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Comparative Analysis of Impact of Domestic and External Debt on Nigeria Economic Growth

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ABSTRACT
The study looked at comparative analysis of impact of domestic and external debt on Nigeria economic growth. One research question and hypothesis was employed in the study. The researcher adopted Causal-Comparative or ex-post facto research design, (time series analysis). The model used Real Gross Domestic Product Growth (RGDPG) as the endogenous variable for economic growth while Domestic Debt (DODT), External debt (EXDT) Interest Rate (INTR) represents the exogenous variables. Data collection is a systematic way of obtaining information, fact, evidence or observation towards answering specific research question or listing stated hypothesis. To examine the relationships between focused variables (real gross domestic product growth, domestic debt, external debt and interest rate) the study employs the autoregressive distributed lag model (ARDL).The coefficient of the error term indicates speed of adjustment. Given that the coefficient of the short run model is 0.92 in absolute terms, it implies that 92% (percent) of disequilibrium in real gross domestic product growth is adjusted or corrected every year due to changes in domestic debt, external debt and interest rate, the result further shows that there is no individual significant effect of the independent variables on the dependent variable. It was finally recommended that government should start using public private partnership effectively, to engineer sustainable economic growth, through foreign direct investment as the case in countries like South Africa and Canada.
Keywords: Domestic, External Debt & Economic Growth

INTRODUCTION

Economic growth is encapsulated as the positive trend in total output of a country over long period of time. It entails sustained increases in output or real gross domestic product of a country. It implies a sustained increase in gross domestic product (GDP) as well as measure of total output of goods and services of a country for a long time. However, as economic growth indicator, it must be expressed in real terms like any other quantitative identity. That is, it must be adjusted for effects of inflation to fit in as a measure of growth overtime.

Economic growth is the process of steady increase in the real gross national product (GNP) per head of population. However, when people talk about "growth" they are thinking chiefly of difference it makes to the standard of living rather than general welfare, while growth can start from a position of less than full employment, it usually refers to the rate of which output continues to expand in the long run after employment has been achieved. Growth is essentially in a long run phenomenon.

Todaro and Smith (2009) economic growth is the steady process by which the productive capacity of the economy is increased over time to bring about rising level of national income. Economic growth, is the

process of steady increase in the quantity and quality of good and services the economy can produce. Schumpeter defined growth as gradual and steady increase in the rate of savings and population.
Friedman defines growth as "an expansion of the system in one or more dimensions without a change in its structure. Kindle defined growth as a "more output" McConnell and Brue (1963) defined economic growth in two ways:

1. An increase in real gross domestic product occurring over some time period
2. An increase in real gross domestic product per capital occurring over some time period.

Stanlake, (1990) defined economic growth as the increase in national output which is due to greater utilization of existing resources.
Based on the definitions given above I looked at economic growth as the increase in productive capital of goods and services produce by an economy over time. This can be conventionally measured as the gross domestic product (GDP) that can be sustained within a period of time.
Public or government borrowing has a profound effect on various aspects of the economy; capital accumulation, economic growth, income and employment stability and so on. This implies that public debt is both a source of problems and tool of economic management in the hands of the authorities. Apart from its social costs, Nigeria's domestic debt crisis has led to escalating inflationary pressures in the face of falling real incomes, budgetary deficits and the deterioration of social services and infrastructure (Nnol, 2003). Modern government do not subscribe to the philosophy of avoiding a surplus or a deficit budget for its own but are ready to use them as a matter of policy. This is referred to as functional finance in which government is ready to restructure surplus or deficit budgets for achieving a variety of objectives including those of economic growth and stabilization. The issue of Nigeria's public debt became a major economic problem in the face of economic recession in the country because of its magnitude and the amount which is required to service such debts as well as its attendant possible effects on different operating sectors of the economy especially the growth of the economy at large. Nigeria, a country whose debt was minimal and not pronounced in 1970, a country that advanced loans to international monetary fund during the oil boom of mid-80's but between 2000 and 2005 is listed among the leading nations of the world with high and serious public debt problem. The debt burden of the country has not only served to worsen the general economic woes in the economy, but also has exerted various social, political and economic costs. However, the accumulation of public debt in Nigeria took a significant turn for the worse after the collapse of oil prices (Rahman, Adeola, Abiodun & Tolulope 2010).
Thereafter, an increasing portion of borrowings from private oversea lenders was on non-concessionary terms involving shorter maturities and market determined rate of interest. As the years went by, the scheduling of debt on harder terms led to a steep rise in debt service payment for Nigeria
Purpose of the Study
The study looked at comparative analysis of impact of domestic and external debt on Nigeria economic growth. Specifically, the study sought to:

1. Find out which of these debts (domestic and external) exerts greater impact on Nigeria's economic growth.

Research Question
The research question below was used as a guide for the study:

1. Which of these debts (domestic and external) exerts greater impact on Nigeria's economic growth?

Hypotheses
The study hypothesizes that:

1. There is no significant relationship between external debt and real gross domestic product growth in Nigeria.

Scope of the Study
The scope of study will enable us to achieve the objective of this study, have a reliable and valid result. The study covered a considerable period of time. To this end, the study time horizon covered a period of thirty six years (36) from 1981 to 2016.

Limitation

This research exercise, like every other research work, is really a rigorous one that consumes much time and energy especially in the area of data sourcing, data computation and modelling. This work is relatively limited based on data availability, precision of data and data range. Nevertheless, the researcher has properly organized the research so as to present dependable results which can aid effective policy making and implementation as to achieve the objectives of this study.

LITERATURE REVIEW

Theory of Functional Finance

As indicated by Abba (1943) the size of the Public Debt in supreme or relative numbers is irrelevant, similar to the degree of charges and the cash printed by the administration. The main thing that issues is to keep up the degree of the national pay to the degree of full limit and full work without expansion. The legislature ought to take the necessary steps to accomplish this without thinking about the presence of spending deficiencies or the size of the national obligation. Whatever else is irrelevant and mirrors the scholasticism of tenets of past periods.

The principal budgetary duty of the legislature (since no one else can attempt that obligation) is to keep the absolute pace of spending in the nation on products and enterprises neither more prominent nor not as much as that rate which at the present costs would purchase every one of the merchandise that it is conceivable to create. In the event that complete spending is permitted to go over this there will be swelling, and on the off chance that it is permitted to go beneath this there will be joblessness. The administration can expand absolute spending by spending more itself or by decreasing expenses with the goal that citizens have more cash left to spend. It can diminish complete spending by spending less itself or by raising expenses.

In applying this first law of Functional Finance, the administration may wind up gathering more in charges than it is spending, or spending more than it gathers. In the last case it would need to give the distinction by getting or printing cash. In neither one of the cases should the administration feel that there is anything particularly positive or negative about this outcome.

A fascinating, and to numerous a stunning, end product is that burdening is never to be embraced only in light of the fact that the administration needs to profit instalments. Tax assessment ought to along these lines be forced just when it is alluring the citizens will have less cash to spend. Government ought to obtain cash just on the off chance that it is alluring that people in general should have not so much cash but rather more government bonds. This may be alluring if generally the pace of premium would be diminished excessively low, and actuate an excess of speculation, along these lines realizing swelling. The practically instinctual repugnance that we have to printing cash, and the inclination to distinguish it with expansion, can be survived on the off chance that we quiet ourselves and observe that this printing doesn't influence the measure of cash spent. Useful Finance dismisses totally the conventional tenets of "sound fund". It recommend the alteration of all out spending, to dispense with both joblessness and expansion, the modification of open property of cash and of government securities, to accomplish the pace of premium which brings about the most attractive degree of venture, the printing, storing, or annihilation of cash as required. The outcome may be a constantly expanding national obligation. This plausibility displayed no risk, inasmuch as Functional Finance kept up the best possible degree of complete interest for current yield; and there is a programmed inclination for the financial backing to be adjusted over the long haul because of the use of Functional Finance, regardless of whether there is the wrong spot for the guideline of adjusting the spending limit.

For whatever length of time that people in general is happy to continue loaning, there is no trouble, regardless of what number of zero's are added to the national obligation. On the off chance that general society gets hesitant to continue loaning, and people in general accumulates, the legislature can print the cash to meet its advantage and different commitments, and the main impact is that the general population holds government money rather than government securities, and the administration is spared the issue of making premium installments. In the event that the general population spends, this will build the pace of absolute spending with the goal that it won't be important for the legislature to acquire, and on the off chance that the pace of spending turns out to be excessively incredible, at that point is an ideal opportunity to expense to avoid expansion. For each situation Functional Finance gives a basic, semi programmed reaction.

Traditional (Keynesian) Theory of Public Debt

The conventionalist see open obligation as a weight on the economy. In the conventionalist scholar see, an expansion in government obligation is a weight on the economy. They place that an expansion in open obligation prompts increment government spending which thus lead to a lot of cash pursuing scarcely any merchandise and administration bringing about swelling.

Then again, the obligation overhang theory is an idea raised by Reinhart C., Reinhart V. and Rogoff (2012) found that nations with huge open obligation will in general experience tireless stagnation. Likewise out of 26 scenes of high open obligation in cutting edge economies, 23 cases were related with over a time of low monetary development. The obligation stock volume is so high to such an extent that the nations can't gain new obligation to back feasible undertakings in any event, when such tasks are related with exceptional yields on speculation.

The likelihood of default paying off debtors adjusting and reimbursement is extremely high because of the weight of unsustainable obligation. Venture is smothered and government responsibility to comprehensive development and advancement gets unrealizable. Therefore gigantic government acquiring can push up genuine loan fee and makes it hard for people and independent companies to get credits from monetary organizations; and thus, debilitates private venture. This is gotten from the possibility of the loanable supports hypothesis of financing cost assurance which places that the interest for and supply of, credit is the component that decide loan fee. So when requests for advances are high, financing cost will increment.

Government getting help add to the interest pressure and accordingly builds the genuine loan fee. Government can stand to get at any financing cost, people or independent company will consistently think about the minimal effectiveness of the credit and thusly they are packed out by government exercises in both the cash and the capital market in structuring a monetary motivation for the ideal development of the Nigerian economy, government has on various events utilized the hypothesis of adjusted development advanced by Ragnar Nurkse as considered fit from the perspective that all divisions of the economy i.e., training, horticulture, wellbeing, lodging, control age and so on needs to develop in their gainful limit at the same time. Expectedly, this methodology has its cost ramifications that have frequently brought about government acquiring and along these lines contracting more obligations.

Despite the fact that this way to deal with financial development is admirable, in Nigeria, there has been an issue with adjusting the interest side and supply side to make adjusted development advantage the economy on a maintainable premise. Conventionally, the hypothesis of adjusted development expresses that there ought to be a synchronous and agreeable improvement of various divisions of the economy with the goal that all areas become together.

Be that as it may, for this to be accomplished, equalization is required between the request and supply sides. The inventory side has to do with the concurrent advancement of all between related areas which help in expanding the stockpile of products which contains issues, for example, interest in control, horticulture, water system, transport while the interest side concerns the arrangement of work openings and expanding earnings so the interest for merchandise and enterprises may ascend with respect to the shoppers. The reasonable development hypothesis has a comparable concentration with the Solow's model of since a long time ago run development however it is educational to state that they can't be basically substituted for each other.

The Ricardian Equivalence Theory

This hypothesis holds that the degree of obligation isn't significant and it doesn't have any impact on the economy. On the off chance that the administration chooses to decrease charges, which most financial experts will clarify as the purpose behind the expansion in utilization level, increment in investment funds just as capital collect and lower monetary development over the long haul, as indicated by Elmendorf and Mankiw (1998).

Be that as it may, the Ricardian hypothesis explains that it obligation doesn't influence utilization, capital and financial development. On the off chance that administration lessens assesses now, the legislature should realize that expenses would be expanded later on. Accordingly, the residents would not devour yet be sparing more so as to pay for the higher charges later. In this manner, the decline out in the open sparing (the spending shortage) will match with an expansion in private sparing of exactly a similar size.

This is the possibility that buyers envision the future so in the event that they get a tax break financed by government acquiring they foresee future expenses will rise. Subsequently, their lifetime pay stays unaltered thus shopper spending stays unaltered.

Likewise, higher government spending, financed by obtaining, will infer lower spending later on. On the off chance that this hypothesis is valid, it would mean a tax break financed by higher obtaining would have no effect on expanding total interest since buyers would spare the tax reduction to make good on the future regulatory expense increments.

Salary Life-cycle speculation – Consumers wish to cover their utilization up a mind-blowing course. Hence, if purchasers foresee an ascent in charges later on, they will spare their present tax reductions to have the option to cover future regulatory expense rises. Reasonable desires in the interest of shoppers. Purchasers react to tax breaks by acknowledging it will presumably mean future assessments need to rise.

Flawless capital markets – families can acquire to fund customer spending if necessary Intergenerational benevolence – Tax cuts for present age may infer charge ascends for who and what is to come. Along these lines, it is expected that a benevolent parent would react to current tax breaks by attempting to give more riches to their kids so they can cover the future regulatory obligation rises. Effect of tax reductions under Ricardian Equivalence, the guideline behind Ricardian comparability can be shown by this straightforward exchange off. On the off chance that tax breaks, increment discretionary cashflow for the time being, at that point it decreases extra cash in the long haul. In this way, a sound buyer accepts their lifetime pay is unaltered by a tax reduction. Be that as it may, even Ricardo himself was suspicious of his discoveries. Does it make a difference if governments money spending through obligation or tax assessment?

Ricardo, (1820)"Essay on the Funding System" explored whether it had any kind of effect to back a war through giving government securities or raising tax assessment. Ricardo closed it likely had no effect. Barro (1974), reinvestigated the thought and contended that under specific conditions, financing government spending by bonds was equivalent to raising charges. He finished up open obligation issuance and duties were to a great extent proportionate. There are different issues with this hypothesis of Ricardian identicalness.

1. Consumers are not sane. Many would not envision that tax breaks will prompt charge ascends later on. Numerous families don't extend future spending deficiencies and foresee future charge increments. In the event that the economy is at Point A – an ascent in government spending can prompt a fall in private area spending. There is swarming out. In any case, on the off chance that the economy is at point C (wastefulness) at that point it is conceivable to build government spending without a fall in private area spending. The thought tax breaks are spared is misdirecting. In a downturn, normal affinity to devour may decay. Be that as it may, this is distinctive to the minimal.

2. Propensity to expend. Proof recommends that individuals do invest a portion of the tax breaks, regardless of whether their normal inclination to spare ascents.

3. Tax cuts can support development and reduce getting necessities. In a downturn, government obtaining rises pointedly on account of programmed stabilizers (lower charge income, higher spending on joblessness benefits). On the off chance that tax reductions support spending and monetary development, the expanded development will help improve charge incomes and decrease government getting. In this way boost bundles of state $800bn, don't really mean expenses need to ascend by $800bn. On the off chance that development is expanded and the economy escapes downturn this will improve the administration's monetary position.

4. No Crowding out in a downturn. In a downturn, private area sparing ascents as a result of absence of certainty. Expansionary financial strategy is a method for causing the private part sparing to be used. It is contended higher government spending financed by acquiring causes lower private segment spending. Yet, this isn't the situation. The legislature isn't counteracting private division spending yet utilizing private area reserve funds to build total interest.

5. Multiplier impact. The underlying increment in government spending may cause a further ascent in spending in the economy making the last increment in GDP be greater than the underlying infusion into the economy.

6. Ricardian proportionality is otherwise called the Barro-Ricardo identicalness recommendation on the grounds that Barro expanded the utilization of this thought in the twentieth century.

METHODS

To study public debt and economic growth in Nigeria, the researcher adopted Causal-Comparative or ex-post facto research design, (time series analysis). Which according to Ejimaji and Ellah (2009) is similar to experimental study since it also seeks to establish cause, effect relationships, that involve the collection of data or information that have already occurred.

The model used Real Gross Domestic Product Growth (RGDPG) as the endogenous variable for economic growth while Domestic Debt (DODT), External debt (EXDT) Interest Rate (INTR) represent the exogenous variables.

The econometric form of the model is specified as;

RGDPG = *f* (DODT, EXDT INTR)

The econometric equation becomes;

$$RGDPG = C + \beta 1DODT + \beta 2EXDT\ \beta 3INTR + Ut \quad \ldots\ldots\ldots\ldots \quad (3.1)$$

Where:

RGDPG = Real Gross Domestic Product Growth

DODT = Domestic Debt

EXDT= External Debt

INTR= Interest Rate

Ut = Stochastic error term

C = Intercept of relationship in the model/constant

β_1, β_2, and β_3 = slope of the regression equation

Apriori expectation; $\beta_1 < 0$, β_2, and $\beta_3 > 0$

The study employed data that are secondary in nature. They are annual time series on domestic debt, external debt and interest rate, obtained from the Central Bank of Nigeria Statistical Bulletin from 1981-2016.

Data Collection and Sources

Data collection is a systematic way of obtaining information, fact, evidence or observation towards answering specific research question or listing stated hypothesis of a research as in Apere, (2006).There are two source of data collection in research work, primary data collection method and secondary data collection method, for this research work the secondary data collection method is used due to the nature of the research topic, the secondary source of data collection is a form of gathering information through already collected information.

Testing for Stationary

A non-stationary time series is a stochastic process with unit roots or structural breaks. However, unit roots are major sources of non-stationarity. The presence of a unit root implies that a time series under consideration is non-stationary while the absence of it entails that a time series is stationary. This depicts that unit root is one of the sources of non-stationarity.

Auto Regressive Distributed Lag (ARDL) Bounds Cointegration Tests

ARDL Bounds cointegration test concentrated on the determination of long run and short run coefficients of the variables under study. This model was developed by Pesaran & Shin (1999) and Pesaran, Shin and Smith (2001) with the aim of investigating the long run relationship and short run dynamic interactions among the variables of a study.

Method of Data Analysis

To examine the relationships between focused variables (real gross domestic product growth, domestic debt, external debt and interest rate) the study employs the autoregressive distributed lag model (ARDL) suggested by Pesaran, Shin and Smith (2001) for cointegration investigation and analysis.

One of the advantages of using this technique is that it does not consider the problems arising from the different order of integration of the variables. Test for stationarity is carried out on each of the variable used in other to correct any problem of unit root, also is the Diagnostic and stability test

Data for Domestic Debt, External Debt, Interest Rate and Gross Domestic Product Growth Rate.

S/N	YEAR	DODT	EXDT	INTR	RGDPG
1	1981	11.19	2.33	7.75	20.838
2	1982	15.01	8.82	10.25	-1.053
3	1983	22.22	10.58	10	-5.05
4	1984	25.67	14.81	12.5	-2.022
5	1985	27.95	17.3	9.25	8.323
6	1986	28.44	41.45	10.5	-8.754
7	1987	36.79	100.79	7.5	-10.752
8	1988	47.03	133.96	16.5	7.543
9	1989	47.05	240.39	26.8	6.467
10	1990	84.09	298.61	25.5	12.766
11	1991	116.2	328.45	20.01	-0.618
12	1992	177.96	544.26	29.8	0.434
13	1993	273.84	633.14	18.32	2.09
14	1994	407.58	648.81	21	0.91
15	1995	477.73	716.87	20.18	-0.308
16	1996	419.98	617.32	19.74	4.994
17	1997	501.75	595.93	13.54	2.802
18	1998	560.83	633.02	18.29	2.716
19	1999	794.81	2577.37	21.32	0.475
20	2000	898.25	3097.38	17.98	5.318
21	2001	1016.97	3176.29	18.29	4.411
22	2002	1166	3932.88	24.85	3.785
23	2003	1329.68	4478.33	20.71	10.354
24	2004	1370.33	4890.27	19.18	33.736
25	2005	1525.91	2695.07	17.95	3.445
26	2006	1753.26	451.46	17.26	8.211
27	2007	2169.64	438.89	16.94	6.828
28	2008	2320.31	523.25	15.14	6.27
29	2009	3228.03	590.44	18.99	6.934

30	2010	4551.82	689.84	17.59	7.839
31	2011	5622.84	896.85	16.02	4.887
32	2012	6537.54	1026.9	16.79	4.279
33	2013	7118.98	1373.58	16.72	5.394
34	2014	7904.02	1631.52	19.23	6.31
35	2015	8837	2111.53	23.46	4.913
36	2016	11058.2	3478.92	23.72	-1.6

Source: Central Bank of Nigeria Statistical Bulletin from 1981-2016.

Hypotheses Testing

The results of this analysis is organized in a sequential order as first the researcher employed unit root test to ascertain the stationarity status of each variable through the Augmented Dickey Fuller (ADF) technique, we examine the long-run relationship of the model through Autoregressive Distributed Lag (ARDL) Bounds Cointegration Tests, which help to assess if the variables used in the study can be used to explain long-run relationship after which the researcher carry out diagnostic tests and stability test, using Eviews9 econometric software.

Autoregressive Distributed Lag (ARDL) Model.

Dependent Variable: RGDPG
Method: ARDL
Sample (adjusted): 1982 2016
Included observations: 35 after adjustments
Maximum dependent lags: 1 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (1 lag, automatic): LDODT LEXDT INTR
Fixed regressors: C
Number of models evalulated: 8
Selected Model: ARDL(1, 0, 1, 0)

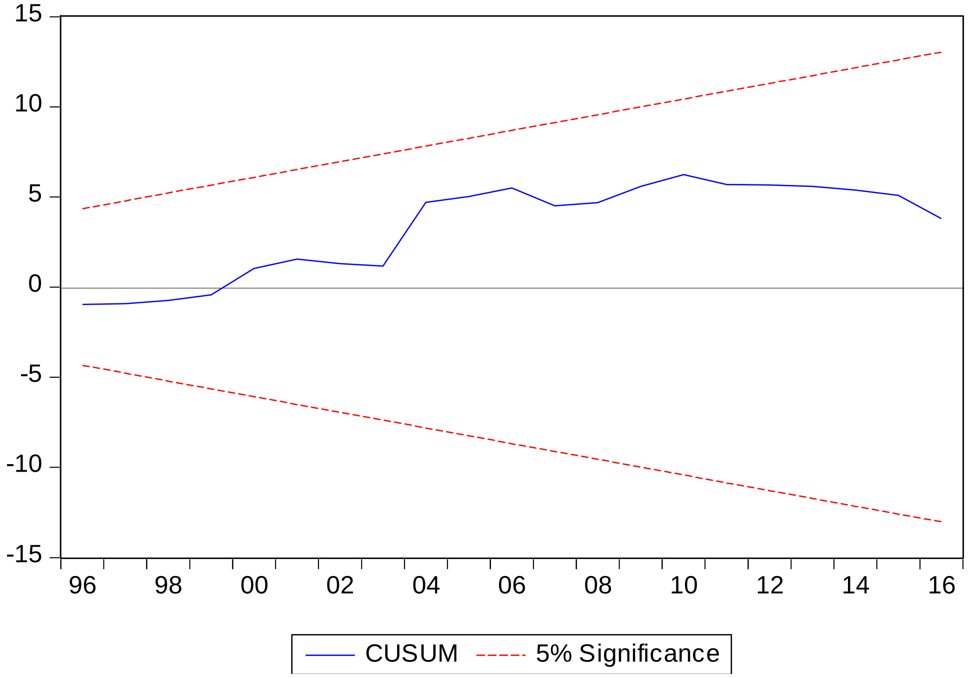
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
RGDPG(-1)	0.071957	0.155455	0.462883	0.6469
LDODT	-0.246756	1.039401	-0.237402	0.8140
LEXDT	-2.189162	2.724045	-0.803644	0.4281
LEXDT(-1)	3.618157	2.380045	1.520206	0.1393
INTR	0.122177	0.305092	0.400459	0.6918
C	-5.069950	5.121336	-0.989966	0.3304

R-squared	0.249243	Mean dependent var	4.065057
Adjusted R-squared	0.119803	S.D. dependent var	7.157334
S.E. of regression	6.714927	Akaike info criterion	6.801348
Sum squared resid	1307.617	Schwarz criterion	7.067979
Log likelihood	-113.0236	Hannan-Quinn criter.	6.893389
F-statistic	1.925540	Durbin-Watson stat	2.062537
Prob(F-statistic)	0.120546		

Source: Authors computation using Eviews9

Stability Test

The stability of the model is checked using CUSUM and represented graphically in figure 4.1 to show the plot. According to Bahmani-Oskooee and Brooks (2004) the null hypothesis states that, the regression equation is correctly specified if the plot of these statistics remains within the critical bounds of the 5% significant level.



DISCUSSION OF FINDINGS

The coefficient of the error term indicates speed of adjustment. Given that the coefficient of the short run model is 0.92 in absolute terms, it implies that 92% (percent) of disequilibrium in real gross domestic product growth is adjusted or corrected every year due to changes in domestic debt, external debt and interest rate, the result further shows that there is no individual significant effect of the independent variables on the dependent variable. This is applicable to the long run also.

This further confirm the theory of functional finance According to Abba (1943) who says that, the size of the Public Debt in absolute or relative numbers is immaterial, as is the level of taxes and the money printed by the government. The only thing that matters is to maintain the level of the national income to the level of full capacity and full employment without inflation. The government should do whatever it takes to achieve this without caring about the existence of budget deficits or the size of the national debt. Anything else is immaterial and reflects the scholasticism of doctrines of bygone eras.

CONCLUSION

Based on the result we conclude that, public debt is a significant determinant of economic growth, this may be due to developed debt management policies and good implementation of debt funded projects and programs by the authorities with the nature of debt management authorities and office where there are perfect information about the level of contribution of debt to gross domestic product growth. In other words public debt in Nigeria is an injection into the economy.

Also are the calls for caution because while Nigeria try as much as possible to achieve her present needs by promoting sustained annual financial deficit, future generation economic production is being mortgaged in perpetual indebtedness. Hence, we call for a sustainable deficit budgeting financing, and effective utilization of resources, for productive economic activities, that will enhance economic growth.

RECOMMENDATION

From the conclusion above, this study provide the following recommendations for policy; for government agencies, policy makers, and appropriate authority for improvement: .

1. Government should start using public private partnership effectively, to engineer sustainable economic growth, through foreign direct investment as the case in countries like South Africa and Canada.

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