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CRISES OR CATALYST? ASSESSING NIGERIA'S PUBLIC DEBT BURDEN AND ITS IMPACT ON ECONOMIC GROWTH

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Abstract

The study examined the relationship between public debt burden and economic growth in Nigeria, spanning 1981-2022, a 42-year period. It investigates the interactions among Gross Domestic Product (GDP), domestic debt, external debt, debt service and exchange rate to shed light on their influence on the country's economic path. Data is sourced from the Central Bank of Nigeria statistical bulletin and World Development Indicators. The study employs ARDL techniques to assess short-run and long-run connections between these variables and Gross Domestic Product. The findings reveal that external debt has a statistically significant long-term negative effect, while debt servicing significantly negatively impacts GDP. Domestic debt has a positive influence on economic growth, emphasizing its role as an economic stimulant. While, exchange rate fluctuations have a negative impact on GDP. The study recommends, among others, that policy makers should prudently manage external debt, reduce debt servicing costs, leverage domestic debt for targeted investments, and ensure exchange rate stability to foster economic growth.

Keyword: Domestic Debt, External Debt, Debt Servicing, Exchange Rate, Gross Domestic Product; ARDL Approach

1. Introduction

When government expenditures exceed its revenues, governments resort to borrowing as a fundamental financial strategy (Joy & Panda, 2020). Public debt plays a critical role in enabling governments to finance public spending, particularly when increasing taxes and reducing expenses become challenging. Nevertheless, reckless borrowing without sound investment planning can lead to an unmanageable debt burden, resulting in adverse economic consequences (Joy & Panda, 2020).

In developing countries, the necessity to bridge the savings-investment gap and offset fiscal deficits compels governments to seek financial resources beyond their primary revenue sources (Ajayi & Oke, 2012). According to the International Monetary Fund (2014), a country's gross government debt, also known as public debt or sovereign debt, encompasses the financial liabilities of the government sector.

Public debt serves as a crucial source of funding for infrastructure projects in Nigeria (Nanna, 2023). Over the last decade, public debt has surged at the international, national, and sub-national levels, particularly in the aftermath of the 2008 financial crisis and the COVID-19 pandemic (Gaspar, Medas, Perrelli, & Roberto, 2015). According to the Debt Management Office (DMO, 2019), Nigeria's debt profile increased to $68.74 billion (N24.947 trillion) as of March 2019, and in 2020, global government debt reached $87.4 trillion or 99% of the Gross Domestic Product (GDP), accounting for nearly 40% of all debt, the highest share since the 1960s. The rise in government debt can be

primarily attributed to the global financial crisis and the COVID-19 pandemic (Gaspar, Medas, Perrelli, & Roberto, 2015). As of September 2022, Nigeria's total public debt had risen to NGN44.1 trillion or USD102 billion, raising concerns about debt sustainability, especially considering underperforming revenues. Domestically and externally, these debts constituted approximately 61% and 39% of the gross public debt, respectively, deviating from the DMO's outlined target split of 70% to 30% (DMO's debt management strategy for 2020–2023). Accordingly, debt has had adverse impacts on the nation's economy, pushing a majority of its citizens into poverty, unemployment, and reduced living standards (Abdulkarim & Saidatulakmal, 2021).

Public debt can act as an economic stimulant, but its accumulation to substantial levels may result in a significant portion of government expenditure and foreign exchange earnings being allocated to debt servicing, incurring heavy opportunity costs for future generations. The cost of servicing the debt can outgrow the economy's capacity, hindering efforts to achieve fiscal and monetary policy objectives. Moreover, mounting debt burdens can limit the government's ability to invest in productive infrastructure, education, and public health programs (Johnny & Johnnywalker, 2018).

Nnanna (2023) asserts that Nigeria's high government debt levels have contributed to stunted GDP growth, slowing export growth, declining income per capita, and increasing poverty levels. With the inclusion of ways and means, the debt-to-GDP ratio currently stands at 35.2%, and the government's total debt amounts to $101.9 million as of September 2022, comprising $39.6 million in external debt and $62.2 million in domestic debt.

The mounting global interest rates and increasing debt burden in Nigeria point toward an impending debt crisis. Unsustainable public debt is discouraging investment, hampering economic growth, diminishing global competitiveness, and increasing the susceptibility of financial markets to international shocks (Ogbonna et al., 2019). Despite debt relief measures, concerns about debt sustainability persist due to rising debt service costs and the government's commitment to addressing accumulated arrears. The impact of debt on economic growth remains a contentious issue, even in light of past debt relief initiatives such as the Paris Club Debt relief of 2005.

The relationship between debt burden and economic growth in Nigeria is multifaceted and complex. Given these circumstances, this paper seeks to investigate the impact of debt burden on Nigeria's economy from 1981 to 2022, with the aim of assessing the extent to which this debt has affected the nation's economic performance.

2. Literature Review

2.1 Conceptual Issues

Concept of Public Debt

According to Udeh et al (2016), public debt is the cumulative sum of funds borrowed by a government to fulfill its financial requirements, including allocations for development projects. This encompasses diverse debt instruments like bonds and securities, signifying the financial obligations of the government. Repayment of this debt is required over a specified period. Typically expressed as a percentage of the nation's GDP, public debt serves as a gauge of its economic influence.

Concept of Economic Growth

Economic growth is defined as an increase in an economy's capacity to produce goods and services when compared from one time period to another. In the same vein, Malik, Hayat and Hayat (2010) stated that economic growth is the positive and sustained increase in the overall goods and services produced in a country at a particular period of time. They posit that, one can notice and increase in economic growth through the rise in the standard of living of the residents of a country, the per capita income and easier ways of getting the basic needs of man.

2.2 Empirical Review

Isaac and Rosa (2016) examined the effects of public debt and public investments on economic growth in Mexico from 1993 to 2012, utilizing dynamic panel data models and the generalized method of moments. The variables included nominal budget deficit, public income, public spending, interest payments, interest rates, and domestic public debt. The empirical results indicated that public debt positively influenced public investment and overall economic growth in Mexico.

Panagiotis (2018) conducted an empirical investigation into the relationship between public debt and various determinants of economic growth in Greece. This study utilized unit root tests and the auto-regressive distributed lag (ARDL) model. The unit root tests revealed mixed integration levels among the variables, both order zero and order one. The ARDL model results demonstrated a long-term relationship among the variables. Specifically, private and government consumption, investment, and trade openness had positive effects on economic growth, while government debt and population growth negatively impacted growth. Additionally, the study explored the influence of break effects in the relationship between government debt and economic growth.

Nassir and Wani (2016) explored the relationship between public debt and economic growth in Afghanistan from 2008 to 2012, using analysis of variance (ANOVA). Their study considered variables like GDP, government stock, advances from commercial banks, and external debt. The results showed that government stock, advances from commercial banks, and external debt had negative and insignificant influences on GDP in Afghanistan.

Precious (2015) investigated the effects of both public external and domestic debt on economic growth in Swaziland from 1988 to 2013. This study applied unit root tests and ordinary least squares (OLS) analysis and considered variables such as real GDP growth rate, external debt, domestic debt, government expenditure, and inflation rate. The findings indicated that external debt had an insignificant influence on economic growth, while domestic debt positively and significantly impacted economic growth in Swaziland.

In order to empirically examine the connection between the structure of public debt and the growth performance of the Nigerian economy, Lucky and Godday (2017) conducted a research using simple and multiple regression analyses. The results from the simple regression indicated that total public debt had a positive and significant impact on GDP in Nigeria. In the multiple regression analysis, external debt had a negative and significant effect on economic growth, while domestic debt positively influenced economic growth.

Elom-Obed, Odo, Elom, and Anoke (2017) conducted research on the relationship between public debt and economic growth in Nigeria from 1980 to 2015. They used cointegration tests, the Vector Error Correction Model (VECM), and Granger causality tests. The variables considered were real GDP, domestic private savings, external debt, and domestic debt. The empirical results revealed that both external debt and domestic debt had negative and significant effects on economic growth in Nigeria.

Adopting the conventional least squares method, Onakoya and Ogunade (2017) examined the impact of external debt on Nigeria's economic growth. The analysis spans the years 1981 to 2014. According to the report, Nigerian borrowing from external sources is not primarily used for development initiatives, which is contrary to what should be the case

Using OLS method and other statistical tools Ndubuisi (2017) examined the impact of external debt on the economic growth of Nigeria, the study covers the period from 1985 to 2015. The control variables used were exchange rate and external reserve, the independent variables used were external debt stock and external debt servicing, the dependent variable is used is the GDP. The findings of this study showed that debt servicing has an insignificant and negative influence on the growth of Nigerian economy while the control variables had insignificant influence on GDP. The study recommends

the use of external debt for the development of infrastructure.

Akhanolu, et al., (2018) concentrate on the correlation between the Nigerian government's debt and its effect on economic growth spanning the years 1982 to 2017. Employing the two-stage least square regression method, the study aims to assess this relationship in detail. In the initial equation, both internal and external debt, along with their lags, are regressed against GDP. The findings indicate that external debt negatively impacts the economy, while internal debt exhibits a positive influence. In the second equation, GDP, total savings deposits in Nigerian deposit money banks, and capital expenditure are regressed against internal debt. The outcomes highlight significant relationships between all variables and internal debt.

Odubuasi, Uzoka and Anichebe (2018) inspected the impact of external public debt on the growth of Nigerian economy using OLS regression for short run relationships and Johansson co-integration for long run relationships. The results revealed that foreign debt exerted a strong positive influence on Nigeria economic growth.

2.3 Theoretical Framework

The continuous need for borrowing stems from the acknowledged significance of capital in a nation's development process. Sustainable economic growth hinges on a specific level of savings and investment. When this threshold isn't met, external borrowing becomes necessary. This forms the core of the dual-gap theory. According to the dual-gap theory, development necessitates investment, and this investment is contingent on savings. If domestic savings are insufficient to support development, borrowing becomes indispensable. The dual-gap framework is derived from a national income accounting principle, indicating that the excess of investment expenditure over domestic savings is equivalent to the trade deficit (imports exceeding exports). Therefore, in equilibrium, the following identities are upheld:

$$I - S = m - X \quad \ldots\ldots (1)$$

$$S - M = x - m \quad \ldots\ldots (2)$$

Where: I = Investment, S = Savings, M = Import and X = Export

The equations above illustrate that the domestic resource gap (S - I) equals the foreign exchange gap (X - M). When imports exceed exports, it signifies that the economy is using more resources than it generates. Consequently, the necessity for borrowing is influenced over time by the investment rate relative to domestic savings.

Gaps in the Literature

In light of the fact that existing studies on the relationship between public debt and economic growth rely on data up to 2020 and often exhibit methodological limitations, it is imperative to consider the following aspects:

i. To explore how the relationship between public debt and economic growth has been influenced by the profound changes brought about by the COVID-19 pandemic, which has reshaped the economic structures of many nations.

ii. To make an effort to rectify the methodological shortcomings that has been prevalent in the literature.

Furthermore, it is noteworthy that in recent years, particularly during the later stages of the Buhari administration, public debt in Nigeria has surged to unprecedented levels in the nation's history. It is of great interest to assess how this substantial increase in public debt may impact the aforementioned relationship. These are the key concerns that this paper aims to address.

3. Methodology

3.1 Data and Sources

The study makes use of time series data sourced from Central Bank Statistical Bulletin and World

Development indicator (WDI). The macroeconomic data on Gross Domestic Product (GDP), Public Debt, debt servicing and Exchange Rate covering 1981 and 2022 in Nigeria were sought and used in this study.

3.2 Model Specification

This study draws on the insight of previous studies such as that of Odubuasi, Uzoka and Anichebe (2018) which used Economic Growth as the Dependent variable and External Debt as the Independent variable and the augmented production function including these independent variables is expressed as:

GDP = *f (External Debt, Exchange Rate, Debt servicing and Gross Capital formation)* .....*(*3)

To suit this study, the model was modified to incorporate other macroeconomic variables as below.

GDP = f(External debt, Internal debt, Debt servicing, Exchange rate).....(4)

For the purpose of estimation, the above functional form can be restated in econometric form as:

$GDP_t = \beta_0 + \beta_1 EXDBT_t + \beta_2 IDBT_t + \beta_3 DEBTS_t + \beta_4 EXR_t + \varepsilon_t$…….(5)

Where **GDP** is Gross Domestic Product, **EXDBT** is External debt, **IDBT** is Internal debt **DEBTS** is Debt servicing and **EXR** is Exchange rate. ε = Error Term **t**= Period, β_0 = Intercept and β_1 – β_4 are parameters to be estimated.

3.4 Method of Data Analysis

This paper's estimation techniques are categorized into three groups. First, preliminary assessment (Dickey-Fuller unit root test) is conducted. Second, Auto-regressive Distributed Lag (ARDL), developed by Pesaran and Shin (1999), is employed to analyze the relationship between the target variable and model regressors. Finally, post-estimation techniques, including normality tests, assess the model's accuracy, stability, and validity.

From the outcome of the unit root test, this study uses ARDL framework as informed by a mixed order of integration. The ARDL approach is a valuable tool for analyzing, estimating, and testing the long-run relationships of variables, regardless of whether they are integrated at level I(0) or first difference I(1).

3.5 Post Estimation Test (Diagnostic Test)

For the purpose of this study, diagnostic tests are conducted to ensure the credibility and solidity of the model. They are: Jaque-Bera Normality test, Breusch-Godfrey Serial Correlation test, heteroscedasticity test, Ramsey Reset test, and Cumulative Residual (CUSUM) and Cumulative Sum of Squares of Recursive Residuals (CUSUMSQ).

4. Results and Discussion

4.1 Descriptive Statistics

Table 1: Summary Statistics

	GDP	DEBTS	IDBT	EXDBT	EXR
Mean	3.041468	2.640952	4624.193	3014.041	116.9567
Maximum	15.32916	6.520000	46828.21	31798.35	461.1000
Minimum	-13.12788	0.100000	11.19260	2.331200	0.620000
Skewness	0.526214	0.500027	3.344049	3.543685	1.128342
Kurtosis	1.638246	1.884751	16.40161	17.02113	3.600152
Jarque-Bera	3.418759	3.743501	4.407872	1.240590	5.149794
Probability	0.180978	0.153854	0.110368	0.537786	0.076162
Observations	42	42	42	42	42

Source: Researcher's Computation

Table 1 presents the summarizes information about the variables used in the study. Over the 42-year period from 1981 to 2022, the average GDP growth rate for this period stands at 3.04%, revealing considerable variation, with a peak of 15.33% and a low of -13.13%, representing an economic downturn in 1981. Domestic debt peaked at roughly ₦46.8 trillion, surpassing external debt, which reached around ₦31.8 trillion. On average, domestic debt and external debt were approximately ₦4.6 trillion and ₦3.014 trillion, respectively.

The external debt servicing displayed fluctuations, varying from a minimum of about USD0.1 billion to a maximum of about USD6.52 billion. The average external debt servicing amounted to approximately USD2.64 billion. Examining exchange rates over the 42-year span, the minimum, maximum, and average exchange rates were around ₦0.62, ₦461, and ₦116.96 per dollar, respectively.

4.2 Unit Root Stationarity Testing

Table 2: Results for ADF Unit Root Test

VARIABLES	ADF Statistics	1% Critical value	5% Critical value	10% Critical value	P-value	Order of Integration
LNGDP	-4.012191	-3.605593	-2.936942	-2.606857	0.0034	1(1)
LNIDBT	-3.690629	-3.605593	-2.936942	-2.606857	0.0080	I(1)
LNDEBTS	-7.939609	-3.605593	-2.936942	-2.606857	0.0000	I(1)
LNEXDBT	-4.844038	-3.605593	-2.936942	-2.606857	0.0003	I(0)
EXR	-3.736800	-3.605593	-2.936942	-2.606857	0.0071	I(1)

Source: Researcher's Computation

To analyze the variable trends using econometric methods, the Augmented Dickey-Fuller (ADF) test is applied after taking the natural logarithm of GDP, IDBT, EXDBT and DEBTS while EXR was excluded from the logarithm transformation as it represents a rate. The results, summarized in Table 2, indicate that all variables except for external debt (EXDBT) exhibit stationarity at the first difference. Consequently, GDP, IDBT, EXR, and DEBTS demonstrate stationarity when considering the first difference, suggesting a mix of integration orders. This outcome leads the researcher to employ the ARDL technique as the most appropriate approach for estimating the model in this study.

4.3 ARDL Bound Test

Table 3: ARDL Long Run and Bound Test

LONG RUN BOUND TEST		
Test Statistics	Value	K
F Statistics	6.542422	4
CRITICAL VALUE BOUND		
Significances	Bound I(0)	Bound I(1)
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: Researcher's Computation

Given the mixed order of integration observed in the variables from the Unit Root test, the ARDL Bound test, introduced by Pesaran and Shin (1999) and Pesaran et al. (2001), was employed to explore the existence of a lasting relationship among the variables. The test results in Table 3 reveal an F-Statistic of 6.542422, exceeding both the lower and upper critical values of 2.86 and 4.01 at a 5% significance level. This confirms the presence of a long-run relationship among the variables.

As a result, the null hypothesis suggesting no long-run relationship between the dependent and independent variables in Nigeria is rejected. Consequently, the study concludes that a long-run relationship does exist between GDP and the independent variables within the model. Subsequently, estimates of the short-run and long-run forms of the ARDL model are taken.

Table 4: ARDL Short-run Error Correction Model (ECM)

Variables	Coefficient	Std. Error	t-statistic	Prob.
LNEXDBT	0.011701	0.010345	1.131121	0.2667
LNIDBT	0.013048	0.040539	0.321867	0.7497
EXR	-0.000944	0.000381	-2.477103	0.0189
LNDEBTS	-0.002225	0.005360	-0.415168	0.6809
CointEq(-1)*	-0.417277	0.119920	-3.479628	0.0015
R-squared	0.895697			
Adjusted R-squared	0.744586			
Durbin-Watson stat	1.883318			
Prob(F-statistic)	0.00000			

Source: Researcher's computation

Table 4 reveals short-term relationship coefficients. The adjusted R^2, in the table, indicates that the model accounts for approximately 74% of GDP variations from 1981 to 2022. This underscores that changes in the specified variables significantly influence GDP alterations during this period.

Positive coefficients signify a direct relationship; a 1% increase in external debt corresponds to a minor 1.1% GDP rise. Similarly, a 1% growth in domestic debt positively impacts GDP by about 1.3%, albeit insignificantly.

Conversely, external debt servicing exhibits a minor adverse effect on short-term GDP. In this context, it does not substantially influence GDP at a 5% significance level. This contrasts with some prior studies but aligns with others. A 1% exchange rate increase leads to a significant 0.09% GDP decrease, contrary to Udeh, Ugwu, and Onwuka (2016).

All variable signs align with expectations in the Nigerian context. The error correction term (ECT), signifying long-term adjustment, is negative and statistically significant, implying a 42% convergence rate for deviations from the dependent variable.

Finally, Durbin Watson test results confirm no serial correlation in both models, with values close to 2.

4.5 ARDL Long-Run Coefficients

The outcomes outlined in Table 5 validate the long-term relationship between external debt service (DEBTS), domestic debt (IDBT), external debt (EXDBT), exchange rate (EXR), and GDP in Nigeria.

Table 5: Long-run Coefficients for GDP

Cointegrating Eq:	Coefficient	Std. Error	t-Statistic	Prob
LNEXDBT	-0.802216	0.234851	-3.415850	0.0012
LNIDBT	0.452648	0.14658	3.0880611	0.0123
EXR	-0.011221	0.055701	-0.201455	0.8417
LNDEBTS	-0.105424	0.050050	-2.106369	0.0434

Source: Researcher's Computation

In the long term, external debt exhibits negative influence on GDP, significant at a 5% level. Specifically, a 1% change in external debt (EXDBT) results in an 80% reduction in GDP. This aligns with expectations from debt overhang and the classical view, suggesting that high external debt can hinder economic growth. Empirical studies in Nigeria, such as Eke and Akujuobi (2021), Adegbite, Ayadi & Ayadi (2018), Akhanolu et al. (2018), Udeh, Ugwu, and Onwuka (2016), and Obademi & Okubanjo (2013), have reported similar findings, indicating that external debt can impede growth.

Debt servicing also exerts a substantial and negative long-term impact on GDP. A 1% increase in debt servicing poses a significant 10.5% threat to GDP in Nigeria, consistent with the research of Udeh, Ugwu, and Onwuka (2016) and Alagba and Idowu (2019), although it differs from the findings of Obademi and Okubanjo (2013).

Conversely, domestic debt demonstrates a positive long-term impact on GDP. A 1% increase in domestic debt (IDBT) leads to a substantial 45% increase in GDP. This suggests that, as in the long term, domestic debt can stimulate long-term GDP growth, in line the works of Elom-Obed et al. (2017), and Alagba and Idowu (2019)

Lastly, the effect of exchange rate on GDP is found to be insignificant and negative, indicating that an increase in exchange rate (EXR) could harm GDP in Nigeria. Specifically, a 1% increase in EXR results in a 1.1% decrease in GDP, contrasting with the research of Udeh, Ugwu, and Onwuka (2016)

4.6 Diagnostic Tests

To ensure the robustness and reliability of the model, four diagnostic tests were conducted as part of this study. The results of these tests are presented in Table 6.

Table 6: Diagnostics Tests

TESTs	F. Statistics	PROB.	DECISION RULE
Normality Test	0.816476	0.664821	Residuals are normally distributed
Serial Correlation	1.594061	0.2204	Absence of Serial Correlation
Heteroscedasticity	1.508181	0.1947	Absences of heteroscedasticity
Ramsey- Reset	1.535060	0.1352	Model is well specified

Source: Researcher's Computation, 2023 from E-view 10.

The outcomes in Table 6 reveal that the variables exhibit normal distribution based on the Jarque-Bera Normality test, with a probability value of 0.6648, surpassing the 5% significance level. Similarly, the Breusch-Godfrey Serial Correlation LM Test indicates no serial correlation, as the probability value of 0.2204 exceeds the 5% level. Heteroscedasticity on the other hand was examined using the White test, resulting in a probability value of 0.1947, indicating the absence of heteroscedasticity. The Ramsey-Reset test, with a probability value of 0.1352, suggests that the models are appropriately specified.

In addition, the model's stability was confirmed using both the CUSUM and CUSUM of squares tests. The

statistics remain within critical bounds, ensuring model stability at the 5% significance level.

All these suggest that the study's model is credible, reliable, and valid, having successfully passed all diagnostic and stability tests.

4.5 Discussion of Findings

The study revealed that external debt has an insignificant impact on GDP growth in the short but it has significant impact in the long run in Nigeria. This suggests that changes in external debt may not lead to substantial fluctuations in economic growth over time, indicating that excessive external debt might not be a primary driver of economic expansion in the Nigerian context.

In contrast, the study found that debt servicing has a significant negative influence on GDP in both the short and long term. An increase in debt servicing poses a notable threat to economic growth, emphasizing the potential burden that servicing a higher debt load can place on a country's economic vitality.

Domestic debt, on the other hand, displayed a positive impact on GDP in the long-run, indicating that changes in domestic debt can stimulate economic growth in Nigeria. This aligns with the view that well-managed domestic debt can contribute to government spending and investment, fuelling economic expansion.

Exchange rate fluctuations were found to have a significant negative impact on GDP in Nigeria, highlighting the economy's vulnerability to external factors, such as changes in exchange rates.

Overall, external borrowing may not be a direct impediment to the country's economic expansion, but it doesn't necessarily act as a catalyst either. This underscores the need for prudent management of external debt to prevent it from becoming a burden and diverting resources away from more productive uses. On the other hand, domestic borrowing can be a valuable tool for financing government spending and investments that stimulate economic expansion when managed well. This emphasizes the importance of well-structured domestic debt programs that align with development priorities and contribute to economic growth without unduly straining public finances.

These findings emphasize the importance of a balanced approach to debt management in Nigeria. While domestic debt can be a positive force for growth and external debt may not be inherently detrimental, careful attention must be paid to the costs of servicing debt to avoid undermining economic prosperity and stability. Effective fiscal planning and debt management strategies are essential for harnessing the potential benefits of borrowing while mitigating the risks associated with public debt.

5.2 Conclusion and Recommendations

This study systematically explored the complex relationship between public debt burden and economic growth in Nigeria over a significant historical period (1981 to 2022). The findings regarding external debt's impact on economic growth align with established theories, suggesting that excessive external borrowing can hinder economic growth. Empirical evidence from previous studies supports the idea that external debt might not significantly contribute to economic growth. The substantial negative effect of debt servicing on economic growth emphasizes the fiscal constraints posed by high levels of debt, corroborated by other studies. On a more positive note, the study's finding that domestic debt has a positive impact on GDP corresponds with the theoretical underpinning of domestic borrowing to finance productive investments. Additionally, the negative impact of exchange rate fluctuations on economic growth underscores the significance of exchange rate stability in fostering economic development. In summary, the study's findings offer valuable insights for policymakers and contribute to the academic discourse on this subject.

The study recommends that policymakers should prudently manage external debt to avoid adverse effects on economic growth. Emphasizing sustainable borrowing practices and productive investments can

mitigate the potential negative impacts of external debt. Also, given the significant negative impact of debt servicing on GDP, policymakers need to devise strategies to manage debt servicing costs. Prioritizing debt sustainability and exploring ways to reduce servicing burdens can free up resources for more productive uses. Again, policy makers can utilize domestic debt to finance essential infrastructure projects, social programs, and economic activities that boost growth, given its positive impact to the economic growth.

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