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The Impact of Fiscal Policy on Gross Domestic Product under Contributions of Level of External Debt in Developing Countries

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Abstract : This study investigates the fiscal policy impact on countries' economic growth in developing countries with a different external debt level. The fiscal policy effectiveness has been re-emphasized in the global financial crisis of 2008 with the external debt as its new contemporary driver (Ruščáková and Semančíková, 2016). According to Bouakez, (2014) different theories have proposed the economic consequence of fiscal policy, specifically for developing countries. However, fiscal policy literature is lacking research regarding the fiscal policy's effectiveness with the external debt's contributions through comprehensive study (Canh, 2018). Also, according to scholars, high levels of external debt will influence economic growth. First, through foreign resources and channel of investment in which high level of debt decreases the amount of foreign investment in the developing countries. Second, through the deterioration of foreign investors and fiscal policies related to a high level of debt (Cordella, et.al., 2010). Therefore, this study proposed that only countries with a low external debt level and appropriate fiscal policies and good quality institutions can gain the proper quantity and quality of foreign investors, which will help the economic growth. For this, this research is examining the impact of fiscal policy on developing countries' economic growth in the situation of different external debt levels.

Keywords : fiscal policy, external debt, gross domestic product, developing countries
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