

## An Economic Analysis of the Nigerian Economy with Regard to Debt Payment

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### Abstract

This research uses the Error Correction Model (ECM) to examine how the Nigerian economy has changed from 1990 to 2022 with regard to debt payment. Following the analysis of the data gathered on the variables, the research concluded that, although debt servicing and foreign debt were shown to be considerably, but negatively, impacting Nigeria's economic performance, there was no meaningful association between internal debt and the country's economic performance. It is also discovered that Nigeria's economy is unaffected by payments for repaying external debt. After demonstrating that the government's careless use of debt was the cause of these unfavourable results, the study comes to the conclusion that while debt and debt servicing would have had a positive impact on Nigeria's economic performance, the careless use of debt means that these factors will continue to negatively impact the country's economic performance. This study suggests that in order to support improved performance in terms of GDP development in Nigeria, debt, whether obtained locally or externally, should be used promptly and wisely in the supply of essential national infrastructures.

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### **Background to the Study**

Any financing obtained from sources outside of a nation is referred to as external debt. There will be a need to borrow money if revenues are insufficient to cover expenses (Bulus, 2020). Public debt's ability to stimulate development has significant policy ramifications for economic expansion. Investments in social welfare, health, and education are necessary for economic success (Owusu-Nantwi & Erickson, 2016). The budget deficit is the primary cause of governmental debt in the majority of nations. Debt servicing, according to Awan & Qasim (2020), is the money required to pay back creditors' principle and interest.

According to Ali & Mustafa (2012), paying down debt can result in debt overhang and has a resource-draining effect on the economy. Currency risk is a disadvantage of borrowing money from outside sources as paying off debts from outside sources increases the need for frequently limited foreign currencies (Abbas & Christensen, 2010). According to El Aboudi & Khanchaoui (2021), a large external debt servicing burden can drain foreign cash that could have been allocated to social service delivery. Macroeconomic instability is caused by the foreign debt service, which is amplified by local currency depreciation. Furthermore, if the debt is addressed at a variable rate, the nation is more susceptible to fluctuations in the world interest rate, which may result in higher costs for debt servicing (Elhendawy, 2022; IMF, 2017).

Because payments on current debt define one's capacity to take on new debt, debt service is essential to debt sustainability (Awan & Qasim, 2020; Ndubuisi, 2017). Additionally, Àkos & István (2019) added to the discussion by pointing out that even in cases when highly indebted nations implement economic reforms, debt payment reduces income to the point where it is unlikely that these nations can see economic growth. Countries vulnerable to external shocks and macroeconomic crises may benefit from foreign borrowing and debt services (Bekun & Alola, 2016; Dey & Tarequ, 2020). But there was a notable rise in external debt from 1971 to 1980, the height of the oil boom.

Ndubuisi (2017) pointed out that different levels of Nigerian government borrowed money to fund post-civil war development and reconstruction initiatives. The civilian administration carried on with these borrowings. In actuality, banks, subnational governments, commercial organisations, and other government bodies were all receiving guarantees from the federal government for a variety of foreign borrowing projects (Ndubuisi, 2017). Many of these borrowings were not used to their full potential. Following 1981, there was a decrease in oil prices, which exposed Nigeria to several macroeconomic shocks. The primary issue facing nations that take on foreign debt is that it is often not used effectively, and income deficits can result in default and ultimately ballooning debt payment requirements (Didia & Ayokunle, 2020).

According to Dey & Tarequ (2020), a nation's foreign debt is not harmful if its income can outpace the cost of borrowing. A rise in taxes or a reduction in government spending on sectors that are productive might also result from an increase in the servicing of foreign

debt. In Nigeria, expected revenue—which may or may not materialize—is often the basis for capital and ongoing expenses that are included in the budget. The government has to borrow money to finance the budget since most of the time they are not realised as planned and there is a deficit in addition to the need to construct capital stock. Because of the underdeveloped capital market, low savings, poor investment, and low productivity, there may not be enough money available domestically.

According to Uma, Eboh, and Obidike (2013), borrowing is one option available to a nation that lacks the resources needed for optimal growth. When the timeframe of planned spending does not coincide with the time of income receiving from one of the primary sources of revenue generation—taxation—borrowing becomes a possibility. About 85% of foreign profits and 75% of budgetary revenue in Nigeria come from the oil industry, which is one of the main sources of income for the Federal Government.

Nonetheless, the goal of any loan from the government is to achieve certain macroeconomic goals, such as stability and economic growth. Public funds are used to service and repay these debts. Therefore, it is possible that the cost of repaying public debt—both internal and external—would exceed the economy's ability to pay, which will have a detrimental effect on the achievement of the intended goals of monetary and fiscal policy (Harrison, Momodu & Tamunomieibi 2000). Therefore, the government's capacity to make more fruitful investments in public health, education, and infrastructure may be hampered by the growing debt load. The related issue of principle repayment and loan servicing led to a decrease in almost all forms of infrastructure in Nigeria.

The total commitment of the federal, state, and municipal governments to transfer funds to individuals and corporate entities within the nation is represented by the domestic loans. It is made up of securities loans, such as public sector debt to banks and local contractors, as well as securitized loans, like Treasury bills, certificates, development stocks, Treasury bonds, and state government bonds (CBN, 2016). The external debt stock is made up of promissory notes and multilateral loans.

Due to inadequate or insufficient financial resources in their own economies, the majority of developing nations rely on borrowing money from both domestic and foreign sources to pay their numerous government initiatives.

A number of factors, such as weak economies as a result of low revenue generation made it impossible for them to pay their bills, forcing them to either obtain loans from foreign financial institutions or issue bonds and treasury bills to their own citizens. The lending donor agencies are international financial institutions such as the Asian Development Bank, World Bank, International Monetary Fund, etc. Depending on the nation's credit rating, they offer loans on both hard and soft terms (Benedict, et al., 2003). Debt servicing is the process of collecting principle repayments and interest on both long-term and short-term debt that must be paid in cash, products, or services. This is the payments that a nation that has a loan outstanding at maturity must make in order to cover the principle

and interest. In Nigeria, debt servicing has put the nation's economic progress and development at risk. This has a negative impact on the economy, leading to high unemployment, inflation, and poverty rates for the majority of people. It also fosters corruption. (Ayadi, 2008). Despite the aforementioned drawbacks, countries continue to borrow money and repay their debts because they are unable to provide for all of their needs and because funding is necessary for governmental operations. Therefore, the key concern is how these debts are handled and utilised appropriately to generate a profit on the investment that will be made in the economy to spur further growth. (Ayadi, 2008).

The purpose of this study is to address the following queries: How does Nigeria's economic development relate to debt service? Does debt service exert a statistically significant positive or negative impact to the Nigerian economy?

### **Objectives of the Study**

The main objective of this study is to contribute to the debate by evaluating the impact of debt servicing on the Nigerian economy. Specifically, the study will:

1. Examine the impact of domestic debt on the Nigerian economy
2. Determine the impact of external debt on the Nigerian economy.
3. Ascertain the extent to which debt servicing has affected the Nigerian economy.

### **Research Hypothesis**

This study is guided by the following hypothesis stated in null form

**Ho<sub>1</sub>:** Debt servicing has no significant impact on Nigeria economy

**Ho<sub>2</sub>:** External debt has no substantial influence on Nigeria's economy.

**Ho<sub>3</sub>:** Domestic debt has no substantial impact on Nigeria's economy.

### **Scope of the study**

The study is focused on the Nigerian economy as it relates to debt servicing over the period 1990-2022 given the availability of data and given that this period is characterised with huge debt accumulation most especially in the last four years. This study is therefore not a cross country analysis.

### **Significance of the study**

The outcome of this study will be of great interest to economic planners because it will enable them to evaluate the extent to which the funds expended for debt servicing would have helped to boost the economy. The budget implementation and monitoring agencies will also find the work useful since it will reveal whether the funds earmarked for debt servicing are actually being transmitted for the intended purpose even the alternative uses of such funds.

### **Organization of the Study**

This research work is divided into five sections. Section one introduces the research background, problem statement, objectives scope and significance. Section two critically examines and reviews relevant and related literatures. It focuses on the theoretical basis

of the study and empirical literature. In section three, the research methodology specification of model and method of data analysis were presented. Section four focused on data presentation and analysis of results, using relevant econometric techniques, are discussed. Section five summarizes, concludes and provides useful recommendations.

### **Literature Review**

#### **Empirical Review**

Antoine et al. (2021) used time series data from 1986 to 2015 in the Democratic Republic of the Congo to confirm that foreign debt has a positive and significant influence on economic development. Elhendawy (2022) used data from 1980 to 2019 to show a long-term inverse link between the Egyptian pound and foreign debt payments. The study's conclusions show how Egypt's resources are depleted by paying off its foreign debt. The study's estimating technique was Vector Error Correction.

Ohiomu (2020) analysed the link between foreign debt and economic development in their policy study on public finance and public debt management in Nigeria. The estimating approach used was the ARDL method. Since foreign debt negatively affects growth, the research confirmed that there is a debt overhang.

Didia & Ayokunle (2020) provided data that showed a positive relationship between foreign debt and the Nigerian economy over the long term, but one that was not statistically significant. In their analysis, Faizulayev et al. (2020) used data from 1981 to 2017. The result showed that real growth was significantly harmed by foreign debt and debt payments. In the short and long terms, this was demonstrated.

Adekunle et al. (2021) used a non-linear approach to provide extra dimension. Debt service as a percentage of GDP was utilised as the dependent variable in the study's foreign debt indicators. The foreign debt stock threshold, as determined by the research, is 6.81% of gross national income (GNI). Any percentage more than 6.81% will have detrimental effects.

Ogbonna et al. (2021) looked at the relationship between growth and service of foreign debt using the ARDL model. The study covered the years 1986–2018. The analysis came to the conclusion that there is a substantial and long-term negative correlation between Nigeria's economic development and the servicing of its external debt. The report suggests that Nigeria use its foreign debt most effectively.

Musibau et al. (2018) use ECOWAS member country data spanning from 1980 to 2015. The analysis confirmed the favourable correlation between the foreign debt and economic development of the ECOWAS member nations. Awan & Qasim (2020) looked at the consequences of foreign debt and external debt services in Pakistan. Their research provided proof that the repayment burden in foreign currency of debt services and external debt has a negative impact on Pakistan's economy.

Ndubuisi (2017) carried out studies to investigate how Nigeria's external debt affected the nation's economic growth from 1985 to 2015. The data was analysed using OLS, Johansen cointegration, and error correction tests. The study discovered a negative relationship between growth and debt service payments. Foreign reserve and exchange rate were the two control variables used in the study. These factors demonstrated a strong and positive relationship with development.

Adamu & Rasiah (2016) looked at the effect of Nigeria's foreign debt on economic development. The study period included the years 1970–2013. ARDL was the estimating technique used. The study's conclusions showed that foreign debt is detrimental to growth even with the 2006 external debt reduction.

Michael Sunday and Ogochukwu (2016) looked at how borrowing by the public sector affected Nigerian output, interest rates, and prices. They applied a Vector Autoregressive framework, impulse response, variance decomposition model, and Granger causality test. They discovered that there was no discernible relationship between the amount of debt, both domestic and foreign, and output or the overall level of prices over the research period.

Austin (2014) investigates the connections between Nigeria's economic growth and debt payments. Using the appropriate statistical data from global financial institutions, the study employed the ordinary least square multiple regression approach to decompose the debt stock along creditor lines. The study found that Nigeria's GDP and GFCF are significantly impacted by the country's debt payments to its creditors. Debt payments to holders of promissory notes and creditors affiliated with the Paris Club have a positive correlation with GDP and GFCF, but debt payments to creditors affiliated with the London Club and other creditors have a strong negative correlation.

Utomi (2014) investigated the impact of external debt on Nigeria's economic development from 1980 to 2012. To evaluate the external debt load, the study examined time series data on the stock of external debt and the external debt service. The analysis made use of ECM and Granger. The research found minimal long-term correlation and a bidirectional relationship between Nigeria's foreign debt and economic progress.

Uma, Eboh, and Obidike (2013) looked into how Nigeria's economic development was affected by external debt, domestic debt, and debt payments between 1970 and 2010. In order to determine the long-term connection between the variables, the study used ordinary least squares to analyse the data and assessed the stationarity of the time series data using the Johansen test for cointegration and the Augmented Dickey-Fuller test for stationarity. Their findings indicated a weak negative relationship between real gross domestic product and both external and domestic debt. Although it is not as big as we had anticipated, the interest on the total amount of external debt has a positive relationship with real gross domestic product.

## Research Methodology

### Method and Source of Data

The long-term relationship between debt service and economic growth in Nigeria is ascertained through an empirical study. In the context of this investigation, the researchers use a linear model to carry out the regression. In order to achieve the study's objectives, a time series secondary data set covering the years 1990–2022 was used. It was gathered from the National Debt Management Office for the years 1990–2022, as well as the Central Bank of Nigeria's Statistical Bulletin for the year 2021. Inferential statistics like regression and correlation, as well as descriptive statistics, are used to analyse, interpret, and display data.

### Description of the Model

The National Debt Management Office's 1990–2022 data and the Central Bank of Nigeria's 2021 Statistical Bulletin provided secondary data for this research project's empirical study.

The following is the mathematical representation of the variables found in this model:

$$GDPg = f(DS, DD, EXTD, EXCHR, INFR) \quad (2)$$

The functional model in equation 2 can be transformed to:

$$GDPg_t = \alpha_0 + \alpha_1 DS_t + \alpha_2 DD_t + \alpha_3 EXTD_t + \alpha_4 EXCHR_t + \alpha_5 INFR_t + \epsilon_{it} \quad (1)$$

$\alpha_0$  = the constant term GDPg = Nigerian economy (measured by GDP growth rate) DS = Debt Service DD = Domestic Debt, EXTD = External Debt, EXCHR = Exchange Rate INFR = Inflation Rate  $\epsilon$  = Stochastic Error Term

### Method of Data Analysis

The econometric approach of Ordinary Least Squares (OLS) was utilised in this study to conduct multiple regression analysis on data that explains the linear connection between one or more explanatory factors and two or more dependent variables. The E-Views application, a statistical programme for empirical analysis, makes this technique easier. OLS is used because, in comparison to other estimators, it has the Best Linear Unbiased Estimator (BLUE)

Initially, to prevent the variables from losing their desired consistency, efficiency, and objectivity, which could lead to erroneous results, inferences, and ultimately, predictions, the time series data will be subjected to an Augmented Dickey-Fuller unit root test to determine the stationarity of the data.

The next step is to perform the Johansen Co-integration test to see if there is an equilibrium condition that maintains the variables' long-term proportionality. This is to test for the problems of spurious correlation associated with non-stationary time series data. After testing for stationarity of the data and establishing the extent and form of Co-integration relationship between the variables, the Error Correction Model (ECM) shall

be adopted as the basic techniques of analysis to estimate the extent to which debt servicing influences economic growth in Nigeria. The t-Statistics, F-Statistics; R-square, Adjusted R-Square, Standard Error of Coefficient and Durbin-Watson test for autocorrelation, which are all test of significance and quality of fit were utilised. Hypotheses will be evaluated with the output from the of error correction model (ECM). The analysis' findings will be used to determine how debt repayment affects economic expansion. Nigeria.

### Estimation

To determine whether a time series of data is stationarity, a unit root test is applied to the data. The stationarity of a data series (that is, a variable) implies that its mean, variance and covariance are constant over time. Stated differently, the data series exhibit time invariance, meaning they remain constant over time. Regressing a non-stationary time series on another frequently yields erroneous results. The variables were subjected to Augmented Dickey-Fuller Unit Root (ADF) Test.

**Table 1:** Augmented Dickey-Fuller

Variable	Augmented Dickey-Fuller Statistic		Critical Value (5%)		~I(d)
	Level	1 <sup>st</sup> Order	Level	1 <sup>st</sup> Order	
GDPG	-1.919	-4.718***	3.548	-3.552	I(0)
DS	0.334	-4.256**	3.548	-3.552	I(1)
DD	-3.123	-7.026***	3.548	-3.552	I(0)
EXTD	-3.238	-5.264***	3.548	-3.552	I(0)
EXCHR	-0.674	-4.379***	-3.548	-3.552	I(0)
INFLR	-3.383	-6.531***	-3.479	-3.552	I(0)

**Source:** Author's Computation using Eviews

Table 1 reveals that all of the variables that were exposed to the unit root test were found not be stable at the level. They were all initially stationary, though, which supported the variable's stability and qualified them for more analysis.

### Analysis of Cointegration

By using the Johansen Co-integration Rank test to count the number of co-integrating equations and determine whether the variables are co-integrated, a co-integration test aims to determine whether or not there is a long-run or equilibrium relationship among the variables in their linear combination.



**Table 2:** Trace and Eigenvalue Cointegration Test  
Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.782815	142.8452	117.7082	0.0005
At most 1 *	0.674817	98.56205	88.80380	0.0082
At most 2 *	0.605828	65.98442	63.87610	0.0329
At most 3	0.530584	38.98632	42.91525	0.1170
At most 4	0.328820	17.05463	25.87211	0.4109
At most 5	0.172522	5.491824	12.51798	0.5274

**Source:** EViews Output

Max-Eigen and Trace statistics are displayed in the Cointegration test results. Two (2) co-integrating equations at the 5% level are shown by the Trace Statistic above, and two (2) co-integrating equations are also shown by the Max-Eigen statistic. The alternative hypothesis that the variables are co-integrated is accepted in the event that there is at least one co-integrating equation at the 5% level, rejecting the null hypothesis that there is no co-integration between or among the study variables. In other words, the variables included in the model have an equilibrium or long-run connection.

The cointegration result (Trace) above suggests that the hypothesis is rejected at the 0.05 level since it indicates 4 cointegrating equations (s). The hypothesis is denied, according to the second finding (highest Eigenvalue), which shows that there are three Cointegrating equations at the 0.05 level.

### Estimation

The ECM incorporates the estimation of the over parameterised from where the ECM is derived.

**Table 3:** Over parameterized Test Result

Dependent Variable: LOG(GDPG)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.025808	0.565006	14.20482	0.0000
LOG(DS)	0.822283	0.043452	18.92415	0.0000
D(DS(1))	-0.003429	0.002175	-1.576194	0.1536
D(DD)	0.002194	0.002443	0.898107	0.3954
D(DD(4))	-0.000448	0.000800	-0.559828	0.5909
D(EXTD)	-0.000159	0.001454	-0.109534	0.9155
D(EXTD(2))	-0.000812	0.001431	-0.567670	0.5858
D(EXTD(3))	-0.001089	0.001558	-0.698976	0.5044
D(EXCHR)	0.023417	0.014729	1.589920	0.1505
D(EXCHR(2))	0.027570	0.017961	1.535014	0.1633
D(EXCHR(3))	0.026999	0.026271	1.027682	0.3342
INFLR	-0.016607	0.005497	-3.021019	0.0165
INFLR(2)	-0.019314	0.009556	-2.021072	0.0779
INFLR(1)	-0.019352	0.008110	-2.386097	0.0441
ECM(-1)	-0.000041	0.000192	2.153606	0.0634
R-squared	0.894216	Mean dependent var	11.98831	
Adjusted R-squared	0.884093	S.D. dependent var	1.028630	
F-statistic	98.21771	Durbin-Watson stat	1.850439	
Prob(F-statistic)	0.000000			

**Source:** EViews Output

Several of the variables were not significant at 5%, as can be seen from the over-parameterized ECM model above. Additionally, the error correction term was less than one and appropriately signed based on economic theory (apriori expectation); but, considering the probability value of 0.0634, it was not significant. Variables with high probability values are eliminated from the procedure based on the results until the error correction term reaches 5% significance. Table 4 below estimates the Parsimonious error correction model based on this.

**Table 4:** Parsimonious Results

Dependent Variable: D(GDPG)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-21.80809	2.016774	-10.81336	0.0000
LOG(DS)	-0.148227	0.070703	-2.096475	0.0459
LOG(DD)	0.899413	0.449923	1.999036	0.0562
LOG(EXTD)	-1.162578	0.482089	-2.411543	0.0232
D(EXCHR)	-0.003036	0.005404	-0.561698	0.5791
D(INFLR)	-0.004081	0.006458	-0.631964	0.5329
ECM(-1)	-0.776859	0.058911	-13.18711	0.0000
R-squared	0.953010		Prob(F-statistic)	0.000000
Adjusted R-squared	0.940359	Durbin-Watson stat		1.687374
F-statistic	75.33072			

Source: EView Output

About 77.68% of the disequilibrium mistakes that developed in the previous era have been rectified in the present period, according to table 4 parsimonious error repair data. The gross domestic product growth rate (GDPG) is significantly adjusted one period later to equilibrium, according to the error correction term, which shows us how quickly our model returns to equilibrium. As a result, disequilibrium in the GDPG value is removed every period at a level of convergence speed of 0.7768. Because the ECM (-1) coefficient has a negative sign and is statistically significant, it satisfies a priori expectations, which supports the employment of the error correction model in this investigation.

The resulting corrected R2 is 0.940359. This indicates that the independent variables in our model—DS, DD, EXTD, EXCHR, and INFLR—account for 94.03 percent of the variations in GDPG. The error term captures the remaining 47.34 percent of the unexplained variations, which are attributable to other extraneous factors that also necessarily account for the variation in GDPG. This suggests that there are no misspecification errors in the model. The F-ratio statistics of 75.33072 with probability values of 0.00000, which complement this and demonstrate strong significance at the 5 percent levels, support the notion that the model has a good fit. The diagnostic and normalcy tests are both passed by the model. According to the Durbin Watson (DW) statistics of 1.687374, autocorrelation or serial correlation is present in at least a reasonable amount.

Regarding the estimations of each individual parameter in the regression result shown in Table 4; A negative and substantial relationship between DS and GDPG is discovered, with an estimated coefficient value of -0.148227. This suggests that there is a 0.148227 unit decline or fall in GDPG for every unit rise in DS.

The variables EXTD, EXCHR, and INFLR appear to have negative impacts on GDPG as well, similar to the GDPG. Of these, only the negative effect caused by EXTD is considered statistically significant, since it has a prob. value of 0.0232, which is below the 0.05 critical significance level.

Conversely, the variable DD appears to have a beneficial impact on GDPG; however, this benefit is not statistically significant because GDPG's obtained prob. value of 0.0562 does not fall below the crucial significance level of 0.05.

### **Discussions**

We will first establish the actual findings made in this study before delving into the discussion of the findings. The results unmistakably demonstrated the ongoing influence of debt on the state of the Nigerian economy. First of all, the results demonstrated that, whilst domestic debt (DD) had a negligible influence on Nigeria's economic performance, debt servicing (DS) and external debt had a negative and considerable impact.

These results are especially significant since they refute the Keynesians' theoretical explanations of deficit finance, especially the ones regarding debt servicing and foreign debt. Thus, the recommendation made here is that extreme caution be used when deciding how the government will pay for its deficits. The financial performance of Nigeria is shown to be negatively impacted by debt payments and debt financed by external or foreign sources. The point is that, in contrast to Keynesians' theoretical beliefs, debt payments and external debt have a pitiful impact on Nigeria's economic performance.

Based on the Keynesian theory, it is undeniable that a nation, particularly one in development like Nigeria, needs to borrow money. Nevertheless, given that external loans are nearly never used wisely, it is not surprising that debt servicing and external debt have a disastrous impact on Nigeria's economic performance. To put it another way, the Nigerian government throughout consecutive administrations failed to efficiently utilise and direct a sufficient portion of its external debt towards beneficial endeavours like the industrial sectors. Over the years, Nigeria has been stuck in a cycle of rising debt loads and expensive debt payments due to the careless use of foreign debt, which keeps the nation's economic performance from improving. In actuality, providing essential national infrastructure—like roads and electricity—has been significantly curtailed in order to pay off the accrued debt, which should have improved the economy's performance.

Another finding of the study refutes a priori (theoretical) requirements once more. According to the report, Nigeria's economic performance is little impacted by domestic debt. The issue that follows is, "What then could be the reason for the insignificance of domestic debt at affecting the growth of the Nigerian economy?" given this conclusion and the fact that it contradicts economic theory. Keep in mind that domestic debts are obligations owed by the government that originate from domestic sources, such as the

money market for short-term loans or the capital market for long-term debts. In terms of borrowing from domestic sources, particularly the money market, banks have consistently maintained their position as the largest holders of government debt instruments in Nigeria. This implies that there would be a crowding out of private investment in the economy since the amount of loanable money that the private sector may access in the economy decreases as banks increase their participation in government debt instruments. Therefore, the impact of domestic debt on Nigeria's economic performance is negligible due to the crowding out of private investment and the careless use of government-issued secured domestic debt.

Finally, even though the study's findings contradict its theoretical foundation, they nevertheless have enormous significance because they appear to be consistent with other findings from similar discourses, such as those of Faizulayev et al. (2020) and Ndubuisi (2017), and do not stand alone in the global discourse on debt servicing and economic growth. While Ndubuisi (2017) discovered a negative correlation between debt service payment and growth, Faizulayev et al. (2020) observed that both debt servicing and foreign debt had a negative and substantial impact on real growth. As a result, the conclusions reached here are crucial for formulating policy, particularly when it comes to the government's choice of how to finance the deficit in any given fiscal year.

### **Conclusion**

This study advances knowledge on Nigeria's economic performance and debt servicing. The GDP was utilised as a stand-in for the dependent variable, which is Nigeria's economic performance; the independent variables were inflation, debt servicing, domestic debt stock, and foreign debt stock exchange rate.

Following the analysis of the data gathered on the variables, the research concluded that, although debt servicing and foreign debt were shown to be considerably, but negatively, impacting Nigeria's economic performance, there was no meaningful association between internal debt and the country's economic performance. Even though these results defy economic theory, they are consistent with those of studies of a similar nature, such as Faizulayev et al. (2020), who discovered that foreign debt and debt servicing had a considerable but detrimental impact on Nigeria's real GDP.

After demonstrating that the government's careless use of debt was the cause of these unfavourable results, the study comes to the conclusion that while debt and debt servicing would have had a positive impact on Nigeria's economic performance, the careless use of debt means that these factors will continue to negatively impact the country's economic performance.

### **Recommendations**

In light of the conclusions reached, the study suggests the following actions:

First, the results make it clear that debt, whether externally or internally secured, needs to be used wisely and quickly to finance the construction of vital national infrastructure in

order to support Nigeria's improved GDP growth performance. Secondly, the government of Nigeria should think about lowering the amount of foreign debt it accrues over time in order to preserve a robust economy, since it has been determined that payments for external debt servicing have no impact on the country's economy. Lastly, it is important for the Nigerian government to exercise extreme caution when deciding on a deficit financing option because it has been determined that both debt servicing and external debt have a negative impact on economic performance, while domestic debt has a negligible impact.

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