

Nexus Of External Debt Management And Economic Growth In Nigeria

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Abstract: Pairwise Granger causality was utilised to evaluate the relationship between Nigeria's economic progress and external debt management. The results linked Nigeria's economic progress to external debt management. The data show no correlation between LNGDP and LNTDS or LNDSP. No correlation exists between LNEXR and LNGDP. Additionally, LNCAP and LNGDP are unrelated. Since LNINFR and LNGDP are unrelated, external debt management does not affect Nigeria's economic development. Based on these findings, the study recommends using borrowed funds for projects that pay themselves off over time, using public debt for economic growth, negotiating debt contracts in a way that benefits both parties, focussing on domestic investment rather than debt, and distributing borrowed resources to the productive sector.

Keywords: Gross domestic product, Total debt stock, Debt servicing payment, Exchange rate, Gross fixed capital formation and Inflation rate

Introduction

Nwannebuikwe, Ike, and Onuka (2016) argue that this is critical since developing nations rely on foreign loans to boost their economies. Since the 1980s, some African nations have been heavily indebted and impoverished, with debts surpassing exports (Helleiner, 1989). The main reason is that African nations don't save enough to generate adequate cash to thrive (Aluko & Arowolo, 2010). Thus, borrowing becomes a viable option to augment domestic capital when savings, investments, and incomes are inadequate to satisfy development objectives (Aluko & Arowolo, 2010). Despite its initial benefits, borrowing may lead to high service expenses and mediocre investment returns. Debt supplements fiscal shortfalls, according to Agbemavor (2015). When government income doesn't meet expectations, expenditure doesn't happen. The government must borrow to solve this. Ogunmuyiwa (2010) also supported public debt by stating that tax income becomes insufficient for progress. The government must borrow to minimize macroeconomic instability by avoiding excessive money printing. Many variables impact whether domestic or foreign groups finance public debt, including government policies and funding needs. Since the home market may restrict the private sector, the government will borrow money to pay for public goods (Panizza, Federico & Jeromin, 2010). External debt is the total of non-residents' governmental and private loans that must be repaid in foreign currency, goods, or services (World Bank, 2015). Many governments prefer foreign debt to local borrowing, which crowds out the private sector and strains the domestic financial system. Domestic borrowing reduces capital flight and generates positive externalities in the local capital market (Nyawata, 2012; Atiyah & Malik, 2012; Panizza et al., 2010). Due to exchange rate volatility, governments may readily exploit currency mismatch vulnerabilities and other debt relief measures. Well-allocated foreign debt may stimulate economic development, however Ajayi (1991) showed that domestic monetary expansion and international price shocks drove foreign borrowings. Due to debt, some governments create debt management ministries to reduce its harmful effects. Government income in Nigeria is insufficient to fund all budget costs, hence the nation must use debt. Since 1971, when it took out a \$1 billion "giant loan" to finance budget shortfalls caused by falling oil income, Nigeria has relied on foreign borrowings (Aina, 2006). The government borrowed 28 million dollars from the World Bank to build a railway in 1958 and 13 million dollars to build a dam in Niger in 1964. Nigeria was declared a HIPC by the World Bank in 1992 owing to its high debt. Nigeria's foreign debt has also increased whereas other major African countries' have remained steady. The overall foreign debt stock surpassed 7 trillion naira in 2018, notwithstanding the 2006 debt forgiveness of 18 billion. (CBN, 2018). The rise was due to economically untenable initiatives, dwindling oil income, and other considerations. However, rising foreign debt hurts the whole economy. According to Audu (2004), foreign borrowing diminishes private investment and produces debt overhang, slowing economic growth. Adeniran, Azeez, and Aremu (2016) and Jebran, Ali, Hayat, and Iqbal (2016) report that a large amount of national revenue has gone to foreign debt, slowing economic growth. When foreign debt used to support development projects slows economic growth, it warrants inquiry. This research examines Nigeria's foreign debt's influence on economic development in light of the aforementioned. Inability to fulfill debt service payments on time and a lack of knowledge about the nature, complexity, scale, and management of a country's debt are more relevant indicators of slowing economic development than a big foreign debt stock (Were, 2001). Therefore, Nigeria's main problem is not its debt but the many circumstances that prevent it from paying it, such as corruption, the allocation of funding to projects that don't produce enough income, and so on. Foreign debt has increased GDP significantly. Debt, once a

development driver, becomes a severe obstacle when it becomes too high. This level requires research to address questions about the origins, processes, and effects of the borrowing issue on the economy and provide policy solutions. This research is based on this subject. Earlier academic studies on Nigeria have tackled the same subject, but they have significant flaws that this research aims to solve to improve results and policy recommendations. Festus and Saibu (2019) examined foreign debt without considering other fiscal instruments of income and spending (Dinca & Dinca, 2015). Akhanolu, Babajide, and Akinjare (2018), Adegboyega (2018), and Ademola, Tajudeen, and Adewumi (2018) have also found similar restrictions. Foreign debt is the product of macroeconomic variables like government income and expenditure, so a loss in revenue and an increase in spending immediately affect the choice to change the foreign debt stock. This research expands the issue of foreign debt to include government income and spending, which the previous publications did not include. Additionally, the Keynesian and Debt Overhang Hypotheses demonstrate the contradicting theoretical and empirical contributions to the literature on foreign borrowing and economic development. Festus and Saibu (2019), Pegkas (2018), and Jacobo and Jalile (2017) found different empirical results than Ferreira (2014), Adegboyega (2018), Sanchez-Juarez and Garcia-Almada (2016), and Govdeli (2019), which all suggest a positive relationship between external debt and economic performance. Thus, this study investigates the topic to provide policy suggestions. Foreign debt and economic growth have been studied extensively, and their conclusions are readily accessible. That's why we wanted to contribute to the literature on this topic. Researchers, investors, educated people, monetary policymakers, and authorities will profit from the study's results on foreign borrowing and other variables on economic growth. Therefore, the study will produce ideas that will enable Nigerians participating in the economy make better budgeting choices, advancing the economy. Academics, researchers, and scholars interested in this or similar fields will benefit from the study.

Literature Review

External debt sources include foreign lenders, international deposit banks, governments, and global financial institutions like the IMF. External debt management is when a country's leaders minimize its dependence on foreign borrowing and its negative impacts on investment, savings, and capital formation. Governments incur internal debt to lenders inside the nation and external debt to creditors outside. Government, corporations, and people may be debtors. The World Bank, IMF, private commercial banks, and foreign governments are owing money. Gross-liability numbers distort the proportion in nations like the UK, which has London as its financial hub (Compare with foreign investment net position). The base currency is unaffected by foreign debt. Public debt includes foreign and domestic debt (IMF, 2015).

Domestic and international debt are combined to determine the total debt stock. While both necessitate obtaining funds from the public or the government, the distinction is that domestic debt is accrued within the economy, whereas foreign debt is acquired from external sources. Foreign loans may alleviate the burden on local resources and promote economic growth and development, as per Ndubuisi (2017). Additionally, domestic debts facilitate the implementation of fiscal policy and promote rapid economic expansion. Kharusi and Ada (2018), among other scholars, have suggested that the aggregate amount of debt could potentially influence economic growth. A reasonable amount of debt is required to promote economic development and improvement. Nevertheless, an excessive amount of debt in a nation may result in liquidity issues and an overhang of debt, which could have a negative effect on its macroeconomics, particularly if it impedes domestic production (Kharusi & Ada, 2018).

A nation must pay debt service to repay its public debt. The debt arrangement sets repayment or service payments for a nation, which are usually withdrawn from its revenue, savings, or foreign reserves (Kharusi & Ada, 2018). Conventionally, debt repayment or service may hurt the borrowing nation's economy as a wealth drain (Ndubuisi, 2017). This is especially true for high service expenses. Debt servicing, unlike total debt, is a direct expenditure from production and a strain on economic growth.

The exchange rate shows the value of one currency vs another. The currency rate is a control variable in open economies because of its large influence on macroeconomic outcomes. Exchange rates impact trade flows and aggregate demand, which drives economic growth. According to Kyerereboah-Coleman and Agyire-Tettey (2008) and Al-Abri and Baghestani (2015), currency rates may effect international investment, local output, and economic development. According to Morina, Hysa, Ergün, Panait, and Voica (2020), currency rate changes generate business uncertainty, which hinders economic development.

Gross fixed capital, the economy's entire investment that might improve output, is a control variable in this study's empirical model. CAP may explain economic development, according to Ncanya and Makhenyane (2016), Bal, Dash, and Subhasish (2016), and Rani and Kumar (2019). CAP is thought to boost Nigeria's economy since gross capital creation boosts productivity.

In this situation, inflation measures price changes over the last year. This study does not explore how inflation affects GDP growth; inflation is the annual rise in the Consumer Price Index (CPI). Positive inflation, which lowers people's buying power, might hurt aggregate demand and economic development. The Phillips curve theory suggests economic growth and inflation are positively correlated. Prices rising may indicate that the economy is nearing its maximum production capacity relative to demand, which is a sign of growth.

This may boost a nation's production. The market value of a country's goods and services rises as its output grows, adjusted for inflation. Statisticians usually calculate real GDP growth as a percentage (IMF, 2015). Growth is typically calculated in real, inflation-adjusted terms to avoid misleading figures on manufactured goods pricing. National income accounting measures economic growth. This equation includes the pros and cons of assessing economic growth as the yearly percentage change in GDP.

The GDP-to-population ratio is used to measure national economic growth. The geometric annual growth rate of GDP from the start to the end of a period is its "rate of economic growth". This growth rate shows GDP's overall trend, excluding variations.

The Krugman (1988) and Alberto and Tabellini (1989) hypothesis, which defined debt overhang as the impact of public borrowing on investor decisions, had major implications for economic growth. The idea posits that the private sector expects the government to use its investments in the economy to repay public debt, reducing the advantages of a heavily indebted economy (Krugman, 1988). When a country's debt is too large, creditors may not recover (Alberto & Tabellini, 1989). Since tax money is needed to pay off debt, the government may tax profitable enterprises heavily, discouraging investment and slowing economic development (Krugman, 1988). According to Cerra, Meenakshi, and Saxena (2008), rising debt levels discourage investment and capital inflows and accelerate capital flight.

Krugman (1988) defined debt overhang as foreign loans worth less than their estimated repayment. This idea states that debt and interest payments change governmental spending and discourage investment, stifling economic progress. Outbound debt interest payments raise a country's budget deficit, reducing domestic savings and public funding for infrastructure and human capital expenditures (Clements, Bhattacharya & Nguyen, 2005). To conclude, borrowing may obscure the economy, making it almost hard to repay.

Africa supplied the basis for Baran (1954) and Rodney (1974)'s notion. The thesis rests on the fact that governments significantly indebted to other industrialised countries will always be indebted. The idea's supporters said that Africa's huge debt is caused by its dependence on wealthier countries' economy, which it doesn't control. Economic reliance exists when one country's development strongly depends on another's (Okewale, 2012). In international relations, governments operate to a certain point, then the developed countries expand and become independent, while the emerging economies imitate and stay reliant on them. Developing countries typically seek help from developed nations to emulate their growth and integrate into the global system. This is to catch up to independent nations. The government may not be able to pay expatriates in their currency. When developing countries borrow foreign currency from industrialised nations to fuel their overseas operations, their economic growth may be hampered. Todaro (2003) claims that affluent nations become wealthier while weaker nations struggle to integrate into the global system. Scholars believe reliance will remain due to inadequate institutional frameworks, technical expertise, resource inequality, corrupt leadership, and bad management (Momoh & Hundeyin, 1999). Poor nations suffer from internal crises, which make lending economies wealthy and impoverished ones worse. The reliance hypothesis explains why developing countries depend on outside influences for economic development and what makes them susceptible (Utomi, 2014).

Review of Empirical Studies revealed that Govdali (2019), Antoine, Stanislas, and Rollfe (2021) and Mathew and Adetayo (2022) found positive impact in their studies while Gashi (2020), Mabula and Mutasa (2019), Asafo, Matuka, and Dominic (2019), Al-Tamini and Jaradat (2019), Ekor, Orekoya, Musa, and Damisah (2021) and Festus and Saibu (2019) found negative relationship in their studies respectively. An extensive literary review revealed several problems in the book's empirical research. It's an error to ignore government expenditure and income, which alter with foreign debt levels.

Research Method

This study adapted a model which is established premised on changes made to the model used in the study carried out by Mathew and Adetayo (2022). The model which can be expressed mathematically in its original form as:

$$GDP = f(TDS, DSP, EXR, CAP, INFR, \mu) \dots \dots \dots (1)$$

This model can further be specified in econometric form as seen below:

$$GDP = B_0 + B_1TDS + B_2DSP + B_3EXR + B_4CAP + B_5INFR + \mu \dots (2)$$

Where;

GDP	=	Gross Domestic Product
TDS	=	Total Debt Stock
DSP	=	Debt Servicing Payment
EXR	=	Exchange Rate
CAP	=	Gross Fixed Capital Formation
INFR	=	Inflation Rate
μ	=	Error Term
B_0	=	Constant Parameter
$B_1 - B_5$	=	Coefficients of Regression

Data Analysis and Interpretation

This study employed a paired Granger causality test to assess Nigeria's economic performance and external debt management from 1986 to 2022. A research model showed that GDP, or gross domestic product, was the dependent variable, signifying economic expansion. However, total debt stock, debt service payment, exchange rate, gross fixed capital creation, and inflation rate explained it. This phase of the study simply examines the results and interpretation.

Granger Causality

Causality Result	Obs	F-Statistic	Prob.
LNTDS does not Granger Cause LNGDP	35	1.77119	0.1875
LNGDP does not Granger Cause LNTDS		3.02429	0.0636
LNDSP does not Granger Cause LNGDP	35	1.25251	0.3003
LNGDP does not Granger Cause LNDSP		2.78208	0.0779
LNEXR does not Granger Cause LNGDP	35	0.23125	0.7949
LNGDP does not Granger Cause LNEXR		0.55944	0.5774
LNCAP does not Granger Cause LNGDP	35	0.61912	0.5452
LNGDP does not Granger Cause LNCAP		0.16574	0.8480
LNINFR does not Granger Cause LNGDP	35	2.59281	0.0915
LNGDP does not Granger Cause LNINFR		2.43935	0.1043

Source: Eview 10 Output (2026)

The table above shows the causality test results for Nigeria's economic development and external debt management. The results suggest that Nigeria's economic performance depends on external debt management. The data show no correlation between LNGDP and LNTDS or LNDSP. No correlation exists between LNEXR and LNGDP. Additionally, LNCAP and LNGDP are unrelated. The lack of a link between LNINFR and LNGDP suggests that Nigeria's economic development is unconnected to its external debt management.

Discussion of Findings

The research seeks to establish a link between Nigeria's economic development and foreign debt management.

The ARDL long-run model found a positive but modest relationship between total debt stock and GDP. GDP and debt service payments had a modest negative association throughout the same period. The exchange rate and GDP correlated positively but somewhat over time. Inflation has a positive but modest long-term link with gross fixed capital creation and GDP. Paired Granger causality studies demonstrated that Nigeria's economic growth and external debt management are linked. The data show no correlation between LNGDP and LNTDS or LNDSP. No correlation exists between LNEXR and LNGDP. Additionally, LNCAP and LNGDP are unrelated. The absence of a link between LNINFR and LNGDP suggests that Nigeria's economic development is unconnected to its foreign debt management.

Conclusion and Recommendations

The report assessed Nigeria's economic performance and foreign debt management from 1986 until 2022. GDP, which represented economic growth, was the dependent variable, whereas TDS, DSP, EXR, CAP, and INFR were the explanatory factors. The research employed paired Granger causality to elucidate long-term variable relationships. Study ran from 1986 until 2022. A paired Granger causality analysis examined Nigeria's foreign debt management and economic growth. The data show no correlation between LNGDP and LNTDS or LNDSP. No correlation exists between LNEXR and LNGDP. Additionally, LNCAP and LNGDP are unrelated. Since LNINFR and LNGDP are unrelated, foreign debt management does not affect Nigeria's economic development. The study found that domestic investment drives economic growth better than debt, that public debts should be used for growth-promoting initiatives, that policymakers should negotiate debt contracts to achieve mutually beneficial outcomes, and that productive sectors should be prioritised when allocating debt resources.

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