GROWTH AND DEBT IN ANGOLA AT PROVINCIAL LEVEL

César Fernando REIS
Jelson SERAFIM

Abstract

This paper analyses GDP growth and public debt at the provincial level in Angola from 2004-2015, using a spatial model. First a SAC -Spatial autocorrelation model panel is estimated. Later, a robust test is adopted estimating the Hans-Philips linear spatial dynamic model. Finally, a spatial 3ls model is estimated taking into account the possibility endogeneity of regional spatial autocorrelation. The three models give similar results revealing that in Angola public expenditure increase GDP growth but debt decrease it.

Keywords: Angola provinces; spatial model; growth; debt.
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CONTENTS

INTRODUCTION .......................................................................................................................... 4
1. THE CONTEXTUAL SETTING ................................................................................................. 5
2. THE LITERATURE SURVEY .................................................................................................... 8
3. METHODOLOGY .................................................................................................................... 10
4. THEORETICAL BACKGROUND AND HYPOTHESES ............................................................ 11
5. DATA AND RESULTS ........................................................................................................... 12
6. DISCUSSION AND CONCLUSION ....................................................................................... 15
BIBLIOGRAPHY ......................................................................................................................... 16
INTRODUCTION

The relationship between growth and debt has attracted some research in past, (Eberhardt and Presbitero, 2015, Panizza and Presbitero, 2014, Kourtellos et al., 2013; Checherita-Westphal and Rother, 2012). This hypothesis has been tested for development countries and evidence from African countries restricted (Mistry, 1991; Ussain and Gunter, 2005; Mohamed, 2013; Owusu-Nantwi and Erickson, 2016). Reinhart and Rogoff (2010) find that growth rates fall in advanced and emerging market economies when the public debt-to-GDP ratio exceeds 90 percent and that high debt levels are correlated with higher inflation only in emerging markets. The Weak Government Hypothesis states that government fragmentation leads to higher public deficits and debt. This relation can be explained by government inaction, common pool problems or the strategic use of debt that arise in coalition governments (Ashworth, Geys and Heyndels, 2005). Therefore, this paper analyzes the relationship between debt and growth in Angola provinces from 2004-2015, using a spatial model. The spatial model is adequate in the present context as the focus are at regional level (Zhao, Tong and Qiao, 2002; chakravorty, 2003; Haddad, 2008; Barros, Faria and Araujo Jr., 2014) The SAC- Spatial autocorrelation model is adequate when the spatial autocorrelation is intense as it is in Angola context. The motivation for the present research is the following, first, growth at regional level is usually lower than at national level, revealing heterogeneity among Angola provinces that justifies the investigation between growth and debt. Second, regional public expenditure is taken into account since it is a component of the growth and debt. Third, regional public debt is not published in Angola and the access to it needs a ministry of finance accordance. This restricted access signifies that it is a political issue and therefore it may hide some political issues. Therefore, the use of it in and growth debt paper is curious. Additional, the Angola regional provinces are managed by MPLA- Movimento popular de Libertação de Angola members, the incumbent government, signifying that there is a centrality of power that increases the regional spatial correlation. Finally, a robust test is implemented
estimating two alternative models and investigating if the results do not change with the estimated model.

This paper is organized as follows. After this introduction, the contextual setting is described, followed by the literature survey. Then the methodology is presented followed by the theoretical background. Finally, the data and results are presented followed by the conclusion and discussion section.

1. THE CONTEXTUAL SETTING

The territory of the Republic of Angola is situated on the west coast of southern Africa, south of the equator, between the Parallels 4 and 18, being limited to North By Congo Brazzaville and Democratic Republic of Congo, East and For Zambia South Namibia and west hair Atlantic Ocean, still covering the Cabinda Province, located to the north, between the Congo- Brazzaville and the Democratic Republic of Congo. Angola was a formerly Portuguese colonial country that turn independent in 1975. Since then the country developed. The estimated population in 2014 was 24,498,000 inhabitants and an administrative political division comprises 18 provinces with 173 municipalities. From the physical point of view, two main features may characterize the Angolan economy, namely oil and diamonds. Furthermore, the greatness of resources offered by nature and extraordinary variety of conditions and possibilities. In fact, the extent of the territory is associated with enormous energy potential waterborne, a basement that although incompletely inventoried, already reveals realities and significant potential for economic exploitation, abundant fishery resources in nearby waters, favorable proportion of land with agricultural potential, the extraordinary variety of climates, soils, areas and regions susceptible to economic exploitation.
Table 1: Spatial Characteristics of Angola Provinces in 2015

<table>
<thead>
<tr>
<th>Unit</th>
<th>Province</th>
<th>Name of Capital</th>
<th>Area in km²</th>
<th>% of Population in 2015</th>
<th>Gdp per capita (Usd Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bengo</td>
<td>Kaxito</td>
<td>31,371</td>
<td>1.4</td>
<td>2.14E-05</td>
</tr>
<tr>
<td>2</td>
<td>Benguela</td>
<td>Benguela</td>
<td>31,788</td>
<td>8.4</td>
<td>4.87E-06</td>
</tr>
<tr>
<td>3</td>
<td>Bié</td>
<td>Kuito</td>
<td>70,314</td>
<td>5.5</td>
<td>7.75E-06</td>
</tr>
<tr>
<td>4</td>
<td>Cabinda</td>
<td>Cabinda</td>
<td>7,270</td>
<td>2.8</td>
<td>2.61E-05</td>
</tr>
<tr>
<td>5</td>
<td>Cuando Cubango</td>
<td>Menongue</td>
<td>199,049</td>
<td>2.1</td>
<td>2.49E-05</td>
</tr>
<tr>
<td>6</td>
<td>Kwanza-Norte</td>
<td>Ndalatando</td>
<td>24,190</td>
<td>1.8</td>
<td>9.52E-06</td>
</tr>
<tr>
<td>7</td>
<td>Kwanza-Sul</td>
<td>Sumbe</td>
<td>55,660</td>
<td>7.4</td>
<td>1.09E-05</td>
</tr>
<tr>
<td>8</td>
<td>Cunene</td>
<td>Ondjiva</td>
<td>89,342</td>
<td>4.0</td>
<td>1.61E-05</td>
</tr>
<tr>
<td>9</td>
<td>Huambo</td>
<td>Huambo</td>
<td>34,274</td>
<td>7.8</td>
<td>2.72E-06</td>
</tr>
<tr>
<td>10</td>
<td>Huila</td>
<td>Lubango</td>
<td>75,002</td>
<td>9.7</td>
<td>4.66E-06</td>
</tr>
<tr>
<td>11</td>
<td>Luanda</td>
<td>Luanda</td>
<td>2,418</td>
<td>26.7</td>
<td>1.32E-06</td>
</tr>
<tr>
<td>12</td>
<td>Lunda-Norte</td>
<td>Lucapa</td>
<td>102,783</td>
<td>3.3</td>
<td>1.50E-05</td>
</tr>
<tr>
<td>13</td>
<td>Lunda-Sul</td>
<td>Saurimo</td>
<td>45,649</td>
<td>2.1</td>
<td>1.15E-05</td>
</tr>
<tr>
<td>14</td>
<td>Malanje</td>
<td>Malanje</td>
<td>97,602</td>
<td>4.0</td>
<td>4.49E-06</td>
</tr>
<tr>
<td>15</td>
<td>Moxico</td>
<td>Luena</td>
<td>223,023</td>
<td>3.0</td>
<td>1.04E-05</td>
</tr>
<tr>
<td>16</td>
<td>Namibe</td>
<td>Namibe</td>
<td>57,091</td>
<td>1.9</td>
<td>2.87E-05</td>
</tr>
<tr>
<td>17</td>
<td>Uíge</td>
<td>Uíge</td>
<td>56,698</td>
<td>5.8</td>
<td>4.93E-06</td>
</tr>
<tr>
<td>18</td>
<td>Zaire</td>
<td>Mbanza-Congo</td>
<td>40,130</td>
<td>2.3</td>
<td>1.32E-04</td>
</tr>
</tbody>
</table>

Source: Angola Institute of Statistics
Luanda is the great Angolan city capital, exerting a polarizer devastating effect on the entire national territory and representing an inter-ethnic mosaic and unique cross-cultural in the country. The northern region, considering the provinces of Cabinda and Zaire, explores the current largest natural resource of the country and it is populated by a main ethnic groups (Bakongo ethic group in Zaire). The Central / Eastern region has the producing provinces of diamonds and electricity - two essential resources for their development and the country. The Central / West region can be considered as the great land reserve and the country's fisheries, it presents a huge and recognized potential for the deployment of a very strong agro-industrial sector to meet the needs of the domestic market and export. It can be seen as inter-ethnic area par excellence, since in her breast cohabit, at least eight of all existing ethnic groups in Angola. Finally, the South composed of only two provinces with similar capabilities and skills, but which highlights the Huila which has a great potential in Agriculture and cattle raising.

The Angolan economy has been recently hit hard by the sharp decline in international oil prices and the temporary reduction of production due to permanent lack of planning maintenance of oil fields and a prolonged drought. However, strong macroeconomic policies have helped to ensure an economic growth rate at national level of 4.5 % in 2014, down from 6.8 % recorded in 2013. During 2015/16, Angola continued to suffer the significant effects of lower oil prices. It is expected that the decline in oil prices lead to significant cuts in public spending with consequent slowdown of the GDP growth rate to 3.8% in 2015. However, it is expected that growth will pick up to 4.2 % in 2016.

Regarding Public debt, although public debt of Angola and external debt are growing, they remain sustainable with a low risk of debt. However, we anticipate a rise in the external debt level at national level (25% of GDP) and domestic debt (11.6 % of GDP) due to the need for larger loans to cover budget deficits set in the medium term. In this context, it is expected that the total public debt will reach 35.5 % in 2015 and to rise to 40.3 % in 2016. According to the latest available version of the Bulletin of the Public Debt of the Ministry of Finance, multilateral debt and bilateral represents about 62 % of the external debt, and commercial sources represent just fewer than 30%.
2. THE LITERATURE SURVEY

The literature about the debt-growth nexus focuses on several issues. Firstly, the negative relationship between growth and debt identified by the elder literature (Modigliani, 1961; Diamond, 1965; Blanchard, 1985). This result is supported by the fact that the debt has to be paid off either through future reductions in public spending or through distortionary taxation, with inevitable negative effects on growth. Therefore, in the long run, the effect of debt on growth is negative. The second question is whether the long-run relationship between growth and debt is the same in each country, or whether there are significant differences in the debt–growth nexus across countries (Temple, 1999). The conclusion is supported by different production characteristics makes this relationship specific to each country. The third issue is whether the relationship between debt and growth is a non-linear or a threshold relationship. This modeling element encourages the adoption of non-linear panel data models (Eberhardt and Presbitero, 2015) and threshold models (Kumar and Woo, 2010; Checherita-Westphal and Greenlaw et al., 2013). Recent publications on this topic include Eberhardt and Presbitero (2015), Panizza and Presbitero (2014), Kourtellos et al. (2013), Checherita-Westphal and Rother (2012) and Cordella et al. (2010).
## Table 2: Literature survey models and variables.

<table>
<thead>
<tr>
<th>Paper</th>
<th>Period</th>
<th>Country</th>
<th>Model</th>
<th>Endogenous variable</th>
<th>Exogenous variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eberhardt and Presbitero (2014)</td>
<td>2000-2013</td>
<td>Dynamic panel data of 118 countries</td>
<td>Unit root tests and homogenous and heterogeneous panel data model</td>
<td>Total public debt, long-run average coefficient calculated from ECM results,</td>
<td>GDP, population, capital stock, lagged total public debt, long-run average coefficient calculated from ECM results,</td>
</tr>
<tr>
<td>Checherita-Westphal and Rother (2012)</td>
<td>1970-2000</td>
<td>Panel data of countries</td>
<td>Fixed effects model and instrumental variable model</td>
<td>Annual growth rate</td>
<td>GDP per capita, public debt squared, public debt, savings, investment rate, gross capital formation, population growth, fiscal openness and interest rates</td>
</tr>
<tr>
<td>Cordella et al. (2010).</td>
<td>1970-2002</td>
<td>Panel data of 79 countries</td>
<td>Threshold regression</td>
<td>Growth rate in real GDP per capita</td>
<td>GDP per capita, population growth, trade growth, secondary school enrollment, government investment, government balance in terms of GDP, inflation, trade openness, stock of external debt to GDP, aid in terms of GDP, debt services, official resources, rule of law, legal origin, fractional ethnicity, distance from equator.</td>
</tr>
<tr>
<td>Owusu-Nantwi and Erickson (2016)</td>
<td>1970-2012</td>
<td>Ghana</td>
<td>Time series integer unit root tests, Cointegration and error correcting model</td>
<td>Real GDP growth rate</td>
<td>Government consumption as percentage of GDP. Government debt, investment as percentage of GDP, population growth sum of exports and imports as percentage of GDP</td>
</tr>
<tr>
<td>Frincke and Greiner (2015)</td>
<td>1990-2012</td>
<td>Eight countries: Brazil, India, Indonesia, Malaysia, Mexico, South Africa, Thailand and Turkey</td>
<td>Panel data random and fixed effects.</td>
<td>GDP per capita</td>
<td>Public debt divided by GDP, population, GDP per capita, inflation, trade, exchange rate</td>
</tr>
</tbody>
</table>
From this revision it is verified that the endogenous variable is GDP growth is the main endogenous variable, and some papers the GDP. The exogenous variables include debt and public expenditure and GDP per capita.

### 3. METHODOLOGY

The spatial regression model displayed below relates to the migration variable, with covariates explaining internal migration, based on the literature survey and taking into account the spatial dependence between the observation locations (Anselin, 1988). Therefore, in spatial models, the observations from one location tend to have similar values to those of nearby locations (LeSage, 2005). This paper adopts the panel data SAC panel – spatial autoregressive model, which has the following specification:

\[
Y_t = \rho W Y_t + x_t \beta + u_t + v_t
\]

\[
V = \lambda M v_t + \varepsilon_t
\]

This model combines the spatial model SAR - Spatial auto-regression model, proposed by Anselin (1988) with the spatial effect in the error term that is a (spillover effect) between the Angola provinces. The model used is a linear regression, with Y being the endogenous variable for measuring GDP growth at location I, in year t, and X is the vector of covariates. W is a spatial-weighting matrix which parameterizes the distance between neighborhood regions. W is the spatial lag of the error term, and M is the spatial lag of the covariates (Barros, Farias and Araujo Jr., 2012; Barros, Santos and Wake, 2016). Based on previous research (Barros, 2014), the random effects and fixed effects models are estimated, and a Hausman test selects the best fit. The random effects model signifies that all provinces are similar and homogenous. The fixed effects model signifies that there are specificities in Angola provinces. Furthermore, as a robust
test, an endogenous effect Hans-Philips linear spatial dynamic model allowing for
endogeneity is estimated with the following specification.

\[ Y_{it} = \rho Y_{it} + x_{it}\beta + \lambda Wy_{it} + v_{it} \]

\[ v_{it} = c_i + \rho Mu_{it} + \varepsilon_{it}, \quad i = 1, \ldots, N ; t = 1, \ldots, T \]

4. THEORETICAL BACKGROUND AND HYPOTHESES

The theoretical background of this paper is based on the macroeconomic theory
that relates GDP growth to debt. This theory is well-established and states that debt has
to be paid off through future reductions in public spending or through distortionary
taxation, with negative effects on growth. Therefore, although some initial growth may
be observed, it ends up being compensated by taxes in order to fund the increased
expenditure (Blanchard, 1985).

Hypothesis 1: (Persistence). GDP growth is a persistent activity in developing
countries (Panizza and Presbitero, 2014T). Hypothesis 1 states that the GDP lagged
effect is positive, which means that a positive spatial autocorrelation exists when high
values are correlated with high neighbouring values, based on the neighbour’s spatial
position, and over time, Kourtellos et al. (2013).

Hypothesis 2: (Trend). GDP growth over time should increase in an economy
dynamic. Hypothesis 2 states that the trend is for an increasing number of GDP over the
period.

Hypothesis 3: (Squared Trend). GDP growth over time should increase at a
decrease rate in an economy dynamic. Hypothesis 3 states that the square trend is for a
decreasing effect on GDP over the period.

Hypothesis 4: (Population). Population affect the GDP growth in any area.
Hypothesis 4 states that population positively affects Angola’s GDP, Eberhardt and
Presbitero (2014).
**Hypothesis 5**: (Public expenditure). Public expenditure affects the GDP growth positively because the higher the public expenditure the higher GDP, Cordella et al. (2010).

**Hypothesis 6**: (Public debt). Public debt affects the GDP growth negatively because the higher the public debt the higher taxes to pay it, Panizza and Presbitero (2014).

**Hypothesis 7**: (GDP per capita). GDP per capita affect the GDP growth positively because the higher the higher the old GDP per capita the higher the new GDP, Checherita-Westphal and Rother (2012).

**Hypothesis 8**: (Public employees). Public employees affect the GDP growth positively because the higher public employees the higher public expenditure and therefore the higher old GDP. Based on Wagner’s law (Wagner, 1911), it is possible that public employment in Angola and public expenditures are endogenous due to simultaneous reverse

### 5. DATA AND RESULTS

The data set was obtained from the Angola Statistical Institute and was supplemented with data from Angola public expenditure and public debt obtained in the ministry of finance, the equation to be estimated is as follows:

\[
GDP_{growthit} = constant_{it} + \beta_1 \log GDP_{it} + \beta_2 trend + \beta_3 Sq\_trend + \beta_4 \log Population_{it} + \beta_5 \log public\_expenditure_{it} + \beta_6 \log public\_debt_{it} + \beta_7 \log GDP\_per\_capita_{it} + \beta_8 \log public\_employees_{it}
\]

In spatial models, the first step is to observe if there are spatial correlations between the variables. The Global Moran’s I statistic is traditionally used to test spatial autocorrelation. In the present case, it is 1.0012 with a P-value >z (12.110) and statistically significant at 0.000, revealing that there are spatial autocorrelations

between the variables of Angola provinces (Anselin, 1988). These results enable us to accept that there is spatial autocorrelation present in the estimated models. Table 3 presents the characteristics of the variables.

Table 3: Characterization of the Variables: 2004-2014

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Min(^a)</th>
<th>Max(^b)</th>
<th>Mean</th>
<th>Std Dev(^c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log GDP growth</td>
<td>GDP growth in kwanzas at constant prices (2010=100)</td>
<td>-0.394</td>
<td>0.319</td>
<td>0.0248</td>
<td>0.105</td>
</tr>
<tr>
<td>Log GDP</td>
<td>Log of GDP in kwanzas at constant prices (2010=100)</td>
<td>91612</td>
<td>87412</td>
<td>0.250</td>
<td>0.412</td>
</tr>
<tr>
<td>Trend</td>
<td>Trend variable, 2004=1, 2015=12</td>
<td>1</td>
<td>12</td>
<td>6.5</td>
<td>3.460</td>
</tr>
<tr>
<td>Square trend</td>
<td>Square trend</td>
<td>1</td>
<td>144</td>
<td>54.16</td>
<td>46.20</td>
</tr>
<tr>
<td>Log population</td>
<td>Logarithm of population</td>
<td>2.375</td>
<td>4.194</td>
<td>2.815</td>
<td>0.510</td>
</tr>
<tr>
<td>Log public expenditure</td>
<td>Log of public expenditure at constant prices (2010=100)</td>
<td>2.742</td>
<td>16.113</td>
<td>5.221</td>
<td>4.645</td>
</tr>
<tr>
<td>Log public debt</td>
<td>Log of public debt at constant in millions of Kwanzas at constant prices(2010=100)</td>
<td>885</td>
<td>9859</td>
<td>8.98</td>
<td>1.77</td>
</tr>
<tr>
<td>Log GDP per capita</td>
<td>Log of GDP per capita at constant prices(2010=100)</td>
<td>2.42</td>
<td>5.127</td>
<td>5.78</td>
<td>0.215</td>
</tr>
<tr>
<td>Log public employees</td>
<td>Log of public employees</td>
<td>209</td>
<td>2450</td>
<td>2.268</td>
<td>0.069</td>
</tr>
</tbody>
</table>

\(^a\) Min – Minimum; \(^b\) Max – Maximum; \(^c\) Std Dev – Standard Deviation

Three models are estimated with the aim of describing the robustness of the results. Firstly, the traditional spatial model, the Spatial Auto-regression Model (SAC). Second, the spatial Hans-Pillips linear spatial dynamic model is used, which takes into account the dynamic trend in GDP. Finally, the 3SLS spatial model is adopted to investigate possible causes of endogeneity.
### Table 4: Estimation results of the Spatial model (endogenous variable: GDP growth rate)

<table>
<thead>
<tr>
<th></th>
<th>SAC Spatial auto-regression model (fixed effects)</th>
<th>Hans Phillips Dynamic Spatial Model</th>
<th>3SLS spatial model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.073 (3.833)</td>
<td>3.073 (3.833)</td>
<td>-2.1500* (0.308)</td>
</tr>
<tr>
<td>PIB lagged one period</td>
<td>0.793* (0.166)</td>
<td>0.793* (0.166)</td>
<td>0.0004 (0.0002)</td>
</tr>
<tr>
<td>w1y_logpib</td>
<td>0.0082 (0.008)</td>
<td>0.0082 (0.008)</td>
<td>-0.0004 (0.0000)</td>
</tr>
<tr>
<td>w1y_Time</td>
<td></td>
<td>0.000038 (0.0000)</td>
<td></td>
</tr>
<tr>
<td>Trend</td>
<td>0.212* (0.027)</td>
<td>0.264* (0.020)</td>
<td>0.2061* (0.0157)</td>
</tr>
<tr>
<td>Square trend</td>
<td>-0.010* (0.002)</td>
<td>-0.014* (0.001)</td>
<td>-0.008* (0.001)</td>
</tr>
<tr>
<td>Log population</td>
<td>10.033* (1.08)</td>
<td>0.651 (0.418)</td>
<td>0.3500** (0.187)</td>
</tr>
<tr>
<td>Log public expenditure</td>
<td>0.722* (0.079)</td>
<td>0.2104* (0.060)</td>
<td>0.06016 (0.034)</td>
</tr>
<tr>
<td>Log public debt</td>
<td>-0.042* (0.008)</td>
<td>-0.0191 (0.014)</td>
<td>-0.0508* (0.013)</td>
</tr>
<tr>
<td>Log GDP per capita</td>
<td>0.361* (0.037)</td>
<td>0.139* (0.024)</td>
<td>0.021 (0.016)</td>
</tr>
<tr>
<td>Log public employees</td>
<td>0.552* (0.437)</td>
<td>1.477 (1.680)</td>
<td>0.048 (0.183)</td>
</tr>
<tr>
<td>Sample size</td>
<td>216</td>
<td>216</td>
<td>216</td>
</tr>
<tr>
<td>Overall R²</td>
<td>0.9689</td>
<td>0.9124</td>
<td>0.9009</td>
</tr>
<tr>
<td>Rho value</td>
<td>7.359*</td>
<td>0.582</td>
<td>0.513</td>
</tr>
</tbody>
</table>
6. DISCUSSION AND CONCLUSION

This paper analyses the relationship between growth and public debt at the regional level for Angola. From a theoretical perspective, public expenditure and public debt do not increase GDP growth because the debt has to be paid off through future reductions in public spending or distortionary taxation, with negative effects on growth. However, in the context of Angola, the contrary result may appear. Based on the present research, it is shown that public expenditure increase GDP but public debt decrease GDP, validating previous research (Kumar and Woo, 2010; Checherita-Westphal and Greenlaw et al., 2013) with a spatial model and a focus on provinces, and not on countries. Furthermore, GDP per capita also increases GDP and public employees increase also.

This result enables to accept hypothesis namely Hypothesis 1 is accepted since spatial persistence is revealed in the spatial models estimated. Hypothesis 2 is also accepted since the trend increases GDP and hypothesis 3 is also accepted because square trend decreases GDP. Hypothesis 4 is also accepted because population increase GDP. The main hypothesis, hypothesis 5 is accepted since public expenditure increases GDP and hypothesis 6 is also accepted since public debt decrease GDP. Finally hypothesis 7 is accepted because GDP per capita increase GDP and hypothesis 8 is accepted as public employees increase GDP.

The policy implication of the present research is that Angola needs a regional GDP growth policy that enables the country to adequately use the public debt in period
of crisis at the regional level but to decrease it during periods of growth. With the regional economy being based on traditional agriculture. In this context public expenditure should controlled adequately. More research is needed to confirm these results.

BIBLIOGRAPHY


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