Public Debt and Economic Growth in Nigeria

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Abstract
Improving financial infrastructure to support economic progress has long been the goal of developing countries' rising public debt. In scholarly circles, the significance of this argument for Nigeria has not abated. This study set out to examine the relationship between Nigeria's economic development and public debt from 1960 to 2019 as well as the evolution of the country's total debt rate over that time. The National Bureau of Statistics (NBS), the Central Bank of Nigeria (CBN) Statistical Bulletin, and reports from the Debt Management Office (DMO) spanning multiple years provided the data for the study. Techniques for linear regression were applied to analyze the gathered data. The GDP variation is explained by foreign debt at 0.727 (72.7%) and domestic debt at 0.869 (86.9%), for a combined impact of 0.872 (87.2%). The F-cal value of 64.99 and the t-statistic of 8.062 for foreign debts respectively. For F-cal and t-cal domestic loans, it produced yields of 178.589 and 13.364, respectively. This demonstrates how debt, both domestic and foreign, significantly impacted Nigeria's economic growth between 1960 and 2019. Consequently, it was determined that Nigeria ought to utilize both debt profiles in order to develop its economy. In terms of the debt growth rate, it worked in tandem with the previous one because the total debt growth rate remained within the range of projected values. In contrast to an F-critical of 4.0012 and a t-crit of 1.671, it obtained an F-cal of 3.493 and a t-cal of -1.869. Thus, in order to promote economic progress, it was agreed that the government should borrow money for legitimate purposes.

Keywords: *Public Debt, Economic Growth, Nominal Gross Domestic Product*

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

People around the world are putting more and more pressure on their governments to provide improved social amenities, the environment, defense, security, health care, and education, among other things. The availability of these countries' financial resources determines whether these services can be provided. These nations frequently have to borrow money since their domestic revenue is insufficient to provide their population with the essential services. The process of borrowing money to finance development initiatives involves taking out loans or debt from domestic or foreign lenders, governments, or private citizens. Alternatively referred to as public debt, this borrowing illustrates the debt profile of a nation at a certain moment in time.

For instance, there are two types of government debt in Nigeria: international debt and domestic debt. Debt due to foreign governments and organizations, such the African Development Bank and the Paris Club, is referred to as external debt. Conversely, government borrowing through the issuance of government bonds, certificates, and treasury bills is referred to as internal debt. The Debt Management Office (DMO) in Nigeria is in charge of overseeing the necessary debt monitoring. Achieving efficient economic growth requires careful management of debt.

When measured in real terms as opposed to monetary ones, economic growth is defined as a gradual increase in the output of products and services. An alternative definition for it would be an increase in the output of economic goods and services from one period of time to the next, expressed in nominal or real (inflation-adjusted) values. It is the steady and positive increase in the total amount of goods and services produced by an economy over a given length of time. Therefore, when a nation's total goods and services increase relative to previous years, economic growth takes place (Favour et al., 2017).

Government's main duty is to boost the economy's ability to produce goods and services that improve welfare by utilizing its natural resources (both in terms of quantity and quality), human resources (both in terms of quality and quantity), capital goods (both in terms of supply and stock), and available technology. Gross national product (GNP) or gross domestic product (GDP) is the traditional metric used to assess economic growth. Therefore, nominal GDP serves as a stand-in for economic growth in the context of this study. The important thing about using nominal pricing is that they are not inflation-adjusted. Debt-to-GDP ratios are always based on nominal GDP because debt is always calculated and expressed as a nominal sum.

Because of its heavy responsibilities, the government does not have the means to provide the population with improved living circumstances and all the facilities they require. It turns to borrowing in order to cover this shortfall. Typically, borrowing is associated with a particular project or projects, and the money used for such borrowing are overseen by the Debt Management Office of the Presidency and the Central Bank of Nigeria. Federal, state, and local governments all keep tabs on the amount of money they borrow. To promote economic growth and development through initiatives like budget deficits, military, education, health, and other social activities, people, companies, and different governmental levels borrow money. In order to evaluate a borrower's capacity to repay loans of this kind and expand her economy, lenders are interested in knowing how the money are being used.

1.2 Statement of the Problem

Nigeria has had a high debt load for many years, which has accumulated under successive administrations. It is necessary to service debt, which entails paying creditors their due amounts on time, including interest. Funds allocated for infrastructure should not be misused or misappropriated. The economy will encounter various difficulties in such a scenario.

Effective debt management requires managerial expertise to maximize loan realization. These objectives include creating a safer environment, more job opportunities, better education, infrastructure, larger facilities, and a higher level of living. But there are problems when these loans are not used properly to have a positive short-, medium-, and long-term impact on the economy. The government uses a range of internal tools, including as bonds, debentures, treasury bills, and treasury certificates, to find and obtain loans.

Over the years, a number of studies on Nigeria's debt profile and its impact on economic growth have been conducted. For instance, Shuaib and Ndidi (2015) examined the effects of Nigeria's foreign debt using time series data, focusing on Nigerian experiences between 1960 and 2013. The trend from 2013 to 2019 is extended by six (6) additional years in this research. Utilizing the linear regression model, the outcomes were examined. Some studies supported borrowing domestically over borrowing abroad, while others supported borrowing externally over borrowing domestically. The purpose of this study is to evaluate Nigeria's total debt, including its external and domestic debt, and to ascertain the impact of these loans on the country's economic growth.

1.3 Objectives of the Study

This study examines the public debt profile and how it affects the performance of Nigeria's economy from 1960 to 2019. The primary goal, then, is to investigate Nigeria's public debt profile and its influence on economic development. Other particular goals include:

i. examine the relationship of external debt to economic growth in Nigeria;
ii. determine the relationship of domestic debt to economic growth in Nigeria;
iii. assess the combined relationship of external and domestic debt profile on the economic growth in Nigeria;
iv. determine the relationship of growth rate of total debt on the economic growth in Nigeria.

1.4 Research Questions

The researcher developed the following research questions to provide a guide:

i. What are the contributions of external debt to economic growth in Nigeria?
ii. What are the contributions of domestic debt to economic growth in Nigeria?
iii. What are the combine effects of external and domestic debts on the economic growth in Nigeria?
iv. What is the effect of growth rate of public debt on the economic growth in Nigeria?

1.5 Research Hypotheses

The following hypotheses were formulated and stated in a null form:

Ho_1: There is no significant relationship between external debt and economic growth in Nigeria between 1960 and 2019.

Ho_2: There is no significant relationship between domestic debt and economic growth in Nigeria between 1960 and 2019

Ho_3 There is no significant combine effect of external and domestic debt on economic growth in Nigeria between 1960 and 2019.

Ho_4 There is no significant effect of public debt growth rate on economic growth in Nigeria between 1960 and 2019.

1.6 Significance of the Study

Policymakers, practitioners, and academics will find the report valuable.

Scholars predict that the study will add to the body of knowledge now available and serve as a guide for further research. It would assess the system's overall supply and demand in light of government social and developmental objectives, employment trends, and borrowed loans.

Regarding the sources and timing of borrowing from internal or external sources, the practitioners would receive guidance. Additionally, they would look at how debt growth rates changed between 1960 and 2019 and how it affected economic development. Governments can lessen their exposure to interest rate, currency, and other risks by establishing solid debt arrangements. Ensuring that

the government's financial needs and payment obligations are met at the lowest practical cost while retaining a reasonable level of risk is the fundamental objective of public debt management. Researchers would be able to better advise policymakers and regulators on borrowing options by demonstrating the impact of public debt on the nation's economic growth.

1.7 Scope and Limitations of the Study

The purpose of the study is to provide information on the nation's debt profile and how it has affected economic growth between 1960 and 2019. The study focused on Nigeria and used information from the Central Bank of Nigeria (CBN) Statistical Bulletin, the National Bureau of Statistics (NBS), and the Debt Management Office (DMO).

The study was hindered by the static nature of the data, which made forecasting challenging. Above all, the study's data are historical in nature and have no evident influence. NGDP, a method frequently used to gauge economic growth in an economy, serves as the study's proxy for measuring economic growth.

CHAPTER TWO
REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

The debt owed by the government is known as public debt. To finance development initiatives, expand public businesses and utilities for the welfare of its citizens, fund budget deficits and balance of payments imbalances, aid victims of natural disasters, and wage wars against other countries, the government borrows money from individuals, businesses, institutions, and other governments. Since it is believed that the government won't fail like businesses do, lending to it is more secure than loan to individuals because there is a possibility of repayment. It is possible for public debt to be marketable, meaning that it can be bought and sold on the financial market. Examples include Federal Government Development Stocks, which are long-term debt listed on stock markets, and Treasury bills, which are short-term debts exchanged in the money market. Debts issued in the names of particular debt holders that are not transferable to other parties are known as non-marketable debts (Idenyi et al., 2016).

2.1.1 Domestic or Internal Debt: This refers to the amount owed by the government to its people, entities, and citizens. There are many domestic debt instruments available, including Treasury Bills, Treasury Certificates, Development Stocks, Bonds, and Promissory Notes (Umaru et al., 2013). Therefore, debt borrowed by the government using funds from within the nation is referred to as domestic debt. Consequently, all government debt is categorized as domestic debt, including Treasury Bills, Treasury Certificates, Federal Government Development Stock, Ways and Means Advances, and Treasury Bonds (Efanga et al., 2020).

Treasury Bills are a type of short-term financial instrument that the government uses to raise short-term capital from institutional investors, the private sector, and government agencies in order to cover budget deficits. They are guaranteed and supported by the full confidence of the nation's government, and they are issued by the Central Bank of the nation at the Discount Rate. The income from these assets is tax-free, consistent, and always greater than what an investor

could get from a bank that accepts deposits. By discounting Treasury notes at the current interest rate, they can be easily turned into cash. You can use its certificate as security for bank loans. In 91 days, it will mature. Trading Treasury Bills has several benefits, such as a consistent income stream, a good way to invest spare cash, a tax-free interest rate, tax-free growth, high liquidity and quick conversion to cash, and the ability to be used as collateral for bank loans (Forgha et al., 2014).

Certificates of Treasury: This is similar to Treasury bills, except it has a higher interest rate and a maturity period of one to two years. Two of the biggest buyers of Treasury Certificates are Discount Houses and Deposit Money Banks. The Treasury Certificate Act Number 40 of 1968 governs the issuance of this certificate in Nigeria. The Act gave the Central Bank of Nigeria permission to borrow money from the general public for the government's use. Under the Act's provisions, the principal amounts represented by any Treasury Certificate that is outstanding at any given moment cannot exceed 50% of the anticipated revenue for that year. Treasury Certificates are payable twenty-four months from the date of issuance and are issued in multiples of 1,000 Naira (Forgha et al., 2014).

Medium- or long-term securities traded on the capital market are known as development stocks. The Central Bank always files an application with the Securities and Exchange Commission for listing clearance on the Nigerian Stock Exchange in order to accept such funds from insurance firms and deposit money institutions to support development initiatives or programs (Forgha et al., 2014).

Bonds are a specific kind of formal debt instrument wherein the government leases money in return for regular interest payments (known as Coupons) and the principle repayment upon maturity. They are a specific kind of IOU or loan. The issuer is the borrower (debtor), the bond holder is the lender (creditor), and the amount of interest due is known as a coupon. Bonds are safe investments that pay tax-free interest on a semi-annual, annual, or even monthly basis. They provide as backup for either ongoing government spending or long-term investments (Forgha et al., 2014).

A promissory note is a formal agreement to repay a specific amount of money borrowed. The borrower and lender have entered into a written arrangement whereby the borrower agrees to pay the borrowed funds to the designated person or bearer of the Note upon demand or at a future date that can be set. The terms of the duty must be included in the Notes. These include the issuer's signature on the note, the payee at maturity, the principal amount involved, the suitable interest rate, the date of maturity, and the place of the note's issuance (Forgha et al., 2014).

2.1.2 Debt that is external or foreign: The concept of external debt stems from the notion that any current obligation a resident has to a non-resident, requiring principle and/or interest payments in the future, is an economic claim on the resources of the resident's economy in the future and is therefore considered external debt of that economy. This category includes debts owed to governments, organizations, individuals, and foreign nationals. Among them are bilateral groupings like Japan, China, and Germany as well as multilateral organizations like the World Bank (WBG), the International Monetary Fund (IMF), and the African Development Bank Group (ADB). The International Bank for Reconstruction and Development (IBRD), established in 1945 to aid in global reconstruction, is the foundation of the World Bank Group. It supports private foreign direct investment by guaranteeing or participating in loans and other investments made in

the private sector of member countries' economies; among other things, it conducts project feasibility and evaluation studies and serves as an executing agency for development projects financed by the UN. All of these activities contribute to the economic development of member countries. The International Finance Corporation was established in 1956 with a number of objectives, including enhancing the resources of private investors by lending money and equity to private businesses and facilitating investment opportunities by enticing domestic and international private investors to partner on joint ventures. Provide developing member countries with technical assistance on private investment projects to enable their businesses to be profitable and productive. The World Bank established the International Development Association in September 1960 as a soft loan window to provide long-term loans to the governments of the world's poorest countries for the purpose of reducing poverty and developing human capital. Established in 1988, the Multilateral Investment Guarantee Agency (MIGA) aims to facilitate the inflow of foreign direct investments (FDIs) into developing countries. The International Monetary Fund (IMF) is a self-governing international financial organization that was established in 1945 with the goals of preventing competitive currency devaluation and preserving exchange rate stability enabling orderly exchange agreements among member nations. to provide short- and medium-term loans, as well as technical assistance, to member nations in order to assist them in resolving balance-of-payments concerns (The Economic Times, 2021).

The Nigerian Trust Fund (NTF), the African Development Bank (ADB) Group, and the African Development Fund comprise the organization. Founded in 1963, the African Development Bank's mission is to finance investment projects and programs of its members using both its own resources and resources from outside Africa, especially from developed nations; additionally, it offers technical assistance in the areas of project selection, study, preparation, and program execution. Established in 1972, the African Development Fund was designed to provide development loans with more favourable terms for repayment and interest than those offered by the African Development Bank. The Nigerian Trust Fund (NTF) was established in 1976 to assist the development initiatives in the industrial, agricultural, and social/educational domains of the ADB's poorest and most indebted member countries (African Development Bank, 2021).

Negotiating foreign debt can be more time-consuming than negotiating domestic debt, and these loans are subject to fluctuations in currency rates that can occur at any time during the debt's duration and payment requirements. Instead of having short maturities, external obligations have medium- and long-term maturities.

Figure 2:1 illustrates public debt in terms of voluntariness, resourcefulness, and maturity. Debt maturities range from short to long. Debt can be taken on voluntarily or under duress, and it can be internal or external. Although we might only briefly touch on one or both of these topics, our research will not thoroughly explore them.

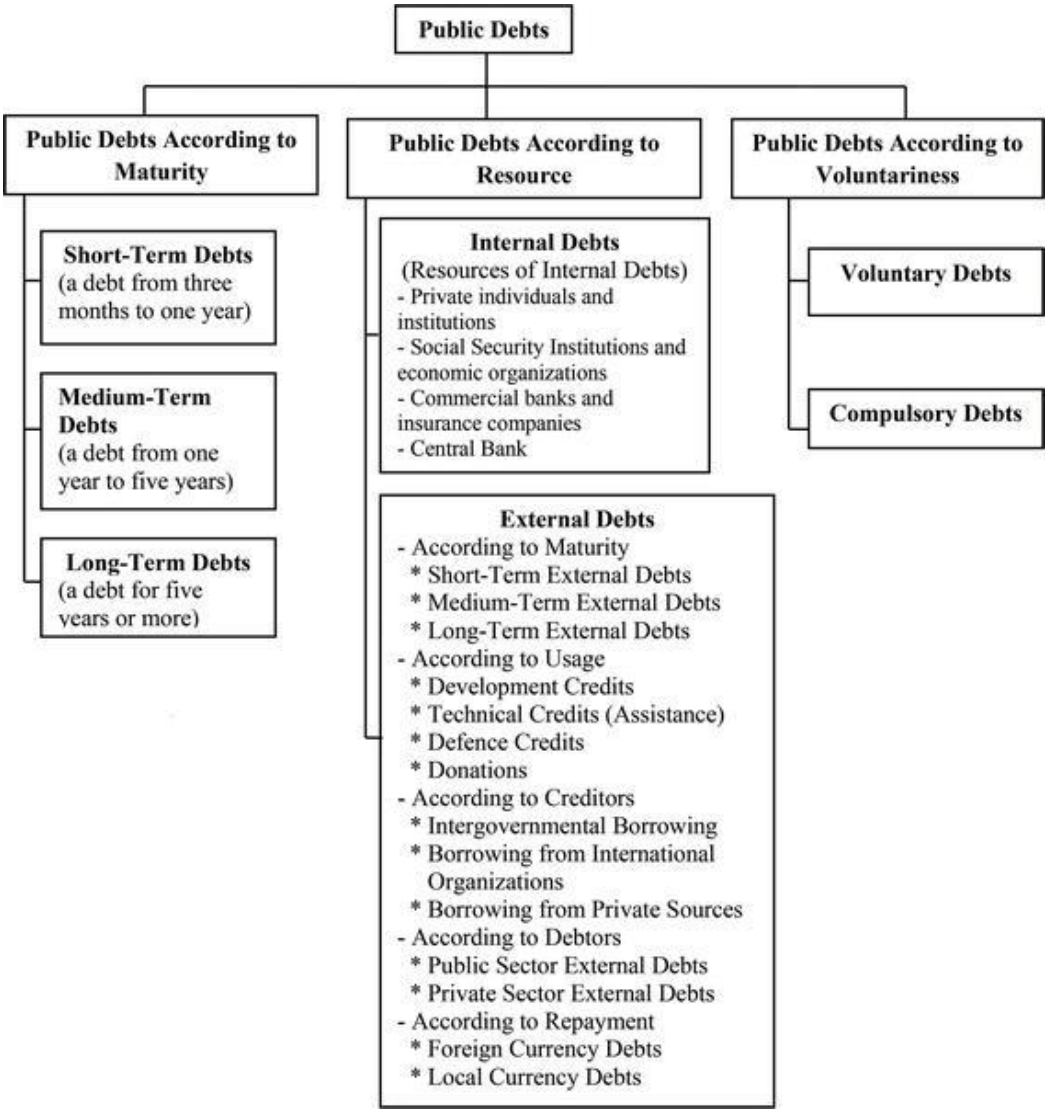

Figure 2.1: Debt instruments according to maturity, resource and voluntariness
Source: Aybarç (2018).

Ogunyemi (2011) stated that the country's debt burden was established during the colonial era between 1914 and 1960, when the Nigerian government started expanding its debt stock portfolio in order to carry out significant capital development projects. The first loan that the British government officially made to Nigeria was for about £5.7 million, payable over a 20-year period, at an interest rate of 2.5 percent annually. By the end of 1936, Nigeria had secured an additional £4.89 million loan, increasing the total amount of public debt in the nation to almost £9.89 million. By the end of 1952, Nigeria's total debt load had increased to £21.24 million after absorbing an additional £5.74 million between 1946 and 1948. At the end of

colonial rule, Nigeria had about £17 million in total debt. Despite choosing to concentrate on generating public funds domestically after gaining independence, Nigeria managed to get a further loan of more than $31 million with a 20-year repayment period and an annual interest rate of 3.5 percent from the Paris Club of Creditors. Nigeria's portfolio of both domestic and foreign debt increased dramatically during the post-colonial era of the 1960s and the late 1980s. As servicing debt financing became more challenging, Nigeria eventually found itself in a large debt trap by the 1980s.

Analysts attributed the country's worsening debt financing circumstances to both a large decline in world oil prices and a substantial amount of principal that remained outstanding. Her total external debt had increased to an astounding $14.8 billion by the early 1980s, of which the Paris Club of Creditors alone was responsible for about $6.3 billion. Nigeria's external debt skyrocketed between 1986 and 1993. Economists calculate that the country's debt servicing problems started around 1985, when its total foreign debt to all creditors was approximately $19 billion. The Nigerian government owed over $36 billion in outstanding foreign debt at the end of 2004.

It should be recalled that under General Yakubu Gowon's (retd) military rule, he said that Nigeria was experiencing enormous cash deposits but was unable to use them. This led him to plan the 1977 Festival of Arts and Culture (Festac), where he lavishly spent most of the proceeds. Following military regimes went on spending sprees, ran through the nation's foreign exchange reserves, and started taking out loans. The country was on the verge of bankruptcy under Alhaji Shehu Shagari's administration, which was a crisis time. The military had to step in again until 1990, when General Abdusalami Abubakar (retd) decided to hand over power to a democratically elected government. As oil prices dropped and exchange rates fluctuated, Nigeria's governmental debt skyrocketed. Since the start of the twenty-first century, developing countries have encountered significant levels of debt everywhere. As a result, if public debt is not managed carefully, an increase in a nation's profile may be harmful to the expansion of its economy.

Rising public debt in Nigeria is still a cause for concern, according to Ojekunle (2019). Governments should work to make sure that the amount and rate of public debt growth are fundamentally sustainable and can be serviced under a range of conditions while fulfilling cost and risk objectives (IMF and World Bank, 2001).

A nation's biggest liability is usually its public debt; this is particularly true for emerging countries, as paying off the debt consumes a large amount of national income. Thus, the term "public debt" refers to the total amount of money owing at any given time by the federal, state, and local governments (United Nations Conference on Trade and Development), n.d. It could even be an unpaid contract obligation or an underpaid pension to retired personnel. Because debt has anti-inflationary properties, governments prefer it to new taxes or currency issuance to cover budget deficits (Eze et al., 2019). A government should borrow money, according to John (2020), provided that the capital acquired outweighs the cost of borrowing. In other words, Odejimi and Ozor (2018) contend that borrowing by developing nations is acceptable as long as the funds are used for worthwhile projects that will allow the loan to be repaid in full. Udoffia and Akpanah (2016) suggest that a high debt-to-capital ratio discourages capital inflows while encouraging capital flight. It makes sense to argue that debt should always be utilized to fund

investment spending since it results in future increases in output, which will provide an economic return. (Chitiga and associates, n.d).

The Federal Government of Nigeria has set what it views as a suitable ratio of 60:40 for domestic debt to foreign debt, according to Proshare (2017).

2.1.3 The Debt Management Office's (DMO) Nigerian history

To oversee external debts, the Debt Management Office was established on October 4, 2000. The Federal Ministry of Finance used to have numerous divisions for this purpose. They were as follows: The External Finance Department oversees statistics on national debt and all Paris Club obligations. All relationships with multilateral organizations are within the purview of the Multilateral organizations Department (the Africa Bilateral Economic Relations Department is in charge of the African Development Bank and its affiliates, including the African Development Fund). It is also in charge of managing and servicing multilateral debt. The Department of Africa and Bilateral Economic Relations (ABER) is in responsibility of liaising with ECOWAS, non-Paris Club bilateral creditors, and the African Development Bank (ADB) and its subsidiaries.

The Foreign Exchange and Trade Relations Department is in charge of providing reconfirmation for payment externalization to the CBN and documenting repayment and servicing of external debts; the Treasury Department (Office of the Accountant General of the Federation) is in charge of issuing mandates to the CBN for the payment of all external debts (DMO, 2020).

The following external debt management offices were hosted by the Central Bank of Nigeria (CBN) in a similar vein. They were responsible for managing the trade debts, par bonds, and promissory notes owed by the London Club. The Debt Conversion Committee is in charge of managing a number of debt conversion options, including debt-for-debt, debt-for-equity, debt-for-export, debt-for-nature, and debt-for-development. It also supervises many other departments. These departments are in charge of processing and carrying out loan repayments on behalf of all the other government agencies and departments mentioned above (DMO, 2020).

The necessity for a separate public debt management office was consequently motivated by the following benefits: good debt management practices that have a positive impact on economic growth and national development, particularly in reducing debt stock and public debt servicing costs in a way that saves resources for investment in poverty reduction programs; prudently raising finance to fund government deficits at affordable costs and manageable risks in the medium and long term; achieving a positive impact on overall macroeconomic management, including monetary and fiscal policy consciously avoiding debt crises and achieving orderly growth and development of the national economy; improving the nation's borrowing capacity and ability to manage debt efficiently in promoting economic growth and national development; and projecting and promoting a positive image of Nigeria as a disciplined and organised nation capable of managing its assets and liabilities; and providing opportunities for professionalism and good practice in nation building (DMO, 202).

2.1.4 Expanding Economy:

Economic growth is the total amount of output that a country can create in a given year, as determined by the market price of the items, after accounting for price volatility and the imputed cost of the goods and services supplied by the economy, less net revenue from outside sources. A

nation's GDP increases as its capacity for production expands, particularly when contrasted to earlier periods. Therefore, a country's economic development is apparent when its total goods and services grow in contrast to previous years.

According to the Gross Domestic Product, it is an increase in the amount of goods and services produced per person over time (GDP). The GDP is a measure of a country's overall economic output, which encompasses all goods and services generated by its businesses and sold on domestic or foreign markets. To put it simply, GDP evaluates final items and leaves out any work-in-progress or components produced in order to build a product. GDP computations take into account exports but exclude imports (Favor et al., 2017).

2.1.5 GDP: The Gross Domestic Product

It is a monetary representation of all finished goods and services generated by citizens of a nation over a specific time frame. GDP measures the monetary value of a nation's finished goods and services—those that the end customer actually purchases—that are produced over a given time period, such as a quarter or a year. It encompasses any commodity made within the boundaries of a nation. Commodities and services produced for market sale as well as some nonmarket output, such defense or education services supplied by the government, make up GDP. In order to take the proper action, policymakers and central banks can use GDP to assess whether the economy is growing or contracting. It also makes it possible for businesses, economists, and politicians to evaluate the impact of many factors, such as tax and spending plans, economic shocks, and monetary and fiscal policy. The spending approach, income approach, and product approach can all be used to determine GDP. The total or aggregate completed items produced in the nation over the time period under consideration will be determined using the product approach. Removing the value adds achieves this. While the expenditure technique totalizes government expenditures (G), expenditures on imports (M), spending on exports (E), and consumption by individuals (C), the income method totalizes all money received by inhabitants. C+I+G+X-M thus equals GDP. Every method utilized yields the same outcome when there are no mistakes made during the data collection and calculation processes. The following things are not included in the GDP estimates. Examples of unpaid services include child care, voluntary work performed without compensation, and illicit black market activities. GDP does not take into consideration the impact of environmental costs on societal well-being, such as the price of disposing of rubbish. Both the GDP and the level of investment increase when the government has abundant resources at its disposal. In order to prevent borrowing costs from outweighing the returns on those funds, debt managers need to use care (International Monetary Fund, 2020).

Nigeria's national debt causes

A large and ongoing budget deficit, an imbalance in the repayment balance, a rapidly growing population, the implementation of development programs, economic instability, natural disasters, fluctuations in government revenue, borrowing during a war, and debt servicing are some of the justifications put forth to support a nation's need to borrow (Okoye, 2000). The government always creates budgets that show the anticipated revenue and suggested expenditures for the next fiscal year. The entire proposed expenditure will be equal to the entire estimated revenue. Occasionally, this is not the case, which leads to deficits in the budget. When the government has more money than it needs to spend but not enough resources to cover its

projected costs, there is a budget deficit. The government must borrow to close the budgetary gap in order to maintain its planned level of spending in the face of declining revenue, particularly when the deficit is significant and lasts for several years. A country has a balance of payment disequilibrium when its inclination to buy goods surpasses its inclination to export them in order to generate revenue. To cover the cost of these imports, the government also borrows money. Similar challenges are being faced by Nigeria, where the population is growing faster than the country's output. The government must borrow in order to expand public firms and public utilities for the benefit of its citizens and to feed the increasing population.

New and upgraded social and economic infrastructure, including power, schools, hospitals, trains, and highways, is required. It is inevitable to borrow when tax revenue is insufficient to achieve the objective. A stable economy by its very nature fosters an environment that is favorable to economic expansion and advancement. During an economic downturn, both internal and external borrowing can be used to boost economic activity. Internal governmental debt can be reduced to prevent inflation. In addition, borrowing by the government is acceptable when a nation experiences natural disasters since relief efforts are required for victims of famines, fires, floods, earthquakes, and other calamities. Nigeria depends on one or a small number of export goods.

An abrupt decline in these products' performance on the global market would drastically reduce revenue and have a big effect on how the budget is implemented. In these situations, borrowing will be the last option. Borrowing is usually necessary because the financial resources needed to resolve disputes sometimes exceed the capacities of the government. To pay off its debt, the government seeks out new debts rather than taxing its people more.

Nigeria's national debt consequences:

Public debt has both beneficial and harmful effects. The good news is that borrowing money can be used to finance socially and economically sound projects, which will bolster confidence among domestic and international investors; it can also be used to control inflation, which will raise living standards and result in the creation of new jobs and more welfare-enhancing goods and services. Additionally, if public debt is used for social, security, and other projects that help lower income groups, income inequality is reduced; additionally, individuals who lend money to the government by buying government securities rather than holding idle savings will benefit financially as they add more assets to their portfolio. In the economy, excessive government borrowing tends to discourage private investment because the government competes with private businesses in the money market, depriving them of loanable funds needed to expand; it places future obligations on taxpayers when borrowed funds are used for prestigious or "white elephant" projects that have no direct bearing on economic development; and it deprives the economy of foreign exchange needed to pay exorbitant interest rates on public debt in hard currency, which is especially problematic for a nation like Nigeria that depends heavily on imports for industrial inputs. Industrial employment are lost as a result, and industrial capacity utilization declines. Borrowing is a poor way to control inflation because it is linked to unachievable conditions set by the International Monetary Fund (IMF), such as trade liberalization, the removal of subsidies on necessities, spending cuts, a lack of increase in public servant safety, and other strict requirements that have a negative impact on people's quality of life. In actuality, debt servicing can lead to inflation, particularly in periods of full employment.

Creditors usually see an increase in aggregate demand when they release the funds they invested in government securities. Apart from the aforementioned, the problem of servicing debt is exacerbated when short- and medium-term loans are linked to long-term undertakings, with amortization falling due prior to the projects' completion (Okoye, 2000). Costs associated with debt servicing have an adverse effect on human and economic development. Debt servicing and repayment would occur at the expense of capital projects that could potentially address social development, even in the event of a scarcity of money. The government continues to pursue commercial loans, which need to be allocated to investors in the private sector for use in economic endeavors like job creation and the manufacture of goods for trade.

Nigerian national debt management issues:

The government's practice of borrowing money to cover the pensions and accrued wages of its people is wrong. When opposed to borrowing for investments, this is primarily for consumption and has less economic impact. Furthermore, it has been seen that political leaders either ignore or pay scant regard to budgetary discipline. Unexpectedly, borrowing happened during oil boom times when the economy had surplus cash. Wealth from excess crude oil is squandered by the powerful, who don't care much about the country's economic development. In addition, borrowing is utilized to fund political campaigns as opposed to establishing successful businesses like manufacturing and agriculture. Additionally, it has been observed that the government takes out short-term loans to fund long-term projects that will take longer to start paying off. Regretfully, several funds have shorter maturities, shorter grace periods, and higher interest rates. In addition, loans are taken out when the exchange rate is low and repaid when it increases. The administration also abandoned the 40:60 ratio of external to domestic debt in its quest for borrowing.

Strategies for decreasing or alleviating Nigeria's increasing public debt profiles include: The following remedies help Nigerians who are experiencing rising debt profiles. These include debt repudiation, debt forgiveness/relief, debt rescheduling, debt equity conversions, countertrade introduction, limitations on external loans, and reliance on foreign aid or support. Rearranging debt repayment plans by changing the interest rate, grace period, and maturity date is known as debt rescheduling. This method provides some respite from debt, but it does not reduce the overall amount of debt. The process of converting debt values into equity in particular businesses and industries across the nation is known as debt-to-equity conversion. Counter trade refers to a commercial arrangement when a nation provides its main product to another nation in exchange for a substantial import. To minimize the imbalance in the balance of trade and payments, the nation that exports its goods to Nigeria would be willing to take in a substantial volume of exports in exchange. The government may also choose to forbid taking out new foreign loans until previous ones have been paid back in full. In addition, the government can reduce borrowing while still depending on global donations from these affluent countries. It might also approach these creditor nations for debt relief. Another strategy adopted by developing nations to reduce their debt levels is debt forgiveness. (Okoye, 2000).

The Paris Club and other debt forgiveness programs are proof that these strategies, which have been employed throughout the nation at different points in time, have greatly reduced the burden of repaying debt. Build, Operate, and Transfer (BOT), Public Private Partnership (PPP), and other options are available in this field. Urama et al. (2018) claim that comparable methods

were applied in the construction of the Lekki Motorway (Lekki Toll Plaza) and the Lagos-Ibadan Motorway. Reducing the debt-to-revenue ratio can be facilitated by an efficient tax structure that produces more revenue. In addition, the government has the authority to revive closed businesses like the Textile Enterprises, the Aluminum Smelter Company, and the Ajaokuta Steel Company. A number of unexplored natural resources have the potential to draw foreign capital and investment. Among these are bitumen, coal, columbite, gold, iron ore, limestone, and tin. Since these goods can be exported, the government can profit from them.

2.2 Theoretical Framework

This section discusses theories that would provide the theoretical foundation for the study on Public Debt and Economic Growth.

2.2.1 Debt Overhang Theory

Howard put up this theory in 1972. An increase in debt to the extent that a government is unable to get new loans in order to finance ongoing projects is referred to as "overhang debt." This is when a company, government, individual, or organization takes out fresh loans even when they are wise investments that will more than pay for themselves. In this case, the debt load is so high that all income is allocated to paying off current debt rather than funding new investment projects, which raises the default risk. The debt overhang theory states that excessive borrowing results in high debt levels, debt traps, and a stalling of economic growth. The debt overhang theory states that projected debt payment costs will deter further domestic and foreign investment if there is a chance that future government debt may exceed the nation's capacity to repay it. Prospective investors would be discouraged by the notion that governments would tax them more to pay off the public debt if there was more output, which would make them less willing to incur investment costs now in order to boost output in the future (Gordon and Cosimo, 2018). This idea is not very relevant to this study, unless one takes into account the costs associated with the nation's debt payments.

2.2.2 **Theory of Dependency**

Dependency Theory was developed in the late 1950s under the direction of Raul Prebisch, the Director of the United Nations Economic Commission for Latin America. Prebisch and his associates expressed apprehension regarding the fact that advancements in highly industrialized nations did not consistently result in expansion in impoverished nations. In fact, their research revealed that significant economic problems in the poorer countries were often caused by economic activity in the richer ones. Prebisch's initial explanation for the phenomenon was straightforward: poor countries exported raw materials to rich countries, which manufactured goods out of those raw materials and sold them back to the poorer countries. The cost of the "value added" that results from creating a functional product is always higher than the cost of the raw materials used to make it. Consequently, the export earnings of less wealthy nations would never be enough to pay for their imports. Prebisch proposed that developing countries should implement import substitution programs instead of buying manufactured commodities from developed countries. The less developed countries would still sell their primary products on the international market, but

they would not use the foreign cash they saved to purchase manufactured goods from abroad. Three things made this method challenging to put into practice. First, the domestic markets of the poorer countries were too small to support the economies of scale that the richer countries used to maintain low pricing. The second issue was the political will of the less developed countries to stop producing primary goods. The degree to which less developed countries actually controlled their fundamental goods—especially when it came to selling them abroad—was the fourth issue. Others were inspired by these obstacles to import substitution programs to think more creatively and historically about the relationship between rich and poor countries. Dependency theory was accepted at the time as a reasonable explanation for the persistent poverty of the poorer countries. Prebisch thought that trade protectionism would help underprivileged countries achieve self-sufficiency (Ferraro, 2008). This concept is connected to our study on how developing and impoverished countries depend on wealthy countries for loans and aid.

2.2.3 **The theory of debt crowding out**

The debt crowding out theory states that higher debt service payments can increase a nation's budget deficit and reduce public savings if private savings do not increase to make up for it. Economic development may be slowed as a result of interest rate increases or the crowding out of funding options for private investment. Interest rates rise when the government takes on additional debt to fund spending cuts or tax reductions, which discourages investment from the private sector. The interest rate-sensitive private sector would probably reduce investment due to lower rates of return if greater borrowing raises interest rates by increasing demand for money and loanable funds, which in turn results in higher pricing. Future output growth or long-term supply-side economic growth will be negatively impacted by a decline in corporate fixed investment. The impact of crowding out is lessened by the fact that government spending increases demand for commodities produced in the private sector through the multiplier effect, which in turn increases fixed investment through the acceleration effect. Higher interest rates, less disposable income, and higher wages are all possible outcomes of government deficit financing through borrowing—both domestically and internationally—which in turn discourages private investment and limits company profitability. Consequently, this could deter or displace private investment, thereby reducing the output level of an economy (Joy and Panda, 2020). Given that a nation's high debt profile discourages lenders from issuing new loans, the debt crowding-out hypothesis has considerable significance for this study.

2.2.4 **The Deficit Financing Theory**

This notion was advanced by John Maynard Keynes. The world had a ten-year economic depression from 1929 and 1939. Around this time, the idea of public borrowing was developed. The Theory of Deficit Financing states that in order to maintain full employment, the government will always borrow money while the economy is slowing down. In these periods of fiscal deficit, borrowing would supply sufficient funds to sustain the manufacturing of products and services for its booming population. There are numerous ways the government might finance debt. All government actions are intended to boost economic growth. Examples of these include creating more money and putting it into circulation, raising taxes on the populace, boosting investment earnings, obtaining loans

from local or international sources, depleting foreign reserves, and so forth. One form of capital formation that can be utilized to stimulate employment, investment, and income levels is debt. It can also be used to reallocate idle resources and shift the economy from unproductive to productive sectors, which can lead to increased national income and economic growth.

The Theory of Deficit Financing forms the basis of this work because deficit inevitably leads to borrowing, which is the central idea of the topic. In Nigeria, the necessity for deficit financing was driven by the country's desire for economic growth. Useh (2020) estimates that since Nigeria's independence, the country's budget has been in deficit by over 85%. This argument holds that borrowing is necessary for the government to fund capital projects. This borrowing can be done by using monetary instruments to increase the flow of cash into the economy or by using domestic debt instruments or international loan instruments. Nonetheless, financing the budget through long-term borrowing has consequences.

2.3 **Empirical Literature Review**

What other people have done in relation to the topic is covered in this section. Research on local and foreign debts as well as the combination of internal and external commitments is covered. Economic expansion may not be their first priority.

The time series data from 1986 to 2005 were used in the analysis, along with traditional least square regression methods, in Adofu and Abula's (2009) study, "Domestic debt and the Nigerian Economy." It looked on the relationship between economic growth and Nigeria's domestic debt. The results showed that domestic debt negatively affected economic expansion. It suggested discouraging domestic government borrowing while promoting revenue growth via tax reform initiatives.

Ajayi and Edewusi (2020) carried out an empirical investigation titled "Effect of Public Debt on Nigerian Economic Growth." The effect of Nigeria's public debt on economic growth was examined in this study. The study particularly determined how Nigeria's internal debt affected the country's economic development, evaluated how Nigeria's external debt affected its economic expansion, and looked into the relationship between Nigeria's public debt and its economic expansion. Secondary time series data spanning 37 years (1982-2018) were used in the study. To estimate the data gathered for the study, the unit root test, Johansen co-integration test, vector error correction model, and descriptive statistics were employed.

The study's conclusions indicate that while domestic debt has a favourable long- and short-term impact on Nigerian economic growth, external debt has a negative long- and short-term influence. The study's recommendations were based on these findings, and they included the following: the government should make sure that contracted national debts are used to promote investment in the nation; the government should, through the appropriate monitoring committees, make sure that contracted national debts are used to provide the essential facilities and services needed for community development. The two-stage least square regression was employed in the research by Akhanolu et al. (2018), "The effect of public debt on economic growth in Nigeria: an empirical investigation." Regressing the first equation on GDP revealed that internal debt had a positive effect on the economy while

international debt had a negative one. GDP, total savings deposits held by Nigerian deposit money institutions, and capital expenditures were regressed against domestic debt in the second equation. The results showed a strong correlation between internal debt and every element. The study went on to recommend that the government lessen its reliance on foreign borrowing, as it was negatively affecting the economy, and fight corruption involving borrowed cash.

Anyanwu and Erhijakpor (2004) conducted a study using time series data from 1970 to 2003 in Nigeria for their paper "Domestic debt and economic growth: the Nigerian case." Because of the high implicit interest rate, the study found that domestic debt had a noticeably negative impact on GDP. There is a 0.38% reduction in economic growth for every 1% increase in current domestic debt. Consequently, investment efficiency declined instead of volume.

The study "Domestic government debt structure, risk characteristics, and monetary policy conduct: evidence from Nigeria" was conducted in 2005 by Asogwa and Ezema. The researchers found that over 60% of the nation's total domestic debt was made up of short-term loans. Short-term debt was the only interest-bearing financial instrument with a substantial impact on monetary policy in terms of risk characteristics. Finding that treasury notes were the only marketable government security, they computed Value at Risk (VaR) on the notes. Value at Risk quantifies the most likely loss of a portfolio's present value (VaR). A moderate risk was found by the study between 1999 and 2000. This peaked in 2001 with significant volatility, decreased gradually in the first part of 2002, and then soared once again in the middle of 2003, most likely as a result of apprehension over the results of the elections that year. According to their analysis, because of the unfavourable macroeconomic environment, market players were systematically less willing to hold domestic debt with longer maturities. The same unfavourable macroeconomic factors also affected foreign investment.

Bekun and Alola (2001) used the Granger Causality test and the Vector Error Correction Model (VECM) as estimation approaches to look into the relationship between public debt and economic development in Nigeria between 1981 and 2014. The study was titled "Public debt and economic growth nexus revisited: Nigerian insights." Nigeria appears to have borrowed more from domestic and multinational financial institutions than from foreign organizations like the World Bank and the IMF, even though the VECM results showed a very slow 0.30% convergence speed towards their long-run equilibrium path with the contribution of external debt and domestic debt. The findings of the Granger causality analysis showed an un-directional causal relationship between real GDP per capita and both external and domestic debt. In order to promote long-term growth and economic development, it was advised that domestic saving be encouraged while borrowed funds be adequately invested in viable and productive investments with good payback. The Nigerian economy was noted for having a high level of public debt concurrent with persistently low economic growth.

Quarterly data was analyzed between 1994 and 2008 using the Ordinary Least Squares Method (OLS), Error Correction, and parsimonious models for Charles (2012)'s paper, "Domestic debt and the growth of the Nigerian economy." With an average of 114.98

percent of bank deposits throughout the course of the study period, the government's domestic debt holdings were found to be significantly higher than the healthy threshold of 35% of bank deposits, suggesting that private investments were being crowded out. The study verified that debt negatively affects economic expansion. Consequently, it recommended that the government increase the amount of tax revenue it uses to fund projects and maintain its debt-to-bank deposit ratio below 35%. Additionally, it suggested that the government should stop participating in any projects that the private sector can handle and instead establish favourable conditions for private sector investment, including tax cuts, guarantees, subsidies, and—above all—better infrastructure.

Research on Nigeria's Public Debt and Economic Development was conducted by Efanga et al. in 2020. This study's goal was to ascertain how Nigeria's public debt affected the country's economic growth between 1981 and 2018. Ex - post facto research was conducted; the World Bank Database: World Development Indicator 2018 and the Central Bank Statistical Bulletin of 2018 provided the data for the analysis. The creation of gross fixed capital was the dependent variable. The currency rate was utilized as a control variable, and both domestic and foreign debt were used to replace governmental debt. In addition to other diagnostic tests like the Normality Test, Auto Correlation Test, Heteroskedasticity Test, and Breusch-Godfrey Serial Correlation LM test, which verified the validity and reliability of the model used, this study used the Auto Regressive Distributed Lag (ARDL) Model to analyze data. The inferential results indicated that public debt had a positive and significant impact on economic development in Nigeria. The study found that the government should keep borrowing to fund the national budget and accomplish important macroeconomic objectives like price stability, an increase in the standard of living, and the provision of social and economic amenities, among other things, all of which will contribute to Nigeria's economic development. Both domestic and foreign debt also had a positive and significant impact on this development.

Egbetunde (2012) employed a Vector Autoregressive (VAR) model to analyze data from 1970 to 2010 for his study, "Public debt and economic growth in Nigeria: evidence from Granger causality." The stationarity of the variables used in the study was assessed using the Philip Perron and Augmented Dickey Fuller tests. The results showed that there was a long-term relationship between public debt and economic development and that the variables were initially static. The results of the VAR model showed that public debt and Nigeria's economic progress are causally related in both directions. According to the paper, public debt and economic growth are positively correlated over the long term, provided that government loans are used for economic expansion rather than for individual benefit.

Ezeabasili et al. (2011) assessed the relationship between Nigeria's external debt and economic progress between 1975 and 2006. The variables' stationarity at their starting difference was proven by econometric evidence, and the existence of one cointegrating connection at the 1% and 5% level of significance was confirmed by the Johansen cointegration approach. Error correction estimates also showed a negative correlation between Nigeria's foreign debt and economic progress.

For instance, a 1% increase in foreign debt caused the GDP to decrease by 0.027 percent, but a 1% increase in total debt service caused the GDP to decrease by 0.034 percent. At the

10% level, these two connections were determined to be significant. Additionally, the Pairwise Granger causality test showed unidirectional causality between the payment of foreign debt service and economic development at the 10% significant level. Additionally, it was discovered that external debt granger induces external debt service payment at the 1% significance level. However, a statistical relationship between economic progress and external debt was found. In order to counteract the negative effects of foreign debt on economic growth, project loan accumulation needs to be synchronized with repayment schedules. Nigeria's ability to absorb should be a concern. Low debt-to-GDP and debt-service-to-GDP capacity ratios ought to serve as a benchmark for future debt talks.

Using the Vector Error Correction Model (VECM) econometric technique, Favour et al. (2017) examined real GDP (RGDP), foreign debt, domestic debt, and domestic private savings from 1980 to 2015. The study was titled "Nigeria's public debt and economic growth." The study's conclusions showed that (i) external debt had a significant negative correlation with economic growth during the research period. (ii) There was a significant inverse relationship between GDP growth and domestic debt (DMD). (iii) In Nigeria, real GDP is a function of both domestic and foreign debt, with the causal relationship extending from external debt to real GDP. The results showed that there was a chance that the borrowed funds would be misused or applied improperly, leading to corrupt behaviors. Therefore, in order to achieve positive outcomes, the research recommended that (i) the government restrict the number of foreign loans and that those that have already been granted be strictly used to the intended goals. (ii) Since both domestic and foreign loans have a negative effect on economic development (Real GDP), the government should reduce both borrowings to maintain economic stability and long-term growth. (iii) In order to secure a favourable outcome, the government should reduce domestic borrowing and make sure that those already borrowed are used for the intended reasons.

Igbodika et al. conducted an empirical inquiry titled "Domestic debt and the performance of the Nigerian economy (1987-2014): An investigation," using data from the National Bureau of Statistics and the Statistical Bulletin of the Central Bank of Nigeria. We used the ordinary least squares (OLS) model to evaluate the hypotheses. The analysis finds that domestic debt has a positive significant association with Nigeria's GDP, whereas interest rates have a negative significant relationship. The coefficient of determination indicates that variations in Nigeria's domestic debt variables (DMD, INT, and INFR) might account for about 68% of GDP variations. The result showed that a large portion of Nigeria's GDP fluctuations may be explained by factors related to domestic debt. The analysis came to the conclusion that tax revenue was far from ideal and that the government should increase the amount of tax revenue it uses to finance its projects while maintaining a debt-to-bank deposit ratio below 35%. The study suggested that the government should give up on any projects that the private sector could handle, like transportation and crude oil (a petroleum product) refining. It was advised to create an environment that would encourage investment from the private sector (via tax incentives, subsidies, and so on).

The study "The impacts of domestic debt on economic performance in Nigeria using secondary source data for the period 1970 to 2013" was carried out by James et al. (2016). The researchers used the least squares method to find out how domestic debt related to

inflation, unemployment, and economic growth. It was found that national debt had a negative but insignificant impact on Nigeria's economic growth; it had a negative effect on unemployment but a significant positive impact on inflation. It argued that the solution to productive domestic debt that boosts the economy is an efficient debt management plan.

The study conducted by Mba et al. (2013) examined "the analysis of domestic debt: implications for Nigerian economic growth." It scrutinized the relationship between economic growth and government domestic debt, along with potential solutions to encourage private sector investment and interrupt the growth resistance cycle. Time series characteristics and error correction model processes were examined using the unit root and co-integration tests. The results showed that government spending had a direct but insignificant link with GDP, while domestic debt and credit had a substantial and direct relationship with GDP. Debt servicing also showed a negative relationship with GDP. Lastly, it was proposed that in order to lower capital project costs and boost productivity, domestic debt should be spent in the real sector of the economy.

Data from 21 Sub-Saharan African (SSA) countries were used in Mbate's (2014) study, "Domestic debt, private sector credit, and economic growth in Sub-Saharan Africa." The study ran from 1985 to 2010. Strong policies that supported debt sustainability were required to apply fiscal discipline during times of low fiscal balance, the study found. System GMM's findings showed a nonlinear relationship, with a maximum turning point of 11.4 percent of GDP, between domestic debt and economic growth. Furthermore, it has been demonstrated that domestic debt discourages capital accumulation and private sector growth by crowding out private sector lending, which has an elasticity of -0.3% of GDP. Effective debt management strategies were required, such as the implementation of financial policies that boosted credit availability, encouraged fiscal restraint, and expanded the domestic debt markets throughout the continent. A debt cap was also necessary to limit domestic debt.

A study titled "Nigeria public debt and economic growth: a critical appraiser" was done in 2012 by Mojeku and Ogege. This article used data from the CBN Statistical Bulletin (2010) for the years 1971–2010 in order to assess the impact of debt load on the expansion of the Nigerian economy. Co-integration methods and structural analysis were employed in the study to assess the relationship between debt and the Nigerian economy. The results showed that the relationship between GDP and the debt stock—both domestic and foreign—was inverse, suggesting that a rise in debt would slow down the rate of economic growth in Nigeria. It was therefore recommended that the nation refrain from taking on any debt, both domestically and abroad, and encourage exports rather than imports.

Mousa and Shawawreh (2017) looked into "The impact of public debt on Jordan's economic growth: an empirical study (2000-2015)." The study determined that total public debt, especially foreign debt, had a negative impact on economic growth. It used the Least Squares Method (LSM) and Regression Model (RM) to evaluate the impact of public debt on economic development.

Olasode and Babatunde (2016) published "External debts and economic growth in Nigeria: An empirical study." The study utilized the Autoregressive Distributed Lag Model

to quantify the impact of foreign debt on the sustainability and expansion of the Nigerian economy from 1984 to 2012. It presented a number of economic ideas that explained the relationship between foreign debt and loan accumulation.
The variables were shown to be positively skewed but not normally distributed by the preliminary and normality tests, and to be stationary at first differenced by the econometric tests of stationarity (Unit Root Test) and co-integration. The Johansen co-integration test provided additional evidence that the variables have a long-term relationship. Nigeria's debt profile was thought to be increasing once more after the 2005 debt amnesty by the Paris Club of creditors. The recommendations included the Nigerian government ensuring that debts accrued were put to constructive use and the development of measures by the government's Debt Management Office (DMO) to encourage the efficient use of loans in critical areas of need upon recognition.

Onafowora, Owoye, and "The impact of external debt shocks on economic growth in Nigeria external public debt-to-GDP ratio on per capita GDP growth, investment, trade openness, exchange rate and inflation in Nigeria over the period 1970-2014" . Research indicates that external debt shocks have long-term detrimental consequences on investment and economic growth. It had no effect on the exchange rate, but it had short-term positive effects on inflation and negative effects on trade openness. According to the study, aggressive measures should be taken to lower debt levels, encourage domestic savings through internal investments, and allocate borrowed money to the provision of necessities such as goods and infrastructure that would boost economic activity and enhance public welfare.

For the period 1985 to 2014, annual time series were applied to the gross domestic product, treasury bonds, development stocks, Federal Government of Nigeria bonds, and interest rates as part of Onogbosele and Ben's (2016) research on "the impact of domestic debt on Nigerian economic growth." The 2014 Statistical Bulletin from the Central Bank of Nigeria provided the information. The study employed the Vector Auto-regression technique of analysis and the Augmented Dickey-Fuller unit root test. The gross domestic product regression's strong R2 (0.983616) and statistically significant F-value (102.0618) indicate that domestic debt was a major factor in the growth of the Nigerian economy. The study's variance breakdown analysis indicates that shocks from treasury bonds are the next biggest factor influencing Nigeria's GDP growth rate, behind federal government of Nigeria bonds. Their results showed that interest rates and development stocks had the least impact on GDP shocks. Over a ten-year period, economic growth responded favourably to shocks in federal government bonds and unfavourably to shocks in treasury bonds, according to the impulse reaction function findings, which corroborated the variance breakdown analysis. Although FGN bonds had a substantial positive impact on economic growth, it was recommended that the government get funding primarily through them. In the meantime, the GDP's response to shocks in development stocks and interest rates remained unstable.

According to Osuma et al. (2018), "The effect of public debt on economic growth in Nigeria: an empirical investigation." The study covered the years 1982–2017 using two-stage least square regression. In the first equation, internal and foreign debt were regressed

against GDP along with their latencies. The results showed that although home debt benefited the economy, international debt had the opposite effect. The second equation was a regress of GDP, total savings balances in Nigerian deposit money banks, and capital expenditures against internal debt. Therefore, there is a significant correlation between all of the variables and internal debt. Subsequently, the study recommended that the government restrict foreign borrowing due to its detrimental impact on the economy and that corruption involving borrowed funds be avoided at all costs.

Senadza et al. (2018) looked into the "impact of external debt on economic growth in Sub-Saharan Africa." The study was motivated by the fact that the amount of foreign debt in Sub-Saharan African (SSA) countries is increasing. The System Generalized Methods of Moments (GMM) estimate approach was used in the paper, which employed annual data for 39 SSA countries between 1990 and 2013. The paper claims that external debt negatively affects SSA's economic growth. The relationship between foreign debt and growth remained unchanged, and there was no non-linear association between external debt and economic development, even though the SSA countries were categorized according to per capita income. The finding that there is a negative correlation between growth and external debt does not imply that SSA countries should borrow less from abroad to boost growth. Rather, the SSA government needs to make sure that foreign money are used for projects that will eventually provide sufficient returns to pay off the debt, especially considering the significant savings opportunities in some of the countries.

Shuaib and Ndidi (2015) examined the effects of Nigeria's foreign debt using time series data spanning from 1960 to 2013 and examined Nigerian experiences over that period. The National Bureau of Statistics (NBS) and/or the Central Bank of Nigeria (CBN) provided secondary data for the study. The relationship between Nigeria's external debt and economic progress was examined in the article using statistical analysis and econometrics (Eview 7.2). A range of diagnostic techniques were applied to Nigerian time series data spanning the years 1960–2013. In every test, the alternative hypothesis was accepted while the null hypothesis was rejected. Empirical research indicates that NED and/or economic growth in Nigeria are significantly correlated. According to the study, the government should therefore promote domestic or private saving because insufficient or non-existent saving results in debt or borrowing to meet obligations imposed on citizens, and debt or loan stocks should be used for capital projects or mega projects rather than consumable goods (i.e., ostensible goods) in order to raise citizens' living standards. The former and the latter have a direct and opposite relationship with Nigeria's economic development or growth.

Given that debt has become an unavoidable occurrence in Nigeria, despite its wealth from oil, Umaru et al. (2016) investigated "the impact of external and domestic debt on the growth of the Nigerian economy." The research used the Ordinary Least Square approach to create a clear link between external debt and domestic debt on Nigerian economic growth between 1970 and 2010. It utilized the Granger causality test to ascertain the relationship between GDP, external debt, and domestic debt in addition to the Augmented Dickey-Fuller technique to assess the unit root quality of the series. All of the model's variables were

shown to be stationary by the unit root analysis, and the causality findings showed that there was bidirectional causation between GDP and foreign debt. There was no relationship found between GDP and domestic debt. Moreover, there was no connection between national and foreign debt. According to the OLS data, domestic debt had a positive impact on GDP whereas external debt had a negative impact on economic growth. In terms of per capita growth, the economy was thought to be doing well, which may be related to the nation's internal debt as opposed to its external debt. External debt was therefore seen as harmful to the nation's economic prosperity. According to the paper, home debt can be a factor in strong growth provided it is managed well.

This discovery has important policy implications. First, in order to boost Nigeria's output and reach the targeted growth rate, authorities need work together to manage debt effectively by redirecting it toward productive activities (the real sector). The majority of developing countries borrow money for self-interest rather than to support economic growth, which should be demonstrated in capital production and other social overhead capital, according to another study policy conclusion. Therefore, the report suggested that in order to promote development, the government should rely more on domestic debt than on external debt. It also suggested that policies be developed to promote domestic savings through domestic investment, with the use of borrowing to close the gap between domestic savings and investment. Leaders should adhere to strict budgetary rules and a strong sense of accountability while managing public funds, as increasing GDP will only result in a minimal amount of debt.

A acceptable amount of foreign debt was necessary to finance productive investments in order to strengthen the economy and alleviate poverty, according to study by Uzochukwu (2005) on "Nigeria public debt and economic growth: an empirical assessment of poverty effects." While this is being worked on, it should be kept in mind that debt above a certain threshold can hinder growth and hence worsen poverty.

In order to investigate the impact of both external and domestic debts and growth on poverty using the per capita income approach, the study added a number of debt and growth variables. These included population, debt service rates, and external and domestic debt. They found that while investment rates, terms of trade (ToT), secondary school enrolment rates, and fiscal balance were on the low side, these variables were on the high side. The study's conclusions indicate that these factors have been crucial in the rise in poverty in Nigeria.

Vacancy in the Literature

After reviewing the literature, the researcher found that previous studies had looked at a variety of topics, including public debt and economic growth's effects on poverty, external debts and economic performances, and the relationship between domestic debt and economic growth in terms of risk characteristics and monetary policies. The researchers used data from secondary sources and applied multiple regression, variance-covariance and historical simulation, time series, and least squares methodologies to arrive at their conclusions. While some data suggest that both foreign and domestic debt have a negative effect on the economy, others show that they have a positive one. As far as we are aware, no prior study has looked at the relationship between the amount of debt a country has

domestically, the amount of debt it has externally, and the relationship between the overall amount of debt it has—that is, the sum of its external and domestic debt—and economic growth all at once. Additionally, the researcher has not found any literature on the relationship between debt growth rates and Nigeria's economic expansion.

Finding out which of the two debt kinds contributes most to Nigeria's economic expansion is the aim of this study. It also discusses how the nominal GDP of the country and the debt growth rate are related. The work stands out from others since it encompasses the years 1960–2019, which is the period from independence to the present.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

In this study, an ex-post facto research design is used. This design is acceptable since previous data is utilised in the research and will not be edited, therefore the data's behaviour will not be altered.

3.2 Population of the study

The study's population consists of Nigeria's debt profile, which includes both domestic (internal) and external debt. The covering period spans sixty years, from 1960 to 2019.

3.3 Sample and Sampling technique

The study uses accessible data from 1960 to 2019 as sample data/size. This is due to the study establishing a debt profile trend during these years. Because the researcher employed a panel data/pool, no sampling strategy was used to determine the time for the investigation..

3.4 Nature and Sources of Data required

The data used for this analysis is Nigeria's yearly debt profile, which includes domestic (internal) and external loans collected from the Nigerian government. The data for this study came from reports from the Central Bank of Nigeria, the Debt Management Office, and the National Bureau of Statistics. The data acquired from various sources was same, which adds to the study's credibility.

3.5 Procedure for Data Collection:

Secondary sources were used to collect data for this investigation. The publications of the Central Bank of Nigeria, the Debt Management Office, and the National Bureau of Statistics are the sources.

3.6 Method of Data Analysis

The data was analysed using regression analysis, and the nominal GDP was utilised to indicate economic growth. The outcome will demonstrate the impact and effect on the Nigerian economy between 1960 and 2019. This work solely considers Total Debts while calculating Debt Growth Rate.

The analysis was done using Statistical Package for Social Sciences (SPSS) version 20.0.

Decision Rule

i. If the crucial value is smaller than the estimated value for a particular degree of freedom during null hypothesis testing, the null hypothesis is rejected and the existence of significance is proven.

ii. However, if the critical value is larger than the calculated value at a particular degree of freedom and level of significance, the null hypothesis is accepted, and it is claimed that no significant difference, effect, or link exists between the tested variables. The observed discrepancy can thus be attributed to sampling error or chance of occurrence.

3.7 Model Specification

The following specification is formulated to ascertain the contribution of the independent variables to the dependent variable (Equation 3.1 to 3.4).

NGDP = f(Ext.D) Equation 3.1
NGDP = f(Dom.D) Equation 3.2
NGDP = f(Tot D) i.e. (Ext.D + .Dom.D) Equation 3.3
NGDP = f(Tot GRD) Equation 3.4

The above is expressed in the following Regression models (Equation 3.4 to 3.7).

$NGDP = a + b_1ExtD_t + e$ Equation 3.4
$NGDP = a + b_1Dom.D_t + e$ Equation 3.5
$NGDP = a + b_1Ext.D_t + b_1Dom.D_t + e$ Equation 3.6
$NGDP = a + b_1Tot.GRD + e$ Equation 3.7

Where NGDP = Nominal Gross Domestic Product (used in this study to represent Economic Growth)
Ext.D = External Debt
Dom.D = Domestic Debt
Tot.D = Total Debt (which is the summation of external and domestic debts).
Tot GRD = Total Growth Rate of Debt

Ethical issues

This research is the researcher's own work, and the resources utilised are solely for academic purposes. The researcher has cited all of the materials and authors utilised in the study and got permission from all of the sources from which data was gathered. The study was subjected to the obligatory plagiarism test, and the results were within acceptable limits.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND FINDINGS

4.1 Data Presentation

The study was made up of the following variables; Nominal Gross Domestic Product (NGDP) (dependent variable), External Debts, Domestic Debts, Total Debts and Growth Rate of Debt (Independent Variables). The data set covered the period 1960 to 2019.

4.2 Test of Hypotheses

The research hypotheses were tested in this section of the study. In line with the model specifications shown thus;

$\text{Log NGDP} = \alpha + \beta_1 \text{LogExt. Debt} + \varepsilon$
$\text{Log NGDP} = \alpha + \beta_1 \text{LogDom. Debt} + \varepsilon$
$\text{Log NGDP} = \alpha + \beta_1 \text{LogExt. Debt} + \beta_2 \text{LogDom. Debt} + \varepsilon$
$\text{Log NGDP} = \alpha + \beta_{1\text{LogGRD}} + \varepsilon$

4.2.1 Test of Hypothesis One

According to the study's first null hypothesis (Ho1), there is no significant correlation between Nigeria's level of foreign debt and its economic development. Using linear regression analysis, the hypothesis was examined, and the outcomes are displayed below;

The correlation coefficient (R) describes the relationship between the independent variable (foreign debt) and the dependent variable (NGDP). The variables (NGDP and external debts) have a perfect positive correlation, as indicated by the coefficient 0.727 (72.7%). The degree of variation or change in the dependent variable (NGDP) brought about by the independent variable (foreign debt) is indicated by the Adjusted R2 of 0.52 (52%). This result indicates that foreign debt accounted for 52% of the variations in NGDP, with the other 48% being explained by other factors not taken into consideration by the model (100–52).

The study's decision criterion states that the null hypothesis is rejected if the critical value of F is less than the calculated value of F as well as if the critical value of t is less than the calculated value of t statistics. The t critical value is 1.671 less than the t estimated of 8.062 in Table 4.4, and the F critical is 4.0012 less than the F computed of 64.99 in Table 4.2 at the 0.05 level of significance. This indicates that the alternative hypothesis was accepted and the null hypothesis was rejected. This emphasizes how crucial the connection is between Nigeria's economic growth and its external debt.

4.2.2 Test of Hypothesis Two

The second null hypothesis (Ho2) of the study contends that there is no significant correlation between Nigeria's level of domestic debt and its rate of economic progress. Using linear regression analysis, the hypothesis was examined, and the outcomes are displayed below;

The correlation coefficient (R) describes the relationship between the independent variable (domestic debt) and the dependent variable (NGDP). The variables (NGDP and domestic debt) have a fully positive correlation, as indicated by the coefficient 0.869 (86.9%). The coefficient of determination that illustrates the degree of variation or changes in the dependent variable (NGDP) brought about by the independent variable (domestic debt) is the Adjusted R2 (75.1%). This result indicates that fluctuations in NGDP are mostly caused by domestic debt, accounting for 75.1% of the variation, with the remaining 24.9% coming from other factors not included in the model (100-75.1).

The null hypothesis is rejected in accordance with the study's decision rule if both the critical value of t and the critical value of F are smaller than the estimated values of the t data. The t value is 1.671 less than the t computed of 13.364 in Table 4.7, and the F crucial is 4.0012 less than the F predicted of 178.589 in Table 4.6 at the 0.05 level of significance. This implies that the alternative hypothesis was accepted and the null hypothesis was rejected. This indicates that domestic debt and economic progress in Nigeria were significantly correlated.

4.2.3 The Third Hypothesis Test

The third null hypothesis (Ho3) of the study states that the combined impact of Nigeria's domestic and international debt profiles on economic development is significant. After applying linear regression analysis to investigate the hypothesis, the following result was obtained:
The correlation coefficient (R) describes the relationship between the independent variable (domestic debt) and the dependent variable (NGDP). A perfect positive correlation between the variables (NGDP and the total of domestic and overseas debts) is indicated by the coefficient of 0.872 (87.2%). The degree of variation or changes in the dependent variable (NGDP) brought about by the independent variable (total debt) is indicated by the Adjusted R2 of 0.756 (75.6%). This result shows that fluctuations in NGDP are mostly caused by the total debt, accounting for 75.6% of the variation, with the remaining 24.4% coming from other factors not included in the model (100-75.6).

If the critical value of F is less than the calculated value of F and if the critical value of t is less than the calculated value of t data, then the null hypothesis is rejected, per the study's decision criterion. The t critical value is 1.671 less than the t predicted in Table 4.11 of 13.567, and the F critical value is 4.0012 less than the F computed in Table 4.10 of 184.059 at the 0.05 level of significance. The alternative hypothesis was accepted and the null hypothesis was rejected. This demonstrates the close relationship between Nigeria's total debt and economic development.

4.2.4 The Fourth Hypothesis Test

This hypothesis looks at Nigeria's economic development as well as the rate at which the country's overall debt increased between 1960 and 2019. After applying linear regression analysis to investigate the hypothesis, the following result was obtained:

The relationship between the independent variable (debt growth rate) and the dependent variable (NGDP) is expressed by the correlation coefficient (R). A weakly positive correlation of 0.238 (23.8%) has been observed between the variables (NGDP and Debt Growth Rate). The coefficient of determination, or Adjusted R2, is 0.041 (4%) and indicates the degree of variation or changes in the dependent variable (NGDP) brought about by the independent variable (Debt Growth Rate). This result indicates that the Growth Rate of Debt explains 4% of the variations in NGDP, with other factors not included in the model accounting for the remaining 96% (100–4).

The null hypothesis is rejected in accordance with the study's decision rule if both the critical value of t and the critical value of F are smaller than the estimated values of the t data. The t critical value is 1.671 larger than the t estimated of -1.869 in Table 4.15, and the F critical value is 4.0012 more than the F computed of 3.493 in Table 4.14 at the 0.05 level of significance. This implies that the alternative hypothesis was rejected and the null hypothesis was accepted. This proves that there was no meaningful correlation between Nigeria's economic growth and the rate of debt accumulation.

The growth rate of all national debt acquired between 1960 and 2019 is displayed in Table 4.17. It displays the approximate total of N218,395.95 billion (two hundred and eighteen thousand, three hundred and ninety-five billion, and ninety-five million Naira). This was translated into an annual percentage growth rate. We calculated 1960 as the first year.

1961 as year 2 down to 2019 as year 60. Using the formula $\sqrt[n]{\frac{A}{P}} - 1$ %

[Source: Federal Reserve Bank of Dallas (n.d)]

Where r = growth rate of debt
n = number of years
P = initial debt
A = accumulated debt at the end of the period,

For 1960, we took the 'n' root {(0.24/0.24) – 1)} %. For 1961 which is taken as year 2 in the study, we took 'n' root of 0.89/0.24 and for 1962 which is year 3, 'n' root of 1.86/0.65 up to 2019 being year 60, which we took 'n' root of 218,395.95/20,533.
Figure 4.1 therefore shows the graphical presentation of the Growth rate in percentages against each of the years.

4.3 Discussion of the Findings

In 1960, Nigeria owed N40 million in foreign debt. It increased by N10 million to reach N50 million by 1961. Between 1961 and 1962 and between 1962 and 1963, there was a gain of N20 million. The value (N90 million) in 1963 and 1965 were the same. The N100,000 million reported for 1966–1968 was the same as for 1964. Between 1969 and 1971, the same amount—N200,000 million—was recorded, and between 1973 and 1975, N300,000 million. The same N400,000 million was borrowed from outside sources in 1976 and 1977.

Due to budgetary restraints imposed by the administration of Major General Muhammadu Buhari, the country's then-head of state, the external debt rose from N1 billion naira in 1978 to N25 billion the following year and then fell from 1980 to 1985. Regretfully, the amount increased till it reached N633 billion between 1986 and 1998. Under Chief Olusegun Obasanjo's civilian leadership, the nation's foreign debt ballooned to N2,577 billion. The figure in billions of naira was always expressed in four digits until 2005. In 2006, it was lowered to N455 billion, then in 2011, it resumed its four-digit format. The nation's external debt more than tripled, rising from N2,247 billion in 2016 to N5,787 billion in 2017. 2018 saw an increase of N1,972 billion (N5,787 billion in 2017 minus N7,759 billion in 2018), while 2019 saw an increase of N2,206 billion (N7,759 billion in 2018 minus N9,965 billion in 2019).

In 1960, the domestic debt profile was N200 million; by 1961, it had risen to N600 million, and by 1962, it had reached N900 million. Before the Nigerian civil war started in 1966 and 1967, it had reached N1 billion in 1963, N2 billion in 1964 and 1965, and N3 billion in the Sir Nnamdi Azikiwe era. In order to finance the war, more internal debt was taken on; it increased from N5 billion in 1968 to N7 billion the following year and from N4 billion to N11 billion in 1970. Subsequent increases from 1971 to 1974 were N1 billion per year, for a total of N12 billion, N13 billion, N14 billion, and N15 billion throughout those years. Between 1975 and 1977, it increased by N4 billion to N19 billion, N8 billion to N27 billion, and N34 billion. Before increasing to N1,162 billion in 1991 and staying in the four-digit range until 2016, when it hit N11,638 billion (under President Muhammadu Buhari's civilian rule), the number was always in the three-digit range.

It was N240 million in 1960, N41 million in 1961, N650 million in 1962, and N32 million in 1963, according to the full debt profile. After that, the N1 billion milestone was attained in 1963, and it kept rising until 1990, when General Ibrahim Babangida was in office, when it reached a four-digit level. Before leaving office in 1998, General Abdusalami Abubakar raised the amount by N4,517 billion from N6,008 billion to N10,525 billion and then to N11,952 billion the following year. Before President Muhammadu Buhari's administration increased it to a five-digit level in 2015, when it stood at N10,638 billion, and N24,238 billion in 2019, the number had been reduced to a four-digit figure until 2014, when it stood at N9,416 billion. The Nominal Gross Domestic Product (NGDP), which was accruing debts, was only 2.979 billion in 1960 and remained in the single digits until 1972, when it increased to N8.101 billion.

The two-digit milestone started in 1973 at N10.001 billion and increased steadily until 1987, when it reached the three-digit mark of N211.758 billion. In 1996, it reached the four-digit milestone with N1,117.543 billion. From N11,622.224 billion in 2002 to N93,680.369 billion in 2015, the five-digit sum increased. The NGDP grew to a six-digit level in 2019, concluding at N161,350.087 billion, notwithstanding the large debt amount from 2015.Beginning at 92.61%, the percentage growth rate of total debt (including domestic and foreign) fell throughout time, to a single digit of 9.82% in 1979 after falling to 41.95% in 1962 and 32.04% in 1963. Up to 2019, it had a single-digit annual growth rate of 4.02%.

The analysis showed that the impact of external debt on GDP (gross domestic product) is significant. This is seen by the adjusted R-square value of 0.727 in Table 4.2. According to this analysis, 72.7% of the volatility in Nigeria's economic progress may be attributed to foreign debt. The results of Umaru, Hamidu, and Musa (2016), who found that foreign debt had a negative impact on economic development, were not supported by this study. Furthermore, Akhanolu et al. (2018) found that the Nigerian economy is negatively impacted by foreign debt.

The analysis also showed that there is a significant relationship between domestic debt and GDP growth. This is shown by the adjusted R-square value of 0.751 in Table 4.6. According to this analysis, 75.1% of the volatility in Nigeria's economic performance can be attributed to domestic loans. Even though the findings in Table 4.15 support the authors' conclusions, the study's analysis of the combined effects of domestic and foreign debt on GDP yielded a beta value of -0.275. This result was in line with the findings of Efanga et al. (2020) and Egbetunde (2012), who found a significant and direct relationship between domestic debt and GDP. The investigation's conclusions also go counter to those of James et al. (2016), who found that domestic debt had a negligible but detrimental impact on Nigeria's economic progress.

The analysis also showed that economic growth (GDP) is significantly influenced by both internal and external (mixed) causes. This is seen by the adjusted R-square value of 0.756 in Table 4.10. This study suggests that 75.6% of the volatility in Nigeria's economic performance was due to the country's combined levels of external and domestic debt. The results of Osuma et al. (2018) and Mojeku and Ogege (2012), who found a long-term negative correlation between public debt and economic growth, were challenged by this study.

When the Growth Rate of Debt was examined in its entirety, it became clear that, from 1960 to 2019, the Growth Rate of Debt contributed only 0.041 (4%) to the NGDP, making it have little effect on the economy.

The aforementioned results suggest that Nigeria can continue borrowing from both domestic and foreign sources because both have a positive impact on the country's economic growth and the debt expansion rate has no detrimental effects.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study looked at Nigeria's economic growth and public debt from 1960 to 2019. The dependent variable in the study was the Nominal Gross Domestic Product, which was one of the variables used. The debt variables that were not subject to control were total debt, which included both external and domestic loans, total debt growth rate, and total debt.

i. Nominal GDP was used in this analysis as a stand-in for economic growth since, unlike the other variables, it is not adjusted for inflation.

ii. The first hypothesis was investigated, and the findings showed a strong correlation between Nigeria's economic growth and its foreign debt. This indicates that throughout time, the nation's external debt has a major impact on its GDP.

iii. The second hypothesis examined the relationship between domestic debt and economic growth and demonstrated that, throughout the period, domestic debt had a positive impact on growth.

iii. The third hypothesis assessed how overall debt affected economic growth. The results showed that the combined impact of external and local debt aided in economic expansion.

v. The fourth hypothesis examined the impact of the total debt growth rate on economic expansion. This was thought to have little to no detrimental effects on the country's economy, which means the government may keep borrowing money to expand the economy.

5.2 Conclusion

The study's findings led to the following conclusions: i Since internal debt is less burdensome over time than external debt, Nigeria should use it to build its economy.

ii. Nigeria should keep increasing its debt load in order to prevent the economy from collapsing, provided that the rate of debt growth does not have a detrimental effect on the economy.

iii Low-interest sources are the best places to borrow money from.

iv. Nigeria should stay away from sources with harsh borrowing requirements that would seriously hurt the country's economy.

v. Continuous spending shouldn't be covered by borrowing.

vi. Short-term borrowing should not be used to fund long-term expenses.

vii. Transferring borrowed money to personal accounts is not advised.

5.3 The study's business implications:

According to the study, public debt stimulates the economy. The government should continue borrowing for these kinds of economic reasons as long as there are ways to use the money wisely.

5.4 Addition to the Knowledge Base:

This study has highlighted how loans taken out between the country's 1960 declaration of independence and 2019 have raised nominal gross domestic products (NGDP), which has positively impacted the nation's development. Additionally, by creating a conceptual model that was not used in earlier investigations, the research design changed.

5.5 Suggested Actions

Therefore, it is advised that in order to achieve economic growth, borrowings—both local and foreign—be undertaken.

i. Borrowings ought to be used to launch successful businesses that will contribute to the nation's economic expansion.

ii) Although borrowing is necessary, it is advised that it be restricted to a level that the nation can afford to repay rather than accruing massive debt that will be difficult to pay off in the future.

iii) The government should look for ways to reduce debt, convert debt into equity, and engage in countertrade with the creditor countries;

iv) The government should try to renegotiate lower interest rates on its loans.

v The government should implement significant spending reductions. This approach will restrict the amount of borrowing and lessen the strain on the resources that are available.

vi Rather than continuously borrowing from affluent nations and institutions, Nigeria ought to actively pursue increased foreign help or assistance.

5.6 Recommendations for Additional Research:

The focus of this study was Nigeria's public debt and economic growth from 1960 to 2019. It is recommended that additional variables be included in future research to determine whether the same scenario would persist.

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