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Sovereign Debt and Economic Development: Evidence from Nigeria

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ABSTRACT:

Sovereign debt is a critical fiscal policy instrument used by government to achieve its set macroeconomic objective making it a critical subject in economics and finance and hence our motivation for the need to examined the impact of sovereign debt on economic development of Nigeria. Sovereign debt was broken into external debt, domestic debt and debt services while economic development was proxied by per capita income. Annual time series data from 1990 to 2021 obtained from Central Bank of Nigeria statistical bulletin was used for analysis while statistical method of analysis employed include the ARDL and its associated bond test which was motivated by the fractional order of integrated observed in the Philip Perron Unit root test and the granger causality test. Results showed absence of long run equilibrium relationship between sovereign debt and economic development and that in the short run, all the debt component studied showed insignificant negative association with per capital income. The causality test showed presence of a unidirectional causality flowing from per capita income to external debt and debt services while a bidirectional causality was recorded between domestic debt and per capita income. The study recommends the need for sovereign borrowing to be channeled into economic activities that have the capability of generating further income and further improve the lives of citizens.

KEYWORDS:

Sovereign Debt, External Debt, Domestic Debt, Debt Services, Economic Development.

INTRODUCTION

Sovereign debt, also known as government debt or national debt, refers to the total amount of money a government owes to creditors. It represents the accumulation of past borrowing by the government to finance budget deficits or other financial obligations. It is productive when it's expected to create assets which will yield income sufficiently to pay both principal and interest (Nwanmuo and Agu, 2021).Sovereign debt is typically incurred by issuing government bonds, treasury bills, or other debt instruments to investors, financial institutions, other agencies. Governments borrow money through the sale of these debt securities, which are essentially promises to repay the borrowed amount with interest over a specified period. Government prefers to accumulate debt for financing budget deficit because it is an anti-inflationary mechanism (Munasingha el ta, 2018).The debt may be owed domestically which is referred to as domestic debt or externallyor to foreign entities, such as foreign governments, international organizations, or private investors and in such case will be referred to as foreign or external debt.

Economic theory maintains that sovereign debt can either stimulate the economy or hinder growth depending on the structure of the debt (Onofreie el ta, 2022). Siong el ta (2021) stressed that from the theoretical view point, a high debt level poses a challenge to economic growth as huge amount will be required to services such high debt. Ideally, the essence of public borrowing is to promote growth and development of an economy (Essien elta, 2016). Sovereign borrowing constitutes the means through which countries bridge deficit financing gap and carry out their other economic objective like output level increase (Eke and Akujuobi, 2021).

Increase on government borrowing can occur as a result of increase in government expenditure, rise in public investment, reduction in government revenue (Soyres el ta, 2022). When government is short of revenue, its primary activities like provision of basic social amenities does not come to a hurt but rather might result in borrowing from the international communities or borrow domestically to continue with its objective as the case maybe. Although there are augments on the effect of government borrowing on economic growth as Heimberger (2021) argued that a negative effect of public borrowing on growth can occur due to crowding out effect. Heimberger (2021) stressed further that increase in fiscal deficit will lead to higher interest rate which may crowd out investment in the private sector.

Be it domestic or external debt, government pays interest on them which is regarded as debt servicing. Debt servicing refers to the process of making interest payments and repaying the principal amount of a debt obligation. When a government, company, or individual borrows money, they enter into an agreement with the creditor that specifies the terms of repayment. Debt servicing involves fulfilling these repayment obligations according to the agreed-upon terms. It basically involves two components; interest Payments and principal Repayment. Debt servicing is a critical aspect of debt management, and the ability to meet debt obligations is crucial for maintaining the borrower's credibility and financial stability. The total amount of debt servicing depends on factors such as the size of the debt, the interest rate, the repayment schedule, and any prepayment penalties or fees associated with the debt. Debt servicing costs are an essential consideration for governments when managing their finances and planning their budgets.

For governments, debt servicing is a significant component of their budgetary expenditure. Governments allocate funds for debt servicing from their revenue sources, such as taxes, fees, or other income streams. The proportion of a government's budget dedicated to debt servicing can vary

depending on the country's debt level, interest rates, and overall fiscal health.Effective debt management involves balancing the need for borrowing with the ability to service the debt comfortably. Sustainable debt levels and efficient debt servicing are crucial to maintaining fiscal stability, avoiding default risks, and ensuring the availability of funds for other essential public expenditures.

Series of works has been done on the subject of sovereign debt both locally and internationally adopting different measure for debt at different time intervals like Hilton (2021) study was based on Ghana and reported no causality between public debt and economic growth in the short run, Yusuf and Mohd (2023) studied nonlinear effect of debt on economic growth of Nigeria and recorded external debt to have a positive impact on growth, debt serving to stifle growth and domestic debt to retard growth in the short and long run while Checherita and Rother (2012) reported a nonlinear impact of debt on economic growth is 12 EU countries studied.

Given the varying opinions about the impact of domestic and external debt otherwise known as sovereign debt, it has now become a concern for the researcher to carry out a study to investigate the effect of domestic and external debt on the economic development of Nigeria and to further probe into the direction of causation if any between them. Nigerian economic development will be proxied with Nigeria's per capital Income which is a measure for economic development.

2.0 Literature Review

2.1 Concept of Domestic and External Debt

Domestic and external debt refers to two distinct types of debt incurred by a government, differentiated by the source of the creditors and the location of the borrowed funds.

Domestic Debt: Domestic debt, also known as internal debt, refers to the debt obligations owed by a government to creditors within its own country. These creditors typically include domestic individuals, financial institutions, pension funds, insurance companies, and the central bank. Domestic debt is denominated in the currency of the country and is subject to the domestic legal and regulatory framework. Government issues various domestic debt instruments to borrow money, such as treasury bonds, treasury bills, savings bonds, and government securities. These instruments are often purchased by domestic investors seeking a safe and relatively low-risk investment option. The interest rates on domestic debt are determined by market forces and can be influenced by factors such as inflation, fiscal policies, and the overall demand for government securities.

External Debt: External debt, also known as foreign debt, refers to the debt obligations owed by a government to foreign creditors or entities located outside the country. It represents the borrowing from international sources, including foreign governments, international financial institutions (such as the World Bank or International Monetary Fund), foreign banks, and private investors from other countries. External debt is typically denominated in foreign currencies. Governments may issue external debt to finance various purposes, including infrastructure projects, development programs, budget deficits, or to stabilize their foreign exchange reserves. The terms and conditions of external debt, including interest rates and repayment terms, are negotiated between the borrowing government and the foreign creditors. Sani and Nwite (2021) stressed that external debt can easily be repaid through increase in tax or note printing and that whichever way, it has its challenges and hence poses difficulty in repayment due to harsh lending conditions. Therefore, prudent management of external debt is crucial to maintaining fiscal stability and ensuring that debt remains at sustainable levels.

Managing domestic and external debt is an important aspect of a government's fiscal policy. It involves balancing the need for financing with the associated costs and risks. Governments aim to maintain debt sustainability by ensuring that debt levels are manageable and that the proceeds from borrowing are used for productive purposes that contribute to economic growth and development.

2.2 Conceptual Link between Sovereign Debt and Economic Development

The link between sovereign debt and economic development is complex and can depend on various factors such as economic activity stimulation. According to Yusuf and Mohd (2023), sovereign debt is seen as important tool nations use to influence economic growth and development especially when used for capital formation (Nzeh, 2020). When the government borrows and uses the funds for productive investments, such as infrastructure development, education, healthcare, or research and development, it can contribute to increased productivity, job creation, and overall economic development Yusuf, Mohd & McMillan, 2021). Well-targeted and efficiently implemented government spending financed by debt can have positive multiplier effects on the economy Essien, Agboegbulem, Mba and Onumonu (2016) argued that sovereign debt is meant to enhance growth and development of an economy. High levels of sovereign debtaccording to Yusuf and Mohd (2023) can have severe influence on economic pursuit of developing nations due to debt trap and overhang. It can crowd out private sector investment and potentially hinder economic development. When the government competes with the private sector for funds in the domestic financial market, it can lead to higher interest rates and according to Yusuf el ta (2021), interest cost of borrowing can rise quickly with the stock of debt. Higher interest rates make it more expensive for businesses and individuals to borrow for productive investments, which can dampen private sector activity and economic growth more so, debt servicing costs associated with debt can impact economic development. If a significant portion of the government's revenue is directed towards debt servicing, it can reduce the funds available for other productive expenditures, such as infrastructure, education, healthcare, or social welfare programs. High debt servicing costs can erode confidence (Nzeh, 2020) and limit fiscal flexibility and hinder the government's ability to implement growth-enhancing policies. Additionally, the level and management of debt play a critical role in economic development. Excessive debt levels, unsustainable fiscal policies, or a lack of fiscal discipline can erode investor confidence, increase borrowing costs, and lead to macroeconomic instability. Sound fiscal management and sustainable debt levels are essential for maintaining investor confidence, promoting stable economic conditions, and supporting long-term economic growth and development. It is important to note that the impact of debt on economic development varies depending on factors like level of debt, the efficiency of public spending, the credibility of fiscal policies, the institutional framework, and the broader economic context. Effective debt management, prudent fiscal policies, and productive use of borrowed funds are crucial to ensure that debt contributes positively to economic development.

2.3 Theoretical Framework

The relationship between sovereign debt and economic development has been a subject of debate among economists. Several theories attempt to explain this relationship and its implications and prominent among them includes:

Ricardian Equivalence Theory: The Ricardian Equivalence theory, proposed by economist David Ricardo, suggests that individuals are forward-looking and rational in their expectations of future taxes. According to this theory, individuals anticipate that government debt will eventually need to be repaid through higher taxes. As a result, they adjust their saving and spending behavior accordingly,

offsetting the effects of government borrowing. In this view, public debt has little impact on economic development because private saving and spending decisions neutralize the effects of government deficits. Pettinger (2017) puts it that the more government spending is financed by borrowing, the lower future spending will be. He stresses further that if this theory is true, it would mean a tax cut financed by higher government debt would have no impact on increasing aggregate demand because consumers would save the tax cut to pay the future tax increases.

Keynesian Theory: The Keynesian theory, developed by economist John Maynard Keynes, emphasizes the role of government spending and borrowing in stimulating economic activity. According to Keynes, during periods of economic downturn or recession, increased government spending financed by borrowing can boost aggregate demand and stimulate economic growth. Keynes argued that public debt can be a useful tool for fiscal policy, as long as it is used to support productive investments and counteract economic downturns.

Neoclassical Growth Theory: Neoclassical growth theory, which builds upon the work of economists Robert Solow and Paul Romer, focuses on the long-term effects of public debt on economic growth. According to this theory, excessive public debt can have detrimental effects on economic performance. High levels of debt can lead to higher interest rates, crowd out private investment, and divert resources away from productive activities. This can result in lower long-term economic growth rates. Neoclassical growth theorists generally argue for prudent fiscal policies that ensure debt sustainability and avoid excessive borrowing.

2.4 Empirical review

Yusuf and Mohd (2023) studied the nonlinear effect of public debt in the economic growth of Nigeria for the period of 1980 to 2020 and employed the nonlinear autoregressive distributed lag method of analysis. Their result showed that external debt showed significant positive impact on economic growth in the long and short run, debt serving was seen to stifle growth while domestic debt was found to retard growth in the short and long run.Kalu and Boniface (2023) in their empirical analysis of the effect of public debt on the economic growth of Nigeria applied the multiple regression technique and reported external debt to have a significant negative impact on gross domestic product while domestic debt showed a significant positive impact on gross domestic product.

Onofrei el ta (2022) studied the impact of public debt on growth of EU countries for the time period of 1995 to 2019. They proxied with government gross debt as percentage of gross domestic product while per capita growth rate was used to proxy economic growth. They employed the autoregressive distributed lag model, pooled mean group, mean group and the dynamic fixed effect. They reported that an increase in public debt negatively and significantly associate with economic growth of the EU countries studied both in the short and long run.

Siong el ta (2021) examined the impact of public debt on economic growth of developing countries by using the dynamic panel threshold technique for the period of 1984 to 2015. They reported a threshold value of 51.65 percent and stated that public debt showed a negative and statistically significant impact on economic growth at a high level but insignificant effect at the low level.In an empirical investigation into the effect of public debt on economic growth of Nigeria, Eke and Akujuobi (2021) employed a cointegration approach in their study which covered 1981 to 2021 and reported a short run relationship between public debt and economic growth in Nigeria and further stated that both domestic and external debt were statistically significant.

Hilton (2021) investigated the impact of public debt on economic growth of developing economies with emphasis on Ghana and employed the dynamic multivariate autoregressive distributed lag-based granger causality model to determine public debt impact on economic growth from 1978 to 2018. Annual time series data was obtained from world bank development indicators data base and the IMF fiscal affairs department. The results showed that public debt recorded no causality with gross domestic product of Ghana in the short run while a unidirectional causality flowing from public debt to gross domestic product in the long run was observed.

Ezenwobi and Anisiobe (2021) examined the effect of government debt on economic development in Nigeria from 1990 to 2020 with annual times series data sourced from central bank of Nigeria statistical bulletin and the world bank data base. They employed the error correction model, cointegration and unit root test. Their study explanatory variables were external debt, domestic debt interest rate and inflation rate while human development index was used to proxy economic development. Their result showed that external and domestic debt were positive and significantly relate to economic growth.Al Kasasbeh (2021) in his investigating whether public debt contribute to the economic growth of Jordan for the period of 1980 to 2020 reported public debt to have a negative impact on Jordan's economic growth and further observed a bidirectional causality between public debt and economic growth in Jordan.

Chile (2020) investigated the optimal threshold level of public debt on economic growth of Nigeria for the period of 1981 to 2018 using analytical method of autoregressive distributed lag bod technique and reported public debt to contribute to economic growth both in the short and long run and concluded that at a certain threshold, public debt leads to declining growth in both short and long run and reported optima threshold of debt to be 40.2 percent for both time horizons.

Munasinghe el ta (2018) studied the long run association between public debt and economic growth of Sri Lanka between 1977 and 2012 and collected annual time series data on domestic debt, external debt and expenditure on education which was their independent variables while gross domestic product was their dependent variable. They employed the error correction model and the cointegration for their analysis and reported a presence of long run relationship between public debt and economic growth of Sri Lanka.

Essien el ta (2016) did an empirical analysis of macroeconomic impact of public debt in Nigeria by employing analytical tools of vector autoregressive framework, granger causality test, impulse response and variance decomposition to study the impact of prime lending rate, consumer price index, external debt and domestic debt on real gross domestic product and reported that domestic debt and external debt had no significant impact on general price level and output during the period of their study (1970-2020).

Checherita and Rother (2012) investigated the impact of high government debt on economic of 12 Euro areas for 40 years' period starting from 1970 and reported a nonlinear impact of debt on growth.Casares (2015) studied the relationship between external public debt and economic growth and also reported a nonlinear relationship external public debt and growth of developing and developed countries. Egbetunde (2012) examined the causal relationship between public debt and economic growth of Nigeria between 1970 to 2010 using vector autoregressive and cointegration method of analysis and reported the presence of a long run relationship between public debt and economic growth in Nigeria as well as bidirectional causality. The study concluded that public debt and economic growth are positively related in Nigeria.

3.0 Methodology and Materials

3. 1 Research Design

This study adopts the expo-facto research design because the study was based historical data published by the Central Bank of Nigerian (CBN) statistical bulleting for the variables under study for the period of 1990 to 2021.

3.2 Data and Variable Description

Table 1

Data on Per Capital Income, External Debt, Domestic Debt and Total Debt Services all in Billion from 1990 to 2021

YEAR	PCI	ExD	DmD	Dser
1990	4917.54	298.61	84.09	23.82
1991	5739.4	328.45	116.20	26.41
1992	8487.44	544.26	177.96	19.4
1993	11206.21	633.14	273.84	81.08
1994	15630.23	648.81	407.58	49.4
1995	27272.25	716.87	477.73	51.06
1996	35308.93	617.32	419.98	42.96
1997	37346.68	595.93	501.75	68.54
1998	39171.57	633.02	560.83	64.39
1999	44827.17	2,577.37	794.81	30.84
2000	52643.98	3,097.38	898.25	131.05
2001	62036.26	3,176.29	1,016.97	155.42
2002	83721.29	3,932.88	1,166.00	163.81
2003	95277.54	4,478.33	1,329.68	363.51
2004	124253.7	4,890.27	1,370.33	382.5
2005	153869.7	2,695.07	1,525.91	394
2006	208911.4	451.46	1,753.26	249.3
2007	226768.7	438.89	2,169.64	213.73
2008	253928.2	523.25	2,320.31	381.2
2009	267572	590.44	3,228.03	251.79
2010	326045.8	689.84	4,551.82	415.66
2011	366260.4	896.85	5,622.84	527.18
2012	411849.3	1,026.90	6,537.54	679.3
2013	448257.1	1,387.33	7,118.98	828.1
2014	493915.5	1,631.50	7,904.03	941.7
2015	511620.4	2,111.51	8,837.00	1060.38
2016	539740.6	3,478.92	11,058.20	1426
2017	583554.3	5,787.51	12,589.49	1823.89
2018	628756	7,759.23	12,774.41	2161.37
2019	565917.65	9,022.42	14,272.64	2454.07

2020	579492.08	12,705.62	16,023.89	3264.9
2021	589430	15,855.23	19,242.56	4221.65

Source: CBN Statistical Bulletin and World Bank Database

3.3 Model Specification

Relying on the Keynesian theory, we state the functional model is as follow;

Economic Development = f(external debt, domestic debt)……..……. (1)

This can be further expressed as follows by introducing Per Capita Income (PCI) as proxy for economic performance and by adding debt servicing.

PCI = f (Exd, Dmd, Dser) ……..……..……. (2)

The above function can further be transformed into and econometric equation as follows;

$PCI = \beta o + B_1 Exd_t + \beta_2 Dmd_t + \beta_3 Dser_t + ...e$ …….. (3)

Where:

PCI = Per Capita Income

Exd = External debt

Dmd = Domestic debt

Dser = Debt services

β = Beta Coefficient

e = Error Term of the Estimate

t = Implies that the data are times series

3.4 Methods of Data Analysis

This study has been aimed at investigating sovereign debt impact on economic development of Nigeria and to also to know the direction of causality among them. To ascertain that, the following statistical tools with the aid of econometric software (Eviews 10) were employed to support our analysis. The Philips-Perron unit root test is used to determine the stationarity of our data set. It is accepted that the series is stationary should the Philips-Perron test statistics be greater than the given critical values at 1%, 5% and 10% levels of significance respectively and the Autoregressive distributive lag (ARDL) long run bond test was applied to determine the short and long run relationship since there was presence of fractional integration in our variables. The Granger causality test was used to determine the causal relationship between our explained and explanatory variables.

4.0 Presentation of Results

4.1 Unit Root Test

The Philip Perron unit root test was utilized to determine the stationarity of our employed time series data. Below table shows the result of out Philip Perron unit root test.

Table 2: Unit Root Test Result

Variables	P-P Statistic	Mackinnon Critical value at			Probability	Order of Integration
		1%	5%	10%		
PCI	4.266	3.670	2.963	2.621	0.0039	1(1)
ExD	1.766	3.670	2.963	2.621	0.389	1(0)
DmD	0.147	3.670	2.963	2.621	0.964	1(0)
DSer	1.135	3.670	2.963	2.621	0.996	1(0)

From the above result, we observed that all the variables were not stationary after first differencing except for per capital income that was stationary in the order of 1(1) as seen in the above table. Given this, we will use the Autoregressive Distributed Lag (ARDL) long form bond test to determine the short run impact of sovereign debt on Nigeria's economic development.

4.2 Auto Regressive Distributive Lag (ARDL) Test

The ARDL test is employed to determine the short run relationship between sovereign debt and economic development in Nigeria. The below table shows the result of the ARDL test carried out.

Table 3: Result of the ARDL Test

Dependent Variable: PCI
Method: ARDL
Date: 01/29/24 Time: 11:05
Sample (adjusted): 1991 2021
Included observations: 31 after adjustments
Dependent lags: 1 (Fixed)
Dynamic regressors (0 lag, fixed):
Fixed regressors: EXD DMD DSER C

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
PCI(-1)	1.077381	0.106491	10.11711	0.0000
EXD	-1.873585	3.912435	-0.478880	0.6360
DMD	-1.269907	8.344845	-0.152179	0.8802
DSER	-2.505392	34.75946	-0.072078	0.9431
C	14400.10	8416.773	1.710881	0.0990

R-squared	0.991220	Mean dependent var	251574.6
Adjusted R-squared	0.989869	S.D. dependent var	222545.2
S.E. of regression	22399.80	Akaike info criterion	23.01818
Sum squared resid	1.30E+10	Schwarz criterion	23.24947
Log likelihood	-351.7818	Hannan-Quinn criter.	23.09358
F-statistic	733.8032	Durbin-Watson stat	2.097145
Prob(F-statistic)	0.000000		

*Note: p-values and any subsequent tests do not account for model selection.

From the above result, we observed in the global statistics section that the R-square posted a figure of 0.991220 implying that all the independent variables jointly contribute to about 99.1% variation in the dependent variable and 98.9% after adjustment has been made and Durbin Watson statistics was 2.09 which is within the acceptable region. Given that, we conclude that there is no problem of serial correlation in our data series. The F-statistics was highly significant at 5% implying that our model have a global utility. From our relative statics, we observed that all the explanatory variables were negatively insignificant implying that both external and domestic debt do not contribute to economic growth in Nigeria during the period covered by this study and that debt services agrees with our expectations of having a negative influence on economic development since most of the moneys paid as debt services are aid to foreign borrowers. These findings agree with the findings of Hilton (2021), who reported the absence of short run relationship between domestic debt and economic growth of Ghana, Casares (2015) and Checherita and Rother (2012) who reported a nonlinear impact of debt on growth and Al Kasasdeh (2021) who reported a negative impact of debt on Jordan's economy.

4.3 Long Run Bond Test

The below table shows the result of our long run bond test for the determination of presence or absence of long run relationship among our variables. It is accepted that there exists a long run relationship should the greater than the asymptotic values at 10%, 5%, 2.5% and 1% respectively else we conclude on the absence of long run relationship among the variables.

Table 4: Long Run Bond Test

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	2.940977	10%	3.8	3.8
K	0	5%	4.6	4.6
		2.5%	5.39	5.39
		1%	6.44	6.44
			Finite Sample:	
Actual Sample Size	31		n=35	
		10%	3.98	3.98
		5%	4.945	4.945
		1%	7.35	7.35
			Finite Sample:	
			n=30	
		10%	4.025	4.025
		5%	5.07	5.07
		1%	7.595	7.595

From the above, we observed that there is no presence of long and short run since the F-statistics value of 2.94 is lesser than the asymptotic values of 10%, 5% 2.5% and 1% respectively (3.8, 4.6, 5.39, and 6.44). This implies that sovereign debt does not have a long run relationship between economic development in Nigeria during the period covered by the study.

4.4 Granger Causality Test

The Granger causality test is employed to enable us determine the direction of causality among our variables and to helps know if they promote each other in their growth process.

Table 5: Result of Granger Causality Test

Pairwise Granger Causality Tests
Date: 01/29/24 Time: 11:10
Sample: 1990 2021
Lags: 4

Null Hypothesis:	Obs	F-Statistic	Prob.
EXD does not Granger Cause PCI	28	0.59577	0.6700
PCI does not Granger Cause EXD		5.37528	0.0046
DMD does not Granger Cause PCI	28	8.20349	0.0005
PCI does not Granger Cause DMD		4.18665	0.0135
DSER does not Granger Cause PCI	28	1.08101	0.3937
PCI does not Granger Cause DSER		3.48405	0.0270

From the above, we observed a unidirectional causality between external debt and per capita income as reported in Hilton (2021) with causality flowing from per capita income to external debt. as well in debt services with causality also flowing from per capita income to debt services while a bidirectional causality was recorded between domestic debt and per capital income as seen in Al Kasasbeh (2021). This implies that domestic debt and per capital income supports and promotes each other in their growth process meaning that as government borrow domestically, it promotes economic development and economic development further encourage government borrowing in the domestic financial markets.

5.0 Conclusion and Recommendations

5.1 Conclusion

This study has been aimed at investigating the impact sovereign debt on economic development of Nigeria. The results showed the absence of both long and short run relationship between sovereign debt (domestic, external and debt services) and per capital income in Nigeria. It furthers reveals external debt, domestic debt and debt services components to be negative and insignificant. The causality test on the other hand showed a unidirectional relationship flowing from per capital income to external debt and debt services. While bidirectional causality was recorded between domestic debtcomponent and per capita income. Conclusively, we can say from the results that there is no short run and long run relationship between the debt components studied and economic development in

Nigeria for the time the study covered and that per capital income promotes external debt and debt services in Nigeria and that both domestic debt and per capital income promotes each other in Nigeria during the period covered by this study.

5.2 Recommendations

From the result above, we recommend the need for government borrowings to be properly channeled into productive activities that drivers' growth and development since borrowing by the government have been seen theoretically to promote growth and development and secondly, a certain threshold of debt should be maintained to avoid having a crowding out effect on the private sector which will in turn reduce growth and development effect on the economy in general.

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