



Domestic Debt Management and Economic Growth: Nigerian Empirical Evidence

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ABSTRACT

The study evaluated the management of public debt and economic growth in Nigeria. Specifically, the study tries to draw a connection between domestic debt management and the human development index and foreign currency reserve, two facets of economic development. The study's philosophical foundation was positivism, and time series data from 1981 to 2021 were utilised. This study used the Autoregressive Distributive Lag (ARDL) model, and E-view was utilised for analyses. The outcome did not demonstrate a significant correlation between domestic debt management and economic growth. The study indicates that Nigeria's economic performance can only be attributed to the combined effects of the public debt management variables and not their individual effects. The research proposes that the government guarantee it manages a productive economy as opposed to a consumer economy limits its borrowing, and fosters an atmosphere favourable to private-sector investment.

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Keywords: *Economic Development, Human Capital Index and Foreign Currency Reserve*

I. Introduction

Development focuses on the individual well-being and liberty necessary for a decent quality of living (George & Ogunyomi, 2018). Economic development assesses the extent to which a nation possesses the structure, infrastructure, and core values that guarantee human life and the fulfilment of human aspirations. Therefore, for development to occur, a determined effort must be made to construct frameworks that ensure individual and social

innovation, achievement, and the supply of social facilities. An effective social framework based on social values and cooperation is necessary for development. Consequently, a society lacking these desirable socioeconomic traits cannot be considered "developed"; it is either developing or undeveloped. According to (Otamiri&Odu), Nigeria's broken educational system inhibited not only economic growth but also literacy rates. Their analysis revealed a decline in literacy rates between 2006 and 2008, with little or no sign of improvement. The decline in the literacy rate from 70.20 percent in 2006 to 62.02 percent in 2018 implies that fewer people are prioritising education, which is a significant barrier to economic growth. Economic development illustrates how the economic well-being and quality of life of a nation, region, local community, or individual are improved to attain predetermined goals and objectives. It has been connected with sustained real per capita GDP growth over an extended period. A variety of narrow and broad measures, including per capita income, life expectancy, education, and the level of poverty reduction, can be used to evaluate a country's development. Nigeria is blessed with a plethora of natural and human resources. Despite the country's climate encouraging a variety of agricultural and business endeavours, Nigeria is still mired in the unfortunate economic reality of a developing country. It is the most populous nation in Africa and has tremendous economic resources, but its people suffer from poverty, destitution, and inadequate infrastructure (Otamiri, 2021).

It is not only about economic development in Nigeria but also its sustainability. Sustainable development is "development that meets our current needs without jeopardising future generations' ability to meet their own needs" (Ramesh et al., 2021). Sustainable development is characterised by stability, longevity, and consistency. It is resilient and does not crumble in the face of difficult situations. Sustainable development is a



development that does not regress or retreat, even in the face of threatening waves of reversal (Ranis et al., 2000). Economic development entails the enhancement of human capital, literacy rates, critical infrastructure, health and safety, and other factors that contribute to the well-being of citizens as a whole (Ekene & Ugwunwanyi, 2016). Development also entails an improved standard of life, more self-esteem, and free and just society (Akinlosotu and Oseghale, 2020). This study assesses economic development using the Human Development Index and foreign exchange reserves based on Nigeria's present economic status. As a metric of economic progress, the buildup of human capital requires investments in the education and health of residents. We also evaluated economic growth based on foreign currency reserves. It refers to the cash and gold reserves held by a nation's central bank or other monetary authority. The importance of foreign exchange in stabilising balance payments, influencing the foreign exchange rate, and sustaining financial market trust cannot be overemphasised. It consists of assets kept in foreign currency reserves by a central bank. These reserves are utilised to hedge commitments and affect monetary policy.

Governments at all levels throughout the world frequently borrow to support public expenditures and services for economic growth and development. The government may borrow from domestic, foreign, or both sources. Domestic debt comprises debt securities issued following local law, denominated in local currency, and owned mostly by residents. On the other hand, external debt consists of debt securities held by overseas nationals, denominated in foreign currencies, and issued in accordance with foreign government regulations and legal jurisdiction. In addition, similar to business debt, government borrowing can spur rapid economic growth, particularly when borrowed funds are used in economically productive activities. Nonetheless, excessive reliance on public borrowing has severe economic consequences, hence, the need to manage public debt (Khan & Gill, 2009). According to Awadzi (2015), public debt management entails designing and implementing methods for managing sovereign or government debts to raise financing for development projects at the lowest feasible cost and appropriate risk level. Prudent public debt management is essential to lower the cost of government borrowing, limit financial risks, and expand domestic capital markets (Melecky, 2012). Optimal debt composition entails a trade-off between strengthening the government's inflationary credibility, lowering budget sensitivity

to macroeconomic shocks, and determining the correct mix of long-term and short-term debts (De Fontenay et al., 2002); (Montiel, 2005). Effective public debt management is claimed to aid in achieving debt sustainability goals. When the likelihood of debt hardship is relatively small, debt sustainability is achieved. According to Kraay and Nehru (2006), debt distress happens when a country has amassed significant arrears and can no longer service its debt obligations, necessitating debt relief from its creditors or non-concessional balance of payment support from the IMF. The choice between domestic and overseas loans is an area of state debt management with significant macroeconomic ramifications. The Medium-Term Debt Management Strategy is the focal point of public debt management in Nigeria (MTDS). This strategy seeks to reduce the cost of debt service, increase government revenue, mitigate debt-related risk, maximise money from multilateral and bilateral sources, ensure debt sustainability, and maintain the usage of longer-term loan instruments (Cholifihani, 2008). The Federal Government recognises the importance of debt sustainability; therefore, conducts an annual debt sustainability analysis.

The profile of Nigeria's governmental debt is now quite high and growing. From the data derived from the Central Bank of Nigeria and the Debt Management Office, the total Federal Government debt outstanding as of June 2021 was N31,339.93 billion, a rise of 8.1% and 9.09% compared to the previous quarters ending March 2021 and December 2020, respectively. Total debt to gross domestic product (which evaluates debt sustainability) was 19% at the end of 2019 and is anticipated to climb by almost 110% to 40% by 2023. Consequently, increasing government borrowing is expected in the future years. In addition, there is growing public fear that the level of debt could reach a point of debt hardship. Currently, the nation may not be able to satisfy its debt obligations. It may seek debt relief from its creditors or support from the IMF or International Monetary Fund for its non-concessional balance of payments. The increasing public concern about the expanding public debt profile is attributable primarily to the country's contemporary economic and development issues. These are high unemployment and poverty rates, declining public income, rising inflation, low human capital development, diminishing foreign currency reserves, weak institutions, and prominent corruption and insecurity. Though there is little consensus in the literature that poor and emerging nations must raise their borrowing to finance their substantial



infrastructure deficit, increased borrowing can harm the economy as it might result in a debt overhang issue (Cordella et al., 2010). According to Kraay and Nehru (2006), sound debt management is essential to lower the likelihood of hardship and increase the positive effects of increased debt on the economy. In other words, if the current rising amount of public debt is not successfully controlled, it will reach a point where it will have serious adverse effects on the economy. Today, a United States dollar exchanges for seven hundred Nigerian Naira on the parallel market, hence the question: is there a connection between domestic debt management and foreign currency reserve? Second, does the management of domestic debt have an effect on the human development index? Several empirical studies have examined the impact of public debt on economic development at the national and regional levels, utilising various statistical and econometric methods. Not only did previous studies reach multiple conclusions, but they also failed to prioritise the impact of domestic debt management on the dimensions of economic development; hence, the need for this study.

Two hypotheses were developed to lead this investigation:

Ho 1. There is no significant relationship between domestic debt and human capital accumulation in Nigeria.

Ho 2. There is no significant relationship between domestic debt and foreign currency reserves in Nigeria.

II. A Review of Related Literature

Debt is a future obligation resulting from borrowing. To finance domestic investment, the government incurs public debts through borrowing on domestic and international markets (Adepoju et al., 2007). According to Matiti (2013), public debt is the entire debt of a nation at all levels. It assesses the proportion of public expenditures that are financed by borrowing as opposed to taxation. The goal of public debt is to stimulate economic growth and development. However, when a country's debt burden is on the high side, debt servicing becomes problematic and seriously threatens economic growth and development. Public debt management has garnered substantial scholarly interest in the theoretical and empirical literature. According to Awadzi (2015), public debt management entails designing and implementing methods for managing sovereign or government debts to raise financing for development projects at the lowest feasible cost and appropriate risk level. Melecky (2012) argues that well-designed public debt management is necessary

to lower government borrowing costs, limit financial risks, and build domestic capital markets. According to Montiel (2005), public debt management, which can substantially impact macroeconomic performance, must focus on determining the appropriate public debt composition. Improving the government's inflationary credibility, minimising budget sensitivity to macroeconomic shocks, and integrating long-term and short-term loans are trade-offs involved in the optimal debt composition (De Fontenay et al., 2002). A formal debt management strategy, according to Melecky (2012), might be offered as guidelines or quantitative benchmarks. Public debt management operationally sets and implements a strategy for managing the government's debt. The objective is to obtain the appropriate amount of funds, pursue its cost/risk objectives, and satisfy any other goals the government may have established, such as establishing and maintaining an efficient and liquid market for government securities. According to Ijeoma (2013), governments must guarantee that the level and rate of public debt increase are not only fundamentally sustainable over time but can also be serviced under a variety of conditions while fulfilling cost/risk objectives. Debt administrators must guarantee that budgetary authorities comprehend the relationship between government funding requirements, debt levels, and borrowing costs (Onuoha, 2008). Literature indicates that successful public debt management minimises the likelihood of insolvency (Kraay & Nehru, 2006). According to them, the variables that determine public debt distress are the debt burden, the quality of institutions and policies, and shocks that significantly impact economic growth or real GDP growth rate. According to Brafu-Insaidoo et al. (2019), regulatory limits on external debt, the gap between local and international interest rates, economic growth, and financial development are factors that determine short-term foreign debt shocks. Were and Mollel (2020) assert that leveraging concessional borrowing, good debt management, efficient public investment, and domestic resource mobilisation are necessary for mitigating the external risks associated with expanding public debt. Saungweme and Odhiambo (2018) argue that an excellent public debt management plan must be open and transparent since public debt managers are accountable to the public. According to Jimmy (2014), a lack of openness and transparency can compel citizens to oppose the debt policy, particularly when they are unsure of the benefits of such a debt policy. He argues that citizens' opposition to debt policy may



be reduced through education, enlightenment, transparency, precedent, public involvement, public support, and negotiation. Aybarc (2019) states that public debt can be useful or unproductive. Productive debts finance public infrastructure projects such as power plants, railroads, and irrigation systems, adding to the economy's earning capability. He hypothesised that nations generally service or repay productive debts using the earnings from such investments. In contrast, according to him, unproductive public debts are used to pay for consumption, such as social services, famine relief, and war, and so do not contribute to the economy's productive or income-generating capability. Typically, nations raise taxes to service or repay their unproductive loans. According to Udeh et al. (2016), public debt management concerns stem from a lack of attention from policymakers, poor macroeconomic management, and high debt levels. Obadan (2004) emphasised that countries, particularly less developed nations, borrow to increase capital formation and investment, which low levels of domestic savings had previously limited. Bridging the savings-investment and foreign exchange gap are the primary reasons governments borrow. According to Tufail & Rizavi (2021), the primary reason nations borrow is to complement their lack of savings and investment. Development requires a level of investment proportional to domestic savings, and the current level of domestic savings is insufficient to ensure that development occurs.

Domestic debt, as defined by Suter (2019), is the portion of a country's overall public debt due to domestic lenders. Domestic debt owed by a government constitutes a portion of the national debt (Koddenbrock et al., 2020). These can be exchanged but are rarely used to purchase goods or services. By doing so, the predicted inflationary impact of a rise in national wealth would be less than if the government had merely increased the more liquid types of wealth (Ali & Ahmed, 2016). Adofu and Abula (2010) define domestic debt as including all debt instruments issued by the government in domestic currency and traded on the domestic market. According to Reinhart and Rogoff (2011), domestic debt is a part of public debt issued under local legal authority, denominated in the local currency, and owned mostly by citizens. According to (Eyide, 2018), domestic debt is a federal government-issued debt instrument dominated by domestic currency. According to Abbas and Christensen (2010), domestic loan markets can strengthen money and financial markets, increase private savings, and stimulate investment.

Chinaemerem and Anayochukwu (2013) and Tufail and Rizavi (2021) define debt servicing as the recurrent payment of domestic and international loan payments.

Human capital, despite being an old notion, has continued to acquire popularity in the literature. Additionally, the concept of human capital has numerous dimensions. According to Ranis and Stewart (2000), a country's human capital consists of its residents' health and education. Human capital has been measured using a number of distinct methodologies. Kwon (2009) identifies three typical approaches for gauging human capital. The first is the output-based strategy, which focuses on school enrollment and educational achievement indicators. The second way, the cost-based method, analyses human capital indirectly by focusing on the cost of human capital investment. The third income method, in contrast, emphasises the return on investment in human capital or educational attainment. The correlation between human capital accumulation and economic growth is well-established. According to Goldin (2016), human capital incorporates the notion that investing in people's health, education, and training boosts their output. According to (Kwon, 2009), the impact of human capital may be examined from three vantage points: individual, organisation, and society. From the employee's perspective, human capital investment boosts workplace productivity, enhancing employee earning potential. Additionally, human capital investment influences individual mobility since it enhances the likelihood of an individual advancing in the labour market (Berntson et al., 2006). Mariz-Pérez et al. (2012) indicate that investing in human capital boosts an organisation's core capabilities and competitiveness from an organisational perspective. Lastly, the societal perspective on the influence of human capital integrates individual and organisational elements. Human capital development has been stated to promote social consciousness (Beach, 2009) and citizens' awareness of their human rights (Oketch, 2006), hence fostering political and economic stability. Reserves serve as shock absorbers against variables that can negatively impact the exchange rate of a currency. Therefore, a country's central bank uses its foreign exchange reserves to help maintain a stable purchase or sell rate based on the desired direction of exchange rates. Therefore, Munro and Reddell (2012) characterise foreign currency reserves as self-insurance that would be readily available only if reserves were maintained. Furthermore, Obstfeld et al. (2010) assert that foreign reserves are necessary



for regulating the exchange rate and domestic financial instability. It is currently standard practice for nations to retain reserves in currencies that are stronger than their own. According to Jena and Sethi(2021), a country's foreign currency reserves are used to meet its obligations to other nations and consist of assets maintained by the monetary authority or central bank, typically denominated in US Dollar, British Pound, Euro, and Japanese Yen, among others. According to Qian and Steiner(2016), foreign currency reserves are insurance policies that lessen the likelihood of loan default and the associated risk for creditors. They claim that there are two reasons to hold foreign currency reserves. The first reason for foreign currency reserves, referred to as "the mercantilist approach," is that reserves can be amassed as part of an export-oriented economic strategy since exchange rate depreciation makes exports more competitive. The second, or precautionary, reason relates to the role of foreign currency reserves as exchange rate defenders and in mitigating external shocks (Qian & Steiner, 2016).

A foreign currency reserve is the cash and other reserve assets that a central bank or other monetary authority holds, such as gold. The primary purpose of reserves is to balance a country's payments, affect the foreign exchange rate of its currency, and maintain financial market confidence. However, for the vast majority of growing and developing nations, the buildup of foreign currency reserves has a procyclical effect, with reserves tending to expand while the economy is booming. Conversely, it declines during terrible circumstances (Bianchi & Lorenzoni, 2021). In contrast, sophisticated countries with floating exchange rate systems require a lower foreign currency reserve due to the limited and occasional foreign exchange market intervention characterising these economies (Munro & Reddell, 2012). Using daily data from 10 Asia-Pacific nations, Fatum & Yetman (2020) connected foreign currency reserves to risk-taking (both developing and developed). They claim that if reserves are accumulated and maintained in order to protect against potential financial shocks, the accumulation of these shocks will likely lead to increased risk-taking. The empirical literature examines the relationship between foreign currency reserves and economic development at length. However, there is no solid proof of this relationship's relevance. Gumata and Ndou(2021), for instance, analyse this link using quarterly data from 2004Q1 to 2007Q4. Their analysis indicates that shocks to building foreign exchange reserves contribute favourably to economic growth and

employment rate. In a similar vein, Jena and Sethi(2021) identify a steady long-run link between foreign currency reserves and economic development, as assessed by per capita GDP. They also discover a causal relationship between foreign currency reserves and economic growth. In contrast, Nwafor(2018) finds no substantial correlation between foreign currency reserves and economic growth. Moreover, he says that foreign currency reserves are a country's emergency cash in the event of a currency devaluation. According to Abbas & Christensen(2010) and Igbodika et al. (2016), local loan markets can strengthen money and financial markets, increase private savings, and stimulate investment. Obiwuruet al.(2013) stated that the appropriate deployment of domestic debt to vital sectors of any economy could boost short-term growth, which could perhaps be translated into long-term growth.

Ajayi and Oke(2012) analysed the relationship between Nigeria's public debt and economic development. The purpose of the study was to assess the impact of government debt on Nigeria's economic growth from 1983 to 2015, taking into account the role of the military and civil governments. Error Correction Model is the estimating technique utilised in that study. The results revealed a considerable long-term association between public debt and economic growth in Nigeria under military administration but a relatively little effect on economic growth under democratic rule. Olusegun et al.(2021) examined the influence of debt service on Nigeria's economic growth. Using its position in public sector financial management as a moderating variable, they explicitly investigated the impact of debt service on economic growth. The debt management office provided information from 1990 to 2020, which was analysed. The findings demonstrated a co-integration (long-run link) between the dependent variable and all explanatory variables, indicating that working debt servicing positively and significantly impacts the nation's economic growth. Rafindadi & Musa(2019) analysed the influence of debt management measures on Nigeria's governmental debt profile. In particular, this paper evaluates the effects of debt refinancing (DRF), debt forgiveness (DF), and the debt conversion system (DCV) on Nigeria's public debt profile. The outcomes of the analysis indicate that DRF has a negative influence on Nigeria's total debt profile. Nugrahaet al.(2020) studied the role of stable macroeconomic policies in relation to external debt and growth. They evaluated the effect of external debt on economic growth in Bangladesh within a



macroeconomic context and found that external debt affects GDP growth. Dereje and Joakim(2013) evaluated the impact of external debt on African economic development. This research investigates whether the impact of over-indebtedness and debt crowding on the economic growth of several of Africa's heavily indebted developing countries is significant. The estimate indicates that external debt influences economic development via the crowding-out effect rather than debt overhang. Ofurum and Fubara(2022) evaluated the relationship between government debt and economic development using data from Nigeria. The information was extracted from the Nigerian Central Bank statistical bulletin from 1980 to 2019. Granger causality was used to test hypotheses, and the results suggested that foreign debt servicing has no meaningful effect on Nigerian real GDP.

Akinadewo(2020) examined the domestic debt and government revenue of Nigeria. Their study, which assessed the influence of domestic debt management on Nigerian government revenue, utilised questionnaire-based primary data. The findings indicate that domestic debt management has a favourable effect on government revenue. Uma et al.(2013) investigated the effects of debt and debt payment on Nigerian economic growth. The study is an empirical investigation on the effects of Nigeria's total internal debt and total external debt service from 1970 to 2010. The necessary data were obtained from the Central Bank of Nigeria Statistical Bulletin and the World Bank data bank, and Ordinary Least Square was utilised to analyse the data. The results indicate that overall domestic and overseas loans have a negligible inverse relationship with real gross domestic output. Daghighiasliet al.(2020) empirically evaluated the relationship between public debt and economic growth drivers. The ARDL model results indicated a long-term association. Economic growth has been positively affected by trade openness, whereas public debt and population expansion have had a negative effect. Two-Stage Least Squares (2-SLS) was used to analyse the influence of government debt on the gross domestic product (Eke & Akujuobi, 2021). The survey variables include the initial GDP per capita, the GDP per capita growth rate, and the gross government debt as a proportion of GDP. The investment rate is approximated by gross fixed capital formation. The results suggested that debt had a beneficial effect on GDP growth, but that effect disappears beyond public debt-to-GDP ratios of 64 to 71%. Onaolapo and Kayode(2015) evaluated the effect of external debt on economic growth: A Lesson for Nigeria. From 2000 to 2009,

the study examined the impact of Nigeria's foreign debt management on economic growth. It was discovered that external debt management does not increase the country's GDP, as the correlation is negative. Using gap analysis(ANOVA), Kakar and Wani(2016) examined the link between government debt and Afghan economic development from 2008 to 2012. The survey variables include the gross domestic product (GDP), government stock, commercial bank lending, and foreign debt. The outcome demonstrated that government stock, commercial bank lending, and foreign debt have a negative effect on Afghanistan's gross domestic product (GDP). The research proposed that the government adopt a structure for recording and monitoring all contingent liabilities and a policy for managing contingent liabilities.

Utilising the autoregressive distributed lag technique, Alfred(2020) studied the effects of public debt on economic growth investment in the Philippines between 1975 and 2010 using data from 1975 to 2010. The findings demonstrated that public external debt has a negative and substantial influence on economic development and investment, demonstrating the existence of a debt overhang effect. Lucky and Godday(2017) empirically examined the relationship between the public debt structure and economic performance between 1990 and 2015. The variables examined include gross domestic product, domestic debt, external debt, and total debt. The research employed simple and multiple regression models. The findings of simple regression indicate that total public debt has a positive and significant effect on Nigeria's gross domestic product. Similarly, the multiple regression analysis revealed that Nigeria's external debt has a negative impact on economic growth. Therefore, the study suggests that Nigeria adopt domestic measures in opposition to its foreign debt counterpart. Using the co-integration test, Vector Error Correction Model (VECM), and Granger causality test, Ogbeifun and Shobande(2020) analysed the relationship between public debt and economic development in Nigeria from the period 1980-2015. The empirical findings indicate both external and domestic debt have negative and significant consequences on Nigeria's economic growth. Kur et al.(2021) analysed the impact of state debt on Nigeria's economic growth from 1986 to 2014. This analysis makes use of the Johansen co-integration test, the Error Correction Method (ECM), and the Granger Causality test. The results indicated a long-term link between the factors. As a result, the study proposed that the government cut its foreign debt levels while increasing its domestic debt, which will



considerably contribute to the growth of the economy. Nwala and Saleh(2021) analysed the effects of domestic debt on economic growth in Nigeria between 1980 and 2015 using descriptive statistics, the unit root test, the co-integration test, and the error correction model (ECM). Results demonstrated a considerable and positive impact of external debt services on economic growth. In contrast, domestic debt service expenditure has a considerable and adverse effect on economic growth. Rafindadi and Musa(2019) investigated the influence of public sector borrowings on Nigeria's interest rates, prices, and output. The numerous innovations were analysed using the autoregressive vector (VAR), the Granger causality test, the impulsive response, and the variance decomposition. The estimations demonstrated that managing external debt increases the prime rate. The results indicate that external and domestic debt have no effect on output and overall prices.

Onyekwelu et al.(2014) examined external debt management strategies in developing economies: An impact analysis of selected economic indices of Nigeria (2002–2011). The study examined the influence of external debt management measures on developing countries and their repercussions on various vital economic indices. This study employed both content analysis and an empirical methodology. This study utilised secondary data. The analysis of the data was performed using linear regression and variance analysis (ANOVA). The result demonstrated a positive and statistically significant association between the external debt level and the gross domestic product (GDP), capital expenditure, foreign reserves, and exports. Mbahet al.(2016) evaluated the effect of external debt on Nigeria's economic growth using the ARDL bound testing technique to co-integration and error correction models for the years 1970 to 2013 to determine the presence of a long-run equilibrium relationship between the variables. A long-term link was discovered between the factors. Udoka and Anyingang(2012) analysed the impact of interest rate fluctuations on Nigeria's economic growth between 1970 and 2010. They utilised two assumptions to analyse the relationship between interest rates and economic growth and the economic growth gap before and after interest rate deregulation in Nigeria. For this study, the ex-post-facto research plan was adopted. The result demonstrated a negative correlation between Nigeria's interest rate and economic expansion. The consequence is that an increase in interest rates will reduce the nation's gross domestic product, hence

retarding the expansion of the real sector. Siyanbola et al.(2020) examined the relative impact or potency of external and domestic loans on the economic performance of the Nigerian economy, focusing on which debt type exerts a greater impact or influence on the important macroeconomic variables of per capita GDP and gross domestic investment. Time series data from 1970 -2011 were collected from diverse sources and subjected to a number of econometric analyses. In terms of economic growth, the study demonstrated that external debt is preferable to domestic debt. It concluded that the government should borrow from the domestic market to help stimulate domestic investment and mobilise domestic savings in Nigeria. Using the autoregressive distributed Lag model, Olasode and Babtunde(2016) empirically explored the link between external indebtedness and economic development in Nigeria. The study spanned the years 1984 to 2011, and statistical procedures employed include the Unit Root Test. Since the external debt gap is positive, the ordinary least squares approach supports the existence of dual behaviour. In contrast, the current year's external debts had a detrimental impact on the economy's performance. Eyide(2018) evaluated Nigeria's debt management and economic development (1981-2016). The 36-year study examined the effects of international debt, domestic debt, exchange rate, and interest rate on economic development (1981 to 2016). For this study, an ex post facto research design was utilised. The information was obtained from the Statistical Bulletin of the Nigerian Central Bank, the National Bureau of Statistics, and the Debt Management Office. Co-Integration, Error Correction Model (ECM), and Ordinary Least Square (OLS) regression are utilised as statistical methods. According to the study, external debt has a major impact. In contrast, there is a negative correlation between the interest rate and economic development, as measured by Real Gross Domestic Product.

Eke and Akujuobi(2021) examined the public debt and economic growth of Nigeria. This study analysed the empirical relationship between Nigeria's state debt and economic development from 1981 to 2018. Using a co-integration methodology, the study uncovered a significant short-term link between Nigeria's public debt and economic growth. Mayowa and Ogiemudia(2013) investigate the dynamic implications of external debt on Nigeria's sustained economic development. The research is based on annual historical data spanning the years 1979 to 2009. The one-period and two-period lagged values had positive and statistically



significant effects on the current value of the GDP, which is a proxy for economic development. Shahor(2018) estimated the effect of public debt on Israel's long-term economic growth. The study examines the nonlinear relationship between public debt and economic development; hence, a quadratic regression model is employed. Public debt is approximated by the ratio of debt to GDP, while economic growth is defined by the yearly growth rate of GDP per capita. The study results confirm that the relationship between public debt and economic development is nonlinear and can be represented by an inverted U shape. Specifically, the data indicate that low debt levels have a favourable effect on economic growth. In contrast, increased debt levels have a marginally negative effect on economic growth.

III. Research Methodology and Design

Analytical in nature, the study includes gathering, analysing, and interpreting quantitative data gathered from the Central Bank of Nigeria, Debt Management Office, National Bureau of Statistics, and Federal Inland Revenue Sources. This causal, deductive, and hypothesis-testing empirical study aims to determine the extent to which domestic debt influences Nigeria's economic development, human development index, and foreign currency reserve. A unidirectional causal study methodology has been implemented utilising aggregated quarterly time series data. The time series design is utilised for data gathering and analysis in this study. Consequently, our empirical studies required a dynamic time series model because they incorporated data acquired at various times on the same people. Since our focus is on the unidirectional flow from public debt to economic development, we conducted our empirical studies using a single-equation time series data

structure. The population consists of all public debt and economic development time series observations from 1981 to 2021. The empirical research relied on secondary data. The secondary data were collected quarterly from 1981 to 2021 and have a time series format. The data came from four trustworthy sources: the Central Bank of Nigeria, the Debt Management Office, the National Bureau of Statistics, and Federal Inland Revenue Sources. The ARDL (Autoregressive Distributive Lag) model was utilised in this investigation. This design has numerous advantages. First, it is a dynamic, single-equation time series model that includes lagged values of the dependent variable or extra explanatory factors (Brooks, 2014).

Consistent with the study objectives, we specify the functional relationship between public debt and economic development as follows:

$$HCA = f(DDS)$$

i

$$FCR = f(DDS)$$

ii

Where:

HCA = Human Capital Accumulation (Proxied by Total Government Expenditure on Education and Health).

FCR = Foreign Currency Reserves

DDS = Domestic Debt Stock

We specify the simple ARDL models for the above functional relationships as follows:

$$HCA_t = \beta_0 + \beta_1 HCA_{t-1} + \beta_2 DDS_t + e_t$$

iii

$$FCR_t = \phi_0 + \phi_1 FCR_{t-1} + \phi_2 DDS_t + u_t$$

iv

Where β_0 , and ϕ_0 , are the regression

intercepts; e_t , and u_t , are the error terms.

The Result

Table 1

Variable	Coefficient	P-value
Main Regression Results		
LHCA(-1)	0.3514	0.0367**
LDDS	0.4575	0.1359
Constant	-2.1006	0.1275
Wald (Domestic Debt)	15.394	0.0015***
The goodness of Fit Statistics		
CointEq(-1)	-0.6485	0.0000***
R-squared	0.9599	
Adjusted R-squared	0.9552	
F-statistic	203.70	0.0000***
Durbin-Watson stat	1.9484	

Source: EViews Output based on Research Data

*** indicates significance at a 1% level



Table 2

Variable	Coefficient	P-value
Main Regression Results		
LFCR(-1)	0.7409	0.0000***
LDDS	-0.7702	0.3099
Constant	0.8843	0.8060
Wald (Domestic Debt)	6.0437	0.1095
Panel B: Goodness of Fit Statistics		
CointEq(-1)	-0.2590	0.0132**
R-squared	0.7257	
Adjusted R-squared	0.6780	
F-statistic	15.216	0.0000***
Durbin-Watson stat	2.2043	

Source: EViews Output based on Research Data

*** indicates significance at a 1% level

** indicates significance at a 5% level

Testing of Hypotheses

Based on our empirical findings, this section examines all hypotheses given. All tests of hypotheses would be based on the p-values of the calculated coefficients (probability values)—our ideal level of significance is 0.05, or 5%.

Ho 1. There is no significant relationship between domestic debt and human capital accumulation in Nigeria.

The LDDS p-value in Table 1 is 0.1359, which is greater than 0.05, indicating that the statistical test is insignificant. Therefore, there is little evidence to reject the hypothesis, and we conclude that domestic debt is not a significant factor in Nigeria's human capital buildup.

Ho 2. There is no significant relationship between domestic debt and foreign currency reserves in Nigeria

The LDDS p-value in Table 2 is 0.3099, which is greater than 0.05, indicating that the statistical test is insignificant. Therefore, there is insufficient evidence to reject the hypothesis, and we conclude that domestic debt is not a significant factor in determining Nigeria's foreign currency reserves.

IV. Discussion of Results

Our first hypothesis explores whether the domestic debt substantially impacts Nigeria's accumulation of human capital. Here, human capital accumulation is measured by total government spending on education and health, while public domestic debt is approximated by total domestic debt stock. According to the endogenous growth hypothesis, government debt financing of the productive sectors of the economy, such as education and health, contributes to economic growth and development (Barro & Lee, 1994). In contrast, rising domestic debt can stifle private sector investment in productive economic sectors, hence having little influence on the economy as a

whole. However, as government investment vastly exceeds private sector investment, we argue that rising domestic debt would result in increased human capital accumulation. On the basis of this theoretical argument, we anticipated a priori that the coefficient relating public domestic debt stock to human capital accumulation would be highly statistically significant; therefore, the null hypothesis of no significant influence would be rejected with great force. Our results, contrary to our prior expectations, indicate that domestic debt has no meaningful effect on human capital accumulation. According to Table 1, the calculated coefficient on LDDS is 0.4575, and its p-value is 0.1359, indicating that the relationship between domestic debt stock and human capital accumulation is positive but not statistically significant. We do not reject the null hypothesis that public domestic debt has no substantial effect on human capital accumulation in Nigeria based on these results. Although our findings do not significantly support Barro and Lee's (1994) endogenous growth hypothesis, they will likely validate the crowding-out effect idea. This indicates that in Nigeria, government debt financing of public investment discourages productive private investment and has no effect on human capital creation. Our findings generally concur with (Igudia, 2021). The result, however, contradicts Egungwu (2018) and (Kgakge-Tabengwa, 2014).

Our second hypothesis examines whether the public domestic debt significantly impacts Nigeria's foreign currency reserves. Here, foreign currency reserves are measured in terms of foreign currency assets, whereas public external debt is represented by total domestic debt. According to theory, there is a direct relationship between national debt and foreign reserves. According to IMF (2003), a policy of selling government assets is



a successful method for managing and reducing a high public debt profile, so long as a responsible fiscal policy accompanies it. In addition, Qian and Steiner's (2016) theoretical research demonstrates that foreign reserves lengthen the duration of external debt by flattening the yield curve. Consequently, there is a considerable correlation between large public debt and foreign assets, such as foreign currency reserves. On the basis of these theoretical assumptions, we anticipated that the coefficient connecting domestic debt to foreign currency reserves would be highly statistically significant; therefore, the null hypothesis would be strongly rejected. Contrary to our prior expectations, our result indicates no meaningful link between public domestic debt and foreign currency reserves. According to Table 2, the calculated coefficient on LDDS is -0.7702 with a p-value of 0.3099, indicating that the relationship between domestic debt stock and foreign currency reserves is negative but not statistically significant. We do not reject the null hypothesis that domestic debt has no substantial effect on Nigeria's foreign currency reserves based on these results. Although high foreign currency reserves are inversely correlated with domestic debt, there is no unidirectional causality from domestic debt to foreign currency reserves. Consequently, the observed variance in foreign currency reserves cannot be attributable to variations in Nigeria's domestic stock. This finding contradicts Senibiet al. (2016) and (Jena & Sethi, 2021). Both researches uncover a positive and consistent association between foreign currency reserves, governmental debt, and other macroeconomic factors over the long term.

V. Recommendations

Following the findings, the study makes the following recommendations:

The government should guarantee that local debt is consistent with the current needs of the economy and foster an atmosphere conducive to private sector economic development. This act will increase revenue and decrease debt. The government should prioritise education to develop the human capital necessary to generate revenue for debt service. To complement or align with the current debt management strategy, the government of Nigeria should require fiscal authorities to reform the current government's tax revenue programs.

VI. Conclusion

Nations borrow for diverse reasons and sources, and Nigeria is no exception. Today Nigeria's debt profile is very and still growing. Though

evidence abounds in literature to support that properly managed debt grows the economy, some literature points otherwise, positing that high debt profile harms the economy through the high cost of debt servicing. The borrowing authority always aims to lower the borrowing cost while pursuing the best repayment terms. Therefore, debt management strategies aim at alleviating the adverse economic consequences of public debt, whether it emanates domestically or from foreign.

Our study's objective is to establish a nexus between the proxies of domestic debt and facets of economic development in Nigeria. The study concludes that economic performance is not a function of only a debt management strategy but many debt management variables. As a means of reducing the Nigerian national debt profile, our study recommends that the country engages in real production rather than remain a consumption-oriented country, as is the case currently.

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