relationships (Jayaraman et al., 2008; and Warner, 1992). And some do not see the link between debt and growth (Frimpong and Oteng-Abaye, 2003; Afxentiou and Serletis, 1996; Choplehury, 1994; Cohen, 1993). The rate, however, seems to be moving in the wrong direction.

The second objective of the study documented inverse effect of bilateral debt on economic growth in Kenya. Study findings related to Cohen (1993) and Checherita-Westphal, Hallett and Rother (2014), where the negative relationship between debt and growth has been eliminated, although in their examples, dual debt affects wealth development economies through different channels. As shown here. The result is that public spending on non-commercial assets leads to a decrease in the level of real exchanges, reviving the market to be sold, connected, internally, by Korinek and Serven (2010). They ensure that the accumulation of overseas savings (expansion of loans to migrants for the purchase of goods for sale) leads to a decrease in the rate of actual exchange, inspecting the business sector and resulting in the expected academic results.

The economy produces two products, one for sale (one for production) and one for sale (one for goods). The business sector has developed local technology through a management system (Romer, 1989). This information applies to companies that submit real estate. From these examples, you can learn two things. The government pays housing and high taxes, deductions on consumer goods and their mortgage payments, and the difference between tariffs and income revenues if the debt is external. Foreign lenders see the risk in the country based on the overall level of foreign debt. In addition, the government collects taxes by using additional tariffs to protect the purchase of goods that it can sell. Shares cost a small amount of their income, and they all have a way of making money. They can borrow from abroad, depending on foreign debt. In this case, the national risk is completely transferred to the private sector. Thus, the magnitude of the country's risk level is estimated, and, as a result,

the interest rate for these two major currencies, foreign debt and debt is equal to the international rate and global response.

The third objective of the study investigated the relationship between debt servicing and economic growth in Kenya. The study documented significant relationship between debt servicing and economic growth in Kenya. The findings are in agreement with the idea of economics which suggests that the right level of debt should help developing and developing countries grow their economies. The concept of liquidity integration and overhang patterns has been used to better understand how debt accelerates economic growth (Krugman 1988; Sached 1989; Cohen 1992). The proposals show that high debt levels are boosting economic growth due to increased government lending. Reducing borrowing increases the interest rate, which increases the cost of borrowing and spending more, which is called the tax effect. In addition, violence in developing countries has been accompanied by negative effects on economic growth and financial stability in these countries. It is important to use borrowed funds to finance borrowed funds that will share future income. A major risk associated with the accumulation of external debt is that external debt may exceed the national interest rate. Thus, the main factors associated with foreign borrowing are the cost of debt service, which is the high tax that developing countries have to pay in their future income. Identify the costs of a contract imposed on deposits, revenues and foreign exchange (Chowdhury, 1994).

#### **5.4 Conclusion**

Multilateral debt expressed a negative relationship on the economic growth of Kenya; however, the finding was not statistically significant. Bilateral debt had a positive

relationship on the economic growth of the country where the results were statistically significant. Prudent management of bilateral debt can be credited for its positive economic contribution. This is most likely to influence the economic growth positively and therefore the government should engage in productive negotiations to increase the amount of bilateral debts.

The debt servicing showed a negative relationship on the economic growth of the country. The negative relationship between debt servicing can be well explained from the detrimental effect in the local commercial sector as a result of the fiscal actions. External debt servicing decreases more money in circulation at the expense of the local commercial banks and thereby reducing the value of the Kenyan currency. The situation leads to a continuous increase in the prices of general commodities (inflation) which then deter the people from spending the little money they have.

## **5.5 Recommendations**

The government should collaborate and work closely with the multilateral organizations while at the same time providing conducive environment so that they can be able to deliver on the development agenda which will on the long run increase the economic growth of the country. This is because the negative relationship between multilateral loans and the economic growth could have resulted from sabotaged operations due to negative political dispensation in a given country. The Treasury, should at its best knowledge institute a sound monitoring system where the funds received by the government from another government is prudently utilized with minimal mismanagement and theft if any. This is due to the evidence

from the result findings that there is a positive relationship between bilateral debts and the economic growth of Kenya. The greatest task will be to eliminate the challenges that may twist the already revealed findings in years to come.

Concerning debt servicing, the parliament should formulate fiscal policies that are able to restrain the treasury in making decisions aligned to increasing the proportion of the debt servicing that does not constrain economic status. This should be executed with full utilization of the financial experts and data modelers in the country therefore be able to discourage the borrowing behaviour as it has negative effects on the economic growth of the country.

### **5.6 Suggestions for Further Studies**

Having explored the relationship between the external debts and economic growth in Kenya, scholars, future researchers and academicians should aim at positioning their studies within the scope of external debts on different aspects. Below are some of the research areas viable: To determine the relationship between internal borrowing and economic development in the country (Kenya). Secondly, further research should be conducted on the effect of government policies on the effectiveness of borrowed funds in the country. Last but not least, more effort should be vested on the effect of political interference on credit accessibility in the international market.

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