



## DOMESTIC DEBT AND PRICE STABILITY IN NIGERIA

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**ABSTRACT:** *The impact of domestic debt on price stability in Nigeria from 2008 to 2023 is being analyzed in the research. The study employed an ex post-facto research design. Data from the Central Bank of Nigeria's statistical bulletin 2023 and Debt Management Office reports 2023 were used, specifically quarterly time series data. The dependent variable of price stability was inflation rate, while the independent variables were banking sector debt and non-banking sector debt. The Johansen cointegration test estimation was used based on the unit root test result which shows that domestic debt had no cointegration with inflation rate in Nigeria. Based on regression analysis, it was found that the banking sector debt had a positive significant effect on inflation rate in Nigeria, while non-banking sector debt had a negative significant effect on inflation rate in Nigeria. Therefore, the study recommended that banking sector debt should be properly channeled to productive financing of working capital in the agricultural sector for seedlings and fertilizers that will enhance price stability by reducing food inflation. Government should give more priority to domestic debt through non-banking sector debts such as the Sukuk loans which are tied to capital projects like roads, rails, and many other infrastructural developments.*

**KEYWORDS:** Domestic Debt, Banking Sector Debt, Non-banking Sector Debt, Price Stability, Inflation Rate, Nigeria.



## INTRODUCTION

The growth rate of the gross domestic product, price stability, exchange rate, fiscal position, debt position and other variables are key indicators of the economic performance of any country and they also play a significant role in determining economic growth. Price stability is crucial for the economic growth of developing nations, and achieving high economic growth while maintaining stable prices is a primary goal for most governments. However, many developing nations, such as Nigeria, resort to borrowing to fund budget deficits and drive economic growth, potentially leading to price instability.

Public debt serves as a vital source for governments to finance public expenditure and bridge budgetary gaps. The percentage of public debt in relation to the GDP is commonly used as an indicator of a government's capacity to fulfill its future obligations (Hassan et al., 2019). The Debt Management Office reported that Nigeria's total public debt surged to N87.38 trillion in the second quarter (Q2) of 2023, marking a 75.29 percent increase, which amounts to a N37.53 trillion uptick in total public debt compared to the N49.85 trillion recorded at the end of the first quarter (Q1) of the same year. The public's domestic debt encompasses all federal debt held by various entities and is a significant component of the total public debt stock, accounting for 61 percent (DMO, 2023). This includes debt held by the banking sector and non-banking sector.

Debts from the banking sector involve raising funds from the economy through treasury bills or bonds. While domestic borrowing from the Central Bank or non-banks carries no direct cost, it poses a substantial risk of inflation due to the surge in money supply. In addition, if the government borrows from the Central Bank to finance its expenditures, it must issue treasury bills in exchange for debt (Martin, 2015). On the other hand, non-banking sector debts encompass various forms of locally sourced debts, such as development stocks, FGN bonds, FGN Sukuk, FGN Green Bond, and FGN Savings Bond. If the government is unable to generate revenue through tax or non-tax sources to service its debt, it may lead to excessive increase in money supply, resulting in inflation. However, there are specific scenarios where public debt might contribute to an increment in the money supply, creating favorable conditions for the emergence of inflation. Also, when significant public debts are accumulated, public authorities could be more willing to reduce them by unconventional means, such as the amortization through inflation (Aimola & Odhiambo, 2018).

Price stability is very essential to every government because it provides a stable environment for economic growth and investment. When prices are stable, consumers and businesses can plan for the future and make more informed decisions about spending, saving, and investment. The government's monetary and fiscal policy goals depend on keeping the price index under control. The link between domestic debt and price stability has become a topical issue in recent years due to the significant role that domestic debt plays in funding fiscal deficits (Akingbade & Odhiambo, 2021). In April 2024, the headline inflation rate increased to 33.69% relative to the March 2024 headline inflation rate which was 33.20%. Thus, the prices of food and basic commodities have relatively increased (NBS, 2024).

Maintaining price stability is an important goal of the government in Nigeria, as it helps to promote confidence in the economy and can lead to more stable economic growth. However, if prices rise too quickly, this can lead to inflation, which can erode the value of people's savings and lead to economic instability. Thus, if the government tries to reduce its debt levels by



cutting spending or raising taxes, this can also have negative effects on the economy, as it can reduce consumer and business spending and slow economic growth (Cham, 2023). Therefore, question arises regarding how the government can manage the debt levels while also maintaining a stable price level in the economy. Despite these efforts, price stability remains a challenge in Nigeria, and inflation has remained persistently high (33.69%). However, the main objective of this study is to examine the effect of domestic debt on price stability in Nigeria from 2008 to 2023. The following hypotheses were tested:

**H<sub>0</sub>:** Banking sector debt has no significant effect on inflation rate in Nigeria.

**H<sub>a</sub>:** Non-banking sector debt has no significant effect on inflation rate in Nigeria.

## LITERATURE REVIEW

### Concept of Domestic Debt

Borrowing from domestic markets, domestic debt refers to the amount of debt held by domestic holders, consisting of treasury bills, government bonds, and corporate loans (Martin, 2015). Aimola and Odhiambo (2021) described domestic debt as debt instruments issued by the federal government and denominated in the local currency. In principle, state and local government areas have the ability to issue debt instruments, but such issuance must align with treasury certificates, federal government development stock, and treasury bonds. Of these, treasury bills, treasury certificates, and development stocks are marketable and negotiable, while treasury bonds and ways and means advances are not marketable and are solely held by the Central Bank of Nigeria. Abubakar (2019) explained that domestic debts are debt instruments issued by the federal government and denominated in the local currency of the country issuing the debt. State and local governments can also issue domestic debt instruments, and the existing debt instruments include Nigerian treasury bills, federal government development stocks, and treasury bonds. Among these, treasury bills and development stocks are marketable and negotiable, whereas treasury bonds and ways and means advances are not marketable and are solely held by the Central Bank of Nigeria.

The term domestic debt refers to the funds that a nation owes to its creditors located within its own borders. This encompasses any money borrowed or lent by a government or a business from individuals, financial institutions, or other entities situated within the country. Domestic debt can take the form of government bonds, treasury bills, or other financial tools. These are typically offered to investors within the nation, and the funds garnered from the sale are utilized to finance government expenditures or other economic undertakings (Miller & Foster, 2017). One benefit of domestic debt is the relative ease with which a government or a company can borrow from its own citizens, as they possess a better understanding of the economic and political conditions within the country. Furthermore, domestic debt can help to decrease reliance on foreign borrowing, which is susceptible to exchange rate fluctuations and other risks. However, if not managed properly, domestic debt can have adverse effects. Excessive borrowing by a government or a company can result in inflation and a devaluation of the domestic currency. Additionally, high levels of domestic debt can lead to increased interest rates, making it more costly for other entities within the country to borrow funds (Martin, 2015).



However, this study defines domestic debt as debts that originate within a country. The definition is also limited to the instruments used to source the funds, which are banking sector debt and non-banking debt which subscribe to government securities.

### **Banking Sector Debt**

The debt within Nigeria's domestic banking system encompasses all debts held by Deposit Money Banks and the Central Bank of Nigeria (CBN, 2022). This debt comprises various financial instruments including treasury bills, treasury certificates, treasury bonds, and Promissory notes. According to Babu et al. (2015), the debt of the banking sector involves sourcing funds from the economy through the issuance of treasury bills or bonds and involves borrowing from domestic commercial banks. To finance the budget deficit, the government increased credit to the banking system. This policy was employed to finance the fiscal year 1992/93 budget. However, this excessive monetary financing led to an excess in aggregate demand, resulting in high inflation and increased pressure on the balance of payments (Beaugrand et al., 2012).

Ahmed et al. (2012) suggested that banking sector debt entails issuing government bonds and securities directly to banking institutions, which use their excess reserves to purchase such securities. This method is also known as bond financing.

### **Non-Banking Sector Debt**

Debt from non-banking entities encompasses the sum of money owed by organizations outside of the banking and financial sectors. This could encompass a broad spectrum of entities such as businesses, governments, households, and other non-financial organizations. Typically, non-banking sector debt is utilized for financing various activities such as investing in new projects and expanding existing operations. The debt may be in the form of bonds, loans, or other types of debt instruments. On the whole, non-banking sector debt can significantly influence an economy's financial well-being, as excessive debt levels can result in several adverse effects like higher interest rates, inflation, and currency devaluation. Therefore, governments and financial institutions carefully monitor it to ensure that it stays at a sustainable level (Mohanty & Panda, 2019). Consequently, in this research, non-banking sector debt pertains to the total of non-bank public-related outstanding loans offered by the federation. This encompasses all other forms of debts obtained locally but not through the banking system, such as development stocks, FGN Sukuk, FGN Green Bond, and FGN Savings Bond (CBN, 2022).

### **Concept of Price Stability**

Price stability refers to a condition where the general level of prices for goods and services in an economy remains relatively unchanged over time. In Nigeria, achieving price stability has been a challenge due to a number of factors such as high inflation and exchange rate fluctuations. The Central Bank of Nigeria (CBN) is responsible for maintaining price stability in the country, and it uses various monetary policy tools to achieve this objective. One of the key tools used by the CBN is the control of the money supply through interest rates, reserve requirements, and open market operations. When the CBN increases interest rates, it makes it more expensive for banks to borrow money and thereby reduces the money supply, which can help to control inflation and stabilize prices (Saungweme & Odhiambo, 2021).



Ahmed et al. (2012) stated that price stability measures the changes in the general level of prices of consumer goods and services while Sexton (2015) explained that it measures the goods and services bought by consumers. Anidiobu et al. (2018) expounded that the price stability index reflected annual percentage change in the cost borne by an average consumer when he or she buys a basket of goods and services that may be fixed or varied from time to time usually on an annual basis.

### **Inflation Rate**

Inflation rate represents a standardized and mutually agreed measure of what one person is prepared to receive in exchange for whatever goods or services that they can provide (Magaly, 2022). An aggregate price level, on the other hand, according to Mishkin and Serletis (2016), is the average price of goods and services in an economy. This average level of prices is also referred to as the “general price level” (Williamson, 2018). Expounding on the term “general price level,” O’Neill, Ralph and Smith (2017) explained that it was the generic name given to an average of prices of consumer goods and services relative to a reference period. The definition by O’Neill et al. fundamentally incorporated the dimension of timing or period. This is important because inflation is basically revealed by a comparison between the general prices at a particular period relative to that of a prior or base period.

However, stabilization of price level is one of the main goals of most governments in macroeconomic management. It is also considered a good measure for better economic performance. Therefore, price stability is a general and moderate increase in prices of goods and services and is directly connected with reduction of purchasing power of money.

### **Empirical Review**

Cham (2023) conducted a study on the impact of inflation and public debt reversal in the economies of the West African Monetary Zone (WAMZ). The study delved into various factors influencing public debt reversal and inflation, such as weak institutions, high government expenditure, external shocks, and inadequate revenue mobilization. The research also examined the effects of these factors on the WAMZ economies, which included high inflationary pressures, rising borrowing costs, and sluggish economic growth. Additionally, the study evaluated the policies and methods used by WAMZ economies to tackle these challenges. However, the research identified difficulties faced by these economies in implementing policy responses and fell short in addressing the link between public debt and inflation in its conclusion.

Magaly (2022) explored the relationship between public debt and inflation using the fiscal theory of the price level (FTPL) with data from Paraguay. In contrast to other studies, the paper examined this relationship in the context of the monetary regime. It evaluated fiscal policy actions using a combination of monetary structural vector autoregressive and fiscal variables, interpreting the results through impulse responses. The findings emphasized the importance of considering the monetary regime when analyzing this link. In regimes with an active fiscal policy and a monetary aggregate regime, higher public debt shocks led to inflationary pressures. Conversely, in the sample estimation targeting inflation, inflation adhered to its targeted path.





Natagwandu et al. (2021) conducted a study on the impact of public debt on inflation rates in Nigeria from 1985 to 2020. They used the Autoregressive Distributed Lag technique to analyze time series secondary data. The study found that domestic debt has a significant positive effect on inflation rates in Nigeria, while external debt has no significant effect. The study concludes that there is an inflationary effect of domestic debt in Nigeria, resulting in an increase in the price level. Additionally, the study recommends that the government should focus on increasing its revenue base, lowering recurrent expenditure, and promoting budget discipline for fiscal responsibility.

Nwala and Saleh (2021) examined the relationship between disaggregated domestic public debt and economic growth in Nigeria from 2007Q1 to 2020Q2. The study used Gross Domestic Product (GDP) as the dependent variable and banking sector debt, non-bank public debt, and the Central Bank of Nigeria debt as independent variables. The study revealed a long-run equilibrium relationship between these variables and GDP. Furthermore, the study showed that while the banking sector and non-bank public debt have a positive effect on economic growth, the Central Bank of Nigeria debt has a negative but significant effect on growth in Nigeria. As a result, the study recommends that the government should prioritize funding budget deficits with banking sector and non-bank public debt, and should restrict borrowing from the CBN to refinancing maturities only. However, the study did not conduct a post estimation test in order to have a robust result.

The impact of public debt on inflation in Zimbabwe was the subject of a study by Saungweme and Odhiambo (2021). The research was driven by recent trends in public debt and domestic inflation in Zimbabwe and aimed to provide guidance for debt-inflation related policy. Annual time series data from 1980 to 2020 was utilized in the study, with variables sourced from the World Development Indicators, a World Bank electronic database. The study encompassed variables such as inflation, public debt, money supply, interest rate, investment, and real per capita income. Using the Autoregressive Distributed Lag (ARDL) bounds testing procedure for cointegration and an error correction mechanism (ECM) augmented with the inclusion of structural breaks, the study indicated a positive and significant impact of public debt on inflation dynamics in Zimbabwe, especially in the long term. It is essential to note that the study was conducted in Zimbabwe, so the results might differ from those of other studies.

Ajayi and Edewusi (2020) conducted a study on the effect of government debt on economic growth in Nigeria using descriptive statistics, unit root test, Johansen co-integration test, and a vector error correction model from 1982 to 2018. Their findings revealed that domestic debt has a positive long-term and short-term effect on economic growth. They recommended effective management of domestic debts and emphasized the importance of ensuring that national debts contribute to encouraging investment in the country. However, to enhance the analysis, it would be beneficial to include data from 2019. Additionally, it is important to note that this study focused on economic growth as the dependent variable, while the one mentioned earlier used the inflation rate.

In their 2020 study, Ouhibi and Hammami examined the influence of inflation, exchange rate, and interest rate on public debt from 1990 to 2017 using the Generalized Method of Moments (GMM) for dynamic panel data modeling. The primary aim of the article was to investigate the correlation between inflation, exchange rate, economic growth, and public debt. The research was structured around two hypotheses, with the first suggesting a positive and statistically significant impact of these factors on public debt, and the second proposing a negative and



statistically significant effect. The study encompassed 83 countries, including MENA countries, the sub-Saharan region, southern Mediterranean countries, and European countries, based on data availability from the World Bank Development Indicators. However, the empirical findings indicated a notable positive influence of inflation on public debt across three panels. Exchange rates were found to have both positive and statistically significant effects in European countries and negative and statistically significant effects in the sub-Saharan region. Additionally, interest rates were observed to have a positive and statistically significant impact on public debt in two panels. A notable limitation of the study is that the chosen period (1990-2017) seemed quite distant from the year of the research (2020), as data from 2018 and 2019 were not included in the analysis, potentially impacting the validity of the conclusions at the time of the research.

## **Theoretical Framework**

### **Fiscal Theory of the Price Level**

Eric (1991) is primarily credited with the development of the fiscal theory of the price level. This theory posits that government fiscal policy, encompassing debt and taxes both present and future, plays a more significant role in determining the price level or inflation than monetary theory. To support the fiscal theory of the price level, it is imperative that there is confidence in the government's commitment to not defaulting on its debts and instead 'inflating away' debts. In nominal terms, the government must either refinance (rollover the debt by issuing new debt to pay the old) or amortize (pay it off from tax revenue surpluses) its existing domestic liabilities (government debt denominated in local currency units). In real terms, the government can reduce the real amount it needs to repay by causing or allowing high inflation. Alternatively, it could choose to default on its obligations (Lwanga & Mawejje, 2014).

Furthermore, the fiscal theory suggests that in situations when a government has an unsustainable fiscal policy, such that it will be unable to pay off its obligations in the future using tax revenue (as it operates with a persistent structural deficit), it will resort to inflating the debt away. Therefore, it is essential for the price level to remain stable that the government practices fiscal discipline, signifying a balanced budget over the economic cycle. Unsustainable deficits will necessitate inflation in the future. In order to maintain a stable price level (and control inflation), it is crucial for government finances to be sustainable, which means maintaining a balanced budget over the business cycle and not running a structural deficit (Kallie, 2016).

The research will be based on the fiscal theory of the price level, which explains that the price level is influenced solely by government debt and fiscal policy, with monetary policy having only an indirect impact. This theory opposes the monetarist perspective, which asserts that the money supply is the main factor determining the price level and inflation.



## METHODOLOGY

The research work utilized an Ex post facto research design. The study used quarterly data from the Central Bank of Nigeria Statistical Bulletin (2023) spanning from 2008 to 2023. The methodology employed in this study involves conducting empirical analysis of descriptive statistics, unit root test, cointegration, and regression analysis as it acknowledges that various factors, not just one, can impact or determine the influence of domestic debt on price stability in Nigeria. The following model was estimated:

$$INF = f(BSD, NBD) \dots\dots\dots(1)$$

$$INF = a + \beta_1 BSD_t + \beta_2 NBD_t + e \dots\dots\dots (2)$$

where:

INF = Inflation rate (proxy for Price Stability)

BSD = Banking Sector Debt

NBD = Non-Banking Sector Debt

a = intercept (value of Y when Xj is zero)

e = Error term

Building Equations (3) into an ARDL model was stated:

$$\Delta INF_t = \mu + \alpha_1 INF_{t-1} + \alpha_2 BSD_{t-1} + \alpha_3 NBD_{t-1} + \sum_{i=1}^{p-1} \lambda_1 \Delta INF_{t-i} + \sum_{i=0}^{q-1} \lambda_2 \Delta BSD_{t-1} + \sum_{i=0}^{q-1} \lambda_3 \Delta NBD_{t-1} + \varepsilon_t \dots\dots\dots(3)$$

**Table 1: Variables and Measurement**

S/N	Variables	Nature	Measurement/Proxy	Source
1	Inflation Rate	Dependent	Change in consumer price Index	Aimola and Odhiambo (2018)
2	Banking Sector Debt	Independent	Loans on Banks and Discount Houses holdings of government bonds, treasury bills and other government securities	Aimola and Odhiambo (2021)
3	Non-Banking Sector Debt	Independent	Debts on development financial institutions (different from banks and discount houses) and individual holdings of government bonds, treasury bills and other securities	Akingbade and Odhiambo (2021)





## RESULTS AND DISCUSSION

**Table 1: Descriptive Statistics**

	<b>INF</b>	<b>BSD</b>	<b>NBD</b>
<b>Mean</b>	1.101049	3.836266	3.618968
<b>Median</b>	1.096531	3.639749	3.640518
<b>Maximum</b>	1.316356	7.067040	6.878543
<b>Minimum</b>	0.902273	3.249108	2.471321
<b>Std. Dev.</b>	0.106827	0.772496	0.842573
<b>Skewness</b>	-0.061486	3.652464	2.507501
<b>Kurtosis</b>	2.353884	15.63510	10.80491
<b>Jarque-Bera</b>	1.081471	532.5191	215.1672
<b>Sum Sq. Dev.</b>	0.673308	35.20824	41.88585
<b>Observations</b>	64	64	64

**Source:** *E-views 10, 2024*

Table 1 shows that inflation rate, banking sector debt and non-banking sector debt have mean values of 1.101049, 3.836266 and 3.618968 respectively, while deviation values from the mean (standard deviation) were 0.106827, 0.772496 and 0.842573 respectively. The mean of inflation rate, banking sector debt and non-banking sector debt were normally distributed because the standard deviation value was lower than the mean value. In like manner, inflation rate, banking sector debt and non-banking sector debt had median values of 1.096531, 3.639749 and 3.640518 respectively with Jarque-Bera values of 1.081471, 532.5191 and 215.1672 respectively.

**Table 2: Correlation Matrix**

	<b>INF</b>	<b>BSD</b>	<b>NBD</b>
<b>INF</b>	1	0.44023	0.314396
<b>BSD</b>	0.44023	1	0.9575
<b>NBD</b>	0.31439	0.95751	1

**Source:** *E-views 10, 2024*

Table 2 explains the relationship between domestic debt and price stability in Nigeria where the inflation rate was correlated with banking sector debt to the extent of 0.44, while inflation rate was correlated with non-banking sector debt to the extent of 0.31. Also, banking sector debt was correlated with inflation rate to the extent of 0.44, while banking sector debt was correlated with non-banking sector debt to the extent of 0.95. Finally, non-banking sector debt was correlated with inflation rate to the extent of 0.31, while non-banking sector debt was correlated with banking sector debt to the extent of 0.95. However, the correlation matrix result implies that none of the study's independent variables has multicollinearity.

**Table 3: Summary of Unit Root Test Results**

Variables	ADF Test Statistic	Order of Integration
INF	-7.920618 (-3.548208)	$I(1)$
BSD	-7.567690 (-3.548208)	$I(1)$
NBD	-7.900695 (-3.548208)	$I(1)$

Source: E-views 10, 2024

From Table 3, it was discovered that inflation rate was found stationary at first difference, that is, at order  $I(1)$ . It follows that their ADF test statistic was discovered to be higher than their threshold values. Additionally, banking sector debt was discovered to be stationary at the first difference, or at order  $I(1)$ . It follows that their ADF test statistic was discovered to be higher than their threshold values. However, at order  $I$ , the first difference, the non-banking sector debt was found to be stationary (1). It follows that their ADF test statistic was discovered to be higher than their threshold values. The long-term relationship between the variables was examined using the Johansen cointegration approach.

**Table 4: Johansen Cointegration Test**

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.240119	22.13530	29.79707	0.2911
At most 1	0.101256	6.208848	15.49471	0.6708
At most 2	0.000292	0.016951	3.841466	0.8963

Trace test indicates no cointegration at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.240119	15.92645	21.13162	0.2292
At most 1	0.101256	6.191897	14.26460	0.5887
At most 2	0.000292	0.016951	3.841466	0.8963



Max-eigenvalue test indicates no cointegration at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegrating Coefficients (normalized by  
b'S11\*b=I):

**Source:** Authors' Computation, 2024

The Johansen cointegration test results indicate that at the 0.05 significance level, there is no evidence of cointegration. The trace statistics for None, At Most 1, and At Most 2 (5.3728 and 19.2564) exceed their respective 0.05 critical values (15.4947 and 3.8415), and their p-values (0.6708 and 0.8963) are all below the 0.05 level of significance for this study. Since the Johansen cointegration test does not show cointegration according to the two criteria, it suggests that there is no long-term relationship between inflation rate and the two variables of domestic debt (banking sector debt and non-banking sector debt) considered.

### Table 5: Regression Analysis

Dependent Variable: INFLATION\_RATE

Method: Least Squares

Included observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.804198	0.061409	13.09585	0.0000
BSD	0.231468	0.051920	4.458151	0.0000
NBD	-0.163340	0.047602	-3.431376	0.0011
R-squared	0.331828	Mean dependent var	1.101049	
Adjusted R-squared	0.308383	S.D. dependent var	0.106827	
S.E. of regression	0.088841	Akaike info criterion	-1.955229	
Sum squared resid	0.449886	Schwarz criterion	-1.850511	
Log likelihood	61.65686	Hannan-Quinn criter.	-1.914268	
F-statistic	14.15366	Durbin-Watson stat	0.307178	
Prob(F-statistic)	0.000010			

**Source:** E-views 10, 2024



The regression model is with an r-squared of thirty-three (33%) percent. This indicates that 33% percent of the variation in price stability (inflation rate) is explained by the independent variables of banking sector debt and non-banking sector debt. The remaining 67% is explained by the variables outside this model. The adjusted R2 of thirty (30%) is close to the R2 value of thirty-three (33%), meaning that the model is fit and useful for generalizing within this period. Furthermore, the model is fit and the value of F-statistics stands at 14.15366 with 0000 p-value.

**H<sub>0</sub>:** Banking sector debt has no significant effect on price stability in Nigeria.

The result of the study revealed a coefficient of 0.231468 and a p-value of 0.000. This means a percentage increase in banking sector debt will result in a 23.1% increase in inflation rate in Nigeria. This is also significant at a 95% confidence level. As such, the study rejects the hypothesis, which implies that banking sector debt has a significant effect on price stability in Nigeria.

**H<sub>a</sub>:** Non-banking sector debt has no significant effect on price stability in Nigeria.

The result of the study revealed a coefficient of -0.163340 and a p-value of 0.001. This means a percentage increase in non-banking sector debt will result in a decrease in the inflation rate in Nigeria. This is also significant at a 95% confidence level. As such, the study rejects the hypothesis, which implies that non-banking sector debt has a negative significant effect on price stability in Nigeria.

## DISCUSSION OF FINDINGS

The study's findings align with Magaly's (2022) research, as well as Natagwandu et al. (2021) and Nwala and Saleh (2021), indicating that the indebtedness of the banking sector significantly impacts price stability in Nigeria. This suggests that higher interest rates aimed at controlling inflation could increase credit risk and lead to a rise in defaults. If incomes do not rise enough to offset increased consumption and investment costs, borrowers may struggle with debt repayment. While higher interest rates may benefit lenders, if nominal yields increase more than inflation, borrowers will have to repay lenders more in terms of purchasing power. More stringent credit conditions for households and businesses are likely to affect economic activity, hiring, and inflation.

Furthermore, the findings of the study agree with the research of Akingbade and Odhiambo (2021), Ouhibi and Hammami (2020), and Saungweme and Odhiambo (2021) that non-banking sector debt has a significantly negative effect on price stability in Nigeria. Higher inflation rates leading to cost increases, coupled with subdued revenue growth, may result in insolvency among vulnerable and highly indebted borrowers. As prices rise, the real value of outstanding nominal debt decreases, making loan repayments relatively smaller in real terms. However, if incomes do not increase enough to offset higher consumption and investment costs, borrowers may encounter difficulties in servicing their debts.



## CONCLUSION AND POLICY RECOMMENDATIONS

The impact of domestic debt on price stability in Nigeria was analyzed in the research. The results clearly indicate that domestic debt has a lasting and important influence on price stability in Nigeria. Specifically, the study's empirical findings reveal that debt from the banking sector positively and significantly affects price stability in Nigeria, while debt from the non-banking sector has a negative and significant impact on price stability in Nigeria.

Drawing from the research findings, the recommendations proffered are as follows:

1. This study recommends that the banking sector debt should be properly channeled to productive financing of working capital to the agricultural sector for seedlings and fertilizers that will enhance price stability by reducing food inflation.
2. Government should give more priority to domestic debt through non-banking sector debts such as the Sukuk loans which are tied to capital projects like roads, rails, and many other infrastructural developments.

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