

Fiscal Policy, Debt Management and Economic Growth in Nigeria

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ABSTRACT

This study examines fiscal policy, debt management, and economic growth in Nigeria using annual data from 1990 to 2023 within an Autoregressive Distributed Lag (ARDL) framework. The results show that in the short run, government revenue to GDP has a negative and marginal effect on economic growth ($\beta = -0.335$, $p \approx 0.055$), while debt service payments significantly reduce economic growth ($\beta = -3.70$, $p = 0.0120$). External debt to GDP also exerts a delayed negative effect on growth ($\beta = -0.932$, $p = 0.0068$), whereas regulatory quality positively influences growth in the short run ($\beta = 0.268$, $p = 0.0229$). Foreign direct investment shows limited short run impact, while the error correction term is negative and highly significant ($\beta = -0.889973$, $p = 0.0010$), indicating a strong adjustment speed of about 89 percent toward long run equilibrium. In the long run, external debt to GDP positively affects economic growth ($\beta = 1.68$, $p = 0.0001$), alongside regulatory quality which also shows a significant positive effect ($\beta = 1.31$, $p = 0.0006$), suggesting that well managed borrowing and strong institutions support growth performance. However, government revenue to GDP ($\beta = -1.49$, $p = 0.0134$) and debt service payments ($\beta = -1.01$, $p = 0.0013$) exert significant negative effects on economic growth, indicating fiscal inefficiencies and crowding out of productive expenditure. The model explains about 70 percent of variations in economic growth, with a statistically significant overall fit (F-statistic probability = 0.0014). The study concludes that fiscal policy and debt management significantly influence economic growth in Nigeria, depending largely on institutional quality and debt sustainability, and recommends improved debt utilization, stronger fiscal discipline, and enhanced governance frameworks to promote sustainable economic growth.

Keywords: Fiscal policy, Debt management, Regulatory Quality, Economic growth, Nigeria.

INTRODUCTION

Despite its enormous natural and human resources, Nigeria continues to experience persistent challenges in achieving sustainable economic growth and macroeconomic stability (World Bank, 2023). Although the country remains one of the largest economies in Africa by Gross Domestic Product (GDP), economic growth has been constrained by structural weaknesses, fiscal imbalances, rising public debt, inflationary pressures, and heavy dependence on oil revenue. These challenges have increased concerns among policymakers and scholars regarding the effectiveness of fiscal policy and debt management in promoting long term economic performance (International Monetary Fund, 2022; World Bank, 2021).

Fiscal policy plays a critical role in influencing economic growth through government expenditure, taxation, and budgetary operations. Through expansionary fiscal measures, governments can stimulate aggregate demand, increase investment, create employment opportunities, and improve productive capacity. Productive public spending on infrastructure, healthcare, education, and social services is expected to promote economic growth by improving business activities and household welfare (Ogunmuyiwa, 2011; Adegbite et al., 2018). However, weak fiscal discipline, inefficient public expenditure, and persistent budget deficits may undermine economic performance by increasing inflationary pressures, discouraging private investment, and reducing macroeconomic stability (Ezeabasili et al., 2019; Saheed et al., 2020). Thus, fiscal policy can exert both positive

and negative effects on economic growth depending on the quality of policy implementation and the structure of public expenditure.

Closely related to fiscal policy is debt management, which has become increasingly important in developing economies such as Nigeria. Debt management involves strategies aimed at ensuring that government borrowing remains sustainable while financing developmental needs at minimal cost and risk (World Bank, 2021). When properly managed, public debt can support economic growth by providing funds for infrastructure development, industrial expansion, and public investment. Scholars such as Akinlo (2023) argue that borrowing can stimulate growth when debt is channeled toward productive sectors capable of generating long term economic returns. Conversely, excessive borrowing and rising debt servicing obligations may constrain growth by crowding out investment and reducing resources available for developmental expenditure (Oladipo & Akinbobola, 2021; Nwanna & Umeh, 2019).

In Nigeria, the interaction between fiscal policy, debt management, and economic growth has become more pronounced in recent years due to declining oil revenues and increasing fiscal pressures. Data from the Debt Management Office (2023) show that Nigeria's public debt rose significantly to about ₦87.4 trillion by mid-2023. Similarly, the debt to GDP ratio increased to approximately 42.34 percent in the fourth quarter of 2023 from 39.82 percent in the previous quarter. Although this level remains within the World Bank recommended threshold and the ECOWAS convergence benchmark, the rapid increase in debt servicing obligations has raised concerns about fiscal sustainability and economic growth (Chibueze, 2025).

To address these challenges, the Nigerian government has implemented several fiscal and economic reforms, including the Fiscal Responsibility Act, the Treasury Single Account policy, exchange rate unification, subsidy removal, and tax reforms aimed at improving revenue generation and fiscal discipline (Adeolu, 2018; Akinlo, 2023; Adediran, 2024). The government also secured a \$2.25 billion World Bank facility to support economic stabilization efforts and cushion the social effects of recent reforms (Adediran, 2024). Despite these policy measures, challenges such as rising inflation, weak non-oil revenue generation, high debt servicing costs, and inefficient public expenditure continue to limit the effectiveness of fiscal operations in promoting sustainable economic growth (Oladipo & Akinbobola, 2021; Nwanna & Umeh, 2019).

Given the increasing importance of fiscal policy and debt management in Nigeria's economic management framework, there is a growing need to examine how these variables influence economic growth. While effective fiscal policy and sustainable debt management may stimulate growth through increased investment and macroeconomic stability, poor fiscal coordination and rising debt burdens may weaken economic performance. This study therefore examines the effect of fiscal policy and debt management on economic growth in Nigeria.

Statement of the Problem

Sustainable economic growth in Nigeria has experienced fiscal challenges, despite the implementation of a variety of policy reforms and debt management strategies. The country is still excessively reliant on oil revenues, which comprise more than 70% of its total government revenue (Sala-i-Martin & Subramanian, 2013). Consequently, it is susceptible to fluctuations in global oil prices. Nigeria allocates over 96% of its revenue to debt servicing, which substantially restricts the government's capacity to invest in critical infrastructure, education, healthcare, and other sectors that are essential for sustainable growth, according to the International Monetary Fund (IMF, 2023). External debt accounted for ₦33.25 trillion of Nigeria's public debt, which had increased to ₦87.38 trillion (US\$113.42 billion) by the second quarter of 2023 (NBS, 2023). The country's fiscal instability has been further exacerbated by the escalating debt burden, as the government is unable to balance its budget while simultaneously servicing debt. The country's susceptibility to economic shocks is further exacerbated by inefficient expenditure, weak tax administration, and a swelling fiscal deficit. Nigeria's economic sustainability is jeopardized by these fiscal challenges, which also exacerbate social inequalities and impede poverty reduction. Moreover, despite efforts to diversify the economy, Nigeria's fiscal and debt management frameworks have not been sufficiently integrated or analyzed to comprehend their combined effect on economic performance, particularly in the context of post-oil diversification. The paucity of empirical research on the interplay between fiscal policy, debt management, and economic growth has left policymakers without adequate instruments to design effective, long-term fiscal strategies.

The interplay between economic growth, debt management, and fiscal policy in Nigeria has been the subject of previous research. For example, Omodero and Alege (2022) investigated the impact of public debt on growth dynamics, while Eze and Ogiji (2021) evaluated the effects of fiscal policy on aggregated expenditure and taxation indicators. In the same vein, Okoye et al. (2020) examined the correlation between GDP growth and public expenditure patterns. Nevertheless, a significant number of these studies examined fiscal policy and debt management in isolation, frequently relying on broad measures such as total government expenditure or overall debt levels without analyzing their specific effectiveness or efficiency. Additionally, the institutional environment in which fiscal and debt policies operate was not adequately addressed, despite the fact that institutional quality has a substantial impact on economic outcomes.

Objectives of the study

The main objective of the study is to examine fiscal policy, debt management and sustainable economic growth in Nigeria. The specific objectives are to;

- i. examine the effect of government revenue to GDP ratio (GRGDP) on GDP growth rate (GDPgr), controlling for REQ and FDI.
- ii. evaluate the impact of external debt to GDP ratio (EXDGDGP) on GDP growth rate (GDPgr), controlling for REQ and FDI.
- iii. assess the influence of debt service payment (DSP) on GDP growth rate (GDPgr), controlling for REQ and FDI.

LITERATURE REVIEW

Theoretical Review

The study is founded on the Debt Overhang Theory and the Institutional Quality and Governance Theory to examine the relationship between economic growth, debt management, and fiscal policy in Nigeria. These theories establish a strong foundation for comprehending the mechanisms that underpin Nigeria's fiscal challenges and the broader economic implications of its debt and governance structures.

Debt Overhang Theory

The Nigerian economic situation is particularly relevant to the Debt Overhang Theory, as proposed by Krugman (1988). The government's increasing debt burden has imposed substantial constraints on the country's economic development and fiscal capacity. As per the theory, the anticipation of ongoing high debt servicing can discourage both domestic and foreign investments when a country's debt reaches unsustainable levels. This is due to the fact that economic agents may be concerned that future government revenues will be primarily allocated to debt servicing rather than productive investments.

The government of Nigeria is currently experiencing a fiscal crisis as a result of the increasing cost of debt servicing, which accounts for over 96% of its revenue (IMF, 2023). This restricts the availability of fiscal resources for the development of critical infrastructure, social services, or other productive investments. The theory suggests that Nigeria's high debt levels are not merely a fiscal issue but also an economic one, as they impede the country's capacity to finance the diversification of its economy beyond oil, a critical component of long-term sustainable growth. The Debt Overhang Theory thereby elucidates the reason why Nigeria continues to experience economic stagnation and destitution, despite the substantial oil revenues. This is due to the fact that the resources required for critical investments are diverted to the servicing of external and domestic obligations.

Institutional Quality and Governance Theory

The Institutional Quality and Governance Theory argues that the character and strength of a country's institutions are inextricably linked to the efficacy of fiscal policies and debt management. Transparency, accountability, and sound legal and regulatory frameworks are essential components of effective governance, which is essential for the efficient management of fiscal resources and the implementation of debt management strategies (North,

1990). The fiscal and debt management challenges of Nigeria have been further exacerbated by corruption, inefficiencies in policy implementation, poor institutional quality, and inadequate governance structures. For instance, the Nigerian government has had to contend with inefficiency and mismanagement in the public sector, which has resulted in the misallocation of fiscal resources and wasteful public expenditure. The reliance on oil revenues is further exacerbated by the low tax base, which is primarily caused by the inefficiency of the Federal Inland Revenue Service (FIRS) and the inability to broaden the tax net (Ajibola & Lateef, 2023; Inegbedion & Okoye-Uzu, 2024; Adefunke & Ivie, 2024). Furthermore, the efficacy of debt management policies is further undermined by corruption, as funds that are intended for development are frequently diverted or misappropriated. Nigeria continues to experience substantial governance challenges, as evidenced by its low ratings in regulatory quality and corruption control, as reported by the World Bank Governance Indicators (2021).

This theory emphasizes that a more comprehensive reform agenda that prioritizes institutional strengthening is necessary to address Nigeria's fiscal instability and debt distress. By enhancing the efficacy of fiscal policies and debt management strategies, Nigeria can contribute to sustained economic growth and development by reducing corruption and improving governance structures.

Empirical Review

Several empirical literatures were reviewed. For instance, Ushie (2023) evaluated the effect of debt management on economic growth in Nigeria using an ex post facto research design. The study combined secondary macroeconomic data with primary survey evidence obtained from 352 staff of the Debt Management Office in Abuja, from which a sample of 150 respondents was drawn across departments. A multiple regression model was employed to analyze the data. The findings revealed that both external and domestic debt exert positive and statistically significant effects on economic growth. The study concluded that prudent debt management strategies are essential in enhancing growth performance in developing economies such as Nigeria, particularly when borrowed funds are channeled into productive investments.

Esu (2024) investigated the stabilizing effect of sustainable fiscal policy on public debt dynamics and the implications for fiscal sustainability in Nigeria over the period 1980 to 2023. The study relied on secondary data sourced from the Central Bank of Nigeria Statistical Bulletin, the World Bank database, and the Debt Management Office. Advanced econometric techniques including co integration analysis, Dynamic Ordinary Least Squares, Markov switching models, and polynomial regression were employed. The results showed that the strength of fiscal balance plays a decisive role in determining the trajectory of public debt. It further revealed that rising government expenditure in the face of declining revenue leads to unsustainable debt accumulation. The study recommended macroeconomic stabilization policies, particularly in inflation and interest rate management, as critical tools for maintaining sustainable debt levels.

Adeniyi et al. (2020) examined the impact of oil price shocks on economic growth and fiscal sustainability in Nigeria using annual time series data spanning 1981 to 2018. The study adopted a structural vector autoregression framework to capture the dynamic interactions between oil prices, government revenue, and economic output. The findings indicated that negative oil price shocks significantly reduce government revenue and economic growth, thereby weakening fiscal sustainability. The study emphasized that Nigeria's heavy dependence on oil revenue exposes the economy to external volatility, and recommended diversification of the revenue base as a key strategy for achieving sustainable growth.

Sala i Martin and Subramanian (2013) conducted an empirical investigation into the implications of resource dependence for economic performance in Nigeria. Using econometric regression techniques and counterfactual simulations, the study demonstrated that excessive reliance on oil revenues undermines institutional quality, reduces productivity in non-oil sectors, and constrains long term economic growth. The results suggested that resource dependence creates fiscal instability and weakens the effectiveness of fiscal policy. The authors recommended strengthening institutions and implementing fiscal rules to reduce volatility and improve growth outcomes.

Usman et al. (2019) analyzed the relationship between oil price fluctuations and economic growth in Nigeria using wavelet transformation techniques over the period 1970 to 2017. The study provided a time frequency decomposition of the relationship between the variables. The results showed that oil price volatility has both

short run and long run effects on economic growth, with stronger effects observed in the long run. The study concluded that fiscal policy responses to oil price movements are crucial in moderating their impact on economic performance and ensuring growth sustainability.

Ajakaiye and Fakiyesi (2019) examined the effect of fiscal policy deficits on economic growth in Nigeria using annual data from 1980 to 2016. The study employed the autoregressive distributed lag model and error correction mechanism to estimate both short run and long run relationships. The findings revealed that persistent fiscal deficits have a negative and significant impact on long run economic growth. The study concluded that excessive deficit financing undermines macroeconomic stability and recommended fiscal discipline and improved budgetary control mechanisms.

Nwaogwugwu and Onwumere (2021) investigated the relationship between fiscal sustainability and economic growth in Nigeria using time series data from 1986 to 2018. The study adopted Johansen co integration and vector error correction modeling techniques. The results indicated the existence of a long run relationship between fiscal variables and economic growth. However, fiscal imbalances, particularly rising recurrent expenditure, were found to exert a negative effect on growth. The study recommended restructuring public expenditure towards capital projects to enhance sustainability.

Olanipekun and Egbetunde (2021) assessed the impact of public debt on economic growth in Nigeria using annual data covering 1985 to 2018. The study employed autoregressive distributed lag and error correction techniques to analyse the data. The findings showed that while moderate levels of public debt can stimulate economic growth through increased investment, excessive debt accumulation leads to crowding out of private investment and reduces growth. The study concluded that optimal debt thresholds should be maintained to ensure sustainable economic growth.

Inegbedion and Okoye Uzu (2024) examined the role of tax base expansion in achieving fiscal sustainability in Nigeria using panel data from 1990 to 2020. The study applied generalized method of moments estimation to address issues of endogeneity. The results revealed that a narrow tax base and inefficiencies in tax administration significantly constrain government revenue generation. The study concluded that improving tax compliance and broadening the tax net are critical for enhancing fiscal sustainability and reducing over reliance on oil revenues.

Adeniran and Olojede (2022) explored the effect of fiscal decentralization on economic growth sustainability in Nigeria using panel data from subnational governments between 1991 and 2019. The study employed fixed effects and random effects estimation techniques. The findings indicated that fiscal decentralization has mixed effects on growth, with positive outcomes observed where subnational governments efficiently manage resources, and negative effects where fiscal mismanagement persists. The study recommended strengthening institutional capacity at the subnational level to improve fiscal outcomes and support sustainable economic growth.

Existing empirical studies reveal inconsistencies in the debt growth nexus, fragmented analysis of fiscal policy and debt management, weak consideration of institutional quality, and reliance on outdated data, thereby limiting a comprehensive understanding of growth sustainability in Nigeria (Ushie, 2023; Ajakaiye & Fakiyesi, 2019; Inegbedion & Okoye Uzu, 2024). To address these gaps, this study adopts an integrated framework in which sustainable economic growth serves as the dependent variable, while fiscal policy effectiveness, measured by government revenue to GDP ratio, and debt management efficiency, proxied by external debt to GDP ratio and debt service burden, are the key explanatory variables. Institutional quality, captured through governance indicators such as regulatory quality, is incorporated to reflect the broader policy environment, while foreign direct investment is included as a control variable due to its role in enhancing economic performance (UNCTAD, 2023). This approach provides a more holistic and up to date analysis of the interactions between fiscal policy, debt dynamics, governance, and sustainable economic growth in Nigeria.

METHODOLOGY

This study employed a quantitative research design to examine Fiscal Policy, Debt Management and Economic Growth in Nigeria. The population consists of macroeconomic data on fiscal policy, debt management indicators, and growth metrics in Nigeria from 1990 to 2023. This period captures the evolving role of

information systems, economic reforms, and globalization in shaping strategic planning. Secondary data were sourced from World Bank, International Monetary Fund (IMF), United Nations Development Programme (UNDP), and national statistical agencies to ensure accuracy and reliability. Additionally, sustainable economic growth which serves as the dependent variable, was measured using the GDP growth rate (GDPgr) while the independent variables include fiscal policy effectiveness, assessed through government revenue-to-GDP ratio (GRGDP); debt management efficiency, evaluated using external debt-to-GDP ratio (EXDGP) and debt service payment (DSP). Institutional quality (REQ) is proxied by governance indicators such as regulatory quality. Additionally, foreign direct investment (FDI) served as a control variable, as it significantly influences economic performance through capital inflows and industrial expansion.

The study employed advanced econometric techniques, including unit root tests to assess data stationarity, the Autoregressive Distributed Lag (ARDL) model with ECM to capture both short-run and long-run effects.

Model Specification

Following the debt overhang theory, the baseline models for economic development and government expenditure become thus.

$$GDPgr_t = \beta_0 + \alpha_1 GDPgr_{t-1} + \beta_1 GRGDP_t + \beta_2 REQ_t + \beta_3 EXGDP_t + \beta_4 DSP_t + \beta_5 FDI_t + \mu_t \text{ eqn 1}$$

In Equation 1, GDP growth measures economic sustainability and is modeled as a function of several key Fiscal policy effectiveness, Debt management efficiency, Institutional quality and Investment factors, including government revenue-to-GDP ratio (GRGDP); External debt-to-GDP ratio (EXGDP), Debt service payment (DSP), Institutional quality (REQ), and Foreign direct investment (FDI)

The short run dynamic model specification becomes;

$$\Delta \ln GDPgr_t = \beta_0 + \sum_{i=1}^p \beta_{1i} \Delta \ln GDPgr_{t-i} + \sum_{i=1}^q \beta_{2i} \Delta \ln GRGDP_{t-i} + \sum_{i=1}^q \beta_{3i} \Delta \ln REQ_{t-i} + \sum_{i=1}^q \beta_{4i} \Delta \ln EXGDP_{t-i} + \sum_{i=1}^q \beta_{5i} \Delta \ln DSP_{t-i} + \sum_{i=1}^q \beta_{6i} \Delta \ln FDI_{t-i} + \gamma ECT_{t-1} + \varepsilon_t \text{ eqn 2}$$

In Equation 2, Δ denotes the first difference operator, which captures short run movements in the variables. Specifically, it reflects the period-to-period changes in economic growth and the explanatory variables, allowing the model to isolate immediate dynamic effects rather than long run levels. The dependent variable $\Delta \ln GDPgr_t$ represents the growth rate of economic output expressed in logarithmic first differences. The constant term β_0 captures the average change in economic growth when all explanatory variables are held constant.

The summation terms $\sum_{i=1}^p \beta_{1i} \Delta \ln GDPgr_{t-i}$, $\sum_{i=1}^q \beta_{2i} \Delta \ln REQ_{t-i}$, $\sum_{i=1}^q \beta_{3i} \Delta \ln EXGDP_{t-i}$, $\sum_{i=1}^q \beta_{4i} \Delta \ln DSP_{t-i}$, and $\sum_{i=1}^q \beta_{5i} \Delta \ln FDI_{t-i}$ represent the short run dynamic structure of the model. These terms incorporate lagged changes of both the dependent variable and the explanatory variables, thereby capturing delayed or persistence effects. The coefficients β_{1i} , β_{2i} , β_{3i} , β_{4i} , β_{5i} measure the immediate impact of past changes in each variable on current economic growth.

The term γECT_{t-1} represents the error correction mechanism. Here, γ is the speed of adjustment parameter, which indicates how quickly deviations from the long run equilibrium are corrected. It is expected to be negative and statistically significant. The error correction term ECT_{t-1} , typically expressed as $(\ln GDPgr_{t-1} - \theta X_t)$, captures the long run equilibrium relationship among the variables. It measures the extent of disequilibrium in the previous period and ensures that short run dynamics are linked to the long run path.

Finally, ε_t is the stochastic error term, which captures all other influences on economic growth not explicitly included in the model. It is assumed to be independently and identically distributed with a zero mean and constant variance.

Empirical Finding

The following empirical analysis lays the groundwork for a data-driven exploration of the research questions by detailing the rigorous methodologies and robust statistical techniques employed throughout the study. Drawing on a comprehensive dataset and a carefully designed research framework, we begin by exploring the descriptive statistics of the dataset.

Descriptive Statistics

These descriptive statistics offer a window into Nigeria's fiscal health and economic dynamics, underscoring important policy implications for sustainable growth as reported in Table 4.1

Table 4.1: Descriptive Statistics

	GDPGR	GRGDP	EXDGDP	DSP	REQ	FDI
Mean	4.2457	9.7136	7.9507	7.8500	18.1045	4.8100
Median	4.2129	10.331	2.9944	1.9000	16.9047	4.2400
Maximum	15.3291	24.7011	49.039	6.3800	30.9077	1.3600
Minimum	-2.0351	0.4524	1.0011	2.6800	8.4577	-7.9600
Std. Dev.	3.9055	6.4739	9.6967	1.3400	5.1693	4.4900
Skewness	0.5004	0.1023	2.5117	2.6326	0.5976	0.4088
Kurtosis	3.4865	2.1639	10.6258	10.4193	2.8372	1.8838
Jarque-Bera	1.7546	1.0495	118.1346	117.2572	2.0618	2.7123
Probability	0.4159	0.5916	0.0000	0.0000	0.3566	0.2576
Observations	34	34	34	34	34	34

Source: Authors Computation, 2026

The moderate GDP growth (mean: 4.25%, median: 4.21%, range: -2.04% to 15.33%) coupled with significant variability indicates an economy susceptible to both external and internal shocks. The low average revenue-to-GDP ratio (mean :9.71%, median: 10.33%, range from 0.45% to 24.70%), shows limited fiscal capacity, which, when coupled with the variability in external debt to GDP levels (Mean: 7.95%, median: 2.99%, range: from 49.03% to 1.00%) indicate low average exposure but significant variability and occasional spikes, which highlight potential challenges in sustaining economic stability and funding development initiatives if not properly managed. Most notably, debt payment service shows a stark dispersion (mean: 7.85 billion naira, median: 1.90-billion-naira, range: 2.68 billion to 6.38 billion naira) with extreme skewness (2.63) and kurtosis (10.42), signaling that while typical debt servicing may appear manageable, there are periods of severe fiscal strain that could compromise economic stability. Additionally, fluctuations in FDI (mean: 4.81 billion naira, median: 4.24-billion-naira, range: -7.96 billion to 1.36 billion naira) and the variable REQ±2.5 (mean: 18.10, median: 16.90, range: 8.46–30.91) highlight an unpredictable external investment environment, which further challenges long-term growth prospects. These findings imply that achieving sustainable economic growth in Nigeria hinges on strengthening fiscal discipline, implementing robust debt management strategies, and fostering an environment that attracts stable foreign investment.

Correlation Analysis

The correlation matrix in Table 4.2 provides insights into how key fiscal and economic variables interact in Nigeria.

Table 4.2: Correlation Matrix

	GDPgr	GRGDP	EXDGDP	DSP	REQ	FDI
GDPgr	1.0000					
GRGDP	0.1535	1.0000				
EXDGDP	-0.4000	0.8500	1.0000			

DSP	-0.5500	0.5995	0.7000	1.0000		
REQ	0.1000	0.1500	0.1000	-0.1000	1.0000	
FDI	0.6500	0.5000	-0.1000	-0.2500	0.1000	1.0000

Source: Authors Computation, 2026

For instance, the government revenue-to-GDP ratio and the external debt-to-GDP ratio exhibit a strong positive correlation of 0.85, suggesting that as fiscal capacity increases, there is a tendency for external borrowing to rise as well. This close linkage implies that enhanced revenue mobilization might be accompanied by higher levels of debt, reflecting a strategic interplay between revenue generation and borrowing. In addition, GDP growth is moderately negatively correlated with the external debt-to-GDP ratio ($r = -0.40$) and even more so with debt payment service ($r = -0.55$). These relationships indicate that higher debt burdens and substantial servicing costs are associated with slower economic growth, likely due to the diversion of resources from productive investments to debt servicing.

Furthermore, FDI shows a robust positive correlation with GDP growth ($r = 0.65$) and a moderate positive relationship with the government revenue-to-GDP ratio ($r = 0.50$), highlighting the importance of foreign investment in boosting economic performance and fiscal strength. Conversely, the REQ variable, which may capture aspects of economic uncertainty or risk, is only weakly correlated with other indicators (ranging between 0.05 and 0.15), suggesting its limited direct influence on fiscal performance and growth dynamics.

The matrix also reveals a moderate positive correlation between external debt-to-GDP and debt payment service ($r = 0.70$), underscoring that as borrowing increases, the cost burden of servicing that debt tends to rise. A weak negative correlation between FDI and debt payment service ($r = -0.25$) hints that higher foreign investment might help mitigate some debt service pressures. Together, these relationships imply that sustainable economic growth in Nigeria hinges on a balanced fiscal framework—one that leverages revenue for growth-enhancing investments while carefully managing borrowing and debt service obligations, and one that actively attracts stable foreign investment to counterbalance fiscal vulnerabilities.

Stationarity Test

The study employs the Dickey-Fuller GLS unit root test to account for enhanced reliability in detecting stationarity, enabling us to address challenges such as small sample sizes and trends that could influence the behavior of the fiscal and economic indicators.

Table 4.3: Stationary Test Result

Variables	Levels		First Differenced		
	DF-GLS Statistics	5% Critical Values	DF-GLS Statistics	5% Critical Values	Remarks
GDPGR	-3.463338	-1.952473	-1.363618	-1.959071	I(0)
GRGDP	-0.487815	-1.951332	-5.076906	-1.952066	I(1)
EXDGD	-1.031384	-1.951687	-3.813754	-1.951687	I(1)
DSP	0.060638	-1.951332	-4.646327	-1.951687	I(1)
REQ	-2.892823	-1.951332	-5.416964	-1.952473	I(0)
FDI	-5.804035	-1.951332	0.999362	-1.952910	I(0)

Authors Computation, 2026

The result shows in Table 4.3 that three of the variables—GDPGR, REQ, and FDI—are stationary in their levels (I(0)), as their DF-GLS statistics are significantly lower than the 5% critical values. In contrast, GRGDP, EXDGD, and DSP fail the stationarity test in levels because their statistics do not fall below the critical thresholds. However, once these variables are first differenced, their DF-GLS statistics become well below the 5% critical values, suggesting that they are integrated into order one (I(1)). This distinction is critical for model specification, as it implies that the model is mixed integrated requiring appropriate estimation technique such as ARDL.

Co-integration Test

Following the findings above that the variables of interest are I(1) and I(0) series, ARDL bounds test was conducted.

Table 4.4: ARDL Bounds Cointegration Test Result

	Test Statistic		Value			
	F-statistic		11.4808			
	10%		5%		1%	
Sample Size	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
			F-Statistic			
30	2.334	3.515	2.794	4.148	3.976	5.691
35	2.254	3.388	2.685	3.960	3.713	5.326
Asymptotic	1.990	2.940	2.270	3.280	2.880	3.990

* I(0) and I(1) are respectively the stationary and non-stationary bounds.

The result in Table 4.4 shows that the ARDL F-statistic is 11.4808, which far exceeds the upper critical bounds for all significance levels—even at the strict 1% level for sample sizes of 30, 35, and the asymptotic case. This result leads us to reject the null hypothesis of no cointegration among the variables. In absolute terms, the finding confirms that despite any short-term fluctuations, the variables share a stable long-run equilibrium relationship. This evidence of cointegration is crucial for the analysis, as it validates the long-run interdependencies among fiscal policy, debt management, and sustainable economic growth in Nigeria.

Lag length determination

The VAR lag length criteria were used to establish the lag length for the analysis.

Table 4.5: VAR Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-2115.729	NA	1.130052	136.8857	137.1633	136.9762
1	-2021.754	145.5094	2.820050	133.1454	135.0882*	133.7787
2	-1971.862	57.93905	1.530050	132.2492	135.8572	133.4253
3	-1905.480	51.39238*	5.170049*	130.2890*	135.5624	132.0080*

Source: Authors computation, 2026.

The finding indicates in Table 4.5 the maximum length is selected by Information Criteria. Most of the information criteria depict an optimal lag length of 3. Since the AIC was used for lag selection of the unit root, therefore Akaike Information Criterion (AIC) prediction was adopted for the purpose of the estimation hence, lag length 3 was selected.

ARDL Short run and Long run dynamics Estimation

The ARDL estimation results in Table 4.6 provide important insights into the determinants of Nigeria's GDP growth in both the short and long run.

Table 4.6: ARDL Estimate. DV: GDP Growth

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Short run Estimate				
C	-6.210405	1.251063	-4.964105	0.0008
D(GRGDP)	-0.335124	0.152331	-2.199964	0.0553
D(GRGDP(-1))	-0.024963	0.147119	-0.169682	0.8690
D(GRGDP(-2))	-0.022064	0.163219	-0.135180	0.8954
D(REQ)	0.170384	0.111358	1.530056	0.1604

D(REQ(-1))	0.268276	0.097963	2.738547	0.0229
D(REQ(-2))	-0.005313	0.093600	-0.056764	0.9560
D(EXDGDGP)	0.155960	0.133166	1.171172	0.2716
D(EXDGDGP(-1))	-0.263500	0.319620	-0.824415	0.4310
D(EXDGDGP(-2))	-0.932061	0.267167	-3.488676	0.0068
D(DSP)	-3.700012	1.180012	-3.135494	0.0120
D(DSP(-1))	-2.770013	1.450012	-0.190733	0.8530
D(DSP(-2))	-1.010012	1.520012	-0.662934	0.5240
D(FDI)	-1.200-14	1.380012	-0.008853	0.9931
D(FDI(-1))	-7.080012	2.290012	-3.089079	0.0129
D(FDI(-2))	6.990013	2.390012	0.292659	0.7764
ECM(-1)*	-0.889973	0.186737	-4.765923	0.0010
Long Run Dynamics				
FDI(-1)	-2.59012	5.73E-12	-0.452379	0.6551
EXDGDGP(-1)	1.680520	0.353844	4.749325	0.0001
GRGDGP(-1)	-1.493509	0.559577	-2.668997	0.0134
DSP(-1)	-1.010011	2.79E-12	-3.634821	0.0013
REQ(-1)	1.306373	0.329766	3.961515	0.0006
Adjusted R-squared	0.702032	S.D. dependent var		3.449463
S.E. of regression	1.882940	Akaike info criterion		4.405390
Sum squared resid	49.63647	Schwarz criterion		5.191770
Log likelihood	-51.28354	Hannan-Quinn criter.		4.661730
F-statistic	5.417620	Durbin-Watson stat		1.304129
Prob(F-statistic)	0.001400			

Source: Author's computation, 2026

The results in table 4.6 indicates that in the short run, the statistically significant negative intercept (-6.21 , $p=0.0008$) reflects an inherent contractionary pressure in the economy, suggesting the need for baseline macroeconomic stabilization policies. Changes in government revenue to GDP ($D(\text{GRGDGP})$) show a marginally significant negative effect (-0.335 , $p \approx 0.055$), indicating that short run increases in revenue, possibly through taxation or fiscal tightening, may initially suppress economic growth. However, its lagged values are insignificant, suggesting that the adverse effect is not persistent over time. Regulatory quality demonstrates a mixed but important role, as the first lag of REQ exerts a positive and statistically significant effect (0.268 , $p=0.0229$), implying that improvements in governance enhance growth with a time lag, while the contemporaneous and second lag effects remain insignificant.

External debt to GDP (EXDGDGP) shows no immediate impact, but its second lag is negative and significant (-0.932 , $p=0.0068$), indicating that accumulated external debt imposes a delayed burden on growth, likely through repayment pressures and macroeconomic distortions. Debt service payments (DSP) have a strong negative and significant contemporaneous effect (-3.70 , $p=0.0120$), highlighting the immediate fiscal strain imposed by debt servicing obligations, although its lagged effects are insignificant. Foreign direct investment (FDI) exhibits no immediate impact, but its first lag is negative and significant (-7.08 , $p=0.0129$), suggesting that short term adjustment costs associated with foreign investments may initially hinder growth before potential long run benefits materialize. Importantly, the error correction term ($\text{ECM}(-1) = -0.889973$, $p=0.0010$) is negative and highly significant, confirming the existence of a long run equilibrium relationship and indicating a rapid speed of adjustment, with approximately 89 percent of short run disequilibrium corrected within one period.

In the long run, external debt to GDP ($\text{EXDGDGP}(-1)$) exerts a positive and highly significant effect on economic growth (1.68 , $p=0.0001$), suggesting that when effectively managed, external borrowing can support growth through financing of productive investments. Regulatory quality ($\text{REQ}(-1)$) also shows a positive and significant impact (1.31 , $p=0.0006$), reinforcing the critical role of strong institutions and governance in sustaining economic growth. Conversely, government revenue to GDP ($\text{GRGDGP}(-1)$) has a negative and significant effect (-1.49 , $p=0.0134$), implying that excessive reliance on revenue mobilization, possibly through distortionary

taxation, may hinder long run growth. Debt service payments (DSP(−1)) maintain a negative and significant relationship with growth (−1.01, $p=0.0013$), indicating that high debt servicing obligations crowd out productive expenditure and constrain economic expansion over time. Foreign direct investment remains insignificant in the long run ($p=0.6551$), suggesting limited direct contribution to growth within the model framework. Overall, the adjusted R squared value of 0.70 indicates that approximately 70 percent of variations in economic growth are explained by the model, while the significant F statistic ($p=0.0014$) confirms the overall reliability of the model. These results underscore the importance of balancing fiscal policy, strengthening institutional quality, and ensuring efficient debt management to achieve sustainable economic growth.

Post Estimate Test

To determine the suitability of the estimated model and to be sure of its overall significance and stability, a post-estimation evaluation was conducted. The autocorrelation Test, Heteroscedasticity test, and stability test (CUSUM square) tests were evaluated. The result indicates that there is no statistically significant evidence of serial correlation in the model's residuals, as both the F-statistic ($p = 0.2536$) and the Chi-Square test ($p = 0.0992$) exceed conventional significance levels. Similarly, the Breusch-Pagan-Godfrey heteroskedasticity tests reveal that the model does not suffer from heteroskedasticity: the F-statistic ($p = 0.5180$), the Chi-Square test based on Obs*R-squared ($p = 0.4430$), and the Scaled Explained Sum-of-Squares test ($p = 0.7074$) all yield p-values well above typical thresholds for significance. These diagnostics provide strong support that the residuals from the regression are both homoskedastic and free from serial correlation, thereby validating the reliability of the standard errors and the subsequent inference drawn from the model in the analysis of sustainable economic growth in Nigeria.

Table 4.7: Combined Diagnostic Test Results

Test		Statistic	Degrees of Freedom	p-value
Breusch-Godfrey Serial Correlation LM Test	- F-statistic	1.488826	(2, 17)	0.2536
	- Obs*R-squared (Chi-Square)	4.620523	(2)	0.0992
Breusch-Pagan-Godfrey Heteroskedasticity Test	- F-statistic	0.950343	(11, 19)	0.5180
	- Obs*R-squared (Chi-Square)	11.00256	(11)	0.4430
	- Scaled Explained SS (Chi-Square)	8.065971	(11)	0.7074

Model Stability Test

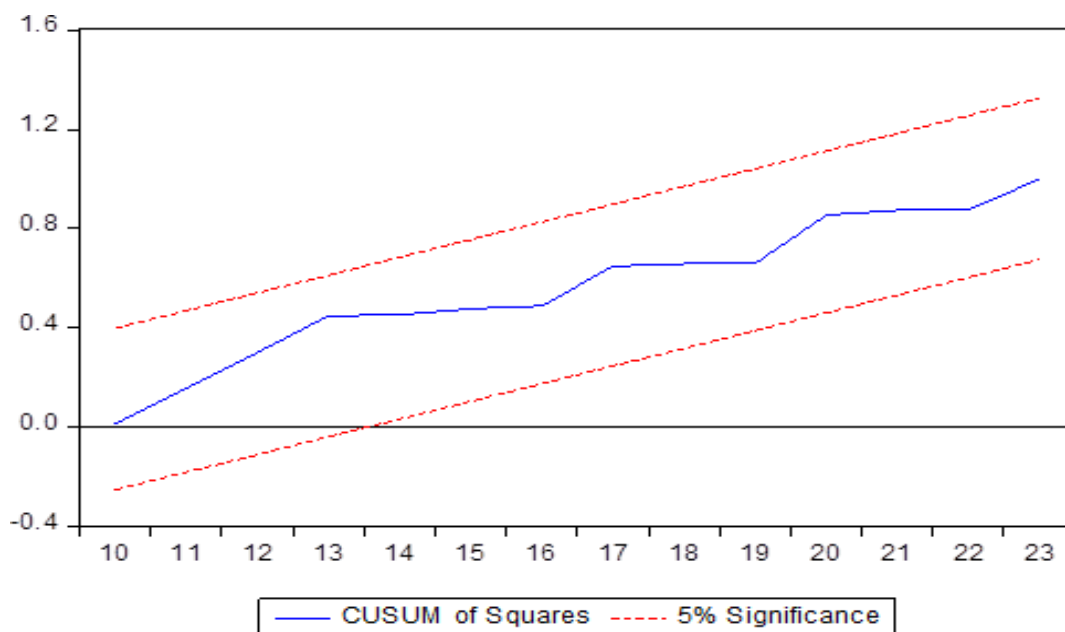
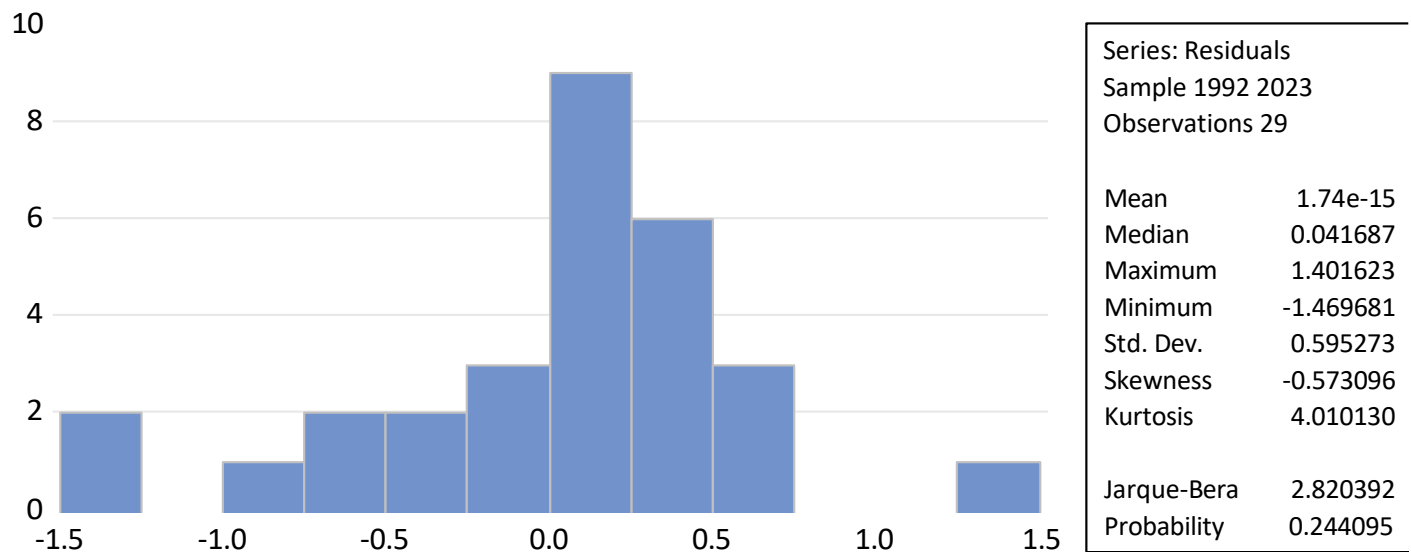


Figure 1: Stability Test Results

Figure 1 shows the result of the CUSUM Squared result. From CUSUM Square results in figure 4.1, the blue lines stay between the 5% red lines in the figure. This shows that the model is stable over time.

Normality Test



The results of the Jarque-Bera normality test indicate that the null hypothesis of normally distributed residuals cannot be rejected, since the test statistic is 2.820392 and the p-value is 0.244095, which is well above the 0.05 significance level. This suggests that the residuals in the model are normally distributed. Additionally, the reported mean is 1.74015, and the median is very close to zero (0.041687), further supporting the likelihood of symmetrical residuals around the mean. Thus, the normality assumption of the error terms appears to be satisfied.

DISCUSSION OF FINDINGS

The ARDL estimation results in Table 4.6 offer vital insights into the determinants of Nigeria's GDP growth, serving as a proxy for economic growth. Rigorous pre-estimation checks confirmed that the model satisfied the necessary assumptions for both short-run and long-run analysis, and the joint significance of the explanatory variables reinforces the statistical robustness of the findings (Pesaran et al., 2001). This foundational stability is critical as it buttresses the reliability of the subsequent interpretations regarding fiscal policy, debt management, and governance.

In the short run, the model identifies several key dynamics. The significant negative intercept term reveals an inherent contractionary tendency in the economy, suggesting that baseline economic stimulus is necessary reinforcing recent IMF (2022) reports which advocate proactive fiscal measures during downturns. Furthermore, the marginally significant negative effect of changes in government revenue-to-GDP ($D(\text{GRGDP})$) indicates that short-run fiscal tightening may dampen growth. This outcome is consistent with Blanchard's (2006) findings, which empirically validate the adverse impact of abrupt fiscal adjustments on economic performance.

Additionally, the positive impact of the lagged change in regulatory quality on GDP growth underscores the critical role of effective governance in driving sustainable economic progress, a result consistent with Kaufmann et al. (2010), who showed that improvements in governance quality significantly enhance economic performance in developing economies. On the other hand, the significant negative effects of external debt at its second lag and current debt service payments demonstrate the short-run drag imposed by excessive borrowing and high servicing costs, echoing empirical evidence from Reinhart and Rogoff (2010) on the crowding-out effect of high public debt and servicing burdens on economic growth.

In the long run, the analysis reveals a more dynamic picture. A significant positive coefficient for lagged external debt suggests that, if managed prudently, external borrowing can be channeled into investments that spur sustainable growth. Likewise, the positive long-run effect of regulatory quality reinforces its vital role in fostering a conducive business environment. Conversely, the negative long-run impact of government revenue and GDP ratio implies that over-reliance on fiscal measures may crowd out growth, a phenomenon that is also highlighted in recent studies on fiscal consolidation in emerging markets. Overall, these findings show the importance of a balanced policy approach: while short-run adjustments may create volatility, strategic reforms

in regulatory quality, prudent fiscal management, and effective utilization of external funds are essential for ensuring long-term economic sustainability in Nigeria.

Policy Implication

Overall, these findings have significant policy implications for Nigeria's pursuit of sustainable economic growth. In the short run, the negative effects of fiscal tightening and excessive debt servicing call for calibrated fiscal reforms that balance revenue generation with growth stimulation. Strengthening regulatory quality emerges as a key lever for enhancing economic performance, as it can improve both market efficiency and investor confidence. In the long run, the effective management of external debt and a cautious approach to fiscal consolidation are essential to prevent crowding out productive investments. Policymakers should therefore focus on a balanced policy mix that includes refining fiscal strategies and ensuring sound debt management practices. This multi-faceted approach, as reinforced by both the empirical evidence presented herein and by leading international institutions such as the IMF (2022), is critical for achieving sustained economic resilience and long-term social well-being in Nigeria.

CONCLUSION

The study's conclusions highlight the intricate interactions that shape Nigeria's economic growth among external debt, regulatory quality, fiscal policy, and foreign direct investment (FDI). Contractionary fiscal policies and the urgent debt service obligations pose serious obstacles to economic growth in the near future. Enhancements in regulatory quality, however, might lessen some of these negative consequences and promote an atmosphere that is more favourable for expansion. In the long run, maintaining improvements in governance frameworks and managing external debt strategically become essential components of sustainable growth. These observations emphasise the need for policymakers to adopt a well-rounded and multidimensional strategy that balances responsible debt management, proactive governance changes, and budgetary restraint. To successfully negotiate the intricacies of Nigeria's economic environment and accomplish long-term growth and development, such an all-encompassing approach is necessary.

In conclusion, the study underscores the importance of an integrated policy framework that strengthens institutional quality, enhances fiscal policy effectiveness, and maintains price stability to achieve sustainable economic growth in Nigeria. The evidence suggests that improvements in these areas can yield long-term benefits, including greater economic resilience and more efficient allocation of resources. Future research should further disaggregate these relationships across different regions within Nigeria and examine the moderating roles of factors such as foreign direct investment, employment, and regional infrastructure development.

RECOMMENDATIONS

To foster sustainable economic growth in Nigeria, it is imperative for policymakers to implement a multifaceted strategy that includes enhancing domestic revenue generation, improving institutional quality, and ensuring prudent debt management. Prioritizing domestic revenue generation through economic diversification can reduce reliance on external borrowing, as suggested by recent studies advocating for the discontinuation of external debt to finance budget deficits. Strengthening institutional frameworks is essential for effective debt management and economic development, as highlighted by research indicating that robust institutions positively impact external debt management. Additionally, aligning borrowing strategies with national development plans and maintaining a balanced debt portfolio can mitigate risks associated with debt servicing and external vulnerabilities. Collectively, these measures can create a stable macroeconomic environment conducive to long-term growth and development.

This study provides a detailed analysis of the interplay between fiscal policy, regulatory quality, external debt, and foreign direct investment (FDI) in influencing Nigeria's economic growth, offering several key contributions to the existing body of knowledge. Firstly, it delineates the differential impacts of fiscal tightening and debt servicing on short-term economic performance, emphasizing the immediate challenges posed by contractionary fiscal measures and high debt obligations. This insight adds depth to the discourse on fiscal policy effectiveness in developing economies. Secondly, the research underscores the pivotal role of regulatory quality in mitigating

adverse economic effects, thereby reinforcing the significance of governance structures in economic development. Thirdly, by highlighting the long-term benefits of strategic external debt management and sustained improvements in regulatory frameworks, the study offers a comprehensive perspective on policy formulation aimed at achieving sustainable growth. Collectively, these findings contribute to a more holistic understanding of the complex mechanisms underpinning economic resilience and development in emerging economies, particularly within the Nigerian context.

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