Relationship between Foreign Loans and Economic Growth in Nigeria

Lawal Babatunde Akeem*, Dada John, Ajose Kehinde and Aina Grace

Department of Accounting & Finance, McPherson University, Ogun State

Abstract

The relationship between foreign loans and economic development of underdeveloped countries is still questionable and debatable, hence the purpose of this study is to examine the relationship between foreign loans and growth of Nigerian economy over the year for 35 years. Data's used was obtained from Bureau of Statistics and related journals for the period of 1980 to 2015. In order to analyze the data, both econometric and statistical methods were used. The economic regression model of ordinary least square (OLS) was applied in evaluating the relationship between foreign loans and economic development in Nigeria. The result revealed that foreign loans have no significant impact on economic growth in Nigeria. However, the study recommended that Nigerian government should promote exportation of domestic products as a high exchange rate will make our goods more attractive in the foreign market and thus, will increase foreign exchange earnings. Furthermore, Nigeria's external debt should adequately keep track of the debt payment obligations and the debt should not be allowed to pass a maximum limit so as to avoid debt overhang.

1.0 Introduction

The relationship between foreign loans and economic development of underdeveloped countries is still questionable and debatable. It has been proposed that if an underdeveloped country seeks an economic growth and welfare for its people, the principal mechanism to do so is to try to have foreign loans. Although there are other factors that affect economic growth, this simple proposition still claims that foreign loans are a necessary ingredient. While foreign loans can have both negative as well as positive consequences, the positive benefits outweigh the negative on balance, and hence the policy and strategy should be to maximize the positive effects and minimize the negative ones (Villami & Asiedu, 2001).

Roll and Talbott (2002) affirmed that foreign loans don't contribute toward financing sustained economic growth over the long term. Similarly, Tandon (2002) and Hausmann and Fernandez-Arias (2000) discovered that foreign loans are falsely marketed to the developing countries as a solution to their underdevelopment. They did not find correlation between foreign loans and economic growth, or between foreign loans and development. Khor (1999) revealed that about 80 of underdeveloped countries (the majority of them are in Africa and Latin America) fell into a debt trap and under the sway of the World Bank (WB) and the International Monetary Fund (IMF). According to (WB, 2001), the number of severely indebted countries is about 88. Of the 88 severely indebted countries, the WB and key governments classified 41 countries as highly indebted poor countries (HIPCs).

Hagen, Keleta, Ghebreyesus and Cadet (2004) found that foreign loans of HIPCs have a negative and insignificant impact on the economic growth of HIPCs. This study extended the above study and investigated the impact of foreign loans on the economic growth of 82 severely indebted countries over a ten-year period (1990-2000). However, in modern law, debt has no precisely fixed meaning and may be regarded essentially as that which one person legally own to another or an obligation that is enforceable by legal action to make payment of money.

The objectives of this study are to:

- Examine the relationship between external debt stock and economic growth in Nigeria.
- Determine the relationship between external debt service payment and economic growth in Nigeria.
- Investigate the relationship between official exchange rate and economic growth in Nigeria.

Thus, the above objectives will be guided by the following questions:

- What is the relationship between external debt stock and economic growth in Nigeria?
- What is the relationship between external debt service payment and economic growth in Nigeria?

- What is the relationship between official exchange rate and economic growth in Nigeria?

Soludo (2003), stated that countries borrow for two broad categories, macro-economic reason (higher investment higher consumption i.e. education and health or to finance transitory balance of payment deficit to lower nominal interest rates abroad lack of domestic long term credit or to circumvent hand budget constraint. Thus that economy indulges in debt to boost economic growth and reduce poverty and do not suffer from macro-economic instability polices that distort economic incentive or sizeable adverse shocks. As a result of this, growth is likely to increase and allow for timely debt payment.

2.0 Literature Review

2.1 Introduction

The act of borrowing creates debts and this debt may be domestic or external. The focus of this paper is on external debt which refers to that part of a nation's debt that is owed to creditors outside the nation. Arnone *et al* (2005) defines external debt as that portion of a country's debt that is acquired from foreign sources such as foreign corporations, government or financial institutions. Acording to Ogbeifin, (2007), external debt arises as a result of the gap between domestic savings and investment. As the gap widens, debt accumulates and this makes the country to continually borrow increasing amounts in order to stay afloat.

Nigeria, like most other less developed countries (LOCS) has been classified by the World Bank among the severely indebted low income countries since 1992. The nation inability to meet all it debt service payment constitute one of the serious obstacles to the inflow of external resources into the economy. The accumulation of debt service arrears which is being compounded with penalty interest has not permitted reduction in the debt stock, despite the fact that government has been servicing it external debt annually.

2.2 Conceptual Framework

2.2.1 Concept and Nature of Loans

Technically, a loan could simply be described as borrowed funds. It is that part of the money used for financing by an individual, a business or the government which does not belong to the borrower. A loan could also be described as a debt, entailing the redistribution of financial asset over time, between the lender and the borrower. In a loan, the borrower initially receives or borrows money from the lender and is obligated to pay back to the lender at a later and appropriate time. The loan is given at a cost usually referred to as the interest. In a legal loan, the obligations are enforced by agreements or contracts. The money may be paid back in block, in regular installments or in partial installments (Adepoju, Salau & Obayelu, 2007:1).

Oyejide, Soyede, and Kayode, (1985:2) describes a loan as a resource or money in use which is not contributed by its owners and does not in any way belong to them. It is a liability represented by a financial instrument or other formal equivalent. The debt is regarded as that which one person legally owe to another or an obligation that is enforceable by legal action to make payment of money. When governments borrow, the debt becomes a public debt. The source for borrowing could be internal or external, when it is internal, that means the sources of borrowing are domestic and when it is external, the sources of borrowing is foreign. This paper focuses on external borrowing by the Nigerian government and its impact on the performance of the economy's real sector development.

Thus a foreign loan is described as a loan issued by a foreign government in the form of money, bonds or other certificates of debt. The term is also applicable to a loan obtainable in a foreign country permitting the borrower to draw against the loan with collaterals such as bonds, bills and stocks. In international economics relations, foreign loans are financial obligation that ties the debtor country to the lender country. It is called incurred debt that is payable in foreign currencies. It includes all short terms debts which mature between one and two years or whose payment would be settled within a fiscal year in which the transaction is conducted (Adepoju, Salau, and Obayelu, (2010:2).

External loans exclude grants and loans granted by friendly governments in their currencies but repayable in the borrower's currency. They are classified as reproductive debt and dead weight debt. A productive debt is a loan obtained to purchase or acquires some sort of assets while the dead weight debt is a loan obtained to finance goods services, war and expenses on current expenditures. External loans could be owed to creditors outside the country such as government, corporations or citizens of another country or international financial institutions.

2.2.2 Origin and Trend of External Loan and its Crises in Nigeria

The origin of external loans in Nigeria could be traced back to 1958 when the sum of US$28 million was contracted for railway construction. This was followed by a loan of twelve billion pounds (12m) in 1960 for revamping the economy. Thereafter, the level of external loans were minimal as loans contracted during the period were the concessional loans from bilateral and multilateral sources e.g. the Paris Club, the London Club etc, with longer repayment periods and lower interest rates. From 1978 following the collapse of oil prices which exerted considerable pressure on government finances, it became necessary to borrow for balance of payments support and project financing. This led to promulgation of Decree No. 30 of 1978, authorizing the Federal Government to raise external loans to a maximum of 5 billion (Kehinde & Awotundun, 2012).

Consequently, the first major borrowing which was (US$ 1.92 billion) referred to as the "Jumbo Loans" was contracted from the international Capital Market in 1978 increasing the total debt stock to US $ 2.2 billion. Thereafter, the spate of borrowing increased with the entry of state governments into external loan contractual obligations. The share of loan from bilateral and multilateral sources declined substantially while borrowing from the private sources increased considerably (Rieffel, 2005). The ownership structure indicated that a greater portion of about 75% of the loans accrue to Paris Club. However, Nigeria has continued to service that category of debt as at when due.

In 2013, the outstanding of Nigeria's external debt amounted to 8,614.40 billion. This huge external debt constitutes major impediment to the revitalization of Nigeria shattered economy as well as alleviating the country of poverty. Nigeria's debts crisis could be traced to economic policies concentration in the oil sector since the buoyancy of the oil market in early 1970s which resulted in an outright neglect of the non-oil sector of the economy especially agriculture. As a result of this, the oil sector provided over 90%

of government national revenue, so fluctuations that occurred in the oil market in 1978 and 1980s distorted the projected revenue estimates of the federal government.

Hence, the government had to borrow to fill the gaps created by the fluctuations and also meet the increasing expenditures. The debt situation was intensified by large public deficits caused by inefficient control over private capital out flows and over valuation of the exchange rate of naira to other world currencies etc.

2.2.3 Types and Sources of Foreign Loans

Just like domestic loans, foreign loans are classified into various groups based on their nature, purposes, arrangements and the way the loans are being settled. These loans are classified as trade arrears, balance of payment support loans, project tied loans, loans for socio-economic purposes, arrears of dues and levies and foreign bonds. Trade arrears arise from import of goods and services which are yet to be paid for. Balance of payments support loans are short or long term loans contracted by a country for the purpose of rectifying temporary or persistent unfavourable balance of payments position. Multilateral institutions undertaking bilateral arrangement such as the International Monetary Fund provide such loans. Project tied loans are foreign loans tied to government projects which are expected to be viable. They are self-liquidating since inflows from the project should be sufficient to repay the loans (Sanusi, 1997).

Loans for socio-economic purposes are basic infrastructure loans which are expected to move the economy forward in areas like education, health, electricity and rural development. These loans are usually soft in the sense that the interest charges are usually small and repayment period extended (http://www.investopedia.com/terms/external-debt.asp.) and (Okororie: 2007). Arrears of dues and levies to international organizations which the country is a member is consolidated to form part of the country’s external debt. A country could also float bonds that are designated in foreign currencies and traded in foreign capital market. These bonds could be converted to serve as means of settling the external loan of the issuing country.

The sources of foreign loans are the World Bank, the International Monetary Fund, and their affiliates such as the International Development Association, The International Finance Corporation, European Investment Bank and the International Fund for Agricultural Development. Other sources are the promissory note creditors, Paris Club of Creditors, and London Club of Creditors. Foreign Loans can also come in the form of trade, contract, finance credit supplies and private investments (Okororie, 2007; Nwoke, 1990, Kehinde & Awotundun, 2012).

2.3 Empirical Review

Amaeteng and Amoako-Adu (2002) the empirical study declared that there is a unidirectional and positive casual relationship between foreign debt service and GDP growth after excluding exports revenue growth for Africa and South of Saharan countries during 1983-1990. It is also argued that if foreign loan are converted into capital and other necessary inputs, development will occur. On the other hand, if borrowing countries misallocate resources or divert them to consumption, the economic development is negatively affected. This study employs the frame work of granger. In doing so, six measure of indebtedness were used as proxies for the multiple mechanisms. Arias (2002) showed a striking diversity of experience with growth episode and poverty changes. This became clear in the study carried out by him where it is seem that while some countries over some periods achieve a significant reduction in poverty as the economy grower others obtain much less appreciable progress. He then concluded that how growth reduces poverty depends on the pattern of growth as well as on the initial inequality of income and assets and its evolution over time.

Ocampo (2004) proclaimed that the external debt situation for number of low income countries, mostly in Africa has become extremely different. For there countries, even fill use of traditional mechanism of rescheduling and debt resection together with continued provision of confessional financing and purist of sound economic policies may not be sufficient to attain sustainable external debt levels within a reasonable period of time and without additional external support. Asley (2002) opined that high level of external debt in developing country negatively impact their trade capacities and performance. Debt overhang affects economic reforms and stable monetary policies, export promotion and a reduction in certain trade barrier that will make the economy more market friendly and enhances trade performance.

According to Nweke (1990) a correct analysis of external debt in a third world countries such as Nigeria must be replace in the content of the country's forceful integration into the western structural and dominated world capitalist economy as a peripheral appendage that provide natural resources and cheap lab our for the industrialization process in the west include lucrative markets for surplus of the advanced country's manufacturers and the advance countries get a very high cost of the manufactured product of the west.

Hasen (2001) examined the impact of aid and external debt in growth and investment. The regression result was suggestive of a series of interesting relationships. This is to say as a result of the explanatory regression there is quite strong evidence of positive impact of aid both on the growth rate in GDP per capital and the investment rate. In Tanzania according to Oxfam (1998), experience illustrated that the effects of debt of beyond finance to impact on the lives of vulnerable household. Give the limited domestic revenue available to government in Tanzania, the claims of foreign creditor reached alarming proportion while public sector external debt absorbs over 40 percent of domestic revenues.

3.0 Methodology

The objective of this paper is to examine the relationship between foreign loans and economic growth in Nigeria. A research design is a basic plan which guides the collection and analysis phase of the project work. It is the frame work that specifies the type of information to be collected and source of data. The research design adopted for this work is the experimental research design. The reason is that experimental research design combines the theoretical consideration with empirical observation. The model for this study was adopted from a simple open macroeconomic debt growth model employed by (Boboye and Ojo, 2012). The model is specified as follows:

RGDP = f (EDS, DSP, EXR)

Where:

RGDP = Real Gross Domestic Product

EDS = External Debt Stock

DSP = External Debt Service Payments

EXR = Official Exchange Rate

The model is specified of its stochastic form:

$RGDP = \alpha_0 + \alpha_1 EDS + \alpha_2 DSP + \alpha_3 EXR + \mu$………….. (1)

Where:

μ = Error term

The model is specified of its log-linear form:

$Log\ RGDP = \alpha_0 + \alpha_1 Log\ EDS + \alpha_2 Log\ DSP + EXR + \mu$

$\alpha_1, \alpha_2 < 0, \alpha_3 > 0$

Definition of Variables

Real Gross Domestic Product is a measure that reflects the value of goods and services produced in a given year. It is used to capture economic growth in this study because it is adjusted for inflation and as such provides a more accurate figure.

External Debt Stock is the amount at which the debt was contracted and it is used as a proxy for capturing external debt burden. The a priori expectation is a negative relationship between Real Gross Domestic Product and External Debt Stock i.e. the higher the external debt stock, the lower the economic growth.

External Debt Service Payments is the amount used in repaying the external debt. It is also used as a proxy for capturing external debt burden. The a priori expectation is a negative relationship between Real Gross Domestic Product and External Debt Service Payments i.e. the higher the debt service payments, the lower the economic growth.

Exchange rate is the price of a nation's currency in terms of another currency. It was included in the model because it is a macroeconomic indicator and it is also a monetary aggregate in the open economy. The a priori expectation is a positive relationship between Real Gross Domestic Product and Exchange Rate i.e. the higher the exchange rate, the higher the economic growth.

Real Gross Domestic Product (RGDP), External Debt Stock (EDS) and External Debt Service Payment (DSP) were logged due to the large nature of their values. Exchange Rate (EXR) was not logged because it is a rate.

This study makes use of secondary data covering a period of 25 years i.e. 1990 – 2015 gotten from World Bank Statistical Database (WDI, 2014). The econometric technique adopted in the estimation of the parameters in this model is the ordinary least square estimation technique. This method is used because the parameter estimates obtained from the OLS possesses some desirable properties such as efficiency, consistency and because of its unbiasedness. The OLS has been used on economic relationships, which has given a satisfactory result in the past. The computational software used for the specified model is the E-view (Econometric view).

4.0 Results and Discussions

4.1 Introduction

The result of the specific models presented, analysed based on the regression result obtained from E-view statistical package are interpreted in this chapter. The data collected from the empirical analysis are presented in the table and analysed. The model was regress using ordinary least square methods of statistical estimation from the sample period of 1981 – 2015. Thus, the econometrics interpretation of the result is discussed. The result obtained after the regression will be used to determine the relationship between the explanatory variable as well as to test the statistical significance of the estimate obtained.

The multiple linear regression model specify is estimated using OLS. The dependent variable in the model is real gross domestic product (RGDP) while the independent variables are Exchange Rate (EXR), External Debt Stock (EDS) and External Debt Service Payments (DSP) was included in the model.

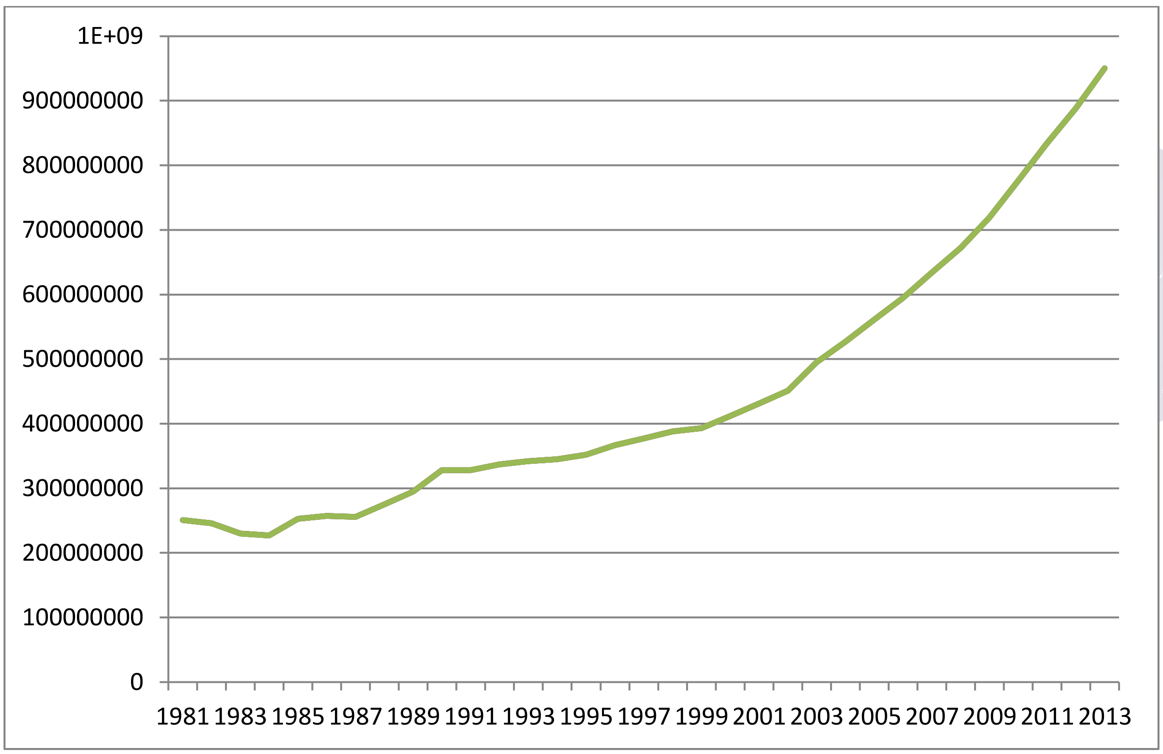
4.2 Data Presentation

YEAR	RGDP	EDS	DSP	EXR
1980	61946106738	89382060000	1150772000	0.546781
1981	53813895881	11445508000	1790651000	0.617708
1982	53247135431	11992472000	2090346000	0.673461
1983	50557914889	17576994000	2565377000	0.72441
1984	49535867646	17783310000	4067500000	0.766527
1985	53658653550	18655380000	4428669000	0.893774
1986	48961280054	22215776000	2050757000	1.754523
1987	43697110037	29024888000	1106408000	4.016037
1988	46992974187	29624122000	2210434000	4.536967
1989	50032099652	30121999000	2117490000	7.364735
1990	56419202083	33438924000	3335543000	8.038285
1991	56070615711	33527205000	2944753000	9.909492
1992	56313808189	29018714000	2414572000	17.29843
1993	57490979534	30735623000	1490998000	22.0654
1994	58014011386	33092286000	1871671000	21.996
1995	57835636304	34094442000	1832904000	21.89526
1996	60723777676	31414751000	2228630000	21.88443
1997	62425413646	28467541000	1415896000	21.88605
1998	64120663260	30313711000	1331989000	21.886
1999	64424747539	29368025000	1072055000	92.3381
2000	67850915773	31581804000	1854816000	101.6973
2001	70843863904	30031742000	2524307000	111.2313
2002	73525054912	29918232000	1476880000	120.5782
2003	81137974799	34136659000	1631344000	129.2224
2004	1.09E+11	36689358000	1710307000	132.888
2005	1.12E+11	20475927000	8807116000	131.2743
2006	1.21E+11	4065417000	6710138000	128.6517
2007	1.30E+11	3862818000	1010498000	125.8081
2008	1.38E+11	4143915000	429497000	118.546
2009	1.47E+11	6847795000	432345000	148.9017

2010	1.59E+11	7271144000	315097000	150.298
2011	1.70E+11	9008773000	373161000	154.7403
2012	1.81E+11	10076546000	302664000	156.8097
2013	1.83E+11	10779874600	344667210	166.8890
2014	1.84E+11	11341884500	399002800	186.3741
2015	-	-	-	-

Source: Central Bank of Nigeria CBN statistical Bulleting, CBN Annual Report and Statement of Account National Bureau of Statistics

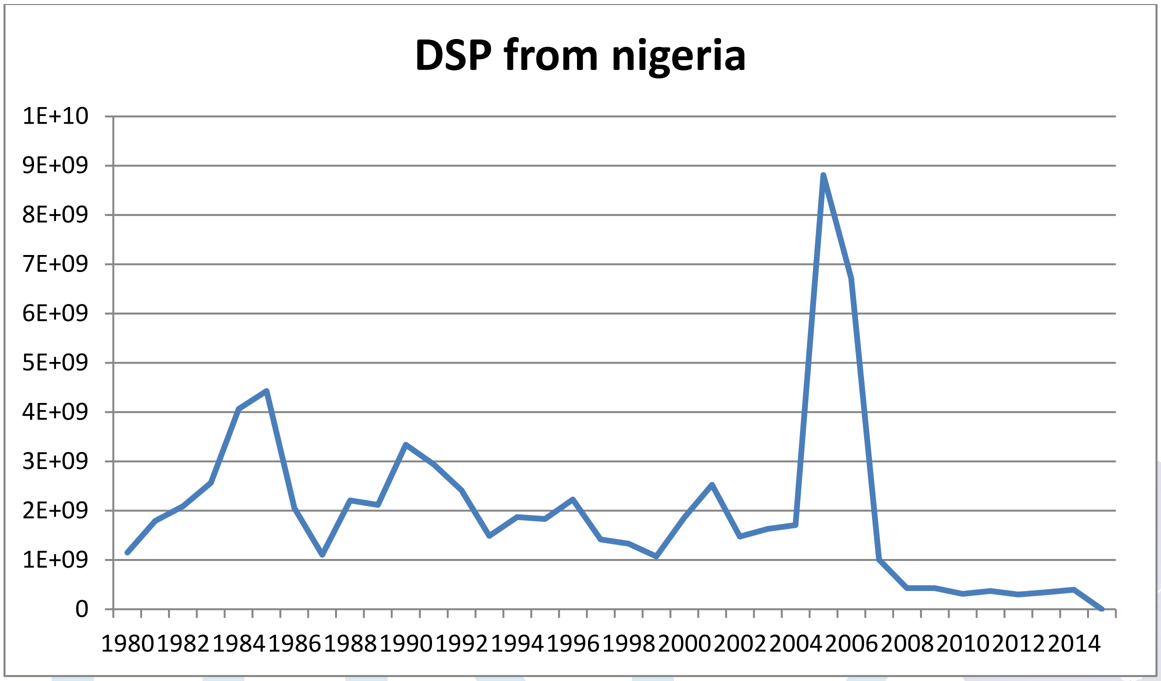
TRENDS IN GDP IN NIGERIA FROM 1980 TO 2012 MEASURED IN BILLIONS



Source: ***CBN statistical bulletin 2015***

The above chart shows the trends in the nations GDP from 1980 to 2012. The graph above shows that the Nigeria GDP has been appreciating over the years. From the chat above the GDP in dropped in 1982 and raised in 1983 between 1984and 1988 there was an unstable GDP the GDP was galloping it was not stable until 1989 when the nations GDP began to increase and till date, the GDP of Nigeria has been appreciating. This shows that there has been an improvement in the growth per - capita income in the country GDP over the years

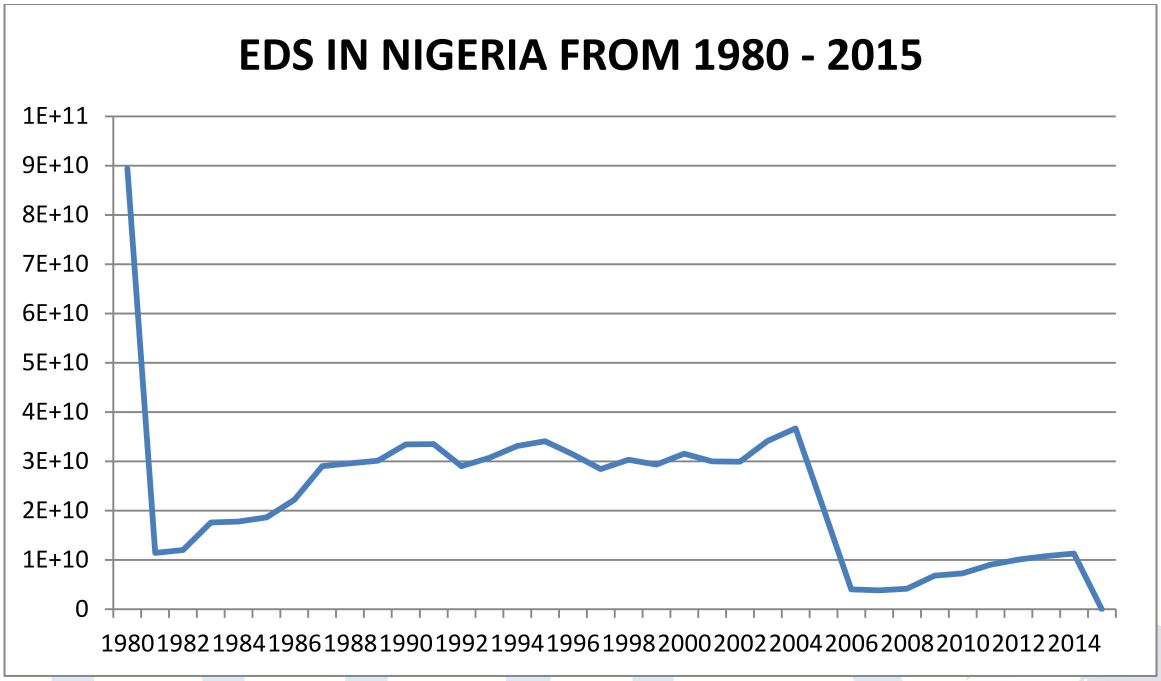
TRENDS OF EXTERNAL DEBT SERVICE PAYMENTS IN NIGERIA FROM 1980 TO 2015



Source: ***CBN statistical bulletin 2015***

The above graph shows the trends of External Debt Service Payments since 35 years ago (1980 – 2015) the above graph shows that the payment history has not been constant. From 1980 to 1985 there was a continuous and improvement in the payment in 1986 the payment dropped with about 7% and in 1987 it dropped with about 40% this may be due to the new government and inconsistence of the policy maker during that period. Between 1988 to 1990 there was continuous increase in payment and from that period till 2004 there has not been an improvement in the external debt service payment in the country. In year 2015, the payment shoot up with about 90% but it so unbelievable that in less than three years the payment dropped to about 10% and from 2008 till date there has not been any improvement in the external debt payment in Nigeria. It has been reducing due to several factors such as zero improvement in government policy, imbursement, high inflation rate, zero export rate and change in government among others.

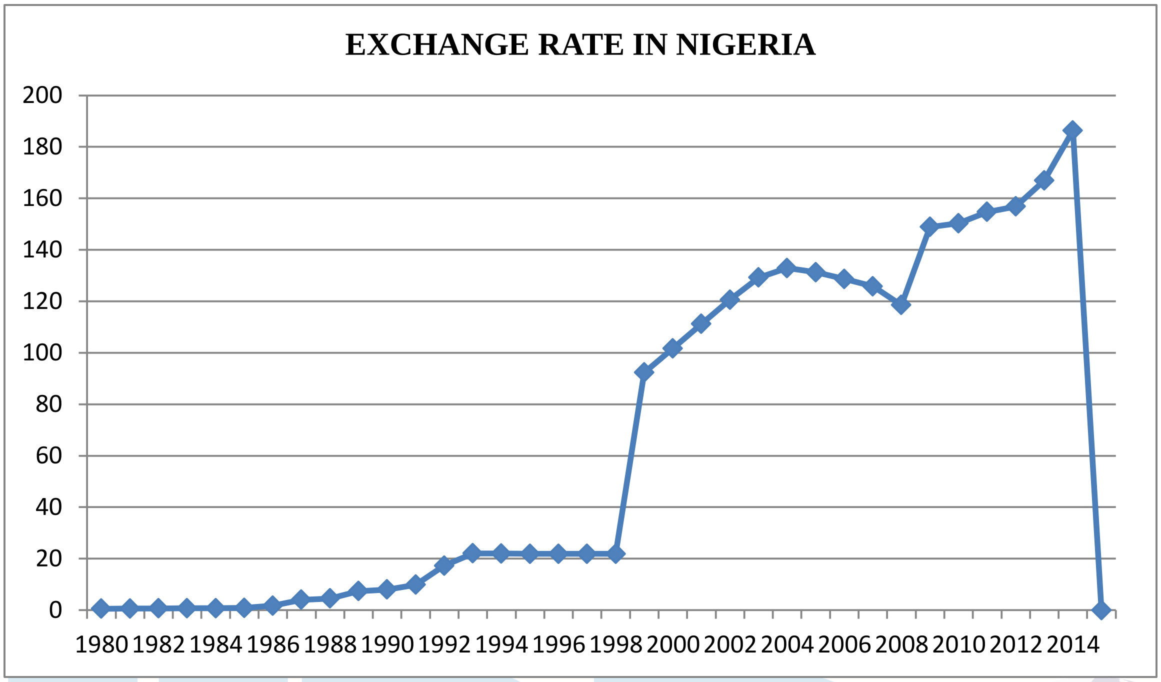
TRENDS OF EXTERNAL DEBT STOCK IN NIGERIA OVER THE YEARS



Source: ***CBN statistical bulletin 2015***

The graph above explains the trend in Nigerian External Debt Stock. The external debt stock in Nigeria has nothing good to write about. From the chart above, external debt stock there is a 90% fill with a year that is between 1980 to 1981 and ever since that period there has not been any significant increase in the external stock debt in the country. From 1982 to 2004, it has been inconsistence with about 20% to #0% increase in the debt. In 2006, there was a decline of about 24% and between that year and 2013 there was an increase of close to 10% in 2015. The graph shows that there was a total drop in the Nigerian external stock debt.

TRENDS IN NIGERIA EXCHANGE RATE FROM 1980 TO 2015



Source: ***CBN statistical bulletin 2015***

The graph above display the exchange rate in Nigeria form the past 35 years. The exchange rate in Nigeria over the years has been improving it has never for ones gone below zero. The exchange rate has always been positive on like that of underdeveloped countries which rang has never from for close to 10 years.from1980 to 1991 there has not been any significant growth in the exchange rate but from 1992 till date the exchange rate has been increasing this is a result of the several change in government the policy of the apex bank of Nigeria (CBN = central bank of Nigeria). The decline to zero in the graph in 2015 is as a result of not data imputed.

4.3 ORDINARY LEAST SQUARE RESULTS

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob**
C	8.86E+10	8.79E+09	10.07136	0.0000
EDS	-1.389848	0.269932	-5.148889	0.0000
DSP	-2.912591	1.556909	-1.870753	0.0708
EXR	5.12E+08	45589476	11.23660	0.0000

R-squared	0.892475
Adjusted R-squared	0.882069
Durbin-Watson stat	0.524978
F-statistic	85.76806
Prob(F-statistic)	0.000000

Note: RGDP: Dependent Variable

Significant at 5% level.

LOGGDP = B_0+ B_1LOGEDS + B_2LOGDSP + B_3LOGEXR + μ

LOGGDP = 8.86E+10+ **(**-1.389848EDS + 2.912591DSP) +5.12E+08EXR **+ μ**

ANALYSIS OF THE ORDINARY LEAST SQUARE RESULTS

The introduction of double logging helps in linearizing the specific model, the exponents of the explanatory variables becomes the coefficients; this therefore makes the coefficients of the explanatory variables a measure of the degree of responsiveness (elasticity) of the dependent variable to the change in the independent variables. The coefficients of the explanatory variables (DSP, EDP) which are the major focus in this study are the elasticity response of the dependent variable with respect to relative explanatory variables. Contrary to theoretical expectations (i.e. B_1>B_2>B_3>0), only the exchange rate had the correct sign; this however imply that the estimation is wrong or that our model is weak because only one of our variables comply with a priori expectation, as theoretical expectations may differ from practical realities due to structural inefficiencies, market imperfections or government interference in the interaction of market economy.

From the regression equation above, the value of the constant term (intercept) is 8.86E+10. This simply implies that if all the explanatory variables are held constant, the RGDP is 8.86E+10. Thus, this is the autonomous value of the gross domestic product. In the context of the computed elasticity (i.e. coefficients of the explanatory variables), the result suggested that, holding the effects of other variables constant. A unit change in the External Debt Stock (EDS) will cause an -1.389848 rise in the value of Gross Domestic Product (GDP) negatively. This means that when there is reduction in External Debt Stock with no frequent fluctuations, the GDP reacts negatively. This is because a increasing External Debt Stock will worsen state of the economy and it introduces great risks and uncertainties into the global economy as the it going to affect the EDS of the nation negatively.

A unit change in the External Debt Service Payments(DSP) will cause -2.912591 unit rise in value of gross domestic product (GDP) negatively.This means that as when government debt payment increases the GDP decreases, this will affected the growth and deveopmet of the economy. In other words, it will bring about unfavourable GDP either by expanding the production activity through government spending on project or by setting up of imports substitution which will all impact positively on the Gross Domestic Product. Also a unit change in Exchange Rate **(EXR)**. The result shows it has a positive relationship with GDP and it has a significant effect on GDP. The coefficient is positive and valued at 5.12E+08. This means a unit increase in this variable will bring about an increase in the country gross domestic product (GDP) and also increase in savings since large sum of money will be chasing fewer goods which will in turn leads to inflations.

DURBIN WATSON (TEST FOR AUTOCORRELATION)

The Durbin-Watson (D-W) statistics of 0.524978 connotes that the model has no serial auto-correlation problem. It is the relevant statistics for testing the assumption of non-autocorrelation random variable. The Durbin Watson statistics is denoted as (d) the significant point of d_L and d_u at 5% level of significance.

N =numbers of observation K = Numbers of parameter

d = calculated Durbin Watson

N=35, k=2, d = 0.524978

4.5 Discussion of Findings

The following are the findings from the study**.**

i. The result shows an inelastic relationship between Real Gross Domestic Product and External Debt Stock. A unit change in external debt will bring about a less than proportionate change in real gross domestic product.

ii. There is an inelastic relationship between Real Gross Domestic Product and External debt service Payments. A unit change in external debt service payments will bring about a less than proportionate change in real gross domestic product.

iii. There is a positive relationship between Real Gross Domestic Product and Exchange rate. A unit crease in exchange rate will bring about a 5.12E+08 increase in real gross domestic product.

5.0 Conclusion and Recommendations

The empirical analysis carried out revealed a significant long run relationship between real gross domestic product (RGDP) and exchange rate (EXR) while external debt service payments (DSP) and external debt stock (EDS) has an insignificant long run relationship with GDP. The result from the theoretical findings shows an inelastic relationship between Real Gross Domestic Product and External Debt Stock. A unit change in external debt will bring about a less than proportionate change in real gross domestic product also there is an inelastic relationship between Real Gross Domestic Product and External debt service Payments. A unit change in external debt service payments will bring about a less than proportionate change in real gross domestic product and that there is a positive relationship between Real Gross Domestic Product and Exchange rate. A unit crease in exchange rate will bring about a 5.12E+08 increase in real gross domestic product.

Based on the above findings, the following recommendations are given:

Firstly, external debts should be contracted solely for economic reasons and not for social or political reasons. This is to avoid accumulation of external debt stock overtime and prevent an obscuring of the motive behind external debt.

Secondly, the authorities responsible for managing Nigeria’s external debt should adequately keep track of the debt payment obligations and the debt should not be allowed to pass a maximum limit so as to avoid debt overhang.

Lastly the Nigerian government should promote exportation of domestic products as a high exchange rate will make our goods more attractive in the foreign market and will increase foreign exchange earnings.

References

Adebayo O.O. (1990): *Nigeria External Debt Crisis Its Management:* Malthouse Press Ltd, Lagos Pg 23-27

Adeusi and Dare (2001): *Financial Aspects of Development* Pg 51-52 Tomol Publisher

Afxention and Serletis, (1996): *Indebtedness Impacts on the Economic Activity of Developing Countries.*

Ajayi L.B., (2005): *Mathematics of Finance;* Abisco Press, Abuja Nigeria.

Ajayi, E.A. (1989): *Nigeria Debt Management Experience C.B.N of Nigeria Bullion* April/June 1987 Vol 13 No 2 Pg 25.

Amaeteng and Amoako A. (2002): *Unidirectional and Positive Causal Relationship between Foreign Debt service and GDP Growth.*

Anyanwu (1997): *The Structure of the Nigeria Economy.* Pg 631

Arias (2002): *Striking Diversily of Experience with Growth Episode and Poverty Changes*.

Ashinye J.O. and Onwiodulait E.A (1996): "Economic Growth and Foreign Debt: A Case Study of Nigeria" Central Bank of Nigeria, *Economic and Financial Review* Vol 34 (1) Pg 523-540

Asley (2002): *Argued that Debt Burden is not a Problem of Freely Resource to Debt Services Payment*

Bayo O. (2002): *Principle of International Finance.* Vol. 1 Pg 142-147. Forthright Educational Publishers (A Division of Forthright Consult Limited) Lagos Central Bank of Nigeria CBN (1998) *Economic and Financial Review* Volume 36 (March 1998) Pg 22-44 Central Bank of Nigeria (CBN) 2002, *Annual Reports and Statement of Accounts.* Central Bank of Nigeria (CBN) 2005, *Annual Reports and Statement of Accounts*.

*CBN Statistical Bulletin (*2013)*CBN Economic and Financial Review* Volume 36 (March 19980 Pg 22-44

Chowding (1994): *Argued that External Debt Burden Lead to Bad Management in Highly Indebted Countries such as Exchange Rate Mismanagement.*

Deshpande, A. (1990): *"The Debt Overhang and the Disincentive to Invest"* Journal of Development Economics Cutl 52-55, 159-187

Falegan, S.B. (1992): *"Nigeria External Debt Burden"* CBN Economic and Financial Review Vol 30, No 2 Foundation Publication Ibadan.

Hagen, Keleta, Ghebreyesus and Cadet (2004) Long-Run Implications of Alternative Fiscal Policies and the Burden of the National Debt", Economic Journal, 71 (284), pp. 730-755.

Hausmann and Fernandez-Arias (2000) "Origin and Growth of the National Debt in Western Europe", The American Economic Review, Vol. 37(2), Papers and Proceedings of the Fifty-ninth Annual Meeting of the American Economic Association, pp. 118-130.

Ibadan John U. (2002): *"Petroleum Revenue Management: The Nigeria Perspective"* A Paper Presented by Federal Commissioner, Revenue Mobilization, Allocation and Fiscal Commission at Washington D.C.

Iyoha M.A. (1997): *"An Econometric Study of Debt Overhang Debt Reduction, Investment and Economic Growth in Nigeria"* National Centre for Economic Management and Administration (NCEMA) Monograph Series No 8

Muhtar (2004): *Weak External Demand for Philippine Export is Dampening Growth* National Bureau of Statistic (2005): *Nigeria Statistic Fact Sheet on Economic Social and Development* Pg 31-32

Nurske R. (1953): *Problem of Capital Formation in Under Developed Countries, Oxford.* Oxford University Press.

Nweke C. (1990): *"The Origin and Dimension of Nigeria External Debt"* In Nigeria External Debt Crisis Its Management. Malthous Press Ltd, Pg 42-61

Ocampo (2004): *Utilized ordinary least Square for each of the Thirteen Less Developed Countries Over the Sample Period 1965-1990*

Ogbe N.E. (1992): "Evaluation of Nigeria's Debt Relief Experience (1985-1990)" Technical Paper No 55 *Organization for Economic Co-Operation and Development Paris.*

Ojo (1989): *No Exaggeration to Claim that Nigeria Huge External Debt* Onah, F.E. (1994): *"External Debt and Economic Growth African Debt Burden and Economic Development*" selected papers for the 1994 Annual Conference of the Nigeria Economic Society (NES), May, 1994

Oxfam (1998): *Problems Faced by the Tanzanian Government* Pattillo C., Ricci L. and Poirson H. (2001): *Non-linear Impact of External Debt Growth*

Pattillo C., Ricci L. and Poirson H. (2002): *"External Debt and Growth"* IMF Working Paper International Monetary Fund Washington DC.

Roll and Talbott (2000) Growth in a Time of Debt", NBER Working Paper No. 15639

Savvides, A. (1992): *"Investment Slowdown in Development Countries During the 1980s; Debt Overhang or Foreign Capital Inflow"* Kyklos Cilt 45 say; B SS 363-378

Smyth and Hsing (1995): *The Federal Government Debts Impact on Economic Growth*

Soludo C.C. (2003): "*Debt Poverty and Inequality"* in Okonjo-Iweala, Soludo and Mulitar (Eds), the Debt Trap in Nigeria, Africa World Press NJ, Pg 23-74

Soludo C.C. (2003): "*Debt Poverty and Inequality"* in Okonjo-Iweala, Soludo and Mulitar (Eds), the Debt Trap in Nigeria, Africa World Press NJ, Pg 23-74

Sulaiman (2004): *Conceptual Issue in Monetary and Fiscal Policies* Vol 1 Pg 96-104 Adeyemo Public House, Akure. Umar Yar'adua (Nov 26, 2007): *Financial Standard Africa's Re-Development Needs:* A Nigeria Perspective. Pg 69

Tandon (2002) "Economic Development, Eight Low Prize Edition, New Delhi: Pearson Education".

Villami & Asiedu, (2001) "Reconsidering the Fiscal Role of Government: The International Perspective", The American Economic Review, Vol. 87, No. 2, Papers and Proceedings of the Hundred and Fourth Annual Meeting of the American Economic Association, pp. 164-168.

Were, M. (2001). The Impact of external debt on economic growth in Kenya An empirical assessment *UNU-WIDER Research Paper, DP/01/116.*

World Bank Statistics (WDI 2013 & 2014).

Yesufu T.M. (1996): *The Nigeria Economy "Growth Without Development"* Benin Social Series for Africa University of Benin, Benin City, Pg 89-111.