



Strengthening Fiscal Sustainability and Macroeconomic Stability: Policy Implications of Nigeria's 2026 Federal Budget for the Economic Sector

POLICY BRIEF FROM EBPD BUDGET ANALYSIS

KEY MESSAGES

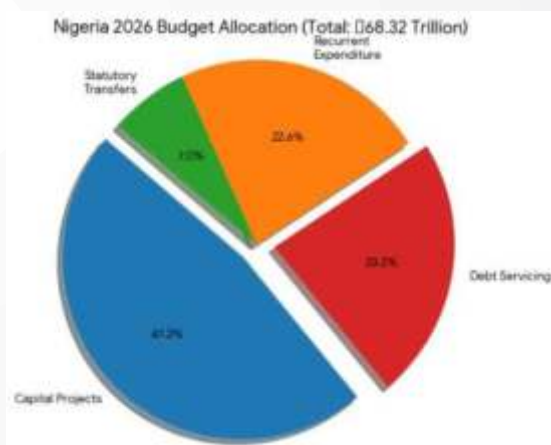
- The 2026 Federal Budget proposes total expenditure of ₦58.18 trillion against projected revenue of ₦34.33 trillion, resulting in a fiscal deficit of ₦23.85 trillion (approximately 41% of total expenditure).
- Capital expenditure rises to ₦26.08 trillion (44.8% of total spending), indicating a policy shift toward infrastructure-led growth.
- Debt service obligations remain a major fiscal constraint, absorbing more than one-quarter of total government expenditure.
- Revenue volatility, particularly from oil production shortfalls, continues to undermine fiscal predictability; in 2025 (as at July), oil revenue achieved only 37.8% of the pro-rata target.
- Budget credibility and implementation challenges — including capital project rollovers (up to 70% of 2025 capital projects) and delayed releases — may limit the developmental impact of allocations.
- Without stronger revenue mobilisation, improved expenditure prioritisation, and better budget execution, the expansionary fiscal stance may weaken fiscal sustainability and macroeconomic stability.

EXECUTIVE SUMMARY

The macro-fiscal framework underpinning Nigeria's 2026 Federal Budget reflects an expansionary fiscal stance aimed at supporting economic growth, infrastructure development, and macroeconomic stabilisation. Total federal expenditure is projected at ₦58.18 trillion, while projected revenues are ₦34.33 trillion, resulting in a fiscal deficit of ₦23.85 trillion — equivalent to approximately 41 percent of total expenditure. A notable feature of the budget is the increased emphasis on capital expenditure, which rises to ₦26.08 trillion, accounting for nearly 45 percent of total spending. This shift signals an explicit policy orientation toward infrastructure-driven growth and economic diversification.

The macroeconomic implications of the 2026 budget are significant. Large fiscal deficits, if financed through borrowing, may increase inflationary pressures, crowd out private investment, and place additional strain on exchange rate stability. At the same time, weak capital budget execution risks limiting the growth impact of increased public spending. Therefore, the effectiveness of the 2026 budget will depend critically on implementation efficiency and fiscal discipline rather than the scale of allocations alone.

However, several structural challenges remain. Rising



debt service obligations, persistent revenue volatility, weak capital budget execution, and implementation inefficiencies continue to constrain the effectiveness of fiscal policy. These factors raise concerns about the sustainability of Nigeria's fiscal framework and its capacity to achieve the macroeconomic targets outlined in the 2026–2028 Medium-Term Expenditure Framework (MTEF). Without significant reforms in revenue mobilisation, fiscal discipline, and budget implementation, the 2026 budget may struggle to translate nominal spending increases into real economic growth and macroeconomic stability. These findings point directly to the priority recommendations set out in this brief.

1. Policy Context

Nigeria is currently facing a dual challenge of fiscal expansion under constrained revenue conditions. This creates a tension between growth objectives and macroeconomic stability, making fiscal efficiency and prioritization more critical than ever. Nigeria's macroeconomic environment in recent years has been characterized by high inflation, exchange rate volatility, rising public debt, and persistent fiscal deficits. These structural challenges have constrained economic growth and reduced fiscal space for development investments. The 2026 Federal Budget, framed within the 2026–2028 MTEF and Nigeria's National Development Plan (2021–2025), aims to consolidate macroeconomic reforms, stimulate infrastructure investment, and support economic diversification. However, Nigeria's fiscal framework remains highly sensitive to volatility in oil revenue, rising debt-servicing costs, weak capital budget execution, and macroeconomic instability. This situation makes robust fiscal management and risk mitigation essential.

Understanding the macro-fiscal implications of the 2026 budget is therefore critical to ensuring that fiscal policy effectively contributes to economic stability, productivity growth, and sustainable development. This policy brief is based on a desk review and macro-fiscal analysis of Nigeria's 2026 Federal Budget,

focusing on trends in aggregate revenue, expenditure composition, fiscal deficit dynamics, and sectoral allocation priorities. Specifically, the analysis examined key fiscal documents — including the 2026 Appropriation Bill, Medium-Term Expenditure Framework (MTEF), and recent budget performance reports — to assess budget credibility, implementation risks, and alignment with national development objectives. A policy-performance analytical framework was applied to evaluate the implications of fiscal trends for macroeconomic stability, infrastructure-led growth, debt sustainability, and private sector investment conditions. Comparative trend analysis across recent fiscal years was also undertaken to identify structural patterns in capital budget execution, revenue volatility, and fiscal risk exposure. This approach enabled the brief to link fiscal allocations not only to budgetary inputs but also to broader economic outcomes such as growth prospects, inflation dynamics, and investment confidence — and directly to the policy recommendations presented in Section 3.

2. Key Macro-Fiscal Budget Highlights

Table 1 below presents the key aggregate fiscal indicators for 2024 (Actual), 2025 (Approved), and 2026 (Proposed). The data highlight a rapid expansion in government spending, alongside widening fiscal deficits and increasing debt service obligations.

Total expenditure increased from ₦28.78 trillion in 2024 to ₦54.99 trillion in 2025, before rising further to ₦58.18 trillion in 2026, a cumulative increase of over 100 percent in nominal terms. This sharp growth is driven by three reinforcing factors: a significant scale-up in capital allocations, rising recurrent expenditure linked to personnel and overhead costs, and persistently high debt service obligations. The growth in capital expenditure, rising from ₦9.9 trillion in 2024 to ₦26.08 trillion in 2026, reflects the government's efforts to stimulate economic activity through infrastructure development and productive investments. As a share of total expenditure, capital spending has grown from 34.4 percent in 2024 to 44.8

percent in 2026, representing a notable departure from historical patterns where recurrent spending dominated. While the increase in capital expenditure signals a strategic shift toward infrastructure-led growth, the rapid expansion in total expenditure relative to revenue suggests that the fiscal framework is becoming increasingly dependent on borrowing, raising concerns about long-term sustainability.

Despite this positive compositional shift, the pace of expenditure growth has consistently outstripped revenue growth, thereby widening the fiscal deficit. In 2026, the deficit stands at ₦23.85 trillion, almost double the 2025 figure, representing approximately 41 percent of total expenditure. Debt service, at ₦15.52 trillion (26.7% of total expenditure), remains a binding fiscal constraint, consistently crowding out space for productive investments. These dynamics raise serious concerns about fiscal sustainability, particularly in the context of Nigeria's already elevated public debt burden.

Table 1: Key Macro-Fiscal Budget Highlights

Fiscal Indicator	2024 Actual	2025 Approved	2026 Proposed	% of 2026 Expenditure
Total Revenue	₦18.32 trillion	₦41.8 trillion	₦34.33 trillion	59.0%
Total Expenditure	₦28.78 trillion	₦54.99 trillion	₦58.18 trillion	100%
Capital Expenditure	₦9.9 trillion	₦23.9 trillion	₦26.08 trillion	44.8%
Recurrent (Non-Debt)	₦8.7 trillion	₦13.6 trillion	₦15.25 trillion	26.2%
Debt Service	₦8.2 trillion	₦14.3 trillion	₦15.52 trillion	26.7%
Fiscal Deficit	₦10.46 trillion	₦13.19 trillion	₦23.85 trillion	41.0%

Source: CBN 2025; FG Budget Office; 2026 Budget Proposal; Authors' Calculations

2.1 Recurrent-Capital Expenditure Structure

A critical indicator of budget quality is the balance between recurrent and capital expenditure. Table 2 shows a progressive improvement in the capital-recurrent mix, with capital expenditure exceeding recurrent non-debt expenditure across all three years. However, it is important to note that high capital allocations do not automatically translate into effective developmental outcomes, given persistent issues of low budget implementation rates, procurement delays, and project abandonment discussed further in Section 3.

Table 2: Recurrent-Capital Expenditure Structure

Year	Capital Expenditure	Recurrent (Non-Debt)	Capital Share (%)
2024 Actual	₦9.9 trillion	₦8.7 trillion	53.2%
2025 Approved	₦23.9 trillion	₦13.6 trillion	63.7%
2026 Proposed	₦26.08 trillion	₦15.25 trillion	63.1%

Source: CBN 2025; FG Budget Office; 2026 Budget Proposal

2.2 Fiscal Sustainability and Budget Credibility Issues

Despite increased capital allocations, several structural challenges continue to undermine Nigeria's fiscal framework. First, revenue projections remain highly sensitive to oil production assumptions, which historically have been difficult to achieve due to production disruptions and pipeline vandalism. In 2025 (as at July), oil revenue reached only 37.8 percent of the pro-rata benchmark, while total revenue was 66.8 percent of target — reflecting deep structural fragility in Nigeria's revenue base.

Second, persistent gaps between budget proposals and actual implementation weaken fiscal credibility. Capital budget execution rates in recent years have remained significantly below allocations. In 2024, less than 25 percent of capital allocations were reportedly utilised. In early 2026, only ₦834.8 billion was released against a planned ₦10.81 trillion capital envelope — reflecting the compounding effects of procurement delays, cash management challenges, and institutional capacity constraints. These low execution rates represent a significant opportunity cost: delayed infrastructure undermines growth prospects, reduces investor confidence, and erodes the welfare impact of public spending.

Third, the rollover of uncompleted capital projects into subsequent fiscal years complicates budget planning and may inflate headline capital expenditure figures without reflecting new investments. The 2026 Abridged Budget Call Circular explicitly acknowledges that up to 70 percent of the 2025 capital budget will be rolled over, meaning a significant share of the proposed ₦26.08 trillion capital envelope reflects continuation commitments rather than fresh investments. These issues suggest that the developmental impact of the 2026 budget will depend not only on allocations but also on implementation efficiency, fiscal discipline, and capacity to attract private sector co-investment.

3. Policy Implications and Fiscal Risk Assessment

This section consolidates the policy implications of the 2026 budget and the key fiscal risks to its implementation. The matrix Table 3 presents both dimensions in an integrated framework, mapping each issue to its policy implication, supporting evidence, assessed risk level (High, Moderate, or Low), and risk justification.

Table 3: Policy Implications and Fiscal Risk Assessment Matrix

Issue/Risk	Policy Implication	Key evidence	Risk Level	Remark
Weak Capital Budget Execution	Without improvements in procurement, monitoring, and implementation capacity, expected growth multipliers may not materialise, creating opportunity cost and delayed development impact.	In 2024, less than 25% of capital allocations were utilised. In 2026, only ₦834.8bn was released against a planned ₦10.81tn capital envelope.	HIGH	Historically low execution rates mean headline capital figures significantly overstate actual investment.
Capital Project Rollovers	Up to 70% of 2025 capital projects rolled into 2026. Headline capital expenditure inflated by continuation commitments rather than new investments.	2026 Abridged Budget Call Circular explicitly acknowledges 70% rollover of uncompleted 2025 projects.	MODERATE	Rollovers complicate budget planning but do not prevent eventual project completion if releases follow.
Budget Credibility Gaps	Weak budget credibility undermines investor confidence and reduces the effectiveness of fiscal policy as a macroeconomic management tool.	Budget overlaps (2023–2025) blurred accountability. In 2025, the National Assembly inserted ₦6.9tn in new projects (BudgIT, 2026).	MODERATE	Credibility erosion is serious but structural reforms (e.g. GIFMIS, FRC) can partially offset over time.
Inflation & Exchange Rate Pressures	High inflation and currency depreciation erode real spending power, weakening growth stimulus from fiscal expansion.	Trend analysis (2022–2026) shows nominal budget growth masked by inflation; exchange rate depreciation inflated naira-denominated debt service costs.	MODERATE	Macroeconomic stabilisation is underway; risk is elevated but declining with CBN reform measures.
Weak Fiscal-Monetary Coordination	Lack of coordination between fiscal authorities and the CBN may exacerbate inflation, exchange-rate instability, and macroeconomic volatility.	2026 budget's expansionary stance has not been formally calibrated against CBN's monetary tightening path.	MODERATE	Coordination mechanisms exist but are inconsistently applied, creating a moderate amplification risk.
Weak Fiscal-Monetary Coordination	Lack of coordination between fiscal authorities and the CBN may exacerbate inflation, exchange-rate instability, and macroeconomic volatility.	2026 budget's expansionary stance has not been formally calibrated against CBN's monetary tightening path.		Coordination mechanisms exist but are inconsistently applied, creating a moderate amplification risk.

Source: Authors' assessment based on 2026 Appropriation Bill, 2026–2028 MTEF/FSP, BudgIT (2026), CBN (2025)

4. Priority Policy Recommendations

To ensure the 2026 budget translates into meaningful macroeconomic stability, infrastructure development, and inclusive growth, the following are recommended:

1. Strengthen Domestic Revenue Mobilisation:

Expanding the tax base and improving revenue collection are essential to reducing the fiscal deficit and dependence on borrowing. This will require coordinated efforts by the Federal Ministry of Finance (FMF), the Federal Inland Revenue Service (FIRS), the Nigeria Customs Service (NCS), and the Federal Ministry of Budget and Economic Planning (MBEP), all of which play central roles in revenue generation, administration, and policy design.

2. Improve Expenditure Prioritisation:

Redirecting public spending toward high-impact, productivity-enhancing investments through programme-based budgeting is critical for sustainable growth. This responsibility lies with the Federal Ministry of Budget and Economic Planning, the Budget Office of the Federation (BOF), and key sector ministries—including Works, Transport, Agriculture, Power, and Industry—which are responsible for planning and implementing development-oriented expenditures.

3. Enhance Capital Budget Execution:

Improving implementation capacity is necessary to ensure the timely and effective utilisation of capital allocations. The Budget Office of the Federation (BOF), the Office of the Accountant-General, and the Bureau of Public Procurement (BPP) must work together to strengthen budget execution processes, streamline procurement systems, and enhance financial management practices.

4. Strengthen Fiscal-Monetary Coordination:

Aligning fiscal and monetary policies is crucial for controlling inflation and stabilising the exchange rate. This requires close collaboration between the Federal Ministry of Finance (FMF), the Federal Ministry of Budget and Economic Planning (MBEP), and the Central Bank of Nigeria (CBN) to ensure that policy actions are mutually reinforcing and macroeconomically consistent.

5. Ensure Debt Sustainability:

Adopting prudent borrowing strategies that prioritise high-return, growth-enhancing projects is essential for maintaining debt sustainability. The Federal Ministry of Finance (FMF), the Debt Management Office (DMO), and the National Assembly Committees on Finance and Appropriation are responsible for overseeing borrowing decisions, ensuring fiscal discipline, and providing legislative oversight.

6. Establish Fiscal Buffers:

Creating stabilisation mechanisms to manage revenue volatility and cushion economic shocks is vital, particularly in a commodity-dependent economy. The Federal Ministry of Finance (FMF), the Nigeria Sovereign Investment Authority (NSIA), and the Budget Office of the Federation (BOF) are tasked with designing and implementing savings frameworks and fiscal buffers to enhance economic resilience.

7. Improve Transparency and Fiscal Reporting:

Enhancing accountability and investor confidence requires stronger budget monitoring and reporting systems. The Fiscal Responsibility Commission (FRC), the National Bureau of Statistics (NBS), and the Federal Ministry of Budget and Economic Planning (MBEP) must lead efforts to improve data transparency, strengthen fiscal reporting frameworks, and deploy monitoring tools that support effective public financial management.

5. Conclusion

Nigeria's 2026 Federal Budget reflects a deliberate effort to support economic growth through expansionary fiscal policy and increased capital investment. The improved capital-recurrent ratio and explicit infrastructure orientation are welcome policy signals. However, persistent structural challenges, including revenue volatility, rising debt service obligations, weak capital execution rates, and macroeconomic instability, pose significant risks to the fiscal framework's effectiveness and to the broader development objectives it is designed to advance.

The analysis presented in this brief demonstrates that the sustainability and developmental impact of the 2026 budget will depend critically not on the scale of nominal allocations, but on the quality of implementation, the rigour of fiscal discipline, and the effectiveness of inter-institutional coordination.

Addressing the high-risk issues identified in the policy implications matrix, particularly revenue mobilisation, debt management, and capital execution, must be treated as immediate priorities. Moderate-risk issues, including budget credibility gaps and macroeconomic coordination, require sustained structural reforms over the medium term. Strengthening these areas will ensure that Nigeria's 2026 budget contributes effectively to economic stability, infrastructure-driven growth, and inclusive long-term development.

