AN ANALYSIS OF EXTERNAL DEBT AND ECONOMIC GROWTH IN NIGERIA

OJEIKHOA ISA[illegible] [illegible]EAMAYE
Matric No 14 [illegible] 3291

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AN ANALYSIS OF EXTERNAL DEBT AND ECONOMIC GROWTH IN NIGERIA.

BY

OJEIKHOA ISAAC OSEAMAYE.

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CERTIFICATION

This is to certify that this project was written by **OJEIKHOA ISAAC OSEAMAYE.** with Matric No: **14/08/3291** and it is submitted to the Department of Statistics in partial requirement for the award of National Diploma (ND) in Statistics, Abraham Adesanya Polytechnic, Ijebu-igbo, Ogun State.

MRS. OLANREWAJU G.O 22/11/2016

Project Supervisor **Date**

ABRAHAM ADESANYA POLYTECHNIC
IJEBU-IGBO
DEPT. OF STATISTICS
COORDINATOR
Date

MRS. OLANREWAJU G.O 22/11/2016

Head of Department **Date**

DEDICATION

This project is dedicated to my Parents, Mr. & Mrs. Ojeikhoa My HOD Mrs Olanrewaju G.O. My respectable lecturer, Mr. Oyenuga. Lecturers in School of Science (ABRAHAM ADESANYA POLYTECHNIC) and friends who contributed positively to my life.

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ABSTRACT

External borrowing is a source through which many countries source revenue for development and economic growth of their countries. But this revenue can only help solve the problems of gross under–development when judiciously utilized.

The burden of Nigeria's external debt is more than the country can bear and the state of economic growth in the country is hampered due to debt crisis.

The debt problem facing Nigeria is concerned on how to stop incurring more debts and device a way of servicing the existing debt without causing some distortions in the economy. For effective and efficient debt servicing, factors that hiders it has to be taken care of i.e. domestic financing policies, debt management and external economic environment.

External debt affects the economic growth, the level of money supply and employment in the country. So, Nigeria can solicit for debt cancellation from it's creditors and also adopt debt management as pat of it's macro economic policies of the nation and finally engage in productive projects.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF STUDY

Every country in the world aim at achieving economic growth and development. However, this is only possible if a country has adequate resources. In developing countries, especially those in sub Sahara Africa, the resources to finance the optimal level of economic growth and development are in short supply. This is as a result of the economics ploughed with problems of low domestic savings, low tax revenues, low productivity and meager foreign exchange earnings.

Basically, for these reasons, many developing countries yearning for economic growth inevitably resort to external financing to bridge the gap between their savings and investments. In the process of obtaining finance from abroad, a country may consider several options: grants, foreign investment and loans (concessional and non – concessional) in that order. However, mix of these capital in – flow in varying proportion could be obtained depending on the socio – economic and political situation in a country.

Nigeria like most developing countries borrowed from external sources mainly for investment purposes. The country's external debt was sustainable up to mid 1970's. From the late 1970's because of poor macro – economic management and declining prices of crude oil, the country's external debt began its upward movement. Thus from an external debt of US $ 557.74 million in 1975. Nigeria debt peaked at US $33.1 billion in 1990 before declining to US $27.1 billion in 1997 and rose to US $ 28.8 billion in 1998. However, one of the greatest problems facing African countries basically classified as the amount of their external indebtedness. The external debt problem is becoming more and more for many reasons. This problem of increasing rate of the external debt is threatening the development programmes embarked upon by these countries: thereby retarding their economic growth and development. The reason being that the size of the debt relative to size of the economy's GNP is enormous. Also, the current system of debt management has a serious macro economic impact on an economy's output: as such, there is an urgent need to reduce Africa's total outstanding debt service payments as well as accumulating of arrears on payments.

In 1986, the Federal Government introduced the Structural Adjustment Programme (SAP) to address the problem of structural imbalance in the economy and create an atmosphere for the achievement of macro – economic stability. It is obvious that one of the integral part of the SAP is to reduce Nigeria huge debt. It is a fact that if the enormous amount spent on debt service payment could be reduced greatly, the country will be able to finance a large volume of domestic investment which would enhance growth and development.

The problem of the rising external debt of the less developed countries (LDCs) is giving nightmares not only to the debtor nations that is worrying about how to earn enough foreign exchange to at least service their huge external debts but also to the creditors that are worried about the tendency of the debts becoming bad and irrecoverable.

To most debtors nations, the adage " to go a borrowing is to go assorrowing" is a biting truism. This is not to say that the researcher is against borrowing either internally or externally. In fact, from the on set, the researcher strongly believes that external funds if judiciously utilized will go a long way to help solve or at least alleviate the problems of gross under – development confronting most of the LDCs. Getting out of the "debt trap" is now the major concern of both the creditors and the debt nations. The debtors should not be made to bear the burden of miscalculation of botgh the creditors (who were reckless in the approach to lending during this peak of the " petro dollar boom" for being too short sighted as not to see the strings and traps attached to the loans.

Perhaps, the above cannot be more representative of the Nigeria situation which is likened to an extravagant person who is hosting his friends and associates to an all exercise – paid, no holds barred party, which after the parting found himself unable to settle even a fraction of the bill and all the guest gone, not even a person to be seen to offer moral succor to the lavish host. This vividly describes the Nigeria external debt problem. Having wasted all the borrowed funds and having nothing to show for it, Nigeria is woken up to unending knocks of the creditors.

Unfortunately, ability to pay is close to zero. This is becomes more pathetic when it can be seen that Nigeria is now called upon to pay when the economy is in a depressed mood. More so, the borrowed funds are embarked on ill conceived projects which are equally badly implemented. However, the new international economic order sets out as one of it's objectives to secure favourable conditions for the transfer of resources to developing countries and to ensure that a country' resources are fully utilizes for the development of the country concerned. Thus, Nigeria resorted to external borrowing early in her history so as to quicken the pace of economic development. The issue of Nigeria's external debt generated much public concern at the beginning of 1980.

Actually, Nigeria's external indebtedness started during the colonial days. The last of colonial borrowing was the World Bank (IBRD) loan of 1958 used to finance Nigeria Railway Corporation extension to Bornu under the guarantee of the United Kingdom Government (Felagan 1978). It is believed that debt is generated by the gap between domestic savings and investment, and export earning which increases in absolute terms over time. As the gap widens and the debts accumulates, interest charges also accumulate and a country must borrow more to maintain constant flow of net imports and to refinance maturing debt obligations.

Nevertheless, external borrowing became a conscious public policy when in 1960, the Government promissory notes ordinance was enacted for the purpose of raising authorized loans. Under the ordinance, a sinking fund was also established for redeeming loans raised. In 1962, the external loans Act was enacted by parliament which provided for the raising of the loan outside Nigeria. Under the Act, external loans were to be used for the purpose of development program and for making loans to regional government.

In 1970, after the civil war " The External Loan Rehabilitation, Reconstruction and Development" decree was promulgated. The decree authorized Federal Commission to raise loans outside Nigeria for amount not above N1 billion. The loan is for rehabilitation, reconstruction and development programme for making loans to state government. These various regulations on external loans became the policy guidelines not only in magnitude but also in the direction.

Nigeria's debt crisis could also be traced to the misdirect economic policies pursued since the buoyancy of the oil market which resulted in an outright neglect of the non - oil sector of the economy especially agriculture. Owing to this neglect of other sectors in the economy, the oil sector provided over 905 of the government national revenue, so fluctuations that occurred in the oil market in 1978 and 1980s distorted the projected revenue estimates of the federal government. Hence, the government had to borrow to fill the gaps created by the fluctuation and also meets the increasing expenditures. Thus, Nigeria's debt as recorded by the Central Bank of Nigeria in 1978 was N1, 265.7 million or US $2.2 billion;N8819.4 million or US $ 13.1 billion in 1982 and N133,956.2 million in 1988. More so, the total outstanding external debt of Nigeria went up to N240, 033.6 million in 1989 in addition, it is said that the debt keeps rising yearly (defying Newton's law of gravity) as Nigeria was owning N648,813 million as at 1994 and N3,097,383.8 million as at 2000.

The debt situation was also intensified by large public deficit relatively free capital in - flows, inefficient control over private capital out flows and real over valuation of the exchange rate of naira to other world currencies. For these reasons and others, debt problem has become one of the most pressing issues in the world's political and economic relationship for a LDC like Nigeria.

In essence, what matters most is not the amount of the foreign loans but the ways and manner the loans are used in developmental process. If these loans are used for current consumption, they will have minimal impact on future economic growth but if invested rationally in productive ventures, they will contribute positively to real growth and enhance the productive capacity of the economy. The fact is that development depends purely on a sustained increase in real income, which can only be achieved or accumulated from economic growth.

Economic growth however, emphasizes on the changes in economy's productivity over time. Growth tends to occur when total production increases more rapidly than population. Thus, it is the country's ability to maintain a strong defense or to pay for some other national project. As a matter of fact, economic growth is an ever increasing quantity of goods and services available to meet the economy's need over time. As a result, the higher the ratio of debt servicing payments, the lower the level of economic growth. The primary burden of Nigeria's public debt is indeed shifted to the future, thereby retarding economic growth. The rate of investment tens to be low and unemployment rate become high because of our huge public debt. Furthermore, our reputation is tarnished and the developed nations are no longer confident in our economy. .This rise to reductio0n in the flow of foreign investment to Nigeria, which could have profound consequences for the economic development prospect of the nation. With the oil glut and reduced revenue, it is expected that our external debt liabilities will increase and our economy will be unstable. The debt crisis if not well managed will lead to liquidity crisis and foreign exchange crisis, which will retard the rate of economic growth and development in Nigeria.

1.2 STATEMENT OF THE PROBLEM

The issue of external debt in Nigeria has become an immense status bestriding the main stream of international economy and politics. Foreign loans and aids are no longer used as instrument of assistance but as a weapon of oppression, suppression and perpetual under development. That the management of external debt has assumed a critical dimension for Nigeria not in doubt. This can be seen in the rising total of external debt outstanding and the cost of servicing the huge debt. From the comfortable position of lending even from the International Monetary Fund (IMF) and Africa Development Bank (ADB). Nigeria became one of the biggest debtor nations in the world and was listed among the biggest debtor nations in the world and was listed among the fifteen most indebted nations in the banker plan list.

At the end of civil war in 1970, the country's external indebtedness was relatively low and was of little significance till 1974. But by 1977, external debt of Nigeria was N496.9 million and it rose by over 205% to N1,265.7 million or US $ 2.2 billion referred to as the " Jumbo Loan" and was contracted from the international capital market (ICM) in 1978. This sky rocketed to US $32.6 billion at December end, 1995.

With huge debt outstanding, debt service obligations rose astronomically as a result of rising interest rates in the international money market and declining grace period and grant element leaving little of foreign exchange for import of external raw materials and consumers goods

1.3 OBJECTIVES OF THE STUDY

The broad objectives of the study are mainly:

1. To critically examine the external debt problem in Nigeria between 2003 to 2013
2. To assess the problems of external debt and their implications on the economies of the debtors countries.
3. To analyze the factors affecting debt servicing capacity of nations.
4. To analyze the impact of external debt problem on he level of money supply in an economy.
5. To suggest and recommend ways of improving on the debt management policies in Nigeria.
6. To determine external debt problem on level of employment.
7. To determine factors affecting economic growth.

1.4 RESEARCH QUESTIONS

1. What are the causes of external debt problems in Nigeria between 2003 – 2013?
2. To what extent has the external debt problem risen and what impact does it have on economies of debtor countries?
3. What are the factors affecting the debt servicing capacity of nations?
4. To what extent is the impact of external debt on the level of money supply in an economy?
5. In what ways can debt management policies in Nigeria be improved?
6. What is the state of external debt problem on the level of employment?
7. What is the state of economic growth in Nigeria?

1.5 RESEARCH HYPOTHESES

For the purpose of evaluating or in order to efficiently and objectively analyze or achieve the above objective, the hypotheses is formulated thus:

Ho: External debt has no significant impact on the GOP of economic growth in Nigeria.

Hi: External debt has significant impact on the GOP of economic growth in Nigeria.

Ho: External borrowing has no significant impact on the level of money supply in the economy.

Hi: External borrowing has significant impact on the level of money supply in the economy.

Ho: The level of external debt does not have any significant impact on employment.

Hi: The level of external debt has significant impact on employment.

1.6 SIGNIFICANCE OF THE STUDY

The nature of Nigeria economy has made it to be vulnerable to external shocks. Over the years, Nigerian economy is having adverse balance of payment which could be easily financed from domestic sources and hence external borrowing becomes inevitable .The adverse effect of external debt and economic growth related problems on the Nigerian economy are becoming unbearable. So the study will be of importance to educate Nigerians by revealing to them one of the major reasons why Nigerian economy is growing at a very slow rate, which could be traced back to the huge amount of foreign earning s spent on the external debt services instead of spending it on domestic investment. Thus an undecked growth in foreign exchange outflows to service accumulating debt, which will only further entrench under development of Nigeria economy .This means increasing poverty ,ignorance ,disease and other conceivable socio political maladies.

Furthermore, this study will be of a good help to the Nigerian government, especially the present government to know the effectiveness of the external debt and economic growth polices implemented in the previous years and know exactly the next step to follow now in curtailing the total outstanding external debt because it is very obvious that the Nigeria external debt is now growing at alarming rate yearly. It must be added that this study is of relevance not only to Nigeria but to almost all the countries classified as LDCs especially as a result of various common features.

1.7 SCOPE OF THE STUDY

The study is designed to cover the period of 2003 – 2013 and concentrates only on the external debt in Nigeria and also economic growth.

1.8 DEFINITION OF TERMS

EXTERNAL DEBT – External debts are debts incurred when the government of a country borrows from a foreign banks ,Government and International institutions like IMF,WORLD BANK, PARIS CLUB etc. Also it can be seen as unpaid portion of external resources required for developmental purposes and balance of payment support which could not repaid when they fell due.

BALANCE OF PAYMENT – A systematic record of all transactions between residents of one country and the rest of the world .It is a statement of all the financial and economic transactions between one country and the rest of the world over a given period of time. It becomes unfavorable or adverse when there is excess importation over exportation.

ECONOMIC GROWTH – Is a long term rise in capacity to supply increasingly diverse economic goods to its populations. This growing capacity is based on advancing technology ,the institutional and ideological adjustment that it demands. It refers to increasing real output or real per capital output of economy.

ECONOMIC DEVELOPMENT – A multidimensional process involving the reorganization and re orientation of entire economic and social system.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION

To many nations and individuals, borrowing may pave way to greatness but some (those unable to manage debt) it may lead to impoverishment and great sorrows. This chapter of study is an attempt to present a review of some of the relevant literatures on the subject of this study. It examines the views already expressed by eminent scholars mostly economists, bankers, financial analysts and even politicians on the subject matter.

External debts have thus become the central problems of less developed countries like Nigeria .The issue of Nigeria 's external debt had not generated much public concern prior to 1980 .It was at the beginning of 1980s that it became a topical issue of discussion among populace.

In order to make a meaningful research, not just to repeat what had been done by others, a researcher must make a clear distinction between his work and that of the existing literature. In this regard, it is noted that most of the existing literature contains data obtained between 1960 and 1998. The present work will include data obtained between 2003 - 2013. This will help any generalization that may arise from the study.

Also there are many aspects of external debt that have not been given any attention by authors of current literature of Nigeria's external debt .Such areas are the factors affecting debt servicing capacity of nations so as to limit debt burden and the measures adopted so far by the federal government of Nigeria to solve debt problems.

2.2.1 DEFINITION OF EXTERNAL DEBT AND ECONOMIC GROWTH

External debt refers to unpaid portion of external financial sources required for developmental purposes and balance of payment s support which could not be repaid when they fell due. The act of borrowing creates debts according to Oyejide et al (2005) refers to the resources of money in use in an organization which is not contributed by its owners and does not in any way belong to them. Therefore, when a government borrows the debts is a public debt. External debts are incurred by government through borrowing in the international market like IMF, World bank etc.

Sometimes there may be a shortfall in government revenue when revenue derived from various sources are not sufficient to defray the total expenditure of government commitment .When this happens , government runs into deficit spending .Deficit spending refers tom the situation whereby government expenditure exceeds its receipts during a given financial year. The government incurs debts by spending more than it raised in revenue. These debts is called national or public debts which is defined as the cumulative total of various government indebtedness at any given moment. From the definition , one will note that government accumulates debts by running into deficit .Although government could still avoid deficit by selling all its assets and printing more more money but government rarely does any of the above, instead government like to use deficit spending which runs her into debt which could be domestic or external or both. If the debt is constituted mostly by domestic debt, this may lead to too much hazard because it is money owed to the citizens of the country but when it is mostly external it constitutes a serious burden because it is debt owned to foreigners. According to Yasipe (2004): there are classification of debt, which are reproductive debt and dead weight debt. Reproductive debt he says is debt which occur when a loan is obtained to enable the nation to purchase some sort of asset e.g money borrowed for acquiring factories ,electricity, refineries etc.

Dead weight debts are debts incurred by government for unproductive ventures such as financing wars and expenses on current expenditure.

External debts are made up of different types. The type of external debt reflected the purpose for which the debt was incurred. Some of these are:

TRADE ARREARS - This arises when a country trades with other countries and is unable to pay either or wholly , for the goods and services supplied . For example in the early 1980s accumulation of trade arrears accounting to US $9.8 BILLION BETWEEN 1983- 1988 was a result of Nigeria's inability to settle her import bills.

BALANCE OF PAYMENT SUPPORT LOANS - The overall economic transactions between a country and the rest of the world classified into current ,financial and capital accounts constitute the balance3 of payment position which may be favorable when it is surplus or unfavorable when it is a deficit. However a persistent unfavorable balance of payments may inform government 's decision to seek for balance of payment support loan.

PROJECT –TIED LOANS – Investments which have good potential and prospects of accelerating economic growth and development may lead government into contracting project tied loans. As implied, this type of debt which is for the execution of a particular project is supposed to be self – liquidating.

LOANS FOR SOCIO –ECONOMIC NEEDS – The provision of the socio –economic needs of the people such as infrastructure ,health education and other social amenities may necessitate borrowing by government to finance them.

Economic growth on the other hand, may be defined in terms of the total physical output or real income of an economy. Also it could be referred to as an increase in real output or per capital output of an economy. The definition correctly recognizes that the standard of living of the people in any economy is best measured in terms of real output per person. The standard of living could decline in an economy if the population increased at a faster rate than the volume of the real output. It is therefore steady process by which the productive capacity of the economy is increased over time to bring about rising level of national income. Economic growth must be maintained if a nation is to improve the standard of living of the people.

Economic growth is therefore defined and measured in two ways. Specially, economic growth may be defined as follows; -

As the increase in real GNP which occur over period of time.

As the increases in real GNP or NNP per capital which occurs over time.

Economic growth by either definition is usually calculated in terms of annual percentage rate of growth. For example if real GNP of Nigeria was #200billion last year and #210b this year, we can calculate the rate of growth by subtracting last year's GNP from this year's GNP (# 210b - # 200b) = 1 /20 or 5%.

From this point, one can observe that economic growth usually refers to the quantitative increase in the total or per capita out put of goods and services in an economy whereas development implies a positive change in the socio ,institutional and other structural relationship within which growth takes place. For growth to take place ,that is for future output to be greater than the present output, it is necessary to increase the existing level of productive capacity i.e the available stock of capital goods. But this can happen only if part of current output is withheld from present consumption (i.e saved) and used to add to the existing stock of capital goods is what is called investment .We can see therefore that growth is not possible without the savings investment process.

2.3 CAUSES OF EXTERNAL DEBT CRISIS IN NIGERIA

Numerous factors contributed to the increased size of Nigeria's external debts crisis. According to CBN briefs 1998 series, the major factors include the rapid growth of public expenditure , particularly expenditure on capital projects, borrowing from the international community at non concessional interest rates, decline in oil earning s for the late 1970's and the emergency of trade arrears. As a developing economy, characterized by a low productive base, the supply of goods and services is augmented with imports under the circumstance s, there was substantial growth in imports. Nigeria import bills rose from #756.4m in 1970 to # 845.7b in 1997.Owing mainly to the depreciation of the naira during the period. The inability to settle import bills led to the rapid build of trade arrears in the early 1980s as foreign exchange earnings declined substantially during the period. Also, Nigeria's debt problem is rooted partly in the collapse of international oil price in 1981 and the persistent softening of the international oil market since then and also partly in domestic policy lapses. The policies pursued in 1970s and early 1980s led to structural changes which made the economy vulnerable to external shocks. Rural –urban migration which intensified in the wake of the oil boom as well as inappropriate pricing and exchange rate policies had taken their toll on the e agricultural sector with the result that the sector s contribution to GDP shrank from 53% in 1965 to about 40% in the mid 1970s and not more than 20% in 1980.Defective structure of incentive paved the way for an industrial sector that was heavily dependent on imported inputs with very low value added. Consequently, the economy became progressively dependent on crude oil accounting for over 22% of GDP, 81% of Government revenue and about 96% of the export earning at the beginning of 1980s, not quite long ,the economy maladjusted as it were and characterized by distortion in price cost relations ,import oriented national expenditure and production and a grossly over valued exchange rate, could not cope with a prolonged period of depression in oil prices The oil price collapse in 1981 can thus be said to have compounded the problems of an economy that had its flexibility and led to serious external payments problems.

Another cause of external debt problem was that some pro pect-tied loans were contracted without consideration for economic viability. In addition ,these were short term loans sourced mainly from foreign private markets to execute projects of long gestation problems. By 1986 , short and medium term loans constituted about 85% of the total debt stock. The above development resulted in the bundling of debt services thus compounding the debt situation.

In order words ,according to Arele (2008) this can be attributed largely to too poor economic management in the debtor countries . This is for the fact that contracted loans were wasted on inefficient public enterprises, while over regulation did not provide the favorable environment for orderly economic growth of the indebted countries.

According to Arele (2008), Ojo (2008) said "Not only did government agencies borrow indiscriminately from abroad but the use of the loans was not adequately monitored, the consequences of this faculty external debt policy was the lack of regular income to service disbursed external loans".

According to Ahmed (2003) "a major problem compounding the debt problem is the changing fortune of the dollar in the international foreign exchange market. Any depreciation of the dollar in the international currency market automatically reflects is an increase in Nigeria 's debt stock while any depreciation reflects in a decrease in the debt stock." In connection to this, upward movements in interest and exchange rate have affected the size of the external debt stock.

2.4 CONSEQUENCES OF NIGERIA'S EXTERNAL DEBT

Since we are so much indebted, we must have to service the debt through the payment of large interest and amortization charges to the body we borrowed the money from. The interest charge we pay is now so high and the impact on the economy is negative. Payment of such huge interest is depriving the Nigeria government of revenue that should be used for other services. Increasing debt service obligations in Nigeria therefore is constituting an impediment to the implementation of new development oriented projects because a proportion of new generated internally is set aside for servicing previous debts. The primary real bund on of Nigeria's external debt is shifted to the future. The rate of investment tends to be low and unemployment rate high because of our huge external debts.

Furthermore, our reputation is tarnished and the developed nations are no longer confident with our economy nor us. This gave rise to reduction in the flow of foreign investment to Nigeria, which could have profound consequences for·the economic development prospect of the nation. With the e oil glut and reduced revenue, it is expected that our external debt liabilities will increase, foreign exchange crisis will also increase and our economy will be unstable. Nigeria's external debt crisis will lead to liquidity crisis and foreign exchange crisis .If it is not well managed; it could slow down the rate of economic development and growth in Nigeria.

2.5 THE NATURE OF ECONOMIC GROWTH IN NIGERIA

Kuzuet (1973) has defined a country 's economic growth as " a long term rise in capacity to supply increasingly diverse economic goods to its population ,this growing capacity based on advancing technology and the institutional and ideological adjustments that it demands." The production of goods and services not possible without sustainable increase in technological advancement. In fact to realized the potential growth inherent in new technology, there is need to make some institutional, attitudinal and ideological adjustments within the nations.

However, the nature of economic growth in Nigeria is generally poor. The standard of living in Nigeria is a tiny fraction of that in an industrialized nation. Nigeria as we know is among the developing countics of the world commonly characterized as the less developed countries (LDC). Writes used to speak of backward nations which naturally irritated the people of those land sin which Nigeria is one. To avoid offence, we use the expression "developing nation or less developed countries" (LDCs). What is meant by the terms?

A developing country is simply one with real per capital income that is low relative to the present day per capital incomes of such nations as Canada, USA, Japan and Western Europe. Optimistically, a developing country is one regarded as being capable of substantial improvement in its income level.

However the growth rate in Nigeria is very low because productivity is low, incomes are low and in turn low savings. This means low capital formation and hence productivity becomes low.

Nigeria cannot afford to devote very large proportion of its production to capital goods, since it is hard to provide sustenance for m massive production. The problem is intensified by the population growth of Nigeria as a result whatever saving and capital formulation does occur is barely sufficient to keep the capital and labour ratio from falling. According to the law of diminishing returns, this means that unless there is better technology, an increase in the quality of labour or improvement in the quality or quantity of other inputs per worker will not rise. Thus Nigeria is caught in a viscous circle of poverty .Being poor ,Nigeria has little ability or incentive to save .Furthermore, low income means low level of demand. As a result, there are few available resources, on one hand and no strong incentive on the other hand for investment in real or human capital, labour productivity is therefore low. And since output per person is real income per person, it follows that per capital income is low; thus resulting to a very low standard of living, which is manifested quantitatively and qualitatively in the form of low income (poverty), inadequate housing, poor health, limited or no education, high date rate and infact mortality, low life expectancy and in many cases a general sense of malaise and helplessness.

More also, there is inadequate income distribution in Nigeria, which is to say that there is growing gap between the income of the rich and the poor people within the country. The problems between the rich and the poor people in Nigeria will determine the degree of poverty. The more unequal the distribution of income, goods and services, the greater the incidence of poverty. Also, the lower the average income level, the greater the incidence of poverty, thus this is an overview of the nature of Nigeria economic growth.

2.6 CONDITIONS FOR RAPID ECONOMIC GROWTH ON NIGERIA

Economic growth is defined in terms of an increase in a nations output of goods and services and measured by the gross domestic product (GDP).

Economic development encompasses growth, structural and institutional changes and the essential elements that make for a better quality in life such as education, health, nutrition and a better environment. Modern growth theory takes the view that capital, labour and entrepreneurship are essential for production to take place. However, economic growth is particularly the result of capital accumulation as it is generally accepted that more capital goods will be required if there is to be growth. If all gross investments are devoted to depreciation of capital thus merely keeping the existing capital stock intact, there will be no net investment and therefore no basis for economic growth with a given capital output ratio and a given perpetual maintained capital stock (zero net investment) output would be constant too. Only in so far as there is a net addition to capital stock that there will be growth. The essential ingredient for growth is therefore net investment or the excess of gross investment over depreciation. For, it is net investment alone (unless capital output ratio is changing) that can lead to economic growth.

Although capital accumulation is basis to growth, there are some other complementary factors directly linked with capital formation for growth to take place. These factors include favourable economic environment, adequacy of infrastructure, security and political stability.

The growth rate of the real gross domestic product (GDP) has been very low in the last five years. It stood at 4.7% in 1991 and declined steadily to a trough of 1.0% in 1994 but rose to 2.2% in 1995. The critical factors in the situation are quite many. In terms of capital formation, the Nigeria economy generates very low savings and investment ratio. For instance, between 1991 and 1995, the gross national savings and investment ratio were less than 20% of the GDP.

This pattern contrasts with the high savings and investments ratios of the order of 60 – 70% of the GDP. The low savings and investment ratio in Nigeria are due and partly to institutional factors and partly to inappriopriate macro – economic policy environment especially monetary credit and exchange rate policies. For more investment to take place, it is essential to influence the economic environment by adopting market related strategies on interest and exchange rate management. Attractive real interest rates will increase the volume of domestic savings and support the increased investment capital required for higher output while appropriate exchange rate regime would attract the inflow of foreign capital and raise the overall level of investments.

For the purpose of enhancing growth of the agricultural and industrial sectors and raising productivity in the economy, an internal technology evolution would be required. Adoption of imported technology to suit local raw materials and production needs and encouragement of local fabrication of machinery and equipment are pre-requisite. Increase in agricultural out put would require introduction of hybrid and improved variety of seeds and adaptation of less costly small scale irrigation technologies to minimize the high dependence on rain – fed farming. This should be accompanied by harmonization of various research findings and disseminating results to farmers and manufacturing units.

Greater efforts are required of the human resources in the process of technical progress. While educational facilities have improved generally over the years, labour productivity has been rather low in Nigeria and this arise mainly from inadequate technical skill and motivation of the work force. There is need for more attention to manpower development for the adoption of modern technology. Further more, welfare and incentives scheme should be worked out to enhance the moral, commitment and diligence of workers.

Supply of basic amenities is crucial for higher productivity and therefore, economic growth. However, the facilities: electricity, water, telephone and transportation mainly provided by government are currently inadequate to meet the needs of enterprises. Moreover, erratic supply of electricity and water as well as weak communication link contribute enormously to the escalating costs of doing business in Nigeria especially as business resort to private provision of the facilities. Basic amenities would need to be rehabilitated and expanded to reach many consumers while encouraging private sector participation where appropriate should enhance the efficiency of public utilities.

Transfer of foreign technology and investment capital are essential element of growth strategies, which is currently being competed for by developing countries. For Nigeria to benefit from such technological transfer and capital inflow, there is need for a more conducive socio – political environment.

2.7 STRUCTURE OF NIGERIA'S EXTERNAL DEBT

Nigeria's external debt consists of five components, namely: debt owed to Paris club, creditors multilateral financial institutions, non – Paris club bilateral promissory note holders and London club. The various components are explained below.

- PARIS CLUB DEBT: These are government-to-government credits and exports guaranteed by various credit agencies of the creditor countries.
- LONDON CLUB DEBTS: These are arrears of common bank debts arising from letters of credit and loans as at 31st Dec 1987.
- CBN PROMISSORY NOTES: These are promissory notes issued by the CBN between 1984 and 1988 to suppliers in respect of verified and reconciled private sector trade debt arrears financed under the bills for collection and open accounts.
- MUILTILATERAL DEBTS: These are loans owned to multilateral finance institutions e.g World Bank group, African Development Bank group and European Investment Bank, etc, by federal and state governments and their agencies.

- NON – PARIS CLUB BILATERAL DEBTS: These are debts owned by the government to countries, which are not members of the Paris club.

2.8 NIGERIA'S DEBT MANAGEMENT STRATEGIES

This part attempts to highlight the debt management strategies adopted so far by government in it's effort to address the external debt problem. Since the emergence of the problem in the early 1980s, Nigeria has adopted the following strategies in the management of it's external debt: debt refinancing / rescheduling, debt buy – back, collateralization, debt securitization and debt conversion. These strategies are discussed below.

A. REFINANCING: a refinancing arrangement involves the procurement of a new loan by a debtor to pay off existing debts, particularly short – term trade debt. The new loan may be contracted from the same creditor or a new set of creditors as the case may be. The first refinancing arrangement by Nigeria was in July 1983, followed by the agreement in September the same year. In both agreements, US$2.1b worth of trade arrears on confirmed letters credit were refinanced.

B. RESCHEDULING: The rescheduling of debt involves changing the maturity structure. The debt is usually spread over a longer period until it is finally liquidated. For example, in 1986, debt worth US$ 1.6b due to the London club and payable in 1987 was rescheduled to extend to 1996 with a 4year grace period.

C. DEBT BUY BACK AND COLLARTERALIZATION: The buy back arrangement implies the offer of a substantial discount to pay off an existing debt. This type of arrangement was concluded on 21st January, 1992 when Nigeria bought 62% commercial debt due to the London cub at 60% discount. Collateralization simply refers to as the zero coupon option.

D. DEBT CONVERSION: This was introduced to complement other strategies of debt management. It is the exchange of monetary instrument i.e. promissory note for tangible assets or other financial instruments.

However, the impact of the strategies on the different components of external debts discussed below.

A. Management of Trade Debts: the economic difficulties facing the country in early 1980s constrained the nations ability to pay for it's imports and this led to accumulations of arrears of trade debts. Foreign creditors refused to open new lines of credit and it became necessary to seek relief by refinancing the trade arrears. This led to the refinancing agreement to US$ 2.1b outstanding as at 13th July 1983.

Also, trade de3bts contracted through open accounts ad bills for collection that were outstanding as at 31st December 1983 were refinanced through issuance of promissory notes to creditors between 1984 and 1988. According to the CBN Bullion, promissory notes with maturity period of 22 years will be fully repaid in the year 2010. The total value of the promissory notes issued amounted to US$4,810 million.

B. Management of London Club DEBTS: arrears of commercial bank debts which accumulated through the medium of credits after the first refinancing exercise of 1983 and maturation on medium and long – term loans that fell due up to December 31, 1987 constituted the London club debts. The country had three negotiations with the club:

First is to refinance and restructure the debts which the agreement was signed on 23rd November 1987. Under the agreement, a total sum of US$2,800 million was refinanced while US$3,000 million of medium and long-term components of debts was restructured. The country was required to repay US$1,345 million per annum. The high debt service obligation made it impossible for the country to meet it's commitment and so it defaulted. This necessitated a new negotiation of the agreement with the club.

The new agreement was signed on 22nd March 1989. It was designed to provide the country with further debt service relief and had the effect of reducing payments to the club from US$1345 million under the 1987 agreement to US$711 million per annum. However, the high debt service as provided under the 1989 agreement could not be absorbed by the cash flow situation of the country.

Hence, in March 1990, the country approached the banks with a request for the entire debt service reduction. The agreement was successfully closed on January 21, 1992. After protracted negotiations, Nigeria bought back 62% of the debt of 40% of the face value and issued collateralized par bonds for the remaining 38%. Thus, the country was able to achieve a debt service reduction through the brandy plan. The country by this agreement has repaid the London club debts as only the annual interest of US$128 million remains which will mature by 2000 and the debts will be extinguished.

C. Management of Paris Club Debts: - Government to government credit and export, which were quarantined by various export credit agencies, constitute the pains club debts. So far, Nigeria has signed three rescheduling agreements with the club: December 1986, March 1990 and January 1991. Under this agreement debt service payment which were due within a period of 15 months were considered and rescheduled

D. Management of debts owed to mutilated financial institutions :- The debts owed to multilateral financial institutions such as the world bank, ADB, ECOWAS, fund and the international fund for Agricultural Development accounted for about 15% of Nigeria's external debt as 31[st] Dec, 1998. The debts are non – rescheduled and as such Nigeria has continued to service them as and when due.

E Management of Non – Paris club Debts – The debt owed to this creditors have reduced considerably from Us $ 2,875 million or 11% in 1986 to Us$ 65.77 million or 0. 23% in 1998.

F. Debt conversion programmed –The debt conversion programmed (DCP) was introduced in July 1988. The main aim was to reduce the external debt stock and heighten the debt service burden, encourage capital inflow. Eligible debt for conversion was initially limited to promissory note but late expanded to cover London club debts and 10% Paris club, which ever is higher, as well as non pairs club bilateral debts.

2.9 PROBLEMS AND PROSPECTS OF NIGERIA;S EXTERNAL DEBT MANGMENT

From the piffle of Nigeria's external debt, it can be seen that the Paris club debt in the most problematic. The relative share of the club's debt in the total debt stock has virtually been increased from year to .year since 1983.The strategies adopted for refinancing the private debited promissory notes and par bands have miniised the burden of servicing of servicing these categories of external debts. Also multilateral debts being senior debts cannot be rescheduled and Nigeria has been servicing them as and when due.. Thus the pair club debt component has become " a fin in the neck" to the country.

PROBLEMS : -

a. Stringent Rescheduling Tams of the panic club : these has constituted a major obstacle to the reduction of panes club. The pains club debts are the largest component of Nigeria's outs tending debt rescheduling has resulted in increasing debt burden for the country. Also the short consolidation periods given by the club make financial planning difficult.

b. Inaccurate Debt Data – the death of accurate date debts owed to external creditors complicates adequate planning for debt servicing. In order to address this problem, Nigeria officials have occasionally visited creditor countries of the pairs club to carryout reconciliation of external debts. The problem of maturate debt data is due among others the inadequate computerization of the functions of debt management.

c. Lack of skilled manpower – this constitutes a major obstacle in the effective management of the country 's external debts. The skills needed to carryout efficient debt data recording and management have to be provided as a matter of urgency.

d. Low Export Earnings – the slow growth in export earning and the instability in the prices of cruder oil, Nigeria's main source of foreign exchange earnings have adversely affected the country's capacity tosevuce it's external debts. A situation where the major export earnings of Nigeria (over 90%) come from oil is unhealthy.

e. Poor Loan Sourcing, Utilization and Monitoring: in the past, Nigeria obtained foreign loan without properly appraising some of the projects to be executed with the loans. Even those properly appraised were poorly implemented and monitored. Consequently, the projects were not able to generate revenues to service the loans. An appraisal carried out by the Federal Ministry of Finance in 1996 revealed that out of 145 projects financed with external loans, 18 failed to be implemented as conceived, 43 were distressed as they were not commissioned and 84 were operating at various levels of capacity utilization. Also, the sourcing of loans was not coordinated and consequently state governments and parastatals were able to access loans from the international capital market without the consent of the federal government. This laise faire attitude to foreign borrowing catapulted the country's debt stock and debt service burden.

f. Lack of Conducive Environment for the Inflow of Foreign Capitals: since the 1980s, capital inflow into the country, has been low or non-existent. Efforts by the government to attract foreign direct investment have yielded no positive result due to lack of a conducive macro – economic environment in the country. There is need for government to provide an enabling environment so that capital inflows can resume for economic growth and development of the country.

PROSPECTS:

The following measures are necessary to address the external debt problems facing the country:

a. Agreement on a Medium - term economic programme (MTEP): there is need for the government to agree with the International Monetary Fund

(IMF) on the MTEP. This will enable the country to resume negotiation with the Paris club for debt relief. Some of the policy prescriptions for the MTEP are already being implemented by government through the media of the country's 1985, 1986, 1997, 1998 and 1999 budgets.

b. Manpower Development: it is necessary to enhance the skills to staff in charge of debt management functions in financial and debt management techniques such as ledging, swaps and external debt accounting among others.

c. Improved Data Generation: there is need to ensure the accuracy and reliability of external debt data. This is possible if the level of computerization in the agencies involved in debt management is enhanced. Already the Federal Ministry of Finance and the Central Bank of Nigeria have each installed the Common Wealth Secretariats Debt Recording and Management System (CSDRMS). It is hoped that the system will provide accurate external debt database. Also, private debt data should be made available to the authorities in charge of the country's debt because private debts are part of the overall debt stock of a country.

d. Accessing Non – Debt Sources of Financing: there is need for government to access non – debt foreign resources for development purposes especially in the social sector, however, where these are not readily available, efforts should be made to obtain concessional loans. Also, there should be need for the government to continue to ensure that the macro-economic environment is sound so that foreign direct investment and foreign portfolio investment will ensure that the country is a net beneficiary of foreign capital flows. Already the Abubakar administration has improved the operating environment with it's economic, financial and political reforms and the successful political transition programme.

e. Debt Conversion Programme: the DCP has been effective in reducing the country's debt stock especially with respect to promissory notes and has also facilitated investment in the private sector. There is need for further liberalization of the programme through appropriate incentives in order to enhance its performance.

f. Effective Project Monitoring: many projects financed with external loans performed poorly because diversion arising mainly from poor project monitoring. Consequently, servicing of the loan became a problem to the government. There is need for effective project monitoring in order to ensure that the loans obtained are prudently utilized. The Federal Government has continued to support the project monitoring activities of the National Planning Commission and other agencies towards ensuring that projects are implemented as planned.

g. Stringent External Borrowing Guideline: there is need for government to provide borrowing guidelines that are sufficiently stringent to prevent the acquisition of loans with unfavorable terms. The guidelines should also prevent the acquisition of loans by federal and state agencies that have either over borrowed or whose financial resources would not be adequate to meet repayment obligations.

2.10 SUGGESTED DEBT MANAGEMENT POLICIES

The emergence of the current international debt crisis in the early 1980s has been accompanied by intense debate on finding solution to it. Many people have written and spoken on debt management.

Falae O. (2001) argues that while Nigeria accepts responsibility for it's external debt obligations, it shall only honour them within available resources. In this line, the country is making for renegotiations of it's debt service obligations such that yearly repayments will not deplete her resources to such an extent that there is little or nothing left to pursue development projects. He also arguing that all outstanding debts should be rescheduled for a much longer period of 30yrs with a grace period of 10yrs.

Also, he pointed that interest rate on the debt should remain constant over the rescheduling period. This is to prevent a situation in which rising interest rates shoot up the debt amount considerably, thereby making their repayment a great task.

In addition, he pointed that the debt should be denominated in dollars. This is to guard against a situation where exchange rate fluctuation between the dollar and other international currencies adversely affected the debt amount.

Nevertheless, the best and most durable solution to the debt problems lies in the revival of economic growth but two sets of factors militate against such growth. First, limitations imposed by inappropriate domestic policies and second, external factors over which the country had little or no control.

In this context, debt owned to private creditors anointing to 4. 8 billion dollars was rescheduled in January 1988 with repayments stretched over period of 22yre and at an effect invites rate of return of 5%. Restructuring, refinancing and 10an facility agreement were signed with the London club in Nov 1987. liability to meet the payment terms led to the reopening of negotiations and the signing of a new set of agreement in March 1989.

Owning to the huge amount of resources going out of the econ any in form of debt servicing and repayment and the awareness of the emergence since 1982 of the secondary market for loan claims on debtor countries with sizeable discounts and the desire to appropriate for the national economy apart from the market discount on Nigeria's debt that the government decides to establish a debt conversion programmed in July 1988 to complement its debt management strategy . it aims at reducing the external debt stock and lightening the debt service burden and also to encourage capital inflows inducing repatriation of flight capital and assisting in the recapitulation of private sector.

Njoku (1989), had this to say, "structural adjustment is incompatible with real growth" production of good and services of severe loss of local currency purchasing power, is artificial growth for fortunate few and mere slave to the conscience of government. Therefore, " these financial initiative which retain interest payments and insist on the strict adherence to the structural adjustment payment are fundamentally flawed .

Njoku further said that any debt repayment should be liked to economic growth. The suggestion is that the debtor nations should form an association with a common fund where 25 of their individual GDP, its had currency at an agreed rate of exchange would be paid yearly over a 10 years period for the creditors. As long as the payment is made, each nation will be free from debt obligations to pursue that growth of those in change of the economy which will ensure that it grows by more than this figure annually to avoid contractions.

In the opinion of cheke (1990) , " the structural adjustment programmed in itself is not bad as it aimed at bringing about self reliance and income looking attitude in an economy activities . What the generality of our people argued about and rightly So is that allowing the exchange rate of the naira to fall so low so long is not only naira but most amount to economic suicide and this has compounded the magnitudes of debt.

As a means for soloing the debt crisis, there has been many calls from various quarters in the economy seeking debt relief measure from our creditors. But according to Ojo (2008) "debt relief to debtors night even lust them more since this night cut them off from future borrowing from the world financial market which will hinder their economic prospects" .

President Obasanjo (1990) called for debt repudiation . This was as a result of the huge amount of our foreign exchange being devoted to debt. Servicing couple with the fact that most of foreign exchange rationing. In support of this, Obasanjo further noted that "with the present burden, the nation would find it impossible to bring the ailing economy out of the wood".

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 RESEARCH DESIGN

According to Ozo J.U, Odo P.O. et al (2000), to design in language of research project means to plan or an approach the researcher has agreed to use in solving the research problem. This plan is essential in inquiring into the external debt of Nigeria and its impact in the economy, level of money supply and employment.

The researcher outlines the method used in collecting and analyzing data and how these methods has led to appropriate solution of the research questions and test of hypotheses formula. This work was designed in a way that would ensure that the researcher obtains data vividly, actually, objectively and economically as possible to government and member of the public.

3.2 RESEARCH METHODOLOGY

This refers to the methods of collecting data and this chapter has its main aim to show the procedures for the collection and analysis of data for the research work. Thus, the sources of data for the work are:

Primary Source:

This refers to direct data obtained for this research work mainly through interview and questionnaires. Though this is little use to the researcher because the same respondents who could have been interviewed or given questionnaires have completed materials, facts and figures which constituted the secondary data to the researcher.

Secondary Data:

These are data, which are from an intensive of past data relating to the study. It refers to already processed data published or recorded for future use or for proper documentation. A pool of materials were collected and synthesized by the researcher from which his own personal view and interpretation was brought into the work. These materials were mainly:

a. CBN Publications

b. CBN Bullions

c. Economic and Financial Reviews

d. Annual Reports and Statement of Accounts

e. Annual Time Series data on Gross Domestic Products of Economic Growth and External Debt in Nigeria.

f. National Dailies and Magazines

g. Publications of Federal Office of Statistics.

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f. National Dailies and Magazines

g. Publications of Federal Office of Statistics.

3.3 AREAS OF STUDY

The study carried out on Nigeria external debt and economic growth is from 2003 - 2013. Nigeria happened to fall in West African continent, which comprises of many countries with different economic, political and social ways of life. Despite the complex economic, political and social ways of life of Nigerians, some nations in the continent see Nigeria as a nation to look upon.

The genesis of Nigeria's debt started as far back as 1985 but the nation did not undergo much borrowing from external sources due to the emergency of oil boom till the oil glut.

3.4 LOCATION OF DATA

The data that constitutes the secondary sources of data were obtained from several libraries. Prominent among them are:

1. Central Bank of Nigeria, Enugu branch library, Okpara Avenue Enugu
2. Institute of Management and Technology (IMT) library, campus III, independence Layout Enugu.
3. The Ogun State University (OOU) library, permanent site Ago-Iwoye
4. State library Ijebu-igbo
5. Federal Office of Statistics library, Federal Secretariat

3.5 DESCRIPTION OF POPULATION

This is the number of people living in a restricted area of a total number of people in a given area. The entire population for this work was relatively large, so random sampling was employed for the interview of both workers and non-workers in the country on the external debt crisis.

3.6 SAMPLE SIZE

In order to get a representative of the whole population for this study, the Taro Yamain formula for sample size was adopted.

According to Taro Yamain (1964:208) =

$$n = \frac{N}{1 + n(e)^2}$$

where n = sample size

N = population

e = margin of error

1 = constant

for the purpose of this study, N = 500, e = 5%

therefore $n = \frac{N}{1 + n(e)}$

$$\Rightarrow \frac{500}{1 + 500(0.05)} = \frac{500}{1 + 500(0.0025)}$$

$$\Rightarrow \frac{500}{1 + 1.25} = \frac{500}{2.25}$$

$$\Rightarrow \underline{222}$$

Not all the respondents filled and returned the questionnaire. In total, 220 copies of the questionnaire were collected for analysis. Since it could not cover a large proportion of the population, data was also obtained from oral interview.

3.7 INSTRUMENT OF DATA COLLECTION

In collection of data for this research work, the instruments, which the researcher used for it, are interview, questionnaires and library researcher.

3.8 METHOD OF DATA PRESENTATION

In this research work, the main methods adopted for presenting data are:

a. Table or Tabular Method

It comprises of a systematic arrangements of the facts and figures collected in series of boxes which is in rows and columns.

b. Graph Method

This is presenting the facts and figures in diagrams and charts forms to make it readily and understandable to the reader.

3.9 TECHNIQUES OF DATA ANALYSIS

Chi – square and Test of correlation are the two techniques adopted for the analysis of data in this work.

Chi- square => $X^2 = \frac{\Sigma (0 - \Sigma)^2}{\Sigma}$

WHERE O = Observed frequency

E = Expected frequency

X^2 = Chi square

Σ = Summation

Test of correlation =>

$$=> \chi = \frac{N \Sigma XY - \Sigma X \Sigma Y}{N \Sigma X^2 - (\Sigma X)^2] [N\Sigma Y^2 - (\Sigma Y)^2}$$

WHERE:-

R = coefficient of correlation

X = variable x (Independent)

Y = Variable y (dependent)

$\sum$ = Summation

N = number of variables

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 PRESENTATION OF DATA FOR HYPOTHESIS ONE

Hypothesis one is trying to prove whether there is any significant impact between external debt and GDP of economic growth. The data needed are:-

TABLE 1

External Debt in Nigeria outstanding from 2002 –2013 (₦- Million)

Years	Multrateral	Paris Club	London Club	Promissory note	Others	Total debt
2002	89,27.3+	324,729.9	41.890.6	64.140.0	24,229.3	544.264.1
2003	81,456.3	400,380.9	45,303.8	69,665.7	36,317.7	633,144.4
2004	97,056.6	400,212.6	44,990.0	70,069.1	32.106.8	648.813.0
2005	97,0420	476,731.2	44,945.0	69,256.0	28,846.8	716.865.6
2006	102,630.0	420,002.0	44,945.0	47,080.0	2,662.0	617.320.0
2007	96,199.0	417, 568.0	44,945.0	35,475.9	1,742.2	595.931.9
2008	93214.0	458,257.8	44,945.0	35,151.6	1,447.6	633.017.0
2009	361,194.9	1,885,664.8	187,627.1	136,523.8	6,363.8	2.577.383.8
2010	379,043.0	2,353,134.0	222,834.6	158,486.0	15,753.3	3.176.291.0

2011	313,504.7	2,475,501.4	228,950.2	144,746.2	13,580.5	3,780,208.9
2012	375,605.0	3,068,252.9	182,963.2	146,338.5	7,049.3	3,176,291.0
2013	141,940.0	905,328.0	150,360.0	126,342.8	5,629.2	1,329,600

Source (a) CBN Annual report and statement of Account 2016

(b) Annual Abstract of statistics from federal office of statistics (Various Edition).

TABLE 2

Data on external debt and growth rate of gross domestic product at 2003 (₦ Million).

YEA S	GDP AT 1984 FACTOR COST	EXTERNAL DEBT
2003	97.4	544.3
2004	100.0	633.1
2005	101.0	648.8
2006	103.5	716.9
2007	107.0	617.3
2008	110.4	595.9
2009	113.0	633.0
2010	116.1	2,577.3

2011	120.6	3,176.3
2012	125.7	3,780.2
2013	129.8	3, 920.5

Source : (a) Federal office of statistics Annual Abstract.

(b) CBN Statistical Bulletin

(c) CBN Annual report of statement of Account.

4.2 TEST OF HYPOTHESIS ONE

For the purpose of this test, the null and alternative hypothesis are

Ho: External debt has no significant impact on GDP of the economic growth in Nigeria.

Hi: External debt has significant impact on GDP of the economic growth in Nigeria.

The correlation coefficient needed for the test statistics is calculated below with "X" representing external Debt and "Y" gross domestic product at 2003 factor cost.

TABLE 3

Years	X	Y	X^2	Y^2	XY
2003	544.4	97.4	296,262.49	9486.76	53,014.82
2004	633.1	100.0	400.815.16	10,000	63,310.00
2005	648.8	101.0	420,941.44	10,201	65,528.8
2006	716.9	103.5	513,945.61	10.712.25	74,199.15
2007	617.3	107.0	381,059.29	11,449.00	66,054.1
2008	595.9	110.4	355,096.81	12,188.16	65.787.36
2009	633.0	113.0	400,689.00	12,769	71,529
2010	2577.3	116.1	6,642,475.29	13,479.21	299,224.53
2011	3,176.3	120.6	10,088,881.69	14,544.36	383,061.78
2012	3,780.2	125.7	14,289,912.04	15,800.49	475,171.14
2013	3,920.5	129.8	15,370,320.25	16,848.04	508,880.9
$\Sigma=$	17,020.5	1,224.5	42,830,269.56	137,478.27	2,125,758.58

Coefficient of correlation $r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{(N\sum X^2 - (\sum X)^2 (N\sum Y^2 - (\sum Y)^2]}}$

$= N = 11$

$\Sigma XY = 2,125,758.58$

$\Sigma X = 17,843.6$

$\Sigma Y = 1,224.5$

$\Sigma X^2 = 42,830,269.56$

$\Sigma Y^2 = 137,478.27$

$$= \frac{11(2,125,758.58) - (17,843.6)(1,224.5)}{\sqrt{(11(42,830,269.56) - (17,843.6)^2)(11(137,478.27) - (1,224.5)^2)}}$$

$$= \frac{23,383,344.38 - 21,849,488.2}{\sqrt{(471,132,965.2 - 318,394,061)(1,512,266.97 - 1,499,400.25}}$$

$$= \frac{1,533,856.18}{\sqrt{(152,738,904.2)(12,866.72)}} \qquad = \frac{1,533,856.18}{\sqrt{1.965248713}}$$

$$= \frac{1,533,856.18}{1,401,873,287} \qquad R = 1.09414752 \qquad = \underline{1}$$

INTERPRETATION OF FINDINGS IN HYPOTHESIS ONE

The test performed in hypothesis one has been that there is a perfect relationship between the two variables. Thus external debt has significant impact on the GDP of economic growth in Nigeria.

DECISION Accept Hi and reject Ho.

TABLE 4 TEST OF HYPOTHESIS

Money supply in Nigeria from 2003 – 2013 (N MILLION)

YEARS	CURRENCY OUTSIDE BANK (A)	DEMAND DEPOSIT	MONEY SUPPLY (M1) (B)	QUANSI MONEY (C)	MONEY SUPPLY (M2) (D)
2003	36,755.5	39,214.7	75,970.3	53,115.2	129,085.5
2004	57,841.1	60,908.3	118,753.4	79,725.8	198,479.2
2005	90,601.0	78,790.5	169,391.5	97,553.4	266,944.9
2006	106,843.4	94,571.0	201,414.4	117,349.0	318,763.4
2007	116,121.0	111,343.4	227,464.4	142,869.1	370,333.3
2008	130,668.0	137,954.9	268,622.9	161,108.4	429,731.3

2009	156,717.4	176,458.6	333,176.0	207,061.8	540,237.3
2010	186,456.0	176,458.6	393,078.8	306,654.9	699,733.7
2011	274,010.5	206,622.8	637,731.1	398,348.4	1,036,079.5
2012	338,671.2	363,720.6	816,707.7	499,161.5	1,315,869.2
2013	386,942.3	478,036.5	946,253.4	653,241.2	1,599,494.6

SOURCE (A) CBN Annual report and statement of account 2016.

(B) CBN Statistics Bulletin Vol 13 Dec 2016.

NOTE

A = Currency outside banks is defined as currency in circulation less vault cash in commercial and merchant banks

B = Money supply (M1) is defined as currency outside banks plus privately held demand deposit with commercial banks and central bank.

C = Quasi money (QM) is defined as savings and time deposit with commercial banks plus total deposit liabilities of merchant banks.

D = Money supply (M2) is composed of M1 and Quasi money as defined above.

PRESENTATION OF DATA FOR HYPOTHESIS TWO

Years	X	Y	X^2	Y^2	XY
2003	544.3	129.1	296,262.42	16,666.81	70,269.13
2004	633.1	198.5	400,815.61	39,402.25	125,670.35
2005	648.8	266.9	429,941.44	71,235.61	173,164.72
2006	716.9	318.8	513,945.61	101,633.44	228,547.72
2007	617.3	370.3	381,059.29	137,122.09	228,586.19
2008	595.9	429.7	355,096.81	184,642.09	256,058.23
2009	633.0	540.2	400,689.00	291,816.04	341,946.60
2010	2,577.3	699.7	6,642,475.29	489,580.09	1,803,336.81
2011	3,176.3	1,315.9	10,088,881.69	1,731,592.81	4,179,693.17
2012	3,780.2	1,599.5	14,289,912.04	2,558,400.25	6,046,429.90
2013	3920.5	1,985.2	15,370,320.25	3,941,019.04	7,782,976.6
Σ	17,843.6	7,853.8	42,830,269.56	25,132,440.52	21,236,679.12

Coefficient of correlation $r = N\Sigma XY - \Sigma X \Sigma Y$

$$N\Sigma X^2 - (\Sigma X)^2)\,(N\Sigma Y^2 - (\Sigma Y^2)$$

$= N \quad = 11$

$\Sigma X \quad = 17,843.6$

$\Sigma Y \quad = 7,853.8$

$\Sigma X^2 \quad = 42,830,269.56$

$\Sigma Y^2 \quad = 25,132,440.52$

$\Sigma XY \quad = 21,236,676.42$

$$r = \frac{11(21,236,676.42) - (17,843.6)(7,853.8)}{\sqrt{11(42,830,269.56) - (17,843.6)^2 (11(25,132,440.52) - (7,853.8)^2}}$$

$$= \frac{233,603,440.6 - 140,140,065.7}{\sqrt{471,132,965.2 - 318,394,061)(276,456,845.7 - 61,682,174.44)}}$$

$$= \frac{93,463,374.9}{\sqrt{(152,738,904.2)(214,774,671.3)}} = \frac{93,463,374.9}{\sqrt{3.2880444794}}$$

$$= \frac{93,463,374.9}{181,119,982.2}$$

$= 0.5160 = 1$

INTERPRETATION OF FINDINGS IN HYPOTHESIS

From the test of hypothesis, there exist a relationship between external borrowing and the level of money supply. So external borrowing has significant impact on level of money supply in the economy.

DECISION reject HO.

PRESENTATION OF DATA FOR HYPOTHESIS THREE

A total of two hundred and twenty two questionnaire were distributed in the cause of carrying out the research work and two hundred and twenty were returned (about 99%). The distribution were thus :-

Female workers -122 (120 returned)

Male workers-100 (100 returned)

However, two (2) out of two hundred and twenty two questionnaire or (1%) were not returned due to time constraint. The analysis of data is done in two ways the response were tabulated and converted into percentage (frequency of occurrence).

Statistically, this is used to measure the discrepancy existing between observed and expected frequency.

$$= X^2 = \Sigma \frac{(O - \Sigma)^2}{\Sigma}$$

Observed frequency were derived from the response gotten from the questionnaire distributed while expected frequency were from the total number of questionnaire distributed.

4.3 INTERPRETATION AND ANALYSIS OF DATA

TABLE 5

YES	%	NO	%	UNDECIDED	%	TOTAL	TOTAL RESP
25	11%	190	86%	5	3%	100%	220

The analysis of the table indicates that one hundred and twenty (190) or 86% were of the opinion that the level of external debt has significant impact on employment level.

Conversely, 25 or 11% were of the view that the level of external debt not have any impact on employment while 5 or 3% were undecided on the issue.

Test of hypothesis 111

Ho. The level of external debt does not have any significant impact on employment.

Hi. The level of external debt has significant impact on employment.

$= X2 \sum \frac{(O - \Sigma)2}{\Sigma}$

= O = Observed frequency

Σ = Expected

X2= Summation

TABLE 6

O	Σ	$O - \Sigma$	$(O - \Sigma)^2$	$\frac{(O - \Sigma)^2}{\Sigma}$
25	11	14	196	17.82
190	86	104	10816	125.77
5	3	2	4	1.33
				144.92

Degree of freedom = (R – 1) (C – 1)

= (3 - 1)(2 – 1)

= 2X1 =2

Level of significance (Assumption)= 0.05 or 5%

X2 Calculated = 144.92

X2 critical from table =5.991

COMPARE THE TWO VALUES

X^2 Critical =5.991

X^2 Calculated = 144.92

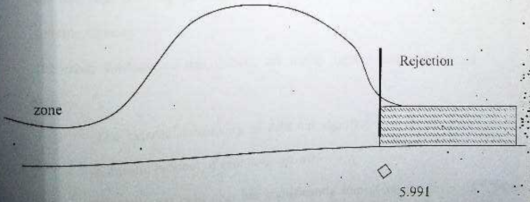
X^2 Calculated $> X^2$ critical

144.92 > 5.991

DECISION

Reject Ho and Accept Hi.

= Since calculated value of X^2 is greater than critical value, it means that level of external debt has significant impact on employment



CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATION AND CONCLUSION

5.1 SUMMARY OF FINDINGS

In summarizing the research work, it is necessary to state once again the theme of the study, which is external debt and economic growth in Nigeria. The general objective of this study was to assess the problems of external debt and their impact on economic growth, money supply and employment in Nigeria for the period of 2003 –2013 to achieve this objective, the study examined the impacts of external borrowing on the gross domestic product f economic growth, level of money supply and employment in Nigeria for e analysis, relevant secondary time services data were collected from table sources.

main findings of the research are highly lighted and summarized w:-

The external borrowing or debt has significant effect on gross domestic product of economic growth

The external debt also has significantly impact on the level of money supply

3. the level of external debt has impact on employment
4. that certain factors hinders debt servicing capacity of Nigeria such as – domestic financing policies, debt management policies, the external economic environment etc.
5. That the burden of Nigeria's external debts is more than the country can bear.
6. That the state of economic growth in Nigeria is hampered because of the debt crisis.

5.2 RECOMMENDATION

Having been entrapped by the percent worsening debt payment problem. what else can Nigeria do? The remainder of this chapter addresses itself to this question. The problem facing Nigeria so long as external debt is concerned is on how to stop incurring more debts, how to service the existing debt without causing distributions in the economy.

Now the most effective, permanent and costless solution to Nigeria's external debt problem is debt cancellations. In this case, Nigeria can show the creditors the true position of our economy and solicit for debt cancellation. If this is done, it is believed that some of our creditors especially the bilateral creditors or friendly governments may be humane enough to cancel some of their credits with Nigeria but not much is expected from the private creditors.

In addition, debt management should be part of macro economic polices of the nation. The nation need not want until there is a debt crisis before embarking on debt management, rather debt management should be part of the economic polices of the nation in day to day activities. On a continuous basis, Nigeria must determine the amount she would borrow which should be related to the economy's absorptive capacity for foreign capital and ability to service the debt without experiencing external payment problem.

Short term external borrowing especially trade debt should be discouraged while more emphasis should be placed on borrowing from official sources with long period of maturity, very low interest united either to the donor country's export or specific project in Nigeria.

Furthermore, these loans should not be development into obviously grandiose projects and unproductive projects, they should be used for productive purposes.

5.3 CONCLUSION

From the results, it was discovered that external debt has significantly impact on the economic growth of Nigeria, employment and money supply for the period covered. Therefore government is advices to strictly adhere or embark on the recommendation so as to help reduce debt burden in future. This will help to improve the pace of development in the economy hence rising the standard of living of the entire citizens.

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