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EFFECT OF NATIONAL DEBT ON NIGERIA'S ECONOMIC PERFORMANCE

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ABSTRACT

The study investigated the effect of national debt on the economic performance of Nigeria from 1981 to 2023. The specific objectives were to assess the effect of domestic debt and foreign debt on the gross domestic product of Nigeria. In line with the ex-post facto research design adopted, secondary data were gleaned from the statistical bulletin of the Central Bank of Nigeria for various years, over a forty-three year period that spanned from 1981 to 2023. The Ordinary Least Square regression used in hypotheses testing revealed that: domestic debts have a positive and significant effect on the gross domestic product of Nigeria (p-value = 0.0000) while foreign debts have a significant but negative effect on the gross domestic product of Nigeria (p-value = 0.0086). In conclusion, effective management of both domestic and foreign debt is essential for fostering economic growth and stability. The study recommended that attention should be given to the composition and use of national debt to ensure that domestically borrowed funds are directed towards productive investments that stimulate economic growth. It was also recommended that policymakers should be cautious about increasing foreign debt levels and should ensure that such debt is used for projects that enhance economic resilience and generate sufficient returns to service the debt.

Key words: *Domestic Debt, Economic Performance, Foreign Debt, Gross Domestic Product, National Debt*

1. INTRODUCTION

Nigeria, the most populous country in Africa, possesses numerous wealth of natural resources and a dynamic young population that collectively offer tremendous potential for economic growth (Omolola, Elijah & Ede, 2023). Historically, Nigeria's economy has been characterized by its reliance on oil, which constitutes a significant portion of the national revenue (Okorie & Lin, 2024). However, this reliance has also exposed the country to the vulnerabilities of fluctuating global oil prices that readily impact economic stability and growth. In recent years, Nigeria has sought to diversify its economy and reduce its dependence on oil by promoting sectors such as agriculture, manufacturing, and services. Despite these efforts, the country still faces significant economic challenges, including high levels of poverty, unemployment, and infrastructural deficits (Agbu & Nzeribe, 2023; Uyo, Adama, Sumaila & Suleiman, 2024; Prince, Ehi, Brown-Ofoeme, Collins & Alobele, 2023).

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Amidst these challenges, the issue of national debt has become increasingly prominent (Nwoye, Udunwoke & Nworie, 2023). National or public debt refers to the total amount of money that a country's government has borrowed, typically through issuing securities such as government bonds or taking loans from international financial institutions (Afure & Ifeanyi, 2024). For Nigeria, managing national debt is crucial as it seeks to fund critical development projects and stimulate economic growth. However, high levels of national debt can lead to financial instability, financial burden on future generations, and limit the government's ability to implement effective fiscal policies (Ekuma, Inyiama & Okwo, 2024). In today's globalized economy, effective national debt management is essential for maintaining economic stability and fostering a conducive business environment. National debt, when managed effectively, can provide governments with the necessary funds to invest in infrastructure, education, healthcare, and other critical sectors that stimulate economic growth and development (Kolawole, 2024). Conversely, poor national debt management can have severe repercussions on a country's economy (Okoye & Nwoye, 2021a).

High levels of debt can lead to increased borrowing costs, as creditors demand higher interest rates to compensate for the perceived risk. This can create a vicious cycle where a significant portion of government revenue is directed towards servicing debt rather than investing in growth-promoting activities (Kpalukwu & Ezekwe, 2023, Okoye & Nwoye, 2021b). Additionally, high debt levels can lead to inflationary pressures if the government resorts to printing money to finance its obligations, thereby eroding the value of the currency and reducing purchasing power. In extreme cases, unsustainable debt can result in a sovereign debt crisis, leading to default and severe economic disruptions (Saka, 2024). Accordingly, public debt involves the borrowing activities undertaken by a government to finance its expenditures that exceed its revenues (Oyekale, Tella & Awolaja, 2024). This borrowing can be from domestic or international sources and can take various forms, including bonds, loans, and other financial instruments. Issues that arise from public debt revolve around how the debts can be sustained. Debt sustainability refers to a country's ability to meet its debt obligations without requiring debt relief or accumulating arrears (Menguy, 2024). This involves assessing the long-term ability to generate sufficient revenue to repay debt without compromising economic growth. Debt servicing, on the other hand, involves the payment of interest and principal on the debt, which can significantly impact a government's fiscal space. A high debt servicing ratio indicates that a large portion of government revenue is being used to repay debt, leaving less available for other expenditures (Kpalukwu & Ezekwe, 2023).

Fiscal deficit occurs when a government's total expenditures exceed its total revenues, necessitating borrowing to cover the shortfall. Persistent fiscal deficits can lead to an accumulation of national debt, underscoring the importance of sound fiscal management. This is because high debt levels can lead to increased borrowing costs, as creditors may perceive the country as a higher risk and demand higher interest rates (Nwoye, Udunwoke & Nworie, 2023). This can result in a significant portion of government revenue being allocated towards debt servicing rather than productive investments (Kpalukwu & Ezekwe, 2023). For Nigeria, this is particularly concerning given the existing infrastructural deficits and the need for substantial investments to achieve sustainable growth. Additionally, high debt levels can constrain the government's fiscal policy options, limiting its ability to respond to economic shocks or implement counter-cyclical measures during economic downturns. However, over the years, Nigeria has experienced a substantial increase in national debt, driven by fiscal deficits and the need to finance various development projects (Oyadeyi, Agboola, Okunade & Osinubi, 2024). Unfortunately, much of this borrowing has not been matched by corresponding improvements in economic performance. Instead, a significant portion of the borrowed funds has been consumed by recurrent expenditures rather than invested in productive ventures. This is more as poor governance, corruption, and inefficiencies in public spending have exacerbated the situation, leading to suboptimal utilization of borrowed funds. The country's reliance on oil revenue has also contributed to economic volatility, as fluctuations in global oil prices impact government revenue and its ability to service debt (Kpalukwu & Ezekwe, 2023). This has resulted in a growing debt burden that increasingly strains Nigeria's fiscal capacity and limits its developmental prospects.

As a result, high levels of national debt have led to increased debt servicing costs (Uchenna, 2024), diverting a substantial portion of government revenue away from essential investments in infrastructure, education, and healthcare. This has hindered the country's ability to address critical socio-economic challenges, such as high unemployment rates, inadequate healthcare facilities, and poor educational outcomes. Furthermore, the increasing debt burden has constrained the government's fiscal space, limiting its ability to implement effective counter-cyclical policies and respond to economic shocks. Thus, addressing the issue of national debt is crucial for ensuring sustainable economic growth and improving the overall well-being of the Nigerian populace.

The main objective of the study is to examine the effect of national debt on the economic performance of Nigeria (1981-2023). Specifically, the study intends to:

1. determine whether Domestic debt has any significant effect on the gross domestic product of Nigeria.
2. investigate the magnitude of effect that Foreign debt has on the gross domestic product of Nigeria.

The following hypotheses were formulated to test the above ojectives:

H_{01}: Domestic debt does not significantly affect the gross domestic product of Nigeria.

H_{02}: The magnitude of effect of foreign debt on the gross domestic product of Nigeria is not significant.

2.1 LITERATURE REVIEW

2.1.1 National Debt in Nigeria

National debt refers to the total amount of money that a country's government has borrowed, typically through issuing securities such as government bonds or taking loans from international financial institutions (Afure & Ifeanyi, 2024). This borrowing can take various forms, including the issuance of government bonds, securing loans from domestic and international financial institutions, and sometimes even borrowing from other countries (Yusuf & Mohd, 2023). When a government spends more than it collects in revenue, typically through taxes, it needs to fill this gap by borrowing. The funds acquired through these borrowing activities are used to finance a wide array of government expenditures, such as infrastructure projects, public services, social welfare programs, and other essential operations that are critical for the functioning and development of the country (Obhiose, Ifionu & Omojefe (2024).

Nigeria's national debt has fluctuated over the years, reaching a peak of 75% of GDP in 1991 following the Nigerian Structural Adjustment Program, and a low of 7.3% in 2008 after the Paris Club debt relief. As of November 2023, the debt-to-GDP ratio was 38.79%, below the Sub-Saharan African average of 56.3%. The national debt is composed of both domestic and external debt, with domestic debt accounting for 61.95% and external debt 38.05% as of Q2 2023 (National Bureau of Statistics, 2023). Factors contributing to Nigeria's rising debt include overreliance on external borrowing, increased public spending, and economic challenges such as the 2010s oil glut and the COVID-19 pandemic. The Debt Management

Office (DMO) is responsible for managing Nigeria's national debt and promoting the development of the domestic debt market. By borrowing, the government can undertake large-scale projects and investments that it might not otherwise afford through current revenues alone countries (Yusuf & Mohd, 2023). These projects can stimulate economic growth by creating jobs, enhancing productivity, and improving the overall standard of living. However, borrowing also comes with the obligation to repay the debt along with interest. This means that future government revenues will need to be allocated for debt servicing, which includes both the repayment of the principal amount and the interest payments. If managed prudently, national debt can be a powerful tool for fostering economic growth and development (Obhiose, Ifionu & Omojefe, 2024). Conversely, if mismanaged, excessive borrowing can lead to a debt burden that is difficult to sustain, potentially leading to financial instability and economic challenges. Therefore, understanding and managing national debt effectively is crucial for the financial health and economic stability of any nation.

2.1.1.1 Domestic Debt

Domestic debt is an integral part of a country's financial system, representing the borrowing activities undertaken by a government within its own borders (Afure & Ifeanyi, 2024). Unlike external debt, which involves borrowing from foreign entities, domestic debt is raised through the issuance of securities such as treasury bills, government bonds, and other financial instruments to local investors. These investors can include banks, insurance companies, pension funds, and even individual citizens. Domestic debt arises when a government borrows money from its own residents rather than from foreign lenders (Johnson, 2024). This borrowing is usually conducted through the sale of government securities in the domestic financial market (Ekuma, Inyiama & Okwo, 2024). These securities are often considered low-risk investments because they are backed by the government's promise to repay the debt. The terms of these securities can vary, with short-term instruments like treasury bills typically maturing in less than a year, while long-term instruments such as government bonds can have maturities extending over several decades.

Nigeria's domestic debt has grown significantly in recent years, reaching N27.55 trillion (US$61.41 billion) in Q4 2022, accounting for 59.56% of the country's total public debt (. The domestic debt is primarily composed of short-term instruments, with over 60% maturing in the short-term, exposing the government to market and rollover risks. The Federal Government holds the majority (80.62%) of the domestic debt, while Lagos, Delta, and Ogun

states have the highest domestic debt levels among the states. The rising domestic debt profile and its short-term nature have raised concerns about fiscal sustainability and the implications for monetary policy implementation, as government securities constitute the predominant portion of the domestic debt market in Nigeria. One of the key features of domestic debt is that it is denominated in the national currency, which distinguishes it from external debt that must be repaid in foreign currencies. This distinction is significant because it means that the government does not face the exchange rate risks associated with foreign debt. However, the issuance and management of domestic debt still require careful planning and coordination with the country's monetary policy. Domestic debt plays a crucial role in a nation's financial strategy (Oyekale, Tella & Awolaja, 2024). It provides governments with a means to finance budget deficits without resorting to foreign borrowing, which can be more volatile and subject to international market conditions (Johnson, 2024). By borrowing domestically, governments can support public expenditures that promote economic growth, such as infrastructure development, healthcare, and education (Ekuma, Inyiama & Okwo, 2024). These investments can enhance the productivity and well-being of the population, leading to long-term economic benefits. Also, Mogaka (2017) argued that domestic debt markets contribute to the development of the local financial sector. The issuance of government securities helps establish a benchmark yield curve, which is essential for the pricing of other financial instruments. This can improve financial market liquidity and provide investment opportunities for local investors. Additionally, a well-functioning domestic debt market can enhance monetary policy effectiveness, as the central bank can use these securities in its open market operations to manage liquidity and influence interest rates.

2.1.1.2 Foreign Debt

Foreign or external debt, also known as external debt, refers to the borrowing activities of a country from foreign lenders, including international financial institutions, foreign governments, and private sector entities (Afure & Ifeanyi, 2024). This type of debt is denominated in foreign currencies and must be repaid in the currency in which it was borrowed. While foreign debt can provide vital funding for development projects and help bridge fiscal deficits, it also poses significant challenges and risks, particularly for developing countries (Ekuma, Inyiama & Okwo, 2024). Foreign debt encompasses all liabilities that a country owes to external creditors. These liabilities can take various forms, such as sovereign bonds, loans from international financial institutions like the International Monetary Fund

(IMF) and the World Bank, bilateral loans from other governments, and commercial bank loans.

Nigeria's foreign debt has risen steadily in recent years, reaching N49.85 trillion (US$108.30 billion) as of March 2023, up from N46.25 trillion (US$103.31 billion) at the end of 2022 (Olufemi, 2023). The external debt is primarily composed of loans from multilateral institutions like the World Bank and Eurobonds issued on the international capital markets, which account for over 35% of the total foreign debt. Nigeria's external debt has grown due to increased borrowing to finance infrastructure projects and address fiscal deficits, though the debt-to-GDP ratio remains below the Sub-Saharan African average. The government has taken steps to manage the rising foreign debt, including securitizing the Central Bank's Ways and Means advances, which will be included in the domestic debt starting June 2023. Unlike domestic debt, foreign debt involves transactions in international financial markets and is subject to the dynamics of global interest rates, exchange rates, and investor sentiment (Kolawole, 2024). Countries typically resort to foreign borrowing to finance budget deficits, fund infrastructure projects, stabilize their currencies, or respond to economic crises. For developing nations, foreign debt can be a crucial source of capital, as domestic financial markets often lack the depth and liquidity to meet substantial funding needs. One of the primary advantages of foreign debt is its ability to provide immediate financial resources that can be used for development projects and economic reforms. By accessing international capital, countries can invest in critical infrastructure such as roads, bridges, ports, and energy systems, which are essential for economic growth and development. These investments can enhance productivity, create jobs, and improve the standard of living.

2.1.2 Economic Performance

Economic performance refers to the overall health and efficiency of an economy, measured by various indicators that reflect its ability to produce goods and services, generate employment, and achieve sustainable growth (Nwoye, Udunwoke & Nworie, 2023). Economic performance refers to the overall condition of an economy, indicating how well it is operating in terms of production, income, and employment levels (Ebi, Abu & Clement, 2013). It is often measured by the growth rate of Gross Domestic Product (GDP), which quantifies the total value of all goods and services produced over a specific period. Economic performance encompasses the effectiveness of an economy in creating jobs and maintaining low unemployment rates, reflecting the health of the labour market. It includes the efficiency

with which an economy utilizes its resources, particularly labour and capital, to produce goods and services (Adeshina, Tomiwa & Eniola, 2020).

Economic performance can also be measured by the distribution of income across the population, indicating how wealth is shared among different social groups. Productivity, or the efficiency with which labour and capital are used to produce goods and services, is a fundamental aspect of economic performance (Raghupathi & Raghupathi, 2020). Higher productivity means that more output is being generated from the same or fewer inputs, indicating improved efficiency and competitiveness. Productivity gains are crucial for sustaining long-term economic growth and improving living standards. They allow for higher wages, lower production costs, and the potential for reduced prices, benefiting both workers and consumers (Jayne, Fox, Fuglie & Adelaja, 2021).

2.1.2.1 Gross Domestic Product

Gross Domestic Product (GDP) is defined as a comprehensive measure that quantifies the total monetary value of all finished goods and services produced within a country's borders over a specific period, typically annually or quarterly (Nwoye, Obiorah & Ekesiobi, 2015; Oyekale, Tella & Awolaja, 2024). It serves as a broad indicator of a country's overall economic activity and health, capturing the market value of all final goods and services made in an economy within a set time frame. This includes everything from consumer purchases of goods and services, investments in equipment and infrastructure, government spending on public services and infrastructure, to the value of exports minus imports.

GDP is critical because it provides a snapshot of a country's economic performance and growth over time (El-Yaqub, Musa & Magaji, 2024). It encompasses various sectors of the economy, such as agriculture, manufacturing, construction, services, and technology, reflecting the aggregate economic output and productivity (Nwoye, Obiorah & Ekesiobi, 2015). By analyzing GDP, economists and policymakers can gauge the size of an economy, assess its growth rates, and make comparisons with previous periods or other economies. Higher GDP levels generally indicate a higher standard of living and better economic conditions, as there are more goods and services available for consumption and investment. On the other hand, declining GDP can signal economic problems, such as recessions or depressions, leading to higher unemployment rates and lower income levels (Nwoye, Udunwoke & Nworie, 2023).

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2.1.3 National Debt and Economic Performance

Effective debt management would balance borrowing with robust fiscal policies, ensuring that revenues are optimized and expenditures are controlled. This approach would enable Nigeria to build a resilient economy, reduce poverty and unemployment, and enhance the overall quality of life for its citizens (Obhiose, Ifionu & Omojefe, 2024). Additionally, a well-managed debt strategy would instill confidence among investors, both domestic and international, fostering an environment conducive to sustainable economic growth. The impact of domestic debt is particularly pronounced in developing countries, where financial markets are often less mature, and economic conditions can be more volatile (Johnson, 2024). For these countries, domestic debt can be a double-edged sword. On one hand, it provides a vital source of funding for development projects that can drive economic growth and reduce poverty. On the other hand, it can exacerbate fiscal vulnerabilities if not managed properly (Nwoye, Udunwoke & Nworie, 2023).

In many developing countries, the ability to raise domestic debt is limited by the size and depth of the local financial markets as governments in these countries may face higher borrowing costs due to perceived risks, which can strain public finances (Mogaka, 2017). Additionally, political instability and governance issues can further complicate the management of domestic debt. To mitigate these risks, developing countries need to adopt sound fiscal and monetary policies. This includes maintaining a sustainable level of debt, ensuring transparency in debt management, and fostering a stable macroeconomic environment. Strengthening the institutional framework for debt management can also help these countries better cope with the challenges associated with domestic borrowing (Johnson, 2024).

In the short term, foreign debt can provide the necessary funds for development projects that can spur economic growth. However, in the long term, the sustainability of foreign debt is crucial. If managed prudently, foreign debt can contribute to a virtuous cycle of investment, growth, and improved debt capacity (Nwoye, Udunwoke & Nworie, 2023). Conversely, mismanagement of foreign debt can lead to a vicious cycle of rising debt burdens, fiscal crises, and economic decline. For developing countries, effective foreign debt management is essential to ensure that borrowed funds are used productively and that the debt remains within sustainable limits. This requires sound fiscal policies, transparent debt management practices, and effective utilization of borrowed resources. It also involves building strong institutions

and governance frameworks that can support sustainable economic development (Obhiose, Ifionu & Omojefe, 2024).

2.2 Theoretical Framework

2.2.1 Theory of Keynesian economics

Keynesian economics originated in the early 20th century, developed by the British economist John Maynard Keynes (Terra, 2023). The foundational work for this economic theory is Keynes's seminal book, "The General Theory of Employment, Interest, and Money," published in 1936. The backdrop for Keynes's theories was the Great Depression of the 1930s, a period characterized by widespread unemployment, deflation, and economic stagnation. Traditional classical economic theories at the time, which advocated for minimal government intervention and believed in self-correcting markets, failed to provide solutions to the economic crisis. Keynes challenged these notions, proposing that active government intervention is necessary to manage economic cycles and achieve full employment (Streeten, 2016). According to the theory of Keynesian economics, national debt incurred through government borrowing can stimulate economic growth by increasing aggregate demand (Yusuf & Mohd, 2021). When the government spends money on productive investments such as infrastructure projects, education, healthcare, and other public services, it injects money into the economy. This government spending creates jobs and income for workers, who then spend their earnings on goods and services, further boosting demand and economic activity. This process is known as the multiplier effect, where initial government spending leads to a chain reaction of increased consumption and investment throughout the economy (Yusuf & Mohd, 2021; Baidoo, Duodu, Kwarteng, Boatemaa, Opoku, Antwi & Akomeah, 2021).

In the Keynesian view, as long as the borrowed funds are used for productive investments, the economy can grow, leading to higher employment and increased GDP (Rangarajan & Srivastava, 2005). Infrastructure projects, for example, not only create immediate jobs in construction but also enhance the economy's productive capacity in the long term by improving transportation and communication networks. Investments in education and healthcare can similarly boost long-term economic growth by creating a more skilled and healthy workforce.

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2.3 Empirical Review

Afure and Ifeanyi (2024) investigated the impact of public debt on Nigeria's economic development from 1981 to 2021 using data from the Central Bank of Nigeria (CBN) and the World Bank data bank. They employed two models, with Gross Domestic Product per Capita (GDP/CAP) and Gross Fixed Capital Formation (GFCF) as the dependent variables in Models 1 and 2, respectively. Domestic Debt (DD), External Debt (XD), and Total Debt Service Payments (TDS) were the independent variables. The study utilized the ARDL technique to analyze the data after checking for unit roots. The findings indicated that domestic debt had a positive and significant effect on GDP/CAP in both the short and long run. External debt had a negative and significant short-run effect but a positive and insignificant long-run effect. Total debt service payments had a positive and insignificant short-run effect but a negative and significant long-run effect on GDP/CAP. Additionally, all public debt variables negatively and insignificantly impacted GFCF during the study period.

Ekuma, Inyiama, and Okwo (2024) assessed the impact of the rising government debt profile on Nigeria's economic prosperity. They focused on how rising domestic debt, external debt, and borrowing costs affected GDP during the study period, using data from CBN Bulletins and the Debt Management Office. Through multiple regression analysis, they tested the null hypotheses that domestic debt, external debt, and borrowing costs do not significantly affect GDP. The results showed that domestic debt had a positive and significant effect on GDP, with a coefficient of 1.005965 and a p-value of 0.0000. External debt had a negative and non-significant effect on GDP, with a coefficient of -0.083963 and a p-value of 0.5909, while borrowing costs had a positive and non-significant effect on GDP.

Kolawole (2024) explored the relationship between external debt and economic growth in Nigeria from 1981 to 2021 using the ARDL econometric technique. With Nigeria's high and increasing external debt stock, the study aimed to determine if external debt is growth-enhancing. Preliminary diagnostics revealed a one-way causality where both external debt and domestic investment Granger cause economic growth. The long-run relationship among the variables showed that real interest rates had an inverse relationship with economic growth in the short run. External debt had a negative impact on economic growth in both the short and long run, while trade openness and domestic investment had positive impacts.

Saka (2024) examined the impact of public debt on Nigeria's economic growth, focusing on government expenditure and borrowing for social infrastructure. Using the ARDL method for regression analysis with annual data from 1984-2019, the study found that external reserves were crucial for economic growth. External debt had a positive short-run impact on economic growth.

Oyekale, Tella, and Awolaja (2024) investigated the effects of public debt on economic development in ECOWAS states, considering corruption control as a mediating factor. Using secondary panel data from WDI, AfDB, and WGI from 1996-2022, they analyzed the relationship between domestic debt and real GDP, with corruption control as a moderating variable. The PARDL results indicated a short- and long-run symmetric relationship between domestic debt and real GDP, which was more pronounced when corruption was controlled. Domestic debt had a positive short-run and negative long-run impact on real GDP, while corruption control maintained a significant positive association in both the short and long run.

Obhiose, Ifionu, and Omojefe (2024) explored the relationship between debt practices and economic development in Nigeria from 1981 to 2022. Using secondary data from the Central Bank of Nigeria Statistical Bulletin, they employed stationarity tests, Johansen cointegration, and error correction mechanism techniques. Their findings indicate that domestic debt positively influences human development, while external debt has a negative correlation. The study also highlights the detrimental effect of inflation on human development, emphasizing the importance of price stability for economic progress.

Kabemba and Kabwe (2024) analyzed the impact of public debt on economic growth in Zambia from 2011 to 2021. Utilizing Microsoft Excel and E-Views for data analysis, they applied the Autoregressive Distributed Lags (ARDL) model to estimate long-run correlations between variables. The study included the Prime Lending Rate, Exchange Rate, External Debt Stock, Domestic Debt Stock, and Real Gross Domestic Product as variables. Results revealed that these factors significantly impacted economic growth in Zambia during the study period. The researchers recommend that policymakers ensure borrowing is directed towards productive investments to enhance GDP and, consequently, real GDP, thereby positively affecting the economy. They also stress the need for a consistent macro-economic database to support further research and policy guidance.

El-Yaqub, Musa, and Magaji (2024) investigated the impact of domestic debt on Nigeria's economy from 1980 to 2021, focusing on its effect on GDP growth. Using quantitative research methods and secondary data from the Central Bank of Nigeria and the Debt Management Office, they applied a linear regression model evaluated with E-view statistical software. Techniques included the Unit Root Test, Ordinary Least Square Method, and the Autoregressive Distributed Lag (ARDL)-Bound Test to analyze cointegration. Findings suggest that domestic debt, interest rates on domestic debt, capital expenditures, budget deficits, and private-sector lending negatively affect Nigeria's economy. The study recommends effective domestic debt management and appropriate debt servicing strategies to support economic growth.

Vincent and Timothy (2024) examined the effect of external debts on Nigeria's standard of living from 1994 to 2021. Using the co-integration framework, their findings revealed that external debts have a positive and significant impact on per capita income, while debt service negatively and significantly impacts per capita income.

Nwokoye, Dimnwobi, Onuoha, and Madichie (2024) assessed the effects of domestic and external debts on human capital development in Nigeria from 1990 to 2021. They employed the Fully Modified Ordinary Least Squares and Canonical Cointegration Regression techniques for estimation and robustness checks. The study found that domestic and external debt, economic growth, and debt servicing positively and significantly influence human capital development, whereas environmental pollution has a significant negative impact. Based on these outcomes, the researchers propose policy recommendations aimed at enhancing human capital development in Nigeria.

Stungwa (2024) investigated whether the relationship between external debt and economic growth in South Africa is symmetric or asymmetric using annual time series data from 1985 to 2021. The study utilized NARDL bounds and Breitung nonparametric cointegration estimation methods, alongside Breitung, Bierens nonparametric, and ZA unit root tests to determine the order of integration of the variables. The results confirmed a long-run relationship between the variables. Findings indicated that GDP is more responsive to negative shocks than to positive ones: an increase in external debt is associated with a decrease in GDP, whereas a decrease in external debt leads to an increase in GDP. The study suggests

that South Africa should maintain sustainable external debt levels to avoid harming economic growth.

Lombe and Haabazoka (2024) employed descriptive and correlational designs to explore the relationship between private and public debt and economic growth, investment, and the social progress index in Zambia, using economic secondary data from 1964 to 2020. The study found that public debt negatively affected economic growth over the study period, implying that increases in public debt decrease economic growth. Public debt's impact on investment was not significant at a p-value of 0.05, despite a weak positive correlation. Conversely, private debt showed a positive and significant correlation with investment, economic growth by GDP, and NGDP, with p-values less than 0.05. The study revealed that while increasing public debt reduces economic growth, private debt boosts investment and domestic savings, positively impacting economic growth.

Mustafa and Shah (2024) examined the relationship between external debt dynamics and economic growth in Pakistan. They studied 41 diverse countries within the IMF framework from 2005 to 2021, using a dataset that included GDP growth, external debt, government consumption, inflation, and imports. The study applied System Generalized Method of Moments (GMM) and Difference GMM approaches. Results indicated a negative correlation between high external debt and GDP growth, suggesting that increased external debt is linked to lower GDP growth.

Nwoye, Udunwoke, and Nworie (2023) assessed the effects of domestic debt, external debt, and debt servicing levels on Nigeria's GDP from 1999 to 2021. Using an ex post-facto research design and time series data, they analyzed public debt trends in relation to GDP growth. Ordinary least square regression, unit root tests, and Johansen cointegration tests revealed that domestic debt significantly and positively affects GDP performance (ß1 = 2.784464, p-value = 0.000). External debt, however, negatively impacts GDP (ß2 = -1.340768, p-value = 0.000), and debt servicing levels showed no significant impact on GDP (ß3 = -0.062668, p-value = 0.1101).

Yusuf and Mohd (2023) explored the asymmetric impact of public debt on economic growth in Nigeria from 1980 to 2020 using the Nonlinear Autoregressive Distributed Lag (NARDL) method. The study found that external debt has a significant positive and symmetric impact

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on economic growth in both the long and short run. In contrast, debt service payments supported the debt overhang hypothesis, exerting a symmetric effect that stifles growth. Domestic debt negatively affected growth asymmetrically in the short term and linearly in the long term.

3. METHODOLOGY

Ex-post facto research design was employed. This approach involves drawing conclusions about sample variables by analyzing relevant historical records that cannot be manipulated. It examines the effect of an independent variable on a dependent variable after the event has occurred, making it ideal for this study as it measures and establishes relationships between variables without manipulation. The data for this study were sourced from the Central Bank of Nigeria's Statistical Bulletin, covering the period from 1981 to 2023. The study structured its data in a tabular form and employed the Ordinary Least Square (OLS) regression technique for analysis. OLS was chosen due to its alignment with the study's data assumptions, facilitating a thorough examination of the impact of independent variables on the dependent variable. To evaluate the hypotheses regarding significant effects of independent variables on the dependent one, the OLS regression test utilized probability values (p-values). The criterion for decision-making concerning the p-value was established as follows: if the obtained p-value exceeds the designated significance level (either 5% or 0.05), the null hypothesis indicating an insignificant effect is retained. Conversely, if the p-value is less than 0.05, the alternative hypothesis indicating a significant relationship is accepted. Equation one below depicts the model tested in this study:

$GDP = \alpha_0 + \alpha_1 DD + \alpha_2 FD + \varepsilon_t$ …….. Eqn1

Where; DD is domestic debt; FD is foreign debt; α_0 is the constant term; α_1, and α_2 are the coefficients of the regression and ε_t is the stochastic error trend.

Table 1: Variable Measurement

Variables	Measurement	Source
Domestic debt	Total annual borrowing by Nigerian government within Nigeria.	CBN Statistical bulletin, FAAC various years.
Foreign debt	Total annual borrowing by Nigerian government outside Nigeria borders	CBN Statistical bulletin, FAAC various years.

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ISSN 2814 - 1113
https://journals.unizik.edu.ng/index.php/jocia/index

Gross domestic product	Total monetary value of all finished goods and services in Nigeria over a specific period	CBN Statistical bulletin, FAAC various years.

Source: Researcher's Compilation (2024)

4. RESULT AND DISCUSSIONS

4.1 Data Presentation and Descriptive Analysis

To examine the effect of national debts (domestic debt and foreign debt) on the economic performance of Nigeria (proxy by GDP), the data for the study were sourced from CBN bulletin (1981 to 2023), as shown in Appendix A of this research.

Table 2 Descriptive Statistics

	Domestic Debt	Foreign Debt	Gross Domestic Product
Mean	5319.029	3528.223	39888.65
Median	1166.000	689.8400	31064.27
Maximum	59120.00	38220.00	77338.85
Minimum	11.19000	2.330000	16211.49
Std. Dev.	10197.59	6872.602	21626.82
Skewness	3.707004	3.513932	0.482548
Kurtosis	19.24863	16.77736	1.585827
Jarque-Bera	571.5154	428.5783	5.251901
Probability	0.000000	0.000000	0.072371
Sum	228718.3	151713.6	1715212.
Sum Sq. Dev.	4.37E+09	1.98E+09	1.96E+10
Observations	43	43	43

Source: Analysis Output from Eviews 10 (2024)

As shown in Table 2 above, the domestic debt (DD) statistics reveal that the average level of domestic debt over the study period was 5319.029. The maximum recorded domestic debt was suggestively higher at 59120.00, indicating some instances of very high domestic debt levels. In contrast, the minimum domestic debt recorded was just 11.19, showing a wide range of domestic debt levels over the period. The standard deviation of 10197.59 suggests substantial variability in domestic debt levels. The skewness value of 3.707004 indicates a positively skewed distribution, implying that most domestic debt values are lower with a few extremely high values. The kurtosis value of 19.24863 is significantly higher than the normal

JOURNAL OF CONTEMPORARY ISSUES IN ACCOUNTING
Volume 5, Number 1, April 2024, pp. 44 – 69.
ISSN 2814 - 1113
https://journals.unizik.edu.ng/index.php/jocia/index

distribution value of 3, indicating that the distribution of domestic debt has heavy tails and is leptokurtic, with more frequent extreme deviations.

The foreign debt (FD) statistics show an average foreign debt of 3528.223. The maximum foreign debt recorded was 38220.00, which is much higher than the mean, suggesting periods of particularly high foreign debt. The minimum foreign debt was recorded at 2.33, showing a substantial range in foreign debt levels over the study period. The standard deviation of 6872.602 indicates high variability in foreign debt figures. A skewness value of 3.513932 indicates that the distribution of foreign debt is also positively skewed, with most values being on the lower side and a few extremely high values. The kurtosis value of 16.77736, similar to domestic debt, indicates a leptokurtic distribution with more frequent extreme values.

The gross domestic product (GDP) statistics illustrate that the average GDP over the study period was 39888.65. The maximum GDP recorded was 77338.85, which is nearly double the mean, suggesting significant growth or fluctuations in some periods. The minimum GDP recorded was 16211.49, indicating a considerable range of GDP values. The standard deviation of 21626.82 points to substantial variability in GDP levels. The skewness value of 0.482548 shows that the GDP distribution is slightly positively skewed, meaning that the values are fairly symmetrical with a slight inclination towards higher values. The kurtosis value of 1.585827 indicates a platykurtic distribution, suggesting that the GDP values have thinner tails and fewer extreme values compared to a normal distribution.

JOURNAL OF CONTEMPORARY ISSUES IN ACCOUNTING
Volume 5, Number 1, April 2024, pp. 44 – 69.
ISSN 2814 - 1113
https://journals.unizik.edu.ng/index.php/jocia/index

4.2 Test of Hypothesis

Ordinary Least Square regression was used to conduct the inferential analysis of the study at 5% level of significance. Table 3 shows the estimates of the OLS regression analysis.

Table 3: Ordinary Least Square Regression Estimates

Dependent Variable: GDP

Method: Least Squares

Date: 05/24/24 Time: 03:11

Sample: 1981 2023

Included observations: 43

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DD	3.410656	0.722755	4.718963	0.0000
FD	-2.963655	1.072427	-2.763503	0.0086
C	32203.70	2469.775	13.03912	0.0000

R-squared	0.583192	Mean dependent var	39888.65
Adjusted R-squared	0.562351	S.D. dependent var	21626.82
S.E. of regression	14307.23	Akaike info criterion	22.04213
Sum squared resid	8.19E+09	Schwarz criterion	22.16501
Log likelihood	-470.9058	Hannan-Quinn criter.	22.08744
F-statistic	27.98367	Durbin-Watson stat	0.555889
Prob(F-statistic)	0.000000		

Source: Analysis Output from Eviews 10 (2024)

The Ordinary Least Squares (OLS) regression results presented in Table 3 empirically indicate the effect of national debt on economic performance. The R-squared value of 0.583192 indicates that approximately 58.32% of the variability in economic performance (measured by GDP) can be explained by the independent variables included in the model, which are domestic debt and foreign debt. This relatively high R-squared value suggests that national debt (both domestic and foreign) plays a significant role in determining economic performance. However, it also implies that 41.68% of the variability is due to other factors not included in the model, highlighting the complexity of economic performance which is influenced by multiple variables beyond national debt.

JOURNAL OF CONTEMPORARY ISSUES IN ACCOUNTING
Volume 5, Number 1, April 2024, pp. 44 – 69.
ISSN 2814 - 1113
https://journals.unizik.edu.ng/index.php/jocia/index

The probability value (p-value) of the F-statistic is 0.000000. This value is well below the common significance level of 0.05, indicating that the overall regression model is statistically significant. In other words, there is a very strong statistical evidence that at least one of the independent variables (domestic debt or foreign debt) significantly affects economic performance. Thus, the model provides a good fit for the data and that national debt has a significant impact on economic performance.

4.2.1 Hypothesis I

H_{01}: Domestic debt does not significantly affect the gross domestic product of Nigeria.

As shown in Table 3, the coefficient for domestic debt is 3.410656, indicating a positive relationship between domestic debt and GDP. Specifically, for every unit increase in domestic debt, GDP is expected to increase by approximately 3.41 units, holding all other factors constant. The p-value for domestic debt is 0.0000, which is significantly below the common significance level of 0.05. This very low p-value indicates that the positive effect of domestic debt on GDP is statistically significant, rejecting the null hypothesis that domestic debt has no effect on economic performance.

4.2.1 Decision: The null hypothesis was rejected while the alternate hypothesis was accepted since the p-value (0.0000) is less than 0.05. Thus, domestic debt has a significant positive effect on the gross domestic product of Nigeria (p-value = 0.000).

The positive coefficient suggests that domestic debt, when used appropriately, can stimulate economic growth. This may be because domestic borrowing is often utilized to finance public investments in infrastructure, education, and health, which can enhance productivity and economic output in the long run. However, the sustainability of this debt is crucial; excessive domestic borrowing could lead to higher interest rates and crowd out private investment. This agrees with the findings by Afure and Ifeanyi (2024); Ekuma, Inyiama, and Okwo (2024); Obhiose, Ifionu, and Omojefe (2024) but contradicts the fining by El-Yaqub, Musa, and Magaji (2024).

JOURNAL OF CONTEMPORARY ISSUES IN ACCOUNTING
Volume 5, Number 1, April 2024, pp. 44 – 69.
ISSN 2814 - 1113
https://journals.unizik.edu.ng/index.php/jocia/index

4.2.2 Hypothesis II

H_{02}: The magnitude of effect of foreign debt on the gross domestic product of Nigeria is not significant.

The coefficient for foreign debt is -2.963655, indicating a negative relationship between foreign debt and GDP. Specifically, for every unit increase in foreign debt, GDP is expected to decrease by approximately 2.96 units, holding all other factors constant. The p-value for foreign debt is 0.0086, which is below the 0.05 significance level, demonstrating that the negative effect of foreign debt on GDP is statistically significant. This p-value indicates a strong rejection of the null hypothesis that foreign debt has no effect on economic performance.

4.2.2 Decision: The null hypothesis was rejected while the alternate hypothesis was accepted since the p-value (0.0086) is less than 0.05. Thus, foreign debt has a significant negative effect on the gross domestic product of Nigeria (p-value = 0.000).

The negative coefficient suggests that an increase in foreign debt tends to reduce economic performance. This could be due to several reasons: servicing foreign debt requires foreign currency, which can deplete reserves and increase vulnerability to external shocks. Additionally, foreign debt often comes with conditions that may constrain economic policy choices and could lead to economic instability if not managed properly. High levels of foreign debt can also lead to capital flight and reduced investor confidence. This result negates the finding by Vincent and Timothy (2024) which realised a positive effect. However, similar negative effect was found by Afure and Ifeanyi (2024); Ekuma, Inyiama, and Okwo (2024); Kolawole (2024); Obhiose, Ifionu, and Omojefe (2024).

CONCLUSION AND RECOMMENDATIONS

The effect of national debt on economic performance is a critical issue for policymakers and economists. National debt, encompassing both domestic and foreign borrowing, plays a significant role in shaping a country's economic trajectory. The analysis reveals distinct effects of domestic and foreign debt on economic performance, providing hints into the complex dynamics of national debt management. Based on the findings, increases in domestic debt are associated with increases in economic performance. One reason for this positive effect could be that domestic borrowing is often used to finance critical public investments in infrastructure, healthcare, education, and other essential services. These investments can enhance productivity, stimulate economic activity, and create jobs, thereby boosting GDP. In

contrast, increases in foreign debt are associated with decreases in economic performance. Several factors can explain this negative impact. Foreign debt often comes with repayment obligations in foreign currencies, which can strain a country's foreign exchange reserves. High levels of foreign debt can also lead to increased vulnerability to external economic shocks, such as changes in global interest rates or commodity prices, which can adversely affect a country's ability to service its debt.

The positive impact of domestic debt underscores the potential benefits of borrowing domestically to finance growth-enhancing investments. However, the negative impact of foreign debt signals the risks associated with external borrowing and the need for caution. In conclusion, effective management of both domestic and foreign debt is essential for fostering economic growth and stability. Hence the need to focus on sustainable foreign debt levels to avoid potential negative impacts on economic performance. Moreover, attention should be given to the composition and use of national debt to ensure that domestically borrowed funds are directed towards productive investments that stimulate economic growth. We also recommend that policymakers should be cautious about increasing foreign debt levels and should ensure that such debt is used for projects that enhance economic resilience and generate sufficient returns to service the debt.

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JOURNAL OF CONTEMPORARY ISSUES IN ACCOUNTING
Volume 5, Number 1, April 2024, pp. 44 – 69.
ISSN 2814 - 1113
https://journals.unizik.edu.ng/index.php/jocia/index

APPENDIX A

Data Presentation

Year	GDP (₦' Billion)	Domestic Debt (₦' Billion)	Foreign Debt (₦' Billion)
1981	19748.53	11.19	2.33
1982	18404.96	15.01	8.82
1983	16394.39	22.22	10.58
1984	16211.49	25.67	14.81
1985	17170.08	27.95	17.30
1986	17180.55	28.44	41.45
1987	17730.34	36.79	100.79
1988	19030.69	47.03	133.96
1989	19395.96	47.05	240.39
1990	21680.20	84.09	298.61
1991	21757.90	116.20	328.45
1992	22765.55	177.96	544.26
1993	22302.24	273.84	633.14
1994	21897.47	407.58	648.81
1995	21881.56	477.73	716.87
1996	22799.69	419.98	617.32
1997	23469.34	501.75	595.93
1998	24075.15	560.83	633.02
1999	24215.78	794.81	2577.37
2000	25430.42	898.25	3097.38
2001	26935.32	1016.97	3176.29
2002	31064.27	1166.00	3932.88
2003	33346.62	1329.68	4478.33
2004	36431.37	1370.33	4890.27
2005	38777.01	1525.91	2695.07
2006	41126.68	1753.26	451.46
2007	43837.39	2169.64	438.89
2008	46802.76	2320.31	523.25
2009	50564.26	3228.03	590.44
2010	55469.35	4551.82	689.84

2011	58180.35	5622.84	896.85
2012	60670.05	6537.54	1026.90
2013	63942.85	7118.98	1387.33
2014	67977.46	7904.03	1631.50
2015	69780.69	8837.00	2111.51
2016	68652.43	11058.20	3478.92
2017	69205.69	12589.49	5787.51
2018	70536.35	12774.41	7759.23
2019	72094.09	14272.64	9022.42
2020	70800.54	16023.89	12705.62
2021	73382.77	19242.56	15855.23
2022	74752.42	22210.36	18702.25
2023	77338.85	59120.00	38220.00

Source: CBN Bulletin (1981 - 2023)