EXTERNAL DEBT AND ECONOMIC PERFORMANCE OF NIGERIA

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ABSTRACT

The study examines the impact of public external debt on the economic performance of Nigeria from 1980 – 2013. Ex post factor design was used in the study. Secondary data were collected from Central Bank of Nigeria statistical bulletin. The study reveals a positive relationship between economic performance of Nigeria and external debt. It therefore concludes that there is significant relationship between public external debt and Nigerian economic growth. It was recommend that the government should continue to augment domestic resources with foreign resources to facilitate economic growth, though cautions that the government should begin the process of diversifying its economic base to avoid over reliance on external borrowing to finance its deficits since the servicing of external debt implications on the economy in the long run.
KEYWORDS: Public External Debt, Economic Growth

INTRODUCTION

One most important objective of macroeconomic policies in recent years has been the attainment of sustainable economic growth and development of an economy most especially the Less Developed Countries (LDCs) like Nigeria. Such countries are characterized by low capital formation due to low levels of domestic savings and investment. No government is an island on its own; it would require aid so as to perform efficiently and effectively. It is expected that these LDC's when facing a scarcity of capital would resort to borrowing from either internal or external sources so as to supplement domestic saving. Hence, borrowing may be considered as a second best alternative to capital formation during periods of depression in an economy.

Nigeria has an economy that is very dependent upon its oil sector. The oil sector accounts for about 95% of Nigeria's foreign exchange earnings, they have oil reserves estimated between 24 billion and 31.5 billion, and produce 90 million tons per year. Oil revenue constitutes about 14% of Nigeria's GDP and roughly 90% of its income. Essentially, Oil revenues are as well the main source of financing government expenditures and imports of goods and services, as increasing oil prices over the years has boosted public expenditures on social and

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economic infrastructures. Yet the many years with oil money have not brought the population an end to poverty nor, at least until recently, have they enabled the economy to break out of what seems like perennial stagnation in the non-oil economy. The problem with Nigerian economy has been traced to failure of successive governments to use oil revenue and excess crude oil income effectively in the development of other sectors of the economy.

Nigeria has been a member of the Organization of the Petroleum Exporting Countries (OPEC) since 1971. Nigeria was the fifth largest producer in OPEC in 1986 and estimated to have reserves of sixteen billion barrels, 2.23% of the world reserves. Nigeria oil boom could rightly, be traced to the mid-seventies when there was crisis in the Middle East which led to an increase demand and sale of Nigeria oil. This resulted in considerable foreign exchange earnings by the government. The government embarked on fiscal policy expansion during the oil boom era of the 1970s. Public expenditure as a percentage of GDP increased from 13 per cent in the 1960-69 periods to 29.7 per cent in the late 1980s. However, towards the close of the decade, the international oil market started experiencing a glut and the prices of oil fell drastically low. But as the oil boom declined in the 1980s, priorities of government expenditure did not change.

In addition, the revenue base of the federal government in relation to the GDP declined continuously during the period. From 19.5 per cent of GDP in the 1970s, this declined to 11 per cent of GDP in 1990s and further to 9 per cent in 2000. Consequently, the fiscal operations of the federal government resulted in large deficits. From an average of 0.8 percent of GDP in the 1970-1979 periods, the level of deficit increased persistently averaging 5.1 percent in 1980-1994 and 10.0 in 1990-94. In order to avoid economic problems like inflation, political and social crisis inherent in the period (1980-1985), the government of Shagari opened the gate way to borrowing. Loans were raised primarily to finance a number of projects. Being a loan from private sources, it attracted higher interest rates while the maturity period was shorter. At the end of 1990, the level of total debt outstanding increased more than two-fold from the preceding year's level of N1, 265.7 million.

Since then more loans have been raised in the private capital market as funds from the bilateral and multilateral institutions dwindled. This caused a remarkable shift in the structure of the debt outstanding and consequent increase in debt burden. Actually, the borrowing was done with the hope that there would be a turnaround in the international oil

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market perhaps in no distance future. It was equally, hoped that the borrowed fund would be a turnaround in the purchasing of domestic goods. However, the expected turn around did not materialize. Rather it came to a point that the amount borrowed was greater than the national income. Nigeria has not had a stable macroeconomic background since the late 1990's up to the early 2000. The GDP growth has been fluctuating widely, peaking at an all-time high of 10.2% in 2003. The inflation rate, which had reached an all-time high of 29.3% in 1996, dropped in the early part of 2000 but has kept fluctuating. The performance of major monetary aggregates did not show any appreciable improvement.

They have grown very rapidly in most of the years, exceeding set targets, sometimes by wide margins. The excessive fiscal operations of the three tiers of government were financed principally through increased debt. There are two major sources of debts in Nigeria the internal and external sources: the internal sources include development stocks, treasury bills, treasury certificate, treasury bonds and ways and means of advances, while external debt sources include bilateral and multilateral sources such as world bank, International monetary fund (IMF), African Development bank. There are London group of creditors and the Paris club group of creditors. The gross increase in the total debt stock has exposed the nation to high debt burden and has resulted to the poor growth of the nation's output. Nigeria's high debt burden has had grave consequences for the economy and the welfare of the people. The servicing of the debt has severely encroached on resources available for social-economic development and poverty alteration. What appears undisputable is the increasingly large debt service requirement which imposes considerable stress on the Nigerian economy even when the improved resource inflow is factored into the country's cash flows.

Despite the government conscious effort in managing the nation's debt, the issue of debt has still been a burden to the Nigerian economy. Large debt service payment obligations and debt burden has depressed investment and hence economic growth through its illiquidity and disincentive effects. The country has been experiencing resource underutilization, high incident of poverty and decay of infrastructures.

This study focuses on the impact of public external debt on economic development of Nigeria by assessing the individual effects of the country's domestic and external debt stocks and service payments on economic development (proxied with GDP per capita) of Nigeria.

STATEMENT OF THE PROBLEM

A critical examination of the Nigerian macroeconomic indicators revealed that, the country is characterized with abundant idle human and material resources which would have been exploited with the public debt borrowed by the government. For instance, Nigerian is rated one of the poorest country in the world and 148th out 177 countries in Human Development index (HDI) in spite of the significant growth in public debt and black gold exploitation (Ajayi and Khan, 2000). There is high rate of infrastructural decay that threatens the existence and survival of enterpreneual development. The problem is that significant proportion of Nigerian external debt cannot be accounted for while others are embezzled and invested in personal use in the country.

This paper therefore examines the effect of public external debt on the economic growth of Nigeria.

LITERATURE REVIEW

EXTERNAL DEBTS AS COMPONENT OF PUBLIC DEBT IN NIGERIA

Nigeria is reported to have incurred her first official external debt when she borrowed the sum of US$28 million from the World Bank in 1958 for her railway lines extension programme. As the foreign exchange positions of the country worsened during the era of the international monetary crisis of the 1970s and the 1980s Nigeria had no other options than to obtain trade credits and medium-long-term capital from the world money and capital markets to proceeds with her development programmes. The foreign exchange problems of the Nigerian economy can be traced to 1964, when Nigeria's balance of payments position began to flash warning signals in the current account. This led CBN, for the first time into imposing qualitative and quantitative import restrictive measures in order to conserve foreign exchange (Onoh, 2007).

The adverse balance of payments position was worsened by the Nigerian-Biafra war, which lasted from July 1967 to January, 1970. During the war period exports of palm produce and crude oil, the major export products of the war-torn area were drastically reduced. As the balance of payments worsened, so also did the external reserves position. Reserves were partly applied to support normal imports and partly to finance the importation of arms. The depletion of the foreign exchange reserves coupled with the abolition of the convertibility of the Nigerian currency by Decree No. 51 of 1968, shook international confidence in the Nigerian economy and the currency. By 1968, the external reserve level of 1960 had dropped

to 1/3. With the abolition of the convertibility of the Nigerian currency, international payments were settled at the CBN level only and deferred payments were imposed on all imports.

With the end of the war in January, 1970, oil production resumed. It reached its peak production level by 1973, and at a time the barrel price of crude oil rose in the world oil market. The Israel-Arab war of 1973, which led to the boycott of oil exports to the western countries, accused by the Arab countries of complicity with Israel during the war, brought a stroke of fortune to the Nigerian oil industry. Nigeria's foreign exchange earnings increased dramatically to an unprecedented level. Deficit in the current account of the balance of payments was wiped out, and the reserve position increased astronomically. Measured in months import adequacy, Nigeria's external reserves in 1974 were adequate at the time to sustain Nigeria's imports for 23.9 months at the then current rate of import.

By 1977 oil boom had turned to oil glut because of the conservation measures taken by the Western countries to reduce oil consumption. Consequently, oil prices plummeted. It became difficult to pay for current imports as Nigeria's trade debts increased. Nigeria was compelled to borrow externally. Funds were borrowed from euro-capital market and from consortia of international bankers at very exorbitant rates to finance capital expenditure. By 1979 the Nigerian economic problems had been powered to crisis proportions. Short, medium and long-term debts increased beyond the capacity of the economy to carry. In the early 80s Nigeria came under intense pressure from her creditors to settle outstanding matured debts. The creditors also ceased to continue to keep the Nigerian credit line open.

DEBT BURDEN INDICATORS

The burden of a country's external debt may not be easily discernible until the total arrears of debts outstanding (principal + interest) are calculated and presented in ratio forms. To obtain a clearer picture of Nigeria's external debt burden the following conventional ratios have been computed from the relevant statistics of CBN's publications (Okereke, 2003). The ratios are:

o   Debt service/export receipts;

o   Debt stock/export receipts; and

o   Debt stock/GDP.

RATIO OF DEBT SERVICE TO EXPORT- RECEIPTS

It is the ratio of matured debt or debt-service payment due for a given year to the export earnings or receipts of the same year. Service payment of a given year is the sum of the matured principal sum plus the accrued interest due. The magnitude of the export earnings of a given year determines how high or how low the debt-service ratio of a country will likely be, by a given debt service payment of the same year. The repayment of the principal loan and the accrued interest is an important international obligation of a debtor country. It is, however, possible to defer the matured debt, if a moratorium or a rescheduling agreement is reached with the creditor country. Any debt not rescheduled on due date or after the period of grace is deemed to be in default. A default could have international repercussion. International confidence in the debtor country's ability to discharge her international obligations becomes eroded and the prospects of the debtor country securing future loans or credit lines become jeopardized. The World Bank recommends a debt-service ratio of not more than 10% for public debts, which take precedent over private debts. The precedent of the public debt owed to the Paris Club of creditors over private debt owed to the London Club is reiterated by the modus operandi led down for debt negotiation. Debtor countries must first negotiate with the London Club of short-term creditors. Unless a rescheduling agreement was reached with the London Club the official Paris Club of medium/long-term creditors will not reschedule or negotiate with the debtor country.

RATIO OF DEBT STOCK TO EXPORT

The ratio measures the outstanding debt stock of a given year as a percentage of the export receipts of the same year. It is important to note that debt stock of a given year is many folds greater than debt service payment of the same year. The ratios for the period 1983-2011, are significantly high and suggest that the outstanding debt stock of each year could 'swallow' the export proceeds of the same year several times. In order words if the export receipts for each year in the period, 1983-2005 were to be applied in full to retire the outstanding debt stock of the same year in question then the export will be grossly inadequate.

CAUSES OF EXTERNAL DEBT PROBLEMS IN NIGERIA

Sansui classifies the causes of Nigeria's external debt into two areas namely, exogenous factors and endogenous factors. The exogenous factors are factors over which the country has no control. These factors contributed to the inherent weaknesses in both the structure and

management of the Nigerian economy and imposed a severe debt problem on the country (Sanusi, 1988). These exogenous factors are:

1. Nigeria's economy is a mono-cultural economy that depends heavily on oil for its external revenue. The oil sector provides 80% of Federal Revenue and 96% of export earnings and accounted for 22% of the GNP in 1980. Unfortunately, the glut in the international market in 1981 affected the country's foreign exchange earnings. There is no doubt that the rising debt profile was escalated by declining production and export performances. The poor performance of the export sector as a result of low productive capacity and other factors, gave rise to inadequate export earnings.

2. Deregulation of the dollar against other currencies. Since Nigeria's external debt is denominated in dollars, the conversion of debt was in French France, Japanese Yen, Deutsche Mark, Swiss Franc, Pound Sterling etc., into the Dollar, which increased the dollar amount of the debt stock as a result of the depreciation of dollar against most of these currencies.

3. Capitalization of unpaid interest; when there is a default in the interest payment, the interest accrued and due is added to the principal thereby increasing the debt stock. This was the case when Nigeria reduced payment of interest due to the London club in May 1990, from the contractual rate of 9% to 30%.

4. Fluctuating Interest Rate; the increase in variable interest rates in response to the market situation problem.

5. Accumulation of Trade Arrears; the First Bank Monthly Business and Economic Reports (1991 and 1992) indicated that debt increases principally from the country's inability to settle the trade arrears which accumulated about Ni .98b in 1982 and steadily increased to N6. lb in 1984. This increase was as a result of over dependence on industrialized countries for supply of both domestic and industrial raw materials.

Endogenous factors include inappropriate policy measures taken by government such as the Pre-SAP Policy of maintaining over valued rate of exchanges for governments import substitution and industrialization strategies, such as:

Low Saving Habit: Nigeria developed exotic and expensive ways of wasting resources during the oil boom era. Expenditures on both public and private sectors were adjusted in agreement with accumulation of short-term debts.

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Unrealistic Foreign Exchange: Both the monetary and exchange rate policy of Nigeria did not respond quickly enough to reflect the external value of the Naira, when there was drastic decline in the inflow of resources as a result of depressed oil market. The Naira consequently became overvalued. This created severe pressure on the external sector.

Diversion of Loans: Sometimes there may be diversion of proceeds of loan into uses other than which they were meant for.

Financing of Long-Term Project with Short and Medium-Term Loans: As earlier observed in this study, the structure of Nigeria's external debt showed that it constituted mainly of short and medium-term loans. For instance, in 1986 short and medium term loans accounted for about 85% of the total debt outstanding. Most of these loans were used to finance long-term project, thus making it impossible to repay them.

Inconsistent Monetary and Fiscal Policies: The fiscal and monetary policies pursued were generally inconsistent with the state of the economy and the growth objective of the government such as the domestic economic situation deterioration and capital flight. Resources almost got exhausted with output and export declining. On expenditure issues, the government is involved in the importation of foodstuffs and other non-essential items, inflationary and deficit financing was rampant. This also led to high accumulation of arrears and other obligations, which led to delay in payment.

EXTERNAL DEBT AND ECONOMY: EMPIRICAL STUDIES

Lora and Olivera (2006) test the crowding out effect of public debt on social services between 1985 and 2003 and find that the effect comes mostly from stock of debt and not debt service. They posit that loans from multilateral organization do not ameliorate the adverse consequences of debt on social expenditures. Thus, if Lora and Olivera's (2006) results hold for Africa, beneficiaries of debt relief should have increased their expenditure in the social sector (Dessy and Vencatachellum, 2007).

Dessy and Vencatachellum (2007) study however show that if a government has a high discount factor, it will rather consume than invest once debt relief is granted. This is particularly true of most developing countries that have high marginal propensity to import. These findings are consistent with Cooper and Sachs (1985) and Arslanalp and Henry (2004) who argue that the problem faced by debt-relieved countries is lack of good institutions. Thus, if the status-quo remains the same, the new debt-relief initiative would not achieve their objectives to increase growth promoting expenditure in these countries.

Karagol (2002) investigated the long run and short run relationship between external debt and economic growth for Turkey during 1956-1996 and the Granger causality test results showed a unidirectional causality from debt to economic growth.

Alfredo and Francisco (2004) investigated the relationship between external debt and economic growth for some Latin American and Caribbean countries and found that lower total external debt levels were associated with higher growth rates.

Audu (2004) found out that debt servicing has had significant adverse effect on the growth process in Nigeria. The study by Borensztein (1991) found for Philippines that the debt overhang had an adverse effect on private investment. Also, Osinubi, Dauda and Olaleru (2006) confirmed the existence of debt Laffer and Non-linear effect of external debt on economic growth in Nigeria. Thus, heavily indebted countries in sub-Saharan Africa need to evolve creative strategies for bringing about debt reduction so that the high debt stock and associated crushing debt service burden would not impact too negatively on economic growth.

NCEMA (2002) and Gana (2002) used empirical models to explain the impact of external debt and debt servicing on one hand, and a country's growth performance on the other hand. In this case, the models postulate that economic growth is negatively affected by the accumulation and servicing of external debt. This hinges on the fact that the accumulation of foreign debt puts pressure on economic growth through withdrawal of foreign exchange earnings required for investment. The implication of high external debt on economic growth (GDP) can be captured from the above framework. The model for the analysis can be stated thus: GDPt = f(GDPt-1, EXTD, EXTDS, GEXP, CONS, TB, CAP). An appropriate log linear model (assuming intrinsic linearity) therefore considers logarithm of External Debt (EXTD), lagged real GDP one year, and external debt service (EXTDS), government expenditure (GEXP), Consumption (CONS), Trade Balance (TB) and Capital Formation (CAP) as the independent variables and logarithm of real GDP as dependent variable as in equation.

RESEARCH METHODOLOGY

RESEARCH DESIGN

For the purpose of this study the quasi experimental quantitative research design is adopted.

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DATA COLLECTION METHODS

The source of data for this study is secondary obtained from the Central Bank of Nigeria statistical bulletins and annual reports, the Debt Management Office [DMO], the National Bureau of Statistics [NBS], and other cognate publications.

MODEL SPECIFICATION

The model is specified in the functional form as;

RGDP= f (DD, EXTD)   ……………………… (1)

The regression model is specified as follows;

RGDP = $\alpha_0 + \beta 1 DD + \beta 2 EXTD +$ εí …………… (2)

Where

RGDP =		Real Gross Domestic product (proxy for dependent Variable)
DD	=	Domestic debt
EXTD	=	External debt
εí	=	Error term
β_0	=	Regression intercept
$\beta_1 - \beta_4$	=	Coefficient of the independent variables to the Dependent variables

APRORI EXPECTATION OF VARIABLES USED

From the study parameter it is expected that the independent variables have positive effect on the dependent variables. Therefore $\beta_1, \beta_2, \beta_3, \beta_{4_4} > 0$.

DATA ANALYSIS METHOD

Empirical research has always been built on the econometric analysis techniques which will be employed using E-View version 7.0 from the Ordinary Least Square regression statistical techniques.

The method of data analysis used in this study is the multiple linear regressions using ordinary least square method. This approach, which is a quantitative technique, includes tables and the test for the hypotheses formulated by using ordinary least square with Econometric View regression analysis at 5% level of significance.

Moreover, in order to undertake a statistical evaluation of our analytical model, so as to determine the reliability of the result obtained and the coefficient of correlation (r) of the

regression, the coefficient of determination (r^2), the student T-test and F-test where employed.

ANALYSIS AND RESULTS

PRESENTATION OF DATA

The tables below have the annual time series data of the dependent variables and the independent variables.

TABLE 1 ANNUAL TIME SERIES DATA: 1980-2013

Year	RGDP	DD	EXTD
1980	63,172.01	9,501.10	1,448.60
1981	94,325.02	11,192.60	2,331.20
1982	101,011.23	15,007.60	8,819.40
1983	110,064.03	22,221.40	10,577.70
1984	116,272.18	25,672.10	14,808.70
1985	134,585.59	27,949.10	17,300.60
1986	134,603.32	28,438.70	41,452.40
1987	193,126.20	36,789.10	100,789.10
1988	263,294.46	47,029.60	133,956.30
1989	382,261.49	47,049.60	240,393.70
1990	472,648.75	84,093.10	298,614.40
1991	545,672.41	116,198.70	328,453.80
1992	875,342.52	177,961.70	544,264.10
1993	1,089,679.72	273,836.40	633,144.40
1994	1,399,703.22	407,582.70	648,813.00
1995	2,907,358.18	477,733.89	716,865.60
1996	4,032,300.34	419,975.60	617,320.00
1997	4,189,249.77	501,751.10	595,931.90
1998	3,989,450.28	560,830.20	633,017.00
1999	4,679,212.05	794,806.60	2,577,374.40
2000	6,713,574.84	898,253.90	3,097,383.90
2001	6,895,198.33	1,016,974.00	3,176,291.00
2002	7,795,758.35	1,166,000.70	3,932,884.80
2003	9,913,518.19	1,329,680.00	4,478,329.30
2004	11,411,066.91	1,370,325.20	4,890,269.60
2005	14,610,881.45	1,525,906.60	2,695,072.20
2006	18,564,594.73	2,725,947.30	451,461.70
2007	20,657,317.67	4,127,973.50	431,079.85
2008	24,296,329.29	2,320,307.16	523,254.09
2009	24,794,238.66	3,228,029.02	590,437.13
2010	33,984,754.13	4,551,820.00	689,837.49
2011	37,409,860.61	5,622,840.00	896,849.62
2012	40,544,099.94	6,537,536.31	1,026,903.92
2013	67,409,284.62	8,978,051.15	2,342,175.80

SOURCE: Central bank of Nigeria Bulletin various issues

The table presented above indicates the time series data of the variables used in this study. The Real Gross Domestic Product and Nigerian Domestic Debt shows a steady increase while external debt fluctuate from 2005 to 2013 which is traced to the debt cancellation in 2005.

TABLE 2 ANNUAL TIME SERIES DATA: 1980-2013(GROWTH TABLE)

Year	RGDP	DD	EXTD
1980	0.3000	9,501.10	1,448.60
1981	1.8000	11,192.60	2,331.20
1982	0.8000	15,007.60	8,819.40
1983	4.8000	22,221.40	10,577.70
1984	2.8000	25,672.10	14,808.70
1985	11.3300	27,949.10	17,300.60
1986	1.89000	28,438.70	41,452.40
1987	-0.6900	36,789.10	100,789.10
1988	7.58000	47,029.60	133,956.30
1989	7.15000	47,049.60	240,393.70
1990	11.3600	84,093.10	298,614.40
1991	0.01000	116,198.70	328,453.80
1992	2.63000	177,961.70	544,264.10
1993	1.56000	273,836.40	633,144.40
1994	0.78000	407,582.70	648,813.00
1995	2.15000	477,733.89	716,865.60
1996	4.13000	419,975.60	617,320.00
1997	2.89000	501,751.10	595,931.90
1998	2.82000	560,830.20	633,017.00
1999	1.19000	794,806.60	2,577,374.40
2000	4.89000	898,253.90	3,097,383.90
2001	4.72000	1,016,974.00	3,176,291.00
2002	4.63000	1,166,000.70	3,932,884.80
2003	9.57000	1,329,680.00	4,478,329.30
2004	6.58000	1,370,325.20	4,890,269.60
2005	6.51000	1,525,906.60	2,695,072.20
2006	6.03000	2,725,947.30	451,461.70
2007	6.45000	4,127,973.50	431,079.85
2008	5.98000	2,320,307.16	523,254.09
2009	6.96000	3,228,029.02	590,437.13
2010	7.98000	4,551,820.00	689,837.49
2011	7.43000	5,622,840.00	896,849.62
2012	6.58000	6,537,536.31	1,026,903.92
2013	7.860000	8,978,051.15	2,342,175.80

SOURCE: Central bank of Nigeria Bulletin various issues

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DESCRIPTIVE ANALYSIS OF THE VARIABLES

Bar chart showing the fluctuation in Nigerian Real Gross Domestic Product
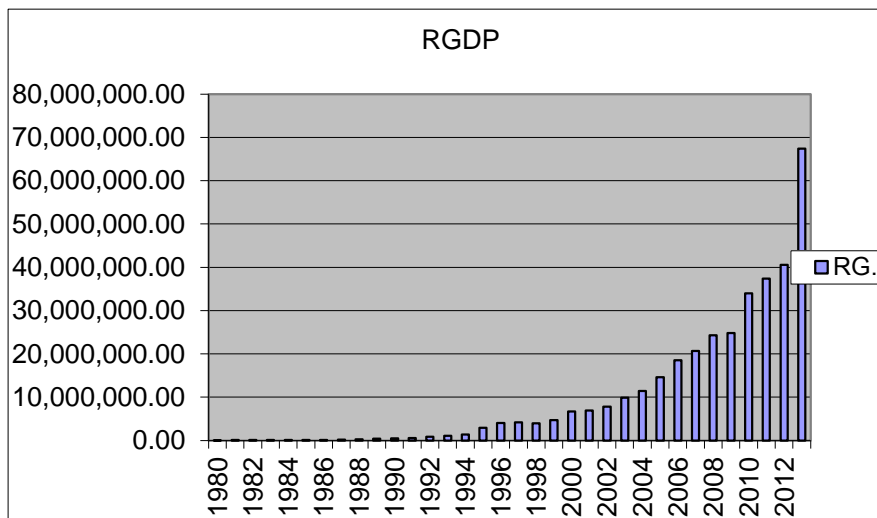
From the chart above, Nigerian Real Gross Domestic product increase steadily below 10 million from 1980 – 2005 and increase above 20 million in 2006. Within the period of this study, RGDP is increase all year high in 2013.

Bar chart showing the fluctuation in Nigerian External Debt
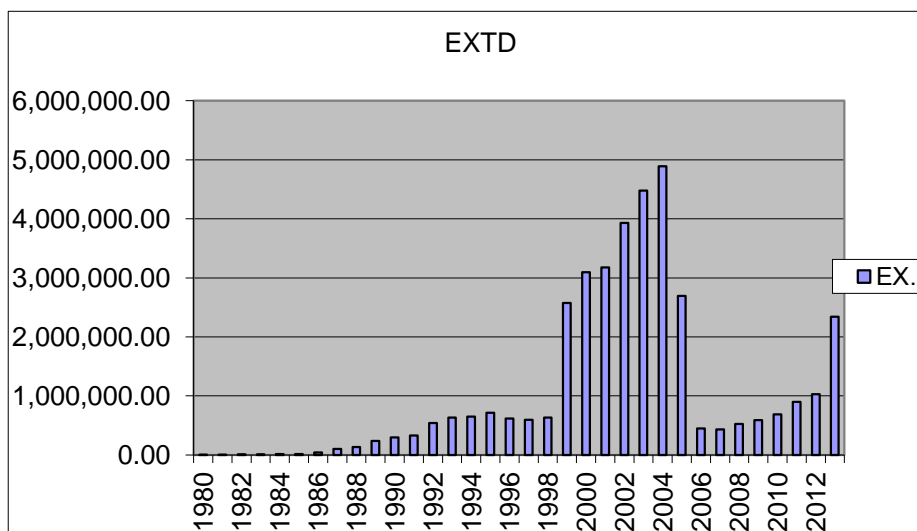
The bar chart shows the fluctuation in Nigerian external debt, from 1980 – 1998 Nigerian external debt was below 10 million but increase between 1999 – 2004 above 4 million, the decrease from 2006 is traced to debt cancellation granted the Nigerian government by the Paris club and London club of creditors.

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ANALYSIS OF REGRESSION RESULTS

The multiple regression results for the growth model. The results indicate that the coefficient of external debt and the constant are both statistically insignificant, while the coefficient of domestic debt is found to be statistically significant. Precisely, the coefficient of external debt is found to be statistically significant at 5 percent level as indicated by its probability value 0.0000 and rightly signed while the coefficient of domestic debt is found to be statistically significant at 5 percent level as indicated by its probability value 0.0000. The high probability value implies that the presence of that effect that can validate the parameter is low. This therefore, implies that a unit change in external debt would increase the economic growth (GDP) by 0.31 units and a unit change in domestic debt would raise the performance of the economy by 0.67 units. The coefficient of external debt is statistically significant and is consistent with the theoretical expectation. And the coefficient of domestic debt is found to be statistically significant and consistent with the theoretical expectation.

The F-statistics27.87, which is a measure of the joint significance of the explanatory variables, is found to be statistically significant at 1 percent level as indicated by the corresponding probability value 0.000000. The R2 0.673 (67.3%) implies that 67.3 percent total variation in economic growth (GDP) is explained by the regression equation. Coincidentally, the goodness of fit of the regression remained too high after adjusting for the degree of freedom as indicated by the adjusted R2 (R2 = 64.9%). Both coefficient of external debt and the coefficient of domestic debt are rightly signed and consistent with their theoretical expectation.

Dependent Variable: G_RGDP

Method: Least Squares

Date: 03/10/15   Time: 09:42

Sample(adjusted): 1980 2013

Included observations: 34

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DD	0.017227	0.038538	0.447001	0.6583
EXTD	0.555490	0.169331	3.280492	0.0028
C	142098.3	121952.1	1.165197	0.2538
R-squared	0.586818	Mean dependent var		235617.4
Adjusted R-squared	0.535876	S.D. dependent var		643925.0
S.E. of regression	562881.6	Akaike info criterion		29.41129
Sum squared resid	8.87E+12	Schwarz criterion		29.55006
Log likelihood	-452.8750	F-statistic		5.630334
Durbin-Watson stat	1.896989	Prob(F-statistic)		0.008807

R-Square and adjusted R- Square of the growth model shows that 56.6% and 53.5% variation in the growth rate can be traced to the independent variables in the model. The Durbin Watson shows 1.89 indicating the presence of serial autocorrelation while the f-statistics proved the significant of the model. Like the first result above, the independent variables are positively related to the dependent variable as proved by the regression coefficients.

TEST OF HYPOTHESIS

There is no significant relationship between external debt and Nigerian economic growth.

DECISION

From the regression result, the computed T-value of 3.755 by the probability of 0.0005 is greater than the critical T-value of ± 2.080 at 32 degree of freedom; the study therefore rejects the null hypothesis and accepts the alternate that there is significant relationship between external debt and economic performance of Nigeria.

The study concludes that there is significant relationship between external debt and economic performance of Nigeria.

RECOMMENDATIONS

Based on the findings of this study, the following recommendations are made:

i. External debt plays an important role in the development process of Nigerian economy and has been productive in terms of its contribution to the GDP. Hence, the government should continue to augment domestic investible resources with foreign resources to facilitate the growth process of the economy.

ii. The government however, should begin the process of diversifying its economic base to avoid over reliance on external borrowing to finance its deficits since the servicing of external debt hinders the growth in the long run.

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