Does Public Debt Matter for Economic Growth in Nigeria

Uzoma, Kelechi Promise[1], Innocent Uchechukwu Duru[2], Uruakpa Chiagoziem Gospel[3], Nzeribe Faustina N[4].

[1-3] Rhema University Nigeria, Aba

[4] Federal Polytechnic, Ede

ABSTRACT

Nigeria, as an emerging economy, has experienced significant challenges in sustaining its economic growth trajectory. The issue of excessive borrowing has become a prominent concern in recent years. This work therefore examined the impact of excessive borrowing on Nigeria's economic growth using data from 1980-2022. The Autoregressive Distributed Lag test method of co-integration was employed for the analysis of short-run and long-run impacts of excessive borrowing on economic growth. The long-run result endorsed the findings that excessive borrowing impacts negatively on the economic growth of Nigeria. Thus, excessive borrowing depreciates the real gross domestic product of Nigeria. The study recommends that government should embark on borrowing only when there is low interest rate. Also, diversification of the economy should be the priority of the government as this will deepen the revenue sources of the nation to avoid being tempted to borrow excessively. In addition, fiscal and monetary policies should be properly harmonized to tackle macroeconomic instability which has led to high inflation rate, high interest rate and high exchange rate.

INTRODUCTION

1.1   Background to the Study

In every economic system, government performs two main functions; economic which comprise of allocation, redistribution, regulation and stabilization and non-economic functions that also comprise of defense, security, law and order, etc. After the end of Second World War, the size and responsibilities of government increased (Iyoha, 2007; Wu and Lin, 2010) in developed, developing and underdeveloped economies with respect to its economic obligations/functions. Reconstructing the devastated economies of the world became the top priority of most governments. The persistent growth of government expenditure in developed countries that are moving towards transfer payment and subsidies while that of the less advanced countries (like Nigeria) were more on social and community services (Iyoha, 2007). These services are funded under government recurrent expenditure.

Recurrent expenditure comprises every payment other than capital assets, including wages and salaries, goods and services, employer contributions inclusive, subsidies, transfers and interest payments. It consists basically expenditure on salaries, wages, and supplements, purchases of goods and services and consumption of fixed capital. The economy of Nigeria is driven mostly by government participation in economic activities since independence. Government had judiciously carried out her economic responsibilities in areas of social and community services, economic services as well as transfers (CBN, 2017). Efforts had been made to deeply involve the private sector in socio-economic activities and in recent times these efforts seem to be productive. Despite that, government is still the largest employer of labour, and also, provides social and community services for its citizens, as noted by Iyoha (2007), and indulges in

expenses on transfers, making its recurrent expenditure to rise beyond what its generated revenue could afford. This led to the introduction of public debt in order for government to adjust with this rising recurrent expenditure and also carry out some vital and important capital projects.

Public debt is said to be all of a country's public entities, financial obligations, which include debts to individuals, foreign governments, hedge funds, mutual funds, pension funds, and others. In addition to future pension payments and payments for products and services that the government contracted but hasn't yet paid for, it also includes government obligations. Public debt is one way to pay for government expenditures (Odo et al., 2016). Public debt can be categorized in two different forms: domestic debt and external debt. In light of this, less developed nations (LDCs), which are characterized by low levels of domestic saving and investment and poor capital formation, implement policies targeted at achieving sustainable economies (Adepoju et al., 2007).

When a nation lacks the internal savings necessary to fund its economic activities, it borrows. The borrowed money will be used to raise the nation's economic development and growth, raising citizens' standards of life in the process. Typically, most governments borrow money by issuing securities, bonds, and bills. Alternatively, nations could take out loans from supranational organizations like the World Bank and international financial institutions. Debt is a result of borrowing. It's either domestic or external. Domestic debts are borrowings and financial resources obtained from local people and institutions, are also known as domestic debts. Early in the 1970s, emerging nations took on debt to pay for their current account deficits. Such borrowing was intended to increase the rate of economic development and growth. As the debt piled up, the international financial institutions from the 1980s started providing both technical and financial debt-management assistance to debtor countries.

In addition to promoting economic growth, this initiative also attempted to help these nations become more economically viable by lowering their debt loads and levels of poverty. While many middle-income countries were able to significantly reduce their external debt burdens thanks to these efforts, many of their poorer counterparts saw a different outcome. The domestic debt, on the other hand, received little attention. As a result, certain nations, including Nigeria, have been dealing with excessive domestic debt. In general, poor countries' debt loads have continued to rise along with their levels of persistent poverty and civil unrest, which led to sluggish economic progress. Public opinion leaders recently appeared to agree that excessive external debt was hurting economic development and growth in developing countries (Mojekwu & Ogege 2012).

Reinhart and Rogoff (2010) confirmed this finding, noting that the interaction or link between government domestic and external debt to the real GDP growth is very weak for debt to RGDP ratios below an expected threshold of 90% of GDP. Nigeria racked up both domestic and foreign debt. Foreign creditors are often the recipients of the external debt. These include bilateral organizations like the Japan Aid Agency, the China Exim Bank, and multilateral organizations like the World Bank, the French Development Bank, and the Islamic Development Bank. Additionally, there are overseas private creditors like purchasers of Nigerian Eurobonds. However, the domestic debt is issued within the boundaries of Nigeria, typically through the purchase of bonds and treasury bills by Nigerian banks, regional pension funds, and other local and international investors. Along with other municipal obligations, the government also has certain contractor arrears, which contribute to the overall national debt. There is concern that excessive public debt may hinder government as the private sector competes and struggle with the government for available funds. Economic growth is a key component of economic development, and for it to occur, all economic sectors must experience sustainable growth (Johnson, 2003). Economic growth, therefore, occurs when there is persistent progress in both quantity and quality across all or almost all economic sectors. According to Cole (2017), economic growth is the process by which an economy's productive capacity improves over time, resulting in an increase in trade and consumption. The process by which the level of national production (national income) or per capita income rises gradually over time is known as economic development, on the other hand.

According to Blake (2015), government debt stimulates economic expansion. Ujuju and Oboro (2017) provided justification for governments to take on public debt. They argued that credit is essential for the expansion of corporate enterprises. The same holds true for a country, provided that the interest rates and administrative costs associated with the loan capital do not exceed the income streams produced by the capital. Furthermore, public debt is advantageous if it boosts economic development and citizen well-being. The link between Nigeria's domestic and foreign debts was another finding. Their findings demonstrate that both debt profiles have steadily increased. Most notably, although domestic debt has a beneficial impact on GDP growth, foreign debts have the opposite effect. According to Essien et al., (2016), countries borrowed when they are unable to generate enough domestic savings to carry out their productive activities. Kehinde et al., (2015) asserted that public debt in developing countries is occasioned by the desire to develop human capital, institutional and infrastructural capacity. These activities in most cases lead to high government expenditures, insufficient revenue generation and higher debt burden.

They noted that foreign debt is used to create a sustained economic growth which would not have been possible with domestic resources. The aim of public debt is to assist recipient countries develop, sustain and increase their rate of streams of income. For the purpose of debt to be achieved, they argued that debt has to be well managed and the funds channeled to where it would be judiciously and effectively utilized. Borrowing becomes an issue when it is difficult to pay back and this is a major problem faced by most developing countries in the world, Nigeria inclusive, as they tend to use a high percentage of their GDP to service such debts each year. Over time, a sizable portion of the country's hard-earned income (from foreign sources) was utilized to pay off debt, which led to certain economic setbacks (Ajayi & Oke, 2012). Over the past 20 years, Nigeria's debilitating debt burden has been one of the country's biggest barriers to economic growth and development (Yusuf et al., 2010). Economic crises have historically been triggered or spread in a number of countries due to large and unfulfilled contingent commitments as well as poorly constructed debt in terms of age, currency, or interest rate composition (IMF, 2017). In order to advance economically and experience growth, Nigeria was forced to incur external debt (Udeh et al., 2018). Against this backdrop, this study would examine the link between excessive borrowing and economic growth in Nigeria.

1.2   Statement of the Problem

The government's persistent reliance on borrowing to finance its budget deficit has led to high levels of public debt, which has implications for economic growth. The problem with excessive borrowing in Nigeria is that it crowds out private investment and reduces the availability of credit for businesses, which can hinder economic growth. The high debt service payments also divert resources away from other essential public expenditures, such as healthcare, education, and infrastructure development, which are crucial for sustainable economic growth. Furthermore, the high debt burden can erode investor confidence in the country's economic prospects and reduce foreign direct investment inflows. This can negatively impact job creation and economic development, hindering the country's ability to achieve long-term economic growth and stability. In addition, the high level of domestic debt can also lead to exchange rate volatility and inflation, as investors may fear that the government will resort to printing more money to repay its debts, which can erode the value of the currency and increase the cost of living for ordinary Nigerians.

Several studies have shown a strong link between high levels of excessive borrowing and lower economic growth, both in Nigeria and other countries. For instance, a study by Oyinlola and Olatunji (2019) found that high levels of excessive borrowing in Nigeria have led to a significant reduction in economic growth. The study highlights the need for the Nigerian government to reduce its reliance on borrowing and explore alternative sources of financing to support sustainable economic growth. Similarly, a study by Lawanson et al., (2021) found that the high debt burden in Nigeria has had a negative impact on private sector credit and investment, which are crucial for economic growth. The study recommends that the government adopt a more prudent approach to borrowing to ensure that debt levels do not become unsustainable. Another study by Taiwo and Adeleke (2020) also highlights the negative impact of excessive borrowing on the Nigerian

economy. The study suggests that the government should focus on boosting revenue generation and reducing wasteful spending to reduce its reliance on borrowing and promote sustainable economic growth.

In conclusion, excessive borrowing is a significant problem for Nigeria's economic growth, as it can lead to a reduction in private investment and hinder the development of key sectors. Addressing this issue will require a more prudent approach to borrowing and a focus on sustainable revenue generation and spending. In response to the unsatisfactory concerns mentioned, this study adds to the body of knowledge on excessive borrowing and economic growth of Nigeria in four different ways.

   i.   The study is carried out in Nigeria

  ii.   The study examined excessive borrowing as against public debt that have beenresearched on.

 iii.   The Study included other variables that have not been used before.

  iv.   The work captured data from 1980 to 2022 to have a robust overview and analysis.

1.3   Research Questions

The following research questions are posed to solve the identified problems:

(i).What is the relationship between excessive borrowing and Nigeria's economic growth?

(ii).How does interest rate affect Nigeria's economic growth?

(iii).What is the impact of Inflation on economic growth in Nigeria?

1.4   Objectives of the Study

The main goal of this study is to examine the impact of excessive borrowing on the Nigerian economy. Specifically, the objectives are:

(i). To examine the relationship between excessive borrowing and Nigeria's economic growth.

(ii). To examine the impact of interest rate on Nigeria's economic growth.

(iii) To examine the impact of inflation on economic growth in Nigeria.

1.5   Research Hypotheses

In this research work, the following hypotheses will be examined.

$H0_1$: There is no significant relationship between Nigeria's economic growth and excessive borrowing.

$H0_2$: There is no significant relationship between interest rate and Nigeria's economic growth.

$H0_3$: There is no significant relationship between Inflation and economic growth in Nigeria.

1.6   Significance of the Study

The impact of excessive borrowing on Nigeria's economic growth is significant for several reasons.

Research on this topic can provide insights into how to maintain a sustainable level of borrowing and manage debt effectively. The findings of this work can inform policy makers about the consequences of excessive borrowing and guide them in formulating appropriate policies to mitigate its negative effects. The research will give academia better understanding of Nigeria's economic situation, potentially influencing credit ratings and the country's relationship with global financial institutions. The wider public could also take advantage of this research, as it serves as a great source of information on this matter.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Conceptual Issues

2.1.1 Concept of Government borrowing

Government borrowing is simply the amount raised by the government of any nation from all sources to complement available resources with a view to discharging her responsibility to the citizens. It usually arises because of the constant need for government to augment her finances, and to make capital available towards sustainable economic activities within the nation. Countries at their early developmental stages borrow to boost their growth level and aggrandize their finance due to the prevalence of small capital stocks that are likely, to have investment opportunities with higher rates of returns than that of their counterparts in developed countries (Egbetunde, 2012). Hence, public debt provides the additional investment needed for attaining the desired economic growth and serves as a means of bridging the savings-investment gap. It, therefore, implies that countries borrow because they are unable to generate enough finance internally to fund economic activities and meet with social obligations including the provision of infrastructures. According to Kamundia (2015), public debt is the total sum of the money the government owes its creditors. This debt can be classified as either internal debt or external debt. According to Olarewaju et al., (2015), Nigeria's external debt is the portion of the country's total debt that comes from foreign governments, financial institutions, or companies. The Paris Club of Creditors, the London Club of Creditors, Ford Motors, Multilateral Creditors, Promissory Note Creditors, Bilateral and Private Sector Creditors are only a few of the foreign parties that Nigeria has contracted debt commitments with, according to the CBN.

2.1.2   Concept of Excessive Borrowing

Excessive borrowing refers to the practice of a government borrowing more money than it can reasonably repay, resulting in high levels of debt that can lead to negative economic consequences. Odozi (1996), in his opinion sees excessive borrowing as the gross liability of government. This gross liability results to internal debt. When a government borrows excessively, it may face difficulties in meeting its debt obligations, which can lead to default, or the inability to repay its creditors. Default can have severe consequences, including loss of access to credit markets, higher borrowing costs, and reduced economic growth. Excessive borrowing can also lead to higher interest rates, as lenders demand higher rates of return to compensate for the risk of default. This, in turn, can increase the government's debt burden, making it even harder to service the debt and meet other spending priorities. Moreover, high levels of public debt can also lead to concerns about inflation, as investors may have this fear that the government will fall back or resort to printing more money to repay its debts, which can erode the value of the currency.

2.1.3   Concept of Public debt

According to Saungweme and Odhiambo (2019), public debt is the total amount owed by all governmental entities, including state and municipal governments. The public debt is a capital variable that is calculated ata certain point in time and is made up of all previous deficits. It is the entire amount of debt owed to people, mutual funds, hedge funds, pension funds, foreign governments, and others that the government of a country has taken on. Furthermore, Public debt is the legal duty of the state to reimburse the holders of the

predetermined rights for the principal and interest on a predetermined timetable. In the economic literature, debts incurred by the government or other public entities are referred to as "public debt". This public debt is categorized into "domestic debt" and "external debt".

2.1.4   Concept of Economic Growth

According to economic theory, economic growth refers to a yearly increase in the value of goods and service production as measured by the GDP or national income. Since economic progress does not halt as a result of it, growth is possible. Economic growth can certainly be the rise (or expansion) of a certain measure, such as real gross domestic income (RGDP), gross domestic product (GDP), or per capita income (PI). Gross domestic product, a measurement of the entire value added production of the domestic economy, is usually employed to express national income or product (Onyemachi, 2012). According to CBN (2019), the gross domestic product (GDP) is the monetary worth of the goods and services produced in an economy during a given time period. It is calculated without making deductions for depreciation. GDP at constant basic prices (otherwise known as the Real GDP) equals GDP at Constant Market Prices less indirect taxes net of subsidies. Economic growth means an increase in a nation's Real Gross Domestic Product (RGDP) that is, an increase in a nation's output of goods and services or the physical expansion of the nation's economy (Antwil et al., 2013). It is the total aggregate value of all goods and services produced in a given country over a specified period of time usually one year. Marlyse and Bakang (2014) reported that there are two main measures instituted and used to measure economic growth. The first is Gross National Income (GNI) previously known as gross national product that computes the total value of produced goods and services by all nationals within and outside the country over a given period, and the second is Gross Domestic Product considered as the broadest indicator of economic output and growth. It is designed to measure the value of production of those activities that fall within the boundary of the national accounts system (Mamudu & Akhamie, 2020; Yahaya & Kolapo, 2020).

2.2   Nigeria's borrowing History

Nigeria has been borrowing since before it gained its independence. Prior to 1978, Nigeria amassed relatively minimal debts, the majority of which came from long-term loans from multilateral and official sources including the World Bank and Nigeria's primary trading partners. The loans weren't a strain on the economy because they were mostly secured with lenient terms. However, as a result of the decline in oil prices and revenues, the government secured its first jumbo loan from the international capital market in 1977–1978 for US$1.0 billion. A variety of medium- to long-term infrastructure projects were funded with the help of the loan. The CBN had previously managed domestic debt in Nigeria through the issuing of government securities, such as the Nigerian Treasury Bill. At the time, the debt management technique used resulted in inefficiencies and basic difficulties. In light of these multiple challenges, the government set up a stand-alone debt management division to implement effective debt management procedures. Thus, on October 4, 2000, the Debt Management Office (DMO) was set up to centrally coordinate the management of Nigeria's debt for all levels of government. While the Federal Government (FG) guarantees the state governments' borrowing on the outside, the FG had to analyze and approve their borrowing on the inside based on specific criteria and rules that the states could repay using their monthly allocations from the Federation Account Allocation Committee (FAAC) and internally generated revenue (IGR). The past couple of decades have witnessed rising concern on the increase in Nigeria's public debt. The first most significant rise in Nigeria's public debt due to borrowing occurred in 1987 when the total debt rose by 96.9 per cent to N137.58 billion.

From then, the rise in Nigeria's public debt continued unabated such that as at 2004, excessive borrowing stood at N6,188.03 million. In 1986, total debt which was hitherto driven largely by the domestic debt witnessed a reversal and was being driven by the external debt. Thus, the dominance of the external debt as well as the steady rise in total debt remained till 2005 when the country was granted debt pardon by the

Paris Club. The debt forgiveness saw Nigeria's total debt and external debt plummeting by 59.0 per cent and 90.8 per cent, respectively between 2004 and 2006 to N2,533.47 billion and N451.5 billion. Incidentally, as external debt shrunk, domestic debt continued to grow unabated such that by 2011, total debt which was being driven by the domestic debt had exceeded the 2004 level and stood at N6, 519.65 billion. By 2012, Nigeria's total debt had hit an all-time high of N7,564.4 billion. Between 2006 and 2012, the domestic debt had accounted for 82.2 to 87.2 per cent of the total debt.

Prudential constraints on governmental debt-to-GDP ratios have received significant attention in recent discussions about fiscal consolidation. For wealthy nations, a prudential limit for the debt-to-GDP ratio is sometimes stated as 60%; however, for developing and emerging economies, the prudential limit was set at 30% before 2008 and is now 40% (DMO, 2013). These ratios are not inviolable, though, as nations are urged to adopt various tactics to accomplish fiscal consolidation (IMF, 2011). Between the years 1985–1995 and 1998–2004, Nigeria's state debt was unmanageable. Despite a brief period of sustainability in 1996–1998, Nigeria's debt has been below the ceiling since 2005. The former's sustainability resulted from an exponential increase in Gross Domestic Product (GDP), but whereas that of the latter could be attributable to both GDP growth and debt forgiveness.

Though Nigeria's debt had remained sustainable since 2005, it is however noteworthy that both public debt and GDP had been on continuous rise. This was followed by the treasury bills at 32.47 per cent. The ratio of Nigeria's total public debt service to GDP as of the end of 2012 was 0.5%. Following the debt cancellation in 2005, the multilateral debt took over as the primary driver of Nigeria's foreign debt, which had previously been the Paris Club. Records indicate that up until the mid of the 1970s, Nigeria's external debt was quite low. In 1970 it stood at $1.5 billion, while in 1975 it was $2.5 billion. Around 1977, when a staggering growth rate in the nation's debt became apparent, things started to spiral out of control.

The nation's inability to produce enough goods and services on its own or afford the costs of importing them resulted in excessive borrowing from international organizations and countries at non-concessional interest rates, which in turn caused the emergence of high trade arrears. By 2005–2015, the nation's debt had increased to almost $500 billion, with loans from the Paris Club accounting for the majority of that sum. Nigeria and the creditors' club held numerous meetings regarding the $30 billion Paris Club debt. The International Monetary Fund (2015) expressed concern about Nigeria's rising debt load and warned that the cost of repaying the country's debt might rise to 35%. According to the 2015 budget, the government spent 26% of the entire N3.6trillion on servicing debt. The cost of servicing debt has been on the increase in the past three years and the proposed increase in debt service expenditure is 32.4% compared to 35% increase in the year 2014 budget estimate. The International Monetary Fund (IMF) in its latest staff report on Nigeria stated that the extent of the debt service burden means that prudent management of debt should remain a policy priority. While the overall debt burden would remain contained under stress, the interest burden would increase further by an additional 4% percent of revenues bringing the total burden to around 40% of revenues. Consequently, to ensure sufficient space to finance desired investment, the authorities should continue to follow a prudent approach to borrowing, remain vigilant to the trade-offs between cost and risk, and ensure the proceeds from borrowing are managed to secure the maximum return on investment and social benefit. In the 2016, 2017 and up to 2020 Nigeria's budget estimates with more than N6.39 trillion deficits, it is expected to be financed mostly from borrowing. The deficit which is 36.5 percent of the total budgeting estimate will be financed by a combination of domestic borrowing of N984 billion and foreign borrowing of N900 billion totaling N1.84 trillion, thereby hedging additional burden on the economy, reducing the revenue volume and undermining the overall development of the country. According to data from the Debt Management Office osf Nigeria (DMO, 2021), the country's total public debt as of March 2021 stood at ?33.11 trillion ($85.8 billion), representing an increase of 15.6% compared to the previous year. This high level of debt has raised concerns about Nigeria's ability to service its debt obligations, as well as its overall economic stability and growth.

2.3 Theoretical Literature

The first step towards measuring the effect of government borrowing on the economy is to understand the mechanism through which it can affect key macroeconomic variables. Governments use fiscal policy to influence the level of aggregate demand in the economy in an effort to achieve economic objectives of price stability, full employment, and economic growth.

2.3.1 Crowding-out effect theory

This theory as postulated by John Maynard Keynes and John Hicks in their work "Mr. Keynes and the Classics: Suggested Interpretation" published in 1937 posits that excessive borrowing by the government or private sector can crowd out private investment by increasing interest rates and reducing the availability of credit for the private sector. When a government borrows heavily, it increases the demand for credit, leading to higher interest rates. As a result, businesses may find it more difficult and unable to borrow money for investment purposes, which can discourage private investment and hinder economic growth. The debate on the effectiveness of fiscal stimulus is still on-going. The main topic of discussion is crowding out, specifically whether government borrowing results in higher interest rates that might counteract the stimulative effects of expenditure. The government must borrow money when there is a budget deficit from the public, foreign countries, or by selling off its debt. Because government borrowing increases demand for credit in the financial markets, interest rates may typically rise when governments issue government bonds to finance deficits (Frank & Bernanke, 2001). This defeats the purpose of a fiscal stimulus by lowering the overall demand for goods and services. Even though Keynesians argue that fiscal policy can still be beneficial, especially in a liquidity trap where, they think, crowding out is minimal.

2.3.2 Debt overhang theory

This theory of debt overhang was propounded by economists Stewart C. Myers and Nicholas S. Majluf in their seminar paper titled "Corporate Financing and Investment Decisions when organizations or business entities have Information that Investors don't have", published in 1984. According to this theory, excessive borrowing can lead to a debt overhang, where the burden of existing debt becomes so large that it reduces the incentive for borrowers to invest and undertake productive activities. When borrowers anticipate that a significant portion of their future income will be used to repay debt, they may be less willing to take on additional debt to finance new projects, leading to a slowdown in economic growth. While their paper primarily focused on the implications of debt overhang for corporate financing and investment decisions, the concept has since been expanded to apply to government debt as well.

2.3.3 The Ricardo theory of public debt

This theory was propounded by economist, David Ricardo in 1819. In his works, David Ricardo stated that the ordinary and extraordinary spending of government were mainly payments or transfers made to sustain unproductive labourers. Therefore, any saving from the government expenses would be included in the income if not to the capital of the contributors. Ricardo in a letter written to McCulloch in 1816 believed that public expenditure was wasteful venture undertaken by the state. Ricardo's theory of public debts was then, based on the fact that the primary burden to the community was derived from the wasteful nature of public expenditure itself rather than from the methods adopted to finance such expenditure (Precious, 2015). This theory suggested that financing public expenditure could be productively attained by sourcing funds from sectors and communities with excess economic resources so as to reduce inequality. He stated that the reason for this is because the prioritization of a certain sector for the settlement of public expenditure does not impact positively on the growth of the economy but rather it impoverishes the state despite large amount of public debts and taxes generated (Ricardo, 1819). Similar to this, Okoye et al., (2013) stated that the state becomes impoverished as a result of paying loan interest, which extorts a sizable amount of money from society to another economy. In summary, this theory is pertinent to this study since it will help to ascertain

if government spending in Nigeria has actually been spent productively or unproductively throughout time to promote economic growth and development.

2.3.4   Keynesian theory of public debt

The economic depression or collapse of the 1930s in the 19th century contributed to the economic crises that led to the development of the Keynesian theory of public debt. According to the thesis, a country's financial stability is impacted by ongoing budget imbalances and a rapid rise in public debt. It was thought that a sizable national debt was an advantage rather than a liability, and that's why ongoing deficit spending is crucial to a country's ability to thrive economically because it results in full employment (Precious, 2015). The Keynesian hypothesis, which attacked the traditional concepts of budgeting and public finance, proposed that the economy tended to equilibrium at full employment. Keynes made the supposition that all resources not being utilized by the private sector could be used by adopting an unbalanced budget. As a result, Keynes maintained that an increase in public debt would increase the national income due to its numerous benefits. In order to raise effective demand in the economy, which would therefore lead to greater employment and output, it linked public borrowing with deficit financing and urged the government to borrow for all reasons (Eze et al., 2021).

2.4 Theoretical Framework

The debt overhang theory provides a theoretical framework to understand the negative consequences of excessive borrowing on economic decision-making and growth. The key elements of the theoretical framework include:

- **Information asymmetry:** The theory assumes that firms or governments have better information about their financial situation than external investors or creditors. This information asymmetry implies that investors may be uncertain about the true value and profitability of the firm or government's investment projects.
- **Agent costs:** Debt overhang theory also considers the presence of agency costs. These costs arise due to conflicts of interest between the borrowers (managers or government) and the lenders (creditors or investors).

Therefore this work is anchored on the theory of Debt Overhang of economists Stewart & Nicholas (1984). The reason is that, when firms or government have high levels of debt due to excessive borrowing, it can create a disincentive for future investments and growth due to the burden of existing debt obligations. The fear is that the returns from new investments would primarily benefit creditors rather than the borrower as the additional income may be used to service the existing debt.

2.5   Empirical Literature

2.5.1   Empirical Literature from Nigeria

Several studies have examined the relationship between excessive borrowing and economic growth in Nigeria. For example, a study by Adesola and Festus (2016) in their work titled "external debt and economic growth in Nigeria" found that there is a positive and significant relationship between external debt and economic growth in Nigeria. However, the study also noted that this relationship is not linear, and that excessive borrowing can lead to a debt overhang that can negatively impact economic growth in the long run. Njoku (2016) investigated the relationship between external debt and economic growth in Nigeria, using data from 1980 to 2014. The study finds that external debt has a positive impact on economic growth in Nigeria, but the effect is not significant. The study suggests that Nigeria should borrow externally to

finance capital-intensive projects and improve economic growth.

Odo et al., (2016) examined the causal relationship between total public debt and public spending in Nigeria from 1980 to 2015. According to the study's findings, capital and recurrent government spending have a substantial positive relationship with public debt in the Nigerian economy. The outcome of the Wald test shows that there is a unidirectional causal relationship between Nigeria's state debt and both capital and recurrent expenses. This finding appears to imply that budget deficits, which are well-known in Nigeria at both the federal and state levels, are what lead to the country's government borrowing. In order to ensure that borrowing is done responsibly and that our budgeting system achieves allocative efficiency, a review of the government budgeting process is necessary.

Sunday and Olusegun (2018) looked at the impact of excessive public borrowing on economic growth in Nigeria using data from 1986 to 2016. The study comes to the conclusion that too much borrowing restricts Nigeria's ability to grow economically and suggests that borrowing should only be done rarely and for important projects. Ogwuma et al., (2018) looked at the effects of domestic public debt, capital spending, and ongoing spending on economic growth in Nigeria using data from 1980 to 2016. The analysis demonstrates that domestic public debt and recurrent spending have negative and insignificant effects on economic growth in Nigeria, whereas capital investment has a positive and significant influence. The research recommends that the government only take out loans with exceptionally low interest rates in order to prevent the long-term negative impacts of domestic public borrowing on the nation's economy. The government should focus more of its resources on capital projects, especially infrastructural development, among other things to boost its economic growth.

Similar to this, Olumuyiwa and Oluseyi's (2019) study found that external debt has a positive and very significant impact on economic growth in Nigeria, but they also stressed that this effect is reliant on the amount of debt and the efficiency of governance. The study argued that excessive borrowing can lead to debt sustainability problems, which can obstruct economic growth and development. Sadiq (2019) looked on the relationship between debt financing and economic growth in Nigeria using data from 1981 to 2016. The study finds that while external debt boosts economic growth in Nigeria, local debt has the opposite effect. The report recommends that the government prioritize external borrowing and invest in profitable industries in order to maximize the benefits of debt financing.

Tunde and Olayinka (2019) examined the connection between state debt and economic progress in Nigeria using data from 1981 to 2016. The paper claims that Nigeria's government debt has a detrimental effect on the country's economic growth. The research recommends that Nigeria put a high priority on responsible debt management and make investments in successful industries to support economic growth. Nwosu and Okoye (2021) looked into how Nigeria's external debt affected economic growth using data from 1981 to 2018. The study found that Nigeria's external debt had a small but positive impact on the country's economic growth. The research encourages Nigeria to prioritize debt sustainability and make investments in successful areas in order to maximize the benefits of borrowing from abroad.

Using data from 1980 to 2018, Joshua (2021) examined the relationship between domestic debt and economic growth in Nigeria. According to the report, Nigeria's domestic debt has a negative impact on economic expansion. According to the study, Nigeria should prioritize borrowing from abroad and investing in profitable firms in order to promote economic growth. Using information from 1986 to 2019, Ahmed and Almustapha (2021) examined how Nigeria's external debt affects the nation's economic growth. The analysis discovers a strong and positive correlation between Nigeria's external debt and economic growth. The report does, however, issue a warning that excessive borrowing might result in an overhang of debt and a financial disaster.

Victor and Chukwuma (2021) examined the relationship between external debt and economic growth in

Nigeria using data from 1981 to 2019. The study finds that external debt has a significant and positive impact on economic growth in Nigeria, but the relationship is nonlinear. The study suggests that Nigeria should focus on debt sustainability and invest in productive sectors to maximize the benefits of external borrowing.

2.5.2   Empirical Literature from the Rest of the World

In a related work outside Nigeria, Qureshi and Alli (2006) carried out an empirical study to determine the relationship between public debt and economic growth of Pakistan from 1981 to 2008. Their findings revealed that public debt impact on economic growth negatively. Enache (2009) investigated the connection between fiscal policy and economic growth in Romania using Forecasted time series data which covered periods between 1992 and 2013. The empirical results using neoclassical growth model with OLS analysis indicated weak evidence for the positive impact of fiscal policy on economic growth. The study concluded that government authorities could use fiscal policy to affect economic growth in an indirect manner.

The causal nexus of public debt and growth performance for Nigeria was equally investigated by Tajudeen (2012) using VAR modeling technique. The results revealed that the direction of causality was bi-directional between economic growth and public debt in Kenya and Nigeria. In the same vein, Pegkas (2018) experimentally studied the relationship between public debt and economic development factors such as private and public consumption, investment, trade openness, and population growth in Greece using unit root tests and the autoregressive distributed lag (ARDL) model. The unit root tests revealed that the variables had mixed integration of I(0) and I(1). The ARDL model results indicated a long-run link between trade openness and economic growth, whereas government debt and population increase negatively influenced growth.

Amayo (2019) investigated the long run relationship between public debt and the productive and nonproductive components of expenditure (capital and recurrent expenditure). The study utilized the endogenous growth model to study this relationship. Annual time series data for public debt, capital expenditure, recurrent expenditure and interest rates were collected from various economic surveys and annual public debt reports between 1980 and 2015. Augmented dickey fuller and Philip Perron tests were used to test the stationarity of the data and the Johansen co-integration test was utilized to determine presence of long run relationship. Vector error correction model was used for analysis since co-integration was established in the series. The results showed that there was a significant positive relationship between public debt and recurrent expenditure and a significant negative relationship between public debt and capital expenditure. It also found that the government of Kenya borrows heavily to finance its recurrent expenditure thus explaining the continued rise in the level of public debt.

These studies suggest that while borrowing can have a positive impact on economic growth in the short term, excessive borrowing can lead to debt sustainability problems and hinder long-term growth. Therefore, it is important for policymakers in Nigeria to carefully manage the country's debt levels and ensure that borrowing is sustainable and targeted towards productive investments that will drive economic growth.

2.5 Gaps in the Literature

Studies on the link between public debt and economic activity have traditionally paid little attention to the excessive borrowing in Nigeria making it major research area to venture into in order to discover the threshold a nation is expected to limit her borrowing. However, some research has discovered a long-term negative relationship between debt and the economic growth. By investigating the impact of excessive borrowing on Nigeria economic growth, this research adds to the body of existing work on debt crisis in Nigeria. The study tried to establish if excessive borrowing is healthy for Nigeria as a nation.

RESEARCH METHODOLOGY

3.1   Sources of Data

Data used for this work were sourced from World Development Indicators (WDI), database and the Nigerian Central Bank Statistical Bulletin (2022). Real gross domestic product (RGDP) served as the dependent variable and a proxy of economic growth. Domestic debt and external debt served as proxies to excessive borrowing (independent variables). For the control variables, data on inflation rate and interest rate were gathered from 1980 to 2022.

3.2   Model Specification

This study would adapt the model used by Shirazi and Manap (2004) to explain the connection between economic growth and excessive borrowing in Nigeria.

The linear functional form is thus stated as follows:

RGDP=(DD,ED,INFL,INT)…...............................(1)

Where,

RGDP = Real Gross Domestic Product

DD = Domestic debt

ED = External Debt

INFL = Inflation Rate

INT = Interest Rate

We can specify the Log – Log model for the functional form thus:

RGDP= α0+α1DD+α2ED+α3INFL+ α4INT+ut ………..(2)

Equation (2) can be written as follows to represent the autoregressive distributed lag (ARDL) model.

$$\Delta RGDP_t = \alpha 0 + \sum_{i=1}^{p} \alpha 1\, \Delta RGDP_{t-i} + \sum_{i=0}^{q} \alpha 2 \Delta DD_{t-i} + \sum_{i=0}^{q} \alpha 3 \Delta ED_{t-i} + \sum_{i=0}^{q} \alpha 4 \Delta INF_{t-i} +$$

$$\sum_{i=0}^{q} \alpha 5 \Delta INT_{t-i} + \beta 1 DD + \beta 2 ED + \beta 3 INFL + \beta 4 INT + E_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (3)$$

Where,

α0 = Constant

α1 = Coefficient

t-i = Time lag

β1-4 = Coefficient of long run variable

i = Ranges from 1-7

3.3   Estimation Technique

The analysis method used in this paper is the Auto-Regressive Distributed Lag (ARDL) bounds testing method created by Pesaran, Shin and Smith (2001). It is a single equation technique. The benefits of the ARDL for testing the long- or short-term viability of a co-integrating relationship serve as the foundation for the choice of this system.

3.3.1 Test of Stationarity.

To make sure a dependable result is attained, the test of stationarity using the ADF statistics and Philip Peron were employed. The unit root techniques are used to establish the stationarity of the time series characteristics. Statistical theory requires that variables be stationary at levels or at 1st difference before the application of standard econometric techniques. This was done in order to avoid spurious or misleading results

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF RESULTS

4.1   Unit root test

The stationarity of all variables were tested in order to ascertain their respective orders of integration before executing the ARDL model test. The goal of the unit roots analysis is to avoid erroneous results. As can be seen below, the bounds test is predicated on the presumption that the variables are an I(0) or I(1) integration. Since the variables exhibited I(1) all through, the application of the ARDL procedure to our economic growth model is justified. Below is the table;

Table 1: Unit Root Test – Augmented Dickey-Fuller (ADF) and Philip-Perron (PP)

Variable	ADF T-Stat	ADF Critical		PP T-Stat	PP Critical		Level of Integration
RGDP	-7.6882	-4.212 -3.529	1% 5%	-6.6324	-4.1985 -3.523	1% 5%	1(1)
DD	-5.2018	-4.198 -3.523	1% 5%	-5.2611	-4.1985 -3.523	1% 5%	1(1)
ED	-7.3955	-4.2050 -3.523	1% 5%	-8.9793	-4.1985 -3.523	1% 5%	1(1)
INFL	-5.9749	-4.2050 -3.523	1% 5%	-5.3911	-4.1985 -3.523	1% 5%	1(1)
INT	-8.4462	-4.198 -3.523	1% 5%	-8.5563	-4.1985 -3.523	1% 5%	1(1)

Source: Author's computation

The outcome demonstrates that, after first differencing using ADF test all the variables are integrated at level one 1(1) and a confirmatory test was done using PP test which showed same integration of order 1 and as a result, they all meet the requirements for ARDL estimation.

Table 2: Correction Matrix

Covariance Analysis: Ordinary

Date: 07/03/23   Time: 13:45

Sample: 1 43

Included observations: 43

Correlation Matrix					
Variable	RDGP	PD	INT	INFL	ED
RDGP	1				
	——				
PD	0.6714	1			
	0	——			
INT	0.0611	0.2706	1		
	0.6969	0.0792	——		
INFL	0.0019	0.0522	0.1853	1	
	0.9905	0.7398	0.2341	——	
ED	-0.435	-0.5889	0.0162	0.2893	1
	0.0036	0	0.9178	0.0599	——

Source: Output from E-views 10

The correlation matrix between the dependent and independent variables is displayed in Table 2. The highest coefficient in this result that was reported was 0.6714, which was below the 0.8 benchmark. Based on this premise, no independent variable pairs had a strong correlation, and multicollinearity was not an issue.

Table 3: Result of Bound Test for co-integration

Test Statistic	Value	Sign.	1(0)	1(1)
F-statistic	16.26310	10%	2.2	3.09
	4	5%	2.56	3.49
		2.5%	2.9	3.94

Source: Author's computation

The results in Table 3 revealed that the calculated F-statistics was greater than the lower and upper critical value bounds at a 5% significance level. This implies the presence of co-integration or long-run relationship

among the variables. The long-run link among the variables was estimated as a result of the presence of co-integration.

Table 4: Diagnostic Results

Test	Type of Statistics	Test of Statistics	P-Value
Breusch-Godfrey Serial Correlation LM Test	$\chi 2$	2.2417	0.3260
Ramsey RESET Test	F	45.0315	0.0000
Jarque-Bera normality test	$\chi 2$	4.4105	0.1102
Heteroskesdasticity Test	$\chi 2$	14.4814	0.4145

Source: Author's computation

The results of the diagnostic tests revealed that the model passed all the diagnostic tests except the Ramsey Regression Equation Specification Error Test (RESET) test, for linearity or correct specification. Based on the findings, there were no problems of serial correlation in the model. Also, the residual was normally distributed. Furthermore, the result showed that the model had no problem with heteroscedasticity. The probability values exhibited by these tests were greater than the 5% level of significance. However, under the Ramsey Regression Equation Specification Error Test (RESET) test, the null hypothesis for linearity or correct specification was rejected due to the statistical significance of the f- statistic. Thus, there was problem of misspecification in our model.

Table 5: Results for Conditional Error Correction Regression (Short run)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(RDGP(-1))	-8.7968	0.8090	-10.8731***	0.0000
D(RDGP(-2))	-8.7518	0.8015	-10.9192***	0.0000
D(RDGP(-3))	-54.2467	5.3763	-10.0899***	0.0000
D(DD)	-5342.458	2316.059	-2.3067**	0.0300
D(DD(-1))	-3659.892	2242.773	-1.6319	0.1158
D(INT)	355.1009	550.9374	0.6445	0.5253
D(INT(-1))	465.7640	554.5871	0.8398	0.4093
D(INT(-2))	1913.240	565.7720	3.3816***	0.0025
D(INT(-3))	2826.898	559.4462	5.0530***	0.0000
ECM	-0.8372	0.7709	10.8585***	0.0000

Source: Author's computation

The variable RDGP is negatively signed and highly significant at all the lags while some of the other variables defied theoretical expectation. Most of the variables were significant. Domestic debt had a negative relationship with the real GDP. This implies a 1% increase in domestic debt will cause a 5342.5% decrease in RGDP in the short run. This result agrees with the findings of Joshua (2021). Interest rate has positive relationship with the dependent variable RGDP at both lag 2 and 3 and thus in a direct or positive relationship, the values of both variables increase together or decrease together. The error correction (ECM) term of -0.837 had a negative sign which is less than 1 and is highly significant looking at the probability value of 0.000. This implied that there's a high speed of adjustment from the short run towards long-run

equilibrium if there's disequilibrium in the model. We may also conclude that the variables were co-integrated and that DD, ED, and INT collectively generate RGDP in the long term because the ECM was negative and significant.

Table 6: ARDL Long run form

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DD	-279.2197	136.3806	2.0474**	0.0517
ED	-0.0001	0.0002	-0.8145	0.4234
INFL	9.6533	84.6576	0.114	0.9102
INT	20.3433	63.0938	0.3224	0.7499
C	11317.92	5087.389	2.2245	0.0358
ECM = RDGP - (279.2197*PD -0.0001*ED + 9.6533*INFL + 20.3433*INT +11317.9242)				

Source: Output from E-views 10

Domestic debt had a negative relationship with the RGDP. This implies that a 1% increase in domestic debt will cause a 279.2% decrease in RGDP in the long run. This result agrees with the submissions of Sunday and Olusegun (2018); Oseni and Olayinka (2019); Qureshi and Alli (2006) and Pegkas (2018). External debt had a negative relationship with RGDP and thus a 1% increase in external debt will decrease the RGDP by 0.0001% in the long run and not statistically significant going by the probability value of 0.423. However, it violates the findings of Sadiq (2019); Njoku (2016); Nwosu and Okoye (2021); Almed and Almustapha (2021); Victor and Chukwuma (2021); and Enache (2009).

4.2   Hypotheses Testing

The test of hypotheses conducted here will be an attempt to establish if domestic debt, external debt, interest rate and inflation rate will significantly contribute to economic growth in Nigeria.

There is no significant relationship between domestic debt, external debt, interest rate, inflation and economic growth in Nigeria.

There is a significant relationship between domestic debt, external debt, interest rate, inflation rate and economic growth in Nigeria.

The test will be conducted and decision taken at 0.05 level of significance.

Decision Rule:

If the P-value is greater than the specified significance level: H_0 is concluded.

If the P-value is less than or equal to the specified significance level: H_1 is concluded.

Based on the outcome of these hypotheses, it could be deduced that domestic debt had a statistically significant relationship with economic growth in Nigeria. This is because, the coefficient of domestic debt had a p-value of 0.0517 and it was equal to the specified significance level of 0.05. Similarly, there is no statistically significant relationship between external debt, inflation rate, interest rate and economic growth in Nigeria. This is because; the coefficient of external debt, inflation rate and interest rate had p-values of

0.4234, 0.9102 and 0.7499 respectively.

Figure 1: Model Graph
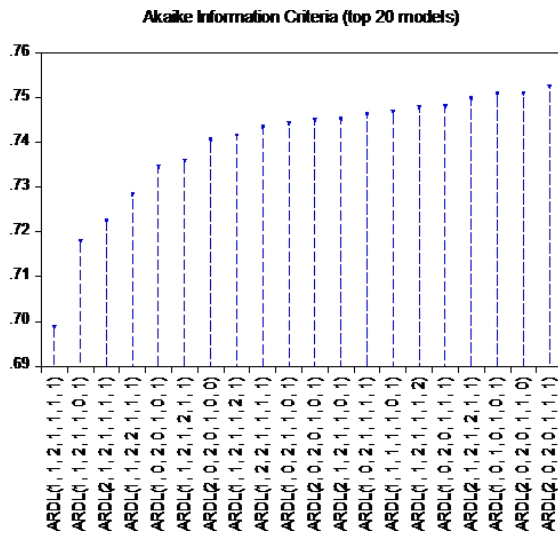
Akaike information criterion (AIC) (Akaike, 1974) is a fined technique based on in-sample fit to estimate the likelihood of a model to predict/estimate the future values. It is used to compare the fit of different regression models. A good model is the one that has minimum AIC among all the other models. Looking at the different ARDL models, the model with the lowest AIC offers the best fit. The absolute value of the AIC value is not important

Fig 2: CUSUM TEST
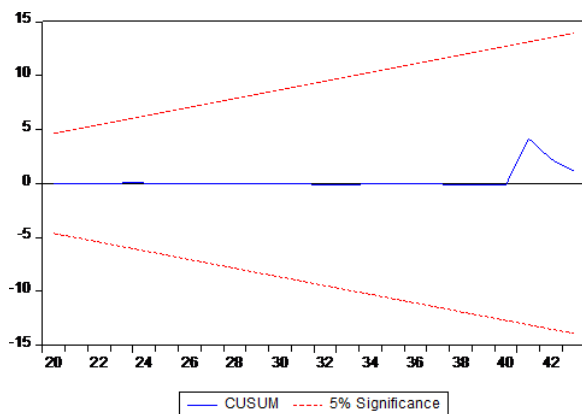
The figure above shows that the plot of CUSUM for the model under consideration is within the 5% critical bound. This by implication suggests that the parameters of the model do not suffer from any structural instability over the period of the study. That is all the coefficients in the error correction model are stable.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1   Summary

This study examined the link between excessive borrowing and economic growth in Nigeria from 1980 to 2022 using real gross domestic product (RGDP) as the dependent variable and Domestic debt (DD), External debt (ED) as independent variables as well as proxies to excessive borrowing. The control variables are Inflation rate (INFL) and Interest rate (INT). Variables were obtained from CBN statistical bulletin (2021). The results of the Augmented Dickey-Fuller unit root test statistics showed that all the variables were stationary at first difference I(1) and a confirmatory test of Philip-Perron (PP) confirmed the

stationarity of all variables at order 1. This implied that the hypothesis of non-stationarity is rejected for all the variables at first difference and thus ARDL model was adopted for analysis. Based on the findings of the study, it can be concluded that there is an existence of long-run equilibrium relationship between proxies of excessive borrowing and economic growth in Nigeria. In our findings, domestic debt had a negative relationship with the RGDP and very significant both in short run and long run while External debt had a negative relationship with RGDP and not statistically significant in the long run. The hypotheses findings shows that domestic debt had a statistically significant relationship with economic growth in Nigeria looking at the p-value of 0.0517 which is less than specified significance level of 0.05. Also, external debt, inflation rate and interest rate do not have a statistically significant relationship with economic growth in Nigeria considering their p-values.

5.2 Conclusion

The study concludes that excessive borrowing has a negative effect on the economic growth of Nigeria. This conclusion is in line with the findings of Ogwuma et al., (2018). The hypotheses findings shows that domestic debt had a statistically significant relationship with economic growth in Nigeria while external debt does not have a statistically significant relationship with economic growth in Nigeria. This means that excessive borrowing should be rejected especially when such borrowing will bring a devastating effect on the economy.

5.3 Recommendations

The findings in this study have some policy implications for policy makers in Nigeria; especially now that the country has increased her quest to borrow at a time when there is falling revenue owing to the fall in international price of crude oil. Based on the findings of this study, it is recommended that

- Government should only borrow with very low interest rates in order to reverse the effect of domestic public borrowing in its economy especially in the long run.
- Government should try and reduce the debt burden used in financing recurrent expenditure as they might find it hard to repay back in the future.
- Government and policy makers must be cautioned to avoid relying on the use of debt to GDP ratio as a basis for borrowing. This does not give a true picture of the debt standing of the nation. Other indexes should be looked into and adopted.
- Diversification of the economy should be the priority of the government as this will deepen the revenue sources in the nation so as to reduce fiscal deficit which is inimical to the economy.
- Fiscal and monetary policies should be harmonized to tackle macroeconomic instability which leads to high inflation, high interest rate and high exchange rate.

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