

External Debt and Economic Growth in Sub-Saharan African Countries

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Abstract

This study examines the effect of external debt on economic growth in Sub-Saharan Africa. Despite the continued rise in external debt across the Sub-Saharan African region, economic growth has not increased proportionally. This raises concerns regarding the sustainability and productivity of debt-financed development. While external borrowing is expected to supplement domestic revenue and stimulate investment, excessive debt accumulation may increase debt servicing burdens, thus constraining long-term economic growth. The existing empirical evidence presents mixed results, thus motivating this study. The study therefore employs the Autoregressive Distributed Lag modelling approach to estimate both the short-run and long-run dynamics among the variables. The study uses aggregated data for all sub-Saharan countries except Nigeria and South Africa due to their high income. The findings reveal the existence of a stable long-run relationship, as indicated by the negative and statistically significant error correction term at a one percent level of significance. The coefficient of the error correction term showed that approximately 85.6 percent of short-run disequilibrium is corrected within one year, implying rapid convergence towards long-run equilibrium after economic shocks. The long-run results indicate that the coefficient of external debt is statistically significant at a 5 percent level of significance. Specifically, the results reveal that an increase in external debt by one unit leads to a decrease in economic growth by

0.0092 units *ceteris paribus*. The changes in external debt are found not to be an important determinant of economic growth in Sub-Saharan Africa in the short run. However, in the long run, external debt was found to have a negative and significant effect on economic growth. Based on the study's findings, the study recommends that the governments in the Sub-Saharan Africa region should adopt prudent external debt management strategies, as excessive accumulation of external debt may impede long-run economic growth.

Keywords: External debt, economic growth, Sub-Saharan Africa

1. Introduction

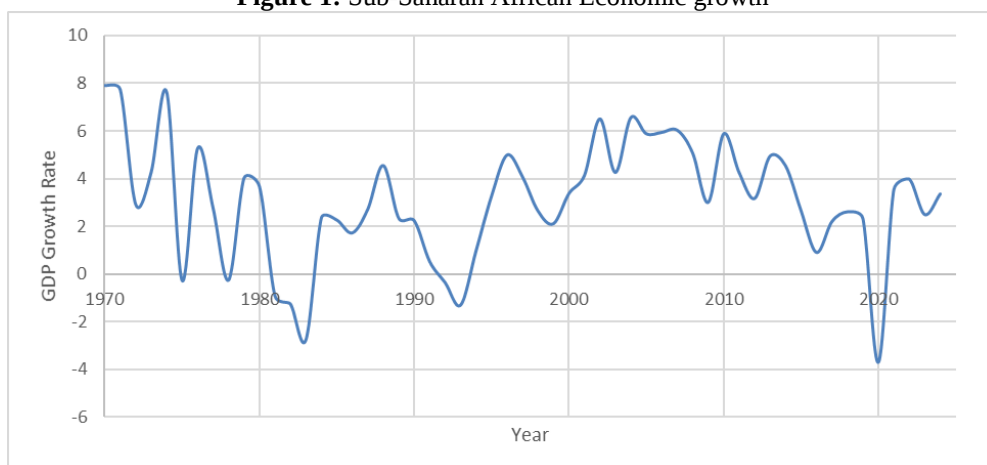
Economic growth is one of the major macroeconomic goals of developing countries. To achieve economic growth, countries mobilize resources, including external debt, for investment in projects that can spur economic growth. Many countries are concerned about sustainable economic growth. This is more pronounced among the developing countries that face widening budget deficits. The increasing budget deficits are attributed to high amounts of external debt servicing costs and poor performance of exports that have led to a widened current account deficit (Senadza, Fiagbe, K., and Quartey, 2017). Atique and Malik (2012) argue that external debt makes up a larger portion of developing countries' debt structure. The authors associate the high external debt with countries' effort of avoiding to crowd out private businesses. In addition, Todaro and Smith (2020) assert that developing countries are still in their early development stages and therefore do not have adequate domestic resources. The authors therefore recommend external debt to bridge the gap between the developing countries' domestic resources and expenditures. Many development economists who support external debt for the economic growth of countries are guided by the Harrod-Domar model. The model advocates for external debt as a way of bridging the saving-investment gap among the developing countries. However, Krugman (1988) avers that external debt may not support economic growth among the developing countries. The author argues that external debt service causes distortions in the economies through increased taxes. The increased taxes may discourage investment, thus leading to low economic growth.

External debt represents a considerable hurdle for low-income economies, especially in Sub-Saharan Africa (SSA). According to research by Pattillo et al. (2004), the repayment conditions attached to external loans pose significant obstacles for many countries in the region. During the 1980s, countries in the region successfully tackled their debt issues by implementing revised debt strategies that included macroeconomic

adjustments. These measures were backed by agreements with the World Bank and the International Monetary Fund. As a result, many countries were able to regain access to international capital markets, preventing significant disruptions in global banking and financial institutions.

It is notable that the unsustainable increase in the region's debt level is primarily attributed to the accumulation of arrears, which is the central factor contributing to a debt overhang problem. The COVID-19 pandemic and the invasion of Ukraine by Russia's limited the fiscal space of developed countries to support the SSA region. As a result, many authorities of the SSA countries have since opted to enhance mobilization of their own resources. This action has led to the share of debt in GDP in Sub-Saharan Africa estimated at about 58 percent of GDP in 2025. At the same time, the number of nations in this region that had a high risk of debt distress rose from 8 countries in 2014 to 23 countries in 2025, translating to about 49 percent of the SSA region's countries (World Bank, 2025).

Despite the tightening of concessionary conditions that are linked to bilateral and multilateral loans, the SSA region still continues to depend heavily on external debt for its fiscal sustainability so as to accelerate regional economic growth. The adverse effect of the world economic recession in the 1980s on the developing countries, including the external debt crisis, resulted in the 1980s being referred to as the SSA's lost decade (Iyoha, 1999). Although many developing countries experienced periods of economic recovery and structural transformation after the global economic crises of the 1970s and 1980s, economic growth in many Sub-Saharan African countries remained relatively modest due to persistent challenges such as debt burdens, political instability, weak industrialization and external economic shocks. Consequently, the average economic growth rate in the region stood at 3.09 percent per annum between 1970 and 2024, illustrating uneven growth performance across countries and periods. While some economies recorded significant improvements driven by reforms, commodity booms and increased investment, others continued to experience slow growth and economic vulnerability. Figure 1 below illustrates the trends in SSA GDP.

Figure 1: Sub-Saharan African Economic growth

Source: World Bank Development Indicators

From Figure 1, it is shown that the country recorded an economic growth of 7.9 percent in 1970, which dropped to 7.7 percent in 1972. A further drop to 2.9 percent was experienced in 1973. The Sub-Saharan economy later adopted a positive trajectory in 1974. The strong economic growth recorded in 1970 can be associated with favourable global demand for primary commodities and increased agricultural and mineral exports from many countries in the region. However, the decline in growth between 1970 and 1973 can be attributed to the global oil crisis, worsening terms of trade, rising inflation, macroeconomic imbalances and political instability in several African economies (World Bank, 1989).

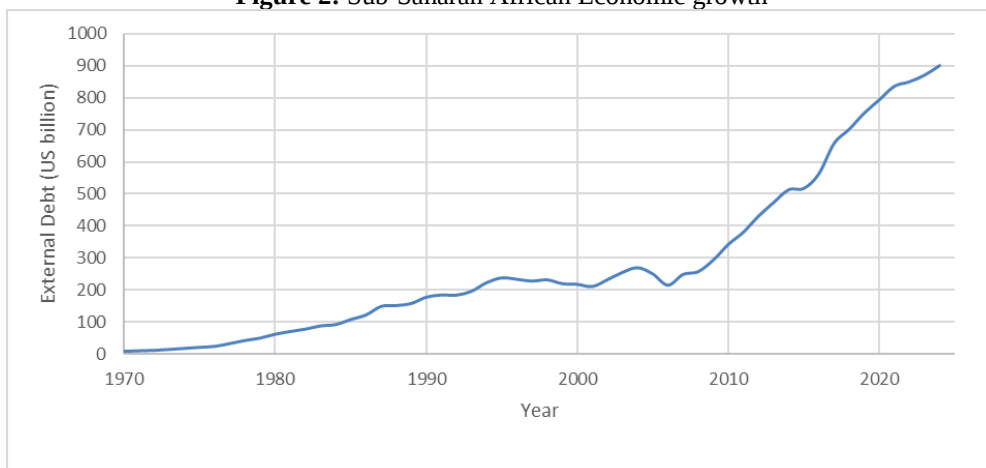
The region's economic performance fluctuated between 1974 and 1993. The reduced economic growth during the period can be linked to persistent external debt burdens, weak industrialization, droughts, civil conflicts, and the implementation of Structural Adjustment Programmes (SAPs) advocated by the Bretton Woods Institutions (World Bank, 1994). These factors constrained productive capacity and slowed economic transformation in many countries.

From 1994 to 2019, the Sub-Saharan African economy maintained positive growth, though with fluctuations. This economic performance can largely be driven by economic reforms, improved macroeconomic management, expansion in the services sector, increased foreign direct investment, and rising commodity prices, particularly during the commodity boom of the 2000s (African Development Bank, 2020). Nonetheless, economic growth fluctuations continued to persist due to dependence on commodity exports, governance challenges, climate-related shocks and global economic uncertainties.

In 2020, the region recorded negative economic growth, largely linked to the COVID-19 pandemic that disrupted global supply chains, reduced trade and tourism activities, lowered commodity demand, and constrained domestic economic activities due to lockdown measures (World Bank, 2021). A recovery was witnessed in 2021 and 2022, with growth rates of 3.5 percent and 3.9 percent, respectively. This was supported by the reopening of economies, recovery in global trade, increased vaccination efforts, and improvements in commodity prices (African Development Bank, 2023). However, the slowdown in growth in 2023 and 2024 to 3.3 percent and 3.09 percent, respectively, may be linked to rising inflation, tighter global financial conditions, geopolitical tensions, climate shocks and slowing global demand, which continued to affect economic activities across the region (World Bank, 2024).

External debt has been on the rise in Sub-Saharan Africa. The trend in external public debt in the region is shown in Figure 2.

Figure 2: Sub-Saharan African Economic growth



Source: World Bank Development Indicators

From Figure 2, it is evident that external debt persistently increased between 1970 and 2024. This rise in external debt during the 1970s can mainly be associated with increased borrowing by many countries in the region with an aim of financing development projects, balance of payment deficits and infrastructure expansion immediately after independence in the 1960s for thirty (30) Sub-Saharan African countries. Additionally, the availability of relatively cheap international credit during the period encouraged external borrowing (World Bank, 1989).

The sharp rise in external debt during the late 1970s and the 1980s was mainly driven by the world oil shocks, increasing interest rates in the developed economies, decreasing commodity prices, and worsening trade

balances. As export earnings declined, many countries in the region were increasingly dependent on foreign borrowing to finance fiscal deficits and sustain government expenditure (IMF, 2003). As a result, the debt burden became unsustainable, contributing to the debt distress crisis experienced across many African countries during the 1980s and early 1990s.

Between the 1990s and early 2000s, the external debt levels remained high despite the introduction of Structural Adjustment Programs (SAPs). However, the debt relief initiatives such as the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) contributed to a temporary reduction in debt levels in several countries within the region (World Bank, 2005).

From the mid-2000s onwards, external debt began rising again as a result of increased infrastructure financing requirements, expansionary fiscal policies, growing dependence on international capital markets, and increased borrowing from bilateral and multilateral lenders, including emerging creditors, for instance China. The increase in public investment in transport, energy and social infrastructure also contributed to the rising debt levels (African Development Bank, 2022).

The drastic increase in external debt after 2020 can further be associated with the economic effects of the COVID-19 pandemic, which reduced government revenues, increased health expenditures, and forced many governments to borrow heavily to support economic recovery measures (IMF, 2021). Furthermore, the rising global interest rates, exchange rate depreciation, inflationary pressures, and slowing economic growth in recent years have continued to worsen debt vulnerabilities across the region (World Bank, 2024).

Although the literature review links low economic performance to increased debt service because the countries are left with limited fiscal space, no conclusive empirical study has been carried out, especially at the regional level. There is an avalanche of empirical studies investigating the role of external debt on economic growth. However, most of these studies are country-specific or sample-based studies. It is based on this drawback that this study sought to investigate the role of external debt on the economic performance of the Sub-Saharan Africa region. The study uses the ARDL estimation technique to estimate the effect of external debt on economic growth in Sub-Saharan Africa. Aggregated data for all the countries in the Sub-Saharan Africa region, except high-income countries, namely Nigeria and South Africa, were considered. The sections of the study are structured as follows: The literature review section provides the empirical literature. This is followed by the methodology section that outlines the data and study model. A section on results and discussion provides the interpretation of the

results and their conclusion. The last section of the study shows the recommendations and policy implications.

2. Literature

Panizza and Presbitero (2014) examined the debt-to-GDP ratios of 17 OECD nations and found a negative relationship between debt and economic expansion using instrumental variable techniques. However, the relationship weakened when debt was paired with a characteristic that modified the way foreign currency debt and exchange rate volatility interacted. From the study, there is a high probability that OECD countries have different levels of financial markets development and debt management strategies. Domestic debt market yields therefore may vary amongst the OECD sample countries used in the study. In addition, the current study did not delve into assessing the domestic debt market microstructure and how it may influence the relationships.

Senadza, Fiagbe, and Quartey (2017) evaluated the influence of external debt on economic growth in Sub-Saharan Africa from 1990 to 2013 using System Generalized Method of Moments (GMM). The study found a negative relationship between economic growth and external debt. The study used annual data for 39 SSA countries from 1990 to 2013.

Samuel Adams and Klobodu (2018) examined the effect of external debt on economic growth in selected SSA countries between 1970 and 2014. Using a fixed effects model, the study found that external debt had a negative effect on economic performance over the long term. Murungi and Okiro (2018) studied the effect of external debt on economic growth among various countries. The study used an empirical review approach. Findings from the literature reviewed presented mixed results. While some showed that external debt had a negative effect on economic growth, some revealed a positive relationship between the two variables.

Haque, Khurram and Syed (2023) studied the role of external debt on economic growth among the lower middle-income countries (LMICs). The study used panel data from 30 countries for the period running from 1999 to 2019. Using the GMM estimation technique, the study established a negative relationship between external debt and the economic performance of Asian and African countries.

Akanbi, Uwaleke and Ibrahim (2022) studied the effect of external debt service on economic growth in Nigeria using time series data running from 1981 to 2020. Using the Auto-Regressive Distributed Lags (ARDL) model, the study established a positive but insignificant relationship between external debt and economic growth in Nigeria. In another study, Ogbonna et al. (2021) used an ARDL model to study the effect of external debt services and economic growth in Nigeria. The study considered a period of 33 years

running from 1986 to 2018. The study revealed a negative and statistically significant coefficient. In a similar study, Muhammad & Abdullahi(2020) studied the relationship between external debt service and economic growth for the period running from 1985 to 2018. In using ARDL model, the study found a negative effect between debt service and economic growth.

3.0 Methodology

3.1. Methods of Data Collection

The study utilized secondary data. Time series data for all Sub-Saharan African countries except two high-income countries, running from 1970 to 2024, were sourced from the World Bank Development Indicators database. The excluded high-income countries in the Sub-Saharan African region were Nigeria and South Africa.

3.2. Estimation Technique

The study used the Autoregressive Distributed Lag (ARDL) model, which is a multiple regression model. The choice of ARDL was informed by variables that were integrated of order 1 and order zero. The ARDL Bounds test revealed the presence of a long-run relationship, leading to the choice of a long-run ARDL model.

3.3. Model Specification

To estimate the effect of external debt on economic growth, the following regression long run ARDL model is specified:

$$GDPg_t = \lambda ECT_{t-1} + \alpha_1 \ln Extdebt_t + \alpha_2 FDIGDPR_t + \alpha_3 \ln inf_t + \delta_1 \Delta \ln Extdebt_{t-1} + \delta_2 \Delta FDIGDPR_{t-1} + \delta_3 \Delta \ln inf_{t-1} + u_t$$

Where GDPg represents the GDP growth rate and is the dependent variable. The variable ECT represents the error correction term, which is captured by the lag of GDPg. The variable $\ln Extdebt$ represents the natural logarithm of external debt. External debt is the independent variable. The study also considered control variables in order to get the actual value of the coefficient of the independent variable. The control variables considered include FDI inflows and inflation. In the above equation, FDIGDPR illustrates the Foreign Direct Inflows to GDP ratio, and $\ln inf$ represents the natural logarithm of inflation. Also considered in the study are, and are the long-run parameters to be estimated. The short-run parameters include, and while and are coefficients of the error term and the error term, respectively.

4. Results

4.1 Descriptive Analysis

Before initiating any estimation, the study evaluated the quality of variables by obtaining descriptive statistics for all variables utilized in the model. These statistics are outlined in Table 1, presenting values such as the minimum, mean, maximum, and standard deviation for each variable.

Table 1: Descriptive Statistics

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
GDP Growth Rate	55	3.092	2.515	-3.683	7.9
External Debt	55	279,700	253,900	6,911	899,600
FDI-GDP-Ratio	55	1.395	0.935	0.085	3.778
Inflation	55	8.024	3.74	2.4	24.413

Note: External Debt is in million

Source: Computations Based on WDI Data

Based on the outcome from Table 1, the mean GDP growth was 3.092, with a standard deviation of 2.515. GDP ranged from -3.683 to 7.9. This difference in GDP growth suggests that countries in the region have different levels of economic growth rates. This can be linked to reasons that include the availability of precious natural resources in some countries, whereas they are absent in others. In addition, there are differences in the level of infrastructure that attract FDIs, which is likely to boost their economic performance. Lastly, some of the countries have witnessed prolonged inflation that has had a negative influence on their economic performance. The high standard deviation showed that GDP growth exhibited high levels of variability.

The results showed that external debt deviated from its mean by USD 253,900 million. The external debt ranged from USD 6,911 million to USD 899,600 million. The large deviation and range can be linked to a high increase in external debt during the period commencing 2010, when we had increased infrastructure financing. The Sub-Saharan member countries increased their borrowing from emerging creditors such as China, Eurobond markets, and rising fiscal pressures. The Sub-Saharan member countries increasingly borrowed to fund transport, energy, and social development projects. In addition, external shocks, for instance the COVID-19 pandemic, commodity price volatility, climate-related disasters, and exchange rate depreciations among the countries further widened fiscal deficits, thus leading to increased borrowing needs (International Monetary Fund, 2023). Since external debt and inflation had large magnitudes that could create computational difficulties and could overly influence estimation results, natural logarithms were used to compress the scale of the two large values.

4.2 Correlation Analysis

Table 2: Correlation Matrix

Variables	(1)	(2)	(3)
(1) Natural log of External Debt	1.000		
(2) FDI-GDP-Ratio	0.497	1.000	
(3) Natural logarithm of Inflation	-0.371	-0.530	1.000

Source: Computations Based on WDI Data

From the results in Table 2, a weak but positive correlation between external debt and FDI was obtained. This implies that an increase in external borrowing in the Sub-Saharan Africa region is associated with higher inflows of foreign direct investment. The relationship may arise due to the fact that external borrowing is often used to finance infrastructure development, energy projects, and institutional improvements that can create a favourable investment climate for foreign investors. In the majority of the Sub-Saharan African countries, external debt has been used to finance transport networks, communication systems, and public utilities that attract multinational firms and also enhance investor confidence (Ajayi & Khan, 2000).

In addition, a weak but negative correlation was revealed between the natural logarithm of external debt and the natural logarithm of inflation. This negative association may be attributed to the fact that many Sub-Saharan African countries obtain concessional external loans from multilateral institutions to finance fiscal deficits without excessive domestic money creation. The reduced domestic borrowing may lower inflationary pressures. Again, external financial support is usually sought for stabilization policies aimed at controlling inflation and maintaining macroeconomic discipline (Were, 2001).

Lastly, a weak and negative correlation was obtained between FDI-to-GDP ratio and the natural logarithm of inflation. This implies that higher inflation rates are associated with lower FDI inflows in the Sub-Saharan Africa region. This negative relationship is consistent with economic theory because high inflation reflects macroeconomic instability, increases production costs, and creates uncertainty for foreign investors. As a result, countries with stable prices are generally more attractive destinations for foreign investment (Asiedu, 2002).

From the correlation results, it is noted that multicollinearity was absent. This was because all the pairwise correlations were weak. However, the study implemented a multicollinearity test as discussed in the following pre-estimation test results section.

4.3 Pre-estimation Tests

To obtain valid results, the study performed various pre-estimation tests. These tests are explained in the following sections.

4.3.1 The Multicollinearity Test

The study applied the Variance Inflation Factor (VIF) to test for the relationship amongst the independent variables commonly known as multicollinearity. The VIF test reveals the presence of multicollinearity when VIF is greater than or equal to 10. The VIF for the first model is shown in Table 3.

Table 3: Variance inflation factor

	VIF	1/VIF
FDI-GDP-Ratio	1.628	0.614
Natural logarithm of Inflation	1.42	0.704
Natural logarithm of External Debt	1.358	0.737
Mean VIF	1.469	

Source: Computations Based on WDI Data

From the results, it was evident that all the VIF were less than 10. This implied the absence of multicollinearity.

4.3.2 Unit Root Test

The presence of unit root leads to spurious and inconsistent estimates. To ensure regression was performed on variables that were stationary, the study performed a unit root test. The Augmented Dickey-Fuller test was chosen for its suitability even in the case of autocorrelation. The null hypothesis of this test asserts that the variables are non-stationary, while the alternative hypothesis suggests stationarity. Table 4 presents the results of the unit root test conducted for all variables utilized in the study.

Table 4: The Augmented Dickey-Fuller Unit Root Tests

Augmented Dickey-Fuller				
		Statistic	Critical value (5 percent)	Order of Integration
Economic Growth	Level	-4.888	-2.927	I (0)
Natural log of External debt	Level	-5.711	-2.927	I (0)
FDI-GDP-Ratio	Level	-2.554	-2.927	I (1)
	1 st Difference	-12.842	-2.927	
Natural log of Inflation	Level	-3.438	-2.927	I (0)

Source: Computations Based on WDI Data

The results showed that the economic growth rate, the natural logarithm of external debt, natural logarithm of inflation were found to be stationary at level using ADF tests. The ADF test results revealed that FDI-GDP-Ratio was found to be stationary at first difference, an implication that the variable was integrated of order one. The variables were integrated of order zero and order 1; the study adopted the Autoregressive Distributed Lag

(ARDL) model. However, before carrying out the estimation, the ARDL bounds test was implemented as shown in Section 4.3.3.

The cointegration test results are shown in Table 5.

Table 5: ARDL Bounds Test (Co-integration Test)

Bounds Test	
F-statistic	7.141
I(0) at 5% level (95% confidence level)	3.381
I(1) at 5% level (95% confidence level)	4.724

Source: Computations Based on WDI data

The ARDL bounds test (co-integration) results in Table 3 showed the presence of a long-run relationship between economic growth rate and the explanatory variables. This was suggested by the F-test being greater than Pesaran and Shin (1999) 1(1) bound critical values, thus rejecting the null hypothesis of no long-run relationship having established presence of a long-run relationship. Based on the results, the study proceeded to estimate both the short-run ARDL and the error correction model. Since the ARDL model requires a specific number of lags, the study employed the optimal lag selection tests, and the results are discussed in the following section.

4.3.4 Lag Length Selection

The study used the five lag length selection criteria to establish a suitable lag length for the study. The criteria considered were Final Prediction Error (FPE), the Likelihood Ratio (LR), the Akaike Information Criteria (AIC), the Hannan and Quinn information criterion (HQIC), and Schwarz's Bayesian information criterion (SBIC). The results are presented in Table 6.

Table 6: Lag Selection Results

Lag	LL	LR	df	P	FPE	AIC	HQIC	SBIC
0	-109.4				5.00094	4.44718	4.50508	4.5987*
1	-107.7	3.4	1	0.064	4.86448*	4.4192*	4.49158*	4.6086
2	-107.7	0.00053	1	0.982	0.06132	4.45841	4.54526	4.68568
3	-107.4	0.65909	1	0.417	5.19953	4.4847	4.58602	4.74985
4	-106.5	1.6	1	0.201	5.24172	4.49191	4.60771	4.79495

Source: Author's Computations Based on Data from WDI

From the lag selection results, it can be revealed that AIC, HQIC lag length criteria suggested 1 lag. The SBIC suggested zero lag. The study therefore chose 1 lag as suggested by the majority of the optimal lag length selection criteria (Enders, 2015). Having established the optimal lag length, an ARDL model was estimated, and the results are shown in Section 4.4.

4.4 Regression Results

The results of the regression model are outlined in Table 7.

Table 7: Estimating the effect of external Debt on economic growth in SSA Regression

Results			
Dependent Variable: GDP Growth			
Natural Log of External debt		-0.93**	
		(0.41)	
FDI-GDP-Ratio		2.17***	
		(0.52)	
Natural Log of inflation		1.00	
		(1.09)	
Lag of GDP Growth	-0.87***		
	(0.14)		
D. Natural Log of External debt		-2.47	
		(3.93)	
D. FDI-GDP-Ratio		-1.11**	
		(0.54)	
D. Natural Log of inflation		-0.24	
		(0.83)	
Constant		19.00*	
		(11.05)	
Observations	54	54	54
R-squared	0.51	0.51	0.51

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Computations Based on WDI Data

The ARDL results indicated the long-run and short-run effects of external debt, FDI inflows, and inflation on GDP growth. The coefficient of the lagged dependent variable, GDP growth, was negative and statistically significant at the 1 percent level, implying convergence toward long-run equilibrium after short-run shocks. Since the coefficient was in the range of 0 and -1, the adjustment process is stable. The coefficient specifically revealed that 87 percent of disequilibrium is corrected within one year. In addition, the coefficient of determination was 0.51. This suggested that external debt and the FDI-GDP ratio contribute to 51 percent of the variation of economic growth in the Sub-Saharan region. The post-estimation test included testing for model stability. The recursive residuals from the ARDL regression were obtained and used to test for model stability. The cumulative sum of squares, denoted as CUSUM, was generated. The graphical plot of these CUSUM was presented in the appendix. For stability of a model to be guaranteed, the CUSUM should lie within a 5 percent significance level. From the graph in the appendix, it was evident that the model specified was stable since the CUSUMs were observed to be within the 5 percent boundary.

From the long-run results, the natural logarithm of the external debt had a negative and significant coefficient at the 5 percent level of significance. This suggests that an increase in external debt decreases GDP growth. Specifically, the results revealed that an increase in external debt by one percent leads to a decrease in economic growth by 0.0093 units *ceteris paribus*. The original coefficient was divided by 100 since the model is semi-logarithmic. The finding suggests that excessive debt accumulation can result in crowding out productive investment and increase debt servicing burdens, thus constraining economic growth.

The results further showed that the FDI-to-GDP ratio had a positive and statistically significant coefficient at the 1 percent level of significance. This indicates that FDI contributes positively to economic growth. Specifically, the results revealed that an increase in the FDI-to-GDP ratio by one unit increases GDP growth by 2.1 units, holding other factors constant. The results therefore suggested that foreign investment enhances capital formation, technology transfer, and productivity improvements in the Sub-Saharan region economy.

Lastly, the coefficient of the natural logarithm of inflation was positive but insignificant. This implies that inflation is an important determinant of economic growth in the Sub-Saharan African region in the long-run. The short-run dynamics were captured by the differenced variables. The external debt was negative but insignificant. This suggested that short-run changes in the external debt are not important in influencing GDP growth. In addition, the differenced inflation variable was negative and statistically insignificant. This showed that short-run inflation fluctuations are not important determinants of economic growth in the Sub-Saharan African region.

Conclusion and Recommendation

This study examined the role of external debt on economic growth in Sub-Saharan Africa, controlling for FDI inflows and inflation. An ARDL modelling approach was used. The results provided both the long-run and short-run information on the dynamics of economic growth in the Sub-Saharan region. The error correction term (ECT) was negative and significant at the 1 percent level. This confirmed the existence of a stable long-run relationship among the variables. The speed of the adjustment was high, with 87 percent of the short-run disequilibrium being corrected within a year. This indicated that the Sub-Saharan African economy quickly converges back to its long-run equilibrium after shocks. The model also demonstrated moderate explanatory power, with an R-squared of 0.51, implying that external debt, FDI, and inflation account for 51 percent of the variation in economic growth across the Sub-Saharan African countries.

In the long run, external debt was found to have a negative and significant effect on economic growth. This suggested that rising external debt tends to constrain economic growth, attributed to increased debt servicing obligations and the crowding out of productive investment. In contrast, FDI inflows showed a positive and statistically significant effect on economic growth. This illustrated the role of FDI inflows in enhancing capital formation, technology transfer, and productivity improvement in the region. Inflation had a positive but insignificant coefficient, showing that it does not play a key role in explaining long-run economic growth in the Sub-Saharan Africa region within the context of the ARDL model. In the short run, results revealed that changes in external debt and inflation were both not important in determining economic growth. This suggested that the effect of the two variables is primarily long-term and not transitory.

Based on the study's findings, the study makes the following recommendations. First, the Sub-Saharan African countries should adopt prudent and sustainable external debt management strategies to control external debt accumulation, as excessive debt may impede long-run economic growth. In addition, the policymakers in the Sub-Saharan region should formulate policies that promote foreign direct investment inflows through improved infrastructure, political stability, institutional quality, and favourable investment environments, given the positive contribution of FDI to economic growth in the region.

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Appendix

