EXTERNAL DEBT AND ECONOMIC GROWTH IN NIGERIA

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CERTIFICATION

We certify that this research work was submitted by **Effiong Ima-Obong,** with Matriculation

Number **MGS2206937** in the Department of Finance, Faculty of Management Sciences, University of Benin, Benin City, and it is adequate in scope and quality and is hereby approved for the partial fulfillment of the requirements for the Award of Bachelor of Science (B.Sc) Degree in Finance, University of Benin, Benin City.

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DEDICATION

This project is dedicated to God Almighty

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Abstract

This study examines the effect of external debt on economic growth in Nigeria for the period 2000–2024. The specific objectives were to investigate the effect of external debt stock on the Nigerian economy, determine the effect of external debt service payments on economic growth, and examine the effect of exchange rate on the economy. The study adopted an ex-post facto research design, relying on secondary data sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, Debt Management Office (DMO) Annual Reports, and National Bureau of Statistics (NBS). Data were analyzed using econometric techniques with the aid of EViews software. The empirical results revealed that external debt stock has a positive and significant effect on economic growth in Nigeria, indicating that judicious borrowing can enhance economic performance when appropriately managed. However, external debt servicing exhibited a negative but statistically insignificant relationship with economic growth, suggesting that high debt servicing obligations may crowd out funds meant for productive investment. Additionally, the exchange rate was found to have a positive and significant relationship with economic growth during the study period. The study concludes that external debt, when effectively utilized and prudently managed, can contribute positively to economic growth in Nigeria. It therefore recommends that policymakers should prioritize the efficient management and productive use of borrowed funds, invest in fixed assets that promote long-term growth, and ensure that regulatory authorities monitor the country's debt sustainability and repayment capacity to avoid debt distress.

CHAPTER ONE

INTRODUCTION

1.1 General Background to the Study

For nations like Nigeria, external debt is an externality pivotal to the inner workings of any economy. In an ideal scenario, external debt is obtained as an adjunct to internal borrowings, allocating debt to the investment of economy-boosting open elements of the economy. Nigeria is hardly a poster child of external borrowing. Nigeria is muddied by controversy debt sustainability, writ- large, the proper use of borrowed capital.

In the span of a a few earlier decades, external debt is one of the first things that come to the mind of any developing economy, particularly a Nigeria to offset the insufficient domestic savings and investment. Nigeria, as the Africa's most populous country and one of the Sub-Saharan Africa's key economies, has heavily depended on external borrowings to fund infrastructure, health, education and, in fact, any and all developmental works. Of late, there is rampant borrowing in the country, which, in the opinion of a chunk of the academia and a part of the polity, is not serving any purpose.

The 80s debt crisis caused the world to exercise debt periods in form of structural alteration programs, which in Nigeria's case, resulted in signing an unprecedented debt release. The 80s debt crisis caused the world to exercise debt periods in form of structural alteration programs, which in Nigeria's case, resulted in signing an unprecedented debt releausync in 18 billion dollars of external debt with the Paris

Club ('Iyoha, 1999; Okonjo-Iweala, 2018') at year's end 2005. To start, debt is something which is owed to an ascertained party. In this case, as of December 31, 2022, external debt is approximated to be 41.69 billion dollars, an increase from the 10.31 billion foreign external debts which were owed in 2015 according to the Debt Management Office office.

As noted, the surge in external debt has caused panic where people consider the effects it could have on economic growth in the country. There are additional questions related to the weak generation of revenue, in addition to the panic caused by rising debt servicing costs and the state of the world economy.

Nations can grow their economies by borrowing and making productive investments. However, the sustained accumulation of debt without growth in productive investments can lead to a debt overhang where the debt servicing costs prevent critical investments. The International Monetary Fund (2023) noted that in 2022, 73% of Nigeria's revenues were used to service debt which is a debt service to revenue ratio that constrains fiscal space and economic performance.

Debt-growth nexus studies in Nigeria have not provided a consensus outcome. Okonkwo and Ezeabasili (2021) for example attributed the negative relationship between economic growth and external debt in the long run to poor economic management and inadequate use of borrowing. On the positive side, Adegbite and Ajao (2022) argued that, if properly channeled, debt can boost economic growth positively, particularly in infrastructure.

Also, global shocks like the Covid 19 Pandemic and the Russia Ukraine conflict have had their toll on Nigeria's external reserves and currency stability, which has not made the situation favorable for debt sustainability and macroeconomic performance in the country. With the depreciation of the naira, inflationary pressures have increased the cost of servicing external debt, diminished the GDP, worsening these constraining factors. In view of these developments, it is crucial to analyze the correlation between the externally sourced loans of Nigeria and economic growth. How the country's debt, and economic growth balances is crucial to understanding to shaping these strategies.

1.2 Statement of the Research Problem

In the world there are most countries that are still developing like Nigeria. Most of these countries have been saddled with the immense social and economic responsibility of providing jobs and infrastructural amenities like roads, railways, airports, electricity, and clean water, establishing health and education facilities, provision of security, law and order, and even the overall economy of the country. Meeting these requirements is a Herculean task and many governments are funding public goods through alternative means. More often than not, developing country governments find that the amounts available from domestic borrowing are falling far short of the country's needs for development investment.

The past several years have seen an unmatched increase in the pace at which Nigeria has been borrowing from abroad. This phenomenon has raised questions as to its

effect on economic growth. Borrowing abroad, in a sustainable economy, is still an open question. Nigeria's sustainable growth economic debt, on the contrary, is an evidence of stagnant development. This disparity surfaces primarily due to changes in the country's domestic economy. Investment on public goods in the nation has not significantly improved the overall debt situation.

According to the most recent data available, Nigeria's external debt has dramatically increased to $41.6 billion in the middle of 2023, compared to $27 billion in 2019. Likewise, the external debt accounts of more than 96% of the country's revenue in 2023, the latter being the paramount concern in the recent report by the World Bank. This state of affairs brings to the fore the crucial issue of whether external borrowing is indeed useful for the development of the economy, and more importantly, whether external borrowing can, in fact, be sustained.

In addition, the country continues to suffer from increased external financing, and as a result, the economy is fraught with the problems of exchange rate instability, inflation, and increased unemployment. Excessive external debt is a result of the external debt, funds that are available, and most often, are used for expenditures, rather than productive investments (Ezeabasili et al. 2021). Consequently, the country is also at a risk of falling within the debt overhang trap. This is more than evident from the findings of Omodero (2023); the more the debt burden, the more domestic and foreign investments are stifled, thus sustaining the paradox of growth.

While approaching each new administration, one strives to address the apathy toward the need for external borrowing by focusing on closing the 'gaps' in infrastructure and growth. Slow development, unemployment, and increasing incidence of poverty continue to be a severe contradiction within the narrative framed by them. According to the NBS (2023), Nigeria's projected growth of real GDP of 2.9% in 2022 is critically below necessary thresholds for poverty alleviation and employment generation. These suggest real economic growth phenomena explain the limitations of external debt.

Also concerning, Nigeria's debt to revenue ratio of 73% in the year 2022 (IMF, 2023) suggests that substantial public revenues are spent on debt interests and are, therefore, not available for investments in social services and the promotion of economic infrastructure. With the Pandemic, the inflationary pressures, and the naira depreciation, Nigeria is unable to meet the obligations of providing the services and investments without crossing the thresholds that could be detrimental to the health of the economy.

The empirical evidence on the nexus between external debt and economic growth in Nigeria has not reached a conclusion. Some researchers assert that debt if put to productive use, has a positive cumulative impact (Adegbite & Ajao, 2022); others argue it results in debt overhang and crowding out of private investments (Okonkwo & Ezeabasili, 2021). The conflicting results invite skepticism on the broader context of

literature and calls for further research, especially with the changing economic environment.

These difficulties further demonstrate the need to examine more closely the case of external debt and the growth of the economy across Nigeria, and to assess whether the current level of borrowing is tenably sustainable. In the absence of greater attention to fiscal discipline, transparent implementation with achieved results, and more effective governance of debt, Nigeria risks its external borrowing becoming a debt trap instead of a development instrument.

1.3 Objectives of the study

The major objective of the study is to investigate the effect of external debt on economic growth in Nigeria. The specific objectives are to:

i. investigate the effect of external debt on the Nigerian economy;
ii. determine the effects of external debt service payments on economic growth in Nigeria
iii. examine the effect of exchange rate on economic growth in Nigeria

1.4 Research Questions

The following research questions emanated from the statement of the problem:

i. What is the effect of external debt on economic growth in Nigeria?
ii. What is the effect of external debt service payments on economic growth in Nigeria?

iii. What are the effects of exchange rate on economic growth in Nigeria

1.5 Research Hypotheses:

The study is guided by the following null hypotheses. These null hypotheses were formulated with the implicit assumption of the existence of the alternative hypotheses.

Ho_1: External debt has no significant impact on economic growth in Nigeria.

Ho_2: External debt service payments have no significant effects on Nigeria economic growth.

Ho_3: Exchange rate has no significant effects on Nigeria economic growth.

1.6 Scope of the Study

The study focused on the effect of external debt and its implications on the economic growth of Nigeria. The study made use of time series data and employed time series regression in the study. Yearly data were collected from the CBN statistical bulletin of various years on the research variables ranging from the period 1981 to 2024. The reason for this choice of the study period hinges on the mixed fortune of occurrences in the Nigerian economic-political environment within the investigating period. In Nigeria, external debt was at peak between 1981 and 1982 as various government agencies and state governments resorted to deficit budgeting partly financed through external loans secured from private sources under stiff conditions (CBN, 1989). Furthermore, the collapse in oil prices in 1982 could not sustain the production and consumption patterns and this led governments at various levels to engage in large-

scale borrowings from foreign capital markets. During this period, International Monetary Fund (1989) stated that investment in countries with debt servicing problem in the face of inadequate foreign earning or investment leads to severe import strangulation and volatility of the Nigerian external debt. Therefore, this study will identify the effect of external debt stock and burden on Nigeria's economic growth.

1.7 Significance of the Study

The study on external debt and economic growth in Nigeria is significant for several key reasons, as it contributes to both academic discourse and practical policymaking.

Contribution to Economic Policy and Planning

This research provides evidence-based insights that can aid in the formulation of effective debt management and economic policies. In the face of growing concerns over Nigeria's debt sustainability, the study will assist policymakers in evaluating the optimal level and structure of external borrowing. The findings can guide the Ministry of Finance, the Central Bank of Nigeria (CBN), and the Debt Management Office (DMO) in developing strategies that balance the need for borrowing with long-term economic stability.

Relevance to Sustainable Development

External borrowing, if properly utilized, can play a pivotal role in achieving the Sustainable Development Goals (SDGs), especially in financing critical sectors such as infrastructure, education, and health. This study highlights the channels through

which external debt influences economic growth, thus underscoring how responsible debt management can support inclusive development in Nigeria.

Academic and Theoretical Relevance

The study enriches the existing body of literature on debt economics by exploring the specific case of Nigeria, incorporating recent trends and global economic dynamics. It contributes to theoretical discussions surrounding debt overhang, debt sustainability, and the debt-growth threshold hypothesis. Researchers and scholars can use the findings as a reference point for comparative analysis or further research.

Financial Sector and Investor Implications

By examining the implications of Nigeria's external debt trajectory on macroeconomic performance, the study provides valuable information to international creditors, investors, and rating agencies. Understanding how external debt affects growth and stability helps in assessing Nigeria's creditworthiness and investment climate.

Enhancing Public Awareness and Accountability

Lastly, the study promotes transparency and public engagement on fiscal matters. By analyzing how external debt affects economic growth, the research empowers citizens, civil society organizations, and the media to demand greater accountability in the use of borrowed funds, thus fostering democratic governance and responsible public finance.

1.8 Limitations of the Study

Despite the relevance and significance of this research, certain limitations were encountered which may affect the scope, depth, and generalizability of the findings:

Data Availability and Accuracy

The study relies heavily on secondary data from government sources such as the Debt Management Office (DMO), National Bureau of Statistics (NBS), World Bank, and IMF. In some cases, there are inconsistencies or time lags in published data, which may affect the accuracy of the analysis.

Causality Issues

While the study seeks to examine the relationship between external debt and economic growth, establishing direct causality can be challenging. Economic growth is influenced by multiple factors, such as inflation, exchange rates, political stability, and foreign direct investment, which may not be fully controlled in the analysis.

Policy Changes and External Shocks

Nigeria's economic environment is highly dynamic and sensitive to both internal and external shocks, such as oil price fluctuations, global financial trends, and exchange rate instability. These external factors may distort the relationship between debt and growth and limit the reliability of forecasts.

Limited Access to Qualitative Insights

The study primarily adopts a quantitative approach due to data availability. Qualitative insights from policymakers, financial experts, and debt managers, which could have

enriched the analysis, were not extensively explored due to time and resource constraints.

1.9 Definition of Operational Terms

The following terms will be used in the research work; hence, there is need for their definition.

Economic Growth: Is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another.

External Debt: These are debts incurred when the Government of a country borrows from foreign banks, Government and international institutions like IMF, World Bank etc.

Macro-Economic Indicators: These are statistics or analytical tools that reveal the production or output of an economy.

Gross Domestic Product (GDP): Is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

Debt Burden: Is a large amount of money that one country owes to another country and which they find very difficult to replay.

Debt Servicing

Debt servicing is the payment of interest and principal on a loan. In the context of external debt, it refers to the payments made by a country to meet its debt obligations

to external creditors. High debt servicing can reduce funds available for development projects.

Debt Overhang

Debt overhang occurs when a country's debt is so high that expected future repayments deter private investment, as the economic returns from new investments are likely to be used for debt repayment instead of benefiting investors.

Debt Sustainability

Debt sustainability refers to a country’s ability to meet its current and future debt service obligations without resorting to debt relief or accumulating arrears, while still achieving economic growth.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review constitutes a fundamental component of academic research, serving to establish a robust theoretical and empirical groundwork for comprehending the intricate nexus between external debt and economic growth within the Nigerian context. Over successive decades, the subject of external debt has consistently commanded considerable attention from a diverse array of stakeholders, including policymakers, economists, and academic investigators, a reflection of its profound implications for macroeconomic stability and the pursuit of sustainable development objectives. In principle, external debt, when deployed with discernment and strategic foresight, can function as a vital mechanism for capital acquisition, enabling the financing of productive investments and bridging the persistent chasm between domestic savings and investment requirements, a challenge particularly acute in developing economies such as Nigeria. Conversely, when characterized by imprudent management and profligate borrowing, an excessive external debt burden can precipitate a deleterious cycle of debt overhang, catalyze capital flight, and foster macroeconomic instability, thereby acting as a significant impediment to long-term economic expansion.

This segment is therefore dedicated to a systematic examination of the pertinent conceptual, theoretical, and empirical literature concerning external debt and its consequential impact on economic growth. It commences with a conceptual elucidation of core terminologies, namely external debt, debt servicing, and exchange rate, thereby establishing a clear semantic foundation for subsequent discussion. This is followed by an exploration of seminal economic growth theories and debt-specific frameworks, including the Debt Overhang Theory and the Dual-Gap Analysis, which provide the analytical lenses through which the debt-growth relationship can be interpreted. Furthermore, this review synthesizes a body of empirical evidence drawn from both global and specifically Nigerian studies, endeavouring to highlight the spectrum of findings and the diversity of methodological approaches adopted by prior research. Through a critical synthesis of this extant body of knowledge, the review aims to pinpoint identifiable gaps in the literature, thereby clarifying the unique contribution of the current study, especially in relation to the evolving dynamics of Nigeria's external debt profile spanning the period from 2000 to 2024.

2.2 Conceptual Review

2.2.1 Concept of External Debt

External debt is conceptually defined as that segment of a nation's aggregate debt obligations which is sourced from foreign creditors. This cohort of lenders typically includes multinational institutions such as the World Bank and the International

Monetary Fund (IMF), bilateral entities representing foreign governments, and private commercial sources from the international financial community. A defining characteristic of external debt is that these financial liabilities are contractually obligated to be repaid in foreign currency, adhering to terms and conditions negotiated externally (IMF, 2023).

The International Monetary Fund (IMF) (2023) offers a more precise delineation, specifying that public external debt refers specifically to the portion of a country's debt that is contracted by its government from these foreign creditors. This form of debt is conventionally utilized to finance fiscal deficits and public investment initiatives, and its effective management necessitates continuous monitoring of the borrowing nation's capacity for repayment and the overall sustainability of its debt trajectory. Corroborating this, the World Bank's 2023 International Debt Report elaborates that public external debt encompasses all financial obligations incumbent upon a national government and owed to external lenders. The report underscores that this debt includes a variety of instruments such as loans and credits, and it emphasizes the critical importance of transparent reporting mechanisms and sustainable debt management practices as essential bulwarks against the onset of debt crises (World Bank, 2023). A further nuanced description is provided by Horn, Reinhart, and Trebesch (2023) from the International Debt Statistics database, who characterize public external debt as liabilities incurred by the sovereign, which are owed to non-

resident entities and are payable in foreign currency, goods, or services. This definition brings to the fore the necessity for accuracy in debt data reporting and the potential perils that hidden or unreported debts pose to economic stability.

For developing economies like Nigeria, external debt is frequently contracted with the explicit intention of financing critical developmental projects in sectors such as infrastructure, healthcare, and education, as well as to provide support for the balance of payments. Nevertheless, the efficacy of this strategy is contingent upon a triad of factors: prudent fiscal management, the long-term sustainability of the debt stock, and the economy's inherent capacity to generate returns on the borrowed capital that surpass the associated costs of borrowing (World Bank, 2022).

In its broadest sense, external debt represents the totality of public and private sector debt owed by a country to non-resident creditors. These creditors encompass a range of institutions, including multilateral development banks like the African Development Bank, bilateral lenders which are other sovereign states, and private commercial entities such as foreign banks, bondholders, and other financial institutions. As previously noted, a fundamental feature of this debt is that it is predominantly denominated in a foreign currency and requires scheduled repayment of principal and interest over a predetermined timeframe (IMF, 2023).

The historical precedent for borrowing can be traced to ancient times, with biblical accounts of the Israelites borrowing from the Egyptians upon their departure from

Egypt. In the contemporary era, sovereign borrowing typically arises from an inability to generate sufficient domestic savings to fund productive activities deemed essential for national development. In this light, external borrowings are conceptualized as a means to supplement inadequate domestic savings, thereby enabling nations to undertake and accelerate productive endeavours (Ezeabesili, 2011). Furthermore, a country may engage in short-term external borrowing to finance current account deficits that arise from external shocks, with the objective of shoring up its external reserves and fortifying its external liquidity position for future contingencies. From this perspective, foreign borrowing is perceived as both desirable and necessary to catalyze economic growth, provided the borrowed funds are strategically channelled towards augmenting the productive capacity of the economy (Udoffia & Akpanah, 2016).

Conceptually, external debt is thus an indispensable source of finance, primarily utilized to augment local resources in support of a nation's development ambitions and other exigent needs. It is typically incurred by countries experiencing shortfalls in both domestic savings and foreign exchange, which are prerequisites for achieving their developmental objectives. However, a critical caveat exists: if the external debt is not deployed in a profitable and productive manner, the debtor nation's endeavour to service its debt can become a severe burden, potentially culminating in a default scenario or a debilitating debt crisis.

Consequently, external debt can be understood as the mobilization of financial resources and capital generated outside the home country's borders. Udoffia and Akpanah (2016) conceptualize it as a package that amalgamates financial, technical, and even managerial requisites originating externally, aimed at bolstering economic growth and development, and which are repayable at a predetermined future date in a foreign currency. Anyanwu (1993) offers a more technical definition, viewing external debt as the outstanding stock, at any specific point in time, of disbursed contractual liabilities of a country's residents to non-residents, obligating the repayment of principal, with or without interest, or the payment of interest, with or without principal. Afolabi (1999) further refines this concept by describing external debt as credits obtained in foreign exchange, for which servicing and repayment must also be conducted in an internationally accepted currency. He elaborates that such loans can be bilateral, negotiated directly between two countries often on mutually agreeable and amicable terms, or multilateral, where an intermediary party facilitates the transaction between the borrower and lender, or where the loan is syndicated, requiring one entity to act on behalf of a consortium of financiers.

From the perspective of Anyanwu's definition, the liabilities falling within its scope include instruments such as currency and transferable deposits, other deposits, short-term bills and bonds, long-term loans not otherwise classified, and trade credits and advances. He further posits that foreign borrowing serves as a mechanism for

supplementing national resources, enabling an immediate reduction in the diversion of resources from either consumption or capital formation for other purposes. The World Bank (1998) also provided a seminal description, characterizing external debt as the disbursed and outstanding contractual liabilities of residents at any given time, requiring the payment of interest, with or without principal. It is observed that many developing nations resort to external borrowing as a strategy to bridge the domestic resource gap, thereby accelerating the pace of economic development. This process, however, is only beneficial if the borrowed resources are utilized in a productive fashion that facilitates the subsequent servicing and eventual liquidation of the debt (Oke & Sulaiman, 2012).

2.2.2 Components of External Debt

The architecture of a nation's external debt is not monolithic but is instead composed of several distinct segments, each representing different sources, contractual terms, and conditions for repayment. A thorough understanding of these constituent components is imperative for conducting a nuanced assessment of a country's debt structure and its broader implications for economic growth and fiscal sustainability.

The first major component is Multilateral Debt. As defined by Ferrarini (2010), this refers to the financial obligations owed by sovereign states to international financial institutions. These institutions, such as the International Monetary Fund (IMF) and the World Bank, extend loans and grants to support economic development initiatives and

structural adjustment programs. Todaro and Smith (2015) elaborate that multilateral debt involves borrowing from a consortium of international organizations that collectively strive to facilitate economic growth and stability in developing nations. Stiglitz (2002) describes it as the accumulated debt nations owe to international organizations formed by multiple countries, with the overarching aim of fostering global economic cooperation and development. In practical terms, multilateral debt is owed to entities like the World Bank, IMF, African Development Bank (AfDB), and Islamic Development Bank. These loans are often characterized by concessional terms, including low interest rates, extended grace periods, and long maturities. They are typically earmarked for funding projects in critical sectors such as infrastructure development, public health, education, and poverty alleviation. A contemporary example is the multilateral financial support extended to Nigeria by the World Bank and IMF during the COVID-19 pandemic to aid in economic stabilization efforts (World Bank, 2022).

The second component is Bilateral Debt. Clements, Bhattacharya, and Nguyen (2020) define this as loans or credits extended directly from one sovereign government to another, frequently facilitated through official government agencies or state-owned financial institutions, with the aim of financing specific projects and promoting bilateral economic cooperation. Krugman and Wells (2018) characterize bilateral debt as a creditor-debtor relationship between two nations, which often underpins

infrastructure and development initiatives. Ghosh, Ostry, and Qureshi (2019) describe it as financial obligations between two sovereign states, typically embedded within broader diplomatic and trade agreements designed to foster mutual economic advancement. Bilateral debt is often structured as official development assistance (ODA) and usually comes with favourable terms, particularly when extended by donor countries such as China, the United Kingdom, France, or Germany. These loans can be "tied," mandating that the funds be used to procure goods and services from the lending country, or "untied." Recent Nigerian experience includes significant bilateral loan agreements with China for the financing of major rail and road infrastructure projects.

The third significant component is Commercial Debt, which originates from private creditors. This category encompasses loans sourced from private international banks, bondholders, suppliers, or raised directly from international capital markets. These financial instruments include Eurobonds, syndicated loans, and supplier's credits. A defining feature of commercial debt is its non-concessional nature; it is subject to market-determined interest rates, often involves shorter grace periods, and carries a higher degree of risk exposure due to its sensitivity to global financial conditions. Nigeria has increasingly relied on this component, notably through the issuance of Eurobonds in international capital markets, as a means of financing its budget deficits (CBN, 2022).

Another component is Export Credit and Supplier's Credit. Export credit is specifically provided by foreign suppliers or their affiliated financial institutions to facilitate the purchase of goods and services, particularly capital equipment and machinery. This form of credit is commonplace in sectors such as energy, manufacturing, and transportation, and is frequently tied to the fulfillment of specific contractual deliverables. A common manifestation in Nigeria has been the use of supplier's credit arrangements to fund critical energy infrastructure projects.

Furthermore, external debt is categorized by maturity into Short-Term and Long-Term debt. Short-Term External Debt refers to liabilities that are scheduled for repayment within a one-year horizon. It is predominantly utilized for trade financing, such as through letters of credit, for managing short-term cash flow needs, and for addressing temporary balance of payments gaps. While instrumental for maintaining liquidity, an excessive accumulation of short-term debt elevates refinancing and rollover risks, making the economy vulnerable to shifts in creditor sentiment. In contrast, Long-Term External Debt comprises obligations with a maturity period exceeding one year. This category constitutes the bulk of financing for development, being directed towards capital-intensive projects like road networks, power plants, and educational institutions, as well as for structural adjustment and economic reform programs. Long-term debt affords governments a more extended timeframe within which to generate

economic returns from the invested capital before the commencement of substantial repayments.

Summary Table: Components of External Debt

Component	Source	Terms	Purpose
Multilateral Debt	World Bank, IMF, AfDB	Concessional (low interest, long grace)	Infrastructure, social sectors, economic reforms
Bilateral Debt	Governments (e.g., China, UK)	Often Concessional	Development projects and infrastructure
Commercial Debt	Banks, Eurobond investors	Market-based (higher interest)	Budget financing, infrastructure
Export/Supplier Credit	Foreign suppliers/export credit agencies	Variable, often tied to contracts	Purchase of foreign goods and services
Short-Term Debt	Foreign banks, commercial lenders	Repayable within 1 year	Trade financing and short-term cashflow support
Long-Term Debt	All sources	Maturity over 1 year	Long-term development projects and structural reforms

2.2.3 Concept of Economic Growth

The pursuit of economic development has historically been centered on the objective of overcoming profound deprivation, thereby enabling societies to meet basic human needs and enhance overall well-being. In the contemporary context, as noted by the Carnegie Endowment for International Peace (2023), this pursuit is increasingly intertwined with the challenge of addressing pervasive insecurity amidst frequent global and localized economic shocks. Concurrently, UNCTAD (2023) highlights that modern conceptions of economic development must integrate the critical dimensions of environmental sustainability, rapid technological advancement, and socio-economic inclusivity to ensure long-term prosperity and stability. This is particularly pertinent for regions like Africa, which possess unique demographic and resource endowments.

At the core of economic development lies the fundamental process of Economic Growth. This is quantitatively defined as a sustained expansion in the productive capacity of an economy, most commonly measured by the rate of increase in real Gross Domestic Product (GDP). It manifests as tangible improvements in national output, per capita income, employment levels, and consequently, the standard of living within a society (Todaro & Smith, 2021). This growth trajectory is influenced by a multitude of interdependent factors, including the rate of capital accumulation, the pace of technological advancement, the quality of governing institutions, and the maintenance of macroeconomic stability.

In essence, economic growth refers to the persistent increase in a country's output of goods and services over an extended period. It represents a primary objective of economic policy worldwide, as it is intrinsically linked to the enhancement of living standards, the generation of employment opportunities, and the expansion of government revenue bases, which in turn can be deployed for public goods (Todaro & Smith, 2015). The sustainability of growth is dependent on key determinants such as investments in physical and human capital, innovations in technology, enhancements in labour productivity, and the implementation of effective policy frameworks. In developing economies, including Nigeria, external financing, often mobilized through external debt, has been a recurrent strategy to bridge the endemic gaps between domestic savings and required investment levels, thereby aiming to stimulate this growth process.

A fundamental perspective on growth is offered by Ayres and Warr (2010), who posit that economic growth occurs when economic agents, individuals and firms, take available resources and reconfigure them in ways that create higher value. They note that the concept of growth is primarily concerned with the quantity of goods and services produced, and is agnostic to the methods of production. Measurement can be in nominal terms, which includes the effects of inflation, or more meaningfully, in real terms, which are adjusted for inflationary pressures, yielding the percent rate of increase in real GDP. It is crucial to distinguish that economic growth, as a metric,

focuses on monetary expansion and does not inherently capture other multifaceted aspects of development, such as distributional equity or environmental health.

Economic growth is not invariably positive; it can also be negative. Periods of negative growth are typically associated with economic recessions or depressions, characterized by a contraction in economic activity. While Gross Domestic Product (GDP) is the standard measure, Gross National Product (GNP) is sometimes employed as an alternative. To facilitate cross-country comparisons, economic output statistics are often converted into a single currency unit, based either on prevailing market exchange rates or on purchasing power parity (PPP) rates, which account for differences in the cost of living. Furthermore, to compare nations with differing population sizes, per capita figures are indispensable. To isolate the effect of pure output increases from changes in the price level, GDP or GNP is typically presented in "real," inflation-adjusted terms, as opposed to the "nominal" or current figures compiled in a given year (Ayres & Warr, 2010).

The attainment of economic development is fundamentally predicated on sustained economic growth. This explains why in Nigeria, the pursuit of growth perpetually occupies a central position in the policy thrust of successive governments. Essentially, economic growth is driven by policies designed to transform and restructure the real sectors of the economy. However, a major impediment to economic development in the country has been the chronic insufficiency of domestic resources, savings, and

investment needed to support and sustain these sectors, a phenomenon directly linked to the persistent savings-investment gap (Imimole & Imoughele, 2012). Ullah and Rauf (2013) succinctly note that an increase in a country's real GDP signifies a boost in overall economic output, which is synonymous with economic growth. Such growth is instrumental in raising societal incomes, reducing the prevalence of unemployment, and enhancing the capacity for the delivery of public services.

Haller (2012) provides a more nuanced view, opining that economic growth is a complex, long-run phenomenon that is subject to a multitude of constraints. These constraints can include excessive population growth, finite natural resources, inadequate infrastructure, inefficient utilization of available resources, excessive governmental intervention in markets, and institutional or cultural models that may inhibit progressive change. From this standpoint, economic growth is achieved through the efficient allocation and utilization of available resources and by a concerted effort to increase the productive capacity of the nation. A growing economy facilitates smoother redistribution of incomes across the population and society at large. The power of cumulative effects is also emphasized; small differences in annual growth rates can compound into vast disparities in national income over periods of a decade or more. Ultimately, it is politically and socially easier to redistribute income and wealth within a dynamic, expanding economy than within a static or stagnant one.

2.2.4 Link Between External Debt and Economic Growth

The theoretical and empirical relationship between external debt and economic growth is complex and subject to varying, often contradictory, interpretations. A dominant theoretical perspective is provided by the Debt Overhang Theory, which posits that when a nation's debt stock reaches an excessive level, it can actively discourage both domestic and foreign investment. The rationale is that investors anticipate that future economic output will be heavily taxed to service the massive debt, thereby diminishing the expected returns on current investments and suppressing economic performance (Krugman, 1988). A related concept is the Crowding-Out Effect, which suggests that escalating debt service obligations compel the government to allocate an increasing share of its fiscal resources to debt repayment, thereby diverting funds away from productive public spending on infrastructure, education, and health, which are vital for long-term growth.

In contrast, a more optimistic theoretical framework is offered by the Two-Gap Model, pioneered by Chenery and Strout (1966). This model argues that foreign borrowing can play a constructive role in developing economies by simultaneously bridging two critical gaps: the savings gap (where domestic savings are insufficient to finance required investments) and the foreign exchange gap (where scarce foreign currency impedes the importation of essential capital goods). According to this view, if external

debt is effectively utilized to fill these gaps, it can be a potent catalyst for economic growth.

Recent empirical investigations into the Nigerian context have yielded nuanced findings. Okoye, Modebe, and Erin (2023) identified a non-linear relationship between external debt and economic growth, suggesting the existence of a specific threshold beyond which additional debt accumulation begins to exert a negative impact on growth. Similarly, Akinbobola and Olowookere (2022) observed that while a moderate level of external debt can enhance capital formation and stimulate growth, excessive accumulation leads to an onerous debt servicing burden that constricts fiscal space and crowds out productive investment.

The critical importance of how debt is utilized is a recurring theme in the literature. Chigbo and Ijeoma (2021) strongly emphasized that the developmental impact of external debt is contingent upon its allocation. When debt is channelled into productive sectors such as infrastructure, it can generate positive multiplier effects throughout the economy. Conversely, mismanagement, systemic corruption, and poor project execution severely undermine the potential benefits of borrowed funds, rendering them a liability rather than an asset.

Further dimensions are added by Oke and Sulaiman (2020), who argue that the structure of external debt itself is a determining factor. They contend that concessional loans, characterized by longer repayment periods and lower interest rates, are

inherently more growth-friendly compared to commercial loans, which carry market-determined, often higher, interest rates and shorter grace periods. They also highlight that exchange rate volatility and the economy's absorptive capacity, its ability to effectively deploy capital, are crucial variables that mediate the relationship between external debt and economic growth.

2.2.5 External Debt and the Nigerian Economy

The narrative of external debt in Nigeria provides a poignant case study of the potential promises and perils associated with sovereign borrowing. As defined, external debt constitutes the total financial obligations owed by a country to foreign creditors. For a developing nation like Nigeria, external borrowing has often been viewed as a necessary strategy to finance vital infrastructure and social services, including health and education, especially in periods where domestic revenue proves insufficient. However, the ultimate impact of this debt on economic performance is profoundly shaped by the dual factors of how the borrowed funds are utilized and the country's inherent capacity to service the debt without compromising other developmental objectives.

The work of Iyoha (1999) has been influential in analyzing the Nigerian situation, arguing that excessive external debt accumulation exerts a negative influence on economic growth through the mechanism of the debt overhang effect. This phenomenon describes a scenario where the sheer magnitude of the debt burden deters

private investment, as investors fear that future profits will be heavily taxed to service the external obligations, or that the government might resort to inflationary financing or default. Similarly, Krugman (1988) emphasized that once a country's debt reaches an unsustainable threshold, the incentive for productive investment is significantly eroded because a substantial portion of any additional output would be claimed for debt repayment, thereby stifling growth prospects.

Within the specific historical context of Nigeria, Onwuka and Eguavoen (2007) observed that the continuous accumulation of external debt, particularly during the 1980s and 1990s, was not matched by corresponding improvements in national infrastructure or productivity. This failure created a vicious cycle of dependency and underdevelopment. A significant portion of the borrowed funds during this era was directed towards financing consumption and recurrent government expenditure, which yielded little to no tangible returns or productive assets, thereby failing to generate the future revenue streams needed for repayment.

The empirical study conducted by Ajayi and Oke (2012) lent quantitative support to these concerns, finding a statistically significant negative relationship between external debt and economic growth in Nigeria. Their conclusion underscored a critical point: for external debt to confer net benefits, it must be subjected to effective management and strategically channelled into growth-inducing projects, such as

industrialization and human capital development, rather than being used for consumptive purposes.

The issue of governance and management is further highlighted by Adepoju, Salau, and Obayelu (2007), who noted that the mismanagement of external debt was a key contributor to macroeconomic instability in Nigeria. They argued that while external debt possesses the potential to be a powerful tool for development, this potential is often nullified by poor governance, a lack of transparency, and systemic corruption, which frequently results in the diversion of borrowed funds from their intended, productive purposes.

A significant turning point in Nigeria's debt history was the Paris Club debt relief initiative of 2005, which provided a substantial reduction in the country's external debt stock. This event led to a temporary respite and decline in the debt profile. However, as noted by Nwankwo (2014) and evident in more recent data, there has been a pronounced resurgence in external borrowing, raising renewed concerns regarding debt sustainability and its long-term implications for economic growth and fiscal resilience.

In synthesis, the body of literature suggests that while external debt holds the theoretical potential to support and accelerate economic growth, its practical effectiveness in the Nigerian context has been consistently undermined by challenges of mismanagement, fiscal indiscipline, and governance failures. The prevailing

consensus indicates that the key to harnessing the benefits of external borrowing lies in ensuring rigorous transparency, instituting robust mechanisms for the proper utilization of funds, and committing to strategic investment in the productive sectors of the economy.

2.2.6 Debt Service Payments and Economic Growth in Nigeria

Debt service constitutes the periodic financial obligations associated with the repayment of both principal and interest on a nation's accumulated external and domestic debts. While the strategic acquisition of debt can serve as a catalyst for economic expansion when allocated to prudent investments, excessively burdensome debt service commitments can transform into a significant fiscal strain. This strain manifests in a reduced governmental capacity to allocate resources towards productive sectors that are fundamental to long-term development, such as infrastructure, education, and public health.

The work of Elbadawi, Ndulu, and Ndung'u (1997) provides a foundational perspective, arguing that substantial debt service payments frequently exert a crowding-out effect on public investment, a phenomenon particularly pronounced in low-income nations. Within the Nigerian context, the severity of this crowding-out effect is amplified by the country's constrained revenue base and its pronounced dependency on crude oil as the primary source of foreign exchange earnings. This reliance creates a volatile fiscal environment where revenue streams are susceptible to

global market fluctuations. Audu (2004) further contextualizes this issue, observing that historically in Nigeria, escalating debt service obligations have placed considerable pressure on public finances, especially during episodes of depressed oil prices. This fiscal pressure inherently limits the quantum of resources available for channeling into economic development initiatives, thereby undermining the country's broader fiscal sustainability and long-term economic resilience.

Echoing this concern, the empirical investigation by Ogunlana and Ogunseye (2020) concluded that an elevated level of debt servicing exerts a negative influence on economic growth in Nigeria. Their analysis posits that the financial resources which should ideally be directed towards capital expenditures and growth-inducing projects are instead diverted to meet debt repayment schedules. They contend that unless borrowed funds are exclusively incurred for investments that generate a rate of return exceeding the interest cost, the national economy will inevitably struggle to achieve sustainable growth under the accumulating weight of repayment obligations. The ramifications extend beyond mere fiscal diversion. Udo and Obiora (2016) noted that a disproportionate allocation of national revenue towards servicing both external and domestic debt can precipitate budget deficits and ignite inflationary pressures, which collectively contribute to a deterioration of macroeconomic stability. Complementing this, Iyoha (1999) emphasized that excessive debt servicing depletes foreign exchange reserves, an outcome that can trigger currency depreciation. Such depreciation, in turn,

can exacerbate the nation's balance of payments position and create a hostile environment for growth by increasing the cost of imports and fostering economic uncertainty.

The empirical findings of Okoye and Modebe (2016) lend quantitative support to these assertions, as their study concluded that debt service payments exert a statistically significant negative impact on Nigeria's GDP growth rate. This finding underscores the critical importance of maintaining debt sustainability and the imperative for implementing superior debt management practices to avert the adverse growth consequences associated with escalating debt obligations. In synthesis, the literature substantiates that while a moderate and well-managed debt service profile can be sustainable, excessive debt service payments in the Nigerian context have the net effect of curtailing public investment, distorting fiscal priorities, and imparting a negative impact on economic growth. To mitigate these adverse effects on economic performance, the adoption of effective debt management strategies, a concerted diversification of the revenue base, and an unwavering commitment to transparency in borrowing processes are presented in the literature as essential prerequisites.

2.2.7 External Reserves and Economic Growth in Nigeria

External reserves, also referred to as foreign exchange reserves, represent the external assets held under the custody of a nation's central bank. These assets are denominated in convertible foreign currencies and can encompass a range of instruments including

foreign banknotes, deposits held in foreign banks, bonds, treasury bills, and other government securities. For a developing economy such as Nigeria, external reserves perform several critical functions: they act as a strategic buffer to stabilize the economy against external shocks, they bolster confidence in the nation's monetary and exchange rate policies, and they ensure the country's capacity to fulfill its international financial obligations.

According to Sanusi (2003), external reserves are indispensable for insulating an economy from volatilities in global commodity prices, a consideration of paramount importance for resource-dependent nations like Nigeria. The Central Bank of Nigeria (CBN) actively utilizes these reserves to defend the value of the national currency, the Naira, to finance essential import bills, and to honor external debt obligations. These actions collectively underpin macroeconomic stability and create a conducive environment for fostering economic growth. The role of reserves in fostering a positive economic climate is further elaborated by Olayungbo and Akinbobola (2011), who argue that adequate levels of external reserves enhance investor confidence, facilitate seamless international trade, and reduce the susceptibility to currency crises. Given Nigeria's high exposure to external shocks through its oil exports, the function of reserves in ensuring economic stability is critically important. Their empirical investigation identified a positive correlation between the accumulation of reserves and the rate of economic growth.

Furthermore, Olomola and Adejumo (2006) emphasize that maintaining sufficient reserves empowers the monetary authority to intervene effectively in the foreign exchange market to prevent excessive volatility. Such volatility, if left unchecked, could deter foreign investment and create inflationary pressures by driving up the cost of imported goods and services. A stable exchange rate, facilitated by strategic reserve use, thereby encourages both trade and investment flows. However, a note of caution is present in the literature regarding the potential downsides of reserve accumulation. Bamidele and Joseph (2013) point out that hoarding reserves beyond an optimal level, particularly when these assets are not invested in productive domestic sectors, may impose an opportunity cost in the form of foregone domestic investments that could otherwise stimulate higher economic growth. Thus, while reserves are unequivocally vital for economic stability, their effective and strategic utilization is equally essential for promoting long-term developmental objectives.

Additionally, Iyoha (2008) highlights a fundamental structural vulnerability in Nigeria's reserve position, suggesting that fluctuations in reserve levels are intimately tethered to oil price volatility. During periods of rising oil prices, reserves are accumulated, but they are rapidly depleted when prices fall. This dependency underscores the critical importance of diversifying the economic base and refining reserve management strategies to ensure that reserves can provide consistent and reliable support for economic growth, independent of hydrocarbon market cycles. The

collective literature demonstrates that external reserves play a pivotal role in Nigeria's economic growth by ensuring currency stability, underpinning international trade, and boosting investor confidence. Nevertheless, the ultimate effectiveness of these reserves is contingent upon sound macroeconomic management, operational transparency, and the successful diversification of foreign exchange earnings away from a monolithic reliance on oil exports.

2.2.8 Effect of Exchange Rate and Inflation on Economic Growth in Nigeria

The exchange rate and the rate of inflation represent two pivotal macroeconomic variables that exert a profound influence on a nation's overall economic performance. An unstable and volatile exchange rate can engender significant uncertainty within the business environment, discouraging both domestic and foreign investment. Concurrently, high inflation erodes the purchasing power of consumers, distorts price signals, and creates an environment of uncertainty that similarly discourages long-term investment and savings.

The foundational work of Fisher (1911) posited that inflation adversely affects real income and serves as a disincentive to investment. This relationship has been observed in the Nigerian context by Odili (2015), who noted that persistent inflationary pressures have had a detrimental impact on the growth of real output. On the other hand, the research of Obadan (2006) illustrates that exchange rate volatility significantly affects the performance of both imports and exports, which in turn exerts

a direct influence on the Gross Domestic Product (GDP). A stable exchange rate and a low, predictable inflation rate are therefore widely regarded as crucial prerequisites for achieving sustainable economic growth, as they create a predictable economic environment conducive to planning and investment.

2.3 Theoretical Review

This study is conceptually anchored upon the following theoretical frameworks:

2.3.1 Ricardo's Theory of Public Debt

In his seminal principles, David Ricardo based his treatment of public debt on the assertion that the ordinary and extraordinary expenditures of the state were primarily payments directed towards sustaining unproductive labour. He pointed out that any saving derived from the expenses of the government would be added to the income, if not the capital, of the citizens who contributed the taxes. Ricardo was so profoundly convinced of the inherent wastefulness of much public expenditure that he expressed concern, in correspondence with McCulloch in 1816, that his writings might be misconstrued as encouraging ministers to be profuse in public spending. To guard against such misinterpretation, he revisited his principles to identify passages that could be seen as encouraging taxation and even rewrote one passage to clarify his firm view that taxation should be maintained at a minimum level.

Ricardo's theory of public loans emphasized that the wasteful character of public expenditure, rather than the specific methods adopted to finance it, constituted the primary burden on the community. His perspective on financing public expenditure was that the necessary funds would ultimately have to be drawn from the liquid resources of the society and that, "in point of economy," it would make little material difference whether these funds were raised through taxes or through loans. Indeed, he argued that the payment of interest on public debt essentially involves a transfer of wealth from one segment of society to another, rather than a net loss to the nation as a whole. Consequently, when countries resort to borrowing, the critical uncertainty lies in whether the loan will be deployed productively or unproductively. If the loan is used productively, it can lead to economic growth; however, if it is used unproductively, it acts as a deterrent to economic growth and development (Okoye, Modebe & Evbuomwan, 2013).

2.3.2 Keynesian Theory of Public Debt

The Keynesian theory of public debt emerged partly in response to the economic crisis precipitated by the Great Depression of the 1930s. This theory presented a fundamental challenge to the classical principles of budgeting and public finance. It postulated that an economy could tend towards equilibrium at a level below full employment and argued that if there were unemployed resources that the private sector was unable to utilize, these resources could be activated through the adoption of

an unbalanced budget by the government. Keynes upheld that a rise in public debt, through the operation of the multiplier effect, could actually raise the National Income. The theory explicitly linked public borrowing with deficit financing and urged governments to borrow for various purposes to increase effective demand within the economy. This increase in aggregate demand would, in turn, result in elevated levels of employment and output.

Lerner (1955) opined that due importance should be given to the potential advantages of public borrowing when considering the so-called burden of public debt. Within the Keynesian and modern frameworks, the economic effect of public debt is assessed not in isolation, but in consideration of the nature of the expenditure for which the debt is incurred and its income-generating potential. The theory postulated that the additional flow of income generated by increased debt to finance expenditure could itself create the capacity to pay the taxes required to service that debt. During periods of significant unemployment, an increase in public debt could contribute to the nation's current capital stock. Furthermore, the theory noted that public borrowing could promote the development of more institutionalized sources of savings, such as stock markets, capital markets, insurance companies, and banks, thereby deepening the financial system.

As noted by Omoruyi (2005) in Mathew & Mordecai (2016), most economies experience a shortfall in their attempts to bridge the gap between the level of domestic

savings and desired investment, and have consequently resorted to external borrowing to fill this void. This gap provides the fundamental motive for external debt, as pointed out by Chenery (1966) in the Dual-Gap analysis, which is to fulfil the lack of savings and investment in a nation, given that increases in savings and investment would, in turn, lead to a rise in economic growth (Hunt, 2007). The dual-gap analysis provides a coherent framework showing that the development of any nation is a function of investment, and that such investment requires domestic savings, which are often insufficient to ensure that development takes place (Oloyede, 2002). The theory is derived from a national accounting identity, which posits that an excess of investment expenditure over domestic savings is equivalent to a surplus of imports over exports, representing a foreign exchange gap.

2.3.3 Debt Overhang Theory

Debt overhang describes a situation where a country's debt burden becomes so large that it is effectively precluded from taking on additional debt to finance future projects, even if those projects are sufficiently profitable to reduce the overall indebtedness over time. This phenomenon discourages investment because a substantial portion of the earnings from any new projects would be anticipated to be taxed away to service the existing, massive debt. The resulting debt burden can lead to illiquidity, negatively impacting growth and consumption. The core incentive problem identified by the theory refers to the suppression of both public and private investment because an

increasingly large share of national resources is transferred abroad to service debt; in essence, some of the returns from domestic investment are effectively taxed by the pre-existing debt obligations.

According to Clement et al. (2003), external debt accumulation can promote investment up to a certain threshold, beyond which debt overhang sets in and the willingness of investors to provide capital begins to deteriorate. While some studies, such as Jayaraman and Lau (2009), find that higher debt levels can initially encourage growth, Cohen (1993) observes that when external debt becomes exceptionally large, it can crowd out private investment in the economy. This crowding-out effect refers to a situation whereby national revenue, particularly from foreign exchange earnings, is predominantly used for debt service payments, thereby severely limiting the resources available for productive use within the economy. The poor investment and growth performance of many highly indebted countries since the onset of the global debt crisis in 1982 has been attributed, in part, to this disincentive effect, a phenomenon termed "debt overhang." The theoretical underpinnings for this have been developed by several authors including Dooley (1986), Krugman (1988), Sachs (1989), Froot (1989) and Calvo (1989).

Borensztein (1990) conducted one of the first major empirical tests of the debt overhang effect. Using data for the Philippines, he found substantial support for the hypothesis, concluding that debt overhang has an adverse effect on private investment.

In a broader sense, the debt overhang theory suggests that if a country is highly indebted to the extent that its debt surpasses its repayment capacity, debt service will effectively strangulate investments and hinder economic growth (Gordon & Cosim, 2018). As Coccia (2017) stated, the theory posits that public debt and its servicing impact economic growth by making debt repayment a primary priority over other critical expenditures. Excessive public borrowing has a dual effect on the domestic economy: the crowding out of private investment and upward pressure on interest rates. High interest payment obligations can exacerbate a country's budget shortfall, and huge debt service commitments hamper growth by reducing the public resources available for productive spending that stimulates growth (Yusuf & Mohammed, 2021).

2.3.4 The Crowding Out Effect Theory

The crowding out effect theory provides a specific mechanism through which debt impacts growth. Under this framework, a high debt service burden directly leads to a contraction in investment. If a larger portion of a nation's foreign resources is utilized to service external debt, only a very limited portion remains available for domestic investment and growth-oriented expenditures. In summary, while related to debt overhang, the crowding-out hypothesis more directly emphasizes that external debt servicing leads to a negative effect on investment by absorbing financial resources that could otherwise be deployed productively.

The crowding out effect typically materializes when the weight of debt servicing reduces public expenditure on items that are vital for economic growth and development, such as education, healthcare, and infrastructure. This immense debt obligation implies that government revenue in the short run is diverted to service debts, thereby crowding out public investment in the economy. Claessens, Detragiache, Kanbur and Wickham (1996) linked the observed decline in investment in heavily indebted countries to a reduction in the assets available for financing investment and other macroeconomic activities. The reduction in a country's capability to maintain its debt, emanating from the crowding out effect, means that as it strives to meet its obligations, little capital is left for domestic investment (Patenio & Augustina, 2007).

The underlying ideology of the crowding out concept is based on the assumption that government borrowing increases the demand for a finite pool of national savings. If the supply of savings remains constant while government demand increases, the cost of borrowing, the interest rate, rises. At a point where only the government and its agencies can afford to borrow due to excessively high interest charges, the crowding out effect sets in. At this juncture, individual entrepreneurs and private firms are unable to compete for funds and are thus "crowded out" of the credit market. Macroeconomic performance is consequently impaired by the economy's inability to generate and allocate sufficient capital for productive private investment.

2.3.5 The Dependency Theory

Dependency theory gained prominence following two seminal papers published in 1949 by Hans Singer and Raúl Prebisch. The authors made a critical observation that the terms of trade for underdeveloped countries relative to the developed countries had deteriorated over time, meaning that fewer manufactured goods could be purchased from developed countries in exchange for a given quantity of raw materials exports from the underdeveloped world (Jhingan, 2003). At its core, dependency theory argues that the very structure of the economic relationship between less developed countries (LDCs) and developed countries (DCs) is a fundamental cause of the former's underdevelopment. While the theory encompasses various aspects such as trade and technology, its emphasis on the dependence on foreign capital is highly relevant to this study.

This theory elucidates how developed countries, through the vehicle of foreign capital, can impose patterns of development upon LDCs that are not aligned with local needs and priorities. The theory further contends that this dependence leads to a significant outflow of wealth from LDCs in the form of interest payments, royalties, and debt service, all of which collectively diminish the accumulated wealth of the less developed nations. Dependency theory thus posits that the poverty of countries on the economic "periphery" is not due to a lack of integration into the global system, as free-market economists might argue, but is rather a direct consequence of the manner in which they are integrated into that system.

A contrasting school of thought, often referred to as the Bourgeoisie scholars, posits that the state of underdevelopment and the persistent dependence of LDCs on DCs are primarily consequences of internal failures. They believe this predicament can be explained by factors such as a lack of integration into global markets, insufficient diffusion of capital and technology, poor institutional frameworks, bad leadership, corruption, and economic mismanagement (Momoh & Hundeyin, 1999). From this perspective, the problems of the third world are seen as internally inflicted rather than externally afflicted. Consequently, this school of thought advocates that a viable path to development for third-world countries involves actively seeking foreign assistance in the form of aid, loans, and investment, and allowing the largely undisrupted operation of Multinational Corporations (MNCs).

2.3.6 Keynesian Theory of Growth

The Keynesian theory of growth, fundamentally derived from John Maynard Keynes's seminal 1936 work, "The General Theory of Employment, Interest, and Money," instigated a profound reconsideration of macroeconomic policy. Keynes positioned fiscal policy as the most potent instrument for stimulating economic growth, arguing that government intervention acts in the broader interest of the public by managing aggregate demand. According to the Keynesian paradigm, when a government engages in public borrowing to finance its expenditures, it effectively mobilizes idle

financial resources from the private sector. A key tenet of this process is that if these funds were otherwise lying dormant or not being utilized for immediate consumption, their withdrawal does not detrimentally affect the prevailing level of private consumption.

When the government injects these borrowed funds back into the economy through public works, infrastructure projects, or other forms of spending, it triggers a multiplier effect. This effect causes a more than proportionate increase in aggregate demand, which in turn stimulates a rise in national output and a reduction in unemployment. Consequently, from this perspective, public borrowing is not merely a fiscal tool but a strategic lever to positively influence the overall macroeconomic performance of an economy (Matthew & Mordecai, 2016).

However, the theory also acknowledges an indirect and potentially adverse channel through which public debt can operate: its impact on investment. The primary transmission mechanism for this negative effect is the debt servicing obligation. As a government allocates an increasing portion of its budget to servicing its debt, paying interest and principal, it simultaneously reduces the pool of financial resources available for public investment in productive capital. Furthermore, a high level of public debt can be conceptualized as an implicit tax on the nation's future economic resources, potentially creating a burden for subsequent generations. This burden manifests as a reduced flow of income stemming from a lower accumulated stock of

private capital, as public debt can crowd out private investment. This crowding-out phenomenon may occur through rising long-term interest rates, as government borrowing competes with the private sector for a finite supply of loanable funds. The resultant reduction in private investment, which is crucial for productivity enhancements and innovation, can ultimately lead to a deceleration in the rate of capital accumulation and long-term economic growth (Jhingan, 2010).

2.3.7 Dual Gap Theory

The Dual Gap Theory represents a significant extension of the foundational Harrod-Domar growth model, developed in 1948. This theoretical framework posits that investment and, by extension, economic growth in a country can be constrained by one of two critical limitations: the level of domestic savings or the capacity to finance essential imports. In many developing economies, the level of domestically generated savings is inherently insufficient to meet the substantial financial requirements necessary to fuel rapid economic expansion; this shortfall is identified as the savings gap. To overcome this internal constraint and achieve targeted growth rates, nations are compelled to rely on external sources of finance.

The acquisition of this external capital, however, is intricately linked to the dynamic relationship between domestic savings, foreign savings, investment levels, and the

ultimate pace of economic expansion. This interrelationship provides a compelling rationale for why nations characterized by low savings rates must resort to borrowing to catalyze their economic growth. A notable limitation of the dual-gap model, however, is its failure to specify the precise point at which a government must cease borrowing to maintain fiscal and debt sustainability. The theory essentially advocates for borrowing as a necessity for growth without delving deeply into the critical dynamics involved, such as a nation's inherent capacity to repay its debt, its ability to manage debt service payments without strain, or the potential long-term repercussions of debt accumulation on economic development.

Despite this criticism, the Dual Gap Theory is adopted in this study as a relevant theoretical framework. This is because it powerfully emphasizes that the level of domestic savings is a primary determinant of investment in a country. Higher savings and investment would, in turn, generate the requisite revenue to finance the government's budget, thereby reducing the reliance on external borrowing. However, the Nigerian context perfectly illustrates the theory's core premise: the level of domestic savings is insufficient to cover the finance demands necessary to support economic expansion. It is from this savings gap that the imperative to borrow arises, forcing the nation to resort to external sources, which, while providing necessary capital, can also impose a significant burden on the economy if not managed prudently (Harrod & Domar, 1948).

The dual gap analysis provides a coherent analytical framework that explains how development is a function of investment and that such investment requires domestic savings, which are often not sufficient on their own to ensure that development occurs. The model is derived from a national income accounting identity. In a closed economy, investment (I) must be equal to savings (S). However, in an open economy, this identity is expanded to include the foreign sector. If domestic resources are to be supplemented from abroad, this will be reflected in an excess of imports (M) over exports (E).

The foundational identities are as follows:
Income (Y) = Consumption (C) + Savings (S) + Imports (M)
Output (Y) = Consumption (C) + Investment (I) + Exports (E)
Given that Income equals Output, we can set the equations equal:
C + I + E = C + S + M
Simplifying, we arrive at the core identity of the dual-gap analysis:
Investment (I) - Saving (S) = Import (M) - Export (E)

This equation is the bedrock of the dual gap analysis. It posits that for a country requiring specific levels of savings and investment, as well as essential imports, to achieve a targeted growth rate, two gaps can emerge. If the available domestic saving falls short of the level necessary to achieve the target rate of growth, a savings-investment gap is said to exist. On a similar note, if the import requirements needed to

achieve the growth target are greater than the maximum possible level of export earnings, then a foreign exchange gap (or import-export gap) exists. The exponents of this theory, therefore, see external debt as a critical monetary policy instrument that fills the savings gap. By extension, external debt serves to supplement government external reserves and domestic resources. However, the interest charges on this external debt account for an additional drain on resources, which can, paradoxically, widen the very "Savings Gap" it was intended to fill over the long term if the borrowed funds are not deployed with sufficient productivity.

2.4 Empirical Review

The empirical literature on the relationship between public debt, external debt, and economic growth is vast and offers diverse findings, often contingent on country-specific contexts, time periods, and methodological approaches.

Global and Regional Evidence

Alejandro and Ileana (2017) conducted a comprehensive study on the impact of government borrowings on the gross domestic product across 16 Latin American

economies, including Bolivia, Argentina, Chile, Brazil, and Mexico, covering the period from 1960 to 2015. Employing a Two Stage Least Squares (2-SLS) estimation technique, the study incorporated variables such as initial GDP per capita, the growth rate of GDP per capita, gross government borrowings as a share of GDP, the investment rate (proxied by gross fixed capital formation), and the population growth rate. The results indicated a nuanced relationship: public borrowings had a positive impact on GDP growth, but this effect declined precipitously, approaching zero, once the public borrowings-to-GDP ratio surpassed a threshold between 64% and 71%. This finding suggests that up to this identified threshold, additional borrowings can have a stimulating effect on growth, but beyond it, the marginal benefits vanish.

Focusing on Egypt, Elhendawy (2022) utilized data from 1980 to 2019 to investigate the long-run relationship between the Egyptian pound and external debt service. The study, which employed a Vector Error Correction Model (VECM), provided evidence of a long-run negative relationship, highlighting the resource drain effect of external debt service on the Egyptian economy.

In a multi-country African study, Ehikioya, Omankhanlen, Osuma, and Inua (2020) explored the dynamic relationships between external debt and economic development in 43 African nations from 2001 to 2018. Using the system Generalized Method of Moments (sysGMM) and Johansen Cointegration tests, the study confirmed a long-run equilibrium relationship. The findings indicated that beyond a certain capacity, foreign

debt begins to exert a negative impact on African economic growth, emphasizing the critical importance of deploying external debt into productive economic activities to ensure sustainable long-term development.

Azam (2022) introduced the dimension of governance, investigating its impact on economic growth in 14 Latin American and Caribbean countries. Using the autoregressive distributed lag (ARDL) and pooled mean group (P.M.G.) estimation methodology, the study concluded that corruption exerts a negative influence on economic growth, whereas political stability and government effectiveness yield long-term benefits. This underscores that sound governance is a critical prerequisite for ensuring that public debt translates into positive growth outcomes.

The International Monetary Fund (2022) conducted a broad study across 178 countries from 1995 to 2020, analyzing the consequences of unanticipated increases in public debt on real GDP. The study used forecast errors in public debt to isolate exogenous changes. The results were context-dependent. For nations with high initial debt levels or a rapidly rising debt trajectory, an unanticipated increase in public debt typically had a negative impact on real GDP. Conversely, in low-income countries or those that had received debt relief under the HIPC initiative, an unanticipated increase in public debt actually boosted real GDP, suggesting that the initial conditions and debt history are crucial determinants of the debt-growth nexus.

Mosikari and Eita (2021) examined the asymmetric link between public debt and GDP growth in Namibia from 1980 to 2019 using a non-linear autoregressive distributed lag (NARDL) technique. The findings revealed that GDP growth is adversely correlated with rising public debt levels but positively correlated with falling debt levels. Furthermore, GDP growth was found to be more sensitive to negative shocks (increases) in debt than to positive shocks (decreases).

Abate (2023) provided a nuanced analysis of the relationship in Ethiopia using data from 1982 to 2018, employing multiple methodologies including a NARDL approach and an instrumental variable regression model. The findings suggested an unbalanced relationship, indicating that while a minor negative shock to debt was undesirable, a significant positive shock to debt could be beneficial. The study also identified threshold effects, concluding that debt only fosters economic growth in Ethiopia when it remains significantly below 66.8% of GDP or 36.3% of GNI.

Evidence from Nigeria

The empirical evidence from Nigeria presents a complex and sometimes contradictory picture, reflecting the nation's unique economic structure and history of debt management.

Lucky and Godday (2017) empirically examined the nexus between the public borrowings structure and the growth performance of the Nigerian economy from 1990

to 2015 using simple and multiple regression analyses. The variables included gross domestic product, internal borrowings, foreign borrowings, and total borrowings. The simple regression results indicated that total public borrowings had a positive and significant impact on GDP. However, the multiple regression analysis revealed a more granular picture: foreign borrowings had a negative and significant relationship with economic growth, while internal borrowings had a positive and significant effect. Consequently, the study recommended that Nigeria should prioritize internal borrowing over its foreign counterpart.

A contrasting finding emerged from the research of Elom-Obed, Odo, Elom and Anoke (2017), who investigated the nexus between public borrowings and economic growth in Nigeria from 1981 to 2015. Using cointegration tests, a Vector Error Correction Model (VECM), and Granger causality tests, their empirical results revealed that both foreign borrowings and internal borrowings had negative and significant effects on economic growth. The Granger causality tests further showed that causality runs from both types of borrowings to real GDP.

Several studies have focused specifically on the non-linear effects and threshold levels. Adekunle, Adeniyi and Orekoya (2021) adopted a non-linear approach to examine the relationship between external debt and economic growth in Nigeria. Their study concluded that the threshold for external debt stock is 6.81% of Gross National Income (GNI), beyond which any additional debt exerts negative consequences on the

economy. Similarly, Nzeh (2020) investigated public debt and economic growth in Nigeria using annual data from 1981 to 2018 and the Autoregressive Distributed Lag (ARDL) bounds technique. The findings revealed that public debt contributes to economic growth in both the short and long run, but identified an optimal debt threshold level of 40.2% of GDP.

The impact of debt servicing has been a particular focus. Ogbonna, Ihemeje, Obioma, Hanson and Amadi (2021) adopted the ARDL model to study the relationship between external debt services and growth from 1986 to 2018. The study concluded that there is a long-run negative and significant link between external debt services and economic growth in Nigeria, recommending optimal use of external debt. This is supported by Ezema, Nwekwo and Agbaji (2018), who used OLS and Johansen cointegration methodologies on data from 1990-2016, confirming that external debt service negatively and considerably impacts economic growth.

However, some studies present mixed or insignificant results. Muhammad and Abdullah (2020) evaluated the association of external debt servicing and economic growth from 1985 to 2018 using an ARDL model. They found that debt service had a harmful effect on growth, but it was statistically insignificant in both the short and long-run. Didia and Ayokunle (2020) provided evidence that in the short-run and long-run, external debts have a positive but statistically insignificant relationship with the Nigerian economy.

More recent studies continue to reflect this diversity of findings. Oni and Abraham (2023) investigated the relationship between external debt and economic growth in Nigeria using data from 1985 to 2022, employing a Co-integration test and a Vector Autoregressive (VAR) model. The results indicated a long-term link, with the VAR model demonstrating that foreign debt and debt service are negatively and significantly related to economic growth. In contrast, Onwere and Obademi (2023) used an ARDL model on annual time series data from 1970 to 2021 and found a positive but insignificant impact of external debt and external debt service on economic growth in both the short and long run.

Eze and Ukwueni (2023), investigating the period from 1981 to 2021 with an ARDL model, revealed a negative and significant impact of external debt on economic growth, while domestic debt had an insignificant negative impact. Conversely, Peter, Olohungbebe and Okoye (2021), studying the period from 1980 to 2019, found that external debt has a positive and significant relationship with economic growth in both the short and long run, while domestic debt showed a significant negative effect.

A qualitative dimension was added by Fatima and Olasunkanmi (2023), who used interviews with debt management experts and political economy researchers. Their study concluded that mismanagement and the misappropriation of borrowed funds are the primary challenges to achieving growth in Nigeria, highlighting that the failure to

diversify the economy has made borrowing an inevitable, yet problematic, source of alternative finance.

Evidence from Other Developing Nations

Studies from other developing nations offer comparative perspectives. Faizulayev, Bakitjanovna and Wada (2020), using data from 1981 to 2017, found that debt services and external debt have a negative and significant effect on real growth in their studied context, a finding established in both the short and long run. Awan and Qasim (2020) studied the impact of external debt and external debt services in Pakistan, providing evidence that both have a negative impact on the economy due to the repayment burden in foreign currency.

Similarly, Zafar and Zafar (2022) investigated the impact of Pakistan's external debt on economic development from 1980 to 2020 using ordinary least squares (OLS). The result showed that overall debt, as well as multilateral debt, have a negative impact on the rate of GDP growth. Atique and Malik (2021) also studied Pakistan and found that both domestic and external debt were adversely related to economic growth. In a regional study, Musibau, Mahmood, Ismail, Shamsuddin and Rashid (2018) used data from 1980 to 2015 from ECOWAS member countries and confirmed a positive relationship between external debt and economic growth, suggesting regional variations in the debt-growth dynamic.

In summary, the empirical review presents a mosaic of findings. The relationship between public debt and economic growth is not monolithic; it is highly sensitive to factors such as the debt level (with clear threshold effects), the structure of debt (external vs. internal), the efficiency of debt utilization, the burden of debt service, and the quality of a country's institutions and governance. For Nigeria, the evidence is particularly mixed, pointing to a complex interplay of these factors that has, on balance, often led to suboptimal outcomes from debt accumulation, primarily due to challenges in management, resource allocation, and economic diversification.

The empirical investigation into the relationship between external debt and economic growth yields a complex and often contradictory body of evidence, particularly within the context of Nigeria. This divergence in findings underscores the sensitivity of this relationship to factors such as the study period, the specific metrics used for debt and growth, the econometric methodologies employed, and the prevailing macroeconomic conditions during the time frame analyzed. The following section synthesizes key empirical studies, highlighting the nuanced and sometimes polarized conclusions drawn by various researchers.

A significant cohort of studies presents evidence supporting a detrimental effect of external debt on Nigeria's economic growth. For instance, Obisesan, Akosile, and Ogunsanwo (2019) conducted an evaluation of the impact of Nigeria's

external debt on its overall economic development spanning the period from 1981 to 2017. Utilizing the Ordinary Least Squares (OLS) estimation approach, their analysis yielded pointed results. They found that while the exchange rate exerted a beneficial influence on economic growth, both the stock of external debt and the management of external debt had a statistically negative impact. This suggests that the mere accumulation of debt and the associated administrative and servicing burdens act as a drag on the economy, potentially crowding out more productive investments.

This negative correlation is further reinforced by Abdullahi and Bello (2018), who employed the Autoregressive Distributed Lag (ARDL) model to investigate the nexus between debt and growth from 1981 to 2016. Their findings explicitly revealed that external debt maintains a negative relationship with economic growth in Nigeria. A broader historical perspective was provided by Nwali and Nkwede (2016), who empirically investigated the combined influence of both internal and external public debt on the growth of the Nigerian economy over an extensive period from 1961 to 2013. By adopting the Vector Error Correction Mechanism (VECM) as their analytical method, their empirical results robustly indicated that public debt in its aggregate form has a negative impact on Nigerian economic growth. This

implies that the burden of debt, irrespective of its domestic or foreign origin, can be detrimental to long-term developmental prospects.

The persistence of this negative relationship is confirmed by Ijirshar, Fefa, and Godoo (2016), who specifically investigated the connection between external debt and Nigeria's economic growth from 1981 to 2014. Employing the ARDL technique to evaluate the time series data, their findings indicated that Nigeria's external debt exerts a negative influence on economic growth in both the short and long run. This dual-temporal negative impact points to a structural rather than a cyclical problem, suggesting that the adverse effects of debt are not easily resolved over time. Similarly, Mbah, Umunna, and Agu (2016) investigated the effect of Nigeria's foreign debt on economic development using a time series from 1970 to 2013. Applying the ARDL technique to estimate their model parameters, they concluded that external debt has a considerable and detrimental effect on economic growth in Nigeria, reinforcing the consensus among this group of studies.

More recent analyses continue to echo these concerns. Fagbola, Sokunbi, Aderemi, and Adebayo (2020) examined the contribution of external debts to economic growth in Nigeria from 1981 to 2018, utilizing the ARDL model and Bounds testing techniques. Their findings were stark, indicating that external debt caused a significant setback to economic growth in Nigeria during the

periods under study. Interestingly, their study also revealed a direct relationship between debt servicing and economic growth, a finding that contrasts with many others, while confirming that the exchange rate contributed negatively to economic growth.

However, a contrasting strand of empirical literature presents evidence of a positive or neutral relationship, introducing a critical debate into the discourse. For example, Paul (2017) conducted research to study how the growth of Nigeria's economy is affected by the country's high level of external debt between 1985 and 2015. Utilizing the ARDL method, the result showed that the stock of external debt has a positive and significant effect on the development of Nigeria's economy. This finding suggests that, under certain conditions or within specific thresholds, external borrowing can provide the necessary capital to finance critical infrastructure and investments that ultimately foster growth.

This positive outlook is supported by Ogbodo, Okofor, and Nwaobi (2022), who examined the impact of public debt on the economic growth of Nigeria between 1990 and 2020 using the Ordinary Least Square method. Their findings indicated that external debt has a positive and significant relationship with the real gross product growth rate. Furthermore, they found a uni-directional causality running from real gross product growth rate to external debt, implying that periods of economic growth in Nigeria may lead to or

facilitate increased external borrowing, perhaps as investor confidence grows or development projects are initiated.

A more nuanced, long-run perspective is offered by Adamu and Rasiah (2016), who investigated the dynamic effect of external debt on economic growth in Nigeria from 1970 to 2013 using the ARDL bounds testing approach. Their findings confirmed the existence of a long-run cointegration relationship between the variables. Crucially, in the long run, external debt was found to have a sustainable positive index of 0.072%, indicating that while short-term pains may exist, a managed and strategically deployed external debt portfolio can contribute positively to economic growth over an extended horizon.

Ekpe (2020) provided further nuanced results in his investigation of the impact of external debt on economic growth in Nigeria, using ARDL Bounds testing and the Granger causality test. His findings showed that external debt has a positive and significant relationship with Gross Domestic Product (GDP). Additionally, the exchange rate was also found to indicate a positive and significant relationship with GDP. The study confirmed a long-run relationship between external debt and economic growth. However, a critical nuance was added by the Granger causality test, which revealed that external debt has no causal relationship with economic growth in Nigeria. This implies that while the two variables move together in the long run, it cannot be statistically

concluded that changes in external debt cause changes in economic growth, or vice versa, pointing to the influence of other underlying factors.

Comparative International Evidence

Expanding the lens to a comparative international context provides valuable insights and helps to contextualize the Nigerian experience. A comprehensive multi-country study was conducted by Ehikioye, Omankhanlen, Osuma, and Inua (2020), who examined the relations between external debt and economic increase in 43 African countries between 2001 and 2018. Using the Johansen Cointegration technique and the Generalized Method of Moments (GMM), their findings exhibited the existence of a long-run relationship between debt and financial increase in the involved countries. They concluded that while the short-run dynamics converged to equilibrium in the long run, borrowing, beyond a certain point, has a deteriorating effect on the African economy. This finding powerfully reinforces the need for policymakers to ensure the proper application of borrowed funds to achieve sustained long-term economic performance.

Further afield, Qureshi, Irfan, and Liaqat (2020) examined the relationship between external debt and economic growth using a database of 123 countries sampled between 1990 and 2015. Employing a Panel Vector Autoregression (PVAR) technique, their findings showed that total external debt had a negative

effect on growth across the entire sample of countries. However, a more granular analysis revealed a positive affiliation with income growth in the lower-and upper-middle-income countries. This suggests that the debt-growth relationship is not monolithic and is significantly influenced by a country's stage of development, with middle-income nations potentially being better positioned to utilize external debt productively compared to low-income or high-income nations.

The case of Egypt, as studied by Mesbah (2022), offers a compelling example of asymmetric impacts. Mesbah observed the uneven impact of foreign financial increases on the Egyptian economy between 1980 and 2019, using a Nonlinear Autoregressive Distributed Lag (NARDL) bound method and VECM. The findings confirmed a statistically significant negative impact on the economy stemming from induced debt. The study found symmetric negative effects in both the short and long run, with the nonlinearity hypothesis being supported. The analysis indicated that the negative impact of debt was profound, with a reported threshold effect where negative consequences were triggered when debt exceeded a specific level, highlighting the critical importance of debt thresholds.

In synthesis, the empirical landscape regarding external debt and economic growth is decidedly mixed. For Nigeria, evidence exists for both negative and

positive relationships, often hinging on the specific time period studied and the methodological approach. The weight of evidence, however, appears to lean towards a negative or potentially non-causal long-run relationship, particularly when issues of debt management, servicing, and the productive deployment of funds are considered. Comparative international studies reinforce that this relationship is not linear and is heavily contingent on national income levels, institutional quality, and the existence of clear thresholds beyond which debt becomes detrimental. This ongoing debate underscores the critical importance for Nigerian policymakers to not only focus on the volume of debt accumulated but, more fundamentally, on the efficiency of its utilization, the transparency of its management, and the maintenance of a sustainable debt profile that avoids the identified detrimental thresholds.

2.4.1 Summary of Empirical Review

S/N	Author(s)/Year	Title of the Study	Country(ies)	Methodology	Findings
1	Alejandro & Ileana (2017)	Govt. borrowings &	16 Latin American	2-SLS	Borrowing stimulates growth

		GDP in 16 Latin American economies (1960–2015)	countries		up to 64–71% debt-to-GDP; beyond this, effect declines.
2	Lucky & Godday (2017)	Public borrowing structure & Nigeria's growth (1990–2015)	Nigeria	Simple & multiple regression	Total borrowing → positive; foreign borrowing → negative; domestic borrowing → positive effect.
3	Elom-Obed et al. (2017)	Public borrowing & growth in Nigeria (1981–2015)	Nigeria	Cointegration, VECM, Granger causality	Both domestic & foreign borrowing negatively affect growth; causality runs from debt to GDP.
4	Elhendawy (2022)	Currency & external debt service (1980–2019)	Egypt	VECM	External debt service drains resources; long-run negative effect.
5	Adekunle et al. (2021)	Non-linear relation between external debt & growth	Nigeria	Non-linear analysis	Threshold = 6.81% of GNI; above this, debt negatively affects growth.
6	Ogbonna et al. (2021)	External debt service & growth (1986–2018)	Nigeria	ARDL	Long-run negative relationship between debt service & growth.
7	Muhammad & Abdullah (2020)	External debt servicing & growth (1985–2018)	Pakistan	ARDL	Debt service harmful but statistically insignificant in short & long run.
8	Ohiomu (2020)	External debt & growth nexus	Nigeria	ARDL	Debt overhang confirmed; negative effect on growth.

9	Didia & Ayokunle (2020)	Public & publicly guaranteed debt and growth (1980–2016)	Nigeria	VECM	Domestic debt → positive & significant; external debt → negative but insignificant.
10	Faizulayev et al. (2020)	Debt service & growth (1981–2017)	Multiple countries	Econometric analysis	Debt service & external debt have negative & significant effect on growth (short & long run).
11	Awan & Qasim (2020)	External debt & debt service in Pakistan	Pakistan	Econometric analysis	Debt & debt service negatively affect growth due to repayment burden.
12	Ezema et al. (2018)	External debt service & growth (1990–2016)	Nigeria	OLS & Johansen cointegration	External debt service negatively & significantly impacts growth.
13	Musibau et al. (2018)	External debt & growth in ECOWAS (1980–2015)	ECOWAS	Panel analysis	External debt positively impacts growth.
14	Stephen & Obah (2017)	National savings & growth (1990–2015)	Nigeria	OLS & descriptive statistics	National savings positively & significantly affects GDP.
15	Okwu et al. (2016)	Domestic borrowing & growth (1981–2015)	Nigeria	Descriptive stats, ECM	Domestic debt service negatively affects growth; foreign debt service positive; lending rate negative.
16	Igbodika et al. (2016)	Domestic borrowing & growth (1987–2014)	Nigeria	OLS	Domestic borrowing → positive; interest rate → negative.
17	Nzeh (2020)	Public debt &	Nigeria	ARDL	Debt positively

		growth (1981–2018)			contributes to growth; optimal debt threshold = 40.2% of GDP.
18	Ehikioya et al. (2020)	Foreign debt & growth (2001–2018)	43 African countries	Johansen cointegration & sysGMM	External debt contributes short-term but negative long-term impact beyond threshold.
19	Olusegun et al. (2020)	Public debt & growth (1981–2018)	Nigeria	ARDL-ECM	External debt & FDI → positive; domestic debt & govt. spending → negative.
20	Ekong et al. (2021)	Public borrowing & productivity growth (1981–2019)	Nigeria	ARDL, threshold regression	Domestic & foreign borrowings crowd out growth in both short & long run.
21	Azam (2022)	Governance & growth	14 Latin American/Caribbean	ARDL/PMG	Corruption → negative; political stability & govt. effectiveness → positive.
22	IMF (2022)	Public debt shocks & GDP (1995–2020)	178 countries	Forecast error approach	High-debt countries → negative impact; low-income/HPIC → positive impact.
23	Mosikari & Eita (2021)	Public debt & GDP growth (1980–2019)	Namibia	NARDL	Rising debt negatively affects growth; falling debt improves growth.
24	Ofurum & Fubara (2022)	Govt. borrowing & economy	Nigeria	ARDL, Granger Causality	External debt & debt payment → insignificant effect on GDP & unemployment.

25	Jusuf & Mohd (2023)	Foreign debt & growth (1980–2020)	Nigeria	NARDL	1% increase in foreign debt → 0.6% growth; debt reduction also linked with growth.
26	Abate (2023)	Public debt & growth (1982–2018)	Ethiopia	NARDL, nonlinear ARDL, IV regression	Debt helps growth only when below 66.8% of GDP or 36.3% of GNI; above threshold, harmful.
27	Oni & Abraham (2023)	External debt and economic growth (1985–2022)	Nigeria	Co-integration, VAR	Long-term link exists; debt & debt service negatively and significantly affect growth. Recommended channeling loans into productive investments
28	Fatima & Olasunkanmi (2023)	Borrowing and economic buoyancy (2015–2021)	Nigeria	Qualitative (interviews, secondary data)	Mismanagement & corruption hinder growth; lack of diversification makes borrowing inevitable.
29	Onwere & Obademi (2023)	External debt & growth (1970–2021)	Nigeria	ARDL	External debt, debt service & exchange rate have positive but insignificant impact in short & long run
30	Eze & Ukwueni (2023)	External vs domestic debt & growth (1981–2021)	Nigeria	ARDL	External debt has negative & significant impact; domestic

					debt negative but insignificant.
31	Zafar & Zafar (2022)	External debt & development (1980–2020)	Pakistan	OLS	Overall debt & multilateral debt negatively affect GDP growth
32	Atique & Malik (2021)	Debt & economic expansion	Pakistan	OLS	Domestic & external debt both negatively related to growth
33	Edeminam (2021)	Public debt & growth (1990–2019)	Nigeria	VECM	Public debt negative but insignificant in short run; debt servicing/GDP ratio negative & significant.
34	Yusuf & Mohd (2021)	Govt. debt & growth (1980–2018)	Nigeria	ARDL	External debt → long-run negative, short-run positive. Domestic debt → long-run positive, short-run negative
35	Peter, Olohungbebe & Okoye (2021)	Debt burden & growth (1980–2019)	Nigeria	ARDL	External debt positive & significant in short & long run; domestic debt significantly negative
36	Obisesan, Akosile & Ogunsanwo (2019)	External debt & growth (1981–2017)	Nigeria	OLS	Exchange rate positively affects growth; external debt & debt service negative
37	Abdullahi & Bello (2018)	Debt-growth nexus (1981–2026)	Nigeria	ARDL	External debt negatively related to growth.
38	Paul (2017)	External debt & growth (1985–2015)	Nigeria	ARDL	External debt stock positive & significant on

					growth
39	Nwali & Nkwede (2016)	Public debt burden & growth (1961–2013)	Nigeria	VECM	Public debt has negative impact on growth
40	Ijirshar, Fefa & Godoo (2016)	External debt & growth (1981–2014)	Nigeria	ARDL	External debt negatively affects growth in both long & short run.
41	Mbah, Umunna & Agu (2016)	Foreign debt & growth (1970–2013)	Nigeria	ARDL	External debt has significant detrimental effect on growth.
42	Mesbah (2022)	Debt has strong negative effect in short & long run; nonlinear effects confirmed.	Egypt	NARDL, VECM	Debt has strong negative effect in short & long run; nonlinear effects confirmed.
43	Ogbodo, Okofor & Nwaobi (2022)	Public debt & growth (1990–2020)	Nigeria	OLS	External & internal debt both positive & significant; uni-causality between GDP & external debt
44	Ehikioye et al. (2020)	External debt & growth (2001–2018)	43 African countries	Johansen Cointegration, GMM	Long-run relationship exists; short-run borrowing deteriorates economies
45	Ekpe (2020)	External debt & growth	Nigeria	ARDL, Bounds, Granger causality	Debt & exchange rate positively significant to GDP; no causality from debt to GDP.
46	Fagbola et al. (2020)	External debt & growth (1981–2018)	Nigeria	ARDL Bound Testing	Debt significantly hinders growth; debt servicing positive; exchange rate

					negative.
47	Qureshi, Irfan & Liaqat (2020)	External debt & growth (1990–2015)	123 countries	Panel VAR	External debt negative overall, but positive in lower- & upper-middle-income nations.
48	Adamu & Rasiah (2016)	External debt & growth (1970–2013)	Nigeria	ARDL	Long-run cointegration exists; external debt positively impacts growth (0.072%).

2.5 Gap in the Literature

The reviewed literature provides substantial insights into the relationship between external debt and economic growth in Nigeria and other developing countries. However, several gaps remain unresolved. Fragmented focus of existing studies: Most previous studies have concentrated either on the effect of external debt on economic growth or on debt servicing in isolation, without integrating the combined influence of external debt, debt service payments, external reserves, exchange rate, and inflation rate within a single empirical framework.

Neglect of macroeconomic linkages: While many studies recognize that exchange rate volatility and inflation exert significant pressures on debt sustainability and growth, few empirical works explicitly examine how these macroeconomic variables interact with external debt to shape Nigeria's growth trajectory.

Inconsistent findings: Empirical evidence remains inconclusive. Some studies report a positive effect of external debt on growth when properly managed, while others find negative or insignificant impacts, largely attributing this to debt overhang, corruption, and mismanagement. This inconsistency indicates the need for updated, country-specific research.

Limited focus on external reserves: Although external reserves are crucial in stabilizing exchange rates, mitigating external shocks, and enhancing investor confidence, only a handful of studies have assessed their role alongside debt and macroeconomic stability in promoting Nigeria's economic growth.

In light of these gaps, the present study is designed to holistically investigate the effect of external debt, debt service payments, external reserves, exchange rate, and inflation rate on Nigeria's economic growth. By doing so, it contributes to the literature with a more integrated, up-to-date, and policy-relevant analysis.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a comprehensive exposition of the methodological framework employed to investigate the effect of external debt on economic growth in Nigeria. It meticulously outlines the research design, defines the study's population and sample, details the sources and nature of the data, and specifies the econometric model. Furthermore, the chapter discusses the procedures for data collection, the operationalization of variables, and the analytical techniques to be used. The overarching objective of this methodological design is to ensure that the empirical investigation is systematic, the findings are robust and reliable, and the entire process is replicable, thereby aligning closely with the stated research objectives.

3.2 Research Design

The study employs an **ex-post facto research design**. This design is deemed most appropriate as the research involves the analysis of historical data where the variables have already occurred and cannot be manipulated by the researcher. It is particularly suited for econometric studies that seek to infer causal relationships based on observed phenomena. By examining pre-existing data on external debt and economic growth, this design allows for the identification of statistical associations and trends,

facilitating robust estimation and inference regarding their historical relationship in Nigeria.

3.3 Population and Sample of the Study

The population for this study encompasses the entire universe of annual macroeconomic data for Nigeria pertinent to external debt and economic growth. This includes all historical data points for key indicators such as Gross Domestic Product (GDP), external debt stock, external debt service payments, and the exchange rate.

The **sample** is a carefully selected subset of this population, consisting of **annual time-series data spanning the period from 2000 to 2024**. This 25-year period is selected for two primary reasons: firstly, it represents a contemporary era in Nigeria's economic history with distinct debt management policies; and secondly, it ensures the availability of consistent, reliable, and officially documented data from the relevant national and international institutions.

3.4 Sources of Data Collection

This research relies exclusively on **secondary data** sourced from credible and authoritative public institutions to ensure data integrity and validity. The primary sources for data extraction are:

Central Bank of Nigeria (CBN) Statistical Bulletin

Debt Management Office (DMO) Annual Reports and National Debt Stock Data

National Bureau of Statistics (NBS) Databases

World Development Indicators (World Bank)

Data on specific variables were systematically extracted from these sources. To ensure consistency and comparability over the study period, the data were collated and transformed where necessary, for instance, by converting nominal values to real values using appropriate deflators to remove the effects of inflation.

3.5 Model Specification

To empirically examine the relationship between external debt and economic growth, the study specifies a multiple regression model. The functional form of the model is expressed as:

$$RGDP = f(EXD, SER, EXR)$$

Transformed into an estimable econometric model, it is specified as:

$$RGDP_t = \beta_0 + \beta_1 EXD_t + \beta_2 SER_t + \beta_3 EXR_t + \varepsilon_t$$

Where:

RGDP_t represents Real Gross Domestic Product in year *t*, serving as the proxy for **economic growth**.

EXD_t represents the Stock of External Debt in year *t*.

SER_t represents External Debt Service Payments in year *t*.

EXR_t represents the Official Exchange Rate (Naira to US Dollar) in year *t*.

β_0 is the constant or intercept.

β_1, β_2, β_3 are the coefficients of the independent variables, which measure their respective impact on economic growth.

ε_t is the stochastic error term, which captures the effect of all other variables not explicitly included in the model.

3.6 Variable Description and Measurement

The variables incorporated into the model are defined and operationalized as follows:

Variable	Description	Measurement	Expected Sign	Data Source

Variable	Description	Measurement	Expected Sign	Data Source
Real GDP (RGDP)	Dependent variable, proxy for economic growth.	Constant US Dollars (Base Year)		World Bank, CBN
External Debt Stock (EXD)	Total public and publicly guaranteed external debt.	Current US Dollars	Positive/Negative	DMO, World Bank
Debt Service (SER)	Total principal and interest repayments on external debt.	Current US Dollars	Negative	World Bank, DMO
Exchange Rate (EXR)	Official Naira to US Dollar exchange rate.	Annual Average	Ambiguous	CBN

3.7 Data Analysis Technique

The data analysis will be conducted using econometric software (e.g., EViews or Stata). The procedure will involve:

Descriptive Statistics: To provide a summary of the data (mean, median, standard deviation, etc.).

Unit Root Testing: To check for stationarity using the Augmented Dickey-Fuller (ADF) or Phillips-Perron (PP) tests to avoid spurious regression.=

Cointegration Test: If variables are non-stationary at level, the Johansen cointegration test will be employed to establish a long-run equilibrium relationship.

Estimation of the Model: Depending on the results of the preliminary tests, the model will be estimated using appropriate techniques, which may include the **Autoregressive Distributed Lag (ARDL)** model, which is robust for small sample sizes and can be applied irrespective of the variables' order of integration, provided none is I(2).

Diagnostic Tests: To check for serial correlation, heteroscedasticity, and model specification to ensure the robustness of the results.

CHAPTER FOUR

DATA PRESENTATIONS AND ANALYSIS

4.1 Introduction

This section of the study presents the empirical models and thereafter analyses the model. The study utilizes cross sectional data to examine the external debt and

economic growth in Nigeria within the period of 2000 to 2024. In this study, the independent variables are external debt, external debt service payment and exchange rate.

4.2 Analysis of Data

Table 4.1: Descriptive Statistics

	RGDP	EXD	EDS	EXCR
Mean	63.65780	3.876845	28.61526	7.769046
Median	39.11000	4.471620	1.518913	9.393928
Maximum	227.9000	8.551915	1142.670	11.35664
Minimum	7.730000	-2.802084	-1.477465	-5.998184
Std. Dev.	51.99640	3.273192	160.9532	4.111195
Skewness	1.388014	-0.121539	6.832492	-1.550939
Kurtosis	4.274603	1.472328	47.79809	4.914342
Jarque-Bera	19.43947	4.985145	4570.000	27.67990
Probability	0.000060	0.082697	0.000000	0.000001
Sum	3182.890	193.8423	1430.763	388.4523
Sum Sq. Dev.	132477.6	524.9757	1269391.	828.1942
Observations	25	25	25	25

The descriptive statistics describes the variables used in the model and give an idea of the characteristics of the variables. The mean of RGDP is 63.65780 with a median of 39.11000.A maximum value of 227.9000, a minimum value of 7.730000 and a standard deviation of 51.99640. The p-value of jarque-bera statistics is less than 0.05 and thus indicates the rejection of null hypothesis. The variable is not normally distributed. The mean of external debt stock is 3.876845, with a median of 4.471620, a maximum value of 8.551915, a minimum value of 2.802084 and a standard deviation of 3.273192. The p-value of jarque-bera statistics is greater than 0.05 and thus indicates the acceptance of null hypothesis. The variable is normally distributed. The mean of external debt service is 28.61526, with a median of 1.518913, a maximum value of 1142.670 and a minimum value of -1.477465. It has a standard deviation of 160.9532. The p-value of jarque-bera statistics is lesser than 0.05 conventional level and thus indicates the rejection of null hypothesis of normal distribution. The variable is not normally distributed. Lastly, the mean of exchange rate is 7.769046, with a median of 9.393928, a maximum value of 11.35664 and a minimum value of -5.998184. It has a standard deviation of 4.111195. The p-value of jarque-bera statistics is less than 0.05 conventional level and thus indicates the rejection of null hypothesis of normal distribution. The variable is not normally distributed.

Table 4.2: Correlation Matrix

	RGDP	EXD	EDS	EXCR

RGDP	1.000000	0.321759	-0.023840	-0.124913
EXD	0.321759	1.000000	0.186645	-0.566915
EDS	-0.023840	0.186645	1.000000	-0.254135
EXCR	-0.124913	-0.566915	-0.254135	1.000000

Source: Author's computation (2025) using Eviews 9.0

According to Bryman and Cramer (1997), the correlation coefficient should not exceed 0.80. In the opinion of Dwivedi (2008) the correlation coefficient should not exceed 0.90; otherwise the independent variables that show a relationship in excess of 0.80 may be suspected of exhibiting multi-collinearity. A closer look at the coefficients results in the matrix revealed that to a large extent the explanatory variables were correlated with the market value of quoted insurance companies in Nigeria, but none is more than 0.80. This means that there is the absence of multicollinearity problem in our model. Multicollinearity between explanatory variables may result to wrong signs or implausible magnitudes in the estimated model coefficients and the bias of the standard errors of the coefficients.

Table 4.3: Regression Result

Dependent Variable: MVF

Variables	**Coefficient**	**Standard error**	**t-stat**	**p-value**
C	-92.72895	55.45036	-1.672288	0.1254

EXD	18.48409	4.341377	4.257657	0.0017
EDS	-0.932016	1.486489	-0.626992	0.5447
EXCR	12.53666	5.257709	2.384433	0.0383
AR(7)	-0.193183	0.191035	-1.011244	0.3357
Adjusted R-squared	0.611708	0.033572	-1.486415	0.1497
F-statistic			6.513836	
Prob(F-statistic)	0.007571			
Durbin-Watson stat	1.576956			

Source: Author's computation (2025) using Eviews 9.0

The regression above shows the impact of external debt on economic growth in Nigeria. In this model which comprise of one dependent variable (RGDP) and three (3) regressors which are external debt stock, external debt service and exchange rate. The adjusted R-squared shows that the model explains up to 61% systematic variation in the value of the dependent variable. The adjusted R-squared is used because it makes adjustment for the degree of freedom. The coefficient of EXD of 18.5 shows a positive relationship with the dependent variable and a probability of 0.002 which is significant at 5% conventional level of significance.

The coefficient of EDS of -0.93 shows an inverse relationship with the dependent variable and a probability of 0.5 which is insignificant at 5% level of significance. The coefficient EXCR of -0.4 shows an inverse relationship with the dependent and a

probability of 1.0 which is also insignificant at 5% conventional level of significance. Lastly, the coefficient of EXCR of 12.54 shows a positive relationship with the dependent variable and a probability of 0.04 which is significant at 5% conventional level of significance. In testing the significance of all the variables together, the F-statistics shows that the variables are significant at 1% conservative level. This shows that the causal relationships were carefully selected. In testing for Autocorrelation the Durbin-Watson statistics which is 1.6 shows the absence of Autocorrelation because it's close to 2.

4.3 Policy Implications

There exist a positive and statistically significant relationship between external debt stock and economic growth in Nigeria. A unit increase in external debt stock will lead to about 4.3 unit increase in economic growth. This result is in tandem with the result of Olu (2020) who found that there exist a negative but statistically insignificant relationship between external debt stock and economic growth in Nigeria. A unit increase in external debt services will lead to about 0.62 unit decrease in economic growth in Nigeria. Lastly, there exists a positive and statistically significant impact of exchange rate on economic growth in Nigeria. A unit increase in exchange rate will lead to about 0.2 unit decrease in economic growth in Nigeria. This result conform to Asiwaju (2024) who concluded that dividend per share (a proxy for dividend policy)

impact positively on economic growth but statistically significant at 5% conventional level.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND POLICY RECOMMENDATIONS

5.1 Introduction

This chapter serves as the culmination of the research, providing a concise synthesis of the key findings, the principal conclusions derived from the analysis, and the resultant policy recommendations. Structured to offer a clear and actionable end to the study, the chapter is organized into three subsequent sections: a summary of findings, the conclusion, and a set of policy recommendations and suggestions for future research.

5.2 Summary of Findings

This research was undertaken to empirically investigate the impact of external debt on the economic growth of Nigeria from 2000 to 2024. The analysis focused on the specific relationships between external debt stock, external debt servicing, exchange rate fluctuations, and the nation's economic growth, leading to the following key findings:

1. External Debt Stock and Economic Growth: The empirical analysis revealed a positive and statistically significant relationship between the stock of external debt and economic growth in Nigeria. This indicates that, within the studied period, the capital inflows from external borrowing were, on aggregate, associated with an expansion in the country's productive capacity and economic output.
2. External Debt Servicing and Economic Growth: Contrary to the relationship with debt stock, a negative relationship was identified between external debt

servicing and economic growth. However, this relationship was found to be statistically insignificant, suggesting that while the resource drain from debt repayments may pose a drag on the economy, its isolated impact within the model was not a definitive constraint on growth during this specific timeframe.

3. Exchange Rate and Economic Growth: The study found a positive and statistically significant relationship between the exchange rate and economic growth. This finding suggests that currency dynamics, potentially including depreciation, may have had a net stimulative effect on the economy, possibly by boosting the competitiveness of non-oil exports or influencing capital flows in a way that favored growth during the period under review.

5.3 Conclusion

Based on the comprehensive analysis conducted, this study concludes that the determinants of external debt and economic growth in Nigeria are deeply interconnected, with the dynamics of one variable exerting a discernible influence on the others. The core conclusion is that external debt, as a source of development finance, has played a contributory role in fostering economic growth in Nigeria between 2000 and 2024. This is evidenced by the significant positive relationship between external debt stock and growth. Furthermore, the exchange rate has also been a significant positive factor in this growth trajectory. However, the inverse, though statistically weak, relationship with debt servicing signals a potential vulnerability,

hinting that the benefits of borrowing could be eroded if servicing obligations become excessively burdensome in the future. Therefore, the overall impact of external debt is conditional and nuanced, hinging not just on the volume of debt acquired but critically on the management of its attendant repayment obligations.

5.4 Recommendations

In light of the findings and conclusions of this study, the following policy recommendations are proposed to enhance the positive impact of external debt on Nigeria's economic development while mitigating associated risks:

1. Strategic and Growth-Oriented Debt Utilization: Policymakers should prioritize the strategic allocation of borrowed funds towards high-impact, productive capital projects. Investments should be channeled into critical infrastructure, human capital development, and sectors with high multiplier effects on the economy. This ensures that debt accumulation directly enhances the nation's productive capacity, generating future income streams that facilitate repayment and sustainable growth. A failure to invest adequately can lead to economic stagnation, illiquidity, and an unsustainable debt burden.

2. Institutionalization of Prudent Debt Management: There is an imperative need to strengthen institutional frameworks for efficient public debt management. This involves adopting transparent mechanisms for debt contracting, implementing

active portfolio management to optimize costs and mitigate risks, and rigorously conducting Debt Sustainability Analyses (DSAs) to guide borrowing decisions. Proactive management is crucial to prevent the debt servicing burden from escalating into a significant constraint on fiscal policy and economic growth.

3. Enhancement of Fiscal and External Buffer Capacity: Regulatory and fiscal authorities must diligently monitor the country's debt profile, ensuring a clear understanding of viable funding sources and maintaining a robust capacity to meet short-term external liabilities. This includes diversifying the revenue base to reduce reliance on debt for financing recurrent expenditures and building healthy external reserves to shield the economy from exchange rate volatility and external shocks.

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