The Impact of Debt Servicing On Nigeria's Economic Growth.

Chukwusa Marvin Udoka, Mokwunyei Victor Ndidi& Dibia, C. Godwin
[1]Department of Cooperative Economics and Management
[2&3]Department of Arts And humanities
Delta State Polytechnic
Ogwashi-uku, Delta State, Nigeria
E-mails: gaye4t@yahoo.com; vmokwunye@gmail.com; dibiagodwinchukwuedo@yahoo.com
Phones: +2348037782800; +2348034571659; +23408051805563

ABSTRACT

The study examined the impact of external debt servicing on economic growth in Nigeria. Two hypotheses were formulated and a model was built for each of the hypotheses. The models include: Aggregated External Debt Services and Economic Growth Nexus Model, and Disaggregated External Debt Services and Economic Growth Nexus Model. The ex-post-facto research design was adopted while secondary data were sourced from CBN Statistical Bulletin, Debt Management Office, and Bureau of National Statistics reports, covering a 30-year time series (1981-2010). The statistical properties of the variables were confirmed with the help of descriptive statistics (mean, standard deviation etc). The Ordinary Least Square (OLS) regression technique was used to test the hypotheses at 5% level of significance. The results indicated that external debt services do not explain changes in economic growth in Nigeria as about 97% of changes in GDP could not be explained by factors associated with variations in external debt servicing and increase in external debt services had insignificant and negative impact on economic growth; the disaggregated external debt service outlets do not have sufficient explanation for changes in GDP, and none of the external debt service outlets had significant effect on economic growth in Nigeria. Thus, the study concluded that external debt stock and its servicing had not contributed significantly to Nigeria's economic growth over the years. It was recommended that the intent of external borrowing should be properly verified and adhered to; external financing should be used only for projects of highest priority; and debt financed investment need to be productive and well managed to earn a rate of return higher than the cost of debt servicing.

Keywords: External debt, Debt servicing, Ordinary Least Square, Debt over-hang

1. INTRODUCTION

Nations have various reasons for contracting external debt with other nations and borrowing by countries occurs as a result of their inability to generate enough domestic savings to carry out productive activities (Ezeabasili, et.al. 2011). In Nigeria for instance, external debt is secured and channeled to serve as balance of payment support, project tied loans, budget deficit financing, meeting some developmental goals of the various levels of government, embarking on infrastructural

development etc. Osinubi, et.al. (2006) observes that the need for government to finance its deficit budget leads to incurrence of external debt. Ezeabasili (2006), Adam (2007) and Anyanwu (1997) are of the opinion that countries borrow to supplement their domestic savings to accelerate their economic growth and also to settle their debt obligations comfortably (Hameed et al 2008). Other studies that have found relationship between debt and growth include Cohen (1995), Bovensztem (1990), Elbadawi et al (1997), Patilo, et.al. (2002), Adeyemi (1996) and Indermit, et.al. (2005). The first external loan contracted in Nigeria was US $28 million in 1958. As a measure to curtail the rising debt profile, the federal government in 1978 promulgated Act No 30 of the same year limiting Federal government external loan to 5 billion and a jumbo loan of US $1 billion was raised from the international capital market.

Thereafter, the spate of borrowing increased with the entry of state governments into external financing coupled with fall from oil revenue (Adesola, 2009). Fajana (1990) and Olukoshi, et al. (1990), observe that the windfall from oil experts del very little to create a solid economic foundation for the country. Muttalab (1984) and Obi (2005) albo observe that although the loans obtained by Nigeria from the international financial market were car marked for specific projects, the disbursement was seriated to the rate of progress of the projects on ground suggesting that the fund may have been looted by few government officials in collusion with or knowledge of the creditor.

The need to ensure sound debt management in Nigeria gave rise to the creation of Debt Management Office in 2000 and the office was charged with the responsibility of managing both domestic and foreign debt in Nigeria. Again, in 2005 the government established a fiscal responsibility council and subsequently enacted a fiscal responsibility Act. 2005. The total external debt stock stood at these and other efforts were made to keep the nation's debt stock at a sustainable level.

Claudio (2004) has observed that external debt sustainability is consistent with the objective to keep a debt level that promotes economic growth. Arrow, et.al. (2007) observe that sustainable development is an economic programme along which average well being of present and future generations taken together does not decline over time. As Metwally and Tamaschke (1994) and Geiger (1990) observe, capital inflows have significant impact on growth-debt relationship because when there is a considerable level of inflow of capital, economic growth will be accelerated thus less need for external borrowing. Ogunmuyiwa (2011) however argues that causality does not exist between external debt and economic growth as causation between debt and growth was found to be weak and insignificant in Nigeria. Intermit and Brian (2005) posit that large budget surplus is associated with rapid economic growth.

Savvides (1992), Edo (2002), Udoka, et.al. (2010) and Bullow, Rogoff (1990) are of the opinion that debt overhang acts like a high tax margin on the country and could provide disincentive to domestic capital formation. This virus inflicted the Nigerian economy before her total exit from the strong hold of Paris and London club of creditors. Shortly before the exit, her total external debt stock was 44.9 trillion in 2004 (CBN statistical bulletin, 2009). In 2006, Nigeria external debt stock was $3.54 billion, in 2007 it rose marginally to $3.67 and in 2008, it further inched up to $3.72billion, dropped slightly in 2009 to $3.62billion only to rise sharply to $8.43billion in March 2010 (Mgboji 2010).
As at 30 September 2011, the external debt stock stood at $5.63 billion made up of $3.316 billion owed by federal government and $2.317 billion owed by the states (Onwuka 2011). These figures are

alarming considering the fact that the country is expected to keep a sustainable level of debt stock after her debt relief experience in 2005. As sacks (1989). Arslanalp and Henry (2004) argue, the problem faced by debt relief countries is lack of good institutions and if the poor institutional framework is not corrected, any new debt relief initiative would not achieve the objective to promote economic growth.

It is worrisome to note that in spite of the relief package secured in 2005, the World Bank ranked Nigeria as the 87 most indebted country in the World and 139th for purchasing power parity per capita GDP and debt service ratio (ratio of debt service to export) of 1.10% as against the international threshold of 20% (World Bank Report 2010).
Bearing the above short comings in mind, this study is considered timely as it is designed to espouse on the need to examine the effect of aggregate external debt services as well as debt service outlets to the various creditors (Paris Club, multilateral, London Club and Bilateral creditors) on the Nation's GDP

1.1 Statement of the Problem
The inability of a developing country like Nigeria to conserve enough resources to bridge the budget gaps and direct resources to the critical sectors of the economy necessitates her continued reliance on external sector financing. Apart from the stringent conditions often attached to such loans by the creditors. unfavorable foreign exchange variations often produce repudiation tendencies in servicing the loans. The implication is that the outstanding interest is capitalized, thus making the loan stock unsustainable and as previous studies by Savvids (1992), Edo (2002), Udoka et al (2010), Bullow (1990) have revealed, such development provides disincentive to domestic capital formation which invariably results to slow pace of economic growth. However, such studies were narrow both in scope and timing and also did little to align the effect of aggregate debt service burden as well as debt service outlets to each of the various external creditors to economic growth in Nigeria. The problem therefore exists and revolves around the scenario whether the quantum of external debt services including the service outlets to the various creditors could have had any significant positive effect on economic growth in Nigeria.

1.2 Objectives of the Study
The objectives of this study are:
- To examine the effect of external debt servicing on Nigeria's per capita Gross Domestic Product (GDP)
- To analyze the effect of external debt service outlets to each of the creditors (Paris Club, Multilateral, London Club and Bilateral Creditors) on the nation's GDP

1.3 Research Hypotheses
H_1.   Increase in external debt services has no significant positive effect on per capita Gross Domestic Product at current market prices.
H_2 External debt service outlets do not have significant positive effect on per capita Gross Domestic Product (GDP).

2. LITERATURE REVIEW

2.1 Meaning of external debt

External (foreign) debt is that part of a country's total debt that is owed to creditors outside the country (World Bank, 1988) and can generally be classified into Public and publicly guaranteed debt, Private non-guaranteed credits, Central bank deposits and Loans due to the IMF. (World Bank 2009)

IMF (2010) defines gross external debt as the outstanding amount of those actual current liabilities that require payment(s) of principal and/or interest by the debtors at some points in the future and that are owed to non residents by residents of an economy. Dooley (2000) views external debt as that portion of externally sourced fund which has not been paid and which is usually secured for developmental purposes and balance of payment support. Andreas (1996) defines external debt as the sum total of debts owed by the central government.

2.2 Meaning of Debt Servicing

Debt servicing generally refers to that compelling need and obligation on a borrower to pay the interest on a loan as and when due and also to effect repayment of principal amount when it falls due. According to Abubakar (1990), "debt serving involves payment of interest, repayment of outstanding loans, refinancing and rescheduling of debt. Debt servicing burden is often measured using some scenarios like

- Debt servicing as percentage of export receipts which measures the ability of debt repayment and creditworthiness of a country which according to the World Bank (2010) should not go beyond 20 percent of its export earnings.
- Debt servicing as a percentage of foreign exchange earnings which measures the ratio of debt service to foreign exchange earnings and
- The ratio of debt service to GDP which determines the burden of debt service on the country's income.

2.3 Sources and structure of external debt

Nigeria has contracted a number of debt obligations from external sources. These could be grouped into two main categories (Adesola 2006), and include

- **Official Debt:** This consists of Paris Club debt, multilateral debts and bilateral debts
- **Private Debts:** This is made up of uninsured short-term trade arrears contracted through the medium of bills for collection, open account, etc. Commercial bank debts acquired through loans/letters of credit with the London club. These are further categorized into four (a-d)
- The first category is debt owed to fourteen creditor countries belonging to the Paris club. Paris club debt is government to government credits or market-based term loans, which are guaranteed by various export credit agencies of the creditor countries. The Paris club is a cartel of creditor countries that provides an information forum where countries experiencing difficulties in paying their official debt meet with creditors to reschedule the debts. Paris club members, that Nigeria was indebted before 2006 were: Australia, U. S. A. Spain, France, Switzerland, Japan, the U. K, Belgium, Russia and Finland, Denmark, Germany, Italy and Netherland. The list of countries, original loan amount and outstanding are shown in table 2.13. The total amount owed to members of the club as at Dec. 31 2004 amounted to US$30.8 billion and nil US Dollar by December 2010.
- The second category is the multilateral debts. These are project loans owed to multilateral financial institutions like the World Bank Group, the African Development Bank Group, the European Investment Bank Group, IFAD and ECOWAS Fund by federal and state governments

and their agencies. The total amount owed to multilateral institutions by Nigeria as at December 2004 was US$2.8billion and US$4.9billion (92.12%) as at December 2010.

- The third category of debts is bilateral debt otherwise called Non-Paris club bilateral debt. These are debt owed to countries which are not members of the Paris club but whose debts are not insured by the export credit agencies. The amount owed to this category by Nigeria as at December 2004 was US0.05billion and US$0.34 billion (7.885%) as at December 2010.
- The fourth category of debts is the commercial debts. They are further divided into two groups.
  - London Club: This is a group of commercial banks that join together to negotiate loan contracts and other claims against debtor countries. London club debts are arrears of commercial bank term loans. They also include some arrears of letters of credit, bills for collection, open account, dividends, and airline remittances. The total amount owed by Nigeria as at December 2004 was US$1.4billion and nil US Dollar as at June 2010.
  - Central Bank of Nigeria (CBN) Promissory Notes: These were trade arrears contracted by ordinary Nigerians, between 1981 and 1986 but who deposited the local currency with which to make the remittances. The outstanding balance of promissory notes as at December 2004 was US$0.783billion and nil USS as at December 2010.

2.4 Theory of Debt Overhang
Debt overhang connotes a situation where the debt stock of a country exceeds the country's future capacity to repay it. The debt overhang hypothesis basically indicates that the accumulated debt acts as a tax on future output, discouraging productive investment plans of the private sector and adjustment efforts on the part of governments. On this note, Savvides(1992) asserts that if a debtor country is unable to pay its external debt, debt payments become linked to the country's economic performance since the debt overhang acts like a high marginal tax rate on the country, lowers the return to investment and provides disincentive to domestic capital formation. Feldstein (1986) argues that the debt burden is not a problem of freeing resources to debt service payments but also doing so in a way that converts these resources into foreign exchange.

2.5 Empirical Review
Deshpande (1997) attempted to explain the debt overhang hypothesis by an empirical examination of the investment experience of 13 severely indebted countries. The severely indebted countries are Algeria, Argentina, Ivory Cost, Egypt, Honduras, Kenya, Mexico, Morocco, Peru, Philippines, Sierra Leone, Venezuela and Zambia. External debt is found to exercise a negative effect on investment. Bauerfreund's (1989) findings also show that external debt payment obligations reduced investment levels in Turkey, in 1985. Hofman and Reisen (1991) tried to explain whether the debt overhang hypothesis or the liquidity constraints can explain investment behavior among middle income debtor countries and conclude non-existence of debt over-hang on debt countries. Chauvin and Kraay (2005) sampled 62 low-income countries to assess the extent to which debt relief induces government to embark on social spending and conclude that the marginal benefits of debt relief may not be same in Africa, Latin America and Asia. Lora and Olivera (2006) studied the crowding out effect of public debt on social services between 1985 and 2003 and found that the effect comes mostly from stock of debt and not debt service.

Dessy and Vencatachellum (2007) in a study on debt relief to developing countries found that because of high marginal propensity to import, the country's would rather than invest the amount from relief, would consume same on importation. This is consistent with the findings of Sachs (1986) and

Arslanalp and Henry (2004) that the problem faced by debt-relieved countries is lack of good institutions. Thus, if the status-quo remains the same, the new debt- relief initiative would not achieve their objectives to increase growth promoting expenditure in these countries. Adesola (2009) reviews and analyzes the effect of external debt service payment practices on sustainable economic growth and development with particular emphasis on Nigeria and found that debt payment to London club creditors, Paris club creditors, promissory notes holders and other creditors have significant impact on the GDP and GFCF. Debt payment to Paris club creditors and debt payment to promissory notes holders are positively related to GDP and GFCF, while debt payment to London club creditors and other creditors shows a negative significant relation to GDP and GFCF.

Adegbite, Folorunso and Ayadi (2008) investigated the impact of huge external debt with its servicing requirements on economic growth in Nigerian economy and found that external debt contributes positively to growth up to a point after which its contributions become negative, reflecting the presence of nonlinearity in effects. Ayadi and Ayadi (2008) investigated the impact of the huge external debt with its servicing requirements on economic growth of the Nigerian and South African economies and found that there is negative impact of debt on growth in Nigeria and South Africa even though South Africa performed better than Nigeria in the application of external loans to promote growth. Iyoha (1999) takes a simulation approach to investigate the impact of external debt on economic growth in sub-Saharan African countries using a small macro econometric model estimated for 1970- 1994 and found that a significant debt overhang variables in the investment equation, suggesting that mounting external debt depresses investment through both a "disincentive effect and a 'crowding out effect.

3. METHODOLOGY

The study is purely quantitative and ex-post facto research design was used to investigate the impact of external debt services on economic growth in Nigeria. The design type was necessitated by the fact that the variables on external debt and economic growth revolve around issues that are vital and already documented by highly research based institutions. Researchers had to adapt to and rely on such official publications for valid and reliable academic exercise.

3.1 The Nature and Sources of Data
This study was based on secondary data which were generated from CBN Statistical Bulletin, CBN Annual Report and Statements of Account, Debt Management Office Annual Reports and other relevant official records and only some of the variables that can address external debt and economic growth were included as sample for the study. The time frame for the study was from 1981 to 2010 (30years).

3.2 Specification of Models
Linear regression models were designed to test each of the hypotheses proposed for the study.

3.3 Aggregated External Debt Services and Economic Growth Nexus Model
The model that was stated in attaining the first objective on the effect of external debt services on gross domestic product is in line with Ogunmuyiwa (2011) and Karagol (2007) who demonstrated the relationship between external debt and economic growth using the simultaneous equations that also

included debt service equation. Researchers however adopted a univariate model that is shown in the following equation:

$$GDP = f(ExtDs) \dots\dots\dots\dots\dots\dots\dots (1)$$

Where: GDP= Gross Domestic Product at current market price
ExtD=External Debt Service

The equation from the model becomes:

$$GDPa + a_0 + a_1 \ ExtDs + \mu \dots\dots\dots\dots\dots\dots (2)$$

a_0= intercept and a_1 is the coefficient of the regression equation
μ is error term. A priori expectation is that a, is >0

The choice of the univariate framework is to isolate the control variable (external debt services) to align the result with that of the second objective which is a mere disaggregation of external debt services to the various creditors.

3.4 Disaggregated External Debt Services and Economic Growth Nexus Model

The attainment of the above objective on the effect of the creditor composition of external debt services to the Paris club, Multilateral, London Club and Bilateral (Non Paris/others and Promissory notes) on Gross Domestic Product (GDP) at current market price was pushed using model adopted Adesola (2009) who disaggregated the external debt services to the various creditors.

$$GDP = f (ExtDsp + ExtDsm + ExtDs1 + ExtDsb) \dots\dots\dots\dots (3)$$

Where: GPD Gross Domestic product at current market price
ExtDsp = External debt service to Paris Club
ExtDsm External debt service to multilateral
ExtDsl External debt service to London club
ExtDsb External debt service to bilateral creditors

The equation from the model becomes
$$GDP \ b_0 + b_1 \ ExtDsp + b_2 \ ExtDsm + b_3 \ ExtDsl + b_4 \ ExtDsb + \mu \dots\dots\dots (4)$$
b_0 = intercept and b_1, b=2, b_3 and b_4 are the coefficients of the regression equation
μ is error term

A priori expectation is that b_1 b_2, b_3, and $b_4. > 0$

This is a multivariate model that incorporates all the external debt creditors and is designed to assess the extent to which each of the sources frees resources to the attainment of economic growth in Nigeria.

3.5 Econometric Analysis

This study used time series analyses to interpret the nature of relationship that exists between the variables used and their impact on one another.

3.6 Unit Root Tests:

According to Nelson and Plosser (1982) and Konya (2004), there exists a unit root in most macroeconomic time series. Therefore, it is necessary to analyze whether the series are stationary or not whenever time series data are involved. The presence of a unit root implies that the time series under investigation is non-stationary: the absence of a unit roots shows that the stochastic process is stationary (Iyoha and Ekanem, 2002).The equation below tests the unit roots of the variables:

$$y_1 = p \quad y_{t-1} + \beta \quad + \alpha_1 + e_t \dots\dots\dots\dots\dots\dots(5)$$

For the purpose of testing the unit roots of the time series variables used, we assumed that all the variables are growing (Elder and Kennedy, 2001). In this case, in equation (5), either;

- there is a unit root ($p = 1$), no time trend ($B = 0$), and a nonzero intercept providing a drift term to create growth; or
- there is no unit root ($p < 1$), but there is a time trend ($\beta \neq 0$), so that y, is stationary around a deterministic time trend.

3.7 Ordinary Least Square (OLS) Technique

The OLS technique was used to confirm the significance of the relationship and contributions of the individual explanatory variables included in the models. The analyses involved are ANOVA, t-test and Durbin-Watson test. These analyses describe the interaction between the dependent variable and the independent variables and the contributions of the individual variables to the relationships (if any).

4. RESULTS AND DISCUSSIONS

4.1 Statistical Properties of the Variables

Descriptive Statistics of the Variables

Table 1: Summary of Statistics of Variables Applied in the Regression Analysis

	Mean	Median	Maximum	Minimum	Side. Dev.	Obs
GDP	6168339	2317965	29205783	47619.66	8772717	30
EXTDS	3016.298	1763.630	14202.50	367.6700	3300.373	30
EXTDSB	380.5350	280.7400	1127.200	0.500000	305.3972	30
EXTDSL	633.3487	165.4300	5443.700	0.000000	1112.173	30
EXTDSM	534.2527	511.9650	1271.200	17.70000	255.8073	30
EXTDSP	1468.162	471.3500	8070.790	0.000000	2215.575	30

Source: E-views 3.1 output of regression results.

The characteristics of the data series used for analyses are shown in the above table. This presents the reports the summary of descriptive statistics for mean, standard deviation. median, maximum, minimum and number of observations.

Table 2: Unit Root Analysis

Variables		At Level 1(0)	First Difference	Remark
GDP		-1.744016	-1.851658	Presence of unit root
EXTDS		-3.221531	*-4.291567	No Unit Root
EXTDSB		-2.902678	*-4.091904	No. Unit Root
EXTDSL		-3.021588	*-4.396891	No Unit Root
EXTDSM		-2.510263	*-4.243225	No unit Root
EXTDSP		***-3.335458	*-4.671824	No unit root
EXDPC		-2.264329	**-3.564169	No unit Root
Critical Value	1%	-4.3226	-3.7667	
	5%	-3.5796	-3.0038	
	10%	-3.2239	-2.6417	

ADF Unit Root test for Stationarity

Notes:
The ADF results in the table above showed that more than 86% of the variables do not have unit roots in their first difference, with constant and trend, at 5% level of significance. Only GDP is significant at 5% in their second differences. This implies that all the variables do not have unit roots at least, in their second differences and at 5% level of significance.

4.2 Test of Hypotheses

Hypothesis one: Increase in external debt services does not have significant positive impact on economic growth in Nigeria.

Model GDP=x_0+x_1 ExIDs + μ
Univariate OLS Test for Relationship between Aggregated External Debt Services and Economic Growth

Dependent Variable: GDP
Method: Least Squares
Date: 10/15/12 Time: 07:54
Sample: 1981 2010
Included observations: 30

Variables	Coefficient	Std. Error	t-Statistics	Prob
EXTDS	-462.7049	494.6641	-0.935392	0.3576
C	7563995	2191504	3.451509	0.0018
R-squared	0.030302	Mean Dependant Var	6168339.	
Adjusted R- Squared	-0.004330	S.D. dependant var	8772717	
S.E of regression	8791691	Akaike info criterion	34.88080	
Sum squared resid	2.16E+15	Schwarz criterion	34.97427	
Log Likehood	-521.2128	F-Statistic	0.874958	
Durbin-Watson stat	0.070015	Prob (F Statistic)	0.357584	

Source: Regression Results of E-views 3.1 Analysis

The table above shows that the R^2 statistics (0.030302) indicated that only 3% of the changes in GDPare explained by aggregate external debt servicing. This indicates that about 97% of fluctuations in GDPcould not be accounted for by external debt services factor. This implies that external debt services do not explain changes in economic growth in Nigeria.

The results from Table 4.3 also indicated that insufficient negative relationship exists between the aggregate external debt services and economic growth in Nigeria. This is shown in the values of the coefficient of EXTDS = -462.7049 with P.value of 0.3576. This implies that aggregate external debt services paid out over the years have insignificant negative effect on economic growth in Nigeria.

Hypothesis Two: External debt service outlets have no significant positive effect on Gross Domestic Product at current market prices.
Model GDP=b_0+b_1 ExtDsp+by ExtDsm + b_2 ExtDsl + b_3 ExtDsb + μ
Multivariate OLS Test for effects of Disaggregated External Debt Services on Economic Growth
Dependent Variable: GDP
Method: Least Squares

Date: 10/15/12 Time: 08:00
Sample: 1981 2010
Included observations: 30

Variables	Coefficient	Std. Error	t-Statistics	Prob
EXTDSP	599.4635	964.5684	0.6208409	0.5403
EXTDSM	-10354.51	8765.171	-1.181324	0.2486
EXTDSL	-1773.412	2088.401	-0.849172	0.4038
EXTDSB	163.4151	7648.407	0.021367	0.9831
C	11881152	3885949	3.057465	0.0053
R-squared	0.155368	Mean Dependant Var	6168339.	
Adjusted R- Squared	0.020227	S.D. dependant var	8772717	
S.E of regression	8683541	Akaike info criterion	34.94277	
Sum squared resid	1.89E+15	Schwarz criterion	35.17630	
Log Likehood	-519.1415	F-Statistic	1.149673	
Durbin-Watson stat	0.317237	Prob (F Statistic)	0.356452	

Source: Regression Results of Eviews 3.1 Analysis

The effect of disaggregated external debt outlets on economic growth is analyzed in the above table. The result indicates the coefficient of determination (R) = 0.155368. This means that 15% of changes in economic growth are accounted for by changes in the disaggregated external debt outlets. About 85% of the variations in GDP were not explained by this model. This indicates that the disaggregated external debt service outlets does not have sufficient explanation for changes in GDP.

The coefficients of the independent variables show the contributions of the various external debt service outlets to GDP in Nigeria. EXTDSP 599.4635 with P.value of 0.5403, EXTDSM-10354.51 with P.value of 0.2486; EXTDSL-1773.412 with P.value of 0.4038; and 163.4251 with P.value of 0.9831. The result of the coefficients indicate that external debt services paid to Paris Club and Bilateral creditors have positive relationship while those of Multilateral creditors and London Club have negative relationships. The P.values indicate that none of the external debt service outlets has significant effect on economic growth in Nigeria.

The F-test is used to test for the hypothesis that external debt service outlets had no significant positive effect on gross domestic product at current market prices. The F-test shows an overall significant of the independent variables on the dependent variable. The F statistics is 1.149673 with P.value of 0.356452. Since the significance level of the F-statistics is above 5% level of significance, the null hypothesis is accepted. Therefore, the study concludes that there is no significant positive relationship between gross domestic product at current market prices and external debt servicing

5. CONCLUSION

Aggregate external debt services does not largely explain changes in economic growth in Nigeria as there is in and negative effect of external debt services on gross domestic product at current market prices. Also, the disaggregated external debt service outlets do not provide sufficient explanation for changes in GDP as none of the outlets had significant effect on economic growth in Nigeria.

6. RECOMMENDATIONS

- The intent of external borrowing should be properly verified and adhered to. Any borrowing not expected to generate its servicing need should be critically re examined. The Fiscal Responsibility Act 2005 mandate should always be invoked in expending borrowed funds. This is meant to ensure and guarantee that funds are properly channeled and managed.
- More so, external finance should be used only for projects of highest priority, and debt financed investment need to be productive and well managed to earn a rate of return higher than the cost of debt servicing. Borrowing for projects with self- repaying capacity and job generation (rather than borrowing to finance gaps budgets that are largely recurrent) will alleviate recurrent debt trap among developing 10 nations. The implementation must stipulate period long enough (10 years or more) before dividends can be repatriated for investment to mature.
- To achieve a long term solution to the external debt problem there must be vigorous promotion of the nations export trade and drastic reduction in her merchandize imports

REFERENCES

Abubakar, F. (1990), "Refinancing and Servicing Nigeria's External Debt". In
    Olukoshi A.O (Ed), Nigerian External Debt Crises; Its Management, Lagos, Malthouse Press
Adam, J.A. (2007), "The Debt Servicing Capacity Of Nigeria's Economy". Adam.Pdf. Accessed 12/10/2011
Adesola, W. A. (2009). Debt Servicing and Economic Growth in Nigeria: An Empirical Investigation.
    Global Journal of Social Sciences Vol 8, No. 2:1-11.
Adeyemi, F. (1996), "Nigeria's External Debt": Obafemi Awolowo University Press
Adreas, S (1992), "Investment Showdown In Developing Countries" Kyklos Vol.45,P.363.
Akenroye, T. (2000). "Strategy for managing Nigeria's external debt". Nigerian Economic and Financial
    Review 3(2):16-20,
Arslanalp. S. and Henry, P. B. (2004). "Helping the Poor to Help Themselves": Debt Relief or Aid?,
    Working Paper 10234, National Bureau of Economic Research, Cambridge, MA.
Ayadi, F.S and F.Ayadi (2008), "The Impact Of External Debt On Economic Growth;
    Comparative Study of Nigeria and South Africa". Journal of Sustainable Development Vol.60.
Bovensztem, E. (1990), "Debt Overhang. Debt Reduction and Investment" Imf Working Paper.
Bullow, J And K. Rogoff, (1990), "Cleaning Up Third World Debt Without getting to the cleaners".
    Certified National Accountant, 14(1) 25-43.

Chauvin, N. D. and Kraay, A. (2005), "What Has 100 Billion Dollars Worth of Debt Relief Done
    for Low Income Countries"? Mimeo, World Bank.
Cohen, D (1995). "Large External Debt And Slow Domestic Growth: A Theoretical Analysis" Journal of
    Economic Development Pp 1141-1163.
Dooley, M.P (2000), "Debt Management and Crises in Developing Countries": Journal Of Dev.
    Economics, Vol. 63, Page 45-58
Deshpande, A. (1990). "The Debt Overhang and the Disincentive to Invest", Journal of Development
    Economics, Cilt 52, pp. 169-187.
Dessy, S.E. and Vencatachellum, D. (2007). "Debt relief and social services expenditure: The

African experience 1989-2003", Afr. Dev, Rev., 19: 200-216. Development, Vol 6. No 3.

Edo, S. E. (2002), "The External Debt Problem In Africa: A Comparative Study of Nigeria And Morocco" African Development Review, 14:221-236.Doi:

Elbadawi, 1., Ndudu, B And N. Ndudu, (1997), "Debt Over Hang and Economic Growth In Sub- Saharan African In Iqbal Z And K Ravi (Eds) External Finance Low Income Countries" Imf Institute, Washington De.

Elder J. And P.E.Kennedy (2001), "Testing For Unit Roots: What Should Students Be Taught?" Journal of Economic Education, 32(2): 137-46

Ezeabasili, V.N (2006), "Nigeria External Debt: Past, Present and Future" The Certified National Accountant, 14(1) 25-43.

Ezeabasili, V.N. Isu H.O, And J.N Mojekwu (2011), "Nigeria External Debt And Economic Growth: An Error Correction Approach" International Journal of Business and Management. Vol 6.No 5.

Fajana, O. (1990), "Background To Nigeria External Debt Problem". Nigerian External Debt Crisis and its Management, Uk, Malthouse Publishing.

Feldstein, M. (1986). "International Debt Service and Economic Growth: Some Simple Analyties", National Bureau of Economic Research, 2076, 35 Pages.

Filippo Occhino (2010). "Is Debt Overhang Causing Firms to Underinvest? Economic Commentary". http://www.clevelandfed.org/research/commentary/2010/2010-7.cfm

Hameed, A. Ashiraf H. M.A Chaudhary (2008), "External Debt and its Impact On Economic and Business Growth" International Research Journal And Economics.

Hofman, B. and Reisen, H. (1991). "Some Evidence on Debt-Related Determinants of Investment and Consumption in Heavily Indebted Countries", Weltwirtschafliches Archiv. Cilt 127 Sayı 2. pp 280-297

IMF. (1989) "World Economic Outlook", Supplementary Note 1. Washington, USA

Indermit, G. And P. Brian, (2005), "Public Debt In Developing Countries: Has The Market-Based Model Worked World Bank Policy Research Work Paper. 3674. August.

Iyoha, M. A., (2000). "Impact of external debt reduction on economic growth in Nigeria: Nigerian Journal of Economic and Social Studies, Vol. 42.

Iyoha, M.A (1999), "External Debt and Economic Growth in Sub-Saharan African Countries: An Econometric Study". Aerc Research Paper 90: African Economic Research Consortium, Nairobi. March 1999.

Iyoha, Milton, and O.T Ekanem (2002), "Introduction To Econometrics." March Publishers, Benin City, Nigeria.

Konya K. (2004). "Unit Roots, Co Integration and Granger Casuality Test: Result for Export and Growth in Oeed Countries". International Journal of Applied Econometrics and Quantitative Studies. 1(2) Pp. 67-94

Lora. E and Olivera, M. (2006). "Public debt and social expenditure: Friends or foes" Technical Report 563, Inter-American Development Bank, Research Department.

Muttalab, A.U (1984), "Towards a more Effective Use Of External Finance in Nigeria". A Paper Presented at UBA Seminar In Lagos.

Nelson. Charles R. and Plosser, Charles 1. (1982), Trends and Random Walks in Macroeconomic Time Series. Some Evidence And Implications," Joumal Of Monetary Economics, 10, 139- 162. Nigeria and Morocco" African Development Review. 14:221-236.Doi:

Nyong. M. (2001). Public policy. Public sector economics and management. Calabar TAP Business Centre

Obi, A.E. (2005), "Nigeria Debt Crises. Towards A Sustainable Debt Management", Journal of Business and Management: Vol 6.No 5.

Olukoshi, A O and CN Nwoke (1990), "Crises and Adjustment in The Nigerian Economy, Nigerian External Debt Crisis. Its Management" Lagos, Maulthouse

Osinubi, T.S And O.E Olaleru (2006), "Budget Deficits, External Debt and Economic Growth in Nigeria" Applied Econometrics and International Development. Vol 6. No 3.

Patillo, C. Poirsodn, H And R. Luca, (2002), "External Debt And Growth" Imf Working Paper 69.

Sachs, J. D.. (1986), Managing the LDC Debt Crisis. Brookings Pap. Econ. Ac., 2: 397-431.

Savvides, A. (1992). "Investment Slowdown in Developing Countries during the 1980s: Debt

Overhang or Foreign Capital Inflows", Kyklos, Cilt 45, Sayı 3, pp. 363-378.

Shabbir, S. (2005). "Does External Debt affect Economic Growth: Evidence from Developing Countries". Retrieved on 20th May, 2011. fromhttp://aysps.gsu.edu/ECON_MA_ShabbirS.pdf

Udoka. Chris O, and Anyingang, A.Roland (2010), "Relationship Between External Debt Management Policies And Economic Growth in Nigeria (1970-2006)" International Journal Of Financial Research Vol. 1. No 1.

Were, M. (2001). Impact of External Debt on Economic Growth in Kenya: An Empirical Assessment. UNU-WIDER Research Paper. DP2001/116.

World Bank (1988)," World Development Report". Oxford University Press