TITLE PAGE

THE IMPACT OF EXTERNAL DEBT ON NIGERIA ECONOMY

(1985-2011)

IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELORS SCIENCE (B.SC) DEGREE IN ECONOMICS

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DEDICATION

This study is dedicated to the master of the universe, author and finisher of life (God) and the blessed mother Mary.

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The exquisite nature of gratitude was noted by St. Ambrose of Milan, when he said that "nothing is more urgent than given thanks". Man as a socio-interdependent animal achieves excellence and success not in isolation of others. As such any man that refrains from being grateful ceases to be rational, thus; not human. My first gratitude goes to God Almighty and my Blessed Mother for their guidance, providence and strength. Secondly; I say thank you to my able supervisor and friend Mr.J.C Odionye for his immeasurable contribution to this study .I can never forget my other lecturers that are always ready to tell me what to do in which ever form they choose to; Mr.Uche, Mr. Ojike, Mr. Odo, Prof. Umeadi, Mr. Osoduru, Barr. Onwudinjo, Fr. Remy, Mr. Young, etc. To all I can't say thank you enough. To my irreplaceable parents Mr. Clifford O. Udeh and Mrs Monica E. Udeh, and my God sent siblings; Udeh Geraldine, Genevieve and Samuel, I can't thank you all enough. I also can't forget you granny, though on your sick bed, you never cease to give me at least a reason to forge ahead. To my aunties and uncles who has contributed in one way or the other, And also my friends; Emeka, Oky, Ochi, Amakas, etc. i say thank you and may the Lord never forget you all. Amen.

ABSTRACT

This work evolved out of the zeal to provide an immense understanding of the Nigeria economic of debt. The broad objective of this study was to evaluate the impact of external debt on the development of the Nigeria economy within the life-span of 1985-2011.The models in this study was used to evaluate the developmental relationship between the independent variables and the dependent variables. The data were sourced from the Federal office of statistics, CBN statistical bulletin 2011, and international monetary fund (IMF). The ordinary least square method (OLS) was employed in the cause of study. Also, the Augmented Dickey Fuller test (ADF) revealed that the variables are reliable for forecasting while the use of OLS was most appropriate for the study in terms of goodness of fit and significance of regression coefficient. The outcome of the analysis revealed that increase in external debt positively affects the economic development of Nigeria while increase in external debt services positively affects economic development in Nigeria. Thus; conclusion was made that external debt rises rapidly because loans were secured for dubious projects and private pockets rather investing the loan in productive ventures by increasing exports. And by recommendation, government should incur external fund for developmental projects and as well monitor effectively the use of external funds so as to ensure the development of Nigeria economy.

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CHAPTER ONE

1.1 BACKGROUND OF STUDY

Most economic development literature described the 1950's and 1960's as "Golden Years", which marked the rate of development in developing countries whose development at the period was just high and internally generated. Also, the less developed countries (LDCs) increased their investment with little or no reliance on external resources (Daily Sun; 2007).

On the contrary, most of the development experienced in 70's was "debt led". This was a result that these countries maintain persistent current account deficits, which led to the borrowing from the international money and capital market to finance projects. Based on this premise, external borrowing has always been resorted to because of the shortfall between domestic savings, seeking external funds to bridge gaps is not desirable which is so because external debts acts as a major constraints to capital formation in developing nations.

In most cases, debt accumulates because of the servicing, requirements and the principal itself. Considering the above, external debt becomes a self-perpetuating mechanism of poverty aggression, over exploitation and a constraint on development in developing countries (NakatamianhHerca; 2007). However like most developing countries of the world; Nigeria relies substantially on external funds for financing its development projects, e.g. Iron and steel mills, roads, electricity generation, plants etc. such external funding usually takes the form of external loans. In the early years of political independence(i.e. 1960 through 1975), the size of such loans was small, the rate of interest concessionary, the maturitywas long-term and the source was usually multilateral in nature. For instance, Nigeria's external debt in 1960 was about $150million, however, beginning in the year 1978, the situation changed. Nigeria, at the lure of the international financial institutions started to borrow huge sums from private sources at a floating rates and with shorter term maturities (Business New; 2009).

In 1978 "JomboLoan"alone which is borrowed from the international capital market (ICM) was estimated to sum of $1billion which represented over 100% of Nigerians Gross Domestic Product (GDP) for that year. The situation precipitated a debt-crisis that progressively worsened overtime. However, it follows that debt is an integral part of all economies; developed, developing or undeveloped. (Bannock Baxter and Rees, 1972). By 1986, Nigeria had to adopt a

WorldBank/International Monetary Fund (IMF) sponsored Structural Adjustment Programme (SAP), with a view to revamping the economy and making the country better-able to service her debt.

Furthermore some state government resorted to imprudent borrowings from external source. This was to finance all sorts of projects of doubtful viability. Sooner than expected, the debt problem was marked to have started in the 1980's. in fact, the external debt escalatedfrom #8,8194million in 1982 through to #10,577.7millionin 1985. In 1987, it was #100,787.6million. it further moved up to #328,051million and #633,144.4million between 1991 and 1993 respectively. By 1995 and 1996, Nigeria had an outstanding debt of #716,865.6millionand #617,329.0million respectively (CBN statistical bulletin, 2004). In Nigeria, the debtsituation is really a big problem because these debts mount are accumulated annually and we find that the more debt we accumulate, the higher the debt services payment and less resource. This in turn reduces savings for investment purposes. Such a situation portrays an imminent danger for the present and future of the country. This study therefore tends to focus on the impact of external debt on Nigeria economy and also provides lasting solution to external debt problems.

1.2 STATEMENT OF PROBLEM

Nigeria which was a net lender to organisations like IBRD, IMF, Paris Club etc. is today one of the highly indebted countries to these organisations. External debt when effectively and efficiently utilized is meant to provide some investments. The returns from these investments will be used in the settlement of the debt. But in Nigeria, the reverse is the case. The debt is incurred to service and enrich the private pockets of our leaders,on behalf of the entire citizenry(Vanguard; 2004). Consequently upon this, debt servicing has become one of the most consuming elements of Nigeria's annual earnings. The Nigeria's unfavourable balance of payment (BOP) istoday a function of some variables amongst which external borrowing is rated the most influential factor. The BOP problem in turn leads to high rate of inflation, import and dependence. Nigeria's external debt has no doubt put pressure on the economic recovery and growth of the country. This research has actual impact of the external debt on the economy of Nigeria.

The trend of external debt shows the state of the economy considering the external debt. Thus, it shows whether the external debt of the Nigerian economy is increasing or decreasing. As at 1990 to 1992, the external debt amounted to 82.3% and from 1993 to 1995, it decreased significantly by 13.2% while from 1996 to 1998, it further decreased by 2.5%. As at 1999 to 2001, the Nigeria external debt was insignificant. But as at 2002 to 2004 there was a significant increase on the Nigeria external debt by24.3%, while from 2005 to 2007 the external debt was insignificant. But 2008 to 2010 showed an increase in the Nigeria external debt by 39.9%.

1.3 OBJECTIVES OF THE STUDY

The objectives of the study are;

i. To determine the impact of external debt on the Nigeria economy.
ii. To determine the effect of external debt services on the Nigeria economy.

1.4 STATEMENT OF HYPOTHESIS

This study is guided by the following hypothesis.

H0: there is no significant effect of external debt services on the Nigeria economy.

H1: there is significant effect of external debt on the Nigeria economy.

1.5 SIGNIFICANCE OF THE STUDY

The study is important because it will help to know the amount of external debt of the country and proffer solutions on how to control the debt of the country based on the findings and recommendation of this work. It will stand to help the policy makers, governments, researchers and the students of related discipline. The research work will serve as a guide to policy makers to enable them in making and implementing appropriate laws that will guide the rate at which money is being borrowed from other countries and also negotiate the maturity period to limit the extent of external debt. This is implementing proper policies. This work will be relevant to government in the area of debt management. Thus; it will help the government to know the organisations and countries whose maturity period are longer and also charge rate of interest and then borrow from them so that the loan can be repayable as and when due. This will also benefit the researchers and the students of related discipline by serving as a reference material primarily geared towards expanding the boundaries of knowledge.

1.6 SCOPE OF THE STUDY

The study will focus on the Nigeria external debt and its impact on the economy. The study will cover the period of 1985-2011. This period is particularly pertinent for the study and the nation's economic history because it covers a period of deficit financing and budgeting as well as recessionary period involving sharp nose diving cum dwindling in general societal aggregate demand which emanated as a result of low level of savings in Nigeria economy which necessitated the undesirable macro-economic problems and economic distress and fluctuations which may come up inform of economic glut(dumping of unsold socks of goods due to lack of patronage by the consumer, i.e. low or no effective demand of the commodities or stock of the goods by consumers).

The period witnessed the introduction of multifarious types of policies (fiscal and monetary policies) and some programmes to bring the fluctuating Nigeria economy to normalcy sees to achieve economic growth and development which are the goals of macro-economic. In particular, the period witnessed the period of bank consolidation/recapitalization policy, deregulation, industrialization and open door policy. All these were designed to bring the sagging economy in equilibrium.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 THEORETICAL FRAME WORK

According to Okoh (1989), "growth of external debt was as a result of squandering surrounding many meaningless programmes". This is purposely designed to fraudulently divert public funds into private banks.

More so, in the work of Uniamikogbo (1991) he viewed that the real picture of the causes of Nigeria's external debt was of three categories.

Firstly, the glut in the world market which was based on the source for foreign exchange that leads to an unstable earning. This was practically experienced in 1980 when the Nigerian Oil Revenue which was $22.4billion reduced to $1.3billion.

Another cause which equally made obvious was at the initial ease with which loans extended. This was experienced without Nigeria ensuring the viability of the project to be financed with such loans. In certain cases, loans were contracted by creditors who were eager to lend at generous terms for export credit and this will ensure the financial viability of the projects. The most important cause he observed was inappropriate monetary and fiscal policies of the government. This caused serious adverse effects on the Nigerian economy in the form of domestic inflation.

Taking an in depth looks at the nation's outstanding external debt and its trends since its origin, one baffle. One begins to wonder what sort of legacy the present generation will leave for the upcoming generation of this country. Shall it be a legacy of debt or a legacy of wealth? The worst still remains that the borrowing "spree" is still going on, that the end to it is not foreseen for the future. In fact, the present debt has gotten to a point where the nation should borrow to finance projects and should not only borrow to services previously accumulated debts.

The truth of the matter is that borrowing from countries and clubs will not favour the economy if not properly utilized. The inability to manage the debt will eventually lead to great sorrow and un-improvement. This places the debtors, the load of debt service payment and threatens the nation with hardship. In most developing countries, the fiscal function of achieving growth and development is seen as a means of attaining other objectives, which includes efficient resource allocation, redistribution and stabilization.

Thirlwall (1976), Udeigbo(1991) said that the ability to generate fund to attain these positive ideas has been the stumbling block. The external debt should not only create avenue for the economy to collapse but can equally reduce the obstacles posed to growth and development if properly utilized, Osagie and Idehai(1991).

According to Mac Donald (1982), external finance is a source of additional resources to investment. He further added that foreign borrowing is used to smoothen the economy's consumption over periods and this will reduce the cost of economy's income stream.

2.1.1ORIGIN OF NIGERIA'S EXTERNAL DEBT

The origin of Nigeria's external debt dated back to 1958 when the sum of US $28million was contracted for railway construction. Between 1958 and 1977, the resort of foreign debt was minimal. This is because the debt contracted during the period was the concessional debt from bilateral and multilateral sources. And there was longer repayment period and lower interest rates constituting about 78.5% of the total debt stock.

In addition from 1978 following the collapse of oil prices which exerted considerable pressure on govern finances. It became necessary to borrow for balance of payment support and project financing. This led to the promulgation of decree No.30 of 1978, limiting the external loans.

However, the bulk of over debts from new loans incurred in 1978 (During Obasanjo regime) through Shagari marked the starting point of Nigeria's external debts. This was the period when most of the money borrowed was really incurred in an outrageous manner. During this 5 years period of new (------ loan of 23, were under Obansajo's 59 under Shagari and 8 under Buhari).

Also the debt of total debt was incurred during the Structural Adjustment Programme (SAP). This was between July 1986 to December 1992 during Babangida's regime. In fact, numerous factors contributed to the increased size of Nigeria's external debt.

2.1.2 C AUSES OF NIGERIA'S ETERNAL DEBT

According to Uduebo, (1990) the causes of Nigeria's debt are classified as thus;

1. The collapse of commodity prices and the attendant deterioration of their terms of trade which hampered debt servicing.
2. Capital flight and the resultant net outflows of resources.

3. The dubious activities of Multinational Corporation with respect to export and import invoicing.
4. Sharp increase of real interest rate reduced grace and repayment periods.

1. Collapse of commodity prices and the attendant deterioration of their terms of trade which hampered debt servicing causes collapse in the prices of commodities such as oil the repayment of external loans is adversely affected and so resulted to external debt. So also when the terms of trade is not maintained and implemented, the debtor country operates with a deficit balance of payment and so their debt burden grows thereby making the servicing more difficult.

2. Capital flight and the resultant net outflows of resources. Capital flight means large-scale and sudden movement of capital from a country by residents or foreigners. So in the Nigerian's context, it means sudden means of movement of capital from Nigeria to outside the country, in most cases due to fear of losing the whole money or large part of it. These capitals that are flown abroad ordinarily are supposed to be invested here in the country and then the returns from the investment are used to settle some of the debt through its addition to the GDP (Gross Domestic Product) growth of the economy. Due to this outflow of

capital to abroad, the Nigeria economy experiences shortages in the availability of resources for its growth and development and when this happens, it creates difficulty in the way of the economy's means of refunding her external loan thereby incurring more debt for the economy.

3. The dubious activity of activities of Multinational Corporation with respect to export and import invoicing happens to contribute to the growth of the external debt I the Nigeria economy. This uncertainty therefore may result to excesses in the economy when more than what is needed in the economy is imported. When this happens, it leads to dumping in the economy, thereby causing external debt because all the goods imported were not sold so as to raise money to settle the debt owed. On the other hand, when this corporations export more than what should, it results to shortage in the economy and this to a great extent will handicap the economy in terms of settling the debt which is owed to outside its Nations.

4. Sharp increase of real interest rate, reduced grace and repayment periods. When there is a sharp increase in the real interest rate, it results to external debt in the sense that the debtor country will then find it very difficult to pay back at the increased interest rate. It is the

utmost wish of every country to borrow at a particular interest rate and then pay back at a reduced rather than an increased interest rate. Therefore, whenever the reverse is the case, to results to external debt. This is also applicable to the case of reduced grace and repayment periods. When the repayment period agreed by the lender country and the borrower is reduced, it then becomes so difficult for the debtor country to adjust in order to meet up with the repayment of external loan within the stipulated period of time. The result and effects of this situation therefore, is in the increments of external debt.

2.1.3 SOURCES OF NIGERIA'S EXTERNAL DEBT

Nigeria has contracted number of debt obligation from external sources. Some of which are:

i. Multinational creditors
ii. Bilateral and private sector creditors
iii. London club of creditors
iv. Promissory note creditors

MULTINATIONAL CREDITORS: This creditor requires that only trade with all other countries combined should either balance or be financed by overall credit from other countries. These are international creditors' institutions funded by member nations. They include the World Bank and its affiliates (examples; International Finance Corporation (IFC), International Monetary Fund (IMF), African Development Bank (ADB), European Investment Bank (EIB), International Development Assistance (IDA), International Fund for Agriculture Development (IFAD)). They provide credit for development purposes, balance of payment support and private ventures. As at 1992, Nigeria owed this institution outstanding debt of $3,697.7 and in 1994 and 1996 the figure stood at #4, 4023, #4,411.0 and #4,665.0million respectively. To clarify this figure, the naira equivalent for the total debt owed to this club as at 31st December in 996 stated #102,650.00million. in 2000and 2001, it was $140million and $4.1billion respectively. The debt service has continued to fluctuate from $810.1million in 1992, 1993 and 1994. It was $643.2 and 758.9 respectively. In 1996, the amount stabilized at $826.9. 1996, 1997, 1998 and 1999 experienced debt seriously of $814.4, $800.2, $680.2 and $659.2 respectively. However, in 2001, it was $491.48million.

BILATERAL AND PRIVATE CREDITOR: the bilateral creditors fall into two categories; Pars club and Non-Paris club. The Paris club is primarily the group of wealthy donor nations which also belong to the

Organisation for Economic Cooperation and Development (OECD). The non-Paris did major donors includes Eastern Europe, the former soviet bloc (with exception of Russia, a new minister of the club since 1997) and the Arab States.

A government to another government provides a bilateral credit. Such credit is intended for development purposes in the recipient countries. Examples are the Official Development Assistance (ODA) private sector credit agencies are usually short term, extended by commercial banks, individuals, and foreign suppliers and institutional in form of suppliers or buyer credit. These creditors are classified as other in Nigeria's debt stock table. It obviously has the lowest amount borrowed by creditors. The 1992 and 1993 figures stood at $226.2million and $1647.3million respectively. Furthermore, the figures continued to fall slightly such that in 1994, 1995 and 1996, there was a total debt stock of $1456.3 and $1311.2 and 121.0millionrespectively.

LONDON CLUB OF CREDITORS: This club Involves mainly uninsured and debts extended by their commercial banks to national of debtors nations. Members of the club are commercial banks of industrialized countries. The first meeting of this club was held in 1976 to discuss repayment problems and restructuring agreement. Nigeria owed this club $2,120.0million in 1992, 1993, 1994, 1995 to 2001, the amount was about 2million and the actual total debt outstanding is out of this amount.

PROMISSORY NOTE CREDITORS:These are the refinanced uninsured trade arrears. Put directly, these are uninsured trade creditors arising mainly from trade arrears accumulated between 1982 and 1983 to Nigeria. The debts were refinanced by the insurance of promissory notes to the creditors.

2.1.4 PROBLEMS OF EXTERNAL DEBT

External borrowing has been restored to fall between domestic savings and the desired level of investment. The Nigeria debt problem has been attributed to excessive dependency on external finance. Also the appropriate fiscal, monetary and debt policy is the cause, Sanusi (1988), he added such factors as rigid exchange rate and pricing.

According to Famitani (1991), the debt crisis is traceable to 1982 when there was huge balance of payment deficits. Foreign debt problem became compounded as economic management devices became in effective. Just as the countries relationship with her trading partners (partners) detoriated to the extent that many important and economically viable projects were abandoned. The Shagari stabilization (SSS) of 1982-1983 and the Buhari's Economic Recovery Programme (BERP) of 1984-1985. This proved inadequate to solve the problems of the debt-trapped economy.

According to Bangura (1978) argued that although corruption and management worsen debt problem. They are not the bores of our problems. He emphatically attributed the major problem to the fact of many developing countries following the path of developed countries instead of constructing their own economy to suit their purpose.

2.1.5 MANAGEMENT OF EXTERNAL DEBT

Since the emergence of the debt crises, there have been various proposals in a bid to properly manage and reduce the mounting debt. The proposals include Bank Plan (1985). This recommended broad reforms as a precondition for access to funds. The plan calls for liberalizing trade and investment. Also eliminating government subsidies and privatizing public sector enterprises.

The Brady Initiative (1978) required the debtor countries to maintain growth oriented adjustment programmes. In addition, it was made to take proper measures to encourage repatriation of capital flight.

Furthermore, in a blunt mind, Onwudokit (1991) spelled it out that the debt rescue cannot work for Nigeria rather it will only exacerbate our debt pennanage. Unianmikogbo (1991) suggested the need for bilateral debt forgiveness. Nigeria's government should form an effective debtor association that will collectively bargain with their collectively bargain with their creditors. The association should see the full and effective implementation of the ingredient of debt reduction initiative.

Anyiwe (1991) suggested that debts should be paid now and stop being carried, for this will generate grim for the generation yet unborn, socially, politically and economically.

Some of the steps for solving external debt problems are as follows;

1. Money leakage prevention (for example, through tighter verification of oil and gas and other resource sale volume, transparent accounting and regular auditing of regular accounts, etc.)
2. More disciplined revenue generation (particularly from diversification from the monoculture of oil, income/VAT) cooperate tax collection, commercialization of public enterprise and export promotion.
3. Reduction in public conspicuous consumption; purchases of executive jets do not assist us in this direction.

4. More balanced private – public partnership (including guided deregulation, outright privatization of some government companies and reduction (selling-off) of government contributions in high-capital joint-venture enterprises). On the whole, our government needs to demonstrate a strong commitment to fiscal discipline if it is to be taken more seriously in is debt relief and cancellation campaigns.

There are still some other approaches in financing Nigeria's external debt which includes;

i. Embargo on new loan: the imposition of this was to check the escalation of the level of the total debts stock and minimize the problem of additional debt burden.

ii. Limit on debt service payments: this requires settling aside a proportion of export earnings to meet debt service obligations to allow for internal development. In the case of federal government a maximum of 30 per cent of export earnings could be allocated for debt servicing (Anyanwu J.C 1997:229).

iii. Debt reconstructing: these involves the conversion of an existing debt into another category of debt, through refinancing, rescheduling, buy-back, insurance of collateralized bonds and the provision of a new money. The Debt Conversion Committee (DCC) was established in July

1988 to implement the debt conversion programme which aimed at stemming the tide of resources transfer through the encouragement of capital inflow repatriation of flight capital and recapitalization of enterprises in the private sector through the appropriation of the substantial discounts, offered and the commissions paid, the country benefits and reduces its debt stock from 1988 to 1995, 379 applications valued at US $6.0million were received out of which 293 applications valued at US $2.9billion were given approvals in principle. The total amount of debt actually redeemed from inception to 1995 stood at US $908.3million ,other financial benefits which accrued from the conversion undertaken up to 1995 ,included total discount of US $11.6million of the application, approvals-in-principle and disbursement on sectorial basis. The manufacturing, cash gifts, building and construction and agriculture were the leading sectors.

iv. DEBT FORGIVENESS AND CANCELLATION: In recent years, there has been serious campaign from developing countries pleading for debt forgiveness and cancellation. For example, since assumption of office in May 1999, Obasanjo had visited many industrialized countries making a case for debit forgiveness for Nigeria. In October 2005, Nigeria got a debt relief of 60% of debt owed to Paris club which summed us and $18bilion out of $30billion.

President praised the finance minister OkonjoIweala and the British prime minister, Tony Blair for their roles convincing the Paris class to have mercy on Nigeria (Gbosi 2004:218).

2.1.6IMPACT OF EXTERNAL DEBT ON ECONOMIC DEVELOPMENT.

The impact of external debt on the economic development will be viewed from different author.

Samuelson et all (2001:736-9) analyse how the external debt affects the economy in the shoot-run and long-run outcomes separately. First, as the short-run, this is where the stock of debt as given and the deficit may affect the business such that the saoing-investment balance. The short-run impact of budget deficits upon the economy is known as 'ctowdingonct'. Secondly is the long-run which is usefully analyses as a full employment economy, the external debt affects current capital formation and the consumption of future generations. This issues is known as 'burden of debt'

He further analysed the difficulties of servicing a large external debt, the efficiency of leaving taxes to pay interest on the debt and the impact of the debt on capital accumulation. The impact of short-run outcomes areas follows;

1. Difficulties of servicing a large external debt which does not involve a net subtraction from the resources available to people in the debtor nation.

2. Efficiency loses from taxation.

3. Displacement of capital which has the most serious consequence of a large public debt by displacing capital from the nation stock of private wealth. As a result, the peace of economic development shows and future loosing standards will decline.

As taxes are raised to pay interest on the debt, in efficiencies further lower output. Also an increase in external debt lowers national output that has to be set aside for servicing the external debt. Taking all effects together, output and consumption will grow more slowly than they would have been.

2.2 EMPIRICAL EVIDENCE

Here. We look at the various works of some scholars who have studied the impact of external debt on the economic growth, as this will serve as a guide towards the completion of this work and also to know whether the result that will be gotten is in tune with the work of the scholars that have studied this earlier than now.

Foreign Aid or external debt is considered a significant source of income for developing countries Pakistan has viewed much on foreign debts to finance its balance of payments deficit and saving investment gap. This heavily dependency on external resources became the controllable in late 1980's. Primary objective of this work is to explore the selection shop between external debt and economic growth in Pakistan for the period of 1972-2005, using time series econometrics techniques. We took a point of glance of external debt and economic performance of Pakistan. The paper shows that external debt is negatively and significantly related with economic growth. The evidence subject that increase in external debt will lead to decline in economic growth. Debt servicing as also significant and negative impact on GDP growth. As debt servicing tends to increase, there will be less opportunities for economic growth.

LayiAfolabi (1991:299) articulated several problems associated with external borrowing.

1. There is a limit to the extent of flexibility in a country's efforts to generate fund to repay external loan.

2. It has to be serviced and repaid in foreign currency and this may be difficult especially if the expected future out flow of external earnings do not materialize

3. External debt may have conditionality attached to it, e.g. international monetary fund loan.

4. Because of the relatively soft conditions attached to foreign borrowing, it may tempt a country into over- borrowing and impair her international credit rating.

5. Most foreign loans, especially those with elements of grants or those whose conditions are two soft, have strong attached to them.

Similarly, Micheal P.Todora (1994:457), pointed out that 'although external borrowing can be highly beneficial, providing the resources necessary to promote economic growth and development it has its cost'. In recent years, these cost have outweighed the benefits for many developing countries. The main cost associated with the accumulation of large external debt is debt servicing. As the size of debt grows or the interest rate roses, debt services changes increases. Thus debt service obligations can be met only through export earnings.

Also Oyejide et al (1985:17) noted the impact of Nigeria's external debt burden on economic development. The accumulation of external debts tends to make the debtor economy more vulnerable to external financial pressures. It can allow a government reforms thus postponing rather than buying time within which to carry out mandatory structural adjustment. External borrowing can be wasted on insufficient investment and consumption. External debt has little to recommend of particularly when it is the unintended consequence of other policies such as large budget deficits, inappropriate exchange rate and measures which discourages domestic saving

Perasso (1992) using data from twenty middle income severally indebted countries for the 1982-1989period investigated the relationship between economic development and external debt. The study shows the appropriate domestic policies has stronger impact on increasing investment and development in highly indebted countries than decreasing debt servicing obligation.

Cohen's (1993) investigated the relationship between external debt and the investment of developing countries for 1980's. The study showed that there is a little effect of the level of stock of debt on the investment. The author argued that an actual flow of net transfers affects investment. The study further reveals that actual service of debt 'Crowded out' investment.

Cunningham (1993) investigated the relationship between debt burden and economic development foe sixteen countries for the period of 1971-2004. The study shows that growth of a country's debt burden has a negative effect on the economic development. He also argued that when a country is significantly to foreigners, this adversely affects both labour and capital productivity.

Fosu (1990) has employed an augmented production function to investigate the impact of external debt on economic development in sub-Saharan Africa for the 1980-1990 period. The study reveals that there is negative relationship between debt and economic development. The study also shows that a rather weak negative impact of debt on investment levels.

Abdelmanla and Mohamed (2005) investigated the impact of external debt on economic development during 1978-2001 0f Sudan. The study reveals that external debt and inflation adversely affected the country's economic performance

2.3 SUMMAY OF PREVIOS EMPIRICAL FINDINGS

From the discussions above, external debt can be said to have a huge impact on economic development. The work of the above scholars (2.8) proved that external debt has both positive and negative impact on a country's economic development. From their results, some showed positive relationship between external debt and economic development while the other showed a negative relationship. Fosu (1996) argued that external debt can additionally influence economic development via effect on the productivity of investments significantly. They could still decrease output growth directly by diminishing productivity as a result of the adverse changes in investment mix. Therefore, it is obvious that external debt can help to raise the rate of economic development and as well can reterd economic development. But whether external debt reduces or increases or increases, the rate of economic development is dependent on how efficiently and effectively the debt is managed and utilized.

2.4 LIMITATIONS OF PREVIOUS STUDY

A few empirical works exist in the literature that focuses on the sources of external debt as well as the country's debt activities is under the various sources of external debt. And a number of managerial aspect of the external debt have been examined. However; the analytical review of this study revealed the absence of trend of external debt and poor data collection on the empirical evidence of the study as well as a very poor statement on the background of the Nigeria External debt. Thus; showing the gap between the existing literature and the previous study.

The existed work by other researchers (2007 -2010) on this particular topic considering; Ogbonna, 2007; Impact of External Debt on Nigeria Economic, Chimezia; 2008 ; Impact of External Debt on Nigeria

Economic and Emeka Agu; 2010 ; Impact of external Debt on Nigeria Economic; were unable to bring into play the problem of external debt. But the preceding works till 2012 were able to state a few problem of external debt, i.e.; Nkechi, 2012; Impact of external debt on Nigeria Economy. Thus; bringing the existing work into play to give the locks of other studies that existed before these.E.g. stating clearly how to manage the problem of external debt in the Nigeria economy as well as maintaining these problems that are to be managed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION.

This chapter basically describe research design source of data and data analysis techniques. The researcher in the process of carrying out this study employed some methods, techniques and approaches in arriving at a valid analysis and presentation. This research also employs econometric methods for its analysis. This is because the method does not only provide the best technique or verification and regulation of theories but also provides quantitative estimates of the magnitude of the relationship among variables (Maddla, 1992)

3.2 SOURCES OF DATA

Secondary data were sourced from various journals and periodicals of the Federal Office of statistics (FOS) and the Central Bank of Nigeria (CBN) and these include;

i. The annual report and statement account.
ii. Economic and financial review.
iii. CBN briefs.

iv. Nigeria: Major economic, financial and banking indicators.

v. Furthermore; references were made on the IMF.

3.3 DATA ANALYSIS TECHNIQUE

The data analysis technique to be used in this study is the Ordinary Least Square Method (OLS). This approach which is quantitative technique includes the table and the test for the hypothesis formulated by using the unit root hypothesis (Augmented Dickey Fuller Test) Regression analysis at 5% level of significance and error contegration model (ECM).

3.4 MODEL SPECIFICATION

GDP = F (EXO, GOVEX, INFLR, EXS)……

Where

GDP = Gross Domestic Product

EXD = External debt

GOVEX = Government expenditure

INFLR = Inflation rate

EXS = External debt services

F = Functional dependent

The model is restated in an econometric form as follows

$$\mathbf{GDP = \beta_0 + \beta_1 EXD_T + \beta_2 GOVEX_T + \beta_3 INFLR + \beta_4 EXS + Ч\ 1 \ldots.}$$

Where;

B0 = constant

B_1, β_2, β_3, β_4= coefficients of respective variables

Ч 1=stochastic error term

In this research work, EXD, GOVEX, INFLR, EXS are considered to be explanatory variable (independent variables) which is used to explain the Gross Domestic Product (GDP) which is used to proxy economic development in Nigeria. In essence, GDP is the dependent variable.

3.4.1EVALUATION CRITERIA

APRIORIEXPECTATION: the expectation from the model is that the variables have a direct relationship. The relationship between the variables is expected to be positive because they are all expected to be growing positively, individually and collectively. Having identified the method of data analysis, there is also need to include evaluation criteria, which may be used for evaluating of the results that will be obtained which provides an important environment for decision making whether the estimate of the parameters are theoretically meaningful and statistically satisfactory. In view of this, the various criteria for evaluation which is classified into three groups are applied.

3.4.2ECONOMIC APRIORIEXPECTATION

It is expected that there will be positive relationship between GDP and EXD which means that an increase in external debt will lead to increase in the GDP. Hence

$$\frac{\Delta DGDP}{\Delta EXD} > 0 \Rightarrow \beta_1 > 0 \text{ OR } \frac{\Delta DGDP}{\Delta EXD} < 0 \Rightarrow \beta_1 < 0$$

Concerning the government expenditure, it is expected that increase in government expenditure will increase GDP. In other words there will be a positive relationship between GOVEX and GDP thus we have

$$\frac{\Delta \mathrm{GDP}}{\Delta \mathrm{GOVEX}} > 0 \Rightarrow \beta_2 > 0 \text{ OR} \frac{\Delta \mathrm{GDP}}{\Delta \mathrm{GOVEX}} < 0 \Rightarrow \beta_2 < 0$$

It is also expected that there will be a negative relationship between inflation GDP; Thus ;

$\frac{\Delta \mathrm{GDP}}{\Delta \mathrm{INFLR}} < 0 \Rightarrow \beta_3 0$ OR $\frac{\Delta \mathrm{GDP}}{\Delta \mathrm{INFLR}} > 0 \Rightarrow \beta_3 > 0$

Also there will be a positive relationship between GDP and EXS. Thus

$$\frac{\Delta \mathrm{GDP}}{\mathrm{DEX}} > 0 \Rightarrow \beta_4 > 0 \; OR \; \frac{\Delta \mathrm{GDP}}{\mathrm{DEX}} < 0 \Rightarrow \beta_4 < 0$$

STATISTICAL CRITERION (FIRST ORDER TEST)

These tests evaluate the statistical reliability of the regression coefficient. In order to achieve is purpose, interest using the T-statistic, F-statistic and the coefficient of determination.

3.4.3TEST OF SIGNIFICANCE OF THE PERAMETER ESTIMATES

For the validation of our estimation, the student t-statistics and f—statistics will be used to know whether to accept or reject our hypothesis. We will compute t- values of each of the parameters estimated and also the f-values of all the parameters, estimated. The observed values of f-ratio are compared with the tabulated value of f-ration. Standard error test will also be used to test the estimate of b_1, b_2, b_3… obtained from the observation of GDP, EXD,GOVEX,INFLR and EXS.

3.4.4DECISION RULE FOR T- STATISTICS AND F- STATISTICS

The decision rule in the model employed as specified above is that when calculating values of t-statistics is greater than the tabulated value of the student t-statistic at 5% level of significance and n-k degree of freedom. The null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is incepted and vice versa. If probability at which the f-calculated is significant in the regression, result is greater than theoretical f-ration at our chosen level of significance (5%) with V_1=k-1 and V_2=n-k degree of freedom and acceptable alternative hypothesis (H_1), we reject the null hypothesis (H_0). But if the probability at which the f calculated is significant the regression result is less than the theoretical f-ratio at our chosen level of significance (58) with V_1=k-1 and V_2=n-k degree of freedom, we accept null hypothesis (H_0) and reject the alternative hypothesis (H_1)

3.4.5TEST OF GOODNESS OF FIT WITH R^2

Measurement of goodness of fit or the explanatory power of the regressed mode in the square of multiple correlation coefficient, R^2 (or the coefficient of multiple determination) which shows the percentage of total variation of the dependent variable (GDP) that can be explained or that is explained by the independent variables (EXD, GOVEX, INFLR, EXS)

3.4.6ECONOMIC CRITERION (SECOND ORDER TEST)

In this criterion we are going to test for the second auto correlation using the Durbin Watson d-statistics. It tests for the serial dependence of successive error terms of the regression.

3.4.7DESCISION RULE/TEST OF HYPOTHESIS

If the value of Durbin Watson d-statistics is 2 or close to 2, we may conclude that there is no first auto correlation as the model. If the value is zero (0) or close to zero (0), we may conclude there is presence of first order correlation in the model and finally, if the value is 4 or close to 4, we may conclude that there is presence of negative order auto correlation in the model.

3.4.8DESCISION RULE FOR R^2

The higher the value of R^2, the better the model that is R^2 is higher, it shows that the external debt, government expenditure, inflation rate and external debt services explains the gross domestic production is a higher proportion.

3.4.9 RE-STATEMENT OF THE RESEARCH HYPOTHESIS

In order to achieve the stated objectives of this research work, the two broad types of hypothesis which are null and alternative hypothesis in chapter One are restated thus;

H_0 = there is no significance effect of external debt services in the Nigeria Economy

H_1 = there is a significant effect of external debt services on the Nigerian Economy

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF REGRESSION RESULT

4.1 PRESENTATION OF RESULT

Following the model specified in Chapter three, the result was analyzed using Ordinary Least Square (OLS) method of estimation. The estimates of the regression results are subjected to various economic, statistical and econometric tests. The results obtained after the estimation are shown in the tables below.

Table 4.1: Presentation of Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	208947.7	15290.25	13.66542	0.0000
EXD	0.100974	0.038850	2.599083	0.0164
GOVEX	0.129678	0.006371	20.35429	0.0000
INFLR	-325.9552	387.1387	-0.841960	0.4089
EXS	0.096959	0.024519	3.954485	0.0007
R-squared	0.977694	Mean dependent var		402472.5
Adjusted R-squared	0.973638	S.D. dependent var		194866.6
S.E. of regression	31639.02	Akaike info criterion		23.72775
Sum squared resid	2.20E+10	Schwarz criterion		23.96772

Log likelihood	-315.3246	F-statistic	241.0711
Durbin-Watson stat	1.380366	Prob(F-statistic)	0.000000

4.2 ANALYSIS OF THE RESULT

4.2.1 ANALYSIS OF THE REGRESSION COEFFICIENTS:

The value of the constant is 208947.7. This implies that when the independent variables are held constant, the value of the gross domestic product will be 208947.7

The coefficient of external debt is 0.0100974 which shows that a unit Increase in external debt will bring about 0.0100974 unit increase in the gross domestic product.

The coefficient of government expenditure is 0.129678, which explains that a unit increase in the government expenditure will increase the gross domestic product by 0.129678 units

The coefficient of inflation rate is -325.9552, which shows that a unit rise in inflation rate will bring about a decrease in the gross domestic product by 325.9552 units

The coefficient of external debt services is 0.096959, which shows that a unit change in external debt services will bring about an increase in the gross domestic product by 0.09659 units.

4.3 EVALUATION METHODS

4.3.1EVALUATION BASED ON ECONOMIC CRITERIA

This test is aimed at determining whether the signs and magnitudes of the results are in line with what economic theory postulates. Table 4.2 is a summary of the outcome of the parameter estimates.

Table 4.2: Evaluation based on economic a priori criteria

Variable	**Expected sign**	**Obtained sign**	**Conclusion**
EXD	+ OR -	+	Positive
GOVEX	+ OR -	+	Positive
INFLR	+ OR _	_	Negative
EXS	+ OR -	+	Positive

Where: B > 0 = positive sign (+)

B < 0 = negative sign (-)

4.3.2 EVALUATION BASED ON STATISTICAL CRITERIA

1. The R^2 (Coefficient of determination):

The R^2, which measures the overall goodness of fit of the entire regression, shows that R^2 is 0.977694. This shows that the independent variables in the model explain 97.77% variations in the dependent variable.

2. The t-test (Student t):

Under this section, t-statistics is used to test whether the individual parameters are statistically significant or not.

Test Hypothesis

H_0: The individual parameters are not significant

H_1: The individual parameters are significant

Decision Rule:

Reject H_0 if $t_{cal} > t_{tab}$ and accept if otherwise.

At α =5% (at 5% level of significance) with n-k degrees of freedom.

$t_{tab} = t^{22}_{0.025} = 2.074$

The t-test is summarized in the tables below.

Table 4.3 Student's t-test for Model 1

Variable	t-value	$t_{0.025}$	Remark
C	13.66542	2.074	Statistically significant
EXD	2.599083	2.074	Statistically significant
GOVEX	20.35429	2.074	Statistically significant
INFLR	-0.841960	2.074	Not statistically significant
EXS	3.954485	2.074	Statistically significant

3. THE F-STATISTICS TEST

The F-test is conducted to ascertain if the model is statistically significant.The test follows F-distribution with k-1 degrees of freedom in the numerator and n-k degrees of freedom in the denominator.

Test Hypothesis

H_0: $\beta_0 = \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$ (The model is insignificant)

H_1: $\beta_0 \neq \beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq 0$ (The model is significant)

Decision rule

Reject H_0 if $F_{cal} > F_{tab}$ and accept if otherwise.

At 0.05 significance level;

Since F_{tab}(tabulated F) is 2.82 and F_{cal} (the F-statistic in the result) is 241.0711, we therefore conclude that the model is statistically significant and fit for forecasting and policy-making.

4.3.3ECONOMETRIC CRITERIA (SECOND-ORDER TEST)

1. Test for Autocorrelation

The underlying assumption is that the successive values of the random variables are temporarily independent. The problem is usually dictated with Durbin-Watson (DW) statistics.

Test Hypothesis

H_0: P = 0 (the U's are not auto correlated)

H_1: P $\neq$ 0 (the U's are auto correlated)

Decision rule

The decision rule according to Gujarati (2004) is summarised in the table below

Null hypothesis (H_0)	Decision	If
No positive auto correlation	Reject	$0 < d < d_l$
No positive auto correlation	No decision	$d_l \leq d \leq d_u$
No negative auto correlation	Reject	$4 - d_l < d \leq 4$
No negative auto correlation	No decision	$4 - d_u \leq d \leq 4 - d_l$
No autocorrelation, positive or negative	Do not reject	$d_u < d < 4 - d_u$

where: d_l = lower limit

d_u = upper limit

d = Durbin-Watson (calculated)

From the results $d_l = 1.084$, $d_u = 1.753$, and $d = 1.380366$

d falls within the range $0 < d < d_l$. This is the rejection zone and thus, we reject the null hypothesis and conclude that there is positive autocorrelation.

2. TEST FOR MULTICOLLINEARITY

This test is carried out using correlation matrix. According to Gujarati (2004), multicollinearity is a problem, if any correlation exceeds 0.8.

	GDP	EXD	GOVEX	INFLR	EXS
GDP	1.000000	0.461644	0.978748	-0.372282	0.321043
EXD	0.461644	1.000000	0.419849	0.267836	-0.088053
GOVEX	0.978748	0.419849	1.000000	-0.384936	0.216034
INFLR	-0.372282	0.267836	-0.384936	1.000000	-0.181851
EXS	0.321043	-0.088053	0.216034	-0.181851	1.000000

From the correlation matrix above, the pair-wise government expenditure and gross domestic product are greater than 0.80 (i.e. 0.978748). Thus, we conclude that multicollinearity exist between them.

3. TEST FOR HETEROSCEDASTICITY

This test is carried out to ascertain the level of distribution of error term (to know whether the variance is constant). This test was carried out using White's heteroscedasticity test (with no cross terms). It follows chi-square distribution with degrees of freedom equal to the number of regressors excluding the constant term.

Test Hypothesis

H_0: Homoscedasticity (If the variance is constant)

H_1: Heteroscedasticity (If the variance is not constant)

The decision rule is to reject H_0 if $X^2_{cal} > X^2_{tab}$.

The calculated X^2 from the White Heteroscedasticity Test resultis1.845379 while the critical value at 1 degree of freedom, under 0.05 significant levels is 3.84. Since $X^2_{cal} < X^2_{tab}$, we accept H_0 and conclude that the variance is constant.

4.4 HYPOTHESIS TESTING

HYPOTHESIS:

H_0: There is no significant effect of external debt services on the Nigerian economy.

H_1: There is a significant effect of external debt services on the Nigerian economy.

CONCLUSION: The regression result revealed that there is a positive relationship between external debt services and the gross domestic product in Nigeria. Also, the individual significance test showed that external debt services have a significant effect on the gross domestic product. Thus we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1), concluding that external debt services have a significant effect on the Nigerian economy.

CHAPTER FIVE

SUMMARY, CONCLUSIONANDRECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

The following findings were made in the course of this study:

1. External debt has a positive and significant impact on economic development of Nigeria.
2. Government expenditure has positive and significant impact on the economic development of Nigeria.
3. Inflation rate has negative but insignificant impact on the economic development of Nigeria.
4. External debt services have a positive and significant impact on economic development of Nigeria.

5.2 CONCLUSION

The study revealed that external debt has a significant influence on the economic development of Nigeria. There is no doubt that in spite of the present difficulties, this country still command great potentials of becoming one of the greatest nation tomorrow if only the political will and consensus is there. Consequently there is need for us to take stock of our achievement since 1960 and chart a new path that will lead us to technological powers and be self-reliant. Thus, if the debt has been created in connection with the accumulation of productive capital assets than even if high, may not present great difficulties in the country. The origin of Nigeria external debt dates back to 1958.Debt service payment were within management limits until 1982.But considering the findings; Nigeria debt situation can be effectively redressed, if she conscientiously pursue policies designed to accentuate real productivity in the country.

5.3 RECOMMENDATIONS

Based on the findings of this study; Nigeria can avoid future debt management problem if the following is considered:

1. Loans contracted should be invested in profitable ventures which will generate reasonable capital for repayment since government expenditure has a positive and significant impact on the Nigeria economic development.
2. Foreign borrowing by private and public organization shouldbe adequately monitored by the government debt agency since external

debt has a positive and significant impact on economic development in Nigeria.

3. The composition of the external debt should be regularly checked in order to forestall problems associated with the accumulation of debt service obligations since external services has positive and significant impact on the economic development in Nigeria.

4. Adequate measure should be put in place to cope with the unexpected shortfalls in earnings from anticipated expenditures on imports since inflation rate has negative and insignificant impact on economic development in Nigeria.

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