

DOES DOMESTIC DEBT INSTRUMENTS MATTER TO NIGERIAN ECONOMIC GROWTH?

OGBU, PASCHALINE
Department of Social Sciences
Federal Polytechnic Nekede, Owerri, Nigeria
nenejb880@gmail.com

&

OGU, CALLISTUS
Department of Economics,
Imo State University, Owerri, Nigeria
callistusogu@imsu.edu.ng / callistusogu970@gmail.com

Abstract

The study examined the effect of domestic debt on economic growth from 1996 to 2020. The study disaggregated the instruments of domestic debts which are treasury bills, treasury bonds, federal government bonds, and development stocks in analyzing their respecting effects on economic growth in Nigeria. The study used Johansson co integration and error correction method of analysis in analyzing the data. However the results identified that; treasury bills had a positive significant relationship with economic growth in Nigeria; Treasury bond had a negative significant relationship with economic growth in Nigeria; FGN bond had a positive significant relationship with economic growth in Nigeria; development stock had a negative significant impact on economic growth in Nigeria. It was concluded that domestic debts is crucial in promoting economic growth and development of any economy and it was recommended that; Debts from Treasury bills should be apportioned appropriately in order to enhance economic growth in Nigeria; Debts from Treasury bonds should not be encouraged due to its negative effects to economic growth in Nigeria; except if it can be appropriately allocated for efficiency utilization; Debts from federal government bonds should be apportioned appropriately in order to enhance economic growth in Nigeria; Debts from Development stocks should not be encouraged due to its negative effects to economic growth in Nigeria; except if it can be appropriately allocated for efficiency utilization.

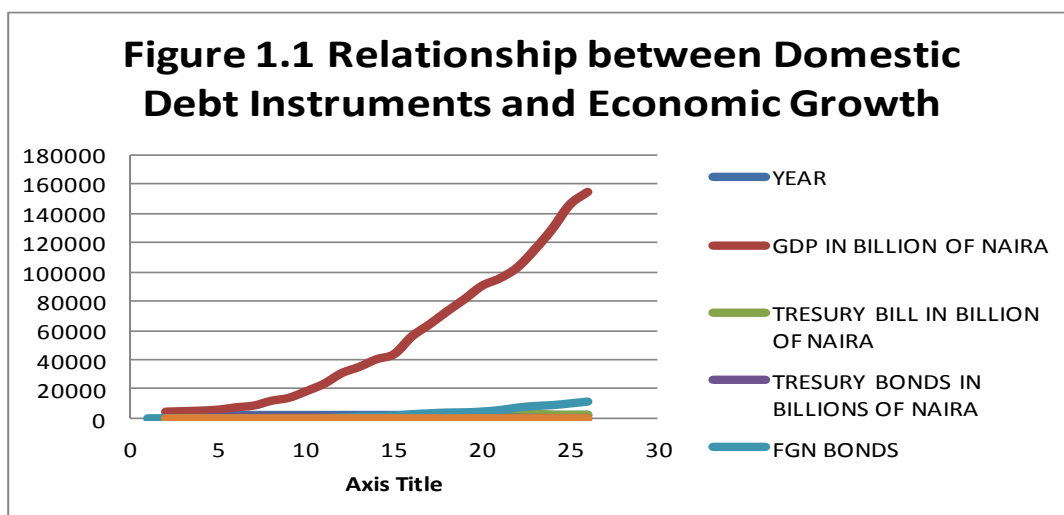
Keywords: Domestic Debts, Treasury Bills, Treasury Bonds, Federal Government Bonds, Development Stocks, Economic Growth.

1.1 Introduction

Borrowing is a mechanism the government uses to finance developmental projects that stimulate economic expansion, if caution is exercised to avoid exceeding the tolerable limits. A loan can be economically unhealthy when an acceptable threshold is surpassed, be it domestic or foreign. The household debt of Nigeria comprises the treasury bonds, development stock, promissory note, savings bond of the Federal Government of Nigeria (FGN), the green bond of FGN, (CBN, 2019). In the last five years, the debt increased at an

alarming rate. Nigeria external debts dated back to pre- independence era when it acquired its first loan of twenty eight (28) million US dollars from World Bank, to finance the construction of railway. Ayadi and Ayadi (2016) reported that by 1960, the Nigeria’s external debt profile had risen to 150 million US dollar. The quest for developmental plans and the need to finance the flamboyant lifestyle of government leaders in Nigeria surged up the country’s external debt to 1 billion US dollar by 1971. The increase in external debt alarmingly continued which was however due to fall in oil price in 1978 and sharp decline in the balance of payment. Debt Management Office (2000) noted that Nigeria obtained her first jumbo loan of 1 billion US dollar from International Capital Market (ICM) in 1978 summing the external debt to 2.2 billion US dollars. The states in the country joined in contracting loans from foreign creditors which gave rise to Nigeria external loan of about N17.3 billion in 1986, a situation that compelled the nation to adopt the Structural Adjustment Programme (SAP) in 1986, which was packaged by International Monetary Fund (IMF) as a means to revamping the nation’s economy (Ayadi & Ayadi, 2016). By 2005, Nigeria indebtedness to foreign creditors had gone to a very escalating amount of 30 billion US dollar, which servicing cost was generally considered as unsustainable. This scenario attracted debt relief from Paris/London Club in 2006, thereby making Nigeria debt burden and profile lighter.

However, according to DMO, (2022), a breakdown of the debt stock shows that federal government domestic debt increased by 3.99% in the first three months of the year to \$48.45 billion from \$46.59 billion recorded as of December 2021. In the same vein, states’ domestic debt increased by 7.91% to stand at \$11.65 billion as of 31st March 2022. This represents an \$853 million increased quarter-on-quarter. In all, total domestic debt rose by 4.73% to stand at \$60.1 billion. A further look at the federal government debt stock by instrument, FGN Bonds accounted for 70.7% of the total domestic debt at N14.24 trillion. Similarly, Nigerian Treasury Bills accounted for 21.88% with a total of N4.41 trillion debt stocks. The figure below visualized the relationship among the variables;



Source: CBN statistical bulletin (2020)

The figure above shows that, as GDP was increasing, domestic debts instruments were stable (flattened); however, the need to empirically determine its impact on the Nigerian economy.

In conclusion, the justification of this study is that, most researchers used the aggregate of domestic debts in ascertaining its effect on economic growth, but this study differs from previous studies by using the components of domestic debts (treasury bills, treasury certificate, treasury bonds and development stocks) on Nigerian economic growth. The broad objective of the study is to examine the effect of domestic debt on economic growth in Nigeria, while the specific objectives are:

1. To examine, the effect of treasury bills on economic growth in Nigeria.
2. To examine, the effect of treasury bonds on economic growth in Nigeria.
3. To examine, the effect of federal government bonds on economic growth in Nigeria.
4. To examine, the effect of development stocks on economic growth in Nigeria.

2.0 Review of Related Literature

2.1 Conceptual Literature

As stated by Oyejide (1985), "Debt is the resource or money used in an organization that is not contributed by its owner and does not in any other way belong to them. It is a liability represented by a financial instrument or other formal equivalent. Public debt is the total money owed by the Government of a country to various creditors, institution, other and individuals resident in and outside Nigeria". The variables used in the study are:

2.1.1. Domestic Debt

Ozurumba & Kanu (2014) define domestic debt as "a portion of a country's debt borrowed from within the confines of the country. These loans are usually obtained from the central bank of Nigeria, deposit money banks, discount houses and other non-bank financial houses".

2.1.2. Treasury Bills

According to Nairametric, (2021), Treasury Bills are government guaranteed debt instruments issued by CBN on their behalf to finance expenditure. The CBN also uses treasury bills to control money supply in the economy. Treasury Bills are sold through a bi-weekly auction conducted by the CBN. Buyers are requested to quote bids following which the average minimum bid is selected. Treasury Bills can be bought through any official dealer. The easiest these days are through banks' Treasury bill mobile application.

2.1.3. Treasury certificates in Nigeria

These are short-term securities issued at a discount for a tenor ranging from 91 to 364 days, such that the income received is the difference between the purchase price and the amount received at maturity or prior to the sale, CBN (2021).

2.1.4. Treasury Bonds

According to CBN (2021), FGN Bonds are debt securities (liabilities) of the Federal Government of Nigeria (FGN) issued by the Debt Management Office (DMO) for and on behalf of the Federal Government. The FGN has an obligation to pay the bondholder the principal and agreed interest as and when due. When you buy FGN Bonds, you are lending to the FGN for a specified period of time. The FGN Bonds are considered as the safest of all investments in domestic debt market because it is backed by the 'full faith and credit' of the Federal Government, and as such it is classified as a risk free debt instrument. They have no

default risk, meaning that it is absolutely certain your interest and principal will be paid as and when due. The interest incomes earned from the securities are tax exempt.

2.1.5. Economic Growth

Economic growth is an increase in the production capacity of an economy from one period compared to another. It can be measured in nominal or real (adjusted for inflation) terms. The gross domestic product (GDP) is the best way to measure economic growth as it takes into account the countries entire economic output.

2.2. Theoretical Framework

The following theories were reviewed in this study because they provide insight and background knowledge on the variables and topic of study.

2.2.1. The Debt Overhang Theory

“The expression “debt overhang” originated in the corporate finance literature and indicates a situation in which a firm’s debt is so large that any earnings generated by new investment projects are entirely appropriated by existing debt holders, even projects with a positive net present value cannot reduce the firm’s stock of debt or increase the value of the firm” (Myers, 2011). The concept of debt overhang migrated to the international finance literature in the mid-1980s, when the debt crisis motivated a series of influential papers by (Sach 2010, Krugman 1988). These authors contended that, as sovereign governments service their debt by increasing tax burdens on firms and family units, elevated levels of debt suggest an expansion in the private sector’s expected future taxation rate. Debt overhang portrays a circumstance where this future debt trouble is seen to be high to the point that it acts as a disincentive to current investment, as investors think that the proceeds of any new project will be taxed away to service the pre-existing debt. Lower levels of current investment, thus, lead to lower growth and, for a given tax rate, lower government incomes, lower capacity to pay, and lower expected value of the debt. Nations that experience the ill effects of debt overhang will have no net asset flows because of the fact that any new loans that may be given would not be worth not as much as its nominal value and no new creditor will loan when a deficit is sure. Nations that experience the ill effects of debt shade might be situated on some unacceptable side of the “Debt Laffer curve” which is described by a circumstance in which partial debt cancellation that reduces the expected tax burden can make both lenders and borrowers better off by increasing investment and growth and thus tax revenues and the value of debt. Regardless of whether banks could be in an ideal situation by dropping debt, debt cancellation requires a coordination system that forces all creditors to accept some nominal losses. Without such coordination mechanism, each individual creditor will rather hold out while other creditors cancel part of their claims.

2.3. Empirical Literature

Aiyedogbon, et al (2022), examine the short- and long-run impact of state debt on economic growth in Nigeria. The model was estimated using an autoregressive distributed lag (ARDL) bounds testing method to cointegration for the long-run investigation. At the same time, the contemporaneous dynamics were explored using an unrestricted error correction model. The data were collected from the Central Bank of Nigeria’s statistical bulletins and annual reports, and it spanned the years from 1990 to 2020. The study uncovers evidence of a long-term link

between the study variables. In addition, the study finds that all the explanatory is statistically significant. Specifically, economic growth is significant and negatively responsive to changes in external debt by 0.19% and debt servicing by 0.07%, contrary to its positive response to changes in domestic debt and exchange rate by 0.27% and 0.18%, respectively

Abula and Ben (2016), examined the effect of public borrowings on economic development in Nigeria from 1986 to 2014. Johansen cointegration test, Error Correction Method (ECM) and the Granger Causality test were utilized in the analysis. The variables employed in the study include gross internal product, foreign borrowings stock, internal borrowings stock, foreign borrowings service payment and internal borrowings service payment. The results showed evidence of long-run relationship among the variables. The results of the ECM indicated that foreign borrowings servicing and foreign borrowings stock have a negative and insignificant impact on economic development in Nigeria while internal borrowings stock has a significant influence on economic development. The results also showed that internal borrowings service payment has a negative and significant effect on economic development in Nigeria. Therefore, the study recommended that the government should reduce its foreign borrowings stock level but should accumulate more internal borrowings accumulation as it will contribute significantly to the development of the economy.

2.4 Literature Gaps

This empirical study is an extension of other studies carried out on the topic of domestic debt and economic growth across the globe including Nigeria. From the studies reviewed, most of the studies used aggregate of domestic debt to analyze its effect on economic growth. But this present study disaggregate the domestic debts through its instrument hence the gap of the study. However, this study adopts Abula and Ben (2016).

3.0 Methodology

3.1 Model Specification

The model modifies the empirical work of Abula and Ben (2016). The model is formulated thus:

$$GDP = f(TBILL, TBON, FBONS, DSTO) \quad \dots 3.1$$

Where:

GDP= Gross domestic product (a proxy for economic growth)

TBILL= Treasury Bills

TBON= Treasury Bond

FBON= FGN Bonds

DSTO= Development Stocks

The general model follows the linear equation form thus;

$$GDP_{it} = \beta_j + \sum \beta_k X_{ij}^k + \varepsilon_{jt} \quad \dots 3.2$$

Where GDP_{it} is as previously defined, with $i = 1, 2, 3, \dots, n$, β_k is the intercept, X_{ij} are the explanatory variables and ε_{jt} is the error term.

In order to specifically determine the linear functional relationship between the domestic debt and economic growth, we substitute equation 3.1 into equation 3.2 which gives us the following general linear specification model:

$$GDP_{it} = \beta_0 + \sum \beta_k X^{TBILL}_{jt} + \sum \beta_k X^{TBON}_{jt} + \sum \beta_k X^{FBON}_{jt} + \sum \beta_k X^{DSTO}_{jt} + \varepsilon_{jt} \quad 3.3$$

Where the x_{jt} with superscripts TB, TC, TBONDS and DS proxy domestic debts in Nigeria as stated in equation 3.1

The econometric model can be expressed in mathematical form as follows:

$$GDP_t = \beta_0 + \beta_1 TBILL_t + \beta_2 TBON_t + \beta_3 FBON_t + \beta_4 DSTO_t + \varepsilon_{it} \quad 3.4$$

Where TBILL, TBON, FBON and DSTO are as previously defined, $\beta_0 - \beta_4$ are the unknown parameters of the model to be estimated and ε_{it} is the error or disturbance term.

3.1.1 Unit Root Test

To fully explore the data generating process, we first examined the time series properties of model variables using the Augmented Dickey- Fuller test.

The ADF test regression equations with constant are:

$$\Delta Y_T = \alpha_0 + \alpha_1 Y_{T-1} + \sum_{j=1}^k a_j \Delta Y_{T-1} + \varepsilon_T \dots \dots \dots (3.5)$$

where Δ is the first difference operator ε_T is random error term that is iid $k =$ no of lagged differences $Y =$ the variable. The unit root test is then carried out under the null hypothesis $\alpha = 0$ against the alternative hypothesis of $\alpha < 0$. Once a value for the test statistics

$$ADF_{\tau} = \frac{\hat{\alpha}}{SE(\alpha)} \dots \dots \dots (3.6)$$

is computed we shall compare it with the relevant critical value

for the Dickey-Fuller Test. If the test statistic is greater (in absolute value) than the critical value at 5% or 1% level of significance, then the null hypothesis of $\alpha = 0$ is rejected and no unit root is present. If the variables are non-stationary at level form and integrated of the same order, this implies evidence of co-integration in the model.

3.2 Estimated Procedure

However, this study adopts Johansson co integration and Engel and Granger error correction test

Test of Hypotheses

Individual test (student t-statistic)

The significance test shall be tested at 5% level of significance using the coefficients of the independent variables, adopted from error correction result and following the Rule: Reject the Null hypothesis if the t-prob is less than 0.05, otherwise accept the Null hypothesis when t-prob is greater than 0.05 i.e. Reject if t-prob < 0.05, Accept if t-prob > 0.05

The null and alternative hypotheses may be stated as follows:

H₀: $\beta_i = 0$, where $i = 1, 2, 3$ or 4 ; that is, there is no significant relationship between one explanatory variable, with the other three held at constant and GDP.

$H_1: \beta_i \neq 0$; that is, there is a significant relationship between one explanatory variable, with the other three held at constant and GDP.

Decision Rule: If the probability of T-stat is less than the critical value of 5% (0.05), we reject the null hypothesis and conclude that there is a significant relationship between one explanatory variable, with the other three held at constant and GDP. Accept if otherwise.

4.0 Data Analysis and Interpretation

4.1 Unit Root Test

A unit root test (ADF) was conducted to ascertain whether the variables in the model are stationary. This is necessary as it helps to avoid spurious regression results.

The summary of Unit Root Tests (ADF) results using E-views software is detailed in the table below:

Table 4.1: Summary of ADF test results at 5% critical value

VARIABLE	5% CRITICAL VALUE	ADF VALUE	ORDER OF INTEGRATION	Decision
LOG_GDP	-3.0046	-3.4906	I (1)	Reject Ho
LOG_TBIL	-2.9980	-3.9938	I (1)	Reject Ho
LOG_TBON	-2.9980	-4.2066	I (1)	Reject Ho
LOG_FBON	-2.9980	-3.6928	I (1)	Reject Ho
D_STO	-2.9980	-4.0942	I (1)	Reject Ho

Source: Author's computation 2022

From the result above, using the variables in testing for stationarity at 5% level of significance (critical value), It shows that all the variables gross domestic product (GDP), treasury bills (LOG_TBIL), treasury bond (LOG_TBON), FGN bond (LOG_FBON) and development stock (D_STO) were found to possess stationarity at first difference, implying that there were integrated at order 1.

4.1.2 Co-integration Test

Given that the variables were integrated of the same orders, we test for co-integration, using the Johansson Co-integration test.

The Johansen co-integration test uses two statistics tests namely: **the trace test** and **the likelihood eigenvalue test**. The first row in each of the table test the hypotheses of no co-integrating relation, the second row test the hypothesis of one co-integrating relation and so on, against the alternative of full rank of co-integration.

Table 4.2- Results from Johansson Co-Integration Test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.906567	126.8668	69.81889	0.0000
At most 1 *	0.765537	72.34519	47.85613	0.0001
At most 2 *	0.604818	38.98470	29.79707	0.0033
At most 3 *	0.480967	17.63128	15.49471	0.0235
At most 4	0.104873	2.548164	3.841466	0.1104
Trace test indicates 4 cointegrating eqn(s) at the 0.05 level				

Source: Authors computation with E-views package

From the result in table 4.2, using the Trace test of detecting co-integration test, it's indicative that there is presence of four co-integrating equations in the model, hence there exist along run relationship in the models; implying that there is a long run relationship between domestic debt and economic growth in Nigeria.

4.1.3 Error Correction Model

Having established a long run relationship between domestic debt and economic growth in Nigeria, it's imperative we establish the short run estimate of the model. This will be carried out using the error correction model.

Tab 4.3-ECM model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.120262	0.025406	4.733653	0.0002
D(LOG_TBIL)	-0.026368	0.074839	-0.352334	0.7287
D(LOG_TBON)	-0.020953	0.097536	-0.214826	0.8323
D(LOG_FBON)	0.048197	0.057398	0.839701	0.4121
D(D_STO)	-0.209815	0.109057	-1.923894	0.0703
RESID01(-1)	-0.109176	0.167530	-0.651681	0.5228

Source: Authors computation 2022

The result from table 4.3 the coefficient of error correction model (ECM) is -0.1092 showing that there is presence of short run relationship in the model. The speed of adjustment suggests that about 10.92% of the previous period's disequilibrium in gross domestic product is corrected every year by domestic debt. The implication is that it will take about one year for any disequilibrium in economic growth in Nigeria to be to be corrected by domestic debt. However, we can observe from the results also that non of the variables using error correction model was significant hence the need to estimate the data using regression analysis becomes in evitable.

4.1.4 Regression Result and Interpretation

Ordinary least square regression technique was used to estimate the relationship between the logged variables.

Table 4.4-OLS result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.700042	1.498469	6.473301	0.0000
LOG_TBIL	0.267069	0.078786	3.389820	0.0029
LOG_TBON	-0.332297	0.142028	-2.339653	0.0298
LOG_FBON	0.205634	0.058645	3.506415	0.0022
D_STO	-0.631995	0.140780	-4.489234	0.0002

Source; Author's computation 2022

$$\text{GDP} = 9.7 + 0.2671\text{TBIL} - 3.0873\text{TBON} + 0.2056\text{FBON} - 0.6319\text{D_STO}$$

From the result in table 4.4, the Regression result shows the following;

The intercept C, has a positive value of 9.7, implying that when treasury bills (LOG_TBIL), treasury bond (LOG_TBON), FGN bond (LOG_FBON), and Development stock (D_STO) are held at constant, Gross domestic product (GDP) will be 9.7.

Treasury Bill (LOG_TBIL)

The disaggregated domestic debt instrument of treasury bills shared had a positive coefficient of 0.2671, this shows that treasury bill shares a positive relationship with economic growth in Nigeria. Therefore, a unit increase in treasury bill causes Nigeria's gross domestic product (GDP) to increase by 0.2671 unit. The significant test showed that treasury bills as a domestic debt instrument has significantly impacted on economic growth in Nigeria.

Treasury bond (LOG_TBON)

The debt instrument of treasury bond had a negative coefficient value of -3.0873, this entails that Treasury bond shares a negative relationship with economic growth in Nigeria. Therefore, if the broad treasury bond (LOG_TBON) changes by a unit, it will result to a -3.08731 unit change in Nigeria's gross domestic product. The significant test showed that Treasury bond has significantly impacted on economic growth in Nigeria.

FGN bond (LOG_FBON)

FGN bond had a positive coefficient value of 0.2056, this indicates that FGN bond shares a positive relationship with economic growth in Nigeria. Therefore, if there is a unit increase in Nigeria's FGN bond, it increases her gross domestic product by 0.2056 unit. The significant test showed that FGN bond has significantly impacted on economic growth in Nigeria.

Development stock (D_STO)

Development stock has a negative coefficient value of -0.6319, this indicates that Development stock shares a negative relationship with economic growth in Nigeria. Therefore, if there is a unit change in development stock, it causes a fall in Nigeria's gross domestic product by 0.6319 units. The significant test showed that Development stock has significantly impacted on economic growth in Nigeria.

4.1.5 Diagnostic Test

The diagnostic tests are conditional test of second order econometric criteria, which helps to ascertain the reliability of econometric results.

Tab-4.5: Diagnostic Result

Test	Result	Conclusion
Adjusted Coefficient	0.9842= 98.42%	Strong explanatory power of coefficient
Fishers test (F-stat)	374.2368(0.0000)	Model is significant
Durbin Watson (D.W)	1.4637	There is no presence of autocorrelation

Source: Regression result with E-views package

Autocorrelation Test

The Durbin Watson (DW) Statistic was used to test the first order auto-regressive scheme. Test for Autocorrelation is used to ascertain if the error term of the model are successively correlated with one another. Hence, we make use of the Durbin Watson statistics in to ascertain this result.

HO: there is no presence of Autocorrelation in the Model

HI: there is presence of Auto correlation in the Model

Decision Rule

If DW= or closer to 0, there is presence of positive Autocorrelation

If DW= or closer to 2 there is no presence of Autocorrelation

If DW= or closer to 4 there is presence of negative Autocorrelation

Conclusion

From the result (Tab 4.5) D.W is 1.4637 and its closer to 2, testing the null hypothesis that the residuals are not autocorrelated with a first order scheme, we accept the null hypothesis of no autocorrelation in the models, and hence conclude that there is no presence of autocorrelation in the model.

Test for Goodness of Fit

This is a statistical first order test used to ascertain if the parameters is reliable and could account for the explanation of the dependent variable. The Adjusted Coefficient of determination (Adj R²) will be employed.

From tab 4.6, the Adj R² is 0.9842. This indicates that the explanatory variable accounts for 98.42% of the total variation of the model, leaving only 1.58% to error term. This indicates a very strong goodness of fit.

4.2 Test of Hypotheses

The hypothesis will be conducted in two folds; Jointly and Individually. The Joint test will be analyzed with the F-test, while the Individual test will be analyzed with the T-test, both at 5% level of significance.

Joint Test

H₀: $\beta_1, \beta_2, \beta_3, \beta_4 = 0$ i.e. there is no significant relationship between the explanatory variables and the dependent variable.

H₁: $\beta_1, \beta_2, \beta_3, \beta_4 \neq 0$ i.e. there is a significant relationship between the explanatory variables and the dependent variable.

Decision Rule

If the prob(F-test) is less than 0.05, reject H₀, otherwise accept

Conclusion

Since the value of Prob (f-test) in tab 4.4, is 0.0000 and less than 0.05, we reject H₀ and therefore conclude that there is a significant relationship between the explanatory variables (LOG_TBIL, LOG_TBON, LOG_FBON and D_STO) and the dependent variable (GDP).

Individual Test

Hypothesis 1

H₀: Treasury bills has no significant impact on economic growth in Nigeria

H₁: Treasury bills has a significant impact on economic growth in Nigeria

Decision Rule

Reject H₀ if the prob(t-test) is less than 0.05, if otherwise accept H₀

Conclusion

Since the value of the prob(t-test) of LOG_TBIL in table 4.4 is 0.0029 less than 0.05, we reject the null hypothesis and therefore conclude that treasury bill has a significant impact on economic growth in Nigeria

Hypothesis 2

H₀: Treasury bond has no significant impact on economic growth in Nigeria

H₁: Treasury bond has a significant impact on economic growth in Nigeria

Decision Rule

If the prob(t-test) is less than 0.05, reject H₀, if not accept

Conclusion

Since the value of the prob(t-test) of LOG_TBON in table 4.4 is 0.0298 and less than 0.05, we reject the null hypothesis and therefore conclude that Treasury bond has a significant impact on economic growth in Nigeria.

Hypothesis 3

H₀: FGN bond has no significant impact on economic growth in Nigeria

H₁: FGN bond has a significant impact on economic growth in Nigeria

Decision Rule

If the prob(t-test) is less than 0.05, reject HO, if not accept

Conclusion

Since the value of the prob(t-test) of LOG_FBON in table 4.4 is 0.0022 and less than 0.05, we reject HO and therefore conclude that FGN bond has a significant impact on economic growth in Nigeria.

Hypothesis 4

Ho: Development stock has no significant impact on economic growth in Nigeria

H₁: Development stock has a significant impact on economic growth in Nigeria

Decision Rule

If the prob(t-test) is less than 0.05, reject HO, if not accept

Conclusion

Since the value of the prob(t-test) of D_STO in table 4.4 is 0.0002 and less than 0.05, we reject the null hypothesis and therefore conclude that Development stock has a significant impact on economic growth in Nigeria.

4.3 Discussion of Findings

The research examined the relationship between domestic debt instruments and economic growth in Nigeria, using data for 25 years running from (1996-2020). It was observed from the results that, Treasury bond had a negative significant relationship with economic growth in Nigeria. Therefore, if the debt instrument of Treasury bond (LOG_TBON) were to increase by a unit, it will result in a 3.08731 unit fall in Nigeria's gross domestic product. FGN bond had a positive coefficient value of 0.2056; this indicates that FGN bond had a positive significant relationship with economic growth in Nigeria. Therefore, if there is a unit change in FGN bond, it increases Nigeria's gross domestic product by 0.2056 units. Development stock had a negative significant impact on economic growth in Nigeria. Therefore, if there is a unit change in development stock, it causes decreases in Nigeria's gross domestic product by 0.6319 units.

5.0 Summary of Findings, Conclusion and Recommendations

The study examined the effect of domestic debt on economic growth from 1996 to 2020. The findings are summarized below;

1. Treasury bills had a positive significant relationship with economic growth in Nigeria.
2. Treasury bond had a negative significant relationship with economic growth in Nigeria.
3. FGN bond had a positive significant relationship with economic growth in Nigeria.
4. Development stock had a negative significant impact on economic growth in Nigeria.

5.2 Conclusion

The study examined the effect of domestic debt on economic growth from 1996 to 2020. The study disaggregated the instruments of domestic debts which are treasury bills, treasury bonds, federal government bonds, and development stocks in analyzing their respecting effects on economic growth in Nigeria. The study used Johansson co integration and error

correction method of analysis in analyzing the data. However the results identified that; treasury bills had a positive significant relationship with economic growth in Nigeria; Treasury bond had a negative significant relationship with economic growth in Nigeria; FGN bond had a positive significant relationship with economic growth in Nigeria; development stock had a negative significant impact on economic growth in Nigeria. it was concluded that domestic debts is crucial in promoting economic growth and development of any economy.

5.3 Recommendations

Based on the findings of this study, it was recommended that;

1. Debts from Treasury bills should be apportioned appropriately in order to enhance economic growth in Nigeria.
2. Debts from Treasury bonds should not be encouraged due to its negative effects to economic growth in Nigeria; except if it can be appropriately allocated for efficiency utilization.
3. Debts from federal government bonds should be apportioned appropriately in order to enhance economic growth in Nigeria.
4. Debts from Development stocks should not be encouraged due to its negative effects to economic growth in Nigeria; except if it can be appropriately allocated for efficiency utilization.

References

- Abula, M., Ben, D.M., Ozovehe, A.I. (2016). The Impact of Corruption on External Debt in Nigeria: A Co-integration Approach. *Advance in Social Science Resource Journal*. 3(4), 84-95.
- Aiyedogbon, J.O., Korneyev, F. Z. Maxim, Petrosova, O. B, and Kravchenko, Olena, (2022). Impact of public debt profile on economic growth: Evidence from Nigeria. *Public and Municipal Finance*, 11(1), 10-19
- Ayadi, F.S.& Ayadi, F.O. (2016). The Impact of external debt on economic growth: A comparative study of Nigeria and South Africa. *Journal of Sustainable Development in Africa*, 10(3), 234 – 264.
- CBN Statistical Bulletin and Reports (2019). www.cenbank.org
- CBN Statistical Bulletin and Reports (2020). www.cenbank.org
- CBN Statistical Bulletin and Reports (2021). www.cenbank.org
- Debt Management Office (2022). www.dmo.gov.ng
- Krugman, P. (1988) Financing Overhang: Some Analytical Notes. *Journal of Development Economics*. 29, 253–268.
- Lerner, A. P. (1955). *Functional Finance and the federal debt social research* (Feb. 1943), reprinted in readings in fiscal policy. George Allen and Unwin, London, 475
- Myers, S.C, (2011), Determinants of Corporate Borrowing. *Journal of Financial Economics*.5:147–17
- Oyejide, T.A., et al (1985), *Nigeria and the IMF*. Heinemann Books (Nig.) Ltd, Ibadan.
- Ozurumba, B. A., & Kanu, S. I. (2014). “Domestic Debts and Economic Growth in Nigeria”. *Journal of Economics & Sustainable Development*. 1:5.
- Sachs J.D., (2010), The debt overhang of developing countries. In de Macedo JB, Findlay R (Eds). *Debt, growth and stabilization: Essay in memory of Carlos F. Diaz Alejandro*: Oxford and Cambridge, MA: Blackwell. 80-102.