



# External Debt on Economic Growth in Nigeria

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<b>Received</b> 12-05-2022	<b>Abstract:</b> The study examined the impact of external debts on economic growth in Nigeria between 1986 and 2019. The specific objectives of this study were to: examine the impact of external debt stock on economic growth in Nigeria; assess the impact of external debt servicing on economic growth in Nigeria and investigate the extent to which external debt interest has impacted on economic growth in Nigeria. The study adopted the ex-post facto research design being of secondary nature. Descriptive Statistics, Auto-regressive Distributive Lag and Error Correction Mechanism estimates were used to estimate and to test the impact of external debt on economic growth in Nigeria were demonstrated.	<b>Keywords:</b> Economic, Nigeria and Debt.
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## INTRODUCTION

Owing to the persistent budget deficit, the unfavourable balance of payments and, most importantly, the imminent need for industrialization, external debt remains one of the major challenges facing low-income countries, such as Nigeria. Soludo (2018) argued that the two major issues that led to the acquisition of foreign loans are the negative rising rate of inflation and exchange rate depreciation. They have no alternative but to turn to the International Financial Institutions and bilateral loans as low-income nations face this obstacle. Debt servicing becomes the order of the day when such loans are received by a nation and, if not well managed, economic development will initially be far-reaching in the process. The settlement of unsustainable foreign debts that hinder the growth of the most heavily indebted poor countries (HIPCs) has resulted, according to Udeh (2018), in a series of initiatives ranging from debt restructuring to full revocation. Bakare (2017) argued that it is not a matter of concern to borrow abroad to support economic growth and development, but the issue is the misappropriation of such borrowed funds, resulting in an economic crisis in turn.

Although the high debt profile does not necessarily indicate slow economic development, it is the failure of a nation to channel these borrowed funds into productive economic areas in order to achieve economic growth and meet its debt service obligations (Adesola, 2019). That this is a major issue facing the Nigerian economy is no exaggeration. The Nigerian economy's inability to meet its debt service requirements effectively put the country under a heavy debt service burden. The resulting impact of this burden of debt service creates additional problems for the country, in particular the growing fiscal deficit.

In all sectors of the economy, the debt burden has led to a general decrease in production and productivity and to the deterioration of various macro-economic variables such as consumption, expenditure, etc. (Iweala, 2011). Furthermore, the continued increase in the foreign and domestic debts of Nigeria, the sharp decline in crude oil rates, the diminishing exchange rate of the naira to the dollar, and high interest rate charges have all aggravated the debt and debt servicing issues of Nigeria. It is against this backdrop that this paper aims to examine the effect of external debt on the economic growth of Nigeria.

### Statement of the Problem

A developing country like Nigeria's inability to sustain adequate domestic capital to bridge its budget deficits requires its continued dependency on external sector financing, which is usually characterized by very strict conditions for lending, unfavourable fluctuations in foreign exchange and trends of repudiation causing debt overhangs.

Therefore, the issue remains and revolves around the scenario of whether the nation's external debt stock could have contributed significantly to Nigeria's economic growth; whether the quantity of external debt services in aggregate terms and also to the various creditors could have led to an increase in the nation's GDP; and whether the external debt stock and its conditions of operation could have led to an increase in the nation's GDP.

In order to fill the gap created by previous studies, which were narrow in reach and did little to align the impact of the aggregate and different sources of external debt and their services on economic growth, exchange rates and inflation, the solution to this problem is crucial.

The economy is still not well diversified, so the balance of payments will still be negative, and the temptation, if that happens, is to borrow to cover the deficit. The problem with the discovery of oil is Nigeria's drift into a single market. Around 95 percent of foreign exchange earnings and 80 percent of discretionary revenues are generated by the oil industry. This persuaded the need for an empirical analysis of the impact of external debt on the economic growth rate (as measured by GDP growth) in Nigeria to launch this report.

### Research Questions

The research questions that this study attempts to provide answers to are:

- What impact does external debt stock have on economic growth in Nigeria?
- How has external debt servicing impacted on economic growth in Nigeria?
- To what extent has external debt interest impacted on economic growth in Nigeria?

### Objectives of the Study

The broad objective of this study is to examine the impact of external debts on economic growth in Nigeria. The specific objectives are to:

- Examine the impact of external debt stock on economic growth in Nigeria.
- Assess the impact of external debt servicing on economic growth in Nigeria.
- Investigate the extent to which external debt interest has impacted on economic growth in Nigeria.

## LITERATURE REVIEW

### Conceptual Framework

#### External Debt

Debt that may be domestic or external is created by the act of borrowing. By the act of borrowing, debt is created. It is the capital or assets used in an organization that the shareholders don't contribute and does not belong to them in any way. This is an obligation expressed by a formal counterpart, financial or otherwise (Salau & Ogbayelu, 2017). Debt is characterized as a resource or liquid asset that is used in an organization without being contributed by the owner and does not belong to the organization in any other way, according to Bamidele and Joseph (2018). The Central Bank of Nigeria (2018) defined debt as a proportion of liabilities with different tenures, incurred in the past by government activities and scheduled to be fully repaid in the future by the government. National debt, also referred to as

public debt, is the cumulative total of the financial commitments of the government arising from borrowing from its citizens, from foreign governments, or from international institutions such as the International Bank for Reconstruction and Development.

Debt is an indebtedness or accrued borrowing contractual obligation. Joshua (2015) said it was possible to classify a debt as private or public. Private debt refers to the financial obligations levied on individual enterprises and non-governmental organisations, while public debt can be considered to be financial obligations or liabilities incurred by the government in order to fund domestic investment by borrowing from within the economy and beyond the territorial boundaries of the country. In order to boost economic growth and ensure fiscal viability, Itsede (2019) argued that government borrowing is regarded as public debt and that government borrowing is used as a way of raising available resources. He went on to say that it is possible to carry out this act of borrowing internally or externally.

Debt was conceptualized by the National Account Scheme (2018) as all commitments requiring the debtor to pay or pay interest or principal to the creditor at a future date. As a consequence, all debt assets are liabilities, but certain liabilities are not debt, such as bonds, equity and financial derivatives. Debt can, in terms of the balance sheet, be considered a subset of liabilities. Liabilities are obligations which provide the units holding the corresponding financial claims with economic advantages. The criteria for determining responsibility as debt is that the debtor owes the creditor future payments of interest and/or principal (International Monetary Fund, 2017). Generally, when, for different reasons, a nation or person borrows from a variety of sources and is unable to pay the loan when it is due for payment, the borrowed sums constitute debt. For the individual it becomes private debt, while for the nation it becomes public debt.

External debt is classified as foreign currency, food or service debt attributable to non-residents, according to the World Bank (2014). The financial obligation which binds one party (debtor country) to another (creditor country) is external debt. It usually applies to unpaid debt that is payable in currencies other than the debtor nation's currency.

External debt was defined by Yerima and Tahir (2020) as part of the debt of a country borrowed from foreign lenders, including commercial banks, governments or international financial institutions. Ogbeifuna (2017) suggests that, as a result of the disparity between national savings and expenditure, foreign debt emerges. The debt piles up as the deficit widens, and this makes the nation have to borrow growing amounts to stay afloat.

External debt is defined as money borrowed from foreign lenders by a country for the purpose of this study. Interest on this debt must be paid in the currency in which the loan was made (Zaki, 2015). Thus, in order to obtain the currency, the borrowing country will conceivably need to sell its goods to the country of the lender. This means that the debt is typically purchased by a government from foreign governments or banks or from international institutions such as the International Monetary Fund and the World Bank.

There have been many individual attempts on the part of some economists and financial experts to determine the content of these debts, as well as some attempts by some international organizations. The total external debt is the amount of current actual, not potential, debts based on the inhabitants in a certain economy, in any time for non-inhabitants, which requires returning the payments from the part of the debtor in order to pay the interest and the original amount at a certain point, or temporal point in the future (International Monetary Fund, 2013).

In general, the Organisation of African Unity describes external debt over a period of time as a set of due financial obligations. This means that the central government or public body, guaranteed by the central government, or contracted by the private sector has contracted the obligations (Al-Mahdi, 2019). Researchers have embraced a definition of external debt in order to address the above-mentioned difficulties, which considers it as amounts borrowed by the national economy where the duration of the loan exceeds one or more years and the amounts are payable to the borrower through a payment in foreign currency or by the sale to the borrower of goods and services (Saleh, 2013).

The World Bank (2019) defines total external debt as 'debt attributable to foreign

currency, goods or services repayable by non-residents. It is the amount of long-term public, publicly guaranteed and private non-guaranteed debt and includes all debts with an initial maturity of one year or less and interest on long-term debt arrears (World Bank, 2019).

This study defines external debt as follows: money borrowed from foreign lenders by a country, including commercial banks, governments or international financial institutions, normally payable in the currency in which the loan was made, including interest.

## RESEARCH METHODOLOGY

### Research Design

This study followed the form of *ex post-facto* research. *Ex-post-facto* analysis is a systematic empirical study in which the researcher does not in any way track or influence independent variables because the study situation already occurs or has taken place. The purpose of the *ex-post facto* research design of the researcher is to identify aspects of the problem that are vital to a thorough analysis. Furthermore, the researcher has the potential to provide a clear view of the problem from other applicable sources with the *ex-post-facto* study design and to limit the scope of study on these significant issues. In this scenario, when carrying out the study, the researcher adopts a technique that leads to accurate or almost comprehensive information. The analysis collected historical knowledge for the period 1986-2019. The thesis involves a time series analysis by implication.

### Method of Data Collection

The data used in this research work consists secondary source data related to the study. Statistics from the Central Bank of Nigeria (CBN), journals, magazines, newspapers, the National Bureau of Statistics (NBS), the Internet and other similar publications provide the written sources from which such data can be collected. The research was limited to the 1986-2019 periods.

### Technique for Data Analysis and Model Specification

#### Descriptive Statistics

The study conducted the descriptive statistics of the variables on the mean, median, skewness, kurtosis, and standard deviation, maximum in value, minimum in value, Jarque-Bera Probability. The mean was used to establish the average of numbers; it is the calculated central value of a set of numbers and was used to represent

the typical value of the variables. Therefore, it serves as a yardstick for all observations in the variables. The standard deviation is used to quantify the amount of variation or dispersion of a set of data values in the variables. Skewness is a measure of the asymmetry of the probability distribution of a real-valued random variable about its mean. The skewness value can be positive or negative, or undefined and it is indicated as +1 and -1. Kurtosis is a statistical measure that is used to describe the distribution of observed data around the mean. Kurtosis is used in the statistical field to describes trends in charts and can be present in a chart with fat tails and a low, even distribution, as well as be present in a chart with skinny tails and a distribution concentrated towards the mean. The Jarque-Bera test is a test of whether sample data have the skewness and kurtosis matching a normal distribution. The decision rule is that if the probability value is more than 5% level of significance that implies that the variables have skewness and kurtosis matching a normal distribution.

**Co-integration Test**

Co-integration is the statistical implication of the existence of long run relationship between the variables, which were individually non-stationary at their level form but stationary after first difference (Gujarati, 2004). The theory of Co integration was therefore used to study series that were non-stationary but a linear combination of which was stationary. First of all, the series must be integrated of order (1) and if a linear combination of this collection is integrated of order (0), then the collection will be said to be Co-integrated. Also, if two or more series are individually integrated (in the time series sense) but some linear combination of them has a lower order of integration, then the series are said to be cointegrated. A common example is where the individual series are first-order integrated but some (cointegrating) vector of coefficients exists to form a stationary linear combination of them.

**Autoregressive Distributed Lag (ARDL)**

The study employed Autoregressive Distributed Lag (ARDL) bound testing framework (Pesaran and Shin 1995 and 1999, Pesaran et al. 1996, Pesaran 1997) to estimate the long-run equilibrium relationship among the variables and the Error Correction Mechanism (ECM) in order to determine the impact of external debt on the economic growth. ARDL model is a model that has both lagged values of the dependent variables

(autoregressive) and lagged values of the independent variables (distributed lag) as the explanatory variables. The ARDL cointegration is used to establish whether there is a long-run equilibrium relationship among the variables under review when the variables are integrated of both order zero I(0) and order one I(1).

The advantages of using the ARDL technique instead of the conventional Johansen (1998) and Johansen and Juselius (1990) co integration approach are that while the latter estimates the long-run relationships within the context of a system of equations, the former employs only a single reduced form equation (Pesaran & Shin, 1995). In addition, the ARDL method avoids configuring a larger number of specifications in the standard cointegration test. These include decisions regarding the number of endogenous and exogenous variables to be included and the treatment of deterministic elements. Furthermore, the ARDL approach allows the use of different optimal lags for the different variables, which is not possible in the standard cointegration test. Since time series data could be vulnerable to unit root problems, Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests are implemented on the series to avoid spurious regressions. Unit root tests are first conducted to determine the stationarity of the variables, which must be a combination of I(0) and I(1) series.

**Model Specification**

The mathematical specification of the implicit model that expresses the relationship between external debts and economic growth is expressed as:

$$GDP = f(EDS, EST, EDI) \text{-----} (2)$$

Setting up equation (2) in a linear stochastic form (or econometric form) is expressed as:

$$GDP = \alpha_0 + \alpha_1 EDS + \alpha_2 EST + \alpha_3 EDI + \mu_t \text{-----} (3)$$

The introduction of natural logs to equation (3) would be more efficient in estimating the parameters because of the following reasons:

- It helps convert and integrate different values (of a variable) into a common denominator.
- It brings different units to a common base for measurement.
- Logarithm ensures that the coefficients of the variables are effective in analysing macro-

economic behaviour, since the coefficients are elasticities used to explain the response of a change in one variable with respect to another. On the strength of these, taking the natural logs of both sides of equation (3) will result in the following equation (4):

$$\log(GDP) = \alpha_0 + \alpha_1 \log(EDS) + \alpha_2 \log(EST) + \alpha_3 EDI + \mu_t \tag{4}$$

Where;

- log = Natural Logarithms
- GDP = Gross Domestic Product (proxy for economic growth)
- EST = External Debt Stock
- EDS = External Debt Servicing
- EDI = External Debt Interest

$\alpha_0$  = Intercept or autonomous parameter estimates for external debt

$\alpha_1 - \alpha_3$  = Coefficient of external debts on economic growth

$\mu_t$  = The white noise Error terms

Building equations (5) into an ARDL model, we have:

$$\Delta \log(GDP) = \alpha_0 + \sum_{i=1}^m \alpha_1^i \log(GDP)_{t-i} + \sum_{i=1}^m \alpha_2^i \log(EDS)_{t-i} + \sum_{i=1}^m \alpha_3^i \log(EST)_{t-i} + \sum_{i=1}^m \alpha_4^i \log(EDI)_{t-i} + \alpha_5 \Delta \log(GDP)_{t-1} + \alpha_6 \Delta \log(EDS)_{t-1} + \alpha_7 \Delta \log(EST)_{t-1} + \alpha_8 \Delta EDI_{t-1} + \mu_t$$

Once a long-run association is established between the variables in equation (5) the study proceeded to examine the long-run effect and the short-run dynamics using unrestricted Error Correction Model (ECM) approach.

$$\Delta \log(GDP) = \alpha_0 + \alpha_1 \Delta \log(GDP)_{t-1} + \alpha_2 \Delta \log(EDS)_{t-1} + \alpha_3 \Delta \log(EST)_{t-1} + \alpha_4 \Delta EDI_{t-1} + \delta ECT_{t-1} + \mu_t \tag{6}$$

The  $ECT_{t-1}$  further captures the output evolution process by which agents adjust for prediction errors made in the last period. The general-to-specific modelling approach is adopted to derive a satisfactory, parsimonious model for the external debts and economic growth in equation (6) which are data admissible, theory consistent and interpretable. It would involve 'testing down' the general model by successively eliminating statistically insignificant regressors and imposing data acceptable restrictions on the parameters to obtain the final parsimonious dynamic equation.

### Justification of the Model

The justification for the use of ARDL-ECM approaches is that the endogeneity problems and inability to test hypotheses on the limited coefficients in the long run are avoided. That is, it has superior statistical properties in small samples as it is relatively more efficient in small sample data sizes found mostly in studies on developing countries. More so, the long run and short run parameters of the model are estimated simultaneously; and it can be applied irrespective of whether the variables in the model are endogenous. Lastly, applying ARDL-ECM is helpful in data generating process through taking sufficient number of lags general-to-specific modelling framework.

## FINDINGS

### DATA PRESENTATION AND ANALYSIS

#### Data Presentation

This section presents the data for the study, analyses and discusses the results, in line with the objectives and method of study.

Table 1: Data Presentation

Year	EST (₦ Billion)	EDS (₦ Billion)	EDI (%)	GDP Constant Basic Prices - Annual (₦ Billion)
1986	41.45	2502	2.64	202.44
1987	100.79	3574.6	2.59	249.44
1988	133.96	81407	2.51	320.33
1989	240.39	15577.7	2.32	419.20
1990	298.61	30855.8	2.4	499.68
1991	328.45	35334.3	2.56	596.04
1992	544.26	41327.9	1.86	909.80
1993	633.14	38266.4	1.82	1,259.07
1994	648.81	34722.8	2.18	1,762.81
1995	716.87	122446	1.67	2,895.20
1996	617.32	147048	1.67	3,779.13

1997	595.93	134685	3.86	4,111.64
1998	633.02	107395	3.76	4,588.99
1999	2,577.37	162054	3.9	5,307.36
2000	3,097.38	175204	3.8	6,897.48
2001	3,176.29	238146	1.98	8,134.14
2002	3,932.88	141389	2.25	11,332.25
2003	4,478.33	233943	1.45	13,301.56
2004	4,890.27	798850	1.2	17,321.30
2005	2,695.07	986550	1.54	22,269.98
2006	451.46	865540	4.7	28,662.47
2007	438.89	128600	3.8	32,995.38
2008	523.25	55190	2.8	39,157.88
2009	590.44	3587.4	3.2	44,285.56
2010	689.84	4643.3	4.9	54,612.26
2011	896.85	3272.7	3.8	62,980.40
2012	1,026.90	30455.9	1.9	71,713.94
2013	1,387.33	34953.1	2.2	80,092.56
2014	1,631.50	44249.6	1.4	89,043.62
2015	2,111.51	40333.2	1.2	94,144.96
2016	3,478.91	67245.5	1.6	101,489.49
2017	5,787.51	70609.4	4.7	113,711.63
2018	7,759.20	82729.4	6.8	127,736.83
2019	9,022.42	86861.4	1.8	144,210.49

Sources: CBN statistical Bulletin (2019); World Bank (2020)

## Results and Analysis

### Descriptive Statistics

Descriptive or summary statistics was performed on the data to have a glimpse and

behaviour of the data used in the analysis. Hence, the results from the descriptive statistics are captured in Table 4.2.

Table 2: Descriptive Statistics Results

Statistic	GDP	EST	EDS	EDI
Mean	35029.27	148516.1	1946.372	2.728235
Median	12316.91	68927.47	703.3515	2.360000
Std. Dev.	42866.26	241715.5	2248.783	1.283096
Skewness	1.104611	2.614965	1.621217	1.168512
Kurtosis	2.960295	8.603641	5.017746	4.168346
Jarque-Bera	6.916508	83.23337	20.66162	9.671174
Probability	0.031485	0.000000	0.000033	0.007942
Observations	34	34	34	34

Source: Authors Computation, 2022 (Eviews-10)

From the descriptive statistics results in Table 4.2, it could be observed that among the external debt variables, EST has the highest mean value of 148516.1 billion. This was followed closely by EDS with a mean value of 1946.372 billion; EDI has a mean value of 2.72 percent; while GDP averaged 35029.27 billion between 1986 and 2019.

The analysis was also fortified by the value of the skewness and kurtosis of all the variables

involved in the model. All the four variables, GDP, EST, EDS and EDI were all found to be positively skewed as captured by their respective values as: 1.104611, 2.614965, 1.621217 and 1.168512.

Variables with value of kurtosis less than three are called platykurtic (fat or short-tailed), and only GDP variable qualified for this during the study period as shown by the Kurtosis value of 2.960295. On the other hand, variables whose

Kurtosis value is greater than three are called leptokurtic (slim or long tailed) and EST, EDS and EDI were found to be leptokurtic during the study period.

Jarque-Bera test which was used to measure or determine the normality assumption of the variable showed that all the four variables are not normally distributed as their probability values were found to be less than 5%. In summary, the descriptive statistics revealed that all the data sets are not normally distributed.

### Correlational Matrix Analysis

Table 3: Correlation Matrix Results

	GDP	EDS	EST	EDI
GDP	1			
EDS	-0.1394	1		
EST	0.6302	0.1828	1	
EDI	0.2010	-0.0677	0.1235	1

Source: Authors Computation, 2022 (Eviews-10)

From, Table 4.3 it could be seen that a negative correlation exists between GDP and EDS. This relationship was also found to be weak as indicated by the correlation coefficient value of -0.1394.

However, positive and strong correlation was found to exist between GDP and EDS. This was captured by the correlation coefficient value of 0.6302 among the two variables of interest.

Lastly, the correlation between GDP and EDI was found to be positive, but weak as indicated by the correlation coefficient value of 0.2010.

Therefore, among the three correlations of interest, the correlation between GDP and EDS was found to be the strongest; and in summary, this showed that external debts variables and GDP has weak degree of association.

Correlation analysis was used to check the strength of relationship between variables and to check the fluctuation between the variables. The results from the correlation analysis were examined and interpreted in-line with the model specified, to test the strength of the relationship that exist among the variables of interest and was thus discussed accordingly. The closer the correlation coefficient value is to one, the stronger the correlation and the closer the correlation coefficient is to zero, the weaker the correlation. The correlation result is presented in Table 4.3.

### Lag Order Selection Criteria

The selection of the optimum or acceptable length of the lag is the first estimation in order to check whether enough lags have been included in the ARDL. This is necessary because too many lags could lead to the loss of degrees of freedom, whereas too few lags could lead to residue self-correlation as well as potential equation misspecification. Using Akaike Information Criteria (AIC), Hannan-Quinn Information Criterion (HIC), Schwartz Bayesian Criterion (SBC) or Final Predictor Error (FPE), the optimum lag period can be chosen. Using the Akaike Information Criterion (AIC), the optimum lag period was chosen for the ARDL model. The AIC was chosen over the others because it provides the most severe penalties for losing the degree of freedom; that is, it does not respond to the degree of freedom associated with more regressors entering the model that the updated R-square should have increased (Gujarati & Porter, 2009).

Table 4: Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1093.87	NA	7.19e+26	73.19119	73.37801	73.25095
1	-927.166	277.8362	3.15e+22	63.14440	64.07854	63.44324
2	-913.558	19.05158	3.94e+22	63.30385	64.98529	63.84176
3	-884.533	32.89434	1.96e+22	62.43556	64.86430	63.21253
4	-839.821	38.75107*	4.15e+21*	60.52137*	63.69742*	61.53742*

Source: Authors Computation, 2022 (Eviews-10)

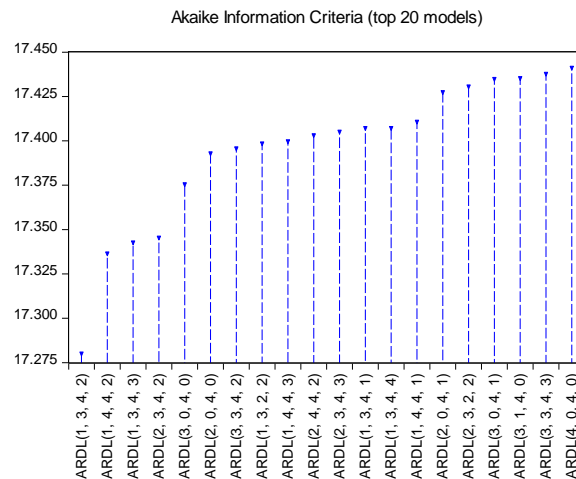


Figure 1: Lag selection criteria  
Source: Authors Computation, 2022 (Eviews-10)

From the lag order selection criteria result presented in Table 4.5 and in Figure 4.1, it could be observed that most of the lag selection criterions recommended lag four (4). The study adopted and used the lag order of four (4) which was recommended specifically by AIC.

### Discussion of Findings

Findings from the study showed that external debt stock has had a significant impact on economic growth in Nigeria, which supports the assumption that returns of external loans may contribute significantly to investment and growth. The *a priori* expectation is that debt would enhance economic growth in line with the postulate of Keynesian theory. The significant relationship between external debt stock and economic growth could be due to good debt utilization and management as seen in Asian Tigers - Malaysia, Singapore, Indonesia and Taiwan. The finding from this study is contrary to the result of Matthew and Mordecai (2016) whose study showed that external debt stocks and external debt servicing have an insignificant negative relationship with Nigeria's economic performance. Their study showed that successive government has not been to work out modalities on how to minimize the amount of external debt it accumulates overtime. However, Nwannebuike, Ike and Onuka (2016) study showed that in the short term, external debt stock had a positive and significant relationship with Gross Domestic Product, but in the long term, a negative one. Ogiemudia and Ajao (2017) further showed that access to foreign financing (which involves external borrowings by the government) has a significant influence on Nigeria's economic development.

However, the findings from the study showed that external debt servicing has a significant but negative impact on economic growth in Nigeria. The implication of this result is that the debt services crowd out public investment as it depletes government budget resources thereby reducing fund available for productive investment. This means that what the country is losing in the debt service could have been used to increase investment. Excessive debts servicing drains resources thus reducing funds available for development; and it is so in that Nigeria has to service its debt with attendant depletion of resources which may result in debt overhang and uncertainty. The result tends to support the finding as some developing countries have very low return from the loan following investment in non-productive activities and corrupt practices. This is in agreement with the findings of Adepoju, Salau and Obayelu (2017), whose study showed that Nigeria's economic growth has been adversely but significantly affected by rising external debt servicing. He found that Nigeria's lack of a long-term relationship between external debt service and economic growth indicates that a rise in external debt may lead to a drop in GDP. It therefore indicates, among other items, that the government should strengthen policies that will boost Nigeria's external debt management. Audu (2018) further confirmed that debt service burden of Nigeria had a major adverse effect on the growth process and has adversely affected public investment as well.

External debt interest was also found to have a significant but negative impact on economic growth in Nigeria within the period of study. This showed that borrowings made over the years has



been mainly for consumption; and this could be attributed to the fact that bulk of such funds are been channelled to meeting recurrent (such as wages and salaries or consumption) expenditure needs of the country at the expense of productive investments that could stimulate economic growth. In line with this result, available statistics from NBS (2020) further showed that more than half of the revenues earned between 2017 and first half of 2021 went into debt servicing. NBS (2020) figures showed 54.05 percent and 96.96 percent of revenues earned in 2019 and first half of 2021 respectively went into debt servicing which significantly reduced the country's economic growth. The result indicates that the burden of external debt interest has had a detrimental impact on the revenue of the country and the capital income of the country needed for enhanced economic growth. The findings from this study agrees with Safdari and Mehrizi (2017) whose study showed that rising interest in foreign debt had a negative but significant effect on GDP.

## CONCLUSION

External debts are necessary to meet shortfall internal resources, and stimulate the economy. However, it must be properly utilized to avoid serious consequences. Borrowing is not the most important issue but the use to which the fund is deployed. One need to recognize the fact that external debt only helps to exploit the potential of a country; it does not enhance it. They only guide therefore is that return on spending should exceed marginal cost of borrowing on the assumption that debt are paid.

The reviews from this study have however shown that Nigeria as a country has not actually benefited from the dividends accrued to external borrowing which supposedly is to bridge the saving-investment gap which in turn has the potential to induce economic growth. The study showed that, over the period under review, the effect of external debt on economic growth over the years has been poor, contributing minimally and insignificantly to Nigeria's Gross Domestic Product. Specifically, external debt servicing and external debt interest has shown to have an insignificant impact on economic growth in Nigeria. Debt service negates economic growth through reduction in amount of available capital. High external debt interests have led to the devaluation of the national currency, increase in job losses, and the weakness of the productive sectors of the economy that are supposed to spur economic

growth. All of these resulted in economic recession witnessed in the economy of Nigeria. Generally, the study has shown that external debt has significant but negative impact on economic growth in Nigeria. This suggests that the economy will continue to slump if the level of consistent borrowing is not checked and the money borrowed is not channelled away from consumption; and the adequate investment made in the productive sector. A reduction in debt service and interest would lead to an increase in investment for any given level of future indebtedness.

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