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ANALYSIS OF NIGERA'S EXTERNAL DEBT PROFILE AND THE ECONOMY

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Abstract

The study examined the Nigeria's external debt profiles on the economy. The trust was to ascertain the effects of exchange rate, interest rate and external reserves on gross domestic product (GDP).Secondary sources of data were collected from CBN statistical bulletin and World Bank indicator 1997-2021. Multiple regression tests were used for the analysis. Findings showed that the independent variables significantly affect Nigeria's gross domestic product (GDP) except for real interest rate. It was recommended among others things that the government should borrow only to finance capital project as infrastructure and human capital development for enhance economic growth.

Introduction

The Nigeria's economy has been robust and very promising in the 1970s when there was the oil boom. The over dependent on the oil revenue and wrong planning has led to increasing external borrowing. External debt on its own is not evil depending on the motive behind the borrowing. When a country borrows to finance capital projects and investment, it could be beneficial to that country as such investment will translate to economic growth of that country but borrowing for recurrent expenditure and reckless spending will lead to stunted economic growth. The Nigeria's external debt profile has gone up increasingly over the years. The sources of Nigeria's external borrowing majorly are Paris Club, London Club, Multilateral, Bilateral, and Private Sector Creditors etc.

A high interest rate of this external debt couple with fluctuating exchange rate can posed serious implication on a country borrowing especially the developing country like Nigeria. Similarly, the Central Bank of Nigeria (CBN) official report (2020) asserted that a lot of factors have contributed to the increased size of Nigeria's external debt; and as at the end of year 2000, it stood at US$29 billion. It further stated that other factors such as rapid public expenditure, non-concessional interest rate, declined exchange rate, dependence on imports, dwindling external reserves and others results to the appearance of do business debts which has affected the extent of the outside arrears reserve.

Many scholars have research on the effect of Nigeria's external debt on her economy with inconclusive results.

Suleman and Azeez (2012) examined the effect of external debt on the economics growth of Nigeria using annual time Series data from CBN statistical bulletin and debt Management office from 1970-2010. GDP was proxy to economic growth as the endogenous variable while the exogenous variables external debt were proxy to export, inflation and exchange rate. The econometric techniques of ordinary least squares (OLS) were employed for the data analyses. Finding revealed that external Debt contribute really for Nigeria's economy. It was recommended the Nigeria's government need to enthrone fiscal and political constancy and external liability should be sought largely for economics and not for social, politics and other interest.

Ndubuisi P. (2017) examined the impact of outside money owing on financial development of Nigeria. Secondary sources of data were collected from the CBN statistical bulletin from 1895-2015. Economic growth was proxy to GDP being the dependent variable while External Debt which is the independent variable were operationalized into External Debt stock, External reserve and exchange rate. The data were analyzed using OLS regression method. Finding revealed that debt service payment negatively affected Nigeria's economic growth while external debt stock has positive and significant effect on Nigeria growth index. External reserve and exchange rate positively impacted growth. Recommended was for the government to use borrowed funds to finance capital projects such as infrastructural facilities, improve on business and human capital development.

Senadza B, Fiagde A and Quarty P (2018) examined the effect of external debt on economic growth in sub-sahara Africa (SSA) using annual data for 59 SSA countries from 1990-2015 and employs the system generalized method of moment (GMM) estimating technique. Finding revealed that external debt has negative affect the economy of sub- sahara African countries (SSA).

Yusuf A, Mohd S and Mcmillian D (2021) investigated extent Nigeria's external borrowing affects her GDP from 1980-2018, using auto regressive distributed lag technique. Finding was a negative effect on long term growth but positive effect on its short term growth. It was recommended that borrowed funds should be channels into to productive areas of the economy.

Essien S.N, Agboegbulem, Mba M K and Onumonu O G (2016) examined the impact of public sector borrowing on price, interest rate and output in Nigeria using vector auto regressive frame work granger causality test, impose response and variance decomposition. Finding was that external borrowed funds raised interest rate but had insignificant impact on output level.

Objectives of the study

The main objective of the study is to ascertain the effect of External Debt on Nigeria's economic growth while the specific objectives are to:

1. Determine the effect of exchange rate on Nigeria's GDP.
2. Examine effect of interest rate on Nigeria's GDP.
3. Ascertain effect of external reserve on Nigeria's GDP.

Research Questions

1. What is the relationship between exchange rate and the Nigeria's GDP?
2. To what extent does interest rate on external debt influence Nigeria's GDP?
3. What relationship has external

reserve on Nigeria's GDP?

Statement of Hypotheses

The Hypotheses are formulated on the null form:

1. There is no significant effect between exchange rate and Nigeria's GDP.
2. There is no significant effect between interest rate and Nigeria's GDP.
3. There is no significant effect between external reserve and Nigeria's GDP.

Related Literature Reviewed

Egiyi M A (2017) investigated the impact of outside borrowed funds on economic development in Nigeria. OLS regression method using SPSS version 24 was used. Finding revealed outside borrowing had insignificant influence on GDP, value of the naira and inflation. It was recommended that government should adoptefficient budgeting control measure to ensure they maintain a balanced budget in order to minimize the rate of external borrowing. Similar studies that revealed insignificant relationship to GDP among others are that of Inna K. and Vitoriia K (2018) which examined impact of outside borrowed fund on developing countries' GDP using the correspondence analysis, found a negative relationship between outside borrowed funds with economic volatility of developing economies. The study recommended enhance supervision of government monies in developing countries'. In the same vein, Ogunmuyiwa M.S (2011) ascertained the impact of outside borrowed fund on Nigeria's GDP from 1970-2007 using Augmented Dickey-Fuller (ADF) test and vector Error correction method. The finding was that a weak and insignificant impact of outside borrowed fund on Nigeria's GDP. Contrarily to other similar studies, Agwu U.C, Ohaegbu O.K and Nnodim C.Z (2019) determined the effect of outside borrowed fund on financial Development in Nigeria 2014-2018 using Data Sought from CBN statistical Bulletin and World Bank International Debt statistic. The dependent variable was GDP while the independent variables were External Debt, External Debt Service and Exchange Rate. Data analysis was done using SPSS, version 22.0. Finding was that External Debt had a positive relationship with GDP while External Debt Service and Exchange rate had negative relationship with GDP. Recommended was to enthroned proper loan administration make sure they are used for purposes it was acquired and set ceiling for state and federal government borrowing. Similarly, Oluwaseyi A, Adeteji O and Maku O.E (2021) Examined effect of outside borrowed fund in managing Nigeria's economic functions from 1986-2018. The independent variables were balance of payment, inflation, unemployment, exchange rate and real gross domestic product while the dependent variable was external debt, co integration and vector error correction mechanism (VECM) methods were used. It was discovered that stability payment, price increases and joblessness are major variables impacting on Nigeria economy in the long run.

Recommendation was make judicious use of outside borrowed fund to deflate the economy Also, Muhammad M.A, Nor Aznin B.A.B and Sallahuddin B.H (2015) Determined impact of outside money owing buildup in Nigeria using ODL analysis. It was discovered that interest rate, low saving, weak exchange rate and persistent budget deficits are factors affecting External debt in the long run. It was recommended that government should concentrate on external debt saving and management. In the same vein, Fosu A.K (2011) examined impact of outside borrowed money on GDP of sub-sahara Africa (SSA) for the 1980s where 35 SSAwas used. Data was collected from World Bank from 1980-1990 and analyzed with augmented production function framework. It was discovered that net outstanding debt was injurious to economic growth for some levels of production inputs.

Conceptual Review

External Debt:

This is the loans raised through foreign lenders, such as foreign commercial banks, foreign governments, and international financial institutions which otherwise are called creditors and all repayments must be made in the currency in which the debt was issued by the borrowers.

Exchange Rate:

This represents the worth of a nation's currency and the currency of another nation or that of the economic zone of other country. For example, what value of pounds will be used to buy one Naira of the Nigeria’s currency?

Interest Rate

Interest rate is the amount charged on a borrowed money which is expressed as percentage of the principal, by a lender to a borrower for the use of the money.

External Reserve:

It is defined as International reserves as those peripheral resources of a country that are always accessible and controlled by a country’s monetary authority’s currency.

Economic Growth:

They represent a country’s wealth which increases from time to time. Although, the term is often used when discussing short-term economic performance as growth process of transformation.

Theoretical Review

The dual gap Theory:

Mosley P (1980) clarified that growth is a task of savings; investment in other word is essentially a product of domestic savings, which more often than none is not adequate to finance development. Ajayi L.B (2012) reviewing the theory asserts that essentially, the theory filled the gap between a country's own provision of resources and its absorptive capacity whichis the reserves space and the Foreign Exchange Gap. Whichever of the two gaps is the greatest will constrain the amount of investment and capital formation.

The Dependency Theory

Samir Admia propounded this theory in 1970 and reviewed by Patrick Bond (2016), where he postulates that the developed countries gets richer the more it exchange with the developing countries, and in turn gets poorer because of a value transfer. The value transfer in this case happens as African countries import capital and consumer goods with high surplus value while they export local products with low value. Thereby, the developed countries tend to be exploitative to the developing countries and become dependent on the developed Nations for survival.

This Research work therefore is anchored on the dependency theory as a Nation which is over dependent on the developed countries for loan will always experience exploitation and stunted economic growth.

Materials and Methodology

The study used expo- facto Research Design because of the time series data used. The sources of data was from Central Bank of Nigeria(CBN) statistical bulletin and World Bank indicator (2020).

Data was analyzed with multiple regression analysis

Model specification:

GDP = Bo+ B1 reerRt+B2 lirt+B3 rrpbopsv +Eit

where:

GDP = Gross domestic product

Reer = exchange Rate

Lir = Interest Rate

rrib0p = Reserves and related items

extRsv = Error terms.

GDP is the dependent variable while exchange Rate, Interest Rate, and external Reserves are the independent variables.

Variable name	Storage type Display format		Value label	Variable label
Gdp	Double	% 10.0g		GDP growth (annual %)
Rribop	Double	% 10.0g		Reserves and related items (BOP, current us$)
Reer	Double	% 10.0g		Real effective exchange rate index (2010 = 100)
Lir	Double	% 10.0g		Lending interest rate (%)

Summarize $ylist $xlist

Variable	Obs	Mean	Std. Dev.	Min	Max
Gdp	24	4.898201	3.747841	-1.794253	15.32916
Rribop	24	7.61e+08	7.07e+09	-1.05e+10	1.39e+10
Reer	24	110.6939	47.85463	69.19657	273.0089
Lir	24	17.75595	2.827782	11.48313	24.77083

Correlate $ylist $xlist (obs = 24).

	gdp	rribop	reer	Lir
Gdp	1.0000			
Rribop	-0.0394	1.0000		
Reer	-0.2930	-0.0868	1.0000	
Lir	0.5376	-0.0646	-0.2661	1.0000

Regress $ylist $xlist

Source	SS	df	MS
Model	101.333966	3	33.7779885
Residual	221.731136	20	11.0865568
Total	323.065101	23	14.0463088

Number of obs = 24

F(3, 20) = 3.05

Prob> F = 0.0525
R-squared = 0.3137
Adj R-squard = 0.2107
Root MSE = 3.3296

gdp	Coef.	Std. Err.	t.	P>/t/	[95% conf.	Interval]
Rribop	-1.15e-11	9.89e-11	-0.12	0.908	-2.18e-10	1.95e-10
Reer	-.0128309	.0151396	-0.85	0.407	-.0444115	.0187498
Lir	.7206721	.2823503	2.55	0.019	.1316997	1.309645
_cons	-6.657297	5.82353	-1.14	0.266	-18.80497	5.490375

Vif

Variable	VIF	1/VIF
Reer	1.09	0.918316
lir	1.09	0.921424
Rribop	1.02	0.984180
Mean V/F	1.06	

Ovtest

Ramsey RESET test using powers of the fitted values of gdpHO: model has no omitted variables

F (3, 17) = 2.03
Prob > F = 0.1476

	gdp	rribop	reer	Lir
gdp	1.0000			
Rribop	-0.0394 0.8550	1.0000		
Reer	-0.2930 0.1646	-0.0868 0.6867	1.0000	
Lir	0.5376* 0.0067	-0.0646 0.7642	-0.2661 0.2088	1.0000

*Graph matrix $ylist $xlist, half maxis (ylabe (none) xlabel (none)Estat hottest
Breusch-pagan / Cook-welsberg test for heteroskedasticity
H_O: Constant variance Variables: fitted values of gdpChi2(1) = 2.02
Prob > chi2 = 0.1554

Estat bgodfrey
Breusch-Godfrey LM test for autocorrelation

Lags(p)	Chi2	Df	Prob > chi2
1	5.986	1	0.0144

H_O: no serial correlation

Estat dwatson

Durbin Watson d-statistic (4, 24) = 1.040417

Estat durbinalt

Durbin's alternative test for autocorrelation

Lags (p)	Chi2	Df	Prob > chi2
1	6.314	1	0.0120

H_O: no serial correlation

Sktest $ylist $xlist

Skewness/kurtosis tests for normality______joint______

Variable	Obs	Pr(skewness)	Pr (Kurtosis)	Adj chi2(2)	Prob>chi2
gdp	24	0.3049	0.1359	3.64	0.1621
Rribop	24	0.3960	0.3827	1.62	0.4444
Reer	24	0.0000	0.0008	20.20	0.0000
Lir	25	0.2467	0.1543	3.71	0.1566

*Boxcox reer

gen Atkinson = reer (in(reer/gmean)-1)End of do-file

Conclusion and Recommendation

The research work found that the external debt variable proxy to the independent variable significantly affect Nigeria's GDP except for real interest lending rate. The study was in support of the works of Ndubuisi P 2017, Senadza B et al (2018) Fosu AK (2011) and others but is in contradiction of the research work of Suleman and Azeez (2012), Essien et al (2016) Egiyi M A 2017, Agwu et al (2019) and others. It was also anchored on the dependency theory as borrowing to finance recurrent expenditure is inimical to economic growth. It was recommended therefore that government should create enabling environment for foreign direct investment to strife in the country as well as improvement of the Agriculture and manufacturing sector to alleviate export earnings. But should direct the borrowed fund which forms the External Debt if need be on infrastructural and human capital development for enhance economic growth.

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