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## Effect of Increasing Government Debt Profile on Economic Prosperity of Nigeria

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doi: <https://doi.org/10.37745/ejafr.2013/vol12n35367>

Published February 7, 2024

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**Citation:** Ekuma M.T., Inyama O.I., and Okwo I.M. (2024) Effect of Increasing Government Debt Profile on Economic Prosperity of Nigeria, Effect of Increasing Government Debt Profile on Economic Prosperity of Nigeria, *European Journal of Accounting, Auditing and Finance Research*, Vol.12, No. 3, pp.,53-67

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**ABSTRACT:** *The study aimed at assessing the effect of increasing government debt profile on economic prosperity of Nigeria. Specifically, the study examined the extent that Gross Domestic Product (GDP) was affected, during the period of study, by rising domestic debt, external debt, and cost of borrowing in Nigeria. The data for analysis were sourced principally from CBN Bulletins and Debt Management Office. The null hypotheses that domestic debt, external debt, and cost of borrowing do not significantly affect Gross Domestic Product, were tested through a multiple regression analysis. The findings indicate that Domestic Debt has a positive and significant effect on Gross Domestic Product in Nigeria with coefficient of 1.005965 and p-value of 0.0000. Furthermore, the external debt stock reveals a negative and non-significant effect on Gross Domestic Product with coefficient of -0.083963 and p-value of 0.5909, while Cost of Borrowing exposes a positive and non-significant effect on Gross Domestic Product in Nigeria with coefficient of 0.038835 and p-value of 0.7589. The R-squared (Coefficient of Determination) indicates that 98% of the variations in Gross Domestic Product in Nigeria could be explained by changes in Domestic Debt, External Debt and Cost of Borrowing. The implication of the findings is that economic prosperity is facilitated by Domestic Borrowing while External Borrowing must be avoided where possible because of its' negative effect on GDP. In addition, the effect of Cost of Borrowing on GDP is purely dependent on the appropriateness of use of borrowed fund. The study recommended that government should first explore internal sources of fund whenever borrowing is unavoidable in preference to foreign/external sources, reduce or avoid external borrowing and properly apply the borrowed fund for its economy to prosper.*

**KEYWORDS:** internal debt, Nigeria, external debt, cost of borrowing, gross domestic product, economic prosperity

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### INTRODUCTION

In recent years, the discourse surrounding the indebtedness of developing countries to their developed counterparts has become a focal point on academic platforms, emerging as a significant

development policy concern. Within this framework, government debt assumes distinct categories—internal debt, external debt, and the cost of borrowing. The prevailing narrative attributes the growth and development witnessed in many developing nations to the influential role played by developed countries, particularly Europe and America, and echoes the historical ties with colonial masters. The hypothesis that capital mobility from developed nations acts as a catalyst for the economic prosperity of developing countries, including Nigeria, is compelling. However, concerns arise as the cost of borrowing experiences irregular and disproportionate surges, coupled with challenges such as debt overhang, crowding out, and contemporary uncertainties in the political landscape. These multifaceted impediments significantly disrupt business plans, frustrate economic projections, and distort the implementation of corporate and government policies, casting doubts on the sustainability of the historical nexus between debt and economic growth.

Nigeria, boasting an estimated population exceeding 206.5 million people according to United Nations data, holds the distinction of being the most populous country in Africa and the seventh globally. With a nominal GDP of \$448 billion, Nigeria has the potential to claim the title of the largest economy on the African continent. Arguments abound that judicious harnessing and management of the abundant mineral and natural resources bestowed upon Nigeria could address a myriad of socioeconomic challenges without resorting to extensive borrowing. Nevertheless, debt remains integral to economic growth and national development, providing immediate bulk cash for capital-intensive projects and enabling counter-cyclical fiscal policies during economic recessions (Sosvilla-Rivero & Gomez-Puig, 2019).

However, persistent depletion of revenue, a dramatic decline in foreign reserves, escalating recurrent expenditure, arrears accumulation in external trade, a rise in government debt, and substantial arrears in borrowing costs could lead to a fiscal quandary regarding the economic outlook. This is fueled by expectations of future tax increases and other contingencies, potentially resulting in government expenditure cuts to accumulate funds for debt repayment (Mulder, 2020). In developing countries, domestic debt often receives less attention compared to external indebtedness (Akram, 2011). The study of the impact of domestic debt is crucial due to its potential crowding-out effects on private demand. Governments, when borrowing domestically, may utilize domestic private savings intended for private sector lending, potentially leading to reduced private investment demand. Furthermore, high-yielding government domestic debt held by banks may induce complacency and discourage mobilization of deposits for funding private sector projects (Hauner, 2006).

Georgiev (2012) contends that the significance of public debt on economic growth hinges on the skill and competence demonstrated by governments in resource management. Public debt can be advantageous if channeled towards research and development (R&D), education, training, and investments that foster economic growth. Given the scarcity of resources and weakened financial

capacity in developing countries, active expansionary fiscal policies that favor domestic and/or external borrowing become essential for resource mobilization.

When revenues fall short of expenditure, governments turn to borrowing as a critical tool to fund public spending, particularly in challenging times when raising taxes or reducing public expenditure is difficult. Reasonable borrowings for public and infrastructure development play a pivotal role in stimulating aggregate demand and output, essential for faster economic growth. Global economic crises, including the recent COVID-19 pandemic, have compelled governments worldwide to accumulate higher levels of public debt for deficit spending and social protection programs, demonstrating public debt's crucial role in financing capital formation, sustaining public expenditure, spurring economic growth, and improving citizens' welfare and standard of living. However, mismanagement of public debt can have adverse effects on economic growth. The exorbitant cost of servicing debt in Nigeria has reached levels that severely impact the entire economy. The surge in public debt could deplete a significant portion of national savings earmarked for future generations, pushing up interest rates and reducing incentives to invest due to low capital accumulation. Excessive domestic borrowing may crowd out private sector investment, as the government competes for limited available funds. Additionally, an ever-increasing foreign debt burden may have severe and long-term consequences on the economic prosperity of emerging and developing economies, manifesting as debt overhang and debt trap. This scenario could make implementing pro-cyclical fiscal policies more challenging, leading to increased instability and weakened prosperity.

Theoretical and empirical literature currently lacks consensus on the effect of government debt on the economic outlook of developing countries. While some economic theories advocate for reasonable public debts (both domestic and external) as essential for improving living standards and growing the economy, other schools of thought warn against the perils of an increasing debt burden. Consequently, this paper seeks to explore the extent to which macroeconomic shocks resulting from an unplanned, contingent, and unceasing rise in the government's debt trajectory (internal debt, external debt, and the cost of borrowing), coupled with hasty monetary and fiscal policy changes, have affected the economic prosperity of Nigeria.

## **REVIEW OF RELATED LITERATURE**

### **Internal Debt**

Internal/domestic financing is becoming increasingly vital because over the years, donors' willingness to lend has reduced. In developing countries, justification behind the creation of domestic debt is that it defends countries from adverse external shocks and foreign exchange risks; it also kindles the development of internal financial markets. Kumhof and Tanner (2005) are of the view that as government securities in developing countries are considered an attempt by banks

to guard against high private sector credit risk, therefore domestic debt helps in crowding the private sector investment.

The monetization of fiscal deficits and CBN lending to government through Ways and Means advances has risen to N19.9 trillion in 2022, exceeding the threshold set by CBN laws (CBN 2022). These Ways and Means advances are temporary overdraft facilities provided to the Federal Government of Nigeria (FGN) to help with financial difficulties caused by a cash flow mismatch by bridging the gap between expenditure and revenue receipts. This level of borrowing from the Central Bank of Nigeria to finance fiscal deficit is clearly unsustainable, fueling inflation and endangering growth (Malachy et al. 2022).

### **External Debt**

According to CBN (2010), foreign debts or external borrowings are debt obligations the government, owe to multilateral bodies, London club, Paris club, foreign promissory notes and other unclassified external borrowings. External debt therefore refers to the resources of money in use in a country that is not generated internally and does not in any way come from local citizens whether corporate or individual. Nigeria external debt is therefore defined as, debt owned by the public and private sectors, of the Nigeria' economy to non- residents and payable in foreign currency, goods and services (Ogbeifun, 2007).

Gross external debt at any given time, could be explained as the outstanding amount of those actual current and non contingent liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy. External debt in international economic relations is described as financial obligation that ties one party (debtor country) to other (lender country). External debts precisely are the financial obligations that are due to financial creditors who are not residents of the borrowing country. They include short term debts such as trade debts which mature between one or two years or whose payment would be settled within the fiscal year in which the transaction was conducted.

### **Cost of Borrowing**

Modigliani (1961) argues that the gross burden of public debt can only be offset in part or in total if borrowed funds are used to finance productive public capital formation, which in turn improves the real income of future generations. The interest accruing from both domestic and external debt is often paid through taxes. This reduces the available lifetime consumption of taxpayers and their savings. As a result, capital stock and economic growth reduce.

Governments tend to borrow externally because such sources are highly concessional compared to domestic sources. Ajisafe and Gidado (2006) admit that governments can monetize their debts by creating money, to evade payment of interest. Mutasa (2003) points out that the conventional view that high levels of domestic debt may crowd out the private sector and constrain the scope of

counter-cyclical fiscal policies may result in higher volatility and adverse effects on economic performance. The Federal government's borrowings (local and foreign debt) increased by around 658% from N3.55 trillion to N26.91 trillion between 1999 and March 2021, indicating that successive governments in Nigeria have continued to borrow enormously (Debt Management Office, 2022).

### **Gross Domestic Product (GDP)**

Economic growth has been referred to as the aggregate of the final output that a country can create within a year judged by the market price of the products taking cognizance of price variation and the imputed cost of the economy's produced goods and services less net income from abroad (Favor et al., 2017). An increase in the gross domestic product of a country is noticed as the productive capacity of the country accrues, especially when measured relative to other periods. Hence, economic growth is observed when the total goods and services of a country increases relative to the previous years. This refers to an increase in a country's physical output over a long period of time (Adams, 2004).

A nation's total economic output, known as Gross Domestic Product (GDP) is a ratio between a nations' output in goods and services and the rate of growth of her population. A country is therefore said to have economic growth when the real output of goods and services increase at a faster rate than the growth of her population (Adams, 2004). Economic growth is a process by which a nations' wealth/ economy increases overtime (Kylon &Krusan, 2001). It is an increase in the production of economic goods and services compared from period of time to another (Katuma, 2011).

### **Theoretical Review**

Numerous theoretical studies have been conducted to analyze the process of economic growth and its consequences.

### **Debt Overhang Theory**

Debt overhang, according to Bongumusa et al. (2022) occurs when a country's debt payment burden is so high that a considerable share of current GDP goes to loan guarantees, creating a disincentive to investment. Krugman (1988) coined the term 'debt overhang' to describe the negative relationship between public debt and economic growth in his own view. Debt overhang refers to when the ability of a country to repay its external debt reduces below the contractual value of the debt. This means that an increase in external public debt promotes investment up to a certain level or threshold. Beyond the threshold, debt overhang will discourage investors from providing capital to the government.

Eventually, economic growth begins to decline as interest rates increase. High public debt can affect economic growth negatively through different channels. One of the most important channels

is long-term interest rates. High long-term interest rates can crowd out private investment, thereby reducing potential output growth. Increased public financing needs are likely to increase sovereign debt yields. Therefore, we expect a net flow of capital or funds from the private to the public sector. This increases interest rates and decreases private spending by household units and firms.

### **Crowding-Out Effect Theory**

The conventional hypothesis holds that an upsurge in government debt is a liability on succeeding generations, especially in the long run (Jhingan 2010). The negative effect of public debt is from the crowding-out effect theory which assumes that when public authorities raise public loans, the demand for loans increase while the supply of loanable funds remain unchanged. This increases the interest rate of loanable funds in the market. The private sector that is highly sensitive to changes in interest rate, reduce their demand for loanable funds and so private loanable funds go towards the public sector. This way, the anticipated positive impact of public debt on economic growth is low or even null (Bilan, 2005).

### **Empirical Review**

The study of Abbas (2005), focus and affirms the conventional wisdom of decision to switch from external to domestic debt, is fraught with difficulties. It also concludes that relationship between the domestic debt and economic growth is negative. Abbas (2007) found that if domestic debt (as percentage of bank deposits) exceeds 35 per cent then it undermines the economic growth. If debt is marketable, issued to ‘non-banking sector’ and bears positive real interest rates, then the high level of domestic debt can also be sustainable. However, Blavy (2006) finds that ‘threshold level of debt is 21 per cent of GDP. It was also found that doubling of public debt would reduce productivity growth of about 1.5 per cent.

Alagba and Eferakeya (2019) investigated the effect of public debts on economic growth of Nigeria for the period of thirty-eight (38) years, 1981 to 2018. Data used in the study were collected from Central Bank of Nigeria Statistical bulletin and Debt Management Office. Among the objectives of the study was to: analyze the effect of domestic debts on the economic growth of Nigeria and evaluate the effect of foreign debts on the economic growth of Nigeria. The findings of the study showed that domestic debts of the Federal government of Nigeria is positive and statistically significant to economic growth of Nigeria.

Sylvester (2021) carried out a study on external debt and economic growth nexus: Empirical evidence from Nigeria. The aim was to examine the relationship between external debt and economic growth for policy analysis on public finance and public debt management. Data collected on the country’s external debt and GDP growth rate were analyzed using root test and cointegration long run tests. The results showed that debt overhang variable and crowding out effect variable depress the level of investment affecting adversely, the economic growth of the country.

Didia and Ayokunle (2020) revealed a long run statistically significant positive relationship between domestic debt and economic growth, while external debt revealed a statistically insignificant negative relationship with economic growth. The empirical analysis of the data covering 1980 to 2016 was done using the Vector Error Correction Model and they concluded that domestic debt was more beneficial to economic growth in Nigeria than external debt.

Akhanolu et.al (2018) carried out a study that focused on the Nigerian government's debt and its impact on economic growth from 1982-2017 using the two-stage least square regression. For the first equation of the study, both internal and external debt and their lags were regressed against GDP, the result showed that external negatively impacts the economy while internal debt positively does the same

Ajayi and Edewusi (2020) examined the impact of domestic debt on the economic growth of Nigeria; assessed the effect of external debt on the economic growth of Nigeria and analyzed the relationship between public debt and the economic growth of Nigeria. Secondary time series data spanning thirty-seven years (1982- 2018) was gathered in the study. Data gathered in the study was estimated using descriptive statistics, unit root test, Johansen co-integration test and vector error correction model. Findings from the study suggests that external debt exerts a negative long run and short run effect on economic growth of Nigeria.

Cordelia and Ogechi (2019) investigated the effect of foreign debt on the economic growth in Nigeria. Data for the study were obtained from the statistical bulletin of the WB and CBN for the period 1997-2017. The variables of the study were nominal GDP, foreign debt stock, foreign debt servicing, inflation rate and exchange rate. Results of analysis using OLS indicated that foreign debt exerted a significant negative influence/impact on economic growth of the country while foreign debt servicing showed a strong and significant positive impact on economic growth.

Karagol (2002) found that in the long run, there exists one-way relationship between debt servicing and economic growth in Turkey. However, debt affects the GNP negatively, both in the short-run as well as in the long-run. It is argued that existence of causality between debt service and GNP is because in the past, borrowed resources were misallocated.

Ramakrishna (2003) reveals that Ethiopia is facing debt overhang situation coupled with severe debt service problems. However, fiscal balance, investment and openness to trade have a positive relationship with economic growth. According to Komlan and Essosinam (2022), nations that adopt unsustainable fiscal policies have an ever-increasing debt-to-GDP ratio that violates their budgetary restraint. High debt levels result in high debt servicing, which lowers the amount of money available for investment in infrastructure and other economic sectors.

Favour et.al (2017) empirically analyzed the relationship between public debt and economic growth in Nigeria from 1980-2015. The study adopted Vector Error Correction Model (VECM) approach of econometric data analysis. The variables used in the study include real gross domestic product (RGDP), foreign debt, domestic debt and domestic private savings. The results of the study indicated that: (i) External debt have significant negative impact on economic growth within the period under study. (ii) Domestic debt (DMD) has significant negative relationship with economic growth within the period under consideration.

Mathew and Mordecai (2016) examined the impact of public debt on economic development of Nigeria using annual time series data spanning 1986 to 2014. The study employed the Augmented Dickey-Fuller test, Johansen co-integration test, Error Correction Method (ECM) and the Granger Causality test. The Johansen co-integration test results revealed the presence of a long-run relationship among the variables viz; external debt stock, domestic debt stock, external debt servicing, domestic debt servicing and economic development (proxied with GDP per capita) in Nigeria.

Georgiev (2012) studied the relationship between public debt and economic growth, investments, and economic development in 17 European countries. His study used data for the period 1980 to 2012, which was analyzed using descriptive statistics and panel data regressions. The research found that as public debt increase, the cost of servicing it rises substantially. This leads to a decrease in investments, which in turn affects economic growth negatively. The researcher concluded that public debt affects economic growth indirectly by reducing investments through high-interest rates, increased uncertainty, and high debt repayment costs.

### **Gap in Literature**

Sequel to the ongoing controversies enshrouding both the empirical and theoretical literature on the relationship between public/government debt and economic growth in Nigeria leading to incongruous findings and doubtful thresholds, the researcher embarked on this study to add to the existing body of knowledge for more clarifications. The outcomes are to provide modifications, where necessary, to the existing multivarious theories on public debt and economic growth.

## **METHODOLOGY**

### **Research Design**

In conducting this study, an ex post facto research design was adopted, leveraging existing data to empirically address the research questions. The data, essential for the analysis, were extracted from reputable sources such as the Central Bank of Nigeria (CBN) Bulletins and the Debt Management Office website. The research focused on the public sector of the Nigerian economy, seeking insights into the dynamics of public debt. Secondary data, predominantly sourced from the publications of the Central Bank of Nigeria (CBN) Statistical Bulletin and the Debt Management



Office, formed the basis for the investigation. The comprehensive population under scrutiny comprised the total makeup of Nigeria's public debt stock, encompassing Internal/Domestic Debt, Foreign/External Debt, and the Cost of Borrowing/Debt Servicing Cost. The determination of the sample size was driven by the study's emphasis on three crucial variables—Internal/Domestic Debt, Foreign/External Debt, and Cost of Borrowing/Debt Service Cost—within the broader context of macroeconomic variables, ensuring a thorough exploration of the intricacies of Nigeria's debt landscape.

**Model Specification**

To investigate the impact of government debt profile on economic growth in Nigeria, an open multivariate debt-growth model was specified following the lead of Sosvilla-Rivero and Gomez-Puig (2019) with slight modifications to suit the requirements of the current study. Based on the economic theory, this study modeled GDP growth, in a multiple regression fashion, as a function of foreign/external debt, internal/domestic debt and cost of borrowing.

The relationship is expressed as:

$$\text{Functional Form } GDP = (EXTDT, DMSDT, COB) \text{ ----- (1)}$$

$$\text{Linear Form } GDP = \beta_0 + \beta_1EXTDT + \beta_2DMSDT + \beta_3COB + \mu \text{ ..... (2)}$$

Where:

GDP = Gross Domestic Product

EXTDT = External Debt

DMSDT = Domestic Debt

COB = Cost of Borrowing

$\mu$  =Stochastic Error Term

while  $\alpha_0, \beta_1, \beta_2, \beta_3$  are parameter estimates corresponding to constants term.

**DATA ANALYSIS**

**Table 4.2.1: Descriptive Statistics**

	<b>GDP</b>	<b>EXD</b>	<b>DMD</b>	<b>COB</b>
Mean	32697609	4066834.	3132298.	360529.5
Maximum	2.03E+08	34020531	19242557	3426894.
Minimum	6545.278	597.6292	1000.000	62.67121
Skewness	1.665086	2.625152	1.792024	2.815263
Kurtosis	4.765390	9.313816	5.054143	10.68334
Jarque-Bera	31.37302	148.9079	37.68501	200.3767
Probability	0.000000	0.000000	0.000000	0.000000
Observations	53	53	53	53

*Source: Eviews 10.0 Output*

Table 4.2.1 established the mean values of the variables (GDP, EXD, DMD & COB) to be 32697609, 4066834, 3132298 and 360529.5 respectively. The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. The significant probability values of the Jarque-Bera (JB) statistic of all the variables, reveal that frequency distribution of the time series data is not normal. The null hypothesis of JB is that the time series data has a normal frequency distribution. Since this is not the case, the null is dropped and the alternate hypothesis upheld. Table 4.2.1 shows the minimum and maximum points of the variables as well as the number of observations, coefficients of kurtosis and that of skewness.

### Table 4.2.2: Regression Analysis Result

Dependent Variable: LGDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LDMD	1.005965	0.130612	7.701959	0.0000
LEXD	-0.083963	0.155175	-0.541088	0.5909
LCOB	0.038835	0.125799	0.308705	0.7589
C	2.691187	1.080822	2.489945	0.0163
R-squared	0.976340	Mean dependent var		28.10026
Adjusted R-squared	0.974369	S.D. dependent var		3.415573
F-statistic	495.1939	Durbin-Watson stat		0.363253
Prob(F-statistic)	0.000000			

*Source: Eviews 10.0 Statistical Software*

Table 4.2.2 indicates that in order to reduce the negative effect of size of data for analysis, the researcher resorted to a log transformation of both the focal and explanatory variables. The logged values were used for analysis. However, External Debt (EXD) was found to have a negative and nonsignificant effect on economic prosperity of Nigeria measured by GDP. Domestic Debt (DMD) has a very positive and significant effect on GDP while COB affects GDP insignificantly but positively.

### Coefficient of Determination ( $R^2$ )

Table 4.2.2 reveals R-squared of 0.976340. This shows that about 98% of the variations in GDP (focal variable) could be explained by the explanatory (independent) variables of DMD, EXD, and COB while the remaining 2% could be explained by error term and some factors not captured in this study as determinants of economic prosperity. The 98% R-squared is a testament that the study considered the key factors that account for movements in Gross Domestic Product of Nigeria.

## Test of Hypotheses

**Decision Rule:** Reject  $H_0$  if the p-value of the regression is less than 0.05 (A-value calculated), and accepts the null hypotheses if reverse becomes the case.

**Hypothesis One:** Gross Domestic Product (GDP) is significantly (and positively) affected by Domestic/Internal Debt (DMD) of Nigeria.

**Decision:** From the regression Table 4.2.2, the p-value of 0.0000 is  $< 0.05$ . Therefore, the null hypothesis is rejected and alternate upheld. This means that Domestic/Internal Debt (DMD) has a positive and significant effect on Gross Domestic Product (GDP) of Nigeria.

**Hypothesis Two:** External Debt (EXD) does not (positively and) significantly affect Gross Domestic Product (GDP) of Nigeria.

**Decision:** From the regression analysis in Tables 4.2.2, the p-value of 0.5909 is  $> 0.05$ . Therefore, the null hypothesis is accepted and upheld. This implies that EXD has a negative and nonsignificant effect on GDP of Nigeria.

**Hypothesis Three:** Cost of Borrowing (COB) does not significantly affect Gross Domestic Product (GDP) of Nigeria.

**Decision:** The regression analysis on Table 4.2.2, reveals a p-value of 0.7589 which is  $> 0.05$ . Therefore, the null hypothesis is accepted. The implication is that Cost of Borrowing (COB) has a positive but nonsignificant effect on Gross Domestic Product (GDP) of Nigeria.

## DISCUSSION OF RESULTS

### Domestic/Internal Debt and Gross Domestic Product

Table 4.2.2 reveals that Domestic Debt has a positive and significant effect on Gross Domestic Products of Nigeria. This position is in tandem with the findings of Alagba and Eferakeya (2019), Akhanolu et.al (2018) and to a large extent with that of Blavy (2006). The findings of this study however disagreed with that of Abbas (2005), Favour et.al (2017) and Sylvester (2021). The fluctuating result of existing literature is the major reason for this study. There is not yet a consensus on the effect of public debt on economic prosperity of Nigeria. However, with the positive and significant result, domestic debt is preferable to external debt up to a certain limit so that private investments wouldn't be crowded out.

### External Debt (EXD) and Gross Domestic Product (GDP)

Table 4.2.2 shows that EXD has a negative but nonsignificant effect on GDP of Nigeria. The review conducted on Didia and Ayokunle (2020), Favour et.al (2017), Akhanolu et.al (2018),

Ajayi and Edewusi (2020) and Cordelia and Ogechi (2019), shows that external debt has consistently affected Gross Domestic Product negatively. This is usually the consequence of borrowing for recurrent expenditure financing and not for physical infrastructure or capital investment. This could also be attributed to the epileptic and unplanned borrowings in Nigeria which are prompted by contingencies and not basically budget deficit financing. Instances abound such as borrowing to finance the evacuation of Nigerians from Ukraine, Sudan, Afghanistan, and other war-torn countries; borrowing to finance security hardware in the fight against terrorism, borrowing to finance supplementary budget on general elections; borrowing to print new versions of the currency and even the intended borrowing to finance military intervention in Niger coup.

### **Cost of Borrowing (COB) and Gross Domestic Product (GDP)**

Table 4.2.2 reveals that COB has a positive but nonsignificant effect on GDP of Nigeria. From the empirical reviews, the study of Mathew and Mordecai (2016), through Johansen Co-integration Tests show a long-run relationship between COB and GDP while studies such as Karagol (2002), Ramakrishna (2003), Komlan and Essosinam (2022) and Georgiev (2012), maintains that COB has a negative effect on GDP; since increase in debt stock increases cost of debt servicing. This result depicts that public debt were deployed for the right purposes of investment and infrastructural development and as a consequence, productivity increased, value of final goods and services improved and by extension, the economy prospered.

### **CONCLUSION**

The surge in government debt in Nigeria is attributed to various factors, including the mismanagement of oil and non-oil revenue, evacuation operations, insurgency, high governance costs, a militarized economy, ineffective tax collection, high administrative expenses, social transfers, and growing budget deficits. However, it's essential to recognize that no country, even global powers, operates in complete self-sufficiency. Strategic borrowing for investment and infrastructure development can stimulate economic growth, attracting private investors, reducing business operational costs, fostering the private sector, creating employment, and overall contributing to economic prosperity. The study indicates that, to a large extent, domestic government debt hasn't significantly crowded out private investments, while external debt has led to a considerable debt overhang.

In light of the findings, several recommendations are proposed. The government should prioritize internal funding sources over foreign borrowing to foster economic prosperity. Efforts should be directed towards reducing or entirely avoiding external borrowing to support the nation's economic growth. Additionally, the government must strategically deploy public debt for investment and infrastructural development, ensuring that returns on investments are available to meet financial obligations when loans mature for repayment.

The study contributes to existing knowledge by highlighting that, in Nigeria, external debt consistently has a negative impact on Gross Domestic Product (GDP). Furthermore, it emphasizes that the effect of the Cost of Borrowing on GDP is contingent upon how the borrowed funds are utilized, providing valuable insights into the intricate relationship between government debt dynamics and economic prosperity.

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