

# Debt Service **VS** Development



**Navigating the 2026 Fiscal Tightrope:**  
*Strategies to Reclaim Nigeria's Developmental Future*

**POLICY BRIEF**

## About BudgIT

BudgIT is a civic organisation that uses creative technology to simplify public information, stimulating a community of active citizens and enabling their right to demand accountability, institutional reforms, efficient service delivery and an equitable society.

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# 1.0

## Executive Summary

In 2026, Nigeria faces a severe fiscal inflection point driven by explosive debt accumulation, weak revenue mobilisation, currency depreciation and heavy reliance on high-cost borrowing. Between 2021 and Q2 2025 total public debt rose from N33.13tn to about N149.29tn, a more than threefold increase concentrated in 2023–2025. Domestic debt now represents a slight majority of the total debt stock (roughly 52%–53%), reflecting a shift toward domestic financing that, while reducing exchange rate risk, has raised domestic interest rates and crowded out private sector credit.

Debt service obligations have risen sharply alongside the stock. Annual debt service moved from roughly N3.0tn in 2021 to N12.36tn in 2024, with approved and proposed figures of N13.43tn for 2025 and N15.91tn for 2026 respectively. The debt service-to-revenue ratio, a critical indicator of fiscal stress, has reached unsustainable levels, peaking at 83.62% in Q2 2025. International benchmarks (that suggest ratios above 20% for low-income countries) indicate elevated risk; Nigeria's ratio far exceeds this, signaling an immediate fiscal emergency in which most government revenue is channeled to creditors rather than development.

This dynamics produces a classic debt trap: additional borrowing is increasingly used to service existing obligations, constraining fiscal space for capital projects and social spending. The opportunity cost is profound. Infrastructure needs (power, transport, and other sectors) remain underfunded despite an ambitious capex envelope that ballooned to N23.44tn by Q2 2025; institutional execution constraints and a “bunching” effect from overlapping budgets mean actual capex delivery is uneven. Social sectors, such as education, health and human capital investments are particularly endangered, with underfunding threatening future productivity and revenue potential. The private sector is squeezed as government borrowing absorbs domestic savings, raising interest costs and limiting credit for businesses.

Reversing this trajectory requires a strategic reframe of debt management from short-term survival to fiscal productivity. Key priorities emerging from the analysis are: restrict borrowing for recurrent expenditure and prioritise high-return, revenue-generating investments; pursue strategic debt restructuring and better risk management to lower near-term service pressures; rapidly strengthen revenue mobilisation and broaden the tax base; rebalance expenditure to protect human capital and improve capex execution; and mobilise private finance through credible PPPs. Restoring macro-fiscal stability, improving transparency and public financial management, and sequencing domestic borrowing reductions to protect private sector credit are also essential.

Taken together, these measures can restore fiscal space for development, reverse the crowding-out of capital and social spending, and place Nigeria on a more sustainable growth path. Absent decisive, coordinated action that raises revenue, prioritises productive investment and reduces near-term debt service pressures, Nigeria risks entrenching long-term developmental decline and imposing an unsustainable burden on future generations.

## 2.0

## Introduction

Nigeria, Africa's largest economy and most populous nation, stands at a critical fiscal crossroads in 2026. Despite abundant natural resources, a dynamic private sector, and significant economic potential, the country faces a debilitating debt service crisis that threatens to derail developmental progress for generations. The magnitude of the crisis became fully apparent in 2023-2025, when debt service obligations began consuming more than 50% of federal government revenue. In practical terms, this means Nigeria is borrowing to pay existing debts while critical sectors such as healthcare, education, and infrastructure remain chronically underfunded. The situation represents not merely a fiscal challenge but an existential threat to Nigeria's developmental aspirations.

Several factors converged to create this perfect storm. Extensive borrowing to finance budget deficits, particularly during the COVID-19 pandemic; steep currency devaluation that increased the naira value of external debts; declining oil revenues due to production challenges and theft; weak revenue collection systems; and inefficient public expenditure management all

contributed to the current predicament. The core problem is straightforward yet devastating: Nigeria's debt service obligations have grown so large that they consume virtually a large part of government revenue, leaving minimal fiscal space for development expenditure. This creates a vicious cycle where underinvestment in productive infrastructure and human capital undermines economic growth, which in turn weakens revenue generation and necessitates further borrowing.

The opportunity cost is staggering. Resources that should be used to construct roads, schools, hospitals, and power infrastructure instead flow to creditors. Each naira spent servicing debt is a naira not invested in the country's future. With a concerning unemployment rate, infrastructure deficits estimated at \$3 trillion, and basic services failing across the nation, this fiscal haemorrhage represents more than an accounting problem; it is a developmental catastrophe in slow motion.



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2.1

## Nigeria's Debt Stock Evolution

Nigeria's public debt has experienced explosive growth over the past five years, reflecting sustained fiscal deficits, currency depreciation, and aggressive borrowing to finance budget shortfalls. The trajectory reveals a debt accumulation pattern that has accelerated dramatically, particularly following the 2023 general elections. According to the Debt Management Office, Nigeria's total public debt stands at N149.29tn, comprising both domestic and external debts. Domestic debt accounts for 52.85% while foreign debt accounts for the remaining 47.15%.

Domestic debt refers to borrowing within a country through instruments such as treasury bills and federal government bonds. Although this lowers exchange-rate exposure versus foreign borrowing, it typically carries higher interest costs. Domestic borrowing can help deepen the local capital market and reduce exposure to foreign exchange risks. However, it may also crowd out private sector investment if banks and financial institutions prefer lending to the government rather than businesses.

External debt, on the other hand, is loans gotten from foreign creditors, including multilateral institutions, bilateral partners, and international capital markets. While external borrowing can provide access to larger pools of capital and sometimes lower interest rates, it exposes the country to exchange rate risks, especially when the local currency depreciates. This makes the government divert more public funds toward debt servicing instead of national development. Hence, if borrowing does not translate into productive investment, it can slow down economic growth.

Table 1: Nigeria's Public Debt Stock Evolution (2021-2025) (In Trillions of Naira)

| Year    | Domestic Debt | Foreign Debt | Total Debt |
|---------|---------------|--------------|------------|
| 2021    | 19.24         | 13.89        | 33.13      |
| 2022    | 22.21         | 16.70        | 38.91      |
| 2023    | 53.26         | 34.07        | 87.33      |
| 2024    | 70.41         | 62.92        | 133.33     |
| Q3 2025 | 77.81         | 71.48        | 149.29     |

Source: Debt Management Office

The data reveals several disturbing patterns. First, total public debt increased by 350.62% from 2021 to Q2 2025, growing from N33.13tn to N149.29tn. This explosive growth far outpaced both inflation and GDP growth, indicating unsustainable borrowing. Second, the most dramatic acceleration occurred between 2023 and 2025, when debt jumped by 70.95% in just two years from N87.33tn to N149.29tn. This post-election borrowing surge reflects both inherited fiscal pressures and new government spending. Third, domestic debt now exceeds external debt, accounting for 52.72% of total obligations as of Q3 2025. This shift toward domestic borrowing, while avoiding exchange rate risk, crowds out private sector access to credit and drives up domestic interest rates. Finally, the naira depreciation effect is evident when comparing naira and dollar values, the dollar equivalent of Nigeria's debt actually declined from \$97.1bn in 2023 to \$86.84bn in 2024, even as naira debt soared, highlighting the devastating impact of currency devaluation on debt sustainability.



## 2.2

### Debt Servicing Trends

Nigeria's debt service obligations have risen sharply in recent years, which reflects the growing pressure on public finances. In 2022, the FG spent about N3.76tn on debt servicing. This figure almost doubled in 2023 to N6.86tn, which shows the impact of increased borrowing, higher interest rates, and exchange rate pressures. By 2024, debt service further increased by 80.17% to N12.36tn and the approved figure for 2025 stands at N13.43tn, while the proposed debt service for 2026 is N15.91tn

Table 2: Debt Service Over the Years (in Trillions of Naira)

| Year | Amount | Note     |
|------|--------|----------|
| 2021 | 3.0    | Actual   |
| 2022 | 3.76   | Actual   |
| 2023 | 6.86   | Actual   |
| 2024 | 12.36  | Actual   |
| 2025 | 13.43  | Approved |
| 2026 | 15.91  | Proposed |

This rising debt service simply means the FG is spending an increasingly large share of the budget to repay loans and interest, rather than investing in key economic sectors like infrastructure, education, healthcare, and social development. Debt servicing has consistently ranked among the highest expenditure items in recent years. This means that debt service consumes more revenue, reduces fiscal space and puts pressure on the government to either borrow more or cut essential spending.



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## 2.3

### Debt Service-to-Revenue Ratio: The Critical Indicator

Nigeria has run substantial budget deficits for over two decades, borrowing consistently to finance the gap between revenues and expenditures. The 2024 budget projected a deficit of over N9tn, while the 2025 budget anticipates N13.08tn in deficit financing. This systematic overspending creates relentless upward pressure on debt stocks.

The debt service-to-revenue ratio represents the single most important indicator of fiscal stress. It measures what percentage of government revenue must be allocated to debt obligations, leaving the remainder for all other government functions. International best practice suggests a manageable ratio that should not exceed 20% for low-income countries to maintain fiscal sustainability. Nigeria's performance against this benchmark reveals a fiscal emergency.

Table 3: Nigeria's Debt Service-to-Revenue Ratio Trends (2021-2025) (in trillions of Naira)

| Year    | Debt  | Revenue | Ratio  |
|---------|-------|---------|--------|
| 2021    | 3.0   | 4.18    | 71.77% |
| 2022    | 3.76  | 7.76    | 48.45% |
| 2023    | 6.86  | 12.48   | 54.97% |
| 2024    | 12.36 | 20.98   | 58.91% |
| Q2 2025 | 13.43 | 10.93   | 83.62% |

Nigeria's fiscal data between 2021 and Q2 2025 shows a persistent and evolving relationship between debt service obligations and government revenue. In 2021, debt service was N3.00tn against a revenue of N4.18tn, which resulted in a debt service-to-revenue ratio of 71.77%. This indicates a substantial fiscal burden, with a significant share of government earnings allocated to debt repayment obligations. The ratio fluctuated over the following years, with notable highs and lows. For instance, in 2022, despite an increase in revenue to N7.76tn, the debt service only rose slightly to N3.76tn, significantly lowering the ratio to 48.45%, this suggests that there was a temporary alleviation of fiscal pressure. However, by 2023, the debt service increased to N6.86tn, raising the ratio to 54.97% again as revenue growth struggled to keep pace.

The situation worsened by 2024, with debt service escalating to N12.36tn while revenue reached N20.98tn, resulting in a debt service-to-revenue ratio of 58.91%. This growing ratio indicates an increasing burden on the government to meet debt obligations, which became even more pronounced by Q2 2025. During this period, debt service peaked at N9.14tn, while revenue stood at N10.93tn, with a ratio of 83.62%. This high debt service limits funds available for essential services and investments in infrastructure and development. The continuous increase in the debt service-to-revenue ratio indicates that there is an urgent need for structural reforms to improve revenue generation and manage debt effectively.

This means Nigeria is now in a classic debt trap. The government must borrow additional funds merely to service existing debt obligations. Each naira borrowed adds to future debt service requirements, creating a self-reinforcing cycle of fiscal deterioration. The only escape from this trap requires either dramatic revenue increases, significant debt restructuring, or stringent expenditure cuts, all politically difficult options.



2.4

## Debt Service vs Development: Understanding the Trade-Off

Nigeria's rising public debt has raised the debate over the trade-off between debt servicing and national development. As debt accumulates, a significant portion of government revenue is allocated to servicing loans (paying interest and repaying principal), rather than funding key sectors of the economy, such as education, health, infrastructure, and social welfare. This creates a fiscal dilemma; while borrowing can stimulate growth and finance development projects, excessive debt servicing reduces the funds available for long-term investment in the economy. When a large share of revenue goes toward debt obligations, the government may struggle to implement policies that promote employment, industrialization, and poverty reduction.

Debt itself is not inherently harmful when properly managed and invested in productive sectors that generate economic returns. Borrowing can stimulate growth and increase future revenue. The trade-off becomes more pronounced when debt service consumes a high percentage of government revenue, limiting fiscal flexibility.

In Nigeria's case, managing this balance is important for sustainable development. If borrowing is directed towards productive investments, such as power, transport, and agriculture, it can generate economic returns that will exceed the cost of borrowing.

However, if debt is used to finance recurrent expenditure or inefficient projects, the burden of repayment may outweigh its benefits. Therefore, prudent fiscal management, improved revenue generation, and enhanced transparency and accountability are essential to ensure that debt servicing does not hinder national development goals.



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2.5

## Why Debt Sustainability

Debt sustainability is very important for long-term growth because it determines whether a country can meet its debt obligations without compromising its economic stability. For a country like Nigeria, where debt servicing consumes a significant share of government revenue each year, sustainability is both a financial and developmental issue. The rising debt service costs reduce the available funds for capital investments. When more revenue is channelled into paying interest and principal on loans, less is available for capital projects such as roads, railways, power supply, and industrial development. If debt becomes unsustainable, growth slows because the government cannot fund the investments that drive economic expansion. When a country struggles to repay its debt, the risk perception of investing in the country increases. This can lead to higher borrowing costs, currency instability, and a decline in foreign direct investment.

When debt servicing becomes too high, the government may resort to excessive borrowing, monetary financing, or sharp spending cuts, which can lead to macroeconomic instability. These measures can trigger inflation, exchange rate depreciation, and social unrest. In Nigeria, where inflation and exchange rate volatility already pose challenges, additional debt pressure could worsen economic hardship and slow development progress. Debt sustainability also protects future generations. Borrowing is not inherently bad, especially when used for productive investments that yield long-term returns.

However, if debt is accumulated without corresponding economic growth, future generations inherit repayment burdens without enjoying the benefits of the borrowed funds. Sustainable debt ensures that today's borrowing contributes to tomorrow's prosperity rather than tomorrow's crisis.

Finally, for long-term growth to be inclusive and resilient, the government must ensure that its debt grows at a manageable pace relative to revenue, inflation and GDP. What matters is not just the size of the debt, but the ability of the government to service it without jeopardising development priorities. When debt is sustainable, it can support infrastructure expansion, human capital development, and economic diversification. When it is not, it crowds out growth, weakens stability, and undermines national development.



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## 3.0

## The Crowding Out Effect: Implications for Development

The provided data reveals a significant expansion in Nigeria's fiscal ambition, characterized by a sharp rise in budgeted capital expenditure from N3.94tn in 2021 to N23.44tn by Q2 2025. Historically, capital performance was relatively suppressed, with utilization rates hovering around 40.89% in 2021 and dipping to a low of 35.33% in 2022. However, a notable shift occurred in 2023 and 2024, where performance metrics jumped to 79.99% and 84.14%, respectively. This increase indicates a period of intensified project funding and a higher rate of fund absorption compared to the preceding years. In contrast, the 6.39% performance recorded for Q2 2025 appears alarmingly low; however, this is likely a reflection of the early fiscal cycle window and the characteristic delay in the commencement of the procurement cycle for new projects.

Table 4: Nigeria's Capital Expenditure Ratio Trends (2021-2025) (in Trillions of Naira)

| Year    | Capex Budgeted | Capex Actual | Performance |
|---------|----------------|--------------|-------------|
| 2021    | 3.94           | 1.61         | 40.89%      |
| 2022    | 6.23           | 2.2          | 35.33%      |
| 2023    | 7.96           | 6.37         | 79.99%      |
| 2024    | 13.77          | 11.59        | 84.14%      |
| Q2 2025 | 23.44          | 1.50         | 6.39%       |

Source: Budget Implementation Reports, Budget Office of the Federation

The dramatic improvement in performance during 2023 and 2024 must be analyzed through the lens of Nigeria's unique fiscal environment, where an overlap in budget execution occurred. During this period, the government was simultaneously running the 2023 approved budget, the 2023 supplementary budget, and the 2024 approved budget. This "three-budget" overlap often creates a "bunching" effect in reporting, where disbursements from multiple fiscal years are captured within a single calendar window, artificially inflating the 84.14% performance rate in 2024.

This complexity likely explains the current 2025 lag, as the system faces administrative fatigue and a transition period after the massive drawdowns of the overlapping years. The current low performance of 6.39% suggests that while the budgeted amounts are increasing, the institutional capacity to execute such massive volumes of capital investments under a consolidated single-year cycle remains a significant bottleneck.



### 3.1

## Infrastructure

Nigeria's infrastructure deficit remains a primary bottleneck to economic industrialization, with the gap between required investment and available fiscal space reaching a breaking point in 2026. According to the National Integrated Infrastructure Master Plan (NIIMP), the nation requires approximately \$2.3 trillion over the next 20 years to modernize its systems, equating to an annual requirement of nearly \$150 billion. However, the current debt-to-revenue crisis has effectively paralyzed the government's capacity for direct funding. In the power sector, the liquidity crunch in the Nigerian Electricity Supply Industry (NESI) prevents the necessary expansion of the national grid and the fulfilment of subsidy obligations. As debt servicing consumes over 50% of revenue, sovereign guarantees for new Independent Power Projects (IPPs) have become scarce, stalling the transition to renewable energy and leaving the industrial sector hampered by high costs and inconsistent supply.

The transportation network encompassing rail, road, and maritime faces a similar deceleration. While previous years saw a surge in project activity due to budget overlaps, the 2026 outlook is marred by the high cost of maintaining existing bilateral loans. Nigeria's modern rail lines, largely funded by external debt, struggle to generate enough revenue to cover interest payments, let alone operational costs. Furthermore, the Federal Roads Maintenance Agency (FERMA) remains chronically underfunded, forcing a reliance on "Tax Credit Schemes" that offer short-term relief but deplete future tax bases. High public debt crowds out private investment and reduces economic activity, which shrinks tax revenues and makes it harder to escape the debt trap. Without a radical shift toward Public-Private Partnerships (PPPs), Nigeria's physical foundations will continue to erode under the weight of its financial obligations.



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3.2

## Social Sector

The human capital cost of Nigeria's rising debt is deeply concerning. With debt service obligations consuming over 50% of government revenue since 2023, peaking at an alarming 83.62% in Q2 2025, the government has effectively lost the financial capacity to fulfil its social obligation to citizens. This fiscal haemorrhage means that every naira spent on interest payments is a naira that cannot be allocated to critical sectors such as education, healthcare, and social welfare. The consequences are particularly severe in a country where investment in human capital is essential for long-term growth and stability. As funds are channelled away from these key sectors, the country faces the risk of creating a generation unprepared for the demands of the future workforce.

This underinvestment perpetuates a vicious cycle that further worsens the situation. By failing to invest in education and healthcare today, Nigeria risks undermining the productivity of its future workforce, limiting opportunities for skill development and innovation. This decline in human capital will not only affect individual livelihoods but also weaken future government revenue generation, as a less skilled populace translates to lower economic output.

Consequently, the pressure to borrow increases, leading to even higher debt service obligations. Breaking this cycle is important for Nigeria; investing in human capital is not just a moral imperative but a necessary step toward building a sustainable economic future. Nigeria has one of the developing world's largest young populations; refusing to invest in their future means the decisions of today are leaving them without a secure future.



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### 3.3

## Private Sector

Nigeria's increasing reliance on domestic borrowing, which now constitutes 52.85% of total public debt, carries substantial implications for the private economy. By focusing on domestic financial instruments such as Treasury bills and Federal Government of Nigeria (FGN) bonds, the government inadvertently limits private sector access to credit.

As financial institutions gravitate toward the perceived safety of lending to the government, funds that could have supported business growth and entrepreneurial initiatives are diverted. This trend reduces the availability of credit for private enterprises and also leads to higher domestic interest rates, thereby creating a challenging environment for businesses seeking to invest and expand.

The consequences of this crowding-out effect are far-reaching and detrimental to Nigeria's economic development. With financial institutions prioritizing government lending over private sector financing, the cost of borrowing for businesses rises, hampering their ability to innovate and create jobs. This stifles industrialization, which is essential for diversifying the economy and reducing dependence on oil revenue. As a result, the overall growth potential of the economy is diminished, and the opportunities for job creation and sustainable development are limited.

To foster a more balanced and robust economic environment, Nigeria must rethink its borrowing strategies and find ways to encourage investment in the private sector while managing public debt responsibly.



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## 4.0

# Proposed Strategy: Reframing the National Debt Management Conversation

The current trajectory of Nigeria's debt situation is clearly unsustainable, as the country has fallen into a "classic debt trap" where borrowing is primarily required to meet existing obligations. The cycle hinders economic progress and threatens fiscal stability. To escape this predicament, a strategic shift is essential, one that emphasizes fiscal productivity rather than mere survival. Instead of financing recurrent expenditures or inefficient projects through debt, the government should focus on borrowing for productive investments that promise tangible economic returns. This approach not only seeks to stabilize the fiscal situation but also aims to foster long-term growth and development.

Moreover, the discussion around debt management must evolve beyond simply imposing debt ceilings to focus on the viability of revenue-to-service ratios. The current debt service-to-revenue ratio of 83.62% indicates an urgent fiscal emergency that cannot be rectified by additional borrowing alone. To address this issue, a comprehensive reevaluation of how resources are allocated and how revenues are generated is required. The government can create a more sustainable fiscal environment by prioritizing investments that drive economic growth and systematically improving revenue mechanisms. This shift will be crucial in breaking the cycle of borrowing and ensuring that funds are effectively utilized for the nation's development rather than simply servicing an ever-growing debt.



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## 5.1

## Conclusion

Nigeria's fiscal position in 2026 is at a critical inflection point. Rapid debt accumulation between 2021 and 2025 driven by persistent budget deficits, heavy domestic and external borrowing, currency depreciation and weak revenue mobilisation has pushed debt-service obligations to consume an ever-larger share of government receipts.

The debt service-to-revenue ratio, which reached an alarming 83.62% in Q2 2025, demonstrates that an overwhelming portion of scarce public resources is now channelled to interest and principal payments rather than to capital formation and social services. This dynamic has produced a classic debt trap: the government increasingly borrows to pay existing debts, crowding out investment in infrastructure, education, health and other development priorities, squeezing private-sector credit, and eroding future growth prospects.

Although there were periods of improved capital absorption in 2023–2024 (partly due to overlapping budgets), institutional capacity constraints and the low capex performance in early 2025 underscore the limits of Nigeria's ability to translate larger budgets into executed development projects.

The consequences are multidimensional: stalled power and transport expansion, underfunded social sectors that threaten human capital formation, higher costs of doing business and diminished investor confidence. Without decisive, coherent policy action that raises revenue, improves expenditure quality, and restores debt sustainability, Nigeria risks entrenching long-term developmental decline and passing an unsustainable debt burden to future generations.



## 5.2

## Recommendations

1

### Debt Restructuring and Liability Management:

There is a need for the government to reduce the cost of borrowing, cutting the cost of borrowing can help to change the country's fiscal dynamics by reducing annual debt service, which consumes large portions of revenue. Additionally, the maturity profile of public debt can be extended to reduce repayment pressures. This involves negotiations with bilateral, multilateral, and commercial creditors to extend maturities and lower effective interest rates of loans. Extending maturities and lowering borrowing costs will help restore fiscal space, allowing capital budgets to be protected and development projects to proceed without perpetual rollover of debt obligations. This will help enhance debt sustainability and create more fiscal space for developmental projects.

2

### Prioritise borrowing for productive, revenue-generating investments

Limit new borrowing for recurrent spending and instead direct debt financing toward high-return infrastructure such as power, transport, and digital connectivity that stimulates economic activity and generates future revenue. Simultaneously, tighten project selection by adopting a clear national project-prioritisation plan with simple lending rules requiring upfront feasibility, cost benefit, environmental reviews and appraisal processes so that borrowed funds are allocated only to investments with clear, measurable economic returns and strong feasibility assessments.

3

### Rapidly strengthen revenue mobilisation and broaden the tax base

Introduce comprehensive fiscal reforms to plug revenue leakages, bolster tax administration, and widen the tax base by prioritising stronger VAT compliance, enhanced transparency in petroleum taxation, and provide measures to capture revenues from the informal economy by adopting simple, low-rate taxes and streamlined registration for small traders and link NIN-TIN to widen the tax base. Modernise oil revenue management by reforming collection processes and closing loopholes that erode receipts, while deploying integrated digital platforms for real-time tracking of all major revenue streams to improve accuracy, reduce corruption, and speed remittances to the treasury by integrated digital platforms for real-time tracking of all major revenue streams so payments are digital (mobile money, POS, bank transfer), traceable and automatically posted to the treasury on the same day; publish receipts and daily totals to enhance transparency; use vetted agents and banks. Together, these measures will increase predictable revenues, strengthen fiscal credibility, and create the fiscal space needed to reduce reliance on costly borrowing and finance development priorities.



## 5.2

## Recommendations

4

### Rebalance expenditure towards capital investment and social sectors

Protect essential human capital spending on health, education and skills development from indiscriminate budget cuts by ring-fencing a dedicated share of capital allocations for projects with demonstrable social and economic multipliers. Strengthen capital project pipeline management to stagger project initiation, prevent the “bunching” effect that distorts annual performance metrics, and ensure realistic procurement timelines, consistent funding commitments, and improved monitoring. By improving project readiness, ensuring sustained investment through multi-year fiscal frameworks and optimizing cross-functional agency alignment, the government can achieve more predictable, timely disbursements, raise capex absorption rates, and secure better development outcomes without sacrificing critical services that underpin long-term productivity and inclusive growth.

5

### Mobilise private finance through credible PPP frameworks

Expand Public-Private Partnerships for infrastructure delivery by adopting clearer risk allocation, transparent procurement practices, and bankable contract structures that attract long-term private capital and lessen dependence on sovereign borrowing. Prioritise projects with predictable revenue streams such as toll roads and power projects backed by creditworthy offtake agreements and standardise contract terms, performance guarantees, and dispute-resolution mechanisms to enhance investor confidence. This approach mobilises private finance for priority infrastructure while protecting public finances through commercially viable, well-structured partnerships.

6

### Restore macro-fiscal stability to lower borrowing costs

Coordinate government spending and central bank policy to stabilize the currency. This will prevent a 'weak-currency trap' that artificially inflates the cost of foreign denominated debt. Strengthen fiscal discipline by enforcing budgetary ceilings, tightening cash management, and prioritising lower-cost financing options to reduce dependence on expensive domestic borrowing that crowds out private credit. Improved coordination and prudent debt choice will lower borrowing costs, restore investor confidence, and free fiscal space for growth-enhancing public investment.



## 5.2

## Recommendations

7

### Improve transparency, accountability and institutional capacity

The federal ministry of finance should publish timely, disaggregated data on public debt and contingent liabilities while subjecting significant borrowing decisions to parliamentary review and independent project appraisal to enhance transparency and accountability. Simultaneously, the government should fully utilize its allocation to invest in modern public financial management systems and bolster the Debt Management Office's analytical capacity for forward-looking debt sustainability assessments, risk monitoring, and scenario planning. These reforms will improve fiscal decision-making, reduce hidden exposures, and build credibility with creditors and investors.

8

### Protect private sector credit access and support growth

Phase down domestic borrowing in tandem with measures to deepen capital markets and develop alternative safe assets such as a 5-7 years long-dated government or corporate instruments and pension-friendly vehicles that can absorb savings without crowding out private credit. The state can complement the federal government with reforms that reduce the cost of doing business, improving power reliability, transport infrastructure, and logistics to spur private investment, job creation and broaden the tax base. Together these steps mobilise domestic finance for growth while protecting credit access for firms.

9

### Prioritise short-term actions to relieve immediate pressure

Reprioritise the 2026 budget to free resources for debt reduction and essential social spending, including temporary freezes on non-essential recurrent outlays to preserve fiscal space. Simultaneously pursue targeted short-term financing such as concessional lines or multilateral support contingent on credible structural reforms, to bridge immediate gaps without resorting to high-cost domestic borrowing. This combined approach eases near-term pressures while locking in policy changes that improve medium-term sustainability.

