ABRAHIM KONNEH

THE IMPACT OF EXTERNAL DEBT ON ECONOMIC GROWTH: CASE STUDY NIGERIA (1971-2020)

MSc. THESIS

JUNE, 2022

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ABRAHIM KONNEH

Supervisor

Assist Prof. Dr. Ahmed Samour

Vice Chairmen Banking and Finance Department.

Nicosia

JUNE, 2022

Approval

After a careful scrutiny of the thesis tittle "**THE IMPACT OF EXTERNAL DEBT ON ECONOMIC GROWTH: CASE STUDY NIGERIA (1971-2020),**" submitted by **ABRAHIM KONNEH**. It has met the unanimous consensus and in our combine opinion, it is fully adequate, in scope and in quality, as a thesis for the degree of Master Educational Sciences, and hereby recommended for approval and acceptance.

Examining Committee	Name-Surname	Signature
Head of the Committee:	Assoc. Prof. Dr. Turgut Tursoy	.....
Committee Member*:	Asst. Prof. Mehdi Seraj	.....
Supervisor:	Asst. Prof. Dr. Ahmed Samour	.....

Approved by the Head of the Department

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Assoc. Prof. Dr. Turgut Tursoy

Head of Department

Approved by the Institute of Graduate Studies

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NEAR EAST UNIVERSITY INSTITUTE OF GRADUATE STUDIES 1988

Prof. Dr. Kemal Hüsnü Can Başer

Head of the Institute

Declaration

I hereby declare that all information which is being presented in this thesis entitled “The Impact of External Debt on economic growth: Case Study Nigeria (1971-2020)” was collected, analyzed, tailored in accordance with all academic rules and ethical guidelines the Institute of Graduate School, Near East University. I also declare that all additional materials used in the preparation of this thesis are fully cited, acknowledge and reference to the best of my ability.

ABRAHIM KONNEH

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Abstracts

This research investigates the impact of external debt on Economic growth of Nigeria between the period 1971-2020 in which GDP Growth is used as a proxy for economic growth. Econometric tools ARDL and Pairwise Granger Causality Test was used as a means of examining the relationship between external debt and Economic growth of Nigeria. Stationarity test was first carried out to ascertain the stationarity of the variables used in this research which is a prerequisite to most research. The application of the unit root results reveal that the variables used in this research are all integrated of order (I) or first difference, since stationarity couldn't be attained at their levels. The 1%, 5% and 10 level of significance was used as a metrics to determine the significance level. The application of the ARDL Bond test reveal that there is long run relationship between external debt and economic growth of Nigeria, by extension, the short-run result reveal that there is a positive relationship between external debt and economic growth. A percentage increase in external debt will lead to a proportionate increase in economic growth of Nigeria, while the long-run result revealed contrary. In the long-run, an increase in external debt will lead to a proportionate decrease in economic growth of Nigeria. Debt service payment result reveled an inverse relationship, the higher a government of Nigeria increase their debt service, the more it will lead to deteriorating economic growth of Nigeria. The result from the Granger causality test revealed that there is no causality between external debt and economic growth of Nigeria.

Keywords: External Debt, Bond Test, Debt Service, Economic Growth

Özet

Bu araştırma, GSYİH Büyümesinin ekonomik büyüme için bir vekil olarak kullanıldığı 1971-2020 döneminde Nijerya'nın ekonomik büyümesi üzerindeki dış borcun etkisini araştırmaktadır. Ekonometrik araçlar ARDL ve Çift Yönlü Granger Nedensellik Testi, Nijerya'nın dış borcu ile ekonomik büyümesi arasındaki ilişkiyi inceleme aracı olarak kullanılmıştır. Durağanlık testi, çoğu araştırmanın ön koşulu olan bu araştırmada kullanılan değişkenlerin durağanlığını tespit etmek için ilk olarak yapılmıştır. Birim kök sonuçlarının uygulanması, bu araştırmada kullanılan değişkenlerin hepsinin düzeylerinde durağanlık sağlanamadığı için (I) mertebesinden veya birinci farktan bütünleşik olduklarını ortaya koymaktadır. Anlamlılık düzeyini belirlemek için metrik olarak %1, %5 ve 10 anlamlılık düzeyi kullanılmıştır. ARDL Tahvil testinin uygulanması Nijerya'nın dış borcu ile ekonomik büyümesi arasında uzun dönemli bir ilişki olduğunu, buna paralel olarak kısa dönemli sonuç dış borç ile ekonomik büyüme arasında pozitif bir ilişki olduğunu ortaya koymaktadır. Dış borçtaki yüzde bir artış, Nijerya'nın ekonomik büyümesinde orantılı bir artışa yol açarken, uzun vadeli sonuç bunun aksini ortaya koydu. Uzun vadede, dış borçtaki bir artış, Nijerya'nın ekonomik büyümesinde orantılı bir düşüşe yol açacaktır. Borç servisi ödeme sonucu ters bir ilişkiyi ortaya çıkardı, Nijerya hükümeti borç servisini ne kadar yüksek arttırırsa, Nijerya'nın ekonomik büyümesinin bozulmasına o kadar yol açacaktır. Granger nedensellik testi sonucu, Nijerya'nın dış borcu ile ekonomik büyümesi arasında nedensellik olmadığını ortaya koymuştur.

Anahtar Kelimeler: Dış Borç, Tahvil Testi, Borç Servisi, Ekonomik Büyüme

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Abbreviations

GDP: Growth Domestic Products

IMF: International Monetary Fund

ARDL: Autoregressive distributed Lag

LDCs: Least Developed Countries

ADF: Augmented Dickey-Fuller

DMO: The Debt Management Office

EXDST: External Debt Total

RIR: Real Interest Rate

TR: Total Reserve

DSED: Debt Service on External Debt

CBN: Central Bank of Nigeria

FMF: Ministry of Finance

BOP: Balance of Payment

CHAPTER I

Introduction

Governments, without a doubt, engages in borrowing to bridge its fiscal gaps between anticipated expenditure and its revenue collection each year. If the government of a country do not want to ruin the stability of its macroeconomic structures, by the print of new money while its revenue and taxing capacity is low, the sole option for providing social responsibilities to citizens is by lending cash. Nations, especially developing nations borrow primarily to create public goods and by extension, to improve public welfare and stimulate economic development. Debt may be preferable to taxes or money creation which falls under the monetary arms of a government. Firstly, debt promotes tilting by enabling a nation to explore long-term investments in a fairer way. Secondly, by smoothing out the process of implementing counter-cyclical policies or addressing emergency expenditure demands, a more efficient approach is accomplished. Frequent tax changes may result in inefficiency and economic instability. Thirdly, benefit of external debt over taxes is its stability. However, the obligation to repay the debt must be met. Money obtained by borrowing is essentially just deferred payment of taxes. As a direct consequence of this, both the expenditure of money and the returns relative to borrowing costs become critical. Infrastructure investment by the government has the potential to accelerate growth and socioeconomic development. Ariyo (1996), Adams and Bankole (2000), and Iyoha (2000) combine couldn't find a pathway to which debt may promote development in Nigeria. Therefore, this research is directed towards the establishment of the impart of external debt on the growth, prospects and development of Nigeria, and how they are beneficial in spurring economic growth and development, how can emerging economies like Nigeria be imparted when it comes to economic growth, therefore,

using Nigeria as a case study, the research aims to figure out if external debt can help Nigeria and other developing countries alike flourished. The reason for external debt in a country, particularly developing countries and Nigeria is no exception is due to the lack of sufficient internal financial resources, necessitating the need for international aid. When loans are used to spur economic growth and eradicate poverty, they have no effect on the economy, even if they skew economic incentives or cause large negative shocks. Because of this, GDP is expected to rise, allowing for prompt repayment of the debt. Growth has a favorable effect on per capita income, which is essential for reducing poverty when it is sustained over time. Borrowing money for macroeconomic reasons (increased investment and consumption, for example in education and health) or to finance a temporary balance of payment deficit, lower nominal interest rates abroad, compensate for a lack of domestic long-term credit, or overcome short-term budget constraints is the most common reason, according to Soludo. This may also be done in order to lower nominal interest rates domestically (2003). According to Omoleye, Sharma, Ngusam, and Ezeonu (2006), one of the most severely indebted nations on the African continent is Nigeria (2006). Theories that are based on the more realistic premise that governments would be unable to borrow freely due to the risk of debt denial have also been found to be correct in their projections. These theories have revealed that the risk of debt denial will be a significant factor. This is due to the possibility of debt cancellation. Debt servicing has eaten up a large portion of the nation's hard-earned money (foreign earnings) this year, causing the economy to stall. When foreign revenues were spent, this resulted in this. As a consequence, the study's title implies that Economic growth in Nigeria is linked to the country's foreign debt. However, the Nigerian economy is currently experiencing historic debt issues. The size of the debt and its negative consequences have been a

source of concern for the government. The problem of Nigerian debt will not be overstated. Debt is evidently a multifaceted, interconnected issue. Even though the government's ongoing efforts to manage foreign debt by implementing a variety of metrics like the debt scheduling, debt restructuring, debt consolidation, debt exchange, debt equity, debt cancellation, and/or debt forgiveness are all examples of debt restructurings, and so on, there are still a few unsolved concerns that must be addressed. The issue of current account was deemed usual for three decades beginning in the 1950s. To improve their economic growth, many nations were convinced to lend money from international organizations and developed nations established in an atmosphere that was favorable to international investment. The liabilities side of the current account deficit got little attention during this time period, which led to a significant rise in the amount of foreign debt held by these countries. As a consequence of this, the current account deficit was widening. There are several reasons why governments take on debt from foreign sources, some of which include the fact that their income is low, the fact that they have a budget deficit, or the fact that they do not invest enough of their money. There is no assurance that being indebted to other people would result in negative consequences. However, a significant quantity of external debt does not always indicate that economic growth is occurring at a sluggish rate. Gohar et al (2012). The inability of many African nations to meet their current debt commitments is made worse by the fact that many African governments do not have sufficient information on the nature, terms of payment, and amount of their foreign debt to be paid and its implications. This information gap contributes to the inability of many African nations to meet their current debt commitments. Repayment, often known as "debt servicing," is a source of difficulties for many governments, especially developing ones. This is due to the fact that a loan must be serviced for an amount that

is more than the initial amount that it was taken out for Gohar et al (2012). A nation may be able to increase the amount of goods and services it exports to the point where it generates the amount of money required to cover the higher levels of imports that rapid economic expansion causes while still being able to make payments on a substantial amount of debt. This would allow the nation to cover the higher levels of imports while still being able to make payments on the substantial amount of debt it owes. It is also feasible that it will be able to obtain the required foreign currency by taking on more debt. This is something that remains a possibility. However, the term "solvency" implies that this is a process that cannot go on indefinitely, thus it is prudent to bearing in mind that this is a limitation (Williamson 1996). The majority of countries that are categorized as HIPCs, “which stands for highly indebted poor countries,” suffer not only with solvency issues but also with liquidity problems. HIPC stands for “highly indebted poor countries.” It is a generally acknowledged fact that severely indebted nations, in particular those that are located in Sub-Saharan Africa (SSA), require debt relief programs that are more comprehensive than simple rescheduling in order for them to be able to improve their economic performance and make progress in the fight against poverty. This is because simple rescheduling is not enough to alleviate the burden of debt that severely indebted nations are burdened with. The realization that this was in fact the situation seems to have been the motivation for the international community to pursue 'deeper, broader, and speedier' reductions in foreign debt in the shape of the HIPC debt endeavor in the late 1990s. The capacity to transform resources into improved chances for the underserved was a need for eligibility. This requirement was satisfied by having a solid track record of reforms, the execution of successful policies, and the ability to do so (IMF 2001a and IMF 2001b). At the end of June 2001, a total of US$ 34 billion in debt relief had been

granted to 23 nations, 19 of which were located in Africa (IMF 2001b). In spite of this, there are still concerns over the capability of the plan to reduce Africa's tremendous debt problems. Despite the fact that it has a rather high level of foreign debt, Nigeria has not been included in the list of countries that would benefit from this. According to the International Monetary Fund (IMF) (2001a), Kenya is anticipated to attain sustainable debt levels without explicit help from the initiative; but, given the country's present economic situation, it seems unlikely that this will occur. The nation's economic performance is decreasing, in spite of the fact that the country continues to deal with high levels of poverty (56 percent of the population lives in poverty). For the first time since the nation gained its independence, the gross domestic product (GDP) of the country expanded at a negative rate of 0.3 percent in the year 2000. It is more probable that Kenya was excluded from the HIPC debt initiative because of the country's poor track record of economic reforms and performance than because of Kenya's inability to reach sustainable levels of foreign debt. Indicators of Kenya's foreign debt, such as its debt-to-GDP and debt-to-exports ratios, have increased from 38.5 percent and 121.1 percent, respectively, in the 1970s and 1980s, to 89.2 percent and 268.2 percent in the decade between 1991 and 1999. Meanwhile, significant net withdrawals have been made to service debt obligations since 1991. These withdrawals began in 1991. This lends credence to the idea that 2 is correct. Kenya has been making more payments than it gets, which has resulted in a decrease in the amount of money that is available for domestic growth. Concurrently, the options available to the government for co-financing development activities via domestic debt are limited. However, domestic debt only accounts for roughly a third of total formal debt, while being around 10 times more costly than foreign debt (GoK, 1997). This research investigates the nature of Kenya's foreign indebtedness as well as its implications on

economic development in light of the present economic situation as well as the progress that has been made in trying to provide relief.

Statement of the Problem

One of the most critical issues that emerging countries like Nigeria are presently fighting against is the problem of their increasing foreign debt. According to Gohar et al. (2012), the repayment, often known as "debt servicing," presents issues for many states, especially emerging nations or countries. This is owing to the fact that the amount of a debt that needs to be paid is larger than the initial amount that the loan was taken out for. Large debt service payments, as a result, create a variety of limits on the economic prospects of a country because of the various ramifications that this has. It either depletes the limited resources that are available or restricts the financial resources that are available for addressing the internal development needs of these countries. According to Benedict et al. (2003), they claimed that foreign borrowing had a favorable influence on investment and development of a nation up to a threshold level. However, they also highlighted that external debt servicing might possibly harm growth since the bulk of the cash would go toward the repayment of the loan rather than the investments. In addition, Fosu (2009) observed that repaying debt diverts investment away from the social sector, which includes health care and educational institutions. This indicates that the objective of acquiring debt is to pursue progress rather than to be depressed by the payments necessary to service the loan. This is because the majority of resources are consumed by the payments necessary to service the debt rather for development. As a result of this, huge public expenditures, big interest payments on external debt, and substantial outlays of foreign currency to service that debt all present enormous hurdles to the economic progress of a country.

The World Development Indicators (WDI-2011) indicated that impoverished nations suffered more from the weight of foreign debt and the burden of servicing that debt than industrialized countries and countries that are members of the Organization for Economic Co-operation and Development (OECD) (OECD). Countries like the United States of America (USA), the United Kingdom (UK), and Japan, for instance, did not make a single payment on their debts between the years 1990 and 2010. In conclusion, it would appear that the act of repaying debt is more detrimental than the act of borrowing itself, especially in nations that are still expanding rather than those that are been established, and this conclusion is confirmed by the evidence that was mentioned previously.

Purpose of the Study

Developing nation first alternative when it comes to covering for its deficit is borrowing, and Nigeria is no exception. Developing nations are heavily reliant on external sources to fund their deficits. Examining why the external debt crisis arose will be useful in reviewing the crisis. Why should a country, or even a single person, borrow money? Lending and borrowing money have been an economic activity that can today be regarded as an intrinsic aspect of human activity since time immemorial. Only credible people have access to credit facilities because money can only be lent if one's character is excellent. In reality, if properly handled, borrowed funds can aid a country's rapid development. With approximately $32 billion in debt payment costs incurred between 1985 and 2001, According to the information provided by the Debt Management Office, the external debt profile of Nigeria has been a source of concern for everyone (DM0, 2006). There was apparently no real economic development despite the country's enormous debt burden, since the country's GDP per capita was

less than $5. Even though Despite the fact that Nigeria received debt relief in 2005 and 2006, the country's fundamental infrastructure is still in a deplorable state, and an average of 66 percent of the population lives in poverty. This raises questions about the relevance of Nigeria's external debt and the benefits it brings to the country's economy. As a consequence of this, debt overhang models suggested that enormous debt inventories have an impact on economic development and poverty. Inevitably, reducing the burden of debt should lead to an increase in economic activity; this will stimulate investment and increase per capita income, both of which are necessary for the elimination of poverty. Is it possible to say this is true in the context of Nigeria? Were macroeconomic shocks, policy distortions, or large unfavorable shocks a factor in causing this relief? Solus (2003) claims that the nation was in a debt-laffer-curve inversion prior to relief, with debt preventing investment, and growth. In spite of the respite, what may be preventing Nigeria from attracting additional investment and development, hence pushing the country's government further into debt? When looking at the influence impact of foreign debt on the expansion of the Nigerian economy, in this context, external debt stock total, debt service on external debt, real interest rate, and total reserve are used as control variables in this study. The fact that most African countries have created a debt problem indicates that something is seriously wrong, not only with debt management, but also with current lending practices. Therefore, the sole rational of this intervention is to examine the impart impact of Nigeria's foreign debt on the country's economic development from the period 1971-2020. The impact it has on the living condition of its people. What is the extend of a huge debt burden, does it extend to the generation to come?

Research Question

The answer to the following question will form the basis of this inquiry:

1. This question focuses on how the country's enormous debt service payments affect various aspects of Nigeria's economy, including the living standards of its people; employment growth; imports; savings; and exports.
2. What exactly is the structure, what are the origins, and what are consequences of Nigeria's foreign debt?
3. What kind of realistic benchmarks are being applied to the problem of Nigeria's mounting debt?
4. The manner in which the external debt management has carried out its duties in managing Nigeria's foreign debt.
5. As to what ways has Nigeria's Debt Management Strategy (DMS), 2020-2023, been modified recently?

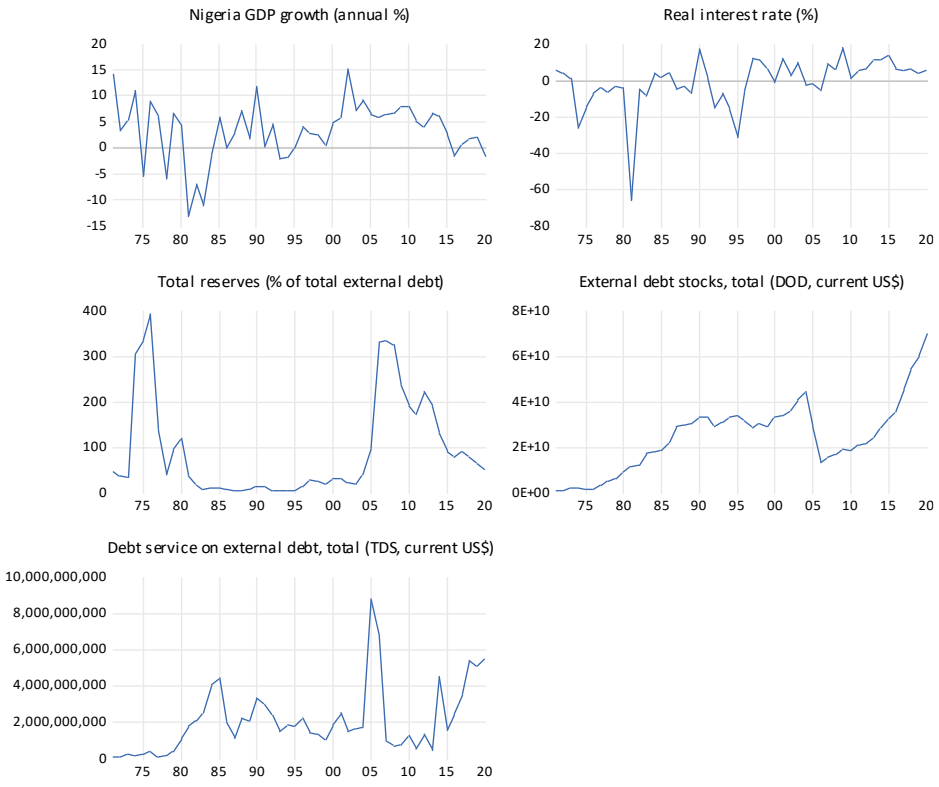


Figure 1.1 Nigeria's economy from (1971-2020)

Source: World Development Indicators (WDI) database.

Figure 1.1 Is an illustration of Nigeria's Economy from the period of 1971-2020 on vital economic determinant such as debt servicing on GDP growth, the effect of external debt of a country's GDP growth, total, real interest rate, external debt stock, total, total reserve.

This research outlines several significant contributing factors to the economic growth of Nigeria over the course of its history, with a specific emphasis on external debt. This study's results will be utilized to guide future research. Depending on the viewpoint utilized, the issue is to ascertain how external debt impart the economic development of Nigeria.

Significance of the Study

External debt comes about through the covering or the process of mitigating the issue of current account deficit in the balance of payment (BOP) or to further developmental agenda. The developmental agenda of a country like Nigeria can also be accelerated by the used of external debt, but when it is miss applicated, problem arises. What leads to developing nations like Nigeria heavily involvement in external borrowing, despite the possession of huge economic resources found within its sub-regions? External borrowing is said to be effective and productive only if it's used for the intended purposes, otherwise it will be another burden that is left for the generation to come. The findings of this research will give policy recommendation to the leaders of Nigeria in term of the use of external borrowing and its repayment, since external debt is easily mis-applicated by most African nations. This initiative will uncover the impact of external debt on economic growth and development of Nigeria and by how

much extend the debt has on the livelihood of its citizenry, and subsequently make policy recommendation for debt servicing and repayment of debts.

Statement of the Hypothesis

For the purposes of this investigation, two hypotheses are developed as follows: There is no major impact of Nigeria's external debt on the country's growth and progress. Nigeria's economic progress is unaffected by the payment of servicing the debt, external entity, or interest rates (Ho). Acceptance of the alternative hypothesis is a result of rejecting a null hypothesis. Where: "Ho" stands for "No Hypothesis."

The Debt-Growth Nexus

It is a common practice to attribute debt-related research for developing nations to global events that took place in the 1970s and 1980s, such as oil price shocks, high interest rates, and recessions in wealthier countries, followed by a decline in the pricing of major commodities. This line of thinking is supported by the fact that this was the time period in which the research was conducted (IMF 2000). Several studies that have been conducted in the past and made public have summed up these elements, and The following are examples of what they are, however the list is not exhaustive: (1) exogenous factors, such as shocks to unfavorable terms of trade; (2) the absence of sustained adjustment policies, particularly when confronted with exogenous shocks, which resulted in significant financing needs and failed to strengthen the capacity to service debt; this includes, in most cases, insufficient progress with structural reform that would promote sustainable growth of output; and (3) the combination of the first and second factors, which led to significant financing needs and failed to strengthen

the capacity to service debt. And (3) the government's inability to implement policies that would have prevented or mitigated the effects of the exogenous factors. Developing nations are confronted with an ever-increasing burden of debt, which, regardless of the circumstances that led to the unusual jump in the amount of debt, is a significant impediment to the economic performance of these nations and poses a serious challenge to their ability to meet their financial obligations. Some of the world's poorest nations are increasingly relying on further borrowing only for the purpose of servicing their existing obligations (IMF 2000). (IMF 2000). There is a widespread presumption that a substantial debt load, often referred to as a debt overhang, has a negative influence on economic development. This presumption is one of the key factors driving the current push for debt reduction (Serieux and Samy 2001). The "debt-overhang hypothesis," which has garnered a great deal of attention and analysis, proposes that a significant level of debt discourages private investment owing concerns about future taxes or challenges related to debt. This idea has gotten a great deal of attention and investigation (Krugman, 1987 and 1988). This leads to a decrease in investment expenditure, which, in turn, slows down the development of the total economy. The cycle continues with additional decreases in investment, a rise in the debt-income ratio, and a strengthening of the disincentive impact after an economic slump has occurred; all three factors, taken together, contribute to economic stagnation. The crowding-out effect that heavy debt may have can also be a barrier to progress. It is possible that the expenses of servicing the public debt may drown out investments in public infrastructure, which in turn affects total investment both directly and indirectly via a fall in private expenditure that would otherwise complement public spending (Diaz-Alejandro 1981). It is also possible that it will lower the productivity of investments as a result of the lost externalities that come from some investments of

many kinds made by the government, such as those in the creation of physical infrastructure (Serieux and Samy 2001). (Serieux and Samy 2001). [Citation needed] Panel data regression was used by Boone (1994 and 1996) to demonstrate that conventional neoclassical growth models do not account for the impact of foreign assistance on either investment or growth. The results from each of this research were published in scholarly journals. On the other hand, a number of different theoretical models predict that even very low levels of new loan inflows will have a beneficial impact on GDP. This is the consensus among economists. This is the true regardless of whether or not the inflows are, in absolute terms, a negative number. The vast majority of neoclassical models identify capital mobility—also known as a nation's capacity to borrow money and lend it out—as a primary factor in transitional development. Capital mobility is sometimes referred to as the ability of a nation to borrow money and lend it out. Because the marginal product of capital is greater than the global interest rate, nations that are short on capital have an incentive to take out loans and undertake investments. This is because the marginal product of capital is higher than the world interest rate. Eaton (1993) builds upon the work of Uzawa and Lucas by extending their model to demonstrate that a rise in the cost of foreign capital that results in a reduction in the amount of money borrowed from abroad would result in slower long-term development. Burnside and Dollar (2000) provide empirical evidence that demonstrates that growth driven by exports can only be accomplished in well-crafted policy situations. On the other hand, Hadjimichael et al. (1995) and Lensink and White (1999) “discovered that aid flows had positive but declining marginal returns.” In light of the absence of any data that can be considered conclusive regarding the connection between international aid and economic growth, the

following sections will make use of two additional research approaches to further investigate the nature of this connection across a wide range of developing countries.

Limitations

This study is limited in such that, despite the high sample size, it covers mostly period that has a limited power of predictability or which might not be applicable because of its long period. Since research is based on data collected from the past as well as from existing research work that have been carried out. This research has not been carried out sufficiently in the sub-Sahara African region, particularly Nigeria. Therefore, there isn't enough related research that covers the topic of the foreign repayments effect on Nigeria's economic growth development. According to few research, those influence of foreign debt on economic growth seems to be inconclusive. Because of this, the findings of this study may not apply to all Nigerians, a significant weakness of this study. This research is organized and tailored in the following sequence: The first chapter that is presented is an introduction that provides a summary of the background material pertaining to the research that was done for the study. This chapter also contains a description of the study, a research question, a representation of Nigeria's economy from 1971 to 2020 in graphical form, and a statement of the hypothesis that will be examine in order to produce finding that is in accordance with this research aims and objectives. Additionally, it provides a description of the study's overall structure as well as its organizational framework, in addition to its scope, importance, objective, research questions, and limitations.

In chapter two, we cover the fluid sequence that is the literature review, with a focus on previous research as it pertains to the foreign debt and its influence on the economy

of the country in question Nigeria, as well as other regions throughout the globe. This chapter is where we will learn about the nexus, as well as the gap that exists between our study and other research that has been done.

The third section focuses on the facts and data that were collected in order to examine the link between Nigeria's foreign debt and the country's overall increase in GDP. Discussion takes place addressing the information of the data, their sources, and the study time for this research. This section also discusses the sample design, the statistical and econometric techniques that were used in carrying out this research, as well as the research aim or model specification, all of those are essential to having an adequate understanding of the study in review.

Conclusions and discussion will be the focus of the fourth chapter's objective, and in this section, we will delve more deeply into the implications of the data and the findings from the previous chapter.

The conclusion and recommendations, as well as, by extension, policy recommendations, are summed up in chapter five. These will serve as working tools for the decision-makers in Nigeria's policymaking process.

The last chapter, which will be called chapter five, will concentrate on the references that were employed in our previous work; it is in this section that all of the citations that were used in our investigation will be recorded. This part will provide a detailed reference of the citing that was utilized in this study, as well as a biographical list of those cited.

Definition of Terms

1. External debt stock total- The amount of a nation's total debt that is owing to creditors situated in other countries is referred to as that nation's external debt, and it is one of the components that makes up a nation's overall debt. These creditors may be commercial banks, national governments, or international financial organizations such as the International Monetary Fund or the World Bank. Commercial banks are the most common kind of creditor. Most of the time, the interest that has collected on these loans has to be paid back in the same currency that the loans were first granted in.

2. Gross Domestic Product- GDP stands for gross domestic product and refers to the total financial worth or sale price of all completed products produced within the boundaries of a nation during a specified time frame. Due to the fact that it is a broad measure of total domestic output, it may act as an all-encompassing indicator of how an economy is doing as a whole.

3. Debt service on external debt stock- The total debt service is an amount equal to the sum of the following: principal repayments and interest on long-term debt paid in currency, goods, or services; interest on short-term debt paid in money, goods, or services; and repayments to the International Monetary Fund (IMF) paid in currency, commodities, or services (IMF). In other words, the total debt service equals the sum of all of these payments (repurchases and levies). The term takes up a fair amount of space. The overall cost of repaying debt in relation to the country's primary exports of products and services as well as its major source of income.

4. Interest rate- An interest rate is the amount of money that must be paid at the end of each month and is stated as a percentage of the principle that was loaned, deposited, or borrowed (called the principal sum). The sum of interest that must be paid back on

a loan or a loan is determined by the principal amount, the interest rate, the frequency with which interest is compounded, and the duration of time over which the money is loaned, borrowed, or deposited.

5. Total Reserve- Total reserves are gold used as currency, specific drawing rights, reserves of IMF (International Monetary Fund) members kept by the IMF, and foreign exchange or currency that is subject to the control of monetary authorities make up total reserves**.**

6. Balance of Payment- Balance of payments is a term used to describe the sum of all payments made by one country to other countries within a certain time period, such as a quarter or an entire year. All transactions inside a nation and transactions between people, corporations, and government agencies in other countries are outlined.

CHAPTER II

Literature Review

Introduction

Since 1992, World Bank has classified Nigeria as a significantly indebted low-income nation, along with the bulk of the other LDCs. The fact that the nation has not been able to keep up with all of its debt service obligations is one of the most significant obstacles standing in the way of the flow of external resources into the economy. In as much as the government has been making payments on its foreign debt on a yearly basis, a decrease in the debt stock has not been possible due to the accumulation of debt service arrears, which has been exacerbated by the accrual of penalty interest. As a consequence of this, attempts are made in this section to examine significant literature on the topic in order to decide whether or not it is applicable to the situation in Nigeria. It should come as no surprise that national governments need some amount of money from outside in order to successfully enable economic growth and development via the expansion of local capacity. To get the right amount of growth-inducing external finance, it is essential to first determine the ideal debt-to-GDP ratio, which may be found by dividing total debt by GDP. This ratio is used to determine whether or not a nation is able to meet its obligations to service its debt. It's possible that an inadequate amount of money borrowed from outside may stymie progress. Either the process of growth will be slowed down or it will have a negative influence on growth. According to Pattillo et al (2002), growth may be projected to increase with reasonable quantities of external debt that help support productive investment; yet, above a certain threshold, more borrowing may hinder growth. It is a significant obstacle for a large number of developing nations, particularly those in sub-Saharan Africa, that they are unable to determine the level of external debt that is

compatible with further economic growth. This is a problem because being able to determine this level is necessary for maintaining a stable economic environment. In the academic literature, there is a substantial body of evidence that supports the idea that, in the short-run, external debt can assist or boost the economies of developing countries in increasing their endowments or taking advantage of additional investment opportunities without forgoing consumption smoothing, and in the long-run, it can assist developing countries in undertaking long-term investments without compromising current for future consumption. This idea is supported by the fact that there is a substantial body of evidence that supports the idea that, in the long-run, it can assist This view is reinforced by the fact that, in the short-run, foreign debt may aid or boost developing nations' economies in boosting their endowments or taking advantage of opportunities (Essays, UK, 2013). (Essays, UK, 2013). Okoye (2013) is of the opinion that the capacity of a country to responsibly manage the proceeds of a foreign loan in a manner that ensures returns that are in excess of the costs associated with the loan could make it possible for that country's foreign debt to serve as a driver of economic growth and development within that country. Unfortunately, nations that suffer from a high incidence of foreign loan load are also countries that suffer from great corruption, weak institutions, and poor project design and execution. Indeed, this is the situation. As a direct result of the accumulation of foreign debt, governments that owe money to other countries have difficulties in debt management. If it builds up to the point where it makes the government more unstable or the country more vulnerable, then it may result in capital flight because foreign investors may decide to move their assets to countries with a stronger economic foundation. A country's inability to effectively manage its foreign debt imposes a pressure on its economy. This pressure can discourage domestic enterprise by diverting a considerable

percentage of the country's national revenue towards payments for the country's debt service, which in turn limits the country's ability to make economic progress. In order to manage foreign debt in an efficient and effective manner, it is needed to pay proper attention, among other things, to the origin of the loan, the term of the loan, as well as the feasibility and viability of projects that are to be funded.

Nigeria's Historical Perspective and External debt:

The bulk of Nigeria's foreign debt is owed to multilateral institutions like the Paris Club of Creditors and the London Club of Creditors. These organizations include the International Monetary Fund and the World Bank. In addition to owing money to holders of promissory notes, Nigeria also owes money to bilateral lenders and creditors from the private sector (Jhingan, 2004, and Salawu, 2005). According to the information that was supplied by the Debt Management Office, Nigeria's foreign debt dates back to the year that it got its independence but was seen to be relatively little up to the year 1978. This information was provided by the Debt Management Office. Between 1970 and 1973, there was an increase in oil production, which benefited Nigeria. In the midst of the economic downturn that took place in Nigeria in 1977 and 1978, the country secured its first loan of one billion dollars from international capital markets. The funds from this loan were used toward the funding of several infrastructure projects. This particular kind of loan has been given the moniker of "Jumbo Loan." A sense of economic buoyancy was felt after the oil boom of the 1980s, which heralded the spending pattern favoring imported commodities and the relaxation of limitations that had initially been put in place as a result of the reduction in the price of oil. This spending pattern and these limitations were both heralded by the oil boom of the 1980s. The situation was made worse by indiscriminate importing, a system of

inflated exchange rates, excessively high invoices for imported goods, and inadequate invoices for exported goods. In 1982, when oil prices began to fall, the federal and state governments responded by taking out enormous loans from the international capital market in order to make up for the fact that they had made no effort whatsoever to address the underlying problem facing the economy. During that time period, there was an abundance of available credit in the western world that was referred to as idle petrodollars. Under the pretense of assisting these countries in the development of their economies, they were repurposed as loans and given to them instead. From 1977, when it was US$ 0.763 billion, through 1978, when it was US$ 5.09 billion, and 1980, when it was US$ 8.855 billion, Nigeria's external debt increased by 73.96 percent between 1978 and 1980 (DMO) (DMO). By the year 1985, Nigeria's total external debt had reached $ 19 billion US. By the end of December 2014, the total amount of foreign debt had reached around $34 billion USD. In 2005, Nigeria's then-President Olusegun Obasanjo made it clear that the country was unable to meet its financial responsibilities and demanded that the country be granted debt relief. This has been going up for some time now. This was sanctioned in the year 2006. The debt level reached $10,317 billion in June of this year, continuing its tendency of steadily increasing over time (Debt Management Office).

Debt Sustainability

The capability to maintaining a constant ratio of debt to GDP over an extended length of time is the definition of debt sustainability. The capacity to be sustainable is put in jeopardy when a predetermined threshold is exceeded by the ratio of debt to GDP. Certain criteria are taken into consideration when determining whether or not can country is able to pay its debts. Those criteria include, but are not limited to, the

following: the current debt stock and related debt service, the debt's future route, the debt's financing mix, and the debt's repayment potential in terms of foreign currency, GDP, exports, and government revenues.

The Dependence Approach to the Study of Underdevelopment

The concept originated from the writings of a select number of Latin American economists, and it wasn't until the middle of the 1960s and the beginning of the 1970s that their works were translated into English. According to Jhingan, individuals such as Frank Gunder, Sunkel, Furtardo, Sanlos, Paul Baran, Emmanuel, and Amin are patrons of this educational institution (2002) All of these prominent academics have made important contributions to the field of dependency theory in one form or another. According to the dependence hypothesis, the fundamental cause for the underdevelopment of developed countries is the reliance of developed nations on less developed nations (also known as Least Developed Countries or LDCs). In spite of the fact that the theory touches on a broad variety of subjects, the primary emphasis is placed on being dependent on either external debt or foreign money, both of which are pertinent to the issue at hand. As a direct result of this dependency, foreign debt has evolved into a tool that developed nations use to exploit developing nations by forcing the latter to comply with developed nations' demands regarding project selection, price choices, as well as the delivery of equipment, technical know-how, and staff. Theoretically, industrialized nations use foreign debt to impose a pattern of development that is incompatible with local aspirations. This is done by borrowing money from other countries. The argument continues by stating that depending on foreign debt leads in considerably greater expenditures, which may be broken down into three categories: interest payments, royalties, and debt servicing. All of these

activities contribute to the depletion of the wealth of LDCs. According to the findings of their study, having foreign debt is a sign of reliance and is a tool employed by affluent nations to exploit less developed countries.

Theoretical Framework

In an effort to provide an explanation for the issue of foreign debt, academics have come up with a few different hypotheses. The information that follows is a component of the theory: According to the twofold gap analysis, development is a function of investment, and such investment, which needs domestic funds, is not sufficient to assure development. There has to be the possibility of receiving, from another nation, an amount that is equivalent to the sum that has been saved and which may be invested in any country. In addition, if domestic resources are to be supplemented by foreign ones, such as a surplus of imports over exports (M > E), then this will be necessary. M – E I – S M – E I – S M – E I – As a consequence, I – S = M – E In the context of the accounting for national income, an excess surplus of import over export is analogous to an excess surplus of investment over domestic saving. Income equals Consumption plus Imports plus Savings. Consumption + export + investment equal production. Income equals output. Then Difference between imports and exports equals investment and savings. This serves as the basis for the dual gap analysis, which assures that a nation has to have healthy rates of both saving and investment in order to achieve a certain rate of growth. When the amount of accessible domestic savings falls short of the level necessary to achieve the desired rate of growth, this situation is referred to as a savings investment gap. In a similar vein, an export-import of origin exchange gap develops when the highest import demand necessary to

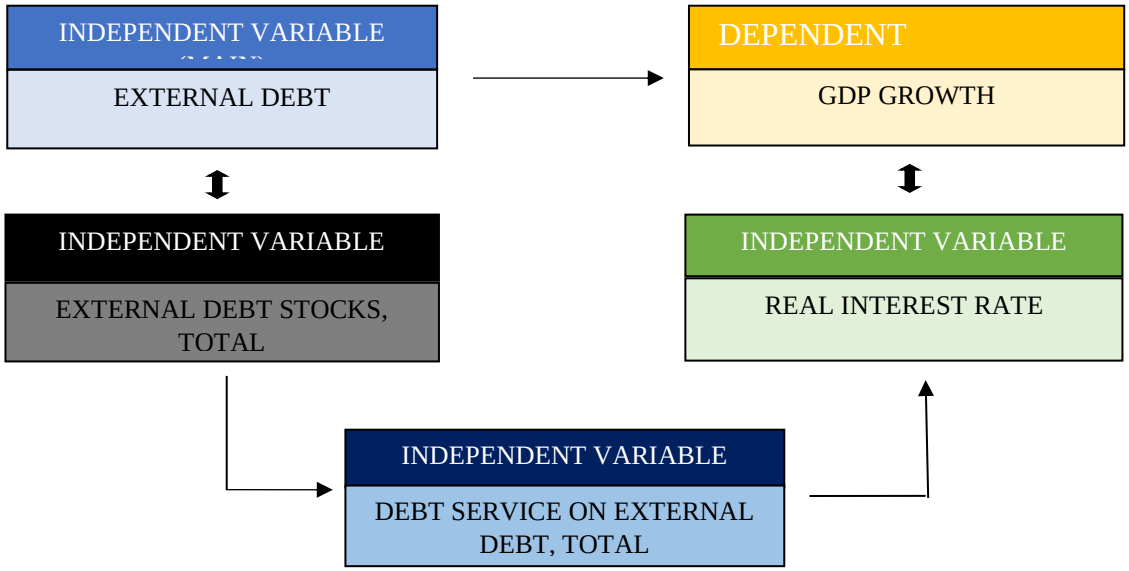
accomplish the growth objective is higher than the maximum attainable level of export. This situation results in an export-import gap.

There is no doubt that national governments need some kind of foreign financial assistance in order to foster economic expansion and development via the enhancement of local capacities. However, the exact nature of this financing might vary from country to country. However, calculating the ideal debt-to-GDP ratio is just as important as identifying the quantity of external credit that will induce growth in the economy. This ratio determines whether or not a nation is able to satisfy its responsibilities to service its debt. A level of external borrowing that is inadequate may suffocate development; it has the ability to either slow down the process of expanding or bring it to a complete standstill. According to Pattillo et al. (2002), growth may be predicted to be promoted by modest quantities of external debt that help finance productive investment; yet, at certain levels, more indebtedness may cause growth to slow down or even reverse itself. The failure of many emerging nations, most notably those in Sub-Saharan Africa, to accurately estimate the quantity of external debt that is necessary to sustain economic development has been a significant obstacle. According to Okoye (2013), if debtor countries are able to carefully managed if the proceeds of the loan are managed in such a manner as to guarantee returns that are above and above the expenditures related with the loan, then external debt may be a driver of economic growth and development. Fortuitously, countries with high rates of foreign debt also tend to suffer from high levels of corruption, weak institutions, and inadequate project planning and execution. As a direct consequence of their buildup of foreign debt, debtor nations must contend with a variety of management challenges. If it accumulates to the extent that it raises the possibility that the government will become unstable or the nation will be at risk, it may cause capital flight. It's possible

that overseas investors may elect to move their money to nations with a more reliable economic outlook. Inadequate management of the country's external debt places the borrowing nation under a burden, which may act as a deterrent to domestic business because a disproportionate share of national earnings is diverted to payments on the debt, which inhibits economic growth. When correctly managing external debt, it is important to take into consideration not only the origin of the loan and the length of time it will be paid back, but also the possibility and desirability of the projects that will be supported

Conceptual model

Figure 2.1



Conceptual Framework

Eaton (1993) categorized the various types of debt stock and flows in a clear and concise manner. There are two distinct kinds of debt that are associated with stocks: disbursed debt and undisguised debt. To put it another way, unpaid interest

obligations are included as a component of the disbursed debt. Disbursed debt is made up of promises made by lenders that have been cashed in but on which interest has accrued but not been paid. As a direct consequence of this, the term "debt" refers to the amount of money that has been repaid. When a government takes on debt in the form of loans, that debt is known as public debt. When we talk about public debt, whether internal or external, we are referring to the debt that the government has racked up as a result of borrowing money on financial markets both local and foreign are used in order to provide funding for domestic investment. There are two categories of debt: productive debt and burdensome debt, also known as dead weight debt. It is considered productive debt only when a loan is taken out to enable a state or country to purchase goods and service or assets such as factories, power plants, and refineries. On the other hand, it is considered dead weight debt when loans are taken out to support wars and ongoing expenditures. When a nation gets a loan from another nation, it implies that it is free to import a number of products and services that is equivalent to the value of the loan without having to send anything else out of the country in return. On the other hand, when it comes time to repay the principal together with the interest on the loan, the same nation will be accountable for exporting products and services. On the other hand, these two categories of debt need the borrower's future savings in order to meet both the interest and the principal payments (Debt Servicing). As a consequence of this, debt financing investments need to be lucrative as well as properly managed in order to obtain a high rate of return that is superior than the expenses of debt service. Over the course of the previous two decades, Nigeria has taken out massive loans, sometimes at exorbitant interest rates, with the objective of accelerating the country's path to development by way of higher investment, accelerated economic growth, and reductions in levels of poverty. In spite of this, the

government is now being forced to acknowledge that it has excessive debts as a result of its persistent economic expansion and the ongoing poverty predicament.

Empirical Literature

The nexus that exists between "external debt and economic development" of a given nation or cross-country study has been the subject of a great deal of research that has been carried out using a variety of methodologies and data collection; this includes panel data, time series, and so on. The following is a list of research that has been done or actions that have been carried out, together with the results of those:

Using the Ordinary Least Square (OLS) approach, Fosu (1996) investigated the link between economic growth and the level of debt owed to foreign countries by states in sub-Saharan Africa from 1970 to 1986. The time period covered was from 1970 to 1986. The research investigated both the immediate and far-reaching effects of the debt idea. The research demonstrates, via the use of a measure of debt load, that the direct effect of debt theory demonstrates that a declining marginal productivity of capital has a detrimental effect on GDP. This is shown to be the case when the theory is applied to the situation. According to the findings of the study, a country's yearly GDP growth slows by around one percent on average when it has a large debt burden. This finding is consistent with previous research. Between the years 1980 and 1990, Fosu (1999) conducted research to determine how the presence of foreign debt affected economic growth in Sub-Saharan African states, using an enlarged production function. The study covered the period from 1980 to 1990. The author conducted research to determine whether or not economic development is hindered by the presence of foreign debt, and their results indicate that this is the case. Cunningham

(1993) looked at the relationship between debt load and economic advancement for 16 severely indebted countries between the years 1971 and 1987. He found no correlation between the two. The data collected from 1971 to 1979 reveals that increasing a country's debt load has a detrimental effect on the economic development of that nation. In order to determine whether or not there is a debt-to-growth ratio that is ideal, Smyth and Hsing (1995) investigated the effect that the debt of the federal government has on the expansion of the economy. It was discovered that the nation with the fastest rate of GDP growth also had the highest debt-to-GDP ratio, which was 38.4 percent. According to the statistics, throughout the decade spanning the 1980s and the early 1990s, the level of public debt had a considerable effect on the rate of economic expansion. The fact that the debt-to-GDP ratio grew in the early 1980s but remained below 38.4 indicates that debt financing is beneficial to the expansion of the economy.

Numerous analysts and researchers have made the observation that there is a correlation between debt levels and the rate of economic growth. Growth was shown to be a function of external financing, according to Essien and Onwioduokit's (1998) investigation of the effect that foreign debt has had on the economic development of Nigeria. As a result of this, in order for the government to boost economic development, it should only adopt effective ways to the management of the debt. A nation's ability to purchase the raw materials and capital goods that are essential for economic development is hindered by the amount of debt that the nation owes as well as the amount that will be required in the future to pay off that debt. Another basic flaw in the reasoning behind this statement is the debt overhang thesis, which asserts that decreased rates of private investment are the result of higher debt burdens. The size of the national debt acts as a tax on future profits and production, which discourages private investment and acts as a brake on the expansion of the economy.

The Granger causality test was performed on a sample of 55 extremely indebted countries by Afxentiou and Serletis (1996a), and the researchers came to the conclusion that debt and income are not related to one another. This was a reference to the relationship between foreign debt and the expansion of the economy. The findings of the trials suggest that an increase in debt is not a primary factor in the rise in per capita income. As a result of the fact that the countries who are in need of economic help are in need of these valuable resources, it is feasible that translating foreign resources into inputs might lead to an increase in economic development. Amoateng and Amoako (1996) investigated the relationship between foreign debt and economic growth in 35 different African countries by using the Granger causality test. This was done in order to determine whether or not there was a correlation between the two. The research suggests that there is a positive and unidirectional chain of causality that ties the servicing of debt to the expansion of the economy. In an attempt to debunk the claim made by Bullow and Rogof (1990), Chowdhury (1994) investigated the possible cause-and-effect relationship between high levels of foreign debt and a slowdown in economic growth in seven Asian countries between the years 1970 and 1988. He was able to do this by concentrating on the years 1970 through 1988. The theory proposed by Bullow and Rogof (1990) that the slowdown in developing economies was a symptom of emerging nations' high levels of foreign debt rather than a cause of the slowdown was disproved by Granger causality studies. The theory stated that the slowdown in developing economies was a symptom of emerging nations' high levels of foreign debt. The data indicate that there is a reciprocal or two-way relationship between the levels of debt and the development of the economies of both Malaysia and the Philippines. Karagol (2002) used the Granger causality test to investigate both the long-term and short-term links that existed between Turkey's

foreign debt and economic development between the years of 1956 and 1996. He discovered that there was a link, but it only went in one direction: from debt to economic expansion.

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Using annual data on real GDP, external debt stock, fixed capital stock, and terms of trade, Ayadi and Ayadi (2008) investigated the impact of external debt on the economic growth of the Nigerian and South African economies. They found that external debt negatively affected economic growth in both countries. When conducting their study, the authors made use of these different factors in order to investigate the connection between foreign debt and economic development. During the course of their investigation, they used the estimation strategies of ordinary least squares (OLS) as well as generalized least squares (GLS). The results of the study indicate that there is a connection between South Africa's high levels of foreign debt and its stalling economic progress. This correlation is believed to be a causal relationship. They also show that up to a certain point, Nigeria's foreign debt is beneficial to the country's economic development, but beyond that point, the debt's contribution starts to have a detrimental influence on growth (this phenomenon is known as the threshold effect). On the other hand, they were not able to determine the critical level of Nigeria's external debt successfully. Their research indicates that South Africa does a better job of properly managing the foreign debt of its nations than does Nigeria. Research was carried out by Ashinze and Onwioduokit to study the possible connection between Nigeria's growing economy and the country's increasing level of foreign debt (1996). They provide evidence that a non-linear connection exists between economic

expansion and the accumulation of foreign debt. The results of the research indicate that the use of foreign debt in a way that is advantageous to the economy significantly contributes to the expansion of economic activity. On the other side, a drop-in economic activity is the result of using foreign debt in a way that is not favorable to the economy. Edo (2002) used data from Nigeria and Morocco to explore the rising issue of Africa's foreign debt, which he found to be a significant concern on the continent. The most important thing to take away from this study is that high levels of foreign debt pose a considerable barrier to the development of the economy. In addition, he discovers that monetary policy, the balance of payments, and interest rates on a global scale all have an effect on the rise in the level of foreign debt that both economies are carrying. He is of the opinion that the situation with the country's external debt may be improved by the implementation of privatization, a long-term program to promote exports, as well as the reform and expansion of capital markets. Large quantities of foreign debt stocks lead to capital flight, increased tax rates, and chronic over-borrowing, all of which have a detrimental influence on economic growth, as Arnnone et al. (2005) discovered in their paper titled "Foreign Debt Sustainability: Theory and Evidence." Research was carried out by Clements and colleagues in order to study the relationship between high levels of foreign debt, high levels of public investment, and quick economic growth in developing countries (2003). According to the findings of the research that was presented in the study, a sizeable reduction in a country's total foreign debt has the ability to bring about a one percent gain in that nation's income (GDP) on a per capita basis. These nations are also among the world's most poor. (HIPCs). They also note that a decrease in the charges connected with servicing foreign debt increases growth since it makes more money available for investments in the public sector. This makes the public sector a more

attractive investment opportunity. Ezeabasili et al. (2011) employed econometric analytic tools to examine the impact of Nigeria's foreign debt on the country's economic development using yearly data from 1975 to 2006. The study covered the period from 1975 to 2006. The data were collected from 1975 all the way until 2006. As a result of applying error correction to the estimate, it was discovered that there is a negative correlation between the country of Nigeria's foreign debt and economic development. They are of the opinion that Nigeria should keep a close eye on the amount of traditional external debt indicators (external debt to GDP ratio; external debt service to GDP ratio, etc.) because these ratios provide valuable information on the economy's capacity to carry debt. Specifically, they believe that Nigeria should keep an eye on the ratio of external debt to GDP. Vision 2020 4048 has set as its long-term aims the achievement of continuous economic development, educational excellence, and the efficient management of innovation. Elbadawi and colleagues (1996) used data from 99 developing nations located all over the world, including Sub-Saharan Africa, the Middle East, Latin America, and Asia, in order to investigate the effect that an excessive amount of debt has on economic development. They unearth information that demonstrates the detrimental consequences that foreign debt has on the growth of the economy. As a result of current debt inflows in relation to GDP, cumulative debt (the effect of debt overhang), outflows for debt servicing, and the effects of the effects of the aforementioned channels on expenditures in the public sector, they arrive at the conclusion that external debt has a direct influence on economic growth. Using the method of estimate known as ordinary least square (OLS), Sulaiman and Azeez (2012) looked into the impact that Nigeria's high level of external debt had on the country's overall economic expansion. They show that economic progress and foreign debt have a link that is mutually advantageous to both parties involved in the interaction. Cohens

(1993) investigated the relationship between low levels of investment and huge levels of debt in LDCs across the whole decade of the 1980s through the course of their study (least developed countries). He arrives to the conclusion that the quantity of foreign debt that LDCs have is not a major element in explaining the low level of investment in such nations. He gets to this result after doing research. According to the findings, an inverse relationship exists between investment and the ratio of debt payment to gross domestic product. This ratio represents real transfers out of the economy and has been shown to have a negative impact on investment. Borensztein (1990) used yearly data from the Philippines to investigate the relationship between external debt overhang, debt reduction, and investment. He discovered a strong and positive relationship between all three of the factors. When the debt indicator is presented as the ratio of private sector debt to GDP rather than the more conventional total debt stock to GDP, he comes to the realization that an excessive level of debt is a barrier to private investment. This is especially true in circumstances in which the debt indicator is presented as the ratio of private sector debt to GDP. Ajayi and Oke (2012) conducted research to evaluate the impact that external debt has on economic growth and development in Nigeria. They did this by utilizing data on debt service payment as a proxy for external debt load, foreign reserves, interest rate, and Gross National Product. This was done in order to investigate the connection that exists between Nigeria's high foreign debt and the country's rapid economic growth and development. The writers obtain their conclusion that the burden of a country's foreign debt has a detrimental impact on national output by using a technique of estimation known as ordinary least squares (OLS). This result was reached after the authors used OLS. It has also been shown that the impact of national output on the country's external debt might be regarded significant. The research also demonstrates that the quantity of

external reserves has a big and positive influence on aggregate production, but the impact of interest rates has a positive impact but is hardly apparent. This is because the impact of the number of external reserves is both significant and positive. Oke and Sulaiman (2012) used data ranging from 1980 to 2008 to study the link between Nigeria's foreign debt, economic growth, and investment volume. Their investigation was centered on Nigeria. The Gross Domestic Product (GDP) served as the authors' dependent variable, while the ratio of foreign reserves to external debt, exchange rate, private investment, debt service ratio, interest rate, and inflation rate served as their independent variables, respectively. The writers reach their conclusion that there is a positive link between foreign debt, economic growth, and investment by using a technique known as multiple regressions, which is a kind of econometric analysis. This allows the authors to arrive at their findings. Even though the current ratio of foreign debt to gross domestic product (GDP) is stimulating growth in the near term, private investment, which they believe to be a measure of real and tangible progress, is on the decrease. This is despite the fact that the ratio of foreign debt to GDP is currently at an all-time high. Sfia (2011) examined data spanning the years 1976 to 2003 from 24 different countries in order to investigate the connection between high levels of foreign debt and slow economic development in emerging nations. The study looked at data from a total of 24 countries. The results of the study indicate that both the overall amount of foreign debt and the proportion of external debt servicing have a negative impact on economic growth. This is the case regardless of whether figure is higher. Geiger (1990) used data gathered from South American nations between the years 1974 and 1986 in order to investigate the effect that external debt had on the economic development of Latin American nations. The data was collected during the time period in question. He makes the startling discovery, using a model with lagging data, of a

negative link between external debt and economic growth that is statistically significant. This discovery has a significant impact.

CHAPTER III

Data and Methodology

Introduction

This area of our study or research will cover, different procedures, processes involved, or actions that are implemented in order to obtain crucial informational data for the study are spoken about in full length and consideration, using econometric guidelines. The regressor and regressands that were used in running the regression in this research are also talked about and how and where they were obtained. This part also looks at and discusses the various statistical approaches that were utilized to examine the data gathered during this research.

What is External Debt?

The term "external debt" refers to the cash that a nation has borrowed in the form of loans from foreign lenders, such as global financial institutions or organizations like the International Monetary Fund or the World Bank to impoverished nations specifically for the purpose of encouraging their development agenda. In addition, governments will borrow money from foreign creditors in order to support their own excessive spending, create extra infrastructure, finance recovery from natural catastrophes, and even repay its prior external debt. Every single payment that is paid toward a country's foreign debt has to be done so in the same currency that the loan was originally issued in.

Risks Associated with External Debt

Affects Economic Growth

The expansion of product, as well as increases in output and income, are the primary drivers of economic development. This expansion is driven by both public and private investments in capital. When there is a significant amount of external debt that has to be paid, there will be less money available for investment. It stifles future economic progress.

Long Gestation Period

The span of time among placing an initial outlay in a project and the project being operational is referred to as the gestational phase. When infrastructure projects are financed with foreign debt, it might take a number of years for such investments to begin producing a return on investment.

Unexpected devaluation of domestic currency

If the currency of the nation that is borrowing money loses value relative to the currency of the countries that are lending money, the actual value of the interest will increase (expressed in the country's own currency).

The Spiral of Debt

The fact that it so often leads to nations being caught in a never-ending cycle of debt, sometimes known as the "debt cycle," is the most significant issue associated with countries having high levels of foreign debt. The pattern of constant borrowing,

an increase in the amount of payment responsibilities, and ultimate default is what is referred to as the debt cycle.

A fiscal deficit happens when a government's expenditure in a particular year is more than the income it receives in the same year. In order to make up for the budget shortfall, the government takes out loans from foreign nations. As a result of the additional expenses caused by interest and the repayment of loans, it is possible that the government may have a deficit in the next year and be forced to take out another loan from a foreign country. In the subsequent years, it is possible that it will be required to take out a loan in order to repay its previous obligations.

Prospective lenders are leery of providing money to a nation that has a high foreign debt, and they are hesitant to provide further money to such a nation. It is possible that the government may fail on its external debt due to the fact that it is unable to issue further debt. This condition is known as sovereign default. Because of this, the debt cycle comes to a conclusion with a country that is on the verge of bankruptcy and a number of other lender-nations facing the prospect of defaulted debts.

External Debt Management in Nigeria

Deficit budgets and economic projects have been harder to support due to the decline in global oil prices. Many of these institutions had to be contacted in order to get loans from them, including the financial institutions such as the World Bank and the International Monetary Fund (IMF). The Central Bank of Nigeria, often known as the CBN, in conjunction with the Federal Ministry of Finance (FMF) collaborated to create new divisions inside the CBN to perform the tasks of controlling foreign debt, among other things. Since the 1980s, Nigeria has taken a variety of steps to better

manage its debt payments and prevent default. Between 1984 and 2016, state governments were barred from borrowing money from outside sources. The policy's primary objective was to prevent the debt stock from rising and to alleviate the burden of further debt. Federal and state governments were previously limited in the amount of debt they may take on prior to the 1984 regulation. The federal government had a cap of $5 billion in 1978 and 1982, while the state governments had a cap of $200 million in the same year. The embargo was removed on January 12, 1989 [12]. Comprehensive instructions were issued in February 1988 with the purpose of improving foreign currency gains and reducing the need for foreign borrowing, which was accomplished. Moratorium on new loans and limits on debt service payments were put in place in order to ensure that the requirements were met. Debt restructuring and a debt conversion program also took place.

Data Gathering and Sources

The primary focus of this study was on secondary sources of information. The use of secondary data was acceptable for this research since it supplied background information and enabled comparisons to be made between previous experiences and those that are now being had. In order to provide an explanation for a particular occurrence of interest, the collecting of data is an essential part of every research project, and the term "data collection" rs to any method or practice of acquiring information. This study, which is an operational analysis of foreign debt and its influence on Nigeria's economic development, depends largely on secondary data, particularly time series data. This study's overarching objective is to ascertain how the level of Nigeria's foreign debt influences the country's rate of economic expansion. This line of inquiry made use of secondary data, which were gathered from the

database of the World Bank and the World Development Indicators. As a consequence of this, the study was successful. This research looks at a period of time spanning forty (50) years, beginning in 1981 and continuing through 2020, although its sample size only includes forty (50) years' worth of data. An in-depth analysis of the factors that were taken into consideration in this research may be found as follows:

Variables and Usage

The variable used in this research are all economic variable who has the propensity to effect change in an economy, which is why they ae being referred to as economic variables. The raw data of each variable used in this research are collected for analysis and to make inference or policy recommendation where necessary.

Growth Domestic Product Growth (GDP)- GDP In this particular piece of research, growth is being employed as a stand-in for economic growth since it has been applied in the comparison of one period of time to the next. An increase in the production of economic products and services is what is meant when we talk about income growth. When comparing one historical period to another, GDP Growth is often employed as the metric of choice. The total may be expressed either in nominal or real terms, depending on your preference (with inflation taken into account). Other measures, such as gross national product (GNP) or gross domestic product (GDP), have been used in the past, but traditionally gross national product (GNP) or gross domestic product (GDP) has been used to quantify the overall expansion of the economy. Other measures, such as gross national product (GNP) or gross domestic product (GDP), have been used in the past.

External Debt Stocks, Total (DOD, current US$)- The quantity of money that is due to people who do not live in the country is known as the total external debt. This obligation may be repaid in a number of different ways, including with cash, products, or services. It is the aggregate of the nation's long-term debt, short-term debt, and loans from the International Monetary Fund (public, publicly guaranteed, and private nonguaranteed). The monetary values shown here have been translated to the equivalent in United States dollars as of the time when article was published. The quantity of money that is due to people who do not live in the country is known as the total external debt. This obligation may be repaid in a number of different ways, including with cash, products, or services. The overall amount of foreign debt includes both long-term and short-term obligations, as well as loans from the IMF. In addition to interest payments on longer-term loans, any debts with an initial length of one year or less are considered to be "short-term debt." The word "short-term debt" also applies to any and all debts. The monetary values shown here have been translated to the equivalent in United States dollars as of the time when article was published.

Debt Service on External Debt, Total (TDS, Current US$)- The total debt service is the sum of the principal repayments and interest payments on long-term debt that are paid in money, goods, or services; the interest payments on short-term debt that are paid in money, goods, or services; and the obligations to the International Monetary Fund (IMF). In other words, the total debt service is the sum of all of these payments (repurchases and levies). The values have been presented in current day US dollars throughout.

The sum of the principal repayments and interest on long-term debt paid in currency, goods, or services; the interest on short-term debt paid in money, goods, or services; and the repayments to the International Monetary Fund (IMF) make up the total debt

service. This sum can be expressed as a percentage of the total outstanding debt (repurchases and levies). The values have been presented in current day US dollars throughout.

Statistics Relating to International Debt, Provided by the World Bank

Real Interest Rate- The rate of interest that an investor, saver, or lender really gets is referred to as the cost of borrowing (or expects to receive). The real interest rate is the statistic that is used to determine whether or not a country is able to repay a loan that was given to it by a lender such as the global bank. The Fisher equation, which demonstrates that the real interest rate equals roughly the nominal interest rate minus the inflation rate, could be used to define it more clearly.

Total Reserve- The total reserves include monetary gold, special borrowing rights, IMF member assets held by the IMF, and foreign currency that is subject to the control of monetary authorities. The value of these assets' gold holdings is determined at the conclusion of each calendar year (December 31)

Descriptive Statistics

The mean, standard deviation, or frequency of a variable are examples of descriptive statistics that may be used to describe or summarize aspects of a sample or data collection. The use of inferential statistics may be of use to us in knowing the characteristics of the components of a data sample taken as a whole. Because of this, the initial step of this study was to investigate the descriptive statistics of the dependent variables, such as GDP Growth, which is a measure that stands in for economic growth, and the independent factors. Foreign debt stocks, total, Real interest rate, Debt service on foreign debt, total, and Total reserves in the case of Nigeria from (1971 to 2020),

using 49 data commencing from (1971 to 2020) collected data from the World Bank's, World Development Indicator. It is essential to make use of descriptive statistics right at the outset of a quantitative research investigation. These statistics provide us a comprehensive overview in a format that is easy to work with, and they also aid us in logically simplifying enormous amounts of data.

Property of Time Series Data and Stationarity

When doing empirical research, the non-stationarity of time series data is sometimes considered to be a problem. Working with non-stationary variables generates erroneous results or regression findings, both of which can lead to incorrect inferences if they are used further. A stationary process will always have the same mean, variance, and autocorrelation structure across the course of observation. The mathematical notion of stationarity describes a series that seems to be static and has no discernible trend, a variance that is constant over time, an autocorrelation structure that remains stable over time, and no periodic oscillations. According to (Gujarati and Porter, 2009), “stationary series are ones in which the mean and autocorrelation of the series are not influenced by changes in the amount of time that has elapsed from the beginning of the series.” In other words, stationary series are not affected by the passage of more time. Because of this, doing a stationarity test before beginning any kind of regression analysis is of the utmost importance. This may be accomplished via the use of the Augmented Dickey-Fuller (ADF) test or the Phillip-Peron test.

Procedure when one has a data that is not stationarily aligned:

If the time series data is not stationary, it is generally possible to convert it such that it is stationary using one of the approaches or processes listed below: We can

difference the data. We can get the mean of the data. To put it another way, given the series Zt, we generate a new series denoted Yi = Zi Zi 1. When the differenced data are compared to the original data, they will have a difference of one point. Even if there is a possibility that the data are different more than once, in most cases only one difference is enough.

If the data show a pattern, we can use that pattern to fit a curve to the data, and then we can model the residuals that result from that fit. Because the purpose of the fit is to only eliminate a long-term trend, it is common practice to make use of a straightforward fit, such as a straight line.

It's possible that stabilizing non-constant variance may be achieved by taking the logarithm or square root of the series. You may add an appropriate constant to the data set before conducting the transformation on any negative data. This will turn all of the data into positive values. When this constant is subtracted from the model, it is then possible to derive the projected values (also known as fitted values), as well as projections for future points.

Unit Root Test

As a result of the usage of time series data in this investigation, it was deemed necessary to investigate whether or not the variable in question or the data were stationary. In addition, before conducting the cointegration test in time series or any other kind of test analysis, it is necessary to ensure that the variables in question are stationary. Because of this, the conventional Augmented Dickey-Fuller (ADF) test, the Phillip-Perron test, and the Kwiatkowski–Phillips–Schmidt–Shin (KPSS) test are all used. The Augmented Dicky-Fuller test and the Phillip-Perron test are the ones that

are going to be used in this study since they are the most reliable and can best serve the purposes of this research. The order of integration of all variables was determined as a consequence of the application or use of these tests. This resulted in the ascertainment of the order. The alternative hypothesis (H1) states that H1: 0 whereas the null hypothesis Ho, which is indicated by Ho=0 and states that "there is a unit root if the p-value is above the 5 percent significance threshold," is the alternative hypothesis. (If the p-value is lower than the significance threshold of 5 percent, then there is no unit root.) The E-views 12 Student edition Lite was used throughout each and every one of these evaluations.

The Augmented Dickey-Fuller (ADF)

Dickey and Fuller (1979) designed and constructed a computer program in order to verify their hypothesis. The program is able to determine whether a variable is subjected to an a priori random walk or whether the variable has a unit root. Alternatively, the program can determine whether the variable has both a unit root and an a priori random walk. You may use this information to identify whether or not a variable is treated to an a priori random walk by determining whether or not it is exposed to an a priori random walk. In order to demonstrate the applicability and utility of the enlarged Dickey–Fuller test, Hamilton (1994) proposes four distinct scenarios in which the test may be carried out. These scenarios can be found in the expanded Dickey–Fuller test manual. The assumption that lies at the foundation of the null hypothesis is that the variable in issue has only a single unit root at each and every point in the distribution. This is true in spite of the fact that the conditions are different.

The two approaches differ significantly in terms of whether or not a drift term is included in the null hypothesis, as well as whether or not a constant term and a

temporal trend are included in the regression that is used to build the test statistic when utilizing the second strategy. These are the significant differences between the two approaches. When deciding whether or not to include a drift term in the null hypothesis, these two factors are very significant considerations to take into account. The primary distinction between this test and the Dickey–Fuller test is that this one is carried out on the model rather than the other way around, as was the case with the test that came before it. This is the case since this test was developed after the Dickey–Fuller test. $\Delta yt=\alpha + \beta t+ \gamma yt-1+ \delta 1\Delta yt-1+\cdots+\delta p-1\Delta yt-p+1 + \varepsilon t$ … ……. 5.1.2

The ADF formulation makes room for the potential of higher-order autoregressive processes to take place since it incorporates delays of the order p. Because of this, it is essential to figure out how long the lag p was before the test could be successfully applied to the data. This is a prerequisite for making this determination.3.10.2 Phillip-Perron Test

Model specification

This research makes use of GDP as a measure of economic growth. GDP serves as the predictor variables, while the independent variable consists of External Debt Stocks, Total, Debt Service on External Debt, Total, Real Interest Rate, and Total Reserve. In its implicit form, the link between the variables being explained and those being explained by is expressed as follows:

$$\Delta GDP_t = \beta_0 + \sum_{i=1}^{p} \beta_{1i} GDP_{1-t} + \sum_{i=1}^{q} + \beta_{2i} lnEDS_{t-i} + \sum_{i=1}^{q} \beta_{3i} lnDSED_{t-i} +$$

$$\sum_{i=1}^{q} \beta_{4i} ln \quad_{t-i} + \sum_{i=1}^{q} \beta_{5i} lnTR_{t-i} + et \textbf{ ….(1)}$$

$$\Delta GDP_t = \beta_0 + \sum_{i=1}^{p} \beta_{1i}\Delta GDP_{1-t} \sum_{i=1}^{q} + \beta_{2i}\Delta lnEDS_{t-i} + \sum_{i=1}^{q} \beta_{3i}\Delta lnDSED_{t-i} +$$

$$\sum_{i=1}^{q} \beta_{4i}\Delta lnRIR_{t-i} + \sum_{i=1}^{q} \beta_{5i}\Delta lnTR_{t-i} + \beta_6 ECT + et \textbf{ ...(2)}$$

The above equations (1) and (2) are the statistical representation of the short-run and long-run ARDL model that was used in this study to examine the long-run and short-run impact of public debt on economic growth in Nigeria from 1971 to 2020. The purpose of this study was to determine how public debt will affect economic growth in Nigeria over the course of over four decades. In order to examine the model's validity, ruggedness, and reliability, we run it through three different statistical tests: the Breusch–Godfrey serial correlation test, the Breusch– Pagan–Godfrey heteroskedasticity test, and the Jarque–Bera normality test.

Granger Causality Test

Using the time-honored Granger causality test, it is feasible to ascertain which variable comes first in the chain of events that led to the other variables (Granger, 1969). Error correction theory, often known as ECM, is the foundation of this examination. ECM maintains that although the past may be able to cause or forecast the future, the future is unable to cause or predict the past. This is one of the grounds upon which the examination is based. According to Granger (1969), X is considered to be the cause of Y if earlier values of X can be used to forecast Y with a better degree of accuracy than can earlier values of Y. This is one of the criteria for determining whether or not X is the cause of Y. The following is a list of regressions that were used for the test:

Yt = 0 + I = 1) ni y Yt1 Xt 1 ix + Ut n i=1 (9) and Xt = 0 + I = 1) ni y Yt1 Xt K ix + Yt n i=1 (10) Xt and Yt are the variables that need to be explored, whereas Ut and Vt are the words that indicate the white noise disturbance. Xt and Yt are denoted by the superscripts t and t, respectively. The alternative hypothesis, which asserts that I X 0 and I y = 0, is compared with the null hypothesis, which states that I X = I y = 0 for each and every i. Both hypotheses assume that the relationship between I X and I y remains unchanged. If the I X co-efficient is statistically significant but the I y co-efficient is not, then X is the cause of Y but not the other way around; the reverse is true if the I y co-efficient is statistically significant. In the event that the hypothesis is false, then Y must be the variable that is to blame for X. On the other hand, there is evidence of bidirectional causation in the event that the I X and I y co-efficient are both significant in their own right. According to Engle and Granger (1987), a collection of variables is considered to be co-integrated of der (d,b), with the notation Yt = CI(d,b), if all of the components of Yt are integrated of order d or b (band d > 0), and there exists a vector (= (1, 2,... n)) such that a linear combination YYt i= (1Y1t + 2Y2t +, ((d,b)

$$GDP = \sum_{j=1}^{K} AJ\ ED\ t - i + \sum_{j=1}^{K} B_J\ GDP\ t - i + Uit$$

$$ED_t = \sum_{j=1}^{K} C_t\ ED_{t-1} + \sum_{j=1}^{K} D_J\ \ GDP\ t - j + U2t$$

According to Equation (1), the current GDP is connected to both the historical GDP and the values of the external debt, and vice versa for Equation (2). If the estimated coefficients on the lagging external debt in equation (1) are statistically different from zero as a group (that is, Ai 0), and the set of estimated coefficients on the lagging GDP

in equation (2) is not statistically different from 0 (that is, Dj = 0), then there is unidirectional causality running from the external debt to the growth of the GDP. This may be shown if there is a statistically significant difference between the estimated coefficients on the lagging foreign debt in equation (1). When viewed in a unidirectional perspective, the connection between GDP and foreign debt reveals the opposite of what one may expect. When the sets of foreign debt and GDP coefficient in both regressions are statistically different from zero, a feedback or bidirectional causal relationship occurs. This is also known as a bidirectional causal loop. When the sets of foreign debt and GDP coefficient in both regressions have a statistically significant difference from zero, a feedback or bidirectional causal relationship occurs (Gujarati, 2004).

Model's Stability Test and Diagnostics

This research takes use of the Breusch–Godfrey serial correlation test, the Breusch– Pagan–Godfrey heteroskedasticity test, and the Jarque–Bera normalcy test in order to assess the validity, robustness, and reliability of the model. The execution of a variety of diagnostic and stability tests is an essential component of a successful modeling process. In addition, the reliability of the model may be determined, in large part, by the many tests that are described in this work. Quantifying the degree to which the data are correlated with themselves is a critical step. This may be accomplished by comparing the values of the residuals to the values that were predicted, as well as by demonstrating the value of the residuals values in relation to the values that were projected. Alternatively, this can be accomplished by using an illustration. When the probability value is compared to the estimated F-statistics, the null hypothesis is

rejected, and the conclusion that the model either demonstrates heteroscedasticity or else homoskedasticity is determined as a consequence of this comparison.

Conclution

With detail and clarity, we discussed key design, proceeding and structure of this research, which data extracted from the World Development Index (World Bank). Our sample was carefully choosing totaling fifty years sample size from 1971 to 2020. We employed various tools necessary for validating our data through (E-views 12). We firstly employ the descriptive statistics that made summary of all the variable used in this research, secondly test for unit root using Augmented Dickey-Fuller and Phillips-Perrons. Johansen co-integration test were conducted to find our level of relationship amongst our variable, and find our variable to consist of long run relationship. And lastly, various diagnostics and stability test such as Breusch-Pagan, heteroskedasticity or white test along with serial correlation LM test were all carries out to test for the model robustness and how they can regulate.

CHARPTER IV

Finding And Discussion

Introduction

This chapter sets out to explore the various results, and an indebt discussion of related graph and tables. We initially assess the descriptive statistics to establish the dependent and independent variables and the basic characteristics they exhibit, since descriptive statistics make summary of the variables used in this research. This will be followed by an analysis of the variables in term of stationarity by the interpreting the Augmented Dickey-Fuller test as well as the Phillip Perron test. We will then dive into the discussion of co-integration test simply by running the bound test and their interpretations, which will give direction as to necessity of running short run and long run ARDL test. If we established that there is cointegration of the variable used, it becomes imperative that short run and long ARDL test be conducted to ascertain the relationship between those variables. Then granger causality test, will be carried out and fully discussed, since they are applied in order to give researchers hint to the direction of one variable to another or the causal direction of variables. In addition to this chapter, an indebt analysis and discussion of the regression carried out will be done, their result and implication as well as policy recommendation where necessary. And lastly, various diagnostic, stability tests of data will be conducted and their resulted outcomes will be fully interpreted. The classic E-views 12 was used in the running of the variables and interpretating of all those economic variables satisfactorily.

Descriptive Statistic

Table 1.1

	Nigeria GDP Growth	External debt stocks, total	Debt service on external debt, total	Real interest rate	Total reserves
Mean	3.404941	2.46E+10	2.09E+09	-0.701700	91.80775
Median	4.217446	2.85E+10	1.67E+09	1.956244	37.57331
Maximum	15.32916	7.06E+10	8.81E+09	18.18000	392.9449
Minimum	-13.12788	9.60E+08	94468727	-65.85715	3.149426
Std. Dev	5.635265	1.56E+10	1.85E+09	13.66140	109.7226
Skewness	-o.663021	0.484275	1.531950	-2.434156	1.368933
Kurtosis	3.947392	3.406476	5.478374	11.88551	3.642955
Jaque-Bera	5.533205	2.298569	32.35380	213.8604	16.47772
Propability	0.062875	0.316863	0.000000	0.000000	0.000264
Sum	170.2471	1.23E+12	1.04E+11	-35.08502	4590.387
Sum Sq. Dev	1556.055	1.19E+22	1.67E+20	9145.058	589913.0
Observations	50	50	50	50	50

Source: E-View 12

The providing of the descriptive data of Nigeria's GDP growth, total external debt stock, total debt payment on foreign debt, total, real interest rate, and total debt reserve for the period in Nigeria 1971–2020 in ***Table 1.1*** above. These statistics cover the time period in Nigeria 1971–2020. As can be seen in the table shown above, this research made use of a total of fifty observations for each variable that was investigated. The average value for Nigeria's GDP growth, total foreign debt stock, total debt service, real interest rate, and total reserve is 3.404941, 2.46E+10, 2.09E+09, -0.701700, and 91.90775 correspondingly. These values are not significantly different from each other. A measurement is taken of the skewness of the histogram, and a measurement is taken of the kurtosis of the tail shape of the histogram. In the case of kurtosis, a value of three is referred to as mesokurtile, but a number lower than that is referred to as playtyturtile, and a value greater than that is referred to as leptokurtic. The skewness of a variable is measured by how near it is to being equal to zero. This is the criterion for symmetrical distribution. The bench for kurtosis, on the other hand, is determined by how near the variable is to having a value of three.

Stationarity Test

When working with time series data in one's research, it is very necessary to run a test for stationarity since a stationary series are ones in which the variance and the covariance remain constant throughout time. If the data in a stationary timeseries are time invariant, then the series is considered to be stationary; if they are not, then the series is said to be nonstationary. It is possible to call and/or refer to data on a non-stationary time series as having a unit root or as using the random walk model. The Philips-Perron test is favored over the ADF test and the other common unit root test because it is a non-parametric test. This means that it does not need choosing the

amount of serial correlation, which is required by the ADF test. It employs the same method of estimation as the DF test does, but it makes modifications to the statistic to account for autocorrelations and heteroscedasticity (HAC type corrections)

Table 2.1 Unit root test result

	Augmented Dickey Fuller (ADF)				
Variables	**Levels**		**1st Difference**		**Order of integration**
	t-Stats.	**P-Value**	**t-Stats.**	**P. Value**	
GDP Growth	-1.898220**	0.3300	-4.707748	0.0005	I(I)
External Debt Stocks, Total	-0.366085**	0.9066	-3.987820	0.0032	I(1)
Debt Service on External Debt, Total	-1.727853***	0.0796	-7.677793	0.0000	I(I)
Real Interest Rate	-3.281209***	0.0848	-4.269287	0.0092	I(I)
Total Reserves	-2.901428**	0.1712	-6.951636	0.0000	I(I)

*Note: ***; ** and * represent 1%, 5% and 10% significance level used respectively. Automatic selection, Schwarz Info Criterion.*

Following a successful application of the Augmented Dickey Fuller (ADF) test, the findings of this unit root test that are reported in ***Table 2.1*** above suggest that the result demonstrates that, with regard to the dependent variable GDP growth, the following independent variables: It was recommended to do an additional test at first difference

in order to determine whether or not it is possible to acquire stationarity. The external debt stock total, along with the other independent variable, were unable to attain stationarity when tested at level. Stationarity is achieved after the variable has been successfully processed through first difference several times. GDP growth reached a stationary state for the first time with a considerable level of 5 percent, while the total foreign debt stock and the total debt service also reached stationary states at 5 percent and 1 percent, respectively. Both the real interest rate and the total reserve reached a state of stationarity at levels of importance of 1 percent, 5 percent, and 10 percent, respectively. Continuing with such data would have resulted in conclusions that were either misleading or spurious in the event that stationarity was not attained at the first difference.

ARDL Bond Test Result

Table 3.1 Bond test result (ARDL)

F-Bond Test		Null Hypothesis: No levels relationship		
Test Statistics	Value	Signif.	I(0)	I(I)
		Asymptotic n=1000		
F-Statistics	8.747997	10%	2.2	3.09
K	4	5%	2.56	3.49
		25%	2.88	3.87
		1%	3.29	4.37
Actual Sample Size	49	Finite Sample: n=50		

Source: E-View 12 *Note: ***; ** and * represent 1%, 5% and 10% significance level used in this study, which are Automatic selected, Alkaike Info Criterion*

The ARDL bond test approach is a long-run technique that was used in this research to determine whether or not there is a long-run relationship between the variable GDP growth and the rest of the other variables that were utilized in this study. The purpose

of this research was to determine whether or not there is a relationship between these variables in the long run. ***Figure 3.1*** illustrates the outcomes that can be achieved using this method. The following are the factors that will be considered in making the decision: Ho denotes that there is not a short-term connection if the F-statistics are lower than the lower I(0) constraint. In the event that the F-statistics are higher than the threshold of I (1) barrier, then H1 = Rejects the Ho hypothesis. Ho = No short run relationship. The lag time was kept at its default setting since we are working with a very large sample size, and the Alkaike Information Criteria was used for the automated selection. Because the F-statistic was 8.747997, which was higher than both the lower and the upper limit, as the result shows, we may now draw the conclusion that there is a long-term relationship between the variables. This is because the F-statistic was more than both of these bounds. There is a possibility of shock in the near term, but ultimately there will be convergence.

Short-Run ARLD Results

Table 4.1 ARDL short-run result

Variable	Coefficient	Std. Error	t-statistic	Probability
GDP Growth	-0.025039	0.14697	-0.174246	0.8625
External Debt Stocks, Total	4.90E-10	2.01E-10	-2.437575	0.0192**

Debt Service on External Debt, Total	-9.42E-10	5.39E-10	-1.746606	0.0882
Real Interest Rate	0.154216	0.051258	3.008634	0.0045**
Total Reserves	0.012317	0.006788	1.814483	0.0769
ECM	-3.92422	1.350932	-2.90151	0.0059
	R- Square	0.42	**Adj. R-Squared**	0.32

*Note: ***; ** and * represents 1%. 5% and 10% level of significant are used in this research. The lag length used in this study is automatically selected, which is Aikaike information criterion.*

According to the findings of the short-run ARDL model that was applied to Nigeria and presented in Table 3.1 above in this investigation, there is a significant positive relationship between total external debt stock and economic growth in Nigeria over the course of the period 1971–2020. This was determined by looking at the data. This finding is supported by the findings of this investigation. According to the findings, an increase of one percent (percent) in Nigeria's total foreign debt stock would result in an increase of four-point-nine percent (percent) in Economic growth when compared to a scenario in which the external debt stock is lower. This would be the case even if the external debt stock were lower. When more external debt is obtained from international organizations like the world bank or the international monetary fund, domestic manufacturing capacity is expanded, most likely through higher importation

of vital manufacturing inputs total, and domestic revenue will increase, making it easier to meet deadline payments on the debt. This is indicated by the positive effect of external debt stock on economic development. All of this may be attributed to the positive impact that total foreign debt has had on the growth of the economy. On the other hand, if Nigeria's total foreign debt stock increased to a higher level, the country's economic growth would proceed at a more glacial pace. This result is consistent with the findings of studies such as Ashinze and Onwioduokit (1996), Sulaiman and Azeez (2012), Oke and Sulaiman (2012), Jayaraman et al, (2008), and so on; however, it is different from the findings of studies such as Hagos (2011), Ayadi and Ayadi (2008), Ezeabasili et al (2011), Sfia (2011), Hameed et al (2008),

The result also shows that there is no significant connection between the growth of the Nigerian economy and the service of debt on foreign loan. This is shown by the fact that the result is negative. An increase of one percent (percent) in the service of debt on foreign debt would result in a loss of 9.42 percent in the growth of the Nigerian economy as a direct consequence of this fact. Therefore, this demonstrates that what was said in (Matiti, 2013), which is that the expenses of servicing debt are more detrimental to the growth of an economy than the debt itself, is correct.

The findings of the short run ARLD model that was used in this investigation reveal that the level of 5% required for the real interest rate to be considered significant. This suggests that a rise in real interest rate would contribute to an increase in economic growth of 0.154 percent (percent) during the time that was under consideration in Nigeria. If the exchange rate coefficient is positive, it indicates that the exchange rate is going up, which is typically considered to be good for the growth of an economy. If the value of a currency, such as the Nigerian naira, has declined, then the currency's exchange rate will increase in contrast to that of other currencies. This is one way in

which the worth of a currency may be determined. Because of this, things that are created locally are relatively inexpensive, while things that are imported are relatively pricey; this has led to a rise in the demand for items that are produced domestically, which has led to an increase in the demand for things that are produced locally. The quickening of economic growth in Nigeria would be a direct result of the rise in the country's exports, which would be a consequence of this. Last but not least, total reserves exhibit an insignificance association of 0.0769, which indicates a positive but insignificant link between total reserve and GDP growth of Nigeria over the time period covered by this research. This link was found to exist between total reserve and GDP growth of Nigeria over the time period covered by this research.

The error correction model (***ECM*)** represents the adjustment which is the equation of the short-run and the long-run representation, the result being negative can tell that there will adjustment or correction for the period 1971-2020, this is justified by the -3.92422 coefficient and a significant probability value of 0.0059 respective. Those figures demonstrate the speed of adjustment.

Long-Run ARDL Results

Table 5.1 ARDL long-run result

Variable	Coefficient	Std. Error	t-statistic	Probability
External Debt Stocks, Total	-9.56	6.95	1.37	0.17*

Debt Service on External Debt, Total	-9.19	5.05	-1.82	0.07
Real Interest Rate	0.24	0.06	3.90	0.00**
Total Reserves	0.01	0.00	1.83	0.07

*Note: ***; ** and * represents 1%. 5% and 10% level of significant. The lag length used in this study is automatically selected with Aikaike information criterion.*

The results of the long-run ARDL, which are shown in the table that is located above, indicate that the level of foreign debt at 5 or 10 percent is considered to be small. By using GDP as a stand-in for economic growth, Table 5.1 depicts the long-term effect that Nigeria's high amount of foreign debt has had on the country's economy. This influence can be seen in both the short and long terms. According to the findings, there is a detrimental relationship or connection between the high amounts of foreign debt owed by Nigeria and the economy of the nation over the course of several years. According to the theoretical explanation that Elmendorf and Mankiw (1999) provided of the connection between international debt and economic progress, the result that was presented before is in direct opposition to the a priori assumption that was created. Research conducted by Elmendorf and Mankiw indicates that a bigger budget deficit leads to higher levels of public debt, which in turn leads to lower levels of public savings. A rise in private savings as a reaction to a reduction in public savings will not be adequate to completely balance the decline in public savings, which will result in a decrease in national savings as a consequence of this fact. This will cause the national savings rate to fall. When national savings are reduced, domestic investment and

capital stock also fall short of their previous levels. This leads to a decrease in production as well as revenue, which ultimately results in a fall in GDP. As a direct result of this, debt acts as a drag on the expansion of an economy over the course of several years. This is clear from the data supplied in the table that is located above, which reveals that its coefficient is 9.5 and its probability value is 0.17. In a nutshell, the results of the research suggest that a decline in GDP of -9.5 percent may be anticipated over a period of time if there is a rise in total foreign debt of 1 percent. This can be predicted if there is an increase in total foreign debt of 1 percent. It has been shown that payments on foreign debt also have a negative connection with the expansion of GDP. In addition, the payment of interest and principal on Nigeria's foreign debt has a negative impact on the country's economic growth over the course of the long term. Because of this, payments on debt service shift money that were intended for growth by the government, which leads in debt service being a larger drag on the economy than the debt itself. This is also consistent with the hypothesis, and it is also compatible with the theory (Matiti, 2013). According to the figure that was just shown, an increase of one percent in the cost of servicing foreign debt over time leads in a drop of 9.19 percent of GDP. This is seen when looking at the data over time. On the other hand, as can be seen in the table that is positioned directly above this one, the exchange rate has a beneficial impact on the economy of Nigeria, which results in a value that is 0.005 points in the positive direction. The interest rate is a crucial instrument in the monetary policy, and the outcome given above illustrates that it is feasible for a country's economy to grow when interest rates are controlled correctly; Nigeria is not an exception to this rule. The interest rate is a key tool in the monetary policy. As is made abundantly obvious by the table that was provided before, the

conclusion that was drawn earlier illustrates a positively skewed but marginally significant association between the reserve and the growth of GDP.

Pairwise Granger Causality Test

Date: 05/19/22 Time: 05:45

Sample: 1971 2020

Lags: 9

Table 6.1 Granger Causality Result

NULL Hypothesis	OBS	F-STATISTIC	PROB
EXDT DO NOT GRANGER CAUSE GDP	41	1.61665	0.1716
GDP DO NOT GRANGER CAUSE EXDT		0.35321	0.9453
DSED DO NOT GRANGER CAUSE GDP	41	0.35851	0.9429
GDP DO NOT GRANGER CAUSE DSED		0.31963	0.9596
RER DO NOTGRANGER CAUSE GDP	41	0.5467	0.8247
GDP DO NOT GRANGER CAUSE RIR		1.77135	0.1318
TR DO NOT GRANGER CAUSE GDP	41	1.31354	0.2855
GDP DO NOT GRANGER CAUSE TR		0.9397	0.5119
DSED DO NOT GRANGER CAUSE EDST	41	0.88917	0.5500
EDST DO NOTGRANGER CAUSE DSED		4.12393**	0.0032
RIR DO NOTGRANGER CAUSE EDST	41	0.21241	0.9896
EDST DO NOTGRANGER CAUSE RIR		0.28588	0.9716
TR DO NOT GRANGER CAUSE EDST	41	0.96031	0.4968
EDST DO NOT GRANGER CAUSE TR		3.35442**	0.0099
RIR DO NOT GRANGER CAUSE DSED	41	0.50692	0.8538
DSED DO NOT GRANGER CAUSE RIR		0.23542	0.9851
TR DO NOT GRANGER CAUSE DSED	41	0.74713	0.6635
DSED DO NOT GRANGER CAUSE TR		3.10191	0.0146
TR DO NOT GRANGER CAUSE RIR	41	2.44115*	0.0424
RIR DO NOT GRANGER CAUSE TR		0.96952	0.7062

The findings of this regression tools Granger causality test are showing in ***Table 6***. There are three possible outcomes or interpretations for the number, and those three interpretations are as follows: When one variable has an effect on another but the other variable does not affect the other variable, a result is said to be unidirectional. When two variables both have effects on one another, the results are said to be bidirectional. When there is no effect running from one variable to the other, a result is said to have no direction and should be considered. Since this is the case, the rule of thumb or decision-making criterion for the Granger Causality test is that when the probability value is more than five percent, we agree with the null hypothesis, but when the probability value is less than five percent, we disagree with it and declare the null hypothesis to be false.

The table that can be seen above demonstrates that there are four outcomes that all turn out to be unidirectional for the following variable: GDP growth, which is utilized as a proxy for economic growth, along with real interest rate, debt payment on foreign debt total, and total reserve. The first result demonstrates that there is a unidirectional causation running from total debt stock total (EDST) to debt service on external debt total (DSED); that there is also a unidirectional causation running from total debt stock total (EDST) to total reserve; and that there is a unidirectional causation running from total reserve to total debt stock total (EDST). The first result demonstrates that there is a unidirectional causation running from total debt stock total (EDST) to debt service on (TR) The third and final result illustrates unidirectional causation running from total reserve (TR) to real interest rate, and the fourth result demonstrates unidirectional causation running from total reserve (TR) to debt service on external debt total (DSED) (RIR).

Residual Diagnostic Testing And Results

Table 7.1 Residual diagnostic results

	Jarque-	**Breusch-Pegan**
Breusch-Godfrey	**Bera**	**Godfrey**
Serial correlation	**Normality**	**Heteroskedasticity**
LM Test	**Test**	**Test**
Chi-Square:		
0.8709	0.84461	0.9731

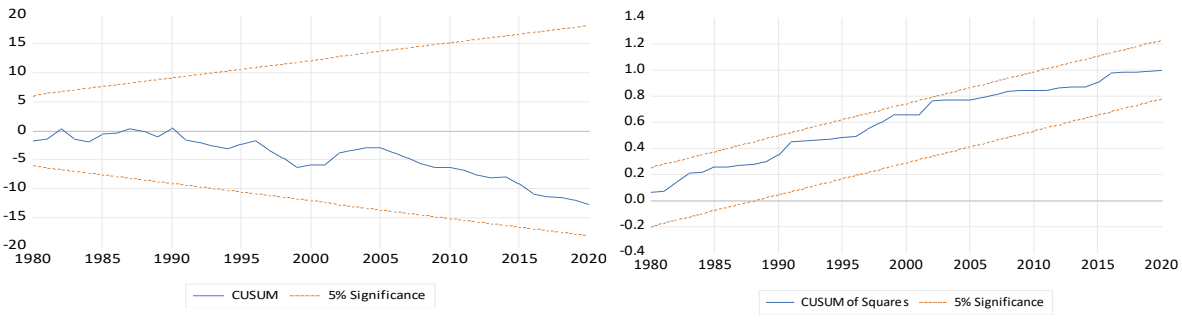
Source: E-Views 12 **Note**: ****; ** and * represents 1%. 5% and 10% level of significance used in this study.*

The findings of the Breusch-Godfrey Serial Correlation test, the Jarque-Bera normality test, and the Breusch-Pagan-Godfrey-heteroskedasticity test, together with their respective interpretations, are shown in the ***Table 7.1*** that can be seen above. This research used the ARDL model. In this analysis, the Chi-Square probability likelihood was used to make a judgment or in prediction for residual diagnostics of Breusch-Godfrey Serial Correlation, and Breusch-Pagan-Godfrey-heteroskedasticity tests. This was done in order to determine whether or not there was a correlation between two variables. It is possible to assess whether or not the consecutive importance of the error term is momentarily independent by using a procedure known as the serial correlation test. If the probability value of the error term is found sequentially connected to one another, then the estimated predictions will not be sufficient. Once again, the probability of the Chi-square test is utilized as the criterion for evaluation in this investigation of serial correlation. The reason being that, the result of this Breusch-

Godfrey Serial Correlation LM test, which is 0.8709, is greater than 5 percent, it suggests that there is no serial correlation. Since this suggests that the model is accurate, we will accept the Null hypothesis, which result states that there is no serial correlation, and reject the alternate hypothesis. To evaluate whether or not the residuals follow a normal distribution, the Jarque-Bera normality test is carried out. Because the probability value of 0.844613 is greater than the significance value of 5%, which indicates that our variables have a normally distributed, we must reject the alternative hypothesis, which states that the variables is not normally distributed, and we therefore hold the null hypothesis to be true, which states that the residuals are normally distributed. In order to assess whether or not the mistake exhibits continuous variance, the heteroskedascity test is carried out. The conclusion of the heteroskedasticity test, which was a Chi-Square result of 0.9731, shows that there is no heteroskedasticity, which suggests that the variables are homoskedasticity. Additionally, the significance level is higher than 5 percent, thus this finding is significant. As a result of this, we decide to go with the null hypothesis rather than the alternative hypothesis. Therefore, the model that was established in this research produces outcomes that are valid, trustworthy, and resilient.

Cusum and Cusum of Squares test Results

Figure 3.1 and 4.1 Cusum and CUSUM of Squares results



Source: E-Views 12

Stability Test Result (Dependent Variable: Gdp Growth As Proxy For Economic Growth)

Both the CUSUM of Squares and the results of the CUSUM stability test of the ARDL model used in this research are presented as followed: Additionally, the CUSUM of Squares is shown. The fact that the CUSUM and CUSUM of Squares graphs both fall within the significance limitations of 5% demonstrates that the model that was used in this investigation can be relied upon to provide accurate results. As a consequence, the findings of this research may be considered robust, trustworthy, and legitimate.

CHARPTER V

Conclution

According to the findings of this research, a substantial positive association exists between high levels of foreign debt and rapid economic development in the near term. On the other hand, the results of the long run regression analysis that were also looked at revealed that in the long run, economic growth and foreign debt have a strong link that is negatively correlated with one another. The conclusion that may be drawn from this finding is that in the near term, an increase in GDP will be proportional to an increase in foreign debt. On the other hand, the reserve holds true in the long run, indicating that there is a negative relationship between external debt and economic growth, with GDP serving as a proxy for this relationship in this research. This finding suggests that there is a negative relationship between external debt and economic growth. According to the Keynesian theory, the a priori hypothesis states that a rise in debt would contribute to a higher pace of economic growth. This is in keeping with the theory's underlying premise. The finished product did not turn out the way it was planned. On the other hand, research has revealed that the level of a country's total foreign debt has an inverse relationship with economic development. All of the aforementioned researchers—Atique and Malik (2012), Patillo et al. (2004), Ogege and Ekpudu (2010), and Ezeabasili et al.—presented data that lent credence to this hypothesis (2011). On the other hand, the findings of a number of additional studies provide evidence that contradicts these conclusions. For instance, Amooteng and Anoako (1996), Iya et al (2013), Bamidele and Joseph (2013), and Sulaiman and Azeez (2012) all discovered that economic growth is positively correlated with foreign debt. There is a connection between the Asian Tiger nations' high levels of external debt and their rapid economic growth. These countries include Malaysia, Singapore, Indonesia,

and Taiwan. This correlation may be related to efficient debt use and management on the part of these countries. (Momodu, 2012), The fact that debt provided much-needed finances despite the fact that those funds were not invested in productive endeavors with returns that were larger than the interest paid on the loan might be an explanation for the negative association between external debt and economic progress (cost of fund). It's possible that this was caused by poor policy formation, misappropriation, embezzlement, and other forms of unscrupulous behavior. When Okoye and Ani (2004) stated that governments should avoid thrifty spending, minimize waste and inefficiency, and seek to guarantee that proper social priorities are identified, they shared the opinion expressed above. An excessive quantity of debt might put a person in a position where they have an overhang of debt. The payment of high debts depletes resources, hence reducing the amount of money that is available for expansion.

Recommendation

As much as foreign debt is necessary to complement local resources and stimulate the economy, and as much as it is necessary to serve as a backup to the budgets of developing nations, Nigeria is not an exception. It is essential that the money that was borrowed be put to good use if serious implications are to be avoided, as an overhanging burden of debt. When an external loan is utilized for the purpose, it was meant for, the process of repaying the debt is simplified for both the current government and the government that will come after it. If a country has foreign debt, the money that it borrows ought to be spent on activities that will bring in income for the nation; but, if those borrowings are misapplied, the liabilities will be left for the subsequent government that will be in power. The purpose that is ultimately given to the money that was borrowed is of much more importance than the act of borrowing

money itself. Every intelligent accountant, economist, and policymaker should consider the nation's external debt their top priority worry at this point in time. Caution is required while handling it so that it may be put to its best use and generate a greater profit than the interest it earns (cost of fund). To recap, changes in the value of the naira are beneficial to the Nigerian economy, but the country's mounting foreign debt and the interest it must pay on that debt are not.

The Nigerian government and policy analysts have been provided the following suggestions report to apply in order to guarantee that Nigeria's foreign debt would be used in an effective and lucrative way:

1. The Debt Management Office (DMO) shall be put in place processes in ensuring that the funds from any external debt are utilized for the purpose that it was originally intended for when the funds were borrowed. Keeping a tight check on the ways in which the money is used might be one way to achieve this goal. ISSN 2054-6319 (Print), 2054-6327 (Online) 45 Vol. 4, No. 2, Pages 33-48, Published in February 2016 by European Centre for Research Training and Development UK (www.eajournals.org) ISSN 2054-6319 (Print), 2054-6327 (Online) (online)

2. The government of Nigeria need to use forward-thinking manufacturing technology in order to increase the country's domestic goods' competitiveness on international markets. In order to achieve this goal, efforts should be made to ensure that domestically manufactured goods and services are of a high quality so that they can compete favorably on both local and international markets. Doing so would increase Nigerian exports, discourage imports, and reduce the country's need for external debt, all of which would be positive outcomes. As a consequence of this, the exports of the

country need to be aggressively pushed via the revival of agriculture and the industrial sector, which would absorb the shock of a floating currency rate.

3. Only high-priority productive investments that will help create profits should be funded with external debt; this should be the only time external debt is used. This would help in acquiring sufficient cash to pay foreign debt; otherwise, the large external debt would plunge the nation into a series of "serious" economic challenges. This would help in obtaining adequate funds to service foreign debt.

4. The DMO need to set a maximum credit limit for both state and federal governments, with the selection of criteria to be used as the basis.

5. The government should exert significant effort to encourage economic diversity. As a direct result of this, the economy will be robust and healthy, resulting in a necessity for external debt that is far lower than it would otherwise be.

6. The laws that established anti-corruption agencies like the Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and Other Related Offences Commission (ICPC), and the Code of Conduct Bureau ought to be reevaluated by the government in order to make them more functional and efficient. Additionally, these anti-corruption agencies ought to be made independent of one another. As a direct result of this modification, there will be a reduction in the amount of misappropriated money as well as theft of cash received from external loans.

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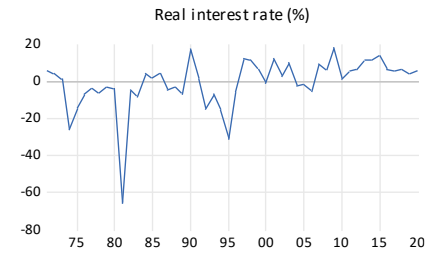
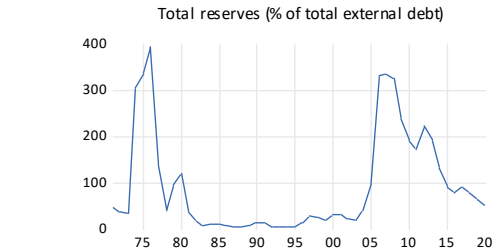
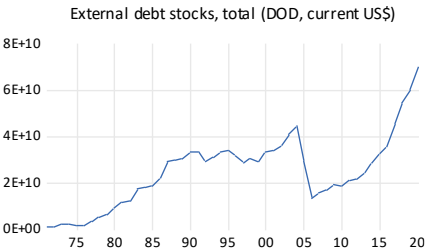
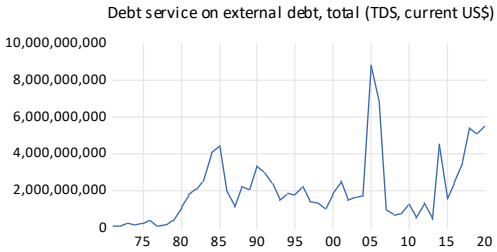
Appendix

Appendix 1 Is an illustration of Nigeria's Economy from the period of 1971-2020 on vital economic.









Appendix 2 Descriptive Statistics

	Nigeria GDP Growth	External debt stocks, total	Debt service on external debt, total	Real interest rate	Total reserves
Mean	3.404941	2.46E+10	2.09E+09	-0.701700	91.80775
Median	4.217446	2.85E+10	1.67E+09	1.956244	37.57331
Maximum	15.32916	7.06E+10	8.81E+09	18.18000	392.9449
Minimum	-13.12788	9.60E+08	94468727	-65.85715	3.149426
Std. Dev	5.635265	1.56E+10	1.85E+09	13.66140	109.7226
Skewness	-o.663021	0.484275	1.531950	-2.434156	1.368933
Kurtosis	3.947392	3.406476	5.478374	11.88551	3.642955
Jaque-Bera	5.533205	2.298569	32.35380	213.8604	16.47772
Propability	0.062875	0.316863	0.000000	0.000000	0.000264
Sum	170.2471	1.23E+12	1.04E+11	-35.08502	4590.387
Sum Sq. Dev	1556.055	1.19E+22	1.67E+20	9145.058	589913.0
Observations	50	50	50	50	50

Appendix 3 Augmented Dickey Fuller (ADF) result

	Augmented Dickey Fuller (ADF)				
Variables	**Levels**		**1st Difference**		**Order of integration**
	t-Stats.	**P-Value**	**t-Stats.**	**P. Value**	
GDP Growth	-1.898220**	0.3300	-4.707748	0.0005	I(I)
External Debt Stocks, Total	-0.366085**	0.9066	-3.987820	0.0032	I(1)
Debt Service on External Debt, Total	-1.727853***	0.0796	-7.677793	0.0000	I(I)
Real Interest Rate	-3.281209***	0.0848	-4.269287	0.0092	I(I)
Total Reserves	-2.901428**	0.1712	-6.951636	0.0000	I(I)

Appendix 4 ARDL Bond test results

F-Bond Test		Null Hypothesis: No levels relationship		
Test Statistics	Value	Signif.	I(0)	I(I)
		Asymptotic n=1000		
F-Statistics	8.747997	10%	2.2	3.09
K	4	5%	2.56	3.49
		25%	2.88	3.87
		1%	3.29	4.37
Actual Sample Size	49	Finite Sample: n=50		

Appendix 5 ARDL short-run results

Variable	Coefficient	Std. Error	t-statistic	Probability
GDP Growth	-0.025039	0.14697	-0.174246	0.8625
External Debt Stocks, Total	4.90E-10	2.01E-10	-2.437575	0.0192**
Debt Service on External Debt, Total	-9.42E-10	5.39E-10	-1.746606	0.0882
Real Interest Rate	0.154216	0.051258	3.008634	0.0045**
Total Reserves	0.012317	0.006788	1.814483	0.0769
ECM	-3.92422	1.350932	-2.90151	0.0059
	R- Square	0.42	**Adj. R-Squared**	0.32

Appendix 6 ARDL Long-run results

Variable	Coefficient	Std. Error	t-statistic	Probability
External Debt Stocks, Total	-9.56	6.95	1.37	0.17*
Debt Service on External Debt, Total	-9.19	5.05	-1.82	0.07
Real Interest Rate	0.24	0.06	3.90	0.00**
Total Reserves	0.01	0.00	1.83	0.07

Appendix 7 Granger Causality Test Result

4.7 Pairwise Granger Causality Test

Date: 05/19/22 Time: 05:45

Sample: 1971 2020

Lags: 9

Table 6.1

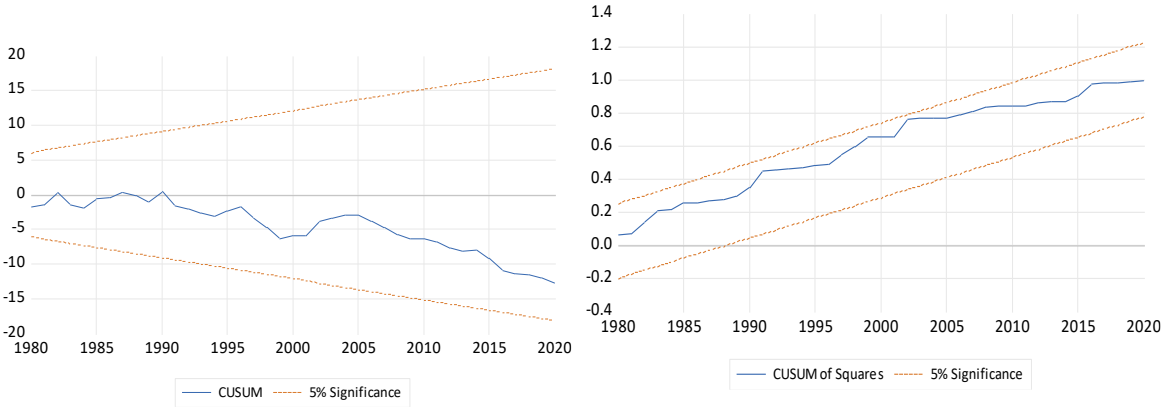
NULL Hypothesis	OBS	F-STATISTIC	PROB
EXDT DO NOT GRANGER CAUSE GDP	41	1.61665	0.1716
GDP DO NOT GRANGER CAUSE EXDT		0.35321	0.9453
DSED DO NOT GRANGER CAUSE GDP	41	0.35851	0.9429
GDP DO NOT GRANGER CAUSE DSED		0.31963	0.9596
RER DO NOTGRANGER CAUSE GDP	41	0.5467	0.8247
GDP DO NOT GRANGER CAUSE RIR		1.77135	0.1318
TR DO NOT GRANGER CAUSE GDP	41	1.31354	0.2855
GDP DO NOT GRANGER CAUSE TR		0.9397	0.5119
DSED DO NOT GRANGER CAUSE EDST	41	0.88917	0.5500
EDST DO NOTGRANGER CAUSE DSED		4.12393**	0.0032
RIR DO NOTGRANGER CAUSE EDST	41	0.21241	0.9896
EDST DO NOTGRANGER CAUSE RIR		0.28588	0.9716
TR DO NOT GRANGER CAUSE EDST	41	0.96031	0.4968
EDST DO NOT GRANGER CAUSE TR		3.35442**	0.0099
RIR DO NOT GRANGER CAUSE			
DSED	41	0.50692	0.8538
DSED DO NOT GRANGER CAUSE RIR		0.23542	0.9851
TR DO NOT GRANGER CAUSE DSED	41	0.74713	0.6635
DSED DO NOT GRANGER CAUSE TR		3.10191	0.0146
TR DO NOT GRANGER CAUSE RIR	41	2.44115*	0.0424
RIR DO NOT GRANGER CAUSE TR		0.96952	0.7062

Appendix 8 RESIDUAL DIAGNOSTIC TESTING AND RESULTS

	Jarque-	Breusch-Pegan
Breusch-Godfrey	**Bera**	**Godfrey**
Serial correlation	**Normality**	**Heteroskedasticity**
LM Test	**Test**	**Test**
Chi-Square: 0.8709	0.84461	0.9731

Source: E-Views 12 **Note**: ****; ** and * represents 1%. 5% and 10% level of significance used in this study.*

Appendix 9 CUSUM and CUSUM of Squares test Results



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