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DEBT MANAGEMENT AND ECONOMIC PERFORMANCE IN NIGERIA

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Abstract

This study examines the relationship between debt management and economic performance in Nigeria from 1986 to 2023, with economic performance proxied by the Economic Performance Index (EPI). This study employed secondary time-series data obtained from the Central Bank of Nigeria Statistical Bulletin and the World Bank Report. Expo facto research design was applied and annual financial data was collected from Nigerian National Bureau of Statistics and Central Bank, while economic data was collected from World Bank for the period 1986-2023. The study utilized a Autoregressive Distributed Lag Model (ARDL) to study the impact using E-views 10. The findings reveal no significant relationship between foreign debt growth rate and the EPI, highlighting the inefficiency of external borrowing in driving economic outcomes. Similarly, domestic debt growth rate showed an insignificant impact on the EPI, suggesting the crowding-out effect of public borrowing on private investment and resource misallocation. Domestic debt servicing growth rate also demonstrated no significant relationship with the EPI, underscoring inefficiencies in debt repayment mechanisms. Conversely, foreign debt servicing growth rate exhibited a significant positive effect on the EPI, signifying that consistent repayment of external debt enhances economic credibility and facilitates access to international financial resources. However, foreign debt servicing growth rate showed no significant effect on unemployment rate, indicating limited linkages between debt-financed activities and employment generation. The study concludes

that while effective debt servicing, particularly for external loans, can bolster economic performance, the broader economic impact of debt in Nigeria requires strategic management, resource optimization, and alignment with

development priorities. Recommendations include improving debt utilization efficiency, fostering economic diversification, and enhancing transparency in public debt management.

Introduction

Most countries have made achieving a sustainable level of production performance and development their main objective. To accomplish this, they have used various macroeconomic measures (Park & Sung, 2020; Eke & Akujobi, 2021). Oke (2023) and Naem (2017) argued that the dominant measures of economic performance are price stability, employment levels, inflation rate, investments, and gross domestic product growth. Khramov and Lee (2013) synthesised the previously listed variables into a composite indicator known as the economic performance index. The creation of this index involved giving distinct weights to many indicators, including the unemployment rate, inflation rate, real gross domestic product growth rate, and the ratio of budget deficit to gross domestic product. An essential factor that influences the objectives and strategies of nations is the fiscal operations of the government, specifically their expenditure and income generation (Gwaindepi & Fourie, 2020). One way to generate income is via acquiring loans. Taking out a loan results in being in debt. Debt refers to the financial resources used by an organisation that are not provided by its owners and do not belong to them in any other way. Public debt can be categorised as either domestic debt or external debt. Domestic debts are the financial responsibilities that a country accumulates within its own borders, whereas external debts are the obligations that a country accumulates outside of its borders (Toktaş, Altiner, & Bozkurt, 2019).

There is a general consensus in recent years that efficient debt management can help countries reduce their borrowing costs,

manage financial risks, and improve the structure of their domestic debt market (Ajayi, Adebayo & Awonusi, 2021). Debt management is a well-established framework or strategy that helps debtors acquire and repay their financial commitments. Debt management is the process of creating and executing a plan to properly manage a government's debt. The objective is to obtain the required money at the most cost-effective rate over a substantial duration, while simultaneously ensuring a fair level of risk (Oke, 2023).

Nigeria was obliged to amass foreign debt in order to achieve long-term economic growth and stability (Udeh, Ugwu & Onwuka, 2018;). Debt or borrowings are regarded as a vital instrument of fiscal policy that governments can employ to fund the advancement of a nation. Debt is used to enable the payment of expenses, which in turn promotes increased output and economic growth (Muhammad, et al., 2017). Ekor, et al. (2021) argue that Nigeria's economic performance has been impeded over the last two decades primarily due to its increasing debt burden, poorly structured debt in terms of maturity, currency, or interest rate composition, and significant unfunded obligations that have caused or worsened economic crises in different countries.

An ongoing difficulty faced by emerging nations, such as Nigeria, is the growing amount of domestic debt. The economy is adversely affected by this problem, especially when the debt becomes overwhelming (Mba, Yuni & Oburota, 2013). The rise in domestic/internal debt can be ascribed to the challenging fiscal

circumstances resulting from a decrease in oil revenue, as well as the imperative to implement many reform initiatives at both the national and sub-national tiers of government (Eke & Akujobi, 2021; Muhammad, et al., 2017). Essien (2016) argues that the growth in debt has led to various macroeconomic issues, including a liquidity crisis, a higher inflation rate, increased monetary expansion, and a restricted availability of funds for private investment. An increase in domestic debt tends to raise interest rates, which in turn causes the private sector to be excluded from the local credit market. Consequently, this has an adverse effect on the economy over an extended period of time (Ajayi, Adebayo & Awonusi, 2021).

The Nigerian economy's inability to sufficiently meet its debt servicing obligations has exposed the nation to a substantial burden of debt service (Eke & Akujobi, 2021). The weight of debt payments has a significant impact on the nation, specifically resulting in a growing fiscal deficit. The main factor contributing to this deficit is the increased levels of debt servicing (Oke, 2023). Debt management is the methodical process of devising and executing a plan to address the government's debt. The primary objectives are to get the required funds, mitigate risks and expenses, and achieve any supplementary goals associated with the management of the government's debt, such as establishing and sustaining an efficient market for government securities. Poorly structured debt, characterised by mismatched maturity, currency, or interest rate components, combined with substantial and unresolved contingent obligations, have been major contributing factors to the occurrence and propagation of economic crises in various countries across time (Eke &

Akujobi, 2021). Hence, the convergence of rising international interest rates and Nigeria's expanding debt load is signalling an impending financial catastrophe. The existence of an unmanageable level of public debt in Nigeria is evidently leading to a decrease in investment and economic growth. Consequently, this is reducing the country's worldwide competitiveness and increasing its financial markets' susceptibility to international shocks (Ogbonna et al., 2019).

The economic performance in previous research (Olayiwola et al., 2024; Fasoye & Olayiwola, 2024; Aminu, 2024; Ojonye et al., 2024; Ashogbon et al., 2023; Olaoye, 2023; Mitftahu & Haruna, 2023; Aiyedogbon et al., 2022; Ogbodo et al., 2022) was assessed by utilising the gross domestic product as a metric. Nevertheless, this study is unique in that it quantifies economic performance by utilising the economic performance index, which is a weighted combination of various factors including inflation rate, unemployment rate, real gross domestic product growth rate, and the ratio of budget deficit to gross domestic product. The justification for employing this indicator to assess economic performance arises from its capacity to evaluate the comprehensive performance of a nation's economy and detect any deviation from the intended level of economic performance (Khramov & Lee, 2013). Therefore, this study addresses the existing gap in the literature on this subject.

Prior research (Olayiwola et al., 2024; Fasoye & Olayiwola, 2024; Aminu, 2024; Ojonye et al., 2024; Ashogbon et al., 2023; Olaoye, 2023; Mitftahu & Haruna, 2023) have assessed debt management by considering a combination of external debt, domestic debt, and debt servicing, or by examining any of these factors individually. This study is distinctive because it utilises the growth rates

of external debt, domestic debt, domestic debt servicing, and foreign debt servicing as indicators of debt management in Nigeria. The rationale for using their growth rates stem from the need to know if changes in these indicators regard debt management actually affect the economic performance of Nigeria. Thus, this study aims to examine the relationship between debt management and economic performance in Nigeria from 1986 to 2023.

Literature Review

Conceptual Framework

Debt management

Government debt management refers to the structured process of developing and executing a plan to secure the required money, attain desirable levels of risk and cost, and meet any other objectives set by the government. Debt management involves the purposeful and efficient structuring of the government's debt portfolio. Debt management is essential for alleviating the economic strain created by an excessive amount of debt, which arises from fiscal deficits (George-Anokwuru & Inimino, 2020). Debt management, as described by Halima (2015), is the act of formulating a strategy to effectively address the financial obligations of the government. The objective is to acquire the required capital while reducing expenses over a substantial duration, while simultaneously upholding a suitable level of risk. Debt management is a regular and essential task that is not limited to addressing budget deficits or repaying current debts.

Debts can be categorised into two primary classifications: external debt, which is obtained from sources outside the country, and domestic debt, which pertains to funds acquired from persons and corporations within the country. Furthermore, there are two other categories of liabilities referred to

as reproductive debt and dead weight debt. The former refers to an expedited loan that is obtained to support the acquisition of assets that are immediately required for productive operations, such as borrowing for power, refineries, and acquisition of factors. Conversely, deadweight debt pertains to loans acquired for unproductive objectives, such as funding warfare or meeting immediate expenditures (Ndieupa, 2018).

Economic Performance Index

The Economic Performance Index (EPI) is a macro-indicator that evaluates the entire performance of a nation's economy and identifies any departure from the targeted level of economic performance (Kharmov & Lee, 2013). The economic performance index, akin to the calculation of gross domestic product, gauges the collective productivity of an economy by considering the contributions of its three primary sectors: households, enterprises, and government. The economic performance index includes variables that impact all three sectors at the same time: the inflation rate, which measures the economy's monetary position; the unemployment rate, which measures the economy's production position; the budget deficit as a percentage of total gross domestic product, which measures the economy's fiscal position; and the change in real gross domestic product, which measures the overall performance of the entire economy.

An economic performance index score can be computed on an annual, quarterly, or monthly basis. It is derived by subtracting the inflation rate, unemployment rate, and budget deficit as a percentage of gross domestic product from a total score of 100 percent. Additionally, the percentage change in real gross domestic product is added back to the score. All these factors are weighted and calculated as deviations from their

desired values. These scores are then given a grade to effectively convey economic performance in a way that is clearly comprehensible to all.

Theoretical Review

The dual-gap theory

The dual-gap theory, formulated by Harrod (1938) and Domar (1946), is a fundamental component of the post-Keynesian growth model. The writers attempted to uncover the prerequisites or determining factors that are necessary for the economic expansion of market economies. Omoruyi (2005) asserted that the majority of economies have encountered a deficit in their efforts to narrow the disparity between the amount of money saved and the amount of money invested. This has led to the need for foreign borrowing in order to address the deficit.

Developing countries turned to foreign debt primarily to bridge the gap between their savings and investment, as explained by Chenery (1996). Hunt (2007) also argued that the purpose of external debt is to fill the difference between savings and investment in a country, as an increase in savings and investment would, in turn, result in economic growth. For emerging countries to attain a high degree of economic growth, investment plays a crucial role. Nevertheless, this type of investment requires substantial domestic savings. Inadequate savings result in insufficient investment. Consequently, it is necessary to promote borrowing from rich countries by developing nations.

Debt Overhang theory

The hypothesis of debt overhang was first developed by Diamond in 1960. The author posits that a country's economic growth is diminished by an escalation in debt due to the phenomena of crowding-out and

the imposition of high interest rates on the debt. Debt overhang refers to a situation where high levels of debt cause all the earnings from new investment projects to be taken by existing debt holders. Even if a project has a positive net present value, it cannot reduce the firm's debt or increase the firm's value (Myers, 1977).

Debt overhang occurs when a nation's debt exceeds its capacity to repay. Krugman (1982) defined debt overhang as a condition in which the anticipated repayment value of debt above the initial committed amount. This hypothesis is based on the fundamental principle that if a country's debt level exceeds its ability to repay in the future, the predicted debt service is expected to increase as the country's economic growth level increases (Adedoyin et al, 2016). Monogbe et al. (2016) further asserts that if the current generation fails to repay their borrowed funds, it would result in a substantial debt load for future generations.

Empirical Review

Olayiwola et al. (2024) investigated the correlation between public debt and the economic progress of Nigeria from 1981 to 2020, using data obtained from the Central Bank of Nigeria. The data was subjected to a comprehensive analysis using an autoregressive distributed lag (ARDL) technique in conjunction with a VAR Granger causality test. The study revealed a negative long-term relationship between domestic and foreign debt in Nigeria, with no observable cause at the 5% level of significance. Moreover, there was a clear negative relationship between domestic and international debt, which was statistically significant at a 10% level.

Zhuravka et al. (2024) examined the impact of public debt management on

Ukraine's macroeconomic growth from 2015 to 2021. Econometric modelling is employed to ascertain the presence of causal connections between the fluctuations in public debt and the variations in crucial macroeconomic indicators, utilising the Granger causality test and VAR (Vector Autoregression) model. The results obtained indicate that there were strong correlations between the public debt and GDP, debt servicing and Ukraine's total state budget expenditures, public debt and consumer price index, real effective exchange rate index of the hryvnia to the US dollar, and political stability index during the study period. Simultaneously, the calculations demonstrated that public debt does not exert a substantial influence on foreign direct investment and the magnitude of imports of goods and services.

Shah et al. (2024) examined the impact of public debt on economic growth in emerging nations by employing a dynamic panel threshold model for the period 1990-2020. According to the study, when the level of public debt in emerging countries exceeds 50.988%, it has a detrimental impact on their economic growth. Moreover, when it comes to lower-middle-income economies and upper-middle-income economies, public debt has a detrimental impact on economic growth after it exceeds the threshold levels of 50.243% and 62.646% respectively.

Alsamara et al. (2024) analysed the impact of public debt on economic growth on a sample of 14 nations in the Middle East and North Africa region from 1980 to 2021. The study found that the correlation between public debt and economic growth differs across countries that rely on oil and those that do not. More precisely, the study discovered that the level of debt considered acceptable is approximately 46%–69% for

nations that rely on oil as their main source of income, and 74%–81% for countries that do not depend on oil.

In their study, Geda and Yimer (2024) examined the dynamic impact of public debt on the economic growth of Ethiopia from 1980 to 2021. The empirical findings derived from employing the ARDL modelling technique indicate that public debt impedes long-term economic growth. Nevertheless, it exerts a stimulatory impact on growth in the immediate period by augmenting investment. However, it has been demonstrated that servicing debt has a negative effect on growth, both in the immediate and extended periods, as it necessitates a substantial decrease in essential resources that could have otherwise been used for investment.

In their study, Fasoye and Olayiwola (2024) investigated the impact of public debt on economic development in Nigeria from 1981 to 2020. They employed the Dynamic Least Square (DOLS) technique to analyse the data, considering both scenarios with and without domestic investment. The study's findings indicate that governmental debt in Nigeria hinders economic growth by decreasing investment levels.

Aminu (2024) examined the impact of public debt on economic growth in Nigeria using the ARDL model of cointegration. The empirical data demonstrate that over a prolonged period of time, external debt has a favourable and substantial influence on economic growth. The study's findings indicate that external debt has significant economic potential to stimulate growth in Nigeria over the examined timeframe. Nevertheless, debt service payments exert a substantial negative impact on economic growth, both over an extended period and in the immediate term.

Ojonye et al. (2024) did a study with the aim of examining the influence of public debt on economic growth in Nigeria from 1981 to 2022. The study employs a unique methodology based on an ARDL model. The findings indicate that in the short term, the impact of domestic debt on economic growth can be either negative or positive, depending on the effectiveness of the borrowed funds. Over time, domestic debt has a beneficial effect on economic growth, whereas external debt has a detrimental effect on economic growth mostly because of the burden of excessive debt.

Farooq et al. (2024) investigated the impact of external debt on economic growth in South Asian economies over a period of 20 years (2000-2019). The study utilised the FMOLS and DOLS models to analyse the regression relationship between the variables. The statistical research demonstrates a noteworthy adverse impact of both long- and short-term foreign indebtedness on economic growth, but governance has a large beneficial impact. Furthermore, the study also found that governance plays a beneficial influence in the relationship between foreign debt and economic growth. Improving governance can lead to positive outcomes from foreign borrowing, contributing to economic advancement.

Owusu-Nantwi and Owusu-Nantwi (2023) investigated the causal relationship between corruption, shadow economy, and governmental debt. The study establishes a direct and statistically significant correlation between corruption and governmental debt. Additionally, the study finds that the shadow economy has a positive and statistically significant impact on state debt. The analysis reveals a one-way causal connection in the short term, where corruption and the

shadow economy have a causal influence on public debt.

Ashogbon et al. (2023) investigated the impact of public debt and institutional quality on the economic growth of Nigeria. The ARDL model was used to analyse the relationship. The findings provided evidence of a long-term equilibrium relationship among the variables. Furthermore, the research findings indicate that over time, domestic public debt has a substantial and beneficial effect on economic growth, while external public debt has a considerable and negative impact on economic growth. Moreover, the long-term economic growth was significantly hindered by the quality of institutions, although no such evidence was found in the short term.

Olaoye (2023) investigated the potential positive effects of past debt forgiveness on economies in sub-Saharan Africa. The work utilises the two-step system GMM to address potential endogeneity and feedback effects in dynamic panel models. The study used the 2SLS estimate approach to ensure robustness. The study demonstrates that prior debt reduction initiatives had only a minimal impact on the economic growth in the region. The study revealed that corruption has a detrimental effect on the efficacy of debt relief in attaining the intended economic results.

Methodology

This study makes use of the quasi-experimental study approach that is ex post facto. This is because we lack the ability to change the data used in this study because it was collected secondarily. The study employs the dual-gap theory, which was developed by Harrod (1938) and Domar (1946), as its

methodological framework. The dual-gap theory posits that emerging countries turned to debt as a means to bridge the gap between their savings and investment, as stated by Chenery (1996). Hunt (2007) also argued that the purpose of taking on debt is to fill the difference between savings and investment in a country like Nigeria, as an increase in saves and investment would consequently result in improved economic performance. For Nigeria to attain a high level of economic performance, investment plays a crucial role. Nevertheless, this type of investment requires substantial domestic savings. Inadequate savings result in inadequate investment. Thus, it is necessary to promote borrowing from affluent countries by developing nations. Therefore, in this study, the economic performance index of Nigeria is determined by factors such as external debt, domestic debt, foreign debt servicing, and domestic debt servicing.

This study employed secondary time-series data. The data were obtained to ensure the dependability and ability to

reproduce the underlying study. These data were obtained from the diverse reports of hired institutions. The sources include the Central Bank of Nigeria Statistical Bulletin and the World Bank Report. The data collected was analyzed using the correlation matrix, unit root, and ARDL framework at the 5% significance level. The model adopted in this study is given as:

$$EPI = f(EXDGR, DODGR, EDSGR, DDSGR)$$

(3.1)

$$EPI_t = \beta_0 + \beta_1 EXDGR_t + \beta_2 DODGR_t + \beta_3 EDSGR_t + \beta_4 DDSGR_t$$

(3.2)

$$EPI_t = \beta_0 + \beta_1 EXDGR_t + \beta_2 DODGR_t + \beta_3 EDSGR_t + \beta_4 DDSGR_t + \epsilon_t$$

(3.3)

$$\beta_1 > 0, \beta_2 > 0, \beta_3 < 0, \text{ and } \beta_4 < 0$$

Where; EPI = Economic performance index proxied by GDPR, EXDGR = External debt growth rate, DODGR = Domestic debt growth rate, EDSGR = External debt servicing growth rate, DDSGR = Domestic debt servicing growth rate, t = Annual time series, β_0 = Intercept; ϵ_t = Error term, β_1 , β_2 , β_3 , and β_4 = Estimation parameters

Results and Discussions

Results

Table 4.1: Correlation Result

Correlation Probability	EPI	EXDGR	DODGR	EDSGR	DDSGR
EPI	1.000000 -----				
EXDGR	0.707056 0.0000	1.000000 -----			
DODGR	-0.360728 0.0261	0.136752 0.4130	1.000000 -----		
EDSGR	0.331562 0.0420	0.298945 0.0683	-0.242111 0.1431	1.000000 -----	

DDSGR	0.474698	0.480574	0.246565	0.253783	1.000000
	0.0026	0.0023	0.1356	0.1242	-----

Source: Author's computations with E-views Version 10 (2025)

Table 4.1 presents the correlation matrix among the variables under consideration. The results revealed that economic performance index (EPI) has a strong and positive correlated with external debt growth rate (EXDGR) ($r = 0.707056$, p -value = 0.000). The above correlation results further showed a positive significant relationship between external debt servicing growth rate (EDSGR) and economic performance index (EPI) ($r = 0.331562$, p -

value = 0.0420). However, the above correlation results showed a negative but significant correlation between Domestic debt growth rate (DODGR) and economic performance index (EPI) ($r = -0.360728$, p -value = 0.0261). The results additionally indicated there was positive and significant relationship between Domestic debt servicing growth rate (DDSGR) and economic performance index (EPI) ($r = 0.474698$, p -value = 0.0026).

Table 4.2: ADF Tests Results

Lag	ADF Statistic	Probability	Level of Integration
EPI	-6.250651	0.0000	I(1)
EDSGR	-4.350686	0.0014	I(0)
EXDGR	-3.593707	0.0109	I(1)
DODGR	-3.414043	0.0023	I(1)
DDSGR	-4.447651	0.0011	I(1)

Source: Author's computations with E-views Version 10 (2025)

The output of the unit root test above in table 4.3 shows that only EDSGR variable is stationary at levels. However, differencing the series, the null hypothesis of the ADF tests for the unit root of the variables was

rejected. The null assumptions of the unit root of the variables were rejected when the time series were first differenced. This thus agrees with the flexibility and suitability of ARDL for 1(0) and 1(1) order of integration.

Table 4.3: ARDL Bounds Test

Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	4.869095	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

Source: Author's computations with E-views Version 10 (2025)

Table 4.3 presents the outcome of the ARDL bound test. The computed F-statistics

of 4.869 at a 5% p -value surpasses the critical values, leading us to infer that the empirical

evidence confirms the existence of a long-term relationship among the EPI, EDSGR, EXDGR, DODGR, and DDSGR. Furthermore,

these findings align with the study conducted by Tekin (2020).

Table 4.4: Long run ARDL (1, 0, 0, 0, 4) estimated parameters

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
EPI(-1)	0.619003	0.118269	5.233836	0.0000
EXDGR	5.55E-05	2.83E-05	1.957700	0.0620
DODGR	-4.12E-05	5.35E-05	-0.771339	0.4480
EDSGR	-6.52E-05	0.000165	-0.396331	0.6954
DDSGR	2.27E-06	0.000382	0.005942	0.9953
DDSGR(-1)	0.000273	0.000506	0.539175	0.5947
DDSGR(-2)	5.16E-05	0.000508	0.101419	0.9201
DDSGR(-3)	8.05E-06	0.000495	0.016272	0.9872
DDSGR(-4)	0.000987	0.000419	2.354346	0.0271
CointEq(-1)*	-0.380997	0.064125	-5.941459	0.0000
C	2.549744	1.070580	2.381646	0.0255
R-squared	0.962389	Mean dependent var		12.91971
Adjusted R-squared	0.948285	S.D. dependent var		4.443759
F-statistic	68.23493	Durbin-Watson stat		2.232635
Prob(F-statistic)	0.000000			

Source: Author's computations with E-views Version 10 (2024)

From the result, the ARDL model above shows that the coefficient of determination was very significantly high. That is, 96.2% change in economic performance index was accounted for by debt management variables while the remaining variation is captured by the error term. Also, the overall regression was significant even at 1%. The Durbin Watson statistic of approximately 2.23 shows absence of serial autocorrelation.

Table 4.4 revealed that all the selected public debt variables (DODGR and EDSGR) were negatively related with EPI as expected. In other words, a unit increase in DODGR and EDSGR, would cause a further drop in the country's economic performance proxied by real gross domestic product. However, only

EXDGR and DDSGR were positively related with economic performance index though insignificant at long run.

From the result above, ECM is negative (-0.380997). The speed of adjustment to equilibrium in its current period is about 38.1 per cent. This implies that about 38.1 per cent of the disequilibrium in the economic performance index is offset by the short-run adjustment in each period. The error correction mechanism is significant and rightly signed. The coefficient of determination was high. It showed that approximately 95% change in economic performance index was accounted for by debt management variables at the short run.

Discussion of Findings

Foreign debt is often seen as a tool for financing development projects that domestic resources cannot adequately support. However, the finding of no significant relationship between the foreign debt growth rate and the economic performance index in Nigeria underscores challenges in the effective utilization of foreign loans. This could be due to funds obtained from foreign loans may not be adequately directed toward sectors that have the potential to boost economic growth, such as manufacturing or infrastructure. Also, high levels of foreign debt may discourage private investment, as future taxation to service debt reduces the expected return on private investments (Krugman, 1988). Some foreign loans are tied to conditions that mandate spending on foreign contractors or goods, reducing the funds' impact on the domestic economy. This finding is in line with Ajayi et al. (2021) who observed that external debts in Nigeria often fail to translate into significant economic growth due to poor project execution and corruption. Similarly, Adesola (2009) emphasized that while foreign loans are essential, their misuse or diversion reduces their effectiveness in stimulating economic development.

The insignificant impact of domestic debt growth rate on Nigeria's economic performance index raises questions about the efficiency of domestic debt utilization. The insignificant impact of domestic debt growth rate on Nigeria's economic performance index indicates that significant portion of domestic debt is used to finance recurrent expenditures rather than productive investments, which limits its growth-enhancing potential. Furthermore, high domestic borrowing by the government can crowd out private sector investment by raising interest rates, thus dampening

economic growth (Audu, 2004). It could also be as a result of recurrent expenditures financed through domestic borrowing have limited multiplier effects compared to capital projects. Ogunmuyiwa (2011) and Egbetunde (2012) found that domestic debt in Nigeria has had limited impact on growth due to inefficiencies in debt allocation. Their studies indicate that domestic debt primarily funds non-productive expenditures, making it less effective in driving economic growth.

The study also found that there is no significant relationship between its growth rate and the economic performance index suggests that rising debt servicing obligations may not directly contribute to economic growth. Reasons could be as a result of high debt servicing costs which reduces the fiscal space available for public investments in infrastructure, health, and education, which are crucial for economic performance. Payments to creditors, often financial institutions, may not circulate widely within the economy, reducing their potential to stimulate growth. Also, rising debt servicing costs could lead to a cycle of borrowing to repay existing debts, further constraining economic development. In consistent with Adesola (2009) who argued that high domestic debt servicing costs in Nigeria hinder economic development by consuming resources that could be used for growth-enhancing projects. This aligns with conclusion by Okoli (2014), who highlighted the fiscal burden of domestic debt servicing on Nigeria's economy.

The study reveals a significant relationship between foreign debt servicing growth rate and the economic performance index in Nigeria. This finding highlights the critical role of external debt repayment in influencing Nigeria's economic health. The implications of this relationship can be

viewed through multiple lenses: A significant portion of Nigeria's fiscal resources is allocated to servicing foreign debts. While this ensures Nigeria's creditworthiness and access to future loans, it simultaneously reduces the funds available for infrastructure development, education, health, and other growth-enhancing sectors. According to studies such as Adepoju et al. (2020), high foreign debt servicing has been linked to a constrained fiscal capacity, which limits a government's ability to implement policies that directly improve economic performance indices like GDP growth and human development. Timely and consistent foreign debt servicing enhances Nigeria's international reputation, attracting foreign direct investments (FDI). These investments can contribute positively to the economic performance index by stimulating job creation and boosting domestic productivity. Ali and Mohammed (2022) noted that effective foreign debt management and repayment significantly improve investor confidence, which translates into economic growth.

Over the years, Nigeria has maintained a consistent track record of foreign debt repayment, even during periods of economic downturn. This has helped secure access to future loans but has also diverted resources from critical domestic needs. Nigeria's reliance on oil revenues makes the economy vulnerable to external shocks, which can exacerbate the fiscal burden of foreign debt servicing. The significant effect of debt servicing on economic performance reflects the economy's sensitivity to external debt obligations.

Conclusion and Recommendations

Conclusions

Debt management plays a pivotal role in shaping the economic performance of

nations, particularly in developing economies like Nigeria. The efficient use of debt—domestic or foreign—can foster economic growth, while poor debt management practices can burden the economy with unsustainable debt servicing obligations. Nigeria owes both domestic and external obligations. During the time period under consideration, the debt profile has been steadily increasing. While domestic debt has a positive and statistically significant influence on the Federal Government of Nigeria's total expenditure, which reflects on real gross domestic product, foreign debt has a negative and insignificant effect on the country's economic growth. Payment of principal and interest, which is normally repatriated outside the country whenever payment is made, and bad management of the loan received could both be blamed for the external debt's poor performance in Nigeria. The cost of servicing debts, on the other hand, has been rising, resulting in budget deficits and more borrowing to finance the budget, which is the order of the day of the present All Progressive Congress led administration under President Bola Ahmed Tinubu.

Recommendations

1. Both foreign and domestic borrowings should be channeled toward high-impact sectors with the potential to generate significant economic returns.
2. Strengthen oversight mechanisms to ensure borrowed funds are used efficiently and for their intended purposes.
3. Policymakers must ensure that foreign debt is contracted for projects with high economic returns. Priority should be given to sectors like energy,

transportation, and agriculture, which have the potential to drive economic growth.

4. Explore options to restructure both foreign and domestic debts to reduce servicing costs and free up fiscal resources for growth-enhancing investments.

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