DISCOVERY

External Debt and it Impact on Nigerian Economy

Ponjul Bulus Gonji[1], **Kamsen Mordecai Dapim**[2], **Isaiah Ogalegwu Obande**[3]

Author Affiliation:

[1&2]Department of Actuarial Science, University of Jos, Plateau State, Nigeria

[3]Department of Business Administration, Greenfield University, Kaduna State, Nigeria

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ABSTRACT

This study investigates the impact of external debts on the growth of the Nigerian economy from 1999 to 2019. The variables used for the study are external debts, debt servicing and foreign reserve. Data was obtained from the Debt Management Office, Central Bank of Nigeria and National Bureau of Statistics. STATA 13 was used to run various tests to ascertain the level impact of each independent variable on the Nigerian GDP. The result revealed that foreign reserve and debt servicing significantly affect the growth of the Nigeria economy. The following recommendations were made: Nigerian Government should reduce the rate at which she borrows fund from external bodies to finance her budget. The government should make effort to increase her foreign reserve in order to forestall economic growth.

Keywords: Nigerian economy; Debt Management; Nigerian GDP

BACKGROUND TO THE STUDY

Debt is the amount of money a country owes institutions or agencies resident in the country or outside the country (George-Anokwuru & Inimino 2020). It is one of the instruments used by government of various countries to finance current and capital expenditure. Borrowing by government of nations is not outrightly wrong provided the money will be channel to ventures that will aid the development of the country. However, experience has shown that debts in developing countries like Nigeria have been misappropriated to unprofitable ventures. This is making various generations in the host countries to severely bear the indescribable impact of the debts.

Many reasons have been attributed to the quest for going into external debt by developing nations like Nigeria. Budget deficit, unfavorable balance of payment and the need for industrialization are said to be the propellers of external borrowing in Nigeria (Soludo 2003; Omodero & Alpheaus 2019). To buttress this position, Agbo (n.d) observed that over dependence on foreign aid, high rate of corruption by government officials, the global economic crisis and the fluctuating oil price at the international market are the reasons that induced borrowing by African leaders.

Despite the reasons for debts (especially external debts) by African countries, the positive impact of such debts is yet to be felt by the indigenes of such countries. Developing countries feel the severe impact of foreign debt because the debts are not dominated in their currency (Park, Shin & Tian, 2018). The differences in the fiscal policy, institutions, levels of income and degree of

openness among countries makes the impact of debt to vary from country to country (Qureshi & Liaqat, 2019). Omodero and Alphaneaus (2019) asserted that one of the disadvantages of foreign debt is that the interest rate of such debt must be paid in the currency of the country of the lender. Nigeria is not left out in the unfavorable impact of debts on her economy. Recent budgets in Nigeria have revealed a disturbing impact of external debts on the country's economy.

For instance, the report of the Debt Management Office (DMO) reveals that Nigeria's external debt has been rising from 2007 to date, this is despite the liquidation of almost 80% of the country's external debt through the assistance of Paris Club in 2006 (Reviewing Nigeria's Debt Status 2019). Nigeria external debt has risen from $10.7bn in 2015 to $21bn in 2018, this portray a 135% growth rate (Reviewing Nigeria's Debt Status 2019). In a related development, Reviewing Nigeria's Debt Status (2019) reveled that debt to revenue ratio in Nigeria also rose from 43.6% in 2011 to 162.85% in 2016. They further opined that Nigeria's debt service to revenue ratio is over 60%, this mean that for every N100 earned, the government use N60 to service debt. Recent report in Nigeria reveals that the cost of debt servicing in 2017 rose to N2.2tr against a revenue of below N3tr, this clearly shows that Government revenue in Nigeria may not be able to service the country's debt in the nearest future. These and other unpleasant trends on external debts is rising so many concerns economist analysts, it prompts the researchers to ask questions such as: Is there any positive impact of external debts on the Nigerian economy? This question will be address in this study via the use of the following variables; external debts, debt serving, foreign reserve using gross domestics product (GDP) as a proxy. The objectives of the study are:

1. To determine the impact of external debts on the Nigerian GDP.
2. To examine the impact of debt serving on the Nigerian GDP.
3. To investigate the impact of foreign reserve on the Nigerian GDP.

LITERATURE REVIEWS

External debt and economic growth (GDP)

External debt is a situation in which a country decides to borrow fund from external sources or foreign bodies to finance her budget or infrastructure development. It is the total private and public foreign debts owed by a country (Todaro & Smith, 2011). Borrowing from external source to finance a venture is a good idea provided the debts are judiciously used. Omodero and Alpheaus (2019) asserted that if foreign debt is not properly handled, it can hinder economy growth. Financial analysts have severally expressed their concerns over the negative effect of external debts on the Nigerian economy. Bakare (2011) asserted that the major problem of foreign debt in Nigeria is the misappropriation of such debt by government officials. Omodero, Egbide, Madugba and Ehikioya, (2020) asserted that Nigeria has fallen into depression due to debt overhang. External debts weaken the value of the currency of the country that engage in it thereby affect the country's exchange rate. Gonji, Ahan, Zamdayu and Pam, (2020) opined that high exchange rate increase the prices of goods and services and hence, reduce the purchasing power of individuals. The alternate hypothesis of this study is:

H_1: External debts has significant impact on the Nigerian GDP.

Debt servicing and economic growth (GDP)

Debt servicing is the payments made in respect of both principal and interest for an existing loan (IMF 2003). It is the installment of principal and interest due on a current obligation (Business Dictionary 2019). Countries that borrowed from external source(s) to finance their budget set aside a certain amount of money to service their debts, aside the repayment of the main debts. Debt servicing as observed by George-Anokwuru and Inimino (2020) hinder fast economic growth and development as well as worsened social issues. This study examined the effect of debt servicing on the GDP of the Nigeria economy via the alternate hypothesis:

H_2: Debt serving has significant impact on the Nigerian GDP.

External reserve and economic growth (GDP)

Nwosa (2017) asserts that external reserve is a monetary policy use to cushion the effect of external forces on the economy. The effect of external reserve on an economy is mostly seen in the value of the economy currencies when compare with foreign currencies (such as US dollars and Euro) and the monetary policy of the country. The studies of Nwodo (2017), Alasan and Shaib (2011) and Paul (2017) concluded that external reserve affect economic growth of nations significantly while the study of Olokoyo, Osabuohien and Salami (2009) proved otherwise. This study will investigate these two positions by ascertaining the effect of external reserve on the GDP of Nigeria using the hypothesis stated below:

H_3: Foreign reserve has significant impact on the Nigerian GDP.

Theorical framework: Dependency theory

The theory used to underpin this study is the dependency theory. The theory was developed by political economists Andra Gunda Frank (1969), Claude Ake (1981) among others. The theory basically implies a situation in which a particular country or region depend on another country for survival and growth (Emeh, 2013). This is mostly the case with developing countries like Nigeria. The variables in this study (external debt, debt servicing and external reserve) portray the fact that Nigeria economy depend on foreign countries her survival, this put the nation at a disadvantage to her creditors.

Empirical review

Scholars have made efforts to study debts and economy growth in the past, this research work reviewed those previous studies in order to give the study a good base. These reviews are based on the variables used for the study. Olokoyo, Osabuohien and Salami (2009) studied the influence of foreign reserve on macroeconomic variables in Nigeria from 1970-2007. The macroeconomic variables used for the study are economic size, trade, level of capital inflows, inflation and exchange rate. Using cointegration test and vector error correction (VEC) to analyzed the data obtained from secondary source, the study revealed that accumulation of large foreign reserves has little influence on the Nigerian economy within the period under investigation.

Alasan and Shaib (2011) examined the management of external reserves and economic development in Nigeria from 1980-2008. The study revealed a significant relationship in the management of external reserves and economic development in Nigeria. Sulaiman and Azeez (2012) examined the effect of external debt on the economic growth of Nigeria from 1970-2010. The study obtained data from the Central Bank of Nigeria and the Debt Management Office. Using Ordinary Least Square (OLS), the study conclude that external debt positively affects the growth of Nigeria economy. Mahmoud (2015) examined the effect of outside obligation on the financial development of Mauritania from 1975- 2005. The dependent variable was GDP while the independent variables are foreign obligation and foreign overhaul. Using ordinary least square to analyzed the secondary data obtained from secondary sources, the study concluded that there is a positive connection between foreign obligation and GDP but foreign overhaul is negatively related to the GDP of Mauritania.

Nwosa (2017) investigated the effect of external reserve on economic growth in Nigeria from 1981-2014, the researcher used labour force, external reserve, and exchange rate as the independent variables while real GDP was the proxy. Using E-views 7 to run the data, the study concludes that external reserve affects the economy of Nigeria in a positive and significant way. Paul (2017) analyzed the impact of external debt on economic growth in Nigeria from 1985-2015. The variables use for the study are external debt reserve, external debt stock, external debt services and exchange rate proxied by GDP. Using E-views 9 to run the data, the study revealed that only external reserve and exchange positively and significantly affect the Nigerian economy.

In another study, Elwasila (2018) examined the effect of external debt on the economic growth of Suden from 1969 – 2015. The independent variables used in the study are exchange rate and foreign direct investment GDP was the dependent variable. Using Vector Error Correction Method (VECM), the study discovered that exchange rate and foreign direct investment has negative influence on economic growth (GDP). Omodero and Alpheaus (2019) investigated the effect of foreign debt on the economic growth of Nigeria from 1997-2017. The study collected secondary data from the World Bank and the Central Bank of Nigeria. The independent variables of the study are; foreign debt profile, foreign debt servicing, inflation and exchange rate while the dependent variable is Gross Domestic Product (GDP). The study revealed that foreign debt stock has significant but negative influence on Nigerian economy growth, foreign debt servicing has strong effects on the growth of Nigeria economy in a positive and significant way. Inflation and exchange rate do not affect the economy growth of Nigeria within the season under investigation.

George-Anokwuru and Inimino (2020) examined external debt and economic growth in Nigeria from 1980 - 2017. The dependent variable is real GDP while the independent variables are external debt, debt servicing and foreign exchange rate. Using Augmented Dickey Fuller test (ADF) unit root test and Autoregressive Distributed Lag (ARDL), the study revealed that external debt and debt service has negative but significant effect on the GDP of Nigeria. It also revealed that foreign exchange has positive and significant effect on real GDP in Nigeria within the period under investigation. In another study of external debt, Omodero, Egbide, Madugba and Ehikioya, (2020) studied a mismatch between external debt finances and consumption cost in Nigeria from 2000-2018. Consumer price index (CPI) was the dependent variable while the independent variables are external debt, debt servicing and exchange rate. Using ordinary least square to analyzed the secondary data obtained from the statistical bulletin of the Central Bank of Nigeria and the World Bank, the study revealed that external debt and debt servicing have positive and significant impact on consumer price index (CPI) unlike exchange which has no significant impact on CPI even though it has positive value.

Research Gap

The research gap identified from the literatures reviewed is period. Most of the studies reviewed did not cover the period of 1999-2019.

METHODOLOGY

This study solely depends on secondary data obtained from the Debt Management Office, Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS) from 1999-2019. The variables used in the study are: external debt, debt servicing, foreign reserve and GDP. The population of the study is the Nigerian economy. The statistical package used for data analysis is STATA 13. It is a time series data.

Specification of Model

This study adopts the model of Paul (2017). The study decided to adopt this model because it is able to explain the debt system with its consequences on the economy. TThe model is as shown below:

$$rGDP_{it} = \beta 0_{it} + \beta 1 EXDEBT_{it} + \beta 2 EXTREV_{it} + \beta 3 FORREV_{it} + U$$

Where, $\beta 0$ = constant, $\beta 1 \ldots \beta 3$ = the slope which represents the degree in which economic growth changes as the independent variable change by one-unit variable U = stochastic error term, t = measure of time, i = number of observations.

rGDP = Gross Domestic Product
EXDEBT = External debt
EXTSER = External Services
FORREV = Foreign reserve

Descriptive Statistics

The table below presents the mean, standard deviation, minimum and maximum for the dependent and independent variables of the model. It shows the average indicators of variables computed from the financial statement.

RESULTS & DISCUSSION

Descriptive Analysis

Table 1 shows descriptive statistics of the variables used to measure profitability for twenty years (1999-2019). External debt (EXDEBT) have a mean and standard deviation of 1.97e+10 and 1.44e+10 respectively. The minimum value of is 27676.14 and maximum value is 4.62e+10 p. This implies that the EXDEBT is not normally distributed throughout the period of study.

Table 1. Descriptive Analysis

Variable	Obs.	Mean	Std. Dev.	Min	Max
EXDEBT	21	1.97e+10	1.44e+10	27676.14	4.62e+10
EXTSER	21	1.37e+09	2.28e+09	182.6	8.81e+09
FORREV	21	3.16e+10	1.58e+10	5.65e+09	5.36e+10
Rgdp	21	297.4357	160.6993	59.37	546.68

External debt servicing (EXTSER) have mean and standard deviation of 1.37e+09 and 2.28e+09 respectively. The minimum value of data set is 182.6 and the maximum value is 8.81e+09. Also, FORREV have a minimum of 5.65e+09 with 5.36e+10 as the maximum, mean for the foreign reserve (FORREV) is 3.16e+10 and Standard deviation value of 1.58e+10. Lastly, rGDP have a mean and standard deviation of 297.4357 and 160.6993 respectively with minimum value of 59.37 and maximum value is 546.68.

Correlation Matrix

The correlation matrix explains the level of relationship between explanatory variables and outcome variable in a regression model. The correlation matrix also serves as a preliminary test for multicollinearity. However, a good regression model should not have high value of correlation between independent variables (Ahmed, 2014). Summary of the correlation result are presented in the table 2.

Table 2 Correlation Matrix

Variables	EXDEBT	EXTSER	FORREV	rGDP
EXDEBT	1.0000			
EXSER	-0.0566	1.0000		
	0.8073			
FORREV	-0.4245	-0.1792	1.0000	
	0.0551	0.4369		
rGDP	-0.1566	-0.4677	0.7381	1.0000
	0.4979	0.0325	0.0001	

In table 2, external debt (EXDEB) shows a negative relationship between EXTSER, foreign reserve (FORREV) and real GDP. Also, external debt servicing (EXTSER) shows a negative relationship between FORREV and rGDP. FORREV shows a positive relationship with RGDPLN.

Multicollinearity Test

In research, multicollinearity is a situation in which two or more regressor variables in regression are highly correlated, meaning that one can linearly predicted from the others with a certain degree of accuracy. According to Mayer (1990), when VIF value is more than 10 then there is a strong indication of presence of multicollinearity. To examine if multicollinearity generates instability of empirical results, the researcher computed for each coefficient of the independent variables.

Table 3 Multicollinearity Test

Variables	VIF	1/VIF
Rgdp	2.95	0.339034
EXREV	2.38	0.419994
EXSER	1.39	0.720824
Mean VIF	2.24	

The issue of multicollinearity may arise if two or more variables were to be highly correlated, and it was tested by examining the Variance Inflation Factor (VIF). The result of VIF presented in the table above indicates that there is no existence of multicollinearity between the research explanatory variables given that the value of VIF for all the variables is less than 10.

Residuals Tests

Breusch-Godfrey Lagranger Multiplier test (LM) was also carried out to check for the presence of first order serial autocorrelation. The presence of autocorrelation is capable of inflated standard error and affects the validity of test statistics, which could lead to type I or II error. The result is not significant given the p-value of 0.6000 greater than 5% significance level. This implies that there is absence of serial autocorrelation in the study.

Table 4 Diagnostics Test Results

Diagnostic Test	Chi-Square	Probability
Langrage Mulitiplier (LM) No serial correlation	0.2749	0.6000
Jarque- Bera (JB) There is a normal distribution	3.451	0.17811
White (CH-sq) No conditional heteroskedesticity	0.05	0.8199
Ramsey RESET Test Model Specification Test	3.451	0.17811

The result of residual test was presented in the table 1. The Ramsey RESET was carried out to check for the presence of omitted or additional variables in the study model. The p-value of 0.17811 is greater than 5% significance level. This study therefore confirmed that no omitted or additional variables and therefore the model is well specified.

The result of Breusch-pegan test shows the absence of heteroscedasticity. Meaning that error varies across the residuals are homogeneously distributed. Finally, Jarque- Bera (JB) test shows that the data is normally distributed given the p-value greater than 5% significance level.

Table 5 Unit Root Test (Augmented Dickey-Fuller (1979)

Variables	t-statistic	5% sig level	Order of integration
rGDP	0.515	-1.950	1(1)
FORREV	-0.587	-1.950	1(1)
EXTSEV	-2.145	-1.950	1(0)
EXDEBT	-1.678	-1.950	1(1)

Due to volatility of nature of time series variables, it's important to carry out unit root test in order to check for the presence or absence of unit root in variables. Conversely, in case where the ADF test statistics is greater than the critical value indicates rejection of the null hypothesis implying the stationary or absence unit root of the time series variables. The result from table 5 shows that external debt serving (EXTSEV) is free from unit root tangle at stationary level, while rGDP, FORREV and EXDEBT are free from unit root problems at firm's difference. This signifies that real GDP, foreign reserve (FORREV) and external debts (EXDEBT) are differentiated once before attaining stationary level.

This indicates that all the variables are stationary at the mixed of level 1(0) and first difference 1(1), which is a precondition for using Autoregressive Distributed Lag (ARDL) model to test for both short-run and long-run relationship. Since the variables are mixture of I(0) and I(1), any attempt to specify the dynamic function of the variables in the level of the series would be inappropriate and may lead to spurious regression in line with Osuala and Okere, (2010). Based on the foregoing, it became necessary to use the bound testing approach to test for co-integration.

This study therefore, proceeds to run Autoregressive Distributed Lag (ARDL) co-integration to check for the level of long-run relationship between the variables. The study also reported both the 95% and 90% critical values (Narayan, 2005).

Table 6 Co-integration Test

Variables	Coefficient	Std. Error	T-statistics	Prob.
FORREV	-0.2023434	0.020158	-5.029428	0.0003
EXTSER	-0.3101800	0.031086	-9.980051	0.0000
EXDEBT	0.2404781	0.043990	5.466501	0.0146
CointEq(-1)	-0.2388381	0.110861	-2.154392	0.0047
Long-run Equation				
Variables	Coefficient	Std. Error	T-statistics	Prob
FORREV	-0.921629	0.129638	-7.109272	0.0000
EXTSER	-0.005813	0.001471	-3.952209	0.0006
EXDEBT	0.256246	0.091837	2.789202	0.0018
C	4.580010	0.455555	10.053688	0.0000

The error correction factor measures the speed of adjustment from short run disequilibrium to the long run path. The coefficient of the (ECM-1) as could be observed in the table 6 is negative and highly significant at 5% critical level, showing that the model has a self-adjusting mechanism for adjusting the long-run dynamics of the variables with their long-run values. Highly significant negative error correction term is a further proof of the existence of a stable long run relationship between the variables. The speed of adjustment to equilibrium is given by the coefficient of ECM as -0.2388 or 23.88 percent.

This speed is moderate, indicating that a deviation in economic growth measure by real GDP from equilibrium is corrected by as high as 23.88% the following year. This indicates a feedback of approximately 23.88% of the previous year's disequilibrium from the long run economic growth of Nigeria and it is significant, which suggests that any short run disequilibrium in the system will be adjusted in the long run. It also evident that all the variables are statistically significant as their respective t-statistics (2.154392) is greater than 1.96 and the p-value less than 5% significance level. This implies that there is long-run relationship between dependent and independent variables of the study.

Test of Hypotheses

The regression results of this study are presented below;

Table 7 Test of Hypotheses

	Coefficient	Std. Err.	P-value	Decision
FORREV=rGDP	7.52e-09	1.59e-09	0.000	Supported
EXTSER= rGDP	-2.31e-08	1.00e-08	0.034	Supported
EXDEBT=Rgdp	1.54e-09	1.72e-09	0.383	Not Supported
R^2	0.6763			
Adjusted R^2	0.6191			
F-statistic	11.84			
P-value	0.000			

The value of adjusted R^2 of the estimated model shows about 0.6763 or 67.6% of the variation in real GDP is explained by the combined effects of all the predictor while the remaining 32.4% is attributed to the unexplained variation that is the variables not captured in this model.

The F-statistic of 11.84 is significant at 1 percent level, as the p-value estimate of 0.0000 has indicated. The F-statistics shows that the explanatory variables are jointly significant in explaining real GDP. It shows that there is a linear relationship between the dependent variable and at least one of the independent variables.

Foreign reserve has a positive and significant effect on the growth of Nigerian economy withing the period under investigation, therefore, the study accepts the first alternate hypothesis which says that foreign reserve has a significant effect on Nigeria economy. This position agrees with the findings of Nwosu (2017) and Paul (2017).

External debt servicing (EXTSER) has a negative and significant effect on the growth of Nigerian economy, hence, the also accept the second alternate hypothesis which state that external debt servicing has significant effect on the growth of Nigerian economy. This conclusion is in line with the findings of Omodero and Alpheaus (2019) and George-Anokwuru and Inimino (2020) but contradict the studies of Paul (2017).

The coefficient of external debt indicates a positive but insignificant effect on the growth of the Nigerian economy within the period under consideration, therefore, the study fails to accept the third alternate hypothesis which says; external debt has significant effect on the growth of the Nigerian economy. This finding confirms the positions of Suleiman and Azeez (2012), Omodero and Alpheaus (2019) and George-Anokwuru and Inimino (2020) but contradict the findings of Paul (2017).

CONCLUSION

This study investigated the impact of external debt on the economy growth of Nigeria using external debt, debt servicing and foreign reserve as the independent variables proxy by GDP. STATA 13 software was used to analyzed the secondary data obtained from Debt Management Office, report of the Central Bank of Nigeria as well as National Bureau of Statistics. Various tests were conducted to ascertain the effect of the independent variables on the dependent variable. The result of the test revealed that foreign reserve and external debt servicing significantly affect the economy of Nigeria. The therefore concludes that external debt affect the growth of Nigeria economy.

Recommendation

Base on the findings and conclusion of this study, the following recommendations were made.

1. Nigerian Government should reduce the rate at which she borrows fund from external bodies to finance her budget.

2. The government should make effort to increase her foreign reserve in order to forestall her economic growth.

Suggestion for further study

This study focused on the effect of external debts on the economy growth of Nigeria, further research can be conducted on the effect of domestic debts or debts (bother external and domestic) on the economy growth of Nigeria or any country. In addition, other variables like debt to revenue, foreign exchange can also be used by future researchers to conduct this same study.

Conflict of interest

The authors declare that they have no conflict of interest.

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Ethical approval

This article does not contain any studies with human participants performed by any of the authors.

Data and materials availability:

All data associated with this study are present in the paper.

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