

External Debt Service and the Impact on Capital Expenditure Financing in Nigeria

Hycenth Richard Oguejiofoalu Ogwuru¹, Innocent Chile Nzeh^{2*},
Justice Ndubueze Onyenze³, Cajetan Chima Anuforo⁴ and
Federick Anyadike⁵

¹Department of Economics, Novena University, Ogume, Delta State, Nigeria. E-mail: profecaboro@gmail.com

^{2*}Department of Cooperative and Rural Development, University of Agriculture and Environmental Sciences, Umuagwo, Imo State, Nigeria. E-mail: nzechile@yahoo.com

³Department of Economics, Faculty of Business Administration, Abia State University, Uturu, Nigeria. E-mail: onyenzendubueze6@gmail.com

⁴Department of Economics, University of the Niger, Umuaya, Anambra State. E-mail: cajetan.anuforo@uniniger.edu.ng

⁵PhD student, Department of Economics, Novena University, Ogume, Delta State, Nigeria. E-mail: fredenyadike@gmail.com

Corresponding author's E-mail: nzechile@yahoo.com

ARTICLE INFO

Received: 17 February 2026

Revised: 16 April 2026

Accepted: 26 April 2026

Online: 28 June 2026

To cite this paper:

Hycenth Richard Oguejiofoalu Ogwuru, Innocent Chile Nzeh, Justice Ndubueze Onyenze³, Cajetan Chima Anuforo and Federick Anyadike (2026). External Debt Service and the Impact on Capital Expenditure Financing in Nigeria. *Asian Journal of Economics and Finance*. 8(2), 145-160.

Abstract: This study investigates the impact of external debt servicing on capital expenditure in Nigeria over the period spanning 1981 to 2024. The study utilised the ARDL framework for analysis, with findings showing that external debt servicing impacts negatively and significantly on capital expenditure in the short-run. It is also revealed that in both the short-run and the long-run, the inflation rate impacts positively and significantly on capital expenditure, while the impact of reserves is positive and significant only after a one-period lag. The study's outcome implies that servicing external debt in Nigeria drains the resources that should be channelled into infrastructural facilities necessary to stimulate economic growth. Consequently, it is recommended that fiscal authorities should prioritise an improvement in the budget for capital expenditure, while observing fiscal responsibility. It is also recommended that there is a need to reduce the external component of the debt so that exchange rate shocks do not affect future debt repayment.

Keywords: External debt; exchange rate; capital expenditure; ARDL

1. Introduction

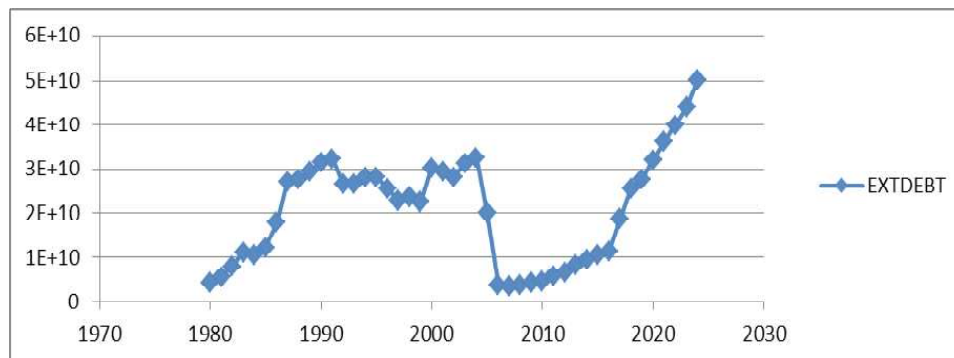
Among the major sources of external financing, external debt has over the years come to occupy centre stage. It has been observed to be a medium through which countries bridge the revenue gap and finance projects that have a bearing on economic growth. Mahmoud (2015) contended that the acquisition of external loans serves as a means to unlock economic opportunities in a country. Despite

its beneficial impact on the economy, external debt has also been noted to be harmful to emerging economies (Shahzad et al., 2014). This is particularly when the incurred debts are not channelled into lucrative ventures; servicing such debts becomes a difficult task. As argued by Abdulkarim and Saidatulakmal (2021), servicing huge public debt could drain a substantial part of lean government revenue, and this situation constrains economic growth.

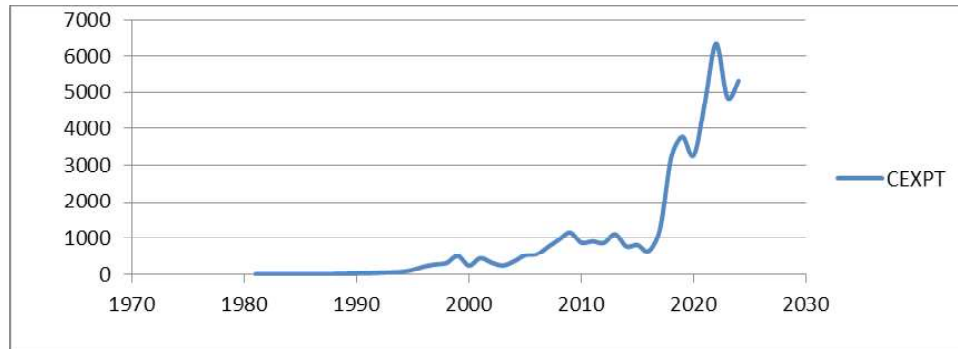
Over the years, public debt in Nigeria has been growing despite the fact that in 2005, the Paris Club of lenders extended a debt relief package to the country. Soon after this gesture, the country's debt stock has been rising. For instance, in 2014, it was ₦12.1 trillion but rose to over ₦97 trillion by the middle of 2024, with attendant huge government revenue being consumed through debt servicing obligations (CBN, 2024). Despite the increase in revenue generated from the sale of crude oil and gas, Nzeh et al. (2026) were of the opinion that successive regimes in the country still accumulate foreign debts. To buttress the growing trend in external debt in Nigeria, information in Figure 1 indicates that prior to 2005, external debt had been growing in the country, but the trend experienced a drastic fall from this year and began to trend up soon after the period. From 2016, external debt stock started climbing astronomically to date.

The need to provide basic infrastructure that will cater for the teeming population and also serve as facilities to enhance the growth of the economy has been the reason for the rising external debt accumulation in the country. This is more pronounced following the 2014-2016 crash in global oil prices (World Bank, 2020). Other causes are the impact of the COVID-19 pandemic, which resulted in revenue losses and an increase in health and other social expenditure. In Figure 2, it is shown that capital expenditure began to rise increasingly from 2017 and has been rising since then.

Figure 1: Trend in external debt in Nigeria

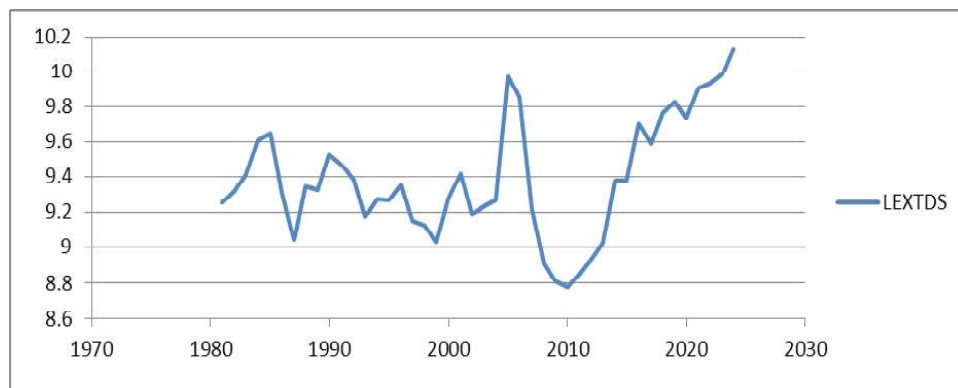


Note: EXTDEBT - External debt, both public and publicly guaranteed (Measured in current US Dollars)

Figure 2: Trend in capital expenditure in Nigeria

Note: CEXPT – capital expenditure (measured in Billions of Naira)

From the foregoing, it is obvious that the country's external debt is continuously increasing on the back of increasing capital expenditure. Such increase in external debt accumulation has resulted in a huge debt servicing burden as it drains off resources meant for the execution of capital projects. What makes the matter more problematic is that the country's debt service-to-revenue ratios have often been higher than the internationally accepted thresholds. As reported by BudgIT (2023), the Federal Government of Nigeria reported that in 2022, more than 90% of its retained revenue was spent on debt servicing. Arising from this scenario is the question of the existence of the debt-overhang effect. The rest of the picture regarding the trend in external debt servicing in Nigeria has been captured in Figure 3, which shows that after 2005, a drastic fall in the trend occurred, but from 2011, there has been a steady upward trajectory in the variable. Such a rising trend in external debt servicing could

Figure 3: Trend in external debt service in Nigeria

Note: LEXTDS - log of external debt service (measured in current US Dollars)

instigate a trade-off in capital expenditure financing with an adverse effect on the growth of the economy.

From the issues raised above, the need to empirically investigate the impact of external debt service on capital expenditure in Nigeria becomes paramount. This study therefore used the ARDL framework to investigate both the short-run and long-run impacts of external debt servicing on capital expenditure. In Nigeria, several studies have been carried out in this area, but they emphasise more on the impact of external debt servicing on economic growth. However, since economic growth cannot take place in a vacuum, we thought it expedient to examine the impact on capital expenditure since such expenditure provides the fertile ground for the take-off of economic growth. This is an area this study adds to existing literature.

2. Literature Review

2.1. Theoretical Issues

This study is guided by relevant theories that link debt with economic growth, such as the dual gap theory, the crowding out effect theory and the debt-overhang theory. To begin with, the dual gap theory associated with Chenery and Strout (1966) hypothesises that developing nations which are confronted with a saving – investment gap as well as an exchange rate gap should accumulate external debt in order to bridge such gaps. The theory argues that a savings-investment gap exists in a situation when domestic saving is lower than the level needed to achieve the target growth rate. Similarly, if the required maximum imports needed to achieve the growth target are greater than the maximum possible level of exports, this connotes the existence of an export-import exchange rate gap (Adedoyin et al., 2016). Accordingly, the accumulated external debt should assist in providing finance for imports which are necessary for investment and growth. The external debts incurred are thought to be necessary for the provision of basic infrastructure and other projects that boost the growth of the economy. The theory emphasises that capital project financing is not only a domestic affair but also through external financing.

Next, the study reviewed the crowding-out effect theory, which emphasises that government debt service weighs down public expenditure such as expenditure on social investments like health and education. As contended by Serieux and Yiagadeesen (2001), the fact that the short-term revenue of the government is used to service debts implies that public spending in areas that improve the economy is crowded out or traded off. Seen from another angle, the complementarity of private investments and public investments suggests that if

there is a decline in public investment, it can lead to a fall in private investment (Taylor, 1983). It is further argued that the necessity of depending on external loans is based on the fact that borrowing extensively in the local market could crowd out private investment since the funds available in the domestic economy are lean, particularly in unindustrialised countries (Panizza et al., 2010; Todaro & Smith, 2006).

This study equally reviewed the debt-overhang theory introduced by Krugman in 1988. The theory discusses a situation that occurs when a country's debt accumulation is higher than the capacity of such a country to repay the debt. Krugman emphasises that a nation faces debt overhang if the expected debt repayment is in excess of the actual amount at which the debt was obtained. In a similar vein, Borensztein (1990) considers debt overhang as a situation where the country that incurred the debt obtains few benefits from the returns on extra investment as a result of the huge debt servicing obligations. From the perspective of Udoh, Ugwu and Onwuka (2016), debt overhang occurs when huge resources of a country are used up in debt servicing to such an extent that it depresses the growth of the economy as it weighs down on domestic production. One major fallout of debt overhang is the possibility of tax disincentive. This is a situation where investment is discouraged as a result of accumulated debts. By having the fear that an indebted government could impose heavy taxes on investment, investors may decide to avoid investing in such an economy.

2.2. Empirical Literature Review

The role of external debt in influencing the performance of the economy has received empirical attention across different countries with diverse findings. In Nigeria, Ajah and Jacob (2021) used the error correction model (VECM) to reveal that external debt does not have a significant relationship with capital expenditure in a study that spanned between 1981 and 2019. In another study conducted in Nigeria between 1981 and 2020, Akanbi, Uwaleke and Ibrahim (2022) adopted the framework of the ARDL to indicate the presence of an inverse relationship between external debt service and economic growth within the study period. In Ghana, results of the ARDL adopted by Fumeyi, Bekoe and Imoru (2022) show that external debt servicing impacts more on private capital formation than public capital formation.

In another study conducted in Nigeria from 2001 to 2020, findings by Akujor, Onodi and Okonye (2022) reveal that both external and domestic debt servicing do not have a significant impact on per capita income in the short-run. However, it is found that the impact is significant in the long-run. Using the ARDL

framework in a study that spans between 1981 and 2020, Akanbi, Uwaleke and Ibrahim (2022) found the existence of an insignificant and negative relationship between external debt service and economic growth in Nigeria.

Another study conducted in Nigeria between 2015 and 2022 by Gurowa, Mohammed and Maroof (2023) revealed that external debt and its servicing obligation adversely impact public spending. This finding is corroborated by the result of the study in Nigeria by Amadi and Agya (2023), which found the existence of a negative and significant relationship between debt service and infrastructural spending. In another study conducted in Ghana, Fumney (2023) proved that external debt servicing has an adverse effect on the economy both in the short run and in the long run, which corroborates the result of an earlier study. In another study that adopted the ARDL framework, Ojo, Osobase and Ojo (2023) reveal that external debt has a significant negative relationship with economic growth only in the short run, which is at variance with the result of the study by Akanbi et al. (2022). Further evidence of the adverse impact of external debt servicing on the economy in Nigeria is revealed in a study by Aladejare and Musa (2024), which indicates that external debt servicing impacts the economy significantly both in the short-run and in the long-run. Using ordinary least squares (OLS), Ajibua (2024) found that the exchange rate and debt servicing had a significant negative impact on infrastructure provision in Nigeria. This study conforms to earlier findings in Nigeria by Amadi and Agya (2023). In another vein, Mustapha (2025) used descriptive statistics and trend analysis to show that debt service in Nigeria exceeds government revenue by 90% within the study period. Using the ARDL, findings by Oyamendan, Olaoluwa, Egunlusi and Oniye (2025) support earlier studies in Nigeria by providing evidence of a negative impact of external debt servicing on economic growth.

3. Methodology

This study used annual time-series data covering the period from 1981 to 2024. The study used capital expenditure as the dependent variable, while the explanatory variables were external debt service, exchange rate, inflation rate and reserves. While data on capital expenditure were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, the rest of the variables were obtained from the World Bank Development Indicators (WDI). Capital expenditure is measured in Billions of naira (Nigerian currency), external debt service and exchange rate are measured in current US Dollars and local currency units per US dollar, respectively. Also, while the inflation rate is measured on an annual

basis, reserves are measured in current US Dollars. We logged both capital expenditure and reserves to ease interpretation and for the sake of normalisation. The study conducted some pre-diagnostic tests such as descriptive statistics, correlation matrix and unit root tests to identify the behaviour of the variables included. Also, some post-diagnostic tests such as the test for heteroskedasticity, serial correlation, model specification and normality were done.

3.1. Model Specification

The baseline model that guided the study is specified as follows:

$$LCEXP_t = f(LEXTDS_t, EXCHR_t, INFLR_t, LRESERVES_t) \quad (1)$$

Where,

$LCEXP_t$ = log of capital expenditure at time t

$LEXTDS_t$ = log of external debt service at time t

$EXCHR_t$ = exchange rate at time t

$INFLR_t$ = inflation rate at time t

$LRESERVES_t$ = log of reserves at time t

3.1.1. The ARDL Specification

The ARDL model was utilised to examine the impact of external debt service on capital expenditure in Nigeria. The choice of the ARDL was based on its strength over other estimation techniques, which include the fact that it can be applied even when the series are either entirely $I(0)$, $I(1)$ or when they are of mixed order of integration. Also, even when the explanatory variables exhibit endogeneity, the ARDL can still be applied (Narayan, 2005; Odhiambo, 2009b).

The ARDL representation of equation (1) is modified as below:

$$\begin{aligned} \Delta LCEXP_t = & \varpi_0 + \varpi_1 LCEXP_{t-1} + \varpi_2 LEXTDS_{t-1} + \varpi_3 EXCHR_{t-1} + \varpi_4 INFLR_{t-1} + \varpi_5 LRESERVES_{t-1} + \\ & \sum_{i=1}^K \zeta_1 \Delta LCEXP_{t-i} + \sum_{i=1}^K \zeta_2 \Delta LEXTDS_{t-i} + \sum_{i=1}^K \zeta_3 \Delta EXCHR_{t-i} + \sum_{i=1}^K \zeta_4 \Delta INFLR_{t-i} + \\ & \sum_{i=1}^K \zeta_5 \Delta LRESERVES_{t-i} + \varepsilon_t \end{aligned} \quad (2)$$

Where: Δ = difference operator, K = lag length, ϖ_i = long-run coefficients, ζ_i = short-run coefficients, and ε_t = random error term

If cointegration exists among the variables, the following error correction model is specified:

$$\Delta LCEXP_t = \varpi_0 + \sum_{i=1}^K \zeta_1 \Delta LCEXP_{t-1} + \sum_{i=1}^K \zeta_2 \Delta LEXTDS_{t-1} + \sum_{i=1}^K \zeta_3 \Delta EXCHR_{t-1} + \sum_{i=1}^K \zeta_4 \Delta INFLR_{t-1} + \sum_{i=1}^K \zeta_5 \Delta LRESERVES_{t-1} + \delta ECM + \varepsilon_t$$

Where,

ECM = error correction model and δ = coefficient of error correction model

4. Results and Discussions

The results of descriptive statistics in Table 1 reveal that inflation has the highest mean value of 19.40, while capital expenditure has the lowest mean value of 2.35. In another vein, there is evidence of asymmetry in the variables as shown by the low difference between the mean and the median of the variables. Evidence shows that the inflation rate exhibited more volatility within the study period, as indicated by its high range. However, with a lowest range of 1.33, external debt service exhibited low volatility within the period. While external debt service and inflation are negatively skewed (leftward skewness), the other variables are positively skewed (rightward skewness). All the variables exhibited positive kurtosis, which is an indication of the variables being heavy-tailed. With a Jarque-Bera probability less than 5%, it is shown that only the inflation rate is not normally distributed.

Table 1: Descriptive Statistics

	<i>LCEXP</i>	<i>LEXTDS</i>	<i>EXCHR</i>	<i>INFLR</i>	<i>LRESERVES</i>
Mean	2.35	9.38	3.80	19.40	9.99
Median	2.59	9.33	4.78	13.12	10.01
Maximum	3.80	10.1	7.29	72.83	10.72
Minimum	0.61	8.77	-0.48	5.38	8.96
Std. Dev.	0.96	0.33	2.08	16.23	0.60
Skewness	-0.43	0.29	-0.73	1.79	-0.29
Kurtosis	2.01	2.41	2.49	5.27	1.49
Jarque-Bera	3.19	1.24	4.43	33.13	4.78
Probability	0.20	0.53	0.10	0.00	0.09
Sum	103.48	413.02	167.29	853.65	439.88
Sum Sq. Dev.	40.38	4.93	187.40	11329.30	15.65
Observations	44	44	44	44	44

In the table, the results of the correlation matrix show that the correlation between capital expenditure and other variables apart from the inflation rate is positive. While a relatively high positive correlation exists between capital

expenditure and exchange rate as well as reserves, its correlation with external debt service is relatively low and positive. The high correlation between capital expenditure and reserves in particular is an indication of the fact that capital expenditure is tied to the reserves position of the country.

Table 2: Correlation Matrix

	<i>LCEXP</i>	<i>LEXTDS</i>	<i>EXCHR</i>	<i>INFLR</i>	<i>LRESERVES</i>
<i>LCEXP</i>	1	0.23	0.62	-0.22	0.89
<i>LEXTDS</i>	0.23	1	0.54	0.04	0.16
<i>EXCHR</i>	0.62	0.54	1	-0.009	0.52
<i>INFLR</i>	-0.22	0.04	-0.009	1	-0.48
<i>LRESERVES</i>	0.89	0.16	0.52	-0.48	1

In Table 3, the results of unit root tests evaluated at both level and first difference reveal that all the variables achieved stationarity after a first difference, with the exception of the inflation rate, which achieved stationarity at level under the ADF. In summary, findings indicate that the series are integrated of order one or $I(1)$, with the exception of the inflation rate, which is $I(0)$ under the ADF.

Table 3: Unit Root Results at Level and at First Difference

<i>Variable</i>	<i>ADF</i>		<i>PP</i>		<i>Order of Integration</i>
	<i>Level</i>	<i>First Diff.</i>	<i>Level</i>	<i>First Diff.</i>	
<i>LCEXP</i>	-1.74	-6.31	-1.82	-6.31	$I(1)$
<i>LEXTDS</i>	-1.89	-5.71	-1.91	-8.56	$I(1)$
<i>EXCHR</i>	-1.79	-4.99	-1.86	-4.96	$I(1)$
<i>INFLR</i>	-3.95	-6.62	-2.86	-10.18	$I(0)$ ADF
<i>LRESERVES</i>	-2.72	-5.92	-2.88	-7.26	$I(1)$

The estimated ARDL results in Table 4 reveal that in the short-run, external debt service has a significant negative impact on capital expenditure. The result indicates that if external debt service increases by one per cent, capital expenditure decreases by 0.91 per cent. The result, however, does not reveal any significant impact of external debt service on capital expenditure in the long run, even though the impact is negative. The result of the negative impact of external debt service on capital expenditure finds corroboration in past studies conducted in Nigeria, which show that infrastructural provision is impacted negatively by external debt service (Ajibua, 2024; Amadi & Agya, 2023). This finding equally supports the crowding-out effect theory, which hypothesises that government debt service obligation decreases public expenditure. In a country like Nigeria

where revenue projection is tied to income from mainly the oil sector, the finding has wider implications. What is portended is that in any period when there is an oil price shock that causes a reduction in the international price of oil, repayment of external debt poses a fiscal challenge. Since the country cannot afford to continuously meet its debt repayment obligations when they fall due, it means that when this situation occurs, financial capital projects become a Herculean task. This situation is aggravated by the poor capital budget estimate in Nigeria vis-à-vis the recurrent expenditure, which is a typical scenario in the country. Over the years, the gap between capital expenditure and recurrent expenditure is very wide in favour of recurrent expenditure, suggesting that whenever there is a revenue constraint, financing capital expenditure in the face of huge debt servicing obligations becomes a problem.

The study does not find the exchange rate to significantly impact capital expenditure either in the short-run or in the long-run. This result finds support in the earlier works done in Nigeria (Omodero, 2019; Amadi & Agya, 2023). Notwithstanding this non-significant result, the negative impact of the exchange rate on capital expenditure implies that the depreciation of the exchange rate negatively impacts capital expenditure. This could be in terms of imported inputs used in the execution of the projects or the cost of expatriate personnel engaged in such projects and other issues requiring payment in foreign currency. The reason for the non-significance could be that most of the capital projects executed in the country in recent times are done using local contractors whose charges are dominated in local currency. Before now, the country made use of mainly foreign contractors to execute its projects, just as imported inputs used to dominate the input mix. However, emphasis is gradually shifting towards using some of the reputable local contractors, and the use of locally sourced materials has been encouraged in order for the country to enjoy the benefit of the value chain.

Inflation is found to impact capital expenditure positively and significantly both in the short-run and in the long-run. This result implies that as inflation rises, the costs of executing capital projects are envisaged to increase, requiring an upward adjustment in the budget for capital expenditure. Rising inflation is a typical phenomenon in Nigeria, especially in recent times, owing to some policy shifts such as the unification of exchange rates and the removal of fuel subsidy. All these, coupled with some structural issues, have been responsible for rising inflation in the country. Finally, the study reveals that in the short run, reserves have a positive and significant impact on capital expenditure after a one-period lag, but the impact in the current period and in the long run is not significant. The one-period lagged short-run result is consistent with the *a priori* expectation,

as a country's expenditure is largely determined by the strength of its reserves. One plausible reason why the result is significant after one period lag could be because of the time it takes for accumulated reserves to be monetised. Higher reserves often lead to higher budget estimates. Depleting reserves, however, impacts the budget estimates, particularly in a country like Nigeria whose budget is always benchmarked on the revenue from the sale of oil. Capital expenditure often suffers in Nigeria whenever the international price of oil declines as such a situation adversely affects the country's reserve position.

Table 4: ARDL Estimated Results

Dependent Variable: LCEXP Selected Model: ARDL (1, 1, 0, 0, 2)

<i>Short-run Results</i>			
<i>Variable</i>	<i>Coefficient</i>	<i>t-Statistic</i>	<i>Prob.</i>
D(LEXTDS)	-0.191	-1.792	0.082
D(EXCHR)	-0.0001	-0.932	0.358
D(INFLR)	0.004	2.491	0.018
D(LRESERVES)	0.174	1.364	0.181
D(LRESERVES(-1))	0.438	3.608	0.001
ECM(-1)	-0.206	-2.585	0.014
<i>Long-run Results</i>			
LEXTDS	-0.033	-0.084	0.933
EXCHR	-0.0005	-0.864	0.394
INFLR	0.019	1.776	0.085
LRESERVES	-0.130	-0.210	0.834
C	1.888	0.243	0.809

The results of post-diagnostic tests indicate that there is an absence of heteroskedasticity and serial correlation since the p-value is greater than the 5% level of significance. Also, the results reveal that the error terms are normally distributed, just as the model is well specified. Evidence in Figure 5 indicates that the model's coefficients are stable since the plots of the CUSUM lie within the critical bands of the 5% confidence interval. However, the plot of CUSUM of Squares in Figure 6 reveals instability in the coefficients, which could be attributed to some policy shifts and other outliers within the study period.

Table 5: Post-diagnostics Results

<i>Test</i>	<i>P-value</i>
Heteroskedasticity Test: Breusch-Pagan-Godfrey	0.71
Serial Correlation: Breusch-Godfrey LM Test	0.11
Model Specification: Ramsey RESET Test	0.45
Normality Test: Jarque-Bera	011

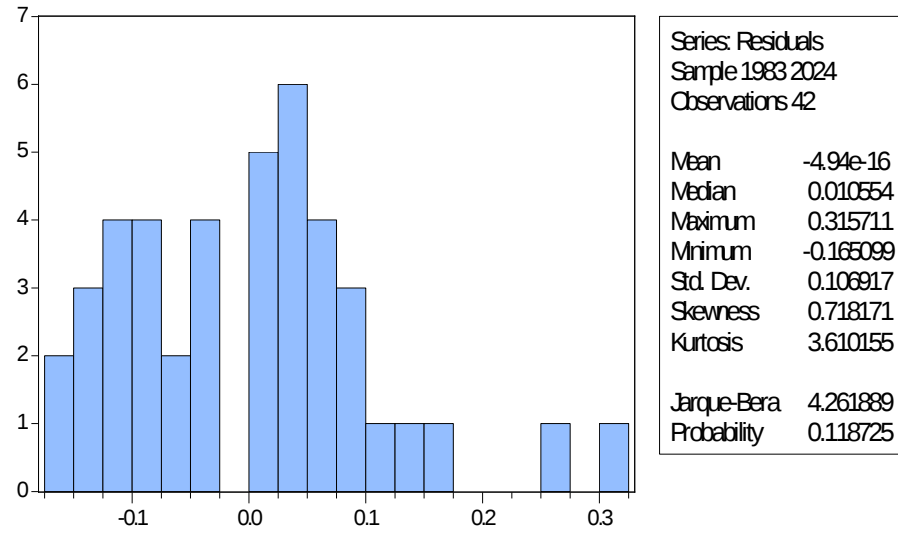


Figure 4: Normality Test

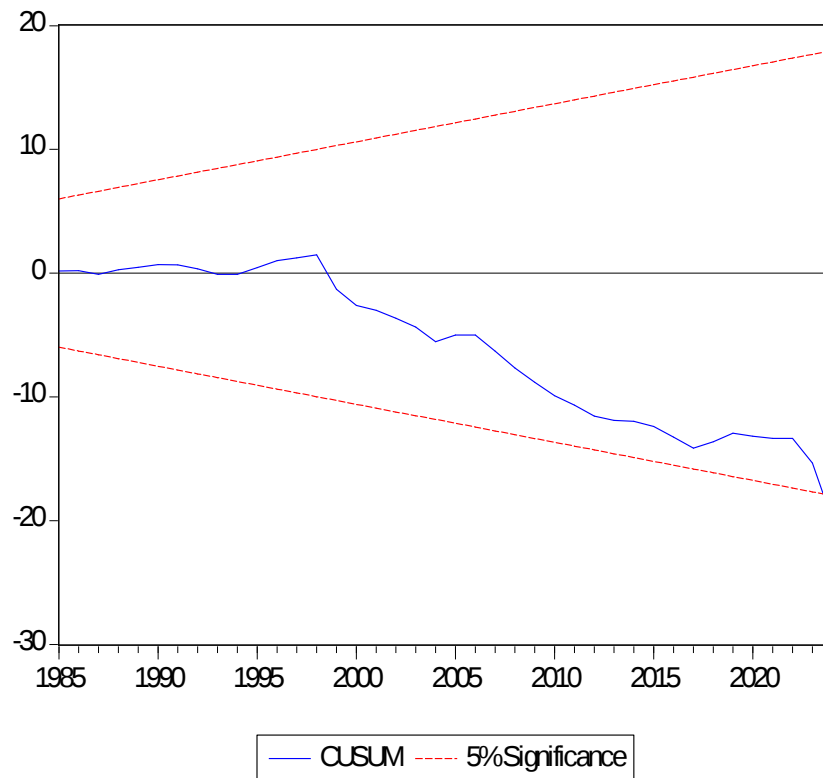


Figure 5: Test for Stability (CUSUM)



Figure 6: Test for Stability (CUSUM of Squares)

Conclusion

In this study, the emphasis is on investigating the impact of external debt servicing on capital expenditure in Nigeria, which was evaluated using the ARDL. The study reveals certain outcomes that are important for policy intervention in Nigeria. First, findings show that external debt servicing impacts negatively on capital expenditure in Nigeria within the study period, with the result showing that the impact is significant in the short-run. Findings also reveal that in both the short-run and the long-run, the inflation rate impacts positively and significantly on capital expenditure, while the impact of reserves is positive only after a one-period lag.

These results have policy implications in a country like Nigeria where sources of revenue are not diversified and external debt accumulation is often on a rising trend. The level of external debt accumulation has risen beyond the level it was at soon after Nigeria got debt relief around 2005, and this calls for concern. To worsen matters, the recent policy on exchange rate unification has been responsible for domestic currency depreciation, which has added to the difficulty

in external debt servicing as it has equally led to high inflationary pressure. This is happening at a time the country is grappling with decay in infrastructure needed to fast-track growth in the economy. The country needs to fix the deplorable road networks, provide a modern railway system, fix the energy problems and address other challenges impeding economic growth. If the debts in question are channelled into the provision of these facilities, the cost of servicing them would have been dampened by the long-run expectation that the facilities will assist in boosting economic productivity. However, more often than not, the accumulated debts are channelled into defraying recurrent expenditure and other areas that do not have much bearing on economic growth.

On the grounds of the aforesaid, the study recommends that fiscal authorities should prioritise an improvement in the budget for capital expenditure. The idea of earmarking a very high percentage of the budget in favour of recurrent expenditure while a paltry amount is budgeted for capital expenditure should be reconsidered. Also, fiscal responsibility should be the norm to ensure that a high percentage of the capital budget is executed in each fiscal year. With respect to external debt accumulation, there is a need for the country to reduce the external component of the debt so that exchange rate shock does not affect debt repayment. Additionally, other metrics such as the ratio of debt service to gross national income should be used to evaluate debt sustainability in Nigeria beyond the usual emphasis on debt-to-GDP. Such measures will reveal the true situation of debt sustainability in the country.

This study is limited by its inability to decompose the various areas capital expenditure is budgeted for, such as roads, railways, energy, healthcare and others. The inability to account for this surely masks the actual impact of external debt servicing, as some of these sectors are very critical for the fast-tracking of economic growth. For instance, one of the reasons manufacturing and other businesses are suffering in Nigeria is epileptic power supply. Identifying the percentage of the capital budget on this area and evaluating how external debt servicing impacts it will provide fresh policy insights. Future studies should therefore focus on this limitation.

References

- Abdulkarim, Y. & Saidatulakmal, M. (2021). The impact of government debt on economic growth in Nigeria. *Cogent Economics and Finance*, 9(1), 45-61.
- Adedoyin, L. I., Babalola, B. M., Otekinri, A. O. & Adeoti, J. O. (2016). External debt and economic growth: Evidence from Nigeria. *Acta Universitatis Danubius, Economica*, 12(6), 179-194.
- Ajah, B. A. & Jacob, Z. (2021). Effect of public debt on capital expenditure in Nigeria. *International Journal of Economics, Commerce and Management United Kingdom*, 9(11)

- Ajibua, G. M. (2024). Does external debt servicing affect infrastructural development in Nigeria? *International Journal of Humanities Social Science and Management*, 4(5).
- Akanbi, A., Uwa leke, U. J., & Ibrahim, U. A. (2022). Effect of external debt service on economic growth in Nigeria. *Journal of Service Science and Management*, 15, 437-451. <https://doi.org/10.4236/jssm.2022.154026>.
- Akujor, J. C., Onodi, B. E. & Okonye, E. E. (2022). Effects of debt servicing on economic development in Nigeria. *ANAN Journal of Contemporary Issues*, 3(3), 92-109.
- Aladejare, S. A. (2021). Macroeconomic volatility and its significance to the rising external indebtedness of Nigeria. *Journal of Public Finance Studies*, 66, 1-17.
- Aladejare, S. A. and Musa, M. A. (2024). The economic implications of Nigeria's foreign debt servicing and sustainability. *Indo-Asian Journal of Finance and Accounting*, 5(2), 151-172. [https://www.arfjournals.com/image/catalog/Journals%20Papers/IAJFA/2024/No%20%20\(2024\)/7_Samson%20Adeniyi.pdf](https://www.arfjournals.com/image/catalog/Journals%20Papers/IAJFA/2024/No%20%20(2024)/7_Samson%20Adeniyi.pdf)
- Amadi, K. W. & Agya, A. A. (2023). Effect of debt service on infrastructural development in Nigeria. *International Journal of Advanced Studies in Economics and Public Sector Management*, 11(2).
- Borensztein, E. (1990). Debt overhang, credit rationing and investment. *Journal of Development Economics*, 32(2), 315-335. [https://doi.org/10.1016/0304-3878\(90\)90041-9](https://doi.org/10.1016/0304-3878(90)90041-9)
- BudgIT. (2023). Nigeria debt bulletin: Fiscal sustainability at risk. Lagos: BudgIT Foundation. <https://yourbudgit.com>
- Central Bank of Nigeria (CBN). (2024). Statistical bulletin 2024. Abuja: CBN. <https://www.cbn.gov.ng>
- Chenery, H. B., & Strout, A. M. (1966). Foreign assistance and economic development. *The American Economic Review*, 679-733.
- Fumeyi, A., Bekoe, W. & Imoru, A. (2022). External debt servicing and capital formation in Ghana: An autoregressive distributed lag analysis. *European Journal of Economic and Financial Research*, 6(1). DOI: 10.46827/ejefr.v6i1.1272.
- Fumney, A. (2023). External debt servicing and capital formation in Ghana: An autoregressive distributed lag analysis. *European Journal of Economic and Financial Research*. <http://www.oapub.org/soc>.
- Gurowa, U., Shamaki, M. & Mohammed, O. M. (2023). Nexus between public debt servicing and social and community sector spending in Nigeria. *International Journal of Research and Innovation in Social Science*, 7(8). DOI: 10.47772/IJRISS.
- Krugman, P. (1988). Financing versus forgiving a debt overhang. NBER Working Paper 2486, Cambridge, MA. <https://doi.org/10.3386/w2486>.
- Mahmoud, L. O. M. (2015). The role of external debt on economic growth: Evidence from Mauritania. *International Journal of Economics & Management Sciences*, 4(4), 240. <https://doi.org/10.4172/2162-6359.1000240>.
- Mustapha, A (2025). Public debt, debt servicing, and economic growth in Nigeria. *Gusau Journal of Accounting and Finance*, 6(3). DOI: <https://doi.org/10.57233/gujaf.v6i3.03>.
- Narayan, P. K. (2005). The saving and investment nexus for China: Evidence from co-integration tests. *Applied Economics*, 37(17), 1979-1990.

- Nzeh, I. C., Okafor, O. G., Onyeacho, C. G., Ozulumba, I. J., & Jegbefumwen, K. (2026). Does the accumulation of external debt spur the appetite for increased importation in the West African Monetary Zone (WAMZ)? *Romanian Journal of Economics*, 62 (1), 302-320.
- Odhiambo, N. (2009b). Energy consumption and economic growth nexus in Tanzania: An ARDL bounds testing approach. *Energy Policy*, 37(2), 617-622.
- Ojo, S. I., Osobase, A. & Ojo, T. J. (2023). Does Nigeria's external debt contribute to economic growth?: A revised empirical analysis. *Lafia Journal of Economics and Management Sciences*, 8(2), https://www.researchgate.net/publication/377665673_LAJEMS_82_2023_015_
- Omodero, C. O. (2019). External debt financing and public capital investment in Nigeria: A critical evaluation. *Economics and Business*, 33, 111-126. doi: 10.2478/eb-2019-0008
- Oyamendan, A., Olaoluwa, O. O., Egunlusi, F. B. & Oniye, A. B. (2025). Effect of external debt and external debt service payment on economic growth in Nigeria. *Unidel Journal of Management Sciences*, 2(1).
- Panizza, U., Sturzenegger, F. & Zettelmeyer, J. (2010). International Government Debt. UNCTAD Discussion Paper No. 199. Geneva, UNCTAD, June 2010.
- Serieux, J. & Yiagadeesen, S. (2001). The debt service burden and growth: Evidence from low-income countries. The North-South Institute, Ottawa. Available online at: <http://www.researchgate.net/publication>.
- Shahzad, F., Zia, A., Ahmed, N., Fareed, Z. & Zulfiqar, B. (2014). Impact of external debt on economic growth: A case study of Pakistan. *European Researcher*, 89(12-2), 2133-2140.
- Taylor, L. (1983). *Structuralist macroeconomics: Applicable models for the Third World*. New York: Basic Books.
- Todaro, P. M. & Smith, S. C. (2006). *Economic development* (9th edition). Washington, D.C.: Pearson Education, Harlow.
- Udeh, S. N., Ugwu, J. I. & Onwuka, I. O. (2016). External debt and economic Growth: The Nigerian experience. *European Journal of Accounting, Auditing and Financial Research*, 4(2), 33-48.
- World Bank. (2020). *Nigeria development update: Fragile recovery*. Washington, DC: World Bank. <https://www.worldbank.org>