COMPARATIVE ANALYSIS OF IMPACT OF DOMESTIC DEBT AND NIGERIAN GDP FROM 1981 TO 2019

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Abstract

The study is focused on comparative analysis of impact of domestic debt and Nigerian GDP from 1981 to 2019. Three research questions were used in the study. The study is limited to domestic debt incurred by Nigeria from 1981 to 2016. The study employed the ex-post factor research design. This design is employed as already existing data source obtained from Central Bank of Nigeria Statistical Bulletin from 1981-2016 was employed in the study. The study also used Keynesian Theory of Public Debt and employed the service of mean in analyzing the research questions. Table 1 research question 1 revealed that domestic debt incurred from 1981 to 1990 is 34.544. Mean Value of domestic debt incurred from 1991 to 2000 is 462.891. This resulted to a mean difference of 428.347. This shows that from 1991 to 2000 reveals a significant increase on debt level in Nigeria. The findings from table 1 research question 1 revealed that domestic debt incurred from 1981 to 1990 is 34.544. Mean Value of domestic debt incurred from 1991 to 2000 is 462.891. This resulted to a mean difference of 428.347. This shows that from 1991 to 2000 reveals a significant increase on debt level in Nigeria. The findings from table 2, research question 2 revealed that domestic debt incurred from 2001 to 2008 is 1581.51. Mean Value of domestic debt incurred from 2009 to 2016 is 6,857.31. This resulted to a mean difference of 5275.8. This shows that from 2009 to 2016 reveals a significant increase on debt level in Nigeria. Finally, table 3 research question 3 revealed that RGDPG from 2001 to 2008 is 9.63. Mean Value of RGDPG from 2009 to 2016 is 4.87. This resulted to a mean difference of 4.76. This shows that from 2009 to 2016 reveals a significant decrease on RGDPG based on CBN report. It was recommended from the study that Government should expand economic activities by funding small and medium enterprise through the issuance of soft loans to encourage business growth and development.

Keywords: Impact of Domestic Debt & Nigerian GDP

Introduction

Domestic debt has been an issue of concern in most developing countries the world over. Sustaining and progressing along with a staggering economy like Nigeria needs a lot of skill for proper economic prosperity. The story of continuous borrowing and national debt challenge has eaten into a lot of economic activities in Nigeria generally. Public debt increase as experienced by many developing countries of the world has become global concern, following the fall in oil prices, variation on exchange rate etc. which has brought adverse effect to some developing nations of the world such as Nigeria. Also in reflecting on the economic implication of the country's growing debt record, it is a very important policy issue which needs broad public debate.

The level of a country's indebtedness is a problem that is facing many growing nations since the beginning of the 21st Century. Therefore increasing levels of public debt of a country can be harmful to the growth of the economy of any country if not well utilized. Public debt therefore refers to amount of money that federal government, state government and local government owe at any time.

Public debt accrues when the government is experiencing budget deficit. In other word, all the money that government owes at all levels is defined as public debts, it can be in the form of services like pension payment owing to its employees both domestically or externally, or any contract entered by government and could not pay.

If government is having budget deficit difficulties and the government had gained the trust in the world and her economies are strong, such government can raise money through issuing their bonds for other nations, individuals and groups to come and buy. This is accompanied with government promises to pay them back at a certain time with fair interest rate. Any government who lack trust in the world to issue bond for people to purchase will be left with no option than borrowing from either external institutions or domestic institution with unfavorable or favorable interest rate.

Government of all levels can default their debt, and in order to avoid default on public debt supranational like the International Monetary Fund are invested with great power by the international community to make sure that nations will not default and also to control numerous financial issues if there is any signal to show that the nation wants to default. In the other hand, if state or local government default their debts the country would pay the debt. If budget deficit of any government rises, it will lead to increase on public debt. Public debt can be classified into different types such as long-term debt when the debt is expected to last for a longer period of time and short-term debt if debt is designed to last for one or two years only. Again for the purpose of this study, public debt is also group into external debt and domestic debt and researcher will concentrate more on external debt and domestic debt as types of public debts to know which one contribute more to the economy and why it contribute more. External debt refer to any financial resources which government, organization are using that are borrowed from the foreign counties other than the country own resource.

External debt is also known as any kind of business funding you acquire from sources outside the country. Whether it is borrowing from Bank, investments from private individuals or investment firms, it has merit and demerit, therefore anyone who wants to borrow from international institutions should consider the advantages and disadvantages associated with it before set out to secure the fund.

Domestic Debt is defined as debt that government borrowed within the country, it involves the same currency. Therefore all the amount of money that government owes internally such as Treasury Bills, Treasury Certificates, Federal Government Development Stock, Ways and Means Advances and Treasury Bonds is regard as domestic debt (Babu, et al, 2015). Economic growth according to many economist refer to when total value of all final output that a country can produce within a year valued at market prices as adjusted for price changes plus the imputed value of the economy's produced goods and services that do not pass through the market channel minus net income from abroad. This is observed as an increase in the country productive capacity, when measured up to one period of time to another.

Therefore growth in an economy is seen when the total output of goods and services increases when measured with the previous years. There are about three ways by which growth in an economy can be measured. They include output (product) method, income method and expenditure method. Economy can be said to been growing either upwardly or downwardly. An upward growth (positive growth) simply means an increase in the output of that particular economy which is called a boom while downward growth also called (negative growth) this means that the total output of goods and services produced in an economy in a particular year had falling when compare to its value the previous years.

When a country want to ascertain the rate of her country's growth with other countries growth rate, gross national product (GNP) can be used as measurement of growth. This will make the comparison of many countries easy if the monetary values of those countries involved are stated in one particular currency to ensure uniformity in the measurement. As guided by the purchasing power as at that period.

Literature Review

Keynesian Theory of Public Debt

The economic disaster shaped by the great depression of 1930's was in part responsible for the growth for modern theory of public debt. The conventional view that steady unbalanced budgets and fast increasing public debt impaired the financial stability of the nations, slowly gave way to Keynesian ideology. Keynes,(1936)states that a large public debt is a national asset rather than a liability and that steady deficit spending is necessary to the economic progress of the countries. Keynes,(attacked the view of the classical that economy tends to equilibrium at full employment. Keynes argued that if there were unemployed resources, which the private sector could not employ, the resources can be put to use by the unbalancing budget.

He is of the view that increase in public debt through the multiple effects would raise the national income. He associated public borrowing with deficit financing and agreed that government should borrow for all purposes so that efficient demand in the economy is increased

which will result in increased employment and output. He did not differentiate between productive and unproductive expenditure.

The commercial banks are the main holders of the debt due to the fact that public debt has significant impact instruments alongside other non-banking financial institutions on the distribution of services and goods, capital institutions, accumulation, economic growth income, unemployment. Since the early 1960s, and by 1974, the ratio of public debt was 6.9% and by 1984 it was over 40%.

Although, it declined slightly in 1990, it has moved effective instrument of economic policy especially in upward again since 2000. Even though Nigeria stabilization has been proved and recognized in been alone in experiencing escalation of government policy circles as discovered by the domestic indebtedness but in comparison with other Radcliffe Committee of 1957 in England (Nwankwo, Sub-Saharan Africa, Nigeria domestic debt to GDP ratio 1980).

Furthermore, a rising debtburden may constrain the ability of government to voice out that “We are borrowing more money today to undertake more productive investment programmes in a high interest rate while leaving the debt burden for our infrastructure, education and public health (Soludo, 2003).

Purpose of the Study

The purpose of the study is to:

1. Find out the mean difference of the domestic debt incurred from 1981 to 1990 and 1991 to 2000.
2. Find out the mean difference of the domestic debt incurred from 2001 to 2008 and 2009 to 2016.
3. Find out the mean difference of RGDPG obtained from 2001 to 2008 and 2009 to 2016.

Research Questions

The following research questions guided the study:

1. What is the mean difference of the domestic debt incurred from 1981 to 1990 and 1991 to 2000?
2. What is the mean difference of the domestic debt incurred from 2001 to 2008 and 2009 to 2016?
3. What is the mean difference of RGDPG obtained from 2001 to 2008 and 2009 to 2016?

Scope of the Study

The study is limited to domestic debt incurred by Nigeria from 1981 to 2016. It is limited in finding the mean difference obtained in the study.

Methods

The study employed the ex-post facto research design. This design is employed as already existing data source obtained from Central Bank of Nigeria Statistical Bulletin from 1981-2016 was employed in the study. The study also used Keynesian Theory of Public Debt and employed the service of mean in analyzing the research questions.

Analysis

Research Question 1

What is the mean difference of the domestic debt incurred from 1981 to 1990 and 1991 to 2000?

Table 1: Mean difference of the domestic debt incurred from 1981 to 1990 and 1991 to 2000

S/NO	Mean Value of Domestic Debt Incurred from 1981 to 1990	Mean Value of Domestic Debt Incurred from 1991 to 2000	Mean Difference
1	34.544	462.891	428.347

Table 1 research question 1 revealed that domestic debt incurred from 1981 to 1990 is 34.544. Mean Value of domestic debt incurred from 1991 to 2000 is 462.891. This resulted to a mean difference of 428.347. This shows that from 1991 to 2000 reveals a significant increase on debt level in Nigeria.

Research Question 2

What is the mean difference of the domestic debt incurred from 2001 to 2008 and 2009 to 2016?

Table 2: Mean difference of the domestic debt incurred from 2001 to 2008 and 2009 to 2016

S/NO	Mean Value of Domestic Debt Incurred from 2001 to 2008	Mean Value of Domestic Debt Incurred from 2009 to 2016	Mean Difference
2	1581.51	6,857.31	5275.8

Table 2 research question 2 revealed that domestic debt incurred from 2001 to 2008 is 1581.51. Mean Value of domestic debt incurred from 2009 to 2016 is 6,857.31. This resulted to a mean difference of 5275.8. This shows that from 2009 to 2016 reveals a significant increase on debt level in Nigeria.

Research Question 3

What is the mean difference of RGDPG obtained from 2001 to 2008 and 2009 to 2016?

Table 3: Mean difference of RGDPG obtained from 2001 to 2008 and 2009 to 2016

S/NO	Mean Value of RGDPG from 2001 to 2008	Mean Value of RGDPG from 2009 to 2016	Mean Difference
1	9.63	4.87	4.76

Table 3 research question 3 revealed that RGDPG from 2001 to 2008 is 9.63. Mean Value of RGDPG from 2009 to 2016 is 4.87. This resulted to a mean difference of 4.76. This shows that from 2009 to 2016 reveals a significant decrease on RGDPG based on CBN report.

Discussion

Findings from research questions 1 and two show that there is a significant increase in domestic debt based on the rising figures obtained from CBN bulletin. This is so because of the high demand and cost of running government. According to Igberi, et al. (2016), the mono-cultural nature of the Nigeria economy, low per capita income, trade imbalances, persistent fiscal deficits, low productivity, unemployment and the attendant low savings level prompted the economy to seek other means to bridge the revenue gap especially due to the volatile nature of oil proceeds in the international oil market. Further, the findings from research question 3 table reveal a significant drop in RGDPG in national economy based on CBN report.

Conclusion

It is concluded that from 1981 to 2016 there has been a significant increase in domestic borrowing which has resulted to decrease in RGDPG value across the last eight years (2009 to 2016).

Recommendations

It is recommended from the study that Government should expand economic activities by funding small and medium enterprises through the issuance of soft loans to encourage business growth and development.

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APPENDIX A

S/N	YEAR	DODT	EXDT	INTR	RGDPG
1	1981	11.19	2.33	7.75	20.838
2	1982	15.01	8.82	10.25	-1.053
3	1983	22.22	10.58	10	-5.05
4	1984	25.67	14.81	12.5	-2.022
5	1985	27.95	17.3	9.25	8.323
6	1986	28.44	41.45	10.5	-8.754
7	1987	36.79	100.79	7.5	-10.752
8	1988	47.03	133.96	16.5	7.543
9	1989	47.05	240.39	26.8	6.467
10	1990	84.09	298.61	25.5	12.766
11	1991	116.2	328.45	20.01	-0.618
12	1992	177.96	544.26	29.8	0.434
13	1993	273.84	633.14	18.32	2.09
14	1994	407.58	648.81	21	0.91
15	1995	477.73	716.87	20.18	-0.308
16	1996	419.98	617.32	19.74	4.994
17	1997	501.75	595.93	13.54	2.802
18	1998	560.83	633.02	18.29	2.716
19	1999	794.81	2577.37	21.32	0.475
20	2000	898.25	3097.38	17.98	5.318
21	2001	1016.97	3176.29	18.29	4.411
22	2002	1166	3932.88	24.85	3.785
23	2003	1329.68	4478.33	20.71	10.354
24	2004	1370.33	4890.27	19.18	33.736
25	2005	1525.91	2695.07	17.95	3.445
26	2006	1753.26	451.46	17.26	8.211
27	2007	2169.64	438.89	16.94	6.828
28	2008	2320.31	523.25	15.14	6.27
29	2009	3228.03	590.44	18.99	6.934
30	2010	4551.82	689.84	17.59	7.839
31	2011	5622.84	896.85	16.02	4.887
32	2012	6537.54	1026.9	16.79	4.279
33	2013	7118.98	1373.58	16.72	5.394
34	2014	7904.02	1631.52	19.23	6.31
35	2015	8837	2111.53	23.46	4.913
36	2016	11058.2	3478.92	23.72	-1.6

Source: Central Bank of Nigeria Statistical Bulletin from 1981-2016.