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How Sustainable is the Federal Government of Nigeria Debt after the exit from Paris Club?

Adewumi Otonne
Oluwatimileyin Oyenuga

Abstract

The study investigated the sustainability of the federal government debt in Nigeria after the exit from the Paris Club while accounting for the role of structural breaks in the fiscal variables. Using the modified Augmented Dickey-Fuller test (unit root test with structural breaks), Engel Granger residual based co-integration test, Bounds Co-integration test and Johansen co-integration test with structural breaks, the results show that the federal government borrowing and fiscal policy actions in Nigeria are not sustainable. This means that government revenue and expenditure grow indefinitely apart, and therefore grows out of bound. In other words, the federal government does not satisfy its inter-temporal budget constraint, and takes no necessary actions to ensure fiscal sustainability. This shows an increasing difficulty by the Nigerian government to meet its borrowing obligation with current revenue. Therefore, it is important for the federal government of Nigeria to reduce overdependence on oil export revenue, and harness other revenue generating capacities while reducing public borrowing.

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