MANAGEMENT OF NIGERIA EXTERNAL DEBT (MNED) AND ECONOMIC GROWTH
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Abstract
The research is to analyze Nigeria external debt management and economic growth from 1980-2012. Despite the activities of the government to manage and minimize the growing rate of external debt and its negative effect on economic growth. In the last three decades, very low impact was made, but with the return of civilian rule in 1999. The study is therefore set out to investigate empirically the impact of external debt management on economic growth in Nigeria using ordinary least square regression approach. The study shows that debt contribute significantly to real gross domestic product during the period under consideration in the same vein, the calculate t for exchange rate (2.60) is also greater than critical t of 1.71. This indicates that exchange rate contribute significantly to the real gross domestic product during the period under consideration

Keywords: Exchange rate, debt management, economic growth, debt relief

Introduction
The origin of Nigeria external debts can be traced back to 1958. When Nigeria first borrowed the sum of $28million from world bank to prosecute a railway extension between 1958-1977, the level of external debt was minimal, the external debt incurred during this period were the confessionals debts from bilateral and multilateral sources with longer repayment periods and lower interest rates constituting about 78.5 percent of the total debt stock. Nigeria did not start to have a debt management problem until early eighties when ability to services her debts as and when due started to decline. In 1982/83 an approach which entails the servicing, rescheduling and refinancing of the debts and advocating policies to re opened blocked lines of credit, secure fresh financing and some form of support from the IMF wherever possible are taking into consideration. Despite the rigorous pursuit of all these strategy during this period, Nigeria debt crisis has not only worsened, the debt burden also had serious negative on the national economic growth. At the beginning of 1983 when the Nigeria debt crisis was openly acknowledge, it was reckoned that the country owed the some of US$17.78billion according to IMD estimates (IMF, 1985). At the end of 1987, the World Bank, in its provisional estimates for that year, put the external debt at the some of US$27billion, an increase of 52 per cent in four years (World bank, 1988).

From 1970 to late 1980’s Nigeria external debt quadrupled due to bad management, poor economic policies, bad leadership and the collapse in oil price (oil doom) compounded by unfavorable loan terms make it externally difficult for Nigeria to service the mounting external debt obligation, particularly those due to the Paris club, fifteen creditors countries make up the Paris club. However, the rescheduling in 1986, 1989 and 1991 arrears continue to amount, which further worsened the debt management situation. As at 1990 Nigeria external debt rose further to US$33.1 billion but declare US$27.5 billion in 1991 and increased steadily to US$32.6 billion at the end of December 1999 it stood at US$28.0 billion with Paris club constituting the highest source with a share of 73.2 percent in 1999 prior to the canvass made for debt cancellation (Adepoju, Salau and Obayelu, 2007).

None the less, as at December 2000, Nigeria debt stock amounted to about 75 percent of GDP and about 180 percent of export earnings. Debt management due in 2000 was about US$3.0 billion or 14.5 percent of export earnings. In 1999 for instance spending on health 0.2 percent of GDP
and 0.7 percent compared with 3.4 percent (US$1.5 billion) annual budget spent on debt servicing during the same period. In 2000 US$1.9 billion was used for debt servicing which translated to about 4 times federal government of Nigeria budgetary allocation to education and closely to 12 times the allocation allotted to the health sector of the economy while in 2001 the debt services payment rose to US$2.13 billion which amounted to 6 times federal government of Nigeria budgetary allocation to education and 17 times allocation to the health sector for that year. Nigeria indebtedness to Paris club and others rose consistently from about 30% to about 80% in 2001. Nigeria external loan burden is the reflection of her difficulties arising from inability to service her external debt. This may be as a result of her inability to generate enough resources or capital to meet commitment of debt servicing.

External debt management and economic growth

Nigeria’s external debt has grave consequences on the economy and welfare of the people. In the early 1980s when Nigeria external debt was pronounced, the management of the external debt became the responsibility of the Central Bank of Nigeria (CBN) due to its increasing proportion. This facilitated the establishment of a special department in conjunction with the ministry of finance to the management of external debt. Periodic meetings of the department created discuss various debt management strategies as pointed out in the work by Oke and Sulaimon (2012) are as follows:

* Embargo on new loan and directives to state government to restrict external borrowing to beeriest minimum

* Limit on debt service payment: This required set aside portion of export earnings to allow for internal development.

* Debt Restructuring: This involves the reduction in the burden of an existing debt through refinancing, rescheduling, buy back, issuance of collateralized bond and the provision of new money.

Management of Nigeria external debt with respect to the annual debt service payment adversely affect economic growth due to various causes, the year-to-year variation in debt servicing payment which became large, making it difficult for government to know how exactly to efficiently allocate resources available for economic reforms. This perpetually reduces the effectiveness of government policies, which invariable act as a disincentive to invest by the private sector.

Ironically the decision on loan repayment may be a difficult and complex one to make. Several studies suggested that contract foreign loan is desirable. For instance, Fajana (1993) sees nothing wrong external or foreign borrowing but the debt crises that arises due to mismanagement of such funds. In fact, he (1993) believes that borrowing is desirable and also unavoidable because external borrowing is the first order condition for bridging domestic gap, the second order condition is that such funds should be invested in viable projects whose rate of return is higher than that of the interest rate on loan. He (1993) finally summed it up by saying that external debt is to serve as engine of growth, it has to be well managed and the resources it make available need to be prudently and efficiently utilized.

Other empirical studies such as Karagol, (2012), Mukolu & Ogodos, (2012), Adesola, (2012), Udoka & Ayingang (2010), Onah, (1994), Iyoha (1997), Essien, (1998), Obadan, (2001), Oke & Sulaimon (2012) have pointed out the negative impact of huge external debt servicing payment on economic growth with special reference to most developing countries. In one of such reports, (Iyoha, 1997) was of the opinion that heavy debt burden act reduce investment through debt overhang and “crowding out effect'.
It is important to note, in 2005 a number of groups in Nigeria and abroad led by the then president Chief Olusegun Obasanjo had been campaigning for debt relief and cancellation for Africa and Nigeria precisely. In July, 2005 at the G8 summit in Gleneagles, the National Assembly and Debt Management Office (DMO) delegation visited six major creditor countries to solicit support through the various parliaments, nongovernmental organizations, key decision makers on the quest for Nigeria debt relief and cancellation of at least two-third of the debt owed to the Paris club.

Ekhatore and Semiya (2012) notes the deal of debt relief and cancellation consist of the following parts; firstly Nigeria was required to settled the arrears owed to the Paris club, and make a leveling up payment. This is the minimum standard requirement of the Paris club for a debtor to clear its arrears prior to commencement of any debt relief negotiation. It should be noted that Nigeria’s case is exceptional in the sense that the debt offer was made even before the settlement of the arrears. Following the payment of arrears, Nigeria got a reduction on the debt stock on Naples Terms. This means that the Paris club wrote off 67% of the total debt stock. The arrears were paid under the first and second phases in October 2005, and 34% of Nigeria eligible stock was written off. The remaining 33% was written off in March 2006, subject to a satisfactory review of the IMF’s policy support instrument.

It is important to note that, the existing studies conducted in this part of the world with special reference to external debt management and economic growth. For example the studies of Obadan (2004); Nwoke (1990); Adepoju, Salau, & Obayelu (2007) did not directly address this issue. It is on this note the study is set out to analyze the impact of external debt management on economic growth in Nigeria. The choice of this sample is basically to examining the causality between external debt and economic growth in Nigeria. With this in mind the study is designed to address the following research question and hypothesis respectively: How does debt management create a significant impact on Nigeria economic growth. Therefore the researcher concentrates on the importance of external debt management of Nigeria as a country and the relationship between economic growths.

**Research methods**

This paper is a product of secondary data that is, facts and figures are generated from Central Bank of Nigeria statistical bulletin, Debt management office, federal bureau of statistics, World Development Indicators and International financial statistics and the period under consideration is 1980-2012, the choice of this period is basically on the availability of data. The “a” prior expectation was used to provide expected signs and significance of the values of the co-efficient of the model parameters to be estimated in light of economic theory and empirical evidence. Foreign direct investment is expected to contribute positively to economic growth. However, exchange rate is expected to have an inverse relationship with foreign direct investment. In addition, degree of openness is expected to have direct relationship with foreign direct investment. However, political stability is expected to have a direct relationship with the foreign direct investment. This can be expressed mathematically:

For the first model:

\[ \beta_1 > 0, \quad \beta_2 < 0, \quad \beta_3 > 0, \quad \beta_4 > 0, \]

For the second model:

\[ \beta_1 > 0, \quad \beta_2 > 0, \quad \beta_3 < 0, \quad \beta_4 > 0 \]

The researchers also deployed a unit root test which is desirable for the study in order to ascertain the time series properties of the variables used in the model to prevent spurious regression. There are two commonly used methods: The Augmented Dickey-Fuller Test and the Phillips-Perron Test. Both tests give similar results.
The estimation technique used in this study is the Ordinary Least Square (OLS) Method. OLS would ascertain that the variables used in the model are unbiased, linear and fit for estimation.

This study employs Augmented Dickey-Fuller test to test whether the time series used in this study is stationary or non-stationary before embarking on a regression analysis. The main reason for this is to prevent the danger of obtaining apparently significant results from unrelated data when non-stationary series are used in regression analysis. Such regression results are said to be spurious. Beside this, stationary test is conducted to know the order of integration of the series. That is, the minimum number of time-series must be differenced to make it stationary. We thus employ augmented dickey-fuller test to ensure the error terms are uncorrelated. Having confirmed the stationary of the series, augmented dickey-fuller test is still employed to test for co-integration of the variables by testing for unit root in residuals. The major aim of this test is to find out whether a linear combination of variables that are integrated of the same order is stationary since non-stationary time-series variables should not be used in regression model so as to avoid the problem of spurious regression. If co-integration exists then there is a long-run relationship between the variables.

When there is co-integrated among the variables, vector error correction (VEC) model will be employed. Vector error correction model is a multivariate dynamic model that incorporates a co-integrating equation. The VEC model will help to determine how much the economy will grow in response to a change in exchange rate, degree of openness, political stability, market size, infrastructure, cost of labour and productivity and also check the speed of adjustment of the model from the short-run to the long-run equilibrium state. The greater the coefficients of the error correcting term, the faster the speed of adjustment of the model from short-run to the long-run. In estimating this VEC model, we will employ Least Square Estimator to estimate the co-integrating relationship (that is, the derived equation) and generate the lagged residuals. The researchers thus, use least square to estimate the system of equations which will form the derived equation. Finally, we use the standard regression analysis to test the significance of the parameters.

This study is to analyze the impact of external debt management and economic growth and the best suitable model is the OLS regression approach as adopted by Udoka and Ayingang (2010) and Ezike and Mojekwu (2011) in their studies of external debt management and macroeconomic performance in Nigeria. The model is specified in its functional form as:

\[ \text{NEDM} = F ( Y + C + PI + G + (X-M)) \]

\[ \text{NEDM} = F ( Y + C + PI + G + (X-M)) \]

\[ \text{Y} = \text{C + I + G + (X-M)} \]

\[ \text{Y} = \text{C + I + G + (X-M)} \]

Where

- NEDM = Nigeria External Debt Management
- Y = National income
- C = Private Consumption
- PI = Private Investment
- GEXP = Government Expenditure
- X = Exports
- M = Imports

The reason for including X and M, presumes that we are dealing with an open economy (autarchy) that is, where a country trade in goods and services with the rest of world, borrows from abroad and invests her savings in foreign assets. Thus, the total resources available to a country
includes its domestic production (Y) and imports (M). Also, the inhabitants’ participant involve in the country external debt management can satisfy their needs for external debt services ratio and export.

This equation implies that total expenditure on external debt management is equal to external debt services ratio, external debt rescheduling and restructuring, and government expenditure.

\[ Y - C = S + P I + G + (X - M) \]  

\[ \text{...} \]  

(3)

External debt service ratio, investment and government expenditure are referred to domestic absorption and are expressed as:

\[ A = C + P I + G \]  

\[ \text{...} \]  

(4)

Therefore equation (1) can be written as

\[ \text{NEDM} = Y = A + X - M \]  

\[ \text{...} \]  

(5)

In linear stochastic form

\[ \text{NEDM}_t = \beta_0 + \beta_1 \text{EDSR}_t + \beta_2 \text{EDRR}_t + \beta_3 \text{BOP}_t + \beta_4 \text{PI}_t + \mu_t \]  

\[ \text{...} \]  

(6)

Where \( \text{NEDM}_t = \text{log of Nigeria external management at time } t \); \( \text{EDSR}_t = \text{log of external debt services ratio at time } t \); \( \text{EDRR}_t = \text{log of external debt rescheduling and restructuring at time } t \); \( \text{BOP}_t = \text{log of balance of payment at time } t \); \( \text{PI}_t = \text{log of private investment at time } t \); \( \beta_0 = \text{Intercept} \); \( \beta_1 - \beta_4 = \text{parameters to be estimated} \); \( \mu = \text{error term} \)

**Growth modeling**

\[ EG = f (GDP, DCF, TOT, EXCH) \]  

\[ \text{...} \]  

(7)

In linear stochastic form

\[ EG_t = \alpha_0 + \alpha_1 \text{GDP}_t + \alpha_2 \text{DCF}_t + \alpha_3 \text{TOT}_t + \alpha_4 \text{EXCH}_t + \alpha_t \]  

\[ \text{...} \]  

(8)

Where \( \text{GDP}_t = \text{log of gross domestic product at time } t \); \( \text{DCF}_t = \text{log of domestic capital formation at time } t \); \( \text{TOT}_t = \text{log of term of trade at time } t \); \( \text{EXCH}_t = \text{log of exchange rate at time } t \); \( \alpha_0 = \text{intercept} \); \( \alpha_1 - \alpha_4 = \text{parameters to be estimated} \); \( \alpha_t = \text{error term} \)

**Results**

This section presents the empirical results of the analysis beginning with the time series properties of the variables used for the estimation. This is meant to ascertain the appropriateness of the specification and determine the underlying properties of the data generating process. The descriptive summary statistics of the variables in the models are presented in table 4.1.

Given the time scope of the study (1980-2012) and the frequency of the data, all variables have thirty-three (33) observations.

**Table 1: Summary statistics of the variables**

<table>
<thead>
<tr>
<th>Variable</th>
<th>CAPF</th>
<th>DEBT</th>
<th>EXCH</th>
<th>PI</th>
<th>GEXP</th>
<th>RGDP</th>
<th>TOT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>361.5000</td>
<td>1044826.</td>
<td>60.24344</td>
<td>2571.957</td>
<td>181.5878</td>
<td>381.3297</td>
<td>1.617328</td>
</tr>
<tr>
<td>Median</td>
<td>172.1000</td>
<td>590441.1</td>
<td>21.88610</td>
<td>1309.665</td>
<td>40.16695</td>
<td>51.02450</td>
<td>1.484393</td>
</tr>
<tr>
<td>Maximum</td>
<td>2050.800</td>
<td>4890270.</td>
<td>153.8600</td>
<td>8953.234</td>
<td>974.0665</td>
<td>2229.437</td>
<td>2.652243</td>
</tr>
<tr>
<td>Minimum</td>
<td>5.400000</td>
<td>1866.800</td>
<td>0.546358</td>
<td>-738.8700</td>
<td>0.766615</td>
<td>0.315262</td>
<td>0.761933</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>519.7111</td>
<td>1397267.</td>
<td>61.06969</td>
<td>2800.682</td>
<td>294.0291</td>
<td>749.2828</td>
<td>0.507392</td>
</tr>
<tr>
<td>Skewness</td>
<td>2.017788</td>
<td>1.581124</td>
<td>0.375416</td>
<td>1.263821</td>
<td>1.799703</td>
<td>1.928630</td>
<td>0.391895</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>6.610593</td>
<td>1.439466</td>
<td>1.320444</td>
<td>3.261685</td>
<td>4.613276</td>
<td>4.782458</td>
<td>2.392614</td>
</tr>
<tr>
<td>Probability</td>
<td>0.000000</td>
<td>0.000423</td>
<td>0.097593</td>
<td>0.011802</td>
<td>0.000023</td>
<td>0.000004</td>
<td>0.508657</td>
</tr>
<tr>
<td>Sum</td>
<td>11929.50</td>
<td>34479267</td>
<td>1988.034</td>
<td>84874.59</td>
<td>5992.398</td>
<td>12583.88</td>
<td>53.37182</td>
</tr>
<tr>
<td>Sum Sq.</td>
<td>8643188.</td>
<td>6.25E+13</td>
<td>1.193442</td>
<td>2.51E+08</td>
<td>2766499.</td>
<td>17965589</td>
<td>8.238306</td>
</tr>
</tbody>
</table>
Dev.

Observation

Source: Computed by the researcher from E-View 7.0 Software
Time series properties of the variables

A Unit root test is desirable for the study in order to ascertain the time series properties of the variables used in the model to prevent spurious regression. There are two commonly used methods: The Augmented Dickey-Fuller Test and the Phillips-Perron Test. Both tests give similar results. The results are presented in Table below.

Table 2: Stationarity test for variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>ADF Test</th>
<th>Critical Values</th>
<th>PP Test</th>
<th>Critical Values</th>
<th>Order Of Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1%</td>
<td>5%</td>
<td>1%</td>
<td>5%</td>
</tr>
<tr>
<td>RGDP</td>
<td>Level</td>
<td>-3.0152</td>
<td>-4.2967</td>
<td>-3.5684</td>
<td>-3.4211</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DCF</td>
<td>Level</td>
<td>0.3956</td>
<td>-3.7529</td>
<td>-2.9981</td>
<td>-1.6837</td>
</tr>
<tr>
<td></td>
<td>1st Diff</td>
<td>-8.2138</td>
<td>-4.3239</td>
<td>-3.5806</td>
<td>-10.2586</td>
</tr>
<tr>
<td>DEBT</td>
<td>Level</td>
<td>1.2109</td>
<td>-3.7529</td>
<td>-2.9980</td>
<td>-1.9119</td>
</tr>
<tr>
<td></td>
<td>1st Diff</td>
<td>-3.4010</td>
<td>-4.3098</td>
<td>-3.5742</td>
<td>-3.1463</td>
</tr>
<tr>
<td>EXCH</td>
<td>Level</td>
<td>0.9496</td>
<td>-3.6702</td>
<td>-2.9639</td>
<td>-2.0313</td>
</tr>
<tr>
<td></td>
<td>1st Diff</td>
<td>-5.1629</td>
<td>-4.3098</td>
<td>-3.5742</td>
<td>-5.1629</td>
</tr>
<tr>
<td>PI</td>
<td>Level</td>
<td>-2.1986</td>
<td>-3.6702</td>
<td>-2.9639</td>
<td>-2.9274</td>
</tr>
<tr>
<td></td>
<td>1st Diff</td>
<td>-5.3317</td>
<td>-4.3098</td>
<td>-3.5742</td>
<td>-5.3083</td>
</tr>
<tr>
<td>GEXP</td>
<td>Level</td>
<td>-2.1986</td>
<td>-3.6702</td>
<td>-2.9639</td>
<td>-2.9274</td>
</tr>
<tr>
<td></td>
<td>1st Diff</td>
<td>-6.9071</td>
<td>-4.3098</td>
<td>-3.5742</td>
<td>-4.3098</td>
</tr>
<tr>
<td>T.O.T</td>
<td>Level</td>
<td>-2.9954</td>
<td>-3.6702</td>
<td>-2.9639</td>
<td>-3.2754</td>
</tr>
<tr>
<td></td>
<td>1st Diff</td>
<td>-5.6327</td>
<td>-4.3239</td>
<td>-3.5806</td>
<td>-4.3098</td>
</tr>
</tbody>
</table>

Source: Computed By the Researcher from E-View 7.0 Software

Ordinary least squares method

Dependent Variable: RGDP

Method: Least Squares
Date: 11/07/15  Time: 10:45

Sample: 1980 2012

Included observations: 33

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEBT</td>
<td>-0.004011</td>
<td>0.001576</td>
<td>-2.545313</td>
<td>0.0167</td>
</tr>
<tr>
<td>EXCH</td>
<td>139.7936</td>
<td>53.7494</td>
<td>2.600837</td>
<td>0.0147</td>
</tr>
<tr>
<td>TOT</td>
<td>1888.215</td>
<td>3316.264</td>
<td>0.569380</td>
<td>0.5736</td>
</tr>
<tr>
<td>DCF</td>
<td>-6.332801</td>
<td>5.019144</td>
<td>-1.261729</td>
<td>0.2175</td>
</tr>
<tr>
<td>C</td>
<td>-2268.827</td>
<td>5078.576</td>
<td>-0.446745</td>
<td>0.6585</td>
</tr>
</tbody>
</table>

R-squared 0.306315  Mean dependent var 2726.123
Adjusted R-squared 0.207217  S.D. dependent var 9388.610
S.E. of regression 8359.465  Akaike info criterion 21.03890
Sum squared resid 1.96E+09  Schwarz criterion 21.26565
Log likelihood -342.1419  Hannan-Quinn criter. 21.11520
F-statistic 3.091033  Durbin-Watson stat 0.904873
Prob(F-statistic) 0.031594

Source: Computed by the researcher from E-View 7.0 Software

EG = β0 + β1Debt + β2 EXCH+ β3 TOT+ β4 Capf…………………………

EGt = α0 + α1Debt_t + α2DCF_t + α3TOT_t + α4EXCH_t + α_t

RGDP= -2268.827 - 0.004(debt) + 139.7936 (Exch) + 1888.215 (tot) - 6.332801 (dcf)

In order to determine the significance of coefficient of independent variable in econometric model the t-statistics is computed. Evidence from the regression indicates that the calculated t for debt (2.55) is greater than critical t of 1.71 at 5% level of significance. This implies that debt contribute significantly to real gross domestic product during the period under consideration In the same vein, the calculate t for exchange rate (2.60) is also greater than critical t of 1.71. This indicates that exchange rate contribute significantly to the real gross domestic product during the period under consideration On the other hand, the calculated t for the degree of capital formation (1.26) and term of trade (0.57) is less than critical t of 1.71 at 5 percent significance level. This implies that degree of capital formation and terms of trade do not contribute significantly to the real gross domestic product during the period under consideration.

To determine the degree of association between the dependent variable and independent variables, the R square is computed and the result shown that (r² =0.31). This implies that about 31% of the real gross domestic product was traceable to degree of capital formation, external debt, exchange rate and term of trade during the period under consideration.

In determining the existence of autocorrelation in our model, the Durbin Watson statistics was computed. In the model above computation, D-W =0.90. The indication of this is that there is auto correlation in the model hence the model is conclusive.

In order to determine if a significant relationship exist between the dependent variable and independent variables the F-statistics was computed The model calculated F=3.09 greater than critical F of 2.69 thus a significance difference dependent variables on the predictors.

This implies that the independent variables selected have contributed significantly to the real gross domestic
product during the period under consideration.

When there is co-integrated among the variables, vector error correction (VEC) model is then employed. Vector error correction model is a multivariate dynamic model that incorporates a co-integrating equation. The VEC model will help to determine how much the economy will grow in response to a change in external debt, exchange rate, terms of trade, degree of capital formation and government expenditure and also check the speed of adjustment of the model from the short-run to the long-run equilibrium state. The greater the coefficients of the error correcting term, the faster the speed of adjustment of the model from short-run to the long-run.

Date: 12/07/15  Time: 04:45
Sample (adjusted): 1982 2012
Included observations: 31 after adjustments
Trend assumption: Linear deterministic trend
Series: RGDP DCF DEBT EXCH TOT
Lags interval (in first differences): 1 to 1

Unrestricted cointegration rank test (Trace)

<table>
<thead>
<tr>
<th>Hypothesized</th>
<th>No. of CE(s)</th>
<th>Eigen value</th>
<th>Trace Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>None *</td>
<td>At most 1 *</td>
<td>0.637471</td>
<td>80.31648</td>
</tr>
<tr>
<td>At most 2</td>
<td>0.322758</td>
<td>19.55657</td>
<td></td>
</tr>
<tr>
<td>At most 3</td>
<td>0.201309</td>
<td>7.475064</td>
<td></td>
</tr>
<tr>
<td>At most 4</td>
<td>0.016217</td>
<td>0.506849</td>
<td></td>
</tr>
</tbody>
</table>

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted cointegration rank test (Maximum Eigen value)

<table>
<thead>
<tr>
<th>Hypothesized</th>
<th>No. of CE(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>At most 1 *</td>
</tr>
<tr>
<td>At most 2</td>
<td>At most 3</td>
</tr>
<tr>
<td>At most 4</td>
<td></td>
</tr>
</tbody>
</table>

Max-eigenvalue test indicates no cointegration at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values
Discussion
This study has analyzed the impact of external debt management on economic growth in Nigeria covering the period between 1980 and 2012. Findings from the study shows that degree of capital formation, external debt, exchange rate and term of trade do not significantly determine economic growth during the period under consideration, an indication that the external debt, degree of capital formation, exchange rate and term of trade play no significance role in real gross domestic product during the period under consideration. Meanwhile, according to Telegram (1992) foreign debt is needed to cover two types of gaps in the developing process. They include:

* The foreign exchange gap which is the payment of deficit a country faces when it has reduced its external reserves to a minimum compared with projected import requirements.
* The investment–saving gap which is the foreign capital needed to supplement domestic savings for financing real investment levels.

External financial supports should be used productively to accelerate the pace of economic development. It will not only provide foreign capital but will also give managerial know-how, technology, technical expertise as well as access to foreign markets for the mobilization of a nation’s human and material resources for development purposes. Specifically, loans should be used in areas such as increasing agricultural production of goods for export, mineral exploration and exploration, industrialization, transport and communication, rural and urban development, health care services, balance of payments, tourism, infrastructural development etc (Anyanwu et al 1997).

However, capital formation and exchange rate has direct relationship with the private investment during the period under consideration. The debt management office (DMO) ensured that a reasonable level of resources were earmarked for debt servicing to avoid the risk of default and maintain conducive relation for debt relief negotiations with the creditors Also, the DMO faces the challenge of ensuring that budget resources are release in time to effect debt service payment since much of Nigerian’s debt stock build – up was accounted for by the capitalization of interest arrears and penalties for default. For instance, Debt service payment to the World Bank is due every 15 days while ADB (African Development Bank) service payments occur frequently. The debts will not be a subject to debt relief or rescheduling and in case of default, they carry stiff consequences with sanctions coming 30 days after due date. The implications for default include:

- Prohibition of borrower/guarantor from signing new loan or guarantee agreement with the background.
- Suspension of disbursement in respect of all Bank group loans granted to the borrower/guarantor and lastly.
- Suspension of the granting of any new loans by the Bank group to the borrower/guarantor.

The impositions of the above sanctions adversely affect the credit-worthiness of a Country as well as access to further foreign credits or loans. Therefore the DMO was able to avoid all this by all means. To some extent this facilitate private investment.

Similarly, findings reveal that an inverse and significant relationship exists between external debt and private investment. This implies that the lower the external debt the higher the private investment and vice versa.

In conventional debt management theory, countries resort to foreign financial aid to enhance internal growth and to increase basic infrastructure for investment and improve productive capacity and adequate plans should be made in advance on how to repay the debt. However, in reality, reverse is the case.

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to Nigeria, Nigeria foreign debt are used mainly to create or maintain deficits that are not outcome of public investment but higher public current expenditure which are in most cases, grandiose and unprofitable investment. For instance the jumbo loan of US$1billion contracted in 1978 was use for nothing but embezzled which was the first major borrowing from international capital market (ICM) and it increases the total debt to US$2.2 billion. Nigeria external loan burden is the reflection of her difficulties arising from inability to service her external debt. This as a result of her inability to generate resources from the initial loans obtained to create basic infrastructures that was suppose generate revenue needed to meet commitment of debt servicing. Thus by 1982, the total external debt shut up to US$13.1billion.

The debt management crisis has for decade’s stands as a central theme in the discourse about the contradictions of Nigeria economic growth. Despite her resources base, Nigeria has for years groaned under the weight of an excruciating debt burden, with heavy tolls on the country development (Iweala, Soludo and Murtar, 2003). However, it should be noted that in order to finance economic development and enhance economic growth, countries especially developing world, resort to foreign borrowing to supplement domestic savings, which are generally low for investment (Humphreys et al, 1989). On the other hand in the observation of (Rostow, 1971) noted that the right quantity and mixture of savings, investment and foreign aid are necessary for the developing economies to proceed along economic growth path which was followed by the advanced economies.

However, this shows that market size has no significant impact on the private investment during the period under consideration.

**Conclusion**

The findings from the study revealed that external debt cannot be said to have total negative or positive impact on Nigerian economic growth during under consideration covered. The GDP will simultaneously reduce when more external debt are borrowed as established by the study. The study, therefore, inferred that external debt in Nigeria has made both positive and negative contribution to the economic development of the country during the period covered by this study.

Debt service to GDP ratio showed a negative relationship in conformity with theory and expectation. Capital growth exerts a positive and significant influence on output growth in Nigeria.

The Nigerian government should investigate the reasons behind the non-contribution of external debt to the GDP per capita of the country with a view to unveiling the bottlenecks and correct them. The bottlenecks could be as a result of mismanagement or higher cost of borrowing, corruption, white elephant project and diversion of resources from where it is most needed to where it is not need.

Now that the external debt stock of the country has declined significantly due to cancellation and relief, the modalities of borrowing external debt and their application should be technically and tactically analyzed prior to accessing the debt.

External debts are meant to boost the economic growth and development of the debtor country and improve the standard of living of the citizenry. Therefore, the Nigerian government should always consider the debts as means to long run development not just for solving short run problems.

Nigeria, should seek external loans only for very high priority, well-appraised, and self-liquidating projects. Such projects should have direct impact on economic development. An economic culture of transparency, in the issue of debt management, should be cultivated. Governments should make fiscal adjustments through cuts in expenditures, as this could reduce the
level of deficit financing, which exerts pressure on foreign exchange.

Government should avoid short term financing, especially when floating rates of interest are involved. A sound macroeconomic environment is an important ingredient of growth because it is a logical prerequisite to proper utilization of external funds.

References


