

ABSTRACT

The main objective of this study was to investigate determinant of external debt in Tanzania using time series data covering the period from 1970 to 2015. The study used GDP, fiscal deficit to GDP ratio, debt servicing, reserve to external debt ratio and nominal exchange rate as explanatory variables. Results of estimation reveals that the adjusted R-squared, which determines the variables' goodness of fit, is 0.933 and thus indicates that about 93.3% of the variations in the external debt in Tanzania are explained by the explanatory variables. Likewise, the null hypothesis that all explanatory variables have coefficients not different from zero is rejected as indicated by the F-statistic of 100.87. In addition, Durbin-Watson statistic (DW) is about 1.84 which is close to 2 and thus indicates that there is no autocorrelation. Furthermore, the diagnostic tests which include regression errors specification test, Jacque-Bera-normality test white heteroskedasticity test and Breusch-Godfrey serial correlation LM test showed that the model does not have signs of miss-specification and therefore, the residuals are not serially correlated, with normal distribution and are homoskedastic. These outcomes confirm, and consequently it is concluded, that there is a long run association between external debt and the explanatory variables. It is recommended that the government should direct its borrowings towards economic activities which fuels economic growth and eventually increase its revenues and be able to finance its development project by using own funds and reduce external debt. It is also recommended that government should only borrow from sources with low interest rate and long repayment periods to lessen the debt serving burden and should repay its debt when due to avoid increase in external debt that might result from penalties and increased interest rates if the debts are not paid as scheduled. Further studies on effect of interest rate and exchange rate on Tanzania external debt is recommended. A study on impact of external debt on poverty alleviation in the country is also suggested. The government through the Bank of Tanzania should periodically review its fiscal and monetary policies to ensure the growth of broad Money Supply (M2) is controlled so as to lessen its effect on the growth of external debt.

