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Impact of external debt on exchange rate in Nigeria

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Abstract
Purpose: This study investigates the impact of external debt on exchange rate movements in Nigeria from 1981 to 2023, assessing how external debt, debt servicing, and foreign reserves jointly influence exchange rate stability within the framework of the Keynesian Theory of Public Debt.
Methodology: An ex-post facto research design and time series analytical approach were adopted, using secondary data sourced from the CBN Statistical Bulletin and the World Bank database. The Autoregressive Distributed Lag (ARDL) technique was applied to estimate both the short-run and long-run dynamics among the variables. The bounds test confirms a significant long-run relationship among the variables (F-statistic = 8.887 > 4.66 at 1% level).
Results and conclusion: In the long run, external debt (LEXDT) and foreign reserves (LFORS) exert positive and statistically significant effects on the exchange rate, while debt servicing (LDBSV) exerts a negative but statistically insignificant effect. The error correction term (ECM = –0.2007) is negative and significant, indicating that about 20% of short-run deviations are corrected annually. With an R-squared of 0.994, the model explains over 99% of exchange rate variations. The study concludes that external debt and foreign reserves are major determinants of Nigeria's exchange rate dynamics, whereas rising debt servicing worsens currency performance.
Implication of findings: The findings imply that Nigeria must adopt a cautious but productive borrowing strategy, channel external loans into foreign-exchange-generating investments, strengthen debt management practices, build a robust foreign reserve base, and implement a balanced fiscal–monetary policy mix to enhance exchange rate stability and support sustainable macroeconomic growth.

Keywords: External debt, Exchange rate, Debt servicing, Nigeria.

1. Introduction

External debt has remained one of the major economic challenges confronting developing countries, and in Nigeria is no exception. It plays a crucial role in shaping the nation's economic performance, particularly in relation to the value of the exchange rate. External debt is funds borrowed from foreign lenders, such as international financial institutions, foreign governments, or private investors, to support domestic development projects. Ideally, such loans should stimulate economic growth if they are properly managed and invested in productive sectors of the economy (Adepaju et al., 2007). However, where borrowing becomes excessive or poorly managed, it could trigger several serious problems, including instability in the exchange rate, a rise in the cost of debt service, and overall vulnerability of the economy (Blessy & Lakshmi, 2020; Demianyshyn & Kostetskyi, 2022; Korolo & Korolo, 2025; Yusuf & Musa, 2025). Nigeria's dependence on external borrowing can be traced back to the 1970s, when government spending on infrastructure and industrialization exceeded what the country could finance domestically. Although the oil boom period initially concealed these fiscal weaknesses, the sharp fall in oil prices in the 1980s forced the country to depend heavily on foreign loans to fill budget and balance of payment gaps (Ayadi & Ayadi, 2008). From ₦2.3 billion by 1981, Nigeria's external debt rose to over ₦100 billion by 1987 and over ₦3 trillion by 2000 (CBN, 2000). The debt relief granted by the Paris Club in 2006 came as a respite, reducing the stock of debt from over $30 billion to about $3 billion. Yet, the relief was short-lived. Nigeria's external debt has since climbed again $10.32 billion in 2015 to $22.08 billion in 2018, and to about $41.6 billion by 2024 (Debt Management Office [DMO], 2024).

The relationship between external debt and the exchange rate is particularly pertinent for the country of Nigeria. Increased debt raises the demand for foreign currency to service loans and interest, presses on the naira, and causes it to depreciate, whereas in times of debt forgiveness or reduced borrowing, historically, the opposite effect has taken place. For example, following the 2006 debt cancellation, the appreciation of the naira moved from ₦132.1/$1 in 2005 to ₦118.5/$1 in 2008, but since then it has continuously lost value to reflect fresh borrowing, declining oil earnings, and distortions in the foreign exchange market. Government efforts at unifying the multiple exchange rate systems in 2022 were aimed at stabilizing the market; yet the growing burden of total public debt presents one of the key challenges to stability in the nation's exchange rate. As of early 2024, Nigeria's total public debt stood at about ₦38 trillion or about $103 billion, while debt service obligations took over 180% of government revenue. With so little fiscal space for capital investment or foreign reserve build-up, the Central Bank thus finds it very difficult to defend the naira. At a low level of tax-to-GDP ratio and with overdependence on oil exports, the country also remains highly vulnerable to external shocks on the sustainability of both its debt and currency stability. Understanding how external debt affects exchange rate movements in Nigeria is consequently critical. Given the continued depreciation of the naira and growing cost of servicing external loans, it is worth considering whether the current pattern of borrowing is sustainable. This paper examines the impact of external debt on the exchange rate in Nigeria and whether increased external borrowing enhances or lessens exchange rate instability. The findings will provide useful insights for policymakers in designing strategies that balance debt management with macroeconomic stability.

The continuous build-up of Nigeria's external debt has increased apprehensions about its implications for exchange rate stability and the overall performance of the economy. In theory, external debt can stimulate economic growth if it is well managed and invested in productive sectors of the economy. However, in the context of Nigeria, the unsustainable rise in foreign debt and the expensive debt servicing have been a source of pressure on the naira with consistently high depreciation over the years (Ozili 2024, Okeke 2024). This is because debt service payment is denominated in foreign currency; thus, the demand for foreign currency for debt service obligations surpasses supply, leading to weak currency and volatility (Ozili 2024). Nigeria's historical experience indicates that external debt management has a close relationship with exchange rate performance. For instance, during the early 2000s, the amount paid as debt service surpassed the country's external reserves, with estimates from the International Monetary Fund and World Bank indicating that Nigeria's debt service payment was US$1.85 billion in the year 2000, over 107 percent of total reserves. The short-lived relief recorded in 2005-2006, following debt relief, saw the strengthening of the naira, while subsequent years saw renewed external borrowing and continuous currency depreciation. Still within the same period, that is, between 1981 and 1993, the naira depreciated by over 2,000 percent against the U.S. dollar, while Nigeria's external debt reached an estimated $41.6 billion in 2024, with the value of the naira trading at a historic low level (CBN 2024; DMO 2024). The situation has been worsened by macroeconomic instability, weak fiscal capacity, and heavy dependence on oil exports for foreign exchange earnings.

Exchange rate unification introduced in 2022 was aimed at curbing distortions and improving the transparency of the foreign exchange market; paradoxically, this has exposed the currency to further volatility and inflationary pressure. Meanwhile, the federal government has continued to secure new foreign loans, including a $2.25 billion World Bank facility, to stabilize the exchange rate and support economic reforms (World Bank 2024). Despite these attempts, questions linger as to whether Nigeria's burgeoning external debt is compatible with the stability of the exchange rate and long-term fiscal sustainability. The academic literature also has divided opinions on the nature of this relationship. While some scholars argue that external borrowing reinforces exchange rate stability through increasing

reserves and boosting investor confidence (Kouladoum, 2018), other scholars have posited that excessive debt worsens exchange rate depreciation due to increasing repayment pressures and falling foreign reserves (Aderemi et al., 2020; Saheed, Sani & Idakwoji, 2015). Such inconclusive evidence calls for an updated empirical analysis in light of the recent Nigerian debt profile, inflationary trends, foreign reserve fluctuations, and the exchange rate regime since unification. In light of the foregoing, the challenge of this paper is to critically investigate and evaluate the impact of external debt on the exchange rate in Nigeria.

2. Literature review

Keynesian theory (John Maynard Keynes, 1936)

The Keynesian Theory, propounded in 1936 by the British economist John Maynard Keynes, signals the important role government intervention plays in stabilizing and stimulating economic growth, particularly during periods of recession or low aggregate demand. Keynes, in his seminal work, The General Theory of Employment, Interest and Money, maintained that the forces of the market cannot be relied upon to yield full employment and sustainable growth. He therefore advocated expansionary fiscal policies, increased government spending, and controlled borrowing to jolt demand, investment, and employment levels. According to Keynesian economics, public borrowing can be a powerful tool for stimulating economic activity. In fact, when governments borrow and spend scarcely on infrastructure, industry, and social services inject funds into the economy, thereby increasing aggregate demand and possibly bringing about a multiplier effect, wherein every unit of such spending results in a greater overall increase in national income. As such, Matthew and Mordecai (2016) noted that external debt, when well utilized, would act as a catalyst rather than being a burden to the economy. Based on the lingering structural imbalances, low productive capacity, and recurrent budget deficits, Keynes's school of thought justifies, within the Nigerian context, external borrowing as an instrument of fiscal expansion. The theory postulates that borrowing from external sources could leverage the savings-investment gap and help finance some development projects and/or stabilize the economy in times of downswing. However, Keynes cautioned that such borrowing should be directed toward productive investments capable of generating future income streams to service the debt and prevent long-term fiscal distress. Using this argument in Nigeria, this means that while external borrowing can jolt short-term growth and strengthen the exchange rate via improved investment inflows, inadequate use of borrowed funds or poor debt management can erase these gains, leading to increased debt service burdens, loss of investor confidence, and depreciation of the naira. Therefore, the Keynesian Theory points out both a justification and a cautionary lens through which to analyze the impact that external debt has on exchange rate dynamics in Nigeria.

Empirical review

Indeed, there are mixed findings from empirical analysis of how external debt and debt servicing relate to each other and with the Nigerian and developing economies' exchange rate dynamics, which reflect the complexity of macroeconomic interactions between debt management and currency stability.

Nofiu and Nofiu (2024) examined the nexus between debt servicing and unification of foreign exchange rates in Nigeria using an ARDL model from 1995 to 2023. The study empirically analyzed how unified exchange rates, inflation, GDP growth rate, and oil prices explain variations in the debt service-to-revenue ratio of Nigeria. It was found that unified exchange rates significantly reduce the burden of debt servicing, and, therefore, exchange rate unification may be expected to lighten the burden of paying its debts for Nigeria. It was further found that the inflation rates and lagged exchange rates had a negative impact on debt servicing, while oil prices had a mixed effect. Based on these findings, the authors

recommended that efforts toward unification of the exchange rate should be sustainably pursued with effective mechanisms for inflation control.

Ozili (2024) has reviewed the probable benefits and concerns of a unified exchange rate in Nigeria. The author stressed that a single exchange rate can ensure greater transparency, more efficiency, and confidence among investors in the foreign exchange market. On the other hand, the study noted that inflationary pressures and short-term instability in the market are possible short-term outcomes of such reforms. Success requires good macroeconomic coordination for long-term benefits.

In another study, Okereke et al. (2024) investigated the budget deficits-exchange rate unification nexus using an ARDL bounds testing approach. The authors found that there was a long-run equilibrium relationship between Nigeria's budget deficit and the official exchange rate. Results also showed that currency depreciation worsens fiscal imbalances by increasing the cost of debt service. As such, the authors called for a gradual implementation of exchange rate unification policies coupled with fiscal consolidation and expenditure discipline.

Otiwu and Okafor's work in 2024 zeroed in on domestic debt and exchange rate stability in Nigeria, using the methods of Johansen cointegration, Granger causality, and Fully Modified Ordinary Least Squares. The findings revealed that high levels of domestic borrowing undermine exchange rate stability, especially during external shocks. They drew on these findings to conclude that a balanced approach to debt management that incorporates both domestic and external considerations is necessary in maintaining exchange rate stability. A study by Abayomi (2023), using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach, investigated the impact of unification of exchange rates on inflation, price stability, and foreign investment within Nigeria. The present study established that unifying exchange rates tends to have a positive influence on price stability and foreign investment because it decreases uncertainty in the marketplace. However, complementary policies like fiscal discipline and prudent monetary management are required to solidify the benefits from exchange rate reforms.

Eke and Akujuobi 2021 studied the effect of public debt on the economy between 1981 and 2018 in Nigeria. The findings indicated a two-way effect; thus, while the external debt positively influences short-run growth, domestic debt is postulated to be an inhibiting factor due to the crowding-out effect that it exerts on private investment. According to them, efficient use of funds and proper management of debt are indispensable conditions towards attaining sustainable growth with minimal distortionary effects on the exchange rate. In a closely related study, Aderemi et al. (2020) applied the ARDL model to study how external debt affects exchange rate volatility in Nigeria from 1981 to 2018. Their findings revealed that external debt, debt service payments, and foreign reserves were all impactful determinants of exchange rate fluctuations in the short run. The research concluded that external borrowing-especially when mobilized to finance budget deficits-puts pressure on the foreign exchange market and adds to the depreciation of the naira. It is therefore recommended that excessive external borrowing be reduced to prevent further exchange rate volatility.

Outside Nigeria, Mhlaba et al. (2019) estimated the impact of public debt on economic growth in South Africa within the period between 2002 and 2016, using an ARDL model and a threshold analysis approach. Consistently, their findings provided evidence of a negative nexus between increasing debt levels and economic growth, especially for the post-financial crisis period. The study thereby concluded that keeping public debt below a threshold level ensures both macroeconomic stability and sustainability in growth. Based on the above review, the study hypothesized that

H1: There is no relationship between external debt and the exchange rate in Nigeria.
H2: There is no relationship between debt service payment and exchange rate in Nigeria.
H3: There is no relationship between the foreign reserve and the exchange rate in Nigeria.

3. Methodology

This study employed an ex-post facto, time-series, and analytical research design to analyze the effect of external debt on the exchange rate in Nigeria. The ex-post facto design was appropriate because this study made use of historical data that already existed, which could not be manipulated by the researcher. Annual time-series data spanning the period 1990 to 2023 were used to capture long-term trends and dynamics among the selected variables. Model specification presents the relationship between the dependent variable and independent variables, showing the mathematical link that exists between them. This study adopted the model framework by Saheed et al (2016), which is modified to meet the objectives of this research. The model is specified as:

$EXRT = F(EXDT, DBSV, FORS)$ 1
$EXRT = \alpha + \beta 1EXDT + \beta 2DBSV + \beta 3FORS + \varepsilon$ 2
Where, EXRT = Exchange Rate, α = intercept term, and β1- β3 = coefficients, EXDT = External Debt, DBSV = Debt Service, FORS = Foreign Reserve, and ε = Error variable. Descriptive statistics of each variable were analyzed to summarize the characteristics and trends for the study period. This was then followed by the inferential analysis using regression techniques in order to evaluate the significance and direction of the relationships among dependent and independent variables. All the estimations and statistical analyses were carried out using EViews version 10 software in order to ensure that the results were accurate and reliable.

4. Results and discussion

Descriptive statistics

Table 1: Descriptive Statistics

	EXRT	EXDT	DBSV	FORS
Mean	128.0540	3528.219	865.2447	233957.7
Median	118.5700	689.8400	163.8100	103104.1
Maximum	645.1900	38219.85	8556.930	701674.6
Minimum	0.610000	2.330000	1.010000	5479.700
Std. Dev.	142.7429	6872.584	1704.427	210536.6
Skewness	1.546399	3.513921	2.969164	0.453762
Kurtosis	5.553288	16.77727	12.15540	1.666797
Jarque-Bera	28.81837	428.5733	213.3609	4.660182
Probability	0.000001	0.000000	0.000000	0.097287
Sum	5506.320	151713.4	37205.52	10060182
Sum Sq. Dev.	855772.8	1.98E+09	1.22E+08	1.86E+12
Observations	43	43	43	43

Source: Eviews 10

The descriptive statistics indicate that there is a great deal of variability among the variables. The mean EXRT stands at ₦128.05/$ with a maximum value of ₦645.19/$, which implies that there has been a great depreciation of the naira currency over time. High standard deviation, amounting to 142.74, and positive skewness of 1.55, portray rightward dispersion, which affirms the increasing volatility of the exchange rate. The EXDT series has a mean of ₦3,528.22 billion and is highly variable, as witnessed by the high

standard deviation of 6,872.58, reflecting surges in borrowings at different periods. The high degree of skewness, which is 3.51, and kurtosis, being 16.78, reveals the presence of outliers likely representing periods of debt restructuring or disbursement of new loans. Similar characteristics are observed in the DBSV series; it equally exhibits high positively skewed, 2.97, and leptokurtic, 12.16, evidence of fluctuating government obligations for repayments. Meanwhile, the biggest magnitude is taken by the FORS, with its average at ₦233,957.7 million, with a relatively small positive value of 0.45 for its skewness, indicating that foreign reserve accumulation is more stable when compared with other macro-variables under consideration. Also, the Jarque-Bera test statistics show that EXRT, EXDT, and DBSV are not normally distributed (p-value < 0.05), while FORS is close to normality (p-value = 0.097). Such a non-normal distribution justifies the use of log-transformed series of the variables (LEXRT, LEXDT, etc.) in the ARDL model for variance stabilization to enhance the statistical robustness of the analysis.

Unit Root Test (Stationarity Test)

The Augmented Dickey-Fuller test was performed to check the stationarity properties of the variables and to avoid spurious regression results. This test aids in identifying how many times a variable must be differenced to achieve stationarity. The ADF results are summarized in the following:

Table 2: **Unit Root Test (Stationarity Test)**

Variable	ADF Statistic	5% Critical Value	Order	Decision
EXDT	-4.19	-3.52	I(0)	Stationary at the level
DBSV	-4.21	-3.53	I(0)	Stationary at the level
EXRT	-5.72	-3.52	I(1)	Stationary at 1st difference
FORS	-4.60	-2.94	I(1)	Stationary at 1st difference

Source: Eviews 10

It can be seen from the results presented in the Table above that the variables have mixed levels of integration, some of which are stationary at level [I(0)] while others are at first difference [I(1)]. EXDT and DBSV are stationary at a level, indicating that the series maintains a constant mean and variance over time without differencing. EXRT and FORS became stationary at first differences, indicating a unit root at the level but stationary after the series was differenced. The combination of I(0) and I(1) justifies using the ARDL bounds testing approach to co-integration because it allows for variables that are integrated of different orders, I(0) and I(1)-but not I(2). As a result, the ARDL model was considered for estimation in order to study the long-run and short-run relationships among external debt, debt servicing, foreign reserves, and the exchange rate in Nigeria.

Table 3: Bounds cointegration test

Test Statistic	Value	Signif.	I(0)	I(1)
	Asymptotic:n = 1000			
F-statistic	8.887447	10%	2.37	3.2
K	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Eviews 10

The F-statistic of 8.887 is greater than the upper bound (I(1)) critical values at all significance levels, which justifies a long-run cointegrating relationship among the exchange rate, external debt, debt servicing, and

foreign reserves. This implies that an Error Correction Model (ECM) for capturing short-run dynamics has some basis.

Table 4: Short-run dynamics (ECM Results)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LEXDT)	0.499	0.050	9.937	0.000
D(LDBSV)	-0.353	0.063	-5.610	0.000
D(LDBSV(-1))	-0.176	0.058	-3.067	0.004
CointEq(-1)*	-0.201	0.028	-7.059	0.000

Source: Eviews 10

In the short run, external debt (D(LEXDT)) exerts a positive and highly significant effect on fluctuations in the exchange rate. This suggests that short-term increases in borrowing are associated with naira depreciation, in a manner that is consistent with theories of debt-overhang and liquidity constraint. Debt servicing and its lagged value have negative and significant coefficients, suggesting that rising debt service payments exert short-run pressure on foreign exchange, perhaps due to reduced availability of external reserves. The error correction term, CointEq (-1), is correctly signed at 0.2007 and significant at 1%, thus suggesting that about 20 percent of the previous period disequilibrium in the exchange rate is corrected annually toward its long-run equilibrium.

Table 5: Model estimation (Long-run relationship)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LEXDT	1.129	0.363	3.107	0.004
LDBSV	-0.734	0.469	-1.566	0.127
LFORS	1.142	0.364	3.141	0.004
C	-12.859	3.987	-3.225	0.004

EC = LEXRT - (1.1288*LEXDT -0.7338*LDBSV + 1.1424*LFORS
-12.8599)

Source: Eviews 10

These long-run coefficients are positive and significant at the 1% level for external debt (LEXDT) and foreign reserves (LFORS). This indicates that a rise in the country's external debt and foreign reserves tends to depreciate the naira through exchange market pressures and foreign currency management mechanisms. On the contrary, debt servicing (LDBSV) had a negative and insignificant effect, with a p-value of 0.127, indicating that while debt repayments may theoretically reduce the availability of foreign exchange, the effect is not strong enough to affect the naira in the long run.

Table 6: Model diagnostics

Test	Statistic	Probability	Interpretation
Breusch–Godfrey LM Test	F = 2.435	0.104	No serial correlation
Heteroskedasticity (BPG)	F = 2.794	0.021	Mild heteroskedasticity
Durbin–Watson	2.35	—	No autocorrelation
R^2	0.994	—	High model fit
Adj. R^2	0.993	—	Robust explanatory power

Source: Eviews 10

Diagnostic tests confirm that the estimated ARDL model is reliable and robust: no serial correlation, as the p-value exceeds 0.05, and the Durbin-Watson statistic is acceptable (2.35); there is mild heteroskedasticity, but it does not seriously bias the estimators. The R^2 of 0.994 suggests that about 99% of variations in the exchange rate are explained by external debt, debt servicing, and foreign reserves collectively.

Discussion of Findings

The study reveals that external debt exerts a strong and significant influence on the exchange rate in both the short run and long run. In the short run, increases in external borrowing immediately cause depreciation of the naira, reflecting liquidity constraints and rising obligations for foreign currency settlements. In the long run, the positive and significant coefficient of external debt indicates that sustained debt accumulation places persistent pressure on Nigeria's exchange rate. This finding aligns with the debt-overhang hypothesis and corroborates previous empirical evidence by Aderemi et al. (2020) and Saheed, Sani, and Idakwoji (2016), who similarly report that high external borrowing weakens the naira due to the mounting repayment burden and uncertainty about future debt sustainability. Overall, the results underscore that Nigeria's rising external debt profile is a major driver of long-term currency depreciation.

The results show that debt servicing has a negative and statistically significant effect on the exchange rate in the short run. This implies that repayment obligations reduce the supply of foreign exchange available to the domestic economy, thereby exerting short-term pressure on the exchange rate. The negative coefficient of the lagged debt servicing variable further suggests lingering effects of repayment burdens across periods. However, in the long run, the impact becomes negative but statistically insignificant. This indicates that although debt repayments may constrain foreign exchange liquidity in the short term, they do not exert a strong or persistent influence on long-term exchange rate behavior. These findings imply that efficient debt management and disciplined repayment strategies may help moderate exchange rate volatility over time.

Foreign reserves are found to have a positive and significant effect on the exchange rate in the long run. This suggests that as reserves increase, the exchange rate tends to depreciate, possibly reflecting reserve accumulation during periods of macroeconomic stress or exchange market intervention. Despite this counterintuitive long-run relationship, the significance of the variable highlights that foreign reserves continue to play a major role in shaping exchange rate movements in Nigeria. The descriptive statistics also show that reserves are relatively more stable than other variables, indicating their potential for stabilizing the external sector when effectively managed. The results thus reinforce the argument that adequate foreign reserve accumulation is crucial for exchange rate stability, especially in an import-dependent economy like Nigeria. The presence of a long-run cointegrating relationship indicates that external debt, debt servicing, and foreign reserves jointly explain Nigeria's exchange rate dynamics over

time. While external debt consistently worsens exchange rate performance, foreign reserves provide a stabilizing mechanism when properly utilized, and debt servicing primarily exerts short-run pressure. These findings collectively emphasize the importance of maintaining sustainable debt levels, strengthening external reserve buffers, and ensuring effective debt management to reduce exchange rate vulnerability and support long-term macroeconomic stability.

5. Conclusion

The paper uses annual time-series data from 1990 to 2023 and the ARDL model to study the influence of external debt, servicing of debt, and foreign reserves on the exchange rate in Nigeria. The results show that there are both short-run and long-run relationships between the variables analyzed, revealing that the dynamics of Nigeria's exchange rate are deeply influenced by the country's debt profile and its management of reserves. From these results, it can be deduced that external debt and foreign reserves significantly and positively influence the exchange rate in the long run. That is to say, moderate and well-structured borrowings, combined with robust accumulation of foreign reserves, will stabilize the naira and boost macroeconomic confidence. In contrast, excessive debt servicing contributed negatively (though statistically insignificant), thereby implying that huge repayment obligations may deplete foreign reserves and push the currency to depreciate. The negative and significant error correction term suggests that the deviations from long-run equilibrium are gradually corrected over time at an annual adjustment rate of about 20%. The relatively high explanatory power of the model further underlines the significant role of external debt management as well as management of reserves in maintaining exchange rate stability in Nigeria. In conclusion, the study affirms that though borrowing from foreign sources can be one of the means for stimulating economic growth and financing fiscal gaps, its benefits depend largely on effective debt utilization, transparency, and prudent fiscal management. Poorly managed or unproductive borrowing could worsen exchange rate instability and undermine investor confidence.

Based on the findings of this study, the following policy recommendations are suggested:

i. The Federal Government of Nigeria should ensure that borrowed funds are channeled into productive sectors like infrastructure, energy, and manufacturing, which will generate sufficient foreign exchange earnings to service the debt and stabilize the rate of exchange.
ii. DMO needs to adopt a more proactive approach in terms of monitoring and assessing the sustainability of debt. This includes setting clear thresholds for borrowing, considering repayment capacity, and avoiding heavy dependence on foreign loans.
iii. Policy should, therefore, be directed at increasing non-oil exports, diversifying sources of income, and reducing capital flight to build up Nigeria's foreign reserves, which act as a buffer to absorptive exchange rate volatility.
iv. The government should renegotiate existing high-interest loans and give priority to concessional borrowing to reduce debt servicing. Efficient fiscal planning should also be employed in managing repayment schedules without being overly burdensome on the foreign reserves.

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