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Empirical Investigation on Public Debt Structure and Inflationary Pressure in Nigeria

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ABSTRACT
The current research sought to determine the impact of public debt composition on inflationary pressure in Nigeria, considering the influence of domestic and external debt on fluctuations in the general price level. It is guided by the growing indebtedness of the Nigerian government and inflationary pressures prevalent in the economy. Annual time-series data were utilized within the period of the study while the Autoregressive Distributed Lag (ARDL) technique was applied in order to evaluate the short-run and long-run relations between public debt composition and inflation. Public debt composition was composed of domestic debt stock and external debt stock while the inflation rate was the dependent variable. The ARDL bounds testing technique was utilized in order to test for the presence of long-run relation amongst the variables while the coefficient estimates of the short-run and long-run relations were utilized to assess the direction and impact of the relations. The results indicated that domestic debt stock positively influenced inflation, though statistically insignificant, in the short-run and long-run, indicating that domestic borrowing did not independently cause any inflationary pressure in the economy. External debt stock, on the other hand, had a stronger correlation with inflation. The results also showed that the impact of government borrowing on inflation was not only a function of the level of debt held by the government but also its structure, management, and use. It was concluded that proper management of debts, productive borrowing, sound fiscal management, and coordination between fiscal and monetary authorities were required in order to reduce the impact of public debt on inflation in Nigeria. The study recommended that the government should focus on generating internal revenues, limit borrowing and ensure that money is invested in productive activities to increase production capacity.
Keywords: Public debt structure, domestic debt, external debt, inflation, fiscal policy, ARDL, Nigeria.

1. INTRODUCTION
Government borrowing still plays a major role in fiscal policy especially in developing countries where domestic resources are not enough to fund government expenditure and development projects. Borrowing by the government helps in investments and economic activities when handled in a proper way, but excess borrowing leads to macroeconomic challenges due to the increase in interest payments, budget deficits, foreign exchange risks and higher cost of borrowings. Therefore, the macroeconomic effects of government borrowing

depend on the size of debt and how it is financed (Yusuf & Mohd, 2023; Alenoghena et al., 2025; Nyong et al., 2025).

The composition of public debt becomes significant owing to the fact that internal and external debts transmit themselves in different ways. Internal debt might affect the inflation rate due to the effects of domestic liquidity, interest rates, credit and aggregate demand, while external debt exposes the country to exchange risk and foreign currency risks. Depreciation in the value of domestic currency increases the cost of service for external debt along with the price level of imports. Therefore, lumping together all public debts into one homogenous category would be an error since it hides certain differences in their inflationary impacts. New research findings confirm this reasoning by indicating different macroeconomic effects of domestic and external debts in Nigeria (Yusuf & Mohd, 2023; Kuranga et al., 2025).

This matter becomes even more relevant in Nigeria where public borrowing has risen sharply in the presence of continuous fiscal deficits, financing problems, increasing debt servicing costs, and recurring economic shocks. On the other hand, Nigeria has been witnessing inflationary pressure and exchange rate instability (Agbogun et al, 2026). These factors have raised the question once again whether the rising public debt has contributed to inflation or not and more importantly, whether the source of public debt affects inflation. According to Alenoghena et al. (2025) and Nyong et al. (2025), there are mounting macroeconomic and fiscal challenges because of rising public debt in Nigeria.

The newly developed Nigerian literature has also demonstrated that the debt-inflation association is not linear. Yusuf and Mohd (2023) prove the asymmetry between the influence of public debt on the economic development of the country, which means that the consequences of debt are determined by the magnitude of the debt accumulation in one or another direction. Directly addressing the problem, Ekong et al (2025) proved that domestic and foreign debts have a different influence on inflation and determine the level of public debt, which is about 17.35% of GDP, above which the implications for inflation of debt are evident.

Despite all these contributions, there still exist significant gaps in the literature. Currently available literature on Nigeria has not considered the combined impact of the composition of public debt on inflationary pressure. Additionally, the fast-changing fiscal situation in Nigeria and persisting inflationary problems make the re-empirical analysis of the issue using current data necessary. The lack of information on whether domestic and foreign debt have different effects on inflation makes it difficult to implement a proper debt management strategy aimed at maintaining price stability.

In this paper, the relationship between the public debt structure and inflationary pressure in Nigeria will be investigated. Specifically, the study seeks to:

- **i.** examine the effect of domestic debt stock on the inflation rate in Nigeria;
- **ii.** determine the effect of external debt stock on the inflation rate in Nigeria;
- **iii.** assess the effect of domestic debt-to-GDP ratio on the inflation rate in Nigeria; and
- **iv.** evaluate the effect of external debt-to-GDP ratio on the inflation rate in Nigeria.

The paper considers the effect of domestic and foreign public debt on inflationary pressure in Nigeria. This research helps fill the gap in the literature by analyzing whether there exists the dependence of inflationary pressure from the composition of public debt in Nigeria. The results can be useful for debt management and fiscal–monetary policy.

2. LITERATURE REVIEW AND HYPOTHESES FORMULATION

2.1. Domestic Debt Stock and Inflationary Pressure

Domestic debt stock refers to government borrowing from domestic sources such as commercial banks, financial institutions, and other local investors. According to the Crowding-Out Theory, excessive domestic borrowing can compete with the private sector for available financial resources, while the Keynesian Theory of Public Debt and Fiscal Policy suggests that debt-financed government expenditure can stimulate aggregate demand and create inflationary pressure when output does not increase proportionately. Empirical evidence from Alenoghena et al. (2025), Adeyemi-Tijani (2025), and Sumba et al. (2024) indicates that public borrowing can contribute to macroeconomic and inflationary pressures. Thus, the effect of domestic debt stock on inflation warrants empirical investigation.

H_{01}: Domestic debt stock has no significant effect on inflationary pressure in Nigeria.

2.2. External Debt Stock and Inflationary Pressure

External debt stock represents government borrowing from foreign sources, including multilateral, bilateral, and commercial creditors. The Debt Overhang Theory suggests that excessive external debt increases future repayment obligations and can weaken fiscal sustainability. In addition, foreign-currency borrowing exposes the economy to exchange-rate risks, whereby currency depreciation can increase debt-servicing costs and imported prices. Studies by Asue and Ikyaator (2023), Oyamendan et al. (2025), and Okezie and Ujah (2025) demonstrate the significant macroeconomic implications of external debt. Consequently, the effect of external debt stock on inflationary pressure requires empirical examination.

H_{02}: External debt stock has no significant effect on inflationary pressure in Nigeria.

2.3 Domestic Debt Servicing and Inflationary Pressure

Domestic debt servicing refers to government payments of interest and principal on domestic borrowings. The Classical Theory of Public Debt **and** Debt Overhang Theory suggest that increasing debt-service obligations can reduce fiscal space and divert government resources away from productive expenditure. Where government responds to rising obligations through additional borrowing or monetary financing, liquidity and aggregate demand may increase, thereby generating inflationary pressure. Evidence from Adeyemi-Tijani (2025) suggests that increasing public debt obligations can contribute to macroeconomic instability. Therefore, the relationship between domestic debt servicing and inflation requires empirical investigation.

H_{03}: Domestic debt servicing has no significant effect on inflationary pressure in Nigeria.

2.4 External Debt Servicing and Inflationary Pressure

External debt servicing represents government payments of principal and interest on foreign-denominated debt. The Debt Overhang Theory indicates that high external debt-service obligations can constrain fiscal capacity and increase vulnerability to economic shocks. Moreover, the need for foreign exchange to meet external debt obligations can place pressure on the domestic currency, resulting in exchange-rate depreciation and higher prices of imported goods and inputs. Asue and Ikyaator (2023) and Oyamendan et al. (2025) provide evidence of the connection between external debt, debt servicing, exchange-rate pressures, and macroeconomic performance in Nigeria. Hence, the effect of external debt servicing on inflationary pressure is examined.

H_{04}: External debt servicing has no significant effect on inflationary pressure in Nigeria.

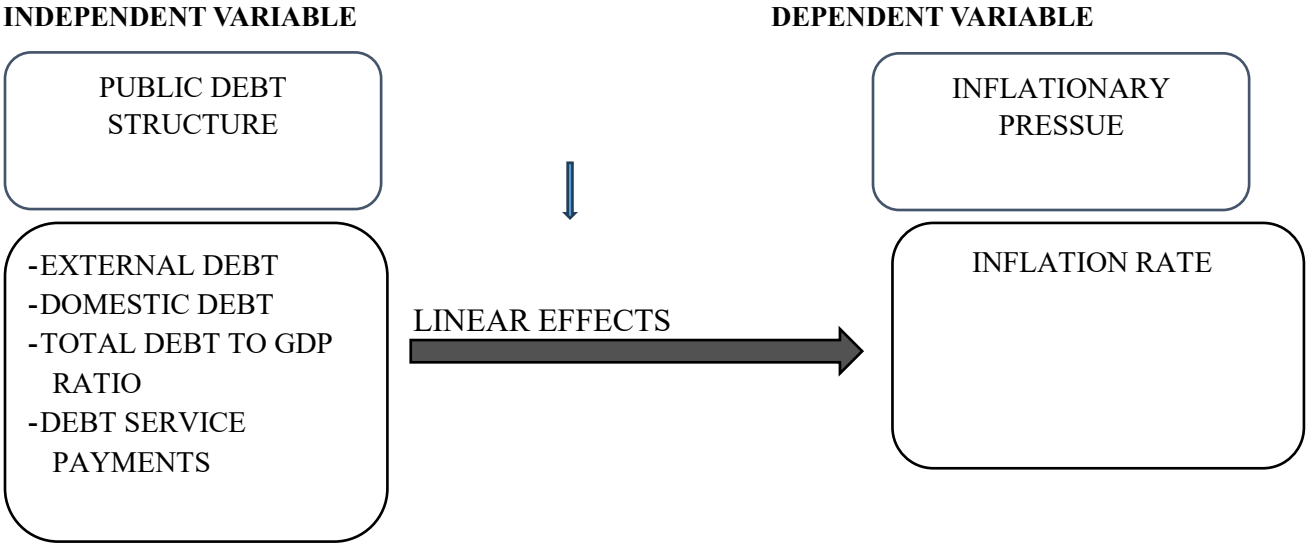

Fig. 1: Conceptual Framework of the Threshold nexus between Public Debt Structure and Inflationary Pressure in Nigeria.
Source: Researcher's Design (2026)

3. METHODOLOGY

This study adopted the longitudinal research designs as it enabled the study to capture trends and cyclical behavior of public debt and inflation rate pressur over time, thereby providing a stronger basis for inference and causality analysis. This study employed secondary data of a quantitative nature, consisting of annual time-series observations covering the period from 1990 to 2024. The quantitative nature of the data makes it suitable for econometric analysis, particularly for estimating both linear and threshold relationships among the variables. The dataset comprised variables relating to public debt structure, such as external debt, domestic debt, debt-to-GDP ratio, and debt service payments, as well as macroeconomic indicators including inflation rate, real GDP growth rate, and exchange rate.

The data were sourced from reputable and authoritative institutions to ensure reliability and validity. Major sources include the Central Bank of Nigeria Statistical Bulletin (2024), which provided comprehensive data on inflation rate. Additional data on public debt components were obtained from the Debt Management Office Nigeria (2024) which publishes detailed records on Nigeria's domestic and external debt profile. Furthermore, supplementary data were drawn from the World Development Indicators (2024) particularly for cross-validation and to address any gaps in the national data sources.

This study adapted the empirical econometric model specification from Ezeanyeji et al. (2019) who examined effects on public debt components caused by inflation and financial stability. The empirical econometric model is specified as follows:

INFR = f(EXT, DDST, TPGD, DSPT)……..model 1

Where:

The equation form of Model 1 is econometrically expressed in equation form as:

$$INFR_t = \beta_0 + \beta_1 EXTD_t + \beta_2 DDST_t + \beta_3 TPGD_t + \beta_4 DSPT_t + \mu t \quad \text{- Equation 1}$$

Where:

$INFR_t$ = Inflation rate at time t

$EXTD_t$ = External public debt at time t

$DDST_t$ = Domestic public debt at time t

$TPDG_t$ = Total public debt-to-GDP ratio at time t

$DSPT_t$ = Debt service payments at time t

$\beta 0$= Intercept

$\beta_1 - \beta_4$ = Parameters to be estimated

μ_t = Stochastic error term

Table 1: Operationalisation of Variables

Variable	Type	Measurement	A Priori Expectation
INFR (Inflation Rate)	Dependent	Annual percentage change in Consumer Price Index (CPI) (Alenoghena et al., 2025).	Nil
EXTD (External Debt)	Independent	External debt stock as a percentage of GDP (Saka, 2024).	Positive (+)
DDST (Domestic Debt)	Independent	Domestic debt stock as a percentage of GDP (Saka, 2024).	Positive (+)
TPDG (Total Public Debt-to-GDP Ratio)	Independent	Total public debt divided by GDP (%) (Saka, 2024).	Negative (-)
DSPT (Debt Service Payments)	Independent	Debt service payments as a percentage of GDP (Nwoye et al., 2023)	Positive (+)

Source: Researcher's Compilation (2026)

4. RESULTS AND DISCUSSION

4.1 Data Analysis

The results obtained from empirical analysis of the impact of public debt structure on inflation in Nigeria from 1990 to 2024 were described in this section. These result was analyzed through descriptive statistics, correlation analysis, test for multicollinearity and unit root, selection of model and ARDL bounds test. These results gave an idea about the features, relations and stationarity of variables and the existence of long-run relation between public debt structure and inflation.

Table 2: Descriptive Statistics for Public Debt Structure (1990 to 2024)

	Mean	Maximum	Minimum	Std. Dev.	Jarque-Bera	Probability	Observations
DDST	51.77867	341.2073	0.387900	76.92479	74.56100	0.000000	35
DSPT	0.007746	0.024200	0.001100	0.005258	7.959907	0.018687	35
TPGD	61.97905	349.5701	1.765200	81.97978	42.66931	0.000000	35
EXTD	0.150909	0.360400	0.017800	0.107417	3.698172	0.157381	35
INFR	18.18971	72.84000	5.390000	15.67570	53.32314	0.000000	35

Researcher's Computation (2026)

The descriptive statistics provide important insights into the behavior and distribution of the macroeconomic and public debt variables over the study period. For domestic debt stock (DDST), the mean value is 51.78% of GDP, with a maximum of 341.21% of GDP and a minimum of 0.39% of GDP, indicating wide fluctuations in domestic borrowing. The relatively high standard deviation of 76.92% of GDP confirms substantial volatility around the mean. Total government public debt (TPGD) also shows considerable variation, with a mean of 61.98% of GDP, a maximum of 349.57, and a minimum of 1.77% of GDP, while its standard deviation of 81.98 further reflects instability in Nigeria's debt position. Debt service payments (DSPT), although relatively small in magnitude with a mean of 0.0077% of GDP, range from 0.0011 to 0.0242% of GDP, showing low but steady variation over time. External debt (EXTD) records a mean of 0.1509% of GDP, with values ranging between 0.0178% of GDP and 0.3604% of GDP and a standard deviation of 0.1074, indicating moderate fluctuations in external borrowing.

Inflation rate (INFR) has an average value of 18.19, with a maximum of 72.84 and a minimum of 5.39, showing pronounced inflation volatility over the period. The standard deviation of 15.68 confirms significant instability in price levels. The Jarque-Bera test results show that most variables are not normally distributed, as indicated by statistically significant probability values below 0.05 for DDST, DSPT, TPGD, and INFR. This suggests the presence of skewness and leptokurtic distributions in these variables. Overall, the descriptive statistics highlight significant macroeconomic instability in Nigeria, particularly in debt accumulation, inflation, and exchange rate movements, while also confirming that only a few variables follow a normal distribution pattern.

Table 3: Correlation Analysis: Spearman's rank-order

Sample: 1990 2024
Included observations: 35
Balanced sample (listwise missing value deletion)

Correlation	INFR	EXTD	DDST	DSPT	TPGD
INFR	1.000000				
EXTD	0.151413	1.000000			
DDST	-0.050573	0.573109	1.000000		
DSPT	0.204278	0.559358	0.285256	1.000000	
TPGD	-0.027655	0.069824	0.258976	-0.046600	1.000000

Researcher's Computation (2026)

Table 3 presents the Spearman's rank-order correlation coefficients between inflation rate (INFR) and the public debt variables (EXTD, DDST, DSPT, TPGD) in Nigeria for the period 1990–2023. Positive values indicate a direct relationship, while negative values indicate an inverse relationship. For example, INFR shows a weak positive correlation with DSPT (r = 0.204) and a very weak negative correlation with DDST (r = -0.051). EXTD and TPGD exhibit negligible correlations with INFR. These results provide a preliminary view of the linear relationships between inflation and the structure of public debt, which will be further examined in threshold analysis

Table 4: Multi-collinearity Tests

Inflation Rate Model		
Variable	**VIF**	**Tolerance (TOV)**
INFR(-1)	1.5928	0.6278
DDST	4.7132	0.2122
DSPT	2.7543	0.3631
TGPD	1.8242	0.5482
EXTD	3.336	0.2998
Average	**2.8441**	**0.4102**

Note: Variance Inflation Factor (VIF) and Tolerance (TOV)

Researcher's Computation (2026)

The multicollinearity test was conducted using the VIF and tolerance (TOV) values to examine the degree of interdependence among the explanatory variables: domestic debt stock (DDST), debt service payments (DSPT), total government public debt (TGPD), external debt (EXTD), and the lagged dependent variable: INFR(-1). Specifically, VIF values from the inflation rate model range from 1.5928 to 4.7132, with an average value of 2.8441, while tolerance values range from 0.2122 to 0.6278. The highest VIF is recorded for domestic debt stock (DDST) at 4.7132, followed by external debt (EXTD) at 3.3360, debt service payments (DSPT) at 2.7543, total government public debt (TGPD) at 1.8242, and the lagged inflation variable at 1.5928. Since all VIF values are below the conventional threshold of 10 and even below the stricter benchmark of 5, and all tolerance values are above 0.10, there is no evidence of serious multicollinearity in the model. This indicates that the estimated coefficients for the inflation model are stable and reliable.

Table 5: Unit root test estimates at Level and First Difference

S/N	Variables	ADF Test Statistics	Test critical values @ 5%	p-value	Order of integration	Decision
1.	Inflation rate	-4.749776	-2.954021	0.0006	1(1)	Stationary
2.	External debt	-3.820272	-2.957110	0.0066	1(1)	Stationary
3.	Domestic debt	-10.24020	-2.957110	0.0000	1(1)	Stationary
4.	Debt service payments	-4.866756	-2.957110	0.0004	1(1)	Stationary
5.	Total debt to GDP ratio	-4.813241	-2.954021	0.0005	1(0)	Stationary

Researcher's Computation (2026)

The ADF test shown in table 5 reported that, only Total debt to GDP ratio attained stationarity at level while inflation rate, domestic debt, and debt service payments attained stationarity at first difference. These results underscore the mixed integration properties of the dataset, which justifies the need for appropriate econometric techniques capable of handling variables of differing orders of integration. The presence of both stationary and non-stationary variables provides further support for employing threshold regression methods, as these allow for nonlinear relationships and regime-dependent effects in examining the nexus between public debt structure and macroeconomic stability.

Table 6: Model Selection Criteria Table

Dependent Variable: INFR
Date: 04/13/26 Time: 08:32
Sample: 1990 2024
Included observations: 34

Model	LogL	AIC*	BIC	HQ	Adj. R-sq	Specification
1	-123.939316	7.643489	7.912847	7.735348	0.582175	ARDL(1, 0, 0, 0, 0)

Source: Researcher's Computation (2026)

The model selection criteria indicate that the ARDL(1, 0, 0, 0, 0) specification is the most appropriate. The model records a log-likelihood value of -123.94, with Akaike Information Criterion (AIC), Schwarz Bayesian Criterion (BIC), and Hannan-Quinn (HQ) values of 7.6435, 7.9128, and 7.7353 respectively. These relatively low information criterion values suggest a good balance between model fit and parsimony. The adjusted R-squared of 0.5822 implies that approximately 58.2% of the variation in inflation is explained by the included explanatory variables, indicating a moderate level of explanatory power and a reasonably well-fitted model.

Table 7: ARDL Bounds Test

Sample: 1995 2024 (30 Observations)			**Critical Value Bounds**		
Test Statistic	**Value**	**K**	**Significance**	**I0 Bound**	**I1 Bound**
F-statistic	4.973869	4	5%	2.86	4.01

Source: Researcher's Computation (2026)

The ARDL bounds test result presented in Table 7 provides strong evidence of a long-run relationship among the variables. The computed F-statistic of 4.9739 exceeds the upper bound critical value at the 5% significance level (4.01) and is very close to the 1% upper bound (5.06). Since the F-statistic is greater than the upper bound, the null hypothesis of no long-run relationship is rejected. This indicates that the variables included in the model are cointegrated and move together in the long run, despite possible short-run fluctuations. Therefore, a stable long-run equilibrium relationship exists among the variables in this model.

4.3. Regression and Discussion

This section provides a comprehensive empirical assessment of how public debt structure influences inflation using linear (ARDL) technique.

Table 8: ARDL Cointegrating And Long Run Form

Dependent Variable: INFR
Selected Model: ARDL(1, 0, 0, 0, 0)
Date: 04/13/26 Time: 08:41
Sample: 1990 2024
Included observations: 34

Cointegrating Form (Shor Run)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(DDST)	0.021438	0.017619	1.216752	0.2339
D(DSPT)	0.658590	0.062448	10.546290	0.0000
D(TGPD)	-0.353281	0.084992	-4.156615	0.0003
D(EXTD)	-0.23826	0.060163	-3.96025	0.0004
CointEq(-1)	-0.795479	0.077717	-10.235591	0.0000

Cointeq = INFR - (0.0269*DDST + 0.6199*DSPT -0.3184

* TGPD + 0.2150*EXTD + 0.4721)

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DDST	0.026949	0.022014	1.224210	0.2311
DSPT	0.619936	0.078859	7.861366	0.0000
TGPD	-0.318400	0.068962	-4.617023	0.0001
EXTD	0.214973	0.077878	2.760381	0.0099
C	0.472144	0.071784	6.577305	0.0000

Whereas the impact of DDST was positive but statistically insignificant in both the short run ($\beta = 0.0214$, $p = 0.2339$) and long run ($\beta = 0.0269$, $p = 0.2311$), the impacts of DSPT were positive and statistically significant in both the short run ($\beta = 0.6586$, $p < 0.001$) and long run ($\beta = 0.6199$, $p < 0.001$). The impacts of TGPD were negative and statistically significant in both the short run ($\beta = -0.3533$, $p = 0.0003$) and long run ($\beta = -0.3184$, $p = 0.0001$). In the same manner, EXTD was negatively significant in the short run ($\beta = -0.2383$, $p = 0.0004$) and positively significant in the long run ($\beta = 0.2150$, $p = 0.0099$). The error correction term had a negative impact that was highly statistically significant ($ECT = -0.7955$, $p < 0.001$), implying that about 79.55% of short-run disequilibrium was corrected each year, which shows that there is a stable long-run equilibrium relationship between the independent variables and inflation. As such, the null hypothesis H_{01} was rejected since out of the four public debt indicators, three had significant impacts on the inflation rate in Nigeria.

In the short run, the DDST variable has a positive but insignificant impact on inflation, meaning that one unit increase of this variable leads to 0.021 unit increase of inflation without a statistically significant effect. On the other hand, DSPT variable has a positive and significant impact, which means that a one unit increase of the variable is connected with 0.659 unit increase of the level of inflation. On the contrary, TGPD has a negative and significant impact because one unit increase of it leads to a 0.353 unit decrease of inflation. Finally, EXTD has a negative and significant impact, with one unit increase leading to 0.238 unit decrease of the level of inflation.

In the long run, the DDST variable still has a positive but insignificant effect on the level of inflation because it means that a one unit increase of this variable leads to 0.027 unit increase of inflation without a statistically significant effect. DSPT variable still has a positive and significant impact, which means that a one unit increase of this variable is connected with 0.620 unit increase of the level of inflation. TGPD still has a negative and significant effect on the inflation, meaning that one-unit increase in external debt was associated with a 0.238-unit fall in inflation in the short run.

For the long-run period, DDST continued to be positive but insignificant where the one-unit increase corresponded to an increase in the inflation rate by 0.027 units. DSPT continued to have a positive significant impact where a one-unit increase corresponded to an increase in the inflation rate by 0.620 units. TGPD also continued to have a negative significant impact where a one-unit increase corresponded to a decrease in the inflation rate by 0.318 units. However, EXTD became positive and significant where a one-unit increase corresponded to an increase in the inflation rate by 0.215 units. The change to positive and significant meant that the inflation impact of the external debt became more pronounced over time.

Partial confirmation of Keynesian theory of public debt was achieved through the significance of the effect of debt service payment and the long-run effect of external debt which implied that there is the potential for the debt to affect the inflation levels. Partial confirmation of the debt overhang hypothesis was achieved through the effects in the long-run on debt payments. Partial confirmation of the Classical theory of public debt was not achieved due to the fact that the public debt did not have an inflationary

effect overall. In addition, partial confirmation of the Debt Laffer Curve was also not achieved since the effect of debt varied with each component of the debt and in the short run and long run.

5. CONCLUSION AND RECOMMENDATIONS

This study analyzed the effect of public debt structure on the inflation rate in Nigeria through the linear ARDL technique. From the results obtained, it can be observed that there exist multiple dimensions to the impact of public debt structure on inflation rate. In the short-run, domestic debt stock had positive but statistically insignificant effect on the inflation rate ($\beta = 0.021438$, $p = 0.2339$). This implies that an increase in domestic debt stock would not necessarily result to significant effect on the inflation rate. The debt servicing payment had significant positive effect on the inflation rate ($\beta = 0.658590$, $p = 0.0000$). This means that an increase in the debt servicing payment would significantly lead to increased fiscal pressures which would create inflationary pressures. However, total public debt and external debt had significant negative effect on the short-run inflation rates with coefficients of -0.353281 ($p = 0.0003$) and -0.238260 ($p = 0.0004$), respectively.

Long term results showed that domestic debt stock was positive and insignificant ($\beta = 0.026949$, $p = 0.2311$), but debt service payments had a positive and significant effect on inflation ($\beta = 0.619936$, $p = 0.0000$). The total public debt still had a negative and significant effect on inflation ($\beta = -0.318400$, $p = 0001$), while the external debt effect changed from negative and significant in short-term to positive and significant in long-term ($\beta = 0.214973$, $p = 0.0099$). This result implies that despite the fact that external borrowings may not have inflationary effects immediately, their effects will be inflationary over time due to their exchange rate risk, repaying costs, fiscal effects, and other channels. Thus, it can be concluded that public debt structure significantly affects macroeconomic stability in Nigeria and the structure of public debts, rather than its total volume, matters in terms of inflation processes. In particular, the effect of debt service payments, which is positive and significant throughout the period, should be considered an important way through which public debts affect domestic price conditions.

The study adds to knowledge through offering a more disaggregated analysis of the association between public debt and inflation in Nigeria. Unlike the approach which treats public debt as an aggregate indicator, the study analyses domestic debt stock, external debt, public debt and debt service payments as separate variables. Hence, the study helps to establish what type of public debt affects inflation. The study further adds to knowledge through the establishment of the idea that the impact of different components of public debt is time-dependent. The change in sign and significance of the effect of external debt from negative and statistically significant in the short-run to positive and statistically significant in the long-run is proof of a time-dependent association between external debt and inflation in Nigeria. Moreover, the consistent and highly significant effect of debt service payments in both the short and long-run indicates the need to pay closer attention to debt servicing as one of the channels of debt impact on inflation.

The following recommendations are based on the results of this study. The Federal Government of Nigeria needs to improve its public debt management by avoiding reliance on costly loans and employing methods of financing that will minimize interest, refinancing and foreign exchange risks. In particular, emphasis should be placed on the servicing of debt due to its strong impact on inflation. It is necessary to avoid needless borrowing and attempt to refinance any expensive loans where it will lead to reduced costs of debt without incurring any other financial risks. The borrowed funds should be invested in infrastructure development and economic ventures which can boost the productive capacity of the economy, create jobs and generate more revenues for the government.

Additionally, the government must exercise more prudence in undertaking external debt because the study shows that external borrowing affects inflation negatively in the short run and positively in the long run. Therefore, any new external borrowing must be subjected to strict debt sustainability and cost-benefit analysis, and there should be a preference for concessional external borrowing which carries low interest rates and long maturities. On the other hand, the government must improve domestic revenue mobilisation efforts through better tax administration, broadening the tax base, minimising revenue losses

and maximising the use of technology in revenue collection. Through this measure, a more reliable revenue base will be created, and hence there will be reduced excessive reliance on borrowing and an increased ability by the government to service debts without causing inflation.

Lastly, closer collaboration between the fiscal and monetary authorities is suggested so that any borrowing and debt servicing by the government aligns with the objective of price stability. The debt management authority must consider not only the debt-to-GDP ratio, but also other measures such as debt service-to-revenue ratio, interest-to-revenue ratio and external debt exposure ratios when assessing fiscal sustainability. Additionally, there needs to be transparency with regards to government borrowings by providing sufficient information about the purpose of borrowings, the cost of borrowings, the duration of repayments, the foreign currency composition of such borrowings and the economic benefits to be derived from them. In sum, the research findings show that price stability in Nigeria cannot be sustainable without an integrative approach encompassing all of the above factors.

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