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The Effects of Foreign Debt on Nigeria's Economic Growth: An Examination

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Abstract- ***External debt has a substantial impact on economic performance. However, this study investigated the effects of foreign debt on economic growth in Nigeria from 1981 to 2022. A quantitative research approach was adopted for this study. The method for estimation was the Auto-Regressive Distributed Lags (ARDL) model. The speed of change between the short-run and long-run of the co-integrating equations was 84.93%. The study used debt overhang theory, the neo-classical theory and endogenous theory as the theoretical framework. The result shows resource restoration effect of external debt services on growth. External debt stock has a positive but not significant relationship with growth. There is a positive but not significant relationship between external debts to economic growth. External debts to debts servicing, inflation and trade openness has a long run positive relationship with economic growth except inflation. The study recommends that given the significant positive long-run effect of external debt, the government must build on long-term economic strategies that take into account the implications of external borrowing for more beneficial. Policymakers are recommended to focus on ensuring that external borrowing is channelled toward projects such as railways, ports, roads, electricity and investments in interest yielding financial assets that will benefit the economy in the long run and much on investment that will yield export goods.***

I. INTRODUCTION

Globally, external debt has served as the fulcrum of which economic growth of the more developed countries in the world is built. The effect of external debt on economic growth in Nigeria has continued to generate different outcomes. Aliyu (2023) and Ojo (2022), argued that external debt has not improved economic growth in Nigeria. According to Aliyu (2023), there is a clear disconnection between the purpose of the external debt and the application thereof. The implication of this according to the author was that external debt in the context of Nigeria, has not been utilized on the economic project it was sourced for. Ojo (2022) opined that external debt exerts a negative effect on Nigeria. This according to the author is because the benefit of external borrowing has not affected economic growth positively in Nigeria. The high unemployment rate, high rate of poverty, low capacity utilization in industries and government MDAs, infrastructural decadence, ineffective health care delivery, and low life expectance may all be traced to the failure of the Nigerian government to utilize the external debt for the economic purpose the loans are sourced on. The consequence of this is that meaningful economic growth continues to be far from attained in Nigeria. This may be the reason a negative long-run relationship has existed between external debt and economic development in the country.

The relationship between external debt and economic growth in Nigeria has continued to baffle economists and scholars. For instance, Ojo (2023) stated that the lack of effective reconnection among, external borrowing, economic growth purpose of the loan, and judicious utilization of the fund borrowing is a cause to be worried about by successive governments. This according to the author was because the government borrowed to enrich itself and not to create positive economic projects that may affect employment generation, reduce poverty, increase capacity utilization for the SMEs, enhance the survival of infant industries, improve quality of life, improve health care delivery and improve education facilities.

This according to Ogunmakinwa (2021) is the reason why external borrowing has not enhanced better leverage for positive economic growth. On this note, He posited that the relationship between external debt and economic growth in Nigeria may continue to produce a negative connection due to a lack of

effective evidence to assess whether the external loans have been used to affect the economic projects the loans are meant for. Ogunwale and Ashiru (2023) argued that external debt and economic growth in Nigeria may not be effectively related because the bulk of the Nigerian external debt is being used to resettle current government expenditures. For instance, Aliyu (2023) argued that the total debt portfolio, external debt, domestic debt, debt servicing, total revenue generated, inflation, exchange rate, and the unpredictability of the economic environment may be serious determinants of economic growth. Ashiru (2024) noted that the determinants of economic growth in the context of external debt depend on the prevailing economic variables that directly affect economic growth in Nigeria. The economic variables are; external debt, domestic debt, total government revenue generated, inflation, exchange rate, and debt servicing. On this note, Ojo (2024) argued that the determinants of economic growth depend on the policy and program the government wants to pursue regarding external debt. Thus, economic growth may be accelerated if the right government policies are put in place to affect positively economic variables such as government total revenue generated, domestic investment, and decreased economic parameters that tend to discourage improved economic growth in Nigeria (Ogunwale & Ashiru, 2024).

II. STATEMENT OF THE PROBLEM

The leadership challenge is the major problem Nigeria is facing in the area of using external borrowing to affect positively economic growth in the country. Aliyu (2023) posited that for the external debt, the problem of leadership has continued to deprive Nigeria of the gains that accrued from the external borrowing. This painfully glaring in the way and manner of government at different levels have used external borrowing and domestic borrowing on frivolous projects that add no economic value to the nation. On this note, Okeowo (2024) argued that economic growth in Nigeria may continue to be a dream that has no visioners due to the reckless way the government has spent external debt that has specified economic projects attached to the loan.

III. RESEARCH QUESTIONS

Based on the problem identified above, the following research questions are investigated for the study.

(i) What are the trends of external debt and economic growth in Nigeria?
(ii) What is the effect of external debt on economic growth in Nigeria?
(iii) What is the long-run relationship between external debt and economic growth in Nigeria?

Objective of the Study

The broad objective of the study was to examine the effects of external debt on economic growth in Nigeria. Specifically, the study aims to:

(i) analyse the trends of external debt and economic growth in Nigeria.
(ii) evaluate the effects of external debt on economic growth in Nigeria.
(iii) examine the long-run relationship between debt and economic growth in Nigeria.

IV. LITERATURE REVIEW

Alawode (2022) defined external debt as the portion of a country's debt that is borrowed from foreign lenders, including commercial banks, governments, or international financial institutions. If a country cannot repay its external debt, it is said to be in sovereign debt and faces a debt crisis. Moreover, Ojo and Ogundele (2022) defined external debt as the amount that a country or company must repay a foreign lender. This indicates that nations take on this debt to meet various expenses and fund investments in multiple sectors. Common sources of external debt include foreign commercial banks and governments (Ogundele, 2023). Moreover, Aliyu (2023) refers to external debt as debt liabilities owed by a resident to a non-resident, with residence determined by where the creditors and debtors are ordinarily located rather than by their nationality. In addition, Ekundayo (2023) defined external debt as debt that takes the form of a tied loan, obligating the borrower to spend the funds in the nation providing the financing. The implication of this was that external debt factors in both principal and interest and does not include contingent liabilities. Furthermore, Ogunmodede (2022) argued that

external debt is the sum of a country's public and private sector debt owed to foreign creditors. It affects a nation's credit worthiness and economic stability.

The term economic growth is described as the positive and sustained increase in aggregate goods and services produced in an economy within a given time period (Michael, 2013). When measured with the population of a given country, then economic growth can be stated in terms of per capita income according to which the aggregate production of goods and services in a given year is divided by the population of the country in the given period (Ajayi, 2024).

V. DUAL-GAP THEORY

Chenery and Strout (1966) introduced the dual gap theory Ayadi and Ayadi, (2008). The theory advances reasons why a developing country should opt for foreign finance as a means for ensuring sustainable growth rather than relying solely on domestic resources. The two-gap theory contends that growth is limited by two constraints. First, the savings gap constraints the country's ability to save and invest. Second, the foreign exchange gap accruing from limited export revenues and the targeted growth rate of the economy causes imports to exceed the economy's ability to finance them. Two gaps: savings-investments were identified as constituting constraints to growth, and these gaps were needed to be filled by foreign capital to stimulate investment. The theory seems to be apt in explaining the concept of foreign debt. Describing the theory, Sulaiman and Azeez (2012), corroborated the reason stated earlier by other researchers that the dual gap hypothesis provides the framework which indicates that the development of a nation is a function of investment, and that such investment which requires domestic savings is not sufficient to ensure that the envisaged development materializes. In view of this, the importance of foreign debt on the growth process of an economy cannot be overemphasized. Other pro-dual gap theory adherents Ajayi and Oke, (2012), support the fact that countries need savings, investment, sufficient import to realize desired rate of macroeconomic advancement. The researchers contend that if the available domestic savings fall short of the target rate of growth, a savings-investment gap is said to exist. In the same vein, if the maximum import requirement needed to realize the growth target is greater than the maximum possible level of export then there is an export-import exchange gap.

Neoclassical Growth Theory

Some of the main proponents of the neoclassical growth theory are Ramsey (1928), Solow (1956), Phelps (1961) and Koopmans (1965). The widespread use of the neoclassical model centres on the important role theory played in the coordination and integration of various works in macroeconomics, public finance and international economics. This model enjoys a wide usage in aggregate economic analysis. Solow (1956) essentially argued that when production takes place under usual neoclassical conditions of variable proportions and constant returns to scale, there will be no opposition between natural and unwarranted rates of growth. The system is self-adjusting to any given rate of growth of the labour force and eventually approaches a state of steady proportional expansion. The major innovation introduced by Solow was to allow for factor substitutability so that stable equilibrium growth could be attained. The model is consistent with a number of stylized facts related to economic growth such as the relative constancy over time of capital – output ratio. Despite the modifications, the basic problems associated with the neoclassical thinking are that it hardly explains the sources of technical change (Essien and Bawa, 2007).

VI. METHODOLOGY

Theoretical Framework

The theoretical base of this study are hinged on the two gap model and neoclassical growth model.

Some of the main proponents of the neoclassical growth theory are Ramsey (1928), Solow (1956), Phelps (1961) and Koopmans (1965). The widespread use of the neoclassical model centres on the important role theory played in the coordination and integration of various works in macroeconomics, public finance and international economics. This model enjoys a wide usage in aggregate economic analysis. Solow (1956) essentially argued that when production takes place under usual neoclassical conditions of variable proportions and constant returns to scale, there will be no opposition between natural and unwarranted rates of growth. The basic argument of the two-gap model

is that most developing countries face either a shortage of domestic saving to match investment opportunities or a shortage of foreign exchange to finance needed import of capital and intermediate goods (Todaro & Smith, 2012).

Model Specification

In order to achieve the objectives of the study, a regression model is adapted to estimate the impact of external debt on economic growth in Nigeria. However, the study will adapt the model of Sulaiman and Azeez (2012). According to the authors, Gross Domestic Product (GDP) is the dependent variable to measure economic growth while external debt (EXD), Inflation (INF) and Exchange Rate (EXR) represent the independent variables.

Hence, the functional equation of the model become;

$$GDP = f(EXD, INF, EXR) \quad (9)$$

In addition, in line with the objectives proposed in this study, the model is modified to suit the focus of this study. Therefore, for this, economic growth will be proxied using Real Gross Domestic Product.

$$GDP = f(EXD, INF, EXR) \quad (10)$$

Moreover, Akinteju (2023) argued that the role of debt servicing cannot be neglected when considering the relationship between external debt and economic growth. As a result of this, the inclusion of the debt servicing (DSER) as part of the variable is necessary. Therefore, function equation gives;

$$GDP = f(EXD, INF, EXR, DSER) \quad (11)$$

Ojo (2023) and Ogunmodede (2023) posited that the necessity for trade openness and domestic investment when discussing variables to be considered to investigate the relationship between external debt and economic growth is needful, thus, trade openness and domestic investment (INV) are considered as part of the variables. Thus, domestic investment will be proxied by gross fixed capital formation (GCF) As a result of this the functional equation (11) redefined as;

$$GDP = f(EXD, INF, EXR, DSER, TOP, INV) \quad (12)$$

The mathematical transformation of the equation (12) is given as;

$$RGDP = \beta_o + \beta_1 RGDP_{t-1} + \beta_2 EXD_t + \beta_4 INF_t + \beta_5 EXR_t + \beta_6 DSER_t + \beta_7 TOP_t + \beta_8 GCF_t + \mu_t \quad (14)$$

Where,

GDP = Real Gross Domestic Product used as proxy for Economic Growth.

EXD = External Debt

INF= Inflation Rate

EXR= Exchange Rate

DSER= Debt Servicing

TOP= Trade Openness

GFCF= Domestic Investment: (proxied by Gross Fixed Capital Formation)

$$\beta_0 = Intercept\ or\ Constant$$

$$\beta_1\ to\ \beta_8 = Regression\ Parameters\ to\ be\ Estimated$$

$$\mu = Error\ Term$$

Sources of Data and Measurement of Variables

The data used for this study are basically time series data covering 1981-2022. Economic growth (Y) is measured by Nominal Gross Domestic Product and will be sourced from the Central Bank Statistical Bulletin. More so, External Debt (EXD) will be sourced from the Central Bank Statistical Bulletin and Website of Debt Management Office. In term of measurement, the variable will be measured by absolute value of total external debt borrowed in Millions of Dollars by the Nigerian Government from the period of the study. Also, Gross Fixed Capital Formation will be sourced from the Central Bank Statistical Bulletin various report and proxies by the absolute value of GCF in millions of Dollars spent on capital formation in Nigeria. Inflation and exchange rates are sourced from the CBN statistical Bulletin and National Bureau of Statistics Annual Report. Debt Servicing is measured by the total value of external debt repayment in Nigeria. More so, trade openness

will be proxies by total export plus import divided by GDP. Investment is measured as Domestic Investment. Furthermore, the data for the variables are sourced from the National Bureau of Statistics, World Bank, Economic Indicators, Annual Report (various) of IMF and Central Bank of Nigeria Statistical Bulletin.

VII. RESULTS

Descriptive Statistics

Distribution values and central indices are displayed in descriptive statistics. Analysing the average of the data, how they relate to one another, and how the collection is doing can all be done with the use of descriptive statistics. The mean, median, standard deviation, minimum and maximum of the study's descriptive data are shown in Table below. It is authoritative to analyse the statistical attributes because it guides and offers evidence on how external debt' is unique in respect economic growth. Therefore, Table below showed the statistical properties of each parameter under study.

Results of Descriptive Statistics

Variables	RGDP	DSER	EXD	EXR	GFCF	INF	TOP
Mean	3.047690	12.77517	2702.228	115.7135	9.125682	18.97338	31.85247
Maximum	15.32916	38.03883	18702.25	425.9800	19.62560	72.83550	53.27796
Minimum	-13.12790	0.628637	2.330000	0.617708	0.000000	5.388008	9.135846
Std. Dev.	5.319518	9.439442	4281.546	119.3252	3.789082	16.46475	12.05599
Jarque-Bera	10.13045	5.379378	83.84852	7.512192	4.018251	34.62440	1.391571
Probability	0.006313	0.067902	0.000000	0.023375	0.134106	0.000000	0.498683
Observations	42	42	42	42	42	42	42

Source: Researcher's Computation (2024) from E-Views 10.

Note: RGDP = Real Gross Domestic Product, *DSER = Debt Servicing, EXD = External Debt, EXR = Exchange Rate, GFCF = Gross Fixed Capital Formation, INF = Inflation Rate, TOP = Trade Openness.*

The table explains the statistical descriptions of the variables in the model and the descriptive statistics of the variables showed the mean, maximum, minimum, and sum of the variable. The results discovered that real gross domestic product (RGDP) averaged was 3.04 while the debt servicing (DSER) 12.77 covered three time of real gross domestic product (RGDP), this mean that, as (RGDP) increases by 1 unit so also debt servicing (DSER) are being paid in three fold of real gross domestic product (RGDP). It has a Jarque-Bera statistic of 10.13045 with its associated probability value of 0.006313 which is clearly not significant at 0.05 percent; this confirmed that RGDP is a normal distribution.

External debt stock (EXD) to real gross domestic product (RGDP) average covered 2702.228, 1 unit increase in real gross domestic product (RGDP) spring-up of 270 units increase in external debt (EXD) borrowing. It has a Jarque-Bera statistic of 83.84852 with its associated probability value of 0.000000 which is clearly not significant at 0.05 percent; this confirmed that RGDP is a normal distribution.

Exchange rate (EXR) was 115.7135 showed that exchange rate was having much effect on real gross domestic product (RGDP), with high exchange rate, external debt from outside Nigeria will attract much interest rate due to exchange rate parity/different. It has a Jarque-Bera statistic of 5.379378 with its associated probability value of 0.067902 which is clearly significant at 0.05 percent; this confirmed that RGDP is a normal distribution.

Gross fixed capital formation (GFCF), capital formation is the main key to economic growth. It reflects effective demand and, on the other hand, it

creates productive efficiency for future production. However, the level of impact of capital formation on economic growth depends on the intensity of its determinants. It has a Jarque-Bera statistic of 4.018251 with its associated probability value of 0.134106 which is clearly significant at 0.05 percent; this confirmed that government expenditure is a normal distribution.

Inflation rate (INF), it could be defined as a continuing rise in prices as measured by an index such as the consumer price index (CPI) or by the implicit price deflator for gross national product (GNP), the average mean was 18.97338 which indicate strong negative effect on economic growth, It has a Jarque-Bera statistic of 34.62440 with its associated probability value of 0.000000 which is clearly significant at 0.05 percent; this confirmed that government expenditure is not a normal distribution.

Trade openness (TOP), the impact of trade openness on economic growth in Nigeria and other countries has generated large volume of empirical studies, the significant of it, is showed through descriptive mean of 1.391571 on economic growth. It has a Jarque-Bera statistic of 34.62440 with its associated probability value of 0.498683 which is clearly significant at 0.05 percent; this confirmed that government expenditure is a normal distribution.

Table 4.10: Long Run Causality ARDL Result for ARDL Method

ARDL Error Correction Regression
Dependent Variable: D(RGDP)
Selected Model: ARDL(1, 2, 2, 0, 1, 0, 2, 1, 1)
Case 2: Restricted Constant and No Trend
Date: 08/07/24 Time: 00:06
Sample: 1981 2022
Included observations: 40
ECM Regression
Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(DSER)	0.140428	0.066142	2.123146	0.0458
LOG(DSER(-1))	-0.311393	0.062230	-5.003884	0.0001
LOG(EXD)	0.000174	0.000466	0.374192	0.7120
LOG(EXD(-1))	0.001967	0.000530	3.714001	0.0013
LOG(FRS)	-0.000233	6.32E-05	-3.681179	0.0014
LOG(GFCF)	-0.348966	0.145139	-2.404364	0.0255
LOG(GFCF(-1))	-1.004164	0.196981	-5.097772	0.0000
LOG(INF)	-0.081228	0.024549	-3.308790	0.0033
LOG(TOP)	0.046046	0.047710	0.965137	0.3455
*CointEq(-1)**	-1.158296	0.094688	-12.23278	0.0000
R-squared	0.849311	Mean dependent var		0.252585
Adjusted R-squared	0.804105	S.D. dependent var		4.677454
S.E. of regression	2.070244	Akaike info criterion		4.505528
Sum squared resid	128.5774	Schwarz criterion		4.927748
Log likelihood	-80.11057	Hannan-Quinn criter.		4.658190
Durbin-Watson stat	2.634947			

Source: Researcher's Computation (2024) from E-Views 10.

The Co-integrations (ECM-$_1$) equation shows that EXD has a positive (0.001967) but not significant relationship with GDP (t-stat= 0.374192<2.0211, p= 0.7120>0.05). The positively signed coefficient of

EXD is in conformity with the a priori expectation. A unit increase in EXD consequently means that GDP rises by 0.000174 (0.0174%). The findings suggest that external borrowing is beneficial to Nigeria economy but it does not play much of an imperative role in the growth process of Nigeria. This could be accredited to the fact that the external borrowing have not been channelled to highly productive activities that would increase the overall output of the economy instead debt have been contracted for capital projects such as construction of roads etc. (EXD(-1)) justified a reasonable result of significant effect with one period lagged that showed 0.001967 (1.97%) increment in economy growth with (t-stat= 3.714001>2.0211, p= 0.0013<0.05). the findings suggest that external borrowing with prepared implementation of fiscal and economy policies give prospered disbursement of such loan to appropriate quarter and channel after monitoring by stakeholders in charge of such loan. This could be accredited to the fact that such external debt were channelled to highly productive activities that will increase overall welfare of masses at large.

LOG(GFCF(-1)) gross fixed capital formation exerts a significant negative (-5.097772) pressure on GDP because of poor implementation of government policies by different MDAs in government quarter. This goes against the a priori expectation. A percentage increase in the gross fixed capital formation (GFCF) would leads to a decline in GDP by -1.004164 (100%) percent (t-stat= -5.097772>2.0211, p= 0.0000<0.05). This implies that external debt has crowded out the positive impact of investment by foreigner on the economy. This is due to fact that import earnings have not been adequate to pay debts and that the nation is highly dependent on imports. INF in conformity with the a priori expectation is negatively related to GDP and it is statistically significant. Percentage increase in INF leads to -0.081228 (8.12%) percent decrease in GDP. This implies that the external borrowing has made government expenditure to rise thereby increasing the inflation rate in the economy and major bulk of the external debt is expended on activities that provide social and political benefits rather than economic benefits, hence, Nigeria did suffer heavy debt burden because the Naira competed well in global market and high exchange rate of naira to Dollar parity. The coefficient of ECM(-1) is significant with the appropriate negative sign. Its coefficient of -1.158296 means that the present value in GDP adjusts rapidly to previous changes in DSER, EXD, GFCF, INF, TOP and EXR. (t-stat= -12.23278>2.0211, p= 0.0000<0.05)

The coefficient of determination (R^2) explained 0.849311 (84.9%) of change in dependent variable of GDP while the remaining 15.1% was due to error term and integrated for long run relationship between external debt and economic growth with strong speed of adjustment under good policies of government.

Hypotheses Testing and Discussion of Findings

H_{01}: There is no significant effect of external debt on economic growth in Nigeria. From the t-Test result we reject the null hypothesis which states that external debt has no significant impact on economic growth in Nigeria. The finding was that external debt has a positive significant relationship with economic growth in the short run and a positive relationship with economic growth in the long run. This means that in the short run, as debt increases, GDP increases while the reverse holds in the long run.

The a priori expectation is that debt would enhance economic growth in line with the postulate of Keynesian theory. Debt had positive impact on economic growth. This was in line with the findings of Ogege and Ekpudu (2020) and Ezeabasili et al (20121). However, this was in contrast to the views of Bamidele and Joseph (2023); and Sulaiman and Azeez (2022) who found that external debt have a positive relationship with economic growth.

H_{02}: There is no significant long-run relationship between external debt and economic growth in Nigeria.

Following the confirmation of cointegrating relationship among the variable, a long-run estimation is conducted and the result is as presented from Johansen co-integration test for long run relationship and ARDL bound test, long run relationship can be established, invariably, the relationship between external debt and economic growth posted a long run relationship with parsimonious sufficient condition of error correction modelling (ECM_{-1}) of -1.158296 (t= -

12.23278>2.0211, P= 0.0000<0.05), the negative sign showed the speed of adjustment and this was significant in line with t-test that more than (2) with rule of thumb which showed necessary condition. With the stock of external debt in the past one year that affects economic growth in the current year. In number, it implies that a 10 percent point increase in the stock of accumulated external debt of one year ago causes economic growth to slow by about 0.5% in the current year. A very instructive implication of the result is that despite the debt forgiveness by the London and Paris Clubs in 2005, the country's stock of external debt has, once again, become more humongous and unbearable. While external debt is left and not serviced for one year, and given the rate of interest at which the debt is issued, the stock is compounded thereby causing a negative effect on the current spate of economic growth. With this, the null hypothesis of no significant long-run relationship between external debt and economic growth in Nigeria can be rejected and alternative hypothesis (H_1) accepted for strong relationship between external debt and economic growth.

CONCLUSION

External debt is a crucial factor influencing economic stability. The optimal utilization of external debt by the government would avoid debt overhang and crowding out of investments. The study employed the Johansen co-integration test and ARDL Error Correction Method for long run. The co-integration test shows the existence of long run equilibrium relationship among the variables. The error correction method exposes that the lagged error correction term in the over-parameterized and parsimonious models is significant judging from its negatively signed coefficient. However, in the long run, external debt stock has an insignificant positive relationship with economic growth in Nigeria. Similarly, the coefficient of exchange rate is positive and statistically significant in the long-run and short-run suggesting a positive impact of exchange on economic growth in Nigeria.

The policy implication of this study is that external debt has not been well utilized in Nigeria. As a developing nation, Nigeria no doubt is obliged to seek for external finance to bridge the saving-investment gap, but such external resources should be channelled to productive uses which should stimulate growth and subsequent development of the nation rather than having a negative impact as established by the study.

The aforementioned can be achieved by embarking on prudent borrowing i.e. borrowing to finance top priority projects when the rate of return is greater than cost of borrowing. Furthermore, government should also formulate policies that will encourage export oriented manufacturing and high technology products to improve the nations export base as well as reduce its level of deficit financing, for development projects could be financed through increased export earnings rather than resolving into borrowing.

Then it only incurs external debt on projects whereby that the gains will exceed the cost. This methodology should be a policy or piece legislation. This methodology should be in form of linking revenue projections and external borrowing. Also there is need for the evaluation current and future debt burden service indicators. This will enable the country can meet current and future external debt obligations in full without recourse to rescheduling, arrears and without compromising growth.

5.3 Recommendations

From the findings and conclusion above, this study provided the following recommendations for policy makers, government agencies and appropriate authority for action making/taking.

i. Given the significant positive long-run effect of external debt, the government must build on long-term economic strategies that take into account the implications of external borrowing for more beneficial. Policymakers are recommended to focus on ensuring that external borrowing is channelled toward projects such as railways, ports, roads, electricity and investments in interest yielding financial assets that will benefit the economy in the long run and much on investment that will yield export goods.
ii. External debt should be used for the purpose for which it was borrowed and such should be on basic and infrastructural development that will help improve on the business environment and economic output making for ease of repayment.

iii. Because the exchange rate is positive and statistically significant in both the long-run and short-run periods, policymakers should increase their efforts on import substitution and export promotion strategies to stimulate domestic production and export.
iv. There is need to strengthen the naira, therefore authorities should adopt policies that will encourage foreign investment and reduce demand for foreign good.
v. Development activities in Nigeria should be financed through increased export earnings spear headed by export-led-growth strategy as well as investment in human capital as these would be the best alternative to external debt in the long-run.
vi. Policymakers should prioritize price stability by implementing appropriate monetary policies to control inflation.

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