DOES COMPLEMENTING EXTERNAL DEBT WITH POLICY VARIABLES ENLARGE THE BORROWING SPACE? INSIGHT FROM NIGERIA MACRO DATA

CALLISTAR KIDOCHUKWU OBI, Ph.D
Department of Economics Delta State University, Abraka, Nigeria
obicallistar@delsu.edu.ng

INNOCENT ABANUM IFELUNINI, Ph.D
Department of Economics, University of Nigeria, Nsukka, Nigeria
innocent.ifelunini@unn.edu.ng

RICHARD KOJO EDEME, Ph.D
Department of Economics, University of Nigeria, Nsukka, Nigeria
kojodynamics@yahoo.com

Abstract

In this study, we empirically examined the effect of some complementary intervention variables in expanding the limit of external debt. In doing so, we proceeded by establishing the critical levels of external debt leverage for Nigeria's sustainable economic growth within the periods 1965 to 2013. This was followed by the introduction of some policy variables. The complementary intervention variables include public investment, productivity of capital and labour, and private savings rate. Two variant optimization algorithms namely Gauss-Newton/BHHH, and Marquardt algorithms, respectively, for three variant estimators-Generalized Linear Method (GLM), Least Square (LS) and Maximum Linear-Autoregressive Conditional Heteroscadasticity (ML-ARCH) were used. The estimated result showed that at the initial period debt acquisition reduces economic growth, but at an increasing rate up to a turning point of 12.5% after which growth is infinitely unhindered by debt acquisition. We found that with guided policy intervention, there is no maximum limit to debt acquisition. Based on these findings, we concluded that debt accumulation is not detrimental to the economy; hence there is no maximum limit to debt acquisition, in as much as debt acquisition goes with complementary policy intervention.

Key words: External Debt, policy variable, borrowing space

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