IMPACT OF EXTERNAL DEBT ON ECONOMIC GROWTH
IN NIGERIA

BY

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in Partial Fulfillment of the Requirement
for the Degree of Master of Economics,
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ABSTRAK

ABSTRACT

The objective of this study is to examine the long run and short run impact of external debt and external debt service on the economic growth of Nigeria over the period 1980-2013. This study employs Johansen cointegration approach and Vector Error Correction Model for analyzing long-run and short-run relationships among the selected variables. The causality among the external debt, external debt service and economic growth has also been examined using Granger causality test for the period under consideration. The empirical results show that external debt has a significant negative effect on the economic growth in the long run. External debt service has a significant positive effect on growth in the long run, suggesting no crowding out effect on investment. There is no significant short run relationship among the variables under consideration except for the first lag of real exchange rate, but the error correction term has a moderate speed of adjustment with correct sign and it is significance. The study also finds uni-directional causality running from economic growth to external debt. It is found that there is no causality between external debt service and economic growth. Finally, external debt service has been found to Granger cause external debt, but there was no feedback. Therefore, as policy suggestions, projects to be financed by external debt should be well-appraised and must be self-liquidating, while the guidelines for external debt acquisition and approval should be strengthened.
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LIST OF ABBREVIATIONS/NOTATIONS/GLOSSARY TERMS

~I (.) Integrated of order
ADF Augmented Dickey-Fuller
AIC Akaike Information Criterion
APEC Asia Pacific Economic Co-operation
AR Autoregressive
ARCH Autoregressive Conditional Heteroscedasticity
ARDL Autoregressive Distributed Lag
CE (s) Cointegrating Equation(s)
DF Dickey-Fuller
DGP Data Generating Process
DMO Debt Management Office
ECM Error Correction Model
ECT Error Correction Term
FDI Foreign Direct Investment
FE Fixed Effects
FEDV Forecast Error Variance Decomposition
FMOLS Fully Modified Ordinary Least Square
GARCH General Autoregressive Conditional Heteroscedasticity
GDP Gross Domestic Product
GMM General Moment Method
GNP Gross National Product
HIC Highly Indebted Countries
HIPC Highly Indebted Poor Countries
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<td>International Monetary Found</td>
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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Meaningful economic development requires resources to lay solid foundation for a smooth take off the economy. These resources are not readily available in the home country and so a country must naturally look outside to acquire such resources. The resources in the form of external debts have been the main source of finance to fill the savings gap for most developing countries. The natural question is whether such external debts fulfill the purpose for which they are obtained. Nigeria in its bid to achieve economic development has resorted to external borrowings over the year and so face the same question of whether external debt contributes to its economic progress.

1.2 BACKGROUND OF THE STUDY

Any nation must acquire sufficient finance whether internally or externally to carry out fundamental development projects to achieve economic progress. External debt falls into the latter category source of funds. The question of impact of external debt on economic growth has gained new recurrence since external debt crisis in 1982 (Ajisafe, Nassar, & Fatokun, 2006). The debate about its effect remains heated and inconclusive (Okonkwo & Odularu, 2013 Ali & Sadraoui, 2013). Considering this trend, swollen level of external debt held by less developed countries continues to generate questions about its contribution to the economies, its sustenance and a reasonable amount to be managed.
The contents of the thesis is for internal user only
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