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DEBT TO ASSET RATIO AND CORPORATE PERFORMANCE OF LISTED COMMERCIAL BANKS IN NIGERIA

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ABSTRACT

The study examined the effect of debt to asset ratio on the corporate performance of listed commercial banks in Nigeria. The specific objective was to ascertain the effect of long-term debt to asset ratio and short-term debt to asset ratio on the earnings before tax margin of listed commercial banks in Nigeria. *Ex-post facto* research design was used in the study. From a population of thirteen (13) listed commercial banks in Nigeria, a sample size of nine (9) was obtained using purposive sampling technique. Secondary data for the study were gotten from the financial statements of the banks for a period of twelve years which spanned across 2012 to 2023. Data analyses were done in three phases: descriptive test, robustness analysis and test of hypotheses. The Panel Estimated Generalised Least Square method which was conducted for hypotheses testing revealed that: long-term debt to asset ratio has a significant negative effect on earnings before tax margin of listed commercial banks in Nigeria (β = -1.027993; p-value = 0.0000); short-term debt to asset ratio has a non-significant positive effect on earnings before tax margin of listed commercial banks in Nigeria (β = 0.795178; p-value = 0.0005). In conclusion, the study found that debt to asset ratio significantly affects the corporate performance of commercial banks in Nigeria. The study recommended that the Risk Management Committee monitor and limit the bank's long-term debt to asset ratio, ensuring that it does not exceed safe thresholds, as this will help mitigate the financial risks associated with high leverage and protect overall profitability.

Keywords: Debt to asset ratio, Corporate Performance

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Introduction

The debt to asset ratio (DAR) establishes how much business assets can be used to finance firm debt. As the debt to total asset ratio rises, so does financial risk. There is a higher chance of default if the company is using debt to finance an excessive amount of assets (Purnamasari, 2017). A very high DAR will increase default risk and interest costs, which would reduce the company's profitability. However, if DAR grows naturally, it will help the company raise operating capital and increase profitability.

In light of the constantly shifting global financial landscape, the banking industry is essential to every country's economic stability and expansion. By mobilizing savings, extending credit, and providing a broad range of financial services that support both individual consumers and business operations, commercial banks play a critical role in promoting economic development, especially in developing nations like Nigeria (Afshan, Leong, Najmi, Razi, Lelchumanan & Cheong, 2024). Over the past few decades, the Nigerian banking industry has experienced substantial changes, including phases of liberalization, consolidation, and the adoption of cutting-edge technologies, all of which have been intended to increase efficiency and competitiveness. Notwithstanding these developments, a number of internal and external factors continue to influence commercial banks' performance, with financial leverage standing out as a crucial determinant (Ugwuanyi, Wade & Okoh, 2024).

Understanding how DAR affects corporate performance is especially relevant in the Nigerian banking sector because of the sector's unique challenges, which include shifting economic conditions, regulatory changes, and varying levels of market competition (Olagunju, Olaiya, & Alaketu, 2024; Bala & Babangnida, 2022). These challenges call for a more thorough investigation

of how DAR affects the overall performance of commercial banks, particularly given the sector's substantial contribution to Nigeria's GDP and its role in facilitating the flow of funds within the economy. Using DAR strategically is more crucial than ever in today's fast-paced and fiercely competitive business environment (Kocot & Olak, 2024). Banks and other businesses must always look for methods to optimize their DAR in order to minimize the cost of capital and enhance shareholder return. When properly implemented, DAR can greatly increase a company's earnings by allowing it to make lucrative investments without reducing ownership through the issue of more shares (Olulu-Briggs, 2024). This is especially important in the banking industry, where authorities keep a careful eye on capital sufficiency and competitive advantage can be gained through efficient debt leverage.

However, financial leverage is more significant than just maximizing profits. Additionally, it is an essential tool for organizational resilience and risk management. Maintaining an ideal degree of leverage is essential for ensuring that a company can weather financial storms without jeopardizing its solvency or long-term survival in a climate where economic conditions can change quickly, as demonstrated during the COVID-19 pandemic or the global financial crises. Effective leverage management is crucial for Nigerian banks, which function in an economy marked by high interest rates, inflation, and currency fluctuations (Tonye & Gbawae, 2024). This is true not only for sustaining profitability but also for preserving investor confidence and meeting regulatory requirements. Thus, understanding the role of financial leverage in corporate performance is not just an academic exercise but a practical necessity for ensuring the sustainable growth and stability of financial institutions.

Literature Review

Short-Term Debt to Asset Ratio (STDAR) and Corporate Performance

A financial indicator known as the short-term debt to asset ratio calculates the percentage of a company's total assets that are funded by short-term liabilities (Bala & Babangnida, 2022). This ratio is a crucial measure of a business's liquidity and capacity to pay short-term debts without taking out long-term loans or liquidating sizable assets (Oboro & Samuel, 2021). Stakeholders can evaluate a company's ability to manage its short-term debts and if it has enough assets to pay off these liabilities in the near future by looking at its short-term debt to asset ratio (Igwebuike & Onyali, 2023).

According to Oboro and Samuel (2021), the Short-Term Debt to Asset Ratio essentially shows how a company's balance sheet is structured, particularly how much of its assets are invested in short-term debt. Accounts payable, short-term loans, and other accumulated liabilities are examples of short-term debt that usually consists of commitments that are due within a year. A greater ratio suggests that these short-term liabilities finance a greater percentage of the company's assets, which may indicate possible liquidity problems. A lower ratio, on the other hand, indicates that a business may have a more cautious financial structure and depends less on short-term borrowing (Bala & Babangnida, 2022).

When assessing a company's financial health, especially with regard to its liquidity risk, it is essential to comprehend the short-term debt to asset ratio. The possibility that a business won't be able to pay its short-term debts on time is known as liquidity risk, and it could result in financial difficulties or even insolvency. If a business wants to refinance its short-term debt or if its revenue streams suddenly fall, it may have trouble obtaining new funding if its short-term debt to asset

ratio is high. In times of financial instability or economic crisis, when loan availability may be limited, this might be especially worrisome. However, when compared to other financial ratios and indicators like the quick ratio, current ratio, and cash flow analysis, the short-term debt to asset ratio is most helpful. A more thorough understanding of a company's liquidity status and capacity to efficiently handle its short-term liabilities is offered by these further measures. For example, a business that has a high current ratio and robust cash flow but a high short-term debt to asset ratio may nevertheless be in a good financial position since it has the resources to pay its debts.

Furthermore, depending on the type of firm and the standard financing procedures used in that sector, the ratio can differ substantially between industries. Businesses in capital-intensive industries, for instance, can require different short-term financing than those in service-oriented businesses. Therefore, when assessing a company's short-term debt to asset ratio, analysts and investors should take industry trends and benchmarks into account. In conclusion, a useful metric for evaluating a company's liquidity and dependence on short-term debt to finance its assets is the short-term debt to asset ratio (Bala & Babangnida, 2022). It demonstrates the business's capacity to control liquidity risk and satisfy short-term financial obligations. To get a complete picture of the company's financial situation, a larger ratio should be examined in light of other financial indicators and industry standards, even though it can suggest possible liquidity issues. From the description above, the first hypothesis can be written thus:

Ho: Short term debt to asset ratio does not significantly affect corporate firm performance

Long-Term Debt to Asset Ratio (LTDAR) and Corporate Performance

A financial indicator known as the Long-Term Debt to Asset Ratio shows what percentage of an organization's assets are funded by long-term debt (Mamaro & Legotlo, 2020). This ratio is a crucial measure of how much a business depends on long-term borrowing to finance its operations, expansion, and investments. Stakeholders can evaluate a company's financial leverage, risk profile, and long-term financial stability by looking at its long-term debt to asset ratio. The link between a company's total assets and its long-term debt is essentially measured by the Long-Term Debt to Asset Ratio (Bala & Babangnida, 2022). Bonds, mortgages, and other long-term loans that have maturities longer than a year are examples of long-term debt. These are debts that the business must pay back over a long period of time, frequently with interest payments. On the other hand, total assets include all of the company's possessions, including non-current assets like property, plant, and equipment as well as current assets like cash, inventories, and receivables.

A greater long-term debt to asset ratio indicates that long-term borrowing is used to finance a sizable amount of the company's assets. This may be a sign of increased financial leverage, which means the business has taken on greater debt in comparison to its assets (Bala & Babangnida, 2022). Leveraging long-term debt can give businesses the money they need to expand, buy new assets, or invest in growth prospects, but it also increases their financial responsibilities. Over time, these responsibilities must be fulfilled regardless of how well the business operates, which can raise financial risk, particularly during recessions or times when sales are dropping.

A smaller long-term debt to asset ratio, on the other hand, suggests that the business depends more on equity or retained earnings for funding than it does on long-term debt. Given that the business has greater financial management freedom and is not as constrained by fixed debt repayments, this

might be interpreted as an indication of financial prudence. Because they are less vulnerable to the dangers that come with having a lot of debt, like interest rate swings, credit risk, and possible insolvency, companies with lower ratios are typically seen as having more stable finances (Mamaro & Legotlo, 2020).

However, the industry, the business model, and the growth strategy of the company can all have a significant impact on the ideal long-term debt to asset ratio. Companies in capital-intensive sectors, like manufacturing or utilities, for example, could have larger ratios since they need to make significant, long-term expenditures in technology, equipment, and infrastructure. These businesses frequently finance these kinds of investments with long-term debt since it enables them to stretch the expense over many years while still enjoying the benefits of the assets' immediate use. Conversely, businesses with better cash flow stability or those in less capital-intensive industries might keep lower ratios, which would indicate a more cautious approach to debt management. To get a more thorough picture of the company's financial leverage and risk exposure, the Long-Term Debt to Asset Ratio should also be examined in conjunction with other financial measures like the Debt-to-Equity Ratio and Interest Coverage Ratio.

In conclusion, a key indicator of a company's reliance on long-term debt to finance its assets is the Long-Term Debt to Asset Ratio (Mamaro & Legotlo, 2020). It displays the risk profile, long-term financial stability, and financial leverage of the business. Higher ratios carry more financial risk even though they may also suggest more financial leverage and future growth prospects. Lower ratios, on the other hand, can indicate a more cautious approach to debt management, emphasizing financial stability and lowering exposure to risks associated with debt (Bala & Babangnida, 2022). Assessing a company's long-term survival and financial health requires an understanding of this

ratio in relation to industry standards and other financial indicators. Based on the preceding description, the second hypothesis can be written thus:

Ho: Long term debt to asset ratio does not significantly affect corporate firm performance

Based on the above hypotheses, the framework of the study is represented as:

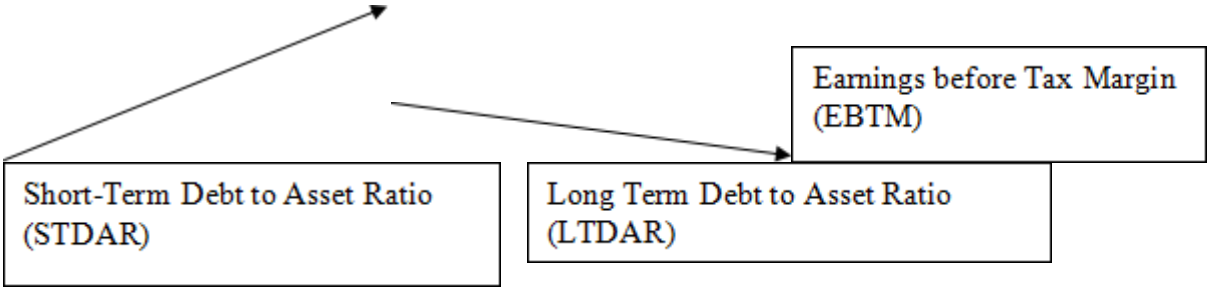


Figure 1: Conceptual Framework

Methods

An ex-post facto research design was used in the study. The 13 listed commercial banks in Nigeria as of December 31, 2023, make up the study's population. The sample size for this investigation was chosen using the purposeful sampling technique. The data's accessibility and the requirement that the bank's shares be traded on the Nigerian Stock Exchange's floors served as the selection criteria. Jaiz Bank was eliminated, nevertheless, since it used a non-interest banking system. First Bank, Stanbic IBTC Ltd., and First City Monument Bank Ltd. were eliminated from the group of twelve banks because they were submitting the annual reports for their Holding Group in lieu of bank annual reports. Using these inclusion and exclusion criteria, the study's final sample of nine commercial banks was as follows: The following banks: United Bank for Africa Plc, Unity Bank

Plc, Wema Bank Plc, Zenith Bank Plc, Access Bank Plc, Ecobank Transnational Incorporated, Fidelity Bank Plc, Guaranty Trust Bank Plc, Sterling Bank Plc. Secondary data for this study was obtained from the publicly available financial statements and accounts of commercial banks that were listed on the Nigerian Exchange Group between 2012 and 2023. Because of the approvals from pertinent authorities and the external audits that were carried out on these companies' financial accounts, the data are regarded as legitimate and reliable. Both descriptive and inferential statistical analysis are used in this work. The information gathered from secondary sources was tallied, and the report's conclusions were examined using both descriptive and inferential statistics before being displayed in tables. The technique of panel estimated generalized least squares was employed to test hypotheses.

The functional model showing the relationship between financial leverage and firm performance was adapted from the work by Aghaebe and Oranefo (2024):

$ROA = \alpha_0 + \eta_1 STDE\ it + \eta_2 LTDE\ it + \eta_3 TDETE\ it + \mu_i \ldots\ldots$ Eq. (1)

Where: ROA = Return on Assets

STDE = Short-term Debt to Equity

LTDE = Long-term Debt to Equity

TDETE = Total Debt to Equity

μ = Error term

α = Constant

η = Coefficient of the Independent Variable

it = firm *i* in year *t*

The modification of the above model gave rise to the one used in the study as follows:

$EBTM_{it} = \alpha_0 + \eta_1 LTDAR_{it} + \eta_2 STDAR_{it} + \mu_i$…… Eq. (2)

Where:

EBTM = Earnings before Tax Margin

LTDAR = Long-term Debt to Asset Ratio

STDAR = Short-term Debt to Asset Ratio

μ = Error term

α = Constant

η = Coefficient of the Independent Variable

it = firm *i* in year *t*

Description of Operational Variables of the Study

Name of Variables	Types of Variables	Description and Measurement
Earnings Before Tax Margin	Dependent	$\frac{Earnings\ Before\ Tax}{Revenue}$
Long-term Debt to Asset Ratio	Independent	$\frac{Noncurrent\ liabilities}{Total\ Asset}$
Short-term Debt to Asset Ratio	Independent	$\frac{Current\ liabilities}{Total\ Asset}$

Source: Researcher's Conceptualization (2024)

Results

Descriptive Analysis

The descriptive analysis was conducted to summarise the data set.

	EBTM	LTDAR	STDAR
Mean	0.131598	0.595852	0.344375
Median	0.158987	0.773010	0.069668
Maximum	1.000000	2.406096	1.250812
Minimum	-5.353237	0.033891	0.008512
Std. Dev.	0.577873	0.388820	0.371495

Skewness	-8.106853	0.913484	0.550769
Kurtosis	76.94981	6.727413	1.575994
Jarque-Bera	25791.57	77.54141	14.58529
Probability	0.000000	0.000000	0.000681
Sum	14.21257	64.35205	37.19247
Sum Sq. Dev.	35.73134	16.17633	14.76693
Observations	108	108	108

Source: Eviews Output (2024)

EBTM (Earnings Before Tax Margin): Table 4.1 shows an average EBTM of 0.1316 which indicates that, on average, the listed commercial banks in Nigeria achieved an earnings before tax margin of approximately 13.16% over the study period. The median value of 0.1590 suggests that half of the banks had an EBT margin higher than 15.90%, reflecting a somewhat skewed distribution towards higher margins. The maximum EBTM of 1.0000 represents a peak margin of 100%, an unusually high value that could indicate outliers or exceptional performance by certain banks. Conversely, the minimum value of -5.3532 indicates a significant negative margin, suggesting that some banks experienced substantial losses before tax. The wide range between the maximum and minimum values highlights considerable variability in profitability among the banks.

LTDAR (Long-Term Debt to Asset Ratio): The mean LTDAR of 0.5959 indicates that, on average, 59.59% of the banks' assets were financed through long-term debt. The median value of 0.7730 suggests that half of the banks had a long-term debt to asset ratio lower than this figure, showing a central tendency towards higher long-term debt financing. The maximum LTDAR of 2.4061 is notably high, implying that some banks had long-term debt significantly exceeding their assets, which could indicate over-leverage. The minimum value of 0.0339 is relatively low, representing banks with minimal long-term debt compared to their assets.

STDAR (Short-Term Debt to Asset Ratio): The mean STDAR of 0.3444 implies that, on average, 34.44% of the banks' assets were financed through short-term debt. The median value of 0.0697 indicates that half of the banks had a lower ratio, reflecting a tendency towards less reliance on short-term debt. The maximum STDAR of 1.2508 suggests extreme short-term leverage, where short-term debt could exceed assets, possibly indicating liquidity issues and the minimum value of 0.0085 shows very low short-term debt relative to assets, which might reflect a conservative approach to short-term financing.

Robustness Tests of Panel Data Regression

We conducted two robustness analyses: cross-sectional dependence test and heteroskedasticity test. The outputs are shown below:

Cross-Section Dependence Test
Residual Cross-Section Dependence Test
Null hypothesis: No cross-section dependence (correlation) in residuals
Equation: Untitled
Periods included: 12
Cross-sections included: 9
Total panel observations: 108
Note: non-zero cross-section means detected in data
Cross-section means were removed during computation of correlations

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	79.16740	36	0.0000
Pesaran scaled LM	5.087327		0.0000
Pesaran CD	2.247058		0.0246

Source: Eviews Output (2024)

The results from the residual cross-section dependence test in the table above indicate a significant p-value of 0.0000 for the Breusch-Pagan LM test, which suggests the presence of cross-sectional dependence among the residuals of the panel data. This finding implies that the residuals from different cross-sectional units (in this case, the listed commercial banks) are correlated with each other, which can affect the efficiency of standard error estimates and the validity of inference in regression analysis. The presence of cross-sectional dependence means that the errors in one bank's financial performance could be related to the errors in another, necessitating models that account for such interdependencies to avoid biased results and improve the robustness of the statistical conclusions (Nworie, Okafor & John-Akamelu, 2022).

Panel Cross-section Heteroskedasticity LR Test
Null hypothesis: Residuals are homoscedastic
Equation: UNTITLED
Specification: EBTM LTDER STDER LTDAR STDAR C

	Value	df	Probability
Likelihood ratio	318.4500	9	0.0000

Source: Eviews Output (2024)

The table above presents the results of the panel cross-section heteroskedasticity LR test, with a p-value of 0.0000, indicating a rejection of the null hypothesis that residuals are homoskedastic. This result shows that there is significant heteroskedasticity across the cross-sectional units, meaning that the variance of the residuals varies across different banks. Heteroskedasticity can lead to inefficient estimates and invalid statistical tests if not properly addressed. Therefore, accounting for heteroskedasticity is crucial to ensure reliable inference and accurate standard errors in the regression analysis (Gujarati & Porter, 2009). Both findings underscore the importance of using

advanced econometric techniques to handle these issues, such as robust standard errors or specific models designed to address cross-sectional dependence and heteroskedasticity.

Test of Hypotheses

Dependent Variable: EBTM
Method: Panel Least Squares
Date: 08/06/24 Time: 03:42
Sample: 2012 2023
Periods included: 12
Cross-sections included: 9
Total panel (balanced) observations: 108

Variable	Coefficient	Std. Error	t-Statistic	Prob.
STDAR	-0.795178	0.221971	-3.582347	0.0005
LTDAR	-1.027993	0.212081	-4.847170	0.0000
C	1.017969	0.198934	5.117114	0.0000

R-squared	0.183719	Mean dependent var	0.131598
Adjusted R-squared	0.168171	S.D. dependent var	0.577873
S.E. of regression	0.527048	Akaike info criterion	1.584333
Sum squared resid	29.16681	Schwarz criterion	1.658836
Log likelihood	-82.55396	Hannan-Quinn criter.	1.614541
F-statistic	11.81610	Durbin-Watson stat	3.088946
Prob(F-statistic)	0.000024		

The analysis assesses the effect of financial leverage, measured by short-term debt to asset ratio (STDAR) and long-term debt to asset ratio (LTDAR), on corporate performance, represented by earnings before tax margin (EBTM), for listed commercial banks in Nigeria. The results are derived from a Panel Least Squares regression method. The adjusted R-squared value of 0.168171 indicates that approximately 16.8% of the variation in the earnings before tax margin can be

explained by the variations in short-term and long-term debt to asset ratios. This suggests that while the model accounts for some of the variability in corporate performance, a significant portion of the variability remains unexplained by the debt ratios alone. This relatively low adjusted R-squared value implies that other factors not included in the model could also be influencing corporate performance.

The F-statistic's p-value is 0.000024, which is much lower than the 0.05 threshold. This indicates that the overall model is statistically significant and suggests that at least one of the predictors (STDAR or LTDAR) is significantly related to the earnings before tax margin. In other words, the regression model provides a meaningful explanation of the relationship between financial leverage and corporate performance. The constant term has a coefficient of 1.017969 with a p-value of 0.0000, which is statistically significant. This value represents the baseline level of the earnings before tax margin when both STDAR and LTDAR are zero. The significance of this constant indicates a positive base level of corporate performance, absent the effects of debt ratios.

Interpretation of Results

1. Short-Term Debt to Asset Ratio (STDAR) and EBTM

The coefficient for STDAR is -0.795178 with a p-value of 0.0005. This negative coefficient suggests that an increase in the short-term debt to asset ratio is associated with a decrease in the earnings before tax margin (EBTM). Given that the p-value is less than 0.05, this result is statistically significant. This implies that higher reliance on short-term debt negatively impacts corporate performance, specifically reducing the margin of earnings before tax. The magnitude of the coefficient indicates a relatively strong negative relationship, where for each one-unit increase

in the short-term debt to asset ratio, the earnings before tax margin decreases by approximately 0.795 units.

2) Long-Term Debt to Asset Ratio (LTDAR) and EBTM

The coefficient for LTDAR is -1.027993 with a p-value of 0.0000. This negative coefficient indicates that an increase in the long-term debt to asset ratio also leads to a decrease in the earnings before tax margin. The p-value is significantly less than 0.05, demonstrating that this result is statistically significant. The coefficient magnitude suggests a stronger negative impact compared to short-term debt. For each one-unit increase in the long-term debt to asset ratio, the earnings before tax margin decreases by approximately 1.028 units.

Discussion of Findings

The study also discovered that the long-term debt to asset ratio has a significant negative effect on the earnings before tax margin (β = -1.027993; p-value = 0.0000). This suggests that as the proportion of long-term debt in relation to total assets increases, the profitability of the banks declines. This could be due to the fact that a higher long-term debt to asset ratio indicates a higher level of leverage, which can increase financial risk. In the context of Nigerian commercial banks, where asset quality can be a concern due to non-performing loans, the additional burden of long-term debt may exacerbate these risks. The negative effect on earnings before tax margin might also be due to the lower asset returns not being sufficient to cover the costs of long-term debt, leading to a reduction in overall profitability. This finding emphasizes the importance of maintaining a balanced capital structure that does not overly rely on long-term debt, especially in environments where asset returns are unpredictable. Ukwueze & Ajibo (2024) found that in Nigerian manufacturing firms, operating leverage significantly impacted financial performance,

with long-term debt potentially increasing financial risks. Similarly, Aziz & Abbas (2019) demonstrated that in Pakistan, long-term debt negatively impacted corporate performance, suggesting that firms with high long-term debt relative to assets may struggle to maintain profitability. Supporting this, Olaoye & Omodara (2023) noted that while long-term debt might increase ROA in some contexts, the overall correlation with long-term debt ratios was weak, indicating that the benefits of long-term debt are not universally applicable. Additionally, Omokore et al. (2024) found that in the healthcare sector, both short-term and long-term debts negatively impacted ROE, further emphasizing the risks of high leverage.

Again, the short-term debt to asset ratio was found to have a significant negative effect on the earnings before tax margin ($\beta = -0.795178$; p-value = 0.0005). This indicates that as the ratio of short-term debt to total assets increases, the earnings before tax margin decreases. Short-term debt, while generally cheaper than long-term debt, still represents a liability that must be serviced promptly. In the Nigerian banking sector, the availability of short-term funding can be inconsistent, and the cost of this debt can rise rapidly during periods of economic instability or liquidity shortages. Banks with high short-term debt to asset ratios may find themselves in a precarious position, needing to sell assets or reduce lending to meet debt obligations, which can further diminish profitability. The significant negative impact observed suggests that short-term leverage, while useful for temporary funding needs, can be detrimental to sustained profitability if not managed carefully. Mutegui (2016) found that in firms listed on the Nairobi Securities Exchange, an inverse relationship existed between short-term debt ratios and performance, indicating that higher short-term debt levels could diminish profitability. This is consistent with findings by Seid (2017), who observed that in the manufacturing sector, short-term debt positively impacted ROA but negatively affected ROE, suggesting that while short-term debt might offer immediate liquidity

benefits, it could also reduce overall returns. Bala & Babangida (2022) similarly noted that in Nigerian banks, short-term debt had a considerable negative impact on ROA, pointing to the liquidity pressures and financial instability that short-term debt can introduce. Moreover, in the study by Ohaka et al. (2020), size, short-term debt, and long-term debt positively impacted financial performance, although the effects of short-term debt were still seen as risky in the context of overall firm stability.

Conclusion

The results indicate that both short-term and long-term debt ratios have a significant negative impact on the earnings before tax margin of listed commercial banks in Nigeria. This negative relationship highlights that higher financial leverage, whether short-term or long-term, is associated with lower profitability margins before tax. The model explains a modest proportion of the variation in corporate performance, suggesting that while debt ratios are important, other factors may also play a significant role. The study therefore recommends: that the Risk Management Committee monitor and limit the bank's long-term debt to asset ratio, ensuring that it does not exceed safe thresholds, as this will help mitigate the financial risks associated with high leverage and protect overall profitability; The Treasury Department should focus on maintaining an optimal short-term debt to asset ratio by improving asset liquidity and reducing the dependence on short-term borrowings. This approach will contribute to more consistent profitability and reduce the risk of financial instability.

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