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Nigeria's Domestic Debt Profile (1980 – 2017)

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Abstract
The study examined the Nigerian domestic debt profile between 1980 and 2017 with the use of Pooled OLS regression technique. The result indicates that holdings of Federal Government's domestic debt outstanding in the economy portends a serious fiscal crisis if the government does access greater domestic debt from the entire Banking system in Nigeria which is seen as being relatively manageable for the economy. The Nigerian is in dire need to carefully re-examine her borrowing culture locally in order to forestall fiscal crisis.
Keywords: Domestic debt, fiscal crisis, banks, loan, funds.

Introduction

Background to the Study

Government's intervention in the allocation of resources through the provision of public goods and services is as a result of failure of the market to allocate resources efficiently. In order to effectively carry out this function, the government has to incur some expenditure. Nigeria, like many developing economies, is indeed faced by increasing government expenditures without corresponding increase in government revenues. This has resulted in the need for government borrowing. Government borrowing becomes imperative when the conventional revenue sources (tax and non-tax) are inadequate to finance government expenditures. Borrowing is needed by the government to finance fiscal deficit in order to boost domestic investment and hence accelerate economic growth and development.

Oshadami (2006) defined domestic debts as "debts instrument issued by the Federal government and denominated in local currency". Similarly, Adafu and Abula, (2010) submitted that "subnational governments can also issue debt instrument, but debt instrument currently in issue in Nigeria today is made up of Nigerian treasury bills, Federal government development stocks and treasury bonds. Among these, treasury bills and development stocks are marketable and negotiable, while on treasury bonds, advances are not marketable but held solely by the Central Bank of Nigeria."

Nigeria, like other developing countries of the world, is characterized by low domestic capital formation due to low level of productive resources, low income and low savings. Nigeria's domestic debt has been on increase occasioned by continuous rise in the nation's fiscal deficit. For instance, Nigerian domestic debt increased by 3.9% from ₦15.04trn ($49.14bn) as at 30th June, 2017 to ₦15.63trn ($51.13bn) at the end of the second quarter of 2018. (DMO, 2018).

The unimaginable rise in the domestic debt outstanding has attracted exclusive attentions from the public this generated serious concerns about fiscal sustainability of the current economic policy. These concerns have also been compounded by those related to the short life span of the debt instrument since the Central Bank of Nigeria (CBN) still remains the dominant holder of Federal government domestic debt instrument. There are also other sources of domestic debt available to government apart from the CBN and they include Commercial Banks, Merchant Banks, Total Banking System and Non-Bank Public. These sources are indeed germane for fiscal sustainability of the economy.

Economic development in developing countries can only be enhanced by bridging the domestic resources gap. It is then imperative for Federal government to resort to domestic borrowing provided that the proceeds will be ventured into a productive channel that will facilitate its eventual servicing and liquidation as well. The debt in this wise is an injection into the economy and is greatly encouraged. But it is indeed apparent that excessive government borrowings can crowd out investment and the resultant effect portends a drastic reduction output and hence wages which may make citizens to be greatly vulnerable.

Currently Nigerian economy is facing myriad of security challenges, the government also seems handicapped in addressing the persistent in the nation's domestic debts. As the debt continues to rise to an unimaginably higher level even more drastically in the recent time, the country's reputation is being soiled. The more government intensifies effort to get rid of debt, the efforts are stillbirth and others born dead as no single effort in that direction has seen the light of the day.

The economic implications of Nigeria's rising debt profile are only topical but also becoming provocative public debates and discourse every moment. For instance, most developing countries are submerged in the whirlpool of which significantly hinders their economic growth and development. It is also true that any economy structured and sustained by borrowing cannot achieve economic prosperity.

The implication here is that such economy indulges in debt to technically enhance steady economic growth. The opinion of the author is that once the debt profile of an economy reaches a specific threshold, it becomes a

challenge to service it and consequently becomes counter-productive with debt crowding out investment and growth as well. The neglect of adjustment strategy by the government results in increase in the domestic debt stock especially during the period of dwindling revenue. Thus, the welfare of the vulnerable citizens in Nigeria will for it and the economy will bear the brunt of it all if Nigeria's debt burden should continue non-stopped. The available limited resources for socio-economic development and poverty alleviation in the economy will be grossly eroded away by continuous domestic debt servicing..

Statement of the problem

Events in the recent past in Nigeria have led to increasing concerns about the possible adverse consequences of the size of domestic debt as well as the possible consequential effects of its reduction on private sector investment, the pricing of petroleum products (the mainstay of the economy), unemployment, corruption, inflation and indeed the living standard of the citizenry; irrespective of its continued use by government to finance projects. For instance, ₦1.95trillion out of the approved N9.12 trillion 2018 national budget will be financed by domestic debt (Appropriation Act, 2018). The concern is borne out of the experiences of countries like Mexico, Argentina, Portugal, and Greece between 1980s and 2012. The fears range from threats to financial stability to political pressures and inability of financial institutions to withstand recessions and other similar adversities.

The study is motivated by recent fiscal challenges of government which have significantly effect on public finances at the Federal, State and Local Government levels in Nigeria. This study, therefore, examined the various instruments of domestic debt in Nigeria over the period of twenty-six years. The results of study will be of great benefit to researchers, policy makers and business managers as it will contribute to the growing claims and counter-claims among the various strata in the economy on whether the growth in the deficit funding of the Nigerian economy especially through domestic debts is cosmetic or otherwise.

Theoretical Framework

The theoretical foundation for this study is predicated on the Debt Overhang Theory. The theory states that "if there is likelihood that in the future debt will be larger than the country's repayment ability; expected debt-service costs will discourage further domestic and foreign investment because the expected rate of return from the productive investment projects will be very low to support the economy as the significant portion of any subsequent economic progress will accrue to the creditor country" (Krugman, 1988). The theory hinges on the fact that a counter- productive effect debt instrument will drastically reduce investment opportunities and low level of output in the economy.

Similarly, Claessens and Diwan (1990) assert that "debt overhang is a situation in which the illiquidity effect, the disincentive effect, or both effects are strong enough to discourage growth in the absence of concessions by creditors." It is the inability of a country to get her debts serviced as at when due. In this respect government fails to discharge her fiscal obligations.

Empirical Review of Literature

Federal Government's domestic debt outstanding in Nigeria is indeed a burning issue in the economy as the efforts of various researchers in debt-related studies cannot be over-emphasised. Adam, Sule, Anthony and Ibrahim (2016) examined the effectof domestic debt on economic performance in Nigeria. The result of the study shows that domestic debt has both positive and negative effects on Nigeria's economic development. The impact is negative but insignificant on both the economic growth and unemployment. The result also shows that there exists a significantly positive relationship between domestic debt and inflation in Nigeria during the study period. The study concludes that the debt incurred is a productive one as it benefits the economy

Ajayi (2009) chronicled the origin of Nigeria's debt problems in relation to the volatile nature of the price of crude oil in the world market. The study found out that credit facilities gradually disappeared into thin air which landed a number of developmental projects in a fiasco. Many of them were abandoned half way while others were only completed on the pages of paper. The author advocated for the complete overhauling of the moribund economy as the only viable alternative to drastically reduce the nation's debt burden.

Adofu and Abula (2010) investigated the empirical relationship between domestic debt and economic growth in Nigeria between 1986 and 2005. The result of the study shows that there is an inverse relationship between the country's domestic debt and her economic growth. Thus, the authors recommended that government domestic borrowing should be discouraged while revenue base of the government should be broadened through a rigorous tax reform programmes. Similarly, several factors have been put forth necessitating rising domestic debt in the Economy and among which are high budget deficit, low output level, increased government expenditure, high inflation rate and narrow revenue base.

The empirical relationship between domestic debt and the performance of Nigerian economy using data spanning (1987-2014) was investigated by Igbodika, Jessie and Andabai (2016).The study indicates that Gross

Domestic Product has an inverse significant relationship with interest rate but a positive significant relationship with domestic debt. This implies that greater percentage of gross domestic product in Nigeria is accounted for by domestic debt variables. Therefore the study concludes that the government, policy maker and productive sector should work together to ensure stable economy. This will be achieved through the provision of macro-economic environment and appropriate investment incentives. The investors are expected to reciprocate the gesture through commitment to the use of funds and promptly honoring loan obligations. Government through its relevant authorities should design favorable monetary policy that would enable domestic debt to be made available for private sector at affordable rate (this is because low credit or high lending rate will amount to low level of investment which transmit to low output) for massive development of the sector.

The study of Ngerebo-a (2014) empirically investigated the relationship between domestic debt and the poverty of Nigeria. The result of the study shows that the domestic debt coefficient has a significantly positive impact on bank credit. Such credit accommodates rural developmental project so as to drastically reduce rural-urban drift, industrialization, and create robust market for the advancement of the country's manufacturing sector, thereby, enhancing the welfare of the citizens. It was also evident that domestic borrowing crowds-out private sector lending in Nigeria during the study period. The author, henceforth, recommends that for monetary policy to be effective in the economy, effort to settle the outstanding domestic debt should be prioritized by the government. This is indeed necessary because if domestic debt persists in an economy it may be counter-productive and purpose for it was pursued may be defeated.

Ngerebo-a and Agundu (2010) opined that public debt has had either no significant or negative effects on the growth of the Nigerian economy because the funds were either channeled into non-productive ventures or diverted outrightly into private purses. The result of the study suggested that those who were found culpable of committing a financial crime should be made to pay heavily as value of money is eroded as time passes-by.

Onyele and Nwokoacha (2016) examined the various sources of public funds and their resultant effects on economic growth in Nigeria. The results of the study revealed that national savings and external debt exerted a negative effect on economic growth. It can be inferred from the study that as to total government revenue dwindles, government resorts to borrowing in order to stimulate the economy but the resultant effect is that economic growth starts depleting as a result of changes in total government revenue. This is indication that aggregate government revenue alone is not sufficient enough to foster economic growth in Nigeria without a complementary fiscal role of debt.

Research Methodology

The study adopted *ex-post-facto* research design. Data for this study spanned trough 26 years annual observation period (1981-2016). Secondary data were used, and collected from the Central Bank of Nigeria Statistical Bulletin (several editions)

Model Specification

The basic econometric model of the study depicts a functional relationship between the domestic debt and its components. The regression equation is

$$DMD = f(CBN, CMB, MER, BKS, NBP) - - - - - - - - - - - - - - - - (1)$$

Thus, the explicit form of the equation (4.1) above can be written as

$$DMD = \alpha + \beta_1 CBN + \beta_2 CMB + \beta_3 MER + +\beta_4 BKS + \beta_5 NBP + \varepsilon - - - - - (2)$$

Where,
DMD = Total Domestic Debt,
CBN = Loan from Central Bank of Nigeria,
CMB = Loan from Commercial Banks,
MER = Loan from Merchant Banks,
BKS = Loan from the entire Banking system in Nigeria,
NBP = Loan from Non-Bank Public,
α = Constant,
βs = Coefficients of the explanatory (independent) variables, and
ε = Stochastic error term.

Methodology of Analysis

This study practically employed Pooled OLS to achieve its objective. The choice of this econometric technique is as a result of the fact that it is a consistent estimator of a multiple linear regression.

Pooled Least Squares Regression Results

Table 2 below shows the results of Pooled Least Squares Regression at 5% statistical significance level.

Table 1 Dependent Variable: DMD

Method: Pooled Least Squares				
Variable	**Coefficient**	**Std. Error**	**t-Statistics**	**Prob.**
C	-318.1500	66.74082	-4.766948	0.0000
CBN	3.359231	0.202830	16.56181	0.0000
CMB	1.831265	0.257863	7.101696	0.0000
MER	3.982622	1.992953	1.998352	0.0472
BKS	-1.018040	0.220560	-4.615698	0.0000
NBP	1.345915	0.119643	11.24947	0.0000
R-squared = 0.987091		**DW** = 2.4376	**Adjusted R-squared** = 0.986730	

Source: Author's computation.

Table 1 shows that all the independent (explanatory) variables i.e. Loan from Central Bank of Nigeria (CBN), Loan from Commercial Banks (CMB), Loan from Merchant Banks (MER), Loan from the entire Banking system in Nigeria (BKS) and Loan from Non-Bank Public (NBP) are all statistically significant at 5%. Similarly the Durbin-Watson statistics of the test (i.e. DW = 2.43) indicates that there is no problem of autocorrelation. Then, the variation of the dependent variable {Domestic Debt (DMD)} is explained by 98% of the variations of the independent variables. Further, the model fits the data well.

Also, all the independent variables have significant positive relationship with the dependent variable. The only exception is the loan Banking System in Nigeria (BKS) which has an inverse relationship with the dependent variable.

The empirical results above indicate that all the available domestic debt instruments are pivots of the country's economic development and they should be handled with caution. By implication, Nigerian economy depends greatly on these domestic debt instruments for economic survival. In spite of huge revenue potentials open to Nigeria as the largest economy in Africa, the country cannot neglect domestic borrowing as domestic debt is indeed a viable fiscal variable for economic sustainability.

Conclusion

The empirical results of the study imply that as government continues to access funds from Central Bank of Nigeria, Commercial Banks, Merchant Banks and Non-Bank Public (NBP), the domestic debt of the country rises unabated to an unimaginably higher level as a result of their direct relationship with the domestic debt. But an increase in the loan from the entire Banking system in Nigeria keeps the domestic debt base manageable and bearable as it has an inverse relationship with the total domestic debt. The results are in line with the study of Adam, Sule, Anthony and Ibrahim (2016) which found out that domestic debt in Nigeria has both positive and negative effects on Nigeria's economic development.

Thus, dwelling on these holdings of Federal Government's domestic debt outstanding in Nigeria portends a serious fiscal crisis in the economy. The Nigerian government is therefore urged to access domestic debt from the entire Banking system in Nigeria which is seen as being relatively manageable for the economy. Also, the domestic borrowing culture of the government with its attendant consequences needs to be carefully re-examined. With the current fiscal realities, it is indeed imperative that the economic team of the country should, as a matter of necessity, design a comprehensive debt servicing plan. This is in line with the study of Igbodika, Jessie and Andabai (2016) as well which concludes that the government, policy makers and productive sector should work together to ensure stable and workable economy.

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