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# Analysis of Debt-Threshold Effect on Output Growth in Nigeria

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## ABSTRACT

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The history of debt accumulation by the Nigerian government indicates that the country's economy has oscillated between credit-fueled booms and default-driven bursts. Moreover, recent build-up of government debt tends to raise concern. Therefore, it becomes necessary to examine the threshold effects of public debt types on output growth in Nigeria. The study adopted an eclectic methodological approach by focusing on basic least squares, autoregressive distributed lag and global optimization methods. The global optimization procedures are useful for identifying multiple breaks and associated regression coefficients which minimize the sums of squared residuals. Moreover, the rebased GDP figures from 1981 to 2015 at 2010 constant prices were employed. The findings in respect of the three public debt types are as follows: the optimal domestic debt-GDP threshold for Nigeria is 13.6% and this implies that, a significant threshold effect of domestic debt on output growth exist once the 13.6% threshold is exceeded; empirical evidence indicates that there is no external debt induced threshold effect on output growth in Nigeria up to 50% of GDP; and, there is supporting evidence that the optimal total public debt-GDP threshold for Nigeria is 55.2%. The paper recommends the exercise of caution in the accumulation of domestic debts while encouraging more external borrowings at advantageous terms.