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The Effect of Public Debt and Government Expenditure on Industrial Sector Performance

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Abstract

This study examines the effect of public debt and government expenditure on industrial sector performance. Data from 1981 to 2023 was employed and Autoregressive Distributive Lag model was employed in analyzing the short- and long-run relationships among the variables. The study reveals significant short run and long-run relationship among the variables. However, the relationship between all the variables were negligible in the short run and also negligible for debt in the long run. In the long run, domestic debt, external debt and recurrent expenditure all have negative effect on industrial sector performance while recurrent expenditure affect it positively. In the long run all the variables exert positive impact on industrial sector performance except recurrent expenditure. The study therefore recommends that any form of debt obtained by government should be directed at developing the industrial sector of the economy. Capital expenditure should also be geared toward industrial sector development. Policy makers should ensure that the amount set aside for the sectors development are judiciously implemented.

Key words: Capital Expenditure, Domestic debt, External debt, Recurrent expenditure, Industrial sector

Introduction

The major problem confronting Nigerian economy recently are increasing public debt and government expenditure without increase in the performance of real sectors of the economy. Rise in both need to be reflected in the development of real sectors of the economy especially the industrial sector. Industrial sector is one of the real sectors of the economy and it is seen as organized human skills and effort put into production of valuable goods from natural resources (Ndiaya & Lv, 2018). Industrialization is the process of building up of a nation's capacity to convert raw materials and other input into finished goods either for further production or for final consumption (Ndiyo & Ebong ,2020)Developing countries like Nigeria need resources to promote production and exportation of goods produced by industries in

order to achieve economic growth and development (Olusegun 2018). Countries that have industrialised have created new jobs, increased access to capital and productivity, in addition to enhanced innovation (Necmi, 1999; Alexiou & Tsaliki)

Development of the sector will lead to development of other sectors in the economy and improve the standard of living of increasing population. The relevance of the industrial sector remains crucial in any economy, considering its effectiveness in promoting economic growth and development, driving innovation, and alleviating poverty. It further creates employment, improves trade performance, increases income level, and enhances competitiveness in the international flora (Morris et al., 2018; Bernard, 2021).

In terms of contribution to GDP, from 1981- 1991 shows that the % contribution of the sector ranged from 27% to 45% which is the highest in a decade. It also ranges from 33% to 52% from1991 to 2001. The contribution was better than in the previous decade. From 2001 to 2009 it ranged mostly from 36% to 41%. There was a drastic reduction in the contribution of the sector to GDP in 2010 to 25% and the contribution further ranged between 20% and 28% from 2010 to 2015. With the highest contribution in 2011. From 2016 to 2020, the contribution of the sector maintained a value of 22% (Central Bank of Nigeria statistical bulletin, 2021)

There is a growing concern in the country that despite the increasing spending by successive government, policies for industrial development and increasing debt there is still high rate of importation of finished goods, increase in unemployment rising inflation and closure of many manufacturing industries. The industrial production index and industrial output indices have not been increasing to meet the needs of increasing population. This Means funds for finance were either under allocated, mismanaged or not directed towards the development of the nation's industrial sector.

The vital need for government to participate in the economy can be seen from the need to enforce contracts, protect property, and develop infrastructure (Abdullah, 2000; Njoku & Nwaeze, 2014). This was the reason John Maynard Keynes in 1930 argued that increase in government spending boosted growth by injecting purchasing power into the economy. Public expenditure is the most powerful economic agent in all modern societies (Balam,. & Tonye, 2021). Its size and organization determine the pattern and form of growth in output of the economy. Its structure is categorized into capital and recurrent expenditure.

In Nigeria, total government expenditure increased from N4.8 billion in 1981 to N66.6 billion in 1991. This further increased to N4, 712.1 billion in 2021 from N1018 of 2001. In the year 2021, government expenditure was N19, 965 billion and rose to N24, 431 billion in 2022 (CBN statistical Bulletin 2022). Ogbokor et al., (2017) stated that government expenditure patterns are influenced by budgetary priorities, revenue availability, and fiscal policies aimed at promoting economic growth and development. The major source of this expenditure is tax revenue which according to Abubakar and Yusuf (2018) is insufficient in meeting the expenditure requirements leading to fiscal deficit. This assertion was theorized by Chenery and Strout (1966) that domestic savings of developing countries is not enough to sustain the expected capital formation that will lead to economic growth thus necessitating the need for borrowing in form of public debt.

Public debt can be seen as the practice of seeking to stimulate a nation's economy by increasing government expenditures beyond revenue sources (CBN, 2018). Public debt as a percentage of GDP is often utilized as an indicator of the ability of a government to meet its future obligations.

It rises as obligations of government increases. Funds borrowed by the government are termed public debt and it could classified into external and domestic debt.

Nigeria's public debt figure has been on the rise steadily in recent years. According to Debt Management Office (2023) public debt figure has reached a significant level of N97.34trillion. It stood at N46. 25 trillion (US$103.11 billion) in Q4 2022. In 2021 the value was N39.556 US$95,779.64 while in 2020 the value was N32.915 (US$86,392.54), a 17.46% increase from 2019.

These rising figures generated concerns within and outside the nation. The rate at which the country accumulate debt may pose a serious burden on national budget if not employed in capital expenditure and real sector development.

This prompted the study on the effect of both government expenditure and public debt on industrial sector performance. The objectives of the paper are to: i. Examine the impact of government recurrent expenditures and capital expenditures on industrial sector performance in Nigeria. ii. Examine the impact of external and domestic debt on industrial sector performance in Nigeria.

The rest of the paper is organised under the following sub-headings: literature review is section two, methodology in section three; results of empirical analysis is section four and section five conclude the paper with policy implications.

SECTION TWO
LITERATURE REVIEW

Conceptual

Public debt also known as government debt or national debt is money owed by government or total debt of all governmental units, including state and local governments (Saungweme & Odhiambo, 2019

According to Ogbeifin (2017), external debt arises as a result of the gap between domestic savings and investment. As the gap widens, debt accumulates and this makes the country to continually borrow increasing amounts in order to stay afloat. He further defined Nigeria's external debt as the debt owed by the public and private sectors of the Nigerian economy to non-residents and citizens that is payable in foreign currency, goods and services.

A capital expenditure is an amount spent to acquire or significantly improve the capacity or Capabilities of a long-term asset such as equipment or buildings (Cuong, Phu, Amélie & Duc, 2018)

Recurrent expenditure refers to government expenses on administration such as wages, salaries, interest on loans maintenance. Whereas expenses on capital project like roads, airports, education, telecommunication and electricity generation etc., are referred to as capital expenditures (CBN, 2022)

THEORETICAL LITERATURE

Keynesian theory

This theory suggests that government spending can stimulate economic growth during times of economic downturn including industrial sector performance. This spending can be financed through debt which does not involve immediate taxation. Debt and expenditure have multiplier effect on the economy through the creation of jobs, income and infrastructural development. However Excessive public debt may lead to crowding out of private investment which can

negatively affect performance of industrial sector.it may also lead fiscal crises when there is unsustainable debt. This further leads to inflation and high interest rate

EMPIRICAL LITERATURE

Many studies have been on government expenditure and small scale industries, manufacturing sector and industrial sector performance while few studies were on public debt and industrial sector performance or on debt financing and industrial performance. Some of the recent studies are given below

Nwanne, (2015).Investigate the effect of government capital expenditure on the manufacturing sector output in Nigeria. The study used quantitative time series data and multiple regression techniques in the analysis. The result of the co-integration test indicates long run relationship between dependent and independent variables. It also reveals that capital expenditure on road infrastructure (CEXR) and telecommunication (CEXT) affects the manufacturing sector output in Nigeria significantly while government capital expenditure on power has insignificant effect on manufacturing sector in Nigeria. This is supported by the work of Chikelu and Okoro, (2016) who found out that capital expenditure has significant impact on manufacturing sector's growth.

Jeff-Anyeneh, Ezu, and Ananwude, (2019), also estimated the long-run and short dynamics between government expenditure and industrial development in Nigeria from 1981 to 2016 with the view to evaluating how the industrial sector has been influenced by variation in government expenditure. The Autoregressive Distributed Lag (ARDL) was the technique applied. The paper found that government expenditure negatively affected industrial development in Nigeria both in the long run and short run.

Omankhanlen, Chimezie, and Lawrence (2021) examined the impact of Government expenditure on sustainable industrial development in Nigeria. This research study found out that government revenue is statistically insignificant but has a positive effect on industrial development. Capital expenditure is however statistically significant and negatively impacts industrial output. Also, a change in capital stock i.e. Gross Fixed Capital Formation (GFCF) leads to a significant but negative change in industrial development.

Ibekwe and Ibekwe (2021). Examined the effect of capital expenditure on small and medium scale enterprises in Nigeria; The result of the study indicates that capital expenditure on roads, capital expenditure on agriculture, capital expenditure on education, recurrent expenditure have positive and significant effect on small and medium scale

Ighoroje and Akpokerere (2021), examined the fiscal policy and industrial sector output in Nigeria from 1987 to 2019. Fiscal policy was disintegrated into government expenditure, tax revenue and budget deficit while industry sector output was measured as the GDP contribution from the industrial sector. The model developed was analysed using Error Correction Modelling. The results revealed that fiscal policy has a long-run and short-run effect on industry sector output. The result also revealed government expenditure and budget deficit have a significant positive impact on industry sector output in Nigeria; while tax revenue has a positive but insignificant effect on industry sector output in Nigeria and the study concluded that fiscal policy drives the industrial sector output growth in Nigeria.

In another study, Ozuzu and Isukul (2021), examined the effect of government expenditure on the growth of the industrial sector output in Nigeria and the study used regression analysis in the estimation of the data. The study revealed that government capital expenditure has a positive and

significant effect on the industrial sector; tax has a positive and significant effect on the industrial sector; monetary policy rate has a positive and significant effect on the growth of the industrial sector, while real interest rate has a negative and no significant effect on the growth of the industrial sector. Therefore, the study concluded that government policy has a significant effect on the growth of the industrial sector output in Nigeria. Their result is also supported by the study carried out by (Joshua-Gyand,Ogwuche & Aiyedogbon 2023)

Ugwu, Asogwa and Ugwuanyi (2017) examined the impact of external capital on Nigeria manufacturing industry. Employing the Ordinary Least Squares (OLS) method on annual time series data for the period between 1982 and 2013. The results obtained shows that in the short-run, Foreign direct investment has an inverse and insignificant effect on manufacturing output and also foreign aid inflow and external debt have inverse but significant reduction in manufacturing output.

Imide (2019) examined the impact of fiscal policy on the manufacturing sector of Nigeria from 1980 to 2017. The manufacturing sector was proxied as the Index of Manufacturing Sector while the explanatory variables were government expenditure, company income tax rate and federal government domestic debt outstanding. Ordinary Least Squares (OLS) results reveals that the government expenditure have positive relationship with the index of manufacturing sector while federal government domestic debt outstanding has negative linear relationship with the index of manufacturing sector .

Cuong Phu, Amélie, Duc (2019) studied Government expenditure, external and domestic public debt, and economic growth. In particular, the relation between public spending and the tax rate has a bell shape. Domestic debt unambiguously increases with tax whereas external debt displays an inverted U-shaped curve. A high tax rate leads to a reallocation of public debt in favor of domestic debt (to the detriment of external debt). The effect of taxation on consumption (and production) also displays a nonlinear pattern when the output elasticity of capital is lower than unity (the effect is monotonously increasing if this elasticity is unity).

Ehikioya, L.I (2020) studied external financing and industrial sector output in a deregulated economy: econometric evidence from Nigeria. Auto Regressive Distributed Lag (ARDL) and data from 1986 to 2018 was employed for the study. The result shows that in the short-run, external financing has significant impact on industrial output. External debt has direct but insignificant effect on Nigeria industrial output while foreign portfolio investment has inverse and insignificant effect on Nigeria industrial output.

Yunasa and Adeyemi (2021) studied the effect of debt financing on financial performance of manufacturing enterprises in Nigeria. Data from 2008 to 2018 was employed and vector error correctin model were employed. The result of their study shows positive and significant relationship between debt financing and return on equity of firms.

James and Emmanuel (2021) studied fiscal policy and industrial sector output in Nigeria. Data from 1987 to 2019 was employed and analyzed using error correction model. The study shows that government expenditure and budget deficit have significant positive impact on industry sector output in Nigeria while tax revenue has positive but insignificant effect on industry sector output in Nigeria.

Kpagih, Amadi and Ezebunwo (2022) carried out study on external sector and performance of the Nigerian manufacturing sector. Data from 1981 to 2019 and ARDL model was employed. The result showed that exchange rate and trade openness have negative effect on manufacturing sector performance.

Okodua, Henri and Ewetan (2022) studied public debt, fiscal space and industrial sector performance in Nigeria using ARDL and data from 1981 to 2020. The result of the research showed that total debt stock and debt services over export ratio significantly affect industrial performance in the long run while fiscal balance and debt services over export ratio significantly affect its performance in the short run

Hayati, Liztiara and Muchtar (2022) carried out study on debt financing and firm performance on manufacturing companies using samples from 21 companies listed on the Indonesia Stock Exchange for the period 2016 - 2020. Sample was collected using purposive sampling technique and analyses using panel data regression. The results of this study state that the Short term debt ratio (STDA) has no effect on Return on Assets , Long term debt ratio (LTDA) has a negative and significant effect on Return on assets, Sales Growth (GROWTH) has a positive and significant effect on Return on assets, Short term debt ratio (STDA) has no effect on Net Profit Margin, Long term debt ratio (LTDA) has a negative and significant effect on Net Profit Margin , Sales Growth (GROWTH) has a positive and significant effect on Net Profit Margin

Abuamsha and Shamali (2022) studied debt structure and its impact on financial performance in Paleusibg 41 companies and panel data regression analysis. The study found out that the Return on Asset (ROA) increases when long-term debts are used for financing the assets in the insurance, investment, and industrial sectors. On the other hand, in the service sector, the ROA is negatively affected by the use of long-term debt. The study also found out that the ROA of companies in the insurance and investment sectors is positively impacted by short-term debts

Nduka and Nwankwo (2023) studied the effect of government expenditure on the performance of small and medium scale enterprises in Nigeria. Ordinary least square was employed and resil showed that capital expenditure on roads, agriculture, education, recurrent expenditure have positive and significant effect on gross domestic product while government borrowing has negative and insignificant effect on small and medium scale enterprises in Nigeria.

From the above literature it can be seen that no study have been carried out on the effect of public debt and government expenditure on industrial sector performance which this present study intends to fill

Methodology

Following the model of Imide (2019) and James and Emmanuel (2021) which expressed the industrial sector output is a function of government fiscal policy. The model specification is anchored on the Keynesian school of thought which assume that fiscal policy aims to enhance sectoral output. ISO = f(FP), $ISO = a_0 + a_1GE + a_2GT + a_3DD + a_4DF + \varepsilon t$

, where ISO is industrial sector output and FP is fiscal policy, GE government expenditure, GT taxation, DD is government domestic debt and DF deficit finance. The modified model for this study is given below:

$IND = \alpha_0 + {}_1GCEXPt + \alpha_2GREXPt + \alpha_3EDt + \alpha_4DD + \alpha_5EXG + \varepsilon t$ (2)

Where IND is industrial sector performance, GCEXP is government capital expenditure, GREXP government recurrent expenditure, ED is external debt, DD is domestic debt while EXG is exchange rate.

Taking natural logarithm of equation (2) yields the baseline econometric model of the study as presented in equation (3).

$IND = \alpha_0 + \alpha_1 lnINDt + \alpha_2 lnGCEXPt + \alpha_3 lnGREXPt + \alpha_4 lnEDt + \alpha_5 lnDD + \alpha_6 EXG + \varepsilon t$ (3)

Model Estimation Procedures

The methodological approaches employed are in three steps. The first one involves conducting unit root tests to establish the stationarity property of the data. Augmented Dickey-Fuller (ADF), and the Phillips-Perron (PP) unit root tests were ran. The second step is testing the existence of cointegration (long run) relationship among the variables using Autoregressive Distributed Lag (ARDL) bound test approach by Pesaran et al. (2001). ARDL method is preferred over other methods of cointegration because it does not impose restriction on the integration order of the variables being I(0) or I(1) and has flexibility to change lag lengths (Pesaran et al., 2001). It addresses the problems of autocorrelation, endogeneity and omitted variables as well as providing efficient and unbiased estimates and valid t-statistics even with small sample size (Abubakar & Kassim 2016)

$$\Delta IND_t = \beta_0 + \sum_{i=1}^{n} \beta_{1i}\, \Delta IND + \sum_{i=0}^{n} \beta_{2i}\, \Delta GCEXP_{t-i} + \sum_{i=0}^{n} \beta_{3i}\, \Delta LGREXP_{t-i} + \sum_{i=0}^{n} \beta_{4i}\, \Delta LEXD_{t-i} + \sum_{i=0}^{n} \beta_{5i}\, \Delta LDD_{t-i} + \sum_{i=0}^{n} \beta_{6i}\, \Delta EXG_{t-i} + \phi_1 LGCEXP_{t-1} + \phi_2 LGREXP_{t-1} + \phi_3 LEXD_{t-1} + \phi_4 DD_{t-1} + \phi_5 EXG + \varepsilon_{1t} \quad (4)$$

Thirdly is the estimation of the short-run coefficients of the model. In order to obtain the short-run coefficients, an error correction model (ECM) is estimated and the ARDL specification of the ECM is presented in Equation (5) below:

$$\Delta IND_t = \beta_0 + \sum_{i=1}^{n} \beta_{1i}\, \Delta IND + \sum_{i=0}^{n} \beta_{2i}\, \Delta GCEXP_{t-i} + \sum_{i=0}^{n} \beta_{3i}\, \Delta LGREXP_{t-i} + \sum_{i=0}^{n} \beta_{4i}\, \Delta LEXD_{t-i} + \sum_{i=0}^{n} \beta_{5i}\, \Delta LDD_{t-i} + \sum_{i=0}^{n} \beta_{6i}\, \Delta EXG_{t-i} + \theta_1 ECT_{t-1} \quad (5)$$

Results and Discussion

Results of Unit Root Tests

The results of the ADF and PP unit root test presented in Table 1 revealed that all the variables have unit root at their levels, which means they are not stationary. The only exception is LIND which have no unit root at level and hence, it is stationary at level. After taking the first difference of the remaining variables they became stationary, hence, they are integrated of order one [*I(1)*].

Table 1: Results of Unit Root Tests

	ADF		PP		
Variables	**Level**	**First difference**	**Level**	**First difference**	**Stationarity Status**
LIND	-3.640**	-5.555	-3.877**	-5.555	I(0)
LREXP	-1.826	8.525*	-1.600	-8.525*	I(1)
LCEXP	-1.703	-5.852**	-1.831	-5.852**	I(1)
LED	-1.192	-4.964***	-2.552	-4.964***	I(1)
LDD	-2.001	3.827***	-2.102	-3.827***	I(1)

EXG	-2.153	-7.179*	-2.149	-7.155*	I(1)

Notes: ***' ** and * denote significance at 1%, 5% and 10% respectively. L denotes logarithm and lag length are selected based on AIC
Source: Author's computation (2024)

Results of ARDL bounds tests

The result of the ARDL bounds test for cointegration reported in table 2 indicate that the computed F-statistics (5.706) is higher than the upper bound at 1% significant level. This implies that there is a cointegration among the variables. The decision rule states that, if the computed F-statistic is greater than the upper bound [I(1)], the null hypothesis of no cointegration among the variables is rejected. If otherwise the null hypothesis of no cointegration among the variables cannot be rejected.

Table 2 Results of ARDL bounds tests

Dependent Variable		**Function**				**F-Statistic**	
LIND		f(LCEXP, LREXP, LDD, LED, EXG)				5.706***	
Critical Values Bounds							
10%		5%		2.5%		1%	
I(0)	I(1)	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
2.08	3.00	2.39	3.38	2.70	3.73	3.06	4.15

Source Authors' computation (2024). *** denotes statistical significance at 1% level.

The bounds testing results reported in Table 2 indicates that the computed F-statistic (5.706) is greater than the I(1) at 1% level. This implies that there is cointegration or long run relationship between the variables. The optimal lag-length of (3,3,3,3,3,3) suggested by Akaike Information Criterion (AIC) was used. The next step is estimating the relationship between the variables after confirmation of cointegration.

Results of the Parsimonious Long-run and Short-run Estimates

The results of the long-run and short-run of the study are presented in panel A and panel B respectively in Table 3.

Table three below shows the result of longrun and shortrun ARDL model. All the variables with the exception of recurrent expenditure have effect on the industrial sector performance in the longrun. A 1% change in EXG, DD, EXD and CEXP leads to 0.00%, 0.14%, 0.00% and 0.23% decrease in industrial sector performance. Capital and recurrent expenditure have significant effect while external debt and domestic debt have insignificant effect. A 1% change in REXP leads to 0.394% increase in the sectors performance. This negative effects and small values of DD and EXD implies that public debt and capital expenditure are not directed toward the development of industrial sector of the economy. This will continuously deteriorate its performance in the future

In the short run, all the variables are statistically significant but have very small magnitude. CEXP, EXD, DD and EXG all have positive and significant effect on manufacturing sector performance. While REXP has negative and significant effect on the sectors performance. A 1% increase in CEXP. EXD, DD and EXG increases in industrial sector performance and vice versa by 0.10%,0.04% and 0,06%. This shows that they are important in improving the productivity of

industrial sector when properly utilized. A1% increase REXP leads to 0.18% decrease in the performance of the sectors .

Table 3: Long-run and Short-run Estimates

Panel A: Long-run Coefficients - Dependent variable is LIND				
Independent Variable	**Coefficient**	**Standard Error**	**t-Statistic**	**Prob.**
C	9.269***	0.234	39.675	0.000
EXG	-0.018	0.022	-0.822	0.424
LCEXP	-0.219***	0.054	-4.074	0.001
LREXP	0.394***	0.129	3.048	0.008
LEXD	-0.001	0.014	-0.684	0.504
LDD	-0.141	0.107	-1.323	0.206
Panel B: Short-run Coefficients - Dependent variable is ΔLIND				
Δ (LIND(-1))	0.266***	0.092	2.891	0.011
Δ (LIND(-2))	0.182*	0.097	1.878	0.080
Δ (EXG)	0.019*	0.010	1.846	0.085
Δ(EXG(-1))	0.060***	0.012	5.044	0.000
Δ(LCEXP)	-0.069***	0.019	-3.640	0.002
Δ (LCEXP(-1))	0.069***	0.020	3.385	0.004
Δ (LCEXP(-2))	0.100***	0.020	5.030	0.000
Δ (LREXP)	-0.083***	0.027	3.038	0.000
Δ (LREXP(-1))	-0.184***	0.036	-5.090	0.000
Δ (LREXP(-2))	-0.160***	0.034	-4.634	0.000
Δ L(LEXD)	0.017	0.014	1.235	0.236
Δ LEXD(-1))	0.037**	0.014	2.488	0.025
Δ LEXD(-2))	0.026**	0.013	2.021	0.062
Δ LDD	0.026	0.049	0.525	0.608
ΔLDD(-1))	0.014	0.045	0.320	0.753
ΔLDD(-2))	0.171***	0.042	4.295	0.000
ECT_{t-1}	-0.767***	0.102	-7.478	0.000
F-stat	39.199			0.0000
D.W	2.13			

Note: Δ is the first difference operator. ***' ** and * denote significance at 1%, 5% and 10% respectively Source: Author's computation (2024)

The coefficient of the error correction term (ECT) was found to be negative and significant at 1% level. This shows evidence of long-run cointegration relationship among the variables at -0.767%. The magnitude of the error correction coefficient implies a high speed of convergence of output to its long run equilibrium as about 77% of disequilibrium is corrected within a year.

Results of Residual Diagnostic Tests

The results of residual diagnostic tests reported in Table 4 shows that the model passes all tests. They are serial correlation, heteroscedasticity and functional form test.

Hence, the estimated relationship is free from the problems of serial correlation and heteroscedasticity.

Table 4: ARDL-ECM model diagnostic tests

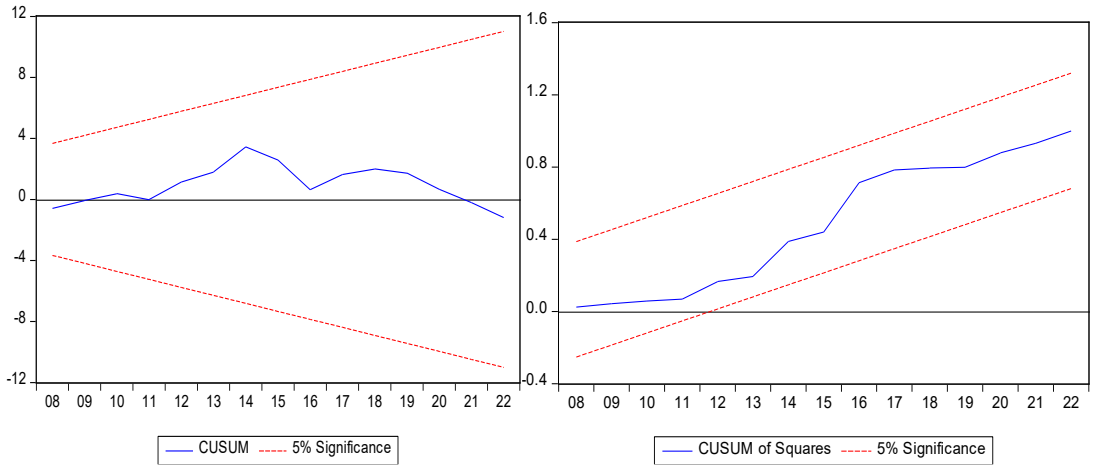
Test Statistic	Results
Serial Correlation: Breush-Godfrey	1.896[0.189]
Heteroscedasticity:Breush-Pagan-Godfrey	0.663[0.816]
Functional Form: Ramsey Reset	0.362[0.723]

Source: Author's Computation (2024)

Results of Residual Diagnostic Tests

Results of Model Stability Tests

The figure below clearly shows that the plot of CUSSUM and CUSSUMQ statistics moves between the critical bounds at 5% levels of significance. This implies that the estimated coefficients employed are stable and well specified. The straight lines in the figure represent critical bounds at 5% significance level. A deviation from this region of stability means an error in model specification. Hence this report could be relied on up for further reference.



Conclusion and policy recommendations

This study investigates how public debt and government expenditure affect industrial sector performance in Nigeria, using annual data from1981 to 2023 ARDL model for analysis. The findings show that domestic debt and external debt all have significant effect on industrial sector performance but with low magnitude. Capital expenditure and recurrent expenditure are also affecting the sectors performance but not adequately. Based on these findings, this study recommends that Nigeria's government and policy makers should ensure that debt obtained are directed towards developing industrial sector of the economy. Amount set for expenditure should be invested judiciously for developing the sector

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