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Total DEBT and Economic Growth of Nigeria – A Causal Approach

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ABSTRACT: This study xrayed the impact of total debt on economic growth of Nigeria using data from the Central Bank of Nigeria's statistical bulletin from 1981 to 2019 period. The analytical tool used was the E-view version 13 where the multicollinearity test showed that domestic debt and external debt move predominantly in the same direction with gross domestic product. The result of the Error Correction Model shows that it was appropriately signed at 13.9% meaning that the previous period's disequilibrium in economic growth (proxied by GDP) value is corrected every year by external and domestic debts. Following the result, it is evident that external debts incurred in Nigeria over time are good debt, as this has over time exerted no critically negative impact on the growth level of the nation. Similarly, the result shows that domestic debt exerts a positive long run and short run impact on economic growth of Nigeria. Using the Granger Causality test it was observed that External and Domestic Debt granger causes GDP, the implication of this is that total debt of Nigeria if properly utilized, stimulates economic growth as seen in the granger causality test. The researcher amongst other recommendations suggest that Policy makers should integrate appropriate measures towards ensuring suitable management of domestic debts so as to enhance the productivity level of the country.

KEYWORDS: GDP, External Debt, Domestic Debt, Total Debt, ECM

1.1 INTRODUCTION

There are few Nations of the earth that can finance their annual budgets without borrowing. Borrowing has been an age long tradition in order to finance budget deficits of individuals, companies or Nations. So many borrow to finance capital and/or recurrent expenditure, as no country can exist alone. In the event that revenues are lower than projected expenditure, countries seek for financial assistance by way of borrowing and/or financial grants and aids.

It is instructive to note that no country can develop without borrowing and it is borrowing that transcends to Debt. Consequently, Debt can be described as funds used by organization that is not attributable to their owners and cannot be traced to them as theirs (Udoka and Ogege, 2012). Debt can be classified into Domestic and External. Domestic Debts are those borrowings which does not go beyond the shores of the country, while External Debts are those borrowings that are transacted and obtained outside the shores of a country.

The oil boom brought about economic growth in Nigeria in the mid-1970s. However, in the midst of glut in the oil industry (Nigeria being a mono-cultured economy) there was then need to borrow.

Oloyede (2002) stated that domestic savings which is used for investment in a country, is not enough for the development of that country. Consequently, there is need for borrowing in order to enable a country or nation to grow. In their write up. Hameed, Ashraf and Chaudhary (2008) opined that for there to be economic growth in a country, that there must be external borrowing which is part of public inflows. This inflow is required particularly when the internally generated revenue is not enough to carter for the public expenditure of that nation. Soludo (2003), says that the reason countries borrow are categorized into macroeconomic reasons (financing investment or consumption) and circumvention of budget constraints.

The rate at which debt has been increasing in Nigeria without commensurate growth in the economy has become a source of concern to many scholars and citizens alike. The total debt profile of Nigeria as at March 31, 2021 according to Debt Management Office of Nigeria is put at N 33.1Trillion ($87.2 billion). This is divided into External debt of N12.5 Trillion ($32.9 billion), and Domestic Debt of N20.6 Trillion($54.4 billion). Out of this domestic debt, N16.513 Trillion ($43.5) belongs to the Federal Government while N4.1trillion ($10.9) belongs to States and FCT. It is instructive to note that the total debt stock of Nigeria as at March 2015 stood at N10.2 trillion ($65.3 million). A review of the debt profile of Nigeria as at March 2015 and March 2021 reveals that there is 224% increase in the total debt of Nigeria, which is an increase of 37.3% yearly. Similarly, in 2020 total sum used in servicing

debt for the year ended December 2020 was N3.26 trillion billion, while in December 2014, it was N865.8billion. This translates to a percentage increase of 276.5 in six years which is 46.08% yearly. The question is whether there is commensurate economic growth compared to the increase in debt profile and debt servicing? Is it total debt that causes economic growth or economic growth that causes increase in debt? This study is therefore poised to answer these questions.

2.0 LITERATURE REVIEW

2.1 Conceptual Review

Abbas (2007) Economic growth is akin to Gross Domestic product or national output. The ability for the production of goods and services compared to their final Products in the past years. Growth is not spontaneous, what causes growth is the addition of a unit of a product into the economy. Growth is gradual, hence the aggregation of various products into the economic system results in economic growth. Ayres and Warr (2006) Opines that economic growth is roughly calculated in norminal terms bringing into focus inflation or its adjusted figure, and is valued in monetary terms only.

Matiti (2013) States that appropriate and effective use of public debt results in stability and growth of the economy, which in turn brings about increase in revenue generation that pays off the amounts borrowed to facilitate growth.

Idris and Ahmad (2017) states that after the implementation of the economic policy in 2017 tagged ''Nigerian Economic Recovery and growth plan'' the economy of Nigeria has attracted attention from various academics who feels that domestic debt has a role to play in the economic stability of Nigeria in the future.

Aybac (2019) States that public debt predates the mediaeval ages where Financing of public goods is needed without interruptions from various sources. This process of improvement of everybody's well being has necessitated the borrowing of funds from different sources for the good of the public. After the second world war, the developed countries made funds available for the purposes of borrowing to the developing countries. This was done in order for the developing countries to mobilize capital for development financing and at the same time for the payment of outstanding debts. This was what brought about the debt-interest problem for the developing countries which culminated in the external debt crises. At this point IMF suggested that governments guarantee private debts, which now resulted in the increase of public debt stock.

2.2 Theoretical Review

The discussion on debt and economic growth has taken two dimensions. One of the schools of thought known as the classical economists, sees public debt as a load carried by any nation which is capable of causing danger in the accumulation of capital, and overall consumption. On the other hand Prasetyo (2020), stated that the second school of thought who is Keynesian and neoclassical group is of the opinion that countries should during economic woes borrow money, and operate at deficit. During economic buoyancy, the Keynesian and neoclassical group feels that the economy should run at gains (surpluses). Ako & Istvan (2019) opined that when there is persistence in growth shocks, that fiscal policy will be counter-cyclical, which will produce a long-run negative relationship between economic growth and debt, whereas low growth causes high debt. Nguyen(2020) is of the view that a suitable borrowing will increase economic growth in any developing country. A country because of scarce capital at the early stage of development, are estimated to have possibilities of investments with higher rates of return on their investment that are more than developed economies. Ako & Istvan (2019) perceived that countries that use borrowed funds appropriately for investment purposes, without any economic instability and anti-economic growth policies that will pull economic incentive which will in turn affect economic activities.

Ogunmuyiwa (2011) is of the view that many countries that have budget deficits, will run to those countries that are in a position to lend, in order to take care of these deficits and at the same time finance public goods which will in turn improve the welfare of the people and by extension foster economic growth. Ayadi and Ayadi (2008) says that inadequacy of internal(domestic) revenue which is used in financing the expenditure of government, external(foreign) borrowing becomes inevitable. Funds are sourced from various external sources which includes Multilateral agencies such as Paris club of creditors, London club of creditors, etc. It is instructive to note that the problem of debt to developing countries is not the debt on itself but the servicing. Debt servicing poses a threat to the existence of every debt-owing developing country due to its tight conditions.

2.2 Empirical Review

Adesola (2009) reviewed the effect of servicing external debt on economic growth of Nigeria, using the OLS (Ordinary Least Square method). Economic Growth was represented by Gross Domestic Product (GDP) and Gross Fixed Capital Formation(GFCF) on a data of 24 years (1981 – 2004). It was observed from this study, that there was a positive correlation between debts repaid to Paris club creditors and holders of promisory notes, while that of London club and other creditors showed negative correlation to GDP and GFCF respectively.

Hameed; Ashraf; & Chaudhar (2008), reviewed the External Debt and Its Impact on Economic and Business Growth in Pakistan using annual time series from 1970 to 2003. The review discovered that debt servicing has a negative effect on the productivity of labour and capital and consequently has negative effect on economic growth.

Malik, Hayat, and Hayat (2010) investigated the external debt and economic growth connection in Pakistan (1972 to 2005). The study using time series technique, revealed that there was a negative but significant relationship between external debt and economic growth. The study further revealed that additional increase in external debt will lead to a reduction in economic growth.

Audu (2004) investigated the impact of external debt on economic growth and public investment in Nigeria using the Co-integration test and Error Correction Model between 1970 to 2002. It was discovered that there was a significant adverse effect on the economy of the country as a result of debt servicing Coercion which consequently affected investment negatively.

Ayadi (2008) studied the way external debt, and its repayment demands impact on economic growth of the Nigerian and the economy of South Africa. The ordinary least square and General Least Square techniques were employed in the analysis. The study revealed that debt and its servicing requirements has negative impact on the economic growth of Nigeria and South Africa.

Clements, Bhattacharya, and Nguyen (2003) reviewed the methods by which low income-countries' are affected by external debt. It was discovered from their results that a considerable reduction in the external debt stock of countries whose debts are high, will increase income per capita by approximately 1% per annum. It was equally envisiaged that a reduction in the burden of debt servicing will trigger increase in public investment and consequently growth in the economy.

Ogunmuyiwa (2011) investigated if external promotes economic growth inNigeria between 1970 and 2007. The techniques used in this investigation are Regression analysis, Augmented Dickey-Fuller test, Granger causality test, Johansen co-integration test and Vector Error Correction Model(VECM). It was discovered that there was no causality between external debt and economic growth in Nigeria.

Choong, Lau, Liew and Puah (2010) used Co-integration technique to study the effect of various debt contents on the economic growth in Malaysia from 1970 to 2006. The result revealed that all make-up of debts when compared with economic growth exhibited negative corelation at the long run, while it was revealed that at the short run, debt causes economic growth.

Karogol (2002), examined the relationship between economic growth and external debt service in Turkey from 1956 to 1996.Multivariate co-integration techniques was used and the vector autoregression values revealed that there is a cointegration in one of the equations. Similarly, debt service at the
long-run has a negative relationship with economic growth. There was equally a uni-directional causality between debt service and growth.

Adepoju, Salau and Obayelu (2007), investigated the effects of the management of external debt on the economic growth of Nigeria from 1962 to 2006. The result of the investigation shows that pile up of debts affects economic growth negatively, using time-series data of various multi-lateral and bilateral debts.

Abdelmawla and Mohammed (2005). Examined the impact of external debt on economic of Sudan using annual series data of 1978 to 2001. The result of the study showed that there was a significant positive impact of export earnings on economic growth of Sudan. However, there was a negative relationship between external, inflation and economic growth in Sudan.

Similarly, Amooteng and Amoako (1996) examined the relationship between external debt and economic growth in 35 African countries, using Granger Causality test. The study revealed that there was a positive and a unidirectional causal relationship between economic growth and debt servicing.

In their review, of the effect of external debt on the economic growth of Nigeria, Sulaiman and Azeez (2012) discovered that external debt contributed positively to the economy of Nigeria, after using the ordinary least square method as a technique for the analysis on a data of 1970 to 2010.

Another study by Ezeabasili, Isu and Mojekwu (2011) in the relationship between Nigeria's external debt and economic growth using an error correction model technique on a data series of 1976 to 2006 revealed that there is a negative relationship between external Debt and economic growth. Furthermore, an investigation by Bamidele and Joseph (2013) on the effect of financial crisis, external debt management on the economic growth of Nigeria using an annual time series of 1980 to 2010, applying the ordinary least square method, Augmented Dickey Fuller test, unit root test and Granger causality in their work, it was shown that there was a positive relationship between Foreign Direct Investment and economic growth and that external debt has a negative relationship with economic growth.

Research Gap

There is debt incurred within a nation(Domestic Debt) and that incurred outside the nation's borders which is known as (External Debt). External debts could be defined as debts owed outside the borders of the country and settled with the currency of the

country involved, while Domestic debts are those debts owed within the borders of the country which are settled with the country's currency. It has been argued by finance scholars whether external and internal debts have any impact on economic growth of a nation or not. While soma are of the view that external debts stimulate growth, others say that it does not. Similarly, it is the view of many that domestic debt has its toll on economic growth while others have different opinion. The essence of this study is to harmocize positions between the two schools of thought.

3. METHODOLOGY AND MODEL SPECIFICATION

3.1 Data Collection and Preparation

Data for this study was sourced from Central Bank of Nigeria Statistical Bulletin for the period 2019. The dataset was prepared for analysis using Excel software.

3.2 The Model Specification

Given the above theoretical framework, the complete model for this study is presented thus:

$$GDP = \alpha_0 + \alpha_1 EXDBT + \alpha_2 DODBT + U_t \ldots\ldots\ldots\ldots 1$$

Where:

GDP = Gross Domestic Product

EXDBT = External Debt

DODBT = Domestic Debt

U_t = Error Term

To make the analysis less tedious, the natural logarithmic transform of eq.17 above is adopted as in eq. 18 below, That is:

$$\text{Log } GDP = \alpha_0 + \alpha_1 \text{logEXDBT} + \alpha_2 \text{logDODBT} + U_t \ldots 18.$$

3.2.1 Modeling Causality between economic Growth and Domestic and External Debts

The issue of causal relationship as proposed by Granger (1988) is useful in analyzing how an economic time series can be used to forecast another. Thus, a variable $X_t$is said to Granger-cause another seriesY_t, if given the past value of Y_t, past values of $X_t$can help forecast Thus, the causality model involves the following pair of regressions:

$$\ln GDP_t = \delta_i \sum_{i=1}^{n} \ln GDP_{t-i} + \beta_i \sum_{i=1}^{n} EXDBT_{t-i} + \mu_{1t} \ldots\ldots\ldots\ldots (3)$$

$$EXDBT_t = \beta_i \sum_{i=1}^{n} EXDBT_{t-i} + \delta_i \sum_{i=1}^{n} \ln GDP_{t-i} + \mu_{2t} \ldots\ldots\ldots\ldots (4)$$

$$\ln GDP_t = \delta_i \sum_{i=1}^{n} \ln GDP_{t-i} + \beta_i \sum_{i=1}^{n} DODBT_{t-i} + \mu_{1t} \ldots\ldots\ldots\ldots (5)$$

$$DODBT_t = \beta_i \sum_{i=1}^{n} DODBT_{t-i} + \delta_i \sum_{i=1}^{n} \ln GDP_{t-i} + \mu_{2t} \ldots\ldots\ldots\ldots (6)$$

3.3 Variables

The variables used in the models are the Dependent(EXDBT,DODBT) and Independent(GDP); the former represents the output or effects while the latter represents the inputs or causes. Since the models are statistical the dependent variable is studied to see if and how much it varies as the independent variable varies.

3.3.1 A priori Expectation

It is expected that $\alpha_1, \alpha_2 > 0$.

1. $\alpha_1, \textit{and } \alpha_2$ are the coefficients of External Debt, Domestic Debt respectively. It is expected that the more the borrowings, the more the economy expands, hence growth in the economy.

4. ANALYSIS AND RESULTS

4.1. Descriptive Statistics Test

Table 4.1 Descriptive Analysis

	GDP	DODBT	EXDBT
Mean	30559.51	2874.909	1698.216
Median	6897.482	898.25	633.14

Maximum	144210.5	14272.64	9022.42
Minimum	144.8312	11.19	2.33
Std. Dev.	41655.36	4124.126	2195.768
Skewness	1.292604	1.523872	1.763095
Kurtosis	3.429122	4.050829	5.585453
Jarque-Bera	11.1596	16.8886	31.0677
Probability	0.003773	0.000215	0.0000
Sum	1191821	112121.4	66230.44
Sum Sq. Dev.	6.59E+10	6.46E+08	1.83E+08
Observations	39	39	39

Source: Author's Computation

Table 4.1 above shows a summary of statistics where GDP has a standard deviation of 41655.36; JarqueBera Statistic (JBS) of 11.1596 with Probability Value (P-value) of 0.003773. Domestic Debt (DODBT) has SD of 4124.126, JBS of 16.8886 with Pvalue of 0.000215, External Debt(EXDBT) has SD of 2195.768, JBS of 31.0677 with P-value of 0.0000, which informs that GDP, DODBT and EXDBT are abnormally distributed.

4.2 Multicollinearity Test

Table 4.2 Correlation Matrix

	LOG_GDP	LOG_EXDBT	LOG_DODBT
LOG_GDP	1.0000000	0.8064507	0.991630508
LOG_EXDBT	0.8064507	1.00000000	0.848144384
LOG_DODBT	0.9916305	0.8481444	1.00000000

Correlation Matrix. Source: Author's Computation

Table 4.2 reported correlation coefficient of pairs of variables used in the study. Result showed existence of positive correlation between external debt and gross domestic product, meanwhile a positive correlation was revealed between domestic debt and gross domestic product. Specifically, correlation statistics stood at 0.8064507 for EXDBT and GDP and 0.9916305 for DODBT and GDP. The result reflects that domestic debt and external debt move predominantly in the same direction with gross domestic product.

4.3 Non-Stationarity Test

Table 4.4 ***Summary of the Augmented Dickey Fuller Unit Root Test of the Variables***

Variables	ADF STAT	5% cretical level	10% Cretical level	REMARK
Log_GDP	-1.211026	-2.943427	-2.610263	Not_Stationary
Δlog_GDP	-3.208559	-2.943427	-2.610263	Stationary
log_EXDBT	-1.665948	-2.943427	-2.610263	Not_Stationary
ΔLog_EXDBT	-4.726482	-2.943427	-2.610263	Stationary
Log_DODBT	-4.999581	-2.941145	-2.609066	Stationary

Source: Author's Computation 2021

The Unit root test result presented in table 4.4 above, reported Augmented Dickey Fuller (ADF) test statistics alongside critical values at 5% and 10% significant levels respectively. The result showed that the log of GDP and EXDBT are not stationary at level, given the fact that the reported ADF statistics is less than the critical values both at 5% and 10% respectively. However log of GDP and EXDBT became stationary after first difference, while the log of DODBT is stationary at levels having a reported ADF statistics greater than the critical value both at 5% and 10%. This implies that the variables are integrated of order one I(1) and I(0). Reported order of integration of the variables reflects how long the variables retained innovative shocks over the years. Observably result showed that GDP and EXDBT only retain innovative shock passed on them for a short period of time, while DODBT retain innovative

shock passed on for a long period of time after which they let go. Following the confirmation of the variables being integrated of order one I(1) and I(0), it is noteworthy that there is likelihood of long run equilibrium relationship among the variable in the condition that they co-integrate. In the quest to justify this position, Bound test for co-integration was conducted and the result presented in the next section.

Table 4.4: Bound Test

F-Bounds Test			Null Hypothesis: No levels relationship	
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	5.486989	10%	3.17	4.14
k	2	5%	3.79	4.85
		2.5%	4.41	5.52
		1%	5.15	6.36

Source: Author's computation

Since the F-statistic of 5.486989 is greater than the critical value of the lower bound of *I(0)* series in table 4.4 above, we then conclude that there is likely cointegration among the variables. In other words, there is a long run relationship among the variables. Since there is cointegration among the variables, we will consider both the short run and long run models since the variables show evidence of a long run relationship as indicated by the results from the Bounds test.

4.5 Ordinary Least Square (OLS) Test

Table 4.5 below shows the Autoregressive Distributed Lag (ARDL) result for the study which reveals the level series multiple regression estimated model for the relationship between Total debt and economic growth. From the table, the adjusted R-squared (R2) is 99.89% and Durbin Watson (Dw) statistics is approximately 2.11, The Durbin-Watson statistic of 2.106286 indicates absence of autocorrelation.

Table 4.5 Ordinary Least Square Result (ARDL) Model

Dependent Variable: LOG_GDP
Method: ARDL
Date: 09/15/21 Time: 05:08
Sample (adjusted): 1983 2019
Included observations: 37 after adjustments
Maximum dependent lags: 2 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (2 lags, automatic): LOG_EXDBT LOG_DODBT
Fixed regressors: C
Number of models evalulated: 18
Selected Model: ARDL(2, 1, 0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG_GDP(-1)	1.107194	0.172045	6.435477	0.0000
LOG_GDP(-2)	-0.246255	0.152142	-1.618585	0.1157
LOG_EXDBT	-0.035562	0.034386	-1.034187	0.3090
LOG_EXDBT(-1)	0.060799	0.034015	1.787405	0.0837
LOG_DODBT	0.127842	0.058209	2.196262	0.0357
C	0.336426	0.101488	3.314916	0.0023

R-squared	0.999037	Mean dependent var	8.815331
Adjusted R-squared	0.998882	S.D. dependent var	2.269252
S.E. of regression	0.075874	Akaike info criterion	-2.172088
Sum squared resid	0.178463	Schwarz criterion	-1.910858
Log likelihood	46.18362	Hannan-Quinn criter.	-2.079992
F-statistic	6434.163	Durbin-Watson stat	2.106286
Prob(F-statistic)	0.000000		

*Note: p-values and any subsequent tests do not account for model selection.
Source: Eviews Version 10

Source: Author's computation

4.6 Error Correction Model

Co-integration is a prerequisite for the error correction mechanism. Since co-integration has been established, it is pertinent to proceed to the error correction model.

Table 4.6: Error Correction Model

ECM Regression
Case 3: Unrestricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.336426	0.067606	4.976292	0.0000
D(LOG_GDP(-1))	0.246255	0.146155	1.684888	0.1021
D(LOG_EXDBT)	-0.035562	0.030274	-1.174659	0.2491
CointEq(-1)*	-0.139061	0.033220	-4.186044	0.0002

The results show that the ECM is negative and statistically significant, showing that an established short-run relationship can be attained. The speed of Adjustment of -0.139061 implies that 13.91 percent of the deviation of GDP from its short run equilibrium can be reconciled per annum.

4.7 Granger Causality Tests

Table 4.7: Pairwise Granger Causality Tests

Date: 09/15/21 Time: 05:30
Sample: 1981 2019
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LOG_EXDBT does not Granger Cause LOG_GDP	37	4.43054	0.0200
LOG_GDP does not Granger Cause LOG_EXDBT		1.50976	0.2363
LOG_DODBT does not Granger Cause LOG_GDP	37	4.70364	0.0162
LOG_GDP does not Granger Cause LOG_DODBT		0.52609	0.5959
LOG_DODBT does not Granger Cause LOG_EXDBT	37	0.76677	0.4729
LOG_EXDBT does not Granger Cause LOG_DODBT		0.05979	0.9421

Source: Author's Computation

The Granger causality test for the causality between Total debt and economic growth reveals that the p-value of EXDBT of 0.0200 is less than the critical value of 0.05. This means that EXDBT granger causes GDP while GDP does not granger cause EXDBT since its p-value of 0.2363 and is greater than the critical value of 0.05. Similarly, the table further shows that DODBT has a p-value of 0.016 which is less than the critical value of 0.05 as such we conclude that DODBT granger causes GDP while GDP does not granger cause DODBT.

4.8 Discussion of Findings

The result of this study: Total Debt and Economic Growth – A causal Approach, shows that external debt exerts a positive short run effect on economic growth but a negative effect in the long run. This indicates that increases in external debt in Nigeria will trigger an increased economic growth in the short run. External debt being an economic policy geared towards enhancing the productive capacity of the nation through the delivery of enduring assets and implementation of quality policies towards increasing the growth of the nation, possesses the capacity to increasing the economic growth of the nation. Following the result, it is evident that external debts incurred in Nigeria over time are good debt, this has over time exerted no critically negative impact on the growth level of the nation as was evident in the result demonstrated in the study. This result is in agreement with the study of Sulaiman, and Azeez (2012); Abdelmawla and Mohammed (2005) which shows that external debt has contributed positively to

the Nigerian economy. However, the study contradicts the result of Audu, (2004) and Malik, Hayat, and Hayat (2010) which reveals that external debt has a negative effect on economic growth.

Furthermore, the result shows that domestic debt exerts a positive long run and short run impact on economic growth of Nigeria. This implies that an increased internal, national or domestic debt usually contracted in the local currency of the country would control a favourable level of economic growth. This can be clearly justified from the total lack of exposure to currency risk posed by exchange rate misalignment. However, the result indicated in the study can be further defended from the aspect of monetary policy, government in the bid to maintain stability and sustainability in the state of the economy takes countercyclical actions with reasonable monetary policies e.g. issuing treasury bills; this action without doubt controls external shocks and makes functional the financial markets and institutions of the country and consequently impacting on the economic growth of the country positively and significantly. Similarly, the study shows that there is a unidirectional causality from both domestic and external debt to Gross Domestic Product. By implication, total debt (domestic and external debt) granger causes economic growth of Nigeria. This study is in line with that of Omodero, Adetula, Adeyemo, and Owolabi, (2020) which reveals that household debt has a significant and positive impact on economic growth. This is contrary to the findings of Onyeiwu Charles (2012) which shows that the level of domestic debt has negative effect on economic growth. It is equally instructive to note that the Total debt of Nigeria if properly utilized, stimulates growth.

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

This study investigated the impact of total debt (external and domestic debts) on economic growth of Nigeria. Sequel to the analyses carried out and results obtained from the study, it is evident that total debt has both long and short run relationship with economic growth.

5.2 Conclusion

Consequent upon the findings of the study, we therefore conclude that total debt commands a relationship with economic growth depending on the form of debt incurred. External debt plays a crucial role in an economy. The optimal utilization of external debt by the government would avoid debt overhang and crowding out of investments. A major policy implication of our results is the need for Nigeria to open and improve foreign access to holdings of domestic debts so as to strengthen competition and hence reduce financial costs with the accompanying introduction of financial technology and innovation that will consequently result in higher market efficiency. In addition, given the short maturity feature of the Nigerian domestic debt market, it would be beneficial to extend the maturity structure. Though this may entail greater debt-service costs in the short-run, it would lower significantly market and rollover risks that it currently faces. This should be accompanied by broader financial sector reforms, including the strengthening and expanding of the insurance and pension subsectors as well as strengthening corporate governance practices in our institutions

5.3 Recommendations

The following policy recommendations are hereby made based on the findings of the study:

i. Policy makers should integrate appropriate measures towards ensuring suitable management of domestic debts so as to enhance the productivity level of the country.

ii. Government should ensure that national debts are directed towards encouraging investment in the country so as to increase capital formation in the country and consequently a sustainable economic growth. Government through necessary monitoring committees should also ensure that national debts are directed towards the provision of basic amenities and services required for the development of communities and societies of the nation.

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