Interactive Impact of Deficit Financing and Debt Servicing On Economic Growth in Nigeria

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Abstract
Many developing economies of the world often rely on borrowing to finance infrastructure to achieve growth amid limited domestic resources, resulting in rising debt-service obligations. This study examines the interactive effects of debt servicing and deficit financing on economic growth in Nigeria from 1981 to 2024 using the Auto-Regressive Distributed Lag (ARDL) model. State the nature and sources of data. The findings reveal a long-run relationship among deficit financing, debt servicing, domestic investment, and interest rates. Deficit financing exerts a positive but statistically insignificant impact on economic growth, whereas debt servicing has a significant negative impact. The combined impact of deficit financing and debt servicing on economic growth is positive but statistically insignificant at 5% level. In the short run, deficit financing positively influences economic growth. The study concludes that the increasing cost of debt servicing diverts resources from productive investments, thereby hindering economic growth in Nigeria, but its combined impact has no significant impact on economic growth. It recommends for the implementation of borrowing ceilings to reduce debt-service burdens and advocates prioritizing investment in productive sectors over consumption expenditure to promote sustainable economic growth.

Keywords: Debt servicing, domestic investment, economic growth

JEL Clas sification: H63, E22, O40, O55, H62.

1. Introduction

One of the macroeconomic objectives of countries across the world is the attainment of sustained national output or economic growth. The magnitude of such output is largely determined by the availability of financial resources and the extent to which these resources are invested in the domestic economy. Such investments may take the form of human capital development through education and health, as well as infrastructural development such as roads, electricity, and dams, among others. In most developing economies such as Nigeria, where financial resources are persistently insufficient relative to developmental needs, governments have resorted to borrowing both domestically and externally to bridge the financing gap. According to Asooso et al. (2025), increased government expenditure has the potential to stimulate rapid economic growth by expanding production capacity, provided that such resources are efficiently and effectively utilized.

However, incurring debt is associated with repayment obligations, particularly debt servicing costs, which have posed significant challenges to Nigeria's external debt management and, by extension, its fiscal stability and economic development. Nigeria has struggled with high debt servicing obligations that divert scarce public resources away from critical developmental priorities. Debt servicing consumes a substantial share of government

revenue, thereby constraining fiscal capacity to allocate adequate funding to key sectors such as healthcare, education, and infrastructure. According to the World Bank (2025), debt servicing accounted for approximately 43%, 69% 67% of government revenue in Nigeria in 2019, 2024 and 2025 respectively, underscoring the severity of the country's fiscal burden.

The substantial allocation of public funds to debt servicing reduces Nigeria's fiscal space and limits its ability to implement essential development programmes and respond effectively to emerging socio-economic challenges. This situation has, in turn, hindered progress in addressing poverty, unemployment, and income inequality. The African Development Bank (AfDB, 2019) similarly notes that high debt servicing costs pose a serious threat to Nigeria's fiscal sustainability and may impede progress toward the achievement of the Sustainable Development Goals (SDGs). Furthermore, elevated debt servicing obligations can crowd out both public and private sector investment, thereby weakening economic growth prospects (Nguyen, 2022). When a large proportion of government revenue is devoted to debt servicing, fewer resources remain available for investment in infrastructure, technology, and human capital development. This constraint may undermine Nigeria's long-term growth prospects and exacerbate existing socio-economic inequalities. From a fiscal sustainability perspective, when debt servicing absorbs a significant share of government revenue, it becomes increasingly difficult for the government to meet its obligations without resorting to additional borrowing. This dynamic can create a vicious cycle of debt accumulation and potential debt distress, thereby undermining macroeconomic stability (IMF, 2020).

Nigeria's debt and debt servicing profile has exhibited an alarming trend in recent years due to several factors, including exchange rate volatility associated with currency devaluation and fluctuations in interest rates. It is important to note that as debt levels continue to rise, debt servicing obligations also increase, further constraining fiscal space and adversely affecting domestic investment, which ultimately leads to reduced national output. Against this backdrop, the main objective of this paper is to empirically investigate the interactive impact of debt servicing and deficit financing on economic growth in Nigeria over the period 1981–2024. The choice of this period is informed by Nigeria's fiscal trajectory following the collapse of international oil prices, which led to a decline in oil revenue. Rather than adjusting expenditure downward, the government increasingly relied on borrowing to finance infrastructure and consumption expenditures.

The remainder of the paper is structured as follows: Section Two reviews the relevant literature, Section Three presents the methodology, Section Four provides data presentation and analysis, and Section Five concludes with a summary of findings and policy recommendations.

2. Literature Review

2.1 Conceptual Review

Domestic Investment

Domestic investment refers to the allocation of financial resources within a country toward productive economic activities rather than foreign assets (Oyedokun & Ajose, 2018). It involves expenditures on capital formation such as machinery, infrastructure, and other productive assets that expand the productive capacity of the economy (Suprapto & Saleh, 2022). In essence, it reflects the trade-off between current consumption and future output, as present resources are committed with the expectation of higher future returns. Similarly,

Ghirmay, Grabowski, and Sharma (2021) describe domestic investment as the deployment of savings within the local economy for profit generation, while Nikiforos (2021) emphasizes the intertemporal sacrifice of present resources for anticipated future gains. In this study, domestic investment is conceptualized as the creation of new productive assets including buildings, machinery, equipment, and inventories within the Nigerian economy. It is broadly divided into public and private investment, both of which are influenced by macroeconomic stability, institutional quality, infrastructure availability, and policy consistency.

Economic Growth

Economic growth refers to a sustained increase in an economy's real output over time (Guru, 2022). It is commonly measured through indicators such as Gross Domestic Product (GDP), Gross National Product (GNP), or Net National Product (NNP). However, increases in aggregate output may not necessarily translate into improved welfare if population growth outpaces economic expansion. For this reason, per capita income is often preferred as a more meaningful measure of welfare-enhancing growth. Following Guru (2022), economic growth is understood in this study as a sustained increase in real per capita income. Accordingly, real GDP (2010 constant prices) is adopted as the proxy for economic growth, as it captures the value of final goods and services produced within Nigeria over time.

Debt Servicing

Debt servicing represents the obligation of a borrower to make periodic payments covering both principal and interest on outstanding debt (World Bank, 2023). It reflects the actual cash outflows required to service debt obligations contracted from domestic or external sources (Otiko & Iheonkhan, 2022). From a macroeconomic perspective, high debt servicing obligations can constrain fiscal capacity by reducing funds available for productive expenditure. Consequently, this study assumes an inverse relationship between debt servicing and economic growth, as rising debt service payments tend to crowd out development spending. Although debt servicing is essential for maintaining sovereign credibility and avoiding default (Saungweme & Odhiambo, 2019), many developing economies accumulate high debt burdens due to weak revenue bases and persistent development financing gaps (Otiko & Iheonkhan, 2022).

Deficit Financing

Deficit financing occurs when government expenditure exceeds revenue, with the resulting gap being financed through borrowing or monetary expansion (Central Bank of Nigeria [CBN], 2022). It is often adopted as a fiscal policy instrument aimed at stimulating aggregate demand and promoting economic activity. Egwu et al. (2021) define it as the deliberate mobilization of financial resources to cover budgetary shortfalls arising from expenditure exceeding revenue. Similarly, Mojekwu and Odi (2019) describe deficit financing as an expansionary fiscal strategy used when expected government revenue falls short of planned expenditure, particularly during economic downturns. Deficit financing may involve borrowing from domestic or external sources or, in some cases, monetary financing. While it can stimulate growth in resource-constrained economies, its effectiveness depends on efficient allocation toward productive investment rather than recurrent expenditure. In this study, deficit financing refers to government budget deficits financed through borrowing. Although it may support growth in developing economies, its long-term effects depend on debt servicing obligations, structure and mode.

This study is anchored on the Debt Overhang Theory developed by Howard (1989). The theory argues that when a country's debt exceeds its repayment capacity, expected future debt obligations discourage investment and hinder economic growth. Under this framework, high debt levels generate expectations of increased future taxation, which reduces expected returns on investment and discourages both domestic and foreign investors. This phenomenon, known as the debt overhang effect, results in lower capital accumulation and weaker economic performance (Lawal et al., 2016). As debt servicing obligations increase, a larger share of national resources is allocated to debt repayment rather than productive investment. This situation reduces fiscal space and weakens economic growth prospects (Krugman, 1989). In extreme cases, debt accumulation creates a cycle in which rising debt leads to higher servicing costs, further constraining investment and growth (Gobna et al., 2022).

2.2 Empirical Review

Empirical studies also show that excessive debt servicing can crowd out investment and reduce long-term growth potential (Van Cuong, 2018). Overall, the theory suggests that high debt burdens negatively affect economic performance through reduced investment incentives and constrained fiscal capacity. A study conducted by Ogwu (2023) examined the relationship between deficit financing, debt servicing, and economic development in Nigeria using annual data from 1981 to 2022. Employing the ARDL approach, the study found that deficit financing negatively affects economic development in both the short and long run. On the other hand, Abdulkarim and Saidatulakmal (2021) analyzed nonlinear effects of public debt on Nigeria's economic growth over the period 1980–2020 using a Nonlinear ARDL model. Their findings indicated that external debt positively influences growth, while debt servicing supports the debt overhang hypothesis by constraining economic expansion.

Otiko and Iheonkhan (2022) investigated the impact of debt servicing on economic growth in Nigeria (1990–2020) incorporating corruption as a moderating variable. He used multiple regression technique for the data analysis and found that external debt servicing significantly affects GDP, while domestic debt servicing was not statistically significant. Olusegun et al. (2021), examined the effect of debt servicing on economic growth in Nigeria for the period of 1990 to 2020 using the Vector Error Correction Model (VECM). The study revealed that debt servicing had a positive and significant effect on economic growth in both the short run and the long run. The study maintained that debt servicing constituted an important determinant of economic growth due to its positive relationship with gross domestic product (GDP). However, the study did not investigate how the combined effect of debt servicing costs and deficit financing options influence economic growth, thereby leaving a gap for further analysis.

Ideh and Uzonwanne (2021) looked at effect of external debt and debt servicing on economic growth in Nigeria over the period 1985 to 2019. The study adopted the Ordinary Least Squares (OLS) estimation technique for analysis. The empirical findings showed that external debt had a negative effect on economic growth in Nigeria. Similarly, debt servicing was found to exert a negative and significant impact on economic growth.

Ashakah et al. (2024) examined the impact of debt servicing and external debt on economic growth in the ECOWAS region over the period 1990 to 2022. Utilizing panel regression with fixed and random effect models, the findings showed that both external debt and debt service had a significant negative impact on economic growth in the region.

Onisanwa and Adajib (2018) investigated the impact of external debt and debt burden on economic growth in Nigeria. The study utilised time series data on external debt stock and debt service payments to capture external debt burden over the period 1981–2015. It employed the Autoregressive Distributed Lag (ARDL) model for analysis. The estimated results revealed that external debt stock had a significant negative relationship with real gross domestic product (GDP). This indicates that as external debt increases, real GDP declines, a finding consistent with the debt overhang theory, which posits a negative relationship between external debt and economic growth. In contrast, debt service payments showed a positive and statistically significant relationship with real GDP, suggesting that debt repayment is associated with higher economic output.

Tanna et al. (2018) employed a panel vector autoregressive (PVAR) technique on data from 1984 to 2010 to assess the extent to which external debt inhibits the economic growth benefits derived from foreign direct investment (FDI) in developing countries. The findings supported the hypothesis that FDI-induced growth depends on the level of external debt. The study further revealed that beyond a certain threshold, high indebtedness prevents economies from fully benefiting from FDI inflows, as resources are redirected toward debt reduction. Nevertheless, the combined effect of external debt and debt servicing on economic growth was not examined.

Nwikina et al. (2021) explored the effectiveness of deficit financing on economic development in Nigeria between 1986 and 2019. The study employed the ARDL model and Granger causality techniques for analysis. The results indicated that deficit financing and government expenditure exerted a positive but marginal influence on economic development in Nigeria. Moreover, the study found evidence of a unidirectional causality running from deficit financing to economic development, suggesting that government expenditure financed through deficits promotes economic development in Nigeria. Nonetheless, the study failed to consider the joint influence of deficit financing and debt servicing or domestic investment on economic growth.

Saungweme and Odhiambo (2019, in their investigation between 1970 - 2017 in Zimbabwe on whether public debt servicing expenditure crowed-out economic growth. Using ARDL technique of analysis, findings revealed a negative impact of public debt servicing on economic growth in the short run but positive in the long run, hence, suggesting both crowding-out and crowding-in dynamics.

Kasasbeh and Alzoubi (2019) investigated the effect of deficit financing on economic stability in Jordan using quarterly data from 2005 to 2017. He applied the Vector Error Correction Model (VECM). The findings revealed that external borrowing and domestic bank financing had a negative effect on economic stability. The adverse impact of external borrowing was attributed to the high level of outstanding public debt. Consequently, the study concluded that deficit financing had not effectively stimulated economic growth in Jordan. Nevertheless, the findings may not be generalized to cover Nigeria due to differences in economic structure and country-specific conditions.

3. Methodology

3.1 Data Needs

This study employs annual secondary data obtained from the Central Bank of Nigeria (CBN, 2024) and World Bank (WB, 2025) covering the period 1981–2024. The variables include deficit financing, debt servicing, interest rate, gross capital formation (proxy for domestic investment), and gross domestic product (proxy for economic growth).

3.2 Model specification

The study is grounded in the Debt Overhang Theory (Howard, 1989), which suggests that excessive debt discourages investment and growth due to rising debt servicing burdens. The debt overhang theory suggests that when a country's debt level becomes excessively high, expected future debt repayments deter investment and growth (Gobna, et al*.,* 2022). The theory is specified mathematically to describe the relationship between debt, investment and growth using the output function as:

$$Y = f(I, L, A) \text{-----------------------1}$$

Where;

Y is economic growth which is a function of investment (I), labour input (L) and technology input (A). But investment decision and debt (D) relationship is written as:

$$I = I(R, D) \text{-----------------------2}$$

Investment (I) depends on expected returns (R) and the debt overhang effect (D), where D represents the current level of debt. Government can use domestic or internal borrowing (deficit financing) to finance investments in various economic sectors (Abubakar & Mamman, 2021). The interactive term is included in the model to explore how economic growth respond to the joint impact of deficit financing and debt servicing. The functional relationship is specified as:

GDP = f(DIF, DTS, DIF × DTS, DIT, INT) ----------3

Where:

GDP	=	Economic	growth
DIF	=	Deficit	financing
DTS	=	Debt	servicing
DIT	=	Domestic	investment
INT	=	Interest	rate

DIF × DTS = Interaction term

The econometric model is specified as:

$GDP_t = \beta_0 + \beta_1 \ln DIF_t + \beta_2 DTS_t + \beta_3 \ln(DIF \times DTS)_t + \beta_4 \ln DIT_t + \beta_5 INT_t + \varepsilon_t$ ----------4

Where β_0 represents the intercept, β_1–β_5 are coefficients to be estimated, and ε_t is the stochastic error term. Deficit financing and domestic investment are log-transformed, while debt servicing and interest rate remain in their original percentage form. Therefore, the choice of these variables is in line with Howard, 1989, Gobna, et al*.,* 2022 and Abubakar & Mamman, 2021.

Empirically, the works of choice of these variables is theoretically in line with Ashakah et al. (2024), Otiko and Iheonkhan (2022), Ideh and Uzonwanne (2021), Onisanwa and Adajib (2018) and others who used same or related variables for studies on deficit financing and economic growth points to the fact that the variables are relevant in this studies.

The study adopts the Autoregressive Distributed Lag (ARDL) approach due to its suitability for mixed-order integration series, as developed by Pesaran and Shin (1999) and extended by Pesaran et al. (2001). The method allows estimation of both long-run and short-run dynamics, with cointegration tested using the bounds testing approach. Diagnostic tests, including serial correlation, heteroskedasticity, and stability tests, are employed to ensure robustness.

4. Result and Discussion

In order to determine the stationarity level of the series, all the variables used in the model have been subjected to unit root tests. Accordingly, Augmented Dicker-Fuller (ADF) is considered to check for stationarity order of the variables in the model. This is to determine whether the variables have the ability to revert to equilibrium and the method of data analysis. Therefore, the Augmented Dicker-Fuller test result for all the time series variables used in this estimation are hereby presented in Table1.

Table 1: Unit Root Tests Results

ADF Result	Test at level	ADF Critical Value at 5%	Test at 1st difference	ADF Critical Value at 5%	Decision
GDP	-3.279881	-2.933158	-10.80585	-2.933158	I(0)
LNDIF	-0.635794	-2.945842	-8.585928	-2.945842	I(1)
LNDIT	-3.073932	-2.931404	-6.060300	-2.933158	I(0)
DTS	-2.325625	-2.931404	-9.318782	-2.933158	I(1)
INT	-2.742855	-2.933158	-9.895016	-2.933158	I(1)
NG-Perron Result					
GDP	-2.07916	-8.10000	-9.13984	-8.10000	I(1)
LNDIF	-0.79956	-8.10000	-16.3033	-8.10000	I(1)
LNDIT	-2.99304	-8.10000	-18.7185	-8.10000	I(1)
DTS	-8.53435	-8.10000	-20.3410	-8.10000	I(0)
INT	-3.95555	-8.10000	-18.6688	-8.10000	I(1)

Source: *Authors' Computation from E-views*

The ADF unit root result in table 1 shows the existence of mixed order of integration among the study variables in the model. Specifically, economic growth (GDP) and debt service are stationary at level or integrated at order zero I(0). Conversely, deficit financing, debt service and interest rate are stationary at first difference I(1). The existence of mixed order of integration of the variables has formed the basis for the use of ARDL for the estimation of the model. All variables are tested at 5% level of significance for the model.

The cointegration for the interactive impact of deficit financing and debt servicing is determined using ARDL bounds test, and the result is presented in Table 2.

Table 2: Result of ARDL Bounds Test

Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	4.666730	10%	2.45	**3.52**
K	**5**	**5%**	**2.86**	**4.01***
		2.5%	3.25	**4.49**
		1%	3.74	**5.06**

Source: *Authors' Computation from E-views*

The ARDL bound test result in Table 2 shows the existence of long run equilibrium among deficit financing, debt servicing, domestic investment and interest rate in Nigeria from 1981 to 2024. The presence of long run relationship among these variables is justified by F-statistical value of approximately 4.67 which is more than the upper bound critical value of 4.01 at 5% level of significance. The existence of cointegration allows for the consideration of the long run estimates for making inference.

Table 3: ARDL Long-Run Estimated Result. DV = GDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNDIF	0.543479	0.696322	0.780499	0.4414
DTS	-0.266853	0.110205	-2.421427	0.0219
LNDIF*DTS	0.004460	0.002270	1.965048	0.0628
LNDIT	0.020467	0.008109	2.523989	0.0197
INT	0.418802	0.268671	1.558794	0.1299

Source: *Authors' Computation from E-views*

The long-run result in Table 3 reveals a positive but not significant impact of deficit financing on economic growth in Nigeria at 5% level. The finding suggest that deficit financing does not improve economic growth in the long run. The impact of debt servicing on economic growth is negative and significant at 5% level. This means economic growth decreases by 0.002 units as debt servicing increases by one unit. The implication of the result is that high cost of servicing debt hinders economic growth in Nigeria and the result is similar to the finding of Saungweme and Odhiambo (2019) who found that debt service hinders economic growth.

The interactive impact of deficit financing and debt servicing on economic growth is positive in the long run but not significant at 5% level of statistical significance, signifying none improvement in economic growth. Domestic investment and interest rate lead to positive increase in economic growth and the coefficients of domestic investment is statistically significant at 5% level unlike the coefficient of interest rate. It means economic growth increased units due to a percentage increase in domestic investment. This implies that domestic investment plays a vital role in promoting economic growth in the country during the study period.

The short run interactive impact of deficit financing and debt servicing on economic growth is also estimated and the result is shown in Table 4.

Table 4: ARDL Error Correction Regression (DV = GDP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNDIF)	1.161258	0.467953	2.481568	0.0191
D(DTS)	-0.006866	0.088099	-0.077940	0.9384
D(LNDIF*DTS)	0.043405	0.087970	0.493402	0.6277
D(LNDIT)	1.282868	0.566494	2.264577	0.0361
D(INT)	-0.080233	0.108427	-0.739976	0.4655
CointEq (-1)*	-0.843945	0.179653	-4.697629	0.0001

Source: *Authors' Computation from E-views*

The short run result in Table 4. indicates a positive impact of deficit financing on economic growth at 5% level of statistical significance. It signifies that a one percent increase in deficit financing leads to 0.011 units increase in economic growth in the short run. The finding implies that deficit financing triggers economic growth in Nigeria within the shortest possible time. However, the immediate impact of debt servicing on economic growth is negative but not significant at 5% level. Result reveals positive interactive impact of deficit financing and debt servicing on economic growth but the coefficient is not significant at 5% level. This suggests ineffectiveness of the joint influence of deficit financing and debt servicing in stimulating economic growth in the short run. Economic growth increases by approximately 0.013 units due to a percentage increase in domestic investment and the result is significant at 5% level, signifying that less period is taken for the impact of domestic investment to manifest on economic growth. The study found negative but not significant impact of interest rate on economic growth at 5% level, which suggests that high lending rate is harmful to economic growth. The error correction coefficient is negative (-0.843945) and statistically significant at 5% level. It shows that deviation from the long run path will be reverted back to equilibrium at an adjusted speed of 84% within the shortest possible time.

Post Estimation Test

The reliability checks for the estimations were carried out. To analyze whether the residuals' variance is unequal across a range of observed values, the study evaluates the Breusch-Pagan-Godfrey residual heteroskedasticity test.

Table 5: Result of Residual Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.422195	Prob. F (7,29)	0.8804
Obs*R-squared	3.421916	Prob. Chi-Square (7)	0.8434
Scaled explained SS	2.142879	Prob. Chi-Square (7)	0.9515

Source: *Authors' Computation from E-views*

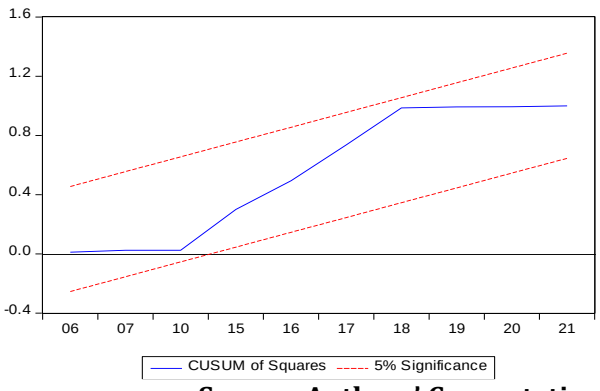
The result indicates the absence of heteroskedasticity in the model, suggesting that the residuals of deficit financing, debt servicing, domestic investment and interest rate are homoscedastic. This is confirmed by high Breusch-Pagan-Godfrey probability values for F-statistic and the observed R-squared with their associated probabilities, which exceed the critical value of 0.05. Thus, there is no evidence of covariance between the error term and the explanatory variables hence, existence of homoscedastic. The residual serial correlation test to examine the interdependence of the residuals is further examined and the result is presented in Table 4.6.

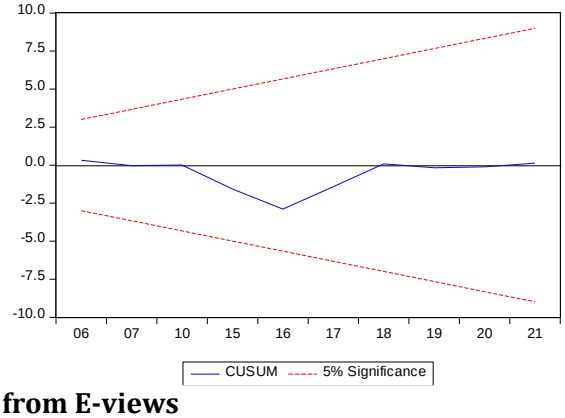
Table 6: Residual Serial Correlation Result

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.629393	Prob. F (1,28)	0.4342
Obs*R-squared	0.813414	Prob. Chi-Square (1)	0.3671

Source: *Authors' Computation from E-views*

The results of the serial correlation test show high probability values for F- statistic and Observed R-squared that are greater than 5% level of significance which indicates the absence of serial correlation due to the fact that the probability values are above 5% level of statistical significance. This suggests that the residuals are uncorrelated with one another, thereby affirming the reliability of the study's estimates. Similarly, the stability of the estimated model has also been ascertained using CUSUM (Cumulative Sum) and Cumulative Sum of Squares (CUSUMSQ) tests which are employed to assess the stability and structural integrity of the model over time as seen in figure 1 and 2.





Source: Authors' Computation from E-views

Figure 1: CUSUM Graph Figure 2: CUSUMSQ Graph

The CUSUM graph in figure 1 remains within the critical bounds (typically represented by two horizontal lines or bounds). The cumulative sum of residual line stays within these bounds throughout the sample period, it indicates that the model parameters are stable. The CUSUMSQ graph in Figure 2 is stable and falls within the 0.05 critical bounds, it reinforces the reliability of the model's estimates and inferences. It suggests that the variance of the residuals has not experienced significant changes that could affect the accuracy of the model.

5. Conclusion and Recommendations

This study examined the interactive effects of deficit financing and debt servicing on economic growth in Nigeria. The empirical results indicate that, although the interaction between deficit financing and debt servicing exhibits a positive relationship with economic growth in the long run, the effect is not statistically significant at the 5 percent level. This implies that, despite a positive coefficient, the interaction does not meaningfully translate into measurable improvements in economic growth over the study period. Overall, the findings suggest that the combined effect of deficit financing and debt servicing has not contributed significantly to enhancing economic growth in Nigeria.

Based on the findings, the followingl policy implications have emerged.

i. Government fiscal policy should prioritize prudent debt management by limiting excessive borrowing and ensuring that new debt is contracted within sustainable thresholds. Strengthening debt sustainability frameworks is essential to avoid persistent debt overhang and its associated adverse effects on growth.
ii. There is need for intensified engagement with international financial institutions toward possible debt restructuring or relief options that could ease Nigeria's debt burden and free up fiscal space for productive expenditure.
iii. Debt management institutions should enhance transparency and accountability in public borrowing and utilization. This can be achieved through strengthened legal and institutional frameworks that clearly define public debt management procedures and enforce regular disclosure of borrowing, allocation, and debt servicing activities.
iv. Improving domestic revenue mobilization should be a central policy focus. Expanding the tax base, reducing leakages, and enhancing fiscal efficiency would reduce reliance on borrowing and help ease debt servicing pressures over time.
v. Fiscal policy should emphasize the productive use of borrowed funds, ensuring that deficit financing is directed primarily toward capital and growth-enhancing expenditures rather than recurrent spending. This would improve the effectiveness of public borrowing and strengthen long-term economic growth prospects.

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