

External Debt Management and Economic Growth in Nigeria: 1981 - 2013

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Abstract
This study examines external debt management and economic growth in Nigeria for the period 1981 - 2013. To achieve this objective, data was collected from secondary sources such as scholarly books and journals. The data collected were analyzed using relevant diagnostics tests, unit root test, granger causality test and multiple regression models. The result revealed that there is a significant relationship between external debt payment and stock on the gross domestic product of Nigeria for the period under review. Hence, the paper concludes that the effective application of external debts into productive activities in the economy will stimulate economic growth. Therefore, the paper recommends that policy makers in Nigeria and foreign interests (especially the creditors to the developing economics) should be more conscious and concerned about the importance of effective external debt management to economic development processes. Towards achieving this goal, the relevant authorities should employ a better technique to effect external debt management in terms of acquisition and optimal deployment of such debt should be channel to areas that will have direct bearing on the people.
Keywords: External Debt, Management, Economic Growth, Nigeria,

Introduction

The decade of the 1950s and 1960s are often described as a 'GOLDEN YEARS' for developing countries in most economic development literature because the rate of growth of these economics was not just high but was mostly internally generated. In these decades, the less developed countries (LDCs) increase their investment with less reliance on external resource on the contrary, most of the growth in 1970s was 'debt led' as the country maintain persistent currents account deficit, and borrow heavily from international money and capital market to finance payment gaps (Adepaju, Salau and Obayelu, 2007; Ayadi and Ayadi, 2008).

After the Civil War in 1970s the Nigeria government embarked on large–scale public sector investment programs to foster growth rates in the economy and as a follow up of the government reconciliation, rehabilitation and reconstruction. This was successful because as at that time the oil sector was stable and was a major foreign exchange earner of the country's income which also stimulated the policy during this period. The major reason for this was to enhance growth and development of the country, through the increased level of GDP and per capita income in the country. The economy, therefore, shifted from being mainly agrarian in nature to other productive and distributive activities. As the revenue from oil began to dwindle, especially in the 1980s, government had to sources for funds elsewhere to finance its development projects and this led to borrowing from external and domestic sources which eventually led to high debt accumulation. This was compounded by trade credits and defaults in settlement of obligation that fell due such that interest payments arrears had to be capitalized.

The willingness of the International Commercial Banks (ICB) to grant loans to developing countries development efforts added to the debt problem. Although there is nothing wrong in borrowing, the utilization of the loan is what matters. The incidence of the debt crises in Nigeria hampered development programs because a large portion of the country's foreign earnings is required to service the debt. Thus, the net foreign earnings were grossly inadequate to effectively finance development projects after servicing the debts. Borrowing could be from domestic or external sources. The terms of borrowing, the structure and composition of debt instrument vis-avis the mode of financing fiscal deficits have serious implications for debt service and its sustainability. This in turn, affects growth and development of the country. Issues of policies that endeavors to alter the debt stock, composite structure and terms of debt with a view to maintaining over time, a sustainable level of debt services constitute the central focus of debt management.

External debt being one of the sources of financing capital formation in any economy is expected that Nigeria and other developing countries facing scarcity of capital, will acquire external debt to supplement domestic saving (Pattilo, Salau and Obayelu, 2002). Therefore, external debt refers to the resources of money in use in a country which is not generated internally and does not in any way come from any local citizens, whether corporate or individual. External debt is the portion of a country's debt that was borrowed from foreign lenders including commercial banks government or international financial institutions. On the other hand, debt management is the gamut of institutional and technical arrangement in organizing the liabilities of a country so that the debt service burden is kept within sustainable level. The technical aspect is concerned with the determination of the amount (level) of debt the economy can sustain and that the conditions of borrowing are on favourable terms and are consistent with the future debt servicing capacity. While, the institutional aspect includes the administrative, organizational, legislative, accounting and monitoring aspect of managing both the new borrowings and old stock of debt. In both aspects, more attention is given to reducing the debt service burden or keeping it stable (Hamid, Ashraf and Claudary, 2008).

The history of Nigerian's huge debts can hardly be separated from its decades of minute and continued recklessness of its rulers. Nigeria's debt stock in 1971 was $1 billion (Semenitari, 2005). By 1991, it risen to $33.4 billion, and rather than decrease, it has been on the increase, particularly with the insurmountable regime of debt servicing and the insatiable desire of political leaders to obtain loans for the execution of dubious projects (Semenitari, 2005). The huge debt was too much burden on the country, in terms of its servicing, leaving it with little to perform her constitutional obligations to the citizenry (Semenitari, 2005).

Before the debt cancellation deal, Nigeria was to pay a whopping $4.9 billion every year on debt servicing (Aluko and Arowolo, 2010). It would have been impossible to achieve any meaningful growth and development under such indebtedness. The effect of the Paris Club debt cancellation was immediately observed in the sequential reduction of the exchange rate of Nigeria vis-à-vis the Dollar from 132.1 Naira in 2005 to 128.6 in 2006. 125.8 Naira in 2007 and then 118.5 in 2008 (CBN 2001). Although the growth rate of the economy has been inconsistent in the Post-debt relief as it plunged from 6.5% in 2005 to 6% in 2006 and then increased to 6.5% in 2007 (CBN 2008), it could have been worse if the debt had not been cancelled.

Debt crisis is a serious problem facing the third world countries today, Nigeria being one of them. This problem could be traced from the era of colonization and as a result of incorporation of Nigeria into the third world capitalist system. This problem experienced by these economics has created doubt as to whether development is indeed possible in these nations. Though, there is nothing wrong if a country goes into borrowing. What matters is the management of the debt. For a country to develop it needs capital and where this is not available, it ends to pose a huge problem for economic growth and development of the said economy. A country finds itself in debt when there exist a gap between domestic savings and investment and export earning which increase in absolute term over time.

External debt is one of the sources of financing capital formation in any economy. Nigeria's huge external debt burden is an impediment to the economic growth and development of the country. Debt itself is not evil but lack of optimal utilization of externally derived fund should be associated with proper debt management and servicing problem. Debt crisis in Nigeria has created quite a number of problems which has slowed down the pace of growth and development on the economy. The high level of debt service payment prevented the country from embarking on large volume of domestic investment which would have enhanced growth and development (Adepuju, Salau and Obayelu, 2007). The main interest of this study is to investigate the effect of external debt management on the growth of the Nigerian economy. Therefore, to achieve this objective, the paper is divided into five interconnected sections. The next section examines the literature review. The third section presents the materials and method. The fourth section examines the results and discussion and the last section presents the conclusion and recommendations.

LITERATURE REVIEW

Theoretical Framework

Various theories have been propounded by scholars in an attempt to explain the subject of external debt. The theory includes:

Debt Overhang Theory: One of the theories connecting external debt and economic development is the debt overhang theory. Krugman (1989) sees debt overhange as a situation in which the expected repayment on foreign debt falls short of the contractual value of the debt and showed that there is a limit at which accumulated debt stimulates investment and growth. The same way, Borenszten (1990) argued that the debt overhang crisis is a situation in which the debtor country benefits very little from the returns on any additional investment because of the debt service obligation. In line these, Desta (2005) found that a negative relationship existed between external debt and economic growth which justified the existence of debt overhang hypothesis. Similarly, Iyoha (1999) found that in sub-Saharan African countries the external debt to GNP (EDTGNP) ratio is high and creates debt overhang problems which consequently affect investment and growth negatively. It is based on the premise that, if debt will exceed the countries repayment ability, there is a probability that in future, expected debts service is likely to have an increasing function of the country's output level. As a result of this, since part of the future return on any investment will accrue to the creditor as bigger debt service payment, it discourages capital accumulation and promotes capital flight (Elbadawi et al. 1997, Koeda, 2006). According to Elbadawi et al (1997) external debt affect economic growth through direct and indirect channels. Through direct way debt accumulation expressed as a ratio of debt to GDP stimulates debt initially, while past debt accumulation impacts negatively on growth. These two channels produce a debt-laffer curve, which shows that there is a limit at which debt accumulation stimulates growth. When this limit is reached, further debt accumulation impacts negatively on growth.

Dual Gab Theory: the dual gap analysis explained that development is a function of investment and that such investment which requires domestic savings is not sufficient to ensure that development take place. There must be the possibility of obtaining from abroad the amount that can be invested in any country is identical with the amount that is saved.

Conceptual Literature

External debt is one of the sources of financing capital formation in any economy. It is generally expected that Nigeria and other developing countries facing scarcity of capital, will acquire external debt to supplement domestics saving (Pattilo et al, 2002). The rate at which nations borrow abroad depends on the relationship among foreign and domestic saving, investment, and economic growth. The main lesson of the standard "growth with debt" literature is that a country should borrow abroad as long as the capital acquired produces a rate of return that is higher than the cost of the foreign borrowing. In that case the borrowing country is increasing capacity and expanding output with the aid of foreign savings. The debt, if properly utilized, is expected to help the debtor country's economy (Hameed et al, 2008). But, this has never been the case in Nigeria and several other sub-Saharan African Countries (SSA) where it has been misused (Aluko and Arowolo, 2010). Apart from the fact that external debt had been badly expended in these countries, the management of the debt by way of service payment, which is usually in foreign exchange, also affected the macroeconomic performance (Aluko and Arowolo, 2010).

External Debt Management

External debt management refers to the establishment of the conditions of issue and redemption of foreign loans. It follows that debt itself is not evil but lack of optimal utilization of externally derived fund should be associated with proper debt management and servicing problem (Mutallab, 1984). Bhatia (2008), Musgrave and Musgrave (2004) posited that external debt management refers to as the establishment of the conditions of issue and redemption of public securities. It entails the process of administering the external public debt that is providing for the payment of interest and arranging the refinancing of maturing bonds/debt. It involves a conscious and carefully planned schedule to the acquisition, deployment purpose or to support the balance of payments. According to Okereke (2002), external debt management is the combination of policies that will allow for repayment of the debts or bring about its sufficient reduction". It also involves how is administered or handled to avoid adverse economic effect. It also involves loan negotiation, monitoring of both government direct debt and non-governmental debt; controlling the debt (including the measurement of the debt serving capacity, risk management-exchange, interest rate and commodity price risk) debt management system. Debt management policy is also inter-twined with overall macroeconomic and financial policies. In fact, beyond good macroeconomic policy, the effective management of external debt comprises three specific interrelated process-selecting the appropriate financing, deciding how much to borrow and keeping complete up-to date records on debt. The major objective of external debt management policy is to achieve the benefit of external finance without creating difficult problems of macroeconomic and balance of payments stability, Klein (1994).

Nigeria's external debt management strategies have varied from time to time since the early 1980's when the debt crisis became pronounced. However, comprehensive following policy objective:

(a) To evolve strategies for increasing foreign exchange earnings thereby reducing the need from external borrowing.

(b) To stipulate the criteria for borrowing from external sources and determine the type of projects for which external loan may be obtained.

(c) To outline the mechanism for servicing external debt of the public and private sector.

(d) To define the roles and responsibility of the various organs of the federal and state government as well as the private sector in the management of external debt.

The Central Bank of Nigeria (CBN) has the responsibility to manage Nigeria's external debt. This led to the establishment of a Department in the CBN to undertake the functions in collaboration with the Federal Ministry of finance and other agencies. In 2000, the Debt Management Office (DMO) was established. Since Independence, Nigeria had attempted to manage her external debt through several measures which include:

Embargo on New Loans

This was introduced in order to prevent unmanageable hike in the debt stock ad to subsequently arrest additional debt burden. In 1978, the Federal Government fixed N5billion for itself as the maximum limit of external loan contraction. Also, a lid of N200million was put on state government's borrowing from external sources in 1982. And this stipulation has remained in force since then, although some state government borrowed arbitrary, especially during the military.

Limited External Earnings on Debt Service Payments:
This is a policy measure, which places a limit on the proportion of the nation's external earnings that can be used to service her external debt. It was devised in order to leave enough resources for internal development. In 1980, the state government was required to spend not more than 10 percent of their total revenue on debt service payments, while the Federal Governments debt services ratio to external earnings has subsisted at 30 percent since the 1980's

Debt restructuring
Debt restructuring simply means that outstanding debt are converted into other types of debts. Refinancing, re-scheduling buy-back, issuance of collectivized bond, and provision of new money are different categories of debt restructuring. (1) **Refinancing of Trade areas:** The procurement of a new loan by a debtor to pay off an existing debt, especially when it involves short-term trade is known as refinancing of trade arrears. The new loan may be contracted from the same creditors or a different set of creditors. Nigeria's first refinancing agreement was made in July, 1983 and the second came on September that same year.

Debt Rescheduling
Debt rescheduling involves the postponement of the effective maturing dates of debt owed to a future date. In 1986/87 and 1989 Nigeria had some round of growth rate 3 percent. The debt outstanding escalation during this period was because of the very short repayment periods, to it increased to $27,087.80m in 1997, As at then, the highest share of 70.07% of the total outstanding debt was owed to the Paris club, then the remaining was owed to the multilateral Paris bilateral and collaterals per bonds. The Landmark success achieved external debt was sustained in 1997. For the first time since 1992, the rising trend of our external debt profile was reversed with the reduction of the stock from U.S $32.58b in December, 1995 to $28.06b. Therefore, government will continue with the4 implementation of the strategies already put in place to achieve external debt service of the coming. Reconciliation of debt figures with Paris club members began in 1996. As at now, at least eleven of fourteen creditor countries have been visited representing 94% Nigerian debt to this group of creditors as at middle of 1997. The reconciliation also revealed that Nigeria had fully Paid up her indebtedness to rescheduling with external creditor of the London and Paris club debt Rescheduling may bring temporary relief to a country but it is not an effective means of solving the debt problem since it amount to "postponing the evil day". President Olusegun Obasanjo while Presenting the budget for 2002 fiscal year, said that as a result of rescheduling agreement, a total of about $19.5billion was rescheduled for 2001, but "even after the rescheduling, the debt service due by Nigeria to the Paris club of creditor for 2001, was about $3billion, but following negotiations this pegged at $1billion.

Debt Buy-back, collateralization and new money option.
Whenever a substantial discount is offered by the creditors to the debtor for the payment of outstanding debt we have a debt buyback. Under the collateralization arrangement, the yield of a collateralization bond within a specific period is expected to offset or pay off the collateralized amount. This is referred to as the zero coupon option. The new money option essentially involves the granting of new loans by creditors or a group of creditors to assist a heavily burdened debtor nation.

Debt Conversion
Debt conversion simply means the exchange of monetary instrument (e.g. promissory notes) for tangible assets or other financial instruments. It is designated for the reduction of a country's external debt burden by changing the character of the debt. Debt conversion could take various shapes, including debt for equity and debt for cash. In Nigeria, the debt conversion exercise involves the sale of an external debt instrument for a domestic debt or equity participation in domestic enterprises. Debt conversion could assist in encouraging capital inflow and also help in the recapitalization of enterprises in the private sector. This debt conversion was interdicted to complement other strategies for debt management.

Of the above mentioned strategies Nigeria has been trying at different time to adopt different measures at different times to manage its debt until it successfully did so in 2005 by adopting Debt Restructuring strategy. Some other measures previously adopted by Nigeria government in managing its external debt include Legal provision (Promissory Notes Ordinance – 1960, External Loan Act 1962, External Loans (Rehabilitation, Reconstruction and Development Decree of 1970, External Loans Decree 30 of 1978), Federal Government directives (1980 external debt guideline), Loan embargo (1984), Economic Reforms (SAP – 1992), Debt Rescheduling (1986, 1989 & 1991) and Debt Conversion Scheme (Debt Conversion Program - 1988).

Empirical Literature
Elbadawi (1997) also confirmed a debt overhang effect on economic growth and development using cross –

section regression for developing countries spanning SSA, Latin America, Asia works against growth: current debt inflows as a ratio of GDP (which should stimulate economic growth and development and development), past debt accumulation (capturing debt overhang) and debt servicing ratio. The fourth indirect channel works through impacts of the above channels on public sector expenditures. They found that debt accumulation deters growth and development while debt stock spurs growth and development

However, Cohen's (1995) results on the correlation between development countries debt and investment in the 1980s showed that the level of debt does not appear to have much power to explain the slowdown of investment in developing countries during the 1980s. he found that the actual service of debt crowded out investment and also maintained that external debt at low levels is positively related to economic growth but at higher levels the requirements of debt service obligations complicate debt accumulation thereby rendering the assumption of a positive correlation of external debt and economic growth of the neoclassicists unrealistic.

Many empirical studies have investigated the effect of external debt on economic growth and development, some end up finding a negative impact on economic growth while others do not find any significant relationship between economic growth and external debt. These studies focused on assessing the impact of external debt on per capita GDP, real GDP growth rate, long-term consumption pattern and capital formation. Nevertheless, the findings of these studies are mixed; therefore, in these circumstances it is hard to say whether external debt has positive, negative or any significant impact on economic growth and development.

The empirical evidence generally confirms the debt overhang hypothesis, even if the link between debt and economic growth and development is not perfectly defined, because the relative incidence of the debt variables and the magnitude of effects differ across different studies. Some authors such as Pattillo (2002) show how the stock of debt is the reason for a slow growth, while others like Chowdhury (2004) find that both the debt burden and the debt service obligations squeeze investment and the economic performance.

Among those pioneering studies in this regard includes Cohen (1995) that used a larger data set of eighty-one developing countries over a period of 1965-1987 and did not find any evidence in favour of a negative relationship between external debt and economic growth. Chowdhury (1994) attempted to resolve the controversy of case and effect relationship between external debt and economic growth, by conducting granger causality tests for Asian and Pacific Countries over a period of 1970-1988. He found that both public and private external debt, have a relatively very small impact on GNP and both have opposite signs. He found that any increase in GNP leads to a higher level of external debt, but overall external debt does not have any negative impact on economic growth. Furthermore, Iyoha (1999) used simulation approach to investigate the impact of external debt on economic growth in sub-Saharan African countries estimating a small macro-econometric model for the period 1970-1994. He found an inverse relationship between debt overhang, crowding out and investment, thereby concluding that external debt depresses investment through both a "disincentive" effect and a "crowding out" effect, thus affecting economic growth.

Focusing on one of the HIPC countries, Were (2001) analyzed the debt overhang problem in Kenya and tried to find evidence for its impact on economic growth. Using time series data from 1970 – 1995, this study did not find any adverse impact of debt servicing on economic growth; however, it confirmed some crowding-out effects on private investment. Furthermore, employing data from fifty-nine developing and twenty-four industrial countries over a period of 1970-2002, Schclarek (2004) could not find any evidence that external debt may affect total factor productivity. However, he found that in case of developing countries, higher growth rate is associated with a relatively lower external debt levels and this negative relationship is mainly driven by public external debt rather than private external debt.

Similarly, to investigate the impact of external indebtedness on economic growth for Sudan, Mohamed (2005) used a time series data from 1978-2002. he used growth rate of real export earnings to capture the impact of export promotion strategy, while was used inflation to capture the impact of macroeconomic policy. He concluded that external debt and inflation deter economic growth, while, real exports have positive and significant impact on economic growth. Mariano and Delano (2006) used standard neo-classical growth model to explore the dynamics of capital accumulation, external debt and economic growth for Philippines over a period of 2000 – 2003. They used goal seek technique to estimate the steady state ratio of external debt to GDP, associated with doubling the per capita income. Additionally, he also tried to estimate the optimal savings rate that is "consistent with maximum real consumption per unit of effective labour in the long run." He concluded that higher ratio of change in interest rate spread to change in debt-to-GDP lowers welfare in long run.

Adepoju, et al. (2007) analyzed the time series data for Nigeria over a period from 1962 to 2006. Exploring time to time behaviour of donor agencies as an outcome of various bilateral and multilateral arrangements, they concluded that accumulation of external debt hampered economic growth in Nigeria. Hameed, et al (2008) explored the dynamic effect of external debt servicing, capital stock and labour force on the economic growth for Pakistan for a period of 1970-2003. They found an adverse effect of external debt servicing on labour and capital productivity which ultimately hampers economic growth. Butts (2009) investigated the causal relationship between short term external debt and GDP growth rate for 27 investigated the causal relationship between short term external debt and GDP growth rate for 27 Latin American and Caribbean countries over a period of 1970-2003 and found an evidence of granger causality in thirteen countries. Ali and Mshelia (2007) found among others, "both positive and negative relations with GDP", using Nigerian debt data.

MATERIALS AND METHOD

The time series data for the study were sourced from Statistical Bulletin of the Central Bank of Nigeria (CBN) for the period 1981 – 2013. Excel software helped us to transform the variables into format suitable for analysis, after which SPSS and E-View was used for data analysis. The ordinary least square was adopted for the purpose of hypothesis testing. The ordinary least square was guided by the following linear model:

Where:

$$GDP = \beta_0 + \beta_1 EDSP + \beta_2 EDST + \varepsilon$$

The a priori expectation of the study is $B1 - \beta 2 > 0$

Where;

GDP = Gross Domestic Product
EDSP = External Debt Service Payment
EDST = External Debt Stock

B_0 is the intercept of the regression, β_1 and β_2, are the coefficients of the regression, while ε is the error term capturing other explanatory variables and explicitly included in the model.However, the model was tested using the diagnostic tests of heteroskedasitcity, serial correlation, normality and misspecification (Gujarati and Porter, 2009; Asterious and Hall, 2007). Augmented Dickey-Fuller was also used in the study for stationarity of data.

RESULT AND DISCUSSION

Diagnostic Tests:

Table 1: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	6.929189	Probability	0.121336
Obs*R-squared	13.34731	Probability	0.101264

Source: e-view output

Table 1 shows the Breusch – Godfrey Serial Correlation LM test for the presence of auto correlation. The result reveals that the probability values of 0.12 (12%) and 0.10 (10%) is greater than the critical value of 0.05 (5%). This implies that there is no evidence for the presence of serial correlation.

Table 2: White Heteroskedasticity Test:

F-statistic	0.942165	Probability	0.496821
Obs*R-squared	9.519861	Probability	0.483577

Source: e-view output

Table 2 shows the White Heteroskedasticity test for the presence of heteroskedasticity. The econometric result reveals that the probability values of 0.496 (50%) and 0.483 (48%) are considerably in excess of 0.05 (5%). Therefore, there is no evidence for the presence of heteroskedasticity in the model.

Table .3: Ramsey RESET Test:

F-statistic	0.067894	Probability	0.794795
Log likelihood ratio	0.071133	Probability	0.789695

Source: e-view output

Table 3 shows the Ramsey RESET test for misspecification. The econometric result suggests that the probability values of 0.794 (79%) and 0.789 (79%) are in excess of the critical value of 0.05 (5%). Therefore, it can be seen that there is no apparent non-linearity in the regression equation and so it would be concluded that the linear model for the accounting services is appropriate.

Table 4: Unit Root Test

Variable	ADF	ADF	PP	PP	Model (d)
	Level	1st Diff	Level	1st Diff	
GDP	-2.1161	-4.1015	-1.7121	-5.8419	I(1)
EDSP	-2.6787	-5.0802	-2.6520	-5.1821	I(1)
EDST	-2.1234	-5.2183	-2.1848	-5.2158	I(1)

Source: E-view Output

The unit root test for Augmented Dickey-Fuller shows that the three variables are integrated of order I(1) and also the Philip Perron tests showed all the variables to be integrated of order one, I(1).

Table 5 Multiple Regression Results/Output for all Hypothesis

Dependent Variable: GDP
Method: Least Squares
Date: 02/03/15 Time: 07:00
Sample(adjusted): 1981 2013
Included observations: 33 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	286327.4	80872.94	3.540459	0.0041
EDSP	977.4957	349.0664	2.800314	0.0160
EDST	1.771444	0.239146	2.407364	0.0230

R-squared	0.435165	Mean dependent var	466619.5
Adjusted R-squared	0.362887	S.D. dependent var	176186.7
S.E. of regression	32060.78	Akaike info criterion	23.82858
Sum squared resid	1.23E+10	Schwarz criterion	24.07365
Log likelihood	-197.5430	F-statistic	117.7975
Durbin-Watson stat	2.105089	Prob(F-statistic)	0.000100

SOURCE: Eview Output 3.1

Table 5 shows the multiple regression analysis for external debt and economic growth of Nigeria for the period 1981 to 2013. The result suggests that EDSP (external debt service payment) and EDST (external debt stock) with p-values of 0.0160 and 0.0230 is less than the critical value of 0.05. Hence, we deduce that there is a significant relationship between tax revenue and economic growth in Nigeria for the period 2000 - 2012. The R^2 (coefficient of determination) of 0.435165 and adjusted R^2 of 0.362887 shows that the variables combined determines about 44% and 36% of economic growth of Nigeria. The F-statistics and its probability shows that the regression equation is well formulated explaining that the relationship between the variables combined are statistically significant (F-stat = 5.567008; F-pro. = 0.000100).

Table 6: Pairwise Granger Causality Tests
Date: 02/03/15 Time: 22:56
Sample: 1981 2013
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Probability
EDSP does not Granger Cause GDP	31	5.43344	0.65191
GDP does not Granger Cause EDSP		0.43698	0.01967
EDST does not Granger Cause GDP	31	4.56926	0.62421
GDP does not Granger Cause EDST		0.00236	0.02764

Source: e-view output

Table 6 shows granger causality tests results for external debt (EDSP and EDST) on economic growth in Nigeria for the period 1981-2013. From the granger causality test result, the probability value (0.65191) of EDSP and GDP F- statistics is greater than the critical values of 5%. This implies that external debt payment granger cause gross domestic product, while the probability value of (0.01967) of the GDP and EDSP F-statistics is less than the critical value of 5%, we conclude that GDP does not granger cause EDSP. Also, the probability value (0.62421) of EDST and GDP F- statistics is greater than the critical values of 5%. This implies that external debt stock granger cause gross domestic product, while the probability value of (0.02764) of the GDP and EDST F-statistics is less than the critical value of 5%, we conclude that GDP does not granger cause EDSP. The granger causality analysis shows that there exists an impact of external debt variables on economic growth in Nigeria for the period 2000 -2012. This result is consistent with the multiple regression result that there is a significant relationship between external debt and economic growth.

This result is consist with study conducted by Butts (2009) who investigated the causal relationship between short term external debt and GDP growth rate for 27 investigated the causal relationship between short term external debt and GDP growth rate for 27 Latin American and Caribbean countries over a period of 1970-2003 and found an evidence of granger causality in thirteen countries. This result contradict the studies done by Adepoju, et al. (2007) analyzed the time series data for Nigeria over a period from 1962 to 2006. Exploring time to time behaviour of donor agencies as an outcome of various bilateral and multilateral arrangements, they concluded that accumulation of external debt hampered economic growth in Nigeria. Hameed, et al (2008) explored the dynamic effect of external debt servicing, capital stock and labour force on the economic growth for Pakistan for a period of 1970-2003. They found an adverse effect of external debt servicing on labour and capital productivity which ultimately hampers economic growth. Ali and Mshelia (2007) found among others, "both positive and negative relations with GDP", using Nigerian debt data. This is because most developing countries do not use debt effectively. Like the case of Nigeria, most external debts collected by the government are invested in white elephant projects or the funds obtained are embezzled into private pockets with any contribution to the growth and development of the nation.

CONCLUSION AND RECOMMENDATIONS

The study examined the impact of external debt on the economic growth of Nigeria for the period 1981 - 2013. The study reviewed relevant literatures that provided a strong evidence of the effect of external debt on economic grow. Our research empirically substantiated the results of prior studies of the relationship between external debt and economic growth. The study highlights the various variables in external debt and economic growth. The empirical analysis provided a linkage between external debt payment and external debt stock on gross domestic product of Nigeria. On the basis of the empirical result, the paper concludes that external debt if efficiently managed will promote economic development in Nigeria and other developing nations of the world. On the basis of the conclusion, the paper recommends amongst others that policy makers in Nigeria and foreign interests (especially the creditors to the developing economics) should be more conscious and concerned about the importance of effective external debt management to economic development processes. Towards achieving this goal, the relevant authorities should employ a better technique to effect external debt management in terms of acquisition and optimal deployment of such debt should be channel to areas that will have direct bearing on the people. In other words, the acquired loan should be channelled to developmental projects which will in turn create jobs for the unemployed. In this way the economy will be developed. Although Nigeria adopted several strategies such as placing embargoes on new loans; debt restructuring through refinancing, rescheduling, buyback, and issuance of collateral bonds to ameliorate external debt. But despite these strategies, other approaches (such as the use of more superior method to negotiate for fixed interest payment and varying amortization schemes, spending of external debt on productive self-liquidating investment must be strictly adhered to, while projects to be finance with external loan must be properly appraised and government should lay down well considered guideline for external loan acquisition and the conditions under which the government can approve and guarantee external loans) can help debt payment to be sustainable in Nigeria as well enhance economic growth and development.

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