ECOFORUM
[Volume 15, Issue 2(40), 2026]

PUBLIC DEBT DRIVERS AND STOCK MARKET PERFORMANCE IN NIGERIA

Abass Adekunle ADEWALE
Department of Finance, Federal University Oye-Ekiti, Nigeria.
abassadewale96@gmail.com

Rebecca Folake BANK-OLA
Department of Finance, Adeleke University Ede Osun State, Nigeria.
bankolafolake@gmail.com

Abstract

This paper examines how public debt and inflation impact stock market performance in Nigeria between 1990-2024. The research design was ex-post facto, annual data was obtained from Central Bank of Nigeria, using Autoregressive Distributed Lag (ARDL). The short-run ARDL findings show that the evolution of domestic debt has a negative effect on the stock market which means that high domestic debt amounts could crowd out the internal investment and diminish investor confidence. Conversely, fluctuations in the external debt have a positive effect on the performance of the stock market in the short run but at a minor scale. External debt has a very high positive influence on the stock market performance in the long run, which reflects the fact that the externally sourced funds when managed and invested in productive economic activities can contribute to the growth of the markets and the increase in the financial stability. Domestic debt, though, still has a negative long-run pressure but the inflation is of not much signification in both periods hence limited direct influence on the stock market. The research proposes effective debt management, focus on productive external borrowing and policies that enhance investor confidence so as to promote sustainable market growth.

Key words: *ARDL, Domestic Debt, External Debt, Inflation, Stock Market*

JEL Classification: *G10, G15, E44, H63*

I. INTRODUCTION

Public debt remains a critical component of government finance, serving as a tool for bridging fiscal deficits and financing developmental projects. In Nigeria, both domestic and external debt have played significant roles in shaping macroeconomic outcomes, including economic growth, inflation, and financial market performance. Several empirical studies highlight the complex relationship between debt management and economic stability. Yusuf and Hussaini (2026) observed that domestic debt, debt service payments, exchange rate fluctuations, foreign reserves, and private investment contribute to macroeconomic instability, whereas foreign direct investment strengthens fiscal sustainability in both the short and long run. Similarly, Yahaya (2026) noted that effective domestic debt management reduces inflationary pressures, while rising external debt generates exchange rate volatility, emphasizing the role of institutional quality and coordinated fiscal and monetary policies.

Regarding financial markets, Osayande, Evbayiro-Osagie, and Osifo (2025) demonstrated that domestic and external debt, as well as debt servicing, significantly influence stock market dynamics in Nigeria in both the short and long term. Enang, Ele, and Itoro (2024) further highlighted that government borrowing impacts stock market performance, though excessive internal borrowing may crowd out private investment. Findings from Asaolu, Adewale, and Ozabeme (2025) and Nwoye, Udunwoke, and Nworie (2023) reveal that domestic debt can negatively affect economic growth if mismanaged, whereas external debt may provide positive long-term benefits if properly utilized. Similarly, international studies, including those by Irfan et al. (2020) and Wisniewski and Jackson (2021), confirm that high external debt can hinder growth, but productive use of borrowed funds enhances financial and economic outcomes.

Nigeria has experienced persistent fiscal deficits, rising public debt, and macroeconomic instability over the past decades, raising concerns about the sustainability of government borrowing and its impact on the economy (Onyele et al., 2023). Domestic debt levels have grown rapidly, often crowding out private investment, increasing borrowing costs, and creating inflationary pressures (Yusuf and Hussaini, 2026; Yahaya, 2026). Similarly, external debt, while potentially a source of productive investment, has at times contributed to exchange rate volatility and debt servicing burdens that strain fiscal capacity (Nwoye et al. 2023).

Despite these challenges, there is limited empirical evidence on how public debt components, specifically domestic debt, external debt, and inflation, directly influence stock market performance in Nigeria. While studies have examined the general effects of debt on fiscal sustainability, economic growth, or financial markets separately (Osayande et al., 2025; Enang et al., 2024), few have integrated short-run and long-run analyses of these variables in the context of stock market dynamics.

This gap is critical because mismanaged debt can crowd out productive investment, reduce investor confidence, and destabilize financial markets, while effective borrowing could support economic growth and market development. Without clear evidence on these relationships, policymakers face difficulty designing debt management strategies that balance fiscal needs, market stability, and economic growth. Therefore, this study seeks to address this problem by examining the short-run and long-run effects of domestic debt, external debt, and inflation on the Nigerian stock market, providing insights that could inform sustainable fiscal and financial policies.

The main objective of this study is to examine the effects of public debt components and inflation on stock market performance in Nigeria. other specific objectives are to: determine the impact of domestic debt on stock market performance in Nigeria; examine the influence of external debt on stock market performance in Nigeria; investigate the effect of inflation on stock market performance in Nigeria. This study is significant because it provides empirical evidence on how public debt components and inflation affect stock market performance in Nigeria. By analysing both domestic and external debt, as well as inflation, the study helps policymakers understand the short-run and long-run effects of borrowing on financial market stability. The findings are valuable to government institutions, particularly the debt management office and the Central Bank, as they can inform decisions on borrowing strategies, fiscal policies, and investment in productive sectors. Investors and financial analysts will also benefit, as the study highlights factors that influence market performance and investor confidence. Furthermore, the study contributes to the academic literature on debt management, inflation, and capital market development in emerging economies, providing a basis for future research on sustainable economic growth and fiscal stability.

II. LITERATURE REVIEW

Conceptual review

Public Debt

Public debt is the total money owed by the government to the domestic and foreign creditors. It is borrowed to balance the difference between the government income and spending, finance infrastructure, and stabilize the economy (Misztal, 2021). There is domestic debt which is a government debt raised at the local financial institutions and external debt, raised at either the foreign governments or international organizations (Roşior & David, 2025). Although debt financing may be beneficial to the development of an economy and participation in development projects, the extreme development of debt may create fiscal deficit, increase interest payments, and decrease the ability of the government to provide necessary services (Yusuf & Mohd, 2021). To guarantee fiscal sustainability and to avoid macroeconomic turmoil, as well as to stimulate economic growth in the long term, efficient management of public debt is very essential.

Stock Market Performance

The well-being and effectiveness of financial markets are manifested in the performance of stock markets, which is typically measured in terms of market capitalization, stock price, and returns. It acts as an investment medium, capital mobilization and is a sign to investors that they have confidence in the economy (Saada, 2025). The government borrowing, the level of the public debt and inflation, and fiscal policy are the factors, which may have a substantial impact on the stock market dynamics. High rates of public borrowing can either crowd out the investment of the private sector or lead to a rise in interest rates that will have a negative impact on stock returns (Islam & Nguyen, 2024). On the other hand, market performances can be improved by reasonable debt, effective investments and macroeconomic stability.

Domestic Debt

Domestic debt is the part of government borrowing which is obtained in the country, and it is usually in the form of Treasury Bills, Treasury Bonds, and Federal Government Bonds (Mosley & Rosendorff, 2023). It is the one that funds budget deficits, government investment as well as projects that are aimed at developing a country without involving the outside sources. Although domestic debt can trigger economic growth and offer local investment sources, heavy dependence on it can displace private investment by increasing the interest rate and restricting the availability of credit (Penzin & Oladipo, 2021). Research has shown that improper management of domestic debt may be a cause of inflationary pressures and decrease investor confidence. Consequently, it is necessary to adopt careful domestic debt policies that can be used to sustain government expenditures, macroeconomic stability and productive investment that will help in overall economic development.

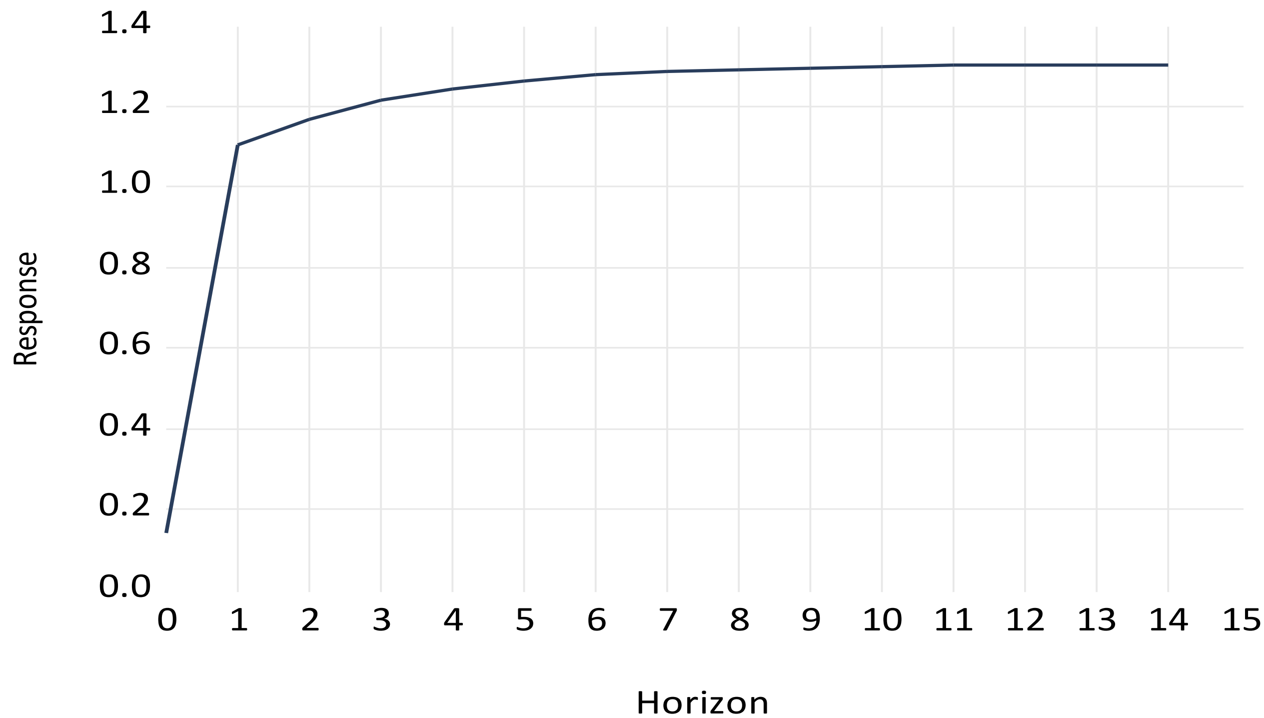

Figure 1 - Cumulative Dynamic Multiplier: Domestic Debt on Total Market Capitalization

Figure 1 - Dynamic Multiplier Cumulative: Domestic Debt on Total Mortgage Capitalization.

Figure 1 reflects cumulative dynamic multiplier, the shocks in domestic debt and their impacts on total market capitalization in the long run. The curve trend shows that domestic debt will first have a great positive impact on the stock market but the impact will slowly level as time progresses. The curve is steep at the start of the period, implying that the growth of domestic debt had an immediate response in the Nigerian stock market. This first reaction indicates that financial markets are sensitive to government borrowing activities, especially since the domestic debt instruments including Treasury Bills and Federal Government Bonds are commonly held by the banks, institutional investors and pension funds. As the government borrows more money domestically, there is a possible temporary increase in liquidity in the financial system that can boost the trading activities and affect the stock market value.

The slope of the curve however starts decreasing gradually with time and this means that the magnitude of the impact becomes weaker. The cumulative effect is still growing albeit at a slower pace, however the curve is now flattening. This implies that domestic debt has an effect on total market capitalization but this effect reduces with time. That is, the stock market has been slowly absorbent of the impact of government borrowing and adapts to the new fiscal regime.

This trend can be attributed to the economic experience of Nigeria in the last few years. Since the government of Nigeria has been experiencing diminished oil revenue and an increase in the fiscal strain, the government has been increasingly depending on domestic borrowing to cover the budget deficit. Although such borrowing can help initially to sustain the activity of the financial markets, over-indebting through domestic borrowing can ultimately strangle the private sector investment as the commercial banks and institutional investors will opt to invest in comparatively safer government securities instead of equities. Consequently, the stock market response to the domestic debt is constrained with time.

In general, the figure indicates that the domestic debt can have a being short-run effect on the performance of the stock market in Nigeria, although it is less likely to have a negative impact in the long-run as the financial market readjusts and investors adapt to the current state of financial affairs.

External Debt

External debt refers to the part of the total government borrowing that is made up of foreign lenders, such as bilateral and multilateral organizations, commercial banks and bond markets (Matsubara, 2025). It also gives supplemental funding to massive infrastructure, economic growth, and budgetary assistance particularly where domestic funds are wanting. Externally managed debt when managed properly will propagate growth and development, whereas when poorly managed will create debt overhang, augment foreign exchange liabilities and lead to currency instabilities (Yahaya, 2026). It's over borrowing may also cause a diversion of funds to productive sectors to services of debts.

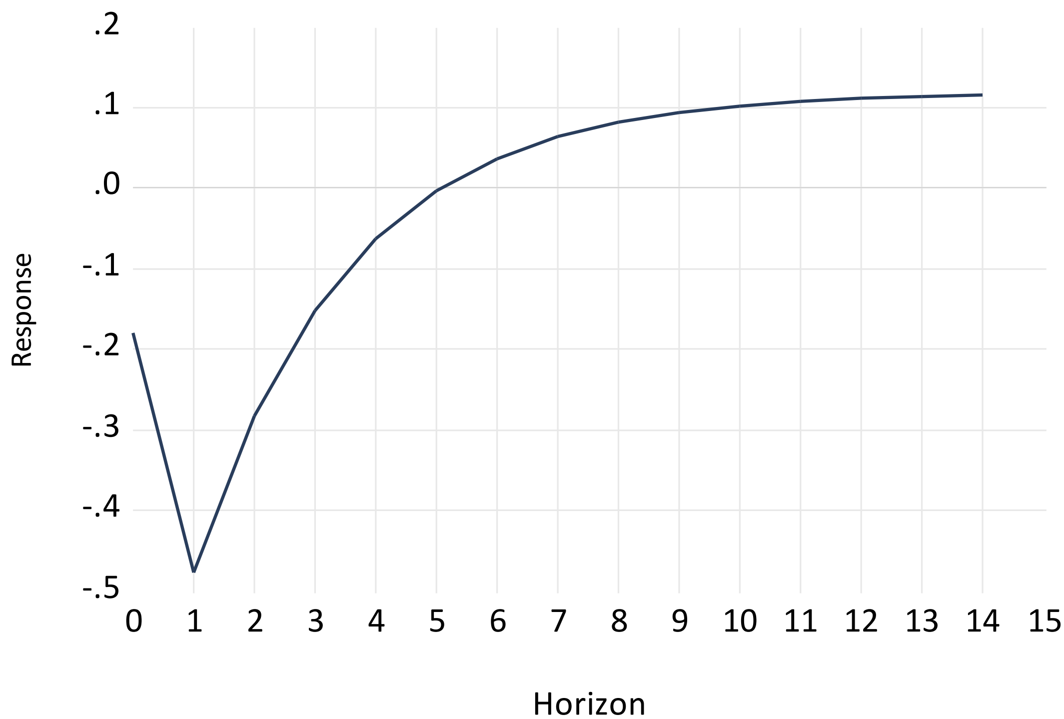

Figure 2 - Cumulative Dynamic Multiplier: External Debt on Total Market Capitalization

Fig.2 demonstrates the cumulative dynamic multiplier that indicates the impacts of shocks in external debt on the total market capitalization in the long-term. The trend in the curve shows that an initial negative reaction is experienced by the external debt on the stock market but the trend converts towards positive performance eventually and it remains stable in the long run. The curve decreases at the first level significantly to a position below the zero-mark indicating that initially, an increase in the external debt has a negative impact on the total market capitalization. This drop in the early stage could be related to the fears of the investors regarding increasing foreign borrowing and the perceived risks of meeting debt servicing commitments, exchange rate pressure, and financial sustainability.

Most of the external loans in Nigeria are unrelated to the United States currency as most of the borrowing external loans are in foreign currencies like the United States dollar, thus the concern on currency depreciation and repayment ability is mostly relevant in the case of Nigeria. Confidence in financial markets could be diminished in the short term when investors fear increased costs in future of serving their debts or when they face the threat of straining their foreign reserves. The external debt of Nigeria has been on the increase over the past years to a high of more than 41 billion dollars with the government depending on external financing sources to finance the fiscal deficits and the development undertakings.

With time however, the curve will start to increase gradually and then will cross into the positive area and this will reflect the fact that the long-run impact of the external debt will start benefiting the stock market. This implies that in cases where external borrowing is used appropriately in productive ways like infrastructure, energy and projects or economic reforms, it can cause economic activity and increase investor confidence. The advancement of the economic situation could result in the higher profitability of corporations and draw more people to the stock market.

The same trend is also noticeable in the recent economic development in Nigeria. In recent years, the macroeconomic indicators and substantial growth in the stock market have been improved by government reforms and more funding which has been financed partly by external funding. As an illustration, the stock market of Nigeria has registered a high growth in conjunction with general economic reforms and increases in foreign reserves.

On the whole, the figure indicates that the external debt can cause uncertainty in the financial market at first, which can cause the temporary decrease in the performance of the stock market. However, once the borrowed funds have been absorbed in the economy and it starts to propel the economic activities, the effect starts to take over and stabilizes in the long-run. This trend shows the significance of efficient debt management and the high level of productive utilization of external loan in encouraging sustainable development of the financial market in Nigeria.

Inflation

Inflation refers to the tendency of the general level of price of goods and services within an economy to be increasing over time. It reduces the purchasing power of money, impacts investment decision, and shapes the interest rates and the economic growth (Adewale, 2025). Moderate inflation is good because it stimulates spending and investment, whereas high or unstable inflation leaves the situation unpredictable and lowers investor confidence (Shafiq, 2025). Both domestic and external public debt can have an impact on inflationary pressures since borrowing can have an effect on money supply or strain privately-owned investment (Aimola & Odhiambo,2020). On the same note, inflation can be worsened by fiscal mismanagement, supply shocks and depreciation in terms of currencies.

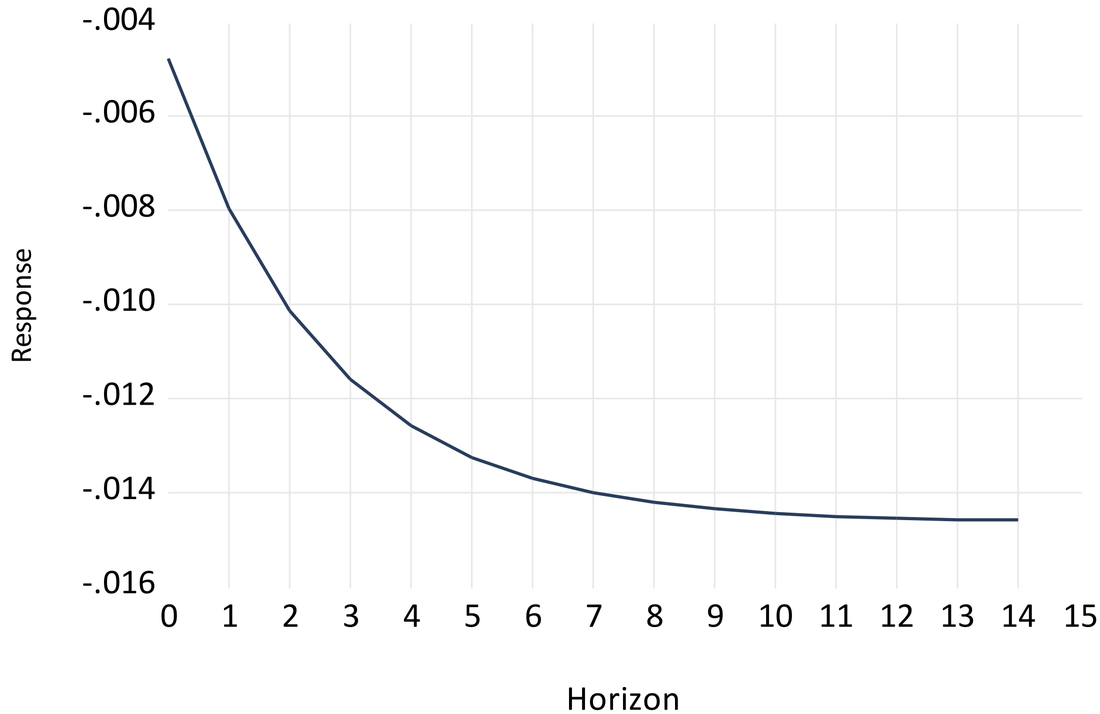

Figure 3 - Cumulative Dynamic Multiplier: Inflation on Total Market Capitalization

Figure 3 is a cumulative dynamic multiplier which depicts how total market capitalization will respond to inflation shock over time. The trend of the curve indicates that there is a negative relationship of the inflation and the performance of the stock market during the adjustment period. Initially, the curve starts at a positive point at the onset of period but starts experiencing a sharp fall that shows that growth in inflation causes instant pressure to the total market capitalization. This implies that the Nigerian stock market responds adversely to the inflationary shocks because the escalating prices have a tendency to lower the investor confidence and deteriorate the performance of the entire market.

The curve is expected to keep on decreasing as the time horizon increases but the rate at which the curve is decreasing becomes slower. This shows that the negative impact of inflation on the stock market continues to affect it as time goes by, but the extent of the effect starts becoming constant. In practice, it would imply that on the one hand, inflation will still have a harmful effect on the overall market capitals; on the other hand, the financial market will adapt to the existing inflationary environment. Investors and financial institutions start to factor inflation expectations in their decision making and hence the reaction to future increase in inflation is less in intensity.

This trend can be linked to the current economic trends in Nigeria where the problem of constant inflation has been a significant macroeconomic issue. Over the past years, Nigeria has been witnessing severe consumer price rise which has been attributed to the depreciation of the exchange rate, escalating energy prices, disruption of food supply in the country and the pressure on the fiscal side of the government. High inflation diminishes the actual value of the returns of investments and compound uncertainty in the financial market, which in most cases detracts long-run investment in equities. This can cause investors to even move their investments to alternative value investments like government securities or holdings on foreign currency to maintain its value.

Additionally, inflation has a tendency of raising the interest rates as governments strive to maintain the prices. Increased interest rates may decrease liquidity in the stock market as the investors may tend to invest in fixed-income securities, which have comparatively safer and more certain returns. Therefore, a prolonged inflationary pressure can undermine the development of the total market capitalization and decelerate the capital market development.

In general, the figure indicates that the stock market performance in Nigeria is consistently affected by inflation negatively. Despite the fact that the market responds slowly to the inflationary shock in the long run, high and unstable inflation is a major challenge towards the stability and future growth of the Nigerian financial market.

Theoretical Framework

James Tobin in 1963 propounded the Crowding-Out Theory which was developed further by Keynesian economists. According to the theory, too much government borrowing particularly domestic debt may result in a decline in the investment in the private sector. This is because the government's borrowing will increase the interest rates in the financial market which will make credit costly and not easily available to the private investors. As a result, expansion of personal investment and constructive economic processes might be stifled and this may have spill over to financial markets such as in the stock markets. The theory is especially suitable in the current study because it describes the process by which domestic debt may also adversely impact the performance of the stock market in Nigeria. Empirical research, including that of Yusuf and Hussaini (2026) and Enang, Ele, and Itoro (2024), indicates that internal borrowing may crowd out the private investment and decrease the confidence of the investors and decline short-run stock market returns. Another insight that can be drawn with the theory is that the external debt when controlled in the right way and invested in productive projects may cause growth in the market to increase, which would complement the results of the long-run analysis in this research. Thus, the Crowding-Out Theory will be an effective conceptual framework to examine the short-term and long-term impacts of the elements of public debt in the performance of the stock market in Nigeria.

Empirical review

Yusuf and Hussaini (2026) investigated the relationship between the fiscal sustainability and the public debt in Nigeria through the annual time series data between the year 1980 and 2022. The analysis of both the short-run and long-run impacts of debt elements on fiscal stability was done using the Autoregressive Distributed Lag (ARDL) model because stationarity tests had been done. The results showed that the domestic debt, debt services payments, fluctuations in the exchange rates, foreign reserves, and the private investments are sources of macroeconomic instability. Foreign direct investment, on the contrary, was observed to improve fiscal sustainability both in the short-term and in the long-term. It was also found that interest rate, external debt and trade openness have mixed effects on fiscal stability. The researchers found out that the poor revenue potential, chronic fiscal deficits, governance issues, and the ineffective use of the borrowed funds enhance the sustainability of the debt in Nigeria. It thus proposed better revenue collection, open debt management, concessional borrowing, efficient state investment and diversification of the economy.

Using the data of 1986-2024, Yahaya (2026) investigated how the management of public sector debts affects the inflation and the stability of the exchange rates in Nigeria. The research used a regression model using panel data to explain the association between the management of debt and macroeconomic stability. The results showed that proper management of domestic debt can greatly help to minimize the inflationary pressures, and increment in the external debt leads to the exchange rate volatility. It was further revealed in the study that the institutional quality moderating factor is widely relevant in that the better the governance the lower the inflation volatility and the better the macroeconomic stability. Also, the exchange rate unification policy of 2023 turned out to be correlated with high rates of currency depreciation and inflation rate increase, which can be regarded as the cruciality of the coordinated fiscal and monetary policies. The research suggests that to stabilize the Nigerian economy, the institutional frameworks, the transparency on debt management, the creation of an autonomous office of debt management, and better coordination of fiscal and monetary policies should be reinforced.

Osayande, Evbayiro-Osafio, and Osifo (2025) used annual time series data of 1985-2021 to determine the relationship between the performance of the stock market and public debt in Nigeria. The researchers used the Bounds testing method to identify the short-run and long-run correlations between the variables of the public debt and the stock market indices. The domestic debt, external debt, and debt servicing were used to proxy the public debt, whereas the stock market performance was used to measure the dependent variable. The findings indicated that the variables of public debt have a different extent of impact on the short and long-run performance of the stock market. Precisely, external debt, domestic debt, and debt service to a considerable extent influence the dynamics of the stock market in Nigeria. The study decided that proper management of the public debt is critical in stabilizing the financial market and suggested that borrowing must be kept within sustainable levels and also the borrowed money should be utilized in productive economic activities that could help to increase the performance of the stock markets.

The article by Asaolu, Adewale, and Ozabeme (2025) discusses the effect of the public debt on the economic growth of Nigeria compared to local and foreign debt, along with the interest rates and inflation. The data analysis of the research is based on the data of annual data (2001-2023), Ordinary Least Squares (OLS) data analysis of the regression, in order to draw conclusions either that borrowing stimulates economic growth or that it slows it down. The outcomes are an effective particular impact: domestic debt is a negative factor as well as connected to real GDP (= -0.000, p = 0.029) but external debt is a positive yet insignificant impact (= 0.001, p = 0.045). There is a positive correlation between growth and interest rates but no significance was observed in relation to inflation. The paper observes that the most important aspect of using borrowed capital is the use and excessive reliance on internal borrowings may cripple the growth. The authors propose sound monetary and fiscal practices, restraint in debts as well as preference to external financing productive investment in order to proceed with sustainable growth of the economy. These lessons are particularly effective among policymakers who desire to make the debt underpinnings and macroeconomic stability in Nigeria sustainable in the long run.

In their study, Iwedi and Ogbonna (2024) analyzed the connection between the domestic debt market in Nigeria and decision-making in the area of public investment applying time-series data on the market, which is available in the Central Bank of Nigeria since 1986. The research used the Treasury Bills, Treasury Bonds, and Federal Government Bonds as a proxy of domestic debt and the public investment was used as government spending on the transport sector. The results of the unit root test, cointegration analysis and the errors correction model (ECM) and the Granger causality tests showed that lagged Treasury Bills and Federal Government Bonds have a significant effect in the expenditure of public transportation. This model was able to explain an average of 67.38% of the variations in the public investment, showing that the domestic debt instruments are a significant factor in the determination of government investment decisions. This research has shown that the dynamics of domestic debt play a significant role in determining the results of public investment and it was highlighted that proper policies should be established in managing debt to enable fiscal sustainability and economic growth in Nigeria.

Enang, Ele, and Itoro (2024) investigated how fiscal policy impacts stock market performance in Nigeria in the period between 1999 and 2023 with the help of secondary data received in the National Bureau of Statistics. The analysis used in the study was the Ordinary Least Squares (OLS) regression tool to determine the effect of government spending, taxation policy, and government borrowing on the performance of the stock market. The findings showed that a government spending has a considerable positive impact on stock market, which is used to explain approximately 64.8 percent of the changes. On the same note, taxation policies give a tremendous impact on the stock market as an aspect of enhancing investor confidence and spurring market activities. Government borrowing was also discovered to have a big influence on the performance of the stock market though excessive borrowing can crowd out the investment of the privates by increasing the interest rates. The research proposes sound fiscal policy management to establish a favourable investment climate and improve the development of the stock market in Nigeria.

Nwoye, Udunwoke, and Nworie (2023) explored the impact of the public debt on the economic performance of Nigeria based on the time series data in 1999 2021. The research design was ex post facto research design and used econometric tests such as Ordinary Least Squares (OLS), unit root tests as well as Johansen cointegration. The outcomes showed that the positive impact of domestic debt on the gross domestic product in Nigeria is substantial, which means that borrowing that is internally raised could facilitate the economic processes. Contrastingly, external debt depicts a very strong negative impact on GDP which indicates that the extravagant foreign borrowing can be a deterrent to economic growth. The negative yet non significant impact of debt servicing on GDP was observed. The research came up with a conclusion that increasing debt servicing incurred interest might deteriorate fiscal strength and advised sustainable domestic lending, effective use of foreign loans, and better fiscal prudence to prevent debt overhang in Nigeria.

The authors examined the significant contributors of the increasing level of public debt within Africa based on the panel data of 47 African states during the 2000-2018 in their study. The researchers used the Generalized Method of Moments (GMM) and Fixed Effects Two-Stage Least Squares (IV-FE) estimation methods to test the predictors of the public debt. The results showed that the level of corruption is a major cause of high public debt in the African states. The relationship between government expenditure and public debt was also established to be positive and significant showing that the higher the expenditure by the government the higher the borrowing. On the other hand, the government consumption and tax revenue were observed to be having a strong negative association with the level of the government debt. There was positive but not significant relationship between military expenditure and public debt. The paper suggested that to provide sustainable debt management and economic development in Africa, the institutions of governance should be strengthened and corruption should be countered.

Ocheng (2022) explored the performance of the stock market under the influence of external public debt, by using monthly data between 2015 and 2021 in Kenya. It involved the use of descriptive correlational research design where the researcher used Autoregressive Distributed Lag (ARDL) model to investigate the association between various classes of external debt and Nairobi Securities Exchange All-Share Index. The external debt was disaggregated into multilateral debt, bilateral debt, commercial debt and guaranteed external debt, whereas, exchange rate, interest rate, and domestic debt were represented as the control variables. The results indicated that the short run effect of all the external components of debt would have no significance on stock market performance. Bilateral and multilateral debt however in the long term gave a significant positive impact on the stock market. The research advocated the effective application of external credit in investments that are productive to enhance the growth of stock markets.

In the article by Wisniewski and Jackson (2021), the authors were examining the connection between stock market returns, government debt growth, and an international dataset. The paper has examined the effect of variation in the central government debt-to-GDP ratio on stock indexes in different countries. The results indicated that increase in government debt had a negative relationship with stock returns. In particular, an increase in the debt-to-GDP ratio by a one-percentage-point was found to lower the stock returns by 39 to 95 basis point based on the estimation approach. The research also indicated that investment risk is not behind this effect but higher interest rates of privates and high future tax anticipation as a result of accumulating debt. The authors found that increasing the government debt in the economy may put a negative pressure on the performance of the stock market.

Irfan et al. (2020) examined the relationship between external debt and economic growth and stock market performance in SAARC countries (such as Pakistan, Sri Lanka, Bangladesh, and India) in the period between 1992 and 2017 with moderating variable capital formation. The study employed the panel least squares regression to establish a significant negative correlation between the economic growth and the external debt. The positive impact of debt was however mitigated by capital formation which moderated this relationship. The results imply that having high external debt is usually a negative factor to these economies and policies that enhance capital formation, mobilization of national revenues, exports and foreign direct investment are advisable as alternatives to overdependence on external borrowing.

III. METHODOLOGY

This research study was based on an ex post facto research design since it used annual time series statistics between 1990 and 2024 to investigate the influence of the elements of public debt on the performance of the stock market in Nigeria. The Central Bank of Nigeria Statistical Bulletin was used to get data on domestic debt, external debt, inflation, and stock market indicators. The dependent variable is a stock market performance (TMK) and the independent variables are domestic debt (DDT) and external debt (EDT). The control variable is inflation (INFL). The paper used the Autoregressive Distributed Lag (ARDL) model to examine the immediate and the longitudinal relationship among the variables following the stationarity tests with the help of the Augmented Dickey-Fuller test. Selection of the ARDL was influenced by the fact that it is able to accommodate both the variables integrated at various orders, I(0) or I(1), and dynamic adjustments. Diagnostic tests such as serial correlation, heteroskedasticity, and normality were conducted to make sure that the models are robust and reliable. The empirical approach of the study gave the possibility of distinguishing between short and long-term impacts of the public debt on market performance.

Model Specification

In order to investigate how the public debt can influence the performance of the stock market in Nigeria, the Autoregressive Distributed Lag (ARDL) model is adopted in the study; the ARDL model is able to capture both the short-run factor and the long-run relationship. The overall functional representation of the model is as follows:

$$\mathrm{TMK}_t = \alpha_0 + \alpha_1 \mathrm{EDT}_t + \alpha_2 \mathrm{DDT}_t + \alpha_3 \mathrm{INFL}_t + \varepsilon_t$$

Where:

- TMK_trepresents stock market performance at time t, measured by the total market capitalization;
- EDT_tdenotes external debt;
- DDT_tdenotes domestic debt;
- INFL_trepresents inflation;

- $\alpha_0$is the intercept;
- $\alpha_1, \alpha_2, \alpha_3$are coefficients capturing the magnitude and direction of the effects;
- $\varepsilon_t$is the stochastic error term.

The ARDL model also includes lagging the values of both dependent and independent variable to adjust dynamics of adjustments:

$$\Delta\mathrm{TMK}_t = \beta_0 + \sum_{i=1}^{p} \beta_i \Delta\mathrm{TMK}_{t-i} + \sum_{j=0}^{q} \gamma_j \Delta\mathrm{EDT}_{t-j} + \sum_{k=0}^{r} \delta_k \Delta\mathrm{DDT}_{t-k} + \sum_{l=0}^{s} \theta_l \Delta\mathrm{INFL}_{t-l} + \phi\mathrm{ECM}_{t-1} + \mu_t$$

Here, Δdenotes the first difference operator, $\mathrm{ECM}_{t-1}$is the error correction term capturing the speed of adjustment toward long-run equilibrium, and $\mu_t$is the white noise error term. The specification provides the opportunity to estimate accurately the short-term and long-term effects of the public debt and inflation on the stock market in Nigeria.

IV. RESULTS AND DISCUSSION

Table 1. Descriptive Statistics of Variables

	TMK	EDT	DDT	INFL
Mean	7.869429	7.614857	7.801714	19.03057
Median	8.86	7.4	7.68	12.2
Maximum	11.6	11.16	11.16	76.8
Minimum	2.79	5.7	4.43	0.2
Std. Dev.	2.549712	1.421562	1.724248	16.62684
Skewness	-0.50147	0.687915	-0.02363	2.02496
Kurtosis	2.015254	2.620135	2.175722	6.580345
Jarque-Bera	2.8811	2.970924	0.994099	42.61356
Probability	0.236797	0.226398	0.608323	0.00000
Sum	275.43	266.52	273.06	666.07
Sum Sq. Dev.	221.035	68.70847	101.0831	9399.367
Observations	35	35	35	35

Source: Author's Computation, (2026)

Table 1 shows descriptive statistics of the variables employed in the current study, which are total market capitalization, external debt, domestic debt and inflation rate during the period that it is under research. The descriptive statistics are helpful as they give the overview of the properties of the data, the measures of the central tendency, dispersion, and the distributional characteristics of each variable.

Findings indicate that the mean of the total market capitalization during the period of study is 7.869 in a logarithmic form. This is indicative of the general trend of the growth of the Nigerian stock market. The mean value is very close to the median value of total market capitalization, which is 8.86. This means that many of the observations lie in the higher range of market capitalization values especially in the more recent years when the Nigerian stock market underwent growth. The highest value of the total market capitalization is 11.6 and the lowest value is 2.79. This broad scope implies that there was a significant growth in the stock market over the period that the research was undertaken. The standard deviation of 2.55 represents that there is moderate variation of total market capitalization, otherwise known as the variation in the Nigerian stock market during various times of the year.

The skew value of -0.5 is an indication that the distribution of the total market capitalization is slightly skewed negatively, that is, there are few lower values, which are drawing the distribution towards the left. The kurtosis of 2.02

is not too different to normal distribution benchmark of three and indicates that the distribution is not overly skewed with extreme peaked values. The Jarque- Bera value is 0.237 which is larger than the standard level of significance of 0.05, showing that the total market capitalization distribution is not significantly different at a level of 0.05.

The average and median values of the external debt are 7.615 and 7.4 respectively. The two values are rather close implying that the allocation of external debt is relatively equal over the period in question. The highest figure of the external debt is 11.16 and the lowest figure is 5.7, this means that the external debt of Nigeria was rising remarkably over the years. The standard deviation of 1.42 indicates that the external debt had moderate changes over the period of study. The skewness figure of 0.69 means the distribution is skewed positively and as such there are a few observations with relatively high values of external debt that bring the distribution to the right. The kurtosis of 2.62 indicates that the distribution is relatively peaked but it is also near normal. The Jarque-Bera probability value of 0.226 exceeds the critical probability value of 0.05, which implies that the null hypothesis of normal distribution cannot be rejected with regard to external debt.

The domestic debt results indicate that the mean value is 7.802 coupled with a median value at 7.68. The difference between the mean and the median is small thus indicating that the distribution of domestic debt is quite symmetrical. The highest value of domestic debt is 11.16 and the lowest is 4.43. This implies that there has been an increase in domestic debt during the period of time the study has been done, which indicates the rising dependency of the government on domestic borrowing as a means of covering the fiscal deficits. The standard deviation of 1.72 shows that the domestic debts vary moderately across the years. The Skewness of -0.02 indicates that the distribution of the domestic debt is almost symmetric. It has a kurtosis of 2.18, which indicates that the distribution is not a normal distribution but in reasonable range. The Jarque- Bera 0.608 probability value exceeds the 0.05 significance level, and this means that the distribution of domestic debt is not a significant deviation in terms of normality.

The rate of inflation is very different in its trend as opposed to the other variables. Inflation rate of the period under analysis is 19.03 percent with a median of 12.2 percent. The fact that the difference between the mean and the median is huge implies that there were extreme inflation values in some years. The highest rate of inflation that has been registered over the period is 76.8 percent as opposed to the lowest rate of 0.2 percent. This broad spectrum indicates the macroeconomic instability that other times the Nigerian economy experienced especially during periods of high inflation. The standard deviation value is 16.63 which means that the inflation was quite volatile during the research period. The skewness value of 2.02 indicates that the inflation distribution is highly skewed to the positives, that is, very high values of inflation have pushed the distribution out to the right. The value of kurtosis of 6.58 shows that the distribution is extremely peaked with a heavy tail, which implies that extreme observations are observed. The Jarque- Bera test probability value is 0.000, which means the series of inflation is not normally distributed.

On the whole, the descriptive statistics demonstrate that the total market capitalization, external debt, and domestic debt have relatively stable statistical characteristics and can be discussed as approximately normal distributions. On the other hand, the inflation rate is very volatile and non-normal.

Table 2. Unit Root Test Summary (Augmented Dickey–Fuller Test)

Variable	Augmented Dickey–Fuller Statistic (Level)	5 Percent Critical Value	Probability Value (Level)	Stationarity	Order of Integration
Total Market Capitalization	-1.86539	-2.95113	0.3439	Non-stationary	Integrated of Order One
External Debt	-0.41709	-2.95402	0.8948	Non-stationary	Integrated of Order One
Domestic Debt	-0.32188	-2.95113	0.9113	Non-stationary	Integrated of Order One
Inflation Rate	-2.11654	-2.95113	0.2397	Non-stationary	Integrated of Order One

Note: A variable is stationary when the Augmented Dickey–Fuller statistic is more negative than the 5% critical value or when the probability value is less than 0.05.

Source: Author’s Computation, (2026)

Table 2 shows the outcome of the Augmented Dickey Fuller unit root test done to establish the characteristics of stationarity of the variables in the study. The findings show that the total market capitalization, external debt, domestic debt, and inflation rate do not take their level form. This is because the value of the Augmented DickeyFuller test of all variables are less than the five percent critical values and probability values of the tests are higher than the five percent level of significance.

The variables are not stationary at level and hence the series were further tested at first difference. The findings reveal that the first difference of all the variables turned out to be stationary. This means that total market capitalization, external debt and domestic debt and inflation rate are order one integration. This finding suggests that the variables have the same order of integration, hence the application of the Autoregressive Distributed Lag modelling technique to analyse the long-run and short-run relationship between the variables in the research.

Table 3. Autoregressive Distributed Lag Bounds Test for Cointegration

Null Hypothesis: No long-run relationship exists among the variables

Test Statistic	Value	Significance	I(0) Critical Value	I(1) Critical Value
F-statistic	5.095	10%	2.618	3.532
K (Number of regressors)	3	5%	3.164	4.194
		1%	4.428	5.816

Source: Author's Computation, (2026)

The findings of the Autoregressive Distributed Lag bound test that was performed to find out whether there is a long-run relationship between the total market capitalization, external debt, domestic debt and inflation rate are reflected in Table 3. In the bounds testing procedure, the calculated F-statistic is compared to the lower and upper bound critical values of various levels of significance. The outcome is that the calculated F-statistic is 5.095. This value exceeds the upper bound critical values of ten percent and five percent level of significance. By the decision rule, which is the upper bound critical value of the bounds test, on the event that the F statistic exceeds the upper bound critical value, we reject the null hypothesis of no long-run relationship.

Thus, the outcome shows that long-run equilibrium relationship exists between total market capitalization, external debt, domestic debt and inflation rate in Nigeria during study period. The implication of this finding is that the variables move in the long run even in case of short run variation. The fact that there is co-integration amongst the variables justifies the estimation of the Autoregressive Distributed Lag model to analyze the long-run and short-run dynamics of the variables of public debt components and the performance of the stock market in Nigeria.

Table 4. Short-Run ARDL Estimates

Dependent Variable: D(TMK)

Method: ARDL

Date: 03/13/26 Time: 16:42

Sample: 1992 2024

Included observations: 33

Dependent lags: 1 (Automatic)

Automatic-lag linear regressors (3 max. lags): EDT DDT INFL

Deterministics: Restricted constant and no trend (Case 2)

Model selection method: Akaike info criterion (AIC)

Number of models evaluated: 64

Selected model: ARDL(1,2,2,0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.

COINTEQ*	-0.32519	0.05965	-5.45158	0.0000
D(EDT)	-0.18037	0.083892	-2.15004	0.040335
D(EDT(-1))	-0.3941	0.090324	-4.3632	0.000158
D(DDT)	0.141948	0.196626	0.721918	0.476331
D(DDT(-1))	0.584484	0.212375	2.752133	0.01027
R-squared	0.6061	Mean dependent var		0.256364
Adjusted R-squared	0.549829	S.D. dependent var		0.294245
S.E. of regression	0.197423	Akaike info criterion		-0.26821
Sum squared resid	1.091324	Schwarz criterion		-0.04147
Log likelihood	9.425446	Hannan-Quinn criter.		-0.191917
F-statistic	10.77103	Durbin-Watson stat		2.130748
Prob(F-statistic)	0.000021			
* p-values are incompatible with t-Bounds distribution.				

Source: Author's Computation, (2026)

Table 4 shows the short run estimates based on Autoregressive Distributed Lag model to analyze dynamic relation between the elements of public debt and the performance of the stock market in Nigeria. The model has the change in the total market capitalization as the dependent variable and the change in the external debt and domestic debt as the explanatory variables. The error correction term is also included in the model; the error correction term is used to represent the speed of adjustment between short-run disequilibrium and long-run equilibrium.

The error correction term is the most significant element of the short-run model. The error correction term coefficient is negative and statistically significant. To be more precise, the coefficient is equal to -0.32519, and the probability value is equal to 0.0000. The adverse and substantial coefficient attests to the fact that there is stable relationship in the long-run between the variables. Economically, the coefficient will show how fast the deviations will be corrected out of the long-run equilibrium. The value of -0.32519 suggests that nearly 32.5 percent of any short-run imbalance in the total market capitalization is settled in a single period. In real life, this is to mean that as the shocks decimate the system, the stock market will readjust slowly but steadily towards its long-run equilibrium future at an average rate.

The outcomes also indicate that the short-run effect of change in the external debt is negative and statistically significant on the total market capitalization. The current change of external debt coefficient is -0.18037 with probability value of 0.0403. It implies that when external debt increases, in the short-term, it is likely to decrease the performance of the stock markets. The decline in relationship indicates that when there is an increase in the external borrowing, then there is a concern to the investors about the sustainability of government debt and the possible weight of debt servicing to the economy.

Moreover, the lagged change of external debt has a negative or statistically significant impact on the total market capitalization as well. The lagged change in external debt coefficient is -0.39410 with probability value of 0.0002. This finding shows that the adverse nature of external debt on the performance of the stock market is long-lasting. That is, the negative implications of external borrowing on the stock market can not only happen immediately but can also be sustained in future to affect the performance of the market. This observation underscores the fact that external borrowing which might be in excess amounts can undermine investor confidence and cause confusion in the financial market.

The domestic debt results show a different trend. Current change in domestic debt coefficient is not statistically significant but rather positive. Particularly, the coefficient value is 0.14195 with a probability value of 0.4763. This is because the probability value exceeds the traditional significant level of five percent hence the effect of domestic debt on the total market capitalization in the current period cannot be taken to be statistically significant. This means that there is no instant impact of domestic borrowing change on the performance of the stock market.

Nevertheless, the lagged change in domestic debt exhibits positive and significant influence on the total market capitalization. The lagged change in domestic debt coefficient is 0.58448 with a probability value of 0.0103. This finding means that high growth in domestic debt is likely to increase the performance of the stock market in the next period. It is possible that this outcome could be explained by the fact that local financial market often implies the issue of a government security and consequently extends the financial system and liquidity of the capital market. Consequently, stock markets activities can be stimulated in the long run by indirectly the domestic debt.

The model summary Statistics can also be used to evaluate the overall performance of the model. The coefficient of determination indicates that the explanatory variables of total market capitalization capture about 60.6 percent of the variations. Adjusted coefficient of determination that explains the number of variables in the model is 54.98 percent. This implies that the model is reasonably good in offering an explanatory power.

Besides, F-statistic of 10.77103 with a P.V. of 0.000021 denotes that the entire model is statistically significant. It implies that the combination of the explanatory variables plays a large role in the transformation of the total market capitalization. The Durbin Watson value of about 2.13 indicates that no serious autocorrelation occurred in the model.

In general, the outcomes of the short-run indicate that the negative impact of the external debt on the stock market performance prevails whereas the domestic debt influences the performance positively within the next period. The critical and adverse error correction value is the indication that long run equilibrium is achieved by minimal changes being corrected as time goes by. These results indicate that the composition and operation of the debt on the side of the government is vital to determining the performance of the Nigerian stock market in the short term.

Table 5. Long-Run ARDL Estimates

Variable *	Coefficient	Std. Error	t-Statistic	Prob.
EDT(-1)	0.119908	0.203729	0.588565	0.560709
DDT(-1)	1.305147	0.162404	8.0364	0.0000
INFL	-0.01464	0.011133	-1.31504	0.198801
C	-2.2753	0.821168	-2.77081	0.009658
Note: * Coefficients derived from the CEC regression.				

Source: Author’s Computation, (2026)

Table 5 shows the long-run estimates that are acquired through the Autoregressive Distributed Lag model that test the long-term connections among total market capitalization and the explanatory variables used in the study. These explanatory variables are the external debt, domestic debt and the rate of inflation. Long-run coefficients show the effects of variations in these variables on the performance of the stock market in long-run.

The findings indicate that the coefficient of external debt is positive at 0.119908. This implies that a positive change in the total market capitalization of external debt in the long run is linked to rise in the external debt. The probability value of 0.5607 however shows that the relationship is not statistically significant using the traditional five percent level of significance. This means that, as much as external debt seems to be positively correlated with the performance of the stock market, the correlation is not good enough to be deemed as statistically valid. Implicationally, this finding is important to indicate that external government borrowing does not have a significant influence in the performance of stock markets in Nigeria in the long term.

On the other hand, domestic debt exhibits positive and statistically significant correlation with total market capitalization. The domestic debt coefficient is 1.305147, with the probability value of 0.0000, which is much less than the five percent level of significance. It means that the growth of the domestic debt is linked to the relevant enhancement of the long-run performance in the stock market. The positive correlation implies that domestic borrowing can support the growth of the financial market through the expansion of supplying government securities, the market liquidity, and the boosting of investment. Therefore, the domestic debt seems to be the key in intensifying the Nigerian capital market in the long term.

The correlation between the inflation rate and total market capitalization has a negative coefficient of -0.014640 meaning that an increase in inflation is likely to lower the total market capitalization in the long-run. This adverse correlation implies that an increase in the level of price will deter investment in the stock market by raising the levels of economic doubt and decreasing the actual worth of financial assets. The probability value of 0.1988 however, shows that the impact of inflation to the performance of the stock market is not statistically significant at the five percent level. This means that the extent to which inflation may be able to put pressure on the stock market on the downward side may not be strong enough to be able to affect the market capitalization in the long-run in the context of the model.

The constant value is negative and significant as the coefficient of the constant value is -2.275300, and the probability value is 0.0097. The fact that the constant term is significant implies that there are also other factors that might affect the stock market in the long-run that are not directly incorporated into the model. Such factors might be macro-economic factors, institutional development, regulatory policies and other structural factors that influence the operations of the Nigerian capital market.

All in all, the long-run outcomes show that domestic debt is an important factor in defining the performance of the stock market in Nigeria whereas external debt and inflation rate do not exhibit significant long-term effects. The domestic debt has a strong positive impact, which illustrates the significance of domestic borrowing as a possible mechanism of financial market development and economic financing. These results indicate that the institutional organization and the nature of the public debt might play a significant role in the future growth and stability of the Nigerian stock market.

Table 6. Diagnostic Tests for the ARDL Model

Statistics	Normality (Jarque–Bera)	Serial Correlation (Breusch–Godfrey LM)	Heteroskedasticity (Breusch–Pagan–Godfrey)
Test Statistic / F-Statistic	0.1402	2.7144 / 6.5314	1.0510 / 8.5613
Probability (p-value)	0.9323	0.0884 / 0.0382	0.4277 / 0.3806
Decision	Residuals are normally distributed	No serious serial correlation (mixed evidence)	Homoskedasticity cannot be rejected

Source: Author's Computation, (2026)

Table 6 shows the diagnostic tests that were carried out to test the reliability and stability of the Autoregressive Distributed Lag model that was estimated in the study. The significance of diagnostic tests is that they can be used to find out the validity of the regression model based on the basic assumptions of valid statistical inference.

The Jarque Bera statistic has been used to test normality of the residuals of the model by the normal distribution. The outcome is a Jarque-Bera statistic of 0.1402 that has a probability value of 0.9323. The null hypothesis of normal distribution cannot be rejected because the value of probability is much larger than the traditional significance level (which is five percent). It means that model residues are normally distributed. The fact that the residuals are normally distributed suggests that this model has no acute issues with distributors and that the parameters obtained can be deemed credible.

The Breusch Godfrey Lagrange Multiplier test was done to test the existence of serial correlation in the residual. The findings indicate that the F-statistic is 2.7144 with a probability value of 0.0884. This is more than five percent probability value, which means there is no possibility of rejecting the null hypothesis of no serial correlation. The value of Chi-square probability of 0.0382 is however slightly lower than the five percent level of significance indicating some degree of weak serial correlation. This mixed evidence, however, gives an overlaying outcome that serial correlation is not extreme to disapprove the model.

This was done by applying Breusch-Pagan-Godfrey in assessing the test of heteroskedasticity to establish whether the variance of the residuals is constant. The outcome demonstrates the F-statistic of 1.0510 with probability value of 0.4277, and Chi-square probability value of 0.3806. The null hypothesis of homoskedasticity is not rejectable since both the probability values are above five percent. This implies that the variance of the residuals are constant meaning that the model is not affected by heteroskedasticity.

All in all, the outcomes of the diagnostic tests demonstrate that the estimated Autoregressive Distributed Lag model is statistically sufficient. The error terms are normally distributed; no major issue of serial correlation and the error term variance is constant. These findings confirm that the model meets the major assumptions of the econometrics and the estimated findings can be trusted upon in the interpretation of the policies and their further discussion.

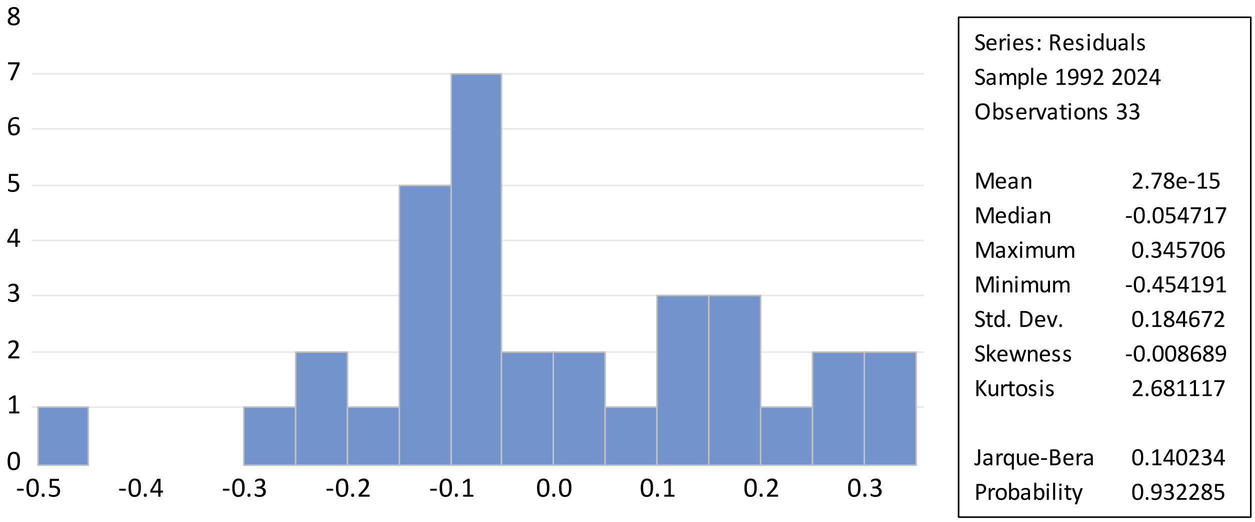

Figure 4 - Residual Normality Test (Histogram and Jarque–Bera Statistics)

The findings show that the distribution of the residual is normal. The Jarque Bera is 0.140234 and its probability value is 0.932285 which is more than the traditional level of significance of 0.05. This means that normal distribution cannot be rejected. Moreover, skewness of -0.008689 is nearer to zero, and the kurtosis of 2.681117 is near to three, which indicates once again that it is normal. Thus, the model residuals are well behaved, which implies that the results estimated can be used to interpret the policies.

Discussion of findings

The findings of this research give good understanding of the correlation among the elements of public debt, inflation and stock market in Nigeria. Beginning with the short-run ARDL estimates, the estimated coefficient of domestic debt was negative and significant meaning that in the short run, an increase in domestic debt has a negative impact of stock market performance. This is in line with the results indicated by Asaolu, Adewale, and Ozabeme (2025), who revealed that high levels of domestic borrowing can disrupt economic growth and consequently the financial market activities. Likewise, the positive and significant short-run impact of the external debt in the previous period is lagging, which implies that external borrowing may facilitate market activities when it has a productive use, which also validates the findings of Osayande, Evbayiro-Osagie, and Osifo (2025) who stressed that efficient use of the public debt enhances the financial market stability. Though all in the short-run model, inflation was not found to be significant statistically, which indicated that inflation pressures in the immediate effect on the stock market movement were not very strong in the study period.

The long-run ARDL outcomes indicate that the external debt seriously and significantly impacts the stock market performance in a positive manner and that is to say, capital market growth can be achieved by sustainable external borrowing that is well-managed. It can be seen as corroborating the study of Ocheng (2022) in Kenya, where the long-term external debt positively impacted on the stock market growth. On the contrary, domestic debt was positive, albeit not statistically significant in the long-term indicating that its effects on stock market performance are less efficient over time which is a possible indication of inefficiency in utilizing internally sourced funds as suggested by Nwoye, Udunwoke, and Nworie (2023). The coefficient of inflation was negative and insignificant, as it is in agreement with Yusuf and Hussaini (2026), who identified contradictory impacts of inflation on fiscal sustainability and market forces.

In general, the diagnostic tests prove that the model is highly specified, the residual values follow a normal distribution, no severe serial correlation, and the errors are homoskedastic, which adds to the validity of the results. All these findings support the position adopted by the empirical literature that prudent or not prudent application of public debt can be central to economic and financial stability. To make sure that borrowing will be translated into productive investment that can sustain the growth of the stock market, effective domestic borrowing, cautious utilization of the foreign debt, and balanced fiscal and monetary policies are needed, as it is suggested by Yahaya (2026) and Enang, Ele, and Itoro (2024).

Altogether, this paper shows that domestic debt can potentially lead to the negative impact of the stock market in the short term, but under the condition of successful external borrowing management, external debt might become one of the drivers of long-term financial market growth, which also explains the significance of debt management policies and fiscal discipline in Nigeria.

V. CONCLUSION AND RECOMMENDATIONS

This paper has explored how the components of the public debt, namely the domestic debt, the external debt, and the inflation, influence the performance of the stock market in Nigeria between 1990 and 2024. According to the results of Autoregressive Distributed Lag model, domestic debt adversely affects the performance of the stock market in the short term. This implies that internal borrowing may lead to high levels of crowding out of the investment in the private sector and lower investor confidence. On the other hand, the long-run positive impact of external debt is quite high, which means that the external sources of funds, when properly used and invested in the productive activities, might cause the development of the market and provide the financial stability. Although it was factored in the analysis, inflation did not play a major role meaning that the inflationary pressures at the time considered were not a major direct influence on stock market.

On the premise of these findings, a number of recommendations are suggested. To begin with the prudent domestic debt management is necessary, so that internal borrowing should not exceed the level of sustainability and be channeled on projects that will boost the economy and increase market confidence. Second, strategic use of external debt to finance long term development projects is required and hence transparency and monitoring of the funds will ensure that funds are used towards significant development of the market and the economy. Third, even though there was not a serious inflation, joint fiscal and monetary policies are very important to ensure macroeconomic stability and create a positive environment in terms of investment. Lastly, it is essential that there is institutional reforms and governance in the management of debt. Creating transparent debt management structures, enhancing transparency in borrowing and expenditure, and having a good oversight of borrowed and expended funds will improve the investor confidence, and will also make sure the public debt facilitates economic and financial growth. Finally, the need to balance between the management of domestic and foreign debt and proper fiscal and monetary policies is paramount to the future growth of stock markets in Nigeria. The policymakers are required to ensure that borrowing is used to encourage effective investment, confidence in the market and the long-term economic growth.

VI. ACKNOWLEDGMENT

The authors express gratitude to the Central Bank of Nigeria for making pertinent data available.

VII. REFERENCES

1. Adewale, A. A. (2025). Capital Expenditure and Inflation: Is Government Spending Worsening Nigeria's Economic Crisis? *Indonesian Journal of Business and Economics*, 8(1),1116-1137. https://ijbe.uniku.ac.id/pub/article/view/2.
2. Aimola, A. U., & Odhiambo, N. M. (2020). Public debt and inflation: a review of international literature. *Folia Oeconomica Stetinensia*, *20*(1), 9-24
3. Appiah-Kubi, S. N. K., Malec, K., Phiri, J., Krivko, M., Maitah, K., Maitah, M., & Smutka, L. (2022). Key drivers of public debt levels: empirical evidence from Africa. *Sustainability*, *14*(3), 1220.
4. Asaolu, A. A., Adewale, A. A., & Ozabeme, L. S. (2025). Effect Of Public Debt on Nigeria's Economic Growth. Nigerian Journal of Management Sciences vol, 26, 123-136
5. Enang, R. E., Ele, L. E., & Itoro, M. I. (2024). Effect of fiscal policy on the performance of Nigeria stock market (1999-2023). *UNIZIK Journal of Marketing (UJofM), 1 (2)*, 130-151
6. Irfan, M., Rao, M. W., Akbar, J., & Younis, I. (2020). Impact of external debt on stock market performance and economic growth: Moderating role of capital formation. *Journal of Finance and Accounting Research*, *2*(1), 1-27
7. Islam, A. M., & Nguyen, H. (2024). *Distributional crowding out effects of public debt on private investment in developing economies*. World Bank.

8. Iwedi, M., & Ogbonna, F. I. (2024). Domestic Debt Market and Public Investment Decision: Evidence from Nigeria. *Journal of Economics and Business Management*, *1*(1), 34-44
9. Matsubara, R. (2025). The Impact of International Bond Issuance on Developing Countries' External Government Debts. *Japanese Journal of Monetary and Financial Economics*, *12*, 41-61
10. Misztal, P. (2021). Public Debt Management and The Country's Financial Stability. *Studia Humana*, *10*(3)
11. Mosley, L., & Rosendorff, B. P. (2023). Government choices of debt instruments. *International Studies Quarterly*, *67*(2), sqad030
12. Nwoye, U. J., Udunwoke, C. M., & Nworie, G. O. (2023). Debt level and economic performance of Nigeria: effects. *Journal of Global Accounting*, *9*(1), 214-247
13. Ocheng, S. A. (2022). *The impact of external public debt on stock market performance in Kenya* (Master's thesis, Strathmore University)
14. Osayande, G. O., Evbayiro-Osagie, E. I., & Osifo, O. (2025). Public debts and stock market performance in Nigeria. *IOSR Journal of Economics and Finance*, *16*(1), 30–40.
15. Penzin, D. J., & Oladipo, O. S. (2021). Domestic debt and private investment: The case of a small open economy. *The Journal of Developing Areas*, *55*(4), 249-267
16. Roşior, S., & David, A. (2025). Forms of public debt: measurement indicators and factors of forming. In *Международный конкурс студенческих научно-исследовательских работ по экономике* (Vol. 3, pp. 241-246).
17. Saada, S. (2025). The influence of financial innovation and market capitalization on economic growth: a comparative review of global and emerging markets. *Journal of Recycling Economy & Sustainability Policy*, *4*(1), 17-29
18. Shafiq, S. (2025). *Volatility of Monetary Policy on Inflaction and Investment in Pakistan* (Doctoral dissertation, Business Studies).
19. Tobin, J. (1963). *An essay on the principles of debt management*. In Fiscal and Debt Management Policies (pp. 143–218). Englewood Cliffs, NJ: Prentice-Hall.
20. Wisniewski, T. P., & Jackson, P. M. (2021). Government debt expansion and stock returns. *International Journal of Finance & Economics*, *26*(4), 5017-5030
21. Yahaya, O. A. (2026). The impact of public sector debt management on inflation and exchange rate stability in Nigeria. *Journal of Economics Business Management and Accounting*, *2*(03), 48-97
22. Yusuf, A., & Hussaini, A. (2026). The Impact of Public Debt on Fiscal Sustainability in Nigeria. *Journal of Emerging Markets and Management*, *2*(2), 41-61.
23. Yusuf, A., & Mohd, S. (2021). The impact of government debt on economic growth in Nigeria. *Cogent Economics & Finance*, *9*(1), 1946249