IMPACT OF EXTERNAL DEBT ON ECONOMIC GROWTH IN NIGERIA

BY

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ABSTRAK

Objective kajian ini adalah untuk mengkaji kesan hutang luar negara dan perkhidmatan hutang luar negara terhadap pertumbuhan ekonomi Nigeria dalam jangka pendek dan jangka panjang bagi jangkamasa 1980-20013. Kajian ini menggunakan pendekatan kointegrasi Johansen dan Model Vector Pembetulan Ralat bagi menganalisis hubungan jangka panjang dan jangka pendek dalam kalangan pemboleh ubah yang dipilih. Hubungan bersebab antara hutang luaran, perkhidmatan hutang luaran dan pertumbuhan ekonomi dikaji dengan menggunakan ujian penyebab Granger. Keputusan empirik menunjukkan bahawa hutang luaran dan perkhidmatan hutang luaran masing-masing mempunyai kesan negatif dan positif yang signifikan ke atas pertumbulah ekonomi dalam jangka panjang. Kecuali pemboleh ubah kadar pertukaran benar tertangguh pertama, semua pemboleh ubah yang dipilih tidak mempunyai hubangan signifikan dengan pertumbuhan ekonomi dalam jangka pendek. Terma pembetulan ralat mempunyai kelajuan penyesuaian sederhana yang signifikan dan tanda yang betul. Keputusan ujian penyebab Granger menunjukkan bahawa hubungan sehala pertumbuhan ekonomi dan hutang luar negara. Sementara itu, tiada hubungan penyebab antara perkhidmatan hutang luaran dan pertumbuhan ekonomi. Hubungan bersebab wujud antara perkhimatan hutang luaran dengan hutan luaran, tetapi tiada timbal balas. Oleh itu, sebagai cadangan, projek yang dibiayai dengan memggunakan hutang luaran perlu dinilai dengan baik dan berupaya membayar polisi, balik hutang tersebut. Tatacara perolehan dan kelulusan memperoleh hutang luaran perlu diperkemaskan.

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

IMF	International Monetary Found
IRF	Impulse Response Function
IV	Instrumental Variable
LHS	Left Hand Side
M2	Broad Money
NEEDS	National Economic Empowerment Development Strategy
OECD	Organization for Economic Co-operation Development
OLS	Ordinary Least Square
RE	Random Effects
SAP	Structural Adjustment Program
SIC	Schwartz Information Criterion
SSA	Sub-Sahara African Countries
SSE	South Eastern Europe
STAR	Smooth Autoregressive
SUR	Seemingly Unrelated Equations
TSLS	Two Stage Least Square
VAR	Vector Autoregressive
VECM	Vector Error Correction Model
WB	World Bank

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

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