

## ABSTRACT

This study sought to examine effect of external debt and interest rate on economic growth in Tanzania. This phenomenon adopted causality research design and quantitative research approach. The time period of the study covered a period of 19 years from 1999 to 2017. Secondary data was collected and analyzed by the assistance of STATA. The findings unveiled negative correlation between external debt and economic growth, negative correlation between interest and economic growth and negative correlation between inflation and economic growth. From the findings the study concluded that increase in external debt negatively affect the economic growth of Tanzania. Considering that Tanzania as an emerging economy, the country needs external debt to bridge its resource gap with sound management of external debts.

The study recommended that, Tanzania should adopt an optimal balance between external and domestic debt to avoid debt overhang problem. Also recommended that, further studies of the relationship between debt and economic growth are required by incorporating additional variables, such as private investment and other variables that will help to illuminate the networks through which kinds of debt causes growth.

