Government External Debts and Economic Sustainability in Nigeria

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Abstract
This study was an examination of government's external debt and economic sustainability in Nigeria. The objectives of the study include to trace the trend of external debt and economic growth in Nigeria from 1990 to 2021, and to examine the effect of external debt on economic growth in Nigeria. Explanatory research design was adopted in the study, and secondary data was collected for 32 years (1990-2021) from the Central Bank of Nigeria (CBN) statistical bulletin 2021. The data collected was analysed using diagrams and linear regression technique. The findings showed that total external debt in Nigeria has a negative and insignificant effect on economic growth in Nigeria. This is an indication that total external debt cannot sustain economic growth. Recommendations made include the need for the government to desist from further external borrowing, and the need to ensure that the funds already borrowed are utilized for productive and not wasteful ventures.

Keywords: *External Debts, Government, Economic sustainability*

1.1 Background to the Study

It is known that no country can be able to provide all the resources it requires to provide both social and economic goods for its citizens. Sometimes, the expected budget is not matched totally by the actual revenue received, and based on this there is usually budget deficit which requires extra funding that could be raised through domestic or external borrowing. In many cases , countries especially those in Africa opt to borrow from multilateral institutions and countries including the World Bank and International Monetary Fund (IMF), the United States, European Union, and China. Others may opt for international creditors such as the Paris and London Clubs. Regardless, the essence of the borrowing is usually to finance capital projects or to adequately

fund the capital expenditure of the government due to shortfalls in the actual revenue received. When this happens, there is every tendency that the government utilizes this to ensure that infrastructures such as roads, airports, power grids, sea ports, bridges, hospitals and schools are completed for the benefit of the citizens and the entire economy.

When such projects are provides and completed, it is usually expected to support economic activities in the country especially those of the various key sectors such as the agricultural, construction, manufacturing, and services sector. Not only that, it is expected that such borrowed fund through the completion of the projects should drive economic growth (Obisesan, Akosileand Ogunsanwo, 2019; Adamu et al, 2018). For instance the completion of interstate highways linking to agricultural areas in the country is expected to reduce the cost of transporting agricultural products to the various markets, and as such open up the sector to more business both locally and internationally. This implies increase in agricultural production, and invariably more contribution to the Gross Domestic Product of the country. When this happens, there is likelihood that more persons will be employed, and that the prices of food and other items will be driven down. Furthermore, dependence on imported food will reduce, and the government will conserve scare foreign exchanges. These are imperatives for economic growth (Panagiotis, 2018; Sulaiman and Azeez, 2012).

However, when the external funds borrowed are misapplied or even misappropriated into private pockets as seen in a corruption indexed country like Nigeria, there is every likelihood that the gains expected from such borrowing will never materialize to the benefit of the economy. This is tantamount to price instability, unstable or slow economic growth, high unemployment, high debt servicing costs, and other negative economic connotations. These are the focus of this study in respect of economic growth in Nigeria, and that will be to examine the effect of external debt on economic growth in Nigeria from 1990 to 2021.

Year in year out, many African countries including Nigeria are always requesting for debt cancelation or forgiveness at various international economic forum, yet their respective governments keep borrowing for various capital projects form foreign creditors and multilateral institutions. Nigeria is known to be one of the heavy borrowers from countries like China and multilateral partners such as European Union, World Bank and International Monetary Fund (IMF). Regardless of the huge evidence of huge external loans borrowing by the Nigeria, the country remains at the lowest economic level since independence. Today the country is ranked second only to India and Bangladesh as the country with the highest number of poor persons in the world based on the Multidimensional Poverty Index (MPI) (National Bureau of Statistics, 2022). Apart from that the unemployment rate in the country is rated as one of the highest in Africa, with many of the youths remaining unemployed long after graduating from the universities. Apart from that, there is high infrastructural gap with many abandoned government projects, many elephant projects, and the intractable electricity problem in the country which has failed to support a vibrant real sector. Based on this, it is known that the government keeps reassuring the citizens that their intense borrowing from countries like China remains the best option to complete capital projects that include roads, bridges, schools, hospitals, and railways.

However, these levels of external borrowing fail to match the various economic distortions and dislocations in the country. There is unstable growth of the Gross Domestic Product (GDP) with the country having experienced three recessions in the past five years, inflation rate is double

digit, and the domestic country has greatly depreciated against major currencies like the United States Dollar, United Kingdom Pounds Sterling and European Union Euro. Based on this, this study attempts to examine the effect of external debt burden on economic sustainability in Nigeria from 1990 to 2021.

1.2 Objectives of the Study

The primary objective of this study is to examine government external debt and economic sustainability in Nigeria. The specific objectives include to:

i. examine the trend of government's external debt in Nigeria from 1990 to 2021.
ii. investigate the extent of the effect of total external and total debt servicing on the sustainable economic growth in Nigeria from 1990 to 2021.

1.3 Research Hypotheses

The null research hypothesis for this study is given as follows"

H_{O1}: Total government external debt has no significant effect on sustainable economic growth in Nigeria from 1990 to 2021.

1.4 Significance of the Study

The significance of this study include government officials in Nigeria; advocates and critics of government's external borrowing, debt management office (DMO), economic experts, and researchers. To the federal and state government officials in Nigeria, this study would help to reveal the extent to which the country's external debt obligations sustain economic growth in Nigeria. This would help government policy makers fashion out ways to cut down on external borrowing or ways to efficiently and effectively manage it. To advocates and critics of external borrowing in Nigeria, this study would provide empirical evidence that any of these parties can utilize in furthering its position or arguments. This could lead to the development of new theories or hypotheses. To the DMO in Nigeria, this study through its findings would enable them discover if they are doing a good job managing the external debt of Nigeria. Finally, to economic experts and researchers, the findings in this study would contribute to existing body of knowledge on external debt financing and economic growth in Nigeria.

2.0 Review of Literature

2.1 External Debt in Nigeria

According to CBN (2010), foreign debts or external borrowings are debt obligations the government, owe to multilateral bodies, London club, Paris club, foreign promissory notes and other unclassified external borrowings. External debt therefore refers to the resources of money in use 'in a country that is not generated internally and does not in any way come from local citizens whether corporate or individual. Nigeria's external debt include debt owed by the public and private sectors of the Nigeria' economy to non- residents and payable in foreign currency, goods and services (Ogbeifun, 2007). This external debt is a major source of public receipts. The accumulation of external debt should not signify slow economic growth. It is a country's inability to meet its debt obligation compounded by the lack of information on the nature, structure and magnitude of external debt (Were, 2001). Accordingly, Soludo (2003) opined that countries borrow for two broad categories; macroeconomic reasons to either finance higher investment or higher consumption and to circumvent hard budget constraint. This implies that an economy borrow to boost economic growth and alleviate poverty. Countries experiencing fiscal deficits, especially the developing ones borrow to improve their economic growth. Government borrows in

principle to finance public goods that increase welfare and promote economic growth (Ogunmuyiwa, 2011). Due to the fact that the domestic financial resources are not adequate, borrowing is acquired from foreign sources. The amount of fund provided by these foreign sources constitutes the external debt of a nation. In Nigeria, external debt is sourced from multilateral agencies, Paris club creditors, London club creditors, Promissory Note holders and other creditors. External debt is one of the sources of financing capital formation in any country (Ayadi and Ayadi, 2008). External debt is acquired to contribute meaningfully to the economy but the future debt service payment poses a threat to economic growth.

2.2   Empirical Review of Literature

Many pieces of literature have examined the relationship between external debt and economic growth or sustainability in many countries in the world. In Greece, Panagiotis (2018) investigates the nexus between economic growth and several factors (investment, private and government consumption, trade openness, population growth and government debt), where imbalances persist several years after the financial crisis. The results revealed the existence of a long-run relationship between variables. Investment as private and government consumption and trade openness have positive effect on growth. On the other hand, there was a negative long-run effect of government debt and population growth on growth.

In Nigeria, Adamu, Salihu, Musa, Abdullahi and Bello (2018) added to the existing literature on the debt growth-nexus by analyzing the relationship between debt variables and economic growth within Solow (1956) growth framework. The researchers employed econometric technique of Autoregressive Distributive Lag (ARDL) model and applied on time-series data for Nigeria spanning between 1981 and 2016. The finding of the study revealed that external debt and economic growth are negatively related both in the short and long runs. The evidence suggested that increase in external debt will lead to decline in economic growth. This may not be in line with theoretical expositions, and questions why countries borrow to finance capital projects. The situation when external debt would negatively affect economic growth would be when the borrowed funds are not utilised accordingly. This is usually the case in many developing countries where multilateral and external loans end up in the pockets or foreign bank accounts of politicians. Based on the findings, the researchers suggested that debt service obligation should not be allowed to rise more than foreign exchange earnings and that the loan contracted should be invested in profitable and productive ventures, which will generate a reasonable amount of money for debt repayment.

Furthermore in Nigeria, Paul (2017) analysed the impact of external debt on economic growth in Nigeria. Data were collected from secondary sources. The variables on which data were collected include; Gross Domestic Product, external debt services, external debt stock, external reserve, and exchange rate. The scope of the study covered the period from 1985 to 2015. Ordinary least square regression, ADF unit root test, Johansen cointegration and error correction test were the basis for analysis. Findings revealed that debt service payment has insignificant negative effect on Nigeria's economic growth while external debt stock has significant positive effect on Nigeria's growth index. This could align to situations where governments pay more of the interests on the external debt and leave out a greater portion of the debt unpaid. Hence, there is the crowding out effect of debt on domestic output since many of the government revenues are used in servicing debt that were utilised in unproductive ventures. The control variables: external reserve and

exchange rate have significant positive effect on growth. The causality test indicates unidirectional causality between external debt and GDP. On the causality, there is the possibility GDP can cause external debt. This is because a growing economy need to be sustained, and this can lead to increased borrowing from external sources to ensure this. There is every reason to believe that the causality between external debt and economic growth would be directional contrary to what this researcher reported.

Additionally, Aguwamba and Adeghe (2017) examined the external debt crisis and Nigeria's economic growth. It covers a period of 30 years (1979-2008) with Gross Domestic Product (GDP), external debt and external debt service payments as the variables. The GDP was the dependent variable, while external debt and external debt service payments are the independent variables. Cointegration econometric model was used for the estimation and the Unit root test is conducted in order to ascertain the stationarity of the variables. The results indicated that the GDP has positive relationship with the external debt and negative relationship with the external debt service payments. It is impossible to imagine that the humongous debt piled up by Nigeria before the exit of the country from Paris and London clubs would have positive effect on GDP of the country. This is basically because most of the external debt was incurred in period where accountability was low, and institutions' handling debt issues were not transparent enough. During this period external debt was rising , but economic growth as indicated by GDP was unstable.

Finally, Amassoma and Adeniran (2017) explored the nexus between external debt and economic growth in Nigeria between the periods 1980 to 2014. The study adopts OLS regression method to ascertain the existing relationship. The results showed that external debt exerts a negative and significant effect on private investment in Nigeria, while domestic debt had a positive and significant influence on private investment in Nigeria during the study periods, indicating that external debt impedes private investment in Nigeria. The researchers concluded that external debt is inversely related to private investment, meaning that an increase in external debt goes a long way in reducing private investment which slows down economic growth in Nigeria. This is an indication of the crowding out effect of external debt in the country, though various reports showed an increase in the trend of private investments in the period covered in the study (Aguwamba and Adeghe, 2017). Regardless, theories have established the existence of the crowding out of investments by debt in economies hence this could be possible in a developing country like Nigeria.

3.0 Methodology
3.1 Research Design

From existing literature, a research design can either be exploratory, descriptive, or explanatory (Lelissa, 2018). In this study, the aim is to examine the effect of external debt on sustainable economic growth in Nigeria from 1990 to 2021. Achieving this objective requires various justifications to be made or drawn from quantitative results using numerical data in the study. This is needed to provide veritable responses to the how and why aspect of the fundamental research questions that emanate from this study's research objective. Based on this, the explanatory research design was adopted in this study. The rationale for the choice of this study stems from the capacity that the adopted research design provides for using various statistical and quantitative methods for the gathering and analysis of data towards providing a relevant answer(s) to the primary research question in this study. The explanatory research design seeks to provide answers

to the 'what', 'why', and 'how' concerning the focused research question developed from the problem of the study (Grey, 2014).

3.2 Population of the Study

This study is on the examination of the effect of external debt on economic growth in Nigeria from 1990 to 2021; hence the area of this study will be the entire Nigerian economy with focus on total external debt and economic growth. Nigeria is located in West African region of The African continent with an estimated population of 220 million persons and is known to be the largest economy in Africa by the size of the Gross Domestic Product (GDP) at current basic prices (World Bank, 2021).

3.3 Model Specification

In this study, linear regression models was used in the analysis of the effect of external debt on economic growth in Nigeria from 1990 to 2021 through the dependent, and independent variables in this study. These are specified in regression equations for the research hypotheses earlier stated in this study.

Model 1:

This model represents variables in hypothesis one,

RGDP = f(TEXDEBT)

$$RGDP = \alpha_0 + \beta_1 TEXDEBT + \mu_1 \qquad \text{Equation 1}$$

Where:

α_0 is the constant factor

TEXDEBT is Total External Debt (independent variable)

RGDP is Real Gross Domestic Product (Sustainable Economic Growth) (Dependent variable)

β_1, is the regression coefficient or intercept

μ_1 = error or stochastic term.

3.4 Data Collection and Analysis

The data for the study was secondary data and was collected from the Central Bank of Nigeria (CBN) Statistical Bulletin (2021), World Bank economic reports and International Monetary Fund (IMF) World Development Indicators (WDIs). The data collected was analysed using linear regression, and other inferential methods. Other analysis was conducted using descriptive statistics diagrams and percentages.

4.0 Analysis and Discussion

4.1 Trend of Total External Debt and Economic Growth in Nigeria (1990-2021)
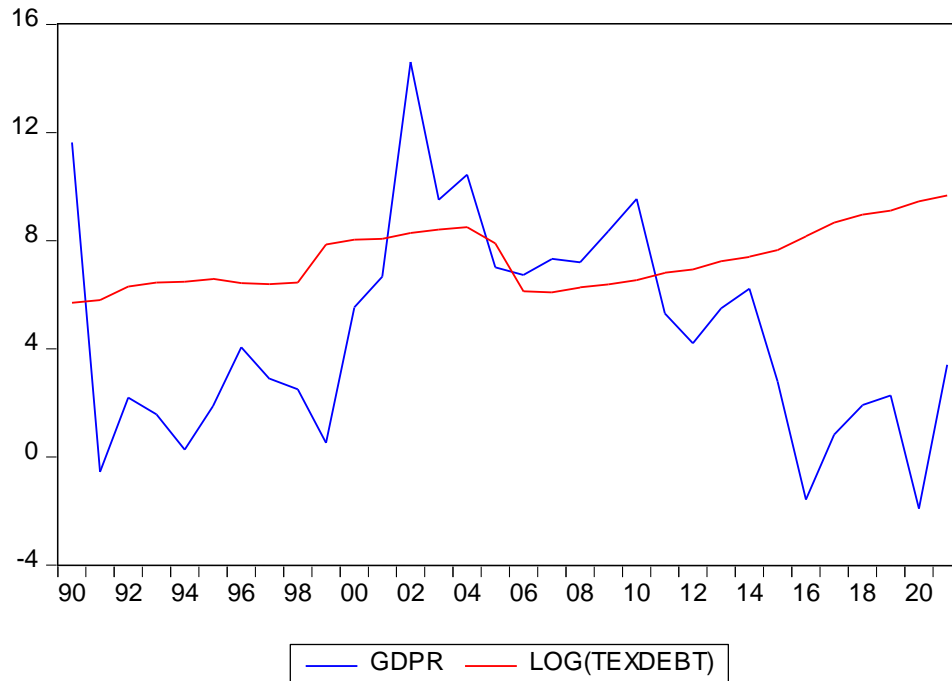
This trend is presented in Figure 1.

Figure 1: Trend of Total External Debt (TEXDEBT) and Economic Growth (GDPr) in Nigeria (1990-2021)

Figure 1 show that while the external debt of the country is increasing, economic growth has been unstable, and indication of the lack of sustainability of current economic growth levels in the country. This implies that despite the huge outlay of external debt that hangs over the country in recent times, there are reasons to believe that it is sustainable.

Test of Hypothesis

The regression result for the research hypothesis is presented in Table 1.

Table 1: Regression result for Hypothesis Testing

Dependent Variable: GDPR
Method: Least Squares
Date: 09/26/23   Time: 04:27
Sample: 1990 2021
Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(TEXDEBT)	-0.448904	0.628478	-0.714272	0.4806
C	7.943824	4.668657	1.701522	0.0992

R-squared	0.016722	Mean dependent var		4.647292
Adjusted R-squared	-0.016054	S.D. dependent var		3.952277
S.E. of regression	3.983876	Akaike info criterion		5.662849
Sum squared resid	476.1381	Schwarz criterion		5.754458

Log likelihood	-88.60558	Hannan-Quinn criter.	5.693215
F-statistic	0.510185	Durbin-Watson stat	0.857259
Prob(F-statistic)	0.480580		

Source: E-views 10.0 (2023)

Table 1 show that economic growth in Nigeria will remain positively sustainable at an average rate of 7.94%, if total external debt is held constant. This implies that sustainable economic growth would be achieved in Nigeria if there are no changes in the external debt portfolio of the country. However, a 1% increase in the level of total external debt in Nigeria (TEXDEBT) will lead to a 0.45% decline in economic growth. This is an indication of the existence of a negative effect of external debt on economic growth in Nigeria. This negative effect is not statistically significant with computed t-statistic value of -0.7143 and probability of 0.4806. This is an indication that current external debt levels cannot sustain economic growth in Nigeria. Furthermore, the coefficient of determination (R^2) value of 0.0167, indicates that only 1.67% of the variations in economic growth have been explained by external debt in Nigeria. The remaining 98.33% of the variations are attributable to other variables outside this study. Given that the computed F-statistic value is 0.5102 and the probability value obtained is less than 0.05, the null hypothesis will hold, and is accepted. This implies that total external debt has no significant effect on sustainable economic growth in Nigeria. This finding is in agreement with the findings of Adamu et al (2018) and Paul (2018) who reported the existence of a negative relationship between external debt and economic growth in Nigeria.

5.0   Summary and Recommendations

Theoretically, external borrowing have been associated with economic development as demonstrated in the Solow-growth models, however, many empirical results have shown that increasing levels of it can lead to negative growth rates, especially if the borrowed funds are not used for productive ventures that would have produced funds for debt servicing. This perhaps may have been the case of Nigeria with the mounting total external debt, which based on empirical results showed negative and insignificant effect on economic growth. This is an indication that total external debt in Nigeria leads to the decline in the growth rates of Gross Domestic Product (GDP) in Nigeria. This implies that external debt in Nigeria cannot sustain economic growth in Nigeria. In line with this, the following recommended that the federal and state governments should reduce their level of external borrowing, and that they should focus on using the already borrowed funds for productive purposes rather than for white elephant projects.

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Raw Data

YEAR	Total External Debt (Billions of Naira)	Exchange Rate (Naira)	GDP at Contant Prices (Billions of Naira)	GDP Growth Rate (%)
1981	2.33	0.64	19,549.56	4.21
1982	8.82	0.67	18,219.27	4.18
1983	10.58	0.75	16,228.81	3.67
1984	14.81	0.81	16,048.31	6.22
1985	17.30	1.00	16,997.52	8.52
1986	41.45	3.32	17,007.77	1.90
1987	100.79	4.19	17,552.10	0.17
1988	133.96	5.35	18,839.55	6.23
1989	240.39	7.65	19,201.16	6.66
1990	298.61	9.00	21,462.73	11.63
1991	328.45	9.75	21,539.61	-0.55
1992	544.26	19.66	22,537.10	2.19
1993	633.14	22.63	22,078.07	1.57
1994	648.81	21.89	21,676.85	0.26
1995	716.87	21.89	21,660.49	1.87
1996	617.32	21.89	22,568.87	4.05
1997	595.93	21.89	23,231.12	2.89
1998	633.02	21.89	23,829.76	2.50
1999	2,577.37	98.20	23,967.59	0.52
2000	3,097.38	110.05	25,169.54	5.52
2001	3,176.29	113.45	26,658.62	6.67
2002	3,932.88	126.90	30,745.19	14.60
2003	4,478.33	137.00	33,004.80	9.50
2004	4,890.27	132.85	36,057.74	10.44
2005	2,695.07	129.00	38,378.80	7.01
2006	451.46	128.27	40,703.68	6.73
2007	438.89	117.97	43,385.88	7.32
2008	523.25	132.56	46,320.01	7.20
2009	590.44	149.58	50,042.36	8.35
2010	689.84	150.66	54,612.26	9.54
2011	896.85	158.27	57,511.04	5.31
2012	1,026.90	157.33	59,929.89	4.21
2013	1,387.33	157.26	63,218.72	5.49
2014	1,631.50	169.68	67,152.79	6.22

Year				
2015	2,111.51	197.00	69,023.93	2.79
2016	3,478.92	305.00	67,931.24	-1.58
2017	5,787.51	306.00	68,490.98	0.82
2018	7,759.23	307.00	69,799.94	1.91
2019	9,022.42	307.00	71,387.83	2.27
2020	12,705.62	381.00	70,014.37	-1.92
2021	15,855.23	435.00	72,393.67	3.40
2022	18,702.25	460.00	74,639.47	3.10

Source: Researcher's Computation