DEBT SERVICING AND ECONOMIC GROWTH IN NIGERIA: MODERATING EFFECT OF CORRUPTION

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Abstract
The aim of this study was to examine the effect of debt servicing on economic growth in Nigeria with corruption as a moderator. Debt servicing was proxy by foreign and domestic debt servicing, while economic growth was proxy by gross domestic product. Also, corruption was measured using the corruption perception index of the Transparency International. This study adopted ex post facto research design and relied on documentary evidence from CBN statistical bulletin from 1990 to 2020. The study used multiple regression analysis technique for the purpose of data analysis after both time series tests such as unit root, cointegration and normality were conducted. The result of this study showed that foreign debt servicing has significant effect on GDP, while the domestic debt servicing does not have any significant effect on GDP in Nigeria. The study also, showed that corruption as a moderator a negative indirect effect on relationship between debt servicing and economic growth in Nigeria. Based on the findings, the study concluded that debt servicing can be used as a predictor of economic growth in Nigeria. Therefore, the study recommended that Government should regularly service her debts as non-service could amount to debt covenant violation charges which could mean more cash outlay for the government.

Keywords: Debt Servicing, Corruption, Economic Growth, Nigeria

Introduction

Heavy debt burden of the developing countries has been one of the fundamental development policy issues since the start of the twenty-first century. The public debt comprises domestic and foreign debts (Chowdhury, 2001). If national borrowings are utilised for productive investment by countries, they will rarely face macroeconomic instability and will likely experience economic growth (Burnside & Dollar, 2000). In Nigeria, financial resources are usually allocated to capital projects and for recurrent expenditures in the national budget based on revenue projections. These projected revenues in most of the fiscal years are not realised as projected. Hence, there will be deficit and to be able to finance the deficit in an attempt by the government to execute the capital project and meet the recurrent needs, it will resort to debt to fund the budget. The financial resources needed may be inadequate locally due to low level development of the Nigerian capital market, low productivity, less investment, and inadequate savings. The total cost of domestic debt-servicing of federal government in the last quarter of 2020 was N604.1bn dropping from the N610.3bn incurred in the last quarter of 2019 which was 52.3% of federally collected revenue for the period (Debt Management Office, 2021). Furthermore, interest payments on domestic debt in January to March, 2020 were almost double the sum released for federal capital projects. By contrast, external debt-service payments to both federal government and sub-national governments creditors in the first quarter of 2020 stood at US$357.3m (N109bn), which is fairly low, compared to the cost of local debt, and given that the stock of external obligations is significant. For this reason, the policy of switching from domestic over to the external debt is likely to remain pivotal to Nigeria's debt-management strategy. Where huge financial resources are utilised to service the public debts, the economic growth is likely to be affected because there may be burden on domestic production and the amount used for debt servicing may hinder meaningful GDP growth activities as the resources needed to execute governments' growth-oriented economic policies are reduced.

High level of debt servicing is a burden to every nation of the world and creates additional problems for the nation by increasing fiscal deficit in financing the nation's budget. High level of debt servicing is a great threat to a nation's economy as huge amounts of its public revenue are eaten up by principal and interest payment. The nation's foreign debts outstanding in 2001 was US$28.35 million about 59.4% of Nigerian GDP from US$8.5 million in 1980 which was about 14.6% of the Nigerian GDP (WDI 2013). US$2.3 billion was released by the federal government in 2003 for the servicing of the nation's outstanding foreign borrowings when the nation's debt crisis was seen to have reached its maximum. In the year 2005, the Paris Club of creditors wrote off 60% (US$18 billion) of US$30.85 billion of the Nigeria's indebtedness to them. Despite the relief of US$18 billion Nigeria's debt burden to the Paris club of creditors in 2005, there has not been significant improvement in the nation's economy. It should be noted that, there are paucity of studies on the indirect role corruption plays as moderator is assessing the effect of debt servicing on economic growth, particularly in Nigeria.

Given the operational problem and the gap existing in literature, this study aims at empirically ascertaining the impact of public debt servicing on economic growth and also strives to ascertain the moderating effect of corruption on the association between public debt servicing and economic growth in Nigeria. While the broad objective of this study is to examine the effect of public debt servicing on economic growth in Nigeria, the specific objectives are to:

i. Examine the effect of foreign debt servicing on economic growth in Nigeria.
ii. Examine the effect of domestic debt servicing on economic growth in Nigeria.
iii. Investigate the moderating effect of corruption on the relationship between debt servicing and economic growth in Nigeria.

The following hypotheses will guide the study:

H_{01}: Foreign debt servicing has no significant effect on economic growth in Nigeria.

H_{02}: Domestic debt servicing has no significant effect on economic growth in Nigeria.

H_{03}: Corruption as a moderator has no significant effect on the association between debt servicing and economic growth in Nigeria.

Literature Review

Conceptual Framework

Debt servicing

Debt service is the amount needed to cover the repayment of principal and payment of interest on a loan for a particular period. Debt servicing are the required payments of both principal and interest in respect of outstanding debts (International Monetary Fund, 2003). Merriam-Webster (2019) defines debt servicing as the disbursement from the sinking fund of the amount of interest and principal due yearly on long-term loan. Debt servicing is the amount paid in respect of principal and interest due on existing loan (Business Dictionary, 2019). Adesola

(2009) defines debt servicing as the amount needed for the redemption of principal and payment of interest due on a loan at certain period of time.

Economic growth

The search for a satisfactory definition of economic growth by many scholars of public finance has actually continued without an end. Generally, growth may be described as the sustained increase in macroeconomic aggregates particularly real gross domestic product (RGDP). According to Hunt (2007), economic growth is the rise in the productive capacity of an economy, compared periodically. Economic growth is expressed in nominal terms where it is not adjusted for inflation and also expressed in real terms where it is adjusted for inflation.

Corruption

Transparency International (2002) defines corruption as the abuse of entrusted power for private gain. According to Ngouo (2000), corruption is the use of public positions for personal gains. She also stipulated that lack of civil spirit in civil service causes corruption and the loot of public treasury. Corruption exists when the public or private officials improperly and unlawfully enrich themselves or their closely relative, or induces others to do so, by abusing the position in which they are placed (Agbu, 2001).

Empirical Review

Foreign debt servicing and economic growth

Omodero (2019) tried to find out the effect of external debt on the Nigeria's economic growth. The relevant variables used in the study were nominal GDP, external loan stock, external debt servicing, inflation rate, and exchange rate. The study period covers 1997 to 2017 and the ordinary least square estimation technique of multiple regressions was used for the purpose of data analysis. It was found that the external loan exerts a significant negative effect on economic growth, while the foreign loan servicing has a strong and positive significant effect on GDP growth. Momodu (2015) x-rayed the correlations between loan servicing and growth in GDP of Nigeria. The study adopted ordinary least square multiple regression technique and found that debt servicing has significant impact on economic growth. The study also revealed that debt services to Paris club of creditors, and that debt services to promissory notes holders were positively related to GDP, while debt services to London club of creditors and other creditors showed a negative significant relation to economic growth.

Domestic debt servicing and economic growth

Ugwu (2017) investigated the influence of Domestic Debt servicing on the Nigerian GDP covering 2000 to 2016. Using the ordinary least square estimation technique of multiple regression analysis, he found that there is a significant relationship between domestic loan servicing and economic growth in Nigeria. Kalu, Okai, Chukwu and Amadi (2016) examined the effect of loan servicing on economic growth of Nigeria for the period covering 1981 to 2013. Using the ordinary least square regression method and the Granger Causality Test they found that debt servicing has a positive and significant impact on economic growth.

Corruption and economic growth

Ogbonnaya (2018) investigated the effect of corruption on Nigeria's Economy. He adopted a cross survey research design and obtained secondary data from the World Bank and Transparency International. Using multiple regression analysis and t-test for the hypotheses testing facilitated by SPSS version 20, he found that corruption has significant impact on the Nigeria's economy.

Nwankwo (2014) also examined the impact of corruption on economic growth in Nigerian using granger causality regression techniques. The economic growth was proxy by GDP, while corruption was proxy by corruption perception index. The findings of the study showed that corruption has significant negative effect on economic growth in Nigeria.

Theoretical Framework

This study is anchored on debt overhang theory and supply leading theory. The two theories are chosen because they explain the study variables bothering on debt servicing and economic growth.

Debt Overhang Theory

Krugman developed the concept of debt overhang theory in 1988. The theory explains a situation where the debt of a country is in excess of its future capacity to repay the debt. The theory is anchored on the fact that if the country's repayment capacity is exceeded by the amount of its loan, the expected debt servicing may likely decrease the function of its output level. Thus, some of the country's investment incomes are consumed by its outstanding foreign debts and both local and new foreign investments are discouraged.

Supply Leading Theory

Schumpeter (1911) was the first proponent of this theory which was subsequently supported by the works of McKinnon (1973), Shaw (1973), Gupta (1984), Fry (1988), Greenwood and Jovanovich (1990), Bencivenga and Smith (1991) among others. This theory states that public debt encourages development. The thrust of this theory is that the money and capital market if established and developed will lead a higher level of saving and investment and improve the efficiency of the accumulation of debt and equity capital.

Methodology

This study adopts ex-post factor research design. The ex-post factor research design is adopted because the study heavily relies on secondary data that are quantitative in nature and are already collected on the study population. However, the design of the study is considered suitable in determining the extent to which debt servicing affect economic growth in Nigeria. The population of this study is not specific in terms of number but for the purpose of emphasis the population of the study comprises debt servicing proxy by internal and external debt servicing and economic growth proxy by Gross Domestic Product. The study period is thirty (30) years from 1990 to 2020. This period is considered adequate for a study of this nature since it is considered adequate to measure observations that will produce sufficient and reliable findings.

The study employs the regression analysis and incorporates multivariate, co-integration and error correction to undertake a thorough examination of the characteristic of time series and economic data. The study conducts Unit Root Tests using Augmented Dickey-Fuller (ADF) for each of the variables so as to ascertain the time series properties of the data set and obtain the stationary status. The dependent variable (Economic Growth) is measured by the Gross Domestic Product explained as the total monetary value of all the finished goods and services in a specific time period calculated on annual basis in keys (Safia & Shabbir, 2009; Rais & Anwar, 2012; and Agu, 2012). Debt servicing proxied by foreign debt servicing is measured as the aggregate value of foreign debt repayment within the period of the study (Kibert, 2015) and Domestic debt servicing measured as the total amount in naira of public domestic debt repayment within the period of the study (Abdelmonem & Mohamed, 2018; Kibert, 2015; Sheyin, 2015). The moderating variable (Corruption) is measured by the corruption perception index extracted from the Transparency International (Kibert, 2015). The control variables are the Exchange Rate and Interest Rate. The Exchange Rate is measured by the Average Exchange Rate for the period of the study (Ndung'u & Ngugi, 2000; Sheyin, 2015), while the Interest Rate is measured by aggregate debt service interest rate on both internal and external debt for the period of the study.

The first model will test for the possible effect of debt servicing on Economic Growth, while the second model of this study will test if there exists an indirect effect of corruption on the association between debt servicing and economic growth in Nigeria. The first model specification:

$EG = \beta o + \beta_1 FDSit + \beta_2 DDSit + \beta_3 ERit + \beta_3 IRit + et$……………………………………..(1)

The second model specification:

$EG = \beta o + \beta_1 FDSit * CORUPit + \beta_2 DDSit * CORUPit + et$……………………………… ..(2)

Where:
EG = Economic Growth
B0= Constant
FDS= Foreign Debt Servicing
DDS= Domestic Debt Servicing
ER= Exchange Rate
IR= Interest Rate
CORUP= Corruption
β1 to β4= The Coefficients of each of the Independent Variables
et =Error Term

Results and Discussions

Descriptive statistics

A descriptive statistic is an analysis of data that helps to describe, show or summarize the behaviour of data in a meaningful way, which allows for simpler interpretation of the data. This section contains the description of the properties of the variables ranging from the mean of each variable, minimum, maximum and standard deviation.

Table 1 presents the results for the descriptive statistics for the dependent and independent variables used in the study.

Table 1: Descriptive Statistics

	GDP	FDS	DDS	EXCHR	IR	DS*CRP
Mean	13.60017	7148.07	1755.049	253.492	36.25	62944.13
Maximum	16.678	13890.3	8836.996	505.234	72.51	351619.1
Minimum	10.34	6331.2	11.1926	101.61	6.94	129521
Std. Dev.	1.249939	1354.16	2503.991	132.134	32.184	119346.5
Skewness	0.124765	1.43337	1.633113	1.345676	1.2358	1.688995
Kurtosis	5.98102.9	3.930633	4.395433	3.245688	3.245863	4.033713
Jarque-Bera	4.707380	13.24796	18.39756	13.38647	14.86457	18.19910
Probability	0.095018	0.001328	0.000101	0.000251	0.008647	0.000112

Sum	42884.30	40182.48	61426.70	43163.60	48245.50	2203045
Sum Sq. Dev.	2733590	62347280	2.13E+08	3.124+07	2.345.20	4.84E+11
Obs	30	30	30	30	30	30

Source: E-Views Output, 2021.

The result shows the thirty (30) years observations over the period of the study with Gross Domestic Product (GDP) normally distributed because it has a probability of Jarque-Bera greater than 5% and the mean value of 13.600. The maximum GDP in Nigeria stood at 16.678 while minimum is 10.34. The table also shows that the average debt servicing for foreign and domestic stood at 7148.071 and 1755.049 respectively, while the maximum and minimum values 13890.2970, 836.996 and 6331.200, 11.19260 respectively. Also, from the result, the GDP has a skewness and kurtosis of .124765 and .5981027 while the standard deviation is 1.249939. In like manner, foreign debt servicing has a probability of 0.001328 which is less than 5%. It therefore indicates that external debt is not normally distributed and the same applies to domestic debt servicing which has a P-value of 0.000101. The study again shows that exchange rate and interest rate have a mean of 253.492 and 36.25 with maximum and minimum figures of 505,234 and 101,610 for exchange rate and 72.51 and 6.94 interest rate respectively.

The standard deviation for both variables depicts 132.134 and 32.184 for exchange rate and interest rate respectively. The result shows that the data for both exchange rate and interest rates are not normally distributed as evidenced by the probability values of 0.0000251 and 0.008647 respectively. From the findings, debt servicing as moderated by corruption was found not normally distributed within the period under study because it has a probability which is less than 5% and a corresponding mean value of 62944.13 as well as standard deviation of 119346.5. Also, the result indicates that the maximum and minimum figures stood at 351619.1 and 129521. The result also indicates that the skewness and kurtosis of the combination of these variables in Nigeria is 1.688995 and 4.033713 accordingly.

Correlation Matrix

A correlation matrix is a table showing correlation coefficients between variables. Each cell in the table shows the correlation between two variables. The Correlation coefficients provide the result on the direction of the relationship between the dependent and independent variables, and the correlation among the independent variables themselves.

Table 2: Correlation Matrix

	GDP	FDS	DDS	EXCHR	IR	DS*CUP
GDP	1.000000					
FDS	-0.032219	1.000000				
DDS	0.048084	0.190499	1.000000			
EXR	-0.082061	0.050055	0.091881	1.000000		
IR	-0.230506	0.328610	0.064380	0.340260	1.00000	
DS*CUP	0.126540	0.128673	0.423457	0.120845	0.086345	1.00000

Source: E-View Output, 2021

The correlation matrix shows the relationship between the debt servicing indicators and the Nigeria economic growth indicator. It is evident that GDP has a negative correlation with FDS which means that increase in FDS will reduce the GDP in the Nigerian. Also, the result indicates that domestic debt servicing has positive relationship with GDP to the extent of 4%. Finding also indicates that exchange rate and interest rates have positive relationship with gross domestic product as evidence by the coefficient of -0.082061 and -0.230506 respectively. The study also shows real positive (0.126540) relationship between corruption as a moderating variable and gross domestic product in Nigeria.

Table 3: Regression Results

GDP	Beta Coefficient	t-values	Sig.
FDS	8.687967	7.57	0.000
DDS	-2.048354	-1.01	0.320
EXCHR	-3.746196	-2.05	0.043
IR	-2.64280	-1.37	0.442
DS*CRP	-0.128752	-1.54	0.453
R^2	0.7896		
F. Statistic	33.78		
F-Sig.	0.0000		
Durbin-Watson	1.4149		

Source: E-views Output, 2021

The table clearly showed that the R^2 which is the multiple co-efficient of determination gives the percentage or proportion of total variation in the dependent variable (GDP) measured by natural logarithm of GDP items explained by the independent variables jointly. Therefore, the result of R^2 value of 79% signifies that total variation in GDP is caused by foreign debt servicing, domestic debt servicing, exchange rate, interest rate and corruption index, while the remaining 21% is caused by other factors outside the model of this study. This gives a signal that the model is fit and the explanatory variables are carefully selected. The implication of this is that when there is change in corruption index, total debt servicing, exchange rate, and interest rate will change significantly.

The F-statistic value of 33.78 reveals that the model is statistically significant at the level of 0.0000 (1%), showing the applicability of the overall model. This implies that there is a high likelihood that the association amongst the variables is not due to mere coincidence. The Durbin Watson 1.4149 which is approximately 2 shows the absent of auto-colinearity. This signifies that the autocorrelation of residuals will not pose a problem to the validity of statistical inferences of this study.

Furthermore, the regression result reveals that foreign debt servicing has a t-value of 7.57 and a coefficient value of 8.687967 which is significant at the level of 0.00. This result indicated that foreign debt servicing positively and significantly influences GDP in Nigeria. This implied that increase in foreign debt servicing, increases GDP in Nigeria. On this basis, the study rejects the null hypothesis which states that foreign debt servicing has no significant effect on economic growth in Nigeria. Again, the regression result also reveals that total domestic debt servicing in

Nigeria has a t-value of -1.01 and a coefficient value of -2.05 which is insignificant at the level of 0.320. This implies that total domestic debt servicing expenditure in Nigeria is a negative and insignificant explanatory variable in explaining and predicting the behaviour GDP in Nigeria. This import of this finding is that domestic debt servicing does not exert any significant influence on economic growth in Nigeria. Therefore, the study accepts the null hypothesis which states that domestic debt servicing expenditure has no significant effect on economic growth in Nigeria. The study controlled for exchange rate and interest rate as exogenous variables that likely affect the debt servicing expenditure. The result of the regression depicts that both exchange rate and interest rate have negative and insignificant effect on economic growth in Nigeria as measured by GDP. While the continuous depreciation of the value of naira against foreign currency would have adverse effect on economic services provision, higher interest rates tend to restrain economic growth.

The regression result further reveals that corruption as a moderator has a t-value of -1.54 and a coefficient value of -0.128752 with a significant level of 0.453. This signifies that intervening role of corruption negatively and insignificantly influences GDP in Nigeria. The negative relationship between corruption index and GDP implies that a % increase incorruption levels lead to 12% decrease in economic growth in Nigeria. This study, therefore, accepts the null hypothesis which states that corruption as a moderator has no significant effect on the relationship between debt servicing and economic growth in Nigeria.

External debt servicing and economic growth

The first objective of this study is to ascertain the effect of foreign debt servicing on economic growth in Nigeria. The hypothesis tested, stated that foreign debt servicing has no significant effect on economic growth in Nigeria. The result of the study is analyzed using multiple regression analysis and the result of the analysis indicates foreign debt servicing has significant and positive effect on economic growth in Nigeria. The implication of the result is that changes in foreign debt servicing will affect economic growth Nigerian positively. This finding supports the supply lending theory. This finding is also consistent with the studies of Aminu, Ahmadu and Salihu (2013), Tajudeen (2012) but disagree with the findings of Amassoma (2011), Uma, Eboh and Obidike (2013) that foreign debt servicing has no significant effect on economic growth.

Domestic debt servicing and economic growth

The second objective of the study is to assess the effect of domestic debt servicing on economic growth in Nigeria. The hypothesis states that, domestic debt servicing has no significant effect on economic growth in Nigeria. From the result of the analysis, it is discovered that domestic debt servicing has no significant effect on economic growth in Nigeria. From our findings and the period covered in the study, it could be seen that the domestic debts servicing has not contributed to economic growth in Nigeria. This finding contradicts the supply lending theory which states that public debts spur economic growth. This outcome is in tandem with the findings of Abula and Ozovehe (2016), Aminu, Ahmadu and Salihu (2013), Amassoma (2011), Uma, Eboh and Obidike (2013) but not in line with the outcome of Tamononimi (2013), Mba, Yuni and Oburota (2013), Sheikh, Faridi and Tariq (2010), Maana, Owino and Mutai. (2008), Abbas and Christensen (2007), Tajudeen (2012) that domestic debt servicing has significant effect on economic growth.

Debt servicing and economic growth

The third objective of the study is to ascertain the moderating effect of corruption on the association between debt servicing and economic growth in Nigeria. The Hypothesis states that corruption as a moderator has no significant effect on the relationship between debt servicing and economic growth in Nigeria. From the result, it is found that when corruption moderates debt servicing, it provides evidence of a significant influence on economic growth in Nigeria. Furthermore, the finding from this model indicates that corruption has an indirect effect on the association between debts servicing economic growth in Nigeria. This means that when corruption interplays in debt servicing activities, it creates a situation that is disadvantageous to the economy creating a decrease in GDP. This finding is in line with the outcome of (Worlu, 2011 and Ndubuisi, 2011), but disagree with (Amassoma, 2011and Adesola, 2009).

Conclusion and Recommendations

Over the recent past decades, there has been growing literature linking public debts in developing and emerging economies with economic growth. One of the most essential objectives of macro-economic policies in recent years has been the achievement of sustainable economic growth, most particularly those in the less developed countries like Nigeria. Since no government is an island; every government would need borrowings and assistance for efficient and effective performance. It is expected that the developing countries when facing a paucity of fund would resort to domestic or foreign borrowing from sources to add to domestic savings. Hence, borrowing may be regarded as an auxiliary alternative to capital accumulation during periods of economic depression. In this study, public debt servicing was separated into domestic and debts foreign and also debt servicing. The study moderated for the effect of corruption on the association between public debts and economic growth in Nigeria. The study used multiple regression analysis technique for the purpose of data analysis after both time series conditions and diagnostics test were fully satisfied. The result of this study showed that foreign debt servicing has significant effect on GDP, while domestic debt servicing does influence GDP positively but insignificantly. The study also, showed there is no positive association between debt servicing and economic growth in Nigeria when moderated with corruption.

Based on the findings of this study, the following recommendations are offered:

1. Foreign debts servicing should be encouraged because they have been found to have significant and positive effect on economic growth in Nigeria. This could be due to the less burden it brings to a country when debts are substantially serviced. Also, there is debt forgiveness when it is observed that the determination to pay is there especially when the funds obtained are prudently applied. Although, care should be taken in terms of utilization of debts for the purpose it was meant.
2. Domestic debts servicing does not contribute to the economic growth in Nigeria as revealed by the result of the study and, therefore, government should acquire less debts domestically.
3. Government should regularly service its debts as non-service could amount to debt covenant violation charges which could mean more cash outlay for the government.

   However, government should make reasonable efforts in blocking channels through which corrupt practices are perpetrated as this has the potential of denting the image of the country before those debt providers.

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