COINTEGRATION APPROACH: A SOLVENCY FOR PUBLIC DEBT

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ABSTRACT

This paper seeks to determine whether cointegration can be apply to Nigerian public debt and the short run dynamics of government revenues and expenditures for annual data from 1985 to 2013 for solvency. Sustainability of government finances suggests that governments can continue with the existing fiscal policies indefinitely and remain solvent. Using unit root and cointegration tests, the conclusion is that the public debt is solvent and revenues are strongly exogenous for expenditure. Further evidence is obtained from public debt to GDP which is decreasing gradually.

JEL: 62M10; H63

KEYWORDS: Unit Root, Cointegration, Revenue-Expenditure, Solvency