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THE EFFECT OF FOREIGN DEBT ON THE NIGERIAN ECONOMY

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ABSTRACT: *This study evaluated the effect of foreign debt on the Nigerian economy. Ex-post facto research design was adopted for the study and secondary data were used. A regression model was adopted for the analysis. The population of the study was three hundred and fifty staff of the debt management office Abuja. The sample size for the study was one hundred and fifty respondents that were selected scientifically from various departments of the debt management office. The study revealed that foreign debt has a positive and significant effect on the Nigerian economy. The study concluded that foreign debt is an important factor for the economic growth of developing nations like Nigeria if well managed. It was recommended that financial experts, policy makers, and Central Bank of Nigeria (CBN) should integrate suitable as well as appropriate measures towards ensuring effective management of foreign debt in order to enhance gross domestic product as well as the economic growth and development of Nigeria. That the Nigerian government should put in place more management techniques and restriction on access to external or foreign debt as most of the external debt cannot be accounted for in the infrastructural projects claimed by successive administrations and that external debts should be directed towards encouraging real investment so as to increase capital formation and achieve sustainable economic growth and development in the country.*

KEYTERMS: Foreign Debt, Foreign Debt Management, Economic Growth, Gross Domestic Product (GDP) and Nigerian Economy.

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INTRODUCTION

Foreign debt is money borrowed by a government, corporation or private household from another country's government or private lenders. Foreign debt also includes obligations to international organizations such as the World Bank and the International Monetary Fund (IMF). Foreign debt, also known as external debt, has been rising steadily in recent decades, with unwelcome side-effects in some borrowing countries. These include slower economic growth, particularly in low-income countries, as well as crippling debt crises, financial market turmoil, and even secondary effects such as a rise in human-rights abuses (Tunji and Mojeed 2021).

A government or a corporation may borrow from a foreign lender for a range of reasons. For one thing, local debt markets may not be deep enough to meet their borrowing needs, particularly in developing countries. Or foreign lenders might simply offer more attractive terms. For low-income countries especially, borrowing from international organizations like the World Bank is an essential option, as it can provide funding it might not otherwise be able to attain, at attractive rates and with flexible repayment schedules (George-Anokwuru & Inimino, 2020)

Economic growth is the aggregate of the final output that a country can create within a year judged by the market price of the products taking cognizance of price variation and the imputed cost of the economy's produced goods and services less net income from abroad. An increase in the gross domestic product of a country is noticed as the productive capacity of the country accrues, especially when measured relative to other periods. Hence, economic growth is observed when the total goods and services of a country increases relative to the previous years. (Tunji and Mojeed 2021).

Foreign or external debt management can be described as policy which seeks to change the stock, composition, structure and terms of debt with a view to maintaining it at any given time, a sustainable level of debt service payment, that has become an important issue in the management of the economy. It involves a conscious and carefully planned scheduled of the acquisition, deployment and retirement of loans contracted either for development or to support balance of payments purposes.

One of the major problems faced by Nigeria is its inability to manage its debt effectively and efficiently. This brought about the establishment of the Debt Management Office in 2000 which is charged with the management of the country's public debt. So far, the Debt Management Office is seen by many as having been unable to manage Nigeria's increasing debt profile.

Statement of the problem

It is generally believed that Nigeria has not appropriately managed its foreign debt or directed it for economic growth, as systemic corruption appears to make it impossible for the country to derive the necessary benefits of leveraging in debt to finance infrastructure projects in energy, roads, transportation, housing etc to facilitate growth in the economy. The consistent upsurge in Nigerian's foreign debt profile without an obvious growth in its usage has over time caused the frequent quest for debt re-scheduling and cancellation. Despite the

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cancellation of Nigeria's debt in Paris and London Club in 2006, the country still depends on deficit financing to execute its project.

The overall economic growth performance of Nigeria has been unimpressive. To finance growing budgetary deficits and reset the economy on a sustainable growth path, the Nigerian government has progressively accumulated massive debts from external and internal sources. In spite of the huge amount of foreign exchange obtained mainly from its oil and gas wealth, economic growth has been slow while the incidence of poverty has increased tremendously in Nigerian economy.

Successive governments' in Nigeria have raised debt at an unprecedented pace. Nigeria is currently plagued by severe budget crisis within which they have problems to repay their short and long-term liabilities. Government expenditure in Nigeria has been largely financed by internal and external borrowing for many decades. The Federal government and most States have borrowed heavily to finance the implementation of capital projects, unable to cover their recurring spending and loan commitments as a result of weak revenue generation.

Numerous studies aimed at examining the effects of public debt on economic growth have been carried out over time across countries of the world. Noticeably, a significant number of these studies and other related researches are bereft of strategic empirical evidences in developing countries like Nigeria.

The debt management office (DMO) Nigeria announced on 31st March 2023, that Nigeria's total debt stock was over forty six trillion naira at the end of the end of December 2022, representing a 14.46% increase from the previous year's figure of 39.56 trillion naira.

Presently, the Nigerian government spends more money servicing debts than it spends on education and health. The economy is over-burdened by massive government debts and debts service costs that have consume more than half of the actual revenues generated in the country and this is said to have affected the economic growth of the country either positively or negatively. Following the gap in the research focus of previous researches, this study empirically examines the effect of debt management on the economic growth of Nigeria.

Research objectives

The objectives of the study are:

i. To assess the effect of foreign debt on gross domestic product (GDP) in Nigeria.

ii. To examine the effect of foreign debt management on gross domestic product (GDP) in Nigeria.

Research hypotheses

The following null hypotheses were formulated and used in the study:

Ho_1: Ho_2: Foreign debt does not have significant effect on the gross domestic product (GDP) in Nigeria.

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Ho_3: Foreign debt management does not have significant effect on gross domestic product (GDP) in Nigeria.

Scope of the study

This research work focus on the effect of foreign debt on economic growth in Nigeria. The variables that were considered are foreign debt and foreign debt management and economic growth measured by gross domestic product (GDP) of the country for the period 2000-2022.

CONCEPTUAL FRAMEWORK

Foreign or external debt

Foreign or external debt involves a country, for example Nigeria borrowing money from foreign countries or issuing a Euro bond to finance capital projects. The funds can be borrowed from the foreign government or business men and private citizens of the foreign country. External debt increases a country's total available resources in the future because of the future obligation of repaying the debt and meeting interest commitment. There is simply a transfer of resources from one end to the other for public services purpose. Internal debt only affects a transfer of purchasing power among the citizens of the country, thus there is no giving up of reveal output to another country. Instruments used for internal debt include treasury bills, treasury certificates, treasury bonds, development stock and federal government of Nigeria bonds. (Akhanolu, Babajide, Akinjare, Oladeji, & Osuma, 2018).

Debt management

This is the process of establishing and executing a strategy for managing a government debt in order to raise the required amount of funding, achieve its risk and cost objectives and to meet any other goals that government may have set. Debt management is intended to design the government's debt portfolio in a targeted and efficient way. Debt management arises from the need to minimize debt burden on the economy, which emanates from deficit of fiscal operations (George-Anokwuru and Inimino 2020)

The IMF (2014) describes debt management as the process of establishing a strategy for managing the government's debt in order to raise the required amount of funding at the lowest possible cover cost over the medium to long run, consistent with a prudent degree of risk. Debt management is an everyday business that is not only relevant when a budget deficit has to be financed or maturing debt has to be repaid.

Debts have been categorized into two broad forms such as the external debt which is contracted outside the country and domestic debt which is described as debts raised from individual and corporations within the country. Furthermore, the reproductive debt and dead weight debt are other classification of debts. The former is referred to as a loan raised to cause the acquisition of assets that is urgently required for productive activities e.g. borrowing for electricity, refineries, acquisition of factors etc. Meanwhile, the latter - deadweight debt is referred to as debts contracted to execute unproductive activities e.g. debt undertaken to promote war or finance current expenses (Ndieupa, 2018).

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Causes of public debt crisis in Nigeria includes: huge budget deficits, over dependence on oil revenue: mismanagement and embezzlement of government funds, misplacement of priority, rise in interest rates on commercial loans, neglect of the non-oil sector, reckless contraction of loans, corruption, poor performance and compounded term of trade, legislative – executive relations**,** lack of coordination among the various agencies involved in contracting and managing public debt, a weak and unreliable database, lack of skilled debt managers, weak institutional arrangements for managing domestic and sub-national debt and loose legal framework so their management can substantially resolve our debt management issues.

Foreign or external debt management

Foreign or external debt management can be described as policy which seeks to change the stock, composition, structure and terms of debt with a view to maintaining it at any given time, a sustainable level of debt service payment, that has become an important issue in the management of the economy. It involves a conscious and carefully planned scheduled of the acquisition, deployment and retirement of loans contracted either for development or to support balance of payments purposes.

The impact of rising foreign debt

Excessive levels of foreign debt can hamper countries' ability to invest in their economic future-whether it be through infrastructure, education, or health care—as their limited revenue goes to servicing their loans. This thwarts long-term economic growth. Poor debt management, combined with shocks such as a commodity-price collapse or severe economic slowdown, can also trigger a debt crisis. This is often exacerbated because foreign debt is usually denominated in the currency of the lender's country, not the borrower. That means if the currency in the borrowing country weakens, it becomes that much harder to service those debts.

In addition to the suffering that results from economic stagnation, the United Nations has also linked high levels of foreign debt and a government's dependency on foreign assistance to human rights abuses. Economic distress causes governments to cut social spending, and reduces the resources it has to enforce labor standards and human rights.

Gross Domestic Product (GDP)

Gross Domestic Product is defined in terms of growth representing the total number of goods and services produced within the geographical boundary of a nation. It also represents an increase in the economic capacity to produce goods and services relative to their output in the previous year. Economic growth can be estimated in nominal terms e.g. inflation or adjusted inflation by the percentage rate of increase in national output (GDP) Ajayi and Adewusi (2020).

According to Akinwunmi and Adekoya (2018), the inability of Nigeria to accumulate domestic resources to bridge the abnormal budget deficit experienced in the country over the years propelled the consistent dependence on public debt especially foreign debt which is often typified by adverse lending conditions, instability of foreign exchange rates and the potential repudiation that occasions debt overhand, hence exerting negative effects on the economic growth of Nigeria.

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Economic Growth

Economic growth is defined in terms of achievement of yearly increases in both the total and per capita output of goods and services. In other words, it refers to the sustained increase in the actual output of goods and services. Economic growth can be viewed in two senses: in one sense as, the increase in the productive capacity of the economy leading to an increase availability of goods and services in the economy over some given period of time. In another sense, as sustained increase in per capita output of goods and services over a period of time. (George-Anokwuru & Inimino, 2020)

According to Ekpo (2017) economic growth refers to a rise in national income and product; in other words, it is the percentage change in two consecutive years' output or GDP. It connotes a sustained increase in GDP over-time. Economic growth is measured by the increase in the amount of goods and services produced in a country. Thus, growth is also expressed in terms of increases in the gross output of the economy per period of time. All countries desire to achieve faster rates of economic growth because economic growth is seen to be the most effective way to bring about higher living standards in the economy, economic growth also offers the prospect for the reduction of poverty and it is an important instrument for acquiring power and prestige – political and military strengths are dependent upon economic power, also the more a country can produce and satisfy the needs of her citizens, the more the country will be respected by other countries.

An economy that is growing will produce more goods and services in each consecutive time period. Growth is always thought of as a desirable objective for any economy but there is no agreement over the annual growth rate which an economy should attain. Generally, economists believe in the possibility of continual growth. For instance, once at full employment, the economy must continue to grow in order to remain at full employment. Growth occurs when an economy's productive capacity increases which in turn, is used to produce more goods and services. Factors which lead to growth include improvements in the skill and training of labour force, increase in productivity, i.e., output per hour of work, better management and technology, enlarged excellence and higher excellence of the stock of capital. Furthermore, two related factors explain the poor performance of Nigerian economy. They are inadequate productive capacity and inadequate administrative (executive) capacity. Regarding inadequate productive capacity, the country has a very limited capacity (that is, the knowledge and skills needed) to produce goods and services. The country lacks the knowledge and skills needed to produce most of the goods her citizens want. As a result, Nigerians have had to depend on other countries for the production of most of the services and goods they need or want to consume, including basic needs of the individuals (Ademola, Tajudeen & Adewumi, 2018).

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THEORETICAL FRAMEWORK

Dependency Theory

Dependency theory was developed in the late 1950s under the guidance of the director of the United Nations Economic Commission for Latin America, Raul Prebisch and his colleagues were troubled by the fact that economic growth in the advanced industrialized countries did not necessarily lead to growth in the poorer countries. Dependency theory is based on a Marxistor a collective view of the world, which sees globalization in terms of the spread of market capitalism, and the exploitation or abuse of cheap labour and resources in return for the obsolete technologies of the Western economies. The foremost view of dependency theorists is that there is a leading world capitalist or commercial system that depends on a division of labour between the rich 'core' countries and poor ‘peripheral’ countries which make the core countries use their supremacy over an increasingly marginalized periphery. The theory advocated an innermost approach to development and an increased role for the state in terms of imposing barriers to trade, making inward investment difficult and promoting nationalization of key industries.

Dependency theory states that the poverty of the countries in the border is not because they are not integrated or fully integrated into the world system as is often argued by free market economists, but because of how they are integrated into the system. This means that dependency theory is the notion that resources flow from a "periphery" of poor and underdeveloped states to a "core" of wealthy states, enriching the developed at the expense of the developing nations. It is a central contention of dependency theory that poor states are impoverished and rich ones enriched by the way poor states are integrated into the world system.

The theory arose as a reaction to modernization theory, an earlier theory of development which held that all societies progress through similar stages of development, arguing that underdeveloped countries are not merely primitive versions of developed countries, but have unique features and structures of their own; and, importantly, are in the situation of being the weaker members in a world market economy. Dependency theory no longer has many proponents as an overall theory, but some writers have argued for its continuing relevance as a conceptual orientation to the global division of wealth.

Empirical reviews

Rafindadi and Musa (2018) empirically analyzed the impact of public debt management strategies on Nigeria’s debt profile. The study specifically assessed the impact of debt refinancing (DRF), and measured the impacts of debt forgiveness (DF) and debt conversion (DCV) scheme on the public debt profile of Nigeria. The study employed the econometric research approach as secondary time series data spanning thirty-seven years (1981-2016) were gathered from the Central Bank of Nigeria annual statistical bulletin, Debt Management Office Records and World Development Index (WDI). Data gathered in the study were analyzed inferentially. Findings stemming from the study showed that debt refinancing has negative impact on total debt profile in Nigeria. Furthermore, the study ascertained that debt forgiveness was detected to have significant negative impact on the debt profile of the country while debt conversion on its part was found to be having significant effect on the

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Nigeria's debt profile. Following these findings, the study suggested that government should strengthen debt refinancing in order to reduce debt profile ofthe country, seek for debt forgiveness and provide more instruments for debt conversion with aview to drastically reduce the Nigeria's national debt profile.

George-Anokwuru and Inimino (2020) examined external debt and economic growth in Nigeria. The paper focused on the impact of external debt on economic growth in Nigeria from 1980 to 2018. Secondary data on real gross domestic product, external debt, external debt service and exchange rate were sourced from CBN statistical bulletin. The Augmented Dickey-Fuller unit root test and Autoregressive Distributed Lag techniques were used as the main analytical tools. The result of the unit root test revealed that the variables were stationary at order zero and one, which satisfied the requirement to employ the ARDL Bounds testing approach. The ARDL Bounds test revealed the existence of long run relationship among the variables. The study also revealed that external debt and external debt service have negative and significant relationship with economic growth in Nigeria both in the long run and short run. The study also revealed that exchange rate has positive and significant relationship with economic growth in Nigeria during the period of study both in the long run and short run. The study recommended that government should ensure that the terms of borrowing and the projects for which the borrowed funds are put should be those that benefit the economy and the people. Government should also ensure that debt proceeds are efficiently managed so that Nigeria can avoid a repeat of the ugly history of debt overhang. The study concluded that debt is an important development resource but its misuse can be disastrous as had been the Nigerian experience before it got out of the debt trap in 2005.

Adebayo, Tunji and Mojeed (2021) examined debt management and gross domestic product using lessons from the Nigerian economy. The methodology was a time series data of the gross domestic product and debt growth from 1990 to 2019. The statistical tools used in the study are Correlation Matrix, Autoregressive Model, Unit Root Test for the explained variable, and Granger Causality Test for the variables. The findings revealed that there is a negative relationship between debt accumulated overtime and the GDP in successive years, meaning that debt has always increased consistently within the years but GDP has not grown reasonably to justify the debt increase. The study showed that debt accumulations by various administrations in Nigeria have not been able to significantly drive the Gross Domestic Product to a commensurate magnitude. The study concluded that now that government seems to have an unquenchable thirst for debt, it is expected that more efforts should be geared towards planning to manage our debts responsibly and efficiently to the good of all. The study recommended that urgent need to be taken for the Nigerian economy to be diversified aggressively to other sources of revenue like solid minerals and agriculture since it is conspicuous from the study that most of these critical sectors might not have felt the impact of the borrowed funds. It is also important that borrowed fund should be used for the purpose they are meant so that by so doing the Gross Domestic Product (GDP) would be enhanced.

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METHODOLOGY AND RESEARCH DESIGN

Expost facto research design was adopted for this study since secondary data from Central Bank of Nigeria (CBN) statistical bulletin was used. Time series data was adopted in doing the analysis.

Purposeful sampling technique was used and the study covered the period 2000-2022). Purposefully, the variables for public debt are domestic debt, foreign debt and total debt. The measure or indicator for economic growth in this study is gross domestic product (GDP)

Model specification

The model to be adopted by the research is Gross Domestic Product GDP as a function of public debt, made up of domestic debt, foreign debt and total public debt.

GDP = f (foreign debt)

Analytical model

GDP = f (FD, FDM) ……... (1)

Thus linear equation (1) we obtained

$GDP = \beta_0 + \beta_1 FD + \beta_2 FDM + U$…. (2)

Where;

β_0 = The intercept or autonomous parameter estimate

$\beta_1 - \beta_2$ are the slope or the coefficient of the independent variables to be determined

FD = Foreign debt

FDM = Foreign debt management

GDP Gross Domestic Product

U = error term (stochartie term)

Apriori Expectation

This refers to the supposed relationship between and or among dependent or independent variables of the models as determined by the postulations of economic theory. We then differentiate partially with respect to each variable to obtain apriori sign expectations.

$\frac{\Delta GDP}{\Delta FD} = \beta 1 >$ …………. 3

$\frac{\Delta GDP}{\Delta FDM} = \beta 2 > 0$ ………… 4

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DATA ANALYSIS AND RESULTS

Descriptive statistics for all variables

Date: 07/15/23
Time: 10:45
Sample: 2000- 2022

	LGDP	DDB	TD	FD
Mean	3.682814	3.657759	5.443097	5.395849
Median	3.711842	3.548456	5.657256	5.597337
Maximum	4.254193	4.630253	7.250231	7.010348
Minimum	3.005683	2.837908	3.086487	3.033028
Std. Dev.	0.452580	0.636723	1.467405	1.276331
Skewness	-0.155048	0.244018	-0.253264	-0.394879
Kurtosis	1.514443	1.528239	1.595676	1.752843
Jarque-Bera	2.303039	2.404260	2.228697	2.179118
Probability	0.316156	0.300553	0.328129	0.336365
Sum	88.38753	87.78622	130.6343	129.5004
Sum Sq. Dev.	4.711049	9.324570	49.52537	37.46746
Observations	22	22	22	22

All the variables as shown by the results above have positive mean and positive standard deviations which is an indication that the variable used within the time period are good for the analysis. The probability of the variables is also positive

Unit Root test

The unit root test was conducted on the datasets to determine their stationarity properties for a meaningful analysis. Using the Augmented Dickey-Fuller Statistics, the results of the unit root are presented below:

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Augmented Dickey-Fuller Unit Root Tests

S/N	Variables	ADF Stat	Critical Values			**Prob.**	Order of Integration @ 5%
			1% level	1% level	1% level		
1	GDP	-3.822896	-3.769597**	-3.004861**	-2.642242**	0.0089	1 (0)
2	DDB	-3.755030	-3.069597**	-3.004861**	-2.642242**	0.0452	1 (1)
3	FD	-4.215591	-3.769597**	-3.004861**	-2.642242**	0.0037	1 (1)
4	TD	-5.243604	-3.788030**	-3.012363**	-2.646119**	0.0004	1 (1)

** ***Suggests Stationarity at the given level of Significance***

Source: *Researcher's Computation (2023)*

The results reported above indicate that the T-stats are more negative than the critical values. We therefore reject the H_0 and accept H_1. The series are stationary at different orders of integration.

Test of hypotheses

Estimations of the Hypothesis Regression Model

Hypothesis one: Foreign debt does not significantly contribute to economic growth in Nigeria. Summary of Diagnostics Tests for the Regression Model for hypothesis 1

Diagnostics Tests for the Regression

R^2	F-Stat	DW	x^2x^2(HET)	RESET-F
0.99	1411.973	2.3	0.39	2.84

Source: *Researcher's Computation (2023)*

The analysis shows that foreign debt has a significant contribution on the gross domestic product (GDP). The coefficient of determination R^2 is 0.99 meaning that 99% of the variability in GDP (dependent variable) was influenced by foreign debt (independent variable). The F-statistic of 1744.642 is greater than 2, showing overall significance of the regression model. The F. sig level of 0.0002 is less than the 0.5 which suggest that Ho is not true. Therefore, foreign debt has a significant and positive contribution on gross domestic product (GDP). Thus, foreign debt is an instrument or a revenue source for economic growth in Nigeria.

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Estimations of the Hypothesis Regression Model

Hypothesis two: Evaluate the influence foreign debt management on economic growth in Nigeria. Summary of Diagnostics Tests for the Regression Model for hypothesis 2

Diagnostics Tests for the Regressio

R^2	F-Stat	DW	x^2x^2(HET)	RESET-F
0.99	1645.887	2.0	0.40	0.60

Source: *Researcher's Computation (2023)*

The analysis shows that foreign debt management has a significant contribution on the gross domestic product (GDP). The coefficient of determination R^2 is 0.99 meaning that 99% of the variability in GDP (dependent variable) was influenced by the foreign debt management (independent variable). The F-statistic of 1744.642 is greater than 2, showing overall significance of the regression model. The F. sig level of 0.0002 is less than the 0.5 which suggest that Ho is not true. Therefore, foreign debt management has significant and positive contribution on gross domestic product (GDP).

SUMMARY OF FINDINGS

The findings of this study were summarized as follows:

i) Foreign debt management has a significant effect on the economic growth of Nigeria

ii) Foreign debt management has a positive and significant effect on the economic growth of Nigeria.

CONCLUSION

Excessive levels of foreign debt has hampered Nigeria's ability to invest in economic future- whether it be through infrastructure, education, or health care as the limited revenue goes to servicing loans. This thwarts long-term economic growth. Poor debt management, combined with shocks such as a commodity-price collapse or severe economic slowdown, has also triggered debt crisis. This is often exacerbated because foreign debt is usually denominated in the currency of the lender's country, not the borrower.

RECOMMENDATIONS

Based on the findings of this study, the following recommendations were made;

1. The Nigerian government should put in place better debt management techniques and restriction on access to foreign debt as most of its foreign debt cannot be accounted for.

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2. Foreign or external debts should be put into judicious use as that will bring about economic growth.

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