



Gusau Journal of Accounting and Finance (GUJAF)

Vol. 5 Issue 2, October, 2024 ISSN: 2756-665X

A Publication of
Department of Accounting and Finance,
Faculty of Management and Social Sciences,
Federal University Gusau, Zamfara State -Nigeria

© Department of Accounting and Finance

Vol. 5 Issue 2
October, 2024
ISSN: 2756-665X

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Published and printed by:

Ahmadu Bello University Press Limited, Zaria
Kaduna State, Nigeria.

Tel: 08065949711, 069-879121

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IMPACT OF EXTERNAL DEBTS ON ECONOMIC GROWTH IN NIGERIA

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DOI: <https://doi.org/10.57233/gujaf.v5i2.15>

Abstract

The study examined the impact of external debts on economic growth in Nigeria. Annual time-series from 2001 to 2022, sourced from Central Bank of Nigeria, Nigerian Exchange Group and Securities Exchange Commission, are adopted. The data was subjected to linear regression analysis which was used to estimate the parameters of the model. The findings revealed that external debts services, debts services costs, and exchange rate fluctuations all have a negative relationship with economic growth. This highlights that higher burdens of external debt servicing and greater exchange rate volatility are associated with reduced economic growth. Thus, the study recommends that government should implement robust debt management strategies that prioritize sustainable debt levels and efficient servicing. The government should introduce policies aimed at stabilizing exchange rates to reduce volatility. Moreover, they diversify the economy, especially by promoting sectors less susceptible to external shock, to reduce dependence on external factors that could exacerbate debt and exchange rate vulnerabilities.

Keywords; External debts, economic growth, Nigeria

1.0 Introduction

Developing economy like Nigeria has been known to be deep in heavy and ever-increasing external debt. The advent of the nation's rising external debt can be traced back to the oil crisis of the 1970s. The oil price shocks, and excessive import reliance of that period instigated a rather unhealthy and chronic debt habit for the economy. Before to this occurrence, Nigeria had incurred some minor debts from World Bank in 1958 with a loan of 28 million dollars for railway construction and the Paris' Club debtor nations in 1964 from the Italian government, with a loan of USD13.1 million for the construction of the Niger dam. The first major borrowing of USD1 billion known as the Jumbo loan was in 1978 from the International Capital Market (Adesola, 2019). The nation's total public debt increased by 4.52% in the first three months of the year 2017 (Debt Management Office (DMO), 2017). Between the start of 2015 and December 2020, Nigeria's external debt has risen from USD9.7 billion to USD27 billion (Nigeria Bureau of Statistics, 2021; Central Bank of Nigeria, 2019).

To salvage the situations, the DMO was established in October 2000 to work in collaboration with CBN and Federal Ministry of Finance to manage Nigeria's debts. Substantive success was recorded in 2005, when the Paris Club group of creditors agreed to cancel 60% (USD18 billion) of the USD30.85 billion owed to it by Nigeria. This debt relief freed the nation from the yearly USD2.3 billion debt service burden, yet, these debts are still rising at the expense of the national income as Nigeria's public debt as at March 2018 is placed at N5.787trillion, reaching an all-time high of USD29.59168 million in the third quarter of 2018 before resting at USD27billion in 2019 (DMO, 2019; Trading Economics, 2021; Usim, 2018).

The escalating costs of servicing external debts can potentially strain the fiscal resources of the government, redirecting funds away from critical development projects. High debt servicing costs may lead to increased budgetary constraints, limiting the government's ability to implement growth-enhancing policies. The way Nigeria services its external debt obligations is crucial in determining the efficiency and sustainability of the debt portfolio. Challenges in meeting debt service obligations may result in increased dependence on further borrowing,

potentially leading to a debt trap with adverse consequences for economic growth (Yunus, 2020). The volatility of exchange rates can significantly impact on the cost of repaying external debts denominated in foreign currencies. Fluctuations in exchange rates may introduce uncertainty, affecting investor confidence and the overall stability of the economy (Yunus, 2020).

Also, those who argue that external debt has positive effect on the economy do that from the standpoint that external debt will increase capital inflow and when used for productive ventures, accelerates the pace of economic growth. The capital inflow may be associated with managerial know-how, technology, technical expertise as well as access to foreign market. The above agrees with the views of the Keynesian theory of capital accumulation as a catalyst for economic growth. However, external debt may pose negative effect on investment through debt overhang and credit-rationing problem (Nwannebuike et al., 2016). This study seeks to delve into the intricate relationship between external debts and economic growth in Nigeria, with a specific focus on the influencing factors of debt servicing costs, and external debt service.

Moreso, the volatility of exchange rates introduces a layer of uncertainty that can significantly affect the cost of repaying external debts denominated in foreign currencies. Nigeria's external debt is often denominated in major global currencies, and fluctuations in exchange rates can lead to unpredictable changes in the debt repayment burden. The potential depreciation of the local currency vis-à-vis the currencies in which the debts are denominated may escalate the cost of debt servicing. Exchange rate fluctuations not only impact the financial burden on the government but also influence investor confidence and overall economic stability. Understanding the implications of exchange rate volatility on debt repayment is imperative for gauging the resilience of Nigeria's economy in the face of external shocks and maintaining a stable and sustainable external debt position.

For Nigeria, the constant balance of payment deficit has not allowed for capital inflow which will bring about growth and development; given the fact that foreign exchange earnings needed to finance this investment is insufficient. External borrowing may be the only means of gaining access to the resources needed to achieve rapid economic growth. Despite the seeming justification to borrow externally, it is soon discovered to become a perpetual lifeline burden, consequently engendering severe. The increasing fiscal deficits driven by the higher level of external debt servicing is a major threat to growth of the nation. The resultant effect of large accumulation of debt exposes the nation to high debt burden. Nigeria is about the richest on the continent of Africa, yet due to the numerous macro-economic problems, such as inflation, unemployment, sole dependency on crude oil as a major source of revenue, corruption and mounting external debt and debt service payment, majority of her citizen fall below the poverty line (Sulaiman & Azeez, 2016). These burdens of debt on indebted countries have the tendency of channeling funds to debt servicing, instead of allocating resources to crucial developmental projects (Paul, 2017).

The study seeks two specific objectives. The first examines the impact of debt servicing costs on economic growth in Nigeria and the second evaluates the effect of external debt service on economic growth in Nigeria. Hence, we examine two hypotheses. First is that we assume that debt servicing costs do not have significant impact on economic growth in Nigeria. And the second, is that we assume that no significant effect between external debt service and economic growth in Nigeria.

2.0 Empirical Review

Several literatures have offered positions on the subject matter. Paul (2017) analyzed the impact of external debt on economic growth of Nigeria and reveals that debt service payment has negative and insignificant impact on Nigeria's economic growth while external debt stock has positive and significant effect on Nigeria's growth index. The ADF unit root test shows that all the variables are not stationary at levels but at first difference. The Johansen cointegration test shows long-run relationship between external debt and growth index (GDP). The causality test indicates unidirectional causality between external debt and GDP.

Panagiotis (2018) investigates the nexus between economic growth in Greece and several factors (investment, private and government consumption, trade openness, population growth and government debt), where imbalances persist several years after the financial crisis. The results reveal a long-run relationship between variables. Investment as private and government consumption and trade openness have positive effect on growth. There is a negative long-run effect of government debt and population growth on growth. Swami and Ishan (2018) analyzed the impact of external debt on India's economic growth covering a period spanning from 1991-92 to 2015-16. The results indicated a negative relationship between GDP (Economic growth) and External debt. Based on the findings of the study, it was suggested that the external loans should be utilized for productive investments, as it would contribute to economic growth in the short run, but beyond a certain limit, it would hinder the growth of India.

Guei (2019) has investigated linkage between external debt and economic growth in emerging economies using panel of 13 emerging during 1990–2016. He concluded that the effect of external debt in the long run is not robust in the sample countries. However, this was not found in the short run as the negative and significant relationship between the two variables was found. Sima and Mohammad (2019) examined the impact of external debt on economic growth in Bangladesh within a broader macroeconomic scenario; In the process of doing so, it assesses the empirical integration, long-run and short-run dynamics of the concerned variables for the period of 1980–2017 applying the autoregressive distributed lag (ARDL) bounds testing approach to co-integration. First, debt-gross domestic product linkage explores the impact of external debt impact on economic growth using a set of macro and country risk variables, and then this linkage is also analyzed along with a newly formed macroeconomic policy (MEP) variable using principal component analysis; The study results reveal the negative impact of external debt on GDP growth, but the larger positive impact of MEP index indicates that this adverse effect of debt can be mitigated or even nullified by sound MEP and appropriate human resource policy.

Getinet and Ersumo (2020) analyzed the impacts of public external debt on economic growth in Ethiopia with ARDL approach using a time series annual data from 1983-2018. The model considers annual GDP growth rate as a dependent variable. The debt variables including public external debt stock to GDP (PEDSGD), the ratio of debt service stock to GDP (DSSGD) and debt service stock to export (DSSEXP) and other macroeconomic variables such as trade openness (TRD), rate of inflation (INFL) and public expenditure to GDP ratio (NEXPGD) were the explanatory variables. The study used bound testing for co-integration in the long-run and ECM for short-run dynamics. The study showed long-run co-integration, while the speed with which the disequilibrium caused by lack of proper management of external fund in earlier years returns to long-term equilibrium is 60.96% in the current year as indicated by coefficient of error correction term. Muhammad, Zhang and Ahmed (2020) examined the impact of total

external debt, public external debt, and private external debt on the economic growth of Asian developing and transition economies from 1995 to 2019. We applied the fixed effect model with two robust estimators of the feasible generalized least square estimator-FGLS and Driscoll-Kraay standard error-DSKE estimator to address the cross-sectional dependence, heteroscedasticity, and autocorrelation. The findings of the effect model, FGLS, and DSKE estimators show that the total external debt has a significant and positive impact on economic growth. In contrast, public external debt and private external debt harm economic growth in selected countries.

Qureshi and Liaqat (2020) investigated the long-term consequences of external debt on economic growth using panel vector auto regression using 123 countries across the globe for the panel data from the period 1990 to 2015. The sample countries included in the study were based on level of their income. Their study found that there is positive relationship between external debt and economic growth in the lower- and middle-income countries while the overall external debt effect was found to have negative relationship on economic growth of the country. This shows that the effect of external debt on economic growth varies based on level of the countries. Mumba and Li (2020) examined the link between external debt and economic growth using panel data for 28 emerging countries in Asia. Their study employed panel fixed and random effect through panel integration during 1995–2019 that covers 25 years. They conclude that the effect of debt differs based on the time ranges which policy was implemented. They found that the external debt positively influences economic growth in short run while it has negative impact in the long run.

Bashir Jama (2021) investigated the effect of external debt on economic growth of East African countries using ARDL bound testing approach during the study period 2011–2019. It was concluded that there is no empirical result that detect relationship between external debt and economic growth in the long run in East African countries for the period under investigations. The result from the fixed effect model, however, shows the presence of negative and significant relationship between the two variables which mainly resulted from improper debt management in the countries. Ajuh et al. (2021) investigated the impact of external debt on economic growth in Nigeria from 1985 to 2018 using vector autoregressive (VAR) approach. The empirical results revealed that both external debt stock and external debt service exerted a negative and significant impact on economic growth. These outcomes meant that when external debt stock changed by one-unit, economic growth declined by 0.495 unit. When external debt services changed by one-unit, economic growth declined by 0.017 units. Timothy and Maria (2021) critically examined the impact of external debt on economic growth in Nigeria by examining the causality between external debt stock and economic growth in Nigeria and identify the impact of external debt servicing on economic growth in Nigeria. The result showed that external debt has negative and insignificant impact on economic growth in Nigeria.

Bakarr-Tarawalie and Jalloh (2021) examined the nexus between external debt and economic growth for ECOWAS member states using panel co-integration. Utilizing the panel data from the period 2000 to 2019, their study revealed that there is nonlinear relationship between external debt of the member states and real GDP of the sample nations. However, it is found that the effect of external debt is below threshing hold (111%), implying the nonlinear relationship between the variables. Epaphra and Mesiet (2021) examined the linkage between external debt and economic growth for a panel of 45 African countries from the study period 1990–2017. From Fixed Effects (FE) and Random Effects (RE) techniques of estimation, it was found that the effect of external debt on economic growth is based on the level of

magnitude of the debt to GDP ratio. They found that low level debt to GDP ratio has positive effect on economic growth in African. This was not the case for the considerably high level of external debt during the study period.

Idah and Desy (2022) assessed the impact of external debt, exports, FDI and exchange rate on the economic growth of seven South Asian developing countries including India from 2005-2019 using panel repression method. The results revealed that external debt, exports and FDI had a positive impact on economic growth, while exchange negatively affected economic growth in these countries. The research recommended that the external funds should be directed towards profitable channels and these countries should adopt appropriate debt management policies. Lau (2022) studied the effect of external debt on economic growth of developing countries in Asia using panel data for 16 selected countries in the region for the study period 1980–2016. From the panel data analysis, they found that external debt has negative and significant impact on growth in most of Asian developing countries. The implication of the study was that fiscal discipline that targets appropriate debt to GDP ratio is very crucial to bring sustainable development in the region. James (2022) investigated the effect of external debt on economic growth of Nigeria with the main objective of whether debt overhang happens to the economy between study periods 1977–2019 employing econometric estimation technique dubbed as vector error correction model. The result of their study revealed that there is negative and significant effect of external debt on economic growth of Nigeria during the study time. This implies that there is an implication of debt overhang in the country. Further, they have found that the long run effect of debt burden reduces the economy of Nigeria by 2.2 percent.

Amanda and. Indumati (2023) investigated the impact of external debt on India's economic growth from 1990-1991 to 2022-2023. The Johansen Co-integration results revealed a long-run relationship between the variables and the results of the Vector error correction showed that the dependent variable returns to the path of equilibrium at the speed of 18.61% in the long-run. The Granger causality results revealed that there was only a unidirectional relationship between economic growth and total external debt. Sonia Afrin (2023) explored the relationship between external debt and economic growth in five South Asian countries, i.e., India, Bangladesh, Sri Lanka, Pakistan and Bhutan from 1980 to 2020. The studies also included variables such as FDI, capital formation and population. The test results indicated that external debt affects economic growth negatively in the long and short run. Among the other variables, FDI affects economic growth negatively, whereas the effects of capital formation and population on economic growth are found to be insignificant in the long and short run.

Theoretical Framework

This study is theoretically anchored on Debt overhang theory. The debt overhang theory suggests that if a country is highly indebted to the extent that the debt is more than its repayment capacity, debt service will strangle investments and hinder economic growth (Gordon & Cosim, 2018). Debt overhang is a circumstance where the debt burden is so huge that a country cannot secure further debts to finance new project. This theory occurs when a country has accumulated a high level of debt that it becomes a burden on its economic performance. In this situation, the country may find it challenging to grow at an optimal rate because a significant portion of its resources is dedicated to servicing the debt, leaving fewer resources for productive investments.

The debt overhang theory was propounded by Howard in 1972. The debt overhang theory suggests that if a country is highly indebted to the extent that the debt is more than its repayment

capacity, debt service will strangle investments and hinder economic growth (Gordon & Cosim, 2018). Debt overhang is a circumstance where the debt burden is so huge that a country cannot secure further debts to finance new project. Coccia (2017) stated that the theory posits that public debt and public debt servicing impact economic growth by making debt repayment priority rather than other expenditure. Excessive public borrowing has a dual effect to the domestic economy. The first is crowding out effect and also hike in increase interest rate. High interest payment obligation can raise a country's budget shortfall. Huge debt service will hamper growth by reducing the public resources productive spending to stimulate growth (Yusuf & Mohammed, 2021)

Nigeria has experienced fluctuations in external debt levels over the years. High external debt can lead to debt servicing commitments, diverting resources away from critical areas such as infrastructure, education, and healthcare. If the debt burden is too high, it can impede economic growth. The theory emphasizes that high debt servicing costs can crowd out essential public spending. When a considerable portion of government revenue is allocated to paying off debt, there is less room for investments that contribute to economic growth. Excessive debt can discourage private and public investments. If investors anticipate higher future taxes to service the debt, they might reduce their current investment, which negatively affects productivity and economic growth. The theory suggests that, in some cases, debt restructuring or forgiveness may be necessary to alleviate the burden. Negotiating more favorable terms with creditors can free up resources for domestic investment. Governments are encouraged to borrow responsibly, ensuring that borrowed funds are used for projects with high economic returns. This helps in justifying the debt and enhancing the economy's capacity to service it.

Model and Data

Based on the theoretical framework, we adopt a model which modifies Ajuh (2021)'s formulations, as given by equation (1).

$$RGDP_t = \beta_0 + \beta_1 EDS_t + \beta_2 DSC_t + \beta_3 ERF_t + U_t$$

Where, RGDP = real gross domestic product, EDS = external debt service, DSC= Debt Servicing Costs, ERF = Exchange Rate Fluctuations (Control variable), μ =Stochastic Disturbance (Error Term), t = time series data, β_0 = Intercept of relationship in the model/constant, $\beta_1 - \beta_4$ = coefficients of each of the independent variables.

The analysis involves several steps, including data preprocessing, exploratory data analysis, model fitting, and evaluation. Descriptive statistics are used to summarize the key characteristics of the time series data. Inferential statistics, specifically time series modelling techniques, are employed to assess the relationships and dynamics within the data. Prior to conducting regression analysis, pre-regression tests such as tests for autocorrelation and stationary are performed to ensure the validity of the modelling approach. Secondary data was collected on each of the above stated variables, covering the period of 2001 to 2022. The choice of this period is to make room for a broad coverage of the external debt indicators, as well as the investigation of both the short run and long run relationship between external debts and economic growth in Nigeria. These annual data series were collected majorly from CBN Statistical Bulletin, Debt management office (DMO), CBN Annual Report and Statement of Accounts, and SEC Market Bulletins.

4.0 Results

The summary statistics is presented in Table 1. The mean value for RGDP is 4.341, indicating that, on average, the economy grew at a rate of 4.34% over the observed period. The standard deviation of 4.081 suggests significant variability in economic growth rates, with the minimum and maximum values ranging from -2.035 to 15.329. This wide range demonstrates periods of both economic contraction and substantial growth. For EDS, the mean is 2.254, meaning that external debt services averaged 2.25% of the relevant metric. The standard deviation of 1.466 indicates moderate variability, with values spanning from -1.661 to 4.648. This range includes negative values, suggesting instances where debt services were either minimal or possibly offset by other factors.

Debt service cost has a mean of 28.128, indicating the average cost of servicing debt. The standard deviation is relatively high at 11.532, reflecting significant fluctuations in debt servicing costs, with values ranging from 14.168 to 53.122. This suggests that debt servicing costs can vary widely from year to year. Lastly, ERF has a mean of 108.0664, showing that, on average, the exchange rate fluctuated around 108 units. The standard deviation is 50.153, highlighting considerable volatility in exchange rates, with the minimum and maximum values ranging from 49.735 to 272.93. This large range indicates periods of both relatively stable and highly volatile exchange rate movements. The statistics reveal notable variability across all four economic variables, indicating dynamic and sometimes unpredictable economic conditions.

Table 1: Summary statistics

Variable	Mean	Std. Dev.	Minimum	Maximum
RGDP	4.342	4.0816	-2.035	15.329
EDS	2.254	1.466	-1.661	4.6488
DSC	28.128	11.532	14.168	53.122
ERF	108.066	50.153	49.735	272.930

Note: RGDP stands for Realm Gross Domestic Product, EDS represents External Debts Services, DSC stands for Debts Services Cost and ERF represents Exchange Rate Fluctuations.

Source: Author's Computation, 2024

The correlation table presented in Table 2 illustrates the relationships between the dependent and independent variables of the research. Starting with Real Gross Domestic Product, it has a perfect correlation with itself, as expected, with a value of 1.0. The correlation between Real Gross Domestic Product and External Debts Services is -0.003, which is very close to zero, indicating almost no linear relationship between economic growth and external debt services. The p-value of 0.984 suggests that this correlation is not statistically significant. Real Gross Domestic Product and Debts Services Costs show a correlation of -0.158. This negative correlation implies a weak inverse relationship, where higher debt servicing costs are slightly associated with lower economic growth. However, with a p-value of 0.394, this relationship is not statistically significant, indicating that debt servicing costs do not have a meaningful impact on Real Gross Domestic Product in this dataset. The correlation between Real Gross Domestic Product and ERF is -0.197, suggesting a weak negative relationship. This implies that greater exchange rate fluctuations are somewhat associated with lower economic growth. Nonetheless, the p-value of 0.285 shows that this correlation is also not statistically significant.

Moving to external debts services, it shows a perfect correlation of 1.0 with itself. The correlation between external debts services and debts services Costs is 0.199, indicating a weak positive relationship. This means that higher external debt services are slightly associated with higher debt servicing costs. However, the p-value of 0.281 indicates that this relationship is not statistically significant. External Debts Services and Exchange Rate Fluctuations have a correlation of -0.039, which is very close to zero, suggesting almost no linear relationship between external debt services and exchange rate fluctuations. The p-value of 0.832 confirms that this correlation is not statistically significant. Debts services costs, which have a perfect correlation of 1.0 with itself, show a correlation of 0.023 with exchange rate fluctuations. This near-zero correlation indicates almost no linear relationship between debt servicing costs and exchange rate fluctuations. The p-value of 0.900 reinforces that this relationship is not statistically significant. Overall, the correlation matrix reveals that none of the variables - RGDP, EDS, DSC and ERF - show significant relationships. Each correlation is accompanied by a high p-value, indicating that any observed correlations are due to random chance rather than any meaningful economic relationship.

Table 2: *Correlation Matrix*

Variable	RGDP	EDS	DSC	ERF
RGDP	1.0			
EDS	-0.003 (0.984)	1.0		
DSC	-0.158 (0.394)	0.199 (0.281)	1.0	
ERF	-0.197 (0.285)	-0.039 (0.832)	0.023 (0.900)	1.0

Note: RGDP stands for Realm Gross Domestic Product, EDS represents External Debts Services, DSC stands for Debts Services Cost and ERF represents Exchange Rate Fluctuations.

Source: Author’s Computation, 2024

The unit root analysis examines the stationarity level of the variables employed in the study. Presented in Table.3 is a test for the presence of unit root in each of the variables used in the model. Unit Root Test is a test to ascertain if the variables used in this model are stationary or non-stationary series. The unit root tests are conducted in this study following the Augmented Dickey-Fuller (ADF) procedure. The ADF results reveal that all variables of the research are stationary after at level. This is indicated by each of the p-values of other variables being less than 0.05 and each of their ADF test statistics being less than the 5% critical value and the p-values. Therefore, this result suggests that only combination of level (I(O)) variables occurred in this study. The implication of this result is that Ordinary Least Squares (OLS) method to estimation techniques will be used to examine the impact of external dents on economic growth in Nigeria.

Table 3: Unit Root Testing

Variable	Level Series		Order of Integration
	t-statistic	p-value	
RGDP	-3.258	0.026	I(O)
EDS	-0.666	0.099	I(O)
DSC	-1.838	0.055	I(O)

ERF	-2.515	0.021	I(O)
RGDP	-1.319	0.007	I(O)

Note: RGDP stands for Realm Gross Domestic Product, EDS represents External Debts Services, DSC stands for Debts Services Cost and ERF represents Exchange Rate Fluctuations.

Source: Author's Computation, 2024

The regression analysis provides insights into the effect of debts on economic growth. The coefficient for external debts services (EDS) is -0.256090, indicating a negative relationship with economic growth. This suggests that an increase in EDS leads to a reduction in economic growth. The p-value for EDS is 0.0420, indicating that this relationship is statistically significant at the 5% level, suggesting a high level of confidence in this negative association. Debts services cost (DSC) has a coefficient of -0.429029, which also shows a negative relationship with economic growth. This implies that higher costs associated with servicing debt correspond to lower economic growth. The p-value for DSC is 0.0609, suggesting that this relationship is statistically significant at the 10% level, indicating moderate confidence in the observed effect.

Exchange rate fluctuations (ERF) have a coefficient of -0.393782, signifying a negative impact on economic growth. An increase in ERF is associated with a decrease in economic growth. The p-value for ERF is 0.0313, which shows that this relationship is statistically significant at the 5% level, underscoring a significant negative effect of exchange rate fluctuations on economic growth. The R-squared value of 0.931 suggests that 93.1% of the variation in economic growth can be explained by the independent variables in the model. The F-statistic of 19.56, with a p-value of 0.000, indicates that the overall model is statistically significant and provides a good fit to the data.

Diagnostic tests indicate that the regression model does not suffer from significant issues. The Breusch-Godfrey LM Test for autocorrelation shows a value of 3.436 with a p-value of 0.169, indicating no significant autocorrelation in the residuals. The heteroskedasticity test results in a value of 0.896 with a p-value of 0.606, suggesting no significant heteroskedasticity. The Jarque-Bera normality test yields a value of 1.222 with a p-value of 0.542, indicating that the residuals are normally distributed.

The regression analysis reveals a clear negative relationship between external debt services and economic growth. As debt servicing costs increase, economic growth tends to decline. This observation is supported by empirical studies such as those by James (2022) and Adamu et al. (2018), which show that high debt servicing costs have a detrimental impact on economic growth in Nigeria. These findings suggest the presence of a debt overhang effect, where the burden of repaying debt outweighs potential growth benefits. Furthermore, the analysis also indicates that exchange rate fluctuations negatively affect economic growth. This is consistent with studies by Lau (2022) and Mumba and Li (2020), who highlight that instability in exchange rates can significantly hinder economic performance in developing countries.

Maintaining exchange rate stability is therefore crucial for fostering a conducive environment for growth. The combined findings align with broader empirical evidence that while external debt can provide essential capital for development, its benefits depend heavily on effective debt management and the productive use of borrowed funds. For instance, Nur Hayati and Abd Rahman (2021) illustrate that external debt can be beneficial when used for health care and social security, but only if managed within sustainable limits. Conversely, studies like those by

Qureshi and Liaqat (2020) and Epaphra and Mesiet (2021) highlight the risks of excessive borrowing and poor debt management, which can lead to negative economic outcomes. The analysis supports the empirical evidence that external debt, particularly when coupled with high servicing costs and exchange rate instability, negatively impacts economic growth. This underscores the importance of prudent debt management, stable exchange rates, and ensuring that borrowed funds are allocated towards investments that promote long-term economic growth.

Table 4: Regression Model for Economic Growth

Variable	Coefficient	Std. Error	t-Statistic	p-value
Short-Run Estimates				
EDS	-0.256	0.121	-2.117	0.042
DSC	-0.429	0.192	2.230	0.060
ERF	-0.393	0.133	-2.952	0.031
C	0.017	0.007	2.434	0.045
R-squared	0.931			
F-statistic	19.56			0.000
Breusch-Godfrey LM Test	3.436			0.169
Heteroskedasticity Test	0.896			0.606
Jarque-Bera Normality test	1.222			0.542

Note: RGDP stands for Realm Gross Domestic Product, EDS represents External Debts Services, DSC stands for Debts Services Cost and ERF represents Exchange Rate Fluctuations.

Source: Author’s Computation, 2024

5.0 Conclusions

The findings evidently show that managing external debt dynamics, debt servicing costs, and exchange rate fluctuations is crucial for fostering sustainable economic growth. Higher burdens of external debt servicing and greater exchange rate volatility are associated with reduced economic growth. This suggests that policymakers should prioritize strategies that aim to stabilize external debt levels and minimize the variability of exchange rates to support robust and stable economic expansion. They can enhance economic resilience and create conditions conducive to sustained long-term growth.

According to the findings, we offer useful suggestions that policymakers must implement to mitigate risks associated with external debt, enhance economic stability, and foster sustainable long-term economic growth. First, the government should enhance debt management strategies. There should be implementation of robust debt management strategies that prioritize sustainable debt levels and efficient servicing. This includes monitoring and managing external debt burdens effectively to mitigate their adverse impacts on economic growth. Second, policy makers should implement measures aimed at stabilizing exchange rates to reduce volatility. Measures such as enhancing foreign exchange reserves and implementing effective monetary policies can help in achieving this stability. Third, the government should implement diversified economic resilience measures. Diversifying the economy will reduce dependence on external factors that could exacerbate debt and exchange rate vulnerabilities. This involves promoting sectors less susceptible to external shocks and fostering innovation and competitiveness.

Although the study identifies these significant relationships, it underscores the complexity of economic interactions. This complexity necessitates a nuanced approach to policymaking must

consider broader economic contexts. Hence, future research could further explore additional economic factors and their interactions to refine policy recommendations and enhance economic management strategies.

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