Kenya being a developing country compliments its revenue through exports of primary commodities. In attempt to add to available domestic resources, successive governments have acquired huge sums of external debt to finance national development plans. High levels of external debt in Kenya poses great challenges on the economy because large proportion of exports is devoted in servicing these debts instead of being put into domestic investment thus reducing the prospects of economic growth. The conventional view is that high levels of debt may lead to crowding out effect and also constrain the scope of counter cyclical fiscal policies which may result in higher volatility and this may adversely affect the economic performance. This study is therefore an effort to determine the effect of external public debt on economic growth in Kenya. Specifically, the study tries to answer the questions whether external debt and debt servicing payment have any significance effect on economic growth in Kenya. In doing this the study used a linear model to analyze Kenyan data from 1980 to 2011 with GDP growth rate as a function of external debt. Foreign direct investment, labor force, capital formation, domestic saving, inflation and external debt service are taken as control variables. The result indicates that external debt and, debt servicing have negative effects on economic growth. Other factors found to affect growth negatively include, inflation, labor force and domestic savings. Capital formation and foreign direct investment as also supported in the literature have positive effects on economic growth. This study recommends improvement of the existing policies on public external debt management such as borrowing on concessional terms to minimize borrowing costs. On the other hand, to increase inflow of FDI there is need to pursue policies geared toward minimizing investor's time and costs, and elimination or reduction of administrative. Public investments on infrastructure, to an extent in which are proved to be complementary to the private investments can increase the marginal product of the private physical capital thus augmenting the growth rate of a domestic economy.
Kenya being a developing country compliments ...