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The Effect of External Debt on Economic Growth of Nigeria

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ABSTRACT

This research is carried out to determine the effect of external debt on economic growth of Nigeria. The research design used in this research work is ex-post facto. In this research, most of the data used is obtained from already published data. These documents included annual reports and accounts, NBS reports; CBN bulleting and facts book from the Nigerian Stock Exchange (NSE), newspaper reports, internet reports as well as other relevant financial and business publications. A Data was analyzed using tables, ratios, and percentages. The hypothesis was tested using regression. This research, find that the largest of the Nigeria's debt in contemporary years is borne on multilateral and small portion of it on other debts instruments. It is to this view, that the result showed a negative impact on GDP of Nigeria. Also, the coefficient of determination proved that there are enough variable tested to determine the relationship of GDP and external debt. We recommend the following, which shall contribute to the improvement in the management of external debt decisions. The total external debt incurred should be channeled towards the purpose meant for its existence.

KEYWORDS: *Determinants, External debt, Economic Growth*

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INTRODUCTION

Few areas of economic crisis are more discussed than the External debt crisis of the third world countries and the painful structural adjustment program imposed on the majority of us by our creditor countries and the IMF, which are trying to under write the debts Debt burden inhibits our economic progress and revival, it weakens investment and crowd out growth. In 1996, Nigeria was listed as an of the world's most indebted countries, though it's name has been removed from the list, debt crisis cannot be relegated to position of unimportance Debt arising from monies raised by the government either from internal sources (Domestic debts) or external sources (Foreign debts) for the execution of government programmers When government actual revenue performance fall short of projected estimates, government resorts to borrowing to finance its projects that are of social and economic importance to the nation. Funds form internal sources includes Treasury Bills, Certificates and Government Development Stocks When funds are source from external bodies like Paris club, London club, Multilateral and Private sectors, external debt is incurred

The Nigerian economy is undergoing a major debt crisis, the most serious in its history since the country gained independence as with other third world, debt is a wide range of crisis accumulation, which is believed to have resulted in a marked part of a deterioration in the aggregate balance of payments deficit, and gap between government revenue and expenditure, the collapse of social services and infrastructures, an escalating level of inflation, an acute shortage of basic consumer goods, a decline in standard and external assets Without doubt it is strongly believed that there exists an organic link between the decline in Nigeria's economic performance, the foreign exchange crisis and burden of debt management. The process of managing Nigeria's external debt called for the introduction of some kind of economic stabilization program to provide the policy framework for the servicing, refinancing and rescheduling of the country's outstanding loan obligations. In the face of the country growing debt crisis, foreign culture begin to insist on the articulation and implementation of austerity measures as a pre- condition for negotiating terms for the reheating refinancing and servicing of Nigeria's debt and unblocking lines of credit: They

were encouraged in this by the IMF and the World Bank, the institutions that monitor stabilization program in the international cosmic system, a control of the various forms at the disposal and the stick of punitive international financial boycott to impose a particular kind of adjustment package on the developing countries

Nigeria an oil rich state was very buoyant until the late 1970's when she took the first jumbo loan, since then there has been an incessant cases of borrowing from the international community at non-concessional interest rate. Decline in oil earning from the 1970's and the emergence of trade arrears lead to further borrowing. The inability of government to repay both principal and interest of borrowed capital have resulted in the accumulation of arrears and have attracted penalties that put unbearable burden on the economy and masses at large. The process of managing Nigeria's external debt called for the introduction of some stabilization program, foreign countries insist on the articulation and implementation of austerity measure as a pre-condition for negotiating terms for the rescheduling, re-financing and servicing of external debt and unblocking line of credit. It is believed that debt service put the government in a position where lesser attention and resources are allocated to core areas of the economy like education, Health and Poverty Alleviation. It is also believed that external debt weakens our trading position and our resources so we are unable to trade fairly. There is this notion that if we are to revive our economy, we need to have respite from debt especially external debt.

OBJECTIVES OF THE STUDY

The central objective of this research is to assess the impact of External Debt on the economic growth in Nigeria. Other specific objective includes:

1. To examine how the Multilateral Debt have an impact on the Economic Growth of Nigeria.
2. To examine how the Paris Club Debt have an impact on the Economic Growth of Nigeria.

For the purpose of evaluating or in order to efficiently and objectively analyze or achieve the above objectives, these hypothesis is formulated thus:

Ho1: Multilateral Debt (MLD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

Ho2: Paris Club Debt (PCD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy.

LITERATURE REVIEW

EXTERNAL DEBT DEFINED

External debt refers to the unpaid portion of external financial resource required for development purpose and balance of payment support (CBN.2019). External debt is the debt incurred not only by borrowing money or services from banks and creditors aboard but also money owed to countless number of foreigners among us and private sectors Aluko (2018). The world bank define gross external debt on the amount, at any given time of disbursed and out- standing contractual liabilities of residents of a country to non-residents to repay principal with or without interest, or to pay interest, with or without principal The above definition was formulated to meet the requirements of a wide range of users-banks, export credit guarantee agencies, officials involved in international financial co-operation, economic analyst and economic planners Generally, total gross external debt could be said to be privately non-guarantee long-term loan made to a country, from various sources Ngotta (2019).

REASONS FOR EXTERNAL DEBT

There has been sustained debate on the justification for external borrowing for developing countries, especially in view of the negative effects of debts on their economies and the experience of virtually all debtor countries of the third world. Ngotta (2019) sought to justify debt in a recent study He articulated four primary motives for external borrowing as: To smoothen consumption: To invert if domestic marginal product of capital exceeds the world cost of funds: To facilitate internal transaction: To ease the transaction to a new economic environment. Aikhomu (2018) amplified further some reasons for resorting to external borrowing. According to him, external loan is required to supplement domestic savings which makes possible a higher rate of capital formation. As a corollary we can borrow externally to execute viable projects, to build up a country's external reserve position and hence strengthen the heredity position of the country, to absorb major external shock (in external resource flows) in order to avoid wasteful deflation and stagnation, to serve as financial intermediation in countries with weak financial markets.

The main thrust of the argument on the economics of external borrowing is that the resources gap, expressed in terms of lack of adequate foreign exchange and domestic savings in the cause of demand for external resources by developing countries. Anyafo (2019) The above views cannot be used to justify the importance of external debt in the contemporary world of today. This is become the criteria for borrowing here more or less shifted from economic emphasis to political emphasis. This is why emphasis has been shifted from domestic debt to external debt, both of which makes up the national debt. However in an economy growing under the

influence and forces of rising investments, there are chances for investments to rise ahead of saving, creating a demand for external finance to fill the gap between saving and investment The role of some of the external debt incurred comes through international corporation, foreign investment in the bid of trying to supply the missing component, in the form of extra saving foreign exchange or skills, so as to accelerate the government organized march of people towards take-off. The inflow of this capital can also form part of the stock of money and hence increases incomes and social welfare in recipient less developed countries. Adam Smith (1976) argued that public debt rather than diminish, augment the wealth of the citizens and the trading capital of the merchants. He further said the borrower (government) may use it as either a "capital or as a stock reserve for immediate consumption If the government uses it as capital, that is, it is employed in the acquisition of capital and maintenance of productive laborer, through which profit is maximized. The government can, in this case both restore the capital and pay the interest without encroaching upon any other source revenue This according to him would lead to growth manifestation. However, if the government uses it as stock reserve for immediate consumption, the government acts the part of a prodigal, dissipates resources in the maintenance of the idle, what was destined for the support of the industrious The end point is further accumulation of debts. Keynes (2016), also argued in the same direction on the importance of national debt, as an economic necessity and as accelerator of economic growth This might be quite true. However, it did not take into the account of the burden imposed on the future generation. In the days of Adam Smith and Keynes they were more or less concern with the causes of wealth, and not on the burden and after effects of debts on future generation: Aluko (2018) supported Smith and Keynes' ideas and argued that it is when we regard government expenditures as wasteful and unproductive that we argue that the real evil of public debt lies in the destruction of capital which it facilitates. This could not be a measure of debt. For instance, money borrowed to finance a capital project is diverted into financing current expenditure projects, which could not, at the end, yield a return to pay back this loan, could not be justified even though it has been used in solving some problems Some scholars have also agreed that borrowing is necessitated by lack of the ability to save. For that reason, it has reduced the rate of investment and for that, there is the need to borrow externally Thimodu (2019) states that Foreign resources are capable of replenishing the dearth of domestic savings in developing nations, While a particular size of saving or investment is required to attain a target rate of growth there is always a difference between planned investment (IP) and planned saving (SP) The saving gap (SG) is taken as an indication of the size of foreign resources required for achieving a planned growth rate

This can be expressed as

$$FR= Sg =SP =IP$$

Where (Sp) is greater than (Ip) implies that insufficient domestic resources are available to support the level of investment. According to Thimodu, under this situation given the required foreign resources, the Development Nation will achieve the target growth on the assumption that all the foreign resources are invested. This could be true to a certain extent. Generally, the demand for foreign resources, including external loans, by Development Nations is based on the ability of these resources to relieve the nations of the burden of scarce domestic saving and foreign exchange requirement. However, he did not include the variables of unforeseen contingencies in his analysis. The can also warrant a nation to seek for loans or fund even though the nation had calculated the amount of fund required, based on the difference between the planned investment (Ip) and planned savings (Sp) Howzard (2018), stated the demand for foreign borrowing to supplement domestic savings and increase available foreign exchange has been a feature of many countries at particular points in their historical development. Thimodu (2019) had also felt the same way. They argued that it depends on the saving functions If for instance, savings is substantially determined by government policy, the saving effort pursued will be less vigor if large amount of foreign exchange are available to them the amount of foreign exchange available and the government policy determines saving The later could be true, but the former could not be accepted as a determinants of saving It is not based on the demand for foreign exchange Olannye (2016), from empirical study, he discovered a negative relationship between foreign resources and domestic savings and concluded that foreign resources tend to reduce savings and therefore, cannot stimulate growth. Sanusi, (2019) supported Rahman. He argued that if savings is a function of investment opportunities, then opportunities may be pre-empted by inflow of foreign resources, leading to a decline in saving. He however, argued that if investment is a function of exchange available to import capital goods or other inputs, to keep installed capacity functioning, then an inflow of foreign resources would raise income and therefore savings

EXTERNAL DEBT BURDEN

External debt burden arises when domestic production and for consumption are foregone in order to pay interest and amortized external debts Aboloye (2020). According to him it is assumed that debt burden becomes excessive when the increase in goods and services made available by external loan outweighed by the reduction of available local goods as servicing cost are paid to external creditors. The external debt has really brought burden on the entire masses. It is on this ground that some scholars and economics analyst has tend to condemn. Robert (2018) defined three-debt burden indebted nations have to bear They are project, economic and financial burdens. The project burden according to him is a cost of paying for the interest and amortization on specific loan and is the same for domestic loan. It is based on the Cost-Benefit analysis, ie only those for which the returns exceed the Cost should be undertaken. The economic burden relates to the totality of loans to the economy as a whole, it is view from the perspective. These are measurement of borrowing in the economy through the marginal productivity of capital (MPC) But due to inaccuracy of data it is difficult to use this concept. The other alternative is the debt/GDP ratio investment/expenditure ratio and the general trend in the external borrowing. The third burden is the financial burden; it is important but difficult to define. Since it is a possible rather than a certain outcome. However, he stressed the need to maintain sufficient external reserve at any given period to finance adverse swing in the cost of import to export revenue in the short-run. This assertion could not be true Determination of the adequacy of reserve at any given time poses a problem since the volume and prices of international trade fluctuate too frequently for a longer run, a debt service ratio and debt/export should be used. Robert failed to consider among all other variables, the question of accumulated trade arrears, with its attending problem of refinancing and rescheduling, which is now a prominent feature of the external debt as well as the internal debt. Robert (2018), also claimed that high growth rate of gross national product (GNP), shows that the economic burden has been reduced (by means of lower debt/GDP ratio) This, however may not be true especially where there is a high debt/export and debt service/export Obadan (1982), argued that the situation low deb/GNP cannot mean that there is no problem. The increase in the debt has created a problem in the form of inflation

Mcdougall (2019) argued that excessive debt payment in order to offset the balance of payment burden usually have serious impact economy primarily because they tend to interfere with attempts to achieve domestic macroeconomic goals. Obadan, (2021), argued that policy of repaying debt rapidly would be unsound to pay off a sizeable fraction of the debt, the government would have to run large surpluses, and this might ruin the economy. This he meant that excessive payment of external loan could destabilize the internal sector, this is because it constitutes leakage to the internal sector and hence less saving, high price, high lending rate because of the credit constraint caused by the leakage The ultimate point, is disinvestment, unemployment and other social crisis. Sanusi, (2019) said that foreign loan has always been a two-edged instrument for debtor countries. She summed it up as Indispensable for the emancipation of rising capitalist states and at the same time the surest means for the old capitalist states to patronize the young ones, to control their finances and to exert pressure on them foreign customs and trade policies. It is on this basis that Obadan, (2021) had argued that one of the these International monetary authorities and its allied institutional abroad, was to raise consumer prices, inflation, decrease in the value of wages, and increase in the profits of multinational companies in Nigeria, through the concept of private investment transfer He justified his point by looking at the policy the Federal adopted through 'SAP' He stressed that federal Government raised interest rate from 9 percent in 1983 to 15 percent in 1987 The devaluation of the currency and rise in the interest rate, pushed the profit of the multi-national companies (MNCs) to limit unsurpassed in Nigerian history It is hardly surprising therefore, that the second report of the commission published in 1983 considered third indebtedness in general and Nigerian in particular, stressed that it affected the living condition of most of humanity.

Ogbeifun, (2017), he stressed that the international monetary authorities have also learned that the time for its Structural Adjustment Program (SAP), was initially overly optimistic in its expectation of time required to implement structural reforms and that early program were often too complex. The short-term loan maturity, couple with high debt servicing, has meant that more and more developing indebted nations would have to used more than more loan to settle old debts, with the result that the net inflow decreased. The scope for financing future- oriented investments with foreign loans was consequently reduced, foreign loan no longer supplemented national investment capital and foreign debt lost its developmental legitimation, Obadan, (2021). Sanusi, (2019) have shown, that loans offered by foreign donors to developing nations in the name of external aid have been used effectively as export promotion

device, investment outlets for foreign entrepreneurs, strategies for perpetuating economic dependency and techniques for mounting external influence on the economy of the recipient nations on the economics of external aid, (Olannye, 2016) states that. The quantum of "aid" from the rich to the poor countries had only a marginal effect on the development process of the latter The variety of restrictive provision some of which were down right brutal with which such aid was provided Not only diminished its effectiveness, but actually worsened the economic, social and cultural conditions in the recipient countries Ezenwe (2022) summed up his dissent on the impact of external debt on development along with such other dissenters, like Peter Bauer by asserting that "in theory, there is no conclusive evidence that external aid is a sin qua non for economic development"

DEBT MANAGEMENT STRATEGIES

The studies by Akinmade (2018), and Sanusi (2019) all agreed that efficient debt management option must seek to eliminate the central problem of debt overhang, remove fiscal rigidities in the economy, achieve debt reduction on the short run, eliminate credit rationing effects, improve the performance of macroeconomic aggregate and thus contain net resources outflows (capital flight) and finally achieve a sustainable debt burden.

DEBT CONVERSION OR DEBT CAPITALIZATION

This in broad sense is the exchange of monetary instrument (eg promissory notes) for tangible assets or other financial instrument, It is a method of reducing a nation's burden by changing the character of its debt. Aminu and Anono (2019) stated that, in order to check inflation, the amount of debt conversion in a year would be carefully controlled to minimize its effect on prices

DEBT EQUITY SWAP

This method involves the exchange of the country's external debt denominated in foreign currency for local currency which may be utilized to set up new enterprises or purchase of equity shares in existing enterprise which has been designated for the purpose" Aminu and Anono (2019) It could also be define as "debt trading below its face value". The aims of this method, was to reduce the country's external debt burden since the creditors would have to take up equity share in the debtor nation. The buy-back arrangement implies the offer of a substantial discount to pay off an existing debt. This type of arrangement was concluded on 21st January, 1992 when Nigeria bought 620 percent or US$3,395 billion commercial debts owed to the London Club at 60% discount (CBN, (2019). The indebted nation makes some commission in the process of discounting Its merits also includes, repatriation of flight capital, stimulation of local capital market, stimulation of local privatization, in spite of the benefit listed above, it has some set back and this includes, possible adverse monetary expansion leading to inflation, which may affect the inflow of foreign investment Ojo (2018)

MONETARY AND CREDIT POLICIES

Rapid growth in credit and money supply fuels inflation and worsens the debt for this reason, limits on money and credit expansion are key element of all fund- support adjustment program, (CBN, 2019). In a bit to encourage savings, investment and mop up the excess liquidity outside the banking system, deregulation of interest rate introduced. The policy was based on Mckinnon-shaw (2013) hypothesis. The thesis contend that financial sector is growth including, but that when repression come as a fetter or obstacles in the path of real growth This role of financial sector arises from the transfer of savings from the households to investors. They pointed out that the inability of Developing Countries to attain real positive growth as a result of the interventions which takes the form and low rates often stipulated in nominal terms resulting in low and sometimes positive rates of return on financial assets even in the face of high inflation

DEBT RESTRUCTURING

Debt Restructuring involves the reduction in the burden of an existing debt through financing, rescheduling, buy back, ounce of collateralized bonds and the provision of new money. Refinancing: A refinancing arrangement involves the procurement of a new loan by a debtor to pay off an existing debt, particularly short-term trade debt. The new loan may be contracted from the same creditors or a new set of creditors as the case may be The repayment of such debts normally negotiated with the creditors is obtained in the loan agreement. The first refinancing arrangement by Nigeria was made in July, 1983, followed by the second agreements, in September of the same year. In both agreements, US$2 billion worth of trade arrears on confirmed letters of credit were financed (CBN Report 2019) The applicable interest rate was 15 percent above the London Inter-Bank Offer Rate (LIBOR) By 1986, Nigeria had repaid the total amount involved in the two agreements: Other refinancing agreements have been contracted to ease the debt burden. Debt Rescheduling: The rescheduling of debt involves changing the maturity structure The debt is usually spread over a longer period until it is finally

liquidated for example, in 1986 debt worth USSI 6 billion due to the London Club and payable in 1987 was rescheduled in a rescheduling agreements, involving the London and Paris Clubs. The essence is to allow the debtor nation me breathing space to spread repayment of both principal and interest over a long period without some interest rate concession. To enable the nation attends to other pressing domestic needs. This method has also created burden for the nation, Higher debt-service burdens and shorter loan terms meant the use of more loans to settle old debts. The buy-back arrangement: implies the offer of a substantial discount to pay off an existing debt. This type of arrangement was concluded on 21st January, 1992 when Nigeria bought 620 percent or US$3 395 billion commercial debts owed to the London Club at 60.0% discount

REASONS FOR NIGERIA EXTERNAL DEBT PROBLEM

Sanusi (2018) and Ojo (2019) have both identified two major factors that were responsible for Nigerian external debt problem, namely the events that took place within the domestic economy, The expansionary monetary and fiscal policies as well as the exchange rate and pricing policies which were pursued during the period which resulted in various forms of economic distortions such as domestic inflation's, overvalued exchange rate, capital flight wrong alignment of relative price excessive importation and the lack of incentive for export oriented projects, and land behavior of the international commercial banks of which Nigeria was a victim Secondly, the rapid world economy growth of the 1970s combined with low interest rate and high export growth as well a the belief that "countries never go bankrupt" prompted the banks to increase their lending especially as a lot of the resources from oil had to be recycled without the least concern for the risk of such actions. According to the Ogbeifun, (2017) first bank Business and Economic Report, the sum total of the factors that contribute to the Nigerian's present debt crisis can be traced to, little investment, high consumption, over regulation of the economy poor external debt management policies, deteriorating lending terms, incoherent fiscal and monetary policies, decline export earnings supposedly from the oil sector above all, lack of proper accountability and stewardship. The remote causes of the debt overhang is essentially structural in nature, arising from the peripheral nature of the Nigeria economy in the world economic relations Essentially the disarticulation of production and consumption profiles in Nigeria is a signal factor which has a profound effect on the debt crisis This as a contradiction in the development planning process. Nzotta (2019) According to Olukoshi (2019) This contradiction arises from the fact that the country stands as a peripheral appendage in the international capitalist economy to supply natural economic resource to western countries and to serve as a market for the advanced countries surplus manufactures.

RELATIONSHIP BETWEEN INVESTMENT GROWTH AND EXTERNAL DEBT

The relationship between growth, and indebtedness has received a lot of attention in literature. According to Ojo, (2019) the debt overhang theory states that " Beyond a point high external debt nets as a tax on investment since a fraction of whatever is gained in increased output goes to the creditor in the form of debt service payment" consequently, high indebtedness leads to low investment, low growth and low payment on indebtedness Ajayi and lycha (2017) By the late 2002 and early 2015 the thinking that a high debt burden (as measured by the carious indicators) represented a constraint to the economic growth of developing countries became widely accepted. It has been shown that high investment which in turns leads to low growth and ultimately low debt repayment. The empirical findings based mainly on middle-income countries and a relative few studies on Africa, finds a significant negative relationship between investment (and/or growth) and dent variables The empirical evidence largely suggest that the decline in investment occurred at the same time with the onset of the debt crisis (Ojo, 2019). Most of the studies on the determinants of investment in heavily indebted countries in the last two decades found an increase in the debt burden to be associated with a decline in both total and private investment.

THEORITICAL FRAMEWORK

Adam Smith Theory on Debt Adam smith (1976) argued that debt rather than diminish the earning of citizens and trading capital of the merchants, He further said that the borrower (government) might use it as either a "capital" or as a "stock reserve" for immediate consumption. If the government uses it as a capital that is it is employed in acquisition of capital maintenance of productive labourer, through which profit is maximized. The government can in the case both restore the capital and pay the interest without encroaching on any other sources of revenue. This according to him would lead to growth manifestation. However, if the government uses 'it as stock reserve for been an immediate consumption. The government acts the part of a prodigal, thereby dissipating resource in the maintenance of idle, what was destined for the support of the industrious. The end. point is further accumulation of debt. The follow-up to this theory that Government of' the world takes external debt to pay off external debts thereby not

distorting current income and expenditure (budgetary provisions). **Keynesians Theory** Indebtedness does not bring about charges either for future generations or present generations as a result of the investments that it generates. According to this theory, indebtedness, which revives demand, results in more proportionate increase in investment through the accelerator effect? This in turn leads to a arise in production. According to Keynes (2016), monetary restraint decrease in money would cost high interest rate, stratify investment and therefore cause a fall in real income. Although the impact of inflation was not expressly stated has regard its relationship with interest rates. However, one could deduce the direction of prices to rise since according to Keynes, high interest rate would stratify investment and full income which in turn meant low productivity capacity of firms and society. By implication, the Keynes theory or model view external debt as funds sourced by Government to boost its current economic output level, it is considered as an acronym for foreign direct investment (FDI). Though, a fixed interest charge rate. **Modigliani-Miller Theorem** The theory of business finance in a modern sense starts with the Modigliani and Miller (2018) capital structure irrelevance proposition. Before Modigliani and Miller, there was no generally accepted theory of capital structure. They start by assuming that the firm has a particular set of expected cash flows. When the firm chooses a certain proportion of debt and equity to finance its assets, all that' it does is to divide up the cash flows among investors. The classic paper is by Myer (2023) in which consideration of both personal and corporate tax determines an economy- wide leverage ratio, but there are multiple equilibriums in which debt is issued by different firms. The most commonly used elements include consideration of taxes, transaction costs, bankruptcy costs, agency conflicts, adverse selection, lack of separation between financing and operations, time varying financial, market opportunities, 'and investor clientele effects, Alternative models use differing elements from this list. Given that so many different ingredients are available, it is not surprising that many different theories have been proposed. Covering all of these would go well beyond the scope of this paper. As an empirical proposition, the Modigliani-Miller irrelevance proposition is 'not easy to test. With debt and firm value both plausibly endogenous and driven by other factor such as profits, collateral growth opportunities, etc., we cannot get a structural test of the theory by regressing value on debt. However, the fact that there are fairly reliable 'empirical relations 'between a number of factors and corporate leverage, while not disproving the theory, does make it seem 'an unlikely characterization of how real businesses are financed. What then to make of the theorem? A popular defense has been to argue as follows. "While the Modigliani-Miller theorem does not provide a realistic description of how firms finance their operations, it provides a means Of finding reasons why financing may matter," Accordingly, it influenced the early development of both the trade-off theory and the pecking order theory. Here, fund by Government is generated by either borrowing from outside i.e. internationally or otherwise and it could be done by raising funds through equity. They are chosen in certain proportion.

EMPIRICAL FRAMEWORK

Edet - Nkpubre (2019) demonstrated numerous studies have been carried out to examine the relationship between external debt and economic growth, external debt and economic development, institutions and economic growth; but little or no attention has been made to simultaneously explore the relationship between external debt, institutions, economic growth and economic development. This paper focuses on that neglected aspect by exploring the relationship between economic growth and development; external debt and economic growth; institutions and economic growth arid ultimately external debt management and economic growth. Eravwoke and Oyovwi (2019) argued that the Econometric method of co integration technique was applied to establish quantitative impact and relative significance of the exp1anato variables. The Study shows that there exists a long, run relationship among the major macro-economic variables. The results show that External debt burden, foreign direct investment, inflation and Export have a positive relationship with economic growth. The study recommends that the Nigerian government should not contract further unproductive debt as it may be detrimental to the growth and development, of the economy. lxxxvii The model built for the study proxy gross domestic product as the endogenous variable measuring economic growth as a function of FDI, external debt, external reserve, inflation, and exchange rate proxy as the exogenous variables. Annual time series data was gathered from the Central Bank of Nigeria Statistical bulletin from 1990 to 2018. The econometric techniques of Ordinary Least Square (OLS), Augmented Dickey-Fuller (ADF) Unit Root test and the Granger Causality test are employed in the empirical analysis. The Ordinary Lest Square (OLS) result shows that a positive relationship exists between FDI and Economic Growth variables while an inverse relationship exist between External Debt and Economic growth. The findings from the granger causality test show that

causality runs from GDP to. FDI and external' debt engender economic 'growth in the Nigerian economy. The study recommends that government should ensure economic and political stability that will encourage capital inflow and reduce external debt so as to lead the economy to the next stage of growth, (Bamidele and Joseph, 2019). In the View of Okon, Augustine and Chukwo (2019), the controversy surrounding the choice between domestic and external borrowing is still considered a crucial policy issue. This paper investigated the relative impact or potency of both external and domestic debts on the performance of the Nigerian economy with emphasis on which of the debt type exert more impact or influence on the lxxxviii major macroeconomic variables of per capita GDP and gross domestic investment. Time series data were obtained from various sources from 1970 to 2017 and were further subjected to series of econometric analysis. The result reveals that external debt is superior to domestic debt in terms of economic growth, external debt and not domestic debt crowd-out domestic investment in Nigeria. The direction and size of the coefficients of external and domestic debts, in the investment model were (-) 0.245 and (+) 1.182 respectively. Other results show that, real exchange rate is a positive and significant determinant of economic growth; interest rate is a negative and significant determinant of domestic investment in Nigeria. The paper concludes that government should have recourse to domestic market-based borrowing in order to help mobilize domestic saving and stimu1at domestic investment in Nigeria. Ekperiware and Oladeji (2020) stressed that within the year 1913 to 2019 with a view to examine the effect of external debt relief on economic growth in Nigeria, the effect of huge external debt of less developed countries is believed to impede investment resources. This has resulted in debt restructuring of various kinds in Nigeria with some concesiona1 loans, as well as the external debt relief in 2015. A decade after the debt relief critical sectors of the economy such as education, health, electricity, transport and exchange rate etc. suppose o show evidence or sources of such debt relief. Some studies found the effect of external debt relief' to be doubtful, especially on economic growth. Hence, a scientific study of the debt relief granted Nigeria by the Paris club in 2015 is here evaluated in respect of the effect on economic growth in the country. The study used quarterly time series of external debt, external debt service and real gross domestic product to determine the structural break effect of external debt on economic growth in the Nigeria as a result of the debt belief. The resulted the chow test showed that the 2015 external debt relief caused a structural break in economic growth relationship with external debt in Nigeria. The study further showed that' beside the reduction in aids resources were freed for economic growth projects in health and education sectors. Conclusively, the external debt relief did make available resources for economic growth in Nigeria. Countries are therefore recommended toward discretional concessional borrowing and see external debt relief as a good option for poor unsustainable indebted countries as a way of making resources available for economic growth. The real sector should be the focal point where value is created rather than impeding it with mismanagement arid servicing debt.

METHODOLOGY

The research design used in this research work is ex-post facto. In this research, most of the data used were obtained from already published data. These documents included annual reports and accounts, NBS reports; CBN bulleting and facts book from the Nigerian Stock Exchange (NSE), newspaper reports, internet reports as well as other relevant financial and business publications. The data gathered from these reports reflect the historical economic performances under study. Accordingly, the cause-and-effect relationship between dependent variables (GDP Gross Domestic Product) and independent variables, MLD Multilateral Debt of Nigerian Economy and PCD Paris Club Debt of Nigerian Economy, were examined. The study involves a test of relationship, the Pearson's product moment correlation (PPMC) and multiple regression technique is adopted to test relationship of variables and the level of influence the independent variables wield on dependent variables. The Statistics Package for Social Sciences (SPSS) 25 for windows is the statistical computer software used to run the analysis of the cross-sectional data of this study.

Model specification

$$GDP = F(MLD, PCD, OTD) \quad \ldots\ldots 1$$

The linear equation will become

$$GDP = \beta 0 + \beta 1MLD + \beta 2PCD + \beta 3OTD \quad \ldots\ldots 2$$

The econometric equation will then be thus;

$$FXR\ t\text{-}1 = \beta 0t\text{-}1 + \beta 1MLDt\text{-}1 + \beta 2PCDt\text{-}1 + \beta 3OTDt\text{-}1 + \mu t\text{-}1 \ldots 3$$

Where; GDP = Gross Domestic Product of the Nigerian Economy. MLD = Multilateral Debt of the Nigerian Economy

PCD = Paris Club Debt of the Nigerian Economy. OTD = Others Debt of the Nigerian Economy. β0- β4 = Coefficients of the variables μ = Error term

DATA PRESENTATION

Descriptive Statistics

	Mean	Std. Deviation	N
GDP	4.9437	3.06084	30
MLD	.3240	.32271	30
PCD	.4620	.32304	30
LCD	.0730	.07992	30
PND	.0677	.06038	30
OTD	.0740	.08877	30

Correlations

	GDP	MLD	PCD	LCD	PND	OTD
GDP MLD	1.000	.225	-.251	.149	-.269	.160
Pearson Correlation	.225	1.000	-.939	-.619	-.588	.733
PCD LCD	-.251	-.939	1.000	.385	.392	-.838
PND OTD GDP	.149	-.619	.385	1.000	.498	-.379
MLD	-.269	-.588	.392	.498	1.000	-.406
Sig.(1-tailed)	.160	.733	-.838	-.379	-.406	1.000
PCD LCD	.	.116	.090	.215	.075	.199
PND OTD GDP	.116	.	.000	.000	.000	.000
MLD	.090	.000	.	.018	.016	.000
N	.215	.000	.018	.	.003	.019
PCD	.075	.000	.016	.003	.	.013
LCD	.199	.000	.000	.019	.013	.
PND OTD	30	30	30	30	30	30
	30	30	30	30	30	30
	30	30	30	30	30	30
	30	30	30	30	30	30
	30	30	30	30	30	30
	30	30	30	30	30	30

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	OTD, LCD, PND, MLD, PCD[b]	.	Enter

Dependent Variable: GDP

All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.925[a]	.889	.678	2.77585	.889	2.252	5	24	.082	2.463

Predictors: (Constant), OTD, LCD, PND, MLD, PCD

Dependent Variable: GDP

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	86.765	5	17.353	2.252	.082[b]
1	Residual	184.928	24	7.705		
	Total	271.693	29			

Dependent Variable: GDP

Predictors:(Constant), MLD, PCD OTD, LCD, PND

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std.Error	Beta		
1	(Constant)	-152.934	101.687		-1.504	.046
	MLD	160.470	101.738	16.919	1.577	.028
	PCD	156.590	101.858	16.526	1.537	.037
	LCD	175.411	100.838	4.580	1.740	.005
	PND	138.589	101.221	2.734	1.369	.014
	OTD	153.488	102.022	4.451	1.504	.006

Dependent Variable: GDP

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.6913	10.8925	4.9437	1.72971	30
Residual	-5.03502	5.35222	.00000	2.52524	30
Std. Predicted Value	-1.880	3.439	.000	1.000	30
Std. Residual	-1.814	1.928	.000	.910	30

a. Dependent Variable: GDP

Summary of Regression Result

	Beta	Std Error	T-Value	Sig	R	R2	F-Value	Sig	Durbin Watson
Constant	-152.934	101.689	-1.504	0.046	0.925	0.889	2.252	0.082	2.463
MLD	160.470	101.738	1.577	0.028					
PCD	156.590	101.858	1.537	0.037					
LCD	175.411	100.838	1.740	0.005					
PND	138.589	101.221	1.369	0.014					
OTD	153.488	102.022	1.504	0.006					

Dependent Variable: GDP

Source: Researcher's Output (2016)

The result of the above analysis table showed that foreign debt as a total independent variable revealed a negative movement towards the GDP as the dependent variable been (-152.934) which represent the constant value in the above regression table. The independent variables (MLD, PCD, LCD, PND &OTD) showed a positive movement towards the dependent variable. The total variation of the variables showed that these variables are appropriate for the study revealed by the figure 0.925(92.5%) while the F-statistics (2.252) significant at 0.082 shows that the model is significant to the study. The Durbin Watson value of 2.463 reveals that there is no evidence of auto correlation in the variables contained in the model used in performing the empirical findings of this study.

Hypothesis One: Ho: Multilateral Debt (MLD) does not have a significant impact on the Gross Domestic Product (GDP)of the Nigerian Economy.

t-cal (x)<t-tab (3.182) Decision: Accept the null hypothesis (Ho) if the t-statistics is not significant and reject the null hypothesis and accept the alternative(Hi)if it is significant. Significant level is at 0.05 Regression coefficients: Multilateral Debt (MLD). -152.934+ 160.470x t-stats(1.577)<t-tab(3.182) The result above shows that Multilateral Debt has a positive impact on GDP, the coefficient of regression being 160.47. This means that an increase in the Multilateral Debt borrowing will increase the growth in the GDP. The t-statistics which is 1.577 with the implication that the variable is significant at 15%. Since this is less than the 5% t-table (3.182), it is therefore significant. The null hypothesis stating that Multilateral Debt (MLD) does not have a significant impact on the GDP will be rejected and the alternate hypothesis will be accepted.

Hypothesis Two: Ho: Paris Club Debt (PCD) does not have a significant impact on the Gross Domestic Product (GDP) of the Nigerian Economy. t-cell (x)<t-tab(3.182) Decision: Accept the null hypothesis (Ho)if thet-statistics is not significant and reject the null hypothesis and accept the alternative(Hi) if it is significant. Significant level is at 0.05 Regression coefficients: Paris Club Debt (PCD). -152.934+ 156.590x t-stats(1.537)<t-tab(3.182) The result above shows that Paris Club Debt has a positive impact on GDP, the coefficient of regression being 156.59. This means that an increase in the Paris Club borrowing will automatically increase the

Gross Domestic Product (GDP). The t-statisticsis 1.537 with the implication that the variable significant at 15%. Since this is less than the 5% t-table (3.182), it is therefore not significant. The null hypothesis stating that Paris Club Debt (PCD)does not have a significant impact on the GDP is rejected and the alternate hypothesis is therefore accepted.

CONCLUSION

From the empirical study, external debt financing is meant for the purpose of providing infrastructures, security, government capital expenditure and financing entrepreneurships and other private credits towards boosting the economic growth in Nigeria. In the empirical studies of other writers, we learnt that external debt had an inverse linear correlation relationship with domestic debt. in this research, we surveyed the largest of the Nigeria's debt in contemporary years is borne on multilateral and small portion of it on other debts instruments. It is to this view, that the result showed a negative impact on GDP of Nigeria. Generally, financing development with external debt resources are advocated for underdeveloped and developing nation. The size of foreign debt a country can accommodate overtime. Also, the coefficient of determination proved that there are enough variable tested to determine the relationship of GDP and external debt. We recommend the following, which shall contribute to the improvement in the management of external debt decisions. The total external debt incurred should be channeled towards the purpose meant for its existence. The structure of the external debt should be apportioned to the ratio of its lowest interest that will be later used in financing that particular external debt. The issues of other external debt should be identified for the purpose of analyzing and the general economy. The debt management office should endeavor to render a financial advice in raising and utilizing these external debts for its specific purposes.

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