AN INVESTIGATION INTO THE IMPACT OF DOMESTIC AND EXTERNAL DEBT ON ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

Successive governments in Nigeria have over the years continued to rely on borrowing (Domestic and External) to finance deficit spending. This has led to a persistent rise in the country's debt profile with its attendant implications on the growth and development aspirations of the country. The study thus examined the impact of domestic and external debt (public debt) on economic growth in Nigeria, covering the period 1970-2013. The study focused on determining the short and long run and also the causal relationship existing between public debt and economic growth in Nigeria. The estimation techniques employed is the Bound Testing technique, which none of the Nigerian Authors works reviewed employed as such this study fill the gap. Result of the regression analysis, revealed that domestic debt impacts negatively on economic growth, while external debt has a positive effect on economic growth in Nigeria. Also the result of the causality test showed a unidirectional causation from Domestic debt to GDP ratio to GDP growth rate, while no causation exist between External debt to GDP ratio and economic growth. The Study recommends that governments borrowing should be mainly for economic purposes, thus government should borrow to invest in the development of economic infrastructures particularly the power and transport sector. They should also channel loans to the development of the productive sectors like the manufacturing and agricultural sectors as they will yield adequate returns for debt repayment.

Key words: Bound Testing, Domestic debt, External Debt, GDP annual growth rate