

DEBT SUSTAINABILITY AND ECONOMIC GROWTH IN NIGERIA

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BY

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES
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SEPTEMBER, 2021

ACCEPTANCE

This is to attest that this dissertation is accepted in partial fulfilment of the requirements for the award of the degree of Master of Science in Economics in the Department of Economics and Development Studies, College of Management and Social Sciences, Covenant University, Ota, Ogun State, Nigeria.

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DECLARATION

I, **ADETAYO ADEPEJU OLUNIKE (18PAF01770)** declare that this research was carried out by me under supervision of Dr. Oluwatoyin A. Matthew of the Department of Economics and Development Studies, College of Management and Social Sciences, Covenant University, Ota, Nigeria. I attest that the dissertation has not been presented either wholly or partially for the award of any degree elsewhere. All sources of data and scholarly information used in this dissertation are duly acknowledged.

ADETAYO ADEPEJU OLUNIKE

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Signature and Date

CERTIFICATION

We certify that this dissertation titled “**DEBT SUSTAINABILITY AND ECONOMIC GROWTH IN NIGERIA**” is an original research work carried out by **ADETAYO ADEPEJU OLUNIKE (18PAF01770)** in the Department of Economics and Development Studies, College of Management and Social Sciences, Covenant University, Ota, Ogun State, Nigeria, under the supervision of Dr. Oluwatoyin Matthew. We have examined and found this work acceptable as part of the requirement for the award of Master of Science, Economics.

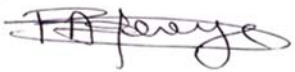
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DEDICATION

I want to appreciate God the Father, God the Son, God the Holy Spirit for His immense love and sustainance through the course of this programme, indeed He is my very present help in the times of need.

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ABSTRACT

Economic growth is vital to every nations of the world. Numerous research have been undertaken to determine how public debt affects economic growth. It has been a source of contention between researchers since the 1980's financial crisis began. The findings' inconsistencies could be explained by differences in empirical strategy, methodology, or the selection of control variables used. Therefore, this study investigates debt sustainability on economic growth in Nigeria from a more holistic perspective by combining domestic debt and external debt into a single variable, measuring total debt stock and the economic aspect. The study used annual time series data covering a period of forty years (1981 - 2020) and applied the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests which revealed that total debt stock, debt service payment, and exchange rate were stationary at first difference while gross capital formation and inflation were stationary at levels. Consequently, the Nonlinear ARDL (NARDL) model was estimated which enabled the decomposition of the debt variables into positive and negative effects. The study found short-run effects on GDP growth between total debt stock and debt service payments, but only a decrease in total debt stock matters for long-run economic growth. A short-run increase in debt stock has a temporary negative impact on GDP growth, but a short-run decrease in debt stock impacts GDP growth positively for all lags. Also, a short-run increase in debt service payment negatively impacts GDP growth for all lags while a short-run decrease in debt service payment positively impacts GDP for all lags. The exchange rate decreased GDP significantly in the short-run, but increased significantly in the long-run, thus supporting the J-curve hypothesis. Both gross capital formation and inflation were found to significantly increase GDP in the short-run, but in the long run, only inflation impacts GDP significantly, and its impact is positive. Based on the results of this study, it was suggested that borrowed funds should be used to increase the country's production capacity by increasing investments in infrastructure (e.g., power and better transportation networks) and improving human capital development as these would help maximise the social gains from debt.

Keywords: Debt Stock; Debt Service Payment; Gross Domestic Product; Nonlinear ARDL.