

Public Debt and Fiscal Stability in Nigeria

Authors : Abdulkarim Yusuf

Abstract : Motivation: The Nigerian economy has seen significant macroeconomic instability, fuelled mostly by an overreliance on fluctuating oil revenues. The rising disparity between tax receipts and government spending in Nigeria necessitates government borrowing to fund the anticipated pace of economic growth. Rising public debt and fiscal sustainability are limiting the government's ability to invest in key infrastructure that promotes private investment and growth in Nigeria. Objective: This paper fills an empirical research vacuum by examining the impact of public debt on fiscal sustainability in Nigeria, given the significance of fiscal stability in decreasing poverty and the constraints that an unsustainable debt burden imposes on it. Data and method: Annual time series data covering the period 1980 to 2022 exposed to conventional and structural breaks stationarity tests and the Autoregressive Distributed Lag estimation approach were adopted for this study. Results: The results reveal that domestic debt stock, debt service payment, foreign reserve stock, exchange rate, and private investment all had a major adverse effect on fiscal stability in the long and short run, corroborating the debt overhang and crowding-out hypothesis. External debt stock, prime lending rate, and degree of trade openness, which boosted fiscal stability in the long run, had a major detrimental effect on fiscal stability in the short run, whereas foreign direct investment inflows had an important beneficial impact on fiscal stability in both the long and short run. Implications: The results indicate that fiscal measures that inspire domestic resource mobilization, sustainable debt management techniques, and dependence on external debt to boost deficit financing will improve fiscal stability and drive growth.

Keywords : ARDL co-integration, debt overhang, debt servicing, fiscal stability, public debt

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