Public Debt and Economic Growth in Nigeria: An Empirical Analysis

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Abstract
The study examines the nexus between public debt and economic growth in Nigeria. Adopting the ex-post facto research design, quarterly time series data from 2017 to 2023 were sourced from the CBN Statistical Bulletin. The Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) methods were used to test for unit roots. The data were analyzed using the Johansen cointegration test, the parsimonious error correction model, and the fully modified least squares. Also, the Breusch-Pagan-Godfrey test for heteroskedasticity, the histogram normality test, and the Cusum test were used for the post-estimation diagnostic tests. The results indicated that Treasury bonds (TBD), Federal government bonds (FGB), and External debt (EDT) have negative and insignificant effects on the Gross Domestic Product (GDP) while Domestic debt (DDT) has a positive but insignificant effect on the GDP at 5% level of significance. Therefore, the study concludes public debt does not significantly influence economic growth in Nigeria. Finally, the study recommends that policymakers should conduct a thorough assessment of the Treasury bond issuance strategy to ensure it aligned with the nation's development objectives.

Keywords: *Domestic debt, economic growth, external debt, Johansen Cointegration, Public debt*

Introduction

The amount of money owed by the government to institutions, governments and other agencies both within and outside the country is called public debt (Gbosi, 2008). Similarly, public debts are loans sourced by the government within the country or outside the country (Lekhi, 2010). Public debts are credit facilities granted to the government of a country by individuals, banks, corporations, non-banking financial institutions and government both within and outside the country. Public debt could come in the form of outright loans, securities, etc.The concept of public debt is universal among countries all over the world. Public debt is one of the means

through which the government gets funds to finance its operations. Most especially when there is a budget deficit. That is, a situation whereby the budgeted revenue is less than the actual revenue. Therefore, the available revenue is insufficient to cover the planned expenses. The major difference between government revenue and public debt could be traceable to its nature or source. For instance, government revenue comes mostly as earnings, while public debt is either a direct loan facility or a debt instrument.

Public debt is different from other sources of the government's revenue because interest is paid on the principal (debt) that the government owed the provider of the fund. On the other hand, nothing is required to be paid by the government in the case of other sources of revenue (Jhingan, 2011). The government borrows funds to carry on its activities whenever the available revenue cannot cater for its expenditures. Thus, public debt is a critical tool for governments to fund public expenditure. If it is used to finance production or basic infrastructure, then it is expected to foster economic growth and development (Eke & Akujuobi, 2021; Jhingan, 2011; Ugwuanyi et al., 2021; Yusuf et al., 2021).

Apart from borrowing when government revenues fall short of its expenditure, war, natural calamities, and other unprecedented expenses could force the government to borrow money (Bhatia, 2017; Lekhi, 2010).

Theoretically, public debt is expected to have a positive influence on economic growth. However, empirical discussions revealed the existence of divergent results and opinions regarding the direction of influence. For instance, some of the studies conducted using the Nigerian data show evidence of a positive link between public debt and economic growth (Abdulmumin, 2022; Adegbie et al., 2022; Eze & Ukwueni, 2023). Conversely, other studies posit that public debt does not have a positive and significant influence on economic growth in Nigeria (Asafo et al., 2019; Fasoye & Olayiwola, 2024; Udeh et al., 2016). The researchers' literature search indicated that most of the studies conducted on this subject matter in Nigeria adopt either external debt variables and the real GDP (Asafo et al., 2019; Sulaiman & Azeez, 2012; Udeh et al., 2016), while others employed the aggregates of domestic debt, external debt, exchange rate, and debt service payment (independent variables) and the Gross Domestic Product (see Abdulmumin, 2022; Agu et al., 2023; Okeke et al., 2023; Eze & Ukwueni, 2023; Matthew & Adetayo, 2022). This scenario creates a gap, which this study intends to bridge by using specific public debt components, like Treasury bonds, federal government bonds, total domestic debt, external debt, and Gross Domestic Product, to assess the nexus between public debt and economic growth in Nigeria.

Literature Review

Public debts are loans sourced by the government within the country or outside the country (Lekhi, 2010). Public debt is broadly classified as domestic debt and external debt. When the government borrows from individuals, non-banking financial institutions, central bank or commercial banks within a country, this is referred to as domestic debt. Domestic debts are usually created by floating securities like Treasury bills, Treasury bonds, federal government bonds, or outright borrowing from the central bank. If the government borrows from individuals or institutions outside the country, this is referred to as external debt. Consider multilateral agency loans as an example. Furthermore, the Gross Domestic Product is the aggregate value of all the goods and services produced within a country over a specified period, usually one year. Most countries use the gross domestic product to gauge their economic growth. In this study, the real GDP, which is the GDP that is adjusted for inflation is adopted as a measure of economic growth.

The theories upon which this study is anchored are the general equilibrium theory of interest rate and the Keynesian theory of public debt. Hicks (1937) propounded the general equilibrium

theory of interest rate. The general equilibrium theory of interest rates is a synchronisation of the Classical and Keynesian theories of interest rates. The Hick's theory of interest states that the determination of interest rate is a function of the equilibrium between the variables in the real sector and the monetary sector variables. Therefore, the equilibrium between investment and savings (I=S) which are real sector variables, and the equilibrium between demand and supply of money (MD = MS) which are monetary sector variables, are the determinants of interest rates. This assertion implies that the equilibrium interest rate is a condition whereby there is a general equilibrium between the variables in both the real sector and the monetary sector of the economy (Gbanador, 2021; Gbanador & Giami, 2024). This theory is suitable for this study because interest rates serve as an important factor to consider while negotiating for public debt. Recall, public debt could be a direct loan facility or a debt instrument. Whichever is the case, interest is paid on them except in a situation whereby it is waived.

Keynes (1936) developed the Keynesian theory of public debt to explain economic crises due to the Great Depression of the 1930s. Keynes argued that unemployment, poverty and depression are due to low demand. Thus, fiscal policy tools like increasing government spending and tax cuts should be employed to enhance demand. It is expected that if this fiscal policy instrument is properly implemented, it will enhance economic growth. The implication of this theory is that a country has to borrow funds to finance its expenditure if there is a budget deficit. This theory is pertinent to this study because it hinges on the nexus between public debt and economic growth.

Agu et al. (2023) evaluated the effect of public debt on economic growth in Nigeria using annual time series data from 1990 to 2021. GDP growth rate was employed as a proxy for economic growth, while domestic debt, external debt, debt service payment, inflation, exchange rate and interest rate were used as variables to assess public debt. The Ordinary Least Squares (OLS) multiple regression and the Autoregressive Distributed Lag (ARDL) model were employed for the data analysis. The findings indicated that external debt has an inverse effect on GDP growth rate in the short run while it indicates a positive effect in the long run. Conversely, domestic debt showed an inverse effect on GDP growth . Debt service payment had an inverse influence on GDP growth rate both in the short run and the long run. Based on the findings, the study concluded that borrowing for expansionary fiscal policies is not detrimental if debts are properly used.

Asafo et al. (2019) examined the effect of external debt on economic growth in 46 sub-Saharan African countries from 1990 to 2017. The data were analysed using the two-step General Method of Moments (GMM) approach. The outcome of the findings revealed that external debt had an inverse and significant influence on GDP growth. Adegbie et al. (2022) evaluated the influence of public debt management on economic growth in Nigeria using time series data from 1981 to 2020. The ex-post facto research design was adopted while the Autoregressive Distributed Lag approach was used for the data analysis. Based on the findings, the study concludes that public debt management had a positive and significant influence on economic growth in Nigeria. Therefore, the study recommends the need for adequate measures to ensure optimal investment of borrowed funds in productive ventures in Nigeria.

In a recent study, Okeke et al. (2023) assessed the influence of public debt on economic growth in Nigeria utilising annual time series secondary data from 1981 to 2021 while the Auto-Regressive Distributed Lag model was employed for the data analysis. The real gross domestic product was utilised as a proxy for economic growth, while the gross fixed capital formation, external debt, exchange rate, domestic debt and debt service repayment were employed as proxies for public debt. The findings revealed that gross fixed capital formation, external debt and debt service repayment have a positive influence on economic growth in Nigeria, while exchange rate and domestic debt have an insignificant effect on economic growth in Nigeria.

Therefore, the study suggests that the government should propound and effectively implement policies that would enhance domestic revenue generation by expanding the revenue base, enhancing the capacity to tax and curtailing suboptimal government spending.

Abdulmumin (2022) examined the influence of public debt on economic growth in Nigeria using annual time series secondary data from 1987 to 2022 while the ex-post facto research design was employed for the study. The autoregressive distributive lag model was used for the data analysis. The growth rate of gross domestic product was adopted as a proxy for economic growth, while External Debt, Domestic Debt, the ratio of capital formation to GDP and ratio of employment generation to GDP were adopted as proxies for public debt. From the findings, the study concludes that public debt has a significant effect on economic growth in Nigeria. Therefore, the study suggests that the government should utilise more external debt than domestic debt because of the lower interest of external debt to domestic debt, which will help in lowering the debt burden.

Taiwo et al. (2023) evaluated the nexus between public debt, poverty, and economic growth in Nigeria, utilising annual time series data from 1981 to 2019 while the ex-post facto research design was employed for the study. Diagnostic tests were conducted, and the Autoregressive Distributed Lag (ARDL) approach was used for the data analysis. The findings show that external debt has an inverse effect on economic growth in the short run, while a positive influence is shown in the long run. On the other hand, domestic debt exerted a negative influence on both short- and long-term economic performance in Nigeria, with unidirectional causality established between it and economic growth. Therefore, it suggests the implementation of effective debt management strategies by the government, especially concerning loan repayment.

Eze and Ukwueni (2023) assessed the nexus between public debt and economic growth in Nigeria from 1981 to 2021 using the ex-post facto research design. The Autoregressive Distributed Lag approach, anchored on the multiple regression, was used for the data analysis. The findings revealed that external debt and domestic debt have a negative influence on the gross domestic product. While external debt indicates a significant effect, domestic debt shows an insignificant effect on the gross domestic product in Nigeria. Therefore, the study recommends that the government should discontinue the use of external debt to finance budget deficits in the economy. In a recent study, Fasoye and Olayiwola (2024) assessed the influence of public debt on economic growth in Nigeria with or without domestic investment using time series data from 1981 and 2020. The dynamic ordinary least squares (DOLS) technique was used for the data analysis. The findings indicated that public debt in Nigeria retards economic growth. Udeh et al. (2016) examined the impact of external debt on economic growth in Nigeria using annual time series data from 1980 to 2013, while the ordinary least squares multiple regression was used for the data analysis. The study used the Gross Domestic Product as a proxy for economic growth, while external debt stock, debt service payments and exchange rates were used as proxies for external debt. The findings revealed that external debt stock and debt service payments have an inverse impact on economic growth, while the exchange rate indicates a positive impact. Thus, the study concludes that external debt as a fraction of total debt influences economic growth. Matthew and Adetayo (2022) investigated the effect of debt sustainability on economic growth in Nigeria using time series secondary data from 1981 to 2020. The secondary data design was adopted for the study, while the non-linear Autoregressive Distributed Lag (NARDL) econometric technique was used for the data analysis. The real GDP was used as a proxy for economic growth, while Total debt stock, Debt service payment, Exchange rate, Gross Fixed capital formation and Inflation rate were used as proxies for debt sustainability. The findings show that total debt stock impacts the Nigerian economy asymmetrically both in the short run and in the long run. Therefore, the allocation of

Nigeria's funds should contribute to the investment in the country's economic state by increasing the capital formed internally.

Methodology

The study employed the ex-post facto research design. This research design was adopted to establish the cause-and-effect relationship among the variables. Quarterly time series data (2017-2023) were sourced from the CBN Statistical Bulletin.The Gross Domestic Product was used as a proxy for economic growth. Conversely, Treasury bonds, Federal Government bonds, Total domestic debt and Total external debt were used as proxies for public debt variables.

Model Specification.

The functional specification of the model is given as;

GDP = f (TBD, FGB, DDT, EDT) (1)

Where:

GDP = Gross Domestic Product
TBD = Treasury bond
FGB = Federal government bond
DDT = Total domestic debt
EDT = Total external debt

The econometric specification of this model is therefore stated as follows:

$GDP = \beta_0 + \beta_1 TBD + \beta_2 TFB + \beta_3 DDT + \beta_4 EDT + \mu_t$ (2)

GDP, TBD, FGB, DDT and EDT are as defined in equation (1) while:

β_0 = Regression Constant
β_1, β_2, β_3, β_4 = Regression coefficient.
μ_t =Stochastic Error Term

This study utilized both the Augmented Dickey-Fuller (ADF) test (Dickey & Fuller, 1979) and the Phillips-Perron (PP) test (Phillips & Perron, 1988) to check for unit roots. The essence was to determine the variables' order of integration. The Johansen cointegration technique as propounded by Johansen (1988) is considered appropriate for this kind of study, if the outcome of the unit roots is all integrated at I (1). Furthermore, the parsimonious error correction model and the fully modified least squares provides the foundation upon which the multiple regression for this study is built. The post-estimation tests conducted for the study are the Breusch-Pagan-Godfrey heteroskedasticity Test, histogram-Normality Test and the CUSUM test.

Results and Data Analysis

Several tools of analysis were employed for the data analysis. This subsection presents the various tests and their outcomes.

Table 1: Unit Root (Stationarity) Test

Variables	Augmented Dickey-Fuller (ADF)Test Statistic	Mackinnon's Critical Values at 1%, 5% and 10% respectively			Order of Integration	Prob.
GDP	-16.69517	-3.737853	-2.991878	-2.635542	I(1)	0.0001
TBD	-8.675469	-3.737853	-2.991878	-2.635542	I(1)	0.0000
FGB	-4.601116	-3.711457	-2.981038	-2.629906	I(1)	0.0012
DDT	-4.400273	-3.711457	-2.981038	-2.629906	I(1)	0.0019
EDT	-5.616823	-3.711457	-2.981038	-2.629906	I(1)	0.0001

Source: Researcher's computation using Eviews 10

The Augmented Dickey-Fuller test for unit root was conducted as indicated in Table 1, and the outcome showed that all the variables are stationary at order (1). This result fulfils the condition for adopting the Johansen Cointegration test for the data analysis.

Table 2: Unit Root (Stationarity) Test

Variables	Phillips-Perron (PP)Test Statistic	Mackinnon's Critical Values at 1%, 5% and 10% respectively			Order of Integration	Prob.
GDP	-8.354303	-3.711457	-2.981038	-2.629906	I(1)	0.0000
TBD	-14.69589	-3.711457	-2.981038	-2.629906	I(1)	0.0000
FGB	-4.601284	-3.711457	-2.981038	-2.629906	I(1)	0.0012
DDT	-4.401859	-3.711457	-2.981038	-2.629906	I(1)	0.0019
EDT	-5.620078	-3.711457	-2.981038	-2.629906	I(1)	0.0001

Source: Researcher's computation using Eviews 10

The Phillips-Perron test for unit root was conducted as shown in Table 2. The outcome indicates that all the variables are stationary at order (1). The outcome of this test further confirmed the need for the adoption of Johansen Cointegration test for the data analysis.

Table 3: Johansen Cointegration Test

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.832350	72.51793	69.81889	0.0300
At most 1	0.382014	26.08511	47.85613	0.8865
At most 2	0.295527	13.57156	29.79707	0.8638
At most 3	0.144746	4.463632	15.49471	0.8628
At most 4	0.015205	0.398355	3.841466	0.5279

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.832350	46.43282	33.87687	0.0010
At most 1	0.382014	12.51354	27.58434	0.9101

At most 2	0.295527	9.107928	21.13162	0.8236
At most 3	0.144746	4.065278	14.26460	0.8524
At most 4	0.015205	0.398355	3.841466	0.5279

Source: Researcher's computation using Eviews 10

The Johansen cointegration test was conducted as indicated in Table 3. The Trace statistic and Maximum Eigenvalue showed that there exist a cointegrated equation at 5% level of significance. This implies that there is a long-run equilibrium relationship between Public debt and economic growth in Nigeria.

Table 4: Parsimonious Error Correction Model Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-862786.6	575997.2	-1.497901	0.1564
D(TBD)	-31.86430	34.07086	-0.935236	0.3655
D(TBD(-1))	-83.75615	35.15826	-2.382261	0.0319
D(TBD(-2))	-54.90328	28.27382	-1.941842	0.0726
D(FGB)	0.582640	0.959999	0.606917	0.5536
D(DDT)	-0.834079	1.008881	-0.826737	0.4223
D(DDT(-1))	0.448693	0.285457	1.571838	0.1383
D(DDT(-2))	-0.108718	0.087787	-1.238438	0.2359
D(EDT)	0.385280	0.458626	0.840074	0.4150
D(EDT(-1))	-0.540445	0.497653	-1.085988	0.2958
ECM(-1)	-0.901490	0.264741	-3.405183	0.0043

R-squared	0.760096	Mean dependent var	67282.12
Adjusted R-squared	0.588736	S.D. dependent var	1824153.
S.E. of regression	1169826.	Akaike info criterion	31.08279
Sum squared resid	1.92E+13	Schwarz criterion	31.61910
Log likelihood	-377.5349	Hannan-Quinn criter.	31.23154
F-statistic	4.435673	Durbin-Watson stat	2.236659
Prob(F-statistic)	0.005922		

Source: Researcher's computation using Eviews 10

The short-run parsimonious error correction model result is presented in Table 4. The result indicates that the Treasury bond (TBD) at the current level with a p-value of 0.3655 and a coefficient of -31.86430 has an inverse and insignificant impact on Gross Domestic Product (GDP). The coefficient shows that a 1% increase in the value of TBD will lead to a 31.86% decrease in the value of the GDP. TBD lagged 1 period had a negative and significant effect on the GDP. However, TBD lagged 2 periods is negatively insignificant with the GDP. Secondly, the Federal Government Bond (FGB) at the current level with a p-value of 0.5536 and a coefficient of 0.582640 has a positive and insignificant influence on the GDP. The coefficient reveals that a 1% rise in the value of FGB will lead to a 58.26% increase in the value of the GDP. Thirdly, the total domestic debt (DDT) at the current level with a p-value of 0.4223 and a coefficient of -0.834079 has a negative and insignificant influence on the GDP. The coefficient shows that a 1% increase in the value of DDT will lead to an 83.41% decrease in the value of the GDP. DDT lagged 1 period had a positive and insignificant effect on the

GDP. However, DDT lagged 2 periods is negatively insignificant with the GDP. Finally, total external debt (EDT) at the current level with a p-value of 0.4150 and a coefficient of 0.385280 has a positive and insignificant influence on the GDP. According to the coefficient, the GDP will increase by 38.53% for every 1% increase in the EDT value. EDT lagged 1 period shows a negative and insignificant impact on the GDP. The coefficient of -0.540445 reveals that a 1% increase in the value of EDT will necessitate a 54.04% fall in the GDP.

The short-run parsimonious error correction term (ECT) result, as depicted in Table 4, validates the Johansen cointegration test. The ECT shows a speed of adjustment coefficient of -0.901490 and a p-value of 0.0043 at 5% level of significance. This connotes that there is a 90.15% speed of adjustment if there is any disequilibrium in the model from the short run back to the long run, quarterly.

Table 5: Fully Modified Least Squares Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TBD	-17.07320	14.28825	-1.194912	0.2448
FGB	-0.342599	0.377344	-0.907922	0.3738
DDT	0.415963	0.389849	1.066984	0.2975
EDT	-0.169043	0.207628	-0.814161	0.4243
C	19083009	2889974.	6.603177	0.0000

R-squared	0.226179	Mean dependent var	17973417
Adjusted R-squared	0.085484	S.D. dependent var	1368991.
S.E. of regression	1309171.	Sum squared resid	3.77E+13
Long-run variance	7.66E+11		

Source: Researcher's computation using Eviews 10

The fully modified least squares output is presented in Table 5. The result is used to explain the long-run effect of the independent variables on the dependent variable. The result indicated that the Treasury bond (TBD) with a p-value of 0.2448 and coefficient of -17.07320 is negatively insignificant to the Gross Domestic Product at 5% level of significant. Thus, every 1% increase in the value of TBD will lead to a 1707.32% decrease in the value of the GDP. The Federal Government Bond (FGB) with a p-value of 0.3738 has an inverse and insignificant impact on the GDP while its coefficient of -0.342599 indicates that every 1 unit increase in the value of the FGB will lead to a 34.26% decrease in the value of GDP. Thirdly, Total Domestic Debt (DDT) has a p-value of 0.2975 and a coefficient of 0.415963. This implies that DDT has a positive and insignificant influence on the GDP. The coefficient indicates that every 1% rise in DDT increased the GDP by 41.60%. Furthermore, the result indicated that Total External Debt (EDT) with a p-value of 0.4243 and coefficient of -0.169043 is inversely insignificant to the Gross Domestic Product at 5% level of significance. Thus, every 1 unit increase in the value of EDT decreases the GDP by 16.90%. Finally, the result shows the combine correlation of the independent variable (R-squared) of 22.62% with the dependent variable. The adjusted R-squared of 0.085484 suggests that 8.55% of the variations in the performance of the Gross Domestic Product can be explained by the variations in the value of Public debt at 5% level of significance.

Table 6: Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.802285	Prob. F(10,14)	0.6304
Obs*R-squared	9.107418	Prob. Chi-Square(10)	0.5219
Scaled explained SS	2.864529	Prob. Chi-Square(10)	0.9844

Source: Researcher's computation using Eviews 10

The Breusch-Pagan-Godfrey test was employed to check the presence of Heteroskedasticity using its F-statistic and the Observed R-Squared. The outcome indicates that the model is Homoskedastic, as their values are higher than the p-value of 0.05. This shows that there is no problem of heteroskedasticity.

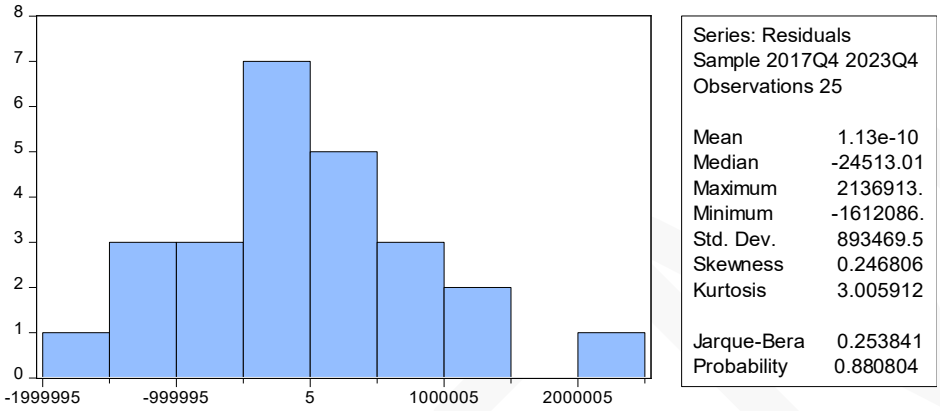


Figure 1: Histogram-Normality Test

Source: Researcher's computation using Eviews 10

The Histogram normality test, presented in Figure 2, was conducted to examine whether the residuals are normally distributed. The outcome reveals that they are normally distributed as the Jarque-Bera Prob. > 0.05.

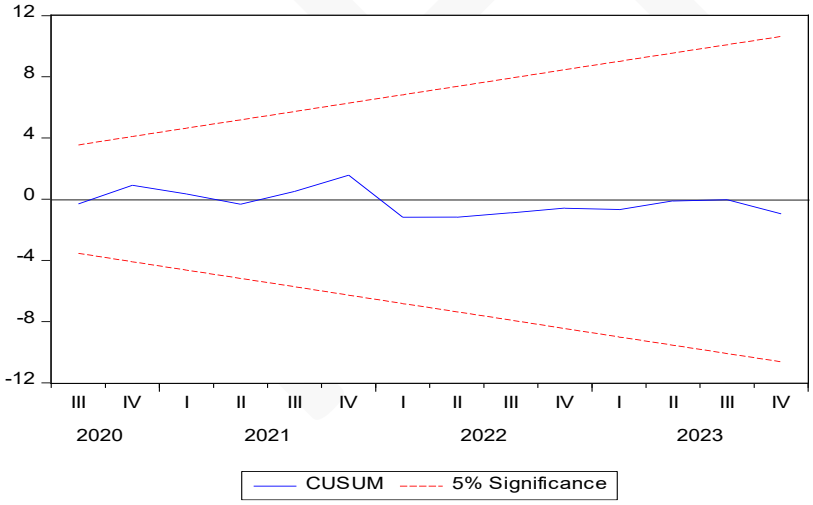


Figure 2: Cusum Test

Source: Researcher's computation using Eviews 10

The CUSUM test was conducted to check the model's stability. The outcome indicates that the model is stable and well specified. A visual inspection of Figure 2, is more instructive.

Discussion

The study examines the effect of public debt on economic growth in Nigeria. The outcome of the Parsimonious Error Correction model, as depicted in Table 4, shows a speed of adjustment

coefficient of -0.901490 and a p-value of 0.0043. This connotes that there is a 90.15% speed of adjustment if there is any disequilibrium in the model from the short run back to the long run quarterly. The R-squared result of 76.01% is the combined correlation of the independent variables, while the adjusted R-squared reveals that 58.87% of the variations in the Gross Domestic Product can be explained by the variation in the independent variables (TBD, FGB, DDT and EDT). The outcome of the Fully Modified Least Squares analysis indicates that TBD, FGB and EDT have negative and insignificant effects on the GDP, while DDT has a positive but insignificant effect on the GDP at 5% level of significance. These results are consistent with previous studies (Asafo et al., 2019); Fasoye & Olayiwola, 2024); Taiwo et al., 2023). Finally, the study found that public debt does not significantly influence economic growth in Nigeria within the study period.

Conclusion and Recommendations

Based on the findings, the study concludes that public debt does not influence economic growth in Nigeria. Thus, the study suggests the following policy recommendations:

i. Policymakers should conduct a thorough assessment of the Treasury bond issuance plan to ensure it aligned with the nation's development objectives.

ii. The ineffective impact of federal government bonds on GDP growth suggests that the existing bond issuance strategy is suboptimal. Consequently, policymakers should conduct an in-depth review of the bond issuance strategy, ensuring it supports the country's development objectives.

iii. To mitigate possible risk and ensure fiscal sustainability, policymakers must exercise prudent management of domestic debt to avoid crowding out private sector investment while also ensuring that debt servicing costs remain within sustainable limits.

iv. Policymakers should reassess the nation's approach to external borrowing and consider alternative sources of financing. Moreover, policymakers should utilise external debt to finance projects that yield sufficient revenue to meet future repayment obligations.

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