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DEBT MANAGEMENT STRATEGIES FOR RAPID ECONOMIC DEVELOPMENT IN NIGERIA (1980-2019)

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Abstract

Debt management is a strategy that helps pay off lenders or otherwise better manage them. It works with lenders to restructure debt or help debtors handle payments more effectively.The aim of this study is to show empirically the impact of debt management strategies on economic growth of Nigeria. The study focused on debt management in Nigeria. The data were compiled from reports of the Central Bank of Nigeria and the National Bureau of Statistics. Surveys of information collected using illustrative measures suggest that access to external funds has a disproportionate impact on the monetary growth cycle of any country. The management of external debt is an important asset that should contribute to a sustainable monetary growth.

The purpose of this study is to examine the sustainability of debt management strategies on financial development in Nigeria from 1981 to 2019. The broad objective of this work is set to assess the impact of outstanding external debt and the modification of debt on monetary growth. Taking all things together, the model had to show the growth link between the rate of expansion of free factors, scale of conversion, cost of debt, utilization of government, stock of external debt and growth. Administration of external obligations and dependent variable (GDP). Due to this survey the Ordinary least squares (OLS) method was used. Augmented Dickey Fuller (ADF) test shows that the factors are fixed. The choice of the model for this research is in general least squares because it provides satisfactory results for estimation of structural parameters (Koutsoylanmis 1977:43). This method involves deciding whether the parameters are statistically significant and theoretically significant. It also examines the validity of estimates and whether they actually represent economic theory. To arrive at a comprehensive analysis, three main elements of external debt management: outstanding external debt, debt service payments and

foreign pools were used. Real GDP was used in the regression analysis. It was found out that external debt adversely affected the growth of the Nigerian Economy. This is as a result to unchecked borrowing and mismanagement of fund. Debt management strategies are important to meet deficiency inner assets, and animate the economy. In any case, it must be appropriately used to maintain a strategic distance from genuine results. This study has provided evidence that may be useful policy makers and financial analyst especially during the post Covid 19 recovery era. It will be of great benefit to public office holders as it will guide them to effective debt management strategy. The government should embark on a cycle of robust economic expansion. This provides a strong and robust economy and minimizes the need for external debt management. Here again, governments must equip themselves with an empowering socio-financial position that favors the industrialization of the industry, which translates into direct and unknown forecasts.

Keywords: Debt Management, Industrialization, Foreign Direct Investment, Economic Development, Economic Growth.

Introduction

Debt management is a strategy that helps borrowers pay off their debts or manage them better. Debt management involves working to repay debt and enable borrowers to manage their payments more efficiently. Debtors can turn to a specialized company such as the government to resolve management or company management issues. The 1950s and 1960s are described in most economic development literature as the "golden years" of developing countries. This is not only due to the high growth rate of these economies, but also because they are mostly manufactured in-house. In recent decades, the poorest countries (LDCs) have reduced their dependence on external resources and increased their investments. This was successful because the oil sector was stable at the time, an important source of foreign exchange for the country's income and stimulated policy at the time. The main reason for this was to promote the growth and development of the country through the growth of GDP and per capita income in the country. The economy has therefore changed primarily from the agricultural economy.
As debt accumulated since the 1980s, international financial institutions began to provide technical and financial assistance to debtor countries in managing their debts. Efforts, which have always been aimed at stimulating economic growth, aim to reduce the debt burden and poverty of these countries in order to make them more efficient. These measures have significantly reduced the external burden for many middle-income countries and created a different scenario for many of their weaker allies. In contrast, little attention was paid to domestic debt. Some countries, including Nigeria, have increased their domestic debt. Overall, the debt burden of poor countries, along with persistent poverty and civil war, continued to increase and slow economic growth. After the civil war of the 1970s, the Nigerian government abandoned plans for large-scale speculation to revitalize the economy and make adjustments to governance, recovery and reproduction. This was effective because some of the oil was frozen at this point and it was an important trading factor for wage trade in the country, which also set the strategy off the ground at that time.
The important discovery behind this was an increase in the level of development and improvement of the nation by increasing the GDP and per capita wages in the country. Since then, the economy has evolved from one agricultural form to another profitability and

distribution system. When oil revenues began to decline, especially in the 1980s, the government needed reserves elsewhere to fund improvement activities. This led to acquisitions from both external and internal sources, which eventually led to an increase

Objectives

The main objective of this work therefore is to show empirically the impact of external debt management on economic growth of Nigeria.

Research Questions

1. Has external debt management affected the economic growth of Nigeria?
2. Is sustainable debt management strategy obtainable in the economy of Nigeria?

Hypothesis

Our study intends to test the following major hypothesis.

H0: There is no significant relationship between external debt and economic growth in Nigeria?

H0: Debt management strategy did not impact on Economic growth in Nigeria.

Review of Related Literature

Theorethical Literature

Debt management refers to the way in which debt is administered or managed in order to avoid / avoid negative economic effects. Debt management is about debt policy designed to achieve certain goals and the effective implementation of this policy (Nnamocha, 2002). Traditionally, debt management consists of accumulating the necessary debt at the cost of the lowest possible interest rate and paying that interest easily as soon as possible. There are debt management goals. Debt management now belongs to monetary policy as part of the general macroeconomic policy of the state administered by the monetary authorities. Another goal of debt management is to keep the cost of the interest rate as low as possible. It is also necessary to ensure that other macroeconomic objectives of the government, such as stabilization to economic growth, etc. 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 linking external debt and economic development is the debt overhang theory. Krugman (1989) sees the debt shift as a situation in which the expected repayment of foreign debt is below the contractual value of the debt and showed that there is a limit at which accumulated debt stimulates investment a nd growth. Similarly, Borenszten (1990) argued that the debt overhang crisis is a situation in which the debtor country benefits very little from the returns on additional investment due to the debt service obligation. In line with this, Desta (2005) found that there is a negative correlation between external debt and economic growth, which justifies the existence of a debt overhang hypothesis. Similarly, Iyoha (1999) found that sub-Saharan countries have high external debt-to-GNP ratios (EDTGNP), causing debt overhang problems, which consequently have a negative impact on investment and growth. It is based on the premise that if debt exceeds the country's repayable capacity, then the likelihood is that expected debt servicing will have an increasing function of the country's production levels in the future. As a result, the creditor

discourages capital accumulation and encourages capital flight, as part of the future return on investment goes to the creditor as higher debt service payment (Elbadawi et al. 1997, Koeda, 2006).

Dual Gab Theory: The dual gap analysis explained that development is a function of investment and that investment that requires internal savings is not enough to ensure that development takes place. There must be the possibility of obtaining from abroad the amount that can be invested in any country is identical to the amount saved.

Nigeria's External Debt: Historical Perspectives

Nigeria's external debt comes mainly from multilateral agencies, Paris Club lenders, London Club lenders, bondholders, bilateral and private lenders, and other sources (Zangan, 2004 and Slav, 2005). According to the Debt Management Office, Nigeria's external debt predicts independence, but remained small or non-existent until 1978. Nigeria was increasingly safe from 1970-1573. However, after the recession of 1977/78, Nigeria got its first 1 billion loan in the international capital market, known as the "giant loan" for financing infrastructure projects. The boom in oil in the 1980s then triggered an economic downturn that shifted consumption in favor of imported goods and weakened the first steps to lower oil prices. Accidental imports, exorbitant exchange rate rates, the cost of import bills and export accounting add to the problem. In 1982, the federal and state governments welcomed the fall in oil prices by massively borrowing in the international capital market, without consciously trying to solve the basic economic problems. At that time, there were more certification funds in the Western world known as passive petrodollars. It has been redesigned in the form of loans to help these countries grow economically. Nigeria's external debt increased from 0. 0.763 billion in 1977 to 5. 5.09 billion in 1978 and 8. 8.855 billion in 1980, an increase of 73.96% (DMO) between 1978 and 1980. By 1985, Nigeria's external debt was 19 billion. As of December 2014, the external debt was over 34 billion.

Nigeria Debt Problem

Over the years, very few agreements have been made on the exact amount and structure of Nigeria's external debt. Nigeria's External Infrastructure dates back to 1958, when a contract of 28 million was awarded to build the railway. Between 1958 and 1977, external debt was not much help, as exemption from contractual and low-interest bilateral and multilateral sources. Since 1978, after the collapse of oil prices, the government's fiscal years have come under considerable pressure, with Nigeria unable to change gears due to economic changes and a policy of debt deficit. Loans were needed to balance payment assistance and project financing. In 1978, the first US $ 1 billion "giant debt" in the international capital market increased the country's debt to $ 2.2 billion (AfroRD, 2007). In this regard, Nigeria's external debt has increased from a million dollar class to a billion dollar class. Nigeria's external debt rose to .1 13.1 billion in 1982 (CBN, 2003). Nigeria has failed to pay its import bill because of high rates of borrowing from private sources. US $ 7.4 billion (Adepoju et al., 2007). The insured unit was moved to the Paris Club and the uninsured were admitted to the London Club. This reconciliation, conducted between 1984 and 1988, reduced this amount to US $ 3.8 billion (Adepoju et al., 2007). Interest earned on US $ 1.0 billion was reinvested. As a result, this amount is US $ 4.8 billion.

Empirical Literature

There are many studies done to study the impact of external debt on the economy. Kasidi and Said (2013) used graphs from 1990 to 2010 to examine the impact of external debt on Tanzania's economic growth. The study showed that external debt and debt repayment have a significant impact on GDP growth. Total external debt has a positive effect of about 0.36939, and debt repayment has a negative effect of about 28.517. Atik and Malik (2012) individually investigate the impact of domestic and foreign debt on Pakistan's economic growth from 1980 to 2010, using the usual least squares (OLS) for joint integration. The results showed a significant inverse relationship between both, domestic debt and economic growth, and external debt and economic growth. Pattillo, Helene, and Luca (2004) investigated how external debt affects growth, especially when debt affects growth through the accumulation of factors or the growth in productivity of all factors. He also tested the non-linearity of the impact of debt on various sources of growth. Between 1996 and 1998, the survey covered 61 developing countries. The results show that the negative impact of high debt on growth is due to the strong negative impact of factors on the accumulation of physical capital and the growth of GDP. Amooteng and Amoako (1996) studied the relationship between external debt and economic growth in 35 African countries. The Granger Causality test has been applied. The result is a positive causal relationship.

Similarly, Momodo (2012) investigated the relationship between debt servicing and economic development in Nigeria. In this study, current gross domestic product (GDP) and current market price (GFCF) are generally minimum squares, using multiple regression methods. An attempt has been made to find a relation between fixed investments. The study found that repaying loans to Nigerian lenders had a significant impact on GDP and GFCF. In addition, Isabelli, Isso, and Mosico (2011) examined the error in order to correct the relation between Nigeria's external debt and economic growth between 1975 and 2006. Estimates of error correction suggest that external debt is negatively associated with economic growth in Nigeria. In a similar study, Bimmel and Joseph (2013) examined the impact of the financial crisis on external debt management on Nigerian economic growth, using GDP as the final variable in measuring economic growth. Currencies were close to foreign direct investment, foreign debt, currency reserves and exchange rates. Annual time series from 1980 to 2010 were used. The analysis used OLS, augmented ducky filler (ADF) and led to Granger discrimination tests. The result indicates a positive relationship between foreign direct investment and economic growth, while there is an inverse correlation between external debt and economic growth. Odesi (2012) used the OLS (least squares) technique in an extended Kobe Douglas model to analyze the impact of economic debt on economic growth in Nigeria. Variables used included external debt, household debt, total debt, and budget deficit. He found that the effect of debt on economic development was favourable.

In a comparative report, Bimmel and Joseph (2013) analyzed the impact of money-related emergencies using GDP as a closing variable and the external liability of the board of directors on Nigeria's financial development, while foreign FDI investment, external liability, external restraint were evaluated by an increase of factors. . , Increasing and changing shape agents. Annual time management was used for 1980–2010. OLS, Augmented Ducky Filler (ADF) Unit Roof Test and Ginger Cause were used in testing. The results showed a

positive relationship between FDI and domestic development, while there was a conflicting contrast between external responsibility and domestic development. Obadimi (2012) used the Common Minimal Square (OLS) strategy in an extended Kobe Douglas model to analyze the impact of open responsibility on Nigeria's financial development. Factors used were external liability, home liability, absolute liability and cost. They found the long-term effect of responsibility on monetary growth to be negative and extremely important, but its effects were valuable in the short term. However, he argued that the short-term effect of assets acquired on the Nigerian economy remained positive as their long-term effects discouraged the economy due to the reckless responsibility of the authorities. In another effort to examine the effect of executive external responsibility on large-scale financial execution in Nigeria, Isaac and Moziko (2011) implemented office strategies for real GDP relative to the accessibility of all responsibilities. Manage responsibilities. Their results showed that unknown capital flows

Research Methodology

The choice of the model for this study is based on the method of least squares, since it gives satisfactory results for the estimation of structural parameters (Kuasosolenmis 1977: 43). This method consists in deciding whether an artistic dimension is statistically significant and theoretically important. It also examines the validity of the estimates and their relevance to economic theory. To conduct a comprehensive analysis, external debt management consisted of three main elements: the level of external debt, debt servicing payments and external reserves. Real gross domestic product is used in the regression analysis because it is somewhat free from the effects of inflation.

Models Specification

Below are models for studying the impact of external debt on economic growth in Nigeria, with real GDP as the dependent variable and external debt, inflation, and exchange rate as independent variables. Financially it was said:

GDP = a0 + a1 EXT + a2 EXR + a3 INF + e

Where:

GDP = Gross Domestic Product

EXT – External debt

INF – Inflation

EXR – Exchange rate

A0, a1, a2, and a3 – Parameters

e – Error term

Estimation of Result

Dependent Variable: GDP

Method: Least Squares

Date: 09/9/20 Time: 12:27

Sample: 1980 2019

Included observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4614311.	492634.6	9.366599	0.0000
EXT	-0.054697	0.016174	-3.381785	0.0019
EXR	-24133.91	2855.560	-8.451553	0.0000
INF	-20429.64	11486.10	-1.778641	0.0848

R-squared	0.700119	Mean dependent var	1399053.
Adjusted R-squared	0.672005	S.D. dependent var	1799294.
S.E. of regression	1030471.	Akaike info criterion	30.63337
Sum squared resid	3.40E+13	Schwarz criterion	30.80932
Log likelihood	-547.4006	F-statistic	24.90300
Durbin-Watson stat	0.616144	Prob(F-statistic)	0.000000

Interpretation

The coefficient of External debt (C_1) is -0.054697. This indicates that there is a negative relationship between the independent variable and the dependent variable and it statistically significant at 5% level given that the t-statistics (-3.381785) is less than the t-table at 5%(32 d/f) which is 2.04. We therefore reject H1 and accept H0 and conclude that external debt did not contribute to the growth of economic growth in Nigeria.

The coefficient of Exchange rate (C_2) is -24133.91. This indicates that there is a negative relationship between the independent variable and the dependent variable and it statistically significant at 5% level given that the t-statistics (-8.451553) is less than the t-table at 5%(32 d/f) which is 2.04. We therefore reject H1 and accept H0 and conclude that exchange rate did not contribute to the growth of economic growth in Nigeria.

The coefficient of Inflation (C_3) is -20429.64. This indicates that there is a negative relationship between the independent variable and the dependent variable and it statistically significant at 5% level given that the t-statistics (-1.778641)is less than the t-table at 5% (32 d/f) which is 2.04. We therefore reject H1 and accept H0 and conclude that Inflation did not contribute to the growth of GDP in Nigeria.

The coefficient of determination (R^2) is 0.700119. This shows that the independent variables explained 70% of the total variation in the dependent variable while the remaining 30% is unexplained due to error term (E). The value of Durbin-Watson (DW) is 0.616144. This shows that there is no presence of auto-correlation.

Unit Root Test: ADF TEST

Values	Level form		Difference form		Order of integration
	ADF-STAT	Critical Values	ADF-STAT	Critical Values	
GDP	-3.373387	-4.2605 1% -3.5514 5% -3.2081 10%	-4.811201	-4.2826 1% -3.5614 5% -3.2138 10%	1~(2)
EXT	-1.771657	-4.2605 1% -3.5514 5% -3.2081 10%	-6.302504	-4.2826 1% -3.5614 5% -3.2138 10%	1~(2)
EXR	-2.252703	-4.2605 1% -3.5514 5% -3.2081 10%	-4.836808	-4.2826 1% -3.5614 5% -3.2138 10%	1~(2)
INF	-2.685053	-4.2605 1% -3.5514 5% -3.2081 10%	-3.460805	-4.2826 1% -3.5614 5% -3.2138 10%	1~(2)

E-view computation

H_0: The variables have unit roots (Not Stationary)
H_1: The variables have no unit roots (Stationary)

Decision Rule

Reject Ho if unit root of ADF calculated value is greater than the critical value in absolute terms.

In the result, the ADF statistics for each variable at level form were less than the critical values at 1%, 5% and 10% in absolute term; therefore we accept Ho and conclude that the variables have no unit roots in them. Thus they are not stationary at level form and therefore we difference again.

At the first difference all the variables were not stationary, therefore we difference again. They were stationary except inflation after the second difference and are thus integrated of order 2.

Conclusion

Numerous nations pick outer fund as a methods for guaranteeing continued turn of events and against homegrown getting. The 'double hole' hypothesis hypothesizes that the speculation is an integrate of reserve funds and that venture that requires homegrown reserve funds isn't adequate to guarantee monetary turn of events, accordingly requiring corresponding outside products and enterprises. A significant issue that needs examination is whether outside acquiring drives monetary advancement in borrower states. Outer debt management are important to meet deficiency inner assets, and animate the economy. In any case, it must be appropriately used to maintain a strategic distance from genuine results. Obtaining isn't the most significant issue however the utilization to which the store is conveyed. This ought to be the most significant thing upsetting the brain of any great bookkeeper and Economist at whatever point outside obligation is mulled over. It ought to be

drawn nearer with alert, guaranteeing ideal use and better yield than the intrigue (cost of store). To whole, conversion scale, outer obligation and expansion impact affect a similar economy.

Suggestions/Recommendations

The paper suggests that:

1. The current methodology of getting from the drawn out market by the administration through the Debt Management Office ought to be inspected.
2. Governments need to accelerate the cycle of economic expansion. This will result in a bright and heartfelt economy and reduce the need for external engagement.
3. The fight against corruption should be exempted and the laws that regulate it should be more practical and effective for the government. This reduces the frequency of outside abuse and property theft.
4. Government should attempt however much as could be expected to dodge all types of getting in any case; acquiring should possibly turn into an alternative when high need ventures are being thought of.
5. Government ought to make empowering social-financial condition that will advance industrialization which will thusly pull in unfamiliar direct speculation.

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