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Impact of National Debt on the Economic Growth of Nigeria for the Period 2000 to 2023

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Abstract
This study is aimed at investigating the influence of National Debt on Economic growth for the period 2000 to 2023. The study utilizes the quantitative method of research where the required study data was collected from published reports of the International Monetary Fund (IMF) and the World Development Indicator of the World Bank from 2000 to 2023. The collected data was analyzed using descriptive statistics, Regression, and Correlation techniques of analysis. The study found that National Debt has a negative and significant influence on the Economic growth of Nigeria for the period under review. The study recommends that National Debt should be managed efficiently by ensuring that those debts are channeled to infrastructures and sectors that are capable of generating income that will foster real economic growth and development. An unnecessary increase in debt will trigger a detrimental effect on the Economic growth and the overall well-being of individual households in the economy. The study, further recommends a more productive use of the National Debt Fund to contribute positively to Economic growth.

Keywords: *Inflation, domestic debt, external debt, GDP, Interest rate*

INTRODUCTION

The main objectives of nations worldwide are infrastructural development and improved citizen well-being. Accomplishing these objectives requires a considerable amount of resources at the state's disposal. Therefore, it has become essential for every government to secure sound financial resources that will facilitate the implementation of national-oriented policies that enhance economic activities and the general well-being of households. The government employs its fiscal policy tools to improve the level of revenue generated; this is accompanied by either domestic or external borrowing. Most countries operate on a deficit budgetary system where the proposed

expenditure outweighs the expected revenue, necessitating borrowing to finance the deficit.
The provision of loans from domestic and external sources is essential for the central government to safeguard territorial integrity through financing military campaigns to secure borders. Since taxes and other revenues collected by the central government are incapable of meeting the immediate needs of the government, borrowing became essential (Eichengreen, El-Ganainy, Esteves, & Mitchener, 2019). Experts and researchers have argued that a designed debt system is considered a vital means of state survival as it enables the state to finance its critical expenditures of uncertain size and duration and respond to waged wars (Stasavage (2011) & Yun-Casalilla and O'Brien (2015). Bank loans contribute to a significant proportion of National Debt globally because they have ample ideal funds at their disposal. Individuals and state-run banks receive funds in the form of loans to execute and finance specific projects and agree to service such loans, together with interest, in the future.
Deposit Money Banks under the fractional reserve system use customers' deposits and the money multiplier principle to have substantial ideal resources in their vaults. The high demand for funds by nations and households, coupled with the pressure from Deposit Money Banks and the soft method of assessing loans, have contributed to the high indebtedness of households and nations that are primarily living on debt. Experts have argued that if all debt were settled, there would be very little or no money in circulation. Every piece of money in one's wallet is a debt of someone else, making money lose its value as the debt money created via a money multiplier (lending and re-lending of deposits) steals its value from the actual customer deposit (Tashtamirov, 2013). This scenario has resulted in overwhelming national and household debt, and under such a system, individuals and nations will never be free from debt. There is a popular saying that "debt is used to enslave society, and the weapon of such slavery is the interest rate, and naturally, the funds to service such debt, especially the interest comes from inflation. Most of the economic indices follow the earning circles of households and nations but inflation, which results from uncontrolled borrowing, does not segregate between the rich and the poor. "The general perception by most of the economic actors in the world is that loans are a viable means of straightening or boosting entrepreneurship that will go a long way in improving the economic position of the country as entrepreneurs have good ideas but have no money to implement those ideas. It was assumed that the loan (new money created) would be used by those entrepreneurs to fund their business activities and stimulate the country's Economic growth through the purchase of production machinery and equipment which would be used in the production of the output that could be consumed and exported. The loan could also be used to generate employment by investing in small and medium-sized enterprises (SMEs) and subsequently, the generated income could be used in debt servicing and payment of tax to the government. However, such a scenario is not in practice for the majority of it. Rather most of the created money was used to buy the pre-existing assets especially housing and financial assets.

Naturally, if the created money by the private banks could be invested in SMEs and other real economic activities that are geared toward wealth creation and employment generation that would yield income that will stimulate economic activities that aid stability in the whole economy. The global challenges being faced as a result of the current system could have been minimized or even eliminated and the frequent financial crises wouldn't have been reoccurring. However, in reality,

this only applies to the insignificant percentage of bank lending today as documented by Howells, (2000) that only a small portion of the created money (loans) was directly used to finance production or any form of economic activity that can contribute to the output and real GDP of the economy, while the majority of bank lending finances the purchase of pre-existing assets, especially property.

According to the Debt Management Office (DMO) of Nigeria, a substantial part of Nigeria's borrowing comes from domestic sources such as the issuance of bonds, treasury bills, and other financial instruments to individuals, institutions, and investors within the country. The DMO reports that as of March 2021, about 73% of Nigeria's total debt was from domestic sources, while the remaining 27% was from external sources such as multilateral and bilateral loans. Considering the rising debt and its consequences on Economic growth and development coupled with its effect on household living conditions, this study will investigate the consequential effect of increases in National Debt on the Economic growth of Nigeria.

LITERATURE REVIEW

National Debt and Economic Growth

According to Babu, Kiprop, Kalio, and Gisore (2015), skillful management of debt can contribute to heightened socio-economic growth and an enhanced standard of living. However, realizing these benefits necessitates the efficacious administration of the public sector. Often, foreign loans fail to translate into expected outcomes due to deficient or unrealistic planning. As such, insufficient resources are available to service the debt, thereby hindering socio-economic progress. Governments are then compelled to channel significant resources into debt payments, adversely affecting vital public services such as healthcare, education, and social welfare programs. This state of affairs has a particularly negative impact on vulnerable populations, who comprise a substantial proportion of the citizenry (Kendren, 2009).

Lee and Ng (2015) posit that sustaining economic growth and generating output require a certain level of capital. When government spending exceeds tax revenue and borrowing from the private sector or foreign governments become necessary, a budget deficit arises (Mankiw, 2013). Nevertheless, economic theory underscores the idea that developing countries can sustain higher borrowing levels, catalyzing infrastructure development that ultimately boosts economic growth. However, countries grappling with fiscal deficits such as Malaysia have experienced difficulty in managing their debt levels. Past borrowing, including external and domestic debts, leads to the accumulation of government debt (Abd-Rahman, 2012a). National debt arises when securities cannot cover previous budget shortfalls. A growing concern regarding developing countries is the increasing levels of debt and its adverse impact on economic activities, such as the ability to repay such sums. Developing countries have become increasingly reliant on national debt to finance various developmental projects leading to an unlimited expansion of debt size. Although such borrowing is crucial for improving social and economic well-being, the pursuit of public goods is fueling the growth of debt, resulting in economic challenges. For developing countries, managing the effects of crowding-out, policy volatility, market and capital volatility, and capital flight due to currency devaluation fears is particularly challenging (Kharusi and Ada, 2018).

Reinhart and Rogoff (2010) argue that high debt levels could undermine economic development. For instance, Nigeria has been facing fiscal deficits caused by high levels of indebtedness, resulting from the country's expansionary fiscal policy aimed at driving economic growth through increased spending. Clements, Bhattacharya, and Nguyen (2003) point out that uncertainty surrounding national debt service payments has hindered economic reform in many African countries, where national debt levels rise consistently over time.There is an established negative effect of National Debt on long–run growth of a given economy as posited by neoclassical and endogenous economists. It was argued that whenever the efficient utilization of government expenditures which is financed through debt is abused, such debt will have a negative consequence on the Economic growth of a nation (Teles and Cesar Mussolini, 2014). The conventional growth theory also indicates that a rise in government debt (due to a budget deficit) leads to slower development while the neoclassical growth theory proposes a temporary slowdown in growth as part of the transition to a new steady state (Casares, 2015).

External debt, for example, has a detrimental influence on a nation's long-term economic development, according to Choong, Lau, Liew, and Puah, (2010); MohdDaud, Ahmad, and Azman-Saini, (2013) argue that external debt, on the other hand, has a beneficial influence on Malaysian economic development, according to Abu Bakar and Hassan (2008). However, According to the debt overhang theory, if a nation has a high level of debt, the government has little motivation to implement macroeconomic reforms or policies since the proceeds would be utilized solely to service outstanding debt (Clements et al., 2003).

Government debt has a negative relationship with economic development, according to the growing empirical evidence (Swamy, 2015). Furthermore, Presbitero (2012) discovered that between 1980 and 2004, a significant rise in national debt had a negative influence on the economic development of the 114 developing nations studied. Another research by Calderón and Fuentes (2013) looked at the impact of foreign debt on Latin American Economic growth from 1970 to 2010 and concluded that external debt hurt growth. Iyoha (1996) found an inverse relationship between external debt and Economic growth in Sub-Saharan African countries due to the same crowding-out effect. These findings are consistent with Akram (2011), and Rais and Anwar (2012), who found that large National Debt led to poor social and economic conditions in the sampled countries during the study period. Adoufu and Abula (2010) examine the effect of domestic debt on the Nigerian economy during the period 1986-2005 using the OLS technique. The findings reveal that domestic debt has negatively affected the growth of the economy.
Panizza, and Presbitero, (2014) in their study found that there is no clear indication of a causal effect of national debt on the real economic growth of the sampled Asian countries which was supported by the negative correlation between debt and Economic growth. This is an indication that a certain level of debt in a country is unsustainable especially when the interest rate bill is higher than the GDP and the debt-to-GDP ratio is at an extensive stage. The study conducted in Oman by *Kharusi and Ada (2018) shows that there is a* negative and significant influence of debt on Economic growth. This indicates increases in the national debt of a country will be detrimental to real economic activities and will result in to decrease in the Economic growth of such a country especially developing and underdeveloped countries. They have also concluded that external debt

has negative consequences due to poor management in developing countries, and these negative consequences are likely to offset any possible benefits from utilizing debt in more productive projects that will add value to the economy *(Kharusi& Ada 2018).* In addition, Sanusi, Hassan, and Meyer (2019) argued that National Debt drives Economic growth at low and moderate levels before counteracting and attaining the threshold level. Their findings indicate that a properly managed and controlled National Debt will foster growth in the economy in both the short and long run. The findings show that whenever there is a high debt profile in a given economy the real economic activities that will trigger growth and stability of the economy shrink. Eberhardt and Presbitero (2015); and Reinhart and Rogoff (2010a) their empirical findings support a negative relationship between National Debt and long-run growth across countries. The findings from Lee, and Ng (2015) also show that National Debt has a negative influence on GDP over time as budget deficit, government consumption, and external debt service are all found to be declining functions of GDP. Their findings demonstrate that the National Debt has a negative and substantial influence on GDP because any increase in National Debt is substantially linked to a decrease in the GDP of the sample economy and is supported by the findings of (Choong et al. (2010).

On the contrary, several studies conducted on the subject matter have shown a positive impact of debt on Economic growth and stability. Babu, Kiprop, Kalio, and Gisore (2015) in their study conducted on the economy of East African countries show that domestic debt has a positive and significant effect on the per capita GDP growth rate. The outcome implies that a well-designed policy on sustainable levels of borrowing will enhance the Economic growth and stability of a country. This conclusion aligns with the previous research that shows National Debt has a detrimental impact on Economic growth. When a government has a large National Debt, investors are concerned about the country's capacity to pay its creditors' loans which would result in investment crowding out. Consequently, creditors may demand higher interest rates as a precautionary step owing to the greater danger of continuing to fund the deficits (Cerra, Rishi &Saxena, 2008). This is a bad condition since a sudden increase in interest rates might stifle economic development and trigger financial devastation. It is argued that a country with a high debt profile is more likely to suffer from the debt overhang issue.

METHODOLOGY

This study uses quantitative research methods and World Bank data to analyze Nigeria's economic growth and increased national debt from 2000 to 2023. The study adopts purposive sampling and conducts multiple regression analysis, correlation matrix, and variance inflation factor (VIF) to establish the relationship between the dependent variable, economic growth, proxy by Real Gross Domestic Product (GDP), and the independent variable, the increased National Debt, proxy by the proportional national debt to GDP ratio, and supported by interest rate. The study's findings will provide insightful analysis of Nigeria's economic growth and debt management.by the proportional national debt to GDP ratio and supported by interest rate which is believed to have a direct link with debt as presented in this model:
$GDP = \beta_0 + \beta_1 NDT_t + \beta_3 INT_t + e_t$. Where: RGDP (Real Gross Domestic Product), NDT (National Debt) and INT (Interest Rate).

RESULT AND DISCUSSION

This section covers the presentation and discussion of the analyzed data from the quantitative data aimed at investigating the influence of National Debt on the Economic growth of Nigeria for the period 2000 - 2023. The collected data were analyzed using correlation and multiple regression techniques which were supported by diagnosis tests of multi-collinearity using variance inflation factor (VIF) and data validity and reliability using Durbin-Watsont which will help in strengthening the findings of the study.

Correlation Matrix

The correlation test focuses on ascertaining the association between the dependent variable (Economic growth) and independent variables (National Debt, money supply, and interest rate) of the study was presented in Table 1.

TABLE 1: CORRELATIONS RESULT FOR GDP, NDT, MOS, INR

	GDP	NDT	INR
GDP	1.000		
NDT	-0.890	1.000	
INR	0.647	-0.056	1.000

The result in Table 1 shows that there is a perfect relationship between all the independent variables (National Debt, money supply, and interest rate) and the dependent variable (real economic growth). The perfect relationship is shown by the significant correlation coefficients of 0.890, 0.883, and -0.647 for the NDT and INR respectively. It is clear from the result that NDT relates negatively to the GDP which implies that the independent variable moves in the opposite direction from the dependent variable. On the other hand, INR has a positive relationship with GDP which implies that the two variables move in the same direction. This result suggests that the variables are properly combined since all independent variables relate significantly to the dependent variable.

However, the result concerning the independent variables correlation among the selves indicates all the variables have an insignificant relationship with each which implies there is no high correlation between the variables which could lead to multicollinearity. The result at the individual level shows that there is a negative but insignificant association with national as shown by the correlation coefficient of -0.056. This result aligns with the normal economic policy where interest rate is used to control the increase in money supply which is indirectly implemented by the control of debt (borrowing) when the interest rate goes up the debt (borrowing) goes down and consequently, the money in circulation is negatively affected.

Multiple Regression

The multiple regressions are deemed suitable since the number of independent variables is more than one and as such simple regression cannot accommodate more than one independent variable which is aimed at examining the influence of National Debt on the Economic growth of Nigeria.

$GDP = \beta_0 + \beta_1 NDT_t + + \beta_3 INT_t + e_t$ ....*ii*

Table 2: Regression: GDP versus NDT, INR, VIF, and Durbin-Watson result

Predictor	Standardized Coefficients	t-value	Sig.	Tolerance	VIF
Constant (GDP)		1.469	0.000		
NDT	-0.434	-0.434	0.001	0.624	1.752
INR	0.280	0.280	0.000	0.839	1.082
Adjusted R-Square	0.854				
Durbin-Watson	1.715				
F-value	0.000				

Table 2: presents the summary of regression, variance inflation factor (VIF), and Durbin Watson analysis result. The result of the regression shows an adjusted R-square of 0.854 which implies that the selected independent variables accounted for over eighty-five (85%) percent of the variation in the dependent variable while the remaining fifteen (15%) percent was captured by the error term and other variables not selected in the model. This shows that the variables have been properly and adequately selected to explain the dependent variable and the model is fit which makes the study findings suitable and reliable.

The diagnosis tests conducted through Durbin-Watson and VIF to free the variables and the data from any problem of either autocorrelation or multicollinearity which may affect the findings of the study show there is none of the two main issues. The result of Durbin Watson with a coefficient of 1.715 shows the non-existence of autocorrelation among the variables since the value is between 1 and 5 which are border points of autocorrelation. on the other hand, the VIF output which is aimed at establishing whether a high correlation exists between the variables or otherwise shows that there is no presence of multicollinearity among the independent variables since all VIF numbers are greater than 1 and less than 5 as such it has supported fitness of the model and the variables.

It can be deduced from the regression result presented in Table 2 that National Debt has a negative and significant influence on the Economic growth of Nigeria for the period under review. The coefficient of the regression result of -0.434 and a p-value of 0.001 indicates that a percent increase in country debt will almost reduce economic development by 43.4%. this result implies increase in the country's debt will be detrimental to the Economic growth of the country since developing countries mostly borrow to handle recurrent expenditure which will not have the capacity to service the loan nor to talk of gaining any return on the collected debt. While interest rate has a positive and significant influence on the Economic growth of the sampled country this is indicated by the regression coefficient of 0.280 and a p-value of 0.00. The result indicates that changes in interest lead to relatively similar changes in the real economic activity of the sampled country.
This finding agrees with the real economic situation that an overwhelming increase in debt will cause a shrink in economic activities and consequently affect better living conditions of the citizens and it is supported by The conventional growth theory that a rise in government debt to slower development (Casares, 2015). This finding aligns with Choong, Lau, Liew, and Puah, (2010); and

MohdDaud, Ahmad, and Azman-Saini, (2013) that national debt has a detrimental influence on a nation's long-run economic development. Other studies that agree with these findings include but are not limited to Adoufu and Abula (2010); Presbitero, (2012); Calderón and Fuentes, (2013) Swamy, (2015); *Kharusi and Ada (2018) and* Sanusi, Hassan, and Meyer (2019) who concludes that National Debt affects Economic growth of a nation negatively. It can be concluded that an uncontrolled debt if not utilized well especially sinking the fund to the real sector will reasonably affect the Economic growth and development of a country.

Conclusions

The study concludes that monetary policy specifically increased money supply is the major control mechanism of recession and inflation. It has a direct consequence on the real GDP, price stability, and the overall economic well-being of a given country. Since fiat money has no real asset backing, the absence of real economic productivity investment opportunities and misallocation of capital that lead to speculative investments means the increased supply of money would bring down the value of money already in circulation and or push the price of goods and services higher than what it was before the increase of money supply.

Another key finding of the study is the positive correlation between trade liberalization and economic growth. Trade liberalization, the study explains, involves reducing trade barriers to increase the flow of goods and services across international borders. When countries engage in trade liberalization, they expose themselves to new markets and new businesses, leading to increased investment, innovation, and job creation. Moreover, trade liberalization is crucial for countries adopting export-oriented strategies. A favorable international trade environment also enhances a country's competitiveness by reducing production costs and increasing the variety and quality of products available.

Finally, the study emphasizes the importance of investing in human capital development as a means of sustaining long-term economic growth. Improving access to quality education, expanding healthcare coverage, and promoting job-specific training programs all contribute to a more skilled workforce, which ultimately benefits society as a whole. A well-educated population is more adaptable to changes in technology and global markets, leading to more creativity and innovation. It also attracts an influx of foreign investment and encourages the formation of new businesses.

In conclusion, this study provides an essential understanding of the key drivers of economic growth and development. The recommendations outlined in this report offer valuable insights for policymakers and public officials seeking to support sustainable economic growth in their countries. By considering these recommendations and implementing appropriate policies, countries can enhance real economic growth, promote employment, and improve the standard of living for all citizens.

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