EXTERNAL DEBT AND ECONOMIC GROWTH IN NIGERIA

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Abstract

This study investigates the effect of external debt on economic growth in Nigeria between 2014 and 2023, with external debt-to-GDP ratio and external debt-to-export ratio employed as the proxies for external debt and GDP growth, exchange rate and inflation for measuring economic growth. The period under review captures critical macroeconomic challenges, including oil price shocks, exchange rate volatility, the 2016 recession, and the COVID-19 pandemic, all of which significantly influenced Nigeria's debt dynamics and growth trajectory. Secondary data were sourced from the Central Bank of Nigeria (CBN), Debt Management Office (DMO), FIRS and World Bank World Development Indicators (WDI). The study adopts a quasi-experimental research design with econometric analysis to assess the effect of external debt on Nigeria's economic growth .Findings revealed that rising external debt exert pressure on Nigeria's economy, contributing to exchange rate instability and inflationary trends, while economic growth remains sluggish. The study recommends productive utilization of debt and stronger revenue mobilization to achieve sustainability.

Keywords: External debt, economic growth,

1.1 Introduction

The country's debt management strategy has evolved over time in response to both domestic economic needs and external pressures, such as global financial crises and fluctuations in oil prices.Nigeria experienced a debt crisis in the 1980s and 1990s, culminating in the 2005 Paris Club debt relief which drastically reduced its external obligations and was widely hailed as a turning point in debt management (Adesola &Siyan, 2022). However, from 2015 onwards, the country's external debt began rising sharply, fueled by oil price shocks, foreign exchange volatility, and mounting infrastructural deficits (Eze&Ukwueni, 2023). Despite significant external borrowing aimed at enhancing infrastructure and macroeconomic stability, Nigeria's GDP growth has remained sluggish, averaging below 3% annually from 2020 to 2024 (World Bank, 2024). While external borrowing is often intended to finance productive development, mounting debt servicing obligations risk crowding out critical investments, thereby suppressing GDP growth.

These debts were initially intended to finance infrastructure, boost productive capacity, and place recipient countries on a trajectory accelerated development. However, by the early 1980s, the optimism surrounding external borrowing began to wane as many debtor nations faced mounting debt service obligations. The expansion of external debt from both public and privately guaranteed sources was meant to fuel infrastructure, shore up fiscal shortfalls, and support investment-led growth (Ekeruche, Folarin, Ihezie, Okon, &Olasode, 2023). Yet the reversal of fortunes during global shocks ,COVID-19, oil price collapse has intensified the debt burden to the point where debt servicing significantly absorbs national resources. For example, in 2022, an estimated 96 % of federal revenue went toward interest payments, leaving paltry allocations for education, health, and infrastructure (Ekeruche et al., 2023). This expansion of debt has corresponded with macroeconomic challenges, including decelerating GDP growth averaging just 2.86 percent between 2014 and 2023 compared to much higher historical rates as well as high inflation and volatile exchange rates against the U.S. dollar(World bank,2024) .

The debt service ratios, which is the proportion of national income or export earnings used to repay loans rose to unsustainable levels. Rather than fostering growth, external debt in many cases became a drag on development. For several countries, including Nigeria, the financial burden of debt repayment started to crowd out critical public investments in health, education, and infrastructure. More troubling was the realization that for some heavily indebted countries, repaying these loans in full was practically unfeasible without sacrificing the resources required to maintain and stimulate their domestic economies (IMF, 2024). What was once considered a strategic developmental tool turned into a severe economic constraint, highlighting the need for debt restructuring, relief programs, and more prudent debt management strategies (UNCTAD, 2019; World Bank, 2023). The increasing reliance of developing countries on external debt as a mechanism to finance budget deficits and developmental projects has sparked a renewed global discourse on the debt-growth nexus.

External debt as a percentage of GDP climbed from about 11 percent in 2015 to over 21 percent by 2024, while external debt-to-export ratios surged from approximately 80 percent to about 137 percent over the same period (International Monetary Fund , IMF 2024According to Csaba and Gabriella (2017), it is not merely the quantum of debt that matters to national stability, but also how debt is serviced and managed relative to critical fiscal indicators. They argue that the sustainability of public debt in developing economies can be assessed more accurately by examining debt-to-GDP, debt-service-to-revenue, and short-term-external-debt-to-reserves ratios, rather than just the absolute size of the borrowing." Metrics such as the debt-to-GDP ratio, the debt-service-to-revenue ratio, and the short-term debt-to-reserves ratio serve as early warning signs of mounting public debt burdens. When these indicators reach alarming levels, they signal that a country's capacity to meet its obligations sustainably is in jeopardy, and that the drain on revenues or reserves could undermine economic stability (Csaba& Gabriella 2017).

Recent empirical investigations that debt servicing, debt service costs, and exchange rate volatility each negatively impact economic growth in Nigeria (Agbeyinka ,2023). Complementarily, Binuyo, Duwong, Adesuyi, and Okedina, (2024) confirm that, although external debt stock has an insignificant effect on growth, debt servicing exerts a negative influence especially when inflation and exchange rates are factored. These evidences suggest that external debt has devolved from being a growth enabler to a potential drag on development, particularly when coupled with weak revenue mobilization and macroeconomic instability (Agbeyinka, 2023; Binuyo et al., 2024).

Empirical studies offer mixed insights: some find significant adverse long-run effects of external debt and exchange rates on real GDP growth ; others indicate no significant effect in the short or long run . A study by Oligbi (2024) using ARDL methodology found that while external debt per se had an insignificant direct effect on GDP, its lagged values and high inflation negatively influenced growth .

As a result of these concurrent trends, findings have been mixed, with some researchers identifying a positive correlation at moderate debt levels, and others, like Adesola and Siyan(2022), pointing to a negative impact once debt crosses a certain threshold while Nwankwo and Odu (2022) linked high debt servicing to reduced fiscal space for public investment, hence it becomes imperative to examine the interplay between external debt (measured by debt-to-GDP and debt-to-exports), and key economic growth variables (GDP growth, inflation and exchange rate) within Nigeria from 2014 to 2023, to generate insights and inform effective policy responses.

There is a clear gap regarding an integrated and recent analysis using proxies such as GDP growth rate, inflation, and foreign exchange rate vis-à-vis external debt measures for the period 2014–2023.Therefore, this study aims to fill that gap by investigating how external debt indicators affect Nigeria's economic growth captured by GDP growth, inflation, and exchange rate .

2.1Methods

This study adopts a quasi-experimental research design because it seeks to analyze the relationship between external debt and economic growth in Nigeria using already existing secondary data from CBN, DMO, IMF and World Bank covering the period 2014 to 2023.The data are first summarized using descriptive statistics in order to provide an overview of the characteristics of the variables under study. Thereafter, diagnostic tests such as the normality test are conducted to ensure the reliability of the data and the appropriateness of the model. The study then proceeds to apply econometric techniques to test the stated hypotheses and to establish both the short-run and long-run effects of external debt on economic growth. The results obtained are interpreted in line with the objectives of the study.

3.1 Result

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
EXTDGDP	10	1.71	11.90	6.1127	3.29674
EXTDEXP	10	3.99	5.35	4.8001	.39150
GDPGR	10	-.02	6.22	1.2138	2.13639
FOREX	10	5.11	6.47	5.7476	.39295
INF	10	2.09	3.21	2.6321	.34237
Valid N (listwise)	10				

Source: Author's Computation (2025)

Table 4.1 shows the descriptive statistics for the relationship between external debt and economic growth in Nigeria, using five key variables. The first variable, EXTDGDP (External Debt to GDP ratio), ranges from a minimum of 1.71 to a maximum of 11.90, with a mean of 6.11 and a relatively high standard deviation of 3.29. This indicates that the proportion of external debt to Nigeria's GDP has varied widely within the observed period. In some years, external debt made up only a small fraction of economic output, while in others, it accounted for a significant portion. The large variation suggests inconsistent reliance on debt as a means of financing growth, raising questions about debt sustainability and the burden of repayment on the economy.

For the second variable, EXTDEXP (External Debt to Export ratio), the table shows a minimum of 3.99 and a maximum of 5.35, with an average of 4.80 and a small standard deviation of 0.39. This indicates relative stability compared to EXTDGDP. The low variability suggests that Nigeria's external debt relative to its export base has been steady across the years, though the ratio remains high. With external debt levels nearly five times higher than export earnings, the figures point to a structural imbalance where export revenues may not be sufficient to adequately cover debt obligations, particularly during external shocks such as declining oil prices.

The third variable, GDPGR (Gross Domestic Product Growth Rate), records a minimum of -0.02 and a maximum of 6.22, with a mean of 1.21 and a standard deviation of 2.13. This reflects the volatile nature of Nigeria's economic growth within the study period. While there were years of moderate expansion, the near-zero growth rate in some periods highlights challenges such as dependence on oil revenues, external debt burdens, and policy inconsistencies. The low average growth rate suggests that external borrowing has not consistently translated into sustainable economic expansion, which raises concerns about the productive use of borrowed funds in stimulating growth-oriented sectors.

Similarly, FOREX (Foreign Exchange Rate) shows a minimum value of 5.11 and a maximum of 6.47, with an average rate of 5.74 and a standard deviation of 0.39. The relatively narrow spread reveals a stable but gradually depreciating exchange rate. Although stability in exchange rates can support economic planning, the slight depreciation indicates rising costs in servicing external debt obligations, most of which are denominated in foreign currencies. This trend places additional pressure on Nigeria's foreign reserves and highlights the vulnerability of the economy to fluctuations in the global financial system.

The fifth variable, INF (Inflation Rate), ranges between 2.09 and 3.21, with a mean of 2.63 and a standard deviation of 0.34. The results suggest a relatively stable inflationary environment during the study period, with minimal fluctuations. While stable inflation is generally favorable for economic performance, the relatively low values reported here may not fully capture broader inflationary challenges in Nigeria's economy, which are often influenced by structural weaknesses and exchange rate volatility. Nonetheless, the stability reflected in this dataset indicates that inflation was less disruptive compared to the volatility observed in GDP growth and external debt ratios.

The descriptive statistics in Table 4.1 highlight the complex interaction between external debt and economic growth in Nigeria. While the external debt to GDP ratio (EXTDGDP) shows wide fluctuations that suggest unstable reliance on debt, the debt-to-export ratio (EXTDEXP) reflects a consistently high burden when measured against the country's foreign earnings. GDP growth (GDPGR), on the other hand, demonstrates significant volatility and a low average, implying that external borrowing has not always translated into sustainable economic expansion. The relative stability in the exchange rate (FOREX) and inflation (INF) provides some macroeconomic cushioning, but these alone are insufficient to offset the challenges posed by debt dependency and weak growth performance.

4.1 Discussion

This study set out to examine the effect of Nigeria's external debt on its economic growth with key indicators such as GDP growth, inflation rate, and foreign exchange rate.

i. The analysis revealed a positive but weakly significant relationship between the external debt-to-GDP ratio and GDP growth.
ii. Findings from the regression analysis indicate a positive but statistically insignificant relationship between the external debt-to-GDP ratio and inflation.
iii. A statistically significant and positive relationship was observed between the external debt-to-GDP ratio and the foreign exchange rate.
iv. The study found a strong and statistically significant negative relationship between the external debt-to-export ratio and GDP growth.
v. The relationship between the external debt-to-export ratio and inflation was found to be positive but statistically insignificant.
vi. The analysis revealed a positive but statistically insignificant relationship between the external debt-to-export ratio and the foreign exchange rate.

5.0 Conclusion

This study has examined the relationship between external debt and Nigeria's key economic growth outcomes, focusing on GDP growth, inflation, and the exchange rate. The findings show that external debt has a mixed impact on the economy. While the external debt-to-GDP ratio has a weak but positive link with growth, its effect is not strong enough to drive robust economic expansion. The relationship with inflation is minimal, suggesting that other structural factors such as exchange rate fluctuations, fiscal imbalances, and supply shocks play a more dominant role in driving price instability. However, the external debt-to-GDP ratio exerts a significant pressure on the exchange rate, pointing to the vulnerability of the naira when external debt levels rise. On the other hand, the external debt-to-export ratio presents a strong negative relationship with growth, affirming the debt overhang problem where rising debt burdens discourage investment and weaken economic performance. Its impact on inflation and exchange rate, however, was found to be weak and statistically insignificant. Altogether, these outcomes reveal that external debt is not inherently harmful, but its benefits for Nigeria's economy depend largely on how effectively it is managed, the structure of exports, and the broader quality of governance

6.0 Recommendation

1. The government should ensure that external loans are strictly tied to projects with clear economic value, such as infrastructure, energy, agriculture, and industrial development.
2. Policy actions should focus on addressing the real drivers of inflation in Nigeria. This includes stabilizing the exchange rate through effective foreign reserve management, reducing fiscal deficits, and supporting local food production to limit dependence on imports..
3. Nigeria should reduce its reliance on high-interest commercial loans and prioritize concessional financing with longer repayment periods.
4. The strong negative link between debt-to-export ratio and growth calls for discipline in external borrowing. Nigeria should only borrow in line with its ability to generate foreign exchange. This means tying new loans to projects that directly expand the export base, such as agricultural value chains, solid minerals, and manufacturing, so that debt repayments do not outpace export earnings.

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